

Thailand Unexpectedly Cuts Rate After Growth Forecast Cut

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Suttinee Yuvejwattana

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Thailand's central bank unexpectedly cut its benchmark interest rate for a second straight meeting, roiling markets already digesting a reduction in the 2015 economic growth forecast.

The Bank of Thailand lowered its one-day bond repurchase rate by a quarter of a percentage point to 1.5 percent on Wednesday, a move predicted by only two of 20 economists in a Bloomberg survey. The baht slid as much as 0.6 percent, and the benchmark SET index fell as much as 1.2 percent, heading to its lowest close since March 31.

The central bank is using a "strong dose of medicine" because exports may contract, hurting private investment and consumption, which can't be offset by a rebound in tourism and government spending, Assistant Governor Mathee Supapongse said. The finance ministry earlier lowered its forecast for gross domestic product growth this year to 3.7 percent from an earlier estimate of 3.9 percent.

"This cut will not be the magic medicine to heal the Thai economy, which has very weak growth, but at least it will help bolster some confidence among consumers and businesses," said Arthid Nanthawithaya, chief executive of Siam Commercial Bank Pcl. "The rate cut will help weaken the baht and support our exports."

Outflows Rules

Monetary policy committee members voted five-to-two in favor of today's decision, and the central bank said it sees lower-than-estimated inflation and higher risks from the baht's strength on exports. It said it will hold a briefing on Thursday to issue more rules to accommodate outflows as part of an existing plan. It gave no other details.

The economy expanded at its weakest pace in three years in 2014 and has struggled to recover, with exports falling for a third month in March and consumer confidence dropping to a nine-month low. The finance ministry today lowered the 2015 export growth forecast to 0.2 percent from 1.4 percent.

“Thai exports face limitations this year because of the uncertainty in the global economic recovery, especially with China’s slowdown,” Krisada Chinavicharana, head of fiscal policy at the finance ministry, said before the decision. “We expect the economy to pick up in the second half because of government spending.”

Thai consumer prices fell for a third month in March. The last time Thailand experienced deflation in 2009, the benchmark rate was at 1.25 percent.

The Thai central bank joined at least 30 global peers in providing monetary stimulus this year after it unexpectedly cut borrowing costs last month. The government’s official forecaster, the National Economic and Social Development Board, last week reiterated its February estimate for the economy to grow 3.5 percent to 4.5 percent this year if exports recover.