



SCB EIC expects MPC to keep policy rate at 2.5% through next year

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KEY POINTS

The MPC voted unanimously to maintain the policy rate at 2.50 percent. The Thai economy overall continued to recover, despite some slowdown in merchandise exports and related production. Growth is expected to be more balanced in 2024 and 2025, supported by domestic demand, tourism sector, and a recovery in merchandise exports. Inflation should increase next year in line with the economic recovery and El Niño-related supply pressures. With output continuing to recover toward potential, the MPC deems the current policy interest rate conducive to keeping inflation sustainably within the target range, fostering long-term macro-financial stability by preempting the build-up of financial imbalances, and ensuring sufficient policy space in light of the uncertain outlook. The MPC will take into account growth and inflation outlook as well as associated risks in deliberating monetary policy looking ahead.

The MPC projects growth of 2.4 and 3.2 percent in 2023 and 2024, respectively. The growth projection that accounts for the government's digital wallet scheme is 3.8 percent in 2024, compared with the previous assessment of 4.4 percent. The broad trajectory of the economy is one of a continued recovery, driven by a robust expansion in private consumption on the back of services spending as well as an improvement in employment and labor income. Merchandise exports and tourism have been recovering more slowly than expected, due to subdued growth in China and a delayed turnaround in global electronic demand. Looking ahead, growth should be more balanced, as tourism continues to recover and merchandise exports start to expand. At the same time, structural impediments could limit the positive effects of global demand recovery on Thai exports.

The MPC projects headline inflation is projected to be 1.3 and 2.0 percent in 2023 and 2024, respectively. The projection that accounts for the digital wallet scheme is 2.2 percent in 2024, relative to the previous assessment of 2.6 percent. The lower headline inflation this year owes in part to the last-year high base as well as temporary factors such as energy price subsidies and lower-than-expected raw food prices. Meanwhile, core inflation excluding the digital wallet scheme is expected to be 1.3 and 1.2 percent in 2023 and 2024, respectively. The MPC is attentive to risks from higher food prices due to El Niño and a potential increase in global energy prices arising from the Middle East conflicts.

The MPC assesses that overall financial system remains resilient, while overall financial conditions tightened somewhat. 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. Meanwhile, private sector funding costs increased in line with the higher policy rate but in general do not hinder the ongoing economic recovery. Business loan growth has begun stabilising in line with economic activities. The baht strengthened against the US dollar in line with the regional currencies, primarily influenced by the Federal Reserve's monetary policy outlook.

IMPLICATIONS

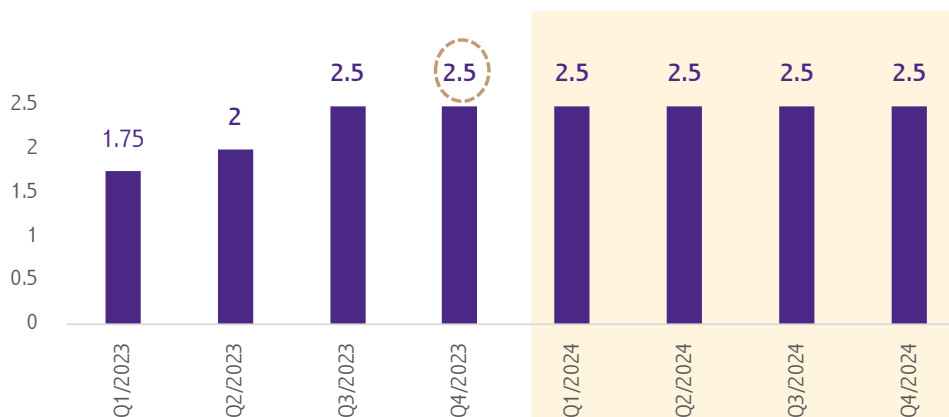
SCB EIC expects Thailand's policy rate to remain steady at 2.5% through 2024 (figure 1), assessing that the current policy rate is already at the neutral level or the level that is consistent with Thailand's long-term economic growth and inflation sustainably within the BOT's target range of 1-3%. Meanwhile, Thailand's real interest rate has increased to the level close to pre-COVID level, which will help foster long-term macro-financial stability by preempting the build-up of financial imbalances arising from the low-for-long interest rate environment. **SCB EIC assesses that the MPC's communication or signal toward its monetary policy stance was in line with the SCB EIC expectations.** The MPC cited that the Thai economy is recovering gradually toward its potential, while the current policy rate is already at the neutral zone which is appropriate for supporting the long-term economic growth and keeping inflation sustainably within the target range. In addition, the policy rate at the current level should help foster a more-balanced debt creation, compared to the period of prolonged low interest rates. If the economic growth looking ahead turns out as MPC expected, the policy rate will likely be kept on hold at this current level for an extended period.

In 2024, although the Digital Wallet scheme may help boost Thai economic growth above its potential, thereby asserting some demand-side pressures on inflation, SCB EIC assesses that the effects of such scheme will be temporary and thus later, the Thai economy will expand at its potential. Meanwhile, inflation is expected to remain within the BOT's target range.

Figure 1: SCB EIC expects the MPC to keep policy rate steady at 2.5% through 2024

Forecast of Thailand's policy rate path by SCB EIC

Unit: %



Source: SCB EIC analysis

On economic outlook, SCB EIC expects the Thai economy to recover slowly at 2.6% in 2023 and 3.0% in 2024 (Figure 2), revising down its growth forecast for 2023 to 2.6% (previously 3.1%). Such downward revision was on account of a much lower-than-expected Q3 GDP outturn, and a larger contraction in government spending due to a lower-than-expected budget disbursement in FY2023 and a delayed approval of the FY2024 Budget Act, as well as a slow-than-expected recovery in Chinese tourist arrivals.

For 2024, SCB EIC also revises down its growth forecast to 3.0% (previously 3.5%) due to softening growth momentum, lower growth of private consumption given the uneven recovery of household income, and slow household deleveraging. Moreover, Chinese tourists will take longer time to recover, while public investment will likely expand at a lower rate due to a delayed approval of the FY2024 Budget Act.

Figure 2: SCB EIC revised down Thailand’s growth forecast, expecting the economic recovery to continue but to be slow and fragile

Economic Forecast (Base case)	Unit	2023F		2024F	
		Sep 23	Nov 23	Sep 23	Nov 23
GDP	%YOY	3.1	2.6	3.5	3.0
Private consumption	%YOY	6.1	6.9	3.2	2.6
Government consumption	%YOY	-2.2	-4.1	1.5	3.3
Private investment	%YOY	1.6	2.8	4.4	4.4
Public investment	%YOY	1.8	-0.8	3.2	2.2
Goods exports value (USD BOP basis)	%YOY	-1.5	-1.5	3.5	3.7
Goods imports value (USD BOP basis)	%YOY	-1.0	-3.3	3.4	4.3
Foreign tourist arrivals	Million	30.0	28.3	37.7	36.2
Headline inflation	%YOY	1.7	1.4	2.0	2.0
Core inflation	%YOY	1.4	1.3	1.5	1.5
Crude oil price (Brent)	USD/Bbl.	81.5	82.3	84	82.9
Policy rate (Year-end)	%	2.5	2.5	2.5	2.5
Current account	% of GDP	1.3	1.3	2.4	2.0

Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Council

The global economy in 2023 is projected to grow 2.7% down from 3% last year and will expand at a slower rate at 2.5% (Figure 3). The global economy will face several risk factors including the effects of the policy normalization of many central banks, and tighter lending standards and global liquidity. However, global labor markets remain highly flexible, while global trades are expected to improve with global supply chains showing signs of normalizing. These will be supporting factors for global growth in 2024.

On global monetary policy, SCB EIC expects the Fed, ECB, and BOE to keep their policy rate on hold until mid-2024, before starting to cut the policy rate to a somewhat less restrictive level during the second half of next year. The policy rates in the US, EU and UK are expected to be 4.75%, 4.0%, and 5.25% at the end of 2024, respectively. Nevertheless, the policy rates in major advanced economies will remain above their neutral rate as inflation will likely be higher than the target of 2% of each central bank throughout 2024. Therefore, the policy rates in major advanced economies are expected to gradually return to their neutral rate in 2025 after inflation has sustainably returned to the target range.

Figure 3: SCB EIC projects the global economy to grow 2.7% and 2.5% in 2023 and 2024

Global economic forecast by SCB EIC (* compared to growth in 2023)

GDP Growth (%YOY)	2022	2023F		2024F	
		Jun 2023	Nov 2023	Jun 2023	Nov 2023*
 Global	3.0%	2.4%	2.7%	2.3%	2.5% ↓
 US	2.1%	1.9%	2.3%	1.7%	1.6% ↓
 Euro	3.5%	0.6%	0.5%	1.2%	0.7% ↑
 UK	7.5%	0.4%	0.5%	0.7%	0.4% ↓
 Japan	1.4%	1.9%	1.7%	1.3%	1.2% ↓
 China	3.0%	5.1%	5.3%	4.5%	4.6% ↓
 India	6.7%	6.1%	6.3%	6.3%	6.3% ▬
 ASEAN-5**	6.3%	4.3%	4.4%	5.0%	4.9% ↑

Note: *compared to the past year, **ASEAN-5 consists of Indonesia, Malaysia, Philippines, Singapore and Vietnam

Source: SCB EIC analysis based on data from Bloomberg

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