Philippines central bank cuts rates by 25bp

Bangko Sentral ng Pilipinas (BSP) cut the overnight borrowing rate by 25bp to 6.25%, becoming one of the first Asian central banks to cut rates apart from China. While the recent inflation data makes the optics of today's decision slightly more questionable, we fully anticipate upcoming inflation data to vindicate today's decision

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

6.25%

Overnight borrowing rate

25bp cut

As expected

A brave decision

Today's decision was described by one newswire as "too close to call", but the consensus expectation narrowly favoured a cut today. The immediate market response has been for the Philippine peso to weaken only slightly, suggesting that this is not seen as an extravagant move.

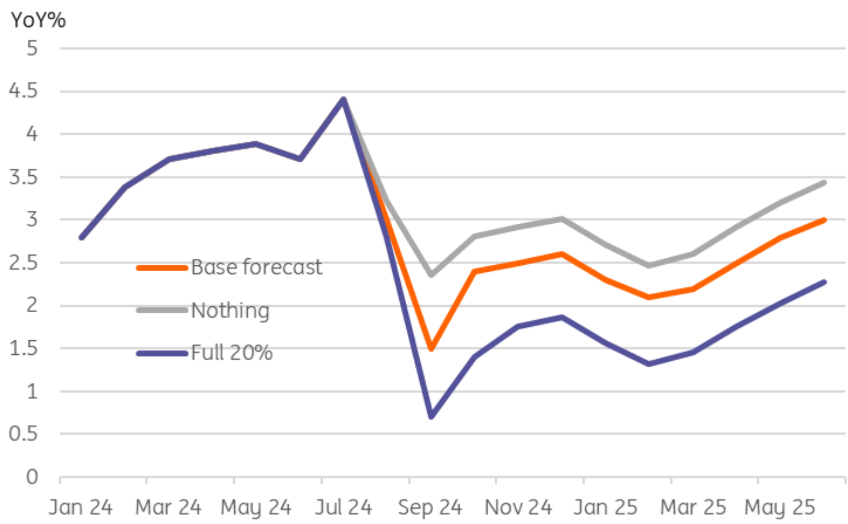
BSP Governor Eli Remolona has been floating the idea of an August rate cut for some time. However, the recent spike in inflation back above 4% made this look less likely, and a no-change decision would not have raised any eyebrows of BSP watchers. For our part, we thought the central bank would be more cautious and leave rates unchanged.

What makes this a brave call is that aside from the People's Bank of China and some developed central banks in the Asia Pacific region (such as the Reserve Bank of New Zealand), this is about the first regular rate cut of any APAC central bank, and coming ahead of anticipated Federal Reserve easing makes the move all the more gutsy. Recently, other regional central banks – in particular, the Reserve Bank of India, which had also been hinting at cutting ahead of the Fed – have left rates as they were.

Like the Philippines, India also has one of the highest policy rates in the region in absolute and inflation-adjusted terms, and so this could have been seen as a test bed for the BSP. It turned out not to be.

Recent market turbulence could have been another excuse for inaction today. However, the relative calm with which this decision was received by markets suggests that other APAC central banks may now be more likely to consider a move. Bank Indonesia (BI) meets next week, and it too has very high policy rates and has been maintaining high rates to support the Indonesian rupiah. Recent USD weakness and the BSP move may also give BI more courage to ease policy.

Inflation scenarios under different rice tariff-cut pass-through assumptions



There's more where that came from

This is not likely to be a one-and-done rate cut. Philippine inflation is likely to slow substantially in the months ahead as rice prices at worst stay elevated but fail to deliver a further boost to inflation as last year's price increases drop out of the year-on-year comparison. At best, some of the recent rice tariff reductions will get passed on to the consumer, taking inflation even lower for a while before it heads higher.

We see inflation stabilising around the 3.5% level in 2025, so allowing for some positive real (inflation-adjusted) policy rate, a terminal rate for BSP policy rates could be around 4.5%-5.0%, a further 125-175bp lower than today.

We could see BSP tracking the Fed one-for-one in the coming months as the Fed finally begins its own easing cycle – depending on how the PHP behaves. And further easing looks probable in 2025.

This easing could sow the seeds for a more robust growth outlook in 2025. We aren't particularly optimistic about growth over the remainder of 2024, with a full-year forecast of just 5.3%. However, we may need to lift our 5.6% forecast for 2025 to recognise BSP's supportive policy shift.

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