

press release

Standard Chartered Bank Expects Bank of Thailand to Keep Policy Rate Unchanged in 2H2019; New Government's Policies in Focus

26 July 2019, Bangkok – Standard Chartered Bank expects the Bank of Thailand (BoT) to keep its policy rate unchanged at 1.75% for the rest of 2019 while the policies of the new government and passage of the fiscal year 2020 budget will be in focus.

“Thailand will continue to face uncertainty from both domestic and external factors in the second half of 2019. The stability of the new government and its ability to govern will be closely watched. They could become positive factors if these turn out to be favourable to the economy,” said Dr. Tim Leelahaphan, Economist, Standard Chartered Bank (Thai).

“On the economic front, we expect a slowdown in domestic activity, exports and tourism in the third quarter of this year, while Thailand’s strength in private consumption is unlikely to offset the lackluster investment and trade-war impact.”

The Bank of Thailand has raised its policy rate only once since 19 December 2018.

“We expect the BoT to stay on hold this year, but to resume normalisation in 2020 to contain risks to financial stability, with room for some policy manoeuvre,” added Dr. Tim.

Standard Chartered Bank expects one 25bps hike in 2020, taking the bank’s end-2020 policy rate forecast to 2.0%.

For the rest of 2019, central banks have turned more dovish, led by the Federal Reserve; Standard Chartered Bank recently adjusted its Fed call to two rate cuts this year (in July and December) from none previously.

The US-China trade war continues, despite the resumption of talks following the G20; as a result, Thailand’s external balance is likely to remain under pressure for the rest of this year. (In the first five months of 2019, exports fell 3% y/y. Tourist arrivals rose only 2%, with arrivals from China falling 4%.)

Pressure against a rate hike is also likely to intensify given the faster pace of the Thai baht’s (THB) appreciation relative to its peers. In this context, Standard Chartered Bank expects some dissenters on the Monetary Policy Committee (MPC) to start calling for a rate cut at meetings for the rest of 2019. However, this is expected to be a minority view.

“Economic growth remains resilient, although we see downside risks from trade – we (and the BoT) forecast GDP growth at 3.3% this year. We think the BoT is likely to use measures other than interest rates to deal with the currency’s strength that may be the result of speculative activity in the markets,” said Dr. Tim.

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