

Thailand: Central bank cuts growth, inflation forecasts

The Bank of Thailand left the policy rate unchanged today but slashed its growth and inflation forecasts for the year. We aren't yet giving up on our call for at least one more 25 basis point rate cut this year



Source: Shutterstock

1.50%

BoT policy rate

No change today

As expected

Consensus 1, ING 0 on BoT policy

Giving in to the broad consensus view, the Bank of Thailand (BoT) unanimously voted to keep the one-day repurchase rate, the policy rate, unchanged at 1.50%. We were part of the minority (eight out of 29 in the Bloomberg survey) which anticipated a 25 basis point rate cut today to 1.25%, as economic conditions continue to worsen.

While the BoT monetary policy committee (MPC) continues to be data-dependent in deciding policy, it doesn't seem to be walking the talk. Today's decision to keep policy stable was accompanied by a downgrade to the BoT's economic outlook, which was driven by increasingly weak economic data recently.

The BoT slashed its growth forecast for the current year to 2.8% from 3.3% earlier and for 2020 to 3.3% from 3.7%, citing a continued weak export outlook. It now sees export growth slipping to -1% from 0% this year. The BoT also lowered its inflation forecast for 2019 to 0.8% from 1%, though left it unchanged at 1% for next year.

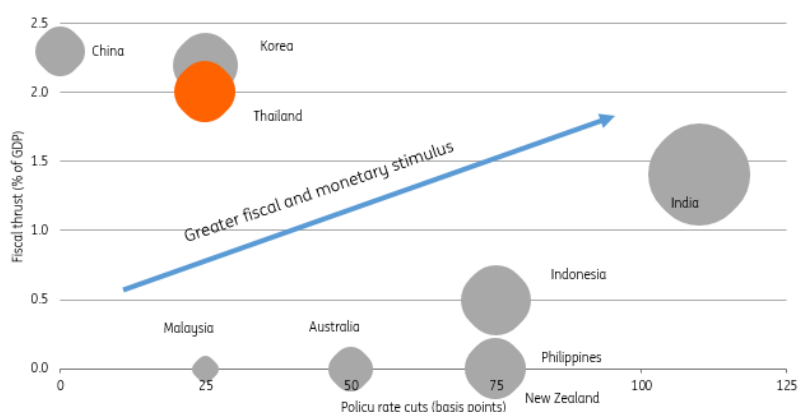
What does the policy statement say?

Consistent with its growth forecast downgrade, the [BoT policy statement](#) struck a dovish chord on the economy, particularly noting the headwinds to the domestic economy from the global trade war, the prolonged downturn in the electronics cycle, as well as weakness in the tourism sector.

On the positive side, hopes remain pinned on supply-chain relocation amid the ongoing trade war and public-private partnerships in infrastructure projects supporting investment demand despite continued slow lending growth.

On the inflation front, the MPC attributed more persistent (low) inflation to structural changes like the expansion of e-commerce, rising competition, and technological developments keeping costs low. While a strengthening currency is keeping imported inflation (with risks stemming from higher oil prices) at bay, the MPC is concerned about rapid currency appreciation hurting the economy to a "larger degree".

Thailand lags behind Asian economies in providing economic stimulus this year



Source: Bloomberg, ING

How low can the policy rate go?

The Thai authorities are lagging behind their Asian peers in providing policy support to the economy (see figure). A BoT rate cut today would have narrowed the gap with other regional economies somewhat. On the fiscal side, it's not clear how quickly the \$10 billion (2% of GDP) fiscal stimulus that the government announced in August will get off the ground, which, in turn, means

that monetary policy will have to do even more of the heavy-lifting.

Indeed, unlike most Asian central banks, the BoT has little policy leeway given that the rate now is just shy of the record low level of 1.25% hit during the 2009 global financial crisis. However, against a backdrop of persistently low inflation and a strong currency (6.7% year-to-date appreciation is among the fastest in the world), we see no reason why the policy rate shouldn't drop to its GFC low, or even below that level. We maintain our view of the yearend policy rate falling to 1.25%, i.e. one 25 basis point cut from here. And with two more policy meetings to go before the end of the year, we wouldn't be surprised if the BoT squeezed out one more 25bps rate cut in the current unprecedented global economic environment.