Macro Note

Philippines: BSP steps up inflation fight with a surprise 50bps hike

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- The Bangko Sentral ng Pilipinas (BSP) raised its target reverse repurchase (RRP) rate by 50bps to 5.50%, exceeding market expectations. This marks the first 50bps hike since Feb 2023 and the fourth consecutive increase this year. BSP cited broadening inflation pressures and rising upside risks, underscoring the need for a stronger policy response to ensure sufficiently restrictive conditions, contain second-round effects, and anchor inflation expectations.

- The Oct Monetary Policy Statement (MPS) adopted a more hawkish tone than the Aug review, reflecting heightened concern over inflation persistence and a clear preference for price stability over growth considerations. The central bank raised its 2027 inflation forecast to 6.0% from 5.4% (UOB est: revised to 5.5% from 4.0%), while maintaining projections of 6.1% for 2026 and 3.3% for 2028. Key upside risks continue to stem from minimum wage hikes, weather-related food supply disruptions, prolonged geopolitical tensions, elevated global energy prices, and currency volatility.

- The BSP's stronger forward guidance suggests that the tightening cycle is not yet complete. Given the central bank's increased focus on inflation risks, its willingness to maintain restrictive policy settings, and our expectation of further Fed tightening (see link), we now forecast two additional 25bps rate hikes, one in Dec 2026 and another in 1Q27. This would lift the target RRP rate to 6.00% by end-1Q27. We then expect rates to remain at this projected terminal level for the rest of 2027.

A larger hike signals a hawkish shift

The Bangko Sentral ng Pilipinas (BSP) raised its target reverse repurchase (RRP) rate by 50bps to 5.50%, significantly exceeding market expectations. Only one of the 25 economists surveyed by Bloomberg had anticipated such a move, while the consensus, including our forecast, had been for a more modest 25bps increase.

The decision marks the first 50bps hike since Feb 2023 and the fourth consecutive rate increase this year, bringing cumulative tightening this year to 100bps. The central bank justified the larger move by citing broadening inflationary pressures and mounting upside risks, emphasizing the need for a stronger policy response to ensure sufficiently restrictive monetary conditions, contain second-round effects, and firmly anchor inflation expectations.

In other words, the Oct Monetary Policy Statement (MPS) adopted a notably more hawkish tone than the Aug review, signaling that inflation has become an even higher policy priority. The Monetary Board (MB) noted that inflationary shocks are no longer merely prospective but are increasingly feeding into actual price developments, with transportation fare hikes cited as a realized source of upside pressure. Reflecting these developments, the BSP significantly revised its 2027 inflation forecast higher to 6.0% from 5.4% previously (UOB est: revised to 5.5% from 4.0%), while maintaining its projections of 6.1% for 2026 (UOB est: 6.0%) and 3.3%

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for 2028. Key risks to the inflation outlook continue to stem from minimum wage adjustments, El Niño and other weather-related disruptions to food supply, persistent geopolitical tensions, elevated global energy prices, and currency volatility.

By contrast, the MB appears more confident in the domestic growth outlook. It expects the Philippine economy to recover by 1Q27, supported by continued fiscal spending and improving sentiment. This assessment suggests that growth concerns have become less binding, providing the BSP with greater flexibility to focus on restoring price stability.

Further tightening remains likely

While the BSP's overarching policy objective remains unchanged, the balance of risks has shifted further toward inflation. The central bank now acknowledges stronger underlying price pressures and the materialization of previously identified inflation risks, reinforcing its willingness to keep monetary policy restrictive for an extended period. As such, the policy rate is unlikely to have reached its peak, and the tightening cycle may continue until there is clearer evidence that inflation is on a sustained path back toward the BSP's 2.0%-4.0% target range.

Importantly, the BSP's forward guidance has become more forceful, with less emphasis on policy conditionality and greater focus on its readiness to act further if necessary. Going forward, incoming inflation data will remain the key determinant of policy decisions, particularly as the BSP seeks to narrow negative real interest rates and eventually return them to positive territory. Coupled with our expectation of further Fed tightening (see link), which should help preserve interest rate differentials and limit depreciation pressure on the peso, we now anticipate two additional 25bps rate hikes, one in Dec 2026 and another in 1Q27, bringing the target RRP rate to 6.00% by end-1Q27. Thereafter, we expect the policy rate to remain at this projected terminal level through the rest of 2027. The final MB meeting of the year is scheduled for 17 Dec.

BSP Monetary Board meeting outcomes, inflation targets

Source: BSP, UOB Global Economics & Markets Research

Meeting Date	Outcome			
	Reverse Repo Rate (% p.a.)	Change (bps)	Reserve Requirement Ratio (%)	Change (bps)
19 Feb 2026	4.25	-25	5.00	-
26 Mar 2026**	4.25	-	5.00	-
23 Apr 2026	4.50	+25	5.00	-
18 Jun 2026	4.75	+25	5.00	-
27 Aug 2026	5.00	+25	5.00	-
22 Oct 2026	5.50	+50	5.00	-
17 Dec 2026				

**Unscheduled Monetary Board Meeting

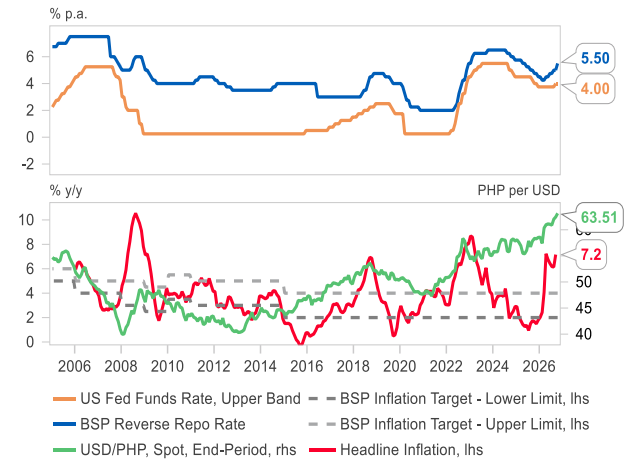
BSP's Risk-Adjusted Inflation Forecast (%)*

Year	22-Oct-26	27-Aug-26	18-Jun-26	23-Apr-26	26-Mar-26
2026	6.1	6.1	6.4	6.3	5.1
2027	6.0	5.4	4.5	4.3	3.8
2028	3.3	3.3	3.1		

Red denotes lower forecasts compared to previous meeting; Green denotes higher forecasts compared to previous meeting; while White denotes unchanged.
*Introduced since 26 Oct 2023 off-cycle meeting.

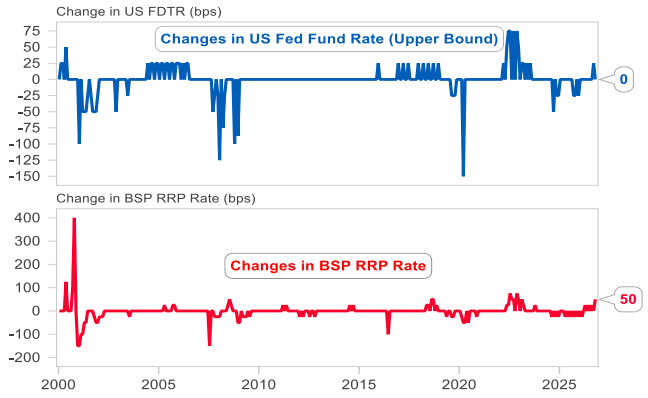
BSP delivered a jumbo 50bps hike in Oct

Source: Macrobond, UOB Global Economics & Markets Research



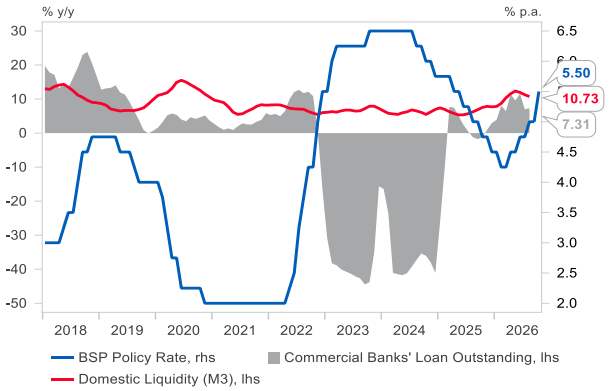
Historical changes in RRP rate versus Fed Funds Rate

Source: Macrobond, UOB Global Economics & Markets Research



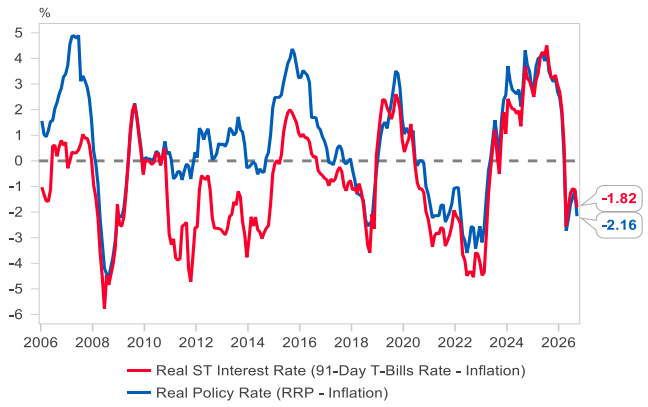
Domestic liquidity remains ample

Source: Macrobond, UOB Global Economics & Markets Research



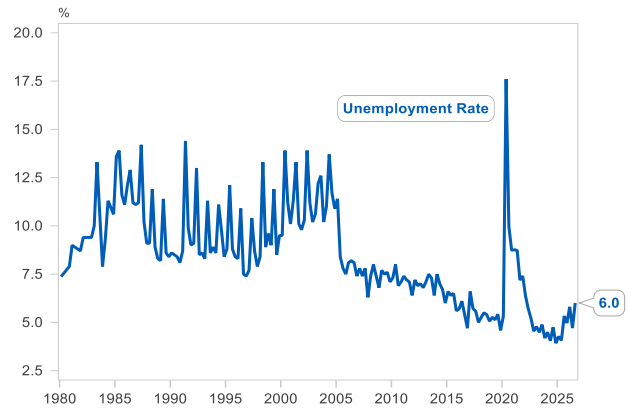
Real policy rates have turned negative since Apr 2026

Source: Macrobond, UOB Global Economics & Markets Research



Unemployment rate edged up to 6.0% in 3Q26

Source: Macrobond, UOB Global Economics & Markets Research



Our forecast for BSP rates

%	as of 23 Oct	4Q26	1Q27	2Q27	3Q27
Target Reverse Repurchase Rate	5.50	5.75	6.00	6.00	6.00
Overnight Deposit Facility	5.00	5.25	5.50	5.50	5.50
Overnight Lending Facility	6.00	6.25	6.50	6.50	6.50

Source: Global Economics & Markets Research

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