Why normal could be better than ultra-low

My Top 3 Reasons

June 2025

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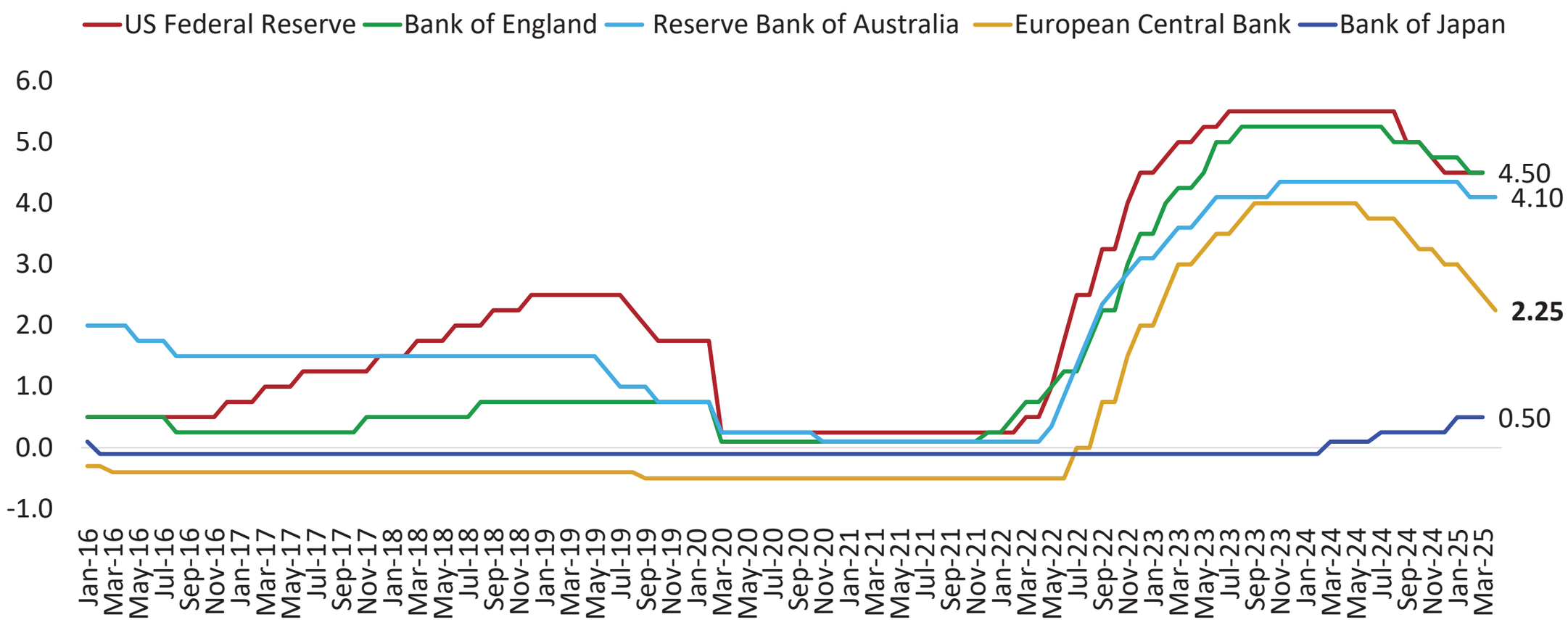


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ECB Cut by 25bps to 2.25% in Line with Consensus

Gov. Lagarde warned that the outlook for growth has deteriorated owing to rising trade tensions; market sees a June cut

Central Bank Policy Rates (%)



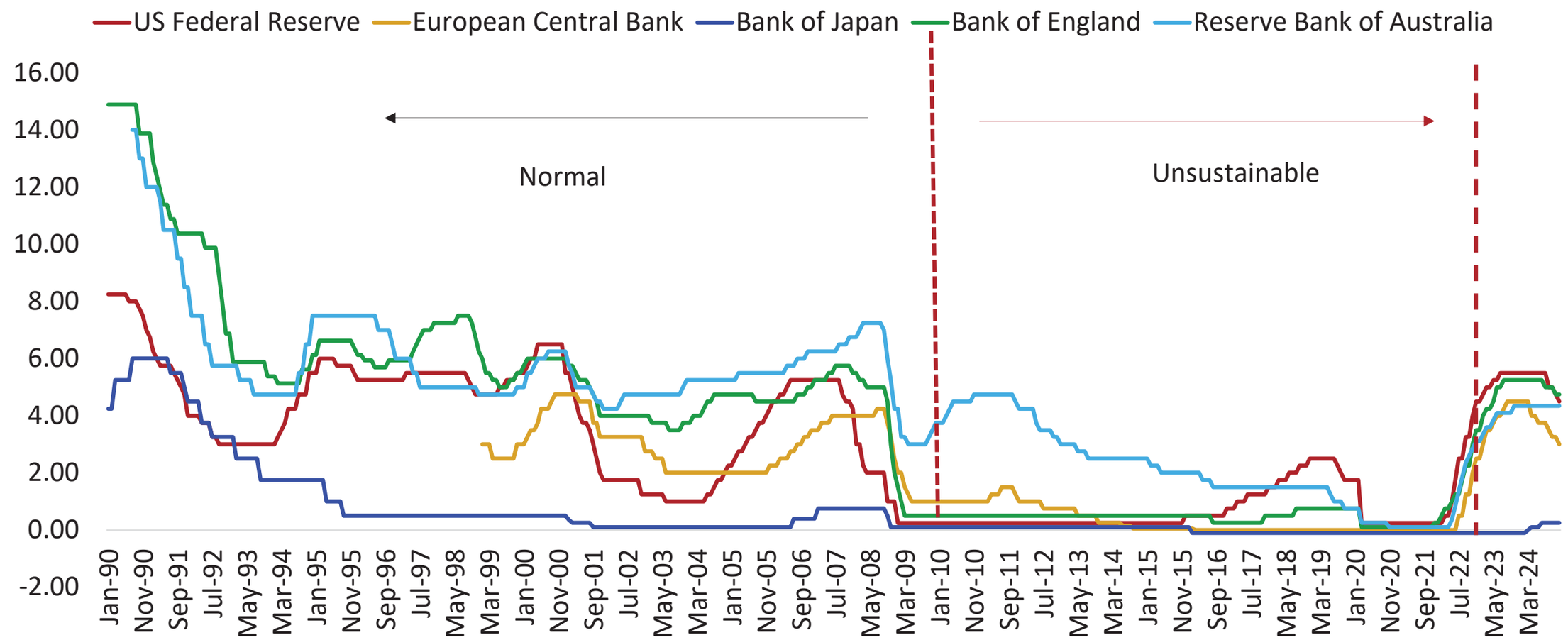
Source: CEIC, St Louis Federal Reserve, ECB Deposit facility: The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem at a pre-set interest rate. The Governing Council decided in March 2024 to continue to steer the monetary policy stance through this rate.

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Should we wish for “ultra-low”/ negative rates?

Median policy rate > 4.6% by end 2024, but less cuts for 2025 ending at 3.9% vs. the 3.6% forecast in the Dec 2023 meeting

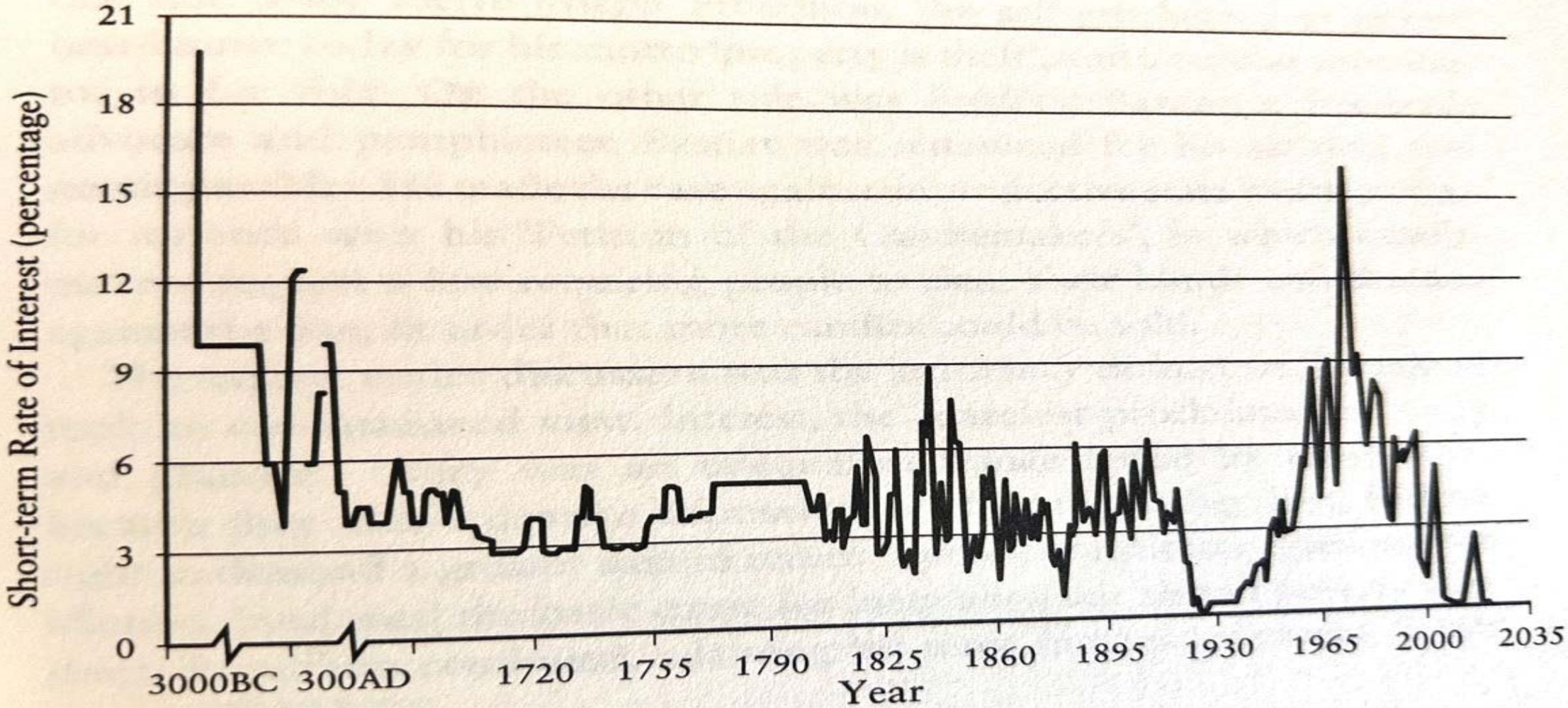
Central Bank Policy Rates (%)



Source: CEIC, St. Louis Federal Reserve, ECB Main Refinancing Rate is the interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html)

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Five millennia of interest rates



Ultra low rates…

1. Can risk a **postponement of** public & private policy **reform priorities** (e.g. RRR cuts); Can **discourage**, creativity and pro-active **innovation**

2. Widens **inequality**

3. Often lead to: FIs mispricing of risk, Property bubbles, capital shortfall when bubble bursts, bank **lending paralysis**

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Postpone & Discourage

Innovation

Policy Reform

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Who can thrive in “normal” setting?

- **Identified unmet needs:** They addressed real problems or emerging markets.
- **Innovated:** They developed new technologies, services, or business models.
- **Adapted:** They were able to navigate the challenging economic environment.
- **Persevered**: They had strong leadership and a vision that they pursued despite obstacles.

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Creative Destruction: J Schumpeter

- Industries/ Companies / Ideas get disrupted, become obsolete
- Innovation, entrepreneurship replace these dying sectors
- Preventing “Zombie Firms” from dying means depriving start ups/ innovators from emerging

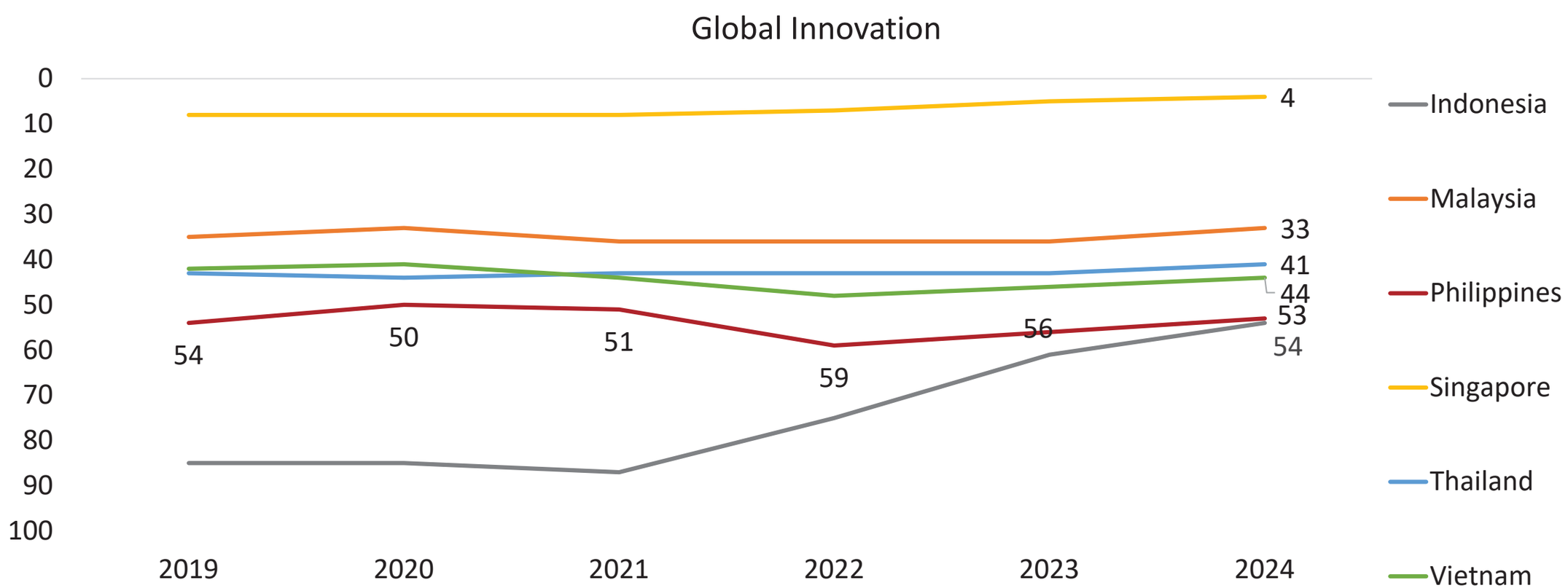


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PH Innovation regaining Traction After 2022 Dip

Continued effort is needed in R&D and education to sustain and improve this momentum

Global Innovation Index (Ranking)



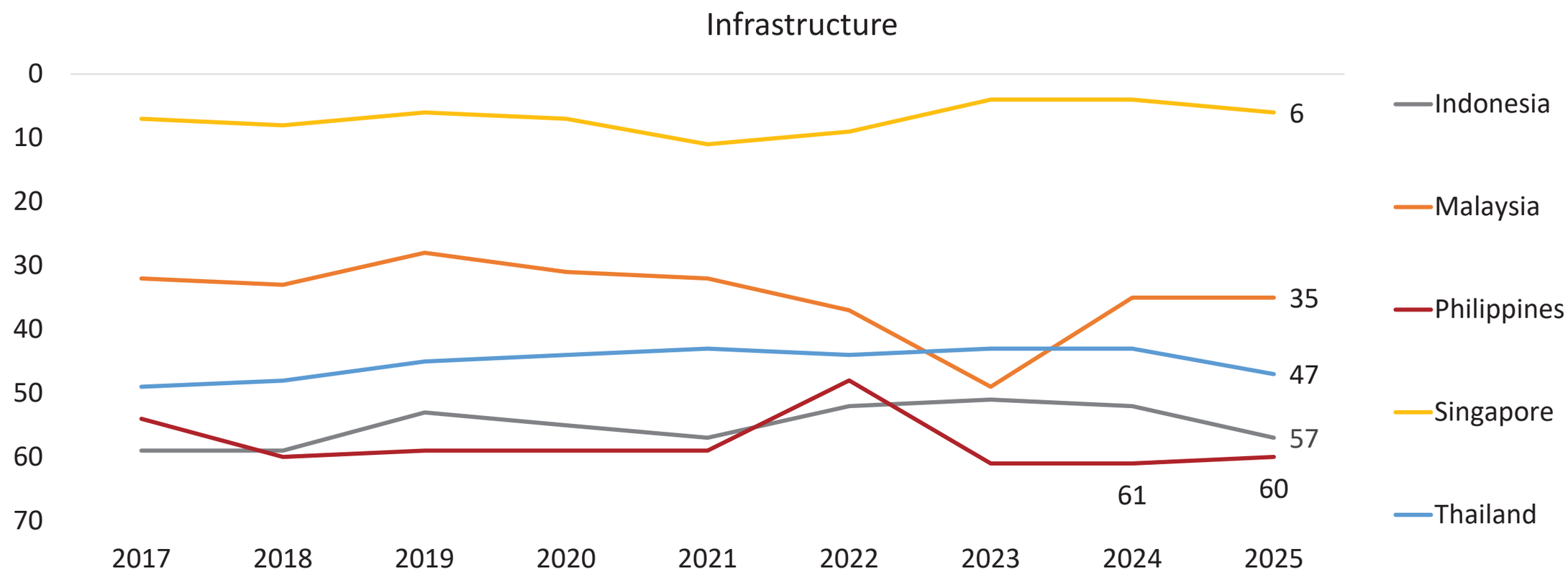
Source: Global Innovation Index by World Intellectual Property Organization

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PH Infra Still a Key Weakness in Global Competitiveness

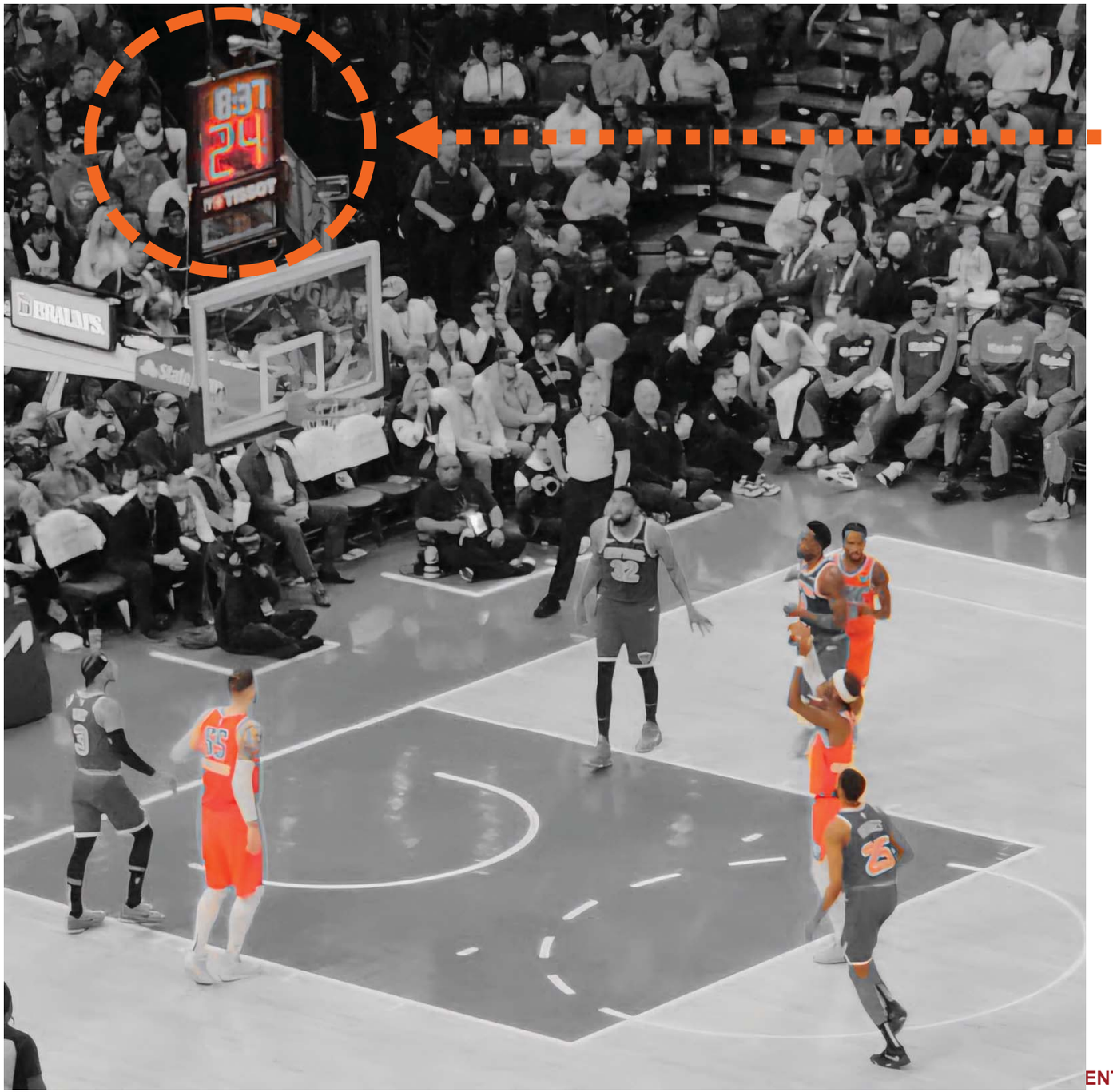
Amid regulatory complexity, poor infrastructure, and digital/educational backlogs, but major policy reforms and investments look underway

International Institute for Management Development (IMD) World Competitiveness Index Rankings



Source: 2025 World Competitiveness Ranking (WCR) by the Switzerland-based International Institute for Management Development (IMD)

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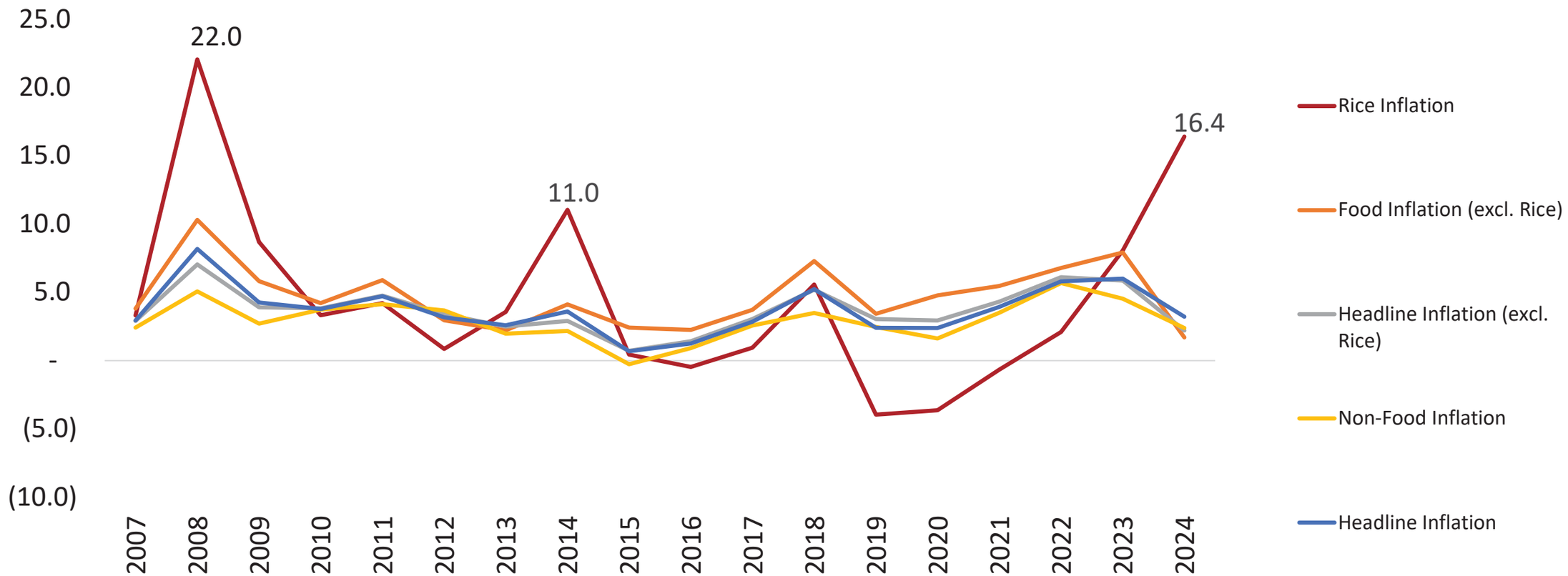
the 24-second shot clock was a **revolutionary rule change** that fundamentally reshaped the sport for the better.

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Elevated Rice Prices Weighed on Overall Consumption

Falling global rice prices bode well on future supply and overall demand

Inflation with Component Breakdown (%)



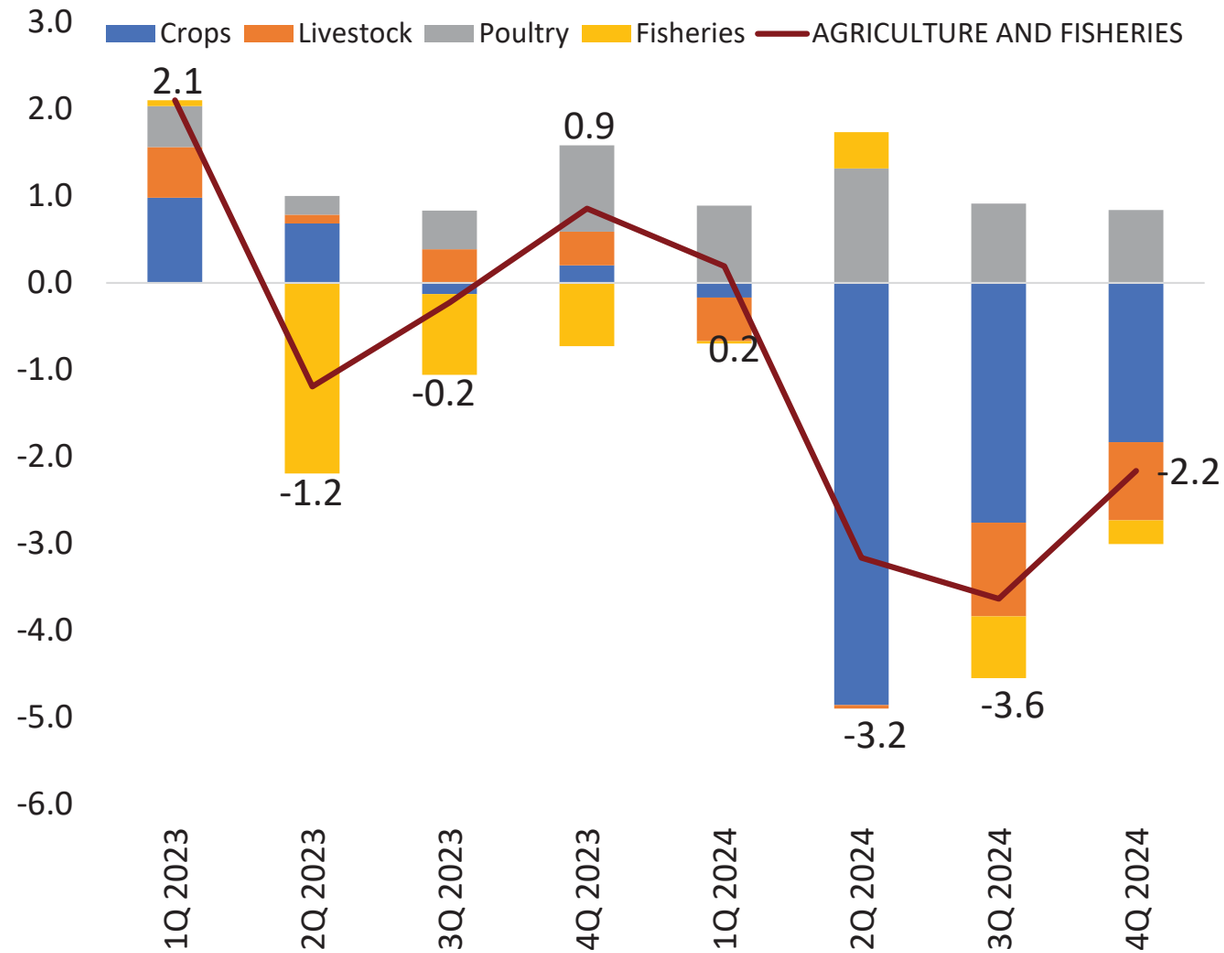
Source: CEIC

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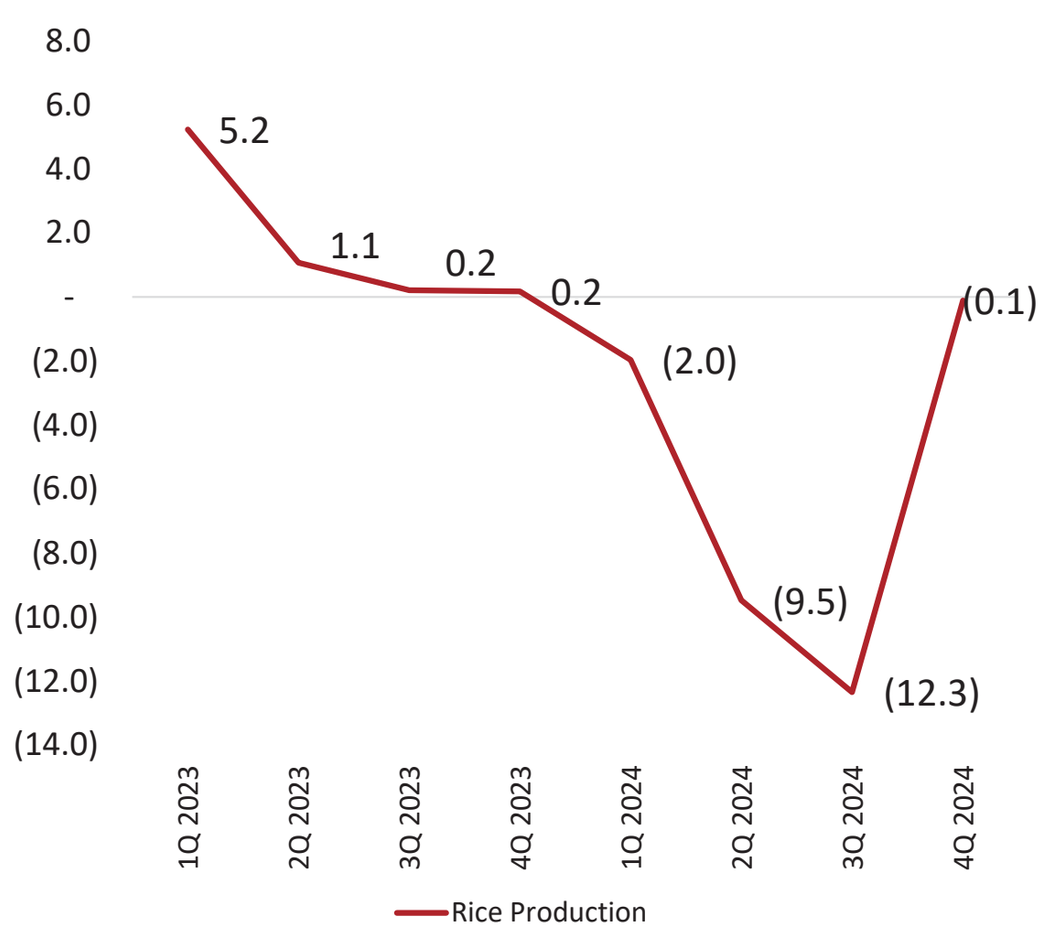
PH Agri Output Declined 1.6% in 2024

Rice production rebounded in 4q, albeit still negative growth amid adverse weather conditions and increasing reliance on imports

PH Agriculture and Fisheries Production (YoY, %)



Rice Production (YoY, %)



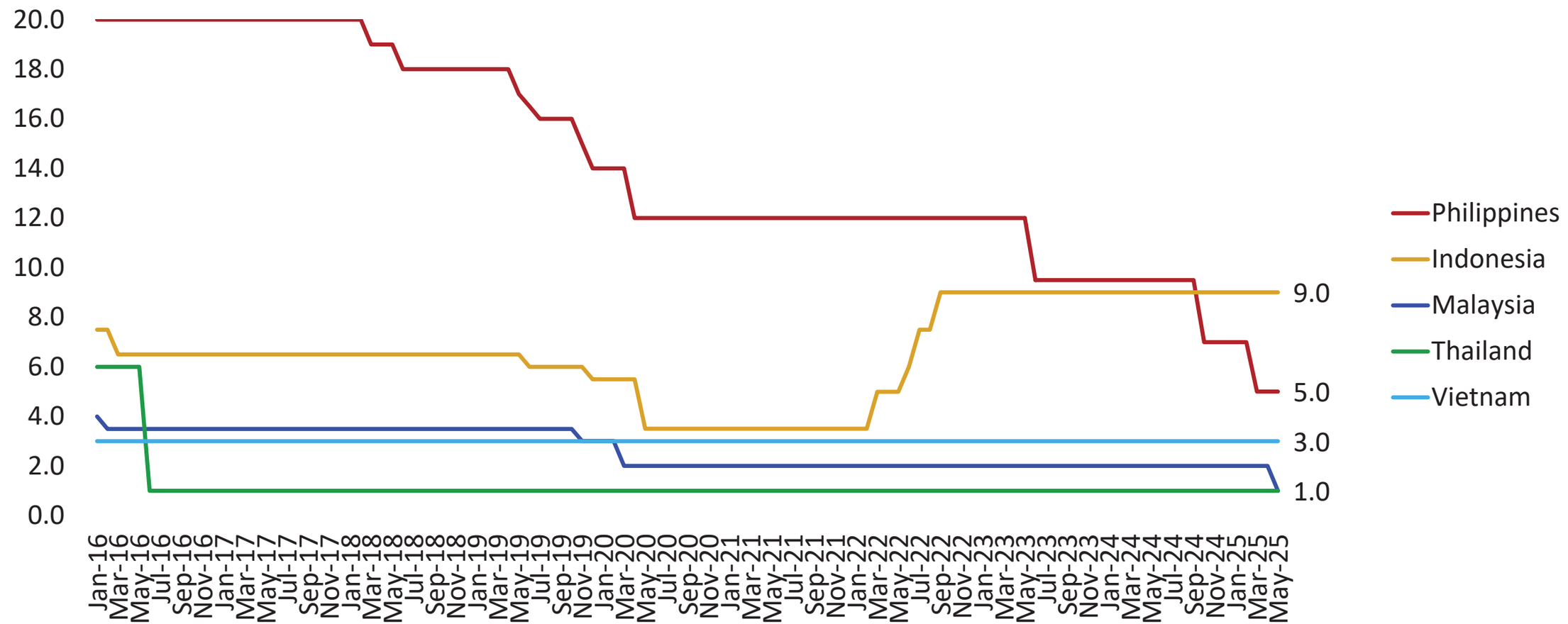
Source: PSA

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Reserve Requirement Ratio At 5%

BSP may reduce the RRR further as part of structural reform

ASEAN Reserve Requirement Ratio (%)



Source: CEIC

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Widens Inequality

Asset values trump Wages

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Side Effect 3: Negative Rates & Inequality

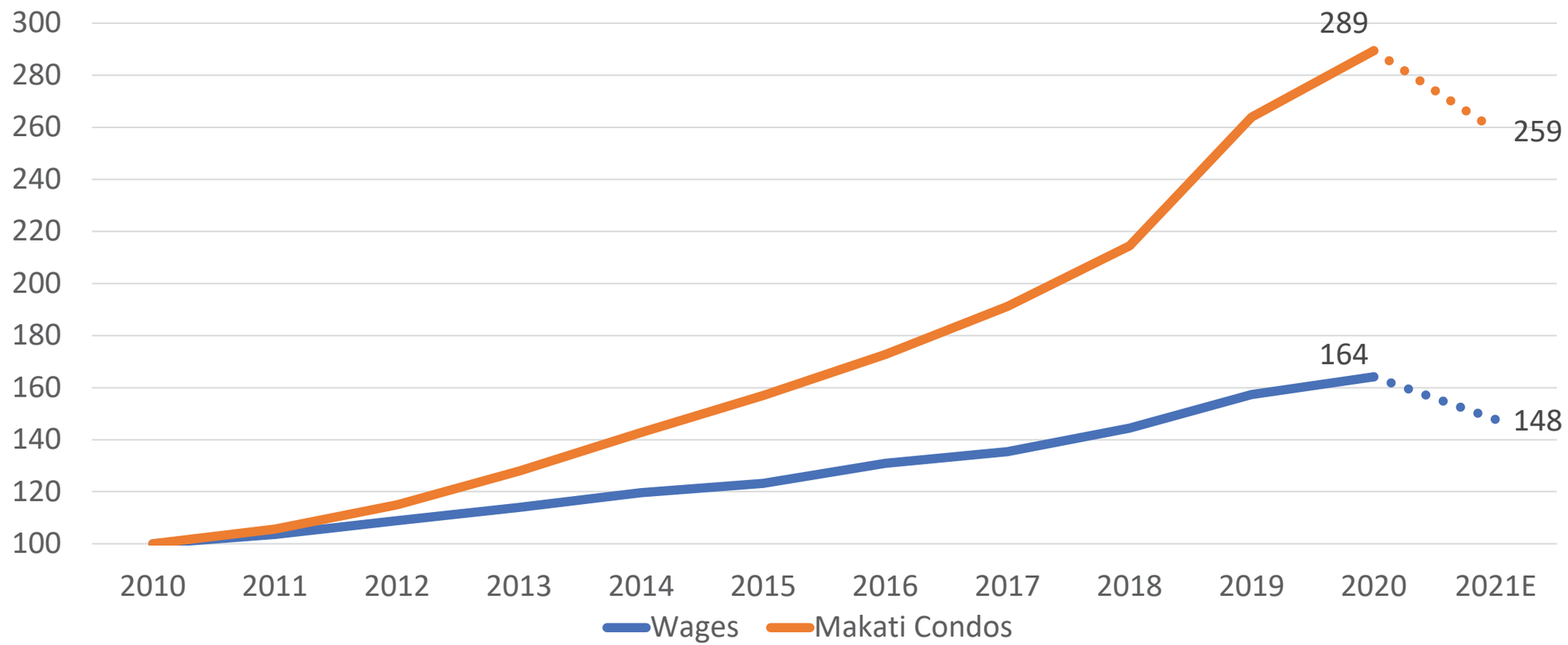
- **Wages** of PHL workers have increased modestly – S. Monsod
- While **Asset prices** have soared **beyond reach**
- **Negative rates kept** POGO-fueled **property prices elevated during pandemic**

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Major side effect of negative rates: Inequality

K shaped recovery is exacerbated by negative real rates

Makati Condo Prices vs Average PHL Wages (2010=100)



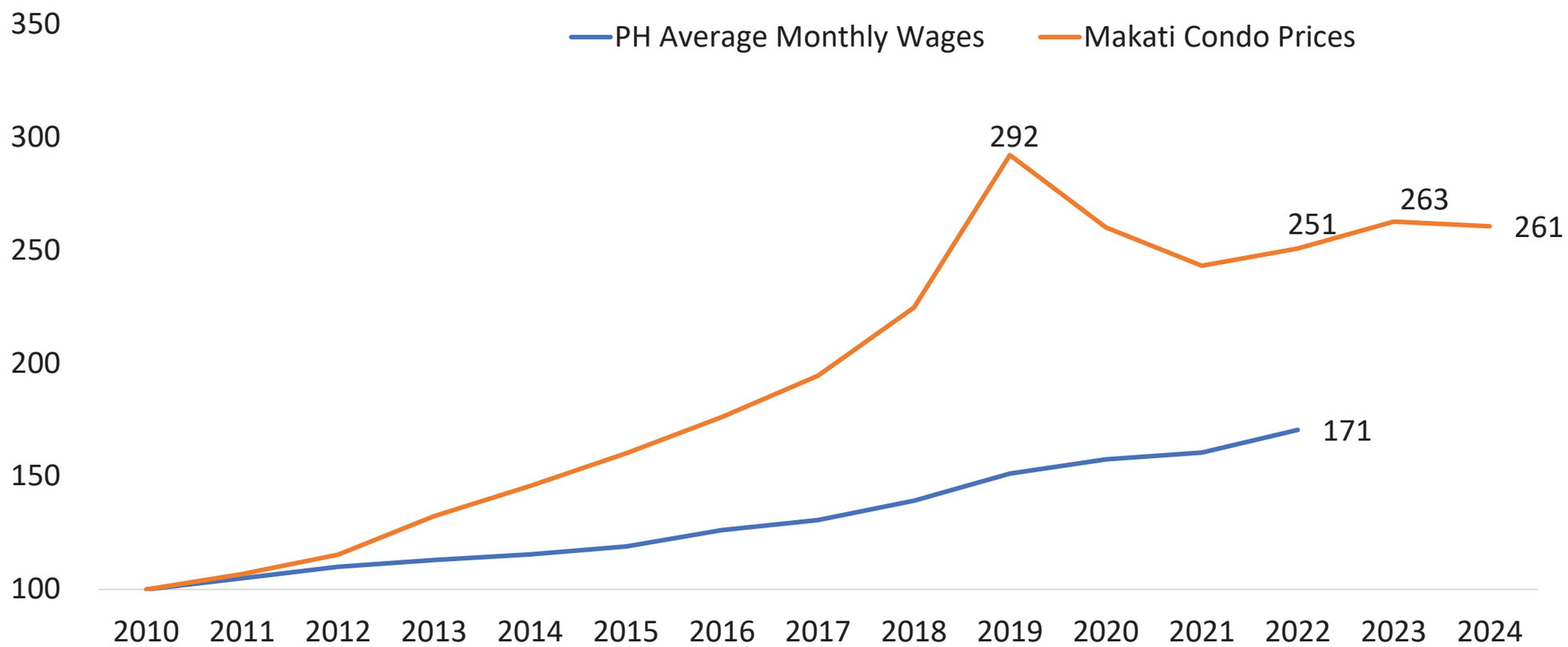
Source: BIS, ILO, UNDP

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Rate normalization may have tempered inequality

K-shaped recovery is exacerbated by negative real rates

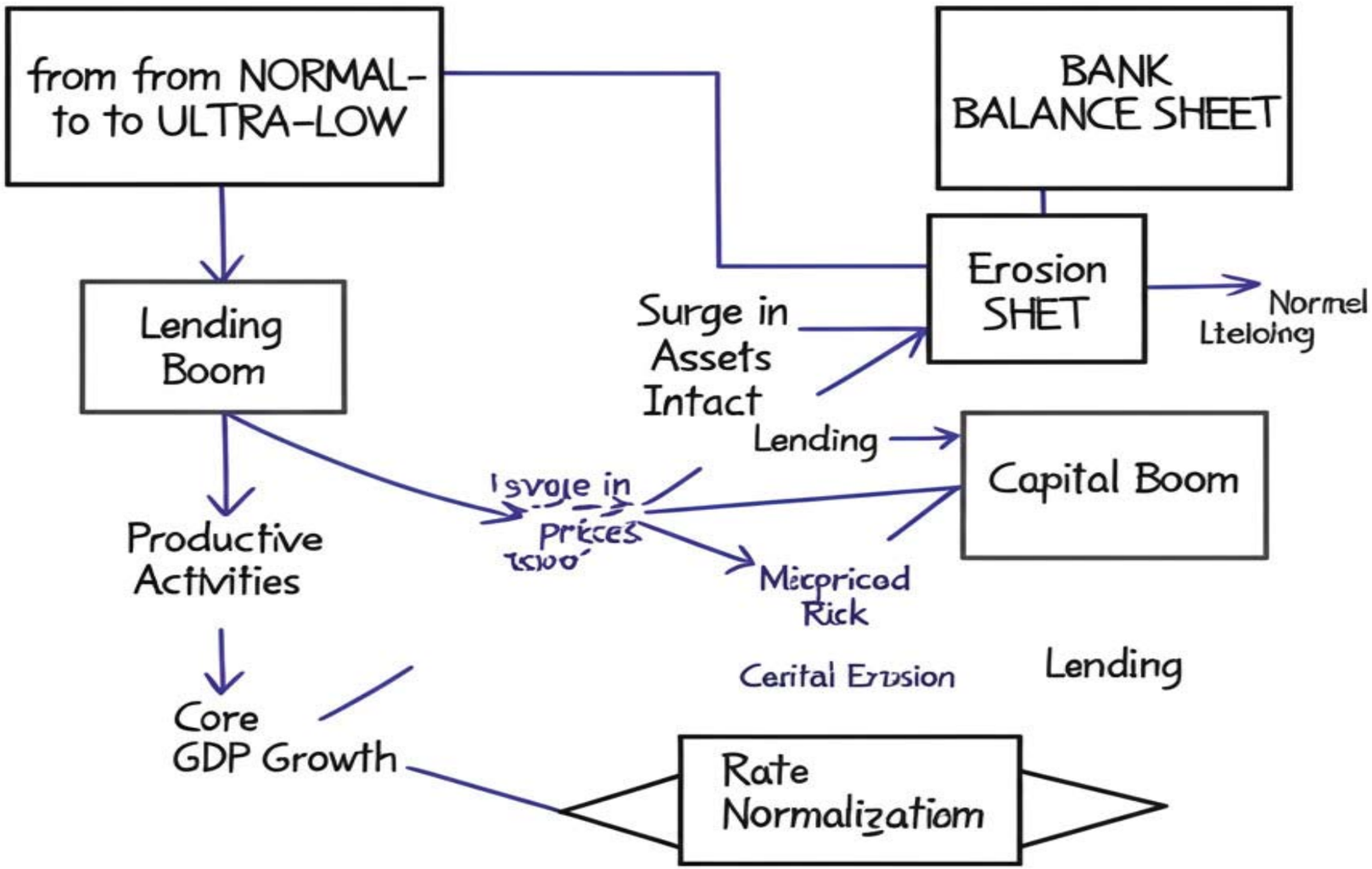
PH Average Monthly Wages vs Makati Condo Prices (2010=100)



Source: BIS, ILO, UNDP

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Lending Paralysis

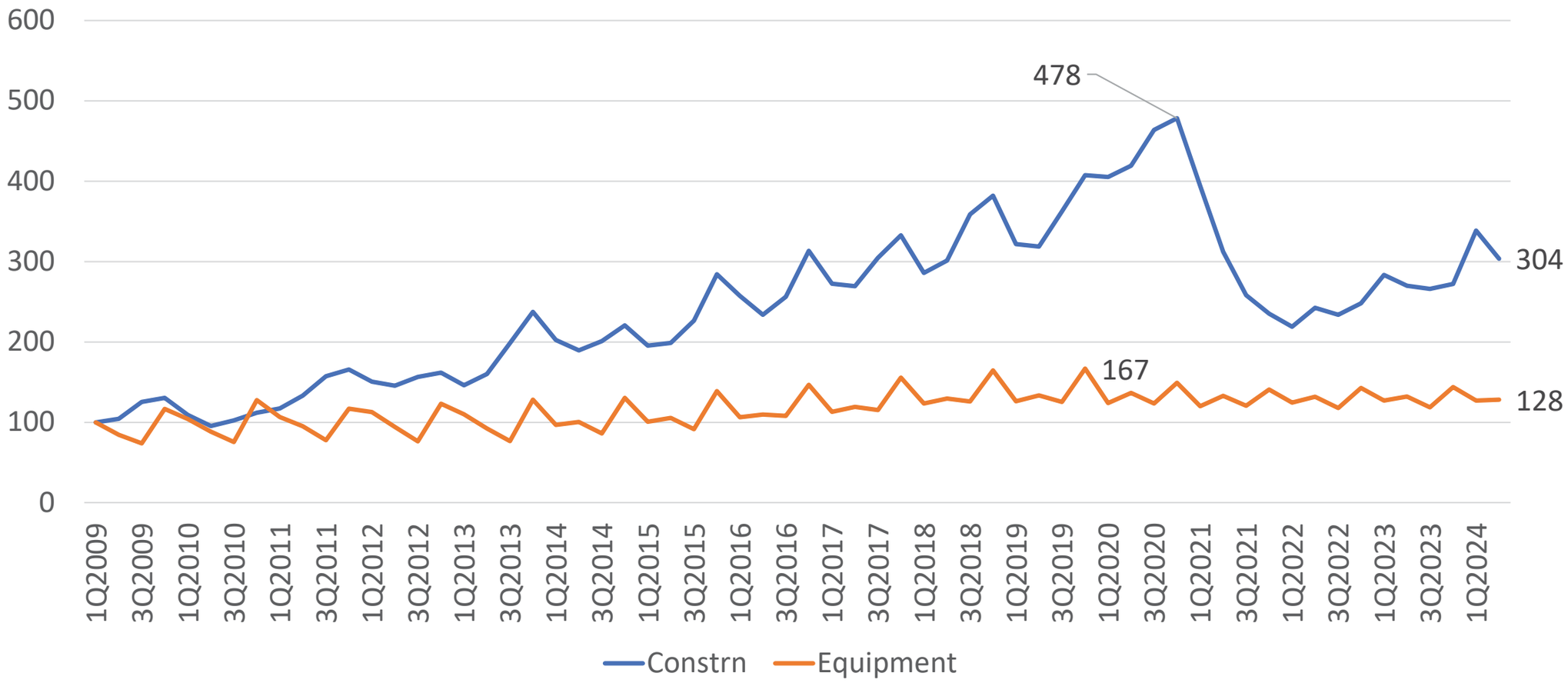


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Construction took Lion's share of cheap funds

Cheap funding may have led to speculative activities, slowed production & innovation?

Construction GVA vs Durable Equipment GVA

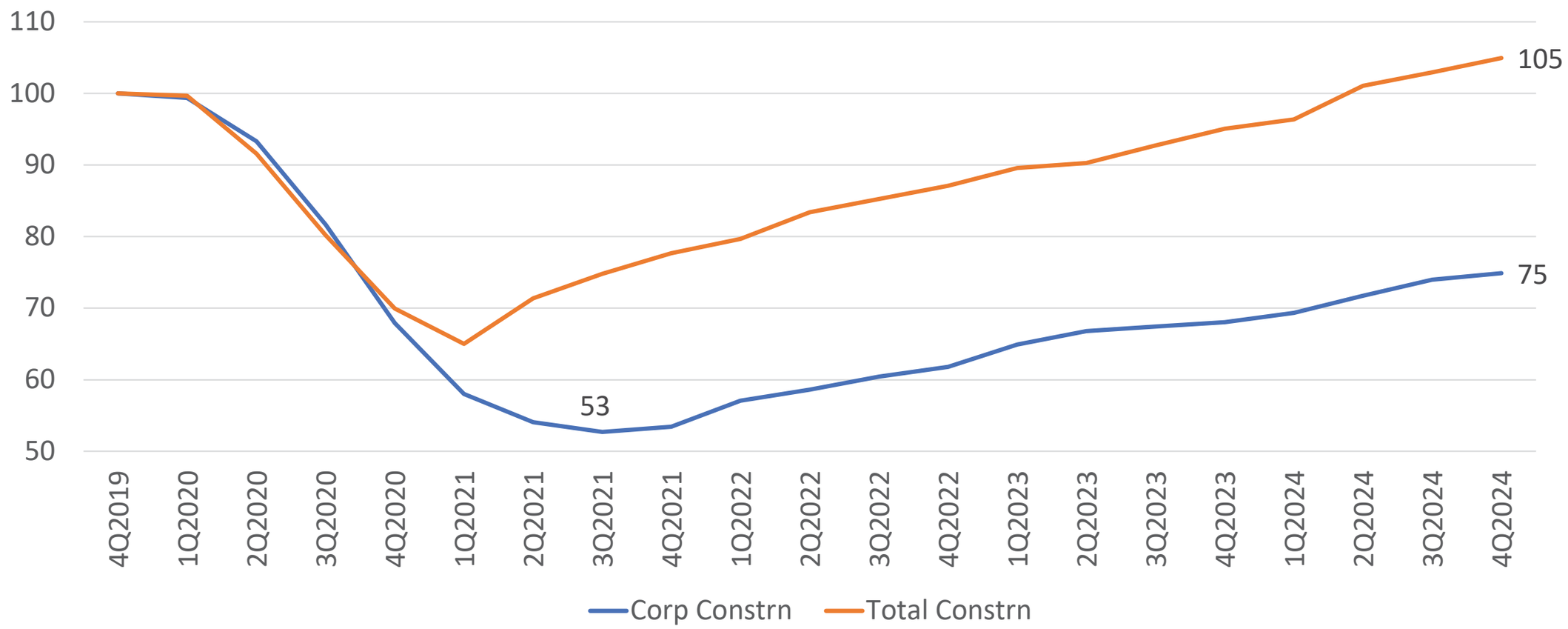


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Non-residential private constr'n still below par

Remote work and POGO-pivot still a huge drag to growth; rate cuts unlikely to help

Total vs Corporate Construction

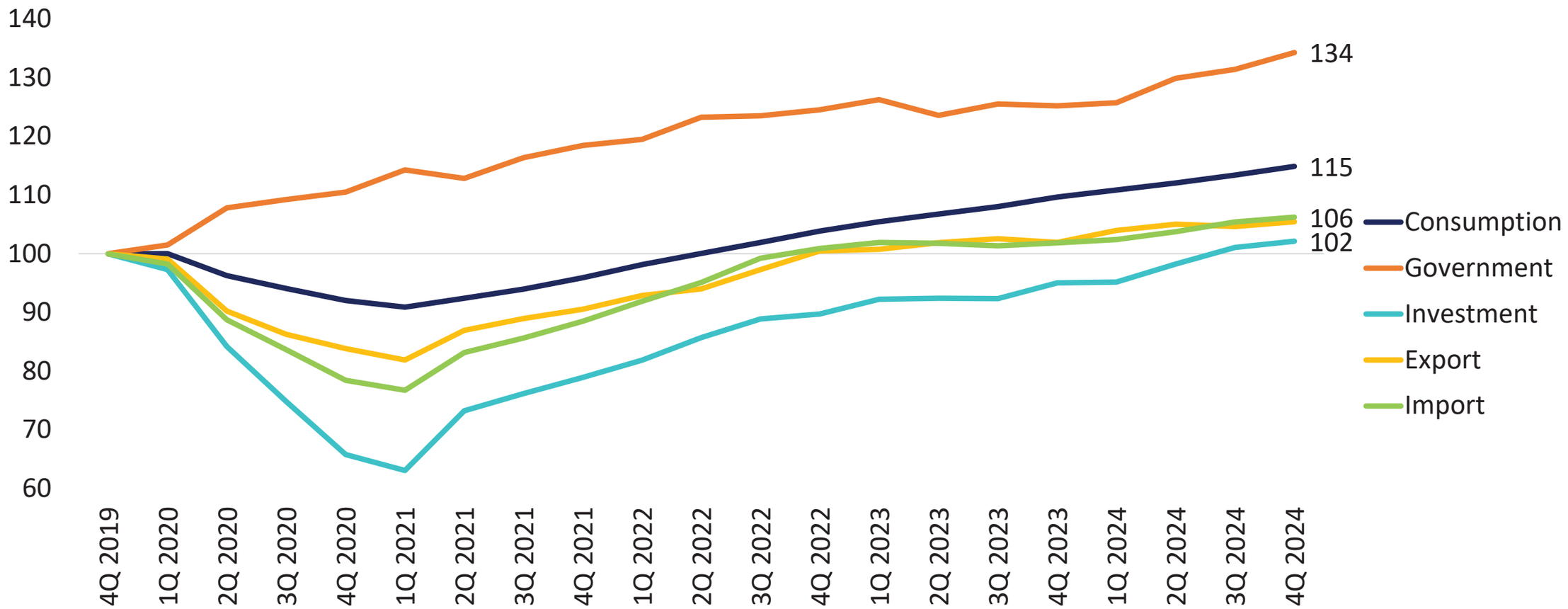


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Spending laggard: Investment

Consumption is in line, government spending outperforming but investment in a slump

GDP Component Rolling Average Index



Source: CEIC

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Lower interest rates don't necessarily improve housing affordability

Alexander W. Richter and Xiaoqing Zhou

April 02, 2024

The benchmark 30-year fixed-rate mortgage increased from around 3 percent in December 2021 to nearly 7 percent two years later, a result of the Fed's rapid monetary tightening.

As homebuyers faced sharply rising mortgage payments, questions followed about housing affordability. According to the National

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The New York Times

Why Interest Rate Cuts Won't Fix a Global Housing Affordability Crisis

Central bankers are lowering borrowing costs, but that won't be a cure-all for a widespread lack of affordable housing.

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Lean not Clean

"an ounce of prevention is better than a pound of cure"

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