

POLICY RATE UPDATES

EARLIER BSP ACTION POSSIBLE WITH LOWER INFLATION TRAJECTORY

The Bangko Sentral ng Pilipinas (BSP) maintained its target reverse repurchase (RRP) rate at 6.50% at its fourth Monetary Board (MB) meeting this year, the sixth time since its last hike in October 2023. The BSP reduced its risk-adjusted headline inflation forecast for this year and 2025 to 3.1% from 3.8% and to 3.1% from 3.7%, respectively.

According to BSP Governor Eli Remolona, the balance of risks to the inflation outlook has shifted to the downside through 2025 largely due to the impact of the rice tariffs reduction (Executive Order 62 and Administrative Order 20). However, upside risks to inflation from higher prices of food apart from rice, transport charges and electricity rates remain. These anticipated risks are associated with increased toll rates and higher global prices due to geopolitical risks.

Governor Remolona stated that the BSP is "somewhat more dovish than before," adding that an August rate cut is "somewhat more likely" and that the BSP is "on track to cut in the third quarter." He also said that data supports the course of a possible 25 bps cut each in the third quarter and in the fourth quarter before the US Federal Reserve's meeting in September, which could bring the year-end policy rate down to 6.0%.

When asked on the Reserve Requirement Ratio (RRR), Governor Remolona revealed that the Monetary Board is largely in favor of cutting the RRR, but has yet to discuss the timing of the adjustments.

Lastly, Governor Remolona said the BSP has been "watching the peso" and "occasionally intervening", noting that "they do not want it [the peso] to depreciate too sharply". The BSP's foreign exchange pass through estimate shows a 0.0363% effect on inflation per 1 peso depreciation. Since the peso has depreciated by 5.7% year-to-date, this adds up to only a 0.2% effect on inflation.

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

6.00%

BSP AVERAGE INFLATION FORECAST

As of April 2024 (Risk-adjusted)	As of May 2024 (Risk-adjusted)	As of July 2024 (Risk-adjusted)
2024: 4.0%	2024: 3.8%	2024: 3.1%
2025: 3.5%	2025: 3.7%	2025: 3.1%

FORECASTS AND OUTLOOK

Metrobank Research maintains its baseline forecast that the BSP will begin its monetary easing cycle with a 25bps cut in its October 17 Monetary Board meeting, followed by another 25bps on December 19, which would bring the Reverse Repurchase Rate (RRP) to 6.0% year-end. However, with inflation cooling faster than previously expected, the risk of an earlier cut by the BSP has risen.

Despite the BSP's more dovish tone, Metrobank Research continues to believe the BSP will lag behind the Fed's easing cycle to support the peso by maintaining at least a 100bps interest rate differential to the US Federal Funds Rate. This is especially with the peso being the worst performing currency in the region after the Japanese yen since mid-April, and with the Q3 peak import season approaching.

