Edited Minutes of the Monetary Policy Committee Meeting

Bank of Thailand

5 November 2014

Publication Date: 19 November 2014

Members Present

Prasarn Trairatvorakul (Chairman), Pongpen Ruengvirayudh (Vice Chairman), Paiboon Kittisrikangwan, Jamlong Atikul, Porametee Vimolsiri, Veerathai Santiprabhob, and Sethaput Suthiwart-Narueput.

The International Economy

The global economic recovery was slightly weaker than expected, with greater growth differentials among the major economies. The US economy continued to recover steadily, consistent with the Federal Open Market Committee (FOMC)'s assessment that the recovery of labor market conditions strengthened further. Against this backdrop, the FOMC concluded its asset purchase program (QE) in the latest meeting. **The euro area economic growth** was likely to slow down further as domestic demand recovery remained tepid, partly due to fragile private sector confidence and spillovers from the political tension between Russia and Ukraine. Nevertheless, the additional monetary stimulus might help mitigate the risk of recession. **The Japanese economic recovery** was weaker than previously assessed, not only from weak consumption and production, but also from structural problems. This led Japan to announce extra liquidity injection (QQE) in addition to the existing measures to lift potential growth of the economy in the long run. **The Chinese economy** moderated somewhat, mainly from the slowdown in domestic demand. Going forward, the recovery in consumption and exports, as well as supportive measures from the government, should be the main driver of growth. Meanwhile, **Asian economies** experienced more differentiated growth as the ASEAN economies slowed down slightly, while North Asian economies picked up on the back of better domestic demand and exports. **Overall inflationary pressure** remained low due to falling oil and commodity prices. **Most central banks left policy rates unchanged.**

In the committee's view, the increasing policy divergence among the major economies could potentially trigger higher volatility in the global financial markets. While its impact on emerging Asian economies was expected to be limited given relatively sound economic fundamentals, the committee deemed it necessary to closely monitor the development of monetary policy in major economies and its impacts on capital flows and Thai economy.

The Financial Markets

Higher risks to global economic recovery resulted in the reallocation of assets and higher volatility in global and Thai financial markets. Nevertheless, volatility in the domestic financial market remained modest relative to that in regional markets. The Thai Baht depreciated by 1.3 percent over the intermeeting period, following the strengthened outlook of the US dollar as global economic growth became more uneven. Weaker-than-expected readings and downward revision of domestic growth also weighed on the Thai baht. Yields on medium- and long-term Thai government bonds moved down by 19-48 bps following a reduction in US Treasury yields after the FOMC highlighted the consequences of weak global recovery on the US economy. Slow domestic recovery and lower-than-expected government bond issuance also contributed to the reduction in yields since the last MPC meeting.

Short-term interest rates remained stable, reflecting market expectation that the policy rate would be left unchanged at this meeting. This was in line with the survey result which indicated that **most market participants expected the MPC to maintain policy rate until the second half of 2015** to support economic recovery given subdued inflation.

The Thai Economy

The economy in the third quarter of 2014 was expected to expand less than previously assessed, on account of slow recovery in domestic demand and weak exports. The recovery of private consumption, in particular, was slow to gain traction due to declining farm income and high household indebtedness. Exports recovered slowly in most market segments and products, while the delay in fiscal disbursement, particularly public investment, partly caused the corporate sector to postpone new investments. **Against the backdrop of weaker-than-expected economic momentum in the third quarter, the MPC projected the overall economic growth in 2014 to be less than the previous assessment.**

Looking ahead, the Thai economy should continue to recover in 2015, albeit with greater downside risks to growth. Fiscal support, through public spending as well as greater clarity and continuity of policies particularly on public investment, should serve as the main growth driver and help boost private sentiment and spending. Exports of goods should pick up in tandem with trading partners' growth, with lower commodity prices posing downside risks to exports prices of some products. Tourism should gradually recover, supported mainly by tourist arrivals from Asia. Inflation was lower than previously assessed, as a result of softening world crude oil prices and subdued demand-side pressure.

The committee concurred that government spending, through short-term fiscal stimulus measures and public investment, particularly large-scale infrastructure projects, is necessary in supporting growth and enhancing long-term competitiveness of the economy. Moreover, clarity and continuity of government policies should lend further support to private consumption and investment. One member noted that lower agricultural prices could weigh on the value of exports and households' purchasing power, with repercussion on the recovery of private consumption and inflationary pressure going forward. This, therefore, warranted close monitoring.

Overall risks to financial stability decreased somewhat as the economy gradually recovered. The pace of household sector's new debt creation already slowed. Nonetheless the elevated level of indebtedness, particularly among the low-income households, could potentially affect private consumption and debt-servicing abilities. Meanwhile, **real estate sector** gained pace following a gradual recovery in domestic demand, with the general house price growth remaining close to the historical average rate. **Corporate sector's** financial position remained healthy in general. Signs of **risk-taking behaviors** increased somewhat, as reflected in a price surge of small- and medium-capitalization stocks, and warranted monitoring.

Monetary Policy Deliberation

The committee assessed that, against the backdrop of low inflationary pressure, the Thai economy should continue to recover in 2015. Monetary policy was accommodative and not hindering the ongoing economic recovery, while also remaining consistent with long-term financial stability goals. Nevertheless, the committee expressed concerns over higher downside risks to growth from global economic conditions and the timeliness of public investment spending.

Six members viewed maintaining the policy interest rate as appropriate with the following rationales:

(1) Despite a downward revision in growth projections, the policy stance was sufficiently accommodative and appropriate given the steady path of economic recovery in 2015.

(2) The clarity and continuity of government spending should be the main factor supporting the recovery.

(3) The policy space should be preserved while awaiting greater clarity on future economic development.

One member voted to reduce the policy interest rate by 0.25 percent per annum. The member judged that, in the environment of subdued price pressure and contained risks to financial stability, monetary policy should be eased further in order to cushion the economy against greater downside risks from the global economy as well as softer-than-expected domestic recovery. Higher degree of policy accommodation would add support to the economy as the impact of some fiscal measures was expected to be short-term and public investment continued to be subject to delay in the implementation stages.

The committee thus voted 6 to 1 to maintain the policy interest rate at 2.00 percent per annum. The MPC will closely monitor developments of the Thai economy, and will pursue appropriate policy to ensure adequate support to the recovery, as well as long- term financial stability.

Monetary Policy Group

19 November 2014