

POLICY RATE VIEWS

PEAK TIGHTENING REACHED, TIME FOR A PAUSE

BSP Signals

In the previous Monetary Board meeting in March, the Bangko Sentral ng Pilipinas (BSP) hiked the benchmark interest rates by 25 basis points (bps), raising the RRP rate from 6.0% to 6.25%. This policy rate move was mainly driven by the still-elevated headline inflation at 8.6% in February and stubbornly high core inflation at 7.8%.

BSP Governor Medalla then emphasized that the succeeding BSP policy rate decisions will be data-dependent, with particular look-out on how March inflation would fare.

As March and April inflation prints turned out good, signals of a pause have been more resounding, as Governor Medalla has noted in several external discussions that the tempered inflation in April puts monetary authorities in a position to pause. Moreover, BSP's projection for the 2023 inflation average is set to be revised downwards from the 6% projection.

Research Call: It's a Pause

Inflation continued to decline to 6.6% in April 2023 versus 7.6% the previous in March, as price upticks in food, energy, and transportation continued to decelerate.

Moreover, core inflation moderately eased to 7.9% in April 2023, versus 8.0% in March and 7.8% in February, for the first time since January 2022.

BSP previously noted that the policy rate decisions will bank heavily on the March and April inflation outturn. Thus, the latest deceleration makes a stronger case for a pause in the RRP rate hikes in the upcoming BSP Monetary Board Meeting tomorrow, May 18. Should there be no new supply shocks to veer inflation away from its downward trajectory, the RRP rate may stay at the current level of 6.25%, with a cut likely towards yearend.

Latest RRP Rate:
6.25%
April 2023 Inflation
6.6%

BSP Average Inflation Forecast

As of March 2023

2023: 6.0%
2024: 2.9%

