THAILAND Focus 2022

'The New Hope'

"Normalizing Policy to Ensure a Smooth Take-off"

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BOT policy objective is to ensure a smooth takeoff by keeping inflation under control, the most concerned issue that affected household spending and weakened demand for consumption. The second objective is to keep financial system continuing to function well, and banking credit market being normal and accessible by SMEs and households. Last, BOT will implement a policy normalization and policy responses can be different in each country. The authorities were all in to support economy during the pandemic, many central banks have injected money to keep interest rate low but this cannot be for too long. Inflation then rose significantly and to bring it down, BOT has to shift the policy to normal. The question is how to get there and at what pace we will do.

For our policy normalization, BOT will use holistic approach towards both monetary and financial policies. The keywords are “gradual and measured” approach. In terms of monetary policy “gradual” means we do not see an aggressive rate hike. And “measured” means the decisions depend on economic at that time: if we see signs of an unexpected outcome, the policy may be more aggressive or data dependent. For financial policy, due to an uneven economic recovery, BOT will shift from broad market to targeted policies. The asset warehouse scheme and bank’s debt restructuring will expand to next year.

In the latest MPC meeting, BOT announced only 25 bps rate hike since the economic recovery is intact and resilient. The reason is that we saw the GDP in 1st and 2nd quarters recovering with domestic demand of private consumption. The announced non-farm and farm incomes are promising while the unemployment rate stays low. The number of tourists increased gradually, BOT expects about 8 million foreign tourists in 2022. Although inflation is uncomfortably high this year, but no sign from demand side pressure and we expect inflation path to come down in 2nd half of next year. For financial stability, Thailand still has a high buffer but we will target on vulnerable groups such as SMEs and low-income household. In short, Thailand is not behind the curve but recovery is not yet at pre-COVID level. Right policy response is country-specific and should reflect the underlying nature of inflation, cyclical position, and structural features of the economy. However, there are no signs of demand side inflationary pressure in Thailand while inflation expectations is still anchored, with low exchange rate passing through. Importantly, there is a low likelihood of wage-price spirals.

Risk from global economic slowdown and Fed tightening is limited. BOT saw no unusual capital flows. Baht depreciation is mainly due to the dollar appreciation. We however saw the foreign capital inflow in bond and stock markets. And if capital flows out, our financial stability is still strong. Moreover, a rise in bond yield does not pass through to Thai economy while stagflation risk is still low with resilient recovery, despite weaker global outlook. The key risks are related to tourism recovery, new virulent variants, and (Geo)politics.