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The MPC voted 5 to 2 to cut the policy rate by 0.25 percentage points to 1.75%, with two members voting to maintain the rate at 2.0%. This policy rate cut stems from the MPC's assessment that The Thai economy is likely to slow, with increased downside risks arising from U.S. trade policy and retaliatory measures by major economies. In addition, foreign tourist arrivals came in lower than previously expected. Headline inflation is projected to fall below the target range, while financial conditions remain tight. Looking ahead, the MPC deems the trade war to be prolonged and to result in the long-term structural changes in global trade and supply chain. These developments significantly increase the uncertainty surrounding the economic outlook.

In this meeting, the MPC did not provide a baseline projection for the Thai economy, but instead presented scenario-based views due to persistently high uncertainty.

- The MPC views the escalating global trade tensions in H1/2025 as the onset of a "storm" that will begin to affect the Thai economy in H2/2025. At the same time, the endgame of this storm—which is expected to induce long-term structural changes in the global economic, financial, and trade systems—remains unclear.
- Regarding the Thai economic growth and headline inflation outlook, the MPC presented projections under two distinct scenarios without indicating which is considered the baseline case (Figure 1):

  1) **Reference Scenario:** This scenario assumes that the U.S. maintains its current import tariff rates, meaning that Thailand will face a 10% tariff on its exports to the U.S., except for certain product categories subject to additional duties. Under this scenario, uncertainty surrounding U.S. trade policy is expected to persist through end-2026. In this case, the Thai economy is projected to grow by 2.0%YOY and 1.8%YOY in 2025 and 2026, respectively. Headline inflation is expected to be 0.5% and 0.8% in 2025 and 2026, respectively.
  2) **Alternative Scenario:** This scenario assumes that the U.S. imposes only half of the reciprocal tariffs announced (on April 2, 2025) from Q3 this year, while its economy enters a technical recession within 2024. Under this scenario, the Thai economy is projected to grow by 1.3%YOY and 1.0%YOY in 2025 and 2026, respectively, with headline inflation at 0.2% and 0.4% over the same period.

- The MPC judges that regardless of which global trade scenario materializes, Thailand's economic growth will fall significantly short of previous projections, with materially increased downside risks.

The MPC clearly communicated that monetary policy needs to be "accommodative."

In its latest communication, the MPC emphasized the need for monetary policy to be accommodative to support the adjustment of businesses and households amid heightened tensions and volatility in global trade. The MPC did not define the current episode of policy rate cuts as an "easing cycle," as the shocks impacting the economy are not characterized as sharp, one-off disruptions akin to those during the Global Financial Crisis. Instead, the MPC expressed its readiness to adjust the policy rate as appropriate in response to evolving conditions. This marks a significant shift from previous communications, which underscored the need for monetary policy to remain in a "neutral" stance—one that neither stimulates nor restrains economic growth.

IMPLICATIONS

SCB EIC assesses that further monetary easing will be necessary due to the following factors:

- **Despite several rounds of policy rate cuts, Thailand's financial conditions remain tight relative to historical norms** (Figure 2). In addition to domestic factors—such as contracting credit and a continued deterioration in credit quality—the nominal effective exchange rate index for the Thai baht has also remained persistently stronger compared to past levels. These indicators of tight financial conditions suggest that the MPC may need to further reduce the policy rate in order to ease Thailand's financial conditions aligned with Thailand's economic outlook, which is expected to slow significantly.
- **The policy rate may need to be reduced below the levels seen during Trade War 1.0 (2018–2019).** During the first trade war, which involved reciprocal tariff hikes between the U.S. and China, Thailand was only indirectly affected. At the time, monetary policy was accommodative, with the average real interest rate standing at just 0.3%. In contrast, the current trade war is significantly more severe, with Thailand facing direct and substantial impacts. However, even after the latest policy rate cut, Thailand's current real interest rate remains at 0.7% (Figure 3). Therefore, in order to effectively respond to the intensifying global trade tensions, a lower policy rate—possibly below previous levels—may be required.

- **Monetary policy may need to play a greater role in supporting the economy going forward, following Moody's downgrade of Thailand's credit outlook, which highlights the limitations of fiscal policy.** On April 29, Moody's Investors Service revised Thailand's credit outlook from "Stable" to "Negative" while maintaining the rating at Baa1. The change reflects the deteriorating outlook for both Thailand's economy and fiscal position. Thailand is expected to be affected both directly and indirectly by the U.S. tariff measures, which will compound existing structural economic challenges. The ongoing slow recovery and rising downside risks will likely exert further pressure on public finances. This outlook revision could constrain the fiscal space for future stimulus measures, thereby necessitating a greater role for monetary policy in supporting economic activity.

SCB EIC expects the MPC to cut the policy rate two more times this year, reaching 1.25% by end-2025, in response to Thailand's weakening economic outlook amid significantly heightened uncertainty stemming from U.S. trade policy. In addition to rising external risks, existing tight financial conditions further justify the need for monetary easing. SCB EIC projects that the policy rate by year-end will fall below the level seen during 2018–2019, the period of Trade War 1.0 between the U.S. and China, when Thailand was only indirectly affected.

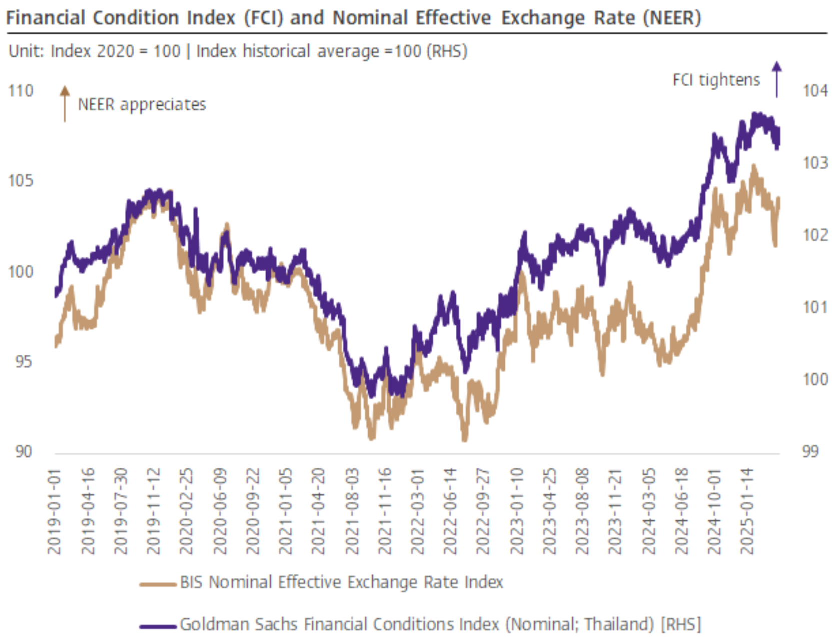
Figure 1: MPC's Economic outlook scenarios

U.S. Import Tariffs	Scenario			
	Reference Scenario		Alternative Scenario	
All countries except China	Universal Tariff 10% + Sectoral Tariff 25%/1		Half of Reciprocal Tariff Announced effective from Q3/25 + Sectoral Tariff 25%/1	
China	54%		72.5%	
MPC's Economic Projections (%YOY)	**2025F**	**2026F**	**2025F**	**2026F**
GDP Growth	2.0%	1.8%	1.3%	1.0%
Value of merchandise exports	0.8%	-2.8%	-1.3%	-7.0%
Headline inflation	0.5%	0.8%	0.2%	0.4%

/1 Sectoral tariff consists of tariffs for auto & parts and steel & aluminum

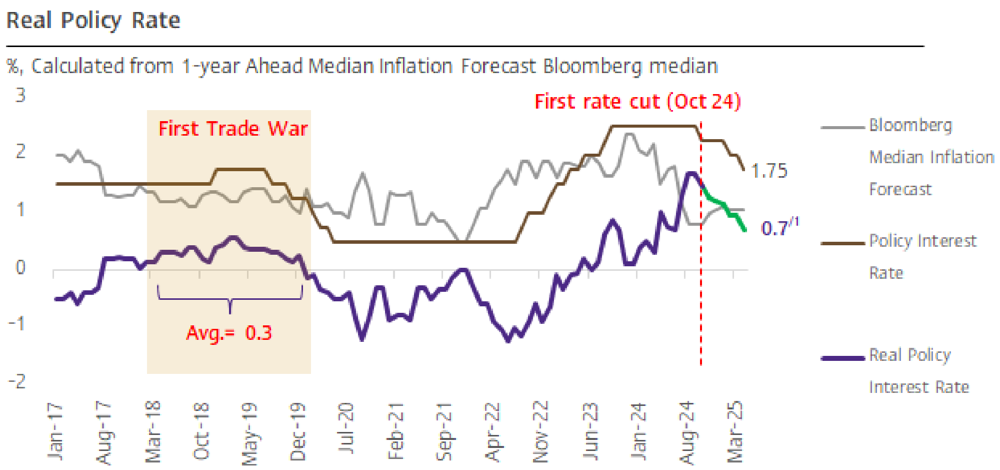
Source: Bank of Thailand

Figure 2: Thailand's financial conditions remain tight relative to historical norms



Source: Bank for International Settlements (BIS) and Goldman Sachs

Figure 3: The policy rate may need to fall below the levels during Trade War 1.0



/1 Bloomberg 1-year ahead inflation median headline inflation forecast as of March 2025

Source: SCB EIC Analysis based on data from Bank of Thailand and Bloomberg

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