

## Edited Minutes of the Monetary Policy Committee Meeting

Bank of Thailand

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### Members Present

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

### The International Economy

The global economy recovered at a slower pace than previously assessed, mainly due to the slowdown in the Chinese and Asian economies. Going forward, higher downside risks to the global growth outlook might weigh down the Thai economy, especially the export sector. In particular, growth of the Chinese economy decelerated from the previous year, and could be adversely affected by the recent plunge in domestic stock prices. At the same time, excess housing supply could pose additional downside risks to growth, thereby warranting close monitoring. The slowdown in China, coupled with its ongoing structural shift resulting in lower reliance on imported goods, contributed to sluggish export performance of Asian (excluding Japanese) economies, aggravating the already-weak domestic demand. The advanced economies, nevertheless, continued to improve broadly as expected. The US economy showed signs of a more solid recovery, especially in the labor market. This could potentially prompt the FOMC to begin raising the federal funds rate by year-end. The euro-area economy recovered gradually, while near-term risks of Greece's sovereign debt default subsided and posed no material impacts on the Thai economy thus far. The Committee would continue to monitor the progress of Greece's economic and fiscal reforms – which might prove to be difficult against the backdrop of the country's weak recovery – as well as its implications on the euro-area economy in the longer term. Meanwhile, the Japanese economy continued to recover, supported by the annual wage increases.

### The Financial Markets

During the inter-meeting period, the Thai baht depreciated against the US dollar as well as in nominal effective terms. The weakened baht was consistent with market expectation of the forthcoming Fed rate hike and investors' perception of higher downside risks to the Thai economic outlook, leading to sell-offs in domestic bond and stock markets. Exchange rate volatility also heightened in light of more uncertainties in the global financial markets, owing to speculation over the timing of the FOMC's rate increase and the risk of Greece's sovereign debt default before the financial assistance plan was agreed upon, coupled with instances of rapid baht depreciation due to domestic factors. Nevertheless, overall volatility of the baht was relatively moderate when compared with regional currencies. Meanwhile, government bond yields declined across all maturities with movements of medium- to long-term yields being influenced mainly by the decrease in US government bond yields.

### The Thai Economy

In the second quarter of 2015, the Thai economy recovered at a pace close to the previous meeting's assessment. Nevertheless, going forward, the economic outlook was subject to more negative factors, leading to a slight downward revision of the growth projection for 2015 from the previous meeting. The main drivers of growth would continue to come from the service sector, particularly higher-than-expected improvement in tourism, and public

investment spending. Nonetheless, they could not fully offset the weaker momentum of domestic demand and exports of goods amid two main factors restraining economic recovery: (1) the slowdown in the Chinese and other Asian economies which should subject exports of goods to further contraction, although the recent weakening of the baht might help buoy exports to some extent, and (2) domestic drought which could weigh down the already-weak recovery of private consumption through a decline in farm income and private confidence. Due to the fragile economic recovery, most firms tended to delay investment to expand production capacity.

**Headline inflation continued to stay in the negative territory due mainly to energy costs.** However, it was likely to have bottomed out and was expected to gradually pick up in the second half of the year as the base effect of high oil prices should begin to wane. Nonetheless, the period at which headline inflation was expected to turn positive might be delayed as a result of more subdued demand-side pressure and slower-than-projected global oil price recovery.

As the outlook of Thailand's economic recovery was expected to remain subdued amid greater downside risks to growth, the Committee saw a need to closely monitor and assess economic conditions, particularly labor market conditions and household income in various sectors. Recent data pointed towards lower average working hours of non-farm workers, due possibly to (1) softening demand conditions, and (2) temporary migration of farm workers, who suffered from low agricultural prices and domestic drought, to non-farm sectors with less-than-average working hours. Overall, this might dent income, consumption, and confidence of households. The issue would thus be under close surveillance, together with signs of fragility of small- and medium-sized firms, which felt considerable negative impacts from the slow economic recovery, as reflected by their deteriorated loan qualities.

### **Monetary Policy Deliberation**

In deliberating monetary policy, **the Committee voted unanimously to maintain the policy rate at 1.50 percent per annum** as all members agreed that the overall monetary conditions remained accommodative. This was reflected by the exchange rate movements that stayed conducive to the economic recovery and firms' costs of funds in the money market that had declined following the previous policy rate reductions, despite potentially limited and inert commercial banks' responsiveness to additional policy easing in the current situation. Furthermore, some members deemed further rate reduction could pose risks to financial market stability in the short term amid heightened global market volatility, while some members continued to see the need to monitor risks to economic and financial stability, which might arise from search for yield behavior and lower trend of household saving in the long term.

**Going forward, the Committee were of the view that monetary policy stance should continue to be adequately accommodative to support the economic recovery.** The Committee would closely monitor Thailand's economic and financial developments and stand ready to utilize an appropriate mix of available policy tools in order to support the economic recovery, while maintaining long-term economic and financial stability.