Keynote Opening Address <Video clip>
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Today, I would like to touch upon three things: (1) the present economic outlook, (2) its implications for monetary policy, and (3) my observations on the concerns raised by credit rating agencies in their recent reports.

Part 1: Thailand's economic outlook

Thailand's economic recovery is intact despite a weaker than expected Q2-23 GDP outturn of 1.8%. The weakness came largely from softer contribution from the services sector, where spending from tourism was not as large as expected. While the number of tourist arrivals is still on track at a forecast of 29 million for this year, spending per head has been softer than expected due to the slow return of Chinese tourists. In addition, exports have also been weak, especially due to slower than expected recovery in the global electronics cycle, which was mainly driven by external factors. On the positive side, recovery in private consumption remains strong, at 7.8% in Q2-23, and we expect this to continue. Hence, the overall picture of economic recovery is still intact – driven by tourism and private consumption.

In terms of inflation, the overall picture is positive news. Inflation peaked at 7.9% in Aug-22 and there were concerns that Thailand was going to experience high inflation and possibly a wage-price spiral, but we did not see that. We have seen disinflation occur more rapidly than in many countries, and faster than we had expected. The figure for the latest month was about 0.4%. The decline in inflation was mainly attributable to temporary factors and we still expect inflation to gradually creep back up. One of the risks going forward is the El Niño, which will have significant impact on headline inflation given that food prices make up a large portion of our consumption basket. Overall, the inflation outlook is one where we expect inflation to remain within the target range of 1-3%.

Overall, economic recovery is likely to continue apace. But, as there has been more softness than our expectation, our forecasts for GDP growth and inflation will likely be adjusted downward when we put out our Monetary Policy Report in September.

Part 2: Implications for our monetary policy response

Given the current economic outlook, monetary policy is now at an inflection point. We previously communicated that our overriding objective was to try to ensure a smooth takeoff – continuous recovery – given that Thailand was hit harder by Covid-19 and the pace of recovery was much slower than regional peers. Now that the takeoff is happening, our objective is shifting towards getting the landing right.

To ensure a smooth takeoff, our monetary policy stance emphasized a "gradual and measured" approach towards policy normalization, meaning that we were not going to raise interest rates in a heroic fashion as we saw in other countries. This was because the circumstances in Thailand were very different – recovery was slower, inflation was driven largely by supply-side factors, the economy was not over-heating. As a result, we did not want to normalize too rapidly.

Now, as many have noted, we have taken out the "gradual and measured" language from our latest press statement to signal that we are shifting towards a different phase of policy normalization

where we are trying to get the landing right. This means that we are now paying more attention to medium-term considerations and trying to get the interest rate as close as possible to the neutral level consistent with long-term equilibrium – (1) inflation sustainably residing within target range of 1-3% (2) GDP growth coming in at long-term potential range of 3-4% and (3) the level of interest rate not contributing to financial sector imbalances. Thailand has had low rates for quite a long time, and this has led to a built up of some imbalances, as evidenced by our high level of household debt.

We are guided by several principles in undertaking monetary policy. One that we have tried to articulate is that we are outlook dependent rather than data dependent. Data comes out with a lag and policy reacts with a lag. Sometimes data is noisy, so, if we were to adjust policy in response to data, we would be adding noise to the market, which we do not want to do. There is enough noise in the market without policymakers contributing more to that noise. Outturns do matter but insofar as they inform the longer-term outlook, which will be our guide in undertaking monetary policy decisions.

Finally, normalization is not happening just on the monetary policy front but also on the financial policy front. A lot of measures that were implemented to address shocks from Covid-19, such as regulatory forbearance measures to encourage debt restructuring, will expire at the end of this year. We do not see need to continue with these measures as their continued existence could create undesirable and unintended consequences. Therefore, the whole policy package, including both monetary and financial policies, is oriented towards trying to normalize and getting that landing right.

Part 3: Observations on credit rating agencies' concerns

Finally, I want to offer my observations on some of the issues raised by Fitch and other credit rating agencies in their latest credit rating reports.

Household Debt

The first issue is household debt. As is well known, household debt in Thailand, at 90.6% of GDP, is higher than what we would like to see. Household debt had been trending up since pre-Covid and accelerated even higher during the pandemic. There is no magic number out there, but international guidelines suggest that household debt above 80% of GDP is not healthy from a long-term sustainability standpoint. So, we would like to see the number gradually come down.

A positive point to note, in terms of impact on overall macro-financial stability, is that the level of household debt is still manageable at present and unlikely to create financial sector stresses in a broad manner for several reasons. First, the largest portion of household debt is in the agricultural sector where exposure to the commercial banking system is quite limited. Second, the impact of interest rate normalization in terms of people's debt burdens has been somewhat less than in other countries, because a good portion of household debt in Thailand is either fixed-rate or fixed-installment in nature. Third, impact on commercial banks has remained well contained, as noted in various credit rating reports.

That said, household debt is too high. We want to see it come down and we are not sanguine about it. Hence, we have recently rolled out a set of policy measures that we feel is appropriate at this juncture. Tackling household debt during the middle of the pandemic would not have been appropriate because people needed access to credit during that period. But now that things are getting back to normal, it is time to address the household debt problem. The first set of measures is the Responsible Lending guidelines, particularly in dealing with persistent debt, which will be effective

at the beginning of next year. Along with that, there are measures to explore the use of risk-based pricing and, later on, the implementation of macroprudential measures – the debt service ratio.

As household debt is a long-term problem, there are no quick fixes. It will take time to bring down the level of household debt and we are very careful not to do something that would create unintended consequences or moral hazards. What we have emphasized, since the very beginning of the Covid-19 crisis, was the importance of implementing measures that are more targeted and less blanket to minimize unintended consequences. This is the approach that we will continue to take going forward.

Public Debt

The second issue of concern is public debt. On this topic, let me offer a few observations on how it relates to the overall macroeconomic picture. As with household debt, public debt has ramped up quite rapidly during the pandemic, as it has in every other country, to about 61% of GDP. The increase was appropriate because we needed fiscal stimulus to support the economy at that time. Furthermore, the fiscal stimulus that was applied was reasonably well measured – it was not as extensive or as large as we saw in some of the advanced economies. Now, in a situation where things are gradually coming back to normal, we would like to see greater consolidation on the fiscal front, just as on the monetary front.

That said, several factors indicate that the present level of public debt to GDP, which is relatively higher than before, is still manageable. First, the public financing structure is reasonably sound and robust. We have a very low share of foreign debt in our public debt picture, foreign participation in our public debt market is not as high as in other countries in the region, and the maturity is quite long – average time to maturity is over 8 years. Second, in terms of debt dynamics, we still have a favorable differential in terms of interest rates and growth rate. The ratio of public debt to GDP is going to evolve according to how interest rates compare with GDP growth rate. If you look at the numbers now, a ballpark nominal GDP growth rate of about 5% is still higher than the 10-year government bond yield of about 2.7%.

Thailand's Strengths

Many credit rating reports have highlighted Thailand's resilience as a strength. One thing that has contributed to our resilience is the fact that we have good buffers, especially on the external front. Our external debt is relatively low compared to our ample foreign exchange reserves. Our current account this year is expected to be in surplus, particularly as a result of the return of tourism, which we expect to continue. Overall, most of the metrics indicate that Thailand has good buffers that have served us very well. We have seen several shocks that hit a lot of countries. Thailand has weathered through those shocks reasonably well. A good part of that resilience comes from the fact that we had been careful in maintaining strong external buffers. This signals the need to rebuild our other buffers as well, including our policy space both on the monetary front and, hopefully, on the fiscal front.

The last point I would like to highlight is our sound macroeconomic policy framework. This has been evident in Thailand for a very long time, through careful and prudent policy making across different government agencies. Last year, the Bank of Thailand had just celebrated our 80th anniversary. For more than 80 years now, we have been delivering on our mandate of ensuring monetary and price stability, financial stability and payment systems stability in a responsible manner, and we will continue to do so going forward.

Thank you very much.