

Bangko Sentral ng Pilipinas Rate Decision

No change to policy rate as inflationary trend moderates

- **Bangko Sentral ng Pilipinas (BSP) kept the overnight reverse repurchase facility at 6.25% at its third Monetary Board meeting this year, in line with expectations**

- The interest rates on overnight deposit and lending facilities were also kept at 5.75% and 6.75%, respectively.
- **BSP statement:** The Monetary Board decided that a pause in monetary policy tightening was appropriate based on the new information and assessment of the impact of previous cumulative rate hikes, with the latest baseline projections reflecting a gradual return of inflation to the target band of 2.0% - 4.0% over the policy horizon.

- **BSP slashed the inflation forecast slightly lower, but the balance of risk to inflation outlook remains tilted towards the upside**

- **GDP:** BSP cited that demand indicators have pointed to a potential moderation following the impact of cumulative rate hikes, despite a relatively robust but moderating growth recorded in 1Q23 (6.6%; 4Q22: 7.1%). Of reference, BSP previously projected growth to settle within the government's target range of 6.0% to 7.0% for 2023 before slowing in 2024.
- **Inflation:** BSP revised its 2023 average inflation forecast lower to 5.5% from 6.0% previously and to moderate further to 2.8% in 2024. It also added that "inflation expectations for 2024 and 2025 are steady and within the target range", but it flagged that the balance of risk to the inflation outlook remains largely tilted towards the upside due to "persistent constraints in the supply of key food items, the potential impact of El Nino on food prices and utility rates, as well as the effects of possible additional adjustments in transportation fares and wages."
- **Currency:** As of May 17, the Peso depreciated by 0.8% against the USD compared to the end of 2022. This is a slight depreciation compared to other regional currencies, such as the Ringgit (-2.2%), except the Baht (+0.8%), which strengthened on the back of tourism recovery.

- **Policy rate may stay at 6.25% for 2023, with easing policy expected in 2024 as inflation cools down**

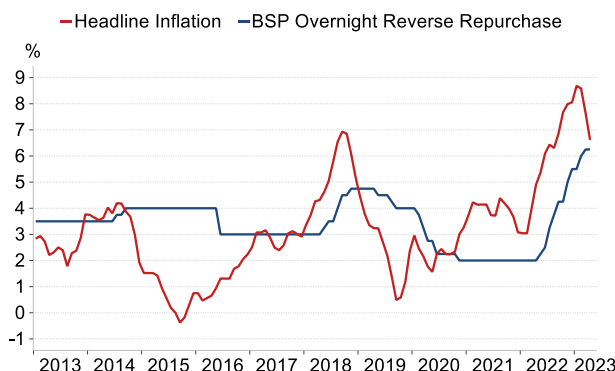
- We reckon BSP may be done with its aggressive rate hikes, given that inflationary pressure is moderating due to the impact of a previous 425 bps accumulative rate hike since May 2022 to combat inflation. Nevertheless, there is room for further rate tightening in the 2H23 as BSP stated, "the BSP stands ready to resume monetary tightening as necessitated by emerging data, consistent with its primary mandate to promote price and financial stability." This also would be mainly susceptible to the impact of El Nino, which is likely to affect agricultural production and overall food prices.
- USDPHP year-end forecast (54.4; 2022: 55.7): The Peso may appreciate slightly against the USD by the end of the year as we expect easing monetary policy by the US Fed amid heightened recessionary risk brought by restrictive monetary policy measures among advanced economies. Nevertheless, the appreciation is expected to be relatively mild given the greenback's safe-haven status.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.50% (+0.25%)	UK	Base Rate	May-23
5.00% - 5.25% (+0.25%)	USA	Funds Rate Target	May-23
3.75% (+0.25%)	Euro Area	Fixed Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.85% (+0.25%)	Australia	Cash Rate	May-23
5.25% (+0.50%)	New Zealand	Official Cash Rate	Apr-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
1.75% (+0.25%)	Thailand	Repo Rate	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

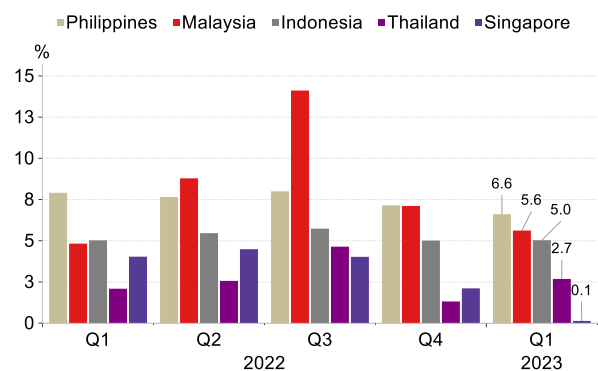
Source: Bloomberg, Kenanga Research

Graph 1: Inflation and Policy Rate trend



Source: Macrobond, Kenanga Research

Graph 2: ASEAN-5 GDP Growth



Source: Macrobond, Kenanga Research

19 May 2023

Table 2: BSP Monetary Policy Meeting Schedule for 2023/ KIBB Outlook

No.	Date		KIBB Research Outlook	BSP Decision
1st	16 February (Thu)	<input checked="" type="checkbox"/>	N/A	25 bps hike
2nd	23 March (Thu)	<input checked="" type="checkbox"/>	N/A	25 bps hike
3rd	18 May (Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	22 June (Thu)	<input type="checkbox"/>	No change	
5th	17 August (Thu)	<input type="checkbox"/>	No change	
6th	21 September (Thu)	<input type="checkbox"/>	No change	
7th	16 November (Thu)	<input type="checkbox"/>	No change	
8th	14 December (Thu)	<input type="checkbox"/>	No change	

Source: Bangko Sentral ng Pilipinas, 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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Published by:

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