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Monetary Policy Committee (MPC) decision to maintain the policy rate at 0.5 percent

According to the Covid-19 pandemic, it affects not only the world economy but also Thai economy. In this period, our economy has been in the downturn. Some experts said that it takes years for Thai economy to recover as the pre-Covid-19 pandemic. Therefore, Monetary policy committee have to take their response to this issue by maintaining the policy rate at 0.5 percent

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support economic recovery while placing emphasis on more targeted measures. The Committee assessed that despite the recent better-than-expected outturn, the Thai economy would recover slowly and need support from the continued low policy rate. Nonetheless, the economic recovery would remain fragile and highly uncertain. The Committee thus voted to maintain the policy rate. The Thai economy in the third quarter of 2020 improved. Overall economic activities were projected to take approximately two years before returning to the pre-pandemic level. As a result, the labor market would remain fragile. This would in turn weigh on private consumption, following a phase-out of temporary supporting factors. Public expenditure was expected to be lower than previously assessed. The financial system remained sound, despite increasing vulnerabilities given the economic outlook and risks to the financial positions of businesses and households.

Meanwhile, headline inflation would be less negative in line with increasing energy prices and would stay close to the lower bound of the target range in 2021. In spite of ample liquidity in the financial system and low financing costs, some businesses, especially SMEs, and households in need of liquidity have not gained access to credits. The baht appreciated rapidly against the US dollar due to risk-on sentiment following the US presidential election outcome and the progress of COVID-19 vaccine development. The Committee expressed concerns over the rapid appreciation of the baht as this affected the fragile economic recovery. Therefore, the Committee would monitor developments in foreign exchange markets and capital flows. The Committee viewed that policy coordination among government agencies would be critical to support the economic recovery going forward. Monetary policy must remain accommodative. Financial and credit measures should expedite liquidity distribution to the affected groups in a targeted and timely manner, and financial institutions should accelerate debt restructuring to have a broader impact. Under the monetary policy scheme with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee continued to put emphasis on supporting economic recovery. The Committee would monitor the adequacy of the government measures and various risks, including domestic political uncertainties, progress of protocols for admitting foreign tourists, and financial position of businesses and households, in deliberating monetary policy going forward. All 20 economists in a Bloomberg survey expect the Bank of Thailand to keep its key rate at 0.5% on Wednesday, after lowering it by 75 basis points earlier this year.

Here’s what to watch for in Wednesday’s decision:

Baht Concerns

The central bank will likely reiterate its concern that baht strength could hinder the recovery and that the bank needs to weigh additional measures to restrain it. The baht has gained 3.4% against the U.S. dollar over the past month as foreign inflows resumed into local stocks and bonds, trimming its decline on the year to 0.6%. “Besides some verbal intervention to calm baht bulls, the central bank might reiterate plans to ease overseas investment rules, which has been set for early 2021," said Radhika Rao, an economist at DBS Group Holdings Ltd. in Singapore. "Any policy rate-related response is unlikely, with current levels already at record lows and diminishing utility for the currency from further easing."

The government wants the central bank to temper the baht rally, which has driven the currency to 10-month highs against the dollar, threatening exports. Thai Finance Minister Arkhom Termipittayapaisith said Monday he'd discuss with the central bank what measures might be needed to restrain the currency.

Growth Forecast

Due to review its 2020 growth forecast next month, the central bank may give some indication Wednesday of whether it intends to alter its current prediction that GDP will contract 7.8% this year. Earlier this week, the state planning agency raised its forecast to a 6% drop, which would mean the Thai economy performed better in 2020 than during the 1998 Asian financial crisis. The Finance Ministry has indicated it will revise its own GDP forecast in January. Data Monday showed GDP shrank 6.4% in the third quarter compared to a year earlier, recovering from the 12.1% contraction at the peak of the outbreak. Almost all of Thailand's economic indicators other than tourism improved in the third quarter, according to the National Economic and Social Development Council, with government spending expected to remain the main driver of growth into 2021. Seeking to boost local demand, Prime Minister Prayuth Chan-Ocha has spent hundreds of billions of baht in cash handouts and stimulus measures from a 1.9 trillion-baht ($63 billion) economic package.

Fiscal Calls

With the benchmark rate already so close to zero, the central bank has said fiscal policy must take the lead in driving further recovery. Government policies "needed to be more targeted and timelier. Such policies should continuously promote employment, economic restructuring, and economic recovery," the bank said at its last meeting. The government "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."

In conclusion, Monetary Policy Committee to maintain the policy rate at 0.5 percent will help relive the bad situation. Moreover, the less of the government in this period will also help the Thai economy. By the way, the news on the upcoming vaccine is going to make the current situation better. Plus, The Committee would monitor the adequacy of the government measures and various risks, including domestic political uncertainties, progress of protocols for admitting foreign tourists, and financial position of businesses and households, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

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