

Thailand

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Coronavirus, drought and budget delay lead BoT to a rate cut

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- The benchmark rate was reduced by 25bp to a record low of 1.00%.
- The decision was unanimous among MPC members.
- The coronavirus, drought and budget delay were reasons for the move.

1. Bank of Thailand cuts benchmark rate to 1.00%.

We were right on this one. The consensus on Bloomberg was split 15/14 on a rate hold/cut, with us belonging to the rate-cut camp. We felt that the impacts of the coronavirus, budget delay and downbeat growth prognosis since the start of the year have increased the odds of a rate cut from the MPC. The fact that the decision within the MPC was unanimous showed the severity of the coronavirus situation on the economy. The drought in Thailand – supposedly the worst in 40 years – also weighed heavily on the MPC. Going forward, the three factors of drought, budget delay and coronavirus are likely to shape the MPC’s policies.

2. Lower growth and inflation expected for 2020.

Ominous warnings were mentioned in the press conference, with the BoT saying that “the Thai economy in 2020 may expand at a lower pace than previously expected”. To be fair, this is not the first time they have spoke of downgrading its growth forecast of 2.8% for 2020, but it does bode pessimism for growth prospects this year. The BoT also said that “inflation is expected to be lower than the lower end of the target”, which means they do not expect inflation in 2020 to exceed 1% yoy. Our estimates for Thailand’s 2020 growth and inflation are 2.6% and 0.8% respectively.

3. Further rate cuts hinge on development of the coronavirus.

In its monetary policy statement, the MPC made clear that future monetary policy decisions will heavily hinge on the coronavirus (and its impact on tourism), the drought as well as the budget delay. The budget delay proved to be an unfortunate event after irregularities were found in the signatories, but it is our belief that the budget may be passed by Q2 from the original February target. Meanwhile, the drought is an act of nature and is not easily controlled nor contained. That leaves us with the coronavirus situation. If the coronavirus situation takes a sharp turn for the worse in the next two months, the odds for the BoT slashing rates again at its 25 March meeting would be elevated.

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