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. 78/2018

Monetary Policy Committee's Decision 8/2018

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 19 December 2018 as follows.

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

In deliberating their policy decision, the Committee assessed that the Thai economy continued to gain traction on the back of domestic demand while external demand slowed down. Headline and core inflation were projected to be 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. The Committee viewed that the prolonged low policy rate had contributed to the economy expanding at the level consistent with its potential and the inflation target. Thus, most members viewed that the need for accommodative monetary policy as in the previous period had reduced, and voted to raise the policy rate at this meeting in order to curb financial stability risks and to start building policy space. Most members viewed that the policy rate at 1.75 percent would remain conducive to economic growth. Two members viewed that risks and uncertainties on the external front heightened and could affect Thailand's economic growth in the period ahead, and thus saw the need to assess the clarity of impacts of external factors as well as sustainability of domestic growth momentum for some time. In addition, the implemented macroprudential measures had addressed certain risks in the financial stability to some extent.

The Thai economy as a whole continued to gain traction, consistent with its potential, although merchandise exports were affected by the projected slowdown in the global economy as well as trade protectionism measures between the US and China. Meanwhile, tourism exhibited slower growth especially due to the decline in the number of Chinese tourists but started to show signs of improvement. Domestic demand momentum continued to expand. Private consumption was expected to expand on the back of increasingly broad-based improvements in non-farm income as well as additional supports from government measures, while household income in the agricultural sector slightly declined. Nevertheless, private consumption was restrained by elevated household debt. Private investment was projected to expand thanks 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. The Committee would monitor risks associated with trade protectionism measures between the US and China that could affect momentum of economic growth in the period ahead.

The annual average of headline inflation projection was expected to be broadly unchanged. However, downside risks remained due to fluctuations in energy and fresh food prices. Core inflation was projected to rise 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.

Financial conditions over the previous period had been accommodative and conducive to economic growth with ample liquidity in the financial system. Real interest rates remained low, allowing financing by the private sector to continue expanding. Loans extended to businesses and consumer continued to grow. The Committee assessed that, although the policy rate increased by 0.25 percent, overall financial conditions would remain accommodative and conducive to economic growth. With regard to exchange rates, movements of the baht against the US dollar were broadly stabilized compared with those of 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 overall but there remained a need to monitor risks arising from the prolonged low interest rate environment that might pose vulnerabilities to financial stability in the future, especially the search-for-yield behavior that might lead to underpricing of risks. The Committee viewed that the policy rate increase at this meeting would help curb accumulation of vulnerabilities in the financial system in conjunction with the macroprudential measures already implemented.

Looking ahead, the Thai economy was projected to continue to gain traction despite the slowdown in external demand. The Committee viewed that accommodative monetary policy would remain appropriate in the period ahead, and thus would continue to closely monitor developments of economic growth, inflation, and financial stability, together with associated risks, in deliberating appropriate monetary policy in the period ahead.

Bank of Thailand
19 December 2018

For further information, please contact: Monetary Policy Strategy Division
Tel: +66 2283 6186, +66 2356 7872
E-mail: MPStrategyDiv@bot.or.th

Forecast Summary as of December 2018

	2017*	2018	2019
GDP Growth	3.9	4.2	4.0
		(4.4)	(4.2)
Headline Inflation	0.7	1.1	1.0
		(1.1)	(1.1)
Core Inflation	0.6	0.7	0.9
		(0.7)	(0.8)

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

- The Thai economy continued to gain traction driven by domestic demand while external demand slowed down.
- The Thai economy would be subject to increased downside risks mainly on the external front, in particular, the US and China trade protectionism measures.
- Headline and core inflation were projected to be broadly in line with the previous assessment.
- Downside risks to headline inflation forecast increased compared with the baseline, in line with downside risks to economic growth and oil prices.

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

BANK OF THAILAND

(% YoY)	2017*	2018		2019	
		Sep 18	Dec 18	Sep 18	Dec 18
GDP Growth	3.9	4.4	4.2	4.2	4.0
- Private Consumption	3.2	4.2	4.7	3.7	4.0
- Private Investment	1.7	3.7	3.6	4.5	4.5
- Government Consumption	0.5	2.3	2.1	2.2	2.6
- Public Investment	-1.2	6.1	4.6	7.7	6.6
- Exports of Goods and Services	5.5	5.5	3.7	4.1	4.1
- Imports of Goods and Services	6.8	7.5	7.6	3.3	3.2
Current Account (Billion USD)	50.2	35.4	33.1	36.3	34.5
- Value of Merchandise Exports	9.8	9.0	7.0	4.3	3.8
- Value of Merchandise Imports	13.2	16.9	15.3	5.6	3.8
Headline Inflation	0.7	1.1	1.1	1.1	1.0
Core Inflation	0.6	0.7	0.7	0.8	0.9
Assumptions					
- Number of Tourists (Million)	35.6	38.3	38.0	40.6	40.0
- Dubai Oil Price (USD/Barrel)	53.1	70.3	69.8	69.8	66.0

* Outturn

- Private consumption was expected to continue expanding supported by increasingly broad-based improvements in non-farm income.
- Private investment was projected to expand on the back of outlays for enhancing production efficiency and production capacity, relocation of production base to Thailand, and public-private partnership projects.
- Public expenditure would grow at a lower rate due to delay in some investment projects.
- Growth in merchandise exports was expected to slow down in line with global trade volume and trading partner economies that were affected by trade protectionism measures. However, shifts in foreign orders toward Thai exports and relocation of production base from China to Thailand would be supportive going forward.
- Exports of services exhibited slower growth due to the decline in the number of Chinese tourists but started to show signs of improvement.