

# POLICY RATE UPDATES

## BSP CALLS FOR A PAUSE

### BSP Action

The Bangko Sentral ng Pilipinas (BSP) kept the overnight reverse repurchase (RRP) rate unchanged at 6.25% in its latest Monetary Board meeting, after nine (9) consecutive policy rate increases, as inflation continues to ease.

The Philippines' CPI inflation rate slowed to 6.6% in April 2023 from 7.6% the previous month. The BSP has now adjusted its full-year average inflation forecast to 5.5% (from 6.0% in the March MB meeting) for 2023 and 2.8% (from 2.9%) for 2024. It projects an average inflation rate of 7.2% for H1 2023, 4.6% for Q3, and 3.0% for Q4.

Medalla said that risks to inflation remain tilted to the upside due to continued price constraints in key food items, the risk of the looming El Niño, and potential additional adjustments in transportation fares and wages. However, a downside risk to inflation is the perceived global economic slowdown. Nonetheless, demand indicators have already pointed to moderating behavior, suggesting that previous rate hikes continue to work their way through the economy. He also signaled that pauses are more likely for the next two to three rate-setting meetings.

Latest RRP Rate

## 6.25%

Current RRP Rate –  
Fed Funds Rate  
Differential

## 100 bps

## FORECASTS AND OUTLOOK

Inflation is expected to sustain its declining trajectory due to the influence of base effects, foreseen lower oil prices, and slower global economic growth outlook. Upside risks remain such as second-round effects, as well as the looming El Niño which could result in higher prices of agricultural and food commodities and some power supply shortages. Although, the expected global slowdown may decrease inflationary pressures.

Research forecasts an average inflation rate of 6% for the year, with a gradual decrease to around 4% by the end of 2023. This development enhances the likelihood of the BSP implementing interest rate cuts toward yearend, thereby resulting in a 6.0% RRP rate by the end of 2023. Nevertheless, BSP noted that succeeding policy rate decisions will also rely on the Fed's next moves, to manage USD/PHP movement.

### Reserve Requirement Ratio (RRR)

Medalla entertained cutting banks' reserve ratio requirement (RRR) by 200 basis points as an operational adjustment (not as monetary policy), possibly by June.

Next BSP MB Meeting

JUNE

22

BSP AVERAGE INFLATION FORECAST	
As of March 2023	As of May 2023
2023: 6.0%	2023: 5.5% ▼
2024: 2.9%	2024: 2.8%

METROBANK RESEARCH RRP RATE FORECAST	
2023	2023
6.0%	5.0%

