

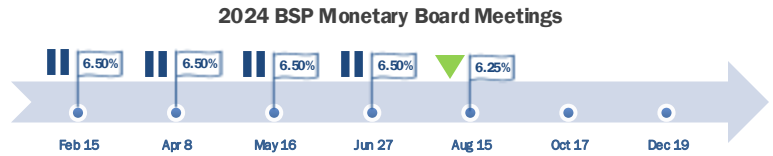
POLICY RATE UPDATES

SO IT BEGINS: BSP STARTS MONETARY EASING

BSP Target Reverse Repurchase Rate
6.25%

Metrobank Research Year-end 2024 Forecast
5.75%

Current Target RRP Rate – Fed Funds Rate Differential
75 bps



The Bangko Sentral ng Pilipinas (BSP) has finally begun its monetary easing cycle with a 25-basis-point (bp) policy rate cut ahead of the US Federal Reserve. This brings the Reverse Repurchase (RRP) Rate to 6.25% and narrows the RRP and Fed Funds Rate Differential to 75 bps. This is the BSP's first move since the last hike in October 2023 and is aligned with Metrobank Research's expectations.

The BSP adjusted its 2024 baseline projections to 3.4% for 2024 and 3.1% for 2025, and introduced a 3.2% baseline for 2026. Meanwhile, the BSP's forecast for risk-adjusted headline inflation for this year was adjusted to 3.3% from 3.1%, to 2.9% from 3.1% for 2025, and 3.3% for 2026.

According to BSP Governor Eli Remolona Jr., risks to the inflation outlook have shifted to the downside in 2024 and 2025, largely due to the impact of the rice tariffs reduction (Executive Order 62 and Administrative Order 20). However, upside risks linked to higher electricity rates and external factors remain. Meanwhile, the inflation outlook in 2026 currently leans toward the upside.

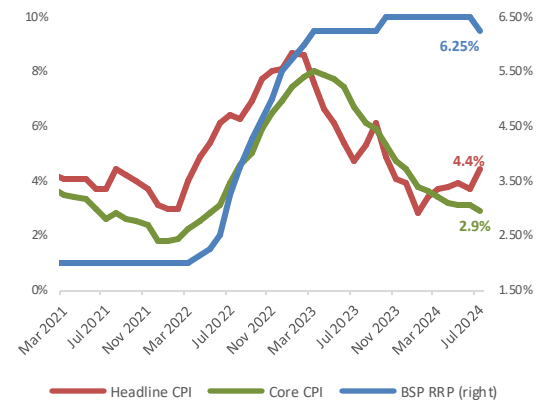
Despite the higher-than-expected inflation in July, Governor Remolona said that the BSP is "somewhat more confident" that inflation is trending downwards, with the monthly prints expected to be within the BSP's target for the rest of the year. A more compelling factor for the early cut also centers on the push to support growth momentum after 2Q GDP showed modest consumption and soft private investment. Consumption, which delivers up to two-thirds of GDP, has been relatively soft. Construction and public spending fueled the last GDP print.

On the USD/PHP, Governor Remolona noted that movements in the differential may not be a "big deal" given the recent appreciation of the peso. He also said that the BSP does not have a target for the exchange rate and that only a sharp enough depreciation could affect inflation. However, the inflationary impact remains "quite small".

When asked about cutting the Reserve Requirement Ratio (RRR), Governor Remolona said he understood the need to substantially reduce the RRR but revealed that the timing remains undecided.

He signaled a total of 50 bps worth of cuts in 2024 and another total of 125 bps in 2025, which may bring the target RRP rate to 4.75% by end-2025.

BSP RRP, PH Headline Inflation, PH Core Inflation



BSP AVERAGE INFLATION FORECAST

As of May 2024 (Risk-adjusted)	As of July 2024 (Risk-adjusted)	As of August 2024 (Risk-adjusted)
2024: 3.8%	2024: 3.1%	2024: 3.3%
2025: 3.7%	2025: 3.1%	2025: 2.9%
-	-	2026: 3.3%

METRO RESEARCH'S TAKE

Metrobank Research expects monthly headline inflation to have already peaked in July and to tread at a downward trajectory thereafter, owing to the projected impact of lower rice tariffs which shall offset upside risks from the prices of oil and energy. Given this and the year-to-date inflation of 3.7% as of July, full year inflation is projected to settle at 3.3%, well within the BSP's 2%-4% target range. (Related article: [Philippine inflation expected to ease despite 4.4% spike in July](#))

This will provide the BSP more room to further reduce its target RRP, which shall support growth through an improved credit environment that will stimulate household and investment spending. The urgency of a sustained yet gradual monetary easing comes as private consumption and investments remain soft, even as GDP growth for the first semester hit the government's full year target of 6.0%. (Related article: [Government spending propels Philippines' GDP to 6.3%](#))

Metrobank Research maintains its baseline forecast of 75 bps worth of cuts for the year, with the recent 25-bp cut to be followed by two more 25-bp cuts during the remaining MB meetings. This will bring the target RRP to 5.75% by year-end. Furthermore, we also expect the BSP to reduce the RRR with potential moves carried out even at non-policy-setting meetings.