



No. 4/2024

Monetary Policy Committee's Decision 1/2024

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 7 February 2024 as follows.

**The Committee voted 5 to 2 to maintain the policy rate at 2.50 percent. Two MPC members voted to cut the policy rate by 0.25 percentage point.**

The Thai economy is projected to slow in 2024 from exports and manufacturing activity amid softening global demand and moderating growth in China. Structural headwinds are restraining merchandise exports and tourism more than expected. Meanwhile, domestic demand continues to expand and remains a key driver of the economy. Inflation stays at a low level and should gradually pick up towards the target range albeit at a slower-than-expected pace. In the Committee's assessment, recent growth slowdown owes primarily to moderating momentum in the external sector, which partly has structural causes. At the same time, private consumption growth remains robust. The current policy interest rate is consistent with preserving macro-financial stability, a key foundation for sustainable growth in the longer term. Most members thus voted to maintain the policy rate at this meeting. Two members voted to cut the policy rate by 0.25 percentage point, to reflect a lower potential growth as a result of structural challenges.

The Thai economy slowed more than expected in late 2023, owing to (1) tepid merchandise exports and manufacturing activity given unfavorable global trade conditions and high inventory levels, (2) lower tourism spending per head, a break from historical patterns, and (3) an unusually large fall in public investment due to the delayed government budget. This slower initial momentum points to a softer outlook for 2024 growth, projected to be 2.5-3 percent. Private consumption and tourism should remain the key growth engines. Exports and manufacturing activity should expand at a moderate pace, constrained by global demand and a delayed upturn in the Thai electronic cycle. Looking ahead, structural impediments, particularly deteriorating competitiveness, would increasingly hamper growth in the absence of structural reforms.



Headline inflation is projected to be lower than previously assessed due to supply factors, particularly lower-than-expected raw food and energy prices as well as an extension of government subsidies. Recent low inflation readings do not reflect demand deficiency, as price declines are concentrated in relatively few product categories and not broad-based, while headline inflation excluding subsidies remains positive. Headline inflation should stabilize at levels close to 1 percent in 2024 before gradually picking up next year. Core inflation should remain flat as in previous assessment. Key risks to monitor include the Middle East situation which could affect energy prices, impacts of climate change on agricultural prices, and government subsidies.

The overall financial system remains resilient. Financial institutions maintain high levels of capital and loan loss provision. Bond markets function normally, despite a few low-rated corporate bond issuers having difficulties rolling over debt. The Committee recognizes the importance of managing credit quality of SMEs and households grappling with slow income recovery. It welcomes the Bank of Thailand's initiatives to accelerate debt restructuring as well as targeted measures and sustainable debt resolutions for vulnerable groups particularly Responsible Lending measures.

Overall financial conditions are stable relative to the previous meeting. Private sector funding costs, both via commercial banks and bond markets, stay broadly unchanged. Businesses and households continue to access new fundings at the usual pace, with a slight decline in total loan outstanding largely owing to debt repayments. Overall, businesses are able to service debts normally despite gradual income recovery and high production costs. Small businesses in certain industries may face tighter credit conditions and more stringent credit standards. The baht weakened against the US dollar since the beginning of 2024 in line with regional currencies, primarily influenced by the Federal Reserve's monetary policy outlook.

Under the prevailing monetary policy framework, the Committee seeks to maintain price stability, support sustainable growth, and preserve financial stability. The Committee judges key factors hindering growth outlook to be external and structural. Meanwhile, domestic demand momentum remains in place and inflation should gradually increase towards the target range. The current level of policy interest rate remains consistent with sustaining growth while fostering macro-financial stability in the longer term. The

Committee nonetheless notes heightened uncertainties associated with cyclical and structural factors, and will take into account growth and inflation outlook in deliberating monetary policy looking ahead.

Bank of Thailand

7 February 2024

Monetary Policy Strategy Office

Tel: +66 2283 6186, +66 2356 7872

E-mail: [MPSO@bot.or.th](mailto:MPSO@bot.or.th)



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BANK OF THAILAND

# Press Conference

## Monetary Policy Committee's Decision 1/2024

7 February 2024

Piti Disyatat

Assistant Governor, Monetary Policy Group



The Committee voted 5 to 2 to maintain the policy rate at 2.50 percent.

Two MPC members voted to cut the policy rate by 0.25 percentage point.

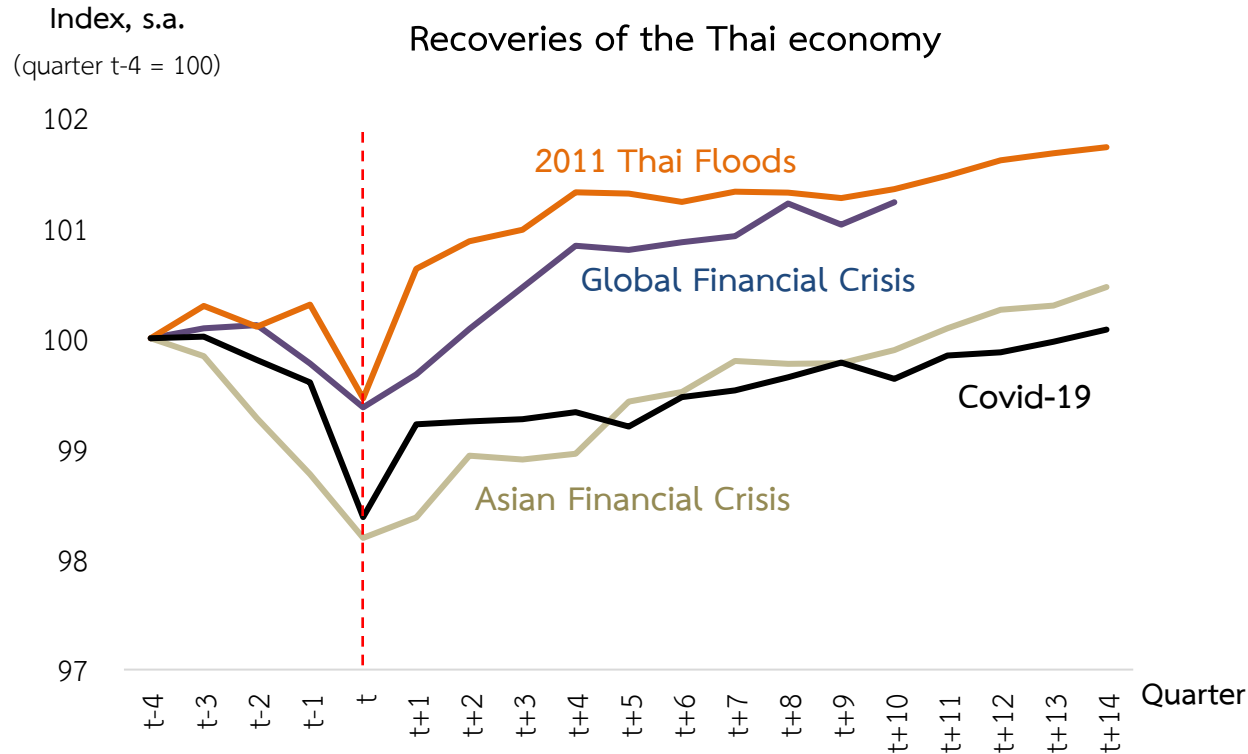
The Thai economy slows from external and structural headwinds. Meanwhile, domestic demand momentum remains in place and inflation should gradually increase towards the target range. The current level of policy interest rate remains consistent with sustaining growth while fostering macro-financial stability in the longer term.

The Committee notes heightened uncertainties associated with cyclical and structural factors, and will take into account growth and inflation outlook in deliberating monetary policy looking ahead.



# The economy has recovered from Covid-19 albeit slowly and lagging behind peers

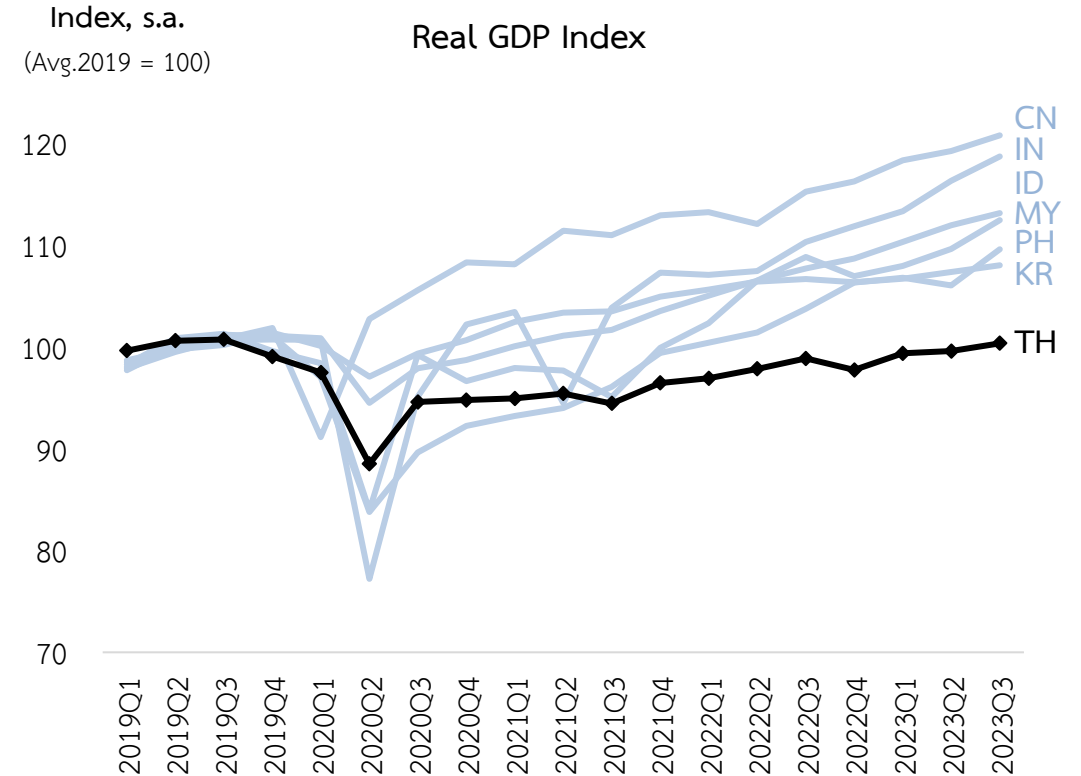
Post-Covid recovery has been slower than previous recoveries



**Note:** quarterly data where quarter t represents the tough in each crisis: Asian Financial Crisis – Q3/1998; Global Financial Crisis - Q2/2009; 2011 Thai Floods - Q4/2011; Covid-19 - Q2/2020

**Source:** Office of the National Economic and Social Development Council, BOT calculation

Growth of the Thai economy lagged behind peers



**Note:** data as of Q3/2023,

**Source:** Oxford Economics, BOT calculation



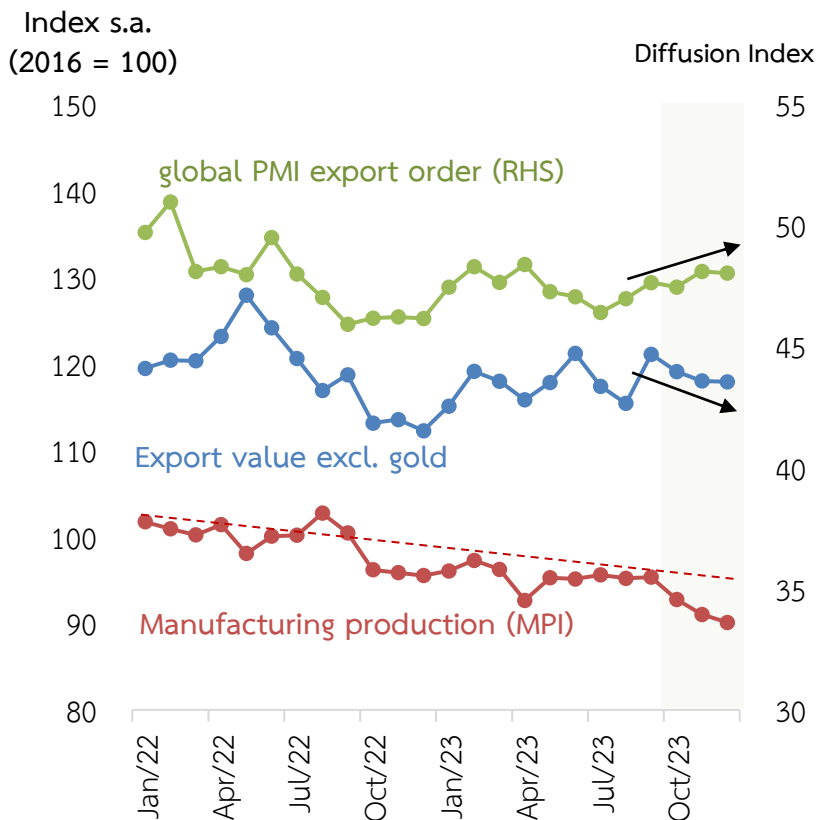
# GDP outturn significantly below expectations from external and specific factors

1. Tepid merchandise exports and manufacturing activity

2. Abnormally low tourist spending per trip despite tourist arrivals increasing as expected

3. Unusually large fall in public investment due to the delayed budget

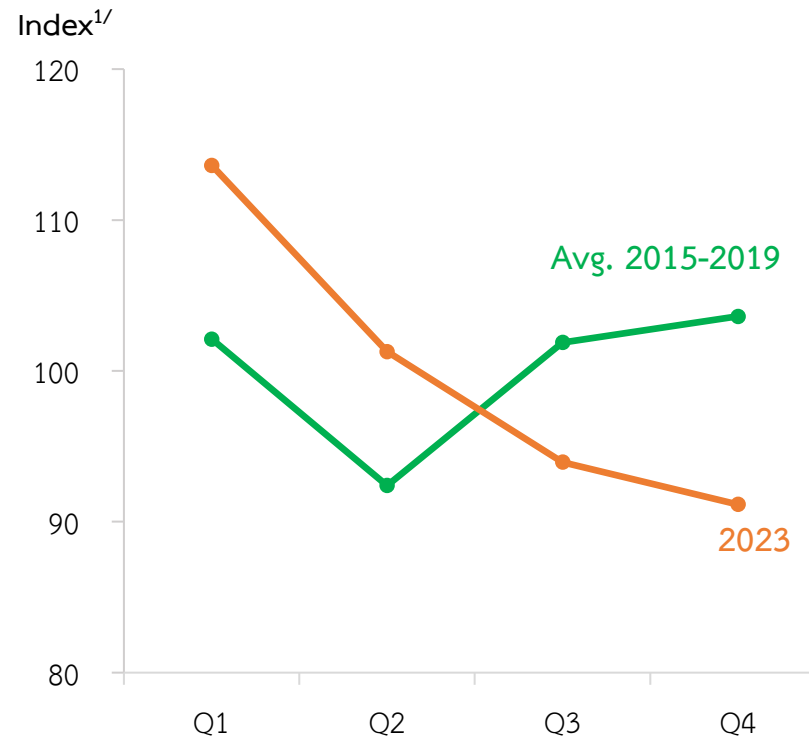
Export and manufacturing indicators



Note: Diffusion Index (50 = unchanged)

Source: J.P. Morgan, Thai Customs, BOT calculation

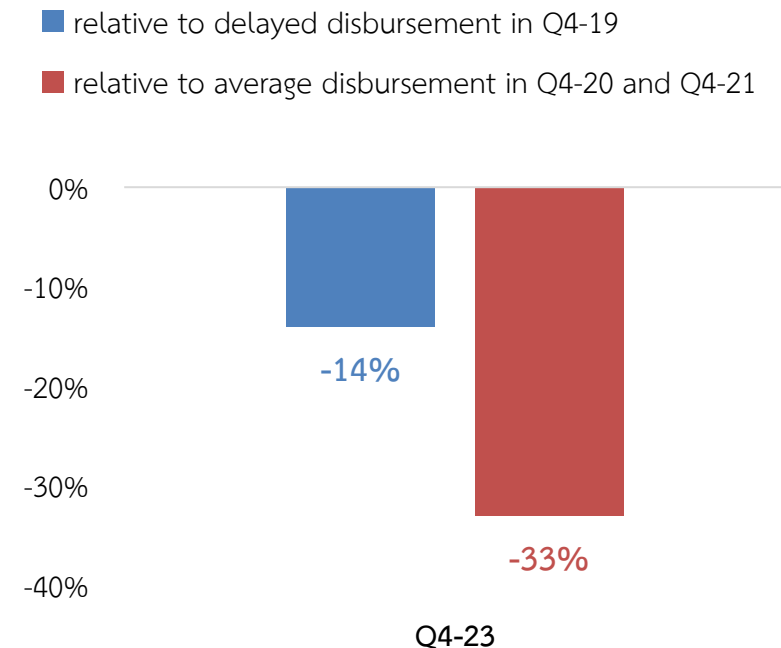
Seasonal pattern of spending per trip



Note: <sup>1/</sup>Index = 100 x (quarterly spending / average quarterly spending for the whole year)

Source: BOT calculation

Disbursement in Q4-23 was below the Q4-19<sup>2/</sup> level



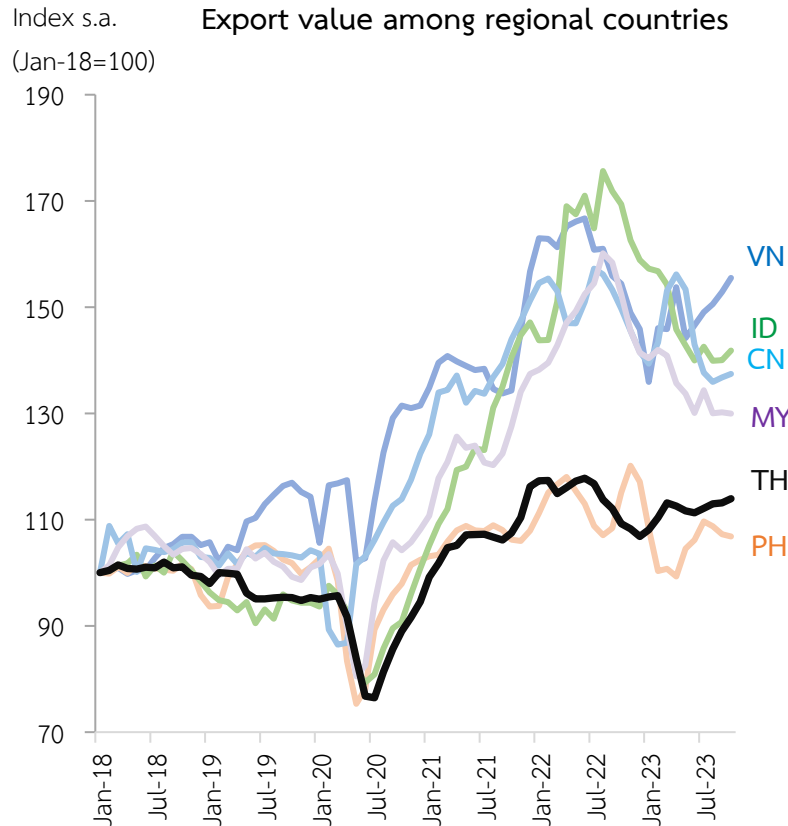
Note: <sup>2/</sup>2019 is also an election year with a delayed government annual budget. Public investment in Q4-19, Q4-23, and average Q4-21 & Q4-22 is at 63, 54, and 81 billion Baht, respectively.

Source: GFMS, Comptroller General's Department



# The Thai economy clearly facing structural headwinds

Thai export growth has been lagging behind competitors



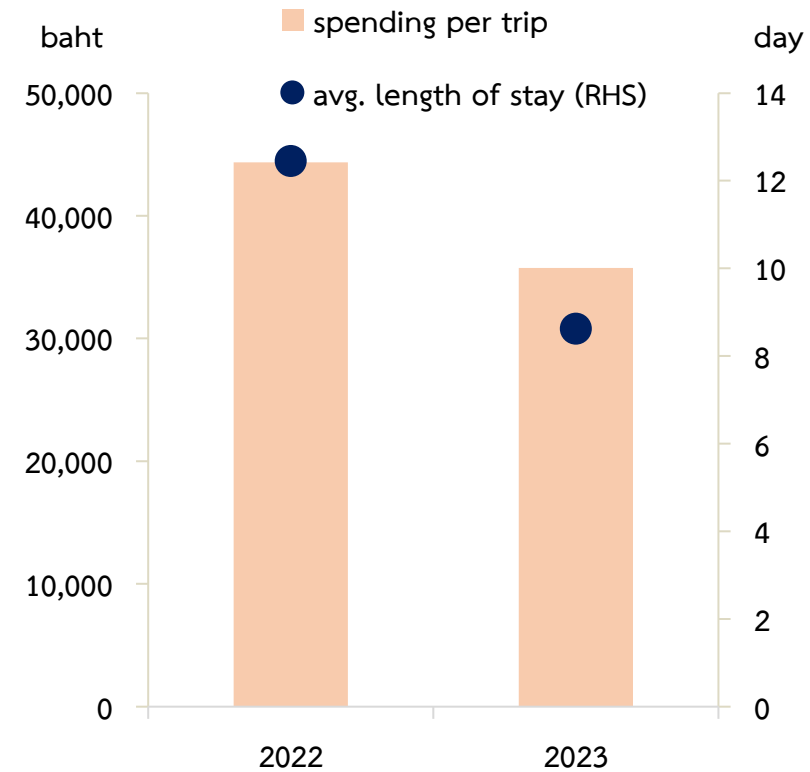
Source: CEIC

Manufacturing for domestic sales could be outcompeted by imported goods



Source: Thai Customs, Office of the National Economic and Social Development Council, BOT calculation

Behavioral changes among foreign tourists resulting in shorter stays, lower spending

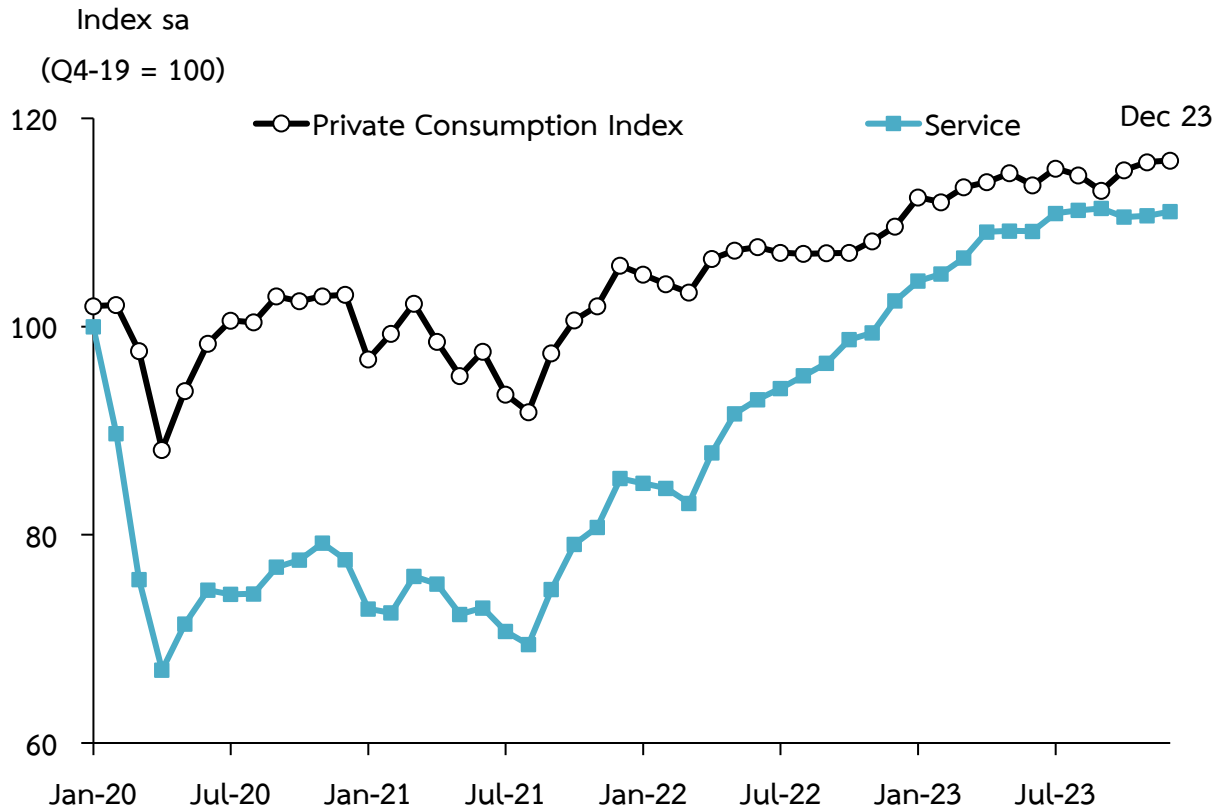


Source: Ministry of Tourism and Sports, Immigration Bureau, BOT calculation

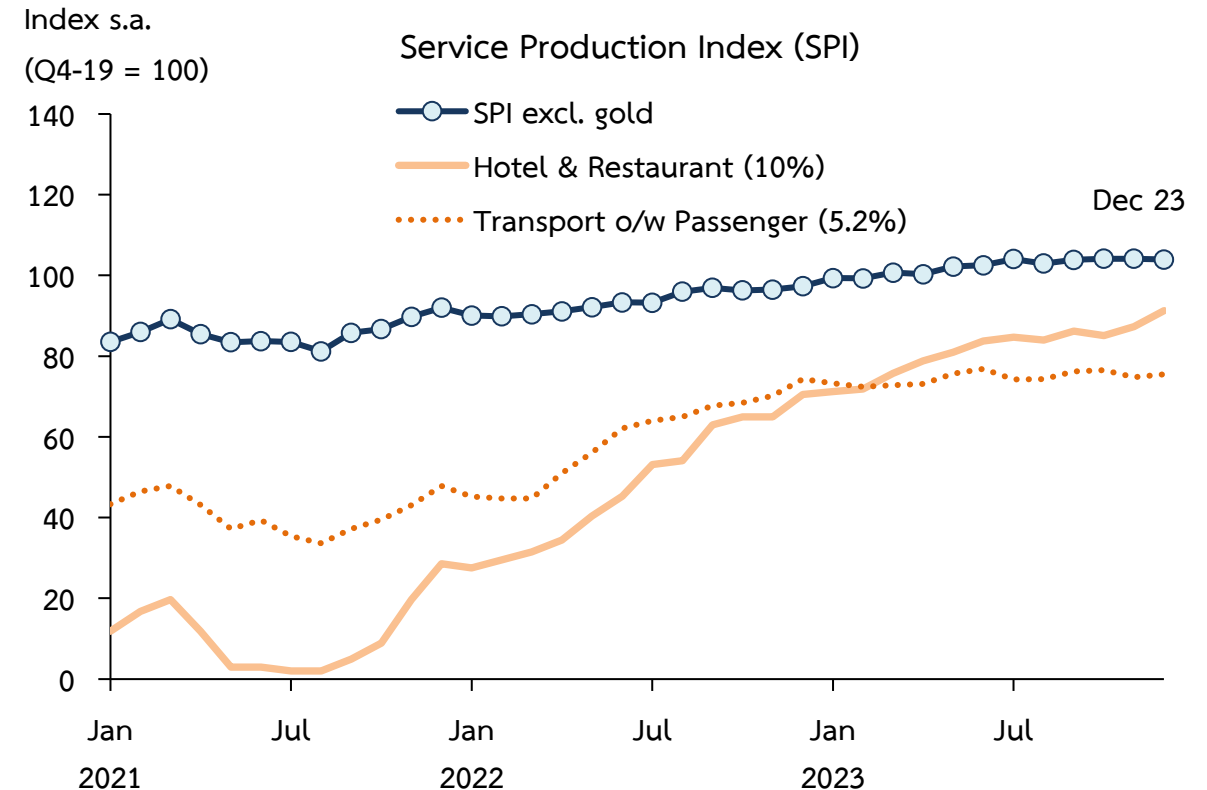




## Private consumption expanded on the back of services...



## ...particularly hotel and restaurant



**Note:** Total Private Consumption Index (Total PCI) includes spending of Thai citizens aboard and excludes spending of foreign citizens in Thailand while service PCI does not include spending of Thai citizens aboard nor exclude spending of foreign citizens in Thailand.

Source: BOT

**Note:** SPI does not include non-market activities such as public administration and services ( ) represents weight in SPI

Source: BOT

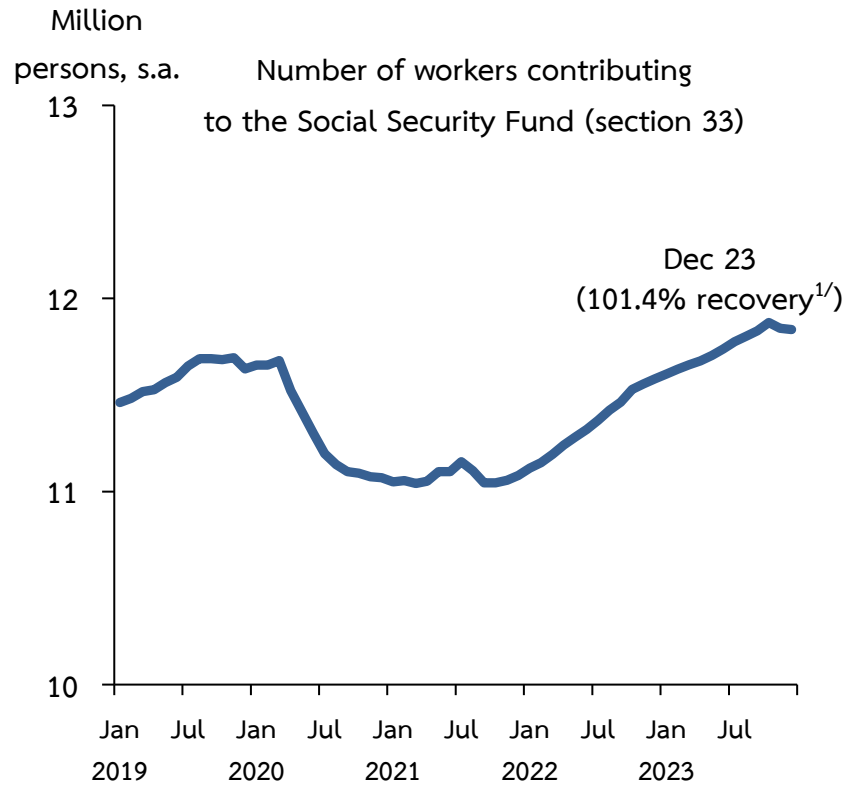


# Employment, income, and consumer confidence continue to support private consumption

## Employment saw improvements

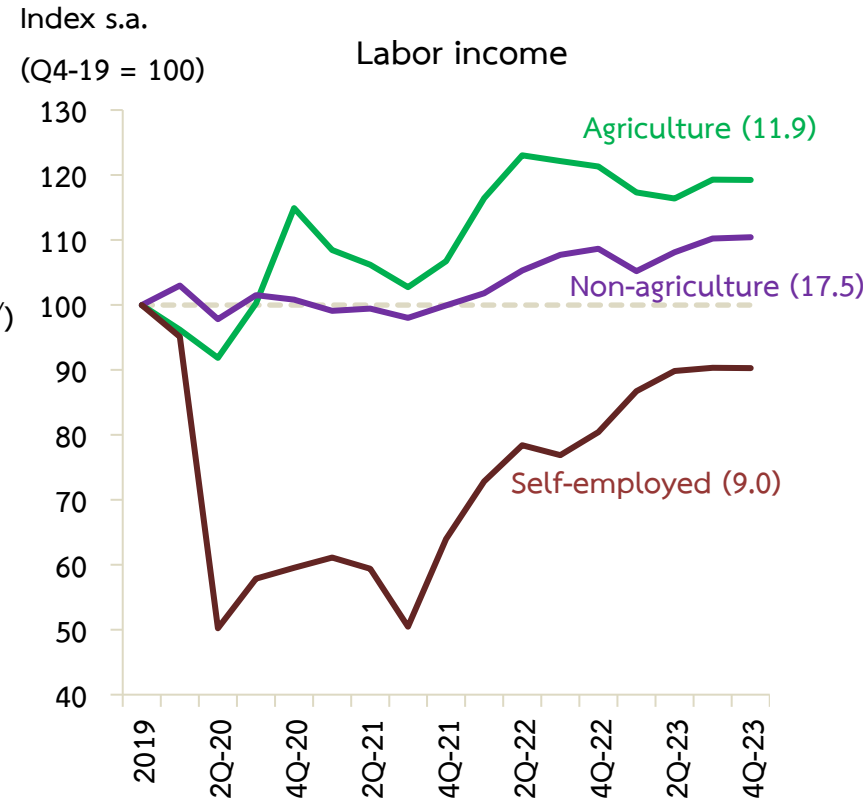
## Labor income increased but self-employed income has not reached pre-Covid level

## Consumer confidence continued to improve



Note: <sup>1/</sup> compared to Q4/2019, the section 33 covers employees between 15 – 60 years old

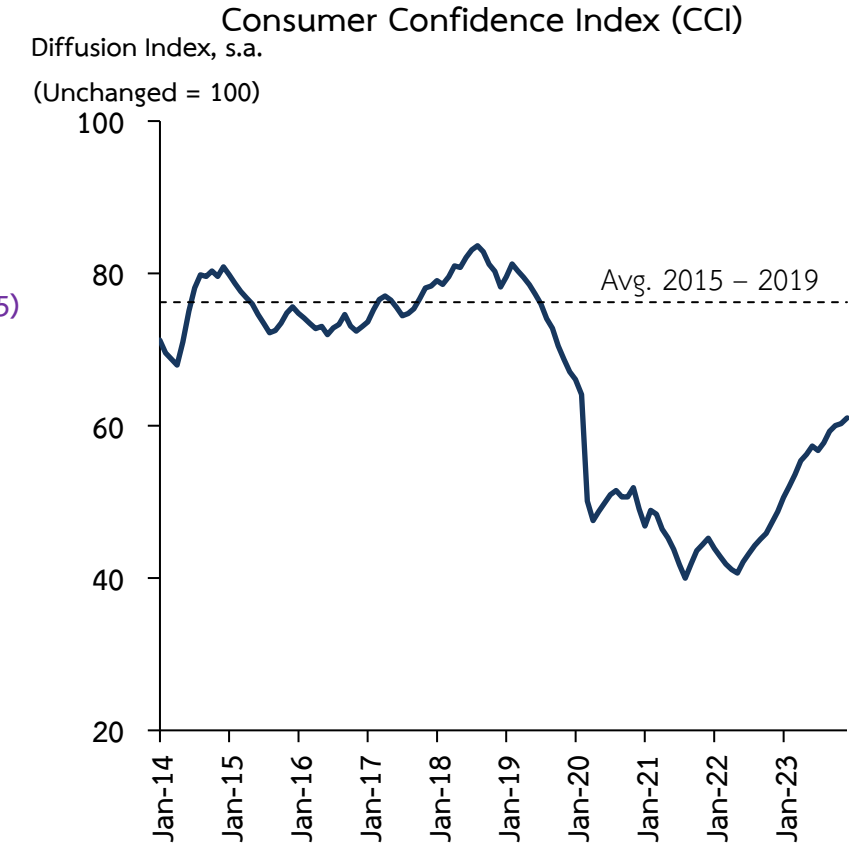
Source: Social Security Office, BOT calculation



Note: 1. Labor income excludes the impact of government policy measures. Nonfarm income in 2019 is 4.5 trillion baht.

2. ( ) is the number of employees in 2022 in million persons

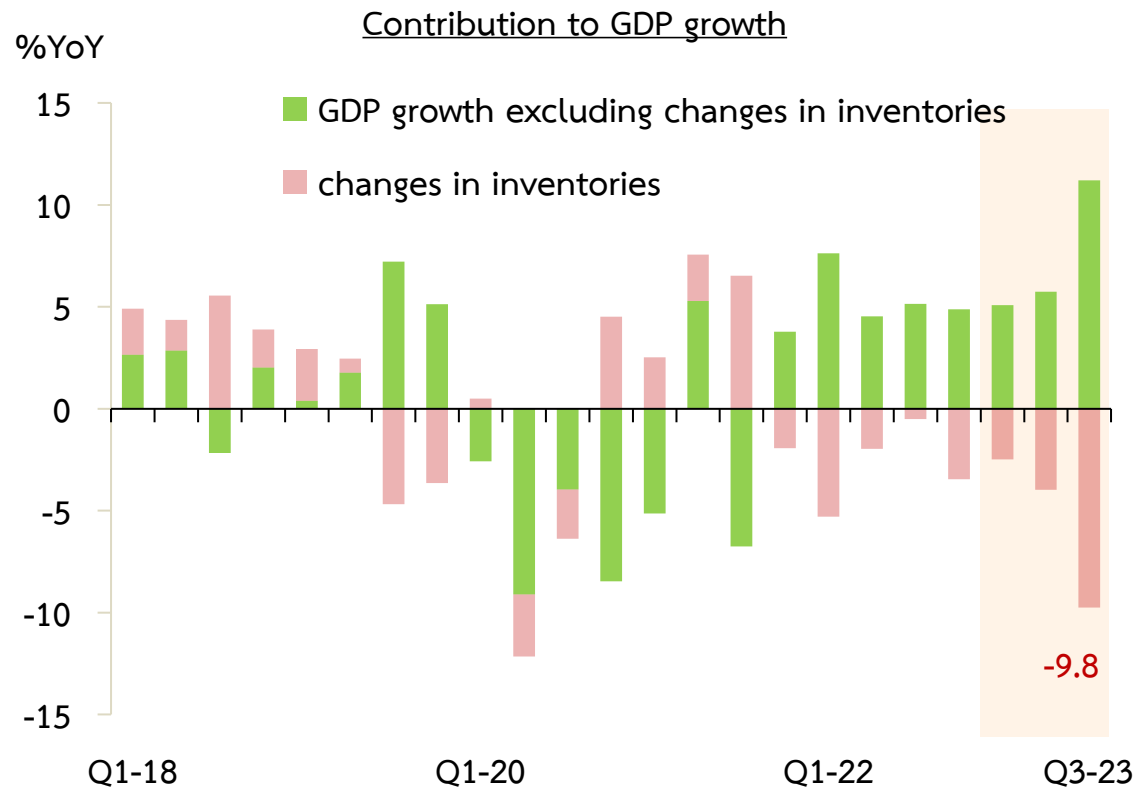
Source: National Statistics Office's Labor Force Survey, BOT calculation and forecast



Source: The Center for Economic and Business Forecasting, University of the Thai Chamber of Commerce



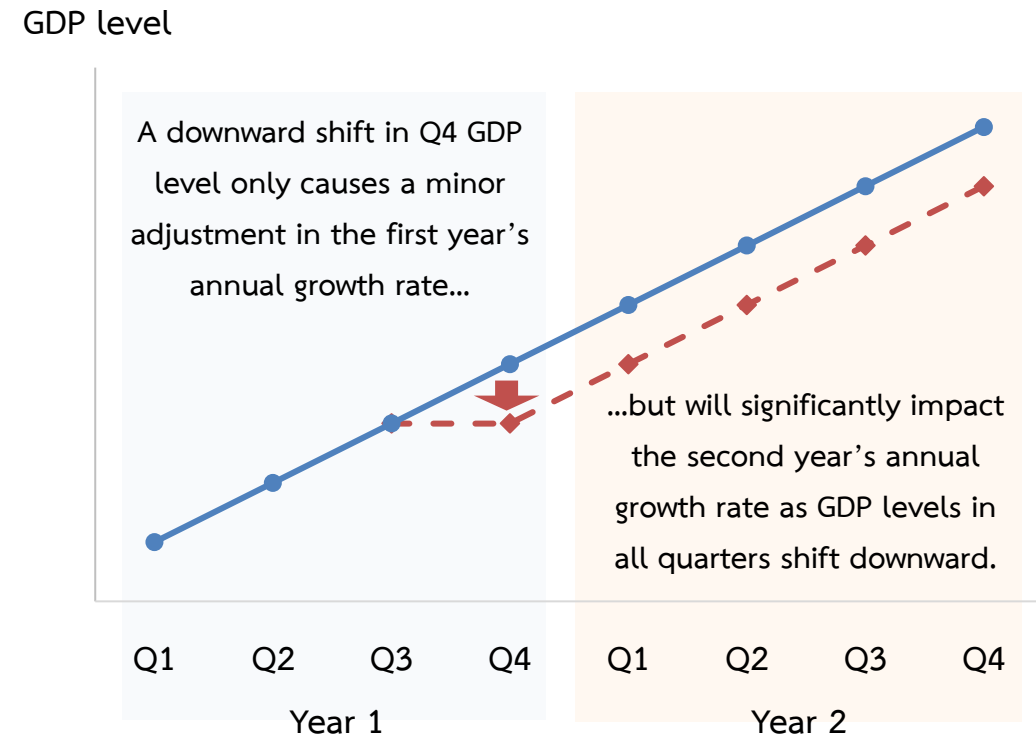
Difference between expenditure-side and production-side GDP reflects large negative growth contribution from changes in inventories in 2023



## There are specific factors underlying GDP growth

A level shift in the Q4 GDP last year leads to a decrease in this year's annual growth rate despite momentum being unchanged

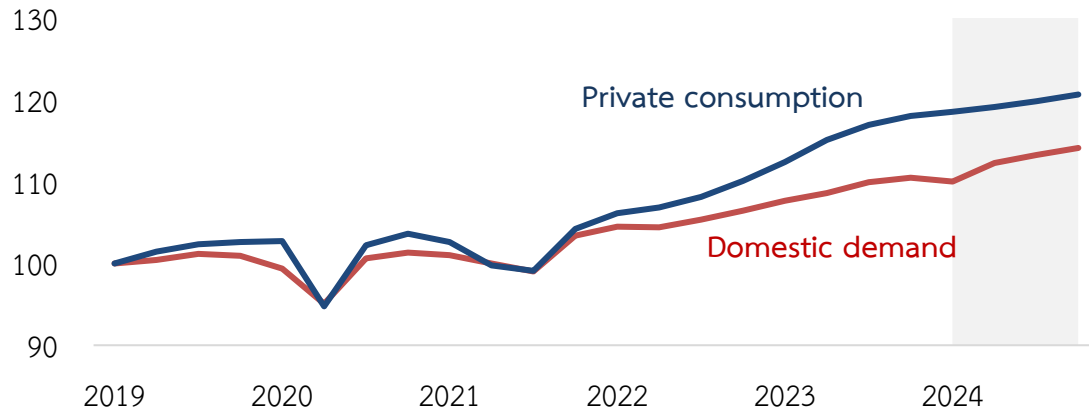
illustration: impact on GDP growth calculation





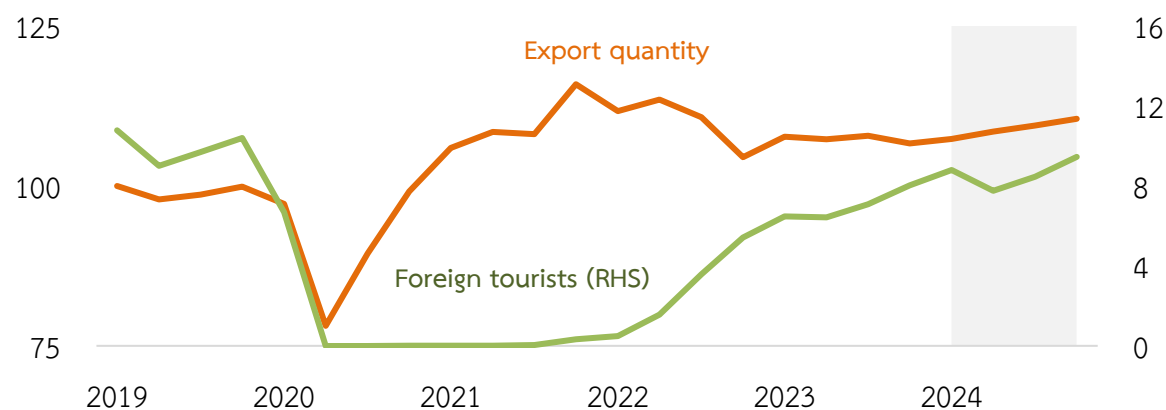
# Economic expansion should continue amid structural headwinds

Index (s.a., Q1-19=100) **Domestic demand and private consumption outlook**



Source: Office of the National Economic and Social Development Council, BOT forecast

Index (s.a., Q1-19=100) **Merchandise exports and tourism outlook**



Source: Thai Customs, Ministry of Tourism and Sports, BOT forecast

	2024
GDP growth (%YoY)	2.5 – 3.0
Export value (%YoY)	2.6
Foreign tourists (million)	34.5

## Economic uncertainties



- Higher-than-expected domestic demand growth
- Additional fiscal stimulus

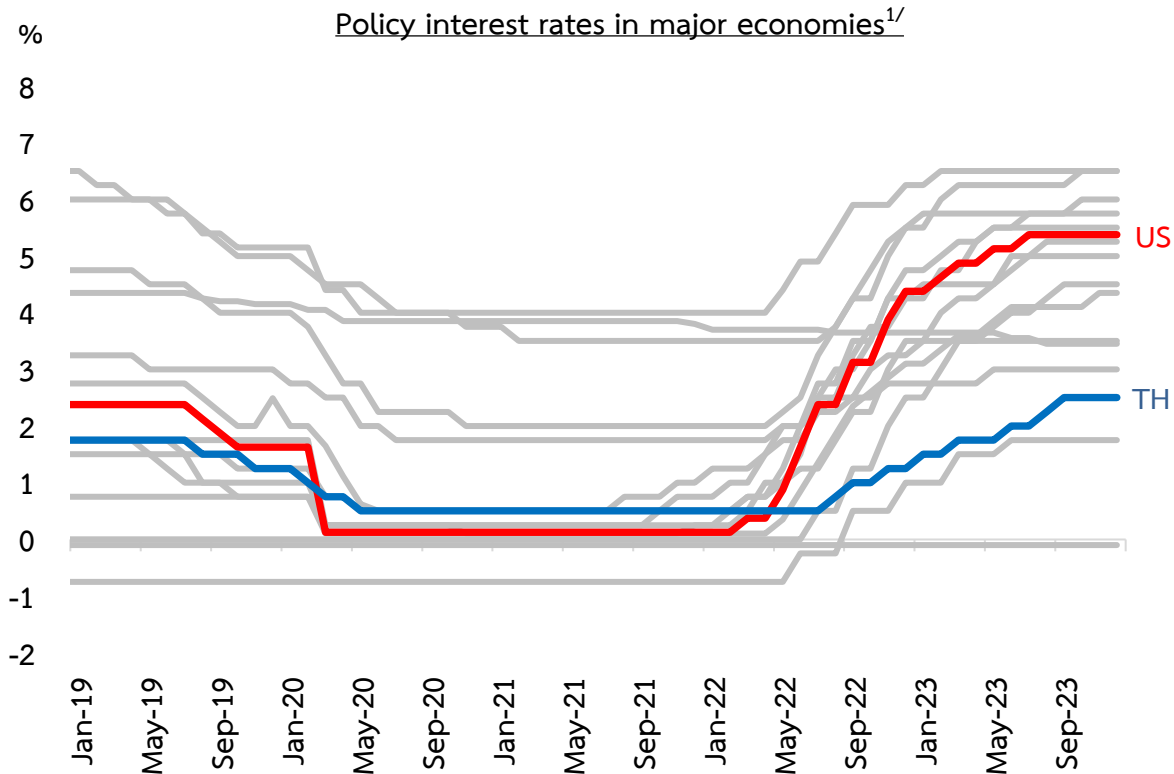


- Worse-than-expected global outlook, esp. China, and geopolitical risks
- Limited benefits from global demand recovery caused by structural challenges



# Monetary policy has a limited ability in addressing structural headwinds

BOT policy interest rate has been low relative to other countries



Monetary policy has a limited ability in tackling with structural challenges facing the economy



Monetary policy primarily influences aggregate demand. Private consumption has seen a continuous expansion.



Headwinds in manufacturing and export sectors are largely structural and cannot be directly addressed by policy interest rate.



Exchange rates cannot sustainably enhance country's competitiveness.

<sup>1/</sup>Australia, Canada, China, Euro Area, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, South Korea, Switzerland, Thailand, United Kingdom, United States

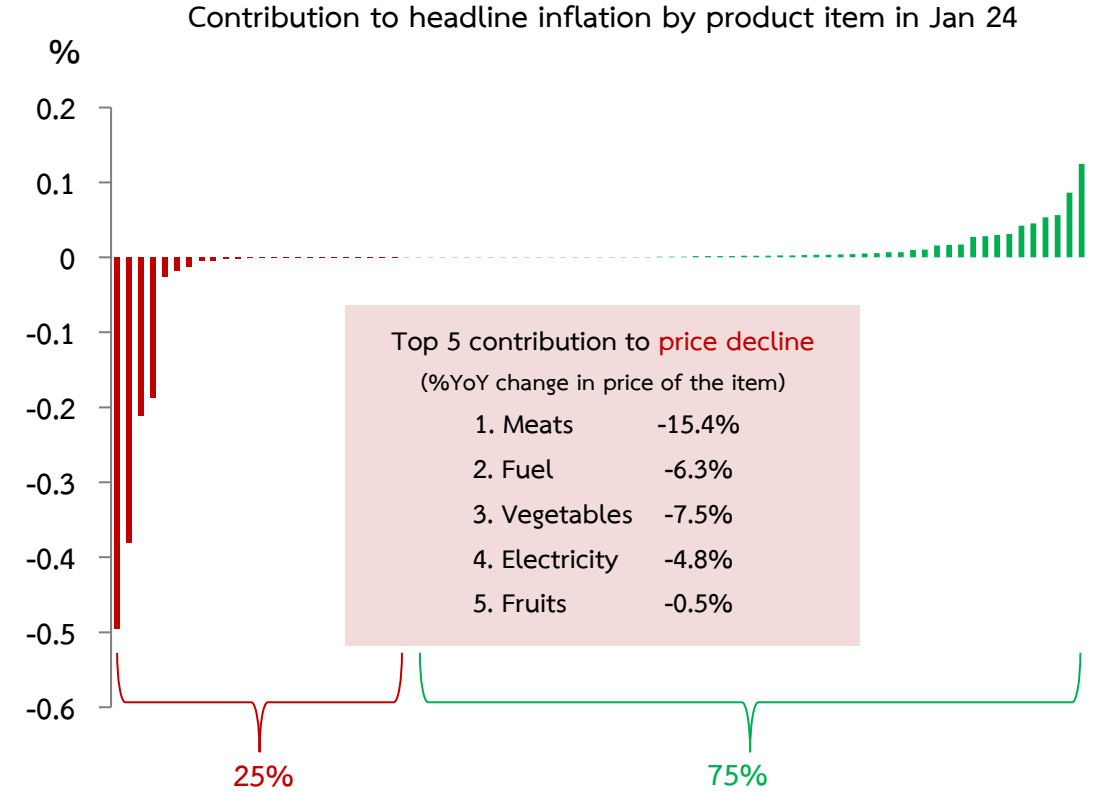
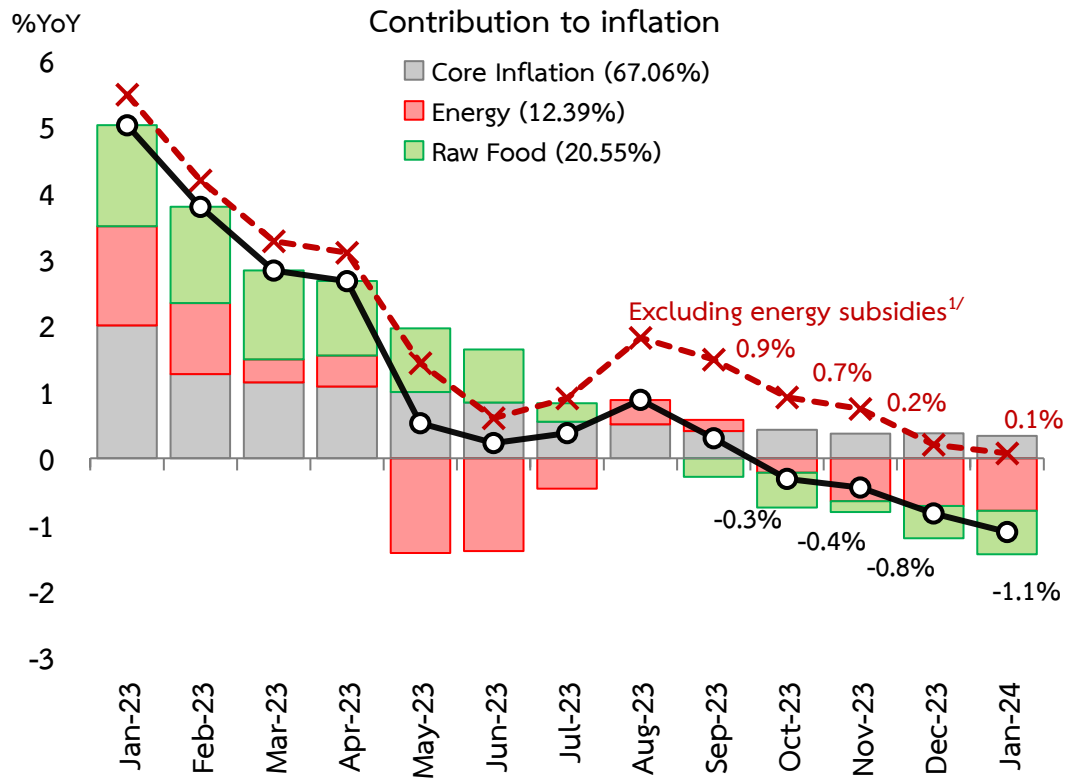
Source: BIS, Bloomberg



# Recent inflation readings do not reflect demand deficiency

Headline inflation excluding subsidies remains positive

Only 1 in 4 items in the CPI basket saw price declines



Note: ( ) weight in the CPI basket <sup>1/</sup>energy price subsidies include price ceilings for diesel and benzene and electricity subsidies, estimated by assuming that these subsidies were in place during the previous year

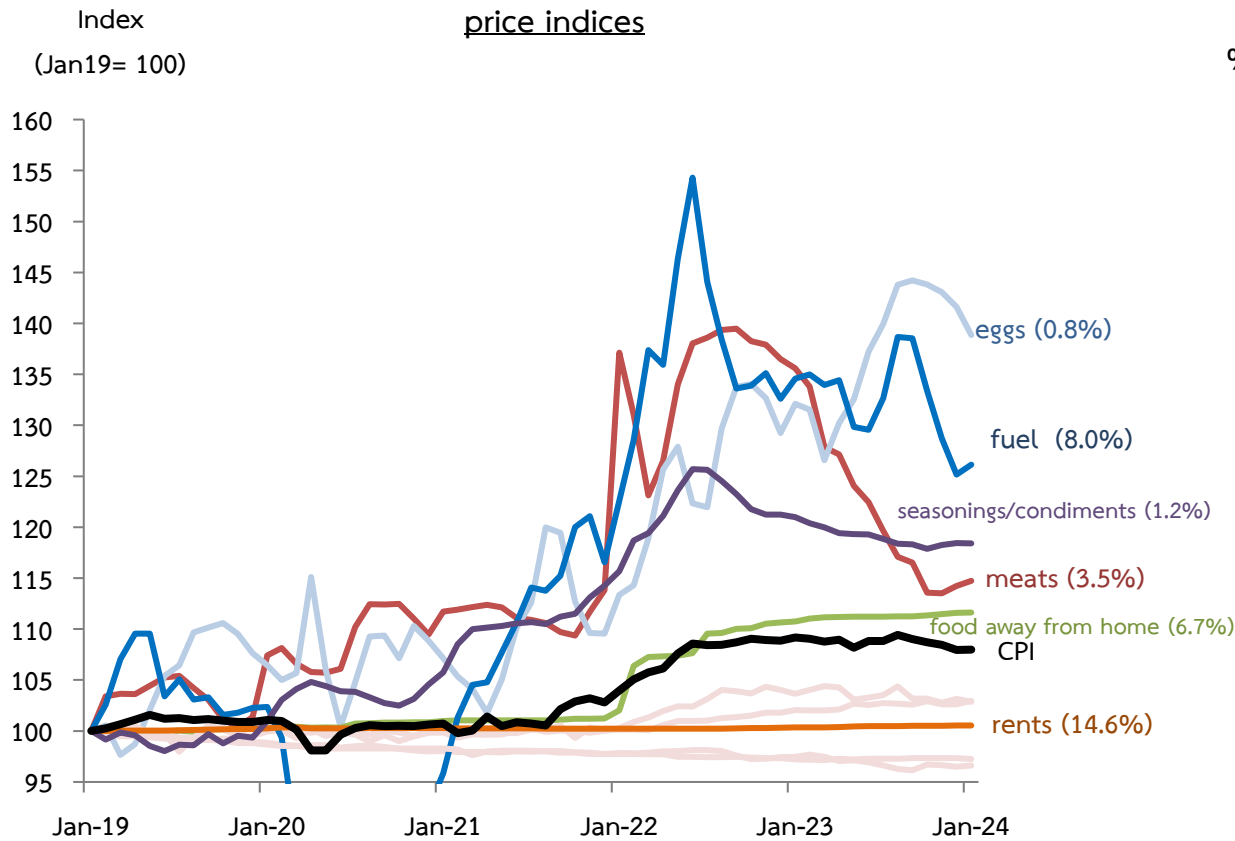
Source: Ministry of Commerce, BOT calculations



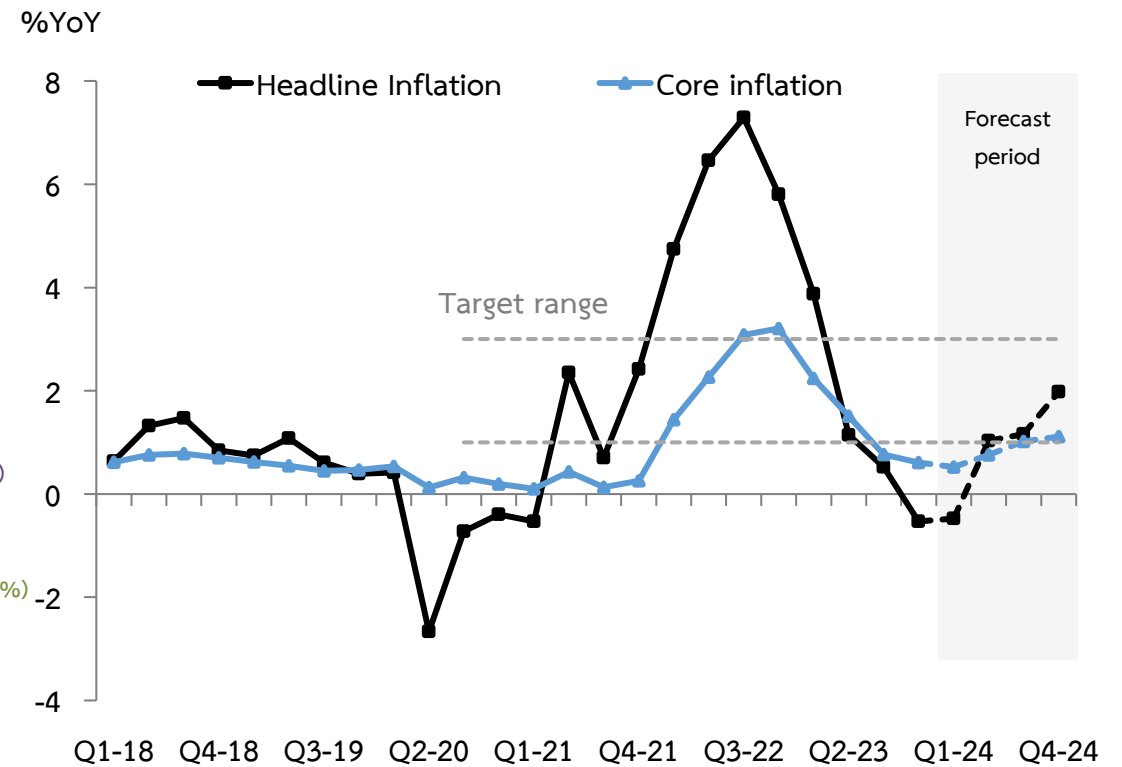
# Headline inflation should stabilize at levels close to 1 percent

Prices of few items driving CPI in the past 2 years have declined but stay elevated

Headline inflation in 2024 should stabilize around lower bound of the target



Note: ( ) weight in the CPI basket

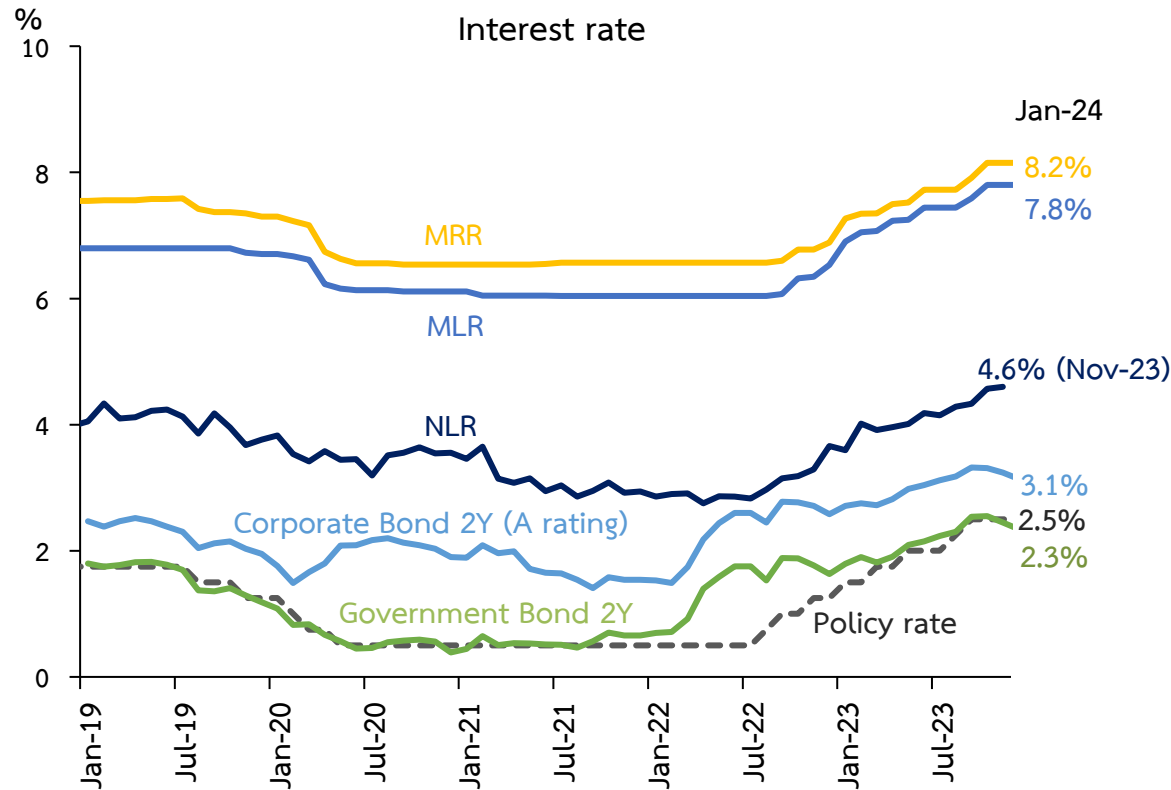


Note: headline inflation excl. subsidies is estimated using 2023 inflation outturns.

Source: Ministry of Commerce, BOT calculations



Interest rates increased in line with policy rate

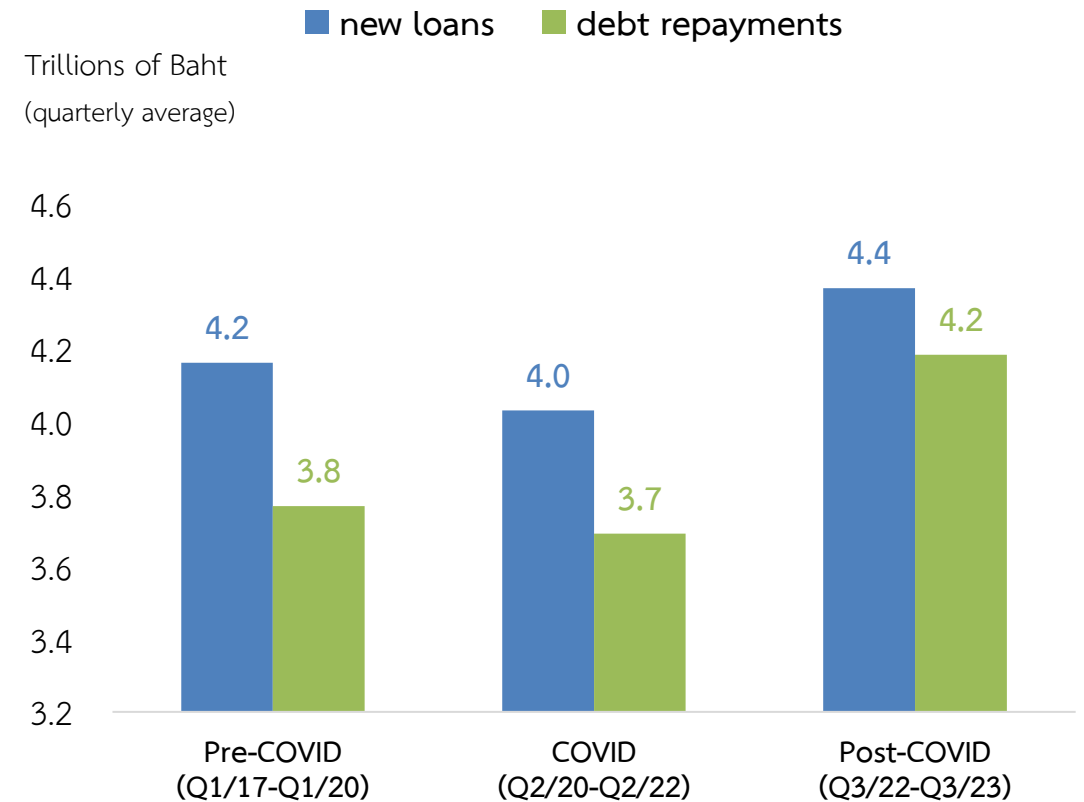


Notes: (1) Monthly average of 14 commercial banks (as of 23 Jan 2024)

(2) NLR = new loan rate (as of Nov 2023)

Overall financial conditions are stable  
Slowing credit largely owes to debt repayments

Slowing business loans largely owes to debt repayments from special loan measures during the Covid crisis

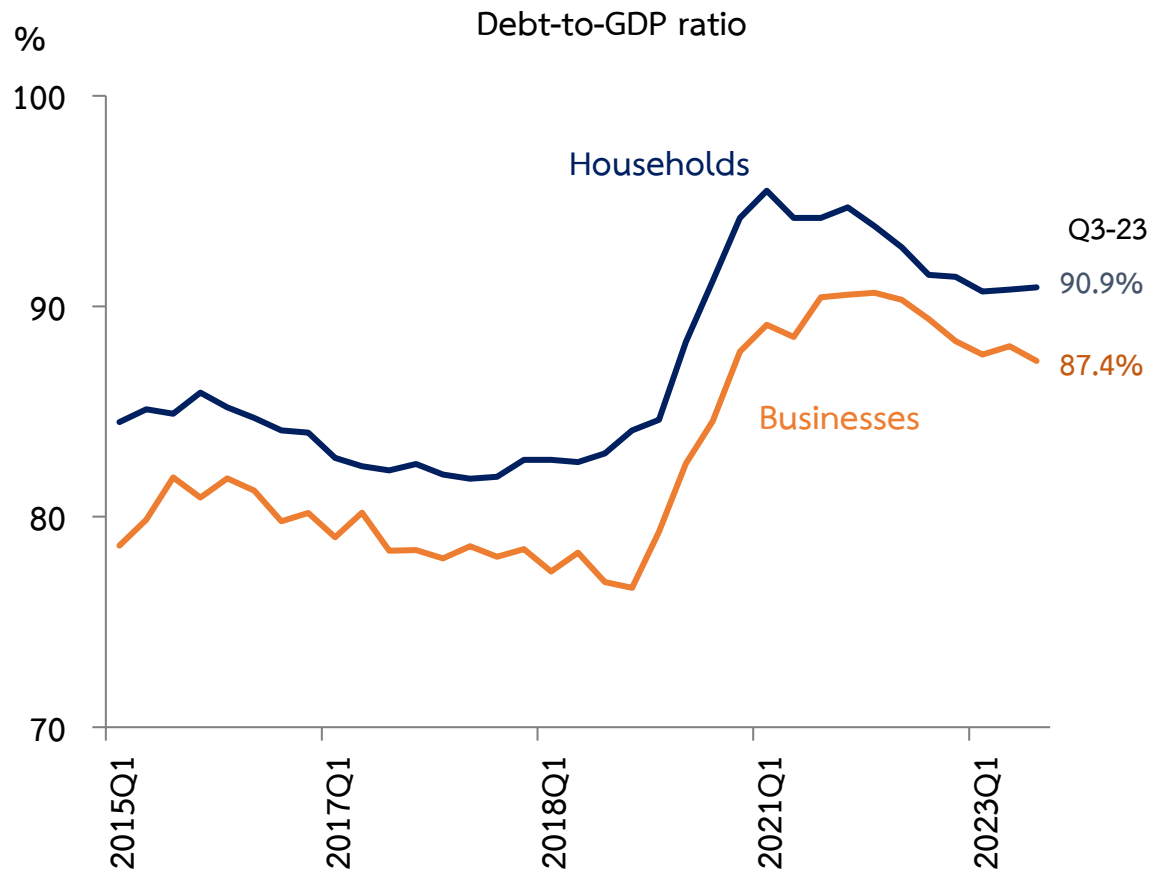






## Reducing financial imbalances takes time

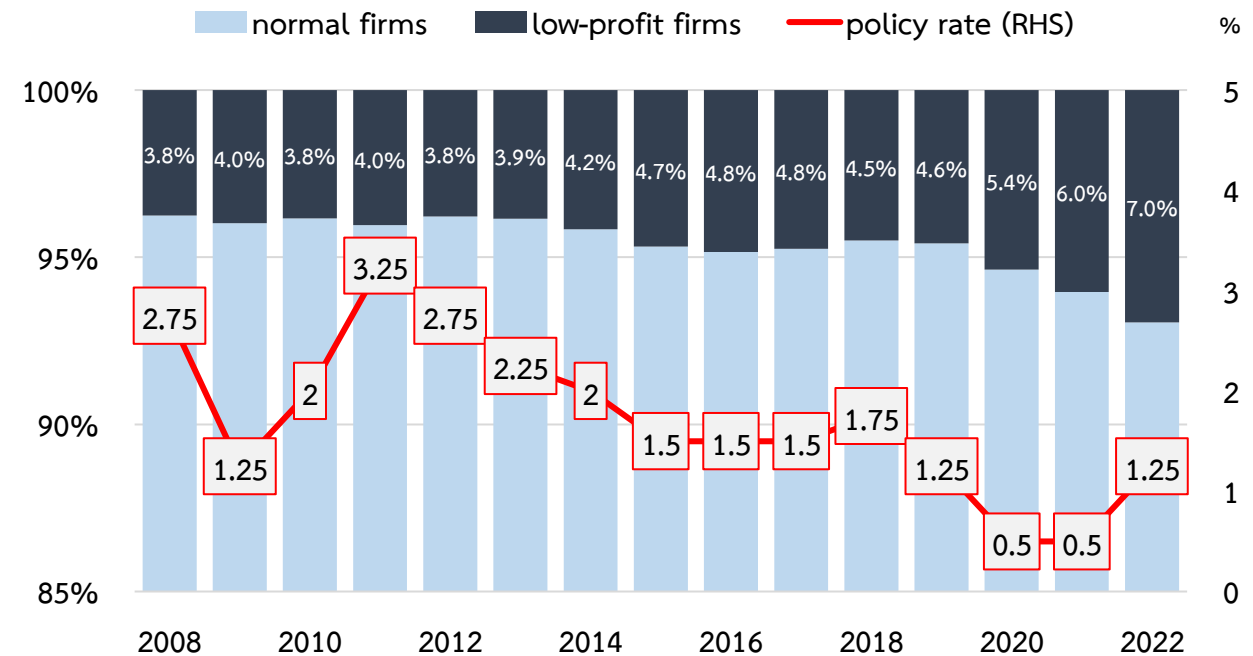
Debt-to-GDP has declined but stays elevated



Source: BOT

Low interest rate environment could somehow prevent private sector from implementing necessary adjustments

% low-profit<sup>1/</sup> firms that has existed for more than 10 years



Notes: a firm is considered “low-profit” if it has interest coverage ratio less than one for three consecutive years

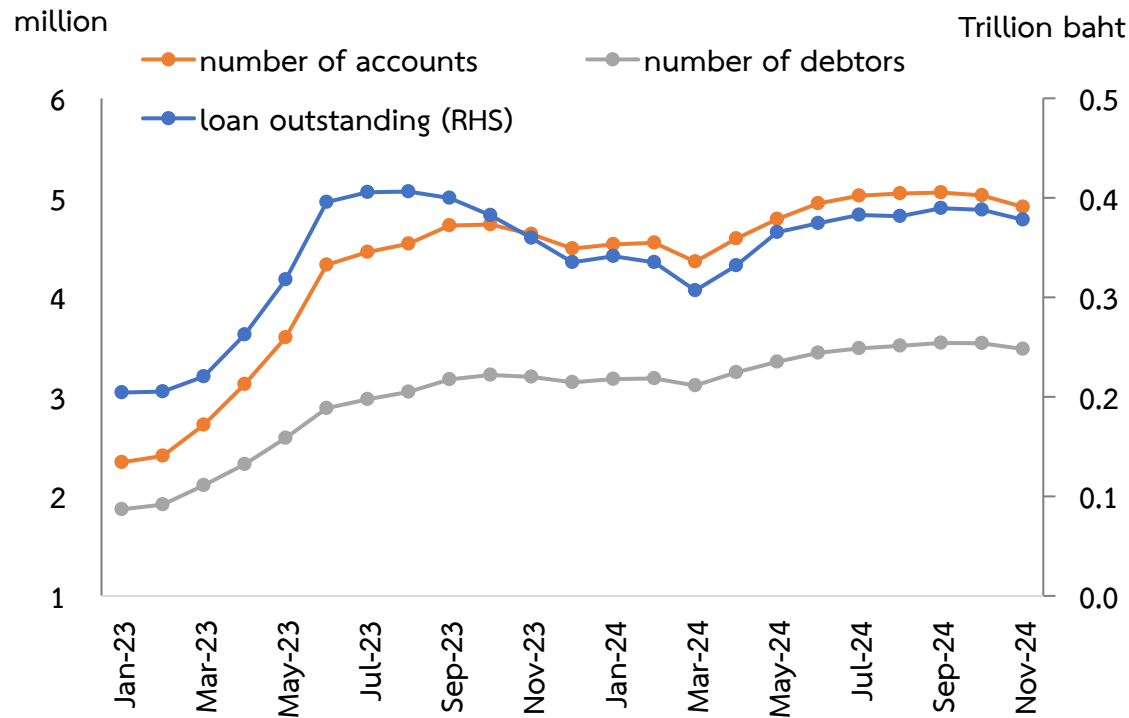
Source: Department of Business Development, BOT calculation



# The MPC is attentive to vulnerable groups, low-income households

Large number of debtors affected by Covid-19 reflects vulnerabilities in the household sector

Loan outstanding with more than 90 days past due from Covid-19<sup>1/</sup>

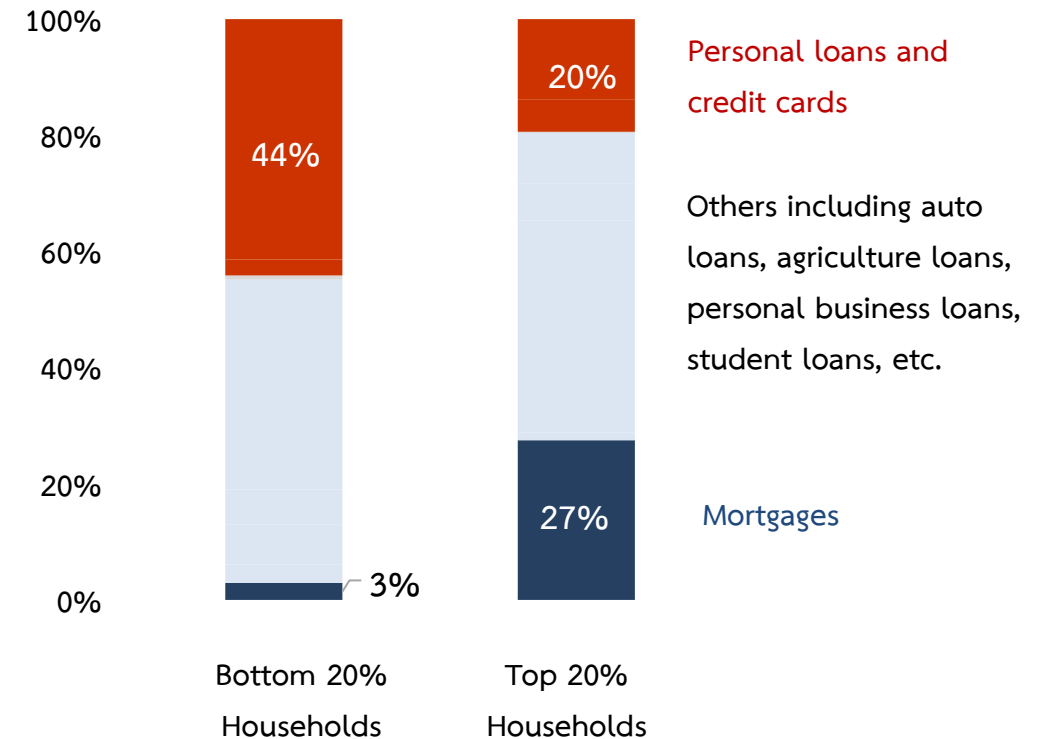


**Note:** <sup>1/</sup>represents debtors with special status as their debts were more than 90 days past due owing to the Covid crisis (account status code 21, started reporting in January 2022).

**Source:** National Credit Bureau

Large shares of low-income household debts are personal loans with shorter term and higher interest rates

share of loan types by income cohorts



**Note:** average monthly income cutoffs are 12,000 baht for bottom 20% households and 40,000 baht for top 20% households. Calculated using data from Q1/23 to Q3/23.

**Source:** National Statistics Office's Household Socio-Economic Survey, BOT calculation



### Responsible Lending measures

*Already effective since Jan 1, 2024*

- **Debt restructuring offer to be mandatory;** Creditors shall offer restructuring at least once before debtors are classified as NPL and once more after debtors are classified as NPL.
- **Measures addressing Persistent Debts to help vulnerable debtors\* pay off their debts** (effective from April 1, 2024)
  - **Opt-in to a program converting debts into installment loans to pay off their debts within 5 years at an interest rate not exceeding 15% per annum**
- **No prepayment fees shall be applied** for all types of personal loans (except mortgage refinancing during the first three years)

\* With revolving personal loans that have proportionately higher interest payment than principal payment over the past 5 years