

## Philippines: The BSP Hawk-Dove meter

With the Federal Reserve set to cut policy rates at the end of the month, market players are gauging the Bangko Sentral Pilipinas' (BSP) stance on monetary policy



### A done deal, with BSP looking to get the timing correct

Policy is decided by the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), composed of seven voting members who meet every six weeks. With the Federal Reserve all but signalling a rate cut at the end of the month, emerging market central banks have moved to reduce policy rates, too, mainly to boost sagging growth momentum in the face of the protracted trade spat between the US and China. BSP Governor Benjamin Diokno is on record as saying that “we have already decided” (to cut rates) and that the bank is simply looking at the proper timing for such cuts. The big question now is when will the BSP follow through on its May rate reduction and by how much. Let’s meet the seven men at the round (MB) table.

## Governor Diokno (Chairman)

Diokno has openly referred to himself as “pro-growth” as he looks not just to chase price stability per se but with an eye to providing an environment conducive to economic growth. Diokno has pledged to cut policy rates further, while also reducing reserve requirements. He has noted that the proper sequence would be for RRP cuts first and an RRR reduction second. Asked about monetary policy in the wake of recent dovish comments from Fed Chairman Jerome Powell, Diokno indicated that “we have already decided” and that the BSP is weighing up the proper timing. Of late, Diokno has, however, shifted gears by preaching patience and prudence, all the while pledging to remain data-dependent before cutting rates. We expect Diokno’s decision to rest on inflation and more heavily on 2Q GDP in the next few weeks. **Leaning: somewhat dovish**

## Secretary Dominguez

Department of Finance (DoF) Secretary Carlos Dominguez is the lone representative to the Monetary Board and has been largely silent on the issue of monetary policy setting of late. His most recent comments have centred around his dissent with proposals for the rice tariffication law repeal and how it had helped lower headline inflation. **Leaning: unknown**

## MB Member Tolentino

One of three economists on the MB, Bruce Tolentino has been on the wires recently indicating that he did not feel there was a “rush” to cut policy rates. Tolentino also stuck to the script, pointing to the need to sift through upcoming economic data to read the tea leaves before acting to slash rates further. He also cautioned on reducing reserve requirements (RRR) as he would like to “make sure that money isn’t just sitting in accounts”. Tolentino has also been rather dovish with regards to inflation, downplaying the effect of El Niño on rice prices and inflation as a whole as he pointed to the return of rain to help offset the dry spell. For the coming weeks, we expect Tolentino to react to inflation and GDP while also monitoring the level of funds parked with the BSP’s overnight facilities to gauge his timing for further rate cuts. **Leaning: somewhat hawkish**

## MB Member Medalla

Another economist on the MB and one of the more outspoken members, Felipe Medalla has stated his preference to hold off on rate adjustments for “at least a couple of meetings” (statement given in June). He pointed to forecasts showing that “inflation is going to be at 3%” and that “there’s really no reason to change policy rates”. From these comments, it looks like Medalla will err on the side of patience and support another “prudent pause” for at least the August meeting. **Leaning: hawkish**

## MB Members Favila, Abacan, De Zuniga,

MB members Favila, Abacan and De Zuniga have not been vocal on the wires about the conduct of monetary policy. Juan De Zuniga is a former Deputy Governor while Peter Favila and Antonio Abacan are veterans of the private sector. The three will likely decide based on the evidence and the presentation by the technical secretariat of the BSP which is now headed by a new Deputy Governor. **Leaning: unknown**

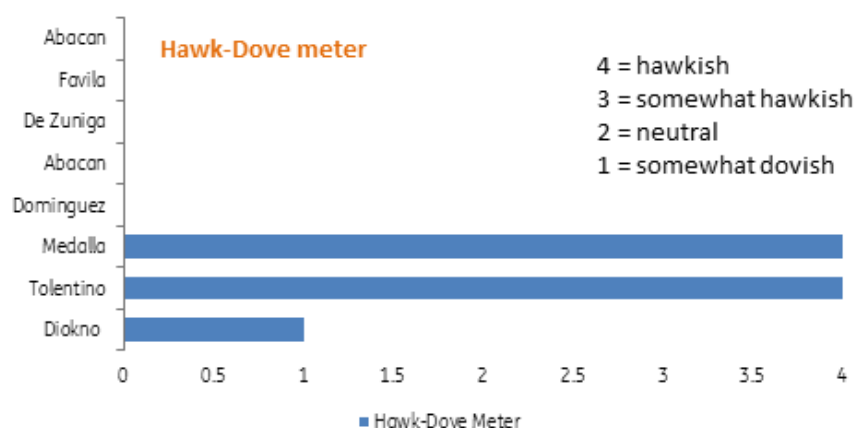
## The 8th man: Deputy Governor Dakila (non-voting)

The newly-minted Deputy Governor Francis Dakila will fill the shoes of stalwart Diwa Guinigundo who retired this month. At the inflation report earlier this month, the BSP team said that the “overall inflation outlook gives more opportunity to consider output and demand conditions moving forward”. With inflation now expected to settle below the 3% target for the year, Dakila stressed that “July inflation would be key to assess if inflation will slow as fast as expected”. The BSP will likely not focus on contemporaneous and singular data points (2Q GDP and July inflation) but rather we expect the technical secretariat to deliver recommendations based on forward looking indicators. **Leaning: somewhat dovish**

## Timing is everything

Policy adjustments are market moving and as such can affect the path and pace of the economy. Proper timing of such moves are crucial as we’ve witnessed how even adjustments with the best intentions have led to market turmoil if not timed perfectly. (If I may quote Tony D’Amato from Any Given Sunday, “one half step too late or too early and you don’t quite make it”). What is key here is also proper signalling to the market so as not to catch investors off guard with a move from left field. Diokno recently sounded off on the importance of credibility stating that “without credibility, central banks resort to traditional aggressive tools to achieve the same result”. Managing expectations in many instances may be just as integral to inflation targeting if the BSP has an effective “hold” on the markets through its credibility, earned through effective communication.

## BSP Hawk-Dove meter



Source: ING

Perceived disposition of BSP MB members based on quotes in the press

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