

## Philippines: Surprisingly high central bank January inflation forecast

The central bank of the Philippines (BSP) expects January inflation at between 3.5% and 4%, the highest inflation forecast since November 2014, due to higher excise taxes.



# 3.5%-4%

BSP's January inflation forecast

Surprisingly high

### A precursor to an early tightening?

BSP surprised markets with its 3.5-4% January inflation forecast, which is higher than government's 3.3% forecast. We expect a moderate impact of higher excise taxes from the tax reform package in the first month of implementation. We forecast a 3.4% January inflation rate. With such a high January inflation forecast, the market may become worried that inflation will accelerate faster than expected in the coming months. Second round effects are still to be determined in March-June. Significant second-round effects could cause inflation to breach the target range of 2% to 4%. An inflation report this coming Tuesday that is in line with BSP's forecast

could raise inflation expectations which may spur BSP to tighten as early as the March meeting. Our base case is for a rate hike at the May meeting.