



 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

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 (16 Aug 2017)	This meeting (27 Sep 2017)
Thai economy	Thailand's economic growth gained further traction on account of stronger growth in merchandise exports across various product categories and destinations, continued expansion in tourism, and higher agricultural output. Meanwhile, private consumption continued to expand at a gradual pace. Private investment was projected to expand slowly, while construction investment moderated. Public investment growth was softer than previously assessed. The improved growth outlook was still subject to external risks, such as trading partners' growth outlook, uncertainties pertaining to US economic and foreign trade policies, and geopolitical risks.	The Thai economy gained further traction on account of stronger growth in merchandise exports and tourism. Private consumption continued to expand on the back of services and durable goods. Nonetheless, overall private consumption gradually expanded as household purchasing power was not sufficiently strong, particularly low-income households. Private investment in machinery and equipment picked up across various sectors. Meanwhile, public investment remained an important growth driver. The improved growth outlook was still subject to both domestic and external risks, such as impacts from regulations on immigrant workers, uncertainties pertaining to US economic and foreign trade policies, and geopolitical risks.
Inflation conditions	Headline inflation increased at a slightly slower pace than previously assessed. This was due to the fall in raw food prices following higher agricultural output and favorable climate, as well as the base effect of last year's drought. Meanwhile, core inflation was projected to improve gradually throughout the second half of the year.	Headline inflation increased at a slower pace than the previous assessment. This was due primarily to the decline in fresh food prices as a result of higher output of vegetable and fruits. Nevertheless, headline inflation was projected to slowly rise from the recovery in domestic demand, an increase in excise tax, and regulations on immigrant workers that might affect wages going forward
Key risk factors	<ol style="list-style-type: none"> 1. U.S. economic and foreign trade policies 2. Trading partners' economic outlook 3. Debt serviceability of SMEs 4. Search-for-yield behavior 5. Stronger baht against regional currencies that may affect business adjustments 	<ol style="list-style-type: none"> 1. U.S. economic and foreign trade policies 2. Geopolitical risks 3. Debt serviceability of SMEs 4. Search-for-yield behavior 5. Monetary policy of major advanced economies 6. Immigrant workers situation

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

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