Philippines: No surprises to close out 2020, BSP keeps rates steady

Bangko Sentral ng Pilipinas (BSP) kept its policy rate at 2% after a flurry of activity in 2020

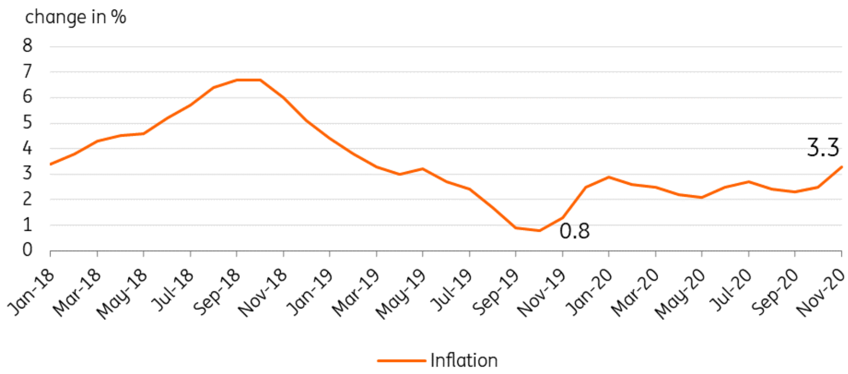
2.0% Policy rate

As expected

BSP keeps RRP policy rate at 2%

The Bangko Sentral ng Pilipinas (BSP) retained the overnight reverse repurchase (RRP) policy rate at 2.0%, pausing at the last meeting of 2020. Governor Benjamin Diokno surprised market participants with a 25 bps rate cut at the November meeting citing inflation as benign and the need to provide additional support to the ailing economy as reasons for the rate reduction. Since the November rate cut, headline inflation has zoomed to 3.3% due to a spike in food prices caused by a string of destructive typhoons. Despite the slight uptick in prices recorded last November, average inflation remains well within target but the surge in price pressures may have been enough to prompt a slight pause from Governor Diokno.

Philippine inflation



Source: Philippine Statistics Authority

Saving some ammunition for a tough year in 2021

BSP carried out aggressive monetary policy easing in 2020, slashing rates by 200 bps, reducing reserve requirements by 200 bps while also resorting to some unconventional monetary policy actions such as bond purchases and cash advances to the national government. Governor Diokno insists that despite the rapid fire rate cuts, the BSP continues to have ample ammunition and scope to provide additional monetary stimulus if needed. However, with real policy rates now at -1.3% and inflation unlikely to fade in the near term, we believe BSP is slowly running down its available space to cut rates although we do not count out future rate cuts especially if economic activity remains subdued early on in 2021. Diokno may also resort to reducing reserve requirements as he has provisional authority to cut up to 200 bps more but given the current ultra-liquid state of the financial market (Php1.6 trn in excess liquidity), we do expect him to resort to this once liquidity conditions tighten somewhat.