BANGKO SENTRAL NG PILIPINAS

HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 9 MAY 2019[1]

I. Monetary Policy Decision

The Monetary Board decided to:

a) reduce the overnight RRP (borrowing) rate by 25 basis points (bps) to 4.50 percent; and

b) reduce the current overnight deposit and overnight lending rates by 25 bps to 4.00 percent and 5.00 percent, respectively.

II. Key Considerations in the Formulation of the Monetary Policy Stance

- The Monetary Board's decision is based on its assessment that the inflation outlook continues to be manageable, with easing price pressures owing to the decline in food prices amid improved supply conditions. Latest baseline forecasts indicate that inflation remains likely to settle within the target range of 3.0 percent ± 1.0 percentage point for both 2019 and 2020, while inflation expectations have moderated further.

- In deciding on the stance of monetary policy, the Monetary Board noted the impact of the 2019 national budget delay on near-term economic activity, but took the view that the prospects for domestic demand remain firm, to be supported by a projected recovery in household spending and the continued implementation of the government's infrastructure program. In addition, the Monetary Board observed that the global economic growth momentum has slowed down in 2019. Meanwhile, indications of slower growth in domestic liquidity and credit require careful monitoring.

- At the same time, the Monetary Board also noted that the risks to the inflation outlook remain broadly balanced for 2019 amid risks of a prolonged El Niño episode and higher-than-expected increases in global oil prices. For 2020, the risks continue to lean toward the downside amid weaker global economic activity.

- Looking ahead, the BSP will continue to monitor developments affecting the inflation outlook to ensure that the monetary policy stance remains consistent with its price stability objective.

[1] The discussions herein reflect the assessment made by the Monetary Board based on a comprehensive set of economic information available at the time of the policy meeting. The highlights of the discussions during the 9 May 2019 monetary policy meeting were approved by the Monetary Board during its regular meeting held on 23 May 2019. The next meeting of the Monetary Board on the monetary policy stance is scheduled on 20 June 2019.

III. Recent Developments and Inflation Outlook

The MB considered the following developments in deciding on the monetary policy stance:

A. Domestic price conditions

- Inflation momentum eased further in April 2019, reflecting weaker supply-side price pressures. Headline inflation decelerated for the seventh consecutive month in April to 3.0 percent (from 3.3 percent in March, 3.8 percent in February, 4.4 percent in January, 5.1 percent in December, 6.0 percent in November, and 6.7 percent both in October and September) as both food and non-food inflation registered lower outturns. This brought the year-to-date inflation rate to 3.6 percent, which remained within the 2-4 percent target band for 2019.

  Heavily-weighted food items posted slower inflation amid improved supply conditions. At the same time, the lower inflation rate for restaurant services also continued to offset the impact of higher international oil prices. Meanwhile, non-seasonally-adjusted and seasonally-adjusted month-on-month inflation increased relative to the previous month's levels.

- Core inflation—which excludes selected volatile food and energy items to measure underlying price pressures—also decreased to 3.4 percent in April from 3.5 percent in March. Likewise, three of the four alternative measures of core inflation computed by the BSP pointed to moderating inflation pressures in April.

- The diffusion index of price changes and the number of CPI items above the threshold of 4.0 percent were also lower in April.

B. Inflation expectations

- Results of the BSP's April 2019 survey of private sector economists showed lower mean inflation forecasts for 2019 and 2020 at 3.1 percent (from 3.3 percent in the March 2019 survey round) and 3.3 percent (from 3.4 percent), respectively. Similarly, the mean inflation forecast for 2021 was lower at 3.3 percent (from 3.4 percent).

C. Inflation outlook

- The latest forecasts indicate that inflation will continue to ease with average inflation expected to settle within the 3.0 percent ± 1.0 percentage point target range in 2019 and 2020. Inflation is projected to average at 2.9 percent for 2019, lower than the previous forecast round due to the slower-than-projected inflation outturns in March and April, the deceleration in projected domestic growth, and slower liquidity growth. Meanwhile, the inflation forecast for 2020 is slightly higher at 3.1 percent due to the rebound in crude oil prices.

Baseline Inflation Forecasts		
	21 March 2019 MB Meeting	9 May 2019 MB Meeting
2019	3.0	2.9
2020	3.0	3.1

- The risks to future inflation remained broadly balanced for 2019 but tilted to the downside for 2020. Petitions for electricity rates and transport fare adjustments, the proposed increase in the excise taxes of alcohol beverages, and the potential impact of a prolonged El Niño episode are the main upside risks to inflation. Meanwhile, slower global economic growth due to protectionist policies in advanced economies as well as geopolitical tensions and the potential renegotiation for lower tariff rates on meat products continue to be the main downside risks to inflation.

D. Demand conditions

- The Monetary Board noted the slower expansion of real GDP for Q1 2019 at 5.6 percent from 6.3 percent in Q4 2018, reflecting mainly the impact of the delayed passage of the 2019 national budget. Nonetheless, the Philippine economy is expected to remain resilient with the National Government's target GDP growth of 6.0-7.0 percent in 2019 and 6.5-7.5 percent in 2020, supported by sustained private demand and the scaling up of public investment spending.

- Meanwhile, the preliminary composite purchasing managers' index rose in April to 54.8 from 53.9 in March due to the faster expansion of the services sector which offset the deceleration of the manufacturing and retail and wholesale sectors.

E. Supply-side indicators

Developments in Agriculture

- Domestic rice prices declined further in April owing to the summer harvest season and the continued arrival of rice imports of both the government and the private sector, despite the ongoing weak El Niño episode.

- The onset of the El Niño phenomenon presents a potential upside risk to food inflation in the near term. According to the Philippine Atmospheric, Geophysical and Astronomical Services Administration's (PAGASA's) latest climate advisory,[2] a weak El Niño condition is expected to persist until August 2019.

Oil Price Developments

- Global crude oil price rose sharply in April following the announcement by the US that it will no longer grant waivers to the eight major economies from importing oil from Iran after the waivers' expiration on 2 May 2019. Moreover, geopolitical conflicts in Libya and Venezuela have also lowered supply coming from said countries. Nevertheless, international crude oil prices are expected to remain in backwardation due to expectations of excess global oil supply and muted demand.

Developments in the Utilities Sector

- The overall electricity rate increased in April 2019 due mainly to higher generation charges contracted by parties registered in the Wholesale Electricity Spot Market (WESM) and those under the Independent Power Producers (IPPs). In turn, charges from the WESM went up due to tighter supply conditions in Luzon owing to power plant outages and de-ration. Similarly,

[2] Seasonal Climate Outlook Report as of 24 April 2019.

cost of power from the IPPs likewise increased due to weakening of the peso against the US dollar. Meanwhile, charges from the Power Supply Agreements (PSAs) decreased.

F. Financial market developments

- In April, the peso appreciated against the US dollar following the release of dovish minutes of the FOMC meeting on 19-20 March 2019 which resulted in weaker US dollar, and increased investor optimism arising from positive developments in the ongoing US-China trade negotiations. Meanwhile, the Philippine stock market index declined in April amid investor concerns over a slowing global economy.

G. Domestic liquidity and credit conditions

- Domestic liquidity growth eased in March 2019 amid the slower expansion in domestic credit. In March, domestic liquidity growth decelerated to 4.2 percent (from 7.1 percent in February) while bank lending expanded at a slower rate of 9.9 percent (from 13.7 percent). The slowdown in M3 growth is also attributed to the contraction in claims on the central government which reflects the liquidity siphoned off from the system with the recent issuance of Retail Treasury Bonds by the National Government, which were deposited to the BSP.

H. Fiscal developments

- Sustained fiscal spending is expected to support the country's growth momentum in 2019, with the signing of the 2019 national budget by the President in mid-April. The NG recorded a ₱90.2-billion fiscal deficit for Q1 2019, which is forty-one percent lower than that recorded in 2018.

I. External developments

- Global economic growth is seen to slow down in 2019 but is expected to pick up in 2020. The IMF reduced its full-year economic growth forecast for 2019 but kept its forecast for 2020 relative to its January 2019 projections. The downward revision of the IMF's global growth forecast in 2019 is due mainly to the projected slower expansion in advanced economies amid the anticipated negative effects of the tariff increases enacted in 2018 and diminishing impact of the US fiscal stimulus on the US economy. Similarly, the IMF expects growth in emerging market and developing economies (EMDEs) to ease in 2019 due to the possible growth slowdown in China, the recession in Turkey, and a deepening contraction in Iran. In 2020, growth is projected to pick up driven almost entirely by an expected strengthening of activity in EMDEs on the back of policy adjustment and some easing of strains in countries affected by conflict and geopolitical tensions.