

Thailand needs more policy stimulus

We doubt the policymakers will heed the IMF's recommendation of increased policy stimulus. We maintain our forecast of an on-hold monetary policy this year



IMF calls for more economic stimulus

In the just concluded Article IV Consultation of the Thai economy the International Monetary Fund urged for a greater policy stimulus to achieve more balanced growth.

According to [the IMF press release](#) on 29 March, the Fund staff acknowledged Thailand's improving economic performance albeit with an "unbalanced composition".

... growth has not been broad-based and the current account surplus remains large. To achieve a more balanced growth, the mission recommends an expansionary policy mix based on fiscal stimulus and monetary easing, with macroprudential policy preserving financial stability.

The main reasons cited for structural imbalance were economic transformation and ageing as depressing domestic demand, while a cyclical upswing in exports failed to sufficiently trickle down to household income and investment.

0.8%

Thai CPI inflation in March

Year-on-year

Lower than expected

Data support the IMF's call

The latest activity data support the IMF's call for increased policy accommodation. Released today, Thailand's consumer price inflation accelerated to 0.8% year-on-year in March from 0.4% in the previous month, though the print was still below the consensus centred on about 1% inflation. The higher inflation is mostly the base effect, while the main CPI components of food and transport prices continued to contract on a month-on-month basis. Core inflation, which excludes food and fuel-related components from total CPI, was unchanged at 0.6%.

And released last Friday (30 March), manufacturing output growth in February was unchanged from the 4.7% pace of January, though the previous month's growth was revised up from 3.4%. Firmer manufacturing growth was despite a sharp slowdown in volume of exports to 3.1% in February from 11.3% in January. Manufacturing drives real GDP growth. A modest pick-up in manufacturing growth from a 4.4% average in the fourth quarter of 2017 points to a pick-up in GDP growth in the first quarter of 2018.

Will policymakers heed the call?

At the last meeting on 28 March the Bank of Thailand (BoT) assessed the current accommodative monetary policy stance supportive of economic growth and return of inflation to the 1-4% policy target in the near-term. However, according to the policy statement, one policy committee member warned against prolonged accommodation, noting that such policy could lead economic units to underestimate potential changes in financial conditions, and that a policy rate hike wouldn't hinder economic recovery.

We doubt the policymakers will heed the IMF's call for more stimulus. We maintain our forecast of an on-hold BoT monetary policy this year.