

Philippines' central bank hikes rates after blowout CPI report

Bangko Sentral ng Pilipinas hiked rates by 50bp today after inflation surged to 8.7% year-on-year in January



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

6.0% BSP policy rate
+50bp

As expected

BSP stays aggressive after inflation surprise

Bangko Sentral ng Pilipinas (BSP) hiked rates by 50bp today in a bid to combat searing price pressures and to manage inflation expectations. [January inflation blew past expectations](#) which all but ensured BSP would hike rates today. Governor Felipe Medalla opted to retain a hawkish bias with a 50bp increase.

BSP also announced an upward adjustment to the 2023 inflation forecast, pushing its expectation to 6.1% YoY, up sharply from the 4.5% estimate from December 2022. Price pressures appear to

have spread across the CPI basket and could keep headline and core inflation elevated for some time.

Medalla noted that inflation expectations have begun to increase, prompting an aggressive response from the BSP today. BSP also reiterated the need for a “whole of government approach” to deal with significant price pressures given the outsized impact of supply shortages on basic food items. Today’s rate hike takes the overnight reverse repurchase rate to 6.0%.

| PHILIPPINE Inflation (2018=100) | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| All items | 1.7 | 4.1 | 4.1 | 3.1 | 3.1 | 3.1 | 3.1 | 4.4 | 3.2 | 4.0 | 3.7 | 3.2 | 3.0 | 3.0 | 4.2 | | | | | | | | | | |
| Food & nonalcohol bev | 5.9 | 6.2 | 5.3 | 3.8 | 3.5 | 3.6 | 3.9 | 3.4 | 3.0 | 3.7 | 2.9 | 1.8 | 1.7 | 1.2 | 2.6 | 3.8 | 5.4 | 5.0 | 3.8 | 4.2 | 7.4 | 8.4 | 10.0 | 10.2 | 10.7 |
| Alcoholic Bev & Tobacco | 15.9 | 15.0 | 15.1 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 |
| Clothing & Footwear | 1.0 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Housing, Water, Electricity, Gas & Fuels | 0.3 | 0.6 | 0.7 | 1.3 | 1.7 | 2.0 | 2.7 | 3.4 | 3.8 | 4.3 | 4.8 | 5.1 | 4.5 | 4.8 | 4.1 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Household Equipment & Maintenance | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Health | 3.8 | 3.8 | 4.0 | 4.0 | 4.1 | 3.9 | 3.9 | 3.8 | 3.8 | 3.7 | 3.6 | 3.5 | 3.1 | 2.7 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Transport | 2.6 | 4.2 | 4.2 | 4.4 | 4.2 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 |
| Information communication | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.5 | 0.5 | 0.4 | 0.5 | 0.7 |
| Recreation & Culture | 0.6 | 0.7 | 0.7 | 0.6 | 0.5 | 0.6 | 1.1 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.5 | 1.6 | 1.7 | 1.9 | 2.0 | 2.4 | 2.7 | 3.0 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 |
| Education | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 2.3 | 3.3 | 2.4 | 2.6 | 2.6 |
| Restaurants & Miscellaneous Services | 2.6 | 3.0 | 2.9 | 3.3 | 3.9 | 4.1 | 3.8 | 4.0 | 3.8 | 3.7 | 3.2 | 3.0 | 2.9 | 3.0 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Financial services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Personal care | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.3 | 2.3 | 2.2 | 2.1 | 2.2 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |

Source: Philippine Statistics Authority

What’s next?

BSP’s latest inflation forecast and admission that price pressure has broadened could open the door for additional rate hikes in the coming months. Governor Medalla appears to be increasingly concerned about inflation expectations, indicating that “it is unlikely we won’t increase the rate at the next meeting”. Medalla suggested that the probability of a pause in the first half of the year was feasible but low indicating that inflation pressures remain high and that supply-side remedies recently implemented may take time to take hold.

Given this new information and the obvious shift in tone from Governor Medalla, we now expect a 25bp rate hike by the BSP at the March meeting with our forecast for BSP’s terminal rate at 6.25%.