ธนาคารแห่งประเทศไทย
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Analyst Meeting No. 1/2022

18 April 2022

(The economic projections are based on data as of 29 March 2022)

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Thailand's economic and inflation outlook

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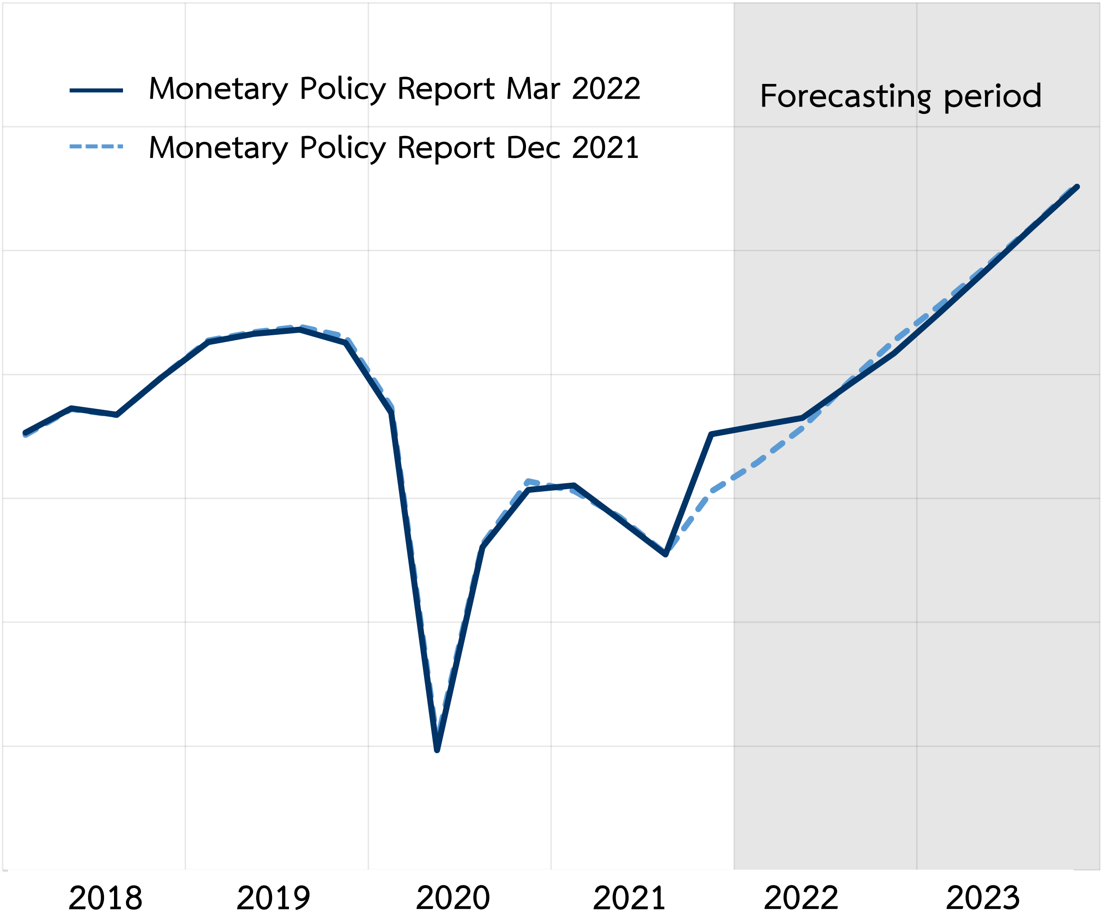
GDP growth outturns for Q4/2022 were better than expected, especially private consumption. Notwithstanding, GDP growth forecasts for 2022-2023 are revised down mainly due to the impact of the Russia-Ukraine conflict

Contributions to the revision in GDP growth forecasts

GDP Growth (%YoY)	2022	2023
Previous forecast as of Dec 2021	3.4	4.7
- Better-than-expected GDP growth outturns for Q4/2022 and private consumption outlook	0.4	
- Slowdown in trading partners' growth due to the Russia-Ukraine conflict	-0.2	-0.1
- Impact from higher oil and commodity prices	-0.3	
- Lower foreign tourist figures especially Russian tourists		-0.2
- Impact from the outbreak of Omicron in Thailand	-0.1	
Total change from previous forecast	-0.2	-0.3
Latest forecast as of March 2022	3.2	4.4

The Thai economy is expected to continue expanding in 2022 and 2023 driven by the recovery in domestic demand and tourism

Real GDP



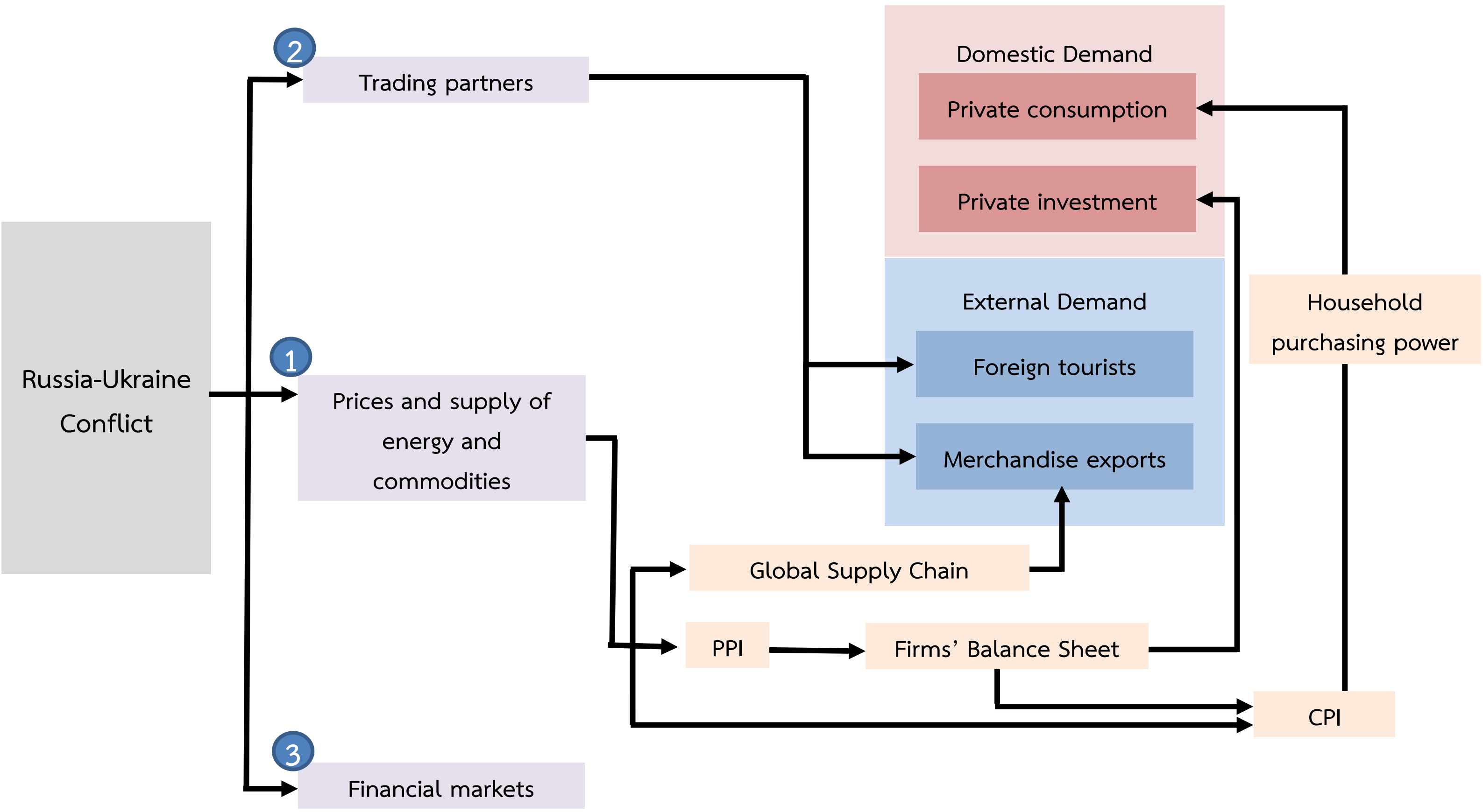
Growth (%YoY)	2021*	2022		2023	
		Dec 2021	Mar 2022	Dec 2021	Mar 2022
GDP growth	1.6	3.4	3.2	4.7	4.4
Domestic demand	1.6	4.3	3.4	3.2	3.2
Private Consumption	0.3	5.6	4.3	3.8	4.1
Private Investment	3.2	5.4	4.7	5.0	4.8
Government Consumption	3.2	-0.3	-0.7	0.3	-1.7
Government Investment	3.8	3.6	4.2	1.4	4.4
Export of goods and services	10.4	5.5	6.3	9.7	8.5
Imports of goods and services	17.9	4.6	4.9	4.6	4.2
Current account (billion U.S. dollars)	-10.9	1.5	-6.0	19.7	10.0
Value of merchandise exports	18.8	3.5	7.0	2.9	1.5
Value of merchandise imports	23.4	4.8	11.6	3.7	2.0
Number of foreign tourists (million persons)	0.4	5.6	5.6	20.0	19.0

Note: *outturn

Source: NESDB, forecasted by BOT

The Russia-Ukraine conflict will not derail the overall recovery path of the Thai economy because the impact will mostly be felt through inflation in both energy and commodity prices

Transmission channel



Limited Impact on trade and financial markets

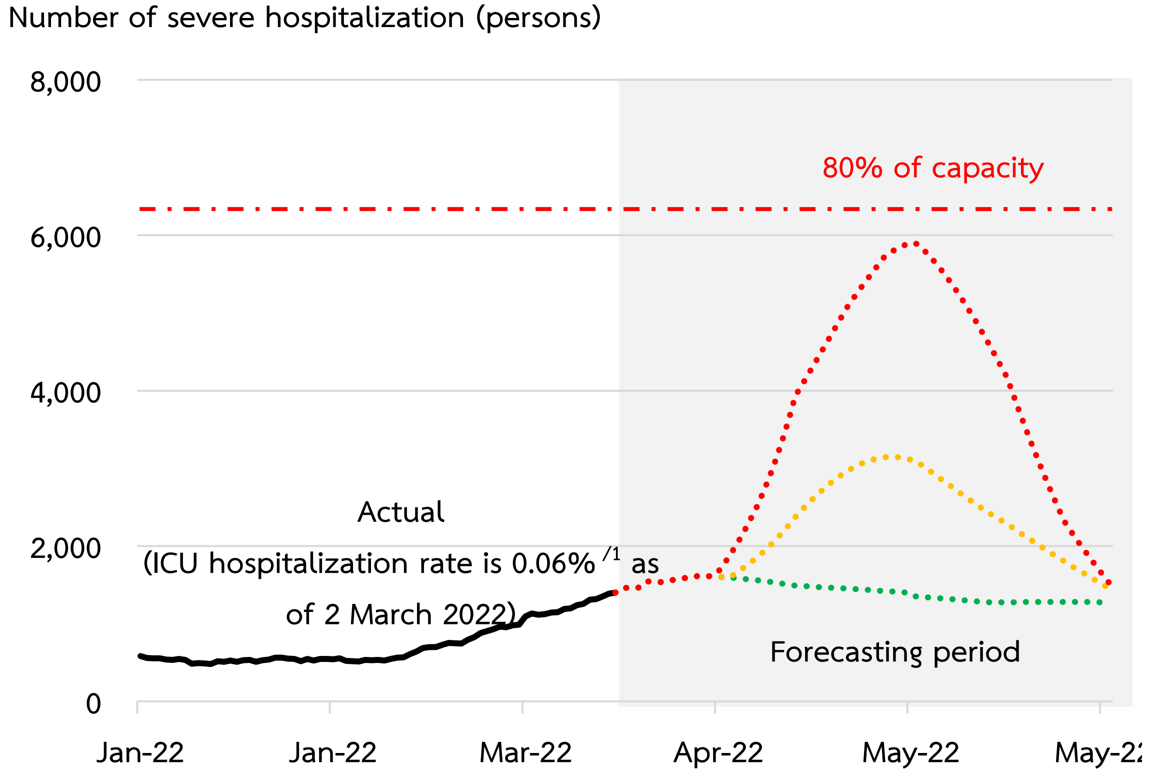
- Thai exports to Russia account for only 0.4% of total exports value in 2021
- Russian tourists account for only 4% of all foreign tourists in pre-COVID periods
- Thailand's external stability remains strong

Impact on inflation

- Increases in energy and commodity prices will affect costs of goods, costs of living, and purchasing power domestically. External demand would also slow down as a result.
- Vulnerable households and businesses are particularly affected by higher cost of living and input costs, especially for those whose income is still recovering slowly and those that are heavily indebted

The outbreak of Omicron will not impact economic activities as much as Delta. Thus, no large-scale lockdowns are expected and containment measures will gradually be relaxed to admit foreign tourists starting in Q1-2022

Projected Number of COVID-19 Severe Cases (by Department of Disease Control)



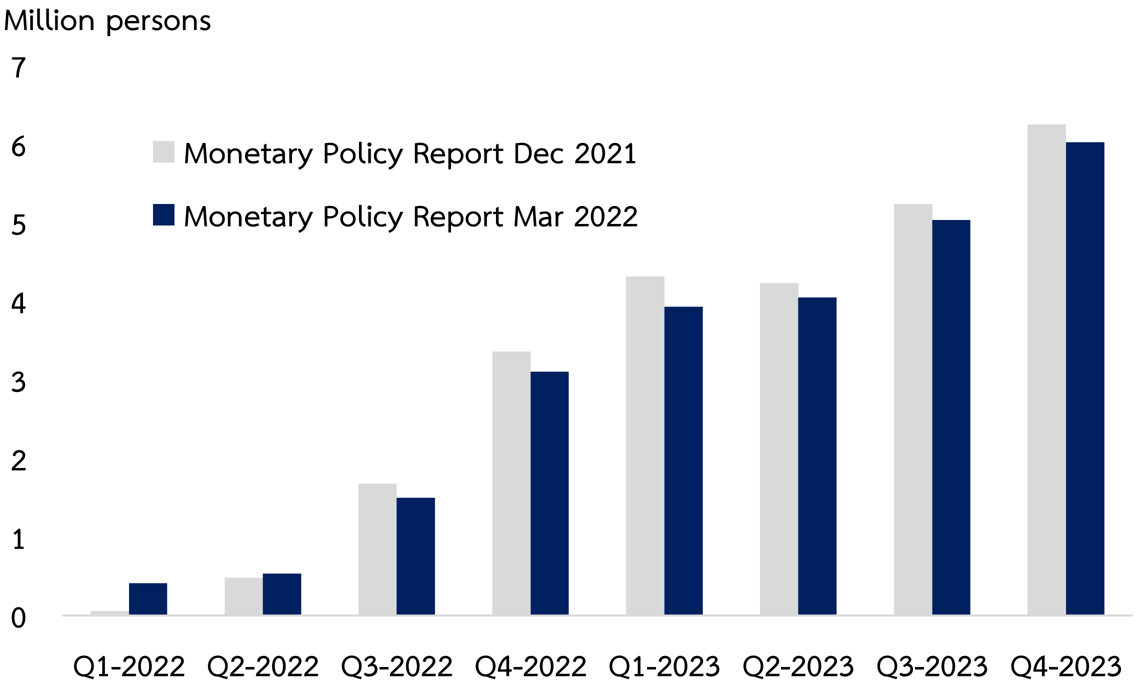
Scenario

- All measures are relaxed / weak public compliance with health measures
- Measures are maintained / medium public compliance with health measures
- Measures are tightened / strong public compliance with health measures

Note: [1] Number of ICU hospitalization divided by the average number new cases over 7 days as of 14 days prior

Source: Department of Disease Control (data as of 2 March 2022)

Projected Number of Foreign Tourists

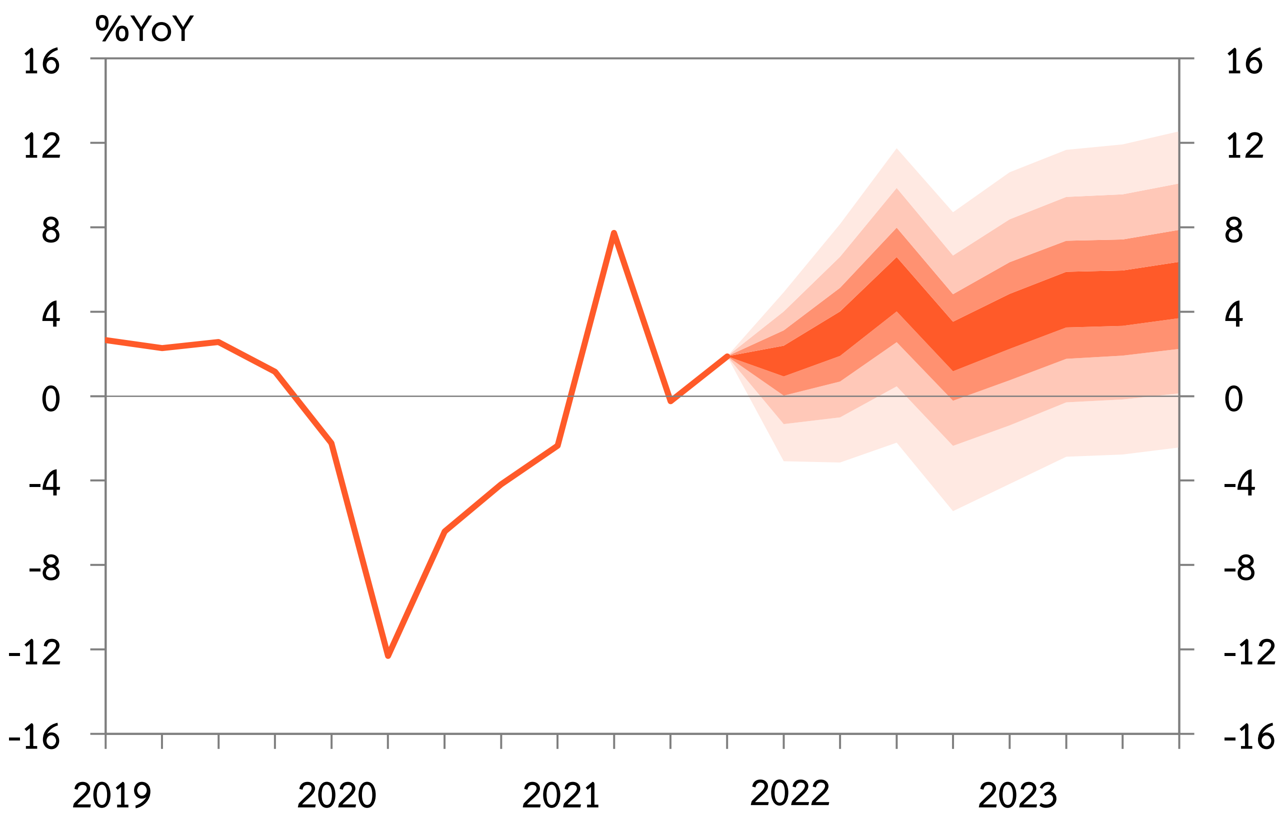


Million persons	2022		2023	
	Dec 2021	Mar 2022	Dec 2021	Mar 2022
Foreign tourists	5.6	5.6	20.0	19.0

Source: BOT forecast

However, Thailand's growth outlook is subjected to greater downside risks in the short term

GDP Growth



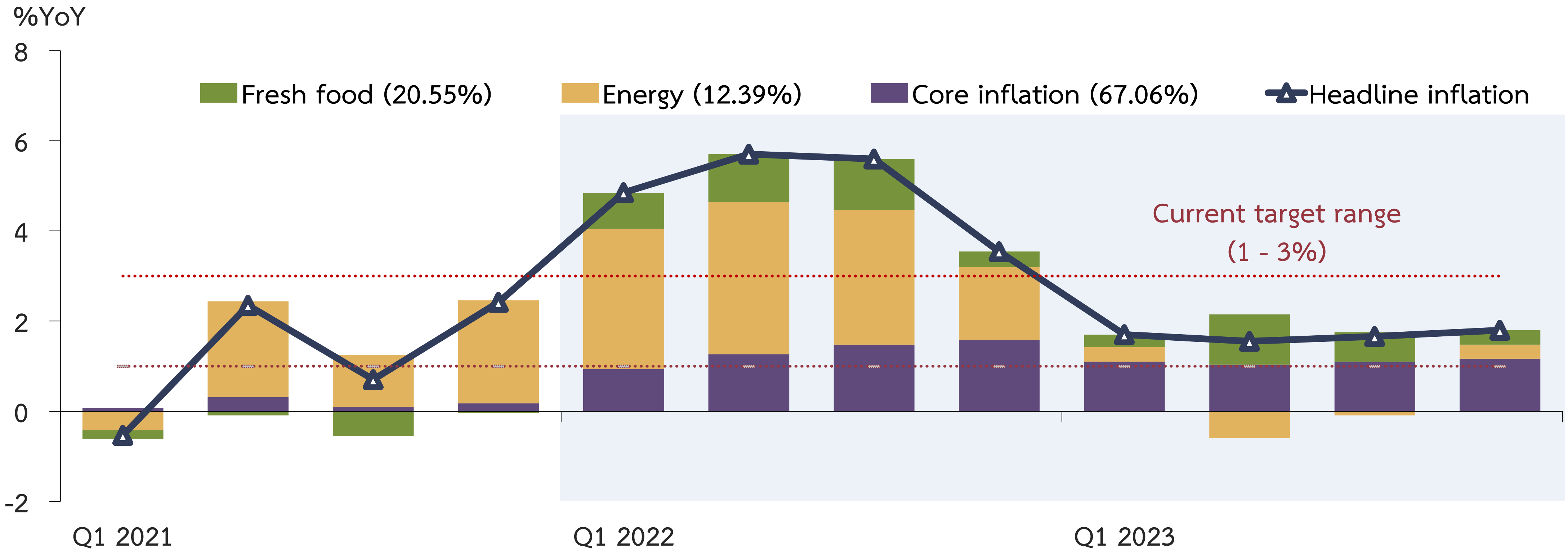
Factors that would result in GDP growth underperform the baseline projection

- Global supply disruption might turn out to be more severe than expected
- Cost of living might increase to the point where it adversely impacts private consumption
- Outbreak of new COVID-19 variants

Factors that would result in GDP growth outperforming the baseline

- Higher private expenditure from pent-up demand

Headline inflation in 2022 will exceed the upper bound of the target driven primarily by rising energy prices and the pass-through of food prices. These effects will gradually dissipate, and thus headline inflation will decline and return to the target range in 2023



Note: ( ) denotes weight in the CPI basket

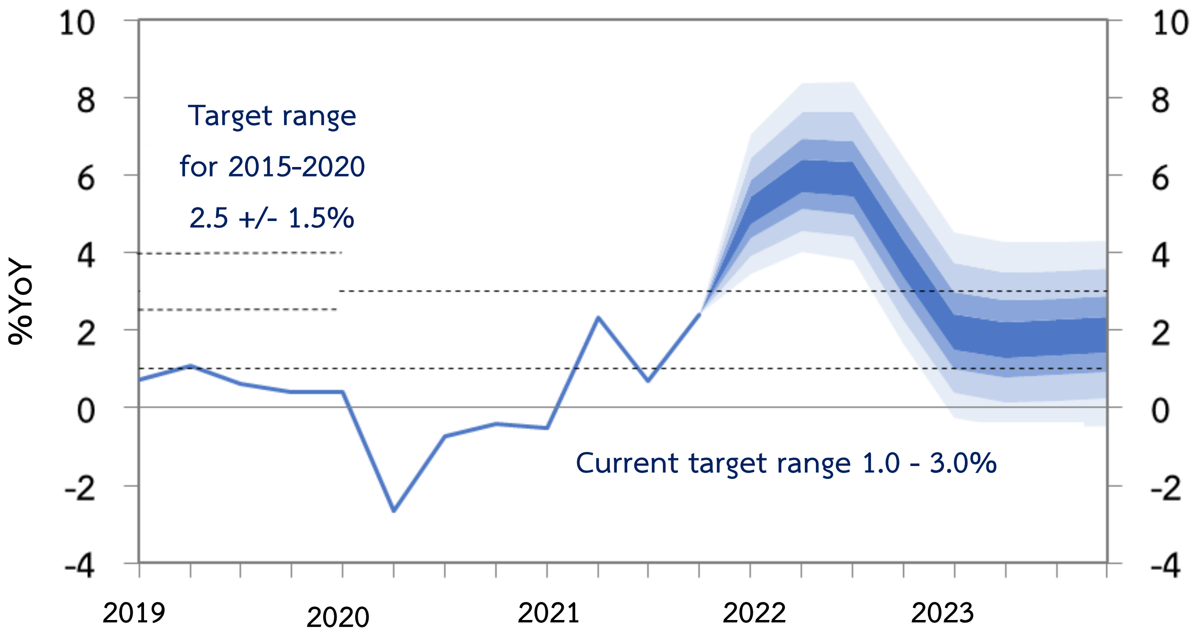
Source: MOC ; forecasted by BOT

%	2022	2023
Headline inflation	**4.9** (1.7)	**1.7** (1.4)
Core inflation	**2.0** (0.4)	**1.7** (0.7)

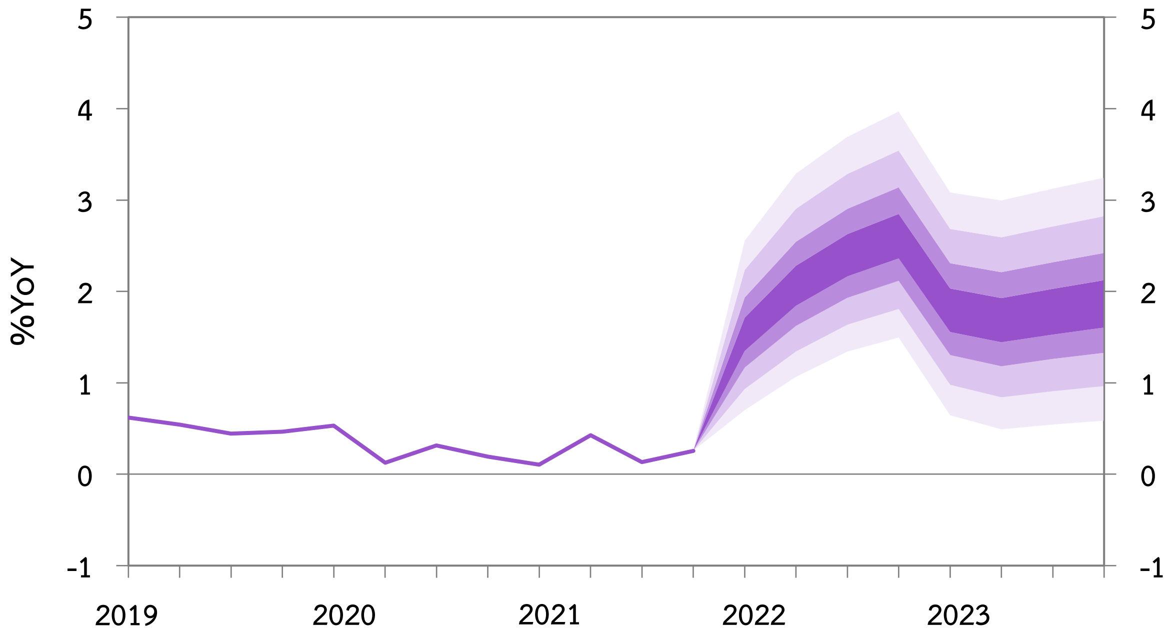
Note: ( ) Monetary Policy Report Dec 2021
Source: MOC ; forecasted by BOT

There remains risks that headline inflation will be higher than the baseline forecast stemming from higher-than-expected oil prices and cost pass-through from producers to consumers

Headline inflation forecast



Core inflation forecast



Factors that could cause inflation to be higher than the baseline projection

- Global supply disruption might turn out to be more severe than previously expected
- Businesses might pass on higher costs to consumer more than previously expected

Factors that could cause inflation to be lower than the baseline projection

- The economic recovery might turn out to be more sluggish than the baseline projection

Key monetary policy discussions

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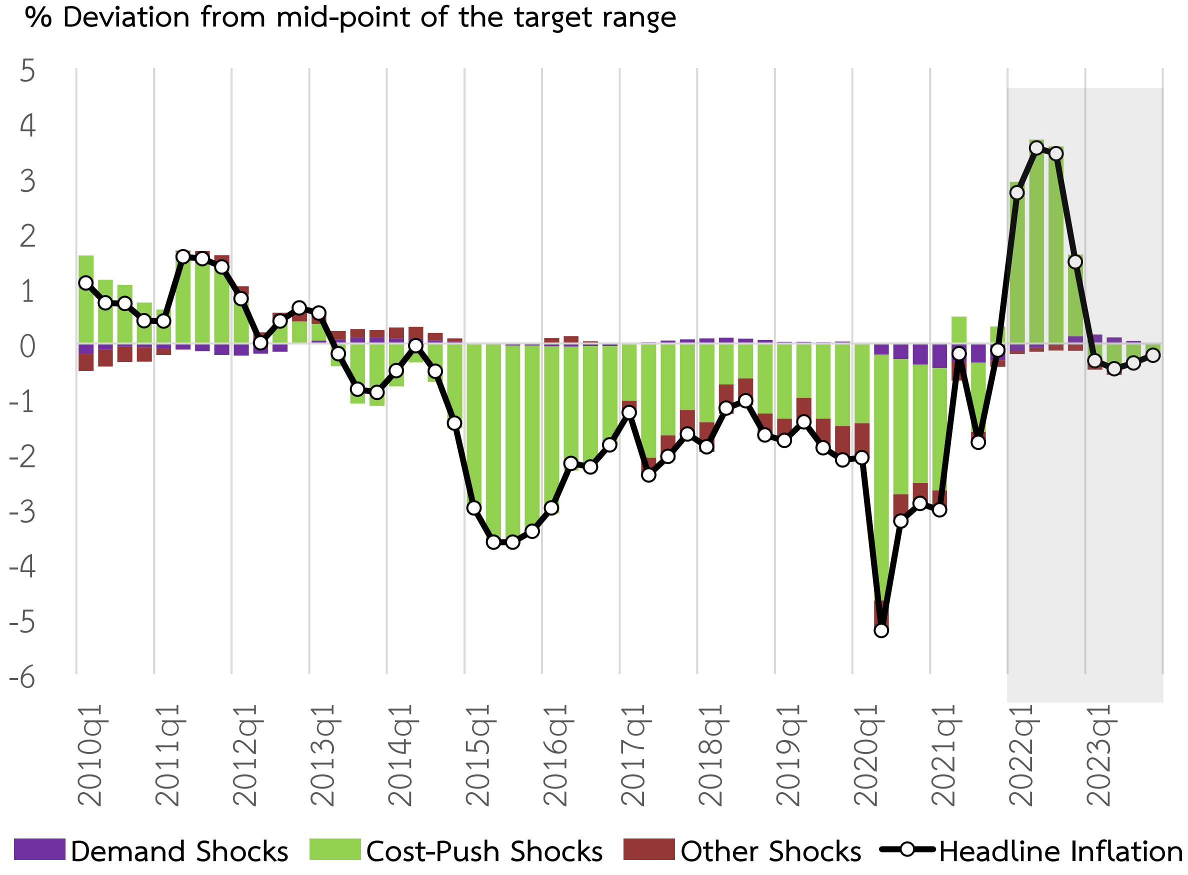
The conduct of monetary policy should assess sources of price increases in order to ascertain the most appropriate policy tools

Sources of Price Increases

1. Relative price changes	Prices of certain goods rises as a result of specific factors
2. Demand-pull inflation	Broad-based price increase across all goods as a result of an overheating economy
3. Unanchored inflation expectations	Prices of goods continue to rise in a broad-based and spiral manner, thus affecting inflation expectations

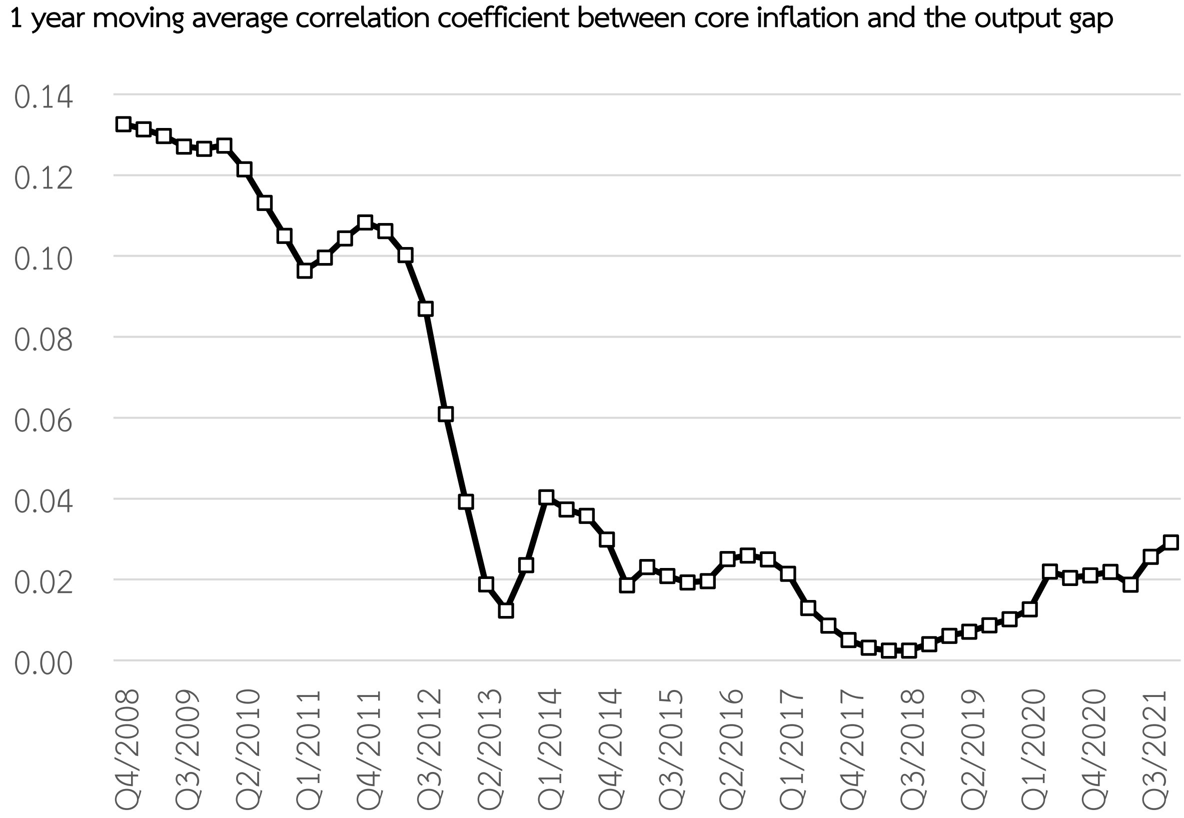
The recent increases in Thai inflation stemmed primarily from cost-push shocks especially energy and fresh food prices. Meanwhile, demand shocks have limited impact on inflation, partly reflecting the flattened Phillips curve

Decomposition of headline inflation



Note: Calculated from Semi-structural macro model

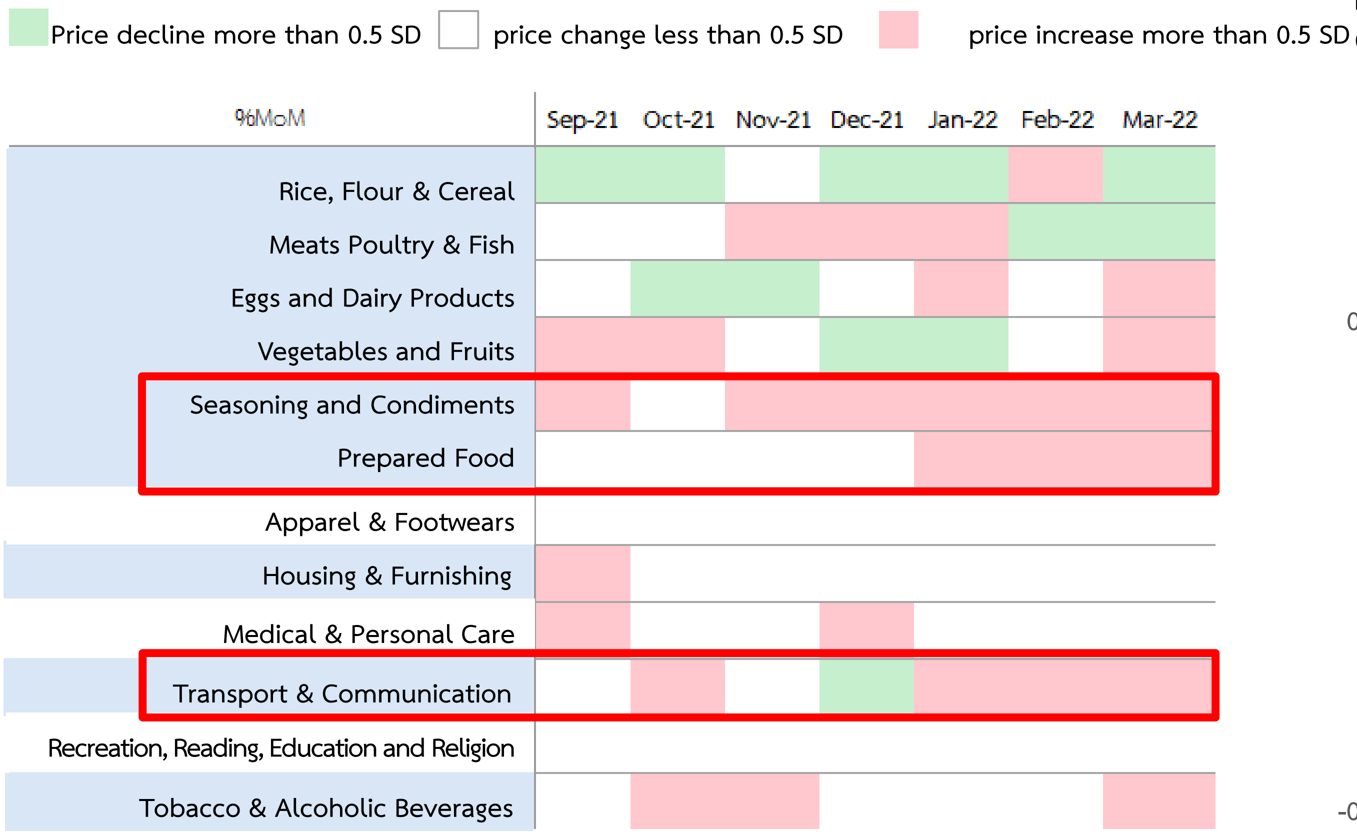
Correlation between core inflation and the output gap (Phillips curve)



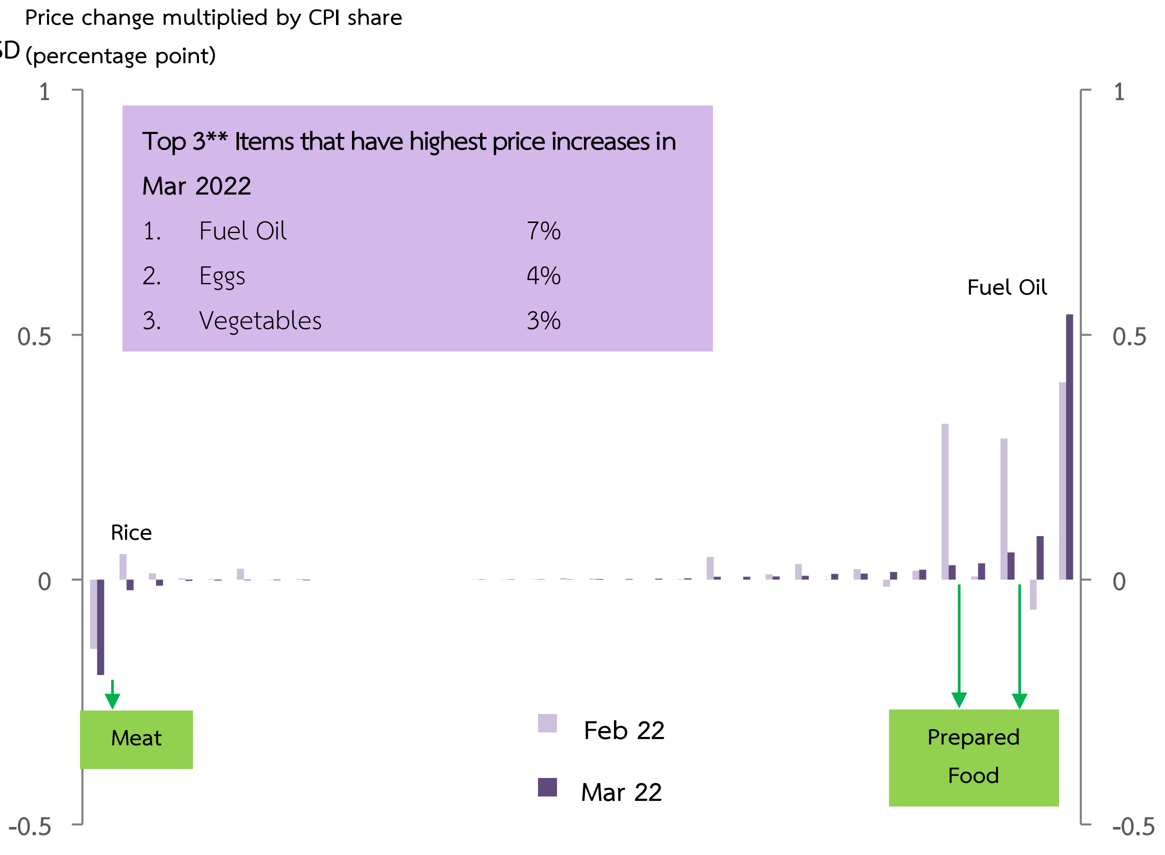
Note: The chart shows the 1-year moving average correlation coefficient between the output gap and quarterly core inflation (annualized QoQ core inflation) in a rolling window over 15 quarters

There is no evidence of increases in price beyond regular cost pass-through propagating to other products outside the energy and food categories. Additionally, latest indicators reflect waning momentum in relative price changes of some important items.

Continuity of Price Increase (%MoM)

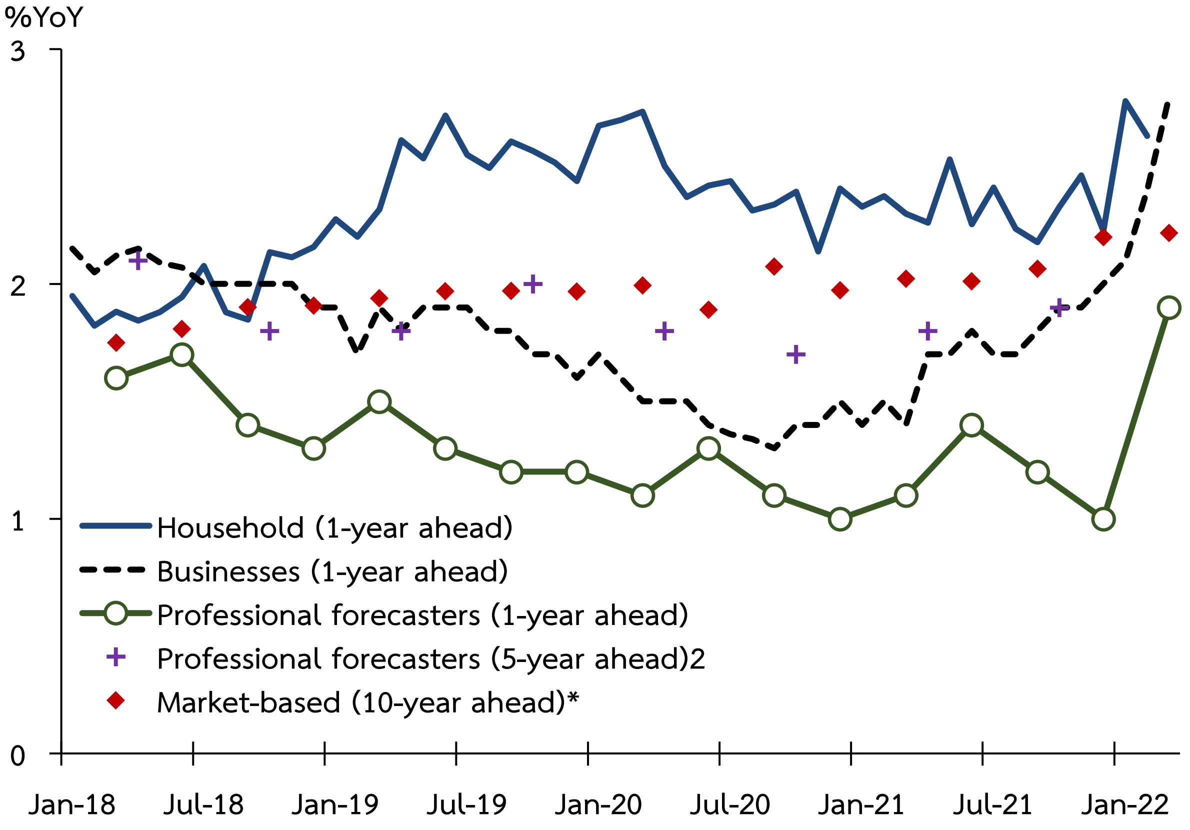


Increase in Price of Goods (%MoM) as Share of Consumption

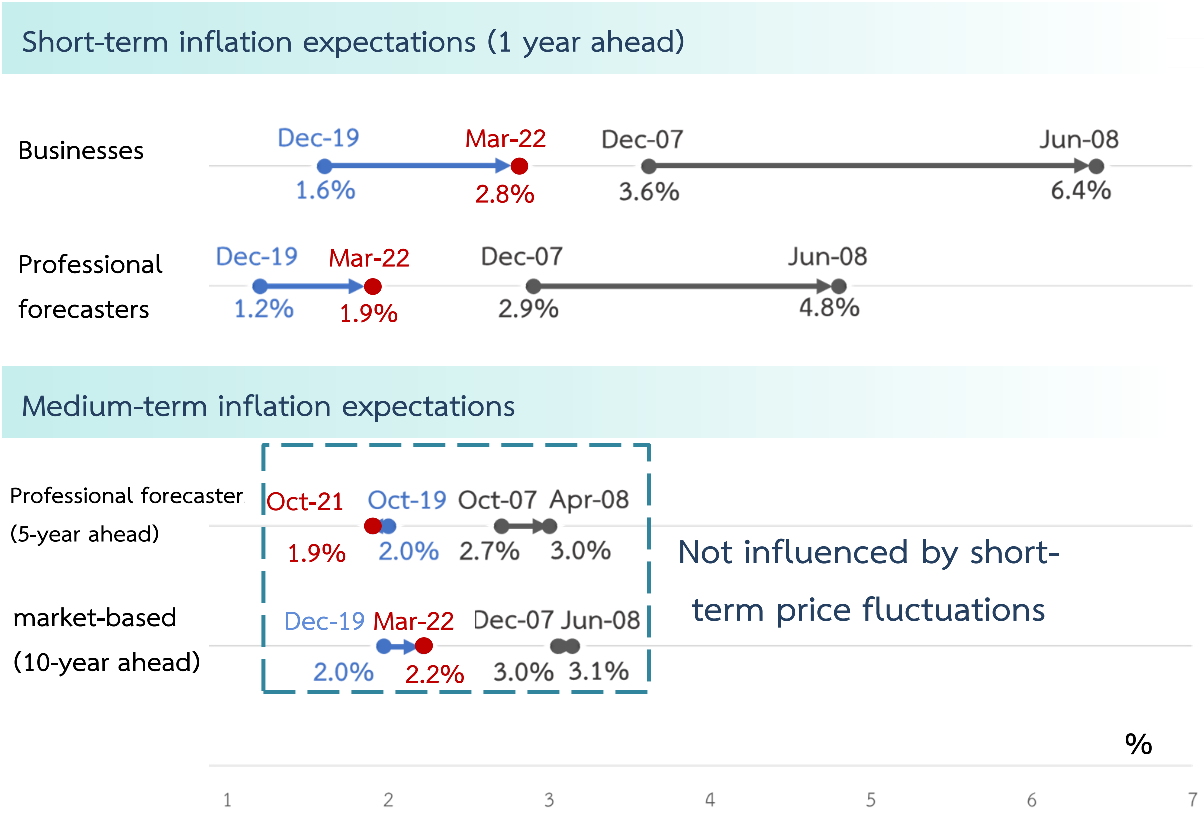


1-year ahead inflation expectations had edged up slightly, but medium-term inflation expectations remain consistent with the monetary policy target and are not influenced by short-term price fluctuations.

Short-term and Medium-term Inflation expectations



Change in inflation expectations during 2007-2008 and during 2019-2022



Note: calculated from semi-structural macro-finance term structure model

Source: Asia Pacific Consensus Economics, Business Sentiment Survey (BOT), Consumer Confidence Index (Ministry of Commerce)

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Rising inflation is a result of supply-side factors and therefore monetary policy could look through the short-term fluctuations. Nevertheless, inflation expectations and underlying inflation must still be monitored going forward.

Summary of inflation development

1 Price increases are driven mainly by relative price changes from supply shocks. Headline inflation is expected to return to the target range in 2023 given that energy and food prices are unlikely to increase further as the supply of oil increases and the commodity shortage subsides.

2 Demand-pull inflationary pressure remains subdued but will gradually rise with the economic recovery.

3 Monetary policy is able to keep medium-term inflation expectations well-anchored.

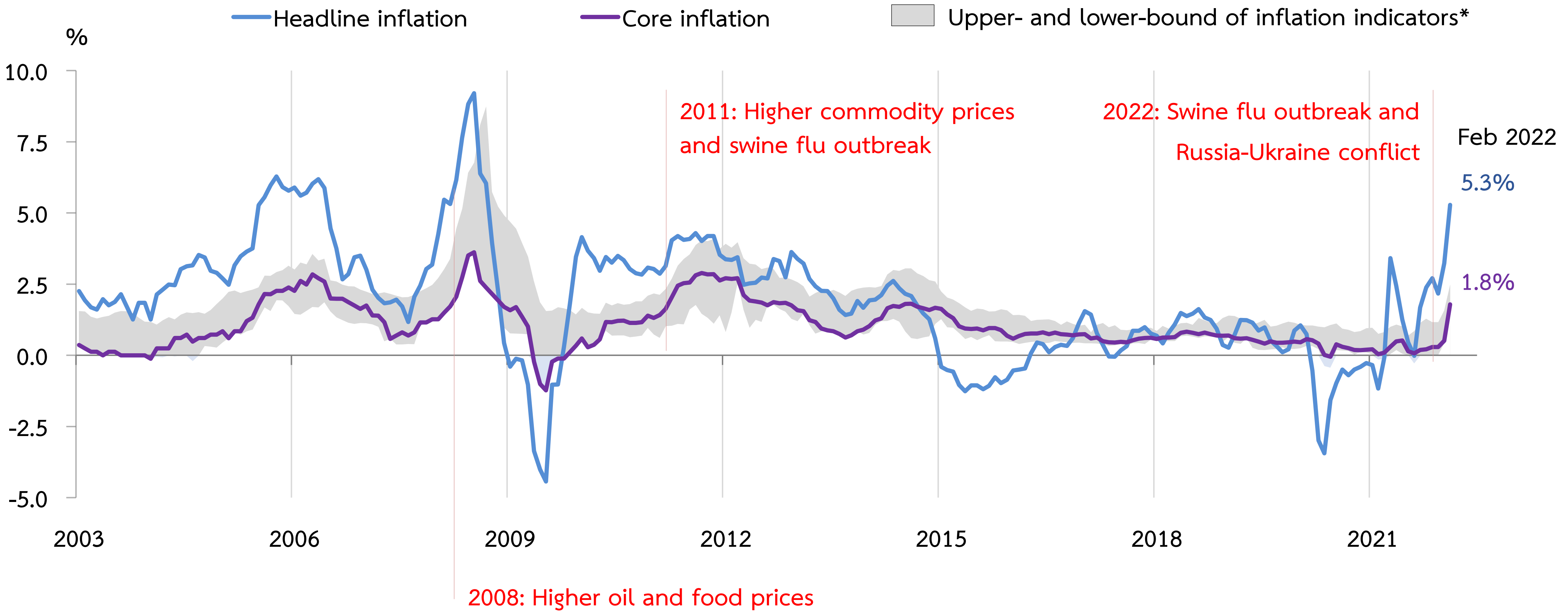
Monetary policy…

- …can prioritize the economic recovery and look through the recent pickup in inflation
- …should be accompanied by clear communication about the underlying causes of higher inflation so that it is well understood by the general public so as to keep inflation expectations well-anchored.

Factors that must be monitored going forward

- Inflation developments such as cost pass-through from businesses, wage pressure, inflation expectations, and indicators of underlying inflation
- The economic recovery which is expected to gain more traction in the latter half of 2022

Indicators of underlying inflation do not indicate concerning levels of inflationary pressure at present although close monitoring is still warranted going forward.



Note: *The shaded grey area are the upper- and lower-bounds of 6 indicators of underlying inflation, which include (1) core inflation; (2) core inflation excluding rent and government measures; (3) Median CPI (4) Trimmed mean CPI; (5) Sticky CPI which includes only goods whose frequency of price adjustment is longer than 5 months; (6) Common component CPI which is calculated from the principle components of 213 goods and services in the CPI basket using the generalized dynamic factor model

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The MPC maintained the policy rate to support the continuity of economic recovery

MPC Meeting No. 1/2022 (9 Feb 2022)	MPC Meeting No. 2/2022 (30 March 2022)

MPC voted unanimously

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

The Thai Economy **will continue to expand despite the impact from sanctions imposed on Russia** through higher energy and commodity prices as well as a slow down in external demand. Meanwhile, the impact of the Omicron variant outbreak on economic activities is expected to be more contained than previous waves.

Headline inflation **for the full year 2022 is expected to exceed the target rangemainly due to energy prices.** It is expected that headline inflation will peak in the second and third quarters of 2022 before gradually declining into the target range in early 2023 given that energy and food prices are unlikely to rise further. The recent pickup in inflation were mainly a result of supply-side pressure, while demand-pull inflationary pressure remained low in line with wages which had just started to recover.

Financial stability remains sound overall **but household and businesses are still fragile due to elevated debt levels which would hinder economic growth in the period ahead.** Therefore it is deemed necessary to push forth the implementation of debt restructuring measures that takes into consideration the debt repayment capacity of retail borrowers in the long–run in order to provide a more sustainable solution for the indebted.

The MPC continues to place emphasis on the economic recovery in deliberating policy decisions. The MPC will continue to monitor factors that would affect the growth and inflation outlook including global energy and commodity prices, higher cost pass-through, and geopolitical tensions that could become more widespread and lead to more uncertainties going forward. **The MPC stands ready to deploy additional appropriate monetary policy tools if necessary.**