Edited Minutes of the Monetary Policy Committee Meeting (No. 1/2025)
21 and 26 February 2025, Bank of Thailand
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Members Attending

Sethaput Suthiwartnarueput (Chairman), Piti Disyatat (Vice Chairman), Alisara Mahasandana, Paiboon Kittisrikangwan, Rapee Sucharitakul, Roongrote Rangsiyopash, and Santitarn Sathirathai

Economic assessment

The Secretariat of the MPC assessed that the Thai economy slowed more than expected in 2024. Although domestic demand, tourism, and merchandise exports continued to expand, these factors provided limited support to the manufacturing sector. This was partly due to a substantial inventory drawdown and an increase in imports. Looking ahead, **the Thai economy was projected to expand at a rate slightly above 2.5 percent in 2025, which was lower than the previous assessment due to persistent structural challenges and heightened competition in the manufacturing sector, as well as the impact of U.S. trade policies that had already been implemented[1].** The automotive, petrochemical, and construction materials industries remained hindered by structural impediments and intensified competition from imported goods. Meanwhile, the service and tourism sectors continued to expand.

The economic recovery became more uneven across sectors. The service sector continued to expand robustly — particularly tourism-related services — as well as merchandise exports of electronic goods, which benefited from the electronics cycle. **Conversely, manufacturing sectors facing structural challenges, especially the automotive-related and real estate industries, showed further deterioration.** Despite some positive signs from the stabilization of used car prices, car production remained under pressure due to several factors: (1) competition from electric vehicle (EV); (2) weak domestic purchasing power; and (3) prudent lending policies for hire purchase loans in high-credit-risk groups by financial institutions. Meanwhile, the real estate market was projected to slow further due to weakened domestic purchasing power. At the same time, financial institutions adopted a more cautious approach to housing loans, following an increase in default rates, particularly among low- to middle-income groups. Consequently, it became necessary to closely monitor real estate businesses — especially small firms facing liquidity constraints and adaptation challenges — as well as construction contractors, most of whom were SMEs, to ensure a comprehensive assessment of the situation.

The Committee viewed that economic growth could be lower than previously anticipated, with higher risks going forward. This would be attributed to prolonged structural challenges in the manufacturing sector, the potentially severe impact of trade policies from major economies, and tightening financial conditions in certain businesses and households. Meanwhile, some Committee members considered that the economy might face greater risks than those estimated by the Secretariat. The automotive and real estate industries were expected to take time to recover, as reflected in low capacity utilization in the automotive industry and a high level of unsold inventory in the real estate sector. Additionally, several

[1] The measure to impose additional import tariffs on China by 10 percent, which was effectively implemented on 4 February 2025.

manufacturing industries faced heightened competition from low-priced imported goods — particularly SMEs, which struggled to adapt to structural challenges and faced constraints in accessing credit — as well as the potential intensification of competition in the period ahead. **Some Committee members expressed concerns that the service and tourism sectors, which had been the main drivers of economic growth, might provide less support to the overall economy compared to the past one to two years.** This was partly due to a slowdown in tourism growth, influenced by shifts in spending behavior, changes in the composition of tourists, and concerns regarding the long-term competitiveness of Thailand's tourism sector. **In this regard, the Committee agreed that the slowdown in Thai economic growth was primarily driven by structural factors, highlighting the need for supply-side restructuring policies to sustainably enhance economic potential.** These policies should include new investments aimed at enhancing efficiency and reducing costs, along with government support to facilitate the adjustment process.

From a demand-side perspective, the economy was expected to expand, primarily driven by private consumption. Consumption among high-income groups continued to grow, while low- to middle-income groups remained under pressure from uneven income recovery and a slowdown in consumer loans. **Some Committee members noted that recent private consumption had been driven by middle- and high-income households. However, these households might become more cautious in their spending going forward due to economic uncertainties and a decline in wealth following the depreciation in the value of the Thai stock market.** Merchandise exports were expected to increase, supported by technology products and agro-manufacturing goods. Private investment was projected to improve, bolstered by the substantial value of investment promotion certificates issued by the Board of Investment (BOI), particularly in the electronics and data center industries. However, **some Committee members observed that it was crucial to monitor the contribution of value-added from merchandise exports and foreign direct investment to the overall economy**, as it had been declining compared to the past. This decline was partly due to investments in low value-added industries, including data centers, as well as a higher import content in production.

Looking ahead, the Thai economy faced heightened risks from trade the policies of major economies. It could be further impacted by additional U.S. trade measures, including: (1) direct import tariff measures by country, with Thailand considered a high-risk country that could be subjected to tariff increases due to its sustained trade surplus with the U.S.; and (2) reciprocal tariff measures, which could affect Thai agricultural products and processed foods, given the substantial tariff differential between Thailand and the U.S.

U.S. trade policies remained highly uncertain in terms of structure, implementation timeline, and potential retaliatory measures by major economies. In a scenario where the U.S. raised import tariff on Chinese goods to 30 percent and imposed a 10 percent import tariff on goods from high-risk countries, including Thailand, Thai economic growth could decline by approximately 0.3 to 0.5 percentage points from the baseline. The impact would materialize in the second half of 2025 through the following channels: (1) a reduction in Thai merchandise exports to the U.S.; (2) a decline in Thai intermediate goods exports to China; and (3) intensified competition due to China’s oversupply in both export and domestic markets. However, this assessment remained highly uncertain, and the impact could be more severe if further trade retaliation measures were implemented.

Headline inflation was projected to stabilize around the lower bound of the target range due to supply-side factors. There was a possibility that headline inflation could fall below the target range during certain periods, driven by declining energy inflation in line with global crude oil prices, as well as structural factors such as heightened price competition from imported goods. Nevertheless, there were no indications of deflation, as: (1) inflation dynamics were primarily driven by supply-side rather than demand-side factors. Supply-side factors included global oil prices, which had not exhibited a persistent upward trend, and favorable weather conditions supporting agricultural production. Over the past 12 months, energy and fresh food prices contributed only 0.2 percentage points to headline inflation, significantly lower than the five-year average contribution of 1.0 percentage points; (2) the prices of goods and services did not show a broad-based decline, as more than three-quarters of the items in the inflation basket either increased or remained unchanged; and (3) medium-term inflation expectations remained stable within the target range. Looking ahead, there were downside risks to inflation stemming from: (1) the outlook for global energy prices, which could decline further due to weaker-than-expected global economic growth; (2) lower-than-expected fresh food prices, supported by favorable weather conditions; and (3) potential additional government support measures. **In the Committee's view, headline inflation stabilizing around the lower bound of the target range was not indicative of future deflation but instead helped alleviate costs of living, particularly for those experiencing a slow income recovery following the period of accelerated inflation.** Some members noted that China's overcapacity and the search for new markets by countries facing increased trade tariffs could intensify competition for Thai producers against cheaper imported goods, further pressuring the manufacturing sector and domestic prices.

<u>**Assessment of financial conditions and financial stability**</u>

Financial conditions remained tight due to a slowdown in loan growth, although overall loan growth and credit quality showed signs of stabilizing. Business loan growth was driven by large corporates, while SME loans — particularly in industries facing structural challenges — continued to contract. Additionally, SMEs faced further liquidity pressures due to deteriorating trade credit, with most experiencing longer receivable credit terms. Retail loans declined, partly due to households whose incomes had not fully recovered and who continued to face high debt burdens. It was crucial to monitor the outlook for loan growth and credit quality, particularly for SMEs and vulnerable households. **The ongoing process of household debt deleveraging continued,** helping to mitigate long-term financial stability risks.

The Committee expressed concerns over the absence of clear signs of credit recovery. Therefore, it was deemed necessary to closely monitor credit growth and quality, particularly SME and retail loans. Some members noted that the resurgence in loan growth at the end of the previous year might have been driven by specific factors, including an acceleration of lending activities by financial institutions to meet their targets. Additionally, the improvement in loan quality was partly due to the sale of non-performing loans and write-offs by financial institutions at the end of the year. **Some members also expressed concerns about the deterioration in loan quality among low-income groups, which could potentially extend to higher-income groups. A further decline in loan quality could prompt financial institutions to adopt more prudent lending practices,** particularly for housing and hire purchase loans. The Secretariat reported that financial institutions had begun exercising greater caution in granting higher-value housing loans, a development that required close monitoring.

Asset prices in global financial markets, including the baht against the U.S. dollar, had been volatile due to uncertainties in the economic outlook and the policies of major economies. However, after financial markets assessed that U.S. trade policies might not be as severe as initially expected, risky asset prices increased, and the U.S. dollar weakened. **The baht appreciated, driven by both external factors and specific domestic factors that influenced its movement at certain times.** Financing through the bond markets continued as usual; however, the rollover risk of high-risk issuers required close monitoring. Meanwhile, the Thai stock market index declined. **The Committee deemed it necessary to closely monitor developments in global financial markets that could impact the Thai financial market and contribute to baht volatility.**

Monetary Policy Consideration

- **The Committee judged that the balance of risks for monetary policy had shifted towards the economic outlook,** as: (1) the economy was likely to grow significantly below expectations and face increasing downside risks from the trade policies of major economies; (2) tightened financial conditions, while long-term financial stability risks had decreased due to the ongoing debt deleveraging process; and (3) headline inflation remained stable near the lower bound of the target range.
- **The majority of Committee members considered lowering the policy rate at this meeting to be an appropriate course of action.** The Committee members discussed and provided additional comments as follows:
    - **Most members deemed that lowering the policy rate would be consistent with the worse-than-expected economic outlook and heightened economic risks.** However, this was not intended as the start of an easing cycle. Additionally, some members noted that a rate cut would help cushion the economy in the event of lower-than-expected growth in the period ahead.
    - **Most members viewed that a lower policy rate would help ease tight financial conditions,** as evidenced by the slowdown in credit volume within financial institutions and bond markets, while not significantly increasing long-term financial stability risks. Moreover, some members viewed a lower policy rate as supporting the economy by alleviating debt burdens and facilitating business adjustments, in coordination with targeted measures such as the “Khun Soo, Rao Chuay” program, which played a crucial role in reducing the burden on vulnerable debtors.
    - **Most members deemed the policy rate of 2.00 percent would still provide sufficient policy space to address various potential scenarios.**
    - **Some members believed that lowering the policy rate to 2.00 percent remained robust in the face of future uncertainties**, without necessitating further monetary policy easing, as long as the economy did not encounter more severe shocks than expected.

- **One Committee member voted to maintain the policy rate at 2.25 percent, placing greater emphasis on preserving policy space to address heightened uncertainties going forward.** This member argued that adjusting monetary policy at the appropriate time would effectively cushion economic shocks, especially given Thailand's relatively limited policy space compared to other countries. **Regarding the economic outlook, this Committee member agreed with the majority that the economy was likely to grow at a slower pace than previously expected, primarily due to structural challenges in the manufacturing sector**, while overall demand was expected to remain strong. This was reflected in the economic data for the fourth quarter of 2024, where private consumption and exports exceeded expectations. Nevertheless, **monetary policy remains primarily a tool to manage demand and has limited effectiveness in addressing structural issues in the current economic context.**
- **The Committee agreed that the slowdown in the Thai economy was mainly driven by structural factors, which required supply-side restructuring policies** to enhance production efficiency and industry's competitiveness. Such measures would sustainably strengthen the economic potential.

<u>**Monetary Policy Decision**</u>

The Committee voted 6 to 1 to cut the policy rate by 0.25 percentage point from 2.25 to 2.00 percent, effective immediately. One member voted to maintain the policy rate.

Most members deemed it appropriate to cut the policy rate at this meeting to align financial conditions with the economic and inflation outlook, as well as financial stability, and to better address the increasing downside risks to the economy. Meanwhile, one member voted to maintain the policy rate, placing greater emphasis on preserving monetary policy space to manage heightened uncertainties going forward. Nevertheless, the Committee would closely monitor developments in the financial and economic outlook, particularly the trade policies of major economies that might impact the Thai economy.

Monetary Policy Group
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