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

No. 16/2013

Monetary Policy Report April 2013

Mr. Paiboon Kittisrikangwan, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the April 2013 issue of the *Monetary Policy Report*. The *Report*, published quarterly, is aimed at enhancing public understanding of the MPC's policy stance and its assessment of Thailand's economic outlook, with main details summarized as follows.

1. Economic Outlook

Thailand's growth is projected to continue on the back of domestic demand, which remains the key growth engine over the horizon. Consumption spending in 2013 is poised to grow at a rate higher than previously projected, partly from spending on durable goods that surged in 2012 Q4. Continued support from favorable household income and employment prospects, fiscal measures, and accommodative monetary conditions will help sustain consumption momentum in the period ahead. **Private investment**, although somewhat moderate in the near term, will remain on an upward trend. This owes primarily to businesses' capacity expansion to accommodate growing domestic demand, adjustments toward greater capital intensity in light of labor shortage, and the crowding-in effect of government's planned investment in big infrastructure projects. **Meanwhile, export recovery will continue to be gradual.** Merchandise exports might turn out weaker than expected in 2013 Q1, but should improve in the second half in line with recovery in trading partners' economies and leading indicators of exports.

The global economy has improved in terms of stability, but remains fragile and continues to be the major source of risks for Thailand's growth. Some moderation in trading partners' growth is expected in early 2013, given weakness in the euro area and fiscal sequestration in the U.S. But going forward, recovery should gather pace with support from Japan's unprecedented stimulus policies, recovery of private spending in the U.S., and continued strength in Asia. The MPC views that political uncertainty in Italy and financial sector problems in Cyprus might add to uncertainty but only in the near term.

Inflation remains stable. Soft outturns in 2013 Q1, especially food prices, suggest that near-term pressure is rather muted. Over the period ahead, however, demand pressure may gradually increase with projected economic growth and the output gap that will turn slightly positive further out in the horizon. Cost pressure could edge up slightly compared with the previous assessment, given slightly higher projected global crude oil price in 2013 due to greater geopolitical risks and better prospects of global crude demand. However, with regard to domestic energy prices, the MPC continues to assume the exemption of diesel excise taxes throughout the forecast period.

Amidst current economic expansion, incipient signs of financial imbalances are also present. Rising household debt might add more fragility to the household sector going forward, while risk taking in the stock and real-estate markets has also increased. These developments continue to warrant close monitoring.

2. Projection for Growth and Inflation

Forecast Summary

Percent	2012*	2013	2014
GDP growth	6.4	5.1	5.0
	(5.9)	(4.9)	(4.8)
Headline inflation	3.0	2.7	2.7
	(3.0)	(2.8)	(2.6)
Core inflation	2.1	1.6	1.7
	(2.1)	(1.7)	(1.6)

Note: * Outturn
( ) Monetary Policy Report January 2013
Source: Office of the National Economic and Social Development Board and calculation by Bank of Thailand

The MPC has revised up its growth projection slightly for both 2013 and 2014. This owes partly to the higher-than-expected GDP outturn in 2012 Q4. Fiscal impetus is also viewed to increase, both from higher budgetary spending and the two-trillion-baht infrastructure investment plan that has become more concrete and is likely to be disbursed in the last quarter of 2013, earlier than assessed in the last *Report*. This higher public investment should offset the moderating private demand momentum early this year. Over the projection period, the MPC views downside risks from the global economy to persist, but upside risks also increase given the possibility of faster disbursement of infrastructure investment outlay compared to the baseline scenario. The fan chart for growth is thus balanced, compared to the previous one that was downward-skewed.

Inflation is viewed to remain stable and close to the previous forecasts, but with risks tilted slightly to the upside. With growing demand and tightening resource constraints especially in the labor market, the pass-through of cost may be higher than in the past. Inflation fan charts are thus slightly upward-skewed, compared to the previous ones that were balanced.

3. Monetary Policy Outlook

The MPC viewed the current accommodative policy stance to remain appropriate. In its meeting on February 20, 2013, the MPC judged that this policy stance had contributed to sustained economic growth and stable inflation within the target range. However, global outlook remained uncertain, and domestic financial stability risks were present given rising asset prices. The MPC thus voted 6 to 1 to hold the policy rate at 2.75 percent per annum, with one member viewing risks from volatile capital flows and perceived fragile economic momentum to warrant a 25 basis point reduction. Then in its meeting on April 3, 2013, the MPC judged that a continuation of accommodative policy stance was appropriate given prevailing fragility in the global economy. Meanwhile, financial stability risks, as well as volatile exchange rates and capital flows, remained a concern. The MPC thus voted 5 to 1 to maintain the policy rate at 2.75 percent per annum, with one member voting for a 25 basis point reduction and another member absent due to obligations abroad. The MPC would continue to monitor domestic developments and risks to financial stability, and stand ready to take appropriate policy action.

Bank of Thailand
April 12, 2013
For further information: Bodin Civilize Tel. 0 2356 7876 E-mail: bodinc@bot.or.th