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13 August 2025

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The MPC Unanimously Votes to Cut the Policy Rate by 0.25% to 1.50%, in Line with SCB EIC's Expectations. The latest policy rate cut reflects the MPC's assessment that there remains room for further monetary policy easing to help alleviate tight financial conditions, particularly to (1) support businesses affected by U.S. tariff measures, which will exacerbate existing competitiveness challenges, allowing them to better adjust amid intensifying foreign competition; and (2) ease the financial burdens of vulnerable economic sectors. Looking ahead, the MPC judges that monetary policy should remain accommodative to support the economy, while maintaining a balanced approach to medium-term stability, given the limited policy space and the effectiveness of monetary policy transmission.

The MPC Expects the Thai Economy to Slow in H2/2025, While Inflation Remains Low Due to Supply-Side Factors

- **The MPC judges that the Thai Economic outlook remains largely unchanged from the previous assessment.** In the June 2025 meeting, the MPC projected Thai GDP growth at 2.3%YOY and 1.7%YOY in 2025 and 2026, respectively. The MPC assessed that Q2 economic growth would outperform previous expectations, primarily driven by merchandise exports and manufacturing, following a surge in merchandise exports to the U.S.
- **The MPC expects economic growth to slow in H2/2025.** This slowdown is partly attributed to the front-loaded production and export of goods to the U.S. market in the first half of the year. Moreover, the MPC expects other key economic drivers, particularly the tourism sector, to lose momentum going forward. The MPC may revise down its foreign tourist arrival projections in the upcoming October 2025 meeting. As of the June 2025 meeting, the forecasts stood at 35 million and 38 million international arrivals in 2025 and 2026, respectively.
- **The MPC stresses the need to monitor the impact of transshipment tariffs and intensifying import competition.** The MPC assesses that while the import tariffs imposed by the U.S. on Thai goods are not significantly less favorable than those applied to competitors, the elevated overall tariff levels, along with upcoming measures such as transshipment-related tariffs and product-specific duties (e.g., on electronics), could dampen global export demand. This may lead to intensified competition with medium-term implications. Consequently, the adjustment of the business sector will be a key factor in supporting Thai economic recovery going forward.
- **Headline inflation remains low due to supply-side factors.** Raw food prices declined due to increased supply, while energy prices fell mainly in line with global crude oil prices. However, there has yet to be a broad-based decline in the prices of other goods and services, as reflected in core inflation, which remains stable at around 1%.

The MPC Will Monitor Credit Contraction and the Appreciation of the Baht, Which May Affect Future Economic Activity

- **Credit contraction may further strain vulnerable economic sectors.** The ongoing credit contraction stems from declines in SME and household lending, partly due to financial institutions' increased caution in extending new credit to high-risk borrowers. At the same time, lending to large businesses has also slowed in line with reduced credit demand amid elevated economic uncertainty.
- **USDTHB has appreciated against regional currencies,** in line with weaker U.S. Dollar Index and rising gold prices.
- **The MPC maintains that monetary policy needs to remain "accommodative," while acknowledging limited policy space and diminishing transmission effectiveness.** To date, the policy rate has been reduced by a cumulative of 1.0 percentage point from 2.50% at the beginning of 2024 to the current level of 1.50%. Going forward, the MPC will carefully consider the remaining limited policy space and the declining effectiveness of monetary transmission in a low interest rate environment.

IMPLICATIONS

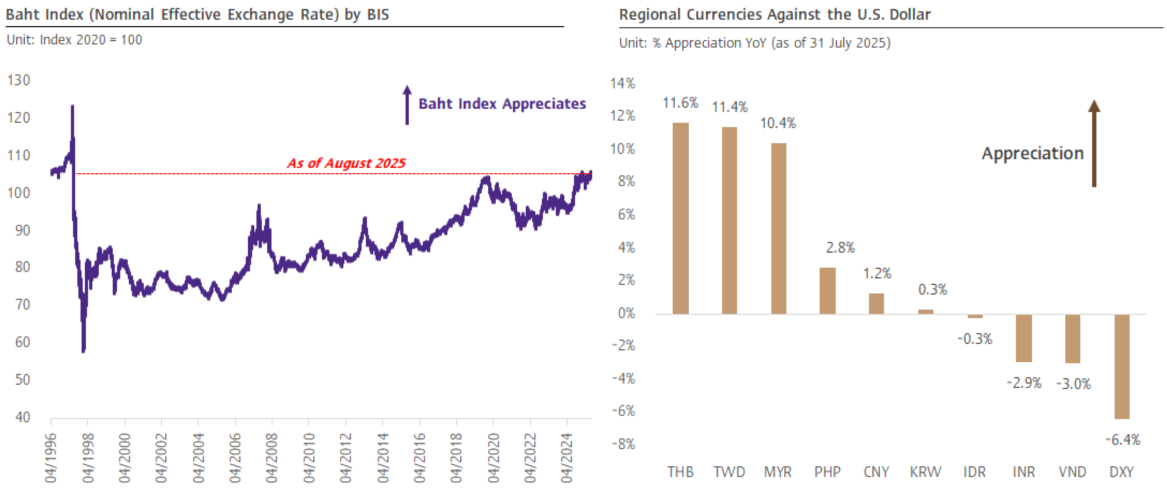
SCB EIC Expects the MPC to Deliver One More Rate Cut This Year, Due To:

- **Tight financial conditions, along with the rapid appreciation of the baht, could pose obstacles to economic activity going forward**
    - **The ongoing credit contractions, particularly in SME and household segments, are expected to persist** due to elevated credit risks. This partly stems from structural issues, including competitiveness challenges among certain SMEs, while households continue to face high levels of existing debt burdens.
    - **The baht has appreciated rapidly over the past year** compared to many key competitors in the U.S. market, potentially adding further pressure on the competitiveness of Thai exports. This appreciation is reflected in the baht index (Nominal Effective Exchange Rate Index: NEER), which has reached its highest level since the 1997 Asian Financial Crisis as of early 2025 (Figure 1)
- **The current real policy rate remains elevated relative to historical norms**, standing at approximately 0.75%, while the 10-year average real rate is close to 0% (Figure 2). This indicates that the current policy rate level may still be insufficiently accommodative, especially given the significantly lower economic growth compared to historical trends.

- **Thailand's persistently low inflation, driven mainly by supply-side factors and government interventions could expose households to a "debt deflation" environment, ultimately raising the risk of deflation**
    - Debt deflation refers to a situation in which the real value of debt does not decline in line with rising prices, leaving household debt burdens elevated. In recent years, low inflation has contributed little to the household debt deleveraging process. The decline in the household debt-to-GDP ratio observed over the past year has been driven mainly by a slowdown in new borrowing (Figure 3).
    - If this situation persists, households could become increasingly vulnerable, leading to weaker domestic demand and demand-side disinflationary pressures, which could ultimately put the Thai economy at risk of deflation.

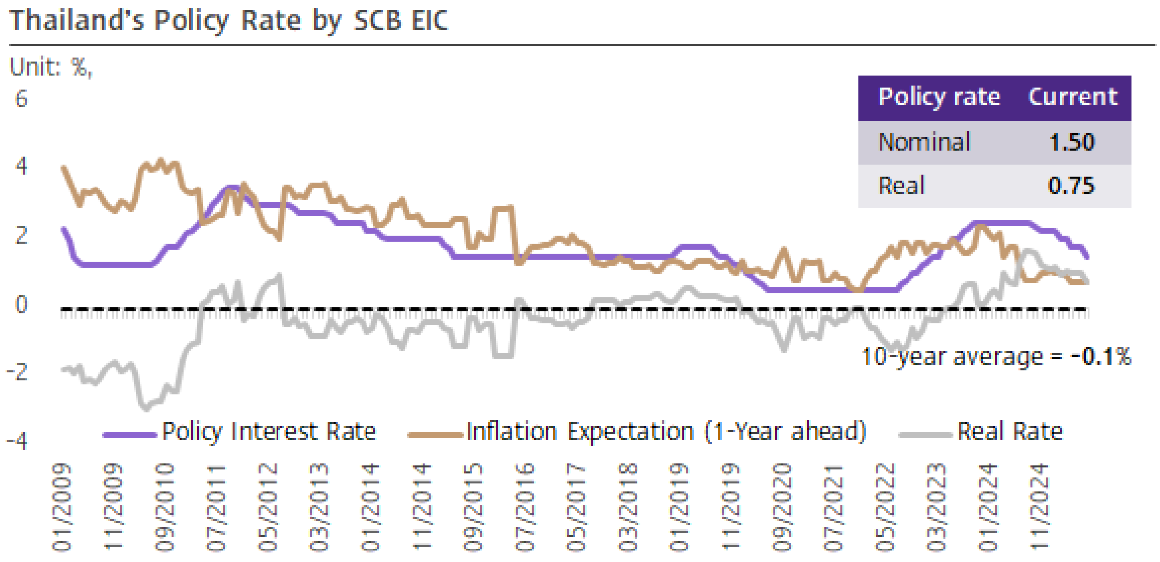
On monetary policy outlook, SCB EIC maintains its assessment that the policy rate will be lowered to 1.25% by year-end. Thailand's economic engines are expected to lose further momentum, particularly in merchandise exports and tourism. The vulnerability of businesses and households will continue to weigh on domestic demand. In addition, Thailand's financial conditions remain notably tight, inconsistent with the economy's significantly below-potential growth. SCB EIC therefore expects the MPC to cut the policy rate once more in Q4 this year to ensure monetary policy can adequately cushion vulnerabilities in the Thai economy going forward.

Figure 1: Rapid Baht Appreciation Could Further Pressure the Competitiveness of Thai Exports



Source: SCB EIC analysis based on data from BIS and Bloomberg

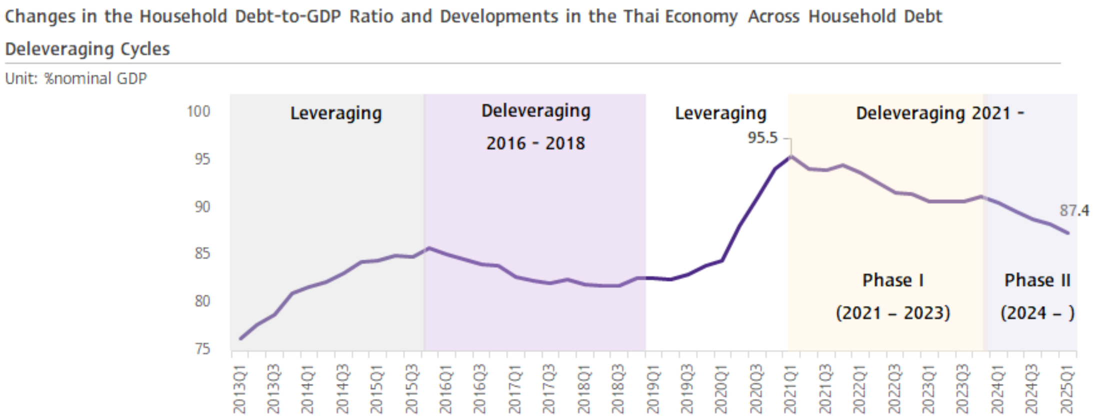
Figure 2: Thailand's Real Policy Rate Remains Above Its Historical Average



/1 Using One-Year-Ahead Inflation Expectations as of August 2025

Source: SCB EIC analysis based on data from Bloomberg

Figure 3: The Current Household Debt Deleveraging Cycle Is Occurring Amid Low Thai Nominal Economic Growth



	Leveraging	Deleveraging 2016 - 2018	Leveraging	Phase I (2021 – 2023)	Phase II (2024 –)
Household loan growth	9.6%	4.6%	4.7%	3.9%	1.0%
Real GDP growth	2.3%	4.0%	-2.0%	2.1%	2.7%
Headline inflation	1.1%	0.6%	-0.1%	2.9%	0.5%

Note: Economic variables (%YOY) represent quarterly averages

Source: SCB EIC analysis based on data from BOT, NESDC, and Ministry of Commerce

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