



No. 43/2023

Monetary Policy Committee's Decision 5/2023

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 27 September 2023 as follows.

**The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 2.25 to 2.50 percent, effective immediately.**

The Thai economy overall continued to recover in 2023, albeit at a slower pace due to soft external demand. Growth should pick up in 2024, supported by both domestic and global demand. Inflation is projected to increase next year in line with the recovery and El Niño-related supply pressure. The Committee is monitoring additional impetus to growth and inflation from government economic policies. In the context of continuing expansion and narrowing slack, monetary policy should aim to keep inflation sustainably within the target range, foster long-term macro-financial stability, and ensure sufficient policy space given uncertain outlook. The Committee thus voted to raise the policy rate by 0.25 percentage point at this meeting.

The Committee projects growth to be 2.8 and 4.4 percent in 2023 and 2024, respectively, driven by private consumption. Growth this year softened somewhat from a delayed recovery in merchandise exports and tourism, weighed by subdued growth in China and the global electronic cycle. Growth should however pick up in 2024 from domestic demand, underpinned by a steady tourism recovery and a turnaround in merchandise exports, with additional support from government policies.

Headline inflation is projected to remain within the target range, at 1.6 and 2.6 percent in 2023 and 2024, respectively. Government living-cost subsidies and a high base last year would keep inflation low for the rest of 2023. Meanwhile, core inflation should pick up from 1.4 in 2023 to 2.0 percent in 2024. The Committee is attentive to the upside risks to inflation, stemming from possible demand-side pressures related to government economic policies and higher food prices should the El Niño phenomenon intensify.



The overall financial system remains resilient. Financial institutions maintain high levels of capital and loan loss provision. There is a need to continue monitoring credit quality for some 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 tightened somewhat 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. The slowing private credit growth partly reflected a normalization of lending activity after the crisis-era expansion, and should improve as the recovery gathers momentum. Financial markets volatility picked up, with rising bond yields and baht depreciation against the US dollar, influenced by US monetary policy and as market participants awaited details on government policies which may have macroeconomic and fiscal sustainability implications.

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 pursuit of these objectives and having normalized policy gradually up to the current meeting, the Committee deems the current policy interest rate to be appropriate for supporting long-term sustainable growth. In deliberating monetary policy going forward, the Committee will take into account growth and inflation outlook, including upside risks from government economic policies.

Bank of Thailand

27 September 2023

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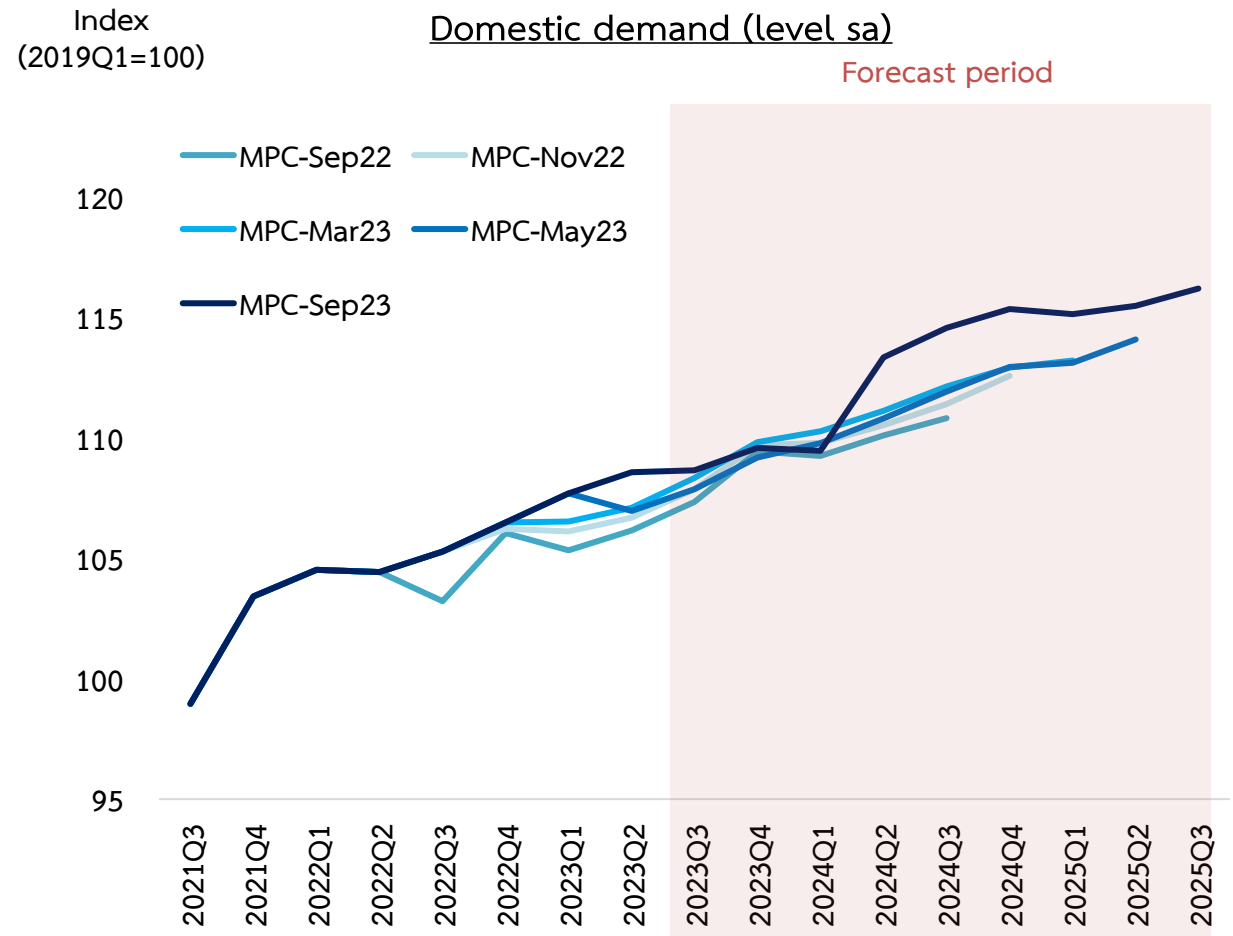
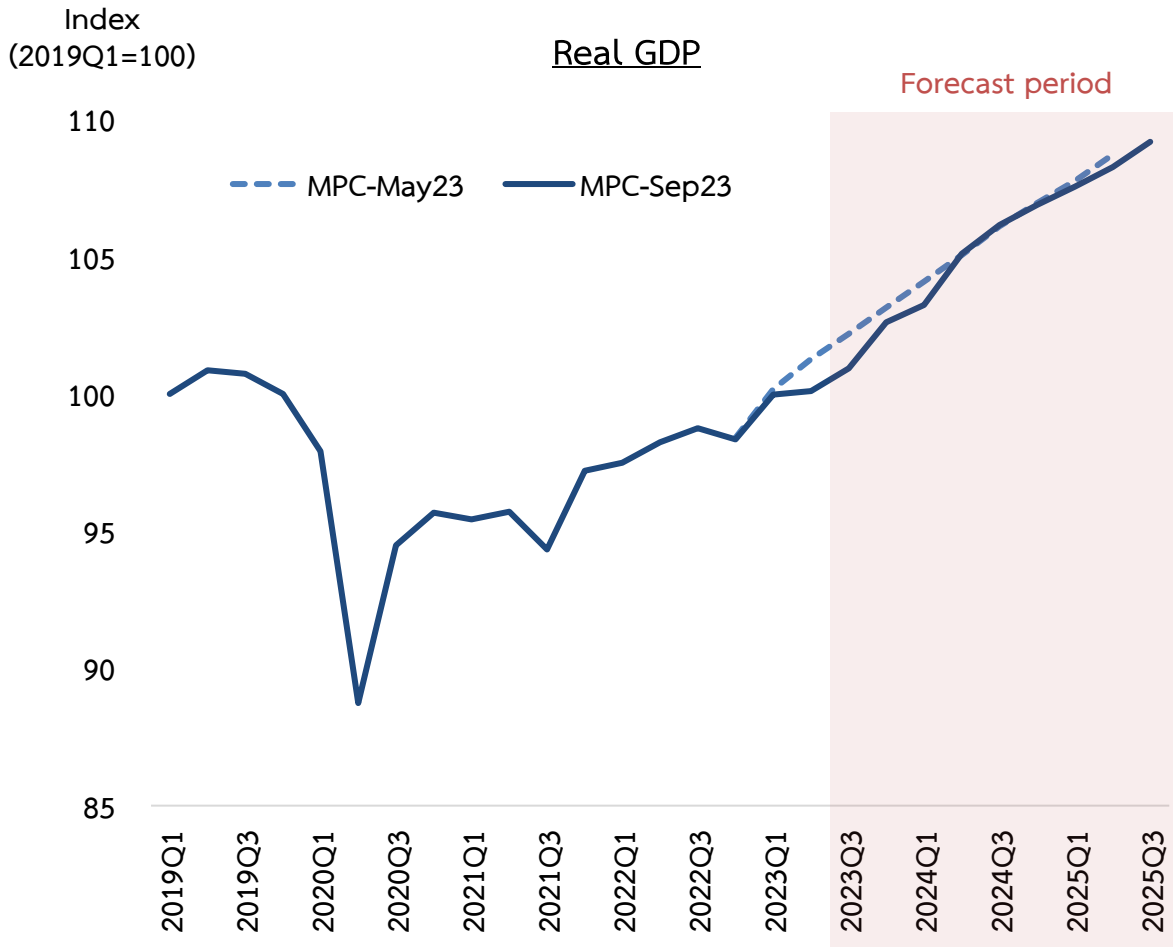
Press Conference  
Monetary Policy Committee's Decision 5/2023  
27 September 2023  
Piti Disyatat  
Assistant Governor, Monetary Policy Group



# GDP in 2023 softened somewhat from lower-than-expected outturns in Q2, while domestic demand should continue to drive growth

Growth this year softened somewhat, but should pick up in 2024

Domestic demand recovering in line with expectations



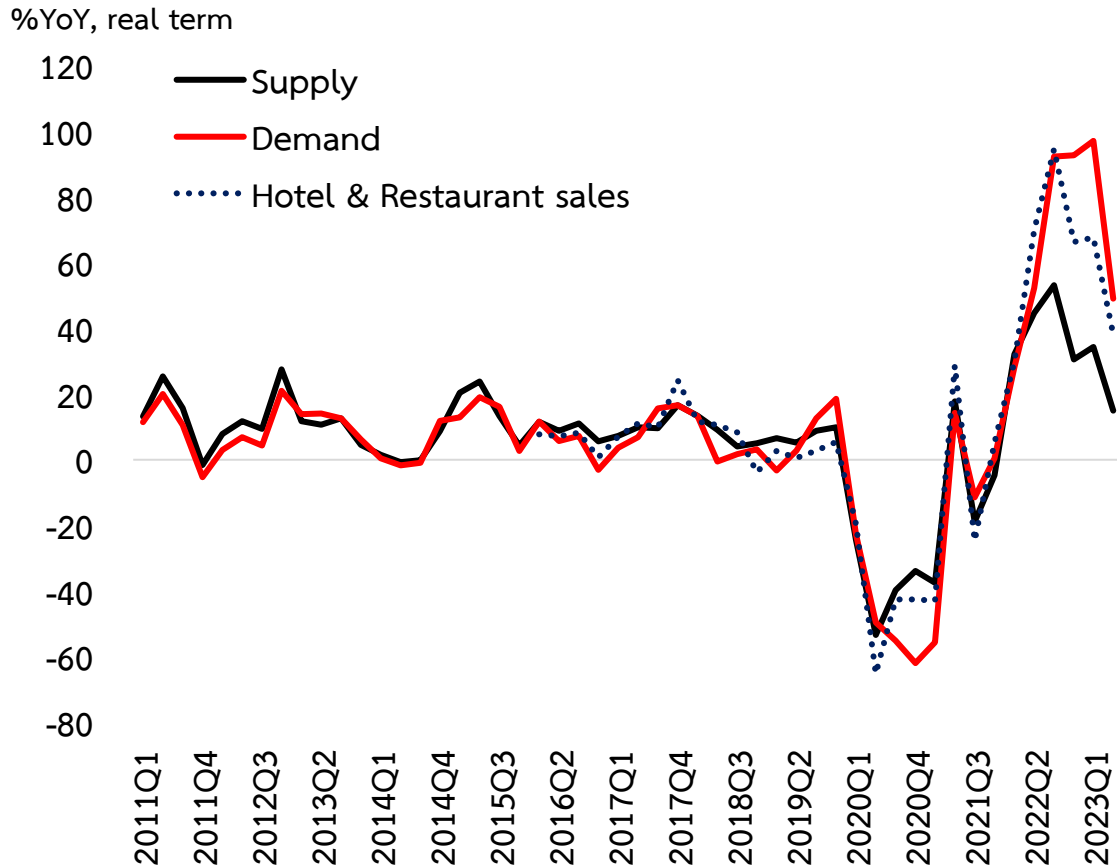


# GDP in Q2 2023 softened primarily from the services sector, but other services indicators show continued expansion

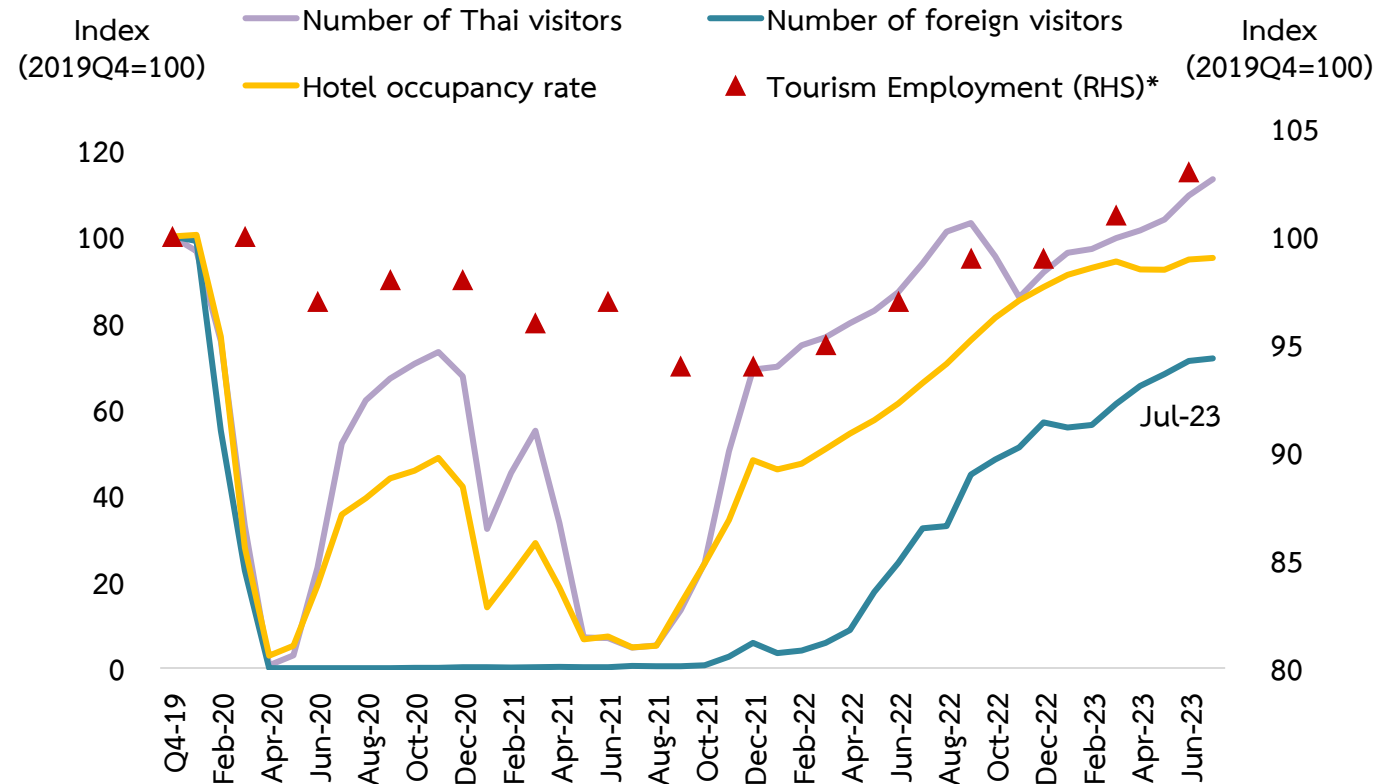
Demand-side and supply-side GDP diverged since the COVID-19 crisis

Other services indicators are still recovering

GDP and VAT-based sales for Hotel & Restaurant category



Services indicators



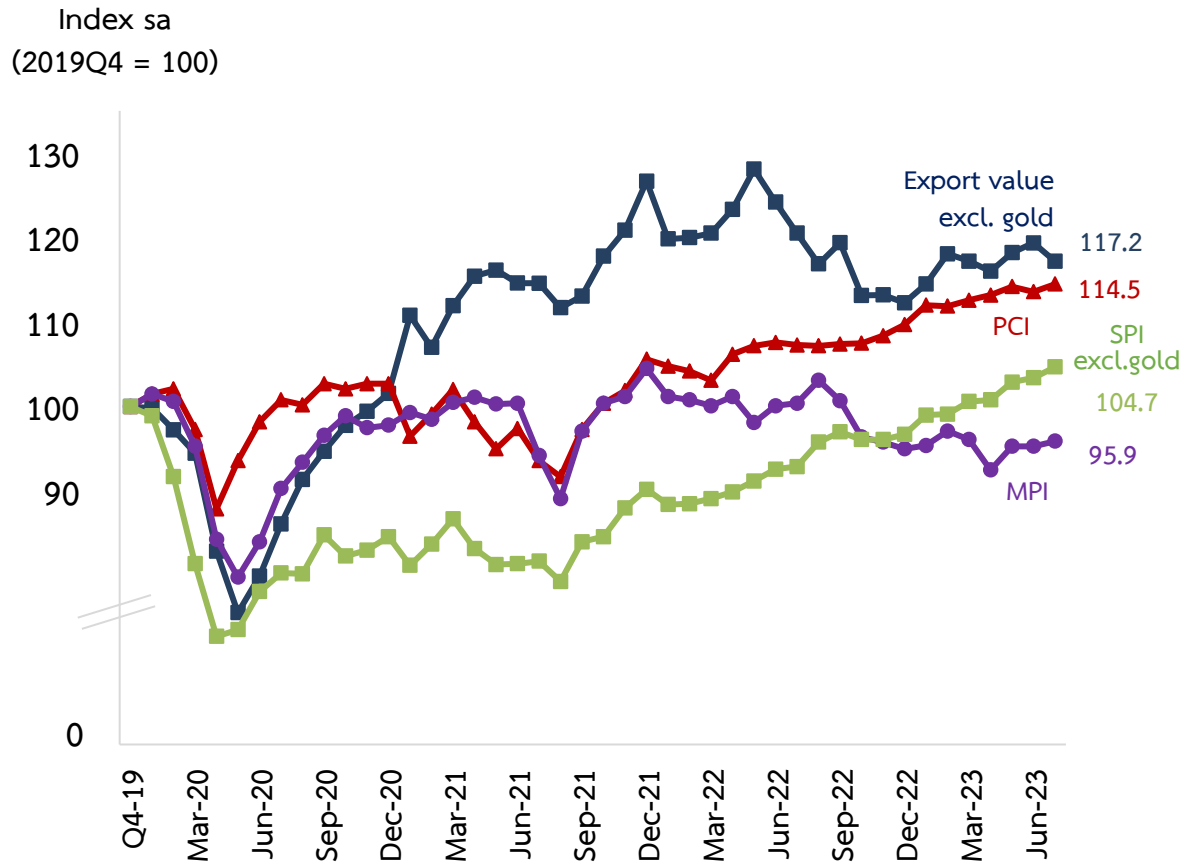
Source: Ministry of Tourism and Sports, calculated by BOT/ \*latest data as of June 2023

Note: Tourism employment data include self-employed and employees (quarterly)

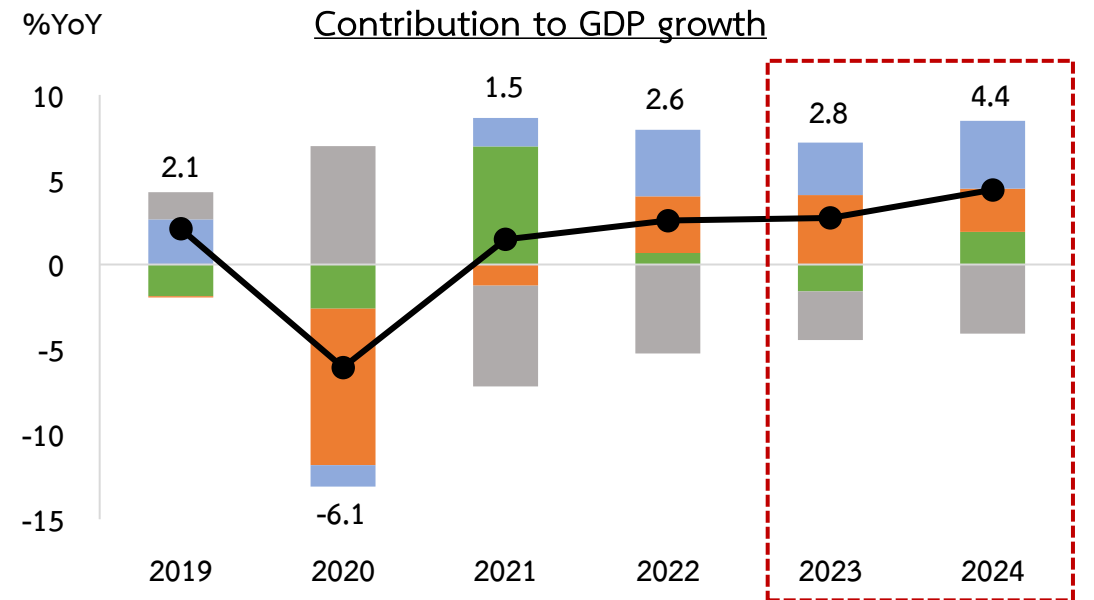


# All growth engines will be fully operational in 2024

Economic indicators reflect continued economic recovery



GDP in 2024 will increase from sustained domestic demand momentum in tandem with the turnaround in external demand



Exports of Goods Exports of Services Domestic Demand Imports and Stock GDP

%YoY Sep 23 (May 23)	2022	2023	2024
Real GDP growth	2.6	2.8 (3.6)	4.4 (3.8)

Note: PCI = Private Consumption Index, PII = Private Investment Index

MPI = Manufacturing Production Index, SPI = Service Production Index (excl. public administration and services, and gold activities), Source: Bank of Thailand

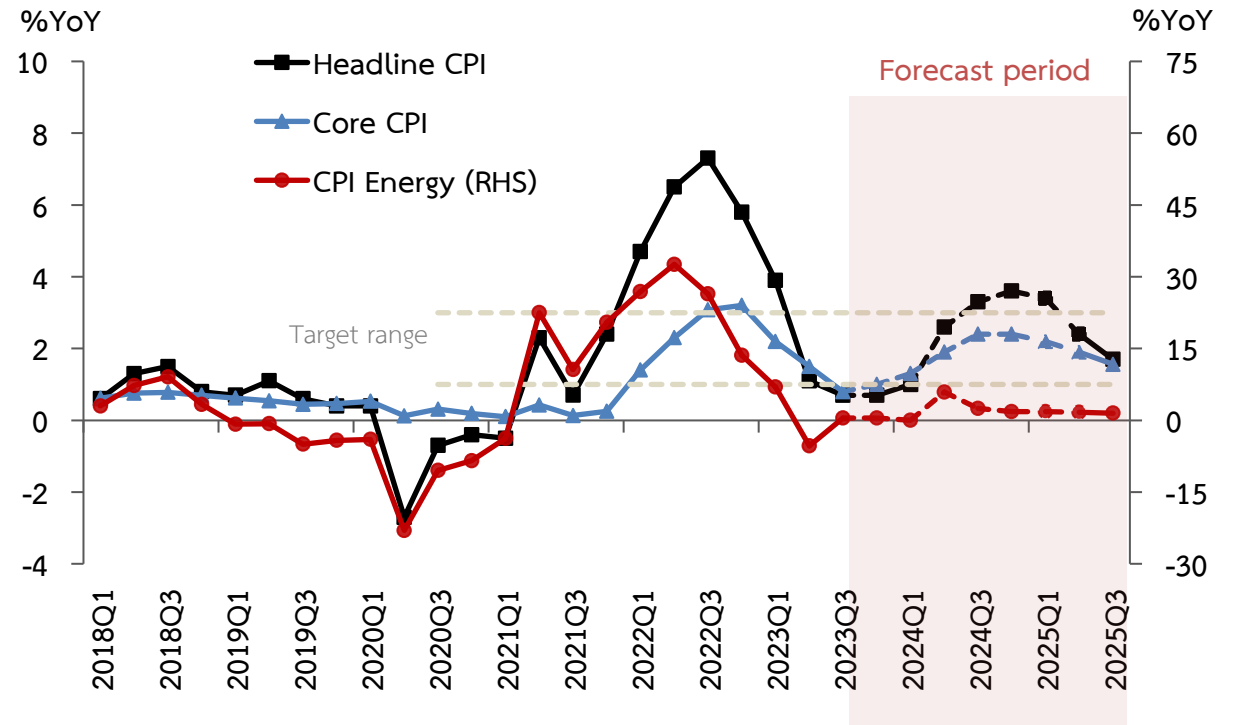
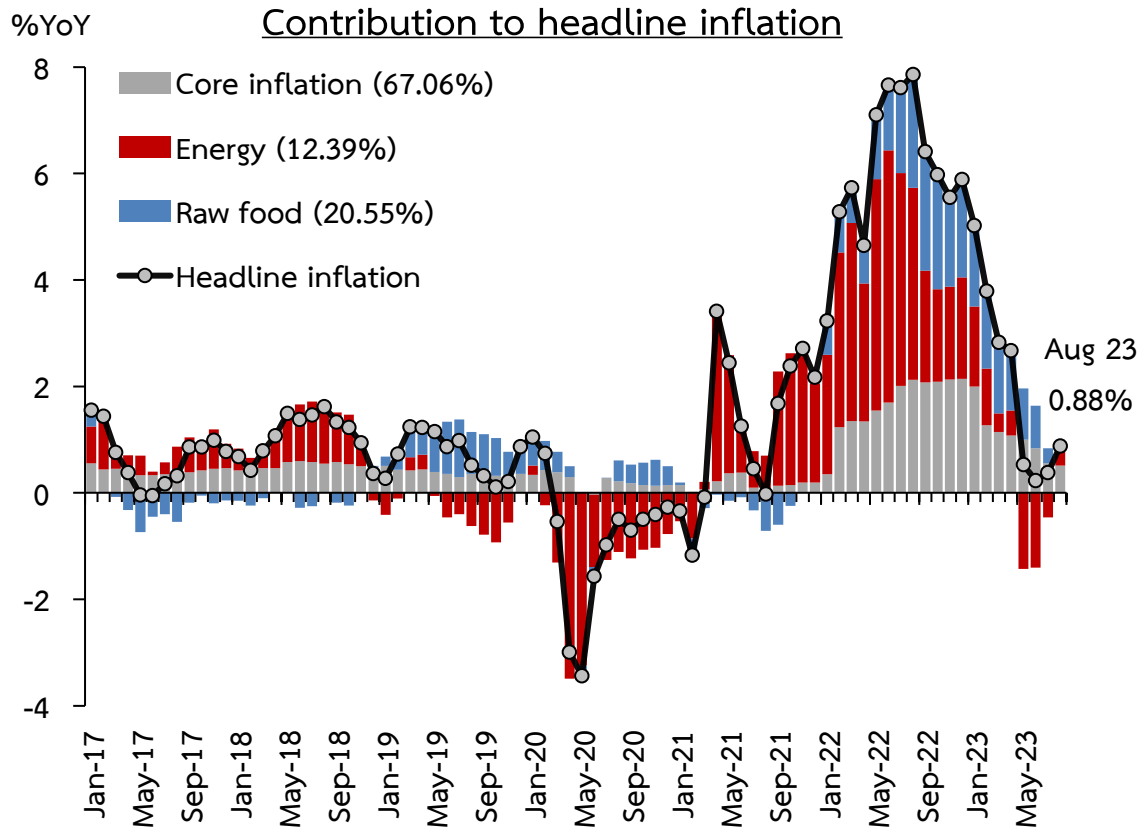
Source: Bank of Thailand



# Inflation will remain low for the rest of 2023, but should increase in 2024 in part from government policies and El Niño

Inflation in 2023 continued to decline from the high base last year, lower energy prices, and living-cost subsidies

Inflation should pick up in 2024



%YoY Sep 23 (May 23)	2022	2023	2024
Headline	6.1	1.6 (2.5)	2.6 (2.4)
Core	2.5	1.4 (2.0)	2.0 (2.0)

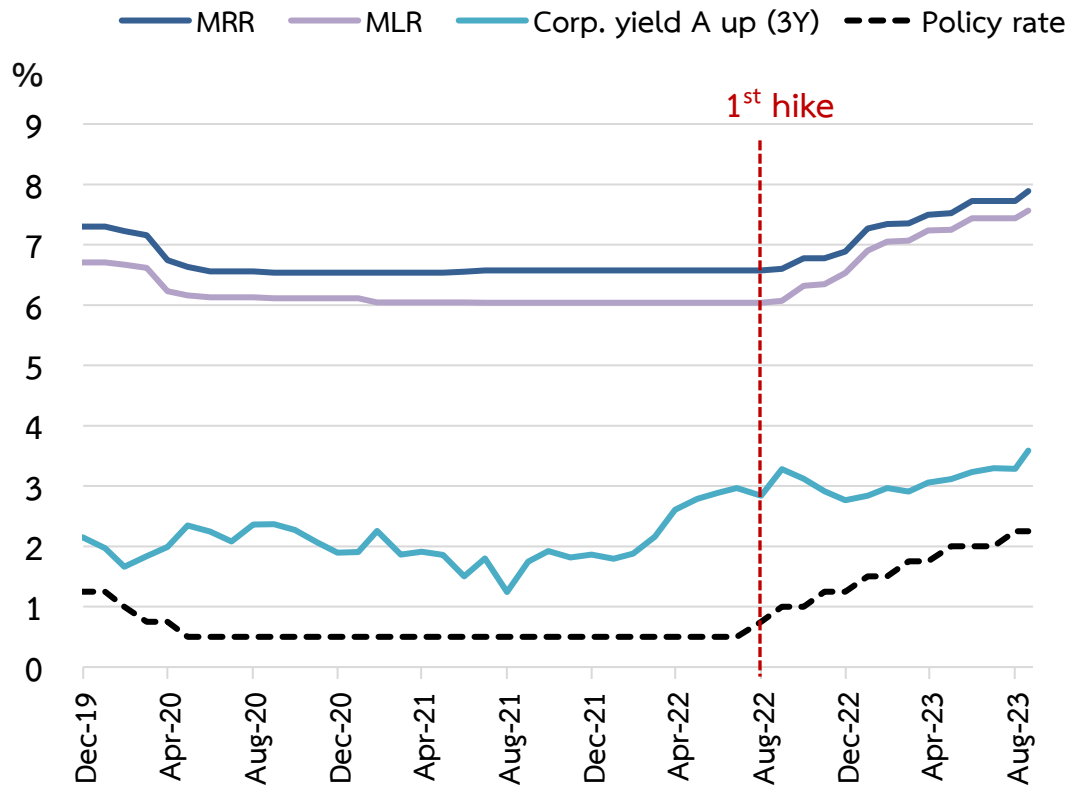
Note: ( ) denotes share in CPI basket for base year 2019

Source: Ministry of Commerce, calculations and forecast by BOT

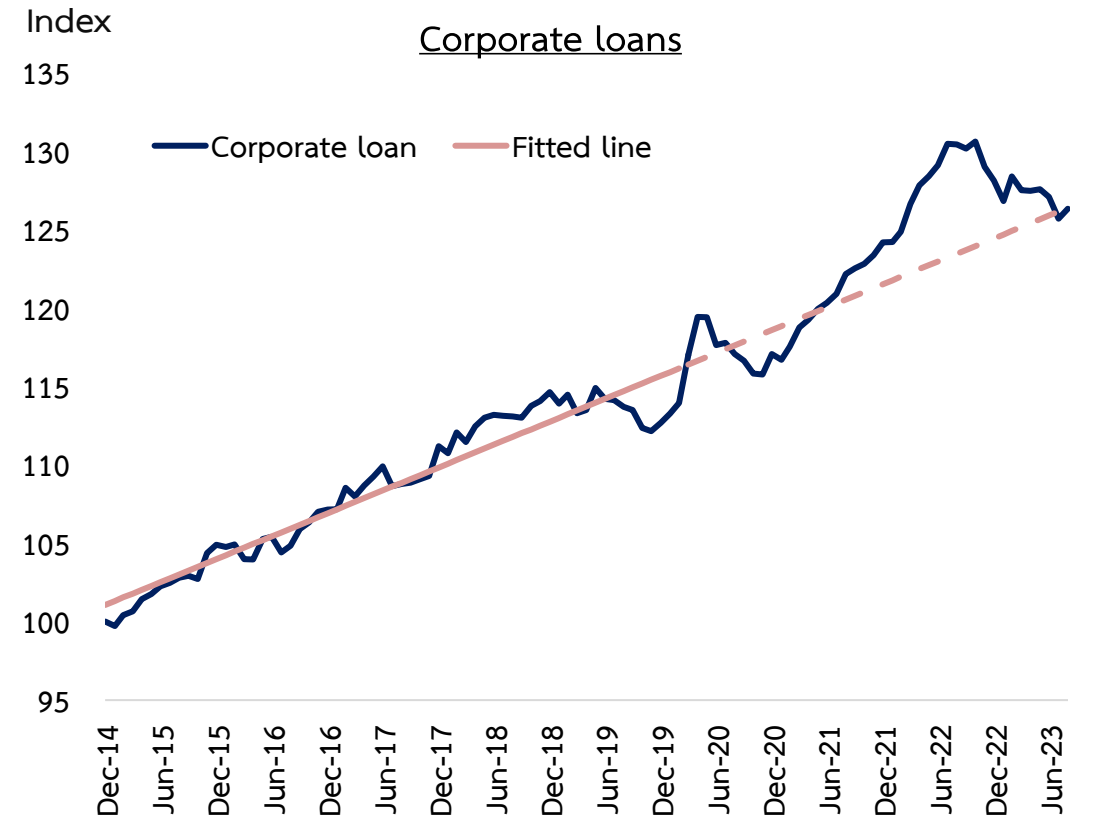


# Financial conditions tightened somewhat in line with normalization, but private credit slowdown not hindering economic recovery

Private sector funding costs increased consistent with the policy rate



Corporate loans normalized back to its trend



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;  
Corp. yield A up is the weighted average of corporate bond yields with rating A and above given maturity of 3 years

Note: (1) data up until August 2023; (2) Corporate loan calculated as Index from Dec 2014 = 100 (3) fitted line calculated from pre-COVID data

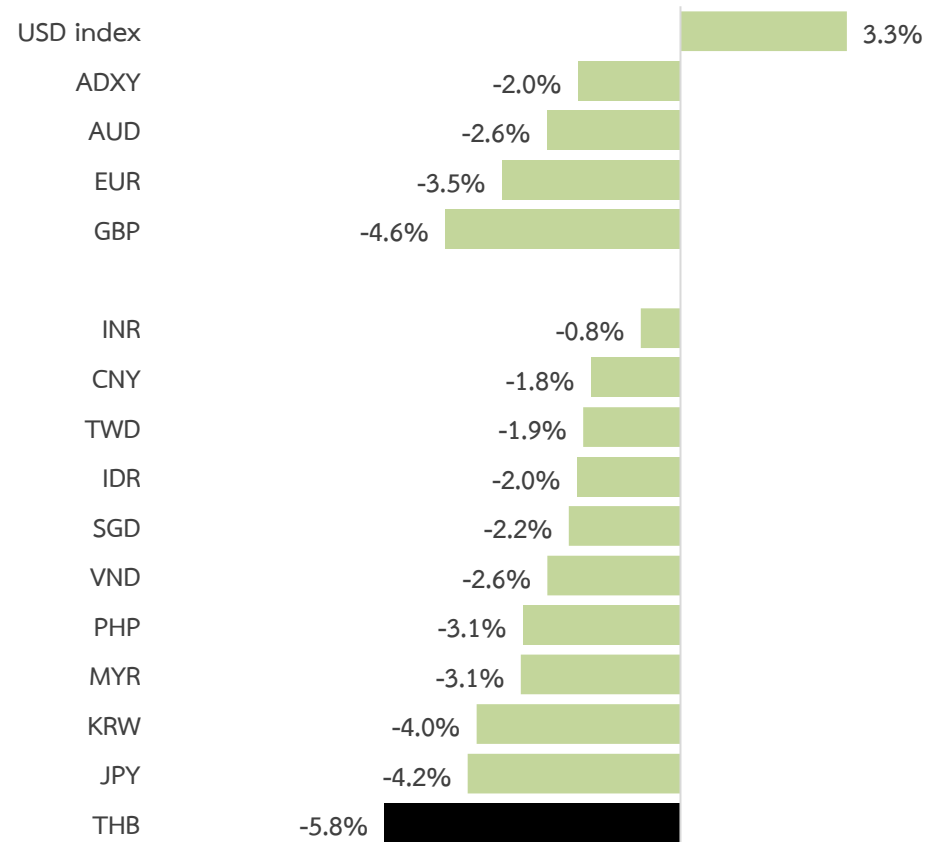




# Financial market volatilities increased

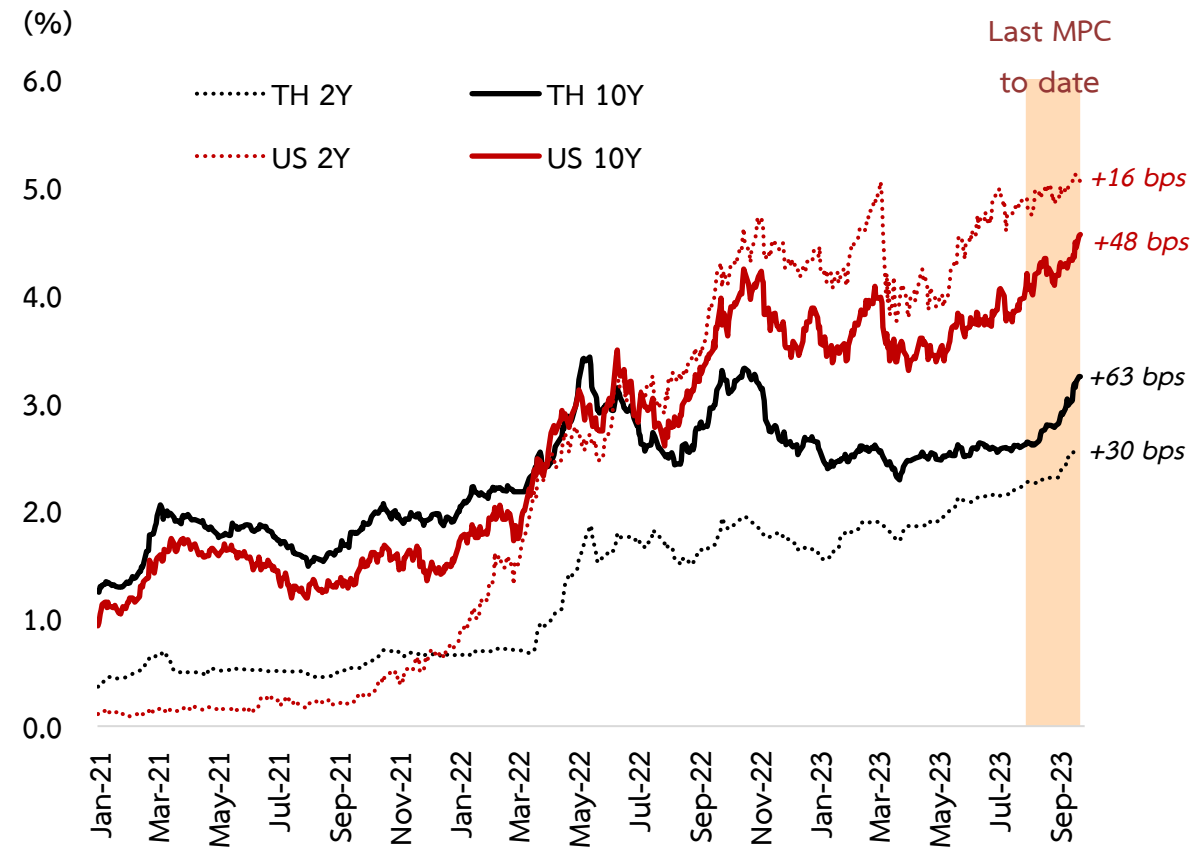
## The baht depreciated relative to regional currencies

Percentage changes since last MPC (2 Aug 2023)



## Domestic government bond yields increased significantly

TH bond yields and US Treasury yields



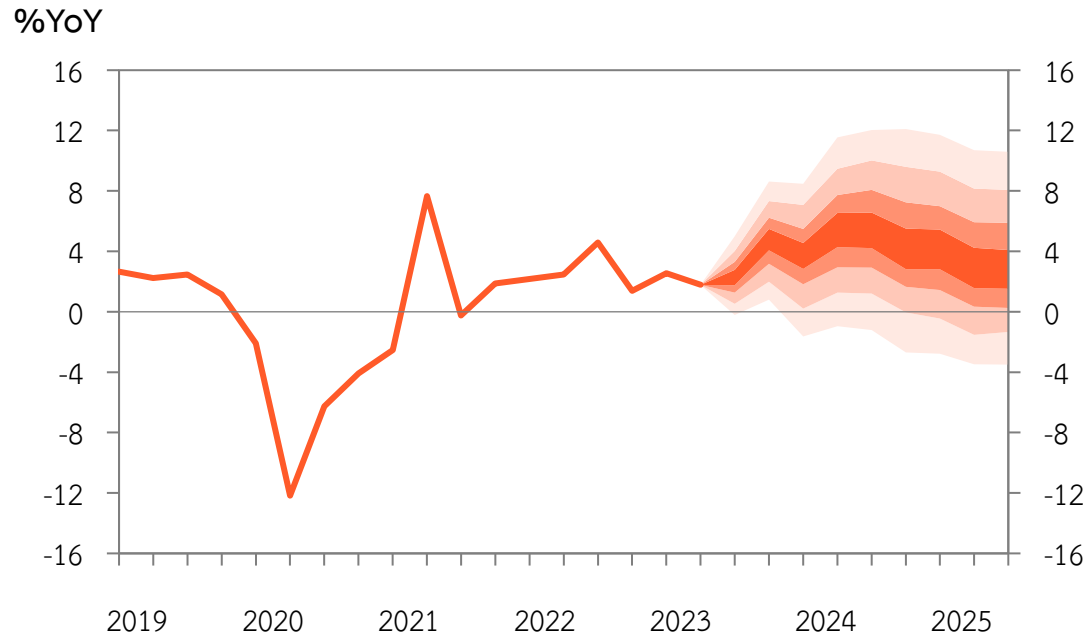
Note: Reuters, Bloomberg and BOT's staff calculation (as of 26 Sep 2023)

Note: ThaiBMA (TTM basis) as of 26 Sep 2023

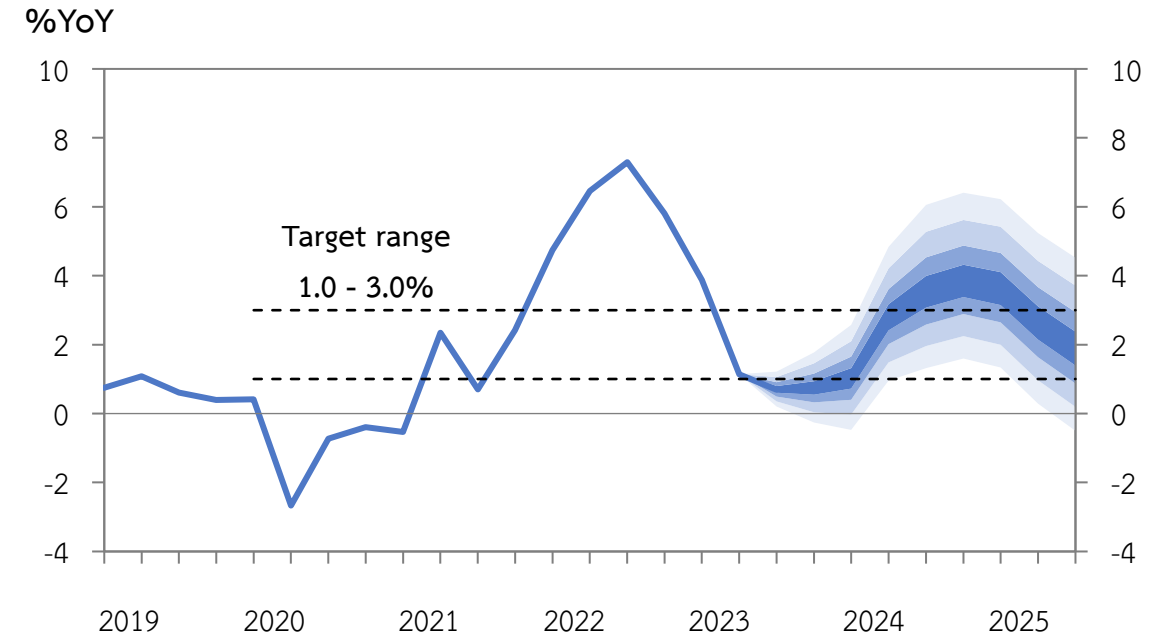


## Growth and inflation outlook remain uncertain

### GDP growth



### Headline inflation



### Key factors to monitor

1. Additional impact on growth and inflation from government policies
2. Potentially higher food prices if the El Niño phenomenon intensifies
3. Global economic and financial outlook



The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 2.25 to 2.50 percent, effective immediately

Having normalized policy gradually up to the current meeting, the Committee deems the current policy interest rate to be appropriate for supporting long-term sustainable growth

In deliberating monetary policy going forward, the Committee will take into account growth and inflation outlook, including upside risks from government policies



Annual percentage change	2022*	2023	2024
GDP growth	2.6	2.8 (3.6)	4.4 (3.8)
Domestic demand	4.1	3.2 (2.5)	4.1 (3.2)
Private consumption	6.3	6.1 (4.4)	4.6 (2.9)
Private investment	5.1	1.0 (1.7)	4.9 (4.9)
Government consumption	0.2	-3.1 (-2.8)	1.4 (1.1)
Public investment	-4.9	1.3 (2.5)	4.8 (6.8)
Exports of goods and services	6.8	3.8 (7.3)	6.7 (6.7)
Import of goods and services	4.1	-0.1 (0.9)	6.3 (5.5)
Current account (billion, U.S. dollar)	-14.7	5.0 (6.0)	10.0 (12.5)
Value of merchandise exports (%YoY)	5.4	-1.7 (-0.1)	4.2 (3.6)
Value of merchandise imports (%YoY)	14.0	-0.1 (0.7)	4.1 (4.2)
Number of foreign tourists (million persons)	11.2	28.5 (29.0)	35.0 (35.5)
Dubai crude oil price (U.S. dollar per barrel)	96.5	83.0 (86.0)	85.0 (90.0)
Headline inflation	6.1	1.6 (2.5)	2.6 (2.4)
Core inflation	2.5	1.4 (2.0)	2.0 (2.0)

Notes: \* Outturns

( ) Previous projection in Monetary Policy Report Q2/2023