

## Philippines: Inflation flat in February but likely to accelerate in coming months

Impact of ongoing geopolitical developments yet to be reflected in February report



Rice for sale at a market in the Philippines

**3.0%** February CPI inflation  
2018=100

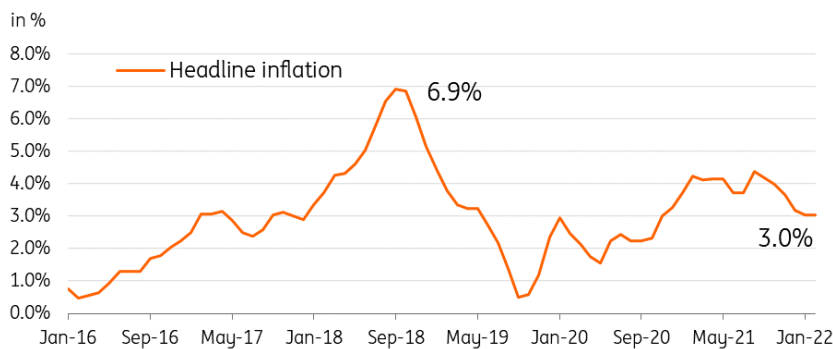
Lower than expected

### February inflation flat at 3%

Philippine CPI inflation settled at 3%, lower than market consensus (3.2%) and not yet reflecting recent developments on the geopolitical front. Downside pressure was provided by slower inflation for food items (1.2% vs 1.7% previous) due largely to slower rice price inflation. Meanwhile, upside pressure came from higher inflation for utilities and transport, reflecting costlier imported oil.

Given the ongoing conflict in Eastern Europe, more expensive global wheat and energy prices will likely filter through to domestic prices, pushing inflation past the BSP target as early as 2Q. Food and transport are the two largest components of the Philippine CPI basket and any sharp price swings for these sectors should be enough to nudge heading inflation past 4% by May.

## Philippine inflation could heat up in a hurry given elevated global food and energy prices

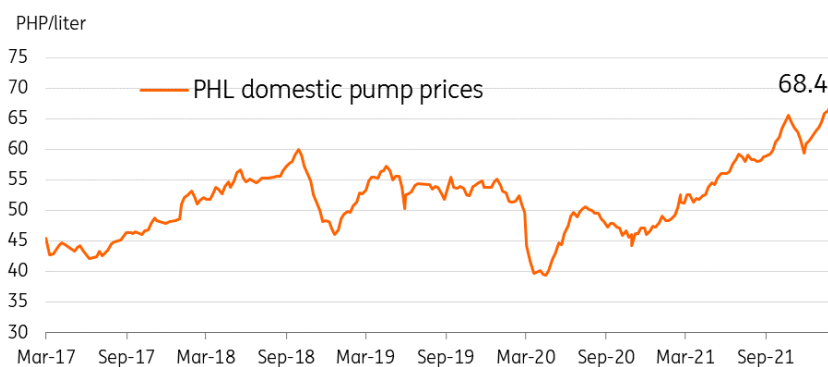


Source: Philippine Statistics Authority

## BSP must move to corral inflation expectations

With inflation likely to accelerate in the near term, we are bringing forward our central bank rate hike projection to the May policy meeting. Bangko Sentral ng Pilipinas (BSP) has retained its dovish stance for now, suggesting that they may refrain from hiking rates given subdued inflation. However, the central bank must also be wary to reign in inflation expectations which will likely react sharply to soaring domestic pump prices and higher utility costs. Given our expectation for a quick step breach of the inflation target, we are now pencilling in a rate hike by the central bank by mid-2Q as BSP moves to quell inflation expectations and shore up the peso, which is down 1.36% for the year.

## Philippine pump prices at record highs



Source: Philippine Department of Energy