

Philippines

8 April 2024

BSP Holds But Inflation Remains a Bugbear

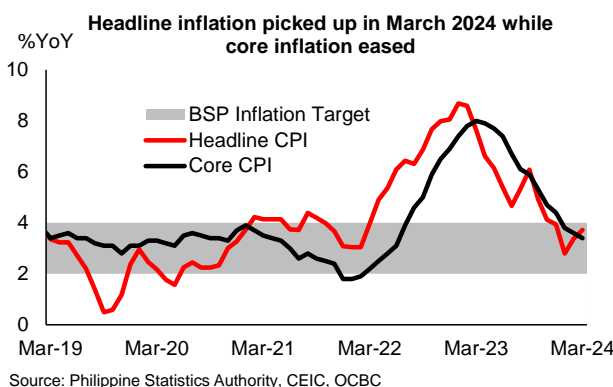
- Bangko Sentral ng Pilipinas (BSP) kept its policy rate unchanged at 6.50%, in line with expectations.
- Sticky inflationary pressures, however, remain a bugbear for BSP. Specifically, rice inflation remains elevated.
- Our view is for BSP to deliver a cumulative 100bp in rate cuts, starting late 2Q24. However, the risk is that these rate cuts could be pushed into 2H24.

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BSP kept its policy rate unchanged at 6.50%, in line with expectations. The deposit and lending rates were kept unchanged at 6.00% and 7.00%, respectively. The tone of the official policy statement was relatively unchanged compared to its February Monetary Board meeting. Although BSP did state that it is “somewhat more hawkish than before” at the 8 April meeting.

The bugbear for BSP remains inflationary pressures. BSP raised its baseline and risk-adjusted¹ 2024 headline inflation forecast to 3.8% YoY and 4.0% YoY, respectively, versus 3.6% and 3.9% at its 15 February meeting. Despite this, BSP noted that the risks to the inflation outlook are to the upside. Specifically, in the press conference, BSP Governor Eli Remolona cited that “inflation risks have increased” due to “higher transport charges, elevated food prices, higher electricity rates, and global oil prices”. In addition, “potential minimum wage adjustments could also give rise to second-round effects”. Rice was cited as the “biggest factor” for higher CPI pressures.



Date of MPC Decision	Headline Inflation (%YoY)		Risk-adjusted: Headline Inflation (%YoY)	
	2024F	2025F	2024F	2025F
Feb-23	3.1			
Mar-23	2.9			
May-23	2.8			
Jun-23	2.9	3.2		
Aug-23	3.3	3.4		
Sep-23	3.5	3.4		
Oct-23			4.7	3.5
Nov-23	3.7	3.2	4.4	3.4
Feb-24	3.6	3.2	3.9	3.5
Apr-24	3.8	3.2	4.0	3.5

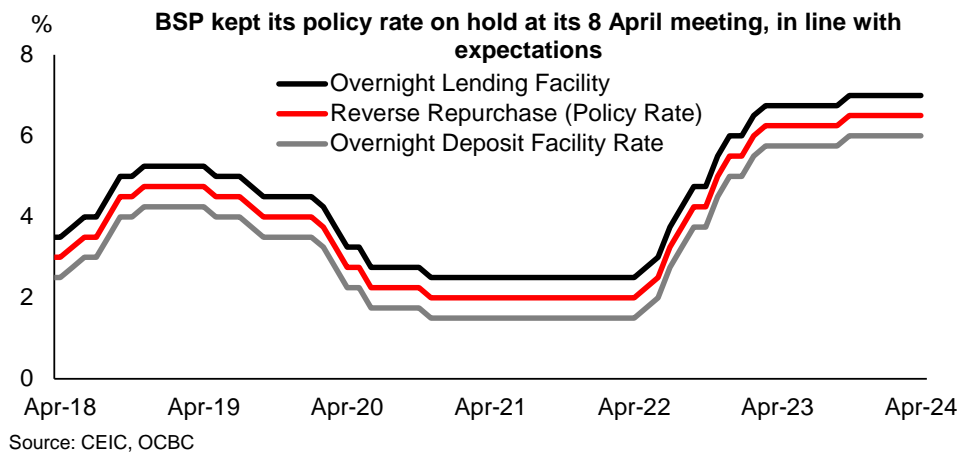
Note: BSP started providing risk-adjusted inflation forecast at its October 2023 off-cycle meeting.
Source: Bangko Sentral Ng Pilipinas, OCBC

BSP’s concerns are validated by the latest inflation print. Headline CPI rose by 3.7% YoY in March versus 3.4% in February (OCBC and Consensus: 3.8% YoY) driven by higher food and transportation costs. Rice inflation increased to 24.4% YoY versus 23.7% in February. There was some reprieve in that March core inflation eased to

¹ BSP started providing risk-adjusted inflation forecast at its October 2023 off-cycle meeting.
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3.4% YoY versus 3.6% in February. More importantly, 1Q24 average headline inflation eased to 3.3% YoY versus 4.3% in 4Q23 underscoring that a disinflation process is underway, albeit a bumpy one. Looking ahead, we maintain our average headline inflation forecast of 3.9% YoY in 2024, easing from 6.0% in 2023. This, nonetheless, implies higher inflation in the coming months, touching the upper end of BSP’s 2-4% target range.

On growth, BSP maintained that the “domestic growth prospects remain largely intact over the medium term”. Nonetheless, it cautioned that the economy is “gradually responding to tight financial conditions”. Our forecast is for the economic recovery to remain uneven this year. We expect 1Q24 GDP growth to improve to 5.8% YoY compared to 5.5% in 4Q23. For 2024, we expect GDP growth to improve 6.0% versus 5.5% in 2023.



BSP noted that it was “appropriate” to maintain “tight monetary policy setting” but ruled out further tightening. Governor Remolona acknowledged that it would be “really bad” to consider another rate hike given sufficiently tight monetary policies conditions. BSP noted that it may consider easing 3Q24.

Our view is for BSP to deliver a cumulative 100bp in rate cuts in 2024, starting in late 2Q24. This mirrors our house view on the timing of US Federal Reserve rate cuts in June. The risk, however, is that the timing of rate cuts for BSP is pushed out in 2H24 until it is convinced that inflationary pressures have become more contained.

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