

Philippines: BSP joins the rate hike club and kicks off exit strategy

After months of staying dovish, the Philippines' central bank opted to hike rates as inflation heats up



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

2.25 % BSP policy rate

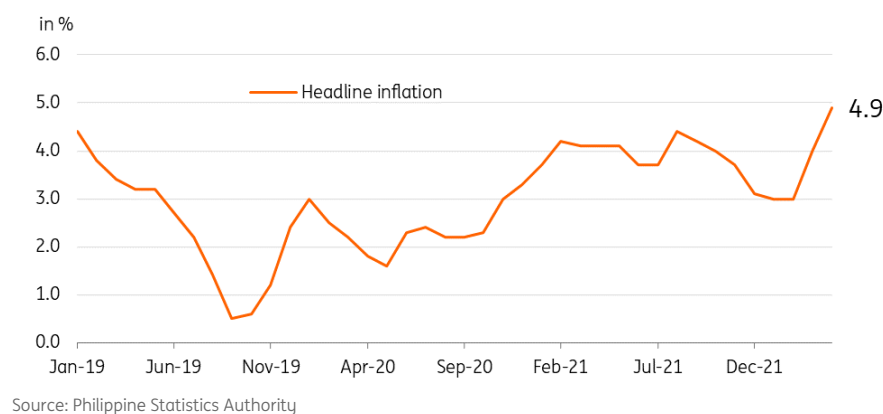
As expected

BSP hikes rate after both growth and inflation surprise on the upside

Bangko Sentral ng Pilipinas (BSP) hiked its policy rates by 25bp today, reacting to recent data and developments. Previously, BSP Governor Benjamin Diokno had vowed to maintain monetary support for the economic recovery even as price pressures were building. In the past two weeks, economic data suggested that the Philippine economic recovery was on solid footing after 1Q 2022 GDP blew by market expectations. Meanwhile, headline inflation also surprised on the upside

with all indications pointing to even faster inflation in the coming months. With the recovery in hand and price pressures surging, BSP finally decided to join the rate hike club, raising its policy rate by 25bp.

Philippine inflation is likely headed higher



One and done or one and then some?

The market had priced in an adjustment from the central bank given recent developments. Elevated energy and food prices are likely to keep headline inflation above target for a time while a recent wage hike confirms that second-round effects have finally emerged. Price pressures may also have emanated from the demand side with red hot household consumption helping to fan inflation further.

BSP pushed up its inflation forecast for 2022 and 2023 to 4.6% and 3.9%, respectively, with inflation to stay above target until early next year. We expect BSP to retain its hawkish stance, with the central bank likely to hike rates by a further 75bp this year.

Exit strategy unveiled and executed

The rate hike was largely priced in by market participants with the consensus pointing to a 25bp hike. The bigger development however was the quick walk back of pandemic support with BSP ending the Php320 bn provisional advance to the national government on top of recalibrating the BSP's bond purchase window. With the economic recovery gaining traction, BSP decided to implement its exit strategy quickly and we expect further normalisation carried out throughout the year.