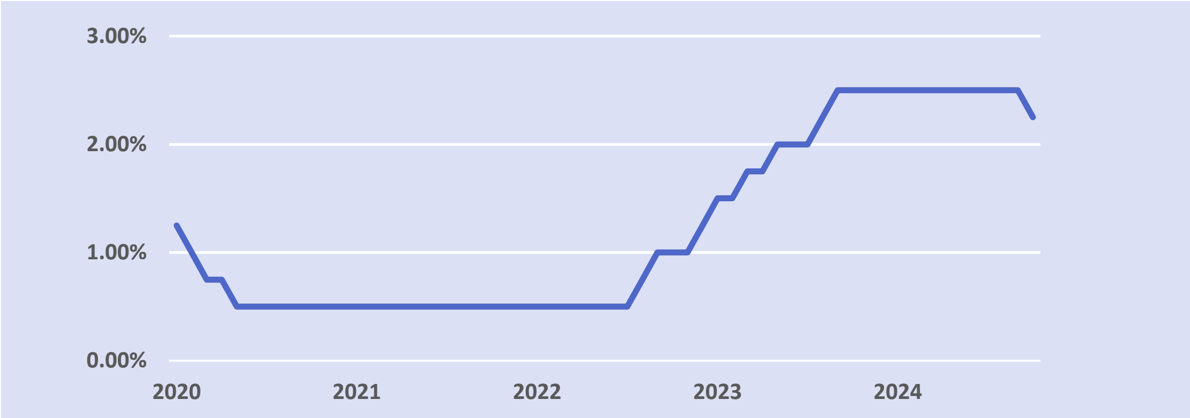
MPC's Decision on October 16, 2024: First Rate Cut Since 2020 Amid Social Pressure and Economic Uncertainty



The Monetary Policy Committee (MPC) voted 5 to 2 in favor of a 0.25 percentage point cut in the policy rate, reducing it from 2.50% to 2.25%. **This is the first rate cut since May 2020, marking a key moment in Thailand's monetary policy amid economic challenges**. The majority of members supported the decision, anticipating that it would ease the household debt burden without disrupting the ongoing deleveraging process, particularly as household debt to GDP had already slowed from 90.7% in Q1 2024 to 89.6% in Q2 2024.

Social pressure played a significant role in driving this rate cut. With rising household debt and an uneven economic recovery across different sectors, the public has been increasingly vocal about the need for financial relief. However, despite this cut, the overall economic forecast remains largely unchanged, as shown in the table. GDP growth is projected at 2.7% for 2024 and 2.9% for 2025, with inflation expected to stay low at 0.5% and 1.2%, respectively. This indicates that while the rate cut may provide short-term relief, its broader impact on the economy could be limited unless further measures are implemented.

Summary Forecast				
	As of June 2024		As of October 2024	
	2024	2025	2024	2025
GDP Growth	2.6	3.0	2.7	2.9
Headline Inflation	0.6	1.3	0.5	1.2
Core Inflation	0.5	0.9	0.5	0.9

Source: Bank of Thailand.

In terms of the broader economic outlook, **while the MPC reiterated that this cut does not mark the beginning of an easing cycle, it is likely aware that a single rate cut may not be enough.** With the neutral rate estimated to be around 2%, there remains room for additional cuts if necessary. This flexibility will be crucial if economic conditions deteriorate further, especially given the recent flooding, which has caused significant disruptions across various sectors.

The next meeting is critical, as the MPC faces growing pressure to address not only the persistent issue of household debt but also the immediate economic damage caused by the floods. If the MPC does not take further steps, the current monetary policy stance risks falling short of what is needed to sustain recovery. The central bank may need to act more decisively in the near future to avoid losing momentum and to mitigate the broader economic fallout from these compounded challenges. Failure to do so could undermine recovery efforts and leave the economy vulnerable to deeper setbacks.

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