



MPC maintained policy rate, while revising up economic growth slightly

Key point

- The Monetary Policy Committee (MPC) unanimously voted to keep the policy rate at 1.50% at the meeting on 20 December 2017.
- The MPC assessed that Thailand's economic growth has expanded at a better rate than previously expected, driven primarily by exports and tourism. Private consumption has only slowly improved, since the income growth has not been evenly distributed across all income groups. Moreover, household debt remains rather high. By contrast, private investment enjoys decent recovery, following more investment in machinery and equipment. While slowing down somewhat, public investment is still the main driving force behind the country's economy at the present.
- The headline inflation rate sees a slight increase following the slowly rising energy prices. In this regard, demand-pull inflation has slightly improved, albeit still at a low level. Moreover, the economy is facing structural changes that cause inflation to rise at a slower rate than the previous period. The MPC expects that the inflation rate will return to the inflation target in due course.
- The exchange rate of Thai baht against competing currencies will not move by a significant degree in the near future. Yet, it is foreseeable that exchange rates will remain volatile due to external uncertainties. The MPC advises monitoring the foreign exchange market very closely.
- The MPC expresses its concerns over domestic and external risks for Thai economy, including search-for-yield behaviors, the U.S. unclear trade and economic policies, and geopolitical risks.

Implication

EIC expects the MPC will maintain the current policy rate until 2018

- EIC expects that the MPC will maintain the policy rate at 1.50 throughout 2018 to support economic growth that remains concentrated in certain sectors. However, while economic indicators show signs of improvement, consumption and investment have remained unfortunately lackluster.
- Fluctuation in exchange rates, particularly THB/USD, is to be expected. The baht had been

appreciating since the last meeting, but weakened slightly just before the the MPC meeting. EIC believes that foreign exchange rate is one main factor that the MPC takes into consideration when adjusting its monetary policy.

Press release by Bank of Thailand (the December meeting compared to the November meeting)

Issue	Previous meeting (8 November 2017)	This meeting (20 December 2017)
Thai economy	Thailand's economy is expected to grow at a higher rate than the projection, thanks to exports and tourism. Private consumption will continue to grow. However, signs of recovery among low income households have yet to be seen. Similarly, SMEs are not fully reaping the benefits of the gradual economic recovery. Private investment has improved, thanks to investment in machinery and equipment. Nonetheless, the main driving force behind the economic recovery is still public investment, which has slowed down at various points in the disbursement cycle. All in all, the Thai economy is still subject to risks that require close monitoring, such as immigrant worker regulations, the US's unclear trade and economic policies, and geopolitical risks.	Thailand's economy has outperformed forecast with the constantly improving exports and tourism as the main driving factors. Private consumption has only slowly increased as the income growth has not been evenly distributed across all income groups. Moreover, household debt remains high. Private investment enjoys decent recovery thanks to more investment in machinery and equipment. Public investment still remains the main economic driver, despite delayed budget disbursements at times. Overall, the Thai economy is still subject to risks that demand close monitoring, such as the US's unclear trade and economic policies and geopolitical risks.
Inflation	The headline inflation rate has increased at a slow pace, following the gradually rising prices of fresh food and energy. Moreover, the inflation rate is expected to continue to rise slowly as a result of the recovering domestic demand, the increased excise tax, as well as the impact from immigrant worker regulations that may affect future wages.	The headline inflation rate has increased at a slow pace, as a result of the increasing energy prices. While demand-pull inflation has improved, it still remains at a low level. In the near future, inflation will slightly rise following the recovery of domestic demand.
Risks monitored by MPC	<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 economies 	<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 economies

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	6.Immigrant workers situation	6.Immigrant workers situation
Policy rate	Unanimous vote to maintain the policy rate at 1.50%	Unanimous vote to maintain the policy rate at 1.50%
Rationale	Monetary policy should remain accommodative in favor of the growth of the overall economy. Domestic demand has expanded decently well, although the recovery of low income households is much less clear.	Thailand's overall economic expansion has significantly improved, although the growth of income is not evenly distributed. The monetary policy should remain accommodative in order to drive the inflation rate towards the target..

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