FLASH

SCB EIC

# MPC Cuts Rate as Expected;

## SCB EIC Forecasts Another Cut in H1 Next Year

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# MPC Cuts Rate as Expected; SCB EIC Forecasts Another Cut in H1 Next Year

**The MPC unanimously voted to cut the policy rate from 1.50% to 1.25%** to ease financial conditions amid a clear economic slowdown and rising risks. The rate cut also aims to alleviate debt burdens among vulnerable groups and enhance the effectiveness of financial measures. Looking ahead, the MPC stands ready to adjust monetary policy as appropriate in response to evolving economic and inflation outlooks, while taking into account long-term financial stability and limited policy space. Regarding the outlook for the economy, inflation, and financial conditions (Figure 1), the MPC assesses that:

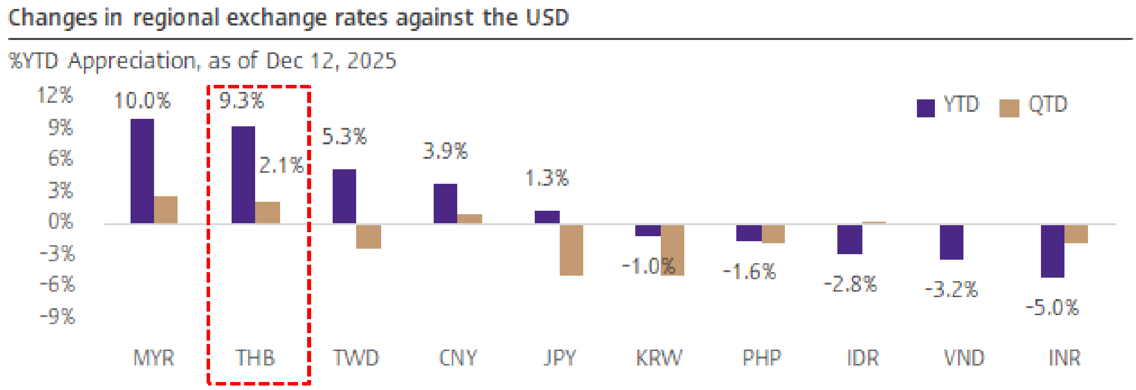
**Figure 1: Thailand's Economic Outlook for 2025–2027 by BOT (as of Dec 2025)**

| BOT projections (%YOY, %) | Actual | MPC Oct 25 | | MPC Dec 25 | | |
|---|---|---|---|---|---|---|
| | 2024 | 2025F | 2026F | 2025F | 2026F | 2027F |
| GDP growth | 2.5 | 2.2 | 1.6 | 2.2 | 1.5 | 2.3 |
| Merchandise export value | 5.9 | 10.0 | -1.0 | 12.0 | 0.6 | 1.7 |
| Headline inflation | 0.4 | 0.0 | 0.5 | -0.1 | 0.3 | 1.0 |

Source: SCB EIC analysis based on data from BOT

- **The economy is expected to slow markedly**, driven by a moderation in private consumption in line with income growth, while exports are set to be adversely affected by U.S. tariffs. **Additional downside factors and risks** include: (1) flooding in the south, which is expected to continue weighing on economic activity into early next year, and (2) political uncertainty, which could delay the enactment of the FY2027 budget.
- **Headline inflation this year is expected to average in negative territory and remain below the target range next year**, largely due to lower energy prices in line with global energy price movements, as well as government subsidy measures. Nonetheless, the risk of deflation remains limited.
- **Credit continues to contract**, reflecting both weaker loan demand in line with the slowdown in domestic demand and continued tight lending standards. Meanwhile, **the Thai baht has appreciated more than regional currencies** (Figure 2), in line with the U.S. monetary policy outlook and Thailand-specific factors.
- **Three key factors that the MPC will closely monitor** include:
  1) potential additional U.S. import tariff measures,
  2) credit growth developments and the appreciation of the Thai baht, and
  3) deflationary risks.

**Figure 2: The Thai baht has appreciated against almost all regional currencies**




Source: SCB EIC analysis based on data from Bloomberg

**SCB EIC views the MPC's communication in this meeting as diverging from previous communications in several key aspects,** including:

1) **The MPC judges the economic slowdown next year as "apparent",** placing greater emphasis on communicating downside factors and near-term economic risks, rather than highlighting the relatively strong recent economic and export outturns. **The MPC also provided additional views on the 2027 economic outlook, noting that while the economy is expected to recover**, growth will remain below potential. This reflects a more cautious forward-looking assessment, with the economy in 2027 projected to expand by only 2.3%YOY.
2) **The MPC will "closely" monitor deflationary risks, and for the first time explicitly communicated demand-side pressures within the domestic economy.** This represents a shift from previous meetings, which emphasized that deflation risks were limited and gave limited attention to demand-side factors. In this meeting, the MPC highlighted that domestic demand pressure is playing a diminishing role in supporting headline inflation.
3) **The MPC is concerned about the Thai baht's appreciation relative to regional currencies and signaled that it is considering measures to alleviate appreciation pressures.** This marks an unusual shift in communication, as the MPC typically does not refer to baht management measures in its policy statement.

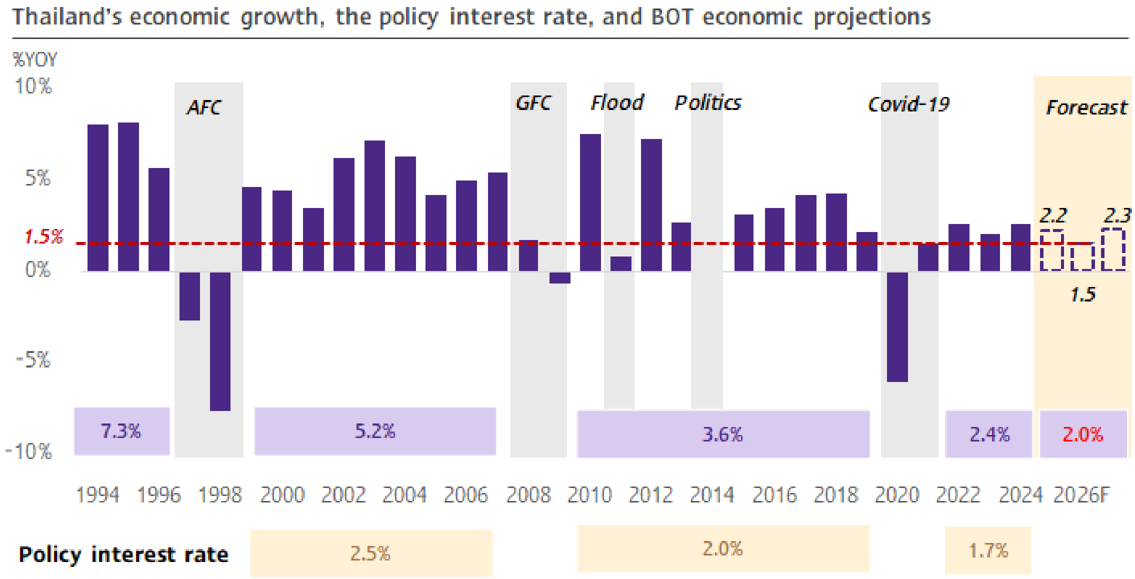
Overall, the statement adopts a more dovish tone than in previous communications, placing clearer emphasis on downside economic risks and the tightness of financial conditions.

## IMPLICATIONS

**SCB EIC forecasts one more policy rate cut in H1 2026,** due to the following factors:

- **The policy rate needs to be aligned with Thailand's economy, which is expected to grow below potential for at least the next two years.** The MPC projects that Thailand's economy in 2026 will expand by only 1.5%YOY (in line with SCB EIC's projection as of Dec 2025), marking the lowest growth rate outside crisis periods over the past 30 years (Figure 3). In addition, the MPC views the economic recovery in 2027 as likely to remain incomplete due to multiple headwinds. As a result, the economy over the three-year period of 2025–2027 is expected to grow at an average rate of only 2.0%YOY, which is significantly below potential and well below Thailand's historical average. Therefore, the policy rate may need to be cut further to better align with an economy facing subdued growth and an incomplete recovery.

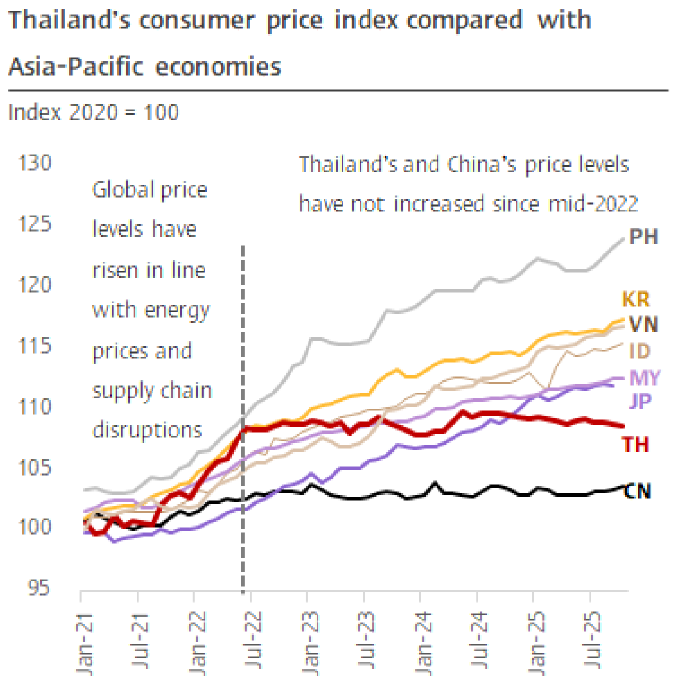
**Figure 3: Thailand's economy in 2026 may record its lowest growth in 30 years (excluding crisis periods)**




Source: SCB EIC analysis based on data from BOT and NESDC

- **Persistently low inflation in Thailand could weigh on corporate profitability and constrain household income growth.**
    - In recent years, Thailand's consumer price level has barely increased (Figure 4), which is inconsistent with trends observed in most regional economies. Instead, it more closely resembles China's consumer price dynamics, where domestic demand has been notably weak. Based on the BOT's headline inflation projections, Thailand's headline inflation over 2024–2026 is expected to average only 0.2%.

**Figure 4: Thailand's consumer price level has recorded very low growth in recent years**




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

- ○ Persistently low inflation could weigh on corporate profitability, as businesses are unable to raise prices for goods and services, which in turn would constrain household income growth. Moreover, it could expose households to "debt deflation", as household debt burdens would decline only slowly given that inflation remains insufficient to meaningfully reduce debt in real terms. Altogether, these channels would erode household purchasing power and could increase the risk of the Thai economy slipping into deflation.

- **Financial conditions are expected to remain tight for households and SMEs**, while credit demand from large corporates has declined, as reflected in a broad-based contraction in outstanding loans. A more accommodative monetary policy would therefore play a role in lowering financing costs and alleviating debt burdens, helping to ease overall financial tightness.

**Regarding the monetary policy outlook, SCB EIC continues to assess that the policy rate will be cut once more to 1.0% in H1/2026** in order to support Thailand's economy, which is expected to grow at a subdued pace. The rate cut would help lower financing costs, alleviate debt burdens, and lift headline inflation—which is projected to remain below the target range—thereby reducing the risk of debt deflation that could further weigh on domestic spending going forward.

## Author

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

SENIOR ECONOMIST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## 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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