Philippines central bank stays on hold after busy year

Philippines Governor Diokno opted to pause at the last policy meeting of the year but expect him to be back in action in early 2020

4.0% Overnight reverse repurchase rate

As expected

BSP maintains policy stance after busy year

After a busy 2019, Philippines central bank opted to pause at the last policy meeting for the year and save some ammunition ahead of a projected global slowdown in 2020.

The central bank Governor, who slashed policy rates by 75 basis points throughout the year and reduced reserve requirements by 400 bps to 14%, noted a "benign inflation path" with the central bank expecting inflation to settle around 2.9% for 2020 and 2021.

Expect Diokno to come out firing in 2020

The Philippines is expected to post a relatively disappointing growth print for 2019 given the government budget delay and meltdown in capital formation and we expect this to prompt the self-professed pro-growth Governor to come out with additional easing in 2020.

GDP will likely cling to the lower-end of the government's 6.0-6.5% target with the Philippine economy needing stimulus from both the fiscal and monetary sides of the fence. Given this outlook, we expect the BSP to cut its policy rate by 25 bps as early as the February 2020 meeting and ease by a total of 50 bps next year. Meanwhile, we believe Governor Diokno will bide his time with regard to further reductions in RR as he opts to gauge whether the deluge of liquidity released from previous RR cuts are actually feeding into the productive sectors of the economy.

Peso to enjoy short term strength, 2020 could be different

Given the central bank decision to pause, we maintain our call for further peso appreciation bias to end the year on seasonal flows from overseas Filipino migrants although the recent sell down in the local equity market could limit the peso's gain.

However, given the projected acceleration of the government's infrastructure program, we expect the Peso to face renewed depreciation pressure in the coming months as the trade balance is forecast to widen further into deficit.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com