

**Edited Minutes of Monetary Policy Committee Meeting (No. 5/2025)
3 and 8 October 2025, Bank of Thailand
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Members Attending

Vitai Ratanakorn (Chairman), Piti Disyatat (Vice Chairman), Suwannee Jatsadasak, Paiboon Kittisrikangwan, Rapee Sucharitakul, Santitarn Sathirathai, and Charl Kengchon

Economic and inflation assessment

The Thai economy was projected to expand by 2.2 and 1.6 percent in 2025 and 2026, respectively, in line with the previous assessment. In the first half of 2025, the economy expanded at a satisfactory pace, driven by the front-loading of manufacturing production and exports to the United States. Additionally, continued growth in electronic goods exports, supported by the technology product cycle, had contributed positively to related manufacturing and service sectors.

However, the economy in the second half of 2025 throughout 2026 was expected to slow down due to several factors. Specifically: **(1) certain industries implemented temporary production halts in the third quarter of 2025** to enhance production efficiency, resulting in reduced output in sectors such as petroleum, automotive, and alcoholic beverages; **(2) merchandise exports were anticipated to be affected by U.S. trade policies.** The increase in U.S. imports tariffs was expected to gradually weigh on U.S. import demand and global trade volume. The magnitude of the impact would hinge on firms' adjustments, including internal cost management, negotiation over tariff cost allocation, and market diversification; **(3) tourism was projected to expand at a slower pace**, largely reflecting a decline in short-haul arrivals, although a gradual recovery was anticipated toward year-end. Meanwhile, long-haul arrivals continued to expand. The projected number of foreign tourists was revised down to 33 million and 35 million in 2025 and 2026, respectively. Tourism receipts were expected to decline slightly due to lower spending per visitor, partly attributable to shorter stays among long-haul visitors; and **(4) private consumption was expected to soften**, with signs of weakness observed in non-essential goods and services, such as alcoholic beverages, automobiles, and spending on hotels and restaurants. However, government stimulus measures toward the end of 2025 were expected to provide partial support. Looking ahead, downside risks to the Thai economy stemmed from the impact of U.S. tariff measures—both implemented and potential future actions—as well as possible delays in disbursement of the fiscal year 2027 government budget.

The Committee expressed concern over the economy, which was projected to grow below its potential due to cyclical and structural impediments. Key factors included: **(1) the heightened impact of U.S. tariff measures on exports** and the risk of transshipment-related duties. While details on transshipment tariffs remained unclear, electronic goods were likely to be affected given their high import content, potentially weakening momentum in the export sector; **(2) softening domestic demand**, with private consumption constrained by the slow recovery of labor income, while government stimulus might have limited effects. Private investment could also weaken amid economic uncertainty; and **(3) structural challenges to Thailand's economic growth**, such as demographic aging leading to a declining labor force, ongoing debt

deleveraging following substantial debt accumulation in earlier periods that has suppressed private consumption, lagging digital and technological transformation in manufacturing sector, and persistently low private investment due to declining capacity to attract foreign direct investment (FDI). These factors not only weighed on current growth but also undermined productivity and competitiveness, thereby constraining the country's long-term economic potential.

The Secretariat reported on developments pertaining to SMEs, which continued to exhibit subdued growth and contributed less to overall economic activity. SMEs' GDP growth¹ has declined to less than half of pre-COVID levels, while large corporates have recovered to nearly their pre-COVID growth rates. This reflected a decline in SMEs' competitiveness. Moreover, the proportion of SMEs incurring sustained losses has increased relative to pre-COVID levels, alongside an increase in business closures in recent periods. Meanwhile, some SMEs have experienced liquidity constraints, driven by weak revenues and more cautious lending practices by financial institutions in response to heightened credit risks. Export-oriented SMEs also faced additional challenges from the appreciation of the baht. Although SMEs accounted for only 35 percent of GDP in value-added terms, they remained a critical component of the economy. Specifically, SMEs comprised approximately 3.3 million enterprises, representing 99.5 percent of total businesses, and employed 13.4 million individuals, equivalent to 70 percent of private-sector employment.

The Committee noted concerns regarding uneven economic expansion, observing that growth was concentrated among large enterprises while SMEs had become increasingly vulnerable. Without effective adjustment, SMEs could experience a slower recovery, potentially impeding overall economic growth.

Headline inflation was expected to remain subdued, primarily driven by supply-side factors, and was projected to be around 0.0 percent and 0.5 percent in 2025 and 2026, respectively, before gradually returning to the target range by early 2027.

The downward revision in headline inflation was attributable to: (1) energy prices, reflecting a downward trend of global crude prices due to increased supply and government measures to lower domestic retail oil prices; and **(2) raw food prices**, particularly fruit prices, following favorable weather conditions that supported higher supply. **Meanwhile, core inflation was expected to remain around 0.9 percent in both 2025 and 2026.**

The Secretariat evaluated that Thailand's deflationary risk remained low, based on (1) the decline in inflation being primarily driven by energy and raw food prices, which were influenced by domestic factors such as government measures and relatively low and stable raw food prices owing to Thailand's self-sufficiency in food production; **(2) core inflation and underlying inflation indicators remaining broadly stable**, with no notable reduction in demand-side inflation, as reflected in the fact that prices of goods and services had not broadly declined, with around 40 percent of items experiencing price decreases—consistent with historical averages; and **(3) medium-term inflation expectations remaining anchored**

¹ The Gross Domestic Product (GDP) data for SMEs is compiled by the Office of SMEs Promotion (OSMEP).

within the target range of 1–3 percent. Five- to ten-year inflation expectations, based on analyst surveys and government bond yield data, were estimated at 1.5–1.6 percent.

The Committee assessed that, although the low inflation was primarily driven by energy and raw food prices, it was essential to closely monitor demand-side pressures that could lead to deflationary conditions, given the slowdown in private consumption. In addition, the Committee inquired about the potential economic consequences if persistently low headline inflation were to result in a deflationary environment. The Secretariat clarified that deflation occurred when businesses and households expected prices of goods and services to decline in the future, resulting in a slowdown in spending and investment. This, in turn, exerted additional downward pressure on prices, leading to a broad and sustained decline. The Secretariat assessed that the current risk of deflation in Thailand remained low. Although headline inflation has declined, there has not been a widespread reduction in the prices of goods and services compared with previous periods. Nonetheless, the Secretariat will continue to closely monitor price developments to assess deflationary risks.

The Committee emphasized the need to enhance public understanding of the current drivers of inflation and their economic implications, to help alleviate concerns about deflation. Such understanding could influence household consumption decisions, as well as private sector business planning and investment, and could shape medium-term inflation expectations. **The Committee reiterated the key principle of monetary policy, which prioritized maintaining medium-term inflation within the target range rather than monitoring short-term inflation movements,** which are typically volatile and influenced by factors that monetary policy has limited ability to influence.

The Committee also noted that certain items in the inflation basket exhibit limited price movement, which may not accurately reflect households' cost of living. For example, rental prices have not kept pace with housing price increases over the past decade, and stable automobile prices may not reflect recent market competition. **The Committee therefore recommended that the Secretariat actively engage in discussions with relevant government agencies to improve the measurement of the Consumer Price Index (CPI), ensuring a more accurate reflection of actual consumer prices, and to develop additional leading indicators for more timely and precise monitoring of inflation dynamics.**

Assessment of Financial Conditions and Financial Stability

Interest rates in the banking system and financial markets declined in line with policy rate cuts. However, the transmission to financing costs in the private sector varied across segments. For new loan contracts, interest rates for SMEs declined to a lesser extent than those for large corporates, due to relatively higher credit risks. This was consistent with the continued deterioration in SME loan quality. For existing loans, the policy rate cuts provided limited relief in interest burdens for certain groups, depending on their interest rate structure; for instance, more than half of loans among low-income households were fixed-rate loans. **Overall credit contracted** due to weakened demand from large corporates amid heightened economic uncertainty, debt repayments, and banks' cautious lending to high-credit-risk borrowers—especially SMEs and low-income households.

The appreciation of the baht against the U.S. dollar during certain periods affected exporters, particularly in specific product categories. Year-to-date², the baht has appreciated by around 5 percent against the U.S. dollar, reducing export revenues when converted into baht (conversion channel). The impact has been more pronounced among SMEs—most of which lack adequate foreign exchange hedging. Additionally, the impact tended to be greater for exporters of products with low operating profit margins and high reliance on domestic raw materials, such as agriculture, agro-manufacturing, and textiles. Meanwhile, exchange rate movements have also influenced price competitiveness (price competition channel) for certain product exporters. Year-to-date, the nominal effective exchange rate (NEER³) appreciated slightly by 0.6 percent, while the real effective exchange rate (REER⁴) depreciated by -1.5 percent. Nonetheless, certain export products, such as frozen seafood, agricultural goods, and textiles, have been significantly affected by exchange rate movements, as these products depend heavily on price competitiveness and the baht has appreciated against the currencies of competing countries.

The Committee expressed concern over the baht's appreciation against the U.S. dollar and its impact on exporters, noting it could further affect SMEs that remain vulnerable and face tight financial conditions due to limited access to credit, particularly those affected by both conversion and price competition channels. The Committee deemed it necessary to monitor credit growth and movements of the baht, given their potential implications for economic activity, and also supported further targeted financial measures to assist vulnerable groups.

Monetary Policy Consideration

- **Under the prevailing monetary policy framework aimed at maintaining price stability, supporting sustainable growth, and preserving financial stability,** the Committee discussed the following key issues:
 - **The overall economy expanded in line with previous assessments but remained below its potential.** Going forward, the economy was expected to encounter pressures from both cyclical and structural impediments, while certain sectors remained vulnerable. The Committee discussed the limited effectiveness of monetary policy in addressing structural challenges and emphasized the need for coordinated policies to support sustainably high economic growth. Targeted financial measures were also considered necessary to mitigate credit risks and improve access to credit for vulnerable groups.
 - **Headline inflation was projected to decline and remain below the target range for certain periods, primarily driven by supply-side factors.** In this context, the effectiveness of monetary policy was assessed as limited. While deflationary risks remained low, it was important to closely monitor developments in the prices

² The returns on currencies were calculated based on exchange rate changes between 30 September 2025 and 30 December 2024.

³ The Nominal Effective Exchange Rate (NEER) is an index of the baht against 25 currencies of Thailand's trading partners, covering 41 countries (including 17 countries using the euro). The index is calculated as a weighted average based on trade shares.

⁴ The Real Effective Exchange Rate (REER) is derived from the NEER, adjusted for inflation relative to Thailand's trading partners. It reflects the country's real purchasing power and competitiveness in producing goods.

of goods and services to ensure they did not reflect underlying demand-side pressures that could lead to deflationary conditions.

- **Financial conditions remained tight, particularly for SMEs**, which continued to face challenges from weak competitiveness, limited access to credit, and the recent appreciation of the baht. The Committee emphasized the need to closely monitor financial conditions and their implications for economic activity among vulnerable groups.
- **The Committee agreed that monetary policy should remain accommodative** to support the ongoing economic recovery. The previous policy rate cuts were still in the process of being transmitted to the economy, with their full effects typically materializing over approximately four to six quarters.
- **Most Committee members voted to maintain the policy rate at 1.5 percent, emphasizing the importance of the timing and effectiveness of monetary policy, given the limited policy space.** Additional points discussed included:
 - **Monetary policy going forward should be outlook dependent.** Economic data released in the second half of 2025 would offer greater clarity for evaluating economic trajectory and appropriate policy stance, particularly regarding the impact of U.S. tariff measures, the recovery in the tourism sector, as well as government stimulus measures. Against this backdrop, the overall economy evolved broadly in line with the previous assessments, although growth was anticipated to moderate, with previous policy rate cuts partially mitigating risks to the economy.
 - **The economic outlook remained highly uncertain** due to both external factors and domestic structural challenges and vulnerabilities. Given the diminished effectiveness of monetary policy in a low-interest rate environment, most Committee members emphasized the importance of preserving policy space to safeguard against risks and unforeseen events. In addition, some members noted that monetary policy should also consider financial stability and avoid contributing to the accumulation of vulnerabilities over the medium term.
- **Two Committee members viewed that monetary policy should be further accommodative to support economic recovery and therefore voted to cut the policy rate by 0.25 percentage point.** Additional points discussed included:
 - **Further monetary easing could help alleviate liquidity constraints and debt burdens among vulnerable groups, while also fostering more accommodative financial conditions to support business adjustments** amid multiple challenges. Two Committee members highlighted the increasing economic vulnerabilities, which could exert downward pressure on demand and affect overall growth.
 - **A policy rate cut could help reduce the risk of low inflation stemming from demand-side factors.** While headline inflation was expected to remain subdued at times—primarily due to supply-side factors—a lower policy rate could provide support to domestic demand, particularly in view of the anticipated slowdown in private consumption.

Monetary Policy Decision

The Committee voted 5 to 2 to maintain the policy rate at 1.50 percent. Two members voted to cut the policy rate by 0.25 percentage point from 1.50 to 1.25 percent.

The Committee assessed that monetary policy should remain accommodative to support the ongoing economic recovery. The effects of previous policy rate cuts were still being transmitted to the economy. Most members placed importance on the timing and effectiveness of monetary policy given the limited policy space and therefore voted to maintain the policy rate at this meeting. Two committee members deemed that monetary policy should be further accommodative to ensure that financial conditions remain conducive to economic recovery and to help support liquidity as well as alleviate debt burdens of SMEs and vulnerable households. The Committee will continue to closely monitor macro-financial developments and risks, and stands ready to adjust the monetary policy stance in response to evolving economic and inflation outlook.

Monetary Policy Group
22 October 2025