BANK OF THAILAND

BOT Press Release

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No. 49/2016

Monetary Policy Report September 2016

Mr. Jaturong Jantarangs, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the September 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 in 2016 has been revised up slightly due to a better-than-expected private consumption growth in the second quarter, partly from temporary factors. On the other hand, exports are projected to expand at a lower rate compared to previous assessment as a result of trading partners' slow recovery, and the tourism sector that might have been negatively affected by short-term domestic factors. Key developments considered by the MPC in assessing the economic outlook include (1) the lower-than-expected growth of trading partners due to Brexit, which has slowed down European economies and hindered Asian exports; (2) the lower-than-expected number of tourists due to the bombing incidents in August and the government's attempt to tackle zero-dollar tour operations; (3) the slower-than-expected increase in global oil prices; and (4) the upward revision of government spending projection. **With these aforementioned factors, the growth in 2017 is projected to grow at the previously assessed rate. Core inflation's projection also remains unchanged from the previous *Report*, while headline inflation forecast is revised down, in line with the trend in oil prices.**

The projection for **merchandise export volume** has been revised down due to the slow recovery of trading partners as well as domestic and foreign structural problems. Nonetheless, the increase in price of some export goods such as agricultural products offsets the weak export volume and keeps the export value projection in 2016 unchanged from previously forecasted. **Private consumption** is projected to have moderate growth thanks to expanding employment in agriculture and service sectors. Income of exporting manufacturers, meanwhile, is slow to recover due to weak exports. The result of Thailand's referendum on the Constitution helps secure the continuity of public spending, especially in infrastructure projects. Consequently, **public spending** is projected to be higher than previously assessed. **Private investment** is lower than expected as a result of the weak merchandise export figures, although expanded private consumption and service exports, as well as the government's continued policies would support private investment in some sectors.

The marginally improved growth helps maintain the demand-side inflationary pressure, while cost-side inflationary pressure softens due to the lower-than-expected oil prices.

2. Growth and inflation Projection

Forecast Summary			
Percent per year	2015*	2016	2017
GDP Growth	2.8	3.2 (3.1)	3.2 (3.2)
Headline Inflation	-0.9	0.3 (0.6)	2.0 (2.2)
Core Inflation	1.1	0.8 (0.8)	1.0 (1.0)

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

In light of the economic assessment above, the MPC revises the growth projection for 2016 up slightly and keeps its growth projection for 2017 unchanged. Meanwhile, the risks to the projected growth tilt more downward. Downside risks include (1) the impact of Brexit, which could hinder the recovery of global economy; (2) financial risk in China; (3) private sector's limited ability to cope with economic shock; and (4) the effect of the government's attempt to tackle zero-dollar tour operations on the number of tourists. Meanwhile, upside risks come from the accelerated public spending, and the impact of stimulating measures on the economy that could be higher than expected. **The MPC keeps core inflation projection unchanged for both 2016 and 2017, but revises headline inflation in both 2016 and 2017 down in tandem with the lower oil prices.** Risks to inflation forecasts are assessed to be skewed more downward, in line with risks to growth projection.

3. Monetary Policy Deliberation

In its meetings on August 3 and September 14, 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. Headline inflation was expected to return to the target band within the latter half of the year. Monetary conditions remained accommodative and conducive to economic recovery with low level of real interest rate as well as an expansion in total corporate financing and household credits, although certain business sectors faced limitations in obtaining credits. In addition, the MPC viewed that the baht's appreciation against major trading partners' currencies in the recent periods might not be beneficial to the ongoing economic recovery.

The MPC saw the need to preserve policy space given that the Thai economy might still be facing greater uncertainties going forward, particularly the fragile global economic recovery and uncertainties in the monetary policy directions of major advanced economies that might induce greater capital flow and exchange rate volatility. In addition, financial stability risks from the prolonged low interest rate environment, including search-for-yield behavior, continued to warrant close monitoring.

Going forward, the MPC viewed that monetary policy should remain accommodative, and stands ready to utilize an appropriate mix of available policy tools in order to ensure that monetary conditions are conducive to economic recovery, while ensuring financial stability.

Bank of Thailand
September 23, 2016

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