BANK OF THAILAND

BOT Press Release

Communications and Relations Office, Corporate Communications Department
Tel. 0-2283-5016-7 Fax. 0-2281-5648 www.bot.or.th

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Monetary Policy Report January 2013

Mr. Paiboon Kittisrikangwan, Assistant Governor of the Bank of Thailand (BOT), announces that the Monetary Policy Committee (MPC) has released the January 2013 issue of the *Monetary Policy Report*[1]. The *Report* is published to enhance public understanding of the BOT's policy stance, with the main details summarized as follows.

1. Economic Outlook

Thailand's growth was firmer than expected in the second half of 2012, thanks to resilient private demand despite the slowdown in exports. The increased momentum came from continued reconstruction spending, late-year investment after awaiting clarity about the flood, as well as a stronger impact of the government's first-car scheme. These factors lead to a slight upward revision of economic growth in 2012.

The MPC assesses private demand to continue growing firmly in the period ahead. Private investment outlook, in particular, strengthens from the previous projection thanks to businesses' capacity expansion to accommodate growing domestic demand, adjustments toward greater capital intensity in production, as well as preparation for opportunity in neighboring countries. Continued support will also come from business confidence, conducive monetary conditions, and the crowding-in effect of public investment projects. **In addition, higher-than-normal momentum in consumption is likely to be sustained for some time**, given the impact of the first-car scheme and lowered personal income taxes. Key supportive factors also include favorable income prospects, consumer confidence, fiscal stimulus measures, and accommodative monetary conditions. **On the other hand, exports still suffer from the global slowdown, but seem to have bottomed out and show incipient signs of recovery.** Growth of manufacturing exports will remain subpar throughout the first half of 2013, before gathering pace in the second half as global demand strengthens, while the tourism sector is expected to grow robustly.

The global economy, which remains fragile, continues to be the major source of risks for Thailand's growth. Despite weakness in the euro area and Japan, improvements in the U.S. and China will help support global recovery momentum. Meanwhile, global economic risks in the worse-case scenario have declined, given the lower probability of Greece's exit from the euro area and the recent progresses on fiscal concerns in the U.S.

[1] This is changed from the title *Inflation Report*, which has been used since the Bank of Thailand adopted a flexible inflation targeting framework in 2000.

2. Inflation Outlook

Inflation outlook remains stable and close to the previous projection. Although demand pressure is viewed to increase slightly with strengthened domestic outlook, cost pressure is likely to subside partly from softer outturns of non-fuel commodity prices in late 2012. For global crude oil prices, the MPC views price outlook to stabilize over the projection period, given balanced supply and demand conditions that have not changed much from the previous assessment.

3. Projection for Growth and Inflation

The MPC revises up its growth forecast for 2013, thanks to private demand momentum continuing from the previous year. Meanwhile, exports are projected to recover gradually and contribute more significantly to growth from the second half of 2013 onward, which will help to shore up economic momentum after some fiscal stimulus measures expire. Going forward, the MPC assesses downside risks from the global economy to decline but still remain somewhat elevated. The fan chart for growth thus remains downward-skewed, but to an extent lesser than in the previous projection.

Forecast Summary

Percent	2012*	2013	2014
GDP growth	5.9 (5.7)	4.9 (4.6)	4.8
Headline inflation	3.0* (3.0)	2.8 (2.8)	2.6
Core inflation	2.1* (2.1)	1.7 (1.7)	1.6

Note: * Outturn
( ) Inflation Report October 2012
Source: Office of the National Economic and Social Development Board and calculation by Bank of Thailand

The MPC maintains inflation forecasts for 2013 and projects inflation to stabilize into 2014. Given reduced downside risks from the domestic economy, inflation fan charts are balanced this time, compared to the previous ones that were skewed to the downside.

4. Monetary Policy Outlook

In its meeting on November 28, 2012, the MPC judged the global economy to show signs of stabilization. The Thai economy continued its positive growth momentum, with the global impact limited within export-related sectors. The MPC viewed that as downside risks to growth subsided with inflationary pressure in check, the policy rate was already accommodative and conducive to growth. The MPC therefore voted unanimously to maintain the policy rate at 2.75 percent per annum, and would stand ready to take appropriate policy action as warranted.

In its subsequent meeting on January 9, 2013, the MPC assessed the global economy to recover gradually as expected, with better signs and reduced risks compared to the previous meeting. Thailand's growth projection was revised up for both 2012 and 2013, still driven mainly by private consumption and investment, while exports showed incipient signs of a broad-based recovery. Inflationary pressure remained stable close to the previous meeting, but the impact of the second-round minimum wage increase warranted monitoring. With remaining uncertainties in the global economy and inflation projection within target, the MPC viewed the prevailing monetary policy stance to be appropriate in supporting the growth momentum, and thus voted unanimously to maintain the policy rate at 2.75 percent per annum. The MPC would, however, continue to closely monitor financial stability risks that might arise from persistently high credit growth, rising household debt, and volatile capital flows.

Bank of Thailand
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For further information: Bodin Civilize Tel. 0 2356 7876 E-mail: bodinc@bot.or.th