Philippines' central bank may double down on rate cuts, and soon

With the Federal Reserve fast-tracking stimulus efforts, look to the Bangko Sentral ng Pilipinas to front load rate cuts in the face of Covid-19

The Diokno double down

BSP Governor Benjamin Diokno had previously signalled his intention to cut policy rates by 50 basis points in 2020 to gradually bring lending rates to more "normal levels". The market had previously priced in a 25bp rate cut at the 19 March meeting but events have quickly overtaken this forecast with the national government imposing a "community quarantine" in the capital Manila, and the Federal Reserve dropping the Fed funds target range by 100bp over the weekend. With several

Asian central banks holding meetings this week, will the BSP follow suit with aggressive policy action?

In an interview on Monday morning, Diokno signalled that a 25bp cut was all but a done deal while hinting at potentially more aggressive action. In light of this, we now expect the BSP to slash the policy rate by at least 50bp to help cushion the economy from the adverse impact of the virus, while the inflation outlook is softening further amid a plunge in global crude prices.

Bring out the heavy artillery

Diokno did share previously that targeted fiscal stimulus would be more effective to counter the slowdown in economic activity, however pending legislation for the supplemental budget for medical supplies (HB 6177 worth $30 million) and a Covid-economic rescue package (HB 6606 worth $2.1 billion) we believe BSP will act to deliver its own monetary stimulus by accelerating its rate cut plans. BSP will likely slash borrowing costs by 50bp to help stimulate growth while also making liquidity available via possible reductions to the reserve requirement (RR) or reductions to the volume of its term deposit facility. Such moves will complement existing facilities such as the peso rediscounting and dollar rediscounting windows to help banks manage their cash flows.

Given the size and scope of the impending economic slowdown and financial market stress from the Covid-19 outbreak, we cannot rule out a possible “all-in” scenario where Diokno slashes policy rates by 75bp and or advances the policy decision even before the scheduled 19 March meeting.

Despite the potential aggressive easing from the BSP, the local bond market may react more to global developments while the peso will face only mild depreciation pressure with the Philippines still viewed by investors as the economy to be least affected by Covid-19 relative to peers in the region.

Author

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