Edited Minutes of the Monetary Policy Committee Meeting (No. 1/2023)
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Members Present

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

The Global Economy and Financial Markets

Thailand's trading partner economies were projected to continue expanding. The US and EU economies were expected to slow down in 2023, in line with the previous assessment, given elevated inflation and tighter financial conditions as a result of restrictive monetary policy. However, economic fundamentals as reflected in the US and EU consumption and employment remained sound. Growth in advanced economies was projected to bottom out in 2023 and expand in 2024. Meanwhile, the Chinese economic outlook improved thanks to the relaxation of domestic containment measures and government stimulus packages. The more severe COVID-19 outbreak would affect economic activities in China in the short run. As the outbreak subsided, domestic demand was expected to recover from the second quarter of 2023. These would in turn benefit the Chinese and Asian economies going forward.

Risk sentiments in the global financial markets improved as US inflation clearly declined and due to the faster-than-expected China's reopening. Investors expected the Fed to decelerate the pace of its tightening, which led to a depreciation of the US dollar and a decline in government bond yields in most countries. Meanwhile, risky asset prices rose and capital inflows into emerging market economies were observed, especially in Asian countries that would benefit from China's reopening. **Thailand's financial conditions remained accommodative.** Short-term interest rates in the financial market and commercial bank interest rates increased in line with the policy rate. Whereas, long-term Thai government bond yields decreased in tandem with US Treasury yields. However, the overall financial conditions remained conducive for business financing, as reflected in the growth in bank lending and corporate bond issuances. **The baht appreciated against the US dollar** owing to market expectations of a dovish Fed tightening and China's reopening, which would benefit the Thai tourism sector. Looking ahead, the financial markets would still be subject to uncertainties that warranted monitoring. These included the global economic and inflation outlook, the monetary policy stance of major central banks, and the effects of China's relaxation of containment measures and stimulus packages.

Domestic Economy

The Thai economy would continue to expand. The tourism sector and private consumption would continue to gain traction thanks to the return of Chinese tourists. The economic expansion would be supported by, first, the faster recovery of the tourism sector with the number of tourist arrivals for 2023 and 2024 being revised up by 3.5 million from the projection in November 2022 to be at 25.5 million and 34 million, respectively. Second, private consumption would gain further traction propelled by improvements in employment and labor income in the services sector and among self-employed workers, which accounted a significant share of total employment (approximately 18.4 million or 67% of total non-farm workers in 2022). **Meanwhile, Thailand's merchandise export growth was expected to**

moderate in 2023 before resuming in 2024. The expected slowdown of merchandise exports this year was in line with the outturns in the fourth quarter of 2022, which appeared to be lower than expected due to the global slowdown. The exports slowdown was also partly due to structural factors, such as the continuous decline in exports of hard disk drives owing to the technological transformation to solid state drives. Nevertheless, merchandise exports would expand next year thanks to the improving global economic outlook. In addition, downside risks to the Thai economic growth decreased due mainly to the return of Chinese tourists, especially if the outbreak situation and international travel restrictions subsided faster than expected.

Headline inflation would continue to decline. Supply-side inflationary pressures had gradually dissipated along with a decline in global energy and commodity prices, as reflected by the proportion of goods and services with continuous price increases that had fallen throughout the fourth quarter of 2022. **Core inflation was projected to remain at a high level for some time before gradually decreasing.** Upward adjustments in prices of goods and services in core inflation basket did not become broad-based or accelerated. Meanwhile, medium-term inflation expectations remained anchored within the target range. **However, there was a risk that core inflation would stay high for longer than expected** due to, first, a potential increase in pass-through given elevated costs. There were also risks of higher costs in the period ahead from the uncertain domestic energy price adjustments as well as rising global energy and commodity prices in case of a rapid recovery of the global economy. Second, tourism recovery could increase demand-side inflationary pressures and result in an increase in prices of tourism-related goods and services, including food prices. The Committee would therefore continue to closely monitor risks to inflation.

Discussions by the Committee

- **The Committee assessed that the Thai economy would continue to recover. Tourism sector would be a key economic driver this year, while growth momentum from merchandise exports would moderate from the previous year.** Tourism recovery would support economic activities in the services sector as well as contribute to a more broad-based improvement in employment and income of services sectors and self-employed workers, which accounted a significant share of total employment. Such improvements would foster a stronger economic recovery given that higher purchasing power of households would result in multiplier effects on private consumption. Meanwhile, there were risks of rising demand-side inflationary pressures. The Committee would thus monitor Chinese tourist arrivals, which could return in a greater number and earlier than expected, as well as the risks of labor shortages in the services sector which could temporarily put pressure on wages in related businesses. Furthermore, some members were concerned that the economy's reliance on the tourism sector as the only key economic driver might have implications for the sustainability of economic growth in the long term.

- **The Committee expressed concerns over the effects of structural changes on Thailand's merchandise exports outlook.** Although merchandise exports were expected to moderate in 2023, partly due to the global slowdown, most members viewed that Thai exports going forward would benefit from both the recovery in advanced economies and China's reopening. Therefore, the deceleration in merchandise exports that coincided with the economic cycle was not of major concern. However, the Committee was more concerned on the shifting structures of both global and Thai economies which would affect Thailand's merchandise exports. These changes included, for example, (1) shifts in global supply chains due to deglobalization, (2) the monetary and macroeconomic policies in some countries, such as China's dual circulation strategy which would affect Thai exports of petroleum and chemical-related products, and (3) a slow adjustment in Thailand's manufacturing sector in response to technological changes, such as the rising adoption of solid state drives, which affected Thai exports of hard disk drives. These structural changes would have implications not only for the monetary policy but also for macroeconomic policies aimed at uplifting the long-term potential growth of the Thai economy.

- **The Committee assessed that inflationary risks had increased and warranted close monitoring.** Core inflation was expected to remain at a high level for some time as there remained risks of a potential increase in pass-through given elevated costs, while some production costs remained high, such as domestic energy prices, which might decline to a lesser degree than global prices due to the contribution gradually allocated to the Oil Fuel Fund. Moreover, businesses could increase prices of goods and services in the period ahead in response to rising households' purchasing power in line with the economic recovery. The committee deemed it necessary to closely monitor demand-side inflationary pressures and businesses' price adjustment behavior, as well as inflationary psychology which might have changed from the past and could in turn affect the medium-term inflation expectations.

- **Some members remained concerned over the financial positions of the vulnerable groups,** especially SMEs and low-income households. Although improvements in the tourism and services sectors would support the income recovery, those vulnerable groups had high debt burden and had been facing the rising living costs. Meanwhile, benefits from the tourism recovery might concentrate in some popular tourist destinations and among workers in tourism-related businesses. Furthermore, labor incomes in some sectors, such as the export-related manufacturing sector, might be affected by a slowdown in merchandise exports this year. Therefore, the Committee saw the need to monitor the income recovery and financial positions of the vulnerable groups. Moreover, debt restructuring should be pressed ahead in order to ease debt burden in a targeted manner, which would be more effective than using the monetary policy which was considered a blunt tool.

- **The Committee judged that gradual and measured policy normalization was an appropriate course for monetary policy while standing ready to adjust the size and timing of policy normalization should the growth and inflation outlook shift from the current assessment.** Gradual increases in the policy rate caused financial conditions to tighten in a slow and orderly manner. This led bank lending and corporate bond issuances to continue expanding, as well as helped ease impacts on debt burden of the vulnerable groups to some extent. **However, monetary policy would face greater challenges in the period ahead.** Monetary policy would face a tradeoff between tackling inflation amid rising demand-side inflationary pressures on the back of the improving economic outlook and supporting the economic recovery where some businesses and households remained fragile. The committee would be ready to adjust monetary policy to be consistent with the changing economic and inflation outlook.

Monetary policy decision

The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 1.25 to 1.50 percent.

The Committee viewed that the Thai economy would continue to recover. Tourism and private consumption would continue to gain traction thanks to the return of Chinese tourists. Meanwhile, merchandise exports would slow down this year but were expected to improve in 2024 in line with the global economic recovery. **Headline inflation was expected to decline, whereas core inflation would remain high for some time** with the risks that it would remain high for longer than expected owing to demand-side inflationary pressures and a potential increase in pass-through. While the overall financial system remained resilient, some SMEs and households remained fragile and sensitive to the rising living costs and debt burden. **The Committee deemed that a gradual and measured policy normalization was consistent with the economic recovery and inflation outlook and thus voted to raise the policy rate by 0.25 percentage point at this meeting.**

The Committee deemed it important to have targeted measures and sustainable debt solutions in place for vulnerable groups. The Committee assessed that overall financial system remained resilient. Commercial banks maintained high levels of capital and loan loss provision. Debt serviceability of households and businesses had improved in line with the economic recovery. However, the financial positions of some SMEs and households remained fragile and sensitive to the rising living costs and debt burden. Financial institutions should thus continue to press ahead with debt restructuring.

The Committee viewed that overall financial conditions were less accommodative. Funding costs had risen in tandem with the policy rate increases as well as the expiration of reduction in the Financial Institutions Development Fund (FIDF) contribution. However, bank lending and bond issuances continued to increase. The baht against the US dollar had appreciated owing to expectations of a dovish Fed tightening as well as China’s relaxation of international travel restrictions which would benefit the Thai tourism sector. **The Committee would continue to closely monitor developments in the financial market and volatilities in the foreign exchange market.**

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee judged that Thai economic recovery remained on track. However, risks of rising demand-side inflationary pressures must be monitored. **The policy rate should be normalized to the level that would be consistent with sustainable growth in the long term in a gradual and measured manner. The Committee would be ready to adjust the size and timing of policy normalization should the growth and inflation outlook shift from the current assessment.**

Monetary Policy Group
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