Edited Minutes of the Monetary Policy Committee Meeting (No. 5/2024)
9 and 16 October 2024, Bank of Thailand
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Members Attending

Sethaput Suthiwartnarueput (Chairman), Piti Disyatat (Vice Chairman), Alisara Mahasandana, Paiboon Kittisrikangwan, Rapee Sucharitakul, Roongrote Rangsiyopash, and Santitarn Sathirathai

The Global Economy and Financial Markets

Trading partner economies were projected to grow by 2.8 and 2.7 percent in 2024 and 2025, respectively. The U.S. economy exhibited robust growth, driven by consumption across both goods and services. Meanwhile, Asian merchandise exports continued to expand, benefiting from the electronic cycle's progression into a broader range of products, extending beyond previous gains in high-tech and artificial intelligence (AI)-related goods. However, the Chinese economy remained sluggish due to persistent challenges within the property sector. Going forward, trading partner economies were expected to expand, supported mainly by the service sector. Nonetheless, notable risks warranted monitoring, including trade tensions between the U.S. and China following the upcoming U.S. presidential election in November, as well as geopolitical risks, such as potential escalations in conflicts across the Middle East, which could exert significant impacts.

Global financial conditions shifted toward an easing phase, accompanied by an improvement in investor confidence. Risky asset prices and U.S. bond yields increased as concerns over a potential U.S. recession subsided. The Federal Reserve commenced a cut to its policy interest rate in September, with most major central banks also entering easing cycles. Meanwhile, the Chinese government introduced additional economic stimulus measures. These developments resulted in capital inflows into regional bond and equity markets, driving appreciation of regional currencies. The Thai baht appreciated against the U.S. dollar, at times outperforming regional currencies due to specific factors such as more clearly defined government economic measures and an increase in gold prices.

Domestic Economy

The Thai economy was projected to expand at rates close to the previous assessment, at 2.7 and 2.9 percent in 2024 and 2025, respectively, supported by several factors: (1) a continued expansion in the tourism sector, with expected tourist arrivals reaching 36.0 and 39.5 million in 2024 and 2025, respectively; (2) an expansion in private consumption, albeit at a more moderate pace, driven by income recovery and further supported by targeted economic stimulus measures for state welfare cardholders and individuals with disabilities, which commenced distributing a 10,000-baht cash handout to the target group at the end of September 2024; and (3) an improvement in merchandise exports in line with stronger global demand and an upturn in the electronics cycle. However, private investment was expected to contract in 2024, mainly due to a decline in vehicle investment, while investment in machinery and equipment continued to expand. Private investment was anticipated to resume growth in 2025, consistent with the increasing value of the investment promotion certificates issued by the Board of Investment of Thailand (BOI) and the permitted construction area in industrial estates. **The flooding across several northern provinces caused considerable damage to local communities**; nevertheless, the overall impact on the Thai economy remained limited.

However, the Thai economy experienced uneven recovery across sectors. Sectors that performed well and continued to grow robustly included tourism and service sectors, such as hotels, restaurants, and retail stores, whose income strongly recovered following the increase in tourist arrivals. **Meanwhile, sectors that had previously recovered slowly due to cyclical factors showed signs of improvement**, including agricultural products, for which production was expected to increase from improved weather conditions, and certain electronics exports, such as (1) telecommunication and computer equipment, which benefited from the relocation of production bases to Thailand; and (2) hard disk drives, which saw a recovery in the electronics cycle, as well as temporary demand from global data center businesses. **In contrast, some sectors faced ongoing pressures,** such as (1) automotive-related businesses, which were expected to contract mainly due to weakening domestic demand and structural factors; for instance, the decline in used car prices, which led to more prudent lending practices in hire purchase loans by financial institutions; and (2) businesses facing competition from Chinese imported goods and unresolved cyclical factors, such as those in plastics, steel, furniture, and textile industries.

Headline inflation was projected at 0.5 and 1.2 percent in 2024 and 2025, respectively, remaining close to the previous assessment. Headline inflation was anticipated to gradually return to the target range by the end of 2024, driven by an increase in raw food inflation due to heavy rainfall and flooding in certain areas, as well as an anticipated rise in energy inflation resulting from the base effect. **Core inflation was projected at 0.5 and 0.9 percent in 2024 and 2025, respectively.** The low level of core inflation was partly attributed to structural factors, such as heightened competition from imported goods and government mechanisms to stabilize price volatility, such as the Oil Fuel Fund. However, the current low inflation did not indicate signs of deflation, as there was no broad-based and continuous decline in prices. Medium-term inflation expectations remained aligned with the target range.

Overall financial conditions tightened moderately. Private sector funding costs via commercial banks and corporate bond markets remained relatively stable; however, overall credit growth slowed. There was a decline in loans to SMEs, businesses facing structural impediments, as well as hire purchase and credit card loans. Credit quality deteriorated somewhat, partly due to debtors who had previously received financial assistances, as well as SMEs and vulnerable households experiencing slower income recovery and elevated debt burden. While the proportion of non-performing loans was likely to continue increasing, the rise was assessed to be gradual and manageable for financial institutions. Additionally, financial institutions were expected to continue supporting debtors through ongoing debt restructuring offers, thereby addressing debt problems in a targeted manner and facilitating household debt deleveraging. Nevertheless, it remained important to monitor the impact of deteriorating credit quality on funding costs and overall credit growth, as well as their implications for real economic activities.

Highlights of Committee Discussion

- **The Committee deemed the Thai economy and inflation outlook to be in line with the previous assessment.** Economic growth engines were expected to become more balanced, driven by expansions in tourism and export sectors. Meanwhile, private consumption was anticipated to slightly decelerate following a period of strong growth. Domestic demand would be partly supported by government economic stimulus measures, along with the government disbursement of the 2025 budget and the carry-over budget from the 2024 fiscal year. Headline inflation was expected to return toward the target range by the end of 2024 and to settle near the lower bound of this range**.** Going forward, there was a need to monitor geopolitical risks, such as the trade tensions between the U.S. and China, as well as conflicts in the Middle East.
- **The Committee assessed that the process of household debt deleveraging continued to progress gradually** amidst somewhat tighter financial conditions resulting from slower credit growth, **which could contribute to mitigating long-term financial stability risks.** The decline in credits was partly due to repayments on loans extended as part of policy responses implemented by the authorities during the COVID-19 pandemic. In addition, financial institutions became more prudent, as credit risk among loan applicants increased, particularly for vulnerable households and SMEs with slow income recovery or operating in sectors facing structural challenges, such as electronics and automotive, as well as those under pressure from competitive Chinese products. Furthermore, the decline in hire purchase loans was partly attributed to specific factors within the automotive industry, such as the shift toward electric vehicles and a decrease in used car prices.
- **Most Committee members deemed the economic and inflation outlook consistent with assessments, while the long-term financial stability risks had decreased. Therefore, they agreed to cut the policy rate** to maintain a broadly neutral stance, given tightened financial conditions and a slowdown in loan growth. The lower policy rate was expected to mitigate the risk that financial conditions might adversely affect the overall economy, facilitate ongoing household debt deleveraging in line with households' ability to repay and alleviate debt-servicing burdens. Moreover, the current policy rate remained adequate to address risks to the outlook for the economy, inflation, and financial stability.
- **Two members voted to maintain the policy interest rate at 2.50 percent**, deeming it consistent with the economic and inflation outlook while emphasizing the importance of long-term financial stability and the need to preserve policy space amid ongoing uncertainties. The Committee members underscored the importance of monitoring the development of macroeconomic and financial conditions, which were intricately linked.

Monetary Policy Decision

The Committee voted 5 to 2 to cut the policy rate by 0.25 percentage point from 2.50 to 2.25 percent, effective immediately.

In the Committee's judgment, the Thai economy was projected to expand at rates close to the previous assessment at 2.7 and 2.9 percent in 2024 and 2025, respectively. The main drivers were tourism, private consumption further supported by government stimulus measures, and improvements in exports given higher demands for electronics. However, the recovery had been uneven across sectors, with certain merchandise exports, manufacturing production, as well as SMEs facing pressure from structural impediments. **Headline inflation was projected at 0.5 and 1.2 percent in 2024 and 2025, respectively**, and was expected to gradually return to the target range by the end of 2024. **The overall financial conditions tightened somewhat.** The overall credit growth slowed down, especially loans to SMEs, businesses facing structural impediments, as well as hire purchase and credit card loans. The Committee supported the Bank of Thailand's policy to facilitate debt restructuring through financial institutions and deemed it crucial to monitor the impact of deteriorating credit quality on funding costs and overall credit growth, as well as their implications on real economic activities.

The prevailing monetary policy framework seeks to maintain price stability, support sustainable growth, and preserve financial stability. Most Committee members deemed the economy and inflation outlook to be in line with previous assessment, while the long-term financial stability risks had decreased. Consequently, they agreed to cut the policy rate by 0.25 percentage point in this meeting to help mitigate the risk that financial conditions might adversely affect the overall economy, without impeding the ongoing debt deleveraging, and to alleviate debt-servicing burdens for borrowers. **The Committee deemed that the policy rate should remain neutral and consistent with economic potential. Moreover, it should not be at too low a level that would create build-ups of financial imbalances in the long term.**

Monetary Policy Group

30 October 2024