



BANK OF THAILAND

BOT Press Release

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No. 3/2023

Monetary Policy Committee's Decision 1/2023

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 25 January 2023 as follows.

**The Committee votes unanimously to raise the policy rate by 0.25 percentage point from 1.25 to 1.50 percent, effective immediately.**

The Thai economy will continue to gain traction with continued recovery in tourism and private consumption thanks to the return of Chinese tourists. Meanwhile, merchandise exports will slow down this year but are expected to improve in 2024 in line with the global economic recovery. Headline inflation is expected to decline, whereas core inflation remains at a high level with increased risks from demand-side inflationary pressures due to the economic recovery. The Committee deems that a continuing gradual policy normalization is an appropriate course for monetary policy consistent with the growth and inflation outlook, and thus votes to raise the policy rate by 0.25 percentage point at this meeting.

The Thai economy is projected to continue growing. The tourism sector will exhibit a faster recovery following the return of Chinese tourists. This will contribute to a more broad-based improvement in employment and income of services sector and self-employed workers, which account a significant share of total employment. Such improvements will support the continued expansion of private consumption. Meanwhile, growth of merchandise exports will moderate this year, but is expected to resume in 2024 in tandem with global growth which is projected to bottom out in 2023. The Committee assesses that downside risks to the global economy have decreased given the improving outlook in both advanced economies and China.

Headline inflation is projected to decline. Supply-side inflationary pressures will continue to dissipate along with a decline in global energy and commodity prices. Core inflation is expected to remain at a high level for some time before gradually decreasing. Meanwhile, medium-term inflation expectations remain anchored within the target range. However, there is a risk that core inflation would remain high for longer than expected owing to a potential increase in pass-through given elevated costs. Moreover, the tourism recovery could increase demand-side inflationary pressures. The Committee will therefore continue to closely monitor risks to inflation.

Overall financial system remains resilient. Commercial banks maintain high levels of capital and loan loss provision. Debt serviceability of households and businesses has improved in line with the economic recovery. However, the financial positions of some SMEs

and households remain fragile and sensitive to the rising living costs and debt burden. The Committee views that financial institutions should continue to press ahead with debt restructuring and deems it important to have targeted measures and sustainable solutions in place for vulnerable groups.

Overall financial conditions are less accommodative. Funding costs have risen in tandem with the policy rate increases as well as the expiration of reduction in the Financial Institutions Development Fund (FIDF) contribution. However, bank lending and bond issuances continue to increase. The baht against the US dollar has appreciated owing to expectations of a less aggressive tightening of the Fed as well as China's relaxation of international travel restrictions which would benefit the Thai tourism sector. Nevertheless, the Committee will continue to closely monitor developments in the financial market and volatilities in the foreign exchange market.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee judges that Thai economic recovery remains on track. However, risks of rising demand-side inflationary pressures must be monitored. The policy rate should be normalized to the level that is consistent with sustainable growth in the long term 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 shift from the current assessment.

Bank of Thailand

25 January 2023

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## Press Conference

# Monetary Policy Committee's Decision 1/2023

25 January 2023

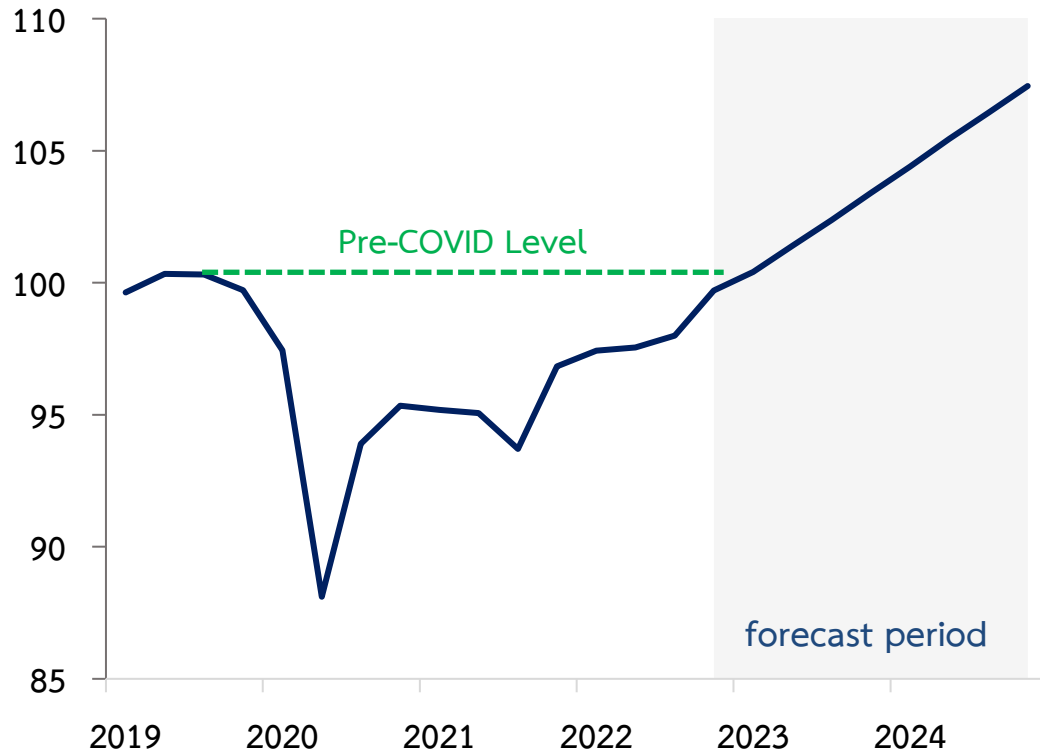
**Piti Disyatat**

Assistant Governor, Monetary Policy Group

# Thai economy will continue to gain traction mainly driven by the services sector

## Real GDP

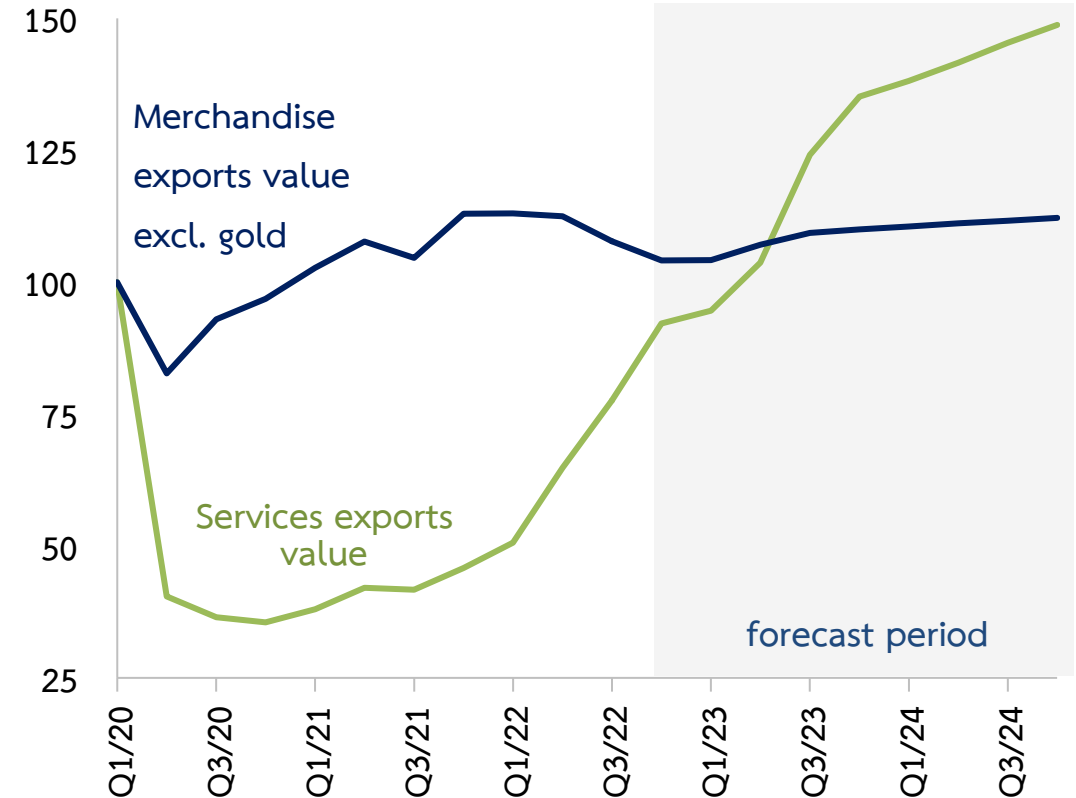
Index GDP 2019 = 100



Note: BOT forecast as of 23 Jan 2023

## Merchandise and Services Exports Value Indices

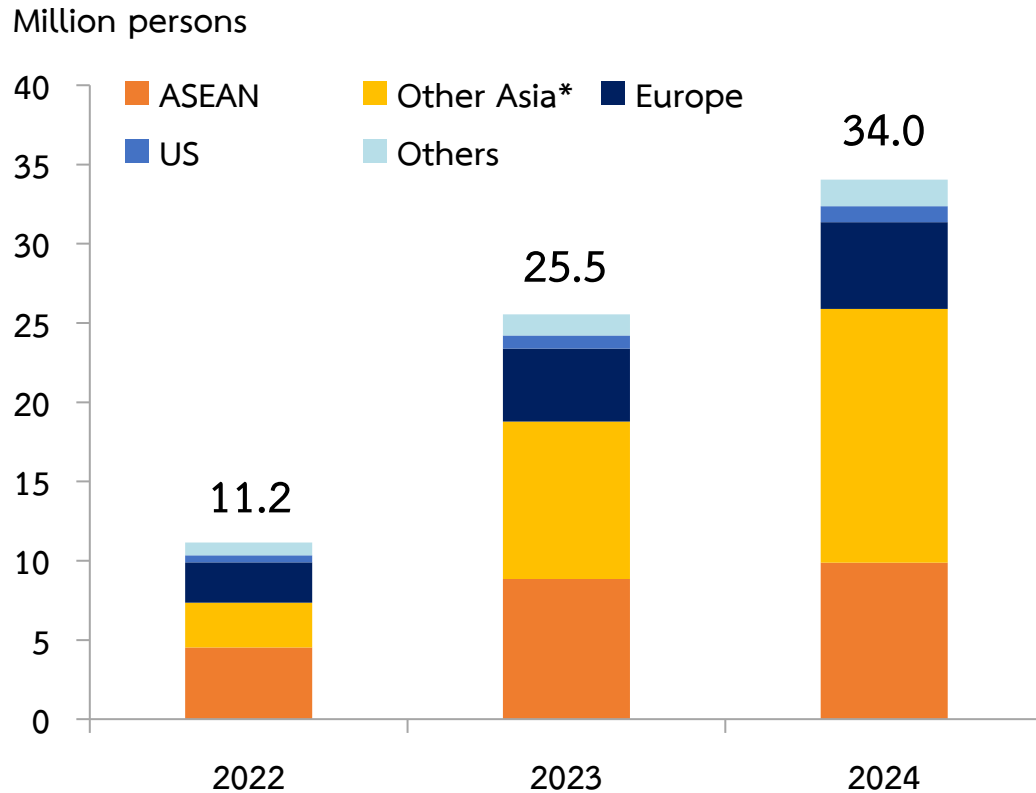
Index, Q1/20=100 (sa)



Note: BOT forecast as of 23 Jan 2023

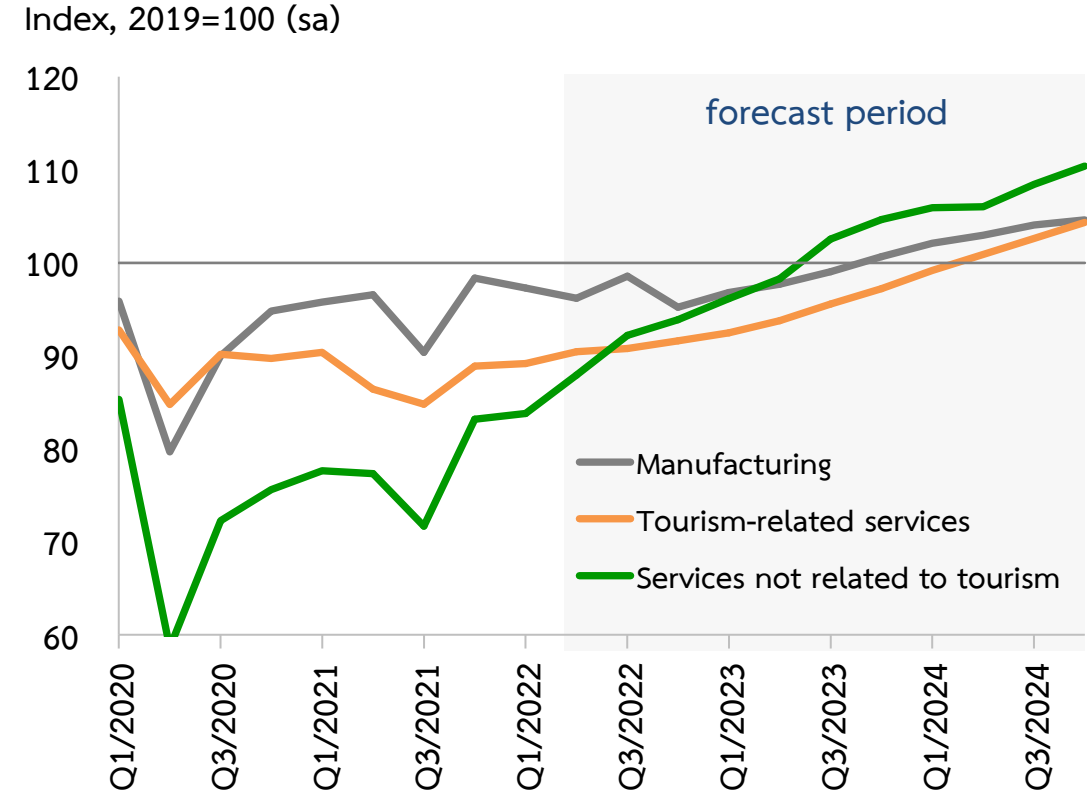
# Chinese tourist arrivals will help support the economic activities, especially in the services sector

## Projection of foreign tourist arrivals by nationality



Note: \* Other Asia includes China and the Middle East  
Source: Ministry of Tourism and Sports, forecasts by BOT

## Recovery outlook of economic activities by sector



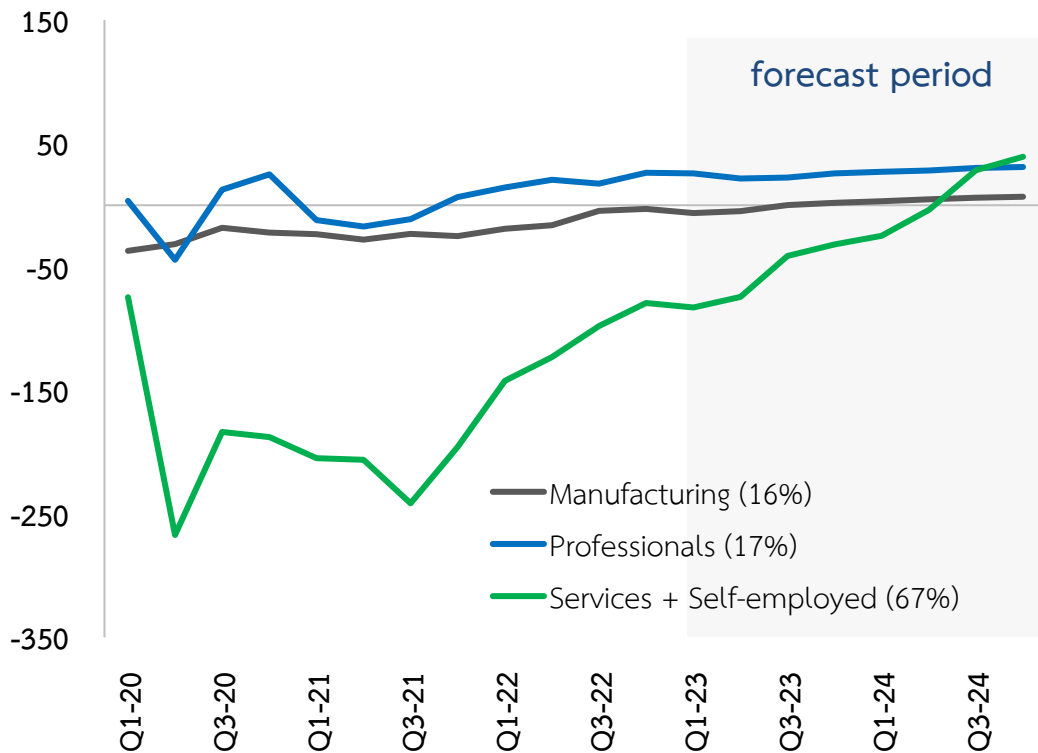
Note: Tourism-related services include hotels, restaurants, trade, and transportation.  
Services not related to tourism include construction, real estate, and logistics.

Source: Office of Industrial Economics, Revenue Department, Department of Land, Ministry of Tourism and Sports, Business Liaison Program interviews, calculation and forecast by BOT

# Service-led growth will support the income recovery of a significant share of workers as well as private consumption

## Projection of total income recovery for non-farm workers

Billion baht (compared to the same period in 2019)

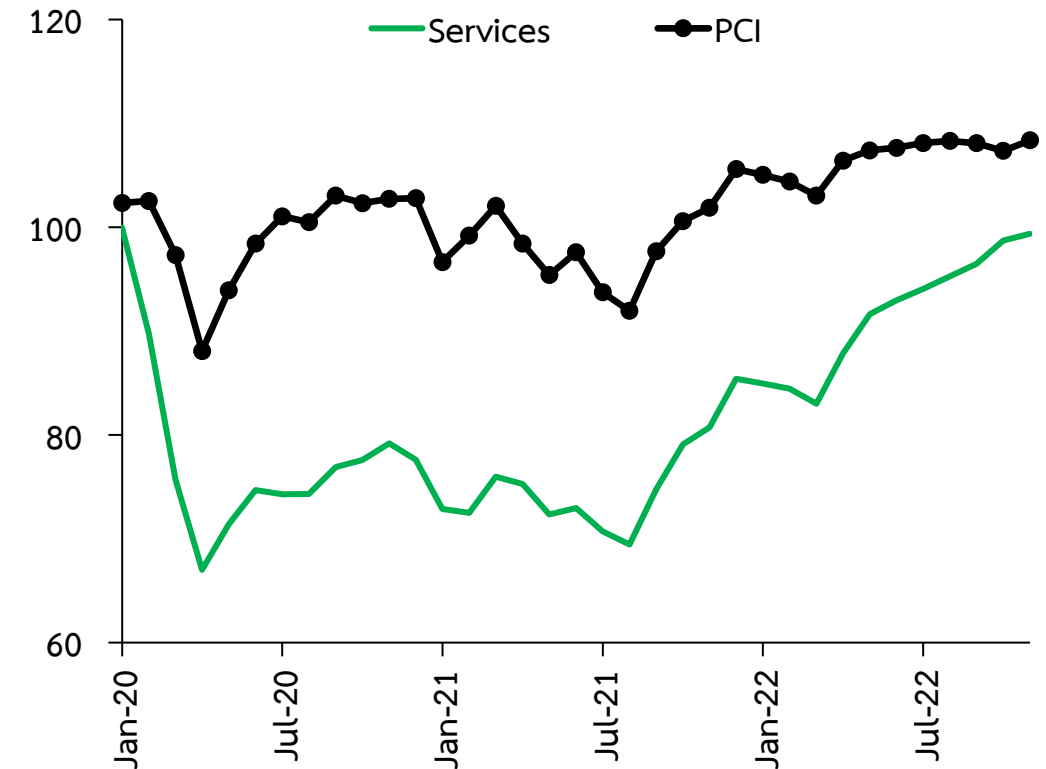


Note: Total non-farm labor income in 2019 is 4.5 trillion baht  
( ) refers to a share in total non-farm workers in 2022

Source: Labor Force Survey by the National Statistics Office, calculations by BOT

## Services sector recovery will support private consumption

Index, Q4-2019=100 (sa)

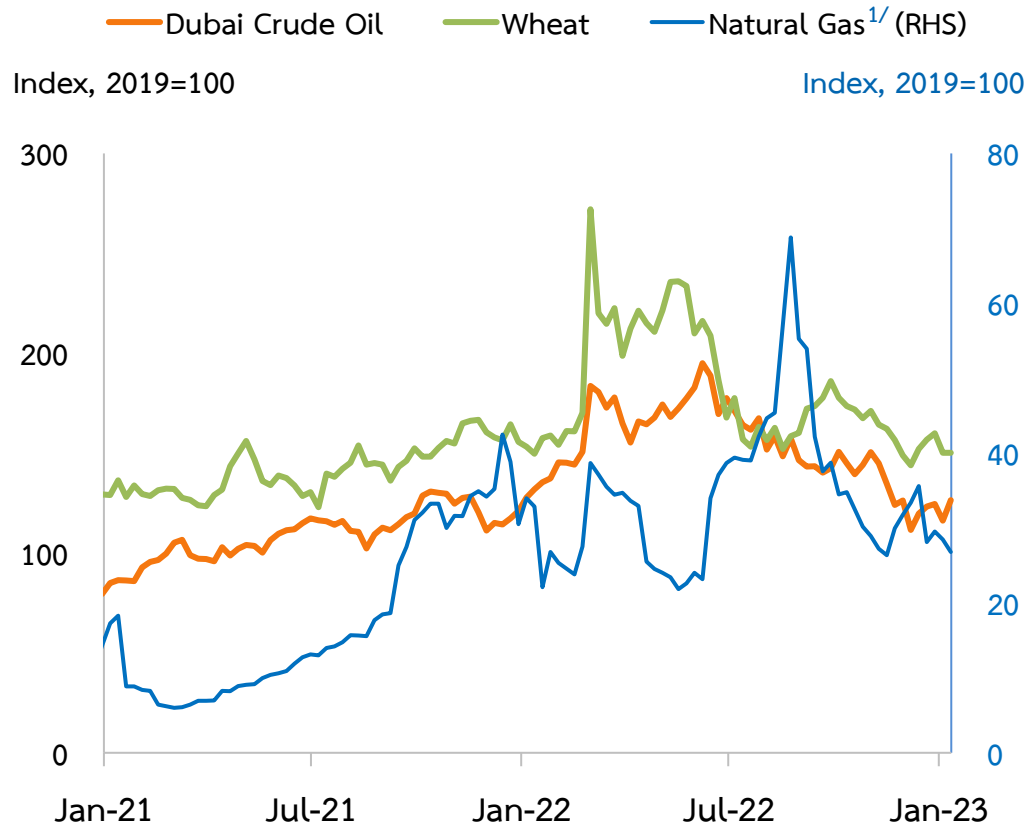


Note: Services PCI represents domestic expenditures which include foreign tourist spending, while for total PCI, net foreign tourist spending is deducted by spending of Thais travelling outbound to represent private consumption in Thailand.

Source: BOT

# Supply-side inflationary pressures continue to dissipate, while core inflation remains high

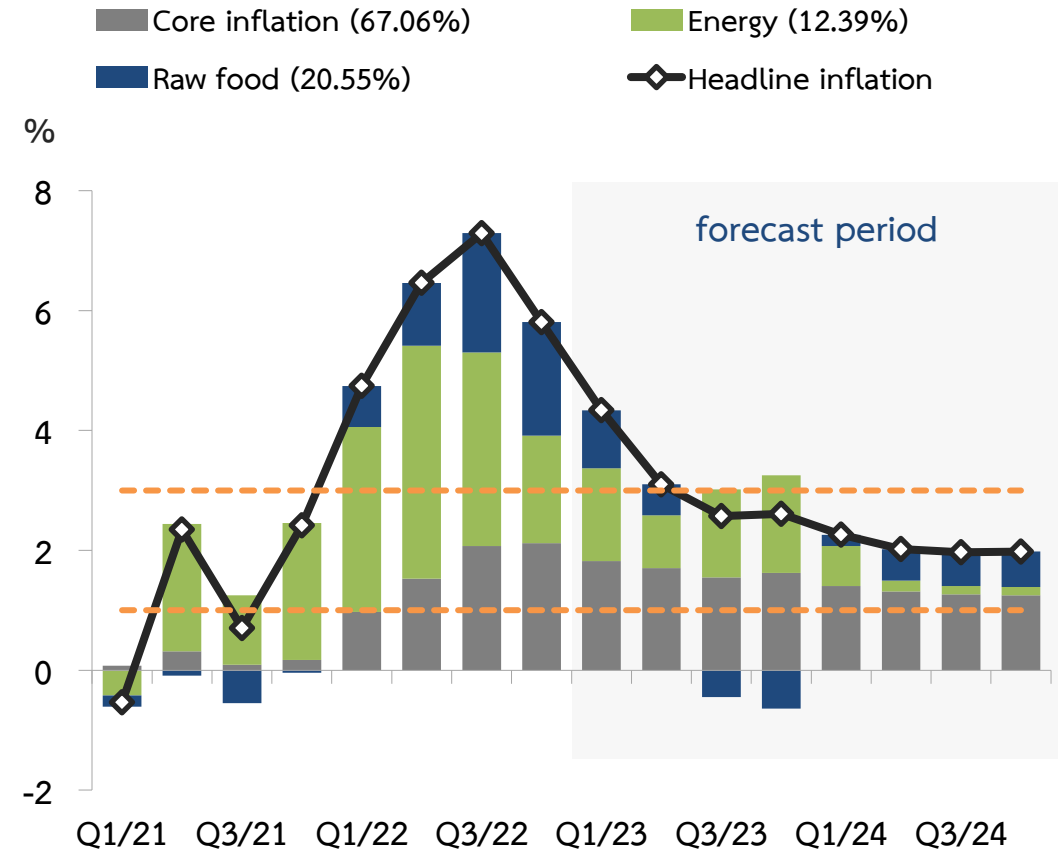
## Global energy and commodity prices have declined



Note: <sup>1/</sup> Japan Korea Marker (JKM) is used for natural gas price

Source: Bloomberg (data as of 13 Jan 23)

## Contribution to headline inflation



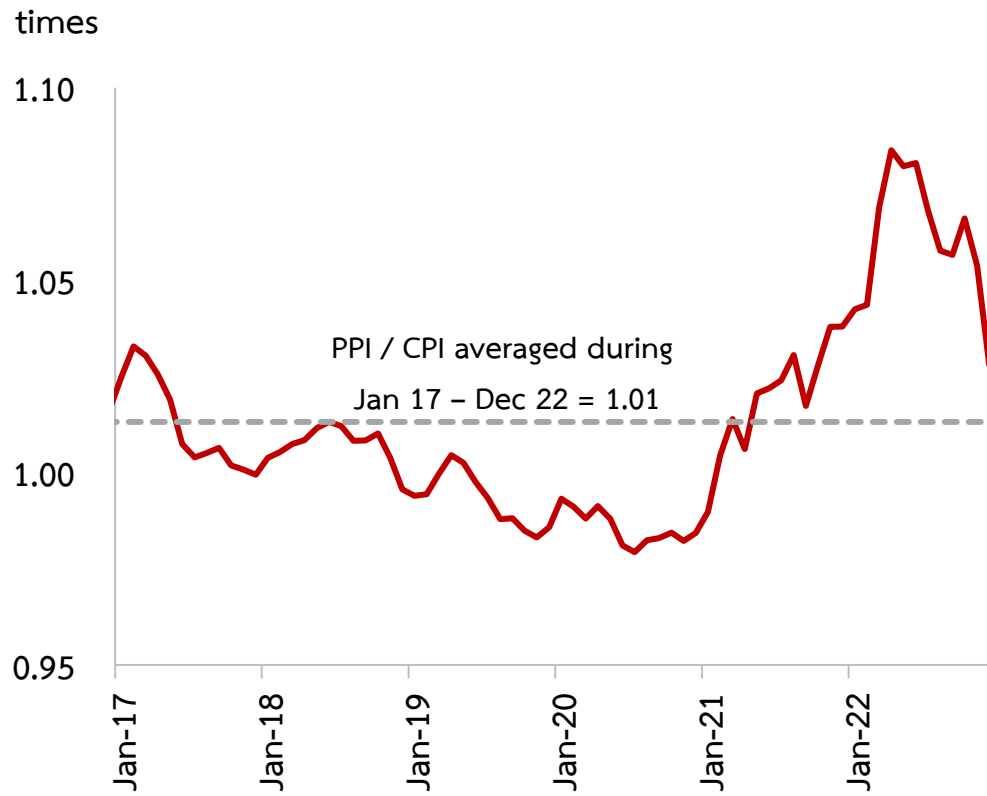
Note: ( ) denotes share in CPI basket

Source: Ministry of Commerce, calculations and forecasts by BOT as of 23 Jan 2023

# Potential increase in cost pass-through must be monitored going forward

Businesses continue to absorb the rising costs

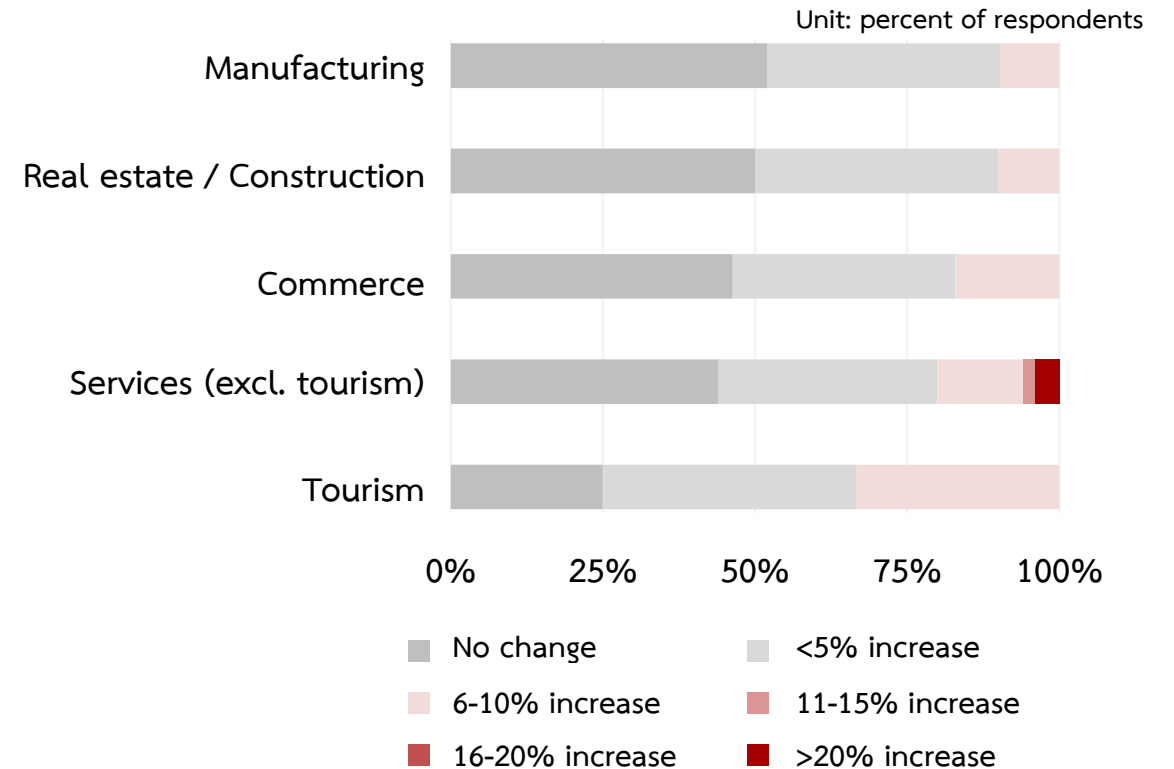
Producer Price Index (PPI) to Consumer Price Index (CPI) ratio



Source: Ministry of Commerce, calculated by BOT

Most business 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 in Jan 23 with 305 responses



## Underlying inflation indicators remain elevated

| Underlying inflation indicators | 2022 |     |     |     |     |     |     |     |     |     |     |     |
|---------------------------------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
|                                 | Jan  | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Core CPI                        | 0.5  | 1.8 | 2.0 | 2.0 | 2.3 | 2.5 | 3.0 | 3.2 | 3.1 | 3.2 | 3.2 | 3.2 |
| Core CPI (ex rent & measures)   | 0.7  | 2.2 | 2.4 | 2.6 | 2.8 | 3.0 | 3.6 | 3.7 | 3.8 | 3.9 | 4.0 | 4.0 |
| Symmetric trimmed mean CPI      | 1.2  | 2.1 | 2.4 | 2.4 | 3.2 | 3.7 | 4.0 | 4.2 | 4.2 | 4.2 | 4.1 | 4.2 |
| Sticky price CPI                | 0.5  | 2.4 | 2.8 | 2.7 | 3.2 | 3.5 | 4.2 | 4.7 | 4.6 | 4.7 | 4.9 | 4.9 |
| Common components CPI           | 0.9  | 1.7 | 1.8 | 2.2 | 2.4 | 2.8 | 3.1 | 3.5 | 3.6 | 3.8 | 4.1 | 4.2 |
| MUCSVO Trend                    | 2.9  |     | 3.4 |     |     | 3.8 |     |     | 3.2 |     |     |     |

Percent deviation from target midpoint of 2%

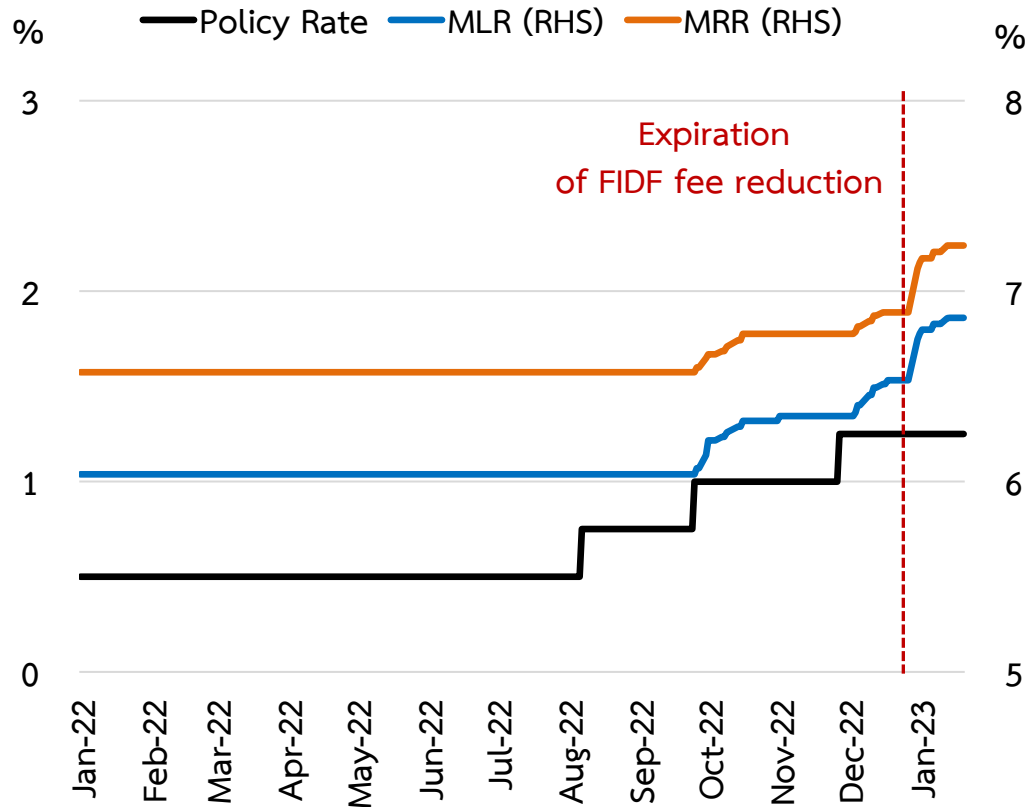
- Less than 0.5%
- Less than 0.25% - 0.5%
- Close to target midpoint (+/- less than 0.25%)
- More than 0.25% - 0.5%
- More than 0.5%

Source: Ministry of Commerce, calculations by BOT

Note: %YoY is calculated on a monthly basis except MUCSVO which is calculated on a quarterly basis; Symmetric trimmed mean CPI is calculated by excluding extreme price movements in goods and services (10% highest and lowest); Sticky price CPI is calculated by using 4.8-month implied duration of price change according to Bryan and Meyer (2010); Common CPI is calculated by capturing common movement from goods and services prices in 66 categories using principal component model; MUCSVO trend is calculated according to Stock and Watson (2015).

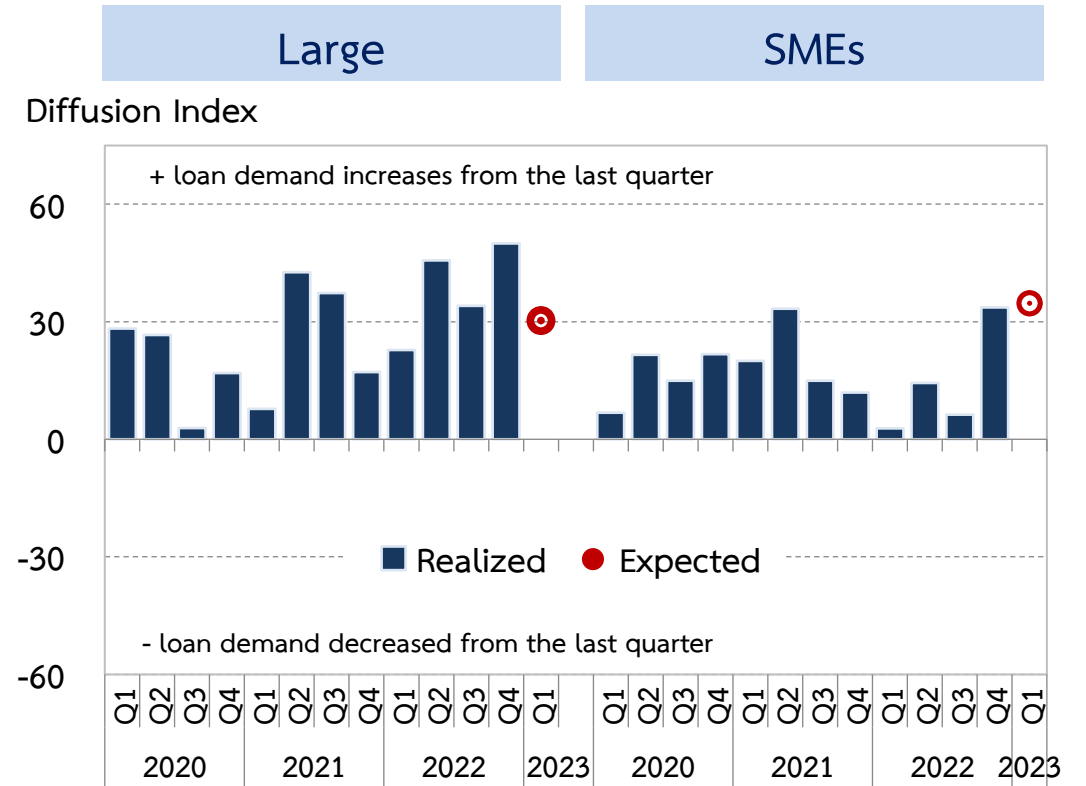
# Despite less accommodative financial conditions as a result of policy rate hikes and the expiration of FIDF fee reduction, private-sector financing continues to increase

Commercial banks have raised minimum retail rates (MRR) by a smaller magnitude than minimum loan rates (MLR)



Note: data as of 23 Jan 2023

Loan demand from businesses is likely to increase in line with the economic recovery



Source: BOT's Senior Loan Officer Survey Q4/2022



The Thai economic recovery remains on track.  
However, risks of rising demand-side inflationary pressures must be monitored.  
Normalizing the policy rate to the level that is consistent with sustainable growth in the long term in a gradual and measured manner is an appropriate course for monetary policy.

The Committee votes unanimously to raise the policy rate by 0.25 percentage point from 1.25 to 1.50 percent at this meeting.

The Committee is ready to adjust the size and timing of policy normalization should the growth and inflation outlook shift from the current assessment.

## Key factors that warrant monitoring going forward

1. Global economic outlook
2. Effects of China's reopening and stimulus measures
3. Potentially higher cost pass-through
  - Businesses have been facing elevated costs
  - Demand-side inflationary pressures could increase following the tourism recovery