Philippines: Reserve requirement ratio cut may be on the way

Inflation forecasts have been lowered due to lower oil prices and base effects

4.75% BSP policy rate

As expected

Inflation hazard appears averted

The Philippine's central bank (BSP) kept policy rates steady with the threat of contemporaneous inflation likely in the rear view mirror. Forecasts continue to show inflation gliding back within target for the year, with the latest readings showing inflation at 3.07% in 2019 (from 3.18%) and to 2.98% (from 3.04%) in 2020 owing to lower oil price assumptions and base effects.

BSP continues however to preach "data dependency" and may await further validation that inflation will settle within target, by their own accounts, as early as end-1Q before changing course. Given the supply-side nature of the recent inflation spike, we can expect price pressures to dissipate further even as the rice tarrification bill remains unsigned and crude oil prices remain muted. BSP's inflation forecasts validate that the BSP is likely done with its tightening cycle, with a policy reversal in sight given slowing growth momentum and inflation in check.

Reserve requirement cut in the works, RTB to follow?

The central bank will likely slash reserve requirement ratios (RRR) as early as February with inflation decelerating while domestic liquidity conditions remain relatively tight (latest M3 growth registering four straight months of single digit expansion). We expect the BSP to announce a reduction in reserve requirements at an off-cycle meeting given the governor's assertions that the RRR is no longer a policy tool. Meanwhile, reports circulated on Thursday that the Bureau of the Treasury (BTr) was looking to issue a retail treasury bond (RTB) in the near term, with an RRR cut from the BSP one of the deciding factors for the timing of issuance.

Inflation in rear view mirror, time to ease off the brakes

The BSP slammed on the brakes in 2018 given the hazard of second-round effects in full view. Now that the inflation threat appears safely in their rear view mirror we can see the central bank easing off the brake pedal ever so slightly by cutting rates in May after reducing RRR in 1Q. With growth expected to teeter close to the edge of 6% given the recent budget delay and with the inflation objective safeguarded, BSP may finally opt to give the economy an added boost to regain flagging growth momentum.

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