

# Philippines

## Central bank keeps monetary policy steady amid signs of rising inflation

- **BSP keeps key policy rate unchanged at 3.0%**
- **Central bank expects inflation to pick up in 2017 and 2018**
- **Philippines PMI signals strong economic expansion in Q3**

Robust economic growth and relatively benign inflation led the Bangko Sentral ng Pilipinas (BSP), the Philippines' central bank, to hold monetary policy unchanged in November. However, signs of accelerating inflationary pressures are likely to make it harder for the BSP to keep the key policy rate unchanged in subsequent meetings.

The Philippine central bank decided to keep the key interest rate (reverse repurchase facility) steady at 3.0%, but is projecting that average inflation is likely to rise next year. While the BSP noted that prospects for global economic growth are seen as subdued, the outlook for the Philippine economy remains upbeat.

### Robust growth as prices rise

The central bank's assessment confirmed the [Nikkei Philippines Manufacturing PMI](#)'s signals of solid economic expansion and rising inflation. Latest survey data showed that strong client demand, especially from domestic sources, continued to drive improvements in manufacturing conditions at the start of the fourth quarter.

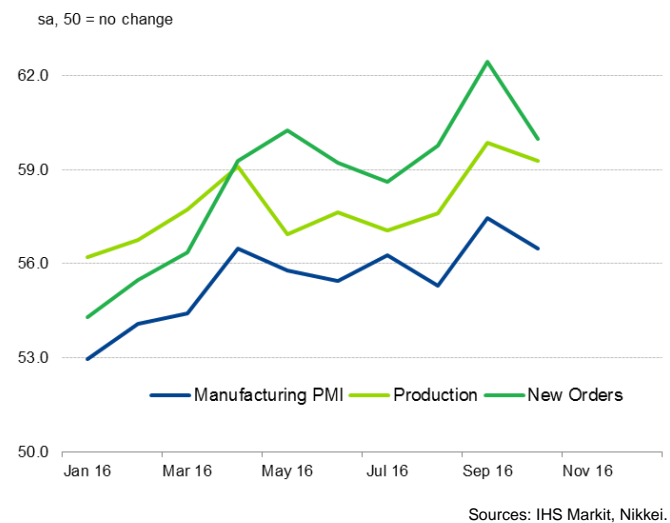
Consistently solid PMI readings in the third quarter suggest another strong quarter of economic growth. Gross domestic product for the third quarter will be published on November 17<sup>th</sup>, with the government expecting the economy to have grown at an annual rate of between 6.3% and 7.3% in the third quarter.

Solid expansions in private consumption and investment should continue to spur domestic economic activity. Prospects of greater public spending are also expected to further boost the domestic economy in the coming quarters.

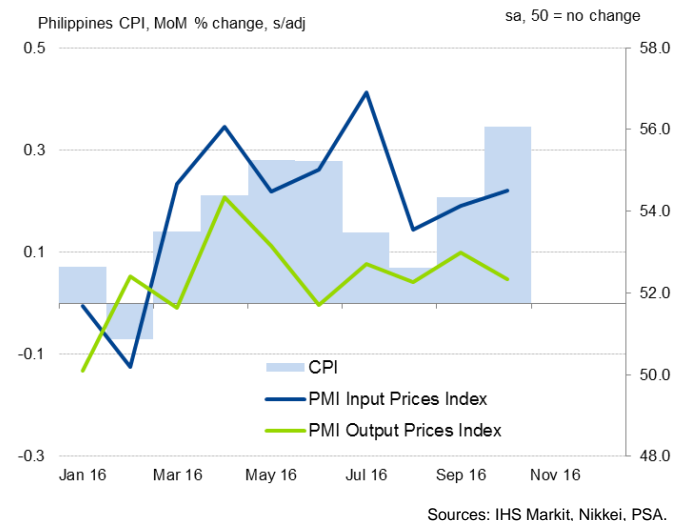
However, the survey data also show the trend of increasing cost burdens having persisted in October. This development was consistent with upward price movements across most of Asia. Greater raw material prices were reportedly behind the higher input costs. For the Philippines, the depreciation of the peso also contributed to increased costs of imports.

Overall, a combination of robust economic growth and rising inflation may influence the BSP to consider hiking interest rates from the current record low level. There is one more monetary board meeting left this year on 22 December.

### Nikkei Philippines Manufacturing PMI



### Inflation and supply chain constraints



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