II. Current Developments

Overview of current developments

Headline inflation eases further in January 2024. Inflation eased further to 2.8 percent in January 2024 from 3.9 percent in December 2023. The January inflation rate was the lowest since October 2020 when inflation was at 2.3 percent. The bulk of the decline can be traced primarily to lower y-o-y food inflation as prices of vegetables, tubers, plantains, cooking bananas and pulses, and meat and other parts of slaughtered land animals declined. Inflation for fish and other seafood also slowed. Similarly, non-food inflation eased owing to slower price increases of housing, water, electricity, gas and other fuels.

Core inflation points to sustained easing in underlying price pressures. The official core inflation further moderated to 3.8 percent in January 2024 from 4.4 percent in the previous month. Similarly, the alternative measures of core inflation also continued to ease in January 2024.

Global crude oil prices increase amid concerns on possible supply disruptions. Dubai crude oil prices slightly increased in the first week of February 2024 from the full-month average price in January, driven primarily by fears of possible supply disruptions due to the on-going geopolitical tensions in the Middle East; continued disputes in the Red Sea; and Ukraine's attacks on Russian oil facilities. The uptick in oil prices was partly tempered by possible ceasefire between Israel and Hamas.

Inflation expectations for 2024 and 2026 are steady while mean inflation forecast for 2025 increased slightly. Results of the BSP's survey of external forecasters for February 2024 showed unchanged mean inflation forecasts for 2024 at 3.9 percent and 2026 at 3.4 percent relative to the results of the January 2024 survey round. Meanwhile, the mean inflation forecast for 2025 increased slightly to 3.5 percent from 3.4 percent. Analysts expect inflation to remain manageable this year and settle within the target range. However, risks to the inflation outlook continue to be dominated by upside pressures owing to supply-side shocks and second-round effects.

Domestic economy continues to expand in Q4 2023 despite global headwinds. Real GDP grew by 5.6 percent y-o-y in Q4 2023, slower than the 6.0-percent growth posted in the previous quarter and 7.1-percent growth in the same period a year ago. This brought the full-year 2023 real GDP growth to 5.6 percent, which fell below the government target of 6.0 to 7.0 percent for 2023. On the demand side, household spending and investments grew by 5.3 percent and 11.2 percent, respectively. By contrast, government spending decreased by 1.8 percent. On the supply side, the services and agriculture sectors expanded by 7.4 percent and 1.4 percent, respectively, while the industry sector declined by 3.2 percent.

Demand indicators continue to signal expansion although outlook points to easing in some subsectors. The manufacturing sector's preliminary average capacity utilization rate eased but remained high at 74.3 percent in December 2023 from the revised month-ago level of 74.8 percent. Firms maintained factory capacity to support operations during the December holidays. Meanwhile, the preliminary composite PMI in January 2024 stood at 50.2 index points, lower than the previous month's PMI of 54.6 (revised). Slower expansions in the services and manufacturing sectors, as well as faster contraction in the retail and wholesale sector weighed on overall growth. For the month ahead, retail and wholesale managers anticipate further slowdown for the sector. Meanwhile, economic conditions for the manufacturing and services sectors are expected to improve in February 2024.

Labor market conditions improve. The unemployment rate fell to 3.1 percent in December 2023 from 3.6 percent in November 2023. The unemployment rate was also the lowest since it peaked at 17.6 percent at the onset of the pandemic in April 2020.

Domestic liquidity remains adequate but market participants continue to price in the BSP's prior policy rate increases. Preliminary data showed that domestic liquidity (M3) grew by 5.9 percent in December 2023 from 7.0 percent in November. During the same period, bank lending rose by 7.0 percent, the same rate of increase as in the previous month. In terms of credit conditions, lending standards based on the diffusion index method were mixed with a net tightening of credit standards on businesses and net easing on households. In the government securities market, the auctions of the Bureau of the Treasury were fully awarded amid strong demand.

Prospects for global economic growth improve, as downside risks to economic activity recede. The JP Morgan All-Industry Output Index increased in December 2023 as output and new orders grew at faster rates. Meanwhile, the IMF raised its 2024 global economic growth projection to 3.1 percent, reflecting the greater-than-expected resilience in the US and several large emerging market and developing economies (EMDEs), as well as fiscal support in China. Nonetheless, global economic expansion is expected to remain well below the annual average of 3.8 percent until[9] at least 2025. Elevated central bank policy rates to fight inflation, the withdrawal of fiscal support and high debt, as well as low underlying productivity growth were seen to weigh on economic activity.

[9] Historical average global growth from 2000–2019

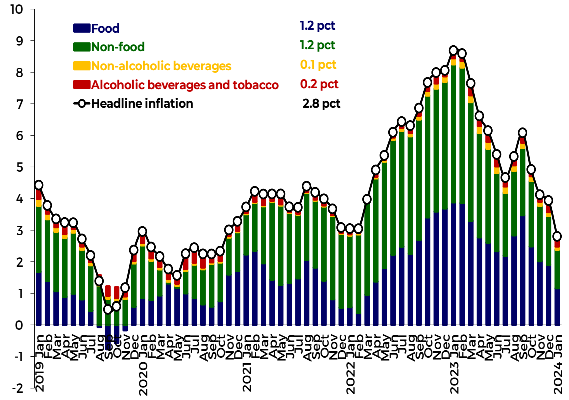
1. Price Conditions

Headline inflation. The y-o-y headline inflation fell to 2.8 percent in January 2024 from 3.9 percent in December 2023. The January inflation rate is the lowest since October 2020 when inflation was at 2.3 percent. The bulk of the decline can be traced primarily to lower y-o-y food inflation as prices of vegetables and meat fell while inflation for fish and other seafood slowed. Non-food inflation also moderated as a result of slower price increases of housing, water, electricity, gas and other fuels, along with the decline in transport inflation. On a month-on-month (m-o-m) seasonally adjusted basis, inflation declined to -0.1 percent in January 2024 from 0.1 percent in the previous month.

Of the 315 total CPI items, the number of items with inflation rates above the threshold of 4.0 percent decreased significantly to 118 in January 2024 from 140 items in the previous month. These 118 items accounted for around 40.8 percent of the total CPI weight, lower than the 44.8 percent share in the previous month.

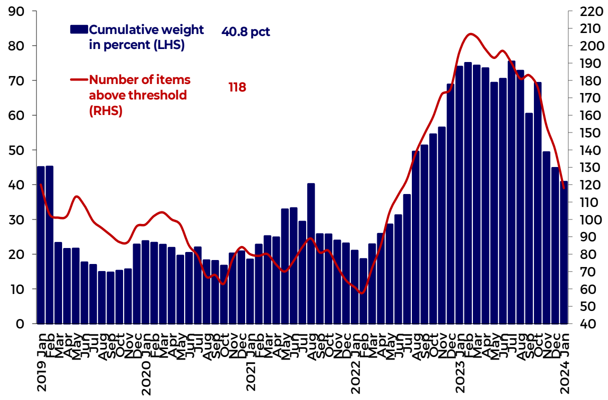
The number of CPI items below target increased to 112 items in January 2024 from 94 items in December 2023. These 112 items accounted for 25.3 percent of the total CPI weight, higher than the 20.3 percent in the previous month. The remaining 85 CPI items in January 2024 (which accounted for 33.8 percent of the total CPI weight) were within threshold.

Figure 2. Headline Inflation
(2018=100); in percent



Source: Philipine Statistical Authority (PSA), BSP

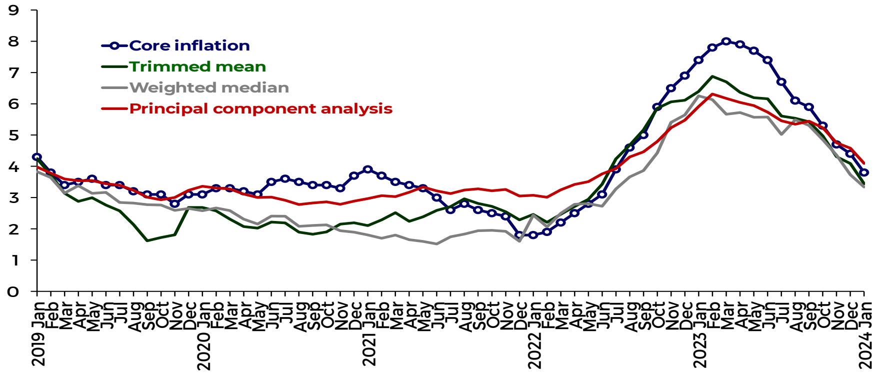
Figure 3. CPI Items with Inflation Rates Above Threshold (2018=100)



Source: PSA, BSP staff estimates

Core inflation. The official core inflation further eased to 3.8 percent in January 2024 from 4.4 percent in December 2023. Similarly, other measures of core inflation also continued to ease in January 2024.

Figure 4. Estimates of Core Inflation Measures
y-o-y; in percent



Note: Core inflation excludes ten (10) volatile food and energy CPI items from the headline CPI equivalent to around 29.6 percent of total basket. This includes (1) cereals (rice and corn); (2) meat, fresh, chilled and frozen; (3) fish, live, fresh, chilled and frozen; (4) dates, figs, and tropical fruits; (5) other vegetables, fresh and chilled; (6) fruit-bearing vegetables; (7) electricity; (8) liquefied hydrocarbons; (9) diesel; and (10) gasoline. In total, this accounts for around 29.6 percent of total CPI basket.
Sources: PSA and BSP staff calculations using 5-digit disaggregation for the BSP-computed core inflation namely, trimmed mean, and weighted median.

Food inflation. Food inflation moderated to 3.5 percent in January 2024 from 5.4 percent in December as prices of vegetables, tubers, plantains, cooking bananas and pulses, and meat and other parts of slaughtered land animals declined. Similarly, inflation for fish and other seafood also slowed.

Non-food inflation. Non-food inflation also slowed down to 2.0 percent in January 2024 from 2.6 percent in the previous month as a result of slower price increases of housing, water, electricity, gas and other fuels. Transport inflation also declined y-o-y due to lower gasoline and diesel prices, along with easing inflation for sea fares.

Table 11. Inflation rates for Selected Food Items (2018=100)
year-on-year; in percent

Commodity	Jan 2023	Dec 2023	Jan 2024
Food and non-alcoholic beverages	**10.7**	**5.4**	**3.5**
Food	11.2	5.5	3.3
Cereals and cereal products	5.6	14.6	16.3
Cereals	3.6	17.9	20.5
Rice	2.7	19.6	22.6
Corn	16.0	-3.5	-4.3
Flour, bread and other bakery products, pasta products, and other cereals	11.3	6.3	5.6
Meat and other parts of slaughtered land animals	7.0	0.2	-0.7
Fish and other seafood	6.7	4.8	1.2
Milk, other dairy products, and eggs	11.3	7.4	5.6
Oils and fats	18.5	-3.6	-4.3
Fruits and nuts	9.8	12.2	10.0
Vegetables tubers, cooking bananas and pulses	37.8	-9.2	-20.8
Sugar, confectionery and desserts	38.8	0.1	-1.0
Ready-made food and other food products, n.e.c.	9.2	5.0	4.7
Non-alcoholic beverages	6.5	4.0	3.4
Alcoholic beverages and tobacco	**10.9**	**9.0**	**8.4**

Source of basic data: PSA, BSP

Table 12. Inflation Rates for Selected Non-Food Items (2018=100)
year-on-year, in percent

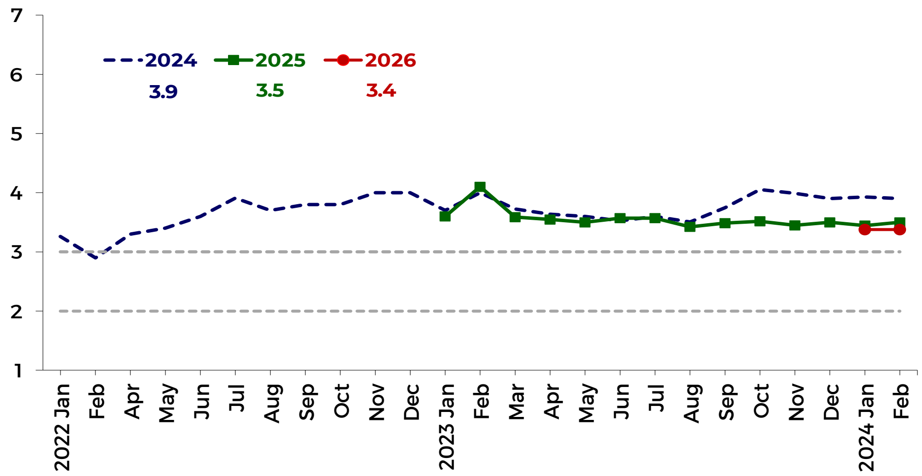
Commodity	Jan 2023	Dec 2023	Jan 2024
Non-food	**7.3**	**2.6**	**2.0**
Clothing and footwear	4.4	4.2	3.8
Housing, water, electricity, gas and other fuels	8.6	1.5	0.7
Electricty, gas, and other fuels	15.9	-3.8	-4.7
Furnishings, household equipment & routine household maintenance	5.2	4.5	3.9
Health	3.3	3.7	3.3
Transport	11.1	0.4	-0.3
Passenger transport services	13.0	3.3	2.8
Information and communication	0.7	0.5	0.5
Recreation, sport and culture	4.2	4.2	4.0
Education services	3.6	3.5	3.8
Restaurant and accommodation services	7.6	5.6	5.5
Financial services	0.0	0.0	-0.6
Personal care and miscellaneous goods and services	5.0	4.6	4.0

Source of basic data: PSA, BSP

2. Inflation Expectations

Results of the BSP Survey of External Forecasters (BSEF) for the February 2024 round showed steady mean inflation forecasts for 2024 and 2026 at 3.9 percent and 3.4 percent, respectively, relative to the forecasts in the January 2024 survey round.[10] Meanwhile, the average inflation forecast for 2025 rose slightly to 3.5 percent from 3.4 percent.

Figure 5. BSP Survey of External Forecasters
mean forecast for full year; in percent



*Based on forecasts provided by 24 respondents. The survey was conducted from 6 to 12 February 2024.
Source: BSP

Analysts expect inflation to remain manageable this year and settle within the target range. However, risks to the inflation outlook continue to be dominated by upside pressures owing to supply-side shocks and second-round effects.

The upside risks to inflation are seen to emanate mainly from the potential rise in basic goods (particularly oil and food, including rice) and services (e.g., restaurants and accommodation services) owing to supply-side pressures attributed mainly to the adverse impact of *El Niño* and geopolitical conflicts in the Middle East and Red Sea. A few analysts also cited second-round effects from wage adjustments and higher electricity rates, as well as positive base effects as upside risks.

The downside risks to the inflation outlook are the (1) continued deceleration of food and non-food inflation, including oil; and (2) implementation of non-monetary government interventions such as E.O. no. 50 which lowers the import tariff of key food items, including rice. A few analysts also cited the subdued global demand as possible downside risks to inflation.

[10] There were 24 respondents in the BSP's survey of external forecasters in February 2024, based on submissions from 6 to 12 February 2024.

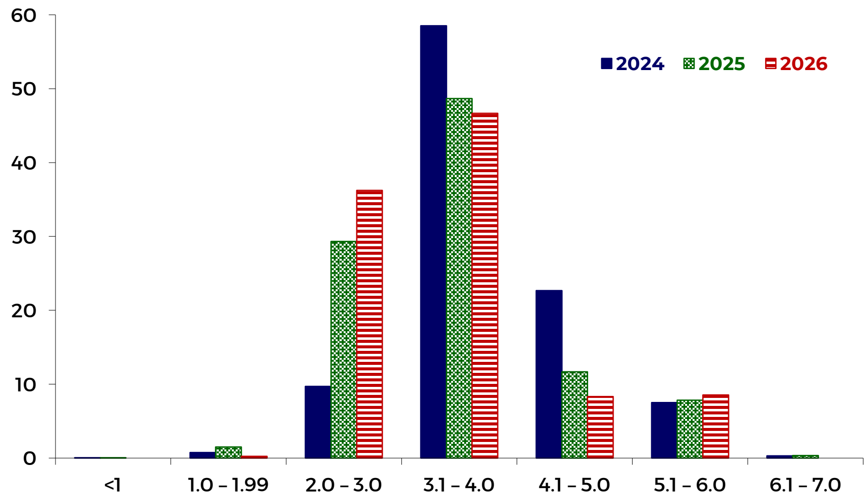
Table 13. BSP Survey of External Forecasters
annual percentage change; February 2024

	2024			2025	2026
	Q1	Q2	FY	FY	FY
1) Al-Amanah Islamic Bank	3.00	3.90	6.00	6.00	6.00
2) ANZ	2.90	4.00	3.50	3.00	-
3) Bangkok Bank	3.20	3.50	3.60	3.50	3.30
4) Bank of Commerce	3.09	4.41	3.76	-	-
5) Barclays	3.20	4.30	3.70	-	-
6) Citibank	2.90	3.90	3.40	3.30	-
7) CTBC Bank	3.50	4.10	3.80	3.50	3.60
8) Deutsche Bank	-	-	3.80	3.50	-
9) Eastwest Bank	2.70	4.00	3.50	3.90	4.00
10) Land Bank of the Phils	3.30	4.90	4.20	3.10	2.50
11) Maybank	3.10	4.20	3.70	3.30	3.00
12) Maybank Investment Banking (	3.10	4.20	3.50	3.00	3.00
13) Metrobank	-	-	4.30	4.30	-
14) Mizuho	3.70	4.20	4.00	3.10	-
15) Modular Asset Management	3.50	4.00	3.60	3.00	3.50
16) Nomura	2.90	3.50	3.20	3.30	-
17) RCBC	3.10	4.00	3.60 - 4.00	3.20 - 3.70	3.00 - 3.50
18) Regis Partners	-	-	4.60	3.50	-
19) Philippine National Bank	3.00	5.00	4.00	3.30	3.20
20) Security Bank	3.50	4.30	3.70	3.20	3.00
21) Standard Chartered	3.60	4.30	3.80	3.50	-
22) Sun Life Investment Managem	3.80	2.00	3.80	2.70	3.00
23) Union Bank of the Phils.	3.20	4.60	4.10	3.80	3.00
24) UBS	3.15	4.05	3.57	3.05	2.79
Median Forecast	3.1	4.1	3.8	3.3	3.1
Mean Forecast	**3.2**	**4.1**	**3.9**	**3.5**	**3.4**
High	3.8	5.0	6.0	6.0	6.0
Low	2.7	2.0	3.2	2.7	2.5
Number of Observations	21	21	24	22	14
Government Target	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

Source: BSP

Based on the probability distribution of the forecasts provided by 17 out of 24 respondents, there is a 68.2-percent probability (from 63.4 percent) that inflation will settle within the 2-4 percent target range in 2024, and 31.0 percent chance that inflation will breach the upper end of the target range. For 2025, the probability that inflation will fall within the target band increased to 78.0 percent (from 65.9 percent). For 2026, there is an 82.9-percent (from 64.2 percent) chance of inflation settling well within the target band.

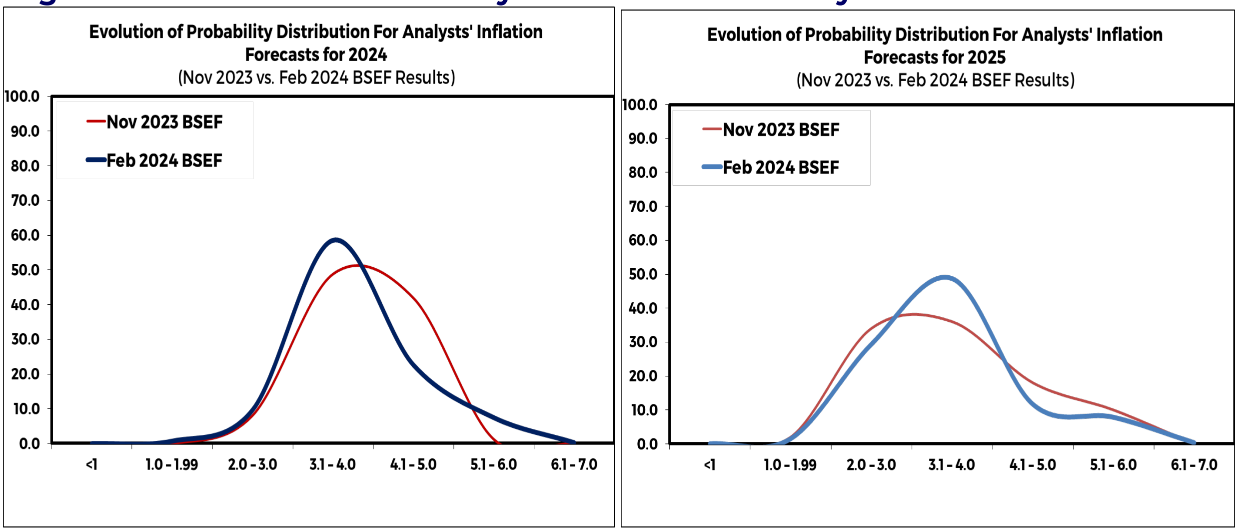
Figure 6. Probability Distribution for Analysts' Inflation Forecasts* (2024-2026)



*Probability distributions were averages of those provided by 17 out of 24 respondents.
Source: February 2024 BSP Survey

The results of the survey showed that majority of the analysts anticipate the BSP to keep the current policy setting until Q2 2024 before reducing the policy rate in the second half of this year by a range of 50 to 125 bps. For 2025, the BSP is seen to further loosen its policy stance by a range of 25 to 300 bps.

Figure 7. Evolution of Probability Distribution for Analysts' Inflation Forecasts

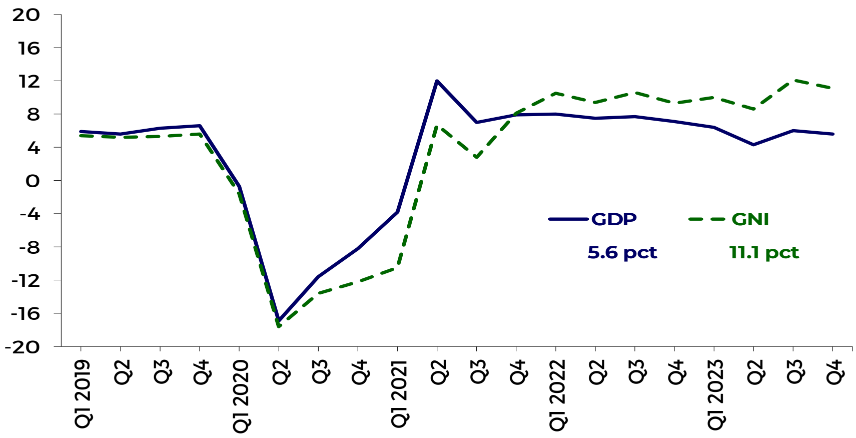


Relative to the November 2023 MPR, the shape of the February 2024 BSEF's probability distribution for analysts' inflation forecasts for 2024 and 2025 has shifted to the left (i.e., returning to within the inflation target band of 2-4 percent), which could indicate anchoring of inflation expectations. The probability distribution during the November 2023 round suggests heightened uncertainty with responses showing greater mass on a wider range of inflation outcomes.

3. Demand Conditions

Real GDP grew by 5.6 percent y-o-y in Q4 2023 from 6.0 percent in Q3 2023 and 7.1 percent in the same period a year ago. Output growth in Q4 2023 was supported by firm domestic demand.

Figure 8. Gross Domestic Product and Gross National Income
at constant 2018 prices; year-on-year growth in percent



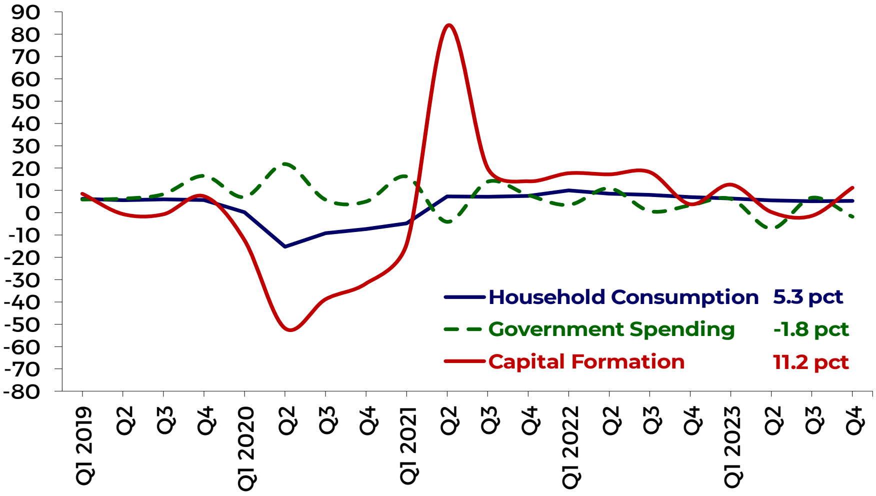
Source: PSA

The gross national income (GNI) grew by 11.1 percent y-o-y in Q4 2023 from 12.1 percent in Q3 2023 and 9.3 percent in Q4 2022. Net primary income moderated to 97.7 percent in Q4 2023 from the 111.6-percent growth in Q3 2023, albeit higher than the 59.9-percent increase in Q4 2022.

The full year 2023 real GDP growth stood at 5.6 percent, which is below the government target of 6.0 to 7.0 percent. On a seasonally adjusted basis, quarter-on-quarter (q-o-q) GDP growth also slowed down to 2.1 percent in Q4 2023 from 3.8 percent in the previous quarter.

Aggregate demand. Under the expenditure approach, household spending, government spending, investments (or capital formation), and exports contributed 4.0 percentage points (ppts), -0.2 ppt, 2.4 ppts, and -0.7 ppt, respectively, to total GDP growth in Q4 2023.

Figure 9. Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent



Source: PSA

Household consumption, which accounted for 75.1 percent of GDP in Q4 2023, grew by 5.3 percent y-o-y during the review quarter, due to sustained strong consumer spending for restaurants and hotels, transport, and miscellaneous goods and services. This reflects some recovery in the labor market as well as steady growth in remittances.[11] Nevertheless, real spending on food items moderated amid still high food prices albeit moderating in recent months.

Capital formation or investments expanded by 11.2 percent in Q4 2023, a reversal of the 1.4-percent contraction in Q3 2023, owing to significant growth in fixed capital. In particular, the expansion in durable equipment more than offset the slowdown in construction.

In contrast, government expenditures decreased by 1.8 percent in Q4 2023, a reversal of the 6.7-percent increase in Q3 2023 and 3.3-percent growth in Q4 2022. Based on the NG's disbursement report,[12] this was due to lower disbursements for maintenance and other operating expenditures (MOOE), infrastructure and other capital outlays, and allotment to LGUs.

Similarly, overall exports contracted by 2.6 percent in Q4 2023 from a growth of 2.6 percent in Q3 2023 and 14.6 percent in Q4 2022. Goods exports fell by

[11] From the NEDA Statement on the Q4 2023 Performance of the Philippine Economy. Retrieved from https://neda.gov.ph/statement-of-neda-secretary-arsenio-m-balisacan-on-the-2023-fourth-quarter-performance-of-the-philippine-economy/
[12] Based on latest available DBM report on NG Disbursement Performance as of November 2023. DBM Report on the National Government Disbursement Performance (November 2023). Retrieved from: https://www.dbm.gov.ph/index.php/reports/ng-disbursement-performance?view=article&id=1088&catid=201.

11.6 percent in Q4 2023, led by components/devices (semiconductors), control instrumentation, electronic data processing, office equipment, and consumer electronics.

Meanwhile, overall imports posted a 2.9 percent growth y-o-y, a turnaround from the 1.1-percent decline in Q3 2023 but lower from the 7.0 percent rate of expansion in Q4 2022. Imports of services continued to grow at double-digit rates at 21.0 percent in Q4 2023, owing to growth in travel, business services, and transport. Meanwhile, imports of goods declined y-o-y by 2.6 percent in Q4 2023 due to weaker growth in mineral fuels, lubricants and related materials, components/devices (semiconductors), other imports of goods, industrial machinery and equipment, and electronic data processing.

Table 14. Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent

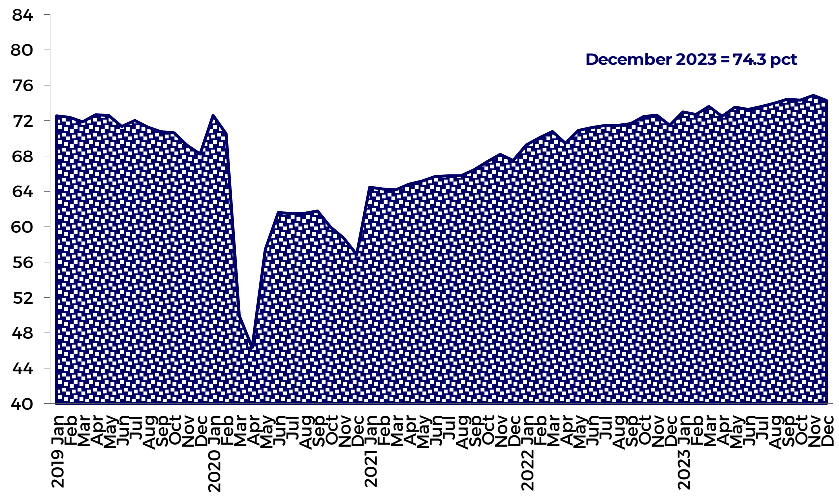
Expenditure Shares	2022	2023	
	Q4	Q3	Q4
Household Final Consumption Expenditure	7.0	5.1	5.3
Government Final Consumption Expenditure	3.3	6.7	-1.8
Gross Capital Formation	3.8	-1.4	11.2
Gross Fixed Capital Formation	6.0	8.1	10.2
Exports of Goods and Services	14.6	2.6	-2.6
Imports of Goods and Services	7.0	-1.1	2.9

Source: PSA

Other demand indicators

Capacity utilization. The manufacturing sector's preliminary average capacity utilization rate stood at 74.3 percent in December 2023, slightly lower than the revised month-ago level of 74.8 percent, based on the Philippine Statistics Authority's (PSA) Monthly Integrated Survey of Selected Industries (MISSI).

Figure 10. Monthly Average of Capacity Utilization for Manufacturing
(2018=100); in percent



Source: PSA

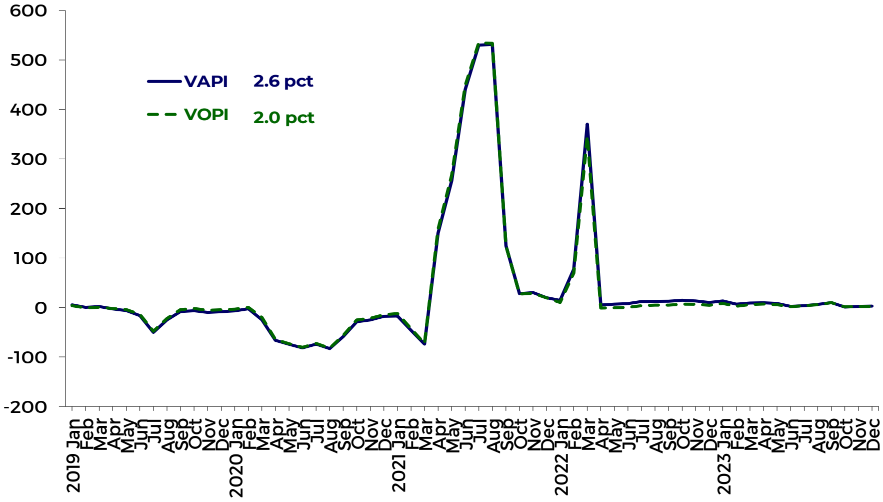
Of the 612 respondent-establishments surveyed by the PSA, 51.9 percent operated at or above the 80.0 percent capacity level in December 2023, an increase from the 49.8 percent recorded in November 2023. Based on preliminary numbers, the response rate of surveyed establishments rose to 69.4 percent (preliminary) in

December from 64.9 percent (preliminary) in November. The revised response rate for November was 76.8 percent.

Average capacity utilization eased but remained high in December 2023 as firms maintained factory capacity to support operations during the holiday period. Of the 22 major industries, only the manufacture of rubber and plastic products operated at 80 percent capacity level. Meanwhile, the remaining 21 industries operated above 60 percent, but below the 80 percent capacity range.

Volume and value of production. Preliminary results of the MISSI showed that factory output – as measured by the volume of production index (VoPI) – grew by 2.0 percent y-o-y in December 2023. This was faster than the 1.8-percent (revised) growth recorded in November 2023, but slower than the 4.5-percent growth in December 2022. Of the 22 subsectors, there were nine that posted y-o-y expansions, while the remaining 13 subsectors recorded contractions.

Figure 11. Volume and Value Indices of Manufacturing Production
2018=100; year-on-year in percent



Source: PSA

Similarly, the value of production index (VaPI) grew by 2.6 percent in December 2023, an improvement from the (revised) growth of 2.0 percent in November, but weaker than last year's double-digit expansion of 10.1 percent. Of the 22 sub-sectors, a total of nine subsectors posted y-o-y expansions, while the remaining 13 sub-sectors recorded contractions.

Table 15. Growth in Volume of Production Index by Industry Division
2018=100; year-on-year; in percent

Gainers	Dec-23
1) Basic Pharmaceutical Products and Pharmaceutical Preparations	38.2
2) Coke and Refined Petroluem Products	38.1
3) Electrical Equipment	30.8
4) Basic Metals	20.8
5) Transport Equipment	16.4
6) Textiles	10.0
7) Furniture	3.3
8) Paper and Paper Products	2.8
9) Printing and Reproduction of Recorded Media	1.3
Losers	**Dec-23**
1) Wood, Bamboo, Cane, Rattan Articles and Related Products	-55.3
2) Leather and Related Products, Including Footwear	-33.0
3) Machinery and Equipment Except Electrical	-17.8
4) Beverages	-16.5
5) Computer, Electronic and Optical Products	-16.5
6) Other Non-Metallic Mineral Products	-15.6
7) Fabricated Metal Products, except Machinery and Equipment	-12.0
8) Rubber and Plastic Products	-8.9
9) Wearing Apparel	-7.8
10) Chemical and Chemical Products	-2.8
11) Other Manufacturing and Repair and Installation of Machinery and Equipment	-2.3
12) Food Products	-1.4

Source: PSA

Table 16. Growth in Value of Production Index by Industry Division
2018=100; year-on-year; in percent

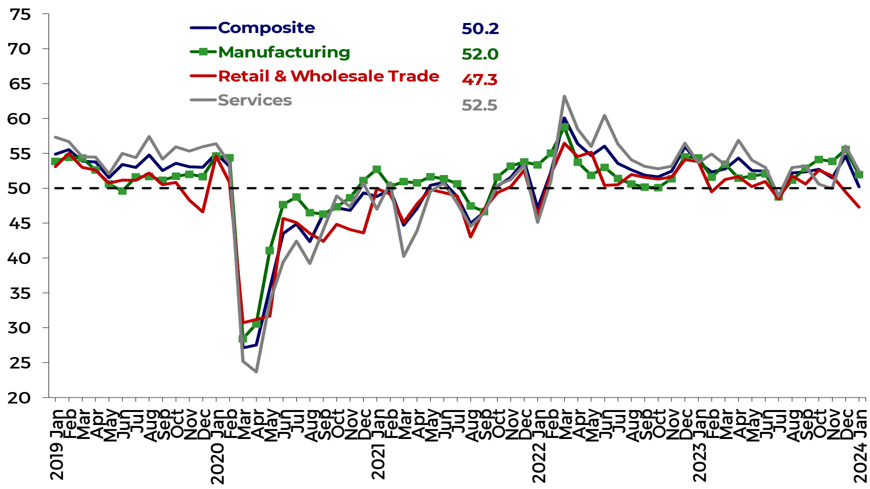
Gainers	Dec-23
1) Basic Pharmaceutical Products and Pharmaceutical Preparations	38.4
2) Coke and Refined Petroluem Products	32.5
3) Electrical Equipment	31.9
4) Basic Metals	16.0
5) Transport Equipment	11.8
6) Furniture	3.5
7) Printing and Reproduction of Recorded Media	2.2
8) Paper and Paper Products	1.1
Losers	**Dec-23**
1) Wood, Bamboo,Cane, Rattan Articles and Related Products	-56.1
2) Leather and Related Products, Including Footwear	-31.2
3) Machinery and Equipment Except Electrical	-18.3
4) Other Non-Metallic Mineral Products	-17.6
5) Computer, Electronic and Optical Products	-13.4
6) Fabricated Metal Products, except Machinery and Equipment	-9.6
7) Wearing Apparel	-9.4
8) Chemical and Chemical Products	-9.2
9) Rubber and Plastic Products	-8.5
10) Beverages	-6.8
11) Other Manufacturing and Repair and Installation of Machinery and Equipment	-3.3
12) Tobacco Products	-3.1
13) Food Products	-0.8

Source: PSA

Purchasing managers' index.[13] The preliminary composite PMI in January 2024 stood at 50.2, lower than the previous month's PMI of 54.6 (revised), indicating a slower pace of expansion in economic activity.[14] Slower expansions in the services and manufacturing sectors, as well as faster contraction in the retail and wholesale sector weighed on overall growth. For the month ahead, retail and wholesale managers anticipate further slowdown for the sector. Meanwhile, economic conditions for the manufacturing and services sectors are expected to improve in February 2024.

[13] Data based on the monthly PMI report of the Philippine Institute for Supply Management (PISM).
[14] The actual formula used to calculate the PMI assigns weights to each common element and then multiplies them by 1.0 for improvement, 0.5 for no change, and 0 for deterioration. As a result, an index above 50 indicates economic expansion, and an index below 50 implies a contraction. PMI surveys are conducted on the last week of the month.

Figure 12. Purchasing Managers' Index Diffusion Index

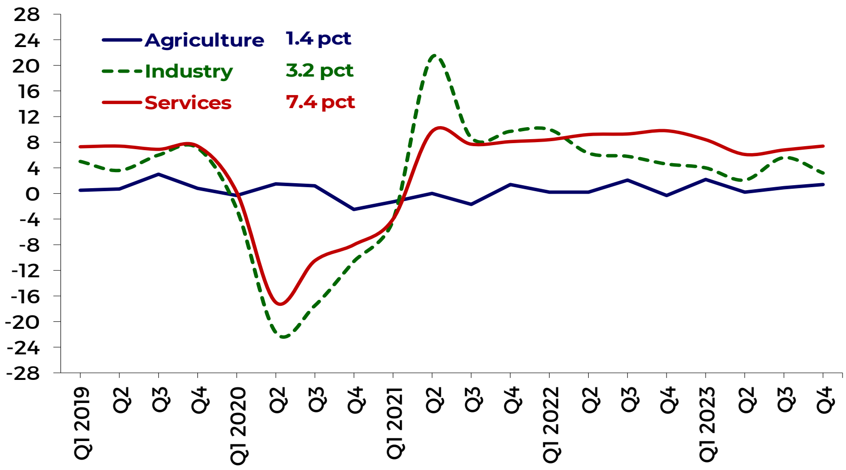


Source: Philippine Institute of Supply Management (PISM)

4. Supply Conditions

Aggregate supply. On the production side of the economy, output for most sectors has already rebounded to pre-pandemic levels, led by financial and insurance activities, transportation and storage, and information and communication, public administration and defense, among others.

Figure 13. Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: PSA

The services sector was the top contributor to Q4 2023 GDP growth, expanding by 7.4 percent in Q4 2023 as all its sub-industries increased during the quarter, with the growth in financial and insurance activities, particularly banking institutions, driving the bulk of the growth.

The agriculture sector's performance also improved, as output grew by 1.4 percent y-o-y in Q4 2023 after a 0.9-percent expansion in the previous quarter. This was mainly due to the higher output for poultry and egg production, support activities to agriculture, forestry and fishing (such as contract farming and post-harvest crop activities), livestock, other animal production,[15] sugarcane including muscovado

[15] Other animal production refers to sericulture (silkworm culture for the production of cocoon), apiary (bee culture for the production of honey), vermiculture, crocodile/alligator farming, rabbit

sugar-making in the farm, as well as mango, palay, pineapple, cacao, abaca, and tobacco.

By contrast, the industry sector decelerated in Q4 2023 at 3.2 percent compared to the expansions in the previous quarter and year of 5.6 percent and 4.6 percent, respectively. This can be traced mainly to the slower growth in construction, particularly government construction, and manufacturing activities.

Table 17. Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

Industrial Origin	2022	2023	
	Q4	Q3	Q4
Agriculture, Forestry, and Fishing	-0.3	0.9	1.4
Industry Sector	4.6	5.6	3.2
Mining and Quarrying	1.8	5.1	10.3
Manufacturing	3.9	1.8	0.6
Electricity, Steam, Water and Waste Management	5.7	6.7	6.4
Construction	6.2	14.2	8.5
Service Sector	9.8	6.8	7.4
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	8.8	4.9	5.2
Transportation and Storage	18.9	12.1	9.7
Accomodation and Food Service Activities	36.7	21.0	19.2
Information and Communcation	6.2	4.2	3.6
Financial and Insurance Activities	9.3	9.6	11.8
Real Estate and Ownership of Dwellings	7.4	4.2	3.9
Professional and Business Services	9.8	6.3	6.0
Public Administration and Defense; Compulsory Social Security	3.7	3.6	8.6
Education	10.0	6.4	7.9
Human Health and Social Work Activities	6.3	7.1	6.4
Other Services	18.6	15.9	11.9

Source: PSA

Oil market developments. The spot price of Dubai crude oil slightly increased in the first week of February 2024 compared to the full-month average price in January 2024. The rise in world oil prices was driven primarily by fears of possible supply disruptions due to the on-going geopolitical tensions in the Middle East; the continued disputes in the Red Sea; and Ukraine's attacks on Russian oil facilities. The uptick in oil prices was partly tempered by possible ceasefire between Israel and Hamas, as Hamas received a ceasefire proposal last 30 January 2024.

On the demand side, the worsening real estate situation in China,[16] as well as the continued contraction in Chinese manufacturing activity in January 2024 and high global interest rate environment also counterbalanced the increase in oil prices.

On the domestic front, domestic prices for gasoline and kerosene as of 30 January 2024 edged up week-on-week by ₱2.80 per liter and ₱0.45 per liter, respectively, while diesel price slid by ₱1.95 per liter.

Developments in the agriculture sector. The Agriculture, Forestry, and Fishing (AFF) posted a growth of 1.4 percent in Q4 2023, faster than the 0.9-percent growth in Q3 2023, and a reversal of the 0.3-percent contraction in Q4 2022.[17]

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farming, raising of semi-domesticated or wild animals including birds, reptiles, insects (e.g., butterfly) and turtles, raising and breeding of cats and dogs, and game propagation and breeding activities.

[16] A Hong Kong court ordered the liquidation of Chinese property giant Evergrande Group.

[17] Based on the Q4 2023 National Accounts report published by the Philippine Statistics Authority on 31 January 2024.

Cumulative growth of the AFF sector was recorded at 1.2 percent for 2023, higher than the 2022 outturn of 0.5 percent. The higher AFF output in Q4 2023 was attributed mainly to the positive contribution of poultry, egg, livestock, other animal production, sugarcane, and support activities to AFF, which more than compensated for the lower output in fishing and aquaculture, corn, coconut, rubber, cassava, and other agricultural crops production.

Crop production, which contributed more than half (58.7 percent) of the total value of production in agriculture and fisheries, increased by 0.1 percent in Q4 2023,[18] a reversal of the 0.2-percent contraction in Q3 2023 and decrease of 1.0 percent in the previous year. Government support through productivity-enhancing programs and input subsidies, as well as more favorable weather conditions have contributed to improved crop production this year. Despite lower production, onion prices have also remained stable due to the arrival of sufficient imports to meet demand in Q4 2023.

Likewise, Q4 2023 livestock and poultry production, which accounted for 14.6 percent and 13.7 percent of total agricultural output, increased by 2.7 percent and 7.8 percent, respectively. The hog industry gradually recovered despite the continuous threat of African Swine Fever. As an alternative source of less expensive protein, chicken production is also improving as more integrators and big commercial players are expanding production.

Meanwhile, the fisheries sector, which comprised 13.0 percent of total value of production in agriculture and fisheries, recorded a contraction of 5.2 percent in Q4 2023. The government underscores the need to upgrade and expedite the development of more aquaculture farms and mariculture parks to support the fisheries sub-sector.

Global food prices. The FAO All Rice Price Index[19] averaged 142.8 points in January 2024, higher by 1.2 percent from 141.1 points in December 2023 and up by 13.0 percent from 126.4 points in the previous year. The m-o-m increase was primarily attributed to the strong export demand for Thai rice overseas, particularly, Indonesia. Meanwhile, the price of Vietnam 5% broken rice eased due mainly to currency depreciation and subdued demand.

As of January 2024, quotes for 5% broken rice varieties from Vietnam, Thailand, and Pakistan increased by 41.2 percent, 28.1 percent, and 33.6 percent, respectively.

The FAO Food Price Index (FPI) declined to 118.0 points in January 2024, relative to the previous month and year levels of 120.8 points and 131.6 points, respectively. The benchmark for world food commodity prices fell in January, weighed down by ample supplies of cereals, particularly wheat and maize.

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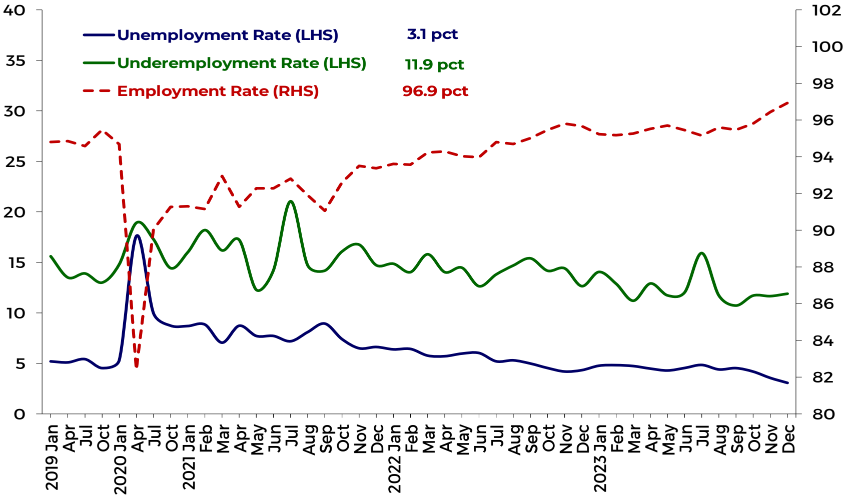
[18] The growth rates of the subsectors and commodities are based on the October to December 2023 Performance of Philippine Agriculture report published by the Philippine Statistics Authority on 30 January 2023.

[19] The FAO All Rice Price Index is based on 21 rice export quotations. These quotations are combined into four groups consisting of Indica, Aromatic, Japonica, and Glutinous rice varieties.

5. Labor Market Conditions

The unemployment rate fell to 3.1 percent in December 2023 from 3.6 percent in November 2023 and 4.3 percent in December 2022. The unemployment rate in December translated to about 1.60 million unemployed Filipinos during the month, lower compared to 1.83 million in the previous month. The unemployment rate was also the lowest since it peaked at 17.6 percent at the onset of the pandemic in April 2020.

Figure 14. Labor Market Indicators
in percent



Source: PSA

However, underemployment rate was slightly higher at 11.9 percent in December 2023 from 11.7 percent in November due mainly to an increase in visible underemployment rate.[20] Nevertheless, the latest underemployment rate was an improvement from the 12.6-percent record in December 2022. The December 2023 underemployment corresponded to about 6.01 million underemployed Filipinos.

Wage developments

Following the minimum wage review across the regions amid the continued elevated inflation environment, fifteen (15) regional wage boards have approved new wage orders in their respective jurisdictions since January 2023. Regions X (Northern Mindanao) and XIII (CARAGA) have approved adjustments in January 2024. The average increase in the non-agriculture industry minimum wage is 8.6 percent for the 15 regions and 8.7 percent for areas outside the National Capital Region.

[20] Visibly underemployed persons are those who worked for less than 40 hours a week during the survey period and want additional hours of work or an additional job.

6. Monetary Operations

As of 31 January 2024, the total outstanding amount absorbed in the BSP liquidity facilities stood at about ₱1.72 trillion. The bulk of the BSP's monetary operations to absorb excess liquidity had been conducted through the BSP Securities facility (BSP-SF), comprising about 45.27 percent (or about ₱778.27 billion). Placements in the term deposit facility (TDF) made up 23.17 percent of total placements (or around ₱398.35 billion), while for the daily instruments, the overnight reverse repurchase (ON RRP) facility and the overnight deposit facility composed 21.23 percent (or around ₱365 billion) and 10.32 percent (or around ₱177.41 billion), respectively, of the total placements.

During the 31 January 2024 TDF auction, the weighted average interest rate (WAIR) for the 7-day TDF rose slightly to 6.5871 percent from the 6.5847 percent fetched during the 24 January 2024 TDF auction. Meanwhile, the WAIR for the 14-day TDF fell marginally to 6.6106 percent from the 6.6187 percent during the previous auction.

During the BSP Bill (BSPB) auction on 2 February 2024, the WAIR for the 28-day BSPB rose slightly to 6.7726 percent from the 6.7703 percent fetched during the 26 January 2024 BSPB auction. Meanwhile, the WAIR for the 56-day BSPB went down to 6.7693 percent from the 6.7740 percent during the previous auction.

The auction results for the TDF and the BSPB during the review period reflected how eligible counterparties managed their asset and liquidity positions as they tended to client requirements during the holiday season. There has also been a noted preference for the 56-day BSPB.

For the daily RRP auction[21], the average bid-to-cover ratio (BCR) for the period 31 January-6 February 2024 was at 0.97x, higher than the BCR of 0.90x for the period 24-30 January 2024.

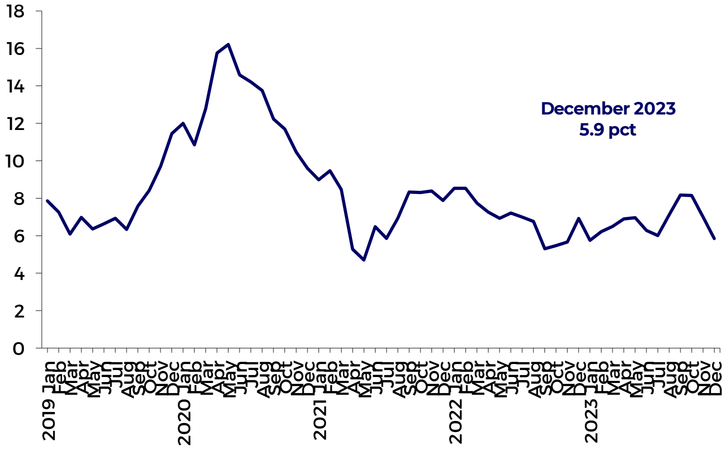
[21] Beginning 8 September 2023, the BSP shifted to a variable-rate format for the RRP facility.

7. Financial Conditions

Domestic liquidity. Preliminary data showed that domestic liquidity (M3) grew by 5.9 percent y-o-y to about ₱17.4 trillion in December from 7.0 percent in November. On a m-o-m seasonally adjusted basis, M3 increased by about 0.4 percent.

Domestic claims continued to drive the expansion in M3, as claims on the private sector grew with the sustained expansion in bank lending to non-financial private corporations and households. Net claims on the central government also rose with the decrease in deposits by the national government with the BSP.

Figure 15. Domestic Liquidity
year-on-year growth rate; in percent

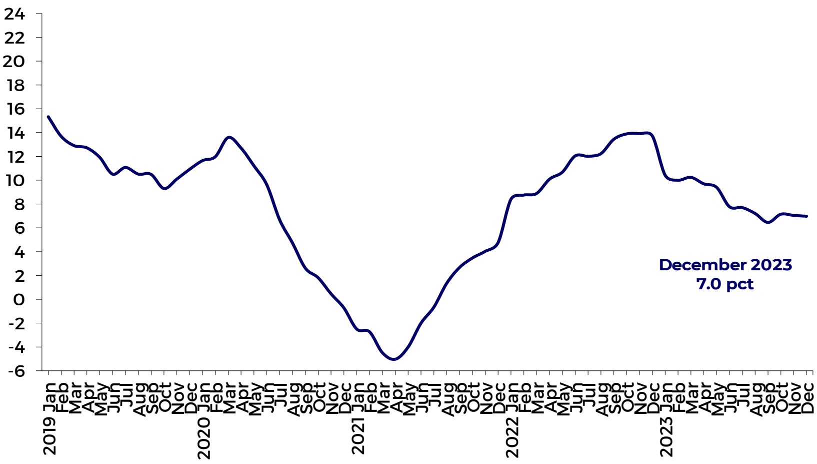


Source: BSP

On the liabilities side, the growth in M3 was driven mainly by the expansion in time deposits.

Bank lending. Preliminary data indicated that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, grew by 7.0 percent y-o-y in December 2023, the same rate of increase as in November 2023. On a m-o-m seasonally adjusted basis, outstanding universal and commercial bank loans, net of RRPs, increased by 0.3 percent.

Figure 16. Loans Outstanding of Commercial Banks
year-on-year growth rate; in percent



Source: BSP

Meanwhile, outstanding loans to residents, net of RRPs, went up by 7.3 percent in December from 7.4 percent in the previous month, while outstanding loans to non-residents[22] decreased by 2.8 percent in December from a decline of 5.0 percent in November. Outstanding loans for production activities rose by 5.5 percent in December from 5.7 percent in November, driven largely by the expansion in lending to key industries such as real estate activities (10.9 percent); wholesale and retail trade, and repair of motor vehicles and motorcycles (7.2 percent); and electricity, gas, steam, and air-conditioning supply (6.2 percent).

Likewise, consumer loans to residents increased by 23.5 percent in December from 23.6 percent in November, due to the faster increase in motor vehicle loans and salary-based general purpose consumption loans.

Credit Standards

Respondents see unchanged credit standards for enterprises over the next quarter using the modal approach. Loan demand from businesses is also expected to be broadly steady based on the same approach.

Lending to enterprises. Based on the modal approach, results for Q4 2023 indicated that a majority of the participant banks (88.0 percent) maintained credit standards for businesses. Meanwhile, the DI approach showed a net tightening of overall credit standards[23] across all borrower firm sizes due to banks' lower risk tolerance, deterioration of borrowers' profiles and profitability of banks' portfolios, along with stricter financial system regulations.

Over the next quarter, both the modal and DI methods indicated respondents' expectations of generally unchanged credit standards for enterprises amid banks' sustained tolerance for risk and stable outlook for the overall economy as well as for industries and firms, along with the steady profiles of borrowers.

Table 18. General Credit Standards for Loans to Enterprises (Overall)

	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened considerably	10.6	8.0	4.2	4.2	10.0	6.5	10.4	4.3	6.7	4.3	2.1	0.0
Tightened somewhat	14.9	20.0	20.8	14.6	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0
Remained basically unchanged	**66.0**	**70.0**	**70.8**	**75.0**	**72.0**	**76.1**	**77.1**	**80.9**	**73.3**	**89.1**	**80.9**	**88.0**
Eased somewhat	8.5	2.0	4.2	6.3	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0
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
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion index for credit standards	**17.0**	**26.0**	**20.8**	**12.5**	**24.0**	**15.2**	**14.6**	**14.9**	**13.3**	**6.5**	**6.4**	**12.0**
Number of banks responding	**47**	**50**	**48**	**48**	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**

Note: A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
Source: BSP

[22] Outstanding loans to non-residents include loans by UKB's foreign currency deposit units (FCDUs) to non-residents.
[23] The net tightening of credit standards for business loans in Q4 2023 is reflected in the stricter collateral requirements and loan covenants, and more use of interest rate floors.

Lending to households. The majority of the surveyed banks (70.6 percent) retained their lending standards for household loans in Q4 2023. On the other hand, DI-based results pointed to net easing credit standards for consumer loans[24] mainly associated with the improvement in profitability of banks' portfolios, higher risk tolerance, and less uncertain economic outlook.

Table 19. General Credit Standards for Loans to Households (Overall)

	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened considerably	9.4	5.7	5.6	2.9	2.5	5.4	5.4	5.7	3.0	3.0	0.0	0.0
Tightened somewhat	9.4	20.0	11.1	8.6	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8
Remained basically unchanged	**75.0**	**68.6**	**69.4**	**65.7**	**62.5**	**73.0**	**64.9**	**71.4**	**51.5**	**69.7**	**68.8**	**70.6**
Eased somewhat	6.3	5.7	13.9	17.1	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7
Eased considerably	0.0	0.0	0.0	5.7	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion index for credit standards	**12.5**	**20.0**	**2.8**	**-11.4**	**-7.5**	**-5.4**	**-2.7**	**0.0**	**-6.1**	**-6.1**	**0.0**	**-5.9**
Number of banks responding	**32**	**35**	**36**	**35**	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**

Note: A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
Source: BSP

For Q1 2024, modal results showed a higher number of bank respondents anticipating maintained loan standards for households, while the DI approach indicated a continued net easing of credit standards driven by banks' expectations of improved profitability of their portfolios, higher risk tolerance, and more favorable economic outlook.

Loan demand. In Q4 2023, survey results pointed to generally steady demand for credit from businesses (66.0 percent) and consumers (56.3 percent) based on the modal method. Meanwhile, the DI approach showed a net increase in loan demand from across all firm classifications driven by bank clients' more optimistic economic outlook, increased customer inventory financing and accounts receivable needs, including lack of other sources of funds. On the other hand, DI-based results pointed to net easing credit standards for consumer loans[25] mainly associated with the improvement in profitability of banks' portfolios, higher risk tolerance, and less uncertain economic outlook.

In the next quarter, most of the respondent banks expect broadly steady loan demand from businesses, while about half of the respondent banks expect higher demand for credit from households. Based on the DI method, participating banks anticipate a net rise in credit demand from businesses, driven by customers' more positive economic prospects along with higher customer inventory financing and accounts receivable needs. The DI approach also pointed to a net increase in consumer loan demand driven by expectations of higher household consumption and housing investment, banks' more attractive financing terms, and lower income prospects.

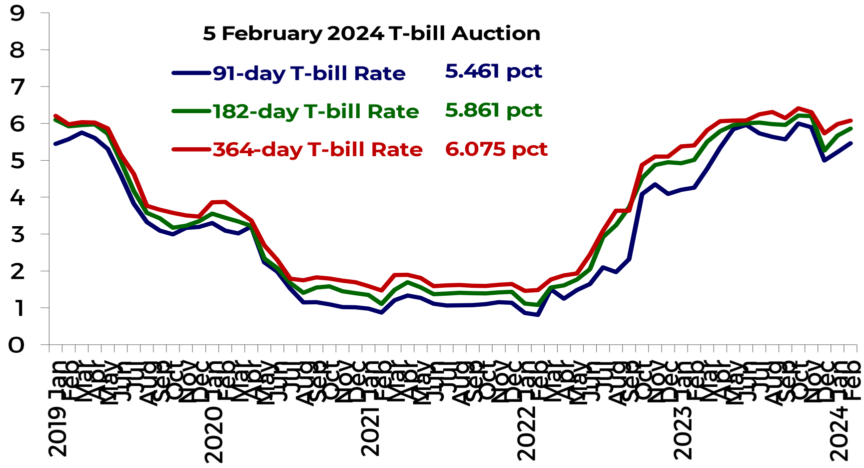
[24] In particular, the DI approach reflected a net easing of loan standards for housing and credit card loans, while there was a net tightening of loan standards for personal/salary loans. Meanwhile, credit standards for auto loans were steady.

[25] In particular, the DI approach reflected a net easing of loan standards for housing and credit card loans, while there was a net tightening of loan standards for personal/salary loans. Meanwhile, credit standards for auto loans were steady.

Capital markets

Primary GS market and rates. During the 5 February 2024 Treasury bill (T-bill) auction, the average interest rates for the 91-day and 182-day rose by 6.3 basis points (bps) to 5.461 percent and 5.1 bps to 5.861 percent, respectively. Meanwhile, the average interest rate for the 364-day T-bills decreased marginally by 0.1 bp to 6.075 percent from the rate fetched during the 29 February 2024 auction.

Figure 17. Treasury Bill Rates
in percent



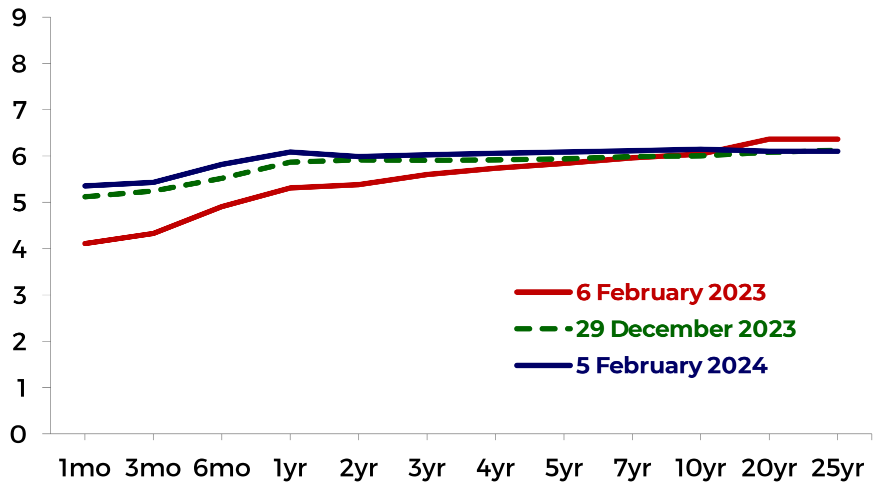
Source: BTr

The Bureau of the Treasury (BTr) Auction Committee awarded in full the offered amounts of ₱5.0 billion each for the 91-day, 182-day, and 364-day T-bills. Total tenders for all maturities reached about ₱47.4 billion, or about 3.2 times the ₱15.0-billion total amount offered.

On 30 January 2024, the BTr fully awarded ₱30 billion as planned of the re-issued 3-year T-bonds with a remaining life of 2 years and 11 months. The said T-bond fetched an average interest rate of 6.007 percent, higher than the 5.9-percent average interest rate quoted for the same paper when it was last awarded on 3 January 2024. The auction was oversubscribed with tenders reaching around ₱62.4 billion or 2.1 times the offered amount of ₱30 billion.

Secondary market GS yield curve. On 5 February 2024, secondary market GS yields increased generally relative to end-December 2023 amid market players' cautious sentiment due to mixed signals from prospects of delayed monetary policy rate cuts from the US Fed and the BSP, and the robust GDP report for Q4 2023. The rise in GS interest rates was also supported by the anticipation of an announcement of a retail Treasury bond this month and ahead of the release of the January 2024 Philippine inflation data on 6 February 2024. Consequently, the generally negative spreads in secondary market rates over the BSP overnight RRP rate on 5 February 2024 were generally narrower relative to end-December 2023 levels.

Figure 18. Yields of Government Securities in the Secondary Market
in percent

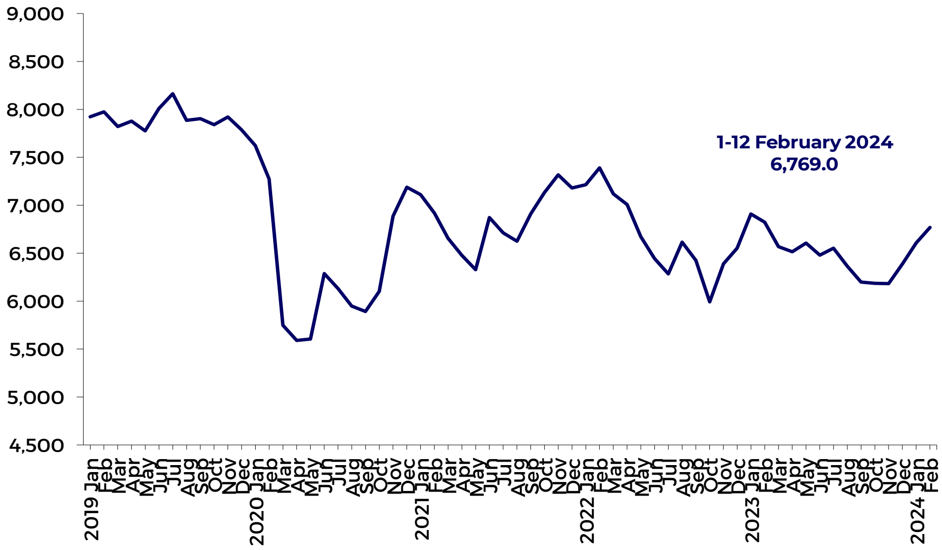


Source: Bloomberg

As of 5 February 2024, the spreads between the 10-year and 1-year GS rates and the 10-year and 5-year GS rates narrowed to 5.9 bps (from 13.4 bps as of end-December 2023) and to 5.8 bps (from 6.3 bps as of end-December 2023), as a result of the larger increase in the 1-year and 5-year GS rates relative to the rise in the 10-year GS rate.

Stock market. The Philippine Stock Exchange index (PSEi) averaged at 6,769.0 index points for the period 1-12 February 2024, supported by positive market sentiment amid slower January 2024 inflation and higher-than-expected Q4 2023 GDP. The PSEi was also buoyed by improved GDP outlook by the IMF.[26] On a year-to-date (y-t-d) basis, the PSEi also closed higher by 5.5 percent at 6,807.8 index points on 12 February 2024.

Figure 19. Philippine Stock Exchange Index
index points

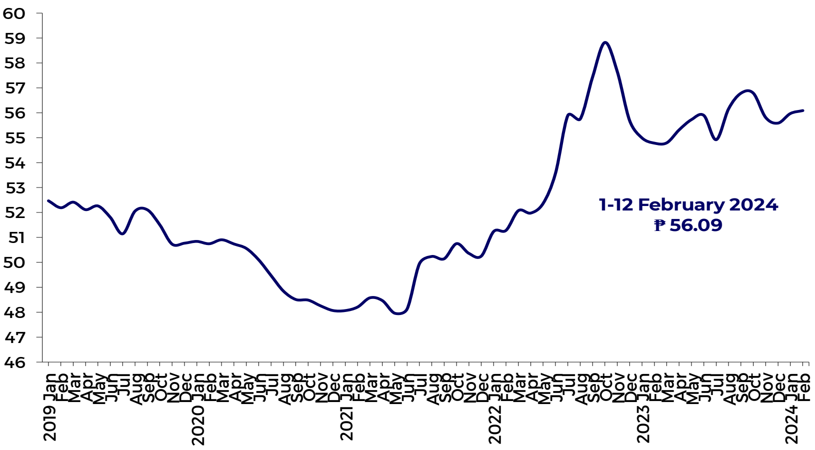


Source: Philippine Stock Exchange, BSP

[26] The IMF revised the GDP growth projection to 6.0 percent for 2024 in its January 2024 World Economic Outlook (WEO), slightly higher from the October WEO forecast of 5.9 percent. Source: IMF

Exchange rate. For the period 1-12 February, the peso has averaged ₱56.09/US$1, depreciating further by 0.13 percent relative to the previous month's average. This downward trend reflected partly broad US dollar strength amid expectations of delay in the US Fed's policy easing following stronger-than-expected US jobs data and cautious remarks from US Fed officials,[27] as well as lingering geopolitical tensions in Gaza and the Middle East. On the domestic front, dampened market sentiment amid elevated inflation outlook in Q2 2024, and lower GIR in January[28] contributed to the depreciation of the peso. Nonetheless, these factors were partly offset by the following positive domestic developments: i) robust economic growth prospects in 2024 following the release of stronger-than-expected Q4 and full-year 2023 Gross Domestic Product (GDP) growth;[29] ii) hawkish rhetoric from the BSP despite further easing of inflation in January; iii) sustained growth in the country's manufacturing activity in January;[30] iv) lower government debt-to-GDP ratio in 2023;[31] and v) stronger net FDI inflows in November 2023.[32] As of 12 February, the peso closed at ₱56.01/US$1, depreciating by 1.13 percent against the US dollar, y-t-d, from the end-December 2023 closing rate of ₱55.37/US$.[33]

Figure 20. Peso-Dollar Rate
PHP/US$



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

On a real trade-weighted basis, the peso lost external price competitiveness in January (y-o-y) against the basket of currencies of all trading partners (TPI), trading partners in advanced (TPI-A) and developing (TPI-D) countries as indicated by the increase in the Real Effective Exchange Rate (REER) index of the peso by 3.06

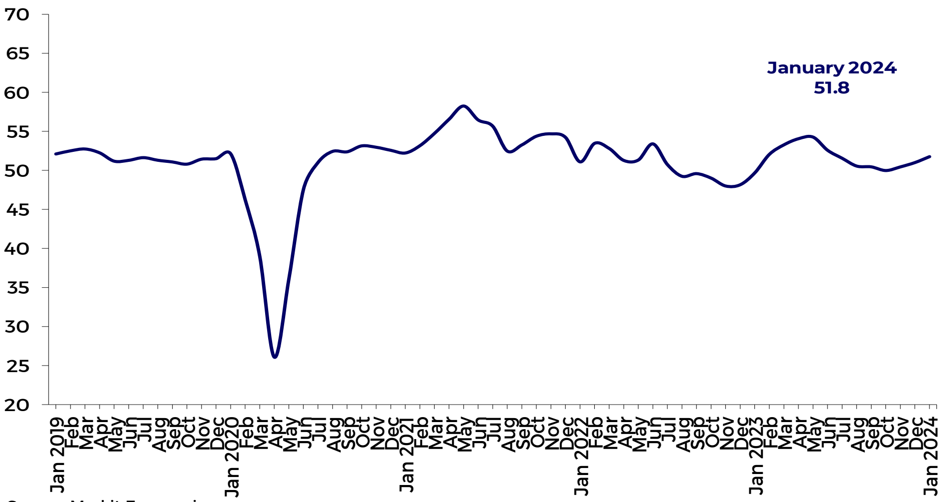
[27] The US Fed decided to keep its policy rate unchanged for the fourth consecutive time during the latest FOMC meeting on 31 January-1 February 2024. Chairman Jerome Powell reiterated that the US Fed will require more inflation data to confirm that inflation is easing toward the 2 percent target in a sustainable way before considering rate cuts. (Reuters)
[28] Based on preliminary data, the country's GIR level settled at US$103.4 billion as of end-January 2024 from the end-December 2023 level of US$103.8 billion.
[29] With the country's 2023 GDP settling below the government's target, Fitch Solutions expects the economy's resilience to persist in 2024, raising its growth forecast to 6.2 percent. (Manila Standard)
[30] Purchasing Managers' Index (PMI) settled at 50.9 points in January, a 5-month consecutive growth, albeit lower than the 51.5 points posted in December 2023. (S&P Global)
[31] The National Government's outstanding debt-to-GDP ratio declined to 60.2 percent in 2023 relative to the 60.9 percent in the previous year. It is also lower than the 61.2-percent Medium-Term Fiscal Framework government target. (Bureau of the Treasury)
[32] FDI net inflows rose by 27.8 percent to reach US$1.0 billion in November 2023 from the US$820 million net inflows recorded in November 2022.
[33] Based on the last done deal transaction in the afternoon.

percent, 2.07 percent, and 3.56 percent, respectively, traced mainly to the combined impact of widening inflation differential and nominal appreciation of the peso.[34,35]

8. External Developments

Global economic activity improved as output and new orders grew at faster rates. In December 2023, the JP Morgan All-Industry Output Index increased, with the fastest rates of expansion seen in the BRIC nations of Brazil, Russia, India, and China, along with the UK. Expansions were also recorded in the US, Japan, Italy, and Spain. Meanwhile, France, Canada, Germany, and Australia were among the countries which posted contractions.[36]

Figure 21. JP Morgan Global All-Industry Output Index
index points



Source: Markit Economics

In the January 2024 WEO, the IMF raised its 2024 global economic growth projection to 3.1 percent, reflecting the greater-than-expected resilience in the US and several large emerging market and developing economies (EMDEs), as well as fiscal support in China. Nonetheless, global economic expansion is expected to remain well below the annual average of 3.8 percent until[37] at least 2025 with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support

[34] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines which include US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-Advanced (TPI-A) measures the effective exchange rates of the peso across currencies of trading partners in advanced countries comprising of the US, Japan, Euro Area and Australia. The TPI-Developing (TPI-D) measures the effective exchange rates of the peso across 10 currencies of partner developing countries which includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

[35] The REER index represents the Nominal Effective Exchange Rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. A decrease in the REER index indicates some gain in the external price competitiveness of the peso, while a significant increase indicates the opposite. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

[36] JP Morgan Global Composite PMI, 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 vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

[37] Historical average global growth from 2000 – 2019

and high debt weighing on economic activity, as well as low underlying productivity growth.

For advanced economies (AEs), the IMF 2024 baseline growth estimate slightly declined amid stronger-than-expected US momentum and weaker-than-expected growth in the euro area. Meanwhile, the 2024 growth forecast for emerging markets and developing economies (EMDEs) was unchanged at 4.1 percent for 2024 and expected to rise to 4.2 percent in 2025 with regional differences. The higher forecasts for emerging and developing Europe, Middle East and Central Asia, and sub-Saharan Africa were offset by the lower estimates for emerging and developing Asia, and Latin America and the Caribbean.

With the likelihood of a hard landing receding as adverse supply shocks unwind, the risks to the global outlook are broadly balanced. The IMF cited the following upside risks to the revised baseline growth forecasts: (1) faster disinflation; (2) slower-than-assumed withdrawal of fiscal support; (3) faster economic recovery in China; and (4) artificial intelligence and supply-side reforms. Meanwhile, the following downside risks to global growth remain plausible: (1) commodity price spikes amid geopolitical and weather shocks; (2) persistence of core inflation, requiring a tighter monetary policy stance; (3) faltering of growth in China; and (4) disruptive turn to fiscal consolidation.

Policy actions by other central banks. Among the central banks regularly monitored by the BSP, Bank of Korea, Bank Indonesia, People's Bank of China, Bank of Japan, Bank Negara Malaysia, Bank of Canada, European Central Bank, US Federal Reserve, Bank of England, and Reserve Bank of Australia maintained their respective key policy interest rates as they continued to assess the impact of previous monetary policy adjustments.