

# Monetary Policy Forum 1/2023

12 April 2023

(Economic projections as of 28 March 2023)

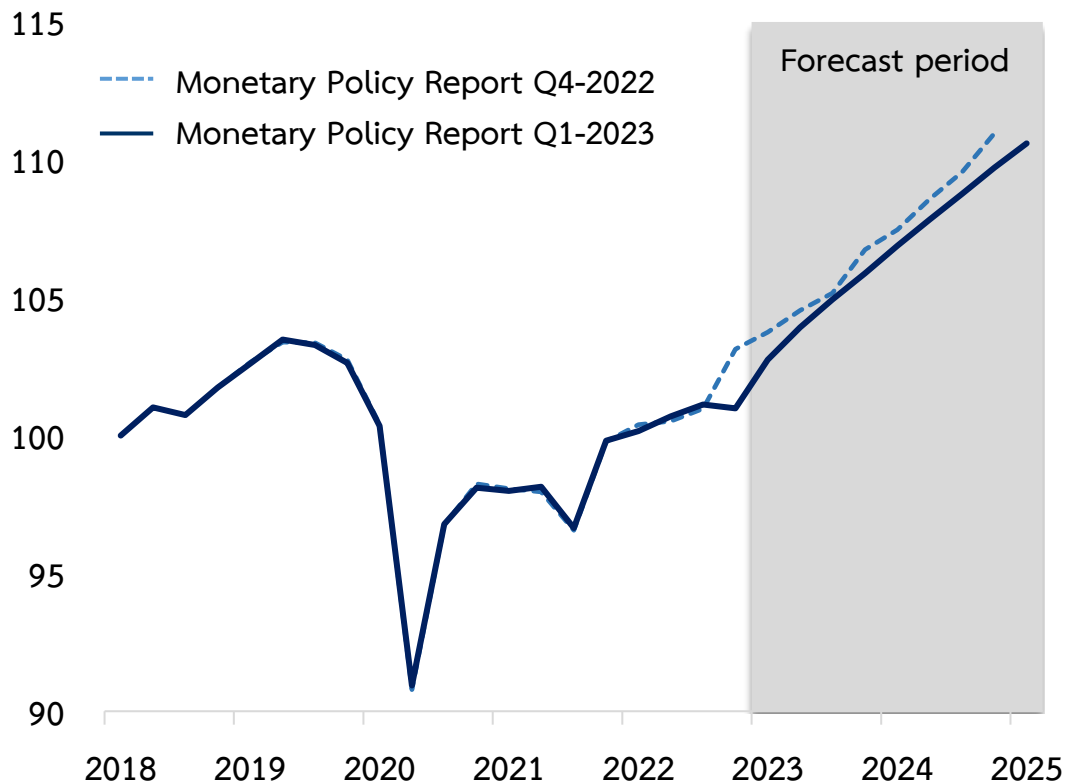


The Thai economy is expected to continue expanding,  
but the impacts of global uncertainties must be monitored

The Thai economy is projected to grow 3.6% in 2023 and 3.8% in 2024, mainly driven by tourism and private consumption. Meanwhile, merchandise exports have contracted in the earlier period but are expected to recover in the latter half of 2023.

### Real GDP

Index (s.a., 2018 = 100)



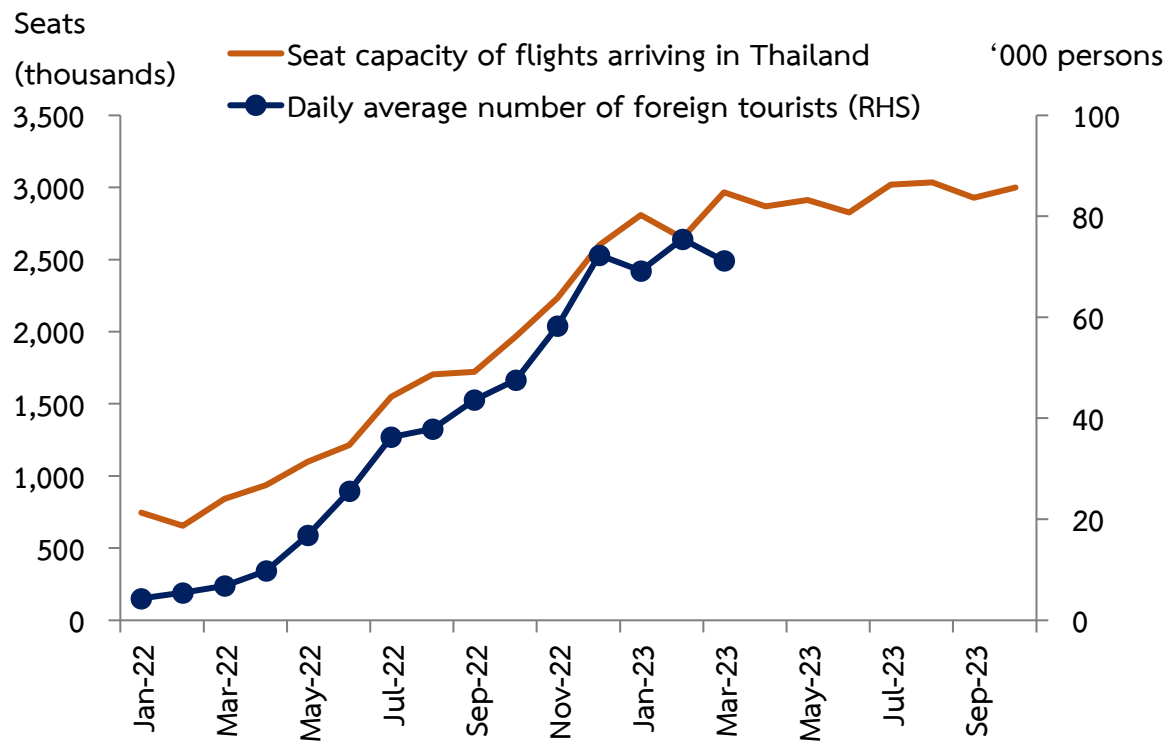
	Growth (%YoY)	2022*	2023	2024
GDP Growth		2.6	3.6 (3.7)	3.8 (3.9)
Domestic Demand		4.1	2.5 (2.4)	3.3 (3.2)
Private Consumption		6.3	4.0 (3.4)	3.1 (3.2)
Private Investment		5.1	2.1 (3.4)	4.8 (4.0)
Government Consumption		0.0	-2.2 (-1.4)	1.1 (0.8)
Government Investment		-4.9	3.7 (1.8)	7.8 (7.0)
Exports of goods and services		6.8	6.8 (7.0)	7.4 (6.6)
Imports of goods and services		4.1	1.4 (3.0)	5.5 (4.7)
Current account (billion U.S. dollars)		-17.2	4.0 (3.8)	12.5 (12.2)
Value of merchandise exports (%YoY)		5.5	-0.7 (1.0)	4.3 (2.6)
Value of merchandise imports (%YoY)		15.3	1.2 (0.4)	4.2 (3.3)
Number of foreign tourists (million persons)		11.2	28.0 (22.0)	35.0 (31.5)
Dubai crude oil price (U.S. dollar per barrel)		96.4	86.0 (95.0)	90.0 (90.0)

Note: \* = outturn; ( ) = previous forecast from Monetary Policy Report Q4-2022

Source: NESDC, BOT Forecast

# Tourism has recovered markedly as foreign tourist arrivals continued to increase across almost all nationalities.

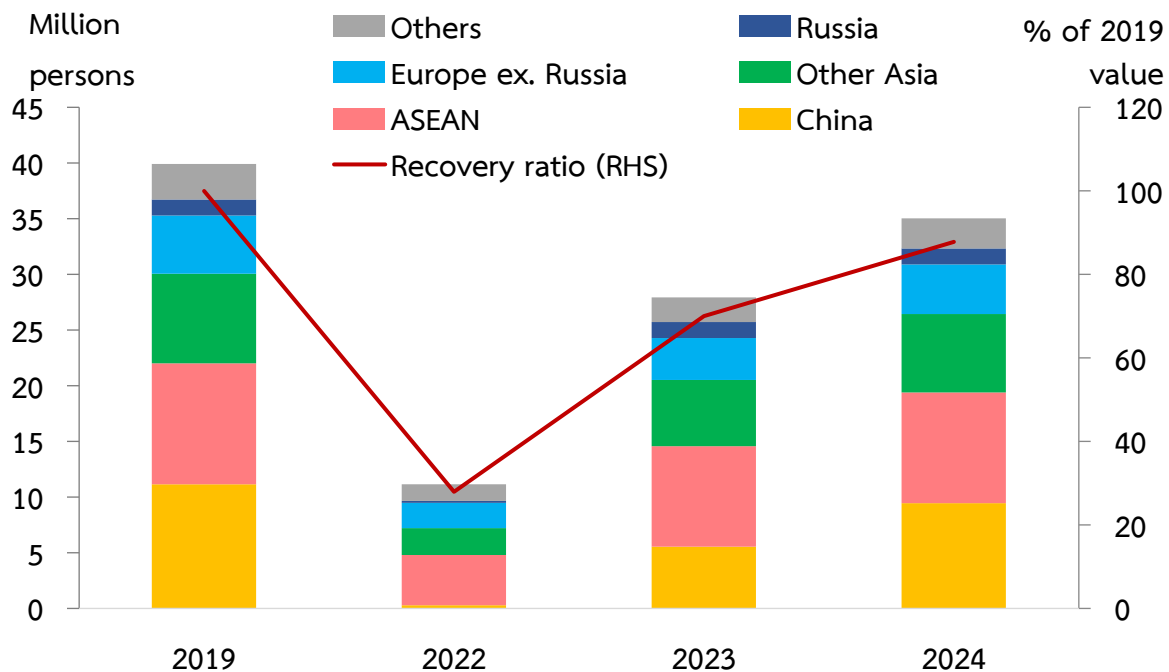
Tourism leading indicators



Note: The number of foreign tourists in March 2023 is preliminary data

Source: Ministry of Tourism and Sports, PATAmPOWER

Projected foreign tourist arrivals by nationality



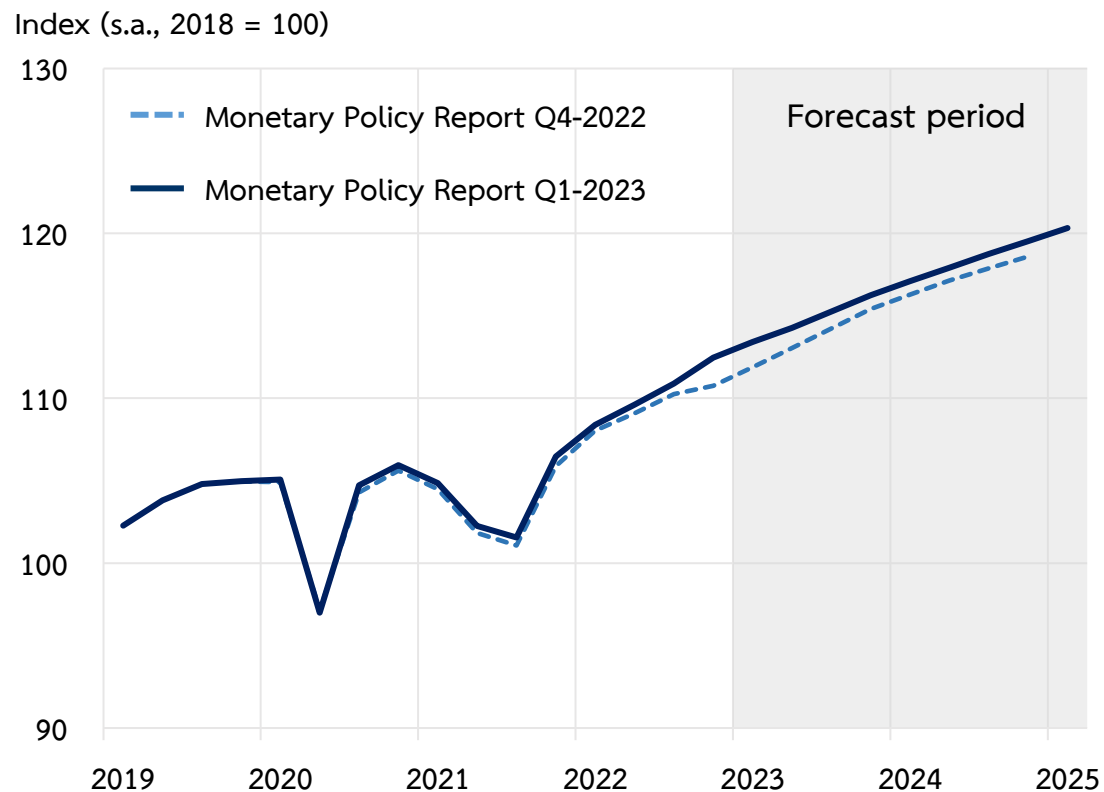
	2022	2023		2024	
		Q4-2022	Q1-2023	Q4-2022	Q1-2023
Million persons	11.2	22.0	28.0 ↑	31.5	35.0 ↑
% of 2019 value	27.9%	55.0%	70.0%	79.0%	87.8%

Note: Other Asia includes Middle East

Source: BOT Forecast

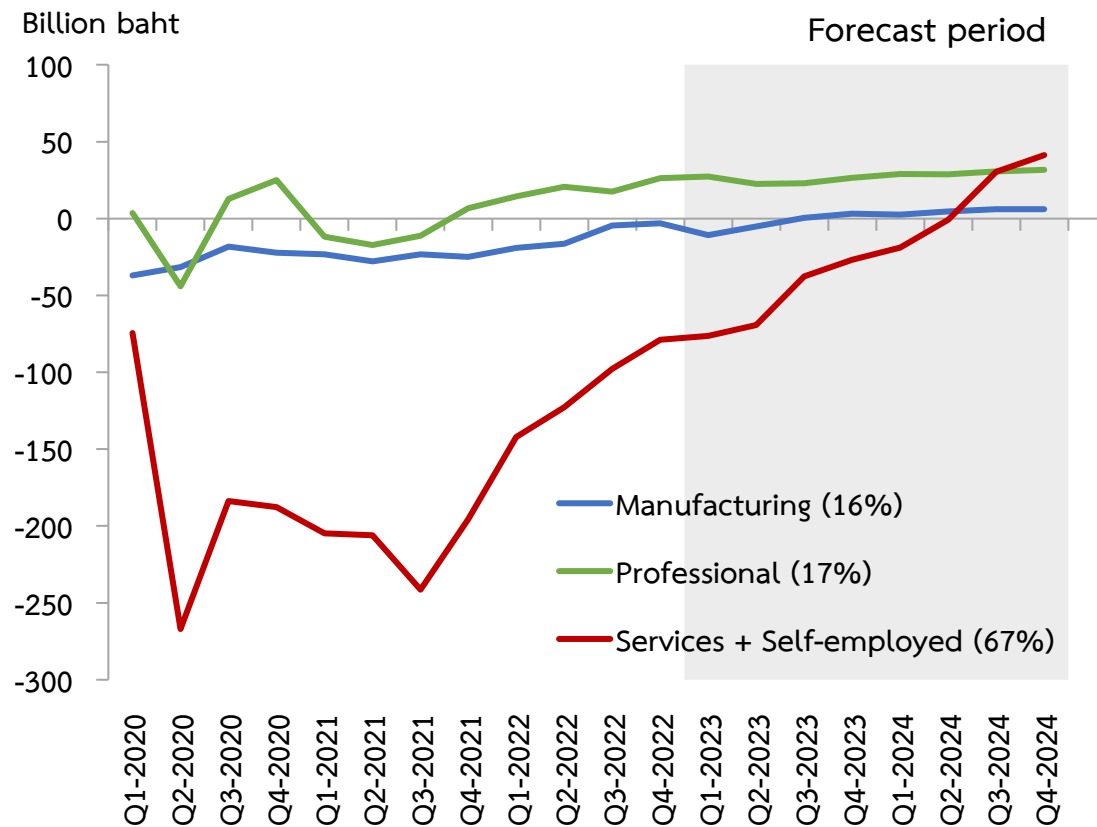
## Private consumption and labor income have improved in tandem with tourism

### Real private consumption



Source: BOT Forecast

### Projected total income recovery of labor in non-farm sectors



Note: 1/ Total labor income in non-farm sectors in 2019 was 4.5 trillion baht

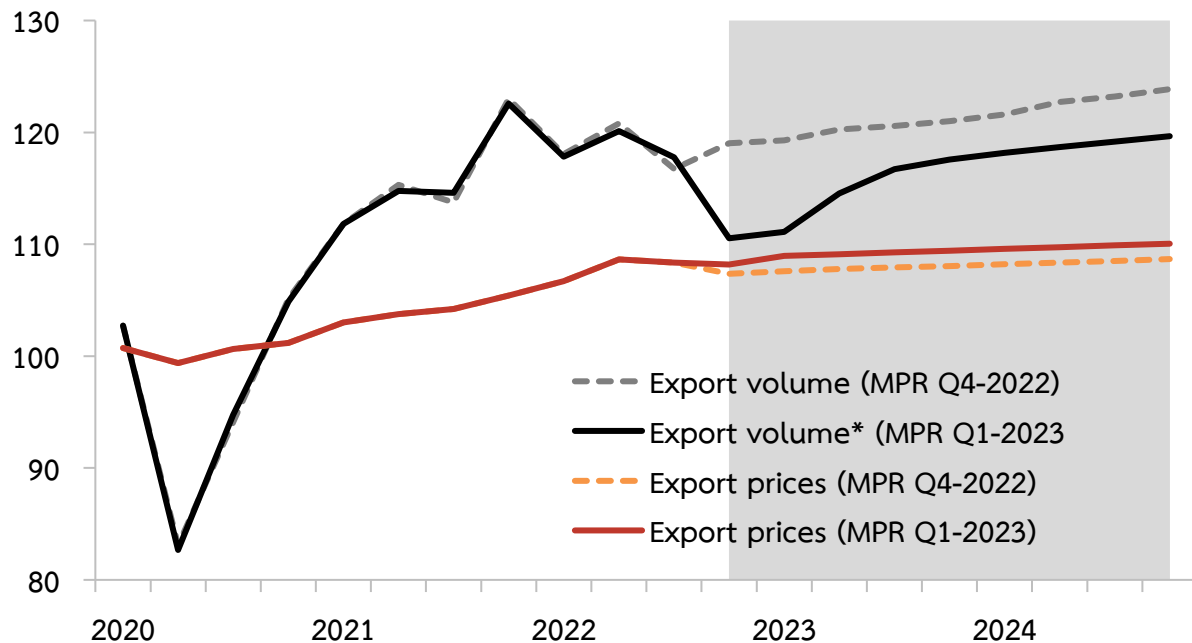
2/ ( ) denotes each sector's share to total labor income in non-farm sectors in 2022

Source: National Statistic's Office, BOT calculation and forecast

## Merchandise exports show signs of rebounding after contracting in Q4-2022, and is expected to see a stronger rebound in the second half of this year.

Projected merchandise exports (excl. gold)

Index (s.a., 2012 = 100)



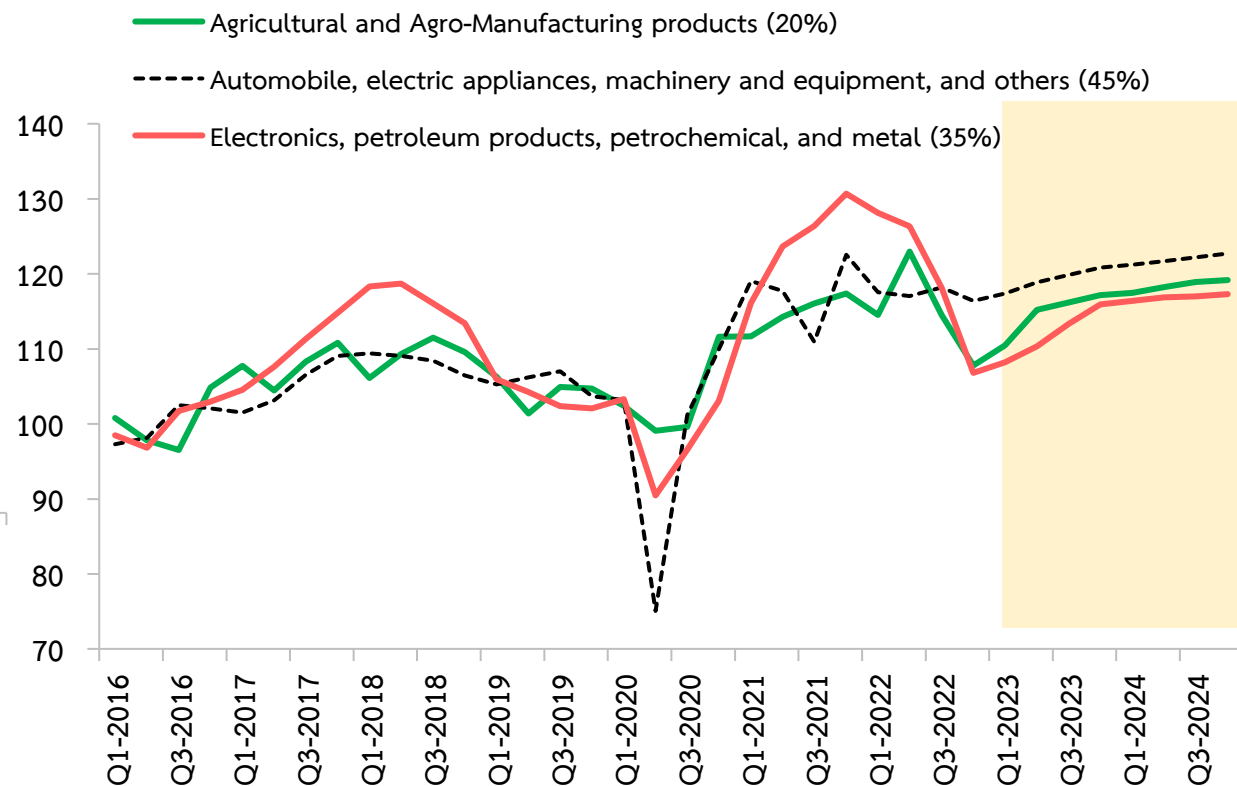
Source: Ministry of Commerce, BOT forecast

Growth (%YoY)	2022*	2023	2024
Export value	5.5	-0.7 (1.0)	4.3 (2.6)
Export prices	4.2	0.9 (0.0)	0.6 (0.5)
Export volume	1.3	-1.6 (1.0)	3.7 (2.1)

Note: \*outturn; ( ) = previous projection in Monetary Policy Report Q4-2022

Merchandise exports volume by product group and recovery outlook

Index (s.a., 2016 = 100)

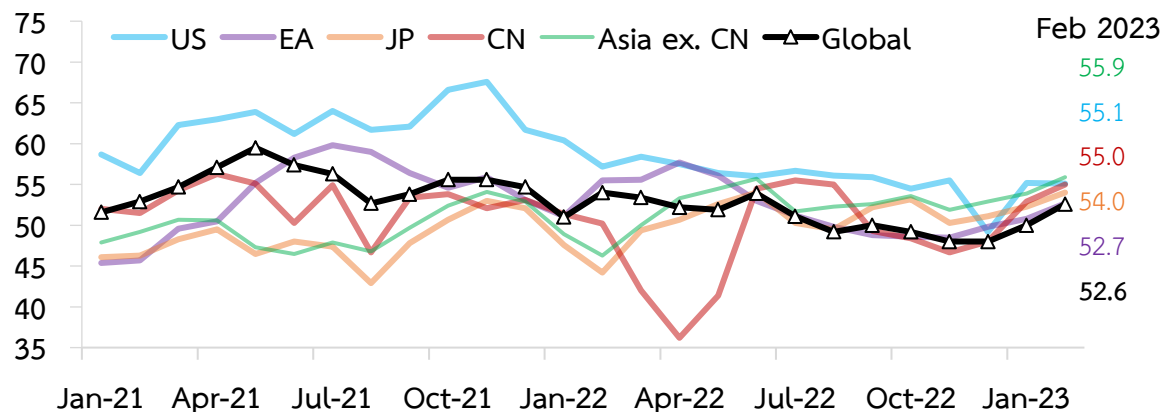


Note: ( ) denotes share of total merchandise exports value in 2021

Global economic conditions is improving on the back of growth momentum from the services sector and the reopening of the Chinese economy. However, the outlook is more uncertain from persistently high inflation and banking stresses in some advanced economies.

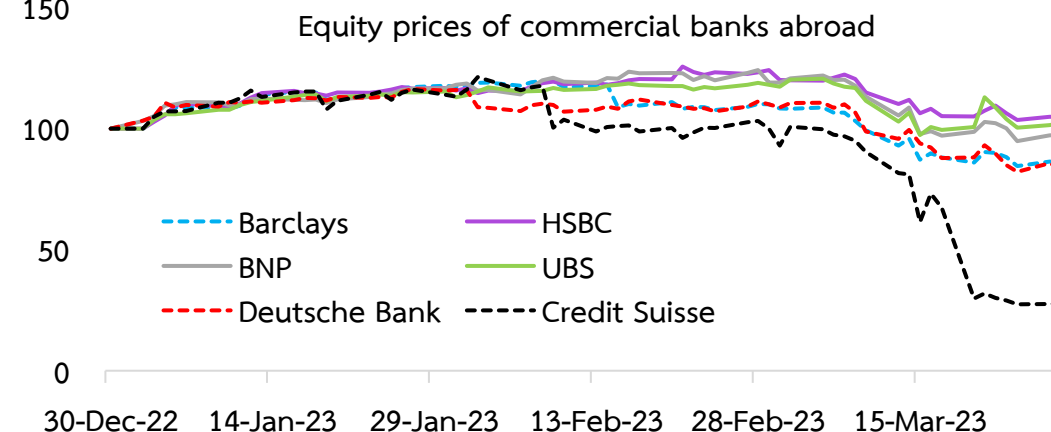
### Purchasing Managers' Index (Service)

Diffusion Index (> 50 = improved from previous month)



### Bank indicators saw improvements but risks remain high

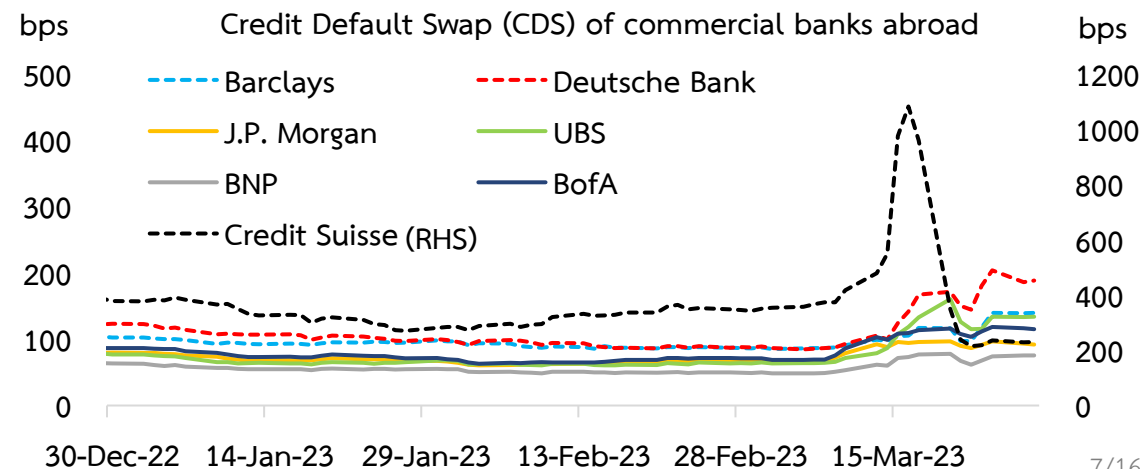
Index (30 Dec 2022 = 100)



### Growth assumptions for Thailand's key trading partners

%YOY	Weight (%)	2022*	2023	2024
US	23.4	2.1	0.9	1.3
Euro area	9.7	3.5	0.7	1.3
Japan	12.1	1.0	1.1	1.2
China	16.9	3.0	5.5	5.4
Asia	30.4	3.8	3.7	4.3
Total	100	2.9	2.5	2.9

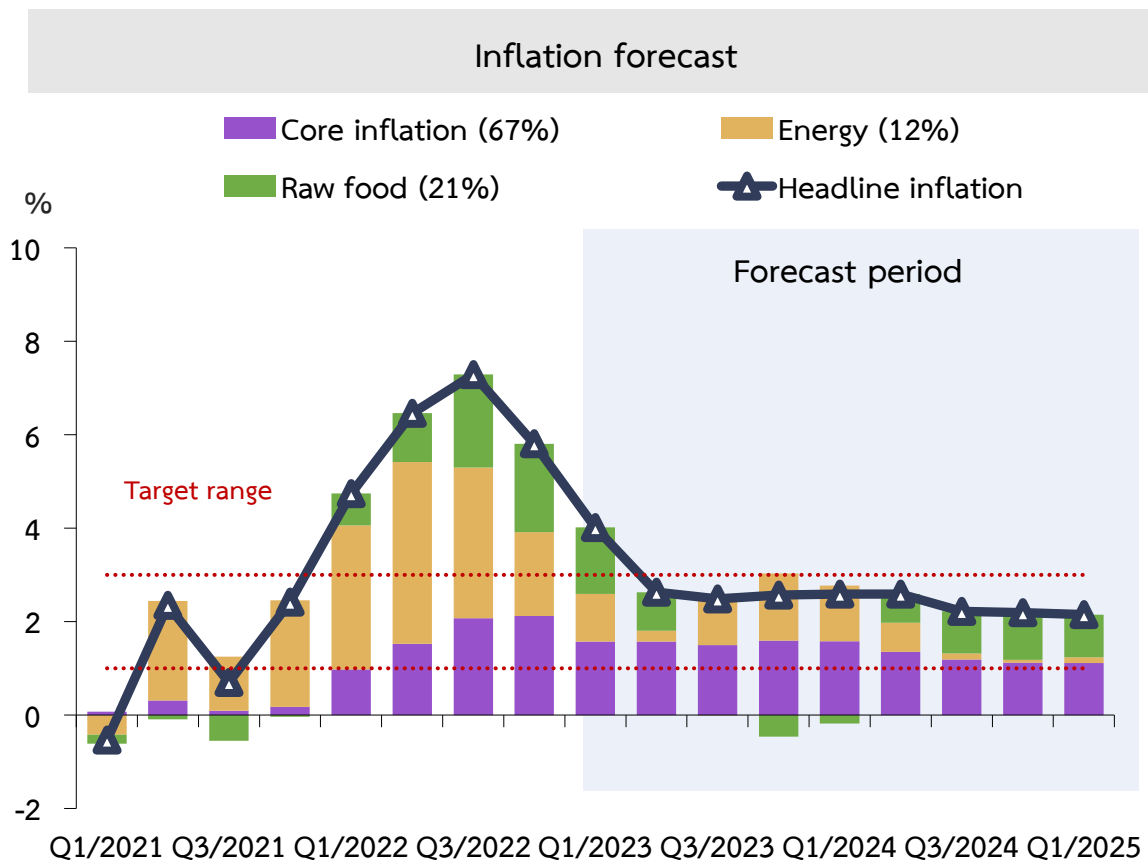
Note: \* outturn with backward revision for some countries



Inflation is declining as expected, but upside risks remain



## Headline inflation is declining as expected and would return to the target range in Q2-2023



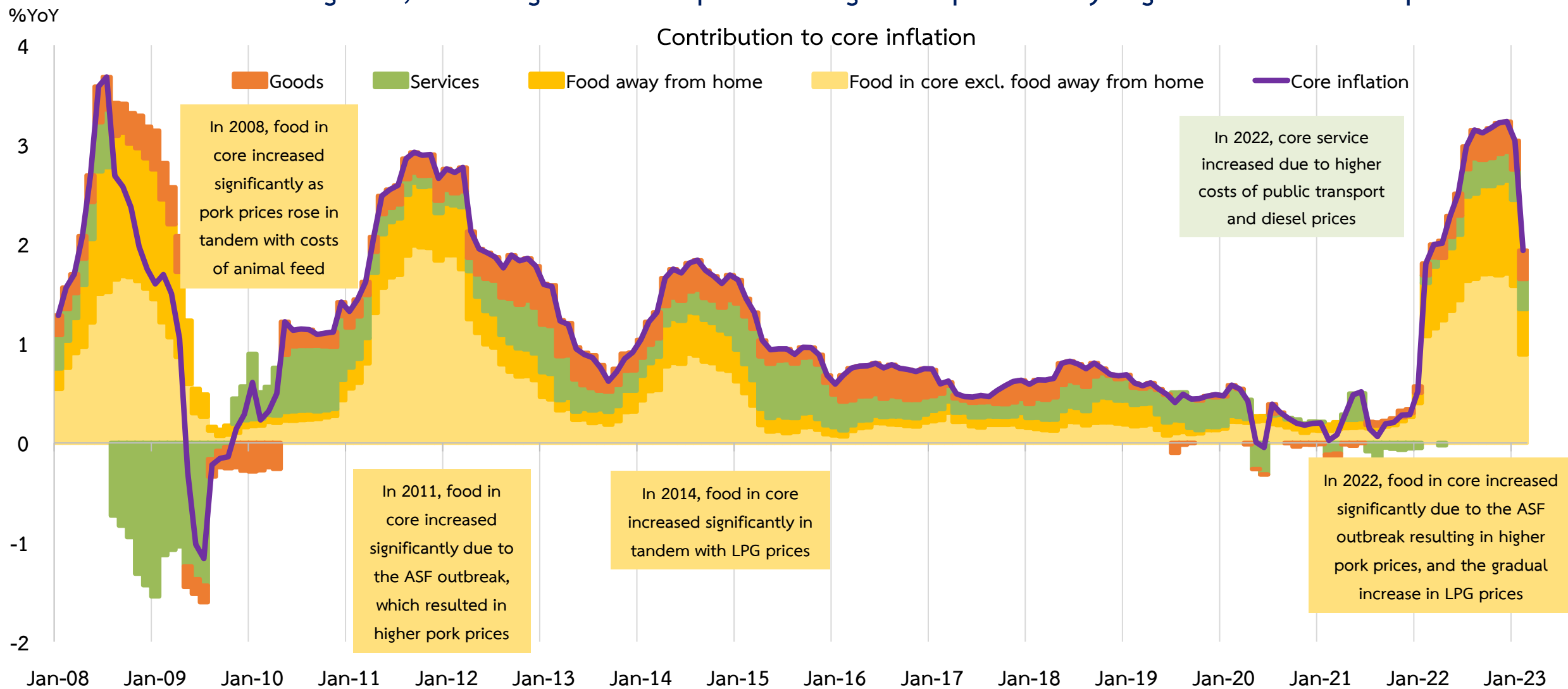
Note: ( ) = weight in CPI basket

%YoY	2022	2023	2024
Headline inflation	6.1	2.9 (3.0)	2.4 (2.1)
Core inflation	2.5	2.4 (2.5)	2.0 (2.0)

Note: ( ) = previous forecast from Monetary Policy Report Q4-2022

- Headline and core inflation have declined but would remain elevated
- The inflation outlook is subject to upside risks from
  - Higher demand-pull inflationary pressure from the economic recovery
  - Potentially higher cost-passthrough from producers as businesses continue to face high costs, whereby some of those costs have yet to be passed on to consumers. In addition, some input costs especially domestic energy prices have remained elevated.

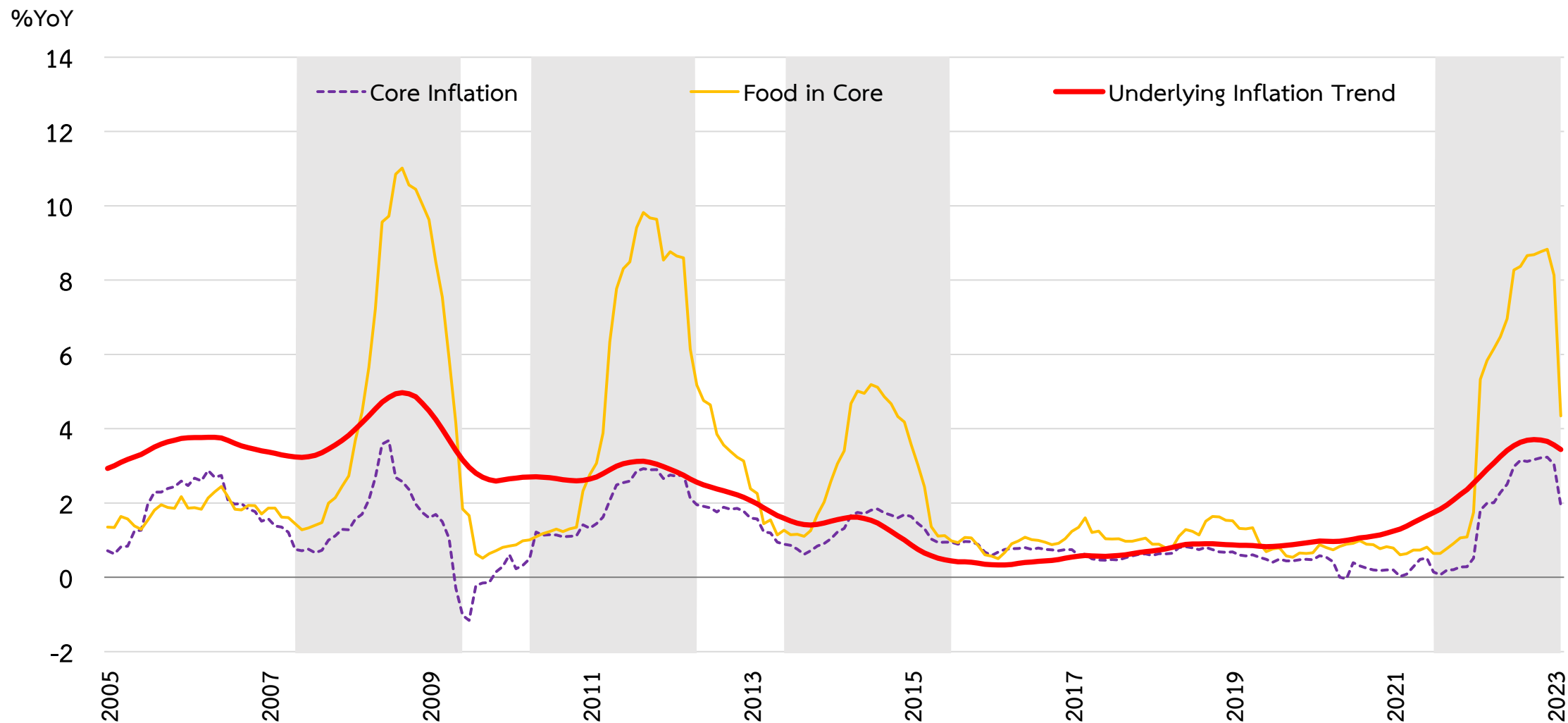
## Core inflation dynamics must be monitored especially price adjustments in prepared foods and in services categories, resulting from cost pass-through and potentially higher demand-side pressures.



Source: Ministry of Commerce, BOT calculation

Note: Goods are core CPI basket excl. food in core ; Services include rents, telecommunication, transportation, and recreation such as hotel and car rentals

There are risks that inflation might remain elevated as reflected in the trend inflation although the trend has started to decline in line with the past episodes.



Note: Trend inflation is calculated by MUCSVO model based on methodology used by Stock and Watson (2015), which utilizes %MoM change in prices of goods and services in 7 categories: raw food, electricity and LPG, fuel, rent, services excl. rent, core goods excl. food in core, and food in core. Source: BOT Calculation

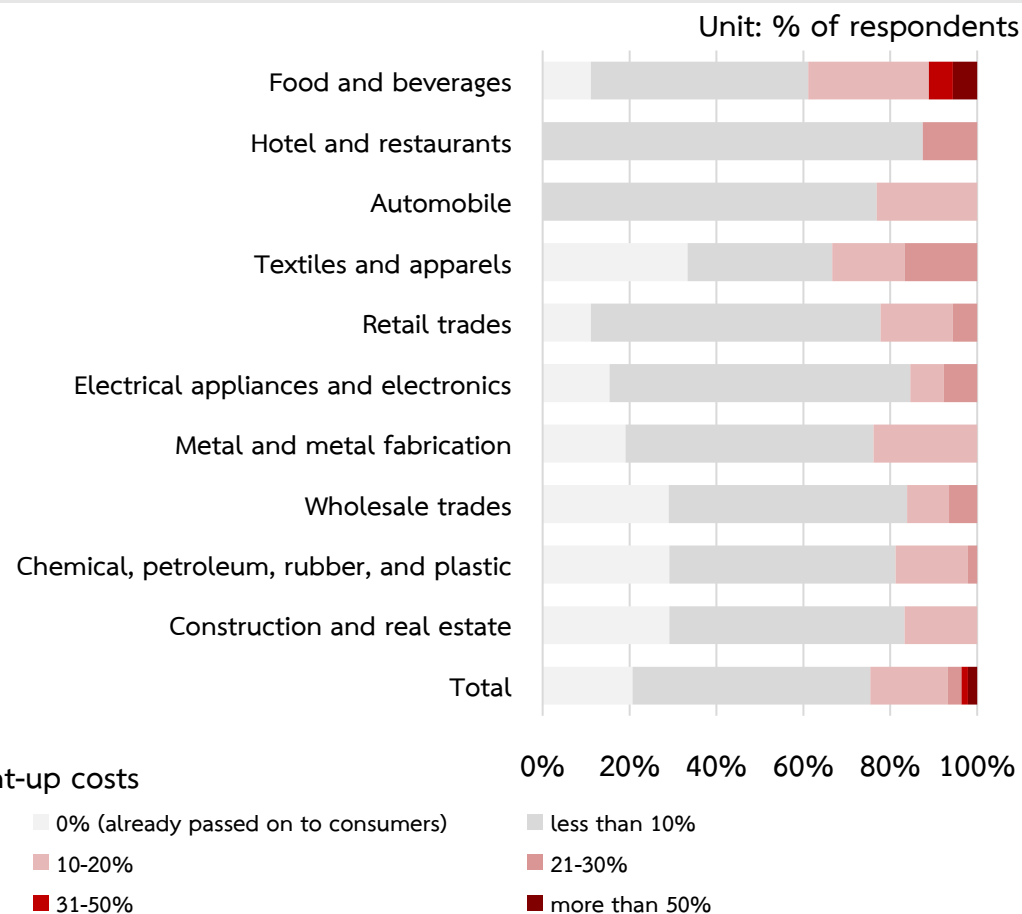
Latest inflation outturns in March 2023 saw prices of food in core increase slightly from the previous month as input costs remain high. There are some goods and services that have not seen cost pass-throughs in earlier periods. Hence, demand-side pressures from economic recovery that could induce greater cost pass-through going forward must be monitored.

In March 2023, prices of food in core continued to increase from the previous month

	Feb 23		Mar 23	
	%YoY	%MoM SA	%YoY	%MoM SA
<b>Headline (100%)</b>	<b>3.79</b>	<b>0.06</b>	<b>2.83</b>	<b>-0.28</b>
<b>Core (67.06%)</b>	<b>1.93</b>	<b>0.12</b>	<b>1.75</b>	<b>0.05</b>
- Food in core (19.80%)	4.34	0.25	3.78	0.14
- Non-food in core (47.26%)	0.86	0.07	0.83	-0.01
<b>Energy (12.39%)</b>	<b>7.75</b>	<b>2.02</b>	<b>2.42</b>	<b>-1.50</b>
<b>Raw food (20.55%)</b>	<b>7.14</b>	<b>-0.61</b>	<b>6.66</b>	<b>-0.49</b>
- Rice, Flour and Cereal products (4.09%)	3.93	-0.14	4.93	0.55
- Meats, Poultry and Fish (8.93%)	3.92	-0.74	4.40	-1.86
- Eggs and Dairy products (2.05%)	9.41	0.25	5.99	-1.11
- Vegetables and Fruits (5.47%)	14.79	-1.18	12.40	1.18

Note: %MoM SA is calculated using BOT's seasonal factors and could differ from figures released by the Ministry of Commerce.

Share of higher costs being borne by producers with incomplete pass-through (pent-up costs)

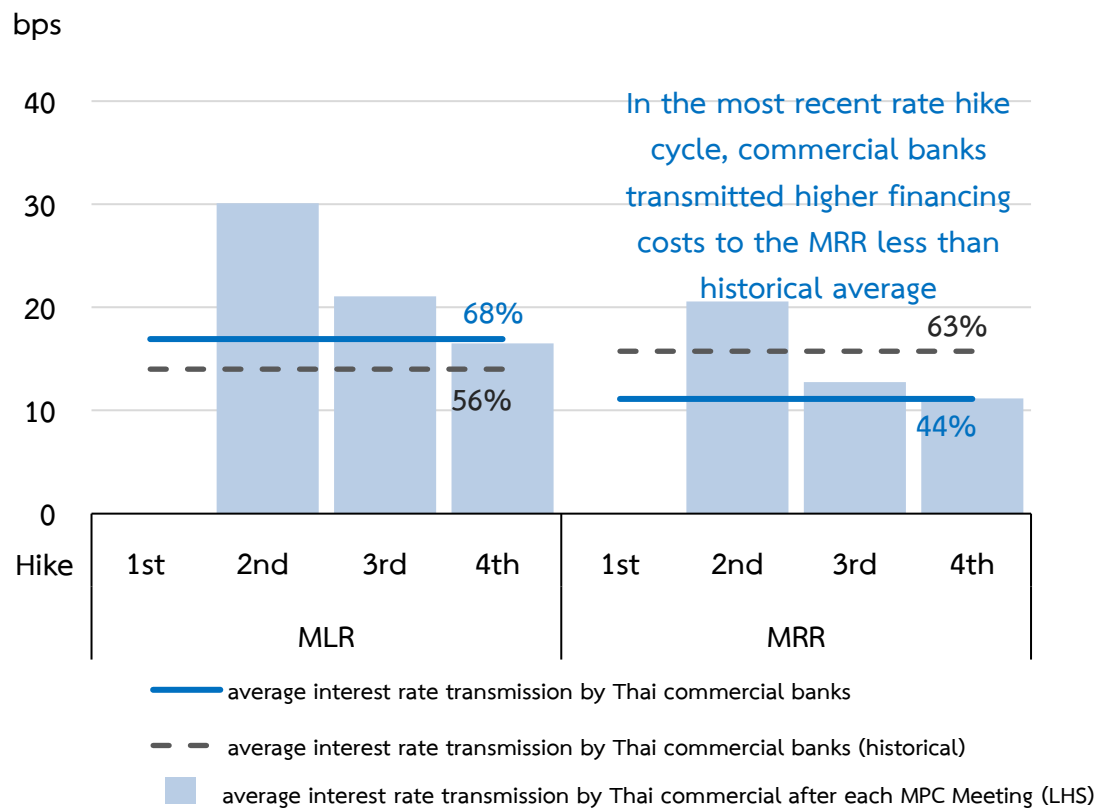


Source: BOT Business Survey on Selected Issues, Mar 2023 (1<sup>st</sup> round, 340 respondents)

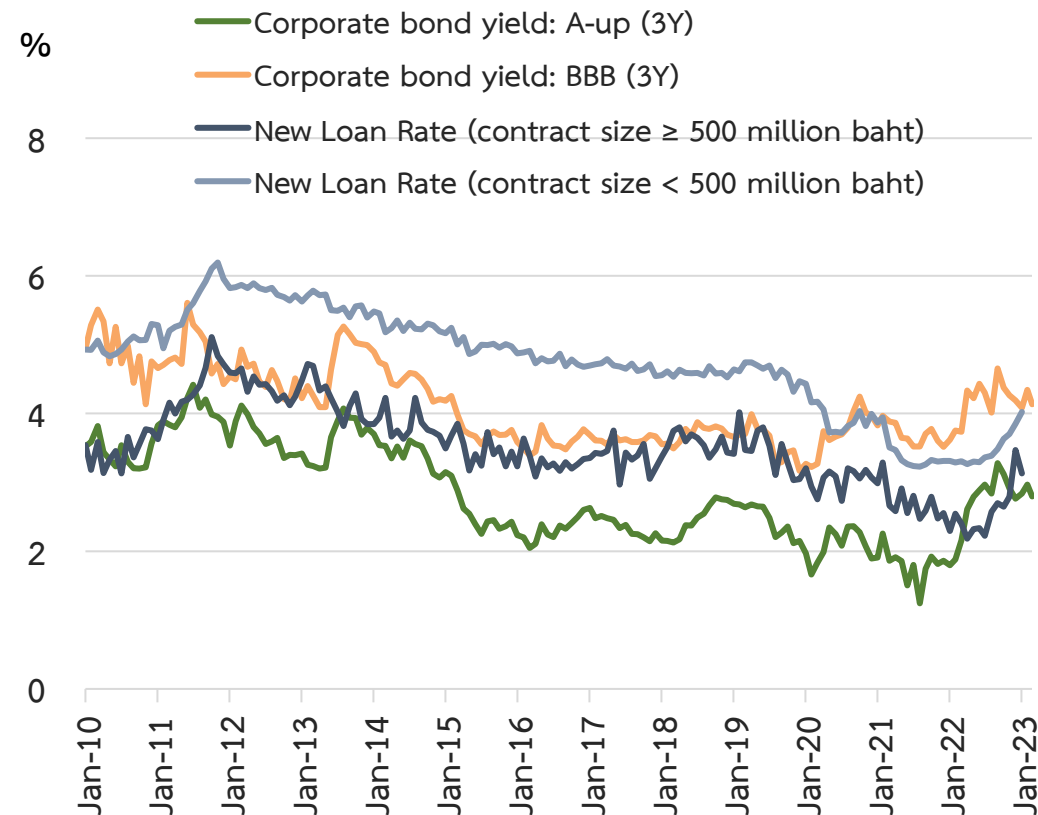
Thailand's overall financial conditions remain accommodative. Financial conditions tightened somewhat in line with the higher policy rate, but remained supportive of the ongoing economic recovery and mobilization of funds by the private sector.

## Commercial banks transmitted higher financing costs to their lending rates at a gradual pace. Private sector financing costs increased in line with the policy rate

Transmission of financing costs to commercial bank lending rates



Private sector financing costs

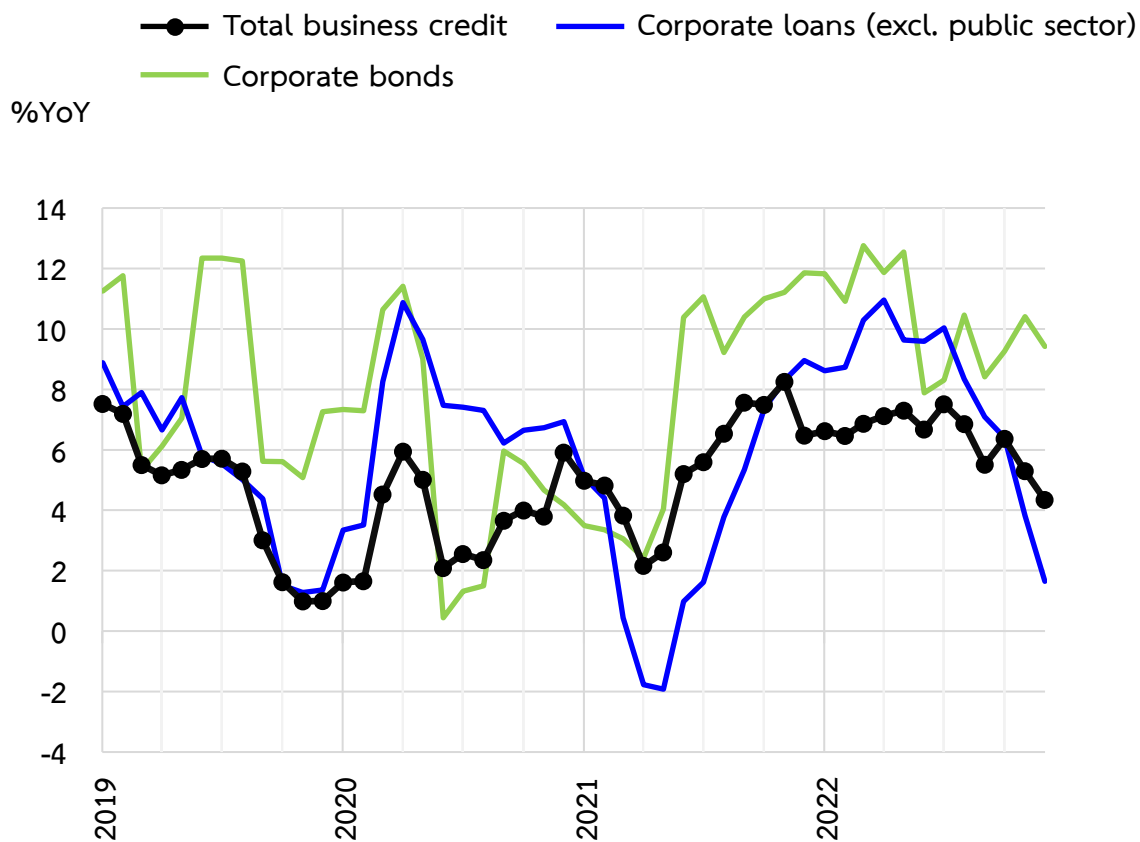


Note: 1/Does not include effect of FIDF fee increase, which resulted in commercial banks raising the MLR and MRR by 36 bps and 37 bps, respectively.

2/Historical average interest rate transmission is based on the 2010-2011 period

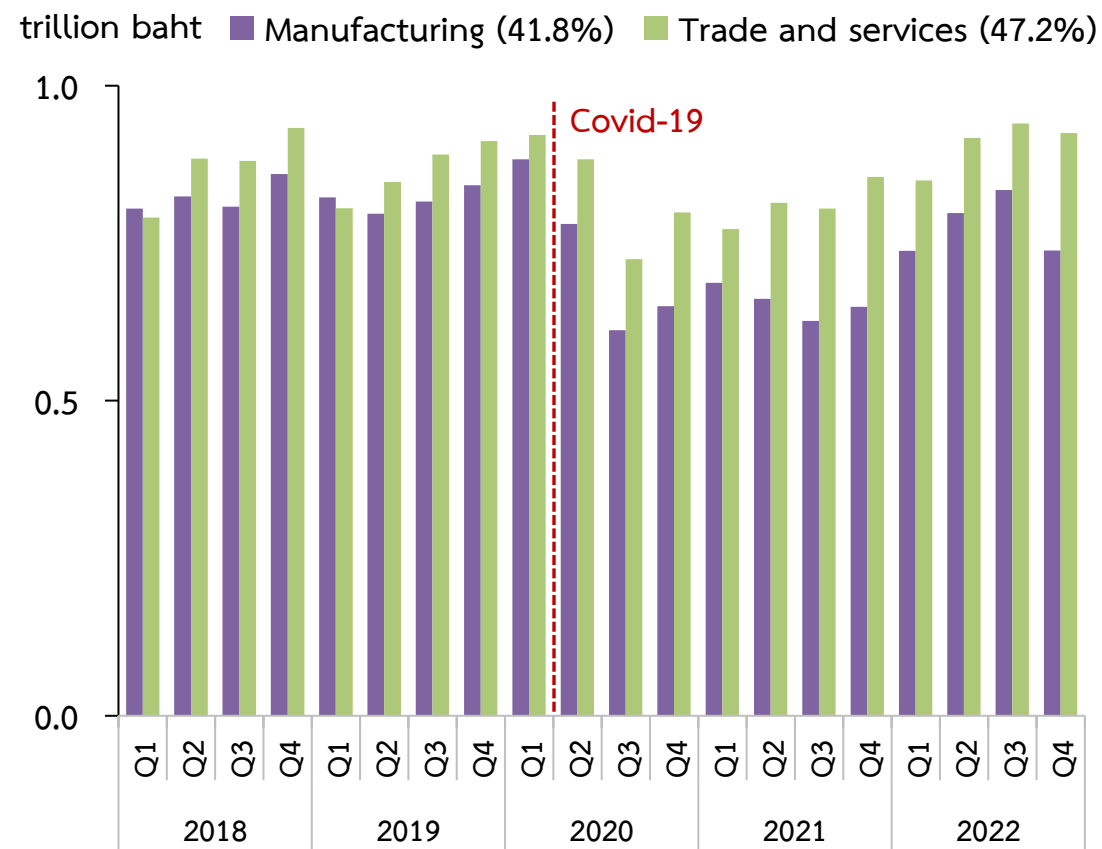
## Private sector financing costs remain supportive of funds mobilization by the private sector and the economic recovery, as reflected by continued growth in private credit and bond issuance

Businesses have accelerated bond issuance to lock in costs



Note: Corporate loans are loans outstanding larger than 500 million baht owed to one commercial bank

Businesses in the service sector and SMEs are still able to obtain new credit



Note: ( ) = share of total new loans

Other business sectors include agriculture (0.7%) and other (10.3%) such as utilities

# A gradual and measured policy normalization being pursued by the MPC has helped sustain the economic recovery and reduce risks of persistently high inflation

Normalization commenced in August 2022



The economic recovery remained intact and inflation returned to the target range

## The Thai economy

- ✓ Returned to pre-COVID levels and is expected to continue expanding
- ✓ Economic recovery is more broad-based (less K-shape)

## Inflation

- ✓ Headline inflation has declined and would return to the target range in the second quarter of 2023

## Financial stability

- ✓ Banking system remains sound
- ✓ Some SMEs and households are still vulnerable, but their income have improved with the economic recovery

Inflation still subject to upside risks in the period ahead

- Trend inflation remains high
- Need to ensure demand recovery does not lead to higher inflationary pressure