**Edited Minutes of the Monetary Policy Committee Meeting**

**Bank of Thailand**

**21 December 2016**

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## Members Present

Veerathai Santiprabhob (Chairman), Mathee Supapongse (Vice Chairman), Paiboon Kittisrikangwan, Jamlong Atikul, Porametee Vimolsiri, Sethaput Suthiwart-Narueput, and Apichai Boontherawara

## The Global Economy

**Thailand's trading partner economies overall were projected to expand at a pace close to the previous assessment.** The **US economy** continued to recover, consistent with improvements in the labor market. Moreover, prospects for additional fiscal stimulus under the new administration and the expected acceleration in inflation led market participants to anticipate a faster pace of increases in the federal funds rate than previously expected. Consequently, the recovery of **China and other Asian economies** might be negatively affected by a tightening of global financial conditions as well as uncertainties pertaining to US trade policies which would have significant implications for investor confidence and global trade going forward.

**Risks to global growth remained tilted to the downside.** Upside risks increased slightly as additional fiscal stimulus in the US might boost imports from trading partners. Nonetheless, downside risks increased by a larger margin, especially those in connection with China's real estate and financial sectors as well as European banks and political fragilities. In addition, some Committee members expressed concerns over the recent escalation of geopolitical risks.

**The Committee viewed the direction of US economic policies highly uncertain** and saw the need to closely monitor and assess their potential impact on the Thai economy. While the fiscal stimulus in the US, especially if greater than anticipated, could reinforce the global economic recovery in the short run, it could be circumscribed by the debt ceiling. Meanwhile, the positive impact on global growth could be limited, as changes in the US investment and trade policies as well as the new administration's stance on trade agreements might lead to reshoring of manufacturing activities back to the US, which might negatively affect production and exports of Asian economies in the period ahead.

## The Financial Markets

**Volatility in the global financial markets increased from the previous meeting.** This was mainly attributed to changes in investors' expectations regarding the Federal Reserve's monetary policy, uncertainties pertaining to the direction of US economic policies under the new administration, risks stemming from political developments in Europe, and financial stability issues in China that remained fragile. These factors led investors to reduce their holdings of emerging market assets, including those of Thailand. As a result, **Thai government bond yields** increased especially in longer tenures. Meanwhile, the **baht depreciated against the US dollar** in line with movements of regional currencies. However, the **Nominal Effective Exchange Rate (NEER)** appreciated from the last meeting, as the baht depreciated by less than overall trading partner currencies, partly due to investors' confidence in Thailand's external stability and the relatively low non-resident participation in the Thai bond market. **The Stock Exchange of Thailand (SET) Index** increased, in contrast with regional markets, driven by improved sentiment resulting from the announcement of additional stimulus packages by the government. Moreover, the recent pickup in oil prices toward the end of November was a positive factor for energy stocks.

**The Committee anticipated that capital flow and exchange rate volatility would continue to increase in the period ahead** as external uncertainties remained substantial. In addition, some Committee members viewed that US dollar liquidity in global financial markets might tighten as a result of capital outflows to the US. This could impact Thai financial markets and thus warranted monitoring going forward.

## Domestic Economic Conditions

**The Thai economy was projected to expand at a pace close to the previous assessment**, but with changes in growth composition. **Merchandise exports** improved due to the recent relocation of production capacity of certain products to Thailand. **Private consumption** expanded on the back of farm income and the government's short-term stimulus packages. **Public expenditure** remained an important growth driver for the economy. However, **tourism** was affected more than expected by recent measures to curb illegal tour operators. **Private investment** remained low, with growth concentrated in certain business sectors consistent with the expansion of business credit extended by commercial banks.

**Growth projection for 2016 and 2017 remained largely unchanged from the previous forecast at 3.2 percent**, as the negative impact on growth from tourism and private investment was offset by positive growth momentum from merchandise exports and private consumption. Meanwhile, infrastructure investment outlays and disbursement of funds under the government's Pracharat projects were expected to have significant roles in driving the economy in the period ahead. However, risks to growth tilted more to the downside relative to the previous projection due to weaker-than-expected growth in trading partners, uncertainties in the direction of US trade policies that would have adverse implications for confidence and international trade, and the number of Chinese tourists that could turn out lower than projected.

**Headline inflation was expected to gradually rise** and return to the target band in the first quarter of 2017, although the timing would depend largely on future developments in oil and fresh food prices. **Core inflation** remained stable at low levels around the previous assessment. Meanwhile, the public's **medium-term inflation expectations** remained close to the midpoint of the target. As inflationary pressure was expected to remain subdued, the **headline inflation forecast** for 2016 and 2017 was revised down to an average of 0.2 percent and 1.5 percent, respectively. Meanwhile, the **core inflation forecast** for 2016 and 2017 was adjusted down slightly to 0.7 percent and 0.8 percent, respectively.

**The Committee assessed that financial stability remained sound** and able to provide an effective cushion against economic and financial volatilities on both domestic and external fronts. However, there remained pockets of risks that warranted close monitoring, including the deterioration of loan quality for businesses, particularly among small-and-medium-sized enterprises (SMEs), and households. In addition, the search-for-yield behavior, especially in unrated bonds, would be closely monitored as it might lead to underpricing of risks.

**The Policy Decision**

**The Committee decided to keep the policy rate on hold at 1.50 percent at this meeting.** Under the Committee's assessment, while the Thai economy remained on a recovery path with growth momentum largely unchanged from the previous meeting, there were greater downside risks stemming mainly from external factors. Inflation was expected to rise slowly. In addition, overall monetary conditions remained accommodative and conducive to the economic recovery with ample liquidity in the financial system and low real interest rates. Despite increases in long-term government bond yields, their levels remained close to the averages in the previous year. Meanwhile, although the baht recently weakened against the US dollar, its depreciation was relatively small compared with overall trading partner currencies, which might not be as beneficial to the ongoing economic recovery as it could.

**Looking ahead, the Committee viewed that the Thai economy would still be facing greater uncertainties**, particularly the fragile global economic recovery and uncertainties in the economic and monetary policy directions of major advanced economies that might induce greater capital flow and exchange rate volatility. These factors could significantly impact the economic recovery of trading partners and Thailand's exports. Hence, the Committee would monitor future developments of risks and their potential impacts on the Thai economy.

**Going forward, the Committee concurred that monetary policy should remain sufficiently accommodative** and would stand ready to utilize an appropriate mix of available policy tools in order to support the economic recovery and ensure financial stability.

**Monetary Policy Target for 2017**

**The Committee acknowledged the Cabinet's approval on 20 December 2016 of the proposed monetary policy target for 2017, which was jointly agreed by the Committee and the Minister of Finance. The annual average of headline inflation at 2.5 ± 1.5 percent was set as the medium-term monetary policy target and the target for 2017**, as it was deemed conducive to economic growth and price stability as well as the country's competitiveness. Nonetheless, ongoing structural changes in the global and Thai economies might lead to lower global and domestic inflation trends going forward. Thus, the Committee would continue to closely monitor these developments in order to set a future monetary policy target that would be consistent with the evolving economic environment.

Monetary Policy Group

4 January 2017