
BOT's Monetary Policy: Navigating towards sustained growth
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Thailand economic outlook and monetary policy

- Thailand has restored economic growth toward its potential and the role of monetary policy has to support sustainable growth. Monetary policy turning point is complex in a current volatile world. There are a number of factors considered in the policy decision, not just the current economic data but also forward-looking data.

- Factors MPC consider to set monetary policy
- Inflation, growth, and financial stability

1. Inflation: Finally back to the targeted range after 5 years of below the target inflation rate. Core inflation has been lower but expected to increase due to demand pull factor. Low inflation has been observed around the world. Aging population, automation of manufacturing and the rise of online platform continues to prolong low inflation environment.

2. Growth: Continued easing monetary policy would impose a risk. GDP figure has been quite impressive for the past quarter (4.8%). However, we have imbalance called 2 speed economy where

- a) export has been expanding quite fast but mostly benefits large exporters.
- b) slow domestic consumption/investment is lower than historical level due to high household debt.

However, there has been recently broader-based export growth to smaller exporters and domestic private consumption started to pick up due to the spillover effect of growth in export.

Risks to growth outlook

- Trade war, financial conditions in EM, recovery of tourism after Phuket boat incident.
- Structural challenges of 2 speed economies require more broader policy solutions that just monetary policy, i.e. policy on innovation, education, labor market to boost productivity.

3. Financial stability: search for yield can cause excessive risk taking, esp. in certain economies lead to mismatch of corporate financing. Recently, mortgage loan has been up. Mortgage NPL continues to rise.

Global low interest rate leads to concern on search for yields with excessive risk taking, debt accumulation in households. Upward trend in mortgage loan- high loan to value conditions Mortgage NPL have continued to rise. BOT continues to implement warning sign, e.g. tightened credit card and loans.

Financial stability should be monitored by macroprudential tools but for emerging market this may not be enough. Therefore, BOT sees macroprudential tools as a complement of overall monetary policy.

Currently, economic growth is close to potential growth level. MPC has to take a longer view and leave adequate policy space.

- 1) Gradual movement of policy rate will reduce the risk of unintended consequences.
- 2) Current flow of capital allow BOT to build up policy space while still remain accommodative policy.

- In sum, clearer growth outlook, but monetary policy needs to still support current growth and be accommodative for sometime. But we are also mindful of the prolonged period of low interest rates. MPC has been closely monitoring the search for yield behavior. Emphasize that MPC is very data dependent and conduct prudent monetary policy.

Q&A

- Trade war impact?

Direct impact: we start to see the impact on export to US in specific products, e.g. washing machines. (but quite small portion to Thailand export). We need to be aware of impact on Chinese manufacturing export. Need a few months to see this impact to the supply chain.

Indirect impact: trade diversion can have both positive and negative impact depending on complex supply chain in Asia. So far, the impact is still limited but if the trade war escalates, we will start to see more impact next year. In addition, impact on delaying investment decision.

- Outflows in EM to US. How immune are we?

External pressure still not putting a high pressure to increase policy rate for Thailand, compared to peers emerging countries. Domestic liquidity and Thai commercial banks balance sheet are still quite solid, compared to before 1997 crisis.

The need to increase rate is not imminent unlike our EM peers. We can answer to domestic needs. Are we too conservative on foreign reserves: macro perspective? Look big picture: when advanced country pumping liquidity and capital inflows into EM. Reversal of capital flows possible which was proven in the volatility in the past 3 months. This is important buffer. However, consider prolonged low global interest rate, BOT need to be prudent for too long ultra-accommodative policy.

- Initiative in Fintech?

- We support ecosystem of electronic payment. E-payment is very important for efficiency in financial system, e.g. Promptpay as an open platform for bank and non-bank's e-payment provider.

- Believe in open platform which encourage innovation and dynamic competition and attract new players to offer their services, e.g. standardized QR code so anyone can come in to provide services. BOT also wants to transform SME lending from collateral-based lending to information-based lending.

- With open platform, the financial landscape will be more competitive with new players coming in the market.

- Technology disruption?

- Technology will allow middle-man business to be bypassed easily. Key factor is the ability to collect and use data, data analytic capabilities will be very important to every business.

- Key message to investors?

- Thailand has strong economic fundamental and enough buffer to go through volatility. We've seen high volatility during the normalization path historically. Thailand should be able to stand through this volatile environment.
