

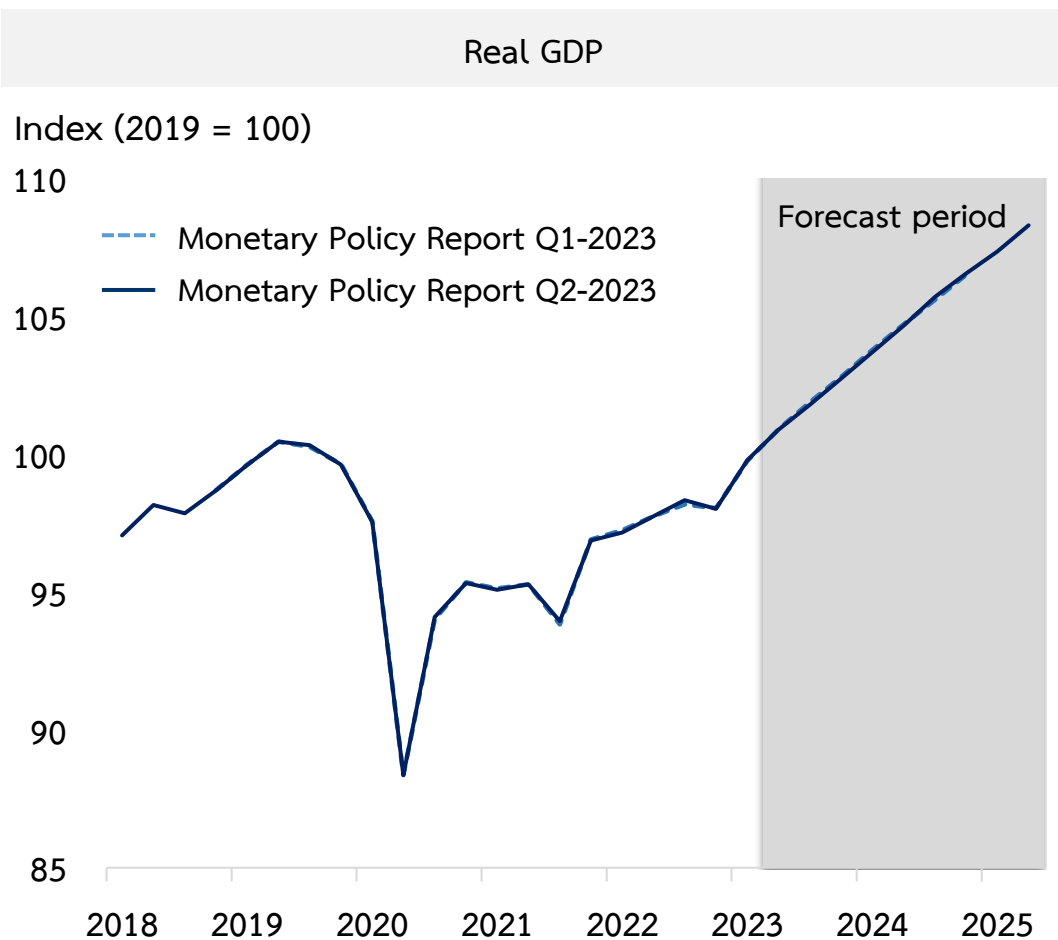
# Monetary Policy Forum 2/2023

14 June 2023

(Economic projections as of 30 May 2023)



The Thai economy is projected to expand 3.6% in 2023 and 3.8% in 2024, driven mainly by tourism and private consumption. Meanwhile, merchandise exports are expected to recover gradually.



	Growth (%YoY)	2022*	2023	2024
GDP Growth		2.6	3.6 (3.6)	3.8 (3.8)
Domestic Demand		4.1	2.5 (2.5)	3.2 (3.3)
Private Consumption		6.3	4.4 (4.0)	2.9 (3.1)
Private Investment		5.1	1.7 (2.1)	4.9 (4.8)
Government Consumption		0.2	-2.8 (-2.2)	1.1 (1.1)
Government Investment		-4.9	2.5 (3.7)	6.8 (7.8)
Export volume of goods and services		6.8	7.3 (6.8)	6.7 (7.4)
Import volume of goods and services		4.1	0.9 (1.4)	5.5 (5.5)
Current account (billion U.S. dollars)		-17.2	6.0 (4.0)	12.5 (12.5)
Value of merchandise exports (%YoY)		5.5	-0.1 (-0.7)	3.6 (4.3)
Value of merchandise imports (%YoY)		15.3	0.7 (1.2)	4.2 (4.2)
Number of foreign tourists (million persons)		11.2	29.0 (28.0)	35.5 (35.0)

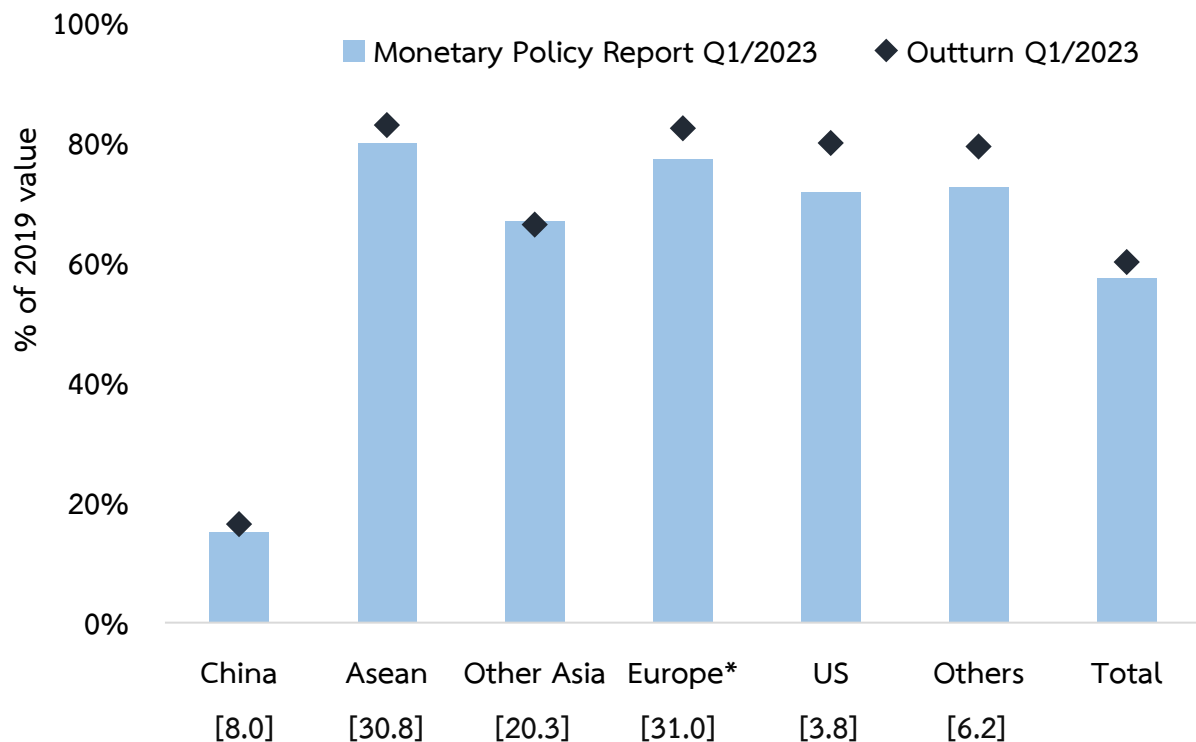
Note: \* = outturn; ( ) = previous forecast from Monetary Policy Report Q1-2023

Source: NESDC and BOT forecast

Tourism should continue to recover robustly. Foreign tourist arrivals in Q1/2023 were higher than expected across almost all nationalities. Meanwhile, recovery in the number of Chinese tourists was largely in line with expectation.

Recovery ratio of foreign tourist arrivals by nationality

Foreign tourist arrivals in Q1/2023 = 6.5 million persons



Note: [ ] = share of total foreign tourist arrivals in Q1/2023

\*The Ministry of Tourism and Sports has recently revised the country grouping with Israel now grouped under Europe instead of the Middle-East. The data presented in this chart has already been revised backwards to reflect the new country grouping.

Foreign tourist arrivals

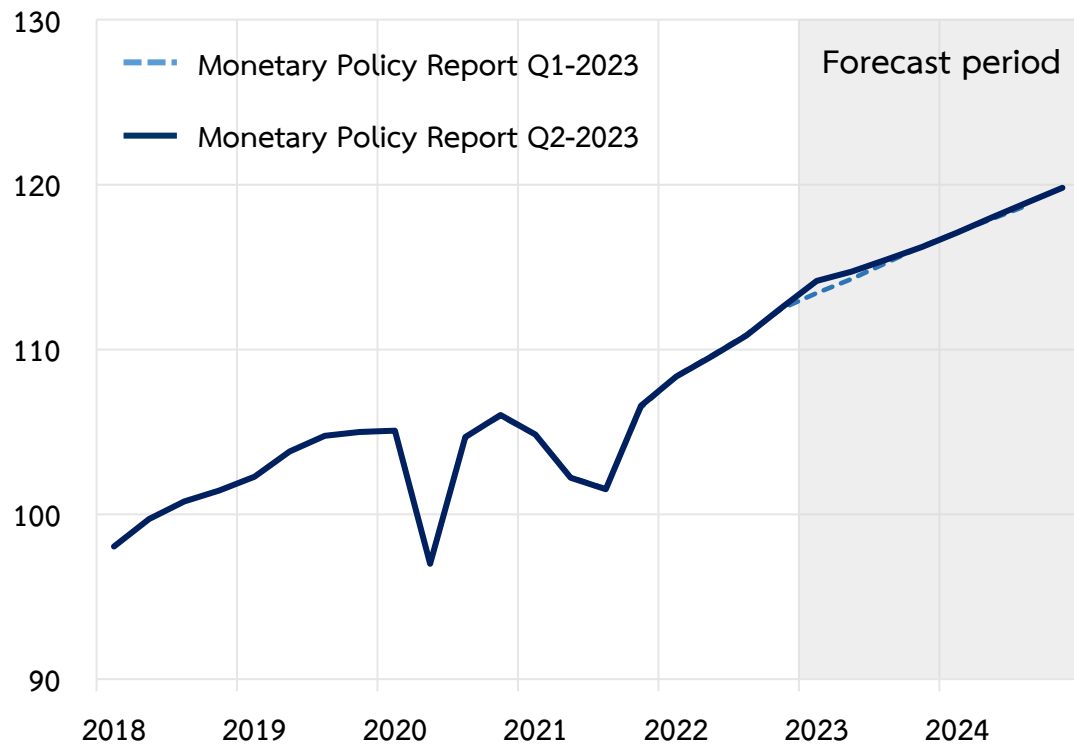


	2022	2023		2024	
		MPR Q1/2023	MPR Q2/2023	MPR Q1/2023	MPR Q2/2023
Million persons	11.2	28.0	29.0	35.0	35.5
% of 2019 value	28%	70%	73%	88%	89%

## Private consumption should gain further traction propelled by labor market recovery, resulting in improved consumer confidence across all occupations

### Real private consumption

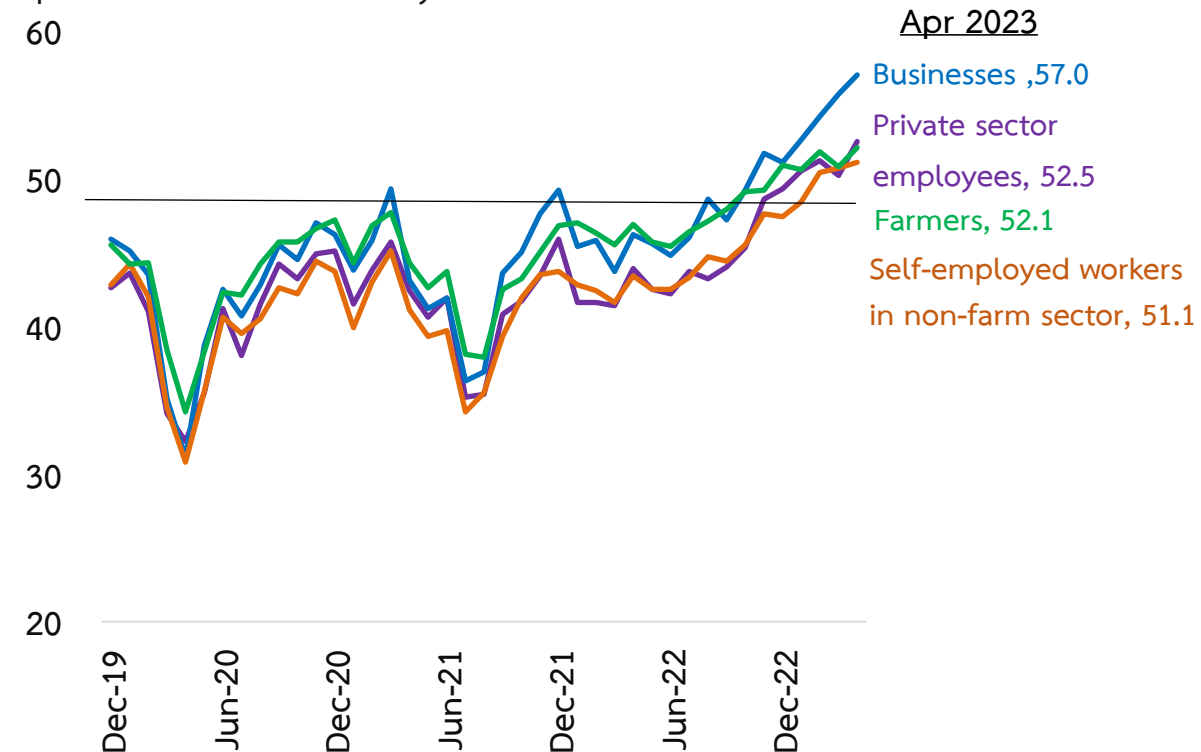
Index (2018 = 100)



Source: BOT forecast

### Consumer confidence index by occupation

Diffusion index >50 indicates that consumers are more optimistic about the economy



Note: The index is compiled using survey data from 7,621 consumers across districts in Thailand (884 districts)

Source: Ministry of Commerce; BOT calculation

Global economic outlook has improved as reflected in better-than-expected Q1/2023 outturns. The global economy is expected to continue expanding in 2024 driven mainly by the services sector.

### Growth assumptions for Thailand's key trading partners

%YOY	Share of exports in 2022 <sup>1/</sup> (%)	2022 <sup>2/</sup>	2023		2024	
			MPR Q1/2023	MPR Q2/2023	MPR Q1/2023	MPR Q2/2023
US	16.6	2.1	0.9	1.2	1.3	1.1
Euro area	6.8	3.5	0.7	0.8	1.3	1.2
Japan	8.6	1.0	1.1	1.1	1.2	1.2
China	12.0	3.0	5.5	5.9	5.4	5.1
Asia <sup>3/</sup>	21.5	3.8	3.7	3.6	4.3	4.1
Total <sup>4/</sup>	70.8	2.9	2.5	2.6	2.9	2.7

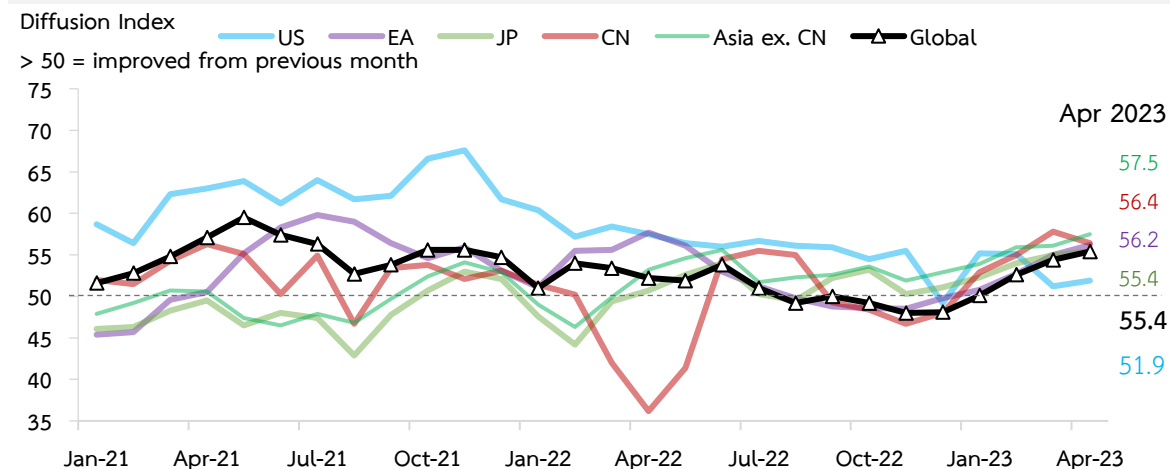
Note: <sup>1/</sup> Share of total Thai exporting values to key trading partners in 2022

<sup>2/</sup> Outturn with backward revision for some countries

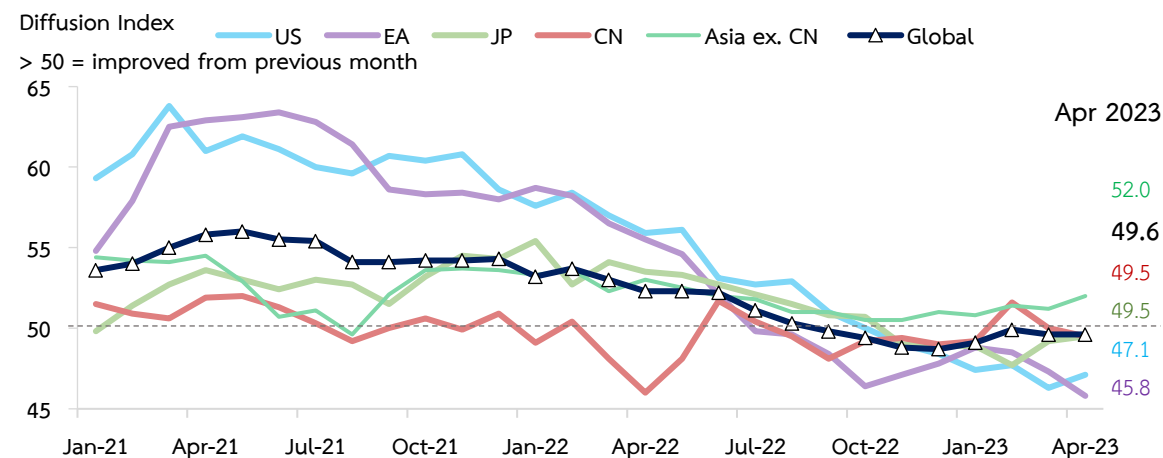
<sup>3/</sup> Asia (ex. Japan and China) includes Singapore (3.6%), Hong Kong (3.5%), Malaysia (4.4%), Taiwan (1.6%), Indonesia (3.6%), South Korea (2.2%), and the Philippines (2.6%)

<sup>4/</sup> Includes UK and Australia

### Purchasing Managers' Index (Service)



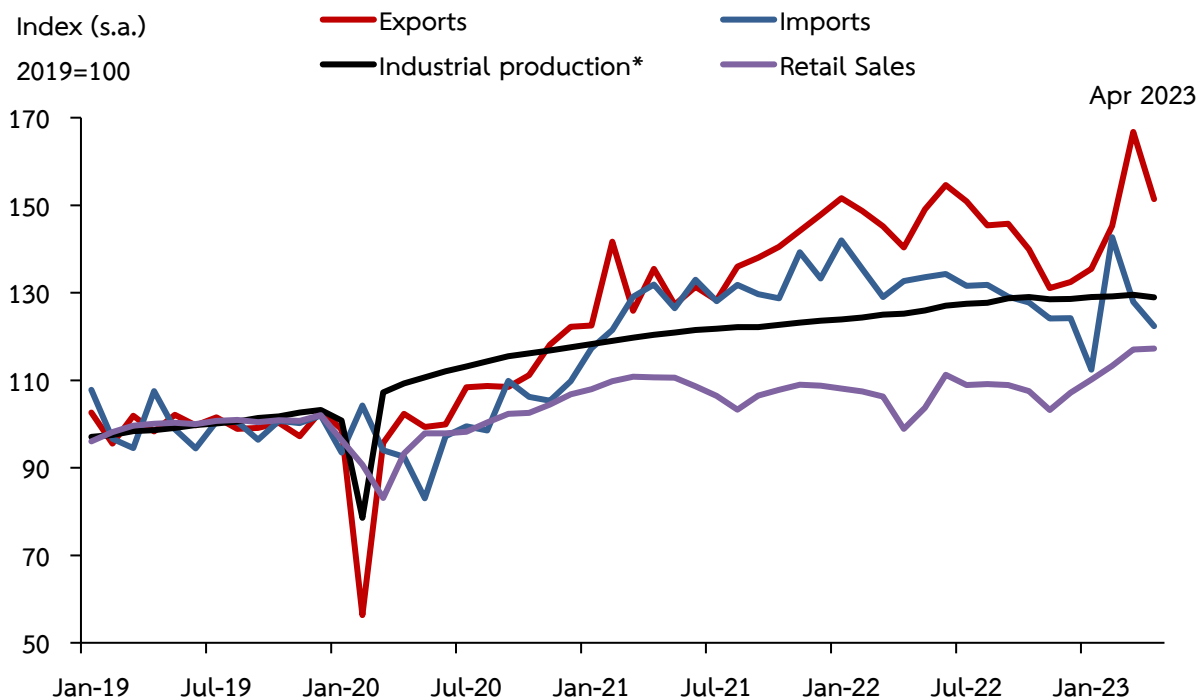
### Purchasing Managers' Index (Manufacturing)



Source: CEIC, IHS Markit

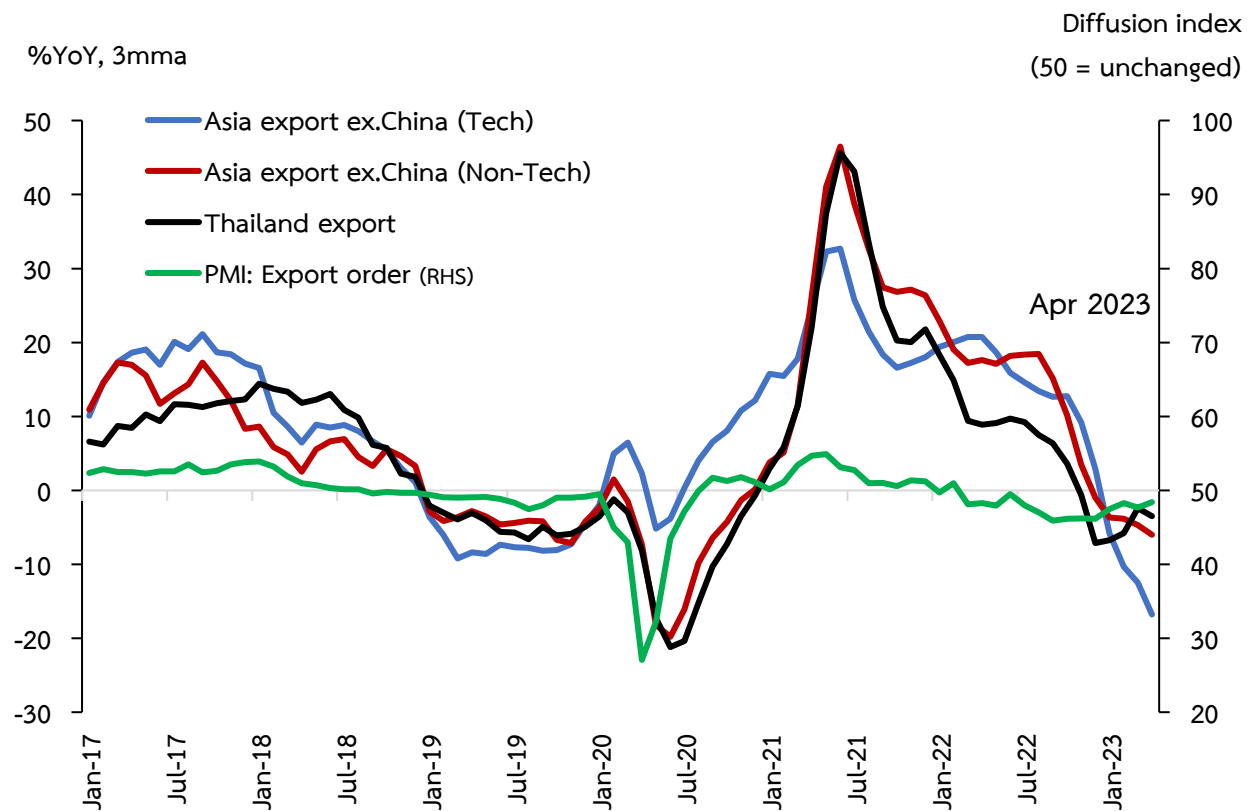
# Asian exports have yet to see a firm recovery partly due to China's high level of manufacturing inventories and greater reliance on its domestic production capabilities

The Chinese economy should expand on the back of consumption and activities in the services sector, while the manufacturing and imports are still recovering at a gradual pace



Source: CEIC  
Note: \* Industrial production in China is the seasonally adjusted %MoM change, using data from official sources.

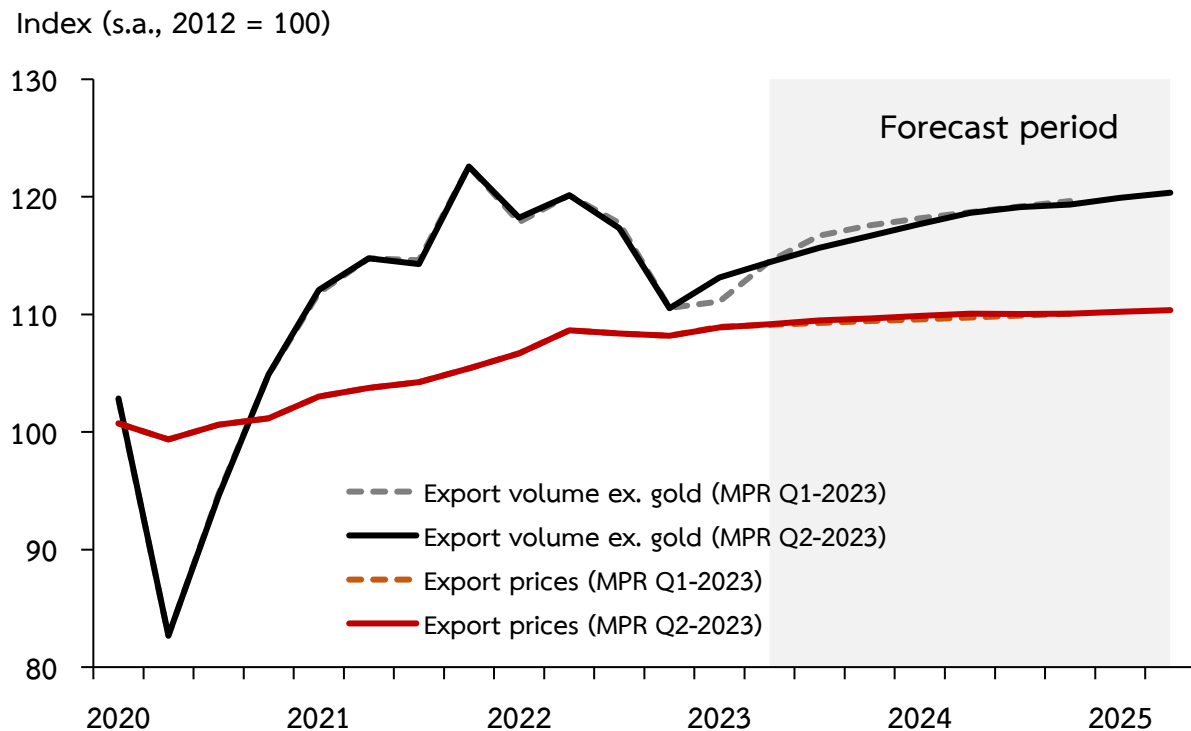
## Asian exports (ex. China)



Note: (1) Asia ex. China includes JP MY SG ID PH KR TW; (2) Tech includes electronics equipment, product and machinery; (3) Exports data in Mar-2023 only includes SG, KR, TW, MY and JP  
Source: CEIC and WSTS

## Merchandise exports are recovering gradually, broadly consistent with expectation and should pick up pace in the second half of 2023

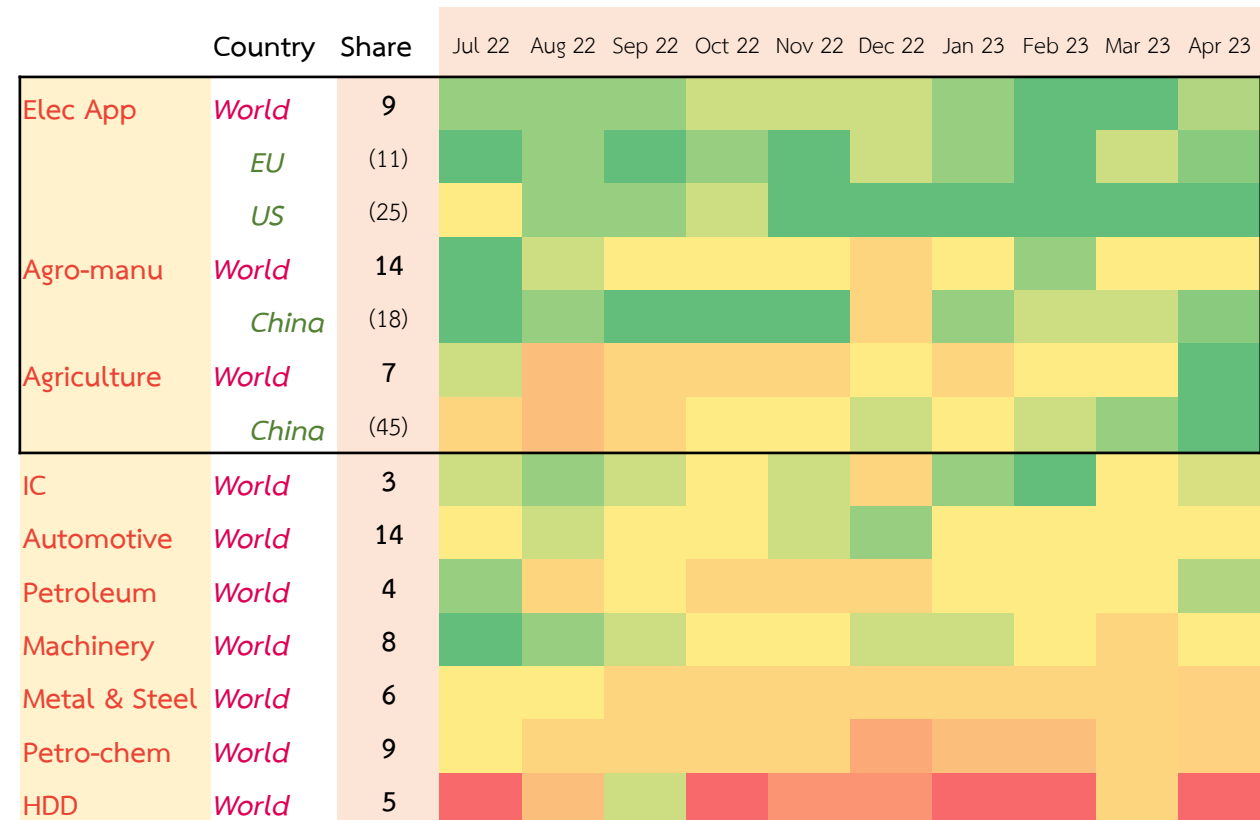
Projected merchandise exports (ex. gold)



Growth (%YoY)	Export value	Export prices	Export volume
2023	-0.1 (-0.7)	1.1 (0.9)	-1.2 (-1.6)
2024	3.6 (4.3)	0.6 (0.6)	3.0 (3.7)

Note: ( ) previous forecast from Monetary Policy Report Q1-2023

Exports of some products to Chinese, US, and EU markets were relatively strong



Note: 1. Share = share of total Thai exports in 2022

2. ( ) = each market's share of total exports of that particular product in 2022

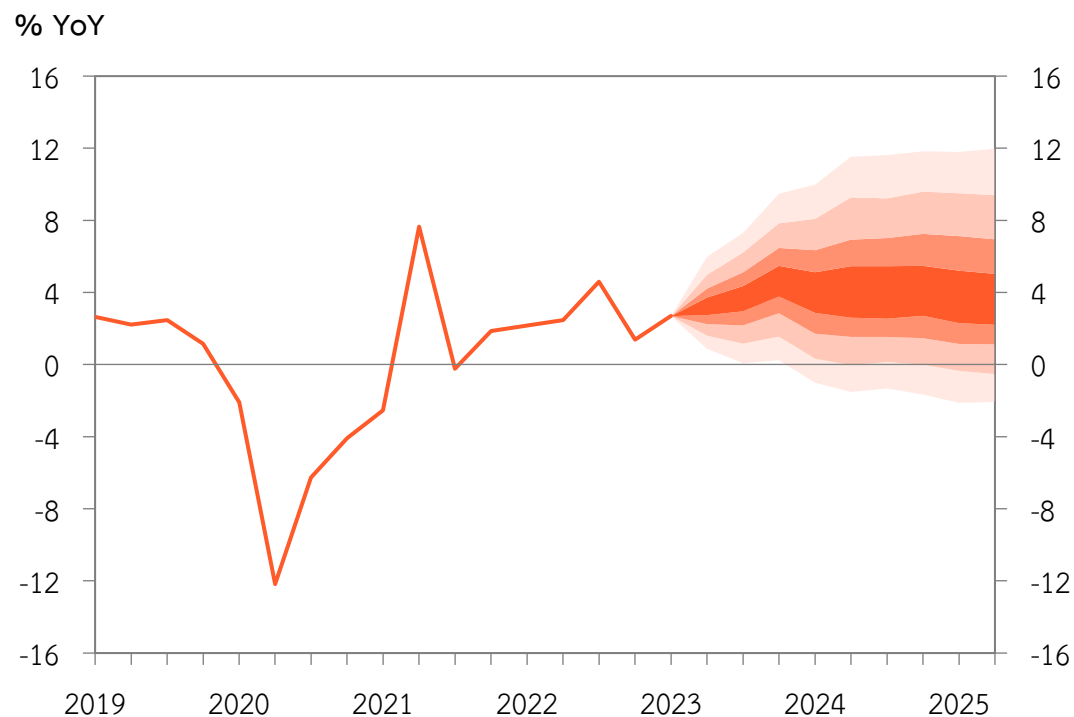
3. Exports value (s.a.) compared to the 5-yr average



Source: Ministry of Commerce, BOT forecast

## Thailand's economic outlook is subject to upside risks throughout the forecast horizon

GDP growth



### Upside risks

- + Higher-than-expected foreign tourist arrivals
- + Stronger-than-expected stimulus from the new government's economic policies taking effect in 2024

### Downside risks

- Slower-than-expected global economic recovery
- Domestic political uncertainties

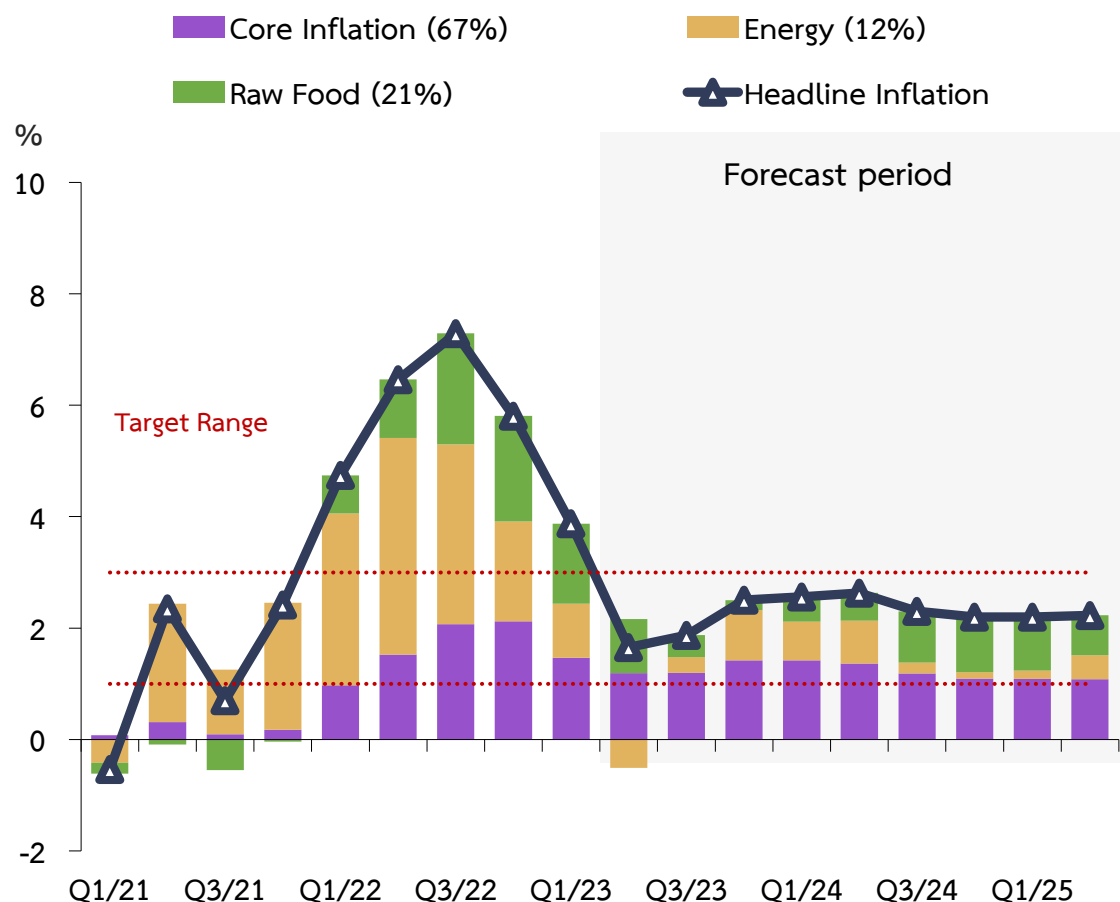


Inflation is declining but upside risks remain

Headline inflation has returned to the target range.

Core inflation projection for 2023 is revised down but core inflation remains elevated.

### Contribution to headline inflation



### Inflation forecast

%YoY	2022	2023	2024
Headline inflation	6.1	2.5 (2.9)	2.4 (2.4)
Core inflation		2.5	2.0 (2.4)

Note: ( ) = previous forecast from Monetary Policy Report Q1-2023

- Headline inflation projection for 2023 is revised down from the previous forecast due to easing supply pressures from lower domestic electricity and diesel prices. Meanwhile, raw food prices are expected to rise. Headline inflation projection for 2024 is largely unchanged.
- Core inflation projection for 2023 is revised down on account of lower-than-expected outturns. Nonetheless, core inflation remains elevated relative to the past and is stickier than headline inflation. Core inflation projection for 2024 is likely to remain elevated.

Note: ( ) = weight in CPI basket

Source: Ministry of Commerce, BOT calculation and forecast as of May 2023

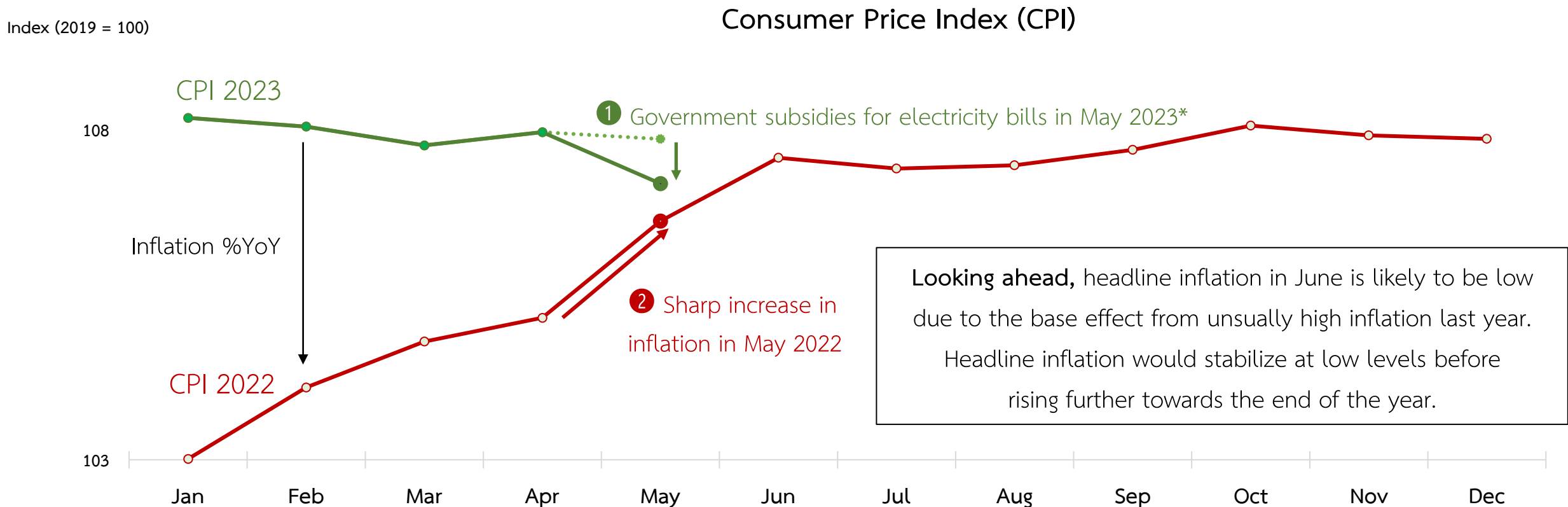
Inflation in May 2023 declined partly due to temporary government subsidies of living costs, which only affected prices of certain goods. The decline was also due to the high base effect.

Nonetheless, prices of some goods still increased from April 2023.

Sources of headline inflation's sharp decline in May 2023

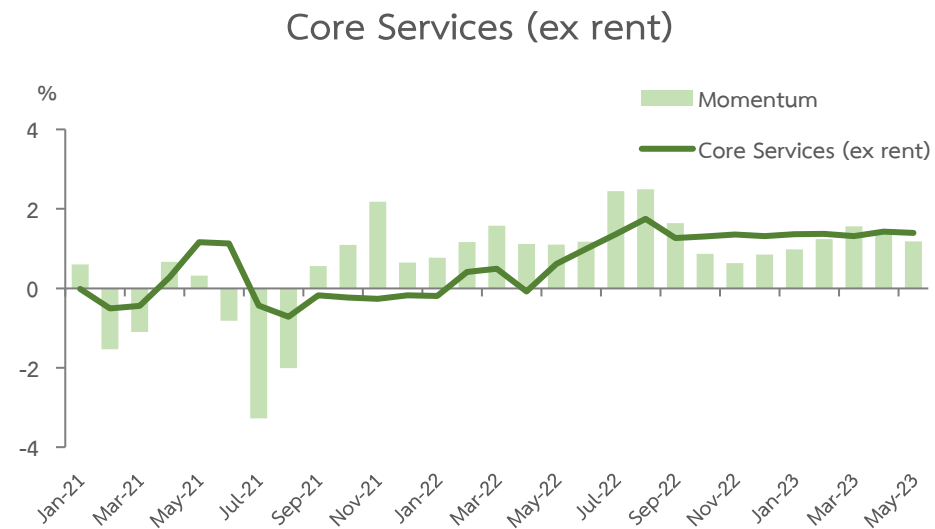
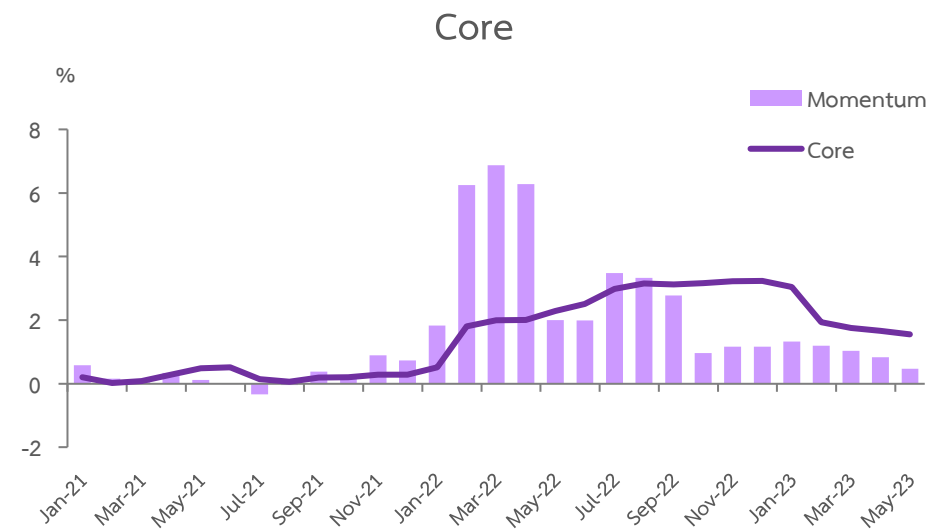
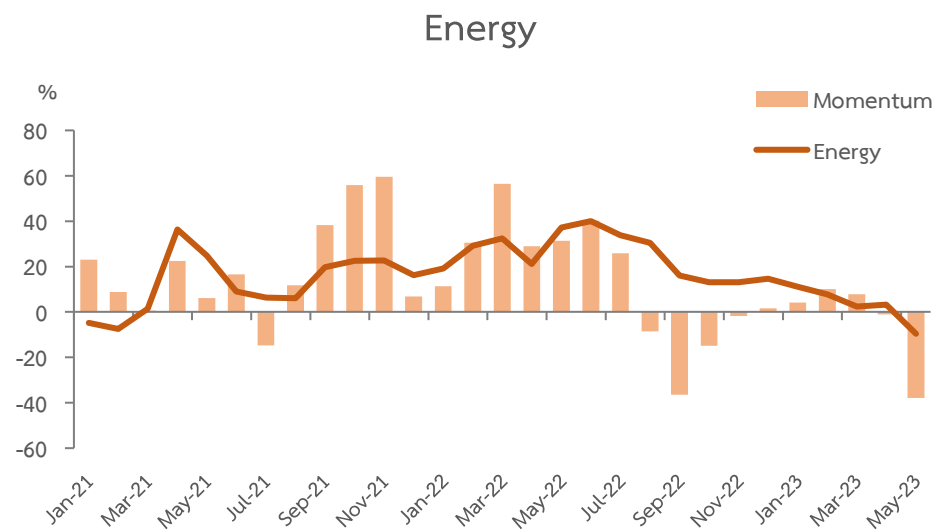
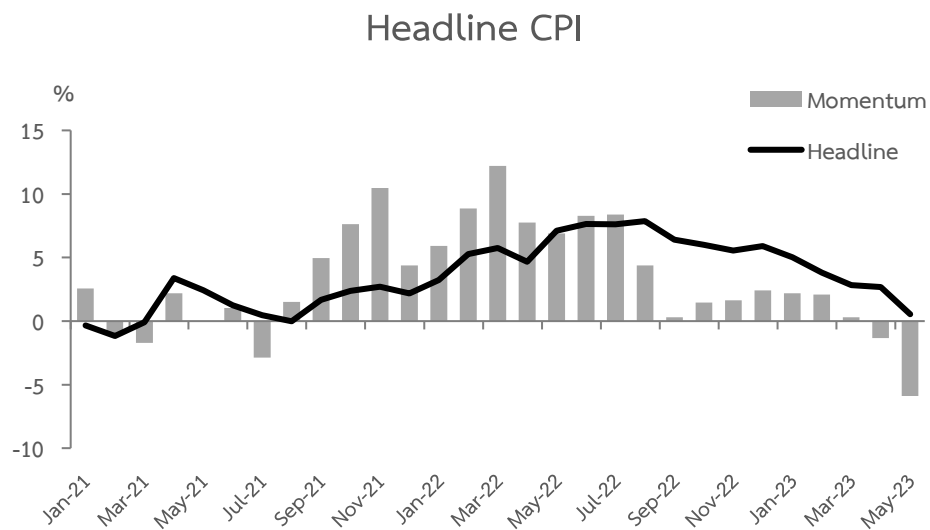
1. Government subsidies for electricity bills only in May 2023\*

2. Base effect from high inflation in May 2022



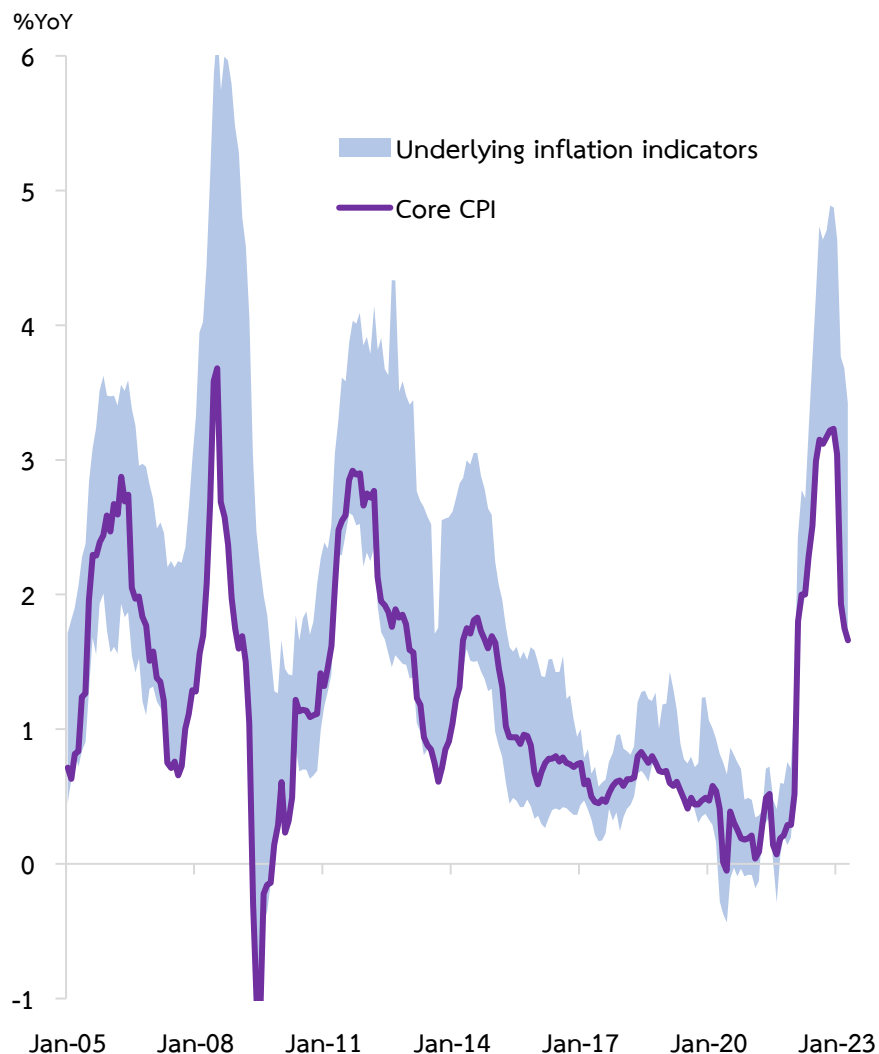
\*the dotted line represents the projected inflation in May if the Government had not provided 150-baht subsidies for those using electricity for less than 500 kWh | Source: Ministry of Commerce, BOT calculation

# Headline inflation declined mainly on account of energy prices. Core inflation still retains momentum.



There remains a need to monitor underlying inflation indicators to assess inflation pressures.

Lastest indicators remain high overall compared to historical levels and are declining more slowly than headline inflation.



Shaded area = upper/lower bound of the underlying inflation indicators

(1) Core CPI; (2) Core CPI ex. rent and government measures; (3) trimmed mean CPI; (4) Common CPI; and (5) Sticky price CPI

Source: Ministry of Commerce, BOT calculation

Underlying inflation indicators	2022												2023			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Core CPI	0.5	1.8	2.0	2.0	2.3	2.5	3.0	3.2	3.1	3.2	3.2	3.2	3.0	1.9	1.8	1.7
Core CPI ex rent & subsidies	0.7	2.2	2.4	2.6	2.8	3.0	3.6	3.7	3.8	3.9	4.0	4.0	3.8	2.3	2.1	2.0
Trimmed mean CPI	1.2	2.1	2.4	2.4	3.2	3.7	4.0	4.2	4.2	4.2	4.1	4.2	3.7	2.9	2.6	2.6
Sticky price CPI	0.5	2.4	2.8	2.7	3.2	3.5	4.2	4.7	4.6	4.7	4.9	4.9	4.6	3.1	2.8	2.7
Common CPI	1.0	1.7	1.9	2.2	2.5	2.8	3.2	3.6	3.7	3.9	4.1	4.3	4.2	3.8	3.7	3.4
MUCSVO Trend	2.2			2.7			3.2			3.4			3.3			

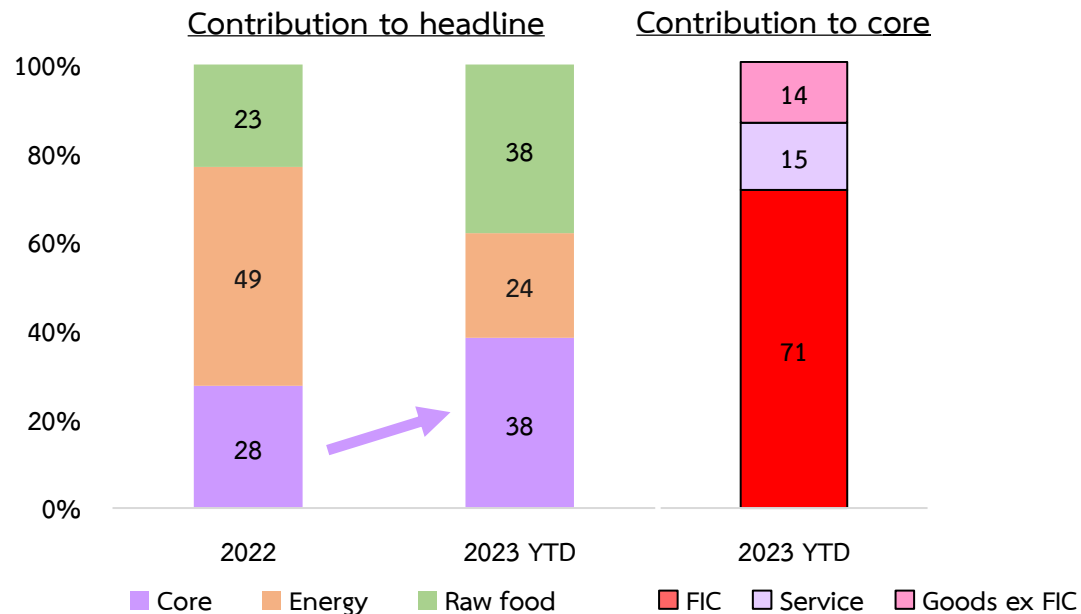
Deviation from the mid-point of the target range of 2%

- Less than 0.5% from mid-point
- Less than 0.25% - 0.5% from mid-point
- Close to mid-point (+/- no more than 0.25%)
- More than 0.25% - 0.5% from mid-point
- More than 0.5% from mid-point

## Inflation is increasingly driven by stickier components

Inflation last year was driven primarily by raw food and energy prices which are less persistent. This year, however, core inflation plays a larger role, especially food in core whose prices are highly persistent.

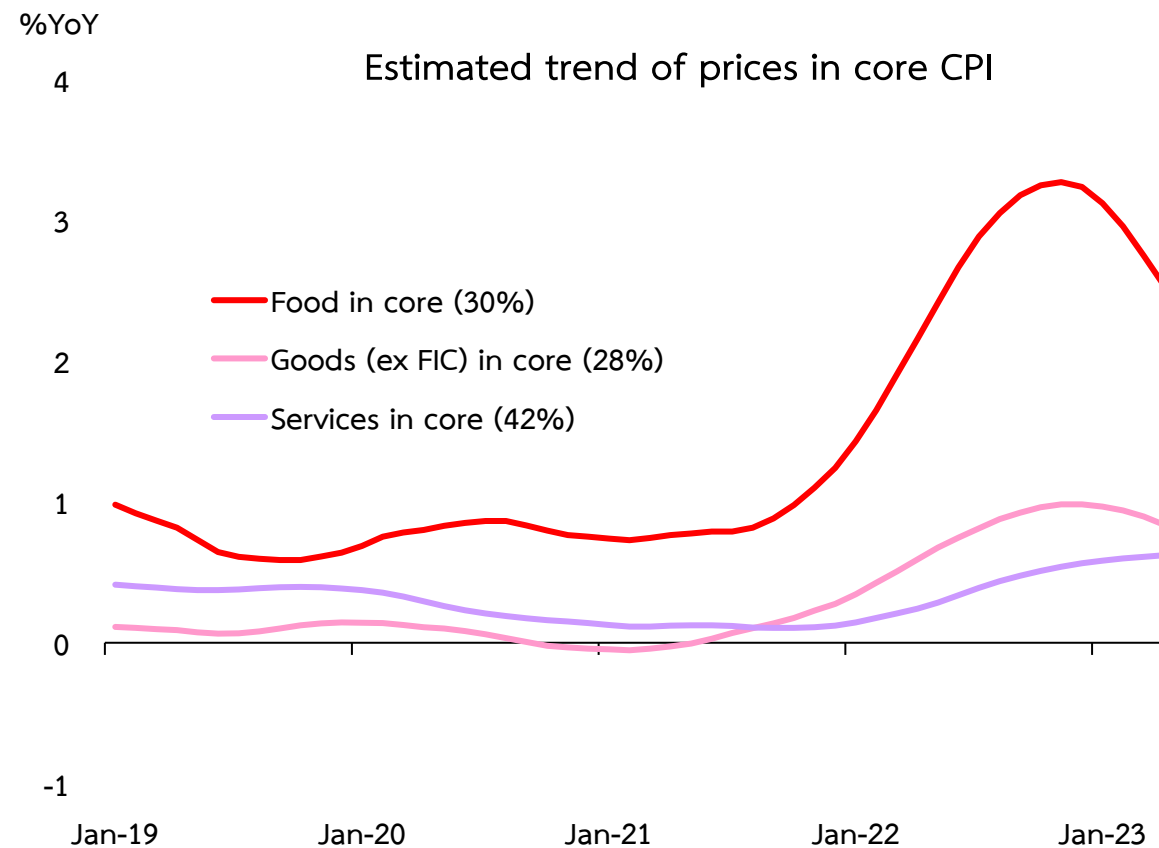
Prices of food in core remain well above historical levels, and are still rising despite some slowdown.



Estimated Inflation Persistence <sup>1/</sup>						
Headline	Core	Core components			Non-core components	
		Food in core (FIC)	Goods ex FIC	Services	Raw food	Energy
0.3	0.5	0.6	0.4	0.4	0.2	0.2

Note: <sup>1/</sup>Inflation persistence is the first coefficient in the autoregressive model, calculated using quarterly change in price in both aggregate and disaggregate levels from Q2/2002-Q1/2023

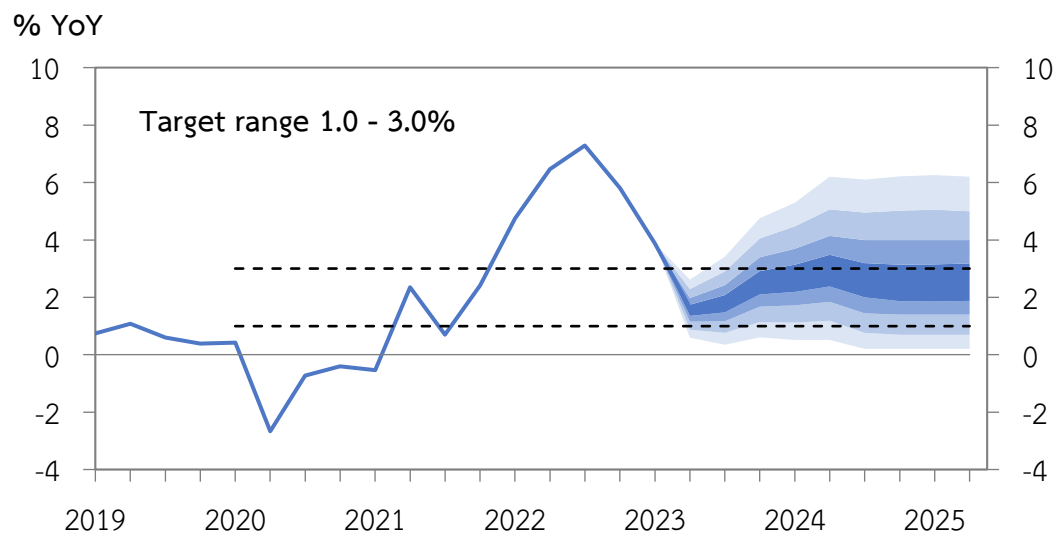
Source: Ministry of Commerce, BOT calculation



Source: BOT calculation using multivariate unobserved component model; ( ) = weight in core CPI

## Inflation outlook is still subject to upside risks especially in 2024

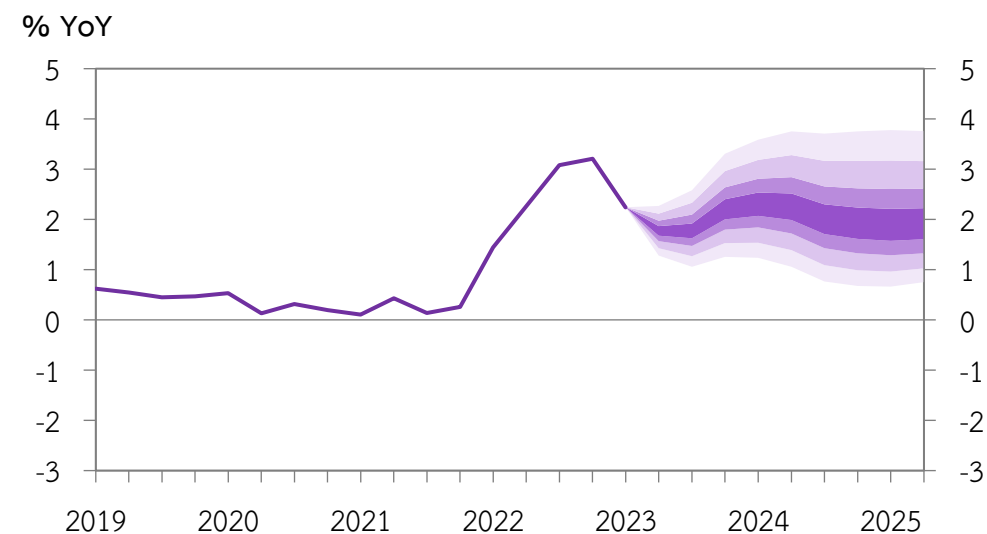
### Headline inflation forecast



#### Upside risks to inflation

- **Cost pass-through might be higher and faster than expected** due to pent-up costs, stronger-than-expected tourism recovery, and higher raw food prices due to the effects of El Niño.
- **Supply-side pressures and costs could increase** in part contingent on government economic policies looking ahead.
- **Demand-pull inflation pressures could mount** due to fiscal stimulus under the new government's economic policies.

### Core inflation forecast



#### Downside risks to inflation

- **Slower-than-expected global economic recovery**
- **New government subsidies of living costs** such as subsidies for electricity and retail fuel prices



## Key policy considerations



## Role of Monetary Policy

### Objectives:

The economy expands continuously and reaches potential  
Inflation returns to target and stays there sustainably

### Action taken:

Raised policy rate 6 times from 0.50% in Aug 2022 to 2.00% in latest meeting

*“The Committee thus decided to increase the policy interest rate to normalize the monetary policy stance in a gradual and measured manner toward a level consistent with long-term sustainable growth.”*

*“Interest rate level consistent with long-term sustainable growth”*

Terminal rate  
Peak of the policy interest rate in the tightening cycle

=

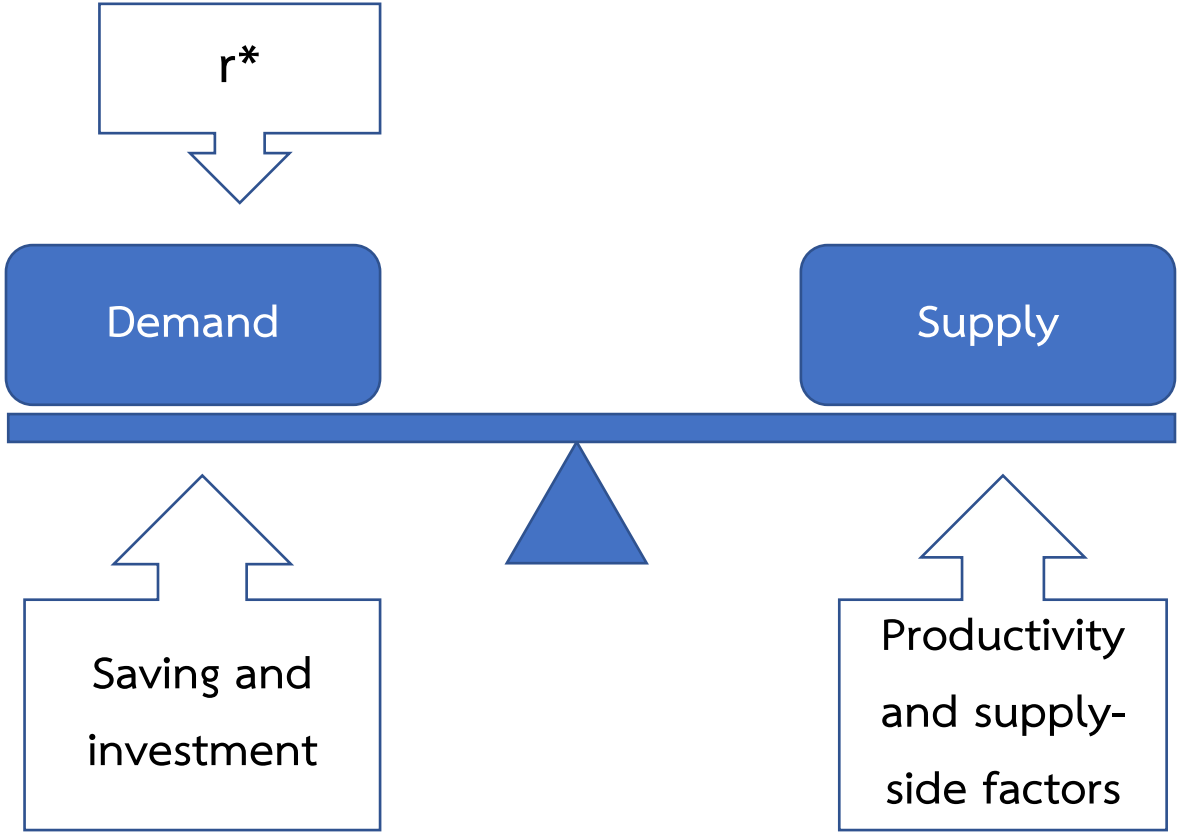
Neutral interest rate ( $r^*$ )  
The ‘goldilocks’ real interest rate, needed to sustain economy at potential

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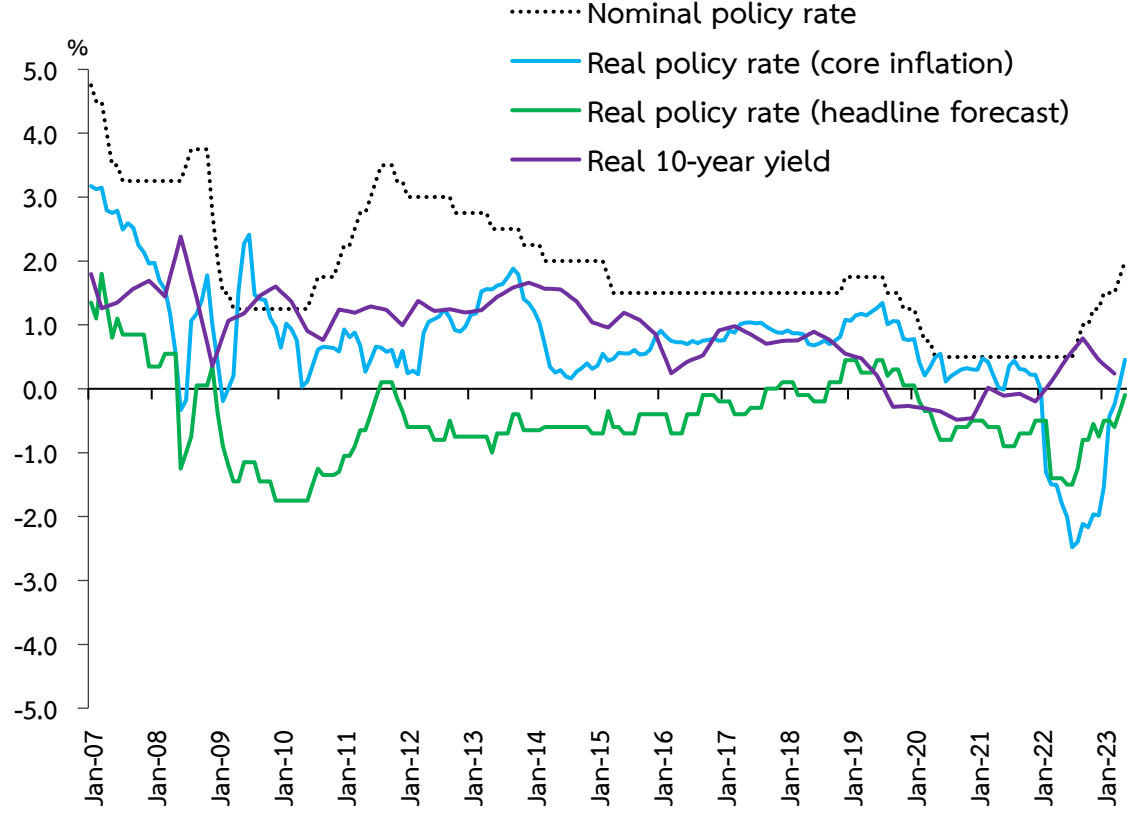
Stabilization policy  
Shaped by evolving near-term outlook, shocks and risks

# Neutral interest rate ( $r^*$ )

## Determinants of neutral interest rate ( $r^*$ )



## Real policy rate in Thailand



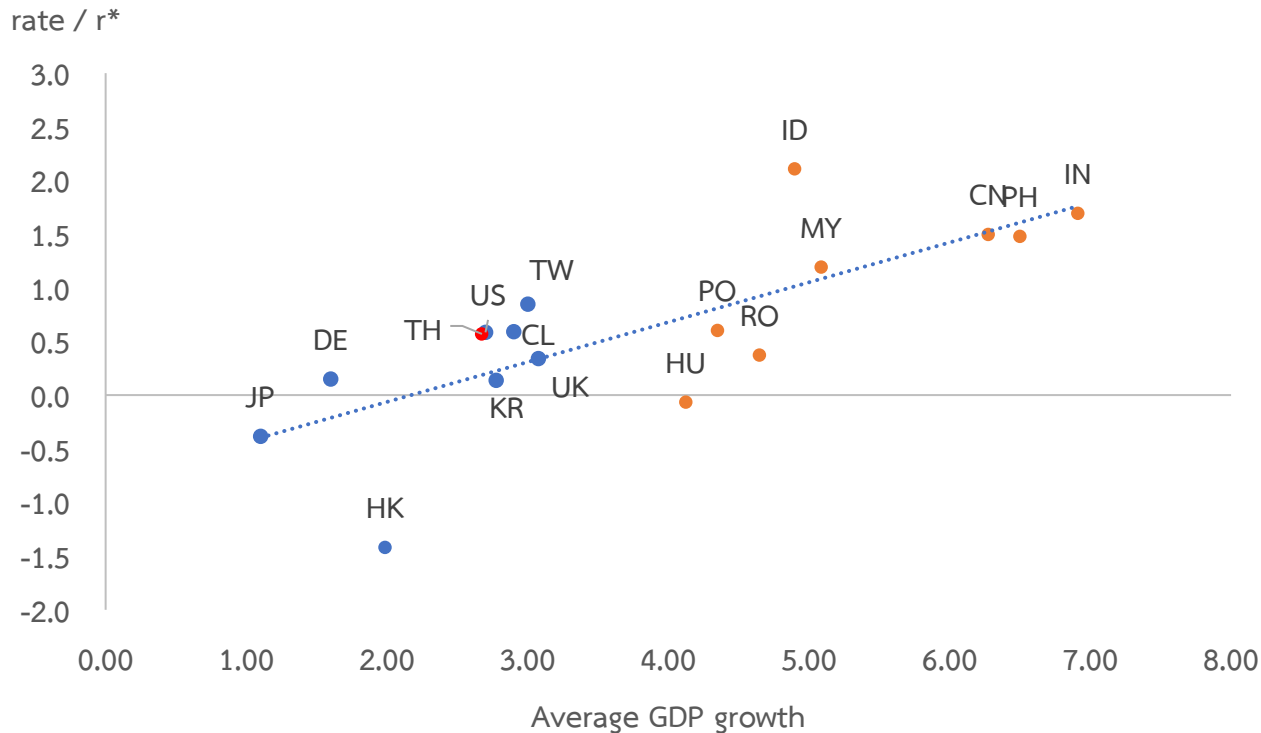
Note: Real 10-year yield is calculated using the Term structure model

# An interest rate level that is appropriate to the economic structure helps preserve long-term stability

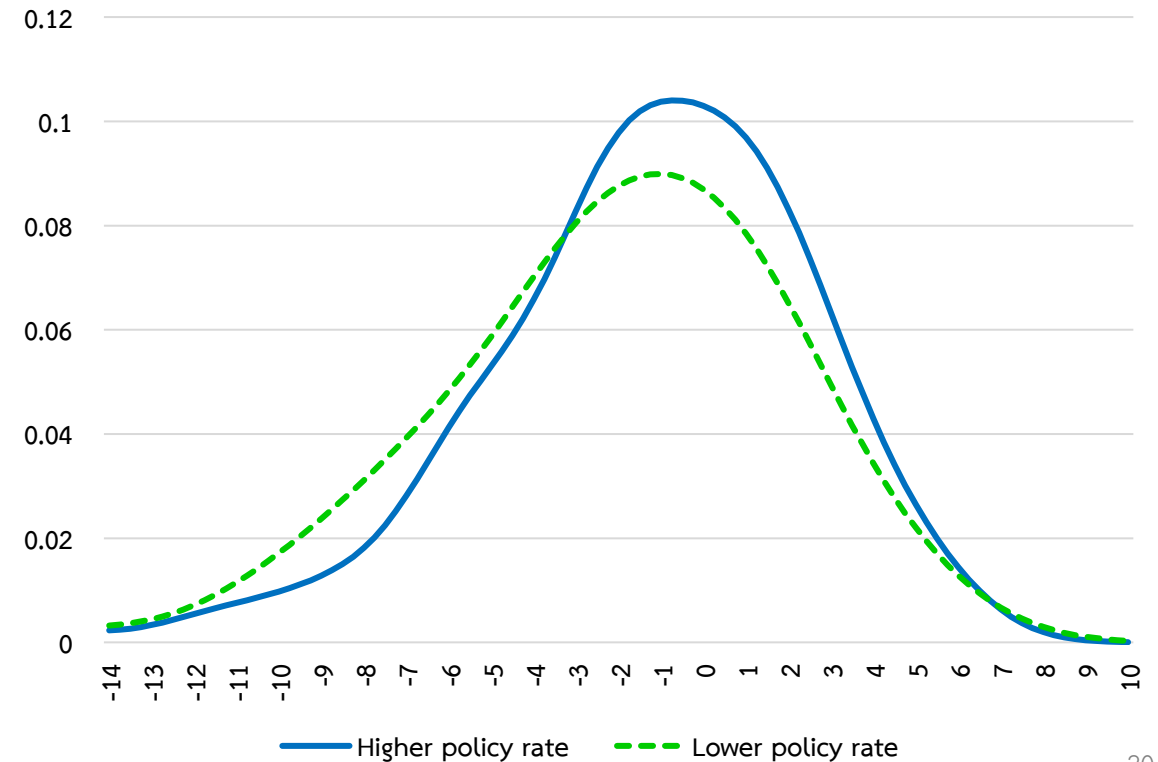
Neutral interest rate ( $r^*$ ) for Thailand should at least be in the positive territory

A higher interest rate fosters financial stability, another pillar for sustainable growth

Avg real policy rate /  $r^*$



Forecast Distribution of Future Output Gap (%)



## Navigating safely to $r^*$ : the risks ahead

*“The Committee decided to increase the policy interest rate in a gradual and measured manner towards a level consistent with long-term sustainable growth. The Committee would be prepared to adjust to size and timing of policy normalization should the evolving growth and inflation outlook differ from the current assessment”*

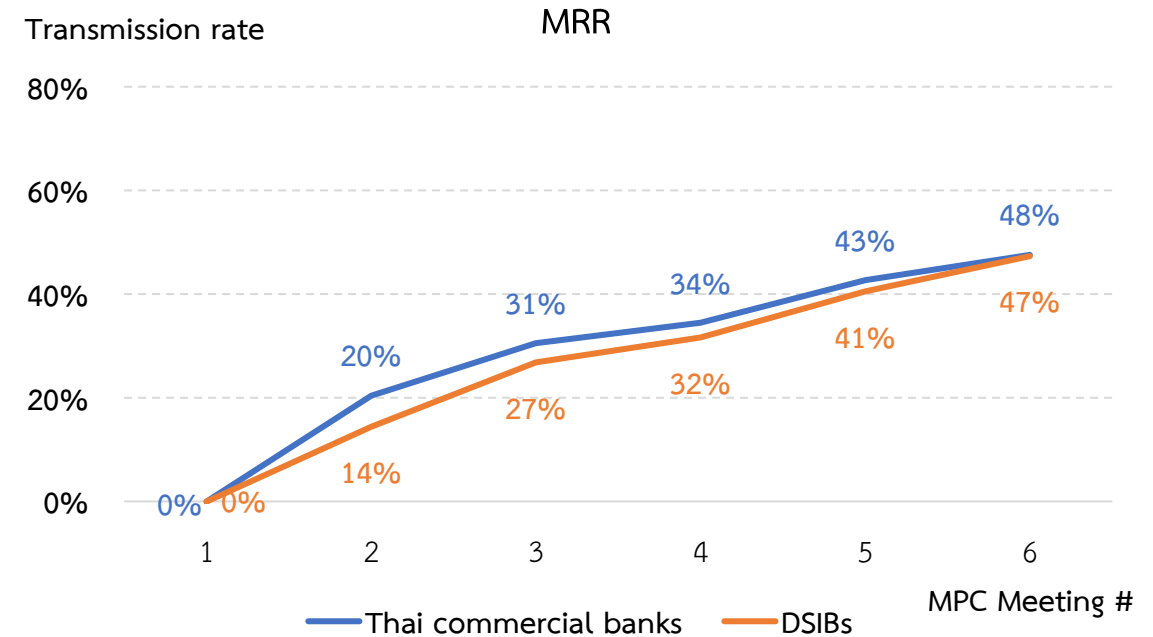
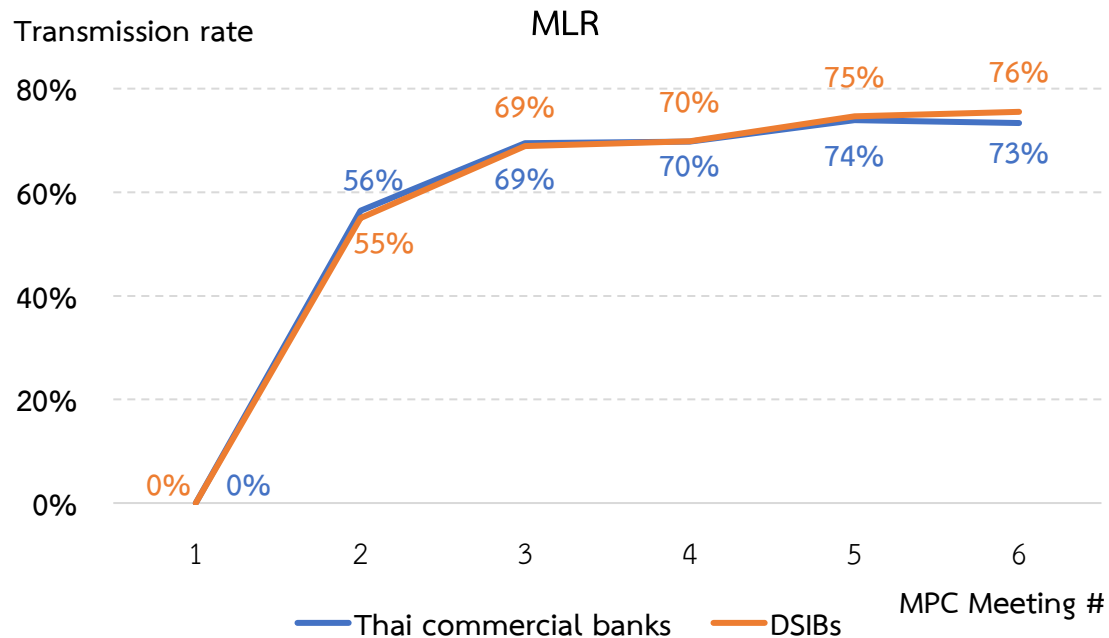
### Key risk factors

- Economic outlook
  1. Tourism recovery strength
  2. Fiscal policy
- Inflation outlook
  1. New supply shocks...
  2. ...coinciding with demand pressures
- Effects of higher rates on the vulnerable group

Policy needs to be flexible and adapt to shifting challenges

More outlook dependent than data dependent

## Normalization proceeding smoothly: transmission working as intended



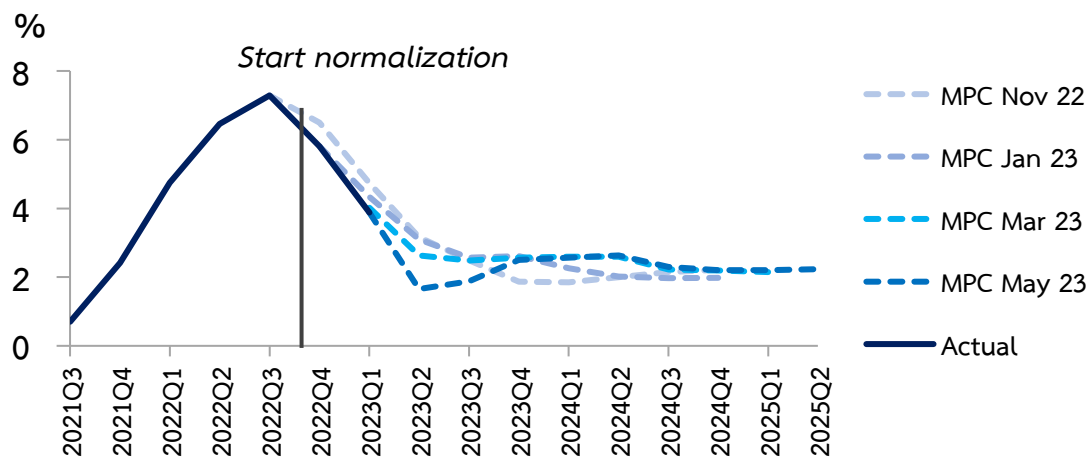
Source: BOT calculation. Transmission rate is calculated using the weighted average loan outstanding (ex. interbank loans) of each commercial bank (data as of 9 June 2023)

**Banks raise their retail reference rates (MRR) more slowly than the MLR for larger borrowers** breaking from the previous pattern where the transmission rates were more uniform. Banks are taking extra care with SMEs and vulnerable households whose loans are tied to MRR.

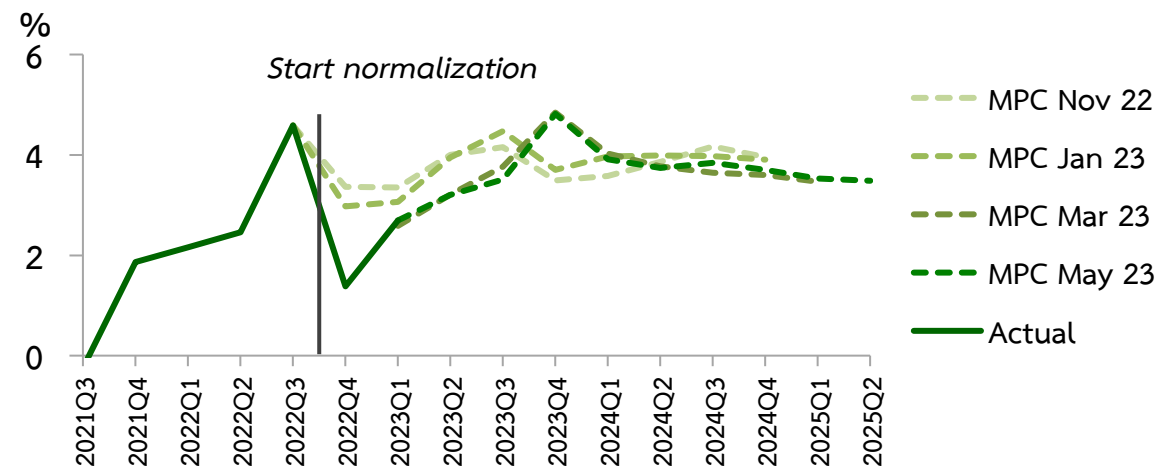
# Overall game plan intact

- **Economy** is expanding toward potential
- **Inflation** set to stabilize within target
- **Policy stance** should sustain the ongoing expansion, while managing risks on the horizon

### Headline inflation



### Real GDP



### Core inflation

