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PHILEQUITY CORNER

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Structurally hawkish

Last month, Eli Remolona was appointed as the new governor of the Bangko Sentral ng Pilipinas (BSP). Since then, he has made pronouncements that outline the BSP's economic and policy outlook. Remolona stated that it is still premature to think of rate cuts. Furthermore, he stressed that the BSP is structurally hawkish because it is an inflation-targeting central bank. In this article, we summarize the background of our new BSP chief while also reviewing the salient points of his recent statements.

Impressive credentials

Remolona has a wealth of international experience as a banking regulator and he has a deep knowledge of economics due to years spent in the academe. He worked for 14 years at the Federal Reserve Bank of New York as an economist. This was followed by a 19-year stint at the Bank for International Settlements (BIS) where he served as the regional head for Asia and the Pacific. During this time, he coordinated with central bank governors in the region to formulate policy on various issues such as regulatory reform, financial stability, and capital market development. Remolona was a finance professor and director of central banking at the Asia School of Business in Kuala Lumpur. He also taught at Columbia University, New York University, Williams College, and University of the Philippines. He graduated with a bachelor's degree in Economics Honors from Ateneo de Manila University and he received his PhD in Economics with distinction from Stanford University.

'Rate cut premature'

While inflation has trended lower since its peak in January, the central bank governor emphasized that it is still too early to reverse the BSP's tightening mode and then cut rates. Below, we summarize some important points from his latest comments.

- "The BSP is an inflation-targeting central bank. That means it's structurally hawkish."
- "It is premature to talk about a rate cut because the economy is still very strong and inflation is still above our target range, so we will have to see."
- "We are worried about the upside risks, such as El Niño, minimum wages being raised. We worry more about the second-round effects."
- "For now, we're contemplating whether to hike or not to hike. We're not thinking about whether to cut or not to cut."
- "We want to be well into the target range first before we consider anything like a rate cut. It could depend on how weak the economy is, or how strong the economy is. But we will see."
- "What might happen, this won't happen very soon but with the Fed in hiking mode, global financial conditions might tighten, then there might be a global recession, and then we would have to consider a rate cut just to protect ourselves from a global recession."
- "Small movements in the peso are okay, it doesn't worry us. But sometimes if it's a sharp movement then it begins to affect expectations, and then we begin to worry."
- "We're not looking at just one policy rate. We're looking at a path of the policy rate. It's implicit in every decision we make."

Credible yield curve

Aside from outlining the BSP's policy direction, Remolona stated that there are ongoing discussions between the BSP and banks to establish a reliable yield curve by January 2024. The BSP governor said, "Right now, there's a workable yield curve. We want it to be a yield curve that represents liquidity at different maturities. We're talking to the banks about market-making to make sure there's liquidity around the two-year and five-year so that when we fit a curve to the yields, we have something you can rely on."

Remolona explained that a credible yield curve will deepen domestic capital markets by providing yields for different tenors. These can be used as interest rate benchmarks for various financial products such as loans, deposits, bonds, preferred stocks, and insurance. The central bank chief added that a functional yield curve would give the BSP an additional mechanism for monetary policy transmission.

Continuity and stability

Over the years, the BSP and its previous governors have received numerous awards lauding their outstanding leadership, professionalism, and overall approach to central banking. As such, the BSP is considered by many as one of the best central banks not only in Asia but the whole world. The new BSP governor possesses a vast knowledge of economics and high-level experience as an international banking regulator. Under his leadership, we expect the BSP to continue implementing prudent and responsible policies. Remolona has a keen grasp of the various factors that can impact monetary policy and economic outcomes. He highlighted that these are the data and developments that must be considered when making policy decisions. Based on his pronouncements, we can see that the BSP chief favors a stronger, relatively stable peso as this would support the central bank's inflation-targeting mandate. A stable currency and a manageable inflation rate are key pillars that underpin long-term economic growth.