

Philippines: BSP downshifts to 25bp increase

The Philippines' central bank hiked rates again today as inflation remains elevated



The central bank of the Philippines as seen from the CCP Grounds

6.25% BSP policy rate

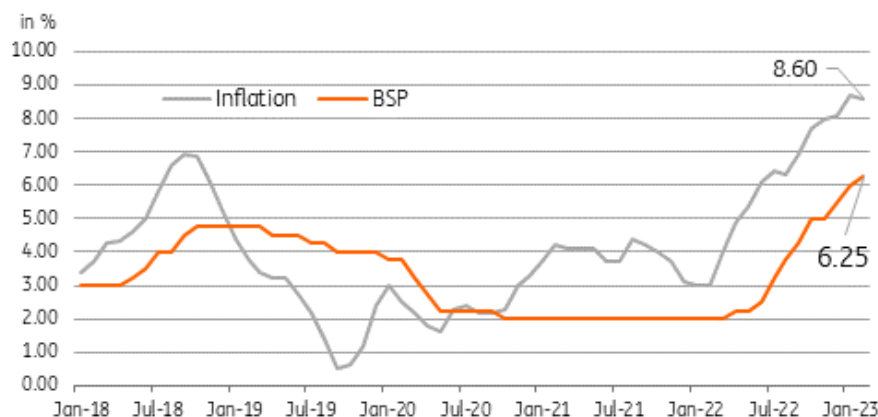
As expected

BSP hikes rates but at slower pace

The Bangko Sentral ng Pilipinas (BSP) hiked by 25bp today as expected, taking the key policy rate to 6.25%. With inflation still quite elevated (8.6% year-on-year), the central bank needed to hike rates today given its commitment to fighting inflation. BSP Governor Felipe Medalla however opted for a smaller rate increase of 25bp after he reiterated the need for supply-oriented measures to be deployed to address supply shortages of basic food items. Food inflation remains one of the main drivers of domestic inflation and recent measures to address supply bottlenecks have yet to help bring down food inflation which was last reported at 10.8% YoY.

The central bank also trimmed its 2023 inflation forecast to 6.0% YoY from 6.1% reported last month which may have given the central bank the confidence to opt for the smaller pace of policy rate increase. Furthermore, a relatively more stable local currency may have also given the BSP space to switch to less aggressive tightening at today's meeting.

Has the BSP achieved its terminal rate? Inflation trajectory to be watched closely



Source: Philippine Statistics Authority and BSP

BSP likely to pause in May, RRR cut on the cards?

Governor Medalla indicated that his next policy decision would be data-dependent while also sharing that outside developments, such as Federal Reserve moves, would be relevant but not necessarily key factors in decision-making. BSP believes that it has done its fair share to snuff out excessive demand-side pressures with a cumulative 425bp rate increase and Medalla would want to see the full impact of these moves feed through to the economy and prices.

Barring any fresh supply-side shocks (such as the potential emergence of African Swine Fever), we believe that BSP will be open to shifting to a pause at its May meeting. Meanwhile, if inflation sustains its downward trajectory, the BSP may even opt to lower the reserve requirement ratio (RRR) and the central bank will have inflation data for both March and April to digest ahead of the 18 May policy decision.