SCB EIC anticipates that the MPC still has room to lower the policy rate again next year.

18 December 2024

SCB EIC anticipates that the MPC still has room to lower the policy rate again next year.

The MPC voted unanimously to maintain the policy rate at 2.25%, aligning with SCB EIC's projections. The committee deems the current policy interest rate to be consistent with economic trajectory near its potential and inflation returning to lower bound of the target range. Maintaining the current policy rate supports long-term macro-financial stability while preserving policy space for heightened future uncertainties, especially due to major economies' policies.

Economic and Inflation Outlook

The MPC maintains its Thai GDP growth projections at 2.7% in 2024 and 2.9% in 2025. However, challenges facing the Thai economy are expected to increase, influenced by intensified global competition and policy uncertainties from major economies. Inflation is projected to return to the target range, with the projections revised slightly downward to 0.4% in 2024 and 1.1% in 2025, compared to the October's projections of 0.5% and 1.2%.

SCB EIC observes that the latest communication by the MPC reflects a notably more hawkish stance compared to the previous meeting. The MPC did not express significant concerns regarding the overall economic outlook and assessed that the current challenges facing the Thai economy stem primarily from structural factors rather than cyclical ones. These structural issues particularly affect specific sectors such as SMEs and certain industries, including the automotive sector, which is facing intensified competition.

Furthermore, the MPC showed somewhat limited concern over the recent slowdown in credit growth, attributing the deceleration to two main factors: (1) loan repayments by well-performing businesses, such as those in the tourism, service, and trade sectors (particularly large enterprises), and (2) subdued credit demand from businesses with slower or incomplete recoveries, including SMEs in the trade, real estate, construction, and automotive sectors. Furthermore, the MPC expected the continued expansion of the overall economy despite slowdowns in business credits.

SCB EIC also notes that the MPC did not place significant emphasis on household sector vulnerabilities or the process of debt deleveraging during this meeting. This could be partly attributed to prior communication by the Bank of Thailand (BOT) regarding household debt resolution strategies, as highlighted during the announcement of the "You Fight, We Help" initiative.

IMPLICATIONS

SCB EIC anticipates that the primary challenges facing the Thai economy going forward will play a crucial role in prompting a policy rate cut early next year.

At present, there appear to be no immediate or clear pressures necessitating an urgent policy rate cut. However, going forward, the Thai economy is expected to face heightened challenges stemming from both domestic vulnerabilities and external factors. These include:

1) **Domestic Vulnerabilities:** The slowdown in credit growth has become evident across all sectors, encompassing both businesses and households. In Q3/2024, the outstanding loans of commercial banks contracted across all categories (Figure 1). While the MPC has assessed that this credit slowdown has not yet significantly impeded economic expansion, it simultaneously signals underlying vulnerabilities in the Thai economy.

   For household credit, the contraction partly stems from stricter standards for new loan issuance (Figure 2), driven by household sector fragility and slow income recovery. This will exert pressure on private consumption in the near term. On the business credit front, attention is needed to determine the extent to which the decline in credit demand reflects reduced appetite for new investment among businesses.

   SCB EIC views these early signs of domestic demand fragility as likely to intensify. As a result, the MPC is expected to place greater emphasis on easing monetary policy to support domestic demand and cushion the economy against these vulnerabilities.

2) **External Challenges:** A key concern is the potential impact of trade policies of the President-elect Donald Trump, which could intensify global competition in manufacturing. This would exacerbate structural challenges already faced by the Thai manufacturing sector, which struggles with competitiveness, and may further delay household income recovery.

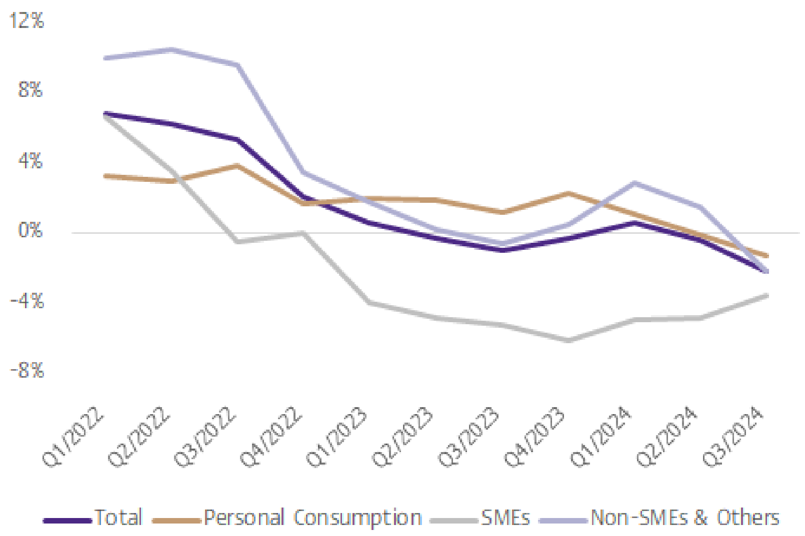
   A reduction in the policy rate could help mitigate some of the adverse impacts on the Thai economy under these mounting external pressures. Early 2025 is expected to see two significant developments in the U.S. economy: (1) additional Fed funds rate cuts by the Federal Reserve and (2) greater clarity on U.S. economic and international trade policies following Donald Trump's inauguration as the president (Figure 3). These developments will enable the MPC to better assess downside risks to the Thai economy. Such conditions are likely to support the case for a policy rate cut at the next meeting to cushion the economy against these heightened risks.

SCB EIC anticipates that the MPC will cut the policy rate again to 2% in early 2025. This adjustment aims to support the Thai economy as it will face increasing vulnerabilities from domestic factors and rising challenges from external environment.

Figure 1: Commercial bank loans contracted across all categories.

Commercial banks' loan growth

Unit : %YOY

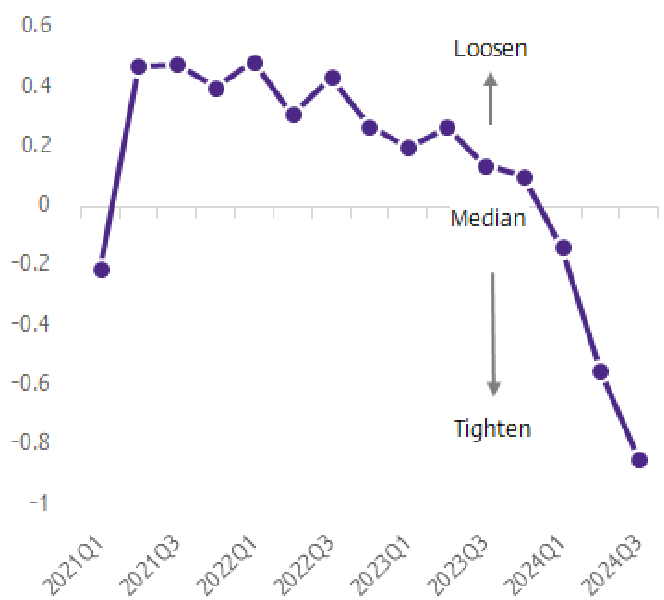


Source : SCB EIC analysis based on Bank of Thailand's data

Figure 2: Standards for household credit continue to tighten.

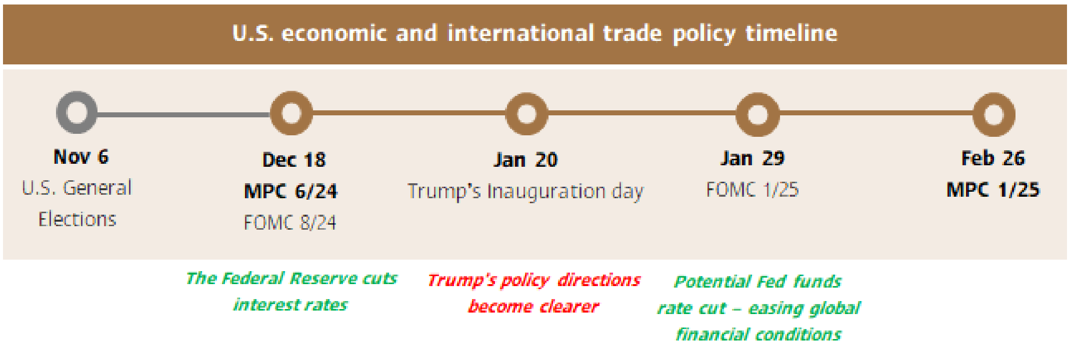
Credit standards for consumer loans

Unit: Z-score, 4QMA weighted average by types of loan outstanding, Credit Conditions Survey



Source: SCB EIC analysis based on Bank of Thailand's data

Figure 3: U.S. economic and international trade policies are expected to become clearer in early next year.



Source: SCB EIC analysis

Author

NOND PRUEKSIRI

SENIOR ECONOMIST

MACROECONOMICS RESEARCH

SOMPRAWIN MANPRASERT, Ph.D.

First Executive Vice President, Chief Economist at Economic Intelligence Center (EIC), Siam Commercial Bank and FEVP, Chief Strategy Officer at Siam Commercial Bank.

THITIMA CHUCHERD, Ph.D.

HEAD OF MACROECONOMICS RESEARCH

POONYAWAT SREESING, Ph.D.

SENIOR ECONOMIST

NOND PRUEKSIRI

SENIOR ECONOMIST

VISHAL GULATI

SENIOR ECONOMIST

NATHAPONG TUNTICHIRANON

ECONOMIST

PUNN PATTANASIRI

ECONOMIST

PAWAT SAWAENGSAT

ECONOMIST