BANK OF THAILAND

BOT Press Release

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Monetary Policy Report March 2015

Mr. Mathee Supapongse, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the March 2015 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

The Thai economy is projected to recover more slowly than previously assessed as a result of weaker-than-expected domestic spending while inflationary pressure is projected to decrease from previous forecast mainly from lower world oil prices. Major developments contributing to the MPC's forecast revision include (1) the slower-than-expected global economic recovery due to growth moderation in China and Asia, (2) lower-than-expected domestic demand in Q4 2014 and January 2015, (3) more delays to government spending than expected, especially in public investment, and (4) lower-than-expected world oil prices.

The slow global and Thai economic recoveries have dampened consumer and business confidence in future income, making them reluctant to increase spending even though lower oil prices have reduced cost of living and transportation. The global and domestic backdrops have also made financial institutions cautious about loan extension. **Private spending** is therefore expected to recover more slowly than previously assessed. As for **public spending,** although it has improved from previous periods, it still faces limitations. In part, this is due to government agency efficiency which cannot be improved fast enough to match the change in budgetary structure to emphasize a larger share of investment. Additionally, policy to revise price lists for state construction projects to be in line with lower oil prices caused additional delay in some investment projects. On the external front, value of **merchandise exports** are likely to grow at a lower rate due to weaker-than-expected global economy and the decrease in commodity prices in line with oil. Meanwhile, **export of services** is expected to steadily contribute to economic growth.

The decline in oil price has caused a fairly **large drop in cost pressure**, while **demand pressure has declined slightly** due to slower-than-expected economic recovery.

2. Projection for Growth and Inflation

In light of the economic assessment above, **the MPC lowered growth projection for 2015, and assessed that risk to projection leans toward the downside.** Downside risk comes from the possibilities of slower-than-expected global economic recovery following developments in Europe and China and lower-than-expected government disbursement due to limitations in implementing investment projects.

Forecast Summary

Percent per year	2014*	2015	2016
GDP Growth	0.7	3.8 (4.0)	3.9
Headline Inflation	1.9	0.2 (1.2)	2.2
Core Inflation	1.6	1.2 (1.2)	1.2

Note: * actual data ( ) MPR December 2014
Source: NESDB, MOC, and forecasts from BOT

Upside risk stems from extra fiscal stimulus measures that may result in higher-than-expected government spending, for example, the water management project, and from higher-than-expected private spending associated with the downside risk to domestic retail oil prices. The downside risk outweighs the upside risk and therefore the growth fan chart is downward-skewed throughout the forecast period. **Headline inflation in 2015 is significantly lower than the previous forecast and is lower than the inflation target of 2.5 ± 1.5%, but it is expected to return close to the midpoint of the target in 2016. On the other hand, core inflation forecast remains unchanged from the previous forecast.** Risk to inflation in both categories leans to the downside, as demand pressure may be lower than expected due to slower economic recovery than forecast, and domestic retail oil prices may be lower if the oil fund levy is reduced further. Therefore, the fan charts for both headline and core inflation are skewed downward over the forecast period.

3. Monetary Policy Deliberation

Monetary policy was eased further in order to lend additional support to the economy as its recovery has been more sluggish than previously assessed and with downside risk to growth. As for inflation that has decreased and may dip below target, the main driver is lower oil prices and thus the low inflation rate is not a sign of demand-driven deflation.

On January 28, 2015, the MPC voted 5 to 2 to maintain the policy rate at 2.00 percent per annum, the majority having evaluated that the economy was on a slow but sustained recovery path, and would receive tailwind from the significant drop in oil prices. Additionally, negative headline inflation was due to a structural change in global oil markets. It was therefore unnecessary to lower policy rate to avoid deflation. The remaining MPC members however evaluated that a lower policy rate would provide more support to economic growth, offset the less-accommodative monetary conditions, and maintain policy credibility while inflation was lower than target.

On March 11, 2015, the MPC voted 4 to 3 to lower the policy rate by 0.25 percent per annum, to a rate of 1.75 percent from the previous rate of 2.00 percent per annum. The majority assessed that monetary policy should be eased to further accommodate economic growth, especially in support of the weaker-than-projected domestic demand, and to shore up private confidence while government role in driving growth is hampered by limitations in implementing investment projects and the risk to the global economy has increased. Meanwhile inflation is expected to remain below target for a certain period, and lower interest rate will further ease financial conditions while financial stability is intact. The remaining members assessed that the level of the policy rate is not an obstacle to consumption and investment, while the policy space should be preserved as a shock absorber, to be used when more necessary and when policy transmission is more effective. Furthermore, more economic stimulus should come from the fiscal side, as further monetary easing could increase risk to financial stability, especially through accumulation of household debt. Going forward, the MPC will continue to monitor the economic recovery closely to exercise monetary policy as appropriate while maintaining long-term financial stability.

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