

Philippines

17 May 2024

BSP On Hold; Opens the Door to Easing

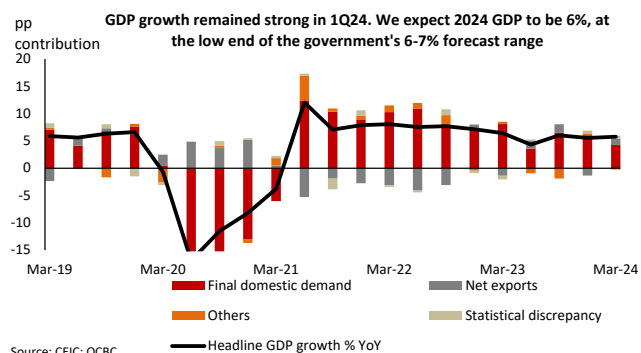
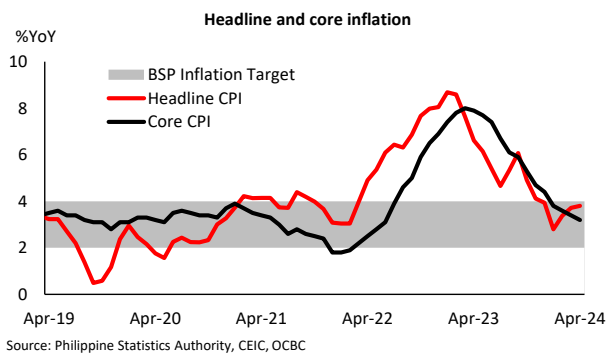
- Bangko Sentral ng Pilipinas kept its policy rate unchanged at 6.50%, as expected.
- BSP Governor Remolona noted that BSP is “somewhat less hawkish” compared to its April meeting and opened the door for rate cuts, starting in August 2024.
- Our baseline forecast is for BSP to cut its policy rate by a cumulative 50bp starting in 4Q24, followed by 100bp in 2025. This timeline could be brought forward depending on the incoming data.

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Bangko Sentral ng Pilipinas kept its policy rate unchanged at 6.50%, in line with expectations. BSP Governor Eli Remolona noted in the press conference that the BSP is “somewhat less hawkish” compared to its April meeting.

BSP lowered its 2024 CPI forecast, on a risk adjusted basis, to 3.8%YoY from 4.0% at its April meeting. For 2025, it raised the similar CPI forecast to 3.7% from 3.5%. Specifically, BSP Governor noted that the April CPI print was “good” and better than expected. April headline CPI came in at 3.8% YoY and was below the mid-point of BSP’s 3.5-4.3% expectation for the month. BSP noted that it expects headline CPI to taper from July, ahead of which headline CPI could breach the upper bound of BSP’s 2-4% headline inflation target range. This is similar to our forecasts.



BSP noted that growth prospects remain strong. GDP growth was solid in 1Q24, picking up to 5.7% YoY in 1Q24 versus 5.5% in 4Q23. For the full year, we expect GDP growth of 6.0%, at the lower end of the government’s 6-7% full forecast range. Meanwhile, Deputy Governor Dakila noted that currency (peso) moves have not been “a mater of PHP weakness but USD strength”.

Looking ahead, BSP Governor Remolona signalled that a rate cut could be delivered as early as August 2024. At that point, BSP will have the July CPI print and will be able to better assess the disinflation trend. Our baseline forecast is for BSP to cut its policy rate by a cumulative 50bp starting in 4Q24 followed by 100bp in 2025. This timeline could be brought forward depending on the incoming data.

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