BANK OF THAILAND

BOT Press Release

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Monetary Policy Report December 2016

Mr. Jaturong Jantarangs, Assistant Governor of the Bank of Thailand (BOT) and Secretary of the Monetary Policy Committee (MPC), released the December 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 and 2017 remains close to the previous assessment. Better merchandise exports and private consumption compensate for weaker-than-expected exports of services and private investment, while government spending remains an important growth driver for the economy. Key developments considered by the MPC in assessing the economic outlook include (1) the increased uncertainty in the global financial market and trading partners' economic prospect, due largely to the unclear economic policies of the United States' incoming government as well as the Fed's rate hike that appears to be at a faster pace, even though the baseline forecast for overall trading partners' economic growth remains unchanged; (2) the faster-than-expected increase in crude oil price; (3) the lower estimate of the number of tourists due largely to the recent measures to curb illegitimate tour operators; (4) higher farm income; and (5) the government's additional stimulus measures.

Merchandise export value projection is revised up from the previous assessment. While the improvement is limited to industries that benefit from shifts in production base and growing foreign demand as well as products whose prices increase in line with oil price, exports of other industries show sign of slow recovery, consistent with trading partners' economic outlook and hindrance from structural factors. **Private consumption** is better with support from higher farm income and government's short-run stimulus measures. Meanwhile, **exports of services forecast** is revised down particularly in Q4/2016, but is expected to rebound next year partly with the support from the government's tourism measures. **Private investment** remains moderate and still concentrated in the services and the utility sectors, while investment in the manufacturing sector is still hampered by the uncertain economic recovery path and excess production capacity. **Government spending** continues to be a driving force of the economy. Even though the lower-than-expected government consumption outturn in Q3/2016 prompted public spending growth in 2016 to be lower than projected, the growth in 2017 is expected to be higher thanks to additional government projects in addition to various large-scale ongoing infrastructure projects that have already been included in the previous assessment.

While demand-side inflationary pressure remains the same, overall inflationary pressure decreases from the lower cost of production. This is the result of a rapid downward adjustment of fresh food prices since September as drought eased up and agricultural output increased. This sharp drop in fresh food prices outweighs the increase in energy prices.

2. Growth and Inflation Projection

Forecast Summary			
Percent per year	2015*	2016	2017
GDP Growth	2.8	3.2 (3.2)	3.2 (3.2)
Headline Inflation	-0.9	0.2 (0.3)	1.5 (2.0)
Core Inflation	1.1	0.7 (0.8)	0.8 (1.0)

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

The MPC kept its growth projection for both 2016 and 2017 unchanged but with increased downside risks to the baseline forecast, particularly from the uncertainty of the United States' trade policy that might affect global economic recovery. Meanwhile, other downside risks remained, including (1) financial risk in China that might drag the growth of Chinese economy, and (2) the number of Chinese tourists that might be lower due to the measures to curb illegitimate tour operators. Upside risks to the baseline forecast came from the impact of government's stimulating measures that could be higher than expected, and the effect of the United States' fiscal stimulus that could facilitate higher growth in the United States. **The MPC adjusted its inflation projections downward as a result of a slowdown of fresh food prices. Nonetheless, headline inflation was expected to return to the inflation target band in Q1/2017.** The MPC assessed that risks to inflation forecasts are tilted more downward, in line with risks to the growth projection. The uncertainty of the forecast also increased due to the uncertainties of oil price and Thailand's economic outlook.

3. Monetary Policy Deliberation

In its meetings on November 9 and September 21, 2016, the MPC voted unanimously to maintain the policy interest rate at 1.50 percent, assessing that the Thai economy would continue to expand at a pace close to the previous assessment. Headline inflation was projected to gradually rise and return to the target band within Q1/2017, while the public's medium-term inflation expectation remained close to the target at 2.5 percent. Monetary conditions remained accommodative and conducive to economic recovery with ample liquidity in the financial system and low real interest rates. Long-term bond yields increased but remained close to last year's averages. Over the recent period, the baht depreciated against the US dollar, though to a lesser extent compared with overall trading partner currencies which might not be beneficial to the ongoing economic recovery.

Financial stability remained sound and was able to provide cushion against economic and financial volatilities on both domestic and external fronts. However, there remained pockets of risks that warranted close monitoring, such as the deterioration in loan quality of some business sectors and the search-for-yield behavior in the prolonged low interest rate environment.

Going forward, the MPC viewed that, due to the increased uncertainties in the economy, monetary policy should remain accommodative. The MPC 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

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