



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 1/2022

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 9 February 2022 as follows.

The Committee voted unanimously to maintain the policy rate at 0.50 percent.

The Committee assessed that the Thai economy would continue to recover, as the Omicron variant would exert limited pressure on the public health system. Downside risk to growth improved. However, there remained a need to closely monitor developments of the pandemic going forward. Upside inflationary risks increased, and headline inflation would accelerate in early 2022 owing to the rises in energy and raw food prices. While demand-side inflationary pressures remained subdued in line with the gradual recovery of household income, there remained a need to monitor global energy prices and broad-based cost pass-through to goods and services. The Committee viewed that the continued accommodative monetary policy would help support economic growth, and thus voted to maintain the policy rate. In addition, the ongoing financial and fiscal measures, with the focus on rebuilding and enhancing potential growth, would play an important part in bolstering the robust recovery of the labor market as well as the income of businesses and households.

The Committee assessed that the Thai economy in 2021 would expand faster than previously projected, and the recovery would continue into 2022 driven by higher merchandise exports, as well as a higher number of foreign tourist arrivals due to faster-than-expected relaxation of travel restrictions. However, the recovery would remain fragile and uneven across sectors, especially in tourism which was below pre-pandemic levels. The Committee would monitor developments of the labor market as well as the impact of higher living costs given that income had not fully recovered.

Headline inflation in 2022 would be higher than previously assessed and could exceed the target range in the early part of the year. This would be owing to price increases in certain sectors, especially energy and raw food products. Meanwhile, upside risks to inflation increased. In particular, cost pass-through from producers to consumer prices could increase if energy and raw food prices remain elevated for longer than expected, or if the supply constraint problems broaden into other goods. Nevertheless, the average inflation rate for the full year 2022 and medium-term inflation expectations would remain within the target range. Furthermore, there had not been an indication of broad-based increases in the prices of goods and services, while

demand-side inflationary pressures remained subdued. In the period ahead, there remained a need to closely monitor developments of global energy prices and domestic goods and services prices, as well as the possibility of growing wage pressures.

Overall liquidity remained ample, but liquidity distribution still varied across economic sectors. Long-term Thai government bond yields rose primarily in tandem with US Treasury yields. On exchange rates, the baht relative to the US dollar still exhibited volatile movements due to faster monetary policy normalization in advanced economies and the easing of domestic outbreak containment measures. The Committee would closely monitor developments in both global and domestic financial markets, and continue to expedite the new foreign exchange ecosystem, particularly through supporting SMEs in hedging against risks from exchange rate volatility.

The Committee viewed that the government measures and policy coordination among government agencies would be critical to support the economic recovery. Public health measures should strike a balance between containing the outbreak and supporting the recovery of economic activities. Fiscal measures should support the economic recovery in a targeted manner, with a focus on generating income and expediting measures to rebuild and enhance potential growth. Monetary policy should contribute to continued accommodative financial conditions overall. Financial and credit measures helped distribute liquidity to the affected groups in a targeted manner and reduce debt burden. These measures included the special loan facility, asset warehousing scheme, and other measures by specialized financial institutions (SFIs). In addition, financial institutions should accelerate debt consolidation and debt restructuring in a sustainable manner through the scheme launched on September 3, 2021 to have broader impacts and be consistent with borrowers' long-term debt serviceability.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee continued to put emphasis on supporting the economic recovery. The Committee would closely monitor key factors affecting the economic outlook, namely, developments of the COVID-19 outbreak, global energy prices, higher cost pass-through, as well as the adequacy of fiscal, financial, and credit measures. The Committee would stand ready to use appropriate monetary policy tools if necessary.

Bank of Thailand
9 February 2022

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Press Conference

Monetary Policy Committee's Decision 1/2022

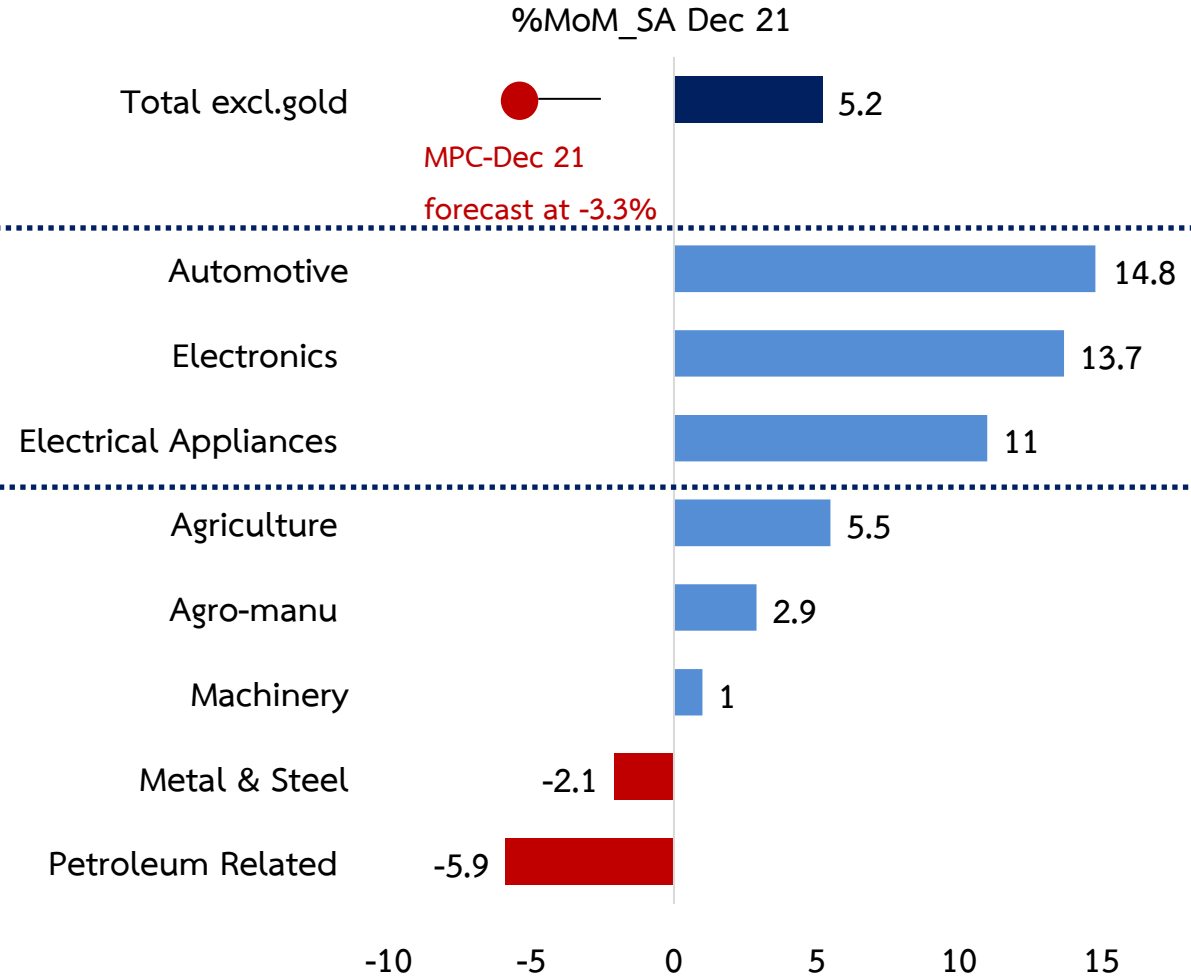
9 February 2022

Piti Disyatat

Assistant Governor, Monetary Policy Group

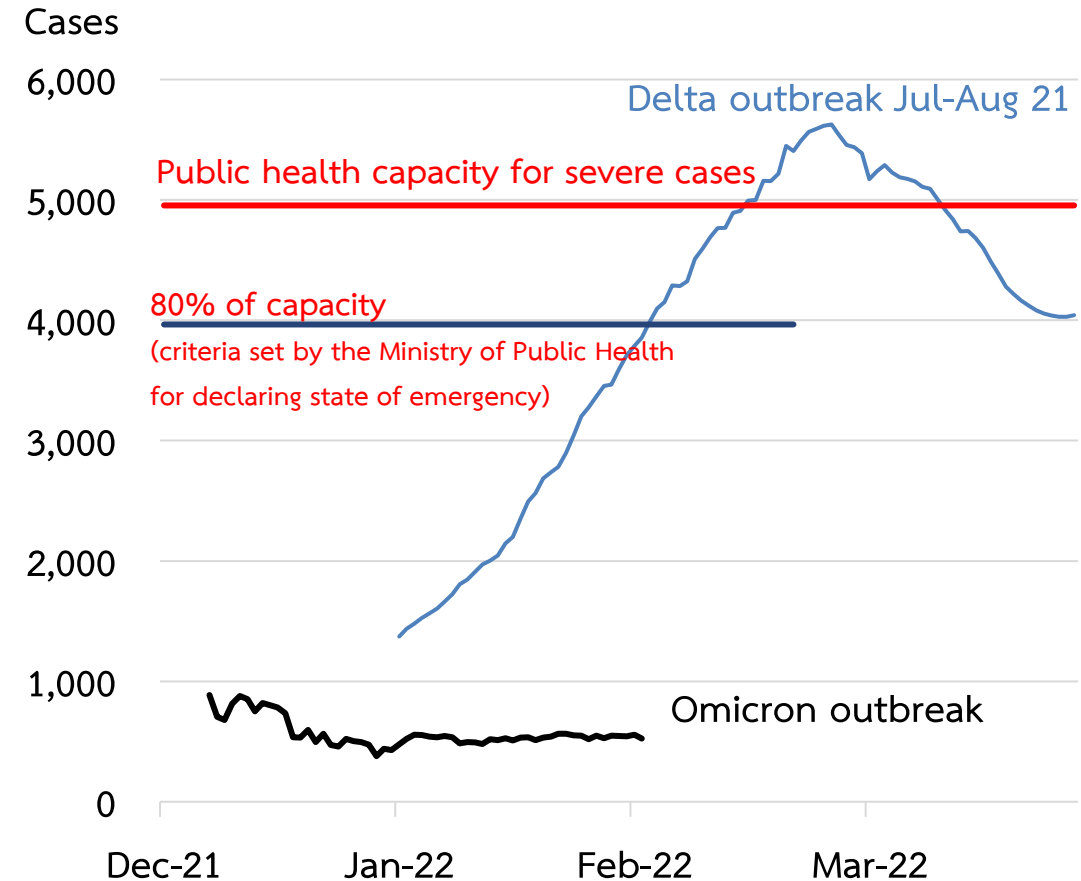
The economy would recover on the back of solid merchandise exports, while the spread of the Omicron variant would exert limited pressure on the public health system

Changes in export value in Dec 21 compared to Nov 21



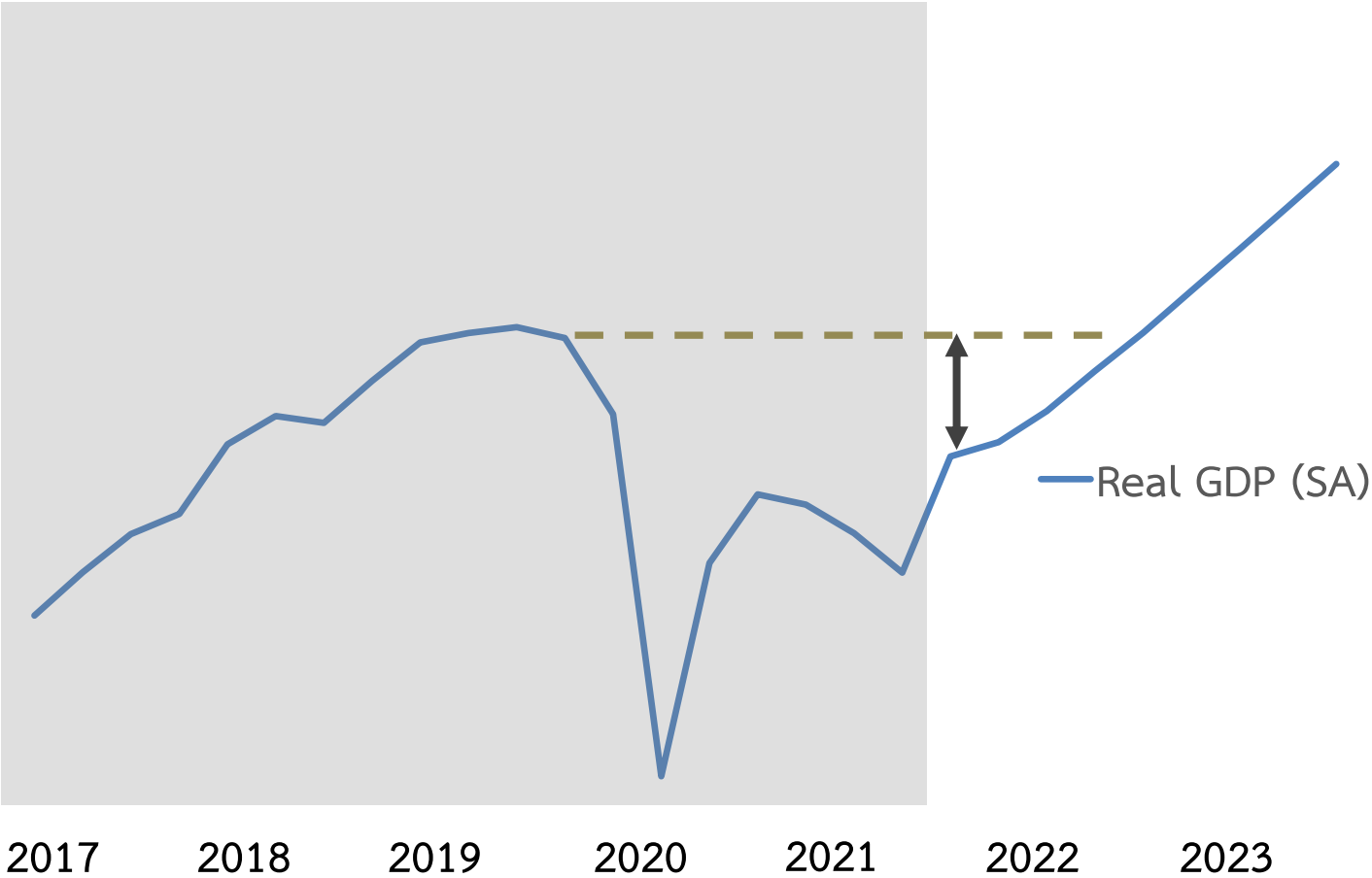
Source: Customs Department, Bank of Thailand

Number of COVID-19 severe cases



Source: Department of Disease Control, calculations by the Bank of Thailand

Output compared to pre-COVID level

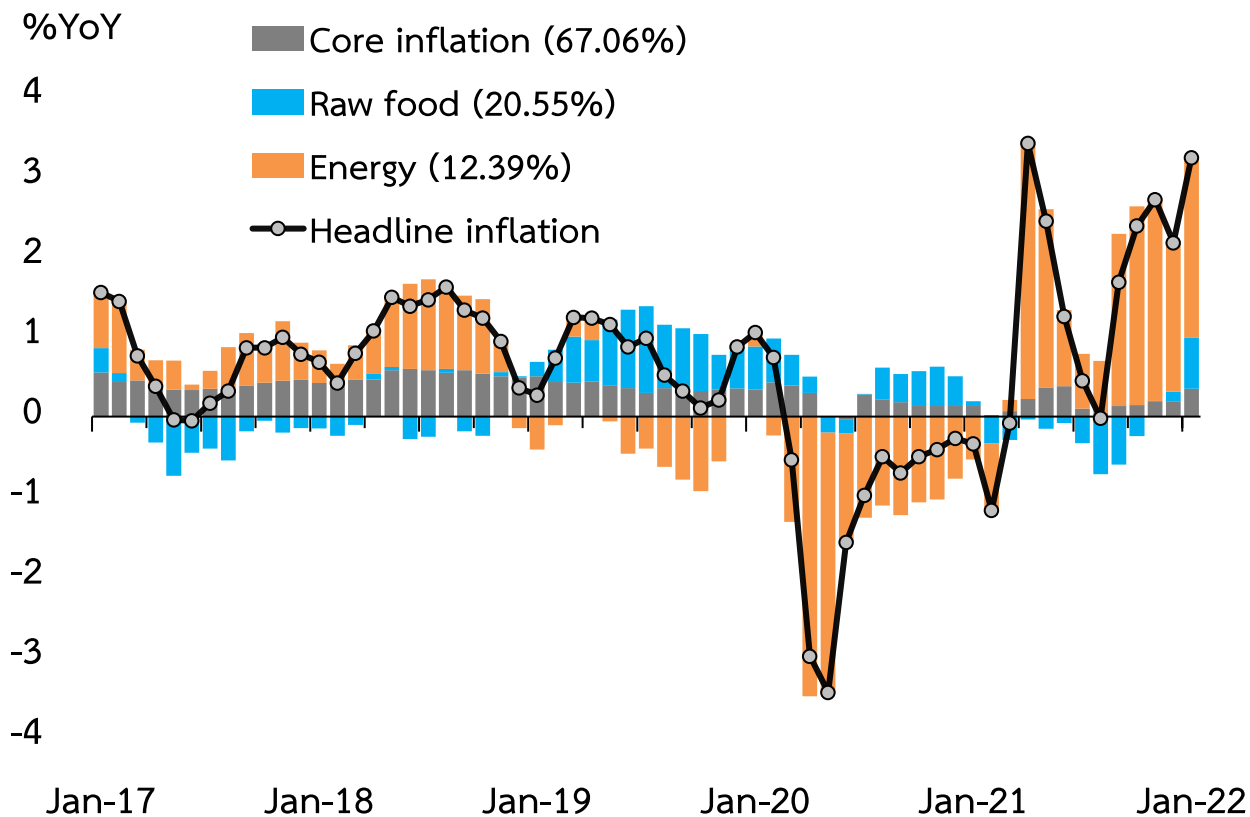


Source: NESDC, calculations by the Bank of Thailand

Upside risks to inflation increased. Headline inflation could exceed the target range in the early part of 2022. However, full-year average inflation would remain below 3%

Headline inflation accelerated owing to price increases in certain sectors

Contribution of headline inflation



Upside risks

- Higher-than-expected food and energy prices
- Higher cost pass-through
- Prolonged supply disruption

Downside risks

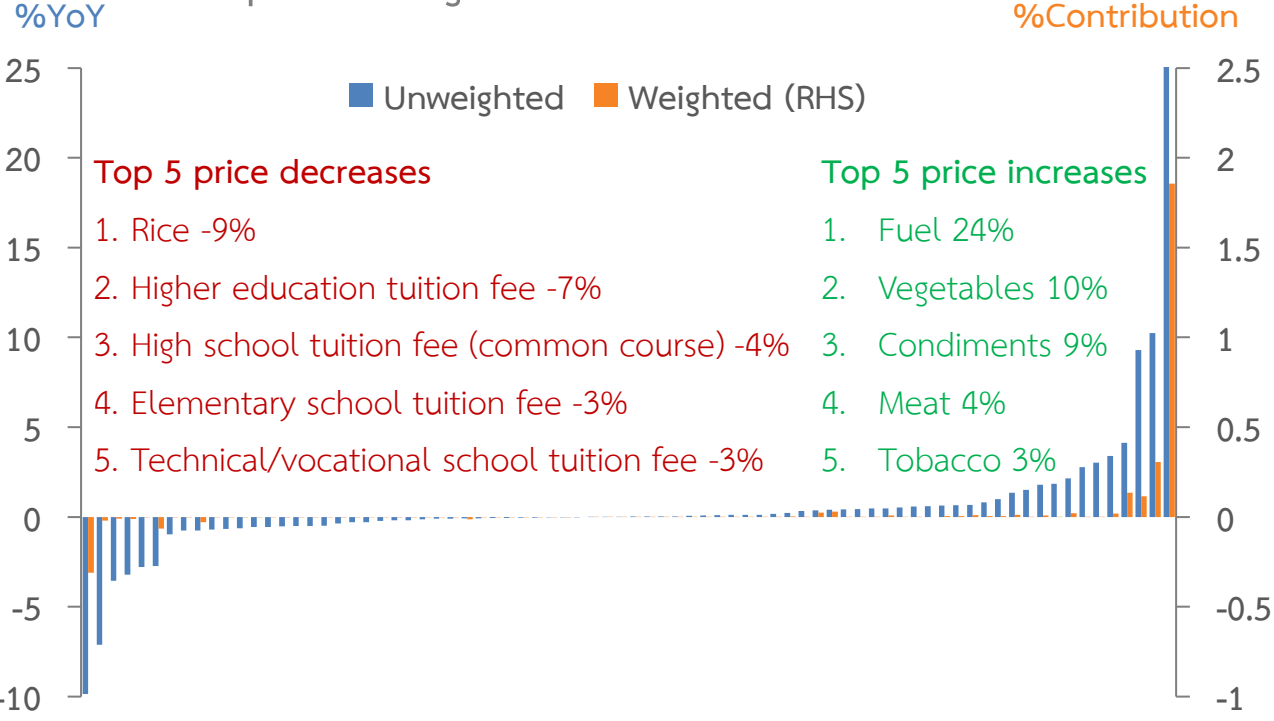
- Slower-than-expected economic recovery

So far, there had not been broad-based increases in prices

Price increases in Dec 21 were concentrated in the fuel and food categories

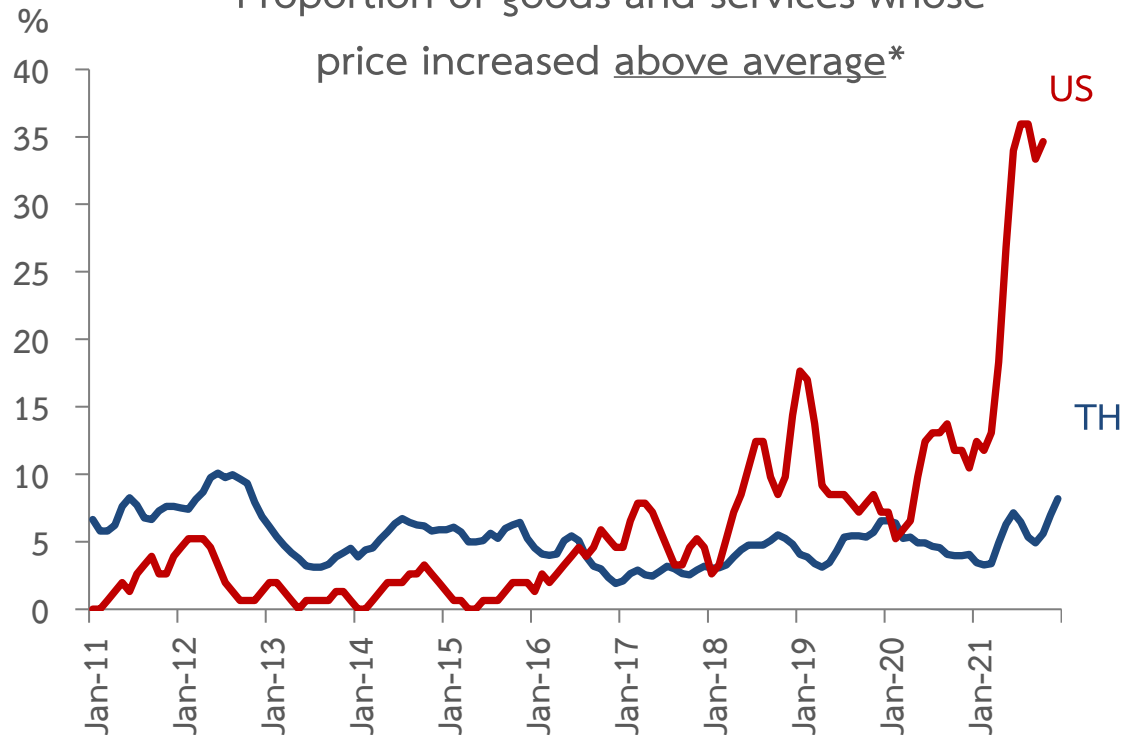
The proportion of domestic goods and services with above-average prices was small compared to the U.S. at 35%

Unweighted and weighted distribution of price changes of CPI items as of Dec 21



Source: Ministry of Commerce, calculations by the Bank of Thailand
Note: Changes and contribution to headline CPI calculated from prices of 4-digits categories (total of 90 categories), comparing Dec 21 to Dec 20

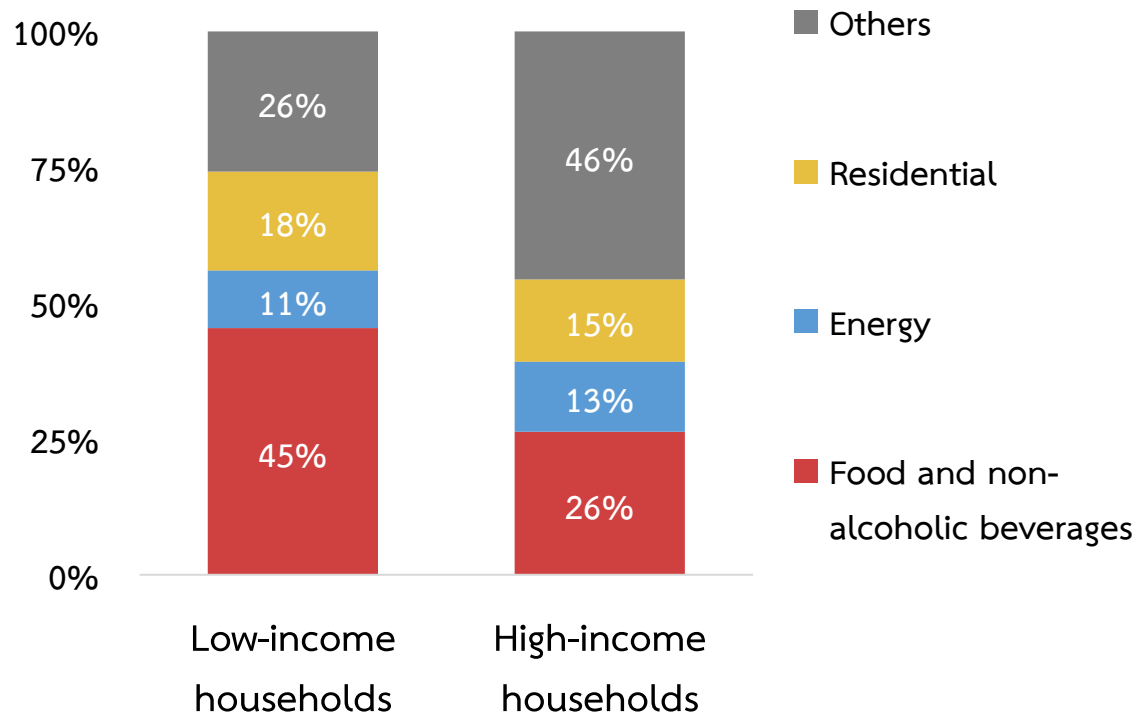
Proportion of goods and services whose price increased above average*



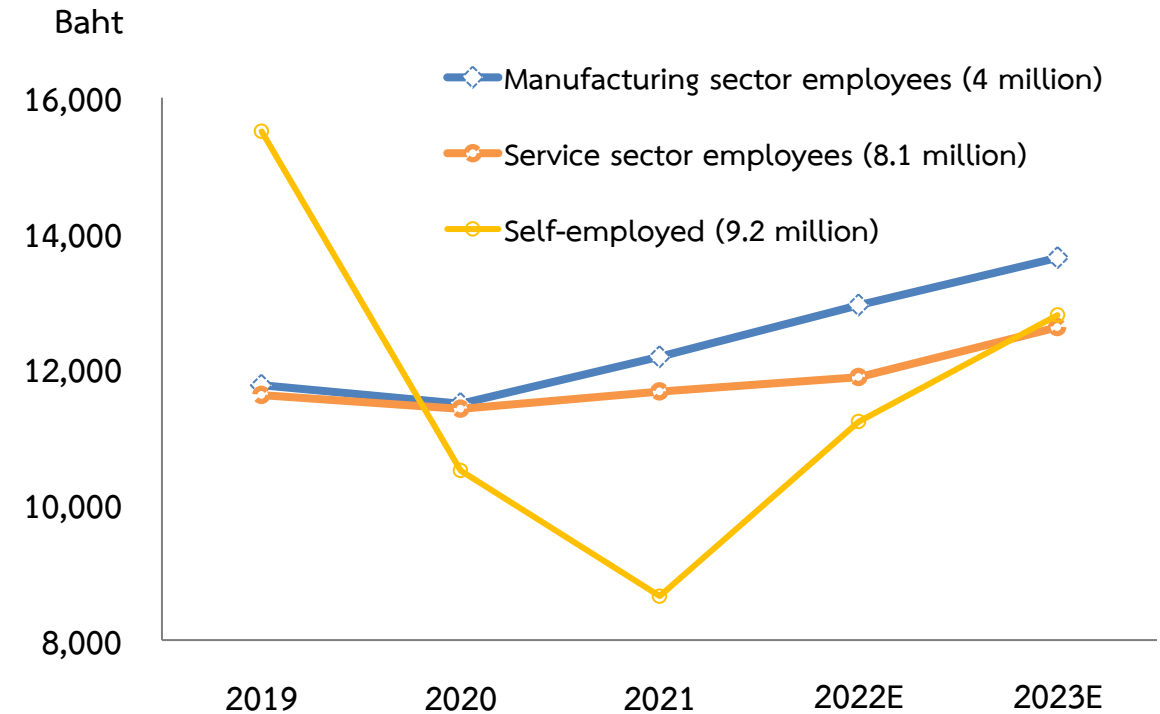
Source: Federal Reserve Bank of San Francisco and the Ministry of Commerce, calculations by the Bank of Thailand
Note: *More than 2 s.d. of the 5-year average of %YoY changes and smoothed with 3mma
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Higher living costs affected households unevenly depending on their income. There remained a need to monitor self-employed and service sector employees whose earnings just began to recover.

Proportion of expenditure basket for each income group



Average monthly overtime income of non-farm employees (excluding transfers), classified by occupation



Note:

1. E is an estimate calculated from the average income of self-employed since 2020
2. () the number of employed persons classified by occupation, average for 2021

Source: Ministry of Commerce and National Statistical Office of Thailand, calculations by the Bank of Thailand

Note: Low-income households are households with earnings per month not exceeding 22,665 baht and high-income households are households with earnings per month higher than 51,000 baht.

Key risk factors to be monitored by the Committee

- Developments of COVID-19 outbreak
- Global energy prices and higher cost pass-through