Metrobank
Research and Market Strategy Department

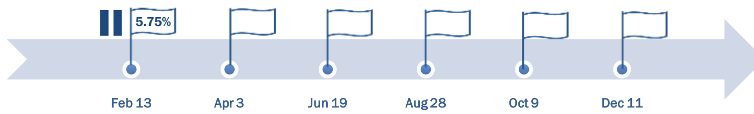
# POLICY RATE UPDATES



## Pause, look, and listen: BSP weighs uncertainties

*BSP Target Reverse Repurchase Rate*
**5.75%**
*Metrobank Research Year-end 2025 Forecast*
**5.25%**
*Current Target RRP Rate – Fed Funds Rate Differential*
**125 bps**

**2025 BSP Monetary Board Meetings**




The Bangko Sentral ng Pilipinas (BSP)'s hit the brakes at its first Monetary Board (MB) meeting this year, deciding to keep the reverse repurchase (RRP) rate steady at 5.75%. This likewise maintains the RRP and Federal Funds Rate differential at 125 bps.

The BSP nudged the risk-adjusted inflation forecast for 2025 upward to 3.5% from 3.4% at the previous meeting. Meanwhile, the risk-adjusted inflation forecast for 2026 was maintained at 3.7%.

According to BSP Governor Eli Remolona, price pressures in 2025 remains "broadly balanced". The upside risks to inflation include higher prices in the utilities sector as well as the lagged impact of minimum wage adjustments in 2024. Positive base effects from easing commodity price pressures are also expected to reflect higher inflation in the latter half of the year. However, the moderation in rice prices remains a downside risk to inflation and could slightly offset current upside price pressures.

Although the BSP is inflation-targeting, he mentioned that economic growth is a factor, adding that they "don't want to lose output unnecessarily" while reducing inflation.

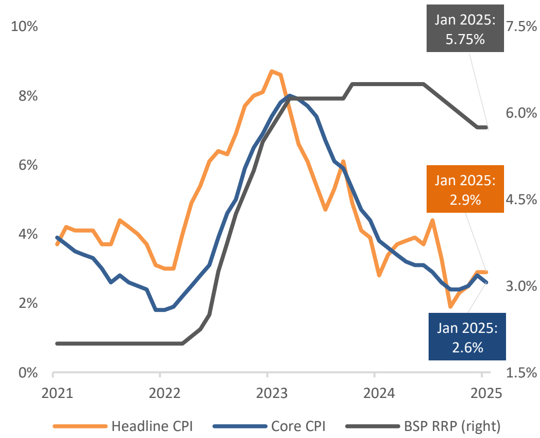
Recent data point to reducing policy rates during this MB meeting. However, he emphasized that current policy uncertainties in the global space, in particular trade policies, warranted the pause in the BSP's easing cycle.

On the timing and the size of potential future cuts, he confirmed that the BSP is still in its easing cycle and is still considering to deliver 50 basis points (bps) total worth of cuts this year, albeit with a "measured" approach that translates to "25 bps at a time". He added that cuts could still be delivered in some of the remaining meetings this year. He also mentioned that the BSP is currently recalibrating its models to account for current policy uncertainties and their impact on the local economy.

On reserve requirement ratio (RRR), the governor signaled that the BSP is planning to reduce the RRR by 200 bps to 5.00% from 7.00% sooner than the middle of the year, earlier than he previously signaled.

With regard to current USDPHP level, he emphasized it is mostly driven by the strength of the dollar. Remolona said the BSP is currently developing a playbook for its intervention in the foreign exchange market and confirmed it is currently intervening based on judgement and experience. He reiterated previous statements that current concern on peso's depreciation is on its pass through to inflation.

**BSP RRP, PH Headline Inflation, PH Core Inflation**




*Source: Bloomberg*

| INFLATION FORECASTS | | 2025 | 2026 |
|---|---|---|---|
| METROBANK FORECAST | *as of Feb 2025* | 3.40% | 3.00% |
| BSP RISK-ADJUSTED FORECAST | *as of Feb 2025* | 3.50% | 3.70% |
| | *as of Dec 2024* | 3.40% | 3.70% |
| | *as of Oct 2024* | 3.30% | 3.70% |

## METRO RESEARCH'S TAKE

Imported inflation is expected to emerge as the peso's depreciation stokes costs of imported products. This, together with higher utility costs and potential oil-price hikes associated with geopolitical tensions and higher demand from China's economic recovery, is anticipated to nudge inflation slightly higher in the coming months. However, projected rice deflation could weigh on headline inflation throughout the year, offsetting upside pressure. Despite upside risks, Metrobank Research forecasts that inflation will remain target-consistent throughout most of the year and settle at 3.4% in 2025. (Related article: Inflation Update: Steady inflation cements BSP's rate cut)

Despite the current outlook for "target-consistent" inflation, the BSP took a more cautious step today as markets await more clarity surrounding global uncertainties. Continued policy easing, together with further reduction in the reserve requirement ratio, should provide a more accommodative policy environment to help boost further private consumption and investment. However, to account for factors that may warrant a less dovish stance from the BSP such as uncertainties and possibly higher inflation, Metrobank Research nudged its GDP growth projections downward to 5.8% from 5.9% previously. (Related articles: Fed Update: Hitting the pause button)

Target-consistent inflation, together with weak economic growth, provides BSP room to deliver at least two rate cuts this year. Moreover, a softening of price pressure by year-end could give space for BSP to sneak in an additional rate reduction before the year ends. This however is no longer our central scenario. With this, Metrobank Research maintains a baseline forecast of a cumulative 50 bps worth of cuts in 2025 and another 75 bps next year, bringing the target RRP to 4.50% by end-2026.