

Snap | 4 March 2022

PHILIPPINES

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

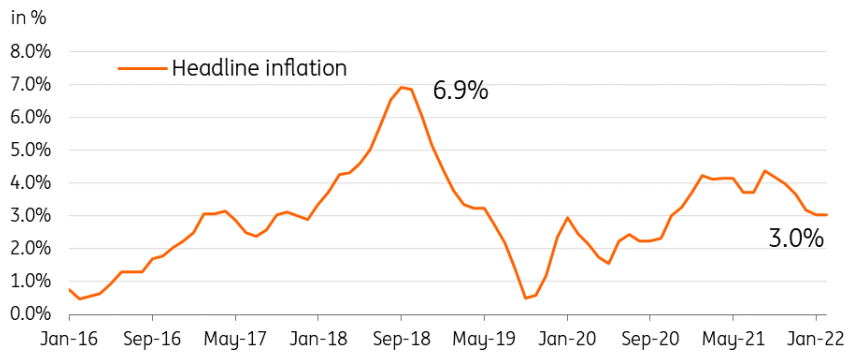
February inflation flat at 3%

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

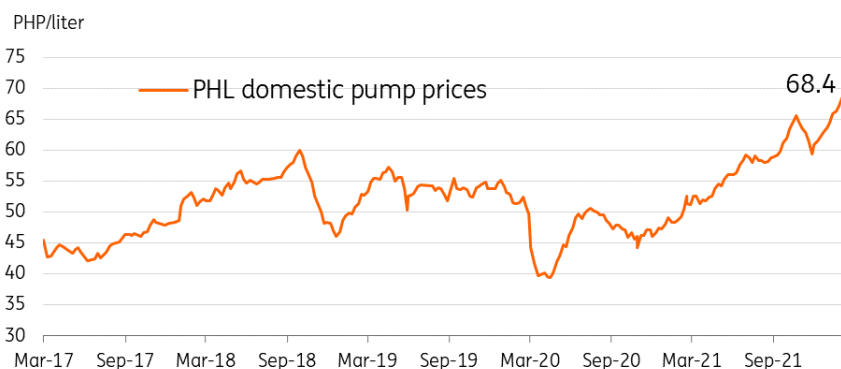


Source: Philippine Statistics Authority

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

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 www.ing.com.