

Philippines: No change in policy rate despite forecast of higher February inflation

The central bank (BSP) forecasts February inflation of between 4% and 4.8%. BSP insists that there is no need to change policy settings



4% to
4.8%

BSP February inflation forecast

Unlikely to shift bias to tightening

BSP still sees no need to tighten policy soon

Inflation is expected to be higher than January's 4% rate. BSP forecasts the February inflation rate at 4% to 4.8%. We are optimistic and expect the February inflation rate at 4.2% on the view that

the government had moved to address some supply issues. Despite higher inflation expectations not only for February but also for the near term, BSP reiterates a steady policy rate environment. BSP's senior officials insist that there is no point in tightening since BSP expects inflation to trend to within the target range over the policy horizon. The steady bias was obvious at the last policy rate meeting. BSP kept policy rates steady at the 8 February meeting even as it raised the average inflation forecast to 4.3% in 2018. BSP expects the 2019 inflation average to return to the target range of 2% to 4%. BSP's 2019 average inflation forecast is 3.5%. We argued recently that the likelihood of steady policy rates this year increased considering that the policy lag is 12-18 months. This implies that there is no need to tighten since inflation is expected to return to within the target range over the policy horizon (by March 2019). Nevertheless, we still believe that a more forceful reassurance (via a rate hike as early as the March meeting) is needed to stabilise inflation expectations. We expect an inflation average of 3.9% in 2019 from 3.6% previously.