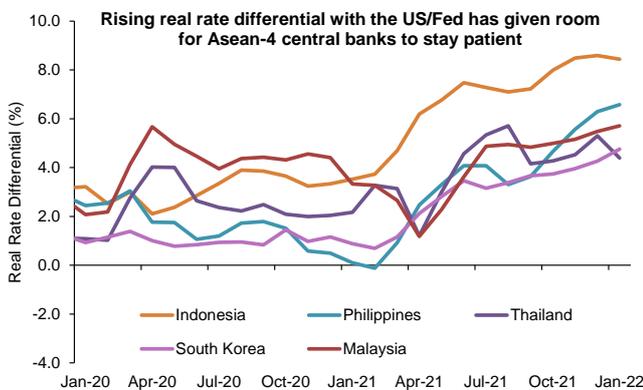
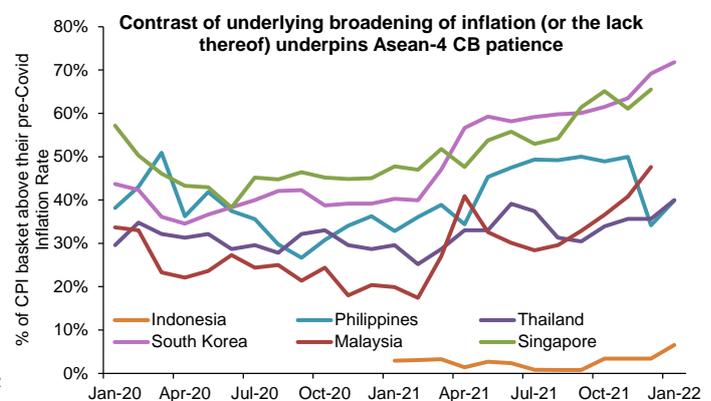


ASEAN-4 Policy Patience Contrasts with Pre-emptive BoK & MAS

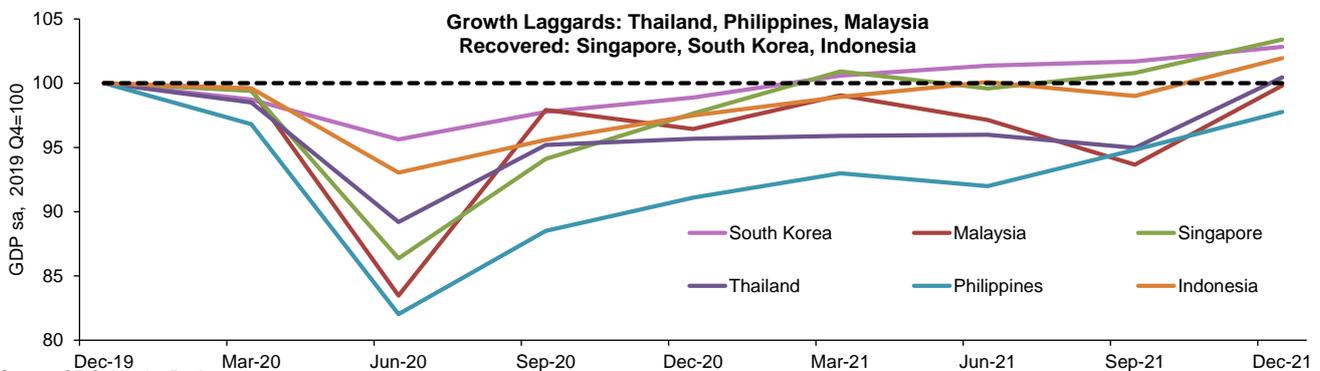
In a nutshell: Despite the Fed's hawkish turn, recent monetary policy announcements since the start of the year has revealed great patience shown by ASEAN-4 central banks (Thailand, Malaysia, Indonesia and the Philippines) in stark contrast to the pre-emptive calibration of Bank of Korea and the MAS. First, their reason for patience is the lagging growth recovery relative to Singapore and South Korea. Second, is the differences in perceptions of "second round" risks inferred from varying pervasiveness of price pressures is short. Third, ability to stay patient (in the face of Fed headwinds) stems from real policy rate differential vis-à-vis the US.



Source: CEIC; Mizuho Bank
Note: January US CPI Inflation: 7.2% (Survey); Malaysia January CPI Inflation: 3.16% (3mma)



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank
Notes:
1. Indonesia GDP seasonally adjusted using CEIC
2. Thailand Q4 2021 GDP is based off estimates

- **Yesterday's monetary policy decision by Bank Indonesia to hold policy rates constant at 3.50% caps off the week's display of patience by fellow peers Bank Negara and the Bank of Thailand.** This comes in stark contrast with the MAS and the Bank of Korea's continued calibration and in spite of heightened Fed headwinds.
- **First, the reason for the contrasting decisions stem from the lack of and lagged growth recovery.** (See chart above) South Korea and Singapore lead as economic activity have solidly risen above pre-Covid levels while ASEAN-4 recovery remains sluggish.
- While Indonesia's GDP prints above pre-Covid levels, growth has been skewed, being externally driven by their commodity exports rather than durable domestic recovery. **A policy rate hike at this juncture would worsen this asymmetry** as it impedes the transmission of the external sector growth to other sectors of the economy while raising the domestic cost of investment and consumer spending.

- **Second, the contrast of underlying inflation components across countries is also evident.** Inflation in Korea and Singapore have broadened significantly while Asean-4 countries have lower than 50% of components displaying above Pre-Covid inflation rate. (See RHS chart) Without inflation threatening, the impetus for monetary policy decision shifts onto buying time for growth recovery.
- The current non-concern on the inflation front was iterated by BI's Governor Warjiyo during today's press conference stating that **BI will begin assessing their response in Q3 this year to inflationary pressures which is likely to appear in 2023.**
- As examined previously in our [publication](#), **exceptional inflation differentials of the US relative to Asean countries have buffered real interest rate differentials** and provides reprieve for ASEAN-4 central banks to remain patient on policy rate normalisation. (See LHS chart)
- However, this buffer may turn out to be a **false sense of security**. Regional central banks are certainly wary as a quick pivot in inflation combined with Fed hikes will erode these buffers. As such, the BI has signalled their desire for normalisation and awareness via supplemental adjustments such as their phased increase in reserve requirement. This serves to reduce the enlarged liquidity bases induced by the various pandemic related measures. (For in-depth look at RRR, see [Mizuho Chart Speak RR Hike is Backstop, Not Bullet-Proofing, for Rupiah, 21 Jan 2022](#))
- All said, while **transition to policy normalisation cannot be deferred indefinitely**, ASEAN-4 central banks look set to **delay the move for a little longer** while the ability to do so allows. **The BSP also looks set to complete the unanimous policy hold within ASEAN-4 at their meeting next week.**

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