

Philippine's central bank announces phased RRR redux

The central bank will carry out a cumulative 200 bps cut to the RRR, 100 bps at the end of May, 50 by the end of June and another 50 by the end of July



16%

BSP Reserve Requirement Ratio

by end July

Central bank trims RRR with a twist, the 1st under Diokno

The Philippine's central bank followed through its recent policy rate cut with a reduction to its reserve requirement ratio (RRR) at a non-policy meeting on 16 May 2019, with a twist.

With inflation gliding back within target and expected to remain benign well into 2020, this was the perfect opportunity for the central bank to cut both the policy rate and reduce RRR more so with GDP dropping to 5.6%. In 2018, BSP announced the policy stance would be signalled by changes to the RRP, thereby removing RRR from the official statement and relegating it to an operational tool.

The BSP will carry out a cumulative 200 basis point cut to the RRR, 100 bps at the end of May, 50 by the end of June and another 50 by the end of July. The gradual reduction in RRR will definitely help alleviate the current tight liquidity conditions and complements its recent policy rate cut.

The right tool for the right problem

After slamming hard on the proverbial brakes in 3Q18 by jacking up rates by 175 basis points, the central bank believed it was time to give the economy a much-needed breather especially with the inflation objective well in hand. Meanwhile, with liquidity conditions tight, as evidenced by seven months of single-digit M3 growth and multi-year high time deposit rates, BSP looked to finally address the lack of funds circulating in the system. Deploying the appropriate tool to address specific ailments was key in this round of decisions despite being tempted to deploy one tool to address all concerns.

BSP to monitor price developments moving forward

We believe the central bank will remain data-dependent and forward-looking as they look to safeguard price stability to achieve an environment conducive for economic growth.

Moving forward, growth prospects appear to point north post-budget passage and all the more with slowing inflation and the recent BSP easing seen to drive both consumption and capital formation. But for now, after priming its “pacemaker” for growth, the BSP’s move for a “transfusion” was welcome as it complements its previous policy rate cut. Growth will likely fall within the government’s 6-7% target while inflation remains benign, all the while continuing BSP’s reform agenda.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group*

(being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.