

## Steady monetary policy rates in Indonesia and Philippines

Bank Indonesia and Bangko Sentral ng Pilipinas both meet on Thursday, after the FOMC meeting and are expected to keep policy rates steady



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### BI remains worried about inflation pressures

We do not expect a Fed rate hike and steady Fed dots to move BI and BSP to tighten. The inflation environment and outlook for both economies remain within target ranges over the policy horizon.

Slower November inflation from Indonesia is unlikely to move BI from its steady policy path. BI's inflation target range in 2018 is 2.5% to 4.5%, 50bp lower than this year's target range of 3% to 5%. The lower target range keeps BI wary of further policy rate cuts, considering some upside risks. Price pressures come from higher retail oil prices due to a limited amount of available subsidies in the 2018 fiscal programme and higher commodity prices. Additional monetary policy easing could also result to a weaker IDR that may feed into higher inflation rates. Senior BI officials consider the 50bp cut at mid-year to be sufficient to not only keep inflation within target range but also to stimulate economic activity which has been trapped at a 5% annual GDP growth rate over the past four years. We do not rule out a resumption of easing but the likelihood for now is low. Failure to

accelerate economic activity and a further moderation of inflation would raise the likelihood. However, higher commodity prices may keep inflation from dropping to below 3%.

**4.25%** BI 7-day repo rate  
Steady

## BSP to keep policy rates steady in the near term

Philippine inflation has remained within the target range of 2% to 4%. BSP expects inflation to remain within the target range over the policy horizon. This is despite a higher average inflation rate forecast of 3.4% in 2018 (from this year's 3.2%). With growth likely at near target pace of 7% to 8% in 2018 and inflation within BSP's target range, BSP is likely to keep policy settings steady at this Thursday's policy rate meeting.

**3%** BSP policy rate  
No change

## BSP looking for a window to cut bank reserve requirements

The risk to the inflation forecast remains on the upside. Markets expect a higher inflation rate of 3.6% in 2018. We are slightly less optimistic, with a 3.7% average inflation rate forecast. We are concerned that inflation may test the upper end of the target range. Higher commodity prices (including for oil) and implementation of tax reforms in early 2018 present upside risks. Although BSP considers tax reform-related inflationary pressure as transitory, BSP may still need to assure the market to keep inflation expectations steady. If inflation moves closer to the upper end of the target range, then BSP may need to act. We are with the consensus of two rate hikes in 2018 with the first in 2Q. A more moderate inflation outturn in 1Q would push back monetary tightening.

Measured reduction of bank reserve requirements is possible under certain conditions. An inflation rate that is below 3% in the next few months would raise the likelihood of a measured cut in bank reserve requirements. A 1ppt cut in this requirement brings around P90bn of liquidity in the system. We believe this amount in a slow inflation environment would not push inflation beyond the upper end of the target range. However, we attach a less than even chance for a RRR cut soon, due to upside risks to inflation..