# ASEAN-5

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## Changing Our Policy Rate Forecasts

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- Our house view on the timing and magnitude of US Federal Reserve rate cuts has been revised. We now expect the US Fed to cut its policy rate in 2024 by a cumulative 75bps (versus 100bps previously), starting 3Q24 (versus June).
- This shift will have implications for central banks in the ASEAN-5 economies of Indonesia, Malaysia, Philippines, Thailand and Vietnam.
- Our forecast changes are as follows:
  - We expect Bank Indonesia to cut its policy rate by a cumulative 100bps in 2024 and 25bp in 2025 versus total cuts of a 125bps in 2024, previously.
  - Bangko Sentral ng Pilipinas will reduce its policy rate by a cumulative 50bps in 2024 and 100bps in 2025 versus 100bps in 2024 and 50bps in 2025, previously.
  - Bank of Thailand will hold off on rate cuts. As such, we remove our cumulative 50bps in rate cuts for 2024.
  - We have not changed our forecasts for Bank Negara Malaysia (on hold in 2024 and 2025) and State Bank of Vietnam (cumulative 50bps in 2024).

The balancing act for the ASEAN-5 central banks has become more delicate ahead of an impending transition towards lower policy rates. While three of the five central banks[1] under our coverage have an explicit inflation target, the policy reaction function has been influenced by numerous factors, not just inflation.

| Policy rate forecasts, % (revised) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Country | Reference policy rate | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F |
| Indonesia | 7-day reverse repo rate | 3.75 | 3.50 | 5.50 | 6.00 | 5.00 | 4.75 |
| Malaysia | Overnight Policy Rate | 1.75 | 1.75 | 2.75 | 3.00 | 3.00 | 3.00 |
| Philippines | Reverse repo rate | 2.00 | 2.00 | 5.50 | 6.50 | 6.00 | 5.00 |
| Thailand | One-day repurchase rate | 0.50 | 0.50 | 1.25 | 2.50 | 2.50 | 2.50 |
| Vietnam | Refinance rate | 4.00 | 4.00 | 6.00 | 4.50 | 4.00 | 4.00 |
| Source: CEIC, OCBC. | | | | | | | |

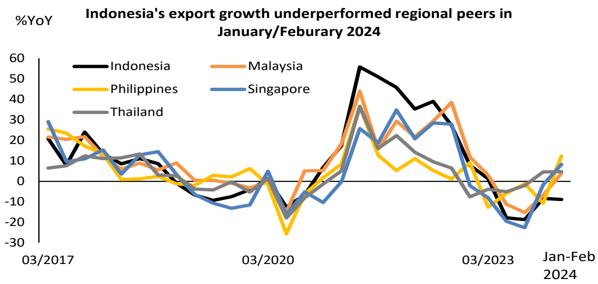
Growth and financial stability considerations were paramount during the pandemic years of 2020-21, after which inflation became the priority in 2022-23. This year external stability considerations are at the forefront, including managing local currency depreciation pressures and dealing with normalising current account balances. To that end, interest rate differentials to the US and the potential

[1] BI, BSP and BOT.

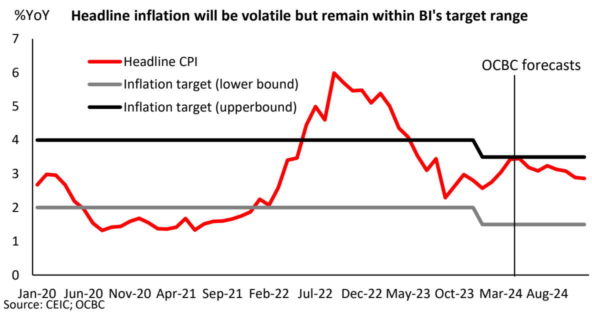
portfolio flow implications are being monitored closely by regional central banks. This is one of the main reasons that changes to the US Federal Reserve policy rate outlook has implications for the ASEAN-5 central bank outlooks.

**Bank Indonesia (BI):** We now expect BI to cut its policy rate by a cumulative 100bps in 2024 and 25bp in 2025 versus 125bps in rate cuts in 2024, previously. We expect that BI will start cutting its policy rate in 3Q24 through to 1Q25.

Our forecast is premised on BI shifting gears to explicitly supporting economic growth from its current policy of maintaining macroeconomic stability. We expect 2024 GDP growth to slow to 4.8% YoY versus 5.0% in 2023. Based on incoming activity data, we estimate that 1Q24 GDP growth slowed to 4.7% YoY versus 5.0% in 4Q23, with exports underperforming regional peers. Indeed, BI is already implicitly supporting growth through macroprudential tools, such as lowering reserve requirement ratios for priority lending sectors.




Source: CEIC; OCBC

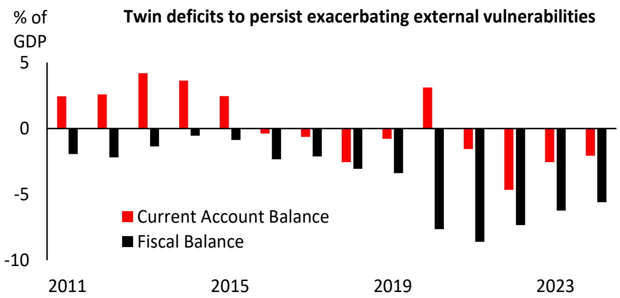



Source: CEIC; OCBC

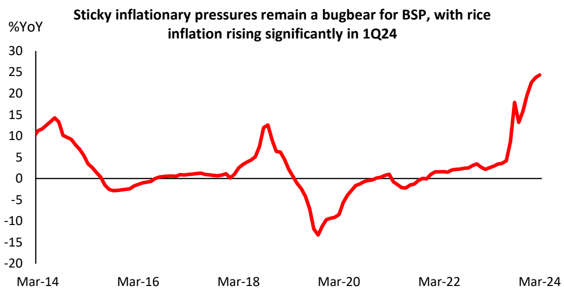
That said, BI will not throw caution to the wind. The coast needs to be clear in terms of a more favourable external backdrop for BI to make the transition to growth support and pre-requisites that the US Federal embark on its easing cycle. BI's rate cutting cycle beyond the starting point, however, does not need to move in lock step with US rates as domestic considerations take precedence. Hence, we expect a cumulative 100bps in rate cuts from BI versus 75bps from the US Fed in 2024. Our view of BI's cumulative rate cuts in the impending cycle remains unchanged at 125bps, lower than our house view of a cumulative 175bps in rate cuts from the US Fed over 2024-25.

We see merit in BI front-loading rate cuts in 2024 rather than delaying it into 2025, given a shift in the domestic policy bias. Fiscal policies under incoming President Prabowo will become more expansionary, warranting a more conservative monetary policy stance next year. The 2025 fiscal deficit is forecasted to be wider up to 2.8% of GDP versus 2.3% in 2024. Indeed, fiscal deficits over the medium-term are expected to be wider under President Prabowo.

**Bangko Sentral ng Philippines (BSP):** We are shifting out the timeline for rate cuts to start in 4Q24 with a follow through into 2025. We expect a cumulative 50bps in rate cuts in 4Q24 (versus 100bps from June 2024 previously) and a cumulative 100bps in 2025 (versus 50bp previously). To be fair, the shift in the US Federal Reserve policy rate changes will impact BSP in terms of delays to a more conducive external backdrop for managing PHP depreciation risks and managing 'twin deficits' (i.e., simultaneous current account and fiscal deficits).



Source: BSP, Bureau of the Treasury, PSA, CEIC, OCBC



Source: CEIC; OCBC

The bigger policy consideration is the stickiness of headline inflationary pressures, a bugbear for BSP. The disinflation process in 1Q24 was bumpy and volatile. Food prices contributed to the recent volatility, with rice inflation rising close to 25% YoY in March 2024. We expect headline inflation will remain bumpy in the coming months, even exceeding the top end of BSP's 2-4% target range.

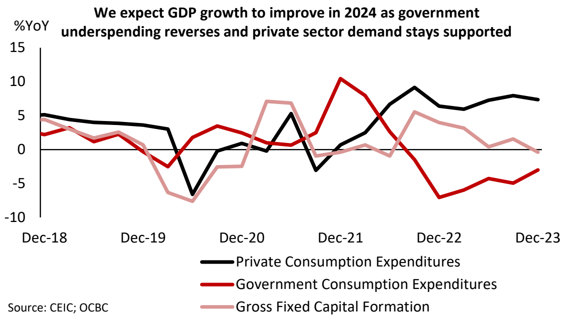
Our headline CPI forecast suggests that inflation will move back to within BSP's target only towards 4Q24 and more convincingly in 2025. Our revised rate cut timeline mirrors this disinflation trajectory. The consolation for BSP is that core inflation has been easing in a more predictable manner, while inflation expectations eased noticeably in 1Q24.

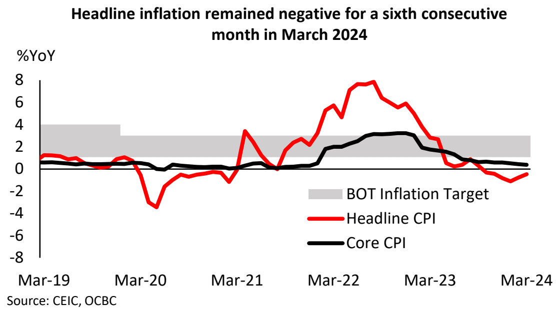
**Bank of Thailand (BOT):** We no longer expect BOT to lower its policy rate in 2024 and therefore remove the 50bps in cumulative rate cuts for this year. To begin with our conviction around the need for lower policy rates was low and we had deemed BOT embarking on an easing cycle as a close call, aimed at balancing economic and political realities. However, a delay in rate cuts from the US Federal Reserve to 2H24 will push out the timing for BOT rate cuts, as the Monetary Policy Committee (MPC), in our view, closely monitors portfolio outflow and THB depreciation risks.

The question then becomes does economic growth really need an additional impetus from monetary policy in 2H24. Government spending is set to pick up noticeably from May onwards[2] and the digital wallet programme is said to be implemented by 4Q24. The electronics export downcycle, in our house view, would have bottomed by 1H24 allowing for a more convincing export growth recovery in

[2] This assumes that the FY23-24 budget receives royal endorsement this month.

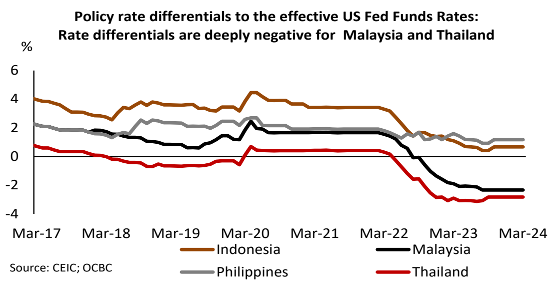
2H24 – another factor supportive of economic growth. The upshot is that BOT will likely delay monetary policy easing to a point where it becomes less necessary.

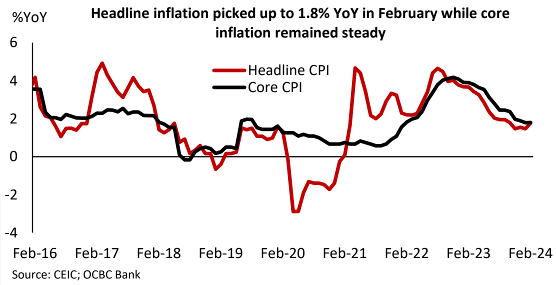



From a fundamental growth-inflation standpoint, we are not convinced that monetary policy easing is required. Our baseline forecasts remain for an improvement in GDP growth to 2.8% YoY in 2024 versus 1.9% in 2023 while headline inflation is expected to pick up gradually in the coming months, albeit contingent on the government's cost of living measures.

**Bank Negara Malaysia (BNM):** We remain off the view that BNM will stay on hold for the rest of 2024 and 2025. But this will not be without trade-offs. A delay in the US Federal Reserve rate cutting cycle to 2H24 and a reduced magnitude of rate cuts in 2024 implies that Malaysia's interest rates differentials to the US will remain unfavourable for longer and the differential will narrow to a lesser extent. This may risk some capital outflows. Notwithstanding, coordinated action from the government and BNM will continue to help support the currency (MYR).



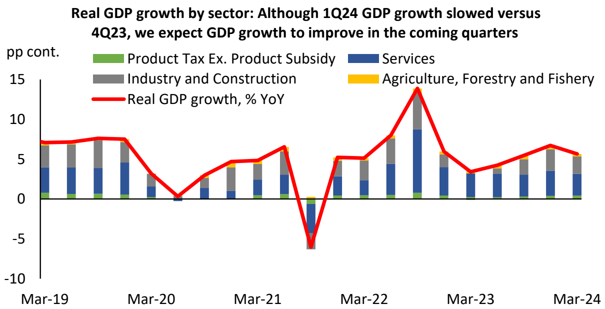

On the domestic front, the main unknown remains the timing and mechanism of targeted subsidy rationalisation. The PADU database registration closed on 31 March, reaching ~52% of the governments' intended target. The analysis based off PADU is expected to be presented to the cabinet at the end of April 2024[3]. This subsidy rationalisation, depending on the nature of implementation, could have an

[3] Chief statistician to present Padu data analysis to Cabinet by end of April, 14 April 2024, *Malay Mail*.

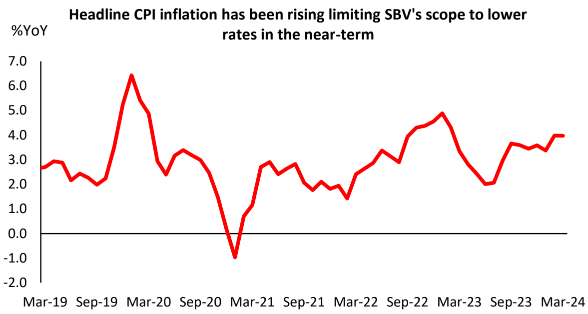
impact on domestic inflation and warrant action from BNM should second-round effects remain persistent and pervasive.

**State Bank of Vietnam (SBV):** Similar to BNM, we maintain our policy rate forecast for SBV which is for a cumulative 50bps in rate cuts. We will, however, push out the timing of the cuts to 2H24 from 2Q24 previously. This will allow SBV a longer runway to assess ongoing external and domestic developments.

Although 1Q24 GDP growth was slightly underwhelming at 5.7% YoY (4Q23: 6.7%), we expect GDP growth to improve to an average of 6.1% in the remaining three quarters of 2024. This will bring full year 2024 GDP growth to 6% versus 5% in 2023, at the lower end of the official target range of 6.0-6.5%. That said, credit conditions remain lacklustre and could be supported by looser monetary policy conditions. Meanwhile, headline inflation was elevated in 1Q24 averaging 3.8% YoY versus 3.5% in 4Q23, albeit still below the 4.0-4.5% official range for 2024. Food inflation will likely remain elevated in the coming months before easing in 2H24.



Source: General Statistics Office, CEIC, OCBC.



Source: CEIC; OCBC.

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