No. 14/2024

Monetary Policy Committee's Decision 2/2024

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 10 April 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 grow in 2024 at a higher rate than the previous year with continued support from private consumption and tourism, along with public expenditure which is anticipated to accelerate for the remainder of the year. Meanwhile, structural headwinds continued to weigh on export recovery. Inflation remains subdued from supply factors and government subsidies and is projected to gradually increase towards the target range by the end of 2024. The majority of the Committee deems that the current policy interest rate is conducive to safeguarding macro-financial stability, and that the effectiveness of monetary policy on resolving structural impediments is limited. Most members thus voted to maintain the policy rate at this meeting, but will monitor uncertainties of economic factors going forward. Two members voted to cut the policy rate by 0.25 percentage point to reflect Thailand's lower potential growth as a result of structural challenges and to partly alleviate debt-servicing burden of borrowers.

The Thai economy in the second half of 2023 slowed more than anticipated due to sluggish export recovery, delayed government budget disbursement, and higher-than-normal inventories. The aforementioned downside factors are expected to subside this year, causing the Thai economy to grow at 2.6 and 3.0 percent in 2024 and 2025, respectively, faster relative to the previous year. Such economic expansion is supported by (1) an improvement in the tourism outlook in terms of both the number of foreign tourists and spending per head; (2) continued expansion of private consumption despite having been moderating from high growth last year; and (3) an acceleration of public expenditure in the remainder of the year. In contrast, exports of goods are anticipated to recover only gradually in the second half of this year. The decline in Thai economic growth after the COVID-19 pandemic reflects the impact of structural headwinds on the economy's potential. Structural impediments, particularly deteriorating competitiveness in the exports and manufacturing sectors, as well as global excess capacity limit the benefits of the global economic recovery on the Thai economy.

Headline inflation is projected at 0.6 and 1.3 percent in 2024 and 2025, respectively. Meanwhile, core inflation is forecasted to be at 0.6 and 0.9 percent in 2024 and 2025, respectively. The downward revision attributes to the decline in prices of certain raw food items due to excess supply and the decrease in energy prices due to an extension of government subsidies, while the recent negative inflation readings excluding subsidies remained positive. Overall, inflation is anticipated to return to target by the end of this year. In the period ahead, the effect of geopolitical tensions and government subsidies on energy prices should be monitored.

Overall financial conditions remain stable. The costs of private sector funding via commercial banks and corporate bond markets remain approximately unchanged. Total loans outstanding of businesses and households expand at a slower pace due to debt repayments. Nevertheless, the amount of new loans granted is still growing, indicating overall normal credit functioning. However, some groups of SMEs and low-income households face tighter credit conditions due to financial access difficulties and debt serviceability deterioration due to a slower rebound in income. This is consistent with the outstanding amount of non-performing loans (NPLs) which is expected to gradually pick up, and the likelihood of a surge in non-performing loans is limited. The Committee expresses concern on elevated household debt and recognizes the importance of debt deleveraging, which will help mitigate vulnerabilities in the macro and financial system in the long term. Moreover, the Committee assesses that the effectiveness of monetary policy on resolving financial access issues is limited. The Committee welcomes the Bank of Thailand's initiatives to accelerate targeted measures, particularly Responsible Lending measures.

The baht's volatility when measured against the US dollar increased and depreciated more relative to other regional currencies due to the Federal Reserve's monetary policy outlook and domestic economic and financial developments. The Committee will continue to closely monitor the volatilities in the foreign exchange market.

The prevailing monetary policy framework seeks to maintain price stability, support sustainable growth, and preserve financial stability. Most Committee members deem that the policy rate remains consistent with sustaining growth while fostering macro-financial stability in the longer term. Nevertheless, uncertainties on the Thai economy remain high, particularly from export recovery, government budget disbursement, and fiscal stimulus measures. The Committee will closely monitor such developments and take into account growth and inflation outlooks in deliberating monetary policy going forward.

Bank of Thailand

10 April 2024

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Press Conference

Monetary Policy Committee's Decision 2/2024

10 April 2024

Piti Disyatat

Assistant Governor, Monetary Policy Group

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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 continues to expand from the previous year with continues growth momentum. Meanwhile, structural headwinds continue to weigh on exports recovery.
- Inflation remains subdued due to supply factors and government subsidies. However, it should gradually increase towards the target range by the end of this year.
- Financial conditions remain stable. New loans granted still expand, while low-income households and some groups of SMEs may face tighter credit conditions.
- The current policy interest rate is consistent with both economic growth and macro-financial stability in the longer term.

The Committee will closely monitor economic developments, particularly exports of goods potentially hindered by structural factors, and take into account growth and inflation outlooks in deliberating monetary policy going forward.

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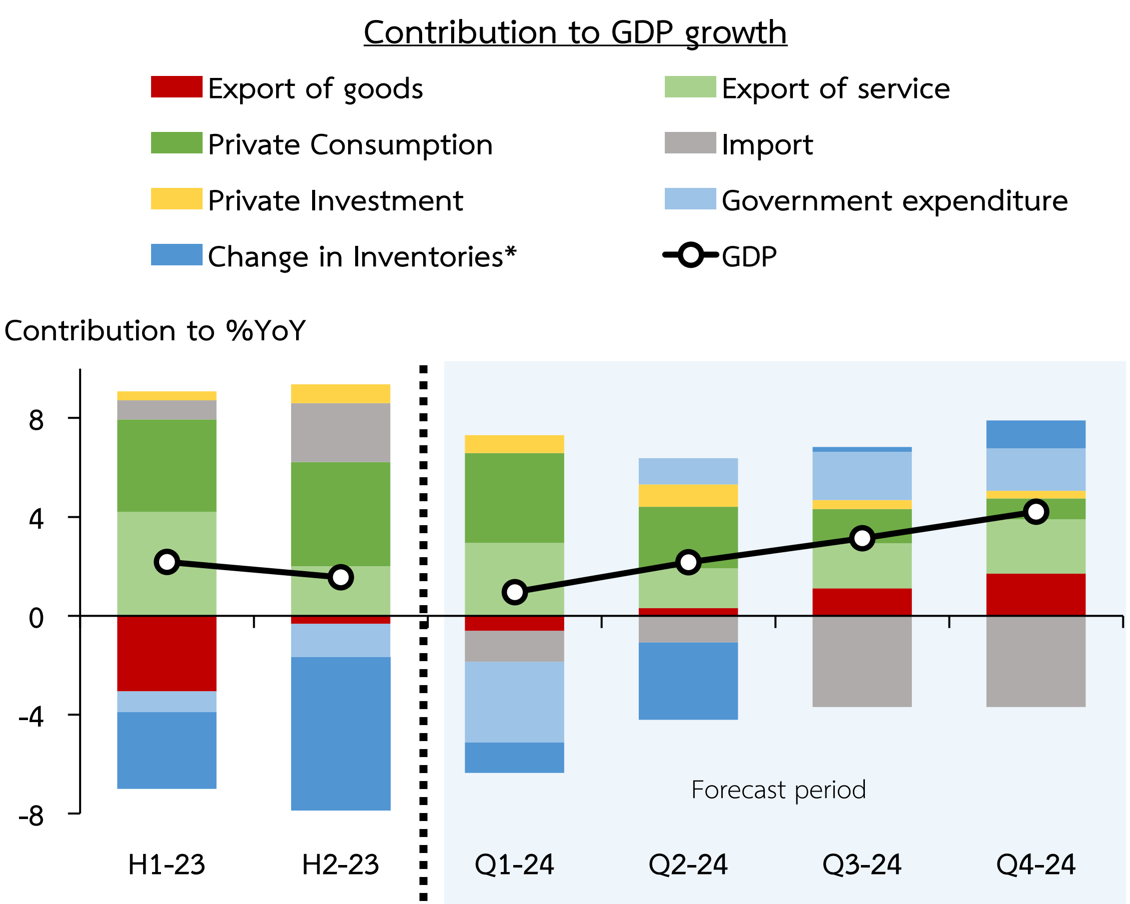
The economy is projected to expand from the previous year with continued growth momentum. However, structural headwinds are restraining exports recovery.

Growth in 2024 would be support by private consumption, tourism, and subsequent disbursement of public spending

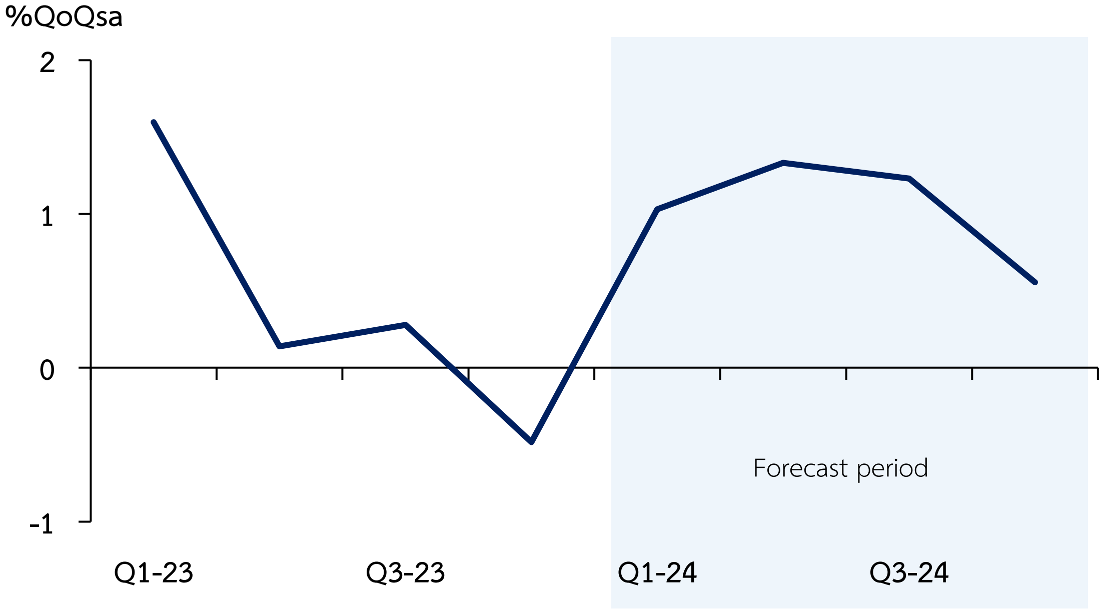


Note: * including statistical discrepancy or CVM additive error.
Source: NESDC, calculations and forecasts by BOT.

Quarter-on-quarter growth in 2024 is expected to be higher than historical averages

GDP growth	Avg. 15-19	2023	2024F	2025F
%YoY	3.4	1.9	2.6	3.0
%QoQ sa*	0.8	0.4	1.0	0.7

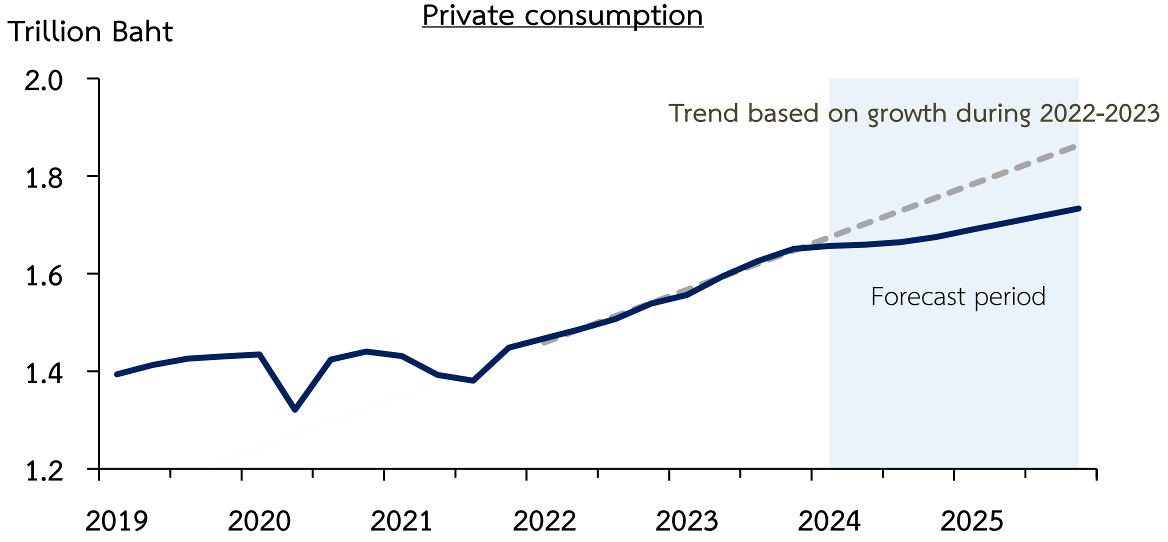
Note: *%QoQ sa calculations by BOT



Source: NESDC, calculations and forecasts by BOT.

Private consumption continues to support economic growth

Private consumption continues to expand despite slowdown from the previous year

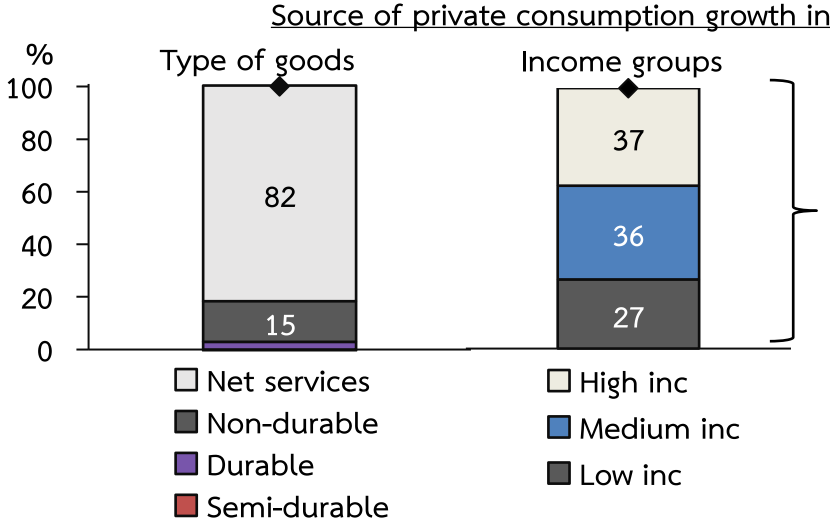


Private consumption (Real Term)	2023	2024F	2025F
%YoY	7.1	3.5	2.9
%QoQ sa	1.8	0.4	0.8

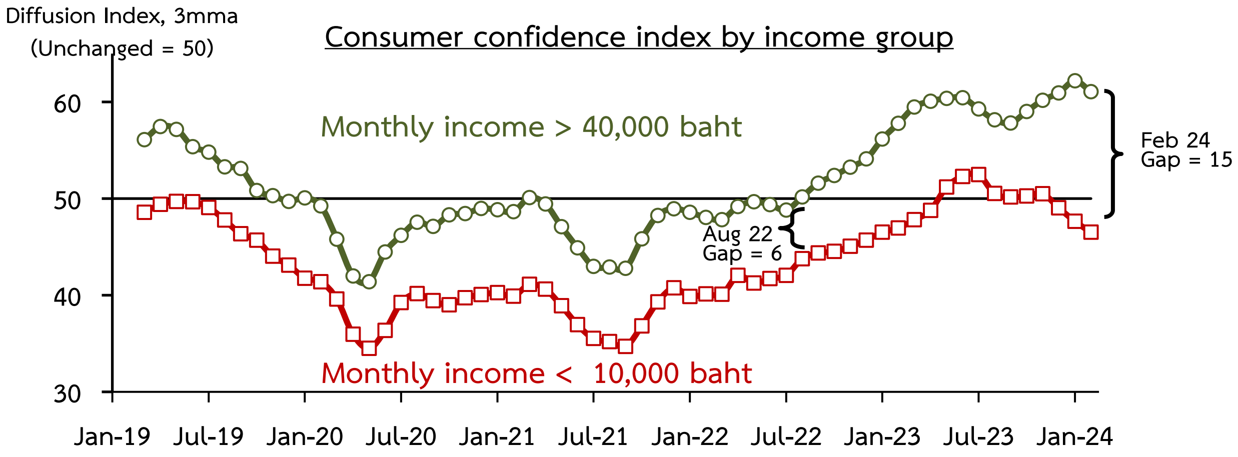
Note: Average of 2015-19: %YoY = 3.4, %QoQsa = 0.9

Source: NESDC, forecasts by BOT.

Spending on services and goods by high-income households is a key driver of private consumption growth



Source: NESDC and National Statistics Office's Household Socio-Economic Survey in 2023, BOT calculation. The share of low-, medium-, and high-income households are 60% 30% and 10%, respectively.



Note: 3 mma data, in which the level above 50 indicates that the consumers are confident in the current economic conditions.

Source: Ministry of Commerce, BOT calculations.

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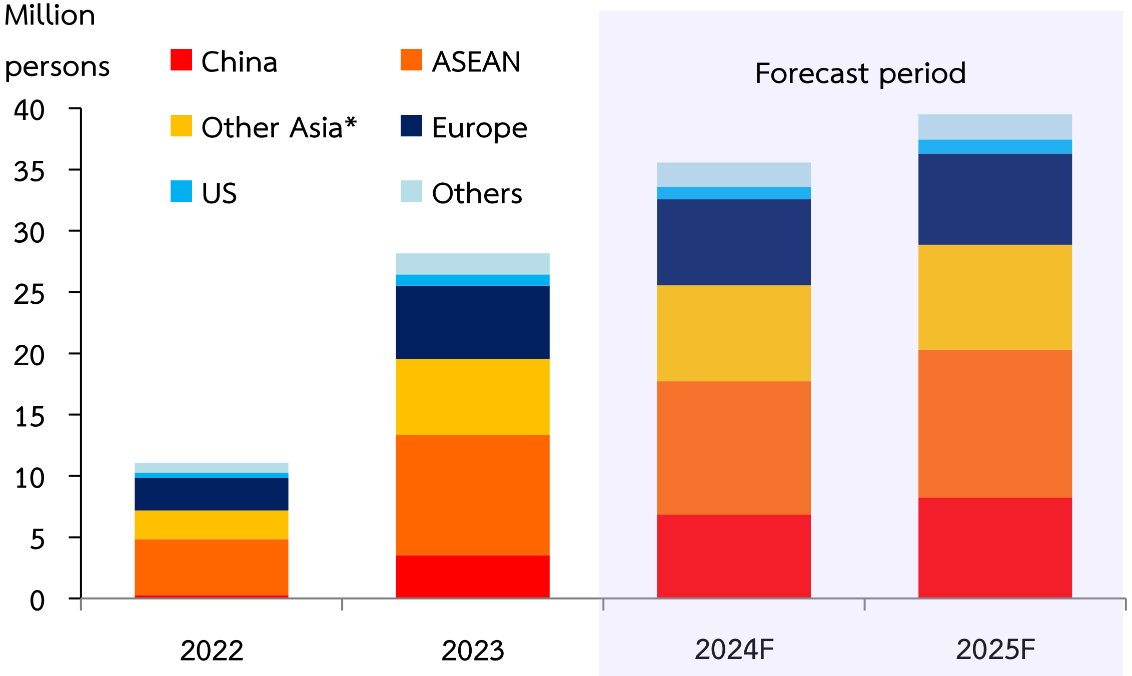
Tourism improves on the back of higher foreign tourist arrivals and spending per head

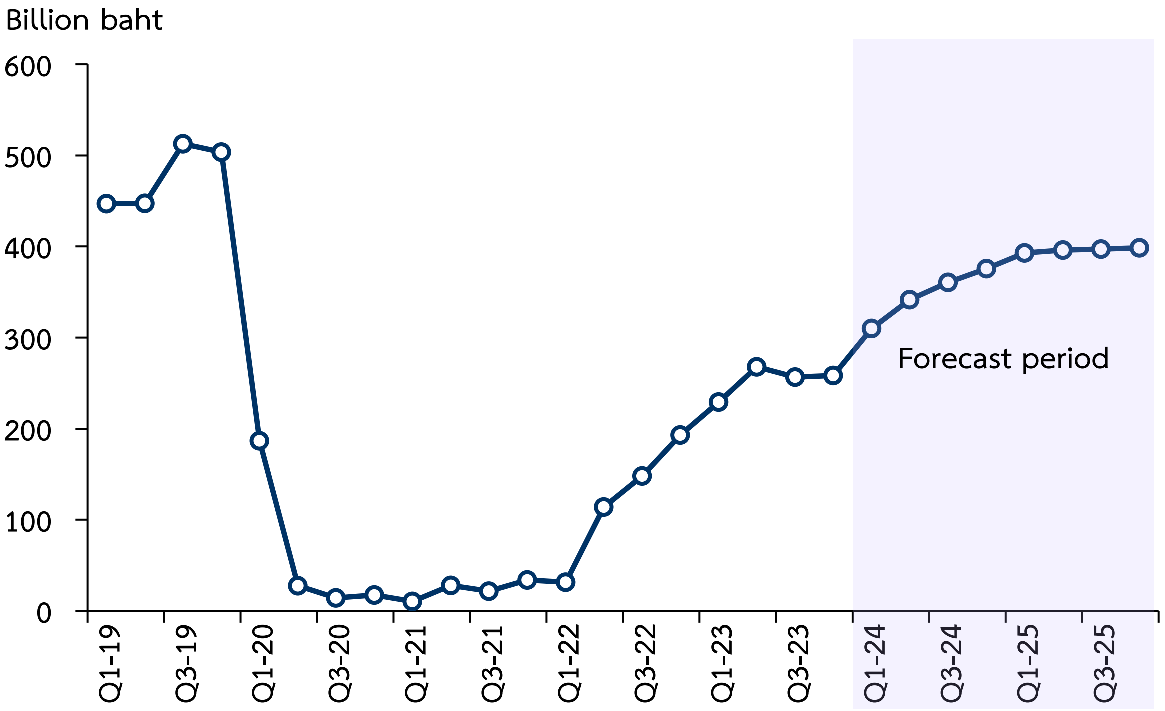
Projection of foreign tourist arrivals by nationalities



Note: * includes Middle East

Source: Ministry of Tourism and Sports and BOT forecast

Total travel receipts



Million persons	2023	2024F	2025F
Foreign tourist arrivals projection	28.2	35.5	39.5

Trillion baht	2023	2024F	2025F
Total travel receipts projection	1.0	1.4	1.6

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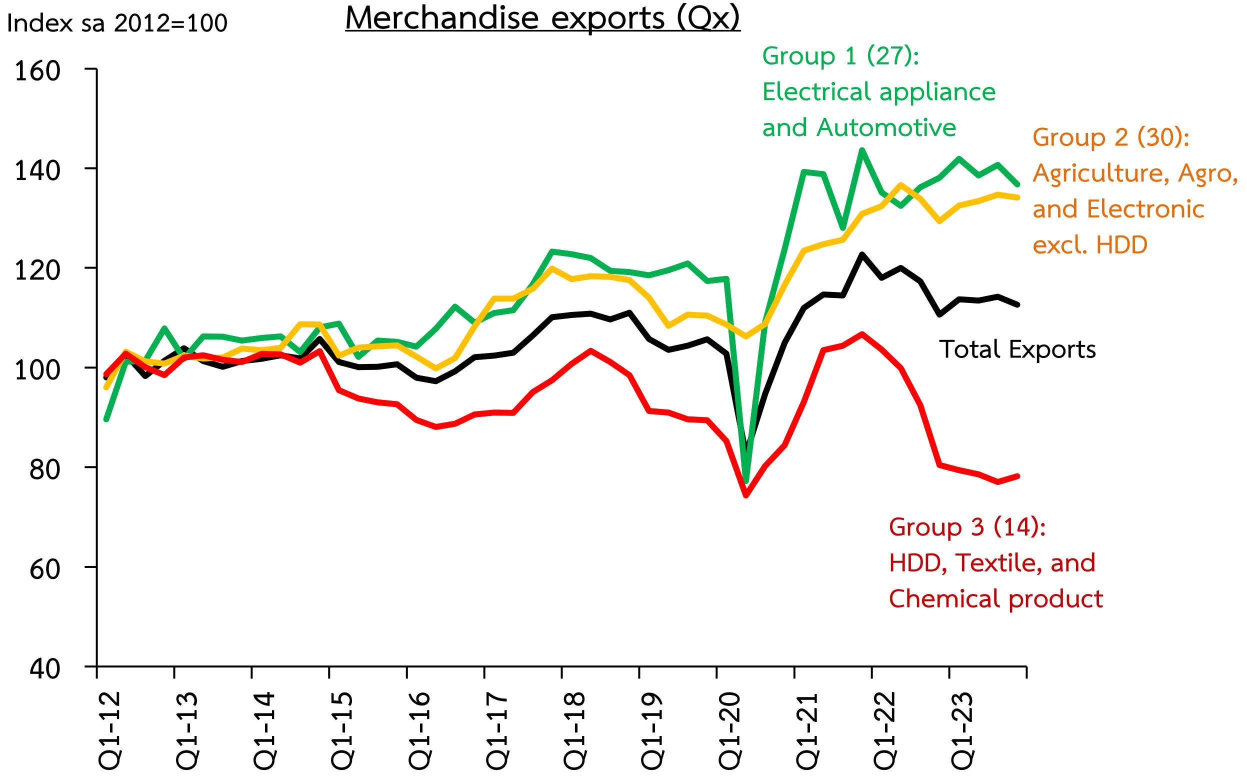
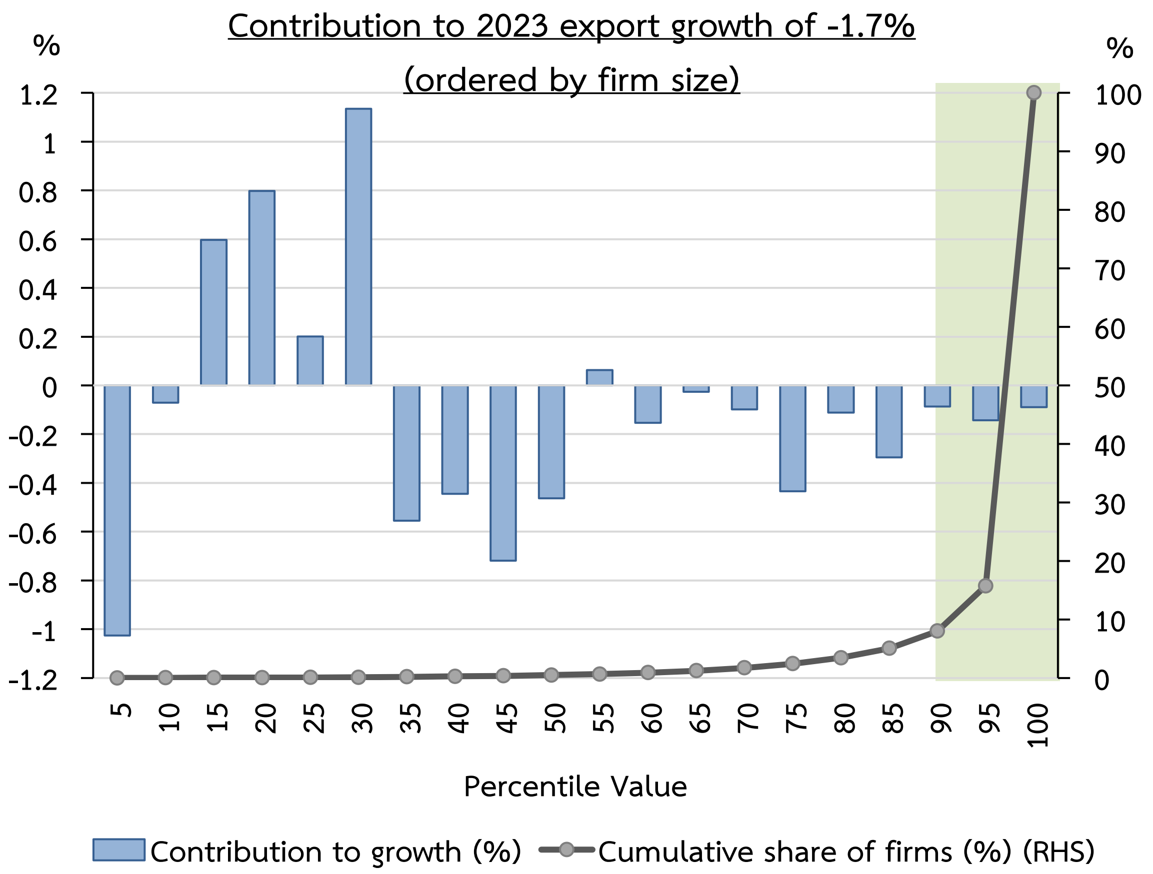
Export recovery is expected to be gradual in the face of structural impediments

Overall exports would recover slowly, while some industries (14% of total exports) are faced with structural headwinds



Note: ( ) indicates exports share in 2023.
Source: Customs department, BOT calculations.

Export growth for most small- to medium-sized firms contracted, while only a few large firms enjoyed positive growth



Source: Customs department, BOT calculations

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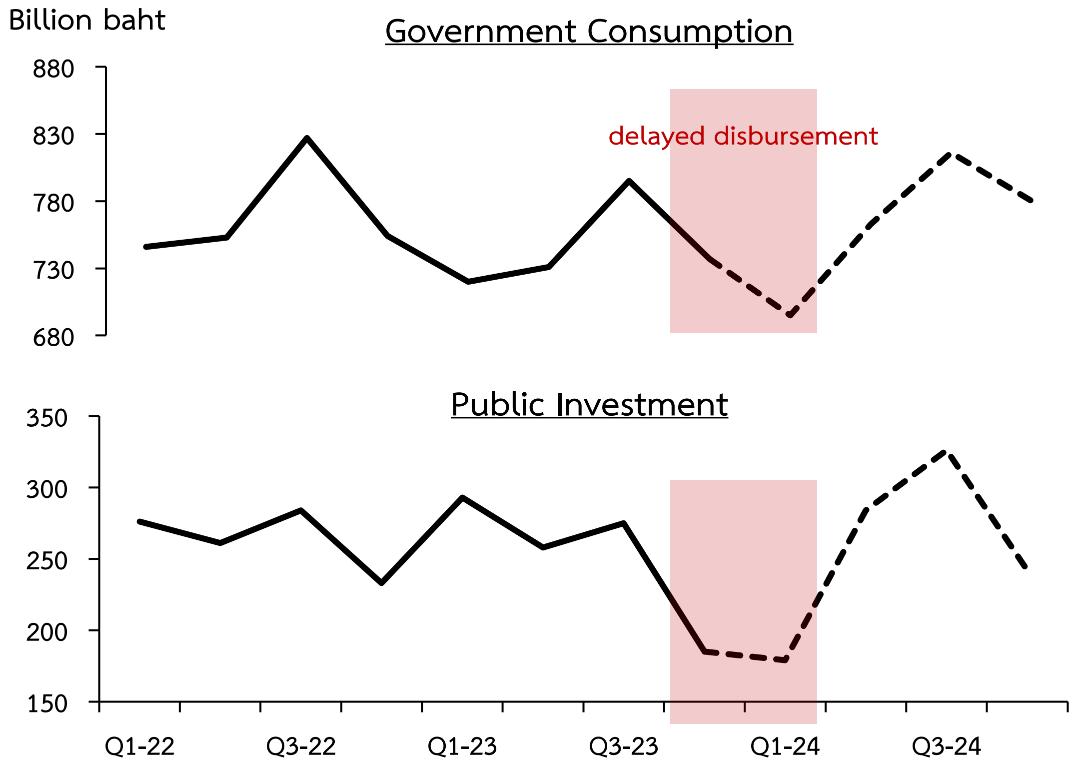
Public spending is expected to pick up for the remainder of the year, following delay in budget disbursement

Public consumption and investment forecast (Nominal level)



%YoY	Q3-23	Q4-23	Q1-24F	Q2-24F	Q3-24F	Q4-24F
Public Investment (Real term)	-3.4	-20.1	-39.6	9.3	17.7	29.3

Source: NESDC, BOT calculations.

Public spending forecast

Public spending (Real term) %YoY	2023	2024F	2025F
Government consumption	-4.6	1.8	3.3
Public investment	-4.6	1.0	5.0

Source: NESDC, BOT calculations.

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Outlook for the Thai economy remains highly uncertain

Summary of economic uncertainties	
+ Upside risks	▪ Greater-than-expected domestic demand and fiscal stimulus ▪ Higher-than-expected foreign tourist arrivals and travel receipts
− Downside risks	▪ Lower-than-expected budget disbursement ▪ Lower-than-expected positive spillover from global trade recovery on Thai exports due to structural impediments

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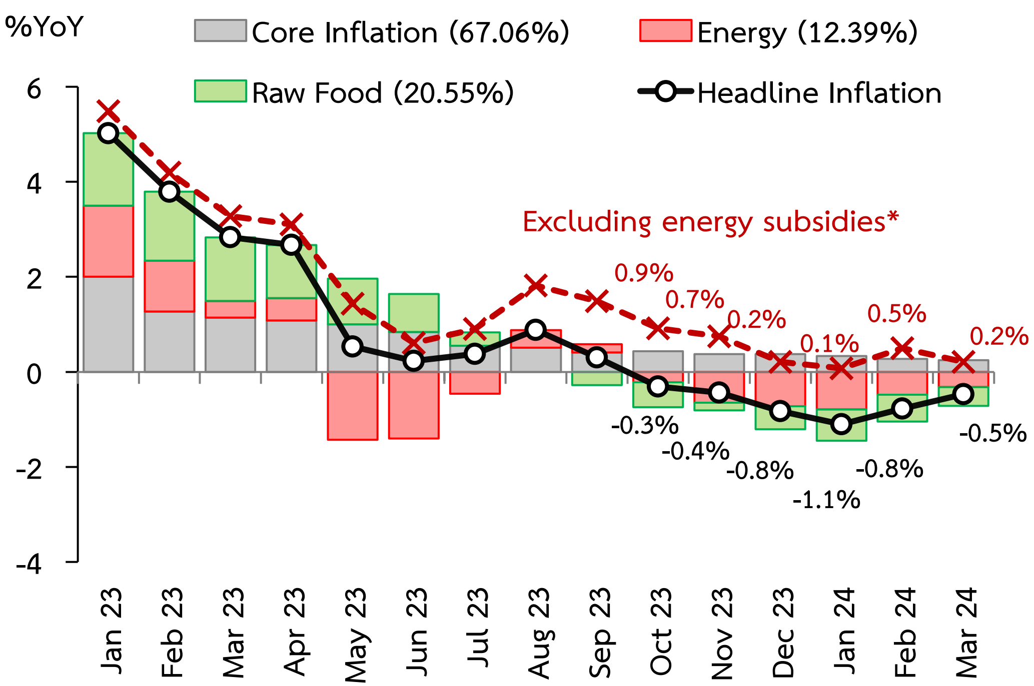
Inflation remains subdued from supply pressures and energy subsidies, but should gradually increase towards the target range by the end of this year

Headline inflation excluding energy subsidies remains positive

Contribution to headline inflation

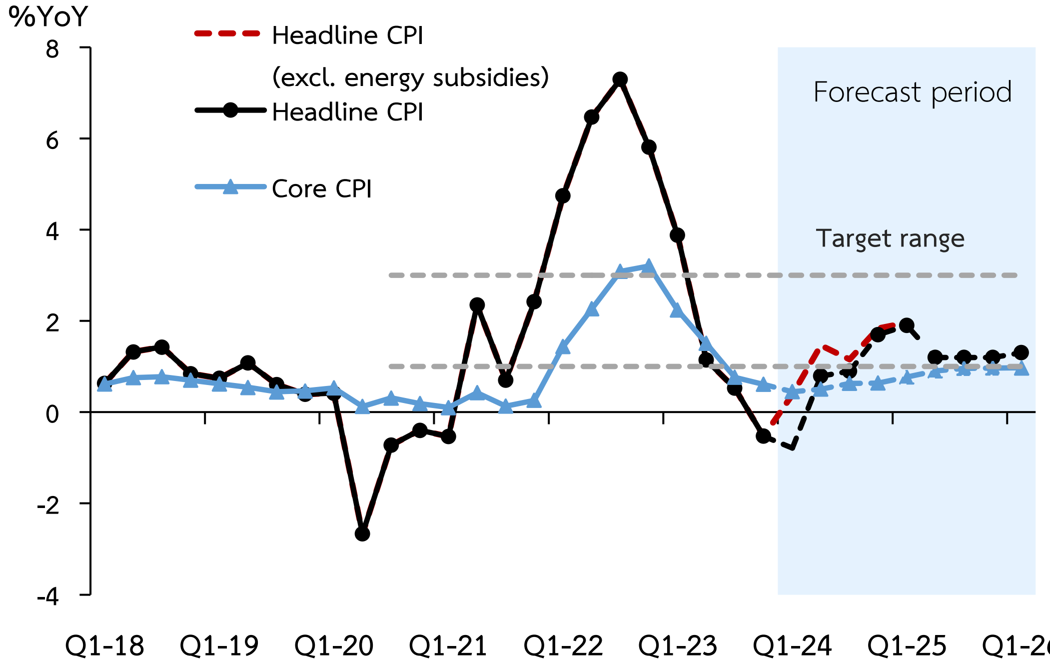


Note: ( ) indicates weight in the CPI basket, base year = 2019. *Energy subsidies include diesel and benzene price subsidies by Oil Fuel Funds, excise tax reduction, and electricity subsidies, estimated by assuming that these subsidies were in place during the previous year

Source: Ministry of Commerce, BOT calculations.

Inflation should gradually increase towards the target range by the end of this year

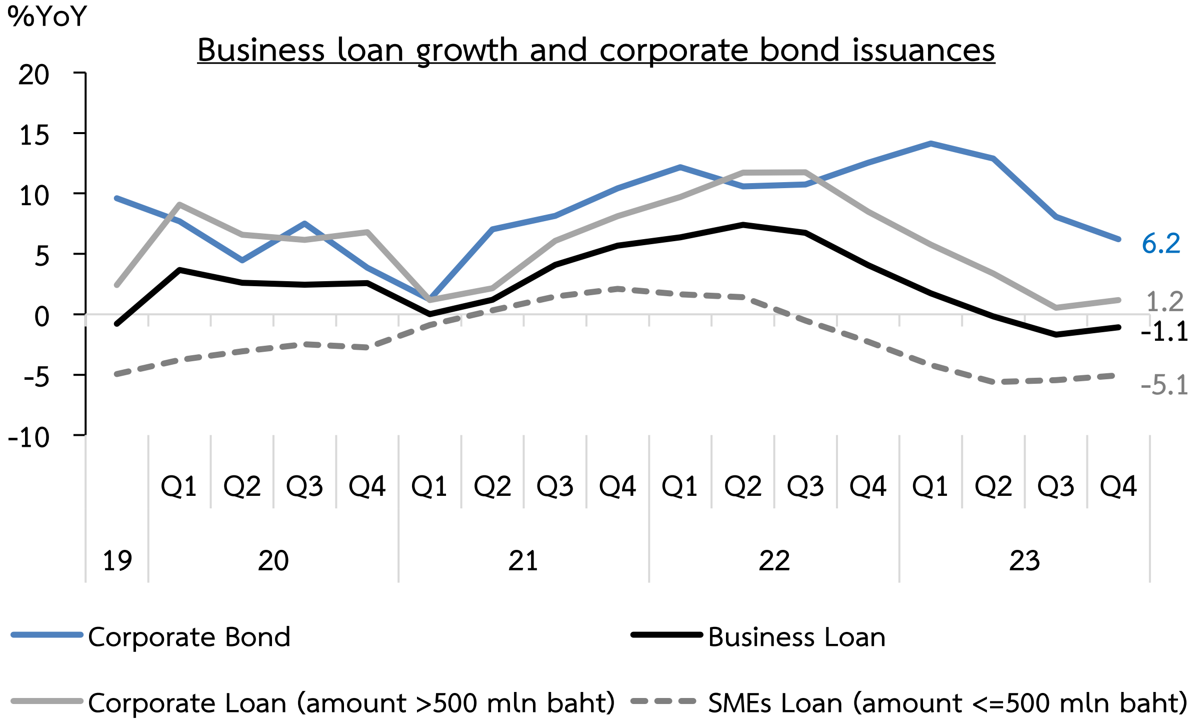
Inflation forecast



%YoY	2023	2024F	2025F
Core CPI	1.3	0.6	0.9
Headline CPI	1.2	*0.6*	*1.3*
- Excluding energy subsidies		*1.2*	

Business loan growth moderates due to debt repayment, while some small businesses may face relatively tighter financial conditions

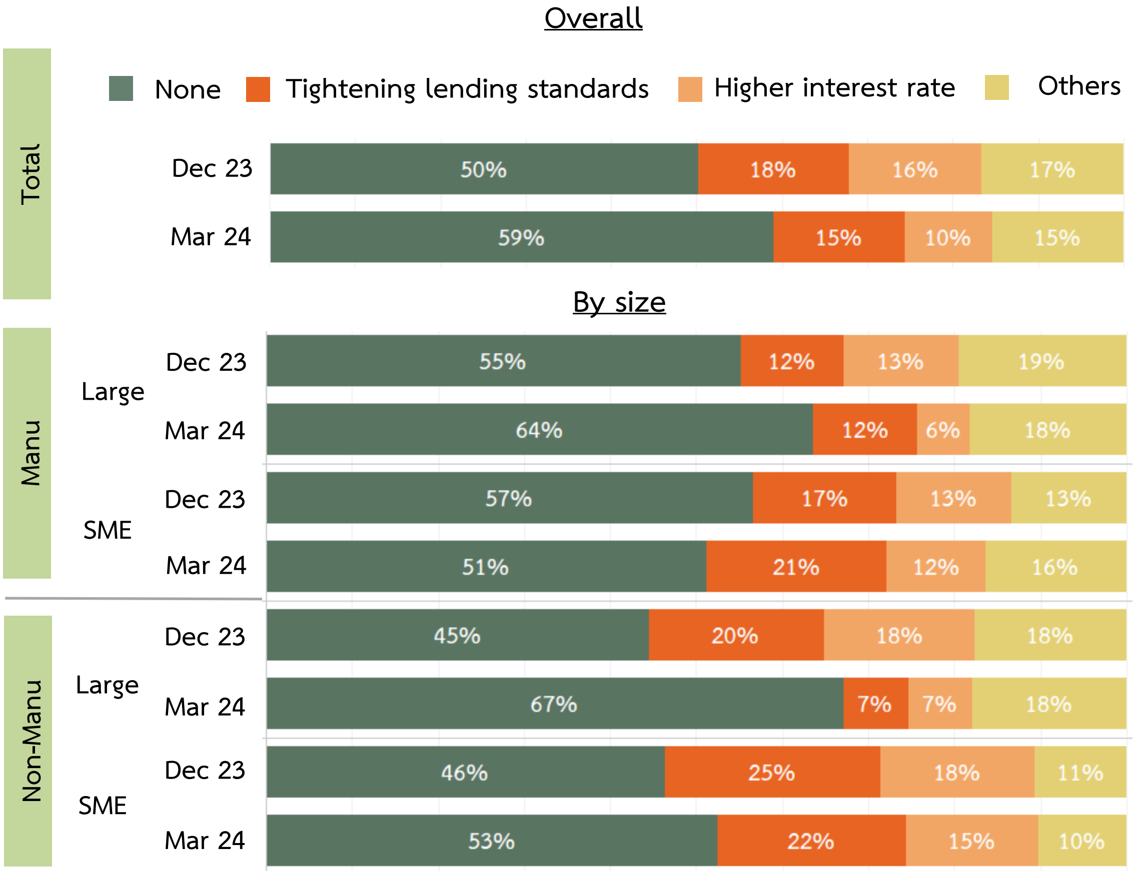
Overall business loans expand at a moderate pace partly due to debt repayments.



Note: Corporate bonds exclude banks, finance, and securities companies; business loans exclude interbank loans and public sector.

Source: BOT

SMEs in the manufacturing sector face higher difficulties in obtaining new loans



Unit: % of total respondents

Note: BSI Special survey results in Mar 24, round 2, number of respondents = 254

Question: Do you face higher difficulties in obtaining loans from financial institutions? Source: BOT

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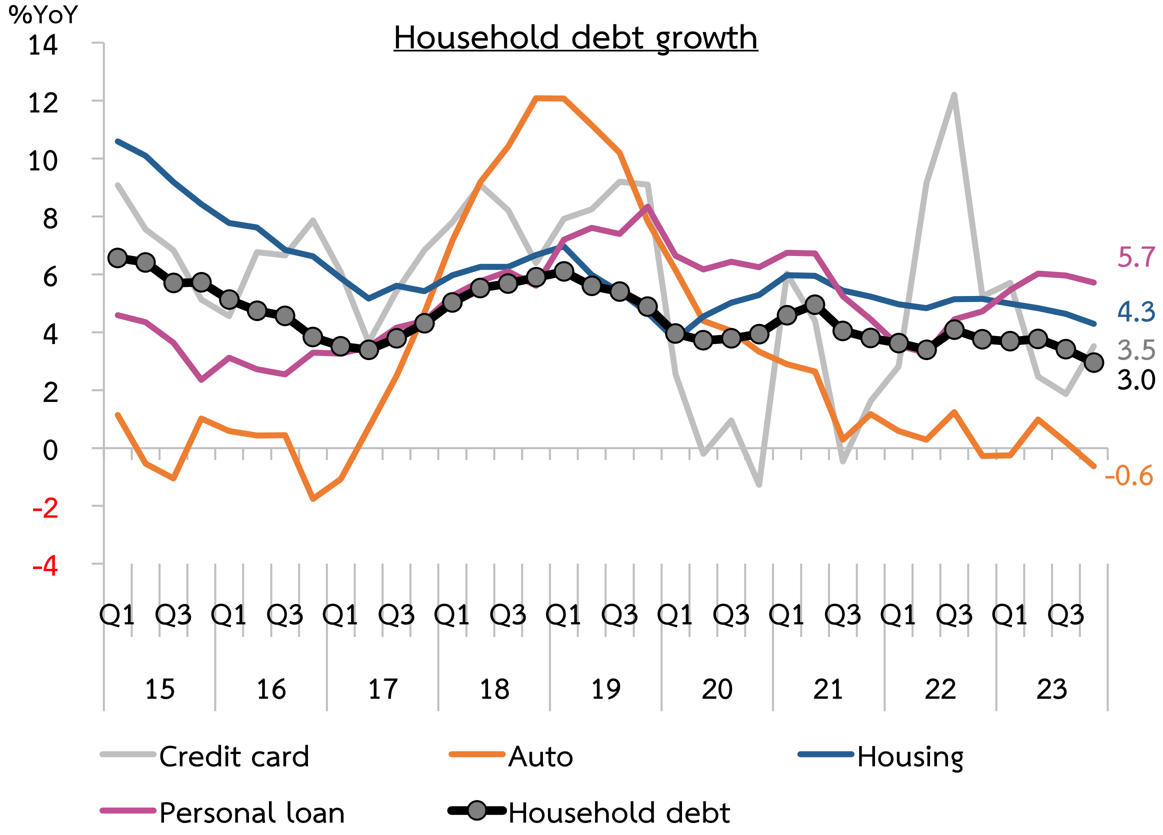
Household credit continues to expand, while financial institutions tighten lending standards on borrowers with deteriorating debt serviceability

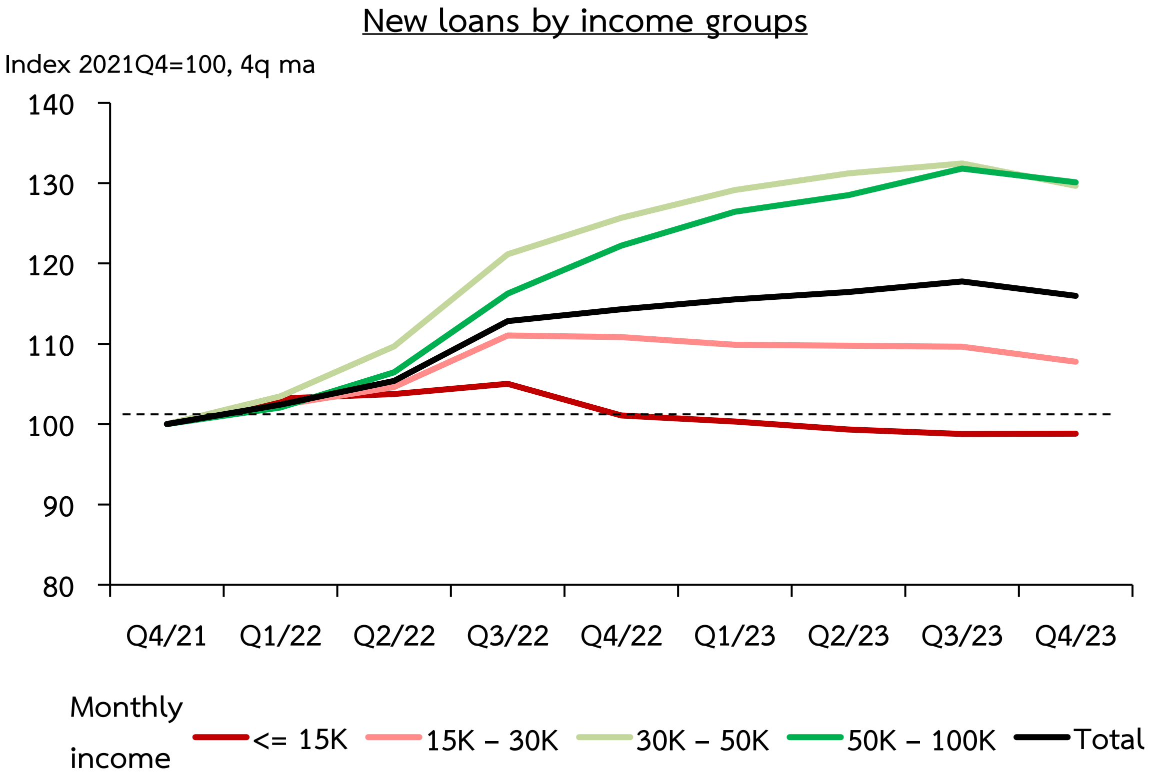
Household credit growth slows after having accelerated



Note: Personal loan comprises of Personal Loan under Supervision (PLR) and other consumer loans

Source: BOT

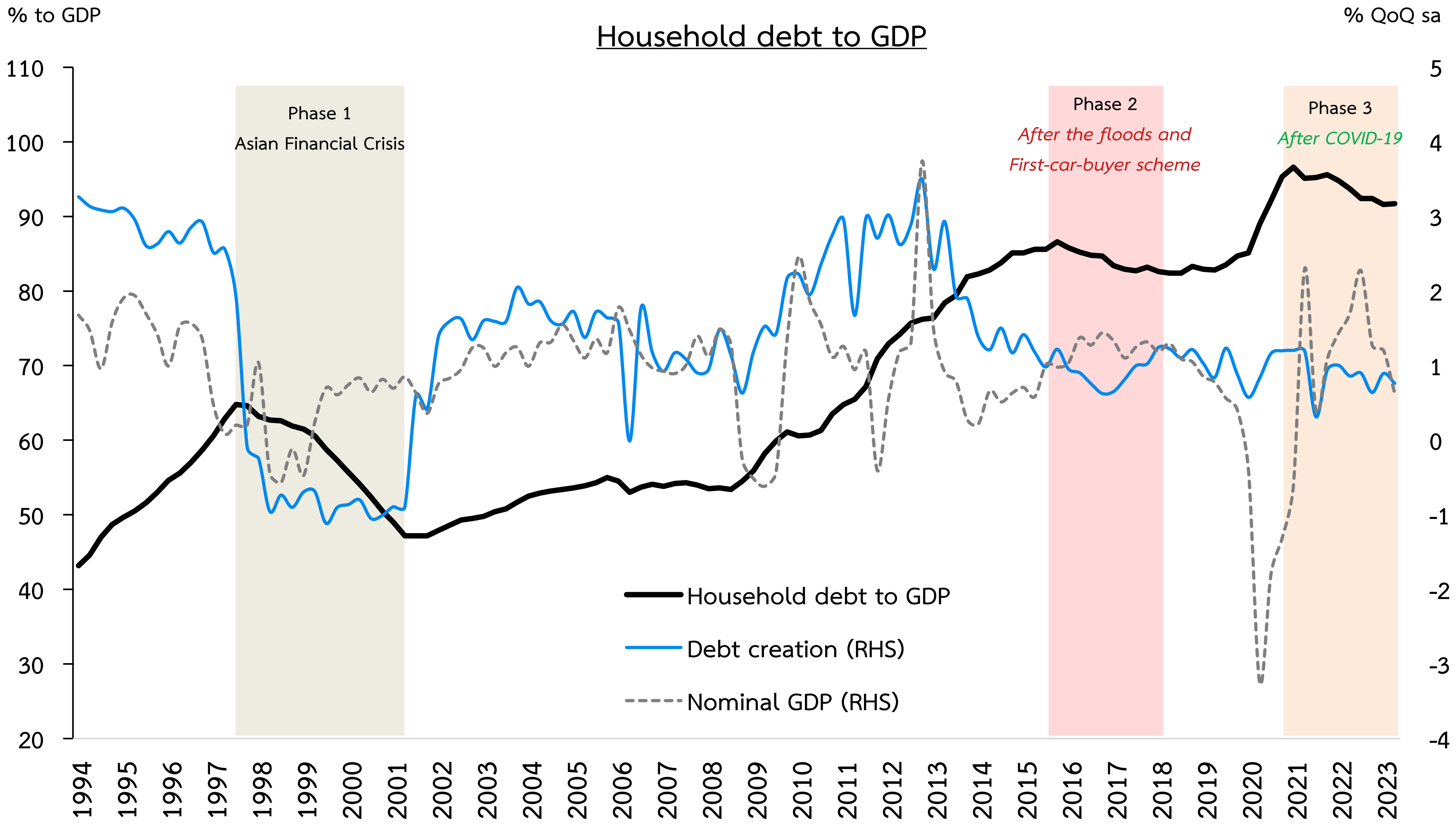
Commercial banks tighten lending standards for low-income groups according to their debt serviceability



Note : (1) Includes only Housing loans, Hire Purchase, Credit Card and Unsecured P-loan (includes Title loan) offered by commercial banks, SFI, and NB; (2) New loan for Hire Purchase uses credit limit as a proxy for different income groups

Source: LPC MGL and NCB, BOT calculations

Despite high levels of household debt, the deleveraging process continues gradually



Source: BIS, BOT calculations

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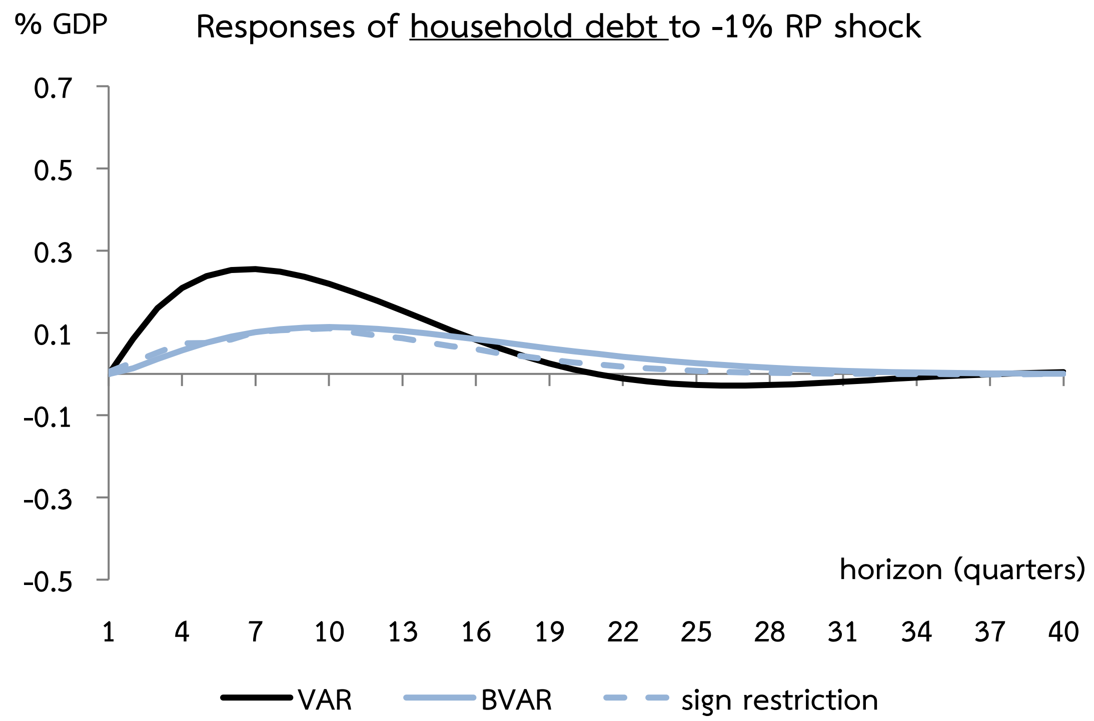
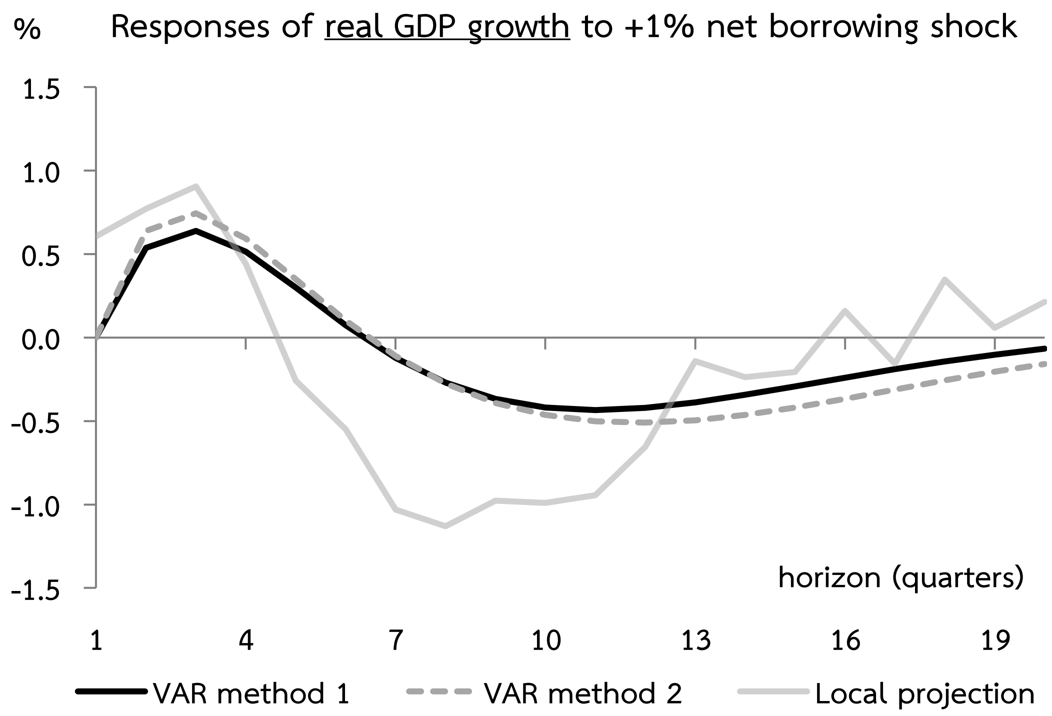
A low interest rate environment could lead to a build-up of financial fragilities

While a lower interest rate could help reduce debt servicing burden in the short run, it would also encourage new lending and resulting in higher debt level in the long run

While increase in household credit could help spur short-term growth, it would also lead to a more household indebtedness and a lower economic growth in the long run



Note: [1/] model specification according to Fagereng et al. (2022). Variables in the model are output gap, new borrowing,debt service, and Interest rate. Data from 1994 to 2023



Note:
Variables in VAR method (1) are real gdp growth, new borrowing, debt service, and Interest rate.
Variables in VAR method (2) are real gdp growth, inflation, new borrowing, debt service, and Interest rate.
Variables in Local projection are real gdp growth, inflation, new borrowing, debt service, and Interest rate.
Data from 1994 to 2023

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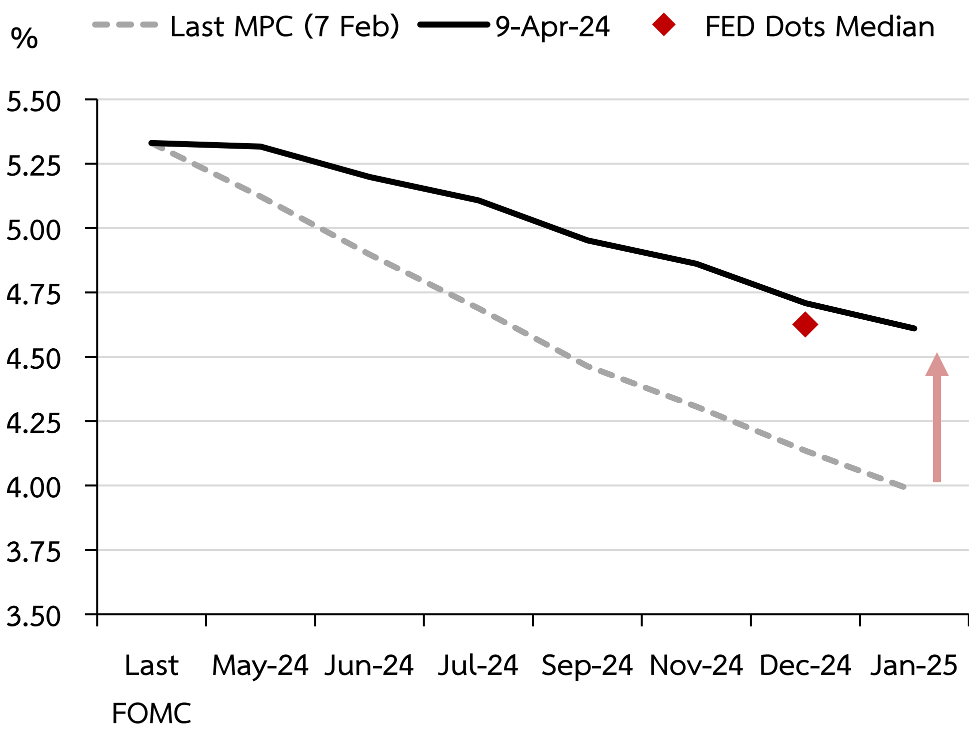
The baht remains volatile and depreciates due to the Fed's policy outlook and domestic economic and financial developments

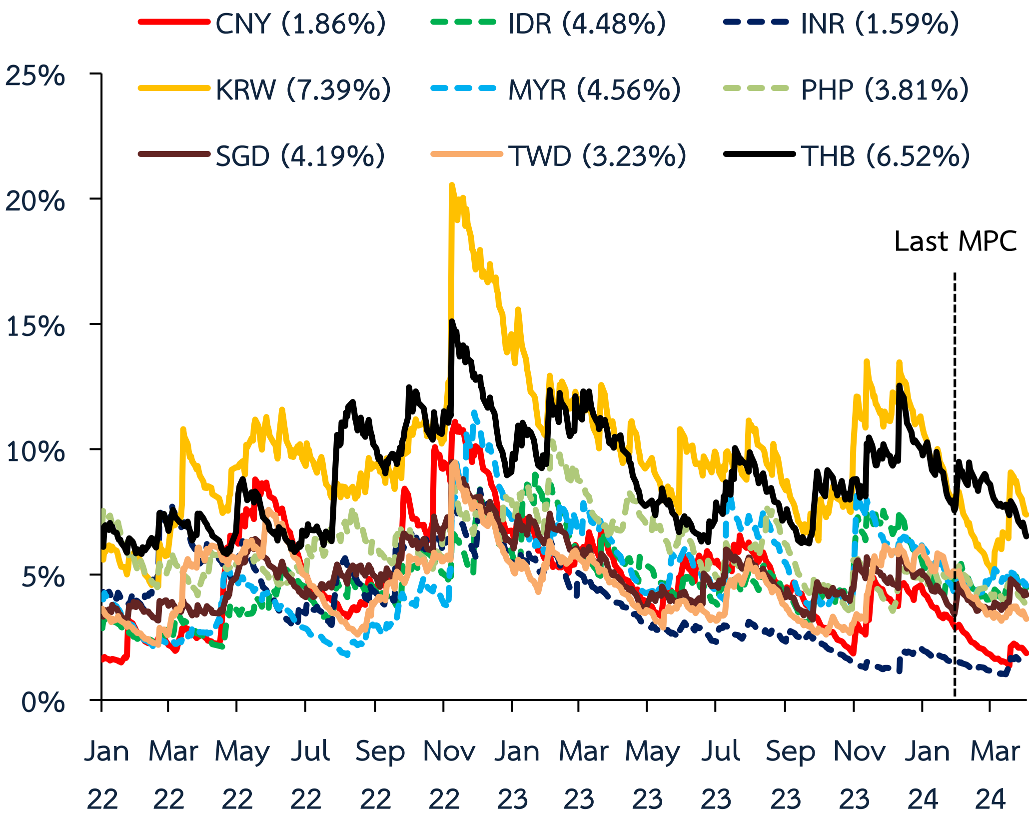
The market expects a delay in Fed's first rate cut

Implied Fed Fund Rate vs Median Dot plots



Source: FOMC dots plot and Bloomberg (as of 9 Apr 24)

The baht volatility remains high



Source: Reuters, BOT calculation (as of 5 Apr 2024)

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Macroeconomic projections as of April 2024

Annual percentage change	2023*	2024	2025
GDP growth	1.9	2.6	3.0
Domestic demand	3.5	3.1	3.1
Private consumption	7.1	3.5	2.9
Private investment	3.2	3.3	3.2
Government consumption	-4.6	1.8	3.3
Public investment	-4.6	1.0	5.0
Exports of goods and services	2.1	4.2	3.3
Import of goods and services	-2.2	3.8	3.5
Current account (billion, U.S. dollar)	7.0	13.0	17.5
Value of merchandise exports (%YoY)	-1.7	2.0	2.8
Value of merchandise imports (%YoY)	-3.1	2.5	3.0
Number of foreign tourists (million persons)	28.2	35.5	39.5
Dubai crude oil price (U.S. dollar per barrel)	82.1	85.0	80.0
Headline inflation	1.2	0.6	1.3
Core inflation	1.3	0.6	0.9

Note: * Outturns