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Members Present

Sethaput Suthiwartnarueput (Chairman), Mathee Supapongse (Vice Chairman), Vachira Arromdee, Kanit Sangsubhan, Rapee Sucharitakul, Somchai Jitsuchon, and Subhak Siwaraksa

The Global Economy and Financial Markets

The global economy continued to recover as the Omicron variant exerted less pressure on economic activities than the previous waves of outbreak. This was reflected in the lower number of severe cases and mortalities. The spread of the Omicron variant led to the acceleration of vaccine booster rollout in several countries, while some countries reimposed pandemic containment measures but in a more targeted manner. Advanced economies (AEs) would continue to recover in line with the previous projection. The Chinese economic expansion would moderate as a result of the zero-COVID policy which restrained consumption, together with the government's measures to curb imbalances in the property markets which dampened investment. Asian economies would gradually recover on the back of higher exports, particularly exports of electronics products. Manufacturing production would expand in line with the continued recovery in global demand and some alleviation in global supply disruptions. Nevertheless, the outlook for the pandemic situations remained uncertain and would warrant monitoring going forward. In addition, the global economy would still face the risks from prolonged global supply disruptions and heightened geopolitical tensions between Russia and Ukraine which could reinforce the elevation in energy prices.

Global financial markets were highly volatile due to the anticipation of faster monetary policy normalization of AE central banks, particularly the Federal Reserve. Government bond yields in many countries rose in tandem with US Treasury yields, while risk asset prices fell. Movements of the Thai financial markets were in line with the global markets. Long-term Thai government bond yields increased. Meanwhile, short-term and medium-term bond yields were largely unchanged, consistent with the Thai policy rate outlook. **On the exchange rates, the Thai baht relative to the US dollar remained volatile, while the nominal effective exchange rate (NEER) appreciated since the previous meeting.** The relaxation of domestic COVID-19 containment measures contributed to upward pressure on the baht, while the prospects of faster policy normalization by the Federal Reserve exerted downward pressure**.** **In the period ahead, financial market volatilities could increase. Key risk factors** included (1) faster-than-expected policy rate hikes of many central banks, especially the Federal Reserve, due to persistently high inflation, (2) uncertainties regarding the outbreak and mutations of COVID-19, and (3) geopolitical risks that could prolong the elevation of global energy prices.

Domestic Economy

The Thai economy in 2021 would expand faster than previously projected, and the recovery would continue into 2022. This was driven by exports of goods especially automobiles, electronics parts, and electrical appliances, which improved in tandem with the recovering global demand and the easing of global supply disruptions. Furthermore, foreign tourist arrivals would increase due to the faster-than-expected relaxation of travel restrictions and the return of the 'Test & Go' scheme. **However, the recovery would remain fragile and uneven across sectors**. Private consumption in 2022 would continue to expand, but at a slower rate than previously assessed, as reflected by economic indicators that came out lower than expected toward the end of 2021. Meanwhile, income had not fully recovered especially for self-employed workers and service sector employees. The economy in 2023 would continue to expand but would slow down slightly from the previous projection. This would be partly due to the phasing-out of fiscal stimulus, especially the government consumption which was set to decrease under the Fiscal Year 2023 and 2024 budgets.

Headline inflation in 2022 would be higher than previously assessed and could exceed the target range in the early part of the year. This would be owing to two particular sector-specific price increases. First, energy prices (12% share of the CPI basket) increased in tandem with world crude oil prices as a result of (1) the disputes among oil-producing countries, (2) increased demand for crude oil as concerns over the Omicron variant subsided, and (3) heightened geopolitical tension between Russia and Ukraine. Second, meat products and prepared food prices (9% and 15% share of the CPI basket, respectively) increased on the back of prices of pork due to the swine epidemic and would take at least ten months to be resolved. **Nevertheless, the average inflation rate for the full year 2022 and medium-term expectations would remain within the target range. Furthermore, there had not been an indication of broad-based increases in the prices of goods and services.** The proportion of domestic goods and services with above-average prices[1] for Thailand stood at 10% of the total basket, compared with that of the US at 35%. This was partly due to the strong economic expansion in the US, unlike the Thai economy.

Going forward, the recovery of the Thai economy would remain fragile and subject to high uncertainties. Key risks to monitor included (1) the outbreak and mutations of COVID-19, (2) development of global energy prices, especially stemming from geopolitical tensions, and (3) broad-based cost pass-through to goods and services.

Discussions by the Committee

- **The Committee assessed that the Thai economy would continue to recover, but the recovery would remain uneven across sectors and would take time to return to the pre-pandemic levels. In addition, uncertainties regarding the COVID-19 situation remained.** Although the spread of the Omicron variant exerted limited pressure on the public health system, there remained a need to closely monitor efficacy of the vaccine and developments of the pandemic situations overall. COVID-19 containment

[1] Price increased by more than 2 standard deviations of the 5-year average of %YoY changes

policies in Thailand and abroad must also be monitored, as they would impact the prospects of foreign tourist arrivals and the recovery of tourism in Thailand. Domestic private consumption would be lower than previously assessed due to the spread of the Omicron variant and the phasing-out of government support measures. However, overall domestic consumption would continue to expand in 2023. The Committee viewed that there remained a need to monitor the inclusiveness of the recovery across sectors and the impact of higher living costs. These could derail private consumption recovery in the period ahead, given that income had not fully recovered and household debt remained high.

- **The Committee assessed that upside inflationary risks had increased and headline inflation could exceed the upper bound of the target range of 3% in early 2022.** This was due to the rises in energy and raw food prices. The risk of a prolonged elevation in global energy prices increased primarily from geopolitical factors. The government's Oil Fund would partially mitigate the impact of higher global energy prices on domestic oil prices. **The Committee viewed that the risks of persistent increases in inflation remained low.** Demand-side inflationary pressure remained subdued in line with the gradual recovery of household income, which limited cost pass-through by businesses. However, there remained a need to monitor developments of global energy prices, the possibility of broad-based increases in the prices of domestic goods and services, and growing wage pressures. The Committee viewed that the higher living costs from increased energy and raw food prices had affected households unevenly. Low-income households faced relatively larger increases in the living costs stemming from food expenditure compared with high-income households (the proportion of food expenditure in the low-income households' and high-income households' consumption baskets stood at 45% and 25%, respectively). Meanwhile, high-income households faced slightly higher increases in the living costs caused by rising energy prices compared with low-income households (the proportion of energy-related expenditure in the low-income households' and high-income households' consumption baskets stood at 11% and 13%, respectively). Furthermore, increased living costs compounded the impact on self-employed workers and service sector employees whose incomes were slow to recover compared with other worker groups.

- **The Committee viewed that there remained a need to monitor the recovery of the labor market that was fragile and uneven, as well as risks to financial stability in the period ahead.** The recovery of labor income would be slow for the next 1-2 years due to (1) slow tourism recovery, (2) employers limiting the hiring expansion during periods of high uncertainties pertaining to COVID-19 situations, and (3) a portion of workers returning to their home provinces or leaving the labor force permanently. Such factors delayed the recovery of the economy and the labor market going forward. Financial stability in the household sector remained fragile with an elevated level of household debt. Meanwhile, living costs increased and income had not fully recovered. The Committee deemed that measures contributing to sustainable debt restructuring should be expedited to mitigate financial stability risks, especially given that household income could potentially be adversely affected by additional shocks going forward.

- **The Committee noted that monetary policy divergence could cause volatilities in global financial markets. AE central banks** appeared set to be on a hiking cycle to curb rising inflation as their economies had returned to or exceeded the pre-pandemic levels. **Emerging market (EM) central banks in Latin America** were likely to hike interest rates following AE central banks. Central banks in Latin America faced elevated inflationary pressures, together with local currencies and capital flows that were highly susceptible to external factors due to high levels of external debt. Meanwhile, unlike AEs and EMs in Latin America, **EM central banks in Asia** had not faced high inflationary pressures and continued to put emphasis on supporting the economic recovery. Monetary policy divergence could lead to volatilities in exchange rates and capital flows. However, the impact on Thailand's financial markets was judged to be manageable due to strength on the external stability front, including large international reserves, and the fact that most businesses obtained funding primarily through banks that raised funds through domestic savings. Therefore, the Thai monetary policy could still pursue all three objectives of economic growth, inflation, and financial stability.

Monetary policy decision

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support the economic recovery.

The Committee assessed that the Thai economy would continue to recover. The Omicron outbreak would exert limited pressure on the public health system, thus reducing downside risk to growth. However, there remained a need to closely monitor developments of the pandemic going forward. Headline inflation would accelerate in early 2022 owing to the rises in energy and raw food prices, and upside inflationary risks increased. While demand-side inflationary pressures remained subdued thanks to the gradual recovery in income and purchasing power, there remained a need to monitor global energy prices and broad-based cost pass-through to goods and services. The financial system remained fragile overall, with household and SME debt burden remaining elevated. Considering risks to the three monetary policy objectives, the Committee would continue to put emphasis on supporting the economic recovery while monitoring inflationary pressures and financial stability risks. **The Committee thus voted to maintain the policy rate. Continued monetary policy accommodation would help support overall economic growth. In addition, the ongoing financial and fiscal measures, with the focus on rebuilding and enhancing potential growth, would have an important role. They would underpin the robust recovery in the labor market as well as the income of businesses and households.**

The Committee assessed that the baht relative to the US dollar still exhibited volatile movements. This was due to faster-than-expected prospects of monetary policy normalization in advanced economies, as well as better-than-expected Thai economic outlook owing to the relaxation of domestic containment measures. The Committee would closely monitor developments in both global and domestic financial markets, and continue to expedite the new foreign exchange ecosystem, particularly through supporting SMEs in hedging against risks from exchange rate volatility.

The Committee viewed that the government measures and policy coordination among government agencies would be critical to support the economic recovery. Public health measures should strike a balance between containing the outbreak and supporting the recovery of economic activities. Fiscal measures should support the economic recovery in a targeted manner, with a focus on generating income and expediting measures to rebuild and enhance potential growth. Monetary policy should contribute to continued accommodative financial conditions overall. Financial and credit measures helped distribute liquidity to the affected groups in a targeted manner and reduce debt burden. In addition, financial institutions should accelerate debt consolidation and debt restructuring for households and businesses in a sustainable manner. This would foster financial stability and prevent a drag on medium-term economic growth.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, **the Committee continued to put emphasis on supporting the economic recovery.** In addition, the Committee would monitor key factors affecting the economic outlook, namely, developments of the COVID-19 outbreak, global energy prices, higher cost pass-through, as well as the adequacy of fiscal, financial, and credit measures. The Committee would stand ready to use appropriate monetary policy tools if necessary.

In the medium term, the Committee viewed that appropriate monetary policy should consider trade-offs between the objectives of price stability, economic growth, and financial stability in light of the changing outlook and risks. This should be deliberated in conjunction with the overall assessment of the interaction of monetary policy and other policy tools, as well as their effectiveness. At the current juncture, accommodative monetary policy reflected the assessment that risks and uncertainties to the economic growth continued to outweigh risks and uncertainties to other policy objectives. In the period ahead when the robust economic recovery resumed and the associated risks subsided, relative importance of policy objectives should be re-assessed to reflect the evolving situation, taking into account medium-term policy impact and effectiveness.

Monetary Policy Group
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