

Snap | 19 June 2019

INDONESIA PHILIPPINES

## BI and BSP to leave policies on hold

The central banks of Indonesia and the Philippines are expected to await more data and enact a dovish pause on Thursday.



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### Emerging market central banks to take their cue from the FOMC

Despite dovish comments from select FOMC members, the markets are not expecting the Fed to cut rates at the close of its 19 June meeting. Investors will be keenly awaiting the release of the Fed's latest economic projections and of the so-called "dot plots" for guidance.

A number of emerging market central banks will be meeting shortly after, including Bank Indonesia (BI) and the Bangko Sentral ng Pilipinas (BSP). Barring any surprise cut from the Fed, we do not expect fireworks from BI or BSP at their respective policy meetings tomorrow. However, we do expect both to enact a "dovish pause" by keeping the policy stance neutral but simultaneously signaling the increased likelihood for easing in the near term, depending on prevailing conditions.

### **Recipe for a dovish pause: dovish overtures but data-dependent**

#### **Dovish overtures**

Governors of both the central banks have pointed to easing monetary policy. BI Governor Warjiyo has indicated that "there's room to lower interest rates", while BSP's Diokno has openly pledged to slash policy rates further, noting that this would be inevitable. It appears safe to say that both central banks are ready and willing to pull the trigger on further rate cuts - both having engaged in aggressive policy tightening in 2018 (with a total 175bp in rate hikes in the face of heightened risk-off tone).

#### **Data-dependent**

Despite their dovish comments, both Diokno and Warjiyo have stuck to script by invoking data dependency in the timing of their much-anticipated monetary actions. Their respective economies currently have inflation running within policy targets, while their currencies have been relatively stable in 2019. Meanwhile, growth in the Philippines hit a snag in 1Q19 while re-elected President Jokowi of Indonesia has asked his cabinet to help spur growth via increased investments. But, given the external environment (Brexit, trade war, etc), we expect these two central banks to seek validation from data releases before they actually move on easing.

### **The x-factor: the current account**

Part of the reason why BI and BSP were actively hiking policy rates in 2018 stemmed from concerns regarding their current account deficits. Both Indonesia and the Philippines continue to post sizeable current account gaps as of 1Q19 (Indonesia: 2.6% of GDP, Philippines: 1.5% of GDP). Given the prospects for slower global trade due to the protracted trade spat, we could see their current account deficits remain relatively wide in 2019.

Given this outlook, we can expect BI and BSP to tread cautiously on rate cuts but act decisively to ease monetary policy should the data indeed support a reduction in policy rates. We believe they will keep their powder dry on Thursday but, at the same time, leave the door wide open for easing.

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