

# Bangko Sentral ng Pilipinas Rate Decision

Policy rate stays at 6.25% to keep inflation under control

- **Bangko Sentral ng Pilipinas (BSP) kept the overnight reverse repurchase facility unchanged at 6.25% at its sixth Monetary Board meeting for 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 deemed it appropriate to maintain its pause amid the emerging upside risks to the inflation outlook” and added, “the BSP stands ready to resume its tightening actions in the face of upside risks and potential second-round effects that could dislodge inflation expectations.”

- **Revised up inflation forecast and see upside risk on inflation**

- **GDP:** BSP removed the growth outlook from the statement, indicating that the central bank is shifting its focus towards controlling inflation. Of reference, BSP previously projected GDP growth to settle within the government’s target range of 6.0% to 7.0% for 2023.
- **Inflation:** BSP latest baseline projection showed a slightly higher inflation, though it expects inflation is likely to revert to the 2.0% - 4.0% target range by 4Q23. Of note, headline inflation increased to 5.33% in August (Jul: 4.66%), while the average year-to-date inflation rate stood at 6.63%, reflecting an elevated inflationary pressure. Consequently, BSP revised its 2023 average inflation forecast to 5.8% from 5.6% in the previous monetary policy meeting. It also revised its average inflation forecast for 2024 to 3.5% from 3.3% but kept the 2025 projection unchanged at 3.4%. Overall, BSP still expects a balance of risk to the inflation outlook tilted to the upside due to the potential impact of further adjustments in transport fares and electricity rates.
- **Currency:** As of September 20, the peso depreciated by 1.3% against the USD compared to the end of 2022, primarily due to a stronger USD and rising fears of a global economic slowdown led by China’s fragile economic recovery. Nevertheless, the depreciation was relatively lower compared to the ringgit (-6.4%) and baht (-5.9%).

- **Policy rate outlook maintained at 6.25% for the remainder of 2023**

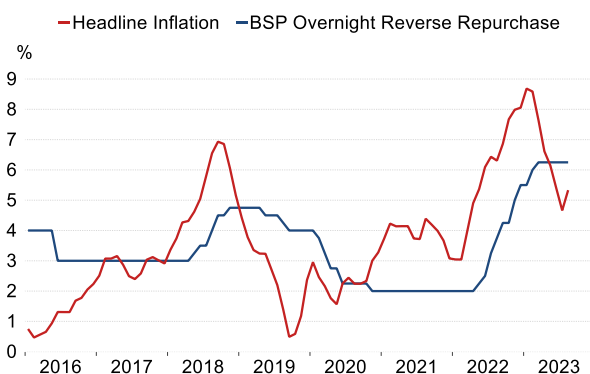
- We expect BSP to keep the policy rate at 6.25% for the rest of 2023 despite its governor Eli Remolona signalled a hawkish tone during the press conference, as it stated, “a rate hike is on the table for November. How big it would be would depend on the data”. While the upside risk on inflation is largely due to supply shock, we see limited pressure on the demand side due to the impact of the higher interest rate environment and slowing domestic growth, which should support the policy rate to stay at 6.25%.
- USDPHP year-end forecast (54.4; 2022: 55.7): we continue to expect the peso to appreciate slightly against the USD by the end of the year on the anticipation of a potential dovish shift by the US Fed brought by the impact of its continued restrictive monetary policy on domestic demand, alongside poor China’s economic recovery.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.50% (+0.25%)	Euro Area	Fixed Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
2.25% (+0.25%)	Thailand	Repo Rate	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

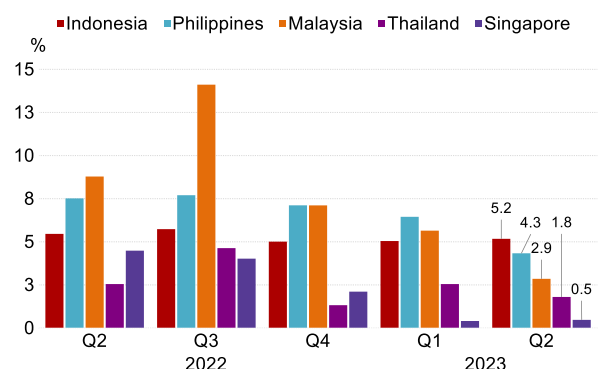
Source: Bloomberg, Kenanga Research

**Graph 1: Inflation and Policy Rate trend**



Source: Macrobond, Kenanga Research

**Graph 2: ASEAN-5 GDP Growth**



Source: Macrobond, Kenanga Research

22 September 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 checked="" type="checkbox"/>	No change	No change
5th	17 August (Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	21 September (Thu)	<input checked="" type="checkbox"/>	No change	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](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)