



27 September 2017

MPC maintained policy rate, citing stronger economic growth and revising up GDP forecast to 3.8%.

## Key point

- The Monetary Policy Committee (MPC) unanimously voted to keep the policy rate at 1.50% at the meeting on 27 September 2017.
- The MPC assessed that the Thai economic growth strengthened due to expansions in merchandise exports and tourism, following stronger global economic recovery. Private consumption in services and durable goods expanded, but purchasing power remained soft especially among low income households. Private investment in machineries and equipments picked up in many sectors. Public investment remained a growth driver. The MPC revised up its GDP forecast from 3.5% to 3.8% for 2017, and from 3.7% to 3.8% for 2018.
- Improvement in headline inflation had been delayed from the previous assessment. This was due to the fall in raw food prices that resulted from an increase in fruits and vegetables outputs, as well as structural changes in the economy. Nonetheless, headline inflation was expected to rise gradually in line with recovery in domestic demand, an increase in excise tax, as well as government measures on migrant workers that might affect wages in the future. The MPC's projections for average headline and core inflation in 2017 were 0.6% and 0.6%, down from the previous assessments of 0.8% and 0.6%, respectively.
- The baht strengthened somewhat due to USD weakness and Thailand's strong current account surplus. However, when compared to regional currencies, the baht remained largely stable. The MPC expected exchange rate volatility to continue due to uncertainties from external factors, including economic policy in the U.S. and monetary policy in the major economies.
- The MPC saw a number of risks to the Thai economy, both external and domestic. Among them are the impact from regulations on migrant workers, uncertainties in economic and trade policy in the U.S., and geopolitical risks.

## **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 remains concentrated in certain sectors. Also, maintaining rate will help contain

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financial stability risks from search-for-yield behaviors and underpricing of risks. Although forecast for headline inflation has been revised down, but the weakening baht as USD started to strengthen, as well as Thailand's economic expansion especially from exports will reduce the pressure for a rate cut.

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

Issue	Previous meeting	This meeting
	(16 Aug 2017)	(27 Sep 2017)
Thai	Thailand's economic growth gained further traction on	The Thai economy gained further traction on account of
economy	account of stronger growth in merchandise exports across	stronger growth in merchandise exports and tourism.
	various product categories and destinations, continued	Private consumption continued to expand on the back of
	expansion in tourism, and higher agricultural output.	services and durable goods. Nonetheless, overall private
	Meanwhile, private consumption continued to expand at a	consumption gradually expanded as household
	gradual pace. Private investment was projected to expand	purchasing power was not sufficiently strong, particularly
	slowly, while construction investment moderated. Public	low-income households. Private investment in machinery
	investment growth was softer than previously assessed.	and equipment picked up across various sectors.
	The improved growth outlook was still subject to external	Meanwhile, public investment remained an important
	risks, such as trading partners' growth outlook, uncertainties	growth driver. The improved growth outlook was still
	pertaining to US economic and foreign trade policies, and	subject to both domestic and external risks, such as
	geopolitical risks.	impacts from regulations on immigrant workers,
		uncertainties pertaining to US economic and foreign trade
		policies, and geopolitical risks.
Inflation	Headline inflation increased at a slightly slower pace than	Headline inflation increased at a slower pace than the
conditions	previously assessed. This was due to the fall in raw food	previous assessment. This was due primarily to the
	prices following higher agricultural output and favorable	decline in fresh food prices as a result of higher output of
	climate, as well as the base effect of last year's drought.	vegetable and fruits. Nevertheless, headline inflation was
	Meanwhile, core inflation was projected to improve	projected to slowly rise from the recovery in domestic
		demand, an increase in excise tax, and regulations on
	gradually throughout the second half of the year.	immigrant workers that might affect wages going forward
Key risk	U.S. economic and foreign trade policies	1. U.S. economic and foreign trade policies
factors	Trading partners' economic outlook	2. Geopolitical risks
	3. Debt serviceability of SMEs	3. Debt serviceability of SMEs
	4. Search-for-yield behavior	4. Search-for-yield behavior
	5. Stronger baht against regional currencies that may	5. Monetary policy of major advanced economies
	affect business adjustments	6. Immigrant workers situation

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Policy rate	Unanimously voted to main policy rate at 1.50%	Unanimously voted to main policy rate at 1.50%
Policy	Monetary policy should remain accommodative. Economic	Monetary policy should remain accommodative. Economic
deliberations	growth was firmer but domestic demand recovery still	growth was stronger but domestic demand recovery
	concentrated in certain sectors.	remained gradual and was concentrated in certain
		sectors.

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