Philippines central bank to hold fire

After a busy 2019, Bangko Sentral ng Pilipinas (BSP) is expected to keep policy rates unchanged and gauge the impact of its recent round of easing

BSP expected to hold rates steady on Thursday

After unloading a salvo of rate cuts and a hefty round of infusions of liquidity throughout 2019, BSP Governor Benjamin Diokno is widely expected to hold fire on Thursday. Market consensus points to a pause, with all 19 participating analysts in the Bloomberg survey expecting BSP to stay on hold. The self-professed "pro-growth" governor moved swiftly to unwind BSP's previous rate hike cycle, cutting policy rates by a cumulative 75 basis points year-to-date, but he recently indicated that the current monetary stance is "appropriate".

Pro-growth governor to wait for dust to settle

After the string of rate cuts and flurry of reductions to the reserve requirement (RR), we expect Governor Diokno to gauge the impact of his recent policy moves before he acts again. The recent 3Q GDP outcome beat market consensus and limits pressure on Diokno to deliver an immediate policy reduction. But given his pro-growth leaning, we expect him to factor 4Q 2019 GDP (release on January 2020) into his policy direction next year. Meanwhile, the governor appears to have fully embraced the mantle left by the late BSP Governor Nestor Espenilla, championing cuts to the reserve requirement with 400 bps worth of reductions under his belt, so far. We expect the BSP to continue to monitor the impact of its RR reductions given that successive rounds of liquidity infusions have had only a marginal impact on bank lending thus far, as freed up funds have simply driven the local bond rally further.

Pro-growth Governor to continue to “normalize” in 2020

Diokno began his term indicating that he would like to “normalise” rates after they had been raised to what he termed “crisis level” rates. Given the benign inflation environment and his pro-growth leaning, we expect Diokno to continue to partially unwind the previous rate hike to bolster growth momentum given that the government is chasing a higher growth target of 6.5-7.5% (from 6.0-7.0% in 2019) by 2020. We are currently pencilling in up to 50 bps worth of rate cuts in 2020, with the first move possibly as early as 1Q should full-year 2019 GDP come in right at the lower end of the government target of 6%. Meanwhile, we expect Diokno to continue his directive to lower the RR in a phased and well-telegraphed manner with up to 200 bps worth of reductions carried out evenly throughout the course of 2020.

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