MPC Delivers Its First Rate Cut with Another Expected within Q1/2025

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The MPC voted 5 to 2 in favor of cutting the policy rate by 0.25%, bringing it down to 2.25%. Two members voted to maintain the rate at 2.50%, emphasizing that a policy rate reduction would help ease debt burdens without hindering the household debt deleveraging process amid slowing credit expansion (Figure 1). The MPC also deems the policy rate at 2.25% to be consistent with Thailand's potential economic growth rate, and thus the adjusted policy rate neither stimulates nor restrains economic growth. In SCB EIC's view, the communication at this meeting was not significantly more dovish compared to the previous meeting, as the MPC continues to prioritize financial stability and maintaining monetary policy space. The MPC also believe the policy rate should not be too low to avoid accumulating long-term financial vulnerabilities in the system.

For economic outlook, the MPC maintains a similar assessment as the previous meetings, projecting that the Thai economy will expand by 2.7%YOY and 2.9%YOY in 2024 and 2025, respectively, close to the June projections of 2.6%YOY and 3.0%YOY. The MPC expect headline inflation to return to the target range by the end of this year, with inflation projections of 0.5% and 1.2% for 2024 and 2025, slightly lower than the June projections of 0.6% and 1.3%. Meanwhile, financial conditions are tightening due to appreciation of the baht and a slowdown in overall credit growth. SMEs are facing credit contraction, and credit quality continues to deteriorate. The MPC will monitor the impact of declining credit quality on the credit market and the broader economy going forward.

IMPLICATIONS

In SCB EIC's view, the MPC's next rate cut decision will depends largely on financial conditions. The rate cut at this meeting was aimed at easing financial conditions amidst slowing credit growth and deteriorating credit quality to mitigate risks of tightening financial conditions exerting more pressure on the economy going forward. The MPC's communication underscores that this rate cut is not intended to stimulate the economy but to maintain a neutral stance in line with the economic and inflation outlook, which remains broadly unchanged from the previous meeting. The MPC also emphasizes that the appropriate level of policy interest rate should support the debt deleveraging process and should not be so low that it encourages unsustainable household debt accumulation, which could pose long-term risks to financial stability. **Therefore, future rate cuts will depend on how tightening financial conditions impact economic activities.**

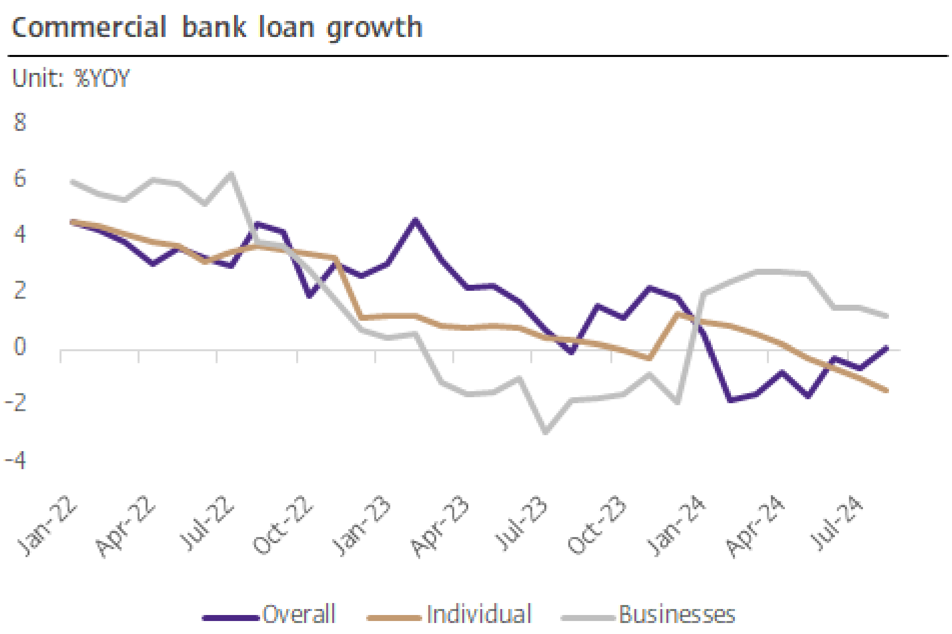
SCB EIC expects the MPC to deliver another rate cut within Q1 2025 to further ease financial conditions as economic and credit slowdowns persist. The situation is expected to worsen gradually, while global financial conditions would continue to ease. In summary, SCB EIC sees three factors that would contribute to the further rate cut by the MPC:

1) Credit Conditions: besides MPC's concerns about SME credit, SCB EIC anticipates that household credit slowdown will further pressure the Thai economy, as financial institutions are expected to tighten their lending standards (Figure 2) in line with the ongoing deterioration in household credit quality (Figure 3). **2) Downside risks to the Thai Economy:** SCB EIC assesses that downside risks to the Thai economy in 2025 will increase in line with rising global risks, including rising geopolitical tensions and uncertainties related to U.S. trade policy following the upcoming elections, which may exert additional pressure on Thai exports, especially when exports become a key driver of the Thai economy amidst weakening domestic demand.

3) Global Financial Conditions: Global financial conditions are expected to continue easing as major central banks reduce their policy rates, creating a more favorable environment for Thailand's monetary policy adjustments.

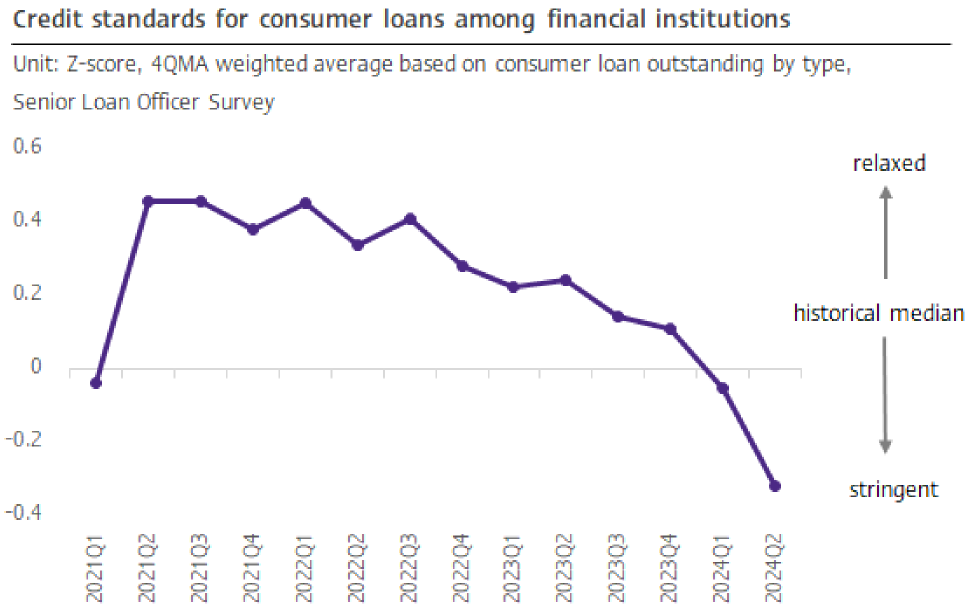
SCB EIC expects the MPC to reduce the policy rate to 2% by Q1 2025.

Figure 1: Commercial Bank Loan Growth Continues to Slow.



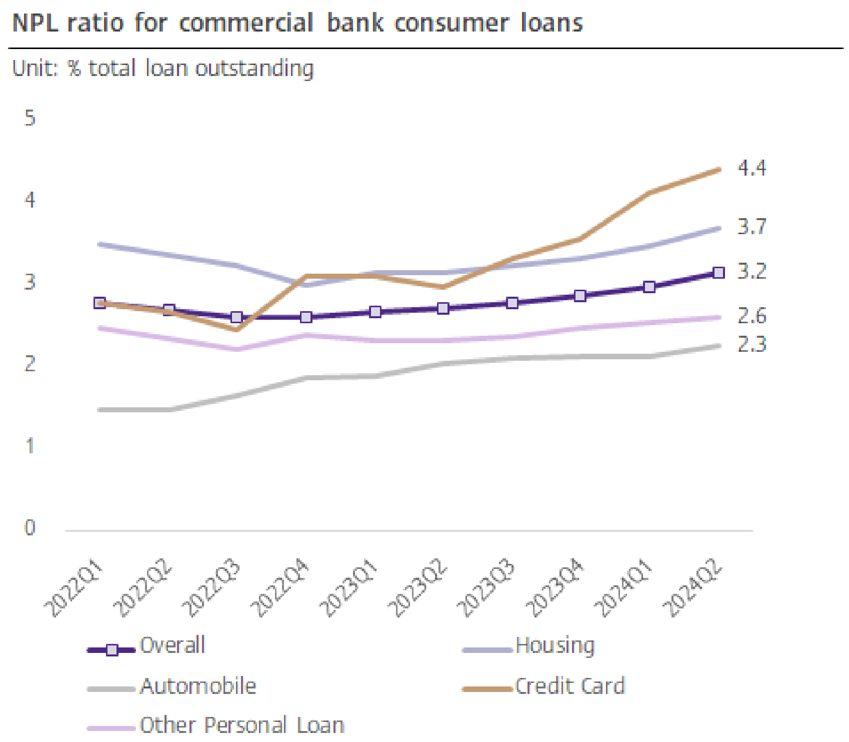
Source: SCB EIC analysis based on data from Bank of Thailand.

Figure 2: Household Credit Standards Continue to Tighten.



Source: SCB EIC analysis based on data from Bank of Thailand.

Figure 3: Household Credit Quality Continues to Deteriorate.



Source: SCB EIC analysis based on data from Bank of Thailand.

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