



BANK OF THAILAND

**BOT Press Release**

Communications and Relations Office, Corporate Communications Department  
Tel. +66 2283 5016-7 Fax. +66 2283 6969 www.bot.or.th

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Monetary Policy Committee's Decision 3/2020

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 20 May 2020 as follows.

**The Committee voted 4 to 3 to cut the policy rate by 0.25 percentage point from 0.75 to 0.50 percent effective immediately.**

In deliberating their policy decision, the Committee assessed that the Thai economy would contract in 2020 more than the previous assessment due to the more-than-expected contraction of the global economy along with the containment measures worldwide. Headline inflation would be more negative than previously assessed. Financial stability would be more vulnerable given the economic outlook. Most members viewed that more accommodative monetary policy would alleviate the negative impacts as well as reinforce the previously announced fiscal, financial, and credit measures. Nevertheless, three members voted to maintain the policy rate at this meeting, focusing on expediting the effectiveness of the announced financial and credit measures. The Committee as a whole agreed that financial institutions should work to ensure that debt restructuring, particularly for household and SME borrowers, be carried out on a wider scale. Furthermore, lending under the previously announced measures should also be accelerated to address liquidity problems in a targeted and timely manner.

The Thai economy would contract more than the previous assessment. Tourism and merchandise exports were affected by trading partners' economies more than expected. Meanwhile, domestic demand, both private consumption and private investment, would contract more than previously assessed due to higher unemployment and the containment measures. Nevertheless, financial and fiscal measures would help partly to alleviate liquidity problems of households and businesses as well as support the Thai economy to recover gradually. The Committee viewed that targeted and timely fiscal measures would remain vital to support employment and SMEs, and facilitate the economic recovery and potential growth going forward. Meanwhile, the annual average of headline inflation would be more negative in 2020 than the previous assessment due mainly to lower energy prices. Core inflation would remain subdued at low levels. The Committee would monitor uncertainties pertaining to the global economy and the COVID-19 outbreak abroad, the relaxation of containment measures and the likelihood of the second wave of outbreak in Thailand, as well as the effectiveness of the fiscal, financial, and credit measures, which would affect the recovery in the period ahead.

Financial markets exhibited stability after the Bank of Thailand implemented stabilization measures, including the establishment of the Corporate Bond Stabilization Fund (BSF). Government bond yields declined and corporate bond yields in the secondary market showed lower volatility.

Bond market functioning increasingly returned to normal. However, the Committee would monitor the situation of saving cooperatives which could be affected by corporate bond investments. Meanwhile, commercial bank loans expanded, especially large corporate loans, while consumer loans decelerated somewhat. The level of overall liquidity in the financial system remained ample. However, it was deemed important that liquidity be distributed to businesses and households affected by COVID-19. Commercial bank lending rates declined following the previous policy rate cut and the temporary reduction in the Financial Institutions Development Fund (FIDF) contribution. Regarding exchange rates, the baht appreciated against the US dollar and regional currencies. The Committee expressed concerns over the baht that could strengthen and affect the economic recovery. Therefore, developments in the financial markets and the foreign exchange markets warranted close monitoring.

The financial institution system remained sound. Commercial banks had robust capital fund and loan loss provision levels. Nevertheless, there remained a need to monitor the risks that may pose vulnerabilities to the stability of the commercial bank system in the period ahead, particularly defaults by businesses and households after the phase-out of liquidity support measures. The Committee viewed that financial institutions would thus need to accelerate debt restructuring for borrowers and expedite credit extension under various measures previously announced. The Committee also deemed it necessary for the Bank of Thailand and other related regulatory agencies to prepare measures for coping with the increasing risks if debt servicing capability of borrowers were to deteriorate more than expected, as well as to ensure sufficient liquidity and continuation of the well-functioning and stability of the financial institution system.

Looking ahead, the Committee would monitor developments of economic growth, inflation, and financial stability, together with associated risks, including external risks, the impacts of COVID-19 outbreak, and the adequacy of the fiscal, financial, and credit measures, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Bank of Thailand  
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For further information, please contact: Monetary Policy Strategy Division  
Tel: +66 2283 6186, +66 2356 7872  
E-mail: [MPStrategyDiv@bot.or.th](mailto:MPStrategyDiv@bot.or.th)