

Thailand Watch

The BoT strikes back

BoT Policy Brief—No big surprise

The Bank of Thailand (BoT) arranged a 'Policy Briefing' forum today to provide explanations behind policy deliberations, amid criticism and political pressure for policy rate cuts. As expected, the BoT reiterated its policy stance as appropriate and consistent with growth and the inflation outlook while accounting for financial stability risks. The meeting signaled no early rate cuts, nor an emergency Monetary Policy Committee (MPC) meeting.

Growth recovery intact, with structural drags

Piti Disyatat, the MPC secretary, provided a brief assessment on the Thai economic outlook. Growth recovery remained intact, but is slower than expected due to several structural problems that constrain Thai economic growth post-COVID. Particularly, the tourism and export sectors that have been key growth drivers for the country, have been disappointing as external headwinds and Thailand's loss of competitiveness started to manifest. Disyatat noted that the interest rate policy may not be the right tool to address structural issues hindering growth.

Disinflation was mostly supply-driven

The BoT emphasized that the recent negative readings of headline inflation were not a sign of deflation risk. Most of the decrease in the price level was due to government subsidies and a drop in energy prices. The BoT viewed that the supply-driven lowering of inflation should be welcomed as it would help alleviate the cost of living of the Thai people. Meanwhile, medium-term inflation expectations remained anchored at levels consistent with the policy target.

Too-low interest rates may add to financial stability risks

The BoT has been concerned about financial stability risks especially pertaining to household debt problems. Piti Disyatat stated that too-low interest rates may lead to search-for-yield behavior (e.g. non-rated bond issuance) and encourage households to build up more debt, contributing to more financial imbalances in the economy. On the other hand, lowering interest rates may not be the right cure to debt serviceability problems. Financial measures and debt restructuring should be more appropriate tools.

On the right track

Piti stressed that monetary policy has been steering in the right direction and the policy stance has been consistent with the growth, inflation and stability outlook assessments. In fact, the current policy rate level remains low compared to major economies.

No early rate cuts

Our take is that this meeting only reiterates the rather hawkish stance of the MPC and it does not signal early rate cuts. Given persistently low core inflation, weak domestic demand, and loan growth contraction, monetary policy may have already been overtightened. However, we think the earliest cut we could expect from the MPC would be in 2H24, especially if there is no sizeable stimulus and recovery is proven to be worse than expected.

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