Philippines central bank holds fire as expected

After aggressively rolling back policy rates and conducting operational adjustments, Philippines' central bank opted to gauge the impact of its latest moves before acting further

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4.0%
Reverse repurchase rate

policy rate

As expected

Waiting for the dust to settle

The Bangko Sentral ng Pilipinas (BSP) opted to keep policy rates unchanged with the overnight reverse repurchase rate (RRP) kept at 4.0%. After quite a busy 2019, the "pro-growth" governor decided it was time to weigh the impact of his recent accommodative moves to close out the year. Governor Benjamin Diokno, who had previously vowed to "normalise" rates, has kept the mantra of "data dependency" in guiding his policy decisions and we expect him to monitor

inflation forecasts and the economy's overall growth momentum going forward. Inflation is forecast to bounce from its recent reading of 0.8% (in October) as base effects wash out quickly and as meat, fish and chicken prices tick higher as consumers substitute away from pork. BSP lowered its inflation forecast for 2019 to 2.4% (from 2.5%) and retained the 2.9% inflation forecast for 2020 and 2021. Meanwhile, growth is expected accelerate but most analysts expect it to fall short of the government's growth target of 6.0-7.0%.

Appropriate for now but likely to ease further

Given a possible miss on the growth objective, we expect Governor Diokno to come out swinging in 2020 with up to 50 basis points of policy rate cuts to help bolster growth momentum. Next year, the government will be chasing a higher growth target of 6.5-7.5% and BSP may likely need to shore up fiscal stimulus while inflation dynamics allow them to do so. We also expect BSP to carry out its phased and pre-announced reductions to the reserve requirement ratio (RRR) in 2020 as Diokno looks to align the Philippines' RRR with regional peers. Although the exact timing may still be in question, we are confident that any form of adjustment, both policy and operational, will be guided by data and will be effectively communicated to the markets.

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