

# INFLATION AT RISK IN THAILAND

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# Discussion outline:

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- What the paper does
- Main points of the paper
- Comments on the paper
- Summary of comments and suggestions

# What the paper does

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- Examines the determinants of the future distribution of Thai inflation
- Uses factors classified into 5 groups
  - Inflation expectations
  - Domestic economic activities
  - Foreign factors
  - Financial conditions
  - Component specific factors
- Covers monthly data between Jan 2003 and June 2020

# What the paper does

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## □ Methodology

### □ Econometric specifications: Quantile regression

$$\hat{Q}_\tau(\pi_{t+12}|x_t) = \hat{\alpha}_\tau + \hat{\beta}_\tau x_t$$

### □ Variable selection

- Backward stepwise AIC

- Quantile Lasso

### □ Creating a conditional distribution

- Multiple quantile regression

# What the paper does

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- Robustness
  - Alternative variables
  - Alternative timeframes
  - Forecasting accuracy

# Main points of the paper

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- Inflation expectation matters a lot in predicting future inflation but less important in the lower quantile
- Tight financial conditions are a drag to future inflation in all quantiles.
- Component specific factors have the expected effects on future inflation.
- In the middle quantile, the relationship between output and inflation is weak.

# Comments on the paper:1 Quantile regression

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- Important features
  - Is distribution agnostic
  - Appropriate for the skewed dependent variable.
  - Enable to study the at the lowest or highest quantile
  - Robust to response outliers
- A drawback of specify an explicit grid for quantile process regression is that the grid resolution might not be optimal.

# Comments on the paper:2 Variable selections

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- Consider more methods to help screen out the effects.
  - Forward selection
  - Backward elimination
  - Stepwise selection
  - Lasso
  - Adaptive lasso



# Comments on the paper:3 The Phillips curve

- When low inflation or deflation occurs, the Phillips curve relation breaks down.
- Two main inputs in the Phillips curve are the expected inflation and the NAIRU.
- One of the main components in the Phillips curve is the expected inflation. One reason that the Phillips curve disappears is lower expected inflations
- The paper shows the Phillips curve relationship is significant and positive at the lower quantile.

# Comments on the paper: 4 Structural break

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- Structural break detection
  - When we are concerned that there may be a structural break, It is important to detect it.
  - Test of the coefficients do not vary over the subsamples defined by the specified known break dates or in 2015.
  - The tests could be
    - Test for a structural break with a known break date
    - Test for a structural break with an unknown break date
    - Cumulative sum test for parameter stability

Thank you