Monetary Policy Forum 1/2024

24 April 2024

(Economic projections as of 9 April 2024)

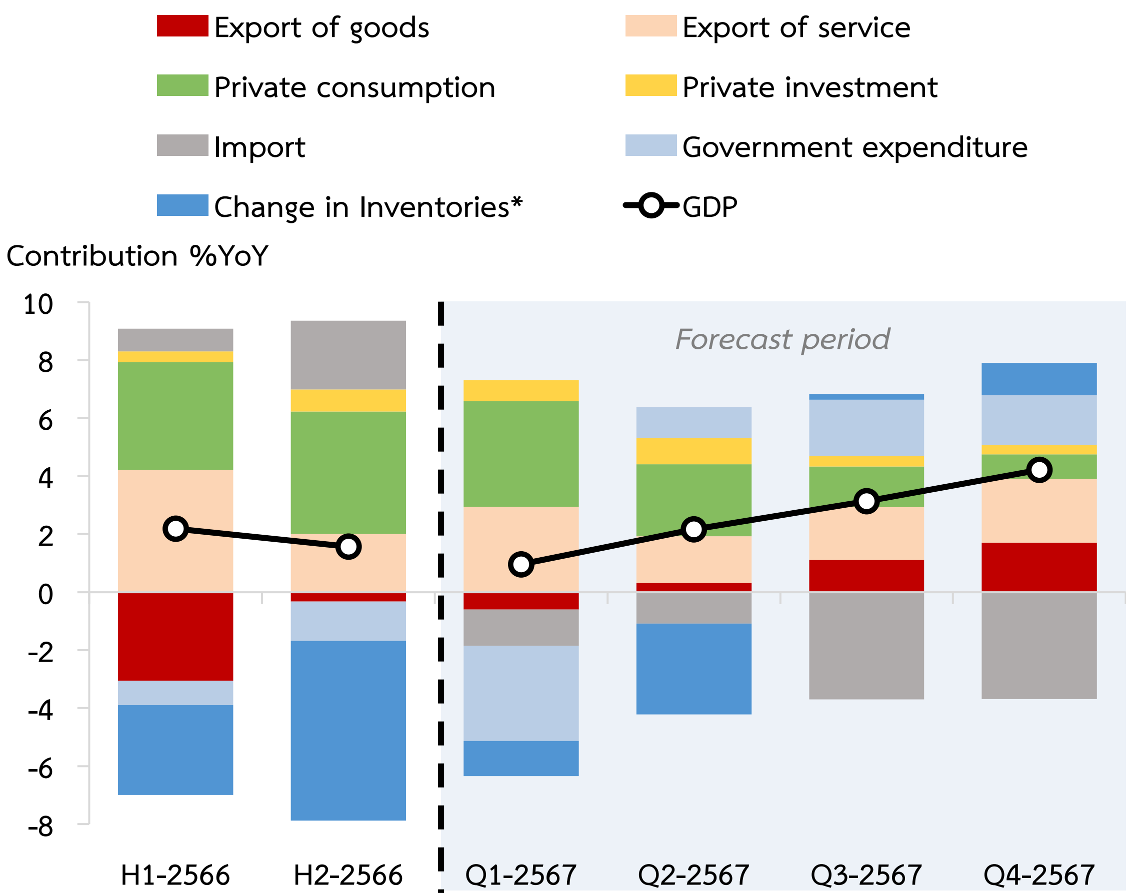
Recent economic development and outlook

Growth	Growth continues to be driven by private consumption as cyclical drags gradually decline. Exports and manufacturing sectors are held back by structural headwinds.
Inflation	Inflation would stabilize at a low level due to supply-side factors and government subsidies, and would return to the target range by the end of the year.
Financial Stability	Financial conditions tightened for some groups of SMEs and low-income households. In a broad picture, the tighter financial conditions have not impeded economic activities and the credit mechanism is still functioning in line with economic growth. On financial stability, credit quality deteriorated among some loan types such as auto loans. However, the outstanding of NPLs is not expected to increase sharply.

The Thai economy is projected to grow at a higher rate than the previous year. However, structural headwinds would continue to weigh on economic growth.

GDP growth in 2024 would be driven by private consumption and tourism, and a turnaround in public expenditure and exports of goods

GDP growth forecast by component



Note: * includes statistical discrepancy or CVM additive error

Source: Office of the National Economic and Social Development Council, BOT forecast

Growth projections

%YoY	2023*	2024	2025
GDP Growth	1.9	2.6	3.0
Domestic demand	3.5	3.1	3.1
Private consumption	7.1	3.5	2.9
Private investment	3.2	3.3	3.2
Government consumption	-4.6	1.8	3.3
Government investment	-4.6	1.0	5.0
Export volume of goods and services	2.1	4.2	3.3
Import volume of goods and services	-2.2	3.8	3.5
Current Account (billion U.S. dollars)	7.0	13.0	17.5
Value of merchandise exports (%YoY)	-1.7	2.0	2.8
Value of merchandise exports (%YoY)	-3.1	2.5	3.0
Number of foreign tourists (million persons)	28.2	35.5	39.5

Note: * Outturn

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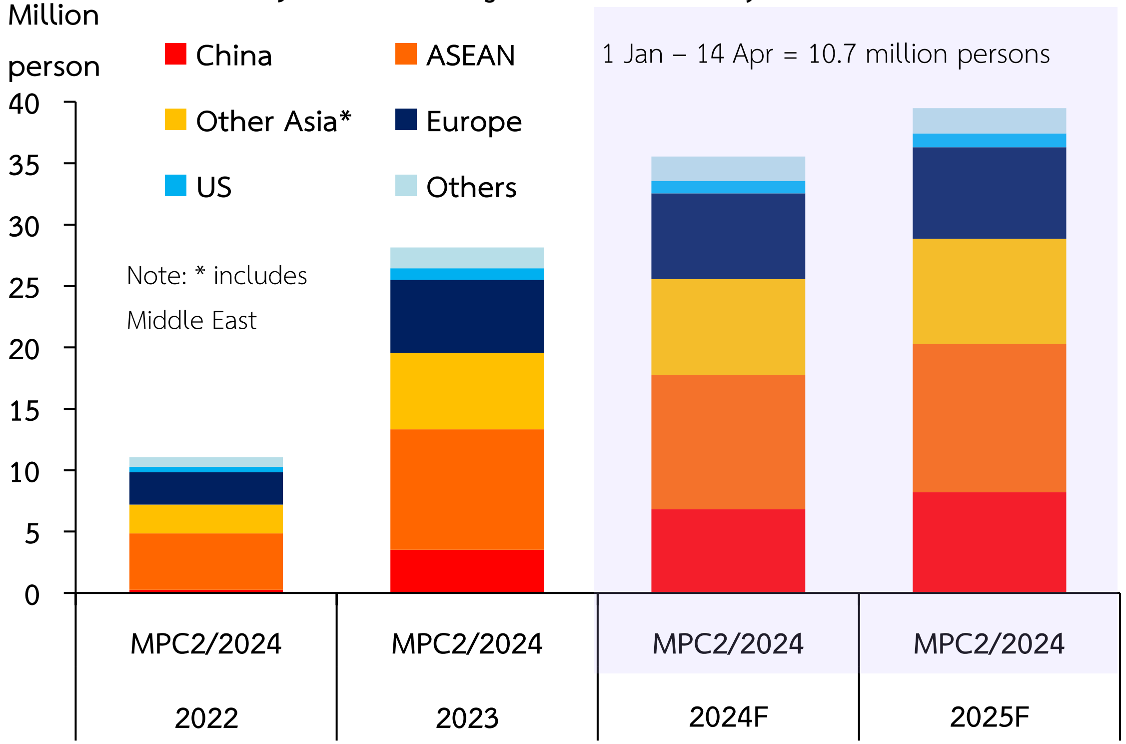
Tourism saw improvements from both foreign tourist arrivals and spending per head, but tourism spending is expected to be more concentrated among certain categories.

Foreign tourist arrivals would be higher than last year

Projection of foreign tourist arrivals by nationalities

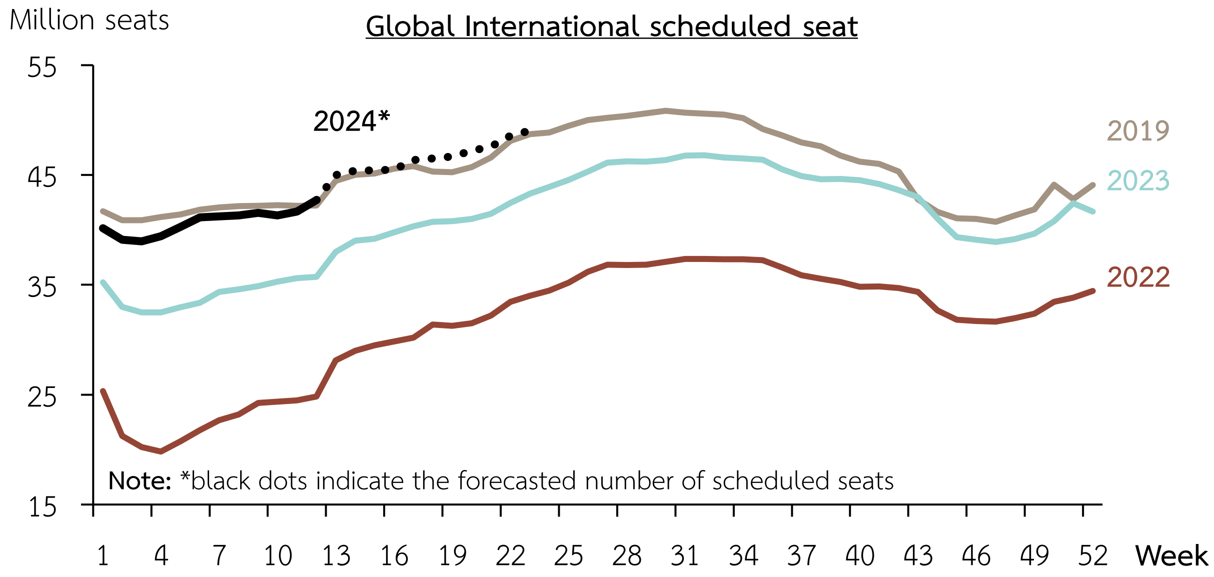


Projection	2023	2024F	2025F
All nationalities (million persons)	28.2	35.5	39.5
- o/w Chinese (million persons))	3.5	6.8	8.2
Tourism receipt (trillion baht)	1.0	1.4	1.6

Source: Ministry of Tourism and Sports, BOT forecast

Outlook for number of airline passengers is improving globally

Global International scheduled seat



Higher tourism receipt is expected to be concentrated in the hotel and restaurant category

Tourism spending per trip by category

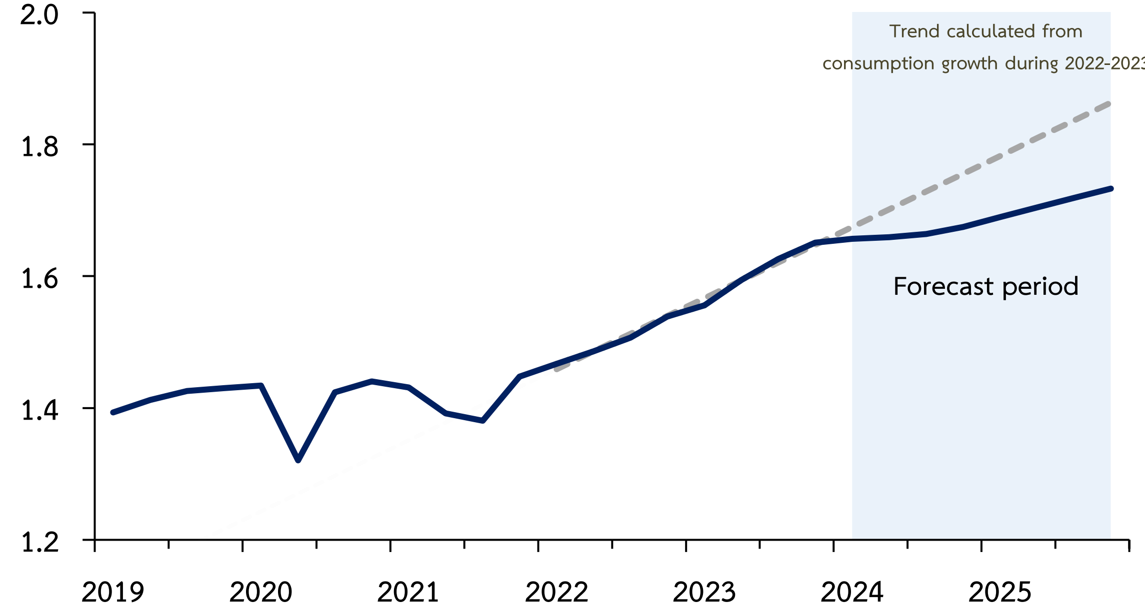
Year	Hotel	Shopping	F&B	Others
2019	28%	24%	21%	27%
2023	36%	19%	23%	22%

Private consumption remains a key growth driver for the Thai economy, although it is still concentrated among high-income groups.

Consumption growth would be in line with past average, slowing down compared to 2023

Trillion baht

Private consumption



Private consumption (Real Term)	2023	2024F	2025F
%YoY	7.1	3.5	2.9
%QoQ sa	1.8	0.4	0.8

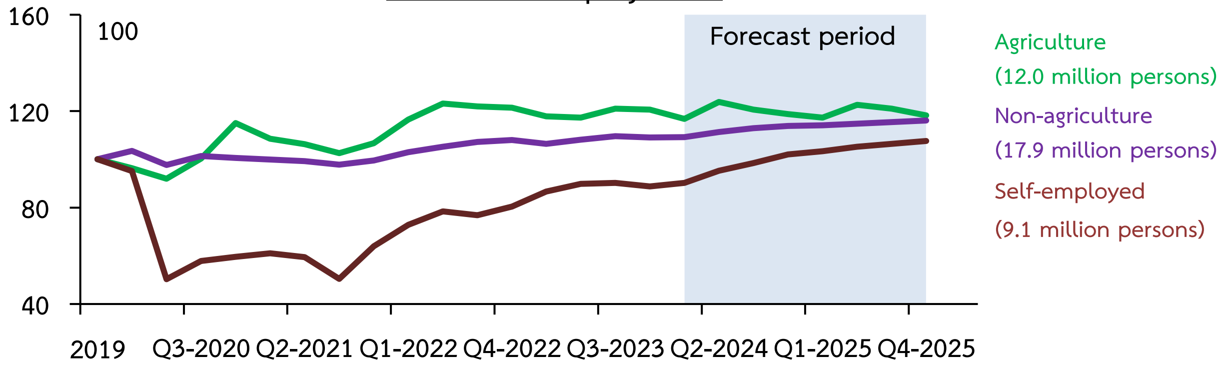
Note: Past average (2015-2019) = 3.4% (YoY) and 0.9% (QoQ, sa)

Source: NESDC, BOT forecast

Private consumption growth would be supported by higher total income from the recovery in tourism

Index sa Q4-2019 = 100

Labor income projection

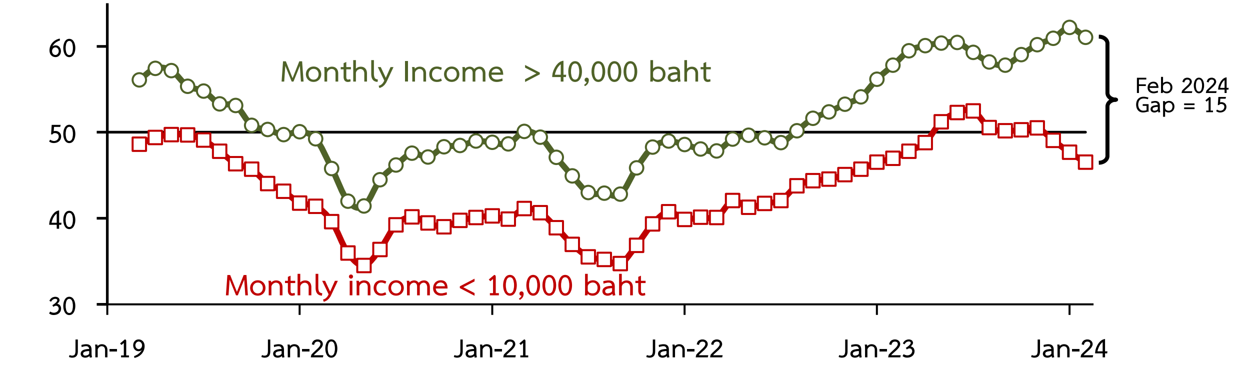


Note: 1) Labor income excludes the impact of government policy measures. Nonfarm income in 2019 was 4.5 trillion baht.
2) ( ) = labor force in 2023

Source: National Statistics Office, BOT calculation and forecast

Diffusion Index, 3mma
(Unchanged = 50)

Consumer confidence by income group

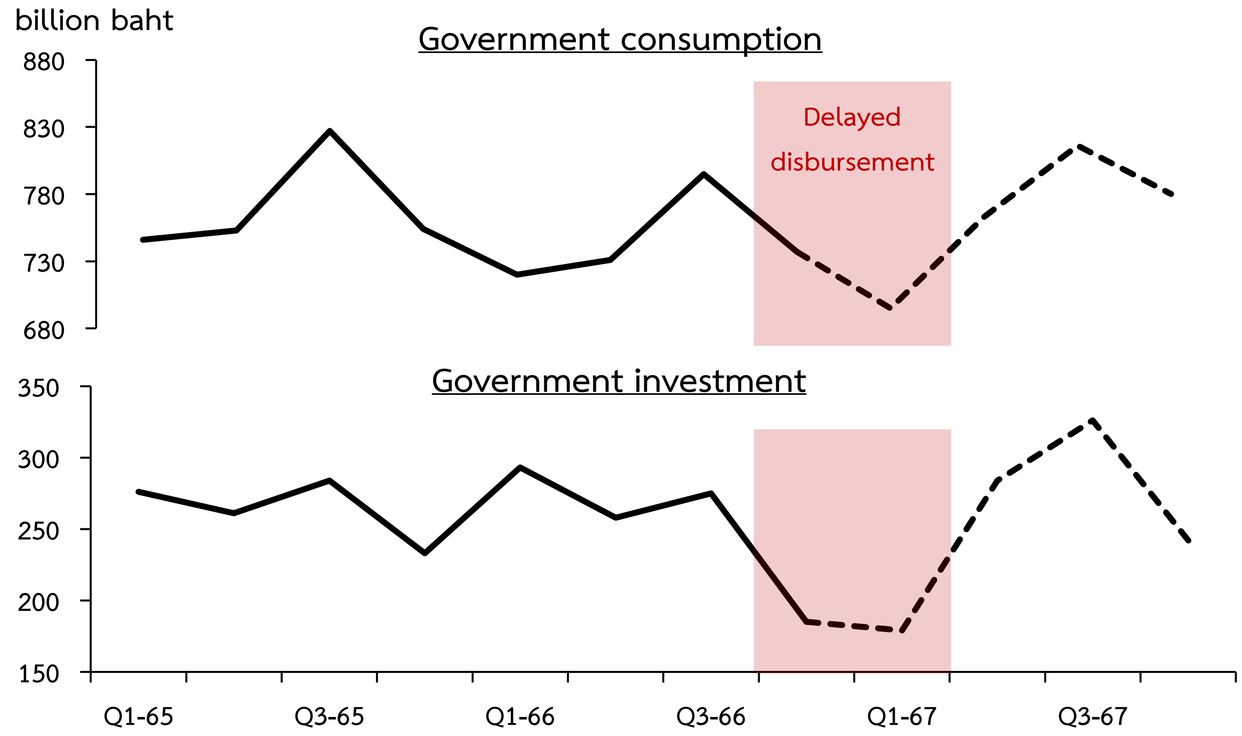


Source: Data value is 3-month moving average. Diffusion index over 50 means consumers are optimistic about the economic conditions (within the confidence interval)

Source: Ministry of Commerce, BOT calculation

Public expenditure declined sharply in Q1/2024 due to the delayed approval of the FY2024 fiscal budget, but is expected to accelerate throughout the remainder of the year.

Projected government consumption and investment (Nominal level)



%YoY	Q3-2023	Q4-2023	Q1-2024F	Q2-2024F	Q3-2024F	Q4-2024F
Government investment (Real term)	-3.4	-20.1	-39.6	9.3	17.7	29.3

Source: NESDC, BOT calculation

- **Once the FY2024 fiscal budget comes into effect in April (in accordance with the budget calendar), investment spending by the central government is likely accelerate** given the readiness of government agencies who already prepared the procurement process in accordance with the Comptroller General's Department's measure to expedite budget disbursements.
- **However, the private sector is concerned about limitations in expediting budget disbursement by government agencies,** which could result in public expenditure falling short of the disbursement target.

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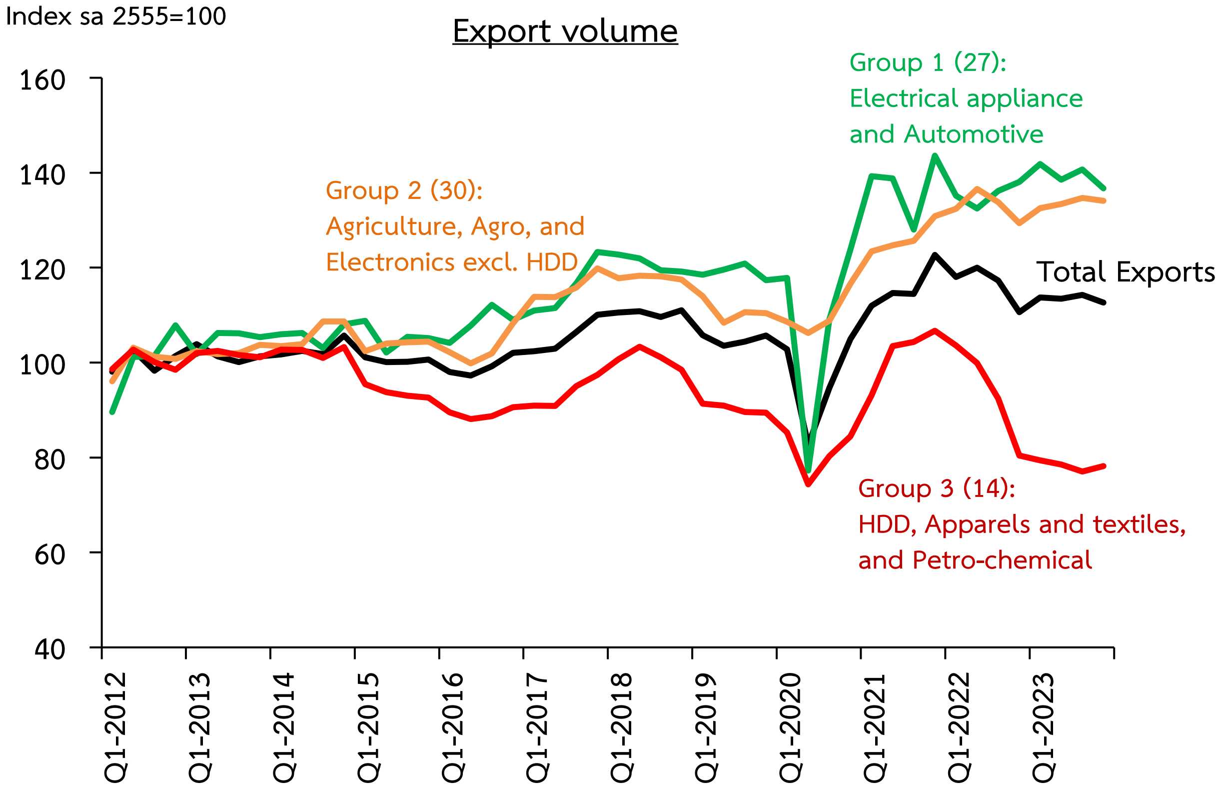
Exports growth would gradually recover and turn positive in the latter half of this year. However, structural headwinds would weigh on the recovery of certain export goods such as chemical products.

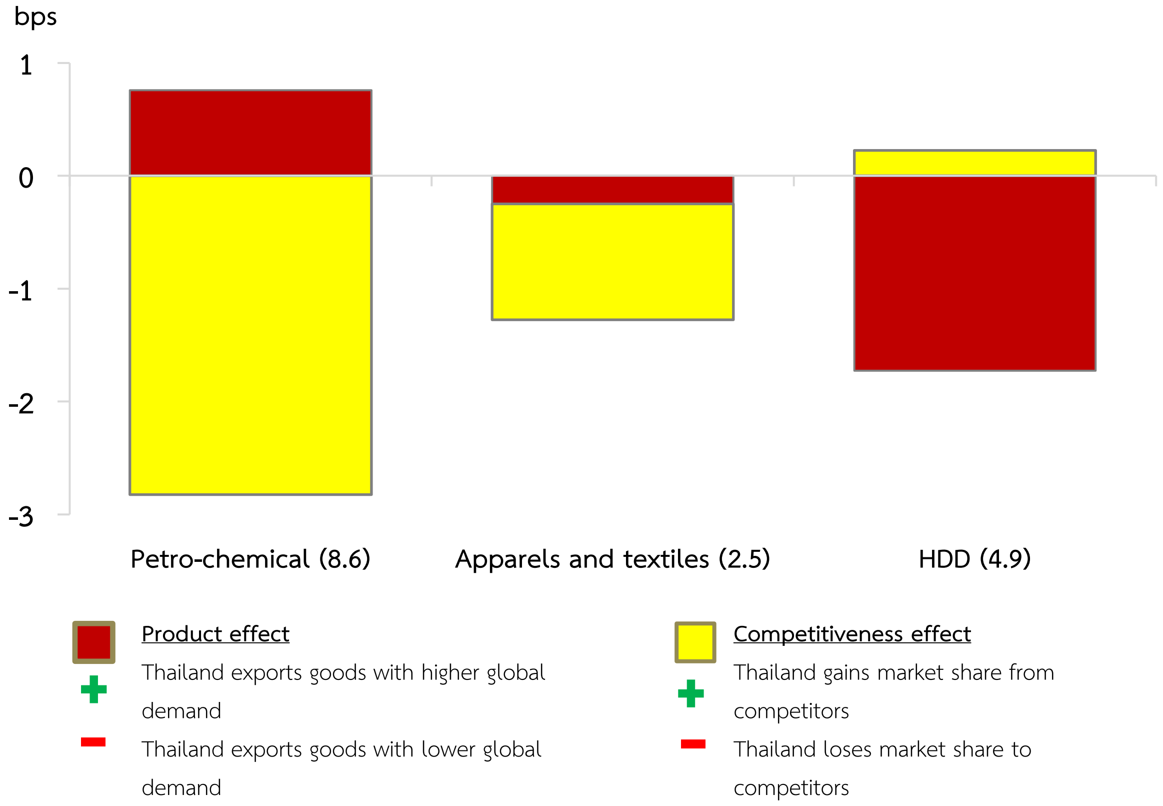
Overall exports would gradually recover but some sectors (14% of total exports) would be affected by structural problems



Note: ( ) = share of total exports in 2024
Source: Customs Department, BOT calculation

Merchandise exports (value)	2023	2024F	2025F
%YoY	-1.7	2.0	2.8

Some export goods lost their competitiveness because (1) there is less global demand for the product; and (2) loss of market share to competitors



Note: 1) ( ) = share of total exports in 2022
2) Constant Market Share Analysis (CMSA) is a method of assessing changes in the export structure of each product whereby the product effect reflects changes in commodities composition while the competitiveness effect reflects changes in the market share (compared to 2015-2022)
Source: Trade Map, BOT calculation

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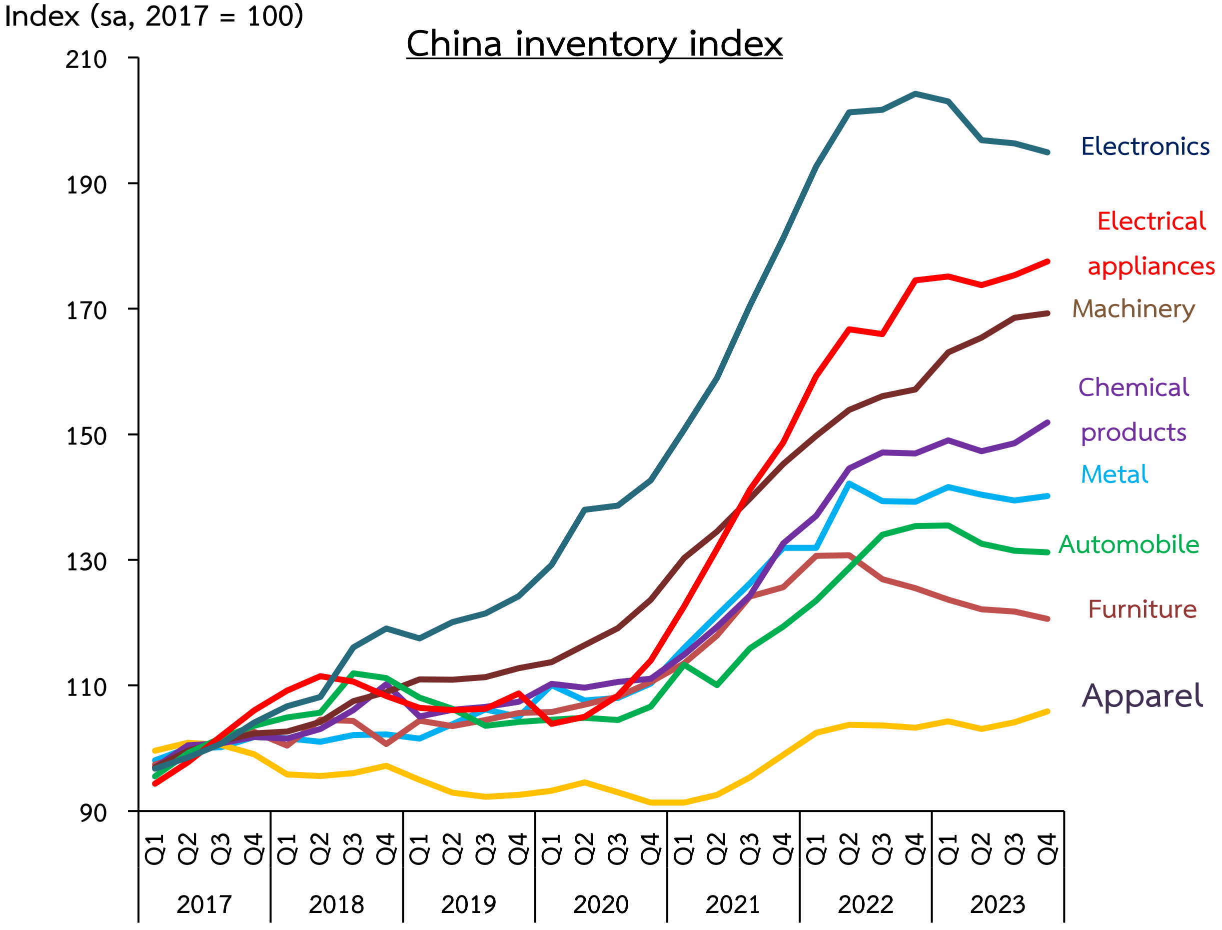
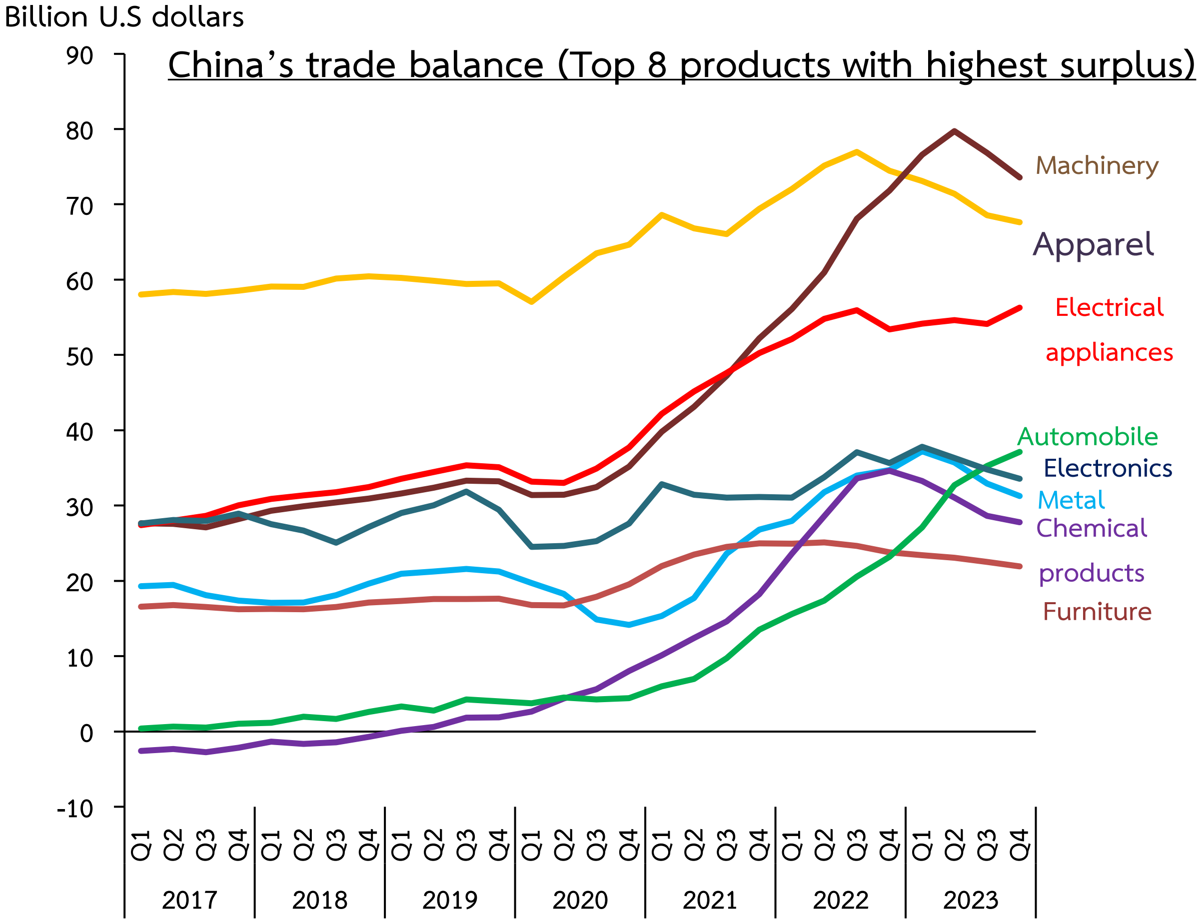
China's manufacturing overcapacity partly affected Thai exports and manufacturing sectors through China's exports of its excess inventory.

Inventory levels in China increased across many product categories



Source: CEIC, BOT calculation

Products with the highest trade surplus are the same as those with high inventory levels



Source: CEIC, BOT calculation

Inflation

1. In the near-term, inflation would remain low due to supply-side factors and government subsidies. Inflation is expected to turn positive in May and return to the target range by the end of 2024.

2. Competition from imported goods is a structural factor that would keep inflation low going forward.

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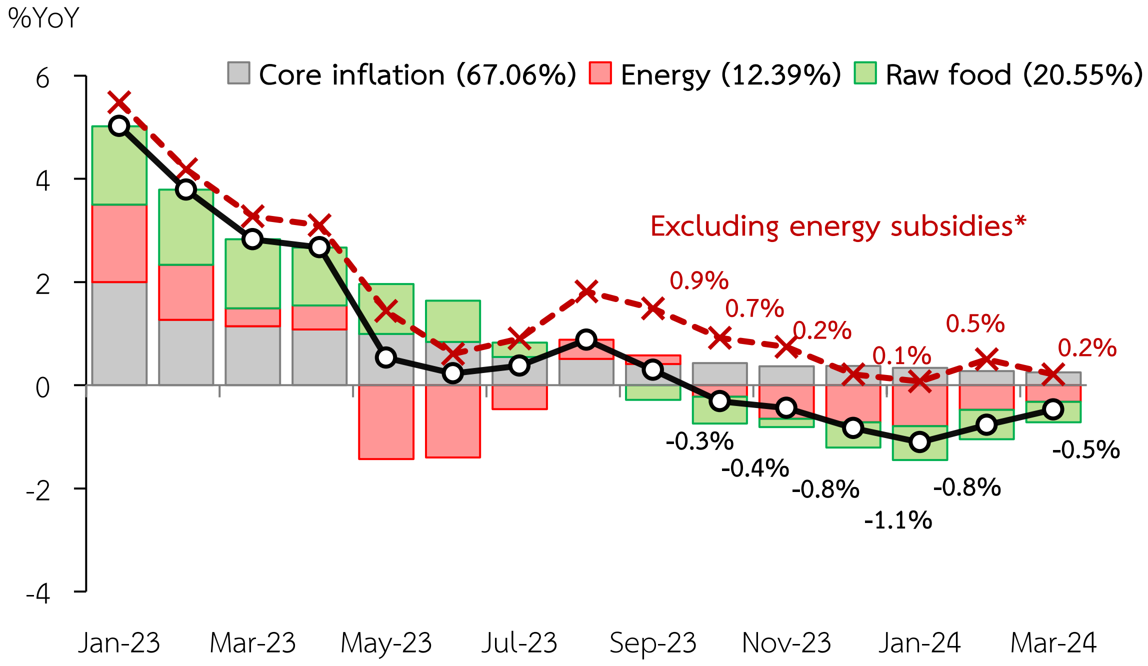
Inflation remains low mainly due to supply-side factors and energy subsidies.

Headline inflation excluding the effects of energy subsidies remains positive

Contribution to headline inflation

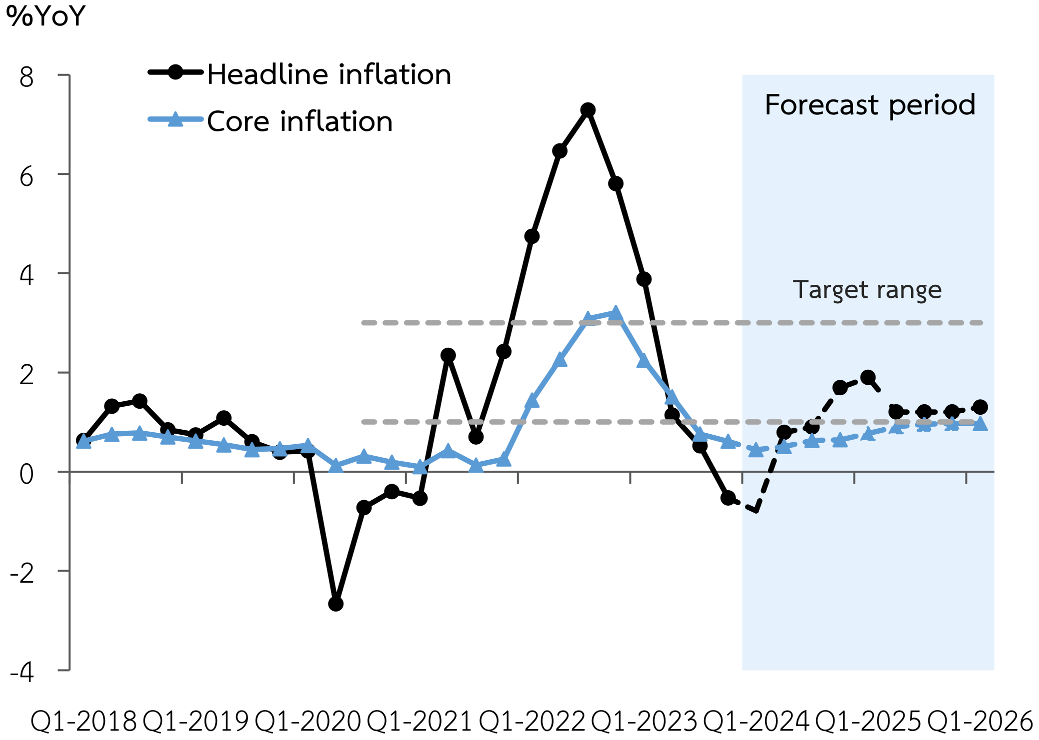


Note: ( ) indicates weight in the CPI basket, base year = 2019. *Energy subsidies include diesel and benzene price subsidies by Oil Fuel Funds, excise tax reduction, and electricity subsidies, estimated by assuming that these subsidies were in place during the previous year.

Source: Ministry of Commerce, BOT calculation

Inflation would gradually rise and return to the target range towards the end of this year

Inflation forecast

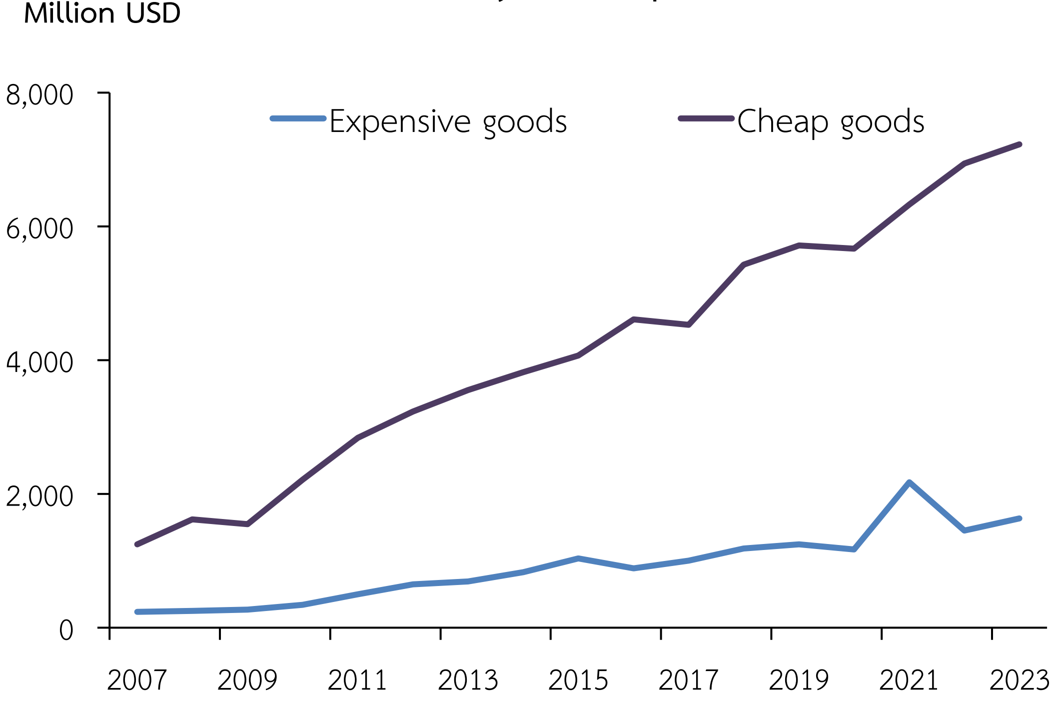


%YoY	2024	2025
Core inflation	0.6	0.9
Headline inflation	0.6	1.3

Competition from imported goods is a structural factor that would keep inflation low.

Value of consumer goods imported from China has been increasing, 80% of which are cheap goods

Value of consumer goods imported from China by relative price level

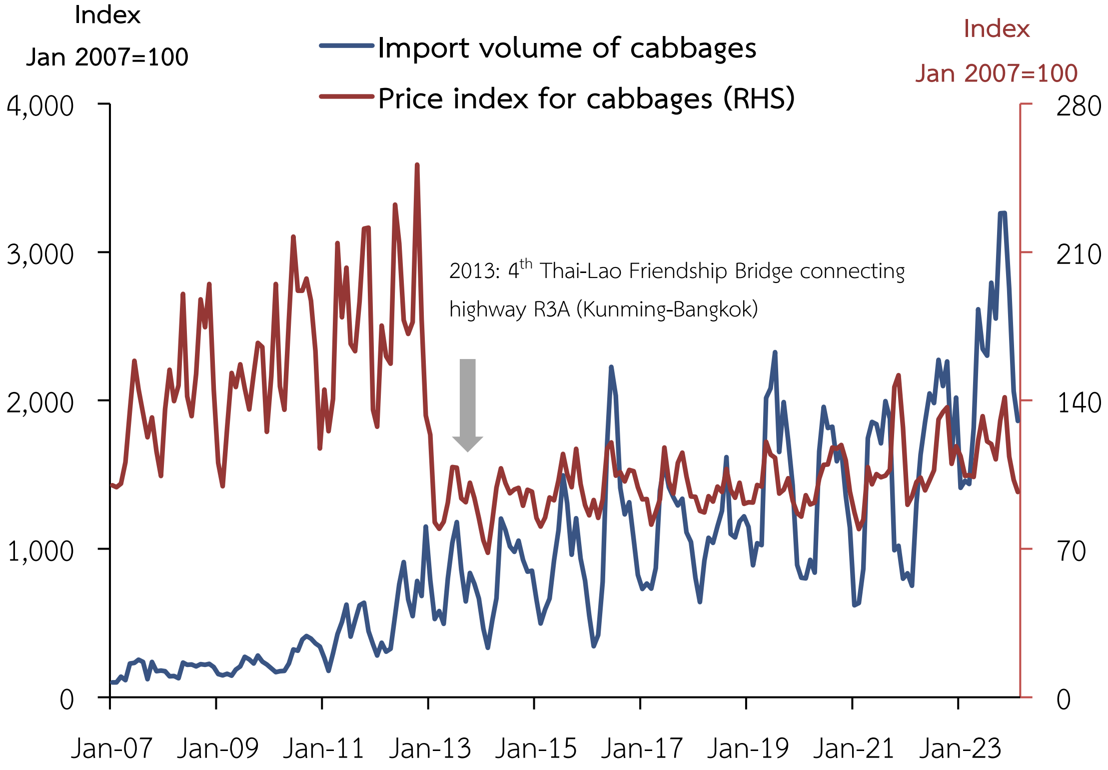


Note: Consumer goods excluding automobile and mobile phones; expensive and cheap goods classification is based on the comparison between the unit value of goods imported from China and the average unit value of goods imported from all countries

Source: Thai Customs

60% of vegetables seen prices decline and become less volatile, partly due to increased imports from China since 2013

Comparison of vegetable price index and import volume



Note: Vegetables that are expected to be most affected by imports from China and have less price volatility are cabbages, cucumber, mushroom, red onion, etc., which accounts for 58% of vegetables in the CPI basket.

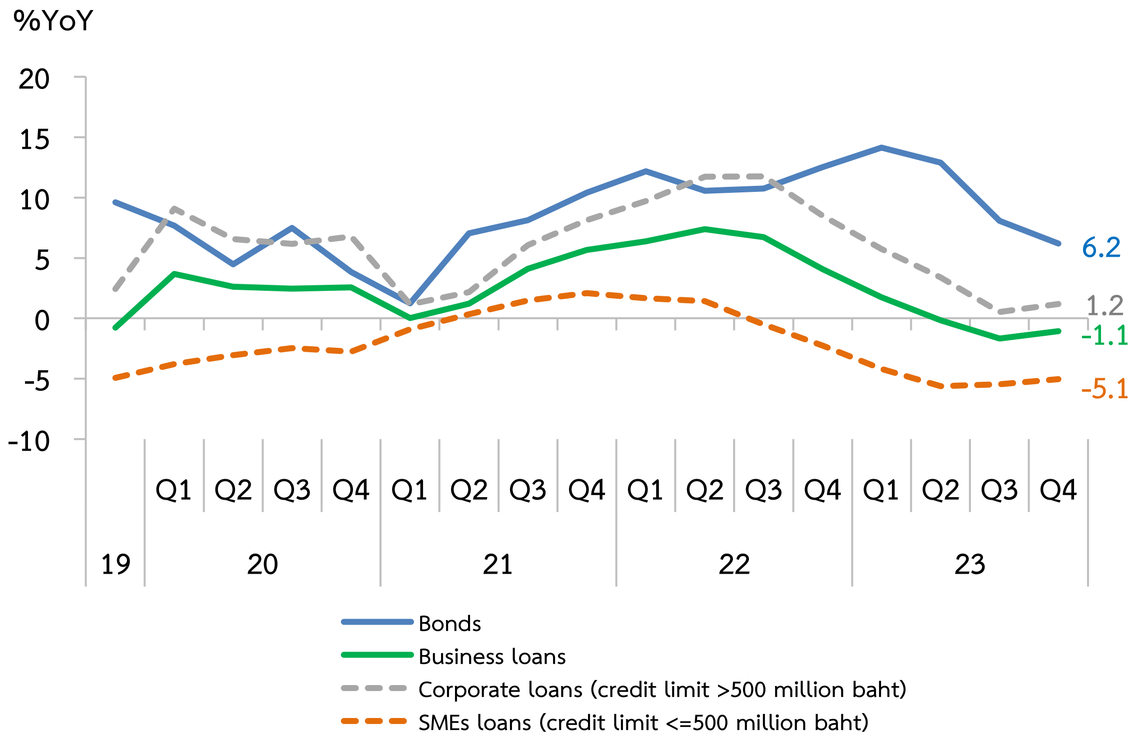
Source: Ministry of Commerce and Thai Customs, BOT calculation

Financial conditions and financial stability

1. The overall credit mechanism is still functioning in line with economic growth. Households are still able to obtain new loans and businesses are still able to mobilize funds.
2. The debt deleveraging process over the recent period has been gradual and might take some time going forward. Looking ahead, it will be important to support a continuation of the debt deleveraging process as high debt levels could weigh on economic growth over the longer term.
3. Keeping interest rates low would contribute to an accumulation of vulnerabilities in the economy. Reducing interest rates could reduce debt burden in the near term, but would result in higher debt levels over the longer term.

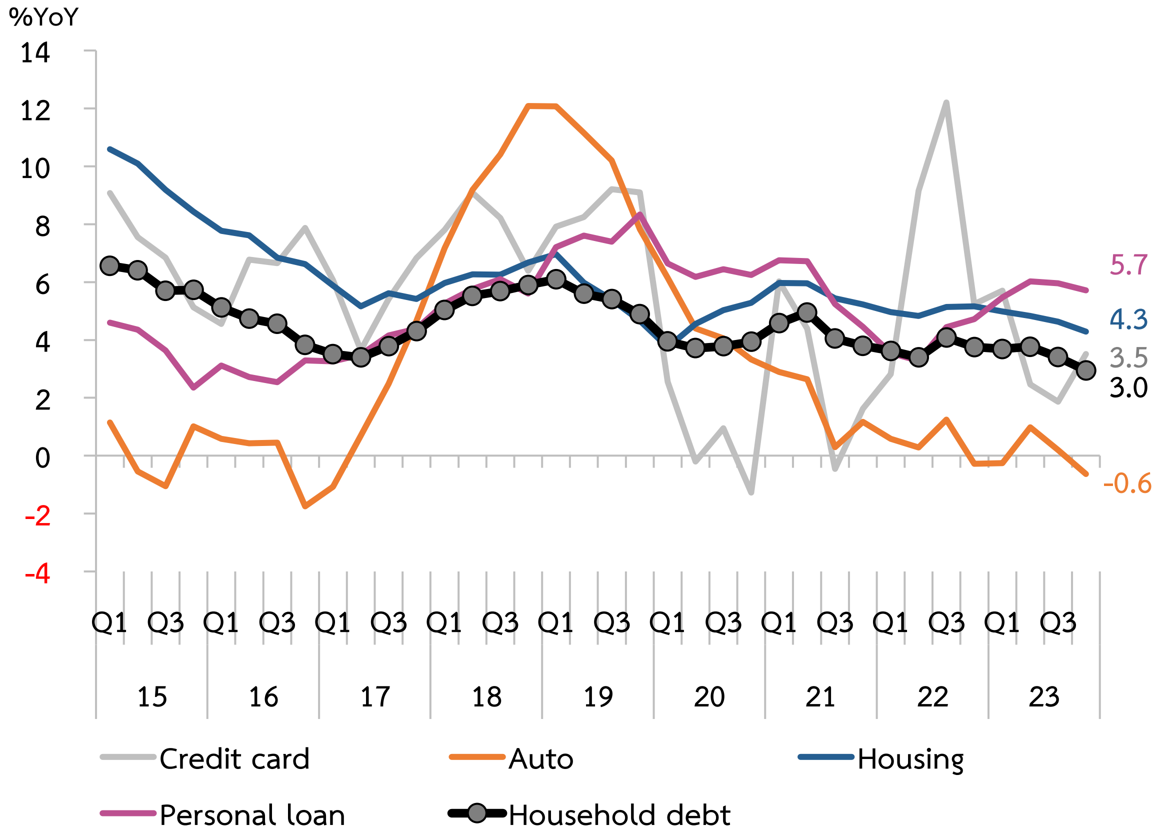
Private credit growth slowed down partly due to debt repayments.

Private credit growth and bond issuance



Note: Corporate bonds exclude those issued by banks, financial companies, and securities company; business loans exclude interbank loans and loans to government
Source: BOT

Household debt growth

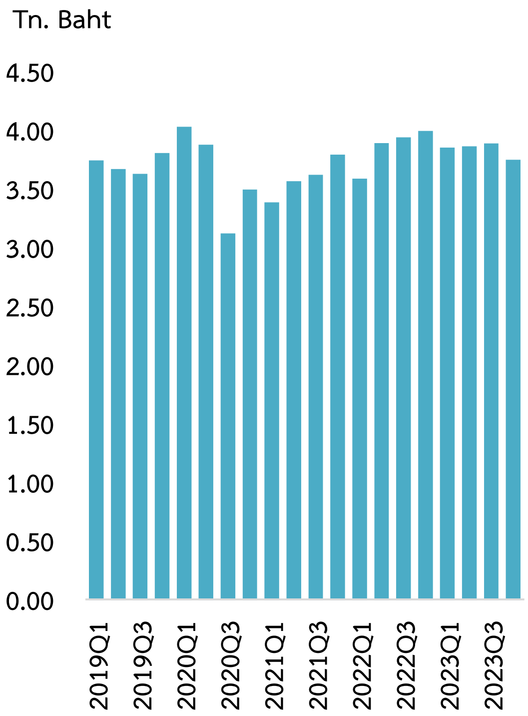


Note: Personal loan include personal loan under supervision (PLR) and other consumer loans
Source: BOT

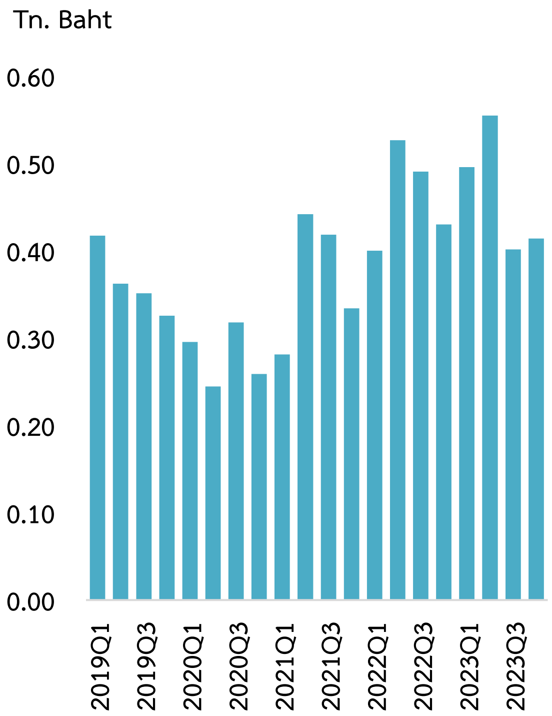
The overall credit mechanism is still functioning in line with economic growth. Businesses and households are still able to obtain new loans, although banks have been more cautious extending loans to some groups of small businesses and low-income households.

Fund raising by businesses

New business loans

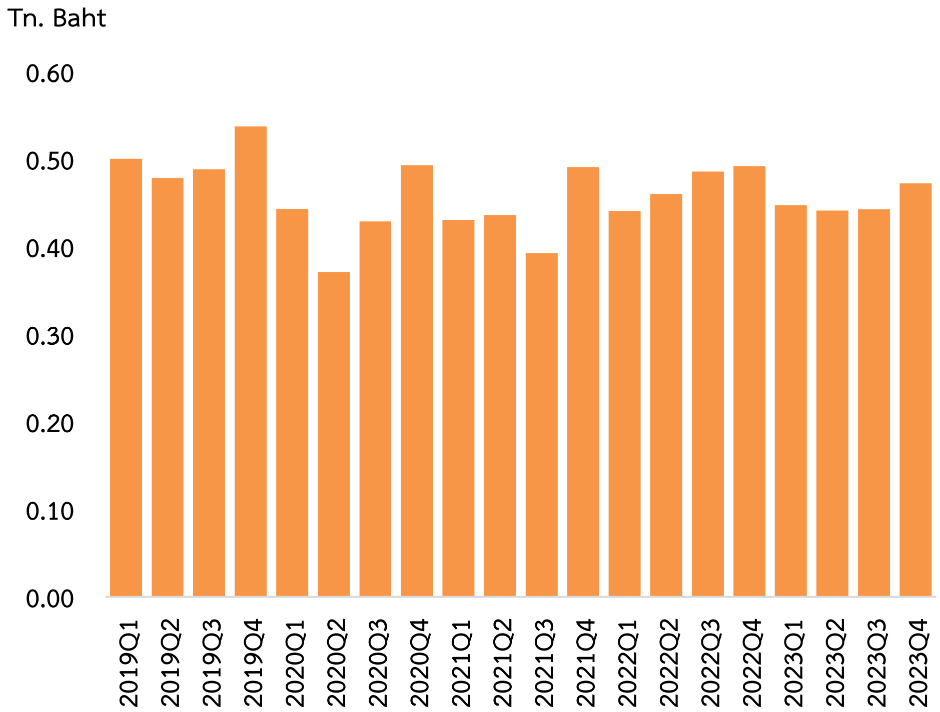


New bond issuance



Borrowing by households

New consumer loans



Note: New business loans = new business loans from commercial banks
New consumer loans = new consumer loans from commercial banks
New bond issuance = bond issued by non-bank businesses
Source: BOT and ThaiBMA

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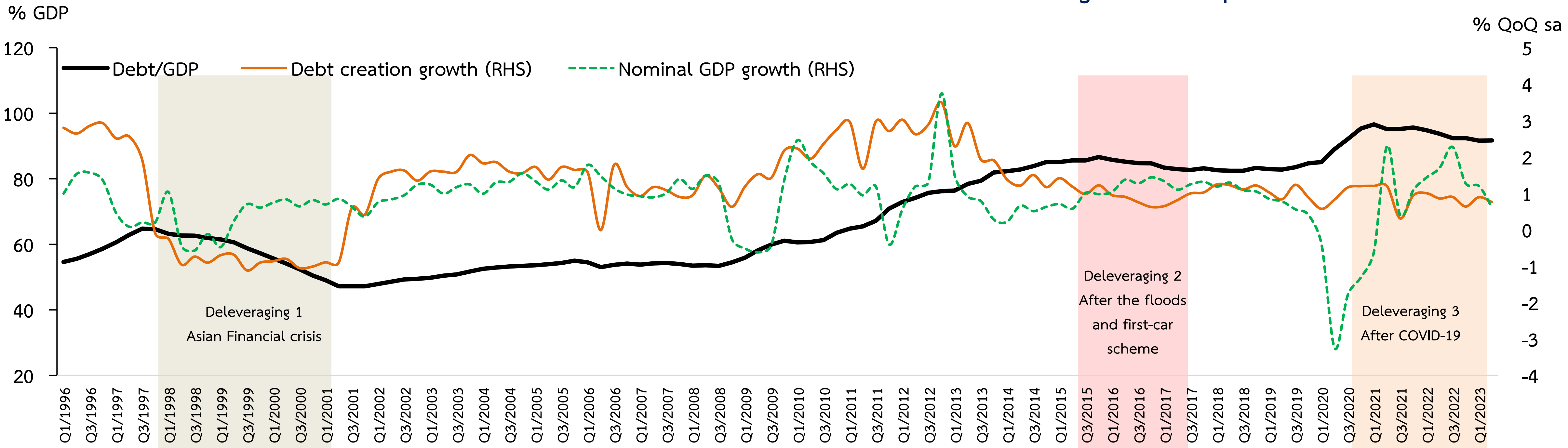
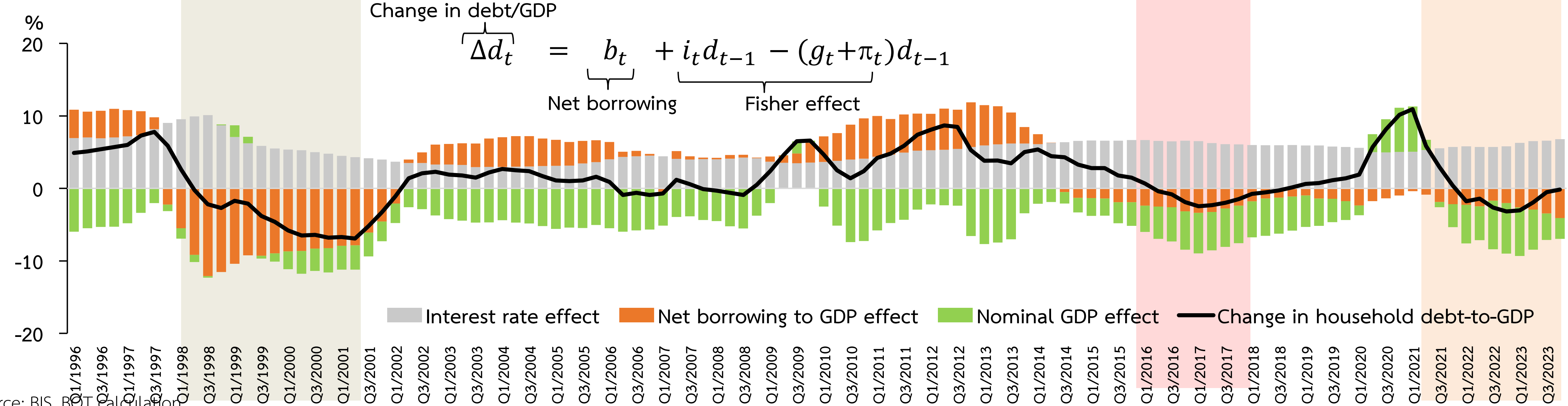
Household debt-to-GDP ratio gradually declined in the recent period as nominal GDP growth outpaced debt accumulation.





Source: BIS, BOT calculation

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Reducing interest rates help reduce debt burden in the near term, but would result in higher debt levels over the longer term.

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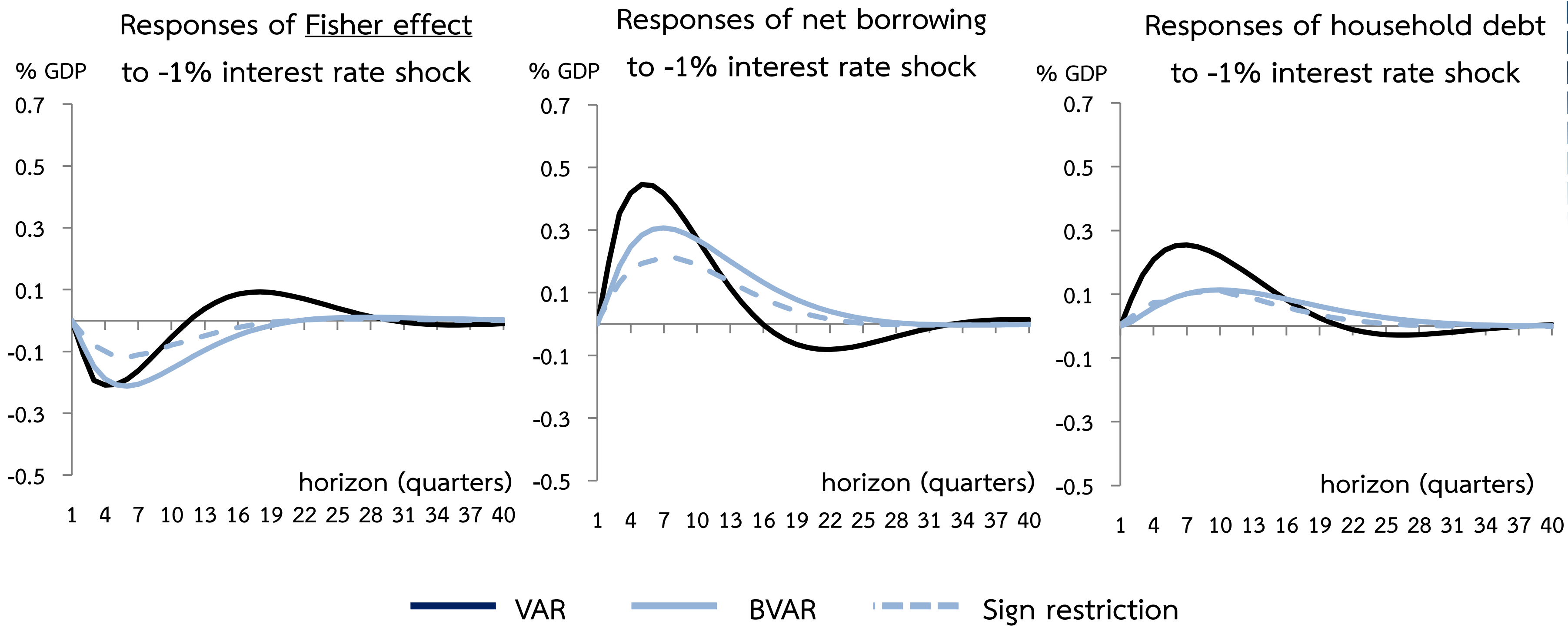
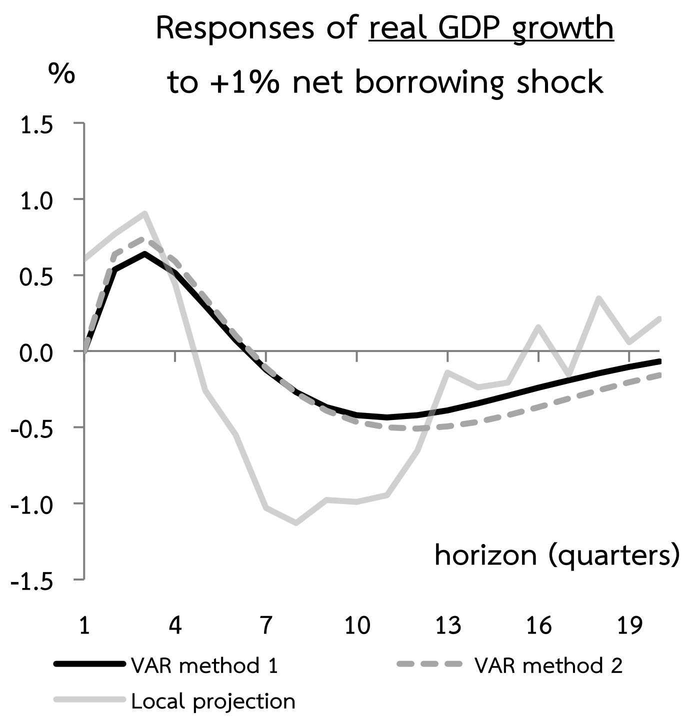


High debt levels would weigh on economic growth over the longer term



Note: model specification is based on Fagereng et al. (2022), which uses the variables: output gap + new borrowing + debt service + interest rate (data range: 1994-2023).

Method (1) uses the variables: output gap + new borrowing + debt service + Interest rate.

Method (2) uses the variables: output gap + inflation + new borrowing + debt service + Interest rate

Local projection method uses inflation, debt service, and interest rate as control variables

Monetary policy decision

Current policy rate fosters macro-financial stability in the longer term, and is considered a robust policy given the risks ahead

Current policy rate fosters macro-financial stability in the longer term, and is considered a robust policy given latest economic and financial developments as well as risks in the period ahead …

Incoming economic data such as Q1/2024 and early Q2/2024 outturns, which would reflect the impact of structural headwinds on export growth momentum and public expenditure disbursement following the approval of the FY2024 fiscal budget, would allow the policy decision to be grounded on a more comprehensive set of data.

Summary of risks to the growth outlook	
Upside risks	▪ Foreign tourist arrivals and tourism receipt is higher than expected. ▪ Domestic demand growth is stronger than expected, including the effects of government stimulus measures.
Downside risks	▪ Acceleration in government spending following the approval of the FY2024 fiscal budget is less than expected. ▪ Positive spillovers from the recovery in global trade on Thai exports might be less than expected due to structural headwinds as well as oversupply in the market.

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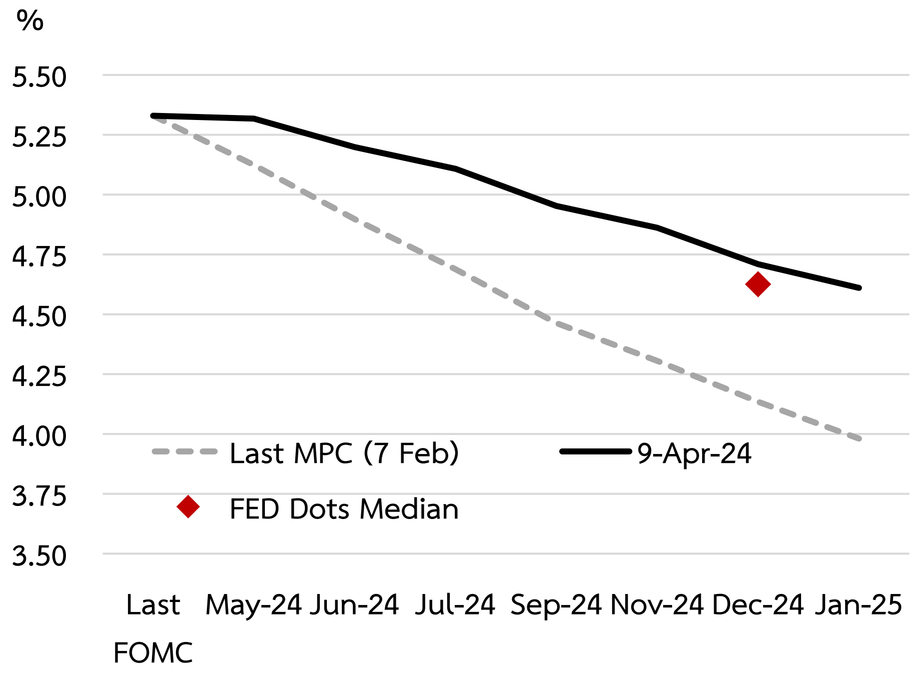
… including exchange rate volatility among regional currencies due to global factors such as the Fed's monetary policy direction and increased geopolitical risks, thus keeping the policy rate on hold at this meeting creates policy optionality.

USD might continue to appreciate for some time

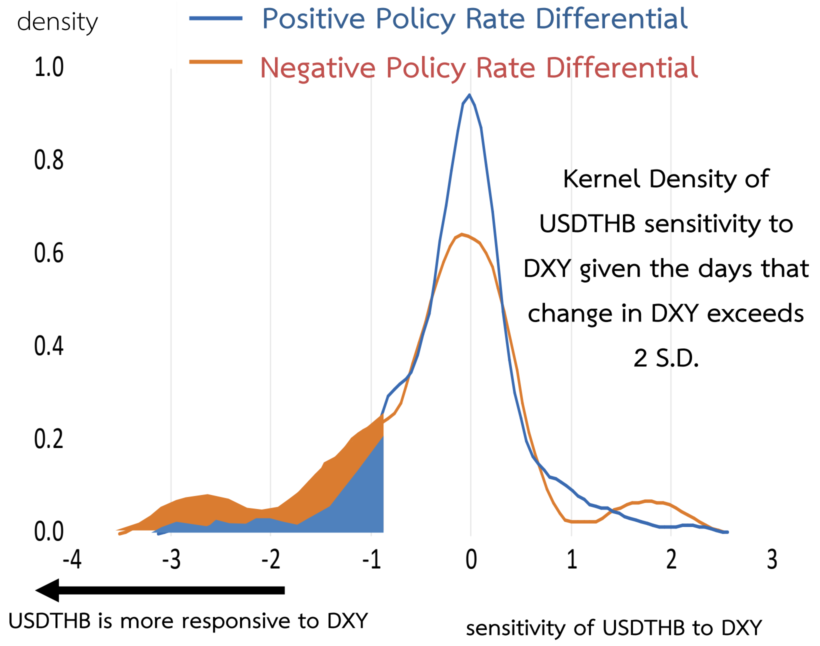
Implied Fed Funds Rate vs Median Dot plots



Source: FOMC dot plot; Bloomberg (as of 9 Apr 24)

The baht exchange rate is more volatile on the depreciation side when interest rate differential is negative

USDTHB sensitivity[1/] to DXY



Note: [1/] Average of daily change in USDTHB over daily change in dollar index (DXY) on the same and previous day. Sensitivity is expected to display negative sign.
Source: Bloomberg, BOT calculation

The Committee voted 5 to 2 to maintain the policy rate at 2.50 percent.

Two members voted to cut the policy rate by 0.25 percentage point

- The Thai economy is projected to grow at a higher rate than the previous year with continued growth momentum amid structural headwinds.
- Inflation would remain subdued from supply-side factors and government subsidies, but is expected to gradually increase towards the target range by the end of 2024.
- Overall financial conditions remain stable. Amount of new loans granted is still growing. Meanwhile, some groups of SMEs and low-income households face tight credit conditions.
- The current policy interest rate is consistent with sustaining economic growth and is conducive to safeguarding long-term macro-financial stability.

The Committee will continue to monitor economic developments particularly the export sector, which could be more affected by structural headwinds, and evaluate the most appropriate course of monetary policy for the growth and inflation outlook going forward.