

Philippines: No monetary tightening even as inflation rises

Inflation in February is higher (for consumer price indices with base years of 2012 and 2006). BSP reiterates its steady policy rate stance with the view of inflation returning to within the target range of 2-4% in the next 12 months.



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4.5%

Higher than expected

February headline inflation with 2006 base year

Inflation with 2012 base year is 3.9%

BSP's steady policy rate stance relies on inflation returning to the 2-4% target range

The Philippine central bank (BSP) has reiterated its view that inflation would return to the target

range of 2-4% in the next 12 months or over the policy horizon. Since the monetary policy lag is 12-18 months and since inflation is expected to moderate during this period, BSP believes that there is no reason to tighten monetary policy. This conviction does not waver despite upward trending inflation which we expect to peak in the next three to six months. February headline inflation using the policy-operative 2006 base year climbed to 4.5% from January's 4% and December 3.3%. This uptrend is replicated with the 2012 CPI base year which becomes BSP's policy operative data in 2H. February inflation with the 2012 CPI base year increased to 3.9% from January's 3.4% and December's 2.9%. The difference between the two base years reflects higher weights for rice, communication, transport, health, tertiary education and restaurants. Tax reform related impact together with higher oil prices, power rates and food prices accounted for the acceleration in inflation last month. We expect these price pressures to keep inflation elevated in the next six months. With BSP's conviction and reiteration, we now expect a steady monetary policy decision at the March 22 policy rate meeting.

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