Philippines: BSP keeps rates unchanged, looks to fiscal policy

Monetary authorities in the Philippines keep rates unchanged but still find a way to inject even more stimulus into the financial market

Benjamin Diokno, Govenor of the Philippines' Central Bank (BSP)

2.25% Overnight reverse repurchase rate

As expected

BSP holds off on cutting policy rates

After dropping borrowing costs by 175 bps and flooding the market with liquidity, Bangko Sentral ng Pilipinas (BSP) Governor Diokno opted to keep policy rates unchanged. Inflation remains well within the 2-4% target although inflation-adjusted policy rates are expected to remain negative for the remainder of 2020 (BSP inflation forecast at 2.6%), possibly one reason the central bank opted to refrain from cutting policy rates further. Governor Diokno had previously mentioned that he saw “no compelling reason to cut rates further” and that policy rates would likely be untouched for “at least two quarters”. Diokno did give a positive outlook for growth, saying that they noted some early signs of a recovery, however, we are not so optimistic given the still-elevated number of Covid-19 daily infections.

Monetary stimulus takes a backseat, looks to fiscal stimulus to complement flurry of moves

Despite keeping the policy rate untouched at today's meeting, the central bank opted to relax the cap of banks' exposure to real estate from 20% to 25% in a bid to bolster loan activity. Diokno estimates that the move would make roughly Php1.2 trillion available for lending to the sector. However, we believe that slowing loan growth reflects stalling demand due to depressed economic activity and the fragmented labour market.

Monetary authorities will likely hold off on further rate cuts in 2020 and look to fiscal stimulus to complement the flurry of moves from the BSP to jump start economic growth. With the economy in recession and the BSP likely running out of options to boost growth, fiscal authorities may need to front-load expenditures to avoid another quarter of double-digit contraction.