

Bank of Thailand lowers the policy rate to a new record low at 1.0%

- **On Feb 5th, the MPC voted unanimously to lower the policy rate to 1.0% from 1.25%** following the two cuts (in August and November 2019), three cuts in the last five MPC meetings. **(Chart 1)** The rate cut was correctly anticipated by 14 out of 29 analysts in a Bloomberg survey **(ourselves included)**.
- **The Thai central bank cited the impacts from coronavirus outbreak, the delay of government budget approval and the severe drought as primary concerns.** The economy is now expected to grow by much less than the previous BOT forecast of 2.8%. Tourism sector would be hardest hit– with the sector accounting for roughly a fifth of GDP.
- **The hit to the economy especially from the coronavirus outbreak prompted the government to introduce new stimulus measures yesterday** such as an excise tax cut on jet fuel and a three-month extension to the deadline for personal income tax filing. The new excise tax will be drastically reduced from THB4.73 to THB0.02 per liter, effective until the end of September. In addition, state-owned banks has also allocated THB123 bn (USD4 bn) for providing soft loans to tourism-related business operators as well as fee cuts and debt payment period extension. In addition, tax benefits will also be given to local seminar promotion and hotel upgrades. These measures will likely, to some degree, increase cash flows to businesses and households, support tourism sector and underpin consumption in the coming quarters.
- **We also revised down our GDP growth projection for 2020 to 2.3% from 2.8%**, on the back of a sharp drop of tourist arrivals, unexpected delays to government budget approvals and the impacts of the worst drought in several decades. The rapid deterioration in the outlook for the Thai economy has also dented consumer confidence and kept business sentiment subdued. **(Chart 2)**
- **Despite narrowing monetary policy space, we reckon that the BOT may have lower the policy again soon if the impacts from the virus outbreak turns out to last longer than anticipated.** In our view, it might take until the end of Q2 before the disruption to travel and tourism dissipates. We have seen several large business conferences are being postponed indefinitely in Thailand as the spread of the virus has yet to be contained. That said, it is still too early to assess the full-blown impacts of the virus outbreak on the Thai economy.

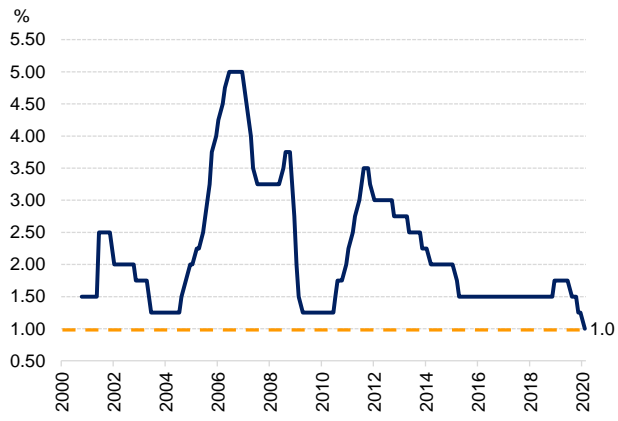
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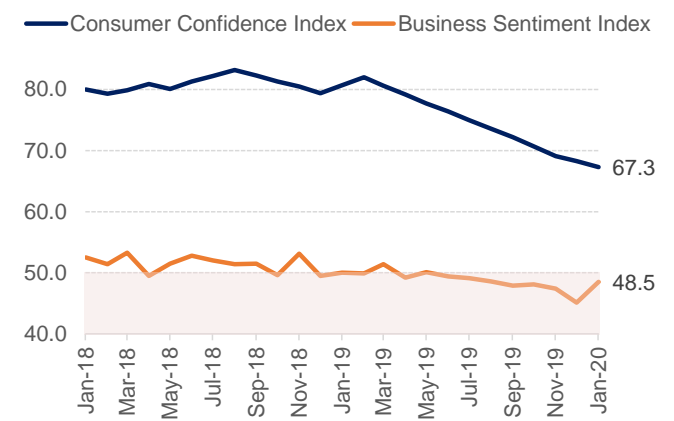
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Chart 1: BOT Policy Rate



Source: Bank of Thailand

Chart 2: Consumer Confidence and Business Sentiment Indices



Source: Chamber of Commerce, Bank of Thailand

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