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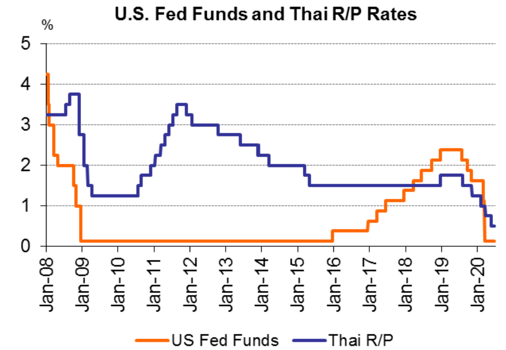
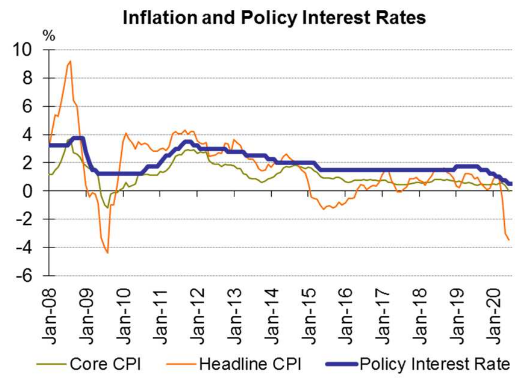
MPC Special Coverage

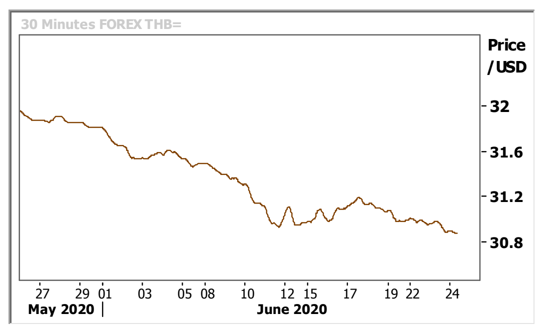
June 24, 2020

BoT keeps key rate at 0.50%

- The Bank of Thailand's Monetary Policy Committee, voted unanimously to leave the one-day repurchase rate at a record low of 0.50% this afternoon. Today's decision matched the broader street consensus.
- The Committee assessed that the Thai economy would contract more than the previous forecast as the impact from the COVID-19 outbreak proved to be harsher than anticipated. Nonetheless, activities should gradually pick up in H2/20. Headline inflation is likely to sink deeper into negative territory but should return to target in 2021. Fragility in the financial system has increased alongside deteriorating economic conditions, according to the statement. The MPC reiterated concerns over exports, tourism, and the labor market. This year's GDP forecast was downgraded to a contraction rate of 8.1% from a 5.3% decline projected earlier.
- The baht strengthened to 30.82 following the rate-on-hold announcement. The Thai currency has depreciated around 3% so far this year due to the COVID-19 shock and portfolio outflows. However, the baht outperformed in the second quarter as sentiment improved partly following the unprecedented policy response by the Federal Reserve. The MPC stated that the baht and other regional currencies have recently appreciated as the dollar weakened against major peers but noted that the policymakers will continue to monitor the situation and assess the need for further appropriate measures.
- The MPC next meets on Aug 5. The overall tone of policy language was understandably dovish. The Committee said timely and effective fiscal policy stimuli in coordination with monetary accommodation and credit-related measures are necessary. There was a tweak toward the end of the statement that the MPC will assess "effectiveness" of fiscal, monetary, and credit initiatives, rather than the "adequacy" of measures, in consideration of additional monetary policy tools if warranted. We maintain our call for the policy rate to end this year at 0.50%.







Reuters

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