Edited Minutes of the Monetary Policy Committee Meeting (No. 3/2024)
7 and 12 June 2024, Bank of Thailand
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Members Attending

Sethaput Suthiwartnarueput (Chairman), Alisara Mahasandana (Vice Chairman), Roong Mallikamas, Paiboon Kittisrikangwan, Rapee Sucharitakul, Roongrote Rangsiyopash, and Santitarn Sathirathai

The Global Economy and Financial Markets

Trading partner economies were projected to expand by 2.7 percent in both 2024 and 2025. The services sector remained the primary growth driver, with signs of improvement in the global manufacturing sector and demand for goods. The US and EU economies continued to expand on the back of the services sector. Meanwhile, the Chinese economy started to improve in the first quarter of 2024, driven by manufacturing production and merchandise exports. Nonetheless, China's domestic demand remained subdued, partly due to problems in the property sector. At the same time, manufacturing overcapacity in China, coupled with weak domestic demand, has led to an influx of goods into global markets. Furthermore, the recovery of the global electronic cycle remained concentrated in high-tech products, leaving production and merchandise exports in certain Asian countries yet to fully benefit.

Global financial markets were buoyed by improving risk sentiments, driven by the continued expansion in the global economy, a decline in global inflation, and an improving situation in the Middle East. Market participants expected the Federal Reserve to cut interest rates by the latter half of the year, resulting in the depreciation of the US dollar, along with a pickup in risky asset prices and capital flows into regional economies.

Domestic Demand

The Thai economy was projected to expand by 2.6 and 3.0 percent in 2024 and 2025, respectively, supported by several factors: (1) an expansion in the tourism sector, both in the number of foreign tourists and spending per head, with the expected number of tourist arrivals at 35.5 million and 39.5 million in 2024 and 2025, respectively; (2) a continued growth in private consumption, especially in the services sector, albeit at a more moderate pace than the previous year. Looking ahead, private consumption should continue to expand on the back of improving employment and household income, as well as positive readings of the consumer confidence in the high-income group; and (3) an acceleration of government disbursement in the second quarter after the passage of the 2024 budget. Meanwhile, merchandize exports and manufacturing activity were expected to expand at a subdued level due to structural impediments and deteriorating competitiveness. **Although the Thai economy was expected to expand in the latter half of the year, some uncertainties remained**, including the recovery in manufacturing and merchandise exports, as well as the impacts of fiscal stimulus.

Headline inflation was projected at 0.6 and 1.3 percent for 2024 and 2025, respectively. **Meanwhile, core inflation was forecasted at 0.5 and 0.9 percent for 2024 and 2025, respectively.** Inflation turned positive, in line with expectations, partly from the low-base effect of energy prices. Nonetheless, inflation was expected to be below the target range in the third quarter before gradually increasing towards the target range from the fourth quarter this year. Headline inflation was expected to increase as the effects from the diesel price subsidy and the excess supply of certain raw food items started to phase out. Key risks to monitor include geopolitical tensions that could increase global energy prices and potential changes in government subsidies, which could impact domestic energy prices.

Domestic financial conditions were mostly unchanged from the previous meeting. The baht depreciated against the US dollar, primarily influenced by the Federal Reserve's monetary policy outlook and domestic developments. Meanwhile, Thai government bond yields increased somewhat following adjustments in market expectations regarding Thailand's monetary policy**.** Private sector funding costs via commercial banks and bond markets, on the other hand, remained largely unchanged. Overall loans outstanding of businesses expanded mainly from activities of large businesses. However, there is a need to monitor financial condition and debt serviceability of certain groups of SMEs. Conversely, loans outstanding of households expanded at a slower pace, driven by hire purchase and credit card loans, as credit quality deteriorated.

<u>Highlights of Committee Discussion</u>

- **The Committee assessed risks to the Thai economy to become less tilted to the downside**, as reflected in higher-than-expected outturns of private consumption and investment in the first quarter, an acceleration in government disbursement during the second quarter, and a continued recovery in the tourism sector. **However, the Committee expressed concerns over the K-shaped economic recovery**, particularly the subdued improvements in exports and manufacturing, with increasing pressures arising from: (1) structural headwinds and deteriorating competitiveness that have limited the benefits of the global economic recovery on the Thai economy; and (2) external factors such as oversupply of goods resulting from Chinese manufacturing overcapacity, along with additional risks to other merchandize goods including those in the automotive sector due to a slow recovery in global demand, and risks to solar cells manufacturers resulting from trade measures between the US and China. Furthermore, the Committee expressed concerns over the divergence in the recovery of household incomes, as some low-income households face higher debt burdens while income recovers only slowly. The Committee will therefore monitor this development when assessing the economy going forward.
- **The Committee assessed headline inflation to gradually increase towards the target range.** The low inflation readings since the middle of 2023 were partly due to the government subsidy program, which is scheduled to be gradually phased out in 2024 following the increased ceiling of diesel prices. Some Committee members believed there remained inflationary risk due to geopolitical tension and the minimum wage hike. However, the Committee deemed the current inflation target of 1 to 3 percent robust in anchoring medium-term inflation expectation, which have remained at around 2 percent in recent years, contributing in part to the reduction of inflation from its peak of around 8 percent in August 2022 back to the target range within 7 months.

- **The Committee recognized the need to sustainably address the elevated household debt by supporting the Bank of Thailand and relevant authorities to collectively tackle the issues.** The high level of household debt will hinder long-term economic growth and leave households with fewer buffers against future risks. The Committee agreed that the ongoing debt deleveraging should continue, alongside the Bank of Thailand's measures aiming to align bank lending practices with borrowers' debt repayment capacity and to facilitate debt restructuring for debtors with repayment difficulties. Programs in place include a restructuring initiative accessible to debtors experiencing initial difficulties, prior to classification as non-performing loans (NPLs), as well as those already classified as NPLs. Furthermore, a program is established to resolve persistent debt by converting high-interest revolving personal loans into lower-interest installment loans with terms and conditions enabling debtors to repay within 5 years.
- **The Committee acknowledged that some groups of SMEs have faced difficulties accessing credit and coping with high borrowing costs.** However, the root cause of such issues stemmed from borrowers' credit risks and lenders' limitations in assessing the risks of smaller firms, all of which cannot be addressed solely through monetary policy. Therefore, the Committee has advocated for targeted measures, such as credit guarantee schemes, as a more appropriate approach to reducing credit risks for financial institutions and facilitating greater loan approvals for SMEs. Moreover, the Committee agreed that the Bank of Thailand should collaborate with other relevant authorities to enhance the efficacy of credit guarantees.
- **The Committee maintained a cautious stance on macro-financial stability.** In terms of external stability, the depreciation of the baht against the US dollar was partly influenced by external factors such as monetary policy in major economies. However, the Committee noted that the baht's depreciation relative to other regional currencies and capital outflows observed since the beginning of the year also reflected high uncertainties surrounding domestic factors, including the risks to households and firms as well as fiscal stability.
- **Most Committee members deemed that the current policy interest rate is consistent with the improving growth and inflation outlook, while fostering long-term macro-financial stability.** Their rationales are as follows: (1) the current level of the policy interest rate is supportive of ongoing debt deleveraging; (2) targeted measures would be more effective in addressing the high level of household debt and SMEs' credit access relative to monetary policy; and (3) the current level of the policy interest rate is robust against economic uncertainties and baht's volatility. Nevertheless, the Committee stands ready to adjust the policy interest rate should there be significant changes to economic and inflation developments. **Meanwhile, one member voted to cut the policy interest rate** to (1) align with the lower potential economic growth as structural headwinds have become more apparent; and (2) help alleviate the burden on debtors somewhat, particularly SMEs and low-income households.

Monetary Policy Decision

The Committee voted 6 to 1 to maintain the policy rate at 2.50 percent. One MPC member voted to cut the policy rate by 0.25 percentage point.

In the Committee's judgment, the Thai economy should continue to expand, driven mainly by domestic demand and tourism, as well as the acceleration of government disbursement in the second quarter. Nonetheless, export growth remained subdued due to heightened competitive pressures impacting certain merchandise goods. **Inflation was projected to gradually increase** towards the target range from the fourth quarter of 2024 onwards. **Overall financial conditions remained stable** and supportive of the overall growth recovery. However, careful monitoring was warranted for specific segments, notably SMEs and low-income households, as their income recovery lagged amid tighter financial conditions. **The overall financial system remained resilient**. Nevertheless, the Committee expressed concerns over the high level of household debt and viewed that credit growth should be consistent with ongoing debt deleveraging to foster long-term financial stability while recognizing the difficulties of SMEs in accessing credit. The Committee therefore supported the use of targeted measures to effectively resolve these issues, which would help the economy to grow at potential and safeguard macro-financial stability in the long term.

The prevailing monetary policy framework seeks to maintain price stability, support sustainable growth, and preserve financial stability. **Most Committee members deemed that the current policy rate remained consistent with the improving growth and inflation outlook, while fostering macro-financial stability in the longer term. However, it remained essential to monitor economic developments, especially the recovery of exports and government measures.** The Committee would take into account growth and inflation outlook in deliberating monetary policy going forward.

Monetary Policy Group

26 June 2024