



No. 35/2023

Monetary Policy Committee's Decision 4/2023

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 2 August 2023 as follows.

**The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 2.00 to 2.25 percent, effective immediately.**

The Thai economy overall continued to recover. External demand softened somewhat in the near term, but is expected to gradually recover looking ahead. Inflation declined and is projected to stabilize within the target range, subject to upside risks. In the context of continuing economic expansion and narrowing slack, monetary policy should keep inflation sustainably within the target range and foster longer-term macro-financial stability by preempting the buildup of financial imbalances that could arise in a low-for-long interest rate environment. A higher policy rate would also help preserve the policy space in light of the highly uncertain outlook. The Committee therefore voted to raise the policy rate by 0.25 percentage point at this meeting.

The Thai economy should continue to expand, driven mainly by tourism and private consumption. Merchandise exports contracted in the short term partly due to subdued demand from China and global electronic cycle, but should pick up looking ahead as the global economic activity gathers momentum. Risks to growth outlook increase from potential delay in merchandise export recovery and domestic political uncertainties.

Headline inflation declined from energy prices, cost-of-living subsidies, and high base last year, but should rebound in the second half of this year after the effects of temporary factors dissipate. Core inflation edged lower, but should stabilize at a higher level than in the past. Upside inflationary risks stem from higher food prices amid a more severe El Nino episode which could accelerate cost pass-through in the context of continuing economic expansion.

The overall financial system remains resilient. Financial institutions maintain high levels of capital and loan loss provision. Credit quality might deteriorate for some fragile SMEs



and households with impaired debt serviceability, higher debt burden, and slower income recovery. The Committee supports the continuation of debt restructuring measures as well as targeted measures and sustainable debt resolution for vulnerable groups, particularly responsible lending measures.

Overall financial conditions became less accommodative but remain supportive of fund mobilization by the private sector and the ongoing economic recovery. Private sector funding costs increased consistent with the policy rate, while the slowing private credit growth partly reflected a normalization of lending activity after an uninterrupted credit expansion throughout the COVID-19 crisis. The baht fluctuated with the US monetary policy expectations, the Chinese economic outlook, and domestic political uncertainties.

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 view of these objectives, the Committee expects a continuing economic expansion and narrowing slack. Inflation is expected to stabilize within the target range, with upside risks that still warrant monitoring. Against such backdrop, monetary policy should continue to ensure that inflation stays sustainably within the target range as well as give due consideration to macro-financial stability in the longer term. In deliberating further policy rate increases looking ahead, the Committee will take into account economic and inflation outlook as well as associated risk assessments.

Bank of Thailand

2 August 2023

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BANK OF THAILAND

## Press Conference

# Monetary Policy Committee's Decision 4/2023

2 August 2023

Piti Disyatat

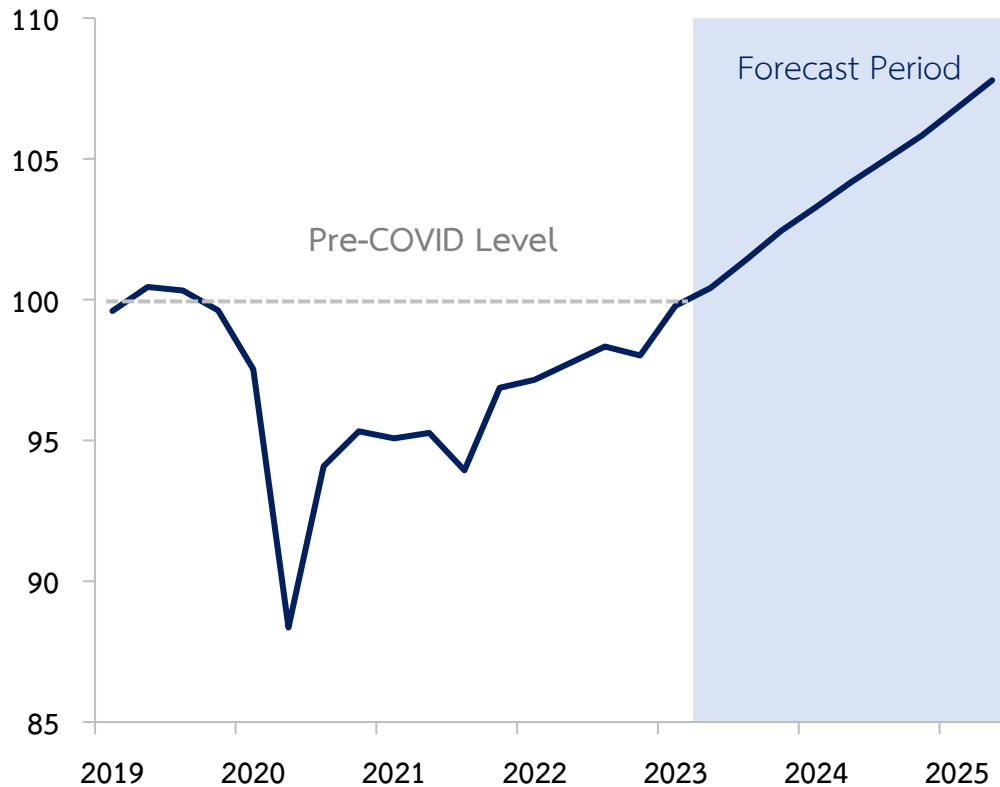
Assistant Governor, Monetary Policy Group



# The Thai economy should continue to expand with merchandise exports expected to improve after some short-term softening

## Real GDP

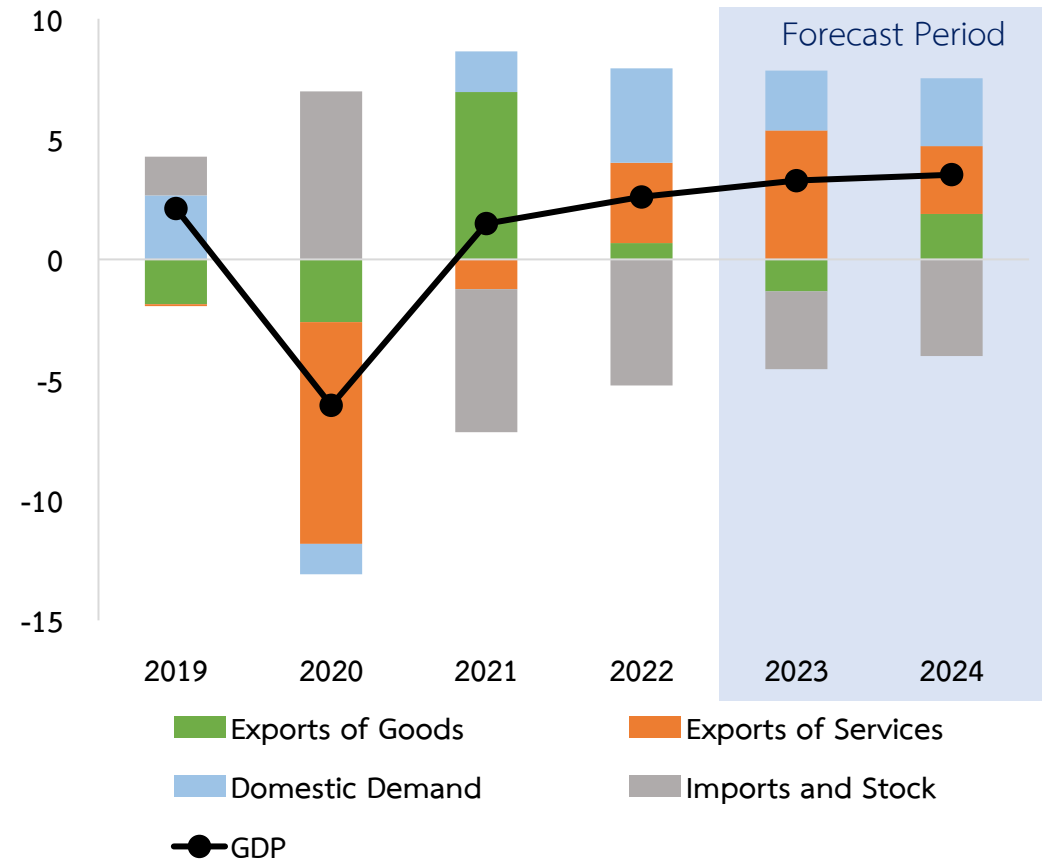
Index, 2019=100



Note: BOT forecast as of August 2023

## Contribution to real GP growth

%YoY

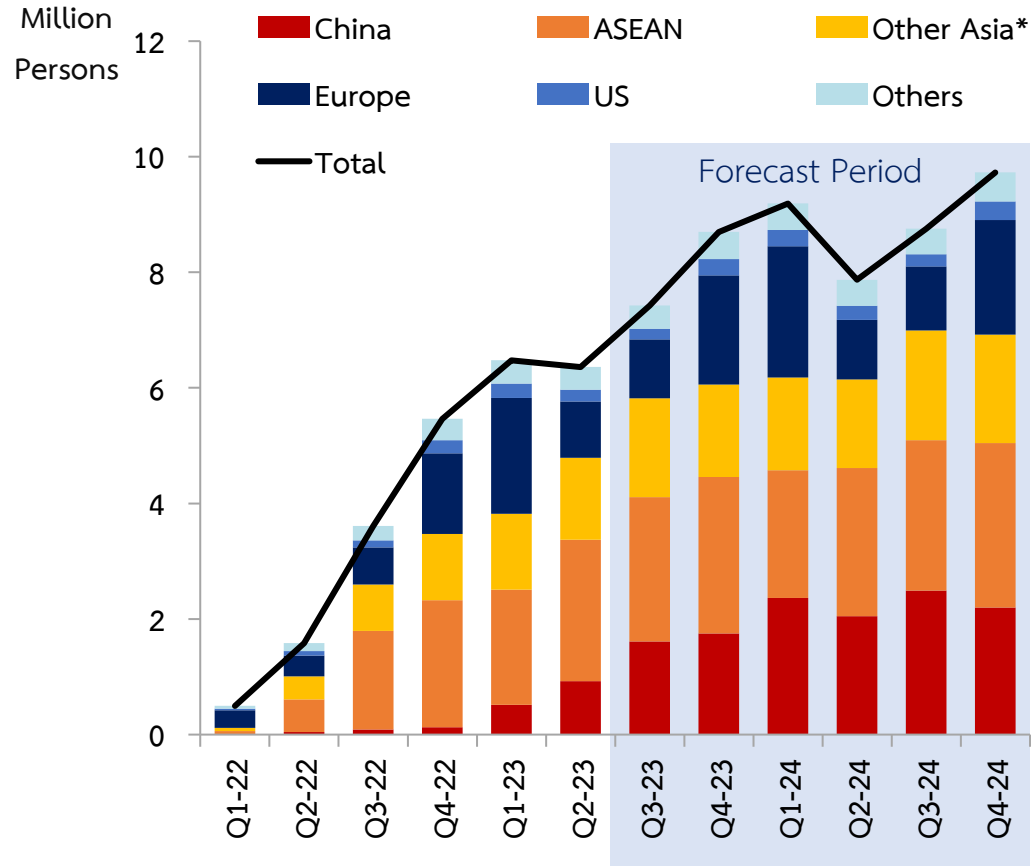


Note: BOT forecast as of August 2023



# Continued recovery in tourism should help sustain private consumption

## Projection of foreign tourist arrivals by nationality

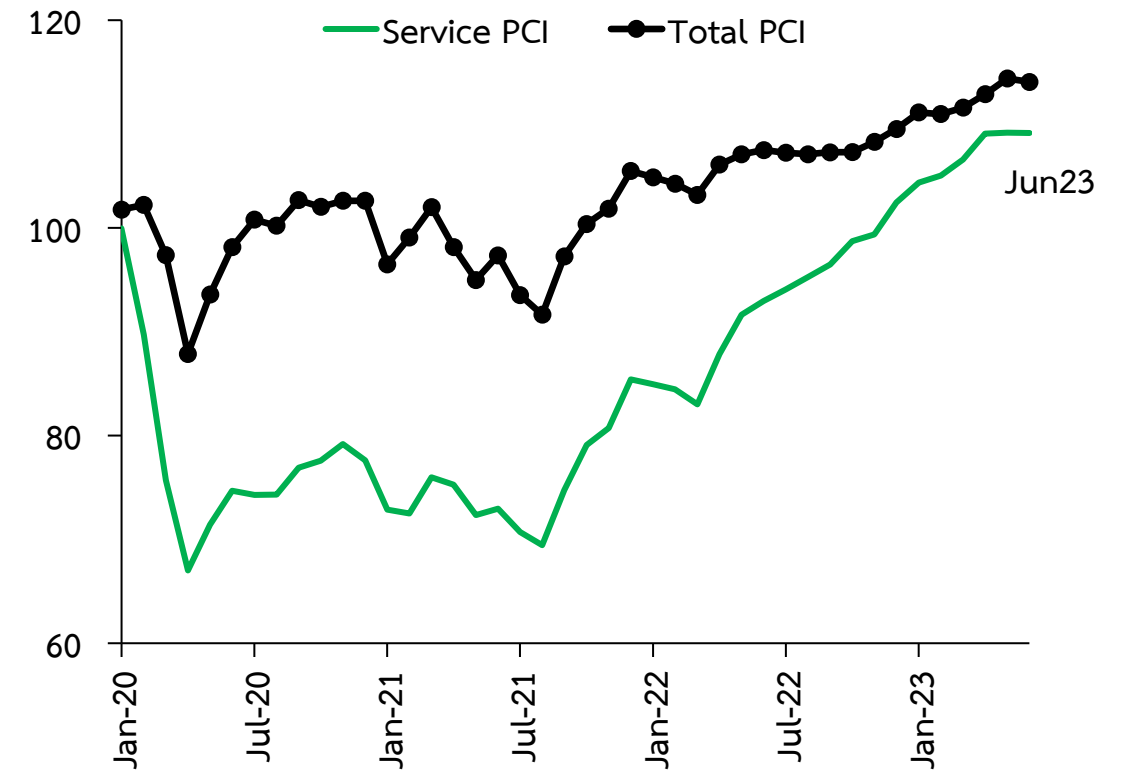


Note: \* including Middle East

Source: Ministry of Tourism and Sports, forecast by BOT as of August 2023

## Services sector recovery should support private consumption

Index, Q4-2019=100 (sa)



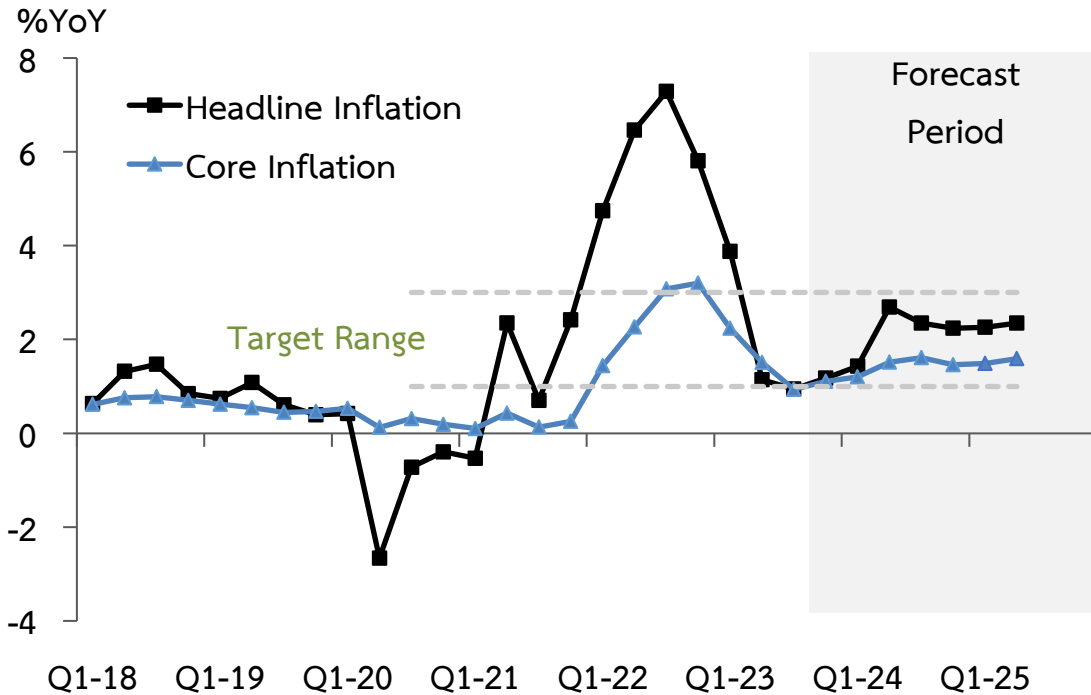
Note: Total Private Consumption Index (Total PCI) includes spending of Thai citizens travelling abroad and excludes spending of foreign tourists in Thailand while service PCI does not exclude spending of foreign tourists.

Source: BOT



# Headline inflation declined partly from previous high base and subsidies and should stabilize within the target range

Inflation declined but should subsequently rebound



Note: BOT forecast as of August 2023

Underlying inflation indicators declined but were higher than in the past

Underlying inflation indicators	2022			2023						pre-COVID Average
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Core CPI	3.2	3.2	3.2	3.0	1.9	1.8	1.7	1.5	1.3	1.1
Core CPI (ex rent & measures)	3.9	4.0	4.0	3.8	2.3	2.1	2.0	1.8	1.6	1.3
Symmetric trimmed mean CPI	4.2	4.1	4.2	3.7	2.9	2.6	2.6	1.3	0.7	1.0
Sticky CPI	4.7	4.9	4.9	4.6	3.1	2.8	2.7	2.5	2.3	1.7
Common CPI	3.8	4.1	4.2	4.2	3.7	3.6	3.4	3.4	3.1	2.1
MUCSVO Trend	3.1			3.0			2.6			1.8

Percentage point deviation from target midpoint of 2%

- Lower than 0.5%
- 0.25% - 0.5% lower
- Close to target midpoint (+/- 0.25%)
- 0.25 - 0.5% higher
- Higher than 0.5%

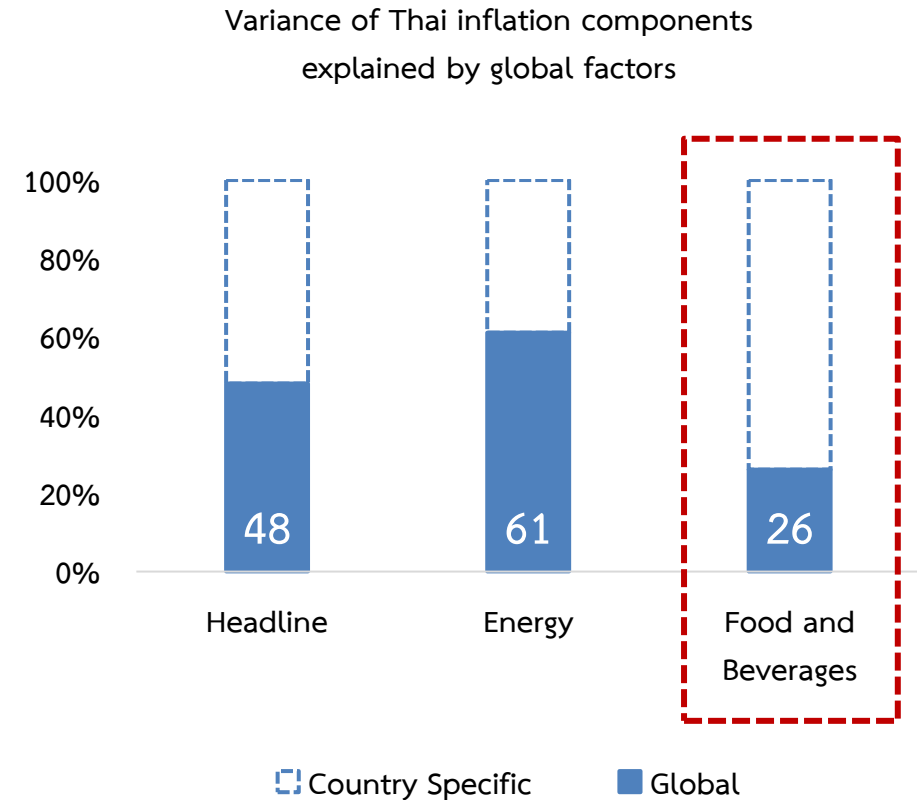
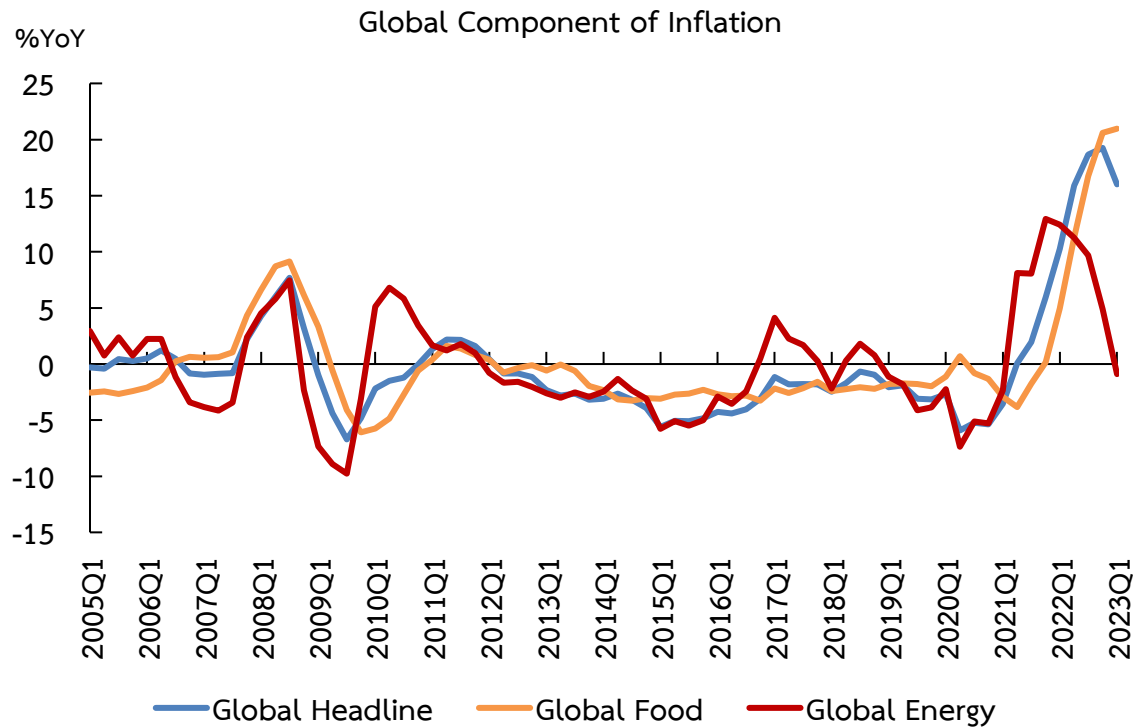
Note: %YoY is calculated on a monthly basis except MUCSVO which is calculated on a quarterly basis from goods and services prices in 10 categories Source: Ministry of Commerce, calculations by BOT



# Upside risks from potential increase in food prices must be monitored should El Niño become more severe than expected

Global food component of inflation stayed at an elevated level

Thai inflation is exposed to global food prices



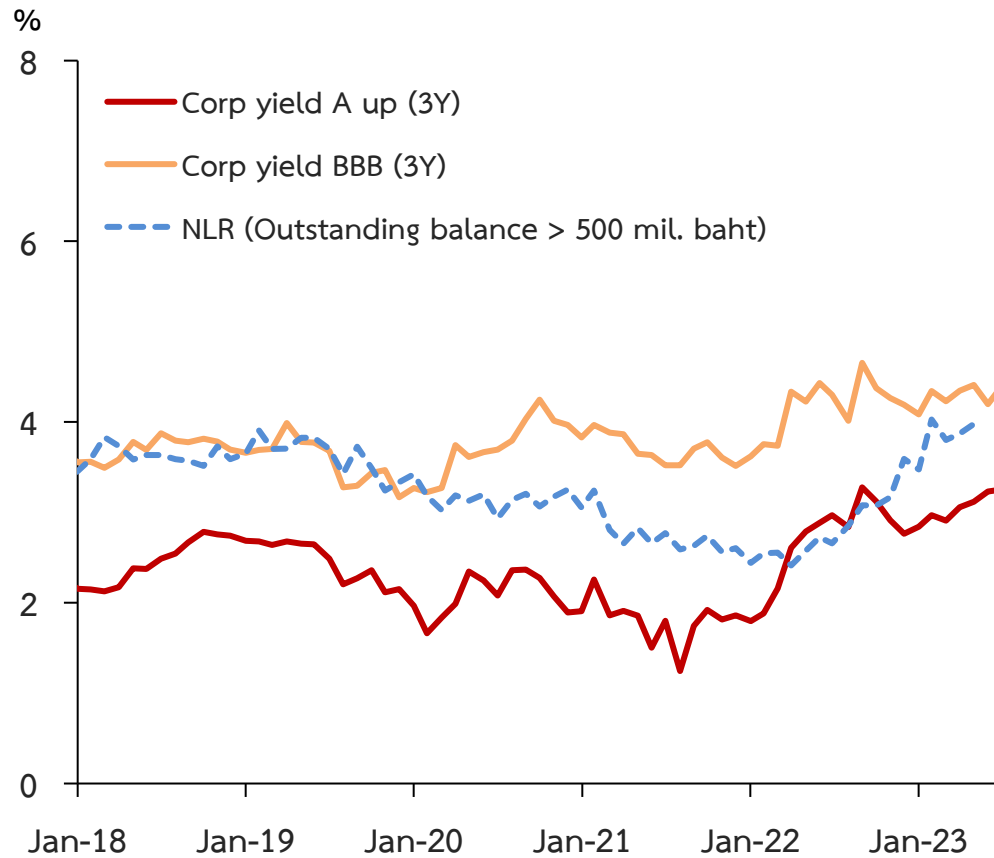
Notes: Global component reflects co-movements of inflation in various countries, extracted from the principal component analysis. Data includes headline and energy inflation, as well as food & non-alcoholic beverage inflation in 40 countries from 2000-Q1 to 2023-Q1.

Source: OECD and World Bank; calculations by BOT



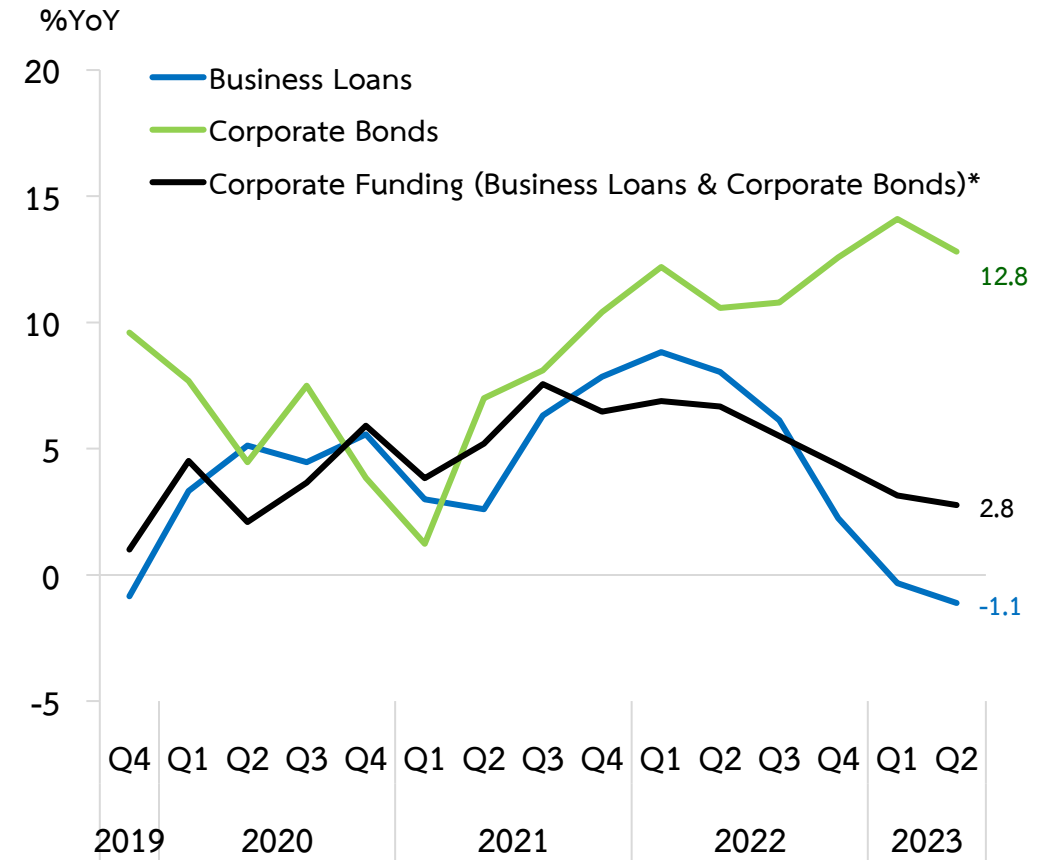
# Overall financial conditions less accommodative but remain supportive of fund mobilization by the private sector

## Private sector funding costs rose in line with the policy rate



Source: ThaiBMA and BOT

## Businesses continue to obtain funding via bond markets



Note: \*data as of May 23

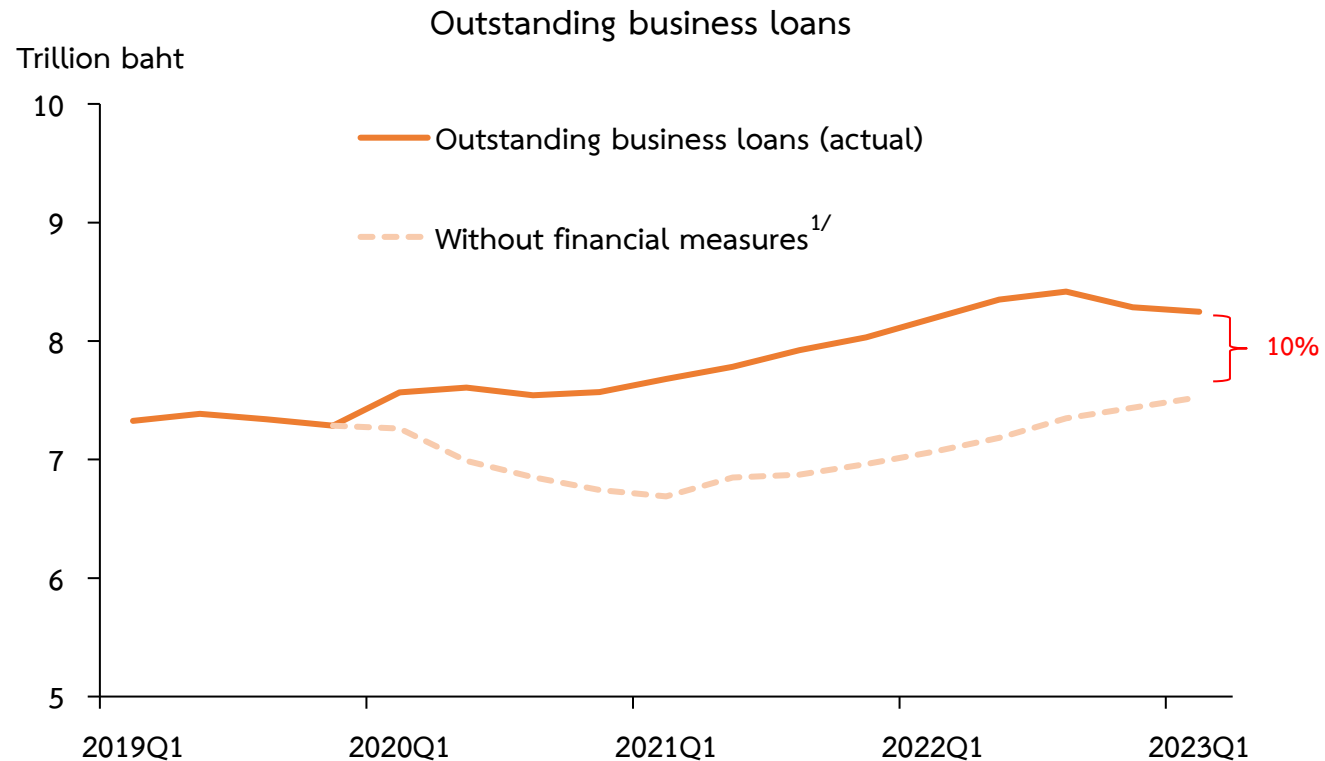
Source: BOT





## Slowing private credit growth partly reflected a normalization of lending activity after an uninterrupted credit expansion during the COVID-19 crisis

Financial measures functioned as counter-cyclical tools during the COVID-19 crisis



Notes: <sup>1/</sup> Outstanding loans without financial measures are calculated based on sectoral credit intensity (credit to GDP) as of Q4 2019.

<sup>2/</sup> Business loans exclude government and interbank loans.

Source: BOT



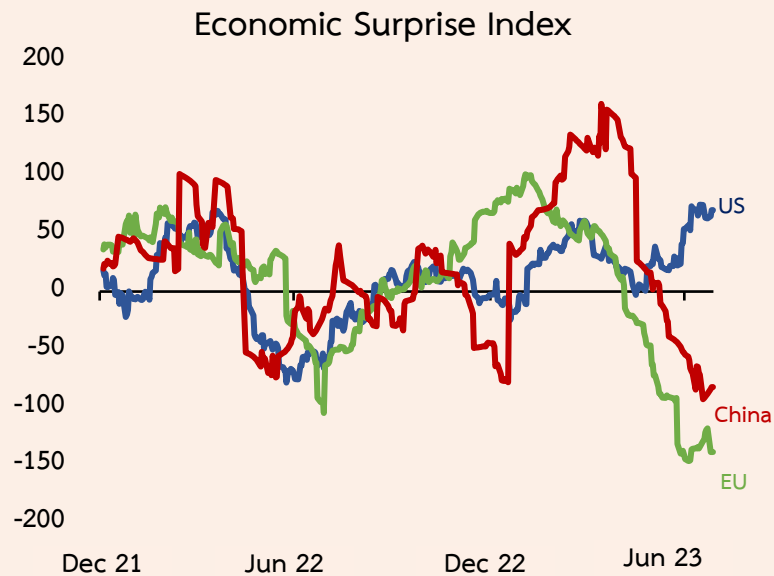
Monetary policy should keep inflation sustainably within the target range and foster longer-term macro-financial stability. A higher policy rate would also help preserve the policy space in light of uncertain outlook.

The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 2.00 to 2.25 percentage points at this meeting

In deliberating further policy rate increases looking ahead, the Committee will take into account economic and inflation outlook as well as associated risk assessments.



## High uncertainties pertaining to global economic recovery

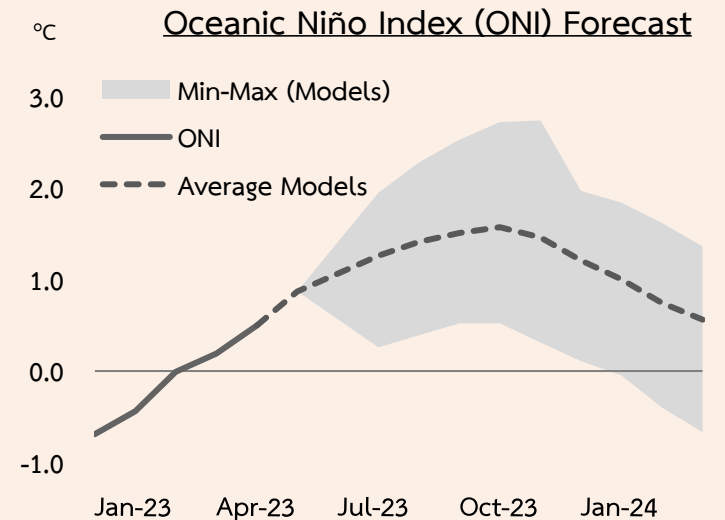


Source: Bloomberg as of 25 Jul 23

## Political and economic policies uncertainties

- + Stronger-than-expected stimulus from the forthcoming government's economic policies
- Political uncertainties could affect recovery of private investment and tourism

## Implications of El Niño intensity to inflation remain uncertain



Source: National Oceanic and Atmospheric Administration (NOAA) Calculations by BOT