

Philippine central bank holds rates, but risk adjusted inflation forecast drops again

The BSP kept its policy setting untouched, but inflation forecasts continued to slide



Bangko Sentral ng Pilipinas (the central bank of the Philippines)

6.5% BSP policy rate

As expected

BSP on hold again, lowers inflation forecast

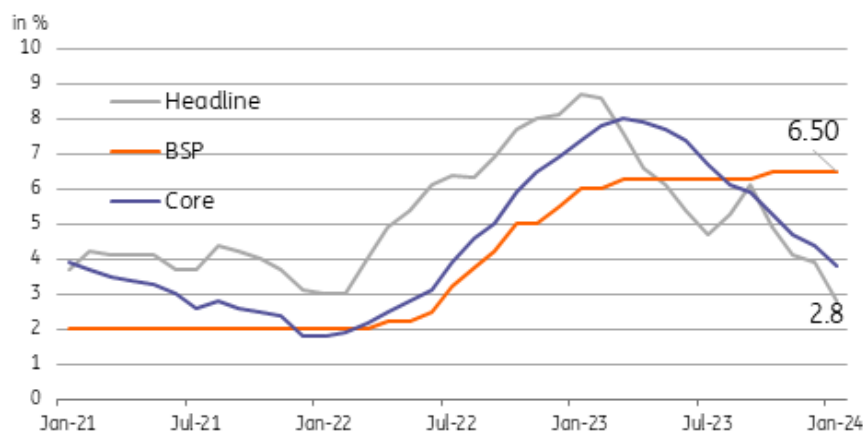
Bangko Sentral ng Pilipinas (BSP) kept policy settings untouched, leaving its key policy rate at 6.5%. This move was widely anticipated, but what was surprising was the precipitous decline of the BSP's "risk-adjusted" inflation forecast to 3.9%. This is roughly 0.8 percentage points lower than the

4.7% estimate just a couple of months ago, when the BSP carried out its emergency meeting last October 2023.

Meanwhile, the BSP's "baseline" inflation forecast was also lowered to 3.6%, down from 3.7% reported in December. Interestingly, the BSP continued to cite the risk adjusted inflation forecast in its press statement, suggesting that policy settings will continue to be determined by this number.

BSP also indicated that growth could moderate this year as the economy feels the brunt of the impact from policy tightening carried out in 2022 and 2023.

BSP keeps rates unchanged, monitoring price developments



Source: Philippine Statistics Authority and BSP

BSP to be cut rates ASAF?

The BSP will likely retain its hawkish stance in the near term, possibly keeping policy rates untouched for as long as the Fed has yet to carry out their own rate cut. However, with the risk-adjusted inflation forecast already within target, we believe the BSP now has scope to discuss potential easing possibly as early as mid-year.

Should headline and core inflation continue to slide and barring any potential supply side shocks, we believe that the BSP can adjust policy rates ASAF (As Soon as the Fed does). Given our expectation that the Federal Reserve could cut policy rates at their May or June meeting, we expect that BSP could consider cutting its policy rate as early as the 27 June policy meeting.