



# Mizuho Chart Speak: Philippines

Economics & Strategy | Asia ex-Japan

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## Inflation Introspection

*In a nutshell:* Headline line rose further to 8.1% YoY in December from 8.0% in November, taking the annual average to 5.8%. This is well above Bangko Sentral ng Pilipinas (BSP) 2-4% headline inflation target range, even with BSP hiking by an aggressive 350bp in 2022.

A closer look at the drivers of inflation suggests that price pressures are still broad-based and unlike regional peers, headline inflation has shown limited signs of peaking in the Philippines. Core inflation itself picked up to 6.9% YoY December from 6.5% in November, pushing the 2022 average to 3.9%. All these point to still aggressive rate hikes by BSP in Q1 2023; we expect another 75bp in hikes taking the policy rate to 6.25%. Beyond Q1, we expect headline inflation will start to ease taking the pressure off BSP. Even so, the balance of risks is tilted towards more, rather than less, hikes.

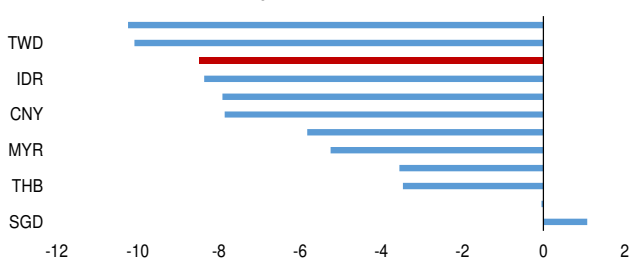
### Broad-based price pressures

The December CPI print underscores the broad-based nature of inflation drivers in the Philippines. Even if headline inflation rose by a less-than-expected 8.1% YoY from 8.0% in November, the jump in core inflation to 6.9% from 6.5% was significant. In addition, food and utilities inflation rose further in December more than offsetting the decline in transportation inflation.

### Food inflation will remain sticky as imported price pressures persist

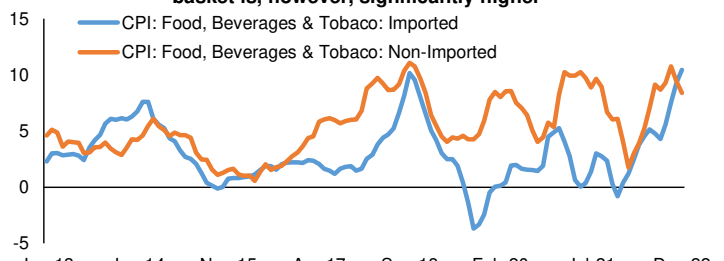
Food inflation has been inflicted by importation costs woes. PHP lost ~8.5% of its value to USD in 2022 raising the costs of imports significantly. Looking into 2023, PHP depreciation pressures are likely to be sustained given the economy’s ‘twin deficit’ position.

PHP depreciation pressures were pronounced in 2022; fundamental vulnerabilities such as the existence of 'twin deficits' makes PHP susceptible to bouts of weakness in 2023



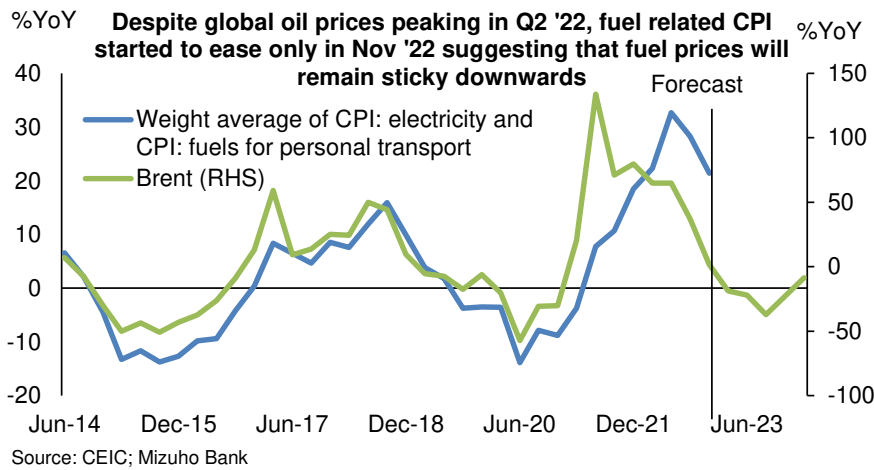
Source: Bloomberg; Mizuho Bank

The imported component of food inflation continued to rise even as the non-imported component is showing incipient signs of easing; the weight of the imported food basket is, however, significantly higher



Source: CEIC; Mizuho Bank

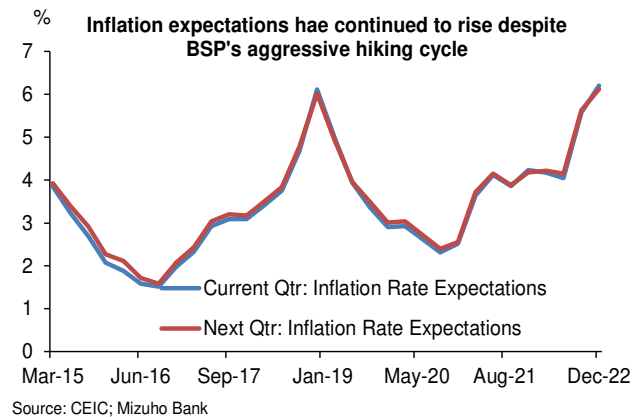
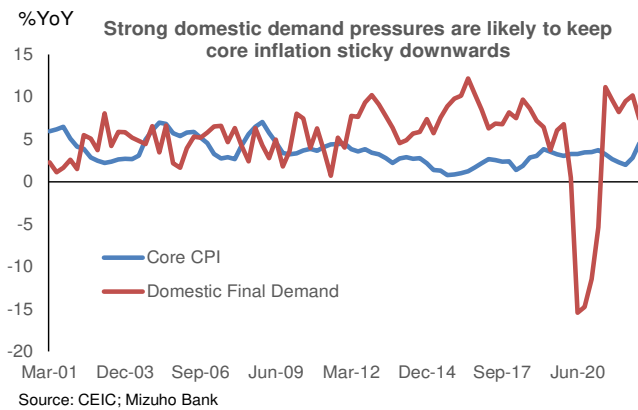
### Retail fuel prices are taking longer to adjust downwards than in previous cycles



Unlike in previous episodes, the moderation in global Brent prices is taking more time to pass-through onto domestic retail fuel prices. In turn, inflation for the associated components of the CPI basket has remained elevated. We suspect this is likely because of steady increases in petroleum excise duties since 2018-2020 slowing the pass-through of lower global oil prices.

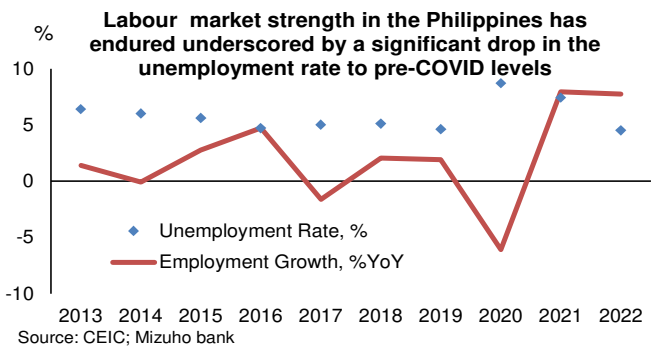
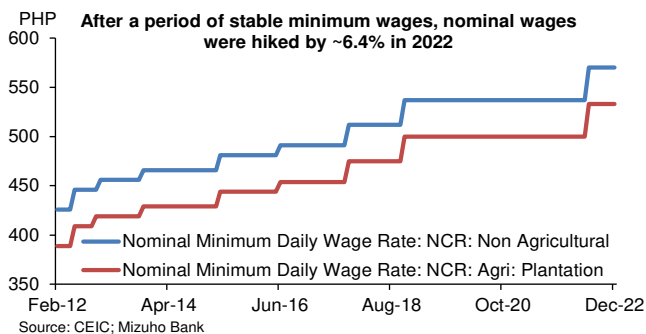
### Strong domestic demand pressures are not helping...

Core inflation may continue to be lifted by robust domestic demand while inflation expectations have continued to rise sharply.

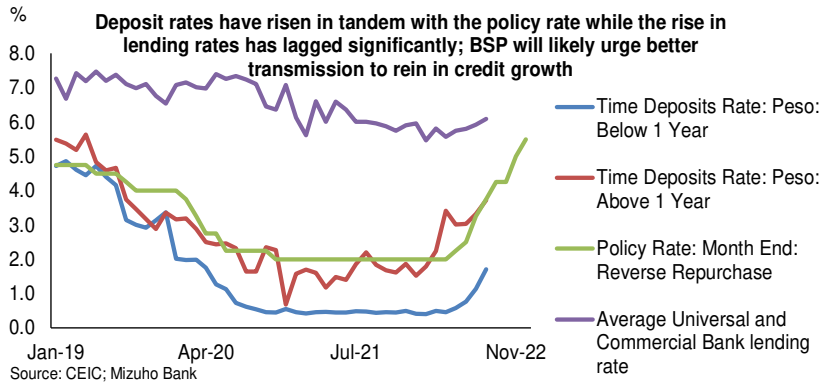


### ...similar to the strong labour market dynamics

Coupled with strong labour market dynamics, reflected in strong minimum wage increases and sharply declining unemployment, we expect core inflation to remain elevated in H1 2023.



## Keeping an eye on policy transmission



**The transmission from the policy rate hikes onto lending rates has been weak. Lending rates have barely moved 14bp compared with the 350bp hike in policy rates. By contrast, deposit rates have risen in tandem with policy rate increases. A higher pass-through from policy rate onto bank lending rates will help rein in credit growth.**

## BSP Cannot Let Its Guard Down

The upshot is that **BSP will have to contend with elevated price pressures much longer than regional peers. This implies that its hiking cycle will be sharper than regional peers, with the risk that GDP growth engineered to slow may do so in an abrupt and painful manner.**

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