



**HIGHLIGHTS OF THE MEETING OF THE MONETARY BOARD ON THE MONETARY POLICY  
STANCE HELD ON 25 JUNE 2020<sup>1</sup>**

**I. Monetary Policy Decision**

The Monetary Board decided to:

- a) reduce the overnight RRP (borrowing) rate by 50 basis points (bps) to 2.25 percent; and
- b) reduce the current overnight deposit and overnight lending rates by 50 bps to 1.75 percent and 2.75 percent, respectively.

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

- The Monetary Board's (MB) decision to cut the BSP's policy interest rate was based on its assessment of a benign inflation environment. The latest baseline forecasts indicate that inflation could settle near the low end of the target range of 3.0 percent  $\pm$  1 percentage point inflation for 2020 up to 2022. 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 overall balance of risks to the inflation outlook is tilted to the downside for 2020 to 2022. The potential impact of a more disruptive COVID-19 epidemic on global demand and domestic economic growth is seen as the primary downside risk to inflation. Meanwhile, adjustments in utility rates and higher global rice prices are considered to be the main upside risks to inflation.
- At the same time, the MB observed that domestic economic activity has slowed with the enforcement of necessary protocols to slow the spread of the virus in the country. Moreover, the outlook for global growth has deteriorated further as considerable uncertainty still surrounds the extent of the health crisis. The Monetary Board noted that even as economies begin to reopen, the global recovery would likely be protracted and uneven. Hence, there remains a critical need for continuing measures to bolster economic activity and support financial conditions, especially the effective implementation of interventions to protect human health, boost agricultural productivity and build infrastructure.
- The MB agreed that a further reduction in the policy rate amidst a benign inflation environment would help mitigate the downside risks to growth and boost market confidence. Even as domestic liquidity dynamics and market function continue to improve owing to prior liquidity-enhancing measures, the Monetary Board believes that keeping an accommodative stance will further ease the cost of borrowing and ensure ample credit and liquidity in the financial system as the economy transitions toward recovery in the coming months.

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<sup>1</sup> 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 25 June 2020 monetary policy meeting were approved by the Monetary Board during its regular meeting held on 16 July 2020. The next meeting of the Monetary Board on the monetary policy stance is scheduled on 20 August 2020.

### III. Recent Developments and Inflation Outlook

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

#### A. Domestic price conditions

- Year-on-year headline inflation eased to 2.1 percent in May from 2.2 percent in the previous month and was within the BSP's expected range of 1.9-2.7 percent for the month. The resulting year-to-date average inflation rate of 2.5 percent was within the Government's target range of 3.0 percent  $\pm$  1.0 percentage point for the year. Headline inflation continued its downward path as inflation for both food and non-food items slowed down in May. Year-on-year food inflation decelerated as most key food items, including meat and fish, posted slower price increases. At the same time, non-food inflation slowed down in May due to lower electricity rates from reduced generation charges. Year-on-year transport inflation continued to be negative due to lower domestic petroleum prices.
- Core inflation, which excludes selected volatile food and energy items to measure underlying price pressures, was steady at 2.9 percent year-on-year in May. Month-on-month seasonally-adjusted inflation rose to 0.3 percent in May from -0.1 percent in April.

#### B. Inflation expectations

- Results of the BSP's survey of private sector economists for June 2020 showed steady mean inflation forecasts for 2020 and 2021 relative to the results in May. The mean inflation forecasts for 2020 and 2021 were unchanged at 2.3 percent and 2.9 percent, respectively. By contrast, the mean inflation forecast for 2022 declined to 2.9 percent from 3.0 percent.

#### C. Inflation outlook

- The latest baseline forecasts indicate that inflation could settle near the low-end of the government's target range of 3.0 percent  $\pm$  1.0 percentage point at 2.3 percent for 2020 and 2.6 percent for 2021. The preliminary forecast for 2022 indicate that inflation could reach the midpoint of the target range at 3.0 percent. The latest forecasts for 2020 and 2021 are slightly higher by 0.1 percentage point than the previous round due to the increase in global crude oil prices, which was partly offset by the weaker domestic economic expansion and continued appreciation of the peso.

Baseline Inflation Forecasts		
	11 May 2020 Update	25 June 2020 MB Meeting
2020	2.2	2.3
2021	2.5	2.6
2022	-	3.0

- The overall balance of risks to the inflation outlook is tilted to the downside for 2020 to 2022. The potential impact of a more disruptive COVID-19 epidemic on global demand and domestic economic growth is seen as the primary downside risk to inflation. Meanwhile, adjustments in utility rates and higher global rice prices are considered to be the main upside risks to inflation.

## D. Demand conditions

- Domestic economic activity is projected to follow a U-shaped quarterly recovery path with output likely to contract further in the remaining quarters of 2020. The latest growth estimates are lower due to weaker-than-expected observations from high-frequency indicators and global economic conditions.
- Preliminary information and analysis suggests that the economy could contract further driven primarily by the deterioration in the industry and services sectors, which were heavily affected by the lockdown measures imposed during the quarter. Meanwhile, the expected decline in agriculture output is due to the impact of typhoon *Ambo*.
- Forward-looking indicators for manufacturing production suggest negative momentum in the near term. The preliminary composite purchasing managers' index (PMI) remained below the 50-point expansion threshold at 35.8 as all the industries continued to report contractions. However, the May PMI figure is a significant improvement from the April PMI at 27.5, reflecting the positive effect of the gradual easing of lockdown and quarantine measures in some parts of the country. Likewise, total energy sales of Meralco contracted by 25.5 percent year-on-year in April 2020, a reversal of the 10.9-percent growth in the same period a year-ago owing to the impact of the Enhanced Community Quarantine (ECQ) and modified ECQ in its service area.
- Mobility data are also taken into consideration to better monitor high-frequency data and supplement traditional data on economic activity. Around end-May to June, mobility trends showed some uptick among mobile application users but still significantly below pre-ECQ levels (mid-March).

## E. Supply-side indicators

### Developments in Agriculture

- Domestic rice prices continue to increase as the containment measures due to COVID-19 pandemic have impeded farming and trading activities in the provinces, resulting in higher farmgate prices, which translated to the upturn in retail prices. Moreover, rice stockpiling of local government units (LGUs) and other institutions for eventual relief distribution put additional pressure on rice supply.
- According to the latest climate advisory of the Philippine Atmospheric, Geophysical and Astronomical Services Administration,<sup>2</sup> ENSO-neutral conditions will likely persist across tropical Pacific Ocean and is expected to continue until September 2020.

### Oil Price Developments

- International oil prices continued to rise in June 2020 following the Organization of the Petroleum Exporting Countries and its allies' (OPEC+) large output cuts as well as expectations of higher demand as economies start reopening. On the domestic front, price changes of most domestic petroleum products remained negative compared to end-2019 level despite the recent uptick in fuel prices.

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<sup>2</sup> Seasonal Climate Outlook Report as of 27 May 2020.

## Developments in the Utilities Sector

- The overall electricity rate declined in June 2020 due to lower power generation charges. This can be attributed to the reduction in fixed costs for generation capacity due to Meralco's Force Majeure claim. With the significant reduction in power demand in its service area during the ECQ and Modified ECQ period, Meralco invoked the Force Majeure provision in its Power Supply Agreements (PSAs) for the duration of the lockdown, reducing fixed charges for generation capacity that would have been charged by suppliers.

## **F. Financial market developments**

- In June 2020, the peso appreciated against the US dollar compared to the previous month on improved risk sentiment amid the gradual reopening of economies across the world and S&P Global Ratings' affirmation of the country's sovereign credit rating. In addition, slower domestic inflation in May 2020 has provided support to the peso.

## **G. Domestic liquidity and credit conditions**

- Domestic liquidity expands faster while bank lending eases in April 2020. Preliminary data show that domestic liquidity (M3) expanded by 16.2 percent year-on-year in April, faster than the 13.3-percent expansion in March. Meanwhile, bank lending grew by 12.7 percent in April, though slower than the 13.6-percent (revised) expansion in March.
- Following the implementation of the BSP's extraordinary liquidity-enhancing measures, liquidity in the financial system increased significantly resulting in the oversubscriptions in the T-bill and T-bond auctions by the BTr in June 2020. At the same time, infusion of funds has resulted in oversubscriptions in the BSP's TDF and RRP auctions for the period April-June 2020.

## **H. Fiscal developments**

- The National Government (NG) recorded a ₱347.9 billion fiscal deficit in January-April 2020. Netting out the interest payments in NG expenditures, the primary deficit amounted to ₱206.1 billion, a turnaround from the ₱127.9 billion primary surplus in the same period in 2019.

## **I. External developments**

- In the June 2020 World Economic Outlook (WEO) Update, the International Monetary Fund (IMF) revised downwards its full-year economic growth forecasts for 2020 and 2021 relative to its April 2020 WEO projections. The lower global growth projections for both years account for the larger-than-expected impact of the COVID-19 pandemic on economic activity during the first half of 2020 as well as perceptions of a slower recovery path. All regions are forecasted to record negative growth in 2020, with differences in the growth projections across individual economies arising mainly from the evolution of the pandemic and the effectiveness of domestic containment strategies; variation in economic structure (e.g., dependence on severely affected sectors); reliance on external financial flows such as remittances; and pre-crisis growth trends.
- For advanced economies, the growth forecast for 2020 was reduced further as there appears to have been a deeper-than-expected impact on activity during the first half of the year. Similarly, the IMF lowered its 2020 GDP growth forecast for emerging markets and developing economies (EMDEs), reflecting the impact of domestic disruptions on economic activity as well as spillovers from weaker external demand.