

Upgrading of growth outlook is certainly good news!

Wednesday, June 20, 2018

Highlights

- **The Bank of Thailand has kept its policy rate unchanged at 1.50% in its latest MPC meeting.** The committee voted 5 to 1 to keep its rate unchanged, a deviation from the unanimous vote outcomes seen in the past meetings. Coupled with the better-than-expected 1Q18 growth and trade outlook, the policy-makers upgraded both their 2018 and 2019 growth outlook to 4.4% (up from 4.1%) and 4.2% (up from 4.1%), respectively. Inflation outlook is also upgraded to 1.1% and 1.2% into 2018 and 2019, respectively.
- **The language appears to be relatively optimistic as well.** According to the policy document, the Thai economy is viewed to achieve higher growth than previously assessed given the “stronger momentum” seen from both domestic and external demand. Further, the committee viewed that the current monetary stance “remains conducive to the continuation of economic growth, and should support the rise of headline inflation”. Elsewhere, domestic consumption continued to expand, while exports and tourism continued to support Thailand’s economy. Cautionary rhetoric however, remains similar to BOT’s MPC report in May, citing that elevated household debt persist, while the economic expansion has not fully translated to supporting household income and employment in a broad-based manner. Moreover, Thailand’s growth outlook is “still subjected to external risks... (including) US foreign trade policies and retaliatory measures from trading partners”.
- **Historically, BOT policy-makers have been rather unanimous in their votes,** though recent meetings since 2Q18 have since shown their increasing discomfort over low rates. The dissenter’s vote to raise rate in today’s meeting cited that “economic expansion was sufficiently robust” while prolonged monetary accommodation may result in financial imbalances.
- **We have previously upgraded our Thailand growth outlook to 4.2% in May,** following its better-than-expected 1Q18 growth print of 4.8% y/y (+2.0% qoqsa). The surprisingly higher economic growth in 1Q18 is a strong reminder that Thailand growth momentum is largely supported by its manufacturing, trade and tourism activities. To us, today’s upward growth revision by Thailand’s policy-makers reinforces the optimistic view we have on its overall growth, barring further intensification in trade tensions and geopolitical uncertainties. On interest rate, we continue to pencil in a potential rate hike of 25bps towards the end of 2018, on the back of higher US-led policy rate and the uptick in inflationary pressures then.

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