



BANK OF THAILAND



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Monetary Policy Committee's Decision 5/2018

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 8 August 2018 as follows.

**The Committee voted 6 to 1 to maintain the policy rate at 1.50 percent. One member voted to raise the policy rate by 0.25 percentage point from 1.50 to 1.75 percent.**

In deliberating their policy decision, the Committee assessed that the Thai economy continued to gain further traction, driven by both domestic and external demand. Headline inflation was projected to increase broadly in line with the previous assessment, while core inflation was expected to rise slowly. Overall financial conditions remained accommodative and conducive to economic growth. Financial stability remained sound overall, but it was deemed necessary to monitor risks that might lead to the build-up of vulnerabilities in the financial system in the future, especially those resulting from the prolonged period of monetary accommodation. The Committee viewed that the current accommodative monetary policy stance remained conducive to the continuation of economic growth and was appropriate given the inflation target. Thus, most members decided to keep the policy rate unchanged at this meeting. Nevertheless, one member viewed that the economic expansion was sufficiently robust and that prolonged monetary accommodation might induce households and businesses to underestimate potential changes in financial conditions, and thus voted to raise the policy rate at this meeting in order to curb financial stability risks that could affect the sustainability of economic growth over the longer term and to start building policy space.

The Thai economy as a whole continued to gain further traction, driven by merchandise exports and tourism which continued to improve in tandem with global economic growth, and by stronger momentum from domestic demand. Merchandise exports were expected to achieve higher growth than previously assessed partly due to the relocation of production base to Thailand for some industries. Private consumption continued to expand supported by improvements in employment, but overall purchasing power was recovering gradually due to elevated household debt. Private investment was projected to continue expanding with additional support from greater certainty regarding the prospects of public investment projects, although their progress must still be monitored going forward. Public expenditure would continue to drive economic growth but there remained risks of delayed budget disbursement. Meanwhile, the tourism sector was projected to achieve lower growth than previously assessed due to the recent Phuket tour boat sinking incident. Furthermore, Thailand's growth outlook was still subject to risks that continued to warrant close monitoring, especially US foreign trade policies and retaliatory measures from trading partners of the US, risks of lower-than-expected growth in the tourism sector, and geopolitical risks.

The outlook for headline inflation was largely unchanged from the previous assessment with the annual average expected to be within target. However, downside risks remained as fresh food prices could fluctuate sharply depending on weather conditions and agricultural output. Core inflation was projected to edge up given the gradual build-up in demand-pull inflationary pressures. The Committee would also continue to monitor, despite full potential economic growth, structural changes that might contribute to more persistent inflation than in the past such as the expansion of e-commerce, rising price competition, and upgrades to production efficiency which reduced costs of production. Meanwhile, the public's inflation expectations were largely unchanged.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system. Government bond yields were largely unchanged from the previous meeting, while real interest rates remained low. Such conditions allowed financing by the private sector to continue expanding as reflected in both business and consumer loan growth. The baht against the US dollar exchange rate experienced volatile movements due to the monetary policy outlook of advanced economies, as well as increased concerns about trade protectionism measures and risks related to emerging market economies. Such exchange rate movements were in line with those of most regional currencies. Looking ahead, the baht would likely remain volatile and thus the Committee would continue to closely monitor exchange rate developments as well as impacts on the economy.

Financial stability remained sound but there was still a need to monitor risks that might pose vulnerabilities to financial stability in the future, especially the search-for-yield behavior in the prolonged low interest rate environment that might lead to underpricing of risks. In addition, the Committee would also closely monitor competition in the housing loan market, the oversupply of condominiums in certain areas, further accumulation of household debt given that deleveraging had yet to improve, and debt serviceability of SMEs especially those affected by changes in structural factors and business models.

Looking ahead, the Thai economy as a whole was projected to continue to gain further traction driven by both external and domestic factors. However, there remained the need to monitor the strength of the domestic demand, inflation developments, financial stability risks in the period ahead, as well as impacts of trade protectionism measures and risks of lower-than-expected growth in the tourism sector. Hence, the Committee viewed that monetary policy should remain accommodative.

Bank of Thailand  
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