

# Philippines central bank on hold but a rate hike could come sooner than expected

The Philippine central bank held rates steady pointing to the need to support the economic recovery



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

**2%** BSP Policy rate

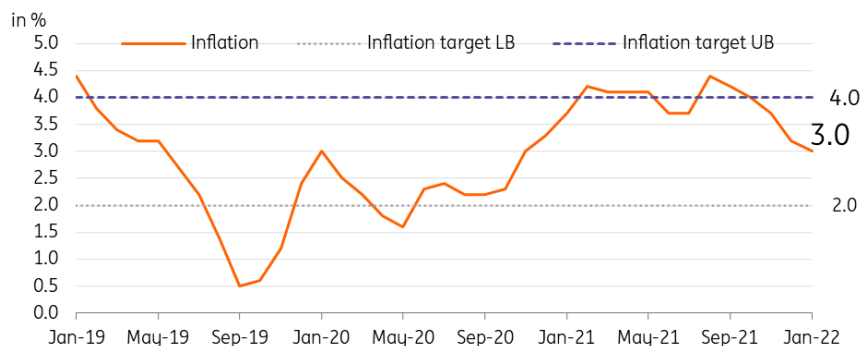
As expected

## Steady as she goes, for now

Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged at today's policy meeting. BSP Governor Benjamin Diokno retained his dovish stance in 2022, signalling he would prefer to extend support to the fledgling economic recovery. With inflation expected to stay within target in the near term, BSP has room to keep policy rates untouched at this meeting. Inflation risks, however, are tilted to the upside in 2022, which is reflected in the central bank's upwardly revised forecast

for the year, to 3.7% from 3.4%.

## Philippine inflation within target but risks are tilted to the upside



Source: Philippine Statistics Authority and Bangko Sentral ng Pilipinas

## Take note of the exit doors at the end of the room

The highlight of Governor Diokno’s comments today is his mention of “plans for normalisation”. This is the first time Diokno has made mention of his exit strategy this year and suggests that a potential rate reversal is being considered. Diokno also mentioned that the economic recovery “is gaining traction” although monetary authorities admitted that downside risks to the growth outlook remain. The BSP also indicated that policy normalisation may begin after recording “4 quarters of GDP growth”. Thus we believe that the trigger point for a potential rate reversal would have to be linked to a solid economic recovery coupled with depreciation pressure on the peso. We retain our expectation for a late 2Q policy rate hike given a likely strong 1Q GDP report.