

## Philippines central bank keeps rates on hold as inflation moderates

Bangko Sentral ng Pilipinas kept rates steady at 6.25% with both inflation and growth on the downtrend



Felipe Medalla,  
Governor of the Bangko  
Sentral ng Pilipinas

**6.25%** BSP policy rate

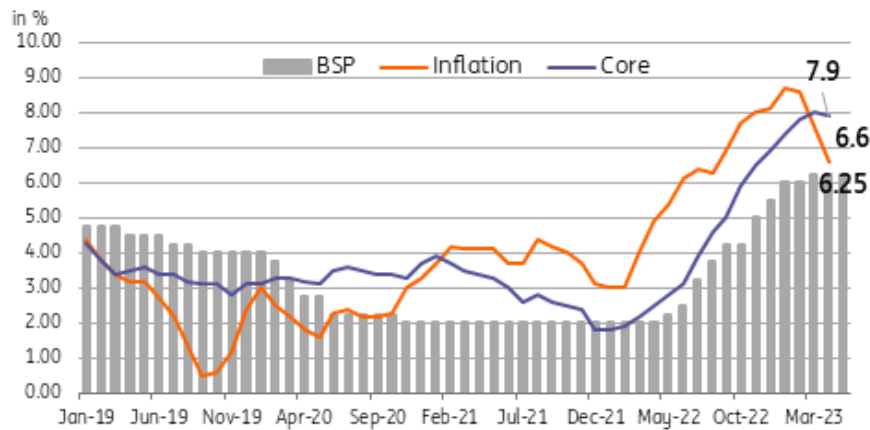
As expected

### BSP keeps rates at 6.25%

Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged at 6.25%, in line with expectations of a pause. BSP has lifted policy rates aggressively over the past few months to deal with surging price pressures, but with headline inflation on the downtrend, Governor Felipe Medalla opted to refrain from tightening further. Furthermore, the recently-released first quarter GDP report shows signs that growth momentum is fading, suggesting that the string of rate hikes are already taking their toll on the economy.

Headline inflation, which peaked at 8.7% year-on-year in January has since slowed to 6.6%YoY as of April, although core inflation remains elevated at 7.9%YoY. Meanwhile, BSP lowered its inflation forecast for 2023 and 2024 to 5.5% (6.0% previous) and 2.8% (2.9% previous) respectively.

## Real policy rates likely to revert to positive territory this month



Source: Bangko Sentral ng Pilipinas and PSA

## Prudent pause

BSP opted to keep rates unchanged at 6.25% today but did leave the door open for potential action should data evolve in a manner that would require additional policy moves. The central bank did admit that risks to the inflation outlook are tilted to the upside, but it also believes that inflation will revert to target by the fourth quarter of 2023. BSP opted to carry out a “prudent pause”, retaining policy rates at restrictive levels to tackle elevated core inflation while also refraining from hiking rates given lower 2023 and 2024 inflation forecasts. We expect BSP to keep policy rates steady in the near term while standing ready to tighten further should inflation trends reverse.

Meanwhile, Medalla also hinted at the much-anticipated reduction in reserve requirements (RR) as early as the June policy meeting. We expect the BSP to maintain policy rates at 6.25% in the coming months while reducing RR by 200bps to 10% in June.