A. Economic outlook

I. Central projections

The inflation outlook moderates over the near term. Inflation is seen to remain below the target range through Q4 2025. Compared with the previous round, the 2025 inflation projection is significantly lower. Contributing to the decline are lower domestic food prices, particularly rice, and lower global oil prices.

Inflation is projected to settle within the 2.0-4.0 percent range in 2026 and 2027. Higher electricity rates and possible base effects are expected to drive inflationary pressures in 2026, peaking in Q3 2026. Inflation will then ease slightly in 2027, though remaining above the target's midpoint, as global commodity prices stabilize.

Table 1
Inflation could fall below target for 2025 but is projected to settle within target for 2026 and 2027
central projections, in percent

	February 2025 Monetary Policy Report[a]	June 2025 Monetary Policy Report[b]
2025	3.5	1.6
2026	3.5	3.4
2027	–	3.3

Source: Bangko Sentral ng Pilipinas estimates

[a] Central projections from the 13 February 2025 monetary policy meeting
[b] Central projections from the 19 June 2025 monetary policy meeting

The domestic economy will continue to expand, albeit at a slower pace compared with the previous assessment. Economic growth is projected to remain within the DBCC's target range of 5.5–6.5 percent in 2025. However, it is anticipated to settle below the 6.0–7.0 percent target range in 2026 before rebounding to within the target range in 2027.[3]

The sharp deterioration in the global outlook could lead to slower investments and net exports, weighing on domestic growth. Nevertheless, higher household and government consumption partly offset this decline.

These headwinds are also partially offset by the BSP's monetary policy easing. However, uncertainty surrounding global economic policies, particularly the potential impact of US policies on global trade and investment, poses an additional risk to domestic growth.

The economy is anticipated to expand below its potential over the near term amid subdued domestic and external demand-side pressures. Forecasts from the BSP's

[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.

Policy Analysis Model for the Philippines (PAMPh) indicate that the output gap is expected to close toward the end of 2027, driven by increases in real wages. Recovering productivity from economic activity and infrastructure investments, as well as structural reforms that support increased investment and business activity, could also sustain potential output growth.

The exchange rate is projected to settle within the Development Budget Coordination Committee's assumptions for 2025–2027.[4] Over the near term, this reflects the general weakness of the US dollar against major currencies in early 2025. This also reflects in part the higher real policy rate differential between the Philippines and the US, given lower domestic inflation. However, the recent peso depreciation amid geopolitical tensions in the Middle East partly offsets this effect. The central projections incorporate market expectations of a 50-basis point (bp) reduction in the US federal funds rate in 2025, a further 25-bp cut in 2026, and a 25-bp hike in 2027.

II. Key forecast assumptions

External factors

The global economy is expected to decelerate, with the global output gap projected to turn negative in Q2 2025. This outlook is based on the May 2025 forecasts from the Global Projection Model Network (GPMN) and the April 2025 World Economic Outlook (WEO) of the International Monetary Fund (IMF). These assumptions factor in the 90-day pause in the implementation of higher US tariffs and the renegotiation of bilateral trade terms with the US.

- The US economy contracted in Q1 2025 but is still expected to grow by 1.5 percent during the year, driven by a few successful trade deals and delays in tariff implementation.

- Growth in the euro area remains constrained at 1.0 percent due to low consumer and investor sentiment amid escalating disputes between the European Union (EU) and the US.

- Following a temporary tariff reduction agreement with the US, China's economy is anticipated to grow by 4.9 percent in 2025. However, growth could ease to 3.9 percent in 2026 due to weak global demand and lingering issues in the property market.

- The growth forecast for Japan has been revised downward for 2025, as a weakening global economy and disruptions in global supply chains are likely to weigh heavily on the export-oriented economy.

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

Table 2
World GDP growth is expected to remain stable but modest
in percent

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	2.9	2.7
2026	2.7	2.4
2027	–	2.8

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

International crude oil prices are assumed to be lower. Global crude oil assumptions are based on futures data as of 16 June 2025, with domestic oil prices expected to broadly track the trend in world oil prices. Dubai crude oil prices have fallen since February 2025 but have risen anew due to concerns over the Iran-Israel conflict, which could disrupt supply from the Middle East. However, expectations of lower global oil demand following the implementation of new US tariffs offset this increase. Additionally, member countries of the Organization of the Petroleum Exporting Countries Plus (OPEC+) reaffirmed and accelerated their planned production hikes through July 2025, which could boost global oil inventories and exert downward pressure on prices.

Table 3
Global oil prices are assumed to decelerate
average; in US$ per barrel

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	76.75	70.75
2026	72.20	67.94
2027	–	67.12

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Domestic inflation could breach the 2.0–4.0 percent target range if Dubai crude oil prices average US$80.0 per barrel in 2026 and US$110.0 per barrel in 2027. These projections consider direct effects only and exclude potential second-round impacts.

Table 4

Inflation could exceed the target if crude oil prices average above US$80 per barrel in 2026, above US$110 per barrel in 2027

in percentage points

Year	2025	2026	2027
Central projection for inflation (US$)	1.6	3.4	3.3
60	1.4	2.8	3.3
70	1.5	3.5	3.5
80	1.7	4.1	3.6
90	1.8	4.7	3.8
100	1.9	5.1	3.9
110	2.0	5.6	4.0
120	2.0	6.0	4.1
130	2.1	6.4	4.2

Source: Bangko Sentral ng Pilipinas estimates

The scenarios assume oil prices will remain at these levels starting July 2025.

World non-oil prices are expected to increase. According to the IMF's April 2025 WEO, non-fuel commodity prices are expected to rise in 2025 to levels higher than projections made in the previous round. Prices of precious metals, such as gold, have increased since the beginning of the year, driven by strong demand for safe havens amid geopolitical tensions and uncertainty. Base metals prices faced demand pressures from front-loading ahead of tariffs but declined in the first week of April as trade tensions escalated.

Table 5

Non-oil prices are expected to rise due to higher prices for beverage and metals

in percent

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	2.5	4.4
2026	-0.1	0.2
2027	–	-0.9

Sources: World Economic Outlook (WEO) (International Monetary Fund [IMF], October 2024); WEO (IMF, January and April 2025)

Assumptions for the US federal funds rate are based on futures prices as of 16 June 2025. Market expectations suggest a cumulative 50-bp cut in 2025, a further 25-bp reduction in 2026, and a 25-bp hike in 2027. While US inflation remains close to the US Federal Reserve (US Fed)'s target over the near term, concerns about heightened inflation persist. Businesses are expected to pass on some of the rising

costs from higher import levies to consumers. Analysts likewise observed signs of renewed consumer caution amid uncertainty over tariff policy.

Table 6
Projections for federal funds rate are based on latest futures prices
end-period; in percent

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	3.9	3.9
2026	3.7	3.3
2027	–	3.5

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. The target RRP rate is set at 5.5 percent and the reserve requirement ratio (RRR) at 5.0 percent from June 2025 through the end of 2026.

Annual minimum wage increases of 5.0 percent from 2025 to 2027 were incorporated. These projections 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.

The central projections accounted for legislated tax adjustments. These adjustments include the annual increases in excise taxes on alcoholic beverages and cigarettes under Republic Act (RA) No. 11467 and increases in tobacco product taxes under RA No. 11346.

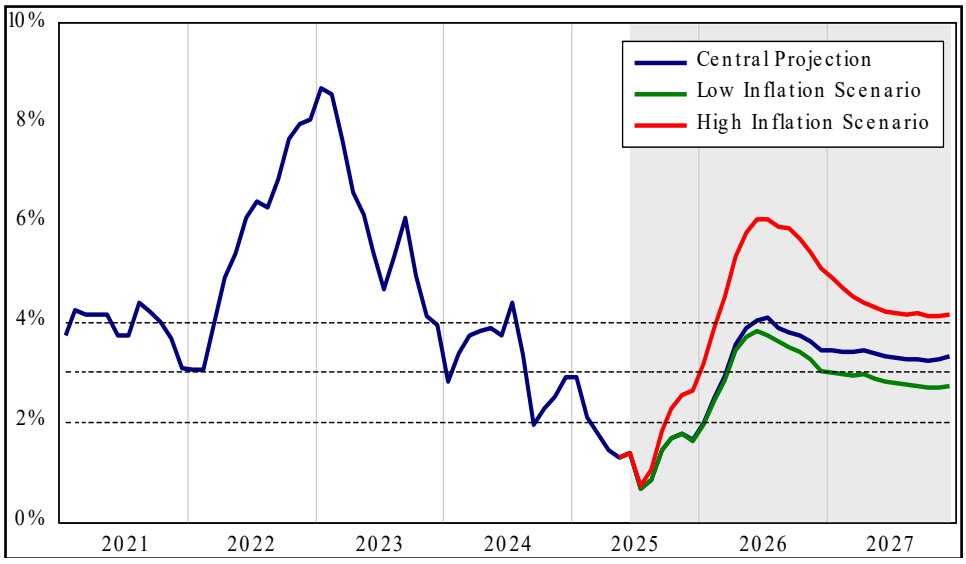
Utility rate adjustments were incorporated into the central projections. These include approved water rate increases for the Manila Water Company and Maynilad Water Services. Electricity rate adjustments were also accounted for, such as the Manila Electric Railroad and Light Company (Meralco)'s higher pass-through charges due to a new gas supply agreement, the collection of outstanding reserve market charges, and rate changes resulting from the nullification of cap prices and under-recoveries by the National Grid Corporation of the Philippines.

The recent reduction in tariffs on rice imports is expected to have a moderating effect on inflation until end-2025.[5,6] This measure is anticipated to lower the landed cost of imported rice. The direct impact is expected to have spillover effects, which will likewise reduce the prices of domestically produced rice.

III. Alternative scenarios[7]

There are two alternative scenarios, with relatively low probabilities, on the emerging risks surrounding the inflation outlook. The high inflation scenario considers supply-side factors that could push inflation above the central projections. These factors include upward adjustments in electricity rates, rising oil prices, and higher rice tariffs. In contrast, the low inflation scenario explores the potential impact of US policies on global trade and investment, which could bring inflation below the central projections.

Figure 1
Central Projection and Alternative Scenarios
year-on-year; in percent



Source: Bangko Sentral ng Pilipinas

High inflation scenario: Upward adjustments in electricity rates, rising oil prices, and a possible reversion to higher rice tariffs could lead to a more elevated inflation path. Inflation is expected to breach the upper end of the target range starting Q2 2026 and continue to settle above the target until 2027.

[5] 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 bring down the cost of imported rice. The reduced rice tariff will be in effect from 7 July 2024 to 2028, subject to a review every four months.
[6] DEPDev also announced the approval of the new Comprehensive Tariff Program (CTP) from 2024 to 2028. The CTP includes tariff reductions on other essential items in the energy and manufacturing sectors while retaining the prevailing low rates on key agricultural products.
[7] For more information, see *Box Article 1: Understanding the BSP's Central Projections and Alternative Scenarios*.

Electricity rates could increase further over the forecast horizon. While the central projections already account for the impact of several electricity rate petitions, possible additional adjustments have been reflected in the alternative scenario.

Oil prices could drive inflation higher. Concerns over potential disruptions to the global oil supply have pushed the spot price of Dubai crude oil above US$70.0 per barrel. The alternative scenario assumes oil prices would rise due to a shutdown in Iranian oil production. Israeli attacks on oil infrastructure could halt all oil exports from Iran, reducing global oil supply by 3.4 million barrels per day (4.0 percent), other things being equal. This would raise oil prices to around US$90.0 per barrel, remaining at that level through the end of 2025 before gradually declining until 2027.

Higher rice tariff is expected to add upward pressure to inflation. The rice import tariff was reduced from 35.0 percent to 15.0 percent in July 2024 under EO No. 62. 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.

Low inflation scenario: The domestic impact of US policies on global trade and investment could lower inflation. This scenario is based on the IMF's risk assessment in its April 2025 WEO reference forecast. It considers the effects of global divergences, trade war, heightened global uncertainty, and tighter financial conditions, all of which could result in wider global imbalances and a fall in global output relative to the IMF's central projections. The decrease in global activity would be disinflationary, with global headline inflation expected to decline by 0.4 ppts by 2027.

Table 7
Impact on world gross domestic product
in percentage points

	2025	2026	2027
Global divergences	-0.1	-0.1	-0.1
Trade war	-0.2	-0.4	-0.5
Global uncertainty	-0.5	-0.9	-0.6
Tighter financial conditions	-0.5	-0.6	-0.4
Total	**-1.3**	**-2.0**	**-1.6**

Source: World Economic Outlook Box 1.1 (International Monetary Fund, April 2025)

Under these considerations, domestic economic activity and inflation are estimated to be lower, with the impact peaking in 2027.

Under the high inflation scenario, inflation is projected to breach the upper end of the target at 5.2 percent in 2026 and 4.3 percent in 2027. Meanwhile, under the low inflation scenario, inflation is expected to decelerate below the midpoint of the target range by 2027.

Table 8
The high inflation scenario will result in a breach in the upper end of the inflation target in 2026
in percent

	Low Inflation Scenario	Central Projections	High Inflation Scenario
2025	1.6	1.6	1.8
2026	3.2	3.4	5.2
2027	2.8	3.3	4.3

Source: Bangko Sentral ng Pilipinas estimates

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 in 2025 has increased significantly to 76.8 percent from 9.1 percent in the previous round. Nevertheless, the likelihood of inflation settling within the target in 2026 and 2027 remains dominant at above 50.0 percent.

Table 9
Probability distribution of inflation forecasts
in percent

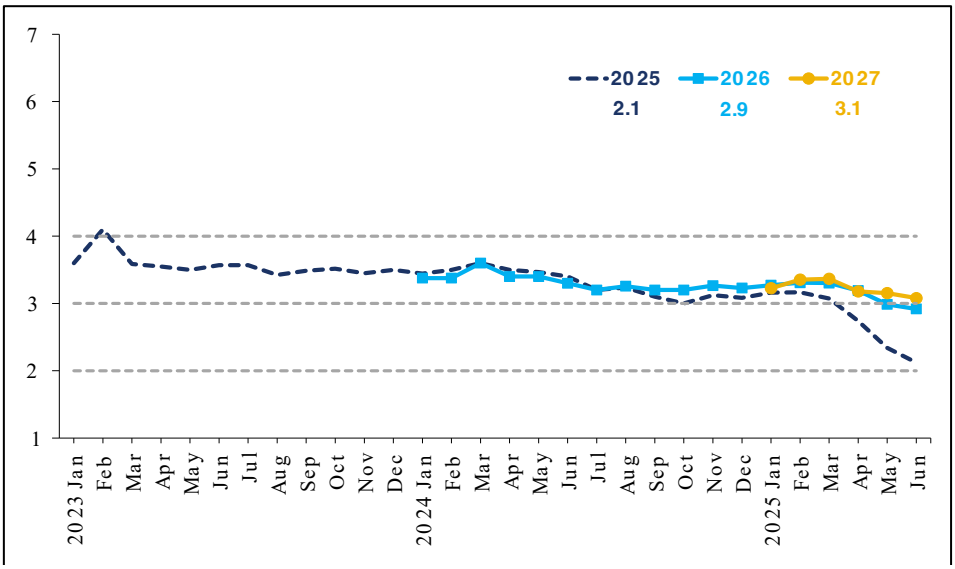
	Pr(<2%)	Pr(2–4%)	Pr(>4%)
2025	76.8	23.2	0.0
2026	9.0	53.6	37.4
2027	13.2	50.6	36.2

Source: Bangko Sentral ng Pilipinas estimates

IV. Inflation expectations

The June 2025 BSP's Survey of External Forecasters (BSEF) indicated that analysts expect inflation to remain within the 2.0–4.0 percent target range over the medium term as food price pressures ease. The mean inflation forecast for 2025 fell to 2.1 percent (from 2.3 percent in May), while forecasts for 2026 and 2027 declined to 2.9 percent and 3.1 percent, respectively.

Figure 2
Inflation expectations remain well-anchored
mean forecast for the full year; in percent



Source: Bangko Sentral ng Pilipinas
This was based on forecasts provided by 23 respondents.
The survey was conducted from 5–18 June 2025.

Analysts cited several upside risks to inflation, including geopolitical tensions, trade disruptions, commodity supply shocks, higher import costs, and possible increases in electricity rates. Some also expect base effects and rising global oil prices to push inflation higher in 2026.

On the downside, lower rice prices and weaker domestic and global growth were identified as key factors that could temper inflation.

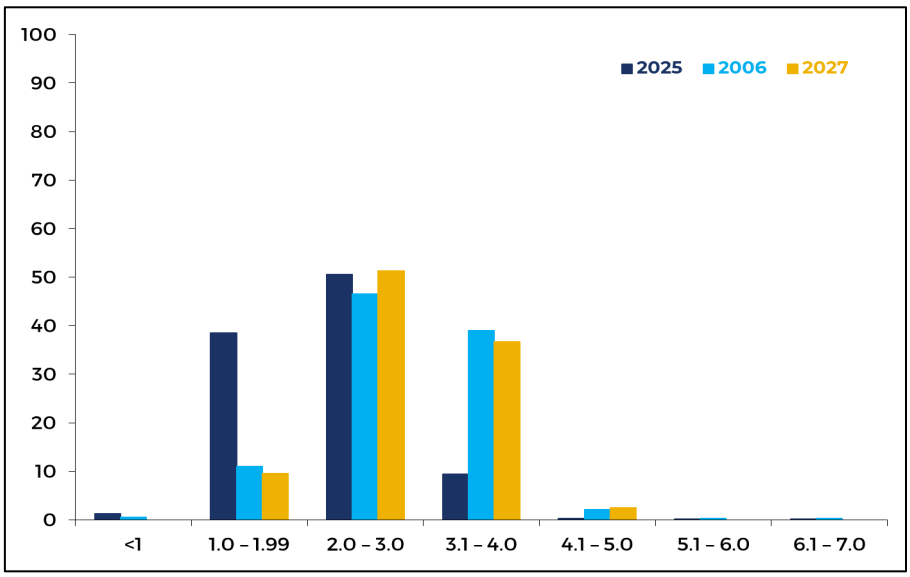
Given these developments, the probability that inflation will remain within the target range slightly declined. For 2025, analysts assigned a 60.0-percent chance (from 66.6 percent in May) that inflation will stay within target. Meanwhile, the likelihood of inflation falling below the target range increased slightly to 38.5 percent (from 34.3 percent). For 2026 and 2027, the probabilities that inflation will remain within the target range are at 85.5 percent (from 88.3 percent) and 87.9 percent (from 94.0 percent), respectively.

Most analysts now expect the BSP to cut policy rates by 25–75 bps in 2025, 25–50 bps in 2026, and to either hold or further ease by 25–100 bps in 2027.

Figure 3

The probability of inflation settling within the target range in 2025–2027 slightly decreased

2025–2027



Source: Bangko Sentral ng Pilipinas Survey (June 2025)

Probability distributions were averages of those provided by 18 out of 22 respondents.