BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 6/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 25 September 2019 as follows.

The Committee voted unanimously to maintain the policy rate at 1.50 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 decline in exports which affected domestic demand. Headline inflation was projected to be below 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. The Committee viewed that accommodative monetary policy stance would contribute to the continuation of economic growth and should support the rise of headline inflation toward target. The Committee thus voted to maintain the policy rate.

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, as well as a prolonged downturn in the electronic cycle. Tourism would grow at a lower rate. Regarding domestic demand, private consumption was expected to slow down, despite supports from fiscal stimulus measures. This was due to declining household income and employment, particularly in export-related manufacturing sectors, elevated household debt as well as impacts from natural disasters. Private investment would expand at a lower rate than previously assessed. 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 owing partly to delay in state-owned enterprise investment projects. 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 government and public expenditure, together with the progress of major infrastructure investment and its knock-on effects on private investment.

The annual average of headline inflation in 2019 was projected to be below the lower bound of the inflation target due to lower-than-expected energy prices in tandem with global economic slowdown. In addition, core inflation 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.

Nevertheless, the Committee viewed that headline inflation was expected to increase toward the inflation target in 2020 in line with the outlook of economic expansion.

Financial conditions over the previous period had been accommodative with ample liquidity in the financial system. Real interest rates remained at a low level. Government bond yields declined. These allowed 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 heightened uncertainties pertaining to the external front. The Committee would, therefore, closely monitor developments of exchange rates and capital flows, and would consider implementing additional appropriate measures if necessary.

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. However, there remained a need to monitor (1) search-for-yield behavior in the prolonged low interest rate environment that could lead to underpricing of risks, (2) debt accumulation and debt serviceability of households and SMEs, (3) growth in assets held by saving cooperatives and the interconnectedness among saving cooperatives, and (4) leverage by large corporates that might underprice risks. The Committee viewed that microprudential and macroprudential measures should be appropriately combined to ensure financial stability.

Looking ahead, the Committee would continue to closely monitor developments of economic growth, inflation, and financial stability, together with associated risks, especially impacts from trade tensions, in deliberating appropriate monetary policy going forward. The Committee would stand ready to use policy tools as appropriate. 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.

Bank of Thailand
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Forecast Summary as of September 2019

	2018*	2019^E	2020^E
GDP Growth	4.1	2.8	3.3
		(3.3)	(3.7)
Headline Inflation	1.1	0.8	1.0
		(1.0)	(1.0)
Core Inflation	0.7	0.6	0.9
		(0.7)	(0.9)

* Outturn, ^E Estimation

( ) *Monetary Policy Report*, June 2019

- The Thai economy was expected to expand at a lower rate than previously assessed and below potential due to a decline in exports which affected domestic demand.
- Headline inflation was projected to be lower than previously assessed and below the lower bound of the inflation target due to lower-than-expected energy prices and core inflation. However, inflation was expected to rise toward the target in 2020.
- Risks to growth forecast tilted more to the downside due mainly to external risks.
- Risks to the inflation forecast tilted more to the downside consistent with risks to growth forecast.

Forecasts in the *Monetary Policy Report* as of September 2019

(% YoY)	2018*	2019^{E}		2020^{E}	
		Jun 19	Sep 19	Jun 19	Sep 19
GDP Growth	4.1	3.3	2.8	3.7	3.3
- Private Consumption	4.6	3.8	3.8	3.4	3.1
- Private Investment	3.9	3.8	3.0	5.5	4.8
- Government Consumption	1.8	2.2	2.3	2.6	3.4
- Public Investment	3.3	3.8	2.5	7.2	6.3
- Exports of Goods and Services	4.2	0.3	-2.3	3.9	2.3
- Imports of Goods and Services	8.6	0.7	-2.6	4.5	2.9
Current Account (Billion USD)	32.4	29.1	34.2	26.3	30.4
- Value of Merchandise Exports	7.5	0.0	-1.0	4.3	1.7
- Value of Merchandise Imports	13.7	-0.3	-3.6	4.8	3.5
Headline Inflation	1.1	1.0	0.8	1.0	1.0
Core Inflation	0.7	0.7	0.6	0.9	0.9
Assumptions					
- Number of Tourists (Million)	38.3	39.9	39.7	41.3	41.2
- Dubai Oil Price (USD/Barrel)	69.6	65.9	64.0	65.0	63.0

Note: *Outturn, ^{E} Estimation

- Merchandise exports contracted more than previously assessed due to the slowdown of trading partner economies and global trade owing to trade tensions, as well as a prolonged downturn in the electronic cycle.
- Tourism would grow at a slower rate.
- Private consumption was expected to slow down, despite supports from fiscal stimulus measures. This was due to declining household income and employment, particularly in export-related manufacturing sectors, elevated household debt, and natural disasters.
- Private investment would expand at a lower rate than previously assessed, although the relocation of production base to Thailand and PPP projects for infrastructure investment would support investment in the period ahead.
- Public expenditure would grow at a slower pace than previously estimated owing partly to delay in state-owned enterprise investment projects.