BANGKO SENTRAL NG PILIPINAS

HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 14 NOVEMBER 2019[1]

I. Monetary Policy Decision

The Monetary Board decided to:

a) maintain the overnight RRP (borrowing) rate at 4.00 percent; and

b) maintain the current overnight deposit and overnight lending rates at 3.50 percent and 4.50 percent, respectively.

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

- The Monetary Board's (MB) decision to keep the BSP's policy interest rate unchanged was based on its assessment that the broad range of recent economic data pointed to a continued deceleration in the inflation momentum. The latest baseline forecasts continued to indicate that inflation will likely settle within the lower half of the target band of 3.0 percent ± 1.0 percentage point (ppt) from 2019 to 2021. At the same time, inflation expectations remained well-anchored over the policy horizon.

- In deciding on the stance of monetary policy, the MB also noted that the balance of risks to the inflation outlook continued to lean toward the upside for 2020, but tilted to the downside for 2021. Upside risks to inflation over the near term emanate mainly from the potential impact of the African swine fever outbreak on food prices and from potential volatility in oil prices amid geopolitical tensions in the Middle East. Meanwhile, weak global economic prospects amid escalating protectionist policies in advanced economies remained as key downside risk to the inflation outlook.

- At the same time, firm private domestic spending and sustained progress in policy reforms will serve as buffer against external headwinds.

- The MB believed that the BSP has scope to keep the policy interest rate unchanged given benign inflation outlook and firm domestic economic growth prospects. The release of new data for the National Accounts has helped to confirm the continued strength of private demand and, as the impact of previous monetary easing takes firmer hold, bolsters expectations of sustained growth momentum over the near term. At the same time, the MB's decision will enable the recent monetary policy actions to continue working their way through the economy. Looking ahead, the BSP will continue to monitor domestic and external developments to ensure that the monetary policy stance remains consistent with maintaining price stability.

[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 14 November 2019 monetary policy meeting were approved by the Monetary Board during its regular meeting held on 5 December 2019. The next meeting of the Monetary Board on the monetary policy stance is scheduled on 12 December 2019.

III. Recent Developments and Inflation Outlook

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

A. Domestic price conditions

- Price pressures eased further in October 2019 due mainly to lower food and petroleum product prices as well as base effects. Headline inflation declined to 0.8 percent in October from the previous month's 0.9 percent. This brings the year-to-date average inflation to 2.6 percent, which remains well within the government's target range of 2-4 percent for 2019. The decline in headline inflation was driven by lower food prices, particularly for rice, corn, vegetables, and sugar products, relative to the previous year's level. In the case of non-food items, the decline in global oil prices resulted in rollbacks of prices of domestic petroleum products.

- The PSA core inflation rate—which measures generalized price pressures by excluding volatile items such as food and energy— also decelerated further to 2.6 percent in October from 2.7 percent in September. Meanwhile, the alternative measures of core inflation were either steady (net of volatile items and trimmed mean) or slightly higher (weighted median) in October relative to the previous month's level.

B. Inflation expectations

- Results of the BSP's October 2019 survey of private sector economists showed lower mean inflation forecasts relative to the results in the previous month at 2.5 percent (from 2.7 percent) for 2019 and 2.9 percent (from 3.1 percent) for 2020, while the mean forecast for 2021 was unchanged at 3.1 percent.

C. Inflation outlook

- **The latest baseline forecasts indicate that inflation is likely to settle close to the midpoint of the 3.0 percent ± 1.0 percentage point target range by 2020-2021 as base effects start to dissipate.** Inflation is projected to average at 2.4 percent for 2019, slightly lower compared to the previous forecast round due primarily to lower oil prices and the lower-than-expected inflation outturns for September and October 2019. Meanwhile, the forecasts for 2020 and 2021 were broadly unchanged as the higher-than-expected GDP growth, domestic liquidity growth, and global non-oil prices were partly offset by the appreciation of the peso.

Baseline Inflation Forecasts		
	26 September 2019 MB Meeting	14 November 2019 MB Meeting
2019	2.5	2.4
2020	2.9	2.9
2021	2.9	2.9

- The risks to the inflation outlook appear to be weighted toward the upside for 2020, but are tilted to the downside in 2021. Petitions for electricity rates and transport fare adjustments, the proposed increase in the excise taxes of alcoholic beverages, the impact of African swine fever on meat prices, and higher global oil prices are the main upside risks to inflation. Meanwhile, slower global economic growth due to the escalation of protectionist policies in advanced economies as well as geopolitical tensions continue to be the main downside risks to inflation.

D. Demand conditions

- Real Gross Domestic Product (GDP) grew by 6.2 percent in Q3 2019, from 5.5 percent in Q2 2019 and 6.0 percent in Q3 2018. On the expenditure side, household spending, government spending and exports contributed 3.9 ppts, 1.1 ppts, and 0.1 ppt, respectively, to GDP growth in Q3 2019, which more than offset the negative contribution of investments at -0.7 ppt. On the production side of the economy, growth emanated largely from the services sector, which contributed 4.1 ppts to GDP growth. Meanwhile, the industry and agriculture, hunting, forestry and fishing sectors contributed 1.9 ppts and 0.2 ppt, respectively.

- At the same time, catch-up fiscal spending is expected to help sustain the growth momentum in the remainder of 2019. The growth of government spending in September was mainly driven by an upsurge in disbursements in Infrastructure and Capital Outlays, indicating that the government has broken through the effects of the delayed passage of the FY 2019 national budget, which weighed down on economic growth during the first half of the fiscal year.

- In addition, forward-looking indicators for manufacturing production continue to suggest positive momentum in the near term. The preliminary composite purchasing managers' index (PMI) remained above the 50-point expansion threshold at 53.3 in October, higher than the September PMI reading of 52.5. Similarly, the average capacity utilization rate of the manufacturing sector was broadly steady at 84.4 percent in September from 84.3 percent in August, based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

- Likewise, car sales grew by 2.3 percent year-on-year in September 2019 due mainly to higher commercial vehicle sales. Total energy sales of Meralco also increased by 6.0 percent year-on-year in August 2019 owing to higher energy sales from the residential, commercial, and industrial sectors.

E. Supply-side indicators

Developments in Agriculture

- Domestic rice prices have been trending downwards so far in Q4 2019 as the main harvest season began, as well as due to the continued arrival of rice imports by the private sector.

- According to the latest climate advisory of the Philippine Atmospheric, Geophysical and Astronomical Services Administration,[2] ENSO-neutral conditions will likely persist through the remainder of 2019 and is expected to continue until Q1 2020.

Oil Price Developments

- Average Dubai crude oil spot prices declined anew in October 2019 due mainly to weaker oil demand concerns following lower global growth projections by the IMF amid rising economic uncertainties in the external environment. Given recent trends, the shape of the futures oil prices has remained in backwardation. This resulted in generally lower domestic pump prices during the month.

[2] Seasonal Climate Outlook Report as of 23 October 2019.

Developments in the Utilities Sector

- The overall electricity rate increased in November 2019 due to higher generation charges brought about by the smaller (last installment) refund of Net Settlement Surplus from the Wholesale Electricity Spot Market during the month, on the back of tighter supply conditions in the Luzon grid.

F. Financial market developments

- In October, the peso appreciated against the US dollar amid market expectation of another rate cut in the United States and positive developments in Brexit negotiations and the US–China trade talks. Meanwhile, on the domestic side, market optimism on the: high level of gross international reserves; slower domestic inflation for the month of September; robust overseas Filipino workers remittance growth data for the month of August; and the narrowing of Philippine trade deficit to US$2.4 billion in August from US$3.6 billion in the same period a year ago, likewise contributed to the appreciation of the peso.

G. Domestic liquidity and credit conditions

- Domestic liquidity expanded faster in September. Domestic liquidity went up by 7.7 percent in September (from 6.3 percent in August), while bank lending grew at a steady rate of 10.5 percent. The higher M3 growth was due the sustained growth in credit to the private sector as a result of higher loans for real estate activities; financial and insurance activities; construction; electricity, gas, steam and airconditioning supply; and wholesale and retail trade, repair of motor vehicles and motorcycles. The expansion in net foreign assets brought about by foreign exchange inflows coming mainly from overseas Filipinos' remittances and business process outsourcing receipts also contributed to M3 growth.

H. Fiscal developments

- The NG catch-up program for fiscal spending is expected to help sustain the growth momentum in the remainder of 2019. The growth of government spending in September 2019 was mainly driven by an upsurge in disbursements in Infrastructure and Capital Outlays. Infrastructure spending by the NG grew by 69.1 percent month-on-month in September from -21.1 percent in August, reflecting the NG's catch-up program.

I. External developments

- Growth in global economic activity weakened as expansion in new order inflows slowed down. Manufacturing activity in the US and Japan contracted amid persistently weak demand. Likewise, manufacturing output in the euro area decreased as demand for goods and services declined at the fastest rate in over six years. Manufacturing sectors of Indonesia, Malaysia, and Singapore remained in contraction territory. Meanwhile, manufacturing output in China continued to expand as domestic demand conditions improved. Similarly, manufacturing conditions remained favorable in Myanmar, Philippines, Thailand, and Vietnam.