Edited Minutes of Monetary Policy Committee Meeting (No. 6/2025)
12 and 17 December 2025, Bank of Thailand
Publication Date: 5 January 2026

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 in 2025 was projected to expand by 2.2 percent. Economic activities in the second half of 2025 slowed relative to the first half of the year, due to (1) temporary production halts in certain industries aimed at improving efficiency, such as the petrochemical and automotive sectors, and (2) a decline in short-haul tourist arrivals, particularly from China, along with flooding in the southern region, which was expected to continue affecting economic activities in the area until early 2026.

Looking ahead, the Thai economy was expected to moderate from 2025 and expand below potential, at 1.5 percent and 2.3 percent in 2026 and 2027, respectively. This outlook reflected: (1) a moderation in private consumption in line with income, with emerging signs of more cautious spending among middle- to high-income households, particularly on non-essential goods; **(2) a slowdown in merchandise exports** due to the impact of U.S. tariff measures, although exports of electronic products were expected to continue expanding, supported by sustained demand for technology-related goods and data centers; **(3) a moderation in government spending growth,** consistent with the FY 2027 budget framework which envisaged a narrowing fiscal deficit in line with the latest medium-term fiscal framework. In addition, the upcoming election was expected to delay budget disbursement for FY 2027 in the fourth quarter of 2026, before a resumption of faster disbursements in early 2027. Nevertheless, there were some supportive factors: **(4) the services sector** was expected to gradually recover, supported by an increase in the number of tourist arrivals to an estimated 35 million in 2026 and 36 million in 2027, as well as a rise in spending per head; and **(5) private investment** was expected to increase, underpinned by new foreign direct investment, supported by the Thailand FastPass measures.

The Committee assessed that the Thai economy continued to face prolonged cyclical pressures and structural challenges, alongside heightened risks. Key factors included: **(1) merchandise exports** being adversely affected by U.S. tariff measures and baht appreciation, which weighed on exporters—particularly those in industries with a high reliance on domestic raw materials, such as agriculture, agro-manufacturing, and textiles; **(2) domestic demand showing signs of softening**, with private consumption constrained by the slow recovery of labor income and persistently high household debt. Private investment was constrained by an outlook of low economic growth and heightened uncertainty. In addition, flooding and Thai-Cambodian border tensions added further pressure on confidence in consumption and investment; and **(3) business sector adjustment becoming increasingly challenging**, as firms faced not only the aforementioned cyclical factors but also structural factors such as demographic shifts, workforce skill shortages, and competitiveness constraints. **The Committee viewed that risks to the Thai economy had increased**, stemming from: (1) the risk of being subject to tariffs related to transshipment, as well as additional U.S. tariff measures that could be introduced; (2) the possibility that the FY 2027 budget process could experience greater-than-anticipated delays; and (3) adjustment challenges within the business sectors, particularly among SMEs that continued to face competitiveness constraints and limited access to credit. In addition, some Committee members noted that global economic and financial conditions remained highly uncertain, including geopolitical risks and risks in global financial markets. Should unexpected shocks occur, they could significantly affect the global economy and, consequently, the Thai economy.

The Committee inquired about the impacts of flooding and the recovery in the southern region, both in terms of economic activity and asset losses, as well as the expected recovery path of the business sector, particularly among SMEs. The Committee emphasized the need to closely monitor the impacts and recovery in the affected areas. **The Secretariat reported that the flooding in the southern region was estimated to reduce GDP by 0.1–0.2 percent.** Households and businesses in the trade and tourism sectors in the flooded areas had been severely affected for a prolonged period. The number of tourists in the affected provinces had declined, particularly arrivals from Malaysia, although some substitution of travel to nearby provinces had been observed. Businesses might not resume investment according to their original plans in the absence of clear and credible rehabilitation and flood-prevention plans. The recovery process was expected to take more than three months, especially for small businesses in the trade and tourism sectors. According to feedback gathered from business operators during the Bank of Thailand's field visit to the Hat Yai district on 10 December 2025, many businesses viewed existing relief measures as insufficient relative to the losses incurred and expressed an urgent need for government support, both in terms of financial assistance and demand-stimulus measures.

The Committee expressed concerns regarding uneven economic growth, observing that growth remained concentrated among large firms and in only certain sectors—such as large businesses in the tourism sector and exporters in the electronic products segment. In contrast, SMEs and manufacturing firms in other sectors remained vulnerable and increasingly under pressure from intense competition. **In addition, some Committee members noted that Thailand's ongoing structural transformation could lead to new patterns of resource allocation with significant implications for the labor market and long-term income prospects.** Intensifying competition, particularly in the manufacturing sector, might result in Thailand's economic growth engine shifting further from manufacturing toward services. This could entail labor relocation from manufacturing to the services sector, which tends to generate lower value added on a comparative basis, or from private-sector employment to self-employment with more uncertain income. Such developments could have significant implications for income levels, private consumption, and household debt, which remained elevated.

Headline inflation was expected to remain subdued, driven mainly by supply-side factors. It was projected at -0.1 percent, 0.3 percent, and 1.0 percent in 2025, 2026, and 2027, respectively, before gradually returning to the target range in the first half of 2027.

The downward revision from the previous projection was attributable to: (1) energy prices, reflecting a decline in global crude oil prices in recent periods and an outlook for prices to remain subdued due to rising global supply, as well as government measures to subsidize domestic oil prices; and **(2) limited demand-side pressures amid economic growth that remained below**

potential. Domestic purchasing power softened partly because average income growth lagged behind the sharp increase in the consumer price index observed in 2022, resulting in price levels that remained elevated. In addition, middle- to high-income households became more cautious in their spending amid heightened economic uncertainty. **As for core inflation, it was expected to remain stable at 0.8 percent, 0.8 percent, and 1.0 percent in 2025, 2026, and 2027, respectively.**

The Secretariat evaluated that Thailand's deflationary risk remained low, based on **(1) the absence of a persistent and broad-based decline in the prices of goods and services**, with the share of core items registering month-to-month price decreases remaining near historical averages; **(2) core inflation and underlying inflation indicators staying stable and positive**, despite a slight decline in core inflation due to lower pass-through of raw food costs and intensified price competition in certain product categories; and **(3) medium-term inflation expectations easing somewhat but remaining anchored within the target range of 1–3 percent**, with five- to ten-year inflation expectations—based on analyst surveys and market-based measures derived from government bond yields—standing at around 1.5 percent.

The Committee assessed that, although the current low inflation was primarily driven by supply-side factors, it remained essential to closely monitor demand-side pressures that could give rise to deflationary risks going forward, particularly in an environment of low inflation and moderating private consumption. In addition, the Committee inquired about progress on the review of the consumer price index (CPI) methodology, noting that the low inflation outturn did not fully align with the elevated cost of living faced by households. The Committee also observed that prices in certain categories—such as housing rents, automobiles, and telecommunication services—exhibited persistent price rigidity. The Secretariat reported that discussions with relevant agencies were underway and that improvements to the CPI, encompassing both data inputs and calculation methodology, were planned the period ahead.

<u>Assessment of Financial Conditions and Financial Stability</u>

Interest rates in the financial institution system and financial markets declined in line with previous policy rate cuts. However, the transmission to financing costs varied across different business and household segments. For instance, interest rates on new loans for SMEs decreased by a lesser extent than those for large corporates, reflecting relatively higher credit risks. **Overall credit continued contracting,** partly due to weakening loan demand, particularly from large corporates and middle- to high-income households that postponed investment and spending amid the economic slowdown and heightened uncertainty. Meanwhile, financial institutions remained cautious in extending credit to borrowers with high credit risk, especially SMEs and low-income households. Going forward, credit quality warranted close monitoring, as non-performing loan (NPL) ratios for both business and consumer loans remained elevated.

The Committee expressed concern over the continued contraction in credit and emphasized that addressing this issue required a combination of targeted financial measures coordinated with monetary policy. Such measures included the "Pid Nee Wai, Pai Tor Dai" program, which aimed to address unsecured debt with a limit of less than 100,000 baht, and the "SMEs Credit Boost" program, which was designed to provide a credit guarantee mechanism to support lending to SMEs in targeted industries or entrepreneurs with potential. Both measures were scheduled to commence in January 2026.

The Thai baht appreciated against the U.S. dollar and was among the top-performing currencies in the region, driven by the depreciation of the U.S. dollar following shifts in expectations regarding the U.S. Federal Reserve's policy rate outlook, together with Thailand-specific factors. Year-to-date[1], the baht appreciated by around 8 percent against the U.S. dollar. This development affected exporters through the conversion channel, as export revenues converted into baht declined. The impact was more pronounced among SMEs, most of which lacked adequate foreign exchange hedging. Additionally, the impact tended to be greater for exporters with low operating profit margins, high reliance on domestic raw materials, and a significant share of income from exports, such as those in agriculture, agro-manufacturing, and textiles. The appreciation of the baht also weighed on tourism receipts, particularly from short-haul tourists, as tourist spending in baht terms declined. At the same time, the baht appreciated against currencies of key competitors, as reflected in a year-to-date appreciation of 4.1 percent in the Nominal Effective Exchange Rate (NEER[2]) and 1.1 percent in the Real Effective Exchange Rate (REER[3]). This adversely affected exporters through the price competition channel, particularly for easily substitutable products such as commodities.

The Committee expressed concern over the baht's appreciation and its impact on exporters, particularly SMEs, whose financial positions remained fragile and whose access to credit was constrained. In this regard, the appreciation of the baht was viewed as an additional factor exacerbating liquidity pressures on SMEs. **The Committee agreed to escalate the close monitoring of baht movements and consider approaches to manage foreign exchange transactions that exerted significant pressure on the currency.** The Secretariat explained that foreign exchange transactions related to financial assets had increased in share, especially forward foreign exchange transactions by gold traders, which had risen significantly. During certain periods, such transactions accounted for as much as 20 percent of total daily foreign exchange trading, contributing to increased baht volatility. On 15 December 2025, the Bank of Thailand instructed financial institutions to tighten scrutiny of forward foreign exchange selling transactions by major gold trading businesses. Financial institutions were required to verify evidence of gold sales with overseas counterparties for every transaction and obtain billing documents and customs declarations within two business days from the date on which gold traders delivered foreign currency, to ensure that foreign currency sales were genuinely linked to gold exports. In addition, the Bank of Thailand was in the process of conducting a public hearing on proposed revisions to foreign exchange regulations, which would require major gold traders to report relevant transaction information to the Bank of Thailand. This was expected to enhance the effectiveness of transaction monitoring, facilitate the assessment of impacts on the baht, and support the consideration of appropriate policy measures going forward.

---

[1] The returns on currencies were calculated based on exchange rate changes between 16 December 2025 and 30 December 2024.

[2] 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.

[3] 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.

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 Thai economy in 2026 and 2027 was expected to grow at a rate below potential, with rising risks** stemming from both cyclical and structural factors, alongside increasing vulnerabilities in certain sectors. In addition, the Committee expressed concern over the growth engines that would drive the economy going forward.
    - **Headline inflation was expected to remain low due to supply-side factors, while demand-side inflationary pressures were limited amid below-potential economic growth**. Nevertheless, price developments of goods and services warranted close monitoring to assess potential deflationary risks going forward.
    - **Credit continued to contract, and credit quality among vulnerable groups had deteriorated further**, particularly among SMEs, which faced liquidity pressures stemming from limited access to credit and the appreciation of the baht.
- **The Committee assessed that monetary policy could be more accommodative, given the apparent economic slowdown and heightened risks,** to ensure that financial conditions support economic recovery and alleviate the debt burden of vulnerable groups, as well as enhance the effectiveness of other financial measures and government policies. Additional points discussed included:
    - **A more accommodative monetary policy stance was viewed as enhancing the effectiveness of financial measures and other government policies already implemented.** However, monetary policy alone was insufficient to address structural impediments and restore sustainable economic and credit growth. Coordinated policies were therefore deemed necessary to resolve economic challenges in a lasting manner, including measures to support business adaptation and strengthen competitiveness.
    - **Some Committee members viewed that a policy rate cut could help mitigate the risk of low inflation stemming from demand-side factors**, particularly in an environment where economic activity and domestic demand were expected to slow.
    - **A more accommodative monetary policy stance was unlikely to materially increase risks to long-term financial stability,** given that most businesses remained cautious regarding debt accumulation and investment, while financial institutions continued to exercise prudence in extending credit to borrowers with high credit risk. However, some Committee members emphasized that the policy rate should not remain at a low level for an extended period, as this could lead to the accumulation of systemic risks and adversely affect long-term financial stability.

- **The Committee judged that monetary policy should remain accommodative to support economic recovery and stood ready to adjust monetary policy as appropriate, in line with the evolving economic and inflation outlook. At the same time, it was important to ensure macro-financial stability, while taking into account the limited policy space** to absorb potential economic shocks arising from heightened uncertainty in the global economy and financial markets.

Monetary Policy Decision

The Committee voted unanimously to cut the policy rate by 0.25 percentage point from 1.50 to 1.25 percent, effective immediately.

The Committee assessed that the Thai economy in 2026 and 2027 was projected to moderate relative to the first half of 2025. Private consumption was forecasted to slow down in line with income growth, and merchandise exports were beginning to be affected by U.S. trade policies. Meanwhile, tourism was likely to gradually recover going forward. Headline inflation remained subdued primarily due to energy and raw food prices. Demand-driven inflationary pressures were limited, given that economic growth remained below potential. Overall, credit continued to contract, and credit quality among vulnerable groups continued to deteriorate. SMEs faced liquidity challenges stemming from both limited credit access and the appreciation of the Thai baht. The Committee assessed that monetary policy could be more accommodative to ensure that financial conditions support economic recovery and alleviate the debt burden of vulnerable groups as well as enhance the effectiveness of other financial measures and government policies.

Looking forward, the Committee would monitor economic and financial developments and risks and stood ready to adjust monetary policy as appropriate in line with the evolving economic and inflation outlook. At the same time, it was important to ensure macro-financial stability, while taking into account the limited policy space.

Monetary Policy Group
5 January 2026