BANK OF THAILAND

BOT Press Release

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No. 72/2019

Monetary Policy Committee's Decision 8/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 18 December 2019 as follows.

The Committee voted unanimously to maintain the policy rate at 1.25 percent.

In deliberating their policy decision, the Committee assessed that the Thai economy would expand at a lower rate than the previous forecast and below its potential due to a decline in exports which affected employment and domestic demand. Headline inflation was projected to be below the lower bound of the inflation target. Overall financial conditions remained accommodative due to the previous two policy rate cuts. Financial stability risks had already been addressed to some extent, although there remained pockets of risks that warranted monitoring. The Committee viewed that more accommodative monetary policy in the recent period would contribute to economic growth and support the rise of headline inflation toward the target. The Committee thus voted to maintain the policy rate at this meeting and would assess risks to the economic outlook in deliberating appropriate monetary policy going forward.

The Committee viewed that the global economic outlook started to stabilize, resulting in an improving outlook for Thai exports and economic growth next year. Nevertheless, the economy would expand below its potential and below the previous forecast. Merchandise exports had contracted more than previously assessed and were projected to recover more slowly than expected. This would be due to the slowdown of global trade volume affected by trade tensions and the impact of structural changes in the manufacturing sector on export competitiveness. Tourism would continue to grow. Regarding domestic demand, public expenditure and private investment would expand more slowly than the previous forecast owing partly to delays in some state-owned enterprise investment projects and some public-private partnership infrastructure investment projects. Private consumption would decelerate due to lower household income and employment, particularly in export-related manufacturing sectors. Elevated household debt would also weigh on private consumption in the period ahead. Furthermore, the Committee would continue to monitor ongoing uncertainties pertaining to the risks from trade tensions and geopolitics. The Committee would also monitor the impact of fiscal stimulus measures and public expenditure, the progress of major infrastructure investment and its knock-on effects on private investment, together with structural changes in the labor market which would impact employment in the period ahead.

The annual averages of headline inflation in 2019 and 2020 were projected to be below the lower bound of the inflation target due to lower-than-expected energy prices in tandem with subdued global economic growth and increasing energy supply. Core inflation would gradually increase in line with the improving economic outlook. 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. Real interest rates and government bond yields remained low. Liquidity in the financial system remained ample. 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, despite the baht being largely stable relative to the previous meeting, its movements in the previous period were two-way and more in line with regional currencies. The Committee expressed concerns over baht appreciation against trading partner currencies, and thus saw a need to continue to closely monitor exchange rates and capital flows amid elevated external uncertainties. Moreover, the Committee would monitor the effectiveness of the relaxation of foreign exchange regulations to encourage capital outflows, as well as consider the necessity of implementing additional measures.

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 deterioration in the quality of SME loans. 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, (2) debt accumulation and debt servicing capability 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 monitor developments of economic growth, inflation, and financial stability, together with associated risks, in deliberating monetary policy going forward. The Committee would stand ready to use policy tools as appropriate. In addition, the Committee would monitor structural problems that affect competitiveness and economic growth outlook, which should be firmly addressed by all related parties.

Bank of Thailand
18 December 2019

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Forecast Summary as of December 2019

	2018*	2019E	2020E
GDP Growth	4.1	2.5	2.8
		(2.8)	(3.3)
Headline Inflation	1.1	0.7	0.8
		(0.8)	(1.0)
Core Inflation	0.7	0.5	0.7
		(0.6)	(0.9)

* Outturn, E Estimation

( ) *Monetary Policy Report*, September 2019

- The Thai economy would expand below its potential and below the previous forecast, mainly as merchandise exports had contracted more than the previous assessment and were projected to recover more slowly than expected.
- Headline inflation in 2019 and 2020 was projected to be below the lower bound of the inflation target due to lower-than-expected energy prices in tandem with subdued global economic growth and increasing energy supply.
- Risks to growth and inflation forecasts still tilted to the downside due mainly to external risks.

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

(% YoY)	2018*	2019^E		2020^E	
		Sep 19	Dec 19	Sep 19	Dec 19
GDP Growth	4.1	2.8	2.5	3.3	2.8
- Private Consumption	4.6	3.8	4.4	3.1	3.0
- Private Investment	3.9	3.0	2.5	4.8	3.4
- Government Consumption	1.8	2.3	2.2	3.4	2.6
- Public Investment	3.3	2.5	1.7	6.3	6.3
- Exports of Goods and Services	4.2	-2.3	-4.8	2.3	1.4
- Imports of Goods and Services	8.6	-2.6	-4.3	2.9	1.6
Current Account (Billion USD)	28.5	34.2	35.2	30.4	30.0
- Value of Merchandise Exports	7.5	-1.0	-3.3	1.7	0.5
- Value of Merchandise Imports	13.7	-3.6	-5.2	3.5	1.4
Headline Inflation	1.1	0.8	0.7	1.0	0.8
Core Inflation	0.7	0.6	0.5	0.9	0.7
Assumptions					
- Number of Tourists (Million)	38.3	39.7	39.9	41.2	41.7
- Dubai Oil Price (USD/Barrel)	69.6	64.0	63.4	63.0	62.5

Note: *Outturn, ^E Estimation

- **Merchandise exports** had contracted more than the previous assessment and were projected to recover more slowly than expected. This would be due to the slowdown of global trade volume affected by trade tensions and the impact of structural changes in the manufacturing sector on export competitiveness.
- **Tourism** would continue to grow.
- **Public expenditure and private investment** would expand more slowly than the previous forecast owing partly to delays in some state-owned enterprise investment projects and some PPP infrastructure investment projects.
- **Private consumption** would decelerate due to lower household income and employment, particularly in export-related manufacturing sectors, and elevated household debt.