

Revisiting Thailand's Phillips Curves: A Granular Panel Data Approach

Arisa Chantaraboontha ¹

Abstract

This paper employs disaggregated panel data to examine the evolution of Thailand's Phillips Curve (PC) before and during the pandemic, providing empirical evidence on the nature of Thai inflation dynamics and their implications for optimal monetary policy formulation. Utilizing the real output gap derived from various methodologies, the findings reveal a relatively flat PC for Thailand, with a slightly steeper curve after COVID-19. In addition to domestic demand, external demand—reflected through global energy prices and food prices—played a significant role in Thailand's inflation dynamics. The Thai PC exhibits both backward-looking and forward-looking behaviour, with a more weight on inertia parts. In addition to the price PC, the empirical evidence supports the presence of a wage PC, with coefficients comparable in magnitude to those for non-tradable inflation, suggesting that wage dynamics constitute a driver of non-tradable price developments. Meanwhile, staggered real wage setting is found to contribute to the backward-looking component of Thai inflation. Under an optimal inflation-targeting monetary policy, greater weight is placed on closing the inflation gap during normal periods, with even more emphasis during high-inflation episodes. This result, however, does not hold when the output gap is measured using the HP filter in the policy optimization.

Keywords: Optimal monetary policy, Phillips curve, Thailand's inflation

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¹ PhD Student, Graduate School of Economics, The University of Osaka, Japan