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FLASH

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MPC keeps the policy rate at 1.50%, reflecting a wait-and-see stance; anemic outlook and persistent risks should allow some policy space to be sacrificed, with two rate cuts expected by the first half of 2026.

Key Event:

The MPC voted 5–2 to keep the policy rate unchanged at 1.50%, emphasizing the importance to the timing and effectiveness of monetary policy given limited policy space.

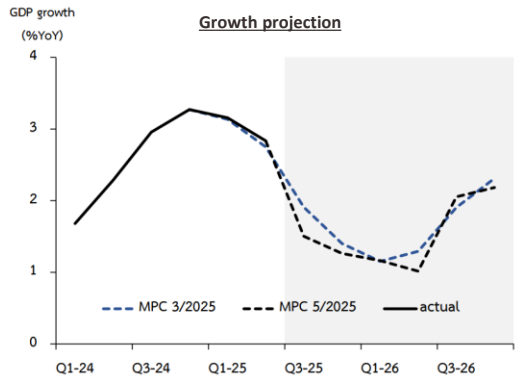
At its meeting on October 8, the Monetary Policy Committee (MPC) voted 5-2 to maintain the policy rate at 1.50%, while two members voted for a cut. The decision went against the views of Krungsri Research and the Reuters poll, in which 19 out of 26 research houses expected a rate cut.

According to the MPC's statement, **the Thai economy is projected to expand by 2.2% in 2025 and 1.6% in 2026, broadly in line with previous assessments. However, growth is expected to moderate from the second half of 2025 through 2026** due to the impacts of U.S. trade policies. Exports have already begun to feel the effects of these measures. Tourism and domestic demand have softened but are expected to gradually recover. Private consumption is projected to grow at a moderate pace, supported by government stimulus measures. The MPC also noted the need to closely monitor the effects of U.S. tariff measures, the continuity of government budget disbursement, and SME adjustments amid intensified competition, limited credit access, and elevated financing costs.

Headline inflation is projected to decline to 0.0% in 2025 and 0.5% in 2026, before gradually returning to the target range by early 2027. Despite low interest rates, **credit growth remains negative** amid rising credit risks, which could further strain vulnerable sectors, particularly SMEs and low-income households.

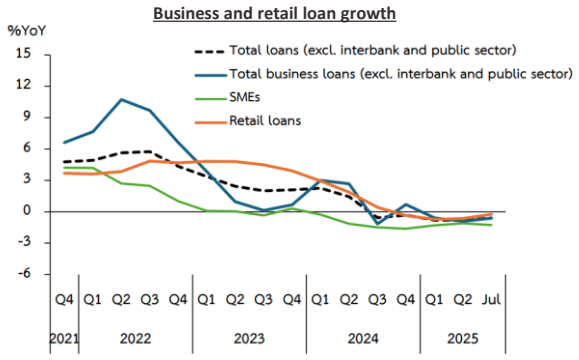
The MPC noted that policy should remain accommodative to support the economy while monitoring macro-financial risks. **The committee stands ready to adjust its stance in response to evolving economic and inflation outlook.**

The Thai economy expanded in H1/25 as anticipated but is projected to moderate subsequently



Source: NESDC, BOT calculation

Business and retail loan growth remains negative at rates close to previous periods



Source: BOT
Note: Financial institutions including commercial banks (and subsidiaries), SFIs, and non-banks that are not subsidiary of commercial banks. For retail loans, the coverage includes commercial banks (and subsidiaries), SFIs, and non-banks under regulation. For business loans, business size is defined through a combination of the Office of SMEs Promotion's criteria and credit lines.

Krungsri Research View:

Anemic outlook and downside risks will allow the MPC to sacrifice some of its policy space. We expect two rate cuts by the first half of 2026.

While the Committee's decision to hold the policy rate this month reflects a wait-and-see stance, in practice it could be interpreted more restrictive given the BOT's lower inflation projection. The decision appears at odds, particularly as the Committee has revised its growth outlook downward, indicating that the economy is already experiencing anemic momentum. However, the MPC cited ***policy effectiveness*** as the main rationale for the hold, its press release also noted that *"most committee members give importance to the timing and effectiveness of monetary policy given the limited policy space".*

On the horizon, in our view, downside risks to growth remain unaddressed. These risks include ongoing credit contraction, higher real interest rates amid lower projected inflation, limited fiscal spending under a minority government, and weaker exports driven by higher US tariffs following front-loaded shipments.

Thus, Krungsri Research expects two rate cuts to 1.00% by the first half of 2026. While questions remain as to whether prolonged subdued growth and downside risks will allow the Committee to sacrifice some of its policy space, from our ***outlook-dependent perspective***, we believe that further cuts are justified. This is especially the case if signs of political vacuum in 2026, and intensifying tariff-related pressures become more evident.

While such easing would bring the policy rate below the pre-COVID level of 1.5%, it would still be more restrictive, as inflation was positive then and current potential growth is generally estimated to be lower. **As such, further cuts would be increasingly justified to shore up economic growth momentum, signal commitment to its inflation-targeting framework, and soften constraints on loan growth**, which has been partly hampered by the BOT's earlier deleveraging measures. Also, we view that the period by early 2026 could present the optimal window for easing, before downside risks further undermine private investment and overall economic sentiment.

BOT's Economic Projection

	As of June		As of October	
Unit: %	2025	2026	**2025**	**2026**
GDP Growth	2.3	1.7	**2.2 ▼**	**1.6 ▼**
Inflation	0.5	0.8	**0.0 ▼**	**0.5 ▼**

Source: BOT

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