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FLASH

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Policy space is sacrificed with a 25bps cut on 17th December, bringing the policy rate to 1.25%. The timing suggests monetary policy acting as countercyclical support as fiscal policy loses steam. With economic slack and uncertainty likely to persist, we expect another 25-bps cut within 1H26.

Key Event:

The Committee unanimously voted to cut the policy rate by 25 bps to 1.25%, reflecting a reassessment of the economic outlook amid rising downside risks.

At its meeting on December 17, the Monetary Policy Committee (MPC) voted unanimously to cut the policy rate by 25 bps to 1.25%. The decision is in line with Krungsri Research's view and Reuters survey (25 out of 27 research houses expected a rate cut).

The MPC assesses that the economy is experiencing an apparent slowdown alongside heightened downside risks. The Thai economy is projected to expand by 2.2% in 2025 and 1.5% in 2026, moderated from the first half of 2025, before improving to 2.3% in 2027. In 2026, private consumption is projected to slow down in line with moderation in income, and exports will be affected by U.S. tariff policies. Meanwhile, tourism is expected to gradually recover. The Committee noted that Thailand's low growth trajectory partly reflects structural challenges, underscoring the need for coordinated policies to enhance competitiveness of the business sector.

Headline inflation has been revised down to -0.1% in 2025, 0.3% in 2026, and 1.0% in 2027, and is expected to gradually return to the target range by the first half of 2027. Deflationary risks remain limited, with no broad-based price declines. **However, the Committee said that they will closely monitor deflationary risks.**

Overall credit growth remains negative amid subdued private spending and cautious lending behavior, especially toward vulnerable groups. SMEs, in particular, face liquidity constraints due to limited access to credit and the appreciation of the Thai baht.

Overall, monetary policy remains focused on price stability, sustainable growth, and financial stability. **The Committee deems that monetary policy should be accommodative to support economic recovery**, while closely monitoring risks and standing ready to adjust policy in line with evolving economic and inflation outlook. At the same time, it is important to ensure macro-financial stability, while **taking into account the limited policy space**.

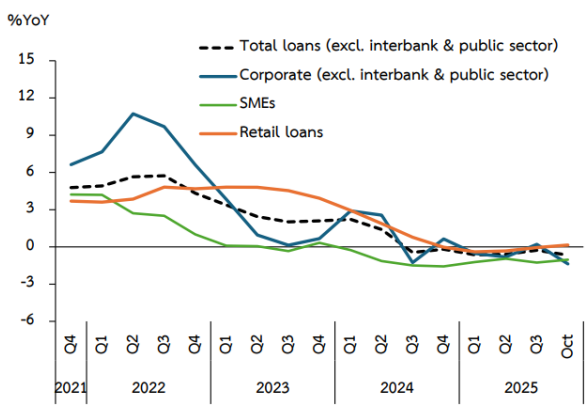
BOT's Economic Projection

	As of October		As of December		
Unit: %	2025	2026	2025	2026	2027
GDP growth	2.2	1.6	2.2 =	1.5 ▼	2.3
Inflation	0.0	0.5	-0.1 ▼	0.3 ▼	1.0

Source: BOT

Loan Growth

Overall credit growth continues to contract



Krungsri Research View:

- **Cyclical drags across key growth drivers in 2026 justified the rate cut. The BOT's projection of growth remaining below potential through 2027 implies structural constraints, leaving room for further easing, with a 25-bps cut expected in 1H26.**

The timing of the easing and the unanimous vote reflects monetary policy stepping in as fiscal hands are tied and drags on growth have become more pronounced, as evidenced by the BOT's downward revision of 2026 GDP growth projection to 1.5%. It is worth noting that, despite a recovery in 2027, growth is expected to remain below potential, which the MPC views that "*Thailand's low economic growth is partly a result of structural factors.*"

In our view, the macro-outlook is challenged by a combination of cyclical and structural slack, policy inertia, and heightened external frictions. Flooding in the South and renewed border tensions are weighing on the tourism sector and overall sentiment. In addition, the recent dissolution of parliament has set the stage for a lack of ample fiscal support, likely persisting until a fully operational government is expected to be in place by mid-year. On external matters, while border tensions may not directly disrupt economic activity on a broad scale, President Trump's use of tariffs as a tool of coercive diplomacy—combined with diminished bargaining power in the absence of a fully empowered government—makes tariff-related risks more probable. **Alongside this, credit contraction and demand-muted inflation signal fragility in private sector demand and reinforce a negative feedback loop between weak demand, cautious lending, and subdued investment.**

While the MPC has left the door open to further rate cuts, it remains cautious, as stated in the policy statement that "*The Committee stands ready to adjust monetary policy as appropriate in line with the evolving economic and inflation outlook. At the same time, it is important to ensure macro-financial stability, while taking into account the limited policy space.*"

That said, a case for additional easing is likely, as growth is estimated to remain below potential through 2027. At the same time, financial conditions are acting more as a drag than a support, while inflation—presenting more of a deflation risk than pressure—is no longer a binding constraint on policy. Importantly, during the first half of 2026, with a caretaker government and limited fiscal support, the policy rate should serve as one of the few available counter-cyclical tools to help cushion downside risks and stabilize economic momentum. **Thus, taken together with the BOT's stance, Krungsri Research sees an additional 25bps rate cut to 1% by 1H26, as uncertainty and growth constraints have become Thailand's dominant macro variables.**

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