BANGKO SENTRAL NG PILIPINAS

HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 19 MARCH 2020[1]

I. Monetary Policy Decision

The Monetary Board (MB) decided to:

a) reduce the overnight RRP (borrowing) rate by 50 basis points (bps) to 3.25 percent; and

b) reduce the current overnight deposit and overnight lending rates by 50 bps to 2.75 percent and 3.75 percent, respectively.

In addition, the MB authorized the time-bound, temporary relaxation of BSP regulations on compliance reporting by banks, calculation of penalties on required reserves, and single borrower limits. The MB also approved a temporary reduction in the term spread on rediscounting loans relative to the overnight lending rate to zero.

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

- The MB's decision to cut the BSP's policy interest rate was based on its assessment of a manageable inflation environment and stable inflation expectations. The latest baseline forecasts indicate a lower path of inflation for 2020 and 2021, with inflation expectations remaining firmly anchored within the target range of 3.0 percent ± 1 percentage point over the policy horizon. Average inflation is seen to settle at 2.2 percent in 2020 and 2.4 percent in 2021.

  The latest forecasts are (substantially) below the February 2020 monetary policy meeting projections of 3.0 percent for 2020 and 2.9 percent for 2021 due to lower-than-projected inflation outturns in recent months, a sharp decline in global crude oil prices, and the adverse effects of the 2019 coronavirus disease (COVID-19) on global and domestic economic activity.

- In deciding on the stance of monetary policy, the MB also noted that the balance of risks to the inflation outlook leans toward the downside for both 2020 and 2021. The uncertainty over the potentially protracted COVID-19 pandemic poses significant downside risks to aggregate demand. The MB noted that while the enforcement of quarantine measures could help in slowing the spread of the virus, the resulting disruptions to industries and private spending are likely to reduce economic growth in the near term. Moreover, COVID-19 has likewise dampened prospects for the global economy, which could negatively impact tourism and trade, Overseas Filipino remittances, and foreign investments.

- Given these considerations, the MB decided that there is a need for a follow-on monetary policy response to address the adverse spillovers associated with the ongoing pandemic. With a manageable inflation environment, the MB sees enough policy space for an assertive reduction in the policy rate at this juncture to cushion the country's growth momentum and uplift market

[1] The discussions herein reflect the assessment made by the Monetary Board (MB) based on a comprehensive set of economic information available at the time of the policy meeting. The highlights of the discussions during the 19 March 2020 monetary policy meeting were approved by the MB during its regular meeting held on 7 April 2020. The next meeting of the Monetary Board on the monetary policy stance is scheduled on 21 May 2020.

confidence amid stronger headwinds. The monetary policy easing is also aimed at mitigating the risk of financial sector volatility in light of unfolding global developments by ensuring adequate domestic liquidity and credit in the financial system as well as lowering borrowing costs for affected firms and households.

- More importantly, the MB also recognizes that the health and safety of the Filipino people remains the government's foremost priority. In this regard, the MB reiterates its support for urgent and carefully coordinated measures with other government agencies to alleviate the spillover effects of the pandemic on people and firms, with a view toward preventing any long-lasting economic and social damage.

III. Recent Developments and Inflation Outlook

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

A. Domestic price conditions

- Year-on-year headline inflation slowed down to 2.6 percent in February 2020 due to lower prices of selected food items, non-alcoholic beverages, and energy (i.e., electricity and petroleum products). This brought the year-to-date inflation to 2.8 percent, which is below the midpoint of the government's 2-4 percent target range. Meanwhile, core inflation measures registered mixed trends with official core inflation, trimmed mean, and weighted median all eased slightly in February 2020 while net of volatile items and inflation using principal component analysis were steady during the month.

B. Inflation expectations

- Results of the BSP's survey of private sector economists for February 2020 showed a higher mean inflation forecast for 2020, while mean inflation forecasts for 2021 and 2022 were unchanged relative to the results in January. The mean inflation forecast for 2020 went up to 3.2 percent from 3.1 percent. By contrast, the mean inflation forecasts for 2021 and 2022 remained at 3.2 percent and 3.1 percent, respectively.

C. Inflation outlook

- The latest baseline forecasts indicate that inflation could settle close to the low-end of the target range for 2020 to 2021. Inflation is projected to average at 2.2 percent for 2020 and 2.4 percent for 2021, lower than the previous forecasts of 3.0 percent for 2020 and 2.9 percent for 2021. The downward adjustment in the inflation forecasts could be attributed to the lower-than-projected inflation in February 2020, the sharp decline in global crude oil prices, and the impact of COVID-19 on global and domestic growth.

Baseline Inflation Forecasts		
	6 February 2020 MB Meeting	19 March 2020 MB Meeting
2020	3.0	2.2
2021	2.9	2.4

- The risks to the inflation outlook are tilted to the downside for 2020 and 2021. The potential impact of a more disruptive COVID-19 pandemic on global growth along with continued volatility in crude oil prices due to the price war between Saudi Arabia and Russia are the main downside risks to inflation. Meanwhile, adjustments in utility rates, higher global rice prices, and the impact of African Swine Fever on meat prices are the main upside risks to inflation. However, uncertainty over trade and economic policies in major economies continue to weigh down on global demand, thus mitigating upward pressures on commodity prices.

D. Demand conditions

- Domestic growth is projected to decelerate in 2020. The estimated impact of COVID-19 on domestic economic growth could be via the tourism, trade, and remittances channels. In addition, the implementation of the enhanced community quarantine in Luzon could further dampen domestic economic activity. The baseline growth scenario assumes a U-shaped recovery with the impact of COVID-19 lasting until H2 2020.

E. Supply-side indicators

Developments in Agriculture

- For the survey period 22-28 January 2020, domestic retail rice prices showed mixed trends. Rice prices for regular-milled rice increased while well-milled rice declined. Meanwhile, rice prices in Metro Manila remained unchanged from the previous week.

- According to the latest climate advisory of the Philippine Atmospheric, Geophysical and Astronomical Services Administration,[2] ENSO-neutral conditions will likely persist across tropical Pacific Ocean and is expected to continue until June-July-August 2020.

Oil Price Developments

- Dubai crude oil spot prices continued to decline as of early March 2020 due to worries over lower global oil demand amid the adverse impact of the COVID-19 pandemic on global economic activity. On the domestic front, prices of petroleum products went down compared to their year-on-year levels.

Developments in the Utilities Sector

- The overall electricity rate went down in February 2020 due to lower generation charge. The downward adjustment in the generation cost was primarily due to the implementation of new Power Supply Agreements starting on 26 December 2019.

F. Financial market developments

- On a year-to-date basis, the peso depreciated against the US dollar compared to the end-2019 closing rate amid heightened fears of the potential economic impact of COVID-19.

G. Domestic liquidity and credit conditions

- Domestic liquidity and bank lending expanded further in January 2020. Preliminary data show that domestic liquidity went up by 11.9 percent in January 2020 (from 11.3 percent in December 2019). Similarly, bank lending growth was faster at 11.6 percent in January 2020 (from 10.9 percent in the previous month).

- Possible impact of COVID-19 on liquidity and credit conditions needs to be mitigated. An easing of monetary policy could help prevent the tightening of domestic credit conditions that could

[2] Seasonal Climate Outlook Report as of 26 February 2020

further dampen economic growth. The immediate impact of the spread of COVID-19 would adversely affect both firms (e.g., production and supply chain disruption, revenue losses) and individuals (e.g., unpaid leaves, pay cuts). Amid this backdrop, additional policy support is warranted to address debt servicing concerns of corporates as well as households through lower borrowing costs, thereby harnessing an adequate funding environment.

H. Fiscal developments

- On the response to COVID-19, the National Government announced a ₱27.1 billion package of priority actions to combat the pandemic. The package consists of government initiatives to better equip local health authorities in fighting the COVID-19 as well as provide economic relief to people and sectors affected by the virus-induced slowdown in economic activity.

I. External developments

- Global economic activity weakens further. Global economic activity contracted for the first time since May 2009 as production in both manufacturing and service sectors slowed, reflecting weak demand conditions and global supply chain disruptions brought about by the impact of the COVID-19 outbreak across the globe. The JP Morgan Global All-Industry Output Index fell to its lowest level since May 2009 at 46.1 in February 2020 from 52.2 in January 2020 as economic activity and new business slowed down in both manufacturing and services sectors. The steepest decline in economic activity was recorded in China, while output also fell in the US, Japan, and Australia. Meanwhile, expansions were posted in the euro area, the UK, India, Brazil, and Russia.

  On the other hand, overall manufacturing conditions in the ASEAN region improve. The Nikkei ASEAN Manufacturing PMI returned to expansion territory as it posted a reading of 50.2 in February 2020 from 49.8 in January 2020 amid faster growth in new orders.

- For the International Monetary Fund (IMF), global GDP growth in 2020 is projected to be below the 2019 levels. Based from similar crises, the IMF noted that about one-third of the economic losses from the disease will be direct costs from loss of life, workplace closures, and quarantines. The remaining two-thirds will be indirect, reflecting a retrenchment in consumer and business behavior and a tightening in financial markets.

- Amid uncertainties from the COVID-19, central banks are on an easing bias. The US Federal Reserve reduced the Fed Funds rate by 150 bps in March 2020, while the Bank of England has also decided to cut its bank rate by 50 bps off cycle. Likewise, other central banks such as the Bank of Canada also cut their policy rate by a total of 100 bps.