Edited Minutes of the Monetary Policy Committee Meeting (No. 6/2022)
25 and 30 November 2022, Bank of Thailand
Publication Date: 14 December 2022

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 grow 2.9 percent in 2022, 2.5 percent in 2023, and 3.1 percent in 2024. The downward revision in 2023 was to reflect the weaker global demand given elevated inflation and the tighter global financial conditions due to restrictive monetary policy in several countries. Additionally, the Chinese economic slowdown due to the strict zero-COVID policy and the protracted stress in the real estate sector would undermine the business confidence and soften domestic demand in China. This would also affect Asian economies that were highly connected to China. In 2024, Thailand's trading partner economies would pick up as the impact of high inflation on consumption would be lessened and financial conditions would be loosened.

Global financial markets were volatile owing to expectations surrounding the Fed's monetary policy stance. Investors expected the Fed to decelerate the pace of policy normalization as the US inflation started to subside. Risky asset prices rose while the US dollar depreciated. Emerging market economies started to see capital inflows. **Short-term Thai government bond yields and commercial bank interest rates increased in line with the Thai policy rate.** However, the overall financial conditions remained conducive for business financing in the private sector, as reflected in the growth in bank lending and bond market funding. Long-term Thai government bond yields decreased in tandem with US Treasury yields. Meanwhile, the baht appreciated against the US dollar in November owing to the market expectations that the Fed hikes would occur at a slower pace and that China would further relax the zero-COVID measures which would in turn benefit the Thai tourism sector. Looking ahead, the financial markets would still be subject to high uncertainty. Key risk factors included global growth and inflation outlook, the pace of monetary policy tightening by major central banks, as well as China's exit strategy for zero-COVID measures.

Domestic Economy

The Thai economy would continue to recover at 3.2 percent in 2022, 3.7 percent in 2023, and 3.9 percent in 2024. The recovery would be supported by, first, the tourism sector gaining more traction as the number of foreign tourists continued to increase in line with rising travel demand, improving airline capacity, and easing international travel restrictions. The numbers of tourist arrivals for 2022 and 2023 were revised upward by 1 million and projected to be at 10.5 million and 22 million respectively, before rising to 31.5 million in 2024. The majority of the tourists would come from ASEAN and other Asian nations. The forecast for Chinese tourist arrivals was on the lower side in 2023 as China's reopening remained highly uncertain. Second, private consumption would continue to recover as economic activities improved, especially in the service sector. Private consumption was also supported by improvement in labor market conditions as indicated by the share of new unemployment benefit claimants that has fallen below the pre-pandemic level, suggesting higher incomes and a more broad-based recovery.

Meanwhile, the global slowdown would affect Thailand's merchandise exports, especially those sensitive to trading partners' economic outlook such as automotives, textiles, electrical appliances, and manufacturing products. Nevertheless, exports of some products, such as agricultural and agro-manufacturing, would continue to expand. **Overall, the tourism sector and private consumption would still be the key growth drivers and help lessen the impact of the global slowdown. The broad contour of Thai economic growth thus remained largely unchanged.**

Headline inflation was projected at 6.3 percent in 2022 before declining to 3.0 percent in 2023 and 2.1 percent in 2024. Headline inflation peaked in the third quarter of 2022 and would return to the target range by the end of 2023. Nevertheless, headline inflation in 2023 would be higher than previously projected on the back of the upward adjustment of electricity charges due to elevated production costs. **Core inflation projection was close to the previous assessment** at 2.6 percent in 2022, 2.5 percent in 2023, and 2.0 percent in 2024. Core inflation started to stabilize in October 2022, with most prices largely unchanged or adjusted downward. This was due to the lower cost pass-through as compared to early-2022 in light of (1) the decrease in global energy and commodity prices and (2) the subsiding labor shortages as those that had exited the labor force and migrant workers started to return to work, which helped lower wage pressures. Meanwhile, medium-term inflation expectations remain anchored within the target range.

Looking ahead, the Committee would continue to closely monitor risks to growth and inflation, namely (1) the highly uncertain global economic outlook as the slowdown could be worse than expected, (2) the momentum of the recovery in the tourism sector, and (3) a potential increase in cost pass-through as well as domestic energy prices which remain uncertain.

<u>**Discussions by the Committee**</u>

- **The Committee assessed that the risk of a global economic slowdown has risen.** Major economies could undergo a more-severe-than-expected slowdown due to continued elevated inflation and restrictive monetary policy. China's economic growth would decelerate and be subject to a higher degree of uncertainty as a result of the protracted stress in the real estate sector and the zero-COVID policy, which affected some parts of the manufacturing sector and the transport sector as well as consumer and business confidence in China. The Committee would thus monitor the developments of China's zero-COVID policy in the period ahead as well as the effectiveness of the additional real estate measures in order to assess the impact on Thailand's merchandise and service exports.

- **The Committee assessed that the Thai economic recovery would continue to gain traction but there remained a need to monitor risks to key economic drivers in the period ahead. First, there remained risks to the tourism sector.** The Committee viewed that China's reopening would be highly uncertain and could affect the Thailand's tourist arrivals in late-2023 and 2024. Nevertheless, most members viewed that risks remained tilted to the upside as foreign tourists could return in a greater number and earlier than expected. Key upside risks included pent-up travel demand, especially among Asian tourists that were highly dependent on domestic economy and were not sensitive to global economy, as well as easing airline capacity constraints and the potentially earlier-than-expected reopening of China. **Second, there remained risks to private consumption** even though it has continued to expand in the recent periods. Factors that could affect private consumption in each income group included changing consumption patterns, pent-up demand of middle- and high-income households, as well as the recovery of consumption among low-income households with incomes that have yet to fully recover, high debt burden, and higher sensitivity to rising living costs.

- **The Committee assessed that headline inflation would decline and return to the target range in the second half of 2023 but would remain subject to uncertainties regarding domestic energy prices in the period ahead.** The fuel adjustment cost (Ft) would likely increase in 2023 to reflect the elevated production costs. However, the change in electricity charges remained uncertain and the impact on inflation would depend on government relief measures. The Committee would closely monitor the upward adjustment of electricity charges and the potential increase in cost pass-through.

- **The Committee expressed concerns over household debts which could cause vulnerabilities in the economy and hinder long-term growth, and deemed it important to press ahead with the implementation of sustainable debt solutions.** The financial positions of some households remained fragile from the impact of COVID-19 as their incomes had yet to fully recover. They were also faced with higher living costs and debt burden, which exacerbated household debt problems. In addition, a portion of household debt was owed to specialized financial institutions (SFIs) and non-banks. As such, public and private entities must all cooperate to tackle household debt problems in a targeted and holistic manner in order to safeguard long-term economic growth.

Monetary policy decision

The Committee voted unanimously to raise the policy rate by 0.25 percentage point from 1.00 to 1.25 percent.

The Committee viewed that the growth and inflation outlook were close to the previous assessment. The Thai economic recovery would continue to gain traction, with tourism and private consumption as key drivers that would help lessen the impact of the global slowdown. Headline inflation has increased in recent periods as anticipated due to cost-push inflationary pressures but would return to the target range in 2023. Meanwhile, medium-term inflation expectations remained anchored within the target range. While overall financial system was resilient, some businesses and households remained fragile and sensitive to the rising living costs and debt burden. **The Committee thus deemed that gradual and measured policy normalization remained an appropriate course for monetary policy 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 as incomes had yet to fully recover. Financial institutions should thus continue to press ahead with debt restructuring.

The Committee viewed that overall financial conditions remained accommodative. Funding costs in the private sector gradually rose in tandem with the policy rate but remained conducive for business financing, with credit and funding in the bond market still seeing growth. The baht against the US dollar were highly volatile owing mainly to expectations surrounding monetary and macroeconomic policy in major economies. **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 the Thai economic recovery would be on track, albeit with risks to inflation. **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. Given the heightened uncertainties surrounding the global economy, 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
14 December 2022