Metrobank

Research and Market Strategy Department

POLICY RATE UPDATES

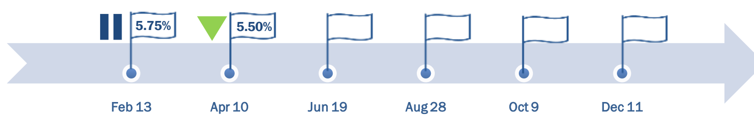
BSP chooses baby steps once more

BSP Target Reverse Repurchase Rate
5.50%

Metrobank Research Year-end 2025 Forecast
5.25%

Current Target RRP Rate – Fed Funds Rate Differential
100 bps

2025 BSP Monetary Board Meetings



The Bangko Sentral ng Pilipinas (BSP)'s Monetary Board (MB) resumed its rate-cut cycle with a 25-basis point (bp) policy rate cut at its second MB meeting this year on April 10. This brings the target Reverse Repurchase (RRP) rate to 5.50% and narrows the RRP and Federal Funds Rate differential to 100 bps. This widely anticipated move follows the BSP's unexpected pause in the last MB meeting on February 13, 2025.

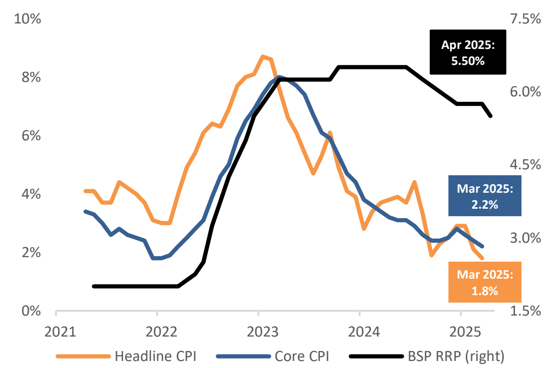
The BSP lowered its risk-adjusted inflation forecasts to 2.3% and 3.3% for 2025 and 2026, respectively, from the previous 3.5% and 3.7%. Meanwhile, the BSP introduced its risk-adjusted inflation forecast for 2027 at 3.2%.

According to BSP Governor Eli Remolona Jr., inflation expectations remain "broadly balanced" from 2025 to 2027. He noted downside risks linked with the effects of lower rice tariffs, as well as soft global demand due to a "more challenging" external environment. While he stated that upside risks to the inflation outlook have "eased", he acknowledged possible upside pressure from higher transport charges, meat prices, and utility rates.

Given easing inflationary expectations, the BSP's attention has shifted to supporting the domestic economy amid the ongoing trade war and the increasing risk of a global economic slowdown. According to Governor Remolona, higher tariffs imposed by the US will lead to a "shrinking" of global trade. However, he also implied that unlike other major economies, the Philippines' exposure to global trade is relatively minimal as the 17% blanket tariff to be imposed on the Philippines is lower than that for most countries. Additionally, semiconductors, which is the country's top export to the US, is exempted from the blanket tariffs.

Governor Remolona mentioned that current monetary condition is "still slightly restrictive" and implied that the BSP still has room to cut further without causing inflationary pressure. Consistent with his previous statements, he signaled that the BSP will cut further in "baby steps" this year. Should the economy see the possibility of a hard landing, the BSP could be pushed to further reduce policy rates in 2026 and may consider cutting by more than 25 bps.

BSP RRP, PH Headline Inflation, PH Core Inflation



Source: Bloomberg

INFLATION FORECASTS		2025	2026	2027
METROBANK FORECAST	*as of Apr 2025*	3.0%	3.2%	3.0%
BSP RISK-ADJUSTED FORECAST	*as of Apr 2025*	2.3%	3.3%	3.2%
	as of Feb 2025	3.5%	3.7%	–
	as of Dec 2024	3.4%	3.7%	–

Metrobank's take

Imported inflation could emerge as the trade war between the US and the rest of the world escalates. Potentially higher global commodity prices could seep through to the domestic market. Should US President Donald Trump implement the blanket tariffs after the 90-day reprieve, we estimate that the planned 17% additional tariff would be implemented on roughly 70% of the Philippines' exports to the US. This rate is at the lower end when compared to the tariffs that will be placed on US imports from our ASEAN peers, providing the Philippines some leverage to remain relatively competitive. Despite upside risks, Metrobank forecasts that inflation will remain target-consistent throughout most of the year and settle at 3.0% in 2025. (Related article: Inflation Update: Price-rise slows to a near five-year low)

Given current projections of "target-consistent" inflation and the outlook of a fragile global economy, the BSP will likely continue easing monetary conditions while maintaining a cautious approach as markets brace for the impacts of the trade war instigated by Trump. The continued policy easing along with the reduction in the reserve requirement ratio which took effect in March should provide a more accommodative policy environment to further boost private consumption and investment. (Related articles: Fed Update: Hitting the pause button)

Metrobank forecasts a cumulative 50 bps worth of cuts this year. After today's 25-bp cut, we expect one more similar-sized cut this year, which will bring the target RRP to 5.25% by year-end. Weak economic growth, however, could give space for the BSP to squeeze in an additional 25-bp rate reduction toward the end of the year. This is increasingly becoming our baseline scenario. Metrobank expects a total of 75 bps worth of RRP rate reductions next year, bringing the target RRP to 4.50% by end-2026.

Given the BSP's narrower interest rate differential (IRD) of 100 bps with the Federal Reserve, USD/PHP may be pressured in the near term but is still expected to settle at 57.7 by year-end.