August 28, 2025

Metrobank

Research and Market Strategy Department

POLICY RATE UPDATES

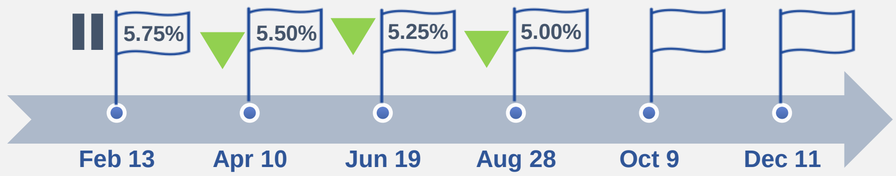
BSP takes on less dovish tone

BSP Target Reverse Repurchase Rate
5.00%

Metrobank Research Year-end 2025 Forecast
4.75%

Current Target RRP Rate – Fed Funds Rate Differential
50 bps

2025 BSP Monetary Board Meetings



The Bangko Sentral ng Pilipinas (BSP) reduced its policy rate by another 25 basis points (bps) at its fourth meeting this year, held on August 28. This is BSP's third consecutive rate cut delivered in 2025, which brings the target reverse repurchase (RRP) rate down to 5.00% and narrows its interest rate differential (IRD) with the US Federal Funds Rate to 50 bps.

According to the official statement from the BSP, the inflation outlook is broadly unchanged. However, electricity rate adjustments and higher rice tariffs pose upside risks. Given this, the BSP slightly nudged its inflation forecast for FY 2025 upward to 1.7% from the previous 1.6%. It slightly reduced its forecast for FY 2026 to 3.3% from the previous 3.4%. Meanwhile, the BSP forecasts that inflation will settle at 3.4% in 2027, up from the previous forecast of 3.3%.

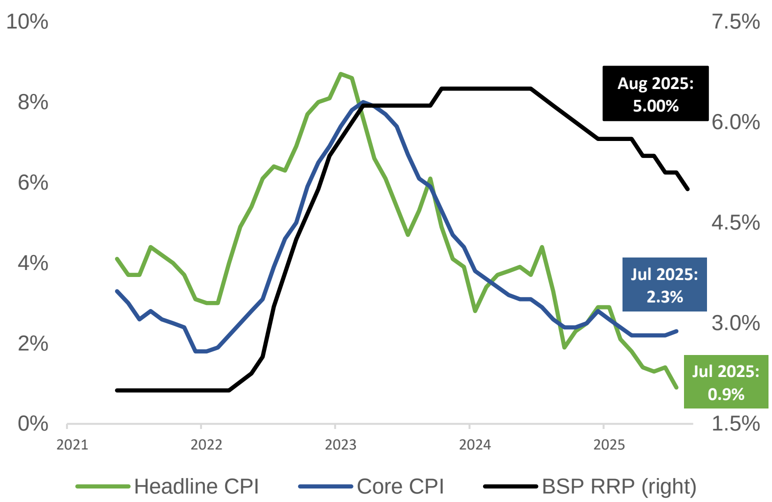
According to BSP Governor Eli Remolona Jr., the recent policy rate decision brings us to the "Goldilocks" rate that is neither too low nor too high and places us at the "sweet spot" between inflation and output. He said the inflation outlook remains well-anchored, although the BSP sees more significant risks to inflation than to output. According to Deputy Governor Zeno Abenoja, the government's growth target for the year is within reach, given the series of rate cuts delivered by the BSP.

In terms of forward guidance, Remolona said the BSP remains dovish, but much less than before given we have reached the Goldilocks rate. However, the BSP chief said the "sweet spot" can move according to the data and acknowledged that the BSP has room for another rate cut later in the year. He said this could conclude the easing cycle but noted that further policy rate cuts may be possible should growth figures suggest muted domestic demand.

Governor Remolona continued to emphasize that an IRD of less than 100 bps is no longer a concern for the BSP, noting that although the IRD has been below 100 bps for several months now, the peso has still been appreciating against the dollar.

On the possibility of further reductions in the reserve requirement ratio (RRR), Remolona said that the BSP is just looking for the right timing for another cut, noting that the RRR of 5.00% for big banks remains high.

BSP RRP, PH Headline Inflation, PH Core Inflation



Source: Bloomberg

INFLATION FORECASTS		2025	2026	2027
METROBANK FORECAST	*as of Aug 2025*	2.0%	3.7%	3.0%
BSP RISK-ADJUSTED FORECAST	***as of Aug 2025***	**1.7%**	**3.3%**	**3.4%**
	as of Jun 2025	1.6%	3.4%	3.3%
	as of Apr 2025	2.3%	3.3%	3.2%

POLICY RATE UPDATES

BSP less dovish than before

METROBANK'S TAKE

Trump's threats remain

US President Donald Trump's tariff remains a risk to both inflation and domestic growth.

Trump's tariff policy is gaining more clarity, and so is the impact on global inflation. The projected higher import costs are expected to trickle down to domestic inflation. Despite this and other upside risks such as from food prices and electricity rate adjustments, inflation is still projected to remain within target this year and next. Metrobank maintains its full-year average inflation forecast at 2.0% for FY 2025 and at 3.7% for FY 2026.

The blanket tariff rate of 19% imposed on Philippine exports places the us at a level-playing field with some ASEAN peers. However, Trump's recent threats of higher blanket tariffs for countries with digital taxes, along with earlier statements signaling potential additional tariffs on semi-conductors, could place Philippine exports at a greater disadvantage. Overall, more expensive imports and a weaker demand for Philippine exports will prove detrimental to the country's trade position and could necessitate an even more accommodative monetary stance to cushion their economic impact.

Approaching terminal rate?

Despite persistent risks to the inflation outlook, Metrobank maintains its forecast that the BSP will deliver another 25-bp cut toward the end of the year to further support consumption and investment against external headwinds. We anticipate that the easing cycle will continue until 2026 with another cumulative 50 bps worth of cuts. These will bring the target reverse repurchase (RRP) rate to 4.75% by year-end and 4.25% by end-2026.

Peso to move sideways

Given market expectations of a 25-bp rate cut by the Fed in September, the narrowing interest rate differential (IRD) with the Fed is not likely to cause any drastic weakness for the peso. We expect the peso to remain relatively strong and move sideways with the current 50-bp IRD but could experience some slight pressure during peak import season in September.

Related article: *BSP Preview: Dovish signal points to easing on the table*