

# POLICY RATE UPDATES

## BSP STICKS WITH 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 for the second time, after nine (9) consecutive policy increases since 2022, as inflation continues to ease.

May inflation print recently came out at 6.1%, a continued improvement from 6.6% in April 2023. This encouraging development led the BSP to adjust its full-year average inflation forecast to 5.4% (from 5.5% in the May MB meeting) for 2023. Inflation expectations have also lowered for 2023. For 2024, however, the BSP marginally adjusted its forecast upwards from 2.8% to 2.9% due to the continued opening up of the economy and the impact of a more hawkish US Federal Reserve.

Medalla reiterated the persistent upside risks to inflation such as supply constraints on key food items, the looming El Niño, and upward adjustments in transportation fares and wages. However, downside risk to inflation remains to be 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.

**Latest RRP Rate**  
**6.25%**

**Current RRP Rate – Fed Funds Rate Differential**  
**100 bps**

## FORECASTS AND OUTLOOK

The Philippines' CPI inflation rate is expected to continue tracking a downward path in the coming months given higher base effects especially in the 2<sup>nd</sup> half of the year with core inflation likely to follow, consistent with the BSP's stand. Nonetheless, upside risks warrant continued vigilance.

Medalla emphasized that the BSP's policy rate decisions moving forward will likely be driven more by domestic inflation conditions, rather than the Fed's actions, especially given how the European Central Bank's (ECB) accelerated rate hikes versus the Fed may weaken the US dollar. Nevertheless, this may still change if the Fed pushes through with the significant 50-basis point hike which might warrant a response from the Bangko Sentral ng Pilipinas (BSP).

Nevertheless, Governor Medalla noted that the pause will allow the BSP to assess current economic conditions but is already open to cuts should inflation reach sub-4% levels for 2 consecutive months. Further, the BSP's recent inflation forecast suggests inflation already hitting 2-3% levels by the last quarter. Should this materialize, cuts may happen towards year-end.

Given this, Research maintains its RRP rate projection of 6.0% by yearend as we await the succeeding months' inflation print.

**Next BSP MB Meeting**

**AUGUST**

**17**

BSP AVERAGE INFLATION FORECAST	
As of May 2023	As of June 2023
2023: 5.5%	2023: 5.4% ▼
2024: 2.8%	2024: 2.9% ▲
	2025: 3.2%

METROBANK RESEARCH RRP RATE FORECAST	
2023	2024
6.0%	5.0%

