Edited Minutes of the Monetary Policy Committee Meeting (No. 1/2024)
2 and 7 February 2024, Bank of Thailand
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Members Attending

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

The Global Economy and Financial Markets

Trading partner economies were projected to expand in 2024, but with limited lift to global trade. 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 hampered by lingering problems in the property sector and associated subdued business and consumer confidence, holding back manufacturing activity in closely-linked Asian economies. The nascent upturn in the global electronic cycle remained concentrated in more advanced products, limiting spillover benefits to some regional exporters. As a result, manufacturing and merchandise exports in Asia were expected to recover only gradually in 2024.

Global financial markets were buoyed by improving risk sentiments. Risky asset prices and capital flows into regional economies picked up, partly due to anticipations of interest rate cuts this year by major central banks, especially the Federal Reserve, amid sustained progress in disinflation.

Domestic financial conditions were stable, as private sector funding costs via commercial banks and bond markets hovered broadly unchanged. Businesses and households continued to obtain new credits at the usual pace. Total loan outstanding declined partly from a repayment of debt incurred through special loan measures during COVID-19 after businesses' liquidity improved. Overall, businesses were able to service debts normally, although some SMEs may face higher interest expenses and tighter credit conditions in line with stricter credit standards. The baht weakened against the US dollar in line with regional currencies, primarily influenced by anticipations of Fed Funds rate cuts.

Domestic Economy

The Thai economy slowed in late 2023, mainly due to (1) softer merchandise exports and related manufacturing activity amid slow recovery of global goods demand and trading partner economies, especially China. Domestic structural problems, particularly deteriorating competitiveness, exacerbated the situation; (2) lower foreign tourist receipts despite increasing foreign tourist arrivals, due to behavioral shifts such as shorter stay duration and (3) an unusually large decline in public investment from delayed government annual budget. However, **the Thai economy should continue to expand with growth rate projected to be between 2.5 and 3.0 percent in 2024** supported by (1) a continued expansion of private consumption on the back of improvements in employment, household income, and consumer confidence; (2) the expansion of tourism as reflected in the increasing foreign tourist arrivals and improvements in travel demand indicators, with foreign tourist arrivals expected to reach

34.5 million for 2024. Meanwhile, exports and manufacturing activity should expand at a moderate pace, in line with the slow recovery in global demand and softer tailwinds from the electronic cycle upturn. Structural impediments, particularly deteriorating competitiveness in the export sector, would increasingly hamper growth and limit spillover benefits from global demand recovery in the absence of structural reforms. **Looking ahead, the overall economic outlook remained uncertain**. Key downside risks included lower-than-expected global economic growth especially stemming from China, implications of geopolitical conflicts, and lesser-than-expected benefits of global trade recovery on Thai exports due to structural impediments.

Headline inflation stayed at a low level and should gradually pick up towards the target range more slowly than expected. Headline inflation was projected to be negative in the short run due to supply factors such as (1) declines in raw food prices from higher supplies, especially pork and vegetables; and (2) declines in energy prices due to an extension of government subsidies. **Headline inflation was projected to stabilize at the levels close to 1 percent in 2024 before gradually picking up next year.** Core inflation should remain flat as in previous assessment, consistent with inflation indicators. Key risks to monitor include the Middle East situation which could affect energy prices, impact of El Niño, and government subsidies.

Highlights of Committee Discussion

- **Long-standing structural impediments in the export and manufacturing sectors were having a more discernible impact on the economy.** Among the products that contributed negatively to export value growth in 2023, more than 70 percent faced declining competitiveness and other structural headwinds, for instance: (1) Petrochemical goods affected by China’s dual circulation strategy (2) Hard disk drives being substituted by solid state drives which Thai producers lack the capability to produce. More generally, Thai electronic export growth averaged only 4 percent during the last 10 year, well below those in regional peers such as Vietnam, the Philippines, and Malaysia whose export growth stood at 37, 14, and 10 percent, respectively. (3) Agricultural products such as rice saw diminishing market shares, from 25 percent in 2003 to 13 percent currently. At the same time, manufacturing of domestically sold goods also faced more intense competition from imports, whose share in total private consumption during the last 10 years grew from 17 percent to 24 percent in 2023. The share of imports from China alone increased from 5 percent to 9 percent over the same period.

- **The Committee recognized greater challenges in assessing economic outlook** from (1) uncertain implications of structural headwinds both for near-term economic pulses (e.g. the benefits for Thai exports from global demand recovery would partly depend on the sector’s competitiveness) and longer-run potential growth rate which may decline, but cannot be quantitatively assessed with precision at present, also depending on private sector adjustments and structural reform policies, (2) greater challenges in assessing economic conditions owing to a wider gap between expenditure-side and production-side national incomes, resulting in an unusual influence of changes in stock and statistical discrepancy on GDP. The committee would continue to consult a variety of economic indicators and drawing insights from the business liaison programs to ensure timely and thorough assessments of economic outlook.

- **The Committee expected a continuous expansion of domestic demand, which should propel the economy over the projection horizon.** Steady improvements in labor markets and household incomes should lend support to this outlook. The average monthly unemployment rate during Q4 2023 dropped below 1 percent from 2.2 percent at the height of the COVID-19 crisis. Meanwhile, consumer confidence reached a three-year high. Fiscal impulse from the 2025 annual budget should pick up in line with the budget revision. The Committee would continue to monitor and assess the impacts of government economic policies, including digital wallet scheme and other fiscal measures, some of which remained subject to uncertainties.

- **The recent negative reading of headline inflation were chiefly supply-related, and not indicative of demand deficiency.** In the Committee's assessments: (1) Significant price declines have been concentrated in few categories whose prices were driven by supply factors and government subsidies such as raw food and energy. Headline inflation excluding subsidies remained positive. (2) Price declines have not been broad-based. Only 25 percent of the items in the CPI basket saw price declines, in line with historical patterns. (3) Medium-term inflation expectations have been well-anchored, at close to the midpoint of the target range. In the Committee's view, sluggish price dynamics in certain good categories may owe to changing market structure and competition rather than macroeconomic factors. The Committee agreed to further investigate the impacts of these factors going forward. In any case, the faster-than-expected disinflation in Thailand has helped contain households' cost of living which had surging in the wake of the pandemic.

- **The current financial conditions remained conducive to ongoing economic expansion** as reflected from: (1) Businesses overall have been able to service debts normally, with private sector funding costs, both via commercial banks and bond markets, staying broadly unchanged in line with the policy rate which held steady since September 2023. Debt serviceability of some small businesses has indeed deteriorated, but the key driver has been slower income recovery rather than higher interest rate. (2) New loans continued to expand, while the moderation of total loan outstanding owed mainly to repayments of special loan programs during COVID-19. (3) Bond markets have been functioning normally. There were isolated incidences of a few low-rated corporate bond issuers facing difficulty rolling debt, but these were largely firm-specific and did not constitute systemic problems.

- **The current Loan-to-Value (LTV) measures remained appropriate.** Having evaluated proposals by real estate sector representatives, conveyed via the Ministry of Finance, to loosen the current LTV measures to boost activities in the sector, the Committee deemed the likely increased risks to financial stability to outweigh any short-term benefits: (1) The current LTV measure in Thailand remained conducive to housing affordability for the vast public majority, with nearly 90 percent of buyers being unconstrained by the LTV criteria and able to obtain loans at 100 percent of property values without down payment. The current LTV measures in Thailand, at 90-100 percent for first residential properties, were already lax relative to other countries: e.g. comparable LTV in South Korea, Singapore, and New Zealand were at 50-70, 75, and 80 percent, respectively. (2) Housing market activities continued to expand, with rising sales and property transfers. Supply was recovering, with a higher number of new residential properties for sale. Improving real estate business confidence index indicated an outlook of steady growth, and (3) LTV loosening could pose risks to financial stability, through increased speculative activities in the real estate sector that push up prices in some segments and overborrowing by some buyers. The ongoing deleveraging process could thus be disrupted, with implications for financial system's fragilities in the longer-term.

- **The Committee recognized the particularly severe impacts of higher interest rates on vulnerable groups such as less profitable small businesses and highly indebted households.** The Committee thus supported sustainable debt solutions, particularly measures requiring financial institutions to provide targeted debt restructuring offers including through the "Responsible Lending" initiative. Such targeted measures should be more effective in alleviating the impacts on the vulnerable groups, with less cost to macro-financial stability than the use of a blunt tool such as the policy rate.

- **Most Committee members agreed that maintaining the policy interest rate at the current neutral level would help promote sustainable economic growth, which would require financial stability as a key pillar.** Their rationales included: (1) The recent growth slowdown had mainly external and structural causes, while domestic demand continued to expand; (2) An interest rate cut at this juncture would likely do little to spur growth given already robust domestic demand. At the same time, any monetary easing cannot resolve structural impediments, a key root cause of lackluster growth. The benefits for utilizing valuable policy space appeared limited. (3) More evident structural issues and possibly lower potential growth could have implications for the neutral interest rate level, but such impact remained highly uncertain and would likely be quantitatively small. More incoming data and further investigation would be warranted to shed more light on the link. (4) The costs to macro-financial stability associated with overly expansionary monetary policy remained a notable concern. With monetary policy working by stimulating credit, policy easing could forestall the ongoing deleveraging process and keep debt levels elevated. Moreover, undue monetary policy easing could intensify search-for-yield behavior, lessen incentives to engage in productivity-enhancing activities, deter necessary resource reallocations, and further add financial fragilities to the system. These members nonetheless highlighted the need for policy to be flexible and attuned to the evolving growth and inflation outlook and associated assessments. **Two members voted to cut the policy rate**. In their views: (1) The level of neutral interest rate may have significantly declined from lower potential growth rate amid intensifying structural impediments; and (2) A more accommodative policy stance, despite having limited impact on growth, could help mitigate the downside risks to the economy, particularly if slower-than-expected recovery in export and related manufacturing were to affect employment conditions and put at risk the sustainability of private consumption.

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 economy overall was expected to slow in 2024, weighed by exports and manufacturing activity amid weak global demand and intensifying structural factors. Domestic demand continued to expand and remained a key engine of the economy.

Inflation stayed at a low level due to supply factors and was expected to gradually pick up to the target range at a slower-than-expected pace. **Overall financial conditions remained stable** and in general did not hinder the economic expansion. Smaller and less profitable businesses as well as highly indebted households however may face higher debt interest burdens relative to others. **The overall financial system remained resilient**. Nevertheless, there was a need to continue monitoring credit quality for some fragile SMEs and households with slower income recovery. The Committee supported debt restructuring programs, targeted measures, and sustainable debt resolutions for vulnerable groups particularly Responsible Lending measures.

Under the prevailing monetary policy framework, the Committee seeks to maintain price stability, support sustainable growth, and preserve financial stability. The Committee judges key factors hindering growth outlook to be external and structural. Meanwhile, domestic demand momentum remains in place and inflation should gradually increase towards the target range. The current level of policy interest rate remains consistent with sustaining growth while fostering macro-financial stability in the longer term. The Committee nonetheless notes heightened uncertainties associated with cyclical and structural factors and **will take into account growth and inflation outlook in deliberating monetary policy looking ahead.**

Monetary Policy Group
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