



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 1/2020

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 5 February 2020 as follows.

**The Committee voted unanimously to cut the policy rate by 0.25 percentage point from 1.25 to 1.00 percent effective immediately.**

In deliberating their policy decision, the Committee assessed that the Thai economy would expand at a much lower rate in 2020 than the previous forecast and much further below its potential due to the coronavirus outbreak, the delayed enactment of the Annual Budget Expenditure Act, and the drought. Headline inflation was projected to be below the lower bound of the inflation target throughout the forecast horizon. Financial stability became more vulnerable due to the prospect of economic slowdown. In this situation, there was an urgent need to coordinate monetary and fiscal measures. The Committee viewed that a more accommodative monetary policy stance would alleviate the negative impacts. Monetary accommodation would also support liquidity provision and debt restructuring for businesses and households severely affected from the economic slowdown, both of which should be urgently implemented. The Committee thus voted to cut the policy rate at this meeting.

The Committee viewed that the Thai economy would expand at a slower rate in 2020 than previously forecasted and much further below its potential due to the outbreak of coronavirus, the delayed enactment of the Annual Budget Expenditure Act, and the drought that would affect a large number of related businesses and employment. Tourist figures were expected to grow at a much lower rate than the previous forecast. Exports of goods would decline in line with trading partner economies and potential impacts of regional supply chain disruptions. Regarding domestic demand, public expenditure would grow at a lower rate owing to the delayed enactment of the Annual Budget Expenditure Act which remained subject to high uncertainty. Furthermore, private consumption would be restrained by moderating household income in the services, agricultural, and manufacturing sectors as well as by elevated household debt. Consequently, the Committee would continue to monitor the downside risks from the coronavirus outbreak, the delayed budget disbursement, and the drought that could be more severe than previously assessed, together with trade tensions and geopolitical risks that remained highly uncertain.

The annual averages of headline inflation in 2020 and 2021 were projected to be below the lower bound of the inflation target throughout the forecast horizon due to (1) moderating core inflation resulted from subdued demand-pull inflationary pressures and (2) lower-than-expected energy prices in tandem with declined oil demand due to the coronavirus outbreak. However, fresh food prices were expected to increase slightly due to the drought.

Financial conditions over the previous period had been accommodative. Real interest rates remained low. Government bond yields declined. Liquidity in the financial system remained ample. Nevertheless, loans extended to businesses decelerated in tandem with the economic outlook. With regard to exchange rates, although the baht somewhat depreciated compared with trading partner currencies, the baht might not be consistent with economic fundamentals and would likely remain volatile. The Committee would closely monitor developments of exchange rates and capital flows amid high external uncertainties as well as the effectiveness of the relaxation of foreign exchange regulations to facilitate capital outflows. The Committee encouraged the Bank of Thailand to continue implementing additional measures in collaboration with the government and related agencies.

There were more vulnerabilities in the financial system, especially related to debt servicing capability of households and SMEs due to the prospect of economic slowdown. The Committee viewed that monetary and fiscal measures that were urgently implemented by the government and the Bank of Thailand directly targeted those vulnerabilities. The Committee would closely monitor the effectiveness of these measures. In addition, the Committee would also monitor (1) debt accumulation and debt servicing capability of households and SMEs, (2) search-for-yield behavior in the prolonged low interest rate environment, (3) growth in assets held by saving cooperatives and the interconnectedness among saving cooperatives, and (4) leverage by large corporates that might underprice risks. The Committee viewed that microprudential and macroprudential measures should be combined at the appropriate timing to ensure financial stability.

Looking ahead, the Committee would monitor developments of economic growth, inflation, and financial stability, together with associated risks, especially the coronavirus outbreak, the delayed enactment of the Annual Budget Expenditure Act, and the drought in deliberating monetary policy going forward. The Committee would stand ready to use policy tools as appropriate. In addition, the Committee would monitor structural problems that affect competitiveness and economic growth outlook, which should be firmly addressed by all related parties.

Bank of Thailand  
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