krungsri Research

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MONTHLY ECONOMIC BULLETIN

May 2026

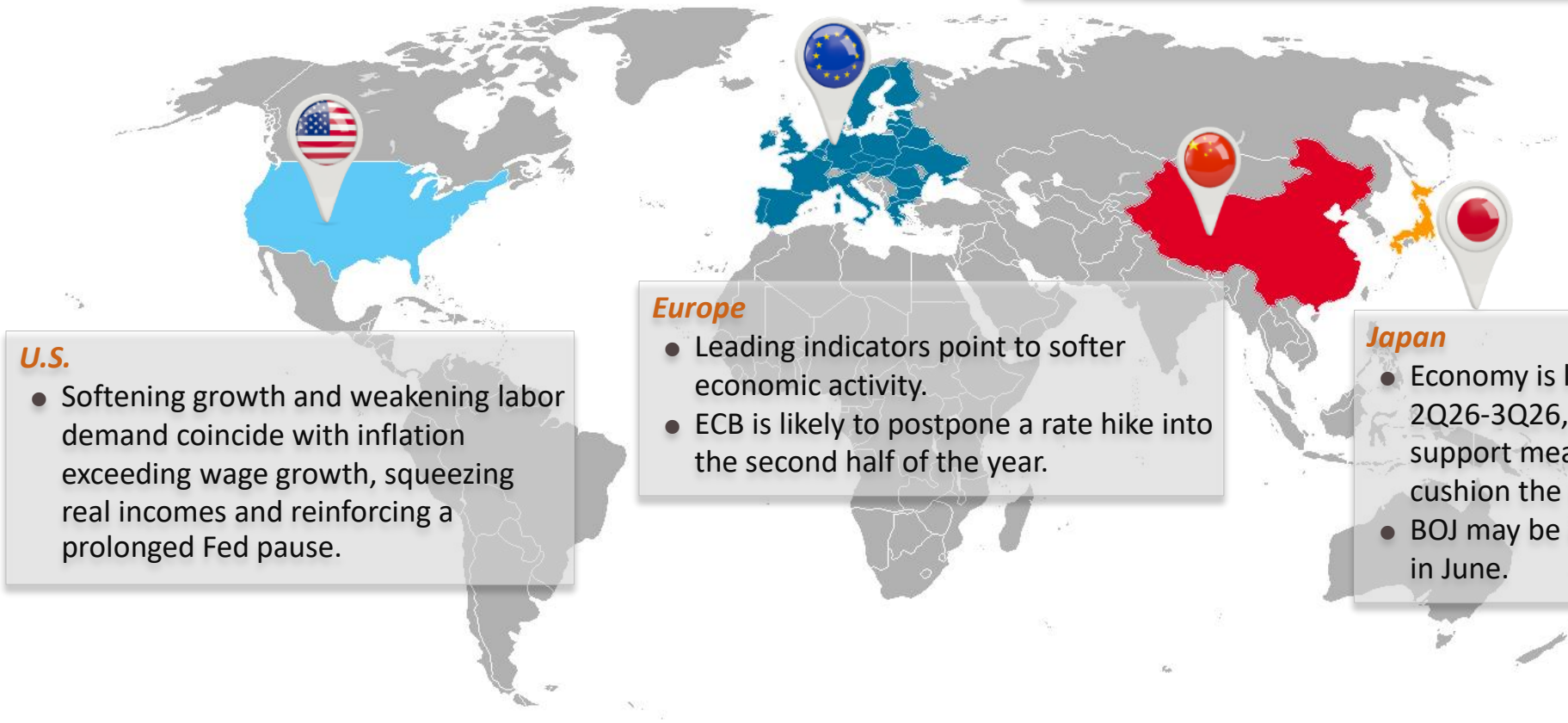


Krungsri Research

Global: Hope Above, Strain Beneath—Sentiment Improves, but Growth Softens and Inflation Pressures Build

China

- The economy stands to benefit from the Middle East tension to some extent, but structural challenges and anticipated U.S. tariffs could hinder export-driven growth.



U.S.

- Softening growth and weakening labor demand coincide with inflation exceeding wage growth, squeezing real incomes and reinforcing a prolonged Fed pause.

Europe

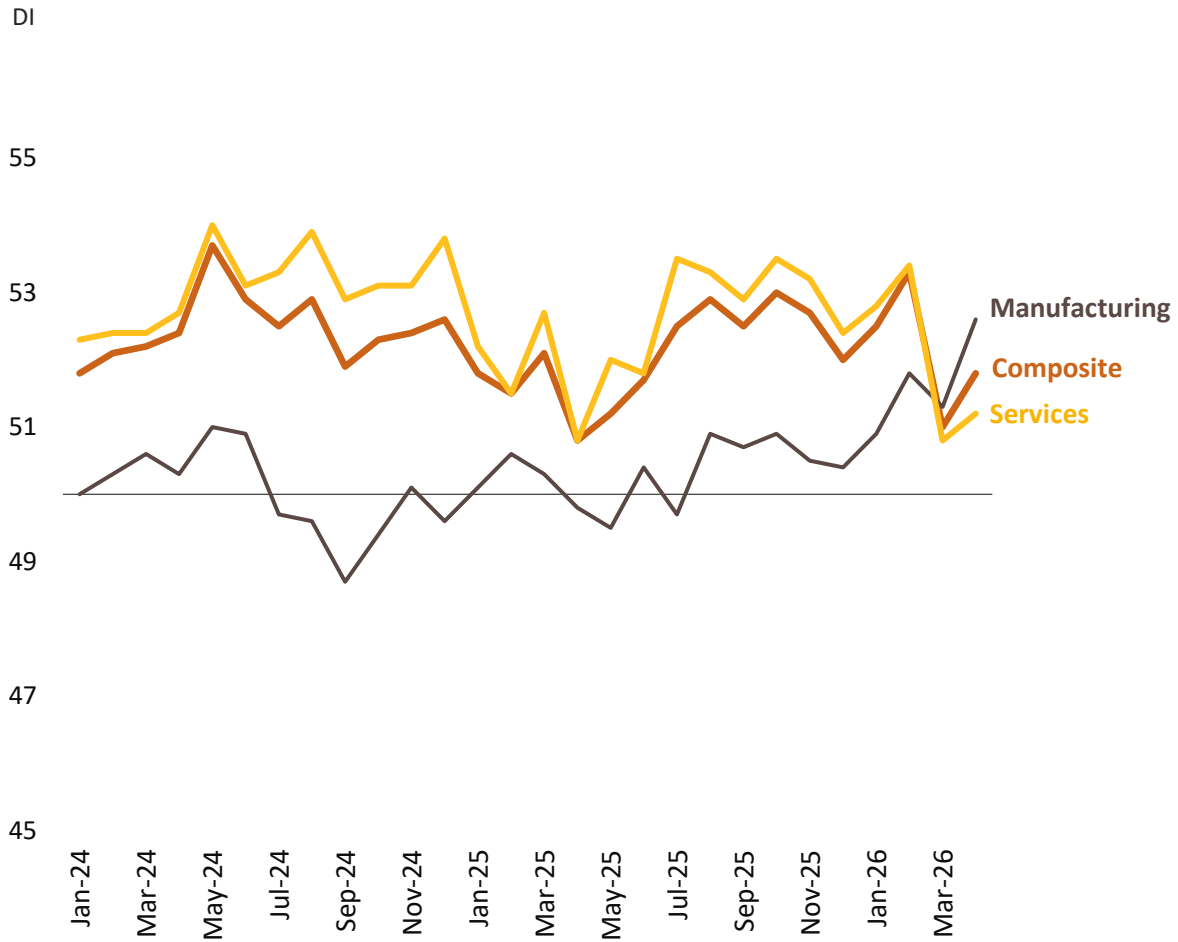
- Leading indicators point to softer economic activity.
- ECB is likely to postpone a rate hike into the second half of the year.

Japan

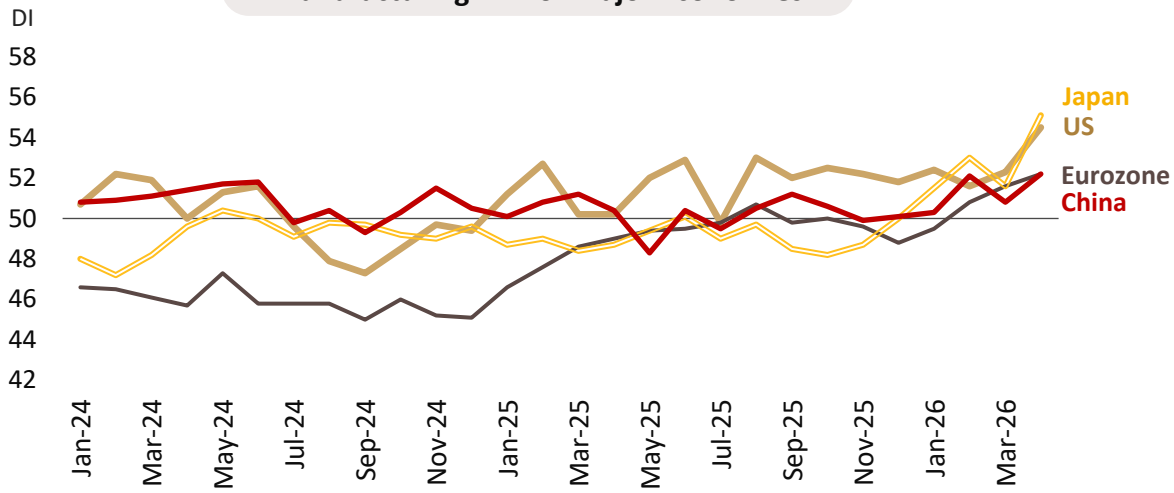
- Economy is likely to weaken in 2Q26-3Q26, though government support measures are expected to cushion the impact.
- BOJ may be on track for a rate hike in June.

Global: Activity rebounds, but supply strains worsen across most economies, with input costs and delivery delays nearing their highest levels since the Russia-Ukraine war.

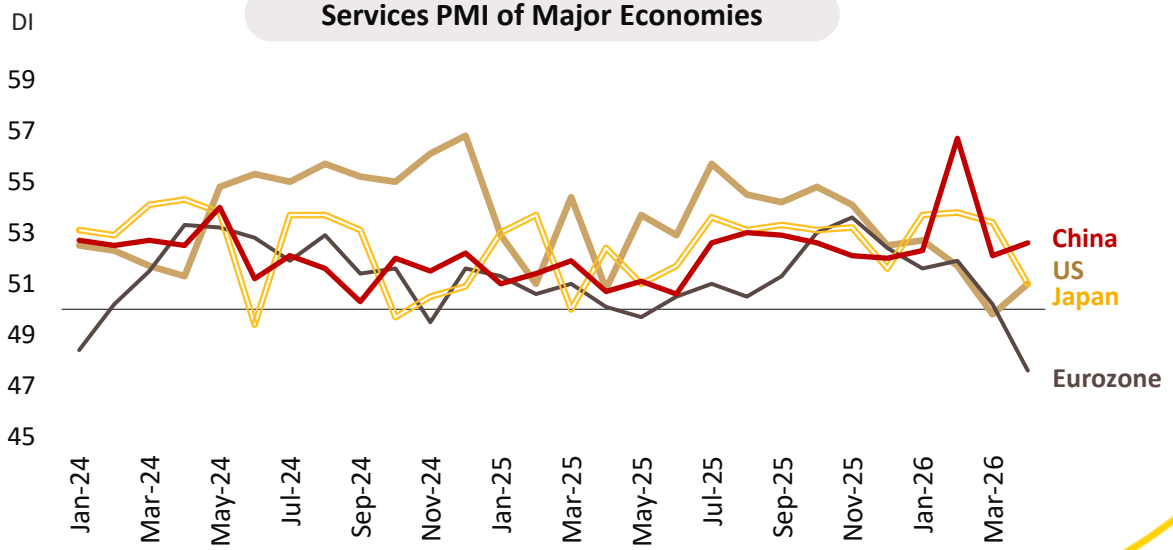
Global Composite, Manufacturing, and Services PMI



Manufacturing PMI of Major Economies



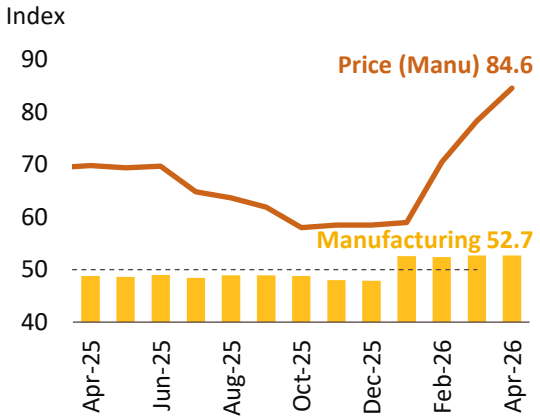
Services PMI of Major Economies



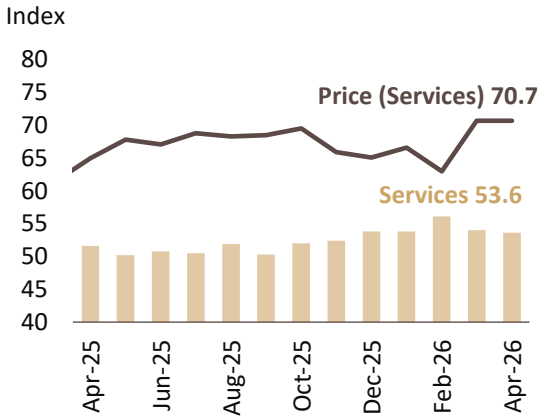
Source: J.P. Morgan and S&P Global PMI, Bloomberg, and Krungsri Research

U.S.: Softening growth and weakening labor demand coincide with inflation exceeding wage growth, squeezing real incomes and reinforcing a prolonged Fed pause.

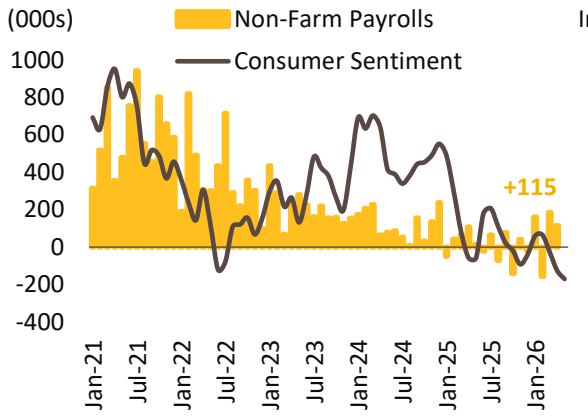
ISM Manufacturing PMI



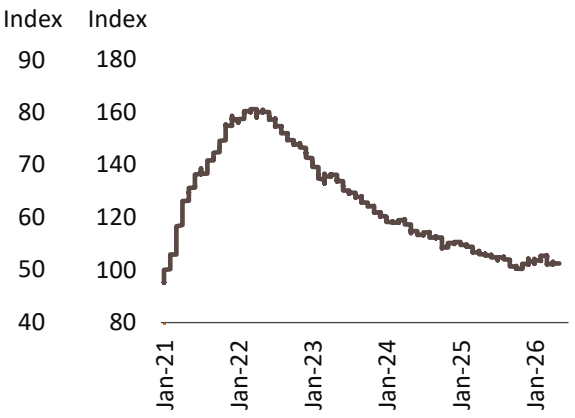
ISM Services PMI



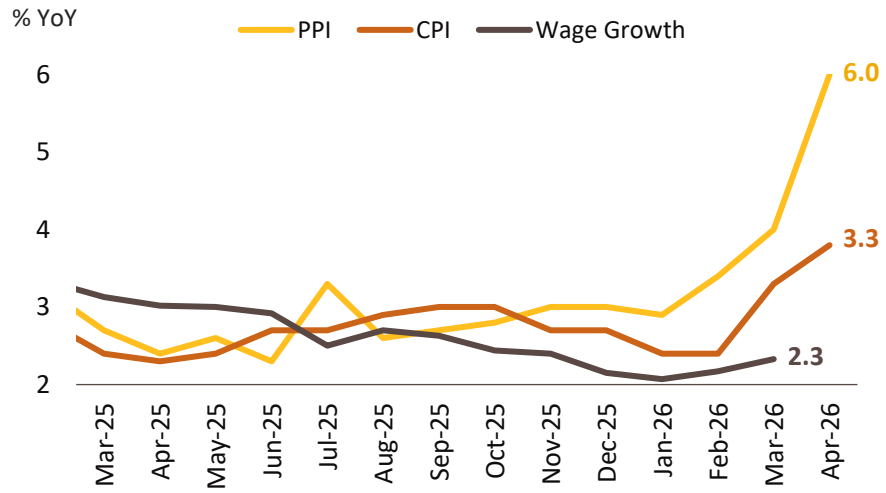
Payrolls and Sentiment



Job Postings



CPI, PPI and Posted Wage Growth



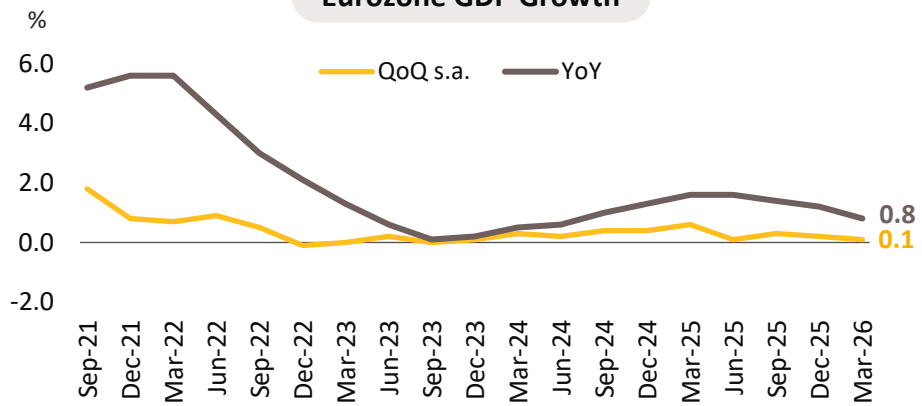
Source: ISM, BLS, BEA, Bloomberg, CEIC, and Krungsri Research

Krungsri Research's view

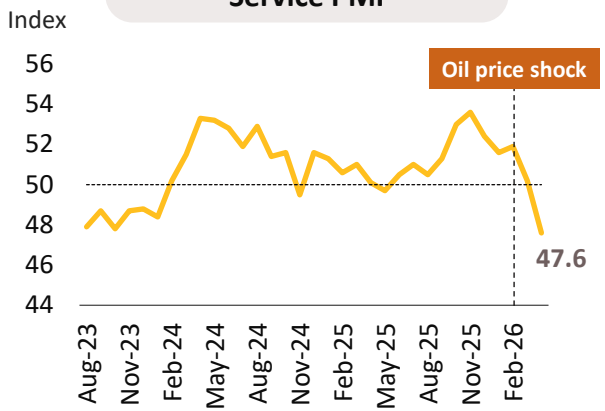
- **The U.S. economy is entering a more challenging phase**. The Middle East tensions have driven up oil prices and logistics costs, feeding into inflation and eroding real purchasing power.
- **Manufacturing activity** has strengthened temporarily, supported by inventory rebuilding and front-loading amid supply concerns. **Services activity** remains in expansion but is beginning to moderate.
- **The labor market shows signs of gradual cooling.** Although nonfarm payrolls rose by 115,000 in April, payroll growth has slowed, averaging just 48,000 jobs per month over the past three months. Labor demand is weakening, with job postings near their lowest levels since spring 2021 and the job openings-to-unemployment ratio falling to 0.9, below pre-pandemic levels.
- **Inflation has accelerated,** with April CPI rising to 3.8% YoY, a three-year high, while core inflation remains elevated near 2.8% YoY. **Inflation has outpaced posted wage growth** (+2.3%). Producer price index (PPI) recorded its largest increase in four years at 6% YoY.
- Despite larger tax refunds and strong stock market performance, retail sales rose modestly (+0.5% MoM in April vs +1.6% in March), with **real consumption weakening** under higher living costs.
- **The Fed is likely to keep policy rates on hold this year,** as rising inflation limits room for easing, while softening growth and weakening labor demand reduce the need for tightening, reinforcing a high-for-longer stance amid a stagflation trade-off.

Eurozone leading indicators point to softer economic activity; ECB is likely to postpone a rate hike into the second half of the year.

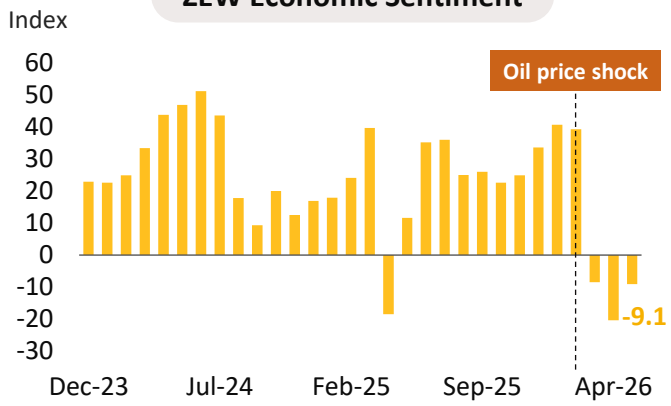
Eurozone GDP Growth



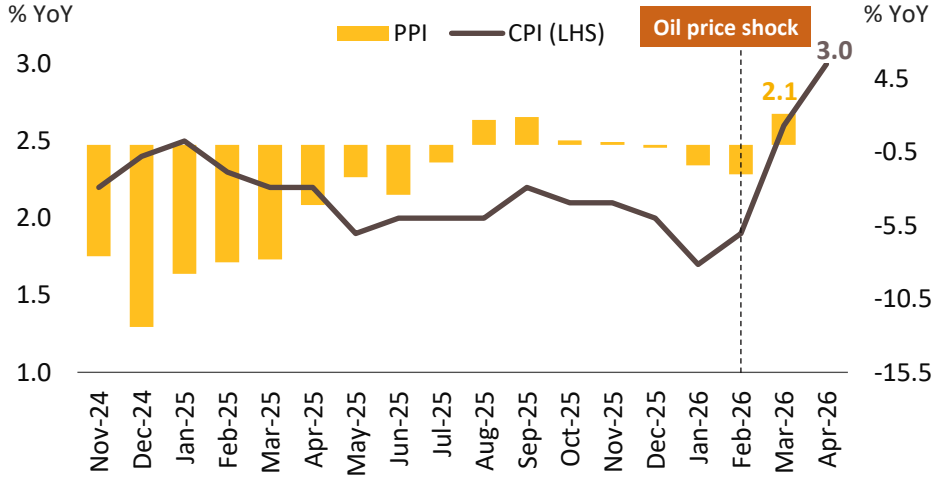
Service PMI



ZEW Economic Sentiment



Headline CPI and PPI



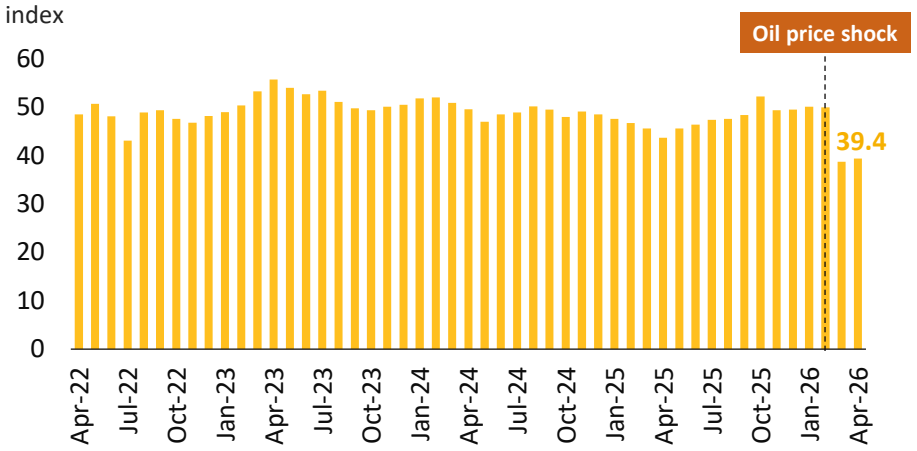
Source: ECB, CEIC, Eurostat, Investing.com, European Commission Calculation, Bloomberg, and Krungsri Research

Krungsri Research's view

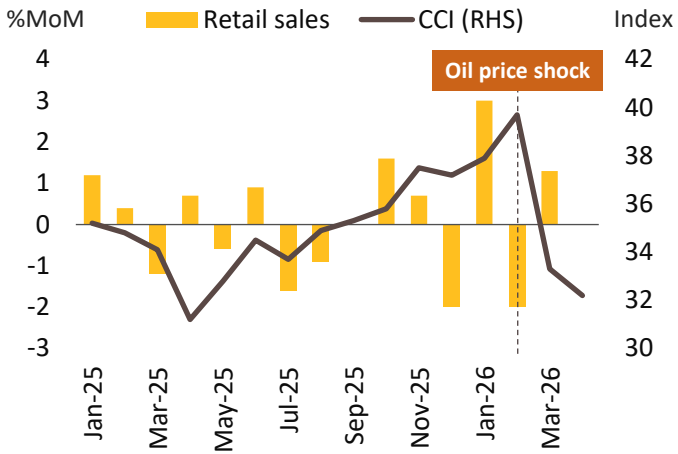
- **Although key eurozone economic indicators have yet to fully reflect the impact of rising energy prices,** prolonged tensions in the Middle East — particularly disruption to the Strait of Hormuz — are likely to gradually feed into inflationary pressures and weigh on economic activity ahead. The transmission to lagging indicators, such as consumption and investment, typically takes time.
- **The Eurozone is facing rising stagflation risks, characterized by weakening economic activity alongside elevated inflationary pressures.** April's Services PMI slipped into contraction territory for the first time in nearly a year and recorded the sharpest decline in activity since February 2021. May's ZEW economic sentiment index remained in negative territory for a third consecutive month. Inflationary pressures intensified significantly, with April's headline inflation rising to 3.0% YoY, the highest level since September 2023, while producer price inflation (PPI) also climbed to 2.1%, marking its highest level in a year.
- **Since March, the governments have launched emergency measures** such as gas price caps, windfall taxes, and gas-saving policies to mitigate energy risks. However, rising inflation would still weigh on household purchasing power and economic growth.
- Against this backdrop, **Krungsri Research expects the economic slowdown to deepen in the period ahead** as growth momentum continues to weaken following sluggish growth of only 0.1% QoQ and 0.8% YoY in 1Q26. This could also be a key factor prompting the ECB to delay a rate hike into the second half of 2026.

Japan's economy is likely to weaken in 2Q26-3Q26, though government support measures are expected to cushion the impact; BOJ may be on track for a rate hike in June.

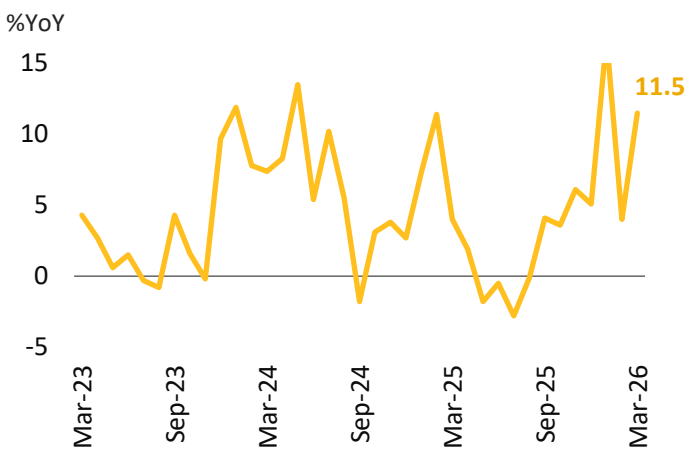
Economy Watchers Survey Outlook



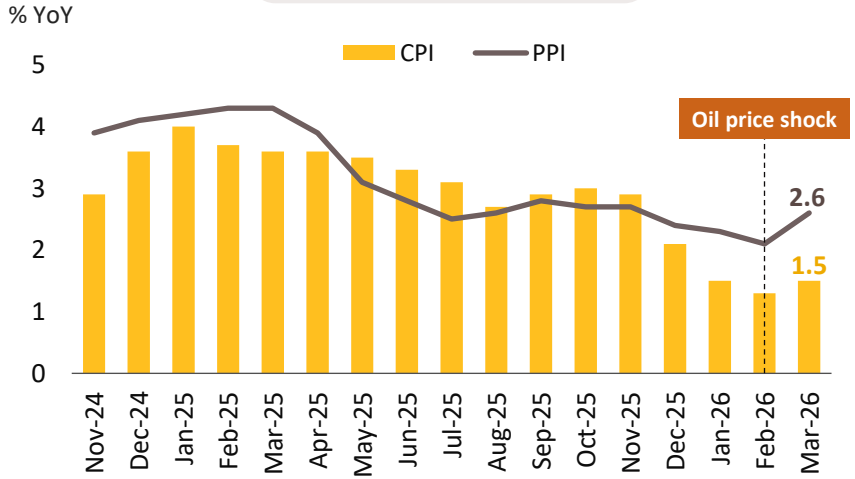
Retail Sales and Consumer Confidence



Export Growth



Headline CPI and PPI



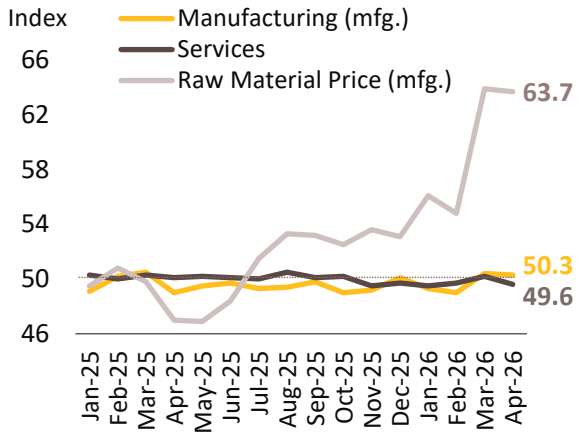
Source: Bank of Japan, Energy institute, Capital Economics, CEIC, Bloomberg and Krungsri Research

Krungsri Research's view

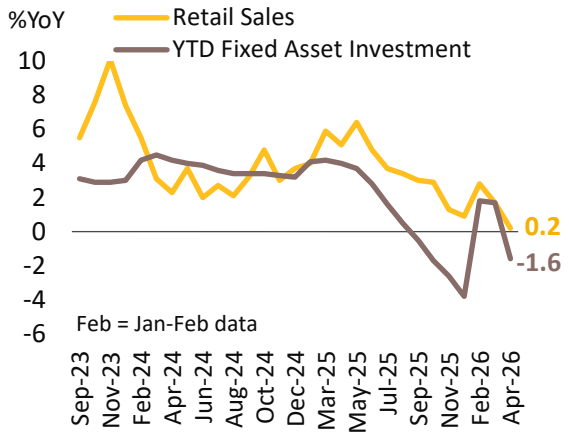
- Although the impact of the energy price shock on Japan's economy remains relatively limited for now, **economic growth is expected to slow more noticeably during 2Q26-3Q26**. Retail sales rebounded in March, mainly driven by an 8.2% MoM surge in fuel sales following higher gasoline prices. Meanwhile, business outlook surveys for April and May point to a likely decline in output during 2Q26.
- **While the Tankan survey and Composite PMI have not yet signaled a severe slowdown**, the sharp deterioration in household sentiment suggests that private consumption is likely to soften in the period ahead. Even so, government subsidies and stimulus measures, together with expected wage increases in June and continued export growth supported by front-loading effects, should help cushion some impacts and likely prevent the economy from slipping into contraction in 2Q26 and 3Q26.
- **The BOJ's increasingly cautious assessment of Japan's economy amid elevated Middle East tensions** was one of the main reasons behind its decision to keep policy rates unchanged at the April meeting. However, with support from fiscal stimulus and wage growth, alongside inflation rising towards the 2% target, **Krungsri Research expects the BOJ to resume policy normalization by raising the policy rate by another 25 bps to 1.00% at its June meeting**.

China: The economy stands to benefit from the Middle East tension to some extent, but structural challenges and anticipated U.S. tariffs could hinder export-driven growth.

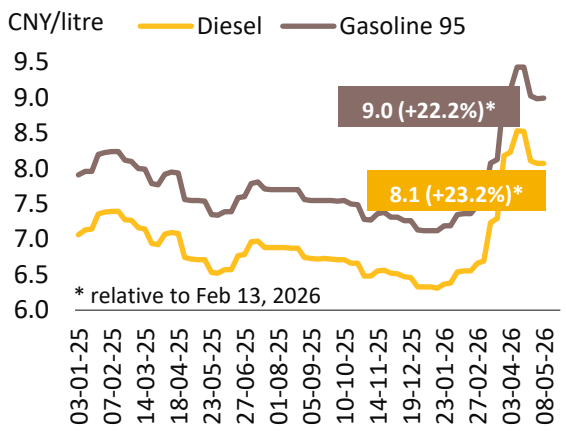
Official PMI (NBS)



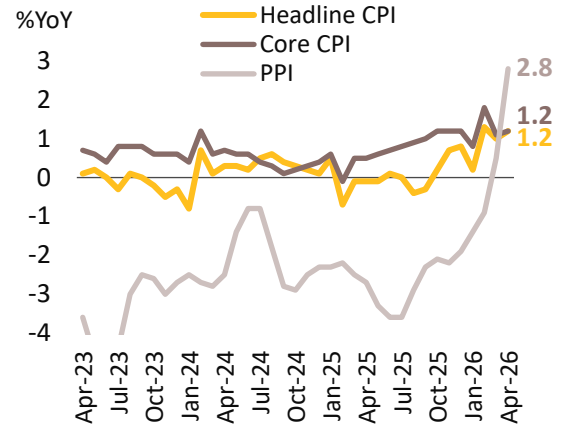
Retail Sales and Fixed Asset Investment



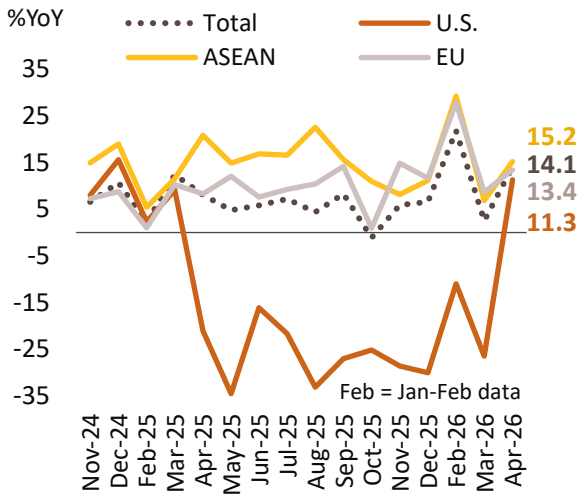
Domestic Fuel Prices



Consumer and Producer Price Indices



Exports to Key Partners



Exports of Key Goods (% YoY)

Products	2023	2024	2025	1Q26
Total	-4.6	5.9	5.5	14.7
Hi-Tech Products	-10.8	4.8	7.5	28.6
Electronic Components	-9.6	5.4	17.7	56.6
Electric Vehicles	73.4	12.0	49.8	85.2
Aluminum	-26.1	15.2	-3.3	16.5
Copper	-5.4	42.0	36.7	97.2

Source: NBS, Bloomberg, Reuters, CEIC, MUFG, and Krungsri Research

Krungsri Research's view

- **China's economy hinges on external forces.** Manufacturing continues to expand despite the energy crisis that has driven up costs, and domestic demand remains subdued. Such expansion is partly supported by strong external demand for upstream and downstream goods. **However, increasing reliance on external demand leaves China more vulnerable to slowing global growth and trade uncertainties.**
- **Middle East conflict becomes a double-edged sword.** With China's economies of scale and less exposure to the oil crisis, Chinese goods should remain competitive, at least in the short term. However, the shock is starting to feed into production costs, and producers still have limited ability to pass on such costs to consumers (Upstream-Midstream PPI: +2.1% MoM in April; Downstream PPI: -0.1%). Thus, **firms in already-weak sectors could see profits shrink or even incur losses.**
- **Trade risks remain.** The Xi-Trump meeting signals an attempt to ease tensions. The promises include tariff reductions, increased purchases of certain goods, and the establishment of the "Board of Trade." However, it is unlikely to fundamentally alter the conflict, which may reignite via the application of Section 301 and Section 232 tariffs, coupled with export controls. **Overall, while trade could still support growth amid subdued domestic demand, economic decoupling continues.**

Thailand: Supportive policy emerges but growth weighed down by external strains and fragile confidence.

- **1Q26 GDP growth surprised on the upside at 2.8% YoY** and +0.7% QoQ s.a., supported by temporary factors.
- **For Thailand's 2026 economic outlook, Middle East Tensions weigh on growth, even as fiscal stimulus and stronger 1Q momentum offer support.**
- **The government introduces THB 400 bn Emergency Loan Decree to ease impacts of high energy costs** through co-payment schemes and Thailand's transition plan toward greater energy resilience.
- **Moody's has upgraded Thailand's rating outlook to 'stable',** reflecting easing U.S. tariff risks, recovery in investment momentum, and improved political stability.
- **Private consumption is showing signs of moderation. Private Investment is beginning to moderate** with deteriorating sentiment amid concerns over prolonged Middle East tensions.
- **Tourism is softening amid higher aviation costs, transit disruption, and safety concerns**.
- **Thai exports remain volatile amid front-loading ahead of tariff uncertainty**; imports continue to surge.
- **Inflation is rising.** Supply constraints and higher energy costs transmitted to producer prices more visibly than consumer prices.
- **MPC holds rate at 1%, viewing policy adjustment as a risk to growth–inflation dynamics.** Krungsri research maintains the view that the policy rate will remain on hold throughout 2026.

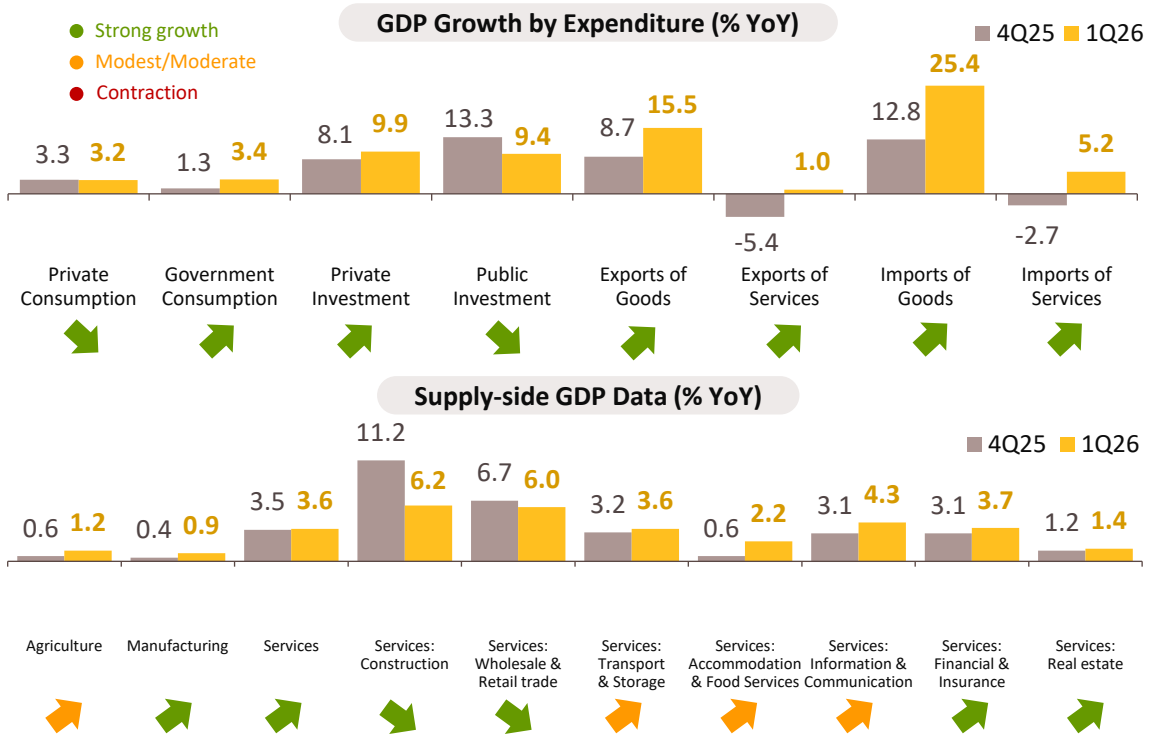
1Q26 GDP growth surprised on the upside at 2.8% YoY and +0.7% QoQ s.a., supported by temporary factors; momentum may soften ahead

Key growth drivers in 1Q26:

- **Demand side:** Growing private consumption, rebounding private investment, accelerating exports of goods, improving exports of services, growing public consumption, and inventory accumulation
- **Supply side:** Growing services, led by construction (despite slower growth), wholesale & retail trade, transport & storage, and accommodation & food services

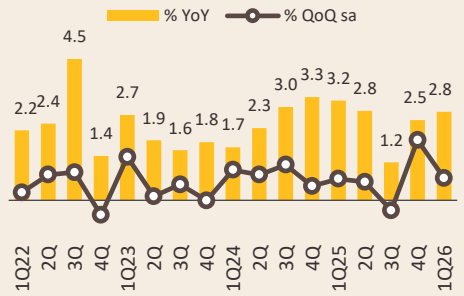
Weak or slower growth in 1Q26:

- **Demand side:** Slower growth of public investment, surging imports, and the first trade deficit in 14 quarters
- **Supply side:** Weak growth of agriculture and manufacturing



Source: NESDC, and Krungsri Research

Thailand's GDP Growth (%)



Source: NESDC

Thailand's GDP Growth by Component

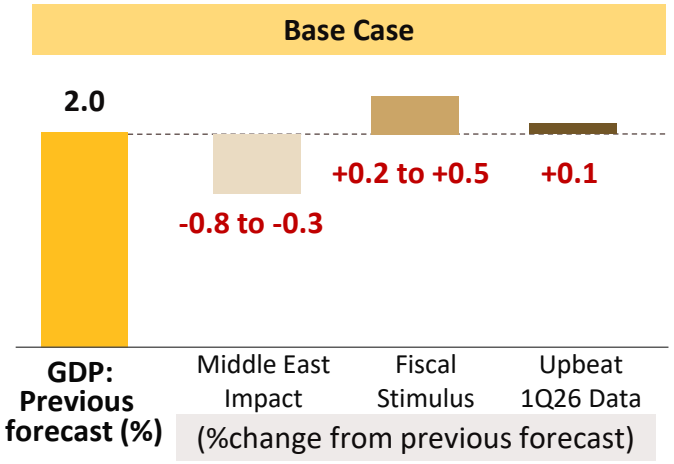
	% YoY		
	2025	4Q25	1Q26
GDP	2.4	2.5	2.8
Private Consumption	2.7	3.3	3.2
Public Consumption	0.6	1.3	3.4
Private Investment	3.5	6.5	10.1
Public Investment	8.9	13.3	9.4
Export of Goods & Services	9.3	5.9	12.6
Export of Goods	11.9	8.7	15.5
Export of Services	-1.5	-5.4	1.0
Import of Goods & Services	6.8	9.5	21.1
Import of Goods	9.8	12.8	25.4
Import of Services	-4.7	-2.7	5.2

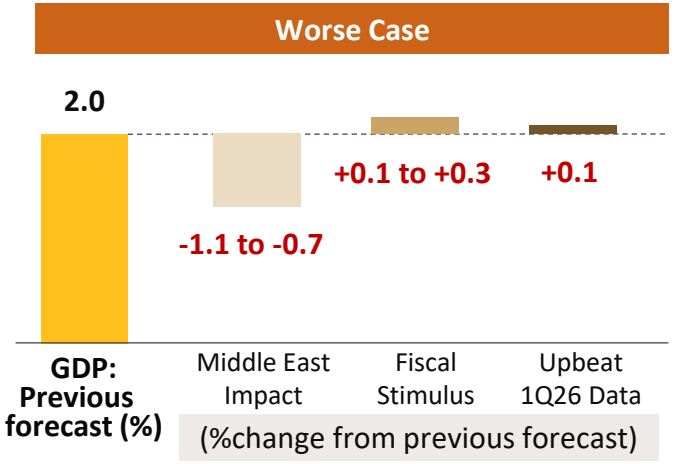
Krungsri Research's view

- **1Q26 GDP grew by +2.8% YoY**, exceeding Krungsri Research's expectation (+2.3%), and the market consensus (+2.2%), reflected by a rebound in private consumption and private investment along with accelerating exports and improved public consumption. Besides, imports rose sharply, leading to Thailand's first trade deficit in 14 quarters. On QoQ s.a. basis, GDP growth moderated from +1.9% in 4Q25 to +0.7% QoQ in 1Q26.
- **On the supply side**, 1Q26 GDP performance showed an expansion in all major categories. **For the full year of 2026, the NESDC has projected GDP growth at a median of 2.0%,** taking into account both the negative impact of the Middle East tensions and the positive impact of government stimulus measures.
- **In our view, the stronger-than-expected 1Q126 growth was supported by temporary factors,** including (i) front-loaded exports amid U.S. tariff uncertainty, (ii) EV purchases ahead of subsidy expiration, (iii) accelerated private investment from improved political stability following the election, and (iv) inventory accumulation (+THB 177 bn in 1Q26 vs –THB 123 bn in 1Q25).
- **Looking ahead, GDP growth is expected to slow sharply**, as these tailwinds are set to unwind, leaving the economy more exposed to external shocks. Despite support from fiscal stimulus, higher costs from Middle East tensions compress demand across consumption, investment, exports, and tourism.

Thailand's 2026 economic outlook: Middle East Tensions weigh on growth, even as fiscal stimulus and stronger 1Q momentum offer support.

Forecast of Thai GDP Growth in 2026 (%)





Tailwinds

- **Stimulus measures from the Emergency Loan Decree.**
- Trends of **FDIs** amid greater regionalization and Thailand FastPass scheme
- Effect of previous **interest rate cuts** and debt-relief measures
- Growth in sectors aligned with **Megatrends**, e.g., Digital, Healthcare, and the Silver Economy
- **Sound economic stability**

Headwinds

- **Prolonged Middle East conflicts** entrench inflationary pressures and weigh on the growth outlook
- Impacts of **U.S. tariff policy and geoeconomic fragmentation**
- Financial market volatility amidst the uncertain policies of major global powers
- **Structural issues** such as elevated household debt, declining competitiveness in key industries, an aging population, and a shrinking workforce

Source: NESDC and Krungsri Research

THB 400 bn Emergency Loan Decree aims to ease impacts of high energy costs through co-payment schemes and Thailand's transition plan toward greater energy resilience.

- **The proposed THB 200 bn immediate relief, including the "Thai Chuay Thai Plus" scheme, aims to support domestic demand and sustain purchasing power** amid high energy costs and weaker sentiment. While the package could provide a short-term boost to GDP growth, it may raise fiscal risks, push public debt closer to the statutory ceiling, and lead to a payback effect after the end of the stimulus.
- **The remaining THB 200 bn budget is expected to support Thailand's energy transition** through renewable energy, EVs, charging infrastructure, and carbon-credit initiatives, although implementation details remain unclear. **The measure may also face legal challenges** over the necessity of issuing it under an emergency loan decree, following an opposition party's petition to the Constitutional Court, leaving uncertainty remaining.

By May

Thai Chuay Thai Plus Registration

Phase 1: June to July, Phase 2: August to September

Welfare Card

- Details : Top up from THB 300 to THB 1,000/month for 4 months
- Targets : Existing 13.2 mn. eligible persons (subject to verification and screening for the Phase 2)
- Budget : THB 50-60 billion

Half-Half Plus

- Details : THB 1,000/month for 4 months. The government subsidizes 60% of spending.
- Targets : Population aged 18 and above, around 30 million people
- Budget : THB 120 billion

Possible Funding

1. **Emergency Loan Decree**
   - **THB 400 bn** (THB 200 bn including Thai Chuay Thai Plus scheme and THB 200 bn for Energy Transition Initiative)
2. **Budget Allocation Act**
   - **THB 20-30 bn**
3. **Remaining Central Budget**
   - **THB 20 bn**

Expected Multiplier Effect and Impact on GDP growth based on "Thai Chuay Thai Plus" scheme

Scenario	Multiplier Effect	Impact on GDP growth
Full Disbursement (95-100%)	*Equal to Half-half plus*	0.5-0.6%
	Less than Half-half plus	0.3-0.4%
Major Disbursement (75-95%)	*Equal to Half-half plus*	0.4-0.5%
	Less than Half-half plus	0.2-0.3%

Effect of THB 400 bn Loan on public debt

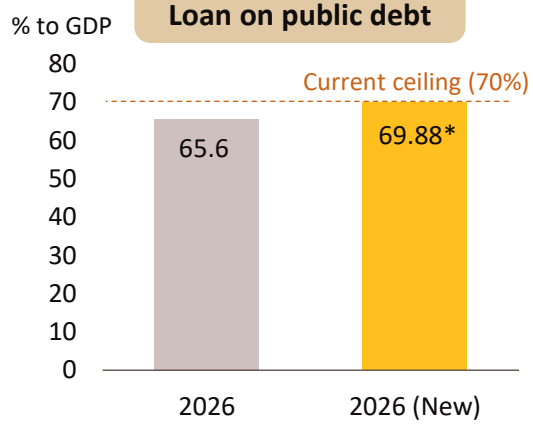


*Figure from the Cabinet

Source: The Cabinet and Krungsri Research

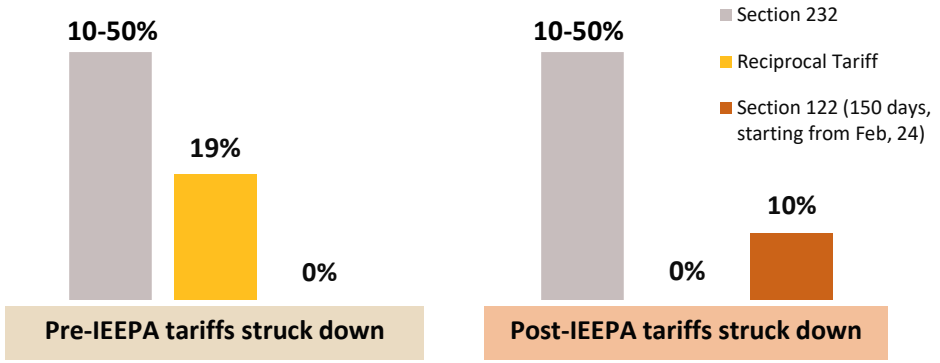
Thailand's rating outlook improves, reflecting easing U.S. tariff risks, recovery in investment momentum, and improved political stability from a sizeable parliamentary majority.

Moody's has upgraded Thailand's rating outlook to 'stable' from 'negative' while maintaining the rating at Baa1. This revision reflects (i) easing downside risks from U.S. tariffs, with rates now broadly aligned with regional peers, supported by 17.6% YoY export growth in 1Q26 and 12.9% in 2025; (ii) recovered investment momentum, with Thailand recording the highest FDI growth (+31.7%) among ASEAN-5 in 2025; and (iii) improved political stability supported by a sizeable parliamentary majority, enhancing prospects for reform implementation, economic growth, and gradual fiscal improvement. According to the latest fiscal plan, the public debt level will be gradually consolidated over the medium term.

Thailand's Credit Ratings

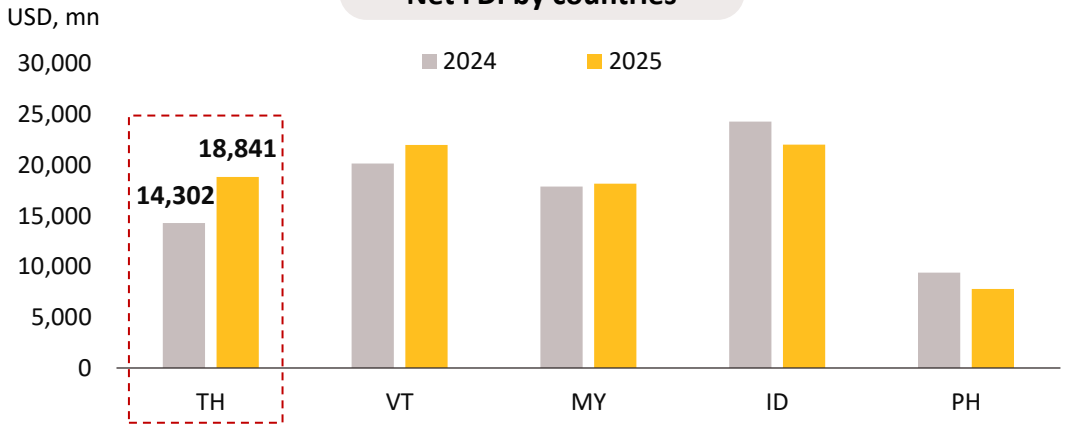
Agencies	Rating	Outlook
Moody's	**Baa1**	**Stable** (from negative on Apr 21, 2026)
S&P	**BBB+**	**Stable** (as of Nov 13, 2025)
Fitch	**BBB+**	**Negative** (from stable on Sep 24, 2025)

Easing US tariff threats



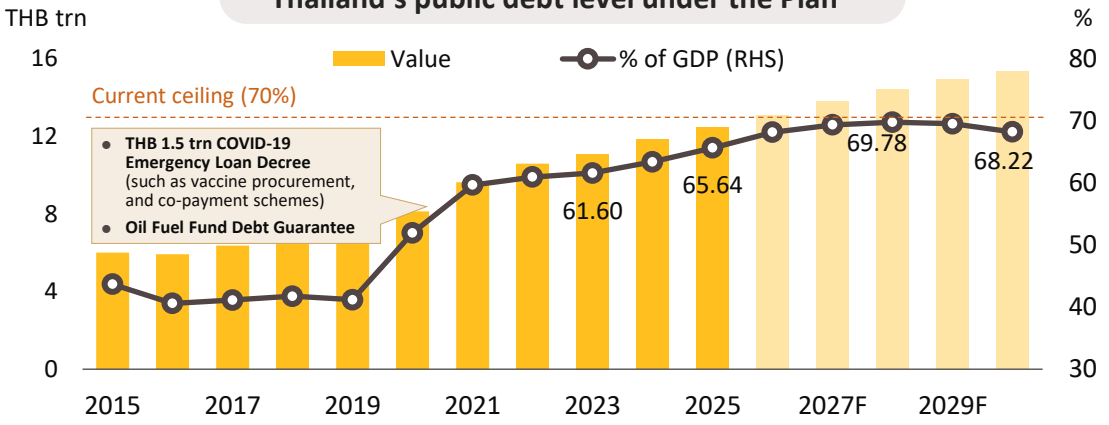
Note: Section 122 Tariff Risk Up to 15%

Net FDI by countries



Source: MOC, MOF, CEIC, and Krungsri Research

Thailand's public debt level under the Plan*

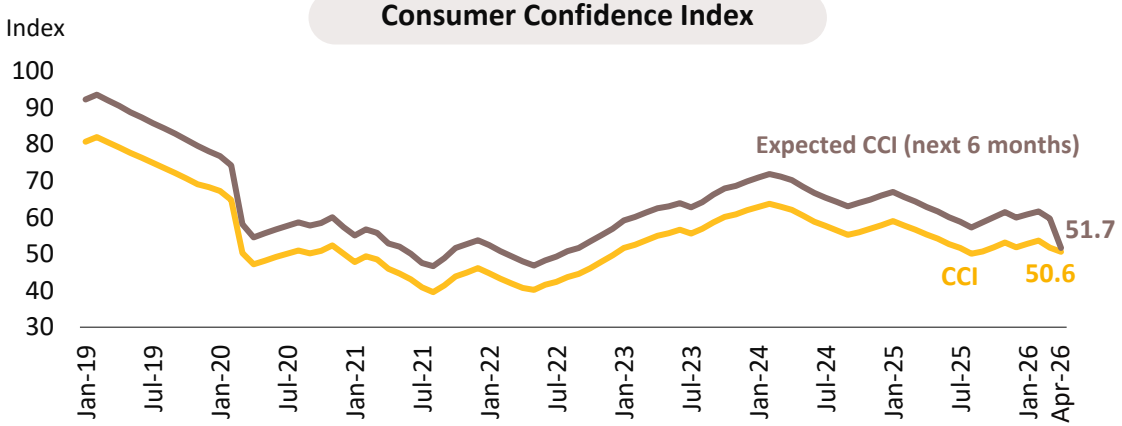


Note: *Medium-Term Fiscal Framework as of Nov-25

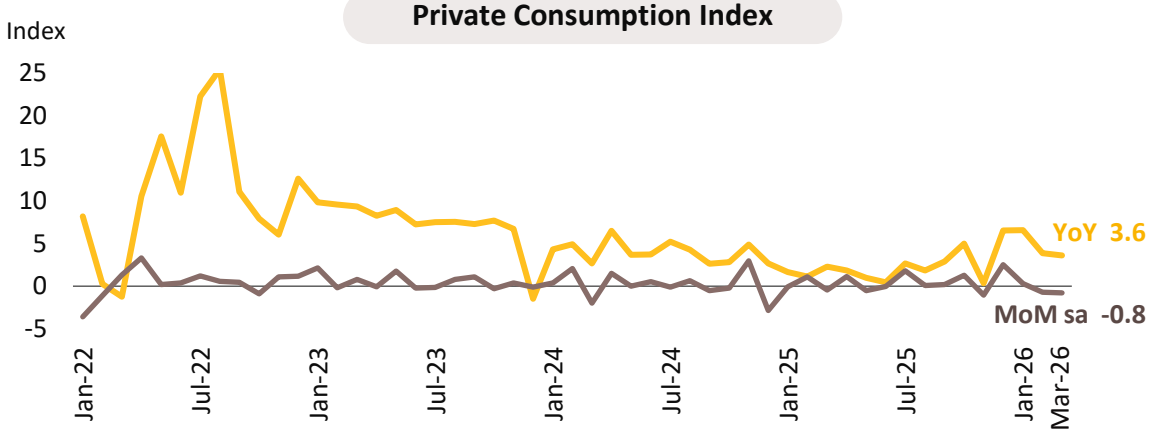
Private consumption is showing signs of moderation as deteriorating sentiment, declining purchasing power, and weak farm income weigh on the outlook.

In April 2026, the Consumer Confidence Index (CCI) continued to decline from 51.8 in March to 50.6, the lowest level in seven months, signaling rising concerns over the Middle East Tension. Alongside, the Private Consumption Index (PCI) slowed to 3.6% YoY in March from 3.9% in February, due to a decline in semi-durable goods purchases and services, particularly hotels and restaurants, following the tourism slowdown. Despite higher agricultural prices, farm income remained negative, amid falling output. **Going forward, fiscal stimulus measures may support domestic spending during June to September, but higher living costs, weak income growth, and elevated household debt are expected to constrain domestic consumption.**

Consumer Confidence Index



Private Consumption Index

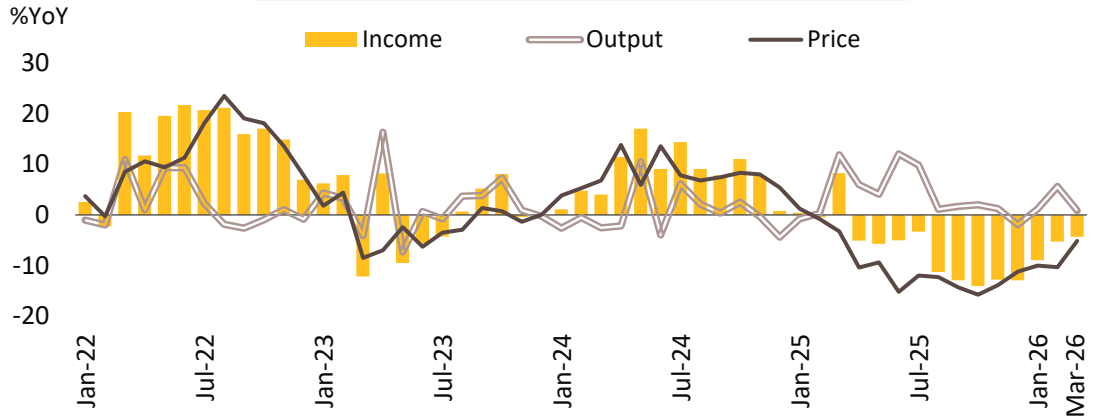


Private Consumption Index by category

%YoY*	2023												2024												2025												2026		
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Private consumption																																							
Non-durables																																							
Semi-durables																																							
Durables																																							
Services																																							
Non-residents expenditure																																							

**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Farm income still contracted on higher prices

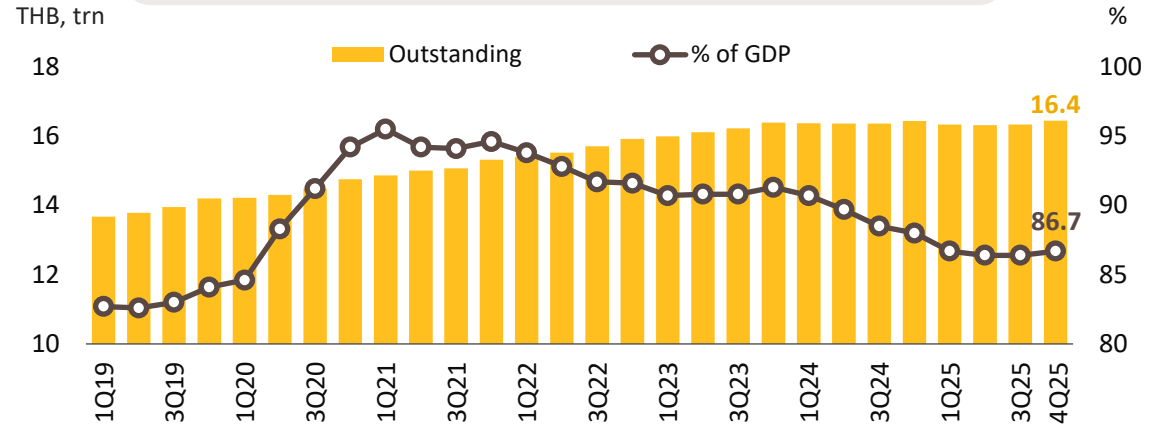


Source: BOT, UTCC, CEIC, and Krungsri Research

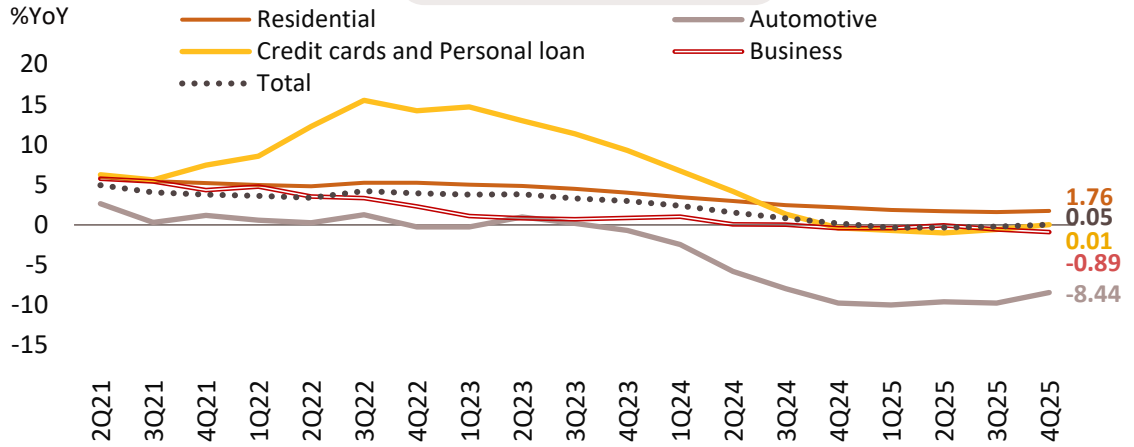
Household debt was steady at 86.7% of GDP in 4Q25, still above pre-pandemic level.

Household debt-to-GDP ratio remained high at 86.7%, still higher than pre-Covid level of 82.7%. Asset quality weakened slightly, with NPLs edging up to 2.79% of total loans in 4Q25 from 2.71% at end-2024. Residential NPLs increased modestly, while credit-card and auto loan NPLs remain vulnerable to future deterioration. **Meanwhile, Stage-2 loans stayed elevated at 7.02% of total loans.**

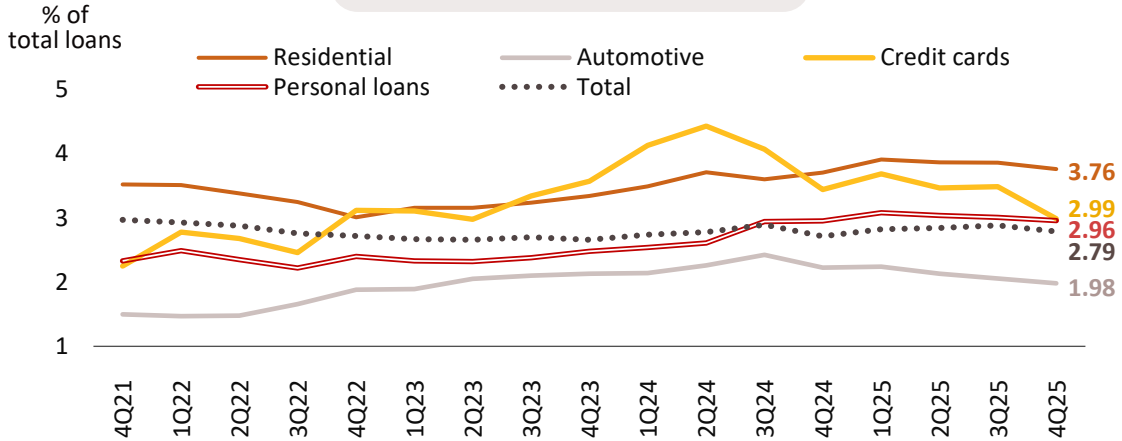
Household debt remained steady at 86.7% of GDP in 4Q25



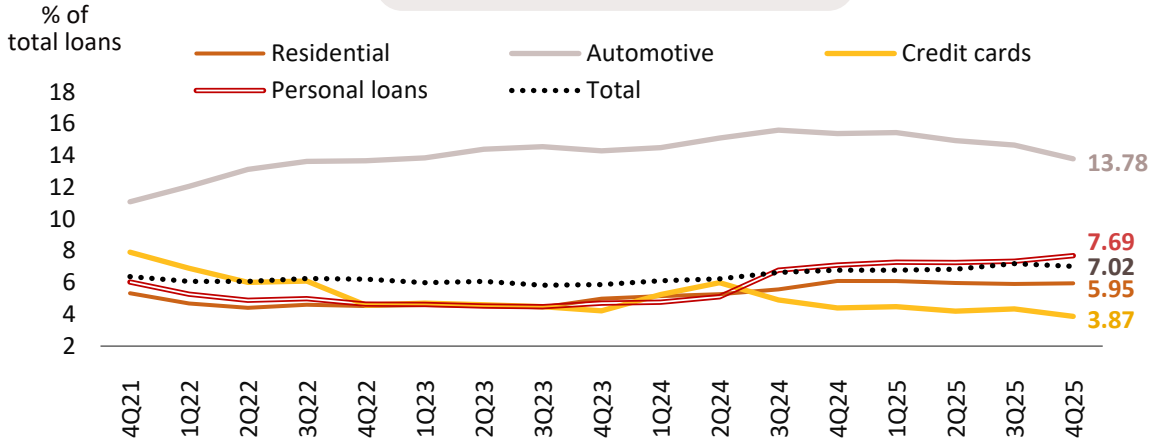
Loans to households



Non-Performing Loan (NPL)



Special Mention Loans (SMs)

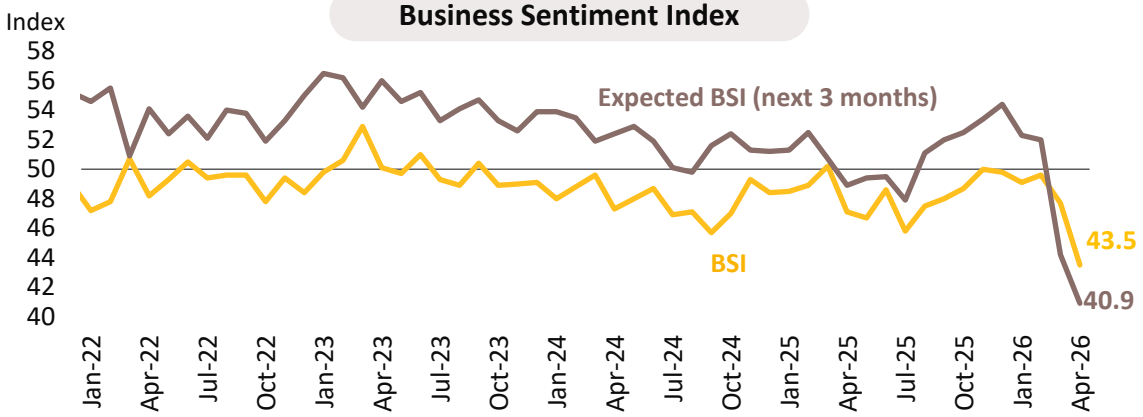


Source: BOT, and Krungsri Research

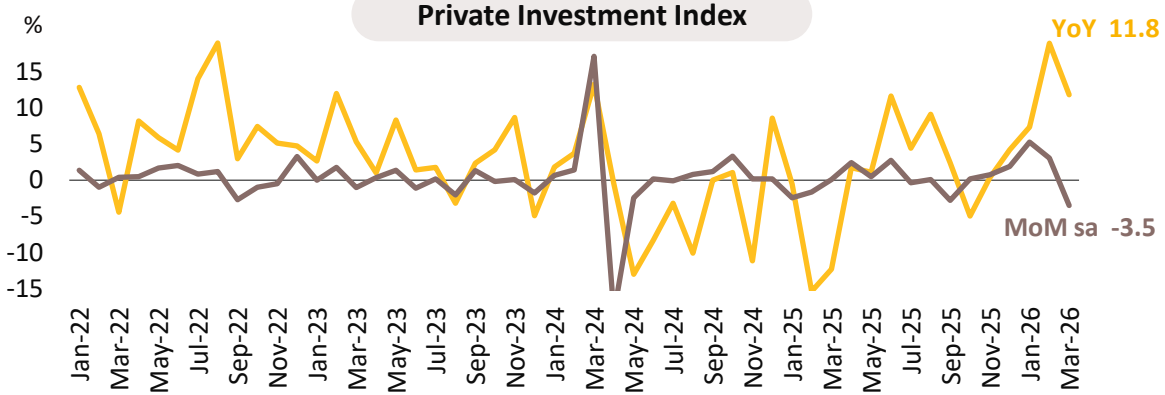
Private Investment is beginning to moderate with deteriorating sentiment amid concerns over prolonged Middle East tensions though medium-term outlook remains encouraging.

The forward-looking indicators have also weakened, with the expected BSI falling to a more-than-five-year low of 43.5 in April, reflecting concerns over escalating and prolonged Middle East tensions. **The Private Investment Index (PII) also grew more slowly by 11.8% YoY in March,** compared to 15.5% in February. **However, investment promotion applications submitted to the BOI reached THB 1.02 trn in 1Q26, expanding 142.4% YoY, driven mainly by investments in data centers and cloud services. Thailand FastPass Phase 1 secured over THB 240 bn in investments, with Phase 2 expected to add THB 52 bn.** Thus, while medium-term investment outlook may see supportive factors in certain sectors, private investment in the near future is likely to face headwinds from soft domestic demand, escalating geopolitical risks, and uncertainty surrounding U.S. tariff policies.

Business Sentiment Index



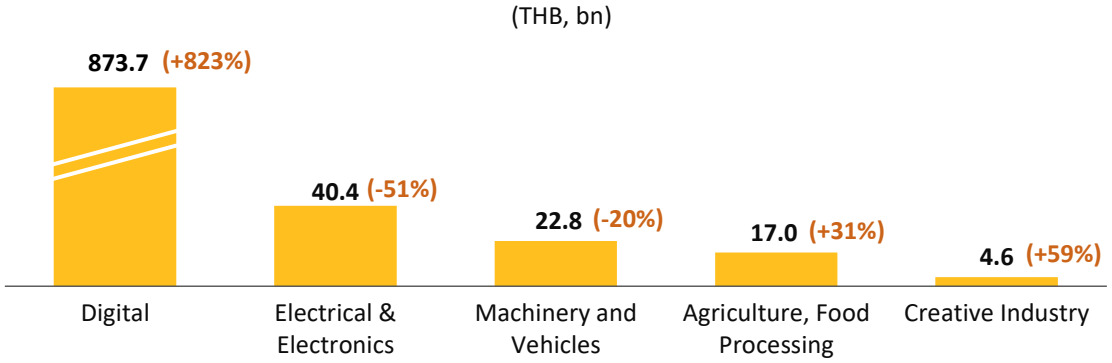
Private Investment Index



Thailand FastPass Scheme: Total Investment worth THB 300 bn

	Sectors	Value (THB mn.)
Phase 1 (15 projects)	Data Center (11 projects)	184,740
	Smart Industrial Estate	3,464
	Wind Power Generation	5,635
	Cargo Handling	14,122
	KCl Production	40,468
Phase 2 (9 projects)		52,104 (expected)

Applications for BOI Investment Incentives in 1Q26 by sector

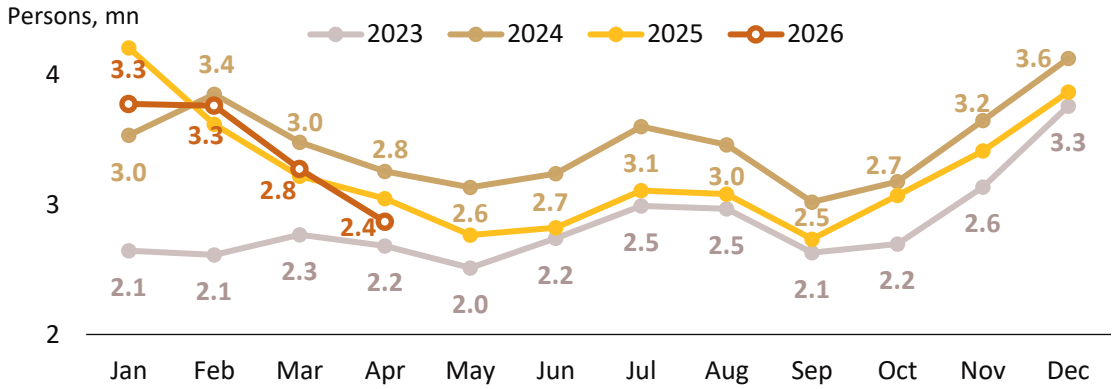


Source: BOT, BOI, and Krungsri Research

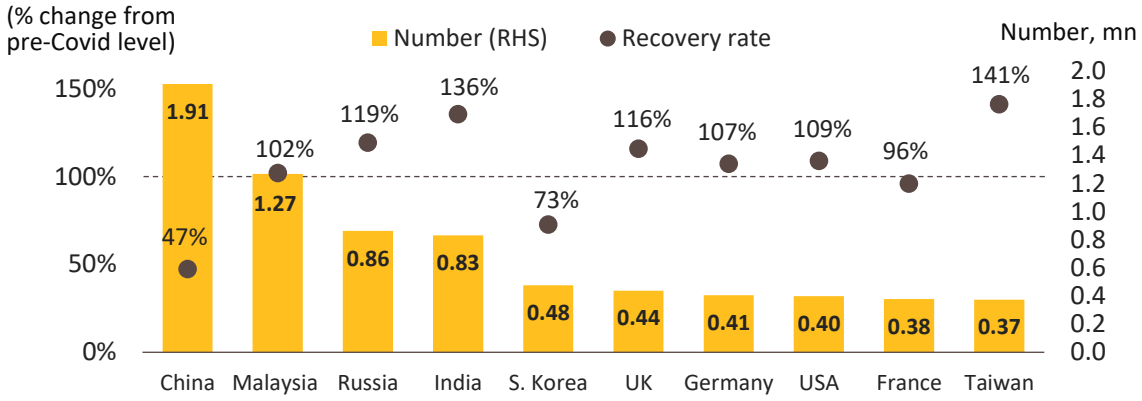
Tourism is softening amid higher aviation costs, transit disruption, and safety concerns, while a recovery in Chinese tourist arrivals remains slow.

In April 2026, Thailand welcomed 2.36 mn foreign visitors, down from 2.77 mn in March. While arrivals from most markets have largely recovered already, Chinese tourist arrivals in the first four months of this year remained well below the pre-COVID levels. **For long-haul tourism, Middle East tensions and concerns over transit disruptions and travel safety are weighing, particularly on Middle East, European, and American tourists,** while Chinese arrivals remained above pre-war levels. However, Thailand faces intensifying competition from regional peers in attracting Chinese tourists, despite the emerging opportunities.

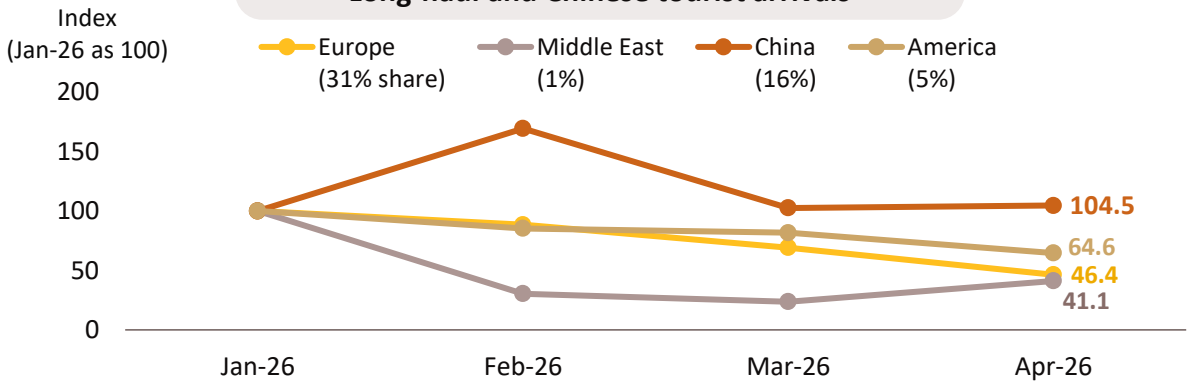
Foreign tourist arrivals fell to 7-month low of 2.36 mn in April



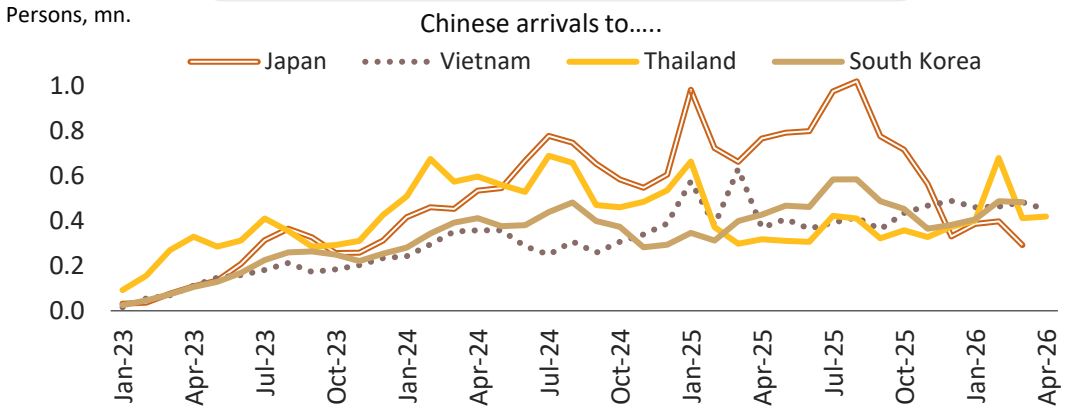
Top 10 tourist arrivals by country in Jan-Apr 2026



Long-haul and Chinese tourist arrivals



Regional Competition for Chinese Tourists

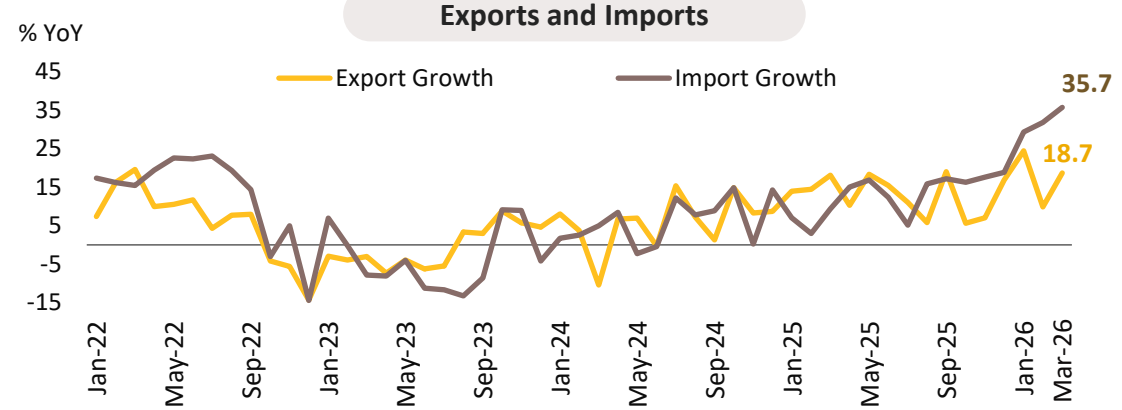


Source: MOTS, CEIC, and Krungsri Research

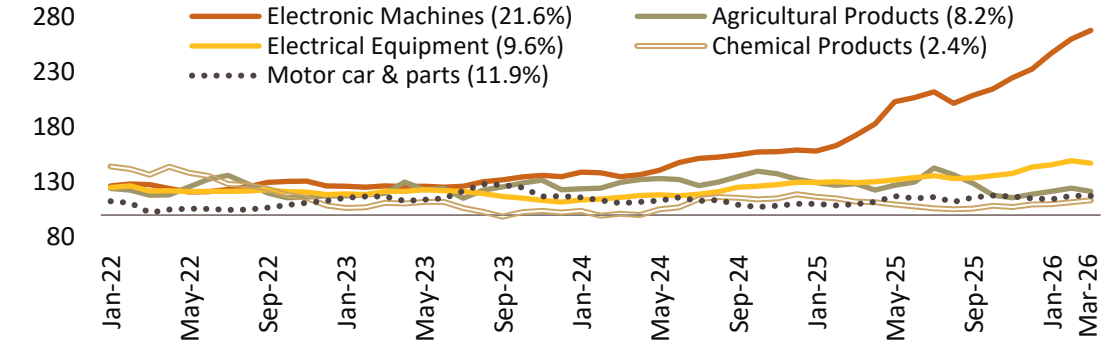
Thai exports remain volatile amid front-loading ahead of tariff uncertainty; imports continue to surge, and prolonged Middle East tensions could weigh on trade ahead.

Exports expanded by 18.7% YoY in March, while imports also grew sharply by 35.7%. The export growth was driven by key products such as electronic machines and electrical equipment. Exports to all major markets – including the U.S., EU27, Japan, China, and ASEAN – also expanded. **Although the invalidation of the U.S. IEEPA tariffs may temporarily support exports through front-loading demand, the upside is likely to be short-lived** amid prolonged Middle East tensions and lingering tariff risks, particularly ongoing Section 301 and 232 investigations by the U.S.

Exports and Imports

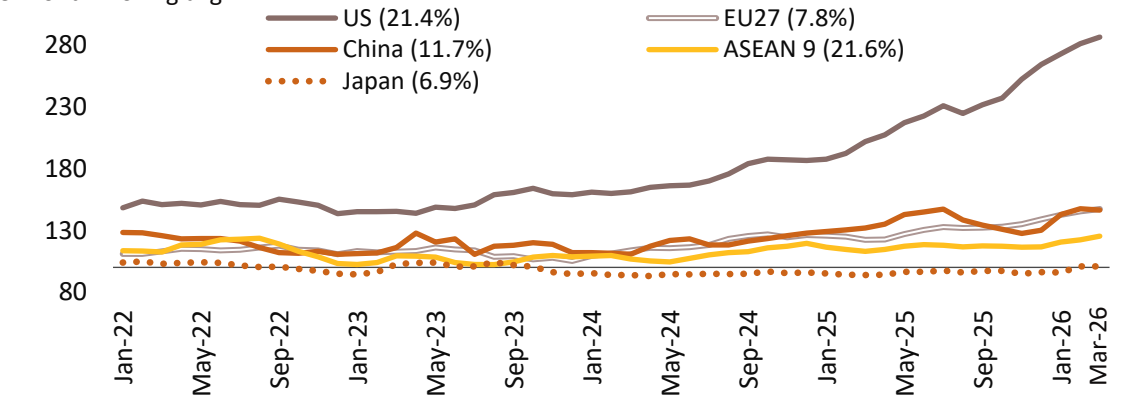


Exports by Major Products

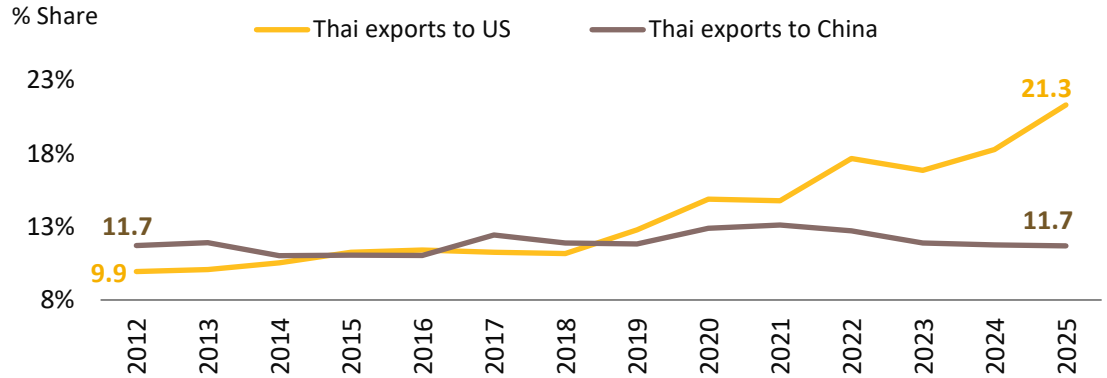


Note: (% share in 2024)

Exports by Major Destinations



Shares of Thai exports to the US and China (%)

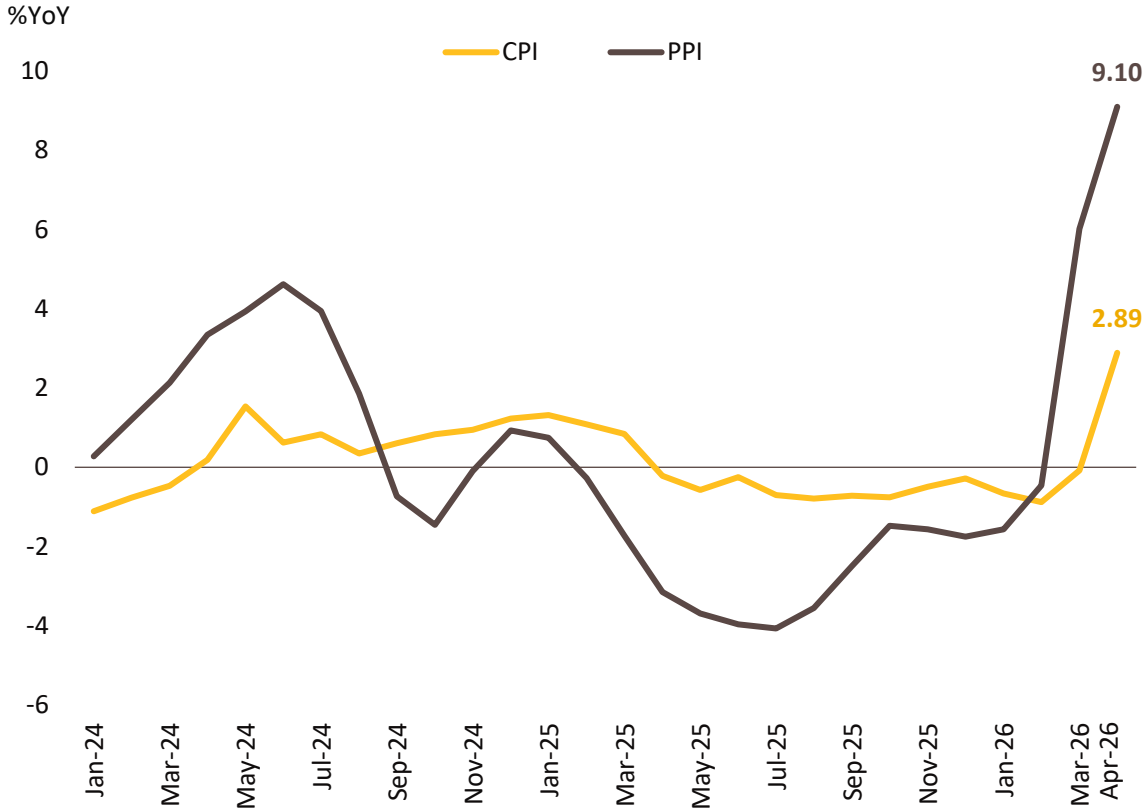


Source: MOC, and Krungsri Research

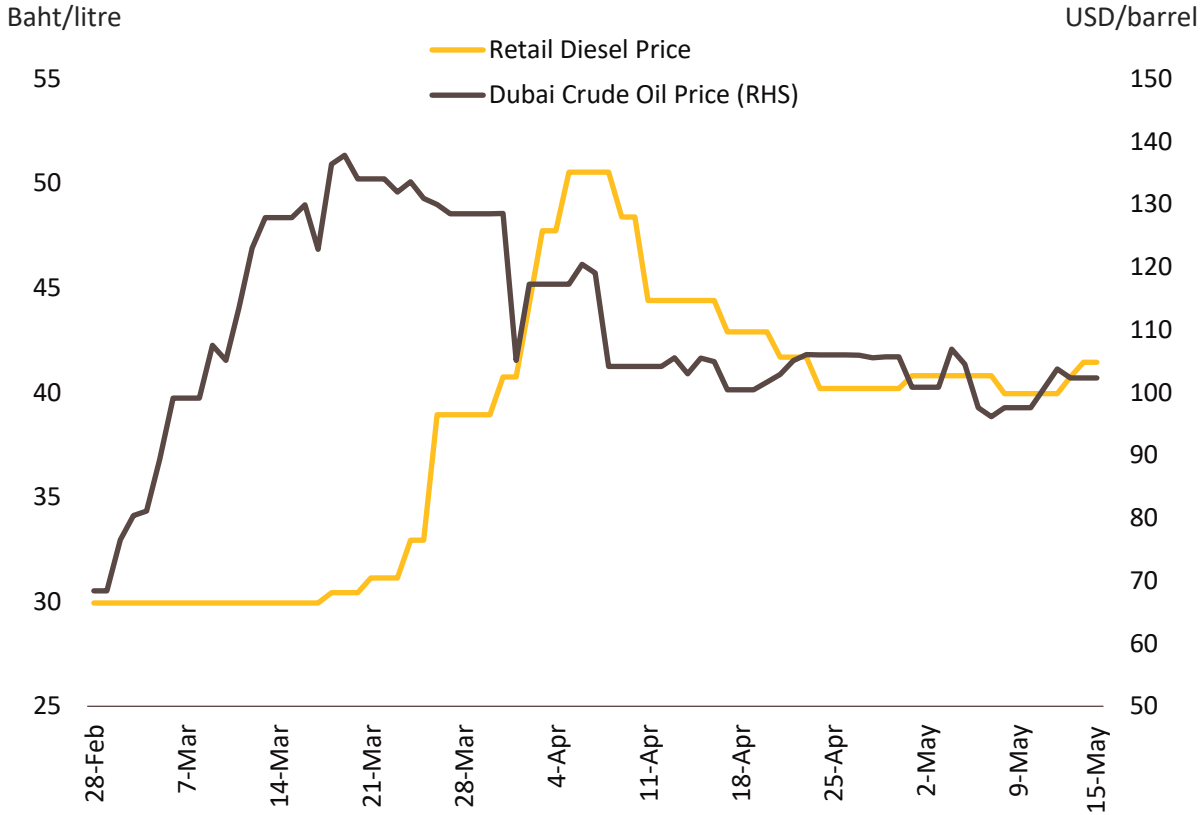
Inflation is rising on Middle East tensions and reduced subsidies; supply constraints and higher energy costs are transmitting to PPI more visibly than CPI.

In April 2026, headline inflation accelerated to 2.89% following the reduction of government subsidies, driven mainly by higher public transportation fares and prepared food prices as businesses passed rising costs on to consumers. Nevertheless, the sharper increase in PPI relative to CPI suggests a limited effect of cost pass-through. Domestic diesel prices also moved broadly in line with Dubai crude oil prices, indicating a reduced—though still elevated—government burden in subsidizing retail fuel prices. Going forward, supply shortages, higher electricity charges, and potential increases in key commodity prices are likely to raise inflation to above the BOT's target range from 2Q26 onward.

Limited pass-through effect from PPI to CPI



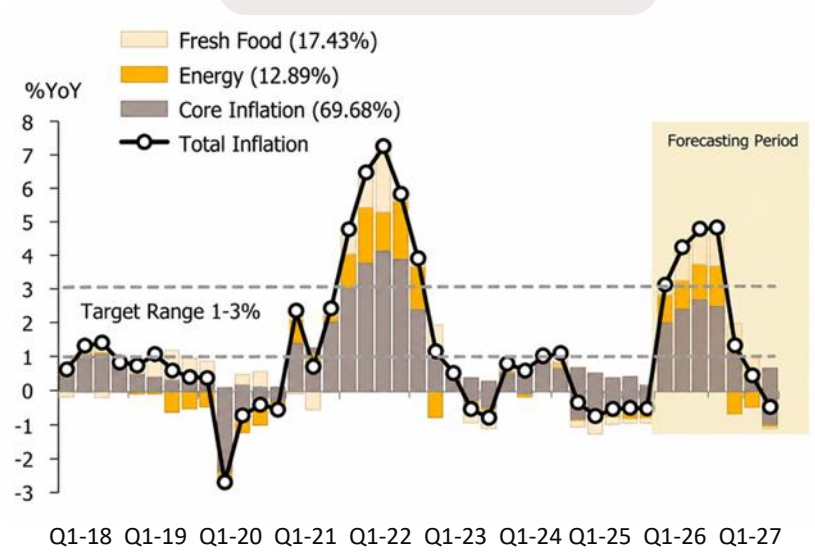
Domestic Diesel Price and Dubai Crude Oil Price



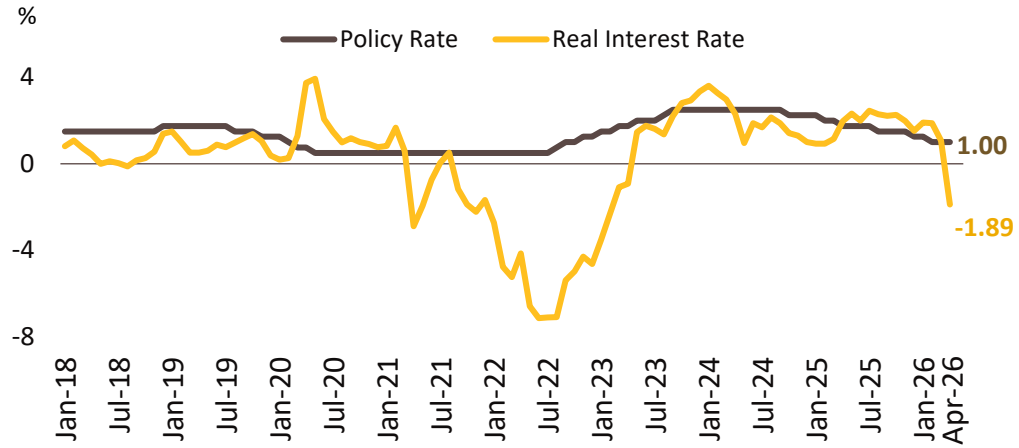
Source: MOC, MOE, and Krungsri Research

MPC holds rate at 1%, viewing policy adjustment as a risk to growth–inflation dynamics; we maintain our view that the policy rate will remain on hold throughout 2026.

Contribution of Inflation



Policy interest rate



Source: BOT, and Krungsri Research

MPC Meeting Result:

- At its meeting on April 29, the Monetary Policy Committee (MPC) voted 6-0 to maintain the policy rate at 1.00%, viewing that **the current policy stance remains appropriate** to support a slowing economy while preserving policy flexibility under uncertainty.
- The MPC assesses that **Thailand's economic growth is losing steam in 2026–2027,** due to the impact of the Middle East war. The GDP growth trajectory is on a downward trend, with growth at 2.4% in 2025, forecast at 1.5% in 2026, and the 2027 projection at 2.0%.
- **Headline inflation is projected to rise sharply to 2.9% in 2026**, mainly driven by higher global energy prices and cost pass-through effects. Inflation is expected to temporarily exceed the upper bound of the target range at 3% before gradually easing to 1.5% in 2027 as supply-side pressures subside and weak demand conditions limit cost pass-through.

Krungsri Research's view:

MPC's decision to maintain the policy rate reflects heightened uncertainty surrounding cost-push inflation dynamics and suppressed growth prospects. Despite rising inflationary pressures, the MPC is likely to hold the policy rate for the rest of the year as:

- **First, inflation is likely to ease back toward the target range next year**. Paradoxically, the conflicts have contributed to inflation converging toward the BOT's target. Although inflation is projected to remain above the upper bound of the target range (3%) for some time, the Committee views that *"price increases are expected to be neither broad-based nor persistent, given limited cost pass-through under weak demand conditions."*
- **Second, economic activity remains anemic,** and as noted in the press conference, the 2026 GDP forecast has been revised down to 1.5% from a pre-war (internal) assessment of 2.3%. Also, the current persistently negative output gap implies limited pass-through of cost pressures, reflecting the contained risk of meaningful second-round effects.
- **Third, credit growth remains subdued despite lower real interest rates,** driven by a higher inflation trajectory.

Considered jointly, these factors reinforce our ex-ante view that the policy rate will remain on hold through year-end. **Absent any extreme scenarios, either a sustained overshoot of inflation well above target or clear signs of de-anchoring inflation expectations, there is very limited justification for rate adjustment in the current environment.**

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