Edited Minutes of the Monetary Policy Committee Meeting (No. 6/2023)
24 and 29 November 2023, Bank of Thailand
Publication Date: 13 December 2023

Members Attending

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

Member Absent

Roongrote Rangsiyopash

The Global Economy and Financial Markets

Trading partner economies were projected to expand by 2.8 percent in 2023, supported mainly by the services sector recovery with demand for Asian merchandise exports remaining subdued. Global growth for 2024 and 2025 should moderate somewhat to 2.6 and 2.7 percent, respectively, in part due to the cumulative impact from monetary policy tightening. However, Asian merchandise exports should improve on the back of an anticipated recovery in the global manufacturing activity and an upturn in the global electronic cycle.

Global financial markets were buoyed by better risk sentiments, as the US dollar weakened and capital flows into regional economies picked up. Improving market sentiments owed in part to sustained progress of disinflation in advanced economies, lessening the prospects of a tighter-for-longer monetary policy stance in the United States.

Domestic financial conditions tightened somewhat, as private sector funding costs increased consistent with the policy rate. Private credit gradually stabilized to levels consistent with economic activity, after an extraordinary expansion due to the pandemic policy response. Domestic bond yields fluctuated with their US counterparts. The baht appreciated against the US dollar in line with regional currencies, influenced in part by the Federal Reserve's less restrictive monetary policy outlook.

Domestic Economy

The Thai economy overall continued to recover with a 2023 projected growth of 2.4 percent. Tourism remained the key driver, providing a lift to private consumption, particularly of services. Meanwhile, merchandise exports and related production proved more sluggish, resulting in an uneven recovery across sectors. **Looking ahead to 2024 and 2025, growth was expected to become more balanced and reach 3.2 and 3.1 percent, respectively, excluding the estimated impact of the government's digital wallet scheme.** Supporting factors were: (1) the continued tourism recovery, with foreign tourists expected to total 34.5 million and 39 million in 2024 and 2025, respectively; (2) strong private consumption on the back of improving employment and labor income; and (3) a turnaround in merchandise exports and related production in line with the recovery in global manufacturing activity and an upturn in the global electronic cycle. **Nonetheless, a delayed recovery in merchandise exports remained a downside risk**, not least given structural impediments and competitiveness issues which could limit the positive effects of global demand recovery on Thai exports. The 2024 growth projection inclusive of the government's digital wallet scheme was 3.8 percent, relative to the previous assessment of 4.4 percent.

Headline inflation was expected to stabilize within the target range. Both headline and core inflation were projected to be 1.3 percent in 2023, with inflation remaining low for the rest of 2023 due to government subsidies for electricity and diesel consumption, subdued raw food prices especially pork, and a high base of vegetable prices due to last year's floods. Looking ahead, headline inflation was projected to pick up to 2.0 and 1.9 percent in 2024 and 2025, respectively, in part driven by higher food prices due to El Niño. Core inflation should stabilize at 1.2 and 1.3 percent in 2024 and 2025, respectively, consistent with improvements in domestic demand. However, upside risks remained, including from higher food prices and potential global energy price increases from the Middle East conflicts. Accounting for the government's digital wallet scheme, headline and core inflation in 2024 were projected to be 2.2 and 1.5 percent, respectively.

Highlights of Committee Discussion

- **The Committee deemed the overall recovery to be intact**, both including and not including the impact from the government's digital wallet scheme. Growth engines were expected to be more balanced next year, with a turnaround in merchandise exports and related production alongside a steady recovery in tourism sector. Nonetheless, there were notable risks to this outlook, particularly as the Thai exports might not fully reap the benefits of the global demand recovery and the electronic cycle upturn due to multi-faceted structural hurdles. At the same time, the lower-than-expected third-quarter GDP outturns continued to show a recovery of economic activity, notably in private consumption of services, despite merchandise exports having been muted. The broad trajectory of the recovery was consistent with a broad range of other indicators. These included steadily improving labor markets, with the unemployment rate having declined from its high of 2.20 percent during the pandemic to the level below 1 percent in the third quarter this year, as well as a recovery in consumer confidence to a two-year high in the same period.

- **The Committee recognized greater challenges in reading macroeconomic pulses from GDP releases**, due to a greater divergence between expenditure-side and production-side activities. The resulting changes in stock and statistical discrepancy have grown as a consequence, pointing to potential structural changes such as the emergence of new types of services and the increasing role of online consumption. Measuring these economic activities may be particularly challenging. The Committee would prioritize engaging with relevant authorities to address these challenges as well as consulting a wide array of economic indicators to form a comprehensive and accurate assessment of the economic outlook.

- **To better communicate the economic outlook, the Committee agreed to publish projections including as well as excluding the impact of the government's digital wallet scheme.** This facilitated a comparison with forecasts of most other agencies which did not incorporate the effects of said scheme. Significant uncertainties remained regarding the scheme's assessed impact, with many factors subject to further clarity.

- **The Committee discussed the downside risks stemming from structural impediments hindering Thailand's potential, which would have to be addressed by supply-side policies to lay a foundation for strong and sustainable growth.** Although the economy has continued to recover in the wake of the reopening, the speed of recovery has been held back by multiple structural headwinds such as (1) shifting global manufacturing supply chains, including China's greater reliance on domestic production capacities, limiting Thailand's gains from the global demand recovery, (2) technological progress that could alter the supply chains and negatively affect Thailand's competitiveness, and (3) the relatively slow adjustments of domestic labor force amid rapid global shifts. These structural changes could hinder Thailand's competitiveness and weigh on potential growth of the manufacturing sector, a key growth engine. **The Committee saw urgency in providing a lift to the economy's long-term potential growth,** for example via infrastructure investment, labor upskilling programs, and policies to promote business adaptation to rapidly changing global trends.

- **The Committee assessed financial conditions to be moderately tighter in line with previous policy normalization, and overall have not hindered the ongoing economic recovery.** Slowing business loan growth in the third quarter was partially due to increased repayments of loans incurred during the pandemic which saw a strong credit expansion, coupled with the phasing out of financial relief measures. New credit flows continued normally, while the overall business credit growth has recently started to stabilize in line with economic activities. The Committee would monitor the fund-raising ability of businesses given the still incomplete passthrough of the policy interest rate to lending rates, for example due to repricing of fixed-rate contracts. Additionally, certain corporate bonds particularly in the higher-risk segments could face challenges in rolling over their debts. Overall funding conditions in the bond markets remained normal, however.

- **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:** (1) the pace and continuity of global economic recovery; (2) the impact from the Middle East conflicts; (3) the severity of El Niño; and (4) the impact from government's measures such as the digital wallet scheme and living-cost subsidies. Consequently, **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**, including an excessive borrowing and search-for-yield behavior, which could exacerbate macro-financial vulnerability down the road. In deliberating monetary policy looking ahead, the Committee would take into account growth and inflation outlook as well as associated risks.

<u>**Monetary Policy Decision**</u>

The Committee voted unanimously to maintain the policy rate at 2.50 percent. One Committee member was unable to attend the meeting.

In the Committee's judgment, the economy overall continued to recover. Growth was expected to be more balanced in 2024 and 2025. At the same time, structural impediments could limit the positive effects of global recovery on Thai exports. **Inflation was projected to**

stay within the target range, although upside risks lingered. **Overall financial conditions tightened somewhat** but in general do not hinder the ongoing economic recovery. **The overall financial system remained resilient**. Nevertheless, there was 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 supported the targeted measures and sustainable debt resolution for vulnerable groups.

Under the prevailing monetary policy framework, the Committee seeks to maintain price stability, support sustainable growth, and preserve financial stability. In view of these objectives, the Committee expected the Thai economy to gradually recover toward its potential, and inflation to be within the target range. The current policy interest rate is appropriate for supporting long-term sustainable growth. **The Committee would take into account growth and inflation outlook as well as associated risks in deliberating monetary policy looking ahead.**

Monetary Policy Group
13 December 2023