Philippine central bank hikes a fifth time to anchor inflation expectations

Despite slowing inflation, the central bank bought some insurance with a 25 basis point rate hike

4.75%

Overnight reverse repurchase rate

5th straight hike

As expected

BSP looks to anchor inflation expectations

Despite clear signs of slowing inflation with non-monetary policy measures finally taking hold, Bangko Sentral ng Pilipinas (BPS) opted to hike the policy rate for a fifth straight time to anchor inflation expectations and stave off any potential second-round effects. Inflation remains elevated at 6.7% and with wage adjustments and transport fares kicking in over the course of November, BSP opted to buy some insurance so that inflation expectations would remain anchored.

Non-monetary policy measures in the offing with inflation forecasts slashed

The BSP hiked rates despite the government rolling out two key and substantial non-monetary measures overnight with excise taxes on fuel suspended in 2019 and the key rice tarrification bill approved by the Senate. These two measures were likely factored into the BSP's inflation forecasts with inflation seen at 3.5% in 2019 (from 4.3%) as BSP estimates the rice tarrification bill to shave 0.73 percentage points from inflation.

Chasing price stability

The BSP's 25 basis point rate hike looks to ensure inflation expectations remain well-anchored, yet remaining aware of tighter global financial conditions and uncertainty emanating from possible geopolitical risks. As such, the central bank moved "proactively", with yet another round of rate hikes despite its much lower inflation forecast for 2019. BSP's primary mandate is price stability to provide an environment conducive for economic growth. With inflation seen to slide back within the target in 2019, the central bank believes that the economy remains resilient enough to ride out the 175 basis point rate hike year to date. But with higher rates already showing signs of sapping economic growth momentum, the Philippines will need to continue to rely heavily on government spending to shore up slowing consumption and investment.

Ready and willing

The BSP closed its statement reaffirming its readiness to take appropriate actions to safeguard its price and financial stability objectives. In the near term, the peso will benefit from the recent action while structural flows ahead of the holiday period may also provide an added boost. Over the medium-term, however, projected current account deficits will likely exert a mild depreciation pressure until a clear reversal is seen on the external front.