Philippines: Inflation back within target

Philippine consumer price inflation of 3.8% in February is back within the central bank's (BSP) policy target range of 2-4% after 11 months of overshooting. This opens doors for the BSP easing to support growth

Source: Shutterstock

3.8%

February inflation

Back in the BSP's policy target range

Lower than expected

Back within target

Consumer price pressure in the Philippine continued to dissipate in February, returning inflation back to within the BSP's 2-4% target range after 11 months of breach. The 3.8% year-on-year CPI inflation of the last month was in line with our forecast and below the Bloomberg consensus median of 4.0%. As is often the case in a cost-push induced inflation episode, inflation has slid from its peak of 6.7% in September-October 2019, to 3.8% in a matter of 4 months. This was thanks to more stable supply chains and relatively well-behaved oil prices. This adds another data point suggesting that the inflation spectre has been tamed for the time being and, more importantly, inflation expectations are now well-entrenched.

Food basket weighs on headline

The basket-heavy food index, the bane of 2018, has helped bring down headline inflation in 2019 with rice prices showing just a 2.9% increase from a year ago.

Easing inflation leaves policy door wide open

With inflation back within the target range, this leaves the door wide open for newly appointed Governor Ben Diokno to think about easing off the brakes and looking to help support the growth side of the equation.

Governor Diokno has spent his career on the fiscal side of the fence and has indicated that the "role of the BSP is to ensure sustained inclusive growth". With the price goal seemingly in hand, it may be time for the BSP to consider the possibility of reducing the reserve requirement ratio in the near term, and eventually lower policy rates to help chase the 7-8% growth target.