



Inflation Report approved by the MPC on October 19, 2011

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- 1. Major economic issues considered by the MPC*
- 2. Projection for 2011-2012*
- 3. Key concerns for monetary policy going forward*

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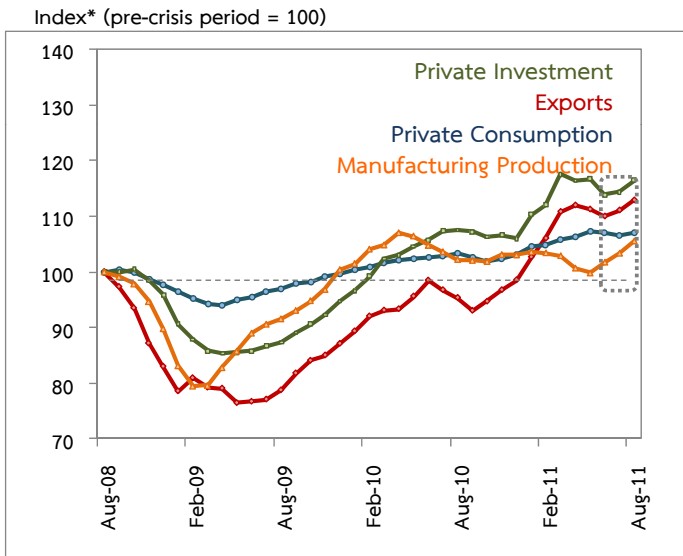
Major economic issues considered by the MPC

1. Economic growth: Latest developments and outlook
2. Inflation pressures going forward



Latest developments in economic conditions

The Thai economy in 2011 Q3 has improved from the previous quarter



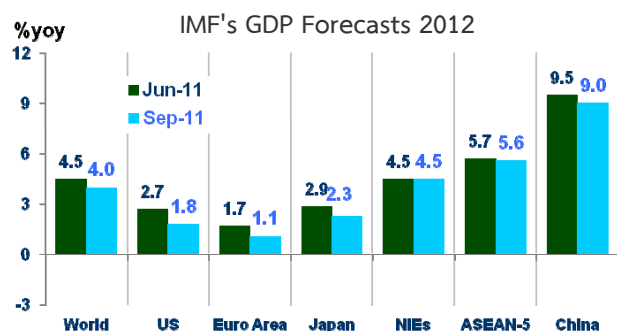
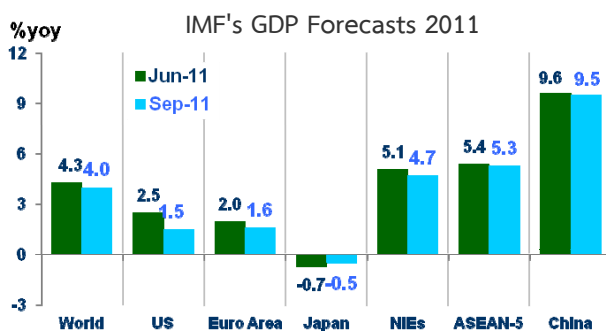
* 3-month moving averages, seasonally adjusted (except Private Investment Index, which is already computed as 3-month moving average)

Source: Bank of Thailand

- **Industrial production** picked up after supply chain disruptions following natural disasters in Japan began to dissipate
- **Exports** continued to expand (+27.3% yoy), particularly from agricultural products and recovery of the automobile industry
- **Tourism**: number of foreign tourists rose by +26.9%yoy, especially tourists from Asia
- Domestic demand: **private consumption** remained stable as consumers await the conclusiveness of the government policy. Meanwhile, **private investment** continued to expand according to investment plan, especially in the automobile industry.



IMF revised down the global growth forecast for 2011 and 2012, though the double-dip recession in advanced economies is not anticipated



Source: IMF WEO as of 17 June and 21 September 2011

Note: NIEs includes Hong Kong, South Korea, Singapore and Taiwan : ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand and Vietnam



Growth outlook for 2011 and 2012

- The Thai economy in 2011 is likely to grow significantly lower than the previous projection, as economic activities in 2011 Q4 are expected to contract due to weakening global growth prospect and the impacts of the flood.
 - Severity and the broad-based impacts of the flood, dispersing from agricultural to manufacturing sector, will lead to contraction of overall economic activities—exports, private consumption, and private investment— by 1.1% of GDP. Nonetheless, the level of potential output is unlikely to be affected in the long run.
 - Weakening global growth prospect, especially in the US and Europe, will eventually lead to slowdown on growth of merchandise exports going forward.
- The Thai economy in 2012 is expected to expand at the pace close to the previous projection with domestic demand as the main growth driver in light of the view that the flood incident has not affected long-run potential output.
 - Reconstruction spending after the flood recede
 - Fiscal impetus through the government measures such as rice pledging scheme and minimum wage increase
 - Nevertheless, in the longer term, soften global demand would make spending to recuperate the economy less effective

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Inflation pressures remain close to previous assessment

- **Pressures on prices still remain** in tandem with tightening labor market and growing economic activities, while prices of certain types of goods edged up as a result of the flood.
- Pressures from other fronts seem to ease up or remain stable
 - **Production costs** such as oil and commodity prices decelerated as a result of soften global growth
 - **Inflation expectations** start to stabilize
- Core and headline inflation for 2012 were revised up from the previous projection, mostly due to the impacts of government measures that are more conclusive.

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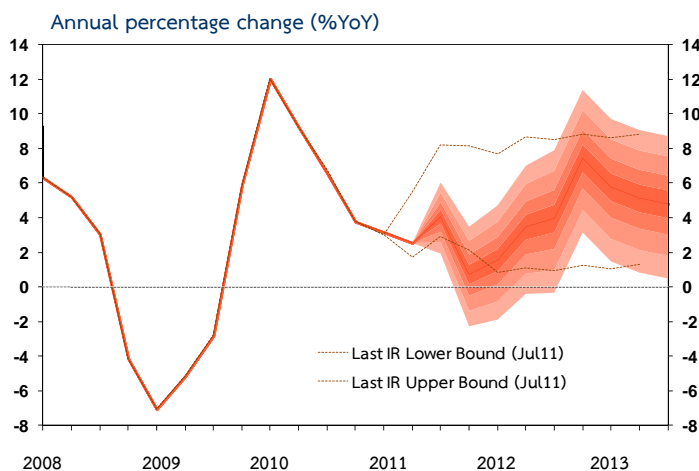
Key assumptions that have been revised from the previous projection (Jul 11)

- Slower-than-expected global growth led to downward revision of trading partners' demand for Thai exports, along with oil and commodity prices' assumption.
- Clarity of government measures:
 - Government spending is assumed to edge up
 - Minimum wage is assumed to be raised from 2012 Q2 onwards



GDP Growth Forecast

- Under the baseline scenario, the Thai economy in 2011 would grow substantially lower than previously projected, mainly due to the impacts of the flood. Nevertheless, the growth outlook remained favorable in 2012 on the back of domestic demand revival after the flood recedes.



Remark: The fan chart covers 90 percent of the probability distribution.

%YoY	2010	2011	2012
GDP Growth	7.8*	2.6	4.1
(Jul 11)		(4.1)	(4.2)

*Outturns; IR Jul11 forecasts shown in parentheses

Downside risks to GDP growth outweigh upside ones. Thus, the fan chart is skewed downward throughout the projection period.

Downside risks:

- The impacts of the flood are more severe than recently assessed
- Trading partners' demand for Thai exports are lower than anticipated

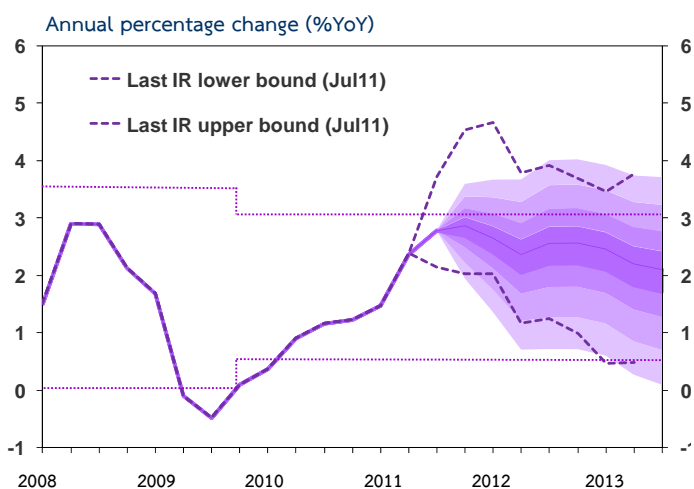
Upside risks:

- Government launches additional fiscal stimulus measures to rehabilitate the economy from the flood disaster



Core Inflation Forecast

- Under the baseline scenario, core inflation in 2011 remained unchanged from the previous projection, while it was revised up in 2012 mainly due to the government measures.



Remark: The fan chart covers 90 percent of the probability distribution.

%YoY	2010	2011	2012
Core Inflation	1.0*	2.4	2.5
(Jul 11)		(2.4)	(2.3)

*Outturns; IR Jul11 forecasts shown in parentheses

Downside risks to core inflation outweigh upside ones. Thus, the fan chart is skewed downward throughout the projection period.

Downside risks:

- Lower demand pressures if economic growth was slower-than-expected
- Lower-than-expected oil and commodity prices in the world market
- Additional government measures on administered prices

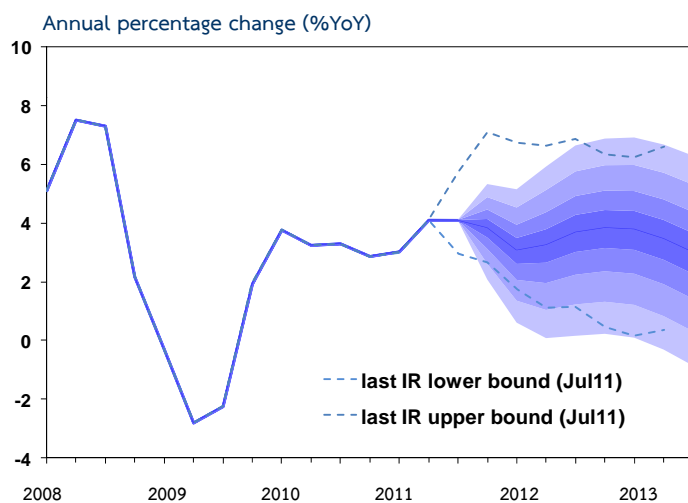
Upside risks:

- Accelerated domestic spending and rising inflation expectations due to government policies



Headline Inflation Forecast

- Under the baseline scenario, headline inflation in 2011 remained close to the rate previously projected, while it was revised up in 2012 mainly due to the government measures.



Remark: The fan chart covers 90 percent of the probability distribution.

%YoY	2010	2011	2012
Headline Inflation	3.3*	3.8	3.5
(Jul 11)		(3.9)	(3.2)

*Outturns; IR Jul11 forecasts shown in parentheses

Downside risks to headline inflation outweigh upside ones. Thus, the fan chart is skewed downward throughout the projection period.

Downside risks:

- Lower demand pressures if economic growth was slower-than-expected
- Lower-than-expected oil and commodity prices in the world market
- Additional government measures on administered prices

Upside risks:

- Accelerated domestic spending and rising inflation expectations due to government policies

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Forecast Summary for 2011 and 2012

	2010	2011	2012
GDP Growth	7.8*	2.6 (4.1)	4.1 (4.2)
Core Inflation	0.9*	2.4 (2.4)	2.5 (2.3)
Headline Inflation	3.3*	3.8 (3.9)	3.5 (3.2)

*Outturns

IR Jul11 forecasts shown in parentheses

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Detailed Summary of Forecasts

(%YoY)	2010	2011 ^E	2012 ^E
GDP Growth	7.8	2.6	4.1
- Private Consumption	4.8	2.2	3.7
- Private Investment	13.8	9.6	8.8
- Public Consumption	6.4	1.0	4.9
- Public Investment	-2.2	-1.6	12.8
- Exports of Goods and Services	14.7	13.6	4.0
- Imports of Goods and Services	21.5	14.9	7.6
- Value of Exports*	28.5	20.1	7.9
- Value of Imports*	36.7	28.2	11.7
- Trade Balance (Billion USD)*	32.2	26.0	19.9
- Current Account (Billion USD)*	13.7	7.1	-1.7

Note: E = Expected

* data revision according to BPM6

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- The revised forecasts were based on relevant economic data including the flood situation up until 19th October 2011 which do not incorporate important incidents that happened afterwards:
 - The flood has become more widespread, affecting key economic areas
 - Manufacturing sector: the flood damage extended to Bangkadee industrial estate, while others located on eastern Bangkok might be affected in the periods ahead.
 - Trade, service, tourism, and other related sectors: could be affected if the flood advanced to inner Bangkok.
 - It may take longer for the flood to recede, thus its impacts could be more severe than previously assessed.

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Key concerns for monetary policy going forward

- External risk factors
 - Global growth prospect, especially the US and Europe
 - Oil and commodity prices outlook in the world market
- Domestic risk factors
 - Prolonged flood situation may adversely affect economic activities more than previously anticipated, leading to a longer-than-expected rehabilitation period
 - Clarity and effectiveness of government measures to stimulate and recuperate the economy
- The MPC would remain vigilant in monitoring developments of risks and stand ready to take appropriate policy actions.



<http://www.bot.or.th/Thai/MonetaryPolicy/Inflation>