Edited Minutes of the Monetary Policy Committee Meeting (No. 2/2025)
25 and 30 April 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

Global trade tensions intensified more than previously anticipated and remained at an early stage, marked by a high degree of uncertainty. Thus far, the primary economic impact had materialized through weakened consumer confidence and more cautious business investment decisions. However, the broader effects on overall economic activity had yet to become fully evident, in part due to the front-loading of imports and exports ahead of the implementation of higher tariff rates. Looking ahead, trade policies were expected to exert a more pronounced influence on the global economy, potentially inducing long-term structural shifts in global trade and production patterns, thereby reducing overall efficiency over time**.** Moreover, trade policy directions in major economies remained unpredictable, further complicating the assessment of economic and inflation outlooks.

The Thai economy was projected to expand at a slower pace than previously anticipated, with increased downside risks arising from global trade policies and a decline in the number of foreign tourist arrivals. Economic growth in the first quarter of 2025 was assessed to be lower than previously projected, primarily due to a decline in Chinese tourist arrivals amid safety concerns. At the same time, demand-side indicators continued to expand, supported by merchandise exports and private consumption. However, part of the recent increase in merchandise exports was attributed to inventory drawdowns, suggesting that the positive spillovers to industrial production may be limited in the periods ahead. **From the second half of 2025, global trade policies were expected to exert a more pronounced impact on the Thai economy through three main channels: (1) Exports**—primarily direct exports to the U.S., which accounted for approximately 18 percent of Thailand's total exports and 1.6 percent of GDP—were expected to face increasing pressure. Key affected sectors included agriculture and agricultural products, electrical appliances, and automotive parts. This channel also included indirect exports to third countries within global supply chains that ultimately had the U.S. as the final destination; **(2) Intensified competition** was expected, as global trade policies were likely to increase competitive pressures on Thai products. Other exporting countries might redirect their shipments to markets that overlapped with Thailand's, as well as increase shipments to the Thai domestic market. This was likely to place additional strain on manufacturing sectors that had yet to fully recover, such as textiles, furniture, electrical appliances, and electronic components; **(3) Private investment** was expected to decline due to heightened trade policy uncertainty, which could weaken business confidence. There remained a possibility of the relocation of production bases out of Thailand if Thai exports faced higher tariff rates than those of competing countries. In addition, private consumption was expected to soften, as the economic slowdown could affect consumer confidence and spending behavior, particularly among high-income groups, who had been a key driver of private consumption. Furthermore, trade policy developments in the U.S. were expected to contribute to a global economic slowdown, which could reduce global demand for goods and services, including those in Thailand's tourism sector.

Global trade policies remained highly uncertain, and the impact on the Thai economy depended significantly on the level of U.S. import tariffs imposed on Thai exports relative to those imposed on other U.S. trading partners, as well as potential retaliations between major economies and the U.S. These uncertainties made it increasingly challenging to assess the economic outlook. In light of this, the Committee called for economic assessments under multiple scenarios. For example, in a scenario where trade negotiations remained prolonged and U.S. import tariffs were maintained at levels close to current rates (the Reference Scenario: Lower Tariffs), the Thai economy was projected to grow by approximately 2.0 percent in 2025. In an Alternative Scenario (Higher Tariffs), where trade tensions escalated and U.S. import tariffs were set at higher rates, economic growth was projected at approximately 1.3 percent in 2025. The actual economic outcome, however, would depend on the specific trade policies implemented and the degree of adaptations by various countries. The Committee therefore emphasized the need to closely monitor global trade developments and their impacts on the Thai economy.

The Committee viewed that the impact of trade policies on the economy differed from that of previous economic crises, given the highly uncertain and prolonged nature of the current situation. The extent of the impact would depend significantly on Thailand's ability to adapt. The Committee therefore considered scenario analysis to be crucial in enabling the relevant public and private sectors to make informed decisions under various potential circumstances. In addition, global trade policies were expected to result in structural changes to the global economic, financial, and trade landscape, with long-term implications for the Thai economy. These included impacts on the country's competitiveness and the potential relocation of production bases by multinational corporations. Addressing these challenges and mitigating the impact of trade policies would require a combination of complementary measures aimed at enhancing the efficiency and competitiveness of the private sector under a rapidly changing global economic environment.

The Committee expressed concerns regarding the drivers of economic growth going forward, noting that the tourism sector—which had been a key engine of the Thai economy—might weaken. The decline in Chinese tourist arrivals in the first quarter might not have been solely attributable to safety concerns, but could also reflect shifts in tourist behavior and increased domestic tourism promotion by the Chinese government. In addition, a global economic slowdown resulting from ongoing trade tensions could dampen discretionary spending on tourism. The number of international tourist arrivals in Thailand might not return to the pre-pandemic peak of 40 million, recorded in 2019, within the next one to two years. Moreover, average tourist expenditure might decline relative to previous levels. Some members also expressed concern that global trade policies could exert a greater-than-expected impact on the Thai economy. This was due to persistent structural weaknesses in certain manufacturing industries, elevated household debt levels, and limited fiscal policy space.

The Committee further noted that downside risks to the economy could be greater than previously assessed. The extent of the impact of trade policies on economic prospects would depend on the tariff rates imposed on Thai exports relative to those applied to key

U.S. trading partners—particularly if Thailand were to face higher reciprocal tariffs from the U.S. than other countries, or if additional shocks were to emerge during this period. The Committee therefore emphasized the importance of closely monitoring ongoing trade negotiations and their potential impacts on the Thai economy.

Headline inflation was expected to remain below the target range in 2025 and 2026, primarily due to supply-side factors, including global energy prices and government energy measures. Core inflation had slowed slightly but showed no indication of leading to deflation or a prolonged period of negative inflation, as the prices of goods and services had not broadly declined. Approximately three-quarters of the items in the inflation basket either remained stable or increased in price, while medium-term inflation expectations remained anchored within the target range. Nevertheless, global trade policies could result in heightened price competition and a greater influx of lower-priced imported goods, which might place additional pressure on domestically produced goods. This was aligned with the decline in medium-term inflation expectations observed in several countries. The Committee therefore emphasized the need to closely monitor inflation trends going forward.

The Committee viewed that low headline inflation, driven primarily by supply-side factors, had contributed to alleviating living costs for households and lowering operating costs for businesses. However, some Committee members noted that global trade policies could undermine global production efficiency and raise long-term production costs, thereby exerting upward pressure on global inflation over time.

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

Financial conditions remained tight, with a slight contraction in overall loan growth and a continued deterioration in loan quality, particularly for housing loans and business loans in sectors facing structural challenges. In addition, global trade policies might exert further strain on the financial positions of businesses and households, prompting financial institutions to adopt more cautious lending practices, especially towards export-oriented firms likely to be affected by trade policies. **It is therefore essential to closely monitor credit risk and macro-financial linkages going forward, particularly in business sectors adversely impacted by global trade policies.**

Global financial markets exhibited high volatility following developments in trade policies. Elevated uncertainty led to declines in risky asset prices and capital flows into regional bond markets, while the U.S. dollar showed a tendency to weaken against major currencies. **The Thai financial market also experienced high volatility**, with the baht fluctuating in line with regional currencies, primarily due to external factors. Thai government bond yields and the stock market declined more sharply than in other countries, as investors anticipated that the Thai economy would be adversely affected by trade policies, as well as by the impact of the earthquake. **Funding through the corporate bond market continued to function normally**; however, it remained crucial to monitor the rollover risk of high-credit-risk bond issuers.

The Committee expressed concerns over the quality of retail loans, particularly housing loans, as they reflected the vulnerability of the financial positions within certain household groups. Meanwhile, the financial positions of businesses might face additional pressure from trade policies. Furthermore, the Committee emphasized the potential consequences of

Moody's recent revision of Thailand's credit outlook to negative. Should this lead to a subsequent downgrade in the country's credit rating, it could result in higher funding costs for the Thai economy overall and potentially constrain long-term fiscal space.

The Committee viewed that the baht had experienced high volatility due to external factors and was not aligned with economic fundamentals, which could undermine the competitiveness and adaptability of businesses. It was therefore deemed necessary to closely monitor developments in global financial markets that could influence the Thai financial market and contribute baht volatility.

<u>**Monetary Policy Consideration**</u>

- **The Committee assessed that the economy was likely to grow at a slower pace than previously anticipated, with heightened risks stemming from global trade policies. Accordingly, monetary policy should be eased to better align with the evolving economic outlook and risks.** While the outlook remained highly dependent on future trade policies—which were still subject to considerable uncertainty—the impact on the economy was not expected to be as severe as that of the 2008 global financial crisis or the COVID-19 pandemic. Instead, global trade policies were likely to exert prolonged and persistent effects, with the possibility of additional shocks emerging over time. It was therefore crucial to monitor key factors that could significantly impact the economy going forward, including reciprocal tariffs on Thai exports, the trade policies of major economies, and developments in the global economy and financial markets.

- **The majority of Committee members deemed it appropriate to lower the policy rate at this meeting, consistent with the outlook for economic growth being weaker than previously projected and with heightened downside risks.** The Committee members discussed and provided the following additional observations:

    - **Most members viewed that lowering the policy rate would help ease financial conditions in line with the economic outlook and associated risks.** They expressed concerns that financial institutions might adopt more cautious lending practices, particularly toward groups adversely affected by trade policies. At the same time, they judged that the rate cut would not pose risks to long-term financial stability.

    - **Most members considered that a lower policy rate would partially help businesses and households cushion the impact of trade policies, partly by reducing interest expenses.** This was particularly relevant in a context of heightened future risks and continued vulnerability in the financial positions of some businesses and households.

    - Most members viewed that it was crucial to closely monitor global trade developments and their impacts on the Thai economy. **Monetary policy going forward should be outlook-dependent—aligned with the future economic trends—while taking into account limited policy space.**

- **Two Committee members concurred that monetary policy should be eased in line with the weakening economic outlook. However, given the high degree of uncertainty, they recommended maintaining the policy rate at this meeting to preserve policy space for more effective use when the situation became clearer.** Looking ahead, uncertainty was expected to remain elevated, and unexpected shocks could further impact the economy. Moreover, the effectiveness of monetary policy tends to diminish as interest rates decline. In this context, along with an economic outlook largely weighed down by external factors, monetary policy should not focus on stimulating the economy, but rather on upholding economic stability across various scenarios—including severe tail risk events—and be deployed at the most effective timing.
- **The Committee deemed that addressing and mitigating the impact of trade policies required a combination of complementary policies aimed at enhancing the efficiency and competitiveness of businesses.** Mitigation efforts should be targeted and include structural reform policies to support business adaptation to changes in global trade structures and supply chains.

Monetary Policy Decision

The Committee voted 5 to 2 to cut the policy rate by 0.25 percentage points from 2.00 to 1.75 percent, effective immediately. Two members voted to maintain the policy rate.

Most members deemed it appropriate to cut the policy rate at this meeting to be consistent with the worsening economic outlook, address heightened downside risks, and align financial conditions with the evolving economic and inflation outlook. Meanwhile, two members voted to maintain the policy rate, emphasizing the importance of deploying monetary policy at the most effective timing, given the limited policy space. The Committee assessed that the economic outlook remained highly uncertain and would deliberate monetary policy going forward in alignment with the growth and inflation outlook, as well as associated risks.

Monetary Policy Group
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