

Philippines central bank carries out another hawkish pause

Bangko Sentral ng Pilipinas kept policy rates unchanged amid slowing growth momentum



Bangko Sentral ng Pilipinas (the central bank of the Philippines)

6.25% BSP policy rate

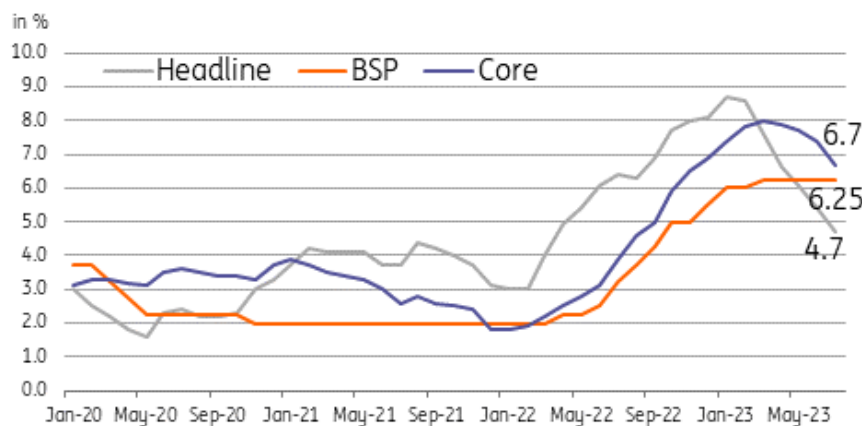
As expected

BSP extends pause

The Bangko Sentral ng Pilipinas (BSP) kept policy rates untouched at 6.25% today. Governor Eli Remolona was likely mindful of the slowing growth momentum after second-quarter GDP dropped to a disappointing 4.3% year-on-year pace (the market consensus was 6%). BSP expects inflation to slow further in the coming months with headline inflation expected to settle within target by the fourth quarter.

Remolona however retained his hawkish stance, reiterating his readiness to hike policy rates if necessary while remaining data-dependent. The BSP pushed up its inflation forecast, likely due to the developments in global energy and food prices. BSP now sees inflation settling at 5.6% (from 5.4% in June) for 2023 and 3.3% (2.9%) for 2024.

BSP keeps rates steady for third consecutive meeting



Source: Philippine Statistics Authority and BSP

Despite pause, BSP retains its hawkish bias

This was the first policy meeting of the newly-minted Governor Remolona. He decided to extend BSP's pause for a third consecutive meeting, looking to balance out the need to support fragile growth momentum while also keeping rates at restrictive levels to fend off budding price pressures.

Despite the pause, Remolona made sure to retain his hawkish bias, vowing to quickly resort to potential rate hikes in order to help anchor inflation expectations. BSP will likely be monitoring the upside risks to the inflation outlook such as potential wage hikes, rice price adjustments and the rising cost of imported energy for future policy moves. Furthermore, we expect Remolona to be monitoring the spot market, given its potential pass-through impact on inflation.

We expect BSP to retain policy rates at these levels for the remainder of the year as the central bank looks to balance the risks to growth and inflation. However, we could see BSP considering a rate hike down the line should the US Federal Reserve opt to increase policy rates before the end of the year, in order to maintain interest rate differentials.