

## Major economic developments and outlooks

- 1) Thailand's economic growth was firmer than expected, mainly from strength in domestic demand especially private investment
- 2) Exports show signs of bottoming out and are poised to recover gradually, returning normal in 2013 H2
- 3) Looking ahead, risks to economic growth decline given signs of stabilization in the global economy
- 4) Inflation outlook remains benign due to subdued cost pressure and the limited impact of minimum wage hike on domestic prices
- 5) Financial stability risks still warrant close monitoring in the period ahead



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## Domestic demand momentum appeared strong in 2012 H2

- Domestic demand expanded more than projected in 2012 Q3 and Q4
  - Private investment resumed acceleration on the back of unfinished reconstruction especially in the IC industry
  - Machinery imports continued edging higher in Q4
  - Consumption expanded favorably partly from the hastened car delivery by automakers under the first-time car buyer scheme, while non-automobile consumption continued to expand



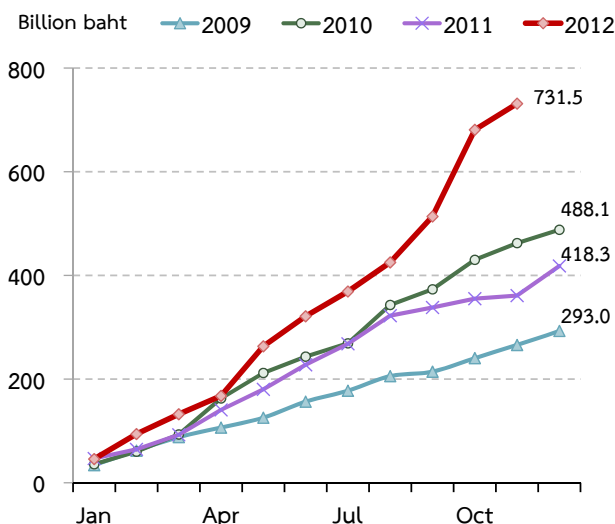
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## Investment prospects will remain sound going forward

### Major supportive factors:

- Reconstruction continuing from late 2012
- Production adjustments aiming to ...
  - Accommodate growing domestic demand
  - Shift toward greater capital intensity, given labor shortage and rising wages
  - Prepare for opportunity in neighboring countries
- Possible crowding-in effect of public infrastructure projects
- Business confidence, conducive monetary conditions, and lowered corporate income taxes

Total amount of promotion certificate issuances (accumulative for each year)



Source: Office of the Board of Investment (BOI)



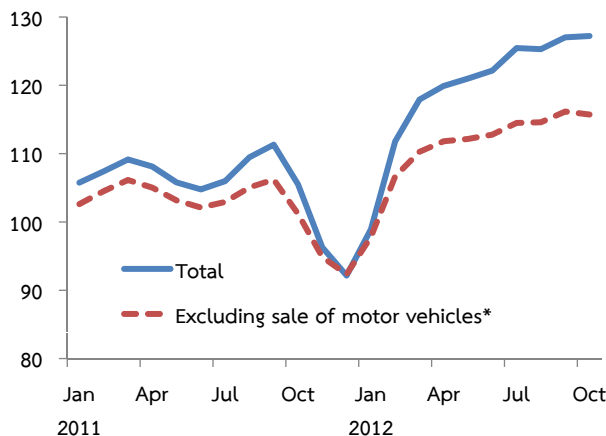
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... while consumption momentum is likely to be sustained

- The first-car scheme, with the total number of applicants exceeding one million, will continue to support consumption in 2013
- Lowered personal income taxes will translate into higher disposable income
- Other supportive factors include household's strong income prospects partly from the minimum wage hike, consumer confidence, and accommodative monetary conditions

Seasonally adjusted, 3mma (2010 = 100)

Retail Sales Index



Note: \*Sale of motor vehicles accounts for 23% of the index.

Source: Revenue Department and Bank of Thailand's calculations



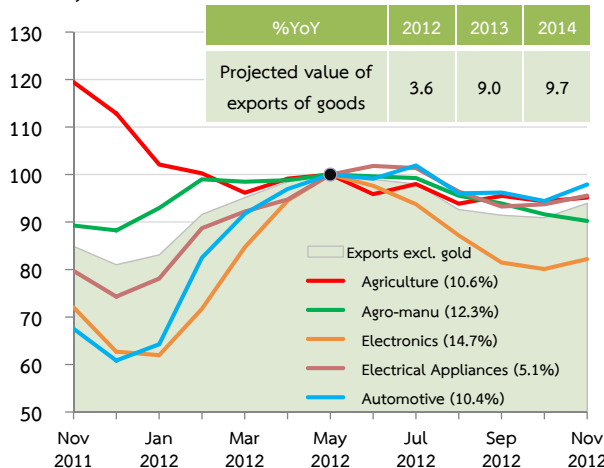
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Exports appear to have bottomed out and are poised to recover gradually, returning normal in 2013 H2

- Incipient signs of recovery have been observed in most products and markets
- Merchandise exports are expected to recover gradually, in line with projected recovery in trading partners' economies

Export value of major products (excl. gold)

Seasonally adjusted, 3mma (May 2012 = 100)



Source: Customs Department and Bank of Thailand's calculations



## Thailand's growth outlook improves overall

%YoY	2012		2013		2014
	Oct 12	Jan 13	Oct 12	Jan 13	Jan 13
<b>GDP Growth</b>	5.7	5.9	4.6	4.9	4.8
- Private Investment	12.4	16.5	6.8	12.1	9.1
- Private Consumption	5.8	6.3	3.8	4.3	3.5
- Exports of Goods and Services	3.5	3.1	9.6	8.0	8.7

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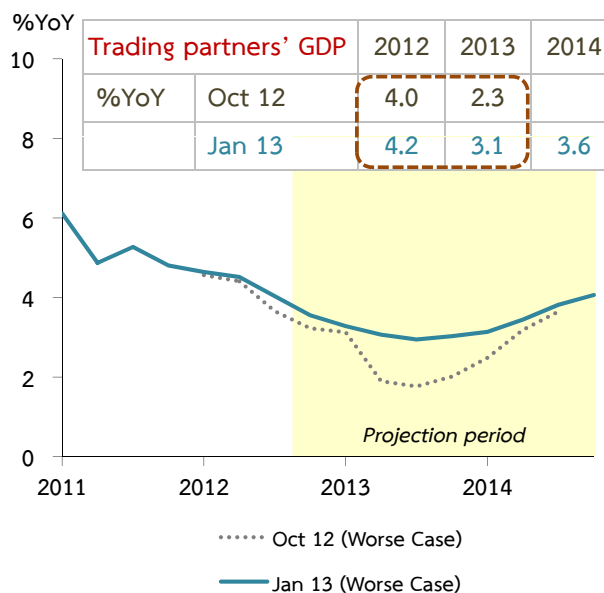
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## Risks to economic growth decline with increased stability in the global economy

Risks decline mainly from:

- Lower probability of Greece's exit from the euro area, given recent progresses on public debt problems
- Progresses on fiscal concerns in the U.S., though uncertainty remains regarding debt ceiling and sequestration

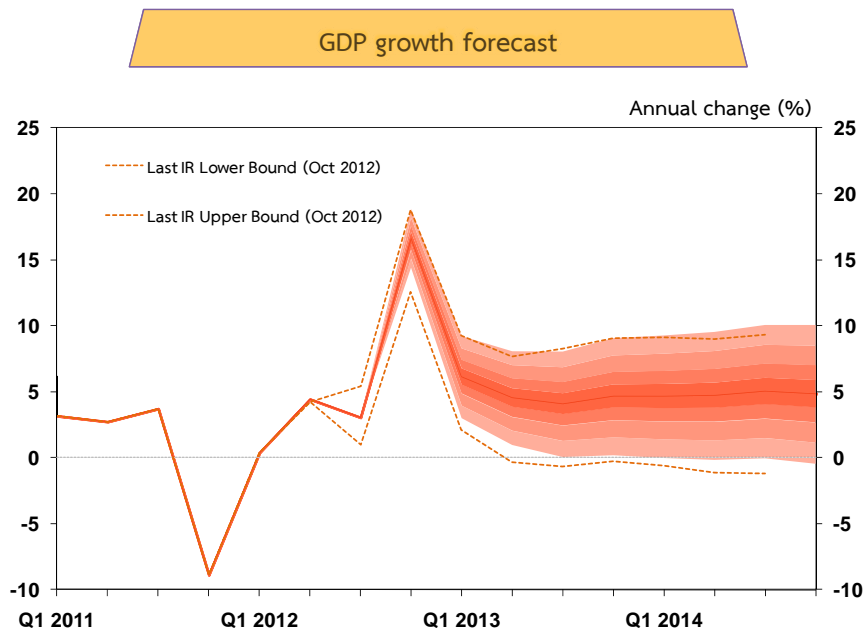
Worse-case assumptions  
on trading partners' economic growth



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Given reduced global economic risks, the growth fan chart is downward-skewed to an extent lesser than in the previous projection



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



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Inflation outlook remains benign

- Demand pressure is poised to rise slightly with domestic demand strength
- But cost pressure will remain subdued:
  - Oil price tends to stabilize p.11
  - Non-fuel commodity price is viewed to moderate given soft outturns in 2012 Q4
  - The impact of the minimum wage hike on price levels is assessed to be limited
- Overall risks to inflation remain largely unchanged, in line with businesses' flattening inflation expectations

Inflation forecasts

	2012*	2013	2014
Core Inflation	2.1 (2.1)	1.7 (1.7)	1.6
Headline Inflation	3.0 (3.0)	2.8 (2.8)	2.6

Note: \*Outturns

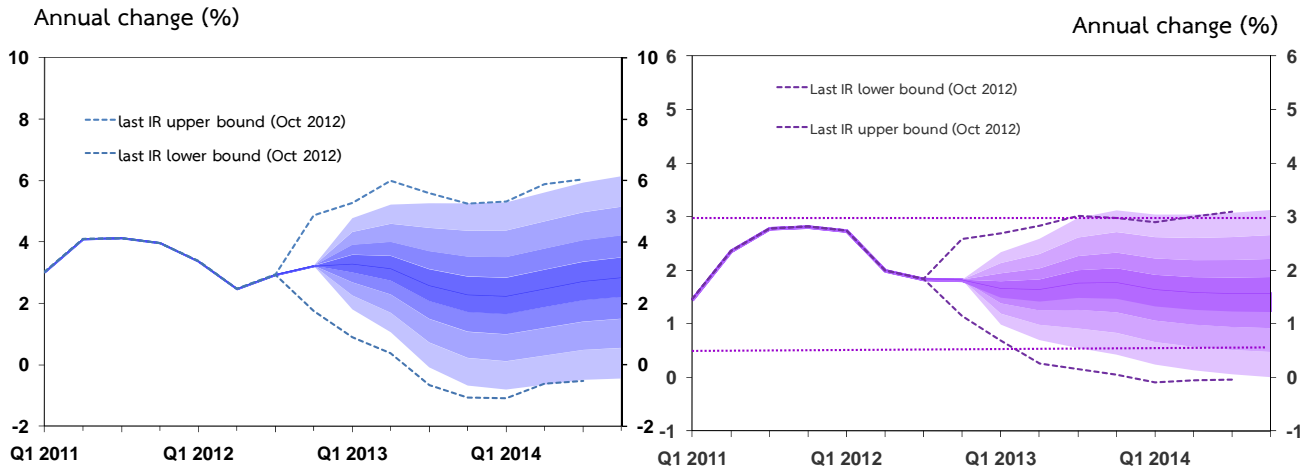
( ) Inflation Report October 2012



## Downside risks to inflation decrease in tandem with domestic demand strength

Headline inflation forecast

Core inflation forecast



Note: The fan charts cover 90 percent of the probability distribution.



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## Financial stability risks still warrant close monitoring

- Volatility of capital flows
- Risks from acceleration in credits and household debts
- Impact of the second-round minimum wage hike on growth and inflation



[www.bot.or.th/Thai/MonetaryPolicy/Inflation](http://www.bot.or.th/Thai/MonetaryPolicy/Inflation)