



BANK OF THAILAND



BOT Press Release

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No. 50/2022

Monetary Policy Committee's Decision 5/2022

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 28 September 2022 as follows.

The Committee votes unanimously to raise the policy rate by 0.25 percentage point from 0.75 to 1.00 percent, effective immediately.

The Thai economic recovery has continued to gain traction, driven mainly by tourism and private consumption. Headline inflation remains at a high level as cost pass-through has increased in the recent period despite declining commodity prices. The overall growth and inflation outlook is consistent with the previous assessment. The Committee deems that a gradual policy normalization remains an appropriate course for monetary policy, and thus votes to raise the policy rate by 0.25 percentage point at this meeting.

The Thai economy is projected to continue growing at 3.3 percent in 2022 and 3.8 percent in 2023, driven mainly by tourism and private consumption. The tourism sector recovers faster than expected as the number of foreign tourists continues to rise. Moreover, the economic recovery has become more broad-based, both in terms of business sectors, especially services, and in terms of income distribution. Meanwhile, the slower-than-expected global economy has an impact on Thai exports but would not derail the overall economic recovery.

Headline inflation is expected to be at 6.3 percent in 2022 before declining to 2.6 percent in 2023 due to falling global oil prices and gradual easing of supply chain bottlenecks. Core inflation is projected to be at 2.6 percent in 2022 and 2.4 percent in 2023, rising more than previously assessed mainly on the back of higher cost pass-through. Wages have increased in some sectors and areas with labor shortages, but there have not been signs of a broad-based wage increase. Furthermore, demand-side inflationary pressures are limited as the Thai economy is still in a recovery stage. Meanwhile, medium-term inflation expectations remain anchored within the target range. The Committee will continue to closely monitor risks to inflation, especially a potential increase in cost pass-through, should businesses face rising cost pressures from multiple sources simultaneously.

Overall financial system remains resilient. Commercial banks have high levels of capital and loan loss provision. Debt serviceability of households and businesses has improved in line with the economic recovery. However, SMEs in some sectors have yet to fully recover and some low-income households are still sensitive to the rising living costs. The Committee views that financial institutions should continue to press ahead with debt

restructuring and deems it important to have targeted measures and sustainable solutions in place for vulnerable groups.

Overall financial conditions remain accommodative. Government bond yields have gradually increased, while overall funding costs remain conducive for business financing. The depreciation of the baht against the US dollar has been rapid and continuous due to the strengthening of the US dollar but is still in line with regional currencies. The Committee will continue to closely monitor developments in the financial and exchange rate markets, especially in the period of heightened volatilities.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee judges that the Thai economy will continue to recover but with increased inflation risks. The policy rate should be normalized in a gradual and measured manner to the level that is consistent with sustainable growth in the long term. The Committee is ready to adjust the size and timing of policy normalization should the growth and inflation outlook shift from the current assessment.

Bank of Thailand
28 September 2022

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Press Conference

Monetary Policy Committee's Decision 5/2022

28 September 2022

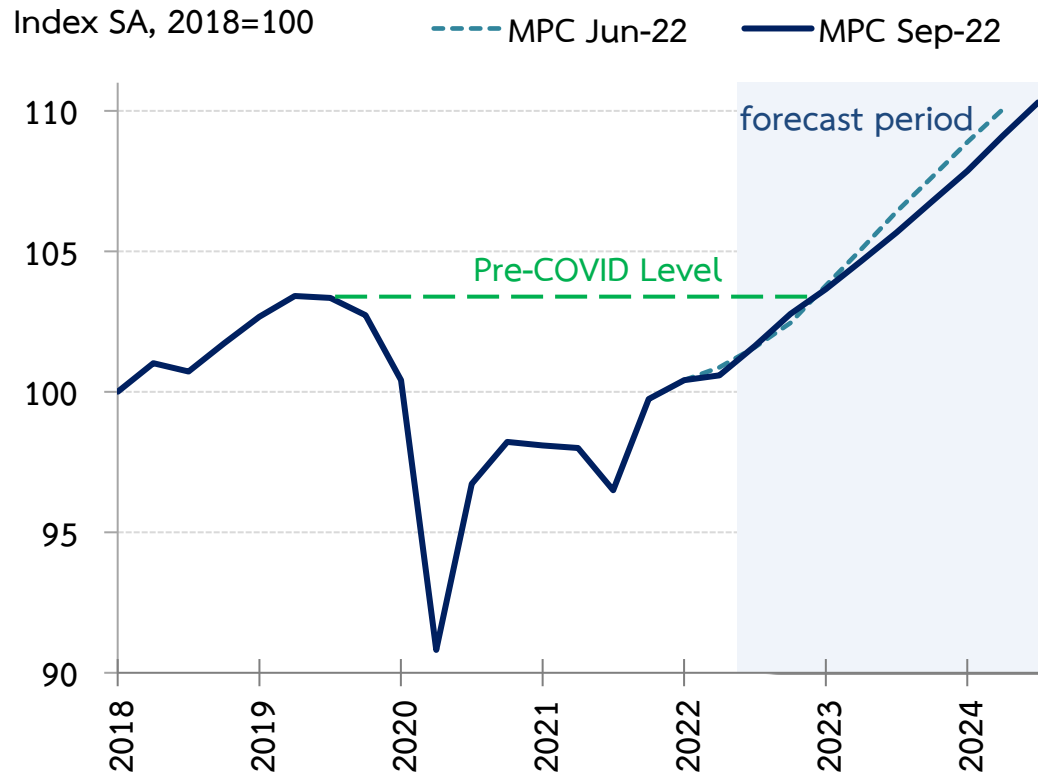
Piti Disyatat

Assistant Governor, Monetary Policy Group

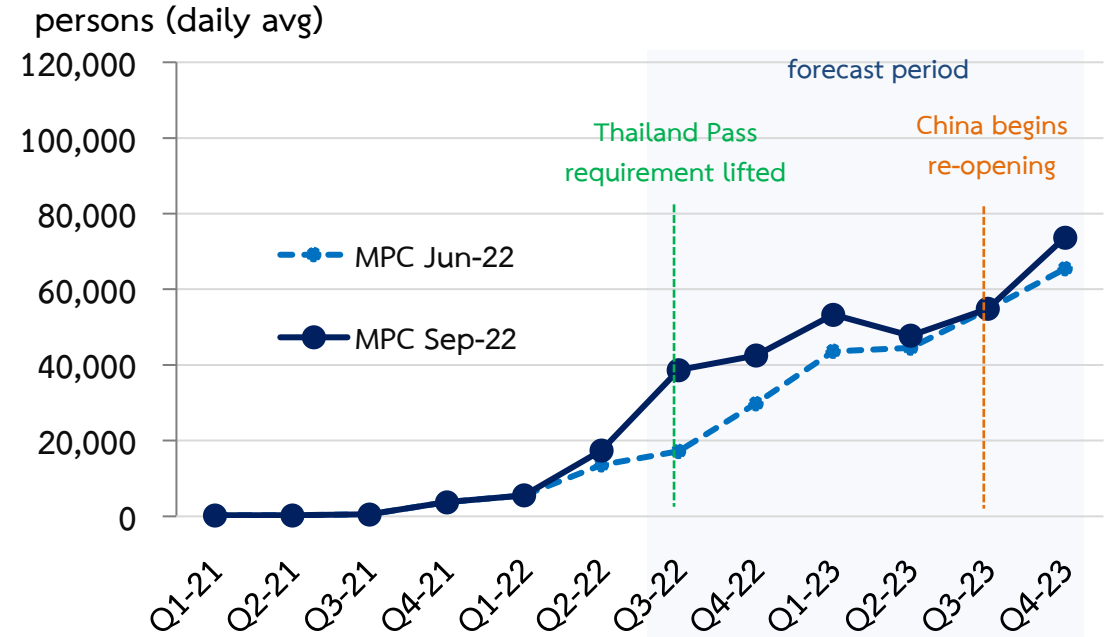
Overall economic conditions remain consistent with the policy normalization path

The Thai economic recovery will continue to gain traction, driven mainly by the return of foreign tourists

Real GDP



Foreign tourist figures are higher than expected

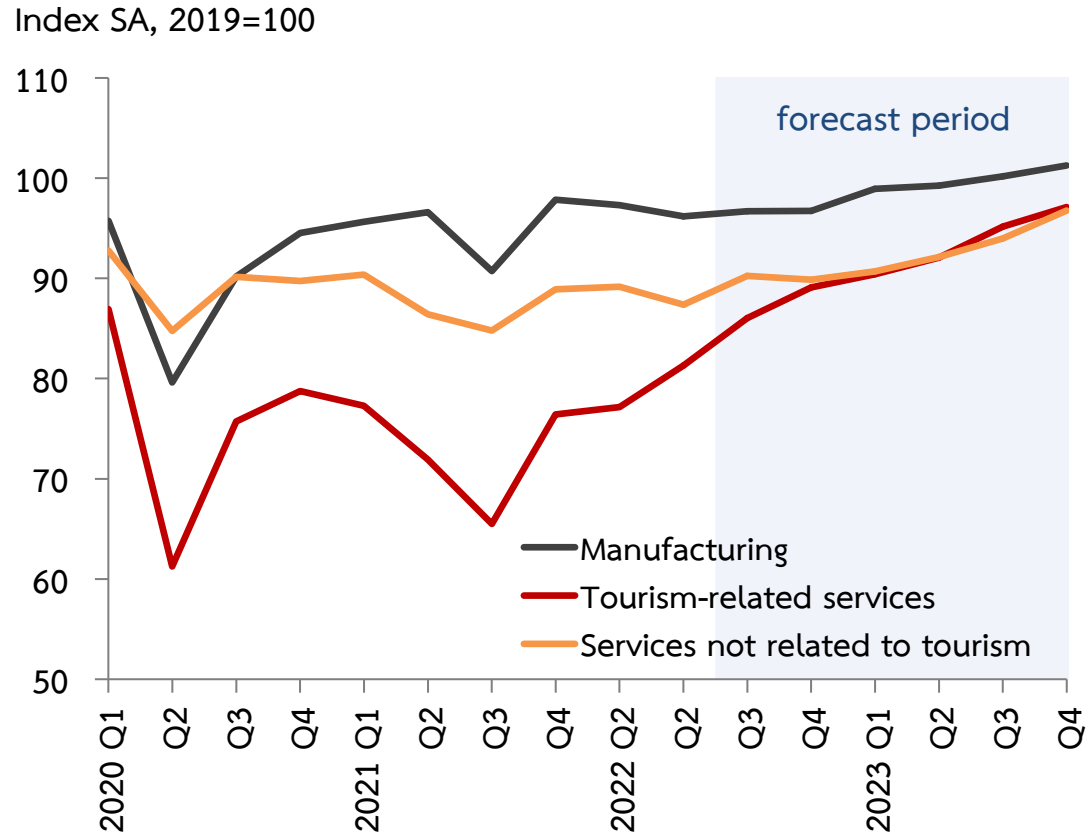


Foreign tourist figures projection		
Foreign tourist figures projection	2022	2023
Number (million persons) [MPC Jun]	9.5 [6]	21 [19]
% of 2019 total [MPC Jun]	24 [15]	53 [48]

Source: Economics Tourism and Sports Division, Ministry of Tourism and Sports, forecasts by BOT

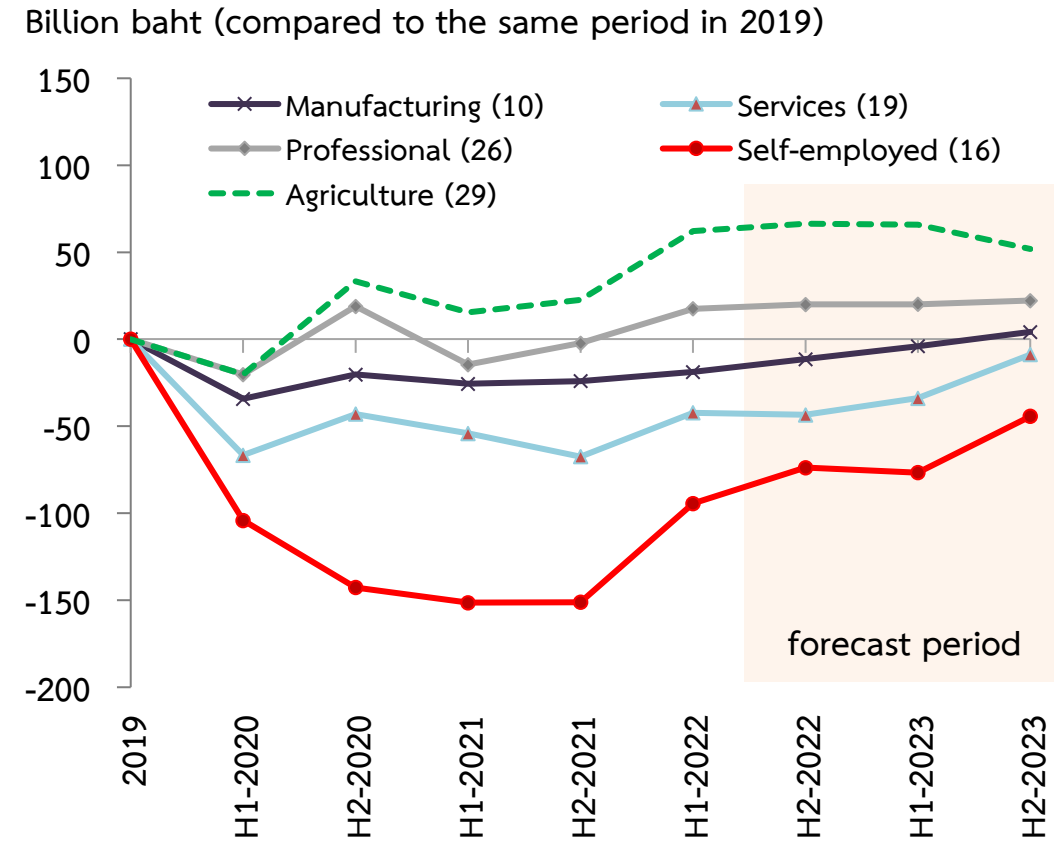
A more broad-based economic recovery is underpinned by strong recovery in the services sector

Recovery path of economic activities by sector



Sources: Office of Industrial Economics, Revenue Department, Department of Land, Business Liaison Program interviews, calculations and forecasts by BOT

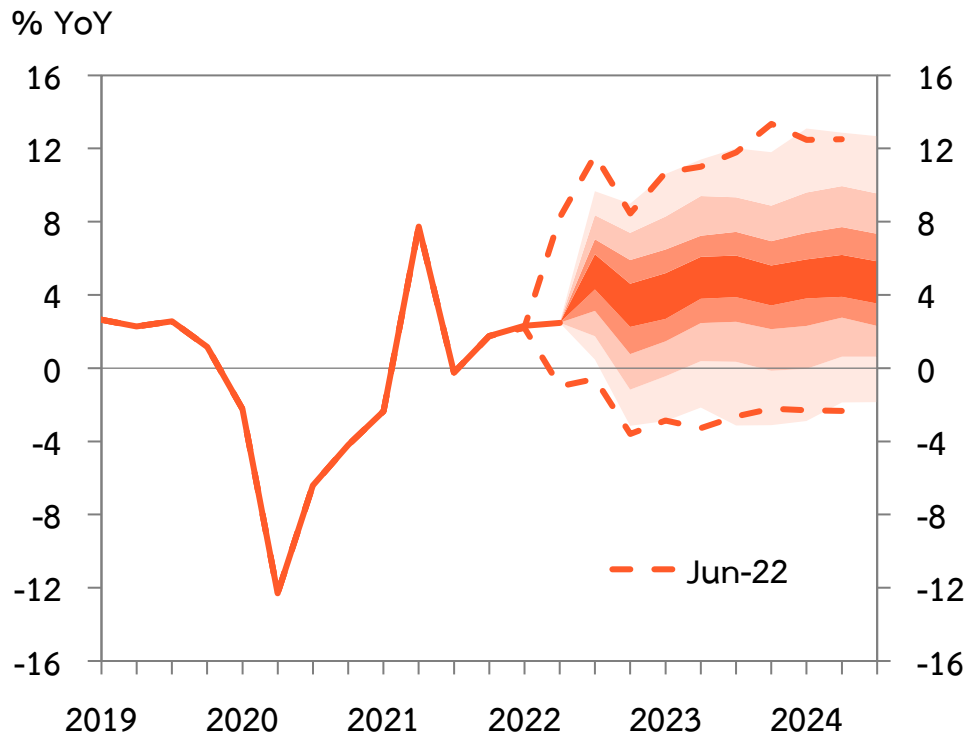
Income recovery by sector (excl. relief measures)



Note: () refers to the share in total labor force in 2021 (excluding relief measures)
Source: Labor Force Survey by the National Statistics Office, calculations by BOT

Slower-than-expected global economy has an impact on Thai exports, but would not derail the overall Thai economic recovery

GDP growth

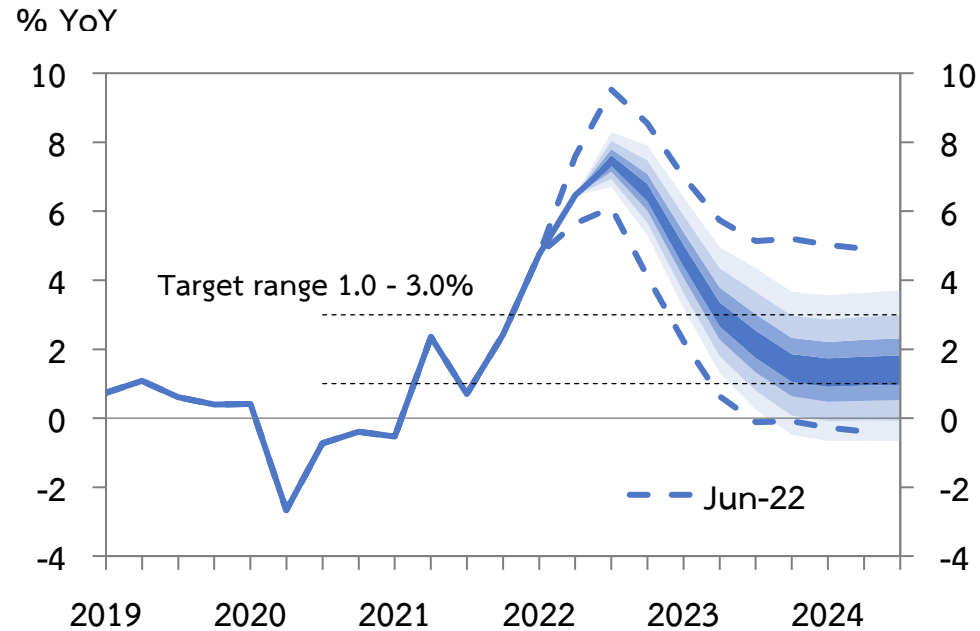


GDP growth (%YoY)	2022	2023
Previous projection (Jun 2022)	3.3	4.2
- Lower-than-expected Q2 outturn and outlook	-0.2	-
- Higher foreign tourist figures	0.9	-
- Impact of global slowdown	-0.4	-0.3
- Lower fiscal momentum and delayed investment in PPP projects	-0.3	-0.1
Total changes from the previous projection	-	-0.4
Latest projection (Sep 2022)	3.3	3.8
Average %QoQ*	0.8	1.0

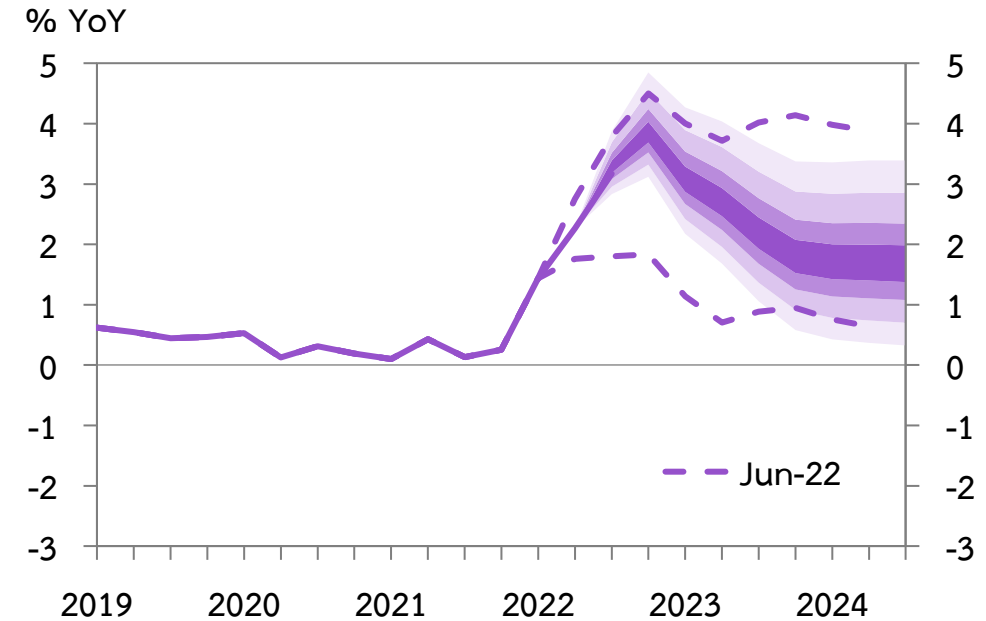
Note: *Average %QoQ during 2010-2019 is at 0.8%, while the average %QoQ during 2010-2012 is at 1.2% which is the recovery 3 years following the Global Financial Crisis (GFC).

Inflation is expected to return to target in 2023

Headline inflation



Core inflation



%YoY	2021	2022	2023
Headline inflation	1.2	6.3 (6.2)	2.6 (2.5)
Core inflation	0.2	2.6 (2.2)	2.4 (2.0)

() Previous projection in Jun 2022

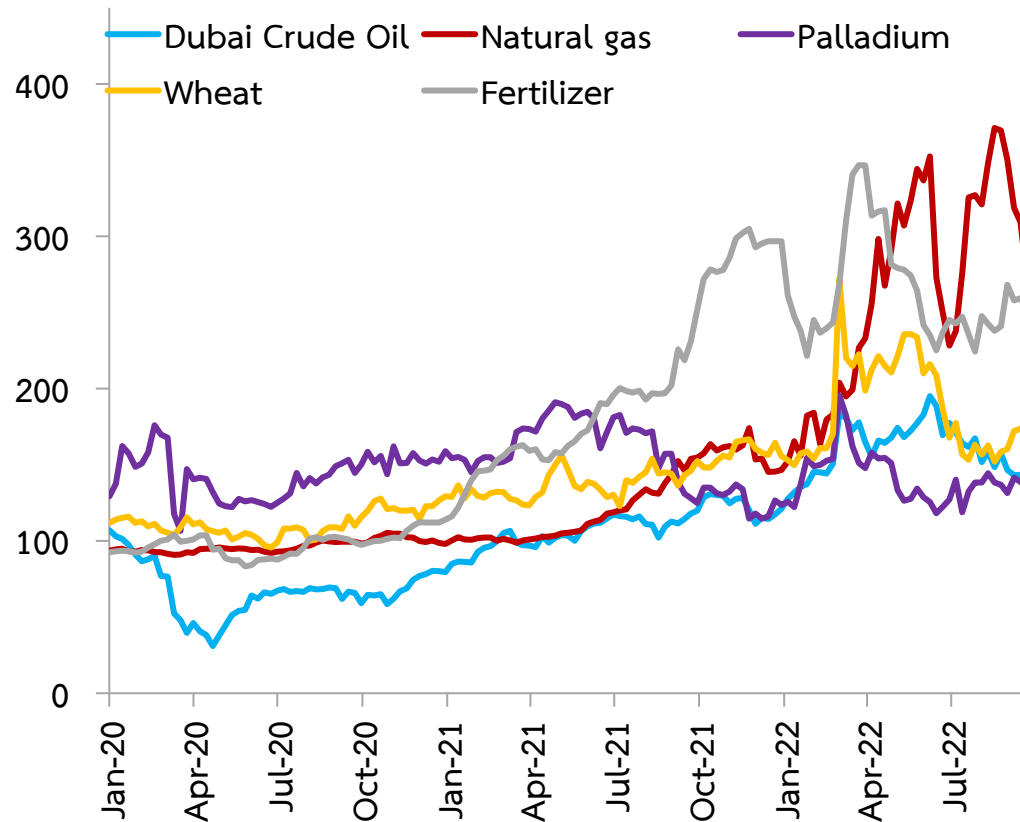
Sources: Ministry of Commerce, BOT

Supply shocks will likely ease,

while cost pass-through will be limited in the period ahead

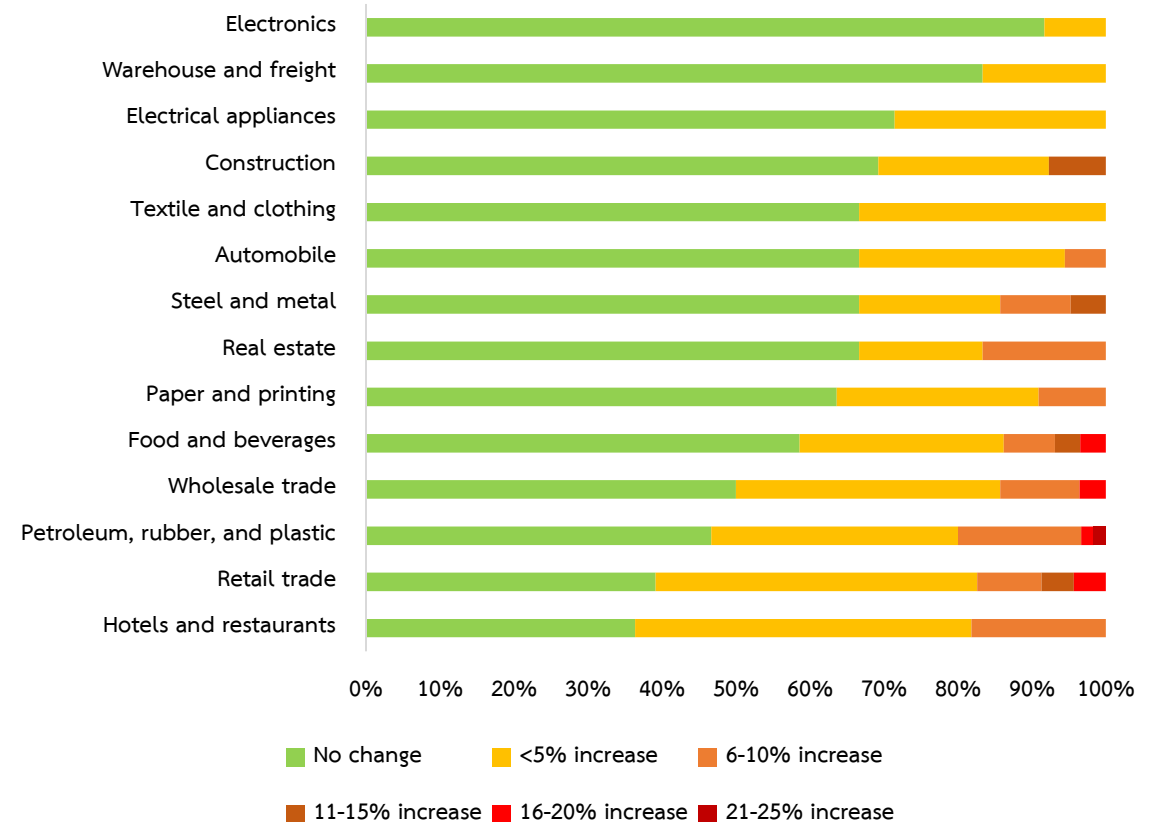
Commodity prices index

Index 2019 =100



Most businesses will not raise prices or will do so by no more than 5%

Expected price increases due to rising costs in the next 3 months



Source: Bloomberg as of 26 Sep 2022

Source: Business Liaison Program surveys conducted between 1-25 August 2022 with 421 responses consisting of large businesses and SMEs

Underlying inflation indicators remain at high levels but are expected to gradually decrease at the end of this year

Underlying inflation indicators	2022							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Core CPI	0.5	1.8	2.0	2.0	2.3	2.5	3.0	3.2
Core CPI (ex rent & measures)	0.7	2.2	2.4	2.6	2.8	3.0	3.6	3.7
PCA	0.5	1.1	1.3	1.5	2.0	2.5	3.2	4.1
Symmetric trimmed mean CPI	1.2	2.1	2.4	2.4	3.2	3.7	4.0	4.2
Sticky-price CPI	0.5	2.4	2.8	2.7	3.2	3.5	4.2	4.7



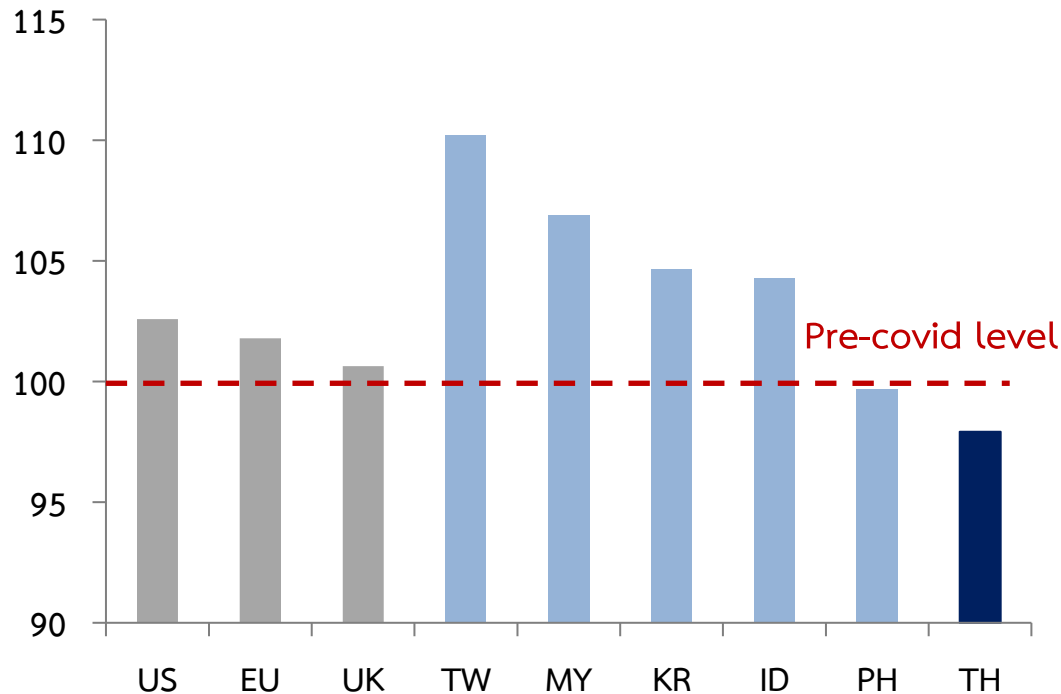
Note: Median is 2% which is the mid-point of the 1-3% target range

The risk of entrenched inflation is limited

Thailand's demand-side inflationary pressures are limited

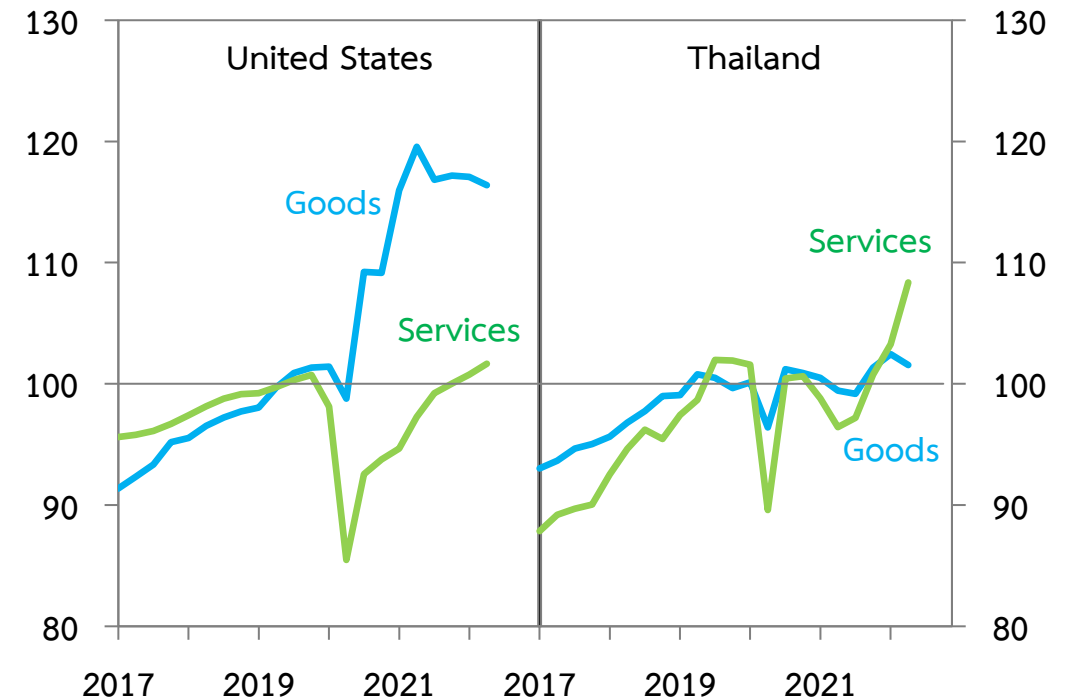
Current GDP level (Q2/2022)

Index sa (Q4/2019 = 100)



Private Consumption Indices

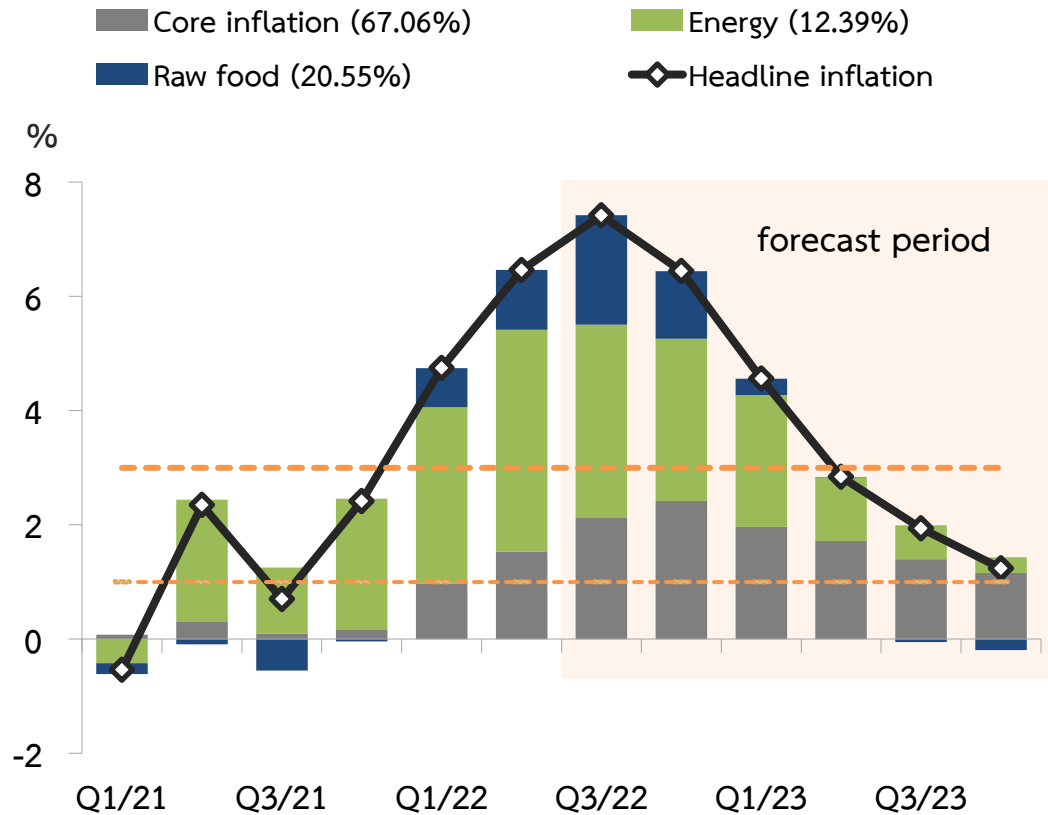
Index SA (2019=100)



Source: U.S. Bureau of Economic Analysis, NESDC, calculations by BOT

Inflationary pressures in Thailand mostly arise from supply and global factors

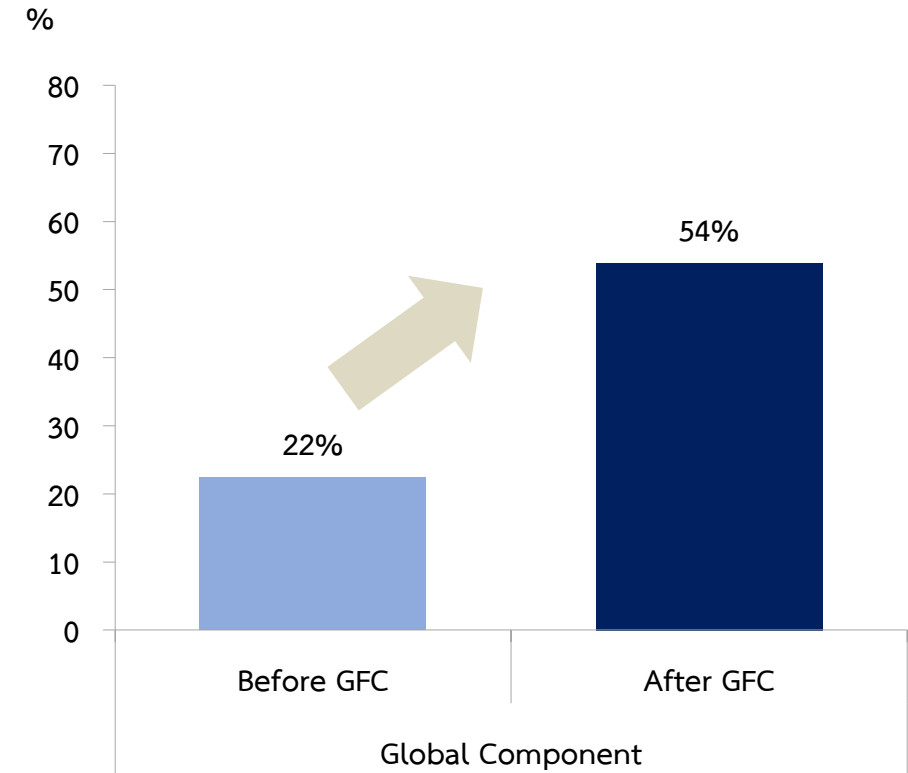
Contribution to headline inflation



Note: () denotes share in CPI basket

Source: Ministry of Commerce, calculations and forecasts by BOT as of Sep 2022

Headline inflation variance decomposition



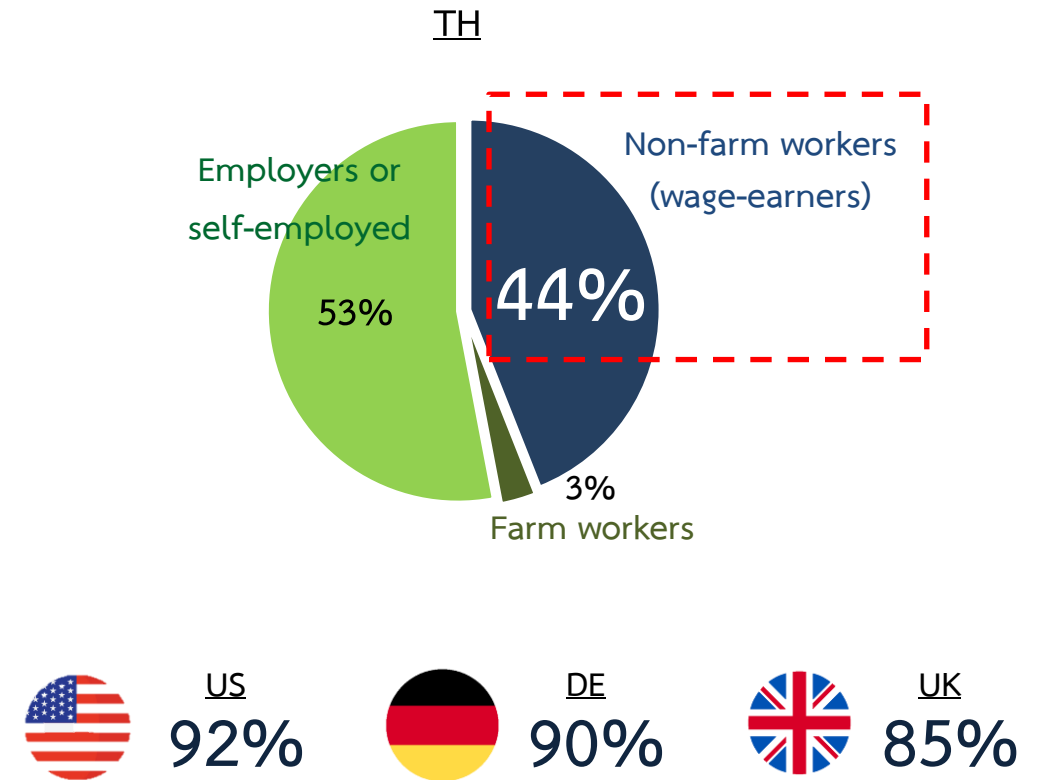
Note: Global component extracted from a dynamic factor model applied to inflation series in 18 countries. The percentage of variation explained by the global component stands at 62% for the full sample of 2001Q2-2021Q4.

Wage-price spiral is unlikely in the Thai context

Wage-price spiral is unlikely in Thailand as compared to advanced economies

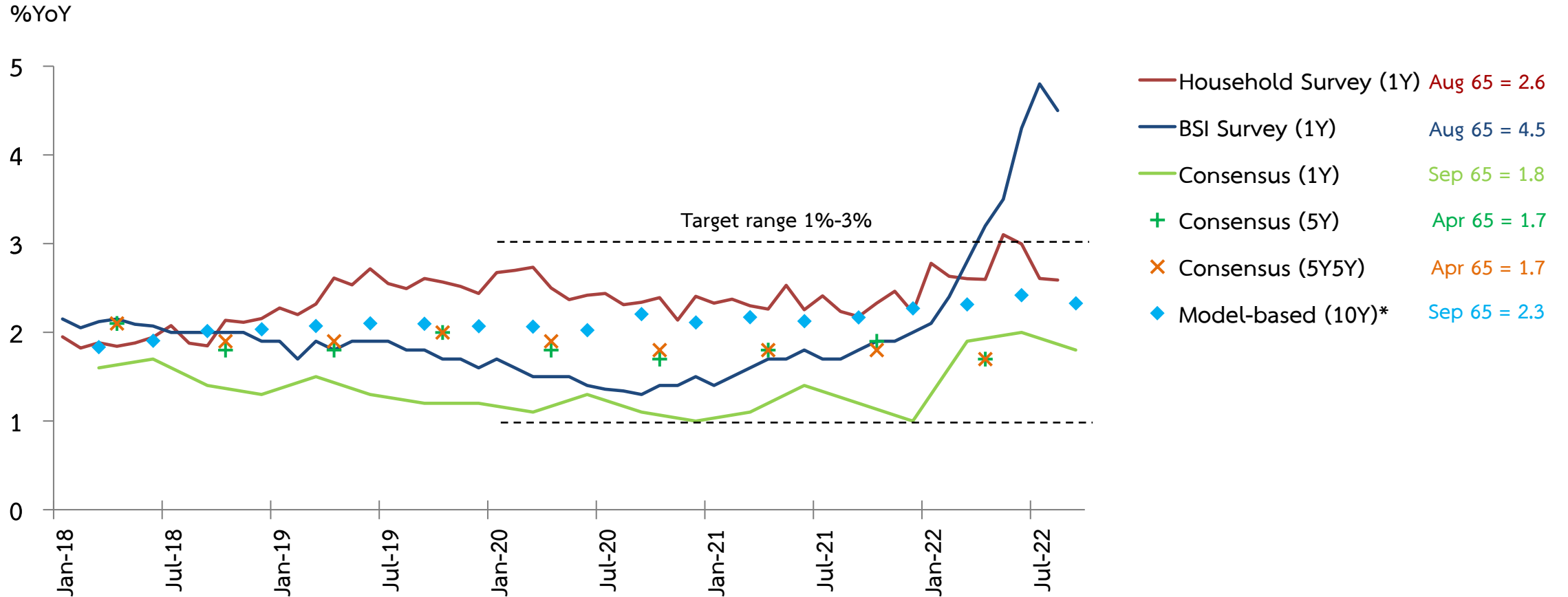
1. Share of non-farm workers (wage earners) in Thailand is lower than other countries
2. The Thai labor market structure is flexible
 - Immigrants and workers that previously relocated have started to return to economic areas
3. Thai workers do not have as much bargaining power as workers in other countries

Share of non-farm workers in Thailand is lower than other countries



Medium-term inflation expectations remain anchored within the target range

Inflation expectations



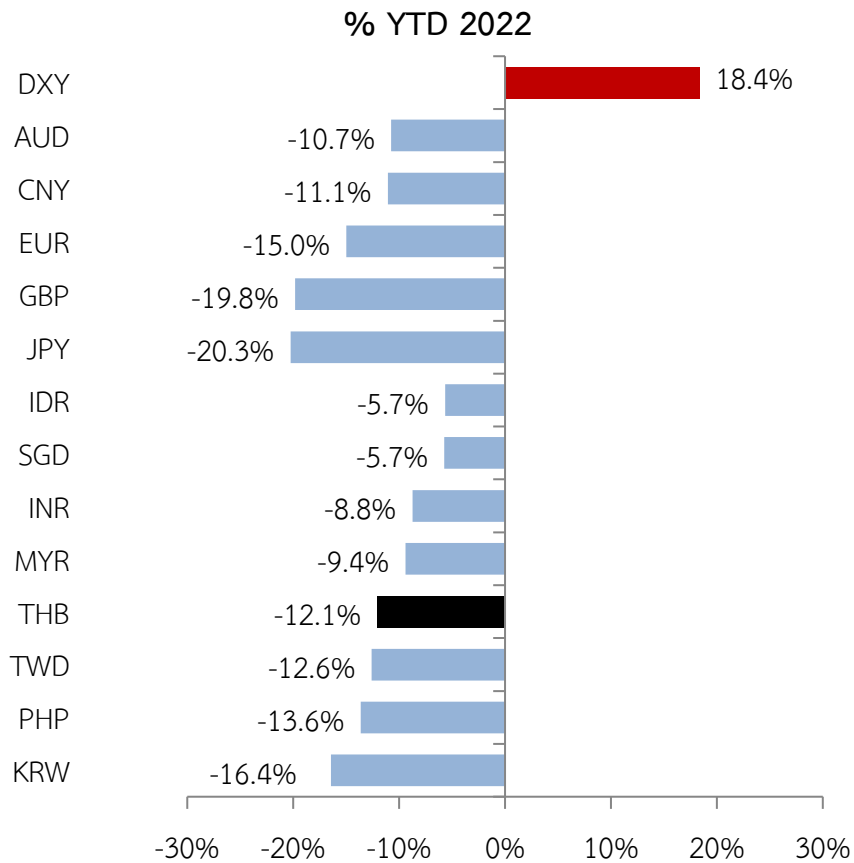
Note: * forecasted using the affine term structure model, with data inputs from yield curve and macroeconomic variables

Sources: Asia Pacific Consensus Economics, Business Sentiment Survey (BOT), Consumer Confidence Index (Ministry of Commerce)

The baht depreciation has not affected the overall growth and inflation outlook,
but must be closely monitored

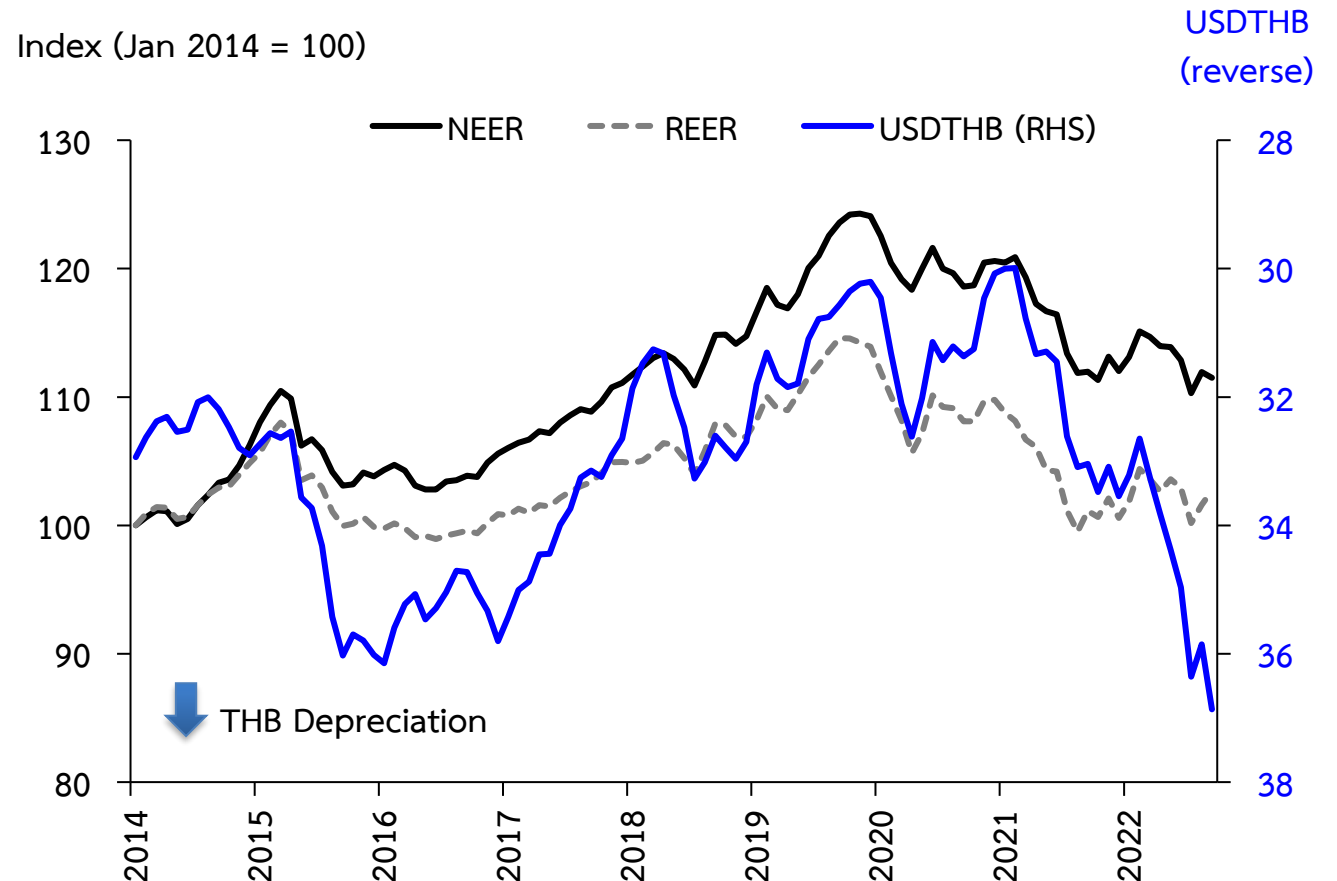
The baht depreciation has been rapid and continuous due to USD strength

Currency movements



Sources: Refinitiv, Bloomberg (as of 27 Sep 2022)

Exchange rate indices and USDTHB



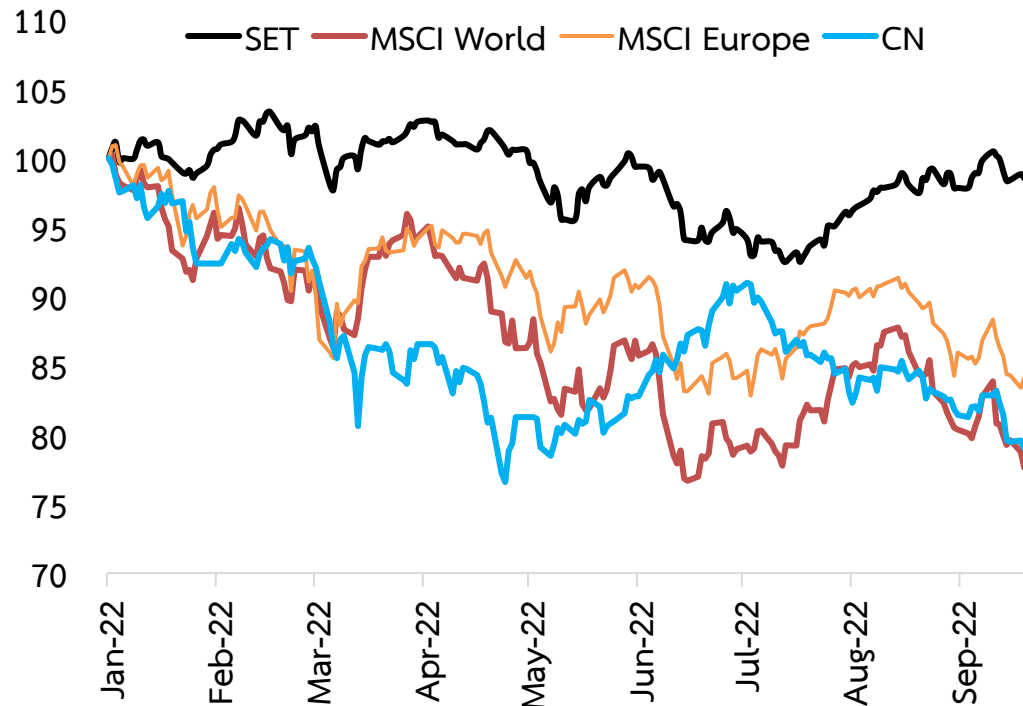
Sound external stability helps limit the impact of the baht depreciation

Equity index and Portfolio flow

(Mn. USD)	YTD
Total portfolio flow	4,474
Equity flow	4,672
Bond flow	-199

Source: BOT's staff calculation
as of 22 Sep 22

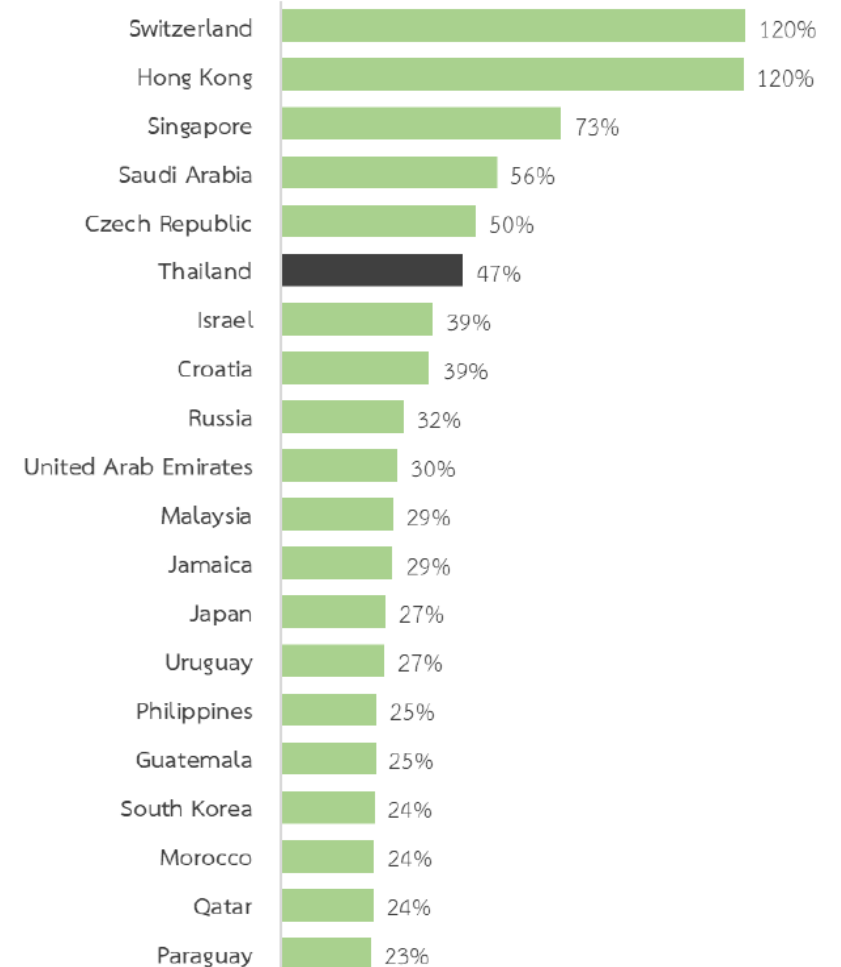
Index (2021 = 100)



Source: Bloomberg

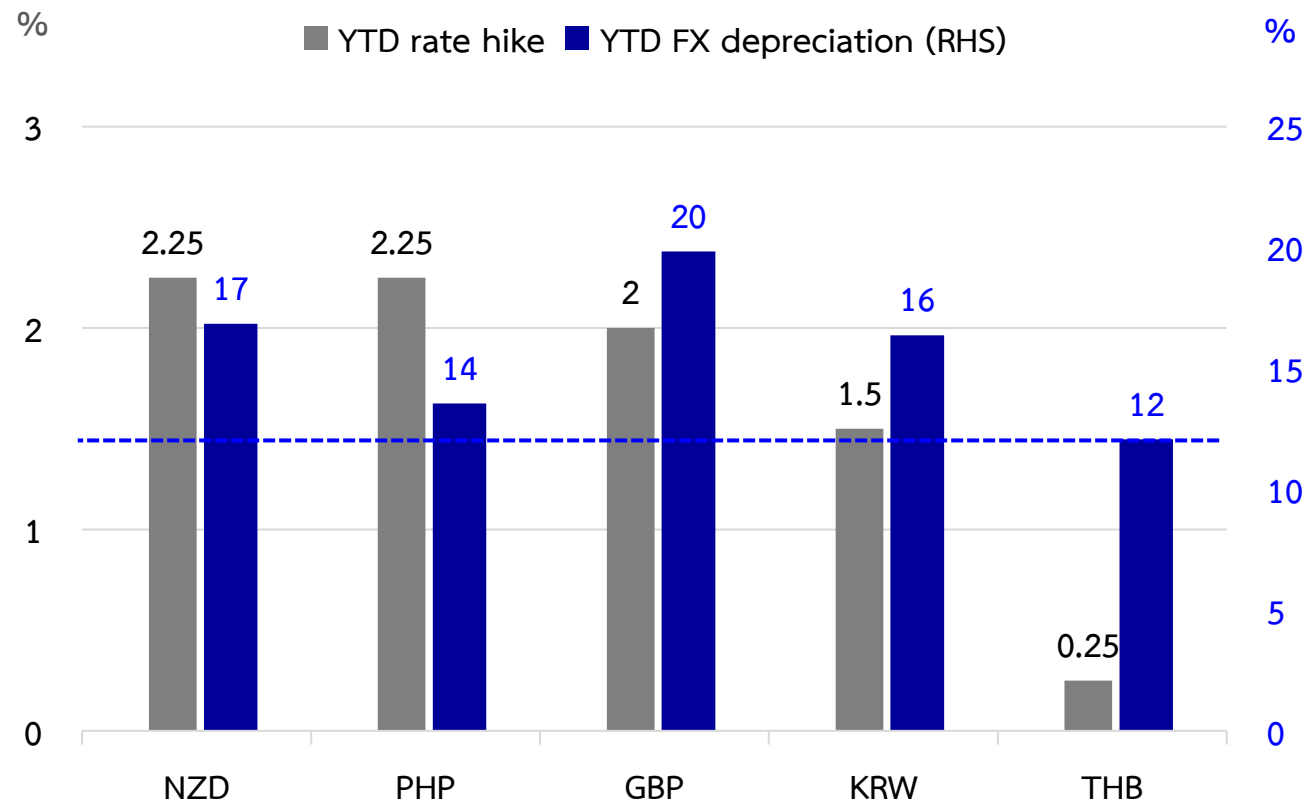
International Reserves to GDP

(as of reserve's latest data)



The BOT will closely monitor developments of the baht, especially during the period of heightened volatilities.

Exchange rate movements depend on factors other than interest rate differentials



The Thai economy will continue to recover but with increased inflation risks.
The policy rate should be normalized in a gradual and measured manner
to the level that is consistent with sustainable growth in the long term.

The Committee voted unanimously to raise the policy rate
by 0.25 percentage point from 0.75 to 1.00 percent at this meeting.

The Committee is ready to adjust the size and timing of policy normalization
should the growth and inflation outlook shift from the current assessment.

Key risks to growth and inflation outlook

1. Global economic slowdown that could affect Thailand's economic recovery
2. Cost pass-through that could increase if
 - businesses face rising cost pressures from multiple sources simultaneously
 - the baht depreciates and causes additional cost pressures for businesses

GDP forecast as of Sep 2022

Annual percentage change	2021*	2022	2023
GDP growth	1.5	3.3 (3.3)	3.8 (4.2)
Domestic demand	1.6	3.4 (3.6)	2.5 (3.0)
Private consumption	0.3	5.6 (4.9)	3.3 (3.6)
Private investment	3.3	3.3 (5.4)	3.9 (4.5)
Government consumption	3.2	-2.2 (-1.9)	-1.1 (-0.5)
Public investment	3.8	1.7 (3.5)	2.3 (3.4)
Exports of goods and services	10.4	9.1 (7.1)	6.5 (8.2)
Imports of goods and services	17.9	6.6 (5.3)	3.1 (4.2)
Current account (billion, U.S. dollars)	-11.0	-14.4 (-8.0)	3.8 (5.0)
Value of merchandise exports (%YoY)	18.8	8.2 (7.9)	1.1 (2.1)
Value of merchandise imports (%YoY)	23.4	16.8 (13.8)	1.8 (3.5)
Number of foreign tourists (million persons)	0.4	9.5 (6.0)	21.0 (19.0)
Dubai crude oil price (U.S. dollar per barrel)	69.4	102.0 (105.0)	100.0 (105.0)
Headline inflation	1.2	6.3 (6.2)	2.6 (2.5)
Core inflation	0.2	2.6 (2.2)	2.4 (2.0)

Notes: * Outturn

() Previous projection in Monetary Policy Report June 2022