SCB EIC Sees Possibility of Further Rate Cut This Year

26 February 2025

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The MPC voted 6 to 1 to lower the policy interest rate by 0.25 percentage points to 2.0%, with one member voted to maintain the rate at 2.25%. This rate cut reflects the MPC's assessment that Thailand's economic growth is likely to fall short of previous projections due to structural issues, particularly in the manufacturing sector, which faces heightened competition from foreign goods. Additionally, downside risks to the Thai economy have become more evident following the rapid and aggressive trade measures implemented by the U.S. government. Meanwhile, domestic financial conditions remain tight, particularly in terms of credit access for SMEs. The MPC expects this rate cut to help ease financial conditions and mitigate downside risks going forward.

The MPC judges the Thai economy in 2024 to be weaker than expected. In the December meeting last year, the MPC projects that the Thai economy would grow by 2.7%YoY in 2024, but the outturn is only at 2.5%YoY. The MPC attributes the weaker-than-expected growth to the manufacturing sector which is facing competitiveness challenges. Although private consumption and merchandise exports saw relatively robust expansion, the manufacturing sector however was unable to contribute to Thailand's economic growth (Figure 1). The MPC assesses that this issue will worsen and lead to a lower-than-previously-expected economic expansion this year. Consequently, in this meeting, the committee revised its economic outlook for 2025, expecting that GDP growth in 2025 would be only "a bit above" previous year's growth of 2.5%YoY. Furthermore, the economy faces downside risks from trade policies of major economies. However, the MPC will release new projections in the next meeting in April.

The outlook for inflation and financial system stability remains largely unchanged from the previous meeting. Headline inflation is expected to stay near the lower bound of the target range, though downside risks persist due to possibly lower energy prices. Financial conditions remain tight, with SME loans continuing to contract amid competitiveness challenges from foreign goods flooding. Meanwhile, household loan growth also declined in line with increasing household vulnerabilities (Figure 2).

In SCB EIC's view, the MPC's communication in this meeting places greater emphasis on the Thai economic developments. This is reflected in the downward revision of its economic projections, primarily due to intensifying competition in the manufacturing sector. The MPC's assessment has factored in only the trade protectionist measures already implemented by the U.S., such as the 10% tariff increase on Chinese imports, but has yet to include potential future policies in its projection. While the MPC acknowledges the uncertainty surrounding U.S. trade policies, it sees a clearer downside risk to the Thai economy. Nevertheless, the committee continues to affirm that the rate cut does not mark the beginning of an easing cycle but is rather a recalibration of monetary policy stance to ease financial conditions in line with Thailand's weaker growth outlook. The MPC considers the policy rate at 2% to be neutral for the economy, meaning it neither accelerates nor hinders growth. It also emphasizes that policies aimed at enhancing Thailand's economic and industrial competitiveness will play a key role in driving higher economic growth in the future.

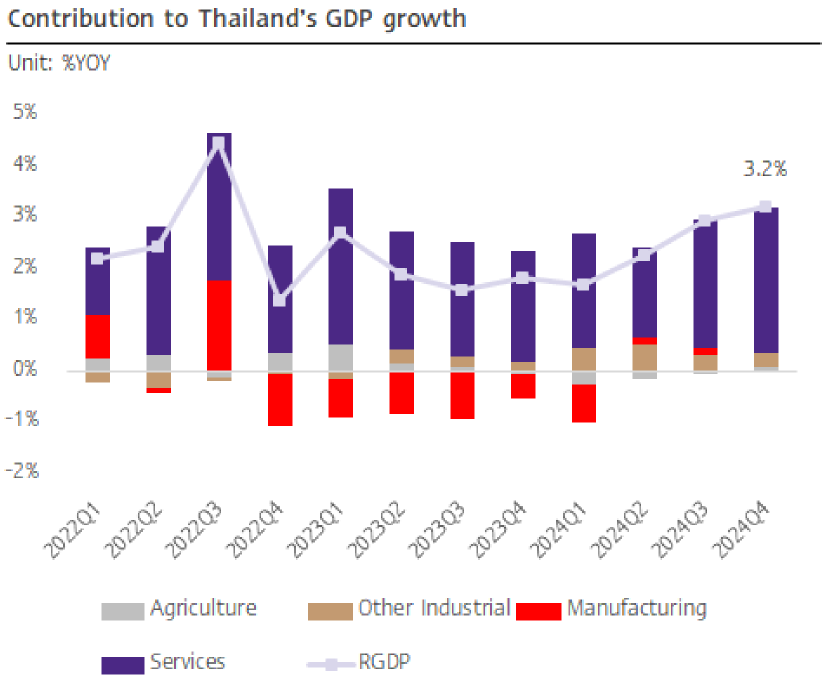
IMPLICATIONS

SCB EIC sees a possibility of further rate cut this year due to persistently tight financial conditions and the impact of U.S. trade policies. These two factors will be key drivers affecting the Thai economy going forward. However, some risks may have not yet been fully incorporated into the MPC's baseline assessment, including:

1) **Continued tight financial conditions** – particularly amid persistently low GDP growth following the COVID-19 crisis. SCB EIC expects credit growth to continue to stay at multi-year lows, further weighing on domestic demand.
2) **The rapid and aggressive implementation of U.S. trade policies** – Within just over a month of taking office, President Donald Trump has already announced or threatened to introduce numerous additional trade barriers. These measures will further weaken Thailand's already fragile manufacturing sector, exacerbating its struggles. Consequently, this will have a ripple effect on the recovery of household incomes, particularly those linked to the manufacturing sector.

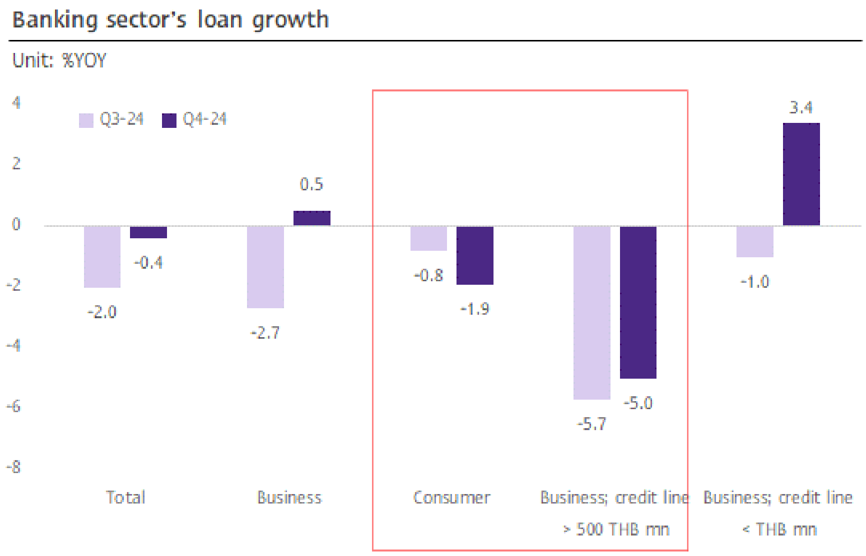
Both of these factors are expected to unfold simultaneously in the near future, exerting significant pressure on Thailand's economic growth, keeping it well below its potential. **SCB EIC sees a possibility that the MPC may deliver further policy interest rate cut this year to ease financial conditions at a time when the Thai economy is facing substantial external and domestic challenges.**

Figure 1: The industrial manufacturing sector has yet to regain its role as a driver of the Thai economy in 2024.



Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Council (NESDC).

Figure 2: Retail loans continue to contract in the second half of 2024.



Source: Bank of Thailand, Banking Sector Quarterly Brief (Q4-2024)

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