

Bangko Sentral ng Pilipinas Rate Decision

A surprise 25 bps rate cut to boost domestic economy

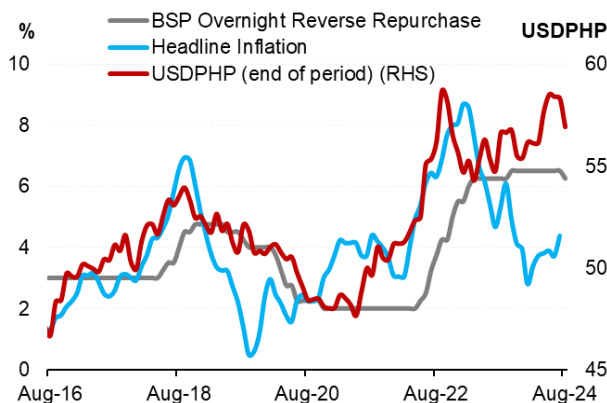
- The Monetary Board of Bangko Sentral ng Pilipinas (BSP) slashed its Target Reverse Repurchase (RRP) rate by 25 bps to 6.25% during its fifth Monetary Board meeting for the year, defying expectations**
 - The interest rates on overnight deposit and lending facilities were also reduced to 5.75% and 6.75%, respectively.
 - BSP statement:** "With inflation on a target-consistent path, the current macroeconomic outlook supports a calibrated shift to a less restrictive monetary policy stance." This indicates that the central bank has now moved towards supporting the domestic economy while reiterating that it will "remain mindful of lingering upside risks to prices".
- Stable price pressures and the need to support growth call for a less restrictive monetary policy**
 - GDP:** BSP expects economic activity to remain supported by firm domestic demand backed by public investment, easing price pressures and robust employment conditions. Growth is still targeted at 6.0% - 7.0%. However, actual growth may align closer to the lower-end target of this range after 2Q24's 6.3% increase (1Q24: 5.8%), bringing 1H24 growth to 6.0% (2H23: 5.8%). Additionally, the prospect of a higher growth in the 2H24 is challenging given the global growth uncertainty.
 - Inflation:** BSP projects inflation to trend lower, within the government target of 2.0% - 4.0%, citing "supported by well-anchored inflation expectations over the policy horizon". It anticipates the balance of risks to the inflation in 2024 and 2025 to lean toward the downside. However, BSP has adjusted its forecasts, raising the 2024 inflation projection to 3.3% from 3.1%, and lowering the forecast for 2025 to 2.9% from 3.1%.
 - Currency:** As of August 14, the peso remains weak, having depreciated by 2.8% to 56.9 against the USD since the end of last year. This decline is slightly steeper than that of its regional peers, such as the rupiah (-0.9%), and baht (-0.3%), while only ringgit appreciated by 3.8%.
- We expect another two rate cuts by end of the year, as BSP shifts its focus on bolstering the economy**
 - Given the surprise rate cuts ahead of the US Fed FOMC meeting, we expect BSP to consider further monetary easing in the final quarter, particularly if the Fed adopt a more dovish stance. While this could weaken the peso and increase import cost, especially given Philippines's heavy reliance on food imports, the central bank appears to have shifted to a pro-growth policy to support domestic economic growth amid global uncertainties.
 - USDPHP year-end forecast (56.0; 2023: 55.4): We maintain our year-end forecast following the recent slight revision. While a rate cut ahead of the US Fed could temporarily pressure the local note, we expect that a dovish stance from the Fed in the coming months will support our year-end target.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
6.25% (-0.25%)	Philippines	Target Reverse Repurchase	Aug-24
0.25% (+0.15%)	Japan	Overnight Call Rate	Aug-24
4.50% (-0.25%)	Canada	Overnight Rate	Jul-24
3.35% (-0.10%)	China	Loan Prime Rate (1Y)	Jul-24
4.25% (-0.25%)	Euro Area	Fixed Rate	Jun-24
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	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
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

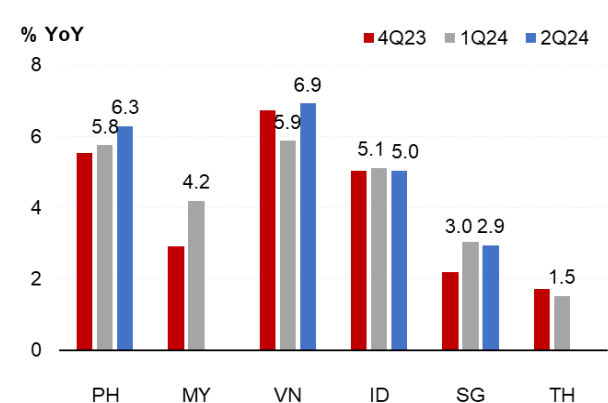
Source: Bloomberg, Kenanga Research

Graph 1: Inflation and Policy Rate trend



Source: Macrobond, Kenanga Research

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



Source: Macrobond, Kenanga Research

16 August 2024

Table 2: BSP Monetary Policy Meeting Schedule for 2024/ KIBB Outlook

No.	Date		KIBB Research Outlook	BSP Decision
1st	15 February (Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	8 April (Mon)	<input checked="" type="checkbox"/>	No change	No change
3rd	16 May (Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	27 June (Thu)	<input checked="" type="checkbox"/>	No change	No change
5th	15 August (Thu)	<input checked="" type="checkbox"/>	No change	25 bps cut
6th	17 October (Thu)	<input type="checkbox"/>	25 bps cut	
7th	19 December (Thu)	<input type="checkbox"/>	25 bps cut	

Source: Bangko Sentral ng Pilipinas, Kenanga Research

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