# MONETARY POLICY REPORT

AUGUST 2025

# Foreword

The Bangko Sentral ng Pilipinas (BSP) aims to maintain low inflation so that it is conducive to a balanced and sustainable economic growth. To achieve this, it adopts an inflation targeting framework for monetary policy.

Transparency is central to this approach. The BSP regularly communicates its policy decisions and stance through the *Monetary Policy Report*, which provides stakeholders with updated assessments of inflation and macroeconomic trends. This helps the public better understand and monitor the BSP's commitment to the inflation target.

The report shows a central forecast representing the BSP's view of the most likely path of inflation and domestic economic activity. It also presents alternative quantitative scenarios to illustrate the potential impact of risks to the outlook. These alternative scenarios provide a more consistent way to communicate inflation risks and uncertainty compared to fan charts.

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 2025–2028. This reflects the government's medium-term goal of price stability, consistent with the changing structure of the Philippine economy.

The Monetary Board approved this *Monetary Policy Report* at its meeting on 28 August 2025.

**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 implements monetary policy by setting the target reverse repurchase (RRP) rate. It conducts liquidity management operations through the overnight RRP facility, term deposit facility (TDF), and BSP Securities Facility (BSP-SF) to ensure that the overnight RRP rate is close to the target RRP rate.

## Policy target

The BSP's target for monetary policy is headline inflation, which is the average annual inflation rate based on the Consumer Price Index (CPI), 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.[1] The inflation target for 2025–2028 is 3.0 percent ± 1.0 ppt.[2]

## The BSP's explanation clauses

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

[1] The DBCC, created under Executive Order (EO) No. 232 dated 14 May 1970, is an interagency committee primarily tasked to formulate the national government's fiscal program. It is composed of the Office of the President; the Department of Budget and Management (DBM); the Department of Economy, Planning, and Development (DEPDev); and the Department of Finance (DOF). The BSP participates in Committee meetings as a resource agency.

[2] During the meeting on 23 June 2025, the DBCC, in consultation with the BSP, decided to retain the inflation target of 3.0 percent ± 1.0 ppt 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 held 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**
**Jose L. Querubin**

# 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 met seven times in 2024.

### Chairman

**Eli M. Remolona, Jr.**
Governor

### Members

**Zeno Ronald R. Abenoja**
Deputy Governor
Monetary and Economics Sector

**Lyn I. Javier**
Deputy Governor
Financial Supervision Sector

**Elmore O. Capule**
Deputy Governor
Corporate Services Sector

**Edna C. Villa**
Senior Assistant Governor
Financial Markets

**Dennis D. Lapid**
Officer-in-Charge
Monetary Policy Sub-Sector

**Veronica B. Bayangos**
Assistant Governor
Office of Systemic Risk Management

# Technical Staff

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**Sittie Hannisha M. Butocan**
Officer-in-Charge
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Senior Director
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Monetary Policy Research Group

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**Christofer A. Martin**
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**Ma. Mediatriz M. Boelsch**
Deputy Director
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**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
External Sector Research Group
Domestic Sector Research Group
Market Intelligence and Data Analytics Group

## Schedule of Monetary Policy Meetings and publication of the Monetary Board Highlights and the Monetary Policy Report for 2025

| Month | Monetary Board Meeting | Monetary Board Highlights | Monetary Policy Report |
|---|---|---|---|
| January | | | 3 (Friday)<br>(MPR IV, December 2024) |
| February | 13 (Thursday)<br>(MB meeting no. 1) | | 28 (Friday)<br>(MPR I, February 2025) |
| March | | | |
| April | 3 (Thursday)<br>(MB meeting no. 2) | | |
| May | | 8 (Thursday)<br>(3 April 2025 MB meeting) | |
| June | 19 (Thursday)<br>(MB meeting no. 3) | | |
| July | | | 11 (Friday)<br>(MPR II, June 2025) |
| August | 28 (Thursday)<br>(MB meeting no. 4) | | |
| September | | | 19 (Friday)<br>(MPR III, August 2025) |
| October | 9 (Thursday)<br>(MB meeting no. 5) | | |
| November | | 6 (Thursday)<br>(9 October 2025 MB meeting) | |
| December | 11 (Thursday)<br>(MB meeting no. 6) | | 26 (Friday)<br>(MPR IV, December 2025) |

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# List of Acronyms and Abbreviations

| | |
|---|---|
| AE | advanced economy |
| AR | autoregressive |
| ARIMA | autoregressive integrated moving average |
| bp/bps | basis point/basis points |
| BSEF | Bangko Sentral ng Pilipinas Survey of External Forecasters |
| BSP | Bangko Sentral ng Pilipinas |
| BSPB | Bangko Sentral ng Pilipinas bill |
| BSP-SF | Bangko Sentral ng Pilipinas Securities Facility |
| BTr | Bureau of the Treasury |
| BVAL | Bloomberg Valuation Service |
| CPI | Consumer Price Index |
| DBCC | Development Budget Coordination Committee |
| DBM | Department of Budget and Management |
| DD | demand deposit |
| DEPDev | Department of Economy, Planning, and Development |
| DI | diffusion index |
| DOF | Department of Finance |
| EO | Executive Order |
| GDP | gross domestic product |
| GenAI | generative artificial intelligence |
| GPMN | Global Projection Model Network |
| GS | government securities |
| HQLA | High-quality liquid asset |
| IMF | International Monetary Fund |
| MAE | mean absolute error |
| MB | Monetary Board |
| Meralco | Manila Electric Company |
| MISSI | Monthly Integrated Survey of Selected Industries |
| MPR | Monetary Policy Report |
| NCR | National Capital Region |
| NEER | nominal effective exchange rate |
| NGCP | National Grid Corporation of the Philippines |
| OPEC+ | Organization of Petroleum Exporting Countries Plus |
| PAMPh | Policy Analysis Model for the Philippines |
| PMI | Purchasing Managers' Index |
| ppt | percentage point |
| PSA | Philippine Statistics Authority |
| RA | Republic Act |
| REER | real effective exchange rate |
| RRP | reverse repurchase |
| RTB | retail Treasury bond |
| SARIMAX | Seasonal ARIMA with exogenous variables |
| T-bill | Treasury bill |
| TD | term deposit |
| TDF | term deposit facility |
| TPI | Trading Partners Index |
| UAE | United Arab Emirates |
| US | United States |
| US Fed | US Federal Reserve |

| | |
|---|---|
| **VaPI** | value of production index |
| **VoPI** | volume of production index |
| **WEO** | World Economic Outlook |
| **y-t-d** | year-to-date |

# Monetary policy summary

**The Monetary Board reduced the BSP's target reverse repurchase rate by 25 basis points to 5.0 percent at its monetary policy meeting on 28 August 2025.** Correspondingly, the rates on the overnight deposit and lending facilities were adjusted to 4.5 percent and 5.5 percent, respectively.

**The inflation outlook over the medium term is broadly unchanged.** The central projection shows average inflation at 1.7 percent in 2025, 3.3 percent in 2026, and 3.4 percent in 2027. Inflation is expected to remain below the government's 3.0 percent ± 1.0 percentage point target range in Q4 2025 and rise in the second half of 2026 due to higher electricity rates and base effects. By 2027, inflation is expected to ease to around 3.0 percent as global commodity prices stabilize.

**The Monetary Board discussed two alternative scenarios illustrating the emerging risks surrounding the inflation outlook.** The dovish scenario reflects the possible impact of United States (US) policies on global trade and investment, which could dampen domestic economic activity. The hawkish scenario considers potential supply-side pressures, including increases in electricity rates, higher oil prices, and a possible reversion to higher rice tariffs.

**Inflation expectations remain well-anchored.** The August 2025 BSP Survey of External Forecasters (BSEF) indicates that analysts expect inflation to remain within target over the medium term. Among the upside risks cited by analysts are geopolitical tensions, temporary suspension of rice imports, and higher minimum wages. Downside risks include lower rice prices and weaker global growth.

**The outlook for domestic economic activity suggests slower growth in the near term.** Recent forecasts reflect the lower-than-expected Q2 2025 growth outturn, driven by slower construction activity due to election-related bans. This was partly offset by lower oil prices and slightly higher global output growth. Economic activity is expected to fall below the target range in 2026 before recovering in 2027, supported by lower real policy rates.

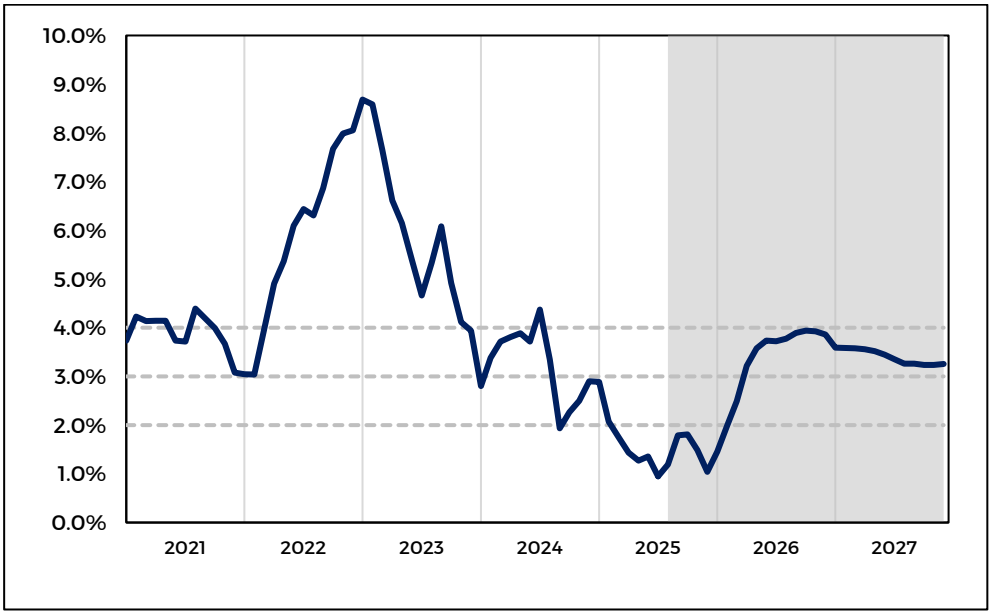
**The Monetary Board will determine future monetary policy responses based on the evolving outlook for inflation and growth.** Current assessments suggest scope for monetary policy easing. Looking ahead, the Board will continue to closely monitor emerging risks and calibrate monetary policy settings as necessary to safeguard price stability.

# A. Economic outlook

## I. Central projections

**The inflation outlook remains moderate over the near term.** Inflation is projected to remain below the target range until Q4 2025. Compared with the previous round, the inflation projection for 2025 is slightly higher. This reflects the spillover effects of typhoons in July and the potential adverse impact of the approved rice import ban.

Figure 1
**Central Projection**
year-on-year headline inflation; in percent




Source: Bangko Sentral ng Pilipinas

**Inflation is projected to settle within the 3.0 percent ± 1.0 percentage point range in 2026 and 2027.** Higher electricity rates and possible base effects from higher food prices are expected to drive inflationary pressures in 2026. Inflation is projected to approach the upper end of the government's target range in Q4 2026 before easing in 2027, although it will remain above the midpoint, as global commodity prices stabilize.

The inflation forecast for 2026 is slightly lower, primarily due to the decline in oil prices. This is tempered by higher minimum wage assumptions and the lagged impact of the BSP's policy rate reduction in June 2025. By 2027, the effects of the higher minimum wage and the lagged impact of policy rate reductions are expected to continue influencing the inflation outlook.

Table 1

**Inflation could fall below the target for 2025 but is projected to settle within the target for 2026 and 2027.**

central projections; year-on-year headline inflation; in percent

| | June 2025 Monetary Policy Report[1] | August 2025 Monetary Policy Report[2] |
|---|---|---|
| **2025** | 1.6 | 1.7 |
| **2026** | 3.4 | 3.3 |
| **2027** | 3.3 | 3.4 |

Source: Bangko Sentral ng Pilipinas estimates

[1] Central projections from the 19 June 2025 monetary policy meeting
[2] Central projections from the 28 August 2025 monetary policy meeting

**Domestic growth is expected to settle at the low end of the Development Budget Coordination Committee's target range of 5.5–6.5 percent in 2025.** It is anticipated to fall below the 6.0–7.0 percent target range in 2026 before returning to within the target range in 2027.[3]

The moderation in domestic growth prospects for 2025 stemmed mainly from the lower-than-expected growth outturn in Q2 2025 amid slower construction activity due to the election-related ban on government projects. This will be partially offset by the BSP's monetary policy easing. Nonetheless, uncertainty over global economic policies, particularly the potential impact of US policies on global trade and investment, poses additional downside risks to domestic growth.

**Potential output growth is expected to slow in the near term, as subdued investment demand weighs on productivity.** This is consistent with estimates showing trend total factor productivity growth remaining below pre-pandemic levels.[4] As a result, output gap estimates narrowed in Q2 2025.[5,6,7] Meanwhile, forecasts from the BSP's Policy Analysis Model for the Philippines (PAMPh) show a slightly negative output gap over the near term, given the adverse impact of higher US tariffs on the country's goods exports. Nonetheless, the output gap is seen to gradually improve and turn broadly neutral by 2027, supported by a more accommodative policy stance and expected real wage increases.

[3] Based on the DBCC meeting on 23 June 2025, the growth target is set at 5.5–6.5 percent for 2025 and 6.0–7.0 percent for 2026 and 2027.
[4] Amodia, R. A., Castañares, S. J. A., Dacio, J. E., de Guia, S. J. L., & Marquez, C. J. P. (2024). *Toward greater efficiency: Estimating the Philippines' total factor productivity growth and its determinant* [Bangko Sentral ng Pilipinas Discussion Paper No. 2024-10]. https://www.bsp.gov.ph/Pages/MediaAndResearch/PublicationsAndReports/Discussion%20Papers/DP202410.pdf
[5] The Q2 2025 output gap estimate is based on the simple average of four output gap models: (a) production function approach, (b) structural vector autoregression, (c) macroeconomic unobserved components model, and (d) PAMPh. A detailed discussion of the first three methods can be found in Mariano et al. (2018), while the PAMPh output gap is discussed in Dakila et al. (2024).
[6] Mariano, R. S., Ozmucur, S., Bayangos, V. B., Cacnio, F. C. Q., & Oliva, M. B. (2018). *Review of the potential output and output gap estimation models of the Bangko Sentral ng Pilipinas* [Bangko Sentral ng Pilipinas Working Paper No. 2018-01]. https://www.bsp.gov.ph/Sites/researchsite/Publications/BSP-Working-PaperSeries/WPS201801.pdf
[7] Dakila, F. G. D., Jr., Bautista, D. M., Dacio, J. E., Amodia, R. A., Castañares, S. J. A., Alhambra, P. R. R., Ocampo, J. C. G., Marquez, C. J. P., Romaraog, M. R. S., Karam, P. D., Baksa, D., & Vleck, J. (2024). *A monetary and financial policy analysis and forecasting model for the Philippines (PAMPh2.0)* [International Monetary Fund Working Paper No. 2024-148]. https://www.imf.org/en/Publications/WP/Issues/2024/07/12/A-Monetary-and-Financial-Policy-Analysis-and-Forecasting-Model-for-the-Philippines-PAMPh2-551768

**The exchange rate is projected to remain stable and settle within the Development Budget Coordination Committee's assumptions for 2025–2027.**[8] In the near term, this reflects the depreciation of the peso amid geopolitical tensions in the Middle East and uncertainty over US trade negotiations. This also reflects the narrower real policy rate differential between the Philippines and the US, given lower domestic inflation. The central projections factor in market expectations of a 75-basis point (bp) reduction in the US federal funds rate in 2025, a further 50-bp cut in 2026, and net zero change in 2027.

# II. Key forecast assumptions

## External factors

**Global economic growth is expected to improve modestly.** This outlook is based on the June 2025 forecasts of the Global Projection Model Network (GPMN) and the July 2025 World Economic Outlook (WEO) Update of the International Monetary Fund (IMF). These assumptions reflect frontloading of international trade and investments in anticipation of higher US tariffs, alongside looser financial conditions and increased government spending.

- The US economy is expected to grow by 1.7 percent in 2025 and 2026, driven by the normalization of import levels and firm household spending. However, shifting tariff policies and the US Federal Reserve (US Fed)'s tight monetary stance could dampen growth in the subsequent quarters.
- Euro area expansion is projected to improve to 1.3 percent in 2025, supported by higher investment and stronger net trade.
- Following a temporary tariff suspension with the US, the Chinese economy is anticipated to grow by 5.0 percent in 2025. Nonetheless, tariff tensions could continue to weigh on demand over the policy horizon.
- Japan's growth forecast remains subdued, with trade uncertainties with the US and weak global demand weighing heavily on the export-oriented economy.

Table 2
**The global economy is expected to remain stable, albeit with modest growth.**
world gross domestic product growth rate; in percent

| | June 2025 Monetary Policy Report | August 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 2.7 | 2.9 |
| **2026** | 2.4 | 2.5 |
| **2027** | 2.8 | 2.8 |

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

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

**International crude oil prices are assumed to be lower.** Global crude oil price assumptions are based on the average futures price data from 22 July 2025 to 8 August 2025, with domestic oil prices expected to broadly track the global trend. In August 2025, the Organization of the Petroleum Exporting Countries Plus (OPEC+) announced its decision to increase production starting in September 2025. This decision is anticipated to lead to a sizeable inventory buildup through 2026, exerting downward pressure on oil prices.

Table 3
**Global oil prices are projected to decelerate.**
average price of Dubai crude oil prices; in US$ per barrel

| | June 2025 Monetary Policy Report | August 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 70.75 | 69.64 |
| **2026** | 67.94 | 66.23 |
| **2027** | 67.12 | 65.85 |

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Domestic inflation could breach the 3.0 percent ± 1.0 ppt target range if Dubai crude oil prices average US$80.0 per barrel in 2026 and US$100.0 per barrel in 2027. These projections consider direct effects only and exclude potential second-round impacts.

Table 4
**Inflation is seen to breach the target if crude oil prices average US$80.0 per barrel in 2026 and US$100.0 per barrel in 2027.**
year-on-year headline inflation; in percent

| | 2025 | 2026 | 2027 |
|---|---|---|---|
| **Central projection for inflation** | 1.7 | 3.3 | 3.4 |
| **Crude oil price (US$ per barrel)** | | | |
| 60 | 1.6 | 2.8 | 3.3 |
| 70 | 1.7 | 3.5 | 3.6 |
| 80 | 1.7 | 4.1 | 3.8 |
| 90 | 1.8 | 4.6 | 4.0 |
| 100 | 1.8 | 5.1 | 4.2 |
| 110 | 1.9 | 5.5 | 4.3 |
| 120 | 1.9 | 5.9 | 4.5 |
| 130 | 1.9 | 6.3 | 4.6 |

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

**World non-oil prices are expected to rise.** Non-fuel commodity prices could increase in 2025, driven by the uptick in prices of precious metals as safe-haven demand remains strong amid heightened global economic uncertainty.

Table 5
**Non-oil prices are projected to rise on higher metal prices.**
growth rate of world non-oil prices; in percent

| | June 2025 Monetary Policy Report | August 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 4.4 | 7.8 |
| **2026** | 0.2 | 2.0 |
| **2027** | -0.9 | -0.9 |

Sources: World Economic Outlook (WEO) (International Monetary Fund [IMF], April 2025); WEO (IMF, July 2025)

**Relative to the previous round, the central projections assume more policy rate cuts by the United States Federal Reserve.** Assumptions for the US federal funds rate are based on futures prices as of 8 August 2025. Market expectations suggest a cumulative 75-bp cut in 2025 and a further 50-bp reduction in 2026. Following weak July 2025 labor market data and signs of slower US growth, markets have become optimistic that the Fed will reduce interest rates to support its employment mandate. In 2027, the US Fed is expected to implement a 25-bp hike, followed by a 25-bp cut.

Table 6
**Projections for the federal funds rate are based on the latest futures prices.**
federal funds rate; in percent

| | June 2025 Monetary Policy Report | August 2025 Monetary Policy Report |
|---|---|---|
| **2025** | 3.9 | 3.8 |
| **2026** | 3.3 | 3.0 |
| **2027** | 3.5 | 3.2 |

Source: Bloomberg

## Domestic factors

**The central projections assume no further adjustments to either the policy interest rate or the reserve requirement ratio over the forecast horizon.**

**An annual minimum wage increase of 7.8 percent for 2025 was incorporated, in line with the approved adjustment for the National Capital Region, effective 18 July 2025.** For 2026 and 2027, minimum wage increases of 5.5 percent were assumed each year. These assumptions are consistent with historical minimum wage adjustments observed from 2015 to 2024.

**The central projections align with the government's fiscal deficit targets.** These targets are based on the medium-term fiscal program of the DBCC as of 23 June 2025.

**Legislated tax measures were factored in on the central projections.** These adjustments include the annual excise tax increases on alcoholic beverages and cigarettes under Republic Act (RA) No. 11467, as well as the higher tobacco product taxes under RA No. 11346.

**Utility rate adjustments were also incorporated into the central projections.** These include approved water rate increases for the Manila Water Company and Maynilad Water Services, as well as the following electricity rate adjustments:

- Manila Electric Company (Meralco)'s higher pass-through charges due to a new gas supply agreement,
- Meralco's refund of unutilized regulatory reset expert costs and over-recoveries of rates from July 2022 to December 2024,
- rate changes arising from the nullification of cap prices and under-recoveries by the National Grid Corporation of the Philippines (NGCP), and
- higher Meralco rates for August 2025 due to increased generation charges and NGCP's maximum allowable revenue and collection of under-recoveries.

**The suspension of rice importation could raise inflation in the near term.**[9] The central projections incorporate higher rice prices in September and October 2025. As import contract negotiations are likely to be delayed by the 60-day import ban, rice import arrivals in November and December 2025 are assumed to slightly affect rice supply. This will lead to higher rice prices in the said months, but at a lower magnitude than in September and October 2025.

**The removal of import tariffs on wheat and soy products from the United States could lead to lower inflation.** Following the trade deal between the US and the Philippines in July 2025, zero tariffs were imposed on wheat and soy products from the US. The landed cost of wheat and soy imports is expected to decline over a 12-month period.

# III. Alternative scenarios

Two alternative scenarios depict the emerging risks surrounding the inflation outlook. The hawkish scenario considers supply-side factors that could push inflation above the central projections. In contrast, the dovish scenario explores an adverse demand-driven shock to the domestic economy that could result in inflation falling below the central projections.

**Hawkish scenario:** Upward adjustments in electricity rates, higher oil prices, and a possible reversion to higher rice tariffs could lead to a more elevated inflation path.

[9] On 29 August 2025, the President issued Executive Order (EO) No. 93, suspending the importation of regular-milled and well-milled rice from 1 September 2025 to 30 October 2025.

*Electricity rates could increase further over the forecast horizon.* Beyond the electricity rate adjustments already incorporated in the central projections, the alternative scenario assumes other possible adjustments, including:

- San Miguel Corporation's motion to recover ₱34.0 billion in losses,
- National Power Corporation's proposal to recover ₱7.5 billion in deferred fuel costs, and
- Meralco's proposed annual revenue requirements and performance incentive schemes for the revised fifth regulatory period.

*Global oil price uncertainties stemming from geopolitical concerns in the Middle East could provide further inflationary pressures.* Potential disruptions to the global oil supply may push Dubai crude oil prices higher if the conflict in the region intensifies. The alternative scenario assumes an increase in oil prices due to a shutdown in Iranian oil production.

*The reversion to higher rice tariff is expected to exert upward pressure on inflation.* Under EO No. 62, the rice import tariff was reduced from 35.0 percent to 15.0 percent in July 2024. The alternative scenario assumes a gradual increase in rice tariff to 20.0 percent in September 2026, 25.0 percent in September 2027, and 35.0 percent in September 2028.

**Dovish scenario:** This alternative scenario assumes weaker global growth prospects due to less favorable US trade policies. The scenario could dampen international oil prices and domestic economic activity, exerting downside pressures on inflation. The scenario reflects a moderated view of Oxford Economics' July 2025 worst-case trade war scenario. It also assumes a scaled-down impact of higher US effective tariff rates, resulting in a sharp slowdown in the US.

Based on the central inflation projection and alternative scenarios, and using a 90.0 percent confidence interval, the probability of inflation falling below the target range in 2025 remains high. Nonetheless, the likelihood of inflation settling within the target range in 2026 and 2027 remains dominant.

Table 7
**Inflation is expected to settle below the target range in 2025 but remain within the target for 2026–2027.**
probability distribution; in percent

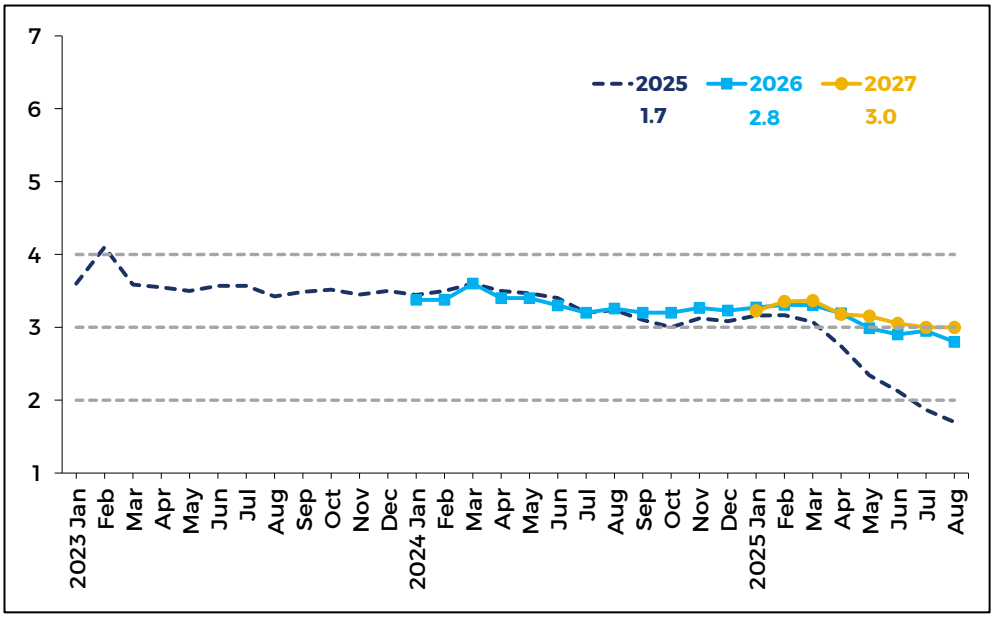
| | Pr(<2%) | Pr(2%-4%) | Pr(>4%) |
|---|---|---|---|
| **2025** | 70.2 | 29.8 | 0.0 |
| **2026** | 11.3 | 55.6 | 33.1 |
| **2027** | 11.8 | 49.7 | 38.5 |

Source: Bangko Sentral ng Pilipinas estimates

# IV. Inflation expectations

Results from the August 2025 BSEF show that analysts expect inflation to remain within the 3.0 percent ± 1.0 ppt target range over the medium term, as price pressures from key commodities remain subdued. The mean inflation forecast for 2025 eased to 1.7 percent (from 1.9 percent in the July survey round), while the forecast for 2026 declined to 2.8 percent (from 3.0 percent). The mean inflation forecast for 2027 was unchanged at 3.0 percent.

Figure 2
**Inflation expectations remain well-anchored.**
full-year mean inflation forecast; in percent



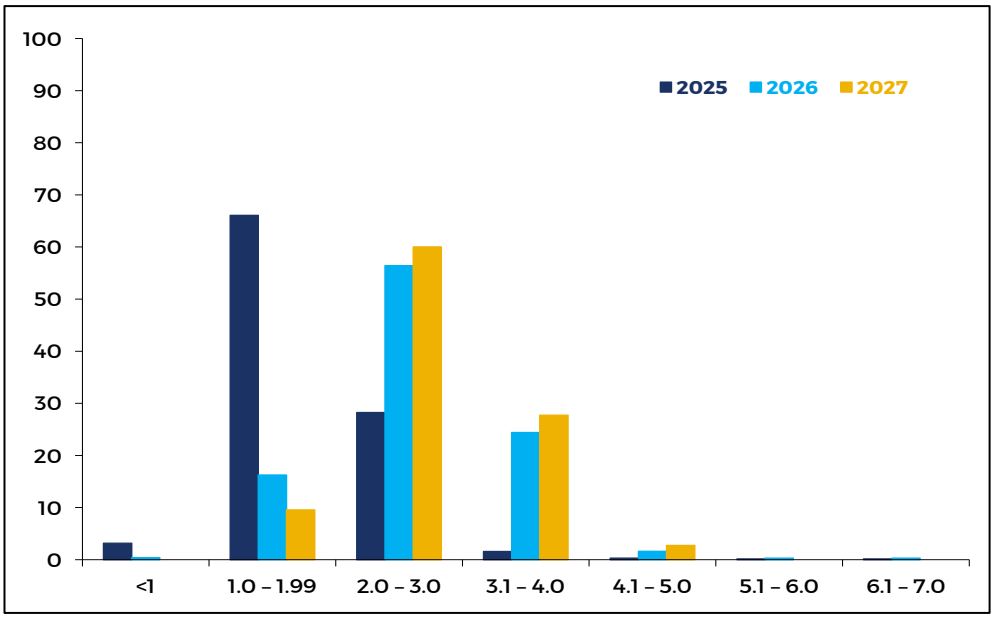

Source: Bangko Sentral ng Pilipinas
This was based on forecasts provided by 23 respondents.
Survey results are as of 22 August 2025.

Analysts cited the following upside risks to inflation: potential oil price hikes due to geopolitical tensions in the Middle East, rice-market policies involving the suspension of rice imports, and higher minimum wages. The downside risk cited was lower rice prices, which could weigh on the inflation outlook.

Amid these developments, the probability of inflation remaining within target declined, with a higher probability assigned to inflation falling below the low end of the target range in the near term. For 2025, analysts assigned a 29.8 percent chance (from 43.4 percent in July) that inflation will stay within target. Meanwhile, the likelihood of inflation falling below target increased to 69.2 percent (from 56.6 percent). The probability of inflation staying within the target range for 2026 is at 80.8 percent (from 90.7 percent), and it remains unchanged for 2027 at 87.7 percent.

Most analysts expect the BSP to reduce its policy interest rates by an additional 25–50 bps for the rest of 2025, by another 25–50 bps in 2026, and hold policy settings in 2027.

Figure 3
**The probability of inflation settling within the target range in 2025 declined but remained high for 2026 and 2027.**
probability distribution; in percent
2025–2027



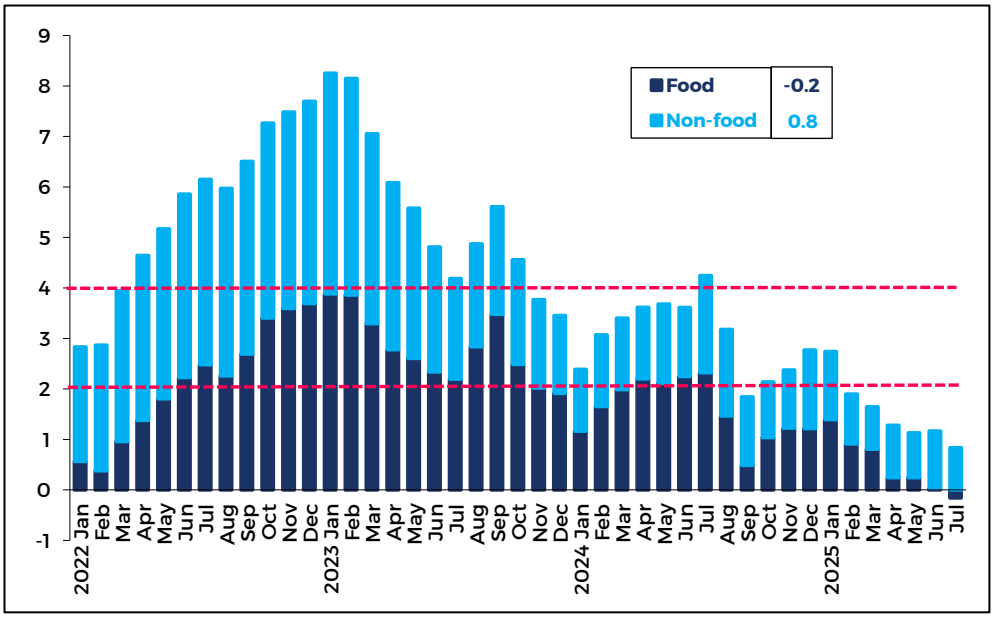

Source: BSP Survey of External Forecasters (August 2025)
Probability distributions were averages of those provided by 16 out of 23 respondents.

# B. Current developments

## I. Price conditions

**Headline inflation eased further in July 2025 to 0.9 percent, the lowest since October 2019 (0.6 percent).** Domestic rice prices eased owing to lower international rice prices, sufficient supply, and direct government measures. Downward adjustments in the prices of some petroleum products and the slower electricity inflation likewise tempered inflation. The July inflation outcome was within the BSP's month-ahead forecast range of 0.5–1.3 percent.

Figure 4
**The average year-to-date inflation fell below the target range.**
contribution to year-on-year headline inflation; in percent
2018=100




Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

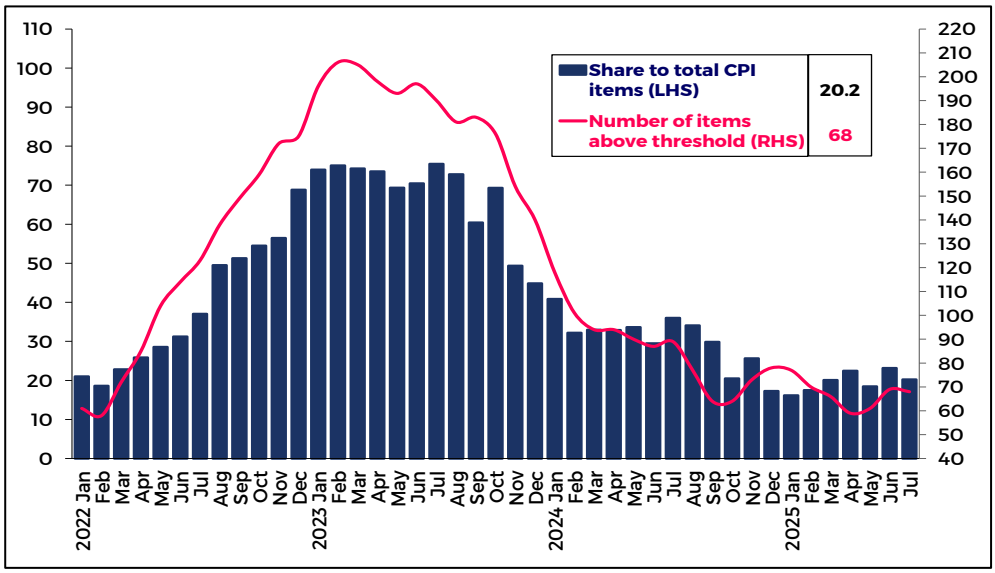
Nearly half (47.4 percent) of the items in the consumer basket recorded inflation rates below 2.0 percent. The number of items above 4.0 percent decreased slightly, from 69 in June to 68 in July, accounting for 20.2 percent of the total CPI basket. Meanwhile, the remaining 62 items registered inflation rates within the target range.

Figure 5

**Fewer Consumer Price Index items posted inflation rates above 4.0 percent.**

number and percent share of items above target

2018=100




Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

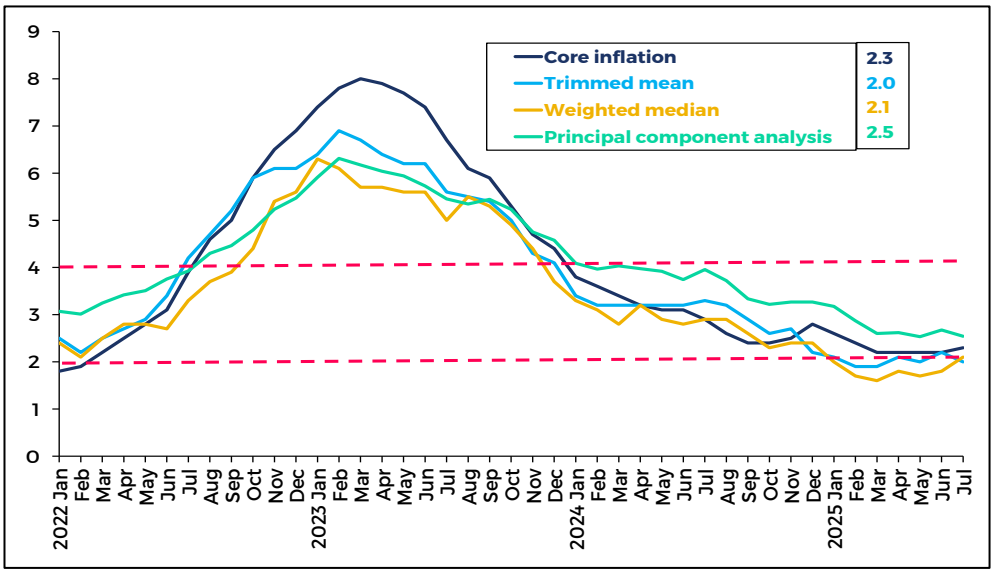
CPI – Consumer Price Index
RHS – right-hand side
LHS – left-hand side

**Core inflation, which excludes volatile food and energy items, increased slightly but continued to indicate manageable price pressures.** The weighted median measure of core inflation also rose. In contrast, other BSP-computed core inflation measures, such as the trimmed mean and principal components analysis, eased.

Figure 6

**Core inflation continued to signal manageable price pressures.**

year-on-year core inflation; in percent

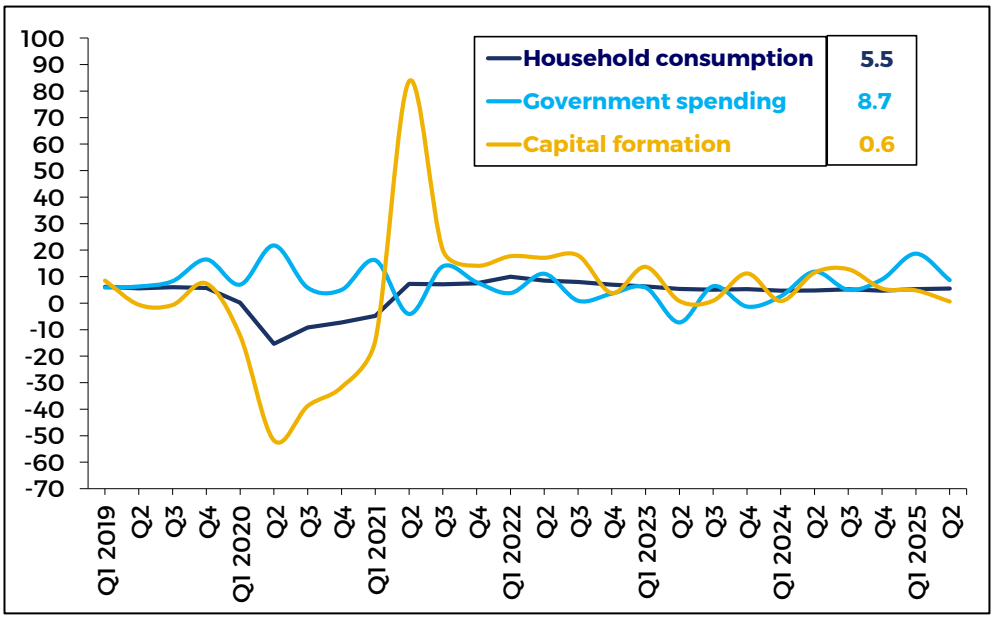



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas staff calculations

# II. Demand conditions

**The Philippine economy expanded by 5.5 percent in Q2 2025.** Output grew faster than the previous quarter, settling at the low end of the government's 2025 growth target range of 5.5–6.5 percent. On a seasonally adjusted basis, quarter-on-quarter gross domestic product (GDP) growth rose from 1.2 percent in Q1 2025 to 1.5 percent in Q2 2025.

Figure 7
**Steady domestic demand sustained the economy's growth.**
year-on-year gross domestic product growth at constant 2018 prices; in percent




Source: Philippine Statistics Authority

Robust household consumption continued to drive demand, supported by easing inflation, lower interest rates, and stable labor market conditions. This acceleration is attributed to increased spending on food and non-alcoholic beverages, transport, miscellaneous goods and services, restaurants and hotels, and education, among others.

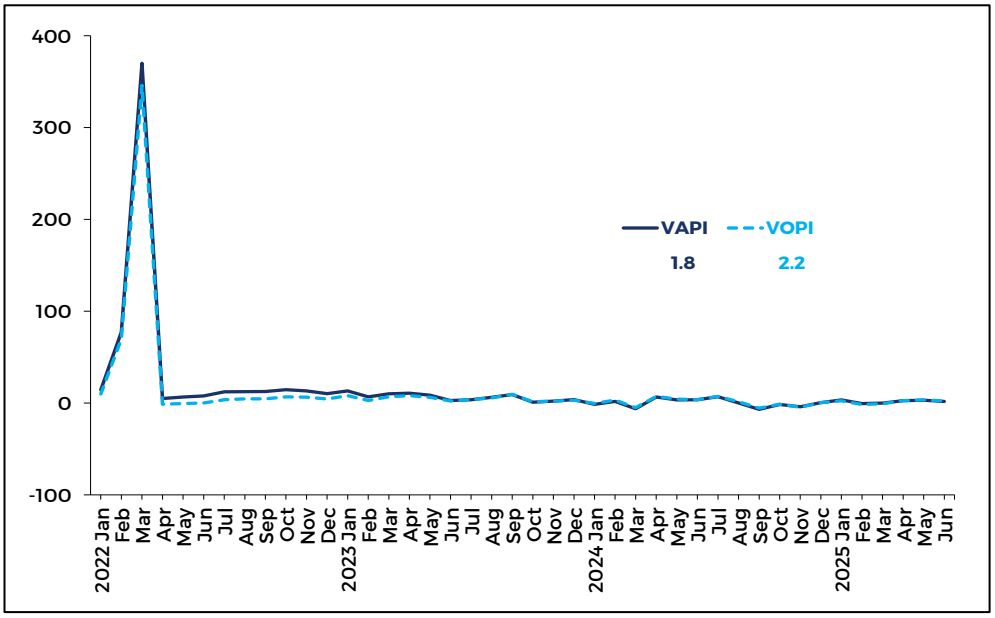
Government expenditures continued to grow, albeit at a slower pace compared with the same period last year. This was mainly due to limited activity amid the election ban, as well as reduced subsidies to government-owned and -controlled corporations and lower maintenance and other operating expenses.

Investment activity also grew modestly, led by the sustained growth in durable equipment and private construction. Meanwhile, public construction weighed on investment following the frontloading of infrastructure spending ahead of the election ban.

**Capacity utilization held steady to support operations.** Based on the PSA's Monthly Integrated Survey of Selected Industries (MISSI), 62.5 percent of surveyed establishments operated at or above 80.0 percent capacity in June 2025, up from 59.6 percent in May 2025.[10]

Preliminary MISSI results showed moderate growth in factory output in June, which was dampened by the slower manufacture of basic metals, as well as coke and refined petroleum products. The value of production index also rose at a softer rate during the month.

Figure 8
**The production index posted moderate growth.**
year-on-year growth of the volume and value of production indices; in percent
2018=100




Source: Philippine Statistics Authority
VoPI – volume of production index
VaPI – value of production index

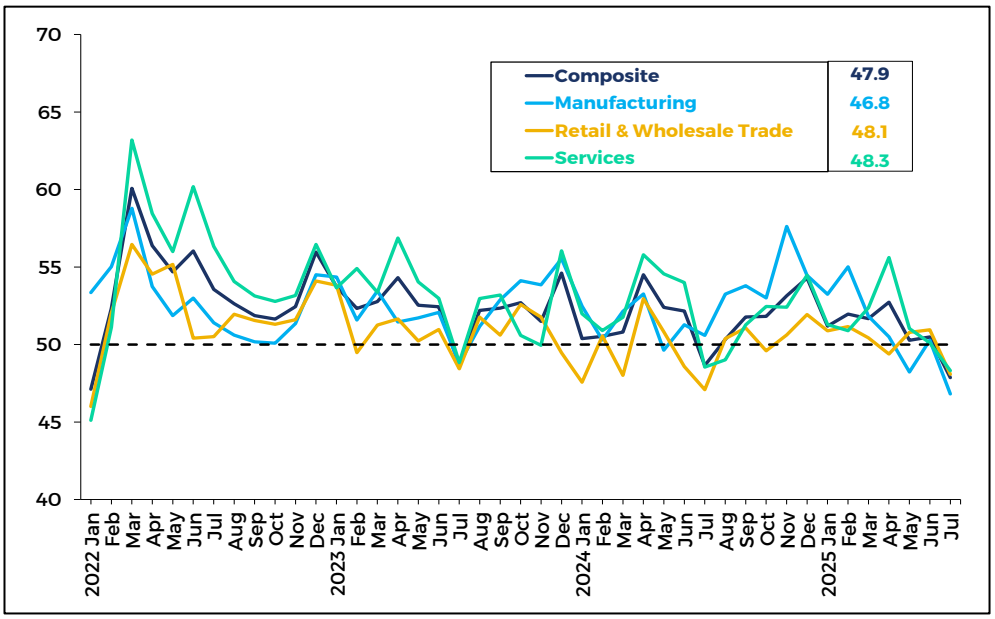
**The purchasing managers' index contracted, reflecting a broad-based midyear slowdown.** The index fell to 47.9 in July 2025, indicating weaker business conditions. Business activity deteriorated across all economic sectors—manufacturing, retail and wholesale, and services—amid softer demand conditions and weather disruptions. Manufacturing firms also remained cautious, given ongoing geopolitical uncertainties and volatile trade policies.

[10] The response rate of surveyed establishments decreased from 58.7 percent (preliminary) in May 2025 to 55.5 percent (preliminary) in June 2025. The revised response rate for May 2025 was 70.1 percent.

Figure 9

**Business activities across sectors contracted.**

purchasing managers' index; in index points




Source: Philippine Institute of Supply Management

# III. Supply conditions

**On the production side, all three major industry groups posted broad-based growth.** The services sector remained the primary growth driver in Q2 2025, led by wholesale and retail trade, public administration and defense, financial and insurance activities, and education. However, weaker performance in accommodation and food service activities tempered overall expansion.

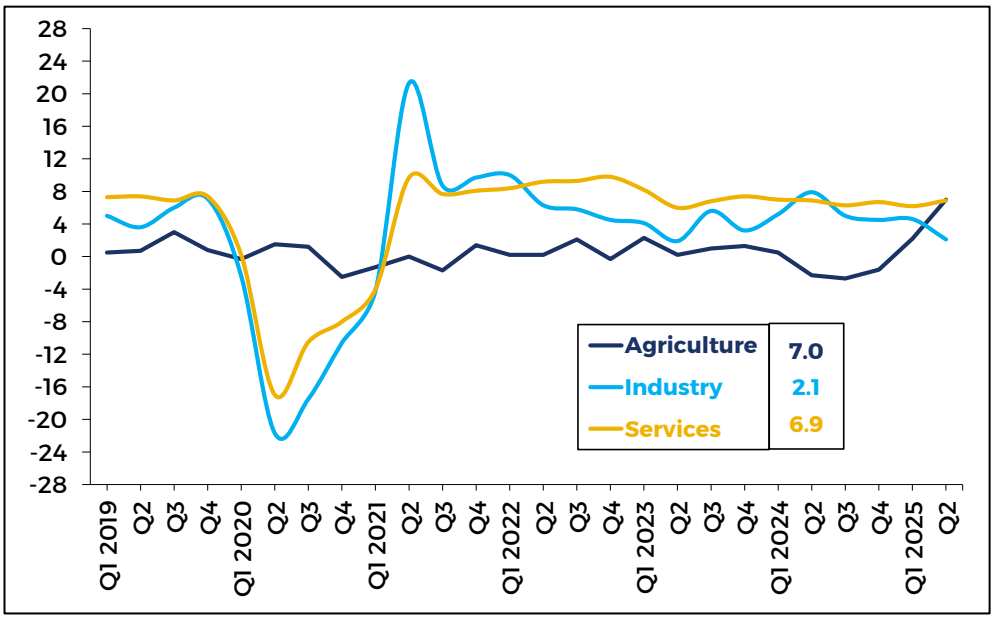
Growth in the industry sector moderated across all subsectors, especially in mining and quarrying. Manufacturing and electricity, steam, water, and waste management also slowed.

Meanwhile, the agriculture sector rebounded amid favorable weather conditions. Growth was mainly driven by *palay*, sugarcane, corn, poultry and egg production, as well as support activities for agriculture, forestry, and fishing.

Figure 10

**Production output moderated despite the rebound in agriculture.**

year-on-year gross domestic product growth by industry at constant 2018 prices; in percent




Source: Philippine Statistics Authority

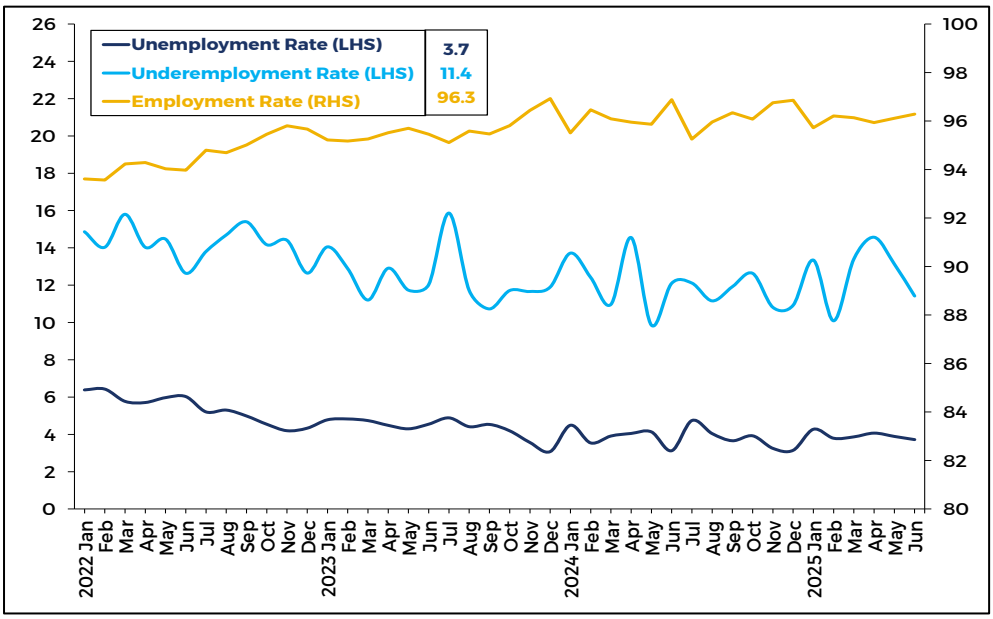
**Global crude oil prices declined in early August 2025, reflecting increased supply.** Easing geopolitical tensions in the Middle East also contributed to lower oil prices. However, uncertainty stemming from diverging growth prospects across economies, the threat of tighter economic sanctions on Russia, and the fragile ceasefire between Israel and Iran could influence oil price movements.

**Labor market conditions were broadly stable.** The unemployment rate rose to 3.7 percent in June 2025, as labor force growth outpaced employment creation. The year-to-date (y-t-d) average unemployment rate stood at 3.9 percent, lower than the 10-year average of 4.7 percent. The number of underemployed individuals fell by 320,000 year-on-year, bringing the underemployment rate down to 11.4 percent.

Figure 11

**Labor market performance was mixed.**

year-on-year employment, unemployment, and underemployment growth; in percent




Source: Philippine Statistics Authority

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

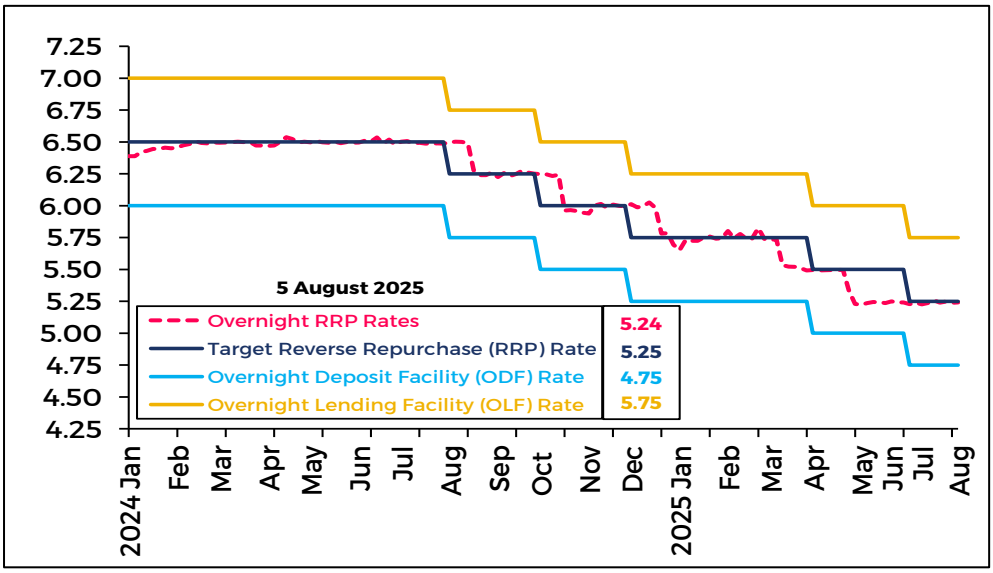
# IV. Monetary operations

**The BSP's monetary operations effectively kept the overnight reverse repurchase rate aligned with the target reverse repurchase rate.** As of 5 August 2025, the BSP's monetary operations absorbed ₱1.4 trillion in liquidity. The BSP-SF accounted for the largest share at 46.5 percent of total placements. The rest were absorbed through the overnight RRP facility (27.6 percent), overnight deposit facilities (16.8 percent), and TDFs (9.1 percent).

Figure 12

**The overnight reverse repurchase rate closely tracked the target reverse repurchase rate.**

BSP interest rate corridor; in percent



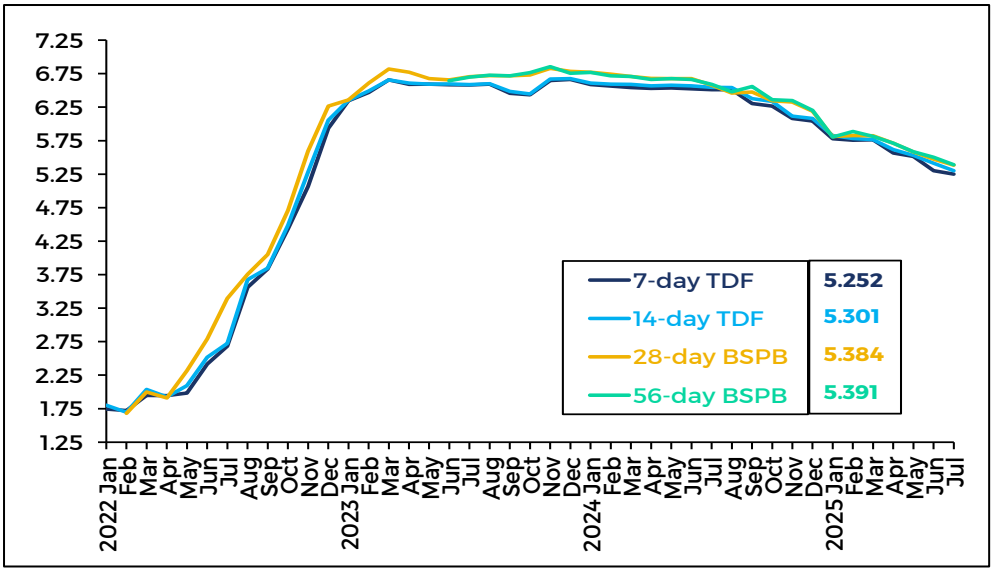

Source: Bangko Sentral ng Pilipinas

**Interest rates in the term deposit facility and BSP bills fully reflect the cumulative 125-basis point policy rate cuts since August 2024.** During the 30 July 2025 TDF auction, rates declined to 5.2521 percent for the 7-day tenor and 5.3009 percent for the 14-day tenor. Similarly, during the 1 August 2025 BSP bill auction, rates fell to 5.3842 percent for the 28-day bill and 5.3910 percent for the 56-day bill.

Figure 13

**The central bank's term facilities fully reflected policy rate cuts.**

term deposit facility and BSP bill rates; in percent



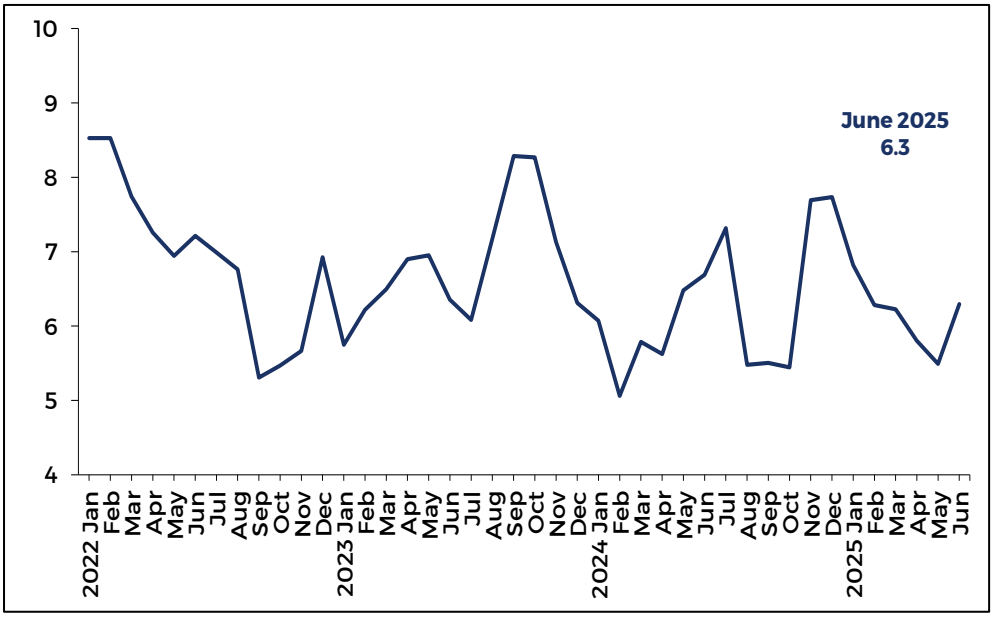

Source: Bangko Sentral ng Pilipinas

TDF – term deposit facility
BSPB – Bangko Sentral ng Pilipinas bill

# V. Financial conditions

**Domestic liquidity (M3) grew at a faster pace.** This was supported by sustained bank lending to non-financial private corporations and households, alongside an increase in net claims on the government. The faster growth in savings deposits also contributed to M3 growth.

Figure 14
**Domestic liquidity expanded at a faster pace.**
year-on-year M3 growth; in percent




Source: Bangko Sentral ng Pilipinas

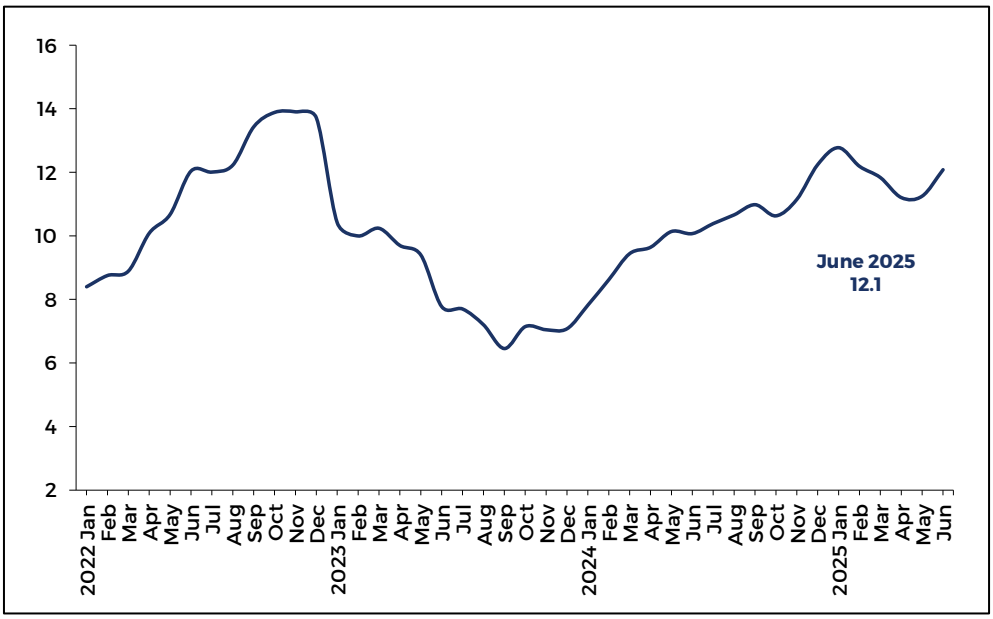
**Bank lending expanded in June 2025, supported by sustained credit flows to key industries.** Outstanding loans of universal and commercial banks, net of RRP placements, grew by 12.1 percent in June, faster than the 11.3-percent growth in May.

Both business-related and consumer loans to residents consistently posted double-digit growth rates. The expansion in corporate lending remained broad-based, with loans directed toward real estate; electricity, gas, steam, and air-conditioning supply; financial and insurance activities; and transportation. Consumer loans also accelerated, mainly due to increased credit card, motor vehicle, and general lending.

Figure 15

**Bank lending growth accelerated.**

year-on-year outstanding loan growth from universal and commercial banks; in percent




Source: Bangko Sentral ng Pilipinas

**Most banks kept credit standards for enterprise loans steady in Q2 2025, based on the modal approach.**[11] The rest of the respondents noted a net tightening of credit standards, consistent with the results of the diffusion index (DI). Looking ahead, both approaches show that banks expect loan demand to remain steady over the next quarter, supported by the anticipated rise in customer inventory funding needs, robust accounts receivable financing demand, and favorable economic conditions.

[11] In the modal approach, survey results are analyzed based on the most frequently selected option. The three options are (a) tightening, (b) easing, or (c) unchanged credit standards for loans to enterprises and households.

Table 8

**The modal approach indicates steady credit standards for enterprise loans, while the diffusion index reflects net tightening.**

distribution of banks' responses based on the modal and diffusion index approaches; in index points

| | 2022 | | | | 2023 | | | | 2024 | | | | 2025 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 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 | 2.0 | 1.9 | 1.8 | 3.6 |
| Tightened somewhat | 16.0 | 13.0 | 8.3 | 12.8 | 13.3 | 4.3 | 10.6 | 12.0 | 11.8 | 11.1 | 13.7 | 14.8 | 12.7 | 12.5 |
| **Remained basically unchanged** | **72.0** | **76.1** | **77.1** | **80.9** | **73.3** | **89.1** | **80.9** | **88.0** | **86.3** | **87.0** | **80.4** | **83.3** | **81.8** | **82.1** |
| Eased somewhat | 2.0 | 4.3 | 4.2 | 2.1 | 6.7 | 2.2 | 6.4 | 0.0 | 2.0 | 0.0 | 3.9 | 0.0 | 3.6 | 1.8 |
| Eased considerably | 0.0 | 0.0 | 0.0 | 0.0 | 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 | 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** | **11.8** | **16.7** | **10.9** | **14.3** |
| **Weighted diffusion index** | **17.0** | **10.9** | **12.5** | **9.6** | **10.0** | **5.4** | **4.3** | **6.0** | **4.9** | **7.4** | **6.9** | **9.3** | **6.4** | **8.9** |
| Mean | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.8 | 2.9 | 2.8 |
| **Number of banks responding** | **50** | **46** | **48** | **47** | **45** | **46** | **47** | **50** | **51** | **54** | **51** | **54** | **55** | **5.6** |

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).

An unchanged credit standard in the diffusion index approach indicates that the proportion of respondent banks that have tightened their credit standards is equal to the proportion that have eased their credit standards.

**For household loans, the modal approach indicates that most banks maintained their credit standards in Q2 2025.** Meanwhile, the DI method reflects a net tightening due to concerns over weaker borrower profiles and reduced risk tolerance. Nonetheless, both approaches suggest that banks anticipate robust household credit demand, largely driven by consumption-related borrowing.

Table 9

**Banks tightened credit standards for household loans.**

distribution of banks' responses based on the modal and diffusion index approaches; in index points

| | 2022 | | | | 2023 | | | | 2024 | | | | 2025 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 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 | 2.9 | 0.0 | 0.0 | 5.0 |
| Tightened somewhat | 12.5 | 5.4 | 10.8 | 8.6 | 18.2 | 9.1 | 15.6 | 11.8 | 11.4 | 7.9 | 8.6 | 5.3 | 7.9 | 10.0 |
| **Remained basically unchanged** | **62.5** | **73.0** | **64.9** | **71.4** | **51.5** | **69.7** | **68.8** | **70.6** | **77.1** | **84.2** | **80.0** | **89.5** | **86.8** | **82.5** |
| Eased somewhat | 17.5 | 13.5 | 18.9 | 14.3 | 27.3 | 12.1 | 12.5 | 14.7 | 11.4 | 7.9 | 8.6 | 5.3 | 5.3 | 2.5 |
| Eased considerably | 5.0 | 2.7 | 0.0 | 0.0 | 0.0 | 6.1 | 3.1 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 100 | 100 | 100 | 100 | 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** | **0.0** | **2.9** | **0.0** | **2.6** | **12.5** |
| **Weighted diffusion index** | **-5.0** | **-1.4** | **1.4** | **2.9** | **-1.5** | **-4.5** | **-1.6** | **-4.4** | **0.0** | **0.0** | **2.9** | **0.0** | **1.3** | **8.8** |
| Mean | 3.1 | 3.0 | 3.0 | 2.9 | 3.0 | 3.1 | 3.0 | 3.1 | 3.0 | 3.0 | 2.9 | 3.0 | 3.0 | 2.8 |
| **Number of banks responding** | **40** | **37** | **37** | **35** | **33** | **33** | **32** | **34** | **35** | **38** | **35** | **38** | **38** | **40** |

Source: Bangko Sentral ng Pilipinas

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

# VI. Capital market

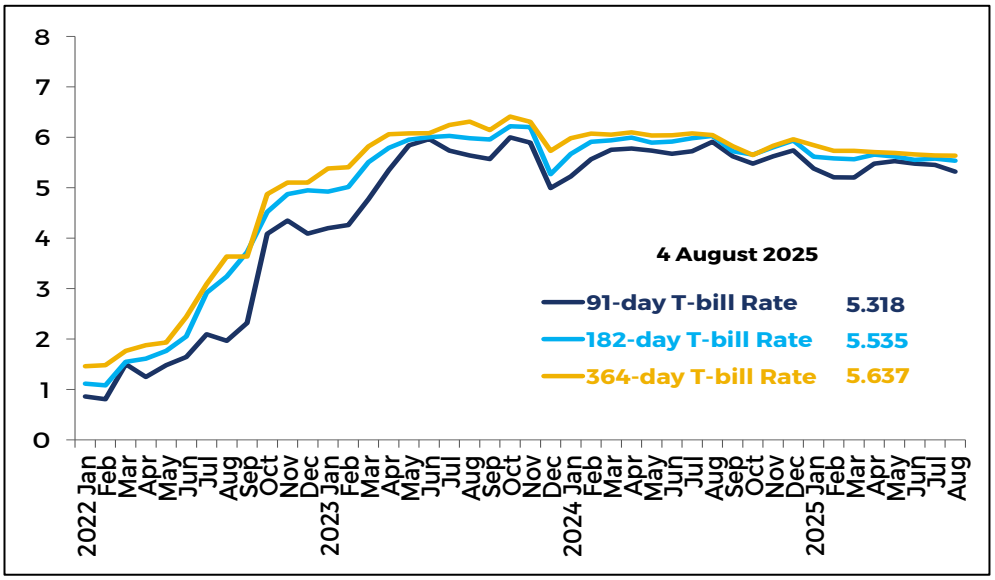
**The primary government securities market reflects expectations of further easing inflation in early August 2025.** During the 4 August 2025 auction, the Bureau of the Treasury (BTr) raised ₱28.4 billion through Treasury bill (T-bill) auctions, exceeding the initial ₱25.0 billion offer. Total tenders reached ₱87.3 billion, or 3.5 times the initial offer. The BTr also doubled the accepted non-competitive bids for the 182-day T-bills.

On 5 August 2025, the BTr attracted ₱354.2 billion from the issuance of the new 5-year retail Treasury bond 5-19 (i.e., RTB Tranche 31), which was 11.8 times oversubscribed against the initial offer of ₱30.0 billion. The BTr raised ₱210.0 billion on this day, which was the start of the offer period. The fixed rate was set at 6.0 percent, higher by 6.2 bps than the 5-year average Bloomberg Valuation Service (BVAL) rate.

Figure 16

**Treasury bill rates declined.**

91-day, 182-day, and 364-day Treasury bill rates; in percent



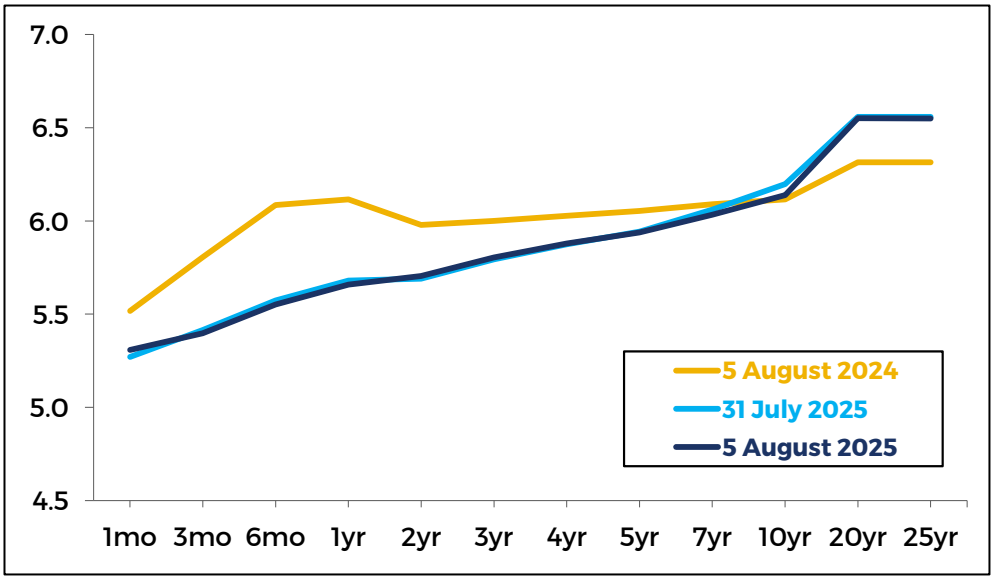

Source: Bureau of the Treasury

**In the secondary market, yields on government securities were mostly lower.** This was driven by expectations of a lower long-term inflation path, prospects of further BSP monetary policy easing, and the cautious policy stance of the US Fed. As of 5 August 2025, the spread between the 10-year and 1-year GS rates narrowed to 48.1 bps (from 51.8 bps as of end-July). Similarly, the 10-year and 5-year spreads tightened to 20.2 bps (from 25.5 bps). These developments reflect the fall in the 10-year and 1-year rates, while the 5-year rate was broadly unchanged.

Figure 17

**Government securities yields in the secondary market show mixed trends.**

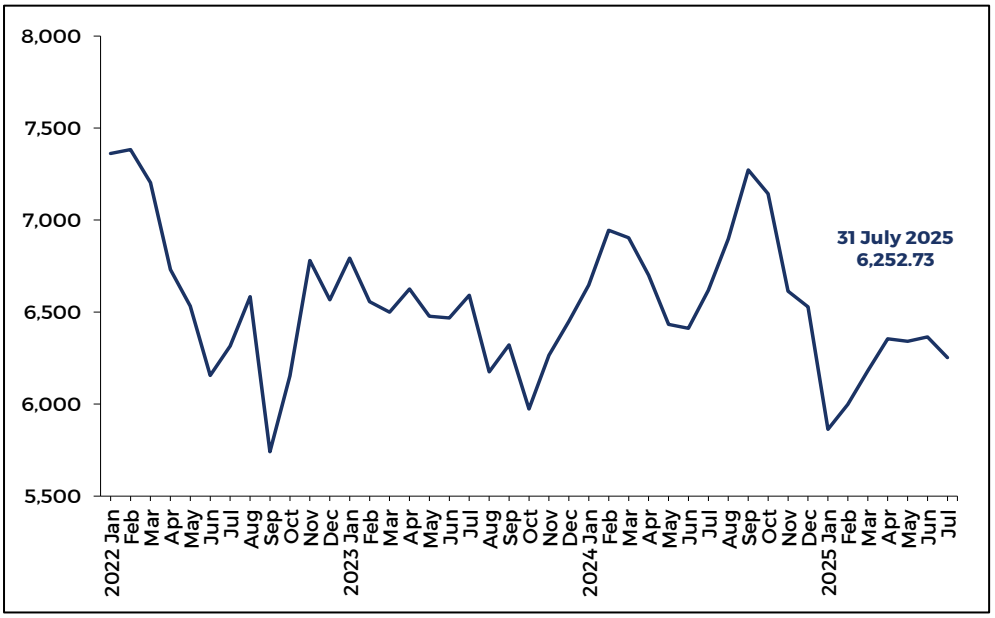
secondary-market rates of government securities; in percent




Source: Bloomberg

**The Philippine Stock Exchange Index declined in July 2025.** The decline was due to the announced US reciprocal tariff on Philippine imports and weaker domestic growth forecasts. Nonetheless, stronger-than-expected manufacturing activity and expectations of further monetary policy easing by the BSP tempered the decline.

Figure 18
**Weaker growth prospects and trade volatility continued to weigh on the stock market.**
Philippine Stock Exchange Index; in index points



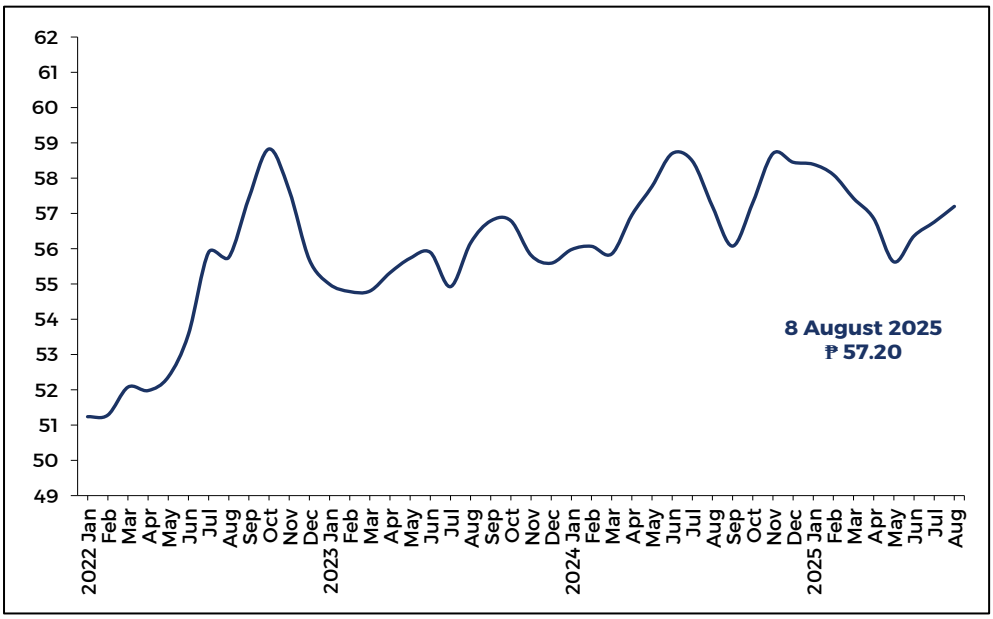

Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

**In the first week of August 2025, peso depreciation pressures eased due to softer US dollar.** This was supported by the six-year low domestic inflation, stronger-than-expected Q2 2025 GDP growth, and the BSP's forward guidance. As of 7 August 2025, the peso closed at ₱56.97/US$1, appreciating by 1.5 percent y-t-d relative to the end of December 2024.

Figure 19

**The peso depreciated against the dollar.**

daily Philippine peso per United States dollar rate; in PHP/USD




Source: Reference Exchange Rate Bulletin

The nominal depreciation of the peso partly contributed to the competitiveness of Philippine exports relative to those of our trading partners in developing and advanced countries.[12,13]

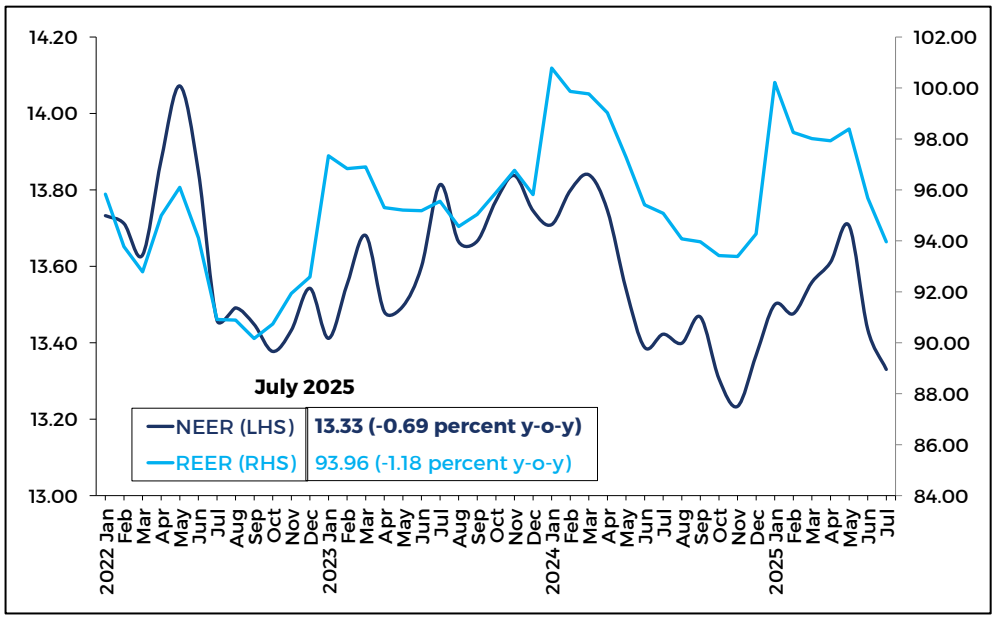
[12] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso against the currencies of 14 major trading partners of the Philippines: the US, the euro area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, 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, comprising the US, Japan, the euro area, and Australia. The TPI-Developing measures the effective exchange rates of the peso against 10 currencies of partner developing countries, including those of China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, UAE, and Thailand.

[13] The real effective exchange rate (REER) index represents the peso's nominal effective exchange rate (NEER), adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. Meanwhile, the NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

Figure 20

**The effective exchange rate indices decreased.**

nominal and real effective exchange rates; in index points




Source: Bangko Sentral ng Pilipinas

An increase (decrease) in the exchange rate indices indicates an appreciation (depreciation) in nominal (NEER) and real (REER) terms.

NEER – nominal effective exchange rate
REER – real effective exchange rate
RHS – right-hand side
LHS – left-hand side

# VII. External developments

**Global economic activity remained subdued, with uneven performance across sectors and regions.** In July, the JP Morgan All-Industry Output Index increased modestly, owing to improved service sector activity in select countries. The US and India led as top performers, while manufacturing and economic activity in China, Japan, the eurozone, and the United Kingdom remained stagnant.[14]

[14] JP Morgan Global Composite Purchasing Managers' Index (https://www.pmi.spglobal.com). 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 range from 0 to 100, with a reading above 50 indicating an overall increase compared with the previous month, and below 50 indicating an overall decrease. This was released on 5 June 2025.

Figure 21

**The global economy grew modestly.**

JP Morgan Global All-Industry Output; in index points


Source: Markit Economics

In its July 2025 WEO Update, the IMF raised its global growth forecast for 2025 to 3.0 percent, up 0.2 ppt from the April projection. The upward revision reflects (a) robust activity ahead of scheduled tariff increases; (b) reduced effective tariff rates; and (c) favorable financial conditions, including a weaker US dollar and expanded fiscal policies.

Advanced economies (AE) are expected to sustain growth, supported by favorable financial conditions and new fiscal initiatives in the US. In contrast, the euro area and other AEs continue to face challenges from currency appreciation and tariff pressures. The growth in emerging markets and developing economies will lean on China's strong momentum and easing US-China tariffs.

The IMF projections remained firmly skewed to the downside. Risks to the growth outlook include: (a) higher tariffs once tariff pauses expire, (b) elevated policy uncertainties, and (c) persistent geopolitical tensions affecting supply chains and trade flows.

**Most central banks monitored by the Bangko Sentral maintained a cautious tone in their monetary policy stance amid persistent uncertainty.** Some economies began reducing their key interest rates, while others signaled readiness to implement further rate cuts should economic conditions warrant. In August 2025, the Bank of Thailand, the Reserve Bank of Australia, and the Bank of England lowered their policy interest rates. Bank Indonesia and Bank Negara Malaysia also reduced rates in July 2025. Meanwhile, the Reserve Bank of New Zealand, the Bank of Korea, the People's Bank of China, the European Central Bank, the Bank of Canada, the US Fed, the Bank of Japan, and the Reserve Bank of India kept their key policy rates unchanged.

# Selected thematic articles

## An Evaluation of the Bangko Sentral ng Pilipinas' 2024 Forecasting Performance[1]

The Bangko Sentral ng Pilipinas (BSP) conducts an annual evaluation of its forecast performances as part of its continuing efforts to enhance its suite of macroeconomic forecasting models and to promote transparency in monetary policy formulation.[2]

This box article summarizes the BSP's forecasting performance for 2024, focusing on (a) month-ahead inflation forecasts, (b) annual inflation forecasts, and (c) standard statistical tests and peer benchmarking.

Compared to 2023, forecast errors in 2024 were lower for both month- and year-ahead forecasts, reflecting a more accurate assessment of evolving price conditions amid easing supply pressures and reduced volatility.

### Month-ahead inflation forecasts

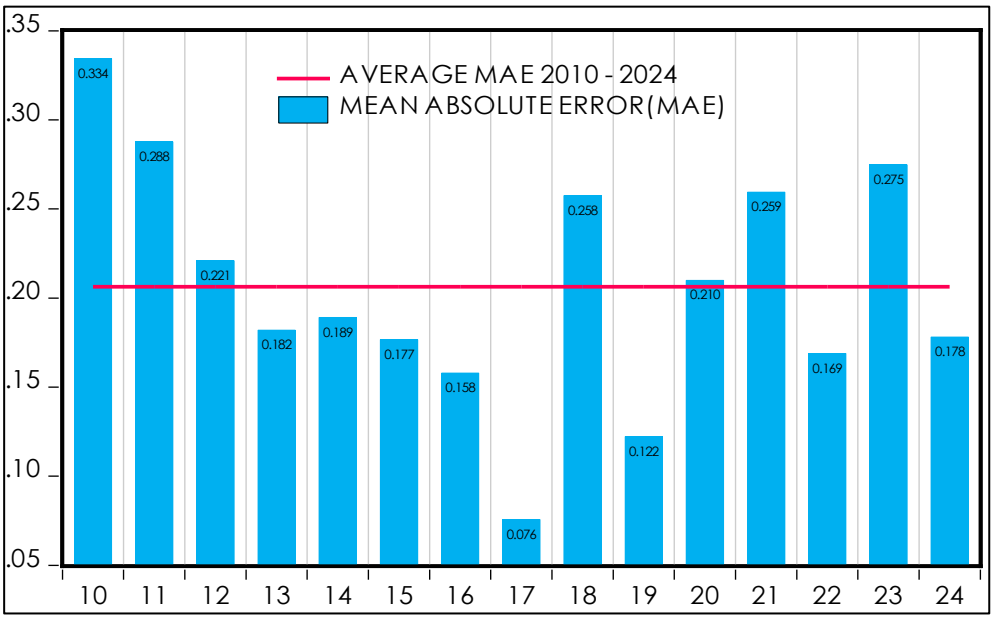
The BSP's month-ahead inflation forecasts consistently outperformed private sector consensus estimates. Forecast errors in 2024 were slightly lower than in 2023 and below the historical average since 2010. Monthly inflation settled within the BSP's announced forecast range in 11 out of 12 months for 2024. The only exception was September, when inflation (1.9 percent) fell below the BSP's forecast range of 2.0–2.8 percent.

The lower-than-expected September inflation was due to faster declines in the prices of vegetables and meat, along with lower transport costs.

The decline in the mean absolute error (MAE) in 2024 can be partly attributed to the improved assessment of price conditions as well. This was supported by insights from the BSP's complementary nowcasting models—the seasonal autoregressive integrated moving average with exogenous variables (SARIMAX) and the state-space models. By incorporating disaggregated price-level data on key commodities, these models enhanced the assessment of inflation trends used in the BSP's workhorse models.[3] A lower MAE signals improved forecasting performance.

From 2010 to 2024, actual inflation settled within the BSP's month-ahead inflation forecast band 164 times out of 179 months, or 91.6 percent, with an MAE of 0.21 percentage point (ppt) (*Figure 1*). In 2024, the MAE of the BSP's month-ahead inflation forecasts dropped significantly to 0.18 ppt from 0.28 ppt in 2023 and the historical average of 0.21 ppt.[4]

Figure 1
**Mean Absolute Errors of Inflation Forecasts**
in percentage points
2010–2024




Source: Bangko Sentral ng Pilipinas staff calculations

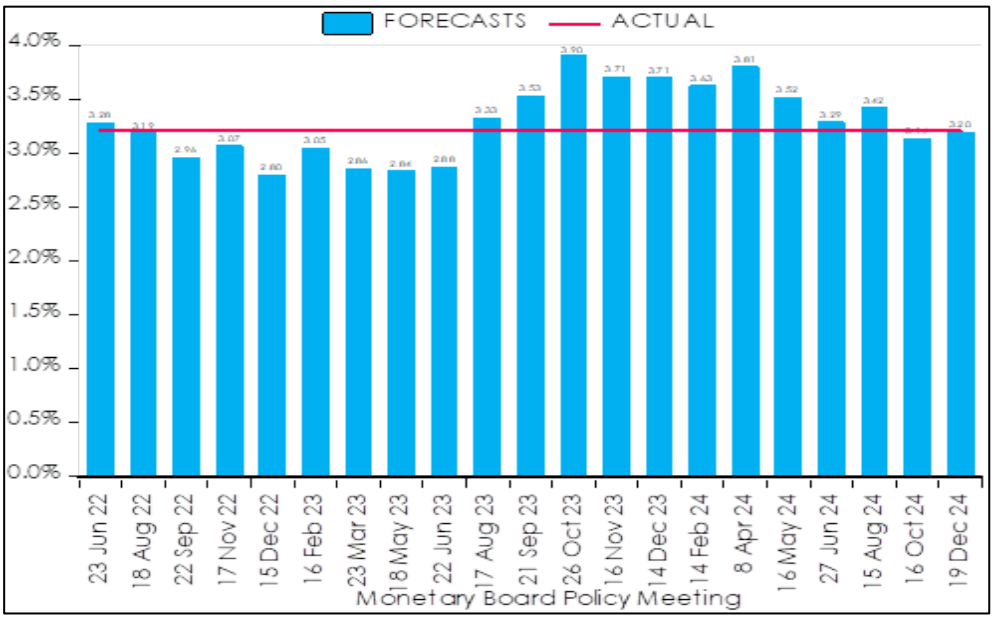
## Annual inflation forecasts

The baseline annual inflation forecasts for 2024, presented to the Monetary Board and announced to the public after each monetary policy meeting, were initially lower than the actual full-year inflation outturn of 3.2 percent. However, the baseline forecasts gradually increased as the upside inflation risks materialized (*Figure 2*).

The two-year-ahead inflation forecast of 2.8 percent for 2024 presented during the 15 December 2022 monetary policy meeting was lower than the 3.2 percent actual outturn. The lower forecast could be attributed to the underestimation of actual global crude oil and non-oil prices, as well as minimum wage adjustments. Actual domestic output growth also exceeded projections.

The one-year-ahead inflation forecast of 3.7 percent for 2024 presented during the 14 December 2023 monetary policy meeting was higher than the actual inflation rate. The forecast error can be attributed mainly to the weaker-than-expected impact of *El Niño* and the lower-than-expected rice tariff implemented in July 2024.

Figure 2
**Annual Baseline Inflation Forecasts**
year-on-year headline inflation; in percent
2024

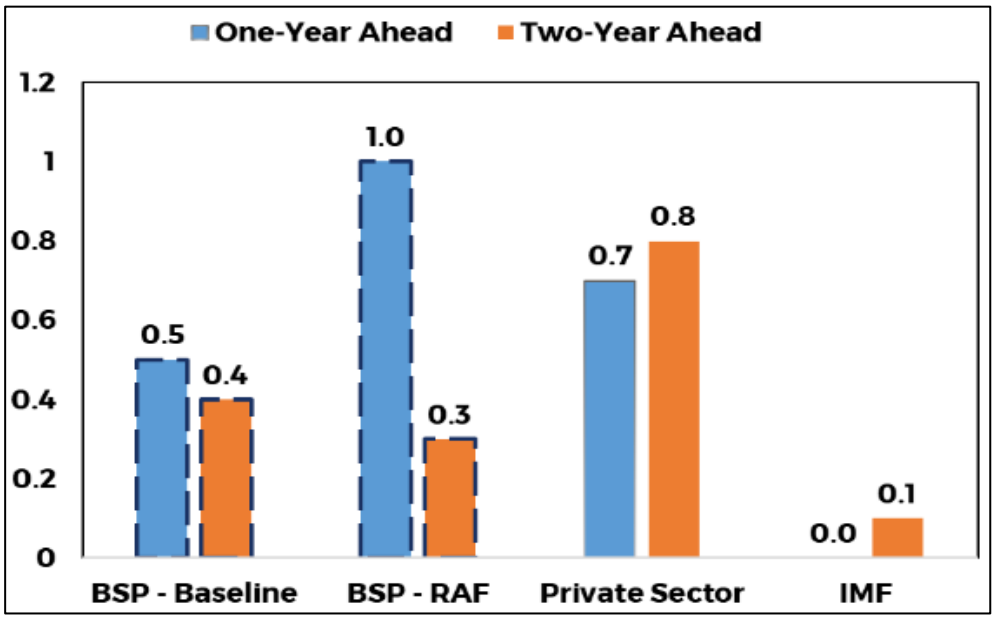



Source: Bangko Sentral ng Pilipinas staff calculations

The BSP's one-year-ahead baseline forecasts registered lower errors than those of the private sector. However, its risk-adjusted forecasts had higher errors than those of both the private sector and the International Monetary Fund (IMF). Meanwhile, the BSP's two-year-ahead forecasts showed lower errors relative to the private sector but remained higher than the IMF's outlook (*Figure 3*).

For instance, the BSP's one-year-ahead baseline inflation forecast for 2024, made in December 2023, was 3.7 percent compared with the private sector's forecast of 3.9 percent and the IMF's 3.2 percent. Meanwhile, the BSP's two-year-ahead baseline inflation forecast of 2.8 percent had a lower forecast error than the private sector's 4.0 percent but a higher error than the IMF's 3.1 percent.

Figure 3
**One- and Two-Year-Ahead Absolute Errors**
absolute error; in percentage points
2024




Source: Bangko Sentral ng Pilipinas staff calculations
BSP – Bangko Sentral ng Pilipinas
IMF – International Monetary Fund
RAF – risk-adjusted forecast

In addition, the BSP's inflation forecast performance remained on par with that of regional peers. The Bank's one-year-ahead inflation forecast error of 0.5 ppt was slightly below the average error of 0.7 ppt among selected central banks.[5]

A counterfactual analysis using actual values of all explanatory variables was conducted to show how the BSP's workhorse model tracked the 2024 inflation path. The exercise applied actual exogenous variables (e.g., oil prices, non-oil prices) to generate an ex-post projected path of inflation. This tested the model's validity by checking its fit to the data and eliminating the uncertainty from setting assumptions for exogenous variables.

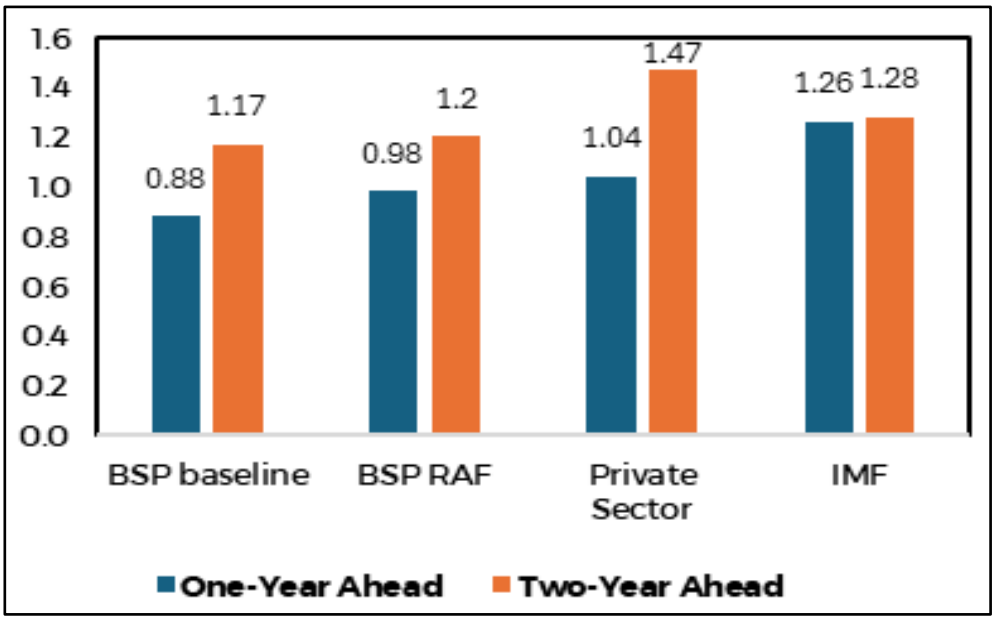
If the actual values of all exogenous variables and add-ons for food prices, electricity rates, and others had been known beforehand, the one-year-ahead annual inflation forecast for 2024 made in December 2023 would have been 3.5 percent. This corresponds to an MAE of 0.3 ppt for 2024, lower than the 0.5 ppt MAE of the published one-year ahead forecast.

### Statistical tests, benchmarking, and peer comparisons

Formal statistical evaluation confirms that the BSP's inflation forecasts were generally accurate, unbiased, and efficient for the period 2010 to 2024.

- **Accuracy.** Forecasts had a statistically adequate level of precision, with lower forecast errors compared with benchmark statistical models over the sample period.
- **Unbiasedness and efficiency.** Baseline forecasts did not systematically over- or under-predict inflation across the sample period.
- **Benchmarking.** Against private sector and IMF forecasts from 2011 to 2024, BSP forecasts registered lower errors (*Figure 4*). The MAEs of the one-year-ahead baseline (0.88 ppt) and risk-adjusted (0.98 ppt) forecasts were both lower than those of the private sector (1.04 ppts) and the IMF (1.26 ppts). Similarly, the MAEs of the two-year-ahead baseline (1.17 ppts) and risk-adjusted (1.20 ppts) forecasts were both lower than those of the private sector (1.47 ppts) and the IMF (1.28 ppts).

Figure 4
**Annual Mean Absolute Errors**
in percentage points
2011–2024




Source: Bangko Sentral ng Pilipinas staff calculations

BSP – Bangko Sentral ng Pilipinas
IMF – International Monetary Fund
RAF – risk-adjusted forecast

To better guide monetary policy analysis and formulation, the BSP regularly refines its suite of models to enhance forecasting. These initiatives include model development and the ongoing external review of the BSP's monetary policy framework.

**ENDNOTES**

1/ This article was written by Dennis M. Bautista, Jasmin E. Dacio, Jan Christopher G. Ocampo, Sanjeev A. Parmanand, Mark Rex S. Romaraog, and Maria Evette T. Santos of the Department of Economic Research.

2/ Results of previous forecast evaluations were published in Abenoja et al. (2022) and in the BSP's *May 2024 Monetary Policy Report,* available at: https://www.bsp.gov.ph/Price%20Stability/MonetaryPolicyReport/FullReport_May2024.pdf

3/ Discussions on the BSP's nowcasting models have been previously published in (a) Allon, J. C. S., Bautista, D. M., & Dacio, J. E. (2022). *Nowcasting inflation: A state-space approach using high-frequency data* [Bangko Sentral ng Pilipinas Working Paper No. 2022-02]. and (b) Allon, J. C. S. (2015). *Forecasting inflation: A disaggregated approach using ARIMA models* [Bangko Sentral ng Pilipinas Economic Newsletter No. 15-02].

4/ The standard deviation of month-on-month inflation declined significantly from 0.6 percent in 2023 to 0.3 percent in 2024, reflecting more stable commodity prices.

5/ Other central banks covered in the analysis include those of Thailand, South Korea, Malaysia, New Zealand, and Australia.

Beyond the baseline forecasts, the BSP also considers alternative scenarios that account for upside and downside risks to the inflation outlook, assigning probability values to each. These risks are summarized in a risk matrix that forms the risk-adjusted forecast (RAF), which is derived from the baseline inflation forecast plus the probability-weighted impact of these risks. The first RAF was published in October 2023. Beginning June 2025, however, the BSP discontinued RAFs and now refers to baseline forecasts as "central projections." A discussion of the BSP's central projections is provided in the BSP's *June 2025 Monetary Policy Report*, available at: https://www.bsp.gov.ph/Price%20Stability/MonetaryPolicyReport/FullReport_June2025.pdf

## Examining the Impact of Liquidity and Deposits on Loan Growth in the Philippines[1,2]

This article explores the influence of recent shifts in liquidity and deposit trends on shaping loan growth in the Philippine banking system. Specifically, it analyzes the roles of both sides of the bank balance sheet: on the asset side, how variations in the composition of liquid assets—such as cash, central bank deposits,[3] and government securities (GS)—affect banks' lending behavior; and on the liability side, how different deposit types shape loan growth, with emphasis on dynamics during the pandemic.

Stulz et al. (2024) noted two competing theoretical frameworks explaining the relationship between liquid assets and lending decisions. The deposit view treats liquid assets and loans as substitutes for each other. When deposits decline, banks with ample liquid assets tend to reduce their liquid holdings rather than cut back on lending to help preserve their loan portfolios. In contrast, the lending view considers liquid assets as complements to each other. Banks hold liquid assets to facilitate new lending, but reduce both liquid assets and lending when credit becomes less profitable.

Some studies have shown that the type of deposit is crucial in determining a bank's lending capacity. For instance, Gambacorta and Mistrulli (2004) and Cornett et al. (2011) found that banks with a larger share of time deposits typically experience stronger loan growth, particularly during periods of funding stress or tight liquidity. These deposits are less prone to withdrawals, making them a reliable funding source for long-term lending. In contrast, demand and savings deposits, although abundant, are inherently more volatile, as they can be withdrawn at any time with limited penalty. Kashyap and Stein (2000) observed that banks with a higher proportion of demand deposits are less able to shield lending from liquidity shocks. Meanwhile, banks with more time deposits are better positioned to maintain or grow their loan portfolios.

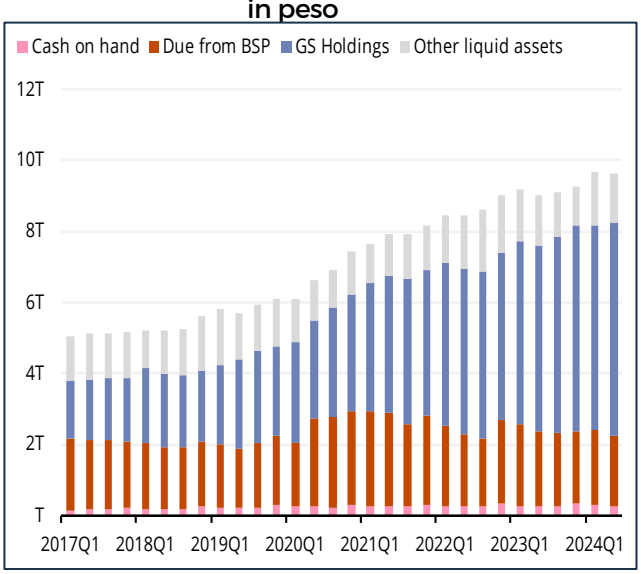
### Different effects of liquid assets on bank lending

Since 2017, the various types of liquid assets in the Philippine banking system have exhibited diverging trends. BSP deposits have declined, GS holdings have increased, and cash levels have remained stable (*Figure 1-a*).[4] Nonetheless, the ratio of high-quality liquid assets (HQLAs) to total assets has remained relatively stable (*Figure 1-b*), as the diverging trends tended to offset one another. In addition, banks primarily hold Level 1 assets, which retain full value under regulatory liquidity coverage requirements due to the absence of haircuts.

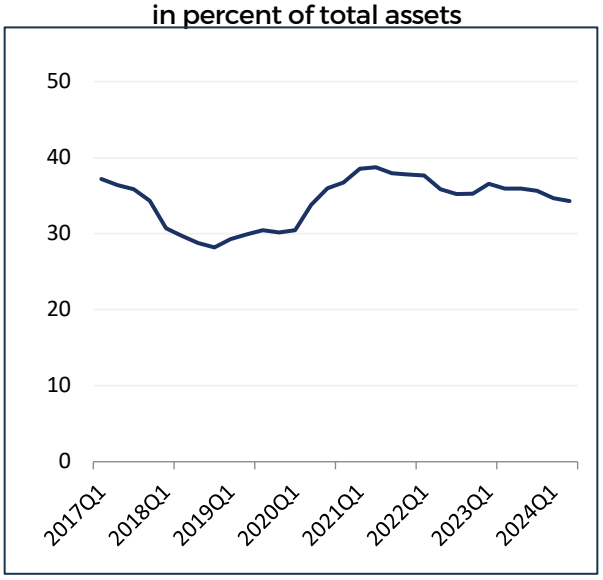
Figure 1

**High-Quality Liquid Assets and Components**

**(a) Components of aggregate liquid assets**
in peso




**(b) High-quality liquid assets**
in percent of total assets




Source: Bangko Sentral ng Pilipinas staff calculations

Data is based on a sample of 60 universal, commercial, and thrift banks.

BSP – Bangko Sentral ng Pilipinas
GS – government securities

Results from dynamic panel generalized method of moments (GMM) models analyzing the assets and liabilities of Philippine banks from 2017 to 2024 confirm differences across liquid asset categories in influencing lending behavior (*Table 1*). Cash on hand and deposits with the BSP demonstrate a statistically significant positive relationship with lending growth. This supports the lending view of highly liquid assets complementing loan activities. In contrast, GS holdings appear to have a negative relationship with lending, consistent with the deposit view. These opposing effects explain why HQLA, when treated as a portfolio, does not show a significant overall effect on loan growth.

Table 1

**Dynamic Panel Generalized Method of Moments Results**

| **Dependent variable: Total loan portfolio** | **1** | **2** |
|---|---|---|
| Lag of total loan portfolio | 0.596*** | 0.695*** |
| High-quality liquidity asset | **0.101** | |
| Cash and due from the Bangko Sentral ng Pilipinas | | **0.085**** |
| Government securities | | **-0.049**** |
| Capital adequacy ratio | -0.020 | 0.005 |
| Non-performing loan ratio | -0.049** | -0.043* |
| Real gross domestic product growth | 0.099 | 0.222** |
| Change in real weighted monetary operations rate | -0.015*** | -0.011* |
| Change in credit standards | -0.001* | -0.001** |
| COVID-19 dummy | -0.001*** | -0.001** |
| *Autoregressive (2)* | 0.64 | 0.23 |
| *Hansen test* | 0.50 | 0.67 |
| *Instruments* | 31 | 32 |
| *Groups* | 45 | 45 |
| *Modified model selection criterion–Bayesian information criterion* | -40.39 | -61.99 |

Source: Bangko Sentral ng Pilipinas staff calculations

***, **, * denote significance at 1.0 percent, 5.0 percent, and 10.0 percent levels, respectively.

The Arellano-Bond estimator uses the first differences of endogenous variables along with their available lags. Robust standard errors were used to account for any patterns of heteroskedasticity and autocorrelation within panels. The number of groups dropped to 45–47 due to missing data.

## Deposit growth drives future loan expansion

Evidence from Philippine banking data suggests that deposit growth serves as a forward-looking indicator for loan growth. Time-varying Granger-causality tests show that deposits (both M1 and M2, net of currency in circulation) help predict changes in the total loan portfolio. This predictive link weakened at the onset of the pandemic but has since re-emerged (*Figure 2*). Time deposits provide the most consistent predictive power, while demand and savings deposits display more episodic effects.

Figure 2
**Time-Varying Granger Causality**
total deposits growth to total loan portfolio growth

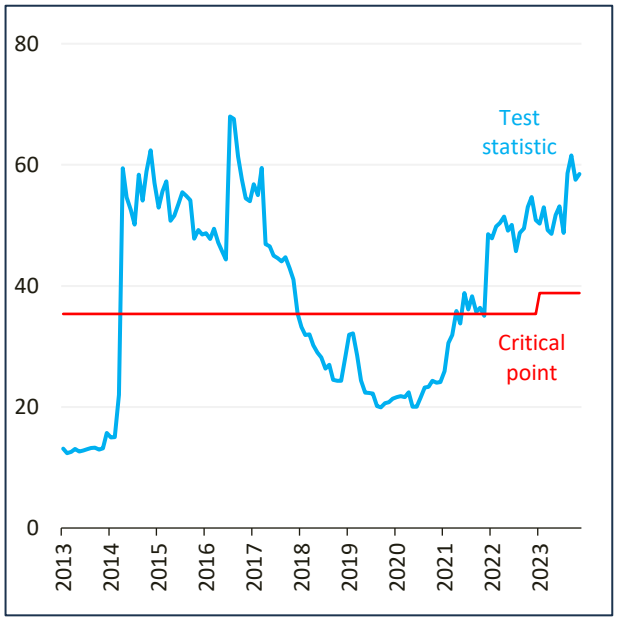
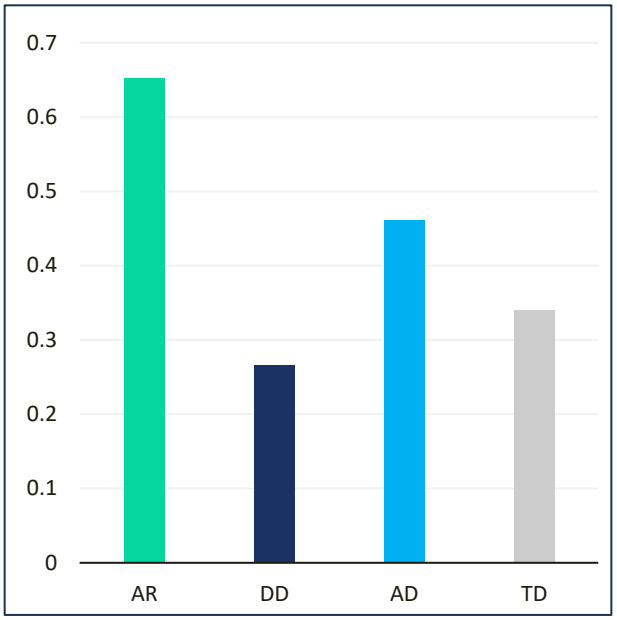



Figure 3
**Forecast Errors of Vector Autoregression Models**
mean absolute error; in percentage points
2024




Source: Bangko Sentral ng Pilipinas staff calculations

The red line shows the critical point at the 5 percent significance level. The blue line shows the test statistic. If the blue line exceeds the red line, it indicates that total deposit growth Granger causes loan growth.

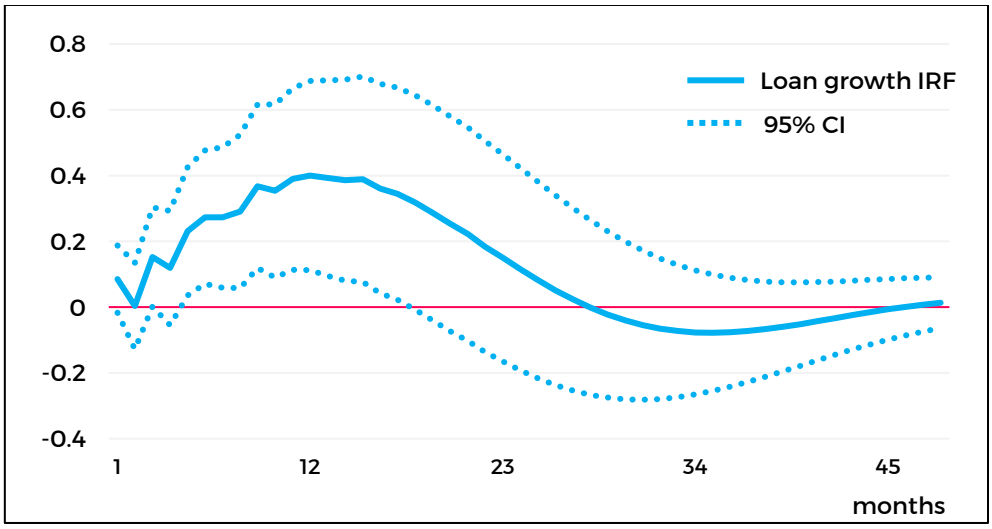
AR – autoregressive
DD – demand deposit
AD – all deposits
TD – time deposits

Forecasting exercises reinforce this finding. Models incorporating deposit growth outperform an autoregressive benchmark that relies only on past loan growth when predicting near-term loan growth (*Figure 3*). Impulse response estimates from a structural vector error correction model suggest that a positive deposit shock is followed by a meaningful rise in loan growth over the following year (*Figure 4*). This suggests that deposits not only predict but also fuel lending, consistent with the intuition that deposits are the source of loans.

Figure 4

**Impulse Response of Loan Growth**

estimated loan growth response to 1.0 percent deposit growth shock; in percent




Source: Bangko Sentral ng Pilipinas staff calculations

IRF – impulse response functions

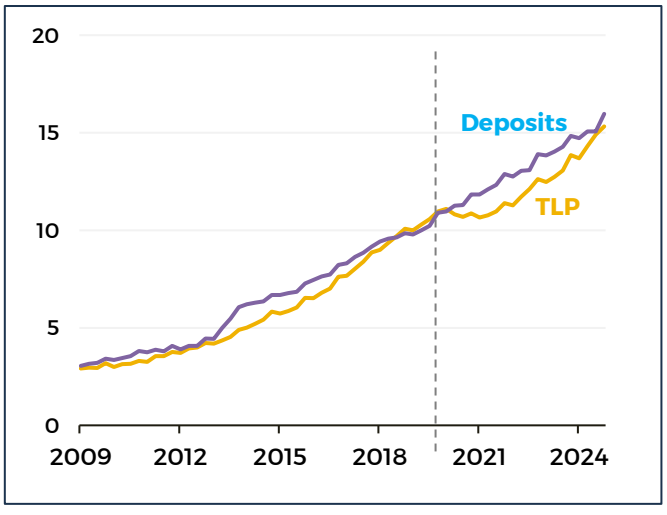
CI – confidence interval

During the pandemic, liquidity surged while loan growth slowed amid heightened uncertainty, temporarily weakening the deposit-credit link (*Figure 5*). As economic uncertainty dissipated, the relationship between deposits and lending strengthened anew. Overall, the evidence supports the view that deposit growth is a useful predictor of and contributor to future loan growth, with the strongest and most reliable signal emanating from time deposits.

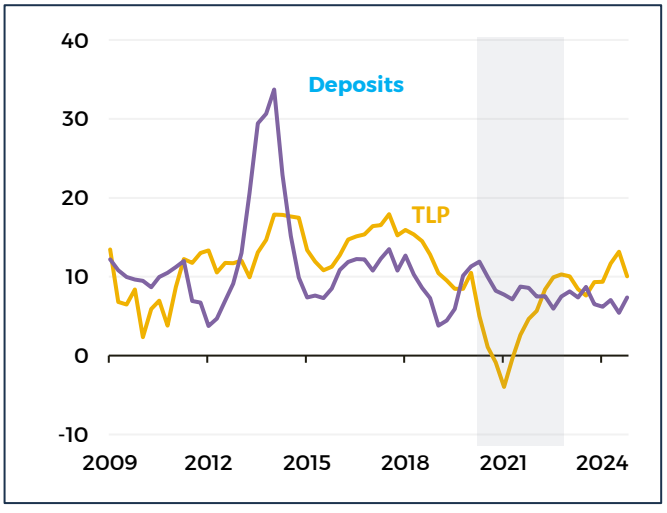
Figure 5

**The total loan portfolio and deposits continue to show strong growth.**

**(a) Gross total loan portfolio and deposits**
in trillion pesos




**(b) Year-on-year total loan portfolio and deposits**
in percent




Source: Bangko Sentral ng Pilipinas staff calculations

The deposit series is defined as M2, less currency in circulation.

In summary, this analysis found that the composition of liquid assets banks hold and the stability of their deposit base—especially the share of time deposits—are critical in supporting lending, particularly during periods of economic stress. This underscores that a strong, stable funding structure of the balance sheet allows banks to maintain and expand credit, thereby supporting financial system resilience and broader economic growth.

**ENDNOTES**

1/ This article was written by Shirra Jazel L. de Guia and Eduard Renzo D. Santos of the Department of Economic Research.

2/ This report was refined with the assistance of generative artificial intelligence (GenAI) tools on the Perplexity platform. The use of GenAI was limited to enhancing conciseness and readability.

3/ This includes banks' demand deposit accounts and placements in BSP liquidity facilities.

4/ Cash on hand, bank reserves, BSP deposits, and GS are classified as Level 1 assets under the HQLA framework, meaning they are highly liquid and retain their full value for regulatory purposes.

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