# A. Economic outlook

## I. Baseline forecasts

**Inflation is projected to settle within the 2.0-4.0 percent target range over 2025-2026.** The anticipated decline in rice prices from tariff reductions is expected to help guide inflation towards the midpoint of the target range in the first half of 2025.

However, inflation could exceed the target range in the latter part of 2025, primarily due to base effects from easing commodity price pressures in the corresponding period of 2024. Inflation is then projected to move closer to the midpoint of the target range in 2026, supported by an expected moderation in global commodity prices.

The inflation outlook for 2025 has been revised upward, reflecting higher global oil and non-oil prices, peso depreciation, and recent above-expectation inflation readings in December 2024 and January 2025. The 2026 forecast is broadly unchanged.

Table 1
**Higher baseline inflation forecast for 2025 but still within the target range**
Baseline projections, in percent

| | December 2024 Monetary Policy Report[a] | February 2025 Monetary Policy Report[b] |
|---|---|---|
| **2025** | 3.3 | 3.5 |
| **2026** | 3.5 | 3.5 |

Source: Bangko Sentral ng Pilipinas estimates
[a] Baseline forecasts from the 19 December 2024 monetary policy meeting.
[b] Baseline forecasts from the 13 February 2025 monetary policy meeting.

**The outlook for domestic economic activity remains firm, though growth is anticipated to moderate compared to previous assessments.** Real GDP growth is projected to settle near the lower bound of the Development Budget Coordination Committee's (DBCC) 6.0-8.0 percent target range for 2025 and 2026.[3] This moderation reflects:

- The lower-than-expected Q4 2024 growth outturn, driven by a slowdown in services and contraction in agriculture; and
- Higher global commodity prices, which are expected to dampen economic activity.

These headwinds are partially offset by the BSP's monetary policy easing. Nonetheless, uncertainty surrounding global economic policies, particularly the potential impact from proposed US tariffs, pose additional risks to domestic growth.

[3] Based on the Development Budget Coordination Committee meeting on 2 December 2024

**The overall balance of demand and supply conditions translates to a neutral output gap, suggesting limited demand-driven inflationary pressures.** Key factors include:

- Slower consumption growth, with the usual holiday season demand surge restrained by Q4 2024 typhoons
- Weaker investment demand amid subdued global economic activity and geopolitical tensions
- Continued improvements in the domestic labor market, characterized by a stable employment rate and improving job quality

**The exchange rate is projected to settle above the DBCC's assumptions for 2025 and 2026,**[4] influenced by a slower pace of monetary policy easing by the US Federal Reserve (US Fed) and recent exchange rate movements. The baseline forecasts incorporate market expectations of a 50-basis point reduction in the US federal funds rate in 2025, followed by a further 25-basis point cut in 2026.

# II. Key forecast assumptions

## External factors

**Global economic outlook.** The global economy is expected to experience modest but stable growth, according to the January 2025 Global Projections Model Network (GPMN) forecasts and the International Monetary Fund's (IMF) World Economic Outlook (WEO) Update.

In the United States, emerging policies such as higher tariffs, lower domestic taxes, and expansionary fiscal measures could have far-reaching effects on both the US and major economies in 2025 and beyond. The US economy faces upside risks, while other economies confront downside risks amidst elevated policy uncertainty and various challenges.

The euro area is anticipated to see gradual improvement in growth, though progress remains constrained by low consumer sentiment and ongoing geopolitical tensions. Other advanced economies may benefit from recovering real incomes bolstering consumption, but trade restrictions could keep investment subdued.

Growth prospects in the Middle East and Central Asia may fall short of expectations, primarily due to the extension of OPEC+ production cuts.

[4] 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.

Table 2
**World GDP growth is seen to remain stable but modest**
In percent

| | December 2024 Monetary Policy Report | February 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 2.9 | 2.9 |
| **2026** | 2.8 | 2.7 |

Sources: Global Projection Model Network (GPMN) (November 2024 and January 2025); World Economic Outlook Update (IMF, January 2025)

**International crude oil prices.** Global crude oil prices are projected based on oil futures market data from 21 January 21 to 3 February 2025, with domestic oil market prices expected to broadly track the trend in world oil prices. The crude oil path is influenced by stricter US sanctions on Russian oil producers, which have disrupted oil supply to China and India. Additionally, cold weather has driven up winter fuel demand. Despite these upward pressures, the market is still expected to exhibit backwardation, reflecting prospects of subdued global demand and continued over-supply.

Table 3
**Global oil prices are assumed to decelerate**
Average Dubai crude oil price assumptions, in US$ per barrel

| | December 2024 Monetary Policy Report | February 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 70.05 | 76.75 |
| **2026** | 68.15 | 72.20 |

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

If Dubai crude oil prices were to average US$100.0 per barrel in 2025 and US$85.0 per barrel in 2026, inflation could breach the 2.0–4.0 percent target range, considering only direct effects and not potential second-round impacts.

Table 4
**Inflation could exceed the target if crude oil prices average above US$100 per barrel in 2025**
Impact of alternative Dubai crude oil price scenarios on inflation, in percentage points

| Year | 2025 | 2026 |
|---|---|---|
| **Baseline inflation forecast (US$)** | 3.5 | 3.5 |
| 75 | 3.5 | 3.7 |
| 80 | 3.6 | 3.9 |
| 85 | 3.8 | 4.2 |
| 90 | 3.9 | 4.4 |
| 95 | 4.0 | 4.6 |
| 100 | 4.1 | 4.8 |

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

**World non-oil prices.** The IMF's January 2025 WEO Update indicates an expected increase in non-fuel commodity prices for 2025, marking a significant upward revision from previous forecasts. This projection is largely attributed to the recent uptick in prices of several agricultural commodities due to adverse weather conditions in key exporting countries.

Table 5
**Non-oil prices are expected to rise on higher agricultural commodity prices**
World non-oil prices, in percent

| | December 2024 Monetary Policy Report | February 2025 Monetary Policy Report |
|---|---|---|
| **2025** | -0.2 | 2.5 |
| **2026** | 0.4 | -0.1 |

Sources: WEO (IMF, October 2024), WEO Update (IMF, January 2025)

**US federal funds rate assumptions.** The baseline forecast incorporates a higher interest rate path for the United States, following the Fed's decision in January 2025 to maintain the federal funds rate and expectations of a slower pace of US monetary policy easing. Based on futures prices as of 3 February 2025, market expectations align with a cumulative 50-bp cut in 2025 and a further 25-bp reduction in 2026.

Table 6

**Projections for federal funds rate have been revised upwards**

End-period; in percent

| | December 2024 Monetary Policy Report | February 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 3.7 | 3.9 |
| **2026** | 3.4 | 3.7 |

Source: Bloomberg

## Domestic factors

**Target RRP rate and the RRR.** The target reverse repurchase (RRP) rate is set at 5.75 percent and the reserve requirement ratio (RRR) at 7.0 percent from February 2025 through the end of 2026. The projection assumes no further adjustments to either the policy interest rate or the RRR over the forecast horizon.

**Wages.** The baseline forecasts incorporate minimum wage increases of 5.0 percent for both 2025 and 2026. These projections are consistent with historical minimum wage adjustments observed from 2015 to 2024.

**Fiscal program.** The inflation outlook aligns with the government's fiscal deficit assumptions as outlined in the medium-term fiscal program set by the DBCC on 2 December 2024.

Table 7

**Fiscal deficit assumptions are unchanged**

in percent

| | December 2024 Monetary Policy Report | February 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 5.3 | 5.3 |
| **2026** | 4.7 | 4.7 |

Source: Department of Budget and Management

**Tax adjustments.** The baseline forecasts also account for legislated tax adjustments, including annual increases in excise taxes on alcoholic beverages and cigarettes under Republic Act No. 11467, as well as further increases in tobacco product taxes as mandated by Republic Act No. 11346.

**Utilities.** Utility rate adjustments are incorporated into the baseline forecasts. These include approved water rate increases for Manila Water Company and Maynilad Water Services, as well as higher electricity rates for areas serviced by the Manila Electric Company (Meralco) to recover costs over a 12-month period beginning with the October 2024 billing cycle. The forecasts also factor in the collection of the remaining 70.0 percent of total reserve market transactions incurred during the March 2024 supply period, starting in January 2025.

**Lower tariff on rice imports.**[5] The recent reduction in tariffs on rice imports is expected to have a moderating effect on inflation in the first half of 2025. This measure is anticipated to lower landed costs of rice imports, with the benefits passed on to wholesale and retail prices. The continued arrival of imports is projected to contribute to easing headline inflation during this period.

## III. Risks to the inflation outlook

**The risks to the inflation outlook for 2025 and 2026 have become broadly balanced.** Upside risks include potential increases in electricity rates, transport charges, and pork prices. Conversely, the main downside risk stems from the spillover effects of lower tariffs on imported rice to domestic rice prices.

Table 8
**Baseline and risk-adjusted projections are not materially different from the December assessment**
in percent

| | | December 2024 Monetary Policy Report[a] | February 2025 Monetary Policy Report[b] |
|---|---|---|---|
| **Baseline inflation forecast** | **2025** | 3.3 | 3.5 |
| | **2026** | 3.5 | 3.5 |
| **Risk-adjusted inflation forecast** | **2025** | 3.4 | 3.5 |
| | **2026** | 3.7 | 3.7 |

Source: Bangko Sentral ng Pilipinas estimates
[a] Inflation forecasts from the 19 December 2024 monetary policy meeting
[b] Inflation forecasts from the 13 February 2025 monetary policy meeting

**The latest risk-adjusted inflation forecasts (RAF) remain within the inflation target range.** For 2025, the RAF is slightly higher compared to the previous assessment, primarily due to an upward revision in the baseline forecast. The RAF for 2026 is largely unchanged, with minimal adjustments to both baseline and risk estimates.

[5] The President signed Executive Order (EO) 62 on 20 June 2024 which reduced the tariff on rice to 15.0 percent from 35.0 percent to help bring down the price of imported rice. The reduced rice tariff is effective from 7 July 2024 to 2028, subject to review every four months. NEDA also announced the approval of the new Comprehensive Tariff Program (CTP) from 2024 to 2028, which also included reductions in tariffs on other essential items in the energy and manufacturing sectors and kept the prevailing low rates on key agricultural products.

Table 9
**Risk matrix**[6]

| | Risks | Probability |
|---|---|---|
| **Upside risks** | Higher transport charges | Low |
| | Higher electricity rates | Low |
| | Higher pork prices | High |
| **Downside risk** | Spillover from rice tariff reduction | Medium |

Source: Bangko Sentral ng Pilipinas

**Upward pressure on inflation may come from higher transport charges across various public utility vehicles.** The risk-adjusted scenario considers the possible implementation of proposed fare hikes for public transportation in the second quarter of 2025. These include potential increases for traditional jeepneys, taxis, buses, and rail services. While these adjustments are under review by regulatory bodies, they are assigned a low probability in the risk assessment.

Table 10
**The risk of transport fare adjustments is deemed low**
in PhP

| Transport sector | Current base fare | Proposed adjustment |
|---|---|---|
| **Public utility jeepney** | 13.00 | 17.00 |
| **Taxi (flag-down rate)** | | |
| CAR, Region VI | 50.00 | 60.00 |
| Other regions | 45.00 | 60.00 |
| **Public utility bus** | | |
| City (regular) | 13.00 | 15.00 |
| City (airconditioned) | 15.00 | 17.00 |
| Provincial (regular) | 11.00 | 12.67 |
| **Metro Rail Transit Line 3** | 13.00 | 16.00 |
| **Light Rail Transit Line 1** | 15.00 | 25.00 |

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

The approved fee adjustments at Ninoy Aquino International Airport (NAIA) are expected to impact airfares in the near term. This risk is assigned a high probability, although its inflationary impact is projected to be minimal due to the small weight of air transport in the CPI basket.

[6] 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.

**Electricity rates could increase over the forecast horizon following a Supreme Court ruling** in July 2023. The decision nullified the previous caps on Wholesale Electricity Spot Market (WESM) prices for November 2013 and December 2013. The risk scenario assumes this adjustment will be distributed evenly over the next three years and incorporates other potential electricity rate adjustments. This risk is assigned a low probability in light of the court ruling.

**Higher pork prices could pose another upside risk to inflation.** The ongoing impact of African Swine Fever (ASF) continues to affect pork supply and hog repopulation efforts. Given recent trends in retail pork prices and the absence of widespread commercial distribution of the ASF vaccine, this risk is assigned a high probability.

**On the downside, the reduction in tariffs on rice imports could lead to further declines in domestically produced rice prices.** This risk is assigned a medium probability with the formalization of reduced tariffs through Executive Order (EO) No. 62, dated 20 June 2024. The scenario assumes a gradual decline in domestic rice prices, with the estimated impact lower compared to previous assessments.

**Overall, the risks to the inflation outlook are now broadly balanced for 2025 and 2026.** Using a 90.0 percent confidence interval for the fan chart, estimates indicate that the likelihood of inflation settling within the target range for 2025 remains above 50.0 percent. However, this probability is slightly lower than in the previous assessment due to the higher risk-adjusted forecast. For 2026, the probability of inflation remaining within the target range has increased to nearly 50.0 percent, with a corresponding decrease in the likelihood of inflation exceeding the upper limit of the target range.

Figure 1
**Risks surrounding the inflation projections have become broadly balanced**
Using a 90-percent confidence interval, in percent

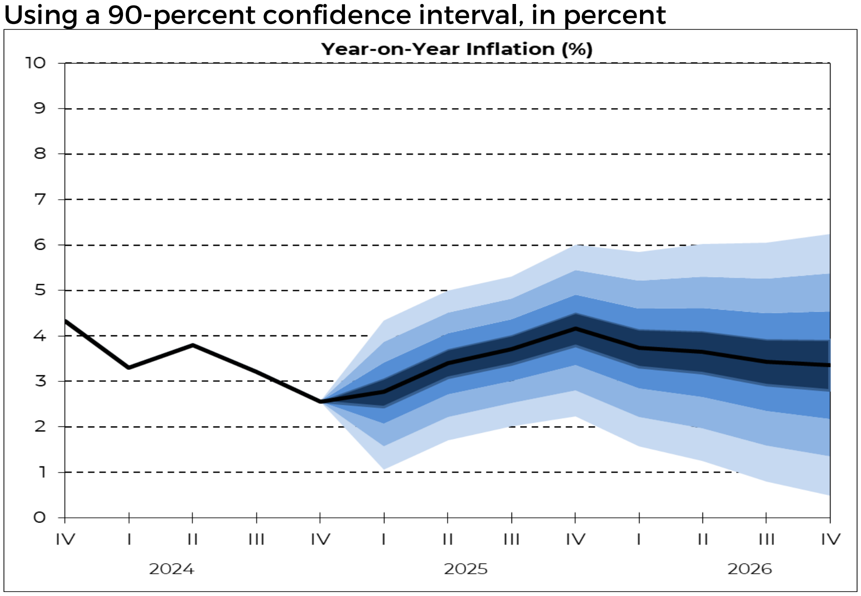


Table 11
**Probability distribution of inflation forecasts**
in percent

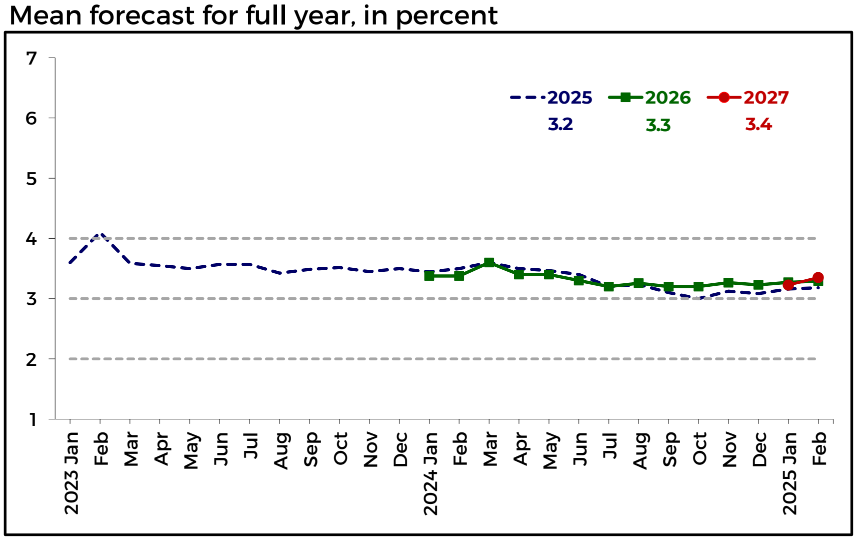
| | Pr(<2%) | | Pr(2–4%) | | Pr(>4%) | |
|---|---|---|---|---|---|---|
| | December 2024 MPR | February 2025 MPR | December 2024 MPR | February 2025 MPR | December 2024 MPR | February 2025 MPR |
| **2025** | 10.1 | 9.1 | 54.6 | 53.5 | 35.3 | 37.4 |
| **2026** | 8.0 | 13.2 | 45.8 | 49.9 | 46.2 | 36.9 |

Source: Bangko Sentral ng Pilipinas estimates

# IV. Inflation expectations

The February 2025 BSP Survey of External Forecasters (BSEF) indicates that inflation expectations remain well-anchored within the 2-4 percent target range for 2025 through 2027. Mean inflation forecasts for 2025 and 2026 were unchanged from the previous survey, while respondents anticipate inflation settling near the target in 2027.

Figure 2
**Inflation expectations remain well-anchored**
Mean forecast for full year, in percent




Source: Bangko Sentral ng Pilipinas
This was based on forecasts provided by 24 respondents.
The survey was conducted from 6-12 December 2024.

Forecasters identify several potential upside risks to the inflation outlook. These include the effects of geopolitical tensions and adverse weather conditions on commodity prices, particularly oil. Other factors cited are base effects, uncertainties in international trade, potential upward adjustments to utility rates and transport charges, and proposed minimum wage increases.

The primary downside risk to inflation stems from the potential for lower rice prices following the implementation of Executive Order No. 62.

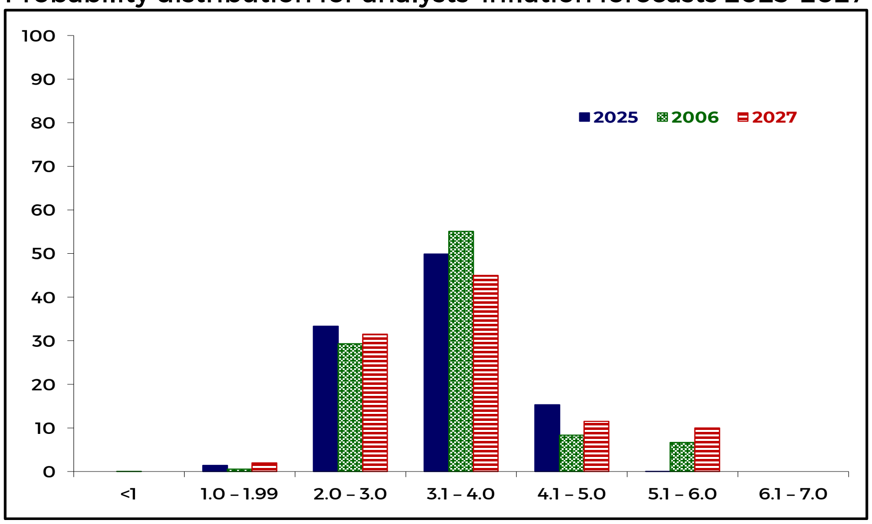
Survey respondents assign a high probability that inflation will remain within the target range over the forecast horizon. For 2025, there is an 83.2-percent chance of inflation settling within 2-4 percent, with a 15.4-percent probability of exceeding the upper bound. The likelihood of inflation falling within the target range is estimated at 84.4 percent for 2026 and 76.5 percent for 2027.

Regarding monetary policy expectations, most analysts anticipate a loosening of the BSP's stance in 2025, with projections ranging from 50 to 100 bps of easing. Views on the 2026 target RRP rate are more diverse, spanning from a 75-bp reduction to no change. For 2027, a majority of respondents foresee the BSP continuing on an easing path.

Figure 3

**The probability that inflation will settle within the target range in 2025 and 2026 has decreased**

Probability distribution for analysts' inflation forecasts 2025–2027




Source: Bangko Sentral ng Pilipinas Survey (December 2024)
Probability distributions were averages of those provided by 18 out of 24 respondents.