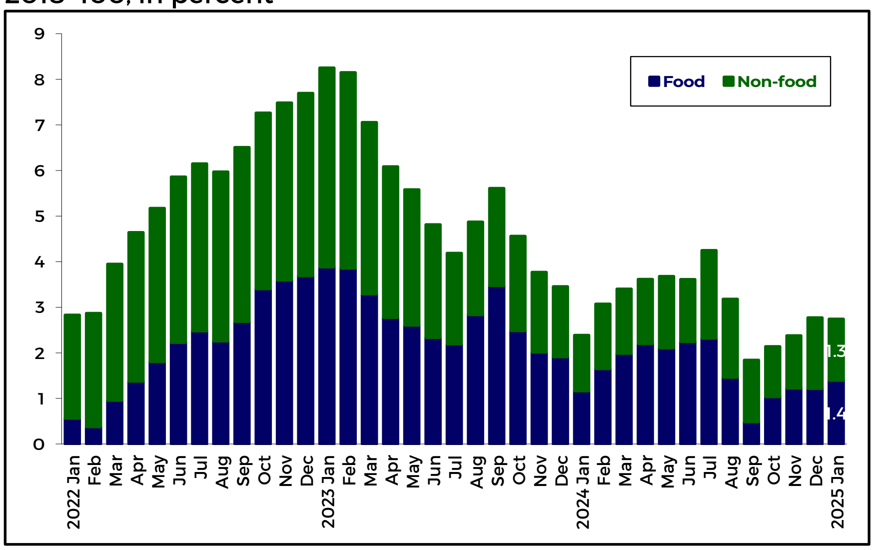
B. Current developments

I. Price conditions

Headline inflation remained within the target range of 2.0-4.0 percent in January, holding steady at 2.9 percent. Food prices saw upticks due to weather-related disruptions affecting vegetables and fish supplies, as well as ongoing African Swine Fever cases impacting meat prices. Nonetheless, these were offset by moderating non-food inflation. The January inflation outcome fell within the BSP's month-ahead forecast range of 2.5–3.3 percent.

Figure 4
Headline inflation remains within the target range
2018=100, in percent



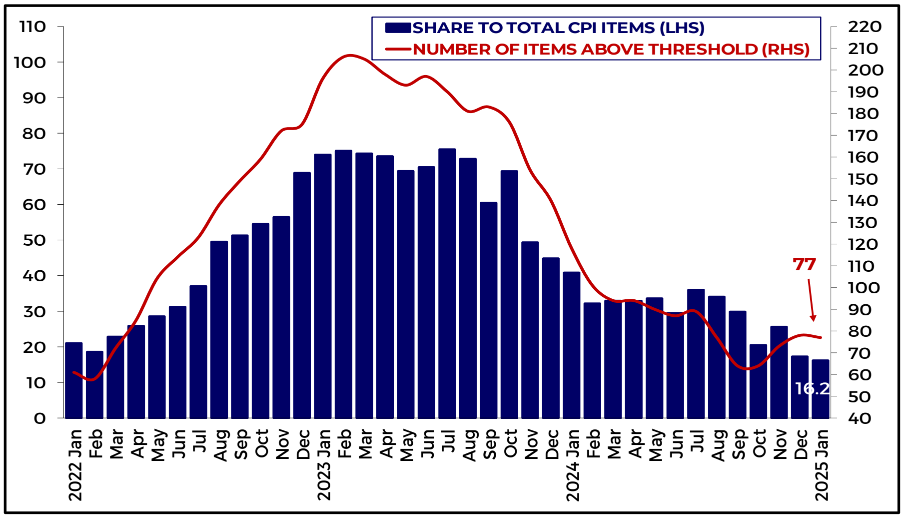
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

An analysis of individual CPI components reveals a nuanced picture. The number of items with inflation rates exceeding the 4.0 percent upper bound of the target range decreased marginally to 77 in January 2025, accounting for 16.2 percent of the total CPI weight. This reduction was partly attributable to a significant decline in rice inflation, supported by continued import arrivals subject to lower tariffs. Conversely, 150 items, representing approximately 41 percent of the CPI basket, exhibited inflation rates below the target threshold, while the remaining 88 items fell within the target range.

Figure 5

The bulk of the CPI items had inflation rates below 2 percent

2018=100



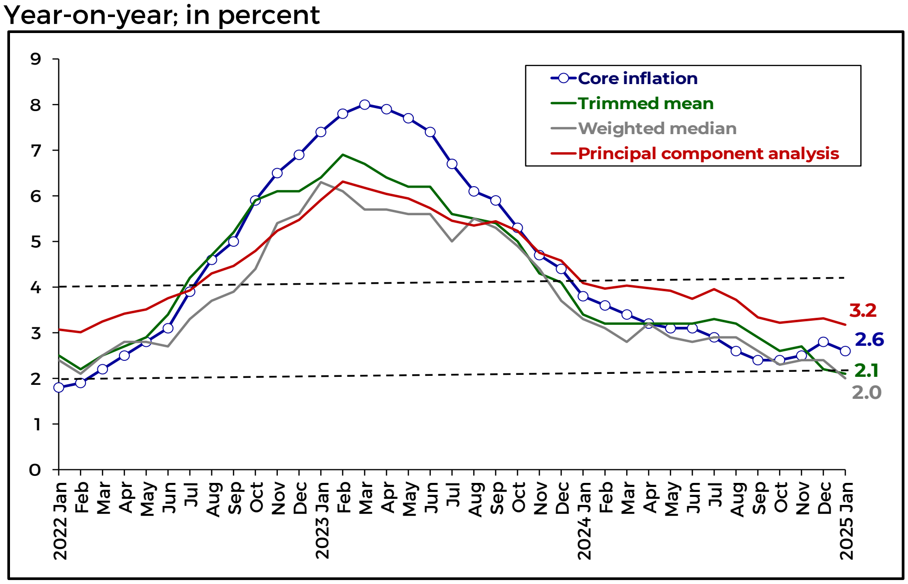
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas
RHS – right-hand side; LHS – left-hand side

Core inflation, which excludes volatile food and energy items, continued its downward trajectory in January, suggesting an absence of demand-driven price pressures. This trend was consistent across both the official core inflation measure and the BSP-computed indicators.

Figure 6

Estimates of core inflation measures continued to ease

Year-on-year; in percent

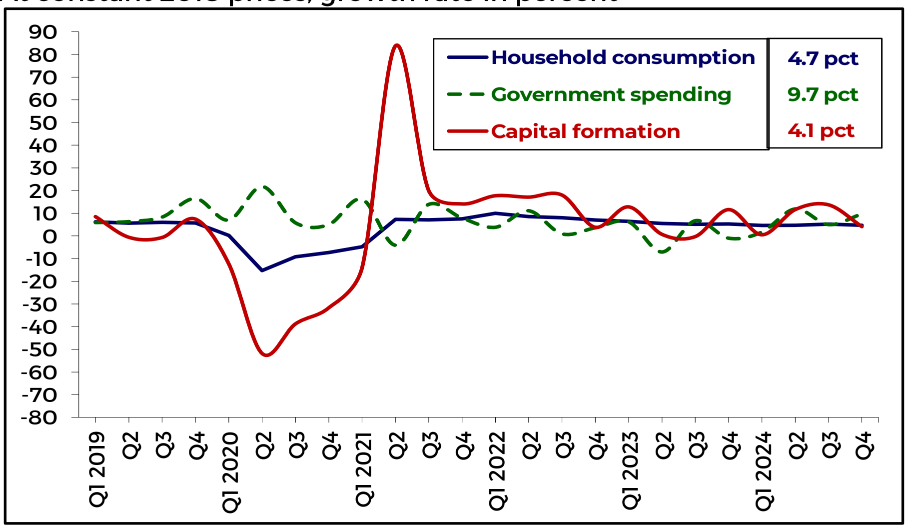


Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas (BSP) staff calculations

II. Demand conditions

Economic growth remained steady at 5.2 percent in Q4 2024, bringing the full-year real GDP growth to 5.6 percent, marginally below the government's 6.0-6.5 percent target. While domestic demand remained firm, it experienced a slowdown due to weather-related disruptions, global trade policy uncertainty, and tight financial conditions.

Figure 7
Government spending supported Q4 GDP growth
At constant 2018 prices; growth rate in percent



Source: Philippine Statistics Authority

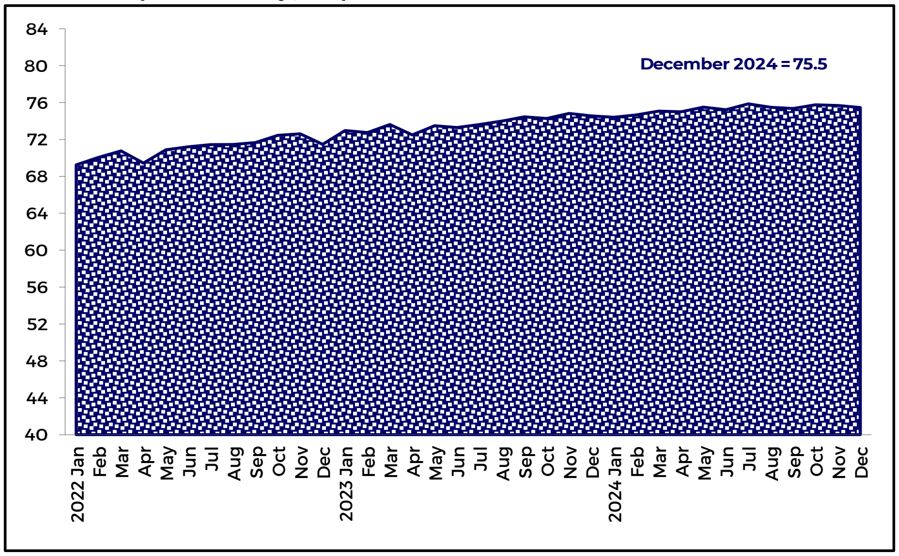
Household spending decelerated, particularly in food and non-alcoholic beverages, clothing and footwear, communication, and restaurant and hotel expenditures. This outweighed increased spending in other categories such as alcoholic beverages, utilities, furnishings, health, transport, and recreation and culture.

Investment growth moderated, primarily due to slower growth in durable equipment and contractions in breeding stocks and valuables. In contrast, government expenditure accelerated, driven by higher disbursements for infrastructure projects, maintenance and other operating expenses, transfers to local government units, personnel services, and interest payments.

Capacity utilization weakened. The PSA's Monthly Integrated Survey of Selected Industries reported that 55.4 percent of respondent-establishments operated at or above 80.0 percent capacity in December 2024, a slight decrease from the previous month.[7]

[7] Monitoring the response rate helps the BSP understand the quality of data reported and how representative it can be. The response rate of surveyed establishments increased to 56.5 percent (preliminary) in November 2024 from 60.2 percent (preliminary) in October 2024. The revised response rate for October 2024 was 69.5 percent.

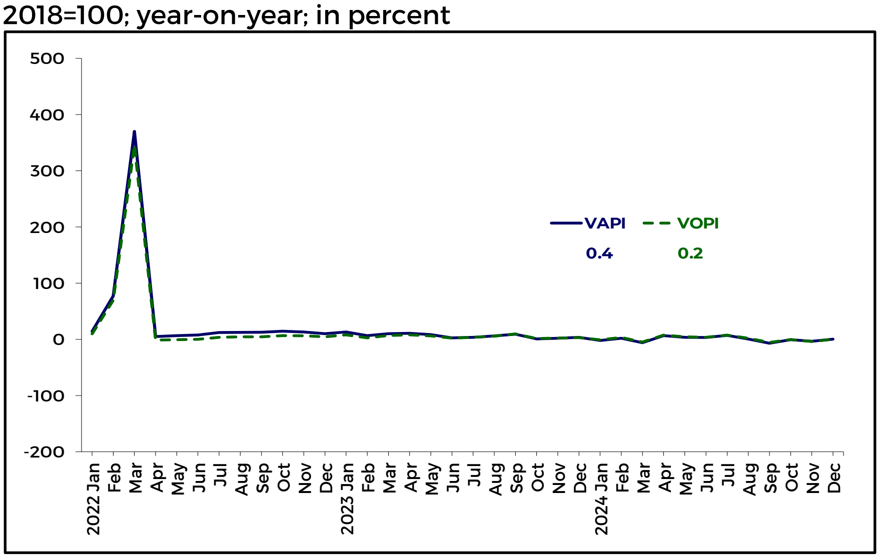
Figure 8
Average capacity utilization rate in manufacturing moderated slightly in December
2018=100; preliminary; in percent



Source: Philippine Statistics Authority

However, factory output, as measured by the volume of production index, rebounded in December, attributed to improved raw material availability, enhanced logistics, and easing inflationary pressures. The value of production index also expanded during this period.

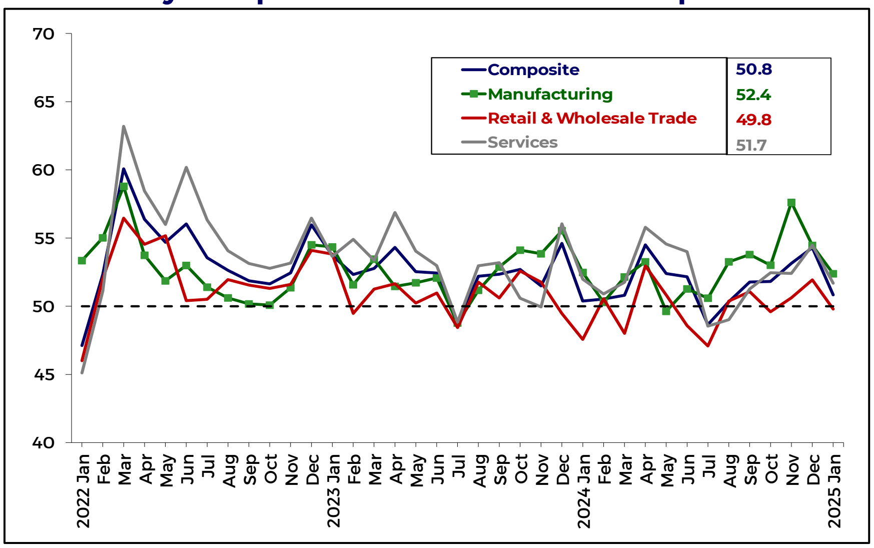
Figure 9
Factory output and value of production recovered
2018=100; year-on-year; in percent



Source: Philippine Statistics Authority

The purchasing managers' index (PMI) for January 2025 stood at 50.8, indicating expansion.[8] While business activity across major economic sectors experienced a seasonal slowdown at the start of the year, managers in the manufacturing and retail and wholesale sectors anticipate improved conditions in February 2025. The services sector, however, is expected to remain subdued throughout the year.

Figure 10
Preliminary composite PMI rose at a slower pace



Source: Philippine Institute of Supply Management

III. Supply conditions

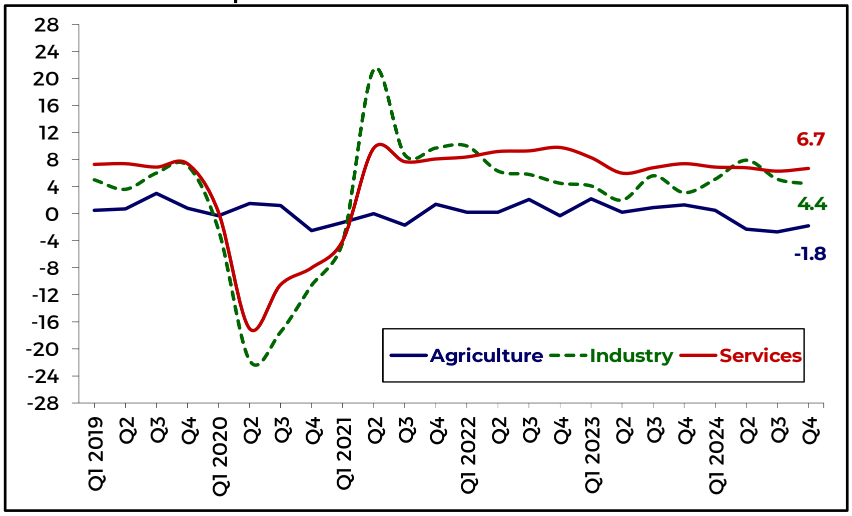
The services sector remained the primary contributor to GDP growth in Q4. All sub-industries within the sector expanded, with wholesale and retail trade, repair of motor vehicles and motorcycles, financial and insurance activities, and professional and business services leading the way. This broad-based growth in services reflects the ongoing recovery in domestic demand and consumer confidence.

Industry growth moderated in Q4 but remained positive overall. Construction and manufacturing were the main drivers of growth within this sector, while mining and quarrying experienced a contraction. The continued expansion in construction activity suggests ongoing investment in infrastructure and real estate development.

In contrast, the agriculture sector faced significant headwinds during the quarter. Successive typhoons adversely impacted crop production, while the persistent effects of African Swine Fever (ASF) continued to weigh on livestock output. These challenges in the agriculture sector underscore the need for enhanced resilience and risk management strategies in the face of climate-related and biosecurity risks.

[8] 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 11
Production output slowed as agriculture contracted
At constant 2018 prices



Source: Philippine Statistics Authority

Global oil prices

Global crude oil prices declined[9] in Q4, influenced by a combination of geopolitical factors. The threat of higher tariffs on US imports from Canada, Mexico,[10] and China created uncertainty in global trade, while plans to maximize US oil and gas production and accelerate infrastructure permits put downward pressure on prices. Additionally, the ceasefire agreement between Israel and Gaza, which began on 19 January 2025, contributed to a reduction in the risk premium on global oil prices.[11]

Labor market conditions

Labor market conditions remained robust. The unemployment rate decreased to 3.1 percent in December, bringing the full-year average to 3.8 percent. This rate is notably lower than the 10-year average of 4.8 percent. Similarly, the underemployment rate declined to 10.9 percent from 11.9 percent a year ago, well below the 10-year average of 14.4 percent. The decline in underemployment was largely due to a reduction in visible underemployment, indicating improvements in both the quality and quantity of employment opportunities.

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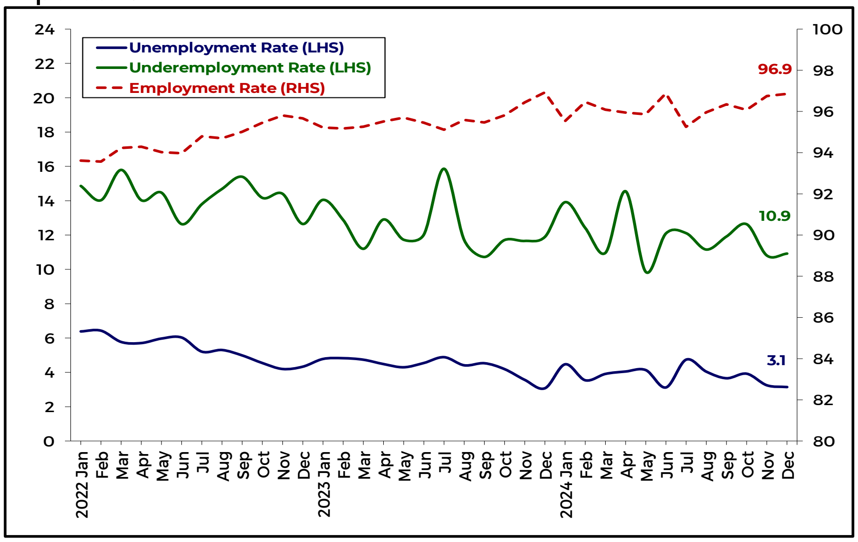
[9] Based on the average spot price of Dubai crude oil in the first three days of February 2025 compared to the 1-3 January 2025 average and the month-to-date average in January 2025.

[10] Nonetheless, US President Trump paused the implementation of tariffs for Canada and Mexico for 30 days. Source: Reuters (3 February 2025). "Oil prices close at 1-month low as US pauses tariffs on Mexico." https://www.reuters.com/markets/commodities/oil-prices-jump-after-trump-imposes-tariffs-canada-mexico-china-2025-02-02/

[11] 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/

Figure 12
Labor market indicators showed improvement
in percent

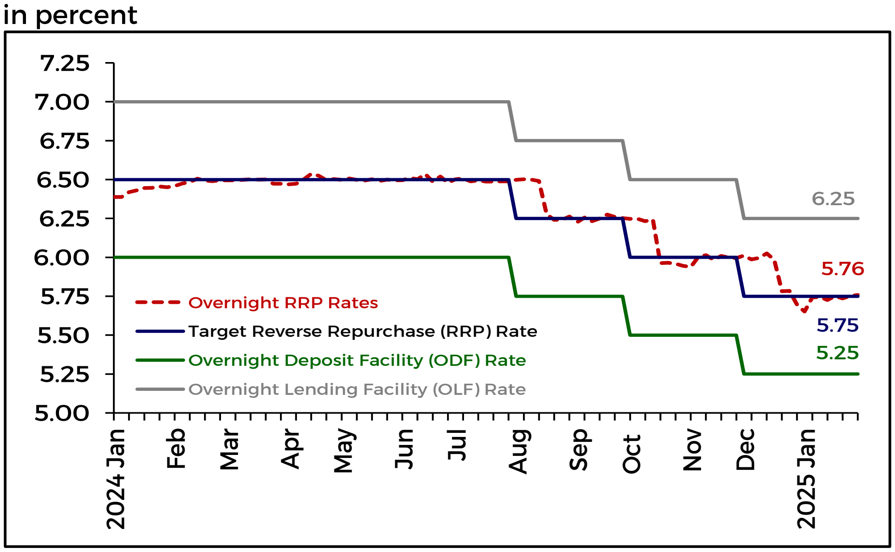


Source: Philippine Statistics Authority

IV. Monetary operations

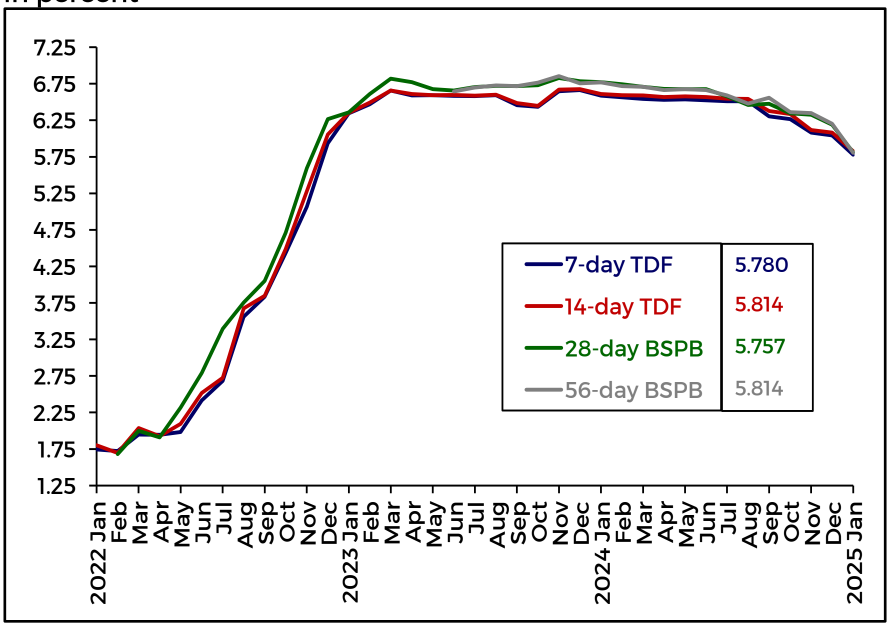
The BSP continued to effectively manage system liquidity through its monetary operations, absorbing a total of ₱1.7 trillion as of 28 January 2025. Term instruments, comprising the BSP securities facility (BSP SF) and term deposit facilities (TDF), remained the primary tools for liquidity absorption, accounting for 67.5 percent of total placements. The overnight (ON) reverse repurchase (RRP) facility constituted 21.2 percent of total placements, while the overnight deposit facility (ODF) made up the remaining 11.3 percent.

Figure 13
The daily ON RRP rate closely tracked the target RRP rate
in percent



These monetary operations have been instrumental in maintaining the operational target rate, the ON RRP rate, in close alignment with the target RRP rate. This alignment is crucial for the effective transmission of monetary policy decisions to market interest rates and, ultimately, to the broader economy.

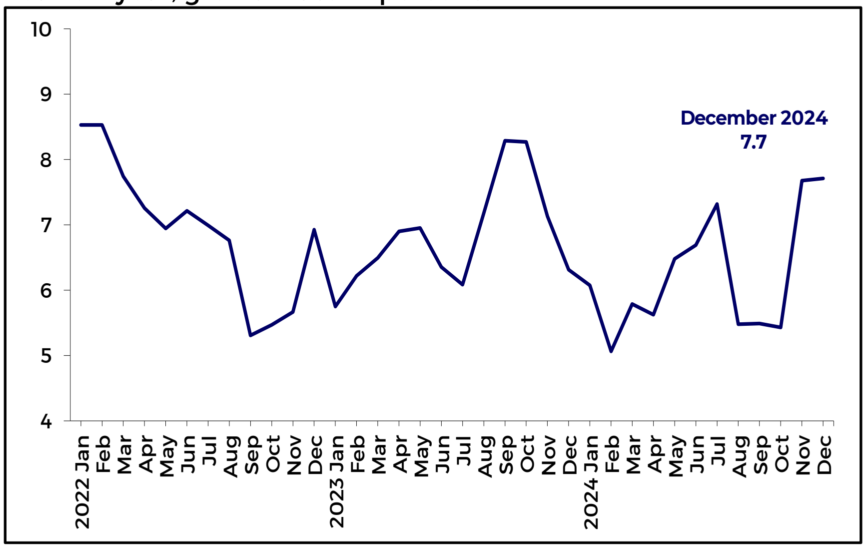
Figure 14
Interest rates on TDFs and BSP bills declined following the policy rate reductions through end-2024
in percent



V. Financial conditions

Domestic liquidity (M3) expanded in December 2024, driven by growth in bank lending to non-financial private corporations and households. The increase in M3 was further supported by rising net claims on the central government, partly due to continued borrowings by the national government. On the liabilities side, growth in time deposits was the primary contributor to the expansion in M3.

Figure 15
M3 grew faster in December
Year-on-year; growth rate in percent



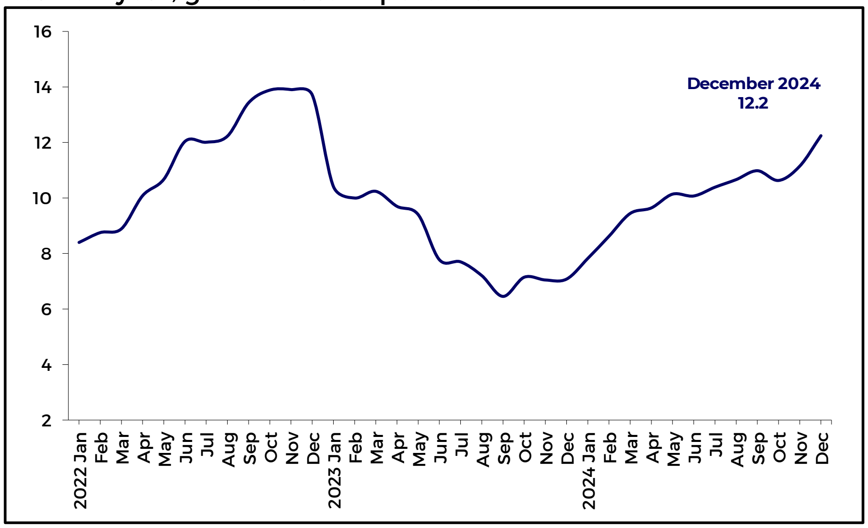
Source: Bangko Sentral ng Pilipinas

Bank lending showed robust growth in December 2024, with credit expansion observed across major sectors. 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 y-o-y in December, accelerating from 11.1 percent in November. Both outstanding loans to residents (net of RRPs) and non-residents[12] expanded at a faster pace during the month.

Production activities saw increased lending, with sustained growth observed in key industries such as wholesale and retail trade, repair of motor vehicles and motorcycles; electricity, gas, steam and air-conditioning supply; manufacturing; financial and insurance activities; and construction. Consumer loans to residents also rose, primarily driven by increases in credit card loans, salary-based general purpose consumption loans, and motor vehicle loans.

[12] Outstanding loans to non-residents include loans extended by U/KBs through their foreign currency deposit units.

Figure 16
Outstanding loans of UKBs accelerated in December
Year-on-year; growth rate in percent



Source: Bangko Sentral ng Pilipinas

Credit standards for enterprise loans remained largely unchanged in Q4 2024, according to the modal approach of the survey. However, the diffusion index (DI) suggested a net tightening of credit standards, attributed to deteriorating borrower profiles and decreased profitability in banks' portfolios. Looking ahead to Q1 2025, both modal and DI methods indicated that most banks expect lending standards to remain stable, reflecting a steady economic outlook and unchanged risk tolerance and borrower profiles.

Regarding loan demand, while the modal approach showed broadly unchanged demand for enterprise loans, the DI method indicated a modest increase. This increase was driven by higher inventory financing needs, optimistic economic expectations, and increased short-term financing demands. For the following quarter, the modal approach suggested that a lower but still predominant percentage of surveyed banks expect lending standards for enterprises to remain generally unchanged. In contrast, the DI results pointed to a net increase in loan demand from enterprises, driven by higher inventory and short-term financing needs, as well as more optimistic expectations.

Table 12
Modal approach indicated steady lending standards to enterprise while the DI method pointed to net tightening of credit standards

	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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
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
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**
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
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	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**
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**
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
Number of banks responding	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**	**54**	**51**	**54**

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").

For household loans, a higher percentage of banks maintained their credit standards in Q4 2024. The DI also indicated unchanged standards during the quarter, attributed to stable borrower profiles, risk tolerance, and profitability. Looking ahead to Q1 2025, a slightly higher percentage of banks anticipate consumer loan standards to remain unchanged. However, the DI method suggests a net tightening due to expectations of lower portfolio profitability and reduced risk tolerance.

Household loan demand remained largely steady according to most banks. The DI, however, indicated a slight overall rise in consumer loans, driven by more attractive financing terms and higher consumption. For the upcoming quarter, while a lower but still predominant percentage of banks expect steady household loan demand, the DI method suggests a net increase in demand amid rising consumption and more favorable credit terms offered by banks.

Table 13
Banks maintained their credit standards for household loans

	2022				2023				2024			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
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
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
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**
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
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
Total	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**
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**
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
Number of banks responding	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**	**38**	**35**	**38**

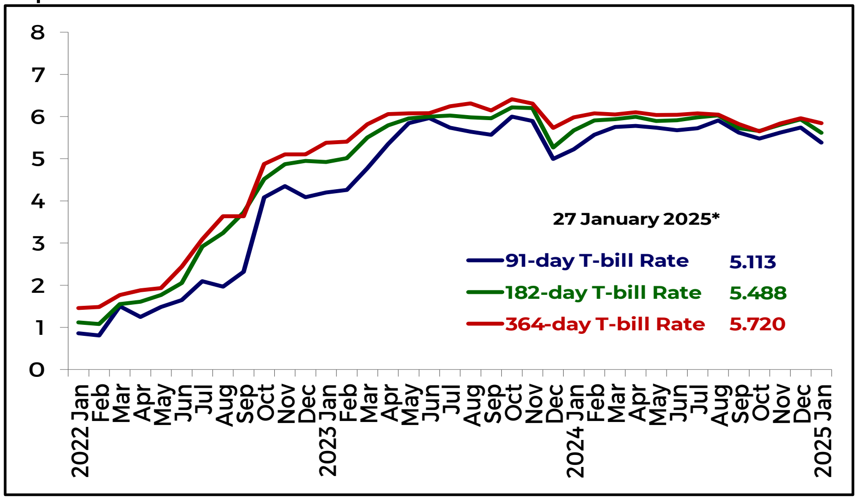
Source: Bangko Sentral ng Pilipinas
A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit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

VI. Capital market

The primary government securities (GS) market reflected expectations of a further monetary policy easing in February. The Bureau of the Treasury (BTr) successfully raised ₱27.6 billion from Treasury bill auctions, surpassing the initial ₱22.0-billion offering. Strong demand was evident, with total tenders reaching ₱91.1 billion, or 4.1 times the initial offering. This robust appetite prompted the BTr to double the accepted non-competitive bids across all tenors.

On 28 January 2025, the BTr fully awarded ₱35.0 billion of Treasury bonds, comprising ₱15 billion of re-issued 7-year bonds and ₱20 billion of newly issued 25-year bonds. Total tenders amounted to ₱120.6 billion, or 3.4 times the offered amount. The re-issued 7-year bonds, with a remaining life of 3 years and 2 months, fetched an average rate of 5.894 percent, while the 25-year bonds yielded 6.334 percent on average. Both rates were lower than corresponding BVAL rates on 27 January, reflecting the strong demand.

Figure 17
Average interest rates for all T-bill tenors declined
in percent

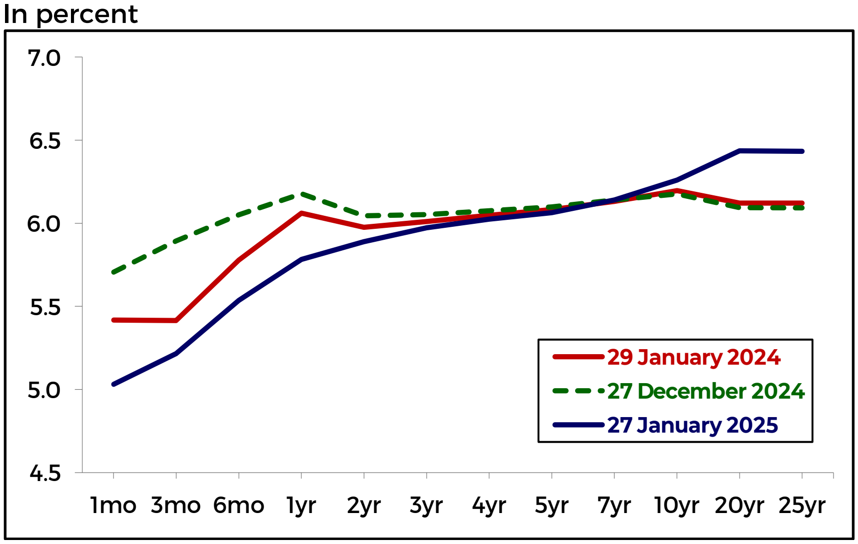


Source: Bureau of the Treasury
*During the 27 January 2025 T-bill auction

In the secondary market, GS yields generally decreased relative to end-December 2024 levels. Client demand was particularly robust in the short end of the curve, driven by sizeable Treasury bill maturities and expectations of further policy rate cuts. Consequently, the spreads between secondary market rates and the ON RRP rate narrowed compared to end-December 2024.

As of 27 January 2025, the yield curve steepened, with the spread between 10-year and 1-year GS rates widening to 47.7 bps from -0.1 bps at end-December 2024. Similarly, the spread between 10-year and 5-year rates expanded to 19.5 bps from 7.8 bps. This steepening was primarily due to a significant increase in the 10-year rate.

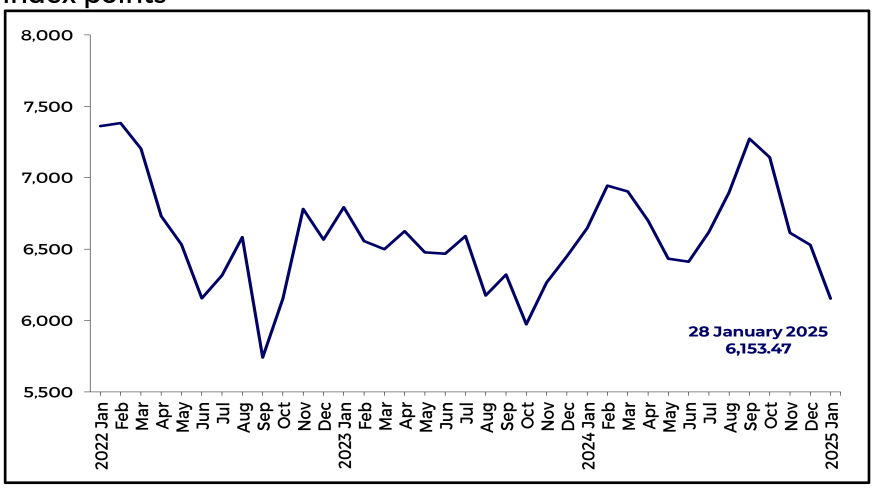
Figure 18
Spreads between GS rates widened
In percent



Source: Bloomberg

The Philippine Stock Exchange Index (PSEi) declined amid increased uncertainty over potential US tariff impacts and negative sentiment from US equity markets, reflecting expectations of a slower pace of monetary policy easing by the Fed. Domestically, reports of higher national government outstanding debt[13] and concerns about the Philippines potentially missing its 2024 economic growth target weighed on the local stock market.[14] However, Fitch Solutions Business Monitor International's higher growth forecast for the Philippines helped temper the decline.[15]

Figure 19
The stock market index fell in January
index points

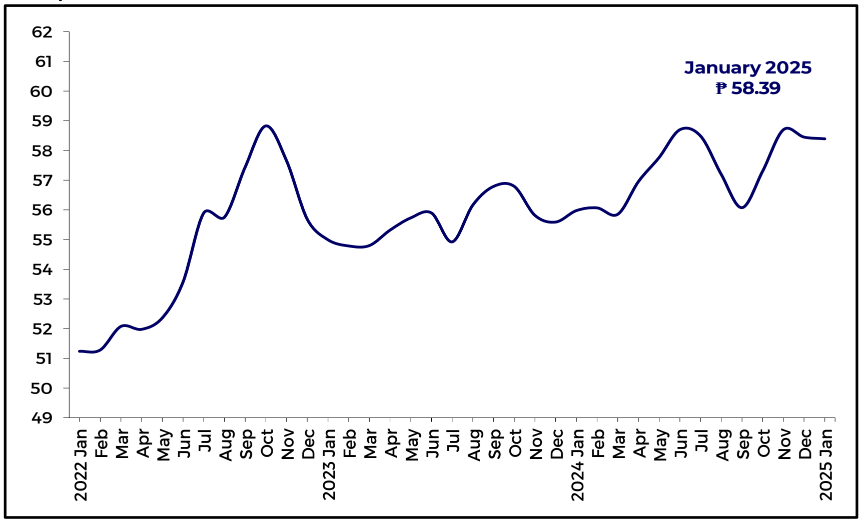


Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

The peso appreciated in January, supported by a broad weakening of the US dollar and improved market sentiment. Seasonal increases in overseas Filipino remittances and favorable domestic data releases, including the resilience of the country's overall balance of payments position and lower unemployment rate, bolstered the currency. These positive factors were partially offset by reports of weaker-than-expected Q4 2024 GDP growth, higher inflation in December, and lower gross international reserves. On a year-to-date basis, the peso closed at ₱58.10/US$1 on 5 February 2025, depreciating by 0.43 percent against the US dollar.

[13] Data from the Bureau of the Treasury showed that outstanding debt increased to ₱16.1 trillion as of end-November 2024 from ₱16.0 trillion as of end-October.
[14] The market expects the Philippines' GDP growth in 2024 to be slower than the 5.6 percent growth recorded in 2023.
[15] Fitch Solutions' unit BMI is expecting the Philippine growth to accelerate to 6.3 percent in 2025 driven primarily by monetary policy easing. (bworldonline.com)

Figure 20
The peso appreciated in January
PHP/USD



Source: Reference Exchange Rate Bulletin

In real trade-weighted terms, the peso gained external price competitiveness y-o-y in January against the basket of currencies of all trading partners (TPI) and trading partners in developing (TPI-D) countries, as indicated by a decrease in the Real Effective Exchange Rate index.[16] This real depreciation largely reflected sustained US dollar strength.[17] However, the peso lost competitiveness relative to the basket of currencies of trading partners in advanced (TPI-A) countries, primarily due to widening inflation differentials.

VII. External developments

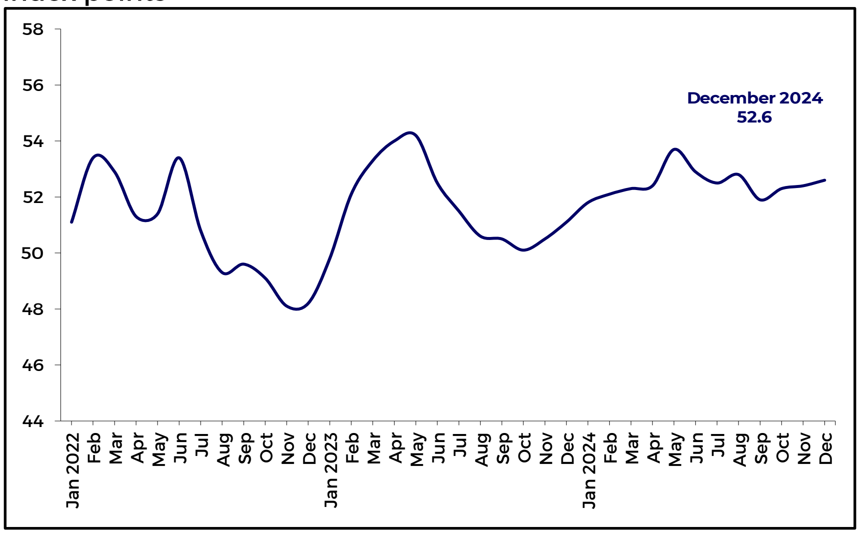
Global economic activity expanded, driven primarily by robust growth in the services sector. The expansion was particularly notable in business, consumer, and financial services, which contributed to overall economic strength. However, this growth was not uniform across all sectors, as manufacturing activity contracted due to declining production volumes in intermediate and investment goods.[18]

The pace of economic expansion varied significantly among countries. India, Spain, and the United States experienced strong growth rates, while the euro area continued

[16] 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.
[17] 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. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.
[18] 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.

to face economic challenges, with business activity remaining in contraction. This divergence in economic performance highlights the uneven nature of the global recovery.

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



Source: Markit Economics

The IMF, in its January 2025 WEO Update, maintained its global economic growth projections at 3.3 percent for both 2025 and 2026. The outlook for advanced economies was revised upward by 0.1 percentage point from the October 2024 forecast, largely due to the sustained expansion of economic activity in the US. This positive development more than offset the deteriorating growth prospects in the euro area.

For emerging markets and developing economies, economic growth is expected to remain broadly stable. However, regional variations are likely to persist, influenced by ongoing trade policy uncertainty. This underscores the complex and interconnected nature of the global economy, where policy decisions and economic conditions in one region can have far-reaching effects on others.

Central banks around the world continued to adjust their monetary policies in response to evolving economic conditions. In February 2025, several major central banks, including the Reserve Bank of India, Bank of England, Bank Indonesia, Bank of Canada, and the European Central Bank, lowered their policy interest rates. These decisions reflect a collective effort to support economic growth and maintain price stability in the face of ongoing challenges.

In contrast, the Bank of Japan raised its key policy rate, signaling a shift in its monetary stance. Meanwhile, the Bank of Korea, the People's Bank of China, Bank Negara Malaysia, and the US Fed maintained their policy rates, opting to assess the impact of previous interest rate reductions before making further adjustments. These diverse policy actions highlight the nuanced approach central banks are taking to navigate the complex global economic landscape.