Edited Minutes of the Monetary Policy Committee Meeting

Bank of Thailand

6 August 2014

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Members Present

Prasarn Trairatvorakul (Chairman), Pongpen Ruengvirayudh (Vice Chairman), Tongurai Limpiti, Siri Ganjarerndee, Narongchai Akrasanee, Aswin Kongsiri, and Arkhom Termpittayapaisith.

The Financial Markets

The Thai baht appreciated owing mainly to better prospects of the Thai economy following the political resolution. In July, **the Thai baht** strengthened on improving investor confidence, supported by more concrete public policy as well as the enactment of interim constitution. This led to capital inflows, particularly into the bond market. Nevertheless, the baht depreciated somewhat in late July following the release of stronger-than-expected US GDP data and a more upbeat assessment of the US economy by the Federal Open Market Committee (FOMC). **The government bond yields, on the whole, declined since early July,** driven by demand from foreign investors on the back of improved confidence in the Thai economic recovery, together with the demand to roll over maturing bonds from local institutional investors.

Most market participants expected no change in the policy rate at this meeting, citing that the current monetary policy stance remained sufficiently accommodative. Reduced political uncertainty, coupled with clearer government policy direction, led to rising business confidence and more apparent recovery of domestic demand while inflationary pressures remained subdued.

Following the stabilization of the political situation, foreign inflows to both bond and stock markets resumed. The committee deemed the current framework for exchange rate management suitable for coping with short-term currency volatility.

The International Economy

The global economy continued to improve gradually, led mainly by firmer economic expansion in the US. The US economy strongly rebounded after a temporary setback in the first quarter. Looking forward, improving business and consumer confidence, together with strong manufacturing sector, would lend further support for the economic activity. **The euro area** economic prospects gradually improved during the second quarter on the back of firmer private consumption and services. Meanwhile geopolitical risks could affect the fragile economic recovery and warranted close monitoring. **In Japan**, economic growth was likely to contract in the second quarter as a result of the rise in consumption tax in April. Moreover, the benefits of economic reforms, including a corporate tax reduction and demographic policies, would not be immediately materialized. Against this backdrop, monetary policy stance in Japan was likely to remain accommodative. Economic expansion in **China** was expected to continue on the back of recovery in exports and the implementation of stimulus measures, including targeted measures focusing on loans for small businesses. Meanwhile, **Asian economies** continued to expand as exports to advanced economies improved even though domestic private consumption softened somewhat. Global inflationary pressure generally remained subdued.

Most central banks kept their policy rates unchanged, except in Malaysia and the Philippines whose decisions to raise the policy rate were due to rising inflationary pressures and elevated credit growth. Meanwhile, the Reserve Bank of New Zealand raised policy interest rate for the fourth consecutive times in the light of concern over accelerating inflation, especially in the non-tradable sector.

The Thai Economy

In the second quarter of 2014, the Thai economy was projected to expand at a stronger pace compared to the previous quarter, as receding political uncertainty encouraged private spending while exports picked up slightly in tandem with improving demand from the advanced economies. Fiscal spending however fell short of the previous assessment while tourism continued to contract as a result of the lingering concerns over political situation.

Looking forward, domestic demand was expected to be the main driver of growth, with improving private spending and financial institutions providing a continued supportive environment for growth. Exports of goods, however, were projected to expand less than previously assessed while tourism should gradually recover. In the short term, the oversight and supervision process of some public investment projects could delay fiscal spending this year, but budget disbursements should accelerate in the following fiscal year. Inflationary pressures were lower than previously assessed, as a result of lower-than-expected costs pass-through to prepared food prices.

As for 2014 and 2015, the Thai economy was projected to expand at a pace close to the previous assessment. Economic growth for 2014 may be slightly lower than previously expected due to delays in government spending. However, private investment and exports should lend greater support to growth in the following year. Headline and core inflation were slightly below the previous assessment but remained stable.

Some members noted that the recovery of the Thai economy in the periods ahead remained subject to certain risks and warranted monitoring. The much-needed economic reforms may entail short-term economic repercussion but would lay a strong foundation for the country in the longer term. Moreover, a few members stressed the importance of close monitoring of geopolitical situations and the ongoing assessment of the ensuing impacts on the global economy. Regarding the growth outlook, some members considered domestic demand and exports to be the principal drivers of growth. Domestic demand should be stimulated by the government's income-generating policies while exports should benefit from increased intraregional trades. Also, some members reiterated the necessity of continued monitoring of the household debt situation, as the rate of new debt creation still outpaced income growth.

Monetary Policy Deliberation

The committee judged that against the backdrop of a more concrete fiscal policy, a resumption of government's ability to implement short-term economic measures, as well as ongoing economic reforms in various areas, the economy was projected to grow steadily with improving private sector confidence. **The role of monetary policy at this juncture should be to ensure sufficient level of accommodation in order to foster economic growth, which should return to its normal growth path in the periods ahead.**

All seven members deemed it appropriate to maintain the policy rate with the following rationales: (1) The economic recovery was firm, with the growth rate in the next twelve months projected to be higher than the historical average level. Nevertheless, such projection was subject to uncertainty, which justified continued policy accommodation; (2) Current accommodative monetary policy provided sufficient support to ongoing economic recovery without posing risks to overall financial stability and were supportive of the government's reform effort to lift the potential growth of the economy; (3) Additional monetary policy easing could potentially pose risks to financial stability in the longer term; and (4) A change in policy stance amid the currently stable environment may generate confusing messages to the financial markets.

The MPC thus voted unanimously to maintain the policy rate at 2.00 percent per annum.

Monetary Policy Group
20 August 2014