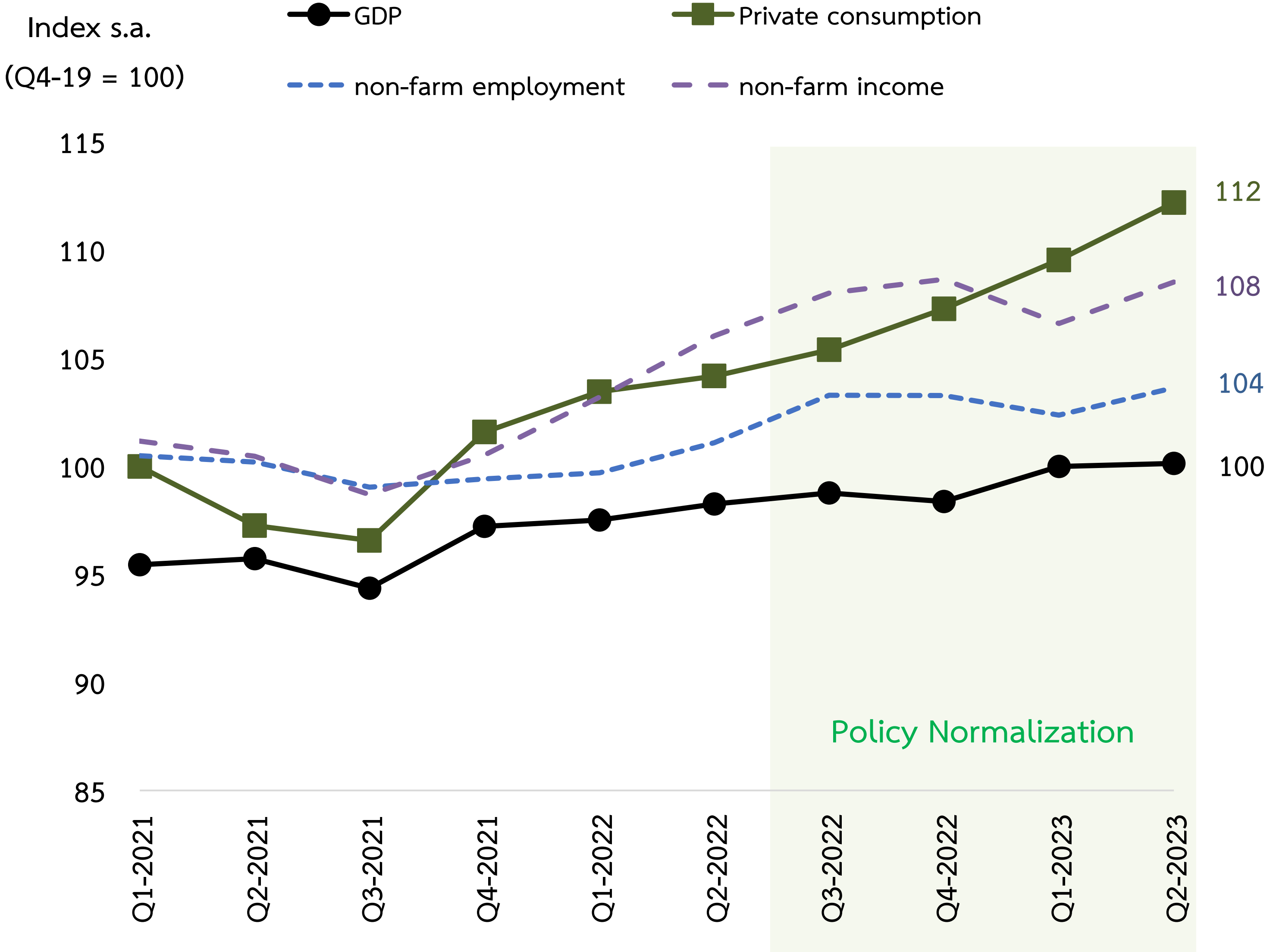
Monetary Policy Forum 3/2023

11 October 2023

(Economic projections as of 27 September 2023)

The Thai economy continued to recover



Million persons	Before normalization	Current
Foreign tourist arrivals	5.7 (Jan-Sep 22)	20.0 (Jan-Sep 23)
Unemployment and underemployment	6.2 (worst point: Q2-20)	2.6 (Q2-23)

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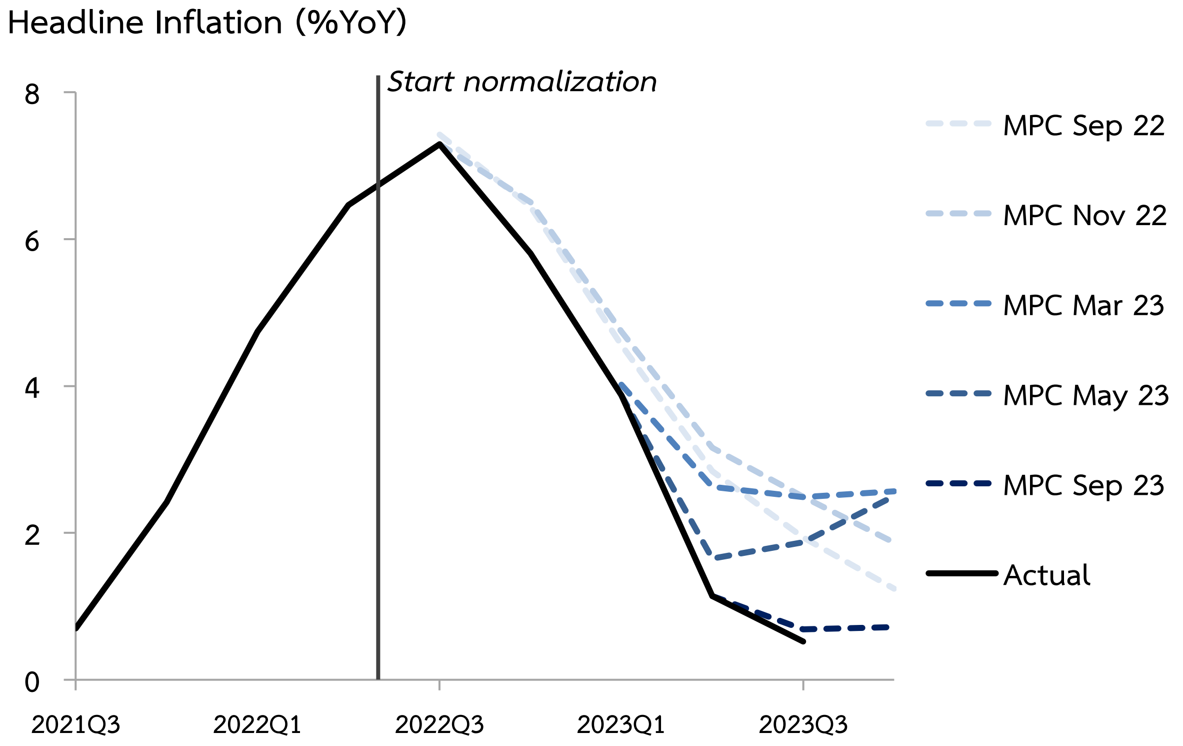
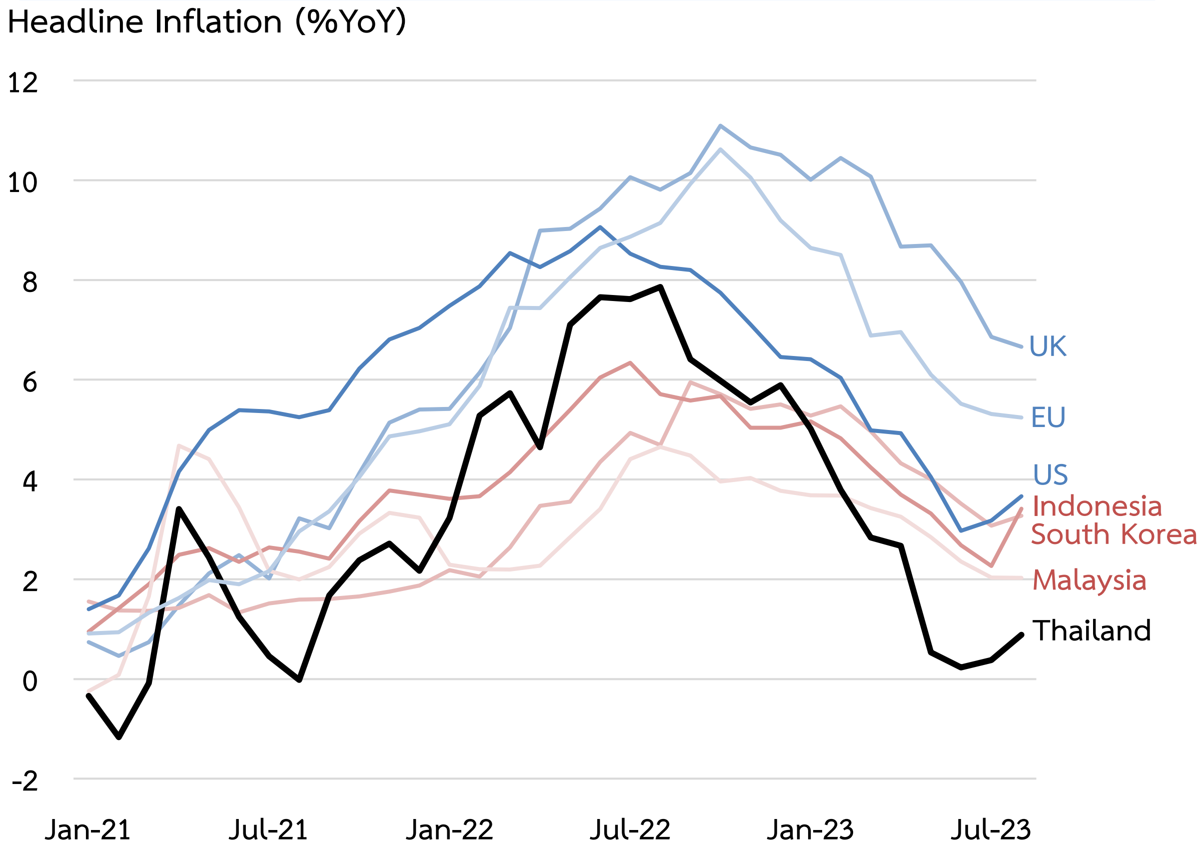
Inflation temporarily rose and subsequently declined as expected, at a faster pace than in other countries

Headline inflation has declined as expected



Source: Ministry of Commerce

Thailand has experienced faster disinflation than other countries



Source: Ministry of Commerce, Bank for International Settlements

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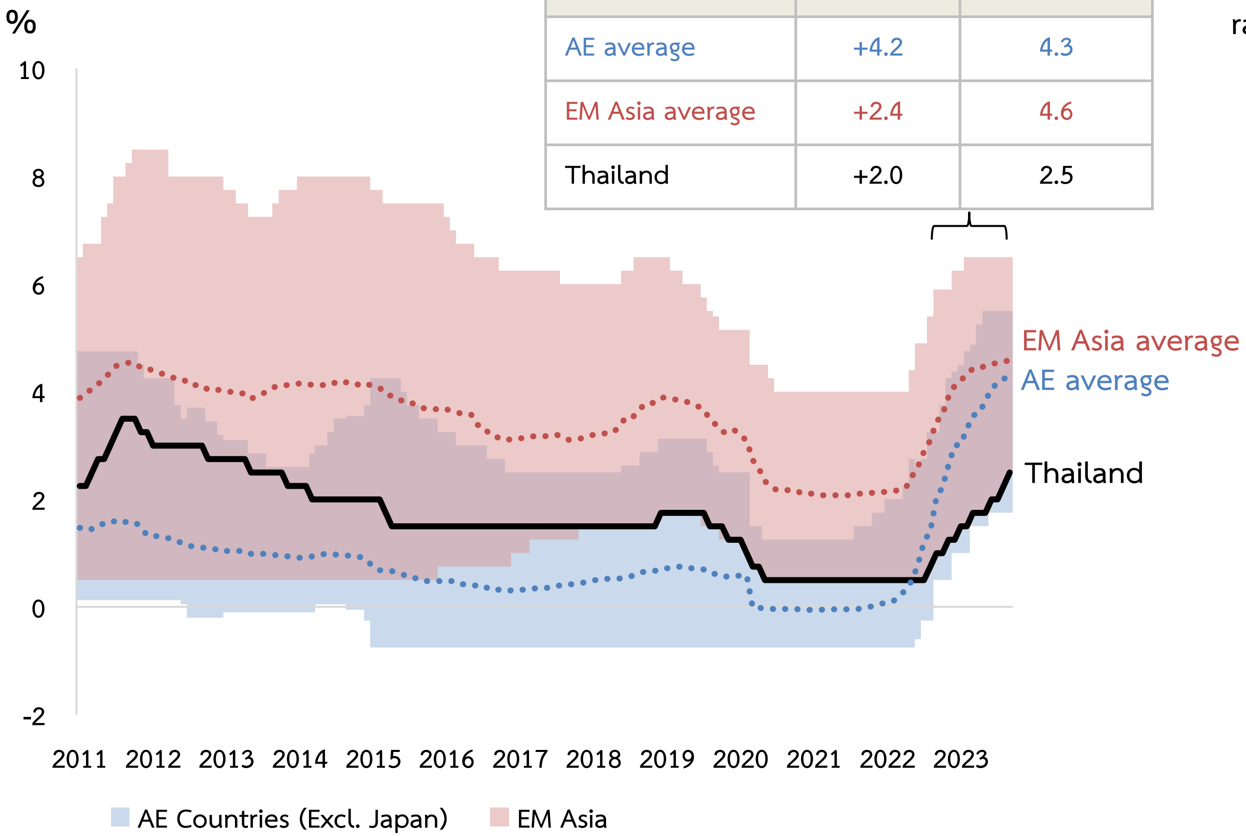
Gradual and measured normalization has brought the policy rate to the neutral level

Thailand's policy rate has gradually increased …

Policy rate (%)	Change[1]	Latest rate
AE average	+4.2	4.3
EM Asia average	+2.4	4.6
Thailand	+2.0	2.5

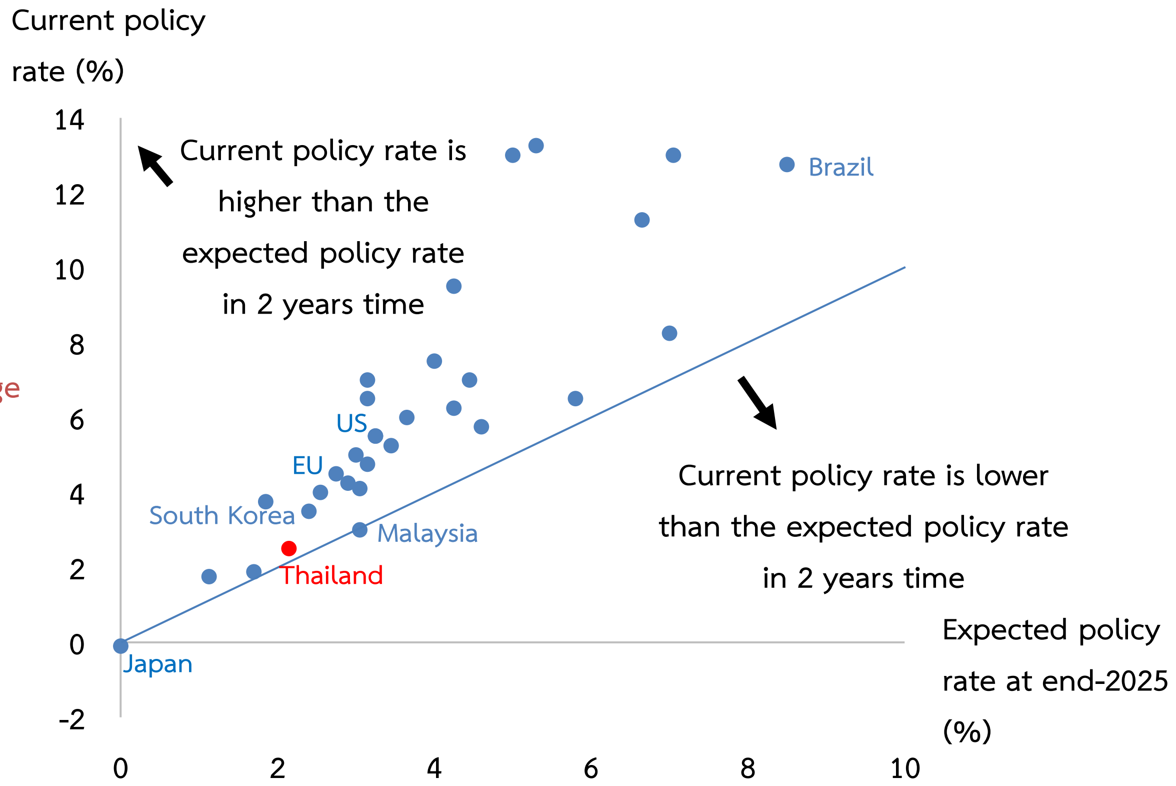


Note: [1] Change since the Fed' first policy rate hike in March 2022

AE Countries (Excl. JP): AU CA CH DK EA NO NZ US UK SE | EM Asia Countries: CN HK ID IN KR MY PH

Source: Bank for International Settlements

… without overshooting the neutral level

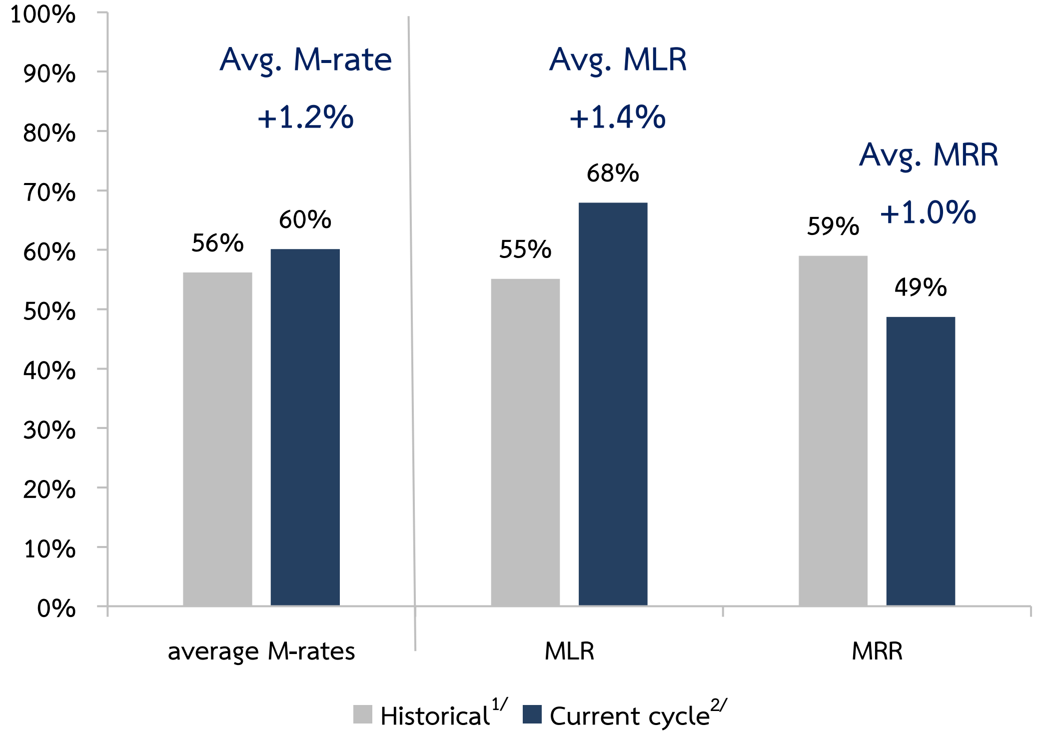


Note: Expected policy rate at end-2025 from Bloomberg Consensus

Source: Bloomberg

Monetary policy transmission was comparable to past episodes. Private credit has continued to expand.

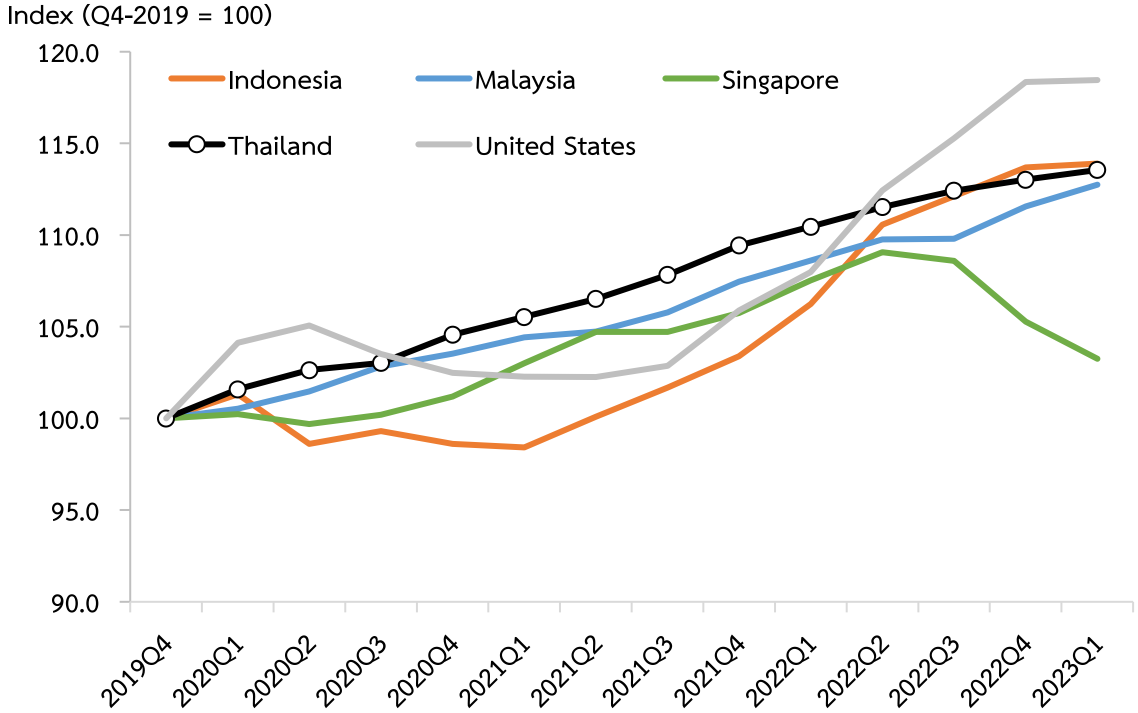
Commercial banks passed on interest rate costs to retail borrowers (MRR) to a lesser extent than to large corporates (MLR)



Note: 1/ Average values during periods 2004 – 2006, and 2010 - 2011

2/ Average values weighted by loan outstanding of each commercial bank, excluding effects of FIDF fee adjustments (Data as of 6 October 2023)

Private credit in Thailand has continued to expand during the COVID-19 pandemic at a higher rate than in other countries due to financial measures



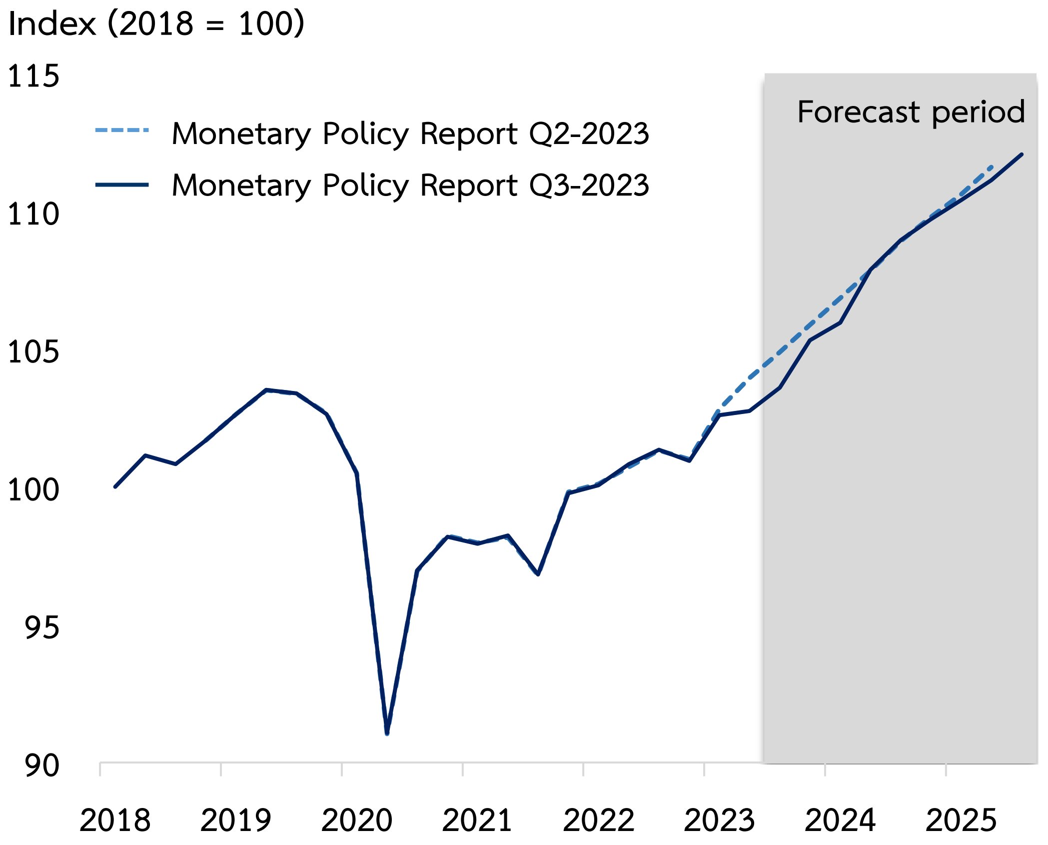
Note: Private credit = business credit + household credit

Source: Bank for International Settlements and BOT calculations

The Thai economy overall continued to recover in 2023, albeit at a slower pace due to soft external demand. Growth should pick up in 2024.

The Thai economy is expected to grow 2.8% in 2023 and 4.4% in 2024. Growth would pick up in 2024 supported by several factors and would gain additional impetus from government economic policies.

Real GDP



Growth (%YoY)	2022*	2023	2024
GDP Growth	2.6	2.8 (3.6)	4.4 (3.8)
Domestic Demand	4.1	3.2 (2.5)	4.1 (3.2)
Private Consumption	6.3	6.1 (4.4)	4.6 (2.9)
Private Investment	5.1	1.0 (1.7)	4.9 (4.9)
Government Consumption	0.2	-3.1 (-2.8)	1.4 (1.1)
Government Investment	-4.9	1.3 (2.5)	4.8 (6.8)
Export volume of goods and services	6.8	3.8 (7.3)	6.7 (6.7)
Import volume of goods and services	4.1	-0.1 (0.9)	6.3 (5.5)
Current Account (billion U.S. dollars)	-14.7	5.0 (6.0)	10.0 (12.5)
Value of merchandise exports (%YoY)	5.4	-1.7 (-0.1)	4.2 (3.6)
Value of merchandise imports (%YoY)	14.0	-0.1 (0.7)	4.1 (4.2)
Number of foreign tourists (million persons)	11.2	28.5 (29.0)	35.0 (35.5)

Note: * = outturn; ( ) = previous forecast from Monetary Policy Report Q2-2023

Source: NESDC and BOT forecast

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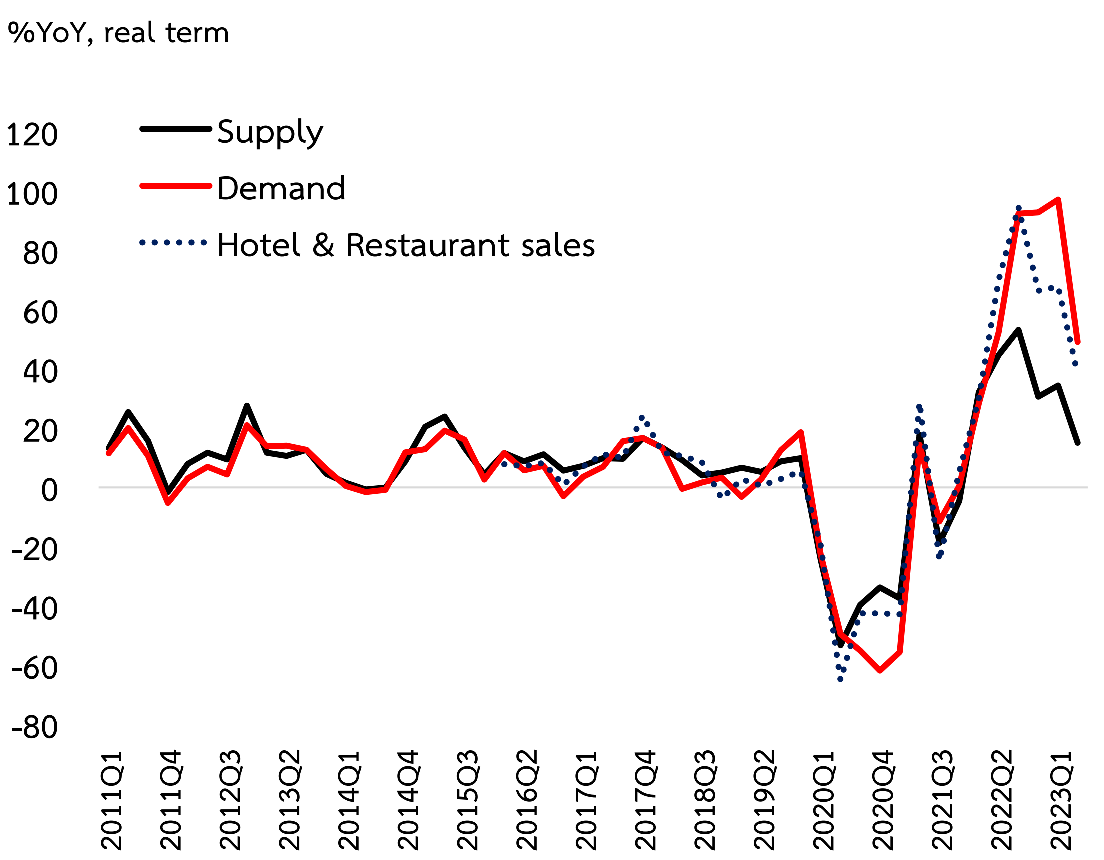
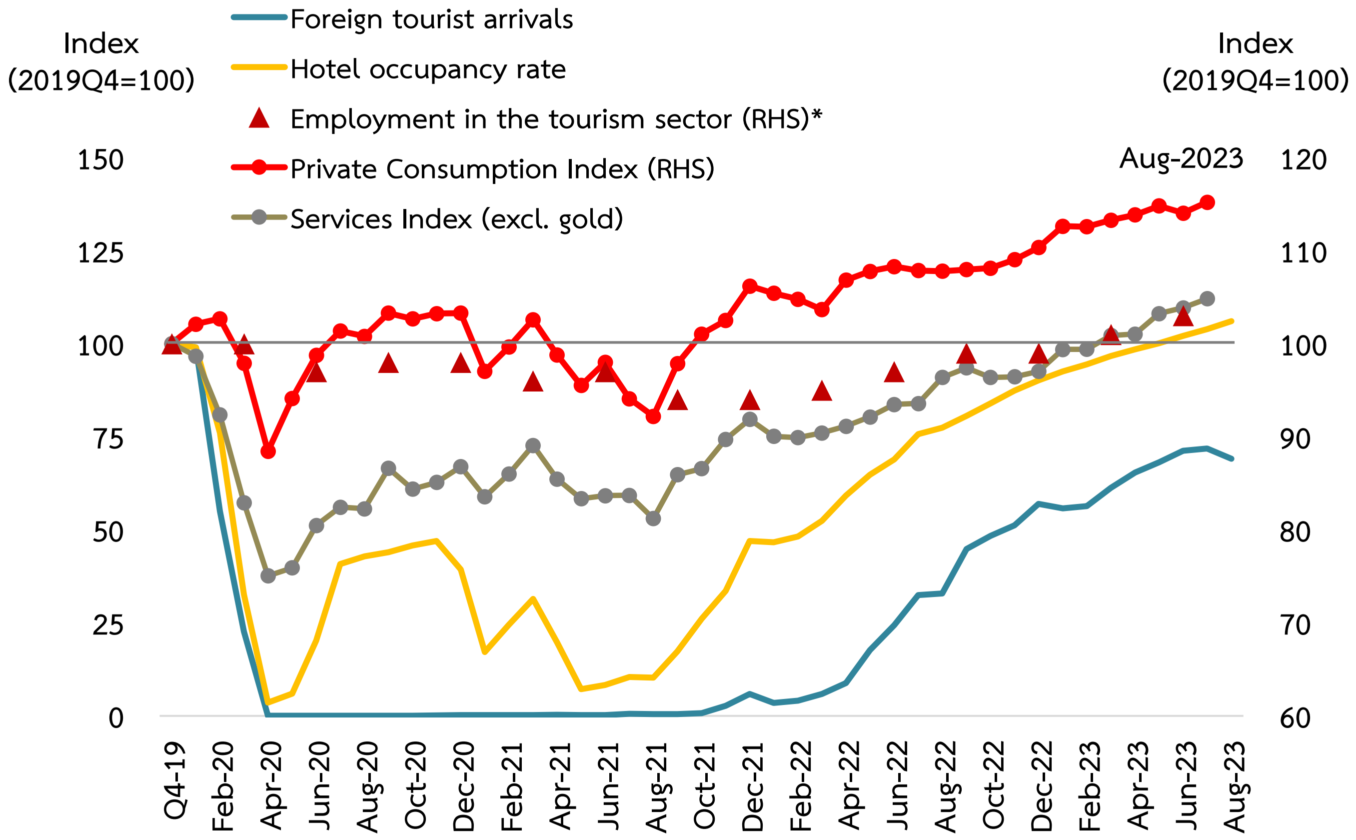
GDP in 2023 softened from lower-than-expected Q2-23 services sector outturn, but other consumption and services indicators show continued expansion

GDP and Hotel & restaurant sales (from VAT)



Other services sector indicators



Source: Ministry of Tourism and Sports, BOT calculations / *Data is as of August 2023

Note: Employment in the tourism sector includes self-employed workers and employees (quarterly data)

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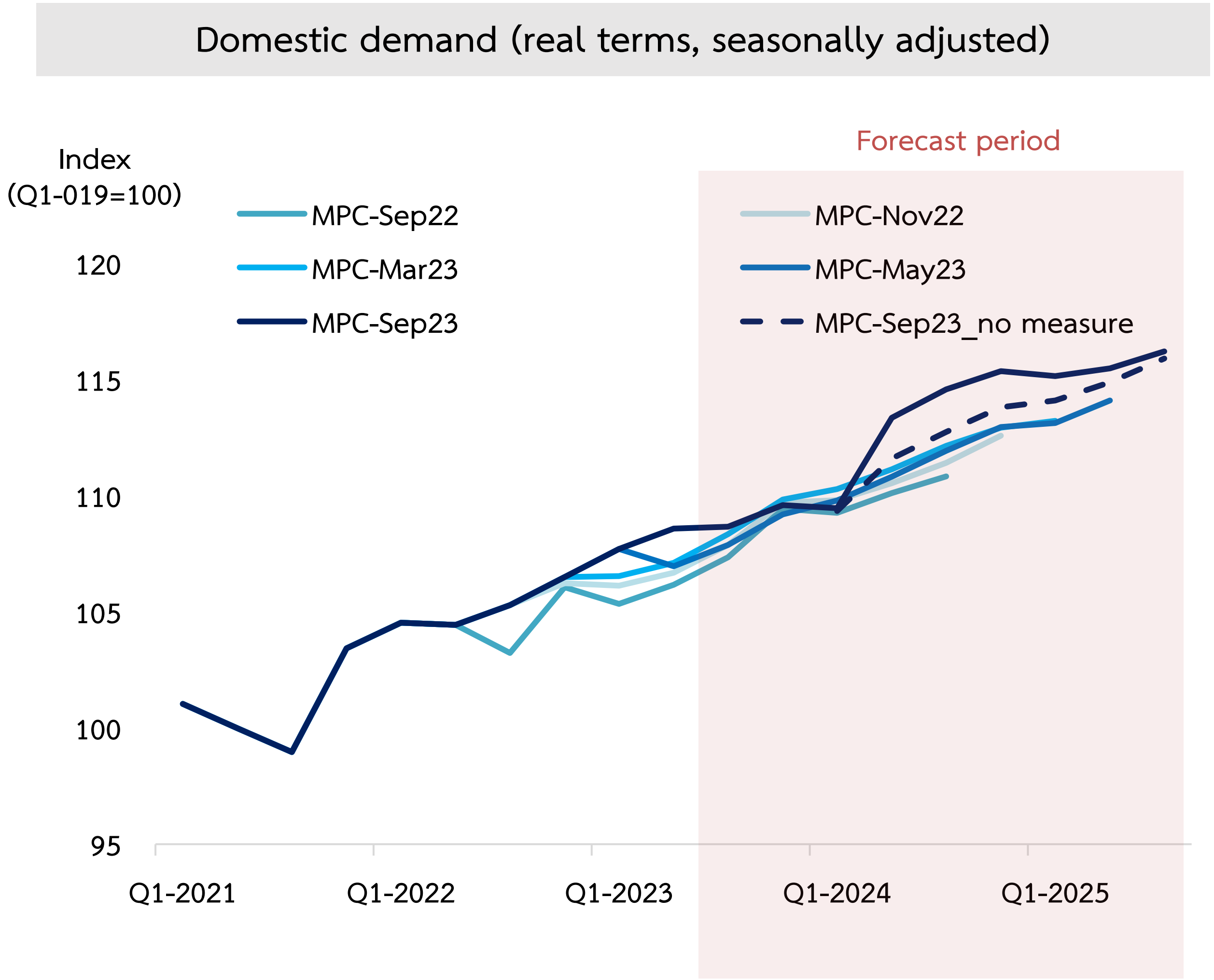
Domestic demand should continue to drive growth
with additional impetus from government economic policies



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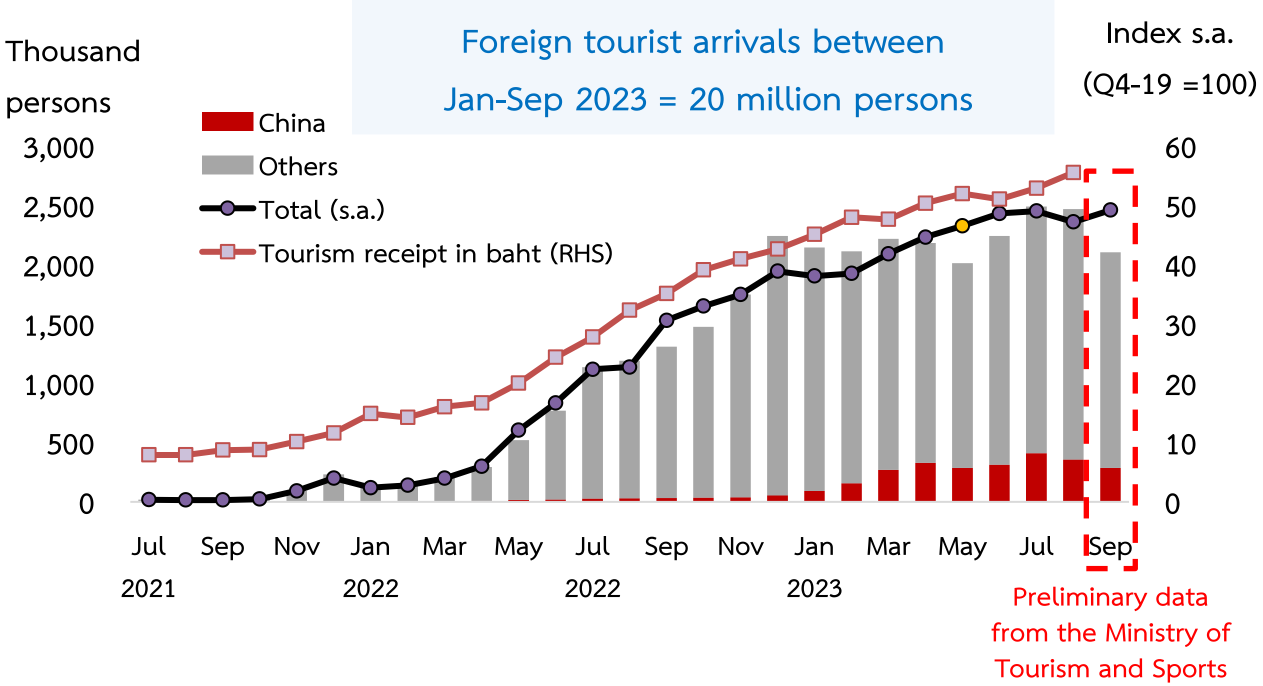
Tourism sector should continue to recover, albeit slightly slower due to lower-than-expected Chinese tourist arrivals. Other foreign tourist numbers indicate a strong recovery.

Foreign tourist arrivals and tourism receipt



Foreign tourist arrivals forecast

	2022*	2023		2024	
		MPR Q2/2023	MPR Q3/2023	MPR Q2/2023	MPR Q3/2023
Million persons	11.2	29.0	28.5	35.5	35.0
% of 2019 value	28%	73%	72%	89%	88%
- o/w China	2%	50%	35%	85%	67%
- o/w Non-China	38%	81%	86%	91%	95%

Note: * = outturn; ( ) = previous forecast from Monetary Policy Report Q2-2023

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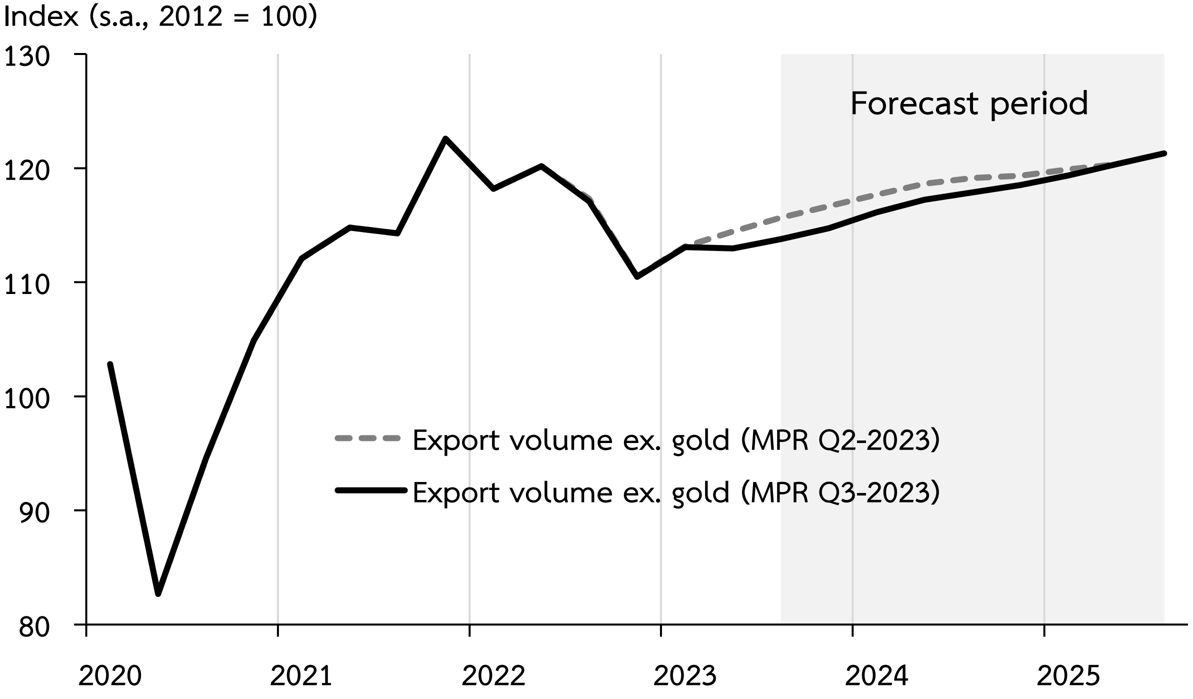
Merchandise exports would recover in early 2024 driven by a turnaround in global electronics cycle and gradual recovery in global goods demand

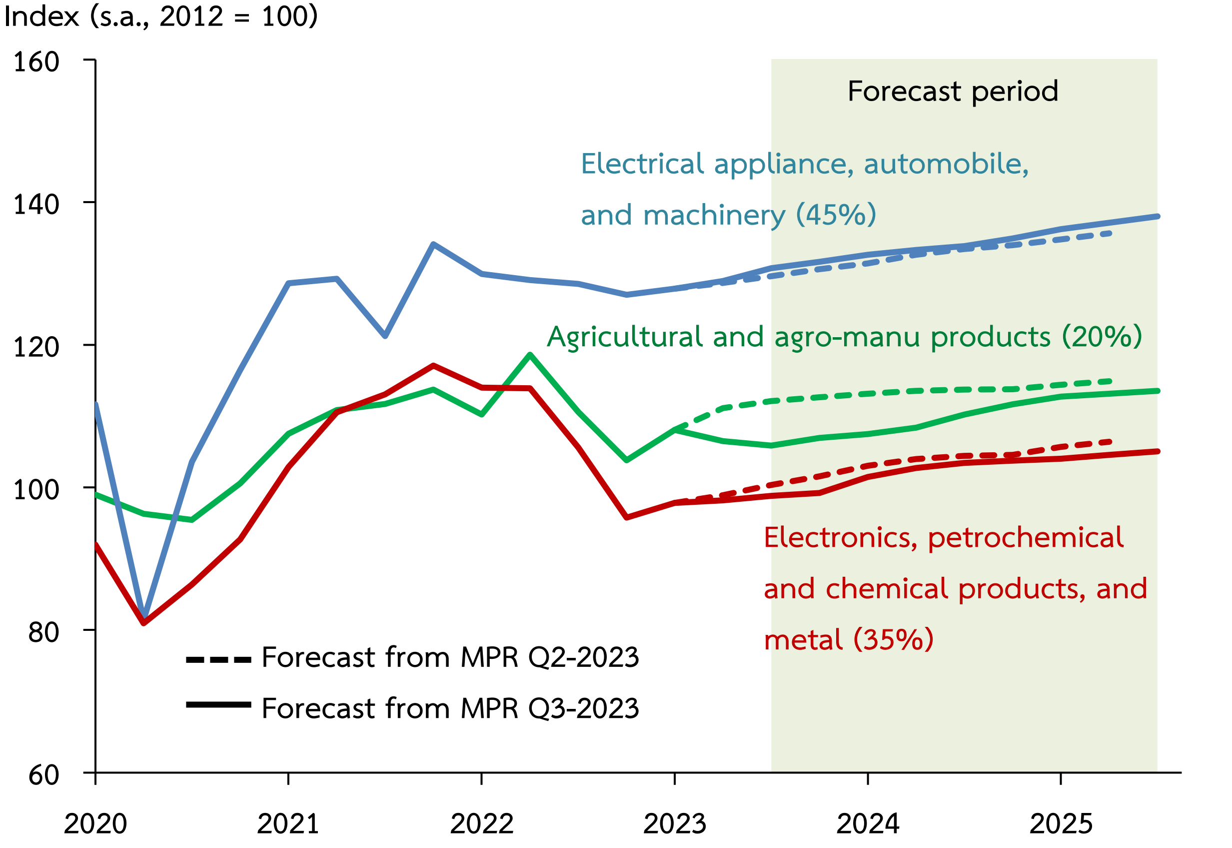
Projected merchandise exports (ex. gold)



Growth (%YoY)	Export value	Export volume
2023	-1.7 (-0.1)	-2.7 (-1.2)
2024	4.2 (3.6)	3.5 (3.0)

Note: ( ) = previous forecast from Monetary Policy Report Q2-2023

Projected merchandise exports by product group



Source: Ministry of Commerce, BOT forecast

Note: ( ) = share of total merchandise exports

For the rest of 2023, inflation is expected to remain low from the high base effect and specific factors. Looking ahead, headline inflation is projected to gradually increase and remain within the target range. However, upside risks to inflation should be monitored.

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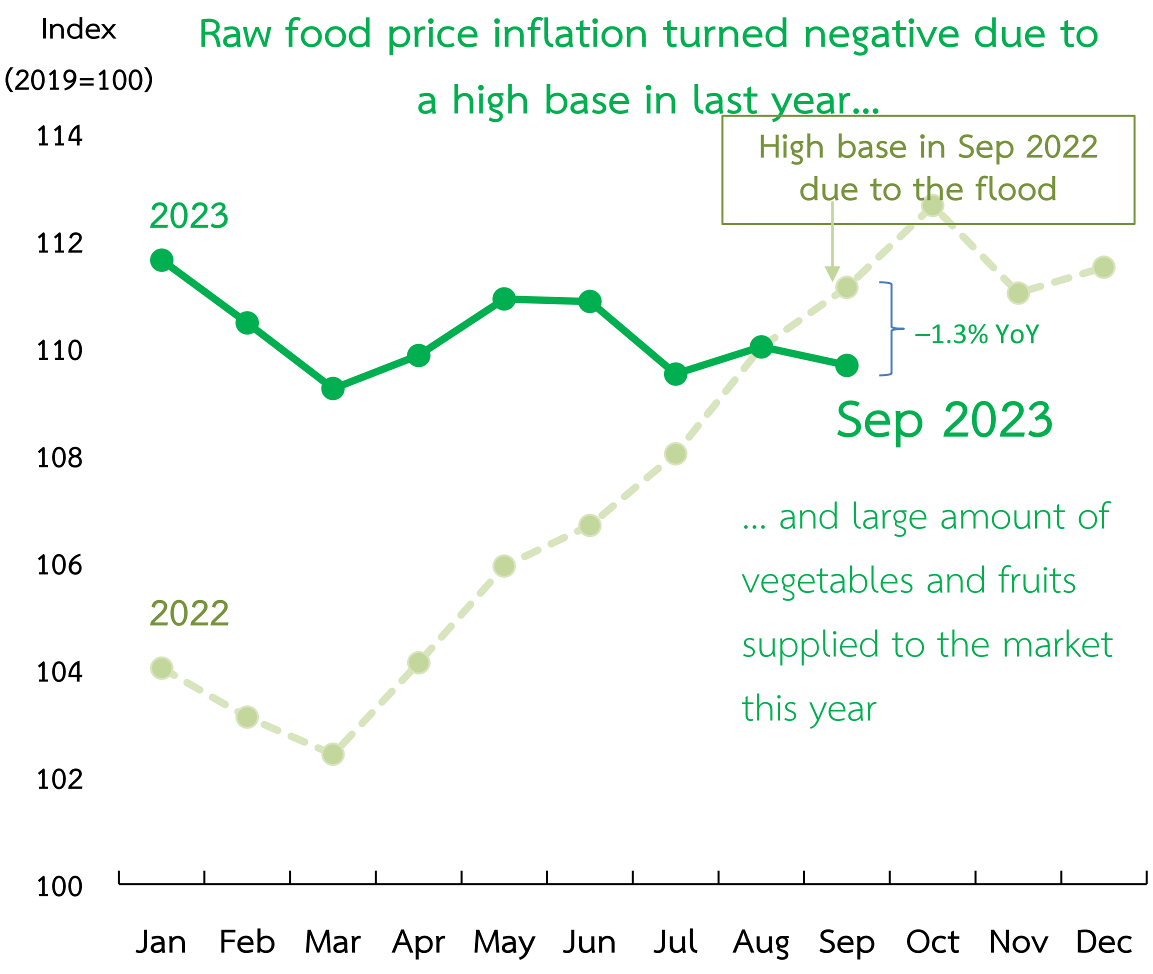
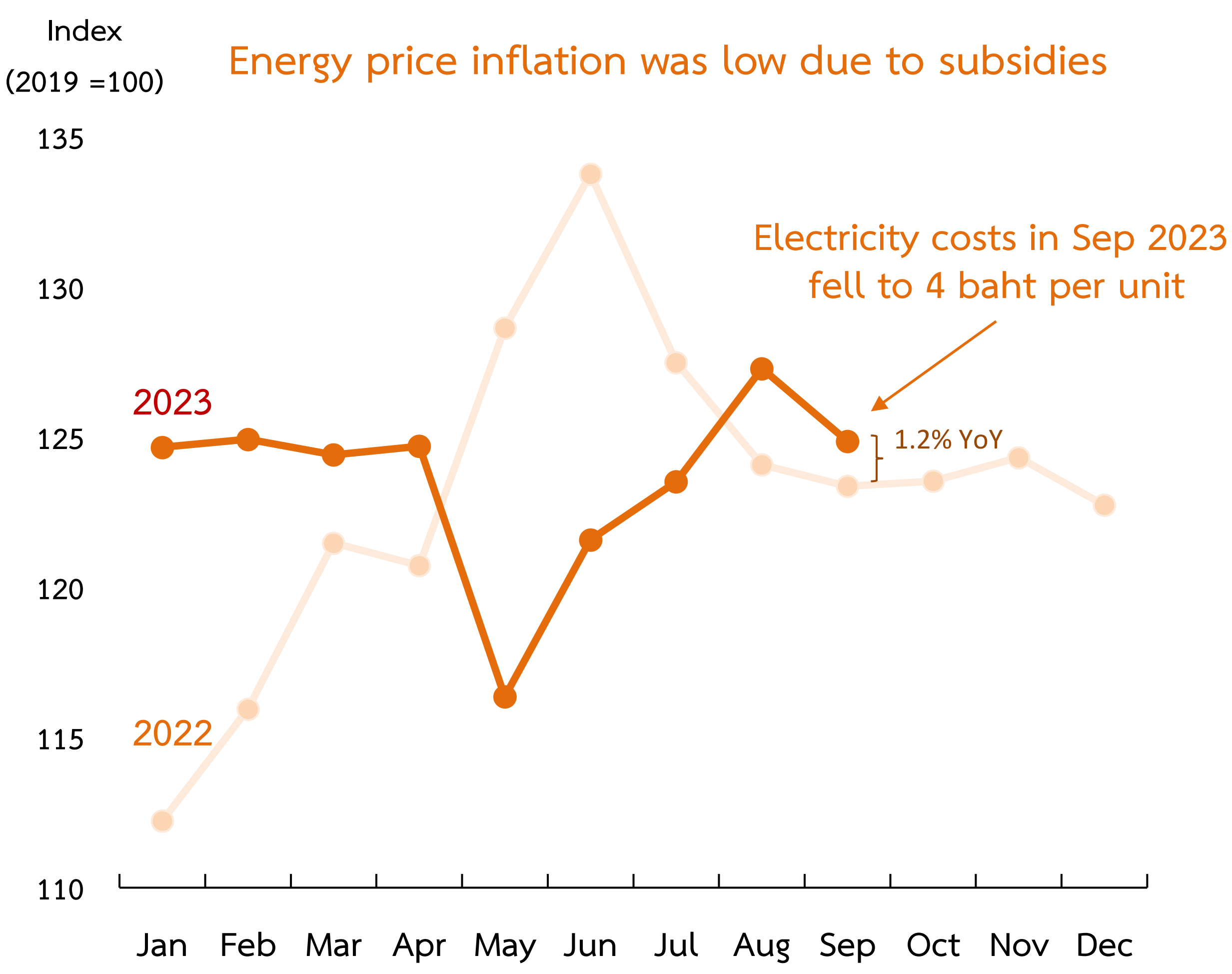
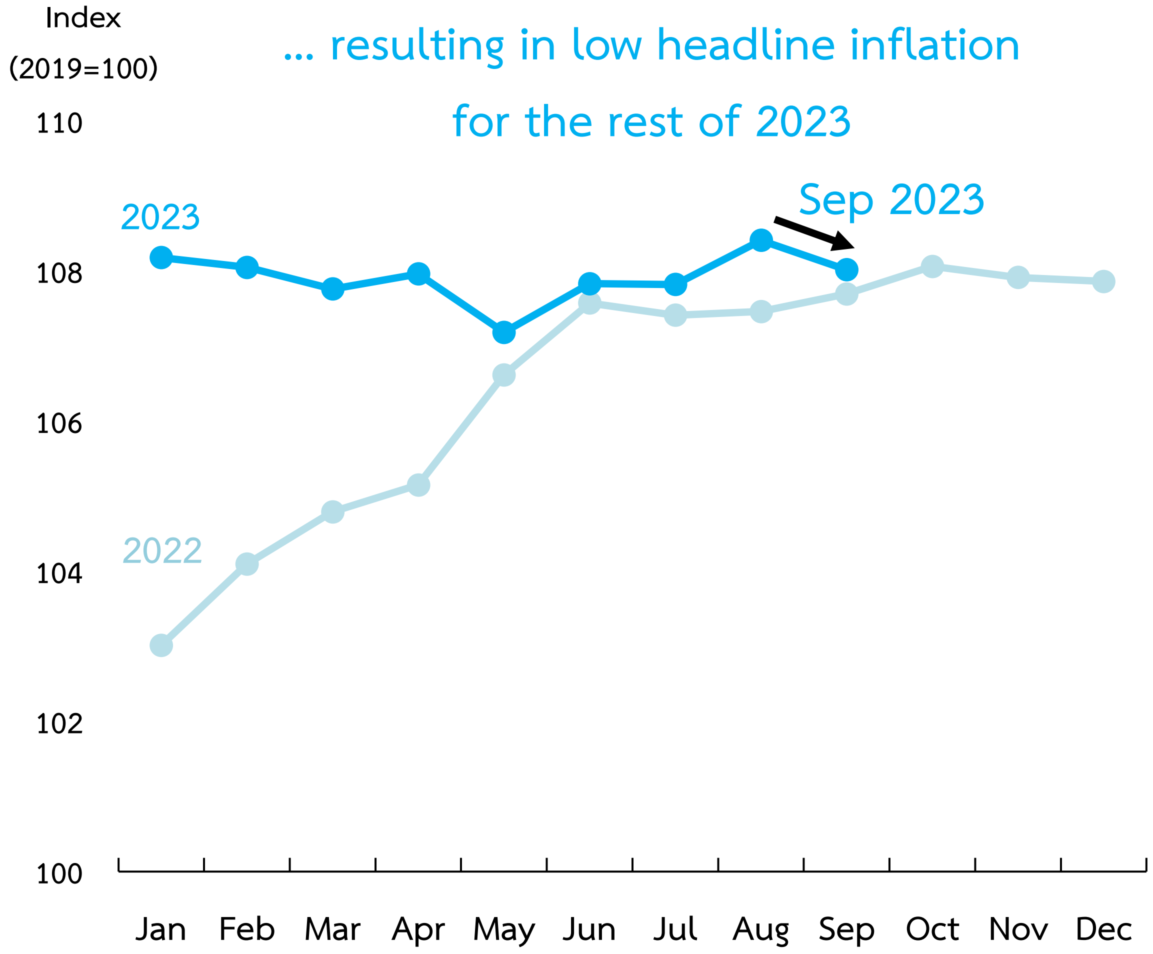
Inflation outturns in Jul-Sep 2023 were low partly due to the high base effect, supply-side factors, and government subsidies





Source: Ministry of Commerce, BOT calculation

Core and headline inflation would remain low for the rest of 2023



Source: Ministry of Commerce, BOT calculation

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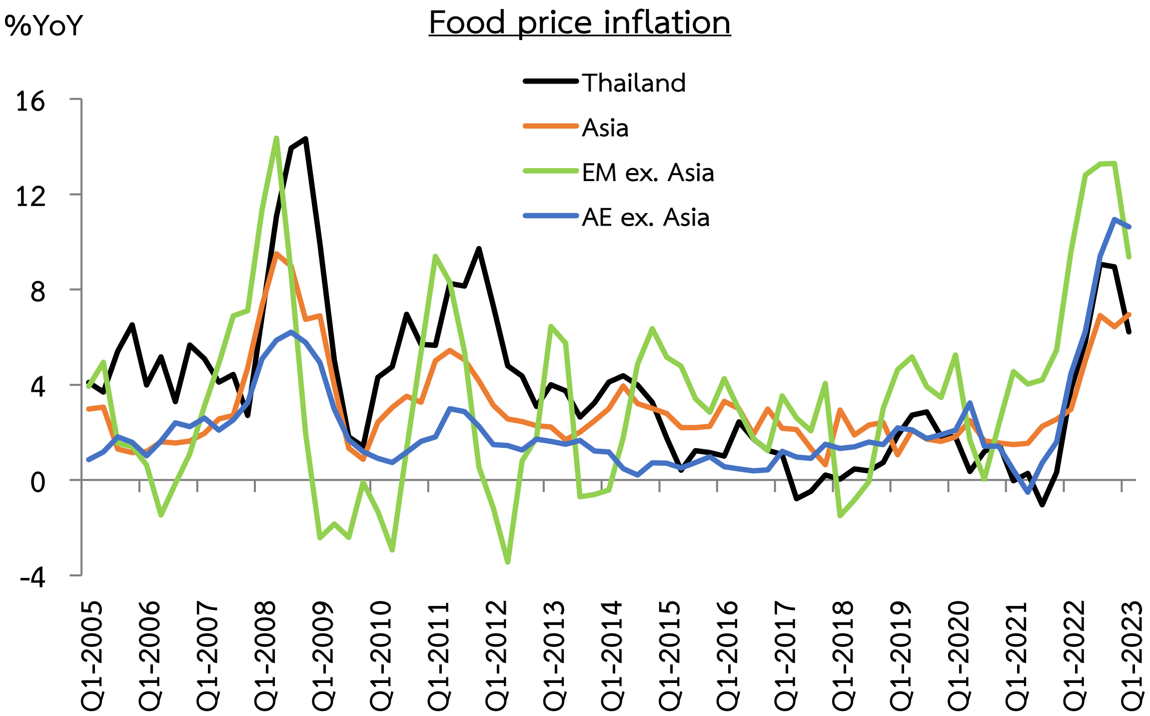
Inflation in 2024 would be higher than this year.

The impact of El Niño on food prices and demand-side pressures should be attentive.

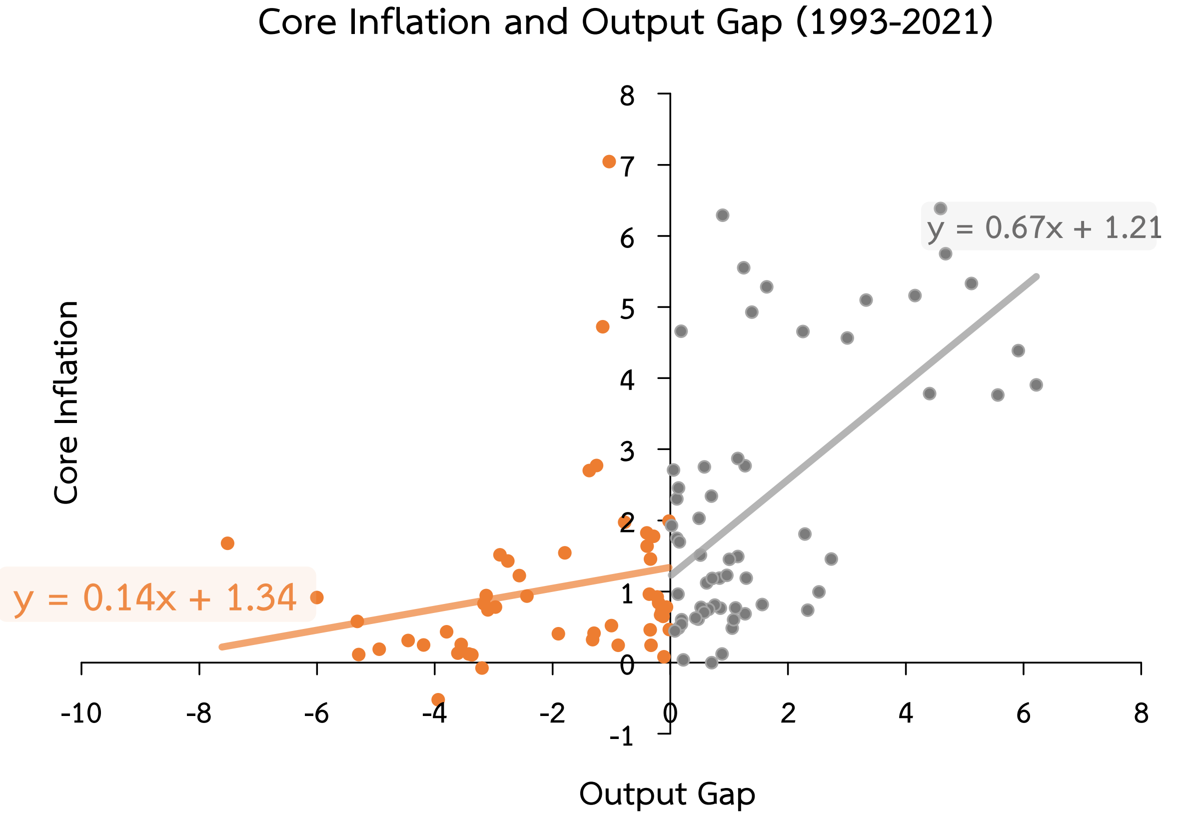
Global and domestic food prices would remain high and are subject to risks stemming from El Niño.



Note: Asia includes China, Japan, Taiwan, Singapore, South Korea, Philippines, Indonesia, and Malaysia / EM ex. Asia includes Mexico, Russia, Brazil, Bulgaria, and Poland / AE ex. Asia includes US, UK, Canada, Australia, New Zealand, France, Sweden, Switzerland, Netherlands, Ireland, Norway, and Israel

Source: CEIC, BOT calculation

Demand-pull inflationary pressure could mount due to a strong expansion in demand

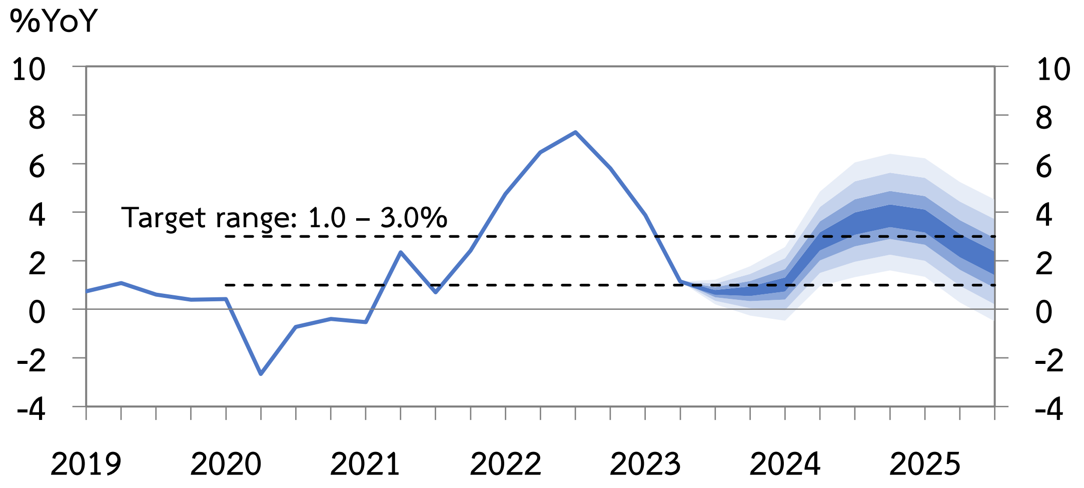


Note: scatter plot representing relationship between core inflation (%YoY) and the output gap (%) (output gap of each data point is the average value across 4 quarters)

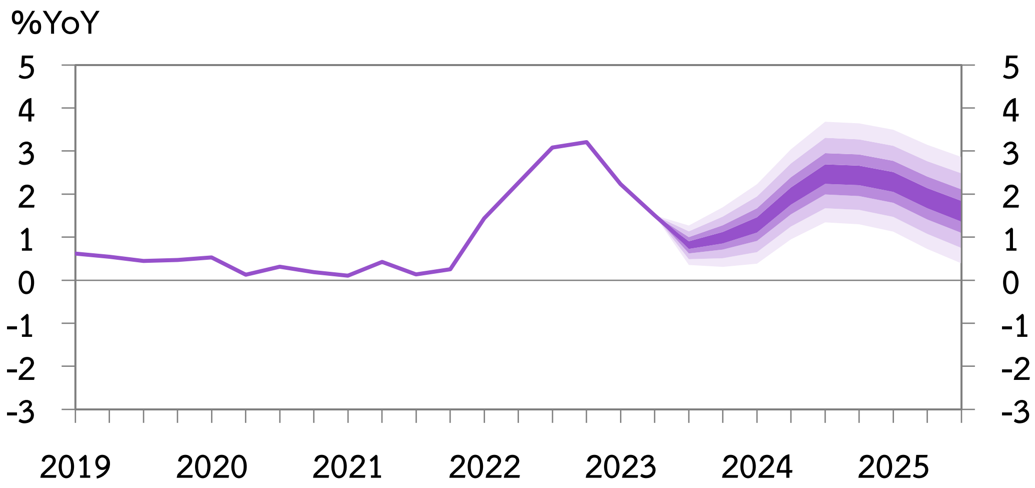
Source: BOT calculation

Inflation is projected to remain within the target range over the medium term albeit with upside risks

Headline inflation forecast



Core inflation forecast



Upside risks

- **Demand-pull inflationary pressure could mount** due to the economic expansion and the government's economic policies
- **El Niño** could be more severe than expected and result in more cost-passthrough from businesses to consumers

Downside risks

- **Slower-than-expected global economic recovery**
- **There could be more government subsidies to assist with living costs than expected** such as subsidies for electricity and retail fuel prices

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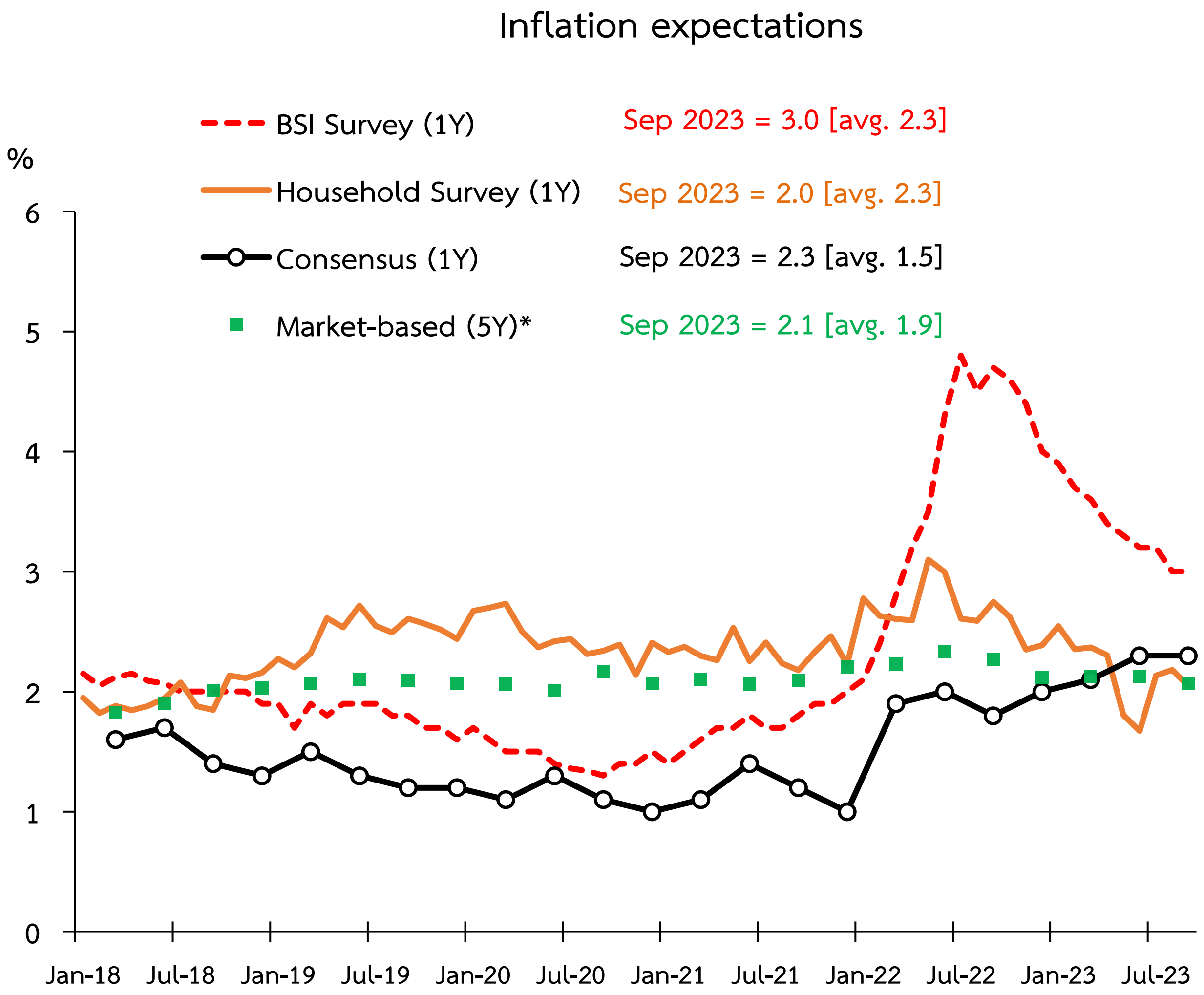
Inflation expectations are stabilized.

Short-term inflation expectations have gradually declined, while long-term inflation expectations remain well-anchored



Source: Asia Pacific Consensus Economics, Business Sentiment Survey (BOT), Consumer Confidence Index (Ministry of Commerce)

Note: [ ] = average since Jan-2018; *forecasted by affine term structure model using yield curve and macroeconomic data

- **Short-term inflation expectations** of businesses and households have gradually declined in tandem with the ongoing disinflation process, while economic analysts expect inflation to remain within the target range.
- **Medium-term inflation expectations** as reflected by financial market data remain well-anchored within the target range

Key monetary policy considerations

Monetary policy stance is now neutral

Previous MP Forum (31 May 2023)

"The Committee decided to increase the policy interest rate in a gradual and measured manner towards a level consistent with long-term sustainable growth."

Latest MP Forum (27 September 2023)

"The gradual and measured policy normalization up until this MPC meeting has brought the current policy interest rate to a level consistent with long-term sustainable growth"

Reasons underpinning the monetary policy decisions

Frequently asked question:

“Why did the MPC raise the policy rate when inflation has slowed and growth outlook was revised down?”

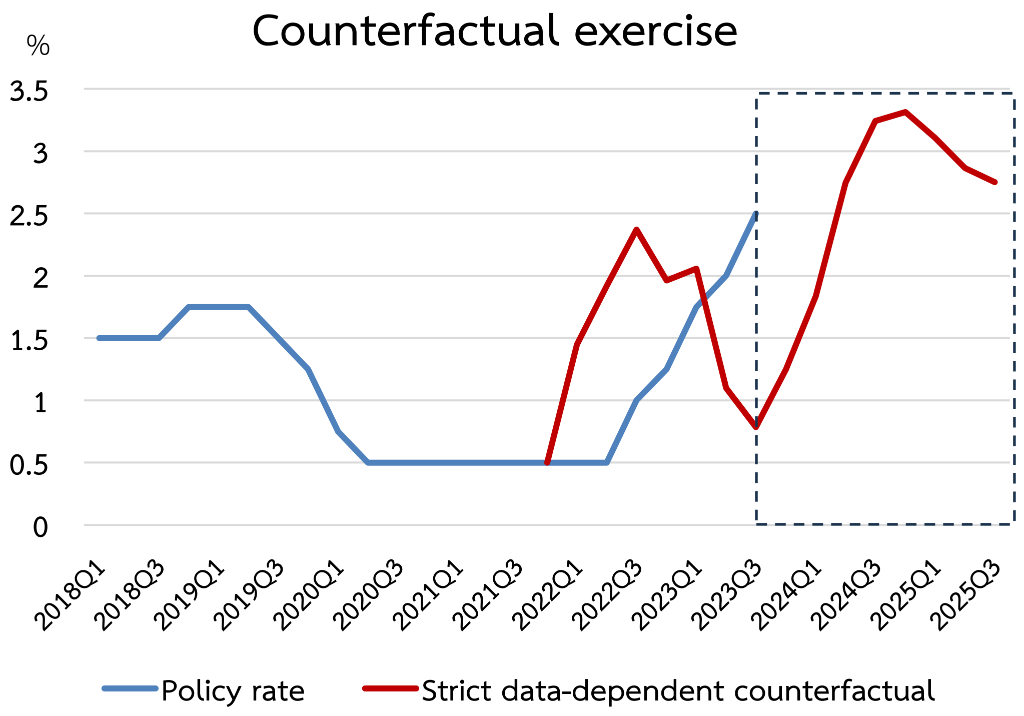
“Is this policy rate hike going to be the last? Where is the policy rate heading going forward?”

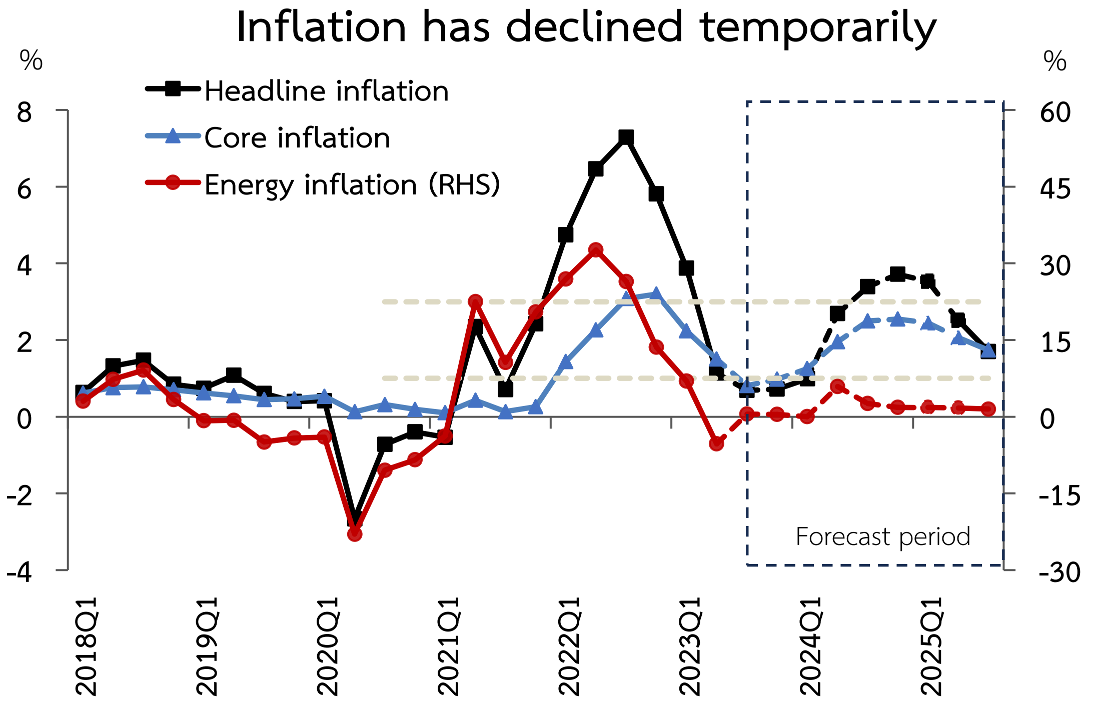
Key principles:

1. Outlook-dependent, and look through noise in the data
2. Appropriate for the current context and needs
3. Wary of the costs associated with prolonged low interest rates

1. The economic recovery would continue in the period ahead

- Monetary policy takes time before its effects are fully transmitted to the economy and thus the policy decision must be based on the assessment of the economic outlook, the latest of which suggests that the economic recovery would continue
- A monetary policy decision that is overly sensitive to incoming data over the short-run would add more uncertainties to the economy, the outlook of which is already subject to many uncertainties
- Inflation targeting = inflation forecast targeting

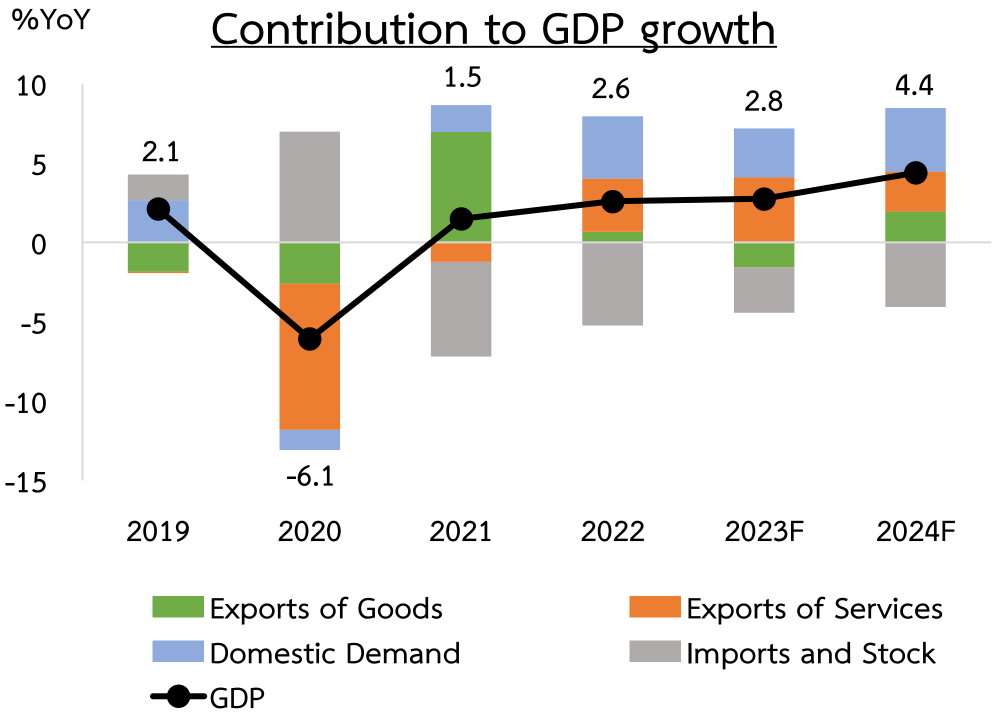




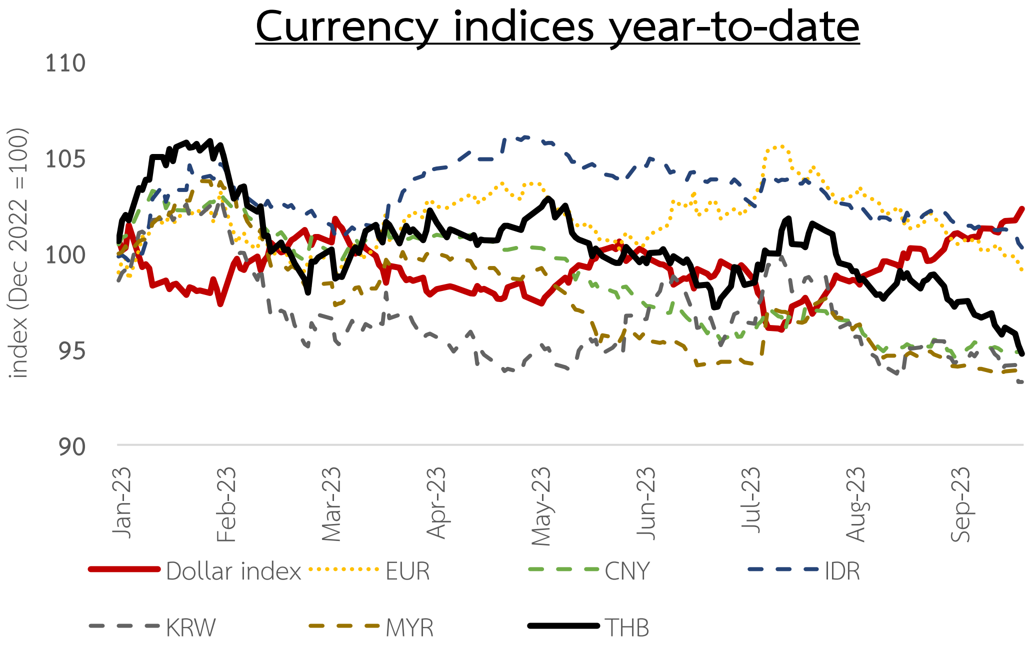
Source: Ministry of Commerce and BOT calculation

2. There is less need for monetary policy to drive economic growth

- Growth momentum next year is picking up in almost all components thus there is little need to rely on policy to drive growth
- The key risk factor stems from global demand, which the policy rate cannot directly influence
- A neutral rate of interest is appropriate to cushion both upside and downside risks. The policy space should be preserved for future use



Source: NESDC, BOT forecast



Source: Bloomberg and BOT calculations

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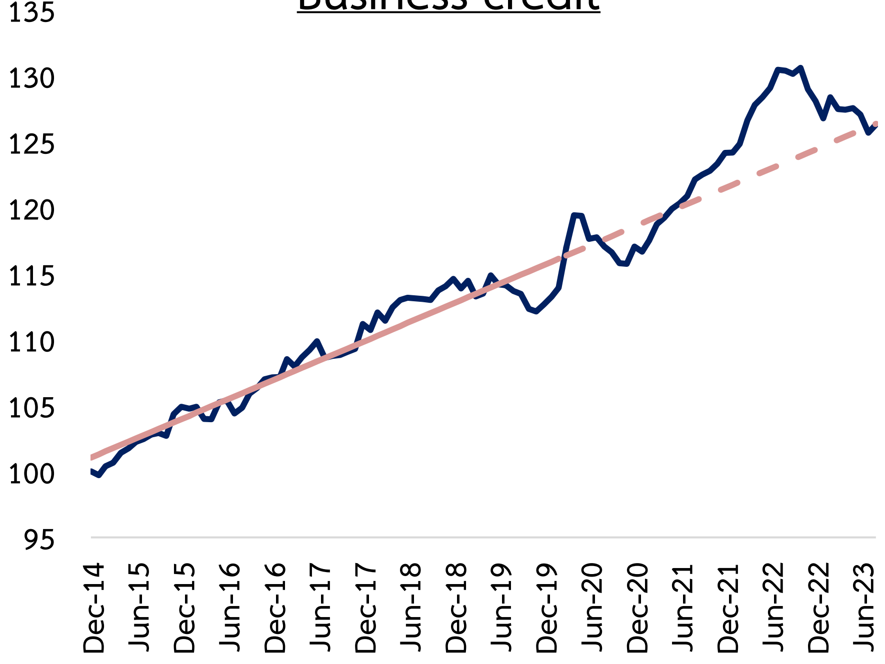
3. There are costs to keeping interest rates low for long

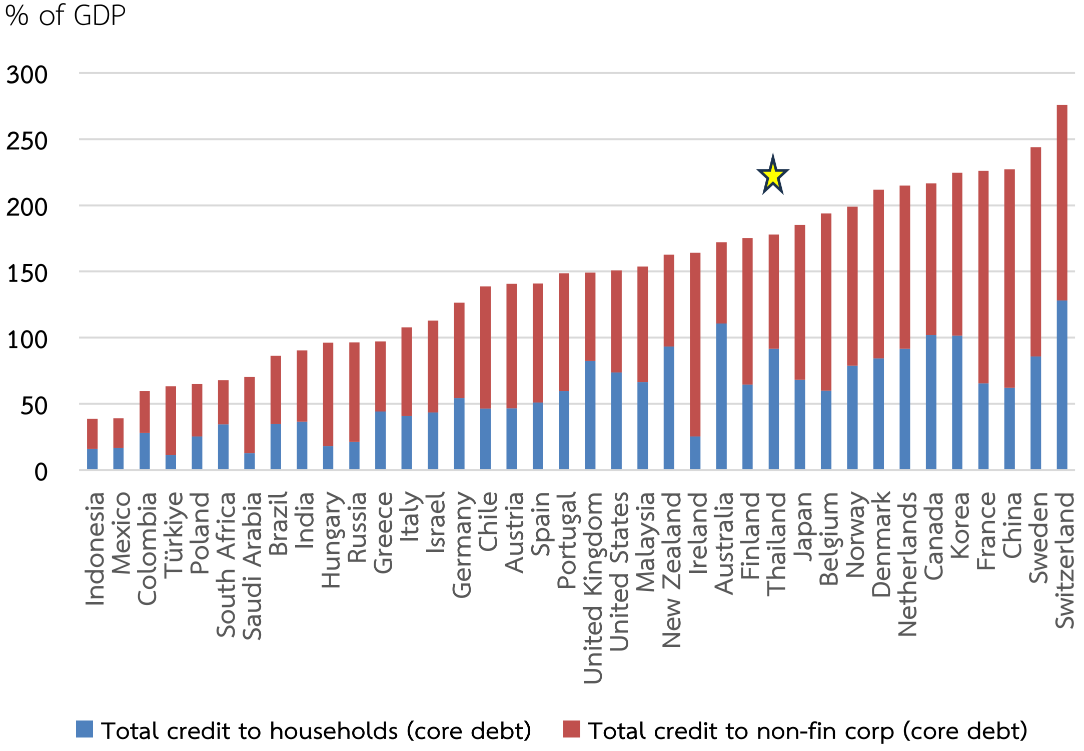
- The credit lending mechanism has already been heavily utilized during the COVID-19 pandemic and its continued use could be detrimental for financial stability
- Private sector debt levels are already quite high and so spurring more borrowing would result in debt problems over the long run
- Prolonged low interest rates could result in various financial vulnerbilities

Business credit



Note: (1) Data as of August 2023; (2) Corporate loan, Index Dec 2014 = 100
(3) Fitted line is calculated from data during pre-COVID periods
Source: BOT

Household debt as of Q1-2023



Source: Bank for International Settlements

Signs of financial vulnerbilities

- Household debt
- Property speculation
- Investment in saving cooperations
- Unrated bonds

Monetary policy going forward

"The Committee assessed that the gradual and measured policy up until this MPC meeting has brought the policy interest rate to a level consistent with long-term sustainable growth. In deliberating monetary policy going forward, the Committee will take into account growth and inflation outlook, including upside risks from government economic policies"

Risks to be monitored:

- Stimulus from government policies
- Impacts of other government measures on inflation
- Continuity of global demand recovery
- Financial market volatilities