



No. 25/2023

Monetary Policy Committee's Decision 3/2023

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 31 May 2023 as follows.

The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 1.75 to 2.00 percent, effective immediately.

The Thai economy should continue to expand, driven mainly by tourism and private consumption. Merchandise exports are expected to recover gradually. While headline inflation slows, core inflation remains elevated. Inflationary risks stem from greater demand pressures amid expanding economic activity and higher cost pass-through from supply pressures. The Committee deems a continuation of gradual policy normalization to be appropriate in light of the growth and inflation outlook, and voted to raise the policy rate by 0.25 percentage point at this meeting.

The Committee projects the economic growth to be 3.6 and 3.8 percent in 2023 and 2024, respectively. A key impetus is the broad-based recovery in tourism, which should promote employment and labor income, in turn sustaining private consumption. Merchandise exports are recovering broadly consistent with expectation, and should improve in line with a moderate expansion in the global economic activity. The Committee recognizes upside risks to domestic growth, in part owing to forthcoming government economic policies. At the same time, there is a need to monitor the uncertain economic and monetary policy outlook of major economies.

Inflation should continue to decline at a gradual pace. Headline inflation returned to the target range and is projected to be 2.5 and 2.4 percent in 2023 and 2024, respectively, due to easing electricity and oil prices. Moreover, core inflation is projected to stabilize at 2.0 percent in 2023 and 2024, an elevated level relative to the past. Upside inflationary risks exist from greater demand pressures amid expanding economic activity and higher cost pass-through from supply pressures, in part contingent on government economic policies looking ahead. As a result, there is a need to monitor the price-setting behavior of businesses.



The overall financial system remains resilient. Financial institutions maintain high levels of capital and loan loss provision. Debt serviceability of households and businesses has improved in tandem with the economic recovery. Nevertheless, financial fragilities remain for some SMEs and households that are exposed to rising living costs and higher debt burden. The Committee agrees that financial institutions should continue to press ahead with debt restructuring and deems it important to have in place targeted measures and sustainable debt resolution for vulnerable groups.

Overall financial conditions turned somewhat less accommodative owing to higher private sector funding cost consistent with the policy interest rate. Current financial conditions nonetheless remain supportive of the ongoing recovery and mobilization of funds by the private sector. The baht depreciated against the US dollar, in part influenced by the Federal Reserve's monetary policy outlook, the renminbi depreciation and domestic political uncertainties. The Committee is closely monitoring financial market developments and volatilities.

Under the prevailing monetary policy framework, the Committee seeks to maintain price stability, support sustainable growth in line with potential, and preserve financial stability. In the view of these objectives, the Committee expects a steady economic expansion but sees a need to monitor upside risks to inflation. The Committee thus decided to increase the policy interest rate to normalize the monetary policy stance in a gradual and measured manner toward a level consistent with long-term sustainable growth. The Committee is prepared to adjust the size and timing of policy normalization should the evolving growth and inflation outlook differ from the current assessment.

Bank of Thailand

31 May 2023

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BANK OF THAILAND

Press Conference

Monetary Policy Committee's Decision 3/2023

31 May 2023

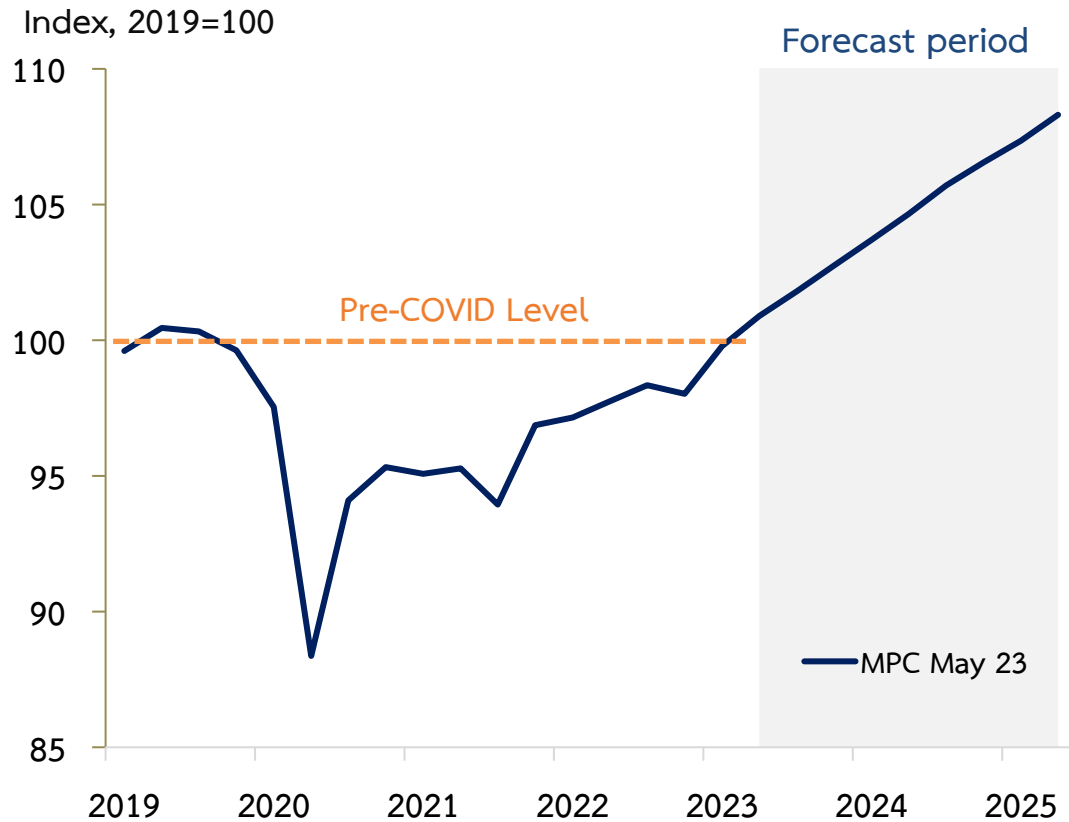
Piti Disyatat

Assistant Governor, Monetary Policy Group



The Thai economy should continue to expand and merchandise exports are expected to recover gradually

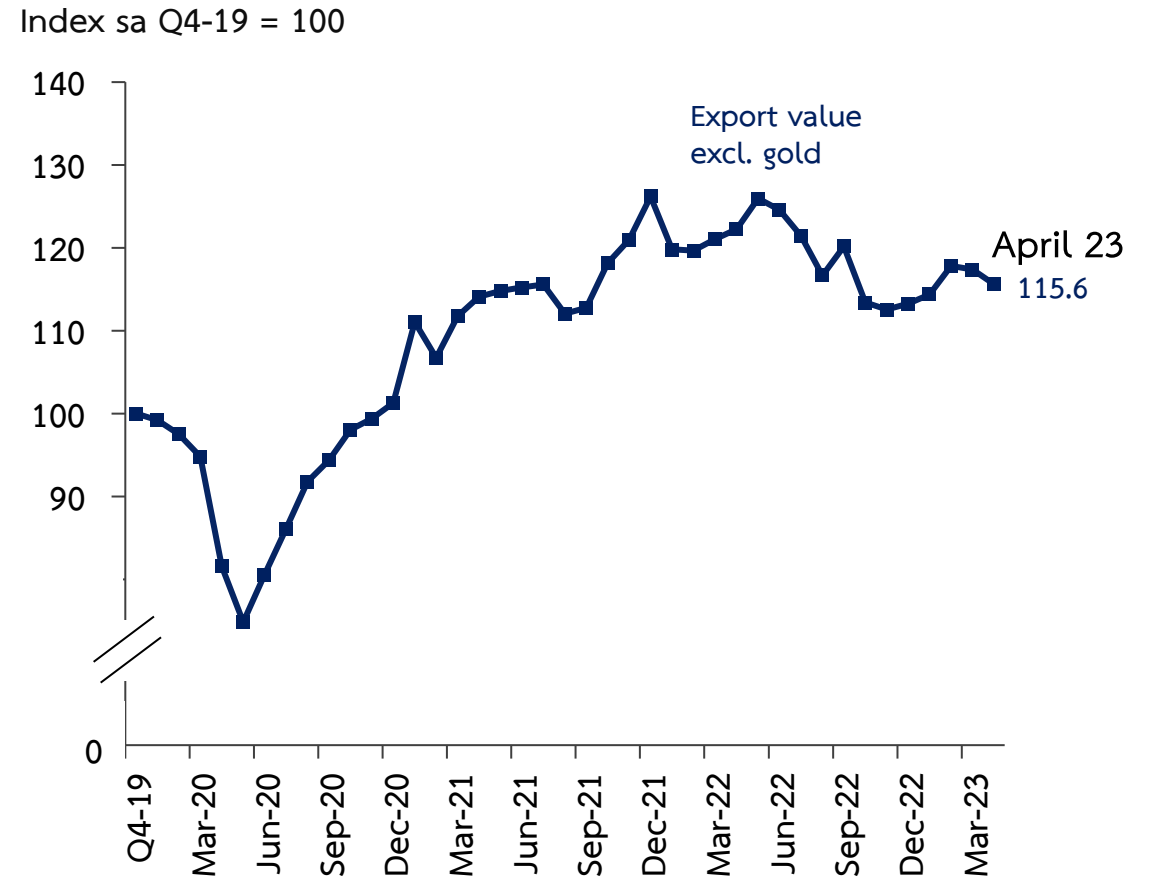
Real GDP



%YoY	2022	2023	2024
May23 (Mar23)	2.6	3.6 (3.6)	3.8 (3.8)

Note: BOT forecast as of May 2023

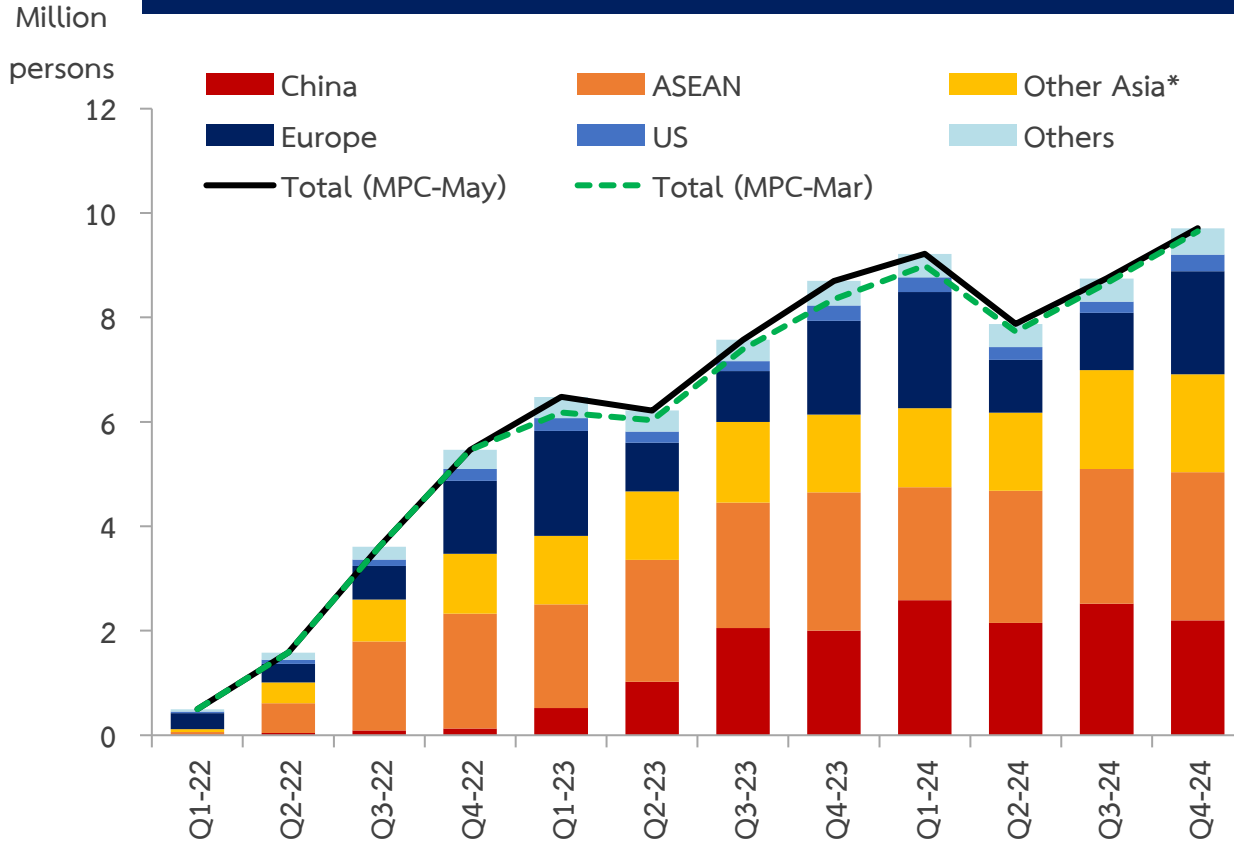
Merchandise Exports



Source: BOT



Projection of foreign tourist arrivals by nationality



Million persons	2022	2023	2024
May23 (Mar23)	11.2	29.0 (28.0)	35.5 (35.0)

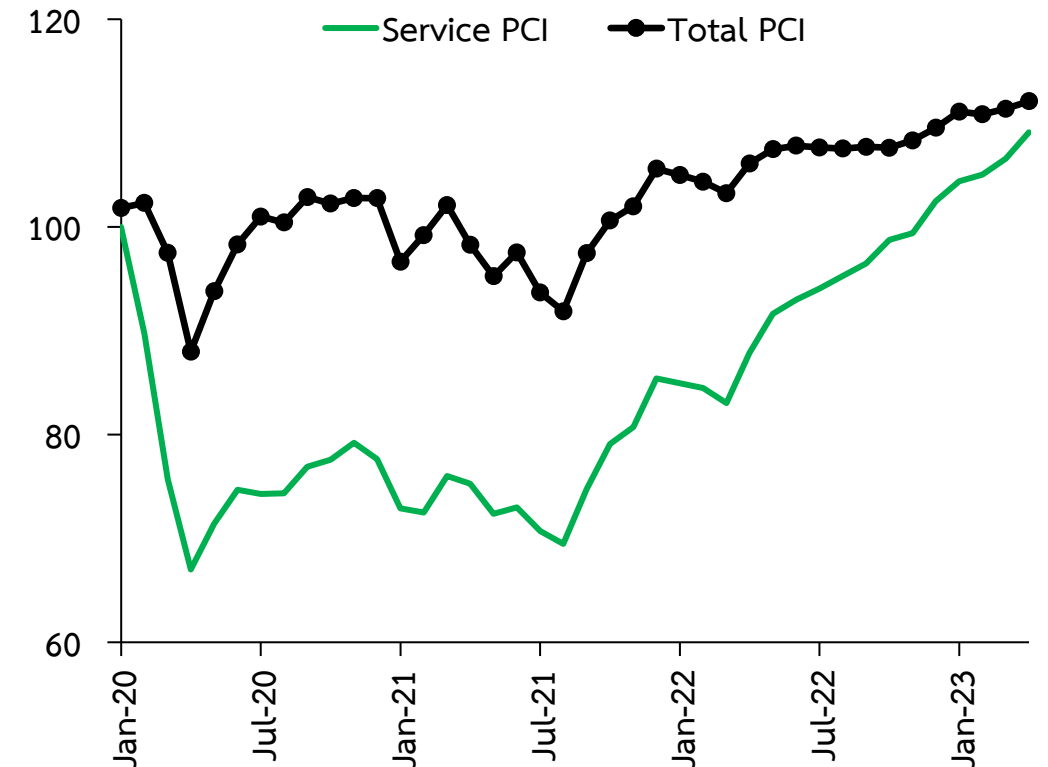
Note: * including Middle East

Source: Ministry of Tourism and Sports, forecasts by BOT

Broad-based recovery in tourism should help sustain private consumption

Services sector recovery should support private consumption

Index, Q4-2019=100 (sa)



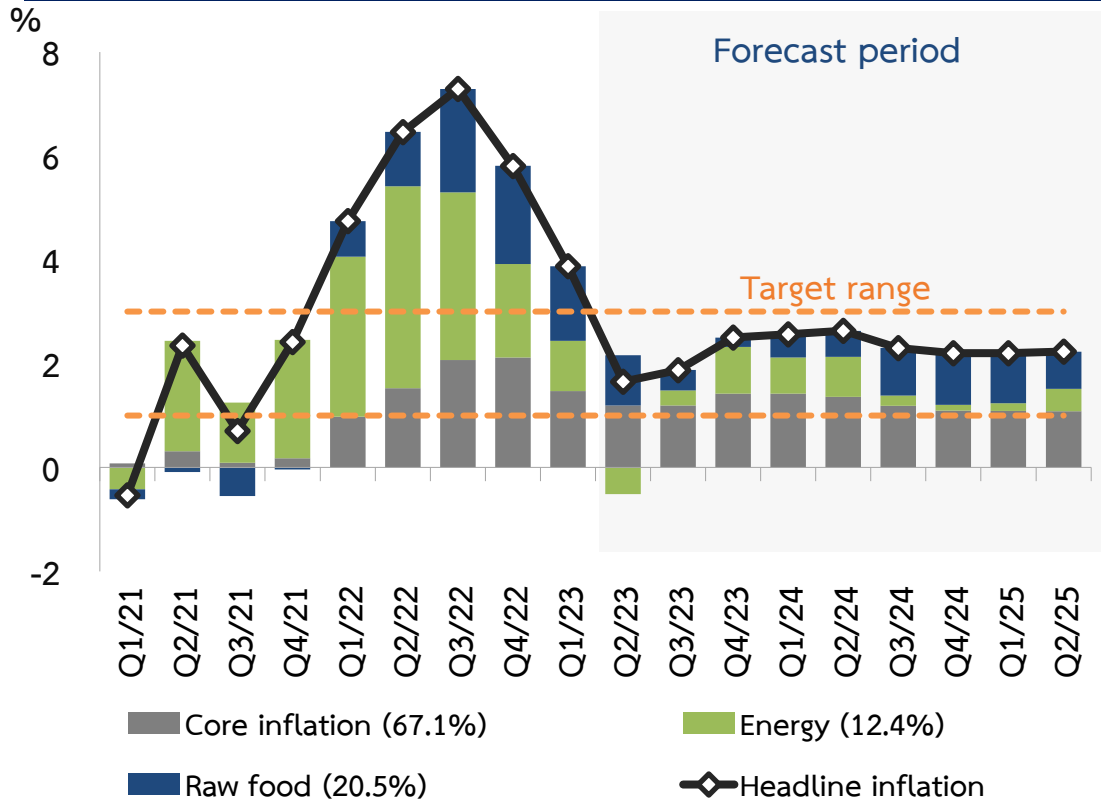
Note: Service PCI represents domestic services expenditures which include foreign tourist spending. Total PCI excludes spending of Thais travelling abroad.

Source: BOT



Headline inflation returns to the target range, while core inflation remains elevated

Contribution to headline inflation

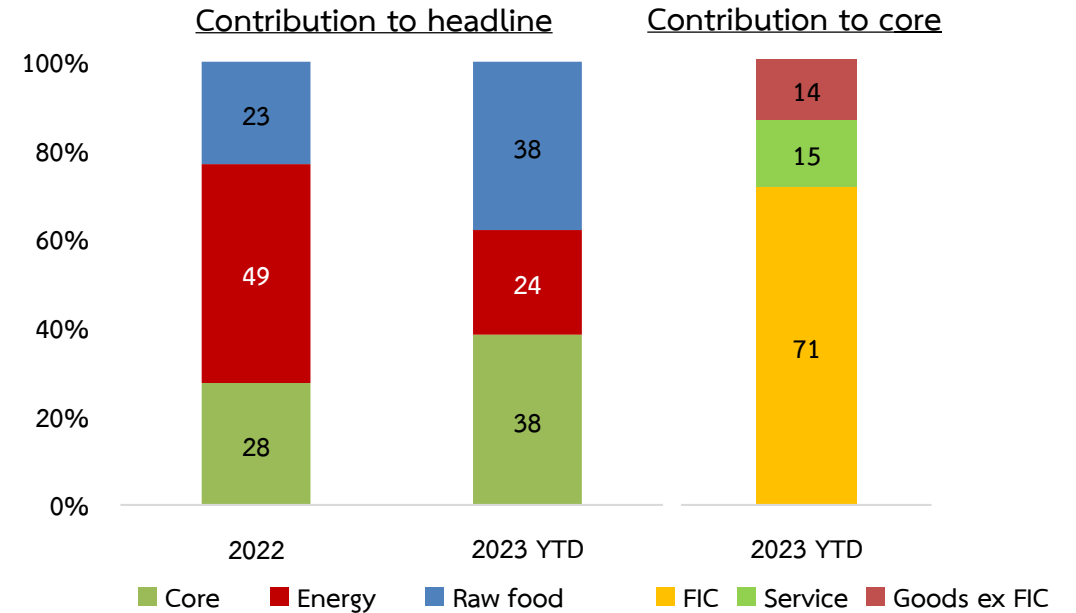


%YoY May 23 (Mar 23)	2022	2023	2024
Headline	6.1	2.5 (2.9)	2.4 (2.4)
Core	2.5	2.0 (2.4)	2.0 (2.0)

Note: () denotes share in CPI basket

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

Inflation increasingly driven by persistent CPI components



Inflation Persistence ^{1/}						
Headline	Core	Core components			Non-core components	
		Food in core (FIC)	Service	Goods ex FIC	Raw food	Energy
0.3	0.5	0.6	0.4	0.4	0.2	0.2

Note: ^{1/} Inflation persistence is the first coefficient in the autoregressive model, calculated using quarterly change in price in both aggregate and disaggregate levels, from 2002Q2-2023Q1



Underlying inflation indicators remain elevated and upside risks must be monitored

Underlying inflation indicators

	2022												2023			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
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	3.0	1.9	1.8	1.7
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	3.8	2.3	2.1	2.0
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	3.7	2.9	2.6	2.6
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	4.6	3.1	2.8	2.7
Common CPI	1.0	1.7	1.9	2.2	2.5	2.8	3.2	3.6	3.7	3.9	4.1	4.3	4.2	3.8	3.7	3.4
MUCSVO Trend	2.2			2.7			3.2			3.4			3.3			

Difference from 2%, which is the target range midpoint

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

Note: Monthly indicator, calculated using %YoY

Source: Ministry of Commerce, calculations by BOT

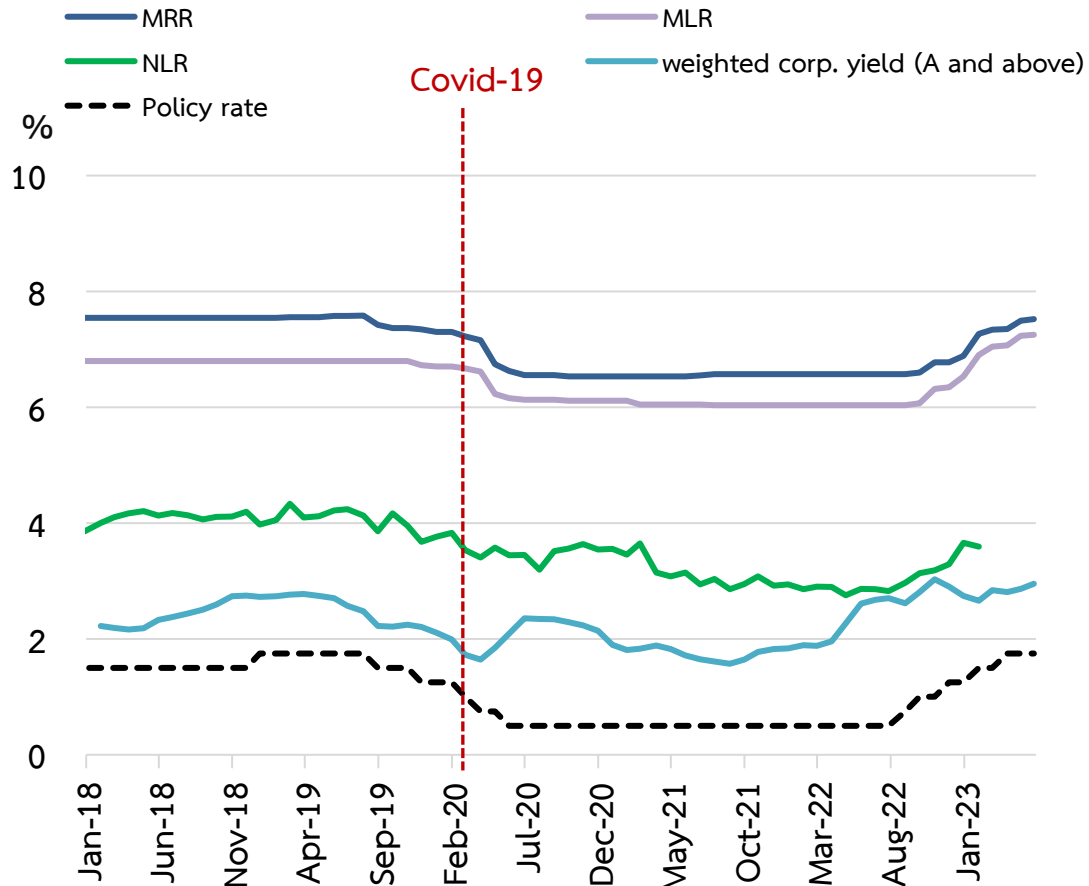
Key factors to monitor

1. Elevated core inflation for a prolonged period could affect price-setting behavior
2. Greater demand pressures and cost pass-through amid economic expansion
3. Uncertainties surrounding forthcoming government economic policies

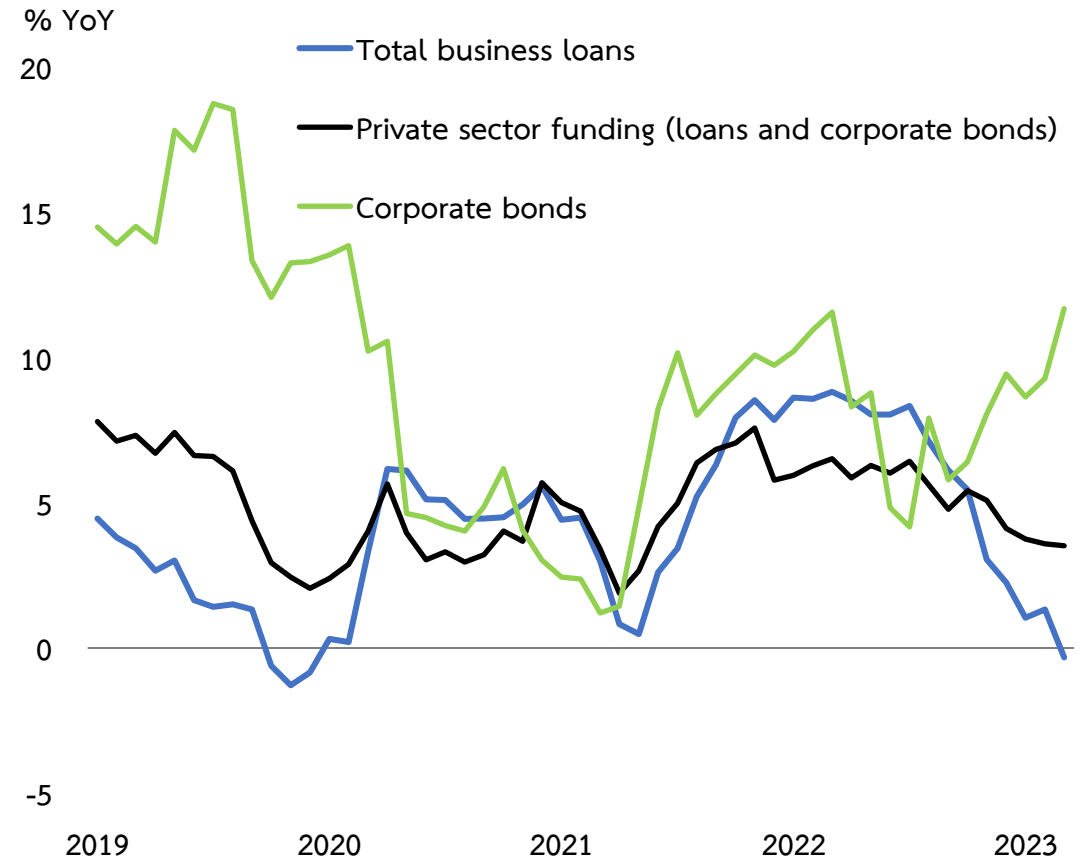


Financial conditions tighten somewhat in line with the policy interest rate, while private sector funding continues to expand

Bank lending rates increase but are still close to pre-COVID levels



Mobilization of funds by the private sector continues to expand



Source: BOT

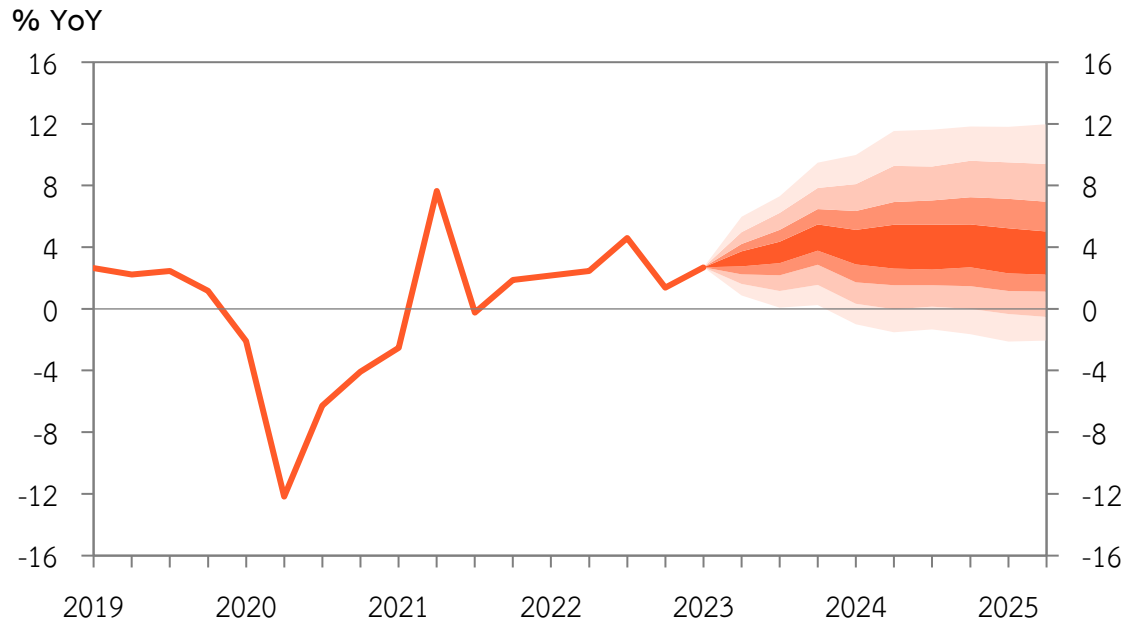
Note: Minimum loan rate (MLR) refers to the interest rate at which a bank charges its creditworthy major borrowers;
 Minimum retail rate (MRR) refers to the interest rate at which a bank charges its creditworthy retail borrowers;
 New loan rate (NLR) is the contract-amount weighted average of interest rates on new loans;
 Weighted corp. yield is the average corporate bond yield outstanding for each tenor, calculated as of 23 May 2023.

Source: MLR and MRR are averages of Thai commercial banks' rates, NLR and weighted corp. yield are calculated by BOT

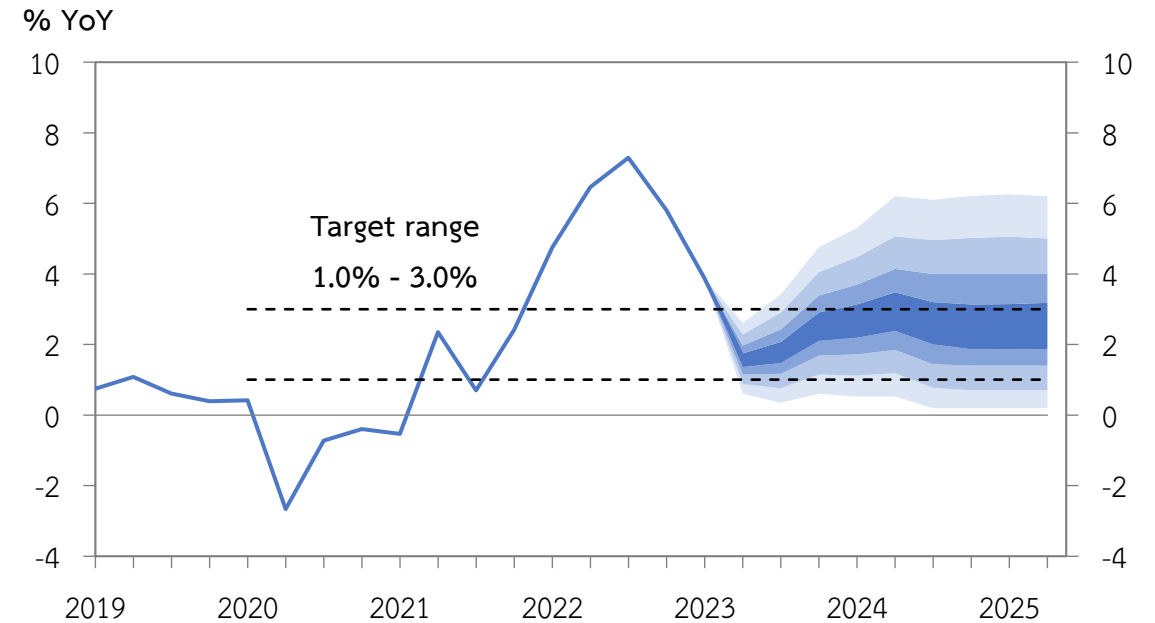


The economy continues to expand with upside risks to inflation

GDP growth



Headline inflation



Key factors to monitor

1. Higher-than-expected economic growth and inflation
2. Forthcoming government economic policies
3. Global economic and financial market outlook



Thai economy continues to expand with upside risks to inflation.
Policy normalization remains appropriate and consistent with
the growth and inflation outlook.

The Committee voted unanimously to raise the policy rate by 0.25 percentage point
from 1.75 to 2.00 percent at this meeting.

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



Annual percentage change	2022*	2023	2024
GDP growth	2.6	3.6 (3.6)	3.8 (3.8)
Domestic demand	4.1	2.5 (2.5)	3.2 (3.3)
Private consumption	6.3	4.4 (4.0)	2.9 (3.1)
Private investment	5.1	1.7 (2.1)	4.9 (4.8)
Government consumption	0.2	-2.8 (-2.2)	1.1 (1.1)
Public investment	-4.9	2.5 (3.7)	6.8 (7.8)
Exports of goods and services	6.8	7.3 (6.8)	6.7 (7.4)
Imports of goods and services	4.1	0.9 (1.4)	5.5 (5.5)
Current account (billion, U.S. dollars)	-17.2	6.0 (4.0)	12.5 (12.5)
Value of merchandise exports (%YoY)	5.5	-0.1 (-0.7)	3.6 (4.3)
Value of merchandise imports (%YoY)	15.3	0.7 (1.2)	4.2 (4.2)
Number of foreign tourists (million persons)	11.2	29.0 (28.0)	35.5 (35.0)
Dubai crude oil price (U.S. dollar per barrel)	96.4	86.0 (86.0)	90.0 (90.0)
Headline inflation	6.1	2.5 (2.9)	2.4 (2.4)
Core inflation	2.5	2.0 (2.4)	2.0 (2.0)

Notes: * Outturns

() Previous projection in Monetary Policy Report Q1/2023