

**No. 44/2016****Monetary Policy Committee's Decision on 3 August 2016**

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 3 August 2016 as follows.

The Committee voted unanimously to maintain the policy rate at 1.50 percent.

In deliberating their policy decision, the Committee assessed the economy to continue recovering at a gradual pace despite facing greater downside risks from increased uncertainties in the global economy. Meanwhile, inflation might return to the target band slightly later than previously assessed due to weaker-than-expected energy prices. Monetary conditions remained accommodative and conducive to the economic recovery. Hence, the Committee judged that the policy rate should be kept on hold at this meeting.

The Thai economy continued to recover at a gradual pace driven mainly by public expenditure and tourism. Private consumption also expanded on the back of improvements in income and confidence of agricultural households. Nevertheless, private investment remained low, and merchandise exports still contracted due to weaker-than-expected demand from Asian economies. Overall, the Thai economy was projected to expand at the rate close to the previous assessment, although downside risks increased from the last meeting. These included uncertainties following the British referendum ('Brexit'), concerns over the European financial sector, and political developments abroad, which could impact confidence and the economic outlook of trading partners going forward. Meanwhile, financial stability risks in China remained.

Headline inflation in July softened slightly on account of raw food prices, while core inflation remained stable. The Committee expected that headline inflation would still gradually rise, although the timing of its return to the target band might be delayed, depending on global oil price movements.

The Committee viewed that overall monetary conditions remained accommodative and conducive to the economic recovery. This was reflected in low real interest rates and a continued expansion in total corporate financing and household credits, although certain business sectors faced limitations in obtaining credits. Nonetheless, the baht appreciated against some major currencies over the recent period, which might not be beneficial to the ongoing economic recovery. In addition, financial stability risks from the prolonged low interest rate environment, including search-for-yield behavior, continued to warrant close monitoring.

The Committee saw the need to preserve policy space given that the Thai economy would still be facing more uncertainties going forward, particularly the fragile global economic recovery, and uncertainties in the monetary policy directions of major advanced economies that might induce greater capital flow and exchange rate volatility.

Going forward, the Committee viewed that monetary policy should remain accommodative, and stands ready to utilize an appropriate mix of available policy tools in order to ensure that monetary conditions are conducive to the economic recovery, while ensuring financial stability.

Bank of Thailand
3 August 2016