Macro Note

Thailand: Deflation persisted in Jul 25 on supply-side factors

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- Headline CPI continued to be negative in Jul, contracting deeper to -0.70% y/y from -0.25% y/y in Jun. A substantial decline in energy costs, electricity, and raw food prices were the primary drivers of the negative figure. Core inflation, which excludes fresh food and energy, also eased significantly to +0.84% y/y from +1.06% y/y in Jun.

- We expect domestic private demand to remain subdued amidst an ongoing debt deleveraging process among households and corporates, alongside continued domestic and global economic uncertainty. Concurrently, external demand conditions are also expected to moderate further, amplifying downward pressures on domestic inflation. As a result, we now revise our headline inflation forecast downward to an average of 0.4% in 2025 (previously 0.6%) and 0.6% in 2026 (previously 0.8%).

- Therefore, we continue to view that there is room for further monetary policy easing, not only to re-anchor inflation expectations effectively but also to stimulate broader economic activity and mitigate risks to financial stability.

- That said, we still expect the BOT to keep its policy rate unchanged at the next meeting on 13 Aug, but to resume its easing cycle with a 25-bps cut at each of the meetings in Oct, Dec, and into the first quarter of 2026. Under our baseline scenario, the policy rate would be 1.00% by the end of 1Q 2026.

Deepening deflation risks in Jul 25

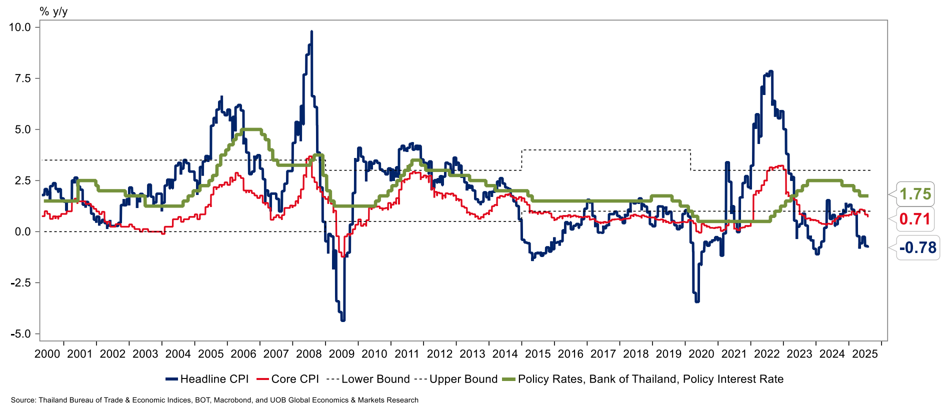
Deflationary risks persisted for Thailand in July 2025. Headline CPI contracted further, registering a decline of -0.70% year-on-year (y/y), deeper than the -0.25% y/y recorded in Jun, primarily driven by lower prices for energy, electricity, and raw food, according to the Ministry of Commerce (MOC). The July inflation print again came in weaker than market expectations (Reuters poll: -0.40% y/y). On a sequential basis, headline inflation contracted by -0.20% month-on-month seasonally adjusted (m/m sa), following a contraction of -0.08% m/m sa in Jun.

Core inflation, which excludes volatile components such as fresh food and energy, also decelerated notably to +0.84% y/y from +1.06% y/y in Jun. Sequentially, core CPI edged down by -0.05% m/m sa, compared to -0.01% m/m sa in Jun.

For the first seven months of 2025, headline inflation averaged +0.21% y/y, while core inflation rose by +0.95% y/y. The latter has remained persistently close to the lower bound of the BOT inflation target range of 1%-3% since mid-2023, highlighting ongoing weakness in underlying price pressures.

CPI inflation rates (% y/y) and BOT's policy rate in Jul 25

Source: Macrobond, UOB Global Economics & Markets Research



In Jul, the negative headline inflation print continued to reflect lower prices for energy, electricity, and raw food, notably fresh vegetables, fruits, eggs, and dairy products. Inflation in food and non-alcoholic beverages, which represent approximately 40% of the consumer price index (CPI) basket, decelerated notably to +0.84% y/y, down from +1.64% y/y in Jun. Non-food and beverage prices, constituting roughly 60% of the CPI basket, experienced a deeper contraction of -1.72% y/y compared to -1.45% y/y in Jun. This deeper contraction was driven by declines across several categories, including: (1) transportation and communication, (2) medical and personal care items, (3) apparel and footwear, and (4) housing and furnishings, underscoring broad-based softness in domestic price pressures.

Developments of CPI inflation in Jul 25

Source: CEIC, UOB Global Economics & Markets Research

% y/y	Weight	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Headline CPI	100.0	0.82	0.36	0.62	0.83	0.94	1.24	1.32	1.08	0.84	-0.22	-0.57	-0.25	**-0.70**
Food & Non Alcoholic Beverages	**39.6**	1.27	1.82	2.25	1.94	1.28	1.27	1.78	2.03	2.35	1.63	0.89	1.64	**0.84**
Rice, Flour & Cereal	3.4	3.44	3.13	1.35	0.28	0.86	1.43	1.91	0.69	1.21	1.71	2.23	0.78	**0.78**
Meats Poultry & Fish	7.4	-2.20	-1.16	-0.68	0.33	0.59	0.25	0.41	1.39	3.04	5.04	5.39	4.98	**4.18**
Eggs and Dairy Products	1.7	2.88	1.66	1.43	1.44	-0.50	-0.95	-0.53	0.45	-0.46	-1.94	-1.52	-3.94	**-3.46**
Vegetables and Fruits	4.9	4.24	6.12	8.17	4.68	-0.44	-0.38	1.90	1.50	1.66	-6.72	-14.05	-7.00	**-9.43**
Seasoning and Condiments	1.2	-1.12	-0.62	-0.39	0.02	1.84	2.21	3.30	5.21	6.82	6.20	5.96	4.56	**3.42**
Non Alcoholic Beverages	3.4	1.79	2.08	2.36	2.85	3.26	3.35	3.18	3.26	3.66	4.24	4.41	4.32	**4.51**
Sugar & Sweet Products	0.9	2.80	2.89	2.55	3.19	2.45	1.84	2.01	2.03	2.06	1.91	2.10	2.05	**1.97**
Prepared Food	16.7	1.54	1.81	2.38	2.33	2.27	2.33	2.53	2.68	2.37	2.61	3.41	3.40	**2.53**
Non Food & Beverages	**60.4**	0.50	-0.68	-0.55	0.03	0.70	1.21	1.00	0.40	-0.18	-1.45	-1.51	-1.45	**-1.72**
Apparel & Footwears	2.1	-0.54	-0.59	-0.66	-0.49	-0.51	-0.51	-0.19	-0.32	-0.43	-0.56	-0.91	-0.88	**-1.08**
Housing & Furnishing	24.5	-0.84	-0.89	0.35	0.41	0.41	0.39	0.43	0.50	0.00	-0.67	-0.30	-0.35	**-0.23**
Medical & Personal Care	6.3	-0.38	-0.03	-0.11	-0.61	-0.36	-0.36	-0.53	-0.52	-0.63	-0.72	-1.05	-0.80	**-1.08**
Transport & Communication	22.2	2.01	-1.00	-1.78	-0.28	1.38	2.71	2.09	0.53	-0.41	-2.97	-3.38	-3.23	**-3.87**
Recreation, Reading, Education and Religion	4.0	0.61	0.62	0.65	0.58	0.48	0.37	0.45	0.45	0.42	0.66	0.44	0.50	**0.47**
Tobacco & Alcoholic Beverages	1.2	1.85	1.85	1.32	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Core Consumer Price Index	**70.3**	0.52	0.63	0.76	0.77	0.80	0.80	0.83	0.99	0.86	0.98	1.09	1.06	**0.84**
Raw Food and Energy	29.7	1.37	-0.14	0.33	0.94	1.21	2.06	2.28	1.18	0.71	-2.70	-3.83	-2.82	**-3.82**
Raw Food	17.5	1.10	1.92	2.32	1.64	0.24	0.17	0.97	1.13	1.90	0.30	-1.76	-0.23	**-1.23**
Energy	12.2	1.77	-3.10	-2.56	-0.08	2.72	5.01	4.25	1.23	-0.93	-6.73	-6.58	-6.31	**-7.33**

In Jul, the MOC maintained its inflation forecast for 2025 within a range of 0.0% to 1.0% (midpoint: 0.5%), with the unchanged macroeconomic assumptions.[1] In 3Q25, the MOC projected headline inflation to record -0.5% y/y, before slightly accelerating and turning positive in 4Q25.

In Aug, despite some upside risks to the inflation outlook, the Ministry expected headline inflation to remain subdued, continuing the trend observed in Jul. Several factors contribute to the persistently low inflation environment:

[1] The MOC's main assumptions are (1) an economic growth rate in the range of 1.3%-2.3%, (2) an annual average of Dubai oil prices of 63-73 USD/barrel, and (3) the average of the USD/THB exchange rate in the range of 33.5-34.5

(1) **Energy prices:** global crude oil prices, particularly Dubai crude, remain below year-ago levels due to the tepid global economic recovery and relatively contained geopolitical tensions among major oil-producing countries.
(2) **Government's interventions:** the government continues to implement measures aimed at alleviating cost-of-living pressures, notably through a reduction of the electricity fuel tariff (Ft) by 17 satang per unit for the May–Aug 2025 billing cycle, lowering electricity costs to 3.98 baht per unit.
(3) **Supply-side factors**: favorable weather conditions have significantly increased the supply of fresh vegetables and fruits, resulting in notably lower prices compared to the previous year.
(4) **Other factors:** tourism-related service charges have also declined, reflecting a slowdown in the tourism sector driven by temporary factors, coupled with promotional campaigns implemented by tourism operators in support of the government's stimulus initiative for domestic tourism.

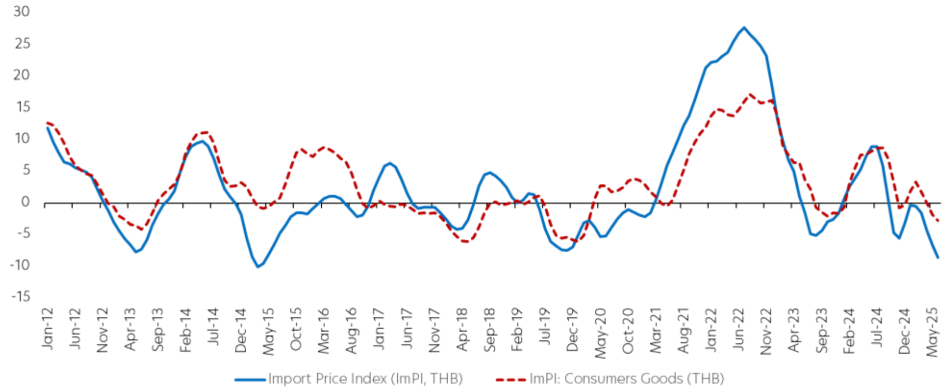
Moreover, the MOC reiterated that deflation risks for Thailand remain limited, as the recent disinflationary trend has been largely attributable to government interventions and supply-side factors.

Further monetary easing is likely needed to sustain growth and reverse disinflation

We acknowledge the significant influence of government interventions and supply-side factors on Thailand's recent inflation dynamics, as evidenced by recent inflation outturns. However, we emphasize that additional downside risks to the medium-term inflation outlook may emerge, particularly stemming from an influx of lower-priced imports amid US reciprocal tariffs and heightened global trade tensions. Notably, import price indices denominated in Thai baht—particularly for consumer goods—have consistently declined since mid-2024, partly reflecting the appreciation of the baht. This trend is expected to persist into the medium term, potentially exerting downward pressure on inflation expectations among businesses and households.

Import Price Indices (% y/y, as of Jun 25)

Source: CEIC, UOB Global Economics & Markets Research



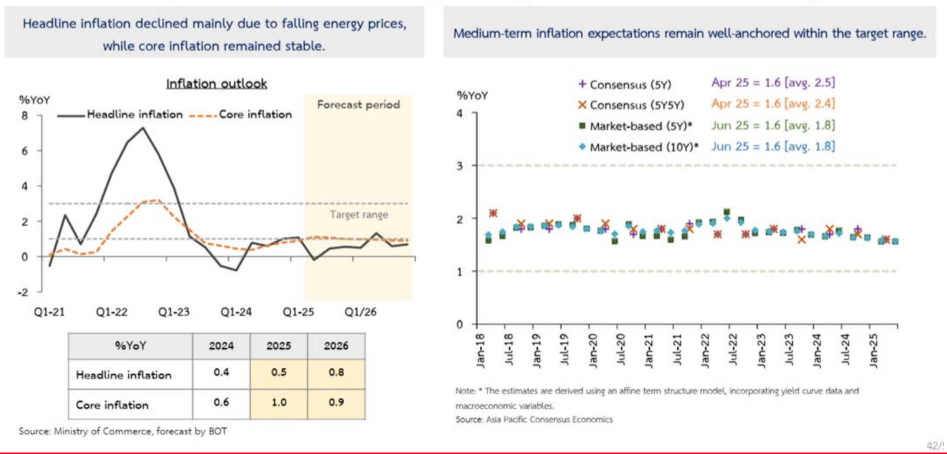
In addition to favorable supply-side developments, weakening private domestic demand has increasingly contributed to deflationary pressures in Thailand. Cyclical softness in demand has been exacerbated by persistent contractions in commercial bank lending to both firms and households, reflecting elevated uncertainties domestically and externally.

We expect domestic private demand to remain subdued, primarily driven by an ongoing debt deleveraging process among households and corporates, alongside continued domestic and global economic uncertainty. Concurrently, external demand conditions are also expected to moderate further, amplifying downward pressures on domestic inflation. As a result, we now revise our headline inflation forecast downward to an average of 0.4% in 2025 (previously 0.6%) and 0.6% in 2026 (previously 0.8%).

As of Jun 25, the BOT forecasts headline inflation at 0.5% in 2025 and 0.8% in 2026, with core inflation expected at 1.0% in 2025 and 0.9% in 2026. The central bank has emphasized that the current low inflation environment is driven largely by supply-side factors and does not yet indicate signs of deflation, and reiterated that the medium-term inflation expectations remain well-anchored within the target range of around 2.0%.

BOT's inflation projection (as of Jun 25)

Source: BOT, UOB Global Economics & Markets Research



However, given the subdued economic outlook, government bond yields, and the BOT's and market participants' current inflation projections, there is a growing risk of inflation expectations becoming de-anchored, potentially spilling over to wage- and price-setting behaviors among firms and households. As highlighted previously (Link), we underscore the potential for Thailand to become entrenched in a prolonged low-inflation environment, which carries substantial economic costs—particularly in terms of subdued economic growth and challenges related to debt deleveraging. Therefore, we view further monetary policy easing as quite likely, not only to re-anchor inflation expectations effectively but also to stimulate broader economic activity and mitigate risks to financial stability.

We maintain our baseline view that the BOT will leave the policy rate unchanged at its upcoming Aug meeting. This reflects the central bank's preference to preserve limited monetary policy space amid heightened macroeconomic uncertainty, as well as ongoing concerns over the effectiveness of transmission—particularly the muted pass-through from the policy rate to bank lending rates and broader credit conditions. Additionally, with a leadership transition underway and the incoming Governor—who also chairs the MPC—set to assume office on 1 Oct, the Committee may adopt a wait-and-see approach in the near term.

That said, we continue to expect the BOT to initiate an easing cycle beginning in Q4, with a series of 25bps rate cuts in Oct and Dec 2025, followed by an additional cut in 1Q 2026. Under our baseline scenario, this would bring the terminal policy rate to 1.0%, as the BOT shifts toward a more accommodative stance to support growth and mitigate downside risks.

Please click on the links to access:

- Press Release by the MOC (in Thai): Link

Our forecast

%	7 Aug	3Q25	4Q25	1Q26	2Q26
BOT 1-D Repo Rate	1.75%	1.75%	1.25%	1.00%	1.00%

Source: Global Economics & Markets Research (as of 7 Aug 2025)

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