

**Edited Minutes of the Monetary Policy Committee Meeting (No. 2/2024)  
5 and 10 April 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 continued to expand, with projected growth rates of 2.6 and 2.7 percent in 2024 and 2025, respectively. However, the implication for global trade is expected to be limited.** One reason was that key global growth drivers such as the US economy continued to grow on the back of the services sector. Meanwhile, the Chinese economy continued to be restrained by lingering problems in the property sector. At the same time, Chinese manufacturing overcapacity, coupled with its weak domestic demand, have led to an influx of goods into global markets, putting pressure on merchandise exports and production in various countries. Furthermore, the recovery of the global electronic cycle remains concentrated in high-tech products, leaving certain Asian countries yet to fully benefited from the export of electronic components.

**Global risk sentiment has been improving,** driven by the continued expansion in the global economy, as well as the decline in global inflation. Consequently, risky asset prices and capital flows into regional economies picked up. However, investors expected the Federal Reserve to delay interest rate cuts until the middle of the year due to slower-than-expected disinflation, resulting in the appreciation of the US dollar.

**Domestic Economy**

**The Thai economy was projected to expand by 2.6 and 3.0 percent in 2024 and 2025, respectively,** supported by (1) an improvement in the tourism outlook in terms of both the number of foreign tourists and spending per head, with the expected number of tourist arrivals of 35.5 million and 39.5 million in 2024 and 2025, respectively; (2) continued growth in private consumption, albeit at a more moderate pace compared to the previous year. This growth is mainly driven by services consumption and expenditures of high-income groups; and (3) an acceleration of public expenditure in the remainder of the year, following delays in government budget disbursement. Meanwhile, the recovery of exports of goods and manufacturing is anticipated to be gradual in the second half of this year. **The outlook for the Thai economy remained uncertain,** with key downside risks including a slower-than-expected recovery in exports due to oversupply concerns and Thailand's structural headwinds, as well as uncertain impacts of government budget disbursement and fiscal stimulus measures.

**Headline inflation stayed at a low level but should gradually increase towards the target range by the end of the year,** with the projection of 0.6 and 1.3 percent in 2024 and 2025, respectively. Core inflation was expected to stay at 0.6 percent in 2024 and 0.9 percent in 2025. Low headline inflation this year is chiefly due to supply-side factors, including (1) the decline in prices of certain raw food items such as vegetables and pork due to excess supply;

and (2) the decrease in energy prices owing to an extension of government subsidies. In any case, headline inflation excluding subsidies has remained positive. 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**, as private sector funding costs via commercial banks and bond markets remained broadly unchanged. Total loans outstanding of businesses and households expand at a slower pace due to debt repayments. Meanwhile, the amount of new loans granted continued to increase. However, some groups of SMEs and low-income households face tighter credit conditions owing to difficulties in financial access and debt serviceability deterioration stemming from a slower rebound in income. Meanwhile, the baht exhibited increased volatility against the US dollar and depreciated more relative to other regional currencies, influenced by the Federal Reserve's monetary policy outlook and domestic economic and financial developments.

### **Highlights of Committee Discussion**

- **The Committee assessed that the decline in Thai economic growth following the COVID-19 pandemic reflects the impact of structural headwinds on the economy's potential.** Structural impediments, particularly deteriorating competitiveness in the exports and manufacturing sectors, alongside global excess capacity driven by Chinese production, could limit the benefits of the global economic recovery on the Thai economy. **However, the Thai economy is projected to grow in 2024 at a higher rate than observed in the previous year.** The average of this year's quarter-on-quarter growth rates is estimated to average around 1.0 percent which is relatively high compared to historical averages. This is supported by improvements in cyclical factors, especially on tourism and government expenditure in the remainder of the year. At the same time, the strain from unusually high inventory levels is expected to ease. **Nevertheless, the outlook for the Thai economy remained highly uncertain,** contingent on (1) export recovery; (2) the impact of government spending which would depend on disbursement in the remaining part of the year; and (3) the government's economic policies going forward.
- **The Committee assessed that the recent low inflation readings are mostly driven by supply-side factors and government subsidies, and inflation should return to target range by the end of this year.** Price declines have been observed in specific categories such as raw food and energy, rather than being broad-based. Meanwhile, overall prices in core inflation have continued to rise, and medium-term inflation expectations remain in the target range. The Committee recognized that the current inflation rate being close to the lower bound of the target range is not a concern, as it was mainly driven by supply-side factors and was not indicative of demand deficiency. Additionally, it has helped contain households' cost of living which had surging previously. However, the Committee observed that prices of certain goods and services which are the important components of the consumer price index (CPI), such as housing rents, transportation, and communication costs, have shown relatively little movements for an extended period. The Committee recommended further analysis to ensure that inflation and the households' cost of living align with current developments.

- **The Committee recognized that some groups of SMEs and low-income households face tighter credit conditions**, as commercial banks have tightened their credit standards due to deterioration in debt serviceability resulting from slow income recovery. In addition, SMEs were facing difficulties in financial access. However, overall financial conditions remained conducive to ongoing economic expansion as reflected from (1) private sector funding costs via commercial banks and corporate bond markets remained stable coinciding with the policy interest rate since September 2023; (2) Businesses and households continued to obtain new credits, amid the moderation of total loan outstanding owed mainly to repayments; and (3) businesses and households overall have been able to service debts normally. The outstanding of non-performing loans (NPLs), such as auto loans, gradually increased following a period of accelerated credit granting, but a surge is expected to be unlikely.
- **The Committee expressed concern over elevated household debt and recognized the importance of debt deleveraging.** The high level of debt outstanding could hinder long-term economic growth, especially if debt does not contribute to future income or wealth accumulation. Recognizing the need to address household debt effectively, the Committee highlighted the importance of creating jobs, enhancing income for households, providing loans that align with borrowers' repayment capacity, as well as maintaining the interest rate at a level that does not create vulnerabilities in the macro-financial system in the long term. The Committee welcomed the Bank of Thailand's initiatives to accelerate targeted measures, particularly Responsible Lending measures, which would be more effective with fewer unintended consequences than resorting to the policy interest rate.
- **The Committee recognized that the baht's volatility when measured against the US dollar increased and depreciated more relative to other regional currencies.** This is due to external factors, where Federal Reserve's monetary policy outlook plays an important role, as well as domestic economic and financial developments such as lower-than-expected economic outturns and fluctuations in gold prices. The Committee will continue to closely monitor the baht's movements.
- **Most Committee members deemed that the current policy interest rate is conducive to safeguarding macro-financial stability, and that the effectiveness of monetary policy on resolving structural impediments is limited.** Their rationales are as follows. First, despite the decline in Thai economic growth, partly owing to structural headwinds, the current level of interest rate remains broadly neutral. Second, the current level of the policy interest rate is supportive to continuous debt deleveraging. Although a reduction in the policy interest rate could mitigate debt burdens in short term, it would encourage additional borrowing, leading to higher debt outstanding. This could jeopardize macro-financial stability and hinder long-term economic growth. Third, the current level of the policy interest rate is robust to the uncertain economic outlook and baht's volatility. Nevertheless, the Committee stands ready to adjust the policy interest rate should economic conditions warrant, especially in the event of significant changes in the export's recovery path, government spending, and government economic policies. **Meanwhile, two members voted to cut the policy interest rate** to (1) be consistent 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. Moreover, the two members judged that lowering the policy interest rate to align with economic potential would not significantly hinder debt deleveraging.

### **Monetary Policy Decision**

**The Committee voted 5 to 2 to maintain the policy rate at 2.50 percent. Two members voted to cut the policy rate by 0.25 percentage point.**

**In the Committee's judgment, the Thai economy is projected to grow in 2024 at a higher rate than the previous year** with continued support from private consumption and tourism, along with public expenditure which is anticipated to accelerate for the remainder of the year. Meanwhile, structural headwinds and external factors continue to weigh on recovery in the export and manufacturing sectors. **Inflation remains subdued from supply factors** and is projected to gradually increase towards the target range by the end of 2024. **Overall financial conditions remain stable** and conducive to ongoing economic expansion in a broad picture. Nevertheless, some groups of SMEs and low-income households face tighter credit condition, and there is a need to continue closely monitoring the volatilities in the foreign exchange market. **The overall financial system remains resilient**, however the Committee recognized the importance of debt deleveraging. The Committee welcomes the Bank of Thailand's initiatives to accelerate targeted measures, particularly Responsible Lending measures.

The prevailing monetary policy framework seeks to maintain price stability, support sustainable growth, and preserve financial stability. Most Committee members deem that the policy rate remains consistent with sustaining growth while fostering macro-financial stability in the longer term. Nevertheless, uncertainties on the Thai economy remain high, particularly from export recovery, government budget disbursement, and fiscal stimulus measures. **The Committee will closely monitor such developments and take into account growth and inflation outlooks in deliberating monetary policy going forward.**

Monetary Policy Group  
24 April 2024