MONETARY POLICY REPORT

Condensed Version

FEBRUARY 2025

Editorial Note to Condensed Version

This condensed version of the Monetary Policy Report (MPR) is designed to make monetary policy easier to understand for the public. Our goal is to help people better grasp and act on BSP's views and actions, particularly on inflation and interest rates.

To do this, we have shortened the content. While some technical information have been omitted, we hope this version will provide a clearer picture of monetary policymaking.

Published by the Communication Office

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 ± 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 13 February 2025.

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.[1] 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.[2] The inflation target for 2024–2028 is 3.0 percent ± 1.0 pp.[3]

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

[1] 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.
[2] 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.
[3] During the meeting on 15 December 2023, the DBCC, in consultation with the BSP, decided to retain the inflation target of 3.0 percent ± 1.0 pp for 2024 and set the same inflation target for 2025–2028.


DEPARTMENT OF FINANCE
BANGKO SENTRAL NG PILIPINAS

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Monetary policy stance

BSP Retains Overnight Rates

5.75%
Target reverse repurchase rate

5.25%
Overnight deposit facility rate

6.25%
Overnight lending facility rate

Monetary policy decision

On 13 February 2025, the Bangko Sentral ng Pilipinas (BSP) decided to keep its key monetary policy interest rate, the target reverse repurchase (RRP) rate,[4] at 5.75 percent.

The BSP also retained its overnight deposit and lending rates for banks at 5.25 percent and 6.25 percent, respectively.

Reason behind the decision

Uncertainties surrounding global economic policies, particularly the impact of potential US tariffs, pose additional downside risks to domestic growth.

The Board deems it prudent to await further assessments of the impact of global policy uncertainty and their potential effects before deciding on further policy rate adjustments.

[4] The target reverse repurchase (RRP) rate is BSP's main instrument for signaling its monetary policy stance. BSP employs repurchase agreements to buy (repurchase) and resell (reverse repurchase) government securities from banks, thus increasing and reducing the money supply or the funds available for banks to lend. The target RRP rate indicates the rate BSP seeks for banks to pay to buying back the securities.

Inflation forecast

Inflation forecasts

According to the BSP's latest estimates, inflation in 2025 and 2026 will stay within the government's target range of 2.0-4.0 percent.

Likewise, the BSP's February 2025 survey of external forecasters (BSEF) showed that analysts expect within-target inflation from 2025 to 2027. They see the risks as broadly balanced, with headline inflation[5] expected to stay low and manageable in the medium term.

However, inflation may exceed the target range in the latter months of 2025, primarily due to positive base effects resulting from easing of commodity price pressures during the same period in 2024.

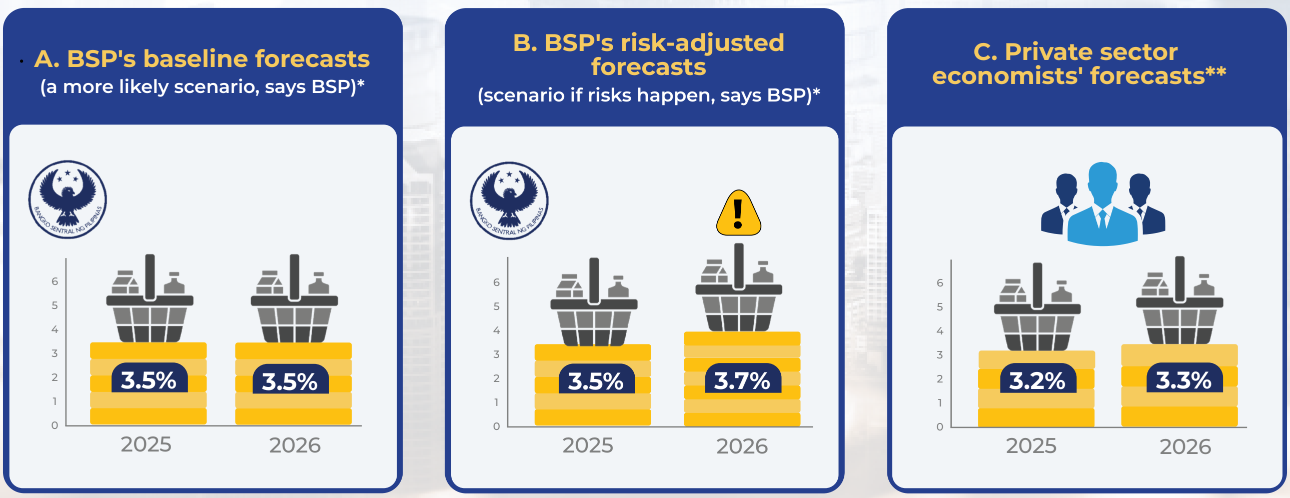
As global commodity prices decrease, inflation is expected to gradually approach the midpoint of the target range by 2026.

Risks to the inflation outlook have become broadly balanced for 2025 and 2026, meaning potential upside and downside pressures have about the same potential impact on inflation. Potential upside pressures include higher electricity rates, transportation costs, and pork prices. On the other hand, a key downside risk is the possible impact of lower import tariffs on domestic rice prices. If these risks materialize, average inflation could settle at 3.5 percent in 2025 and 3.7 percent in 2026.

[5] Headline inflation refers to the rate of change in the consumer price index (CPI), a measure of the average price of a standard basket of goods and services consumed by a typical family. Headline inflation thus captures the changes in the cost of living based on the movements of the prices of items in the CPI.

Inflation Forecasts Remain Within Target[6]

BSP vs. Private-Sector Economists



*The BSP's baseline and risk-adjusted forecasts from the monetary policy meeting on 15 February 2025
**Private sector economists' forecasts are based on forecasts provided by 24 respondents. The survey was conducted from 6-12 December 2024.

[6] Both potential pressures of upside and downside risks are about the same. Hence, if these risks materialize, average inflation is expected to stay manageable, settling at 3.5 percent in 2025 and 3.7 percent in 2026.

a. BSP's baseline inflation forecasts

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

External factors

Global economic outlook

Based on the January 2025 Global Projections Model Network forecasts, moderate GDP growth is expected, consistent with the emerging policies in the United States (US), such as higher tariffs, lower domestic taxes, and expansionary fiscal policy that could have widespread effects on both the US and major economies in 2025 and beyond.

Similarly, according to the latest World Economic Outlook (WEO) update from the International Monetary Fund (IMF), global growth is expected to remain stable yet modest.

Global crude oil prices

Crude oil prices are seen to be driven by the stricter US sanctions imposed on Russian oil producers, which disrupt oil supply to China and India. Cold weather has also increased winter fuel demand. Nonetheless, backwardation—a situation where current prices are higher than future prices—for crude oil is still expected due to prospects of subdued global demand and continued oversupply in the global market.

World non-oil prices

The IMF's WEO update indicates that non-fuel commodity prices are expected to rise this year. This is due to the increase in prices of several agricultural commodities resulting from adverse weather conditions in key exporting countries.

Domestic factors

Wages

The baseline forecasts align with the minimum wage increase of 5.0 percent for 2025 and 2026.

Fiscal sector

Fiscal deficit assumptions remain unchanged at 5.3 percent in 2025 and 4.7 percent in 2026 based on the medium-term fiscal program set by the Development Budget Coordination Committee (DBCC) as of 2 December 2024.

Alcoholic drinks and cigarettes

The baseline forecasts factor in the legally mandated annual price increases for alcoholic beverages and cigarettes.[7] In addition, new regulations[8] have further raised the excise tax on tobacco products.

Water rates

Water rate increases are expected after the Metropolitan Waterworks and Sewerage System approves rate hike requests from Manila Water Company and Maynilad Water Services.

Electricity rates

The baseline forecasts accounted for the higher electricity rates in areas serviced by the Manila Electric Company (Meralco) to recover costs over 12 months beginning with the October 2024 billing cycle.

Lower rice tariff [9,10]

The tariff reduction is seen to lower the costs of rice imports that will be passed on to wholesale and retail prices. As a result, headline inflation is expected to temper in the first half of 2025 with the continued arrival of imports.

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[7] Republic Act No. 11467-Tax Reform for Acceleration and Inclusion Law

[8] Republic Act no. 11346-Tobacco Tax Law

[9] The President signed EO No. 62 on 20 June 2024, reducing the tariff on rice from 35.0 percent to 15.0 percent to help lower the price of imported rice. The reduced rice tariff is effective from 7 July 2024 until 2028, subject to a review every four months.

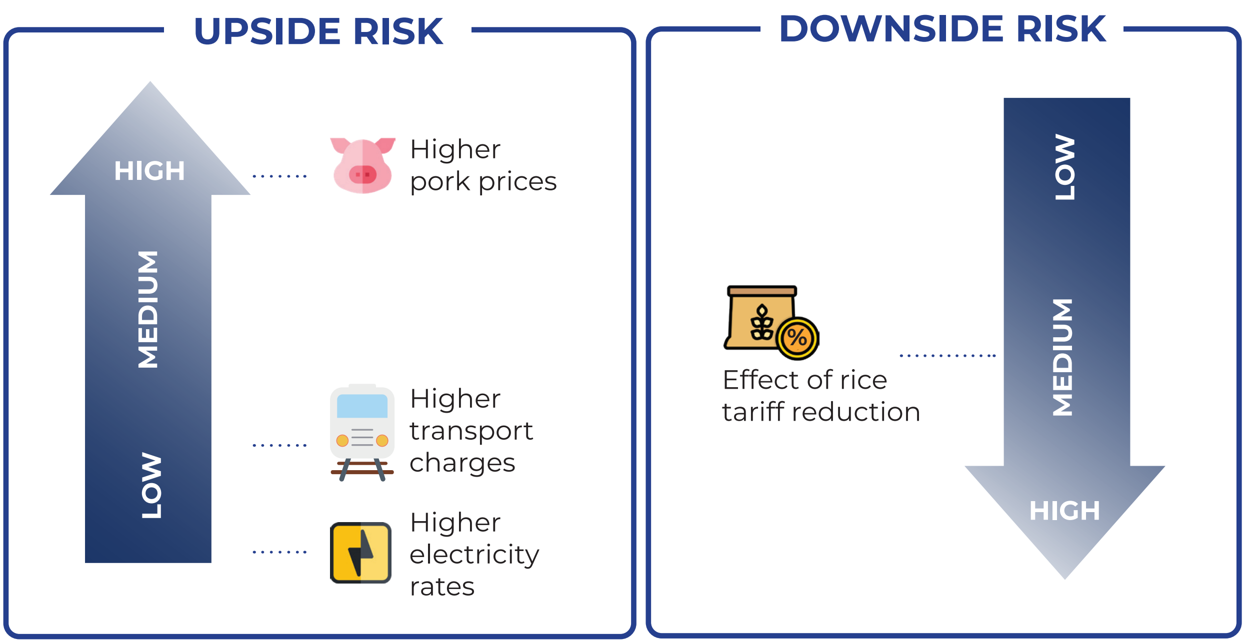
[10] NEDA announced the approval of the new Comprehensive Tariff Program from 2024 to 2028, which includes tariff reductions on other essential items in the energy and manufacturing sectors while keeping the prevailing low rates on key agricultural products.

b. BSP's risk-adjusted inflation forecasts

For 2025, the BSP's risk-adjusted inflation forecasts (RAF) are slightly higher than in the previous round due mainly to the higher baseline forecast. Meanwhile, the RAF for 2026 is broadly unchanged, with minimal adjustments in both baseline and risk estimates.

Risks refer to factors that could cause prices to rise (upside risks) or fall (downside risks).

Risks[8] to Inflation and Probabilities



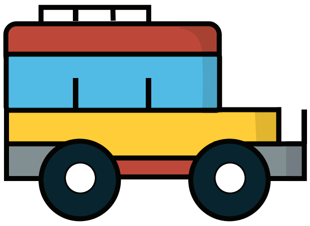
Below are the factors that the BSP considered for its risk-adjusted inflation forecasts:

Transport fares. The proposed fare hikes for public transportation services in Q2 2025 pose upside risks to inflation. The table below presents the assumed fare adjustments. This risk is assigned a low probability.

The Ninoy Aquino International Airport (NAIA) fee increase is also assumed to raise airfares in the near term. This adjustment was approved in preparation for the transfer of NAIA operations and management to the private operator, the New NAIA Infrastructure Corporation (NNIC), and generate revenue to finance modernization infrastructure requirements. This risk is a high probability, although its impact on inflation is minimal due to the small weight of air transport in the Consumer Price Index (CPI) basket (0.08 percent).

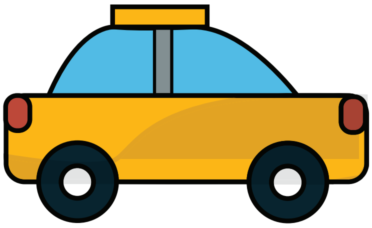
[11] The BSP considers different scenarios to determine both the upside and downside risks to the inflation outlook, which are presented in a risk matrix. The scenarios have assigned probability values. Scenarios with more than 75.0 percent probability of taking place over the forecast horizon are included in the baseline. The estimated impact of each scenario is then multiplied by its assigned probability. The sum of the weighted impact for each year will indicate whether the risks to the outlook are balanced, on the upside, or on the downside. Upside risks are factors that could push inflation higher than expected. Downside risks are factors that could cause inflation to be lower than expected.

Summary of Proposed Fare Adjustments



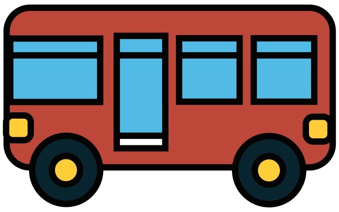
Public utility jeepney

₱13.00 → ₱17.00



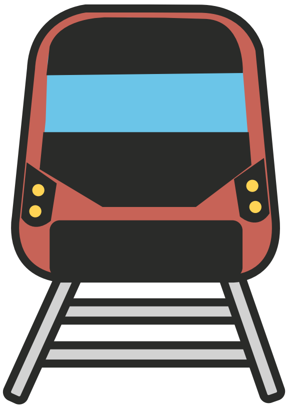
Taxi (flag-down rate)

CAR. Region VI
₱50.00 → ₱60.00
Other regions
₱45.00 → ₱60.00



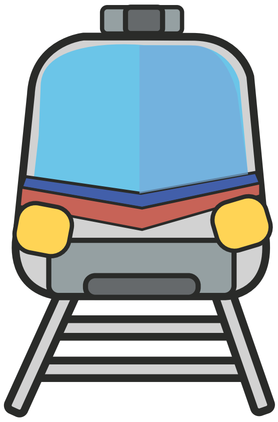
Public utility bus

City (regular)
₱13.00 → ₱15.00
City (airconditioned)
₱15.00 → ₱17.00
Provincial (regular)
₱11.00 → ₱12.67



Light Rail Transit Line 1

₱15.00 → ₱25.00



Metro Rail Transit Line 3

₱13.00 → ₱16.00

Source: Department of Transportation–Land Transportation Franchising and Regulatory Board

Electricity rates. The Supreme Court's July 2023 decision nullifying wholesale electricity spot market price caps from late 2013 may result in higher generation charges being passed on to consumers, thereby increasing electricity rates.

Food supply constraints. African Swine Fever (ASF) adversely affects pork supply and hog repopulation efforts. As of January 2025, over 130 barangays across nine regions had active ASF cases.

Rice tariffs. Lowering tariffs on rice imports could further reduce the prices of locally produced rice with a moderate likelihood of impact.

c. Inflation expectations of economists from the private sector

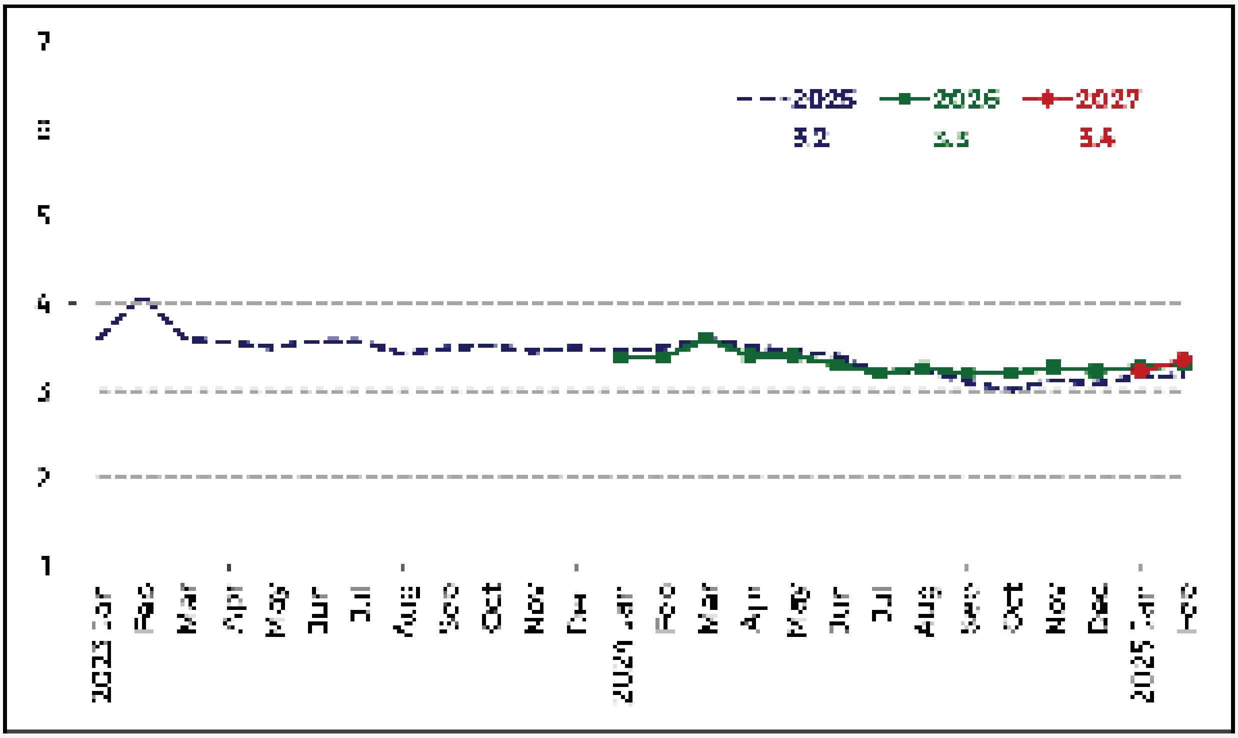
The BSP also monitors the forecasts of private-sector economists, who provide their own estimates of future inflation.

Inflation forecasts from 2025 to 2027 remain within the 2-4 percent target range (Figure 1). The mean inflation forecasts for 2025 and 2026 have not changed, while inflation for 2027 is anticipated to approach the target.

Figure 1

Inflation expectations remain well-anchored

Private sector mean forecast for full year, in percent



Source: Bangko Sentral ng Pilipinas
This was based on forecasts provided by 24 respondents.
The survey was conducted from 6-12 December 2024.

Private-sector economists foresee the following potential upside risks to their inflation forecasts:

- supply disruptions caused by geopolitical tensions and adverse weather conditions;
- uncertainties in international trade; and
- upward adjustments in utility rates, transport charges, and wages

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

- lower rice prices

Private sector economist haven't changed their forecasts much, a condition described as 'well anchored.' This predictability helps businesses and consumers make financial decisions.

Recent Developments

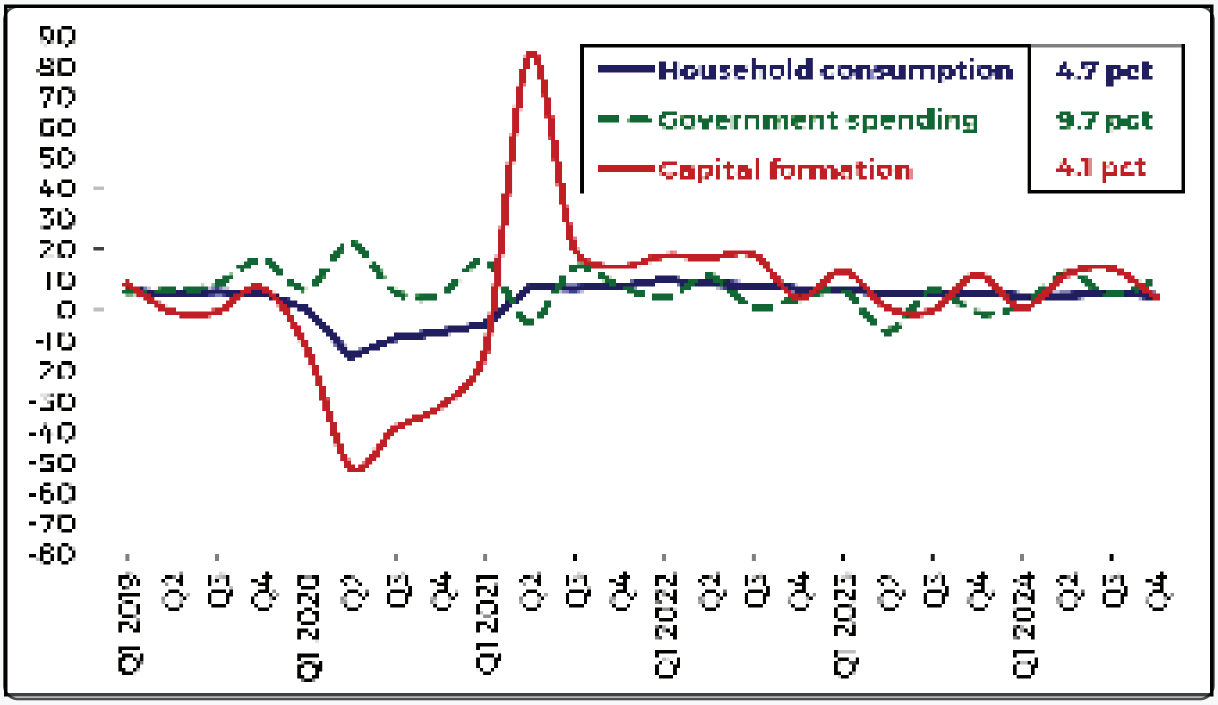
Price conditions. Headline inflation remained within target at 2.9 percent in January. Upticks in food prices were offset by slower inflation for key non-food items. Food inflation rose as prices of vegetables and fish increased due to recent weather disturbances. The ASF also continues to temper supply, thus increasing meat prices. Meanwhile, core inflation further slowed, indicating the absence of demand-driven price pressures.

Demand conditions. Output growth was steady at 5.2 percent in Q4 2024, raising the full-year real GDP growth to 5.6 percent, slightly below the government target of 6.0-6.5 percent. Domestic demand remained strong but slowed due to the adverse effects of weather-related disruptions, global trade policy uncertainty, and tight financial conditions (Figure 2).

Figure 2

Government Spending Supported Q4 GDP Growth

At constant 2018 prices; growth rate in percent



Household spending slowed due to reduced expenditures on food and non-alcoholic beverages, clothing and footwear, communication and restaurants and hotels. Similarly, investments or capital formation decreased because of significantly slower growth in durable equipment and declines in breeding stocks and valuables during the quarter.

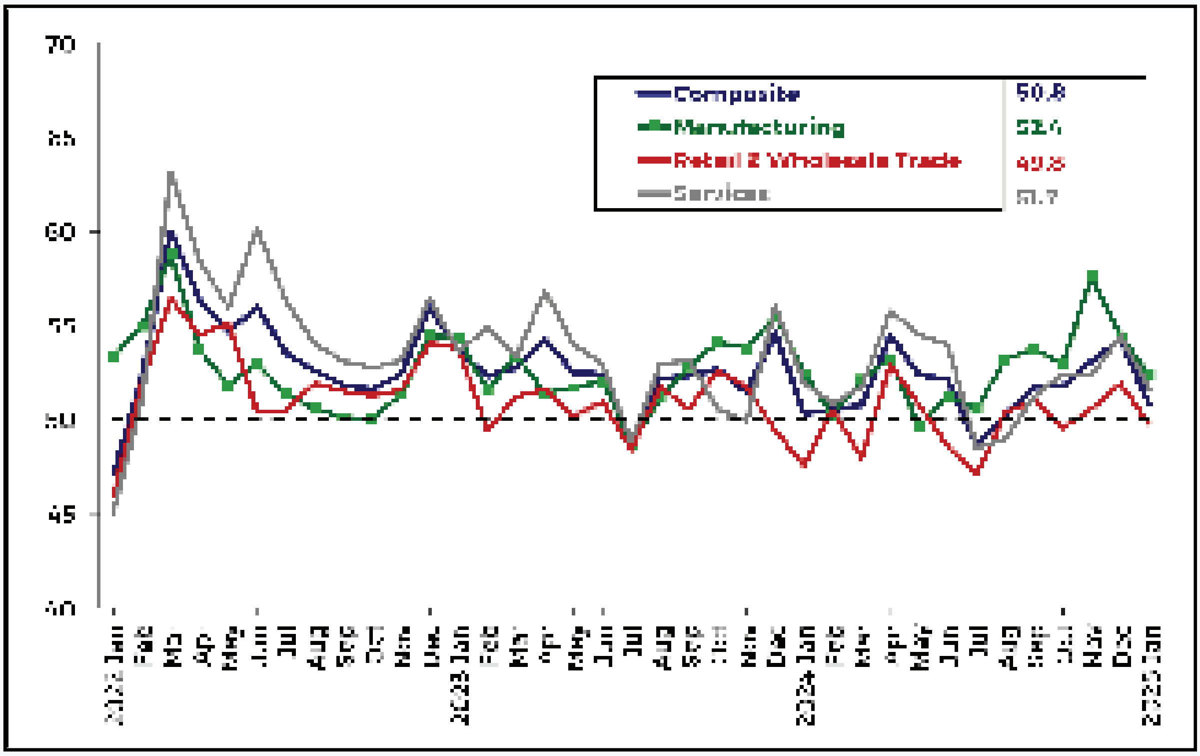
In contrast, government expenditure increased more rapidly due to heightened disbursements for infrastructure projects, maintenance and other operating expenses (MOOE), transfers to LGUs, expenditures on personnel services, and interest payments.

This recovery could be attributed to improved logistics, availability of more raw materials, and easing inflationary pressures. Similarly, the value of the production index (VaPI) expanded in December.

Similarly, the composite purchasing managers' index (PMI) stood at 50.8 index points in January 2025 (Figure 3). Business activity in all major economic sectors slowed due to a seasonal dip in demand at the start of the year. Nevertheless, managers in the manufacturing, retail, and wholesale sectors expected conditions to improve in February 2025.

Figure 3

Preliminary Composite PMI



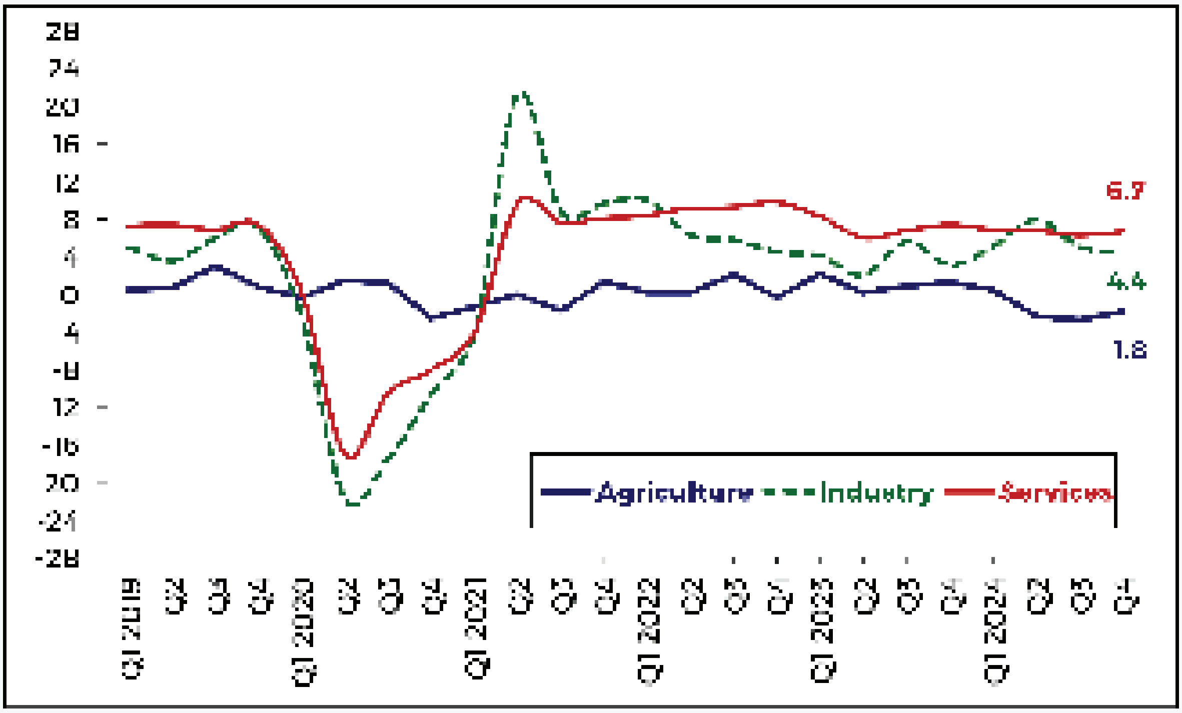
Supply conditions. On the economy's production side, industry and services continued to drive economic growth in Q4 2024. The services sector led the growth as all its sub-industries expanded during the quarter, including wholesale and retail trade, repair of motor vehicles and motorcycles, financial and insurance activities and professional and business services.

In contrast, the contraction in agriculture hindered overall economic production (Figure 4). Successive typhoons during the quarter adversely affected crop production, while the ASF negatively impacted livestock production.

Figure 4

Production Output Slowed as Agriculture Contracted

At constant 2018 prices



The decline in crude oil prices at the global level has been driven by the threat of higher tariffs on U.S. imports. Similarly, the ceasefire deal between Israel and Gaza, which started on 19 January 2025, has also lowered the risk premium on global oil prices.[12]

In the labor market scene, the unemployment rate decreased to 3.1 percent in December 2024, resulting in a full-year average of 3.8 percent. The underemployment rate also fell to 10.9 percent compared to the previous year due to a reduction in visible underemployment.

[12] Reuters (21 January 2025). "Oil falls as Trump's plan to boost US oil output takes shape." https://www.reuters.com/business/energy/us-crude-futures-down-1-barrel-trump-plan-boost-fossil-fuel-output-2025-01-20/
Reuters (17 January 2025). "Oil prices dip but post 4th straight weekly gain on US sanctions." https://www.reuters.com/markets/commodities/oil-prices-climb-supply-fears-fed-rate-cut-hopes-2025-01-17/

Monetary operations. As of January 2025, the BSP's monetary operations absorbed a total of ₱1.7 trillion. Term instruments—the BSP securities facility (BSP SF) and term deposit facilities (TDF)—continued to make up the majority of monetary operations, holding a combined share of 67.5 percent. The overnight (ON) RRP facility represented 21.2 percent of total placements in the BSP facilities, while the overnight deposit facility (ODF) accounted for 11.3 percent.

Financial conditions. Domestic liquidity (M3) expanded as bank lending to non-financial private corporations and households increased. Net claims on the central government also rose partly due toongoing borrowings by the national government. On the liabilities side, the growth in time deposits primarily contributed to the rise in M3.

Bank lending expanded amid credit growth in major sectors (Figure 5). Preliminary data indicated that outstanding loans of universal and commercial banks (U/KBs), net of RRP placements with the BSP, grew by 12.2 percent in December from 11.1 percent in November last year.

Figure 5

Outstanding Loans of UKBs Accelerated in December

Year-on-year; growth rate in percent

Similarly, outstanding loans to residents (net of RRPs) and non-residents, as well as loans for production activities, increased. Consumer loans to residents also rose further, driven by the increase in credit card loans; salary-based general-purpose consumption loans, and motor vehicle loans.

Capital market. The primary government securities (GS) market reflected expectations of a further cut in the BSP's policy rate in February. The Bureau of the Treasury (BTr) raised a total of ₱27.6 billion, exceeding the ₱22.0-billion initial offering for Treasury bills (T-bills). The strong demand for T-bills prompted the BTr to double the accepted non-competitive bids across all tenors.

Meanwhile, secondary market GS yields decreased amid strong demand. On 27 January 2025, they generally decreased relative to end-December 2024.

The potential impact of higher tariffs by the US adversely affected the Philippine Stock Exchange Index (PSEi). The decline in the PSEi may also be attributed to negative sentiment stemming from US stock markets amid expectations of a slower pace of monetary policy easing by the US Fed.

However, the peso appreciated in January due to the widespread weakening of the US dollar and improved market sentiment. It was bolstered by the seasonal increase in overseas Filipino remittances in December, along with the release of the favorable macroeconomic indicators, such as the balance of payments, higher FDI, and a narrowing trade-in-goods deficit.

External developments. On the international front, global economic activity has increased due to robust performance in the services sector. Business activity within the services sector continued to rise, with output improving across business, consumer, and financial service sub-industries. Meanwhile, manufacturing activity has contracted as production volumes fell in the intermediate and investment goods sectors.

According to the IMF's January 2025 WEO update, global economic growth projection remains steady at 3.3 percent for both 2025 and 2026. The growth projection for advanced economies (AEs) has been revised upward by 0.1 pecentage point from the October 2024 forecast. This adjustment reflects the sustained expansion of economic activity in the US, which more than compensates for the deteriorating growth prospects in the euro area. Similarly, economic growth in emerging markets and developing economies (EMDEs) is expected to stay broadly stable, although regional variations are likely to persist amid ongoing trade policy uncertainty.

Policy actions. Other central banks have also taken their respective policy actions. In their February 2025 meetings, the Reserve Bank of India, Bank of England, Bank Indonesia, Bank of Canada, and the European Central Bank reduced their policy interest rates. Meanwhile, the Bank of Japan increased its key policy rate.

The Bank of Korea, the People's Bank of China, Bank Negara Malaysia, and the US Fed kept their policy rates unchanged as they continue to evaluate the impact of previous interest rate cuts.

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:

If you wish to receive an electronic copy of the latest Monetary Policy Report, please send an e-mail to bspmail@bsp.gov.ph.

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:

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