Snap | 27 August 2026 PHILIPPINES

Philippines' central bank stays hawkish as inflation risks remain elevated

The BSP raised rates by 25bp to 5.0% and struck a hawkish tone, upgrading its 2027 inflation forecast amid concerns over El Niño-related food inflation and larger-than-expected wage increases. We continue to expect another 25bp rate hike in 4Q26 as policymakers remain focused on inflation risks until core inflation shows clear signs of moderation

Philippine policymakers remain alert to the inflation risks posed by El Niño

The BSP raises rates as expected

The Bangko Sentral ng Pilipinas (BSP) raised the target reverse repurchase (RRP) rate today by 25bp to 5.0%, in line with both our and consensus expectations. The decision reflects the central bank's assessment that inflation risks remain skewed to the upside, with price pressures likely to keep inflation above target in 2026 and 2027.

The tone was relatively hawkish with the BSP upgrading its 2027 inflation forecast while sounding less cautious on growth, reinforcing its commitment to keeping inflation expectations anchored.

El Niño and wage pressures delay return to inflation target

While the BSP lowered its 2026 inflation forecast to 6.1% from 6.4%, reflecting the benefit of lower oil prices, this was partly offset by rising risks associated with El Niño, particularly through higher rice prices. The BSP's baseline forecast assumes a severe El Niño scenario, incorporating weaker domestic rice production and higher import prices. Inflation risks remain firmly on the upside, with El Niño-related food inflation and larger-than-expected wage increases identified as the key drivers. In particular, the BSP raised its 2027 inflation forecast to 5.4%, reflecting concerns that the recently announced 12% minimum wage increase, well above the 6% assumption used in the previous Monetary Policy Report, will generate more persistent inflation pressures.

The central bank views wage growth as a significant inflation risk under most scenarios considered. Given the lagged nature of wage pass-through, the full impact is expected to be felt more strongly in 2027. As a result, inflation is not expected to return to target until 2028, when it is forecast to average 3.3%. The BSP also warned that inflation could rise sharply and potentially peak at elevated levels in 4Q26 before gradually easing thereafter.

Price stability remains BSP’s primary objective

On growth, Governor Eli Remolona acknowledged that economic activity has been weaker than expected but remained confident that growth will recover more meaningfully in 2027. He argued that the current monetary policy stance is not constraining activity, noting that the real policy rate is only around 1.75%. Remolona stressed that the BSP's mandate is price stability and that monetary policy has limited scope to directly support growth. Instead, he emphasised that the government should make greater use of its available fiscal space to support economic activity.

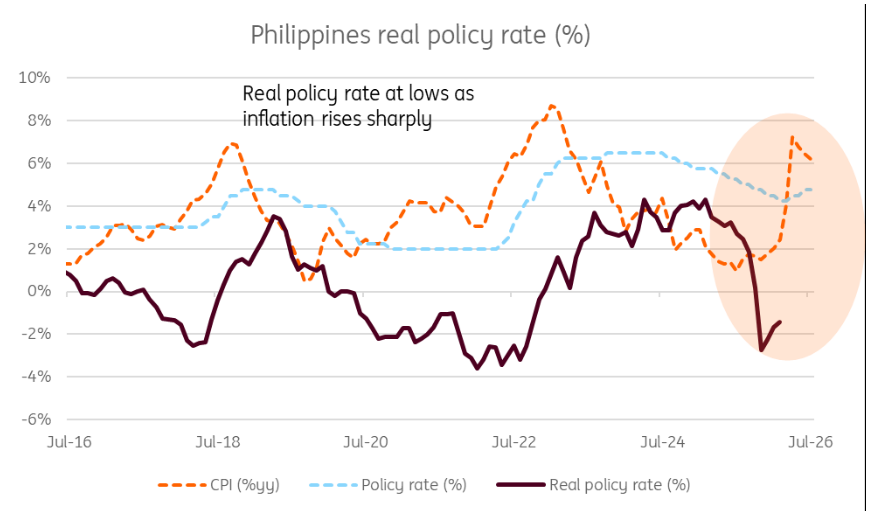
Rate hiking cycle isn’t over yet

We continue to expect one additional 25bp rate hike in 4Q26. Uncertainty surrounding the severity and duration of El Niño, the persistence of higher oil prices, and the transmission of recent wage increases is unlikely to be fully resolved before then. More importantly, while these risks could keep headline inflation volatile over the coming months, we believe the BSP will be looking for convincing evidence that core inflation is decelerating before calling a peak in rates.

Such a trend would provide greater confidence that the second-round effects from food prices, energy costs and wage growth are beginning to fade. Until that happens, the BSP is likely to maintain a hawkish bias and remain focused on ensuring that inflation expectations stay firmly anchored.

Moreover, real policy rates are now close to historical lows, while interest rate differentials between the Philippines and the US have narrowed significantly. This could place additional pressure on the peso, particularly at a time when US Treasury yields have risen sharply. Against this backdrop, the BSP is likely to remain cautious about pausing rate hikes prematurely.

Real policy rates at historical lows



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