

Monetary Policy Forum 4/2023

13 December 2023

(Economic projections as of 29 November 2023)





The Thai economy overall continued to recover. Growth is expected to be more balanced. However, the risk of a delay in exports recovery must be monitored.

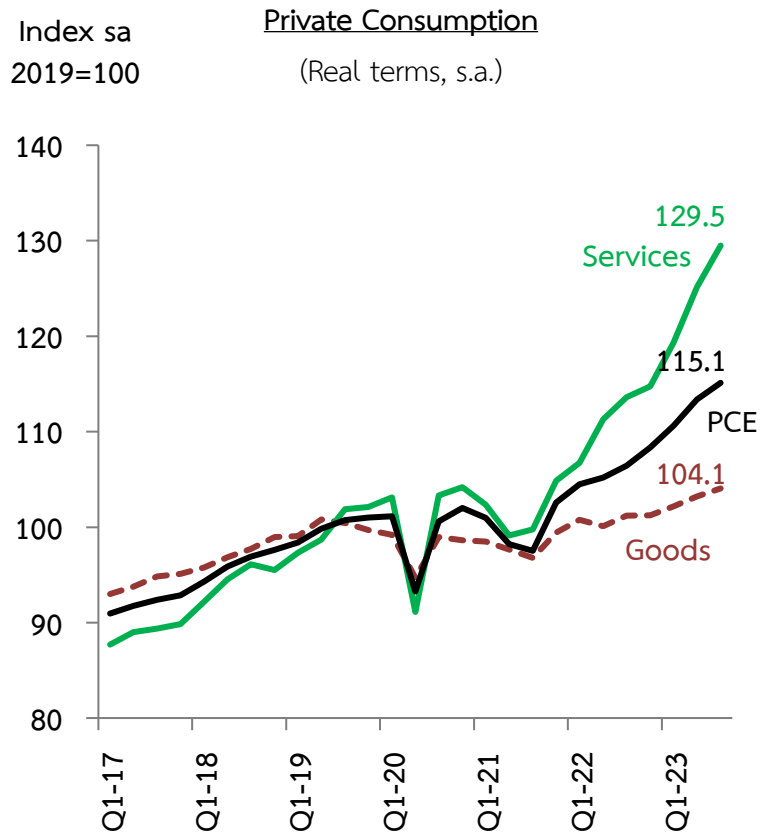


GDP growth in 2023 suggested a continued economic recovery but not all growth engines have regained their momentum

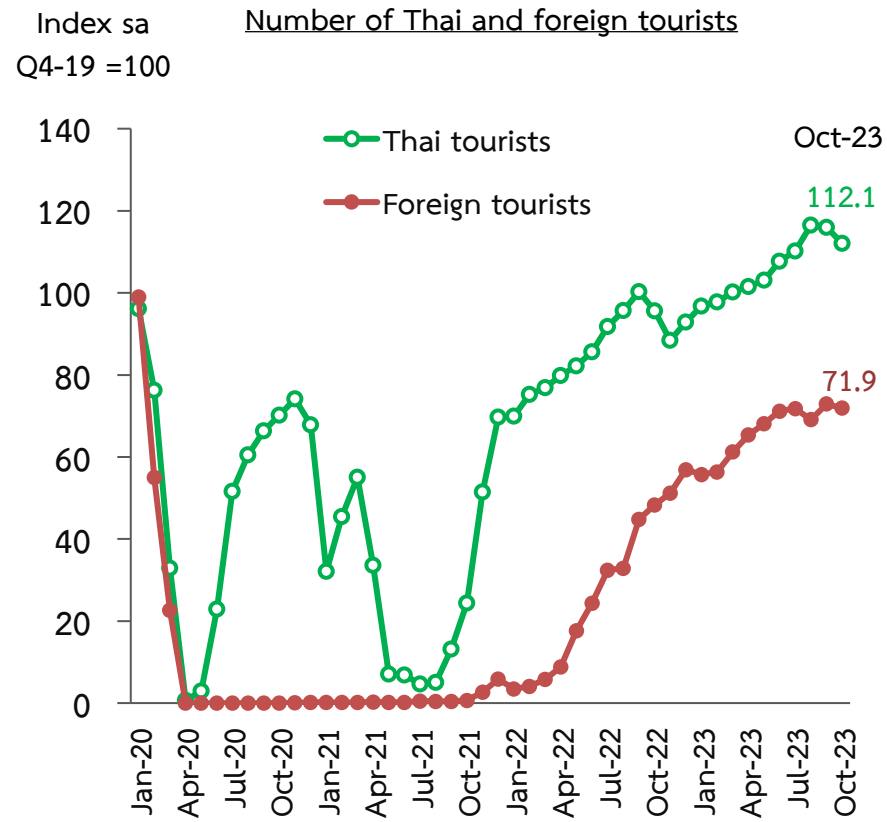
Private consumption is driven primarily by spending in services sector

Foreign tourists arrival has continued to recover. The number of Thai tourists has also returned to pre-COVID levels

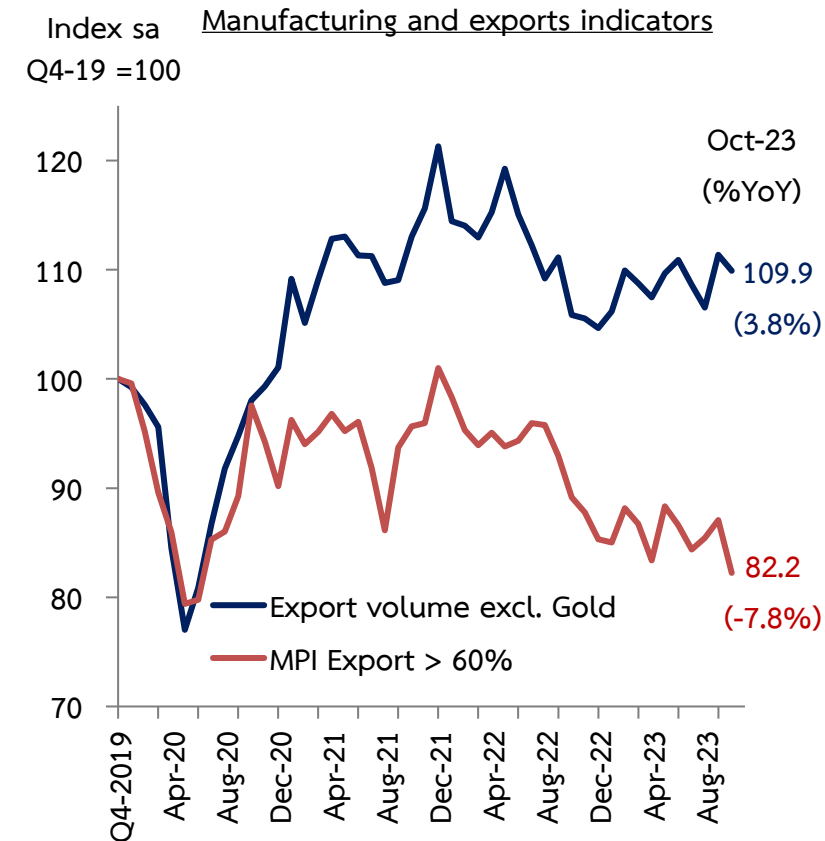
Manufacturing and exports have not yet fully recovered



Source: NESDC, BOT calculation



Source: Ministry of Tourism and Sports, BOT calculation



Source: Ministry of Commerce, Customs Department, and Office of Industrial Economics

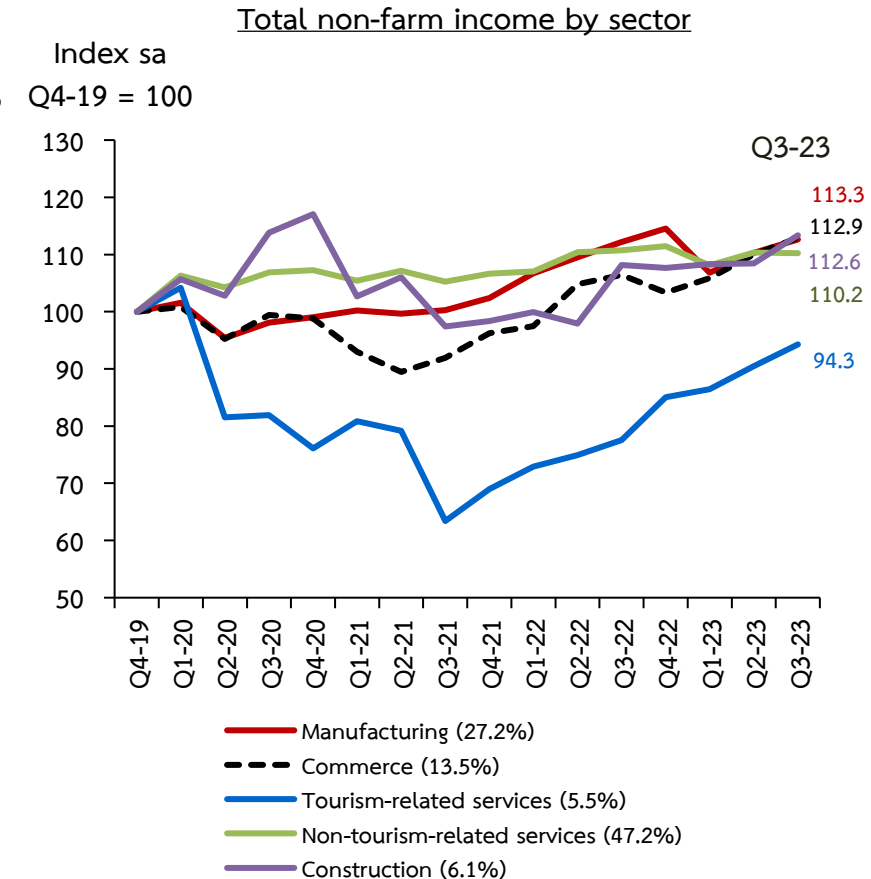
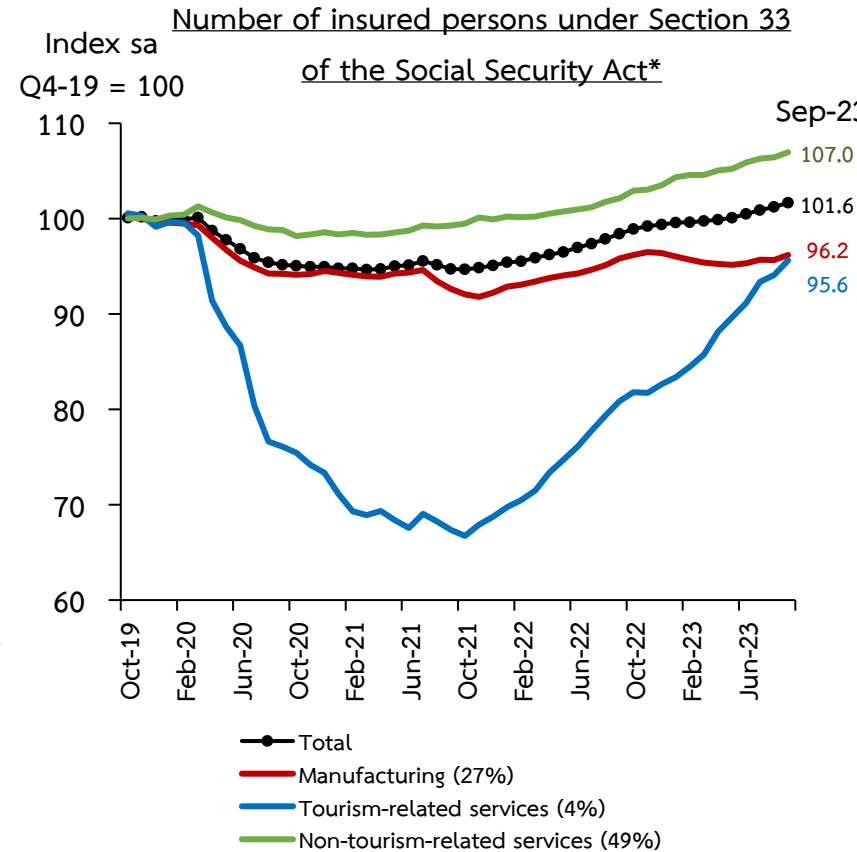
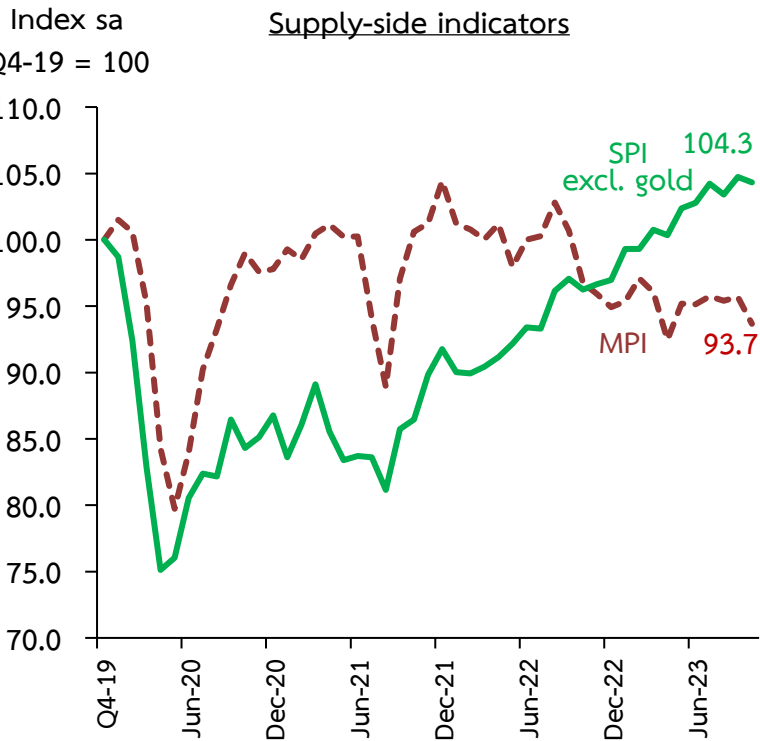
Note: BOT calculation and classification of manufacturing activities



The recovery in the services sector resulted in continued improvements in labor market conditions and income. Meanwhile, the recovery in the manufacturing sector has been stagnant since the end of 2022.

Supply side indicators reflect a strong recovery in the services sector

Services sector recovery is a key driver in bringing much of the labor market back to pre-COVID levels



Source: Social Security Office, BOT calculation

Note: *Does not include agricultural, utilities (water and electricity), and other unspecified sectors, all of which account for about 20% of insured persons under Section 33; () = share of total insured persons

Source: Labor Force Survey by National Statistics Office, BOT calculation

Note: () = share of average non-farm income in 2022



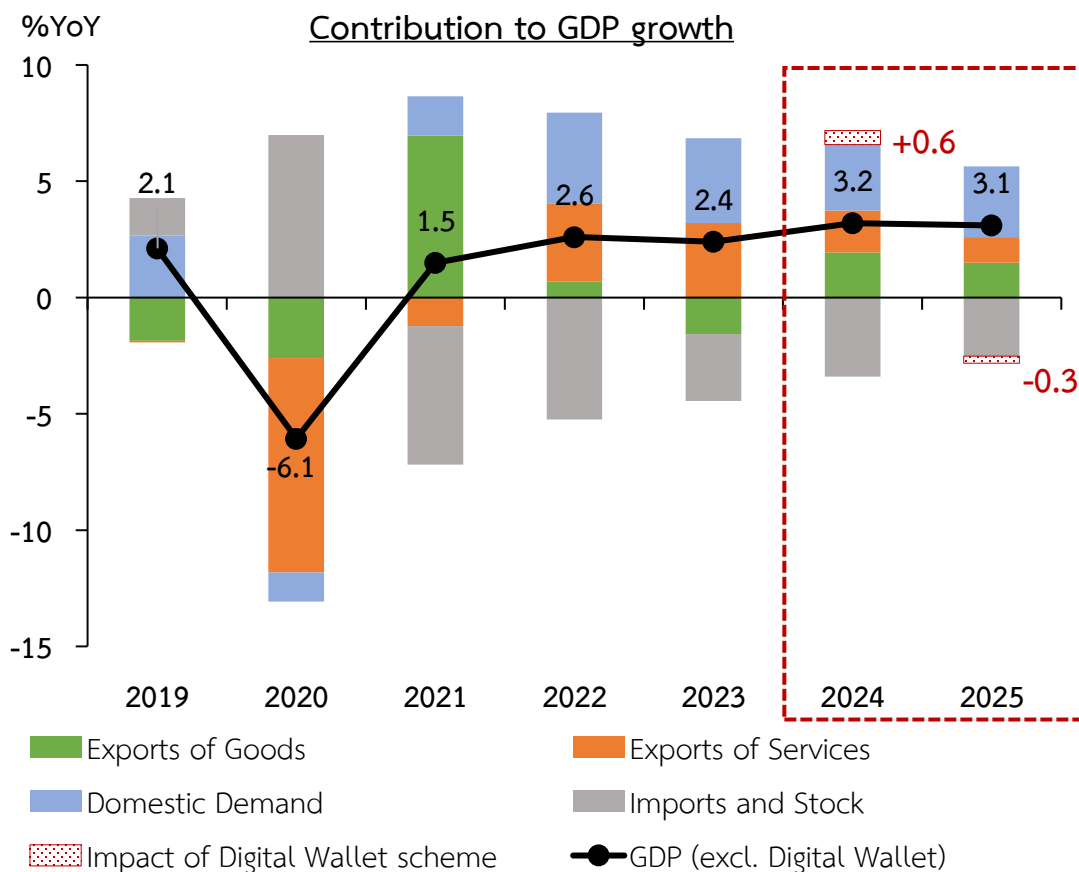
Growth is expected to be more balanced in 2024 and 2025

%YoY	2022*	2023	2024		2025	
			Excl. DW**	Incl. DW	Excl. DW**	Incl. DW
GDP Growth	2.6	2.4	3.2	3.8	3.1	2.8
Domestic Demand	4.1	3.7	2.9	3.7	3.1	2.5
Private consumption	6.3	7.1	3.2	4.5	3.0	2.1
Private investment	5.1	2.4	3.6	3.9	4.5	4.1
Government consumption	0.2	-4.0	1.1	1.1	2.8	2.8
Government investment	-4.9	-0.5	2.7	2.7	1.4	1.4
Export volume of goods and services	6.8	2.4	5.6	5.6	3.8	3.8
Import volume of goods and services	4.1	-2.1	4.9	5.2	3.8	3.4
Current Account (billion U.S. dollars)	-15.7	5.0	10.0	8.3	14.8	13.8
Value of merchandise exports (%YoY)	5.4	-1.5	4.3	4.3	3.3	3.3
Value of merchandise imports (%YoY)	14.0	-1.8	5.3	5.7	2.9	2.7
Number of foreign tourists (million persons)	11.2	28.3	34.5	34.5	39.0	39.0
Dubai crude oil prices (U.S. dollars / barrel)	96.5	82.0	85.0	85.0	85.0	85.0
Headline inflation	6.1	1.3	2.0	2.2	1.9	2.0
Core inflation	2.5	1.3	1.2	1.5	1.3	1.4

Note: * Outturn
** DW is the 10,000 baht digital wallet scheme

Source: Office of the National Economic and Social Development Council (NESDC), BOT forecast

A turnaround in merchandise exports growth in 2024 would provide impetus to economic growth



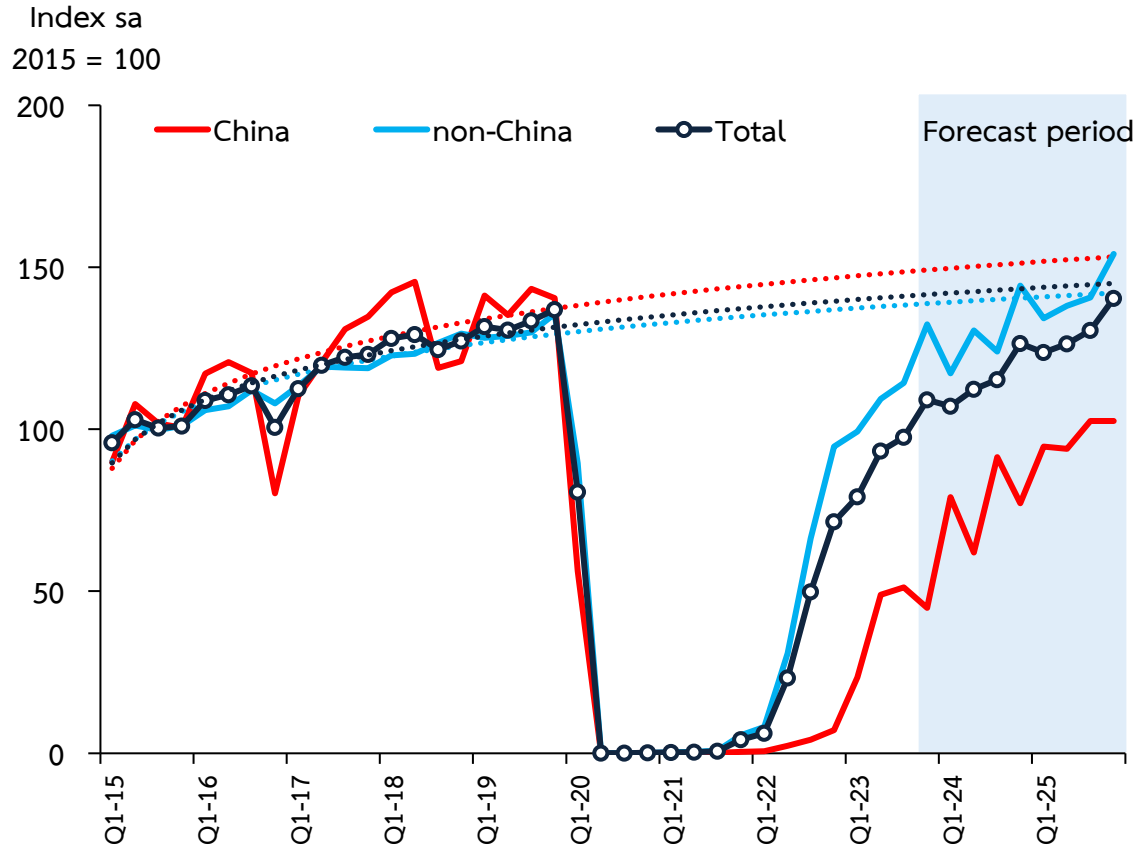
Source: NESDC, BOT calculation and forecast



Foreign tourist arrivals would continue to increase in 2023-2025

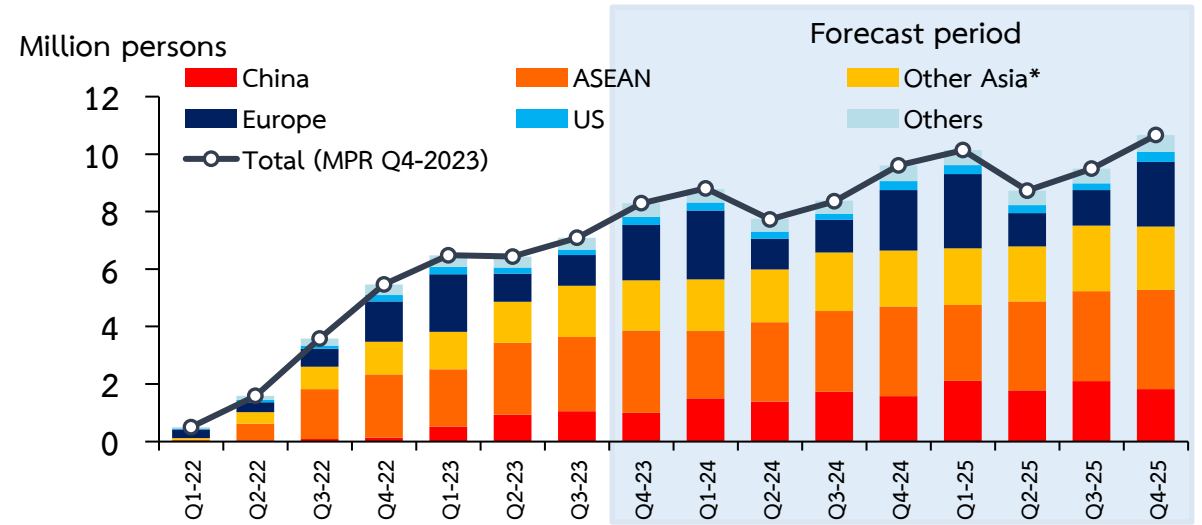
despite a slower-than-expected recovery in the number of Chinese tourists

Foreign tourist arrivals would return to normal in 2025 due to recovery in the number of non-Chinese tourists



Source: Ministry of Tourism and Sports, BOT forecast

Projected foreign tourist arrivals by nationality



Foreign tourist arrivals projections

Foreign tourist arrivals	2023		2024		2025
	MPR Q3-23	MPR Q4-23	MPR Q3-23	MPR Q4-23	MPR Q4-23
All nationalities (million persons)	28.5	28.3	35.0	34.5	39.0
Share of 2019 value (%)	71.5	70.9	87.6	86.5	97.7
o/w China (million persons)	3.9	3.5	7.5	6.2	7.8
Share of 2019 value (%)	35.2	31.4	67.1	55.5	70.1

Source: Ministry of Tourism and Sports, BOT forecast



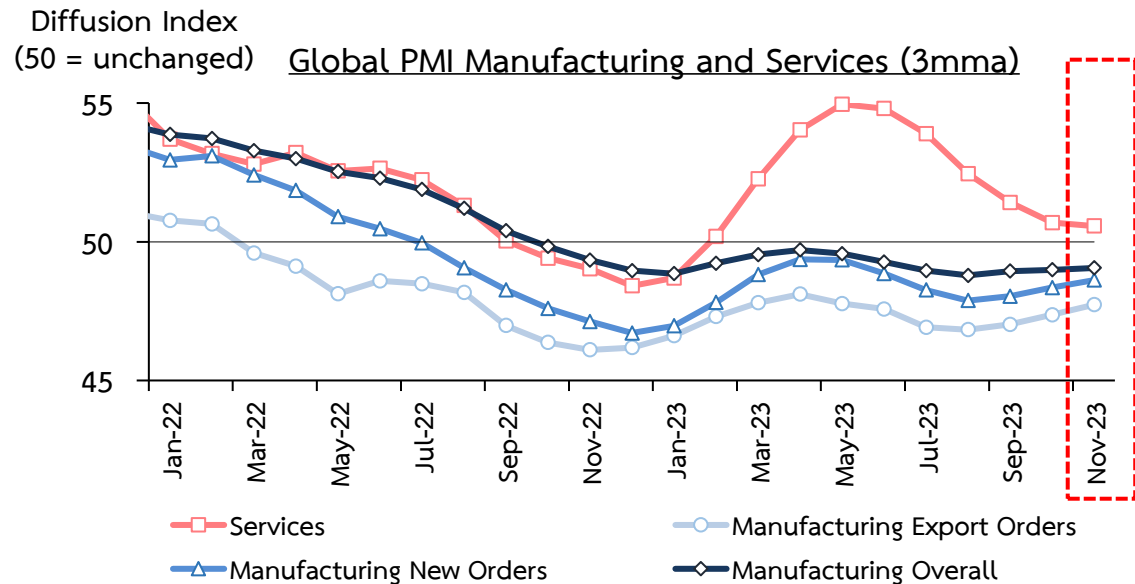
Trading partner economies and global trade volume would expand in 2023-2025

with more balanced growth across services and manufacturing sectors

Growth projections for trading partner economies are revised up on account of the recent growth outturns as well as stimulus measures

%YoY	Weight (2022) (%)	2022	2023		2024		2025
			Sep-23	Nov-23	Sep-23	Nov-23	Nov-23
US	16.6	1.9	1.9	2.3	1.0	1.3	1.8
EU	6.8	3.4	0.7	0.5	1.2	1.0	1.4
Japan	8.6	0.9	1.8	1.6	1.0	1.1	0.9
China	12.0	3.0	5.0	5.1	4.6	4.7	4.6
Asia*	21.5	3.8	3.3	3.4	3.8	3.9	3.7
Total**	70.8	2.9	2.7	2.8	2.5	2.6	2.7

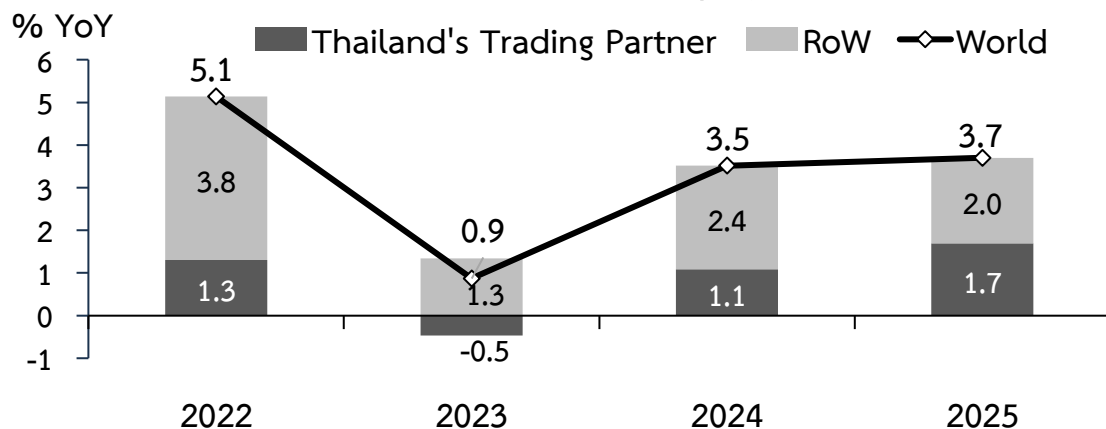
Trading partners' growth has slowed down in the services sector, while the manufacturing sector is showing signs of recovery



Note:
* 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 Philippines (2.6%)
** Also includes Australia (3.9%), and UK (1.4%)

Source: CEIC, BOT calculation

World trade volume projection



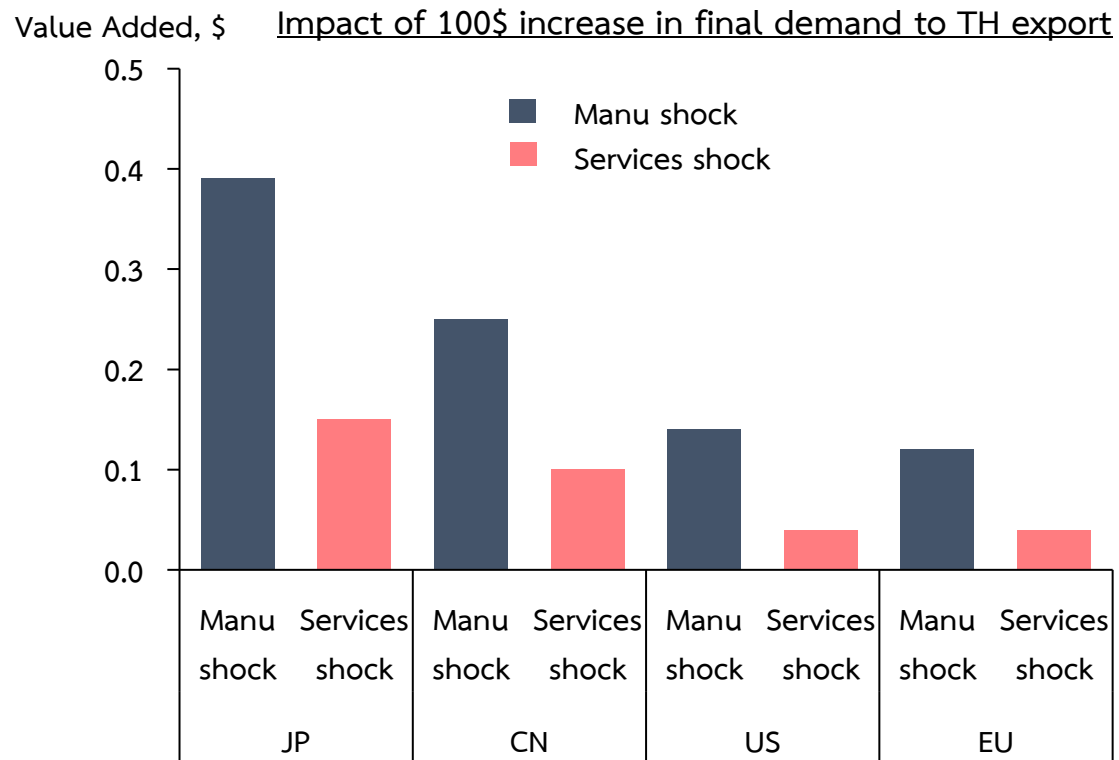
Source: IMF forecast, BOT calculation



Merchandise exports would recover in early 2024. However, there is a risk that Thailand's structural impediments could limit the positive effects of global demand recovery on Thai exports.

Thai exports would significantly benefit if the demand in manufacturing sector improved

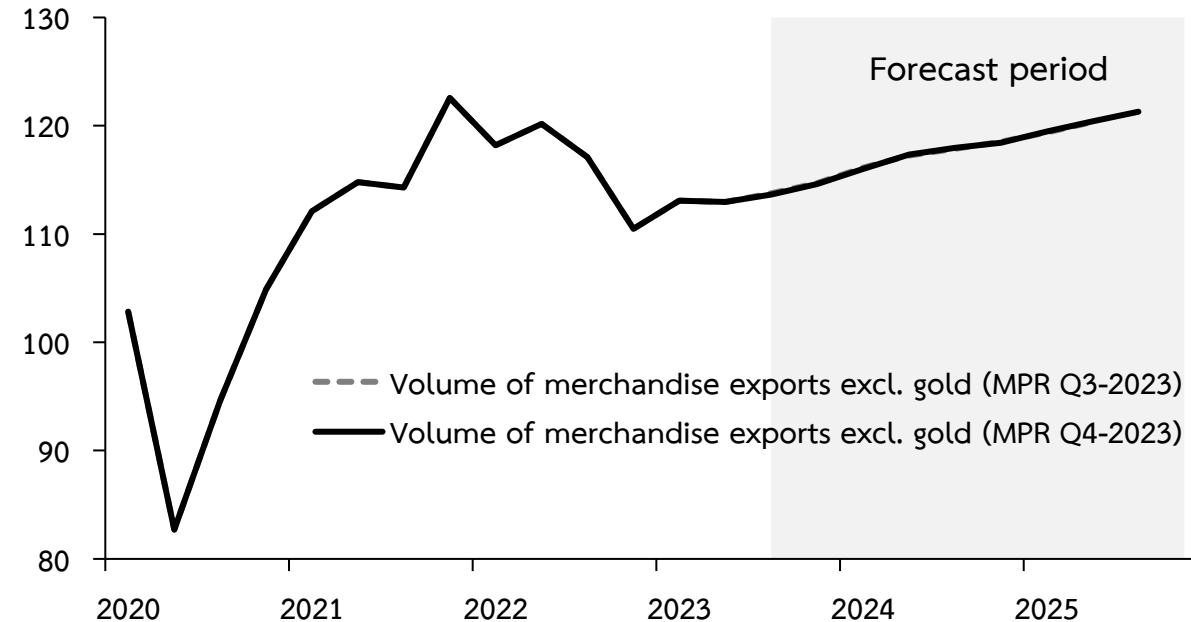
especially for exports of agro-manu products, electronics, petrochemical and chemical products



Note: A comparative assessment of the impact of final demand shock from trading partners on the manufacturing and services sectors is done by analyzing the relationship between manufacturing inputs and outputs between countries using data from the 2018 Inter-Country Input-Output (ICIO) table.

Volume of merchandise exports (excl. gold)

Index sa (2012 = 100)



	Growth (%YoY)	Exports value	Exports volume
2023		-1.5 (-1.7)	-2.7 (-2.7)
2024		4.3 (4.2)	3.5 (3.5)
2025		3.3	2.8

Source: Ministry of Commerce, BOT forecast

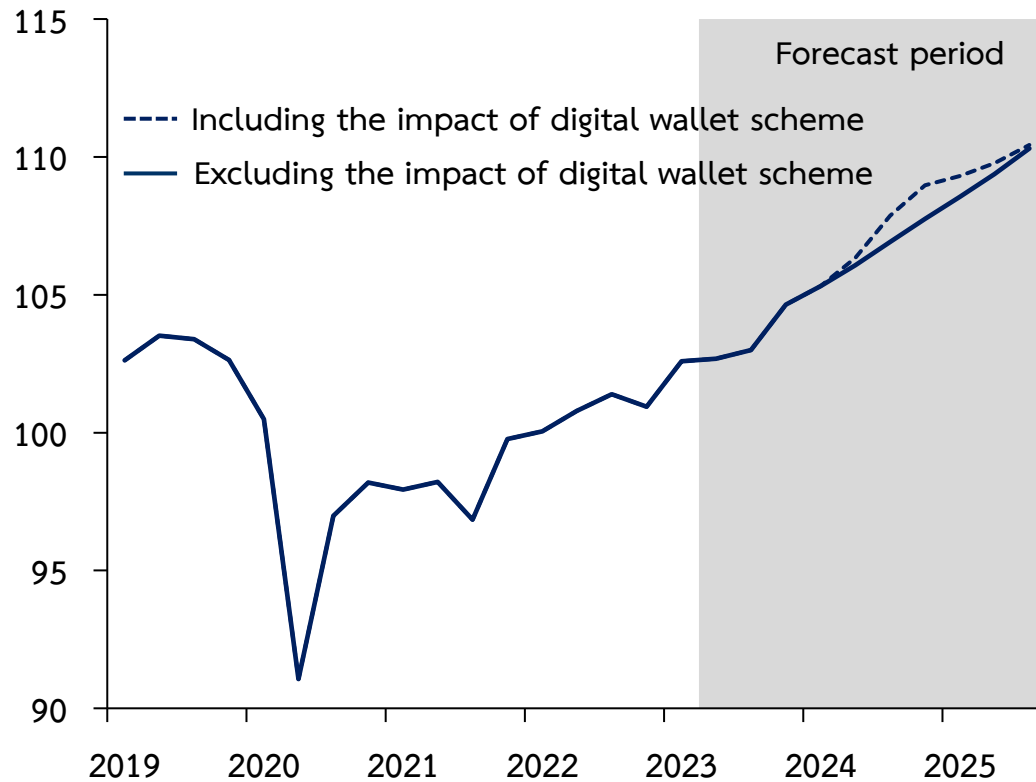
Note: () = forecast from Monetary Policy Report Q3-2023



The overall Thai economy is expected to continue recovering but uncertainties remain

Real GDP

Index sa (2018 = 100)



Source: BOT

Risks to growth

+ Upside risks

- Domestic demand growth is stronger than expected

- Downside risks

- Global economic growth is weaker than expected especially due to China's slowdown and the impact of the Israel-Hamas conflict
- Positive effects of global demand recovery on Thai exports could be limited by the structural changes in the Thai economy



The inflation is expected to remain low until the beginning of the next year due to the government's living costs subsidies, a high base in the previous year, and supply side factors.

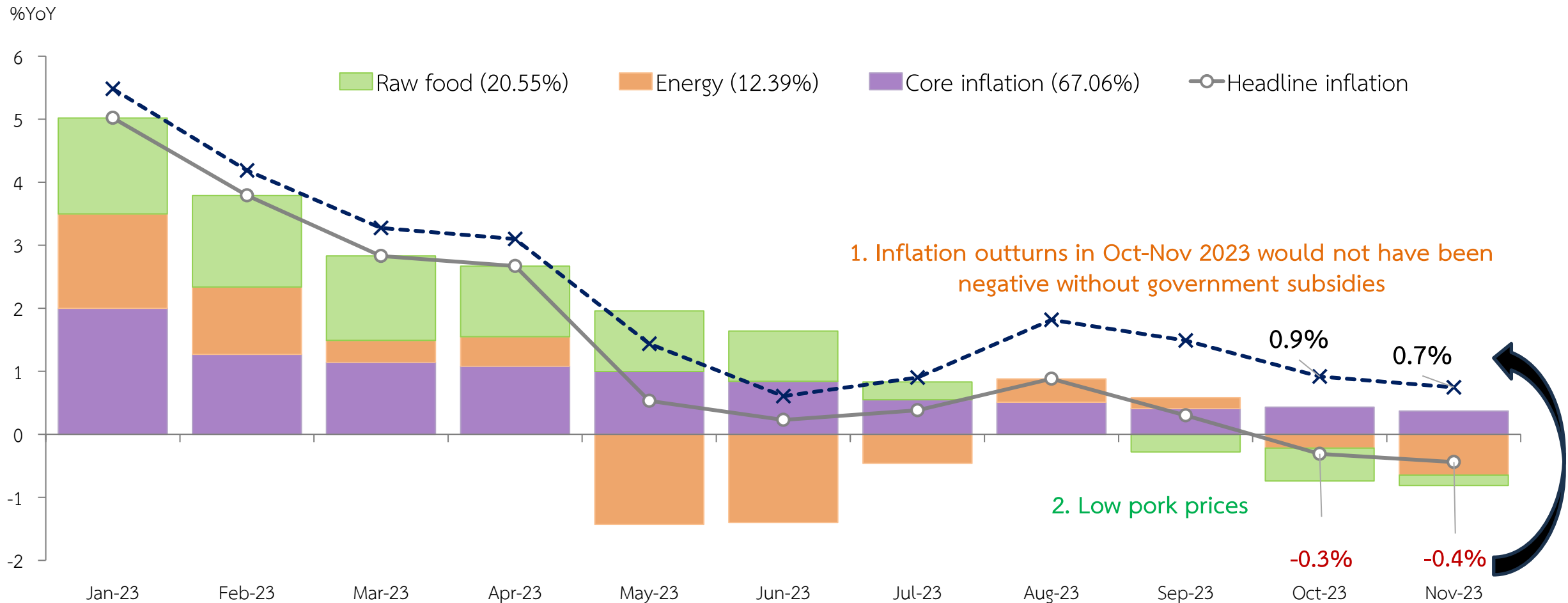
All of these factors, ultimately, do not suggest deflation.

In the subsequent period, inflation is expected to gradually rise and remain within the target range.



Low inflation outturns in Oct-Nov 2023 were due to (1) energy price subsidies from the government, (2) supply side factors

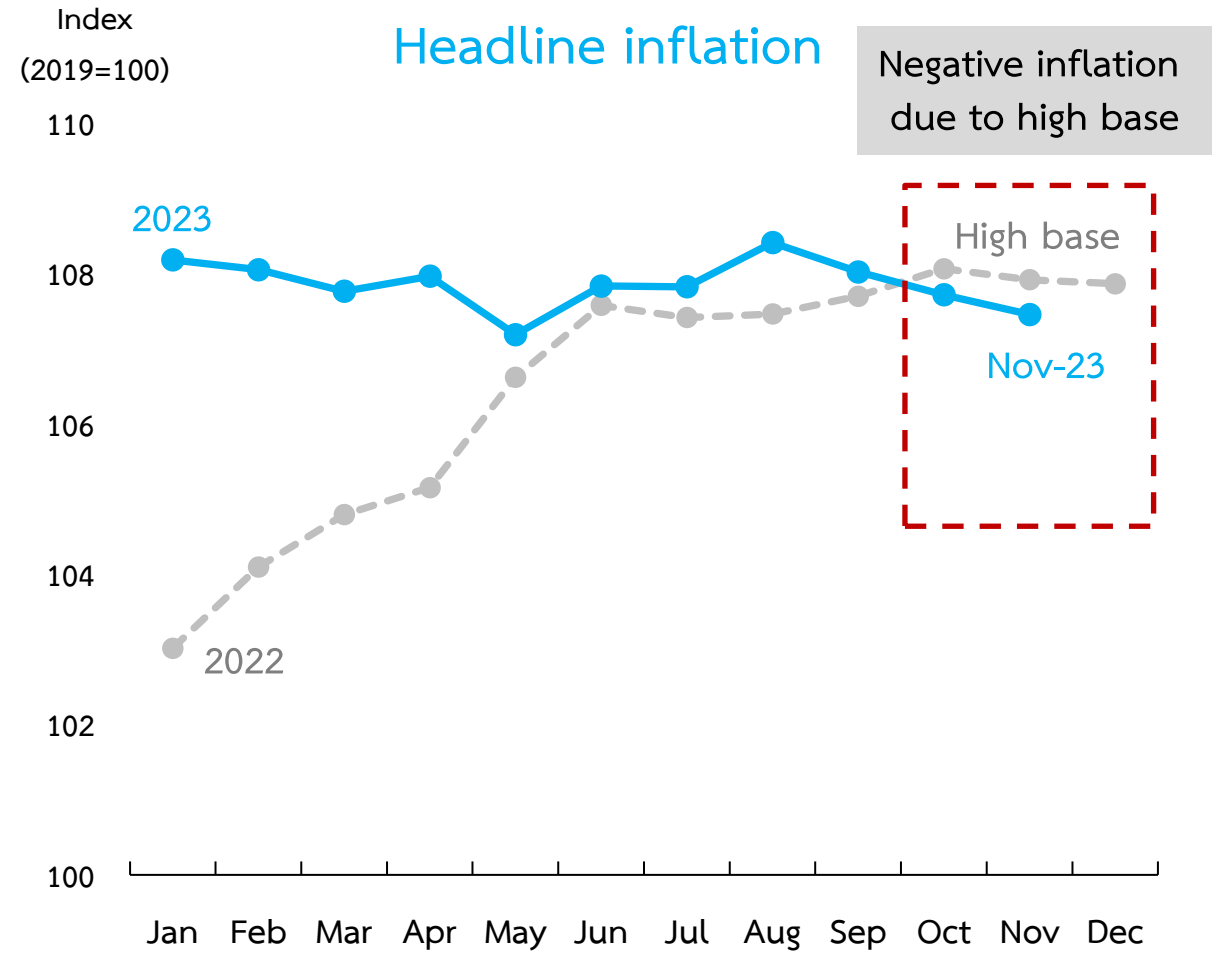
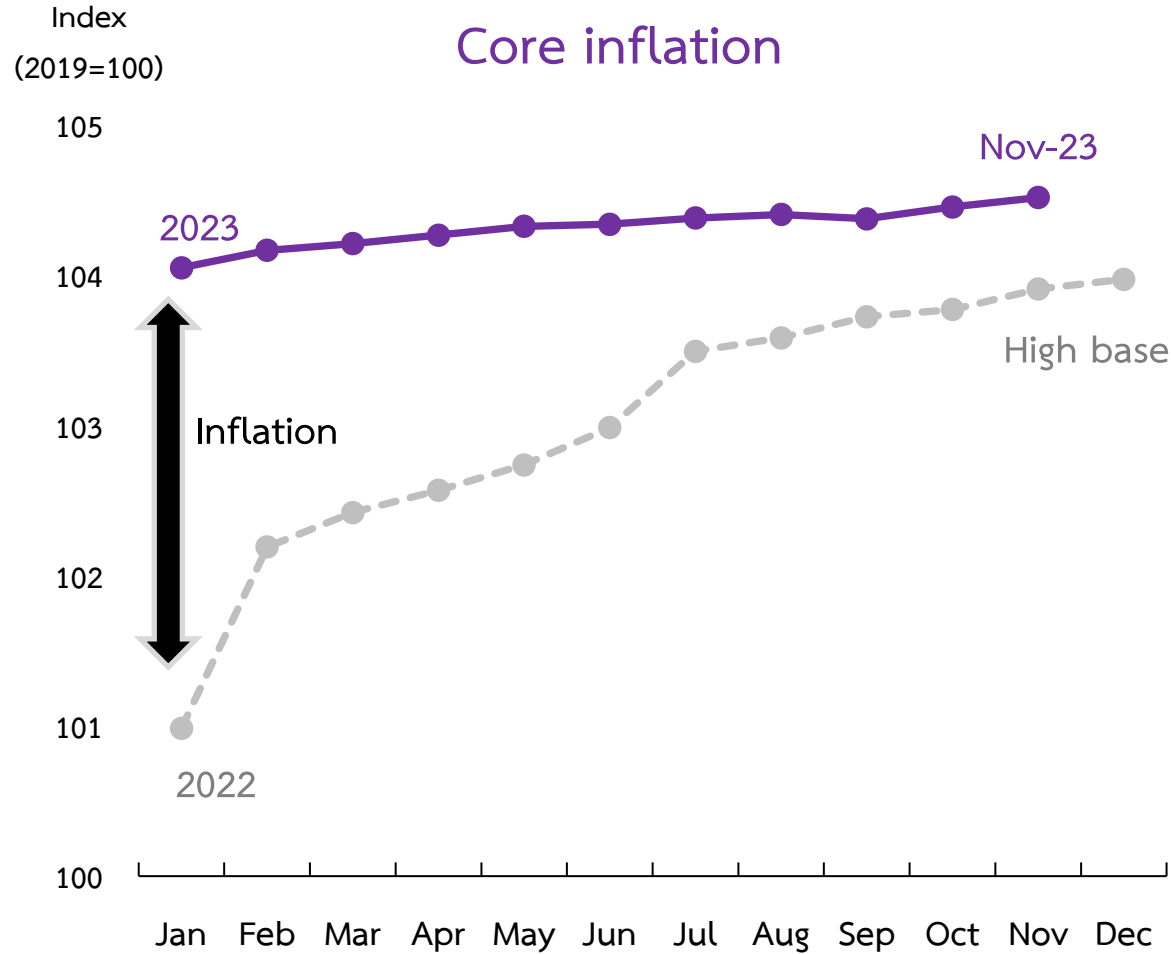
Contribution to headline inflation



Note: () = weight in CPI basket; energy price subsidies include (1) diesel price ceiling at 35 baht (Jan-May), 32 baht (Jun-Sep), and 30 baht (Oct-Nov) and (2) electricity bill subsidies in Jan-Apr, May-Aug, and Sep-Dec 2023

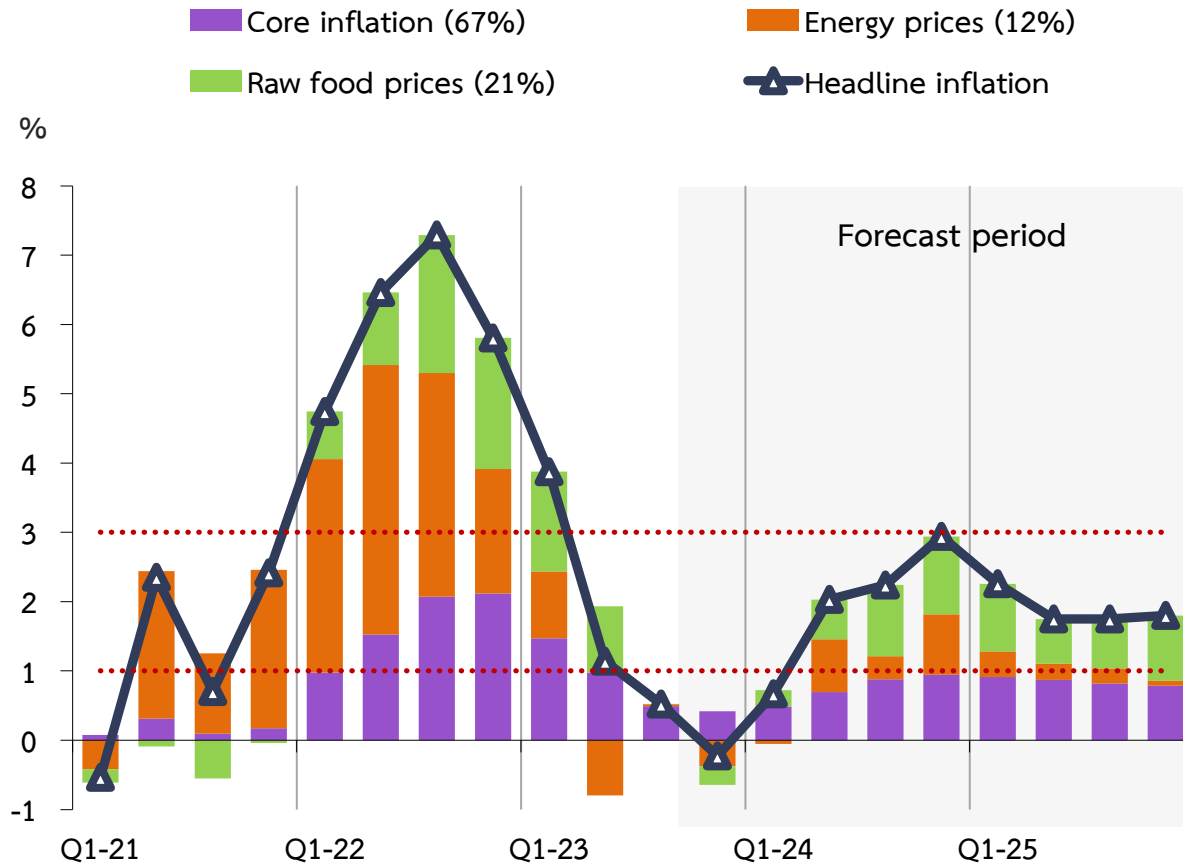


Low inflation outturns in Oct-Nov 2023 were due to
... and (3) a high base in the previous year





Contribution to headline inflation



Inflation forecast (excl. impact of digital wallet scheme)

%YoY	2022*	2023	2024	2025
Headline inflation	6.1	1.3	2.0	1.9
Core inflation	2.5	1.3	1.2	1.3

Note: * Outturn

- **Headline inflation would gradually rise** due to higher **energy** and **raw food** prices, and is expected to fluctuate within the target range.
- **Core inflation** would increase in tandem with the expansion of demand.

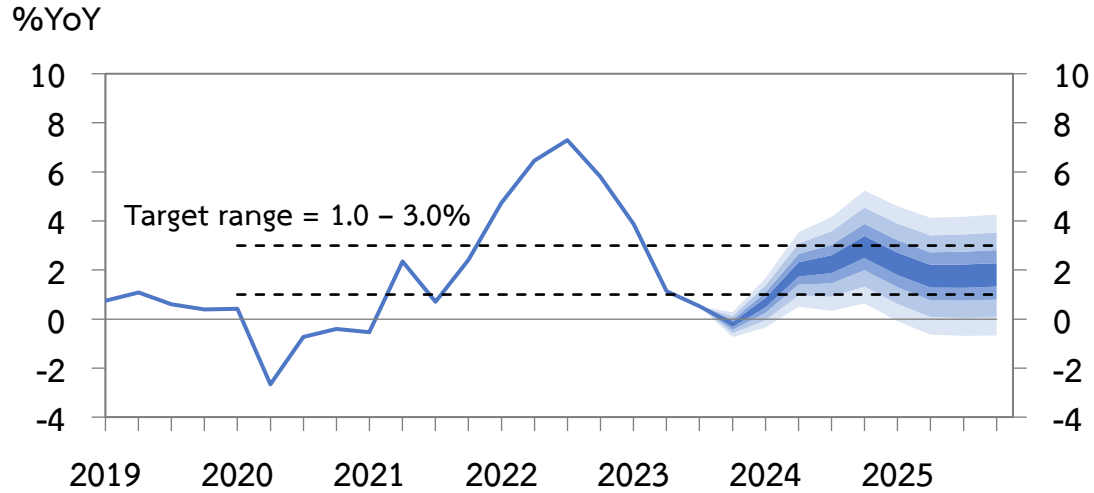
Note: () = weight in CPI basket

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



Inflation outlook is still within the target range despite various risks. Short- and long-term inflation expectations remain well-anchored.

Headline inflation forecast amidst various risk factors



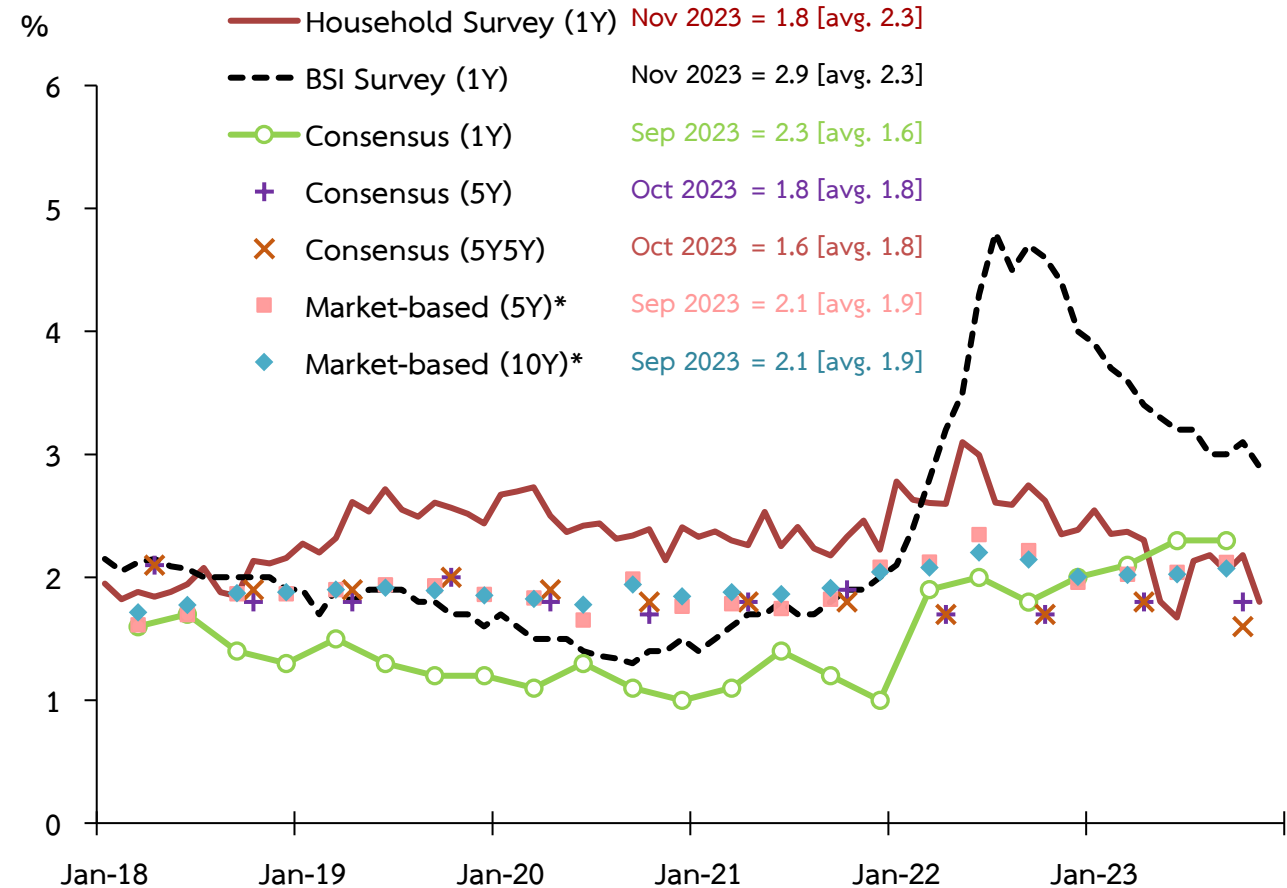
Upside risks

- El Niño in 2024 is more severe than expected
- Global energy prices are higher than expected

Downside risks

- Global economic recovery is weaker than expected
- The government implements more subsidies than expected to assist with living costs such as electricity bills and retail fuel prices

Inflation expectations





Key monetary policy considerations



Frequently asked questions:

“With economic growth coming in lower than expected, is the current policy rate too high?”

“Are financial conditions too tight? Is the policy rate the cause of said tightening in financial conditions?”

“How should monetary policy account for heightened risks in the period ahead?”

Key principles

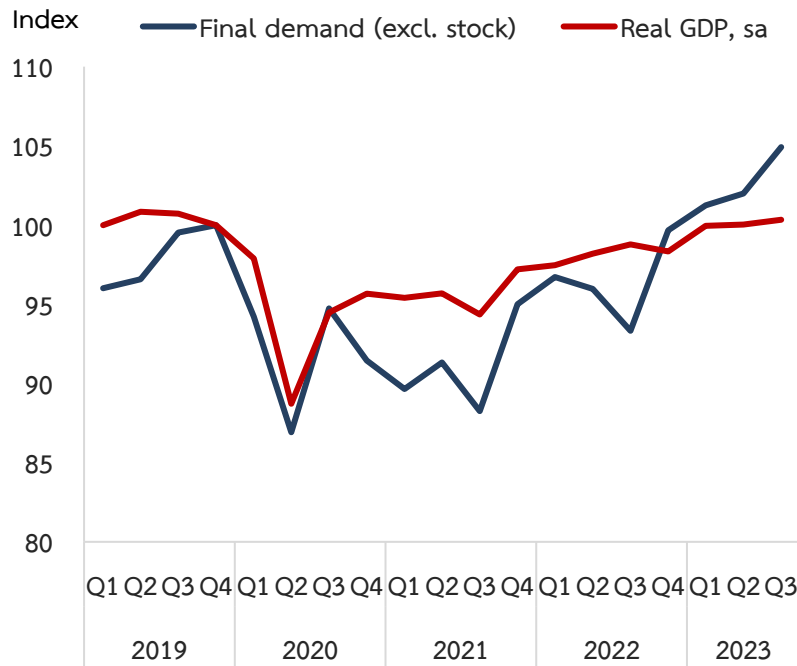
1. Outlook-dependent, and look through noise in the data
2. Appropriate for the contexts and needs of monetary policy
3. Wary of the costs associated with prolonged low interest rates



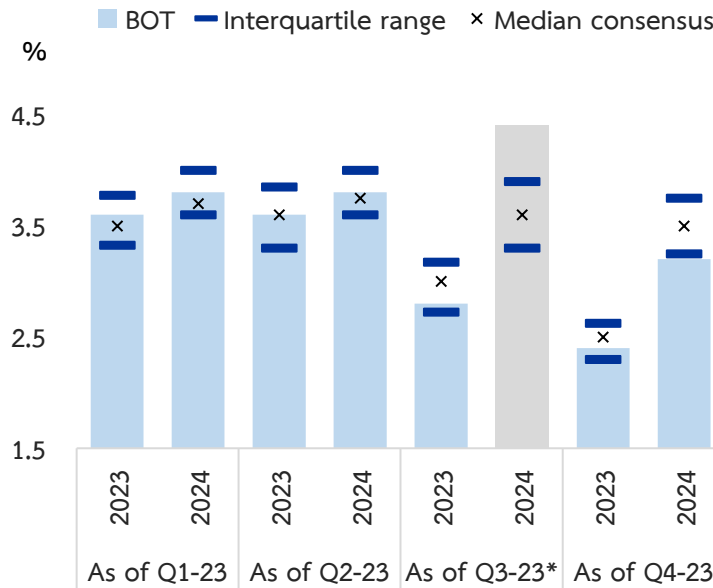
“With economic growth coming in lower than expected, is the current policy rate too high?”

- Demand expansion has persistently been strong, thus *the current policy rate at the neutral level remains appropriate*
- *Looking ahead*, the overall economy would continue to recover with more balanced growth momentum across goods and services sectors within the next year
- Uplifting long-term potential output is very important, but it is not something monetary policy can address

Continued growth momentum from the demand-side



Economic forecasts of various agencies are largely in line



Note: * GDP in 2024 includes impact of Digital Wallet scheme

Source: Consensus Economics, BOT

Structural problems require supply-side policies

- Competitiveness
- Labor quality

Potential output



Output gap

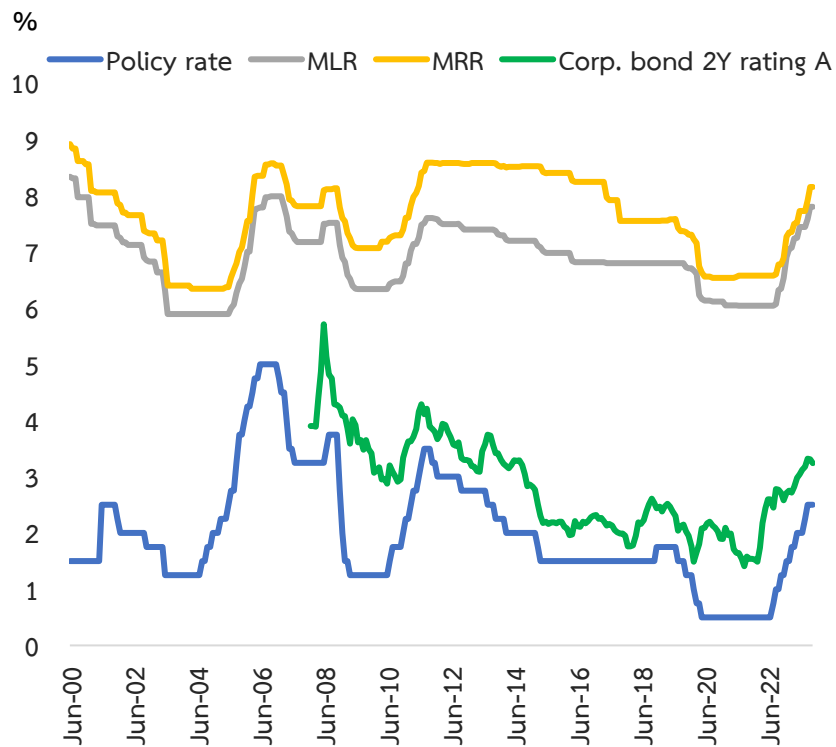
- Income & private sector confidence
- Monetary policy



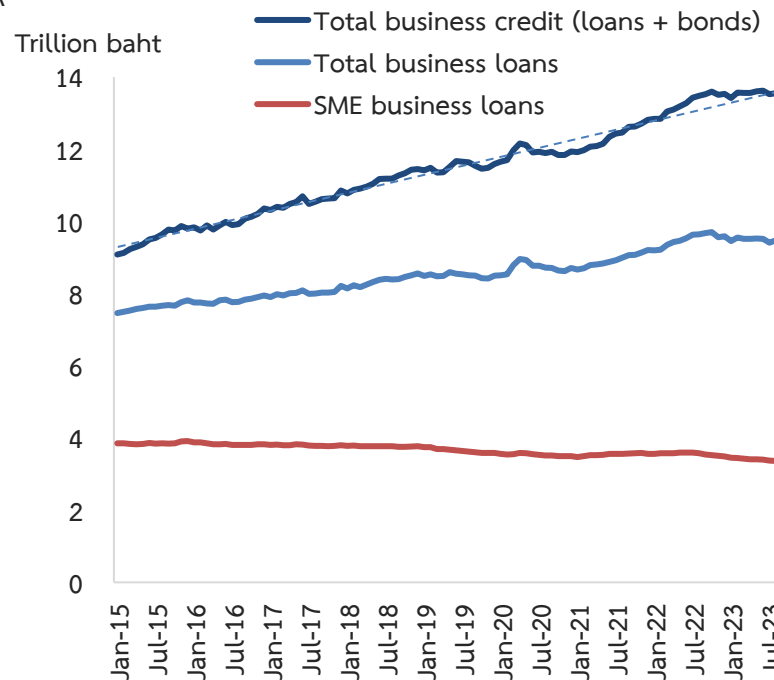
“Did recent rate hikes cause financial conditions to be too tight?”

- Financial conditions have tightened as reflected by higher market interest rates, which are in line with the policy rate
- However, the extent of the tightening does not pose an obstacle to the overall economic recovery
- The slowdown in credit growth is due to idiosyncratic factors and thus varies across business sizes. Most recently, business loans have started to stabilize.

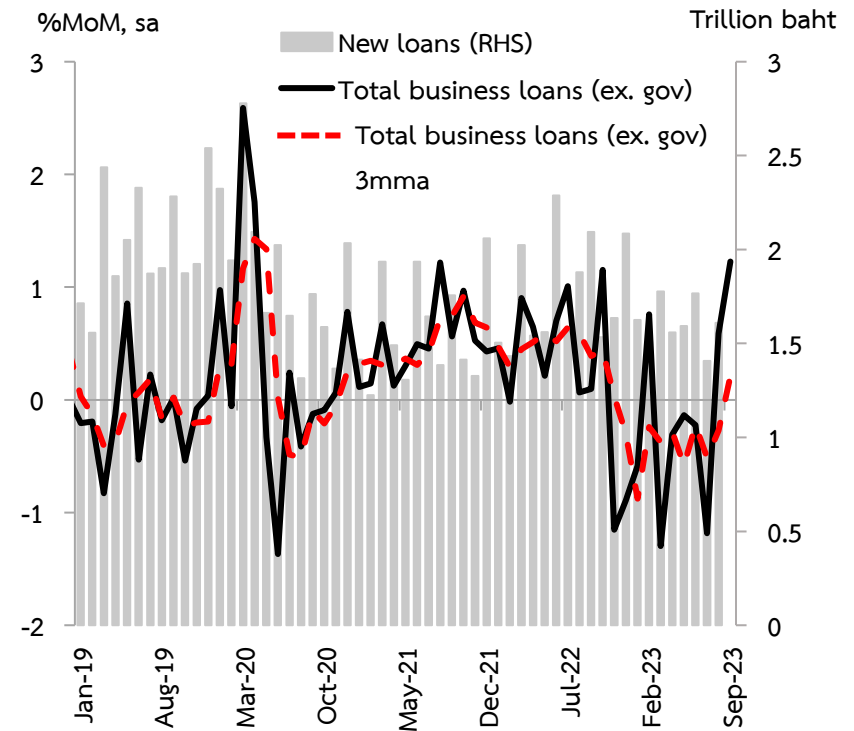
Market interest rates increased in line with the policy rate



Slowdown in credit growth partly reflects a return to trend after having accelerated during the COVID-19 pandemic



Business loans are starting to stabilize in recent periods





“The Committee deemed the current policy interest rate to be appropriate for supporting long-term sustainable growth. Nonetheless, the macroeconomic outlook remained highly uncertain with both upside and downside risks.

The Committee recognized the need to preserve policy space as an insurance against uncertain outlook. The current policy rate would also help guard against the buildup of financial imbalances that otherwise could arise under a low-for-long interest rate environment.”

Risks to be monitored

- Continuity of global demand recovery and implications for Thai merchandise exports recovery
- Stimulus from government policies
- Conflicts in the Middle East and energy prices
- Impact of other government measures on inflation