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Philippines' central bank hikes rates 50bp to cool red hot inflation

BSP hikes rates by 50bp to slow inflation



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

3.75% Policy rate

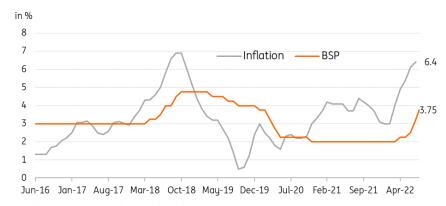
As expected

BSP retains hawkish bias

Bangko Sentra ng Pilipinas (BSP) retained its hawkish bias, hiking policy rates by 50bp today. BSP has raised rates by 175bp so far and BSP Governor Felipe Medalla suggested that policymakers may not be done tightening just yet. BSP also released its most recent inflation forecast, pointing to an acceleration of inflation in 2022 to 5.4% year-on-year (from 5.0%) while price pressures are expected to slip to 4.0% (from 4.2%). Demand and supply-side factors have tag-teamed to force headline inflation well past target, with July inflation surging to 6.4%.

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BSP raises rates again as inflation runs away from the policy rate



Source: Philippine Statistics Authority and Bangko Sentral ng Pilipinas

More where that came from

BSP Governor Medalla recently hinted that the central bank would likely sustain its tightening bias even after today's rate adjustment. ING expects inflation to accelerate further, likely peaking at 6.8% by October, in line with BSP's own projections for inflation to average 5.4% for 2022. Against this backdrop of rising prices, we believe that BSP can carry out 25bp rate increases at each of the remaining policy meetings for the balance of the year. This would take the BSP's policy rate to 4.5% by December. Market participants may have priced-in today's rate hike as BSP telegraphed the move. We expect a depreciation bias for the peso in the near term as the import season kicks into high gear.

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