



ธนาคารแห่งประเทศไทย  
BANK OF THAILAND



BANK OF THAILAND

# Monetary Policy *Report* July 2013





## Major economic developments and outlooks

- Growth projection for 2013 has been revised down substantially, given slowing demand both at home and abroad, the boost from fiscal stimulus that waned off early, and export recovery that appears to be more delayed
- Looking ahead, Thailand's growth is expected to resume its normal pace on the back of sound fundamentals
- Inflation subsides with softened demand and cost pressure
- The MPC eased its monetary policy stance further in May, aiming to further cushion against downside risks to domestic demand
- Financial stability and supply-side concerns warrant close monitoring

GDP growth projection

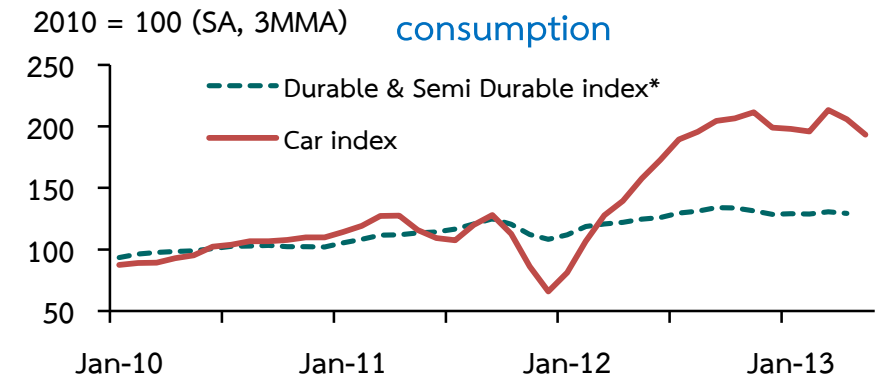
%yoy	2013	2014
As of Apr 13	5.1	5.0
As of Jul 13	4.2	5.0



## Household consumption slowed down in 2013 H1 following last year's surge

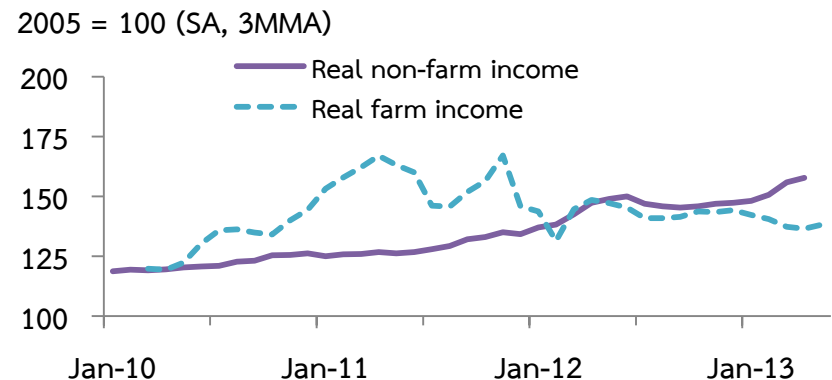
- Private consumption slowed down faster than expected:
  - The boost from fiscal stimulus waned off earlier than expected since the end of Q1
  - Rising household debt started to weigh on other durable purchases
- Consumption will resume its normal pace in the period ahead, thanks to favorable income and employment as well as supportive monetary and fiscal policies

Durable and semi-durable goods consumption



Source: Sales of motor vehicles from the Federation of Thai Industries; VAT data from Revenue Department; calculations by BOT

Non-farm income continued to grow



Source: NESDB, OAE

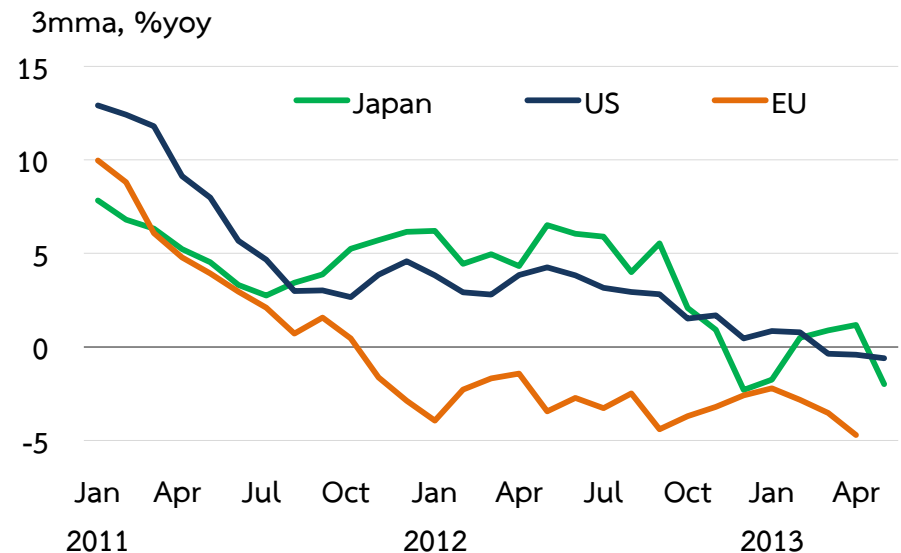
Note: \*electrical appliances, furniture, textiles, clothing, footwear, and glass



## G3 economies have improved overall, but more time is needed for imports to pick up noticeably

- For the U.S. economy, fundamentals continue to improve especially for the housing sector and employment, but sequestration continues to weigh on recovery
- Japan's growth is expected to recover gradually thanks to stimulus measures
- The euro area economy becomes more stabilized, but structural problems remain to be solved

G3's import volume



Note: Data for Japan and the U.S. as of May 2013;

Data for EU as of April 2013

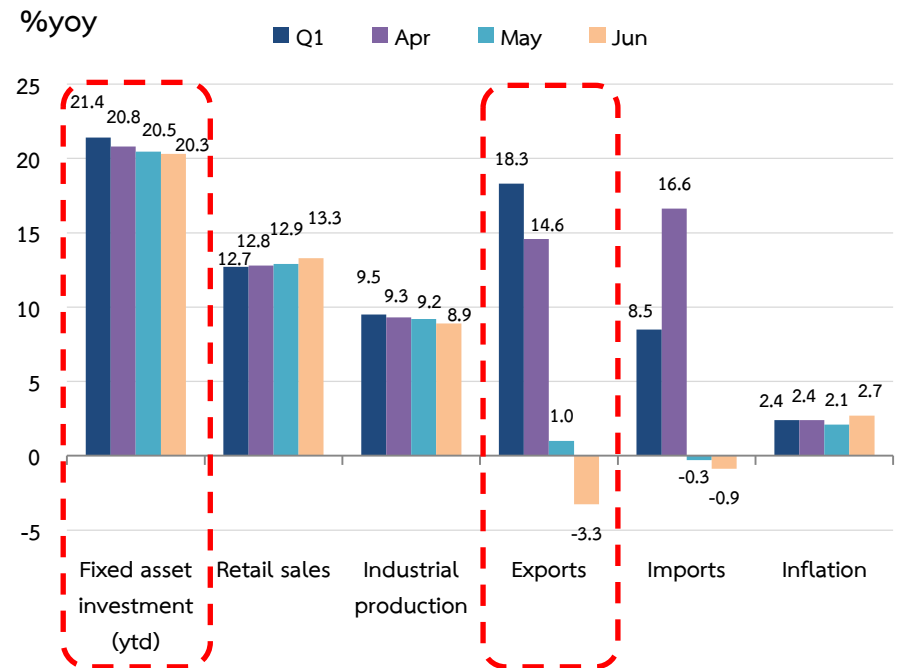
Source: Bank of Japan, CEIC, Eurostat



## China's economic momentum decelerates

- The recent slowdown in exports and industrial investment put a drag on the Chinese economy
- Future momentum will gain support from strong household consumption, expedited public investment, and private investment flows supported by businesses' healthy profits

China: recent macro indicators (2013)



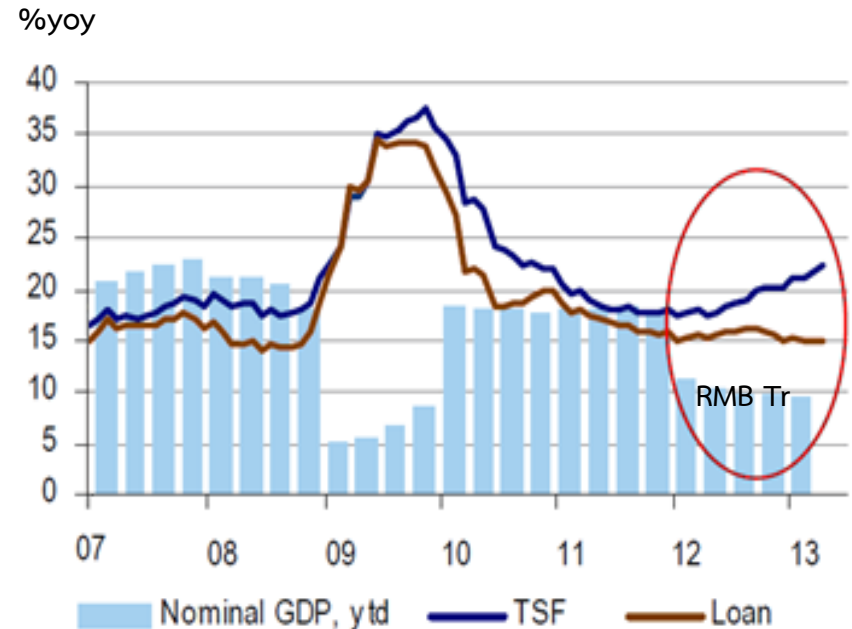
Source: CEIC



## China's future growth is unlikely to be as high as in the past, given the government's increased focus on economic stability

- The Chinese government announced the growth target for 2013 to be 7.5 percent, and deemed the current pace of domestic demand expansion as appropriate
- Recent measures aiming to undermine shadow banking's lending to unproductive sectors will benefit economic stability overall

China: nominal GDP and loan growth (%yoy)



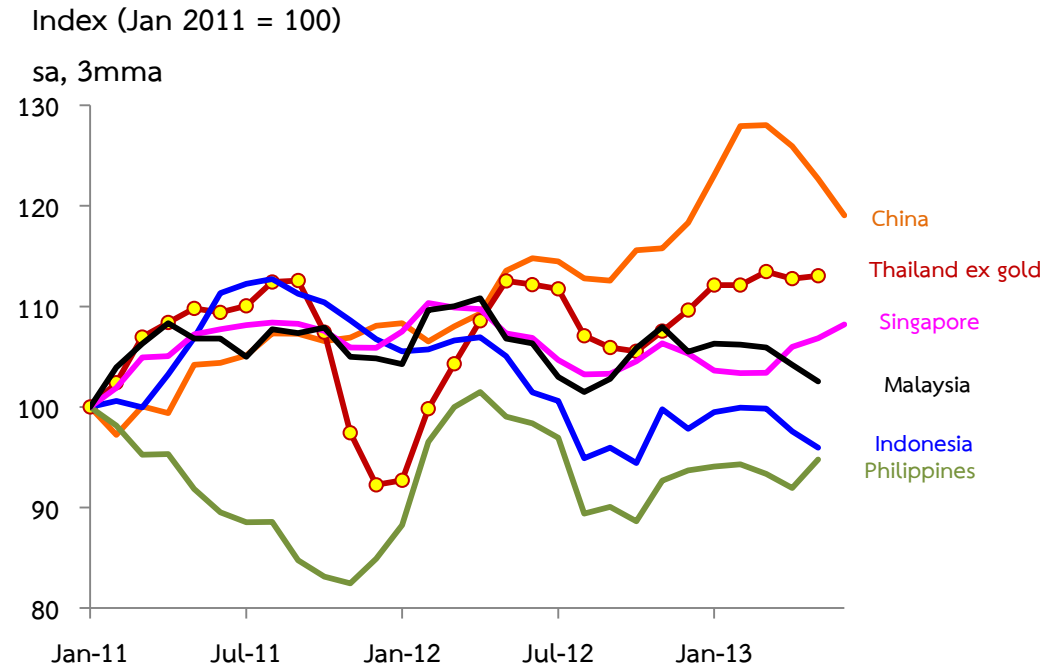
Source: CEIC, BOA



## Asia's economic momentum moderates with China's, but domestic consumption continues to be resilient

- Asia's export value moderates especially from exports to China
- Domestic demand continues to drive growth, supported by conducive monetary and fiscal policies as well as continued credit expansion

### Asia's export value



Source: CEIC



## Thailand's export projection is revised down accordingly

- Thailand's exports slow down overall in line with regional economies'
- Exports to China and Asia have been slowing down since late Q1, while exports to G3 continue to improve slowly
- Looking ahead, exports are projected to grow at a gradual pace on the back of recovery in G3 economies, broadly in line with leading indicators of Thai exports

### Projected growth for the value of merchandise exports

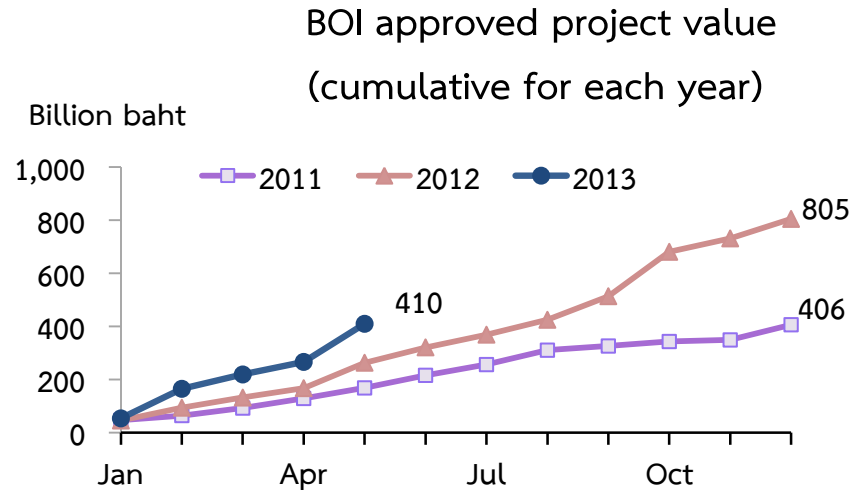
%yoy	2013	2014
As of Apr 13	7.5	10.0
As of Jul 13	4.0	8.0





# Businesses postponed some investment as the economy slowed down, but remain willing and ready to invest going forward

- Investment slowdown has been more than expected since Q1, both in export- and domestic-oriented industries
- Once economic conditions improve, businesses are likely to resume their investment as planned for the purposes of productivity improvement and labor substitution, unconstrained financially given their overall financial strength



Source : BOI



Source : SET; calculations by BOT



## Fiscal impetus continues to support the economy, but to a lesser extent due to delayed disbursement

- Spending on water management projects is viewed to be more delayed, given the public hearing process required by the Administrative Court's ruling

*Assumption on the government's  
350-billion-baht water management plan*

(Billion baht)	2013	2014
As of Apr 13	54	69
As of Jul 13	19	48

- Local administrative organizations' spending is likely to increase in the second half of the year, but less than expected previously due to limited disbursement efficiency



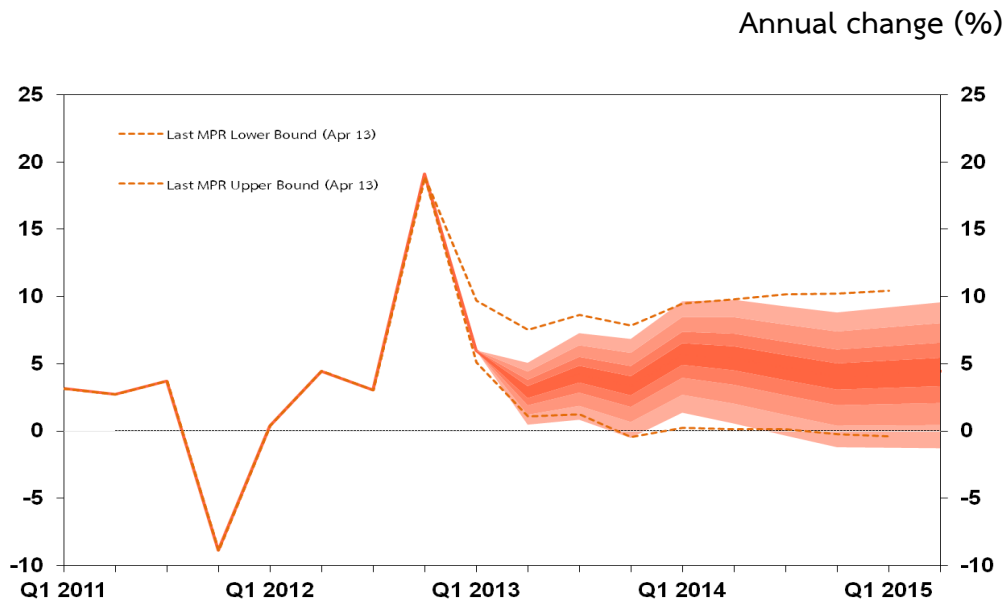
## Thailand's growth is revised down for 2013, before resuming a normal pace in 2014

%YoY	2012	2013		2014	
		Apr 13	Jul 13	Apr 13	Jul 13
<b>GDP Growth</b>	<b>6.5</b>	<b>5.1</b>	<b>4.2</b>	<b>5.0</b>	<b>5.0</b>
- Private Consumption	6.7	4.7	3.4	3.7	3.5
- Private Investment	14.4	7.4	2.0	9.4	9.9
- Public Expenditure	7.9	10.2	7.9	5.1	5.2
- Exports of Goods and Services	3.1	7.2	5.8	9.3	8.0
- Imports of Goods and Services	6.2	9.2	5.8	10.3	8.4



The growth fan chart is skewed to the downside, reflecting risks from the global economy that continues to be significant

### GDP growth forecast



### Other downside risks:

- Prolonged slowdown in household spending
- Further delay in public spending on water management projects

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



## Inflation projections are revised down

- Cost pressure subsides slightly, in line with the outlook of oil and commodity prices and the postponed increase of domestic LPG prices
- Demand pressure declines with moderated growth outlook

### Assumption of Dubai oil price

U.S. dollars per barrel	2012*	2013	2014
As of Apr 13	109	110	110
As of Jul 13		104	105

\*Outturn

### Inflation projection

	2012*	2013	2014
Core inflation	2.1	1.1	1.4
		(1.6)	(1.7)
Headline inflation	3.0	2.3	2.6
		(2.7)	(2.7)

\*Outturn

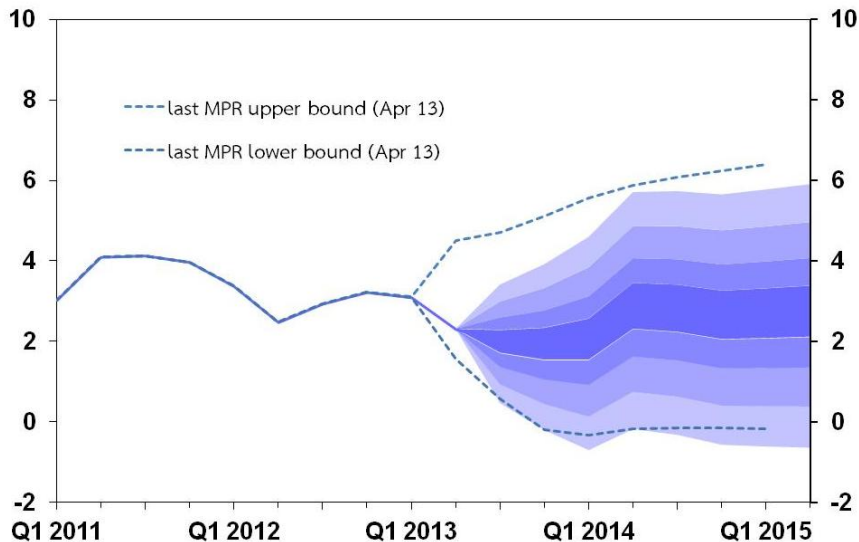
( ) Monetary Policy Report April 2013



# Inflation fan charts are downward-skewed, in line with risks to growth that are tilted to the downside

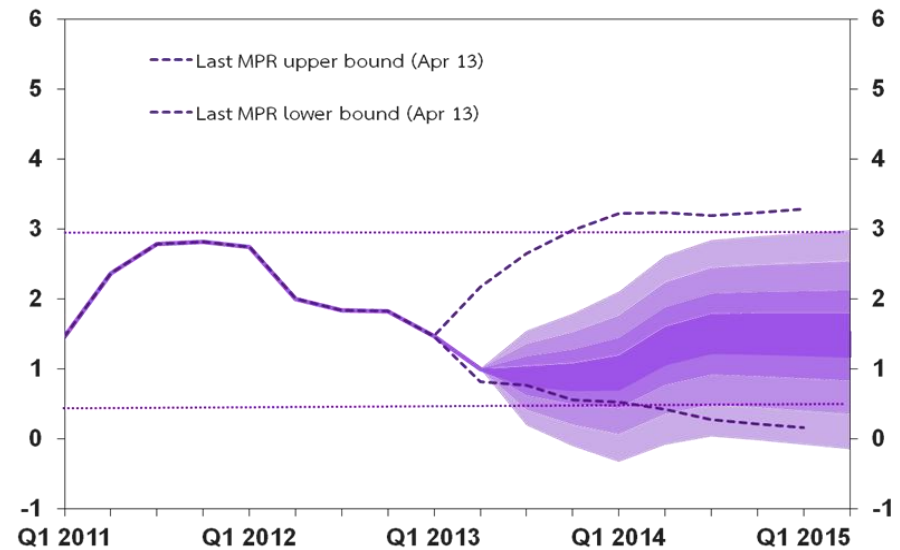
Headline inflation forecast

Annual change (%)



Core inflation forecast

Annual change (%)



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



## Monetary policy has been eased further given increased risks to growth, while inflation remains benign

- The MPC **reduced** the policy rate by 0.25 basis point on May 29, 2013
  - Downside risks to domestic demand growth had increased in light of the weaker-than-expected GDP outturn for 2013 Q1
  - Household debt and credit continued to pose risks to financial stability
- The MPC then kept the rate **unchanged** on July 10, 2013
  - Global economic and financial conditions were rapidly changing
  - Last meeting's policy rate cut was judged to be adequate for cushioning against near-term risks
  - Risks to financial stability still warranted monitoring



## Financial stability and supply-side concerns warrant close monitoring by the MPC

- On the financial stability front:
  - Rapid capital flows have contributed to exchange rate volatility
  - Given their high debt, households may become more vulnerable to shocks in the future
- Supply-side concerns (e.g. from the total workforce, labor productivity, and logistics) may constrain growth potential in the longer term; meanwhile, demand-side policies can support the economy only in the near term and thus are inadequate



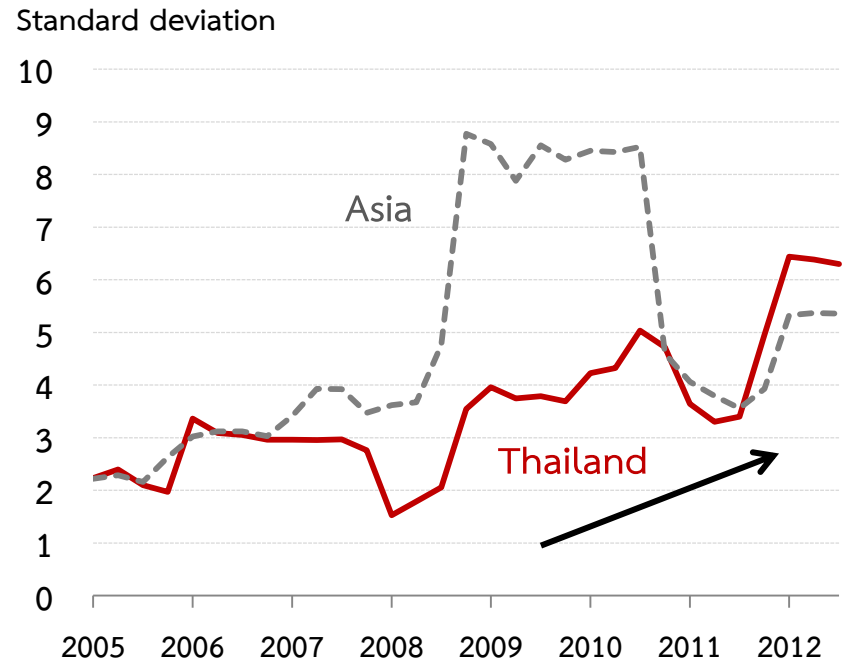


## Increased volatility of capital flows

### Key contributing factors:

- **Frequent global shocks** due to structural fragility in major economies and governments' limited capability to provide stimulus
- **Larger capital flows** relative to the size of the economy
- **Increased interconnectedness among countries**, which allow spillover effects and self-fulfilling expectations to be more amplified than in the past

### Volatility of net capital inflows



Notes:

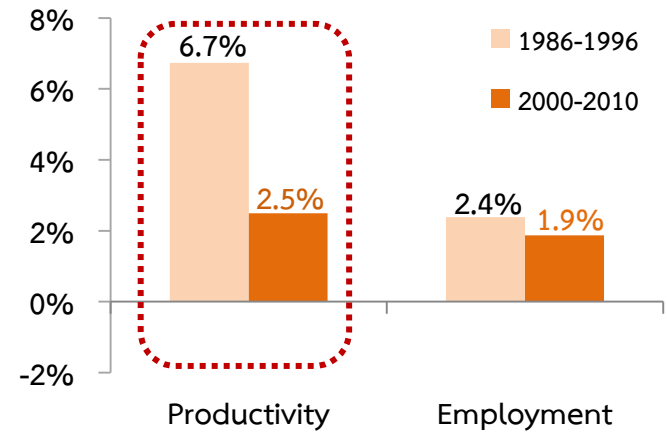
- Volatilities are calculated from the rolling standard deviation of net capital inflows (over 8 quarters)
  - Asia includes Indonesia, Malaysia, Philippines, Thailand, and South Korea
- Source: Data from CEIC and IFS; calculations by BOT



## Constraints on labor may limit future growth potential

- Limitations arise from both **the inadequate total workforce** and **the slowdown in labor productivity growth**
- Slow **workforce expansion** is due to low birth rate and already-high rate of labor force participation, both of which are hard to overcome
- **Policymakers should put more emphasis on raising labor productivity**, which has been growing sluggishly due to:
  - 1) Decreased labor mobility from low-toward high-productivity sectors
  - 2) Low incentives for private sectors to invest in R&D

### Thailand's labor productivity growth slowed down



### Growth rate of capital formation to labor

1987-1996	8.5%
1997-1999	3.9%
2000-2007	0.6%
2008-2011	1.4%



## Forecast summary

	2012*	2013	2014
GDP Growth	6.5	4.2	5.0
		(5.1)	(5.0)
Core Inflation	2.1	1.1	1.4
		(1.6)	(1.7)
Headline Inflation	3.0	2.3	2.6
		(2.7)	(2.7)

Note: \*Outturn

( ) Monetary Policy Report April 2013



## Detailed summary of forecasts (Monetary Policy Report July 2013)

(%YoY)	2012	2013 <sup>E</sup>	2014 <sup>E</sup>
GDP Growth	6.5	4.2	5.0
- Private Consumption	6.7	3.4	3.5
- Private Investment	14.4	2.0	9.9
- Government Consumption	7.5	4.2	3.5
- Public Investment	8.9	15.6	8.3
- Exports of Goods and Services	3.1	5.8	8.0
- Imports of Goods and Services	6.2	5.8	8.4
Current Account Balance (Billion USD)*	2.7	1.7	0.1
Trade Balance (Billion USD)*	8.3	5.4	4.8
- Value of Exports of Goods*	3.2	4.0	8.0
- Value of Imports of Goods*	7.8	5.5	8.5

Note: E = Expected

\* Data revision according to BPM6 definitions and Ministry of Commerce's revised database



## Forecast assumptions

(compared with *Monetary Policy Report April 2013*)

	2012	2013		2014	
		Apr 13	Jul 13	Apr 13	Jul 13
Dubai oil price (USD per barrel)	109.3	109.7	104.0	110.0	105.0
Non-fuel commodity prices (%yoy)	-9.8	1.0	0.0	1.6	0.6
Fresh food prices (%yoy)	-1.5	11.4	13.7	6.6	4.1
Minimum wage in the Bangkok Metropolitan Region (baht per day)	279	300	300	300	300
Public expenditure					
Government consumption (%yoy)	10.4	8.0	7.6	6.6	5.9
Public investment (%yoy)	12.2	27.0	18.8	11.3	14.2
Fed funds rate (% year end)	0.13	0.13	0.13	0.13	0.13
Trading partners' GDP growth (%yoy)	3.3	3.5	3.3	4.0	3.9
Regional currencies vis-à-vis the USD (Index)*	108.4	106.1	108.6	104.1	107.8

Note: \* Depreciation against the USD indicated by an increase



## Assumptions on trading partners' GDP growth

(% YoY)	Weight (%)	2012	2013		2014	
			Apr 13	Jul 13	Apr 13	Jul 13
U.S.	14.3	2.2	1.7	1.7	2.5	2.5
Euro area	10.3	-0.5	-0.5	-0.6	1.0	1.0
Japan	14.4	2.0	1.0	1.7	1.3	1.3
Asia*	51.8	4.8	5.5	5.0	5.8	5.7
(China)	(15.2)	(7.8)	(8.2)	(7.7)	(8.1)	(7.8)
Total**	100	3.3	3.5	3.3	4.0	3.9

Note: \* Weighted by shares of Thailand's major trading partners in 2010 (8 Asian countries including China (29.3%), Singapore (12.3%), Hong Kong (17.9%), Malaysia (14.4%), Taiwan (4.4%), Indonesia (10.0%), South Korea (4.9%), and Philippines (6.7%))

\*\* Weighted by shares of Thailand's major trading partners in 2010 (13 countries)