Edited Minutes of the Monetary Policy Committee Meeting (No. 3/2025)
20 and 25 June 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 and inflation assessment

The Thai economy expanded more than anticipated in the first half of 2025, supported by manufacturing production and front-loaded exports. Nevertheless, the economy was projected to moderate in the second half of 2025 and into 2026, reflecting increased impacts from global trade policy, as well as heightened risks arising from geopolitical tensions and domestic factors.

The Thai economy was projected to expand by 2.3 and 1.7 percent in 2025 and 2026, respectively. The stronger-than-expected outturn in the first half of 2025 was partly supported by actual economic data in the first quarter and leading economic indicators in the second quarter, which reflected robust growth in merchandise exports. This growth was driven by front-loading of exports to the United States during the 90-day grace period prior to the expiration of reciprocal tariff exemptions, as well as continued expansion in electronics exports in line with the cycle of high-technology products, such as artificial intelligence-related products and data centers. Export growth in the first half of the year also generated positive spillovers to the manufacturing and related service sectors.

Thailand's economic growth was expected to slow in the second half of 2025 and into 2026. **Merchandise exports** were anticipated to face headwinds from U.S. tariffs following the dissipation of front-loaded exports. **Private consumption** was projected to expand at a slower pace, particularly in service categories, in line with weakening income and declining consumer confidence across income groups. **The number of foreign tourist arrivals** was expected to decline by approximately 2.5 million annually, reaching 35.0 million and 38.0 million in 2025 and 2026, respectively. Within this decline, Chinese tourist arrivals were revised downward to 4.4 million and 6.0 million, both below the 2024 level of 6.7 million. Nevertheless, an increase in long-haul tourists with higher spending per visitor was expected to provide partial support to tourism receipts.

Thailand's economy was assessed to grow by no less than 2.0 percent in 2025, supported by a stronger-than-expected outturn in the first half of the year. However, growth was expected to slow markedly in the second half. For GDP growth to fall below 2.0 percent, the economy would need to contract in the second half of the year or enter a technical recession. Historically, such events have occurred only four times, each triggered by major global financial crises or severe domestic disruptions—namely, the 1997 Asian financial crisis, the 2008 global financial crisis, the COVID-19 pandemic, and domestic political unrest in 2013. Therefore, unless global trade policy developments, geopolitical tensions, or domestic factors were to deteriorate significantly, the likelihood of a technical recession in the near term remained low.

Although the economic forecast for 2025 was revised upward, improvements were not broad-based across sectors due to uneven distributional impacts and persistent structural pressures. Key challenges included: **(1) competition from low-cost imports**, with the share of certain imported goods relative to domestic sales continuing to increase compared to pre-COVID levels, exerting pressure on specific manufacturing sectors such as electronics, furniture, textiles, and apparel; **(2) intensified competition in sectors** where supply has outpaced demand, such as restaurants, where the number of outlets has more than doubled compared to pre-COVID levels, while domestic and foreign tourist numbers have recovered to less than half over the same period; and **(3) shifting consumer behavior**, such as in retail businesses, where increased online shopping has disrupted traditional business models. Small retailers faced additional pressure from heightened competition for market share from large firms, including their expansion into regional markets. This dynamic resulted in a 7.1 percent contraction in SME sales in 2024, while large firms recorded a 9.6 percent expansion. Therefore, the Thai economy continued to experience pressures from various factors, with impacts differing across sectors. Looking ahead, the economy was expected to encounter adjustment challenges amid an ongoing structural transition, which could affect Thailand's long-term potential growth.

The Committee assessed that the upward revision of Thailand's 2025 growth forecast to 2.3 percent was attributable in part to the stronger-than-expected outturn in the first half of the year and did not reflect the anticipated slowdown in the second half amid elevated uncertainty. Recent improvements in merchandise exports and private investment were driven by temporary factors and benefited only certain sectors, such as exports and production related to electronics and machinery products. Looking ahead, economic drivers were expected to weaken due to softening domestic and external demand. Specifically, (1) merchandise exports would likely face increasing pressure from global trade policies, with the impact dependent on the outcomes of Thailand's trade negotiations relative to other countries; (2) tourism may provide less support to growth going forward. Some committee members expressed concern that the number of foreign tourists may face difficulty expanding further from current levels, due to rising competition among regional countries, changing travel behavior of tourists, and additional pressure should global economic conditions deteriorate; and (3) domestic demand showed signs of slowdown, with certain sectors remaining fragile and facing declining competitiveness. In addition, the economy continued to face downside risks stemming from U.S. tariffs, geopolitical tensions, and domestic developments. Therefore, the Committee emphasized that public communication should clarify that the revised growth forecast in 2025 primarily reflected the stronger-than-expected performance in the first half of the year.

Headline inflation was projected to remain subdued at 0.5 and 0.8 percent in 2025 and 2026, respectively, primarily due to supply-side factors. Core inflation was forecast at 1.0 percent and 0.9 percent in 2025 and 2026, respectively. The subdued inflation outlook was largely attributed to declines in energy and raw food prices, which together accounted for a significant share of the consumer price index basket. Dubai crude oil prices were projected to continue declining, from an average of USD 80 per barrel in 2024 to USD 73 and USD 70 per barrel in 2025 and 2026, respectively. As a result, energy inflation was expected to be -3.2 percent and -1.3 percent, marking two consecutive years of contraction and a notable deviation from the historical average of 1.5 percent during 2010 to 2019. Nevertheless, the low inflation was not indicative of broad-based price declines or deflation. Prices of certain goods, particularly those regularly consumed by households—such as prepared food, cooking ingredients, and non-alcoholic beverages—continued to rise steadily. Moreover, medium-term inflation expectations remained anchored within the target range of 1-3 percent, as reflected in both analyst surveys and estimates derived from government bond yields, which indicated 5- to 10-year ahead inflation expectations of 1.6 percent.

The Committee assessed that the low level of inflation was driven by both supply-side and structural factors, including increased competition from imported goods and the prevailing labor market structure. **Meanwhile, the cost of living continued to rise for some households.** Additionally, emerging risks from geopolitical tensions were noted, which could potentially lead to higher global oil prices.

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

Overall credit continued to contract, partly due to a decline in credit demand—particularly from large corporates—and an increase in debt repayments across both businesses and households amid elevated economic uncertainty. Meanwhile, financial institutions remained cautious in extending credit to SMEs and households with elevated credit risks. There were also emerging indications of more cautious lending practices among higher-income households. Credit quality deteriorated further, especially in SME loans and housing loans. **The Committee assessed that, although the contraction in credit partly reflected the current economic outlook and associated risks, there remained a need to closely monitor credit developments and quality, as well as their implications for future economic activity.**

The baht remained volatile against the U.S. dollar due to uncertainty surrounding global trade policies and geopolitical tensions in the Middle East. The U.S. dollar exhibited a weakening trend amid concerns over the U.S. economic outlook, resulting in appreciation pressures on regional currencies, including the baht, particularly during periods when trade policy uncertainty subsided. Thai government bond yields and stock market prices continued to decline, reflecting investor expectations of a slowdown in the Thai economy and its relatively greater exposure to trade policy risks compared to other countries. **The Committee emphasized the need to closely monitor movements in the baht, especially where such movements may not be aligned with underlying economic fundamentals.**

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

- **The Committee was in full agreement that monetary policy should remain accommodative to support the economy going forward.** It was noted that the recent policy rate cuts had already provided some cushion against the prevailing risks and were still in the process of being transmitted to the broader economy, a mechanism that typically takes approximately three to four quarters.
- **The Committee noted that Thailand's economic growth and financial conditions continued to be weighed down by several factors. A key challenge facing the Thai economy was the decline in competitiveness.** Meanwhile, tighter financial conditions partly resulted from heightened credit risks among borrowers. **In this context, monetary policy alone would have limited efficacy in addressing these issues; therefore, targeted measures in conjunction with business adaptation were deemed**

necessary. These included support schemes to facilitate SME, measures to mitigate import flooding, and credit guarantee mechanisms.

- **The Committee discussed whether Thailand's inflation, which has remained below the target range for an extended period, constituted a cause for concern and considered the role of monetary policy under these circumstances.** The Committee was of the view that monetary policy primarily serves as a tool to manage demand-side inflation and, therefore, has limited efficacy in responding to the prevailing inflation conditions, which have been mainly driven by supply-side factors. Furthermore, there have been no indications of a broad-based decline in prices. In addition, under the flexible inflation targeting framework, the Committee viewed that it is not necessary for monetary policy to always maintain inflation within the target range; rather, policy considerations should take into account the underlying sources of inflation, as well as their implications for inflation dynamics and medium-term inflation expectations. Additionally, price stability must be considered alongside the objectives of promoting sustainable economic growth and preserving financial stability.
- **Most committee members voted to maintain the policy rate at this meeting, placing importance on the timing and effectiveness of monetary policy amid high uncertainties and limited policy space.**
    - **Timing of monetary policy implementation:** the current policy stance remained somewhat accommodative to support the economy. Meanwhile, the impact of trade policy on the economy was expected to intensify in the second half of the year. However, the magnitude of this impact remained uncertain, compounded by additional uncertainties from both domestic and external factors, which posed risks of unexpected shocks. In this regard, it was deemed important that monetary policy preserve policy space to mitigate potential risks arising from unforeseen events.
    - **Effectiveness of Monetary Policy:** the effectiveness of monetary policy has been constrained in an environment characterized by low interest rates and heightened economic uncertainties, which continued to weigh on private investment and consumption decisions. Moreover, prevailing economic challenges partly stemmed from declining competitiveness and shifting consumer preferences. In addition, some committee members noted that, as most loans were tied to fixed interest rates, adjustments to the policy rate eased interest burdens only for a limited group of borrowers.
- **One committee member voted to cut the policy rate by 0.25 percentage points,** citing continued fragility in several sectors of the economy and a deterioration in credit quality. **The committee member viewed that a rate cut at this juncture would have helped alleviate interest burdens and supported the adjustment of those affected by the weakening economic outlook.**

<u>Monetary Policy Decision</u>

The Committee voted 6 to 1 to maintain the policy rate at 1.75 percent. One member voted to cut the policy rate by 0.25 percentage points from 1.75 to 1.50 percent.

The Committee deemed that monetary policy should be accommodative to support the economy going forward, while the previous policy rate cuts had already provided some cushion against prevailing risks. However, most committee members voted to maintain the policy rate at this meeting, giving importance to the timing and effectiveness of monetary policy amid high uncertainties and limited policy space. One committee member voted to cut the policy rate by 0.25 percentage points to alleviate interest burdens and support the adjustment of those affected by the weakening economic outlook. The Committee assessed the economic outlook as remaining highly uncertain and stood ready to adjust monetary policy going forward to align with the economic and inflation outlook and associated risks.

Monetary Policy Group
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