ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Analyst Meeting No. 4/2021

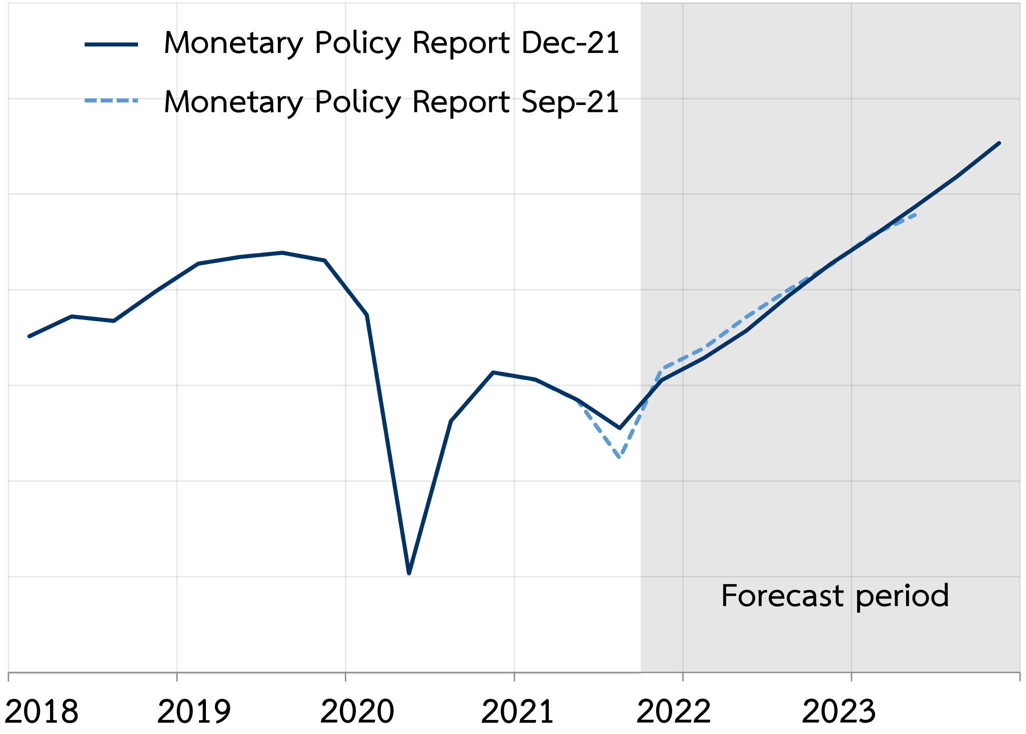
10 January 2022

(The economic projection was based on data as of 21 December 2021)

Thailand’s economic and inflation outlook

Economic forecast: The Thai economy would continue to recover. However, the spread of Omicron variant is a key risk going forward.

Real GDP



Source: Office of the National Economics and Social Development Council, estimated by Bank of Thailand (BOT)

%YoY	2020 (outturn)	2021 Sep 21	2021 Dec 21	2022 Sep 21	2022 Dec 21	2023 Dec 21
GDP growth	-6.1	0.7	0.9	3.9	3.4	4.7
Domestic demand	-1.6	1.9	1.7	4.7	4.3	3.2
Private consumption	-1.0	0.0	0.4	5.7	5.6	3.8
Private investment	-8.4	4.2	4.0	6.7	5.4	5.0
Government consumption	0.9	3.3	2.1	-0.5	-0.3	0.3
Public investment	5.7	8.0	5.5	6.4	3.6	1.4
Exports of goods and services	-19.4	8.7	9.3	6.1	5.5	9.7
Imports of goods and services	-13.3	15.3	17.4	4.8	4.6	4.6
Current account (billion, U.S. dollars)	21.2	-15.3	-10.0	1.0	1.5	19.7
Value of merchandise exports	-6.5	16.5	18.0	3.7	3.5	2.9
Value of merchandise imports	-13.8	23.8	22.3	4.8	4.8	3.7
Number of foreign tourists (million persons)	6.7	0.15	0.28	6.0	5.6	20.0

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Under the baseline scenario, the Omicron outbreak was expected to be contained within the first quarter of 2022. As a result, the main impact would be felt in the first half of 2022.

Assumptions

Omicron has a higher transmission rate than Delta

but vaccines could help reduce severity of symptoms

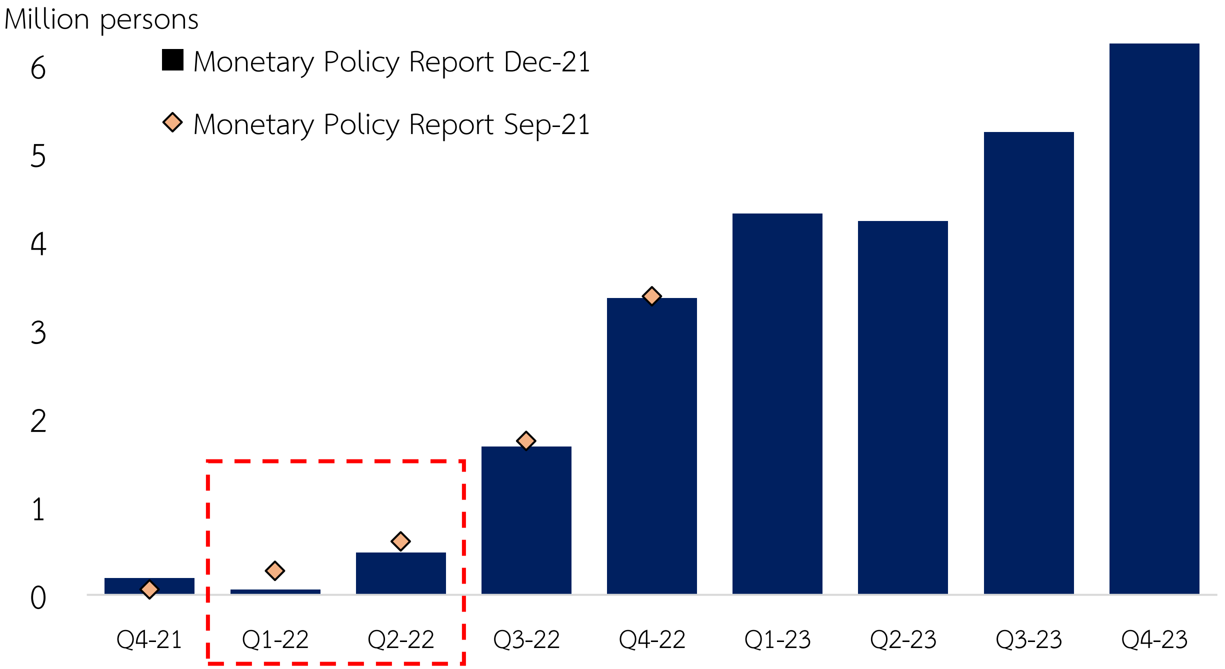
Business and consumer confidences fall temporarily

especially in early 2022

Policy responses

- **In foreign countries,** international travel restrictions, quarantine requirement, and border closures are in place. Relaxation on travel restrictions are expected by early 2022.
- **In Thailand,** the Test & Go scheme is suspended with containment measures being imposed in certain areas where Omicron is surging.

Forecast of foreign tourist arrivals

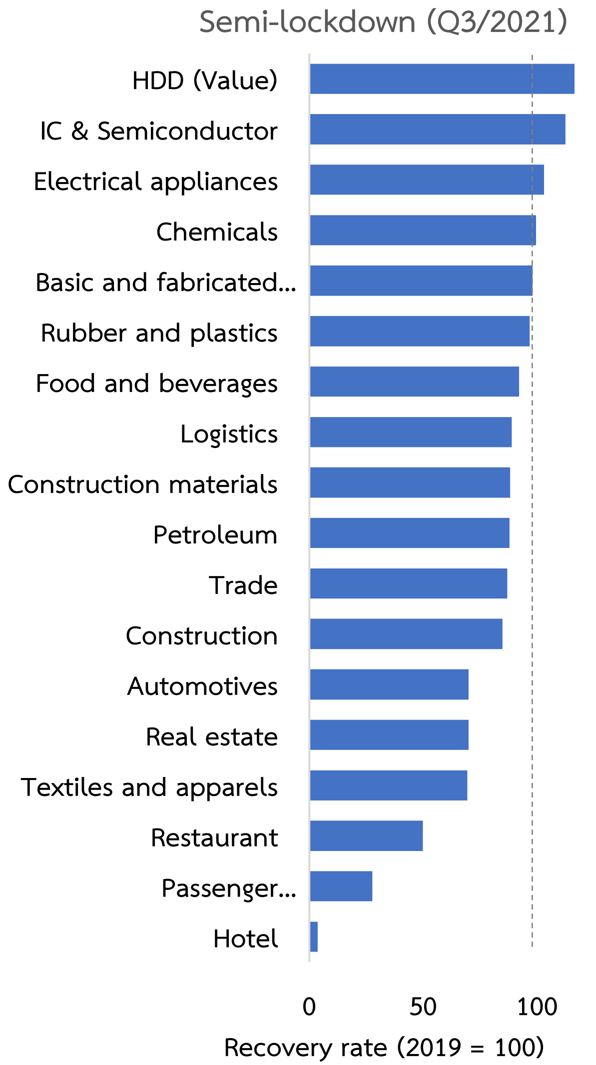


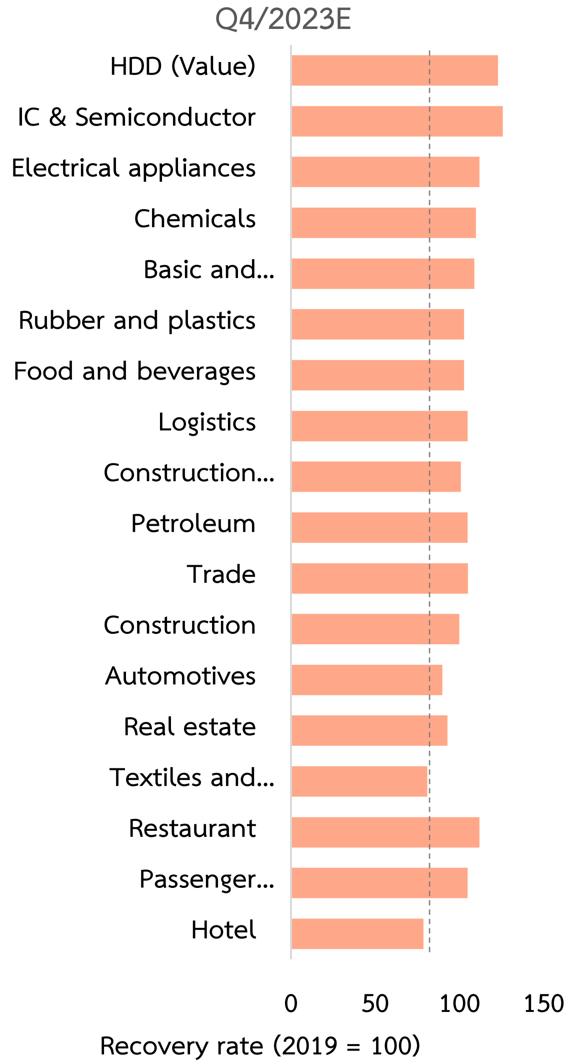
Million persons	2021		2022		2023
	Sep 21	Dec 21	Sep 21	Dec 21	Dec 21
Foreign tourists	0.15	0.28	6.0	5.6	20.0

Source: estimated by BOT

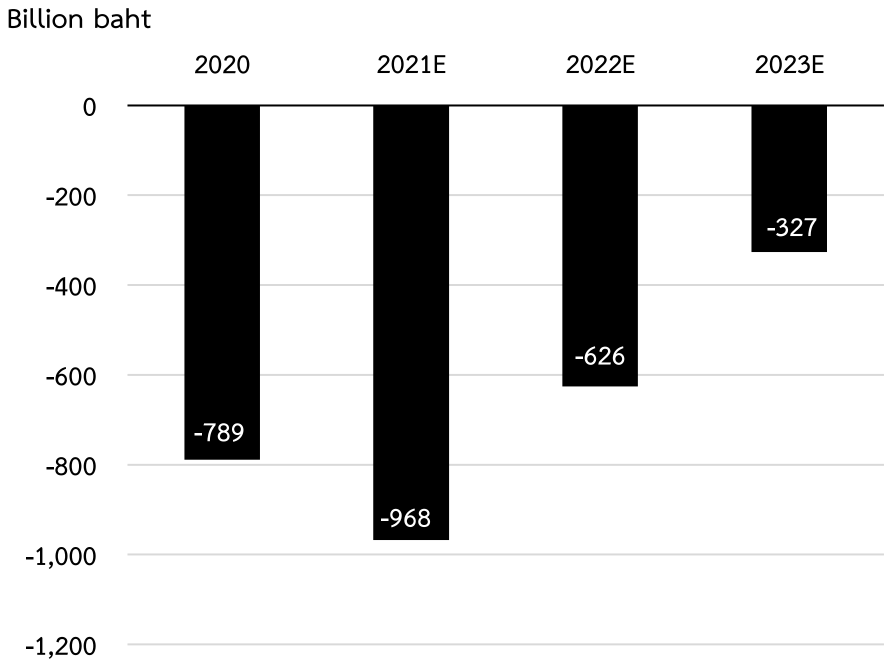
Recovery outlook in various sectors is improving. However, employment and labor income continue to warrant close monitoring.

Economic activity index by business sector





Projected income loss for non-farm workers compared with 2019



Note: E means estimation

Source: The Labor Force Survey and the Household Socio-Economic Survey by the National Statistical Office of Thailand, calculated and estimated by BOT (as of Dec 2021)

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Inflation forecast: Headline inflation is projected to rise temporarily in the first half of 2022 and stay within the target range throughout the forecast horizon. Inflation expectations remained anchored within the target.

Inflation forecasts

	2020 (Outturn)	2021	2022	2023
Headline inflation	-0.8%	**1.2%** (1.0%)	**1.7%** (1.4%)	**1.4%**
		Revised up due mainly to supply-side factors, namely retail fuel prices and electricity costs		
Core inflation	0.3%	**0.2%** (0.2%)	**0.4%** (0.3%)	**0.7%**
		Expected to remain low in tandem with fragile growth outlook	Revised up on account of increased excise taxes on tobacco products and cost pass-through of businesses	Expected to pick up in line with economic recovery

Note: ( ) = previous forecast from Monetary Policy Report September 2021
Source: Ministry of Commerce, estimated by BOT

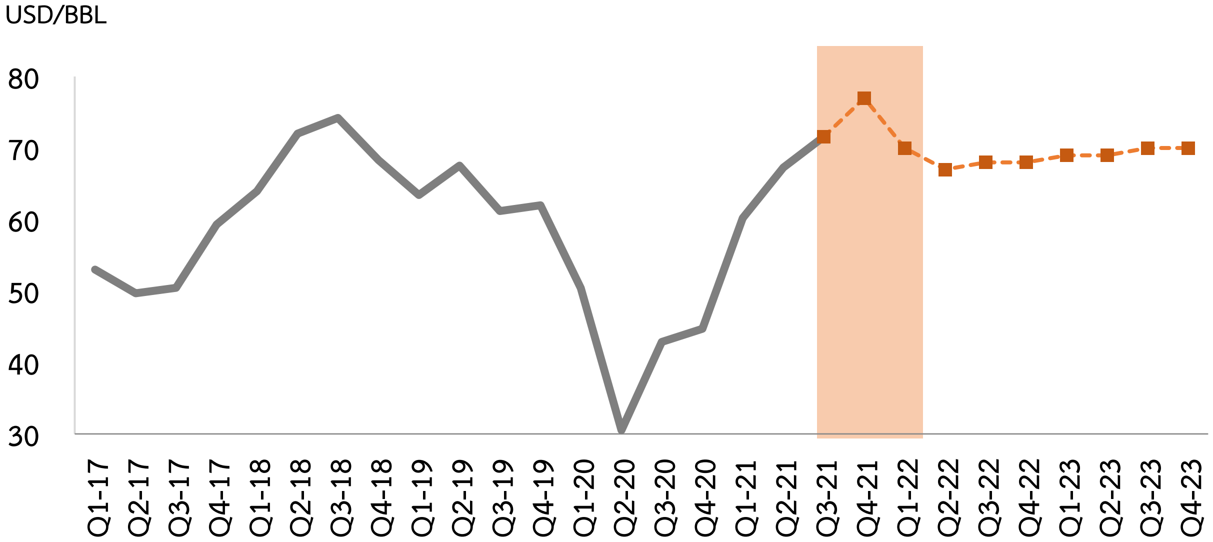
Inflation expectations

Forecast period	Types of forecasters	Latest inflation expectations
1-year ahead	Businesses	1.9% (Nov 2021)
	Households	2.5% (Nov 2021)
	Professional forecasters	1.0% (Dec 2021)
5-year ahead	Professional forecasters	1.9% (Oct 2021)

Crude oil prices are expected to rise temporarily. There is a need to monitor the cost pass-through of businesses.

Dubai crude oil prices increased temporarily and would gradually fall in the second half of 2022

Dubai crude oil prices (USD/BBL)	2020*	2021	2022	2023
Monetary Policy Report Sep-21	42.2	66.4	65.5	n.a.
Monetary Policy Report Dec-21		69.0	68.3	69.5

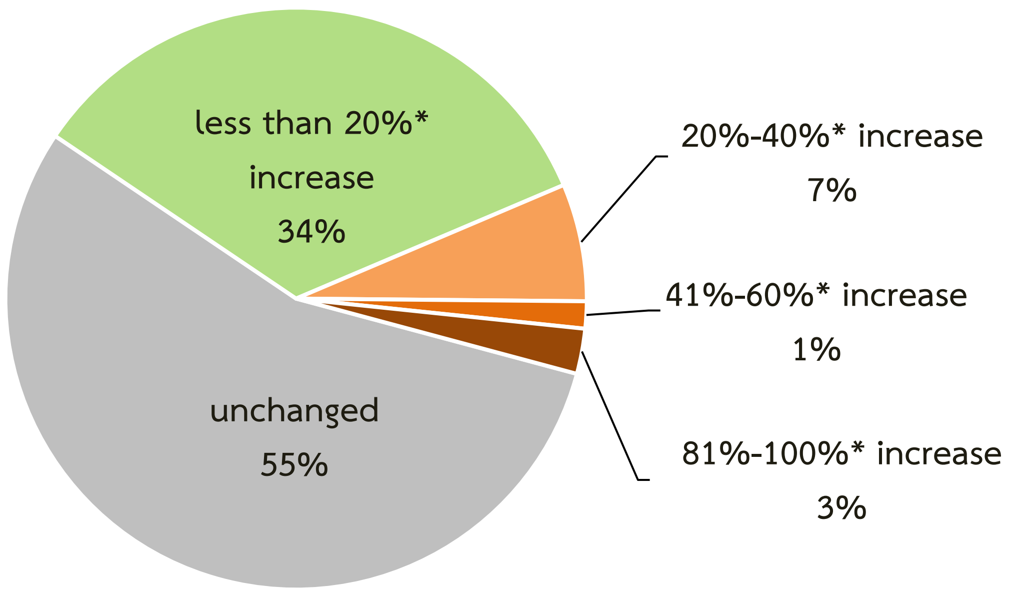


Note * Outturns

Source: EIA as of 7 Dec 2021, calculated by BOT

According to a survey, 55 percent of businesses keep prices unchanged

Tendency of businesses to raise prices in 3 months ahead



Note: *percentage of incremental costs

Source: A survey of 199 businesses about the impacts of COVID-19 in November 2021

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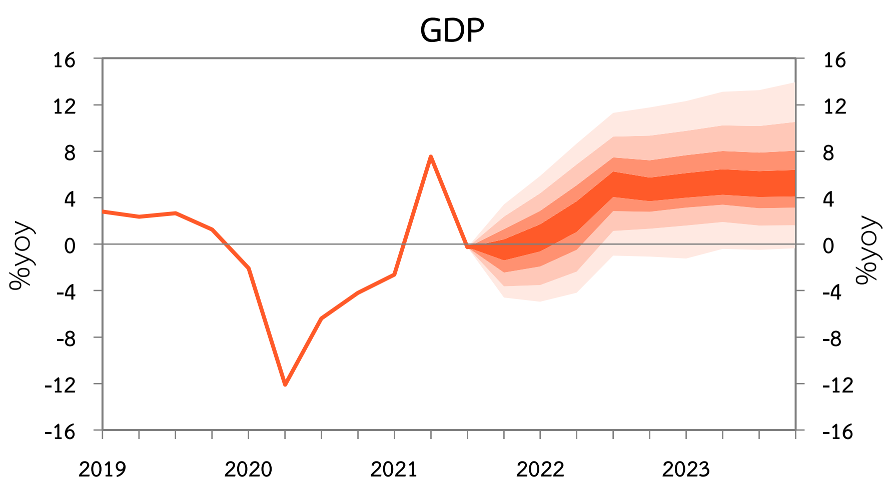
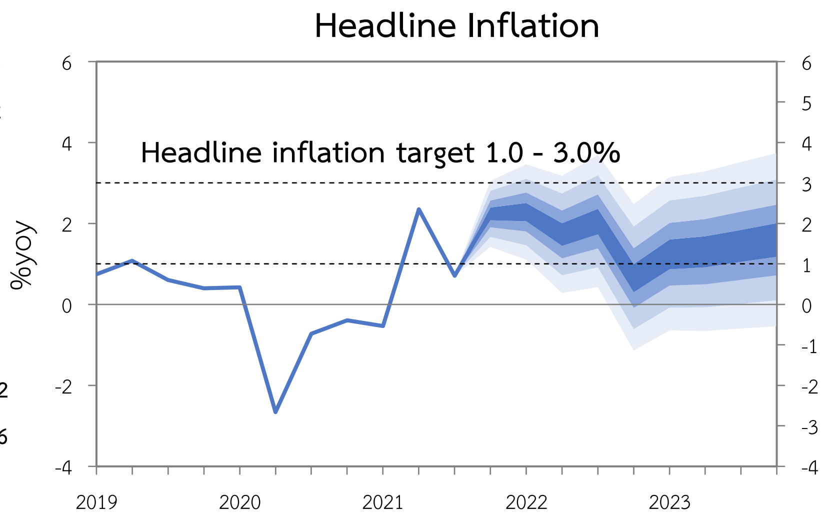
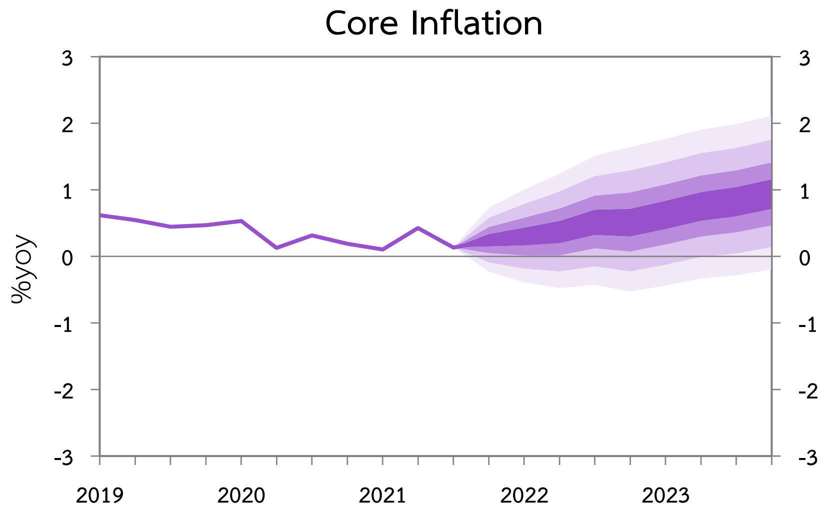
The economy could underperform the baseline projection, particularly in the first half of 2022 due to uncertainties regarding Omicron outbreak. Headline inflation outlook would be subject to upside risks from higher cost pass-through and supply disruption problems.







Key risks to growth outlook

- More severe or prolonged Omicron outbreak than expected
- Continuity of government stimulus
- Potentially prolonged supply disruption problems

Key risks to inflation outlook

- Higher cost pass-through to consumers than expected
- Potentially prolonged supply disruption problems
- Risks pertaining to Dubai crude oil prices

Key monetary policy discussions

The Monetary Policy Committee (MPC) voted to maintain the policy rate to preserve accommodative financial conditions and support economic growth.

MPC Meeting 7/2021 (10 Nov 2021)	MPC Meeting 8/2021 (22 Dec 2021)

MPC voted unanimously

To maintain the policy rate at **0.50** percent

The Thai economy **would continue to recover on the back of domestic spending and tourism recovery.** Omicron outbreak would impact the economy in early 2022 and is a key risk to growth outlook in the period ahead depending on the severity of the outbreak and the strictness of containment measures.

Inflation **is expected to remain within the target range over the medium term. Headline inflation increased temporarily mainly from higher energy prices but there remains a need to closely monitor global inflation development and cost pass-through of businesses.** At present, the likelihood that inflation would rise continually is limited because (1) businesses have limited ability to pass on higher costs to consumers as economic recovery is still gradual and (2) employment and labor income remain fragile

Financial stability: **Elevated debt levels of households and businesses could hinder future economic growth.** It is deemed appropriate to prepare for medium-term risks that could potentially be materializing.

The MPC continues to place emphasis on economic recovery in deliberating policy decision and would continue to monitor factors that could affect the economic outlook. The factors include development of COVID-19 situation, the adequacy of fiscal, financial, and credit measures, as well as higher cost pass-through of businesses. **The MPC stands ready to use additional appropriate monetary policy tools if necessary.**

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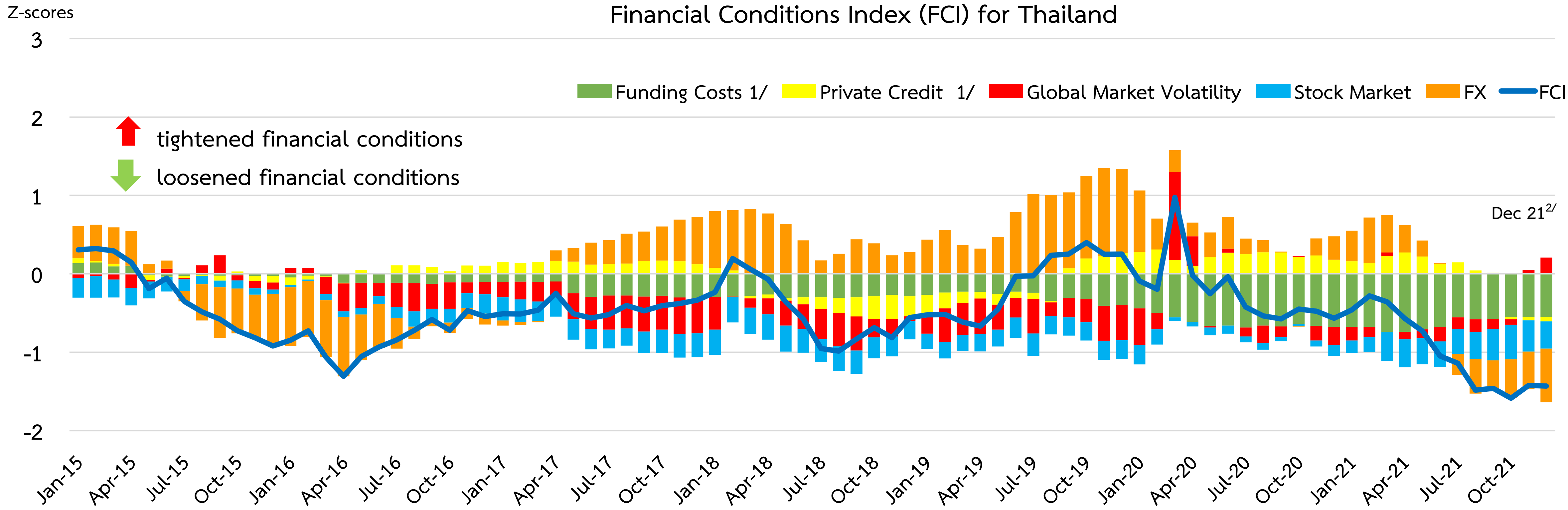
Financial conditions were accommodative overall, especially for funding costs and exchange rate. Nonetheless, volatilities in global financial markets due to concerns over Omicron outbreak resulted in a slight tightening in financial conditions.



Notes:

FCI is calculated using first principal components of both FX and non-FX financial condition indicators which are weighted by their respective sizes of accumulated impulse response on real GDP (%yoy) over 8 quarters using VAR(2) model. For funding costs and private credit categories, weights of each variable are adjusted according to its proportion in total private funding structure. Non-FX indicators include (1) funding costs, (2) private credit, (3) global market volatility, and (4) stock market.

1/ New loan rate (NLR), average of 6 banks' floating mortgage rates, and net new loan amounts extended to businesses and households in the most recent month are assumed to be equal to the previous month's data.

2/ Average of data points up until 14 Dec 2021

Source: BOT

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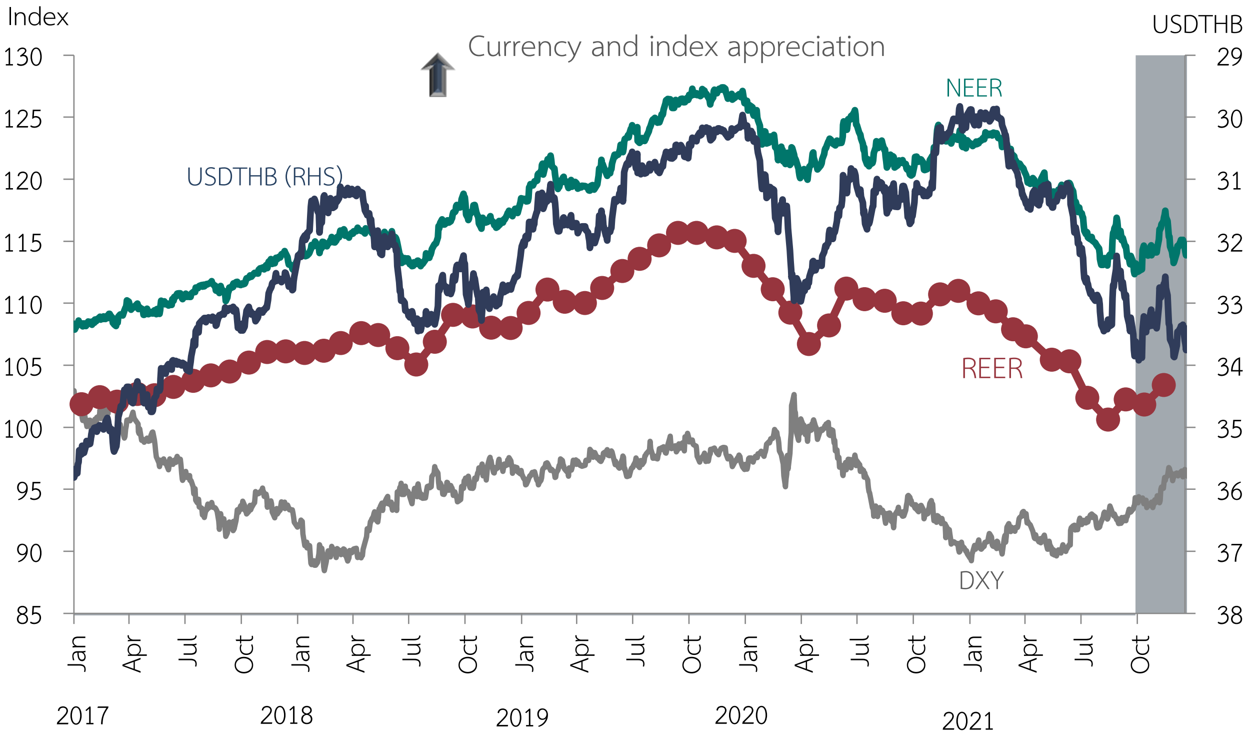
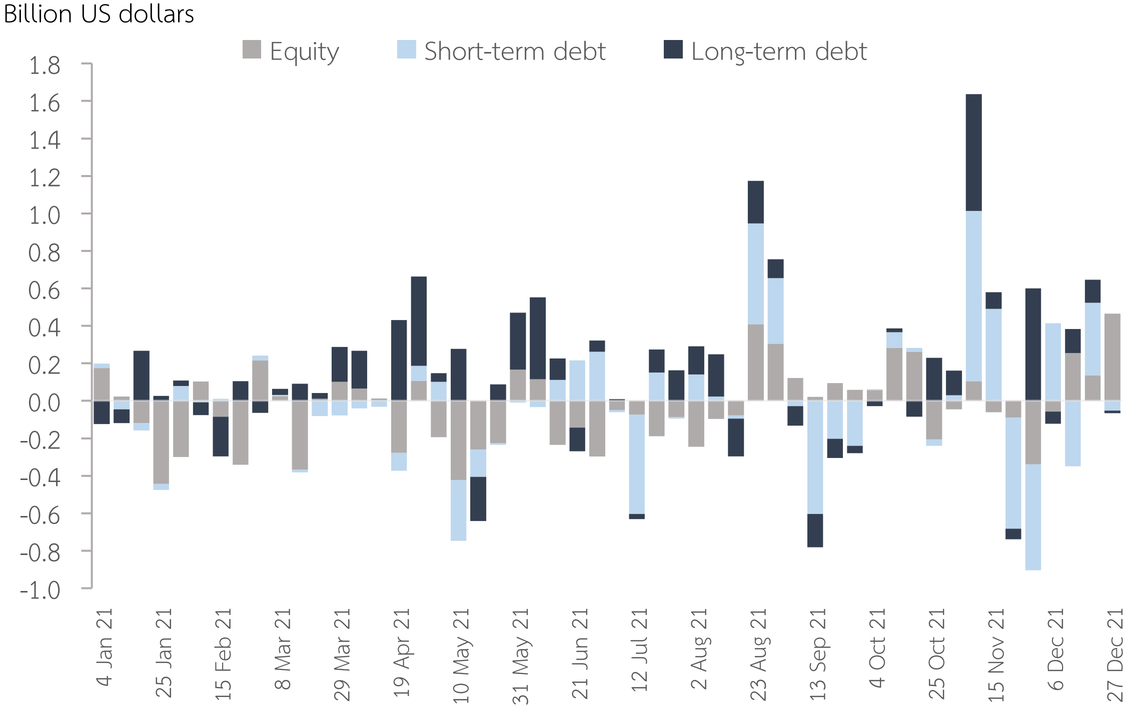
The baht depreciated owing to the spread of Omicron and tightening monetary policy in advanced economies.

USDTHB, NEER, and DXY



Source: BOT, Bloomberg, and Refinitiv (data as of 30 December 2021)

Capital flows in Thai stock and bond markets



Source: ThaiBMA and Bloomberg   Note: weekly data is compiled from trading days in each week

Risks pertaining to volatility in global financial markets have increased, especially from monetary policy divergence. However, there are offsetting factors and available tools that could alleviate the impacts on the Thai economy.

Transmission channels of global financial market volatility

- Capital outflows
- Exchange rate depreciation
- Rising Thai government bond yields

The Thai economy has offsetting factors that help reduce the impacts of external factors

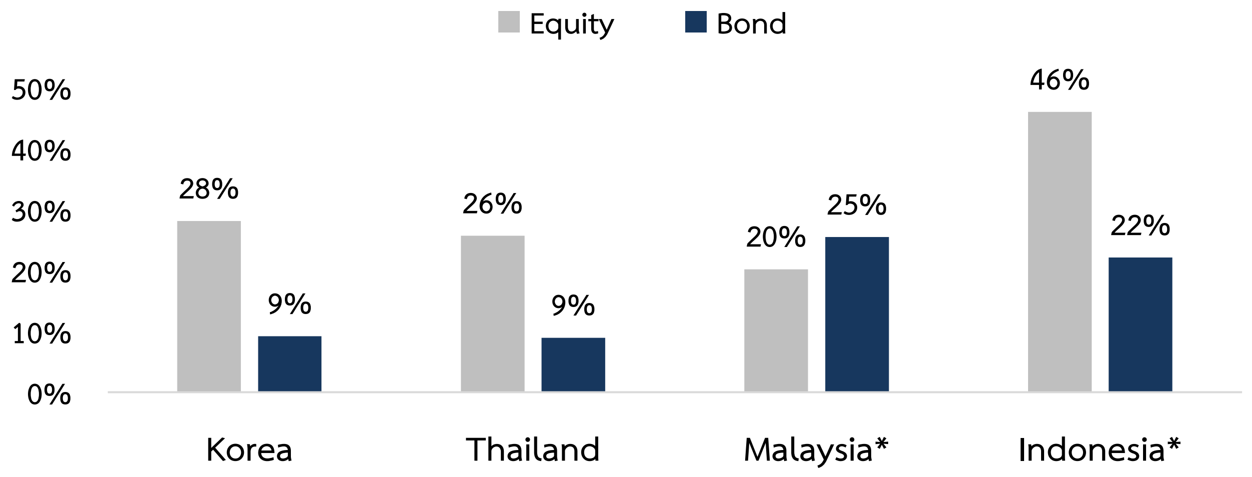
- **Limited non-resident participation in Thai capital markets:** 26% in the stock market and 9% in the bond market
- **High level of international reserves**, representing the 12th-highest international reserves in the world, is 3 times larger than short-term external debt.
- **Limited impacts on private funding costs** as 90% of financing in Thailand is obtained through bank credits, especially for SMEs

The BOT has available tools to be deployed should the Thai financial markets experience excessive volatilities

- Addressing excessive volatility in the foreign exchange market
- Addressing any malfunctioning problems in the bond market

Thailand has relatively low non-resident participation compared to other regional peers.

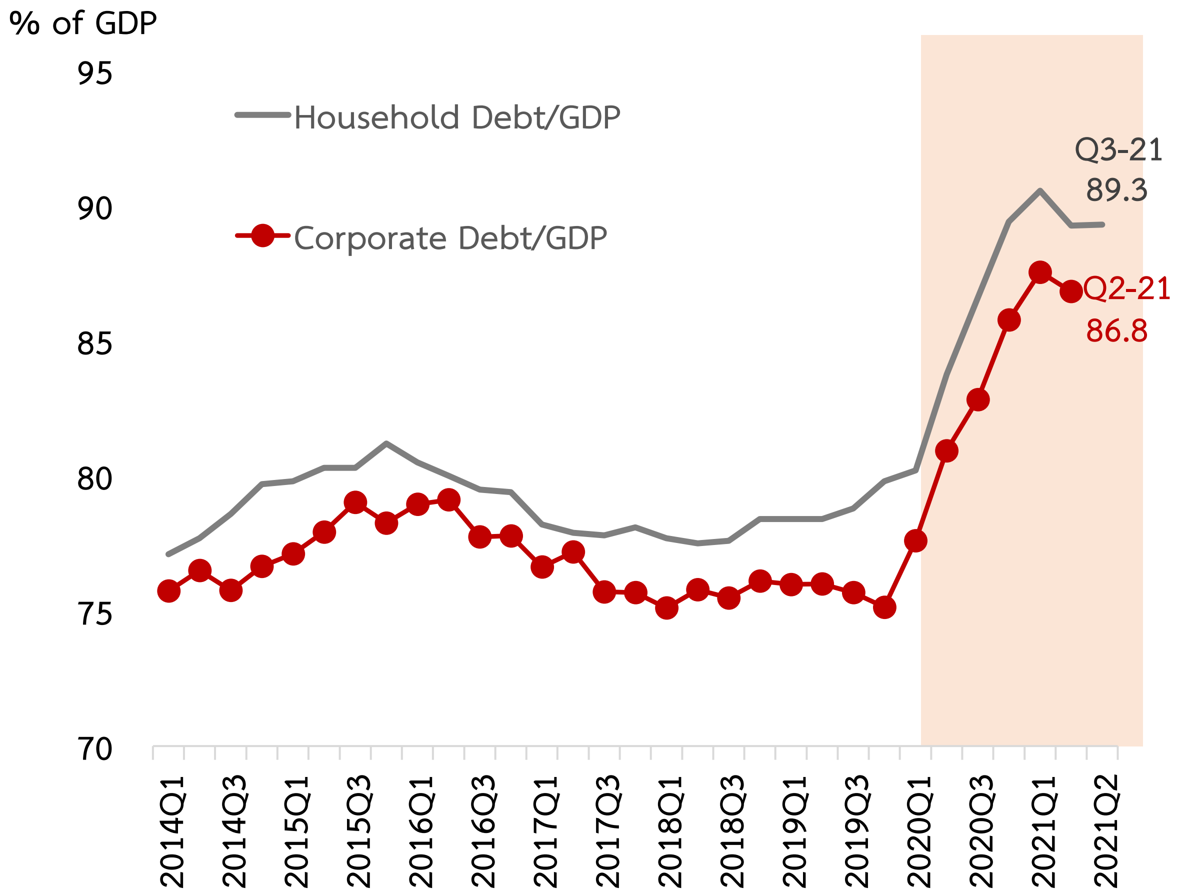
Non-resident participation in equity and bond markets (Oct 2021)



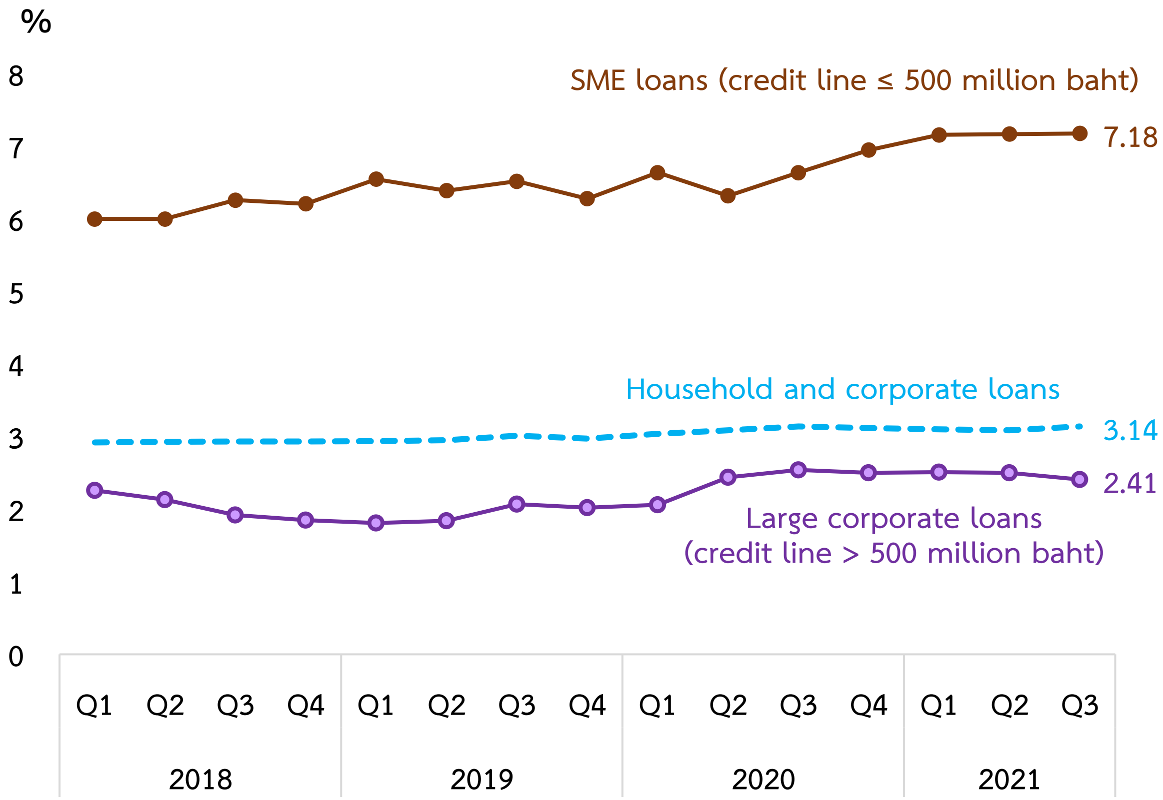
*Note: Bond data for Malaysia and Indonesia includes only government bonds.
Equity data is as of end-Jul 2021 for Malaysia, and as of end-Sep 2021 of Indonesia.

Financial position of households and businesses remain fragile as reflected in high levels of their debt to GDP ratios

Household and corporate debt-to-GDP ratios



Commercial banks' non-performing loan (NPL) ratios



Coordination between financial and fiscal measureswould help support economic recovery in 2022 which remains subject to high uncertainty.

Financial measures

Solve existing debt

- Long-term debt restructuring program (3 Sep 2021)
- Debt consolidation measure new
- Measure to support refinancing by prohibiting the collection of prepayment fees new
- DR Biz program
- Debt Clinic / Debt Doctor for the People
- Debt Mediation

Liquidity support

- Special soft loan facility
- Asset warehousing
- FIDF fee reduction
- Increased credit limits on credit card, personal, and digital personal loans
- Minimum loan repayment reduction
- Digital supply chain finance

Macroprudential Policy

- Temporary relaxation of the maximum loan to value (LTV) to 100% of the residential property's value until end of 2022 to bolster real estate sector and the economy new

Fiscal measures

- Half-Half co-payment scheme / the More You Spend, the More You Get scheme
- Shop and Payback scheme (Jan – Feb 22)
- Extension of transfer and mortgage fee reduction for residential properties until end of 2022
- Measures to promote and maintain employment for SMEs (Nov 21 – Jan 22)
- Temporary raise of public debt ceiling as stipulated in Section 28 of Fiscal Responsibility Act from 30% to 35% for 1 year

The adjustment of Monetary Policy Committee (MPC) meeting frequency

The MPC decided at Meeting No. 8/2021 on December 22, 2021 to adjust the MPC meeting frequency to 6 times per year while keeping publication frequency of Monetary Policy Report at 4 times per year.

Previous

MPC meeting
8 times per year
(every 6-8 weeks)

New

MPC meeting
6 times per year
(every 7-10 weeks)

1 Information Flow

Macroeconomic data does not change significantly in a short period of time.
Given more new data, quality of the analysis tends to improve while volatility associated with temporarily irregular data can be looked through.

2 Communication

Frequent meetings could have unintended consequences on market expectations.
A lower frequency allows capital markets to better predict policy direction.
This also acknowledges the policy's limited ability to fine-tune the economy.

3 Internal Process

This allows more effective management of limited time and resources by focusing on in-depth analysis to support and guide policy implementation.

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The frequency of MPC meetings in foreign central banks has seen a downward trend.

The frequency of meetings in advanced economy has been reduced to 8 times per year.

EU reduced from 12 to 8 times per year (2015)

England reduced from 12 to 8 times per year (2015)

Japan reduced from 14 to 8 times per year (2016)

Many central banks have less than 8 meetings per year.

New Zealand reduced from 8 to 7 times per year (2016)

Malaysia reduced from 8 to 6 times per year (2010)

Sweden reduced from 6 to 5 times a year (2020)

* Some countries have had few meetings in the first place, such as Singapore (2), Taiwan (4), Switzerland (4).

Examples of reasons to reduce the meeting frequency

"The frequency of policy meetings should reflect ***the frequency with which underlying economic conditions evolve****, while [...] taking into consideration* ***the resources*** *that each meeting absorbs and maintaining* ***the flexibility to conduct unscheduled meetings."*** ***Warsh Review, Bank of England (2014)***

"... ***give the financial markets clarity*** *over a longer timeframe to enable more efficient risk management and pricing of financial instruments"* ***Reserve Bank of New Zealand (2015)***

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Schedule of MPC meeting, Monetary Policy Report publication, and Analyst Meeting for 2022

MPC no.	Announcement of MPC Decision	Monetary Policy Report	Analyst Meeting
1	Wednesday 9 February 2022		
2	Wednesday 30 March 2022	Tuesday 12 April 2022	Monday 18 April 2022
3	Wednesday 8 June 2022	Wednesday 22 June 2022	Monday 27 June 2022
4	Wednesday 10 August 2022		
5	Wednesday 28 September 2022	Wednesday 12 October 2022	Monday 17 October 2022
6	Wednesday 30 November 2022	Wednesday 14 December 2022	Monday 19 December 2022

Key forecast assumptions

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Forecast assumptions

Annual percentage change	2020*	2021	2022	2023
Trading partners' GDP growth (% YoY)[2/]	-3.4	5.3	4.0	3.3
		(5.6)	(4.3)	
Fed funds rate (% year end)	0.00 – 0.25	0.00 – 0.25	0.75 – 1.00	1.50 – 1.75
		(0.00 – 0.25)	(0.00 – 0.25)	
Regional currencies (excl. China) vis-à-vis the U.S. dollar (index) [3/]	157.1	153.4	155.1	154.6
		(153.1)	(154.3)	
Dubai crude oil price (U.S. dollar per barrel)	42.2	69.0	68.3	69.5
		(66.4)	(65.5)	
Farm income (% YoY)	1.6	4.3	2.2	1.0
		(6.5)	(0.6)	
Government consumption at current price (billion baht)[1/]	2,780	2,894	2,943	3,001
		(2,927)	(2,973)	
Public investment at current price (billion baht)[1/]	1,011	1,081	1,135	1,166
		(1,107)	(1,192)	

Notes: [1/]Assumptions include loans for economic and social development under Section 22 in Public Debt Management Act, B.E. 2548 (2005)

[2/]Weighted by each trading partner's share in Thailand's total exports

[3/]Increasing index represents depreciation, decreasing index represents appreciation

* Outturns

( ) Monetary Policy Report September 2021