# Philippine central bank keeps policy rate steady but slashes inflation forecasts

The cut in inflation forecasts increases the likelihood of a BSP policy U-turn in early 2019

**4.75%** Overnight reverse repurchase rate

unchanged

As expected

## BSP slashes forecasts further

Philippine's central bank (BSP) kept policy rates steady as a result of slowing inflation, as evidenced by the 6.0% print in November. BSP remains data dependent in order to validate this lower inflation path. The central bank lowered its inflation forecasts to 5.2% in 2018 (from 5.3%), 3.18% in 2019 (from 3.3%) and to 3.04% (from 3.3%) in 2020.  Lower inflation forecasts across the policy horizon reflect the BSP's baseline scenario that inflation will revert to target as early as 1Q 2019.

The lower inflation forecasts likely reflect lower crude oil prices and the transport agency's (LTFRB) rollback of jeepney fares. The Development Budget Coordination Committee (DBCC) recently cut its 2019 oil price assumption to $60-75/barrel from the previous $75-85/barrel level. We are currently reviewing our FY 2019 forecast of 3.6% in light of these recent developments.

## Lower inflation forecast may lead to BSP easing in early 2019

The lower inflation forecasts increase the likelihood that the BSP may be done with its recent tightening cycle, and the next series of moves will probably be in the realm of monetary easing. The BSP will likely slash reserve requirement ratios (RRR) as early as 1Q with inflation decelerating while domestic liquidity conditions remain tight (latest M3 growth at 8.2%). Meanwhile, if inflation edges closer to target, growth decelerates until the 1H 2019 and the Fed indeed takes on a more dovish stance next year, the BSP may quickly slash its main policy rate as early as 2Q.

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