BANK OF THAILAND

BOT Press Release

Communications and Relations Office, Corporate Communications Department
Tel. +66 2283 5016-7 Fax. +66 2283 6969 www.bot.or.th

No. 61/2018

Monetary Policy Committee's Decision 6/2018

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 19 September 2018 as follows.

The Committee voted 5 to 2 to maintain the policy rate at 1.50 percent. Two members 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 traction, driven by both domestic and external demand. Headline and core inflation were projected to increase broadly in line with the previous assessment. 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, two members viewed that the continued economic expansion was sufficiently robust and that prolonged monetary accommodation induced 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 traction, driven by merchandise exports and tourism which continued to improve in tandem with global economic growth, and by continued momentum from domestic demand. Growth in merchandise exports was expected to slow down somewhat due to trade protectionism measures between the US and China but would be partially offset by benefits from the relocation of production base to Thailand for some industries. Private consumption was expected to continue to achieve higher growth supported by improvements in income and employment, but overall purchasing power was recovering gradually due to elevated household debt. Meanwhile, public expenditure would grow at a lower rate than previously assessed due to constrained budget disbursement. Private investment was projected to continue expanding with additional support from greater certainty regarding the prospects of public investment projects and the relocation of production base to Thailand, although the progress of public investment projects must still be monitored going forward. Furthermore, the Thai economy would be subject to downside risks and uncertainties regarding US foreign trade policies that could be additionally announced, retaliatory measures from trading partners of the US, as well as geopolitical risks.

The annual average of headline inflation was expected to rise slowly in line with the previous assessment. 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 at a somewhat lower rate than previously assessed given the gradual build-up of demand-pull inflationary pressures. The Committee viewed that, despite full potential economic growth, structural changes might contribute to more persistent inflation than in the past. Such changes included 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. Overall government bond yields increased slightly, while real interest rates remained low. Such conditions allowed financing by the private sector to continue expanding as reflected in higher growth in both business and consumer loans. With regard to exchange rates, the baht appreciated against regional currencies since the last meeting due to concerns over external stability in emerging market economies. 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. The Committee was concerned about competition in the housing loan market which led to looser credit standards. In addition, the Committee deemed it necessary to monitor 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 traction driven by both external and domestic factors. However, there remained the need to monitor inflation developments and financial stability risks in the period ahead, as well as risks arising from impacts of trade protectionism measures of the US and retaliatory measures by major advanced economies. Hence, the Committee viewed that monetary policy should remain accommodative, although the need for currently accommodative monetary policy would be gradually reduced.

Bank of Thailand
19 September 2018

For further information, please contact: Monetary Policy Strategy Division
Tel: +66 2283 5627, +66 2356 7872
E-mail: MPD-MonetaryPolicyAnalysisDivision@bot.or.th

Forecast Summary as of September 2018

	2017*	2018	2019
GDP Growth	3.9	4.4	4.2
		(4.4)	(4.2)
Headline Inflation	0.7	1.1	1.1
		(1.1)	(1.2)
Core Inflation	0.6	0.7	0.8
		(0.7)	(0.9)

* Outturn, ( ) *Monetary Policy Report*, June 2018

- The Thai economy continued to gain traction, driven by both domestic and external demand.
- The Thai economy would be subject to downside risks and uncertainties regarding US foreign trade policies that could be additionally announced, retaliatory measures from trading partners of the US, as well as geopolitical risks.
- Headline and core inflation were projected to rise slowly in line with the previous assessment.
- Risks to inflation forecast still skewed downward as fresh food prices could fluctuate sharply depending on weather condition and agricultural output as well as structural changes that might contribute to more persistent inflation than in the past.

Forecasts in the *Monetary Policy Report* as of September 2018

(% YoY)	2017*	2018^E		2019^E	
		Jun 18	Sep 18	Jun 18	Sep 18
GDP Growth	3.9	4.4	4.4	4.2	4.2
- Private Consumption	3.2	3.7	4.2	3.6	3.7
- Private Investment	1.7	3.7	3.7	4.4	4.5
- Government Consumption	0.5	2.7	2.3	2.9	2.2
- Public Investment	-1.2	8.9	6.1	6.5	7.7
- Exports of Goods and Services	5.5	5.5	5.5	3.8	4.1
- Imports of Goods and Services	6.8	6.3	7.5	3.8	3.3
Current Account (Billion USD)	51.1	40.0	35.4	36.0	36.3
- Value of Merchandise Exports	9.8	9.0	9.0	5.0	4.3
- Value of Merchandise Imports	13.2	14.7	16.9	6.9	5.6
Headline Inflation	0.7	1.1	1.1	1.2	1.1
Core Inflation	0.6	0.7	0.7	0.9	0.8
Assumptions					
- Number of Tourists (Million)	35.4	38.3	38.3	40.0	40.6
- Dubai Oil Price (USD/Barrel)	53.1	69.2	70.3	68.3	69.8

* Outturn

- Growth in merchandise exports was expected to slow down somewhat due to trade protectionism measures between the US and China but would be partially offset by benefits from the relocation of production base to Thailand for some industries.
- Private consumption was expected to continue to achieve higher growth supported by improvements in income and employment.
- Private investment was projected to continue expanding with additional support from greater certainty regarding the prospects of public investment projects and the relocation of production base to Thailand.
- Public expenditure would grow at a lower rate than previously assessed due to constrained budget disbursement.