

Rafael Buenaventura: Brief overview of inflation in the Philippines

Opening remarks by Mr Rafael Buenaventura, Governor of Bangko Sentral ng Pilipinas (Central Bank of the Philippines), at the BSP Inflation Report Press Briefing, Manila, 29 October 2004.

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Good morning, everyone.

Transparency is a hallmark of good monetary policy, and for this reason the BSP continually strives to bring across its policy message to the public and its reading of the outlook for inflation. This is the main reason why we publish a quarterly inflation report, and we would like to thank everyone here for joining us at this morning's presentation.

Conducting monetary policy in the present economic environment is a considerable challenge for the BSP. The continued rise in inflation during the last few months has led to public concern over its likely effects on both the public's purchasing power and economic activity. In our previous public statements on monetary policy, we have been careful to emphasize that the inflation uptrend over the past year has been driven mainly by supply-side factors arising in large part from a series of shocks coming from the sharp increases in oil prices, food and other key non-food commodities particularly fuel and transport. This view has led to the BSP's prevailing policy stance of accommodating the supply shocks which are one, transitory in nature and two, if addressed by monetary action, could have adverse impact on growth and in turn inflation itself.

The inflation report we will be presenting today outlines the reasons why we have kept our policy interest rates unchanged so far despite perceptions of a need to tighten monetary policy. We believe that supply-side developments continue to play a dominant role in the inflation outlook, and we find as yet no preponderant evidence of demand-driven inflationary pressures or second-order inflationary effects from the ongoing supply shocks. The expected path of future inflation continues to be hump-shaped, as supply factors push headline inflation above the 4-5 percent target in 2004 and 2005 before quickly tapering off and reverting to the 4-5 percent range by 2006. We find no compelling reason, therefore, to modify the settings for monetary policy at this time.

In closing, let me emphasize that the BSP remains strongly committed to good monetary policymaking. We try to ensure our accountability by formally submitting ourselves to public judgment on the basis of how we go about achieving our inflation targets. We also make sure that the stance of monetary policy is properly communicated to our constituency, the Filipino public, through such documents as the inflation report and regular press statements. We welcome your comments on the contents of the report and hope that you will continue to actively participate in the public dialogue on the monetary policy process.

Thank you and good morning.