

press release

Standard Chartered Bank: Thai Central Bank Likely to Keep Policy Rate on Hold Near-Term, Cut in Q3

- We are conservative on the economic outlook, maintaining our 2020 growth forecast at 5% contraction (Q2: 13% contraction on year)
- We expect a further 25bps rate cut in Q3 (after an expected hold in June), taking the policy rate to 0.25%
- Bank of Thailand has limited policy room; potential monetary policy alternatives have not been clearly communicated

28 May 2020 - Thailand – Standard Chartered Bank remains conservative on Thailand’s economic outlook even as positive signs emerge with the possibility of further rate cuts to below 0.25% intact.

A return to pre-COVID levels of economic activity could take more than two years on the back of improving business sentiment as the economy reopens, and the government has been disbursing cash handouts to COVID-affected households since April.

Standard Chartered Bank has forecast Thailand’s 2020 GDP to contract by 5.0%, with a sharp contraction of 13.0% in the second quarter, followed by a gradual recovery in the second half of this year.

“The export sector is showing signs of recovery and should benefit from China’s resumption of activity and the easing of lockdowns in other markets. Data released in June is likely to confirm a domestic demand recovery after Thailand’s reopening in May; however, we expect the pace of recovery to be slow,” said Dr. Tim Leelahaphan, Economist, Standard Chartered Bank (Thai).

“Investment is unlikely to recover until next year or later as COVID-19 is likely to exacerbate existing delays in private and government investment and initiatives, keeping the economy below potential.”

In addition, some non-essential sectors were already operating well below capacity in March, even before Thailand imposed a full lockdown. The full impact of COVID-19 on Thailand’s economy is likely to be felt in the second quarter.

Thailand’s first quarter Gross Domestic Product contracted by 1.8% on year (2.2% contraction on quarter, seasonally adjusted) versus the consensus of a 3.9% contraction on year (4.2% contraction on quarter). This was the first year-on-year contraction since early 2014.

Further Rate Cuts to Below 0.25% is Possible

We expect another 25bps rate cut in the third quarter, taking the policy rate to 0.25%. We also do not rule out further policy rate cuts to below 0.25%, however. Negative rates are unlikely but not off the table, added Tim.

Economic growth is far below Thailand’s potential rate of 4%, and headline inflation is below the Central Bank’s 1%-3% target range.

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