BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 5/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 7 August 2019 as follows.

The Committee voted 5 to 2 to cut the policy rate by 0.25 percentage point from 1.75 to 1.50 percent, effective immediately. Two members voted to maintain the policy rate at 1.75 percent.

In deliberating their policy decision, the Committee assessed that the Thai economy would expand at a lower rate than previously assessed due to a contraction in merchandise exports, which started to affect domestic demand. Inflation was projected to be lower than the lower bound of the inflation target. Overall financial conditions remained accommodative. Financial stability risks had already been addressed to some extent, although there remained pockets of risks that warranted monitoring. A more accommodative monetary policy stance would contribute to the continuation of economic growth and should support the rise of headline inflation toward target. Most members thus voted to cut the policy rate at this meeting. Nevertheless, two members viewed that the policy rate cut under the already accommodative monetary policy might not lend additional support to economic growth, compared with potentially increased financial stability risks. Moreover, there remained a need to preserve policy space.

The Thai economy was expected to expand at a lower rate than previously assessed and below potential. Merchandise exports contracted more than the previous assessment due to the slowdown of trading partner economies and global trade, which were affected by intensifying trade tensions that could expand to other countries. Tourism would grow at a lower rate. Regarding domestic demand, private consumption was expected to moderate in tandem with a decline in non-farm household income and employment, particularly employment in the export-related manufacturing sector. In addition, private consumption would be restrained by elevated household debt. Private investment was projected to slow down. However, the relocation of production base to Thailand and public-private partnership projects for infrastructure investment would support investment in the period ahead. Public expenditure would grow at a slower pace than previously estimated on account of public investment, which was partly a result of constrained budget disbursement, as well as the expected delay in the enactment of the Annual Budget Expenditure Act, B.E. 2563 (A.D. 2020). The Committee would monitor external risks from intensifying trade tensions, the economic outlook of China and advanced economies that could affect domestic demand, as well as geopolitical risks. Furthermore, the Committee would monitor policy implementation of the new government and public expenditure, as well as the progress of major infrastructure investment and its knock-on effects on private investment, which could affect the momentum of economic growth in the period ahead.

The annual average of headline inflation was projected to be below the lower bound of the inflation target. Key drivers were energy prices, which declined at a fast pace, and core inflation, which was expected to moderate owing to subdued demand-pull inflationary pressures. The Committee viewed that structural changes contributed to more persistent inflation than in the past. Such changes included the expansion of e-commerce, rising price competition, and technological development which reduced costs of production.

Financial conditions over the previous period had been accommodative, with ample liquidity in the financial system. Real interest rates remained at a low level, allowing financing by the private sector to continue expanding. However, loans extended to both businesses and consumers would exhibit slower growth. With regard to exchange rates, the Committee expressed concerns over the baht appreciation against trading partner currencies, which might affect the economy to a larger degree amid intensifying trade tensions. However, The Committee would closely monitor developments of exchange rates and capital flows as well as assess the necessity of additional appropriate measures.

Financial stability remained sound overall but there remained a need to monitor risks that might pose vulnerabilities to financial stability in the future. The Committee viewed that the implemented macroprudential measures had to some extent curbed accumulation of vulnerabilities in the financial system. Nevertheless, the Committee would monitor rising household debt accumulation, growth in assets held by saving cooperatives and the interconnectedness among saving cooperatives, and leverage by large corporates that could underprice risks. In the following period, given the softening outlook of the Thai economy and a prolonged low interest rate environment, microprudential and macroprudential measures would need to play an increasing role in addressing financial stability risks.

Looking ahead, the Committee would continue to closely monitor developments of economic growth, inflation, and financial stability, together with associated risks, especially impacts of trade tensions, in deliberating appropriate monetary policy going forward. Nevertheless, the Thai economy would continue to face structural problems, which would affect competitiveness and economic growth outlook. This should be firmly addressed by all related parties.

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