Thailand

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Low inflation, lower rates and ratings outlook

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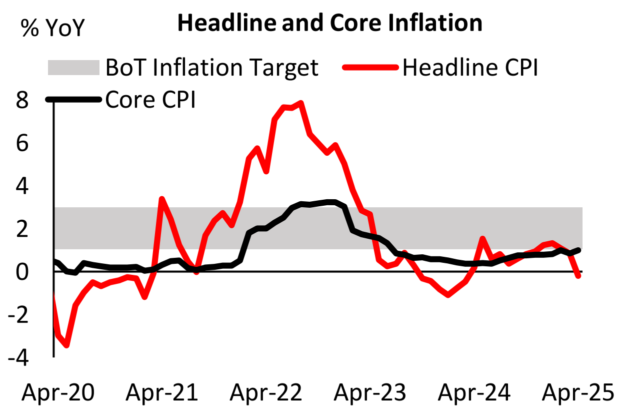
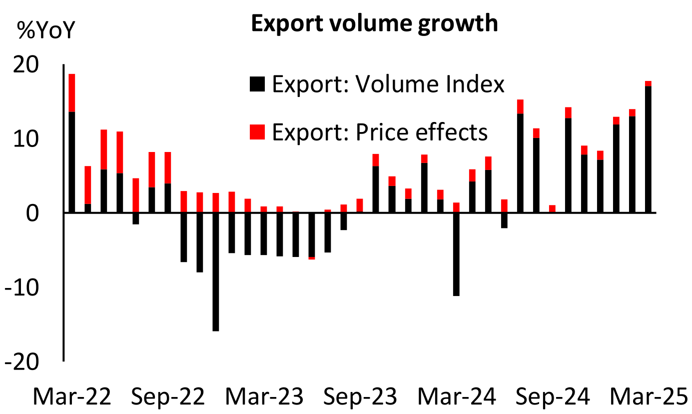
- Headline inflation dropped to -0.2% YoY in April, leading us to reduce our 2025 headline CPI forecast to 0.9% YoY from 1.6% previously.
- A low inflation backdrop attended positive real rates, elevated growth risks, and THB appreciation risks support Bank of Thailand's (BoT) firm dovish bias.
- Our baseline view is for another 25bp rate cut from BoT in 2025. However, the risk is clearly for deeper cuts.

Headline inflation dropped to -0.2% YoY in April compared to 0.8% in March (Consensus: -0.1%; OCBC: -0.2%). Core inflation was stable at 0.9% YoY in April relative to March. The main drivers were broad-based across food, fuel and utilities. Core inflation, however, edged modestly higher to 1.0% YoY versus 0.9% in March, possibly reflecting higher gold prices.



Source: Bureau of Trade and Economic Indices, CEIC, OCBC.



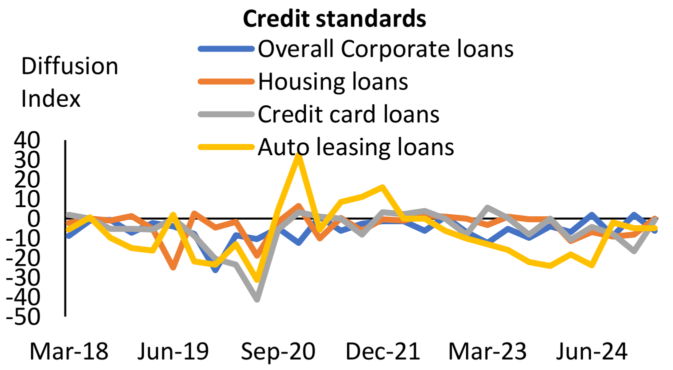
Source: CEIC, OCBC.

The reduction in electricity tariffs by ~4%, falling global oil prices (down 12.5% YoY year-to-date) and weak domestic demand conditions will weigh on inflationary pressures for the rest of the year. We reduce our 2025 headline CPI forecast to 0.9% YoY from 1.6% previously (2024: 0.4%).

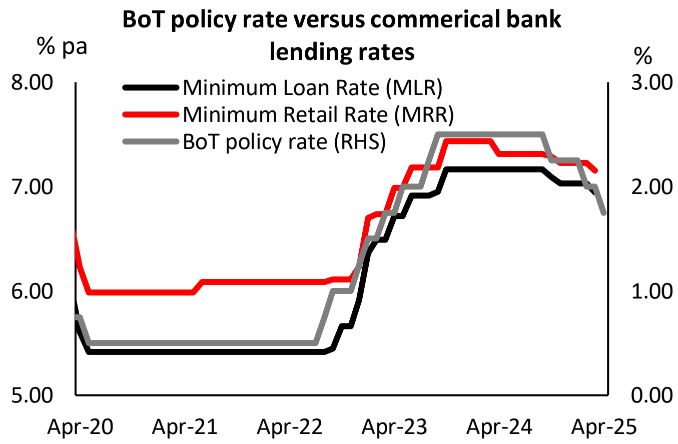
Notwithstanding, we continue to see 1Q25 GDP growth holding up at 3.5% YoY given the front-loading of exports to the US amidst a slower import growth. the latter reflective of anaemic domestic demand conditions. Notwithstanding, a growth slowdown in clearly in the offing. BoT provided a scenario analysis wherein GDP growth could range from 1.3% (higher tariffs from the US come into effect) to 2% (scenario of lower tariffs). Our 2025 GDP growth forecast is at 2%. But the risks are skewed to the downside.

Moreover, with headline inflation negative and likely to remain so for most of 2Q25, the real rate environment is likely to remain positive and keep financial conditions tight. BoT's assessment that "overall financial conditions remain tightened" at its 30 April meeting suggests that, in addition to the fundamental growth-inflation dynamics, THB strength, loan growth, credit quality and credit lending standards will be watched closely by the BoT when considering additional rate cuts.

Recent dynamics show that loan growth could remain subdued not just due to poorer demand but also technical considerations. Although domestic commercial banks passed on the =25bp rate cut in February from BoT onto retail interest rates, credit lending standards tightened significant in February. This likely kept loan growth under pressure. Credit quality considerations amidst anaemic growth conditions suggests that loan growth may not see a significant pick-up in the coming months.



Index = 0 indicates that credit and credit standards remains unchanged;
Index > 0 indicates that credit increases or credit standards are eased;
Index < 0 indicates that credit decreases or credit standards are tightened.
Source BoT; OCBC.



Source: Bank of Thailand, CEIC.

The stage is set for further easing from the BoT; we expect an additional 25bp rate cut for the remainder of 2025. The risk is for deeper cuts depending on how trade negotiations with the US pan out, not just for Thailand but also other bigger trading partners given the economy's high degree of openness.

The rub for BoT, however, is that policy space is limited. The policy rate was brought down to 0.5% during the pandemic but the domestic demand shock was deeper. Crucially, Thailand's economy is constrained by fundamental structural constraints such as elevated household debt, deteriorating export competitiveness, poor progress on public infrastructure projects and populist bend to fiscal policies that monetary policy tools will unlikely address. In the worse-case, we expect the lowest terminal rate for this cycle will likely be 1.00% from the current 1.75%. Indeed, Moody's sovereign credit rating outlook downgrade to 'negative' from 'stable' on 29 April, its first in almost 17 years, will keep BoT's approach more calibrated.

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