

POLICY RATE UPDATES

BSP KEEPS RATES STEADY

BSP Action

The Bangko Sentral ng Pilipinas (BSP) maintained its target overnight reverse repurchase (RRP) rate at 6.50% for the third time at its first Monetary Board meeting this year. While the Monetary Board recognizes improvements in inflation, prevailing upside risks to prices remain, specifically higher transport charges, increased electricity rates, higher oil and domestic food prices, and the additional impact on food prices due to a strong El Niño episode.

The BSP's latest risk-adjusted inflation forecast for this year eased to 3.9% from 4.2%, while the outlook for 2025 remain relatively steady at 3.5% from 3.4%, both within the 2-4% target range of the central bank. Meanwhile, inflation expectations also remain within the target range of BSP. The lower inflation outlook takes into consideration government measures to mitigate the risks of the El Niño phenomenon.

Prior to the Monetary Board meeting, BSP Governor Eli Remolona hinted that the policy rate may remain steady for at least the first half of the year. He stated that while a rate cut within the year is possible, a rate cut in the first semester may be too soon. When asked about the prospect of Reserve Requirement Ratio (RRR) cuts later this year, the BSP reiterated that such easing continues to be an objective but its timing will also depend on inflation conditions.

Latest Target RRP Rate

6.50%

Current Target RRP Rate – Fed Funds Rate Differential

100 bps

Metrobank Research Target RRP rate year-end 2024 forecast

5.50%

BSP AVERAGE INFLATION FORECAST

As of November 2023 (Risk-adjusted)	As of December 2023 (Risk-adjusted)	As of February 2024 (Risk-adjusted)
2024: 4.4%	2024: 4.2%	2024: 3.9%
2025: 3.4%	2025: 3.4%	2025: 3.5%

FORECASTS AND OUTLOOK

Metrobank Research retains its baseline forecast on the timing of the BSP's easing cycle, which will likely begin in the second half of the year. This assumption is hinged on upside risks to local inflation, specifically from elevated prices of imported rice. While inflation expectations have continued to stabilize back within the BSP's target band, an uptick in headline inflation is estimated by the BSP in the second quarter, partly due to positive base effects, which lowers the likelihood of a cut within the first half. Beyond this, the risk of a more protracted El Niño, supply constraints from geopolitical tensions, as well as the proposed wage hikes, will prompt the BSP to retain its hawkish stance until June.

The BSP notes that it has softened its hawkish tone since the December policy meeting, consistent with the downward adjustment in its risk-adjusted inflation forecast as well as its view of a moderation in economic growth.

Relative to the US Federal Reserve's interest rate path, we maintain that the BSP is likely to delay its first cut by up to a full quarter later than that of the Fed. We maintain that the BSP will likely cut by up to a total of 100 basis points (bps) in 2024 but note that its easing cycle will be gradual as upside risks to inflation may persist.

