



BANGKO SENTRAL NG PILIPINAS

HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 27 JUNE 2024¹

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 decided to maintain the BSP's Target Reverse Repurchase (RRP) Rate at 6.50 percent. The balance of risks to the inflation outlook has shifted toward the downside due to the impact of the tariff adjustment on rice prices under Executive Order No. 62 (EO 62). Nonetheless, lingering pressures on domestic prices of food items other than rice, transport charges, and electricity rates continue to pose upside risks to inflation.
- Inflation continues to ease closer to the midpoint of the Government's 2- 4 percent target range. Risk-adjusted forecasts (RAF) have also declined significantly. Meanwhile, inflation expectations remain well-anchored for 2024 to 2026, based on the BSP's latest survey of private sector forecasters.
- Meanwhile, prospects for domestic output growth are largely intact over the medium term, supported by improved labor market conditions and robust export growth. However, GDP growth is seen to decelerate in H2 2024 partly due to the impact of positive real interest rates following the BSP's tightening cycle.
- On balance, the Monetary Board deems it appropriate to hold monetary policy settings steady at this time. Price pressures are expected to further dissipate in the near term following the implementation of reduced tariffs on rice, along with other non-monetary interventions that could ensure sufficient domestic food supply. If sustained, an improvement in inflation outlook would allow the Monetary Board to consider a less restrictive monetary policy stance. However, uncertainty in the external environment requires continued caution against potential spillovers, including those in the financial markets.

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 15 August 2024.

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 increased slightly to 3.9 percent y-o-y in May from 3.8 percent in April due mainly to higher non-food inflation. The upward adjustment in electricity rates owing to higher generation costs as well as uptick in transport inflation drove non-food inflation. By contrast, food inflation eased but remained elevated given the double-digit inflation for rice. Meanwhile, core inflation continued to decelerate in May.

B. Inflation expectations

- Results of the BSP's survey of external forecasters for June 2024 showed inflation expectations staying near the upper end of the target range for 2024, while those for 2025-2026 have eased further toward the midpoint of the target range. The mean inflation forecast for 2024 remained at 3.7 percent relative to the results of the May 2024 survey round. For 2025 and 2026, the mean inflation forecasts declined to 3.4 percent (from 3.5 percent) and 3.3 percent (from 3.4 percent), respectively.
- Analysts expect within-target inflation over the policy horizon, although upside risks continue to dominate their outlook owing to supply-side pressures and potential second-round effects.

C. Inflation outlook

- The latest baseline inflation forecasts for 2024 and 2025 are lower compared to the previous forecasts in May. The overall impact of lower-than-projected actual inflation in May 2024, lower global crude oil prices, and the tariff reduction on imported rice fully offset the impact of the recent depreciation of the peso against the US dollar. While inflation is projected to settle above the target range in July due to positive base effects, inflation is expected to return within the target range beginning in August. Price pressures from rice are anticipated to ease following the implementation of the rice tariff reduction as well as improved rice production with the end of the El Niño phenomenon.
- The latest risk-adjusted inflation forecast is estimated at 3.1 percent for both 2024 and 2025, significantly lower than those in the previous forecast round. Meanwhile, the estimated impact of inflation risks has declined, as the disinflationary impact of the rice tariff reduction more than offset the total estimated impact of upside risks. Upside pressures may still emanate from higher prices of food items other than rice, transport charges, and electricity rates.

D. Demand conditions

- Domestic growth prospects remain intact for 2024 and 2025 based on BSP staff estimates. GDP growth may decelerate in H2 2024 due partly to positive real interest rates following the BSP's tightening cycle, and subsequently pick up in 2025. This outlook is consistent with the negative output gap in 2024 to 2025 amid tight financial conditions.

E. Supply-side indicators

Developments in Agriculture

- Nationwide average retail rice prices decreased in May as domestic supply increased during the summer harvest season. The signing of EO 62 on 20 June 2024 led to the consideration of lower rice tariff in the latest baseline and RAF. The lower tariff on rice is one of the primary contributors to the downward revision in the inflation forecasts for 2024-2025 and the shift to the balance of risks towards the downside. Domestic retail prices of imported rice are estimated to decline by 14.8 percent or about ₱6.67 per kilogram based on the landed cost of imported rice with a 15.0 percent tariff.
- The climate outlook by the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA) as of 6 June 2024 indicate that El Niño conditions have concluded. PAGASA has officially declared the onset of the rainy season on 29 May 2024 and reported the high probability of La Niña conditions to develop by H2 2024.

Oil Price Developments

- The Dubai crude oil spot price decreased in the first half of June from the full-month average price in May. The decline in global oil prices was driven mainly by the possible unwinding of voluntary production cuts by several OPEC+ members beginning in Q4 2024, the ongoing ceasefire negotiations between Israel and Hamas, and prospects of higher-for-longer US interest rates.

Developments in the Utilities Sector

- The overall electricity rate declined by 17.2 percent to ₱9.4519 per kWh in June 2024 from ₱11.4139 per kWh in May 2024. The overall rate decreased as Meralco implemented a staggered collection of generation costs from the Wholesale Electricity Spot Market and Power Supply Agreements.

F. Financial market developments

- The peso depreciated by 1.49 percent to an average of ₱58.19/US\$1 for the period 16 May – 5 June 2024 from the previous monetary policy cycle's average of ₱57.33/US\$1 (period covering 8 April – 15 May 2024). The peso weakened on expectations that the US Federal Reserve will keep interest

rates higher for longer amid slow disinflation progress. On the domestic front, reports of higher headline inflation in May, a wider balance of payments deficit and higher foreign investment outflows in April, and higher external debt service in February dampened market sentiment and weighed down the peso.

G. Liquidity and credit conditions

- Bank lending activity during H1 2024 has shown signs of increasing momentum amid sustained loan demand from households and businesses. Preliminary data indicated that outstanding loans of universal and commercial banks, net of reverse repurchase placements with the BSP, expanded by 9.6 percent y-o-y in April 2024 from 9.4 percent y-o-y in March 2024.

H. Fiscal developments

- Overall National Government (NG) spending rose by 16.2 percent y-o-y in January-April 2024. NG revenues also increased by 16.8 percent owing mainly to the growth in both tax and non-tax revenues. On balance, the NG fiscal deficit in January-April 2024 widened to ₱229.9 billion from a deficit of ₱204.1 billion in the same period a year ago.

I. External developments

- Prospects for global economic activity have broadly improved. The JP Morgan All-Industry Output Index increased in May as new business activity and new orders strengthened, reflecting a resurgence of global trade in goods and services. Economic activity rose in nearly all the countries covered, led by India, followed by the US, the Eurozone, China, and Japan. Likewise, ASEAN manufacturing activity expanded at a faster rate in May owing mainly to solid domestic demand.
- While many central banks continue to assess inflation dynamics and the impact of previous monetary policy tightening, several major central banks have begun reducing their respective key interest rates as inflationary pressures eased further in their respective economies.