"The Thai Economy: The Current State and the Way Forward"
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Distinguished JCC members and dear friends.

It's a great pleasure for me to be back here again. As noted, this is my fifth time coming to the JCC. Before I go on to the topic and talk about the current state and the way forward, I thought I'd do a little bit of looking back. I remember my first JCC talk back in March 2021 during COVID-19. It was a hybrid event, very cozy, with 12 people sitting and listening in, and about another 80 people online.

This year, it's a bit bittersweet. I always enjoy coming back here, but it will be my last JCC talk. It will be something that I will miss very much. So, thank you again very much for your kind welcome.

Part 1: Then (JCC March 2024) & Now (GDP Q4/2024 & 2024)

When I was here a year ago, I mentioned that I thought consumption was likely to continue to recover, expecting to see consumption growth of about 3%. As it turns out, consumption came in better than expected at 4.4%. We expected tourism to come back to about 34.5 million persons, but we closed last year with 35.5 million persons. Export value, which had a terrible year in 2023, was expected to rebound to about 2%, but it recovered nicely to 5.8%. The headline GDP number I gave you last year was expected to be in the range of 2.5 to 3%, and it came out at 2.5%. So, it was right at the very end, right at the very bottom of the range that we had expected.

And so why was that? We saw, again, consumption came in stronger than expected, exports did better than expected, tourism came back better than expected, but the headline GDP number came in quite weak. And if you look at the breakdown of the GDP number from last year, 2024, it turned out that the production side did not do well. There was a big inventory drawdown number that shaved off a big chunk of the headline GDP number. So, we ended up last year with a 2.5%. I mention this because it has implications for the outlook now and going forward.

Part 2: Next (2025)

Growth: The fourth quarter of 2024 came in weaker than expected at 3.2%. We had been expecting a number in the high threes, about 3.8 or 3.9%. The reason for this weakness had a lot to do with more weakness in manufacturing than expected. This sets a low starting point for the figure this year. As a result, we expect this year, 2025, to be weaker than initially forecast. The latest number at our MPC meeting in December 2024, we put out publicly was 2.9%, but we now expect something closer to 2.5%, plus a bit. We still expect to see continued growth in consumption and tourism. We expect consumption to grow a little above 2.5% and tourism to come back to 39.5 million, close to pre-COVID levels. Exports are expected to grow, but at a slower rate than the 5.8% we saw last year.

One key challenge is the disconnection between consumption growth and manufacturing output (see graph 1). In the past, private consumption and manufacturing GDP were highly correlated, but now there's a disconnection. Between 2021 and 2024, consumption grew at an average of 2.1%, while manufacturing shrank by 0.6%. This gap is filled by imports, particularly from China. So, this has been a major reason why we've seen a lackluster recovery in Thailand's headline GDP numbers. This also explains why the outlook for this year remains concerning. With all the uncertainty on the trade front, particularly around major economies' tariff policies, there's a significant risk.

Inflation: On inflation, last year we saw inflation come in at 0.4%, below our target. This year, we expect inflation to be around 1.1%, within our target range of 1 to 3%. Does that worry us a lot? Short answer would be not too much. The reason is because the low inflation is driven by supply side factors like food and energy prices, not by a broad decline in demand.

We don't see a broad decline in prices that you would associate with general deflation. In fact, 75% of the goods and services in the consumption basket are not dropping in price. It's only a smaller segment of the CPI basket where prices are coming down, so it's not an overall broad-based decline. Inflation expectations remain anchored. Surveys of business and household inflation expectations are in the 2% range. So, the low inflation numbers should not be interpreted as broad-based deflation. We don't see the typical signs of a deflationary spiral. Normally, if people expect prices to keep dropping, they stop spending, thinking they can buy things cheaper later. This would lead to a decline in consumption. But in Thailand, consumption is still growing. We don't see a negative price and wage spiral, where low prices lead to low wage growth.

Financial stability: As everyone knows, we have very high levels of household debt. However, we are seeing gradual deleveraging in the household sector, which is something we need to balance carefully. We don't want household debt to grow too rapidly through rapid credit growth, as that would not be good. Conversely, if credit growth contracts too sharply, the whole economy could suffer. This balancing act involves getting household debt, particularly the household debt to GDP ratio, on a path where it slowly decreases—not too fast, but not too slow either. We've seen signs that credit growth is slowing down and stabilizing. In the third quarter of 2024, credit aggregated growth was -2% year-on-year, but it leveled out to about -0.4% in the fourth quarter, indicating greater stability. However, credit growth is slowing down due to higher credit risk and lower risk appetite in lending.

In the household side, this trend is expected and necessary for deleveraging. However, we are concerned about SME lending, which has been a significant issue in Thailand. Pre-COVID, SME lending was declining, and although it increased sharply during COVID due to targeted credit measures, it is now shrinking again. This retreat from SME lending reflects decreased risk appetite among banks. To address this, we are tackling the problem at its source—credit risk. The risk of lending to SMEs is high, so we have established the National Credit Guarantee Agency (NaCGA) to help guarantee some of the credit and reduce credit risk, encouraging banks to lend more to SMEs.

Another area of interest is the auto side, where high purchase lending and auto loans have declined sharply due to higher credit risk. This is driven by falling used car prices, which have dropped significantly, not just here but in many countries, due to a glut of cars, particularly Chinese EVs at low price points. When used car prices fall, credit losses for banks increase, making them less willing to lend. However, we are starting to see signs of stabilization in the used car market and auction market. The flow of cars to auction is leveling off, slowing down by about 20% to 30% compared to its peak in the first quarter of last year, although still higher than pre-COVID levels. If the number of cars going to auction decreases, prices should stabilize, credit risks will go down, and banks' willingness to lend in this space should improve.

So, that's the current situation in the economy. Moving forward, at the Bank of Thailand, we focus on two main areas: monetary policy and financial sector policy.

Policy: Our policy over the past few years has focused on implementing a robust monetary policy within an integrated framework. This means we don't just rely on interest rates alone. Instead, we use a combination of tools like foreign exchange intervention (FXI) and financial sector measures, such as debt restructuring, to manage various economic challenges. Relying solely on interest rates places too much burden on a single instrument. Interest rates impact many areas, including exchange rates, credit, and household debt. Therefore, it's challenging to set the perfect rate to address all these issues. By using an integrated approach, we can balance the load across different tools, making our monetary policy more effective and comprehensive.

Fortunately, we have good buffers to handle FX volatility and high household debt. Instead of relying solely on interest rates, we use financial sector policies like debt restructuring. Our latest package, " Khun Soo Rao Chuay" helps address household and SME debt.

When we talk about monetary policy, we don't look at interest rates in isolation. We use an integrated approach, combining various tools to create a robust policy. This means our policy is broadly right for a wide range of outcomes, especially in uncertain times. We focus on the outlook rather than just data-dependent, which can be noisy and lagging. This helps us avoid making backward-looking decisions. We aim to avoid adding noise to the market and prefer not to change rates frequently.

Recently, we lowered rates from 2.25% to 2% because we felt it was a more robust rate for the current circumstances. We consider growth, inflation, and financial stability when deciding rates. The growth outlook has softened, inflation is low, and financial stability risks are reduced due to slower credit growth. Overall, we believe 2% is a good, robust rate suitable for a wide range of outcomes, and we don't plan to move rates frequently.

Part 3: Way forward

Digital: Our approach has been consistent over the years, focusing on building a future-ready and resilient digital financial landscape. We've made significant progress, especially in digital payments with systems like PromptPay, which now handles 71 million transactions daily.

We've also expanded cross-border QR payment linkages, making Thailand one of the country's leaders in this area within ASEAN and Asia. We're moving from bilateral to multilateral payment linkages through projects like Nexus, connecting ASEAN fast payment systems with India.

Additionally, we're exploring the wholesale CBDC project called mBridge, which is a variety of central banks together to solve the payment and settlement issues that happen with the correspondent banking network. So instead of doing transfers via correspondent banking, taking whatever two, three days, things can now be done in literally seconds and minutes.

Under our "three opens strategy"—more open infrastructure, more open competition, and more open data—we're reviewing virtual bank licenses and expect to announce winners by mid-year, with operations starting in June 2026. Open data is crucial for facilitating data sharing and maximizing digital benefits.

Structural reforms: these are the kinds of things that we're doing and at the Bank of Thailand, the stuff that's under our purview and that we managed to do. But I think it's very fair to say that in terms of the way forward, there's a lot of structural stuff that should be done and needs to be done.

Structural reforms are crucial for Thailand's sustained growth. A lot of those are not necessarily with the Bank of Thailand. We share the sentiment that a 2.5% growth rate isn't satisfactory. We need long-term solutions, not just short-term economic boosts.

To achieve a higher long-term growth rate, we must improve productivity and competitiveness. This involves regulatory impact assessments, regulatory guillotines, easing business regulations, and upgrading skills. These changes are essential for a sustained increase in growth and a better future for the Thai economy. And it's really, I think, the heart of what we would like and need to see for the Thai economy in terms of the way forward to get us to a better place over the longer term.

Appendix

Graph 1: The disconnection between consumption growth and manufacturing output