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Members Present

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The Global Economy

Trading partner economies expanded at a slower pace but most still operated above potential. Advanced economies would likely exhibit more diverse growth patterns. The US gained stronger momentum on the back of public expenditure after the US Congress approved the 2019 budget proposal. Meanwhile, the euro area exhibited slightly weaker momentum, with exports slowing down in line with global trade volume and further restrained by private sector confidence that was weighed down by political issues. Japan expanded broadly in line with the previous assessment on the back of accelerated private consumption prior to the consumption tax increase. **China** would likely expand at a slower pace. Nevertheless, the Chinese government continued implementing measures to support growth. The government attempted at the same time to strike a balance between its economic growth and financial stability objectives, and this resulted in some improvements in market confidence. **Asian economies** would grow at a slower pace due to impacts from trade protectionism measures between the US and China, tightening financial conditions, and less fiscal stimulus in some economies. However, increases in minimum wages in several countries would continuously support expansion of private consumption. With regard to **monetary policy**, the Federal Reserve (Fed) still gradually tightened its policy stance. The European Central Bank (ECB) gradually reduced the degree of policy accommodation by ending new bond purchases at the end of 2018 as previously announced. Meanwhile, the Bank of Japan (BOJ) was expected to maintain accommodative policy stance for some time. Other central banks in the region, such as the Bangko Sentral ng Pilipinas, tightened monetary policy to preserve price stability or to preserve external stability such as Bank Indonesia.

The Committee viewed the likelihood of trading partner growth being lower than the baseline forecast increased given risks from trade protectionism measures as well as uncertainties pertaining to Brexit that could impact the global economy and financial markets. **Hence, the Committee saw a need to closely monitor developments of those risks and the impacts on the growth outlook of trading partners**, in particular economic activities as reflected in labor market indicators.

The Financial Markets

Movements of most asset prices and currencies in the intermeeting period were volatile due to growing investor concerns about the global economic outlook, uncertainties pertaining to the Fed's rate hike, trade protectionism measures between the US and China, and the lack of clarity regarding the Brexit deal. Nevertheless, Thai financial markets remained attractive to foreign investors thanks to sound fundamentals and strong external stability. This resulted in (1) sustained net capital inflows to the Thai bond market and (2) a relatively smaller amount of net equity outflows compared with other emerging markets. On exchange rates, most regional currencies appreciated, especially currencies of those economies that benefitted from lower oil prices. Meanwhile, compared with regional currencies, the baht was largely stable against the US dollar.

The Committee viewed that the global financial markets remained highly uncertain in the period ahead due to factors such as (1) the monetary policy outlook in advanced economies, (2) trade protectionism measures that remained highly uncertain, and (3) uncertainties pertaining to Brexit as well as political issues in the euro area that could intensify and affect the global economy and cross-border capital flows. This could put pressures on asset prices and exchange rates. The Committee would thus continue to closely monitor developments of financial markets and exchange rates as well as impacts on the Thai economy going forward.

Domestic Economic Conditions

The Thai economy was expected to continue gaining traction, expanding at a level consistent with its potential, driven by domestic demand despite the slowdown in external demand. **Private consumption** was expected to continue expanding across all product categories thanks to (1) more broad-based increases in almost all income groups of non-agricultural households and (2) additional supports from government measures such as the first and second phases of the social welfare card scheme. However, farm income slightly decreased due mainly to lower agricultural prices, and consumption was still restrained by elevated household debt. **Private investment** was expected to further expand thanks to the clarity on the public-private partnership (PPP) for the Eastern Economic Corridor (ECC) infrastructure investment projects. Investment was also driven by the relocation of production base of foreign corporations in some export-oriented industries to Thailand. **Public expenditure** was expected to grow at a slower pace. This was due to (1) delayed investments in the second phase of dual-track railway project which were under review with regard to project priority, (2) delays in the drafting of master plans under the National Strategy that prompted government agencies to defer obligation of funds for some projects, and (3) delayed approval of land expropriation expenses for the Bang Yai–Kanchanaburi motorway project. Meanwhile, external demand momentum was projected to moderate. The **value of merchandise exports** would expand at a slower pace due to various factors including the global trade slowdown, trade protectionism measures between the US and China that affected trading partner economies, and the plateauing electronics cycle. Nevertheless, benefits from the redirected orders and the relocation of production base to Thailand would partly offset the impact. **Exports of services** also moderated due to the slower-than-expected recovery in the number of Chinese tourists given an additional drag from China's economic slowdown and the renminbi depreciation. Going forward, the number of tourists was expected to steadily increase but there remained challenges due to constrained airport capacity.

The Committee expected the Thai economy to expand in 2018 and 2019 albeit at a slower pace going forward in tandem with the external demand slowdown, while domestic demand would continue to gain traction. The Thai economy was projected to grow at 4.2 and 4.0 percent in 2018 and 2019, respectively. This was revised down from the previous assessment of 4.4 and 4.2 percent, respectively. **Risks to the growth projection remained tilted to the downside.** There were possibilities that Thai economy would expand at a rate below the baseline projection due mainly to external factors. These included (1) the U.S. trade protectionism measures that could be further intensified and (2) volatilities in the global financial markets in the case of no-deal Brexit. There were also downside risks on the domestic front, including (1) private consumption growth that could be lower than expected as domestic purchasing power had yet to increase in a broad-based manner, particularly due to farm income that could fall more than expected, and (2) public investment that could be lower than projected given some constraints in budget disbursement and project execution.

The Committee engaged in an extensive discussion regarding the economic outlook as well as factors that could make the outlook different from the baseline projection. The Committee viewed that, despite growth moderating, the overall economy performed in line with its potential. Private consumption and private investment were in the early phase of expansion, and several factors continued to support household income. Likewise, exports of goods and services started to show signs of improvement. Nevertheless, the Committee would monitor the continuity of employment, the outlook for private consumption and export orders, as well as risks pertaining to trade protectionism measures between the US and China.

Headline inflation in September and November 2018 was slightly higher than previously assessed on account of an increase in energy prices and a decline of fresh food prices to a lesser extent than previously expected owing to damaged vegetable supply following an epidemic outbreak. **Core inflation** also turned out higher than expected on the back of prepared food prices. Nevertheless, the Committee assessed that **headline inflation was broadly in line with the previous assessment** and thus maintained the projection for headline inflation for 2018 at 1.1 percent while slightly lowered the projection for 2019 to 1.0 percent from 1.1 percent. This was mainly attributable to global crude oil prices that were expected to decline. Meanwhile, **core inflation would likely rise** with the projection kept at 0.7 percent for 2018 and revised to 0.9 percent for 2019, up from the previous assessment of 0.8 percent. This was owing to a gradual increase in demand-pull inflationary pressures, coupled with increased bus fares as approved by the central committee governing land transport. Nevertheless, **risks to the headline and core inflation forecasts remained tilt to the downside**, consistent with risks to the economic projection and in line with oil and fresh food prices that could be lower than expected.

Monetary Policy Decision

The Committee assessed the Thai economy to continue gaining traction on the back of domestic demand, while external demand slightly slowed down. Headline inflation was expected to be broadly in line with the previous assessment. However, downside risks increased given volatile energy and fresh food prices. Meanwhile, core inflation was projected to edge up gradually in tandem with economic expansion. Overall financial conditions were accommodative and conducive to economic growth. Financial stability remained sound overall, and risks in some areas had been addressed to a certain extent by macroprudential measures such as prudential measures on credit card loans and personal loans under regulation, revision in the macroprudential measure on mortgage loans, and the National Legislate Assembly’s approval of amendments to the Cooperatives Act with respect to supervision and regulation of saving cooperatives. Nevertheless, most Committee members viewed that the need for extra accommodative monetary policy as in the previous period had reduced, and 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. **Thus, the Committee voted 5 to 2 to raise the policy rate by 0.25 percentage point from 1.50 to 1.75 percent. Two members voted to maintain the policy rate at 1.50 percent.**

The Committee discussed key considerations underpinning policy decision. Their conclusions were as follows.

(1) The Thai economy continued to gain traction. Despite moderating merchandise export growth attributable to impacts from trade protectionism measures between the US and China, tourism started to show signs of improvement thanks to a gradual rise in the number of Chinese tourists. Meanwhile, domestic demand continued to increase, particularly on account of private consumption that expanded on the back of increasingly broad-based improvement in non-farm income as well as additional supports from government measures. Private investment was expected to expand due to the relocation of production base to Thailand and PPP infrastructure investment projects which showed signs of continued progress. However, the Thai economy still faced downside risks arising from the external front, particularly from trade protectionism measures between the US and China.

Most Committee members viewed that the economy was sufficiently strong and would expand at the level consistent with its potential. Consequently, the economy should be able to accommodate the policy rate increase at this meeting. Furthermore, a gradual reduction in the degree of monetary policy accommodation would not hinder economic expansion in the period ahead; it would instead reduce financial stability risks and that should be conducive to sustainable economic growth in the long run. The need for accommodative monetary policy as in the previous period had thus reduced. In addition, whenever appropriate, as at this meeting, a policy rate increase would help build policy space. Meanwhile, **some Committee members viewed that the prevailing accommodative monetary policy stance remained necessary to support the continuation of economic growth** in order to (1) further strengthen private consumption and investment that would be drivers for Thailand’s growth momentum in the period ahead amid external uncertainties and (2) enable the Thai economy to expand so that the benefits of growth percolating to a larger section of the economy.

(2) Headline inflation was expected to be broadly in line with the previous assessment. However, downside risks remained owing to volatile energy and fresh food prices. Meanwhile, core inflation was projected to edge up in tandem with the economic outlook. **According to the Committee’s assessment the current accommodative monetary policy had allowed the headline inflation trajectory to be consistent with the inflation target.** Nevertheless, structural changes such as impacts from the expansion of e-commerce, rising price competition, and productivity upgrades that reduced production costs all could induce inflation to rise at a slower pace than in the past despite the continued expansion of the Thai economy.

(3) Financial stability remained sound overall, with some risks in the financial system addressed to a certain extent by the macroprudential measures already implemented. Nevertheless, the Committee saw a need to monitor developments in the mortgage loan market as well as adjustments in the real estate sector, particularly during the period prior to the revision in the macroprudential measure on mortgage loans becoming effective in April 2019. In addition, there was also a need to monitor other build-ups of vulnerabilities in the financial market that could pose vulnerabilities in the future. These included, first, household debt that, despite gradually declining, remained high relative to that of emerging markets. Meanwhile, auto loans were expected to continue accelerating. Moreover, the prolonged low interest rates could affect savings going forward, particularly in the situation where the Thai economy was becoming an aging society. Second, search-for-yield behavior in the prolonged low interest rate environment could lead to underpricing of risks. For example, saving cooperatives continued to provide high returns to members, resulting in high growth of assets held by saving cooperatives that could consequently pressure them to search for higher returns. Furthermore, large saving cooperatives now played a greater role compared with the past in the cooperative system by increasingly engaging in extending loans to other saving cooperatives. Meanwhile, given the prolonged low interest rate environment, large corporates sought a greater amount of funding through both commercial bank loans and the bond market and invested in both core and non-core businesses including some overseas enterprises. These risks would be more closely monitored.

In the Committee's view, an appropriate mix of policy instruments, both the policy interest rate and macroprudential measures, was necessary to efficiently address financial stability. Most Committee members determined that the prolonged low interest rate could lead to persistent build-up of vulnerabilities in the financial system, and thus the policy rate increase at this meeting would help rebalancing consumption, saving, borrowing, and investment and would also support sustainability of economic expansion in the long run, particularly in view of the fact that Thailand was becoming an aging society.

The Committee engaged in an extensive discussion regarding impacts of the policy rate hike on households, businesses, and financial institutions, and also considered the fiscal policy outlook with continued budget deficits. In this light, the Committee viewed that the policy rate at 1.75 percent would remain accommodative and conducive to growth across economic sectors. The Committee would monitor policy transmission to deposit and lending rates of financial institutions, especially with market liquidity remaining high, as well as short-term money market rates, particularly short-term bond yields that had already edged up. This should ensure that Thai economy would sustainably expand in line with its potential.

The Committee discussed the outlook for monetary policy. The Committee viewed that accommodative monetary policy would remain appropriate in the period ahead, and that the policy rate increase would be gradual and not in a continuous manner as in the past. Nevertheless, the Committee's evaluation of the appropriate conditions would be data dependent, including careful assessment of the outlook for growth, inflation, and financial stability, together with associated risks, in deliberating appropriate monetary policy in the period ahead.

Monetary Policy Group
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