



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 5/2020

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

The Committee voted unanimously to maintain the policy rate at 0.50 percent.

In deliberating their policy decision, the Committee assessed that the Thai economy would gradually recover, in line with the relaxation of COVID-19 containment measures in Thailand and the gradual improvement in global economic activities, and would monitor risks of the second wave of the outbreak. Meanwhile, headline inflation would be negative this year but would return to the target in 2021 as previously assessed. Financial stability was more vulnerable given the economic outlook. The Committee viewed that the extra accommodative monetary policy since the beginning of the year as well as the fiscal, financial, and credit measures additionally announced helped alleviate adverse impacts and would support the economic recovery after the pandemic subsided, facilitate the return of inflation to the target, and reduce financial stability risks. The Committee thus voted to maintain the policy rate at this meeting. The Committee viewed that financial institutions should expedite debt restructuring for households and businesses to have a more widespread impact as well as accelerate lending under various measures to address liquidity problems in a targeted and timely manner.

The Thai economy would gradually recover in line with the relaxation of the containment measures in Thailand and the gradual recovery of global economic activities. Overall economic activities would take at least two years before returning to the pre-pandemic level. Nevertheless, recovery would significantly vary among economic sectors. Merchandise exports started to recover but remained at a low level. The number of foreign tourists would recover more slowly than the previous assessment. Nonetheless, the number of domestic tourists picked up owing partly to domestic tourism stimulus measures. Meanwhile, domestic demand, both private consumption and private investment, would contract as previously assessed. Employment and household incomes were severely affected by the economic contraction and would take time to recover. The Committee thus viewed that going forward government policies — namely, timely and targeted fiscal measures, continued accommodative monetary policy, as well as financial and credit measures to support liquidity — should continuously support employment and facilitate economic restructuring and recovery. The government policies should also include additional supply-side policies to support the changing economic structure, patterns of business operations, and labor skill development consistent with the post-COVID environment.

The annual average of headline inflation edged up somewhat following increasing crude oil prices but would remain negative in 2020. Core inflation would remain subdued at a low level.

However, headline inflation would rise toward the target in 2021 in tandem with gradually rising crude oil prices and the economic recovery. Medium-term inflation expectations remained anchored within the target.

Commercial bank lending rates and government bond yields remained at low levels, whereas corporate bond spreads remained high. Commercial bank loans expanded on the back of large corporates borrowing to substitute for bond issuance. Meanwhile, SME and consumer loans decelerated despite some reliefs provided by the loan repayment holiday. With the level of overall liquidity in the financial system remaining ample, the Committee deemed it important that liquidity be better distributed to affected businesses and households. Regarding exchange rates, volatilities of the baht were higher than in the previous meeting. The baht appreciated over the most recent two weeks due to the depreciation of the US dollar. The Committee viewed that if the baht were to appreciate rapidly, the economic recovery could be affected. Therefore, the Committee would closely monitor developments in foreign exchange markets as well as assess the necessity of implementing additional appropriate measures.

The financial system remained sound despite increasing vulnerabilities given the economic outlook. Commercial banks had robust capital fund and loan loss provision levels. Nevertheless, there remained a need in the period ahead to cope with the impacts from the highly uncertain COVID-19 situation and the increased risks from deteriorating debt service capability of businesses and households. The Committee viewed that commercial banks should expedite debt restructuring for retail borrowers and businesses to be in line with the income stream and debt service capability in the post-COVID environment. Banks should accelerate credit extension under various measures such as the provision of soft loans, credit guarantee facilities by the Thai Credit Guarantee Corporation, and lending facilities by specialized financial institutions.

Looking ahead, the Committee would monitor developments of economic growth, inflation, and financial stability, together with associated risks, including external risks, the impacts of the COVID-19 pandemic, and the effectiveness 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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