BANK OF THAILAND

BOT Press Release

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Monetary Policy Report July 2013

Mr. Paiboon Kittisrikangwan, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the July 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 economic growth has been revised downward in line with delayed global recovery and moderated domestic demand.

Global economic outlook softens from weakened growth prospects in China and Asia. On the other hand, recovery in the U.S. continues to gain traction on the back of improving domestic fundamentals, while the Japanese economy benefits from the unprecedented stimulus policies and the euro area economy appears to stabilize. The positive contribution from G3 economies, however, could not entirely counteract the downside pressure from China and Asia. On the financial side, near-term market volatility is expected due to the anticipation of Fed's tapering of asset purchases, which could induce further capital outflows from emerging markets.

Given slower growth in China and Asia, Thailand's export recovery is assessed to be delayed. On top of that, the vital contribution from domestic spending is viewed to lessen. Private consumption growth is projected to moderate in line with (1) the boost from the first-car scheme that dissipates sooner than expected and (2) the accumulated household debt that starts to weigh on durable and semi-durable purchases. But looking ahead, household spending appears poised to resume a normal pace, thanks to favorable non-farm income and relaxed monetary conditions. **Private investment** is expected to grow at a lower rate especially in 2013. Given their current excess capacity, businesses could manage to postpone investment awaiting positive developments of demand at home and abroad. Nonetheless, businesses' need to improve their production process, coupled with their overall financial strength, should allow investment to gather pace going forward. **Fiscal impetus** also declines from slow disbursement by local administrative organizations and delayed spending on water management projects.

Inflation readings will likely remain low. Both demand and cost pressure subside in line with moderated demand outlook and the lower projected path of global oil and commodity prices, coupled with the increase in domestic prices of liquefied petroleum gas (LPG) that has been postponed for another two months. Meanwhile, the MPC continues to assume the exemption of diesel excise taxes throughout the forecast period.

2. Projection for Growth and Inflation

Forecast Summary

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

Note: * Outturn
( ) Monetary Policy Report April 2013
Source: Office of the National Economic and Social Development Board, Ministry of Commerce, and projection by Bank of Thailand

In light of the economic assessment above, **the MPC has revised down its growth projection for 2013.** With risks tilted to the downside mainly from the fragile global economy and the possibility of further delay in public spending on water management, the growth fan chart is downward-skewed over the forecast period, compared to the previous one that was balanced. **Inflation forecasts are revised down for both 2012 and 2013** in line with reduced demand and cost pressure. Inflation fan charts are slightly downward-skewed this time, reflecting the possibility of further weakness in domestic spending.

3. Monetary Policy Outlook

The MPC deemed the current accommodative policy stance as appropriate. In its meeting on May 28 and 29, 2013, the MPC judged global economic recovery to be slower than expected, mainly from China and Asia. The Thai economy was likely to continue growing on the back of sound fundamentals, although downside risks had increased from weaker-than-anticipated economic momentum in the first quarter of the year. As inflation remained well within the target, monetary policy had room to further cushion against risks to domestic demand, but existing financial stability concerns also needed to be taken into consideration. The MPC thus voted unanimously to reduce the policy interest rate by 0.25 percent, from 2.75 to 2.50 percent per annum. Then in its meeting on July 9 and 10, 2013, the MPC judged that the recent slowing in domestic demand was partly an adjustment from the rapid growth induced by government stimulus measures, and thus a resumption to the normal path was expected on account of sound fundamentals and supportive monetary and fiscal policies. Meanwhile, rapidly changing global economic and financial conditions, as well as risks to domestic financial stability, warranted close monitoring. The MPC thus voted unanimously to maintain the policy rate at 2.50 percent per annum.

The MPC viewed that Thailand's long-term outlook still faced key structural impediments including logistics, water resource management, as well as **constraints in the labor market**. This arose from persistently slow growth both in the total workforce and labor productivity. Addressing these issues would require macroeconomic policies that put an emphasis on resolving production bottlenecks along with demand management.

Bank of Thailand

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