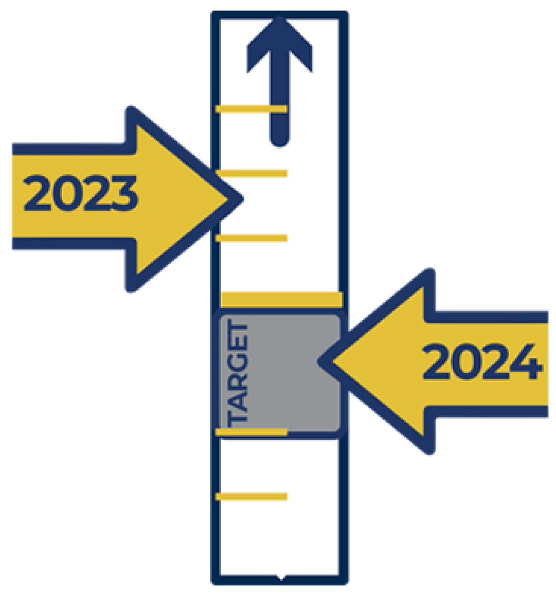
MONETARY POLICY REPORT

AUGUST 2023

Visual Summary

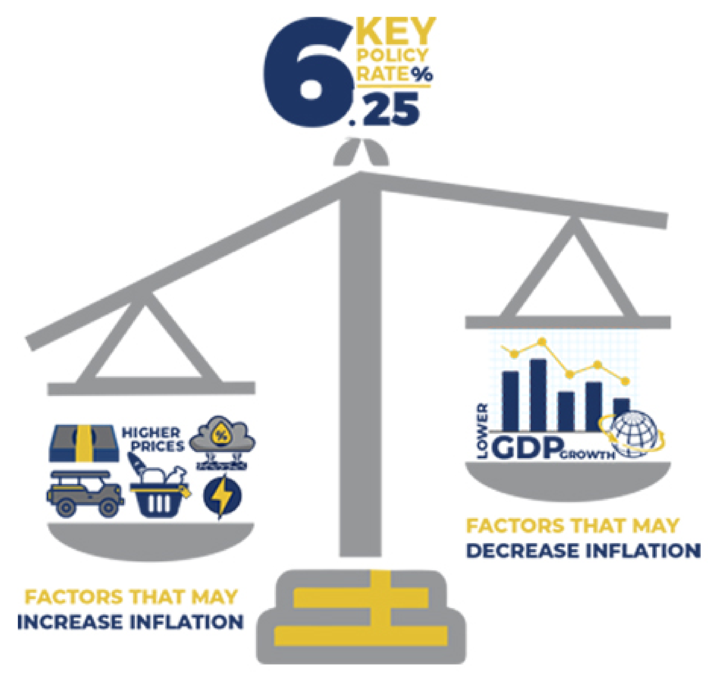
In summary:

The BSP kept the key policy interest rate at 6.25 percent. While inflation remains high, its continued deceleration allows the BSP to assess emerging inflation risks.



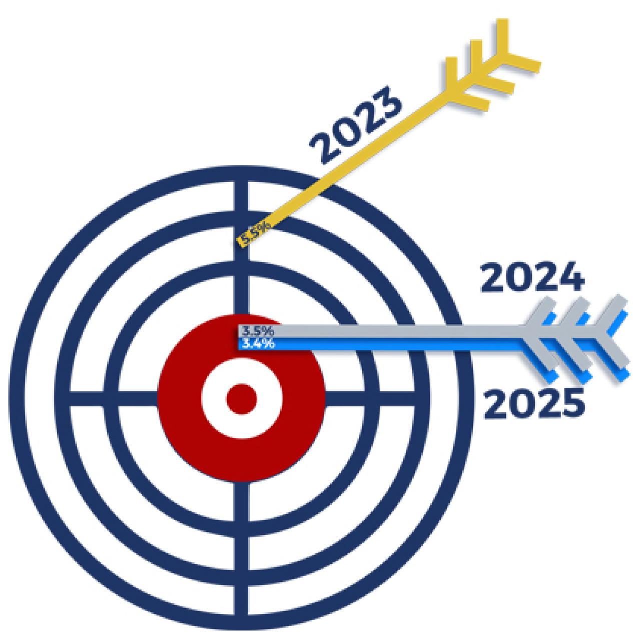
The BSP's latest estimates show average inflation for 2023 will likely reach 5.6 percent. This is slightly higher than the 5.5 percent announced in May but lower than last year's average of 5.8 percent.

For 2024, average inflation could settle at 3.3 percent, higher than the previous forecast of 2.8 percent. For 2025, average inflation could reach 3.4 percent.



Factors that may cause inflation to exceed the estimates for 2023 to 2025 include additional increases in transport fares and wages, persistent food supply constraints, and the possible impact of *El Niño* on food prices and power rates.

Meanwhile, the slowdown in global growth is the primary reason inflation could be lower than the forecasts.



Results of the BSP's Survey of External Forecasters in August 2023 show that inflation expectations did not change at 5.5 percent for 2023, but declined to 3.5 percent in 2024 and 3.4 percent in 2025.

The Q2 2023 GDP growth reflected a slowdown in key sectors.

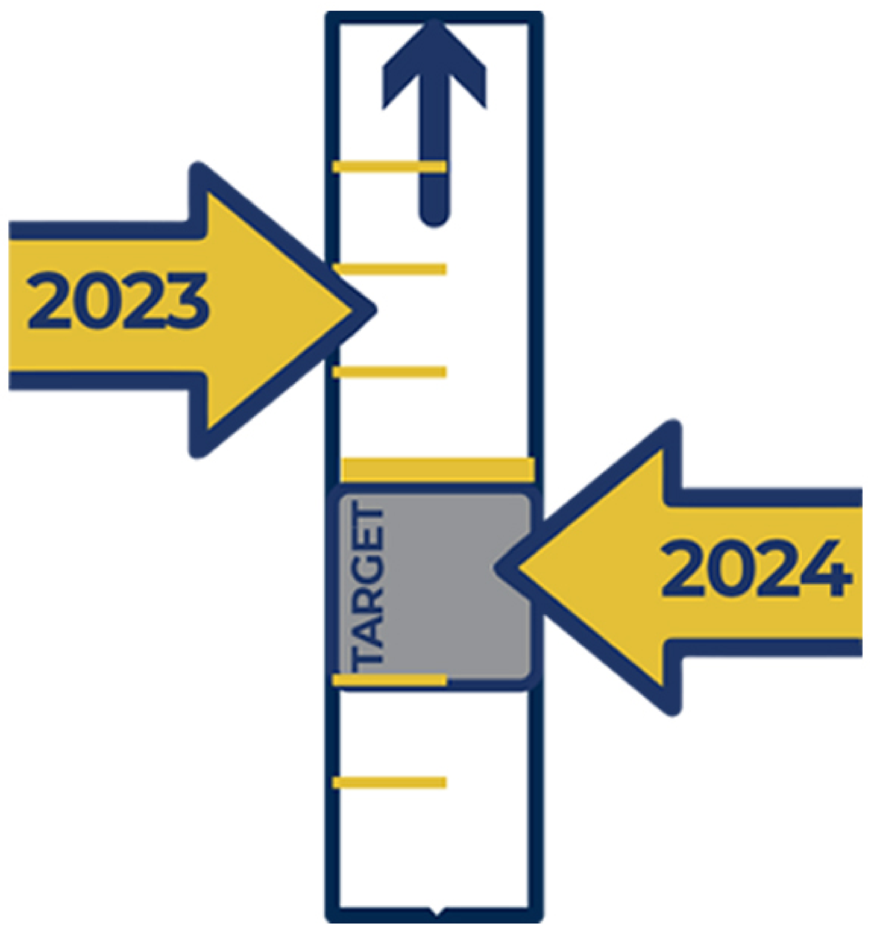
The BSP stands ready to deploy its tools to safeguard the inflation target.

The BSP decided to keep the key policy interest rate at 6.25 percent.

During its monetary policy meeting on 17 August 2023, the BSP's Monetary Board decided to keep the key policy interest rate at 6.25 percent.

Maintaining monetary policy settings will give time for inflation to moderate further while the BSP continues to assess emerging risks to the inflation outlook.

Latest projections point to inflation returning to the BSP's target level by the end of 2023.

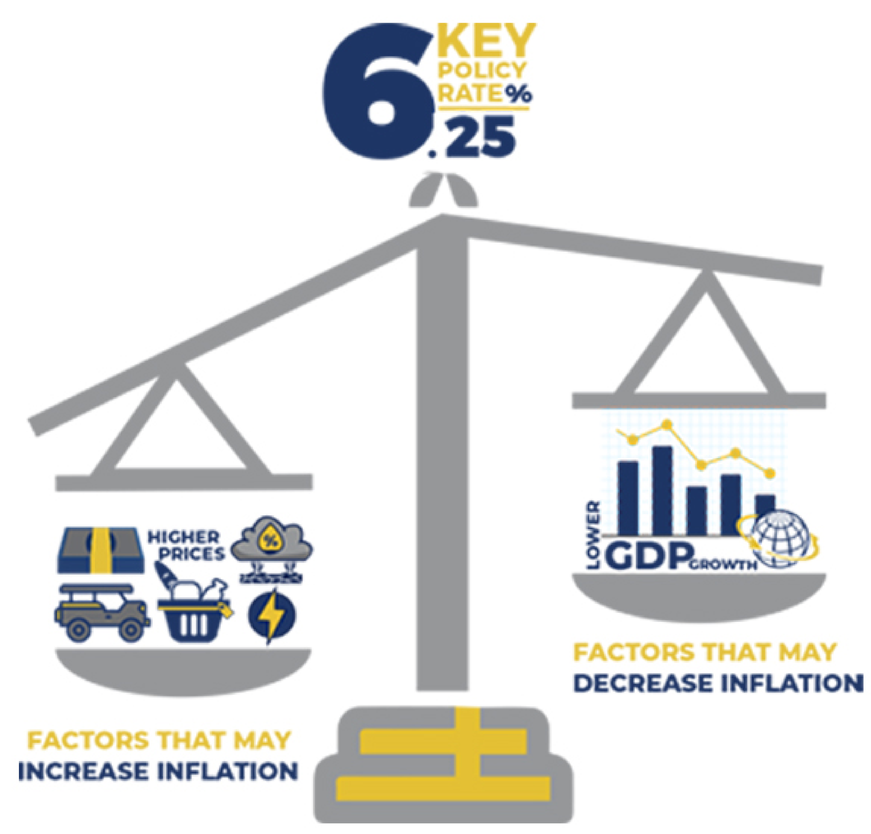


Based on the BSP's latest estimates, average inflation could settle at 5.6 percent in 2023. This is slightly higher than the 5.5 percent forecast announced in May but lower than last year's 5.8 percent average inflation rate.

Average inflation is still expected to continue to decline toward the 2.0–4.0 percent target range in 2024, with the forecast for 2024 revised upward to 3.3 percent (from the 2.8 percent announced in May).

Average inflation forecast for 2025 is at 3.4 percent, which is also within the target range.

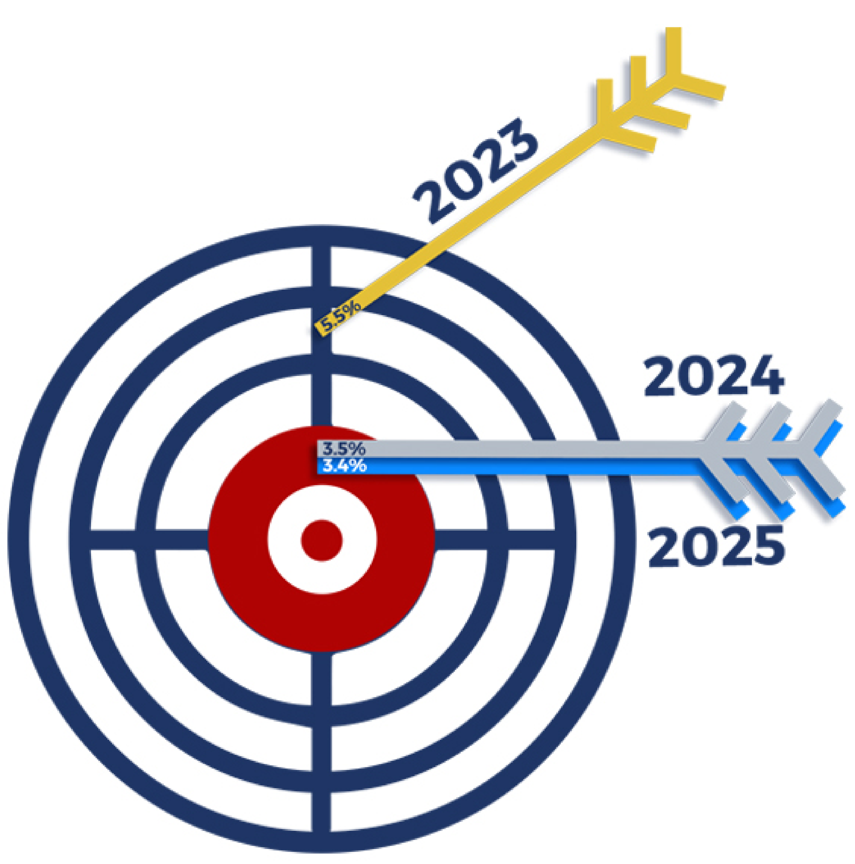
Having said this, there are always risks that could cause inflation to miss the forecasts.



Factors that could cause inflation to exceed the latest forecasts for 2023 to 2025 include additional increases in transport fares and wages, persistent food supply constraints, and the effect of *El Niño* on food prices and power rates.

On the other hand, if the global economy does not grow as fast as expected, this could cause inflation in the country to be lower than the forecasts.

Economists from the private sector believe that inflation (or the rate at which prices go up) for 2024 and 2025 will be within the target range.



Results of the BSP's Survey of External Forecasters in August 2023 show that inflation is expected to settle at 5.5 percent this year. Analysts expect inflation to continue easing in the near term, owing largely to negative base effects.

Inflation forecasts from private-sector economists remain within the target range for 2024 and 2025, at 3.5 percent and 3.4 percent, respectively, both slightly lower than the forecasts in May.

Economic expansion is seen to slow down as the growth in spending by Filipinos also eases.

The gross domestic product grew at a slower pace in Q2 2023, reflecting contractions in key sectors.

Household consumption slowed down due to higher commodity prices. Meanwhile, government spending declined relative to the previous year.

The BSP will keep an eye on developments that might change how prices and the economy grow in the future.

The BSP is ready to respond as necessary to safeguard the inflation target in keeping with its primary mandate of price stability.

The BSP kept the key policy interest rate steady at 6.25 percent.

This means...

Banks are expected to stop increasing their lending rates soon, which will keep the cost of borrowing relatively steady. This—along with other strategies, including sustained non-monetary measures—will help control the general rise in prices of goods and services.

View the full 2023 August Monetary Policy Report
https://www.bsp.gov.ph/SitePages/PriceStability/FullReportMPR/MonetaryPolicyReport_Aug2023.aspx