Thailand Watch

Opening the door for a rate cut

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A 5-2 vote to hold rate

The Thai Monetary Policy Committee (MPC) voted 5 to 2 to maintain the policy rate at 2.50%, while two members voted to cut the policy rate by 0.25%. While the MPC acknowledged the slowdown in the Thai economy in 4Q23 and 2024 and lower inflation momentum, they still saw these as a consequence of structural problems and supply-side issues, not the signs of weak demand. The two members noted the lower potential growth as a result of structural challenges as a reason for supporting the rate cut.

Growth downward revision

The Thai economy slowed more than expected in 2023, mainly from a sluggish recovery in exports and manufacturing production. This downturn was due to weak global trade conditions, high inventory levels, reduced tourism spending per capita, and an unexpected decline in public investment. The 2024 growth forecast is revised to 2.5-3.0%, compared to 3.2% in the previous meeting. However, the committee believes that the slow momentum in external sectors is partially due to structural issues, notably deteriorating competitiveness.

Inflation to stabilize at around 1%

The headline inflation is also projected to be lower than previously estimated, attributing this reduction to supply-side factors, including lower-than-expected raw food and energy prices, along with government subsidies. However, the BoT assessed that the subdued inflation does not indicate a lack of demand nor a sign of deflation, as the decline in prices was temporary and concentrated in specific products. It anticipates that headline inflation will stabilize at a level closer to 1% before gradually increasing in 2025, while core inflation is expected to remain steady.

Resilient Financial System

The MPC observed that the overall financial system remains robust, with financial institutions maintaining high levels of capital and provisions for loan losses, and bond markets operating normally, despite challenges in refinancing for some issuers of low-rated bonds. The private sector and households can access new funding at the usual rate and cost. However, the MPC acknowledged that small businesses in certain sectors might encounter stricter credit conditions.

A first rate cut expected in June

Given weakening growth and inflation outlook, as well as the first non-unanimous decision since August 2022, we think the chance of an early rate cut is rising. The current policy stance may prove to be tightening (above the neutral rate) given that (i) the structural problems the MPC was emphasizing would call for lower long-term neutral rate; and (ii) lower inflation outlook means higher real interest rate and tighter monetary policy stance. We now expect two rate cuts in 2024, beginning in June, while the April meeting remains live and would very much depend on incoming data. The Fed's decision and the digital wallet policy would be key risk factors.

Refer to important disclosures on page 3 to 4.

Exhibit 1: The Thai Monetary Policy Committee (MPC) voted 5 to 2 to maintain the policy rate at 2.50 percent
MPC statement comparison

	7 Feb 2024	29 Nov 2023
Thai economy	**The Thai economy is projected to slow in 2024 from exports and manufacturing activity amid softening global demand and moderating growth in China**. Structural headwinds are restraining merchandise exports and tourism more than expected. Meanwhile, domestic demand continues to expand and remains a key driver of the economy The Thai economy slowed more than expected in late 2023, owing to **(1) tepid merchandise exports and manufacturing activity** given unfavorable global trade conditions and high inventory levels, (2) **lower tourism spending per head**, a break from historical patterns, and (3) an unusually large **fall in public investment due to the delayed government budget**. This slower initial momentum points to a softer outlook for 2024 growth, projected to be 2.5-3 percent. Private consumption and tourism should remain the key growth engines. Exports and manufacturing activity should expand at a moderate pace, constrained by global demand and a delayed upturn in the Thai electronic cycle. Looking ahead, structural impediments, particularly deteriorating competitiveness, would increasingly hamper growth in the absence of structural reforms.	The Thai economy overall continued to recover, despite some slowdown in merchandise exports and related production. Growth is expected to be more balanced in 2024 and 2025, supported by domestic demand, tourism sector, and a recovery in merchandise exports. The Committee projects growth of 2.4 and 3.2 percent in 2023 and 2024, respectively. The growth projection that accounts for the government's digital wallet scheme is 3.8 percent in 2024, compared with the previous assessment of 4.4 percent. The broad trajectory of the economy is one of a continued recovery, driven by a robust expansion in private consumption on the back of services spending as well as an improvement in employment and labor income. Merchandise exports and tourism have been recovering more slowly than expected, due to subdued growth in China and a delayed turnaround in global electronic demand. Looking ahead, growth should be more balanced, as tourism continues to recover and merchandise exports start to expand. At the same time, structural impediments could limit the positive effects of global demand recovery on Thai exports.
Inflation	**Headline inflation is projected to be lower than previously assessed due to supply factors**, particularly lower-than-expected raw food and energy prices as well as an extension of government subsidies. **Recent low inflation readings do not reflect demand deficiency**, as price declines are concentrated in relatively few product categories and not broad-based, while headline inflation excluding subsidies remains positive. **Headline inflation should stabilize at levels close to 1 percent in 2024 before gradually picking up next year**. Core inflation should remain flat as in previous assessment. Key risks to monitor include the Middle East situation which could affect energy prices, impacts of climate change on agricultural prices, and government subsidies	Headline inflation is projected to stay within the target range, at 1.3 and 2.0 percent in 2023 and 2024, respectively. The projection that accounts for the digital wallet scheme is 2.2 percent in 2024, relative to the previous assessment of 2.6 percent. The lower headline inflation this year owes in part to the last-year high base as well as temporary factors such as energy price subsidies and lower-than-expected raw food prices. Meanwhile, core inflation excluding the digital wallet scheme is expected to be 1.3 and 1.2 percent in 2023 and 2024, respectively. The Committee is attentive to risks from higher food prices due to El Niño and a potential increase in global energy prices arising from the Middle East conflicts.
Financial stability	The overall financial system remains resilient. Financial institutions maintain high levels of capital and loan loss provision. Bond markets function normally, despite a few low rated corporate bond issuers having difficulties rolling over debt. The Committee recognizes the importance of managing credit quality of SMEs and households grappling with slow income recovery	The overall financial system remains resilient. Financial institutions maintain high levels of capital and loan loss provision. There is a need to continue monitoring credit quality for some SMEs and households with impaired debt serviceability, higher debt burden, and slower income recovery. The Committee supports the continuation of debt restructuring measures as well as targeted measures and sustainable debt resolution for vulnerable groups, particularly responsible lending measures.
Financial conditions	Overall financial conditions are stable relative to the previous meeting. Private sector funding costs, both via commercial banks and bond markets, stay broadly unchanged. Businesses and households continue to access new fundings at the usual pace, with a slight decline in total loan outstanding largely owing to debt repayments. Overall, **businesses are able to service debts normally despite gradual income recovery and high production costs**. **Small businesses in certain industries may face tighter credit conditions and more stringent credit standards**	Overall financial conditions tightened somewhat. Private sector funding costs increased in line with the higher policy rate but in general do not hinder the ongoing economic recovery. Business loan growth has begun stabilising in line with economic activities.
Guidance	The current level of policy interest rate remains consistent with sustaining growth while fostering macro-financial stability in the longer term. The Committee nonetheless notes heightened uncertainties associated with cyclical and structural factors, and will take into account growth and inflation outlook in deliberating monetary policy looking ahead.	The Committee deems the current policy interest rate to be appropriate for supporting 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.

Source: BoT

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