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. 37/2016

Monetary Policy Report June 2016

Mr. Jaturong Jantarangs, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the June 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

Thailand's economic growth projection for 2016 remains close to the previous assessment. Near-term strength in domestic demand and tourism, in particular, helps counteract the weakness in merchandise exports. Meanwhile, growth projection for 2017 has been revised down slightly, in line with weaker global growth and merchandise exports. Core inflation is projected to edge lower marginally in 2017 as well, in line with the slower growth. However, headline inflation forecast remains unchanged, given that energy prices are likely to rise with crude oil prices. Key developments considered by the MPC in assessing the economic outlook include: (1) lower-than-expected trading partners' growth; (2) a sharper pick-up in global oil prices; (3) higher growth in the number of foreign tourists; and (4) continued government spending and additional stimulus measures.

Trading partners' growth softens from the previous assessment. Asia's economies are affected by reduced regional trade volume, which is partly attributable to the shifting global trade structure. Consequently, Thailand's **merchandise export value** is revised down, despite the increase in export prices due to higher oil and commodity prices. But in overall, economic momentum does not decelerate significantly, thanks to strength in **exports of services** on the back of the expanding number of foreign tourists. **Private consumption** is expected to grow at a rate close to the previous forecast thanks to: (1) increased income from the service sector that helps compensate for lower income from the manufacturing sector, especially the export-oriented one; (2) improved confidence of households in the agricultural sector, thanks to higher farm prices and reduced concerns regarding the drought due to increased rainfall. With regard to the **government**, continued spending and additional stimulus measures help support private sector's sentiment and spending. **Private investment** benefits from this, especially for construction related to government projects. Nevertheless, investment growth is projected to stay depressed overall, as excess capacity remains elevated.

Infaltionary pressure from the cost side is assessed to rise with domestic energy prices, as crude oil and commodity prices increase. Part of the cost-push pressure, however, will be offset by lower electricity fees due to lower costs of electricity purchases from the private sector. Thus, overall inflationary pressure in 2016 remains close to the previous assessment. Meanwhile, demand-pull inflationary pressure is expected to be slightly lower in line with slower growth in 2017.

2. Growth and inflation Projection

Forecast Summary			
Percent per year	2015*	2016	2017
GDP Growth	2.8	3.1 (3.1)	3.2 (3.3)
Headline Inflation	-0.9	0.6 (0.6)	2.2 (2.2)
Core Inflation	1.1	0.8 (0.8)	1.0 (1.1)

Note: * Actual data
( ) Monetary Policy Report, March 2016
Source: NESDB, MOC, and forecasts from BOT

In light of the economic assessment above, the MPC keeps its growth projection for 2016 unchanged, but revises growth projection for 2017 downward slightly due to weaker merchandise exports. Meanwhile, risks to growth are assessed to be skewed downward. Economic growth could turn out lower than the baseline forecast due to: (1) lower growth of trading partners' economies, especially for China given its domestic financial sector risks; (2) fragile confidence of the private sector, which could affect private spending more than assessed; (3) domestic political uncertainty, which could weigh on public spending and tourism growth. On the contrary, upside risks could stem from: (1) accelerated and higher public spending especially on investment projects, together with the possibility that the impact on private spending could be more than assessed; and (2) a higher number of foreign tourists. **Meanwhile, the MPC keeps headline inflation projection unchanged for both 2016 and 2017, expecting headline inflation to return to the inflation target in 2016H2. Core inflation forecast also remains unchanged in 2016, but has been revised downward marginally for 2017 in line with slower growth.** Risks to inflation forecasts are assessed to be tilted toward the downside in line with risks to growth projection.

3. Monetary Policy Deliberation

In its meetings on May 11 and June 22, 2016, the MPC voted unanimously to maintain the policy interest rate at 1.50 percent, assessing that the economy would continue on the recovery path and headline inflation would return to the policy target in 2016H2. Monetary conditions were judged to be accommodative and conducive to economic recovery. In addition to the low level of real interest rate, total corporate financing and household credits continued to expand, although certain business sectors faced constraints in obtaining credits. Moreover, the MPC saw merit in preserving the policy space given risk factors going forward, such as fragile global economic recovery, monetary policy divergence among major advanced economies, repercussions of the EU Referendum in the UK (Brexit), as well as financial sector concerns in China. The MPC would also monitor possible risks to financial stability arising from search-for-yield behavior.

Going forward, the MPC viewed the accommodative monetary policy stance to remain appropriate. The MPC would stand ready to utilize an appropriate mix of available policy tools to ensure conducive monetary conditions and financial stability over the periods ahead.

Bank of Thailand
June 30, 2016
For further information: Forecasting Team Tel. 0 2283 5629 E-mail: wasinr@bot.or.th