

Bank of Thailand to keep policy on hold

We forecast no change to monetary policy all year



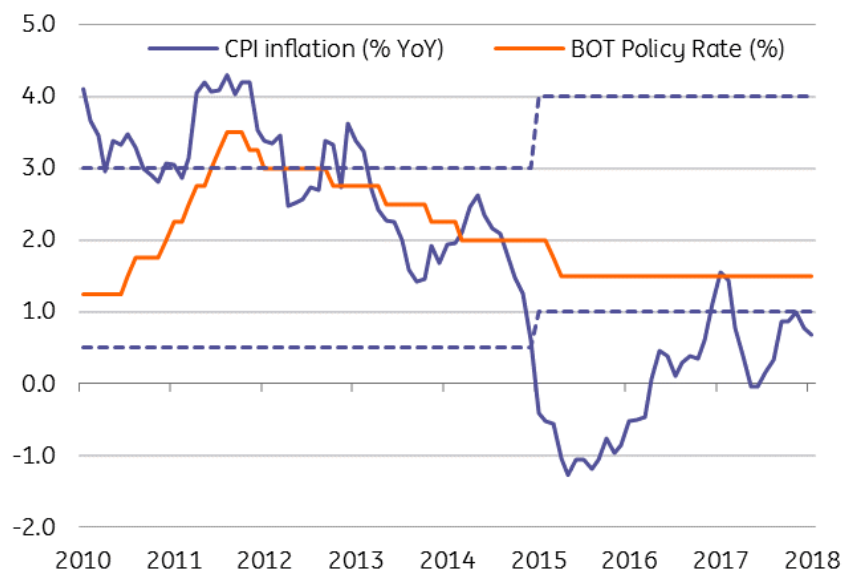
1.5% BoT policy rate

Consensus of on-hold BoT policy

The Bank of Thailand (BoT) Monetary Policy Committee meets today. There is a unanimous consensus that they will keep policy unchanged. The main policy rate, the 1-day repurchase rate, has been at 1.5% since April 2015 when the last easing cycle ended.

There are no strong reasons for the BoT to change the policy anytime soon. Even as GDP growth picked-up to a five-year high of about 3.8% in 2017 from 3.2% in the previous year the underlying economic fundamentals remained weak. The much-touted increase in infrastructure spending is still missing in action. And consumer price inflation has undershot the BoT's 1-4% medium-term policy target for the third straight year (see chart), thanks to weak domestic spending and an appreciating Thai baht (THB).

Inflation isn't a policy worry



Dotted lines are BoT's target for CPI inflation, currently 1-4%.

Source: Bloomberg, ING

Thai baht outlook

We forecast no change to monetary policy all year. There was no let-up in the THB appreciation trend coming into 2018 with 2.8% year-to-date appreciation against the USD. The key force behind THB strength is a persistently large current account surplus. At about 11% of GDP in 2017 the surplus was barely changed from 2016.

The large current account surplus is the result of weak domestic demand. The textbook remedy for such an imbalance is demand-boosting economic policies. With no scope for monetary easing, more needs to come from the fiscal side. Without this, a repeat of 2017's THB performance looks difficult this year. Our year-end USD/THB forecast is 31.0 (spot 31.5, consensus 31.3).