



## **"The New Horizon"**

### **"Laying the foundations for sustainable recovery"**

**By Dr. Sethaput Suthiwartnarueput, Governor of Bank of Thailand**

Summarized by SET Research Team

---

In the speech by the Governor of the Bank of Thailand, several key points about the economic outlook and policy responses are highlighted:

#### **Economic Outlook:**

A year ago, the Thai economy's recovery from COVID-19 was slower compared to regional competitors, mainly due to its heavy reliance on tourism. The tourist influx dropped significantly from 40 million to 11 million.

Despite the challenges, Thai GDP growth reached 2.6% last year, aided by a low base effect from 2021. Inflation peaked globally in August 2022, with Thai headline inflation reaching 7.9% in August and core inflation at 3.5% in December of the previous year. Overall, 2022 experienced headline inflation of 6.1%.

Current economic conditions are stronger than the previous year, with domestic consumption growing by 6% in the first quarter. The recovery of the tourism sector is crucial for employment and income generation in Thailand. However, exports have been weaker than anticipated, primarily due to a slower recovery in China. Total spending per tourist also came at a bit softer due to fewer Chinese tourists than expected.

#### **Policy Response and Future Outlook:**

The Bank of Thailand raised its policy interest rate from 0.5% in August of the previous year, despite the economy not fully returning to pre-COVID levels. The focus is on ensuring economic recovery while anchoring inflation.

The central bank aims to normalize monetary policy gradually and measurably, adjusting interest rates to combat inflation. However, the rate hikes will be softer than those seen in some other countries and will be dictated by Thailand's unique growth and inflation conditions. In contrast, BOT doesn't see risk from deflation in Thailand, to be more specific, we only see deflation in supply side but not in demand side or weaker consumption.

The central bank's policy decisions are now in a transitional phase, shifting from a smooth take-off to a landing phase, reflecting the changing economic situation. The bank will release its updated GDP forecast in September.

**The bank emphasizes three guiding principles:**

1. Restoring economic growth to its potential range (3-4%) while maintaining inflation within the target range (1-3%) sustainably.
2. The monetary policy will focus more on the outlook rather than short-term data, considering the long-term economic perspective.
3. The policy interest rate should eventually approach its neutral rate, which supports potential growth and stable inflation without financial imbalances.

Thailand faces challenges in managing high household debt (90.6% of GDP). The central bank aims to address this issue pragmatically and flexibly, providing support when needed, and shifting towards longer-term debt restructuring as recovery progresses. BOT need to do policy act to make household debt more sustainable and in more reasonable time frame. However, this the recovery of each industry is different. Those who are exporters seem to have better condition than those who are in tourism business which still not fully recover. Therefore, debt restructuring should be consistent with pattern of cashflow.

**BOT introduced a package of comprehensive measures to reduce household debt.**

First measure called "Responsible Lending" which BOT try address lender to behave in responsible manner in order to prevent debtors from fault and mislead advertise which cause longer indebtedness or extremely high interest rate. We need to ensure that debtors need to know his or her right.

Second measure that target to certain group of borrowers who have low income and stuck in a debt trap and we called them persistent debt. We will help restructure of their debt for those who pay interest rate more than their principal over the past five years.

The other two measures are risk bases pricing which ensure that higher risk borrowers will be charged higher interest rate more than lower one. Last one is macro prudential measure which seem to be strong medicine. BOT will apply debt service ratio (DSR) for certain kind of debt originators.

This is all about monetary and financial policy front together with longer term initiative to support longer term and sustained recovery for Thailand.