OCBC Bank

Thailand Outlook

Staying upbeat with upgraded growth outlook

Wednesday, September 27, 2017

Highlights:

- **The Bank of Thailand (BOT) held interest rates constant at 1.50% in its latest MPC meeting** yet again in an unanimous fashion, in line with our expectations. This particular MPC meeting was likely closely watched by market-participants given recent government calls "to see the central bank use monetary policy to support" economic growth, in the light of strong THB and low inflation. Importantly, the central bank also upgraded their growth forecast to 3.8% for 2017 (previously: 3.5%) and 2018 (previously: 3.7%), though downgrading headline inflation outlook to 0.6% for this year (previously: 0.8%) and 1.2% in 2018 (previously: 1.6%).

- **BOT's decision to keep its rates pat underscores its undertaking to minimise financial stability risks, notwithstanding government's call to see lower rates.** Moreover, BOT had commented recently that the current rate level is supportive of economic growth. This is in contrast with Finance Ministry concerns that the Thai Baht has gained against the greenback at a faster pace vis-à-vis other Asian currencies. On this, the central bank preferred to intervene in the foreign exchange market, rather than a rate cut, to prevent the THB from appreciating too quickly, seen from its rising international reserves at US$228bn as of Sept 1, up from $197bn at end 2016.

- **Policy-makers are likely to keep rates unchanged for the year,** especially with BOT comments that "financial conditions remained accommodative and conducive to economic growth" while monetary policy "should foster the return of headline inflation to target". Importantly, the upgraded growth outlook has been underpinned by the robust external environment seen of late and the influx of tourism spending, while private investment levels are "expected to gradually expand". Nonetheless, BOT warns that its improved growth outlook is still subjected to both domestic and external risks, including uncertainties pertaining to US economic and foreign trade policies as well as geopolitical risks. Inflation is also projected to "slowly rise from the recovery of domestic demand", on top of a fresh implementation of an excise tax on certain goods including some alcoholic beverages and cigarettes. In-all, we keep our in-house growth and inflation outlook at 3.5% and 0.4%, respectively.

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