

# POLICY RATE UPDATES

## BSP MAINTAINS STRUCTURALLY HAWKISH STANCE

### BSP Action

The Bangko Sentral ng Pilipinas (BSP) kept the overnight reverse repurchase (RRP) rate steady at 6.25% in its latest Monetary Board meeting for the third consecutive time, as inflation continued to ease and is seen reaching the country's inflation target by Q4.

July inflation print came out at 4.3%, a continued improvement from 5.4% in June 2023. However, the balance of risks are seen leaning towards the upside which led the BSP to marginally adjust its full-year average inflation forecasts to 5.6% (from 5.4% in the June 2023 MB meeting) for 2023, 3.3% (from 2.9%) for 2024, and 3.4% (from 3.2%) for 2025 due to the projected impacts of higher international oil prices to transportation prices, higher minimum wage, constraints stemming from food supply, and potential impact of El Niño on food and power prices.

Nonetheless, Governor Eli Remolona stressed that the upward revisions are minimal, and inflation is still anticipated to continue to slow down, with inflation expectations kept anchored for 2023. The BSP governor noted that the recent economic growth performance is indication of a broad-based slowdown in domestic demand and that the impacts of the past monetary policy tightening are already manifesting in the economy. Thus, the monetary board deemed it appropriate to keep the interest rate unchanged, to allow for further moderation in inflation.

Latest RRP Rate

# 6.25%

Current RRP Rate – Fed Funds Rate Differential

# 75 bps

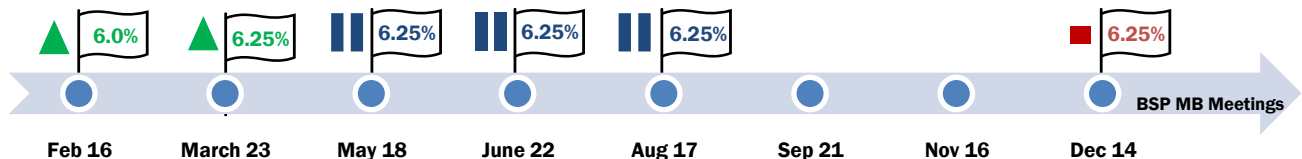
## FORECASTS AND OUTLOOK

The Philippines' CPI inflation rate is expected to continue tracking a downward path in the coming months and to fall within the BSP's target range of 2%-4% by Q4, consistent with the BSP's view. However, upside risks stemming from higher oil prices and the rising rice prices may elevate currently stable inflation expectations.

Governor Remolona further signaled that the monetary board sees no easing in the interest rates in the near-term and signaled no cuts at least in the next meeting (September). He added that the BSP remains prepared to respond as necessary to keep inflation expectations anchored and to ensure price stability which has been the BSP's primary mandate.

Amid the recent USDPHP volatility, the BSP Governor previously noted that the BSP is watching the exchange rate closely, noting that the peso has only weakened slightly compared to other Asian currencies. Deputy Governor Dakila also added that the BSP remains supportive of market-determined exchange rate.

Given this, Research maintains its RRP projection (as of August 7) to settle at 6.25% by yearend as we await the succeeding months' inflation prints and as we monitor further developments in the USDPHP exchange rate.



### BSP Average Inflation Forecast

As of May 2023	As of June 2023	As of August 2023
2023: 5.5%	2023: 5.4%	2023: 5.6% ▲
2024: 2.8%	2024: 2.9%	2024: 3.3% ▲
	2025: 3.2%	2025: 3.4% ▲

### METROBANK RESEARCH RRP RATE FORECAST

2023	2024
6.25%	5.25%