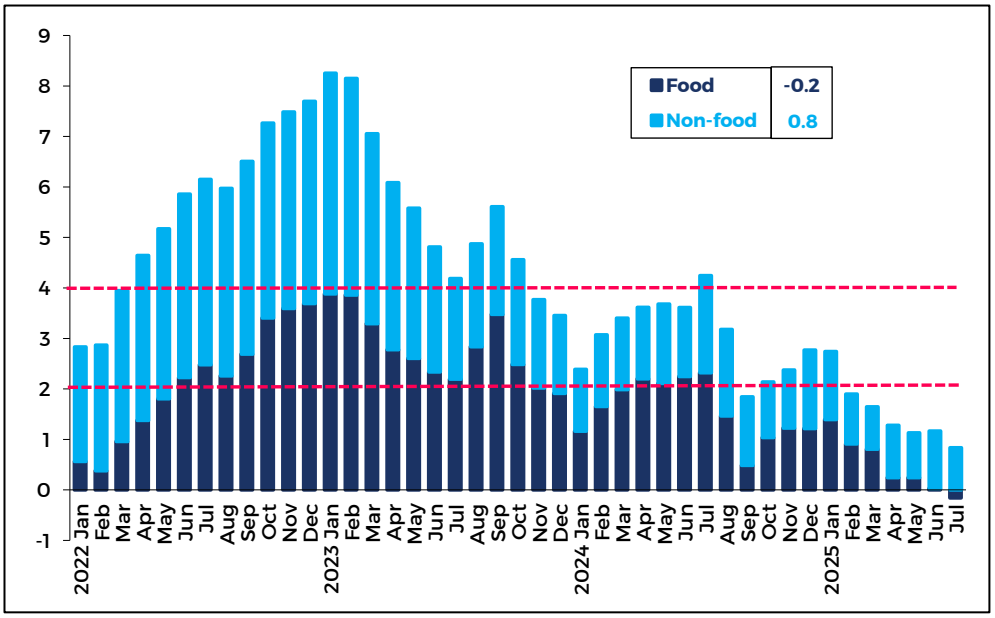
B. Current developments

I. Price conditions

Headline inflation eased further in July 2025 to 0.9 percent, the lowest since October 2019 (0.6 percent). Domestic rice prices eased owing to lower international rice prices, sufficient supply, and direct government measures. Downward adjustments in the prices of some petroleum products and the slower electricity inflation likewise tempered inflation. The July inflation outcome was within the BSP's month-ahead forecast range of 0.5–1.3 percent.

Figure 4
The average year-to-date inflation fell below the target range.
contribution to year-on-year headline inflation; in percent
2018=100



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

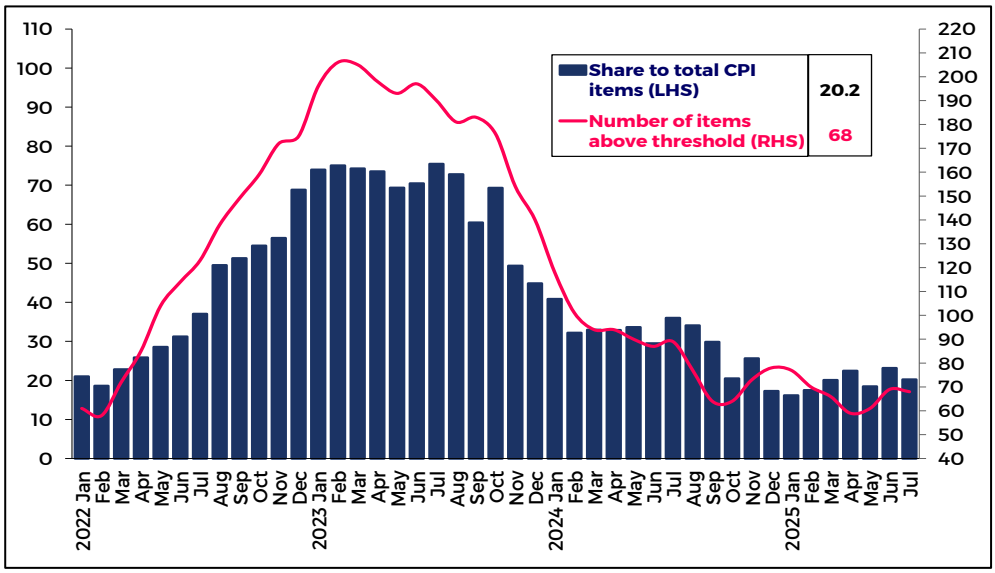
Nearly half (47.4 percent) of the items in the consumer basket recorded inflation rates below 2.0 percent. The number of items above 4.0 percent decreased slightly, from 69 in June to 68 in July, accounting for 20.2 percent of the total CPI basket. Meanwhile, the remaining 62 items registered inflation rates within the target range.

Figure 5

Fewer Consumer Price Index items posted inflation rates above 4.0 percent.

number and percent share of items above target

2018=100



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

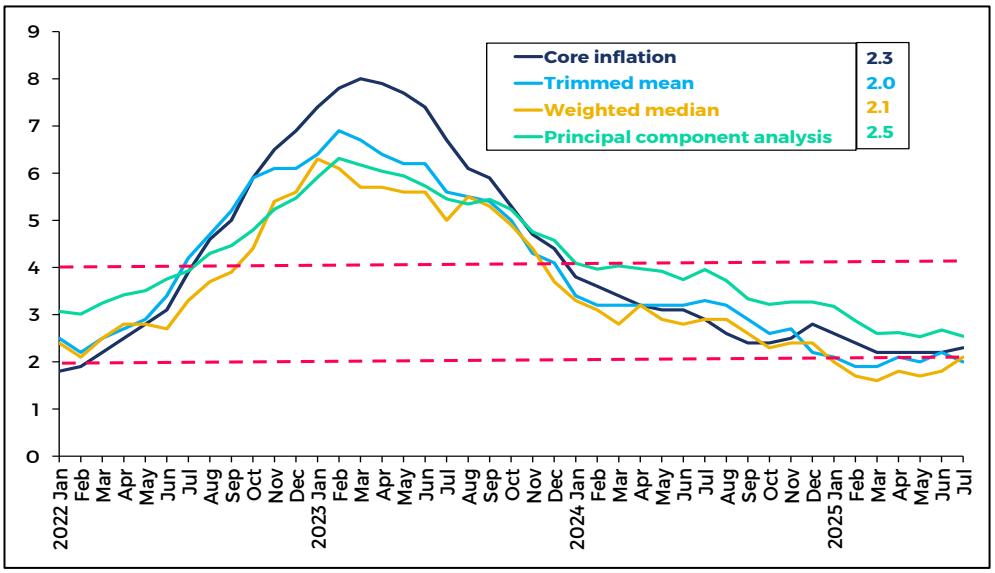
CPI – Consumer Price Index
RHS – right-hand side
LHS – left-hand side

Core inflation, which excludes volatile food and energy items, increased slightly but continued to indicate manageable price pressures. The weighted median measure of core inflation also rose. In contrast, other BSP-computed core inflation measures, such as the trimmed mean and principal components analysis, eased.

Figure 6

Core inflation continued to signal manageable price pressures.

year-on-year core inflation; in percent

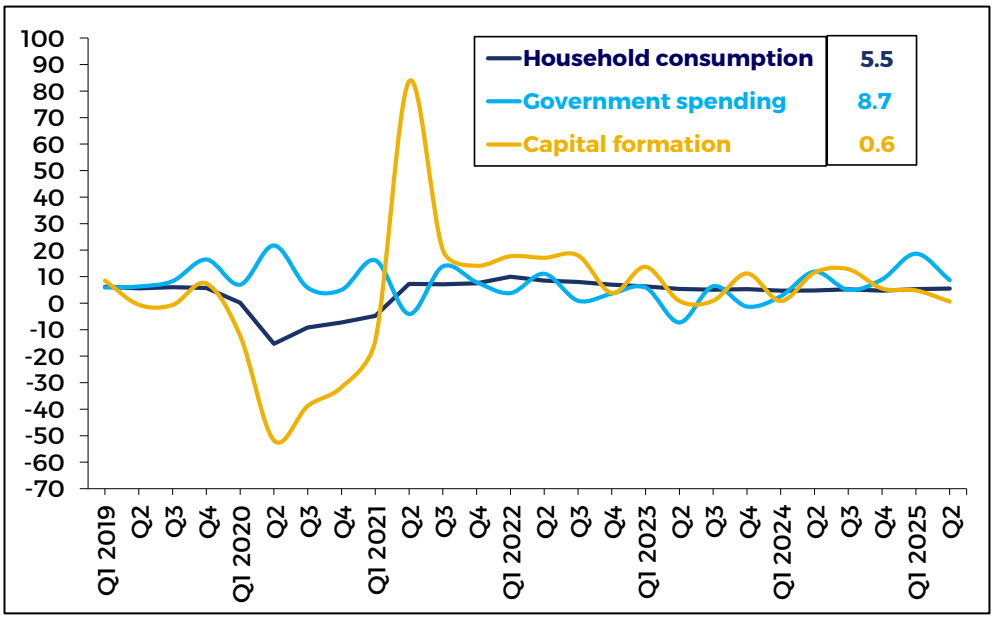


Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas staff calculations

II. Demand conditions

The Philippine economy expanded by 5.5 percent in Q2 2025. Output grew faster than the previous quarter, settling at the low end of the government's 2025 growth target range of 5.5–6.5 percent. On a seasonally adjusted basis, quarter-on-quarter gross domestic product (GDP) growth rose from 1.2 percent in Q1 2025 to 1.5 percent in Q2 2025.

Figure 7
Steady domestic demand sustained the economy's growth.
year-on-year gross domestic product growth at constant 2018 prices; in percent



Source: Philippine Statistics Authority

Robust household consumption continued to drive demand, supported by easing inflation, lower interest rates, and stable labor market conditions. This acceleration is attributed to increased spending on food and non-alcoholic beverages, transport, miscellaneous goods and services, restaurants and hotels, and education, among others.

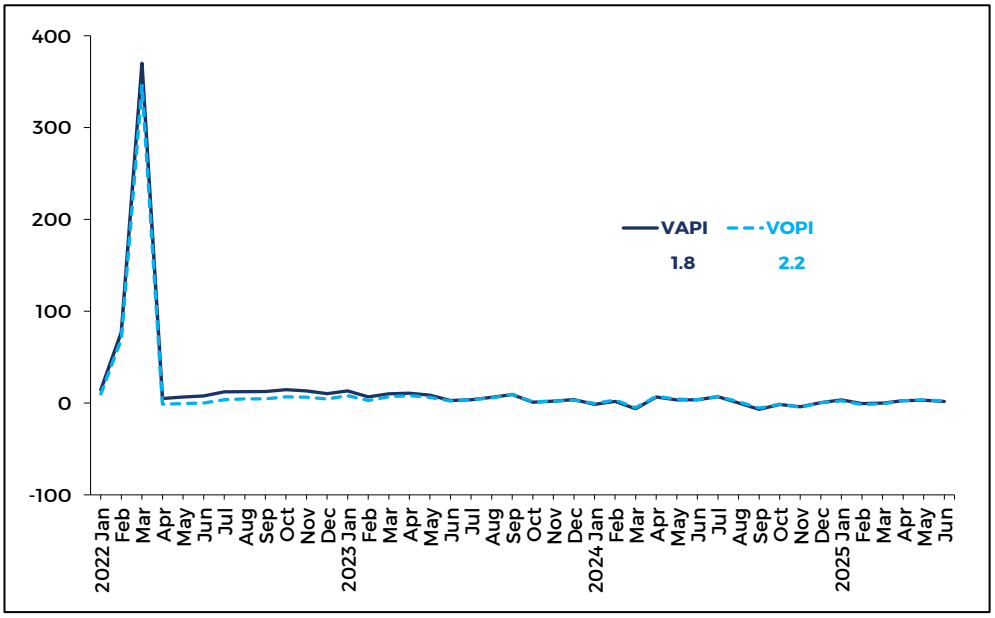
Government expenditures continued to grow, albeit at a slower pace compared with the same period last year. This was mainly due to limited activity amid the election ban, as well as reduced subsidies to government-owned and -controlled corporations and lower maintenance and other operating expenses.

Investment activity also grew modestly, led by the sustained growth in durable equipment and private construction. Meanwhile, public construction weighed on investment following the frontloading of infrastructure spending ahead of the election ban.

Capacity utilization held steady to support operations. Based on the PSA's Monthly Integrated Survey of Selected Industries (MISSI), 62.5 percent of surveyed establishments operated at or above 80.0 percent capacity in June 2025, up from 59.6 percent in May 2025.[10]

Preliminary MISSI results showed moderate growth in factory output in June, which was dampened by the slower manufacture of basic metals, as well as coke and refined petroleum products. The value of production index also rose at a softer rate during the month.

Figure 8
The production index posted moderate growth.
year-on-year growth of the volume and value of production indices; in percent
2018=100



Source: Philippine Statistics Authority
VoPI – volume of production index
VaPI – value of production index

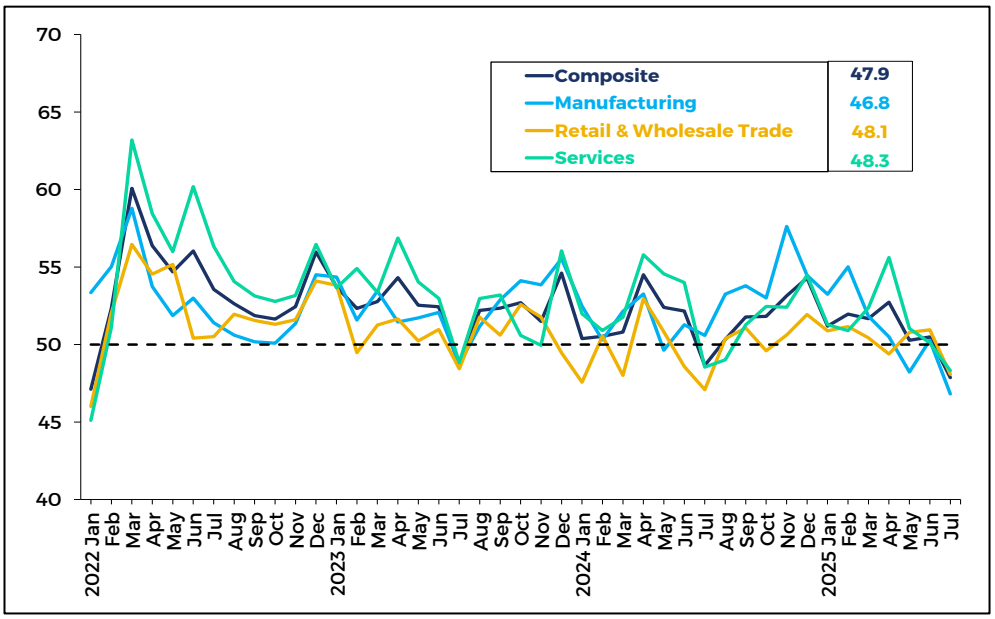
The purchasing managers' index contracted, reflecting a broad-based midyear slowdown. The index fell to 47.9 in July 2025, indicating weaker business conditions. Business activity deteriorated across all economic sectors—manufacturing, retail and wholesale, and services—amid softer demand conditions and weather disruptions. Manufacturing firms also remained cautious, given ongoing geopolitical uncertainties and volatile trade policies.

[10] The response rate of surveyed establishments decreased from 58.7 percent (preliminary) in May 2025 to 55.5 percent (preliminary) in June 2025. The revised response rate for May 2025 was 70.1 percent.

Figure 9

Business activities across sectors contracted.

purchasing managers' index; in index points



Source: Philippine Institute of Supply Management

III. Supply conditions

On the production side, all three major industry groups posted broad-based growth. The services sector remained the primary growth driver in Q2 2025, led by wholesale and retail trade, public administration and defense, financial and insurance activities, and education. However, weaker performance in accommodation and food service activities tempered overall expansion.

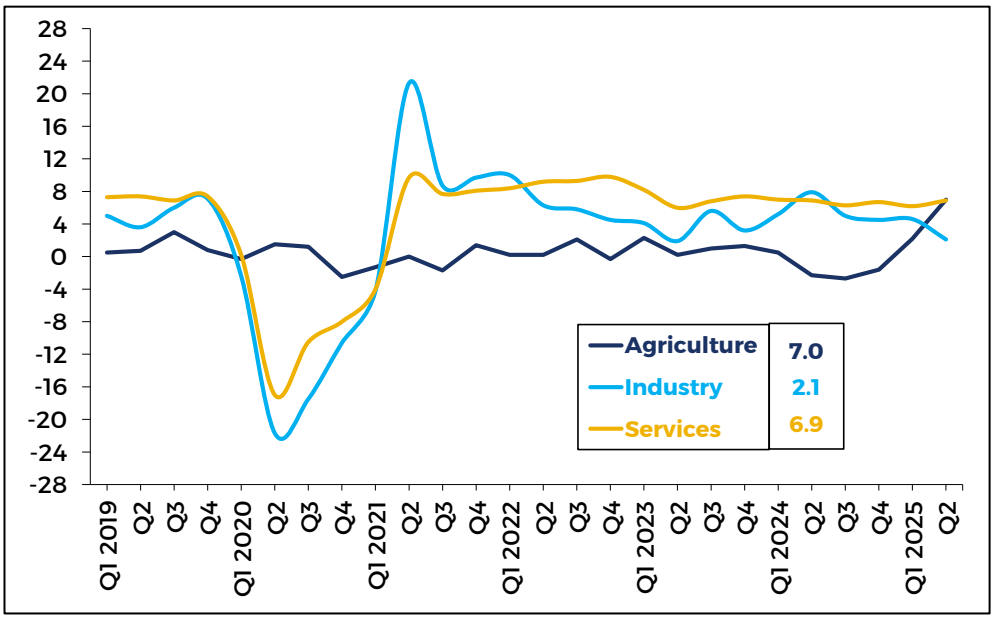
Growth in the industry sector moderated across all subsectors, especially in mining and quarrying. Manufacturing and electricity, steam, water, and waste management also slowed.

Meanwhile, the agriculture sector rebounded amid favorable weather conditions. Growth was mainly driven by *palay*, sugarcane, corn, poultry and egg production, as well as support activities for agriculture, forestry, and fishing.

Figure 10

Production output moderated despite the rebound in agriculture.

year-on-year gross domestic product growth by industry at constant 2018 prices; in percent



Source: Philippine Statistics Authority

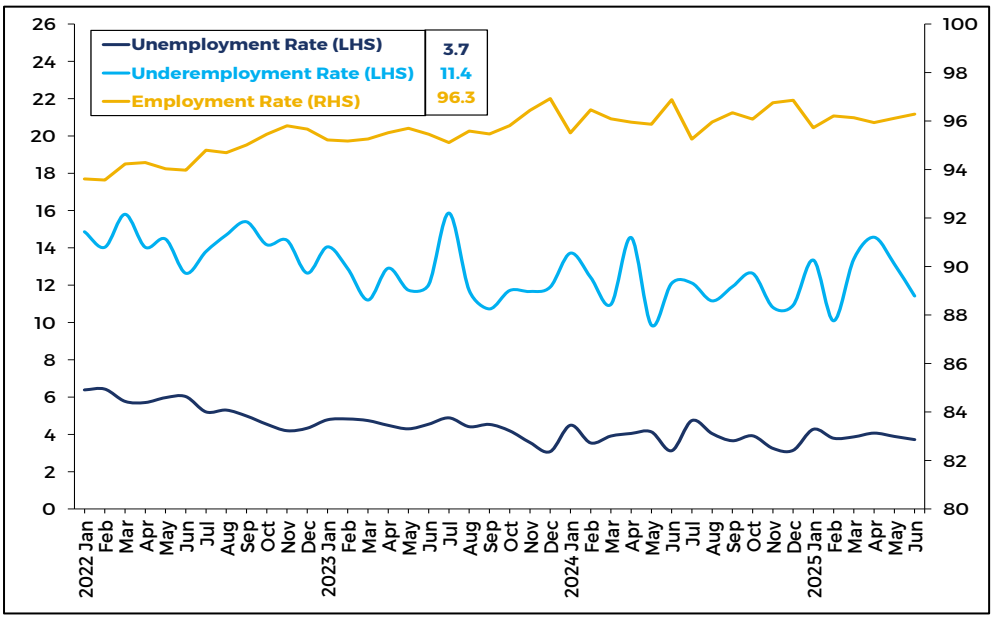
Global crude oil prices declined in early August 2025, reflecting increased supply. Easing geopolitical tensions in the Middle East also contributed to lower oil prices. However, uncertainty stemming from diverging growth prospects across economies, the threat of tighter economic sanctions on Russia, and the fragile ceasefire between Israel and Iran could influence oil price movements.

Labor market conditions were broadly stable. The unemployment rate rose to 3.7 percent in June 2025, as labor force growth outpaced employment creation. The year-to-date (y-t-d) average unemployment rate stood at 3.9 percent, lower than the 10-year average of 4.7 percent. The number of underemployed individuals fell by 320,000 year-on-year, bringing the underemployment rate down to 11.4 percent.

Figure 11

Labor market performance was mixed.

year-on-year employment, unemployment, and underemployment growth; in percent



Source: Philippine Statistics Authority

RHS – right-hand side
LHS – left-hand side

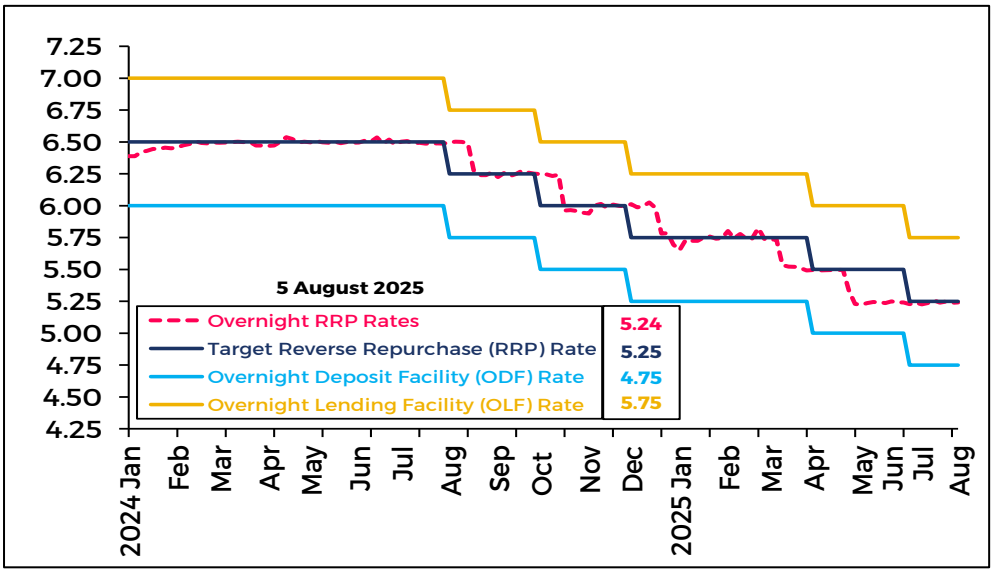
IV. Monetary operations

The BSP's monetary operations effectively kept the overnight reverse repurchase rate aligned with the target reverse repurchase rate. As of 5 August 2025, the BSP's monetary operations absorbed ₱1.4 trillion in liquidity. The BSP-SF accounted for the largest share at 46.5 percent of total placements. The rest were absorbed through the overnight RRP facility (27.6 percent), overnight deposit facilities (16.8 percent), and TDFs (9.1 percent).

Figure 12

The overnight reverse repurchase rate closely tracked the target reverse repurchase rate.

BSP interest rate corridor; in percent



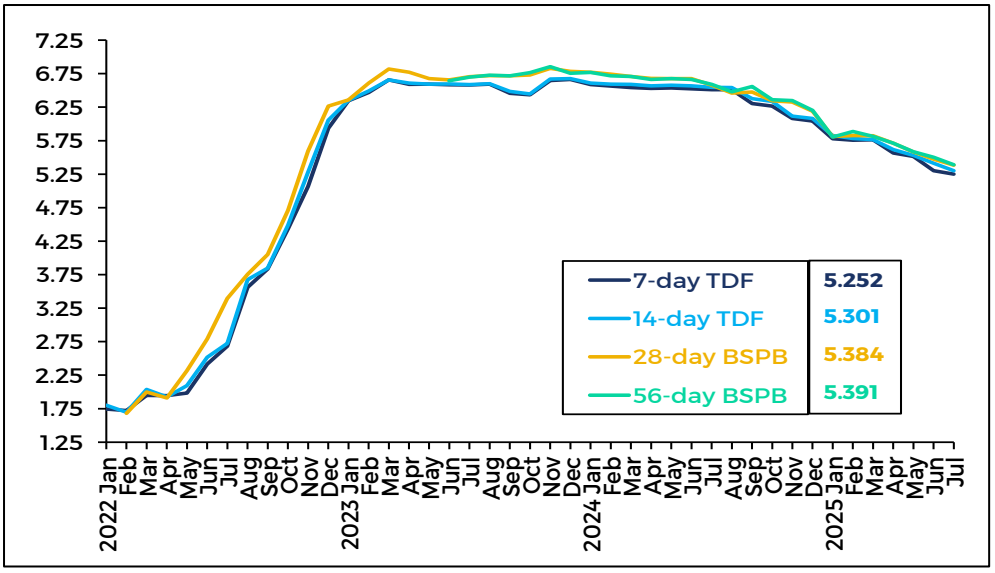
Source: Bangko Sentral ng Pilipinas

Interest rates in the term deposit facility and BSP bills fully reflect the cumulative 125-basis point policy rate cuts since August 2024. During the 30 July 2025 TDF auction, rates declined to 5.2521 percent for the 7-day tenor and 5.3009 percent for the 14-day tenor. Similarly, during the 1 August 2025 BSP bill auction, rates fell to 5.3842 percent for the 28-day bill and 5.3910 percent for the 56-day bill.

Figure 13

The central bank's term facilities fully reflected policy rate cuts.

term deposit facility and BSP bill rates; in percent



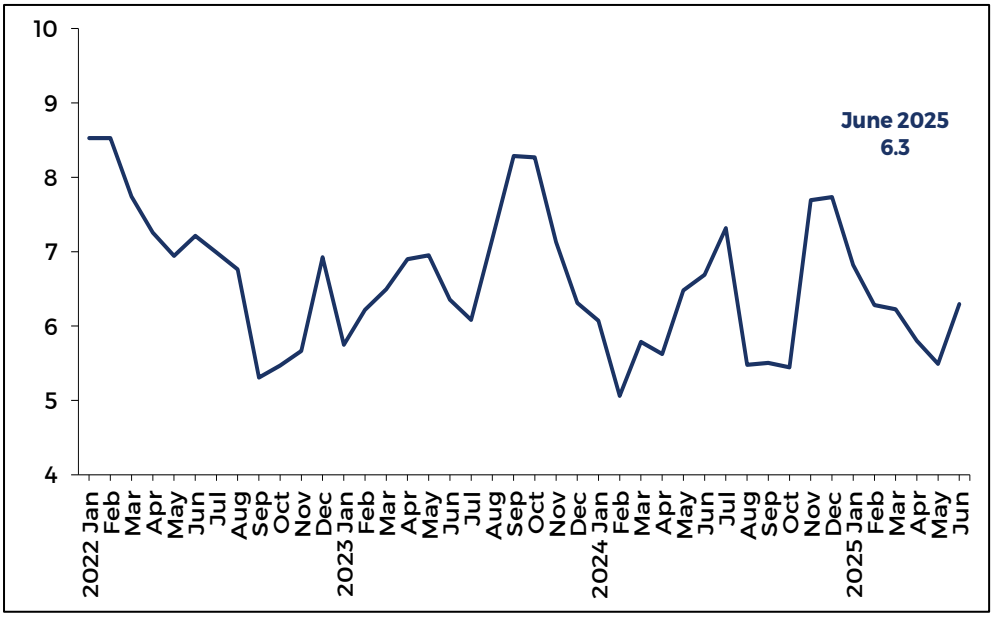
Source: Bangko Sentral ng Pilipinas

TDF – term deposit facility
BSPB – Bangko Sentral ng Pilipinas bill

V. Financial conditions

Domestic liquidity (M3) grew at a faster pace. This was supported by sustained bank lending to non-financial private corporations and households, alongside an increase in net claims on the government. The faster growth in savings deposits also contributed to M3 growth.

Figure 14
Domestic liquidity expanded at a faster pace.
year-on-year M3 growth; in percent



Source: Bangko Sentral ng Pilipinas

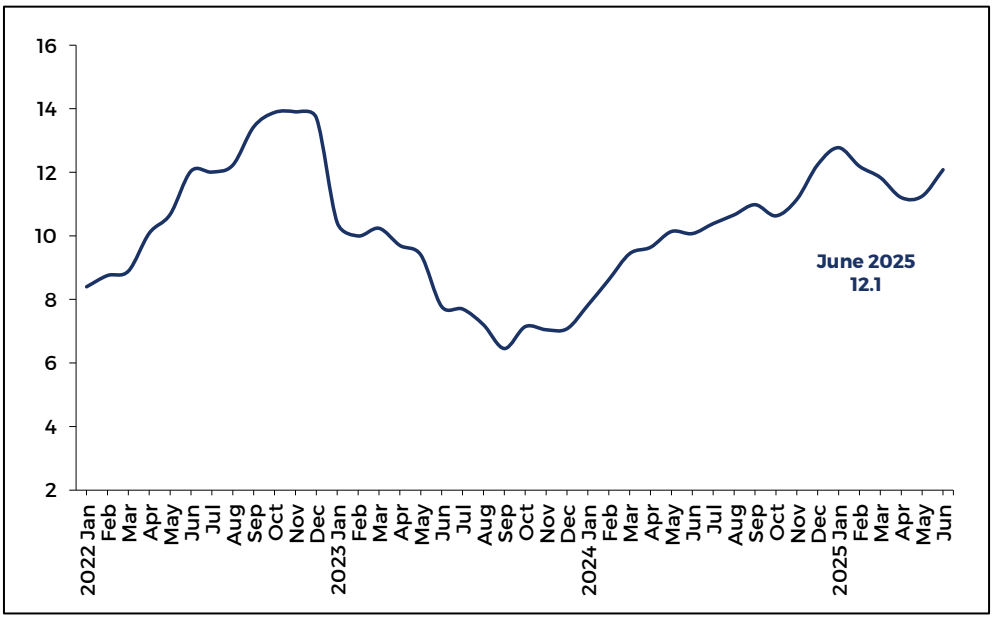
Bank lending expanded in June 2025, supported by sustained credit flows to key industries. Outstanding loans of universal and commercial banks, net of RRP placements, grew by 12.1 percent in June, faster than the 11.3-percent growth in May.

Both business-related and consumer loans to residents consistently posted double-digit growth rates. The expansion in corporate lending remained broad-based, with loans directed toward real estate; electricity, gas, steam, and air-conditioning supply; financial and insurance activities; and transportation. Consumer loans also accelerated, mainly due to increased credit card, motor vehicle, and general lending.

Figure 15

Bank lending growth accelerated.

year-on-year outstanding loan growth from universal and commercial banks; in percent



Source: Bangko Sentral ng Pilipinas

Most banks kept credit standards for enterprise loans steady in Q2 2025, based on the modal approach.[11] The rest of the respondents noted a net tightening of credit standards, consistent with the results of the diffusion index (DI). Looking ahead, both approaches show that banks expect loan demand to remain steady over the next quarter, supported by the anticipated rise in customer inventory funding needs, robust accounts receivable financing demand, and favorable economic conditions.

[11] In the modal approach, survey results are analyzed based on the most frequently selected option. The three options are (a) tightening, (b) easing, or (c) unchanged credit standards for loans to enterprises and households.

Table 8

The modal approach indicates steady credit standards for enterprise loans, while the diffusion index reflects net tightening.

distribution of banks' responses based on the modal and diffusion index approaches; in index points

	2022				2023				2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Tightened considerably	10.0	6.5	10.4	4.3	6.7	4.3	2.1	0.0	0.0	1.9	2.0	1.9	1.8	3.6
Tightened somewhat	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0	11.8	11.1	13.7	14.8	12.7	12.5
Remained basically unchanged	**72.0**	**76.1**	**77.1**	**80.9**	**73.3**	**89.1**	**80.9**	**88.0**	**86.3**	**87.0**	**80.4**	**83.3**	**81.8**	**82.1**
Eased somewhat	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0	2.0	0.0	3.9	0.0	3.6	1.8
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**24.0**	**15.2**	**14.6**	**14.9**	**13.3**	**6.5**	**6.4**	**12.0**	**9.8**	**13.0**	**11.8**	**16.7**	**10.9**	**14.3**
Weighted diffusion index	**17.0**	**10.9**	**12.5**	**9.6**	**10.0**	**5.4**	**4.3**	**6.0**	**4.9**	**7.4**	**6.9**	**9.3**	**6.4**	**8.9**
Mean	2.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.9	2.8
Number of banks responding	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**	**54**	**51**	**54**	**55**	**5.6**

Source: Bangko Sentral ng Pilipinas

A positive diffusion index for credit standards indicates that banks that tightened their credit standards outnumbered those that eased (net tightening), whereas a negative diffusion index indicates that banks that eased their credit standards outnumbered those that tightened (net easing).

An unchanged credit standard in the diffusion index approach indicates that the proportion of respondent banks that have tightened their credit standards is equal to the proportion that have eased their credit standards.

For household loans, the modal approach indicates that most banks maintained their credit standards in Q2 2025. Meanwhile, the DI method reflects a net tightening due to concerns over weaker borrower profiles and reduced risk tolerance. Nonetheless, both approaches suggest that banks anticipate robust household credit demand, largely driven by consumption-related borrowing.

Table 9

Banks tightened credit standards for household loans.

distribution of banks' responses based on the modal and diffusion index approaches; in index points

	2022				2023				2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Tightened considerably	2.5	5.4	5.4	5.7	3.0	3.0	0.0	0.0	0.0	0.0	2.9	0.0	0.0	5.0
Tightened somewhat	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8	11.4	7.9	8.6	5.3	7.9	10.0
Remained basically unchanged	**62.5**	**73.0**	**64.9**	**71.4**	**51.5**	**69.7**	**68.8**	**70.6**	**77.1**	**84.2**	**80.0**	**89.5**	**86.8**	**82.5**
Eased somewhat	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7	11.4	7.9	8.6	5.3	5.3	2.5
Eased considerably	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**-7.5**	**-5.4**	**-2.7**	**0.0**	**-6.1**	**-6.1**	**0.0**	**-5.9**	**0.0**	**0.0**	**2.9**	**0.0**	**2.6**	**12.5**
Weighted diffusion index	**-5.0**	**-1.4**	**1.4**	**2.9**	**-1.5**	**-4.5**	**-1.6**	**-4.4**	**0.0**	**0.0**	**2.9**	**0.0**	**1.3**	**8.8**
Mean	3.1	3.0	3.0	2.9	3.0	3.1	3.0	3.1	3.0	3.0	2.9	3.0	3.0	2.8
Number of banks responding	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**	**38**	**35**	**38**	**38**	**40**

Source: Bangko Sentral ng Pilipinas

A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared with those that eased (net tightening). In contrast, a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared with those that tightened (net easing).

VI. Capital market

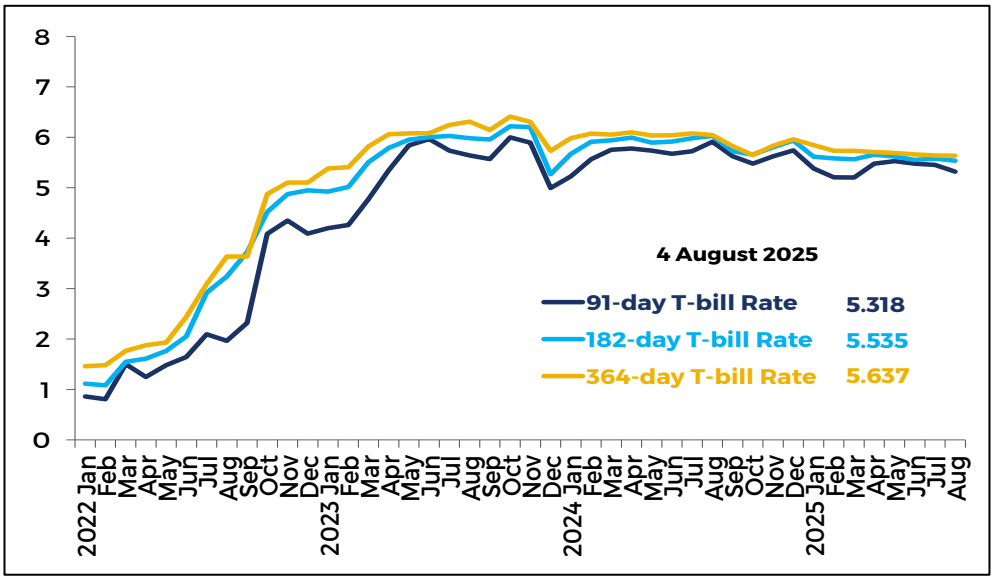
The primary government securities market reflects expectations of further easing inflation in early August 2025. During the 4 August 2025 auction, the Bureau of the Treasury (BTr) raised ₱28.4 billion through Treasury bill (T-bill) auctions, exceeding the initial ₱25.0 billion offer. Total tenders reached ₱87.3 billion, or 3.5 times the initial offer. The BTr also doubled the accepted non-competitive bids for the 182-day T-bills.

On 5 August 2025, the BTr attracted ₱354.2 billion from the issuance of the new 5-year retail Treasury bond 5-19 (i.e., RTB Tranche 31), which was 11.8 times oversubscribed against the initial offer of ₱30.0 billion. The BTr raised ₱210.0 billion on this day, which was the start of the offer period. The fixed rate was set at 6.0 percent, higher by 6.2 bps than the 5-year average Bloomberg Valuation Service (BVAL) rate.

Figure 16

Treasury bill rates declined.

91-day, 182-day, and 364-day Treasury bill rates; in percent



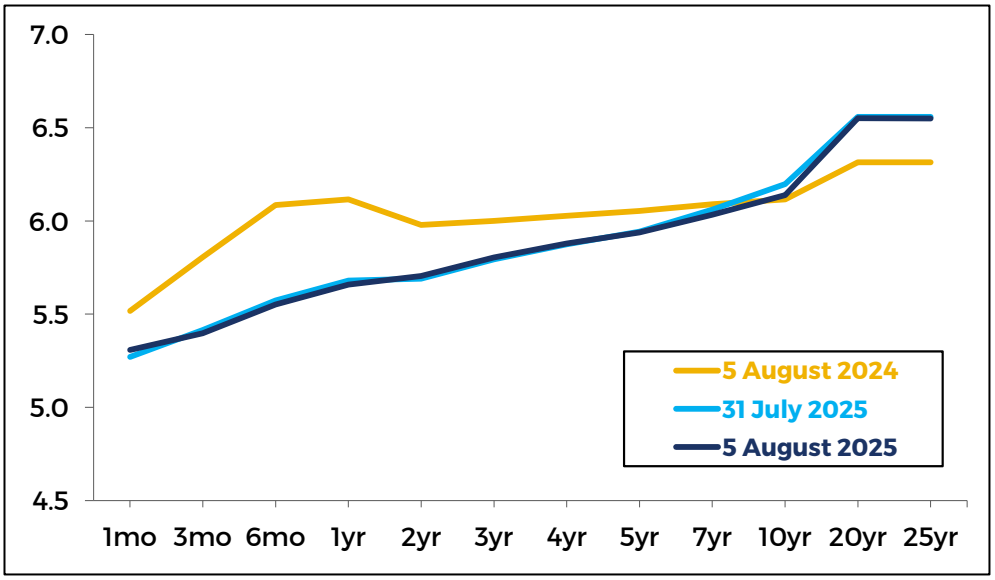
Source: Bureau of the Treasury

In the secondary market, yields on government securities were mostly lower. This was driven by expectations of a lower long-term inflation path, prospects of further BSP monetary policy easing, and the cautious policy stance of the US Fed. As of 5 August 2025, the spread between the 10-year and 1-year GS rates narrowed to 48.1 bps (from 51.8 bps as of end-July). Similarly, the 10-year and 5-year spreads tightened to 20.2 bps (from 25.5 bps). These developments reflect the fall in the 10-year and 1-year rates, while the 5-year rate was broadly unchanged.

Figure 17

Government securities yields in the secondary market show mixed trends.

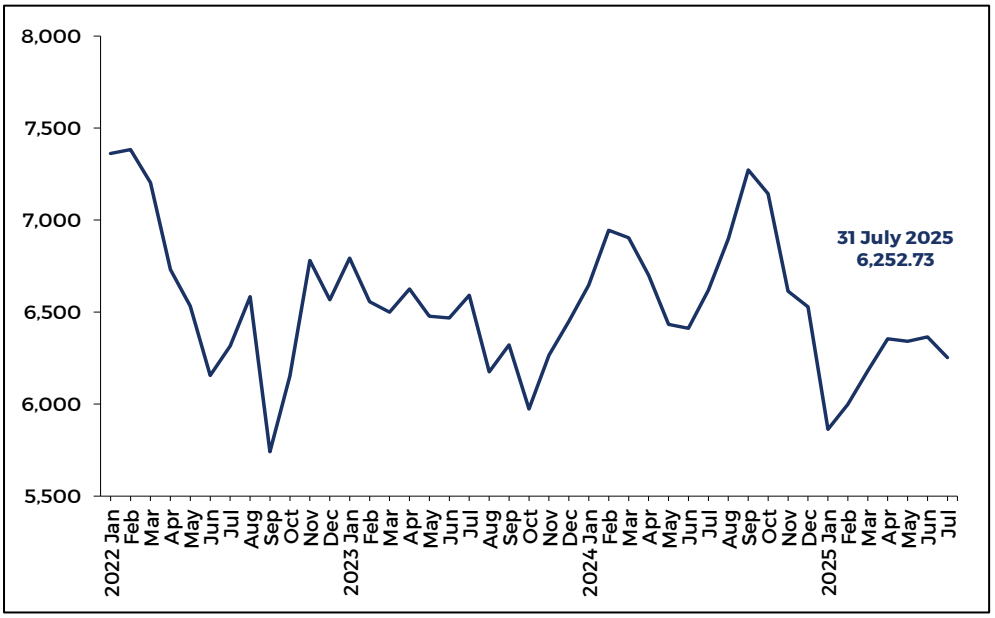
secondary-market rates of government securities; in percent



Source: Bloomberg

The Philippine Stock Exchange Index declined in July 2025. The decline was due to the announced US reciprocal tariff on Philippine imports and weaker domestic growth forecasts. Nonetheless, stronger-than-expected manufacturing activity and expectations of further monetary policy easing by the BSP tempered the decline.

Figure 18
Weaker growth prospects and trade volatility continued to weigh on the stock market.
Philippine Stock Exchange Index; in index points



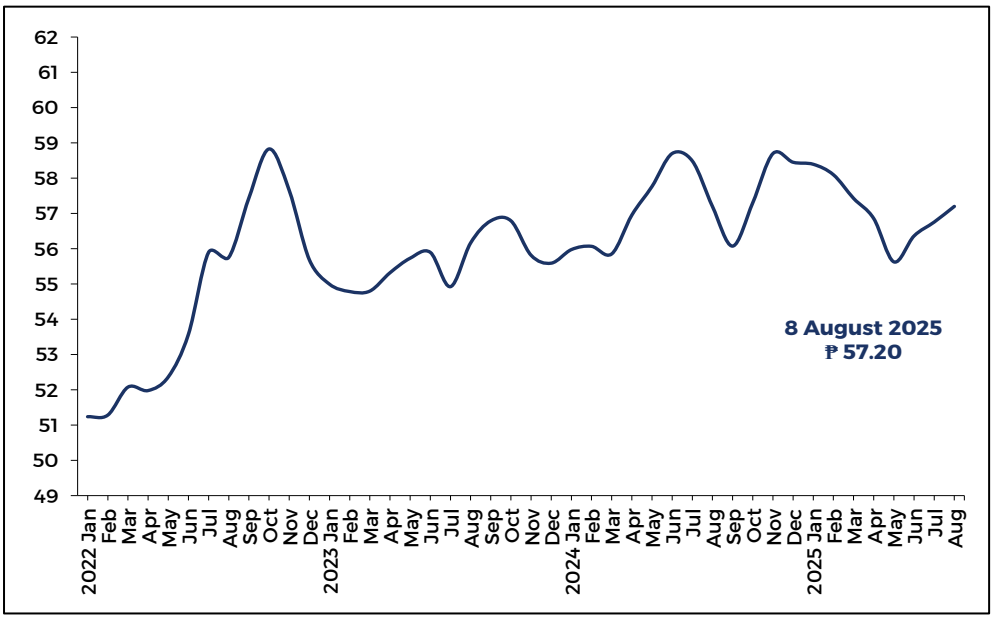
Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

In the first week of August 2025, peso depreciation pressures eased due to softer US dollar. This was supported by the six-year low domestic inflation, stronger-than-expected Q2 2025 GDP growth, and the BSP's forward guidance. As of 7 August 2025, the peso closed at ₱56.97/US$1, appreciating by 1.5 percent y-t-d relative to the end of December 2024.

Figure 19

The peso depreciated against the dollar.

daily Philippine peso per United States dollar rate; in PHP/USD



Source: Reference Exchange Rate Bulletin

The nominal depreciation of the peso partly contributed to the competitiveness of Philippine exports relative to those of our trading partners in developing and advanced countries.[12,13]

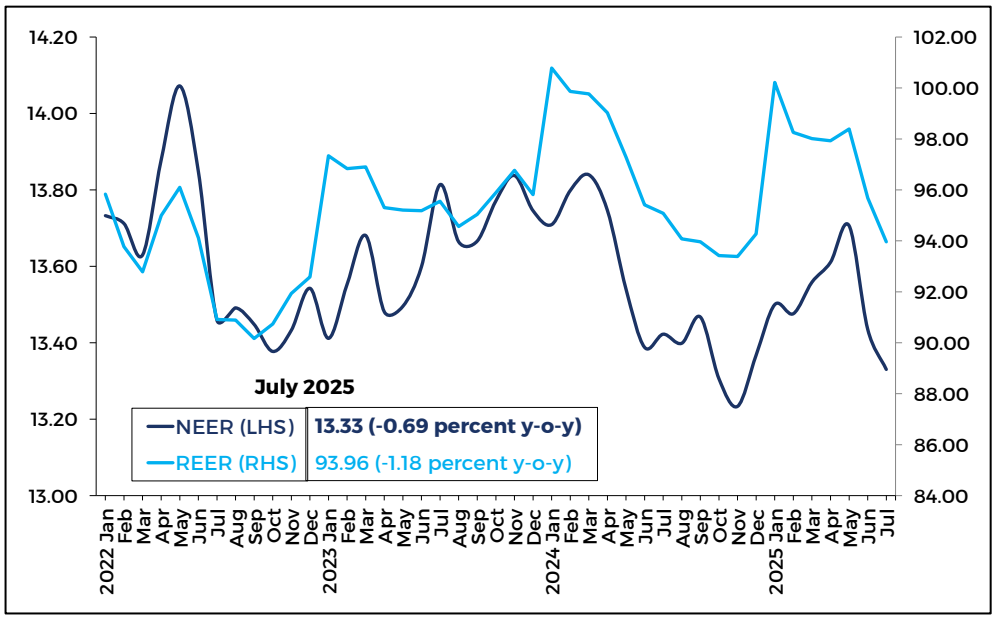
[12] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso against the currencies of 14 major trading partners of the Philippines: the US, the euro area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates (UAE), and Thailand. The TPI-Advanced measures the effective exchange rates of the peso across currencies of trading partners in advanced countries, comprising the US, Japan, the euro area, and Australia. The TPI-Developing measures the effective exchange rates of the peso against 10 currencies of partner developing countries, including those of China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, UAE, and Thailand.

[13] The real effective exchange rate (REER) index represents the peso's nominal effective exchange rate (NEER), adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. Meanwhile, the NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

Figure 20

The effective exchange rate indices decreased.

nominal and real effective exchange rates; in index points



Source: Bangko Sentral ng Pilipinas

An increase (decrease) in the exchange rate indices indicates an appreciation (depreciation) in nominal (NEER) and real (REER) terms.

NEER – nominal effective exchange rate
REER – real effective exchange rate
RHS – right-hand side
LHS – left-hand side

VII. External developments

Global economic activity remained subdued, with uneven performance across sectors and regions. In July, the JP Morgan All-Industry Output Index increased modestly, owing to improved service sector activity in select countries. The US and India led as top performers, while manufacturing and economic activity in China, Japan, the eurozone, and the United Kingdom remained stagnant.[14]

[14] JP Morgan Global Composite Purchasing Managers' Index (https://www.pmi.spglobal.com). A diffusion index is calculated for each survey variable. The index is the sum of the percentage of "higher" responses and half the percentage of "unchanged" responses. The indices range from 0 to 100, with a reading above 50 indicating an overall increase compared with the previous month, and below 50 indicating an overall decrease. This was released on 5 June 2025.

Figure 21

The global economy grew modestly.

JP Morgan Global All-Industry Output; in index points

Source: Markit Economics

In its July 2025 WEO Update, the IMF raised its global growth forecast for 2025 to 3.0 percent, up 0.2 ppt from the April projection. The upward revision reflects (a) robust activity ahead of scheduled tariff increases; (b) reduced effective tariff rates; and (c) favorable financial conditions, including a weaker US dollar and expanded fiscal policies.

Advanced economies (AE) are expected to sustain growth, supported by favorable financial conditions and new fiscal initiatives in the US. In contrast, the euro area and other AEs continue to face challenges from currency appreciation and tariff pressures. The growth in emerging markets and developing economies will lean on China's strong momentum and easing US-China tariffs.

The IMF projections remained firmly skewed to the downside. Risks to the growth outlook include: (a) higher tariffs once tariff pauses expire, (b) elevated policy uncertainties, and (c) persistent geopolitical tensions affecting supply chains and trade flows.

Most central banks monitored by the Bangko Sentral maintained a cautious tone in their monetary policy stance amid persistent uncertainty. Some economies began reducing their key interest rates, while others signaled readiness to implement further rate cuts should economic conditions warrant. In August 2025, the Bank of Thailand, the Reserve Bank of Australia, and the Bank of England lowered their policy interest rates. Bank Indonesia and Bank Negara Malaysia also reduced rates in July 2025. Meanwhile, the Reserve Bank of New Zealand, the Bank of Korea, the People's Bank of China, the European Central Bank, the Bank of Canada, the US Fed, the Bank of Japan, and the Reserve Bank of India kept their key policy rates unchanged.