

Philippines central bank whips out another 50 bps rate hike

The central bank raised its policy rate by 50 basis points to 4.5% as it looks to anchor inflation expectations



4.5%

Overnight reverse repurchase rate

50 bps hike

As expected

Central bank hikes to counter second round effects

With inflation well above the central bank's 2-4% target and clear signs of second round effects evident, the Bangko Sentral ng Pilipinas (BSP) looked to wield yet another 50 basis point rate hike to sniff out brewing concerns about prices pressures.

The BSP hiked its policy rate to 4.5%, a move widely expected by the 20 out of 22 analysts surveyed by Bloomberg, as it continues to chase its inflation target for 2019. Price pressures persistently come from the supply side. However, the central bank has now vowed to reduce volatility in the exchange rate to help anchor inflation expectations. Furthermore, so-called second round effects in the form of wage increases and transport fare adjustment have been implemented.

Another round of rate hikes?

Although inflation is expected to slow down in the fourth quarter, the BSP may still be called to enact another round of rate hikes as inflation expectation remain elevated going into 2019.

Hawkish comments from Deputy Governor Diwa Guinigundo were welcome as the BSP looked to demonstrate the central bank's commitment to achieving its target. Thus, it will be imperative for non-monetary policy measures to help alleviate prices pressures as we approach the all-important Christmas season, a crucial turning point ahead of the mid-term elections in May.

Barring any additional calamities, both natural and man-made, we expect inflation to revert within target towards the latter half of 2019. BSP's forecast for 2019 inflation has been pegged at 4.3%, and we expect inflation to fall within target by end-2019.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com