BANGKO SENTRAL NG PILIPINAS

***HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY STANCE HELD ON 10 APRIL 2025*** [1]

## I. Monetary Policy Decision

The Monetary Board decided to:

a) Reduce the Target Reverse Repurchase (RRP) Rate by 25 basis points to 5.50 percent; and

b) Reduce accordingly the current interest rates on the overnight deposit facility to 5.00 percent and overnight lending facility to 6.00 percent.

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

- The Monetary Board reduced the BSP's Target RRP Rate by 25 basis points to 5.50 percent due to a more manageable inflation outlook and increased risks to growth. The risk-adjusted inflation forecasts for 2025 and 2026 declined due to lower baseline forecasts, particularly for 2025. The balance of risks to the inflation outlook are broadly balanced for 2025 to 2027. Meanwhile, inflation expectations also remain within target.

- The more challenging external environment could dampen global GDP growth and pose a downside risk to domestic economic activity. Nevertheless, recent activity indicators suggest domestic demand will be supported by low inflation, improvements in real wages and labor market conditions, and the gradual easing of monetary policy settings.

- The BSP will continue to take a measured approach to monetary policy easing. Monetary policy settings still appear to be relatively tight. The timing and magnitude of further monetary easing will be determined on a meeting-by-meeting basis.

## 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 eased to 1.8 percent year-on-year in March due to declining food and energy inflation. Food inflation eased as domestic rice prices fell with the decline in global rice prices and direct government

[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 June 2025.

measures to stabilize supply. Non-food inflation also moderated owing to lower gasoline and diesel prices as well as slower inflation for restaurants and accommodation services. Moreover, demand-side pressures remain benign, with core inflation slowing further to 2.2 percent in March from 2.4 percent in February.

**B. Inflation expectations**

- Inflation expectations remain within target. Based on the BSP's survey in March, private sector analysts expect average inflation to settle at 3.1 percent in 2025, 3.3 percent in 2026, and 3.4 percent in 2027. The survey respondents see upside risks from the effect of geopolitical tensions, changes in global trade policies, adverse weather conditions, and upward adjustments in utility rates, transport charges, and minimum wages. Downside risks are still seen from lower rice prices.

**C. Inflation outlook**

- The latest baseline inflation forecasts for 2025 and 2026 have decreased due to lower food and global oil prices. Inflation is projected to remain below the midpoint of the target range until Q4 2025 with the steady decline in domestic food and global oil prices. However, inflation is expected to rise gradually and peak in Q2 2026. As global commodity prices stabilize, inflation could ease toward the midpoint of the target range starting in Q3 2026. Initial baseline projections also indicate within-target inflation in 2027.

- The risks to the inflation outlook are broadly balanced for 2025 to 2027. Upside pressures are seen to come from higher transport charges, meat prices, and electricity rates. Meanwhile, the main downside risks are linked to the impact of lower rice import tariffs as well as the expected impact of weaker global demand.

**D. Demand conditions**

- GDP growth could settle close to the low end of the government's growth targets for 2025 to 2027. Domestic economic activity may benefit from disinflation but faces downside risks. BSP staff estimates suggest slightly lower growth forecasts for 2025 relative to the previous forecast round in February. The downward revision could be attributed to the higher real policy rate, which outweighed the impact of the decline in oil prices.

**E. Supply-side indicators**

Developments in Agriculture

- Nationwide average rice retail prices decreased further in February due to the decline in international rice prices and the impact of lower rice tariffs. Meanwhile, pork prices increased, even as pork imports augmented local supply. With the commercial distribution of vaccines still pending, the spread of African Swine Fever continues to threaten hog repopulation efforts.

- In its latest climate outlook as of 19 March 2025, the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA) predicts weak La Niña conditions dissipating. The PAGASA sees ENSO-neutral conditions developing in April and persisting through Q3 2025.

<u>Oil Price Developments</u>

- Global oil prices eased in March due to concerns about lower demand amid uncertainty over evolving tariff policies. However, upside pressures from US sanctions on Russia, Iran, and Venezuela offset the decline. The futures market remained in backwardation.

- Global oil market expectations for 2025 and 2026 are mixed. For 2025, the International Energy Agency (IEA) expects a surplus, the Organization of the Petroleum Exporting Countries (OPEC) projects a deficit, and the US Energy Information Administration (EIA) sees a balanced market. For 2026, the OPEC forecasts a deficit, while the US EIA expects a surplus.

<u>Developments in the Utilities Sector</u>

- The overall electricity rate increased to ₱12.2901 per kilowatt hour (kWh) for a typical household in March from ₱12.0262 per kWh in February due mainly to the conclusion of reset fee adjustments in February, higher transmission charges, and upward adjustments in feed-in-tariff allowances.

**F. Financial market developments**

- Relative to the end-December 2024 level, the peso appreciated by 1.10 percent against the US dollar to ₱57.22/US$1 on 2 April 2025. Since the monetary policy meeting on 13 February 2025, the peso has appreciated by 1.48 percent. The appreciation partly reflects the weakening of the US dollar due to market concerns about the US trade policies. The recent decline in global oil prices also supported the peso. On the domestic front, positive market sentiment given a balance of payment surplus, higher gross international reserves, and lower inflation also contributed to the peso's appreciation.

**G. Liquidity and credit conditions**

- Bank lending continued to expand, reflecting sustained loan demand from households and firms. Preliminary data show outstanding loans of universal and commercial banks, net of RRP placements with the BSP, grew by 12.2 percent year-on-year in February from 12.8 percent in January.

## H. Fiscal developments

- Overall national government (NG) spending increased by 11.0 percent in 2024, while NG revenues likewise rose by 15.6 percent. On balance, the NG deficit slightly declined by 0.4 percent in 2024.

## I. External developments

- Global economic activity remained subdued in early 2025. The JP Morgan All-Industry Output Index decreased, indicating a mild slowdown in economic activity. The services sector slowed, while manufacturing output rose at its fastest rate in eight months. Moreover, major advanced economies slowed, while economic growth in China and India grew in Q4 2024. ASEAN manufacturing also grew faster in February.

- Inflation eased in several economies, prompting their respective central banks to adopt less restrictive monetary policies. Other central banks left their key policy rates unchanged amid heightened economic uncertainty due to rising global tariffs and persistent geoeconomic tensions.