Summary of Keynote Address
Dr. Sethaput Suthiwartnarueput, Governor of the Bank of Thailand
Association of International Banks (AIB) Dinner Talk
3 July 2025

Mr. Giorgio Gamba, Chairman of the AIB
AIB colleagues
Distinguished guests,

It is a great pleasure to be here. I would like to share with you my thoughts on the economic outlook, the risks I foresee going forward, and conclude with thoughts on resiliency, specifically what the Bank of Thailand (BOT) has been doing to promote resiliency, and what we as a country can do to improve our resiliency in the face of ongoing uncertainty and shocks.

Part 1: Thailand Economic Outlook

Let me begin with the outlook. As many of you know, our Monetary Policy Committee (MPC) recently decided, in a 6-to-1 vote, to **hold the policy interest rates at 1.75% (June 2025 meeting)**. We also released our new forecasts, **raising the GDP growth for this year to 2.3%** and **lowering next year's to 1.7%**. This decision, particularly revising up GDP forecast for the current year, raised quite a few eyebrows, as it is higher than the consensus forecast of about 1.9% and at the high end of most forecasts.

I understand this part might be a bit dry with numbers, but it is important to establish the baseline for our perspective. The short answer for **why we raised the forecast is that the latest data outturns are coming out better than we expected**.

In the first quarter of 2025, GDP officially came out at 3.1%. **Looking at the second quarter, leading economic indicators, particularly for manufacturing, came out stronger than expected.** The growth of the Manufacturing Production Index (MPI) was around 2% year-on-year in April and May 2025. While we expect a slowdown in June, we still anticipate overall **GDP for the second quarter to come in at about 2.8%**. This means the **first half of this year averages out to roughly 3%**.

In the second half of this year, we expect the economy to slow down. However, **you might ask if the second half could turn negative. While possible, we do not consider it likely. A technical recession**, defined as two consecutive quarters of negative growth, **has been infrequent in Thailand's history**. We have seen it only four times: during the Asian Financial Crisis (1997), the Global Financial Crisis or GFC (2008), the Bangkok shutdown (2013), and COVID (2019-2020). Barring such significant events, it is not likely. Furthermore, **most consensus forecasts for the global economy do not foresee a recession**, which supports our view that a prolonged episode of negative growth in Thailand's second half is unlikely. **Our baseline forecast for this year's GDP remains north of 2%, though this is subject to unforeseen shocks**.

The reason I delve into these numbers is to anchor expectations. I understand the current mood is not good, and many forecasts are below 2%. While analysts have their reasons, excessive bearishness about the economic outlook concerns us. We do not want banks to unnecessarily tighten lending due to an unwarranted pessimistic outlook.

Beyond the numbers, we also engage in a **Business Liaison Program (BLP),** talking to 700-800 firms across 15 sectors annually. **What we hear from them is that while the picture is not bright, with a significant slowdown expected, particularly in export-related sectors, they do not see things "falling off a cliff" in the second half of the year**. This helps us avoid excessive pessimism.

Regarding the 2.3% forecast, it is subpar. Our long-term growth rate should be around 2.7-2.8%, so we are not happy with this number. I also recognize that for many, **things feel worse than 2%. This phenomenon is not unique to Thailand. It has been seen globally**, **where "hard data" (actual economic numbers) diverge from "soft data" (business and consumer survey and sentiment indicators).** Hard data such as retail sales and manufacturing production appear quite okay, but soft data tracks much weaker. This **disconnect is likely due to all the uncertainty**.

There are several reasons why things feel worse in Thailand:

- **Over-supply**: In tourism, for example, while Chinese tourist numbers have not fully recovered, total spending is okay. However, there is significant excess supply, like 200,000 Airbnb rooms, which is about 15% of hotel room supply. Similarly, in the restaurant sector, demand is growing, but supply (number of restaurants opening) has grown much more rapidly (106% increase compared to 12% tourism growth from pre-COVID).
- **Changes in consumer preference**: The retail space has seen a rapid increase in online channel usage, with the online share of total retail sales rising from 7% pre-COVID to about 25%.
- **Import competition**: We are seeing higher import penetration in sectors like furniture, apparel, and petrochemicals. This is not just about quantity, but also price competition from lower-priced imports, putting tremendous pressure on margins for local producers.

These factors contribute to the feeling that the outlook should be worse than our 2% numbers.

For next year, we expect the Thai economy to grow 1.7%, close to the consensus forecast. It is not a rosy number, reflecting the Thai economy facing a lot of growth pressures and risks.

Part 2: Risks ahead

Main risks that we are facing include:

- **US trade and tariff policy** (such as reciprocal tariffs and transshipment tariffs). For Thailand, the result of negotiations remains to be seen, providing significant uncertainty and risk. While the US accounts for about 15% of total world import, its dominance in the financial sector could have a significant impact on global financial markets.
- Other global risks include the **rapid build-up of government debt and the increasing role of non-banks and large funds**. Unlike the last global financial crisis, which focused on private debt and banks, the next crisis may originate from these areas. We believe markets may be a bit sanguine about some of these global risks.
- **Domestic risks are dominated by political uncertainty**. The key factor to watch, which significantly impacts the economic outlook and our growth forecast, is whether the budget goes through. If it does not, there will be a slowdown in the investment budget, impacting the economy.

Given these risks, **maintaining resiliency is crucial**. For us at the BOT, resiliency goes beyond mere stability. It includes the ability to absorb and recover from shocks. **While stability implies returning to a previous state after a shock, resiliency captures adaptability** – recovering quickly from a shock, even if things change and adapt. This is more appropriate for an environment where we want to encourage new things to happen or innovation.

Part 3: What to do for greater resiliency?

On the policy front, we strive to promote resiliency:

- **Building Buffers**: Crucial for absorbing shocks, especially given the uncertainty. This means **strong macroeconomic buffers**, such as a healthy balance of payments, low foreign debt, manageable current account deficits, and sufficient foreign exchange reserves – all lessons learned from the 1997 crisis. It also means ensuring **banks are solid, well-capitalized, and liquid**, addressing weaknesses seen in 1997.

- **Robust Monetary Policy**: Our monetary policy aims to be robust, meaning it is **appropriate for a wide range of possible outcomes**. This involves **keeping a premium on optionality and preserving policy space**, recognizing the importance of using our "ammunition" (like the 1.75% policy rate) effectively as data may deteriorate.

- **Financial Sector Resiliency through "Three Opens"**:

    1. **Open Infrastructure**: Building more open and interoperable infrastructure, such as cross-border payment initiatives.

    2. **Open Competition**: Evidenced by our recent awarding of three virtual bank licenses.

    3. **Open Data**: Facilitating easier data flow to enhance competition and enable virtual banks to deliver on their promise.

These efforts focus on making the financial sector resilient. However, for the economy at large, we have more to do. **Thailand has shown less resiliency over time, often recovering from crises but not strongly, resulting in a flatter growth trajectory**. For example, our growth rate dropped from 5.3% pre-GFC to 3.7% post-GFC, and then from 3.7% pre-COVID to about 2.1% post-COVID. We were among the economies that took the longest to return to pre-COVID GDP levels. This indicates a loss of dynamism.

We need sustainable growth driven by productivity growth, **not short-term demand stimulus or increased debt.** We need a new growth engine. Based on past experiences, our efforts to attract foreign direct investment into the "new S-curve" sectors have not been as encouraging as hoped. For instance, 50% of medical sector investments are in lower-tech areas like rubber gloves, rather than higher value-added segments.

So**, what can we do – as regulators, policymakers, bankers, corporate clients – to get investment going and boost productivity?**

- **Coordination**: The **BOT is actively coordinating with other agencies**, including the planning agency (the National Economic and Social Development Council), the Ministry of Finance, and the Thai Bankers Association**, to identify potential sectors.** This is a collective effort, not solely the government's responsibility. In fact, **there are sectors where Thailand has a comparative advantage such as food** (e.g., pet food, where we are a leading producer with a competitive cluster) **and higher value-added services**. The threat of tariffs impacts manufacturing more than services, making services more competitive.
- **Necessary policy measures**: **Focus on what can be done within sectors to help the sector compete and get banking support.**

- **Inclusivity: Large corporates should also bring along smaller firms in their supply chains** for a "whole of sector, whole of country approach" to building competitiveness.

To conclude, while the mood may be gloomy, and data outturns are likely to be poorer, **we will get through this**. **We are a resilient economy with many buffers and the flexibility to respond**. It will not be as bad as the 1997 crisis, the GFC, or COVID, which we have already overcome. **Our goal is not just to recover, but to recover stronger, achieving sustained productivity growth and long-term sustainable growth.**

Thank you very much for your attention.