Flash by EIC

SCB Economic Intelligence Center

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MPC put policy rate on hold and increased Thailand's growth outlook this and next year

Key point

- The Monetary Policy Committee (MPC) unanimously voted to keep the policy rate at 1.50% at the meeting on 5 July 2017.
- The MPC assessed that Thai economy improved further due to better exports across various products and destinations. Tourism continued to thrive on more Chinese tourists while public spending remained a key growth driver. Private consumption expanded on the back of improvements in farm income; however, non-farm income did not gain much from the export recovery. Private investment remained slowly pick up. Thus, the MPC revised up the Thailand's growth forecast from 3.4% to 3.5% in 2017 and from 3.6% to 3.7% in 2018.
- Headline inflation softened mainly due to supply-side factors especially lower global oil prices and lower vegetables and fruits prices from higher output and last year's high base effects following the drought. The MPC viewed this soften inflation was temporary and it could gradually pick up in the following period. Headline and core inflation were expected at 0.8% and 0.6% in 2017, down from at 1.2% and 0.7%, respectively.
- Thai baht per U.S. dollar appreciates since the beginning of the year owing to U.S. political uncertainty that could point to delay tax reforms. This prompted capital flows into Asia. However, the MPC viewed that a close monitoring of short-term flows would be necessary going forward as such flows could induce further Thai baht fluctuations.
- The MPC assessed that the Thai economy would mainly be subject to external risks, particularly the U.S. economic and foreign trade policies a well as monetary policy directions of major advanced economies.

Implication

EIC expects the MPC to maintain policy rate throughout the year.

- EIC expects the MPC to maintain policy rate at 1.50% throughout 2017 to support economic growth that is still concentrated in certain sectors, slow recovery of private investment and lower-than-expected inflation. EIC believes that a rate cut would be unlikely although inflation forecast remains lower than the target band at 1.0%-4.0% as the MPC concerns that a rate cut could induce further yield-seeking behavior as investors turn to excessively risky assets.

Press release by Bank of Thailand (this meeting compared to the previous meeting)

Topic	Previous meeting (24 May 2017)	This meeting (5 July 2017)
Thai economy	Thai economic growth was more firm, driven primarily by a sustained recovery of merchandise exports, improved private consumption on the back of higher farm income and consumer confidence. Tourism sector showed a swift recovery and government spending remained a key growth driver. Meanwhile, private investment slowly picked up. However, risks surrounding the Thai economy would warrant monitoring, especially those stemming from the external front. These include the U.S. economic and foreign trade policies, China's structural economic reform and global geopolitical risks.	Thailand's firm economic growth gained traction due to better exports and the swift recovery in tourism. Private consumption continued to expand on the back of rise in farm income but non-farm income did not gain much from the export growth. Public expenditure remained a key growth driver. Meanwhile, private investment slowly picked up. However, the improved growth outlook was still subject to external risks including uncertainties in U.S. economic and trade policies, monetary policy directions of major advanced economies, China's economic reforms, geopolitical risks, and immigrant labor situation.
Inflation	Headline inflation was softer on account of lower prices of fresh food due to last year's base effect because of the drought and subdued demand-pull inflationary pressures. However, headline inflation would trend up in the latter half of the year.	Headline inflation softened mainly due to lower vegetables and fruits prices from higher output and last year's base effects following the drought, as well as the decline in global oil prices. Nonetheless, headline inflation was projected to slowly rise.
Risks	1. U.S. economic and foreign trade policies 2. Debt servicability of SMEs 3. Search-for-yield behavior	1. U.S. economic and foreign trade policies 2. Monetary policy of major advanced economies 3. Debt servicability of SMEs 4. Search-for-yield behavior 5. Immigrant labor situation
Policy rate	Unanimously voted to main policy rate at 1.50%	Unanimously voted to main policy rate at 1.50%
Policy deliberation	Monetary policy remains accommodative. The Committee would stand ready to utilize an appropriate mix of policy tools to ensure the continuation of economic growth and financial stability.	Monetary policy remains accommodative. Economic growth was firmer but domestic demand recovery still concentrated in certain sectors.

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