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FLASH

February 25, 2026

The MPC delivered a 25-bps cut, bringing the policy rate to 1%. In line with the BOT's stated stance, we expect the policy rate to remain steady throughout 2026, unless a significant negative shock materializes.

Key Event:

The Committee voted 4-2 to cut the policy rate by 25 bps to 1.00% to continue supporting economic recovery and alleviating debt burdens for vulnerable groups.

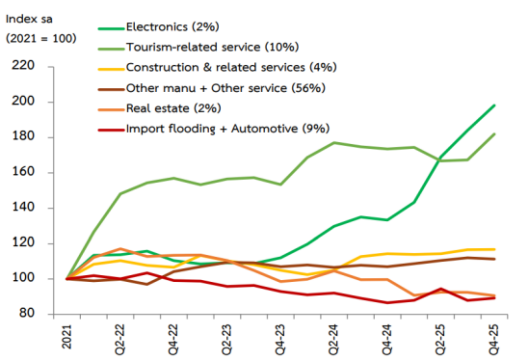
At its meeting on February 25, the Monetary Policy Committee (MPC) voted 4-2 to cut the policy rate by 25 bps to 1.00%. The decision is not consistent with Reuters survey (24 out of 27 research houses expected a hold). While the timing of the rate cut came as a surprise, the direction itself was not. Krungsri Research had already anticipated 25-bps cut this year, though at a later stage.

The MPC assesses that the Thai economic growth will remain below potential in 2026–2027 and uneven across sectors, reflecting structural impediments and intensified competition. **Private investment** and exports are expected to perform better than earlier assessed, particularly in technology-related sectors, but with less value added. Meanwhile, **private consumption** is projected to slow. Key developments to be monitored include U.S. tariff measures, the 2027 budget delay, and the adjustment of SMEs, which continue to face challenges from stronger competition, limited credit access, and a stronger baht.

On price stability front, headline inflation is expected to return to target later than previously assessed, shifting from the first half to the second half of 2027. Medium-term inflation expectations have declined slightly but remain within the target range. The Committee therefore deems it necessary to closely monitor deflationary risks.

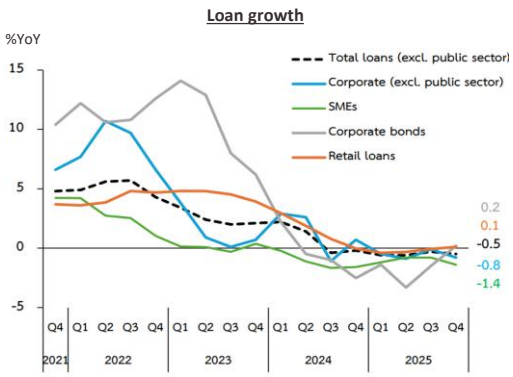
Regarding financial conditions, overall credit continues to contract amid cautious lending. Although financial conditions have eased following earlier rate cuts, borrowing costs remain high for SMEs with high credit risks. Furthermore, the **Thai baht** has appreciated against the U.S. dollar given the U.S. policy interest rate outlook and Thai specific factors, tightening financial conditions for exporters, particularly for products facing intense price competition and low profit margins.

Recovery remains uneven across the sectors



Note: () indicates the share of GDP in 2024
Source: BOT

Credit remains contracted and is expected to grow at a slow pace



Krungsri Research View:

- **The rate cut decision is in line with prevailing economic dynamics. With the focus now shifting toward preserving policy space and the current policy rate level viewed as appropriate, we expect the MPC to hold throughout 2026, provided no further negative shocks materially affect the economic outlook.**

The MPC's decision to cut the policy rate by 25 bps reflects its view that, despite some improvement in growth momentum, economic expansion is projected to remain below potential in 2026 and 2027. The move reflects the BOT's growth-oriented focus. Lowering the policy rate helps ensure supportive financial conditions, ease debt burdens, and anchor inflation expectations.

While the decision was not in line with the market consensus, it is consistent with conventional principles. Given the transitory nature of near-term growth support, persistent structural domestic impediments, elevated real interest rates, a clouded external environment, and inflation that has persistently remained below the BOT's target range, a cut is thus theoretically justified within an inflation-targeting framework. It is also worth noting that the Committee expressed concern over the baht's appreciation, an emphasis that has been relatively uncommon in recent policy communications. **Taken together, these considerations suggest that the MPC's decision represents a modest deviation from the BOT's past reaction function.**

At this juncture, we expect the BOT to hold the policy rate steady for the remainder of the year. This assessment is in line with the statement that, *"The Committee views that the present level of the policy interest rate reflects a* ***sufficiently accommodative monetary policy stance*** *and aligns with the economic outlook."* Further highlighted in the statement, *"Going forward, the Committee gives importance to* ***safeguarding medium-term financial stability*** *as well as* ***preserving the limited monetary policy space*** *amid heightened uncertainties."* The emphasis appears to be on preserving policy space to respond to potential future shocks, while recognizing that *"****it is necessary to integrate policies from multiple fronts*** *to enhance productivity and strengthen the competitiveness of the business sector, as well as implement other targeted financial measures."*

Combining the BOT's stated policy stance with a less concerned political outlook. **Political uncertainty, one of the key downside risks to the economy flagged in our previous report, has shown signs of easing.** While delays in the FY2027 budget process remain possible, there remains scope for supportive domestic demand measures, greater policy clarity, and improved fiscal-monetary coordination. **All told, we therefore expect that any additional rate cuts will depend on whether new developments adversely alter the BOT's trajectory of the growth outlook. Absent a significant negative shock, the policy rate at 1% is likely to be maintained for the remainder of the year.**

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