

Philippines: Central bank cuts policy rate as global outlook dims

Eyeing the economic impact from the coronavirus, Philippines' central bank carried out a "pre-emptive" rate cut to insulate growth



3.75% policy rate

As expected

BSP cuts by 25 basis points with an eye on the global outlook

The Bangko Sentral ng Pilipinas (BSP) cut policy rates as expected, trimming the overnight reverse repurchase rate to 3.75%. Despite the upside surprise on inflation for January (2.9% vs 2.7% median forecast), Governor Benjamin Diokno opted to carry out a pre-emptive rate cut, citing the impending slowdown linked to the coronavirus. Diokno previously indicated that the virus outbreak could shave up to 0.3 percentage points off growth and that monetary easing would be carried out with an eye to bolstering growth momentum, given the government's higher growth aspiration of 6.5-7.5% GDP.

Inflation expected to remain within target, easing to continue

With the recent uptick in inflation and expected bounce due to reverse base effects, the BSP adjusted its inflation forecast for 2020 to 3.0% (from 2.9%) but retained its 2021 forecast at 2.9%. The still-benign inflation outlook affords the central bank scope to continue easing monetary policy, with Diokno primed to carry out a second rate cut sometime within the first half of the year. Diokno had previously telegraphed up to 50 basis points worth of policy easing in 2020, and we expect him to cut policy rates again, as early as the May meeting.

Meanwhile, the BSP will likely shelve plans to adjust the reserve requirement (RR) given that recent cuts to the RR have not translated directly into bank lending activity. Diokno noted that a mere 30% of liquidity released through RR has been channelled to the productive sector, with the bulk of the Php400 billion infusion simply returning to the BSP via its overnight facilities. Thus we expect RR reductions to be pushed back, likely to the second half of the year.