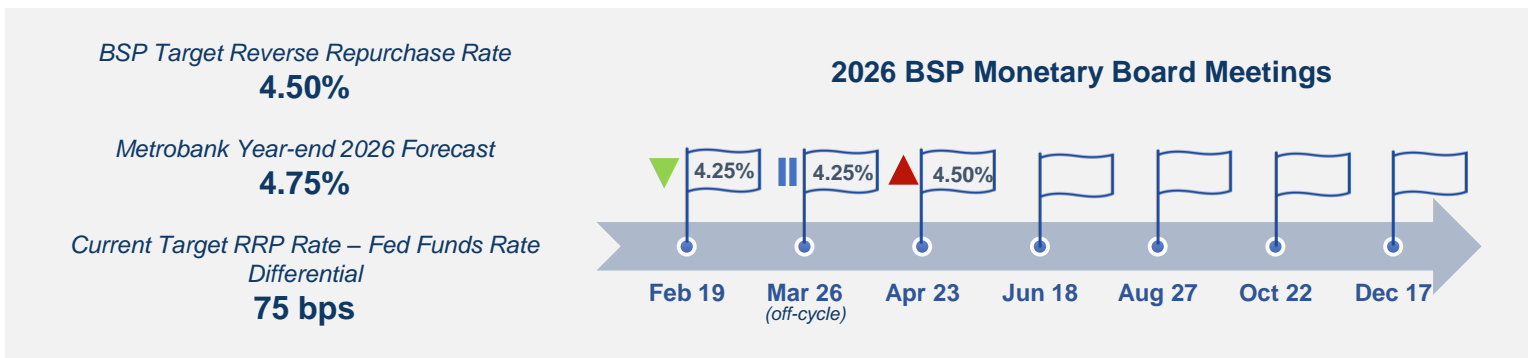


# POLICY RATE UPDATES

## BSP U-turn on oil surge



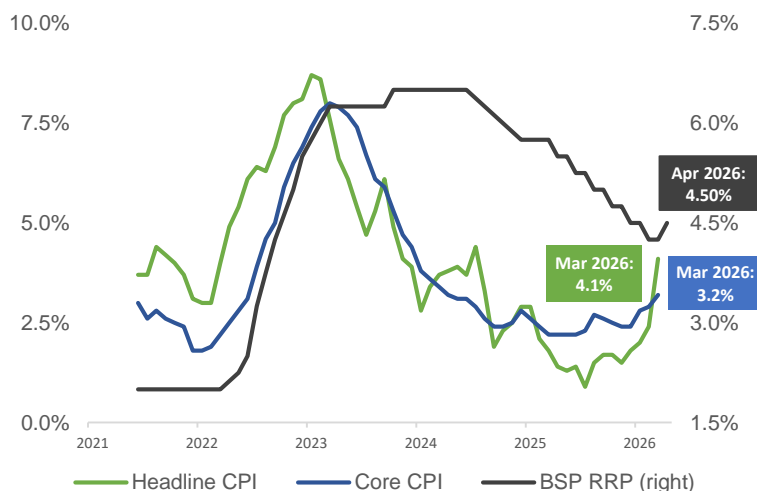
The Bangko Sentral ng Pilipinas (BSP) raised its policy rate by 25 basis points (bps) at its third meeting this year on April 23. This brings the target reverse repurchase (RRP) rate to 4.50% and widens its interest rate differential (IRD) with the US Federal Funds Rate to 75 bps.

According to BSP Governor Eli M. Remolona Jr., the decision to deliver a 25-bp rate hike is anchored on bolstering inflation expectations which have shifted to the upside amid persistent hostilities in the Middle East. Remolona added that the acceleration of core inflation raises the risk of demand-driven inflation, which heightens the upside pressure faced by headline inflation. Nonetheless, The BSP governor maintained that the higher policy rate should still be accommodative to economic recovery in the medium term.

The BSP’s inflation forecast for 2026 jumped to 6.3% from the previous forecast of 5.1% in March. Meanwhile, the inflation forecast for 2027 was also increased to 4.3% from the 3.8% forecast in March, suggesting a breach of the target through to 2027. Deputy Governor Zeno Abenoja attributed the revision to broadening price pressures across the entire Consumer Price Index as higher oil and fertilizer prices apply upward pressure on transport and food costs, respectively.

Remolona said “it’s fairly safe to say” that the BSP’s easing cycle has come to an end. He added that once the BSP starts raising the policy rate, it’s likely to raise it again, implying that today’s “preemptive” rate hike is the start of further rate hikes moving forward.

### BSP RRP, PH Headline Inflation, PH Core Inflation



Source: Bloomberg

INFLATION FORECASTS		2026	2027
METROBANK FORECAST	as of Apr 2026	5.3%	3.0%
	as of Apr 2026	6.3%	4.3%
	as of Mar 2026	5.1%	3.8%
BSP FORECAST	as of Mar 2026	5.1%	3.8%
	as of Feb 2026	3.6%	3.2%

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## METROBANK'S TAKE

### Impact on inflation just starting

Global oil prices remain elevated amid supply disruptions in the Strait of Hormuz. Domestic pump prices more than doubled in March as supply risks intensified, reflecting the country's heavy dependence on oil imports from the Middle East. While significant fuel price rollbacks in recent days have provided some relief to Filipino consumers and businesses, further reductions are likely to be limited, given that global oil prices remain elevated as markets await a permanent resolution to the US-Iran conflict. The surge in pump prices in March and our projection of sustained elevated fuel costs are expected to continue feeding through to other commodities and services via second-round effects.

Meanwhile, El Niño adds to current upside risks to inflation after the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) has recently upgraded its El Niño monitoring status from "watch" to "alert," citing a higher likelihood of development during the June–August period.

El Niño may significantly impair agricultural yields, exerting upward pressure on inflation as food supply tightens. This could amplify price pressures driven by persistently high global oil prices and elevated fertilizer costs stemming from ongoing disruptions in the Strait of Hormuz.

### BSP to deliver additional dovish tightening

Inflation expectations continue to rise as the war in the Middle East shows no material signs of winding down. Destruction to oil infrastructure in the region and greater risks to vessels traveling through the Strait of Hormuz are also likely to continue exerting upward pressure on domestic inflation.

While BSP Governor Remolona said that rate hikes will have limited effects on the supply-driven nature of faster inflation this year, rate hikes would allow the BSP to signal a commitment to its mandate, thereby bolstering inflation expectations.

Although growth is likely to remain a concern especially amid a higher policy rate, stronger government spending this year can be expected to offset some of the weakness exhibited by household consumption and investment. Meanwhile, the BSP is considering relief measures and monetary operations which may dampen the effects of a tighter policy environment along with government stimulus measures such as fuel subsidies.

The BSP is shifting its inflation expectations for 2027 as well as other existing upside risks to inflation. These may signal that enough room is left for another rate hike. Metrobank Research expects the BSP to deliver another 25-bp rate hike in its upcoming June meeting to manage inflation.