

## Edited Minutes of the Monetary Policy Committee Meeting (No. 1/2017)

8 February 2017, Bank of Thailand

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### Members Present

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

### The Global Economy

**The growth outlook for Thailand's trading partner economies improved due to stronger growth momentum in some countries.** The **US economy** continued to expand on the back of domestic demand, while anticipated stimulus measures under the new administration and improved private-sector confidence would contribute positively to business investment in the period ahead. Given the expected acceleration in inflation, market participants anticipated that the Federal Reserve (Fed) would continue to pursue monetary policy normalization this year. **Asian economies** gained additional growth momentum from a stronger recovery in exports, especially those of electronic goods which benefited from the global recovery and the technological upcycle that might last longer than expected.

**The Committee assessed that risks to global growth were largely unchanged from the previous meeting, according to which the recovery remained fragile with a large degree of uncertainty,** particularly with respect to shifts in the investment and trade policies as well as the stance on foreign trade agreements by the new US administration. In addition, potential trade retaliations from US key trading partners would have adverse implications for global trade going forward. Meanwhile, risks pertaining to China's real estate and financial sectors, political developments in Europe, and problems faced by the European banking sector remained. The Committee would therefore continue to monitor these risks closely, particularly the US economic and foreign trade policies which could have both positive and negative impacts on Thailand.

### The Financial Markets

**Volatility in the global financial markets increased following the announcement of the US presidential election outcome.** With investors reducing their holding of emerging market assets, including those of Thailand, **Thai government bond yields** were on the rise. However, the global financial markets underwent corrections since the end of 2016 as investors revised their expectations of the US economic policies, leading to a depreciation of the US dollar. While the **baht appreciated against the US dollar** in line with movements of regional currencies, the extent of the appreciation was more than those of trading partner currencies, partly due to investors' confidence in Thailand's external stability. The **Nominal Effective Exchange Rate (NEER)** thus appreciated somewhat since the last meeting.

**The Committee anticipated that capital flows and exchange rates would continue to be highly volatile as external uncertainties remained considerable,** depending on the actual implementation of US fiscal stimulus as well as the pace of the Fed's monetary policy normalization.

### **Domestic Economic Conditions**

**The Thai economy was projected to expand at a faster pace** on the back of a more broad-based recovery in **merchandise exports**, which were expected to receive continued support from the demand for electronic goods and relocation of production sites for some products to Thailand. At the same time, **tourism** recovered faster than expected. **Public expenditure** remained an important growth driver and was expected to gain further traction from infrastructure investment in the period ahead. Meanwhile, **private consumption** and **private investment** continued to recover at a gradual pace. Nevertheless, growth in private investment was still concentrated in certain business sectors, namely alternative energy, telecommunication, and manufacturing of electronic goods. This was in line with the pickup in exports, and consistent with the extension of business credit by commercial banks that were concentrated in these particular sectors. In this light, the Committee would continue to monitor signs of positive spillovers from the recovery in exports to employment and private investment in order to ensure a sustained and broad-based economic recovery.

**Headline inflation continued trending upward** and returned to the target band in December last year. **Core inflation steadied** around the previous assessment which reflected low demand-pull inflationary pressures. Meanwhile, the public's medium-term inflation expectations remained close to the target.

**The Committee assessed that the recovery of the Thai economy was still subject to risks that warranted close monitoring.** These included, in particular, the outturn of the US economic and foreign trade policies that would have implications for confidence and international trade. In addition, risks pertaining to political developments in Europe and problems faced by European banks could affect investors' confidence and contribute to financial market volatilities in the future, which might subsequently impact the recovery of Thailand as well as other regional economies.

**The Committee viewed that financial stability remained sound** with sufficient cushion against economic and financial volatilities on both domestic and external fronts. However, there were pockets of risks that warranted close monitoring such as the deterioration in the quality of loans extended to businesses, especially small-and-medium-sized enterprises (SMEs), and households, together with defaults of unrated bonds issued by certain companies. In addition, the search-for-yield behavior would be closely monitored as it might lead to underpricing of risks.

### **The Policy Decision**

**The Committee decided to keep the policy rate unchanged at 1.50 percent at this meeting.** Under the Committee's assessment, Thailand's growth outlook improved compared with the previous assessment, but the recovery still faced external risks that warranted close monitoring. Inflation returned to the target band and continued trending upward. In addition, overall financing conditions remained accommodative and conducive to the economic recovery, with ample liquidity in the financial system and low real interest rates despite increases in bond yields due to domestic and external factors. With regard to the exchange rate movements over the recent period, uncertainties stemming from external developments led to some appreciation of the baht against major trading partners' currencies which, in the Committee's view, might not be beneficial to the ongoing economic recovery.

**While the Thai economy started to gain more traction, uncertainties remained considerable**, particularly those pertaining to the fragile global economic recovery and the economic and monetary policy directions of major advanced economies especially the US, which might significantly impact the recovery of trading partner economies and consequently Thai exports. Meanwhile, demand-pull inflationary pressures remained low. The Committee would thus closely monitor and assess the sustainability of the ongoing recovery as well as potential risks going forward. In addition, some Committee members viewed that risk management on the part of the private sector would become increasingly important in an environment of highly volatile capital flows and exchange rates.

**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 Group  
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