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The MPC voted 6 to 1 to maintain the policy rate at 1.75%, with one member voting to cut the policy rate by 0.25 percentage point. This decision to hold the rate reflects the MPC's assessment that the previous policy rate cuts have been reasonably effective in managing downside risks. Monetary policy should remain accommodative to support the economy going forward. The Committee emphasized the importance of timing and the effectiveness of interest rate adjustments. Given the currently high level of uncertainty and limited policy space, the decision to maintain the policy rate is deemed appropriate in light of the expected economic slowdown and rising risks in the second half of the year.

The MPC sees limited likelihood that the Thai economy will grow by less than 2.0%YOY this year.

- **In this meeting, the MPC resumed its baseline assessment of the Thai economic outlook,** viewing the impact of the trade war as having become 'more limited in scope.' It now expects that the U.S. may not impose broad-based and substantial tariff hikes, which contrasts with the previous meeting where no clear baseline was provided. Nevertheless, global trade policy uncertainty remains high.
- **For 2025, the MPC projects Thai GDP growth at 2.3%YOY,** higher than the previous estimate of 2.0%YOY under the Reference Scenario (low tariff case) and 1.3%YOY under the Alternative Scenario (high tariff case). This upward revision is based on stronger-than-expected Q1 GDP outturn and continued robust expansion in Q2 economic indicators. Nevertheless, the Thai economy is expected to slow in the second half of the year due to a decline in merchandise exports and a drop in foreign tourist arrivals. In addition, intensified competition from imported goods continues to put pressure on the Thai business sector.
- **For 2026, the MPC projects Thai GDP growth at 1.7%YOY,** slightly below the previous estimate of 1.8%YOY under the Reference Scenario (low tariff case), but higher than 1.0%YOY under the Alternative Scenario (high tariff case).
- **In this round of GDP projections,** the MPC has fully incorporated the impact of the government's THB 157 billion economic stimulus package, as well as the effects of the current Thailand-Cambodia situation. However, political uncertainties have not yet been included.
- **The MPC deems the likelihood of Thai economic growth falling below 2.0%YOY in 2025 to be low,** unless a severe shock that triggers a technical recession occurs (defined as two consecutive quarters of negative QoQsa GDP growth). Historically, the probability of a technical recession has been low in the absence of a crisis.

- **Headline inflation** is projected at 0.5% in 2025 and 0.8% in 2026, primarily driven by supply-side factors. Currently, there is no broad-based decline in prices, while the cost of living in certain categories—such as ready-to-eat meals and cooking ingredients—continues to rise. Therefore, the MPC assesses that the likelihood of Thailand entering a deflationary environment is low. Regarding the Israel-Iran situation, the MPC still views it as an upside risk to inflation, which has not been incorporated into the baseline projection.
- **Credit growth has slowed due to declining loan demand and rising credit risk,** particularly among SMEs, which are struggling with competitiveness against imported goods.

The MPC continues to assert that monetary policy needs to be 'accommodative,' but emphasizes the importance of proper 'timing'.

In its latest communication, the MPC emphasized that future policy rate adjustments must be executed with appropriate timing to ensure maximum effectiveness of monetary policy, given the limited policy space. The current high level of uncertainty may also reduce the effectiveness of a policy rate cut. Moreover, the MPC deems the policy interest rate to be a somewhat ineffective tool for addressing challenges that are concentrated in specific sectors of the economy, such as heightened competition from imported goods. Going forward, monetary policy decisions will depend on the overall credit conditions, the impact of the trade war, geopolitical risks, and domestic factors. The MPC may also consider cutting the policy rate if financial conditions tighten broadly and become inconsistent with underlying economic fundamentals.

IMPLICATIONS

SCB EIC assesses that monetary policy may be further eased due to the following reasons:

- **The current policy rate is still considered high relative to historical levels, at a time when the Thai economy is growing well below its potential.** Based on the median of one-year-ahead inflation expectations from Bloomberg, Thailand's real policy rate stands at around 1%, whereas the average real rate over the past decade has been close to 0%. Therefore, the current policy rate may still be insufficiently accommodative.
- **The MPC projects that the Thai economy will slow further next year, while monetary policy operates with a time lag.** As such, the MPC may consider additional policy rate cuts this year to align with the expected economic slowdown in 2026. **Looking ahead, Thailand's policy rate is likely to remain on a downward trajectory to support economic activity and facilitate the household debt deleveraging process.**

- **The Israel-Iran-U.S. conflict could introduce uncertainty to the near-term interest rate path. If the situation escalates and leads** to a surge in commodity prices, causing Thai inflation to exceed the target range, it could delay the MPC's decision to cut rates.

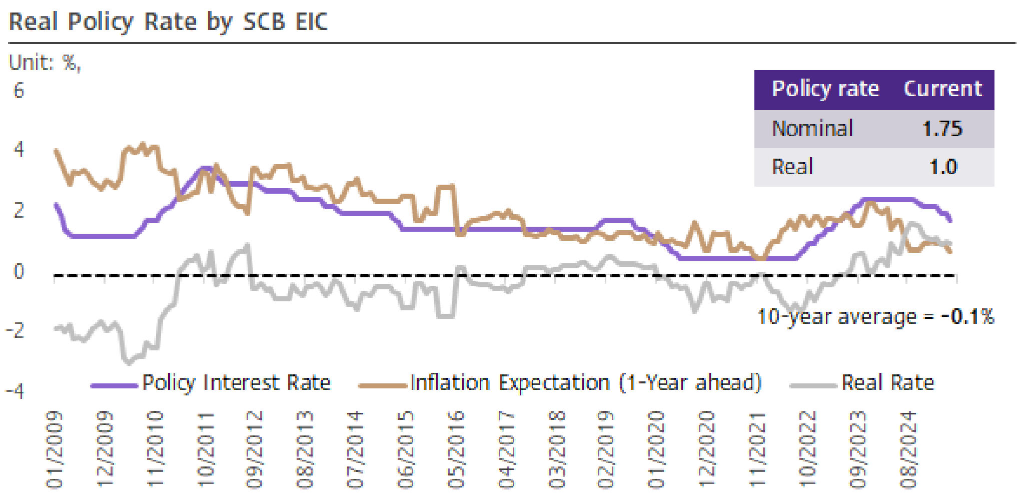
SCB EIC expects the MPC to cut the policy rate two more times this year to 1.25% by end-2025 in order to adopt a more accommodative monetary stance aligned with Thailand's weakening economic momentum, which is expected to slow from H2/2025 and continue into 2026. Additionally, downside risks to the Thai economy are mounting, stemming from trade wars, household and business sector vulnerabilities, and rising political uncertainty going forward.

Figure 1: MPC's Economic outlook

U.S. Import Tariffs	MPC June 2025		MPC Apr 2025			
(Base case)	Baseline		Reference Scenario		Alternative Scenario	
All countries except China	U.S. imposes tariff on Thai goods at 18% + Other countries at 10%[/1]		Universal Tariff 10% + Sectoral Tariff 25%[/2]		Half of Reciprocal Tariff Announced effective from Q3/25 + Sectoral Tariff 25%[/2]	
China	30%		54%		72.5%	
MPC's Economic Projections (%YOY)	2025F	2026F	2025F	2026F	2025F	2026F
GDP Growth	2.3%	1.7%	2.0%	1.8%	1.3%	1.0%
Value of merchandise exports	4.0%	-2.0%	0.8%	-2.8%	-1.3%	-7.0%
Headline inflation	0.5%	0.8%	0.5%	0.8%	0.2%	0.4%

[/1] Sectoral tariff is not mentioned in MPC June 2025 press materials
[/2] Sectoral tariff consists of tariffs for auto & parts and steel & aluminum
Source: Bank of Thailand

Figure 2: Thailand's Real Policy Rate Remains Above Historical Average



[/1] Bloomberg 1-year ahead inflation median headline inflation forecast as of May 2025
Source : SCB EIC Analysis based on data from Bank of Thailand and Bloomberg

Author

NOND PRUEKSIRI (nond.prueksiri@scb.co.th)

SENIOR ECONOMIST

MACROECONOMICS RESEARCH

YUNYONG THAICHAROEN, Ph.D.

Chief Economist and Sustainability Officer

THITIMA CHUCHERD, Ph.D.
HEAD OF MACROECONOMICS RESEARCH

POONYAWAT SREESING, Ph.D.

SENIOR ECONOMIST

NOND PRUEKSIRI

SENIOR ECONOMIST

VISHAL GULATI

SENIOR ECONOMIST

KUSALIN CHARUCHART

ECONOMIST

NATHAPONG TUNTICHIRANON

ECONOMIST

PAKKAPON TONTIWICH

ECONOMIST

PAWAT SAWAENGSAT

ECONOMIST

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