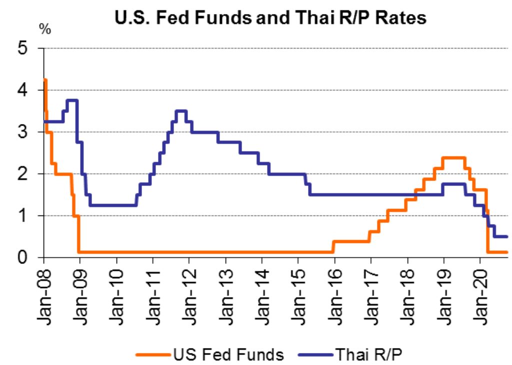
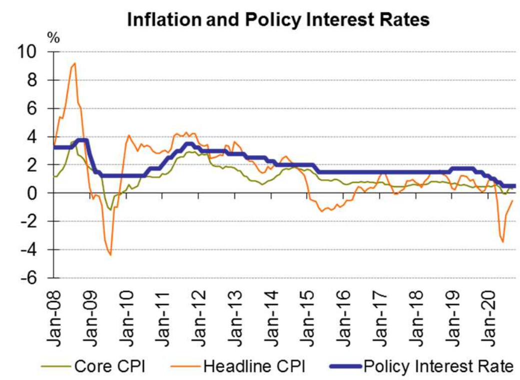
MPC Special Coverage

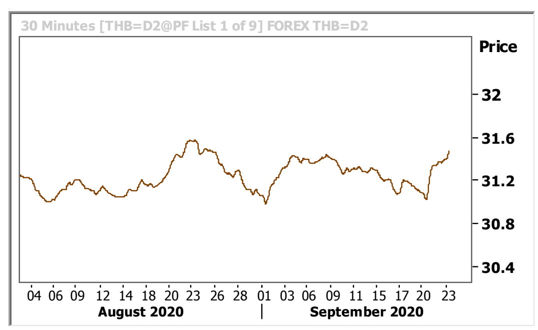
September 23, 2020

BoT holds key rate at 0.50%

- The Bank of Thailand's Monetary Policy Committee, voted unanimously to keep the one-day repurchase rate at a record low of 0.50% this afternoon, marking a third consecutive stand-pat verdict.
- The Committee assessed that the Thai economy would contract less than expected this year but the pace of recovery will be slower in 2021 than previously thought due mainly to sluggish tourist arrivals. GDP forecasts for this year were revised to indicate a contraction of 7.8% instead of 8.1% decline projected in June as exports are expected to shrink at a smaller rate of 8.2% from 10.3% previously estimated. However, for 2021, policymakers expect the economy to grow by 3.6% instead of 5.0% predicted earlier, with tourist arrivals downgraded to 9 million from 16.2 million. Meanwhile, inflation tends to become less negative this year owing to rebounding energy costs following the easing of restrictions to curb the spread of the pandemic. Economic activities will likely take at least two years to return to pre-COVID level and will prove uneven across sectors, requiring targeted and timely measures as well as comprehensive coordination led by fiscal policy, according to the statement.
- The baht was steady at 31.50, the weakest level in nearly one month, after the widely anticipated announcement. The baht has depreciated around 5% this year following portfolio outflows and narrowing current account surplus. The Committee repeated justification to closely monitor FX developments and assess the need for additional appropriate measures given concerns that any rapid strength of the local currency will hinder economic recovery.
- The MPC next meets on Nov 18, the first time for Dr. Sethaput as BoT governor. Policymakers reiterated that flows of liquidity should be urgently distributed to businesses and households affected by the crisis. In our view, the latest economic projections point to a protracted stagnation and we continue to expect the policy rate to be left on hold over the coming quarters.







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