Philippines: BSP extends pause after inflation forecast nudges higher

The Philippine Central Bank, BSP, holds rates at a restrictive 6.5%, wary of a pickup in inflation

BSP Headquarters in Manila

6.5%

BSP policy rate

4th straight pause

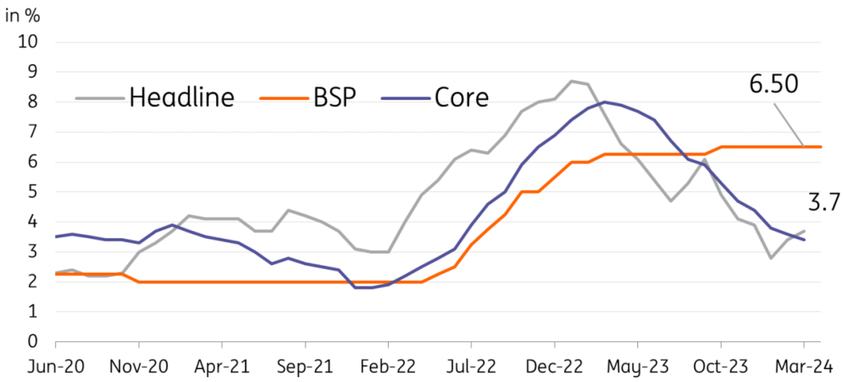
As expected

BSP keeps rates at restrictive 6.5%

The Bangko Sentral ng Pilipinas (BSP) is keeping its policy rate at 6.5% , a move widely expected by the markets. The central bank opted to keep rates unchanged as they remain watchful of a recent pickup in headline inflation after March's report showed a 3.7%YoY gain.

With the recent build up in price pressures, the BSP nudged its 2024 risk-adjusted inflation forecast to 4% (from 3.9%) indicating that risks to the inflation outlook remain tilted to the upside. Despite the slight upward adjustment to their inflation forecast, the central bank believes that inflation expectations remain broadly anchored.

Philippine inflation uptick forces BSP to extend pause



Source: Philippine Statistics Authority and BSP

Central bank likely extending pause into 2H as Fed delays rate cuts

We still think the BSP will likely extend its pause and keep rates at 6.5% until the second half of the year. The BSP previously indicated it was open to cutting policy rates in 2024; however, we believe the timing of such a reduction would require a Fed in easing mode and a more favourable domestic inflation landscape.

With the Fed possibly pushing back the timing of its rate cuts to the second half of the year and Philippine inflation projected to breach the upper end of the BSP's target in the near term, we believe the central bank will extend its hold until the Fed finally cuts its own policy rates and headline inflation cools.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com