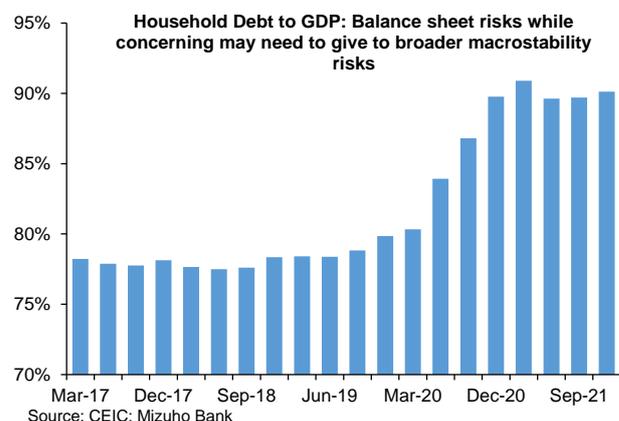
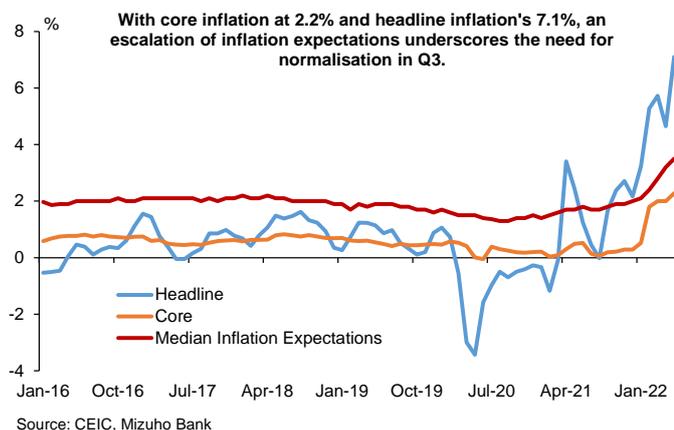


Bank of Thailand: The Last Stand



- The **Bank of Thailand (BoT) has kept policy rate unchanged at 0.50% at their meeting today.** As expected, this was indeed **a very tough hold as 4 members voted for policy pause while the remaining 3 members favoured a 25 bps increase.**
- The BoT also **raise their inflation projection for 2022 from 4.9% to 6.2%.** With consecutive raises in recent weeks to the diesel price ceiling to the current 34 baht/litre representing a 13.3% YoY increase, the elevated inflation estimate should not be overtly surprising given the likely persistence of higher global oil prices colliding with ongoing economic recovery.
- Looking ahead, the monetary policy statement also alluded to **“very accommodative monetary policy will be less needed going forward”** which sets **the stage for policy normalisation at their next meeting.**
- In addition, the BoT has now **explicitly recognised the possibilities of “rising demand side inflationary pressures”** as the economy recovers and this aligns with their **cautious 0.1% upgrade of growth projection to 3.3%.** This forms one of the key impetuous for normalising policy with the tourism uptick in the months ahead.
- On policy calculus, it is one between exchange rate stability translating into broader macrostability risks and that of balance sheet risks. On the latter, the BoT has **dropped their earlier reference** “monetary policy should contribute to continued accommodative financial conditions overall” but they left intact the need for financial intuitions to restructure debt and focus on vulnerable groups.
- The scales are increasingly tipped toward the need to address broader macroeconomic stability concerns as growth recovery fuels inflationary pressures, but improve debt servicing abilities and tone down balance sheet risks. Admittedly, the scale of household balance sheet risks restrains the probability of big step hikes as the BoT seeks a path of least damage.
- The trajectory of rising inflation expectations (over the next 12 months) may pose worries if it filters through to medium term expectations which are still deemed to be anchored by the BoT at this juncture.
- All in, a 25bps hike remain the base case for the BoT’s next move. Nonetheless, given that there are **three policy meetings remaining** this year: 10 August, 28 September, 30 November. The **risks of an inter-meeting hike** are increasing especially if a depreciating THB threatens imported inflation channels and exacerbate capital outflows in an adverse feedback loop.

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