

# No move from the Philippines' central bank despite inflation threatening to breach target

The BSP keeps its policy rates untouched for an 11th straight meeting but could eventually fall behind the curve



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

2.0%

BSP policy rate

11th straight pause

As expected

## Central bank stands pat, again

Bangko Sentral ng Pilipinas (BSP) retained its accommodative stance on Thursday. The central bank opted to keep rates untouched yet again citing the need to safeguard the economic recovery even as they described the economy as having “gained stronger traction”. BSP Governor, Diokno, cited the uncertainty of the ongoing war in Ukraine and potential fresh waves of Covid as the main reason for the pause. Inflation forecasts were adjusted higher with the central bank now expecting

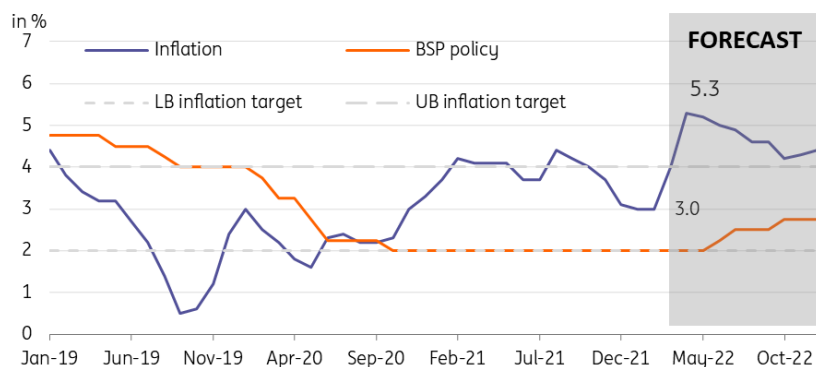
the headline rate to jump to 4.3% (3.7% previously) in 2022 and 3.6% (3.3% previously) next year.

## It's getting hot in here

Given the exposure of the Philippines to the global commodity price surge, we are expecting inflation to quicken rapidly in the coming months. The Philippines is heavily reliant on imported crude and elevated prices for energy have already manifested in the domestic market. Local fuel prices are currently 45% higher than the same period last year, suggesting a stark pickup in transport costs and utilities.

The price of other integral imports such as rough rice, a key staple for the country, is also edging higher. Rough rice in the world market is up 10% and could figure into domestic inflation soon enough. We expect full-year inflation to settle at 4.3% with the headline number cresting 5% as early as May.

## It's getting hot in here: Inflation to breach target yet again this year



Source: PSA and ING estimates

## BSP likely behind the curve

Despite these developments, Governor Diokno has reiterated his preference to maintain an accommodative stance to support the economy. Furthermore, he has given forward guidance suggesting that a rate hike would likely be delayed to the second half of the year. That indicates he needn't move in lockstep with the Fed's tightening cycle. However, a delay to the second half of the year could translate to BSP falling behind the curve as other global central banks, such as the Fed could have possibly raised rates by as much as 100 bps.

A prolonged pause from the BSP even in the face of surging inflation could result in the de-anchoring of inflation expectations, requiring a more forceful tightening cycle from the bank down the line. Given today's pause, we continue to price in a depreciation bias for PHP given the widening differential with the Fed and as pricier imports translate to increased dollar demand in the Philippine spot market.

## Author

### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto: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>.