# Monetary Policy Forum 4/2024

6 January 2025

(Economic projections as of 17 December 2024)

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# Economic outlook

- The Thai economy is facing challenges from intensified external competition as well as heightened uncertainties in the period ahead, especially those pertaining to economic policies of advanced economies
- While the Thai economy would expand at rates close to the previous assessment, the economic recovery would be more uneven across sectors

# The economic trajectory is close to potential, with key growth momentum from merchandise exports, tourism, and domestic demand.

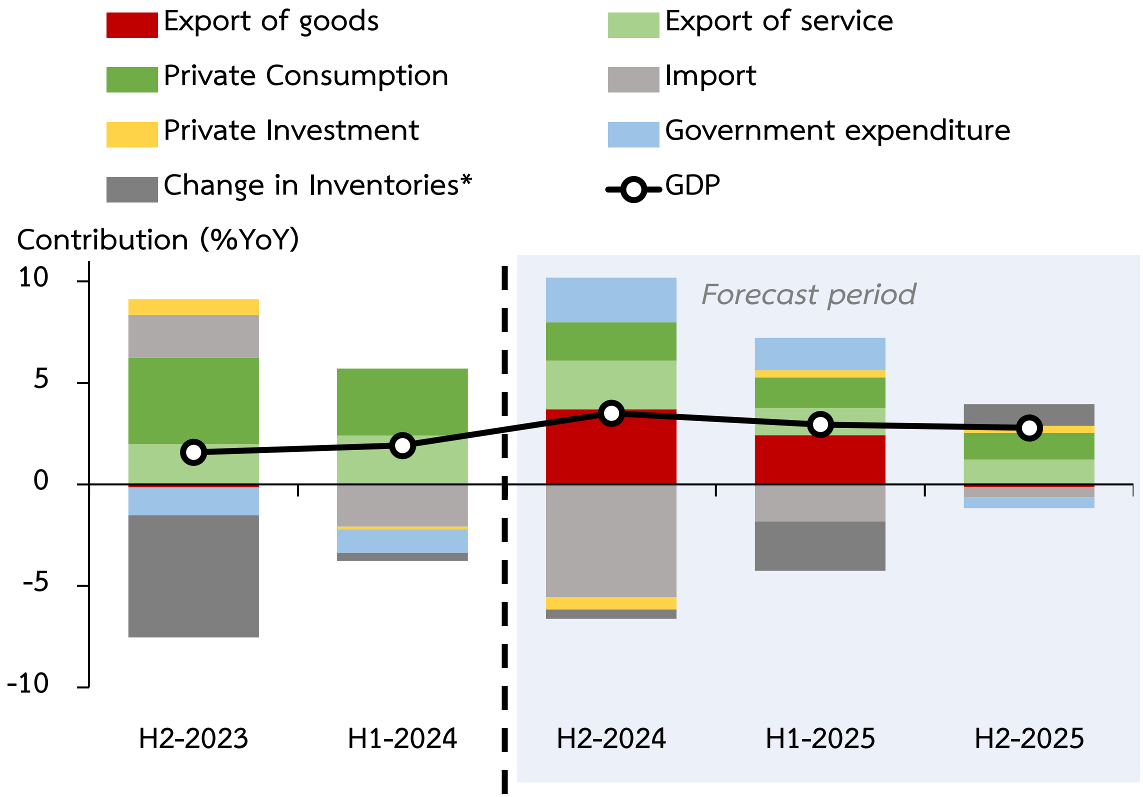
## Growth projections

| %YoY | 2023* | 2024 | 2025 |
|---|---|---|---|
| GDP Growth | 1.9 | 2.7 | 2.9 |
| Domestic demand | 3.5 | 2.8 | 2.4 |
| Private consumption | 7.1 | 4.5 | 2.4 |
| Private investment | 3.2 | -2.2 | 2.2 |
| Government consumption | -4.6 | 2.1 | 1.5 |
| Public investment | -4.6 | 2.9 | 5.1 |
| Export volume of goods and services | 2.1 | 7.1 | 3.5 |
| Import volume of goods and services | -2.3 | 6.3 | 1.8 |
| Current Account (billion U.S. dollars) | 7.4 | 9.0 | 15.0 |
| Value of merchandise exports (%YoY) | -1.5 | 4.9 | 2.7 |
| Value of merchandise imports (%YoY) | -3.8 | 6.4 | 1.7 |
| Number of foreign tourists (million persons) | 28.2 | 36.0 | 39.5 |

Note: * Outturn, projections take into account the effects of economic stimulus measures (as of 18 Dec 2024)

## Thailand's economic expansion is expected to be driven by a more broad-based momentum in the period ahead

Contribution to GDP growth

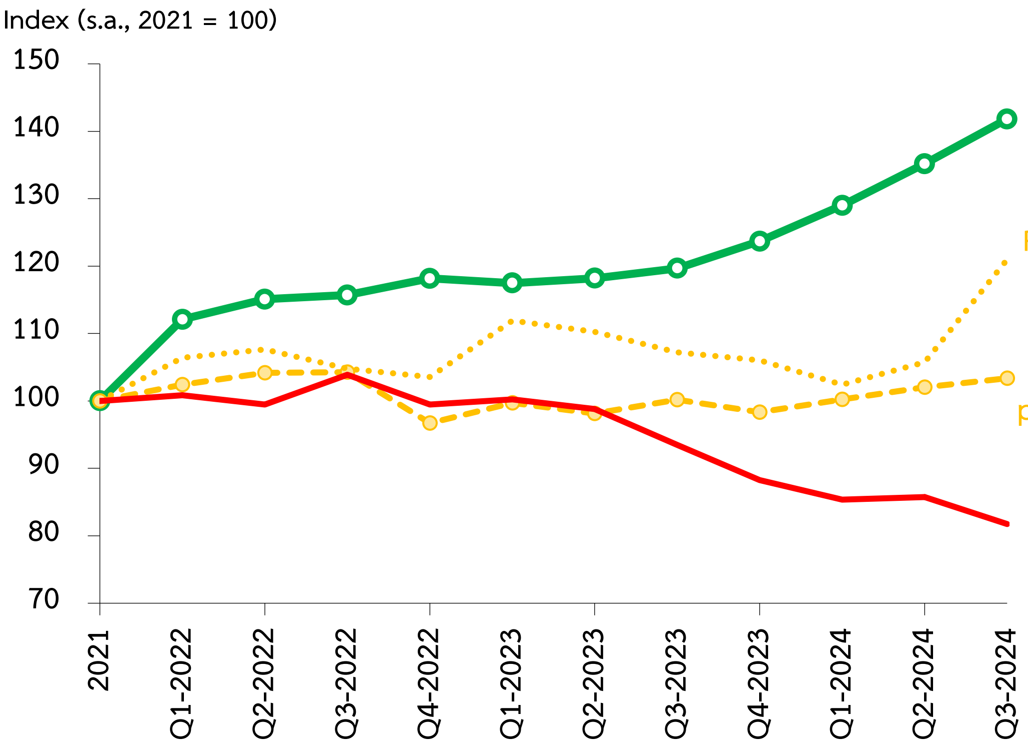



Note: * includes statistical discrepancy or CVM additive error

Source: Office of the National Economic and Social Development Council (NESDC), BOT Forecast

# However, the recovery has become more uneven across sectors.

**The recovery remains concentrated in sectors related to tourism and services.**




| Cluster | GDP | Labor |
|---|---|---|
| Tourism and Other services | 59% | 44% |
| Real estate and Construction | 8% | 10% |
| Products affected by competition from Chinese products, and Other products | 19% | 11% |
| Electronics** and Auto-related products | 6% | 6% |

Note: *Indices are constructed from data relevant to each cluster whereby:

(1) Tourism and Other services is based on average sales VAT per company

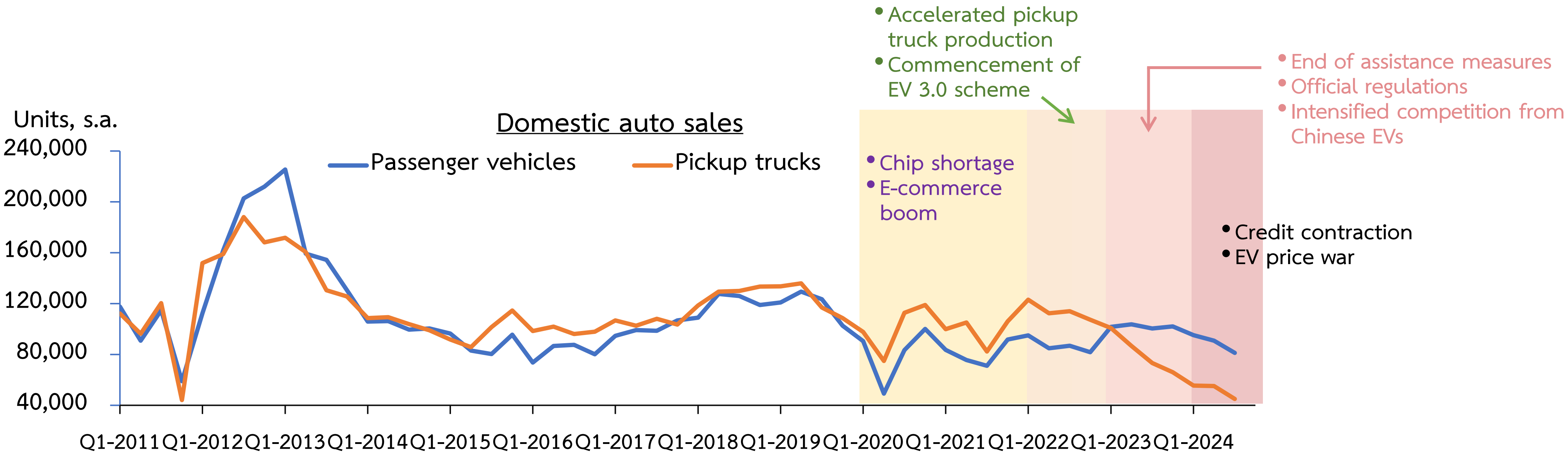
(2) Real estate and Construction is based on average sales VAT per company in the construction sector

(3) Products affected by competition from Chinese products / Electronics / Auto-related products / Other products are based on the Manufacturing Production Index (MPI) data

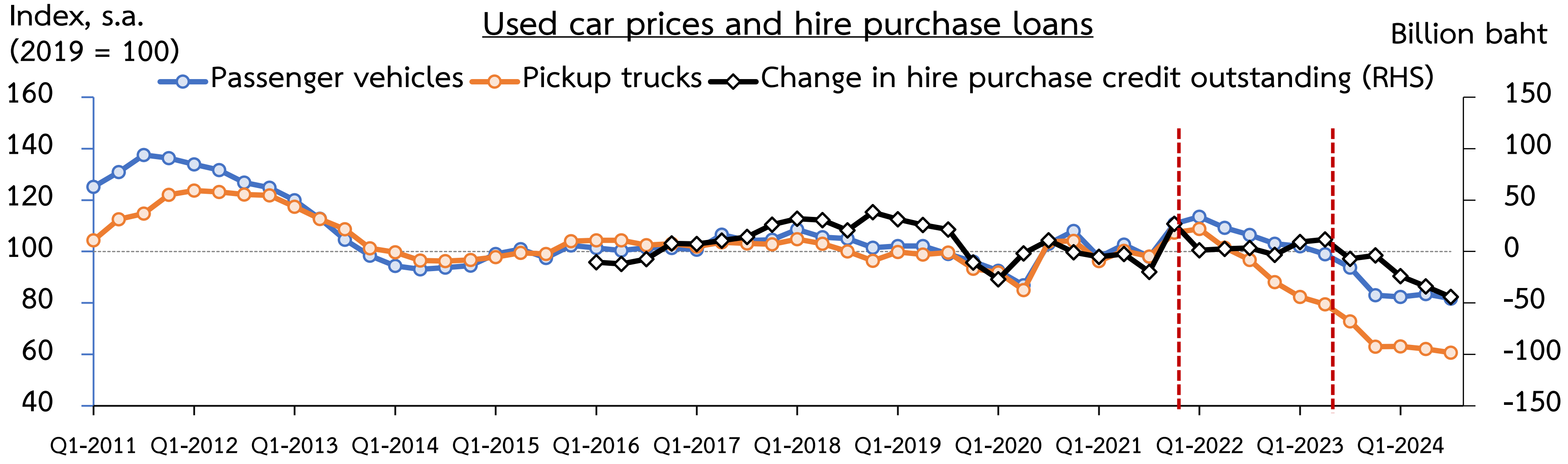
** Electronics includes only HDD and IC & Semiconductors

Source: Office of Industrial Economics, Thai Customs, BOT calculation

## The automotive industry has been affected by idiosyncratic factors and the slow income recovery among vulnerable groups.




Source: The Federation of Thai Industries, BOT calculation



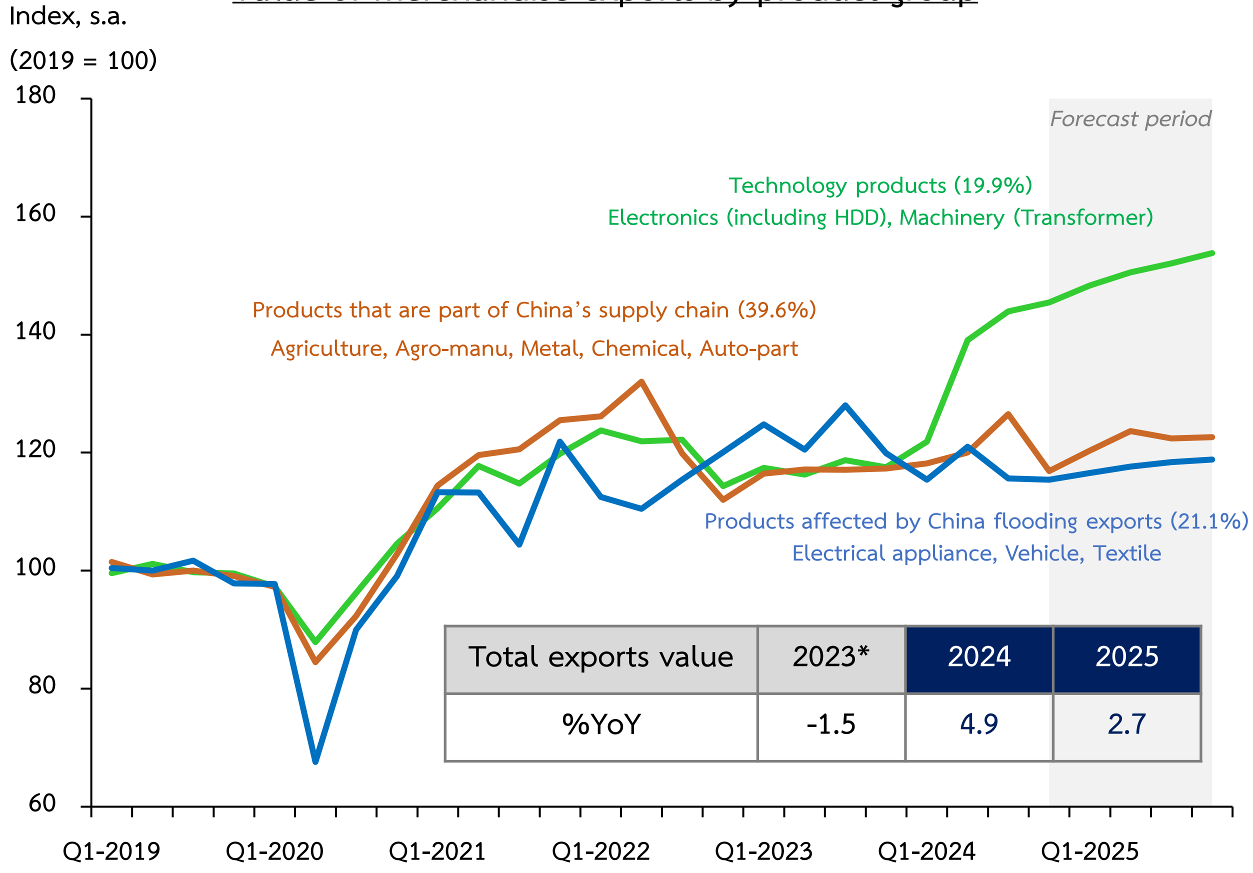

Source: Union Auction, BOT, BOT Calculation

*For additional details, see Box 1 "The Thai automotive industry: development and outlook"*

# Merchandise exports would expand, although the outlook is subject to additional risks from uncertainties surrounding the economic policies of advanced economies.

## Merchandise exports would expand in line with the recovery in the technology product cycle

Value of merchandise exports by product group




| Total exports value | 2023* | 2024 | 2025 |
|---|---|---|---|
| %YoY | -1.5 | 4.9 | 2.7 |

Note: *Outturn; ( ) = share of total merchandise exports value in 2023

Source: Thai Customs, BOT forecast

| Summary of risks to the economic outlook | |
|---|---|
| Upside risks | ▪ Government economic stimulus measures |
| Downside risks | ▪ Severity of US trade protectionism policies impacting the global economy and the Thai economy in the period ahead<br>▪ Some tightening credit conditions in certain areas, which could impact vulnerable groups and SMEs more than expected |

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# Impact of US economic policies under the Trump Administration is still highly uncertain.

## Trump Administration's policies

1. **Tax policies** such as extending many provisions in the Tax Cuts & Jobs Act
2. **Trade policy** such as tariff on Chinese imports (60%) and other countries' imports (10%)
3. **Energy policy** such as support for oil extraction
4. **Other policies** such as anti-immigrant policies

## Potential impact

1. **Heightened uncertainty and global financial market volatility**
2. **Global economy, Chinese economy, and global trade volume** declining, with **possible trade retaliations**
3. **Global and US inflation** rising
4. **US policy rate** being high for longer and **US dollar appreciating**

## Impact on the Thai economy

1. **Trade channel:** Thailand exports to China may decline / Thai products face increased competition from China flooding exports / Thailand can export more to the US as a substitute for China
2. **Investment channel:** potential relocation of manufacturing base from China to Thailand / Investments might be delayed due to global economic uncertainties
3. **China-linkage channel:** China's economic slowdown could impact Thai exports and tourism

*For more details, see Box 2 "Through which channels will trade tensions impact the Thai economy ?"*

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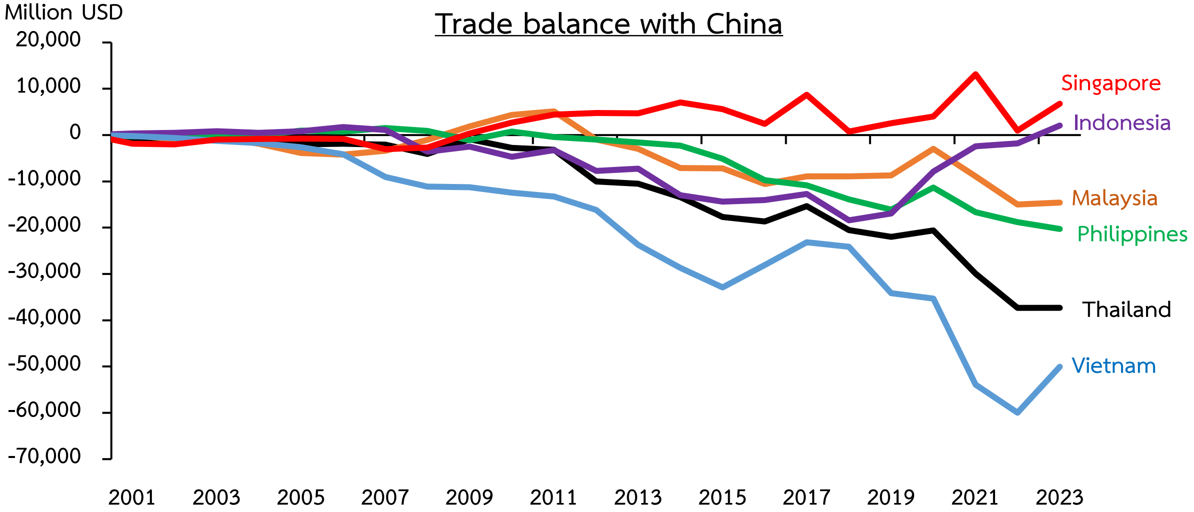
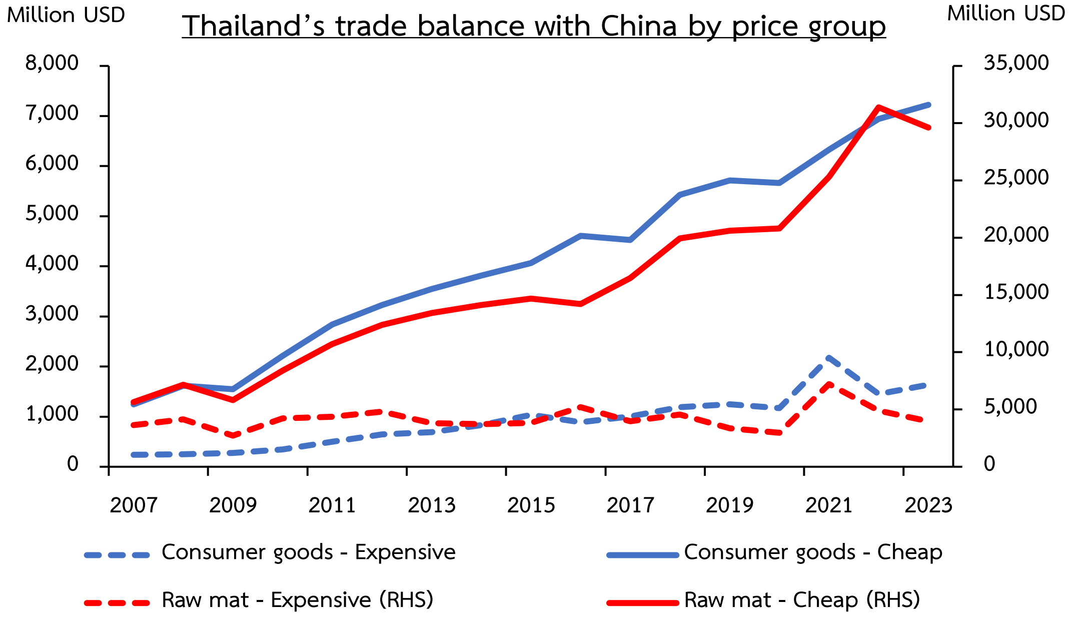
# Thailand's trade deficit with China has widened, driven by both raw materials and consumer goods, particularly evident in lower-priced products

## Thailand's and ASEAN's trade deficits with China have widened




Source: Trademap, BOT calculations

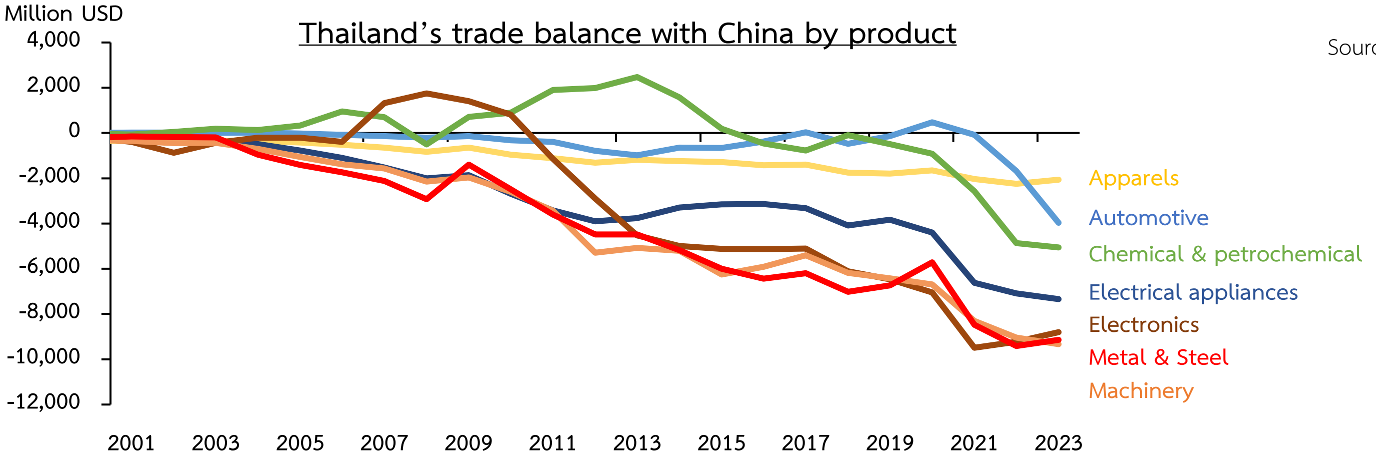
## Thailand imported more goods from China especially lower-priced products




Note: Consumer goods include textiles, electrical appliances, furniture; and does not include cars and mobile phones.
Cheap Chinese goods are goods where China's unit value is lower than the average unit value of other countries'

Source: Thai Customs, BOT calculation

Thailand's trade deficit with China has widened from:
1) products that are reliant on China such as machinery and electronics; and
2) products that China has excess capacity such as metals, electrical appliances, and cars




Source: Thai Customs

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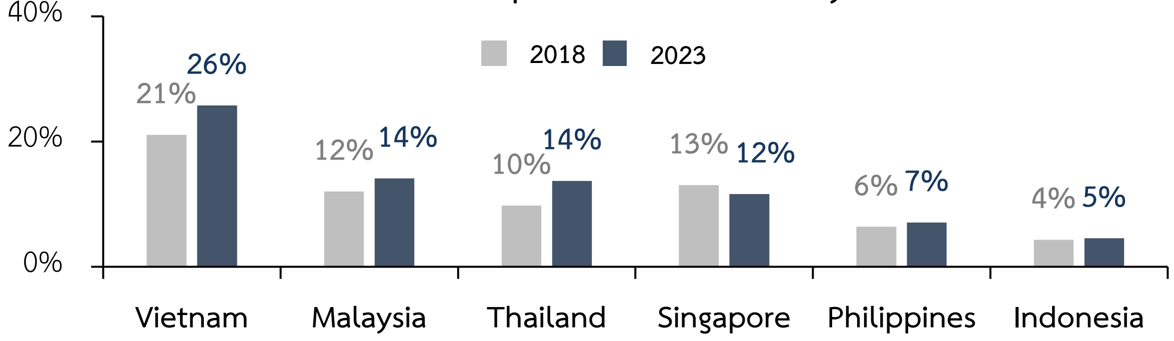
# US trade protectionism measures could exacerbate the China flooding exports into Thailand, adding further pressure to the already slow recovery of the manufacturing sector.

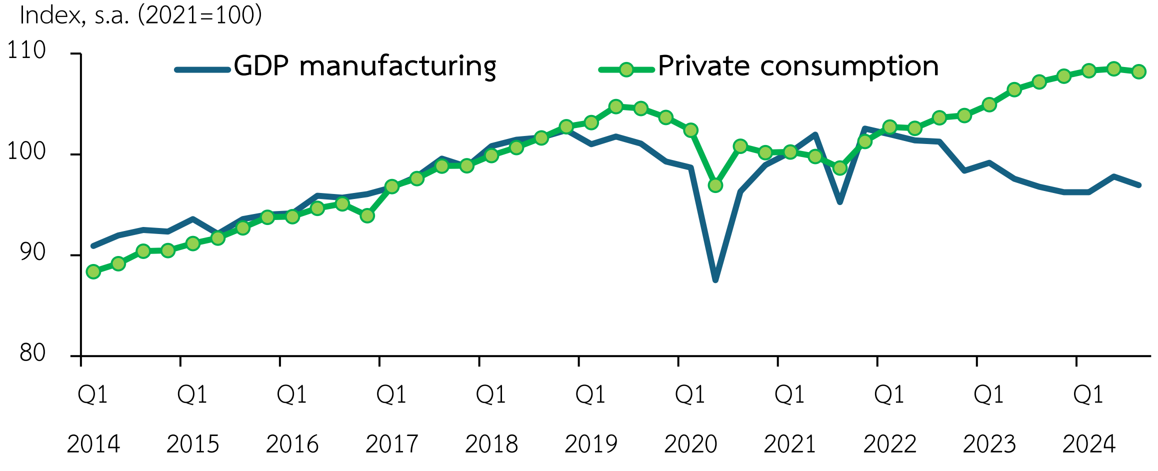
## Share of Chinese imports has increased among ASEAN countries including Thailand

Share of Chinese imports to each country's nominal GDP




Source: UN Comtrade, CEIC

## Manufacturing and private consumption in Thailand have become more disconnected in recent periods




Source: Office of the National Economic and Social Development Council (NESDC), BOT calculation

## ...Contributing to the slow recovery of the manufacturing sector despite the continued expansion of domestic demand

Manufacturing sectors experiencing a decline in production have seen an increasing share of Chinese imports.

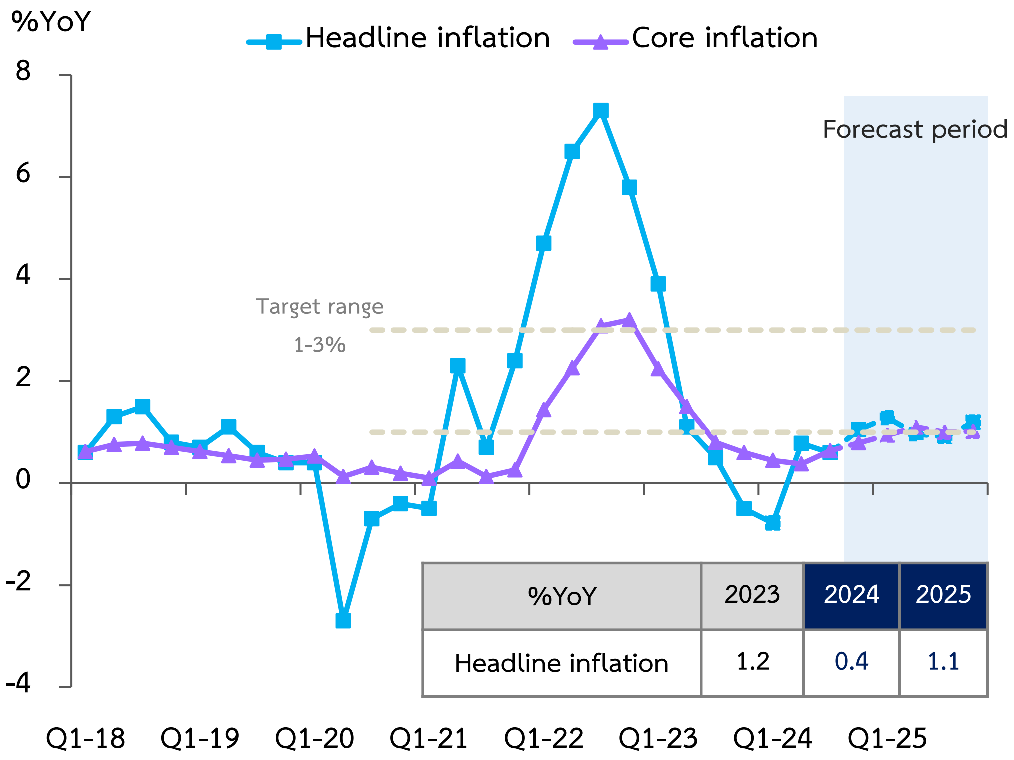
| | Production growth %YoY (Q1-2023 to Q2-2024) | Chinese import penetration (%) | | |
|---|---|---|---|---|
| | | 2019 | Q2-2024 | %Δ |
| MPI (All) | -3.2 | 15 | 21 | +6 |
| • Electrical appliances (4.4%) | -4.5 | 17 | 31 | +13 |
| • Automobiles (11.3%) | -4.0 | 5 | 16 | +11 |
| • Basic metals (3.5%) | -4.5 | 17 | 27 | +9 |
| • Textiles and apparels (3.5%) | -17.3 | 36 | 43 | +7 |

Note: ( ) = weight in MPI; Chinese import penetration refers to the share of Chinese imports to domestic demand for each product; calculations by BOT

# Headline inflation is projected to be within the target range, stabilizing near the lower bound.

## Headline inflation would stabilize near the lower bound of the target range

### Inflation forecast

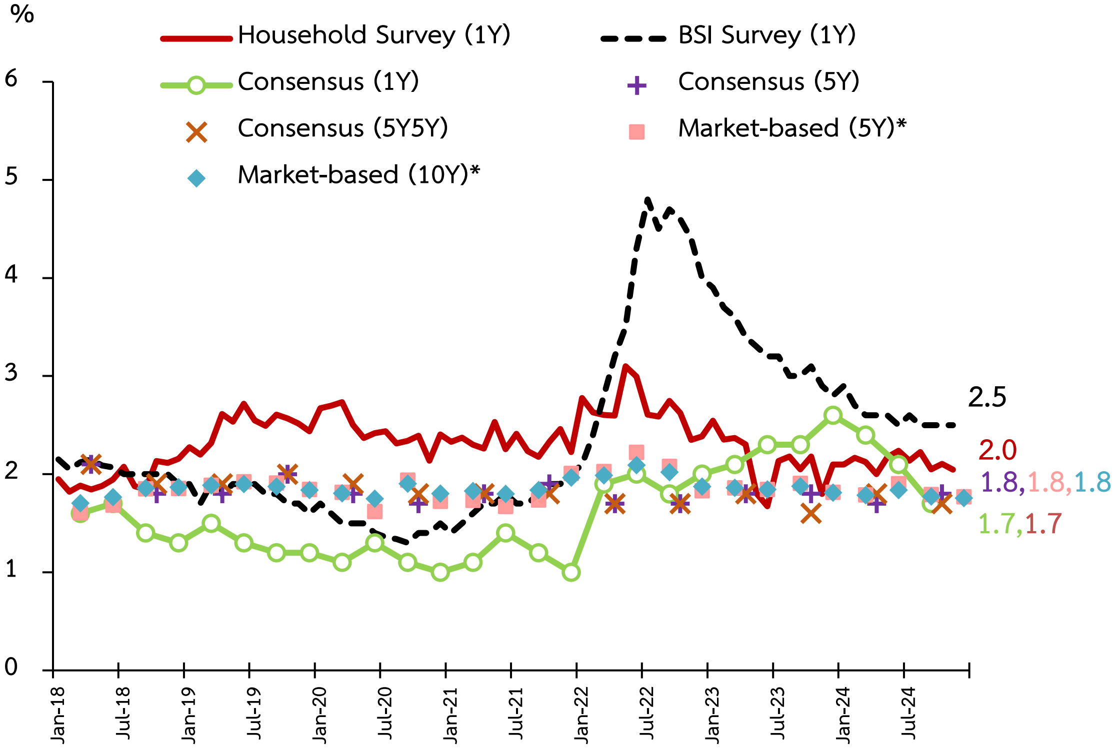



| %YoY | 2023 | 2024 | 2025 |
|---|---|---|---|
| Headline inflation | 1.2 | 0.4 | 1.1 |

Source: Ministry of Commerce, BOT calculation

## Medium-term inflation expectations remain well-anchored within the target range

### Inflation expectations



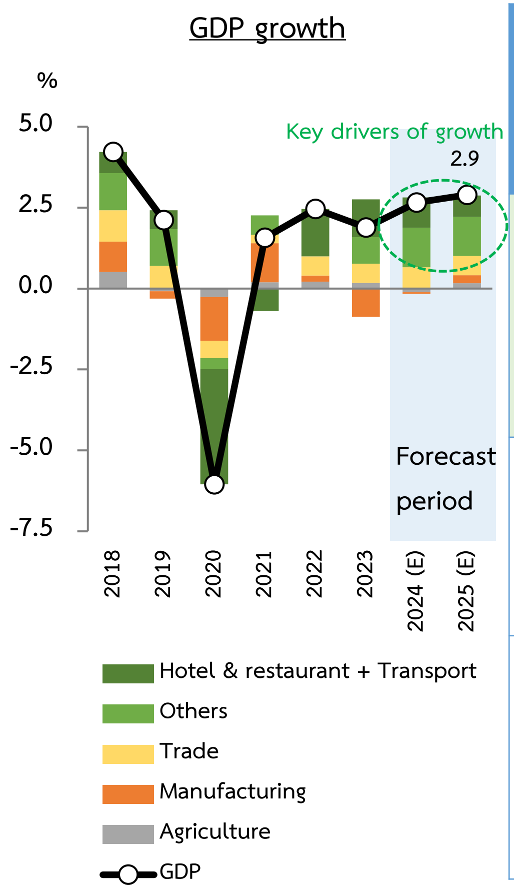

Note: *forecasted using the affine term structure model using yield curve and macroeconomic factors

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

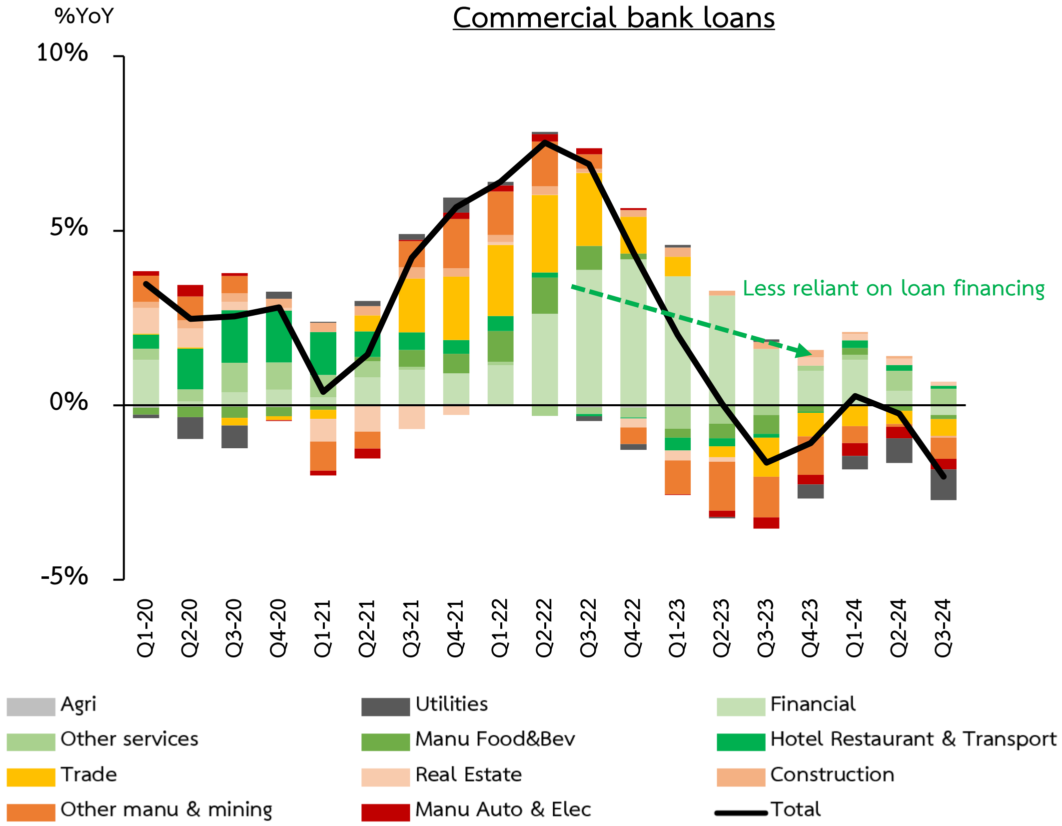
# Financial conditions

The financial sector overall was able to play its role in supporting economic activities. Loan growth slowed down because of (1) lower loan demand, partly due to key economic-driving businesses relying less on loan financing; (2) high credit risks; and (3) repayment of loans borrowed during the COVID-19 pandemic.

# Tourism-related businesses and associated services sectors such as restaurants and transportation, which are key drivers of growth, have relied less on loan financing recently as their loan demand declined in line with improved revenue and ongoing debt repayments.




| Business sectors grouping | Contribution to GDP growth in 2025 (percentage point) | Credit conditions |
|---|---|---|
| 1. Businesses that continued to experience strong growth, such as hotels and restaurants, and transportation | 1.9 | New loans slowed down in line with lower credit demand and increased debt repayments |
| 2. Businesses facing intensified competition such as retail SMEs, real estate, and construction | 0.4 | New loans continued to decline especially among SMEs with high credit risk |
| 3. Businesses facing structural headwinds such as automotive | 0.03 | New loans contracted in line with lower credit demand due to uncertainties in the manufacturing sector |

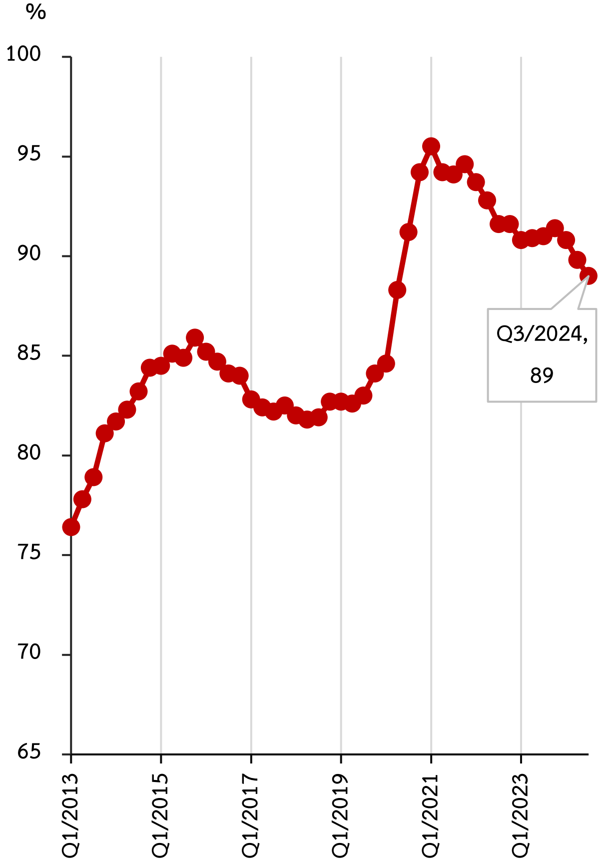



**Source:** BOT/NESDC, BOT calculations; ( ) = contribution to 2025 GDP growth of 2.9%

**Businesses that continued to experience strong growth** include hotels and restaurants, transportation, food and beverage, large retail businesses, and other services; **Businesses facing intensified competition** include construction, retail SMEs, real estate; **Businesses facing structural headwinds** are automotive and electronics.

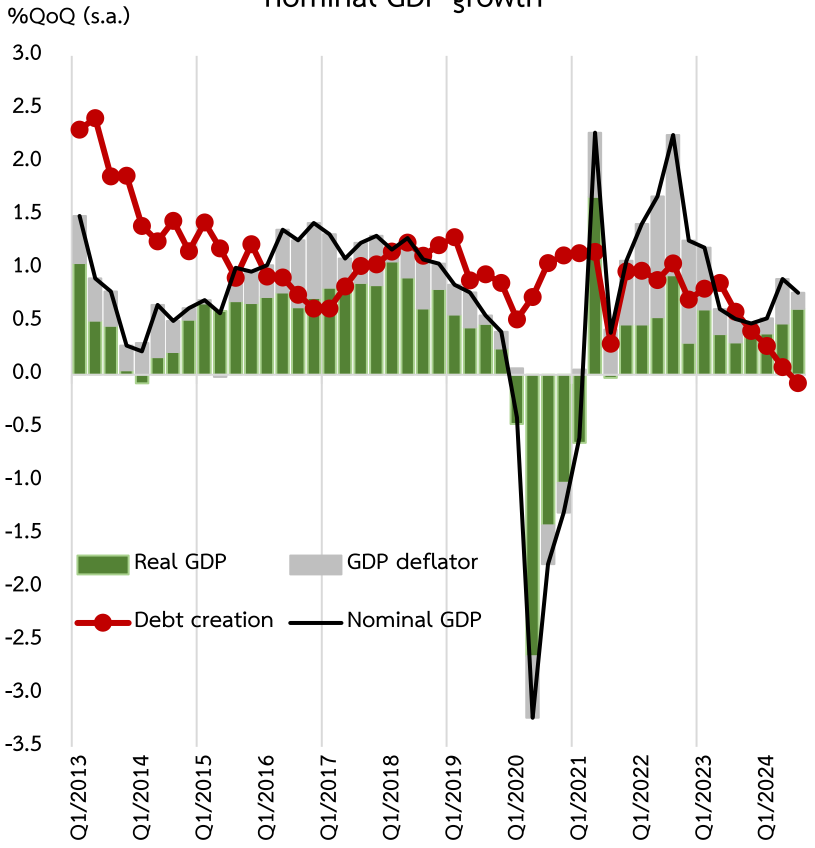
# Household debt to GDP declined from the previous quarter as debt creation was outpaced by GDP growth. Decline in new borrowings was partly attributed to auto loans.

## Household debt to GDP (%)



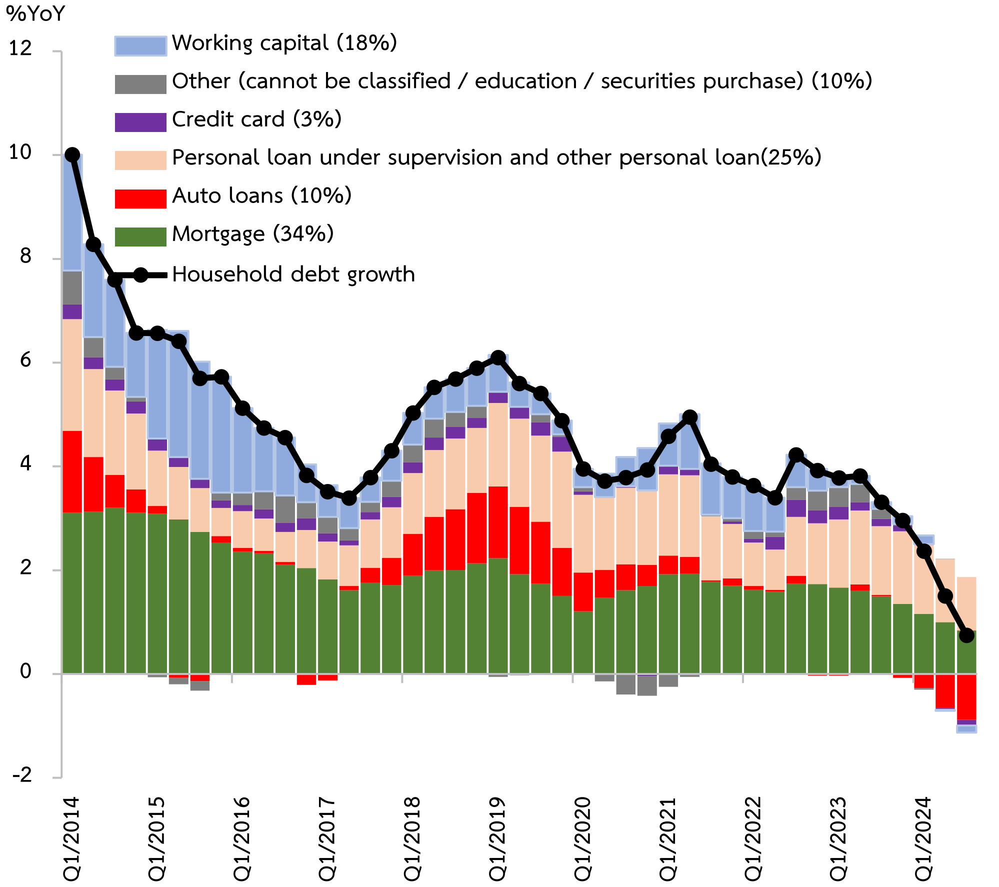

Note: Household debt to GDP is calculated from borrowings by household divided by the rolling summation of nominal GDP in the 4 preceding quarters, starting from the reference quarter

## Contribution to change in household debt to GDP indicates that debt creation was outpaced by nominal GDP growth




Note: The sign for contribution of nominal GDP to household debt to GDP (black line) is flipped for ease of comparison (normally, an increase in the nominal GDP would contribute negatively to household debt to GDP)

## Contribution to change in household debt to GDP by loan type




Note: ( ) = share of each loan type in total household debt as of Q3/2024

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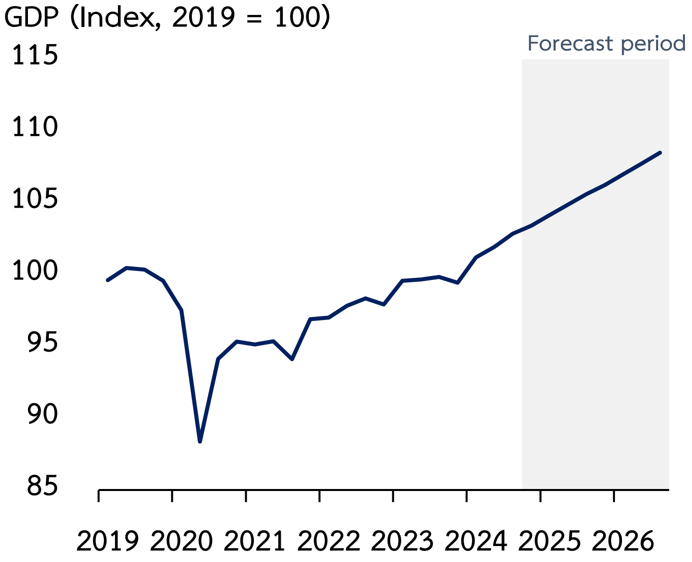
# Monetary policy decision

# The current monetary policy stance is broadly neutral, consistent with the economic and inflation outlook, and the safeguarding of financial stability.

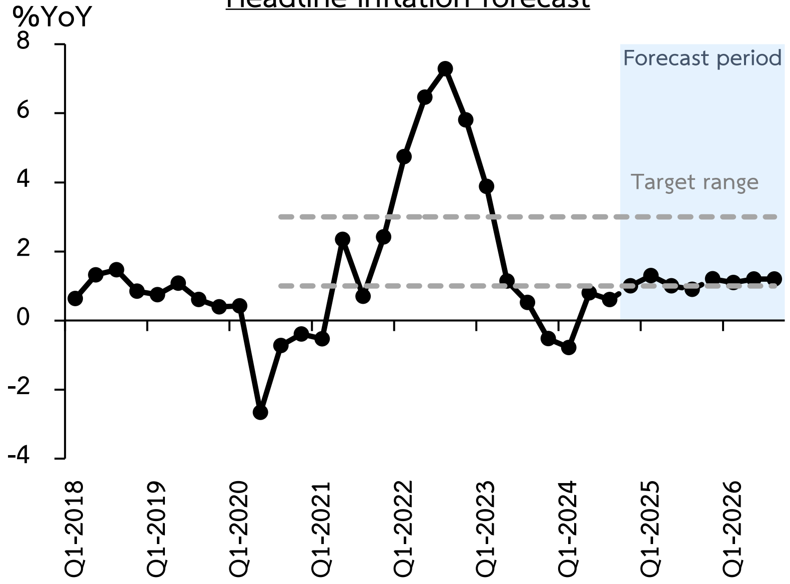
## Economic growth would be sustained

Growth forecast



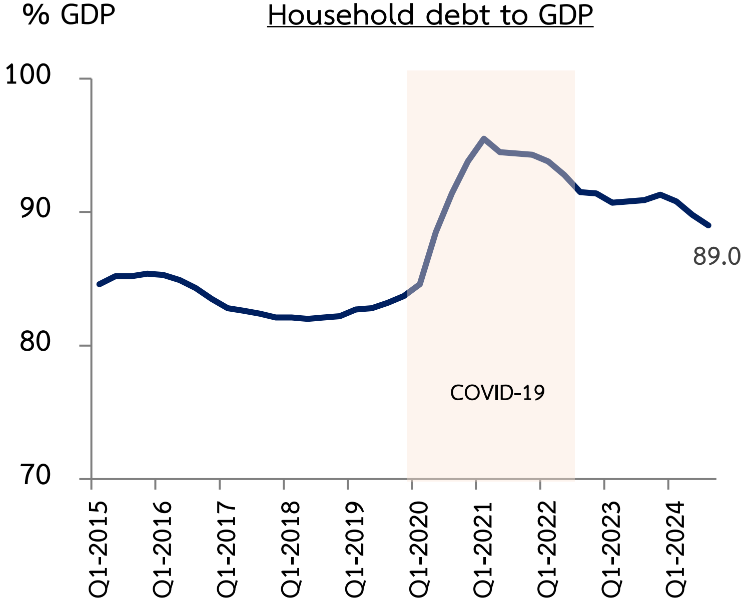

## Inflation would be within the target range

Headline inflation forecast




## Financial stability risk buildup is declining

Household debt to GDP




### Economic growth

Economic growth is projected to be close to the previous assessment despite the outlook facing challenges from intensified competition and increased uncertainties.

### Inflation

Inflation is projected to stabilize near the lower bound of the target range. Medium-term inflation expectations is well-anchored within the target range.

### Financial stability

Credit growth is slowing down, and the debt deleveraging process is ongoing, contributing to receding long-term financial stability risks.

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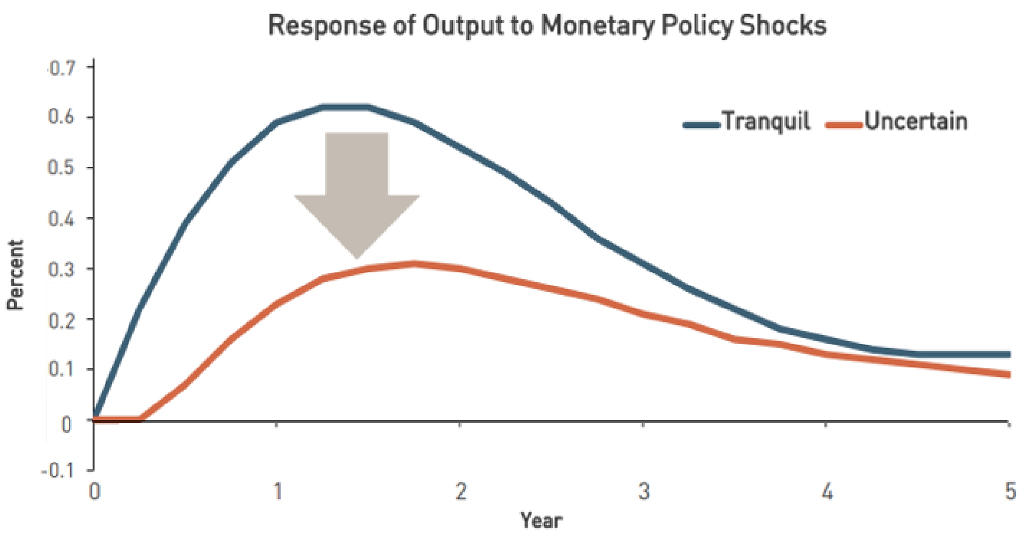
# Amid heightened uncertainties, the monetary policy decision must be robust for the various outcomes that might or might not materialize, might happen sooner or later, and might have a large or small impact.

## Maintaining the policy rate was considered a robust policy decision amid heightened uncertainties

| | Scenario 1: Baseline with no major adverse shocks | Scenario 2: Uncertainties turning into adverse shocks in H2-2025 |
|---|---|---|
| | *Robust policy: can accommodate various outcomes* | |
| 1. Hold today | ▪ Policy stance is consistent with safeguarding macro-financial stability over the short and long term | ▪ Keeping the policy rate on hold today does not prevent the MPC from adjusting the policy rate in the future |
| 2. Cut today | ▪ Costs: reduced policy space<br>▪ Unintended consequences: Macro-financial stability might deteriorate over the long-run | ▪ Benefits: Currently limited because monetary policy is less effective given lingering uncertainties |

## Monetary policy becomes less effective under heightened uncertainties. Hiring and investment by businesses would slow down due to fixed costs concerns.




**Note:** Impulses of output to monetary policy shock under different uncertainty regimes based on open-economy SVAR over the Q3-2006 to Q1-2018 period. "Uncertain"("Tranquil") times distinguish between levels of global economic policy uncertainty being greater than (less than or equal to) 8th (2nd) decile of distribution.

**Source:** Apaitan et al. (2020), "Navigating through Uncertainty: Firm Behaviors and Macroeconomic Outcomes," BOT Symposium

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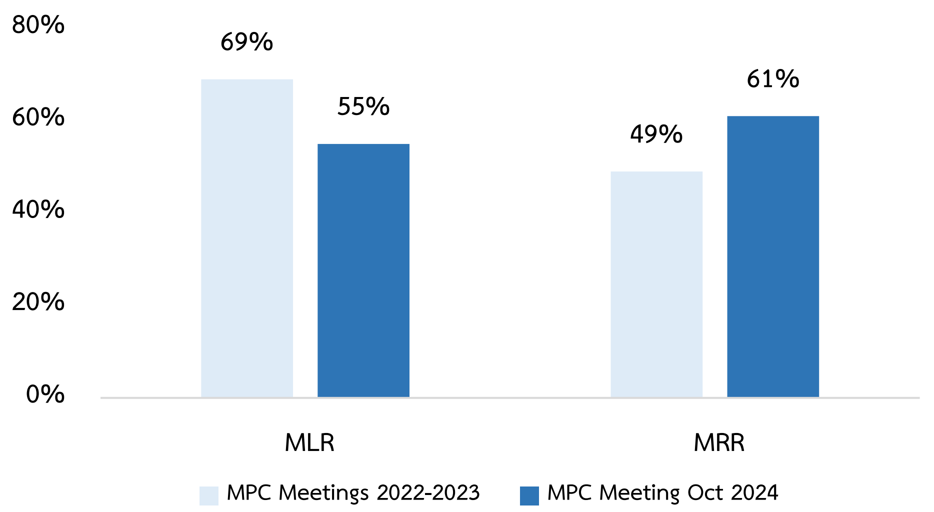
# The recent policy rate cut in October coupled with debt assistance measure played a part in alleviating debt burden of the vulnerable groups.

## Monetary policy transmission to commercial banks' interest rates




Note: Monetary policy transmission is calculated from the change in interest rates weighted by loan outstanding of 14 Thai commercial banks, excluding effect from FIDF fee

During the 2022-2023 period, increases in the policy rate were transmitted through to the MRR less than the MLR. Meanwhile in October 2024, the policy rate cut was transmitted through to the MRR more than the MLR, reflecting commercial banks' assistance for the vulnerable groups.

### Measures implemented

- Debt Clinic, Express Debt reconciliation
- Debt doctor
- Thai Rehabilitation Law for retail borrowers
- Responsible lending
- Open data, Financial literacy

### Additional measures

"Khun Soo, Rao Chuay" Program

1. "Jai Trong Kong Sup": measure for retail debtors (mortgage and auto loans) and SMEs. Installment payments are reduced:

   Year One – 50% of original installment amount

   Year Two – 70% of original installment amount

   Year Three – 90% of original installment amount

   Interest payments are deferred, and all installments will apply directly to principal. If the debtor can comply with the terms for all 3 years, all outstanding interest charges during the program are waived.

2. "Jai Pid Job": measure for retail debtors with outstanding debt not exceeding 5,000 baht per account. Debt is re-restructured so that the debtor can repay just a portion of their debt for the debt to be considered fully repaid so that it could be concluded sooner.

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## The MPC kept the policy rate on hold.

## The MPC deemed the current policy rate to be consistent with the economic trajectory close to potential, inflation moving towards the target range, the safeguarding of long-term macro-financial stability, and preserving monetary policy space to accommodate heightened uncertainties in the period ahead.

MPC Meeting No. 6/2024
(18 December 2024)

The MPC voted 7 to 0
to maintain the policy rate at

# 2.25%

The Thai economy would expand, although growth would still remain uneven across sectors. Inflation would stabilize near the lower bound of the target range. Medium-term inflation expectations remain well-anchored within the target range.

The Financial system remains resilient. Loan growth slowed due to decreased loan demand from some sectors, debt repayments, and increased credit risk. The effectiveness of debt assistance measures for vulnerable debtors needs to be monitored.

The policy rate is deemed to be consistent with the economic trajectory close to potential, inflation moving towards the target range, macro-financial stability being safeguarded, and preserving monetary policy space to accommodate heightened uncertainties.