

Philippine central bank keeps rates on hold as inflation moderates

In what could be Governor Felipe Medalla's last move, Bangko Sentral ng Pilipinas (BSP) kept rates unchanged at 6.25%



Felipe Medalla,
Governor of Bangko
Sentral ng Pilipinas

6.25% BSP policy rate

As expected

BSP extends prudent pause

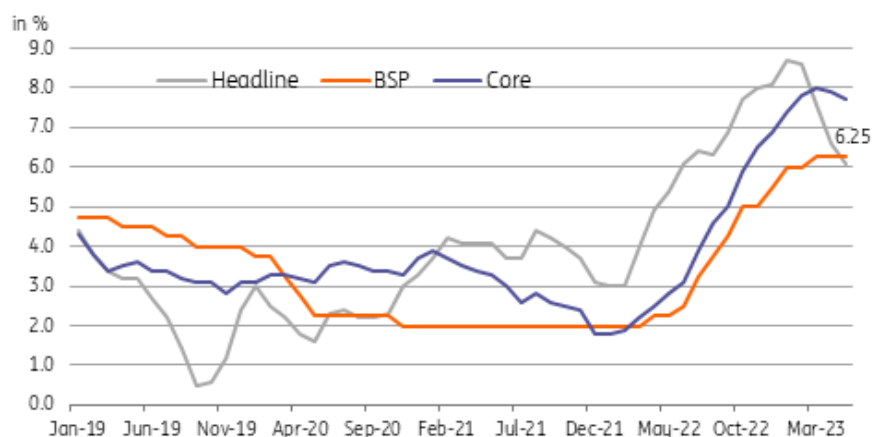
Bangko Sentral ng Pilipinas held rates at 6.25% today, a move widely expected by market participants. Governor Felipe Medalla had previously been talking up the likelihood of a pause at today's meeting, citing moderating inflation as the main consideration.

BSP's inflation forecast was adjusted lower for 2023 (5.4% year-on-year from 5.5% previously) but the 2024 inflation forecast was raised to 2.9%YoY from 2.8%. Meanwhile, BSP expects 2025 inflation to settle within target at 3.2%YoY.

Today's decision extends the BSP's "prudent pause" to two meetings and we could see BSP on hold for a couple of more meetings if inflation continues to moderate and head closer to target. BSP expects inflation to settle within its target band as early as September, although the central bank did indicate that risks to the inflation outlook remain tilted to the upside.

A looming bout with El Niño (the unusual warming of the eastern Pacific Ocean which subsequently drives surface air temperatures and pressure changes throughout the equator) could force food prices higher, and thus BSP has left the door open for further tightening if warranted.

Philippine real policy rates now in positive territory



Last dance for Medalla?

Today's policy decision could be the last policy move for Medalla, whose term ends by the close of the month. President Ferdinand Marcos has yet to decide whether to reappoint Medalla to a second term or choose another candidate.

Marcos' choice for governor will likely inform our outlook for BSP's policy stance, but should Medalla be reappointed, we expect BSP to be on hold for at least two more policy meetings before possibly cutting rates once inflation settles back within target.