BSP keeps powder dry, holds policy rate at 4.5%

The central bank of Philippines opted to gauge recent policy moves before acting again, leaving policy rates at 4.5%

BSP Governor Benjamin Diokno

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4.5%

Overnight reverse repurchase rate

Higher than expected

Data dependence is the mantra

In the wake of recent double-barreled easing, the Philippines central bank opted to keep the powder dry today as they look to gauge the impact of their recent policy moves.

Although Governor Benjamin Diokno pledged to slash borrowing costs further in 2019, the central bank chief also indicated that all moves would be data dependent. With the Federal Reserve in holding pattern overnight, the central bank decided to wait for further validation on its inflation path and more evidence of the fallout from the global trade war and finally how 2Q GDP growth stacks up.

Monetary policy conducive for economic growth

BSP's main task of keeping inflation in check is ultimately to provide an environment to help spur economic growth. 1Q GDP's stumble appears to have caught the attention of the central bank as the BSP opted to slash rates by 25 bps given that inflation had fallen rather quickly from its peak in September 2018.

The next policy meeting (8 August) coincides with the release of 2Q GDP growth, which should by all indications be an improvement from the 1Q print with the economy benefiting from the recent round of policy easing (RRP and RRR cuts) with the fiscal support also seen to boost growth momentum after being sidelined for most of the year.

Philippines prudent pause

The central bank opted to keep rates unchanged staying data dependent with moves engineered by evidence.

Current BSP inflation forecasts show 2019 inflation at 2.7% - down from 2.9%, while 2020 inflation is expected to settle at 3.0% (also down from 3.1%). If inflation reverts to its downward path and if signs point to anaemic growth despite the initial stimulus from both the monetary and fiscal side, we could see BSP slashing rates further in 3Q to help reverse 2018's aggressive rate hike cycle.

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