FLASH

SCB EIC

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7 February 2024

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KEY POINTS

The MPC voted 5 to 2 to maintain the policy rate at 2.50 percent. Two MPC members voted to cut the policy rate by 0.25 percentage point. The MPC projects that the Thai economy will slow in 2024 from exports and manufacturing activity amid softening global demand and moderating growth in China. Structural headwinds are restraining merchandise exports and tourism more than expected. Meanwhile, domestic demand continues to expand and remains a key driver of the economy. Inflation stays at a low level and should gradually pick up towards the target range albeit at a slower-than expected pace. In the MPC's assessment, recent growth slowdown owes primarily to moderating momentum in the external sector, which partly has structural causes. At the same time, private consumption growth remains robust. The current policy interest rate is consistent with preserving macro-financial stability, a key foundation for sustainable growth in the longer term. Most members thus voted to maintain the policy rate at this meeting. Two members voted to cut the policy rate by 0.25 percentage point, to reflect a lower potential growth as a result of structural challenges. The MPC 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.

The MPC assesses that the Thai economy slowed more than expected in Q4/2023, owing to tepid merchandise exports and manufacturing activity given unfavorable global trade conditions and high inventory levels. The slower growth was also due to lower tourism spending per head which was a break from historical patterns, and an unusually large fall in public investment due to the delayed government budget. This slower initial momentum points to a softer outlook for 2024 growth, projected to be 2.5-3 percent. Private consumption and tourism should remain the key growth engines. Exports and manufacturing activity should expand at a moderate pace, constrained by global demand and a delayed upturn in the Thai electronic cycle. Looking ahead, structural impediments, particularly deteriorating competitiveness, would increasingly hamper growth in the absence of structural reforms.

The MPC projects headline inflation to be lower than previously assessed due to supply factors, particularly lower-than-expected raw food and energy prices as well as an extension of government subsidies. Recent low inflation readings do not reflect demand deficiency, as price declines are concentrated in relatively few product categories and not broad-based, while headline inflation excluding subsidies remains positive. Headline inflation should stabilize at levels close to 1 percent in 2024 before gradually picking up next year. Core inflation should remain flat as in previous assessment. Key risks to monitor include the Middle East situation which could affect energy prices, impacts of climate change on agricultural prices, and government subsidies.

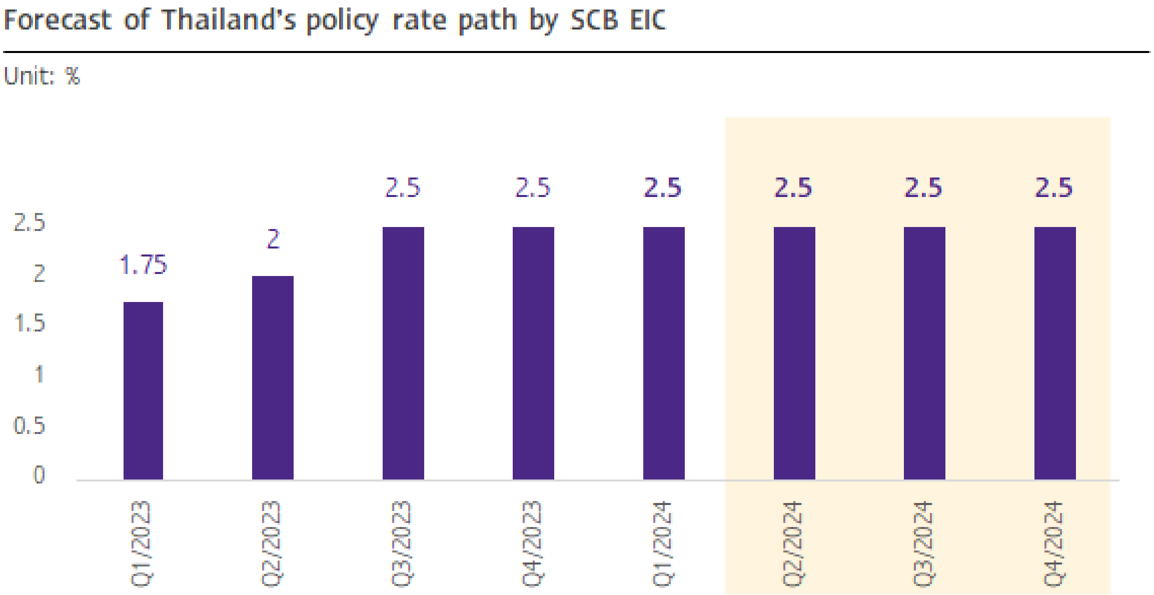
The MPC assesses that the overall financial system remains resilient, while overall financial conditions are stable. Bond markets function normally, despite a few low-rated corporate bond issuers having difficulties rolling over debt. Meanwhile, overall financial conditions are stable. Private sector funding costs, both via commercial banks and bond markets, stay broadly unchanged. Businesses and households continue to access new fundings at the usual pace, with a slight decline in total loan outstanding largely owing to debt repayments. Overall, businesses are able to service debts normally despite gradual income recovery and high production costs. Small businesses in certain industries may face tighter credit conditions and more stringent credit standards.

IMPLICATIONS

SCB EIC expects the MPC to keep policy rate steady at 2.5% throughout 2024 (Figure 1), judging the MPC to be forward-looking rather than backward-looking. Should growth and inflation outlook remain as SCB EIC previously assessed, the Thai economy should continue to expand close to its potential level of 3%. Headline and core inflation should gradually return to the target range of 1-3%. Therefore, the MPC will likely maintain the policy rate at the current level, or at the neutral level, as the MPC had been continuously communicated.

In addressing SMEs and vulnerable households with high debts and slow income recovery, the MPC remains supportive of more effective targeted measures and sustainable debt resolutions than the reduction in the policy rate which is a blunt tool and would affect the economy in a broad-based manner. **However, should the Thai economy looking ahead grow significantly slower than the current MPC assessment. At the same time, headline inflation remains negative with price declines spreading to other product categories. The impact on core inflation would thus be more evident.** The MPC may consider cutting the policy rate so that the monetary policy stance would be in line with the evolving economic and inflation outlook.

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



Source: SCB EIC analysis

On economic outlook, SCB EIC assesses that the Thai economy will continue to expand in 2024 with key growth driver being private consumption (Figure 2) thanks to improving consumer confidence and government measures to alleviate costs of living. Thailand's growth will also be propelled by continued improvement in tourism and an upturn in exports in line with manufacturing activities in some industries that have started to recover including electronics. However, looking ahead, the Thai economy wil face pressure stemming from the delayed enactment of the 2024 Budget Act, which will affect public investment during the first half of the year. The pressure will also come from uncertainty surrounding geopolitical issues especially new risk in the Middle East which could affect maritime transport and further disrupt the global supply chains. This could be a risk to Thailand's merchandise exports.

On Thailand's inflation, although headline inflation has been negative since the fourth quarter of last year, it is mostly a result of government measures to alleviate costs of living. SCB EIC assesses that Thailand is not yet experiencing deflation as negative inflation has not become broad-based across all product categories, while core inflation remains positive. Looking ahead, inflation is expected to rise mainly from supply-side pressures, adding pressures on household debts which remain elevated as well as income of the vulnerable group that is still recovering slowly.

Figure 2: The Thai economy in Q1/2024 will be driven by private consumption, tourism and an unturn in exports.

Economic Forecast (Base case)	Unit	2023F	2024F
		As of Dec 2023	
GDP	%YOY	2.6	3.0
Private consumption	%YOY	6.9	2.6
Government consumption	%YOY	-4.1	3.3
Private investment	%YOY	2.8	4.4
Public investment	%YOY	-0.8	2.2
Goods exports value (USD BOP basis)	%YOY	-1.5	3.7
Goods imports value (USD BOP basis)	%YOY	-3.3	4.3
Foreign tourist arrivals	Million	28.0**	36.2
Headline inflation	%YOY	1.2**	1.5**
Core inflation	%YOY	1.3**	1.0**
Crude oil price (Brent)	USD/Bbl.	82**	76.3**
Policy rate (Year-end)	%	2.5**	2.5
Current account	% of GDP	1.3	2.0

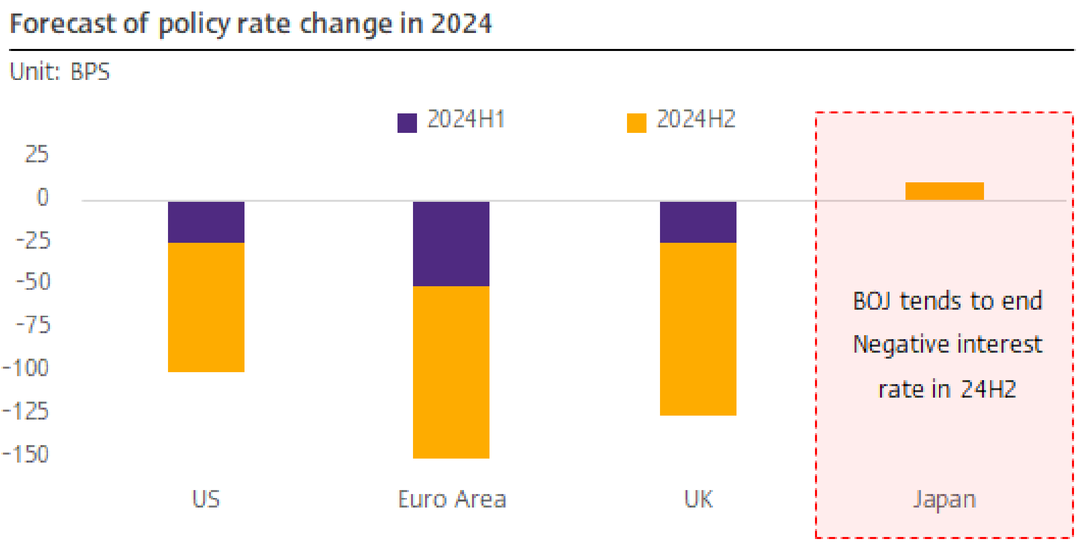
Note: *excluding the impact of Digital Wallet scheme **offical figures

Source: SCB EIC analysis based on data from NESDC

The global economy in 2024 will likely expand at a moderate pace as a result of continued tightening monetary policy and weakening labor markets, as well as various uncertainties. This year, there will be major elections in more than 60 countries with combined economies representing over 60% of global GDP. Moreover, global trade and supply chains may face new risks from attacks on shipping vessels in the Red Sea and the Panama Canal drought, causing congestions or requiring ship rerouting. As a result, this will increase both shipping time and costs.

On monetary policy, central banks in major economies are likely to cut the policy rate in Q2 as inflation continues to decline, moving closer to the target of 2%. Monetary policy can thus shift to accommodation mode. Meanwhile, China will continue easing its monetary policy through cutting its policy rate and required reserve ratio. Japan will likely end its negative interest rate policy this year.

Figure 3: SCB EIC expects central banks in major economies to start cutting policy rate in Q2.



Source: SCB EIC analysis based on data from Bloomberg

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