

## Philippines: New law opens door for more BSP “burden sharing”

The Philippine central bank gets the green light to lend more funds to the national government to combat Covid-19



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The newly signed Bayanihan 2 law raises the cap on the amount the central bank can advance to the national government from Php540 bn to Php812 bn. At the height of the crisis, the Bangko Sentral ng Pilipinas (BSP) supported the national government by advancing Php300 bn to help fund Covid-19 relief efforts, with the national government struggling to collect revenues during the lockdowns. The advance was made via a three-month repurchase agreement (extendable to six months) that will expire at the end of this month. The timely passage of the new law opens the door for a more hefty “burden sharing” arrangement between the fiscal and monetary authorities.

## Debt monetisation taboo no more?

Debt monetisation had previously been considered taboo in central bank circles given the negative implications on the currency and inflation. With the peso the best performing currency, inflation well within target and the government cash-strapped due to lower revenue collections, the BSP will likely be open to upsizing its current advance to the national government to help manage the financial burden on state coffers and help combat the economic fallout from the pandemic.

## Bank Indonesia's "burden sharing"

Bank Indonesia (BI) recently partnered with the national government for a so-called "burden sharing" agreement with the central bank buying up bonds in the primary market to keep borrowing costs at a minimum. The proceeds of the bond purchase went directly to Covid-19 relief efforts with President Jokowi vowing to accelerate spending all the way through to 2021. Stimulus efforts on the part of the Indonesian government are on the way, but concerns that Indonesia could revert to additional rounds of "burden sharing" have investors on their toes. The investor community allowed both Indonesia and the Philippines a pass for the initial round of debt monetisation but the question now is whether market participants will react negatively to additional rounds of burden sharing in the coming months.

## Central bank independence and precious credibility

In Indonesia, concerns about central bank independence remain elevated given recent legislative proposals to increase the influence of the Finance Ministry over monetary authorities. Such a move would likely open the door for additional bouts of burden sharing, with heightened anxiety over this development reflected in pressure on the Indonesian rupiah, recently rising to 14930 as of 14 September 2020. Bank Indonesia reiterated that the 2020 burden sharing agreement was a "one-off" occurrence but the market remains sceptical after the recent proposal to revise the composition of the monetary board.

Over in the Philippines, with the BSP getting the green light to increase the size of cash advances to the national government we can expect a possible second round of debt monetisation of up to Php812 bn as soon as the initial repurchase agreement settles at the end of the month. The near term impact on inflation and the currency may not surface immediately however repeated rounds of these "burden sharing" arrangements may begin to erode precious central bank credibility with BSP independence questioned as the line between fiscal and monetary authorities begins to blur considerably.