



ธนาคารแห่งประเทศไทย
BANK OF THAILAND



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BANK OF THAILAND

Analyst Meeting No. 3/2022

17 October 2022

(The economic projections are based on data as of 27 September 2022)

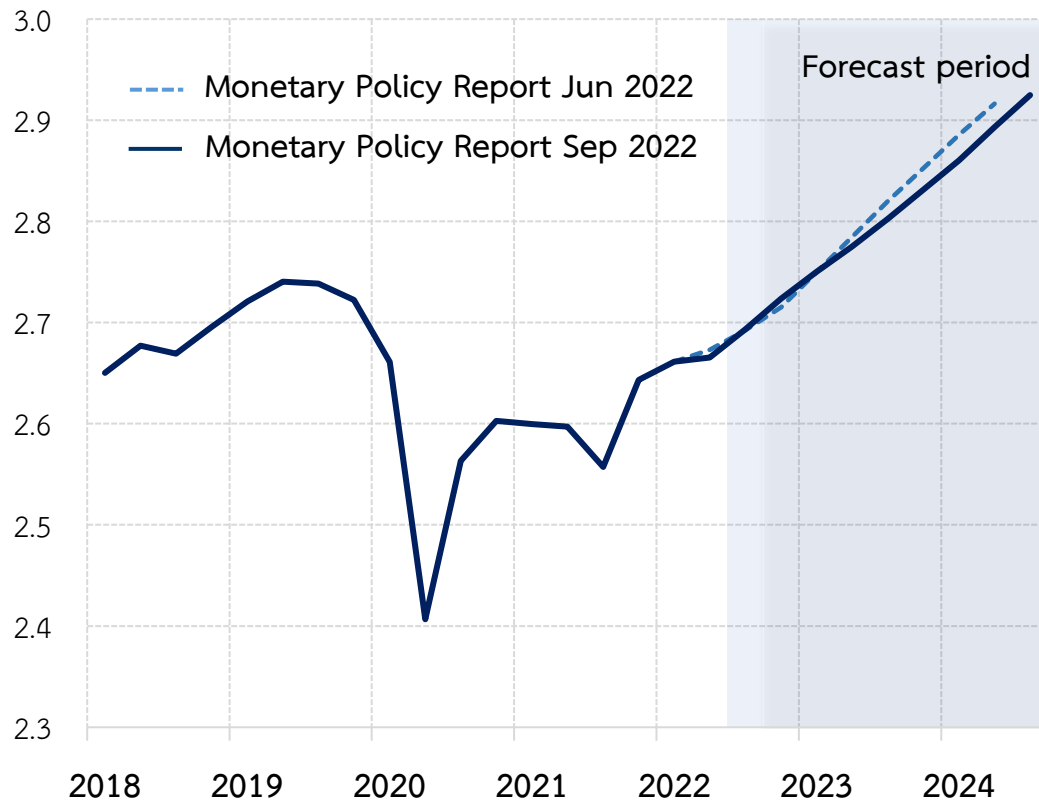


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Thailand's economic and inflation outlook

The Thai economy is expected to continue expanding in 2022 and 2023 driven mainly by tourism and private consumption

Real GDP (trillion baht)



Growth (%YoY)	2021*	2022		2023	
		Jun 2022	Sep 2022	Jun 2022	Sep 2022
GDP Growth	1.5	3.3	3.3	4.2	3.8
Domestic Demand	1.6	3.6	3.4	3.0	2.5
Private Consumption	0.3	4.9	5.6	3.6	3.3
Private Investment	3.3	5.4	3.3	4.5	3.9
Government Consumption	3.2	-1.9	-2.2	-0.5	-1.1
Government Investment	3.8	3.5	1.7	3.4	2.3
Exports of goods and services	10.4	7.1	9.1	8.2	6.5
Imports of goods and services	17.9	5.3	6.6	4.2	3.1
Current account (billion U.S. dollars)	-10.3	-8.0	-14.4	5.0	3.8
Value of merchandise exports	18.8	7.9	8.2	2.1	1.1
Value of merchandise imports	23.4	13.8	16.8	3.5	1.8
Number of foreign tourists (million persons)	0.4	6.0	9.5	19.0	21.0

Note: *outturn

Source: NESDC, BOT Forecast



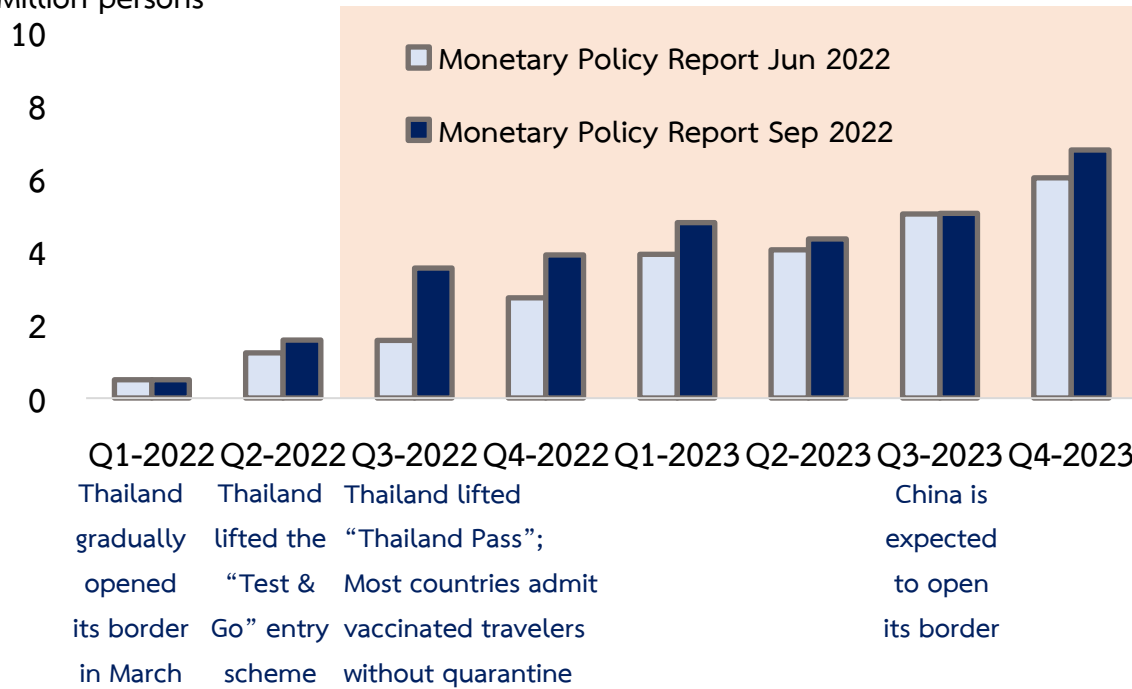
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Tourism has recovered markedly.

Foreign tourist arrivals are expected to reach at least 9 million in 2022.

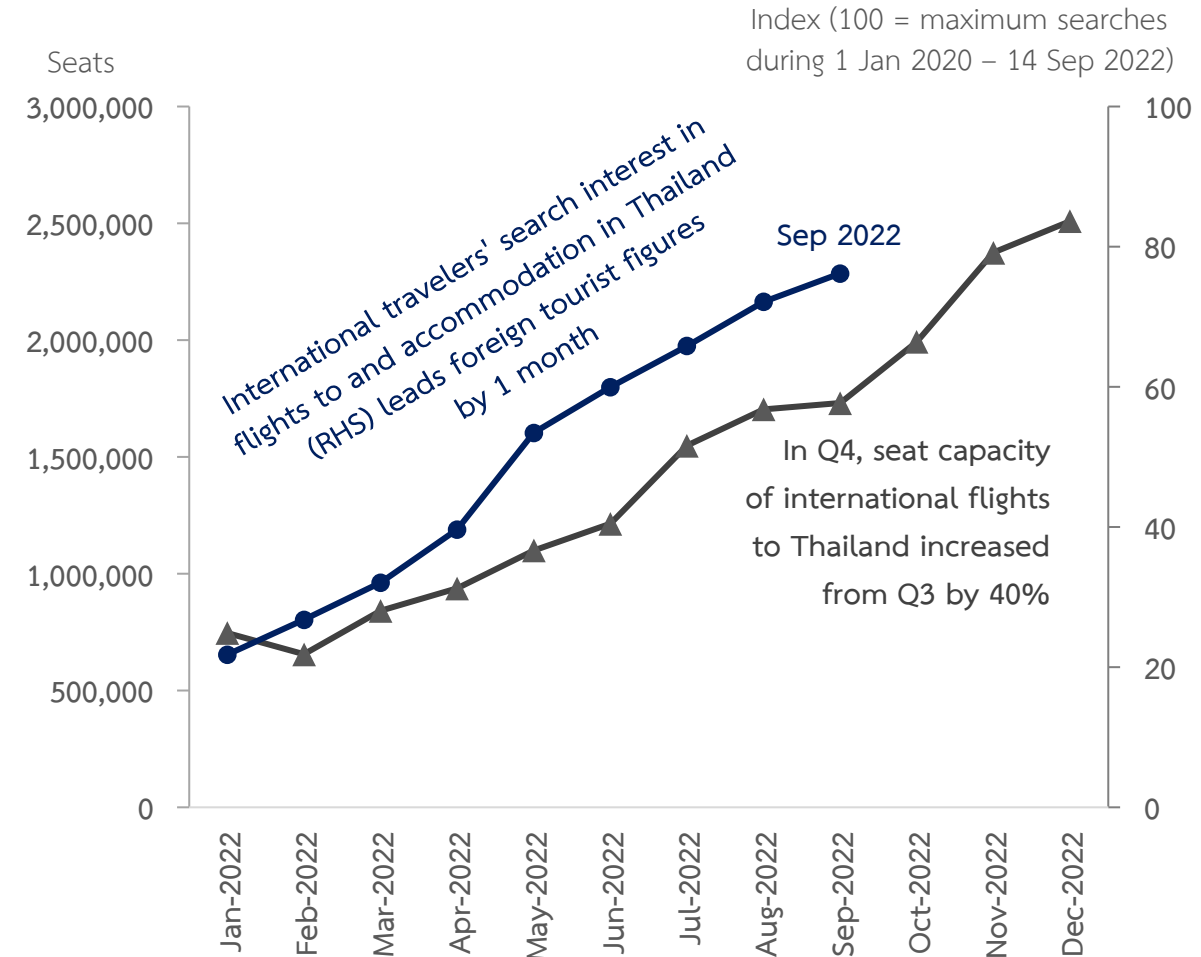
Foreign Tourist Arrivals Forecast

Million persons



	2022		2023	
	Jun 2022	Sep 2022	Jun 2022	Sep 2022
Million persons	6.0	9.5 ↑	19.0	21.0 ↑
% of 2019 figure	15.2%	23.9%	47.7%	52.5%

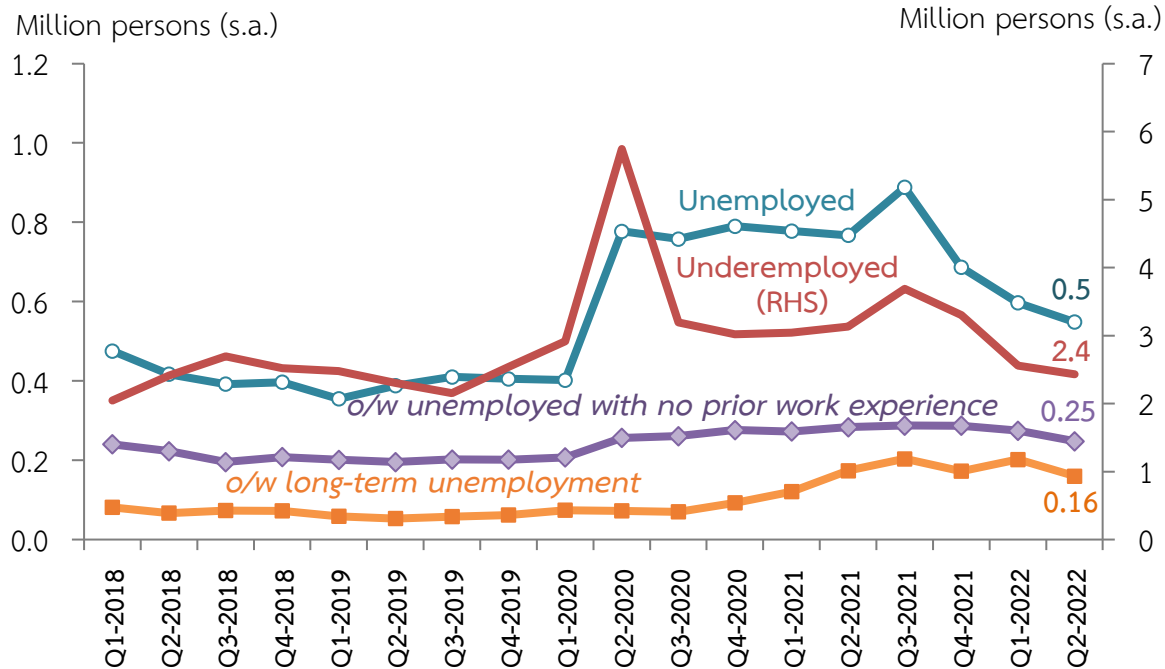
International travelers' search interest in flights to and accommodation in Thailand



Source: PATA and Google Travel Insights

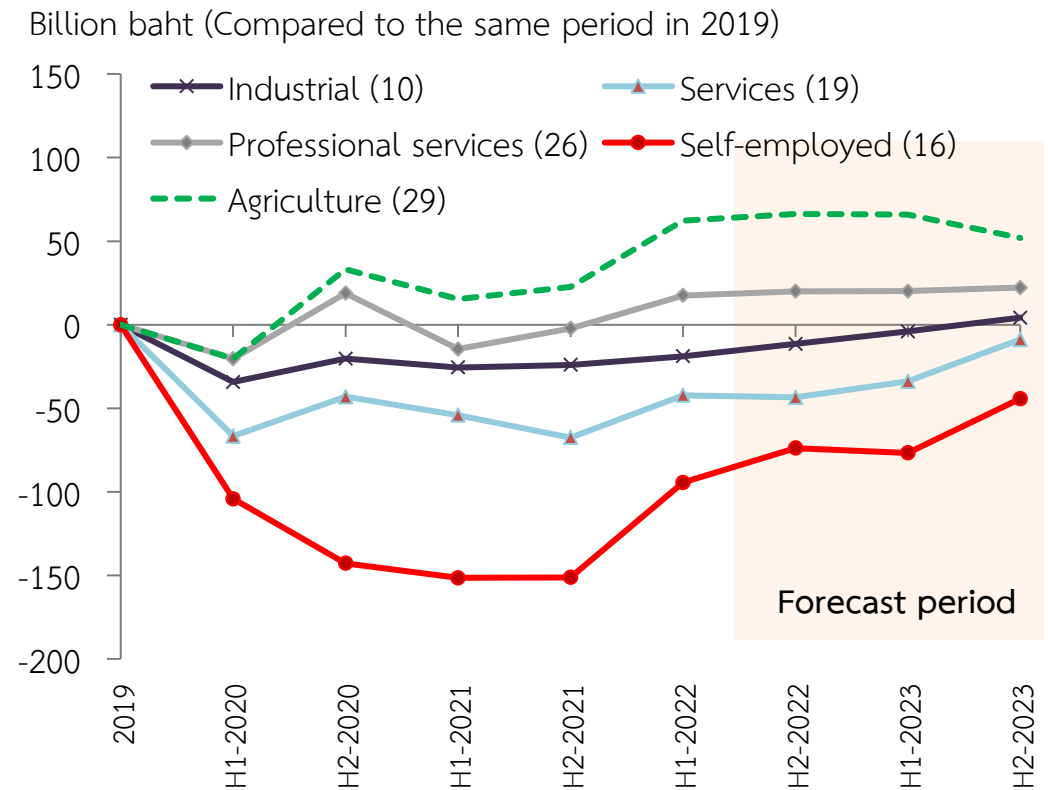
Falling unemployment and underemployment and a more broad-based recovery in labor income would help support private consumption going forward

Labor Market Indicators



Note: Long-term unemployment is defined as being unemployed for longer than 1 year. Underemployment is defined as those who work less than 4 hours per day. Data has been revised per the NESDC's Report of the Population Projections for Thailand 2010-2040 (Revision). Source: National Statistics Office's Labor Force Survey, BOT calculation

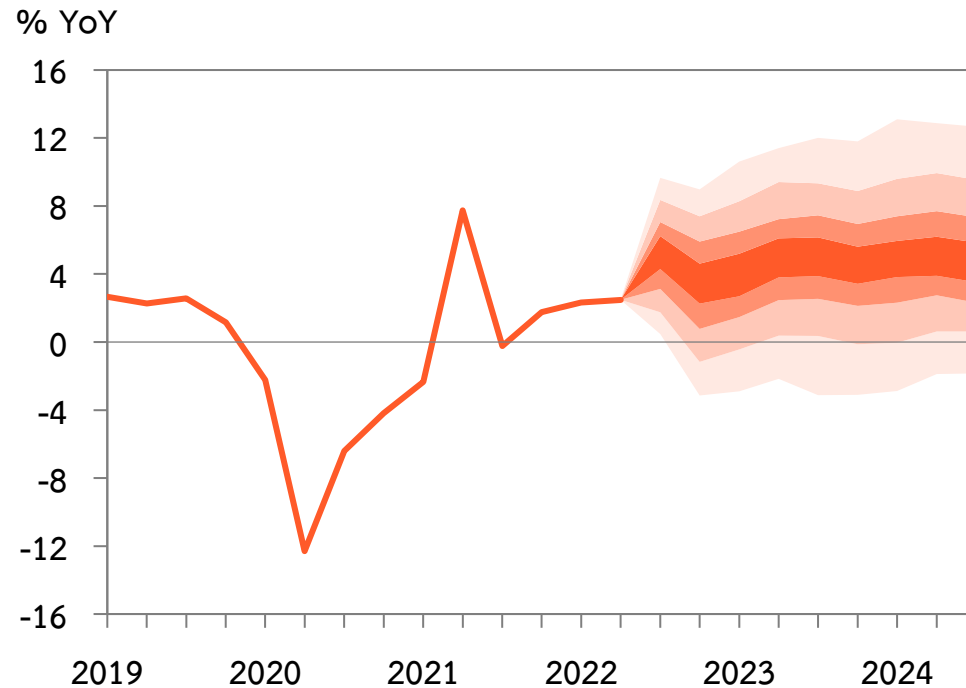
Income Recovery by Sector (excluding relief measures)



Note: 1/ Total labor income (including agriculture) in 2021 was 5 trillion baht. 2/ () denotes each sector's share to total labor income in 2021 (excluding relief measures) Source: National Statistic Office's Labor Force Survey, BOT calculation

Risks to Thailand's growth outlook become balanced

GDP Growth



Upside risks

- + Higher-than-expected foreign tourist figures
- + Faster-than-expected recovery in investment

Downside risks

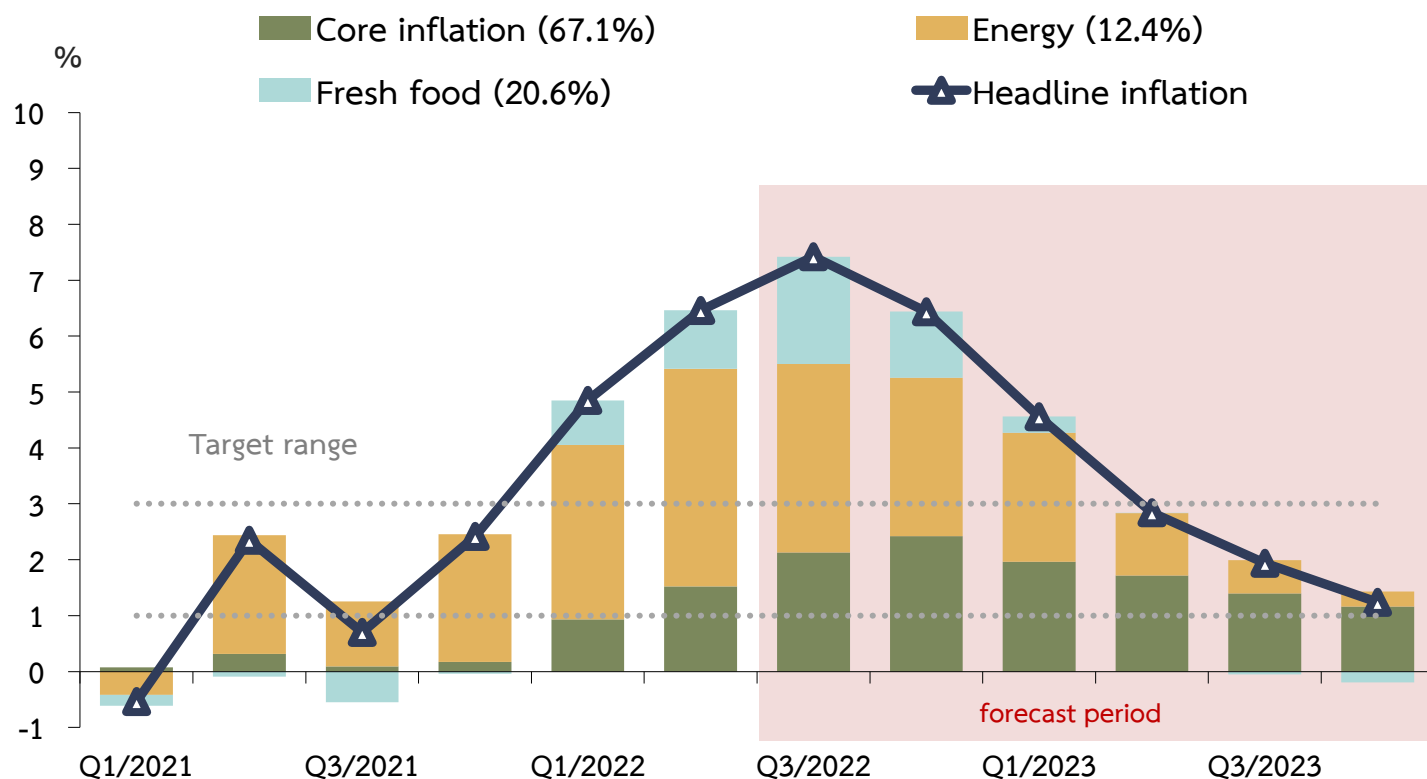
- Global economic slowdown and policy rate hikes by various central banks
- More-prolonged-than-expected global supply disruptions



Headline inflation is expected to gradually decline in Q4/2022.

Core inflation projections for 2022 and 2023 are revised upward due to higher cost passthrough.

Contributions to Headline Inflation



	2022	2023
Headline inflation	6.3% (6.2%)	2.6% (2.5%)
Core inflation	2.6% (2.2%)	2.4% (2.0%)

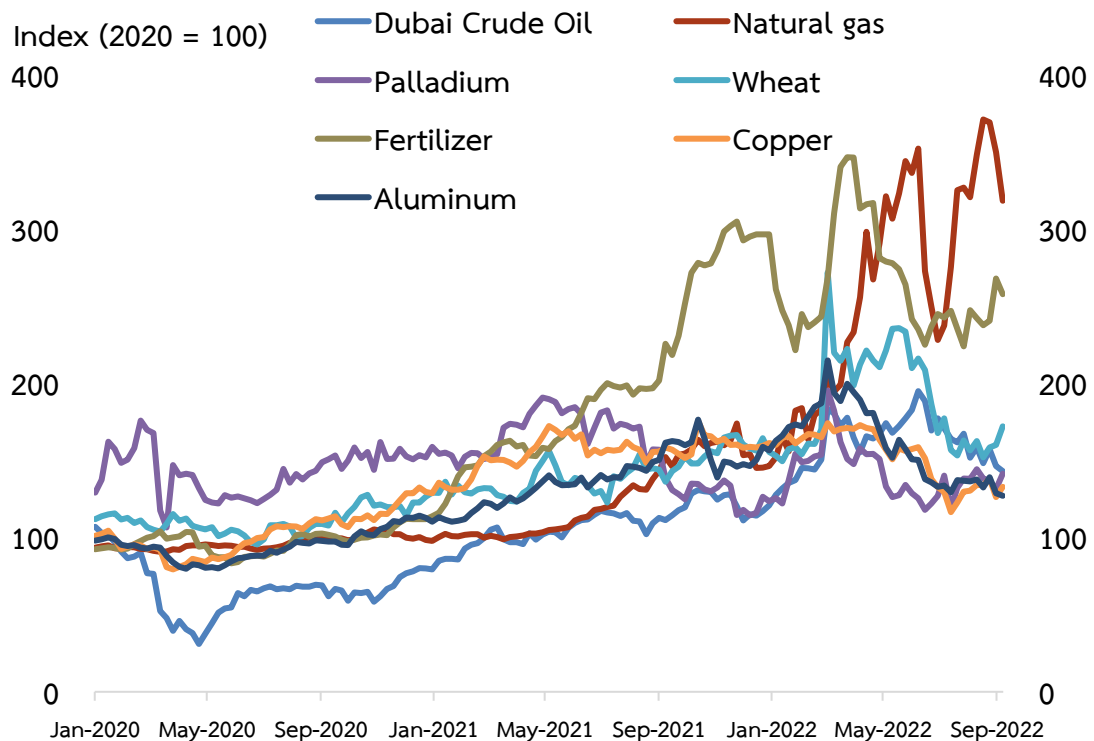
Note: () is forecast from Monetary Policy Report Jun 2022

Note: () denotes weight in CPI basket

Source: Ministry of Commerce, BOT calculation and forecast as of Sep 2022

Supply shocks are expected to dissipate, while cost passthrough could be limited going forward as businesses have already passed on some of the costs to consumers.

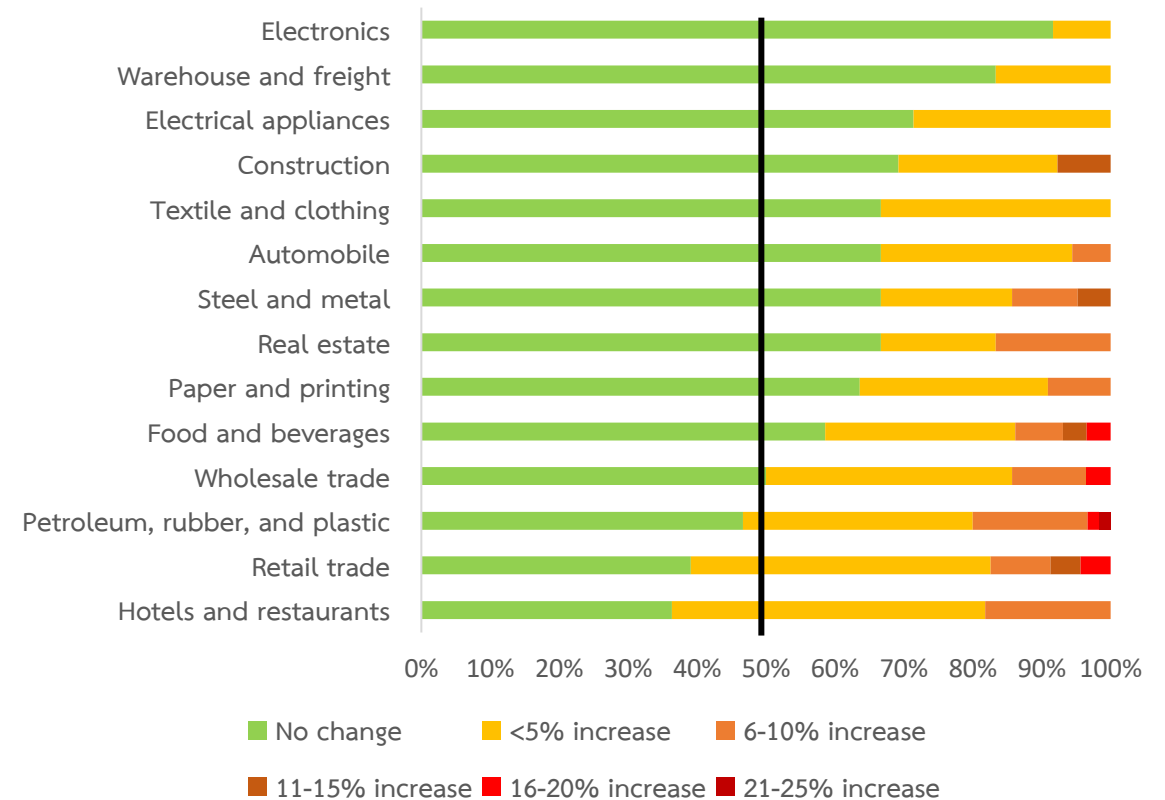
Supply shocks are expected to dissipate as commodity and energy prices have declined somewhat



Source: Bloomberg (data as of 12 Sep 2022)

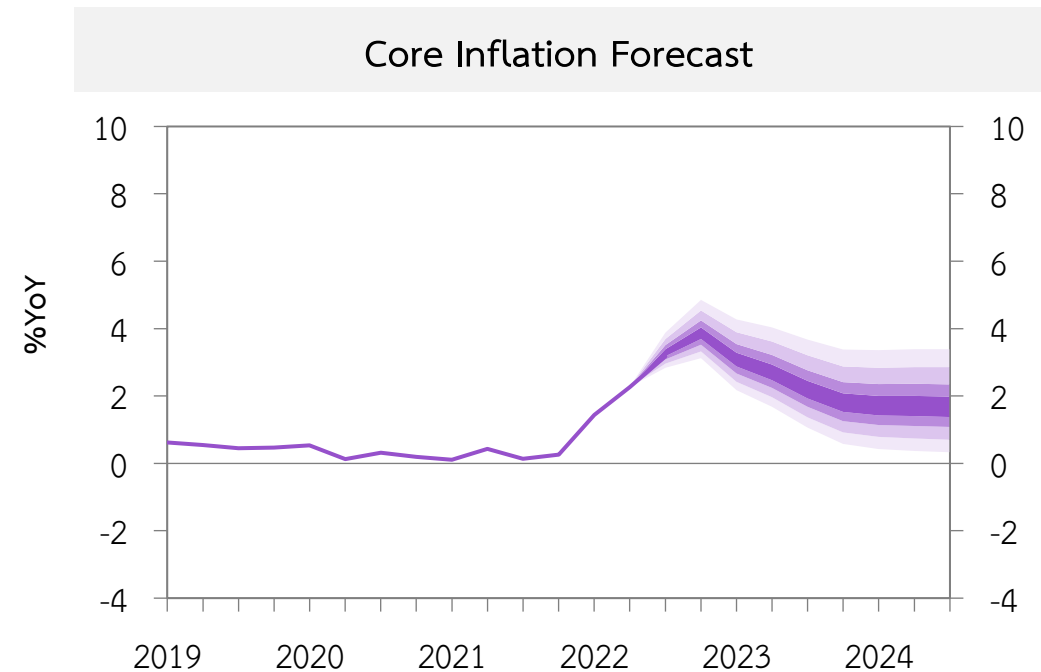
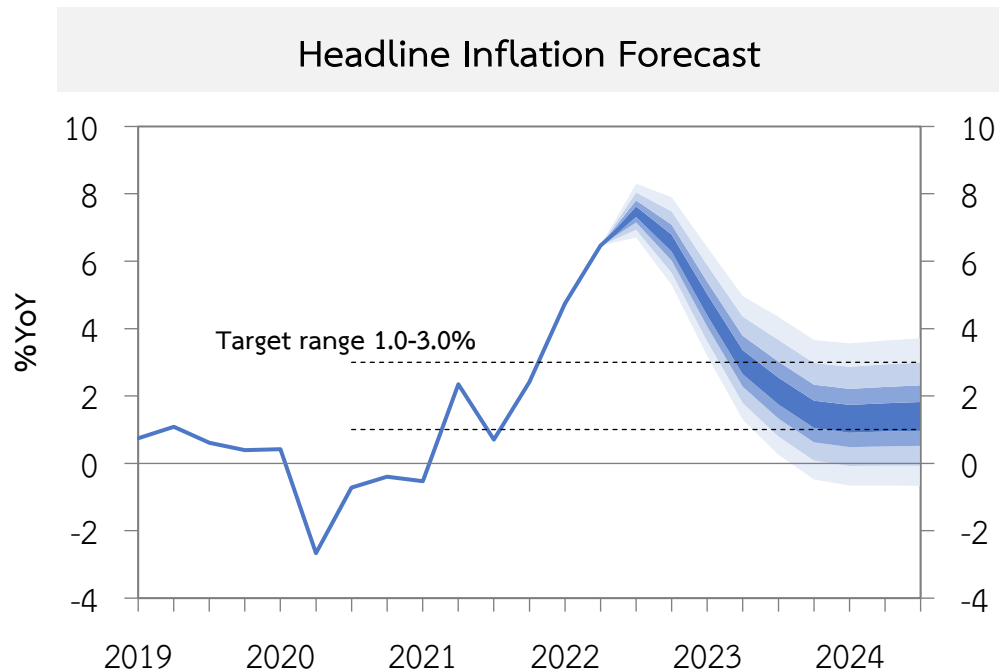
Most businesses will not raise prices or will do so by no more than 5%

Expected price increases due to rising costs in the next 3 months



Source: Business Liaison Program surveys conducted between 1-25 August 2022 with 421 responses consisting of large businesses and SMEs

Probabilities that inflation would be higher or lower than the baseline projection are largely equal.
Higher cost passthrough has already been accounted for in the baseline projection.



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

- Higher- and faster-than-expected cost passthrough, as well as wage pressures from tight labor market conditions

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

- Slower-than-expected global economic growth which would lead to a decline in global energy prices and growth slowdown in Thailand



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Key monetary policy discussions



Underlying inflation indicators remain at high levels.

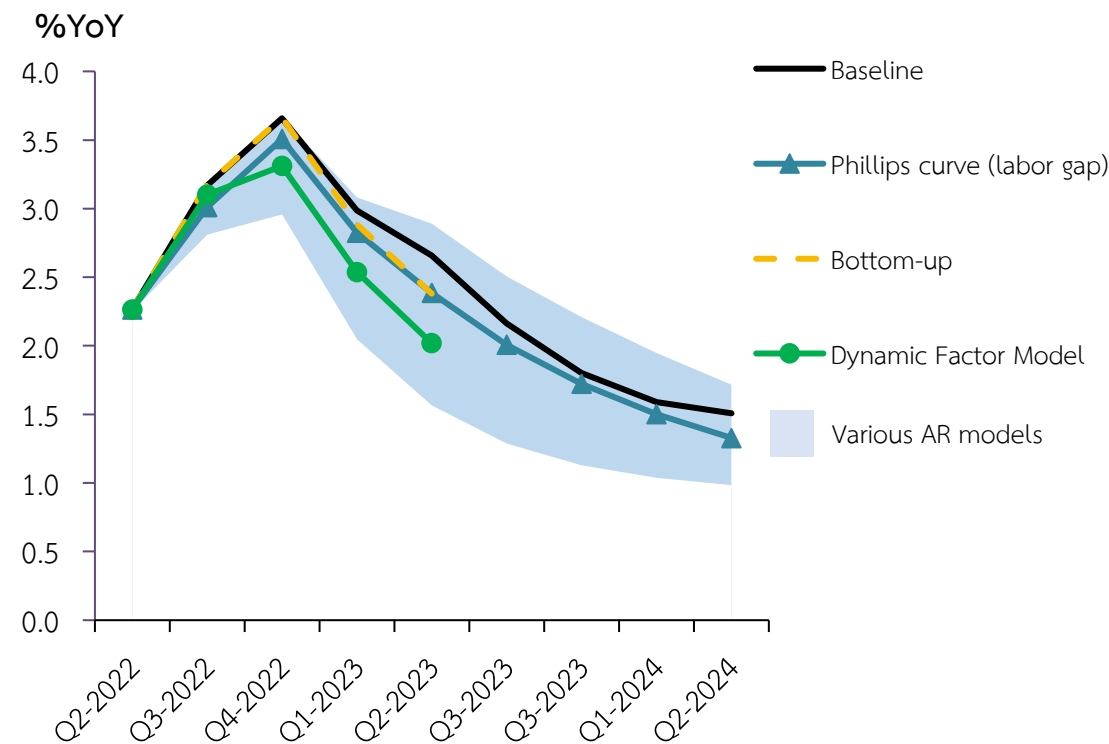
Core inflation is expected to peak in Q4/2022 before gradually declining in 2023.

Underlying inflation indicators	2022							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Core CPI	0.5	1.8	2.0	2.0	2.3	2.5	3.0	3.2
Core CPI (ex rent & measures)	0.7	2.2	2.4	2.6	2.8	3.0	3.6	3.7
Symmetric trimmed mean CPI	1.2	2.1	2.4	2.4	3.2	3.7	4.0	4.2
Sticky CPI	0.5	2.4	2.8	2.7	3.2	3.5	4.2	4.7
Principal Component CPI	0.5	1.1	1.3	1.5	2.0	2.5	3.2	4.1

- Less than 0.5% from median
- Less than 0.25% - 0.5% from median
- Close to median (+/- no more than 0.25%)
- More than 0.25% - 0.5% from median
- More than 0.5% from median

Median is 2% which is the mid-point of the 1-3% target range

Core inflation forecasts from various models



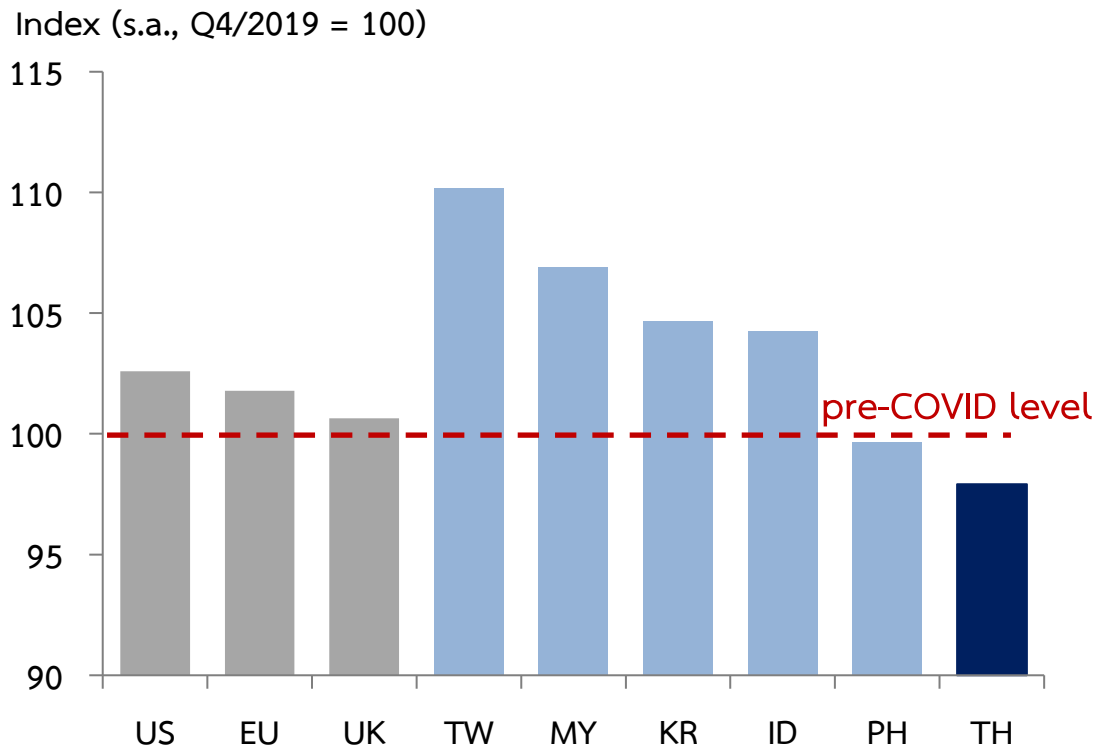
Source: Ministry of Commerce, BOT calculation

Note: These monthly indicators are expressed as year-over-year changes whereby (1) Symmetric trimmed mean CPI excludes goods and services whose price have increased/decreased as much as 10%; (2) Sticky CPI is calculated from goods and services whose prices changed infrequently compared to the average of once every 4.8 months (reference: Bryan and Meyer (2010)); and (3) Principal component inflation is calculated from common underlying factors underpinning the change in price of goods and services across 28 categories.

Source: Ministry of Commerce, BOT Calculation

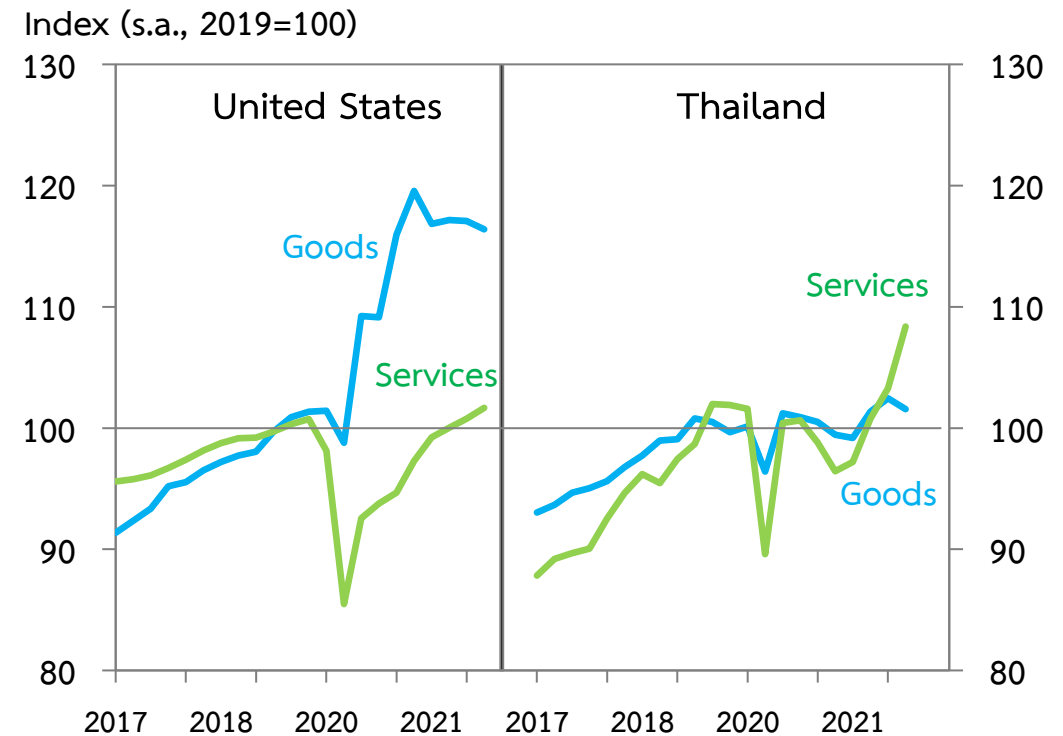
Demand-side inflationary pressures in Thailand are limited given the early recovery phase and low demand for goods. This is in contrast with major trading partners such as the U.S.

GDP at the end of Q2/2022 by country



Source: CEIC, NESDC, BOT calculation

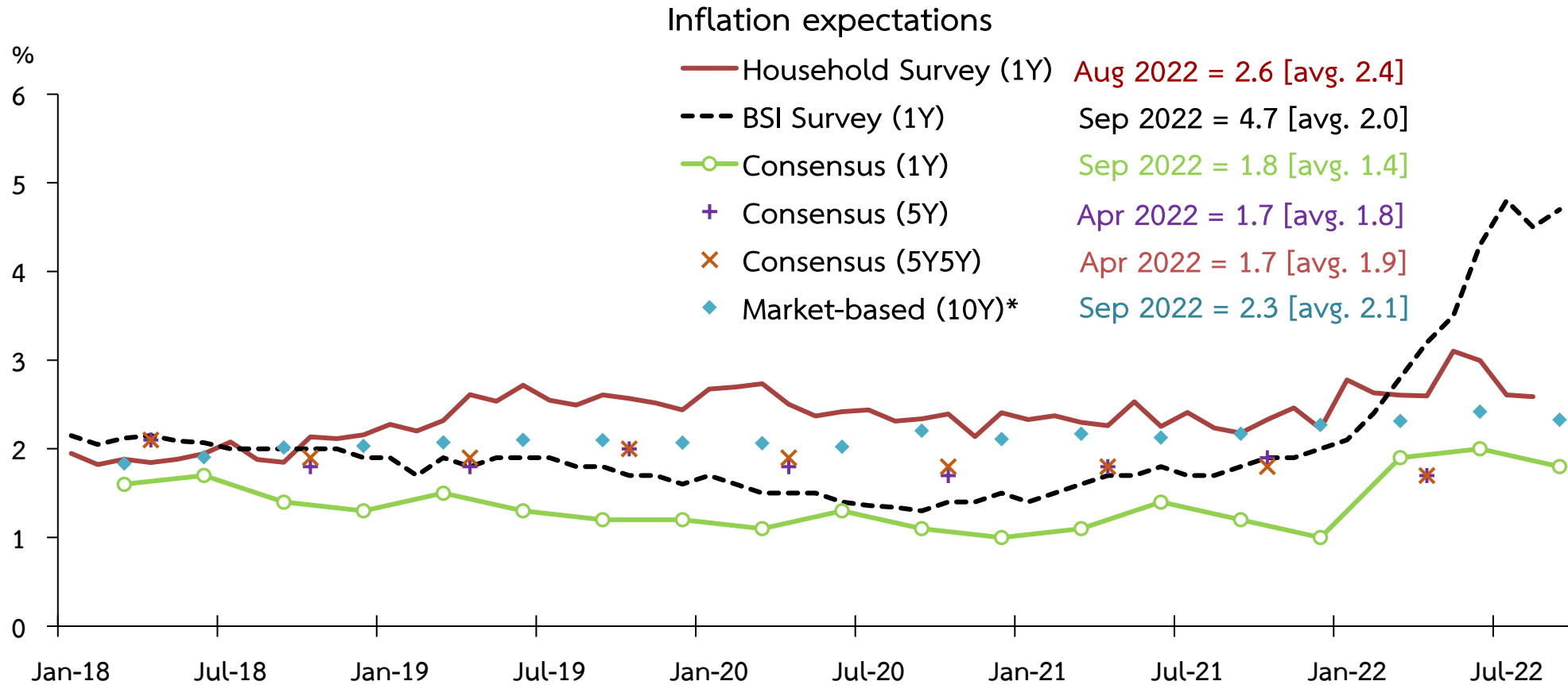
Private Consumption Indices



Note: BOT's private consumption index for Thailand is calculated by deducting foreign tourists' spending from the BOT's assumption on private consumption

Source: U.S. Bureau of Economic Analysis, NESDC, BOT Calculation

Medium-term inflation expectations remain well-anchored within the target range,
whereas short-term inflation expectations remain high.
Inflation expectations must therefore be monitored closely.

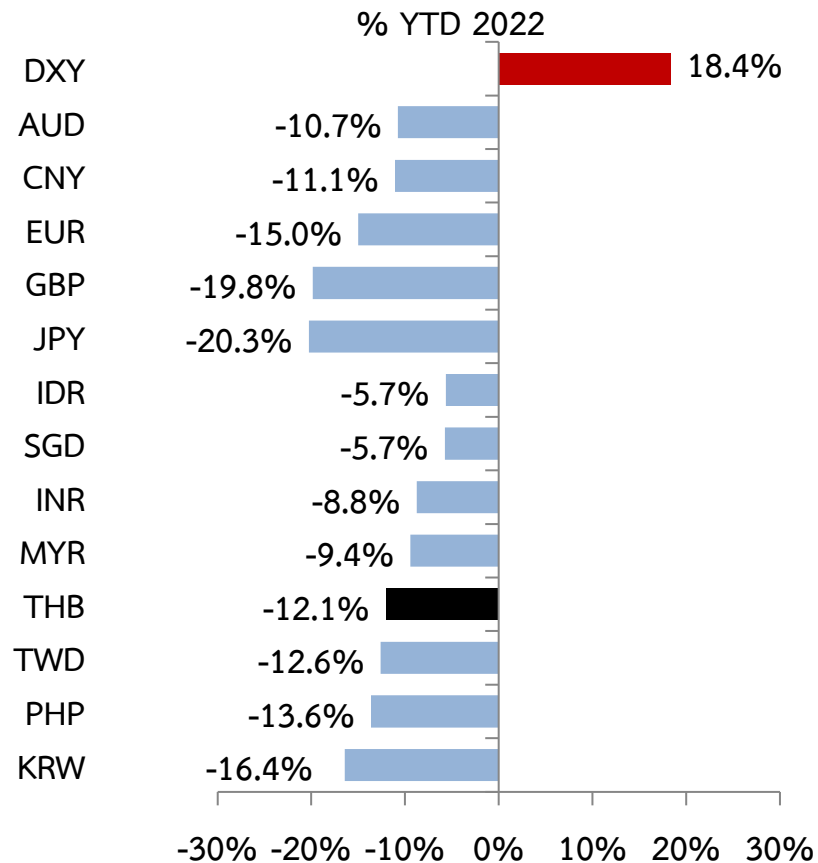


Note: [] is the average value since Jan 2018; *forecasted using affine term structure model with data inputs from yield curve and macroeconomic variables

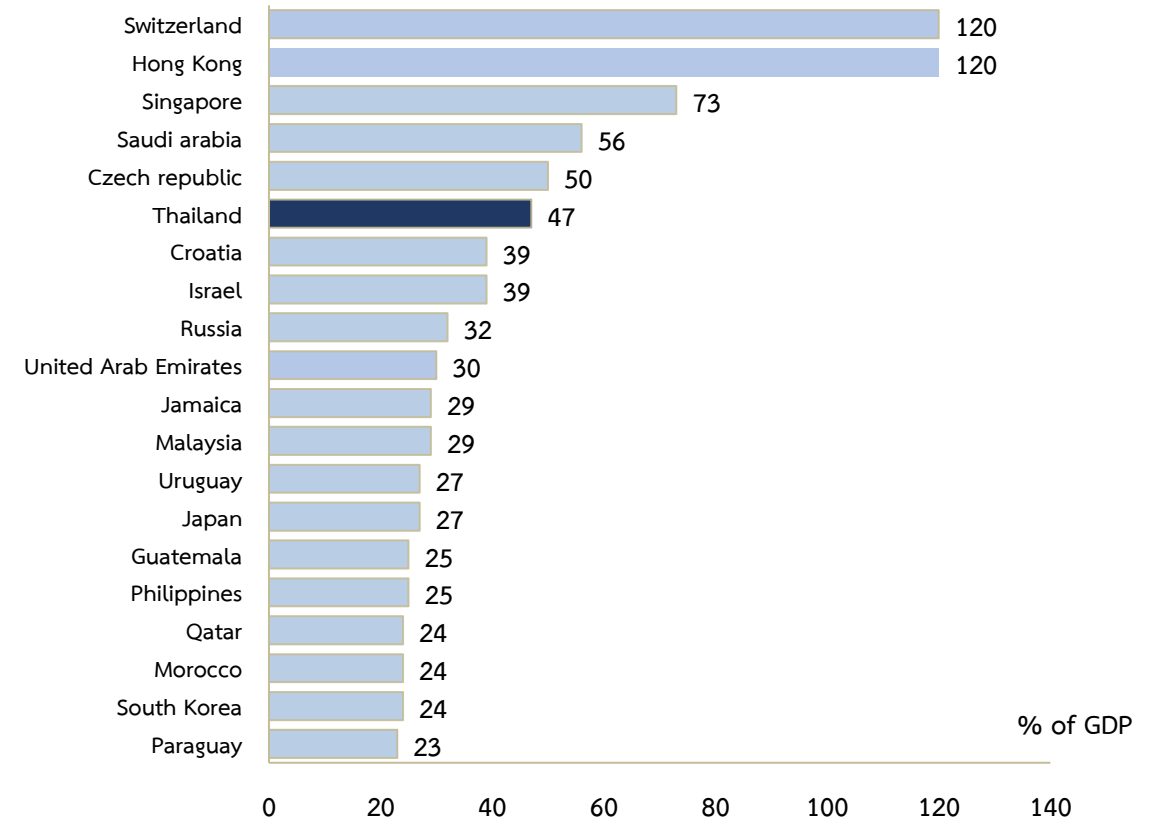
Source: Consumer Confidence Index (Ministry of Commerce), Business Sentiment Survey (BOT), Asia Pacific Consensus Economics

The baht depreciation has been rapid and continuous mainly due to the USD strength. However, Thailand's strong external stability can cushion against the heightened volatility.

Currency Movements



International Reserves to GDP



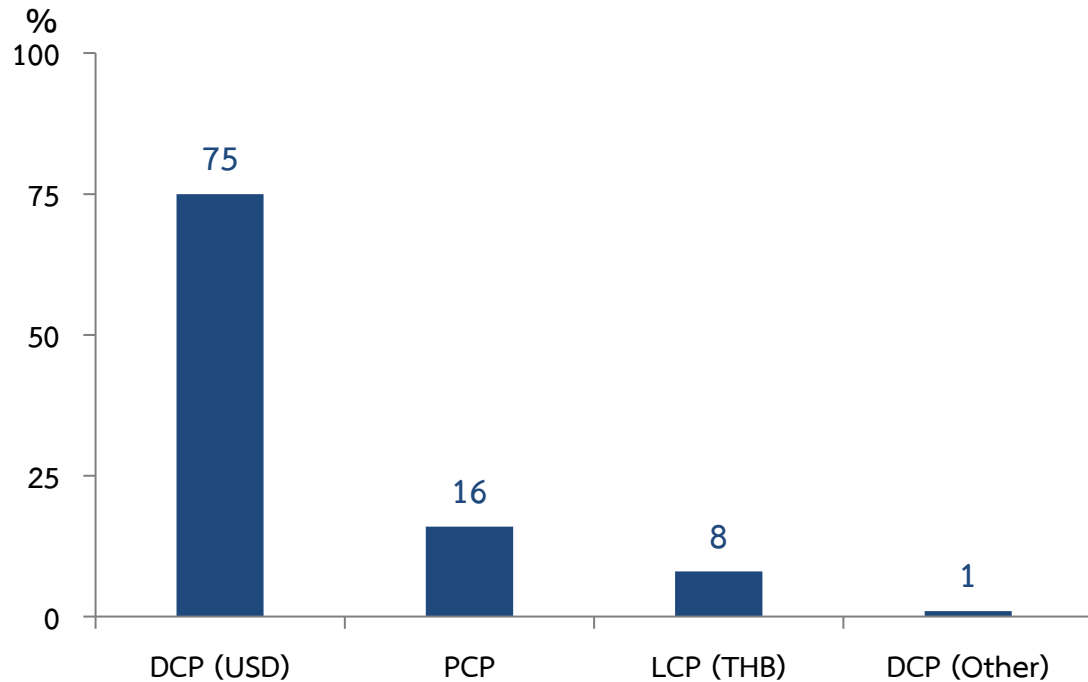
Note: Thailand's international reserves include net forward position (data as of Sep 2022)

Source: Bloomberg

Source: Refinitiv, Bloomberg (as of 27 Sep 2022)

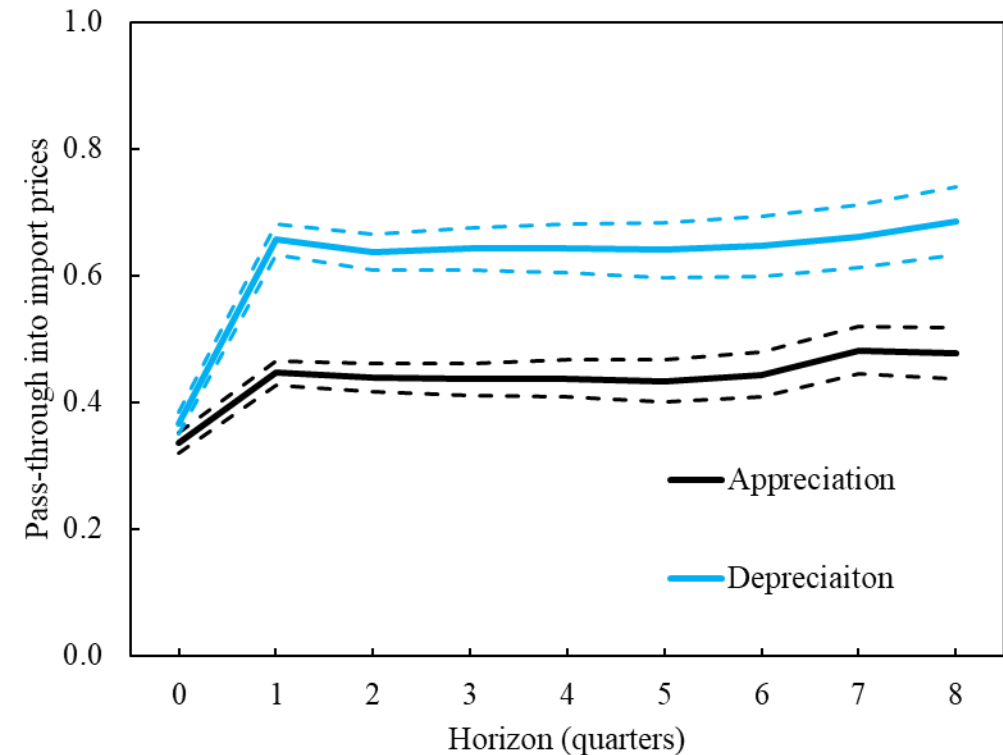
The MPC has been closely monitoring exchange rate developments. Since most imports are priced in USD, the continuous baht depreciation could lead to higher cost passthrough to prices of goods and services.

Share of imported goods by invoicing currency



Note: DCP (Dominant currency pricing) is the pricing of goods in the main currencies used in global trade
 PCP (Producer currency pricing) is the pricing of goods in the exporter's local currency
 LCP (Local currency pricing) is pricing of goods in Thai baht
 Source: Thai Customs Department, BOT calculation

Exchange rate passthrough to prices of goods and services is generally higher when the baht weakens



Source: Apaitan et al., 2021 "Heterogeneity in Exchange Rate Pass-through to Import Prices in Thailand: Evidence from Micro Data"



The policy rate should be normalized in a gradual and measured manner. The Committee is ready to adjust the size and timing of policy normalization should the growth and inflation outlook shifts from the current assessment.

MPC Meeting
No. 4/2022
(10 Aug 2022)

MPC voted 6 to 1 to raise the policy rate by 0.25 percentage point.
1 member voted to raise the policy rate by 0.50 percentage point.

The economy will continue to recover but with increased inflation risks. Extraordinarily accommodative monetary policy has become less needed. Most members thus voted to gradually raise the policy rate. One member voted to raise the policy rate by 0.50 percentage point to reduce the risk of having to raise the policy rate aggressively later and views that such a rate hike would not significantly impact the economic recovery.

MPC Meeting
No. 5/2022
(28 Sep 2022)

MPC voted unanimously to raise the policy rate by 0.25 percentage point

The overall growth and inflation outlook is consistent with the previous assessment. The economic recovery has continued to gain traction driven by tourism and private consumption. Headline inflation remains high due to higher cost passthrough. The MPC viewed that a gradual policy normalization remains appropriate.

Current policy rate:

1.00%

The MPC viewed that the policy rate should be normalized in a gradual and measured manner to the level that is consistent with sustainable growth in the long term. Should the growth and inflation outlook shifts from the current assessment, the MPC stands ready to adjust the size and timing of policy normalization as appropriate.