

Bangko Sentral ng Pilipinas Rate Decision

Policy rate stays steady at 6.50% amidst likely controlled inflation outlook

- **The Monetary Board of Bangko Sentral ng Pilipinas (BSP) decision to keep its Target Reverse Repurchase (RRP) rate at 6.50% was within expectations**

- The interest rates on overnight deposit and lending facilities were also kept at 6.00% and 7.00%, respectively.
- **BSP statement:** "The Monetary Board noted that keeping the policy rate steady will allow previous policy interest rate adjustments, including the interest rate increase in October, to continue to work their way through the economy". It also signalled a higher interest rate for longer, "necessary to keep monetary policy settings sufficiently tight until a sustained downtrend in inflation becomes fully evident and inflation expectations are firmly anchored." Additionally, BSP is also open to further tightening, subjected to the incoming data as it stated that it "remains prepared to resume monetary policy tightening as necessary to steer inflation towards a target-consistent path, in line with its price stability mandate".

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.25% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
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
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-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
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

Source: Bloomberg, Kenanga Research

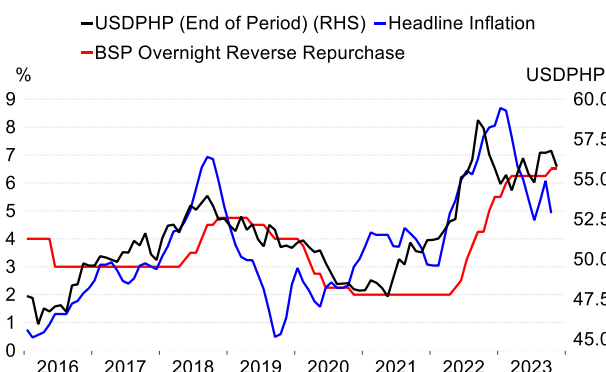
- **BSP sees its inflation forecast for 2024 to remain above government's target range**

- **GDP:** BSP repeat its view on domestic growth outlook, as it stated that "the country's medium-term growth prospects remain largely intact, even as pent-up demand continues to diminish in the near term" which reflect its confidence that the economy will remain resilient in the medium term. This also partly indicates its support of the government's efforts to sustain growth via programmed spending and non-monetary intervention measures.
- **Inflation:** BSP stated that the inflation outlook has moderated based on its latest projections. Its risk-adjusted forecast for 2024 now indicates inflation at 4.4% from the previous estimate of 4.7%, indicating that the inflation outlook for next year remains above the government's target range of 2.0% to 4.0%. It also revised the estimate for 2025, moderating further to 3.4% from the previous estimate of 3.5%. Nevertheless, it did not revise the 2023 inflation target (2023F: 5.8%). Overall, BSP still expects a balance of risk to the inflation outlook tilted to the upside significantly due to the potential impact of higher transport charges, electricity rates, international oil prices, and higher-than-expected minimum wage adjustments in areas outside the National Capital Region.
- **Currency:** As of November 15, the peso has fallen slightly (-0.2%) against the USD compared to the end of 2022, which is lower than the depreciation recorded by regional peers such as the ringgit (-6.1%) and baht (-2.8%).

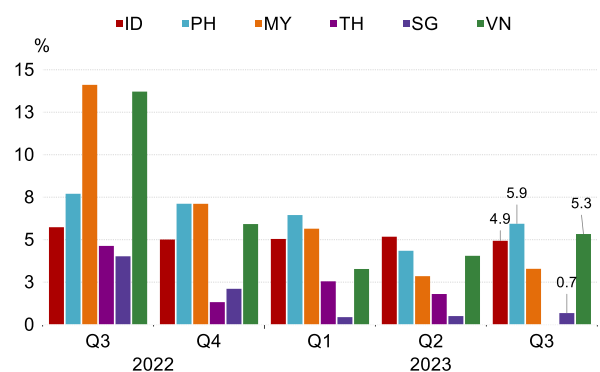
- **While it has already reached the end of its tightening cycle, but another 25 bps hike is possible**

- Considering the BSP's primary mandate on price stability and the risks to the inflation outlook remaining tilted to the upside, we continue to expect another 25 bps hike to 6.75% in December. Nevertheless, with growing concern on growth outlook due the impact of higher interest rate, the probability of another rate hike is lower.
- USDPHP year-end forecast (54.4; 2022: 55.7): we keep our forecast unchanged as we still believe the local note may appreciate slightly against the USD by the end of the year. This is mainly as we expect a potential dovish shift by the US Fed in the December's FOMC meeting as high-frequency indicators likely to point towards a slowdown. The local note is also expected to be supported by China's gradual economic recovery.

Graph 1: Inflation and Policy Rate trend



Graph 2: ASEAN-5 (+VN) GDP Growth



17 November 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	26 October (Thu) – off cycle	<input checked="" type="checkbox"/>	No change	25 bps hike
8th	16 November (Thu)	<input checked="" type="checkbox"/>	No change	No change
9th	14 December (Thu)	<input type="checkbox"/>	25 bps hike	

Source: Bangko Sentral ng Pilipinas, Kenanga Research

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