

Philippines central bank opts for off-cycle rate hike to ensure 2024 inflation path

The Bangko Sentral ng Pilipinas hiked rates by 25bps today in a bid to control inflation expectations



Bangko Sentral ng Pilipinas (the central bank of the Philippines)

6.5%

BSP policy rate

+25bps

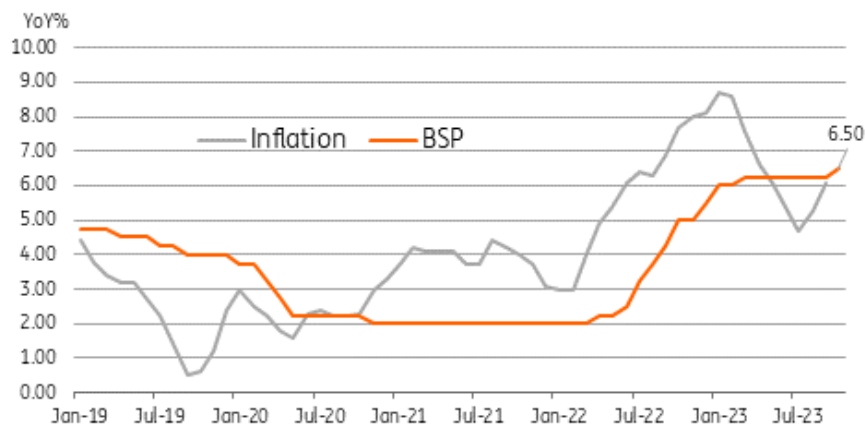
As expected

BSP hikes weeks ahead of scheduled meeting

The Bangko Sentral ng Pilipinas (BSP) hiked rates by 25bp today, three weeks before their scheduled meeting on 16 November. With two key data reports yet to be reported (October inflation and third-quarter GDP), BSP Governor Eli Remolona decided to act in advance, perhaps to show his resolve in fighting off inflation.

With the PHP on relatively stable footing and inflation being driven largely by supply-side factors, today's off-cycle rate hike was carried out in a bid to ensure inflation expectations stay well-anchored going into 2024. Despite being an off-cycle move, the market had been anticipating additional tightening from Remolona, who has been signalling a potential rate hike over the past month.

BSP hikes but won't likely impact inflation



Source: Bangko Sentral ng Pilipinas

What's next? Probably more tightening

BSP's off-cycle rate hike indicates Governor Remolona's commitment to price stability as he hopes to corral inflation expectations. Remolona has hinted in the past that he would possibly need to hike more than once, and we therefore expect at least one more rate hike from the BSP before the end of the year. Remolona has also indicated that he believes policy rates can rise to 6.75% before harming the economy.

However, given that price pressures remain largely supply-side in nature, we expect inflation to stay elevated until supply-side remedies are implemented. Against this backdrop of higher rates and inflation, economic growth appears to be slowing and we believe the full impact of previous BSP tightening will be felt by early 2024. We are therefore likely to lower our GDP growth forecasts (4.7% year-on-year and 4.5% YoY) while retaining our inflation forecasts for 2023 and 2024 (6.0% YoY and 4% YoY).