Edited Minutes of Monetary Policy Committee Meeting (No. 3/2026)
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Members Attending

Vitai Ratanakorn (Chairman), Piti Disyatat (Vice Chairman), Suwannee Jatsadasak, Paiboon Kittisrikangwan, Charl Kengchon, Sauwanee Thairungroj, and Somchai Harnhirun

Economic and Inflation Assessment

The Thai economy was projected to expand at a higher rate than previously assessed. This was primarily driven by merchandise exports and private investment, which continued to expand in line with the ongoing upcycle in technology and artificial intelligence (AI). Meanwhile, the impact of the conflict in the Middle East on the Thai economy was less severe than previously assessed, as the situation showed signs of improvement and businesses were able to adjust more effectively than expected. Nevertheless, SMEs remained constrained in their ability to adjust and continued to face intense competition. At the same time, government measures to mitigate the impact of the energy crisis helped alleviate cost burdens on businesses and partly cushion the impact of rising living costs on households.

Thailand's economic growth remains low and uneven, with a projected expansion of 2.3% and 1.8% in 2026 and 2027, respectively. This was driven by **(1) merchandise exports, which maintained high continuous growth.** However, this growth was largely concentrated in tech products that rely heavily on imported components, while other export sectors remained weak due to ongoing competitiveness challenges. **(2) Private investment was expected to continue expanding**, driven mainly by investment in technology and digital-related sectors, data centers, and electric vehicles (EVs), consistent with the ongoing technology and AI upcycle. Such support was expected to continue over the next two years. Meanwhile, some businesses remained cautious in their investment decisions, particularly SMEs and firms operating in sectors facing intense competition and weak purchasing power, such as automotive, hotels, transportation, and real estate. **(3) The tourism sector was expected to recover gradually.** The number of foreign tourist arrivals remained unchanged at around 33.0 million and 35.5 million in 2026 and 2027, respectively. Nevertheless, tourism receipts were revised upward, reflecting a rising share of higher-spending tourists, including long-haul and Chinese tourists. **(4) Private consumption was weighed down by elevated living costs and slower income growth.** However, government measures helped support private consumption in the short term. As a result, private consumption growth in 2026 was expected to be stronger than previously assessed before slowing in 2027 as the impact of such measures dissipated and due to a higher base effect in 2026.

The Committee inquired about factors weighing on private consumption growth despite the recent decline in energy prices and asked whether the impact differed across income groups. The Committee viewed that the uneven recovery could have a greater impact on SMEs and vulnerable households than on other groups, particularly through weaker employment and income prospects. The Secretariat explained that the subdued expansion of private consumption in 2026 and 2027 reflected both slower growth in real income and the fragile balance sheets of certain household groups, especially low-income households facing high debt burdens. Although energy prices tended to decline, the cost of living continued to rise as costs were passed through to the prices of goods and services. A breakdown of private consumption by income level showed that spending weakened across all income groups and was not limited to low-income segments. Moreover, the slowdown in spending was not limited to energy-related items; but also observed in other categories, particularly spending on dining out, reflecting greater caution in household spending.

The Committee expected the upturn in private investment to be an important driver of economic growth going forward. However, changes in the structure of foreign direct investment (FDI) could reduce the benefits to the Thai economy. Over the past two years, investment projects approved by the Board of Investment (BOI) had been concentrated primarily in digital-related industries with high import content, in contrast to the past when approved investment was distributed across a broader range of sectors, including hotels and food manufacturing. As a result, the value-added generated within the domestic economy could be lower than in previous periods. Moreover, the Committee discussed the timing of actual investment following BOI approval and noted that approved projects could materialize more quickly than in the past. One Committee member added that the implementation period depended on project characteristics. Expansion projects and follow-on investments typically required around six months to one year to complete, whereas greenfield investments generally took longer, typically around two years. In addition, investments in digital businesses and data centers were characterized by intense competition and shorter investment cycles, leading to faster project implementation following approval.

The Committee noted that the current account and trade deficits were the result of temporary factors, and expected them to return to surplus in the second half of 2026. The trade deficit observed during the first five months stemmed chiefly from rising import volumes and costs amid Middle East tensions, coupled with electronic component imports destined for tech exports. Nevertheless, the trade balance was expected to improve over the second half of the year, supported by declining oil prices and lower imports as previously accumulated inventories were gradually unwound.

Headline inflation was expected to remain in line with the previous assessment, averaging 2.8 and 1.4 percent in 2026 and 2027, respectively. Inflation for the remainder of 2026 is expected to exceed the target range, driven by the pass-through of energy and production costs. It was then expected to decrease in 2027 as supply-side constraints eased and the high-base effect faded. Core inflation was projected at 1.5 and 1.4 percent in 2026 and 2027, respectively. Price increases remained concentrated in energy-related categories and those affected by higher energy and raw material costs. There was no evidence of broad-based and persistent increases in the prices of goods and services, partly because businesses' ability to pass on costs was constrained under weak demand conditions. Medium-term inflation expectations remained anchored within the target range. Nonetheless, despite signs of improvement in the Middle East conflict, the Committee agreed that cost pass-through by businesses and medium-term inflation expectations should be closely monitored in an environment where prices and costs remained elevated.

The Committee inquired about the oil price assumptions, which were projected to decline but remain above current market prices, and about the factors causing inflation to continue rising during the second half of the year despite the recent decline in global oil prices. The Secretariat explained that the assumptions for crude oil prices in 2026 and 2027 were set at 90 and 80 U.S.

dollars per barrel, respectively. which higher than current market prices. This reflected expectations of stronger demand in the period ahead as countries replenished inventories that had been drawn down, while geopolitical uncertainty remained elevated despite signs of improvement in the conflict, including uncertainty surrounding the implementation of agreements between the United States and Iran. Regarding the factors keeping inflation elevated in the second half of this year, they stemmed from (1) business still being in the process of passing through costs, which typically took around six months following a rise in energy prices, and (2) the effects of El Niño on raw food prices. However, if crude oil prices were to remain at current levels, inflation projections this year would be lower than currently assessed.

The Committee expressed concern regarding rising cost of living for households. Even though inflation was expected to decline going forward, the elevated price level would weigh on the cost of living and purchasing power of households, particularly those with low incomes. This could, in turn, constrain private consumption going forward. The Secretariat explained that the increase in inflation tended to have a greater impact on low-income households than on middle- and high-income households because prices of low-cost products generally increased at a faster rate than comparable premium products. As low-income households spent a larger share of their income on low-cost goods, they were disproportionately affected by rising prices.

The Committee expected the inflation would gradually decline and was unlikely to persist for an extended period. Moreover, inflation risks in Thailand remained relatively limited compared with those in other countries, given limited demand-side pressures amid low economic growth. One Committee member further noted that the low level of services inflation in Thailand reduced the likelihood of high and persistent inflation. In addition, some Committee members observed that prices of certain goods and services had shown little or no change in recent years, including housing rents. This could partly be due to limitations in existing survey coverage, which might not fully capture changes in consumption patterns, such as the increasing share of households living in condominiums. The Secretariat explained that the Ministry of Commerce and the Bank of Thailand were currently enhancing the Consumer Price Index (CPI). Recently, the Trade Policy and Strategy Office expanded its housing rent survey to cover a broader sample and was currently in the process of validating the data, which is expected to be incorporated into the CPI calculation early next year. In addition, the authorities were considering the integration of additional data sources from relevant parties, such as telecommunication fees and medical service charges, to further improve the CPI and enhance its ability to reflect price changes experienced by consumers.

Financial Conditions and Financial Stability Assessment

Asset prices and exchange rates were volatile, driven mainly by uncertainty surrounding the Middle East conflict and expectations regarding the Federal Reserve's monetary policy stance. Stock market index declined, particularly in the technology sector. Regional currencies including baht depreciated against the U.S. dollar amid broad-based U.S. dollar strength, as the Federal Reserve was expected to maintain a restrictive monetary policy stance. Additionally, some regional currencies experiencing dramatic and rapid depreciation faced country-idiosyncratic factors. Some Committee members raised questions regarding the stability of the Thai baht. The Secretariate clarified that the baht's recent underperformance relative to regional peers was partly attributable to a transient factor. However, the baht remained stable overall. On top of that, Thailand's external position remains strong, reflected by high international reserve, and low external debt. Moreover, foreign investors continued to have confidence in the credibility and governance of Thai policy framework. Nevertheless, the Committee deemed it appropriate to closely monitor exchange rate developments and stand ready to intervene if the exchange rate movements became excessively volatile.

Overall credit growth expanded at a subdued pace, driven primarily by large corporate lending. Part of the increase reflected firm's demand for additional liquidity amid higher costs. The remainder was supported by economic activity, including working capital demand in the trade sector and investment by manufacturing firms linked to the technology and AI cycle. However, SME loans continued to contract, reflecting ongoing limitations in accessing credit alongside heightened prudence among financial institutions regarding loan extensions to high risk borrowers. **Credit quality remained broadly stable**; however, debt repayment ability of SMEs and vulnerable households should continue to be monitored. **Overall lending rates in the commercial banking system remained stable**. Lending rates for large and medium-sized firms declined, partly due to a shift in the borrower mix toward more creditworthy firms. In contrast, lending rates for micro-SMEs remained elevated, owing to higher credit risk and increased use of high-interest loan products.

The Committee inquired whether the continued contraction in SME lending and the deterioration in credit quality differed across industries or borrower groups. The Committee emphasized the need to continue monitoring credit quality closely in the second half of the year, as loans must remain overdue for more than 90 days before being classified as non-performing. As a result, the full impact of the war on credit quality may not yet be evident. The Secretariat clarified that SME lending had declined across all sectors, with new credit extended predominantly to existing borrowers. The deterioration in credit quality was broad-based across industries. Nevertheless, a sharp increase in the NPL ratio was considered unlikely. Part of the deterioration reflected repeat NPL formation among (1) sectors directly affected by the war, including food and beverages, rubber and plastics, transportation, and construction material; and (2) structurally vulnerable sectors, including trade, real estate, construction, textiles, and tourism.

Some Committee members noted that SMEs were facing intense competitive pressures and emphasized that the financial sector should play a role in providing liquidity support to firms with the capacity to adapt and strengthen their competitiveness, while avoiding lending to persistently unprofitable firms (zombie firms). The Secretariat clarified that the Bank of Thailand's targeted financial measures and commercial banks' borrower relief programs are intended to support viable firms while avoiding support for zombie firms. However, some borrowers were found to have received repeated assistance. This was partly because assessing debtor viability and distinguishing zombie firms had become more difficult in a context where operators faced frequent and severe shocks.

<u>Monetary Policy Consideration</u>

- **Under the prevailing monetary policy framework aimed at maintaining price stability, supporting sustainable growth, and preserving financial stability, the Committee agreed that maintaining an accommodative monetary policy stance, together with targeted financial measures had helped support the economic**

recovery. However, inflation outlook and medium-term inflation expectations warranted close monitoring. The key issues discussed are summarized below:

- **Inflation was expected to rise due to supply-side factors**. Risks of second-round effects on Thai inflation were limited, and medium-term inflation expectations were anchored within the target range. Nevertheless, it remained important to monitor cost-price pass-through and medium-term inflation expectations, particularly in the context of persistently high costs.

- **Economy was projected to expand at a higher rate than previously assessed but growth remained low and uneven.** While exports and investment continued to support the Thai economy, private consumption was expected to expand at a subdued pace in line with decelerating income growth and rising living costs. Moreover, SMEs continued to encounter structural barriers to recovery amidst intense competition.

- **Overall credit expanded at a low rate, and SME loans continued to contract.** Financial institutions remained cautious in lending to high-risk borrowers. Meanwhile, the Thai baht depreciated in line with regional currencies, driven mainly by a more restrictive U.S. monetary policy stance.

- **The Committee stressed that sustainable economic solutions required an integrated policy approach.** Accommodative monetary policy, together with economic stimulus measures, has helped support the economy in the short term. Looking forward, greater emphasis should be placed on long-term structural reforms to raise the potential growth and enhance competitiveness. However, some members pointed out that consideration should be given to the side effects of fiscal and monetary easing that being too aggressive or prolonged, such as the impact on the country's credit rating, diminished policy headroom, and the accumulation of financial system vulnerabilities driven by extended periods of low interest rates.

- **The Committee deemed it necessary to monitor and evaluate the financial risks of systemically important corporations (SiCorps) alongside their implications for systemic risk.** Some Committee members expressed concern over current accessibility of low-interest credit to SiCorps, noting that it could reflect an underpricing of risks which contribute to greater systemic risk through both concentration risk and interconnectedness. These members further noted that the policy rate should not be sustained at a low level for a long period, as doing so could contribute to the buildup of financial stability risks, reduce incentives for productivity-enhancing investment, and leading to resource misallocation.

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

The Committee voted unanimously (7-0) to maintain the policy rate at 1.00 percent.

The Committee deemed it appropriate to maintain the policy rate at this meeting as accommodative monetary policy stance combined with targeted financial measures helped support the economic recovery. Nevertheless, inflation development and medium-term inflation expectations warranted close monitoring.

Looking ahead, the Committee assessed that the current policy rate was conducive to supporting economic recovery while inflation accelerated due to supply-side factors. However risks surrounding growth and inflation outlook required close monitoring, particularly cost-price pass-through amid elevated cost pressures, medium-term inflation expectations, as well as the debt serviceability of SMEs and vulnerable household.

Monetary Policy Group
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