

Philippines: Central bank keeps rates unchanged after 1Q GDP miss

Bangko Sentral ng Pilipinas retained its policy support for an economy struggling amidst the pandemic



The central bank of the Philippines as seen from the CCP Grounds

2.0% BSP policy rate

As expected

BSP retains key rate at 2.0%

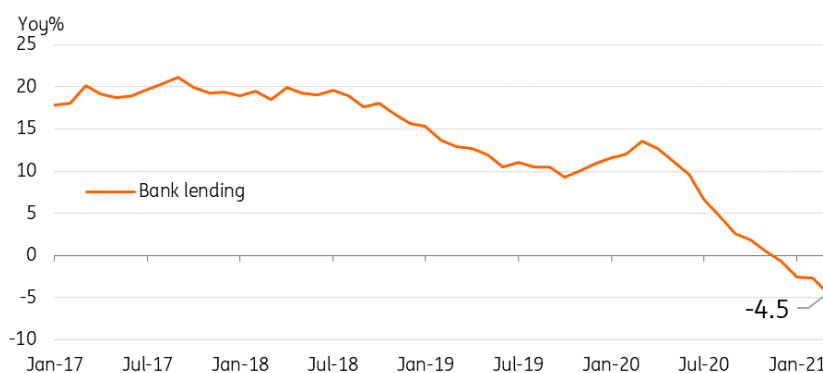
Bangko Sentral ng Pilipinas (BSP) kept its policy rate at 2.0%, a move widely expected by market participants. With the economic recovery in question after 1Q GDP disappointed at -4.2%, BSP Governor Benjamin Diokno opted to retain substantial monetary support to complement the ongoing fiscal stimulus measures. Meanwhile, the central bank trimmed its inflation forecast for 2021 to 3.9%, back within target as price pressures appear to be dissipating after the deployment of supply side remedies to address tightness in food supply. Sliding inflation forecasts give the central bank more breathing room to keep policy rates unchanged and maintain extraordinary

support for the economy a little longer.

Lost in translation

Despite significant easing by the central bank, bank lending continues to slide deeper into negative territory with the latest bank lending report showing another month of negative growth, down 4.5% in March. Given the downbeat economic outlook, loan demand appears to be soft with households and firms pushing back expansion plans until the economy improves. Meanwhile, banks have also tightened credit standards given elevated levels of risk, which is also tied to the successive quarters of negative GDP performance. BSP has shared that the lagged impact of the 200bps cumulative rate cut in 2020 will be more pronounced, with bank lending to reverse course as the economy improves. We expect bank lending to recover by 3Q as base effects from last year's swoon reverse and with demand for credit returning as the economic recovery gets under way.

Commercial bank lending in the red yet again



Source: Bangko Sentral ng Pilipinas

Diokno maintains stance to hasten recovery

The Monetary Board believes that sustained support for domestic demand remains a priority for monetary policy - Diokno

BSP Governor Diokno reiterated his support for the economy, vowing to deploy the full range of tools needed to bolster and hasten the recovery. Fading inflation pressures take some of the pressure off the central bank to tighten policy in the near term and we expect BSP to keep policy rates unchanged for the balance of the year. The latest revision to the inflation forecast validates the current monetary stance with expectations for a rate hike set aside for now. We forecast inflation to decelerate in the coming months with the BSP keeping the policy rate at 2.0% for the balance of the year.