

Philippines: Central bank slashes policy rates by 50 bps to help fend off Covid-19

With the government implementing a lockdown in Luzon, the BSP has provided monetary stimulus to help offset the impending economic slowdown



3.25% overnight repurchase rate

As expected

BSP cuts policy rates by 50 bps

In a move widely expected by market players, the Bangko Sentral ng Pilipinas (BSP) slashed the policy rate by 50 bps amidst the ongoing threat of Covid-19. The number of confirmed cases have been accelerating, with the national government ordering an enhanced community quarantine on the entire northern island of Luzon, which accounts for 74% of total GDP output. With the imminent downturn in economic activity and the softening of the inflation outlook due to the drop in global crude oil prices, the BSP was afforded even more scope to cut policy rates. The BSP also relaxed some regulations to help combat possible tightening in liquidity conditions - lowering rates on their rediscounting window and relaxing penalties on reserve requirements and single borrower limits.

GDP outlook still dim

Despite the move by the central bank, the economic outlook remains dim, with the bulk of the economy shuttered due to the enhanced community quarantine. Lower rates would do little to ignite loan demand, given that more than half of the workforce is holed up in their homes facing strict curfews and restrictions on movement. With the central bank moving aggressively, we now await additional action on the fiscal front with the government rolling out a Covid-19 fiscal stimulus package worth a mere \$27bn, roughly 0.1% of GDP.

BSP to provide additional liquidity

We expect the BSP to roll out additional measures to ease liquidity conditions further, such as the lowering of the term deposit facility volumes and/or reductions to reserve requirements in the near term. In times of uncertainty, economic agents will likely want to hold on to cash, with banks required to remain open to service withdrawals. Bond yields will likely look past this move by the BSP and take direction from global events while the Peso may face weakness on the dimming outlook and economic activity on pause.