FLASH

SCB EIC

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Key Summary

- The MPC held the policy rate at 1%, deeming the rate appropriate for addressing the impact of the Middle East war.
- Inflation should accelerate temporarily before returning to the target range next year; hence, a rate hike is not yet necessary.
- SCB EIC expects the MPC to hold the policy rate for another 1–2 quarters, awaiting as it monitors how the war situation develops.

The MPC voted 6:0 to maintain the policy rate at 1.0%, judging the current appropriate to support the Thai economy amid the Middle East war and heightened uncertainty. Inflation should temporarily rise above the 1–3% target range in few quarters this year due to supply-side factors, before gradually returning to the target range in 2027. Looking ahead, the MPC will monitor the impact of the war on inflation dynamics and inflation expectations, as well as its effects on production and employment, and the scale of additional government stimulus measures.

Figure 1: BOT's Thai economic outlook (as of Apr 2026)

BOT estimates (%YOY, otherwise stated)	Actual	MPC Dec 25		MPC Apr 26	
	2025	2026F	2027F	2026F	2027F
GDP growth rate	2.4	1.5	2.3	**1.5**	**2.0**
Merchandise export value	12.7	0.6	1.7	8.1	1.1
Merchandise import value	13.0	1.3	1.5	11.2	0.7
Headline inflation rate	-0.1	0.3	1.0	2.9	1.5
Core inflation rate	0.8	0.8	1.0	1.6	1.5
Number of foreign tourists (million persons)	33.0	35.0	36.0	33.0	35.5
Dubai crude oil price (USD/Bbl)	69.4	63	66	100	80

Source: SCB EIC analysis based on data from BOT.

The Thai economy is expected to slow due to the impact of the war, though additional government stimulus measures could provide some upside.

- The MPC expects the Thai economy in 2026 to expand by 1.5%YOY, slowing from 2.4%YOY in the previous year (Figure 1). Without the war, the MPC estimates that the Thai economy would grow by 2.3%YOY.

- The MPC sees room for upside from additional government stimulus. Should new stimulus worth THB 300 billion materialize, GDP growth could be lifted by 0.5–0.7%YOY, though the impact would be temporary and limited to this year.

Inflation is set to rise this year, driven by supply-side factors, before returning to the target range next year, while medium-term inflation expectations remain anchored within the target range.

- The MPC assesses that Thailand's headline inflation will exceed the target range starting from Q2-2026 for 4 consecutive quarters before declining in 2027 in line with global energy prices, with the 2026 average estimated at 2.9%.
- The risk of persistently high inflation due to de-anchored medium-term inflation expectations is limited, as (1) low likelihood of a wage-price spiral given Thailand's structural labor market constraints (2) medium-term inflation expectations remain within the target range, and (3) domestic demand remains subdued.

The MPC judges policy rate at 1% as appropriate to support the economy. Decisions in upcoming meetings will be data dependent.

- The MPC judges the hold as appropriate, as Thailand's flexible inflation targeting framework allows it to look through a supply-driven, temporary rise in inflation.
- A rate move in either direction at this juncture could increase risks to the Thai economy.
    - A rate hike could further weigh on the fragile economy, particularly borrowers' debt serviceability.
    - A rate cut amid uncertainty could affect medium-term inflation expectations.
- The MPC will remain in wait-and-see mode and adjust policy based on incoming data, which could lead to different economic growth and inflation scenarios. In a severe case where the current situation lasts throughout 2026, Thai GDP is estimated to grow by less than 1%YOY in 2026, while average headline inflation for the year would exceed 5%.

IMPLICATIONS

SCB EIC expects the MPC to remain in wait-and-see mode amid the war situation, likely holding the rate at 1% for the next 1–2 quarters.

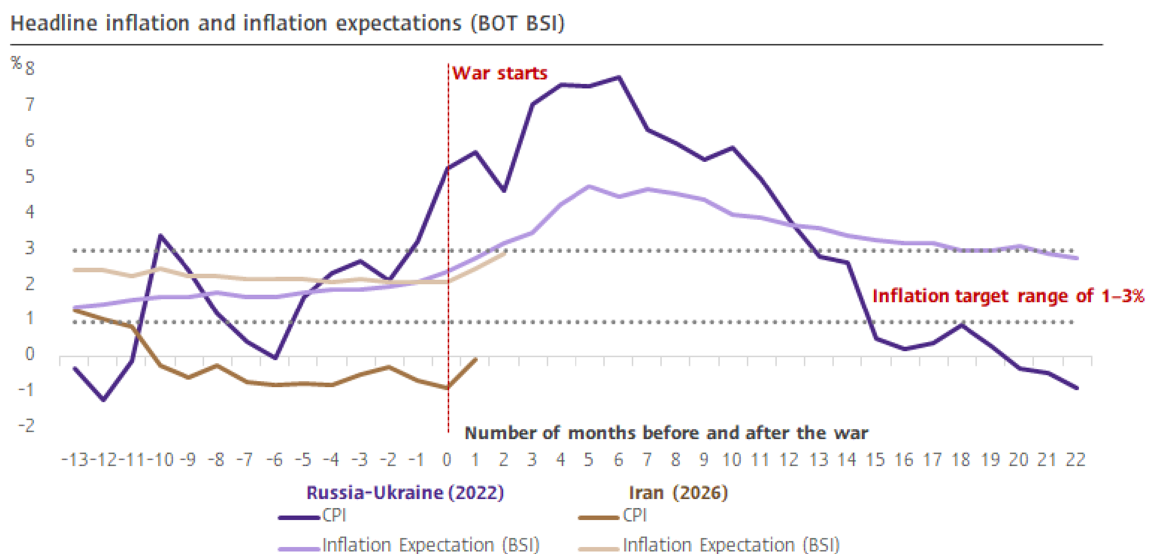
- **The MPC does not need to raise the rate in response to supply-driven inflation.**
    - **Thailand's inflationary pressure remains low.** The impact of higher global oil prices on inflation may be smaller than in other economies because (1) Thai inflation was low before the Middle East war, significantly below the level before the Russia-Ukraine war (Figure 2),

(2) the government partially subsidizes energy prices, helping cushion some inflation impact, and (3) cost pass-through to consumers may remain limited amid subdued domestic demand.

  - **Thailand's external stability remains strong**, with international reserves at a high level, while BOT has tools to manage rapid baht depreciation in the event of sudden capital outflows.

- **The MPC is unlikely to rush into rate cut to support the economy affected by the Middle East war,** given persistently uncertainty and limited clarity on growth and inflation outlook. Cutting prematurely could undermine confidence in the inflation targeting framework. In addition, policy space remains limited.
- **Over the next 1–2 quarters, the MPC is likely to maintain the policy rate.** Thereafter, it will need to weigh the risk of the economy being affected by the war against the risk of inflation staying above the target range for a prolonged period.
- **Financial measures for borrower assistance and SME credit access will play a greater role in addressing the energy crisis,** as high uncertainty keeps the MPC in wait-and-see mode.

Figure 2: Thai inflation remains far below the level before the Russia-Ukraine war.



Source: SCB EIC analysis based on data from the Ministry of Commerce and BOT.

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