

# 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.

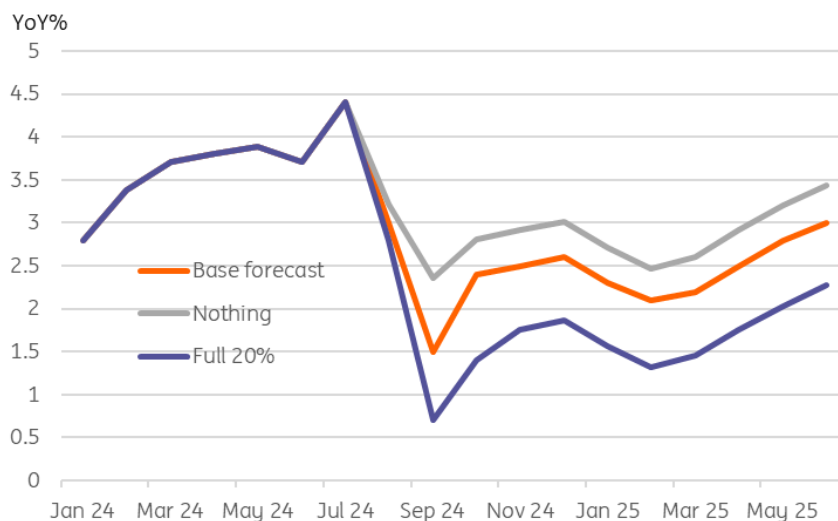
BSP Governor Eli Remolona has been floating the idea of an August rate cut for some time. However, the recent spike in inflation back above 4% made this look less likely, and a no-change decision would not have raised any eyebrows of BSP watchers. For our part, we thought the central bank would be more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

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).