Edited Minutes of the Monetary Policy Committee Meeting (No. 6/2024)
13 and 18 December 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, amid heightened uncertainties stemming from economic policies in major economies. The U.S. economy exhibited robust growth, primarily driven by consumption across both goods and services, with momentum expected to continue into 2025. Meanwhile, the EU economy's growth was expected to remain subdued. The Chinese economy was projected to expand, bolstered by merchandise exports as well as stimulus measures and monetary policy easing. Similarly, Asian economies sustained their growth, driven by a recovery in merchandise exports benefiting from the electronics cycle. Going forward, trading partner economies faced elevated uncertainty, particularly related to U.S. economic policies, including tax measures and import tariffs, as well as trade retaliations by various economies. These factors were expected to impact the global economic trajectory through investment and international trade. In addition, geopolitical risks warranted close monitoring, such as potential escalation of conflicts across the Middle East.

Following the U.S. presidential election, U.S. financial markets outperformed regional financial markets. Risky asset prices in the U.S. increased, and the U.S. dollar appreciated. Meanwhile, concerns over U.S. economic policies and the impact on international trade exerted pressure on asset prices and capital flows in regional economies, including China. Capital outflows were observed in most countries, as evident in bond and stock markets, while regional currencies depreciated. The Thai baht also depreciated against the U.S. dollar, influenced by its strong trade linkages with China and fluctuations in gold prices, which affected the baht at certain times.

Domestic Economy

The Thai economy faced challenges from intensified external competition and heightened uncertainties, but overall economic projections remained close to the previous assessment. The Thai economy was projected to expand by 2.7 and 2.9 percent in 2024 and 2025, respectively, supported by several factors: (1) a continued expansion in the tourism sector, driven by increasing number of tourists and higher spending per person. The number of tourist arrivals was expected to reach 36.0 million and 39.5 million in 2024 and 2025, respectively; (2) although a deceleration was anticipated, private consumption was expected to maintain a growth trajectory; and (3) an improvement in exports of electronics and machinery in line with the technology product cycle. Meanwhile, private investment was expected to resume growth in 2025, consistent with the value of investment promotion certificates issued by the Board of Investment (BOI).

However, the economic recovery remained uneven across sectors. Sectors that performed well and continued to grow robustly included (1) the tourism and service sectors, such as hotels, restaurants, and retail businesses; and (2) merchandise export products supported by the electronics cycle, such as hard disk drives benefiting from the data center industry and transformers for electric vehicle (EV) chargers benefiting from increasing EV demand. **Conversely, certain sectors that had been slow to recover were showing further deterioration,** particularly the automotive-related businesses, which continued to contract. In the first ten months of 2024, automobile production decreased by 19% year-on-year**.** The contraction was attributed to both structural and cyclical factors, for instance, the shift towards electric vehicles and a decline in used car prices. The latter factor caused consumers to delay purchases, particularly those intending to trade in older vehicles as down payments. In addition, financial institutions became more prudent in extending hire purchase loans due to increasing risks, especially higher losses from declining collateral values.

Going forward, the Thai economy faced heightened uncertainties, primarily due to U.S. economic policies**.** The precise details of these policies, including structure, intensity, implementation timeline, and potential retaliatory measures by other countries, remained unclear. In the short term, Thai merchandise exports could experience a temporary acceleration as exporters adjusted ahead of policy changes. Over the medium term, however, the net impact on Thai exports and investments remained uncertain, contingent upon the feasibility of relocating production bases and Thailand's trade competitiveness in comparison with China in both domestic and regional markets. Furthermore, the contribution of exports as a key driver of the Thai economy was likely to diminish relative to historical trends. This was attributed to a decline in the value-added content of certain export categories, such as metals, rubber, plastics, and petroleum products, as well as a structural transition away from high value-added exports, such as internal combustion engine vehicles—which are distinguished by substantial local content and strong linkages to domestic industries—toward lower value-added products, such as electronics and machinery, which are more reliant on imported raw materials and components.

Headline inflation was projected at 0.4 and 1.1 percent in 2024 and 2025, respectively. Energy inflation was expected to remain low in line with global crude oil prices. Core inflation was forecasted to be at 0.6 and 1.0 percent in 2024 and 2025, respectively, in tandem with the improved economic outlook and cost passthrough for food items. Looking ahead, headline inflation was anticipated to stabilize around the lower bound of target range, primarily due to supply-driven factors and government measures. Medium-term inflation expectations remained anchored within the target range. Additionally, the prevailing low inflation environment did not pose constraints on economic growth and contributed to mitigating further acceleration in the prices of goods and services. This, in turn, helped alleviate cost-of-living burdens, especially for households facing delayed income recovery.

Credit growth decelerated recently due to decreased investment demand in certain business sectors, repayment of loans borrowed during the COVID-19 period, and heightened credit risks. For instance, credit growth in tourism-related services slowed as increasing income reduced the reliance on borrowing, while some businesses continued repaying debts incurred during the pandemic. Nonetheless, economic activity in these services sectors experienced robust growth and was expected to continue expanding, contributing significantly to economic growth in 2025 (projected at 2.9 percent, with 1.9

percentage points attributed to these sectors). Conversely, credit growth for SMEs and manufacturing industries facing intensified competition declined, partly due to heightened credit risks. It remained important to monitor the impact of credit slowdown on economic activity in these sectors, as well as the impact on the overall economy. Regarding retail loans, credit growth declined and credit quality deteriorated, particularly among vulnerable groups experiencing slow income recovery and elevated debt burdens.

Highlights of Committee Discussion

- **The Committee expressed concern over increasing divergence in Thai economic growth, despite the overall economy expanding as anticipated.** Tourism and related service sectors were expected to perform well, aligned with rising travel demand in Asia, while merchandise exports were projected to improve, particularly in electronics and machinery products. **However, certain manufacturing and merchandise export sectors continued to face pressures, notably, (1) the automotive and parts industry deteriorated from several factors,** including intensified price competition. Declining new car prices partly pressured used car prices, prompting financial institutions to adopt more prudent lending practices for hire purchase loans as credit risks increased due to deteriorating collateral values. Consequently, domestic car sales decreased sharply, with spillover effects to other related businesses. **(2) Thai merchandise exports faced intensified competitions from China in key sectors**, such as chemicals, metals, and electrical appliances. Therefore, it was necessary to monitor the developments in these industries, their knock-on effects on production and labor market, as well as the implications for the overall economy.
- **The Committee assessed that, despite a decline in credit growth, the overall economy continued to expand.** The tourism-related service sectors, which served as the primary economic driver for 2025, utilized less credit than before due to decreased investment demand and increased debt repayments, supported by improved revenues. **However, it remained crucial to monitor credit quality and credit growth developments among business groups with slower recovery, as well as the implications for overall economic activities**, especially for SMEs and businesses in the industrial sector facing increased competition. The slow income recovery and heightened credit risks prompted financial institutions to adopt more prudent lending practices toward these businesses. Hence, it was needed to monitor the effects of credit developments on the performance of businesses with delayed recovery and the potential spillovers to overall financial and economic conditions.
- **The Committee deemed that the debt deleveraging process should continue,** as it would help decrease financial stability risks over the longer term. **However, the deteriorating credit quality among vulnerable groups warranted close monitoring,** especially in the areas of housing and automotive loans. These loans were associated with essential assets, including accommodation and vehicles, which were critical for living and working and frequently served as collateral for credit. Thus, they played a vital role in the broader economy and the financial system. The Committee deemed it necessary to monitor the impact of credit quality on the overall economy, as well as the effectiveness of the government's "Khun Soo, Rao Chuay" program in alleviating debt burdens for fragile groups in a targeted manner.

- **The Committee judged that uncertainty surrounding the Thai economy had significantly increased in the period ahead.** U.S. economic policies, such as tax and tariff measures, remained highly uncertain in terms of both their intensity and implementation timeline. These policies were subject to potential variations due to practical limitations and negotiations with trading partner countries. The currently available information was insufficient to produce a comprehensive assessment of their impacts on the global and Thai economies. Therefore, the appropriate monetary policy approach should be a robust one, preserving policy space to respond effectively to various possible scenarios and utilizing a mix of policy tools in alignment with actual developments.

<u>Monetary Policy Decision</u>

The Committee voted unanimously to maintain the policy rate at 2.25 percent.

In the Committee's assessment, the economic recovery remained uneven across sectors while facing challenges from increased external competition and heightened uncertainties. However, the Thai economy exhibited robust growth, with projections of 2.7 and 2.9 percent in 2024 and 2025, respectively. Headline inflation was projected at 0.4 and 1.1 percent in 2024 and 2025, respectively, while the medium-term inflation expectations remained anchored within the target range. The recent slowdown in credit growth was due to decreased investment demand in some business sectors, debt repayments for loans borrowed during the COVID-19 period, and heightened credit risks. Nevertheless, the overall economy continued to grow in line with the previous assessment despite credit slowdown.

The Committee deemed it appropriate to maintain the policy rate at a broadly neutral stance, consistent with the economic trajectory close to potential, inflation moving toward the target range, and the safeguarding of long-term macro-financial stability. **Additionally, the Committee assessed that preserving monetary policy space had become increasingly necessary amid heightened uncertainties.** The economic policies of major economies remained highly uncertain, complicating efforts to assess their impact on the Thai economy. Furthermore, the effectiveness of monetary policy tended to diminish under conditions of elevated uncertainty, as businesses might delayed hiring or investment decisions. Therefore, maintaining sufficient monetary policy space to respond appropriately at the right time was deemed essential to maximize the effectiveness of monetary policy.

The prevailing monetary policy framework seeks to maintain price stability, support sustainable growth, and preserve financial stability. **The Committee recognized the heightened uncertainty going forward and deemed it necessary to monitor economic growth and inflation outlook in deliberating monetary policy going forward.**

Monetary Policy Group
2 January 2025