MONETARY POLICY REPORT

AUGUST 2024

Foreword

The primary objective of monetary policy is to promote low and stable inflation conducive to balanced and sustainable economic growth and employment. To help fulfill this objective, the Bangko Sentral ng Pilipinas (BSP) adopted the inflation targeting framework for monetary policy.

One of the key features of inflation targeting is greater transparency. This means greater disclosure and communication by the BSP of its policy actions and decisions. The *Monetary Policy Report* plays a primary part in the BSP's effort at transparency. It shares with stakeholders, including market participants, the latest assessment of the monetary policy stance based on an analysis of economic and financial prospects. The broad aim is to contribute to making monetary policy more accessible to the public. Through the *Monetary Policy Report*, the public may better understand and monitor the BSP's commitment to the inflation target.

The *Monetary Policy Report* is the flagship BSP publication on monetary policy. It provides the public with a detailed view of the BSP's forecasts and guidance on the likely direction of monetary policy over the next two years. The report conveys the overall thinking behind the BSP's decisions on monetary policy. The greater part of the report is devoted to forward-looking discussions on inflation and the key macroeconomic variables that affect inflation. It also discusses the risks and uncertainty surrounding the BSP's inflation forecasts.

Under the inflation targeting framework, the Development Budget Coordination Committee (DBCC) has retained the government's annual headline inflation target at 3.0 percent ± 1.0 percentage point (ppt) for 2024–2028. The inflation target range continues to be our quantitative representation of the medium-term goal of price stability, aligned with the current structure of the Philippine economy and the outlook on macroeconomic conditions over the next few years.

The Monetary Board approved this *Monetary Policy Report* at its meeting on 29 August 2024.

ELI M. REMOLONA, JR.
Governor

The Monetary Policy of the Bangko Sentral ng Pilipinas

The BSP mandate

The main responsibility of the BSP is to formulate and implement policy in the areas of money, banking, and credit, with the primary objective of maintaining stable prices conducive to balanced and sustainable economic growth and employment in the Philippines. The BSP also aims to promote and preserve monetary stability and the convertibility of the national currency.

Monetary policy instruments

The BSP's primary monetary policy instrument is the overnight reverse repurchase (RRP) facility.[1] Other instruments to implement the desired monetary policy stance to achieve the inflation target include (a) conducting auctions for the term deposit facility (TDF) and BSP Securities Facility, (b) adjusting the rediscount rate on loans extended to banking institutions on a short-term basis against eligible collateral of banks' borrowers, and (c) outright sales/purchases of the BSP's holdings of government securities (GS).

Policy target

The BSP's target for monetary policy is the average annual Consumer Price Index (CPI), or headline inflation rate, which is compiled and released to the public by the Philippine Statistics Authority (PSA). The policy target is set by the DBCC in consultation with the BSP.[2] The inflation target for 2024–2028 is 3.0 percent ± 1.0 ppt.[3]

The BSP's explanation clauses

Explanation clauses are a prespecified set of acceptable circumstances under which an inflation-targeting central bank may fail to achieve its inflation target. These clauses reflect the fact that there are limits to the effectiveness of monetary policy and that deviations from the inflation target may sometimes occur because of factors beyond the control of the central bank. Under the inflation targeting framework of the BSP, these exemptions include inflation pressures arising from (a) volatility in the prices of agricultural products; (b) natural calamities or events that affect a major part of the economy; (c) volatility in the prices of oil products; and (d) significant government policy changes that directly affect prices, such as changes in the tax structure, incentives, and subsidies.

[1] On 8 September 2023, the overnight RRP facility was transformed into a variable-rate auction format, with the policy rate of the BSP renamed to target RRP rate.
[2] The DBCC, created under Executive Order No. 232 dated 14 May 1970, is an interagency committee tasked primarily to formulate the national government (NG)'s fiscal program. It is composed of the Office of the President, Department of Budget and Management (DBM), National Economic and Development Authority (NEDA), and the Department of Finance. The BSP attends the Committee meetings as a resource agency.
[3] During the meeting on 15 December 2023, the DBCC, in consultation with the BSP, decided to retain the inflation target of 3.0 percent ± 1.0 pp for 2024 and set the same inflation target for 2025–2028.

The Monetary Board

The powers and functions of the BSP, such as the conduct of monetary policy and supervision over the banking system, are exercised by its Monetary Board (MB). It has seven members appointed by the President of the Philippines. For 2024, the MB is scheduled to hold seven monetary policy meetings to review and decide on monetary policy.

Chairman and Governor

Eli M. Remolona, Jr.

Members

Ralph G. Recto
Benjamin E. Diokno
Romeo L. Bernardo
Rosalia V. De Leon
Walter C. Wassmer

The Advisory Committee

The Advisory Committee was established as an integral part of the institutional setting for inflation targeting. It is tasked to deliberate, discuss, and make recommendations on monetary policy to the Board. Like the MB, the Committee will meet seven times in 2024 but can have additional regular meetings when necessary.

Chairman

Eli M. Remolona, Jr.
Governor

Members

Francisco G. Dakila, Jr.
Deputy Governor
Monetary and Economics Sector

Chuchi G. Fonacier
Deputy Governor
Financial Supervision Sector

Eduardo G. Bobier
Deputy Governor
Corporate Services Sector

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Senior Assistant Governor
Financial Markets

Iluminada T. Sicat
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Monetary Policy Sub-Sector

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Office of Systemic Risk Management

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Monetary Policy Research Group

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Economic and Financial Forecasting Group

Sol Elizah T. Roxas
Bank Officer VI
Corporate Services Sector

Technical support staff members

Monetary Policy Research Group
Economic and Financial Forecasting Group
Financial Markets Research Group
Real and External Sectors Research Group

Schedule of Monetary Policy Meetings and publication of the Monetary Board Highlights and the Monetary Policy Report for 2024

Month	Monetary Board Meeting	Monetary Board Highlights	Monetary Policy Report
January		11 (Thursday) (14 December 2023 MB meeting)	
February	15 (Thursday) (MB meeting no. 1)		16 (Friday) (MPR I, February 2024)
March		14 (Thursday) (15 February 2024 MB meeting)	
April	8 (Monday) (MB meeting no. 2)		
May	16 (Thursday) (MB meeting no. 3)	6 (Monday) (8 April 2024 MB meeting)	24 (Friday) (MPR II, May 2024)
June	27 (Thursday) (MB meeting no. 4)	13 (Thursday) (16 May 2024 MB meeting)	
July		25 (Thursday) (27 June 2024 MB meeting)	
August	15 (Thursday) (MB meeting no. 5)		30 (Friday) (MPR III, August 2024)
September		12 (Thursday) (15 August 2024 MB meeting)	
October	17 (Thursday) (MB meeting no. 6)		
November		14 (Thursday) (17 October 2024 MB meeting)	
December	19 (Thursday) (MB meeting no. 7)		3 January 2025 (Friday) (MPR IV, December 2024)

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List of Acronyms and Abbreviations

AFF	agriculture, forestry, and fishing
AI	Avian influenza
ASF	African Swine Fever
BoE	Bank of England
bp	basis point
BSEF	Bangko Sentral ng Pilipinas' survey of external forecasters
BSP	Bangko Sentral ng Pilipinas
BSPB	Bangko Sentral ng Pilipinas bill
BTr	Bureau of the Treasury
CES	Consumer Expectations Survey
CPI	Consumer Price Index
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DI	diffusion index
ERC	Energy Regulatory Commission
FAO	Food and Agriculture Organization
FDI	foreign direct investment
GDP	gross domestic product
GIR	gross international reserves
GS	government security
IMF	International Monetary Fund
LASSO	Least Absolute Shrinkage and Selection Operator
LRT	Light Rail Transit
LTFRB	Land Transportation Franchising and Regulatory Board
MB	Monetary Board
MISSI	Monthly Integrated Survey of Selected Industries
m-o-m	month-on-month
MPR	Monetary Policy Report
NEDA	National Economic and Development Authority
NEER	nominal effective exchange rate
NG	national government
NLEX	North Luzon Expressway
OF	overseas Filipino
OPEC	Organization of the Petroleum Exporting Countries
PAMPh	Policy Analysis Model for the Philippines
PMI	purchasing managers' index
pp	percentage point
PSA	Philippine Statistics Authority
PSEi	Philippine Stock Exchange Index
RAF	risk-adjusted forecast
REER	real effective exchange rate
RRP	reverse repurchase
RRR	reserve requirement ratio
RTL	Rice Tariffication Law
SC	Supreme Court
SCTEX	Subic-Clark-Tarlac Expressway
SLEX	South Luzon Expressway
T-bill	Treasury bill
T-bond	Treasury bond
TDF	term deposit facility

TPI	Trading Partners Index
UAE	United Arab Emirates
US	United States
US Fed	United States Federal Reserve
VoPI	volume of production index
WAIR	weighted average interest rate
WEO	World Economic Outlook
WESM	Wholesale Electricity Spot Market
y-o-y	year-on-year
y-t-d	year-to-date

Monetary policy summary

The BSP decided to reduce its target reverse repurchase rate by 25 basis points to 6.25 percent during its monetary policy meeting on 15 August 2024. The BSP also lowered the interest rates on the overnight deposit and lending facilities to 5.75 percent and 6.75 percent, respectively.

Forecasts point to within-target average inflation. The latest baseline inflation forecasts stand at 3.4 percent for 2024, 3.1 percent for 2025, and 3.2 percent for 2026. After the uptick in July, headline inflation will likely trend downward, owing to stable core inflation and a moderation in food and energy prices. Core inflation has been trending downward since March 2023.

The balance of risks to the inflation outlook leans toward the downside for 2024 and 2025, with a slight tilt toward the upside for 2026. Lower import tariffs on rice could reduce domestic rice prices, posing a main downside risk to the outlook. Meanwhile, upside risks could arise from higher electricity rates and external factors. If these risks materialize, average inflation could settle at 3.3 percent in 2024, 2.9 percent in 2025, and 3.3 percent in 2026, all within the target range.

Inflation expectations continue to be well-anchored. The BSP's August 2024 survey of external forecasters (BSEF) showed that analysts continue to expect within-target inflation, with mean and median forecasts declining toward the midpoint of the target range.

The outlook for domestic output growth is largely intact over the medium term. Economic growth could settle within the government's target in 2024 but may fall below targets for 2025 and 2026. Growth prospects are also relatively stable for the rest of the year, backed by robust construction spending and the timely implementation and expanded coverage of various government programs.

Domestic demand continues to buoy output growth. Despite the deceleration in household consumption, strong construction activities drove domestic demand. Public investment, alongside easing price pressures and robust employment conditions, will continue to support economic activity.

A calibrated reduction in the BSP's policy interest rate is appropriate as inflation continues to move toward the target range. The risk-adjusted forecast (RAF) path still indicates a downtrend, and the balance of risks remains tilted to the downside. Inflation expectations also remain well-anchored. At the same time, domestic demand is likely to hold firm, supported by solid economic growth despite tight financial conditions. Nevertheless, the BSP remains mindful of lingering upside risks to inflation. Moving forward, the BSP will continue to take a measured approach to ensuring price stability, conducive to balanced and sustainable economic growth and employment.

Economic outlook

I. Baseline forecasts

Inflation is estimated to settle within the 2.0–4.0 percent target range over the policy horizon. Inflation will likely decline in August and September 2024 due to negative base effects from the previous year's uptick in global oil and rice prices. Lower rice tariffs, the gradual arrival of rice imports, and a downtrend in global commodity prices will also contribute to the deceleration.

The higher inflation in July 2024 was largely temporary. As expected, inflation in July accelerated due to higher electricity rates, fuel prices, and school fees, following the start of the academic year. Inflation is expected to revert to the target range, beginning in August, due to lower rice prices and negative base effects. This forecast already considers the impact of electricity rate adjustments and the temporary rise in commodity prices from Typhoon Carina. In the meantime, core inflation has been declining since March 2023. Core inflation is the part of inflation that is most closely influenced by monetary policy.

Favorable global supply factors support the inflation downtrend from Q4 2024 to 2025. Global oil prices remain in backwardation (i.e., when current prices are higher than futures prices). At the same time, global non-oil prices could decelerate, with global growth remaining below historical averages. Meanwhile, robust domestic demand is seen to contribute positively to the inflation path.

Compared with the baseline forecasts cited in the previous MPR, the latest baseline forecasts are lower for 2024 and 2025, owing to the tariff reduction on rice imports, lower-than-expected inflation print in Q2 2024 and lower global crude oil price assumptions. The impact of these factors was partly offset by higher assumptions for global non-oil prices and minimum wage adjustments.

Table 1
BSP Average Baseline Inflation Projections
in percent

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

Source: Bangko Sentral ng Pilipinas estimates

[a] Baseline forecasts from the 16 May 2024 monetary policy meeting
[b] Baseline forecasts from the 15 August 2024 monetary policy meeting

The outlook on domestic economic activity remains firm. The latest baseline forecasts suggest that economic growth could settle within the DBCC's target of 6.0–7.0 percent for 2024. However, it could fall below the 6.5–7.5 percent and 6.5–8.0 percent targets for 2025 and 2026, respectively.[4] Growth prospects are relatively

[4] Based on the 188th DBCC meeting on 27 June 2024

stable for the rest of the year, driven by robust construction spending and the timely implementation and expanded coverage of various government programs.

The economy is on track to grow near potential. The overall balance of demand and supply conditions, as captured by the output gap or the difference between actual and potential output, indicates limited demand-based inflation pressures over the policy horizon.

Estimates from the BSP's Policy Analysis Model for the Philippines (PAMPh)[5] indicate that the output gap will remain slightly negative in 2024 and 2025 but will close in 2026. Higher consumption, driven by higher real wages and stable overseas Filipino (OF) remittances, could offset the negative impact of previous policy interest rate adjustments on demand. This will bring domestic output closer to its potential over the policy horizon. Meanwhile, improvements in labor market conditions and continued investment growth could sustain potential output. Productivity growth is also expected to improve further due to robust economic activity and stable infrastructure spending. Moreover, key reforms could shore up investments and business activity, and help accelerate the country's potential output.

The exchange rate outlook over the policy horizon remains within the DBCC's assumptions of ₱56.00–₱58.00/US$1 for 2024 and ₱55.00–₱58.00/US$1 for 2025 and 2026.[6] The exchange rate is projected to appreciate over the policy horizon, with the expected seasonal OF remittance inflows during the holiday season. This is despite an assumed wider policy rate differential against the United States (US). The forecasts consider a 100-basis point (bp) reduction in the US federal funds rate in 2024 and a further 125-bp rate cut in 2025 in line with market expectations.

II. Key forecast assumptions

External factors

World gross domestic product growth. Global growth is expected to remain stable in 2024 and 2025, based on the International Monetary Fund (IMF)'s July 2024 World Economic Outlook (WEO) Update. The US economy is expected to slow down due to fiscal tightening and a softening labor market. Meanwhile, the recovery in the eurozone, backed by growth in the services and manufacturing subsectors, is expected to continue, as higher real disposable incomes drive private consumption. Investment demand is also projected to improve, with easing financial conditions amid gradual monetary policy accommodation.

Growth prospects for China have improved, following stronger private consumption and exports. Additionally, the Japanese economy is seen to rebound, as consumption spending strengthens on improved optimism among local consumers.

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[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] Based on the 188th DBCC meeting on 27 June 2024

The risks to the global growth outlook remain broadly balanced, with emerging near-term risks stemming from persistent inflation and geopolitical concerns. Upside risks continue to emanate from short-term fiscal impulses from election spending in major economies in 2024 and faster-than-expected monetary policy easing.

Table 2
World Gross Domestic Product Growth
in percent

	May 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	3.2	3.2
2025	3.2	3.3

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

Dubai crude oil prices. Global crude oil prices are set according to oil futures market data for the period 25 July 2024 to 7 August 2024. Domestic oil market prices, in turn, are assumed to broadly track the downward trend in world oil prices.

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

	May 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	83.69	80.70
2025	79.11	74.13
2026	–	71.36

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Assumptions for global crude oil prices are lower compared with the previous round. Spot prices declined during the last week of July 2024, partly due to signs of slowing global oil demand growth, particularly in China. The US Energy Information Administration still expects that the recent round of production cuts by the Organization of the Petroleum Exporting Countries (OPEC)+ will reduce global oil inventories over the next three quarters and partly offset the slowdown in demand. Supply conditions are anticipated to return to moderate inventory levels in H2 2025, following the expiration of voluntary OPEC+ supply cuts in Q4 2024 and as production growth outside OPEC+ begins to outweigh global demand growth.

To determine the impact of potential world oil price outcomes on the inflation forecasts for 2024–2026, scenarios ranging from US$80 to US$130 per barrel were simulated. The scenarios assume oil prices will remain at these levels starting September 2024. Keeping all else constant, inflation could breach the 2.0–4.0 percent target range if Dubai crude oil prices average above US$90 per barrel in 2025 and above US$100 per barrel in 2026. These oil price scenarios consider only direct effects and do not incorporate potential second-round effects on transport fares, food prices, and wage increases, among others.

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

Year	2024	2025	2026
Baseline inflation forecast (US$)	3.4	3.1	3.2
80	3.4	3.3	3.5
90	3.5	3.9	3.7
100	3.5	4.3	3.9
110	3.6	4.7	4.1
120	3.6	5.1	4.2
130	3.6	5.5	4.3

Source: Bangko Sentral ng Pilipinas estimates

World non-oil prices. Global non-oil commodity prices are assumed to ease over the policy horizon, based on the IMF's July 2024 WEO Update. The emergence of *La Niña*, which causes wetter conditions favorable for agricultural production, could alleviate price pressures on food commodities. Nonetheless, non-oil prices are higher compared with the previous round. Price pressures may also emanate from renewed trade or geopolitical tensions. Disruptions in the Red Sea due to the Middle East conflict could further increase near-term risks to inflation by raising the cost of imported goods along the supply chain.

Table 5
World Non-Oil Price Inflation
in percent

	May 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	0.1	5.0
2025	-0.4	1.6
2026	-	0.4

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

Federal funds rate. The latest federal funds rate assumptions are based on the futures prices as of 7 August 2024. The current futures path aligns with market expectations for 2024 of a 50-bp cut in September, followed by a 25-bp cut each in November and December. In 2025, the market anticipates the federal funds rate declining further by 125 bps. Meanwhile, no additional rate reductions have been assumed for 2026 yet. This assumed path came after the US unemployment rate recorded a near three-year high in July 2024 amid a significant slowdown in hiring, growing fears of a weaker labor market, and a potential recession in the US.

Table 6
Federal Funds Rate
end-period; in percent

	May 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	4.9	4.4
2025	4.2	3.2
2026	–	3.2

Source: Bloomberg

Domestic factors

Target reverse repurchase rate and reserve requirement ratio. The forecast path assumes no adjustments in both the policy interest rate and the reserve requirement ratio (RRR) over the policy horizon. The target RRP rate and the RRR are kept at 6.5 percent and 9.5 percent, respectively, from August 2024 until the end of 2026.

Wages. The baseline forecast reflected the actual minimum wage hike for the National Capital Region in July 2024. It also considered increases of 5.0 percent each for 2025 and 2026 in line with historical wage adjustments.

Fiscal sector. The baseline inflation forecasts are consistent with the government's fiscal deficit assumption, based on the medium-term fiscal program set by the DBCC as of 27 June 2024.

Table 7
Fiscal Deficit Assumption
in percent

	May 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	5.6	5.6
2025	5.2	5.3
2026	–	4.7

Source: Department of Budget and Management

Alcoholic drinks. The baseline forecasts reflected the impact of annual adjustments in the prices of alcoholic beverages (0.7 percent of the CPI basket) in line with Republic Act No. 11467. Higher excise taxes for fermented liquor, wine, and distilled spirits are being implemented on a staggered basis from 2020 to 2024 and shall increase by 6.0 percent yearly from 2025 onward.

Tobacco products. Under Republic Act 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 be raised on a staggered basis to ₱60.00 per pack in 2023, with a 5.0-percent annual indexation thereafter.

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	5.0% indexation	-	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) and other major distributors are expected to increase until September 2024. This follows the Energy Regulatory Commission's (ERC) decision to stagger the collection of charges from the May 2024 Wholesale Electricity Spot Market (WESM) purchases into four equal monthly installments starting in June 2024. As a result, Meralco's electricity rates for a typical household will increase by ₱0.03 per kilowatt-hour (kWh) from ₱11.60 per kWh in July to ₱11.63 per kWh in August.

Lower tariff on rice imports. The President signed on 20 June 2024 Executive Order No. 62, which reduced the tariff on rice from 35.0 percent to 15.0 percent, to help lower the price of imported rice. NEDA also announced the approval of the new Comprehensive Tariff Program for 2024–2028, which reduces tariffs on other essential items in the energy and manufacturing sectors and retains the prevailing low rates on key agricultural products. The baseline inflation forecast accounted for the direct impact of lower imported rice prices.

Headline inflation is expected to ease in 2024 and 2025. with the impact of lower imported rice prices peaking by January 2025 and stabilizing until July 2025. Lower tariff rates on rice imports may reduce upward pressures on the landed costs of rice, thereby pulling down domestic wholesale and retail prices.

III. Risks to the outlook

The balance of risks to the inflation outlook now leans toward the downside for 2024 and 2025, with a slight tilt toward the upside for 2026. After incorporating the estimated impact of the risks at their assigned probabilities, inflation is still projected to remain within the target range.

The potential spillover to domestic rice prices of the reduction in the tariff on imported rice is the primary downside risk to the outlook. Meanwhile, upside risks could emanate from higher electricity rates. Additionally, higher global oil and food prices as well as peso depreciation could result from possible worsening of geopolitical risks.

Table 9
Baseline and Risk-Adjusted Projections
in percent

		May 2024 Monetary Policy Report	August 2024 Monetary Policy Report
Baseline inflation Forecast	**2024**	3.5	3.4
	2025	3.3	3.1
	2026	–	3.2
Risk-adjusted inflation forecast	**2024**	3.8	3.3
	2025	3.7	2.9
	2026	–	3.3

Source: Bangko Sentral ng Pilipinas

The latest RAFs for 2024 and 2025 are lower compared with the estimates in the previous round. These were driven by downward revisions in the baseline forecasts and the estimated impact of identified risks. The inclusion of possible spillovers from the rice tariff reduction, the removal of higher global oil prices, and the adjustments in the assumed implementation of higher transport fares and staggered collection of higher electricity rates led to a negative total risk estimate.

Table 10
Risk Matrix[7]

	Risks	Probability
Upside risks	Higher transport charges	Medium
	Higher electricity rates	High
Downside risk	Spillover from rice tariff reduction	2024: High 2025: Medium

Source: Bangko Sentral ng Pilipinas

Higher jeepney, train, and taxi fares pose upside risks to inflation. On 8 October 2023, the Land Transportation Franchising and Regulatory Board (LTFRB) approved a ₱1.00 provisional increase in the minimum jeepney fare for both traditional and modern jeepneys. As the petition requested a ₱5.00 increase, the alternative scenario assumes that the remaining ₱4.00 will be approved. Moreover, the Alliance of Transport Operators and Drivers Association of the Philippines filed a petition to increase the minimum fare for traditional jeepneys to ₱15.00. The scenario assumes implementation by Q3 2024. A low probability is assigned to this risk, given the downtrend in oil prices and the absence of follow-up on the petitions.

In December 2023, the Metro Rail Transit Line 3 management filed a petition with the Department of Transportation to raise its minimum fare from ₱13.00 to ₱16.00.

[7] 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.

With the proposed fare hike still under review, the alternative scenario assumes implementation by Q3 2024. A high probability is assigned to this risk, following the adjustments in the Light Rail Transit (LRT) Line 1 and LRT Line 2 fares in 2023.

For regular taxis, the LTFRB approved an increase in the flag-down rate to ₱50.00 nationwide. As the LTFRB has yet to announce the hike and post the new rates, the alternative scenario assumes implementation of the increase by Q3 2024. A high probability is assigned to this risk due to the approval of the motion.

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)			
Cordillera Administrative Region	40.00	50.00	High
Other regions	45.00	50.00	

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

An overall medium probability is assigned to the risk of higher transport charges based on the CPI weights of the items considered.

Electricity rates could increase over the forecast horizon. In July 2023, the Supreme Court (SC) nullified the ERC's 2014 decision to cap WESM prices from November 2013 to December 2013. The ERC's decision aimed to address the higher prices during the maintenance shutdown of the Malampaya gas field. This risk scenario assumes that power generation costs will be passed on to consumers, with the adjustment spread equally over the next five years starting in September 2024.

A high probability is assigned to this risk in view of the expected order from the ERC to authorize the collection of said power generation costs, following the SC's decision.

Tariff reduction on rice imports could lead to lower prices of domestically produced rice. The lower tariff is expected to reduce upward pressure on domestic rice prices with higher import volumes, as observed after the passage of the Rice Tariffication Law (RTL). Before the RTL, rice imports accounted for 6.2 percent of total domestic supply from 2015 to 2017. With the RTL, imported rice rose to an average of 16.7 percent of domestic supply from 2019 to 2022.

The probability assigned to this risk is high for 2024 and medium for 2025, with the formalization of the reduced tariff through Exec. Ord. No. 62. The scenario assumes that the price of the remaining 79.2-percent share of the total rice supply, produced domestically, will decline by ₱6.67 per kilogram based on the reduction in the landed cost of imported rice.

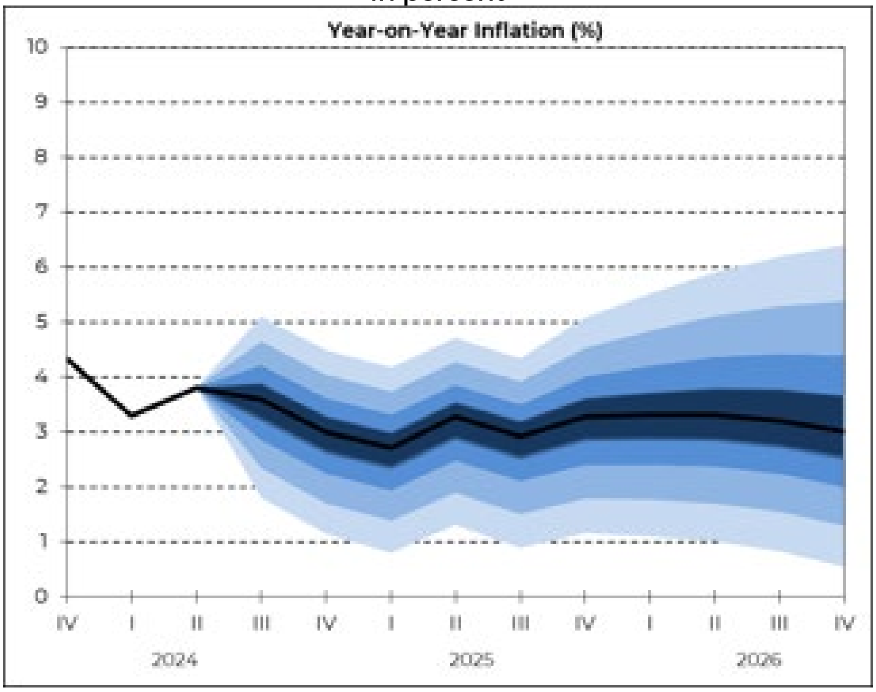
The balance of risks to the inflation outlook is tilted toward the downside for 2024 and 2025, with a slight tilt toward the upside for 2026. Using a 90.0-percent confidence interval for the fan chart, estimates indicate a high probability of average annual inflation settling within 3.0 percent ± 1.0 pp over the policy horizon. The latest probability distribution shows a significantly lower likelihood of inflation breaching the target for 2024 and 2025. Similarly, 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%)	
	May 2024 MPR	August 2024 MPR	May 2024 MPR	August 2024 MPR	May 2024 MPR	August 2024 MPR
2024	5.0	1.3	46.8	91.4	48.2	7.3
2025	10.5	21.7	48.0	58.5	41.5	19.8
2026	–	17.1	–	52.3	–	30.6

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 (%)		
	2024	2025	2026
80	2.6–4.0	1.5–4.2	1.4–5.7
90	2.5–4.1	1.0–4.6	0.9–6.0

Source: Bangko Sentral ng Pilipinas estimates

Box Article 1:
Monetary Policy Developments

On 27 June 2024, the Bangko Sentral ng Pilipinas (BSP) maintained the target reverse repurchase (RRP) rate at 6.5 percent. The interest rates on the overnight deposit and lending facilities also remained at 6.0 percent and 7.0 percent, respectively.

The baseline inflation forecasts during the June 2024 monetary policy meeting were slightly lower relative to the May 2024 *Monetary Policy Report*. The balance of risks to the inflation outlook shifted toward the downside for 2024 and 2025, largely due to the impact of lower import tariffs on rice under Executive Order No. 62 dated 20 June 2024. Consequently, the risk-adjusted inflation forecasts declined for both 2024 and 2025.

		May 2024 Monetary Policy Report[a]	**June 2024 Monetary Policy Meeting**[b]
Baseline inflation forecast	**2024**	3.5	3.3
	2025	3.3	3.2
Risk-adjusted inflation forecast	**2024**	3.8	3.2
	2025	3.7	3.1

Source: Bangko Sentral ng Pilipinas estimates

[a] Forecasts from the 16 May 2024 monetary policy meeting (*Monetary Policy Report* round)
[b] Forecasts from the 26 June 2024 monetary policy meeting

During the policy meeting in June, inflation was seen to move closer to the midpoint of the 2.0–4.0 percent target range. Inflation expectations also remained well-anchored. Nonetheless, higher prices of food items other than rice, transport charges, and electricity rates continued to pose upside risks to inflation. Meanwhile, prospects for domestic output growth remained aligned with medium-term trends amid favorable labor market conditions and strong net exports.

On balance, the BSP deemed it appropriate to hold monetary policy settings steady. Price pressures were anticipated to ease further in the second half of the year, with the implementation of Exec. Ord. No. 62 and Administrative Order No. 20 dated 18 April 2024. Moreover, a sustained easing in price pressures would allow more scope for the BSP to consider a less restrictive monetary policy stance going forward. However, uncertainty in the external environment called for caution against potential spillovers, including those in the financial markets.

Box Article 2:

The Value of Silence in Central Bank Communications: Adopting a Quiet Period in the BSP[1]

As an inflation-targeting central bank, the Bangko Sentral ng Pilipinas (BSP) recognizes the importance of coherence and transparency in its monetary policy communications. Many central banks support the view that markets' clear understanding of monetary policy objectives and strategies contributes to the effectiveness of monetary policy transmission through asset prices, credit, and expectations.

While greater central bank transparency can minimize uncertainty, inconsistent policy messages and information overload may contribute to unnecessary noise, especially ahead of monetary policy meetings. Clarity in central bank communication, therefore, is just as important as the magnitude of transparency (Jitmaneeroj et al., 2019).

The quiet period policy bolsters the BSP's forward guidance

The BSP uses forward guidance to provide information on the likely future path of monetary policy. While forward guidance is not intended to be a pre-commitment to a particular course of action, it lends future monetary policy decisions some measure of predictability. Hence, forward guidance, when executed effectively, can be a potent instrument in influencing market expectations and aligning them with the central bank's policy intentions and objectives.

In its own experience, the BSP has found that effective forward guidance requires transparency, consistency in messaging, and a unified voice in conveying the intention and direction of monetary policy.

To enhance forward guidance as a monetary policy tool, the BSP formally adopted a quiet period policy. For a predetermined period before each scheduled monetary policy meeting of the Monetary Board (MB), the BSP will refrain from communicating matters related to prospective monetary policy issues and decisions until the official announcement of the MB's assessment of the monetary policy stance.

Quiet periods are not new to central banking. Over the years, monetary authorities, especially in advanced economies, have adopted this practice to prevent excessive market volatility stemming from unnecessary speculation.

Quiet Period Practices of Selected Central Banks

Central bank	Length of quiet period[2]
European Central Bank	starts seven days before the scheduled policy meeting
United States Federal Reserve	starts at 12:00 a.m. (Eastern Time) on the second Saturday before the first day of the meeting, and ends at 11:59 p.m. (Eastern Time) the day after the meeting
Bank of England	starts from the Monetary Policy Committee meeting, and ends at midnight on the day of the policy announcement
Bank of Japan	starts two days before the monetary policy meetings, and ends at the end of the day on which the meetings conclude
Bank of Canada	starts about one week before the publication of the monetary policy decision
Reserve Bank of Australia	starts at the beginning of the Policy Discussion Group meeting, usually at 2:30 p.m. (Australian Eastern Time) on the Wednesday prior to the Board meeting, and ends after the policy announcement

Sources: Official websites of central banks

Salient points of the BSP's quiet period guidelines

The BSP's quiet period will begin seven calendar days before the scheduled monetary policy meeting and continue until the announcement of the monetary policy decision to the public. During this period, BSP officials and technical staff are expected to refrain from discussing the direction and intention of monetary policy.

Type of information that may be communicated during the quiet period. Only information cleared for publication by appropriate authorities and released to the public before the quiet period, without reference to prospective monetary policy decisions, may be shared. Senior BSP officials may still disseminate regularly published reports by providing factual background information and answering technical questions specific to scheduled media or data releases.

Speaking engagements during the quiet period. The Governor may discuss current or future monetary policy issues during the quiet period, but only with the concurrence of the majority of the MB members. The Governor may have greater flexibility during extraordinary circumstances, such as when there is an urgency to minimize market volatility due to false information or during crises like the COVID-19 pandemic, when communication about extraordinary liquidity-enhancing measures and forward guidance was necessary to reduce uncertainty.

Unless approved by the Governor, MB members, deputy governors, and senior BSP officials[3] shall not accept any engagements, disclose confidential information, or express their views on macroeconomic developments, prevailing monetary policy issues, or upcoming monetary policy decisions to the public and other parties[4] during the quiet period, whether on or off the record. The technical staff of the Advisory Committee[5] are subject to the same restrictions.

Quiet period rules balance transparency and policy flexibility

Quiet period policies do not undermine transparency in monetary policy communications. While such rules limit the information the BSP may share during the period, unrestricted central bank communication leading up to policy meetings may contribute to market confusion and increase uncertainty. For instance, diverging policy narratives may result in higher forecast errors in academic and private-sector institutions (Gnan & Rieder, 2023). On balance, quiet period rules help offset the potential adverse impact of having "too many voices" or providing "too much information." A quiet period minimizes noise to ensure the clarity of signals from monetary authorities.

Observing a quiet period also provides some degree of policy flexibility for monetary authorities during the policymaking process. Key economic indicators, such as gross domestic product and inflation, may be released days before the BSP's monetary policy meeting. The quiet period allows monetary authorities to incorporate this incoming information into their analyses and views without having to change their messaging prior to the announcement of the monetary policy stance.

The current BSP guidelines on the quiet period for monetary policy meetings take into consideration past monetary policy communication experiences and best practices from other central banks. Moving forward, the BSP will continue to explore possible enhancements to its communication practices, in line with its commitment to a high level of transparency and accountability.

ENDNOTES

1/ The authors of this box article are Eugenio Alfredo E. Gloria and Charday V. Batac.

2/ In some central banks, the quiet period is referred to as "blackout period" or "*purdah*."

3/ This refers to senior assistant governors, assistant governors, managing directors, and heads of BSP departments and offices.

4/ This may refer to BSP personnel who are not involved in the formulation of the prospective monetary policy decision.

5/ The Advisory Committee supports the MB on issues relating to the formulation and implementation of monetary policy. It is composed of technical staff from the Monetary Policy Sub-Sector, Financial Supervision Sector, Financial Markets, and Office of Systemic Risk Management.

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Gnan, P. & Rieder, K. (2023). The (not so) quiet period: Communication by European Central Bank decision-makers during monetary policy blackout days. *Journal of International Money and Finance*, *130*, 1–40. https://doi.org/10.1016/j.jimonfin.2022.102744

Jitmaneeroj, B., Lamla, M. J., & Wood, A. (2019). The implications of central bank transparency for uncertainty and disagreement. *Journal of International Money and Finance*, *90*, 222–240. https://doi.org/10.1016/j.jimonfin.2018.10.002

Current developments

Overview

Headline inflation rose in July 2024, driven by higher food and energy costs. The higher July inflation stemmed from higher electricity rates and domestic petroleum prices. Inflation for education services also accelerated with the start of the school year. Food inflation climbed due to faster price increases for meat, fish, and corn, while rice inflation remained high.

Core inflation measures showed mixed trends but remained stable. The official core inflation continued to ease. Meanwhile, estimates of BSP-computed core inflation measures increased but remained generally stable. Core inflation is the part of inflation that is most closely affected by monetary policy.

Global crude oil prices fell due to weak economic activity. Sluggish global economic performance indicated reduced oil demand, contributing to lower prices. US job growth slowed down, and unemployment rose in July 2024. Manufacturing activity weakened across Asia, Europe, and the US, reflecting low demand. Asia's crude oil imports also declined in the same month.

Inflation expectations continue to be well-anchored. Mean inflation forecasts for 2024–2026 eased based on the results of the BSEF for August 2024. Analysts expect inflation to be within target over the policy horizon, with projections moving closer to the midpoint of the target range. Risks to the inflation outlook are broadly balanced, with local inflation expected to trend lower for the rest of the year.

The domestic economy expands at a faster pace in Q2 2024. On the demand side, domestic demand, particularly investments and government spending, drove gross domestic product (GDP) growth. Exports grew at a slower pace amid weak external demand. On the production side, services and industry expanded. Meanwhile, the agriculture sector declined due to the adverse impact of *El Niño* during the quarter.

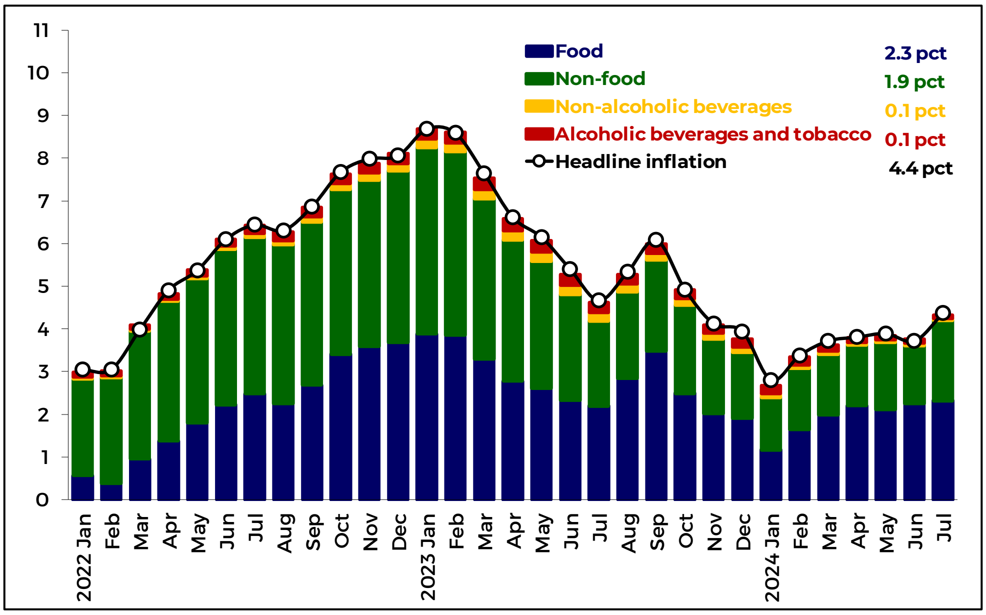
Demand indicators suggest that domestic growth prospects remain firm over the medium term. Output grew despite slower household consumption in Q2 2024, driven by strong domestic demand, especially in construction. Labor conditions improved in June 2024, with a lower unemployment rate. The preliminary purchasing managers' index (PMI) eased in July 2024, but business managers remain optimistic about economic recovery across all sectors in August 2024.

Prospects for global economic growth improved amid strong demand and continued business optimism. The IMF maintained its 2024 global growth projection, reflecting increased global economic activity despite persistent services inflation and trade tensions. As cyclical factors waned, activity aligned more closely with its potential, narrowing output divergence across economies. Risks to the global outlook remain balanced, but near-term risks have become more significant. Upside risks to inflation include slow disinflation in services and potential price pressures from renewed trade or geopolitical tensions, raising the likelihood of prolonged high interest rates.

I. Price conditions

Headline inflation. Headline inflation rose to 4.4 percent in July 2024, an increase from 3.7 percent in the previous month. This was driven by higher non-food costs, including electricity rates and domestic petroleum prices. Inflation for education services also picked up with the start of the school year, and food inflation contributed further to the rise. On a seasonally adjusted month-on-month (m-o-m) basis, inflation increased from zero percent in June to 0.6 percent in July.

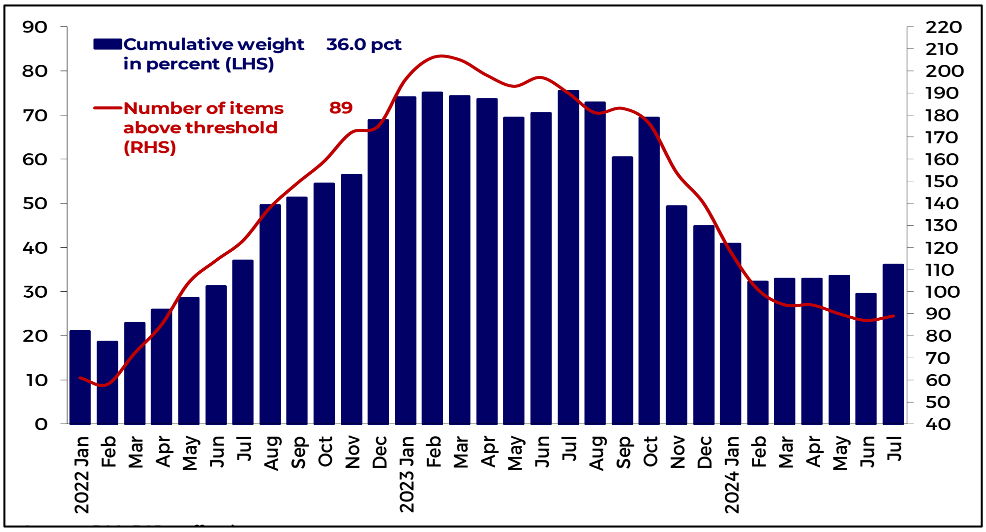
Figure 2
Headline Inflation
2018=100
in percent



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Inflation rates above target were recorded for 89 out of 315 items in July 2024, making up 36.0 percent of the consumption basket. Meanwhile, 119 items had inflation rates below target. The remaining 107 items (38.2 percent of the CPI basket) had inflation rates within target. Of the 89 items above target, 59 items were classified under food, non-alcoholic and alcoholic beverages, and tobacco. Twelve new items exceeded the 4.0-percent threshold, five of which belonged to the food and non-alcoholic beverages category.

Figure 3
Consumer Price Index Items with Inflation Rates Above Threshold
2018=100

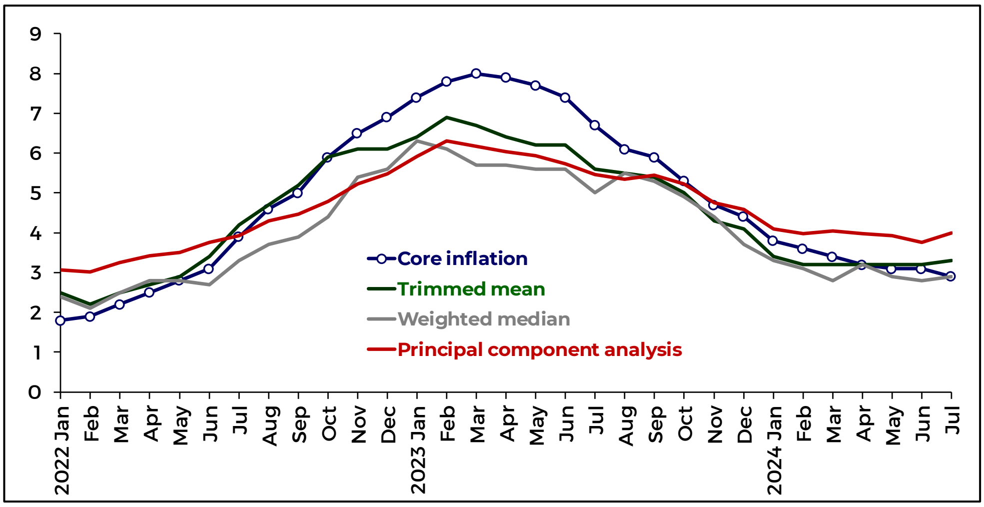


Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

RHS – right-hand side
LHS – left-hand side

Core inflation. The official core inflation eased further to 2.9 percent in July 2024 from 3.1 percent in June 2024, marking a decline that has been ongoing since March 2023. Meanwhile, preliminary estimates of BSP-computed core inflation measures increased but remained generally stable.

Figure 4
Estimates of Core Inflation Measures
year-on-year; in percent



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas (BSP) staff calculations using five-digit disaggregation for the BSP-computed core inflation, namely trimmed mean and weighted median

Core inflation excludes 10 volatile food and energy Consumer Price Index (CPI) items from the headline CPI. This includes (a) cereals (rice and corn); (b) meat (fresh, chilled, and frozen); (c) fish (live, fresh, chilled, and frozen); (d) dates, figs, and tropical fruits; (e) other vegetables (fresh and chilled); (f) fruit-bearing vegetables; (g) electricity; (h) liquefied hydrocarbons; (i) diesel; and (j) gasoline. In total, this accounts for 29.6 percent of the CPI basket.

Food inflation. Food inflation rose in July 2024 due to faster increases in prices of meat, fish, and corn. Moreover, rice inflation remained elevated at double-digit rates, albeit slower compared with the previous month's rate.

Table 14
Inflation Rates for Selected Food Items
2018=100
year-on-year; in percent

Commodity	July 2023	June 2024	July 2024
Food and non-alcoholic beverages	**6.3**	**6.1**	**6.4**
Food	6.3	6.5	6.7
Cereals and cereal products	5.9	16.3	15.6
Cereals	4.3	21.8	20.7
Rice	4.2	22.5	20.9
Corn	5.8	13.1	17.5
Flour, bread, and other bakery products; pasta products; and other cereals	10.1	3.0	2.6
Meat and other parts of slaughtered land animals	-1.7	3.1	4.8
Fish and other seafood	4.5	-1.4	-0.8
Milk, other dairy products, and eggs	9.7	1.3	1.8
Oils and fats	2.0	-3.0	-2.6
Fruits and nuts	8.4	5.6	8.4
Vegetables, tubers, cooking bananas, and pulses	21.8	7.2	6.1
Sugar, confectionery, and desserts	21.4	-3.0	-3.4
Ready-made food and other food products not elsewhere classified	7.8	5.9	6.0
Non-alcoholic beverages	6.8	2.0	1.8
Alcoholic beverages and tobacco	**10.9**	**3.8**	**3.4**

Sources of basic data: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Non-food inflation. Non-food inflation increased in July 2024 with the upward adjustments in electricity rates and higher domestic petroleum prices. Inflation for education services also accelerated with the start of the school year.

Table 15
Inflation Rates for Selected Non-Food Items
2018=100
year-on-year; in percent

Commodity	July 2023	June 2024	July 2024
Non-food	**3.3**	**2.3**	**3.1**
Clothing and footwear	4.8	3.2	3.1
Housing, water, electricity, gas, and other fuels	4.5	0.1	2.3
Electricity, gas, and other fuels	2.5	-5.7	0.7
Furnishings, household equipment, and routine household maintenance	5.8	2.8	2.8
Health	3.9	2.9	2.8
Transport	-4.7	3.1	3.6
Passenger transport services	7.2	3.3	3.1
Information and communication	0.7	0.5	0.5
Recreation, sport, and culture	4.7	3.5	3.4
Education services	3.7	3.8	5.8
Restaurant and accommodation services	7.9	5.1	4.9
Financial services	0.0	-0.6	-0.6
Personal care and miscellaneous goods and services	5.6	3.2	3.2

Sources of basic data: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Box Article 3:
Salient Prices in Consumer Expectations[1]

Households' inflation expectations play a key role in inflation dynamics. Changes in household expectations influence their economic behavior. For instance, if consumers expect prices to rise, they might be induced to spend more today while they perceive prices to be relatively low. Consumer expectations could also influence wage negotiations, as consumers may bargain for higher wages to align their spending power with the projected prices of goods and services. Consequently, monetary authorities strive to ensure that households' inflation expectations are well-anchored, considering that these are integral to achieving the central bank's mandate of price stability.

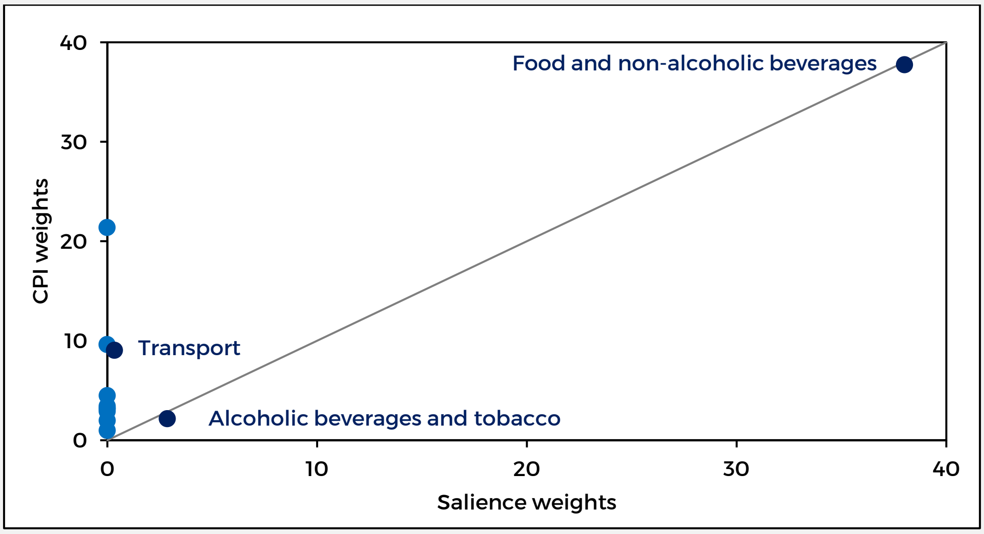
Using data from the Bangko Sentral ng Pilipinas (BSP) Consumer Expectations Survey (CES), this box article aims to determine which price changes are salient in forming Filipino consumers' inflation expectations. The study employed a machine learning method called Least Absolute Shrinkage and Selection Operator (LASSO). This follows a Federal Reserve Bank of Cleveland study conducted by Campos, McMain, and Pedemonte in 2022. LASSO can extract a subset of indicators that best predict a given target variable—in this case, consumer expectations.

Specifically, the study assesses which among the price changes in households' expenditure items in the past year best predict their inflation expectations for the next year. This is done by regressing the weighted mean of consumers' 12-month-ahead inflation point forecasts against the 12-month average year-on-year inflation rates of various Consumer Price Index (CPI) components. Subjecting the model to LASSO regularization filters out variables with the highest predictive contributions.

Figure 1 shows the results of this exercise for major commodity groups (i.e., two-digit CPI items). Consumers pay the most attention to inflation in food, beverages, tobacco, and transport. The points can be analyzed with respect to the 45-degree gray line, which represents where the data points would lie if their salience or LASSO weights were equal to their CPI weights.

It can be observed that the salience weights of two groups (i.e., food and non-alcoholic beverages, alcoholic beverages and tobacco) align closely with their actual CPI weights. This suggests that as households accumulate information on price changes throughout the year, they form expectations largely in line with the composition of their expenses. The salience weights of the commodity groups also sum up to less than 50.0 percent, which suggests that factors beyond historical inflation may be influencing consumer expectations.

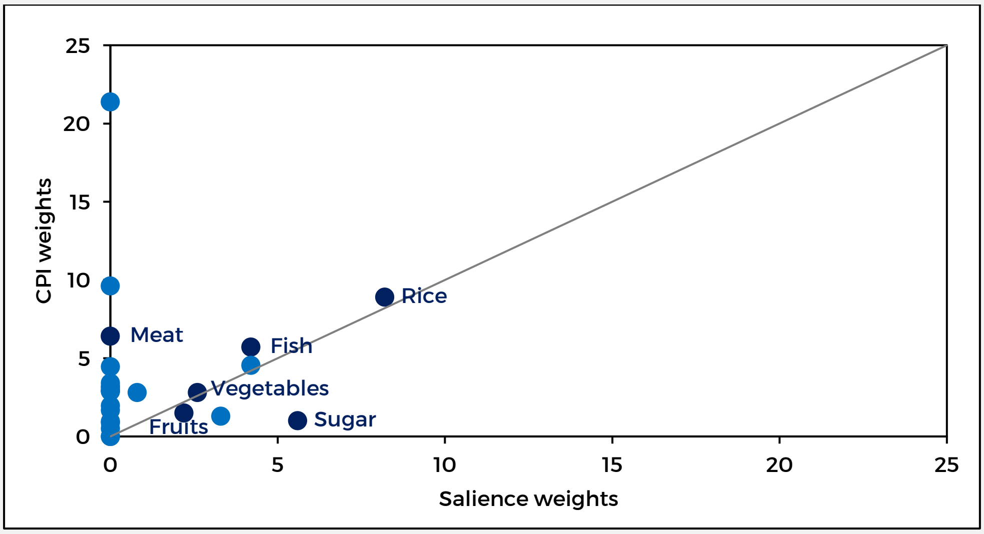
Figure 1
Salience of Consumer Price Index Commodity Groups
in percent



Source: Bangko Sentral ng Pilipinas staff calculations

Further disaggregating food into its component items, Figure 2 shows that rice is the most salient among food prices, with its salience approximating its CPI weight. Other salient food items are sugar, fish, vegetables, and fruits.

Figure 2
Salience of Disaggregated Food Items
in percent

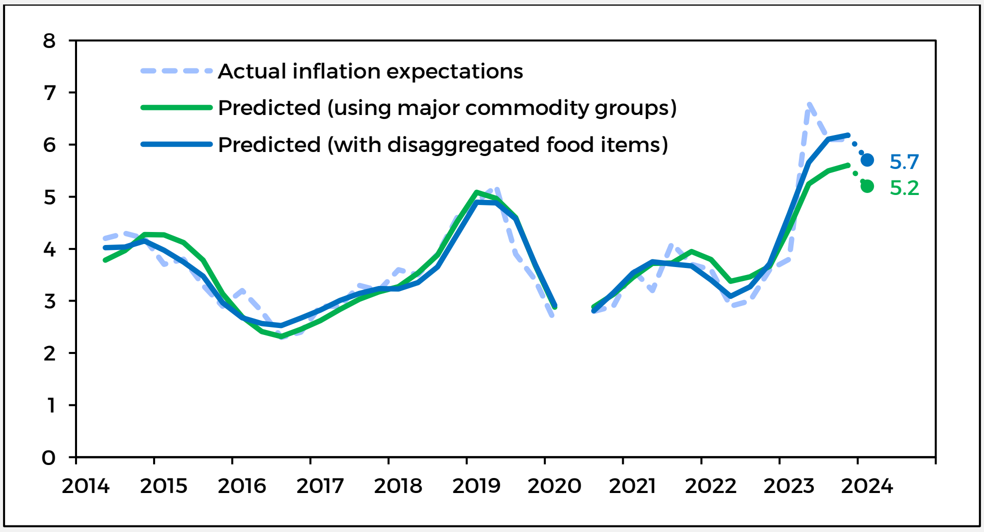


Source: Bangko Sentral ng Pilipinas staff calculations

The results are broadly similar across demographics, although groups may vary slightly in their attention to certain items. For instance, low-income respondents appear to pay greater attention to food (38.6 percent salience weight) and rice (10.0 percent) compared with middle-income (35.7 percent for food and 7.1 percent for rice) and high-income (35.2 percent for food and 5.9 percent for rice) classes.

The LASSO models were also tested for their ability to nowcast inflation expectations. Although simple, the study wanted to explore if the models could reasonably gauge where inflation expectations are likely to move in future quarters. As shown in Figure 3, the in-sample forecasts for the LASSO models seem to track CES inflation expectations reasonably well. The Q1 2024 nowcasts suggest a possible easing of inflation expectations from 6.1 percent in Q4 2023 to 5.2 percent for the model using major commodity groups and 5.7 percent for the model with disaggregated food items. Indeed, recent CES data showed that household expectations declined to 5.5 percent in Q1 2024.

Figure 3
Least Absolute Shrinkage and Selection Operator Nowcasts
in percent[2]



Source: Bangko Sentral ng Pilipinas staff calculations

In addition to pointing where inflation expectations might head, the salience of specific consumption items such as food could provide policymakers with insights into the benefits of a more targeted communication strategy. While supply-side factors that affect inflation are beyond the control of central banks, a nuanced discussion of salient price trends may help anchor the public's expectations.

ENDNOTES

1/ The authors of this box article are Cherrie R. Mapa, Mary Kryslette C. Bunyi, and Eddie Boy L. Fuentes. A full version of this study will be forthcoming in the BSP Discussion Paper Series.

2/ The CES enumeration for Q2 2020 was cancelled amid quarantine measures during the height of the COVID-19 pandemic.

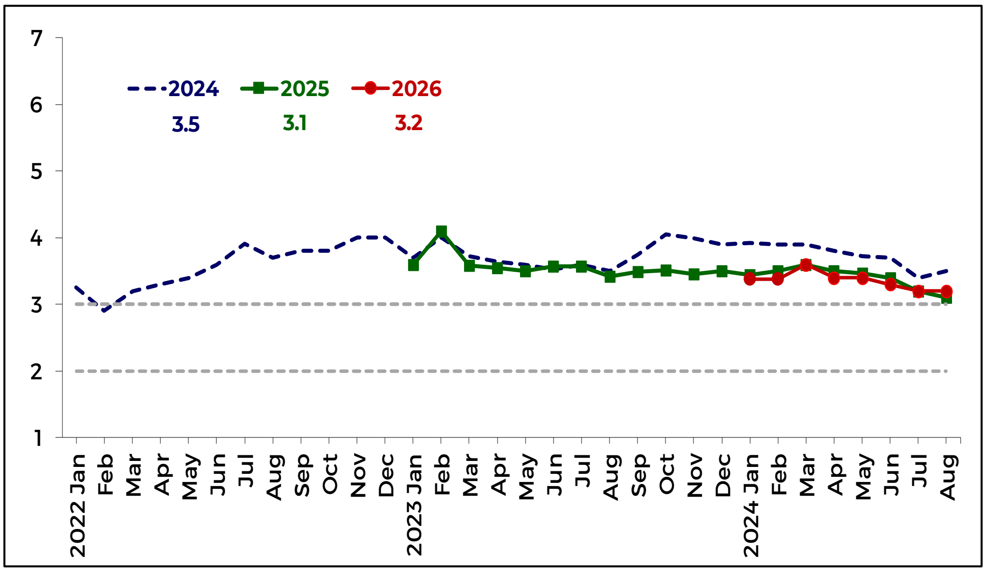
REFERENCES

Campos, C., McMain, M., & Pedemonte, M. (2022). *Understanding which prices affect inflation expectations* [Federal Reserve Bank of Cleveland Economic Commentary No. 2022-06]. https://doi.org/10.26509/frbc-ec-202206

II. Inflation expectations

Preliminary results from the BSEF for August 2024 showed that the mean inflation forecast for 2024 further eased to 3.5 percent (from 3.7 percent in May 2024). Forecasts for 2025 and 2026 also decreased to 3.1 percent (from 3.5 percent) and 3.2 percent (from 3.4 percent), respectively.[8]

Figure 5
Survey of External Forecasters
mean forecast for full year; in percent



Source: Bangko Sentral ng Pilipinas

This was based on forecasts provided by 23 respondents. The survey was conducted from 8–13 August 2024.

Analysts' forecasts continued to move closer to the midpoint of the target range. Risks to the inflation outlook are broadly balanced, with local inflation expected to trend lower for the rest of the year.

Downside risks to the inflation outlook are seen to stem largely from lower rice prices, following the implementation of EO 62. Analysts also anticipate downward inflationary pressures from a stronger peso against the US dollar, as well as favorable base effects.

Meanwhile, the main upside risk is expected to arise from second-round effects, such as higher electricity costs brought about by a potential uptick in oil prices amid geopolitical conflicts.

[8] The median forecast increased for 2024 at 3.5 percent (from 3.3 percent in the July survey) and remains unchanged for 2025 and 2026 at 3.1 percent and 3.0 percent, respectively.

Table 16

BSP Survey of External Forecasters

annual percentage change

August 2024

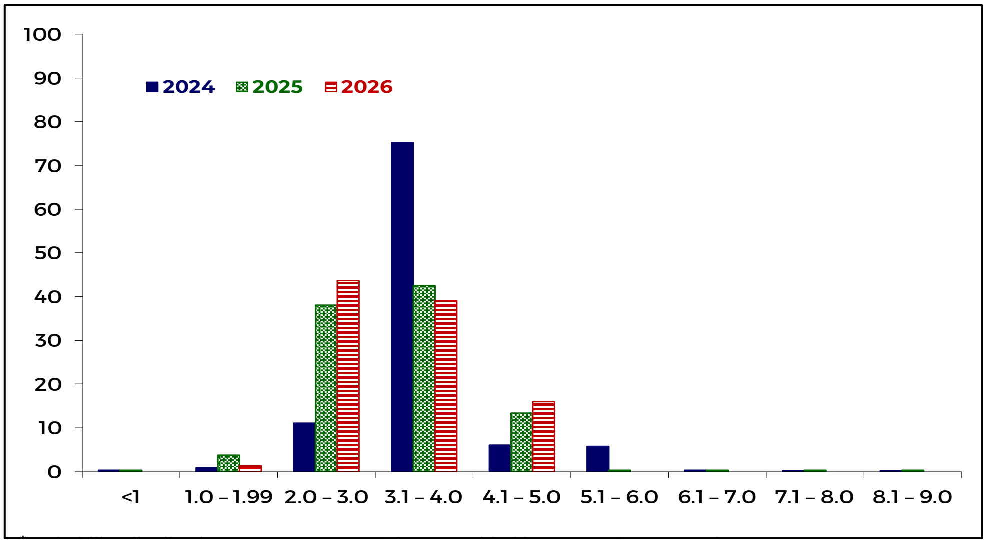
	2024 Q3	2024 Q4	2024 FY	2025 FY	2026 FY
1) Al-Amanah Islamic Bank	4.00	4.40	5.50	5.00	5.00
2) ANZ	–	–	3.60	3.10	3.00
3) Banco De Oro	–	–	3.30	2.70	–
4) Bangkok Bank	4.00	3.50	3.70	3.50	3.20
5) Bank of Commerce	3.46	2.92	3.37	–	–
6) Barclays	3.40	3.30	3.40	–	–
7) CTBC Bank	3.30	2.80	3.10	3.00	3.00
8) Deutsche Bank	3.60	3.60	3.60	3.50	–
9) eManagement for Business and Marketing Services	3.60	3.30	3.50	3.60	3.25
10) Goldman Sachs	3.10	2.80	3.20	2.70	2.70
11) HSBC	3.30	2.60	3.30	2.30	–
12) Metrobank	3.10	2.90	3.30	3.10	3.00
13) Mizuho	3.50	3.20	3.50	2.80	–
14) Modular Asset Management	3.60	3.20	3.50	3.50	3.80
15) Moody's Analytics	4.00	3.50	3.60	3.20	3.00
16) Nomura	2.50	1.80	2.80	2.30	–
17) Regis Partners	–	–	3.80	3.50	–
18) Pantheon Macroeconomics	4.00	3.10	3.50	2.50	2.60
19) Philippine Equity Partners	3.48	3.23	3.45	3.04	–
20) Security Bank	3.80	3.70	3.70	3.30	3.00
21) Standard Chartered	3.30	2.50	3.10	3.10	3.00
22) Sun Life Investment Management and Trust Corp.	3.00	2.50	3.30	2.50	2.70
23) Union Bank of the Philippines	4.00	3.80	3.70	3.50	3.20
Median forecast	3.50	3.20	3.50	3.10	3.00
Mean forecast	**3.50**	**3.10**	**3.50**	**3.10**	**3.20**
High	4.00	4.40	5.50	5.00	5.00
Low	2.50	1.80	2.80	2.30	2.60
Number of observations	20	20	23	21	14
Government target	**3.0 ± 1.0**	**3.0 ± 1.0**	**3.0 ± 1.0**	**3.0 ± 1.0**	**3.0 ± 1.0**

Source: Bangko Sentral ng Pilipinas

Forecasts provided by 18 out of 23 respondents indicated an 86.4-percent chance (from 87.2 percent in July) that inflation will remain within the 2.0–4.0 percent target range for 2024. Meanwhile, analysts estimated a 12.5-percent chance (from 12.0 percent) that inflation will exceed the target range. For 2025 and 2026, the probability of inflation staying within the target range decreased to 80.6 percent (from 84.3 percent) and 82.7 percent (from 86.8 percent), respectively.[9]

[9] Histogram results of the BSP's survey of private-sector economists for August 2024 showed that majority of the respondent-analysts expect inflation to settle within the 2.0–4.0 percent target range for 2024–2026.

Figure 6
Probability Distribution for Analysts' Inflation Forecasts
2024–2026



Source: Bangko Sentral ng Pilipinas Survey (August 2024)

Probability distributions were averages of those provided by 18 out of 23 respondents.

Preliminary August survey results showed that most analysts expect the BSP to cut the policy rate by 25 bps in Q3 2024, with a follow-up reduction in Q4 2024. Forecasters anticipate a total cut of 50 bps by the end of 2024. Moreover, they expect the BSP to lower the rate by 50–250 bps in 2025, with additional cuts of up to 100 bps by the end of 2026.

Figure 7
Assigned Probabilities for Inflation for 2024–2026

Figure 7.1
Evolution of Probability Distribution of Analysts' Inflation Forecasts for 2024
Survey of external forecasters results
August 2024 vs. May 2024

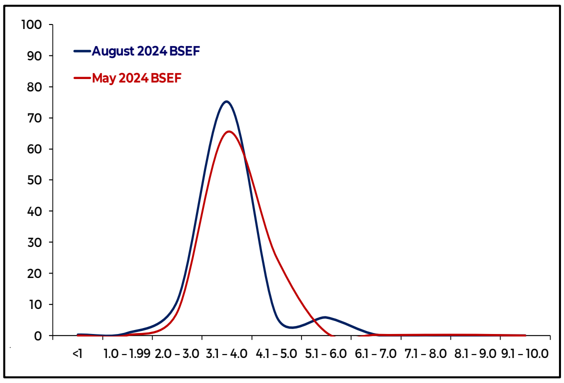


Figure 7.2
Evolution of Probability Distribution of Analysts' Inflation Forecasts for 2025
Survey of external forecasters results
August 2024 vs. May 2024

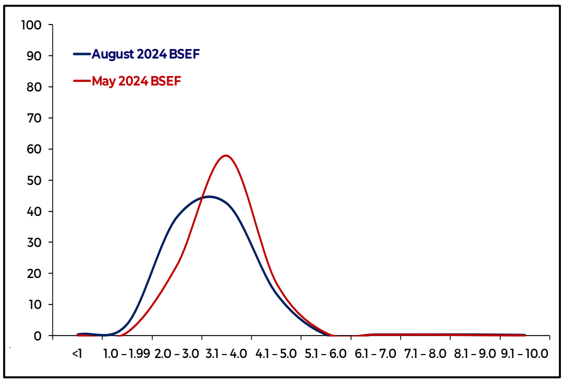
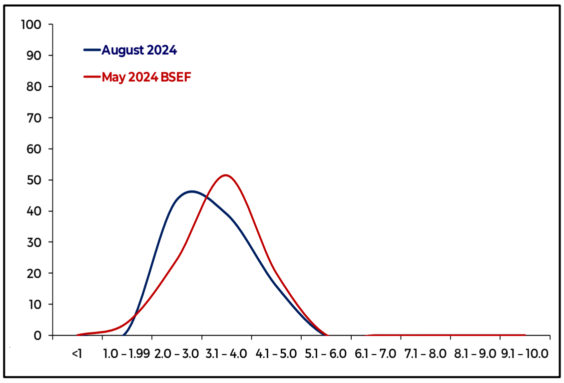


Figure 7.3
Evolution of Probability Distribution of

Analysts' Inflation Forecasts for 2026
Survey of external forecasters results
August 2024 vs. May 2024



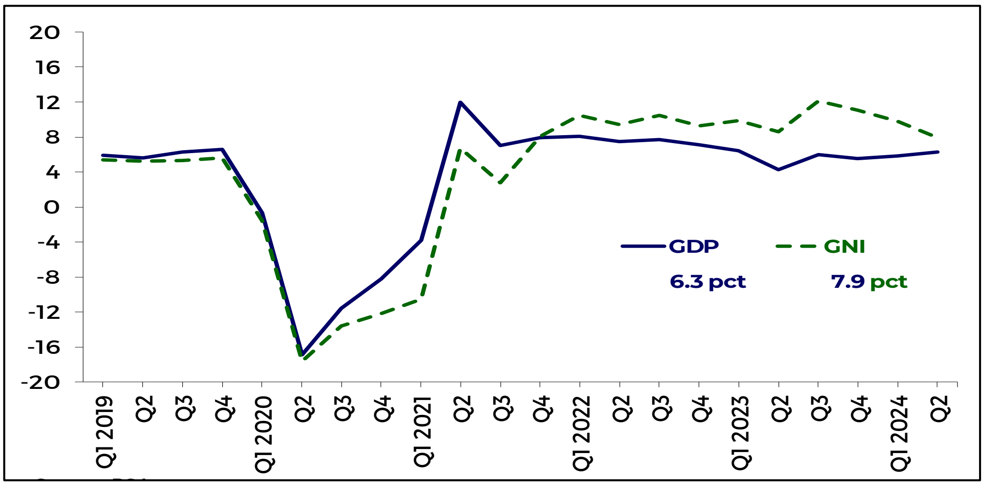
Source: Bangko Sentral ng Pilipinas

Most analysts expect inflation to stay within the 2.0–4.0 percent target range for 2024–2026. Compared to the July survey, the August probability distribution for 2024 remained narrow and within the target range. The probability distribution shifted slightly to the left for 2024–2026, indicating a strong likelihood that inflation will stay well within the target range.

III. Demand conditions

Output growth accelerated to 6.3 percent in Q2 2024, higher than 5.8 percent in Q1 2024 and 4.3 percent in Q2 2023. This brings real GDP growth to 6.0 percent for the first half of the year, which is at the low end of the 6.0–7.0 percent government target for 2024. The Q2 2024 growth was driven by domestic demand, especially investments and government spending, with significant growth in construction. Gross national income rose at a slower pace, as net primary income growth remained in double digits but decelerated. Seasonally adjusted quarter-on-quarter GDP growth slowed down from 1.1 percent in Q1 2024 to 0.5 percent in Q2 2024.

Figure 8
Gross Domestic Product and Gross National Income
at constant 2018 prices; year-on-year; growth rate in percent



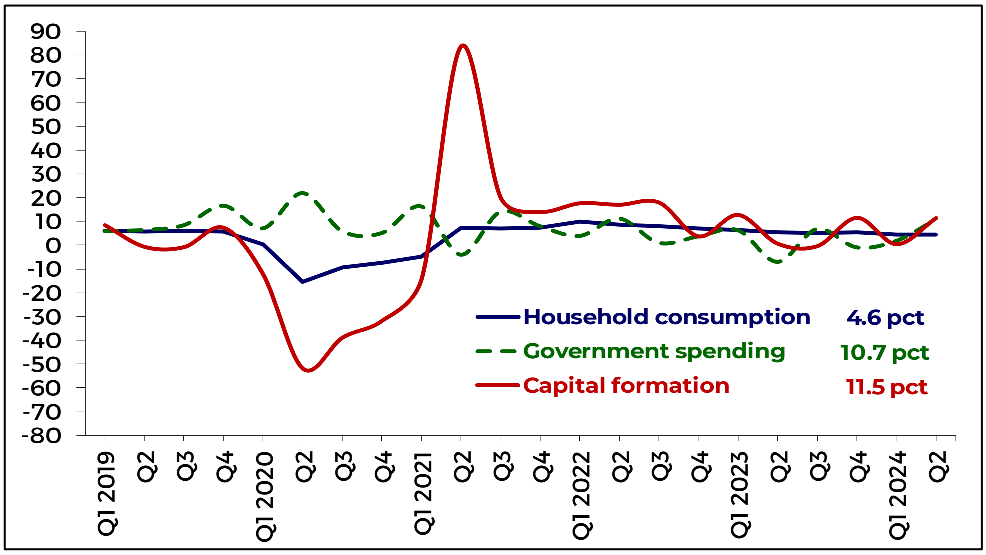
Source: Philippine Statistics Authority

Aggregate demand. Under the expenditure approach, household spending, government spending, investments (or capital formation), and exports contributed 3.2 ppts, 1.7 ppts, 3.0 ppts, and 1.2 ppts, respectively, to total GDP growth in Q2 2024.

Household consumption, which accounted for 67.8 percent of GDP, remained steady from the previous quarter. Growth in household spending was attributed to tourism-related spending, particularly recreation and culture and restaurants and hotels; transport; miscellaneous goods and services; and housing, water, electricity, gas, and other fuels.

Government spending accelerated in Q2 2024. The NG's disbursement report cited increased maintenance and operating expenses for social, health, and education programs.[10] Spending also rose for infrastructure projects, including roads, bridges, flood control systems, hospitals, multi-purpose buildings, and railways. Interest payments, transfers to local governments, and subsidies for irrigation system restoration and development contributed further to the rise.

Figure 9
Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent



Source: Philippine Statistics Authority

Capital formation or investments grew at a faster pace, driven by construction. Public construction sustained its double-digit growth as the government's infrastructure agencies expedited the rollout of various construction and rehabilitation projects. Private construction, particularly commercial construction, also expanded.

Overall exports grew at a slower pace. Goods exports moderated as exports of electronic products fell, largely due to a decline in shipments of semiconductors. Growth in exports of services also eased in Q2 2024, driven by a slowdown in the expansion of business services exports.

[10] This was based on the latest available DBM report on the NG's disbursement performance as of May 2024. (Source: https://www.dbm.gov.ph/wp-content/uploads/DBCC/2024/NG-Disbursements_May-2024_for-posting.pdf)

Meanwhile, overall growth in imports was higher in Q2 2024 than in the previous quarter, reversing the contraction recorded in Q2 2023. Imports of services grew at double-digit rates due to increased spending on travel, miscellaneous services, and transport. Imports of goods also rebounded, driven by higher purchases of mineral fuels, lubricants, electronic data processing equipment, consumer electronics, and feeding stuff.

Table 17
Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent

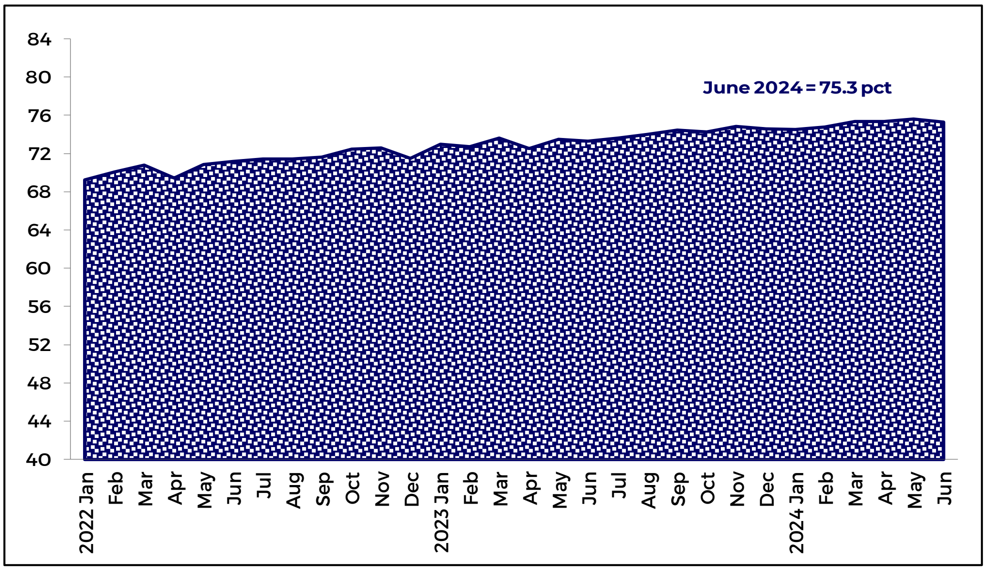
Expenditure shares	2023	2024	
	Q2	Q1	Q2
Household final consumption expenditure	5.5	4.6	4.6
Government final consumption expenditure	-7.1	1.7	10.7
Gross capital formation	0.7	0.5	11.5
Gross fixed capital formation	4.3	2.1	9.5
Exports of goods and services	4.7	8.4	4.2
Imports of goods and services	-0.6	2.2	5.2

Source: Philippine Statistics Authority

Other demand indicators

Capacity utilization. Based on the PSA's Monthly Integrated Survey of Selected Industries (MISSI), the preliminary average capacity utilization rate of the manufacturing sector declined in June 2024.

Figure 10
Monthly Average of Capacity Utilization for Manufacturing
2018=100
in percent

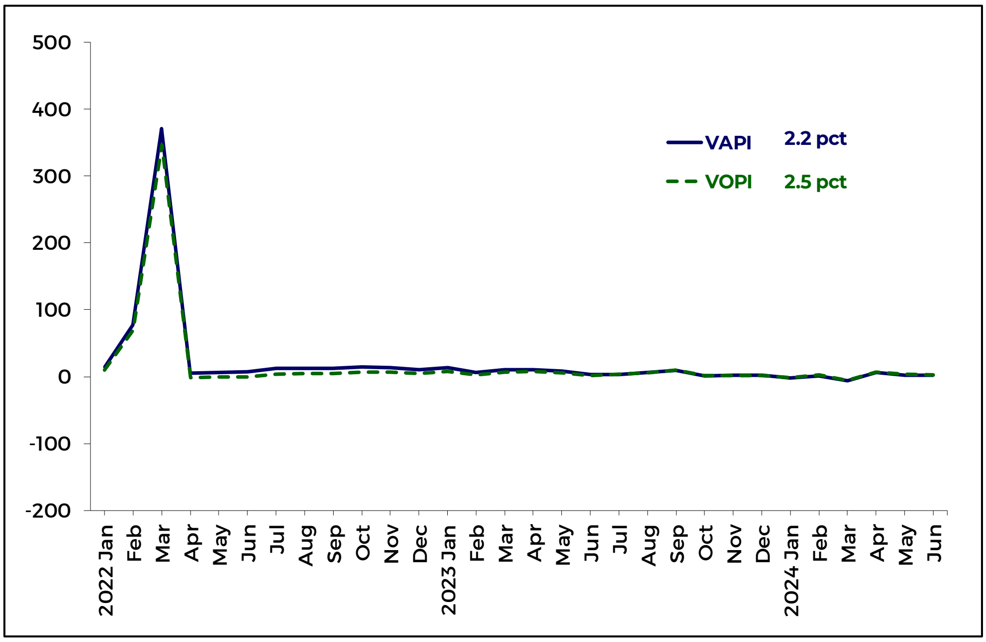


Source: Philippine Statistics Authority

Of the 565 establishments surveyed by the PSA, 51.7 percent operated at or above the 80.0 percent capacity level in June 2024 (from 53.2 percent in May 2024).[11] Average capacity utilization eased slightly but stayed above the year-to-date (y-t-d) average. Industries maintained high production levels to meet seasonal demand. Out of 22 major industries, three, including the manufacture of other non-metallic mineral products, operated at or above 80.0 percent capacity. The remaining 19 industries operated between 60.0–79.0 percent capacity.

Volume and value of production. Preliminary MISSI results showed that factory output, as measured by the volume of production index (VoPI), grew at a slower pace in June 2024. Of the 22 subsectors, coke and refined petroleum products posted the highest year-on-year (y-o-y) growth. This was followed by furniture manufacturing. Conversely, the manufacture of wood and bamboo products posted the largest contraction for the month.

Figure 11
Volume and Value Indices of Manufacturing Production
2018=100
year-on-year; in percent



Source: Philippine Statistics Authority

The value of production index also moderated in June 2024. The subsectors with the highest expansions mirrored those of the VoPI, while the manufacture of wood, bamboo, cane, rattan articles, and related products posted the largest contraction.

[11] Monitoring the response rate helps the BSP assess the quality of reported data and how representative it can be. The response rate of surveyed establishments decreased from 59.0 percent (preliminary) in May 2024 to 58.5 percent (preliminary) in June 2024. The revised response rate for May 2024 was 71.5 percent.

Table 18
Growth in Volume of Production Index by Industry Division
2018=100
year-on-year; in percent

Gainers	June 2024
1) Coke and refined petroleum products	46.0
2) Furniture	29.7
3) Fabricated metal products, except machinery and equipment	19.6
4) Machinery and equipment, except electrical	18.8
5) Electrical equipment	15.3
6) Chemical and chemical products	11.5
7) Food products	8.8
8) Beverages	7.3
9) Rubber and plastic products	3.2
10) Basic pharmaceutical products and pharmaceutical preparations	2.9
11) Textiles	2.5
12) Computer, electronic, and optical products	0.5
Losers	**June 2024**
1) Wood, bamboo, cane, rattan articles, and related products	-58.9
2) Printing and reproduction of recorded media	-18.7
3) Basic metals	-17.7
4) Other non-metallic mineral products	-17.1
5) Other manufacturing, repair, and installation of machinery and equipment	-14.1
6) Transport equipment	-8.8
7) Wearing apparel	-5.3
8) Leather and related products, including footwear	-3.7
9) Tobacco products	-0.8
10) Paper and paper products	-0.4

Source: Philippine Statistics Authority

Table 19
Growth in Value of Production Index by Industry Division
2018=100
year-on-year; in percent

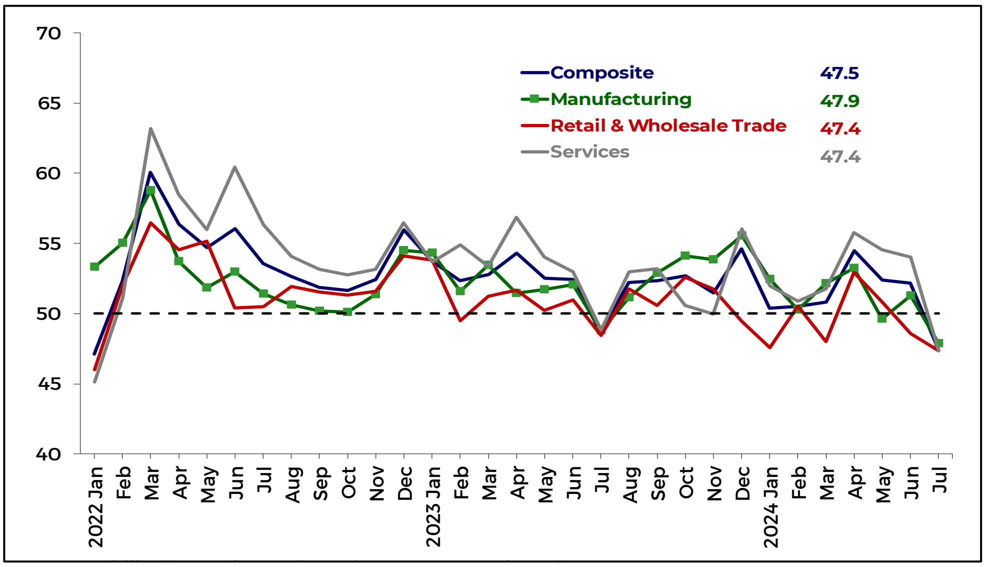
Gainers	June 2024
1) Coke and refined petroleum products	44.5
2) Furniture	28.9
3) Machinery and equipment, except electrical	20.4
4) Electrical equipment	14.9
5) Fabricated metal products, except machinery and equipment	14.5
6) Chemical and chemical products	11.4
7) Food products	9.8
8) Beverages	8.6
9) Tobacco products	4.8
10) Basic pharmaceutical products and pharmaceutical preparations	4.6
11) Computer, electronic, and optical products	4.1
12) Rubber and plastic products	1.8
13) Textiles	0.6
14) Leather and related products, including footwear	0.2
Losers	**June 2024**
1) Wood, bamboo, cane, rattan articles, and related products	-60.2
2) Other non-metallic mineral products	-18.9
3) Basic metals	-17.5
4) Printing and reproduction of recorded media	-17.3
5) Other manufacturing, repair, and installation of machinery and equipment	-13.7
6) Transport equipment	-6.2
7) Wearing apparel	-4.2
8) Paper and paper products	-0.7

Source: Philippine Statistics Authority

Purchasing managers' index. The preliminary composite PMI declined to 47.5 index points in July 2024 (from 52.2 in June 2024).[12] Overall economic activity contracted for the first time since July 2023, as conditions across all economic sectors deteriorated. Nonetheless, business managers are optimistic that economic conditions for all sectors will recover in August 2024.

[12] An index above 50 indicates economic expansion, while an index below 50 implies contraction. PMI surveys are conducted during the last week of the month. Typhoon Carina may have affected the responses since the preliminary survey was done from 29 July 2024 to 5 August 2024, following the typhoon.

Figure 12
Purchasing Managers' Index Diffusion Index



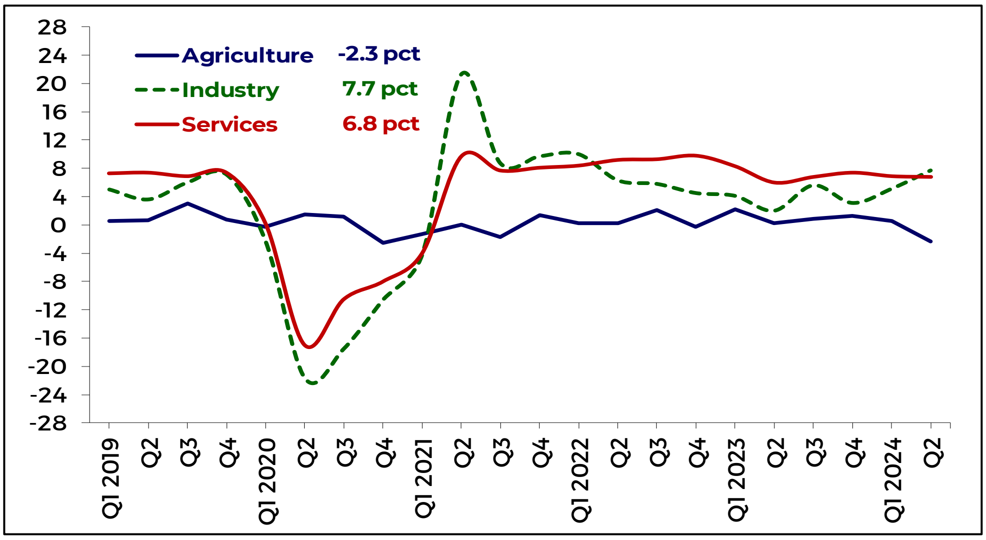
Source: Philippine Institute of Supply Management

IV. Supply conditions

Aggregate supply. On the production side of the economy, output for the services and industry sectors continued to expand in Q2 2024. The services sector remained the top contributor, driven by wholesale and retail trade, repair of motor vehicles and motorcycles; finance and insurance activities; and professional and business services.

The agriculture sector experienced a slump in Q2 2024. The adverse impact of *El Niño* during the quarter resulted in output reductions for major crops, such as *palay* and corn; other agricultural crops; sugarcane; and banana.

Figure 13
Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: Philippine Statistics Authority

The industry sector improved compared with previous quarters. This is on account of the faster growth in construction, manufacturing of coke and refined petroleum products, food products, chemical and chemical products, printing and reproduction of recorded media, and electrical equipment.

Table 20

Gross Domestic Product by Industrial Origin

at constant 2018 prices; growth rate in percent

Industrial origin	2023	2024	
	Q2	Q1	Q2
Agriculture, forestry, and fishing	0.2	0.5	-2.3
Industry sector	2.0	5.1	7.7
Mining and quarrying	-2.8	0.4	4.8
Manufacturing	1.0	4.4	3.6
Electricity, steam, water, and waste management	4.6	6.9	9.1
Construction	3.5	7.0	16.0
Service sector	6.0	6.9	6.8
Wholesale and retail trade, repair of motor vehicles and motorcycles	5.2	6.6	5.8
Transportation and storage	17.1	5.4	14.8
Accommodation and food service activities	27.3	13.1	10.4
Information and communication	3.5	4.2	6.8
Financial and insurance activities	5.2	10.3	8.2
Real estate and ownership of dwellings	3.1	4.5	7.2
Professional and business services	6.8	7.0	7.6
Public administration and defense, compulsory social security	-2.4	3.8	1.8
Education	6.8	3.7	2.1
Human health and social work activities	8.5	8.6	9.3
Other services	22.0	9.0	10.5

Source: Philippine Statistics Authority

Oil market developments. The spot price of Dubai crude oil decreased for the period 1–6 August 2024 compared with the full-month average in July 2024. Sluggish global economic performance signaled a potential drop in oil demand, leading to lower crude oil prices. Job growth in the US slowed down, and the unemployment rate increased in July 2024.[13] Weak manufacturing activity in Asia, including China; Europe; and the US due to tepid demand contributed further to the drop. Asia's crude oil imports also declined in the same month.

Meanwhile, escalating tensions between Israel and Lebanon's Hezbollah and Iran could lead to an all-out war in the Middle East, raising the geopolitical risk premium in global oil prices.

[13] The US unemployment rate jumped to near a three-year high of 4.3 percent in July 2024 amid a significant slowdown in hiring, heightening fears that the labor market was deteriorating and potentially making the economy vulnerable to a recession. (Source: https://www.reuters.com/markets/us/us-job-growth-misses-expectations-july-unemployment-rate-rises-43-2024-08-02)

On the domestic front, week-on-week domestic prices for gasoline, kerosene, and diesel declined by ₱0.75 per liter, ₱0.80 per liter, and ₱3.40 per liter, respectively, as of 30 July 2024.

Developments in the agriculture sector. The output of agriculture, forestry, and fishing (AFF) contracted by 2.3 percent in Q2 2024 amid the decline in the gross value added from *palay* and corn. This was partially offset by increases in poultry and egg, support activities to AFF, and fishing and aquaculture.

Crop production, which contributed 53.2 percent of the total value of agriculture and fisheries, fell by 8.6 percent in Q2 2024, reversing the 1.2-percent increase from the previous year.[14] *El Niño* negatively impacted crops, causing *palay* and corn production to drop by 9.5 percent and 20.3 percent, respectively. However, the production of *calamansi*, cacao, and cabbage increased, partially offsetting the decline.

Livestock production, which accounted for 15.3 percent of total agricultural output, decreased by 0.3 percent in Q2 2024. Local hog production has improved since the ASF outbreak but has yet to return to its pre-ASF level. The ASF remains a threat to hog repopulation efforts due to the lack of widespread commercial distribution of vaccines.

Meanwhile, poultry production increased by 8.7 percent, contributing 16.9 percent to total agricultural output. This improvement is due to recoveries from the Avian influenza (AI). According to the Department of Agriculture's status update as of 2 August 2024, only six regions or nine provinces have remaining AI cases in the country.

The fisheries sector, which constituted 14.6 percent of the total value of production in agriculture and fisheries, recorded an expansion of 2.2 percent in Q2 2024. Improvements in fish production followed the open fishing season. However, the government underscores the need to expedite the development of more aquaculture farms and mariculture parks to support the fisheries subsector.

Global food prices. The Food and Agriculture Organization (FAO) All Rice Price Index[15] averaged 133.3 points in July 2024. This is lower by 2.4 percent than the 136.6 points in June 2024 but still 2.8 percent above the year-ago level of 129.7 points. The m-o-m decline was largely due to slower export demand for Asian rice varieties amid ample supplies.

As of July 2024, quotes for 5% broken rice varieties from Vietnam, Thailand, and Pakistan increased by 23.1 percent, 22.9 percent, and 20.5 percent, respectively.

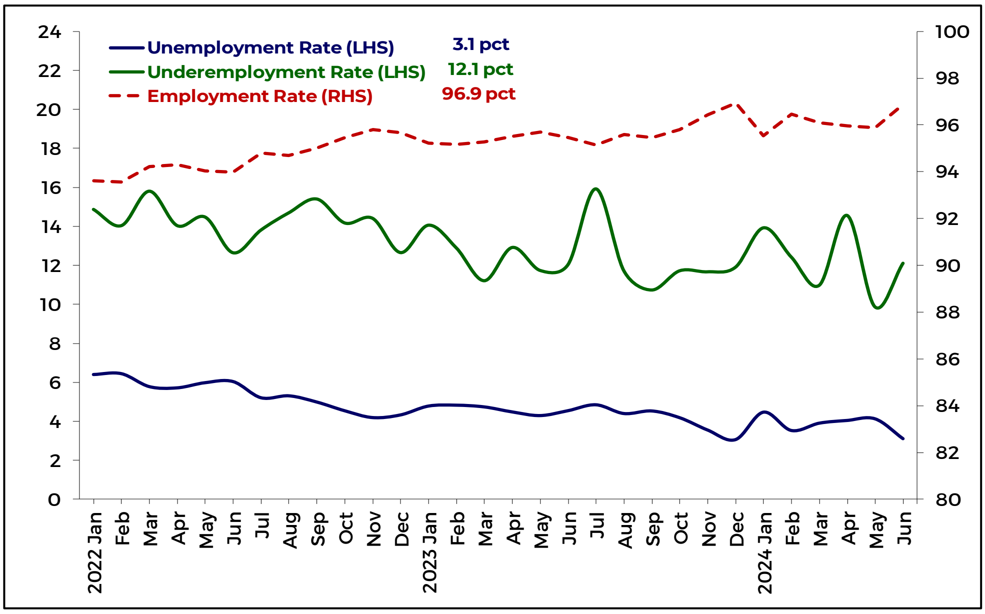
The FAO Food Price Index declined to 120.8 points in July 2024 relative to the month-ago level of 121.0 points (revised). The m-o-m decrease was attributed to lower prices of cereals, owing to ample global supplies and favorable output prospects. Lower cereals prices outweighed price increases in vegetable oil, meat products, and sugar.

[14] The growth rates of the subsectors and commodities are based on the Q2 2024 *Performance of Philippine Agriculture* report published by the PSA on 7 August 2024.
[15] The FAO All Rice Price Index is based on 21 rice export quotations, which are grouped into four categories: indica, aromatic, japonica, and glutinous rice varieties.

V. Labor market conditions

The unemployment rate fell from 4.1 percent in May 2024 to 3.1 percent in June 2024. This is the lowest rate since April 2005 and matches the December 2023 rate. This means the number of unemployed Filipinos dropped from 2.1 million to 1.6 million. The underemployment rate was higher in June 2024 compared with 9.9 percent in May 2024 but remains lower than the pre-pandemic rate of 14.8 percent and the 10-year average.[16] Almost half of underemployed Filipinos work in the services sector, with a third in agriculture. Underemployment rates rose in industry and agriculture but fell in the services sector.

Figure 14
Labor Market Indicators
in percent



Source: Philippine Statistics Authority

VI. Monetary operations

As of 31 July 2024, the BSP liquidity facilities absorbed a total outstanding amount of ₱1.624 trillion. Term instruments, particularly BSP bills (BSPB) and TDFs, accounted for most of the BSP's monetary operations, with a combined share of 70.5 percent.[17] Meanwhile, the overnight RRP facility and overnight deposit facility comprised 20.9 percent and 8.6 percent, respectively.

At the 31 July 2024 auction, the overnight RRP rate settled at 6.5073 percent. This was 0.73 bp higher than the target RRP rate of 6.5 percent. The y-t-d average spread between the overnight RRP rate and the target RRP rate narrowed to 2.03 bps from the y-t-d average of 2.18 bps in the previous month.

Interest rates for the TDF and BSPB remained stable within the interest rate corridor and above the target RRP rate, reflecting a premium for longer durations. At the 31

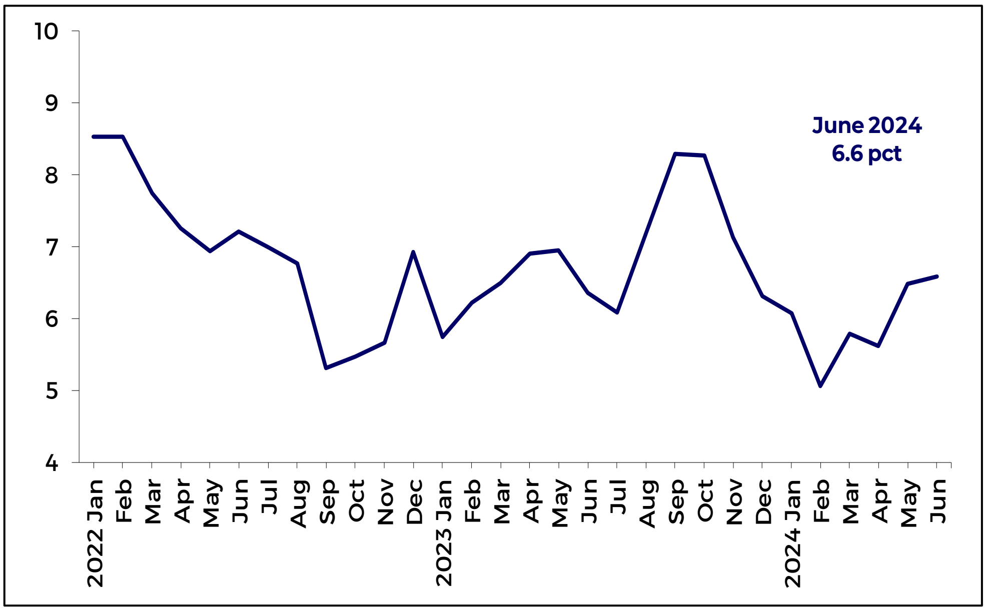
[16] Visibly underemployed persons are those who worked for less than 40 hours a week during the survey period and want additional hours of work or an additional job.
[17] Of the 70.5 percent, BSPB and TDF had shares of 58.4 percent and 12.1 percent, respectively.

July 2024 auction, the weighted average interest rates (WAIRs) for 7-day and 14-day TDFs rose by 0.63 bps to 6.5161 percent and 0.48 bps to 6.5494 percent, respectively. At the 29 July 2024 auction, the WAIRs for 28-day and 56-day BSPBs fell by 0.85 bps to 6.5695 percent and 2.03 bps to 6.5705 percent, respectively.

VII. Financial conditions

Domestic liquidity. Preliminary data showed that domestic liquidity (M3) grew from 6.5 percent in May 2024 to ₱17.5 trillion in June 2024. On a m-o-m seasonally adjusted basis, M3 increased by about 0.5 percent.

Figure 15
Domestic Liquidity
year-on-year; growth rate in percent

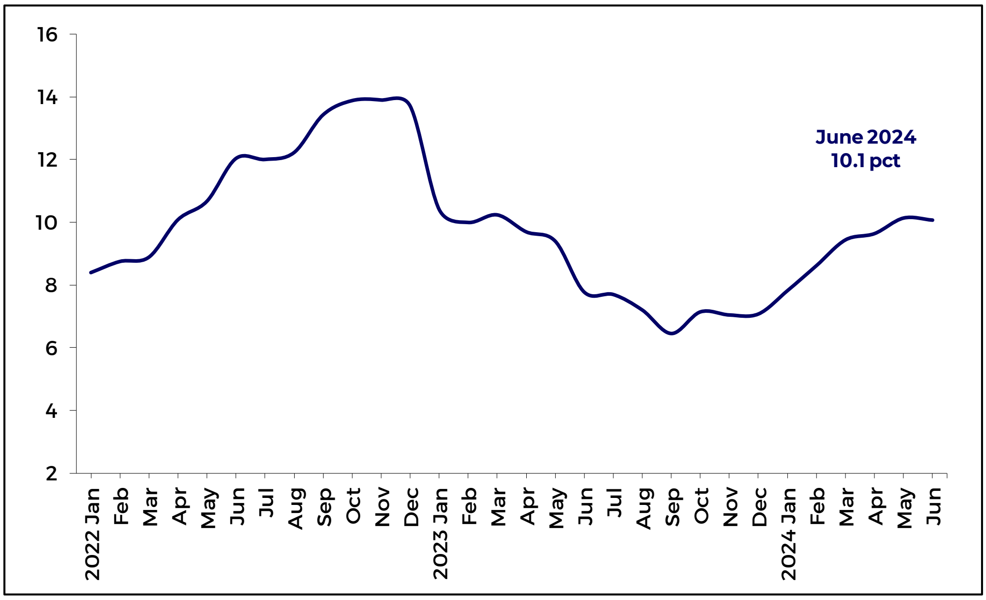


Source: Bangko Sentral ng Pilipinas

Domestic claims continued to drive the expansion in M3, as claims on the private sector grew with the sustained expansion in bank lending to non-financial private corporations and households. Net claims on the central government also expanded, partly due to the sustained borrowings of the NG. On the liabilities side, expansion in time deposits drove the growth in M3.

Bank lending. Bank lending rose at double-digit rates, supported by strong demand from households and businesses. However, growth slowed down to single-digit rates from Q2 2023 to Q1 2024, partly due to the BSP's tight monetary policy. Outstanding loans of universal and commercial banks have begun to recover. Preliminary data showed that these loans, net of RRP placements with the BSP, grew by 10.1 percent y-o-y in June 2024, matching the rate in May 2024. On a seasonally adjusted m-o-m basis, outstanding loans slightly increased by 0.4 percent.

Figure 16
Loans Outstanding of Commercial Banks
year-on-year; growth rate in percent



Source: Bangko Sentral ng Pilipinas

Outstanding loans to residents, net of RRPs, grew slightly slower from 10.2 percent in May 2024 to 10.1 percent in June 2024. Similarly, growth in loans to nonresidents accelerated from 8.1 percent to 9.8 percent. Loans for production activities also rose by 8.3 percent in June relative to 8.4 percent in the previous month. Key industries posted varying growth rates: 26.2 percent for transportation and storage; 12.3 percent real estate; 9.3 percent for wholesale and retail trade; 8.9 percent for manufacturing; 5.7 percent for and electricity, gas, steam, and air conditioning supply.

Consumer loans to residents expanded by 25.0 percent in June 2024, slightly lower than 25.6 percent in May 2024, amid the rise in credit card loans.

Credit standards

In Q2 2024, bank respondents reported unchanged credit standards and loan demand from enterprises. Over the next quarter, most of the participating banks anticipate a broadly steady business loan demand.

Lending to enterprises. Results of survey on lending standards showed that most respondents retained standards for firms for Q2 2024. Meanwhile, the diffusion index (DI) approach indicated a sustained net tightening of credit standards due to the deterioration of borrowers' profiles and the profitability of banks' portfolios.

For the next quarter, the modal approach showed participant banks' anticipation of steady lending standards for businesses. However, the DI approach pointed to expectations of a net tightening in credit standards amid concerns over the deterioration of borrowers' profiles and the profitability and liquidity of banks' portfolios.

Table 21

General Credit Standards for Loans to Enterprises (Overall)

	2022				2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Tightened considerably	10.0	6.5	10.4	4.3	6.7	4.3	2.1	0.0	0.0	1.9
Tightened somewhat	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0	11.8	11.1
Remained basically unchanged	**72.0**	**76.1**	**77.1**	**80.9**	**73.3**	**89.1**	**80.9**	**88.0**	**86.3**	**87.0**
Eased somewhat	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0	2.0	0.0
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**24.0**	**15.2**	**14.6**	**14.9**	**13.3**	**6.5**	**6.4**	**12.0**	**9.8**	**13.0**
Weighted diffusion index	**17.0**	**10.9**	**12.5**	**9.6**	**10.0**	**5.4**	**4.3**	**6.0**	**4.9**	**7.4**
Mean	2.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9
Number of banks responding	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**	**54**

Source: Bangko Sentral ng Pilipinas

A positive diffusion index for credit standards indicates that banks that tightened their credit standards outnumbered those that eased ("net tightening"), whereas a negative diffusion index indicates that banks that eased their credit standards outnumbered those that tightened ("net easing").

Lending to households. In Q2 2024, estimates show that surveyed banks maintained the lending standards for households due to stable borrowers' profiles and banks' unchanged risk tolerance.

Table 22

General Credit Standards for Loans to Households (Overall)

	2022				2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Tightened considerably	2.5	5.4	5.4	5.7	3.0	3.0	0.0	0.0	0.0	0.0
Tightened somewhat	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8	11.4	11.4
Remained basically unchanged	**62.5**	**73.0**	**64.9**	**71.4**	**51.5**	**69.7**	**68.8**	**70.6**	**77.1**	**80.0**
Eased somewhat	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7	11.4	8.6
Eased considerably	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**-7.5**	**-5.4**	**-2.7**	**0.0**	**-6.1**	**-6.1**	**0.0**	**-5.9**	**0.0**	**2.9**
Weighted diffusion index	**-5.0**	**-1.4**	**1.4**	**2.9**	**-1.5**	**-4.5**	**-1.6**	**-4.4**	**0.0**	**1.4**
Mean	3.1	3.0	3.0	2.9	3.0	3.1	3.0	3.1	3.0	3.0
Number of banks responding	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**	**35**

Source: Bangko Sentral ng Pilipinas

A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").

For Q3 2024, modal results indicated that majority of respondent banks expect unchanged household loan standards. Meanwhile, the DI method revealed expectations of a net easing of lending standards due to banks' higher risk tolerance, improved profitability of loan portfolios, and a less uncertain economic outlook.

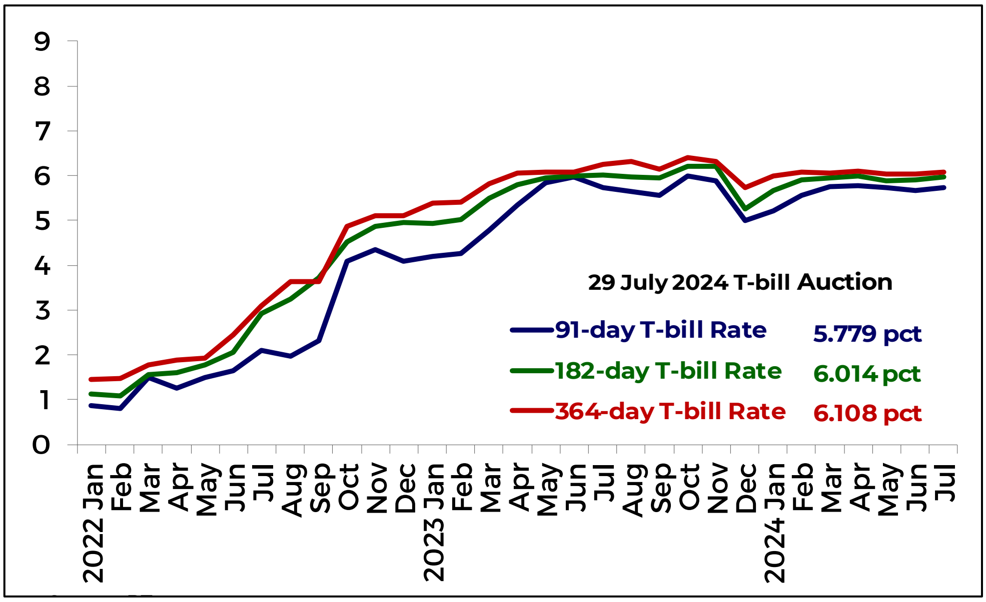
Loan demand. In Q1 2024, modal results indicated a steady household loan demand for most banks. Conversely, the DI method showed a net increase in demand across all key household loan categories, driven by higher household consumption and more attractive financing terms offered by banks.

For Q2 2024, modal results indicated that most respondent banks expect credit demand from households to remain basically unchanged. Meanwhile, DI results projected an anticipated net increase in consumer loan demand, mainly due to higher household consumption and favorable financing terms offered by banks.

Capital markets

Primary government securities market and rates. During the 29 July 2024 Treasury bill (T-bill) auction, the average interest rates for the 91-day, 182-day, and 364-day T-bills rose by 3.6 bps, 2.3 bps, and 2.7 bps, respectively, from the rate fetched during the 22 July 2024 auction.

Figure 17
Treasury Bill Rates
in percent



Source: Bureau of the Treasury

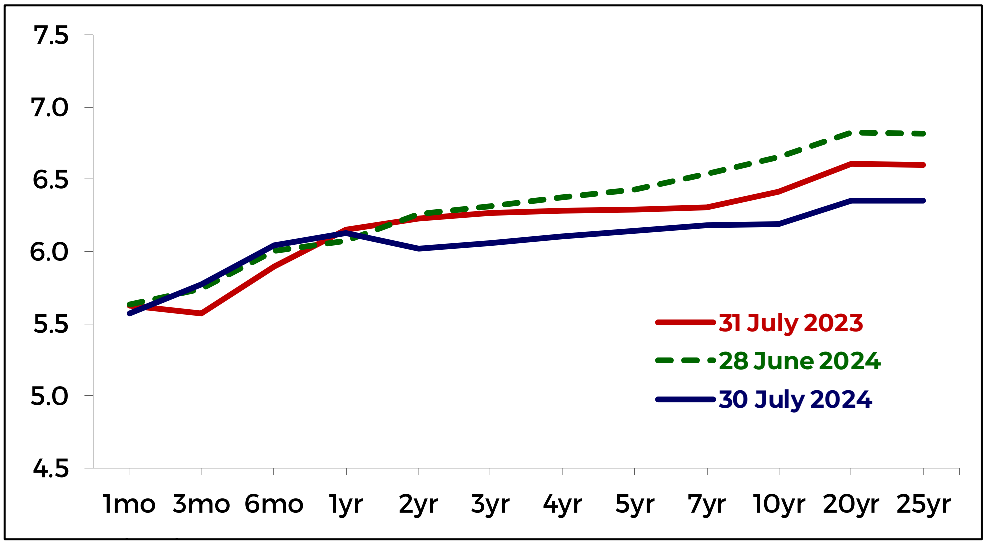
The Bureau of the Treasury (BTr) Auction Committee fully awarded the offered amount of ₱6.5 billion each for the 91-day and 182-day and ₱7.0 billion for the 364-day T-bills. Total tenders for all maturities reached ₱36.0 billion or about 1.8 times the total amount offered of ₱20.0 billion.

On 30 July 2024, the BTr fully awarded ₱30.0 billion of the re-issued 20-year Treasury bonds (T-bonds), with a remaining life of three years and one month. The said T-bond fetched an average rate of 6.009 percent, which was lower by 42.1 bps than the 6.4300 percent average interest rate quoted for the same tenor during the 23 July 2024 auction. The auction was oversubscribed, with tenders reaching ₱62.6 billion or 2.1 times the offered amount of ₱30.0 billion.

Secondary market government securities yield curve. On 30 July 2024, secondary market GS yields declined across most tenors (except for the 3-month, 6-month, and 1-year tenors) relative to the end of June 2024, driven by buying interest to meet end-user demand. Consequently, the negative spreads in secondary market rates over the BSP overnight RRP rate on 30 July 2024 generally widened compared with end-June 2024 levels.

As of 30 July 2024, the spreads between the 10-year and 1-year GS rates and the 10-year and 5-year GS rates narrowed to 6.5 bps and 5.1 bps (from 57.9 bps and 22.4 bps as of end-June 2024), respectively. This was mainly due to the decline in the 10-year GS rate.

Figure 18
Yields of Government Securities in the Secondary Market
in percent

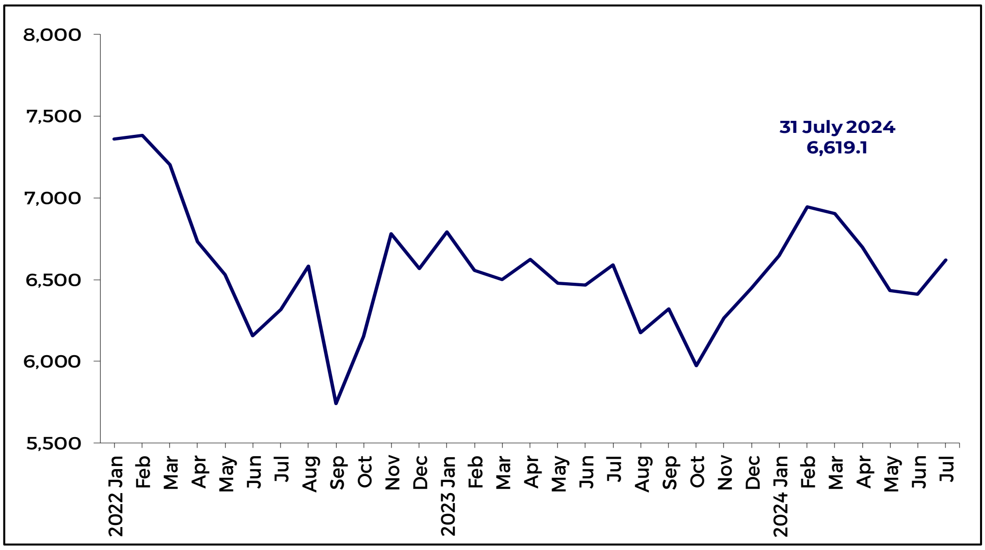


Source: Bloomberg

Stock market. For the period 1–31 July 2024, the Philippine Stock Exchange Index (PSEi) rose to 6,619.1 points. The increase was supported by optimism on monetary policy easing by the BSP and the US Federal Reserve (US Fed), following the slower domestic inflation in June 2024, the drop in the US CPI, and positive data releases during the month.

For the week ending 6 August 2024, the PSEi declined from 6,619.1 points as of end-July 2024. The upward trend in July was not sustained, as concerns over the Bank of Japan's shift in monetary policy stance led to the unwinding of the yen carry trade, thereby causing a sharp decline in Japanese and Asian stock markets.

Figure 19
Philippine Stock Exchange Index
index points



Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

Exchange rate. For the period 1–30 July 2024, the peso averaged at ₱58.48/US$1, appreciating by 0.37 percent against the June 2024 average. The peso's appreciation was driven by improved market sentiment amid the release of lower-than-expected US CPI inflation in June[18]; higher US unemployment rate in June[19]; lower US S&P Global PMI in June[20]; and dovish remarks from US Fed officials,[21] which strengthened expectations that the Fed would begin easing policy rates within the year.

Similarly, the BSP's decision to maintain its monetary policy settings in June, alongside higher foreign direct investment (FDI) net inflows from January–April,[22] lower unemployment rate in May,[23] higher personal remittances in May,[24] and the release of slower-than-expected headline inflation in June, supported the peso. However, these factors were partly offset by the reported increase in NG deficit in May; slower growth in manufacturing activity in June[25]; and decline in gross international reserves (GIR) in June.[26]

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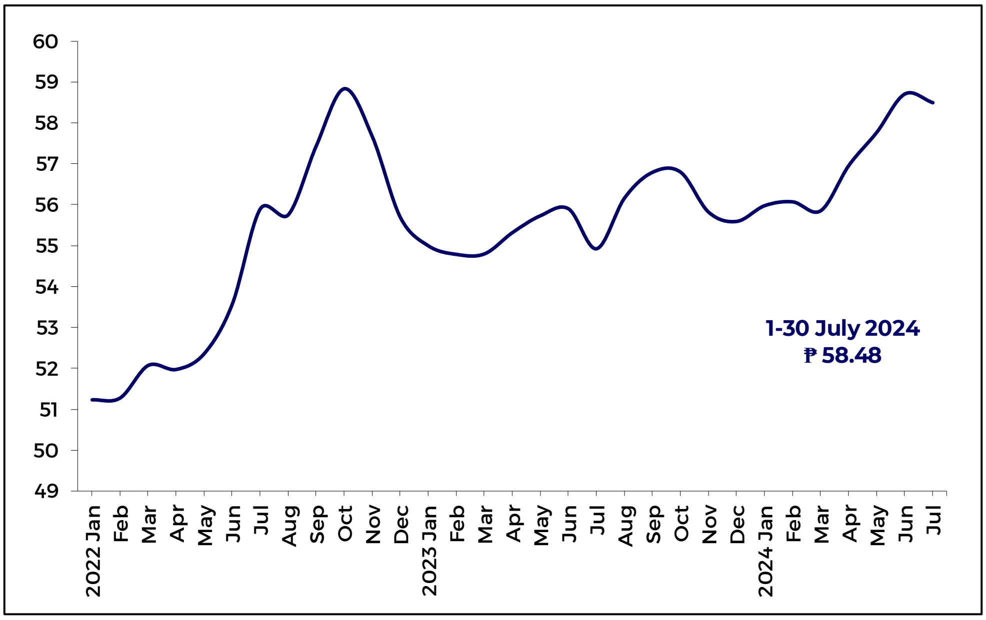
[18] US CPI eased from 3.3 percent to 3.0 percent y-o-y in June 2024.
[19] US unemployment rate increased to 4.1 percent in June 2024 from 4.0 percent in May 2024 and 3.6 percent in June 2023.
[20] US S&P Global PMI declined from 54.8 index points in May 2024 to 55.3 index points in June 2024.
[21] US Fed Chair Jerome H. Powell stated that the US is back on a disinflationary path, but policymakers need more data to ensure that recent lower inflation readings accurately reflect the state of the economy before considering lowering policy interest rates. Meanwhile, Federal Reserve Bank of New York President John C. Williams stated that achieving the 2.0-percent inflation target will take time and that the US Fed is committed to this goal.
[22] FDI posted US$556.0 million net inflows in April 2024, albeit lower by 36.9 percent than the US$881.0 million net inflows posted in April 2023. Despite the decline in FDI during the month, the level increased by 18.7 percent in January–April 2024, reaching US$3.5 billion (from US$3.0 billion in the same period last year).
[23] The unemployment rate decreased from 4.3 percent in May 2023 to 4.1 percent in May 2024.
[24] Personal remittances from OFs rose by 3.7 percent from US$2.78 billion in May 2023 to US$2.88 billion in May 2024.
[25] The NG's budget deficit widened by 43.1 percent from ₱122.2 billion in May 2023 to ₱174.9 billion in May 2024. Meanwhile, S&P Global Philippines Manufacturing PMI, which measures the country's monthly factory performance, stood at 51.3 in June, slightly lower than the 51.9 reading in May.
[26] The GIR settled at US$104.70 billion as of end-June 2024, which is a decrease from the end-May 2024 level of US$105.02 billion.

As of 30 July 2024, the peso closed at ₱58.65/US$1, depreciating by 5.58 percent against the US dollar on a y-t-d basis.[27]

Figure 20
Peso-Dollar Rate
PHP/USD



Source: Reference Exchange Rate Bulletin

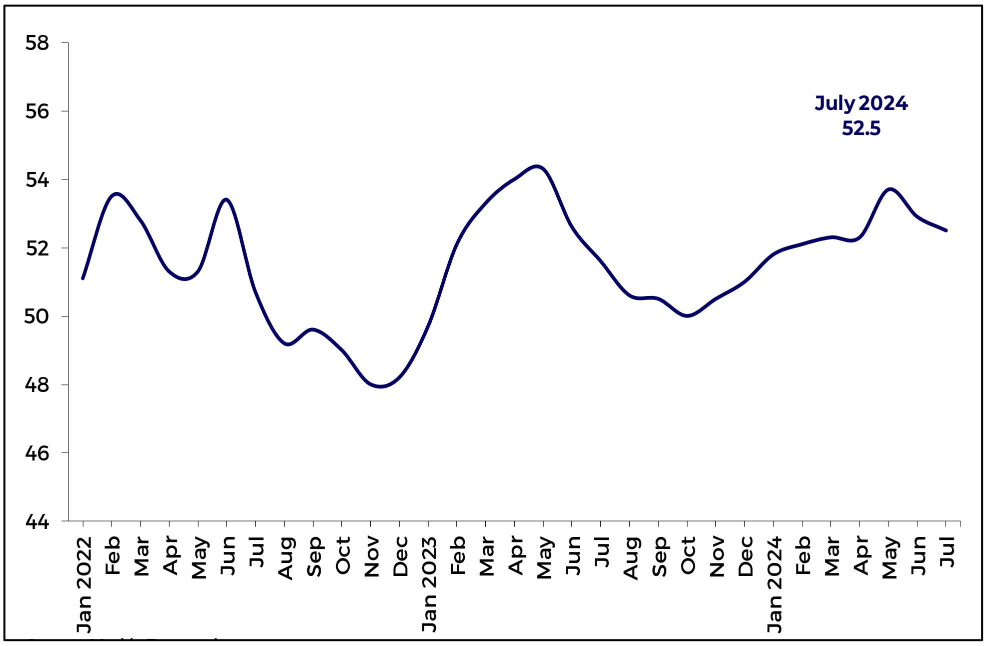
On a real trade-weighted basis, the peso lost external price competitiveness y-o-y in June 2024 against the basket of currencies of all trading partners and trading partners in developing countries, as indicated by the increase in the real effective exchange rate (REER) index of the peso by 0.20 percent and 0.36 percent, respectively. This was attributed to the widening inflation differential, which offsets the impact of the nominal depreciation of the peso. Meanwhile, the peso gained external price competitiveness against the basket of currencies of advanced countries, as the impact of the nominal depreciation of the peso offsets the widening inflation differential, resulting in a decrease in the REER index of the peso by 0.86 percent.[28,29]

[27] The y-t-d volatility of the peso, as measured by the coefficient of variation, stood lower than that of the Japanese yen but higher than that of the Chinese yuan, Singapore dollar, Malaysian ringgit, Indonesian rupiah, South Korean won, and Thai baht.
[28] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines, which include the US, euro area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates (UAE), and Thailand. The TPI-Advanced measures the effective exchange rates of the peso across currencies of trading partners in advanced countries, consisting of the US, Japan, euro area, and Australia. The TPI-Developing measures the effective exchange rates of the peso across 10 currencies of partner developing countries, consisting of China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, UAE, and Thailand.
[29] The REER index represents the nominal effective exchange rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. On the other hand, the NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

VIII. External developments

Global economic activity expanded amid strong demand and improved business optimism. In July 2024, the JP Morgan All-Industry Output Index expanded at a slower pace. Manufacturing new orders dropped for the first time this year, while activity in the services sector improved marginally. Economic activity rose in almost all covered countries, led by India, followed by Brazil and the US. Meanwhile, growth in the euro area slowed down to a near-stagnant pace.[30,31]

Figure 21
JP Morgan Global All-Industry Output Index
index points



Source: Marikit Economics

In the July 2024 WEO Update, the IMF maintained its 2024 global economic growth projection at 3.2 percent, consistent with the April 2024 WEO Update. The outlook reflects the upturn of global economic activity despite persistent services inflation and trade tensions. The varying momentum in activities has narrowed the output divergence across economies, as cyclical factors waned and activity aligned more closely with its potential.

For advanced economies, the IMF 2024 baseline growth estimate remained stable. Stronger household consumption in the euro area is anticipated to offset the slower-than-expected growth in the US. Meanwhile, the 2024 growth forecast for emerging markets and developing economies was slightly higher, driven by stronger economic activity in China and India.

[30] JP Morgan Global Composite PMI; https://www.pmi.spglobal.com
[31] A diffusion index is calculated for each survey variable. The index is the sum of the percentage of "higher" responses and half the percentage of "unchanged" responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month and a reading below 50 indicating an overall decrease.

Overall, risks to the global outlook remain balanced, though near-term risks have gained importance. These include upside risks to inflation that emanate from a slow progress on services disinflation, as well as price pressures from renewed trade or geopolitical tensions. Such inflation risks have increased the likelihood of interest rates remaining higher for a longer period.

Policy actions by other central banks. In their July 2024 meetings, the Bank of Canada and the People's Bank of China reduced their respective key interest rates, while the Bank of Japan increased its key interest rate. The Reserve Bank of New Zealand, the Bank of Korea, Bank Negara Malaysia, Bank Indonesia, the European Central Bank, and the US Fed maintained their key policy rates to rein in price pressures and ensure that inflation expectations remain anchored amid persistent global supply shocks. On 1 August 2024, the Bank of England (BoE) reduced its key interest rate by 25 bps to 5.0 percent. BoE Governor Andrew Bailey noted that while lower inflation had paved the way for interest rate cuts, sharp reductions should not be expected as the BoE will continue to make rate adjustments on a meeting-to-meeting basis.

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