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FLASH

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The MPC kept the policy rate unchanged at 1.00% p.a. and is likely to remain on hold amid below-potential growth and an uneven recovery. However, recent communication points to a hiking possibility in the medium term as policy space considerations gain importance.

Key Event:

The Committee unanimously maintained the policy rate at 1.00% p.a. amid below-potential growth and an uneven recovery.

At its meeting on October 28, the Committee voted unanimously (6–0), with one member absent, to maintain the policy rate at 1.00% p.a., viewing an accommodative policy stance together with targeted financial measures as appropriate to support the economic recovery. The decision was in line with market consensus, with all 26 economists surveyed by Reuters expecting the policy rate to remain unchanged.

The MPC revised up Thailand's economic growth forecast for 2026 from 2.3% to 2.4%, supported by stronger-than-expected merchandise exports and private investment associated with the technology and AI cycle, although benefits remain concentrated in related industries and services. **However, growth remains uneven and below potential,** with private consumption weighed by elevated household debt, fragile labor market, as well as rising living costs of low-income household. Foreign tourist arrivals are expected to decline amid higher oil prices, while SMEs continue to face adaptation challenges and intensifying competition.

On the price stability front, headline inflation is projected to rise temporarily from late 2026 into early 2027, driven by supply-side pressures, particularly energy prices and El Niño, before easing due to base effects and subdued domestic demand amid structural constraints. Meanwhile, medium-term inflation expectations remain anchored within the target. **Nonetheless, upside risks to inflation warrant close monitoring** given heightened uncertainties surrounding the Middle East conflict, limited capacity of energy price subsidies, and potential cost pass-through to core inflation.

Regarding financial conditions, credit growth has gradually improved, driven mainly by large corporate lending, while SME loans continue to contract amid cautious lending to high-risk borrowers. Overall loan quality remains stable, but debt-servicing capacity among SME and vulnerable households warrants close monitoring. Targeted financial measures should provide support to viable SMEs and vulnerable groups.

BOT's Economic Projection

		As of June		As of October	
Unit: %	**2025**	**2026F**	**2027F**	**2026F**	**2027F**
GDP growth	2.4	2.3	1.8	2.4 ▲	2.1 ▲
Headline inflation	-0.1	2.8	1.4	2.1 ▼	1.3 ▼
Core inflation	0.8	1.5	1.4	1.2 ▼	1.3 ▼

Source: BOT and NESDC

Krungsri Research View:

We maintain our call for the MPC to keep the policy rate at 1.00% p.a. However, the latest MPC communication points to a less dovish stance and a hiking possibility in the medium term.

At its latest meeting, the Committee unanimously kept the policy rate unchanged at 1.00% p.a. for the fifth consecutive meeting. The Committee assessed that the accommodative monetary stance, alongside targeted financial measures, continues to support the uneven recovery.

Looking ahead, we expect the MPC to remain on hold for the following reasons:

i. **Growth remains below potential despite improving activity.** While the economy continues to benefit from the technology and AI cycle, the gains remain concentrated in related sectors (see chart). Household spending is constrained by elevated household debt and a more fragile labor market (see chart), as reflected in rising unemployment benefit applications to multi-year highs, pointing to an uneven recovery.

ii. **Inflation pressures remain temporary and supply-driven.** The recent rise in inflation mainly reflects higher energy prices and supply-side factors. Underlying inflation remains contained, with limited evidence of broad-based price pass-through, as reflected in the BOT's data indicating that over 65% of Thai businesses do not expect to raise prices further over the next three months.

iii. **Strong external buffers reduce the need for policy tightening.** Despite a weaker baht and higher global interest rates, Thailand's external stability helps cushion financial market volatility. This is reflected in only a modest increase in Thai long-term bond yields and limited spillovers to business borrowing costs.

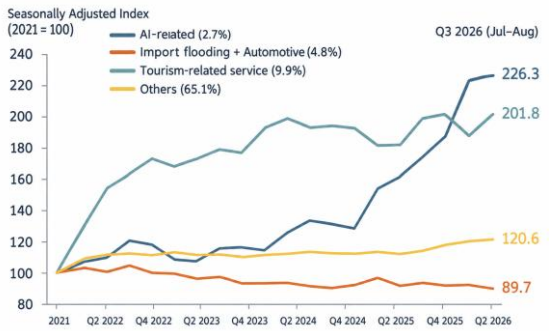
iv. **Policy support remains necessary.** With growth still uneven and SME lending continuing to contract, an accommodative policy stance, alongside targeted financial measures, remains appropriate to support vulnerable households and businesses.

While we expect the policy rate to remain unchanged, the latest MPC communication suggests that the next policy move is more likely to be a rate hike than a rate cut, based on three factors.

First, growth momentum has improved, with additional upside to GDP from the Manufacturing Production Index (MPI) overhaul, which points to stronger underlying activity in technology- and electronics-related industries. **Second**, inflation risks have become more skewed to the upside amid Middle East tensions, and potential cost pass-through to consumers, which could lift inflation expectations. **Third, the MPC appears increasingly mindful of the long-term costs of keeping interest rates too low for too long.** Notably, this is the first time the Committee has explicitly stated that it will continue to monitor *"the effects of low interest rates on long-term macro-financial stability."* This suggests that, as growth improves, **rebuilding policy space** and safeguarding financial stability are becoming more important policy considerations.

Therefore, while we continue to expect the MPC to remain on hold, the likelihood of a rate hike has increased in the medium term.

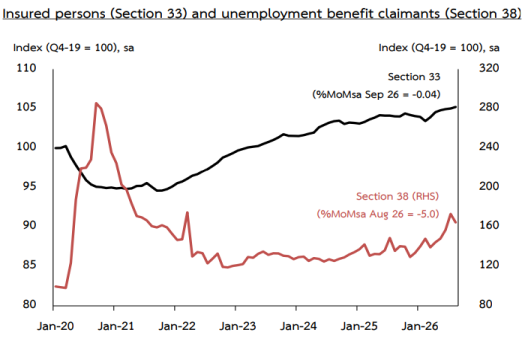
Economic Activity by Sectors



Notes: ( ) indicate the share of GDP in 2024.
- AI-related sectors refer to manufacturing categories associated with exports of goods used in data center operations, such as electronics, electrical equipment, machinery, and equipment, as well as related services, including data centers, cooling systems, and wholesale trade in electronic equipment and components.
- Import-flooding sectors include electrical appliances, textiles and apparel, petrochemicals, iron and fabricated metals, and furniture.
- Tourism-related sectors include hotels, restaurants, passenger transport, souvenir retail, arts and entertainment, and spa and wellness services.
- AI-related manufacturing sectors use VAT-based sales data.

Source: NESDC, NSO, MOF, REIC, and OIE. Calculated by BOT

Labor Market Conditions



Note: Section 33 refers to employees aged 15 to 60 years. Section 38 refers to former Section 33 insured employees who have registered to claim unemployment benefits after their employment ended.

Source: Social Security Office (SSO), calculated by the Bank of Thailand

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