

## Bank of Thailand keeps rates on hold but slashes forecasts

The Thai central bank's optimism about a rebound in growth in 2021 might be misplaced given the uncertain global Covid-19 situation



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### Not out of the woods just yet

There were no surprises at the Bank of Thailand's policy meeting today. Consistent with our view, the central bank unanimously left rates unchanged at 0.50%, marking the end of the current easing cycle. We forecast no more rate cuts for the rest of the year.

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*The central bank now sees GDP plunging by 8.1% in 2020 as weak exports and tourism take a toll on the economy*

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This doesn't mean that the economy is out of the woods. Not yet at least. Given the further downgrades of its economic forecasts, the central bank now sees GDP plunging by 8.1% in 2020, steeper than the previous forecast of -5.3% made in March, as weak exports and tourism take a toll on the economy. Forecasts for inflation and exports were slashed too.

A sharp slowdown this year may have conditioned the central bank's expectations of a strong bounce back in 2021, though that might be misplaced given the uncertain Covid-19 situation. However, assistant Governor Titanun Mallikamas struck an optimistic tone by highlighting improved economic signals as lockdown eases.

## Economic outlook for 2020 and 2021

| % year-on-year         | 2019 | 2020   |          | 2021   |          |
|------------------------|------|--------|----------|--------|----------|
|                        |      | Latest | Previous | Latest | Previous |
| Real GDP               | 2.4  | -8.1   | -5.3     | 5.0    | 3.0      |
| Headline CPI inflation | 0.7  | -1.7   | -1.0     | 0.9    | 0.3      |
| Core CPI inflation     | 0.5  | 0.0    | -0.1     | 0.1    | 0.1      |
| Exports                | -2.7 | -10.3  | -8.8     | N.A.   | N.A.     |
| Current account (\$bn) | 37.9 | 15.5   | N.A.     | 20.2   | N.A.     |

Source: Bank of Thailand, CEIC

**-22.5%**

Export fall in May

Year-on-year

Worse than expected

## Biggest trade plunge since financial crisis

Ahead of the central bank policy decision, external trade data for May was released.

Exports plunged by 22.5% while imports tanked by 34.5% from levels seen a year ago. These dismal numbers were not that far from our estimates of -23% for exports and -35% for imports, but they were substantially weaker than market expectations of -5.7% and -18.0% respectively. It suffices to say these steep declines since the 2009 global financial crisis weren't that surprising.

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Indeed, Covid-19 lockdowns in main trading partners and supply chain disruption locally were big blows to trade growth in the last few months.

Broad export weakness across most product categories was seen led by heavy-weights such as electronics (-14.6% YoY) and vehicles and parts (-26.6%). Exports of jewellery items continued to buck the trend with a 76% surge.

Shipments to main destinations – the US, Europe, and Japan continued to shrink but those to

China surged 15% on the year. Given a large import content of exports, a steep fall in imports of raw materials (-26.1%) portends continued weak exports in the months ahead. Other main import categories, fuel, capital goods and consumer goods weren't spared from big contraction either – all reflecting weak domestic demand.

## Wide trade surplus supports currency

Nevertheless, this exceptional weak trade growth isn't enough to nudge the Thai baht off the appreciation path it's been on since April because the currency continues to enjoy the backing of a large external surplus, besides the prospect of a stable interest rate policy.

The \$2.7 billion trade surplus in May was higher than April's surplus of \$2.5 billion and, the year-to-date surplus of \$9.1 billion was up from \$1.2 billion in the same period of 2019. The wider merchandise trade surplus should offset a plunge in tourism revenue due to Covid-19 and this should keep the current account in surplus this year, albeit with significant narrowing from 2019.

We continue to forecast the current surplus will almost halve this year to \$18 billion (about 3.7% of GDP) from \$38 billion (7% of GDP) in the last year.

The central bank's latest forecast sees current account surplus at \$15.5 billion - and so the forthcoming balance of payments data for May released next week on 30 June will be an interesting watch as a risk to these forecasts.