# Edited Minutes of the Monetary Policy Committee Meeting

## Bank of Thailand

## 9 November 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 were projected to grow at a pace close to the previous assessment.** The recovery of **G3 economies**, driven by private consumption, was projected to continue in line with improving manufacturing production and firm consumer confidence. **Asian economies** were expected to recover at a gradual pace, although private consumption in some economies softened as a result of rising unemployment and other country-specific factors. Meanwhile, Asian exports began to gain traction, gradually picking up from low levels.

**Risks to global growth in the period ahead tilted further to the downside** mainly on account of uncertainties stemming from political developments in the US and Europe. The US presidential election result and new economic policies might affect international trade and confidence of the private sector. Meanwhile, trade and investment negotiations between the UK and the EU in the aftermath of Brexit might result in limitations on market access and labor movement, both of which could impede the economic recovery in the UK and European economies more than previously expected. In addition, concerns over the European and the Chinese financial sectors continued to warrant close monitoring going forward.

**The Committee assessed that the fragile global economic recovery was partly attributed to ongoing structural changes** such as the increased roles of the service sector and the development of new production technology that reduced the need for large-scale investments in fixed assets. In addition, amid the highly uncertain global economic environment, businesses tended to push back their investment. These factors contributed to the widened saving-investment gap and might lead to lower potential growth for the global economy in the long run. Hence, the Committee would continue to monitor such developments closely.

**The Financial Markets**

**Volatility in the global financial market increased compared with the previous meeting, while volatility in the Thai financial market heightened temporarily from domestic factors.** Financial market volatility was driven mainly by investors' concerns over the result of the US presidential election. Meanwhile, the prospect of interest rate normalization by the Federal Reserve became clearer following releases of better-than-expected US economic data, which led investors to reduce their holdings of emerging market assets including those of Thailand. As a result, the **baht depreciated against the US dollar** and underwent a period of volatile movements in October due to domestic factors. However, the **Nominal Effective**

**Exchange Rate (NEER)** appreciated somewhat, mainly on account of the baht's strength against major currencies other than the US dollar. In the meantime, developments in domestic equity and bond markets were largely in line with regional markets but with periodic volatility stemming from domestic factors. **Thai government bond yields** increased slightly compared with the previous meeting as a result of selling pressure by foreign investors. The **Stock Exchange of Thailand (SET) Index** increased on account of net purchases by local investors.

**The Committee anticipated that capital flow and exchange rate volatility would likely increase in the period ahead due to external uncertainties.** These would include, in particular, uncertainties in the direction of the US economic policies under the new administration, together with the timing of, or policy measures to be used for, further monetary easing by central banks in major advanced economies. In addition, the Committee was more concerned with persistently low global bond yields, possibly reflecting underpricing of risks, that would be prone to snapback should developments in financial markets deviate from investors' expectations. Such snapbacks in global bond yields could spill over to Thai bond yields.

## Domestic Economic Conditions

**The Thai economy was projected to recover at a pace close to the previous assessment. Exports of manufacturing goods** expanded more than expected, partly due to special factors such as the consolidation of production location of certain products to Thailand and an increase in demand for some of Thailand's export goods. At the same time, **tourism** was expected to slow down as a result of the government's measure to curb zero-dollar tours, which impacted both the service providers in the tourism supply chain and the foreign demand for tourism in Thailand. **Private consumption** continued to expand thanks to the government's subsidies granted to some agricultural households, a rising wage trend in tandem with the expected increase in the minimum wages next year, and oil prices which remained low. However, some activities, especially those related to services, might slow down temporarily. **Public expenditure** continued to be an important growth driver. While **private investment** remained low, there were some improvements in certain export-oriented manufacturing sectors that were consistent with fund raising by businesses in the manufacturing sector which showed signs of improvement.

**Under the Committee's assessment, the Thai economy remained on a recovery path, but risks to growth titled further to the downside**. Increased risks to the global economic recovery might affect Thai exports of goods. At the same time, domestic risk factors, particularly the possible impact of the measures to curb zero-dollar tours, might cause the number of Chinese tourists to turn out lower than the previous projection.

**Headline inflation softened slightly on account of fresh food prices, while core inflation remained stable close to the previous assessment.** The Committee expected that headline inflation would rise slowly and might return to the target later than previously projected, depending on fresh food prices and the largely uncertain developments in global oil prices. Nevertheless, headline inflation was still expected to gradually pick up, while the public's medium-term inflation expectations remained close to the inflation target.

**The Committee assessed that overall financial stability remained sound and able to provide cushion against potential shocks and volatilities in financial markets. 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, especially in unrated bonds, would be closely monitored because if investors do not have sufficient understanding of investment risks, it might lead to underpricing of risks and accumulation of financial fragilities going forward.

**The Policy Decision**

**The Committee decided to keep the policy rate on hold at 1.50 percent at this meeting.** Under their assessment, the Thai economy continued to expand at a rate close to the previous assessment despite increased downside risks from both domestic and external factors. In addition, inflation was expected to increase but might return to the target later than expected mainly due to supply-side factors. Meanwhile, monetary conditions remained accommodative and conducive to the economic recovery as reflected in low real interest rates and government bond yields. Nonetheless, the baht's appreciation against key trading partner currencies in some recent periods might not be beneficial to the ongoing economic recovery.

**The Committee saw the need to preserve policy space given 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 affect the recovery of Thailand's trading partners and the continuity of Thailand's growth momentum. The Committee thus viewed it essential to preserve the policy space to cushion potential impact should these risks materialize. In addition, the Committee assessed that, although financial stability remained sound, more pockets of risks warranted close monitoring, particularly the deterioration in loan quality and the search-for-yield behavior under the prolonged low interest rate environment.

**Looking ahead, the Committee concurred that monetary policy should remain sufficiently accommodative.** The Committee 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 Group

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