

POLICY RATE UPDATES

BSP EXTENDS POLICY RATE PAUSE

The Bangko Sentral ng Pilipinas (BSP) maintained its target overnight reverse repurchase (RRP) rate at 6.50% for the fifth time at its third Monetary Board (MB) meeting this year. The BSP also revised its risk-adjusted headline inflation forecast for this year to 3.8% from 4.0%, and for 2025 to 3.7% from 3.5%.

Although risks to inflation continue to lean towards the upside, the BSP expects transport charges, electricity rates, and food prices to continue to move lower this year. Other factors to the downward revision in the risk-adjusted inflation forecast for 2024 include the lower-than-expected actual inflation in April and a lower inflation forecast in May relative to its previous estimate. Moreover, the effect of higher global crude oil prices is projected to have a stronger upward push to inflation in 2025 rather than this year, which explains the upward revision in the 2025 estimate.

Given the downward revision to BSP's risk-adjusted inflation forecast this year, Governor Eli Remolona Jr. stated that the Monetary Board has turned somewhat less hawkish than before, noting that the easing cycle could begin as early as August. This was a reversal from the more hawkish stance of the central bank during the last Monetary Board meeting which signaled a delay in the start of the easing cycle to the fourth quarter of 2024 or as late as the first quarter of 2025.

Governor Remolona also said that a Reserve Requirement Ratio (RRR) cut is not yet a priority and will only be considered once the easing cycle begins.

**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**

5.75%

BSP AVERAGE INFLATION FORECAST

As of February 2024 (Risk-adjusted)	As of April 2024 (Risk-adjusted)	As of May 2024 (Risk-adjusted)
2024: 3.9%	2024: 4.0%	2024: 3.8%
2025: 3.5%	2025: 3.5%	2025: 3.7%

FORECASTS AND OUTLOOK

Metrobank Research maintains its baseline forecast that the BSP's monetary easing will likely begin in the second half of the year. In particular, the BSP will likely start easing by the 4th quarter of 2024 by a total of 75 basis points (bps) to 5.75%. This assumption takes into account the persisting, albeit relatively more subdued, upside risks to inflation such as higher transport costs, higher electricity rates, elevated global oil and food prices, and a weaker peso. According to the BSP, inflation will peak around June or July due to low base effects and it may possibly breach the upper band of the 2-4% target. Inflation will likely be on a downward trajectory thereafter.

While the BSP has turned less hawkish, it remains unlikely for the BSP to pre-empt or to cut bigger than the US Federal Reserve. Following the Monetary Board meeting last April 8, 2024, the BSP mentioned that the USD/PHP exchange rate is among the factors considered in timing the policy rate cuts.

