Philippines central bank pledges to buy government securities

With growth projections dimming, the central bank is pumping even more stimulus to help support the economy

PHP 300

Short term securities for BSP to purchase (in bn)

Repurchase agreement with the Treasury

New repurchase agreement with the Treasury

The Philippines central bank has revealed it would purchase up to PHP 300 bn worth of short-term securities under a repurchase agreement with the Bureau of the Treasury in a bid to inject a fresh round of liquidity into the market and to keep a lid on interest rates in the process. The central bank will purchase securities of up to the 6-month tenor after slashing policy rates by 75 basis point year to date and lowering rates on its rediscounting window.

The central bank has done much of the heavy lifting in terms of stimulus efforts to combat the economic fallout from Covid-19, but even after all this, they have ample monetary room with the policy rate at 3.25% and reserve requirements at 14%.

Fiscal rescue package?

In the early stages, the government rolled out a PHP 27bn (0.1% of GDP) stimulus package frontloaded to help support the tourism sector and to purchase medical equipment to combat virus. Since then the entire island of Luzon, which accounts for 74% of economic activity, has been placed on enhanced community quarantine with economic activity grinding to a halt. Calls for a more substantial and targeted fiscal rescue package have mounted with lawmakers proposing a PHP 108bn spending bill under House Bill 6606.

Senate President Sotto has indicated that they are open to proposing a PHP 200bn (1% of GDP) rescue plan with lawmakers vowing swift action to help keep the economy afloat until the end of the community quarantine.

The central bank's repurchase agreement with the Treasury may be used to help fund the planned fiscal rescue package that hopefully covers 1) income replacement, 2) tax forbearance and 3) liquidity/loan support.

Central bank vows to provide liquidity

On top of this recent move, the central bank has vowed to ensure ample liquidity in the market and is likely to continue to keep the term deposit facility (TDF) window closed until further notice. The TDF window had routinely siphoned off roughly PHP100bn worth of liquidity but given tightening liquidity conditions most banks will likely not be able to access the deposit window.

We expect the central bank to remain open to further easing via rate cuts and possible reductions to the reserve requirements to keep businesses and individuals afloat.