

Thailand's central bank signals steady policy

We continue to forecast no change to the Bank of Thailand monetary policy this year. We see the current global market turmoil pushing USD/THB to 32.50 in the near-term



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The central bank policy minutes back up our long-held view that there will be no change to monetary policy this year. We expect the current global markets stress to push the Thai baht (THB) exchange rate versus the US dollar, currently 32.14, to 32.50 in the near-term.

The Bank of Thailand minutes

The minutes of the Bank of Thailand monetary policy meeting held on 16 May revealed the central bank's preference for continued policy accommodation. The key highlights of the minutes are:

- **Growth:** the Committee viewed that growth developments still warranted monitoring for some period. Accommodative monetary policy thus remained necessary to support more broad-based and strong domestic demand.

- **Inflation:** upward pressure on inflation in the period ahead might be lower than in the past, as wage increases are having only limited effects on inflation, oil price increases are partly compensated by subsidies, and increases in agricultural prices are less likely due to an expansion in the agriculture land base worldwide.
- **Household debt:** Thailand's elevated household debt has declined at a slower pace, partly reflecting some structural problems that have yet to be fully resolved.
- **Currency:** Looking ahead, the baht will likely experience volatile movements mainly due to uncertainties pertaining to the conduct of monetary and fiscal policies in advance economies as well as geopolitical risks and oil prices.

The minutes concluded, "The Committee concurred on the need to maintain accommodative monetary policy stance and would stand ready to utilize available policy tools to support the continuation of economic growth while preserving financial stability".

Downside growth risks

Also released today, Thailand's manufacturing growth accelerated less than expected to 4.0% year-on-year in April from 2.6% in the previous month. Our forecast was 4.1% against the consensus of 4.3% growth. A pick-up in manufacturing growth squares with a pick-up in export growth over the same months. However, this was all about the low base effect boosting year-on-year growth, rather than an underlying improvement. April is typically the weakest activity month in the year due to the Songkran (Thai New Year) holiday. A sharp drop in manufacturing capacity utilisation to 61.6% in April from 76.3% in March bears this out.

Data signals a good start to the second quarter given that manufacturing drives GDP growth. At 4.8% YoY in the first quarter of 2018 GDP growth was the fastest in five years. However, sustaining such a performance in the rest of the year will be a challenge amid uncertain financial market conditions, rising oil prices, and an unfavourable base effect for GDP growth. As such, our 4% growth forecast for this year is exposed to downside risk. So is the central bank's 4.1% growth forecast.