FLASH

SCB EIC

SCB EIC expects the MPC to cut policy rate 2 times this year starting at the June Meeting

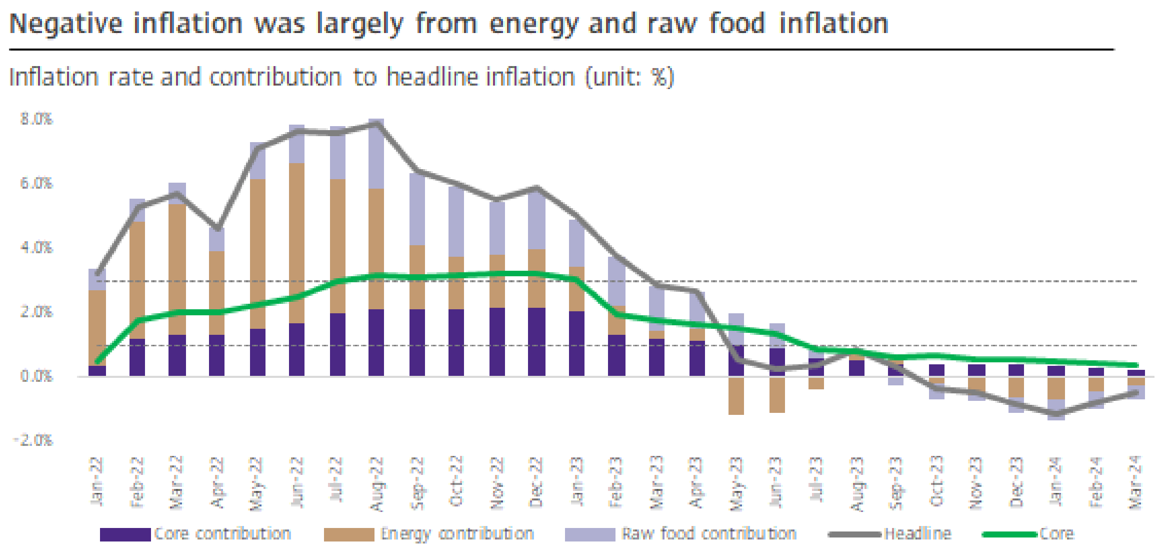
10 April 2024

SCB EIC expects the MPC to cut policy rate 2 times this year starting at the June Meeting

The MPC voted 5 to 2 to maintain the policy rate at 2.50%, while two members voted to cut the policy rate by 0.25%. The majority of the MPC deems that the current policy rate is conducive to safeguarding macro-financial stability, while also expressing concern on elevated household debt and recognizing the importance of debt deleveraging, which will help mitigate vulnerabilities in the macro and financial system in the long term. Meanwhile, two members voted to cut the policy rate to reflect Thailand's lower potential growth as a result of structural challenges and to partly alleviate debt-servicing burden of borrowers.

The MPC projects the Thai economy to grow at a higher rate than the previous year at 2.6% and 3.0% in 2024 and 2025, respectively. The MPC states clearly that the decline in Thai economic growth after the COVID-19 pandemic reflects the impact of structural headwinds of the economy's potential. On inflation, the MPC projects headline inflation at 0.6% and 1.3% in 2024 and 2025, respectively, in line with the decline in raw food prices and government subsidies (Figure 1). Headline inflation is expected to gradually increase towards the target range by the end of 2024. Moreover, the MPC assesses that the overall financial conditions remain stable, whereas some groups of SMEs and low-income households face tighter credit conditions. Looking ahead, the MPC expects uncertainties on the Thai economy to remain, particularly from export recovery, government budget disbursement, and fiscal stimulus measures, which should be closely monitored.

Figure 1: Headline inflation is expected to fall in line with the decline in prices of certain raw food items due to excess supply and government subsidies.



Source: SCB EIC analysis based on data from the Ministry of Commerce, Bank of Thailand, and CEIC

IMPLICATIONS

SCB EIC still expects the MPC to cut policy rate 2 times this year. Although the MPC voted to maintain the policy rate at 2.50% at this meeting, **another consecutive non-unanimous decision signaled a change in the monetary policy stance going forward.** Considering the outcome of the past MPC meetings, it suggests a trend of non-unanimous MPC decisions for several consecutive meetings to send signal to financial markets before the change in the policy rate (Figure 2). At this meeting, **the MPC communication remains focused on Thailand's lower potential growth as a result of structural impediments,** especially deteriorating competitiveness in the exports and manufacturing sectors, as well as global excess supply. In addition, dissenting MPC members voted to reduce the policy rate to reflect Thailand's lower potential growth as a result of such structural challenges, as well as to alleviate debt-servicing burden of borrowers.

Figure 2: Outcome of the past MPC meetings before the change in the poicy rate

Non-unanimous MPC decisions prior to shifts in monetary policy cycle

Number of votes (majority : minority)

Number of the meetings prior to the next cycle	2022 (tightening)	2018 (tightening)	2015 (loosening)	2013 (loosening)
4	7 : 0	5 : 1*	5 : 0*	7 : 0
3	7 : 0	6 : 1	6 : 1	7 : 0
2	7 : 0	5 : 2	5 : 2	6 : 1
1	4 : 3	4 : 3	5 : 2	5 : 1*
0	Rate hike (Aug-22)	Rate hike (Dec-18)	Rate cut (Mar-15)	Rate cut (Nov-13)

Note: *Some members were absent.

Considering only the up and down cycles of the policy rate that were not in response to major shocks like COVID-19. Prior to the policy rate increase or decrease, the policy rate must have been maintained for at least 4 consecutive meetings.

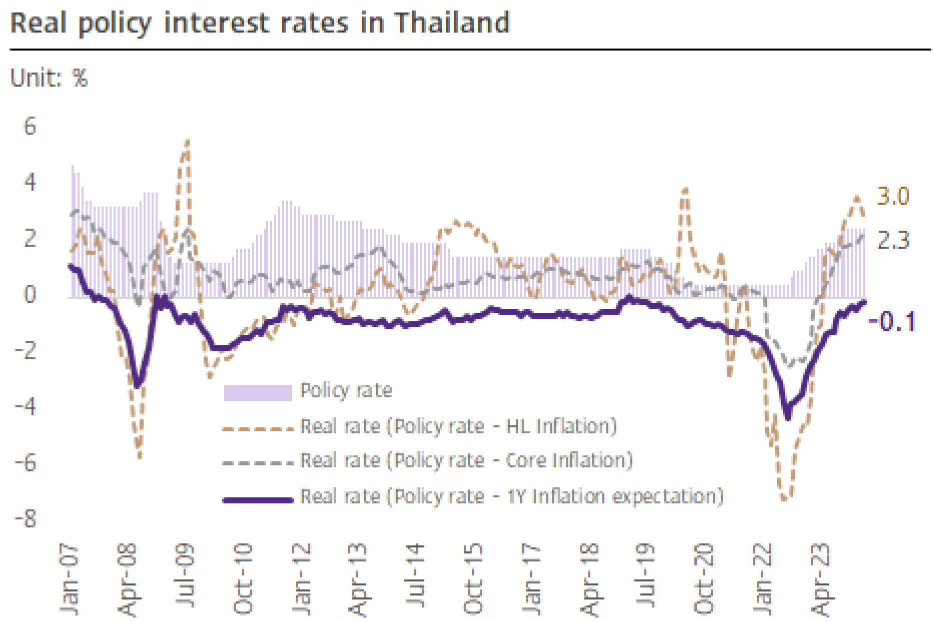
Source: Bank of Thailand

The MPC's view on the short-term economic outlook has not changed much from the previous meeting. However, dissenting MPC members provided an additional reason from the previous meeting for the policy rate cut, stating that "it would help to alleviate debt-servicing burden of borrowers". **SCB EIC thus expects the MPC to "recalibrate" the monetary policy and reduce the policy rate at the next meeting in order to maintain its neutral stance.** Such neutral stance means setting the policy rate at the level that neither stimulates nor hinders the economic growth from its newly assessed potential. The current policy rate is considered higher than the level consistent with the downward-revised economic growth potential. In addition, SCB EIC estimates the neutral rate for the Thai economy at 2.13%. Meanwhile, the current real interest rate, when evaluated using 1 year-ahead inflation expectation, is approaching a level higher than in the past. This signals a tightening of monetary policy (Figure 3).

Short-term economic and inflation figures are expected to have little impact on the MPC decision. This is because the MPC deems that the policy rate cut has limited effectiveness in resolving structural impediments that led to low economic growth during the post-COVID-19 period. The MPC also deems that the persistent negative inflation in the recent period does not reflect weakness in domestic demand and that inflation will gradually return to the target range by the end of this year. However, at this meeting, the MPC places weight on financial stability given concerns on elevated household debt (Figure 4). The MPC judges that low interest rates will increase long-term vulnerabilities of the economy by stimulating unsustainable debt creations, even though they may help reduce debt-servicing burden in the short term. In addition, the MPC emphasizes the importance of continuity of debt deleveraging process and states that monetary policy has limited effectiveness in addressing problems for some businesses and households that are currently facing tighter credit conditions. The MPC therefore supports Bank of Thailand's targeted measures through financial institutions, particularly the Responsible Lending measures.

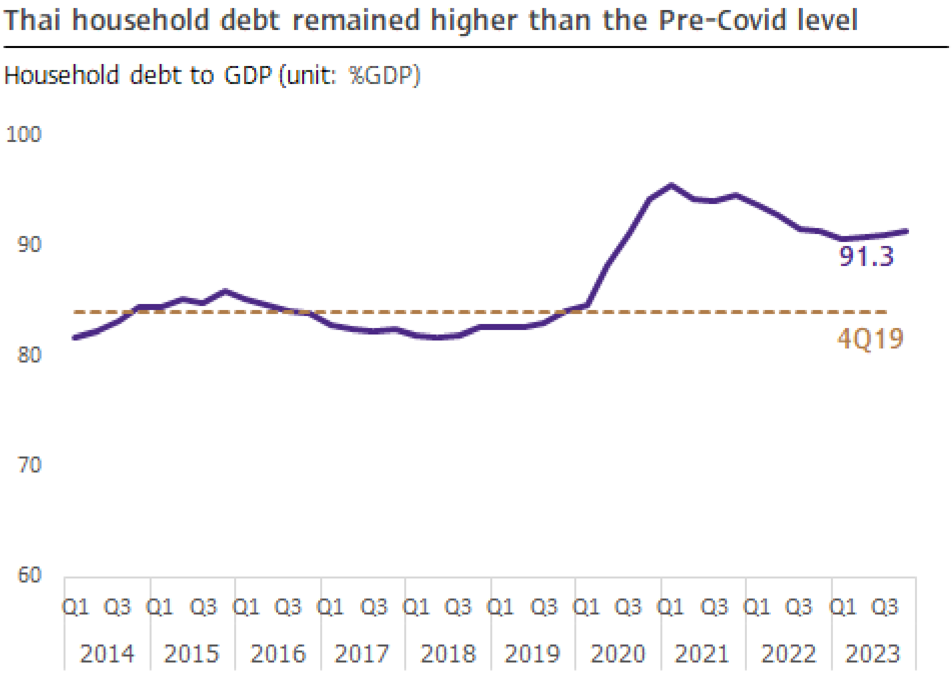
In summary, SCB EIC assesses that the MPC's continued non-unanimous votes and the downward trajectory of Thailand's long-term economic potential indicate that **the MPC is likely to reduce the policy rate twice this year, as previously forecasted, to maintain its neutral stance. The first rate cut is expected to occur at the next MPC meeting in June, followed by another cut in August, bringing the policy rate to 2%.**

Figure 3: Thailand's real policy rate is approaching the level higher than in the past



Source: SCB EIC analysis based on data from the Ministry of Commerce, Bank of Thailand, and CEIC

Figure 4: Thailand's household debt remains elevated



Source: Bank of Thailand

Author

THITIMA CHUCHERD, Ph.D. (thitima.chucherd@scb.co.th)

HEAD OF MACROECONOMICS RESEARCH

POONYAWAT SREESING, Ph.D. (poonyawat.sreesing@scb.co.th)

SENIOR ECONOMIST

ECONOMIC AND FINANCIAL MARKET RESEARCH

SOMPRAWIN MANPRASERT, Ph.D.

First Executive Vice President, Chief Economist at Economic Intelligence Center (EIC), Siam Commercial Bank and FEVP, Chief Strategy Officer at Siam Commercial Bank.

THITIMA CHUCHERD, Ph.D.

HEAD OF MACROECONOMICS RESEARCH

POONYAWAT SREESING, Ph.D.

SENIOR ECONOMIST

NOND PRUEKSIRI

SENIOR ECONOMIST

VISHAL GULATI

SENIOR ECONOMIST

ASAMA LIAMMUKDA, Ph.D.

ECONOMIST

NATHAPONG TUNTICHIRANON

ECONOMIST

PUNN PATTANASIRI

ECONOMIST

NATNICHA SUKPRAWIT

ECONOMIST

“Economic and business intelligence for effective decision making”

ECONOMIC INTELLIGENCE CENTER

Siam Commercial Bank

In-depth:
Economics Indicators

Impact:
Business Briefs

Update:
Stories that Matter

Stay connected

Find us at

@scbeic

www.scbeic.com