

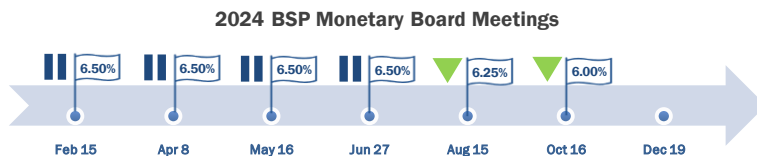
POLICY RATE UPDATES

MEASURED IS THE WORD: BSP TAKES ANOTHER BABY STEP

BSP Target Reverse Repurchase Rate
6.00%

Metrobank Research Year-end 2024 Forecast
5.75%

Current Target RRP Rate – Fed Funds Rate Differential
100 bps



The Bangko Sentral ng Pilipinas (BSP)'s Monetary Board (MB) continues with its monetary easing cycle with a 25-bps policy rate cut at the last MB meeting on October 16, a move widely anticipated by the market. This brings the Reverse Repurchase (RRP) rate to 6.00%, with the RRP and Federal Funds Rate differential now at 100 bps. This follows the BSP's 25-bp cut in their last MB meeting in August 2024. Today's move is aligned with Metrobank Research's expectations.

The BSP adjusted both the baseline and risk-adjusted inflation forecast downward for 2024. However, the BSP adjusted the inflation forecast for 2025 and 2026 upward with the baseline inflation forecast at 3.1% and 3.2%, respectively. Meanwhile, the risk-adjusted inflation forecast were nudged higher to 3.3% and 3.7%, respectively.

According to BSP Governor Eli Remolona, price pressures in 2024 remain manageable, due to lower food inflation, including rice. However, risk to inflation in 2025 and 2026 have "shifted to the upside", due to anticipated adjustments in electricity rates, higher minimum wage outside Metro Manila and higher global oil prices due to geopolitical tensions. Upside pressures are expected to be partially offset by the impact of lower rice tariff (Executive Order 62 and Administrative Order 20).

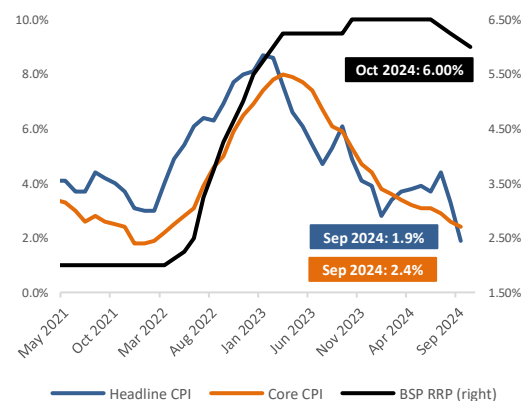
On the timing and the size of potential future cuts, Governor Remolona stated that a 25-bp reduction is still possible in the December MB meeting despite their updated inflation outlook. He also emphasized that "there is no effort to cut ahead of others" and that the BSP "cut[s] when [the] data says [the BSP] should".

Similar to his earlier statement prior to the October 16 meeting, Governor Remolona maintained that a 50-bp cut is unlikely as it is "too aggressive a cut", stressing that it would only be possible in case of a hard landing. He doubled down on this by saying that the BSP "prefer[s] to take baby steps" with a 25-bp cut at a time, although not necessarily every quarter or every meeting.

Governor Remolona also revealed that the BSP now sees the real neutral RRP rate at 2.00% and the nominal neutral RR rate at 5.00%.

With USD/PHP closing at 57.87 on October 15, the Governor reiterated that the BSP does not target a particular level of the exchange rate, supporting previous statements that they are more concerned on the pace of depreciation rather targeting a specific level.

BSP RRP, PH Headline Inflation, PH Core Inflation



BSP AVERAGE RISK-ADJUSTED INFLATION FORECAST

As of July 2024	As of August 2024	As of October 2024
2024: 3.1%	2024: 3.3%	2024: 3.1%
2025: 3.1%	2025: 2.9%	2025: 3.3%
-	2026: 3.3%	2026: 3.7%

METRO RESEARCH'S TAKE

Metrobank Research expects inflation to remain stable at the 2% level in the remaining months of the year. Rice prices are expected to continue to weigh on headline inflation, driven by lower tariffs and increased local supply following the harvest season. This development is likely to offset potential oil price hikes associated with geopolitical tensions in the Middle East. Metrobank Research maintains its forecast that full-year inflation will settle at 3.2% in 2024, 2.9% in 2025, and 3.0% in 2026, well-within the BSP's 2%-4% target range. (Related article: [Inflation Update: Taking a deep dive](#))

With the current outlook for "target-consistent" inflation, we believe the BSP should have scope to continue its monetary easing. The recent policy easing, along with the 250-bp reduction in the reserve requirement ratio (RRR), should provide a more accommodative policy environment to help boost private consumption and investments which have been tempered by high interest rates and somewhat elevated inflation. (Related articles: 1) [Rate cuts seen boosting economy's "missing link"](#), 2) [After lowering policy rates, the central bank will soon reduce banks' cash requirements](#))

Metrobank Research maintains its baseline forecast of a cumulative 75 bps worth of easing for the year. After today's 25-bp cut, the second for this year, we expect a similar sized cut for the BSP at the 19 December MB meeting. This will bring the target RRP to 5.75% by year-end. Metrobank Research also expects a total of 100 bps worth of RRP rate reduction for 2025, which will bring the target RRP to 4.75%.