Philippines: RRR reduced further to 14% on operational move

In a move not anticipated by most market players, Bangko Sentral ng Pilipinas trimmed required reserves (RRR) by another 100 bps.

Diokno speaks and delivers

Philippines central bank Governor Diokno commented a week ago that he was done cutting policy rates but was open to trimming the level of reserve requirement ratio (RRR) within the year. With inflation averaging a mere 2.8% year-to-date and forecasts pointing to within-target inflation, Diokno pulled the trigger on yet another round of reductions to one of the higher level of RRR in the region. RRR will end the year at 14%.

Sticking to his promise to be data-driven, the central bank Governor has cut both policy rates (-75 bps) and reserve requirements (-400 bps) throughout the year given sluggish growth momentum and tightness in liquidity.

Operational move

The reduction in reserves moves in line with BSP's broader financial reform agenda to reduce reliance on RRR as the central bank shifts to market-determined liquidity management tools. As such, it represent an operational adjustment to lessen financial intermediation costs and to simultaneously address current tight liquidity conditions. In the future, the BSP will lean more heavily on its now operational term deposit facility to siphon off excess liquidity at market based interest rates.

> Going forward, we expect Governor Diokno to deliver on his promise to whittle down RRR to single digits before the end of his term in 2023 with a possible 300 bps worth of reductions in the coming year for as long as inflation dynamics afford him the space to do so.