

Philippines central bank hikes rates 75bp in lockstep with the Fed

Bangko Sentral ng Pilipinas (BSP) has followed through with its planned rate increase of 75bp, following an announcement by its governor two weeks ago



BSP Headquarters in Manila

5.0% BSP policy rate

As expected

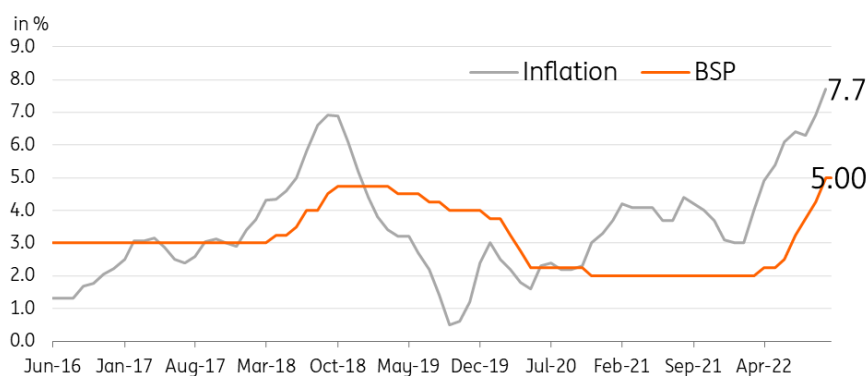
BSP follows through with planned increase

BSP has hiked policy rates by 75bp, a move telegraphed by governor Felipe Medalla two weeks ago. Medalla opted to pre-announce his decision to hike rates aggressively to help anchor expectations via forward guidance.

The punchy 75bp increase to the overnight reverse repurchase rate was warranted given surging domestic inflation (7.7% year-on-year in October).

BSP believes that the domestic economy can handle the rapid-fire tightening with growth expected to hold firm as evidenced by the robust third-quarter GDP performance.

Catch me if you can: BSP hikes rates aggressively to quell inflation pressures



Source: Philippine Statistics Authority

Matchy-matchy: BSP to take its cue from the Fed

BSP will likely retain its hawkish tone given its recent adjustment to inflation forecasts for both 2022 and 2023. Inflation is now forecast to average 5.8% (from 5.6%) in 2022 and 4.3% in 2023 (from 4.1%). Medalla hinted that he would prefer to match any rate increase by the US Federal Reserve to maintain a 100bp interest rate differential.

We expect the BSP to increase policy rates to 5.5% in December given expectations for a 50bp increase by the Fed. The Philippine peso could get a boost from today's decision although given that the hike was pre-announced, any upside for the peso may be capped by global developments.