

# BoT 3<sup>rd</sup> MPC Decision

Policy rate maintained at 0.50%, but signals rate hikes going forward

- **The Bank of Thailand (BoT) kept the policy rate at a record low 0.50%, in line with house and market expectations**

- The Monetary Policy Committee (MPC) voted 4–3 to retain the policy rate, in the first split decision since August 2021. The three dissenters voted to raise the rate by 25bps, signalling a hawkish turn.
- The committee assessed that the Thai economy could expand faster than expected, whilst inflation would continue to rise and remain elevated for longer than initially estimated. Overall, the MPC believes that very accommodative monetary policy would be less necessary going forward.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.90% (+0.50%)	India	Repo Rate	Jun-22
0.85% (+0.50%)	Australia	Cash Rate	Jun-22
1.75% (+0.25%)	South Korea	Base Rate	May-22
2.00% (+0.50%)	New Zealand	Official Cash Rate	May-22
2.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	May-22
2.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-22
0.75%-1.00% (+0.50%)	USA	Funds Rate Target	May-22
1.375% (+0.25%)	Taiwan	Discount Rate	Mar-22
3.70% (-0.10%)	China	Loan Prime Rate	Jan-22
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
0.50% (-0.25%)	Thailand	Repo Rate	May-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

Source: Bloomberg, CEIC, Kenanga Research

- **The BoT marginally upgraded the 2022 GDP forecast to 3.3% from 3.2% previously (2021: 0.9%) and adjusted the 2023 forecast to 4.2% from 4.4%**

- The 2022 growth projection stems from a better-than-expected recovery in domestic consumption, particularly in the services sector, and foreign tourist arrivals, following the rapid relaxation of border restrictions. This is backed by Thailand's 1Q22 GDP growth beating expectations at 2.2% (consensus estimates: 2.1%; 4Q21: 1.8%). Furthermore, the labour market and household income continue to show signs of improvement, whilst the lingering impact of COVID-19 will likely be limited.

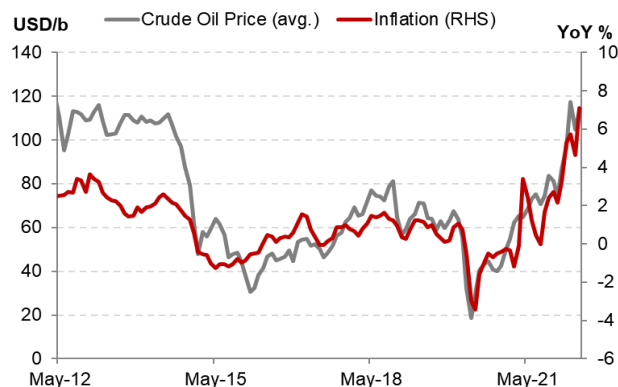
- **Headline inflation forecast for 2022 was raised to 6.2% from 4.9% previously (2021: 1.2%) and the 2023 projection bumped up to 2.5% from 1.7%**

- Thailand's headline inflation rose at a much faster-than-expected rate in May, surging to 7.1% (Apr: 4.7%), its highest level in nearly 14 years. This was primarily due to rising energy prices and the end of some government support measures.
- The MPC states that inflation would exceed the target range of 1.0% - 3.0% due to increasing domestic energy prices and higher cost passthrough into a wider range of products. Likewise, they stress that inflation risks have increased significantly amid uncertainties around global energy prices and growing demand-side inflationary pressure as the economy recovers.

- **We expect the BoT to raise the policy rate by 25bps at its next meeting in August**

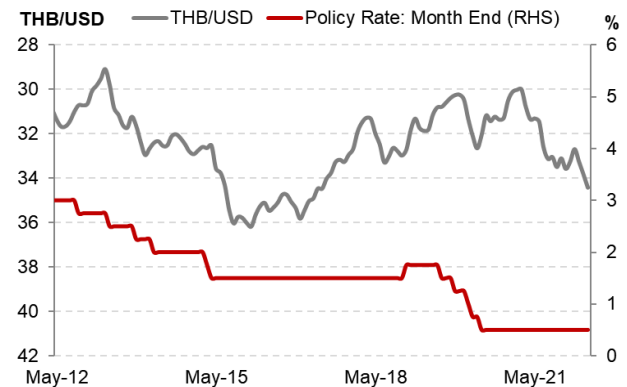
- Given the hawkish shift among many of the MPC members, as well as further upside risks to both growth and inflation, we reckon the BoT will begin monetary policy normalisation starting at its next meeting. This would help keep the BoT in line with its peers, as several central banks worldwide have already begun significantly raising rates, which would also provide some stability to the weakening Thai baht.

**Graph 1: Inflation vs Crude Oil**



Source: Bank of Thailand, Bureau of Trade and Economic Indices, Kenanga Research

**Graph 2: Policy Rate vs. Currency**



Source: Bank of Thailand, Bureau of Trade and Economic Indices, Kenanga Research

09 June 2022

**Table 2: MPC Meeting Schedule for 2022 / KIBB Outlook**

No.	Date		KIBB Research Outlook	BOT Decision	Vote
1 <sup>st</sup>	9 February	<input checked="" type="checkbox"/>	No change	No change	7-0
2 <sup>nd</sup>	30 March	<input checked="" type="checkbox"/>	No change	No change	7-0
3 <sup>rd</sup>	18 May	<input checked="" type="checkbox"/>	No change	No change	7-0
4 <sup>th</sup>	29 June	<input checked="" type="checkbox"/>	No change	No change	4-3
5 <sup>th</sup>	17 August	<input type="checkbox"/>	25bps rate hike		
6 <sup>th</sup>	28 September	<input type="checkbox"/>	50% probability of 25bps rate hike		
7 <sup>th</sup>	16 November	<input type="checkbox"/>	No change		
8 <sup>th</sup>	28 December	<input type="checkbox"/>	No change		

Source: Bank of Thailand, Kenanga Research

**For further information, please contact:**

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Zalman Basree**  
Economist  
[zalman@kenanga.com.my](mailto:zalman@kenanga.com.my)

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)