

Philippines: Central bank stays dovish despite inflation forecast

BSP, the country's central bank, kept monetary policy settings steady even as 2018 inflation forecasts were revised higher to 4.3%. The bank sees no need to tighten now as inflation is seen returning to its target range of 2% to 4% by early 2019



Source: Shutterstock

3%

BSP policy rate

No change

As expected

BSP expects inflation to return to target range by March 2019

The BSP's statement that accompanied its rate decision reflects a "dovish" assessment of the inflation path despite an expected spike in 2018. BSP considers price pressures as transitory and does not see the need to tighten, at least for now. We believe that the government would

moderate not only rising prices for rice but also increases in public transport fares and minimum wages.

The steady policy rate decision is based on its forecast that inflation will return to its target range by (March) 2019 after averaging 4.3% in 2018. This decision gains credibility when one considers the 12-18 month monetary policy lag on the real economy. We believe the BSP will need to stabilise inflation expectations in the coming months as the market also considers another wave of excise tax increases and second-round effects in 2019. We expect inflation of 4% this year and 3.5% in 2019 with upside risks depending on the extent of second-round price pressures. We retain our view of policy rate hikes as early as the March meeting. In the meantime, the Philippine peso would likely be open to some weakness.