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Members Present

Sethaput Suthiwartnarueput (Chairman), Mathee Supapongse (Vice Chairman), Vachira Arromdee, Kanit Sangsubhan, Rapee Sucharitakul, Somchai Jitsuchon, and Subhak Siwaraksa

The Global Economy and Financial Markets

Trading partner economies would continue to expand in the period ahead albeit at a slower pace. The Omicron outbreak would affect the global economy in early 2022 which would likely recover gradually afterwards. Growth in advanced economies (AEs) would gradually decline from 2021 after a substantial recovery in the previous year. In addition, AEs were affected by the new wave of the outbreak and prolonged global supply disruptions. The Chinese economy would also decelerate as a result of stricter containment measures and concerns over the new wave of the outbreak that affected production and freight. The slowdown would also be attributable to dampened investment following government measures to curb imbalances in property markets and more stringent environmental regulations on certain manufacturing activities. Meanwhile, Asian economies came under pressure in the previous period as the spread of the Delta variant prompted governments in many countries to re-impose strict containment measures. Nevertheless, Asian economies would gradually recover going forward despite the Omicron outbreak.

Volatilities in global financial markets increased due to mutations of the virus and monetary policy normalization in AEs which was faster than market expectations. Financial asset prices exhibited volatile movements in light of concerns over the Omicron outbreak as well as faster-than-expected monetary policy normalization in AEs, particularly in countries with inflation overshooting the target. The Federal Reserve announced the tapering of bond purchases and signaled a faster pace of policy rate normalization. Some emerging market (EM) central banks started raising their policy rates to tackle elevated inflation. Meanwhile, **volatility of the baht remained high. The nominal effective exchange rate (NEER) depreciated from the previous meeting,** as with most regional currencies that depreciated amid concerns over the Omicron outbreak. **Looking ahead, global financial markets would remain highly volatile** given (1) the risk that central banks could adopt a faster pace of monetary policy normalization to curb high inflation, (2) the spread of Omicron that could hamper the global economic recovery, and (3) the risk arising from China's domestic regulations and international policies which could affect the global economic outlook and energy prices.

Domestic Economy

The Thai economy would grow 0.9 percent in 2021 and would continue to expand 3.4 and 4.7 percent in 2022 and 2023, respectively. Growth projection would be driven by domestic spending, a gradual improvement in foreign tourist figures, as well as the recovery in various business sectors in line with economic activities. However, employment and incomes were still below pre-pandemic levels. Meanwhile, fiscal support would taper following the substantial stimulus earlier. Merchandise exports would decelerate somewhat in tandem with the trading partner growth outlook and the additional impact of the Omicron outbreak. Foreign tourist figures were expected to be 5.6 million in 2022, lower than the previous projection at 6 million, as a result of the outbreak which would affect the international travel sentiment in early 2022. Private investment would recover in line with domestic and external demand albeit at a lower rate than expected due to uncertainties surrounding the impact of mutations of the virus, which would affect investment decisions. The Thai economy could underperform the baseline projection should the impact of viral mutations become more severe and prolonged than anticipated.

Headline inflation was expected to remain within the target, with headline inflation projection at 1.2, 1.7, and 1.4 percent in 2021, 2022, and 2023, respectively. Inflation would increase temporarily due to supply-side factors, particularly energy prices as well as global production and freight constraints, which were expected to subside in the second half of 2022. The likelihood of second-round effects remained low due to limited ability of businesses to pass-through the higher costs to consumers. A survey conducted in November 2021 also revealed that 55 percent of businesses would not raise prices within the next three months, citing that there was intense competition while domestic purchasing power remained weak given elevated household debt and fragile labor market conditions. Headline inflation was expected to rise in line with domestic demand recovery, while inflation expectations remained anchored within the target. Nevertheless, Thailand’s inflation would be subject to upside risks including higher global inflation and cost pass-through.

Going forward, the recovery of the Thai economy would remain fragile and subject to high uncertainties as follows. First, the Omicron outbreak could have more widespread, severe, and prolonged effects than the baseline projection, depending on the severity of the situation and the strictness of containment measures. Second, the sentiment of the public and businesses could be dampened given multiple waves of outbreaks and high household debt. Third, government measures to support the economic recovery could be adversely affected in terms of continuity and adequacy. Fourth, global supply disruptions could persist and affect manufacturing and exports businesses.

<u>Discussions by the Committee</u>

- **The Committee assessed that the spread of the Omicron variant was a key risk that could hinder the economic recovery going forward, and thus warranted close monitoring. Although, under the baseline scenario, the Omicron outbreak would not derail the overall Thai economic recovery, the outbreak situation remained highly uncertain and could have larger and more prolonged impacts than expected. This would depend on the severity of the outbreak and the strictness of the corresponding containment measures.** The Committee assessed that the Thai economy would continue to expand despite impacts of the Omicron outbreak on domestic spending, foreign tourist figures, and merchandise exports in early 2022. The Committee also assessed, under the baseline scenario, that although the Omicron variant had a higher transmission rate than the previous variants, the efficacy of existing vaccines would help reduce the severity of the symptoms to some extent. The government was therefore expected to implement area-specific containment measures and suspend the Test & Go registration for foreign tourists only temporarily. As a result, the impact on foreign tourist figures in 2022 would be limited, as foreign tourist figures were previously forecasted to begin accelerating only in the second half of 2022. The tourism sector would thus remain an important economic growth driver and would support the Thai economy to recover to pre-pandemic levels by early 2023. Under the worse scenario, the Omicron outbreak would be widespread despite efforts to accelerate vaccination rates. This would create a strain on public health capacity in some areas and prompt the government to impose more stringent containment measures than in the baseline scenario. Consequently, economic activities would be directly affected in the first half of 2022 via dampened confidence and domestic spending. Furthermore, international travel restrictions by various countries would result in a sharp fall in Thailand's foreign tourist figures. This could impede the recovery of the tourism sector which was a key growth driver, and would thus delay the economic recovery to pre-pandemic levels relative to the baseline scenario.

- **The Thai labor markets would take a longer time to return to pre-pandemic levels than the recovery of overall economic activities. There was thus a need to monitor indicators that reflected the quality of the economic recovery.** The recovery in the period ahead would be uneven across sectors. Therefore, a broader range of indicators would be needed to reflect the recovery across sectors and income groups, particularly labor market indicators such as the number of unemployed and underemployed workers, as well as income loss. **The Committee assessed that, although the Thai economy was expected to recover to pre-pandemic levels by 2023, the labor market would remain fragile.** This was reflected by the outlook of non-farm income in 2023 which would still be lower than pre-pandemic levels.
- **The COVID-19 outbreak not only caused a severe impact on economic activities in the short run but would also affect Thailand's potential growth in the long run.** Several factors that could weigh on potential growth included delays in investment given higher uncertainties, difficulties for a large number of workers in adapting to new types of jobs, and the need for businesses to adjust production processes in order to reduce risks from the outbreak. Another factor was a reduction in reliance on potentially fragile supply chains due to production disruptions by focusing on the continuity of production processes rather than the increase in production efficiency. Such long-run impacts must also be considered when evaluating the economic shortfall relative to potential.
- **Thailand's inflation would increase temporarily in line with global energy prices and would be within the target. However, there remained a need to closely monitor dynamics of global and domestic inflation.** The Committee noted that Thailand's inflation would rise due mainly to supply-side factors, especially energy prices. Meanwhile, domestic inflationary pressures remained low compared to those of other countries due to the following reasons. First, the Thai economy had just recovered from a series of outbreaks unlike other economies that had already recovered to pre-pandemic levels, resulting in relatively low demand pressures. Second, Thai businesses had not passed on the higher production costs to consumer prices widely enough to cause wage increases, which were a key driver of the second-round effect like what happened in some emerging markets in Latin America. This was because most businesses in Thailand at present decided not to adjust their prices and instead absorbed the higher costs themselves owing to weak purchasing power of Thai consumers. Third, price administration by the government helped reduce cost-push pressures to some extent.

Nevertheless, the Committee assessed that inflation in the period ahead would be subject to upside risks owing to fast rising global inflation and higher cost pass-through. If the spread of the Omicron variant prolonged global supply disruptions further, while global energy prices remained high for an extended period, overall production costs would increase, putting pressures on businesses to pass on higher costs and quickly increase prices. This would consequently put upward pressures on inflation and inflation expectations. Therefore, factors that would influence Thailand's inflation dynamics should be closely monitored.

- **The Committee viewed that policy coordination among government agencies were critical to ensure that the economic recovery remained intact.** This was because the recovery going forward would be highly uncertain due to several factors including (1) the prolonged outbreak and mutations of the virus, (2) momentum of fiscal support after the phase-out of government measures, and (3) cost pass-through from higher global energy prices in case natural gas and oil prices were to remain high for longer than anticipated. These factors could hinder the economic recovery going forward, and the Committee would thus closely monitor and assess these risks to the economy. Furthermore, the Committee emphasized the importance of expediting debt consolidation and debt restructuring in a sustainable manner through the scheme launched on September 3, 2021. This would address the debt overhang problem in a targeted and practical manner, lowering risk to economic growth in the medium term.

Monetary policy decision

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support the economic recovery which remained highly uncertain.

The Committee assessed that the Thai economy would continue to expand due to domestic spending and a gradual improvement in foreign tourist figures. Meanwhile, the recovery in various business sectors was expected to improve in line with economic activities. The Committee assessed that the Omicron outbreak would affect the economy in early 2022. The impact could be more severe and prolonged than expected due to downside risks such as the severity of the outbreak and the strictness of corresponding containment measures. However, there remained a need to monitor the labor market recovery, especially with regard to employment and incomes which were still below pre-pandemic levels. **The Committee viewed that the continued accommodative monetary policy would help support overall economic growth, and thus voted to maintain the policy rate. In addition, the ongoing financial and fiscal measures, with the focus on rebuilding and enhancing potential growth, would play an important role in bolstering the robust recovery of incomes.**

The volatility of the baht relative to the US dollar remained high due to uncertainties surrounding the COVID-19 situation that could escalate as well as monetary policy in advanced economies amid high inflationary pressures. The Committee would closely monitor developments in both global and domestic financial markets, and continue to expedite the new foreign exchange ecosystem, particularly through supporting SMEs in hedging against risks from exchange rate volatility.

The Committee viewed that the government measures and policy coordination among government agencies would be critical to support the economic recovery. Public health measures should strike a balance between containing the outbreak and supporting the recovery of economic activities. Fiscal measures should support the economic recovery in a targeted manner, with a focus on generating income and expediting measures to rebuild and enhance potential growth. Monetary policy should contribute to continued accommodative financial conditions overall. Financial and credit measures should be expedited to distribute liquidity to the affected groups in a targeted manner and help reduce debt burden. In addition, financial institutions should accelerate debt consolidation and debt restructuring in a sustainable manner.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, **the Committee continued to put emphasis on supporting the economic recovery.** In addition, the Committee would monitor key factors affecting the economic outlook, namely mutations of COVID-19 virus, adequacy of fiscal, financial, and credit measures, and higher cost pass-through. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

In the medium term, the Committee viewed that appropriate monetary policy should be considered in an integrated manner, taking into account interaction among monetary policy tools and trade-offs among policy objectives of price stability, economic growth, and financial system stability in light of the economic outlook and potential risks. At the current juncture, accommodative monetary policy reflected the assessment that risks to the economic growth were higher than risks to other policy objectives. In the period ahead when economic growth returned to normal and the associated risks subsided, relative importance of policy objectives should be reassessed in line with the evolving situation, especially in the case of increasing risks to the inflation outlook and financial system stability. Effective integration of policy tools with medium-term considerations amid rising uncertainties would thus be critical.

Monetary Policy Group

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