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### Monetary Policy Report June 2015

Mr. Mathee Supapongse, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the June 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 the previous projection mainly as a result of weaker-than-expected export growth while inflation is projected to decrease on the back of lower cost and demand pressure. Major developments contributing to the MPC's forecast revision include (1) slower-than-expected global economic recovery due to a slowdown in China and other Asian economies, (2) a shift in global trade structure that has reduced benefit of global economic recovery on global trade growth, (3) higher public spending than previous assessment, especially public investment, and (4) increased global oil prices in the second quarter of 2015.

The slow global economic recovery, the shift in global trade structure, structural problems in Thai merchandise exports, and the appreciation of nominal effective exchange rate together contributed to the decline in Thailand's exports of goods. This further deteriorated income outlook and private-sector confidence. Together with cautiousness of financial institutions in loan extension, **private spending** would recover more slowly than previously assessed. On the other hand, **public spending** is projected to be higher in both budgetary investment expenditure and the stimulus package II while **export of services** is expected to expand more than the previous forecast from increasing number of tourists. Higher-than-expected public spending and exports of services however could not compensate for the weaker-than-expected merchandise export performance and private spending. Overall, economic growth in 2015 is projected to be less than formerly forecasted. In the period ahead, the economy is expected to gather pace in tandem with the trading partners' economies, which would shore up Thai merchandise exports. The better export performance together with continued public spending particularly in investment projects would be a boon to household incomes and confidence that lead to higher private spending. Overall, the Thai economy in 2016 is expected to register a better growth rate than this year.

Inflation outlook is less than previously assessed. Despite the increase in global oil prices in the second quarter of 2015, domestic retail oil prices fell as the government reduced oil fund levy. In addition, lower fresh food prices and the slower-than-expected economic recovery put further downward pressure on inflation. Nevertheless, the Committee assessed that the probability of deflation is still low as consumption still expands, prices of most of goods and services continue to be flat or increase, and inflation expectations remain near the policy target.

## 2. Projection for Growth and Inflation

In light of the aforementioned economic assessment, the MPC lowered the growth projection for 2015, and judged that the risks around the central projection are skewed to the downside. This is because the possibility of weaker-than-expected growth due to the impact of more severe slowdown of China and Asian economies is higher than the possibility of higher-than-expected growth from faster-than-expected disbursement of the stimulus package II. Therefore, the growth fan chart is skewed downward. The Committee also revised down the projection of headline and core inflation in 2015 and 2016, and assessed that the risks to the inflation forecasts are skewed to the downside. The downside risks come from the possibilities of slower-than-expected economic recovery and lower-than-expected global oil prices if Iran starts to export oil again or if shale oil producers find way to reduce production costs faster than the market anticipates. Therefore, the inflation fan charts are skewed downward.

Forecast Summary			
Percent per year	2014*	2015	2016
GDP Growth**	0.9 (0.7)	3.0 (3.8)	4.1 (3.9)
Headline Inflation	1.9	-0.5 (0.2)	1.6 (2.2)
Core Inflation	1.6	1.0 (1.2)	1.0 (1.2)

Note: \* Actual data

\*\* Projection by employing new GDP data of Chain Volume Measure

( ) MPR March 2015

Source: NESDB, MOC, and forecasts from BOT

## 3. Monetary Policy Deliberation

Monetary policy was eased further in order to support economic growth which faced increasing downside risks while inflationary pressure decreased.

On April 29, 2015, the MPC voted 5 to 2 to further lower the policy rate from the March 11, 2015 meeting by another 0.25 percent, from 1.75 percent to 1.50 percent per annum. The Committee evaluated that the additional policy rate reduction would help preempt the possibility of further economic slowdown, reduce funding costs for the private sector, contribute to exchange rate movements in a direction more conducive to economic recovery, and anchor the public's inflation expectations at an appropriate level given that headline inflation would stay below target for a prolonged period. These effects would also help reduce deflationary risk. The remaining MPC members, however, preferred to preserve the policy space for mitigating future risks and to wait for the assessment of the impact of the March 11 cut on the real economy and financial stability before taking further action.

On June 10, 2015, the MPC voted unanimously to maintain the policy rate at 1.50 percent per annum with the assessment that the earlier conduct of monetary policy has thus far eased monetary conditions, while the direction of exchange rate movement has become more conducive to the economic recovery. Nevertheless, the Committee will closely monitor Thailand's economic and financial developments and stand ready to utilize available policy space appropriately in order to ensure that monetary conditions are sufficiently accommodative to support the ongoing recovery. At the same time, the committee will carefully watch the possible buildup of financial imbalances that may arise during the prolonged period of low interest rates in order to maintain long-term financial stability.

Bank of Thailand

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