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. 62/2015

Monetary Policy Report December 2015

Mr. Jaturong Jantarangs, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the December 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 details summarized as follows.

1. Economic Outlook

In the third quarter of 2015, the Thai economy recovered at a stronger pace than expected, with the growth momentum likely to continue through the fourth quarter. However, growth in 2016 is projected to be slower than previously anticipated due to a weaker outlook for exports and private investment, though being mostly compensated by stronger-than-expected public spending and private consumption. Headline Inflation is to decline further due to lower costs. Key developments being factored into the MPC's forecast revision include (1) slower-than-expected trading partners' economic recovery, (2) continuing economic support from government spending through investment projects and additional stimulus measures, (3) the drought situation in 2015 being close to the previous assessment, but the low levels of water in key reservoirs likely to weigh down agricultural productions and farm income in 2016, and (4) greater-than-expected declines in global oil prices.

Global economy is assessed to recover more slowly than previously expected, particularly the Asian economies on which the negative impact of China's slowdown has become more pronounced. Weaker demand from China has dampened Thai merchandise exports and, together with a deeper slump in global oil prices, put further downward pressure on commodity prices. The value of Thailand's **merchandise exports** in 2015 and 2016 is thus expected to be lower than the previous assessment, due mostly to falling export prices. Sluggish external demand, together with remaining excess production capacity, continues to hinder growth in **private investment**. **Export of services** remains robust as reflected in a stronger-than-expected rebound of foreign tourists after the bombing in Bangkok, though a pick-up in tourist arrivals has not been broad-based and has been concentrated mostly in Chinese tourists. In the meantime, **public sector** continues to provide support to the economy through investment spending by the government and state-owned enterprises. Various fiscal stimulus measures are expected to help shore up private sector's confidence and ease financial constraints for small and medium firms. This, together with cheaper domestic energy prices, also helps support the recovery of **private consumption** to some extent against the drags from declining farm income and high household debt.

Inflationary pressure from the cost side has been more subdued in tandem with declining global oil prices. However, the demand-pull pressure has been slightly higher than previously assessed as a stronger-than-expected growth in private consumption has allowed for modest price increases on some goods and services. An impending increase in vehicle excise tax at the beginning of 2016 also contributes to a higher assessment of **core inflation**. On the other hand**, headline inflation** is assessed to be lower than formerly projected, with lower energy prices outweighing higher domestic demand pressure. The risk of deflation is limited as domestic demand is expected to continue recovering while core inflation remains positive.

2. Growth and Inflation Projection

In light of the aforementioned assessment, **the MPC slightly increases the GDP growth projection for 2015 on the back of higher-than-expected economic activity in the third quarter, which is likely to continue through the fourth quarter. The growth forecast for 2016 is, however, revised down. The risks to growth around the central projection skew towards the downside**, which include (1) a sharper growth slowdown in the Chinese and Asian economies, (2) a higher-than-expected adverse impact of geopolitical conflicts on the outlook of global demand recovery and tourist confidence and (3) a more-severe-than-expected drought in 2016 and its impact on agricultural and industrial productions. The upside risks stem from (1) faster-than-expected disbursement of public spending especially investment expenditure and (2) greater-than-expected effects of fiscal stimulus measures on private sector spending. **The Committee revises down the projection of headline inflation in 2016, while the projection of core inflation edges up slightly in both 2015 and 2016. The risks to the inflation forecasts are assessed to skew towards the downside** due to a possibility of weaker-than-expected demand pressure should the economy recovers slower than expected.

Forecast Summary

Percent per year	2014*	2015	2016
GDP Growth	0.9	2.8 (2.7)	3.5 (3.7)
Headline Inflation	1.9	-0.9 (-0.9)	0.8 (1.2)
Core Inflation	1.6	1.1 (1.0)	0.9 (0.8)

Note: * Actual data
( ) Monetary Policy Report, September 2015
Source: NESDB, MOC, and forecasts from BOT

3. Monetary Policy Deliberation

Monetary policy remains accommodative and continues to provide support to the economic recovery against the downside risks to the outlook of global growth and heightened uncertainty in global financial markets.

On November 4 and December 16, 2015, the MPC voted unanimously to maintain the policy rate at 1.50 percent per annum with the assessment that monetary conditions and the movement of exchange rate remained supportive to the economic recovery. Although the export sector has been increasingly weighed down by a slower improvement in global demand, this has been compensated by robust expansion of public expenditure and fiscal stimulus measures. Inflationary pressure eased further since the last assessment due mainly to the declines in global oil prices. However, deflationary risk remains contained. Headline inflation, while currently being in negative territory, is projected to rise gradually and to turn positive in the first half of 2016. Monetary policy deliberations also give weight to financial stability considerations during the period of shifts in monetary policy in advanced economies which potentially cause bouts in financial market volatility.

The MPC assessed that the monetary policy stance should continue to be sufficiently accommodative and the Committee would stand ready to utilize an appropriate mix of available policy tools in order to support economic recovery while ensuring financial stability.

Bank of Thailand
December 25, 2015
For further information: Macroeconomic Forecasting Team Tel. 0 2283 5629 E-mail: wasinr@bot.or.th