

Central Bank Rates Seen Peaking Soon in Southeast Asia

- Rate hikes seen to end as early as the first quarter
- Indonesia, Malaysia to announce rate decisions Thursday

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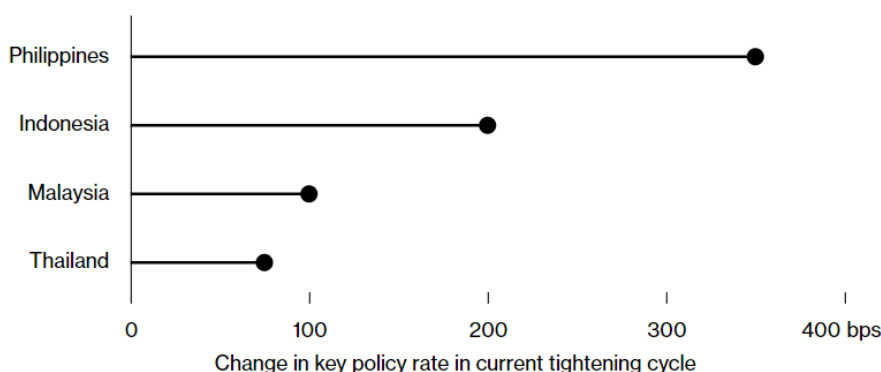
Southeast Asian central banks look like they are close to done fighting inflation using interest rates, with economists seeing the tightening cycle ending after 25- to 50-basis points of moves in the coming months.

Policymakers in Indonesia, Philippines and Thailand will each raise borrowing costs by a total half-point in the coming months before reaching their peak rates, according to median forecasts in a Bloomberg survey. Malaysia, meanwhile, will cap the rate hike cycle with one more quarter-point increase, the survey showed.

While the region faced fewer headwinds than did peers in South Asia, policymakers reached for both conventional and unconventional tools in the past year to cool inflation and support currencies pressured by the Federal Reserve's interest rate increases.

Southeast Asia central banks raise borrowing costs

Key policy rates



Source: Central bank data compiled by Bloomberg

Note: Data as of Jan. 12

With slowing inflation in the US keeping the Fed on track to downshift to a quarter-point move at its next meeting, many analysts surveyed expect rate increases in Southeast Asia to end this quarter. That should support fiscal authorities as they look to preserve growth amid fears of recession in some advanced economies.

Here's what to expect from four of the region's central banks:

Bank Indonesia

CURRENT RATE		TERMINAL RATE
5.5%	●	Median: 6%
	●	High: 6.5%
	●	Low: 5.5%

Indonesia will likely continue with smaller increases to its key rate, given well-anchored inflation expectations and price gains already past their peak. BI is also seen wielding other tools like the Operation Twist bond-buying program and retain exporters' dollar earnings at home to support the rupiah.

"Taking into account manageable inflation and the Fed's terminal rate at around 5%, we think that BI would maintain policy rate at 6% for some time except if recession risk prompts global central banks' accommodative stance," said Josua Pardede, chief economist at PT Bank Permata. BI is scheduled to announce its rate decision on Jan. 19.

Bank Negara Malaysia

CURRENT RATE		TERMINAL RATE
2.75%	●	Median: 3%
	●	High: 3.25%
	●	Low: 2.75%

Malaysia was the first to raise its benchmark rate in this tightening cycle in May last year, although the Philippines emerged as one of the most aggressive. BNM has raised the key rate by a cumulative 100 basis points since to tame inflation. While the bank expects economic growth in 2022 to exceed the government's 6.5%-7% projection, it sees expansion slowing to between 4% and 5% this year.

"Following a final rate hike in January, we expect slowing growth and easing inflation to see an extended pause from BNM for the rest of 2023," said Alex Holmes, economist at Oxford Economics Ltd. BNM will decide on the key rate on Jan. 19.

Bangko Sentral ng Pilipinas

CURRENT RATE		TERMINAL RATE
5.5%	●	Median: 6%
	●	High: 6.25%
	●	Low: 5.5%

Philippines is likely near the end of its key rate increases, Governor Felipe Medalla said Thursday, after flagging 25- or 50-basis point action at its next meeting. BSP could further slow rate actions as inflation is expected to come off the boil, according to Finance Secretary Benjamin Diokno, who sits on the monetary authority's board.

Still, "given the elevated inflation rate for the most part of 2023, we believe that a rate cut is most likely only in 2024," said Alvin Arogo, economist at Philippine National Bank, who forecast a terminal rate of 6.25%. The next BSP rate meeting will be on Feb. 16.

Bank of Thailand

CURRENT RATE		TERMINAL RATE
1.25%	●	Median: 1.75%
	●	High: 2.75%
	●	Low: 1.25%

Thailand will likely continue "gradual and measured" rate increases to avoid disrupting a recovery powered by a resurgent tourism sector. BOT Assistant Governor Piti Disyatat last month signaled a possible end to Thailand's tightening cycle in the latter part of this year if the economy and inflation reach a balanced point.

BOT, which raised the key rate by a total 75 basis points last year, "is in a position to deliver more rate hikes," said Enrico Tanuwidjaja, an economist at PT Bank UOB Indonesia. Thailand's next rate meeting will be on Jan. 25.

— With assistance by Suttinee Yuvejwattana, Claire Jiao and Anisah Shukry
(Updates with US inflation in the fourth paragraph.)