



Inflation Report



- I. *Economic and inflation outlook*
- II. *Monetary policy stances going forward*



I. Economic and inflation outlook

II. Monetary policy stances going forward



The Thai economy is viewed to moderate from last assessment
from the intensified impact of the euro area's crisis
on merchandise exports, which, in turn, will also affect
domestic demand going forward



Forecast summary for 2012 and 2013

- Growth forecasts for 2012 and 2013 are revised down to 5.7 and 5.0 percent, respectively, while inflation is likely to soften throughout the forecast period.

	2011	2012	2013
GDP Growth	0.1*	5.7 (6.0)	5.0 (5.8)
Core Inflation	2.4*	2.2 (2.5)	1.9 (2.1)
Headline Inflation	3.8*	2.9 (3.5)	3.4 (3.5)

*Outturns

() Inflation Report May 2012



Main factors leading to forecast revision

- Post-flood recovery was robust in the first half of the year
- But going forward, growth momentum is likely to moderate from:
 1. Decelerating domestic demand, after picking up earlier in the year
 2. Weakening global growth and heightened risks, which will weigh on merchandise exports and internal demand going forward
 3. Fiscal stimulus that softens from the previous assessment
- Overall inflation pressure declines with lower cost and demand pressure



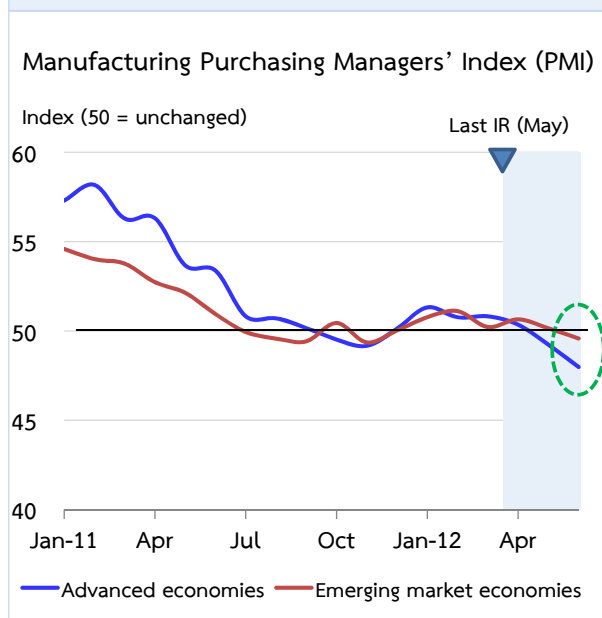
Post-flood rehabilitation accelerated in the first half, resulting in less demand momentum going forward

- In the first half of the year, businesses ramped up their investment for machine replacement and reconstruction, which helped support production and exports to rebound firmly
- In the period ahead, domestic demand is likely to moderate, as businesses recovered rapidly and a large part of pent-up demand has been satisfied already in the first half



Global growth prospects weaken further

Leading indicator of production fell below 50,
indicating further weakness



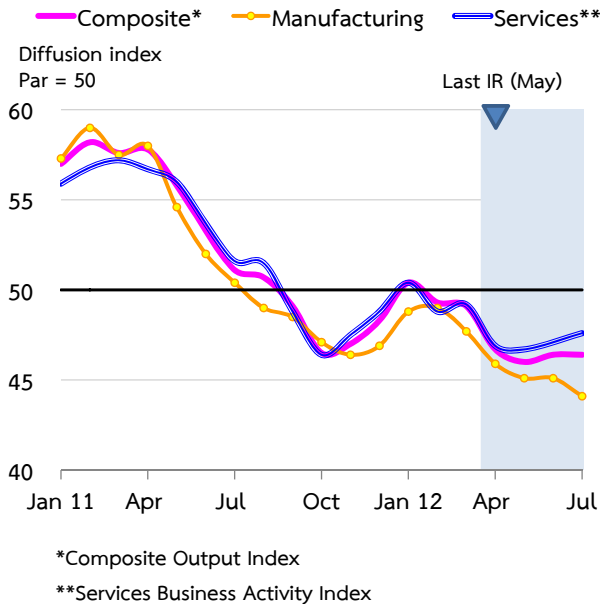
- More broad-based impact of the euro area's debt crisis on the global economy
- Increasing signs of slowdown in advanced and emerging market economies
- Global economic recovery likely to be more protracted
- Heightened risks to growth, with some central banks starting to ease their monetary policy further to contain downside risks



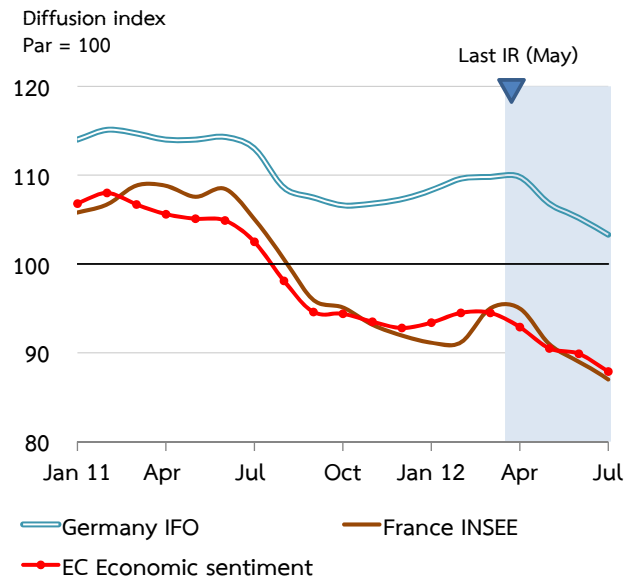
Euro area's economy becomes more fragile ...

- The debt crisis has impacted the real sector severely and is likely to be prolonged.

EU Purchasing Managers' Index (PMI)



Private sector sentiments



Sources: CEIC, CESifo, European Commission, Eurostat, INSEE, Markit Economics

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.. and risks to euro area's growth remain high going forward

- While some progresses on the debt crisis emerged from the EU summit meeting in June, implementation hurdles remain as reflected in global market sentiment that improved only temporarily
- Existing structural concerns will continue to hinder recovery in the period ahead
 - Euro area's banks continue to deleverage and tighten credit standards
 - Cost of funds remain elevated
 - Many European governments need to implement further fiscal consolidation

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Asian growth outlook moderates from the previous assessment

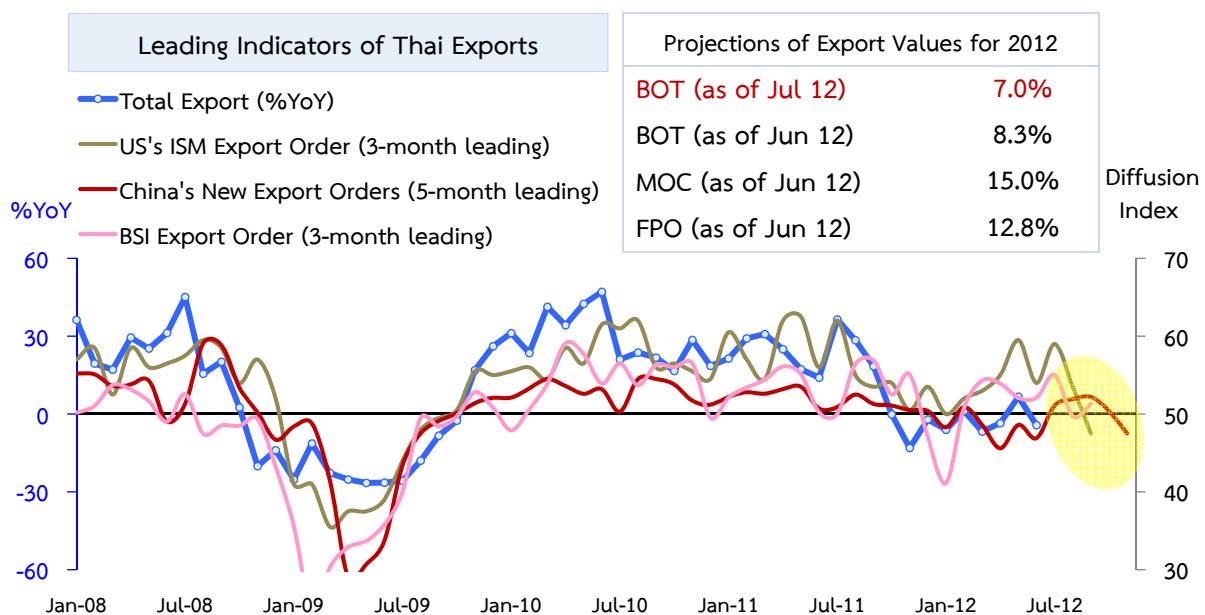
- Exports continue to decelerate from the impact of global slowdown
- However, Asian economies still have ample policy rooms for internal stimulus



Source: CEIC



Thai exports will likely subside with global demand slowdown, as signaled by leading indicators that fell below par value



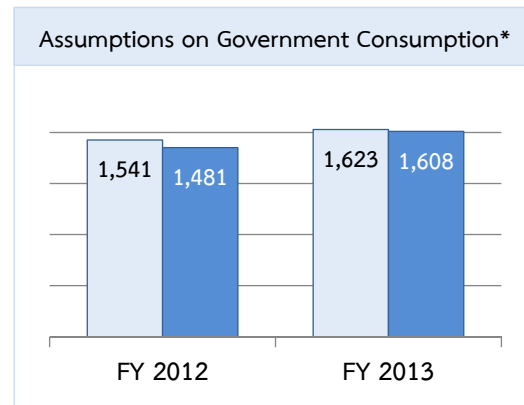
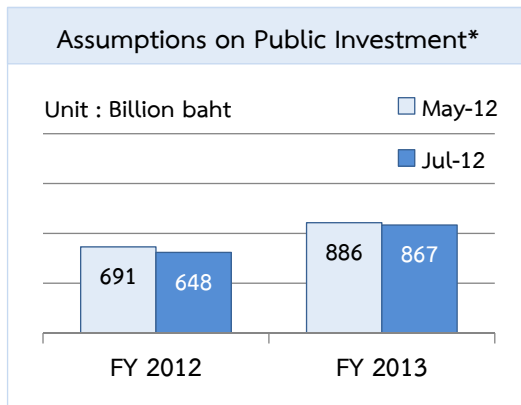
() Duration that each indicator leads Thai exports

Sources: Bloomberg and Bank of Thailand



Fiscal stimulus softens from the previous assessment,
but remains supportive for growth going forward

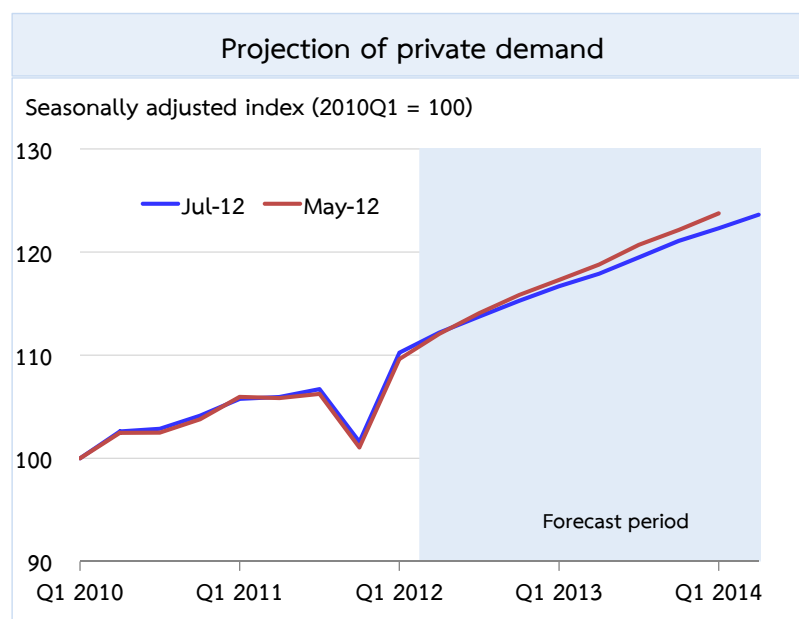
- Investment spending through budget and water management plans for 2012 is delayed from assessed, partly postponed to 2013-2014
- Part of government consumption is reclassified into transfer payments, which help support household spending indirectly



* Government's direct spending that includes water management projects (3.5 billion baht in total)



Weaker global growth and softer government spending
will weigh on private consumption and investment in the period ahead



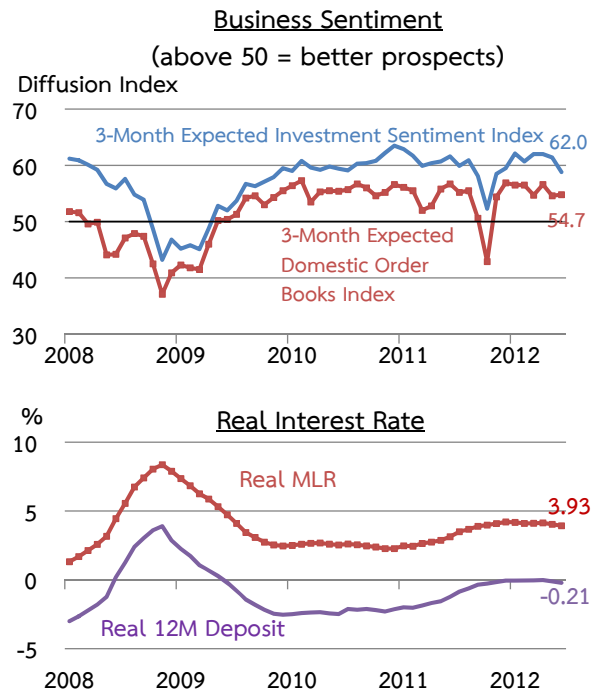
Source: Bank of Thailand



However, private consumption and investment will continue to grow and serve as the main growth engine going forward

Key supporting factors include:

- Household's favorable income prospects
- Positive business sentiment
- Stimulus measures from government and financial institutions
- Conducive monetary conditions



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Source: Bank of Thailand's Business Sentiment Surveys; real interest rates calculated by 12-month expected inflation forecasts



Growth forecast summary

- Growth projection for 2012 is revised down in line with global growth prospects, which may affect second half's exports and domestic demand, as well as softened fiscal stimulus.
- For 2013, global economic concerns will continue to affect exports and domestic demand, resulting in lower growth forecast overall.

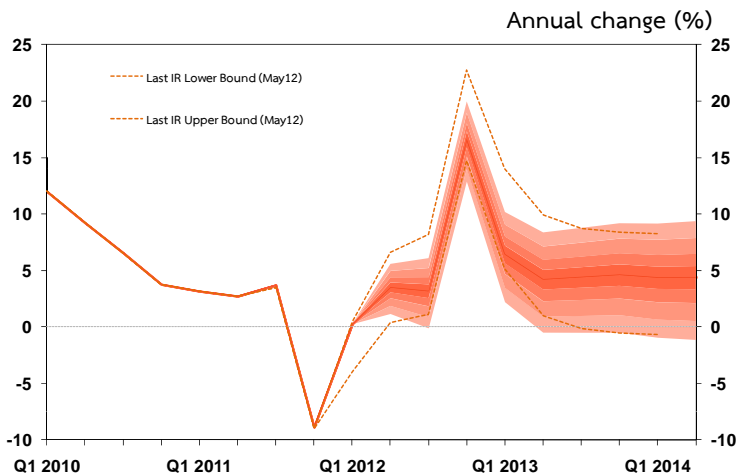
GDP Growth	2011	2012	2013
This Inflation Report (Jul 2012)	0.1*	5.7	5.0
Last Inflation Report (May 2012)	0.1*	6.0	5.8

*Outturns



Heightened risks to growth

GDP Growth Forecast



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

- Downside risks increase, as reflected in the growth fan chart that is skewed downward to a greater degree, given these factors:

- The euro area economy, which is the center of the crisis, may slip into a deeper recession
- Asia's real economy may suffer from the debt crisis more severely
- For the U.S., several stimulus measures expiring at end-2012 might not be extended, thus resulting in the "fiscal cliff" and dampened growth momentum



Inflation forecasts for 2012 and 2013 are revised down with lower cost and demand pressure

- Cost pressure from oil, raw food, and other commodities is projected to subside temporarily in 2012, before picking up to the previous trend in 2013
- Demand pressure softens with moderating growth momentum
- Inflation and cost expectations remain stable

	2011	2012	2013
Core inflation	2.4*	2.2 (2.5)	1.9 (2.1)
Headline inflation	3.8*	2.9 (3.5)	3.4 (3.5)

*Outturns

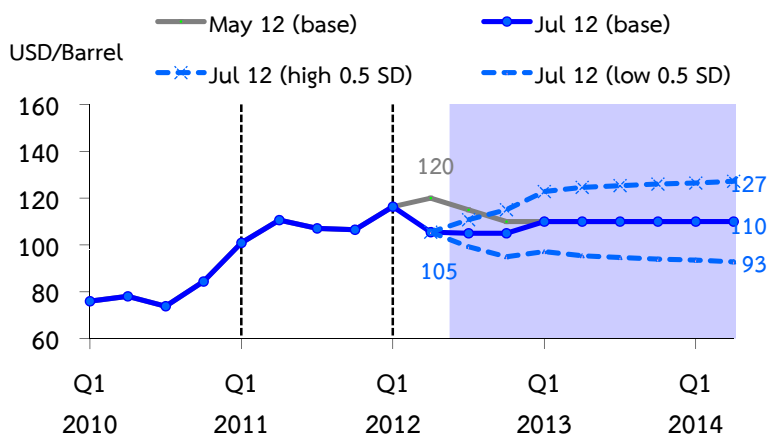
() Inflation Report May 2012



Oil price outlook

Assumptions on Dubai Crude Oil Price

USD/Barrel	2010*	2011*	2012	2013
May 12 (base case)	75.5	106.3	115.3	110.0
Jul 12 (base case)	75.5	106.3	108.0	110.0
Jul 12 (high case)	--	--	111.9	124.7
Jul 12 (low case)	--	--	104.0	95.3



- Crude oil price falls temporarily in 2012 given elevated concerns on euro area's economy
- But going forward, the price is bound to recover as projected previously, due to the impact of Iran's conflict and political unrests in Sudan, Syria, and Yemen

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*Outturns



Lower risks to inflation

Downside risks to inflation outweigh upside risks

Downside risks

- The global economy may be weaker than expected, resulting in lower oil and commodity prices
- Pass-through from costs to prices may subside with softer demand

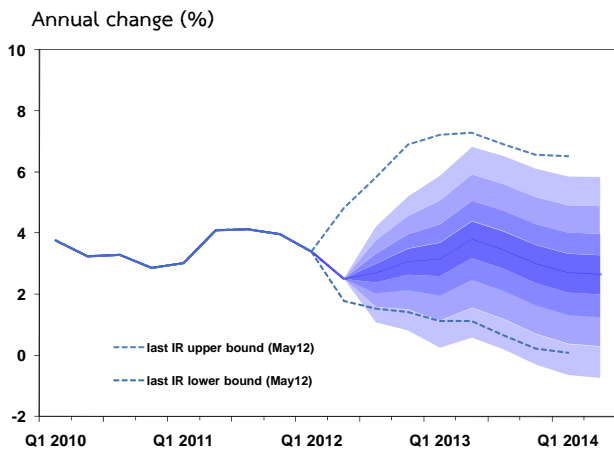
Upside risks

- Geopolitical events in the Middle East may tense up and lead to shortage in global crude supply
- Minimum wage hikes may impact consumer prices more than assessed

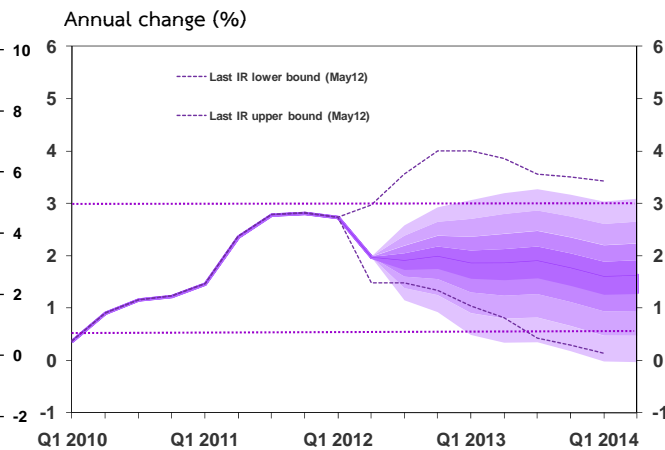


Downside risks to core and headline inflation increase,
as reflected in the fan charts that are more downward-skewed

Headline Inflation Forecast



Core Inflation Forecast



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



I. Economic and inflation outlook

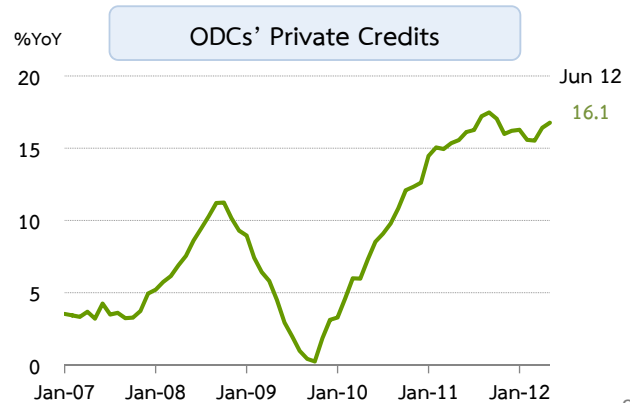
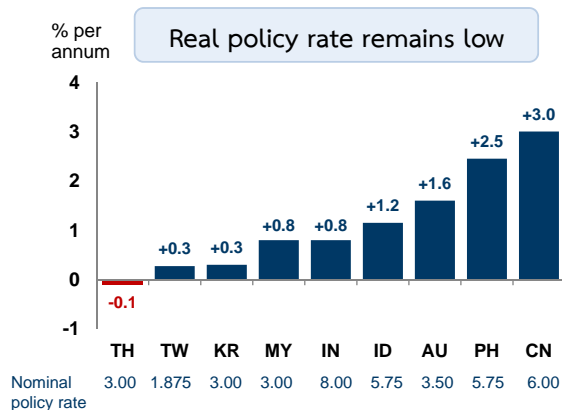
II. Monetary policy stances going forward



Monetary Policy Committee's decisions

The Monetary Policy Committee (MPC) voted to maintain the policy rate at 3 percent per annum in the last two meetings, viewing that:

- Global economic growth weakened while downside risks also escalated
- The Thai economy recovered from the flood and resumed its normal conditions
- Overall monetary conditions remained supportive for domestic demand growth
 - Low real interest rates
 - Robust credit expansion



Source: Inflation forecast from Consensus Forecast 2012 (Jul 2012 survey) Data as of 3 August 2012

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Monetary policy outlook

Key issues that need to be monitored closely and are crucial to monetary policy deliberations:

- The actual impact of global slowdown on domestic economy, especially on exports and export-oriented production
- The ability of domestic demand and fiscal stimulus in sustaining overall economic momentum
- Inflation pressure associated with minimum wage hikes and labor shortage in certain industries

Monetary policy may help cushion downside risks to growth, especially if the impact of global economic concerns intensifies

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



Attached

Detailed summary of forecasts

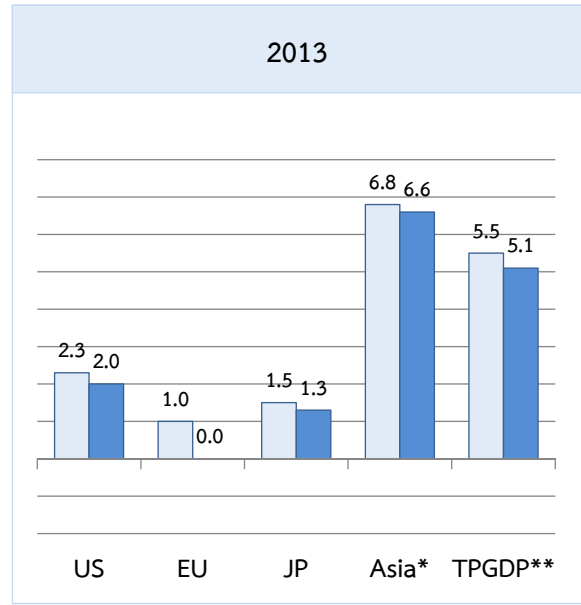
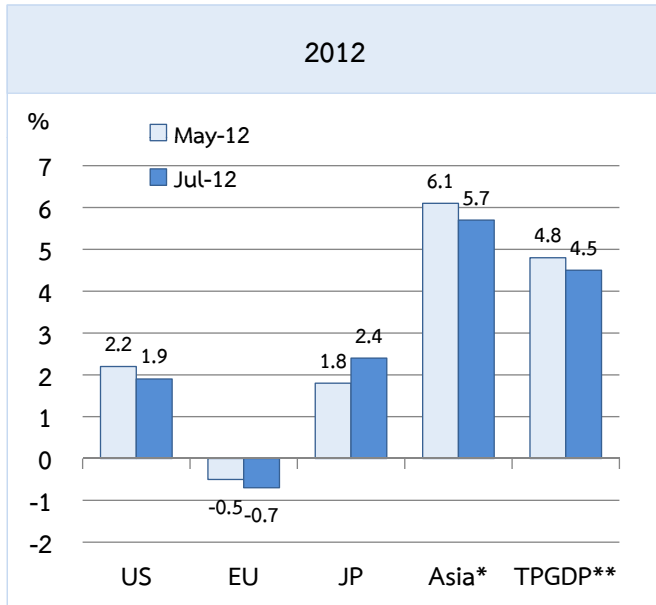
(%YoY)	2554	2555 ^E	2556 ^E
GDP Growth	0.1	5.7	5.0
- Private Consumption	1.3	5.2	3.9
- Private Investment	7.2	14.7	9.1
- Public Consumption	1.1	1.1	5.2
- Public Investment	-8.7	10.5	22.0
- Exports of Goods and Services	9.5	6.8	9.3
- Imports of Goods and Services	13.7	10.4	11.1
Current Account Balance (Billion USD)*	12.3	-0.4	0.4
Trade Balance (Billion USD)*	23.5	11.0	13.7
- Value of Exports*	16.4	7.0	10.8
- Value of Imports*	24.7	14.0	10.1

Note: E = Expected

* Data revision according to BPM6



Assumptions on Thai trading partners' GDP growth



Note: * Weighted by major Thai trades' share in 2010 (8 Asian countries)

** Weighted by major Thai trades' share in 2010 (13 countries)

Source: Projected by Bank of Thailand