

Thailand: Recession calls for more rate cuts

A 25 basis point rate cut by the Bank of Thailand looks to be a done deal at the meeting this week. We don't rule out a bigger cut though



Source: Shutterstock

-1.8% 1Q20 GDP change
Year-on-year
Better than expected

Recession confirmed

Thailand's GDP fell by 1.8% in 1Q20 from a year ago and by 2.2% from the previous quarter (seasonally adjusted). The result is less negative than the consensus of -3.9% YoY and -4.2% QoQ and follows +1.5% and a -0.2% growth in 4Q19.

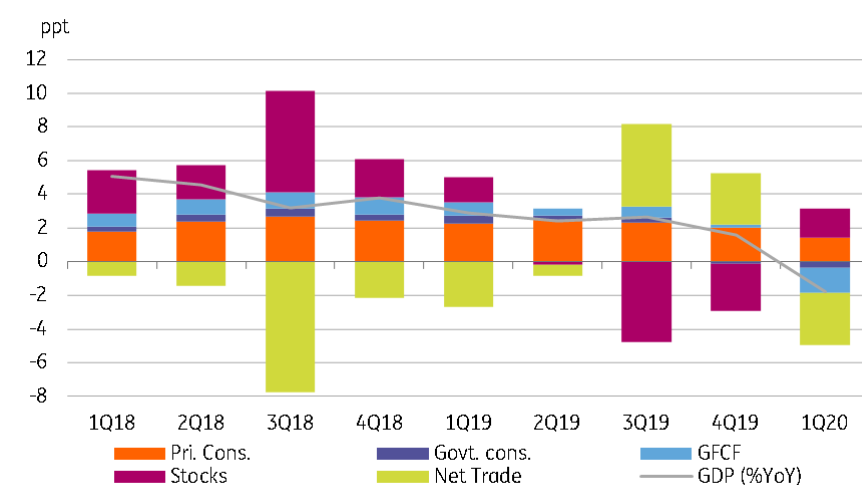
This is the first negative GDP growth (year-on-year basis) in six years, since 1Q14. Two consecutive quarters of negative quarterly growth confirms that the economy is already in recession.

What's caused it?

Government consumption, fixed capital formation and net trade were the spending-side drags, shaving off 0.4 percentage point, 1.5ppt and 3.1ppt, respectively, from the headline GDP growth rate. The contribution of private consumption stayed positive but narrowed to 1.4ppt from 2ppt in 4Q19, and that of inventories swung to +1.7ppt from -2.8%.

On the supply side, agriculture, manufacturing construction and services – all with negative growth led the headline GDP lower. A 24% plunge in accommodation and a 6% fall in transport reflects the hit from weak tourism.

Expenditure-side sources of GDP growth



Note: Bars may not stack up to GDP growth due to statistical discrepancy

Source: CEIC, ING

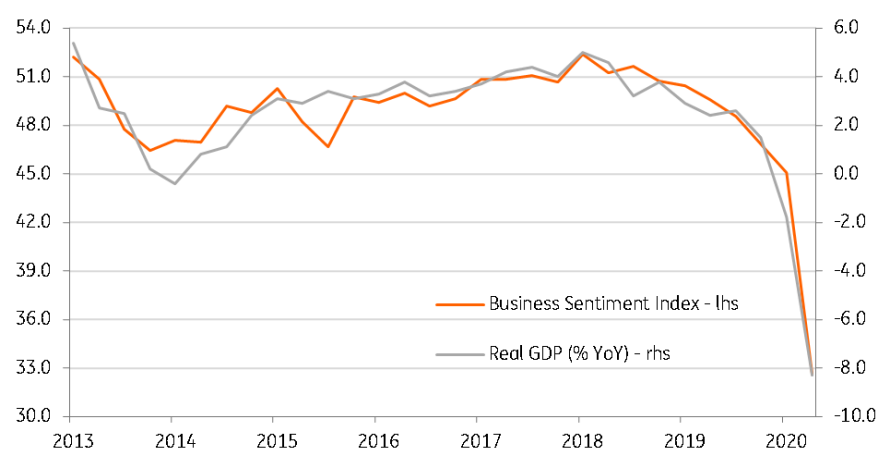
It doesn't stop here

There will be an even bigger drop in GDP growth in the current quarter resulting from an extended state of emergency, initially imposed for a month starting 26 March and now lasting through the end of May. The impact stands to be compounded by similar restrictions pretty much everywhere in the world, depressing external demand for Thai goods as well as tourism.

Look no further than the confidence indicators for the depth of GDP decline this quarter. The Bank of Thailand's Business Sentiment Index is a good guide (see figure). A record low BSI of 32.6 in April is consistent with our forecast of over 8% GDP fall in 2Q.

We maintain our full-year 2020 growth forecast of -5.4%. This is consistent with the government's forecast of a 5-6% GDP fall this year, which has just been revised today from an earlier view of 1.5-2.5% growth.

Weak confidence, weak GDP



Source: CEIC, ING

A 25bp BoT rate cut this week

Three stimulus packages announced so far, adding up to 15% of GDP in fiscal and monetary stimulus, puts Thailand among the ranks of countries going all out to help their economies withstand the Covid-19 storm. We estimate nearly half of this as real fiscal spending (cash handouts, social rehabilitation, and tax cuts), with the rest being monetary support (soft loans, market stabilisation funds, etc.).

The Bank of Thailand meets this week, on Wednesday, 20 May. A 25 basis point policy rate cut to 0.50% looks to be a done deal following what just happened to GDP. The question is whether the central bank will do more than that given the unprecedented crisis at hand. We don't rule out a 50 basis point cut, which would be warranted by the accelerated consumer price declines in recent months.