HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 8 APRIL 2024 [1]

I. Monetary Policy Decision

The Monetary Board decided to:

a) Maintain the Target RRP Rate at 6.50 percent; and

b) Maintain the current interest rates on the overnight deposit facility at 6.00 percent and overnight lending facility at 7.00 percent.

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

- The Monetary Board deemed it appropriate to maintain the BSP's monetary policy settings, as the latest projected inflation path shifted slightly higher but remained within target. Inflation expectations also continued to be broadly anchored, with mean forecasts staying within the target range for 2024 to 2026. Meanwhile, the risks to the inflation outlook continue to lean toward the upside.

- On domestic economic activity, latest demand indicators suggested that domestic growth prospects over the medium term remained largely intact, even as overall activity continues to gradually respond to tighter financial conditions.

- The National Government's non-monetary policies and programs to address supply-side pressures on the prices of key food commodities remain crucial in tempering inflationary impulses. The Monetary Board stands ready to adjust monetary policy settings as necessary in keeping with its primary mandate to safeguard price stability.

III. Recent Developments and Inflation Outlook

In assessing the monetary policy stance, the Monetary Board considered the latest macroeconomic and financial developments as discussed below:

A. Domestic price conditions

- Headline inflation rose to 3.7 percent year-on-year (y-o-y) in March from 3.4 percent in February, driven mainly by higher food inflation. Food inflation climbed further on faster price increases for meat, particularly pork. At the same time, rice inflation continued to accelerate. On the other hand, non-

[1] The discussions herein reflect the assessment made by the Monetary Board based on macroeconomic and financial information available at the time of the monetary policy meeting. The next meeting of the Monetary Board on the monetary policy stance is scheduled on 16 May 2024.

food inflation held steady year-on-year as higher inflation for transport as well as restaurants and accommodation services was offset by slower inflation for housing, water, electricity, gas and other fuels.

- By contrast, the official core inflation decelerated further to 3.4 percent in March from 3.6 percent in February, consistent with easing demand pressures.

B. Inflation expectations

- The BSP's survey of external forecasters for March showed that the mean inflation forecast for 2024 remained at 3.9 percent from the forecasts in the February survey round. By contrast, the mean inflation forecasts for 2025 and 2026 both increased to 3.6 percent (from 3.5 percent and 3.4 percent, respectively). Meanwhile, median inflation forecasts for 2024 was also unchanged at 3.8 percent, but marginally increased to 3.4 percent (from 3.3 percent) for 2025 and 3.3 percent (from 3.1 percent) for 2026.

- Analysts continue to expect inflation to average within but close to the upper end of the target range over the policy horizon, as upside risks owing to supply-side pressures and potential second-round effects continue to dominate their outlook.

C. Inflation outlook

- The risks to the inflation outlook continue to be skewed to the upside over the policy horizon. Price pressures could emanate from higher transport charges, higher prices of food commodities facing supply constraints, increased electricity rates, higher global oil prices, and potential increases in minimum wages.

- The latest risk-adjusted inflation forecast is estimated at 4.0 percent in 2024 and 3.5 percent in 2025. Relative to the previous round, the risk-adjusted forecasts for 2024 and 2025 are higher following the upward revision in the baseline forecasts. The increases in the projections also correspond to a higher probability of inflation settling above the target range in 2024 of 56.5 percent (from 51.0 percent in the previous forecast round).

  Meanwhile, the estimated impact of inflation risks was broadly unchanged compared to the previous forecast round. A lower weighted impact is seen for higher electricity rates. However, these were offset by the inclusion of the risk from a legislated minimum wage increase and the removal of downside risk on government measures to mitigate the impact of El Niño.

D. Demand conditions

- Domestic growth prospects remain intact for 2024 and 2025 based on BSP staff estimates. GDP growth is projected to remain robust in H1 2024, decelerate in H2 2024 due to positive real interest rates following the BSP's tightening cycle, and subsequently pick up in 2025. This outlook is consistent with the expected shift to a slightly negative output gap in 2024 to 2025, suggesting that the growth momentum of the economy remains firm and that a hard landing appears to be unlikely.

E. Supply-side indicators

Developments in Agriculture

- Nationwide average retail rice prices continued to increase in February 2024 after falling at the start of the peak harvest season in October 2023. Rice prices further increased as import prices remained high amid India's imposition of export ban on rice since July 2023, and on worries over the impact of El Niño on global and regional output.

- Based on the assessment by the US Climate Prediction Center and International Research Institute for Climate and Society (CPC/IRI) as of 14 March 2024, El Niño conditions continued to weaken and will likely transition to ENSO-neutral during April – June 2024 with chances of La Niña developing by June – August 2024. Consequently, PAGASA's climate outlook as of 20 March 2024 indicated that prevailing moderate El Niño conditions have subsided, with an increased likelihood of La Niña developing by H2 2024. While there remains high uncertainty on the occurrence of La Niña due to the spring prediction barrier which lowers forecast accuracy, strong El Niño events have historically been followed by La Niña episodes. Pre-developing La Niña is typically associated with below normal rainfall and could delay the onset of the rainy season, which in turn may adversely affect vulnerable agricultural production.

Oil Price Developments

- The Dubai crude oil spot price increased further in the first week of April from the full-month average price in March. The uptick in oil prices was driven by expectations of tight supply due to the OPEC+ decision to extend voluntary oil supply cuts until end-June 2024; Iraq's pledge to reduce its crude oil exports; escalation of tensions in the Middle East and attacks in the Red Sea, as well as Ukraine's attacks on Russian oil facilities; US' imposition of new terrorism-related sanctions on Iran; and the cancellation of crude oil exports for April by Pemex, Mexico's state energy company.

  Additionally, higher oil prices were partly supported by expectations of interest rate cuts by the US Federal Reserve in 2024; US plans to increase its crude stockpiles; and favorable indicators of economic activity in China. However, lingering downside risks to the Chinese economy, namely, the property crisis and the huge debt burdens of its local governments, are expected to limit gains in oil prices. The adoption of a United Nations draft resolution calling for a ceasefire in Gaza last 25 March 2024 also tempered the increase in world oil prices.

Developments in the Utilities Sector

- The overall electricity rate slightly increased by around ₱0.0229 per kilowatt hour (kWh) to ₱11.9397 per kWh in March 2024 (from ₱11.9168 per kWh in February 2024) due to higher transmission charges. According to Meralco, the increase in overall rate was due to higher transmission charge for residential customers as ancillary service charges more than tripled during the month. However, the upward adjustment in transmission charge was tempered by a ₱0.3518 per kWh reduction in the generation charge.

F. Financial market developments

- The peso depreciated by 0.33 percent to ₱56.24/US$1 for the period 27 March – 2 April 2024 from the previous week's average of ₱56.06/US$1. The peso weakened due to broad US dollar strength following the release of robust key US economic indicators, dampening market expectations of policy easing by the US Fed in June. On a year-to-date basis, the peso closed at ₱56.32/US$1 on 2 April 2024, depreciating by 1.68 percent against the US dollar from the end-December 2023 closing rate of ₱55.37/US$.

G. Liquidity and credit conditions

- Bank lending activity continued to grow at single-digit rates, reflecting the impact of the BSP's tight monetary policy stance. Preliminary data showed that outstanding loans of universal and commercial banks, net of RRP placements with the BSP, increased 7.8 percent year-on-year in January 2024, faster than the 7.1-percent (revised) growth in December 2023.

H. Fiscal developments

- As revenue growth outpaced the percentage increase in expenditures, the NG deficit in 2023 is 6.3 percent narrower than the deficit recorded in 2022 but higher than the FY 2023 deficit program by 0.9 percent. Netting out the interest payments in National Government (NG) expenditures, the primary deficit amounted to ₱883.8 billion, 20.5 percent lower than the deficit recorded in 2022.

I. External developments

- Prospects for global economic growth improved as downside risks to economic activity receded. Global economic activity continued to expand amid strong demand and improved business optimism. In March 2024, the JP Morgan All-Industry Output Index increased as new business intakes accelerated. The fastest rates of expansion were seen in Japan, the US, UK, Italy, Spain, China, India, Russia, and Brazil. ASEAN manufacturing activity likewise expanded anew in March due to a renewed increase in new orders.