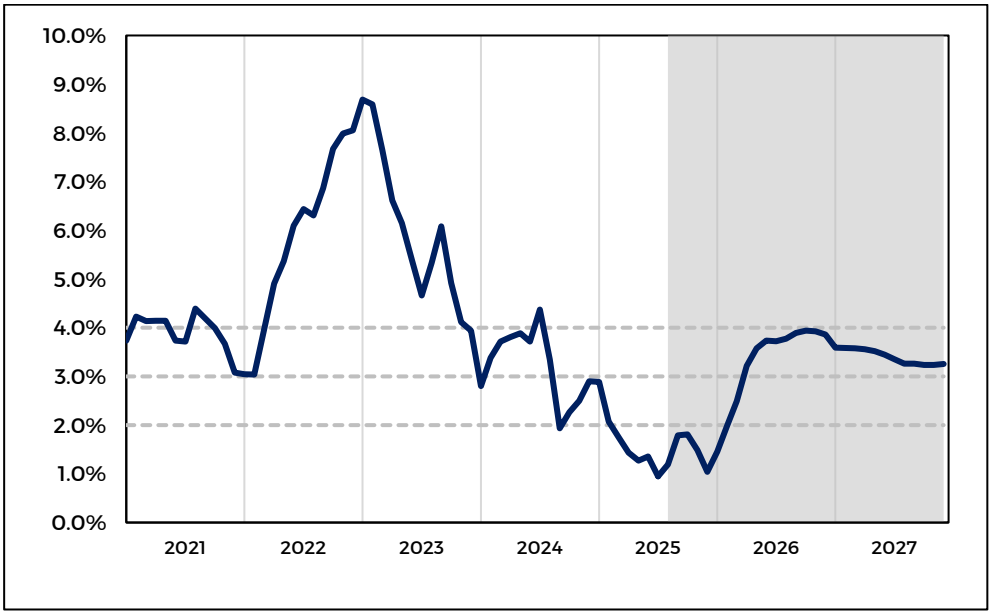
A. Economic outlook

I. Central projections

The inflation outlook remains moderate over the near term. Inflation is projected to remain below the target range until Q4 2025. Compared with the previous round, the inflation projection for 2025 is slightly higher. This reflects the spillover effects of typhoons in July and the potential adverse impact of the approved rice import ban.

Figure 1
Central Projection
year-on-year headline inflation; in percent



Source: Bangko Sentral ng Pilipinas

Inflation is projected to settle within the 3.0 percent ± 1.0 percentage point range in 2026 and 2027. Higher electricity rates and possible base effects from higher food prices are expected to drive inflationary pressures in 2026. Inflation is projected to approach the upper end of the government's target range in Q4 2026 before easing in 2027, although it will remain above the midpoint, as global commodity prices stabilize.

The inflation forecast for 2026 is slightly lower, primarily due to the decline in oil prices. This is tempered by higher minimum wage assumptions and the lagged impact of the BSP's policy rate reduction in June 2025. By 2027, the effects of the higher minimum wage and the lagged impact of policy rate reductions are expected to continue influencing the inflation outlook.

Table 1

Inflation could fall below the target for 2025 but is projected to settle within the target for 2026 and 2027.

central projections; year-on-year headline inflation; in percent

	June 2025 Monetary Policy Report[1]	August 2025 Monetary Policy Report[2]
2025	1.6	1.7
2026	3.4	3.3
2027	3.3	3.4

Source: Bangko Sentral ng Pilipinas estimates

[1] Central projections from the 19 June 2025 monetary policy meeting
[2] Central projections from the 28 August 2025 monetary policy meeting

Domestic growth is expected to settle at the low end of the Development Budget Coordination Committee's target range of 5.5–6.5 percent in 2025. It is anticipated to fall below the 6.0–7.0 percent target range in 2026 before returning to within the target range in 2027.[3]

The moderation in domestic growth prospects for 2025 stemmed mainly from the lower-than-expected growth outturn in Q2 2025 amid slower construction activity due to the election-related ban on government projects. This will be partially offset by the BSP's monetary policy easing. Nonetheless, uncertainty over global economic policies, particularly the potential impact of US policies on global trade and investment, poses additional downside risks to domestic growth.

Potential output growth is expected to slow in the near term, as subdued investment demand weighs on productivity. This is consistent with estimates showing trend total factor productivity growth remaining below pre-pandemic levels.[4] As a result, output gap estimates narrowed in Q2 2025.[5,6,7] Meanwhile, forecasts from the BSP's Policy Analysis Model for the Philippines (PAMPh) show a slightly negative output gap over the near term, given the adverse impact of higher US tariffs on the country's goods exports. Nonetheless, the output gap is seen to gradually improve and turn broadly neutral by 2027, supported by a more accommodative policy stance and expected real wage increases.

[3] Based on the DBCC meeting on 23 June 2025, the growth target is set at 5.5–6.5 percent for 2025 and 6.0–7.0 percent for 2026 and 2027.
[4] Amodia, R. A., Castañares, S. J. A., Dacio, J. E., de Guia, S. J. L., & Marquez, C. J. P. (2024). *Toward greater efficiency: Estimating the Philippines' total factor productivity growth and its determinant* [Bangko Sentral ng Pilipinas Discussion Paper No. 2024-10]. https://www.bsp.gov.ph/Pages/MediaAndResearch/PublicationsAndReports/Discussion%20Papers/DP202410.pdf
[5] The Q2 2025 output gap estimate is based on the simple average of four output gap models: (a) production function approach, (b) structural vector autoregression, (c) macroeconomic unobserved components model, and (d) PAMPh. A detailed discussion of the first three methods can be found in Mariano et al. (2018), while the PAMPh output gap is discussed in Dakila et al. (2024).
[6] Mariano, R. S., Ozmucur, S., Bayangos, V. B., Cacnio, F. C. Q., & Oliva, M. B. (2018). *Review of the potential output and output gap estimation models of the Bangko Sentral ng Pilipinas* [Bangko Sentral ng Pilipinas Working Paper No. 2018-01]. https://www.bsp.gov.ph/Sites/researchsite/Publications/BSP-Working-PaperSeries/WPS201801.pdf
[7] Dakila, F. G. D., Jr., Bautista, D. M., Dacio, J. E., Amodia, R. A., Castañares, S. J. A., Alhambra, P. R. R., Ocampo, J. C. G., Marquez, C. J. P., Romaraog, M. R. S., Karam, P. D., Baksa, D., & Vleck, J. (2024). *A monetary and financial policy analysis and forecasting model for the Philippines (PAMPh2.0)* [International Monetary Fund Working Paper No. 2024-148]. https://www.imf.org/en/Publications/WP/Issues/2024/07/12/A-Monetary-and-Financial-Policy-Analysis-and-Forecasting-Model-for-the-Philippines-PAMPh2-551768

The exchange rate is projected to remain stable and settle within the Development Budget Coordination Committee's assumptions for 2025–2027.[8] In the near term, this reflects the depreciation of the peso amid geopolitical tensions in the Middle East and uncertainty over US trade negotiations. This also reflects the narrower real policy rate differential between the Philippines and the US, given lower domestic inflation. The central projections factor in market expectations of a 75-basis point (bp) reduction in the US federal funds rate in 2025, a further 50-bp cut in 2026, and net zero change in 2027.

II. Key forecast assumptions

External factors

Global economic growth is expected to improve modestly. This outlook is based on the June 2025 forecasts of the Global Projection Model Network (GPMN) and the July 2025 World Economic Outlook (WEO) Update of the International Monetary Fund (IMF). These assumptions reflect frontloading of international trade and investments in anticipation of higher US tariffs, alongside looser financial conditions and increased government spending.

- The US economy is expected to grow by 1.7 percent in 2025 and 2026, driven by the normalization of import levels and firm household spending. However, shifting tariff policies and the US Federal Reserve (US Fed)'s tight monetary stance could dampen growth in the subsequent quarters.
- Euro area expansion is projected to improve to 1.3 percent in 2025, supported by higher investment and stronger net trade.
- Following a temporary tariff suspension with the US, the Chinese economy is anticipated to grow by 5.0 percent in 2025. Nonetheless, tariff tensions could continue to weigh on demand over the policy horizon.
- Japan's growth forecast remains subdued, with trade uncertainties with the US and weak global demand weighing heavily on the export-oriented economy.

Table 2
The global economy is expected to remain stable, albeit with modest growth.
world gross domestic product growth rate; in percent

	June 2025 Monetary Policy Report	August 2025 Monetary Policy Report
2025	2.7	2.9
2026	2.4	2.5
2027	2.8	2.8

Sources: Global Projection Model Network (May and June 2025); World Economic Outlook (International Monetary Fund, April and July 2025)

[8] The DBCC's exchange rate assumptions as of 23 June 2025 are ₱56.00–₱58.00/US$1 for 2025–2027.

International crude oil prices are assumed to be lower. Global crude oil price assumptions are based on the average futures price data from 22 July 2025 to 8 August 2025, with domestic oil prices expected to broadly track the global trend. In August 2025, the Organization of the Petroleum Exporting Countries Plus (OPEC+) announced its decision to increase production starting in September 2025. This decision is anticipated to lead to a sizeable inventory buildup through 2026, exerting downward pressure on oil prices.

Table 3
Global oil prices are projected to decelerate.
average price of Dubai crude oil prices; in US$ per barrel

	June 2025 Monetary Policy Report	August 2025 Monetary Policy Report
2025	70.75	69.64
2026	67.94	66.23
2027	67.12	65.85

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Domestic inflation could breach the 3.0 percent ± 1.0 ppt target range if Dubai crude oil prices average US$80.0 per barrel in 2026 and US$100.0 per barrel in 2027. These projections consider direct effects only and exclude potential second-round impacts.

Table 4
Inflation is seen to breach the target if crude oil prices average US$80.0 per barrel in 2026 and US$100.0 per barrel in 2027.
year-on-year headline inflation; in percent

	2025	2026	2027
Central projection for inflation	1.7	3.3	3.4
Crude oil price (US$ per barrel)			
60	1.6	2.8	3.3
70	1.7	3.5	3.6
80	1.7	4.1	3.8
90	1.8	4.6	4.0
100	1.8	5.1	4.2
110	1.9	5.5	4.3
120	1.9	5.9	4.5
130	1.9	6.3	4.6

Source: Bangko Sentral ng Pilipinas estimates
The scenarios assume oil prices will remain at these levels starting in September 2025.

World non-oil prices are expected to rise. Non-fuel commodity prices could increase in 2025, driven by the uptick in prices of precious metals as safe-haven demand remains strong amid heightened global economic uncertainty.

Table 5
Non-oil prices are projected to rise on higher metal prices.
growth rate of world non-oil prices; in percent

	June 2025 Monetary Policy Report	August 2025 Monetary Policy Report
2025	4.4	7.8
2026	0.2	2.0
2027	-0.9	-0.9

Sources: World Economic Outlook (WEO) (International Monetary Fund [IMF], April 2025); WEO (IMF, July 2025)

Relative to the previous round, the central projections assume more policy rate cuts by the United States Federal Reserve. Assumptions for the US federal funds rate are based on futures prices as of 8 August 2025. Market expectations suggest a cumulative 75-bp cut in 2025 and a further 50-bp reduction in 2026. Following weak July 2025 labor market data and signs of slower US growth, markets have become optimistic that the Fed will reduce interest rates to support its employment mandate. In 2027, the US Fed is expected to implement a 25-bp hike, followed by a 25-bp cut.

Table 6
Projections for the federal funds rate are based on the latest futures prices.
federal funds rate; in percent

	June 2025 Monetary Policy Report	August 2025 Monetary Policy Report
2025	3.9	3.8
2026	3.3	3.0
2027	3.5	3.2

Source: Bloomberg

Domestic factors

The central projections assume no further adjustments to either the policy interest rate or the reserve requirement ratio over the forecast horizon.

An annual minimum wage increase of 7.8 percent for 2025 was incorporated, in line with the approved adjustment for the National Capital Region, effective 18 July 2025. For 2026 and 2027, minimum wage increases of 5.5 percent were assumed each year. These assumptions are consistent with historical minimum wage adjustments observed from 2015 to 2024.

The central projections align with the government's fiscal deficit targets. These targets are based on the medium-term fiscal program of the DBCC as of 23 June 2025.

Legislated tax measures were factored in on the central projections. These adjustments include the annual excise tax increases on alcoholic beverages and cigarettes under Republic Act (RA) No. 11467, as well as the higher tobacco product taxes under RA No. 11346.

Utility rate adjustments were also incorporated into the central projections. These include approved water rate increases for the Manila Water Company and Maynilad Water Services, as well as the following electricity rate adjustments:

- Manila Electric Company (Meralco)'s higher pass-through charges due to a new gas supply agreement,
- Meralco's refund of unutilized regulatory reset expert costs and over-recoveries of rates from July 2022 to December 2024,
- rate changes arising from the nullification of cap prices and under-recoveries by the National Grid Corporation of the Philippines (NGCP), and
- higher Meralco rates for August 2025 due to increased generation charges and NGCP's maximum allowable revenue and collection of under-recoveries.

The suspension of rice importation could raise inflation in the near term.[9] The central projections incorporate higher rice prices in September and October 2025. As import contract negotiations are likely to be delayed by the 60-day import ban, rice import arrivals in November and December 2025 are assumed to slightly affect rice supply. This will lead to higher rice prices in the said months, but at a lower magnitude than in September and October 2025.

The removal of import tariffs on wheat and soy products from the United States could lead to lower inflation. Following the trade deal between the US and the Philippines in July 2025, zero tariffs were imposed on wheat and soy products from the US. The landed cost of wheat and soy imports is expected to decline over a 12-month period.

III. Alternative scenarios

Two alternative scenarios depict the emerging risks surrounding the inflation outlook. The hawkish scenario considers supply-side factors that could push inflation above the central projections. In contrast, the dovish scenario explores an adverse demand-driven shock to the domestic economy that could result in inflation falling below the central projections.

Hawkish scenario: Upward adjustments in electricity rates, higher oil prices, and a possible reversion to higher rice tariffs could lead to a more elevated inflation path.

[9] On 29 August 2025, the President issued Executive Order (EO) No. 93, suspending the importation of regular-milled and well-milled rice from 1 September 2025 to 30 October 2025.

Electricity rates could increase further over the forecast horizon. Beyond the electricity rate adjustments already incorporated in the central projections, the alternative scenario assumes other possible adjustments, including:

- San Miguel Corporation's motion to recover ₱34.0 billion in losses,
- National Power Corporation's proposal to recover ₱7.5 billion in deferred fuel costs, and
- Meralco's proposed annual revenue requirements and performance incentive schemes for the revised fifth regulatory period.

Global oil price uncertainties stemming from geopolitical concerns in the Middle East could provide further inflationary pressures. Potential disruptions to the global oil supply may push Dubai crude oil prices higher if the conflict in the region intensifies. The alternative scenario assumes an increase in oil prices due to a shutdown in Iranian oil production.

The reversion to higher rice tariff is expected to exert upward pressure on inflation. Under EO No. 62, the rice import tariff was reduced from 35.0 percent to 15.0 percent in July 2024. The alternative scenario assumes a gradual increase in rice tariff to 20.0 percent in September 2026, 25.0 percent in September 2027, and 35.0 percent in September 2028.

Dovish scenario: This alternative scenario assumes weaker global growth prospects due to less favorable US trade policies. The scenario could dampen international oil prices and domestic economic activity, exerting downside pressures on inflation. The scenario reflects a moderated view of Oxford Economics' July 2025 worst-case trade war scenario. It also assumes a scaled-down impact of higher US effective tariff rates, resulting in a sharp slowdown in the US.

Based on the central inflation projection and alternative scenarios, and using a 90.0 percent confidence interval, the probability of inflation falling below the target range in 2025 remains high. Nonetheless, the likelihood of inflation settling within the target range in 2026 and 2027 remains dominant.

Table 7
Inflation is expected to settle below the target range in 2025 but remain within the target for 2026–2027.
probability distribution; in percent

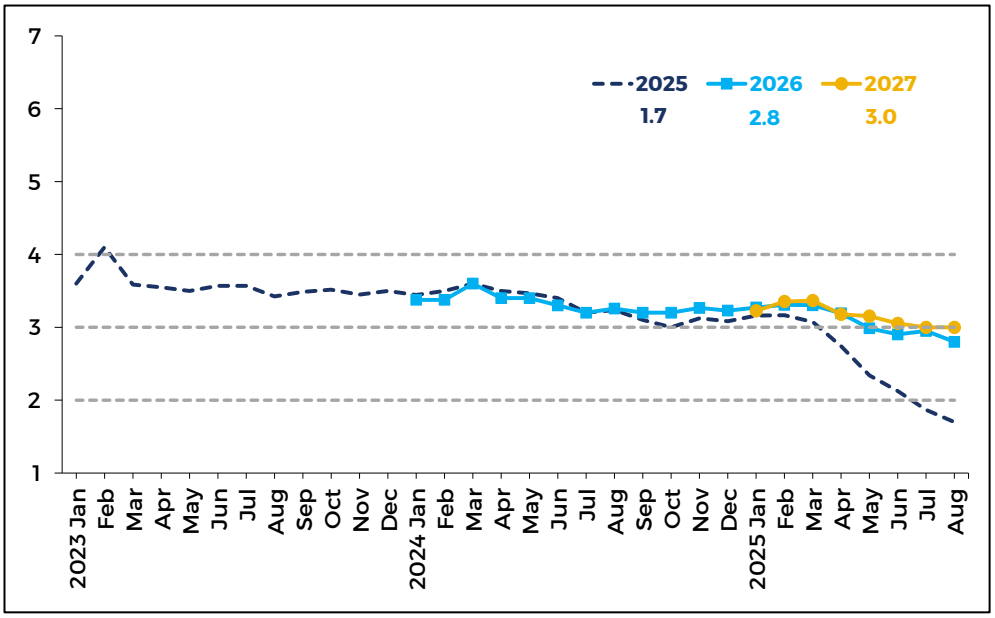
	Pr(<2%)	Pr(2%-4%)	Pr(>4%)
2025	70.2	29.8	0.0
2026	11.3	55.6	33.1
2027	11.8	49.7	38.5

Source: Bangko Sentral ng Pilipinas estimates

IV. Inflation expectations

Results from the August 2025 BSEF show that analysts expect inflation to remain within the 3.0 percent ± 1.0 ppt target range over the medium term, as price pressures from key commodities remain subdued. The mean inflation forecast for 2025 eased to 1.7 percent (from 1.9 percent in the July survey round), while the forecast for 2026 declined to 2.8 percent (from 3.0 percent). The mean inflation forecast for 2027 was unchanged at 3.0 percent.

Figure 2
Inflation expectations remain well-anchored.
full-year mean inflation forecast; in percent



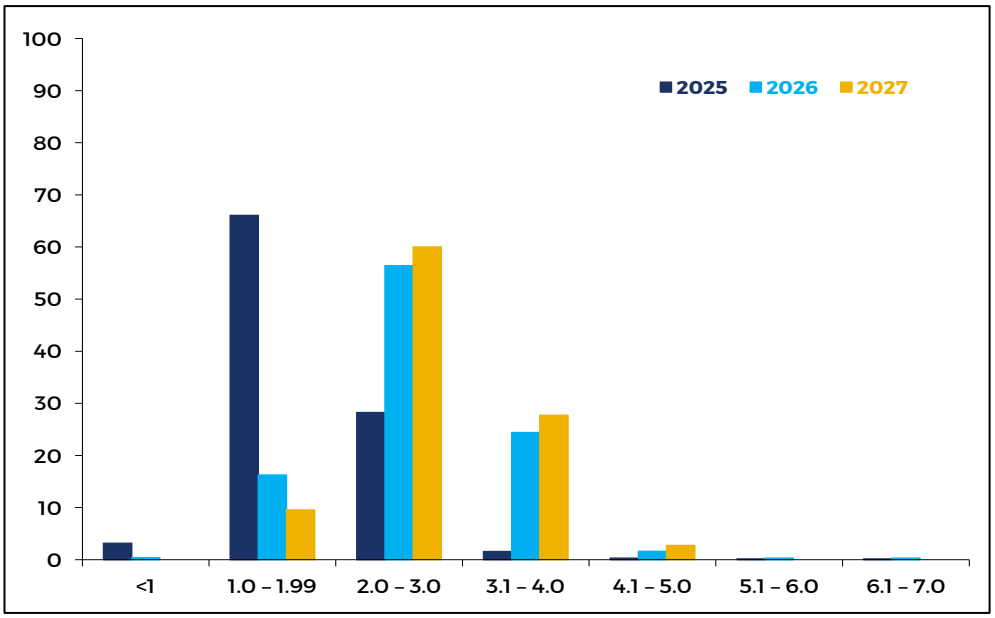
Source: Bangko Sentral ng Pilipinas
This was based on forecasts provided by 23 respondents.
Survey results are as of 22 August 2025.

Analysts cited the following upside risks to inflation: potential oil price hikes due to geopolitical tensions in the Middle East, rice-market policies involving the suspension of rice imports, and higher minimum wages. The downside risk cited was lower rice prices, which could weigh on the inflation outlook.

Amid these developments, the probability of inflation remaining within target declined, with a higher probability assigned to inflation falling below the low end of the target range in the near term. For 2025, analysts assigned a 29.8 percent chance (from 43.4 percent in July) that inflation will stay within target. Meanwhile, the likelihood of inflation falling below target increased to 69.2 percent (from 56.6 percent). The probability of inflation staying within the target range for 2026 is at 80.8 percent (from 90.7 percent), and it remains unchanged for 2027 at 87.7 percent.

Most analysts expect the BSP to reduce its policy interest rates by an additional 25–50 bps for the rest of 2025, by another 25–50 bps in 2026, and hold policy settings in 2027.

Figure 3
The probability of inflation settling within the target range in 2025 declined but remained high for 2026 and 2027.
probability distribution; in percent
2025–2027



Source: BSP Survey of External Forecasters (August 2025)
Probability distributions were averages of those provided by 16 out of 23 respondents.