

Monetary Policy Forum 2/2024

26 June 2024

(Economic projections as of 11 June 2024)





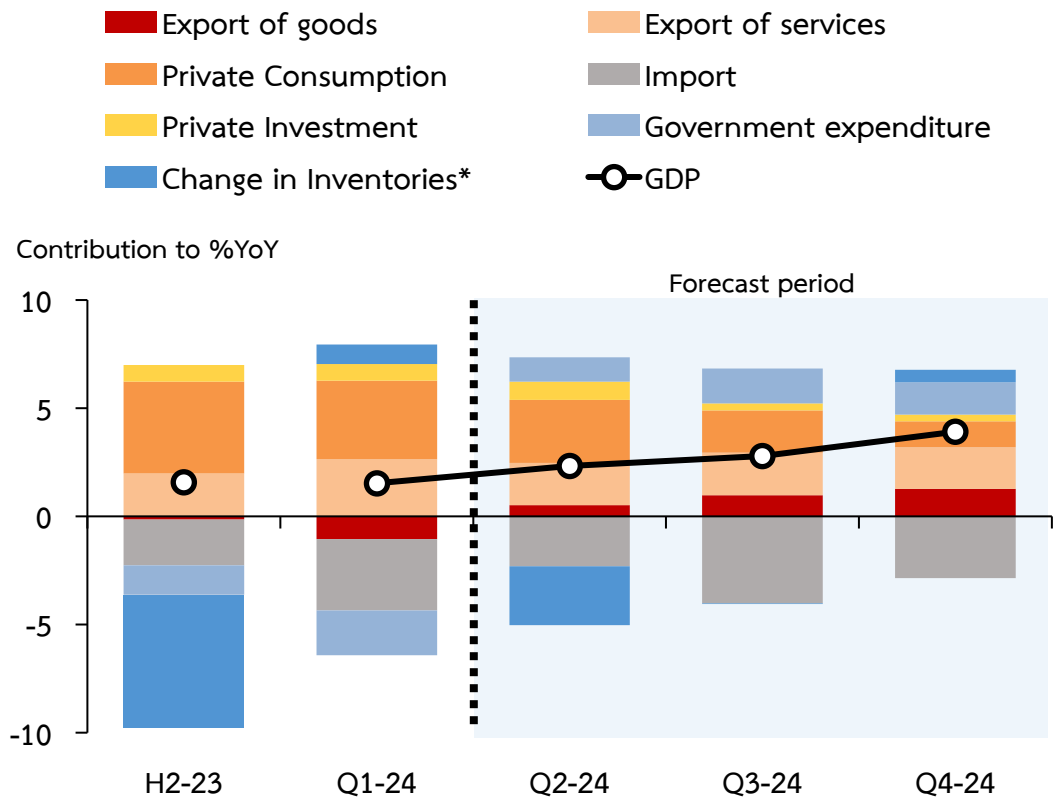
Economic outlook

The Thai economy overall would continue to expand driven by domestic demand and tourism. There are signs of recovery in exports and manufacturing of some merchandises, but there remains the need to monitor developments going forward.

The Thai economy would continue to expand driven by domestic demand and tourism, but there remains the need to monitor the recovery of exports and manufacturing sector

GDP growth forecast is largely unchanged from the last assessment in April

GDP growth forecast by component



Note: * includes statistical discrepancy or CVM additive error
Source: Office of the National Economic and Social Development Council, BOT forecast

Growth projections

	%YoY	2023*	2024	2025
GDP Growth		1.9	2.6	3.0
Domestic demand		3.5	3.6	2.8
Private consumption		7.1	4.2	2.5
Private investment		3.2	3.3	3.2
Government consumption		-4.6	1.8	3.3
Government investment		-4.6	3.6	2.6
Export volume of goods and services		2.1	3.9	3.2
Import volume of goods and services		-2.3	4.9	2.9
Current Account (billion U.S. dollars)		7.0	13.0	17.5
Value of merchandise exports (%YoY)		-1.7	1.8	2.6
Value of merchandise imports (%YoY)		-3.1	3.1	2.0
Number of foreign tourists (million persons)		28.2	35.5	39.5

Note: Projections exclude the impact of the Digital Wallet scheme * Outturn
Source: Office of the National Economic and Social Development Council, BOT forecast

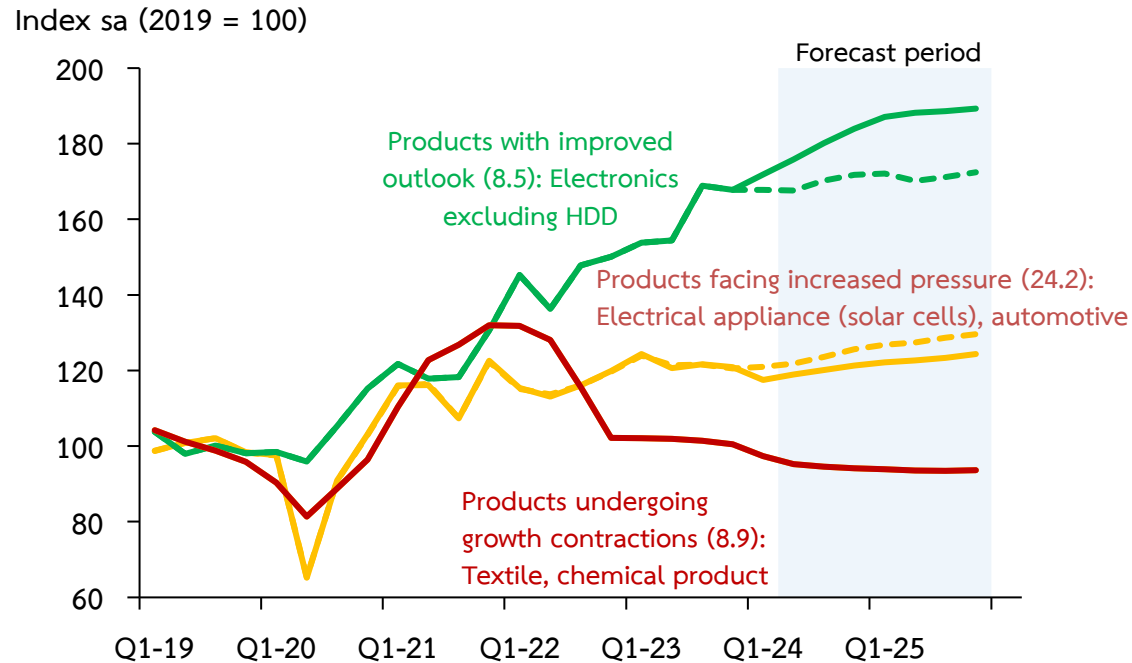


There are signs of recovery in exports and manufacturing of some merchandises, but there remains the need to monitor developments going forward

Exports of electronics improved, but exports of automotive and solar cells faced increasing risks

Manufacturing production showed signs of bottoming out, but the recovery is uneven across product groups due to both cyclical and structural factors.

Value of merchandise exports by product category

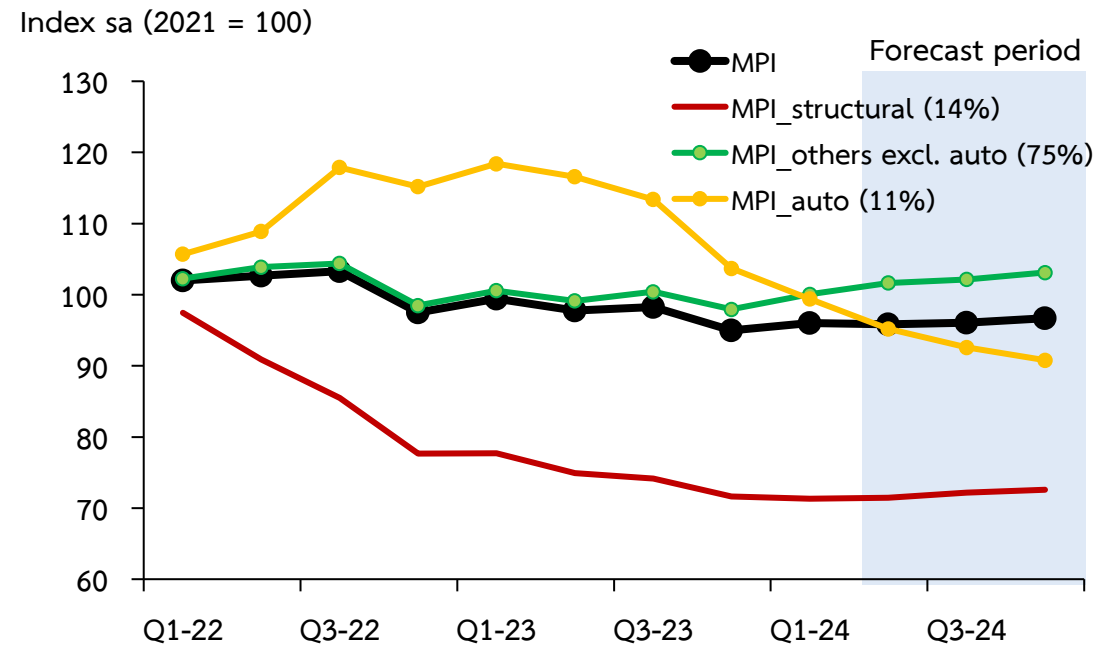


Note: () % share of total merchandise exports in 2023

Source: Thai Customs, BOT forecast

Value of merchandise exports	2023	2024F	2025F
%YoY	-1.7	1.8	2.6

Manufacturing Production Index (MPI)



Note: Products affected by structural factors are HDD, textiles and apparel, petrochemical products, and basic metals; The forecast starts from Q2-2024, and is projected from the main industries accounting for 87.3% of total weight in MPI; () is weight of each product group in the overall MPI.

Source: Office of Industrial Economics, Interviews with businesses, BOT forecast

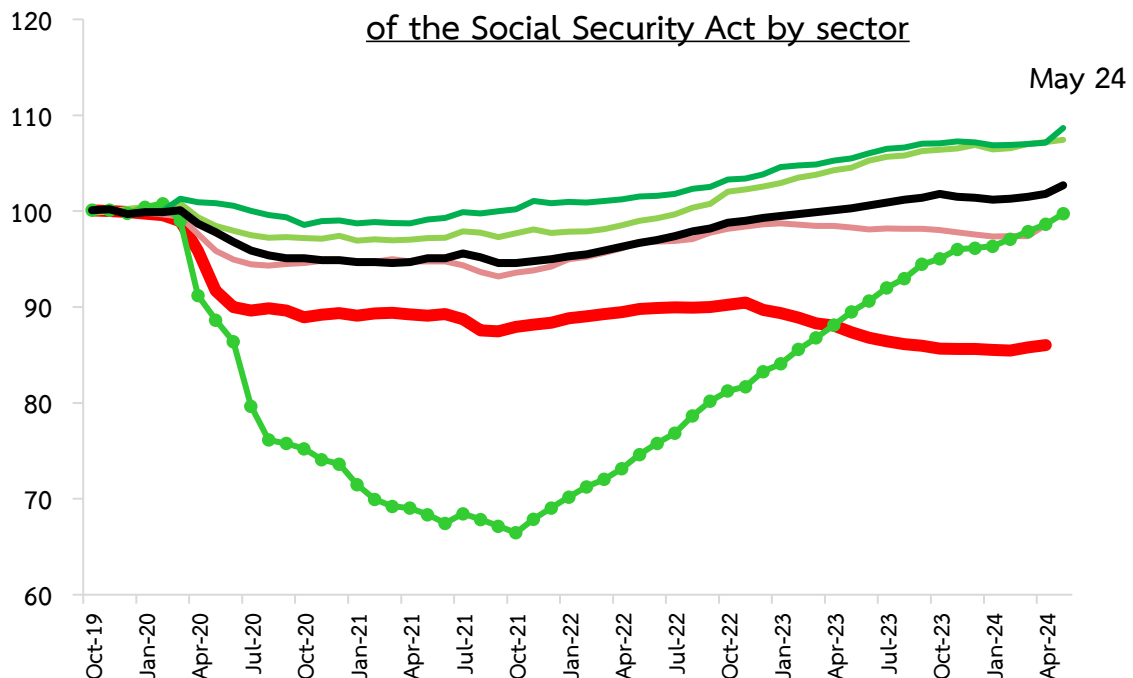


The economic recovery has been uneven, resulting in an uneven recovery in labor income across sectors

Employment recovery has been strong in tourism-related sectors, while the recovery in some sectors would likely be difficult due to structural factors

Cyclical and structural problems within the manufacturing sector, which affected 6.3 million workers, also had spillovers to some services sectors

Index sa (Q4-19 = 100) Number of insured persons under Section 33 of the Social Security Act by sector

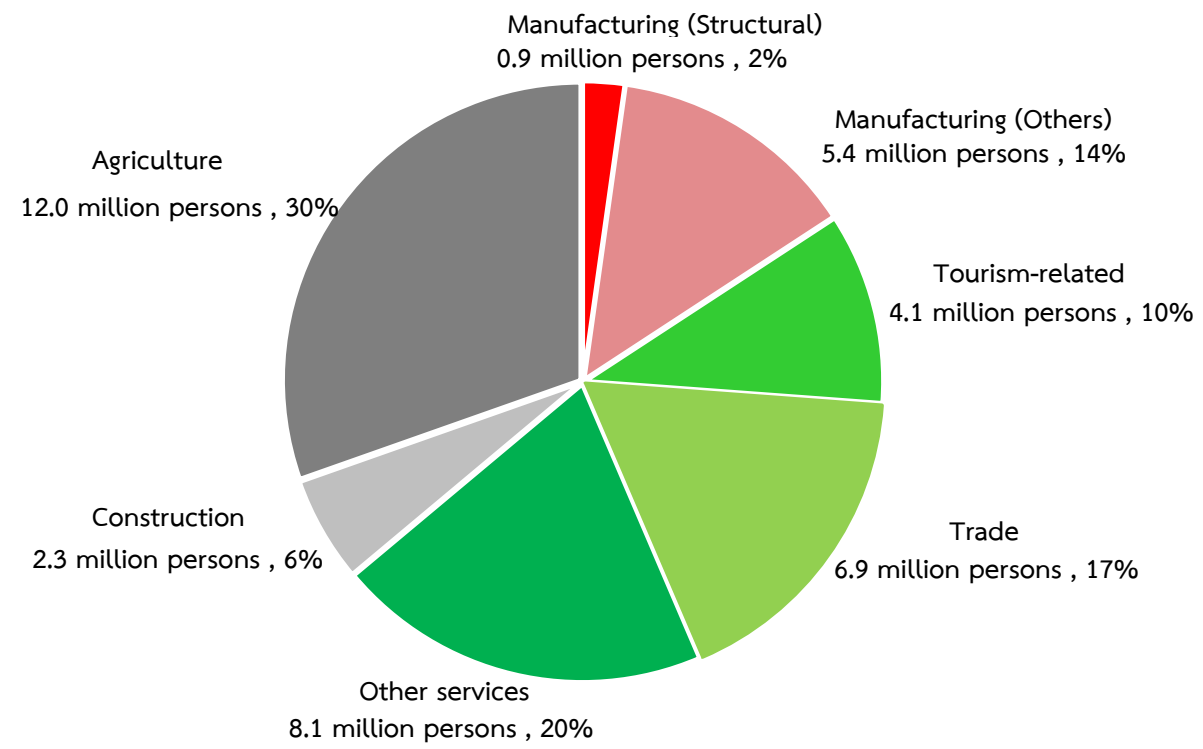


— Manufacturing (structural)* — Manufacturing (others)
— Trade —● Tourism-related**
— Other services — Total

Note: * includes textile and apparel, petrochemical products, basic metals, and HDD
 ** includes hotel and restaurant, and recreation

Source: Social Security Office, BOT calculation

Share of employment by sector as of 2023



Note: * includes textile and apparel, petrochemical products, basic metals, and HDD
 ** includes hotel and restaurant, passenger transport, tourist guide, and art and recreation

Source: National Statistics Office, BOT calculation

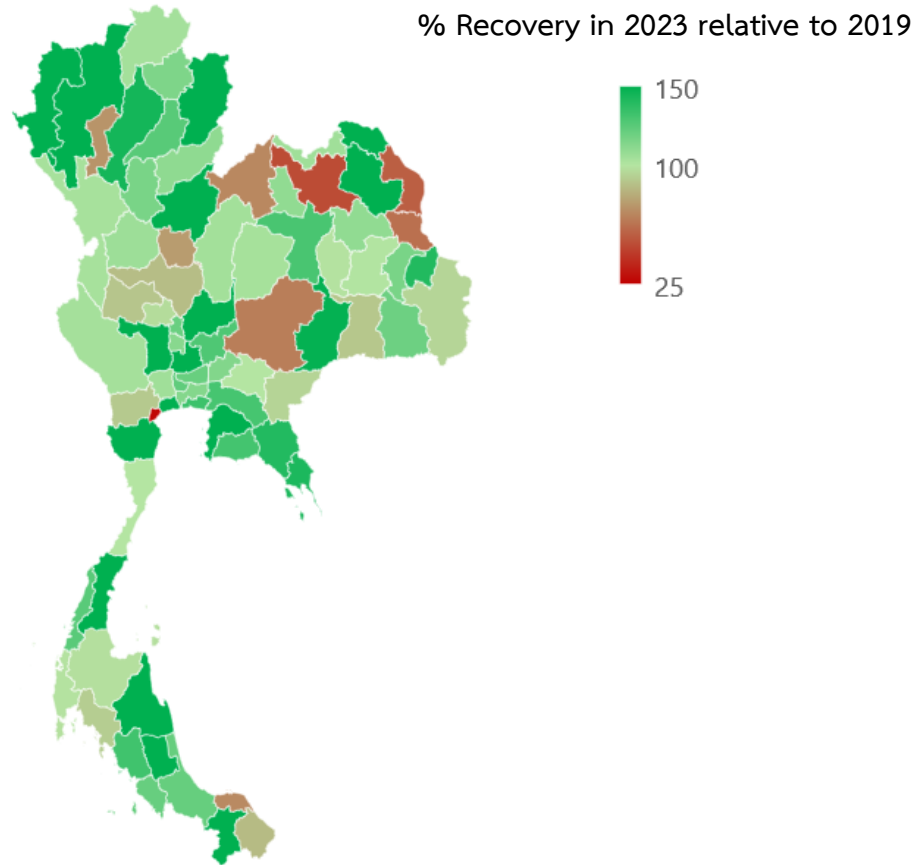


The recovery was also uneven across different occupations, regions, and income groups, all of which affected people's well-being and consumer confidence

Self-employed workers in the northeastern region recovered slower than other regions, especially those in businesses involving construction material, textiles, construction contracting, and passenger transport.

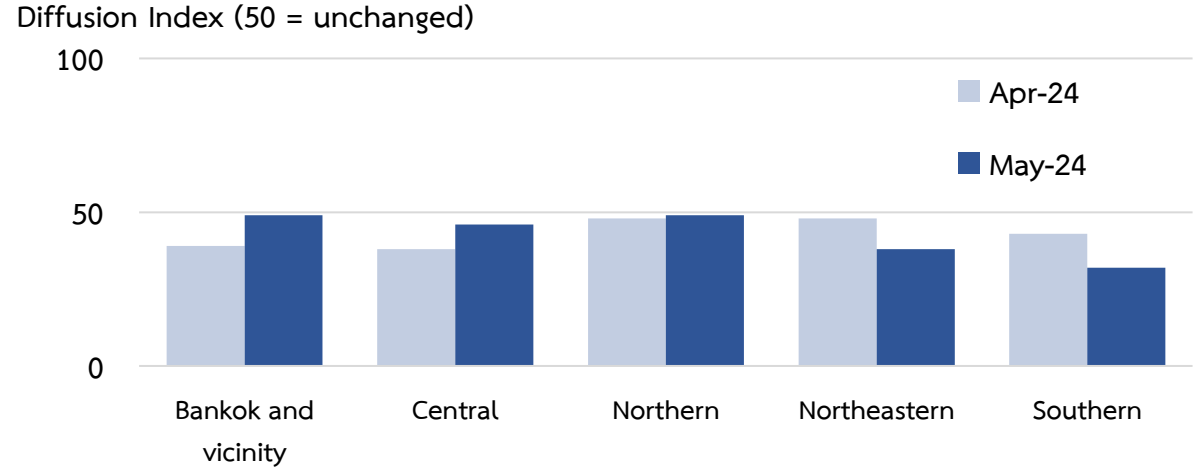
Consumer confidence remains strong among those living in Bangkok and vicinity area / central region and middle-to-high income groups

Income recovery of self-employed workers by province



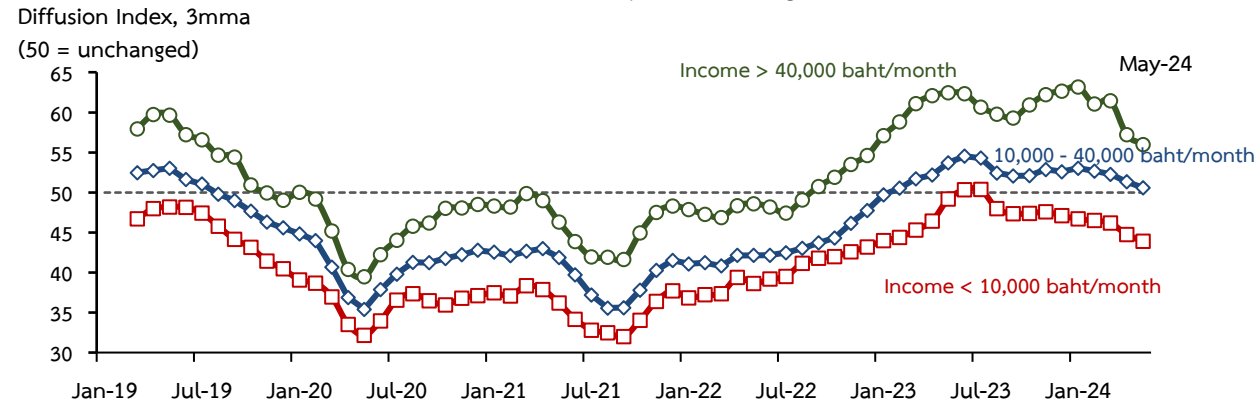
Source: National Statistics Office, BOT calculation

Same-store sales confidence of retail businesses by region



Source: Survey conducted among a sample group of retail businesses from across the country, accounting for 40% of nationwide sales by Thai Retailer Association and BOT

Consumer confidence by income group



Note: Data is a 3-month moving average; values 50 and above mean consumers are optimistic about economic conditions. Source: Ministry of Commerce, BOT calculation.



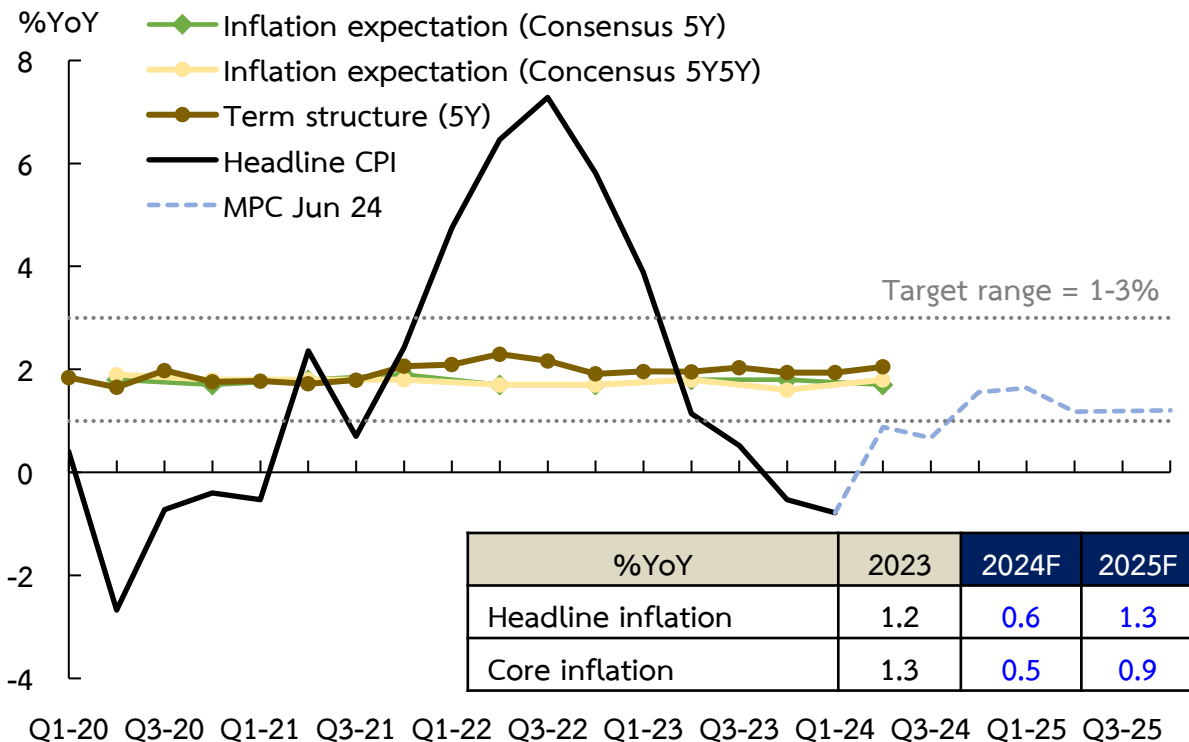
Inflation

Headline inflation would gradually return to the target range by the fourth quarter of this year, with medium-term inflation expectations remaining consistent with the target range.



The current inflation target range of 1-3% has been functioning well even during periods of high inflation

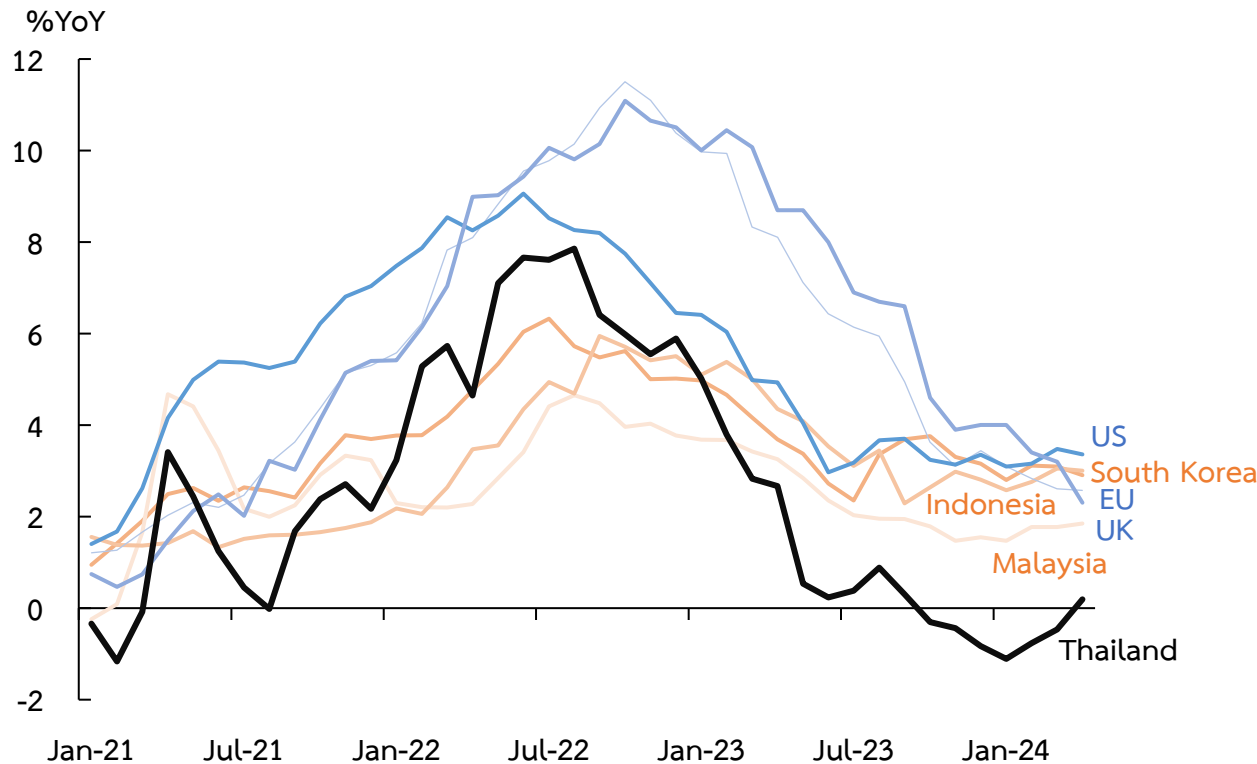
The inflation target range was effective in keeping medium-term inflation expectations well-anchored even during periods of high inflation in 2021.



Source: Asia Pacific Consensus Economics, Ministry of Commerce, and BOT

Note: Term structure forecast is calculated using the affine term structure model using yield curve and macroeconomic factors.

Inflation in Thailand declined faster than other countries.



Source: Bank for International Settlements

Note: Data as of May 2024



Financial conditions and financial stability

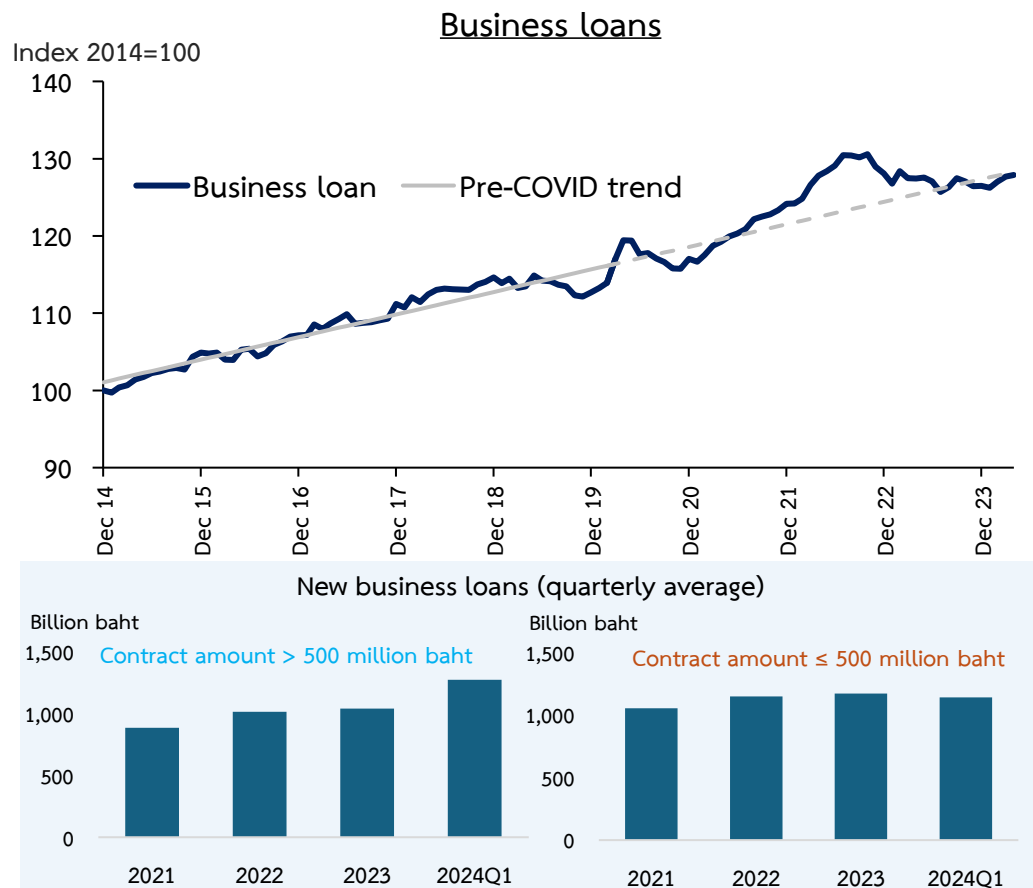
1. Overall, the credit mechanism has been functioning normally. Business loans expanded overall, while household credit has slowed down.
2. The debt deleveraging process remains underway with some deterioration in credit quality as expected. Meanwhile, there remains the need to monitor credit quality of low-income households and some SMEs.



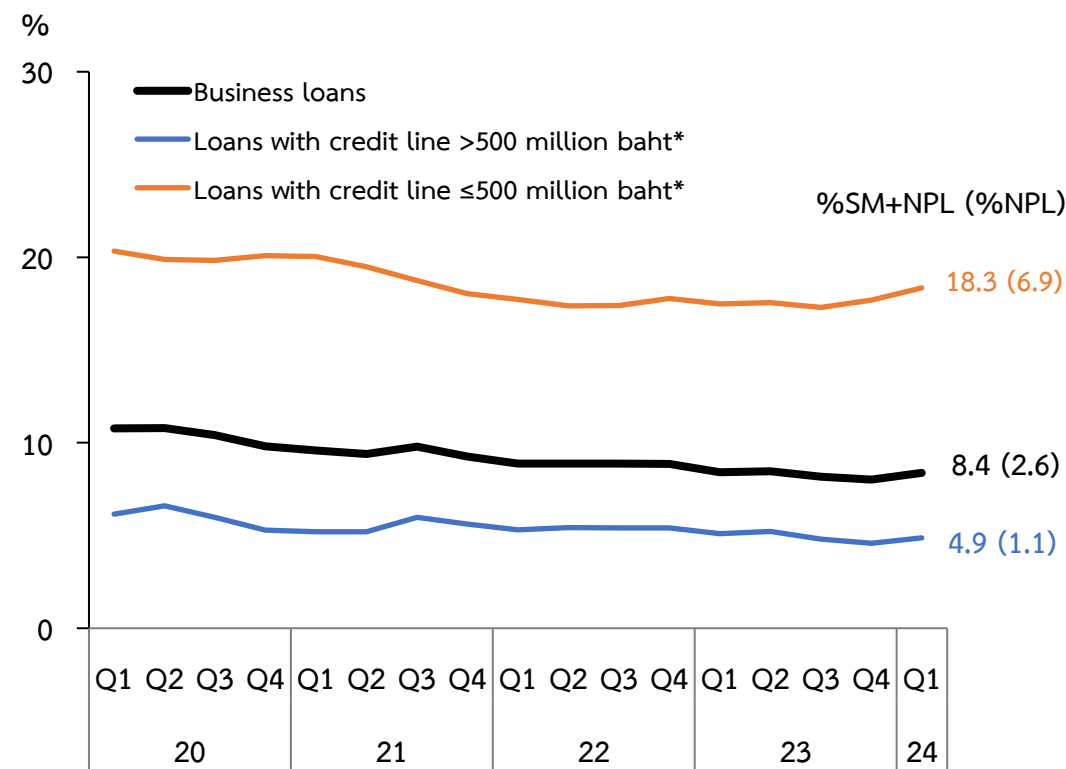
Credit mechanism has been functioning normally but financial conditions for SMEs must be monitored

Business loans growth was in line with historical trend.

Credit quality deteriorated somewhat especially for SMEs.



Share of stage 2 (SM) and stage 3 (NPL) debt to total business loans



Note: (1) Data covers 14 Thai commercial banks; (2) Pre-COVID trend is calculated using data between Dec 2014 – Feb 2020; (3) New loans data denotes the overall credit amount in the contract

Note: *Credit line at each commercial banks as of March 2024;
The data covers only loans within the commercial banking system;
Source: BOT

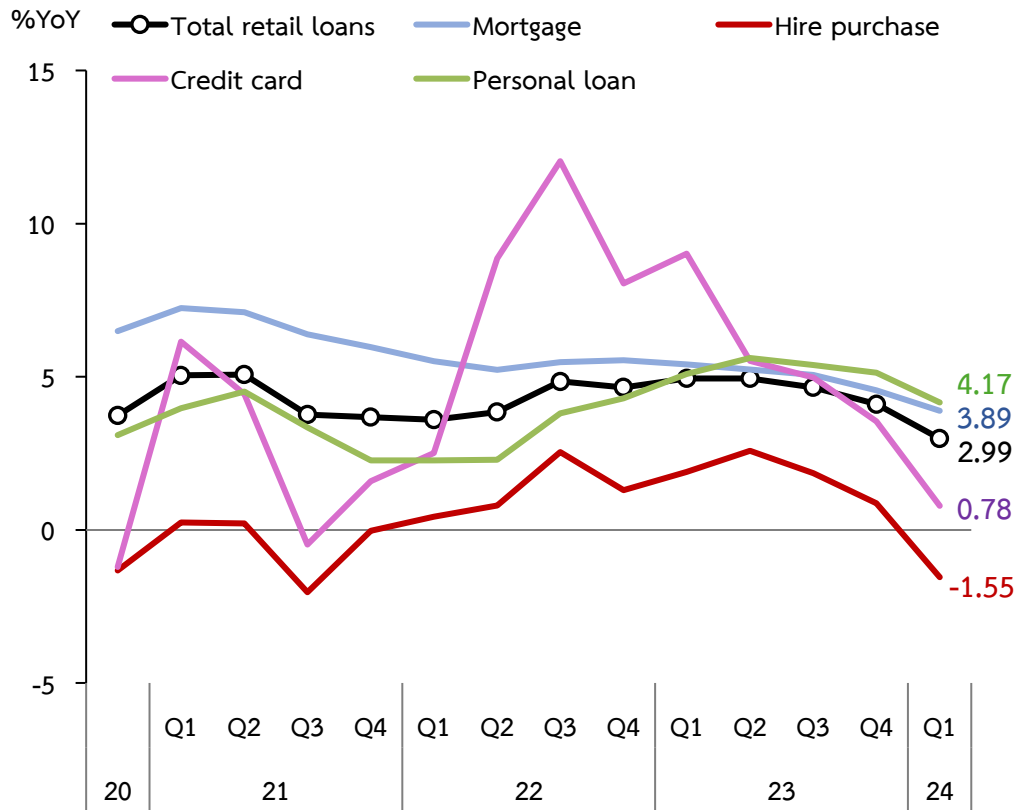


Household credit slowed down partly due to the debt deleveraging process

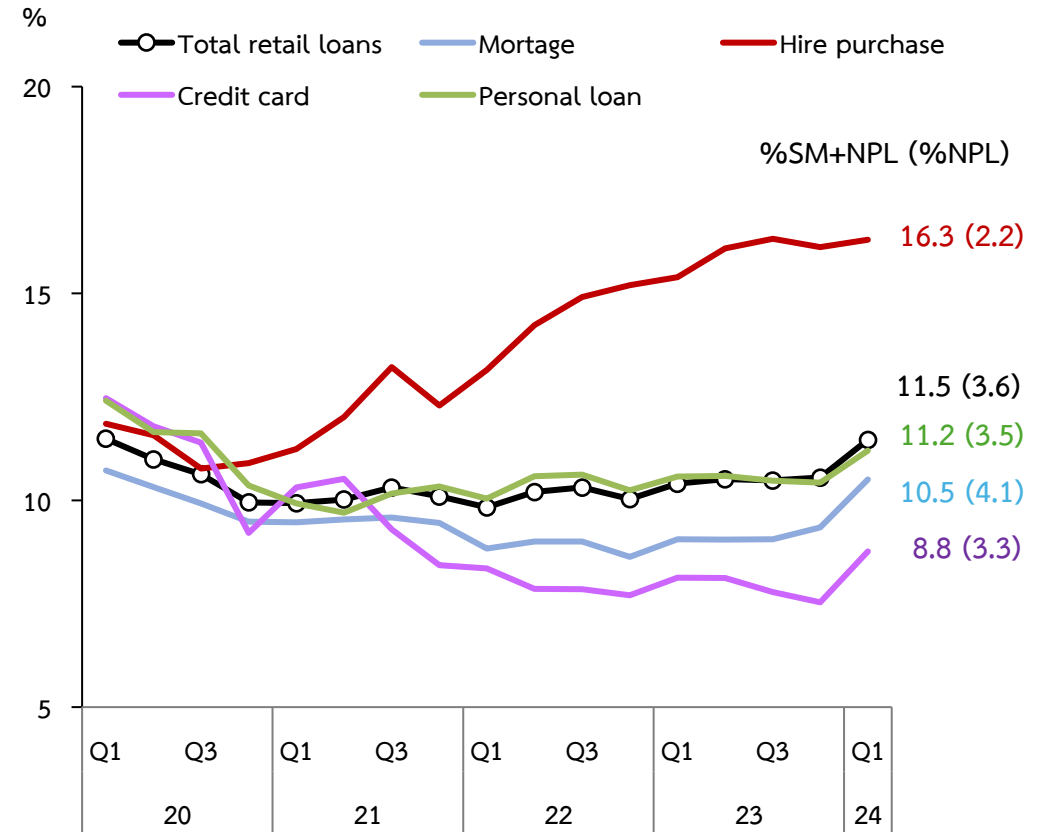
Hire purchase and credit card loans slowed down more than other loan types.

Credit quality deteriorated as expected

Consumer loans growth



Share of stage 2 (SM) and stage 3 (NPL) debt to total consumer loans



Note: Data includes loans extended by commercial banks, specialized financial institutions (SFIs), subsidiaries of commercial banks, and non-bank under BOT supervision, which account for 60% of household debt (different from data presented in the Banking Sector Quarterly Briefs where retail loans in the commercial banking system account for 33.5% of household debt).

Source: BOT

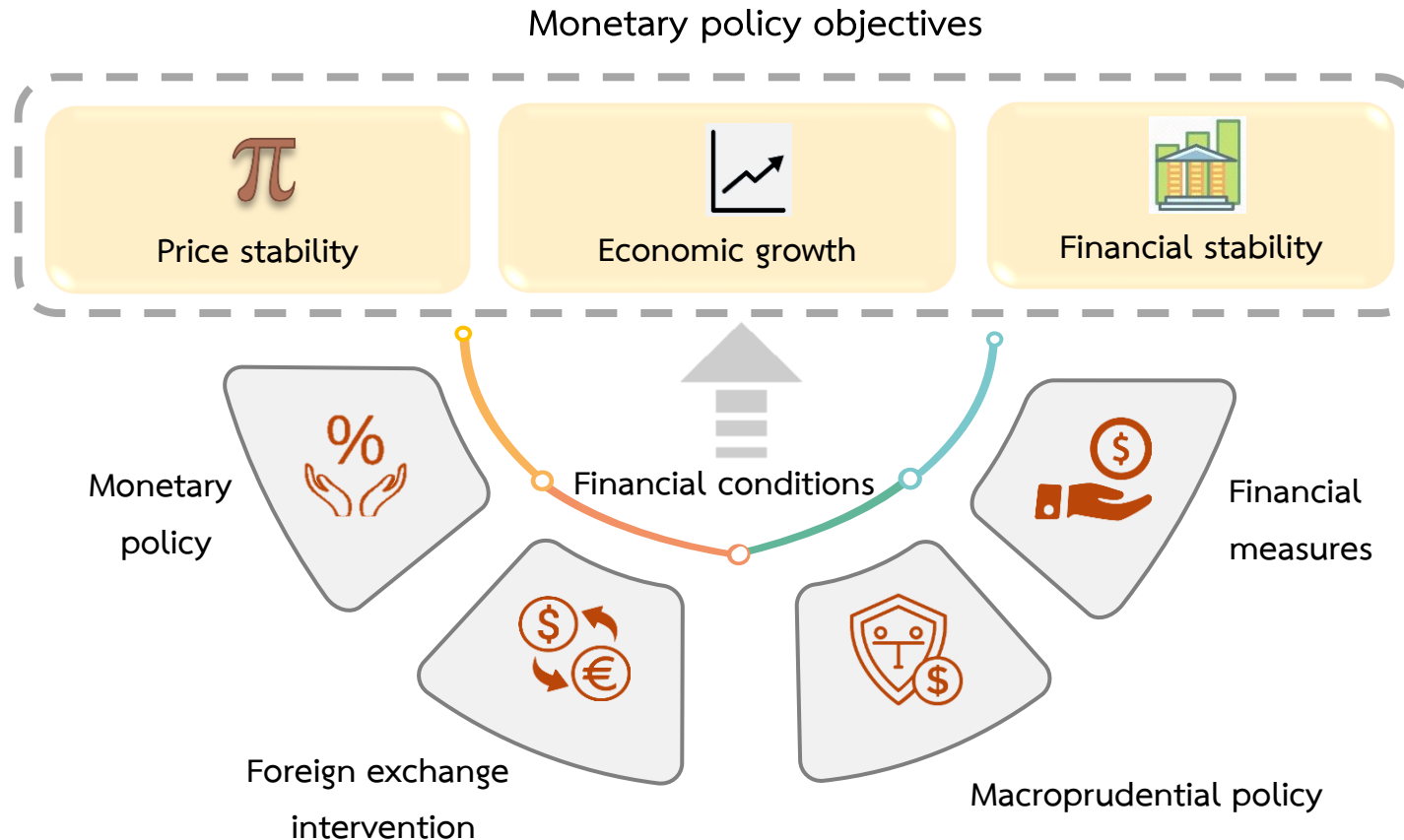


Monetary policy decision

Overall, the conduct of macroeconomic and financial policies must appropriately utilize a combination of policy tools to address problems in a well-targeted manner without over-reliance on any single policy tool that would otherwise result in unintended side effects. The current policy rate is consistent with the current economic and inflation outlook, and is conducive for safeguarding long-term macro-financial stability.



Using a mix of targeted tools that address the root causes of a problem and monetary policy that fosters the appropriate macroeconomic conditions is conducive for safeguarding long-term macro-financial stability



The Committee supports the BOT's implementation of targeted measures through financial institutions

Targeted measures to address household debt problems

Offering debt restructuring solutions before and after becoming NPL (effective 1 Jan 2024)

Measures:

- Creditors offer debt restructuring solutions to debtors before they become NPL at least once when there are signs that the debtors are facing repayment difficulties.
- Creditors offer debt restructuring solutions to debtors after they become NPL at least once before filing a law suit, selling off the debt, and seizing their assets.

Resolving persistent debt among the vulnerable groups (effective 1 April 2024)

Conditions:

- Revolving personal loans under BOT's supervision such as express loan cards
- Debtors have paid the interest amount more than the principal amount over the last 5 years
- Debt not yet classified as NPL

Assistance:

- Debt is converted into installment loans to be repaid within 5 years
- Applicable interest rate is lowered to a level not exceeding 15% per annum

BOT urged financial institutions to lend based on the borrowers' ability to pay whilst also carrying out debt restructuring for the debtors in need

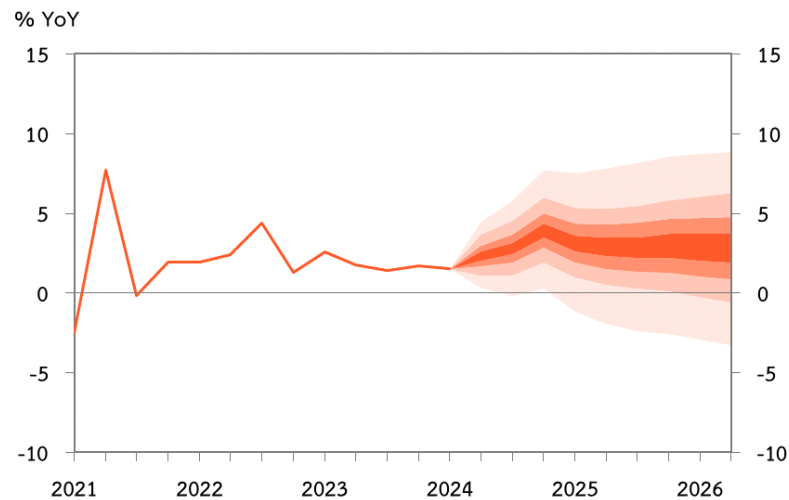
Cumulative debt restructuring in the financial institutions system as of Q1-2024*

Total number of accounts: 3.7 million	Commercial banks + non-banks	0.6 million accounts
	SFIs	3.1 million accounts
Total debt value: 920 billion baht	Commercial banks + non-banks	260 billion baht
	SFIs	660 billion baht

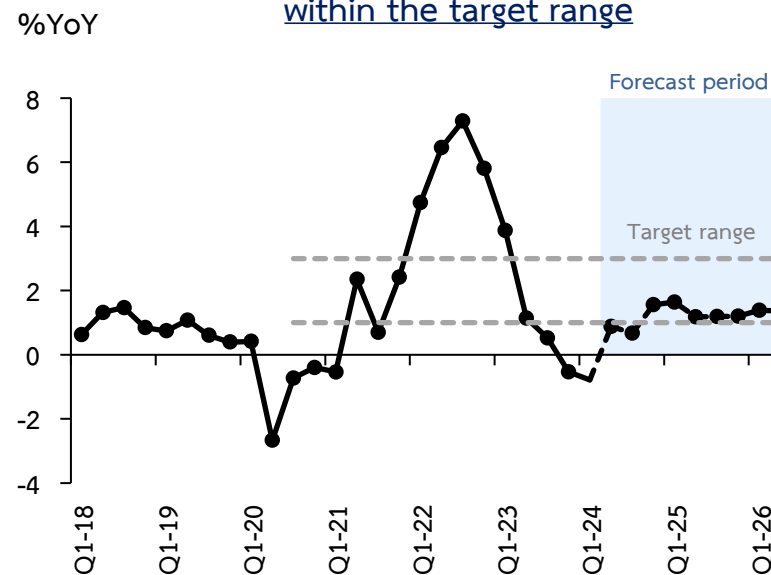
Note: *Include retail borrowers and SMEs borrowers

- Ensure sustainable economic growth, keep inflation within the target range over the medium-term, and reduce the accumulation of financial stability risks
- The monetary policy must be ‘robust’ (i.e. can accommodate risks that could affect the economic outlook both on the upside and downside such as government spending, macroeconomic policy of advanced economies, geopolitical risks).

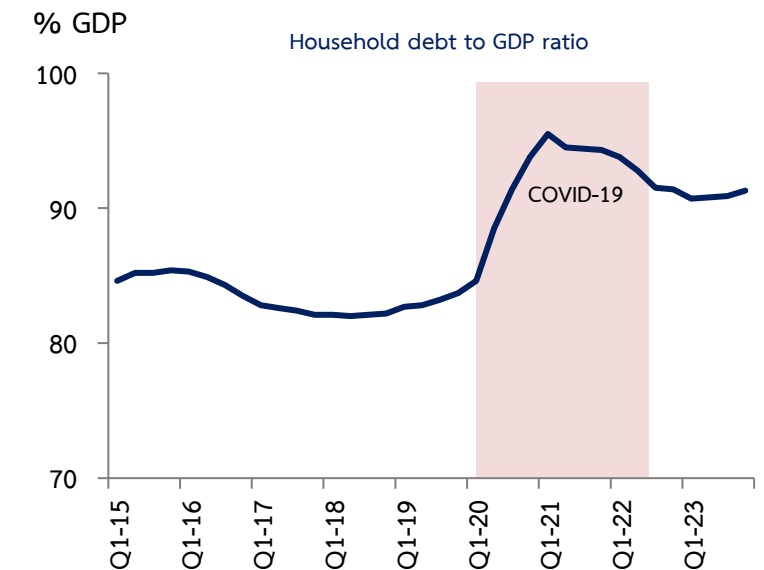
Sustainable economic growth



Medium-term inflation within the target range



Reduce the accumulation of financial stability risks





The Committee voted 6 to 1 to maintain the policy rate at 2.50 percent.

One member voted to cut the policy rate by 0.25 percentage point.

- The Thai economy is projected to grow on the back of domestic demand and tourism. Export growth would remain subdued with some export products facing additional headwinds from higher competition. The recovery of exports and manufacturing sector thus should be monitored going forward.
- Inflation would increase and return to the target range by the fourth quarter of 2024 onwards as the impact of both supply factors and government subsidies are gradually phased out.
- Overall financial conditions remain unchanged. Business loans expanded overall, while household debt deleveraging process remains underway. Nonetheless, some SMEs and low-income households face tighter financial condition and thus must be monitored going forward.
- The current policy rate is consistent with sustaining economic growth and is conducive to safeguard long-term macro-financial stability.

The Committee will monitor economic developments, and evaluate the most appropriate course of monetary policy for the growth and inflation outlook going forward.