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27 September 2023

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KEY POINTS

The MPC voted unanimously to raise the policy rate by 0.25% from 2.25% to 2.50%. The Thai economy overall continued to recover in 2023, albeit at a slower pace due to soft external demand. Growth should pick up in 2024, supported by both domestic and global demand. Inflation is projected to increase next year in line with the economic recovery and El Niño-related supply pressure. The MPC is monitoring additional impetus to growth and inflation from government economic policies. In the context of continuing economic expansion to its potential level, monetary policy should aim to keep inflation sustainably within the target range, foster long-term macro-financial stability, and ensure sufficient policy space given uncertain outlook. Having normalized policy gradually up to the current meeting, the MPC deems the current policy rate to be appropriate for supporting long-term sustainable growth. In deliberating monetary policy going forward, the Committee will take into account growth and inflation outlook, including upside risks from government economic policies.

The MPC projects growth to be 2.8% in 2023 and 4.4% in 2024, driven by private consumption. Growth this year softened somewhat from a delayed recovery in merchandise exports and tourism, weighed by subdued growth in China and the global electronic cycle. Growth should however pick up in 2024 from domestic demand, underpinned by a steady tourism recovery and a turnaround in merchandise exports, with additional support from government policies.

The MPC projects headline inflation to be 1.6% and 2.6% in 2023 and 2024, respectively. Government living-cost subsidies and a high base last year would keep inflation low for the rest of 2023. Meanwhile, core inflation should pick up from 1.4 in 2023 to 2.0 percent in 2024. The MPC is attentive to the upside risks to inflation, stemming from possible demand-side pressures related to government economic policies and higher food prices should the El Niño phenomenon intensify.

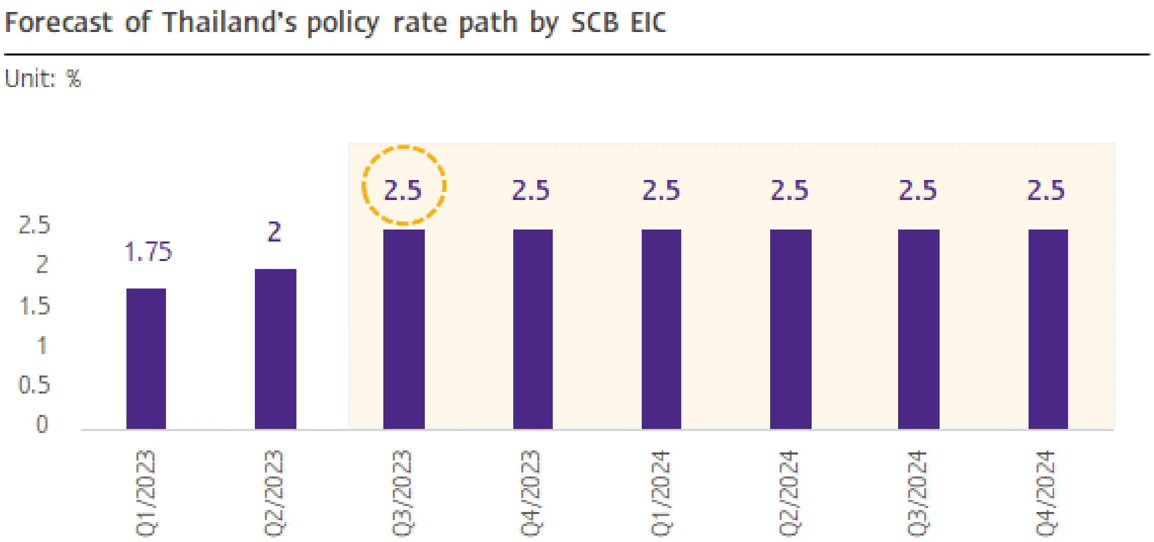
The MPC assesses overall financial system to remain resilient while financial conditions tightened somewhat. Financial institutions maintain high levels of capital and loan loss provision. There is a need to continue monitoring credit quality for some SMEs and households with impaired debt serviceability, higher debt burden, and slower income recovery. Overall financial conditions tightened somewhat but remain supportive for fund rasing by the private sector and the ongoing economic recovery. Private sector funding costs increased consistent with the policy rate. The slowing private credit growth partly reflected a normalization of lending activity after the crisis-era expansion, and should improve as the recovery gathers momentum. Financial markets volatility picked up, with rising bond yields and baht depreciation against the US dollar, influenced by US monetary policy and as market participants awaited details on government policies which may have macroeconomic and fiscal sustainability implications.

IMPLICATIONS

SCB EIC expects this to be the end of hiking cycle as the policy rate has reached neutral rate and would be kept on hold until next year. The MPC have normalized its policy rate to the level that is appropriate for supporting long-term sustainable growth by gradually increasing policy rate continuously 8 times totalling 2.0% to the terminal rate of 2.5%. SCB EIC assesses this to be the neutral rate (the level at which the Thai economy expanding at its potential and inflation remaining sustainably within the target range of 1-3%). This causes the real interest rate to turn positive, which will enhance long-term economic and financial stability through preventing the build-up of financial imbalances resulting from a low-for-long interest rate environment.

SCB EIC expects the MPC to maintain its policy rate at this current level should the economic and inflation outlook remain consistent with the assessment to allow policy rate transmission to the economic system (Figure 1). Although the economy and inflation is expected to accelerate in 2024, the economy would still expand at its potential level while inflation would stay within the target range of 1-3%. SCB EIC thus assesses the policy rate at neutral level to remain appropriate for next year's economic and inflation outlook. Nevertheless, should the economic and inflation outlook shift from the current assessment driven by additional impetus from government policies, monetary policy outlook looking ahead may be adjusted accordingly.

Figure 1: SCB EIC expects the MPC to keep policy rate on hold at 2.5% through next year.



Source: SCB EIC analysis.

SCB EIC expects the Thai economy to expand 3.1% and 3.5% in 2023 and 2024. (Figure 2)

SCB EIC revised down its GDP growth forecast for 2023 to 3.1% (from previously 3.9%) due to a much lower-than-expected outturns in Q2 and a large contraction in merchandise exports during H1/2023. Nevertheless, the Thai economy would still underpinned by private consumption and tourism. Tourist arrivals are expected to increase to 30 million as projected especially tourists from the Middle East, a new target group which would accelerate. As a result, services sector is expected to continue recovering.

In 2024, SCB EIC expects the Thai economic growth to accelerate to 3.5% driven by continued recovery in tourist arrivals to 37.7 million and improvement in private investment in line with a better trend in investment greenlights by the Board of Investment (BOI) and export recovery.

Headline inflation is expected to accelerate since Q4/2023 but would still remain within the target range at 1.7% and 2% in 2023 and 2024 respectively. This is attributed to rising energy and food prices. Meanwhile, core inflation is expected to stabilize at 1.4% and 1.5% in 2023 and 2024 respectively.

Figure 2: SCB EIC expects the Thai economy to expand 3.1% and 3.5% in 2023 and 2024.

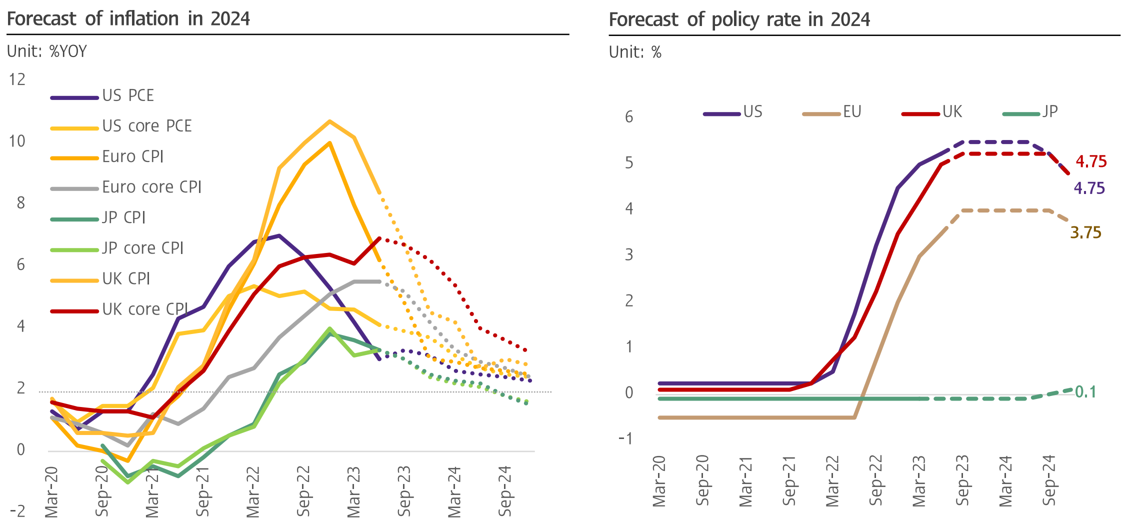
Gross Domestic Product (GDP) forecast by SCB EIC

Economic Forecast (Base case)	Unit	2023F*		2024F
		As of June 23	As of Sep 23	As of Sep 23
GDP	%YOY	**3.9**	**3.1**	**3.5**
Private consumption	%YOY	4.3	6.1	3.2
Government consumption	%YOY	-2.2	-2.2	1.5
Private investment	%YOY	2.4	1.6	4.4
Public investment	%YOY	2.2	1.8	3.2
Goods exports value (USD BOP basis)	%YOY	0.5	-1.5	3.5
Goods imports value (USD BOP basis)	%YOY	0.7	-1.0	3.4
Foreign tourist arrivals	Million	30.0	30.0	37.7
Headline inflation	%YOY	2.1	1.7	2.0
Core inflation	%YOY	1.7	1.4	1.5
Crude oil price (Brent)	USD/Bbl.	80.7	81.5	84
Policy rate (Year-end)	%	2.5	2.5	2.5

Source: SCB EIC analysis based on data from NESDC.

End of hiking cycle is also expected in advanced economies. Core inflation in many countries has started to decelerate, while labor markets have begun to cool down, causing core inflation pressures to decline considerably during the rest of this year. Central banks in advanced economies (Fed ECB and BOE) are thus expected to maintain the policy rate at the current level. However, inflation in these economies are expected to be higher than the central bank's target of 2%. SCB EIC thus expects central banks in advanced economies to keep the policy rate high for longer until next year in order to control inflation which remains above target. Policy rate easing is expected during H2/2024 (Figure 3) after inflation declines and becomes closer to target of 2%. Nevertheless, policy rate in advanced economies is expected to remain above neutral rate until 2025.

Figure 3: Central banks in advanced economies are expected to keep policy rate high for longer, where policy rate easing is expected during H2/2024.



Source: SCB EIC analysis based on data from Bloomberg.

Higher for longer policy rate will put pressure on the global economy looking ahead. SCB EIC expects the global economy to grow 2.4% in 2023 and moderate slightly to 2.3% in 2024. Although the global economy has outperformed the forecast, the outlook remains fragile continuously from Q4 up to next year as a result of high inflation, restrictive monetary policy, tight credit conditions, and depleting excess savings. This would put pressure on investment and consumption, affecting the global economic growth going forward.

Author

NICHANAN LOGEWITOOL (nichanan.logewitool@scb.co.th)

ECONOMIST

ECONOMIC AND FINANCIAL MARKET RESEARCH

SOMPRAWIN MANPRASERT, Ph.D.

FIRST EXECUTIVE VICE PRESIDENT, CHIEF ECONOMIST AT ECONOMIC INTELLIGENCE CENTER (EIC), SIAM COMMERCIAL BANK AND FEVP, CHIEF STRATEGY OFFICER AT SIAM COMMERCIAL BANK.

THITIMA CHUCHERD, Ph.D.

HEAD OF ECONOMIC AND FINANCIAL MARKET RESEARCH

POONYAWAT SREESING, Ph.D.

SENIOR ECONOMIST

ASAMA LIAMMUKDA, Ph.D.

ECONOMIST

NATHAPONG TUNTICHIRANON

ECONOMIST

NICHANAN LOGEWITOOL

ECONOMIST

PUNN PATTANASIRI

ECONOMIST

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ECONOMIST

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