

BoT 5th MPC Decision

An expected 2nd consecutive 25bps hike to gradually rein in inflationary pressures

- **The Bank of Thailand (BoT) raised the key rate by 25bps to 1.00%, in line with house and market expectations**

- The Monetary Policy Committee's (MPC) seven members unanimously voted to raise the policy rate for the second successive meeting.
- The committee stated that gradual policy normalisation was still appropriate as Thailand's economic recovery continued to gain momentum and headline inflation remained elevated.

- **The BoT retained its GDP growth forecasts of 3.3% in 2022 (2021: 1.6%) and 3.8% in 2023**

- Economic recovery continues to gain traction, driven mainly by private consumption and a faster recovery in the tourism sector as tourist arrivals remain on a strong uptrend. The committee highlights that the economic recovery has become more broad-based, both in terms of business sectors and income distribution. Nonetheless, slower global economic growth has impacted Thailand's exports, but this has been somewhat alleviated by a weaker baht.

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- The Thai government expects a surge of around 7.5m foreign tourist arrivals in 2H22, which would propel the full-year arrivals to roughly 10.0m, far greater than the 0.4m arrivals in 2021 amid the pandemic. In a further boost to the tourism sector, Thailand declared that the nationwide COVID-19 state of emergency would end on September 30, having been in place since March 2020. Likewise, from next month travellers to Thailand will not be required to show proof of vaccination or COVID test results, further easing pandemic-related restrictions.

- **Headline inflation expected to remain elevated at 6.3% in 2022, before easing to 2.6% in 2023**

- Having recorded a hotter-than-expected inflation rate of 7.9% in August (Jul: 7.6%), a 14-year high, the committee stressed that elevated inflation levels remain a risk despite declining commodity prices. The BoT highlighted that there had been a rise in cost pass-through, as well as increased wages in some sectors and in areas with labour shortages. Nonetheless, demand-side inflationary pressures remain constrained as the economy is still broadly in a state of recovery.

- **Expect another 25bps hike at the final meeting of this year, raising the year-end rate to 1.25% (2021: 0.75%)**

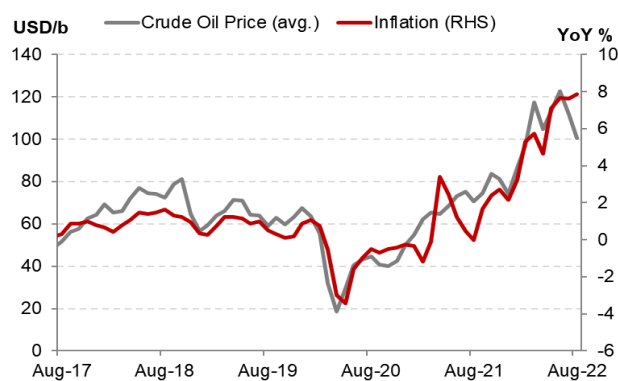
- We reckon that the BoT would maintain its measured approach and raise rates by 25bps at each meeting, until it is moderately higher than its long-term average of 1.75%, to stem growing inflationary pressures whilst safeguarding recovery momentum. Then again, the committee emphasised that it is prepared to adjust the size of policy normalisation depending on changes to Thailand's growth and inflation outlook, which may suggest a larger 50bps hike remains on the table.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.00% (+0.25%)	Thailand	Repo Rate	Sep-22
2.25% (+0.50%)	UK	Base Rate	Sep-22
4.25% (+0.50%)	Indonesia	7-Day Reverse Repo Rate	Sep-22
3.00% -3.25% (+0.75%)	USA	Funds Rate Target	Sep-22
2.50% (+0.25%)	Malaysia	Overnight Policy Rate	Sep-22
1.25% (+0.75%)	Euro Area	Fixed Rate	Sep-22
2.35% (+0.50%)	Australia	Cash Rate	Sep-22
2.50% (+0.25%)	South Korea	Base Rate	Aug-22
3.65% (-0.05%)	China	Loan Prime Rate (1-YR)	Aug-22
3.75% (+0.50%)	Philippines	Overnight Reverse Repurchase	Aug-22
3.00% (+0.50%)	New Zealand	Official Cash Rate	Aug-22
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

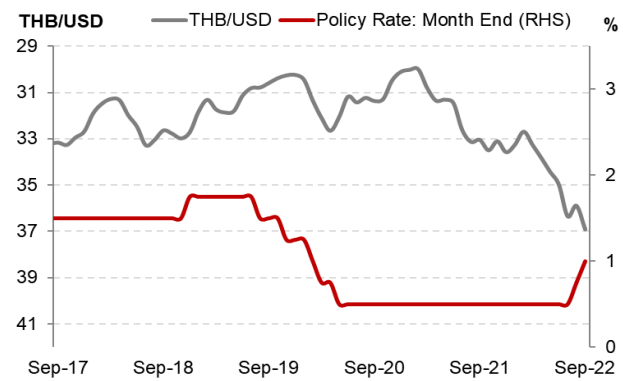
Source: Bloomberg, CEIC, Kenanga Research

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

29 September 2022

Table 2: MPC Meeting Schedule for 2022 / KIBB Outlook

No.	Date		KIBB Research Outlook	BOT Decision	Vote
1 st	9 February	<input checked="" type="checkbox"/>	No change	No change	7-0
2 nd	30 March	<input checked="" type="checkbox"/>	No change	No change	7-0
3 rd	8 June	<input checked="" type="checkbox"/>	No change	No change	4-3
4 th	10 August	<input checked="" type="checkbox"/>	25bps rate hike	25bps rate hike	6-1
5 th	28 September	<input checked="" type="checkbox"/>	25bps rate hike	25bps rate hike	7-0
6 th	16 November	<input type="checkbox"/>	25bps rate hike		

Source: Bank of Thailand, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
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 E-mail: research@kenanga.com.my