

Macro Note

Thailand: Further monetary easing likely after temporary trade de-escalation

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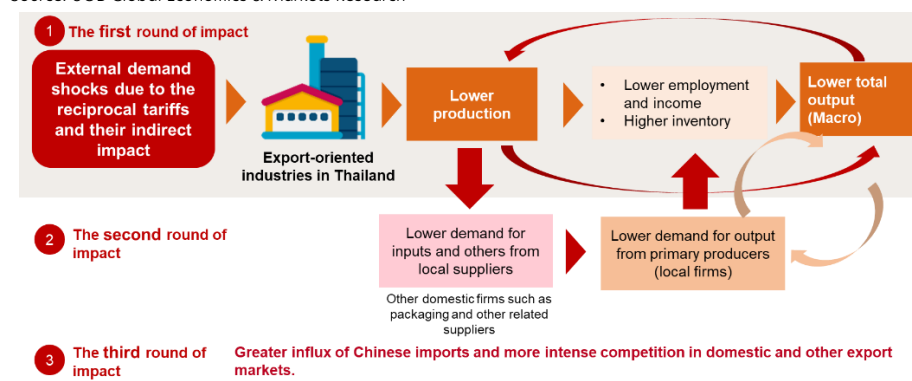
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- The BOT has signaled that following two consecutive 25-bps rate cuts in Feb and Apr, the current policy stance provides sufficient support against the adverse effects of the US reciprocal tariffs. However, given persistent uncertainties surrounding global trade policy, the central bank aims to preserve its remaining policy space to mitigate potential future shocks (BOT Governor: Meet the Press, 9 May 2025). The recent MPC meeting minutes highlighted the likelihood of growth undershooting earlier projections, primarily due to rising trade-related risks (MPC Minutes: [Link](#)). Consequently, monetary policy should remain agile and responsive to evolving economic conditions and risk factors.
- The BOT anticipates that, although less severe than shocks experienced during the 2008 global financial crisis or the COVID-19 pandemic, the current trade tensions could impose prolonged and persistent economic headwinds, potentially accompanied by periodic disruptions.
- Furthermore, most MPC members stressed the need for vigilant monitoring of global trade developments and their implications for Thailand. They concurred that monetary policy decisions must remain data-dependent and forward-looking, underscoring the critical importance of safeguarding limited policy flexibility.
- According to the BOT, the impacts of global trade tensions are likely to intensify in the second half of 2025, predominantly via three transmission channels: (1) **reduced exports**, particularly direct shipments to the US market; (2) **intensified competition** affecting Thai exports amid shifting global trade flows; and (3) **weaker private investment** due to elevated policy uncertainty and diminished business confidence. Additionally, the central bank highlighted the risk that sustained tariff disparities could prompt businesses to relocate production away from Thailand toward competitor economies.
- Therefore, we now expect the BOT to hold its policy rate steady at the upcoming meetings in Jun and Aug. However, we anticipate that the central bank will resume its easing cycle with a 25-bps cut at each of the meetings in Oct, Dec, and on to the first quarter of 2026. Under our baseline scenario, this would bring the terminal policy rate to 1.00% by the end of Q1 2026. This outlook assumes that US-trading partner negotiations result in a 10% universal tariff, with reciprocal tariffs between the US and China remaining unchanged from the 90-day pause period.
- Looking into the rest of 2025, the BOT's MPC meetings are scheduled for 25 Jun, 13 Aug, 8 Oct, and 17 Dec. The meeting schedule for next year has not been published. Governor Sethaput Suthiwartnarueput will continue to chair the MPC meetings until his term expires on 30 Sep 2025, after which a new governor, currently in the selection process, will assume the role for the remaining meetings.

- Given mounting domestic and external headwinds, the BOT faces increasing pressure to ease more aggressively than previously signaled to lessen the downside risks on growth. However, the recent de-escalation of trade tensions, particularly between the US and China, has provided the BOT with some respite, allowing the central bank to reassess the full implications of reciprocal tariffs and broader geopolitical uncertainties on Thailand's economic prospects and be more nimble with the timing of its next rate cuts.
- Thailand and other nations currently benefiting from the 90-day pause in reciprocal tariffs, which began on 9 Apr, will be subject to a 10% universal tariff top-up, effective until July 8, when the pause ends and reciprocal tariffs could resume. Meanwhile, the temporary reduction in reciprocal tariffs between the US and China, where the US has lowered tariffs on Chinese imports from 145% to 30%, and China has reduced tariffs on US imports from 125% to 10%, agreed on 12 May, will remain in place until 12 Aug 2025.
- However, **we assess that the direct and indirect effects of the US reciprocal tariffs have already begun to impact the Thai economy since the first quarter of this year, primarily through heightened uncertainty, deteriorating sentiment, and weaker private domestic demand.** The adverse effects are expected to intensify further in the second half of 2025 through multiple transmission channels. Export-oriented firms directly serving the US market experience the initial impact. This subsequently extends to their domestic suppliers and associated industries in a second-round effect. A third-round impact arises from intensified domestic and international competition, as trade diversion and inflows of tariff-displaced imports increase, amplified by existing free trade agreements.
- These challenges will likely be compounded by subdued foreign tourist arrivals and continued weakness in private domestic demand, creating a negative feedback loop further dampening economic growth. Collectively, these dynamics are likely to necessitate additional monetary policy easing, particularly given the limited scope for further fiscal support, as discussed in our previous note ([Link](#)).

Illustration of the direct and indirect impact of the reciprocal tariffs on Thailand's industries and domestic economy

Source: UOB Global Economics & Markets Research



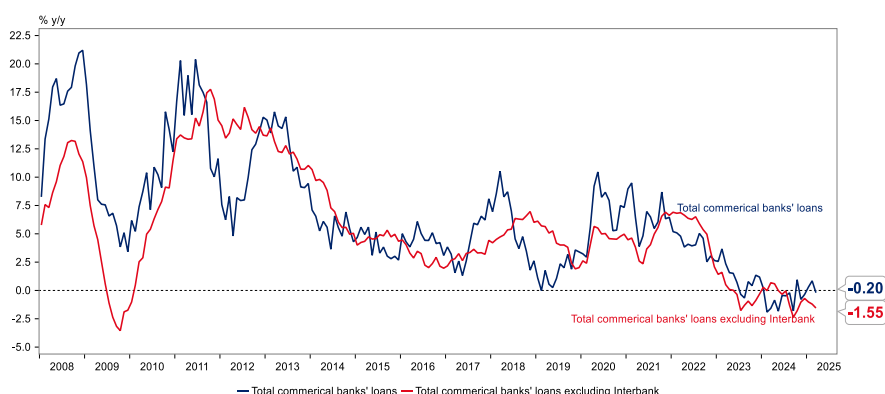
- Financial conditions remain tight, as evidenced by the ongoing contraction in total commercial bank loans, both including and excluding interbank loans. As of Mar 25, total loans contracted by 0.20% y/y, with loans excluding interbank lending falling by 1.6% y/y. This decline in commercial bank lending

has been gradually slowing since mid-2023, with loans to households continuing to shrink. The heightened uncertainties in the global economy and trade policies have exacerbated this trend.

- According to the recent MPC meeting minutes, the BOT reaffirmed that financial conditions remain constrained, with overall loan growth showing slight contraction and further deterioration in loan quality, particularly in housing and business sectors facing structural challenges. The BOT also stressed the importance of closely monitoring credit risk and macro-financial linkages, especially in business sectors negatively affected by global trade policies. The central bank noted that the contraction in credit growth is primarily driven by rising credit risks among borrowers.
- In our view, if this issue is left solely to market mechanisms, it could exacerbate the negative feedback loop of macro-financial linkages, further weakening domestic demand and the growth outlook. We therefore support the central bank's efforts to address this market failure and unlock credit growth to support the economy. Continued monetary easing, coupled with new measures to stimulate credit growth, could help sustain investment in the business sector, enabling firms to transition to new industries during this challenging period. This approach ensures that the private sector capitalizes on the opportunity to reform, enhance their competitiveness, and adapt in the face of adversity, preventing wasted opportunities during a crisis.

Commercial banks' loan growth (as of Mar 25)

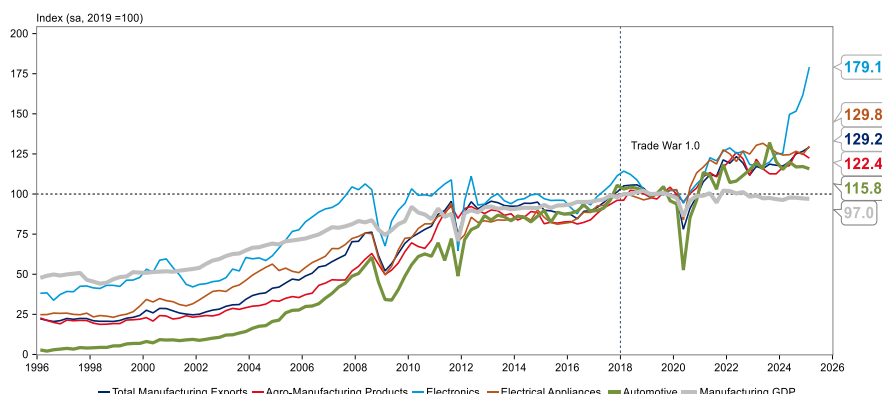
Source: Macrobond, UOB Global Economics & Markets Research



- A clear example underscoring the urgency for structural reforms aimed at boosting competitiveness and facilitating the transition into new manufacturing sectors is the limited transmission of Thailand's recent merchandise export recovery into stronger domestic industrial activity. In our view, monetary policy and the financial sector can play pivotal roles in addressing this disconnect by improving credit availability, reducing financing costs, and supporting targeted investments in sectors poised for future growth.

Manufacturing GDP and exports of key product groups (as of 1Q 2025)

Source: Macrobond, UOB Global Economics & Markets Research



- The inflation outlook remains conducive to further monetary policy easing.** While the BOT has emphasized that inflation expectations are well-anchored within its target range of 1% to 3% over the medium term, its Apr projections indicate a modest uptick in headline inflation, with a 0.5% and 0.8% increase anticipated in 2025 and 2026 under a low-tariff scenario. In contrast, under a high-tariff scenario, inflation is forecast to rise only 0.2% and 0.4% in 2025 and 2026, respectively ([Link](#)). Additionally, as noted in our previous analysis ([Link](#)), inflation expectations embedded in long-term government bond yields remain below the lower bound of the BOT's target range.
- While we concur with the BOT's assessment that supply-side factors have predominantly shaped Thailand's inflation dynamics, the persistently low inflation outturns are likely to affect wage-price setting behaviors and corporate decision-making. This poses a risk of entrenched low inflation, which could hinder nominal GDP growth and complicate efforts to address structural issues, such as reducing high debt ratios. The outlook underscores the case for continued monetary accommodation, particularly in light of the broader macroeconomic challenges facing the economy.
- That said, **monetary policy can also have meaningful supply-side implications beyond cushioning aggregate demand against the direct and indirect adverse effects stemming from reciprocal tariffs and heightened uncertainty.** Specifically, further easing would lower financing costs and improve credit conditions, supporting new business investments critical for enhancing competitiveness and facilitating a transition toward higher-value growth sectors. Therefore, **we expect the BOT to resume its easing cycle with three successive 25 bps rate cuts in Oct and Dec 2025, and again in the first quarter of 2026. This would bring the policy rate down to 1.00% by the end of Q1 2026.**

Our Forecast

%	As of 26 May	2Q25	3Q25	4Q25	1Q26
BOT 1-D Repo Rate	1.75%	1.75%	1.75%	1.25%	1.00%

Source: Global Economics & Markets Research (as of 26 May 2025)

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