Thailand

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BOT On Hold and Unconvinced About Rate Cuts

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- Bank of Thailand (BOT) kept its policy rate unchanged at 2.50%, in line with consensus and our expectations.
- The voting pattern remained unchanged from the 7 February meeting at 5-2 in favour of a hold and two members in favour of a 25bp cut.
- Our base case is for a shallow rate cutting cycle of a cumulative 50bp in 2024. The risk, however, is that the BOT deems it fit to keep rates unchanged.

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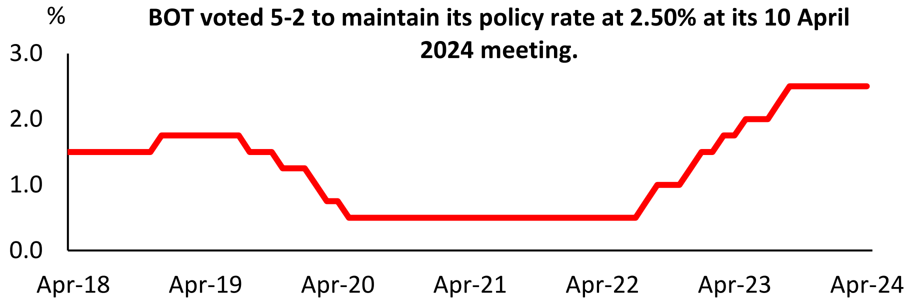

Source: Bank of Thailand, CEIC, OCBC

Crucially, the official policy statement stated that "the majority of the Committee deems that the current policy interest rate is conducive to safeguarding macro-financial stability, and that the effectiveness of monetary policy on resolving structural impediments is limited." This suggests that there is a resistance within the MPC to lowering the policy rate, consistent with our assessment.

Names	Role in MPC	Internal/External	OCBC View
Sethaput Suthiwartnarueput	BOT Governor	Internal	Bias to hold rates
Alisara Mahasandana	Vice Chairman	Internal	Bias to hold rates
Roong Mallikamas	Member	Internal	Bias to hold rates
Paiboon Kittisrikangwan	Member	External	Bias to hold rates
Rapee Sucharitakul	Member	External	Open to easing
Roongrote Rangsiyopash	Member	External	Open to easing
Santitarn Sathirathai	Member	External	Bias to hold rates

Note: The Monetary Policy Committee comprises three internal members and four external members.
Source: Bank of Thailand, OCBC

BOT's assessment on growth, inflation and the external backdrop were not materially different relative to its February meeting. BOT remained sanguine about growth prospects, with GDP growth forecasted at 2.6% YoY in 2024 (OCBC: 2.8%) versus 1.9% in 2023. The main drivers include increased tourism activities, a catch-up in government expenditures, and "continued expansion of private consumption despite moderating from high growth last year". The assessment was broadly unchanged from the 7 February meeting. Specifically, BOT's forecast is for 1Q24 GDP growth to slow to 1.0% YoY versus 1.7% in 4Q23 (OCBC: 2.5%). For 2025, GDP growth is projected to improve further to 3.0%.

Meanwhile, BOT lowered its headline inflation forecast sharply to 0.6% YoY in 2024 from 2.0% previously, well below its 1-3% target range. This mainly reflects a "decline in prices of certain raw food items due to excess supply and the decrease in energy prices due to an extension of the government subsidies". Excluding energy subsidies, the BOT estimates headline inflation will be 1.2% YoY in 2024. The core inflation forecast for 2024 was also revised down to 0.6% YoY from 1.2% previously.

Importantly, the BOT made explicit mention of the currency nothing that the THB had "depreciated more relative to other regional currencies (vis-à-vis the USD) due to the Federal Reserve's monetary policy outlook and domestic economic and financial developments."

The policy outlook for BOT is delicately balanced. Given our assessment of improving GDP growth and well contained inflation in 2024, the need for monetary policy support as reduced, in our view. To that end, we expect only a shallow rate cutting cycle of a cumulative 50bp in 2024.

Indeed, there is a risk that the majority of the MPC may not see a need for rate cuts this year. BOT Assistant Governor Piti Disyatat, at the press conference, said that "the current monetary policy does not hinder economic recovery", and that "the so-called neutral rate is not far below BOT's policy rate of 2.5%".

The upshot is that the BOT will remain highly data dependent and will closely monitor private sector demand, the channel of growth most exposed to interest rates changes. The government's efforts to expedite the FY2023-24 budget processes, widen medium-term fiscal deficits and push ahead with the digital wallet scheme suggests increased public sector support to growth from 2Q24.

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