

BSP raises policy rate by 25bps to 4.50%

Previous: 4.25%

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BSP Monetary Stance

The BSP raised its policy rate by 25bps to 4.50% at its second (scheduled) Monetary Board meeting of the year, marking its first tightening move since October 2023. The decision, while not entirely unexpected, came amid a sharp deterioration in the inflation outlook driven by the Middle East conflict and its sustained impact on global oil prices. Having already held rates in an off-cycle meeting last March 26, the BSP signaled at that time that it stood ready to act, and today's hike delivers on that signal.

During the briefing, Gov. Remolona cited the risk of inflation expectations becoming de-anchored as the primary driver of today's action. Headline inflation hit 4.1% in March, above both the BSP's own 3.1-3.9% forecast and the 2-4% target band, fueled by surging fuel prices from the Middle East conflict and residual food price effects from last year's rice import ban. At the same time, core inflation continues to rise as well and is expected to approach upper-end target, highlighting demand-driven inflation.

During the off-cycle meeting last 26 March 2026, the BSP has revised its full-year 2026 inflation forecast sharply higher to 5.1% from a prior 3.6%, a revision significant enough to warrant a policy response. Further upward revision was announced at today's policy decision announcement, with both 2026 and 2027 breaching 4% target (see below):

BSP risk-adjusted inflation forecast	2026	2027
Previous	5.1	3.8
Revised	6.3	4.3

The BSP acknowledged that demand conditions remain soft, but judged that the inflation risk had grown large enough to outweigh the cost of tightening into a weak demand environment. The BSP stressed that oil's broad use across the economy makes second-round effects not just possible but probable, and that acting now is less disruptive than being forced into sharper moves later if expectations become more de-anchored.

The BSP framed the hike as a targeted, preemptive move rather than the start of an aggressive tightening cycle. They noted that while supply-side interventions, such as fare freeze, fuel excise cuts, food tariff discussions, remain in place, monetary policy must reinforce the credibility of the inflation target. The BSP signaled that further hikes are data-dependent and not automatic, leaving the door open for a pause at subsequent meetings should inflation pressures ease and government measures prove effective.

Our View

The BSP's decision to hike was not our base case, but it is defensible. The 6.3% inflation forecast revision is a significant enough upward shift to justify a policy response, and the BSP's track record from 2022 is instructive: when it paused too long after the Russia-Ukraine commodity shock, second-round effects eventually forced a faster and more disruptive tightening cycle of 175bps. Today's 25bps move can be read as a lesson learned: act early.



The BSP framed the hike as preemptive rather than reactive, a targeted move to anchor expectations before second-round effects from the oil shock materialize more broadly.

That said, the risks of this move are real. Tightening into an economy where household consumption and private investments are already at its weakest since the pandemic, and where demand is not the driver of inflation, carries a meaningful cost to growth. Monetary policy does not fix oil prices or supply chain disruptions; it works through demand compression. The question is whether the inflation expectations risk was urgent enough to justify that trade-off. We think the case was close. We see another 25bps hike before the year ends (most probably in June), bringing policy rate at 4.75% this 2026 as our base case. We maintain our full-year 2026 growth forecast at 4.0%, below the government's 5-6% target though downside risks have increased with today's tightening move.

On the peso, the 25bps hike widens the interest rate differential with the Fed from approximately 50bps back toward 75bps, providing a modest buffer against currency pressure should U.S. dollar strength return. The PHP had been vulnerable given the narrowing spread, and this move helps restore some carry premium. Expectations of additional hikes from the BSP later in the year should help widen the spread back toward 100bps if the Fed policy rate remains unchanged.

For guidance, below is the policy meeting schedule for both the BSP and the Fed in 2026:

	FED	BSP
Jan	27-28 <i>(unchanged: 3.50-3.75%)</i>	
Feb		19 <i>(cut: 4.25%)</i>
Mar	17-18* <i>(unchanged: 3.50-3.75%)</i>	26 <i>(offcycle; unchanged: 4.25%)</i>
Apr	28-29	23 <i>(hike: 4.50%)</i>
May		
Jun	16-17*	18
Jul	28-29	
Aug		27
Sep	15-16*	
Oct	27-28	22
Nov		
Dec	8-9*	17

*Meeting associated with a Summary of Economic Projections

2026 Summary of Forecasts

	2023 Actual	2024 Actual	2025 Actual	2026 Base Case	2026 Worst Case	Assumptions
Ave. Dubai Crude Oil	82.0	79.7	68.4	~90.0	~120.0	Base case assumes gradual normalization as ceasefire allowed some easing; worst case sustains supply crunch through year-end. Note pre-conflict consensus was at US\$62/bbl.
GDP	5.6	5.7	4.4	4.0	3.7	Growth is weighed down by the oil shock and continued public investment weakness. Recovery expected only in 4Q26; worst case assumes the energy drag compounds fiscal headwinds.
Inflation	6.0	3.2	1.7	4.5	5.3	Over 36% of the consumer basket is vulnerable to rising oil prices, with energy items most exposed and secondary pass-through to food and logistics.
BSP Policy Rate	6.50	5.75	4.50	4.75	5.25	A hike in 2H26 becomes live if second-round effects on wages, transport, and services persist.
10yr Peso GS Yield	6.00	6.20	6.07	6.50	7.00	Yields could go up with policy rate hike now on the table, and term premium widening on inflation and fiscal uncertainty.
USD-PHP Rate	55.36	57.84	58.79	60.90	61.50	Elevated oil prices could widen current account deficit and drain forex reserves.
PSE Index	6,450	6,528	6,053	6,000	5,600	Both targets anchored on 7-8% EPS growth; 6,000 at 9x P/E ratio (base) and 5,600 at 8.5x P/E ratio (worst), reflecting compressed multiples amid foreign outflows, stagflation risks, and weak consumer sentiment.

Source: BDO Trust and Investments Group as of April 2026