

POLICY RATE UPDATES

BSP DELIVERS “URGENT” MONETARY ACTION IN OFF-CYCLE HIKE

BSP Action

The Bangko Sentral ng Pilipinas (BSP) delivered an off-cycle hike, raising its target overnight reverse repurchase (RRP) rate by 25 bps to 6.50%, effective October 27, 2023. BSP Governor Remolona cites that the surprise hike is in response to supply-side price pressures, elevated commodity prices, and additional second-round effects from higher transport fares and minimum wage increases outside NCR.

The BSP has been signaling the possibility of an inter-meeting hike since the upside surprise in inflation seen in September, when rice inflation soared by 17.9% from 8.7% year-on-year in August, amid tight global supply and broader export curbs.

BSP Governor Remolona has also dialed back on the central bank’s previous estimates of local headline inflation, stating that it no longer expects inflation to return back to its 2-4% target until August 2024.

Wary of further upside risks to inflation, BSP Governor Remolona did not rule out further tightening when the Monetary Board meets on November 16. He reiterated that the BSP will consider October inflation data (due Nov 7) and 3Q GDP (due Nov 9) in its rate decision on the next scheduled policy meeting.

Despite the BSP’s record tightening, which has led policy rates higher by 450 basis points (bps) since May 2022, the central bank chief cites that growth prospects remain intact, but slower global demand and waning pent up demand are headwinds to economic growth.

Latest Target RRP Rate
6.50%

Current Target RRP Rate – Fed Funds Rate Differential
100 bps

| METROBANK RESEARCH RRP RATE FORECAST | |
|--------------------------------------|-------|
| 2023 | 2024 |
| 6.50% | 6.00% |

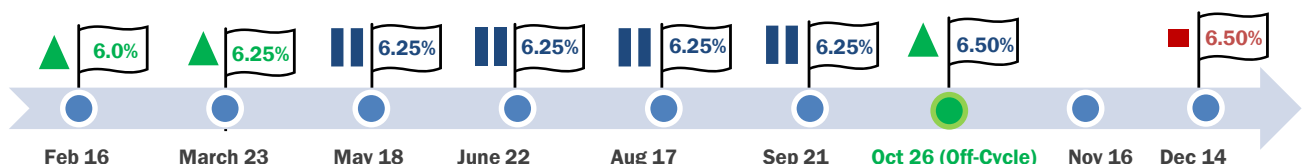
FORECASTS AND OUTLOOK

Metrobank Research’s estimates show that local headline inflation will average 5.7% in 4Q2023, which will bring full-year inflation at 6.40%. The BSP is expected to revise its inflation expectations higher for this year and 2024, on the back of persistent second-round effects and lingering supply constraints.

Metrobank Research revises its 2024 Target RRP forecast to 6.00% from 5.50%, given the very hawkish stance of the BSP and its “tighter for longer” view. This translates to only two 25-bp cuts next year, from 6.50% currently.

As local price pressures stem from supply side factors, the government is expected to favor supply response over further monetary policy changes. For instance, the government is planning to extend the validity of EO 10, which has reduced tariff rates for imports of meat and other agricultural products, beyond 2023.

BSP Governor Remolona has also intimated that inflation for 2024 is likely to average 4.7% from a previous estimate of 4.3% based on the central bank’s “staff-risk adjusted forecast”. In this regard, Metrobank Research also expects inflation to continue to lean towards the upside, maintaining its baseline forecast of 4.6% with upside bias for 2024.



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