BANK OF THAILAND
BOT Press Release
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Monetary Policy Committee's Decision 6/2020

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 23 September 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 contract in 2020 slightly less than the previous forecast, but would expand in 2021 at a lower rate than previously forecasted mainly due to the slow recovery of foreign tourist figures. The Committee would also monitor risks of the second wave of the outbreak. Meanwhile, headline inflation would be less negative this year than the previous assessment and would rise gradually in 2021. 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 meaningful impact.

The Thai economy would contract in 2020 slightly less than previously forecasted, but would expand in 2021 at a lower rate than the previous forecast mainly due to the slow recovery of foreign tourist figures. Domestic demand, both private consumption and private investment, were expected to improve somewhat while the labor market remained fragile. Employment and household incomes remained weak and would take time to recover, which would result in deteriorating household debt service capability and in turn affect private consumption in the period ahead. Overall economic activities would take at least two years before returning to the pre-pandemic level. Nevertheless, the recovery would significantly vary among economic sectors and firms in different segments. The Committee thus viewed that going forward government policies from various agencies needed to be more targeted and timely. Such policies should continuously promote employment, economic restructuring, and economic recovery. Policy coordination among government agencies would be crucial to ensure coherent and consistent measures, namely, fiscal measures as the main driving force of the economy, together with continued accommodative monetary policy, as well as financial and credit measures to support liquidity. The government policies should emphasize on supply-side policies to support the changing economic structure, patterns of business operations, and labor skill development consistent with the post-COVID environment in order to ensure a sustained economic recovery.

The annual average of headline inflation would be less negative in 2020 than the previous assessment on the back of increasing energy prices as demand rose after the relaxation of COVID-19 containment measures. Core inflation would remain subdued at a low level. However, given the economic recovery, headline inflation would gradually rise and stay close to the lower bound of the target range in 2021. Medium-term inflation expectations remained anchored within the target.

Commercial bank lending rates and government bond yields remained at low levels. Meanwhile, corporate bond spreads started to decrease for bonds with high credit ratings. Commercial bank loans expanded on the back of large corporate and retail loans. Meanwhile, contraction in SME loans improved owing partly to government credit measures and 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, although the baht depreciated against the US dollar and most regional currencies since the previous meeting, 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 a wide extent and accelerate lending under various measures to address liquidity problems in a targeted and timely manner consistent with business restructuring.

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
23 September 2020

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Outlook of the Thai Economy

	2019*	2020E	2021E
GDP Growth	2.4	-7.8	3.6
		(-8.1)	(5.0)
Headline Inflation	0.7	-0.9	1.0
		(-1.7)	(0.9)
Core Inflation	0.5	0.3	0.2
		(0.0)	(0.1)

* Outturn, E Estimation

( ) *Monetary Policy Report*, June 2020

- The Thai economy would contract in 2020 slightly less than the previous forecast, but would expand in 2021 at a lower rate than previously forecasted mainly due to the slow recovery of foreign tourist figures.
- Headline inflation would be less negative this year than the previous assessment and would gradually rise and stay close to the lower bound of the target range in 2021.
- Economic and inflation forecasts would be subject to high uncertainties and downside risks.

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Details of the forecasts

(% YoY)	2019*	2020E		2021E	
		Jun 20	Sep 20	Jun 20	Sep 20
GDP Growth	2.4	-8.1	-7.8	5.0	3.6
- Private Consumption	4.5	-3.6	-3.5	2.5	2.0
- Private Investment	2.8	-13.0	-11.4	5.6	4.2
- Government Consumption	1.4	3.8	3.4	3.1	5.1
- Public Investment	0.2	5.8	8.8	14.1	11.4
- Exports of Goods and Services	-2.6	-22.7	-21.2	8.4	4.3
- Imports of Goods and Services	-4.4	-18.9	-16.6	7.3	4.4
Current Account (Billion USD)	38.4	15.5	14.0	20.2	14.6
- Value of Merchandise Exports	-3.3	-10.3	-8.2	4.5	4.5
- Value of Merchandise Imports	-5.6	-16.2	-13.7	4.1	4.4
Headline Inflation	0.7	-1.7	-0.9	0.9	1.0
Core Inflation	0.5	0.0	0.3	0.1	0.2
Forecast assumptions					
- Number of tourists (Million)	39.8	8.0	6.7	16.2	9.0
- Dubai oil price (USD/Barrel)	63.5	35.1	41.5	37.0	45.8

Note: *Outturn, E Estimation

- **The impacts of the COVID-19 pandemic were severe globally. The recovery of tourism and merchandise exports** in the period ahead remained highly uncertain.

- **Domestic demand, both private consumption and private investment**, were expected to improve somewhat, while the labor market remained fragile and would take time to recover.

- **Recovery would significantly vary** among economic sectors and firms in different segments.

- **Government policies from various agencies needed to be more targeted and timely.** Policy coordination among government agencies would be crucial to ensure coherent and consistent measures.