BANK OF THAILAND

BOT Press Release

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Monetary Policy Report March 2016

Mr. Jaturong Jantarangs, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the March 2016 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 fourth quarter of 2015, the Thai economy recovered as expected. However, growth momentum softened in January 2016 due to weaker-than-expected exports and private demand. Going forward, growth is projected to be lower than previously anticipated, as the higher-than-expected public expenditure and tourist arrivals could only partially offset weak exports. Inflation tends to be lower than previously forecasted due to both demand and supply side pressures. Key developments being factored into the MPC's forecast revision included (1) lower-than-expected trading partners' economic growth, (2) a more pronounced effect of structural constraints on merchandise exports than previously estimated, (3) a higher-than-expected number of foreign tourists, (4) higher-than-expected support from public investment and stimulus measures, and (5) lower-than-expected global oil prices.

Thai merchandise exports are projected to recover at a slower pace than previously forecasted and expected to register a negative growth in value terms in 2016 due to (1) slower-than-expected growth of trading partners' economies, especially Asian economies, (2) the impact of structural constraints on the export sector namely, shifting global trade structure and Thailand's declining export competitiveness, and (3) a decline in export prices in tandem with lower oil and commodity prices. Consequently, private consumption is expected to grow slower than previously anticipated, particularly after dissipation of the effect of the government's tax rebate measure around the end of last year and of the accelerated car purchases prior to the excise tax increase. Private investment is also projected to grow more slowly due to a weaker outlook for exports, though partly compensated by new investment in the telecommunications sector. Meanwhile, government expenditure is expected to continue supporting the economy through faster-than-expected growth in investment spending and additional private spending stimulus measures. Exports of services are expected to remain robust in line with foreign tourist arrivals. However, the drives from public spending and tourism cannot fully compensate for the drags of overall economy.

Inflationary pressure from the cost side is expected to be more subdued due to lower global oil and commodity prices as well as softer demand-pull pressure from a slower-than-expected economic recovery. However, inflation in 2016 is assessed to be slightly lower than previously forecasted, particularly core inflation, due to an increase in vehicle and tobacco excise taxes at the beginning of 2016.

2. Growth and Inflation Projection

Forecast Summary			
Percent per year	2015*	2016	2017
GDP Growth	2.8	3.1 (3.5)	3.3
Headline Inflation	-0.9	0.6 (0.8)	2.2
Core Inflation	1.1	0.8 (0.9)	1.1

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

In light of the economic assessment above, the MPC lowers the GDP growth projection for 2016, with the effect of structural constraints on exports included in the baseline projection. Consequently, the risk to growth is more balanced, though it still skews toward the downside. The Thai economy could grow below the baseline forecast due to (1) a sharper-than-expected slowdown in China and Asia, which may affect major advanced economies more than expected and (2) a more-than-expected severe impact of exports' structural constraints. The upside risks stem from (1) higher-than-expected public spending, especially investment expenditure and greater-than-expected effects of fiscal stimulus measures on private sector spending and (2) a better-than-expected number of foreign tourists. **The MPC revises down the projection of headline and core inflation in 2016, but headline inflation is expected to edge up and reach the target in 2017 in line with an increase in global oil prices and a moderate recovery of the Thai economy. The risks to the inflation forecasts are assessed to skew toward the downside** due to a possibility of weaker demand pressure should the economy recover more slowly than expected.

3. Monetary Policy Deliberation

On February 3 and March 23, 2016, the MPC voted unanimously to maintain the policy rate at 1.50 percent with the assessment that the Thai economy was still on the recovery path, though at a slower pace. The MPC judged that the current monetary conditions remain conducive to the economic recovery and should facilitate headline inflation to return to target over an appropriate time horizon. However, the MPC also saw the need to preserve policy space should significant adverse risks affect the economic recovery going forward, especially uncertainty from external factors. In the meantime, the MPC was mindful of risks to financial stability from search-for-yield behavior. In light of the above assessment, the policy rate should stand at the current level. Furthermore, members of the Committee also noted that monetary policy divergence among advanced economies could influence capital flows, and cause the baht to strengthen, which might not be as conducive to the economic recovery as it could be.

Looking ahead, the MPC assessed that monetary policy should remain sufficiently accommodative in order to provide support to economic recovery. The MPC would closely monitor global economic and financial developments, together with domestic monetary conditions and exchange rate movement, and stand ready to utilize an appropriate mix of available policy tools in order to support the economic recovery, while ensuring financial stability.

Bank of Thailand

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