

# POLICY RATE UPDATES

## BSP KEEPS RATES STEADY

The Bangko Sentral ng Pilipinas (BSP) maintained its target overnight reverse repurchase (RRP) rate at 6.50% for the fourth time at its second Monetary Board (MB) meeting this year. The BSP also revised its risk-adjusted inflation forecast to 4.0% from 3.9% previously, given the risk of higher transport prices from recent global oil supply disruptions, and the more salient, persistent uptrend in local rice inflation. Other factors in the higher inflation outlook include the potential increase in nominal wages with the recently passed PHP 100 wage hike in the Senate, and higher electricity prices.

Given the upward revision on the inflation outlook, BSP Governor Eli Remolona Jr. Said the Monetary Board has turned “somewhat more hawkish than before”, signaling a delay in the first rate cut of its easing cycle. From expectations of one 25-basis-point (bp) cut as early as the third quarter of this year, he said a cut in the fourth quarter is now more likely. He also added that if local inflation risks persist, the BSP could start easing as late as the first quarter of 2025. He also mentioned that a Reserve Requirement Ratio (RRR) cut is unlikely to happen by Q3 2024.

Relative to the US Federal Reserve’s pace of easing, Governor Remolona emphasized that the Fed weighs different considerations (i.e., inflation and full employment) and has a “narrow window” for its next interest rate decisions vs the BSP’s “wider window” to start easing.

BSP AVERAGE INFLATION FORECAST		
As of December 2023 (Risk-adjusted)	As of February 2024 (Risk-adjusted)	As of April 2024 (Risk-adjusted)
2024: 4.2%	2024: 3.9%	2024: 4.0%
2025: 3.4%	2025: 3.5%	2025: 3.5%

**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%

## 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 considers the lingering upside risks to inflation, especially as rice inflation is expected to sustain its upward trend until July due to the continuous increase in global rice prices and positive base effects. In addition, a possible increase in oil prices also remains a threat amid persisting geopolitical tensions in the Middle East. Meanwhile, on the domestic side, the proposed across-the-board increase in minimum wage and its second-round effects also add to the upside risks.

Relative to the US Federal Reserve’s interest rate path, we note that the BSP has said that the exchange rate is among the considerations for monetary easing, but mentioned its decision remains independent from the Fed’s policy rate adjustments.

Given the BSP’s latest guidance on the timeline of cuts, which may likely start in the fourth quarter of 2024, a re-evaluation of Metrobank Research’s policy cut estimates may be necessary in the near term.

