

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 and other buildings as seen from the CCP Grounds

Source: Shutterstock

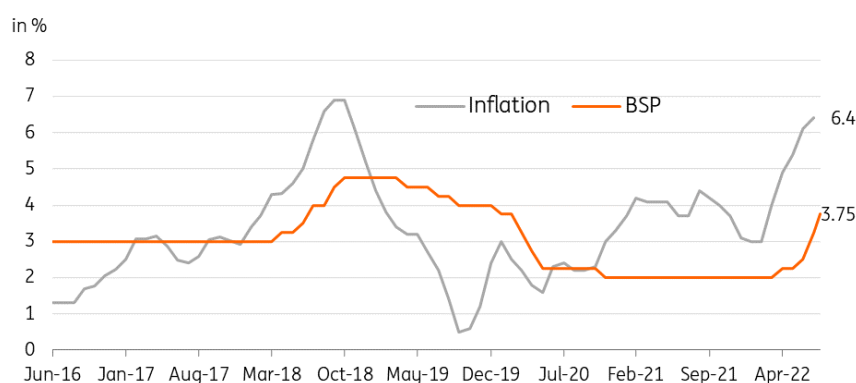
3.75% Policy rate

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%.

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.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.