# Edited Minutes of the Monetary Policy Committee Meeting (No. 5/2023)
## 22 and 27 September 2023, Bank of Thailand
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## Members Attending

Sethaput Suthiwartnarueput (Chairman), Mathee Supapongse (Vice Chairman), Roong Mallikamas, Paiboon Kittisrikangwan, Rapee Sucharitakul, Somchai Jitsuchon, and Subhak Siwaraksa

## The Global Economy and Financial Markets

**Trading partner economies were projected to expand by 2.7 and 2.5 percent in 2023 and 2024, respectively.** The services sector should continue to be the main growth driver for the rest of 2023, limiting the benefits for Asian merchandise exports. Global growth was expected to moderate somewhat in 2024, in part due to the impact from tighter monetary policy, as well as the softening Chinese economy amid lingering problems in the property sector. However, Asian merchandise exports should improve in line with an expected rebound in the global manufacturing activity and electronic cycle next year.

**Financial market volatilities increased**. Risk appetite in the global financial markets worsened as the US dollar soared and the capital flows into regional economies slowed. The risk-off sentiments stemmed in part from growth concerns in China and the prospect of a tighter-for-longer US monetary policy stance.

**Domestic financial conditions tightened somewhat** as private sector funding costs increased consistent with the policy rate. Slowing private credit growth partly reflected a normalization of lending activity after an extraordinary expansion due to the pandemic policy response, and looking ahead should improve in tandem with the economic recovery. Bond yields rose while the baht depreciated against the US dollar, driven by the US monetary policy outlook, and as market participants awaited clarity on the details and the funding sources for government policies.

## Domestic Economy

**The Thai economy overall continued to recover with growth projected to be 2.8 and 4.4 percent in 2023 and 2024, respectively.** Growth in 2023 softened somewhat from a slower-than-expected recovery in merchandise exports and tourism, weighed by subdued growth in China and the global electronic cycle. **Growth should however pick up in 2024,** supported by several factors. First, private consumption should continue to expand on the back of the services sector, underpinned by a steady labor market recovery notably for tourism-related employment and with additional impetus from government economic policies. Second, tourism should continue to recover as reflected in the growing number of foreign tourists and sustained improvement in tourism demand indicators for Thailand. As a result, foreign tourist arrivals were expected to reach 28.5 million for 2023 and 35 million for 2024. Third, merchandise exports were projected to improve in line with the recovering global manufacturing activity and an upturn in the global electronic cycle, supported by a continued increase in the demand for automobiles and electrical appliances from key trading partners.

The overall economic outlook remained uncertain, with upside risks from greater-than-expected stimulus from government policies and downside risks from weaker-than-expected recovery in the global economy, especially China.

**Headline inflation was projected to remain within the target range,** at 1.6 and 2.6 percent in 2023 and 2024, respectively. Core inflation was expected to be 1.4 percent in 2023 and 2.0 percent in 2024. Inflation would remain low for the rest of 2023 due to government living-cost subsidies, subdued raw food inflation, and a high base last year. Inflation should pick up next year in line with stronger domestic demand, additional impetus from government economic policies and higher minimum wages, as well as higher food prices due to El Niño. Upside risks to inflation were (1) greater demand-side pressures related to government economic policies and (2) a resurgence of cost passthrough by businesses from higher food prices should the El Niño phenomenon intensify.

**Highlights of Committee Discussion**

- **The Committee deemed the overall economic recovery trajectory to be intact.** Despite slower growth this year due to worse-than-expected merchandise exports and tourism, growth in 2024 would be propelled by all key growth engines operating in fuller capacity. Domestic demand would be supported by higher labor income, underpinned by a steady tourism recovery and a turnaround in merchandise exports. The lower-than-expected outturns of second-quarter GDP were a key factor for the downward growth revision for 2023, but according to the Committee's assessment did not materially alter the economic outlook since domestic demand continued to expand robustly. While external demand had recovered more slowly than expected, a steady improvement was anticipated looking ahead. The Committee recognized greater challenges in interpreting and drawing implications from GDP releases, due to a post-COVID divergence between expenditure-side and production-side GDP readings, notably in the growth-driving tourism-related services. A consequence has been the growing influence of the change in stock and statistical discrepancy on the recent expenditure-side GDP prints. The Committee would place emphasis on consulting a wide array of economic indicators to form a comprehensive and accurate assessment of the economic outlook.

- **The Committee agreed on the need to monitor the impact of government policies on economic growth and inflation.** Particularly in the context of the economy approaching its potential, such policies could add meaningful inflationary pressures. The Committee discussed reasonable fiscal multiplier estimates associated with cash transfers, agreeing that they would likely be lower than those for government spending and investment. The exact magnitude of the fiscal multiplier however remained uncertain, depending on factors such as policy design, program size, funding source, duration, and behavioral response of the private sector. In view of these uncertainties, the Committee would continue to monitor demand pressures on inflation, along with any shifts in the price-setting behavior or inflation dynamics, which could have implications for the medium-term inflation expectations. In the Committee's view, fiscal spending geared toward enhancing long-term growth potential, such as infrastructure investment and labor upskilling, could help promote both higher growth and long-term sustainability of public debt.

- **The Committee acknowledged greater financial market volatilities, which owed partly to domestic factors.** There were outflows from both the bond and equity markets, with rising bond yields and baht depreciation against the US dollar. The global factors were in part responsible, particularly the market expectation of a tighter monetary policy stance by the Federal Reserve for a more extended period. However, domestic factors were also at work, with market participants awaiting further details on government policies and assessing possible implications for macroeconomic stability and fiscal sustainability. Although the impact of financial market volatilities on the Thai economy has been contained to date, the Committee agreed to closely monitor the unfolding developments and their potential macroeconomic effects.

- **The Committee assessed financial conditions to be somewhat tighter but still supportive of private sector funding and the ongoing economic recovery.** The deceleration in private credit growth partially reflected a normalization of lending activity, following the strong expansion thanks to financial sector policy responses during the recent pandemic period. Credit growth should pick up once economic activity gathers momentum, in the past typically after two to three quarters following economic recovery. So far, there were no indications that the recent decline in private credit was primarily a consequence of stricter credit standards – for instance, credit utilization rate remained lower than its historical average. Nevertheless, the Committee remained concerned over financial positions of vulnerable households and businesses, and supported holistic and sustainable debt resolution. Such targeted measures were expected to be more effective with fewer unintended consequences than resorting to blanket non-discriminative policies.

- **The Committee agreed to lift the policy interest rate at this meeting, to a level consistent with supporting long-term sustainable growth**. This policy stance would help keep inflation within the target range and foster longer-term macro-financial stability by preventing the buildup of risks that could otherwise emerge in a low-for-long interest rate environment. The policy action would also rebuild policy space, a valuable insurance in the face of an uncertain outlook.

- **In deliberating monetary policy looking ahead, the Committee would carefully assess the evolving macroeconomic outlook as well as associated uncertainties.** At the current juncture, the Committee was attentive to the upside risks to growth and inflation, in particular as stemming from government economic policies. Supply-side shocks related to the El Niño phenomenon could also put upward pressures on food prices and inflation more than expected. The Committee would closely monitor these developments and deliberate monetary policy based on the assessment of the growth and inflation outlook.

<u>**Monetary Policy Decision**</u>

**The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 2.25 to 2.50 percent, effective immediately.**

**In the Committee's judgment, the economy overall continued to recover**. Growth slowed somewhat in 2023, but should pick up in 2024. **Inflation was projected to increase next yea**r in line with the recovery, with upside risks. **Overall financial conditions tightened somewhat**

but remained supportive of fund mobilization by the private sector and the ongoing economic recovery. **The overall financial system remained resilient**. Nevertheless, there was a need to continue monitoring credit quality for some SMEs and households with impaired debt serviceability, higher debt burden, and slower income recovery. The Committee supported the targeted measures and sustainable debt resolution for vulnerable groups.

Under the prevailing monetary policy framework, the Committee seeks to maintain price stability, support sustainable growth in line with potential, and preserve financial stability. In pursuit of these objectives and having normalized policy gradually up to the current meeting, the Committee deemed the current policy interest rate to be appropriate for supporting long-term sustainable growth. **In deliberating monetary policy going forward, the Committee would take into account the growth and inflation outlook, including upside risks from government economic policies.**

Monetary Policy Group
11 October 2023