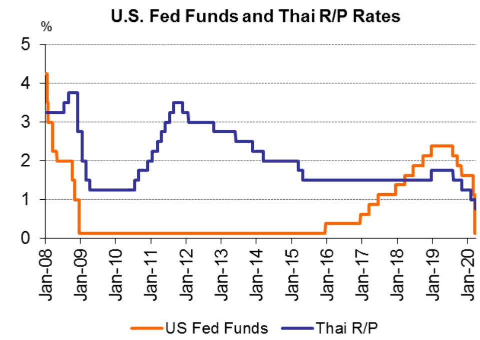
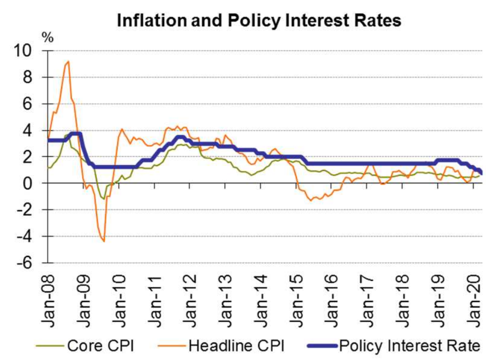
MPC Special Coverage

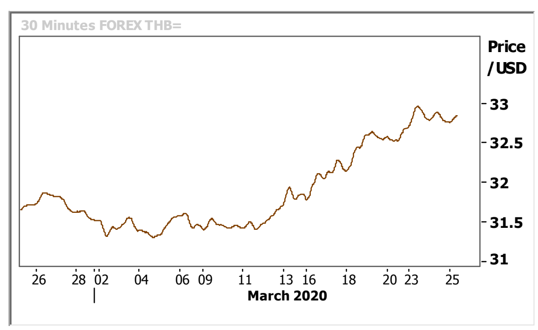
March 25, 2020

BoT holds key rate at 0.75%

- The Bank of Thailand's Monetary Policy Committee, voted 4-2 to hold the one-day repurchase rate at an all-time low of 0.75% this afternoon, just a few days following a special meeting on Mar.20 when the MPC announced to cut rates by 25bps. Admittedly, today's decision went against our expectation for a cut.
- The Committee expressed concerns over the severe economic impact from the COVID-19 crisis but acknowledged stability in the overall financial system following the latest liquidity enhancement measures taken in the bond market. The policymakers assessed that the economy is exposed to substantial contraction owing to the adverse effects on tourism and exports which weigh heavily on private-sector income and hence domestic demand. The BoT downgraded 2020 GDP forecast to a stunning contraction rate of 5.3% from 2.8% growth projected previously, before getting back to positive growth in 2021. Foreign arrivals are estimated to plummet 60% this year, according to the central bank.
- The baht strengthened slightly to 32.82 right after the announcement before returning to trade around 32.86. The Thai currency has weakened over 9% so far this year, reversing nearly all gains made in 2019. The Committee said the baht has depreciated against those of trade partners and major currencies and will remain volatile. Nonetheless, Thailand's external position stands strong as reflected by the high level of foreign reserves.
- The MPC next meets on May 20. The overall tone of policy language was clearly dovish alongside the extremely pessimistic GDP forecast. The Committee, however, stated the need for fiscal policy to take a critical role in alleviating the virus-hit economy. Still, we believe there is a good possibility for another intermeeting rate cut to 0.50% coupled with other targeted policy steps given the fallout of economic activities on all fronts.







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