

Philippines BSP Monetary Policy

On hold, cut 2024 headline inflation forecast to 3.5% from 3.8% previously

Less “hawkish” about inflation risk and monetary policy stance

BSP kept the policy interest rate unchanged at 6.50% on 16 May 2024. BSP sees inflation expectations remain well anchored and cut both baseline and risk-adjusted inflation forecasts for 2024 to 3.5% (8 Apr 2024: 3.8%) and 3.8% (8 Apr 2024: 4.0%), respectively. BSP also indicates the possibility of policy easing in 3Q 2024 if monthly inflation remains firmly within the target range. Nevertheless, we continue to expect BSP to start cutting policy rate in 4Q 2024 by 25bps from 6.50% to 6.25% by end-2024.

Cut risk-adjusted inflation forecasts for 2024 but raised for 2025

BSP's inflation baseline projection for 2024 was cut to +3.5% (2023: +6.0%) from +3.8% forecast made in the Apr 2024 meeting following the lower than expected monthly headline inflation rate in Apr 2024 at +3.8% YoY (4M 2024: +3.4% YoY; Mar 2024: +3.7% YoY; Feb 2024: +3.4% YoY; Jan 2024: +2.8% YoY) that was mainly due to pick up in FNAB inflation which rose to +6.0% YoY (Mar 2024: +5.6% YoY; 2023: +7.9%), attributed to higher prices of rice and vegetables. Rice prices rose +23.9% YoY in Apr 2024 (Mar 2024: +24.4% YoY; 2023: +8.1%). In addition, core inflation rate continues to moderate (Apr 2024: +3.2% YoY; Mar 2024: +3.4% YoY; 4M 2024: +3.5% YoY; 2023: +6.6%), Nevertheless, headline inflation rate forecast for 2025 was raised slightly to 3.3% (8 Apr 2024: +3.2%). The upside risks to inflation include higher transport charges, electricity rates, oil and domestic food prices plus the additional impact from strong El Niño conditions on overall food prices. However, mitigation from government measures on the impact of El Niño is expected to limit the upside risk to inflation outlook.

Accordingly, the risk-adjusted inflation forecast for 2024 was cut to +3.8% (8 Apr 2024: +4.0%) but raised for 2025 to +3.7% (8 Apr 2024: +3.5%). BSP also expects monthly headline inflation to breach the upper-end inflation target in May-Jul 2024 due to the impact of adverse weather conditions on domestic agricultural output as well as base effects from the large drop in inflation from +8.7% YoY in Jan 2023 to +4.7% YoY in Jul 2023.

On growth, BSP sees the latest demand indicators to suggest domestic growth prospects remain largely intact over the medium term, even as overall activity continues to gradually respond to tighter financial conditions. While Philippines' real GDP growth in 1Q 2024 expanded +5.7% YoY (4Q 2023: +5.5% YoY; 2023: +5.5%), domestic demand moderated to +4.1% YoY (4Q 2023: +6.3% YoY; 2023: +5.0%).

We expect policy rate easing to 6.25% by end-2024

The Monetary Board (MB) continue to highlight the importance of government measures in addressing supply-side pressures on prices to keep inflation within the target range. Overall, MB continues to see the need to keep monetary policy settings sufficiently tight until inflation settles firmly within the target range and remains ready to adjust policy settings as necessary. We continue to expect BSP to start cutting policy rate in 4Q 2024 by 25bps from 6.50% to 6.25% by end-2024.

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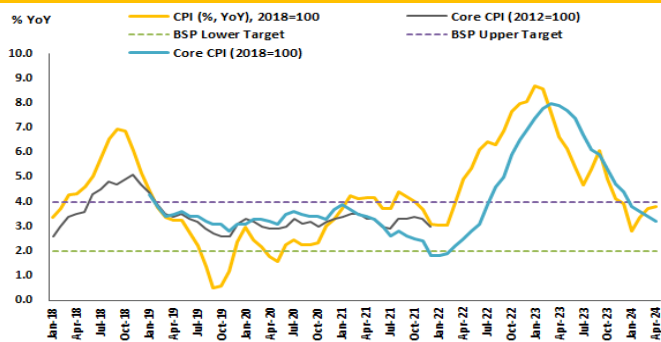
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Figure 1: BSP Monetary Board Meetings in 2020-2024

Date	Outcome
2020	Cut RRP by 200bps from 4.00% to 2.00%; Cut RRR by 200bps from 14.00% to 12.00%
2021	Maintained RRP at 2.00%, maintained RRR at 12.00%
2022	Raised RRP by 350bps from 2.00% to 5.50%, maintained RRR at 12.00%
2023	Raised RRP by 100bps from 5.50% to 6.50% Cut RRR by 250bps from 12.00% to 9.50%
15 February 2024	Maintained RRP at 6.50%, maintained RRR at 9.50%
8 April 2024 ¹	Maintained RRP at 6.50%, maintained RRR at 9.50%
16 May 2024	Maintained RRP at 6.50%, maintained RRR at 9.50%
27 Jun 2024	tba
15 August 2024	tba
17 October 2024	tba
19 December 2024	tba

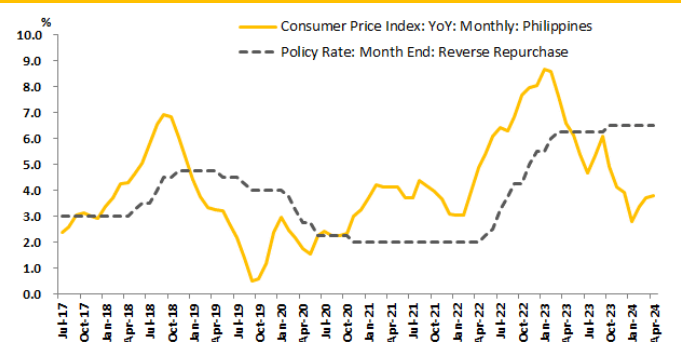
Source: BSP

Figure 2: Headline inflation edging closer to BSP's upper-end target range



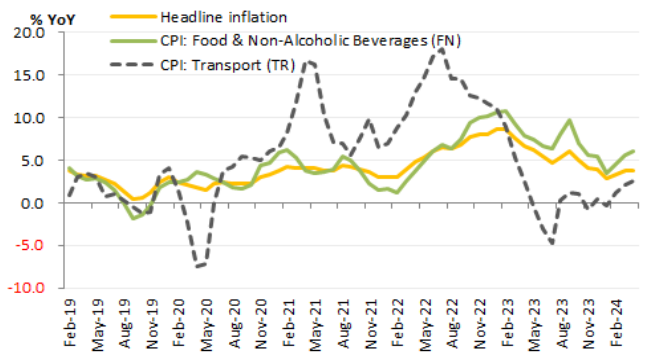
Source: PSA, CEIC

Figure 3: Headline inflation and policy interest rate



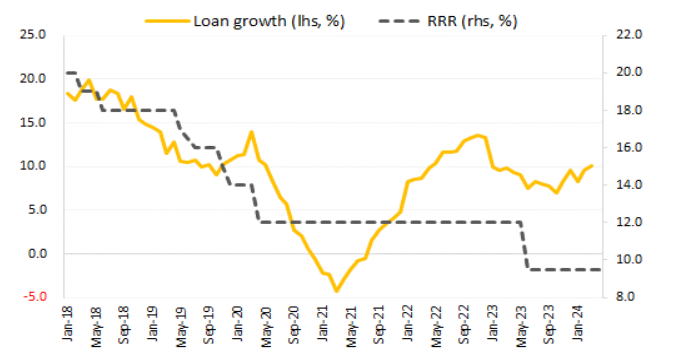
Source: PSA, CEIC

Figure 4: Headline, Transport and FNAB inflation (% YoY)



Source: PSA, CEIC

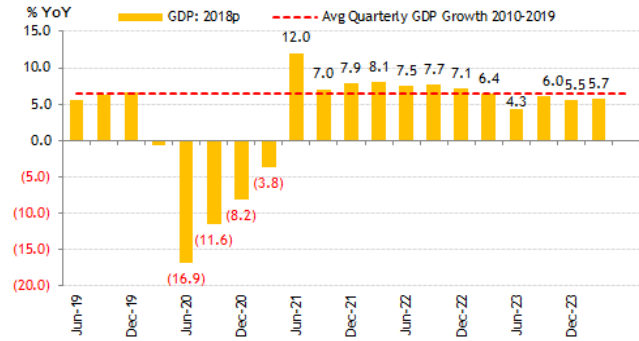
Figure 5: Resilient loan growth



Source: BSP, CEIC

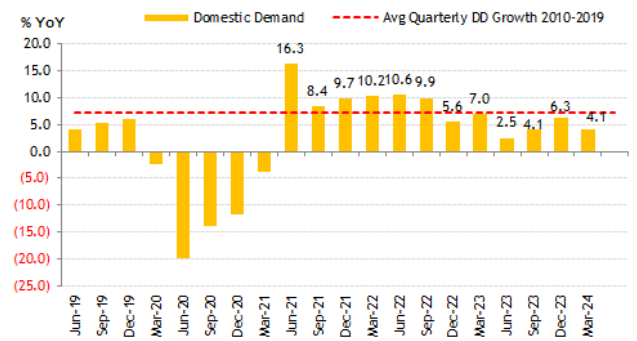
¹ Rescheduled from 4 Apr 2024.

Figure 6: Real GDP growth in 1Q 2024 stays below long term average of +6.4%



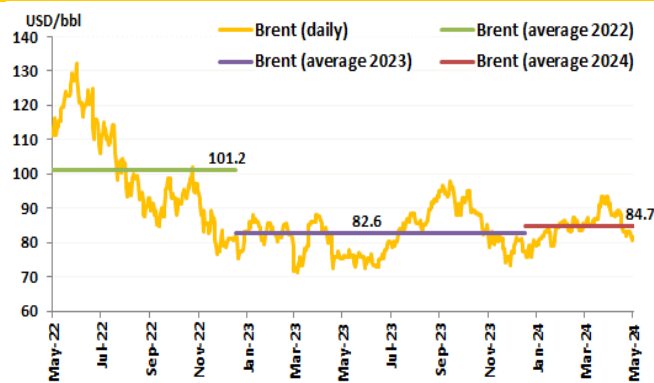
Source: BSP, CEIC

Figure 7: Slower domestic demand growth in 1Q 2024, well below long term average of +7.2%



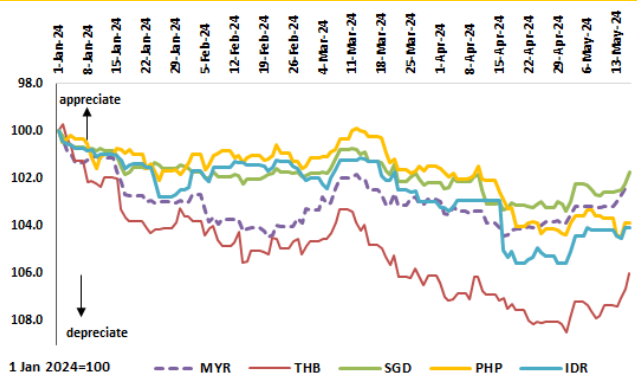
Source: BSP, CEIC

Figure 8: Crude oil (Brent) price



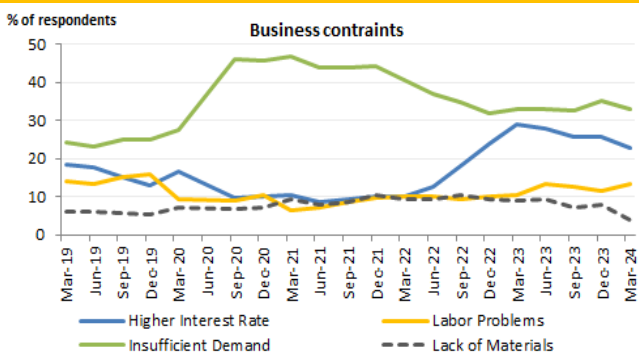
Source: Bloomberg, CEIC

Figure 9: ASEAN6 currencies vs. USD



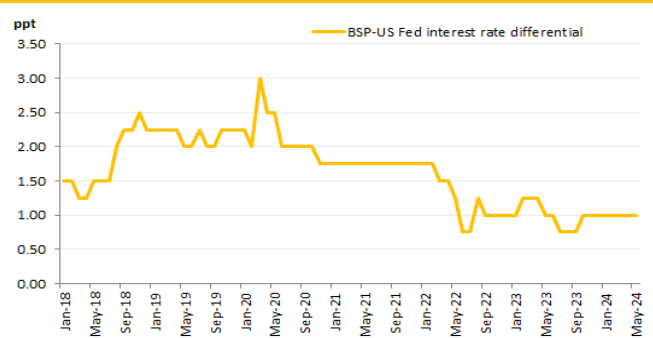
Source: Bloomberg

Figure 10: Business Outlook (1Q 2024): High number of respondents citing constraints due to rising interest rate



Source: BSP, CEIC

Figure 11: BSP-US Fed interest rate differential



Source: Bloomberg

Figure 12: BSP Monetary Policy Statement (Summary of decision)

Monetary instruments	16 May 2024	8 Apr 2024
RRP	<ul style="list-style-type: none"> Maintained at 6.50% 	<ul style="list-style-type: none"> Maintained at 6.50%
Overnight deposit rate	<ul style="list-style-type: none"> Maintained at 6.00% 	<ul style="list-style-type: none"> Maintained at 6.00%
Overnight lending rate	<ul style="list-style-type: none"> Maintained at 7.00% 	<ul style="list-style-type: none"> Maintained at 7.00%
RRR	<ul style="list-style-type: none"> Maintained at 9.50% 	<ul style="list-style-type: none"> Maintained at 9.50%

Source: BSP

Figure 13: BSP Monetary Policy Statement (Summary of view)

16 May 2024	8 Apr 2024
<p>Global and domestic economy</p> <ul style="list-style-type: none"> Based on the latest GDP data, the expected path for domestic output growth over the medium term remains largely intact, even as recent indicators point to continued moderation under tight financial conditions. <p>Inflation</p> <ul style="list-style-type: none"> The BSP's latest forecasts indicate that inflation would settle close to the upper end of the target range. The risk-adjusted inflation forecast for 2024 eased to 3.8% from 4.0% in the previous meeting. Meanwhile, the risk-adjusted inflation forecast for 2025 rose to 3.7% from 3.5% previously. The risks to the inflation outlook continue to lean toward the upside. Potential price pressures are linked mainly to higher transport charges, food prices, electricity rates, and global oil prices. Inflation expectations remain well-anchored. The Monetary Board reiterates its support for the National Government's non-monetary measures to address persistent supply-side pressures on food prices and to prevent further second-round effects. <p>Monetary policy stance</p> <ul style="list-style-type: none"> The Monetary Board deems it appropriate to ensure sufficiently tight monetary policy settings until inflation settles firmly within the target range. A restrictive policy stance will also help keep inflation expectations anchored amid a possible build-up in upside risks to future inflation. The BSP remains ready to adjust its monetary policy settings as necessary, in keeping with its primary mandate to safeguard price stability. 	<p>Global and domestic economy</p> <ul style="list-style-type: none"> The latest demand indicators suggest that domestic growth prospects remain largely intact over the medium term, even as overall activity continues to gradually respond to tighter financial conditions. <p>Inflation</p> <ul style="list-style-type: none"> The latest inflation path has shifted slightly higher but remains within target. The risk-adjusted inflation forecast for 2024 has risen to 4.0% from 3.9% in the previous meeting. For 2025, the risk-adjusted inflation forecast is unchanged at 3.5%. The risks to the inflation outlook continue to lean toward the upside. Possible further price pressures are linked mainly to higher transport charges, elevated food prices, higher electricity rates, and global oil prices. Potential minimum wage adjustments could also give rise to second-round effects. The Monetary Board noted that while upside risks to inflation have raised inflation expectations, these expectations have remained broadly anchored. <p>Monetary policy stance</p> <ul style="list-style-type: none"> Given these considerations, the Monetary Board deems it appropriate to maintain the BSP's tight monetary policy settings. The BSP also continues to support the National Government's policies and programs to address supply-side pressures on the prices of key food commodities. The BSP remains ready to adjust its monetary policy settings as necessary, in keeping with its primary mandate to safeguard price stability.

Source: BSP

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