



# MONETARY POLICY REPORT CONDENSED VERSION

AUGUST 2024



## **Editorial Note to Condensed Version**

This condensed version of the Monetary Policy Report (MPR) is meant to make monetary policy even more accessible to the public, as stated in the Foreword, so that they can better understand—and act on—the BSP's views and actions, particularly on inflation and interest rates.

Part of making this more accessible is to shorten most parts but also to skip over others that are deemed secondary. The hope is that what we give up in detail, will be made up for in audience.

Unlike the MPR, whose body is divided by time period (Economic Outlook and Current Developments), this condensed version is divided by subject (Inflation and Economy). We hope the layperson will have an easier time understanding the content if he or she can do so one subject at a time.



# Foreword

(From the official Monetary Policy Report)

The primary objective of monetary policy is to promote low and stable inflation conducive to balanced and sustainable economic growth and employment. To help fulfill this objective, the Bangko Sentral ng Pilipinas (BSP) adopted the inflation targeting framework for monetary policy.

One of the key features of inflation targeting is greater transparency. This means greater disclosure and communication by the BSP of its policy actions and decisions. The *Monetary Policy Report* plays a primary part in the BSP's effort at transparency. It shares with stakeholders, including market participants, the latest assessment of the monetary policy stance based on an analysis of economic and financial prospects. The broad aim is to contribute to making monetary policy accessible to the public. Through the *Monetary Policy Report*, the public may better understand and monitor the BSP's commitment to the inflation target.

The *Monetary Policy Report* is the flagship BSP publication on monetary policy. It provides the public with a detailed view of the BSP's forecasts and guidance on the likely direction of monetary policy over the next two years. The report conveys the overall thinking behind the BSP's decisions on monetary policy. The greater part of the report is devoted to forward-looking discussions on inflation and the key macroeconomic variables that affect inflation. It also discusses the risks and uncertainty surrounding the BSP's inflation forecasts.

Under the inflation targeting framework, the Development Budget Coordination Committee (DBCC) has retained the government's annual headline inflation target at 3.0 percent  $\pm$  1.0 percentage point (ppt) for 2024–2028. The inflation target range continues to be our quantitative representation of the medium-term goal of price stability, aligned with the current structure of the Philippine economy and the outlook on macroeconomic conditions over the next few years.

The Monetary Board approved this *Monetary Policy Report* at its meeting on 29 August 2024.

**ELI M. REMOLONA, JR.**  
Governor



---

# The Monetary Policy of the Bangko Sentral ng Pilipinas

---

(From the official Monetary Policy Report)

## The BSP mandate

The main responsibility of the BSP is to formulate and implement policy in the areas of money, banking, and credit, with the primary objective of maintaining stable prices conducive to balanced and sustainable economic growth and employment in the Philippines. The BSP also aims to promote and preserve monetary stability and the convertibility of the national currency.

## Monetary policy instruments

The BSP's primary monetary policy instrument is the overnight reverse repurchase (RRP) facility.<sup>1</sup> Other instruments to implement the desired monetary policy stance to achieve the inflation target include (a) increasing/decreasing the reserve requirement, (b) conducting auctions for the term deposit facility (TDF) and BSP Securities Facility, (c) adjusting the rediscount rate on loans extended to banking institutions on a short-term basis against eligible collateral of banks' borrowers, and (d) outright sales/purchases of the BSP's holdings of government securities (GS).

## Policy target

The BSP's target for monetary policy is the average annual Consumer Price Index (CPI), or headline inflation rate, which is compiled and released to the public by the Philippine Statistics Authority (PSA). The policy target is set by the DBCC in consultation with the BSP.<sup>2</sup> The inflation target for 2024–2028 is 3.0 percent  $\pm$  1.0 pp.<sup>3</sup>

## The BSP's explanation clauses

Explanation clauses are a prespecified set of acceptable circumstances under which an inflation-targeting central bank may fail to achieve its inflation target. These clauses reflect the fact that there are limits to the effectiveness of monetary policy and that deviations from the inflation target may sometimes occur because of factors beyond the control of the central bank. Under the inflation targeting framework of the BSP, these exemptions include inflation pressures arising from (a) volatility in the prices of agricultural products; (b) natural calamities or events that affect a major part of the economy; (c) volatility in the prices of oil products; and (d) significant government policy changes that directly affect prices, such as changes in the tax structure, incentives, and subsidies.

---

<sup>1</sup> On 8 September 2023, the overnight RRP facility was transformed into a variable-rate auction format, with the policy rate of the BSP renamed to target RRP rate.

<sup>2</sup> The DBCC, created under Executive Order (Exec. Ord.) No. 232 dated 14 May 1970, is an interagency committee tasked primarily to formulate the national government (NG)'s fiscal program. It is composed of the Office of the President, Department of Budget and Management (DBM), National Economic and Development Authority (NEDA), and the Department of Finance. The BSP attends the Committee meetings as a resource agency.

<sup>3</sup> During the meeting on 15 December 2023, the DBCC, in consultation with the BSP, decided to retain the inflation target of 3.0 percent  $\pm$  1.0 pp for 2024 and set the same inflation target for 2025–2028.

# Table of Contents

Monetary policy decision	1
Interest rate adjustment	
Reason behind the decision	
Balancing of risks	
Inflation forecast	2
Inflation forecasts	
a. BSP's baseline inflation forecasts	
b. BSP's risk-adjusted inflation forecasts	
c. Private sector forecasts	
Recent Developments	5

# Monetary policy decision

---

## Interest rate adjustment

On 15 August 2024, the Bangko Sentral ng Pilipinas (BSP) cut its main interest rate, the target reverse repurchase (RRP) rate, by 25 basis points from 6.5 percent to 6.25 percent. The target RRP is the BSP's main monetary policy rate.<sup>4</sup>

The BSP also cut its overnight deposit and lending rates for banks by 25 basis points each to 5.75 percent and 6.75 percent, respectively.<sup>5</sup>

Table 1  
**BSP Overnight Rates**

Adjustment	Previous Rate	New Rate
Target reverse repurchase rate	6.50%	6.25%
Overnight deposit rate	6.00%	5.75%
Overnight lending rate	7.00%	6.75%

## Reason behind the decision

The BSP's baseline forecasts for average inflation are 3.4 percent for 2024, 3.1 percent for 2025, and 3.2 percent in 2026. These are within the government's inflation target range of 2.0 to 4.0 percent this year up to 2026.

While inflation increased in July 2024, the BSP views the faster inflation as temporary. The BSP continues to expect that inflation will decline and settle within the government's target.

Meanwhile, economic growth could settle within the government's target in 2024, supported by construction and government spending, but fall below the targets for 2025 and 2026.

The balance of risks continues to lean toward the downside for 2024 and 2025 with a modest tilt to the upside for 2026. Downside risks may come from the government's decision to lower tariffs on rice, which may bring down rice prices. Upside risks could come from higher electricity rates and other external factors.

If these risks manifest, inflation could settle at 3.3 percent in 2024, 2.9 percent in 2025, and 3.3 percent in 2026, all still within target range. External forecasters also project inflation to fall within the target range, indicating well-anchored inflation expectations.

---

4 The Target RRP is BSP's main instrument for signaling its monetary policy stance. The BSP uses repurchase agreements to buy (repurchase) and resell (reverse repurchase) government securities from banks, increasing and reducing the money supply, or the funds the banks have available to lend, respectively. The Target RRP rate represents the rate the BSP aims for banks to pay to buy back the securities.

5 The BSP also uses overnight deposit and lending to manage money supply. The overnight deposit rate is what the BSP pays for overnight deposits. The overnight lending rate is what the BSP charges for overnight loans.

Given these factors, the BSP decided that a measured reduction in the policy interest rate is appropriate.

The Monetary Board will meet again to decide on interest rates on 17 October 2024.

## Inflation forecast

### Inflation forecasts

Based on the BSP's latest estimates, inflation this year up to 2026 will likely settle within the government's target range of 2.0-4.0 percent. This holds even if potential risks affecting prices materialize.

Similarly, economists from the private sector expect inflation to settle within the target range this year until 2026, suggesting that inflation expectations remain well-anchored.

Table 2  
**Inflation Forecasts**

BSP vs. Private-Sector Economists			
Year	a. BSP's baseline forecasts <i>(more likely scenario, says BSP)*</i>	b. BSP's risk-adjusted forecasts <i>(scenario if risks happen, says BSP)*</i>	c. Private-Sector Economists' Forecasts**
2024	3.4	3.3	3.5
2025	3.1	2.9	3.1
2026	3.2	3.3	3.2

\*BSP's baseline and risk-adjusted forecasts from the 15 August 2024 monetary policy meeting

\*\*Private sector economists' forecasts are based on forecasts provided by 23 respondents. The survey was conducted from 8-13 August 2024.

#### a. BSP's baseline inflation forecasts

The inflation uptick in July is seen as temporary and consistent with expectations due to higher electricity rates, fuel prices, and school fees following the start of the academic year. Inflation will likely decline starting in August on lower rice prices (due to increased imports following the rice tariff cut), negative base effects (from last year's rise in global oil and rice prices), and a downtrend in global commodity prices. This already takes into account higher electricity rates and the effects of Typhoon Carina on some commodity prices.

The BSP's baseline inflation forecasts, which represent its estimates for most likely inflation rates, considered the following external and domestic factors:

- Stable overall global growth outlook. The economy of the United States (US) is expected to slow down, while the eurozone, China, and Japan are expected to recover.

- Lower assumptions for global crude oil prices. Oil demand from China and other countries has declined. The projected average prices of Dubai crude dropped as well—from \$83.69 to \$80.70 per barrel for this year, and from \$79.11 to \$74.13 per barrel for next year. The average price is seen falling further to \$71.36 in 2026.
- Global non-oil commodity prices are seen to ease. The emergence of La Niña, which brings more rain, is seen boosting agriculture production globally. This may lead to lower food prices. However, trade or geopolitical tensions may cause prices to go up.
- Federal funds rate. Markets expect the US Federal Reserve to cut rates by 50 basis points (bp) in September 2024, followed by a 25-bp cut each in November and December. For 2025, market anticipates the Fed to lower rates by 125 bps.
- Peso-dollar exchange rate. The peso is expected to remain within the DBCC assumptions of ₱56.00-58.00/US\$1 for 2024, and ₱55.00-58.00/US\$1 for 2025 and 2026.<sup>2</sup>The peso is projected to appreciate during this period, partly driven by the expected seasonal OF remittance inflows during the holiday season.
- No adjustment for both policy interest rate and reserve requirement ratio (RRR). The target RRR rate and the RRR are maintained at 6.5 percent and 9.5 percent, respectively, from August 2024 until the end of 2026.
- Wages. In July 2024, wages in the National Capital Region were raised. Wages are expected to increase anew next year and in 2026.
- Fiscal sector. The BSP's baseline inflation forecasts are consistent with the government's fiscal deficit assumption.
- Higher excise taxes on alcoholic drinks and cigarettes. After staggered increases, excise taxes on alcoholic drinks shall increase by 6.0% starting 2025. Excise taxes on cigarettes are rising by 5% starting this year.
- Water rates. The Metropolitan Waterworks and Sewerage System has allowed Manila Water Company and Maynilad Water Services to hike rates up to 2027.
- Electricity rates. Electricity rates in areas serviced by the Manila Electric Company and other major distributors are expected to increase until September 2024.
- Lower rice tariff. In June 2024, the government cut the tariff on imported rice from 35% to 15%. This is seen to help lower imported rice prices.

Meanwhile, the latest baseline projections suggest that economic growth could settle within the Development Budget Coordination Committee's (DBCC) target for 2024. However, economic growth could fall below the DBCC target for 2025 and 2026. Nevertheless, growth prospects are seen to remain stable for the rest of 2024, supported by construction and government spending.



## b. BSP's risk-adjusted inflation forecasts

The BSP's risk-adjusted inflation forecasts show potential deviation from baseline forecasts if certain risks materialize.

Risks refer not only to factors that could cause prices to go up (upside risks), but also factors that could cause prices to go down (downside risks).

Table 3  
**Risks<sup>6</sup> to Inflation and Probabilities**

	<b>Risks</b>	<b>Probability</b>
<b>Upside risks</b>	Higher transport charges	Medium
	Higher electricity rates	High
<b>Downside risk</b>	Effect of lower tariff on imported rice	2024: High 2025: Medium

For 2024 and 2025, the downside risk is seen to have greater impact on inflation than the upside risks. That is why, for those years, the risk-adjusted forecasts are lower than baseline forecasts (*see Table 2*).

For 2026, the upside risks are higher. Hence, for that year, the risk-adjusted forecast is higher than the baseline forecast (*see Table 2*).

Below are the factors that the BSP considered for its risk-adjusted inflation forecasts:

- Higher transport fares. Transport fares could go up if the government approves pending fare-hike petitions. Jeepney fare could go up by as much as P4.00. The minimum fare in MRT-3 could rise from P13.00 to P16.00. The taxi flag-down rate could increase by P50.00.
- Higher electricity prices. Higher cost of electricity generation may be passed on to consumers, with the adjustment spread equally over the next five years starting in September 2024.
- Lower rice tariff. The cut in tariff on imported rice could improve domestic rice supply and cause the prices of locally produced rice to decline.

## c. Inflation expectations of economists from the private sector

The BSP also monitors "inflation expectations" of economists from the private sector. These are their own estimates of future inflation.

For August 2024, these inflation expectations are not far from the BSP's own forecasts (*see Table 2*) and are within the inflation target range. These indicate that inflation expectations are well-anchored.

---

<sup>6</sup> Upside risks are factors that could push inflation higher than expected. Downside risks are factors that could cause inflation to be lower than expected.

Private-sector economists expect the following downside risks to their inflation forecasts:

- lower rice prices
- stronger peso against the US dollar (which makes imported goods cheaper in peso terms)

On the other hand, they expect the following upside risks:

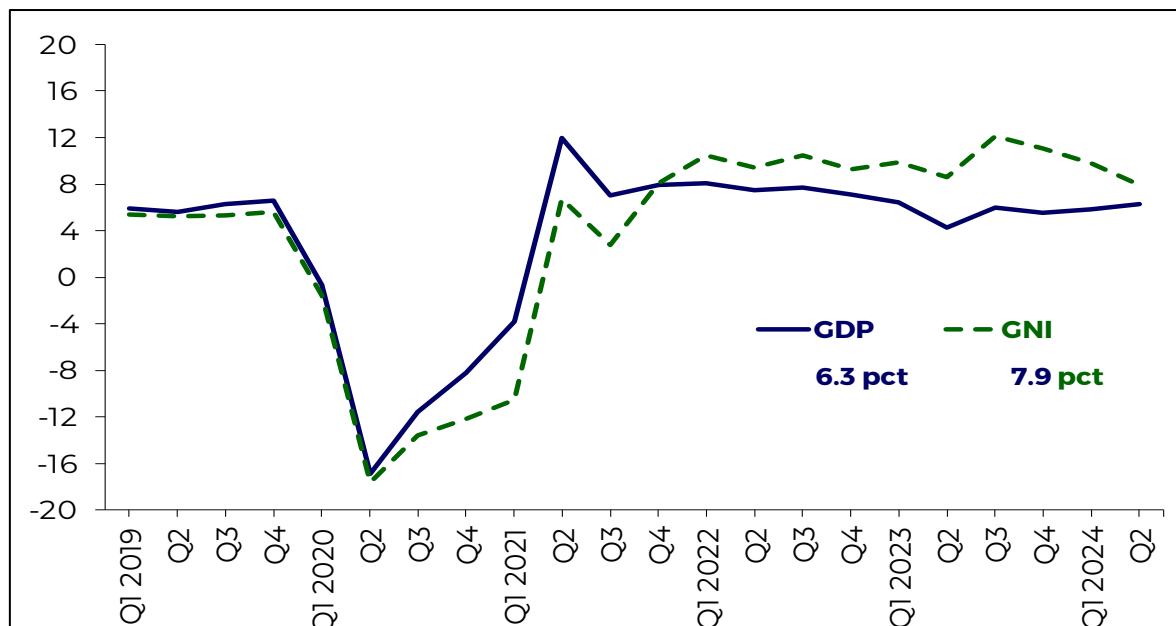
- higher electricity rates due to potential increase in oil prices amid geopolitical concerns

Private-sector economists have assigned an 86.4-percent chance that inflation will fall within the 2.0-4.0 percent target range this year, and an 80.6 percent and 82.7 percent probability that inflation will also settle within the target range in 2025 and 2026, respectively.

## Recent Developments

Economic growth accelerated to 6.3 percent in Q2 2024, bringing the first half growth to 6.0 percent, the low end of the government's 6.0-7.0 percent target for the year.

Table 4  
**Gross Domestic Product and Gross National Income**  
 at constant 2018 prices; year-on-year; growth rate in percent



Under the expenditure approach, Q2 2024 GDP growth was driven by domestic demand, particularly investments and government spending, making up for slower export growth.

On the production side, services and industry grew, offsetting a decline in agriculture due to El Niño.

**Domestic demand continues to support output growth.** In terms of capacity utilization, the Monthly Integrated Survey of Select Industries (MISSI) showed that the number of respondents operating at 80 percent capacity or more dropped to 51.7 percent in June from 53.2 percent in May. By industry, only three out of 22 major industries operated at or above 80 percent capacity. Volume and value of production also declined, with gains by the coke and refined petroleum products subsectors being offset by declines in the wood and bamboo subsectors

Table 5  
**Monthly Average of Capacity Utilization for Manufacturing**  
 2018=100  
 in percent

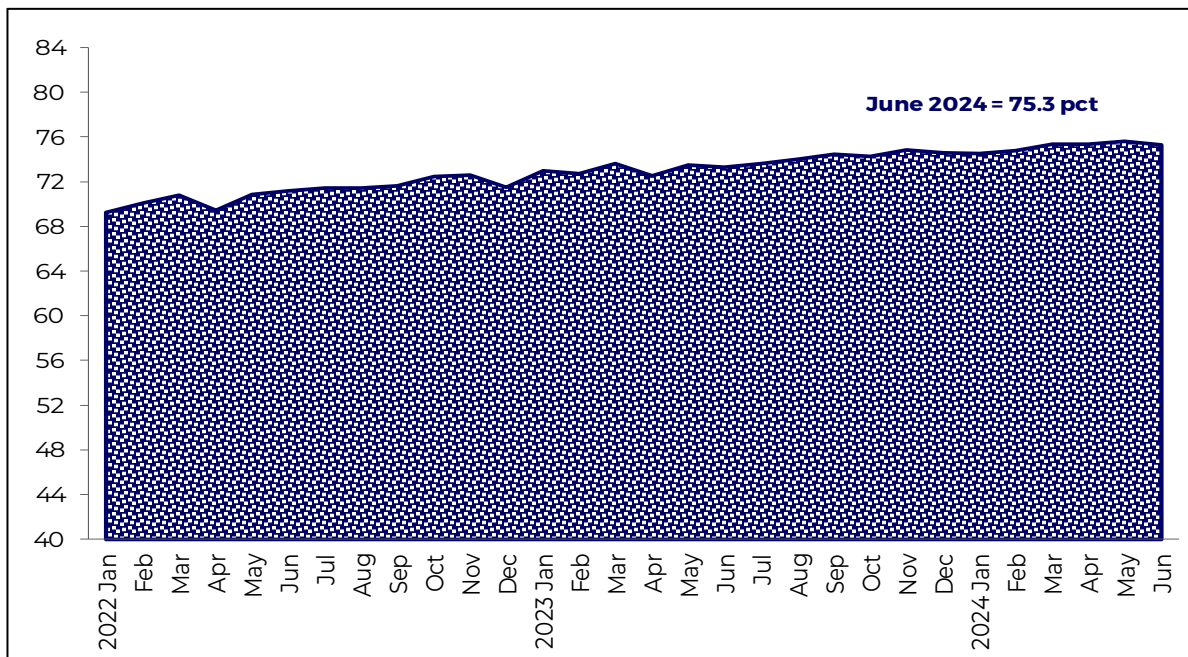


Table 6  
**Growth in Volume of Production Index by Industry Division**  
 2018=100  
 year-on-year; in percent

Gainers	June 2024
1) Coke and refined petroleum products	46.0
2) Furniture	29.7
3) Fabricated metal products, except machinery and equipment	19.6
4) Machinery and equipment, except electrical	18.8
5) Electrical equipment	15.3
6) Chemical and chemical products	11.5
7) Food products	8.8
8) Beverages	7.3
9) Rubber and plastic products	3.2
10) Basic pharmaceutical products and pharmaceutical preparations	2.9
11) Textiles	2.5
12) Computer, electronic, and optical products	0.5

Table 6 (continued)

**Growth in Volume of Production Index by Industry Division**

Losers		June 2024
1)	Wood, bamboo, cane, rattan articles, and related products	-58.9
2)	Printing and reproduction of recorded media	-18.7
3)	Basic metals	-17.7
4)	Other non-metallic mineral products	-17.1
5)	Other manufacturing, repair, and installation of machinery and equipment	-14.1
6)	Transport equipment	-8.8
7)	Wearing apparel	-5.3
8)	Leather and related products, including footwear	-3.7
9)	Tobacco products	-0.8
10)	Paper and paper products	-0.4

Source: Philippine Statistics Authority

Table 7

**Growth in Value of Production Index by Industry Division**

2018=100

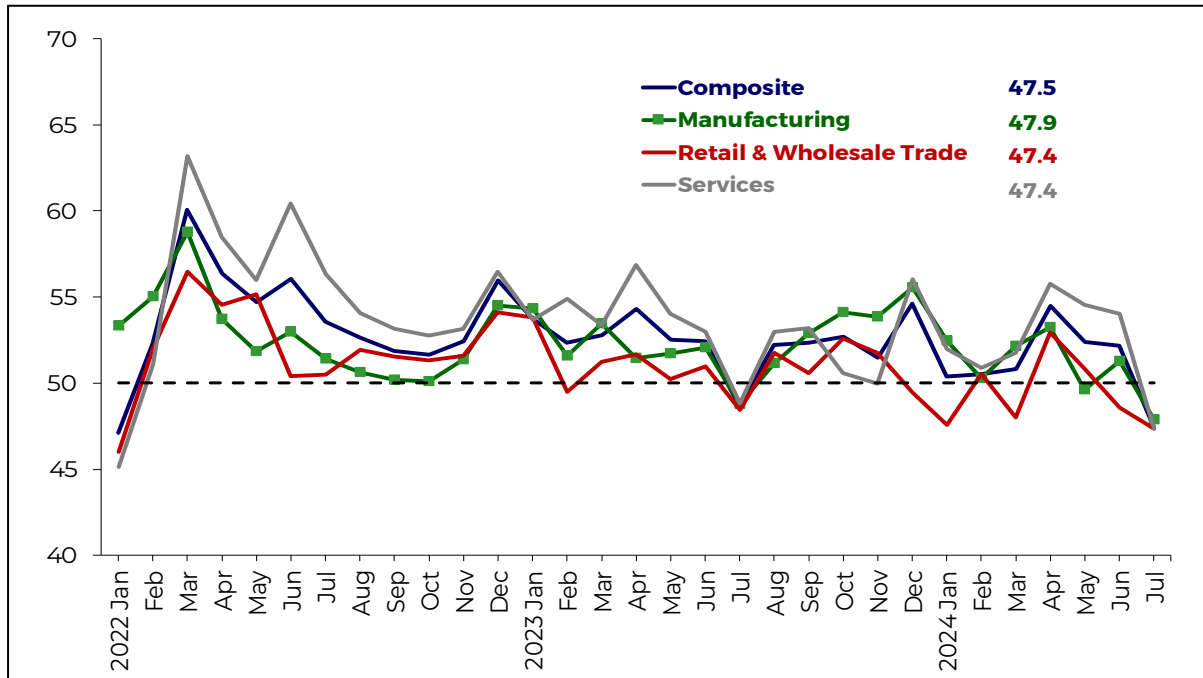
year-on-year; in percent

Gainers		June 2024
1)	Coke and refined petroleum products	44.5
2)	Furniture	28.9
3)	Machinery and equipment, except electrical	20.4
4)	Electrical equipment	14.9
5)	Fabricated metal products, except machinery and equipment	14.5
6)	Chemical and chemical products	11.4
7)	Food products	9.8
8)	Beverages	8.6
9)	Tobacco products	4.8
10)	Basic pharmaceutical products and pharmaceutical preparations	4.6
11)	Computer, electronic, and optical products	4.1
12)	Rubber and plastic products	1.8
13)	Textiles	0.6
14)	Leather and related products, including footwear	0.2
Losers		June 2024
1)	Wood, bamboo, cane, rattan articles, and related products	-60.2
2)	Other non-metallic mineral products	-18.9
3)	Basic metals	-17.5
4)	Printing and reproduction of recorded media	-17.3
5)	Other manufacturing, repair, and installation of machinery and equipment	-13.7
6)	Transport equipment	-6.2
7)	Wearing apparel	-4.2
8)	Paper and paper products	-0.7

Source: Philippine Statistics Authority

Another sign: While preliminary Purchasing Managers Index data eased to 47.5 in July from 52.2 in June, business managers remained optimistic across all industries in August.

Table 8  
**Purchasing Managers' Index Diffusion Index**

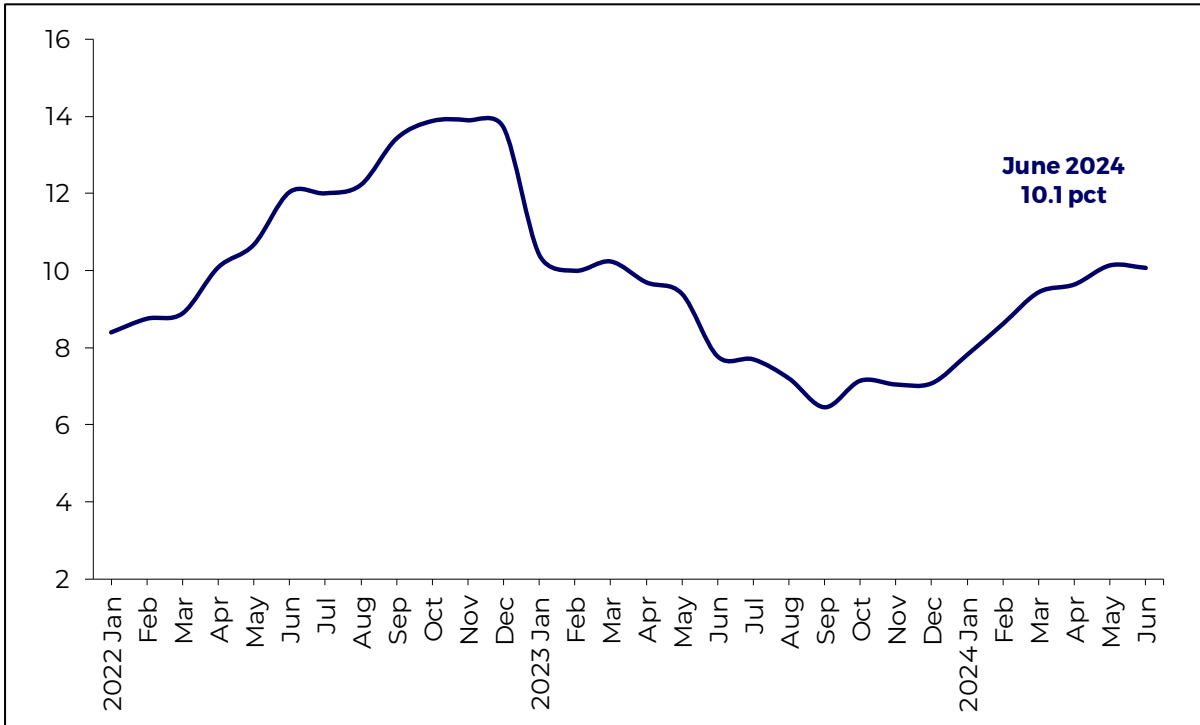


Unemployment fell to 3.1 percent in June 2024, matching December 2023 as the lowest since April 2005. Underemployment jumped to 12.1 percent from 9.9 percent in May.

Bank lending continued to expand with a double-digit growth in June, driven by strong demand from households and businesses. However, growth slowed from Q2 2023 to Q1 2024 due to the BSP's tight monetary policy.

Loans by universal and commercial banks have since started to recover, increasing 10.1 percent y-o-y in June, matching the rate in May.

Table 9  
**Loans Outstanding of Commercial Banks**  
 year-on-year; growth rate in percent



Loans for real estate grew by 12.3 percent; wholesale and retail trade by 9.3 percent; manufacturing by 8.9 percent; transportation and storage by 26.2 percent; and electricity, gas, steam, and air conditioning supply by 5.7 percent.

On the external front, risks to the global outlook remain balanced. However, near-term risks such as the possibility of slow services disinflation as well as price pressures from geopolitical issues have gained more importance. Nevertheless, global economic growth prospects improved amid strong demand and continued business optimism.

The *Monetary Policy Report* is published four times a year by the Bangko Sentral ng Pilipinas (BSP). The report is available as a complete document in PDF format, together with other general information about inflation targeting and the monetary policy of the BSP, on the BSP's website:



<https://www.bsp.gov.ph/SitePages/PriceStability/PriceStability.aspx>

If you wish to receive an electronic copy of the latest *Monetary Policy Report*, please send an email to [bspmail@bsp.gov.ph](mailto:bspmail@bsp.gov.ph).

The BSP also welcomes feedback from readers on the content of the *Monetary Policy Report*, as well as suggestions on how to improve its presentation. Please send comments and suggestions to the following:

By post: BSP Monetary Policy Report  
c/o Department of Economic Research  
Bangko Sentral ng Pilipinas  
A. Mabini Street, Malate, Manila  
Philippines 1004

By email: [bspmail@bsp.gov.ph](mailto:bspmail@bsp.gov.ph)



[www.bsp.gov.ph](http://www.bsp.gov.ph)