



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 7/2018

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 14 November 2018 as follows.

The Committee voted 4 to 3 to maintain the policy rate at 1.50 percent. Three 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 despite signs of moderating 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, three 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 despite some signs of slowing export growth owing in part to trade protectionism measures between the US and China, a slowdown of the electronics cycles, and trading partner countries' weather conditions which were temporary factors. Meanwhile, tourism exhibited a slower growth especially due to a declined number of Chinese tourists. However, domestic demand momentum continued to expand. Private consumption was expected to expand on the back of improvements in income and employment in non-agricultural sector but was restrained by elevated household debt. Private investment was projected to continue expanding owing to the relocation of production base to Thailand and public-private partnership projects for infrastructure investment. Public expenditure would grow at a slower pace than previously assessed due to delayed investment by some state-owned enterprises. Overall, the Thai economy would continue to expand but would be subject to increasing downside risks from trade protectionism measures between the US and China, which could have larger impacts than expected, and from geopolitical risks.

The annual average of headline inflation was expected to rise slowly in line with the previous assessment. However, downside risks increased due to fluctuations in energy and fresh food prices. Core inflation was projected to rise broadly in line with the previous assessment

given the gradually rising 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.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system. Short-term government bond yields increased slightly. Real interest rates remained low, allowing financing by the private sector to continue expanding as reflected in both business and consumer loan growth. With regard to exchange rates, the baht depreciated against the US dollar, in the same direction with regional currencies, due to concerns over growing risks to the global economy. 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 overall but there remained 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 competition in the mortgage loan market, which led to looser credit standards, was addressed to a certain extent by the revision in macroprudential measure on mortgage loans. In addition, the Committee deemed it necessary to monitor further household debt accumulation 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 despite moderating external demand and potential risks from larger-than-expected impacts of trade protectionism measures between the US and China. Furthermore, there remained a need to monitor developments of inflation and financial stability risks going forward. The Committee viewed that monetary policy should remain accommodative, although the need for currently accommodative monetary policy would be gradually reduced.

Bank of Thailand
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