

# Bangko Sentral ng Pilipinas Rate Decision

Keeps policy rate at 6.50%, signals easing in 2H24

- The Monetary Board of Bangko Sentral ng Pilipinas (BSP) retained its Target Reverse Repurchase (RRP) rate at 6.50% during its fourth Monetary Board meeting for the year. **This 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 deems it appropriate to hold monetary policy settings steady at this time." BSP also hinted at a rate cut in the 2H24 as it stated, "an improvement in the inflation outlook would allow more scope to consider a less restrictive monetary policy stance". Nevertheless, its statement appears cautious citing "uncertainty in the external environment calls for some caution against potential spillovers, including those in the financial markets".

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

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.25% (-0.25%)	Euro Area	Fixed Rate	Jun-24
4.75% (-0.25%)	Canada	Overnight Rate	Jun-24
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
0.00% - 0.10% (+0.10%)	Japan	Complementary Deposit Facility	Mar-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
2.50% (+0.25%)	Thailand	Repo 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
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

Source: Bloomberg, Kenanga Research

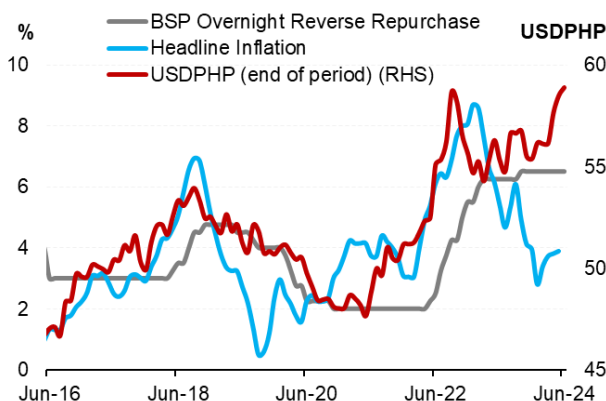
- **Easing price pressures and sustained growth outlook, but weaker local note amid broad USD strength**

- **GDP:** BSP expects domestic growth to remain in line with the medium-term trends on the back of favourable labour market conditions and strong net exports. Its growth target recently was revised to 6.0% - 7.0% from 6.5% - 7.5%.
- **Inflation:** Risk-adjusted inflation forecasts for 2024 and 2025 have eased to 3.1% from 3.8% and 3.7%, respectively, indicating that the inflation outlook is now expected to reach the mid-point of the target range of 2.0% - 4.0% thanks to the impact of lower import tariffs on rice under Executive Order 62.
- **Currency:** As of June 26, most regional currencies depreciated against the US Dollar compared to the end of 2023. The peso fell by 6.3% to 58.9, but the rate of depreciation was slightly below the rupiah (-6.6%), and higher than the baht (-5.7%), and ringgit (-2.6%).

- **BSP is expected to maintain the current policy setting in the near term, contingent on any policy shift from the US Fed**

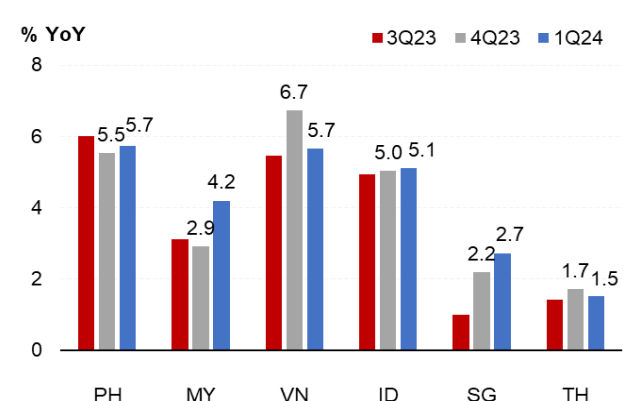
- The central bank has maintained its policy rate unchanged in the 1H24 which was in line with house expectation. While there is room for BSP to lean towards a monetary policy easing in the 2H24 as soon as in August's meeting, we expect BSP to take a cautious stance, given the uncertainty of the US Fed policy direction. A weaker peso will eventually make imports expensive, particularly given the Philippines's heavy reliance on food imports. In 2023, the Philippines was the world's largest rice importer. Despite a dovish remark by the Governor, we revise our policy rate outlook from three cuts to only two 25 bps reduction in October and December respectively, as we anticipate a delay in the domestic policy rate cuts. Despite higher rates, the domestic economy is expected to remain on the trajectory, buoyed by government spending and resilient domestic demand.
- USDPHP year-end forecast (56.0; 2023: 55.4): We revised year-end forecast from 54.4 but continue to expect the Fed will be turned dovish in the 2H24 to support our target from current level.

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



Source: Macrobond, Kenanga Research

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



Source: Macrobond, Kenanga Research

28 June 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 type="checkbox"/>	No change	
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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