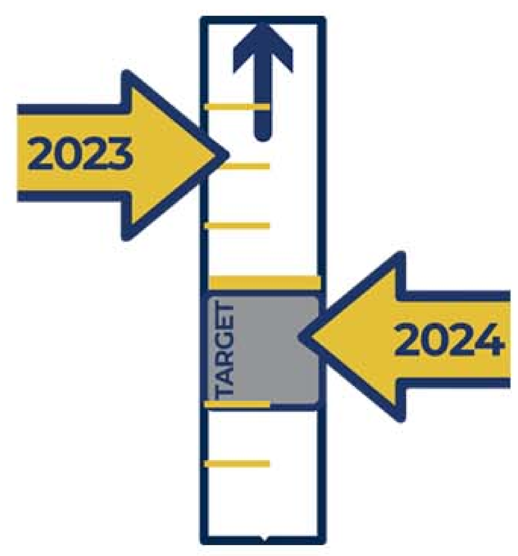
# MONETARY POLICY REPORT

MAY 2023

Visual Summary

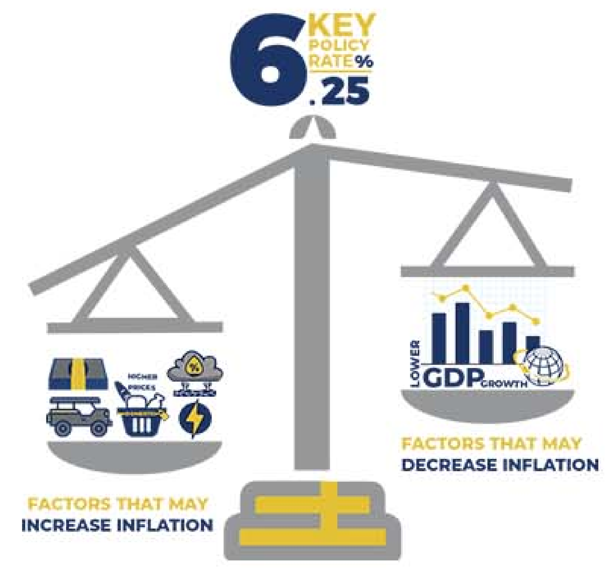
## In summary:


The BSP kept the key policy interest rate at 6.25 percent. Based on the continued deceleration in inflation and the lower inflation forecasts, the BSP decided that a pause in increasing rates was appropriate.



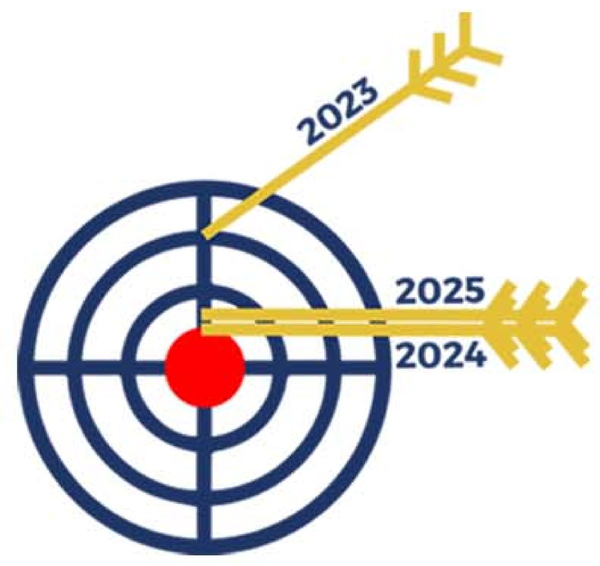

The BSP's latest estimates show that average inflation is likely to reach 5.5 percent this year, lower than the 6.0 percent announced previously.

For 2024, average inflation could settle at 2.8 percent, near the midpoint of the target range of 2.0 to 4.0 percent.




Nevertheless, several risk factors may cause inflation to exceed the forecasts for 2023 and 2024.

These include persistent constraints in the supply of key food items, the potential impact of El Niño on food and electricity prices, and the effects of possible further adjustments in transport fares and the minimum wage.




Inflation expectations have also eased. Results of the BSP's survey of private sector forecasts in May 2023 show that economists expect inflation to settle at 5.8 percent this year, 3.6 percent in 2024, and 3.5 percent in 2025.


The economy grew by 6.4 percent in Q1 2023, within the government's target of 6.0 to 7.0 percent. However, domestic economic activity is projected to settle below the 6.5 to 8.0 percent target for 2024.


A pause in the policy rate increases allows the BSP to observe further data, even as it remains ready to resume raising the policy rate if necessary. The BSP's priority is to bring inflation to within the target range. The BSP will continue to monitor developments affecting the outlook for inflation and growth while remaining ready to respond to emerging risks to inflation in the near term.

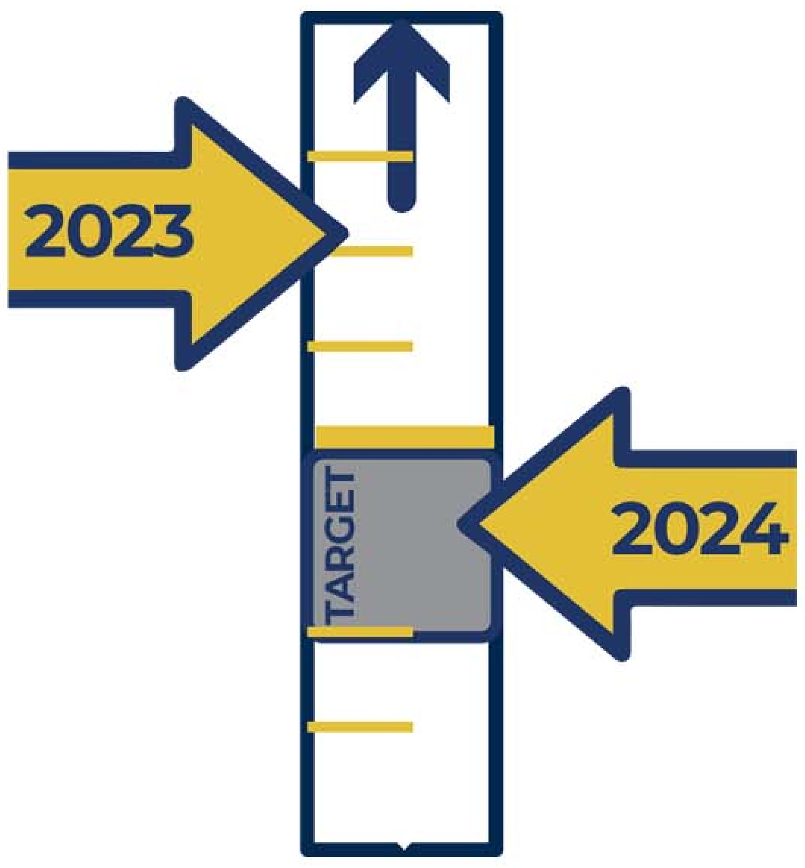
## *The BSP decided to keep the key policy interest rate at 6.25 percent.*


During its monetary policy meeting on 18 May 2023, the BSP's Monetary Board decided to keep the key policy interest rate at 6.25 percent.

Based on the observed slowdown in inflation and lower inflation projections, the BSP considers that maintaining the policy interest rate at its current level is appropriate at this time.

Maintaining the policy rate means that banks' interest rates may also stop rising, thereby keeping the cost of borrowing for households and businesses relatively steady.

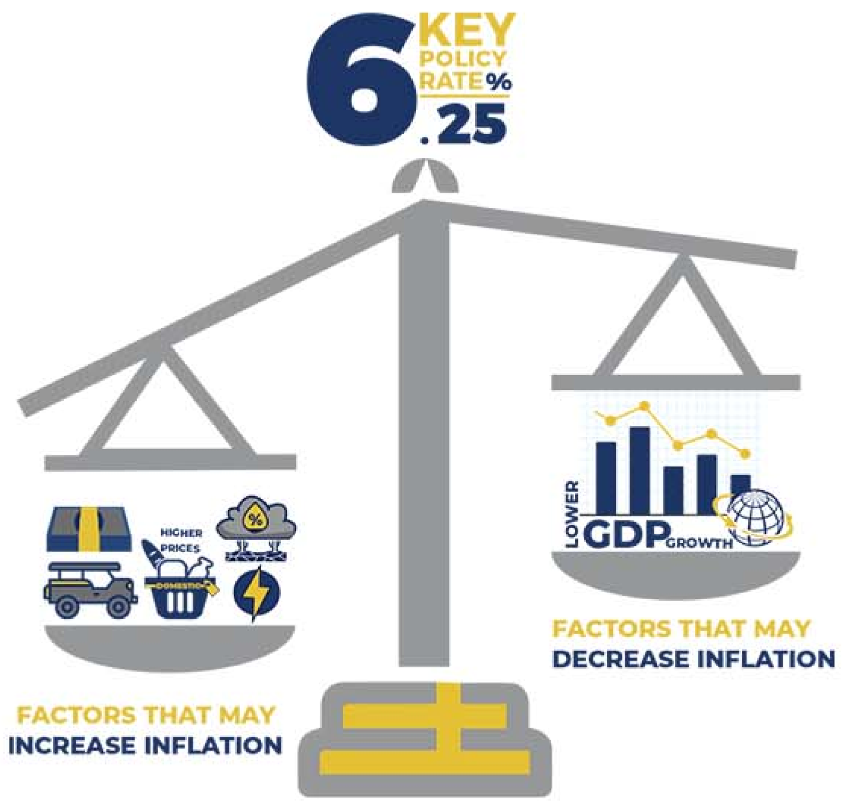
## *Inflation outlook is projected to return to the target range in Q4 2023, if there are no further supply-side shocks.*




The BSP's latest estimates show that average inflation will settle at 5.5 percent in 2023, lower than the 6.0 percent announced in March.

Meanwhile, the average inflation forecast for 2024 fell slightly to 2.8 percent. This is partly due to the projected deceleration in inflation toward the low end of the target range in Q1 2024, driven mainly by the likely decline in global oil and non-oil prices, as well as "base effects" (a higher inflation rate today is typically, but not always, followed by a relatively lower rate a year from now)

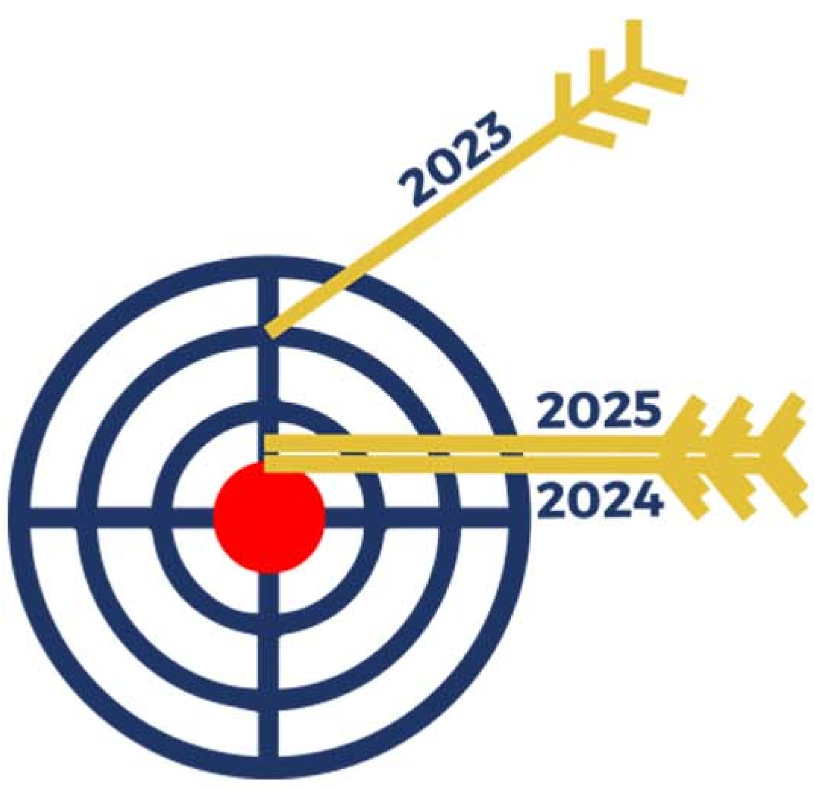
## *Risks to the inflation outlook continue to lean toward the upside for 2023 and 2024, requiring continued readiness to implement necessary monetary actions.*




Persistent constraints in the supply of key food items, the potential impact of El Niño on food and electricity prices, and the effects of possible further increases in transport fares and minimum wages may cause inflation to exceed the latest forecasts for 2023 and 2024.

On the other hand, the impact of a weaker-than-expected global economic recovery continues to be a factor that could cause inflation for this year and the next to be lower than the forecasts.

## *Inflation expectations for 2024 and 2025 are steady and within the target range.*




Results of the BSP's survey of private sector economists in May 2023 showed that the respondents expect inflation to settle at 5.8 percent this year, lower than the 6.0 percent recorded in the previous month's survey. Analysts expect inflation to settle above the upper end of the government's target range for the year owing mainly to supply shocks.

Inflation forecasts from private sector survey respondents for 2024 and 2025 remain within the target range, unchanged at 3.6 percent and 3.5 percent, respectively, from the month-ago survey results.

## Domestic economic activity remains strong for 2023 but shows possible weakening in 2024.


The economy grew by 6.4 percent in Q1 2023, within the government's target of 6.0 to 7.0 percent.

On the demand side, government spending and investments grew by 6.2 percent and 12.2 percent, respectively, while household consumption expanded by 6.3 percent.

On the supply side, the industry and services sectors saw tempered growth at 3.9 percent and 8.4 percent, respectively, while growth in agriculture rebounded to 2.2 percent.

Meantime, in 2024, the economy is projected to grow at a pace slower than the government's target range of 6.5 to 8.0 percent. This is on account of weaker global growth prospects and the impact of the cumulative policy rate increases by the BSP since May 2022.

## The BSP will continue to monitor developments and emerging threats to the outlook for inflation and growth.


The BSP remains ready to resume its monetary policy rate increases in response to emerging threats to inflation, in keeping with our primary mandate of price stability.

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

***This means...***

Banks are expected to eventually stop raising their own lending rates, which will keep the cost of borrowing relatively steady. Maintaining the policy rate is considered appropriate at this time, given the improved inflation forecasts for this year and the next two years. Moreover, a pause in the BSP's policy rate increases will allow for observation of macroeconomic and financial conditions.

Previously, the BSP implemented a series of policy rate increases to curb future inflation, as higher interest rates tend to temper demand for goods and services.

***https://www.bsp.gov.ph/SitePages/PriceStability/FullReportMPR/MonetaryPolicyReport_Full_May2023.aspx***