

Philippines: Surprise monetary easing

BSP, the Philippine central bank, cut its reserve requirement for banks by 1ppt to 19%. This is consistent with the bank's dovish bias



19%

Bank Reserve Requirement by March

Surprise monetary easing

BSP dovish bias through a cut in RRR would likely weaken Philippine peso

The cut in the reserve requirement ratio (RRR) is consistent with our perception of a dovish BSP bias following last week's statement on policy rates and upwardly-revised inflation forecast. The cut supports the view of greater tolerance towards a weaker currency. The 1ppt cut infuses P90bn of liquidity into the system. But higher offerings at the week's BSP Term Deposit Facility (TDF) auction would syphon out P50bn. BSP increased the weekly TDF offerings by P50bn to P110bn starting next week from P60bn last week. The net liquidity infusion is P40bn. The cut would still be seen as the BSP providing further stimulus to the system by encouraging banks to maintain lending and also to support the government's financing needs. We expect the currency to weaken.