

**No. 39/2017****Monetary Policy Committee's Decision 5/2017**

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 16 August 2017 as follows.

The Committee voted unanimously to maintain the policy rate at 1.50 percent. One MPC member was unable to attend this meeting.

In deliberating their policy decision, the Committee assessed that Thailand's growth outlook improved further on the back of the expansion in merchandise and services exports. Meanwhile, domestic demand continued to expand at a gradual pace, although it was not sufficiently broad-based. Headline inflation gradually rose at a slightly slower pace than previously expected mainly because of supply-side factors, especially fresh food prices. Overall financial conditions remained accommodative and conducive to economic growth. Hence, the Committee decided to keep the policy rate unchanged at this meeting.

Thailand's economic growth gained further traction on account of stronger growth in merchandise exports across various product categories and destinations, continued expansion in tourism, and higher agricultural output. Meanwhile, private consumption continued to expand at a gradual pace. Private investment was projected to expand slowly as construction investment moderated. Public investment growth was softer than previously expected. The improved growth outlook was still subject to external risks, such as trading partners' growth outlook, uncertainties pertaining to US economic and foreign trade policies, and geopolitical risks.

Headline inflation increased at a slightly slower pace than the previous assessment due primarily to supply-side factors. In particular, fresh food prices declined as a result of this year's higher agricultural output thanks to favorable weather conditions and last year's base effects following the drought. Meanwhile, demand-pull inflationary pressures remained low. Nevertheless, headline inflation was projected to slowly rise in the latter half of the year from the gradual dissipation of supply-side pressures and the recovery in domestic demand. The public's inflation expectations remained close to the midpoint of the target.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system. Government bond yields and real interest rates remained low, with short-term bond yields held down by decreased issuances of short-term BOT bonds and treasury bills. Meanwhile, business financing through credit and capital markets continued to expand. With regard to exchange rate movements over the recent period, the baht appreciated due to decreased investor confidence in the US dollar coupled with Thailand's stronger external position. However, the Committee noted that the stronger appreciation of the baht relative to those of regional currencies in some periods might affect business adjustments and thus would continue to closely monitor developments in the foreign exchange market.

The Committee viewed that financial stability remained sound with sufficient cushion against economic and financial volatilities on both domestic and external fronts. However, there remained pockets of risks that warranted close monitoring, particularly the search-for-yield behavior in the prolonged low interest rate environment that might lead to underpricing of risks, and the deterioration in debt serviceability of small-and-medium sized enterprises (SMEs).

Looking ahead, Thailand's growth outlook improved further on the back of external demand, with the recovery of domestic demand to be monitored. Hence, the Committee viewed that monetary policy should remain accommodative, and would stand ready to utilize available policy tools to sustain economic growth while also ensuring financial stability.

Bank of Thailand
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