Economic outlook

I. Baseline forecasts

Inflation will likely settle within the 2.0–4.0 percent target range for 2025 to 2026. The disinflation process will be driven by the reduced rice tariff, declining global oil prices, and negative base effects through the first half of 2025. Inflation will likely settle at the midpoint of the target until the first half of 2025. From the second half of 2025 to the first half of 2026, inflation is projected to accelerate toward the upper end of the target, reflecting the lagged impact of higher minimum wages and positive base effects. By the second half of 2026, inflation could ease closer to the midpoint, supported by a continued decline in global commodity prices.

The base effects for inflation are estimated to be positive on average from December 2024 to November 2025, except for February 2025 and July 2025. Both food and non-food items are projected to positively contribute to the base effects over the next 12 months following the easing of supply-side pressures in 2024.

Compared with the baseline forecasts in the previous *Monetary Policy Report*, the latest baseline forecast for 2024 is lower, primarily due to slower inflation outturns in Q3 and Q4 2024 amid the rice tariff reduction. Meanwhile, inflation forecasts for 2025 and 2026 have been revised upward, mainly due to higher minimum wages implemented in areas outside the National Capital Region (AONCR) and the significant peso depreciation. These factors were partly offset by lower assumptions for global oil and non-oil prices.

Table 1
BSP Average Baseline Inflation Projections
in percent

	August 2024 Monetary Policy Report[a]	December 2024 Monetary Policy Report[b]
2024	3.4	3.2
2025	3.1	3.3
2026	3.2	3.5

Source: Bangko Sentral ng Pilipinas estimates
[a] Baseline forecasts from the 15 August 2024 monetary policy meeting
[b] Baseline forecasts from the 19 December 2024 monetary policy meeting

The outlook for domestic economic growth remains firm but subdued. The latest baseline forecasts suggest that economic growth could settle slightly below the DBCC's target of 6.0–6.5 percent for 2024. This is largely due to the lower-than-expected outturn in Q3 2024. On the supply side, this slowdown could be attributed to the contraction in agriculture and a moderation in industry and services. On the demand side, weather disturbances led to a slowdown in tourism and leisure-related spending, particularly private consumption and services exports. Nonetheless, growth is projected to improve and settle close to the low end of the 6.0–8.0 percent targets for 2025 and 2026.[4] Despite a slower global growth outlook,

[4] Based on the 189th DBCC meeting on 2 December 2024.

domestic economic activity could be supported by the decline in global oil prices, the BSP's monetary policy rate cuts in 2024, and the reduction in RRR.

The economy is anticipated to grow below potential over the near term amid subdued demand-side pressures. The overall balance of demand and supply conditions—as captured by the output gap or the difference between actual and potential output—implies limited demand-based inflation pressures over the policy horizon.

Forecasts from the BSP's Policy Analysis Model for the Philippines (PAMPh)[5] indicate that the output gap will remain negative until 2025 and close by 2026 following the lower-than-expected economic expansion in Q3 2024. Expansions in consumption and investment are seen to help narrow the output gap as the impact of previous monetary policy easing takes full effect. The closure of the negative output gap by 2026 will be supported by higher real wages following the recent minimum wage increases in 16 regions and the potential impact of further policy rate cuts. Likewise, the reduction in the RRR could provide support to new loans for households and firms, potentially boosting consumption and investment.

Improved labor market conditions and continued investment growth are seen to sustain potential output. Productivity is expected to rise due to robust economic activity and stable infrastructure spending. Key reforms could also shore up investments and business activity, further expanding the country's potential output.

The exchange rate could settle slightly above the Development Budget Coordination Committee's assumptions for 2025 and 2026.[6] This projection is due to the slower pace of monetary policy easing by the United States Federal Reserve (US Fed) and recent near-term movements in the peso. In line with market expectations, the forecasts consider a 25-basis point (bp) reduction in the US federal funds rate during the December 2024 Federal Open Market Committee meeting, followed by further reductions of 75 bps in 2025 and 25 bps in 2026.

II. Key forecast assumptions

External factors

World gross domestic product growth. Global output growth is assumed to remain below the trend from 2025 to 2026 based on the International Monetary Fund (IMF)'s October 2024 World Economic Outlook (WEO) and the the Global Projection Model Network (GPMN)'s November 2024 forecasts. The US economy will likely slow down due to fiscal tightening and reduced consumption driven by easing labor market conditions. In contrast, the eurozone's recovery may be bolstered by increased consumption from higher real wages and investment growth from gradual monetary policy easing. However, overall growth in the eurozone is expected to be modest, hindered by persistent manufacturing

[5] The PAMPh is a monetary policy model for a small open economy like the Philippines. It is a semi-structural gap model based on New Keynesian foundations, with a general equilibrium framework and forward-looking features that allow for the assessment of the dynamic path of key macroeconomic variables in a theoretically consistent manner. The BSP is currently undergoing a multi-year technical assistance mission with the IMF's Institute for Capacity Development to further improve the structural features and performance of the PAMPh, making it the BSP's workhorse model for medium-term forecasting and policy analysis.

[6] The DBCC exchange rate assumptions as of 2 December 2024 are ₱57.00–₱57.50/US$1 for 2024, ₱56.00–₱58.00/US$1 for 2025, and ₱55.00–₱58.00/US$1 for 2026.

weaknesses in some countries, as well as fiscal consolidation and declining real estate prices in Germany.

Based on the latest IMF WEO, the balance of risks to global growth is skewed to the downside. Key emerging risks include the stronger impact of earlier monetary policy easing on growth and unemployment, persistent inflation, and sovereign debt stress. The contraction in China's property sector, climate shocks, and geopolitical tensions also pose threats on global growth. On the upside, a potential recovery in investment in advanced economies (AEs) and structural reforms to boost productivity in both advanced and emerging markets could mitigate some of these risks.

Table 2
World Gross Domestic Product Growth
in percent

	August 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	3.1	3.0
2025	3.0	2.9
2026	3.0	2.8

Sources: Global Projection Model Network (GPMN) (June 2024); GPMN (November 2024); World Economic Outlook (WEO) Update (International Monetary Fund [IMF], July 2024); WEO (IMF, October 2024)

Dubai crude oil prices. Global crude oil prices are set according to oil futures market data from 21 November 2024 to 4 December 2024. Domestic oil market prices, in turn, are assumed to broadly track the trend in world oil prices.

Table 3
Dubai Crude Oil Price Assumptions
average; in US$ per barrel

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	80.70	79.61
2025	74.13	70.05
2026	71.36	68.15

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Global crude oil prices are assumed to decelerate over the forecast horizon. Futures prices have declined due to market expectations of higher US oil production and expectations of weaker global demand as well as the likelihood of global oversupply. This in turn led to a delay in the anticipated increase in oil production by the Organization of the Petroleum Exporting Countries and other partner countries (OPEC+).

With all else constant, inflation could breach the 2.0–4.0 percent target range if Dubai crude oil prices average above US$90.0 per barrel in 2025 and 2026 (Table 4). These oil price scenarios consider only direct effects and do not incorporate potential second-round effects on transport fares, food prices, and wage increases.

Table 4
Impact of Alternative Dubai Crude Oil Price Scenarios on Inflation
in percentage points

Year	2025	2026
Baseline inflation forecast (US$)	3.3	3.5
50	2.2	2.6
60	2.8	3.1
70	3.3	3.6
80	3.7	4.0
90	4.1	4.4
100	4.5	4.7

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

World non-oil prices. The expected easing in non-oil prices will mainly stem from a decline in agricultural commodity prices, particularly cereals, with global production potentially reaching a record high in 2024–2025. Similarly, international rice prices have declined, retreating from a multi-year peak in January 2024. In contrast, crop production has improved in India and other parts of Asia following the end of *El Niño* weather conditions.

Table 5
World Non-Oil Price Inflation
in percent

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	5.0	2.8
2025	1.6	-0.2
2026	0.4	0.4

Sources: World Economic Outlook (WEO) Update (International Monetary Fund [IMF], July 2024); WEO (IMF, October 2024)

US federal funds rate. The latest US federal funds target rate assumptions are based on the futures prices as of 4 December 2024. The current futures path aligns with market expectations of a 25-bp cut in December 2024, followed by a cumulative 75-bp cut in 2025 and a 25-bp cut in 2026. This outlook comes after recent improvements in the US job market and stable inflation rates.

Table 6
Federal Funds Rate
end-period; in percent

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	4.4	4.6
2025	3.2	3.3
2026	3.2	3.4

Source: Bloomberg

Domestic factors

Target reverse repurchase rate and reserve requirement ratio. The target RRP rate and the RRR are set at 6.0 percent and 7.0 percent, respectively, from December 2024 until the end of 2026. The baseline inflation forecasts account for the 25-bp reduction in the policy rate during the 16 October 2024 monetary policy meeting and the 250-bp cut in the RRR to 7.0 percent effective 25 October 2024. The forecast path assumes no further adjustments in both the policy interest rate and the RRR over the policy horizon.

Wages. A higher minimum wage increase has been assumed following the approval of wage hikes in 16 of the 17 regions as of 5 December 2024. The minimum wage increase averaged 8.1 percent, consistent with the 5.7-percent actual increase in the National Capital Region (NCR) in July 2024 and the 8.3-percent average adjustment in AONCR. The previous assumption only considered the minimum wage adjustment in NCR.

Fiscal sector. The baseline inflation forecasts align with the government's fiscal deficit assumption, based on the medium-term fiscal program set by the DBCC as of 2 December 2024.

Table 7
Fiscal Deficit Assumption
in percent

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	5.6	5.7
2025	5.3	5.3
2026	4.7	4.7

Source: Department of Budget and Management

Alcoholic drinks. The baseline forecasts include the impact of annual adjustments in the prices of alcoholic beverages (0.7 percent of the CPI basket) in line with Republic Act (RA) No. 11467. Excise taxes for fermented liquor, wine, and distilled spirits will increase by 6.0 percent yearly from 2025 onwards.

Tobacco products. In line with RA No. 11346, the excise tax on tobacco products (0.9 percent of the CPI basket) was increased further to fund the Universal

Healthcare Act. Under the law, the tax per pack of cigarettes will rise by 5.0 percent annually.

Table 8
Excise Tax

Year	Cigarettes (₱ per pack)	Fermented liquor (₱ per liter)	Wine (₱ per liter)	Distilled spirits: Excise tax (₱ per liter)	Distilled spirits: Ad valorem tax (%)
2024	5.0% indexation	43.00	63.10	66.00	22.0%
2025 onward		-	6.0% indexation	-	22.0%

Sources: Republic Act Nos. 11346 and 11467

Water rates. The Metropolitan Waterworks and Sewerage System approved the rate hike requests of the Manila Water Company and Maynilad Water Services for 2023–2027. The water rate rebasing process is conducted every five years to set the rates for water and sewerage services. This allows water concessionaires to recover operating, capital, maintenance, and investment expenditures.

Electricity rates. Electricity rates in areas serviced by the Manila Electric Company (Meralco) have increased with the recovery of the difference between previously approved pass-through costs and the actual landed cost of liquefied natural gas as well as the new gas sale agreement. Under the Energy Regulatory Commission's (ERC) directive, Meralco is authorized to collect these costs over a 12-month period beginning with the October billing cycle. Additionally, the ERC approved the collection of the remaining 70.0 percent of the total reserve market transactions incurred during the March 2024 supply period starting in January 2025.

Lower tariff on rice imports.[7,8] The baseline inflation forecast accounted for the direct impact of lower imported rice prices. Reducing tariff rates on rice imports may ease upward pressure on landed costs and is assumed to be gradually passed on to wholesale and retail prices. As a result, headline inflation is expected to moderate in 2025.

III. Risks to the outlook

The balance of risks to the inflation outlook is on the upside in 2025 and 2026. After incorporating the estimated impact of the risks at their assigned probabilities, inflation is still projected to remain within the target range. The upside risks to the inflation outlook include higher transport charges, upward adjustments in electricity rates, and higher domestic food prices. Meanwhile, the potential spillover to domestic rice prices of the reduction in the tariff on imported rice remains the primary downside risk to the outlook.

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

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

Table 9
Baseline and Risk-Adjusted Projections
in percent

		August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
Baseline inflation forecast	**2025**	3.1	3.3
	2026	3.2	3.5
Risk-adjusted inflation forecast	**2025**	2.9	3.4
	2026	3.3	3.7

Source: Bangko Sentral ng Pilipinas

The latest risk-adjusted forecasts (RAFs) for 2025 and 2026 are higher than in the previous forecast round. This increase is due to upward revisions in the baseline forecasts and the estimated impact of identified risks. The baseline projections show a greater impact from the risk of higher electricity rates and the shift in the timing of the effects of higher domestic food prices and transport charges to 2025. The disinflationary impact of the rice tariff reduction was adjusted to account for the lower-than-expected decline in rice prices since the tariff was reduced.

Table 10
Risk Matrix[9]

	Risks	Probability
Upside risks	Higher transport charges	Medium
	Higher electricity rates	High
	Higher domestic food prices	Medium
Downside risk	Spillover from rice tariff reduction	Medium

Source: Bangko Sentral ng Pilipinas

Higher transport charges for jeepneys, trains, and taxis pose upside risks to inflation. The current forecast round also considers an increase in domestic passenger service charges for air transport.

The alternative scenario assumes that the remaining amount of the petitioned minimum jeepney fare increase for both traditional and modern jeepneys will be approved. It also assumes that the petition to raise the minimum fare for traditional jeepneys, filed by several transport groups, will be implemented by Q1 2025. A low probability is assigned to this risk, given the absence of follow-up on petitions and easing oil prices.

In December 2023, the Manila Metro Rail Transit (MRT)-3 management filed a petition to the Department of Transportation (DOTr) to raise the rail line's minimum fare from ₱13.00 to ₱16.00. While the proposed fare hike is still under review, the alternative scenario assumes implementation by Q1 2025. A high probability is

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

assigned to this risk, following the DOTr's pronouncements that the decision will be released before the year ends.

The Land Transportation Franchising and Regulatory Board (LTFRB) is reviewing the formal request from taxi operators to increase fares nationwide. Previous fare hikes of ₱5.00 each were approved in September 2022 and March 2024. The alternative scenario assumes that taxi fares will increase further in Q1 2025. A high probability is assigned to this risk, given the ongoing review of the petition.

An overall medium probability is assigned to the transport fare risk based on the CPI weights of the items considered. The table below presents the assumed fare adjustments.

Table 11
Transport Fare Adjustments

Transport sector	Current base fare (₱)	Proposed adjustment(₱)	Probability
Public utility jeepney	13.00	17.00	Low
Metro Rail Transit Line 3	13.00	16.00	High
Taxi (flag-down rate)			
CAR, Region VI	50.00	60.00	High
Other regions	45.00	60.00	

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

The increase in fees at the Ninoy Aquino International Airport (NAIA) is assumed to raise airfares in the near term. This adjustment was approved in preparation for the turnover of NAIA operations and management to the private operator, New NAIA Infrastructure Corporation (NNIC), and to generate revenue to finance modernization infrastructure requirements. A high probability is assigned to this risk although its impact on inflation is minimal due to the low weight of air transport in the CPI basket (0.08 percent).

Electricity rates could increase over the forecast horizon. In July 2023, the Supreme Court (SC) nullified the previous cap on Wholesale Electricity Spot Market (WESM) prices for November 2013 and December 2013. Electricity rates could rise due to the potential increase in generation charges being passed on to consumers. The risk scenario assumes that this adjustment will be distributed evenly over the next three years and considers other possible electricity charges adjustments. A high probability is assigned to this risk following the SC ruling.

Ongoing supply constraints affecting key food commodities could cause an uptick in inflation. The domestic production of corn, pork, fish, and sugar is projected to remain below demand. The lingering impact of previous *El Niño* conditions, and the persistence of African Swine Fever (ASF) and Avian Flu continue to threaten production levels. Meanwhile, declining local output, lower imports, high input costs, and inclement weather could result in insufficient fish supply. Lastly, the impact of *La Niña* and Mt. Kanlaon's eruption could cause contraction in domestic sugar supply. Under this risk scenario, elevated commodity prices are assumed to persist until Q1 2025. An overall medium probability is assigned to this risk, considering the relative weights of these commodities in the CPI basket.

The tariff reduction on rice imports could lead to a further decline in prices of domestically produced rice. A medium probability is assigned to this risk, given the formalization of the reduced tariff through EO no. 62, dated 20 June 2024. This scenario assumes that the price of domestically produced rice will decline. Inflation is expected to ease amid the direct impact of the tariff reduction reflected in the baseline forecast. However, the estimated impact is lower compared to the previous round, given the gradual decline in domestic rice prices.

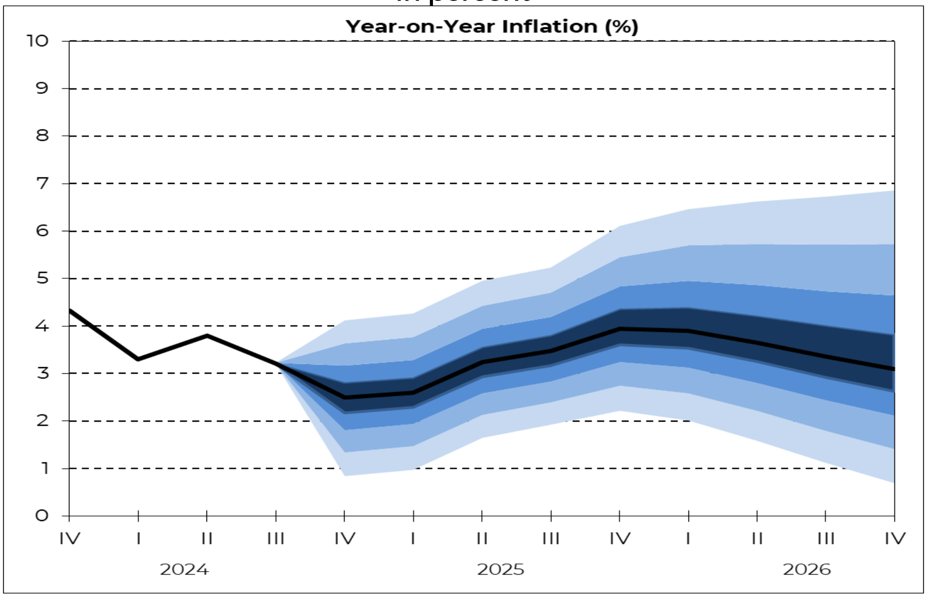
The balance of risks to the inflation outlook remains tilted to the upside in 2025 and 2026. Using a 90.0-percent confidence interval for the fan chart (*Figure 1*), estimates indicate that the 2024 average annual inflation will settle within the 3.0 percent ± 1.0 ppt target range. For 2025 and 2026, the probability of average annual inflation settling within the target range is close to 50.0 percent, although lower than the previous round. Meanwhile, the probability of inflation breaching the high end of the target range is higher for these years. The probability of inflation breaching the low end of the target range over the policy horizon remains low.

Table 12
Probability Distribution of Inflation Forecasts
in percent

	Pr(<2%)		Pr(2–4%)		Pr(>4%)	
	August 2024 MPR	December 2024 MPR	August 2024 MPR	December 2024 MPR	August 2024 MPR	December 2024 MPR
2025	21.7	10.1	58.5	54.6	19.8	35.3
2026	17.1	8.0	52.3	45.8	30.6	46.2

Source: Bangko Sentral ng Pilipinas estimates

Figure 1
Inflation Projection
in percent



Source: Bangko Sentral ng Pilipinas estimates

Table 13
Inflation Projection Ranges at Various Confidence Intervals Using Fan Chart
in percent

Confidence interval (%)	Projection range (%)	
	2025	**2026**
80	2.1 – 4.7	1.8 – 6.0
90	1.7 – 5.1	1.4 – 6.7

Source: Bangko Sentral ng Pilipinas estimates

Box Article 1:
Monetary Policy Developments

On 16 October 2024, the Bangko Sentral ng Pilipinas (BSP) reduced the target reverse repurchase rate by 25 basis points to 6.0 percent. Consequently, the interest rates on the overnight deposit and lending facilities were adjusted to 5.5 percent and 6.5 percent, respectively.

This monetary policy decision was based on the assessment that price pressures remain manageable. Baseline inflation forecasts were well within the target range. The balance of risks to the outlook leaned to the downside for 2024 but shifted to the upside for 2025 and 2026. Upside risks included potential adjustments in electricity rates and higher minimum wages in areas outside Metro Manila. Conversely, downside risks were linked to the impact of lower rice import tariffs. The risk-adjusted inflation forecasts remained within the target range over the policy horizon.

		August 2024 Monetary Policy Report[a]	October 2024 Monetary Policy Meeting[b]
Baseline inflation Forecast	**2024**	3.4	3.1
	2025	3.1	3.2
	2026	3.2	3.4
Risk-adjusted inflation forecast	**2024**	3.3	3.1
	2025	2.9	3.3
	2026	3.3	3.7

Source: Bangko Sentral ng Pilipinas

[a] Forecasts from the 15 August 2024 monetary policy meeting (*Monetary Policy Report* round)

[b] Forecasts from the 16 October 2024 monetary policy meeting

During the October policy meeting, domestic economic growth was projected to remain strong. This outlook reflected improved prospects for household income and consumption, investments, and government spending. These improvements were supported by the policy rate cut in August and the reserve requirement reduction effective 25 October 2024.

The within-target inflation outlook and well-anchored inflation expectations supported the BSP's shift toward a less restrictive monetary policy. Nonetheless, the BSP continues to closely monitor emerging upside risks to inflation, including geopolitical factors.