



BANGKO SENTRAL NG PILIPINAS

HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 16 OCTOBER 2024 ¹

I. Monetary Policy Decision

The Monetary Board decided to:

- a) Reduce the Target RRP Rate by 25 basis points to 6.00 percent; and
- b) Reduce accordingly the current interest rates on the overnight deposit facility to 5.50 percent and overnight lending facility at 6.50 percent.

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

- The Monetary Board decided to reduce the BSP's Target Reverse Repurchase (RRP) Rate by 25 basis points to 6.0 percent. The Monetary Board's decision is based on its assessment that price pressures remain manageable. The risk-adjusted inflation forecast for 2024 eased to 3.1 percent from 3.3 percent in the previous meeting. However, the risk-adjusted forecasts have increased slightly to 3.3 percent for 2025 and 3.7 percent for 2026. Nevertheless, this outlook is safeguarded by well-anchored inflation expectations.
- The balance of risks to the inflation outlook for 2025 and 2026 has shifted toward the upside, mainly due to potential hikes in electricity rates and higher minimum wages in regions outside Metro Manila. Meanwhile, downside factors continue to be linked to the impact of lower import tariffs on rice.
- The Monetary Board also expects domestic economic growth to continue to be strong. This reflects improved prospects for household income and consumption, investments, and government spending, which are supported by the start of the monetary easing cycle in August and the announced reduction in reserve requirements in October.
- On balance, the within-target inflation outlook and well-anchored inflation expectations continue to support the BSP's shift toward less restrictive monetary policy. Nonetheless, the monetary authority will continue to closely monitor the emerging upside risks to inflation, including geopolitical factors.

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 19 December 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 dropped to 1.9 percent year-on-year (y-o-y) in September, down from 3.3 percent in August, marking the lowest rate since May 2020. This decline was driven by moderating supply-side pressures and negative base effects. Rice inflation eased significantly as domestic supply stabilized with the arrival of rice imports. Inflation for other key food items, such as corn and vegetables, also declined. Meanwhile, transport and utilities inflation decreased due to the rollback in domestic petroleum prices. Core inflation continued to ease, falling to 2.4 percent in September from 2.6 percent in August.

B. Inflation expectations

- Inflation expectations remain well-anchored. Based on the BSP's Survey of External Forecasters for October, the mean inflation forecasts for 2024 and 2026 remained steady at 3.4 percent and 3.2 percent, respectively, compared to the September survey. Meanwhile, the mean inflation forecast for 2025 slightly declined to 3.0 percent from 3.1 percent. Analysts consider the inflation risks to be broadly balanced, with headline inflation expected to remain low and within-target over the policy horizon.

C. Inflation outlook

- The latest baseline inflation forecasts remain within the target range for 2025 and 2026. Inflation is expected to settle near the low end of the target band due to the impact of reduced tariffs on rice imports. However, by the second half of 2025, inflation could rise toward the upper end of the target range, largely due to positive base effects.
- The balance of risks to the inflation outlook has shifted toward the upside for 2025 and 2026, mainly due to potential adjustments in electricity rates and higher minimum wages in regions outside Metro Manila. Meanwhile, downside risks continue to be linked to the impact of lower import tariffs on rice. Nevertheless, after incorporating the impact of these risks at their assigned probabilities, the risk-adjusted inflation forecasts remain within the 2 to 4 percent target range over the policy horizon.

D. Demand conditions

- Domestic economic activity is expected to remain strong over the policy horizon based on BSP staff estimates. This outlook is supported by the policy interest rate reduction in August and the reduction in reserve requirements in October. The forecast is consistent with the small negative

output gap in 2024 and 2025, which is expected to turn positive in 2026. The steady upturn in the output gap reflects improved prospects for household consumption, investments, and government spending.

E. Supply-side indicators

Developments in Agriculture

- Nationwide average rice retail prices decreased further in September 2024. The average decline in retail prices despite the lean season may be attributed to the arrival of rice imports with lower tariffs under Executive Order No. 62 s. 2024, which took effect on 7 July 2024. However, retail prices remain elevated due to the impact on El Niño on palay output and higher international prices year-on-year.
- The climate outlook by the Philippine Atmospheric, Geophysical, and Astronomical Services Administration as of 25 September 2024 indicates that ENSO-neutral conditions continue to persist. However, most climate models suggest a high probability of weak La Niña forming before the end of 2024 and continuing through Q1 2025.

Oil Price Developments

- The average spot price of Dubai crude oil increased in the first week of October from the first week of September. Fears of a region-wide conflict in the Middle East, which could potentially disrupt oil supply, have increased the geopolitical risk premium on global oil prices in October 2024. On 1 October 2024, Iran launched missile attacks on Israel in response to Israel's ongoing conflict with Lebanon and Gaza as well as the assassination of Hezbollah's leader. Iran's missile strikes raised concerns that Israel will retaliate and aim for Tehran's oil infrastructure. The escalation of war in the Middle East could also prompt Iran to block the Strait of Hormuz, a major passageway for oil, potentially affecting other major oil-producing countries in the region.
- Nonetheless, weak global demand, especially from China, and the expected unwinding of OPEC+ cuts starting in December 2024, remain as downside risks to the oil price path.

Developments in the Utilities Sector

- The overall electricity rate decreased by 3.0 percent to ₱11.4295 per kWh in October 2024 from ₱11.7882 per kWh in September 2024. This reduction was mainly due to lower Wholesale Electricity Spot Market (WESM) charges, following the completion of the collection of deferred May 2024 WESM charges as ordered by the Energy Regulatory Commission (ERC) in September, and an improved supply situation in the Luzon grid.

F. Financial market developments

- The peso appreciated by 1.04 percent against the US dollar to ₱56.37/US\$1 on 3 October 2024, following the BSP's 25 bp monetary policy rate reduction on 15 August 2024.² This appreciation was primarily driven by the broad weakening of the US dollar. Specifically, the peso's recovery was underpinned by market expectations of a US Federal Reserve policy rate cut in September, given moderating US economic activity, improving inflation environment, and easing labor market conditions. The appreciation of the peso was also partly supported by data showing stronger-than-expected Q2 2024 economic growth in the Philippines; higher domestic liquidity in July; and an upgrade in its sovereign credit rating by Rating and Investment Information, Inc. to an 'A' rating with a stable outlook, as well as Fitch Rating's affirmation of the 'BBB' rating with a stable outlook.

G. Liquidity and credit conditions

- Bank lending grew at a faster rate in August, reflecting sustained loan demand from households and firms. Based on preliminary data, outstanding loans of universal and commercial banks, net of reverse repurchase (RRP) placements with the BSP, expanded by 10.7 percent year-on-year in August from 10.4 percent in July.

H. Fiscal developments

- Overall national government (NG) spending increased by 11.3 percent y-o-y in January-August 2024, while NG revenues rose by 15.9 percent. On balance, the NG deficit narrowed by 4.9 percent in January-August 2024.

I. External developments

- Global economic conditions continued to improve at a modest pace amid subdued demand and easing business optimism. The JP Morgan All-Industry Output Index rose more slowly as the contraction in the manufacturing sector offset the expansion in the service sector. Moreover, economic activity among advanced economies improved modestly, while economic growth in China and India slowed in Q2 2024. ASEAN manufacturing activity also declined in September.
- As inflationary pressures eased in most economies, central banks have begun reducing their policy interest rates to support economic growth and employment. At their September monetary policy meetings, the US Federal Reserve, Bank Indonesia, European Central Bank, and Bank of Canada reduced their key policy interest rates.

² From 14 August 2024 to 3 October 2024