MONETARY POLICY REPORT

DECEMBER 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 make the conduct of 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 19 December 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 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.[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.

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[1] On 8 September 2023, the overnight (ON) RRP facility was transformed into a variable-rate auction format, with the resulting weighted average interest rate (WAIR), the ON RRP rate, becoming the operational target. Meanwhile, the policy rate of the BSP has been renamed to target RRP rate.

[2] The DBCC, created under Executive Order (EO) 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, the Department of Budget and Management (DBM), the 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 ppt 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 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

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

Chuchi G. Fonacier
Deputy Governor
Financial Supervision Sector

Elmore O. Capule
Deputy Governor
Corporate Services Sector

Edna C. Villa
Senior Assistant Governor
Financial Markets

Zeno Ronald R. Abenoja
Assistant Governor
Monetary Policy Sub-Sector

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Officer-in-Charge
Office of Systemic Risk Management

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Economic and Financial Forecasting Group

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Ma. Mediatriz M. Boelsch
Deputy Director
Financial Markets

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

AE	advanced economy
AFF	agriculture, forestry, and fishing
AONCR	areas outside the National Capital Region
AR	autoregressive
ASF	African Swine Fever
BMI	Business Monitoring International
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
BTr	Bureau of the Treasury
CPI	Consumer Price Index
DA	Department of Agriculture
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DI	diffusion index
DOF	Department of Finance
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
EA	emerging Asia
EMDE	emerging market and developing economy
EO	Executive Order
ERC	Energy Regulatory Commission
FAO	Food and Agriculture Organization
FDI	foreign direct investment

GDP	gross domestic product
GIR	gross international reserves
GPMN	Global Projection Model Network
GS	government security
IMF	International Monetary Fund
IT	inflation targeting
LTFRB	Land Transportation Franchising and Regulatory Board
MB	Monetary Board
Meralco	Manila Electric Company
MISSI	Monthly Integrated Survey of Selected Industries
m-o-m	month-on-month
MPR	Monetary Policy Report
MRT	Metro Rail Transit
NAIA	Ninoy Aquino International Airport
NCR	National Capital Region
NEDA	National Economic and Development Authority
NEER	nominal effective exchange rate
NG	national government
NG	national government
ODF	overnight deposit facility
OPEC	Organization of the Petroleum Exporting Countries
PAMPh	Policy Analysis Model for the Philippines
PMI	purchasing managers' index
ppt	percentage point
PSA	Philippine Statistics Authority

PSEi	Philippine Stock Exchange Index
RA	Republic Act
REER	real effective exchange rate
RM	reserve money
RRP	reverse repurchase
RRR	reserve requirement ratio
SC	Supreme Court
T-bill	Treasury bill
T-bond	Treasury bond
TDF	term deposit facility
TPI	Trading Partners Index
UAE	United Arab Emirates
U/KB	universal and commercial bank
US	United States
US Fed	United States Federal Reserve
VaPI	value of production index
VAR	vector autoregression
VoPI	volume of production index
WAIR	weighted average interest rate
WEO	World Economic Outlook
WESM	Wholesale Electricity Spot Market
w-o-w	week-on-week
y-o-y	year-on-year

Monetary policy summary

The BSP decided to reduce its target reverse repurchase rate by 25 basis points to 5.75 percent at its monetary policy meeting on 19 December 2024. Likewise, the BSP reduced the interest rates on the overnight deposit and lending facilities to 5.25 percent and 6.25 percent, respectively.

Inflation is expected to remain within the target range. The latest baseline inflation forecasts are 3.3 percent for 2025 and 3.5 percent for 2026. Inflation is expected to settle at the midpoint of the target until the first half of 2025 due to the rice tariff reduction and negative base effects. Core inflation slightly increased in November but remains low, signifying manageable underlying price pressures.

The balance of risks to the inflation outlook continues to lean toward the upside for 2025 and 2026. Upside risks include higher transport charges, upward adjustments in electricity rates, and higher domestic food prices. Meanwhile, the potential spillover of reduced tariffs on imported rice to domestic rice prices remains the primary downside risk. If these risks materialize, average inflation could settle at 3.4 percent in 2025 and 3.7 percent in 2026, both still within the target range.

Inflation expectations continue to be well-anchored. The BSP's December 2024 survey of external forecasters (BSEF) showed that analysts expect within-target inflation for 2025 and 2026. Risks are broadly balanced, with headline inflation expected to stay low and manageable over the medium term.

The outlook for domestic growth indicates a more subdued pace of economic activity up to 2026. Economic growth is expected to settle slightly below the government's target for 2024 due to the lower-than-expected gross domestic product (GDP) outturn in Q3 2024. However, GDP growth is seen to modestly improve and settle close to the low end of the targets for 2025 and 2026. The decline in global oil prices, the easing of BSP's monetary policy, and the reduction in the reserve requirement ratio (RRR) are seen to support domestic economic activity.

Domestic demand is expected to remain firm but subdued. Investments and household consumption continued to support domestic demand. Investments grew due to the sustained expansion in private construction activities, while household spending improved amid easing inflation. However, weather-related disruptions tempered economic activity.

On balance, there is scope for measured monetary policy easing given the within target inflation, manageable underlying price pressures and well-anchored inflation expectations. However, upside risks to inflation warrant close monitoring. A further cut in the policy rate will help reinforce the impact of the prior monetary easing on market interest rates, lending activity, and aggregate demand. Looking ahead, the MB will maintain a measured approach in its easing cycle to ensure price stability conducive to sustainable economic growth and employment.

Economic outlook

I. Baseline forecasts

Inflation will likely settle within the 2.0–4.0 percent target range for 2025 to 2026. The disinflation process will be driven by the reduced rice tariff, declining global oil prices, and negative base effects through the first half of 2025. Inflation will likely settle at the midpoint of the target until the first half of 2025. From the second half of 2025 to the first half of 2026, inflation is projected to accelerate toward the upper end of the target, reflecting the lagged impact of higher minimum wages and positive base effects. By the second half of 2026, inflation could ease closer to the midpoint, supported by a continued decline in global commodity prices.

The base effects for inflation are estimated to be positive on average from December 2024 to November 2025, except for February 2025 and July 2025. Both food and non-food items are projected to positively contribute to the base effects over the next 12 months following the easing of supply-side pressures in 2024.

Compared with the baseline forecasts in the previous *Monetary Policy Report*, the latest baseline forecast for 2024 is lower, primarily due to slower inflation outturns in Q3 and Q4 2024 amid the rice tariff reduction. Meanwhile, inflation forecasts for 2025 and 2026 have been revised upward, mainly due to higher minimum wages implemented in areas outside the National Capital Region (AONCR) and the significant peso depreciation. These factors were partly offset by lower assumptions for global oil and non-oil prices.

Table 1
BSP Average Baseline Inflation Projections
in percent

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

Source: Bangko Sentral ng Pilipinas estimates
[a] Baseline forecasts from the 15 August 2024 monetary policy meeting
[b] Baseline forecasts from the 19 December 2024 monetary policy meeting

The outlook for domestic economic growth remains firm but subdued. The latest baseline forecasts suggest that economic growth could settle slightly below the DBCC's target of 6.0–6.5 percent for 2024. This is largely due to the lower-than-expected outturn in Q3 2024. On the supply side, this slowdown could be attributed to the contraction in agriculture and a moderation in industry and services. On the demand side, weather disturbances led to a slowdown in tourism and leisure-related spending, particularly private consumption and services exports. Nonetheless, growth is projected to improve and settle close to the low end of the 6.0–8.0 percent targets for 2025 and 2026.[4] Despite a slower global growth outlook,

[4] Based on the 189th DBCC meeting on 2 December 2024.

domestic economic activity could be supported by the decline in global oil prices, the BSP's monetary policy rate cuts in 2024, and the reduction in RRR.

The economy is anticipated to grow below potential over the near term amid subdued demand-side pressures. The overall balance of demand and supply conditions—as captured by the output gap or the difference between actual and potential output—implies limited demand-based inflation pressures over the policy horizon.

Forecasts from the BSP's Policy Analysis Model for the Philippines (PAMPh)[5] indicate that the output gap will remain negative until 2025 and close by 2026 following the lower-than-expected economic expansion in Q3 2024. Expansions in consumption and investment are seen to help narrow the output gap as the impact of previous monetary policy easing takes full effect. The closure of the negative output gap by 2026 will be supported by higher real wages following the recent minimum wage increases in 16 regions and the potential impact of further policy rate cuts. Likewise, the reduction in the RRR could provide support to new loans for households and firms, potentially boosting consumption and investment.

Improved labor market conditions and continued investment growth are seen to sustain potential output. Productivity is expected to rise due to robust economic activity and stable infrastructure spending. Key reforms could also shore up investments and business activity, further expanding the country's potential output.

The exchange rate could settle slightly above the Development Budget Coordination Committee's assumptions for 2025 and 2026.[6] This projection is due to the slower pace of monetary policy easing by the United States Federal Reserve (US Fed) and recent near-term movements in the peso. In line with market expectations, the forecasts consider a 25-basis point (bp) reduction in the US federal funds rate during the December 2024 Federal Open Market Committee meeting, followed by further reductions of 75 bps in 2025 and 25 bps in 2026.

II. Key forecast assumptions

External factors

World gross domestic product growth. Global output growth is assumed to remain below the trend from 2025 to 2026 based on the International Monetary Fund (IMF)'s October 2024 World Economic Outlook (WEO) and the the Global Projection Model Network (GPMN)'s November 2024 forecasts. The US economy will likely slow down due to fiscal tightening and reduced consumption driven by easing labor market conditions. In contrast, the eurozone's recovery may be bolstered by increased consumption from higher real wages and investment growth from gradual monetary policy easing. However, overall growth in the eurozone is expected to be modest, hindered by persistent manufacturing

[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] The DBCC exchange rate assumptions as of 2 December 2024 are ₱57.00–₱57.50/US$1 for 2024, ₱56.00–₱58.00/US$1 for 2025, and ₱55.00–₱58.00/US$1 for 2026.

weaknesses in some countries, as well as fiscal consolidation and declining real estate prices in Germany.

Based on the latest IMF WEO, the balance of risks to global growth is skewed to the downside. Key emerging risks include the stronger impact of earlier monetary policy easing on growth and unemployment, persistent inflation, and sovereign debt stress. The contraction in China's property sector, climate shocks, and geopolitical tensions also pose threats on global growth. On the upside, a potential recovery in investment in advanced economies (AEs) and structural reforms to boost productivity in both advanced and emerging markets could mitigate some of these risks.

Table 2
World Gross Domestic Product Growth
in percent

	August 2024 Monetary Policy Report	August 2024 Monetary Policy Report
2024	3.1	3.0
2025	3.0	2.9
2026	3.0	2.8

Sources: Global Projection Model Network (GPMN) (June 2024); GPMN (November 2024); World Economic Outlook (WEO) Update (International Monetary Fund [IMF], July 2024); WEO (IMF, October 2024)

Dubai crude oil prices. Global crude oil prices are set according to oil futures market data from 21 November 2024 to 4 December 2024. Domestic oil market prices, in turn, are assumed to broadly track the trend in world oil prices.

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

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	80.70	79.61
2025	74.13	70.05
2026	71.36	68.15

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Global crude oil prices are assumed to decelerate over the forecast horizon. Futures prices have declined due to market expectations of higher US oil production and expectations of weaker global demand as well as the likelihood of global oversupply. This in turn led to a delay in the anticipated increase in oil production by the Organization of the Petroleum Exporting Countries and other partner countries (OPEC+).

With all else constant, inflation could breach the 2.0–4.0 percent target range if Dubai crude oil prices average above US$90.0 per barrel in 2025 and 2026 (Table 4). These oil price scenarios consider only direct effects and do not incorporate potential second-round effects on transport fares, food prices, and wage increases.

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

Year	2025	2026
Baseline inflation forecast (US$)	3.3	3.5
50	2.2	2.6
60	2.8	3.1
70	3.3	3.6
80	3.7	4.0
90	4.1	4.4
100	4.5	4.7

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

World non-oil prices. The expected easing in non-oil prices will mainly stem from a decline in agricultural commodity prices, particularly cereals, with global production potentially reaching a record high in 2024–2025. Similarly, international rice prices have declined, retreating from a multi-year peak in January 2024. In contrast, crop production has improved in India and other parts of Asia following the end of *El Niño* weather conditions.

Table 5
World Non-Oil Price Inflation
in percent

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	5.0	2.8
2025	1.6	-0.2
2026	0.4	0.4

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

US federal funds rate. The latest US federal funds target rate assumptions are based on the futures prices as of 4 December 2024. The current futures path aligns with market expectations of a 25-bp cut in December 2024, followed by a cumulative 75-bp cut in 2025 and a 25-bp cut in 2026. This outlook comes after recent improvements in the US job market and stable inflation rates.

Table 6
Federal Funds Rate
end-period; in percent

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	4.4	4.6
2025	3.2	3.3
2026	3.2	3.4

Source: Bloomberg

Domestic factors

Target reverse repurchase rate and reserve requirement ratio. The target RRP rate and the RRR are set at 6.0 percent and 7.0 percent, respectively, from December 2024 until the end of 2026. The baseline inflation forecasts account for the 25-bp reduction in the policy rate during the 16 October 2024 monetary policy meeting and the 250-bp cut in the RRR to 7.0 percent effective 25 October 2024. The forecast path assumes no further adjustments in both the policy interest rate and the RRR over the policy horizon.

Wages. A higher minimum wage increase has been assumed following the approval of wage hikes in 16 of the 17 regions as of 5 December 2024. The minimum wage increase averaged 8.1 percent, consistent with the 5.7-percent actual increase in the National Capital Region (NCR) in July 2024 and the 8.3-percent average adjustment in AONCR. The previous assumption only considered the minimum wage adjustment in NCR.

Fiscal sector. The baseline inflation forecasts align with the government's fiscal deficit assumption, based on the medium-term fiscal program set by the DBCC as of 2 December 2024.

Table 7
Fiscal Deficit Assumption
in percent

	August 2024 Monetary Policy Report	December 2024 Monetary Policy Report
2024	5.6	5.7
2025	5.3	5.3
2026	4.7	4.7

Source: Department of Budget and Management

Alcoholic drinks. The baseline forecasts include the impact of annual adjustments in the prices of alcoholic beverages (0.7 percent of the CPI basket) in line with Republic Act (RA) No. 11467. Excise taxes for fermented liquor, wine, and distilled spirits will increase by 6.0 percent yearly from 2025 onwards.

Tobacco products. In line with RA 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 rise by 5.0 percent annually.

Table 8
Excise Tax

Year	Cigarettes (₱ per pack)	Fermented liquor (₱ per liter)	Wine (₱ per liter)	Distilled spirits	
				Excise tax (₱ per liter)	Ad valorem tax (%)
2024	5.0% indexation	43.00	63.10	66.00	22.0%
2025 onward		-	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) have increased with the recovery of the difference between previously approved pass-through costs and the actual landed cost of liquefied natural gas as well as the new gas sale agreement. Under the Energy Regulatory Commission's (ERC) directive, Meralco is authorized to collect these costs over a 12-month period beginning with the October billing cycle. Additionally, the ERC approved the collection of the remaining 70.0 percent of the total reserve market transactions incurred during the March 2024 supply period starting in January 2025.

Lower tariff on rice imports.[7,8] The baseline inflation forecast accounted for the direct impact of lower imported rice prices. Reducing tariff rates on rice imports may ease upward pressure on landed costs and is assumed to be gradually passed on to wholesale and retail prices. As a result, headline inflation is expected to moderate in 2025.

III. Risks to the outlook

The balance of risks to the inflation outlook is on the upside in 2025 and 2026. After incorporating the estimated impact of the risks at their assigned probabilities, inflation is still projected to remain within the target range. The upside risks to the inflation outlook include higher transport charges, upward adjustments in electricity rates, and higher domestic food prices. Meanwhile, the potential spillover to domestic rice prices of the reduction in the tariff on imported rice remains the primary downside risk to the outlook.

[7] The President signed EO No. 62 on 20 June 2024, reducing the tariff on rice from 35.0 percent to 15.0 percent to help lower the price of imported rice. The reduced rice tariff is effective from 7 July 2024 until 2028, subject to a review every four months.

[8] NEDA announced the approval of the new Comprehensive Tariff Program from 2024 to 2028, which includes tariff reductions on other essential items in the energy and manufacturing sectors while keeping the prevailing low rates on key agricultural products.

Table 9
Baseline and Risk-Adjusted Projections
in percent

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

Source: Bangko Sentral ng Pilipinas

The latest risk-adjusted forecasts (RAFs) for 2025 and 2026 are higher than in the previous forecast round. This increase is due to upward revisions in the baseline forecasts and the estimated impact of identified risks. The baseline projections show a greater impact from the risk of higher electricity rates and the shift in the timing of the effects of higher domestic food prices and transport charges to 2025. The disinflationary impact of the rice tariff reduction was adjusted to account for the lower-than-expected decline in rice prices since the tariff was reduced.

Table 10
Risk Matrix[9]

	Risks	Probability
Upside risks	Higher transport charges	Medium
	Higher electricity rates	High
	Higher domestic food prices	Medium
Downside risk	Spillover from rice tariff reduction	Medium

Source: Bangko Sentral ng Pilipinas

Higher transport charges for jeepneys, trains, and taxis pose upside risks to inflation. The current forecast round also considers an increase in domestic passenger service charges for air transport.

The alternative scenario assumes that the remaining amount of the petitioned minimum jeepney fare increase for both traditional and modern jeepneys will be approved. It also assumes that the petition to raise the minimum fare for traditional jeepneys, filed by several transport groups, will be implemented by Q1 2025. A low probability is assigned to this risk, given the absence of follow-up on petitions and easing oil prices.

In December 2023, the Manila Metro Rail Transit (MRT)-3 management filed a petition to the Department of Transportation (DOTr) to raise the rail line's minimum fare from ₱13.00 to ₱16.00. While the proposed fare hike is still under review, the alternative scenario assumes implementation by Q1 2025. A high probability is

[9] 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.

assigned to this risk, following the DOTr's pronouncements that the decision will be released before the year ends.

The Land Transportation Franchising and Regulatory Board (LTFRB) is reviewing the formal request from taxi operators to increase fares nationwide. Previous fare hikes of ₱5.00 each were approved in September 2022 and March 2024. The alternative scenario assumes that taxi fares will increase further in Q1 2025. A high probability is assigned to this risk, given the ongoing review of the petition.

An overall medium probability is assigned to the transport fare risk based on the CPI weights of the items considered. The table below presents the assumed fare adjustments.

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)			
CAR, Region VI	50.00	60.00	High
Other regions	45.00	60.00	

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

The increase in fees at the Ninoy Aquino International Airport (NAIA) is assumed to raise airfares in the near term. This adjustment was approved in preparation for the turnover of NAIA operations and management to the private operator, New NAIA Infrastructure Corporation (NNIC), and to generate revenue to finance modernization infrastructure requirements. A high probability is assigned to this risk although its impact on inflation is minimal due to the low weight of air transport in the CPI basket (0.08 percent).

Electricity rates could increase over the forecast horizon. In July 2023, the Supreme Court (SC) nullified the previous cap on Wholesale Electricity Spot Market (WESM) prices for November 2013 and December 2013. Electricity rates could rise due to the potential increase in generation charges being passed on to consumers. The risk scenario assumes that this adjustment will be distributed evenly over the next three years and considers other possible electricity charges adjustments. A high probability is assigned to this risk following the SC ruling.

Ongoing supply constraints affecting key food commodities could cause an uptick in inflation. The domestic production of corn, pork, fish, and sugar is projected to remain below demand. The lingering impact of previous *El Niño* conditions, and the persistence of African Swine Fever (ASF) and Avian Flu continue to threaten production levels. Meanwhile, declining local output, lower imports, high input costs, and inclement weather could result in insufficient fish supply. Lastly, the impact of *La Niña* and Mt. Kanlaon's eruption could cause contraction in domestic sugar supply. Under this risk scenario, elevated commodity prices are assumed to persist until Q1 2025. An overall medium probability is assigned to this risk, considering the relative weights of these commodities in the CPI basket.

The tariff reduction on rice imports could lead to a further decline in prices of domestically produced rice. A medium probability is assigned to this risk, given the formalization of the reduced tariff through EO no. 62, dated 20 June 2024. This scenario assumes that the price of domestically produced rice will decline. Inflation is expected to ease amid the direct impact of the tariff reduction reflected in the baseline forecast. However, the estimated impact is lower compared to the previous round, given the gradual decline in domestic rice prices.

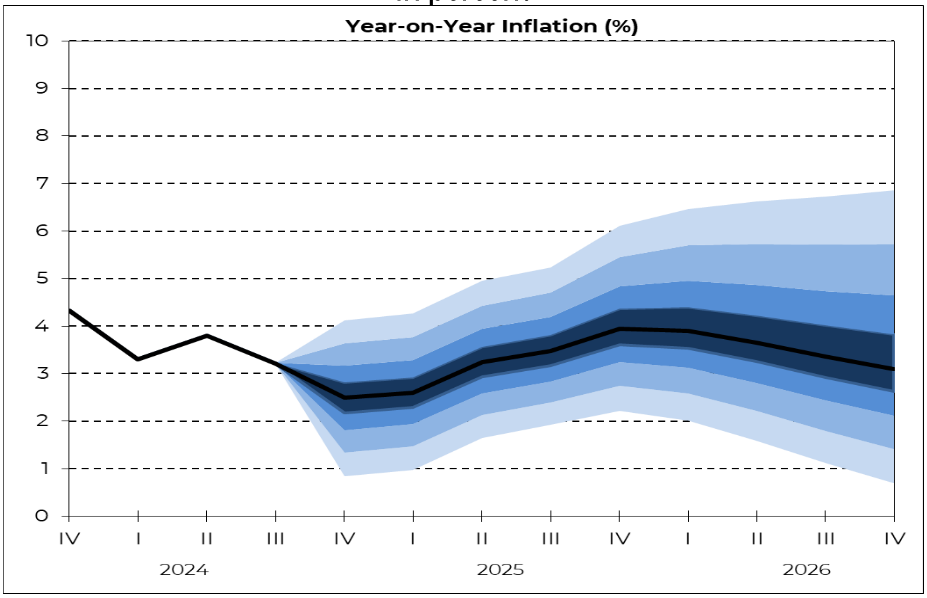
The balance of risks to the inflation outlook remains tilted to the upside in 2025 and 2026. Using a 90.0-percent confidence interval for the fan chart (*Figure 1*), estimates indicate that the 2024 average annual inflation will settle within the 3.0 percent ± 1.0 ppt target range. For 2025 and 2026, the probability of average annual inflation settling within the target range is close to 50.0 percent, although lower than the previous round. Meanwhile, the probability of inflation breaching the high end of the target range is higher for these years. 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%)	
	August 2024 MPR	December 2024 MPR	August 2024 MPR	December 2024 MPR	August 2024 MPR	December 2024 MPR
2025	21.7	10.1	58.5	54.6	19.8	35.3
2026	17.1	8.0	52.3	45.8	30.6	46.2

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 (%)	
	2025	**2026**
80	2.1 – 4.7	1.8 – 6.0
90	1.7 – 5.1	1.4 – 6.7

Source: Bangko Sentral ng Pilipinas estimates

Box Article 1:
Monetary Policy Developments

On 16 October 2024, the Bangko Sentral ng Pilipinas (BSP) reduced the target reverse repurchase rate by 25 basis points to 6.0 percent. Consequently, the interest rates on the overnight deposit and lending facilities were adjusted to 5.5 percent and 6.5 percent, respectively.

This monetary policy decision was based on the assessment that price pressures remain manageable. Baseline inflation forecasts were well within the target range. The balance of risks to the outlook leaned to the downside for 2024 but shifted to the upside for 2025 and 2026. Upside risks included potential adjustments in electricity rates and higher minimum wages in areas outside Metro Manila. Conversely, downside risks were linked to the impact of lower rice import tariffs. The risk-adjusted inflation forecasts remained within the target range over the policy horizon.

		August 2024 Monetary Policy Report[a]	October 2024 Monetary Policy Meeting[b]
Baseline inflation Forecast	**2024**	3.4	3.1
	2025	3.1	3.2
	2026	3.2	3.4
Risk-adjusted inflation forecast	**2024**	3.3	3.1
	2025	2.9	3.3
	2026	3.3	3.7

Source: Bangko Sentral ng Pilipinas

[a] Forecasts from the 15 August 2024 monetary policy meeting (*Monetary Policy Report* round)

[b] Forecasts from the 16 October 2024 monetary policy meeting

During the October policy meeting, domestic economic growth was projected to remain strong. This outlook reflected improved prospects for household income and consumption, investments, and government spending. These improvements were supported by the policy rate cut in August and the reserve requirement reduction effective 25 October 2024.

The within-target inflation outlook and well-anchored inflation expectations supported the BSP's shift toward a less restrictive monetary policy. Nonetheless, the BSP continues to closely monitor emerging upside risks to inflation, including geopolitical factors.

Box Article 2:

Information Content of Monetary Aggregates in the Philippines [1]

Monetary aggregates have played a less prominent role in monetary policy analysis since the adoption of inflation targeting (IT) by many central banks in the 1990s. Former Bank of Canada Governor Gerald K. Bouey famously remarked, "We didn't abandon monetary aggregates, they abandoned us." Several studies, such as those by Estrella and Mishkin (1996) for the United States, Tallman and Chandra (1996) for Australia, Astley and Haldane (1997) for the United Kingdom, and Gertler and Hoffman for 46 advanced economies, provided empirical evidence that monetary aggregates do not significantly explain future output and inflation.

However, Borio et al. (2023) noted a renewed interest in monetary aggregates in explaining the post-pandemic inflation surge from 2021 to 2022. Their analysis of a panel of countries, including the Philippines, revealed a significant relationship between excess monetary aggregates growth in 2020 and average inflation from 2021 to 2022, even after controlling for the fiscal response and post-pandemic recovery.

This box article revisits the information content of monetary aggregates, specifically their role in forecasting gross domestic product (GDP) growth and inflation. Following Estrella and Mishkin (1997), a Granger causality test was conducted to establish the usefulness of the growth of reserve money (RM) and domestic liquidity (M3) as leading indicators for inflation and GDP growth. RM and M3 are then used in a series of vector autoregression (VAR) models to test their usefulness in a simplified forecasting exercise.

Monetary aggregates Granger causes GDP growth but not inflation

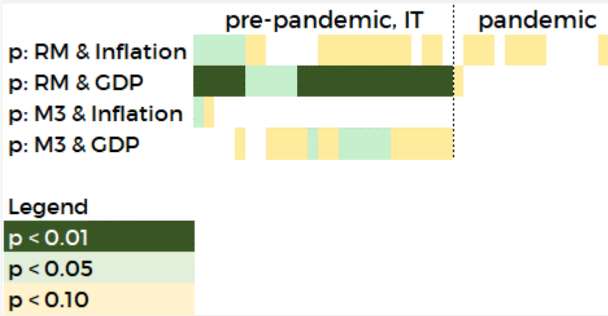
The Granger causality test using a VAR model shows that RM and M3 are leading indicators of GDP growth from 2002 to 2019 (*Figure 1A*). This suggests that money growth potentially forecasts output growth during the pre-pandemic IT period. However, this relationship disappears when tested using the full sample (i.e., including the pandemic period). Additionally, neither RM nor M3 reliably forecast inflation in both the full sample and the pre-pandemic subsample.

Figure 1
Granger Causality Tests

A. Pre-pandemic vs pandemic

Period	Lag	Granger Causality Test	p-value
2002-2023	6	RM → Inflation	0.133
		RM → GDP growth	0.575
	5	M3 → Inflation	0.237
		M3 → GDP growth	0.415
2002-2019	7	RM → Inflation	0.158
		RM → GDP growth	**0.001**
	7	M3 → Inflation	0.418
		M3 → GDP growth	**0.042**

B. Expanding window approach



Source: Staff calculations
Note: The lag order of the VAR model is based on the Akaike information criterion, with a maximum of eight lags considered. The expanding window has an initial period of 48 quarters or 12 years.

To test the robustness of the results, the Granger causality test was also performed using an expanding window approach (*Figure 1B*). The results confirm that monetary aggregates Granger causes GDP growth in the pre-pandemic period, with RM showing a more stable and stronger relationship with GDP growth compared to M3. Additionally, RM leads inflation in some periods, although this effect is weaker and less stable than its relationship with GDP growth.

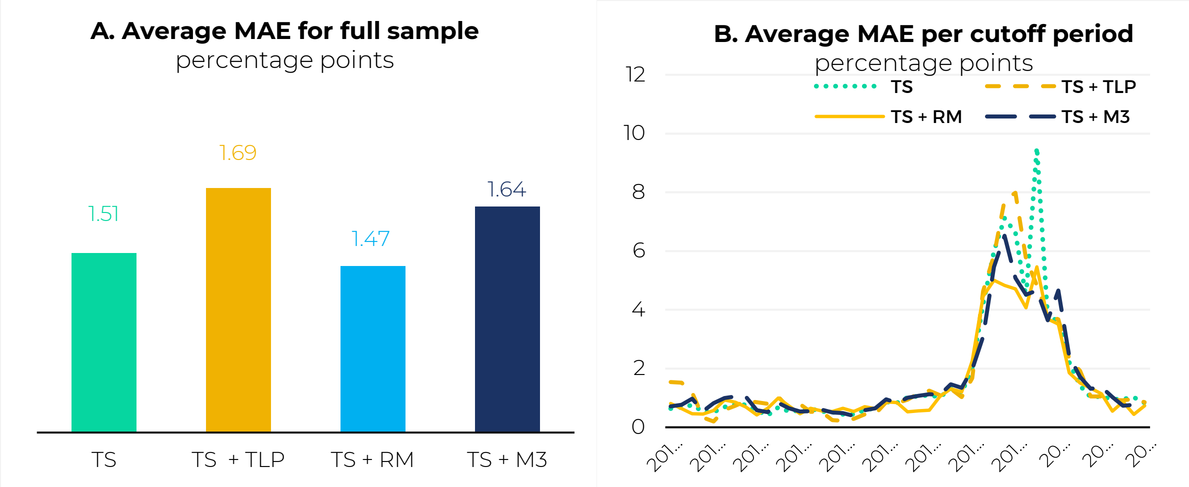
Reserve money growth improves GDP growth forecast

In an approach similar to Albuquerque, Baumann, and Seitz (2015), a series of VAR models were estimated using all or a subset of the following variables: (a) annualized growth rates of real GDP, (b) total loan portfolio (TLP) growth, (c) RM or M3, and (d) term spread (TS).[2] These variables were pre-selected based on their statistical significance in estimating leads of GDP growth in a three-variable single-equation model.[3] The GDP growth forecasts produced by these VAR models were then benchmarked against the baseline VAR model, which contain only the term spread and GDP growth.[4]

Figure 2A shows that the model with RM has the lowest mean absolute error (MAE) and outperforms the baseline model.[5] This implies that reserve money growth has significant information content in forecasting future economic activity. In contrast, the model that includes M3 has a higher forecasting error than the model that includes RM, consistent with the initial Granger causality tests. Moreover, all forecast errors across the four specifications increased during the pandemic. However, the specification that includes both the term spread and money variables has significantly lower forecast error compared with the baseline model, as seen from the expanding window approach in *Figure 2B*.

Figure 2

Average Mean Absolute Error of One to Four-Quarter Ahead Forecasts of Real GDP Growth



Source: Staff calculations

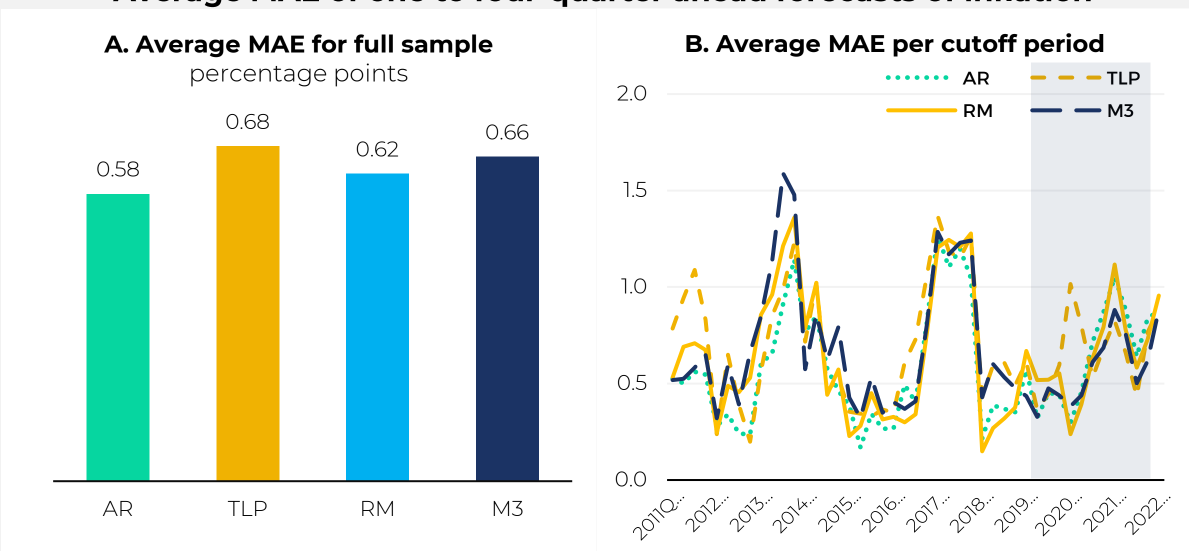
The weakened relationship between money and output during the pandemic may have been influenced by the unprecedented uncertainty of that period. Despite the BSP's implementation of expansionary monetary policy measures, the increased liquidity did not immediately result in higher loan growth in the early stages of the pandemic due to heightened uncertainty.

Monetary aggregates do not improve inflation forecasts

Using a similar approach for inflation, the forecast performance of different VAR models was compared against a baseline autoregressive (AR) model. As shown in *Figure 3*, VAR models with monetary aggregates underperformed relative to the benchmark AR model. This suggests that including monetary aggregates does not improve the accuracy of future inflation forecasts, consistent with the results of the Granger causality tests.

Figure 3

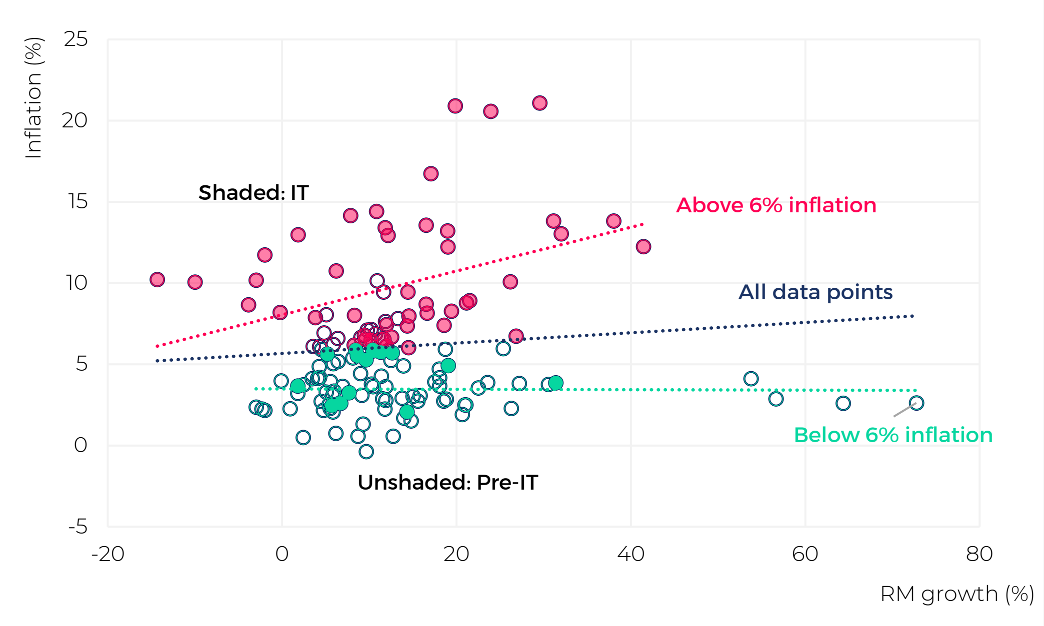
Average MAE of one to four-quarter ahead forecasts of inflation



Source: Staff calculations

Borio et al. (2023) argued that the relationship between excess money growth and inflation varies between high and low inflation regimes, with the relationship only existing during the former. Using a threshold AR model for 1989-2023, a high inflation regime was observed when inflation breaches 6.0 percent (*Figure 4*). Based on this threshold, average inflation during the IT period is lower compared with the pre-IT period, further supporting the weak relationship between money variables and inflation.

Figure 4
Scatterplot of inflation and reserve money growth, 1989-2023



Source: Staff calculations

In summary, the results indicate that monetary aggregates contained useful signals for forecasting output growth from 2002 to 2019. The relationship between money and output suggests that monetary aggregates can still offer insights into future output trends. However, the money-output relationship has weakened since the onset of the pandemic in 2020, persisting through 2023. This finding warrants further investigation to ascertain whether this disruption is permanent or temporary.

The relationship between money and inflation supports the view that monetary aggregates have limited predictive power for inflation in the Philippines. This is likely due to the low inflation environment established after the adoption of the IT framework in 2002. Consistent with the findings of Borio et al. (2024), the growth of money aggregates may contain some information in explaining inflation during high inflation regimes. However, this information is not reliably predictive and requires considerable judgment.

ENDNOTES

1/ This article was written by Shirra Jazel de Guia, Jan Christopher Ocampo, and Eduard Renzo Santos of the Department of Economic Research. A full version of this study will be forthcoming in the BSP Discussion Paper Series.

2/ The term spread is the difference between the yields of the domestic 10-year Treasury bond and 91-day Treasury bill.

3/ Albuquerque, Baumann, and Seitz (2015) used a single-equation approach in pre-selecting the variables that enter the VAR model.

4/ According to Hamilton and Kim (2002), the term spread already contains all the necessary information on future economic activity.

5/ We used the Diebold-Mariano test to determine whether the model performs better than the baseline model.

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Current developments

Overview

Headline inflation rose in November 2024 but remained within the target range. The increase was mainly due to higher food prices, particularly for vegetables and fish, which were affected by weather disturbances. However, slower rice inflation helped temper the overall increase in food prices.

Core inflation measures remained moderate, suggesting the absence of demand-driven price pressures. Official core inflation and the BSP-computed core inflation measures rose slightly in November 2024 but have remained low and manageable.

Global crude oil prices fell due to muted oil demand and expectations of ample supply. Weak global oil demand, influenced by subdued economic growth and expectations of an oil market surplus in 2025, contributed to lower prices. GDP growth in the US, China, and India moderated in Q3 2024. However, geopolitical tensions in the Middle East and between Russia and Ukraine posed upside risks to global oil prices.

Inflation expectations remained well-anchored. The December 2024 BSEF results showed that mean inflation forecasts for 2025–2026 stayed within the 2.0-4.0 percent target range. Analysts expect inflation to remain close to the midpoint of the target range over the medium term, with risks seen as broadly balanced.

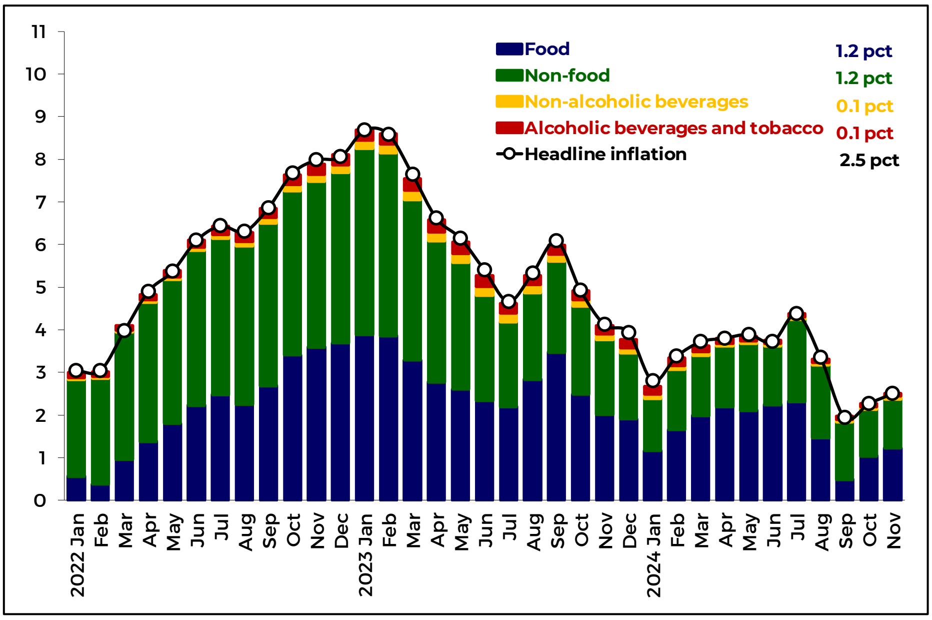
Domestic economic growth moderated in Q3 2024. On the demand side, investments and household consumption drove GDP growth, while exports fell due to weak external demand. Government spending slowed down due to lower disbursements in infrastructure projects and subsidy support to government corporations. On the production side, the services and industry sectors grew more slowly, while the agriculture sector declined due to the adverse impact of El Niño and weather disturbances.

Global economic growth prospects improved amid strong demand and continued business optimism. The IMF maintained its 2024 global economic growth projection, reflecting stronger US growth and increased demand for semiconductors and electronics in emerging Asia. However, risks to the global outlook are tilted toward the downside. This may be attributed to the greater-than-expected impact of monetary policy tightening on economic activity; repricing of financial markets; rising sovereign debt distress in EMDEs; contraction of China's property sector; renewed commodity price spikes due to geopolitical tensions; and protectionist policies.

I. Price conditions

Headline inflation. Headline inflation rose in November 2024, mainly due to higher food inflation. Recent weather disturbances negatively affected supply, leading to higher prices for vegetables and fish. However, this uptrend was moderated by slower rice inflation amid the ongoing harvest season and the continued arrival of rice imports with lower tariffs.

Figure 2
Headline Inflation
2018=100
in percent



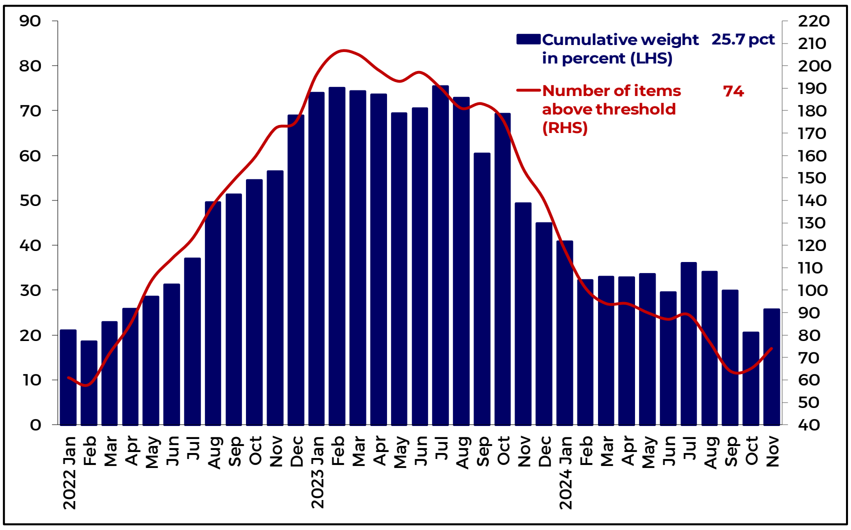
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Of the 315 items in the CPI basket, 74 items had inflation rates above target, 55 of which were classified under food, non-alcoholic and alcoholic beverages, and tobacco. In contrast, 144 items had inflation rates below the target. The remaining 97 items (40.9 percent of the CPI basket) had inflation rates within the target range.

Figure 3

Consumer Price Index Items with Inflation Rates Above Threshold

2018=100



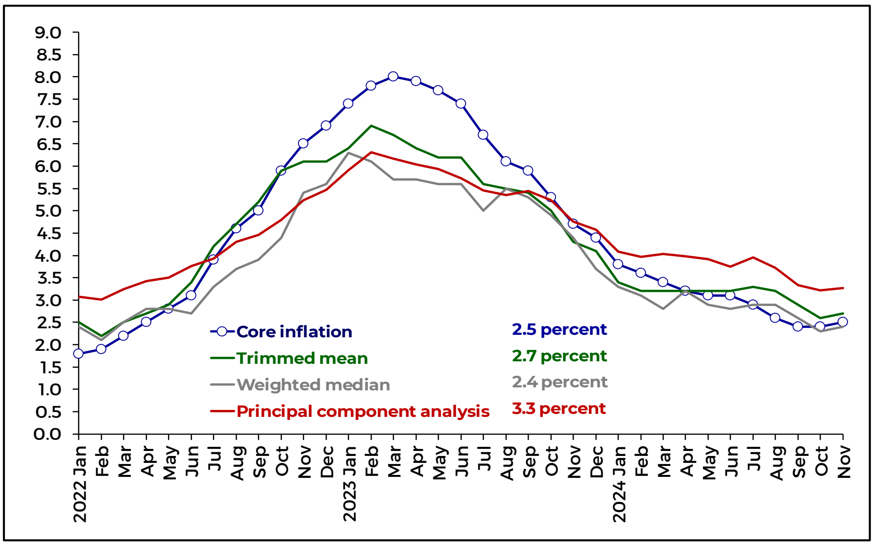
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas
RHS – right-hand side
LHS – left-hand side

Core inflation. The official core inflation rose but remained low in November 2024. Estimates of BSP-computed core inflation measures showed a similar trend, although they remained generally stable. Core inflation, which does not include food and energy, is the component of inflation influenced by monetary policy.

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 due to faster increases in the prices of meat, fish, oils and fats, vegetables, and non-alcoholic beverages. Meanwhile, rice inflation remained at a single-digit rate.

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

Commodity	November 2023	October 2024	November 2024
Food and non-alcoholic beverages	**5.7**	**2.9**	**3.4**
Food	5.8	3.0	3.5
Cereals and cereal products	12.2	7.5	4.3
Cereals	14.3	9.6	5.3
Rice	15.8	9.6	5.1
Corn	-4.5	9.7	8.2
Flour, bread, and other bakery products; pasta products; and other cereals	6.9	2.2	1.9
Meat and other parts of slaughtered land animals	0.5	3.6	3.9
Fish and other seafood	4.9	-0.4	0.4
Milk, other dairy products, and eggs	7.6	3.6	2.9
Oils and fats	-3.1	-0.4	0.2
Fruits and nuts	13.1	11.2	7.3
Vegetables, tubers, cooking bananas, and pulses	-2.0	-9.2	5.9
Sugar, confectionery, and desserts	1.5	-3.3	-2.9
Ready-made food and other food products not elsewhere classified	5.4	4.6	4.2
Non-alcoholic beverages	4.5	1.9	2.3
Alcoholic beverages and tobacco	**9.0**	**3.0**	**3.1**

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

Non-food inflation. Non-food inflation increased marginally due to faster inflation for furnishings and household equipment, personal care and miscellaneous goods and services. However, inflation for electricity rates and domestic petroleum prices eased during the month.

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

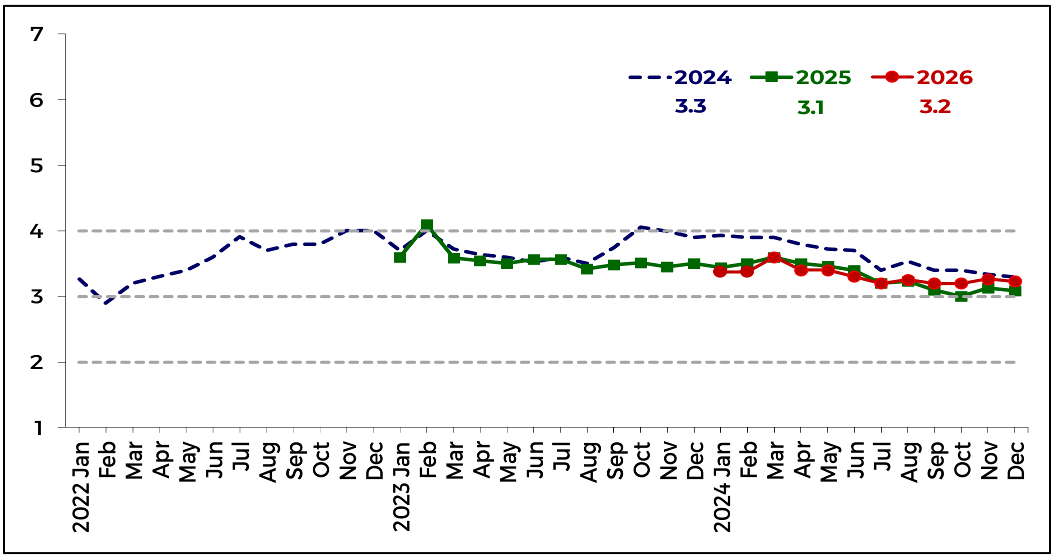
Commodity	November 2023	October 2024	November 2024
Non-food	**2.9**	**1.8**	**1.9**
Clothing and footwear	4.3	2.7	2.6
Housing, water, electricity, gas, and other fuels	2.5	2.4	1.9
Electricity, gas, and other fuels	-0.7	2.2	0.3
Furnishings, household equipment, and routine household maintenance	4.7	2.4	2.7
Health	3.8	2.6	2.6
Transport	-0.8	-2.1	-1.2
Passenger transport services	2.8	2.5	1.5
Information and communication	0.6	0.2	0.2
Recreation, sport, and culture	4.9	2.6	2.4
Education services	3.5	4.3	4.3
Restaurant and accommodation services	5.6	3.9	3.9
Financial services	0.0	-0.6	-0.6
Personal care and miscellaneous goods and services	4.8	2.8	2.9

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

II. Inflation expectations

Results from the BSEF for December 2024 showed that the mean inflation forecasts for 2025 remain unchanged. Meanwhile, private economists expect inflation for 2026 to move closer to the midpoint.

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 24 respondents. The survey was conducted from 6-12 December 2024.

Inflation forecasts for 2025 and 2026 remain well within the 2.0-4.0 percent target range. Risks are broadly balanced, with headline inflation expected to stay low and manageable in the medium term.

Downside risks to the inflation outlook are seen to emanate largely from lower rice prices, amid the implementation of EO No. 62 and lower oil prices. Respondents also mentioned a more favorable outlook for global oil prices and the general downtrend of core inflation.

On the other hand, the main upside risks to inflation include supply disruptions due to geopolitical tensions and adverse weather conditions. The potential spike in electricity rates, higher-than-expected wage adjustments, and protectionist US trade policies were also identified as upside risks.

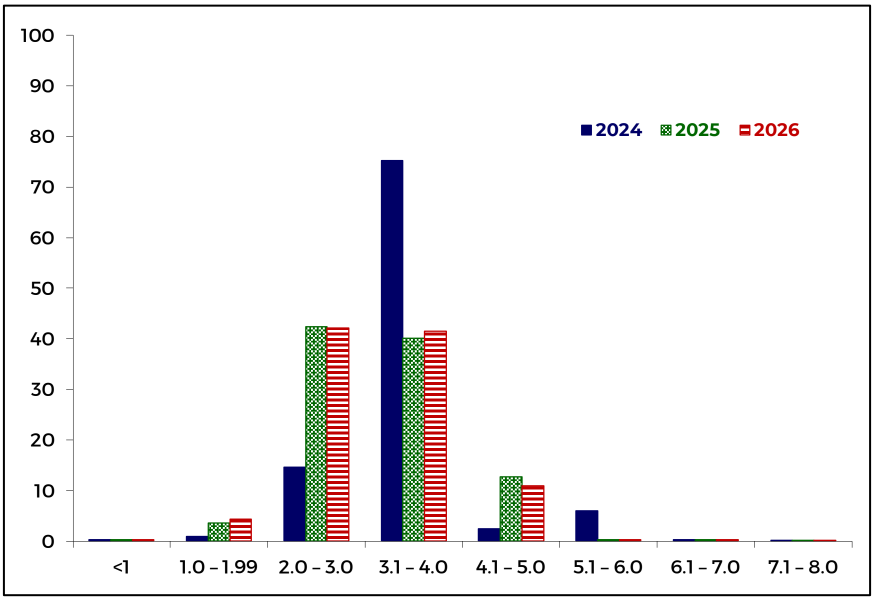
Table 16
BSP Survey of External Forecasters
annual percentage change
December 2024

	2024		2025			2026
	Q4	FY	Q1	Q2	FY	FY
1) Al-Amanah Islamic Bank	3.00	5.50	3.50	3.50	5.00	5.00
2) ANZ	-	3.20	-	-	3.40	3.50
3) Bank of Commerce	2.45	3.19	2.66	3.34	3.29	-
4) Barclays	2.40	3.20	2.20	2.40	2.70	3.70
5) Chinabank	2.50	3.20	2.30	2.60	2.70	3.10
6) CTBC Bank	2.40	3.20	2.30	2.50	2.70	3.10
7) Deutsche Bank	-	3.10	-	-	3.00	3.30
8) eManagement for Business and Marketing Services	2.40	3.30	-	-	3.60	3.50
9) Goldman Sachs	2.30	3.10	2.10	2.50	2.50	3.00
10) HSBC	2.80	3.30	2.20	2.40	2.40	3.00
11) Land Bank of the Phils	2.50	3.20	2.90	3.50	3.40	3.00
12) Maybank	2.60	3.20	3.10	3.20	3.30	3.60
13) Maybank Investment Banking Group	2.50	3.20	2.90	3.40	3.10	3.00
14) Metrobank	2.40	3.20	2.40	3.10	3.20	3.00
15) Mizuho	3.20	3.50	3.20	3.10	-	-
16) Moody's Analytics	2.60	3.20	3.10	2.90	3.10	3.20
17) Nomura	2.30	3.10	2.50	2.80	2.90	3.00
18) Regis Partners	-	3.10	-	-	3.50	-
19) Pantheon Macroeconomics	2.50	3.20	2.60	2.30	2.40	2.50
20) Philippine National Bank	2.50	3.20	2.50	2.60	2.90	3.00
21) Security Bank	2.40	3.20	2.30	3.40	3.20	3.10
22) Standard Chartered	2.30	3.10	2.20	2.90	3.10	3.50
23) Sun Life Investment Management and Trust Corp	2.50	3.30	2.00	2.30	2.50	2.70
24) Union Bank of the Philippines	2.50	3.20	2.60	2.90	3.00	3.00
Median forecast	2.50	3.2	2.5	2.9	3.1	3.1
Mean forecast	**2.5**	**3.3**	**2.6**	**2.9**	**3.1**	**3.2**
High	3.2	5.5	3.5	3.5	5.0	5.0
Low	2.3	3.1	2.0	2.3	2.4	2.5
Number of observations	21	24	20	20	23	21
Government target	**3.0 ± 1.0**	**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 24 survey respondents indicated an 82.6 percent likelihood (from 79.7 percent in November 2024) that inflation will settle within the 2.0-4.0 percent target range in 2025. Meanwhile, analysts assigned a 13.6 percent probability (from 14.2 percent) that inflation will breach the upper end of the target range. For 2026, the probability that inflation will remain within the target range is estimated at 83.5 percent (from 81.1 percent).[10]

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



Source: Bangko Sentral ng Pilipinas Survey (December 2024)
Probability distributions were averages of those provided by 18 out of 24 respondents.

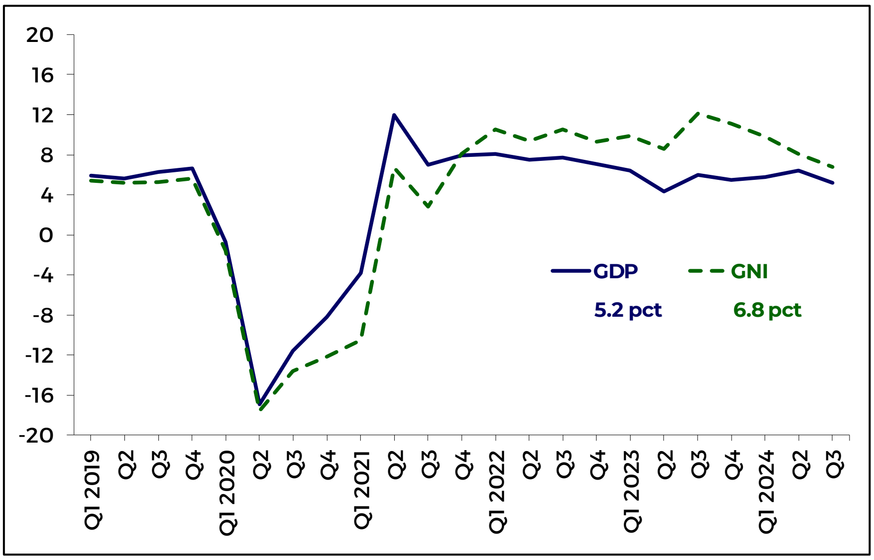
Most analysts expect the BSP to cut the policy rate by at least 25 bps in Q4 2024. For 2025, the general view is that the BSP will ease its monetary policy stance by a range of 50-100 bps. Meanwhile, analysts have mixed views on the Target RRP rate for 2026.

III. Demand conditions

Output growth moderated in Q3 2024. Real GDP growth from Q1 2024 to Q3 2024 was at 5.8 percent, slightly below the government target of 6.0–7.0 percent for 2024. The Q3 2024 growth was supported by domestic demand, particularly investments and household consumption. Gross national income (GNI) grew slower, reflecting a slightly subdued net primary income growth.

[3] The histogram results of the BSP's survey of private sector economists for October 2024 showed that most of the respondent-analysts expect inflation to settle within the 2.0-4.0 percent target range for 2025 and 2026.

Figure 7
Gross Domestic Product and Gross National Income
at constant 2018 prices; year-on-year; growth rate in percent



Source: Philippine Statistics Authority

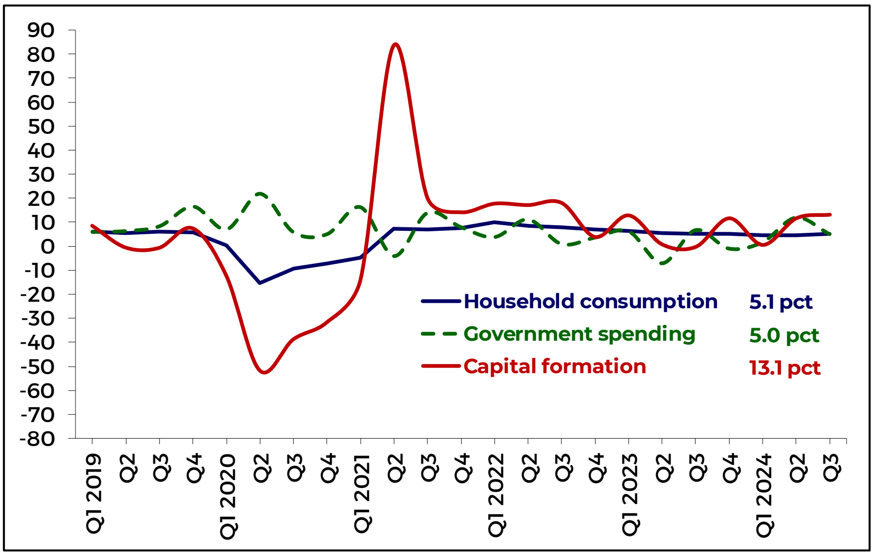
Aggregate demand. On the expenditure side, household spending, government expenditure and investments (or capital formation) contributed 3.7 ppts, 0.7 ppt, and 2.8 ppts, respectively to GDP. Conversely, exports detracted 0.3 ppt from overall growth in Q3 2024.

Household spending, which accounted for 72.8 percent of GDP in Q3 2024, accelerated. This was mainly due to higher spending on miscellaneous goods and services, food and non-alcoholic beverages, restaurants and hotels, transport, and health.

In contrast, government expenditure slowed in Q3 2024 due to lower disbursements in infrastructure projects and subsidy support to government corporations. Lower disbursements were recorded in the Department of Public Works and Highways (DPWH) amid administrative delays and adverse weather conditions, which slowed down project implementation.[11]

[11] Department of Budget and Management. (2024). *National government disbursement performance*. https://www.dbm.gov.ph/wp-content/uploads/DBCC/2024/August_2024_Disbursements_Table_in_billions.pdf

Figure 8
Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent



Source: Philippine Statistics Authority

Capital formation grew faster, driven by private construction, particularly commercial construction. Durable equipment and intellectual property products also contributed to the growth in Q3 2024.

Overall exports dropped amid weakness in external demand. Growth in exports of goods declined due to contractions in components/devices (semiconductors), cathodes and sections of cathodes of refined copper, pineapple and pineapple products, metal components, and office equipment.

Meanwhile, overall imports grew faster compared to the previous quarter. Imports of goods rebounded due to higher imports of components/devices (semiconductors), base metals, electronic data processing, consumer electronics, and plastics in primary and non-primary forms. Imports of services also expanded, particularly in travel, transport, telecommunications, computer and information services, miscellaneous services, and insurance and pension services.

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

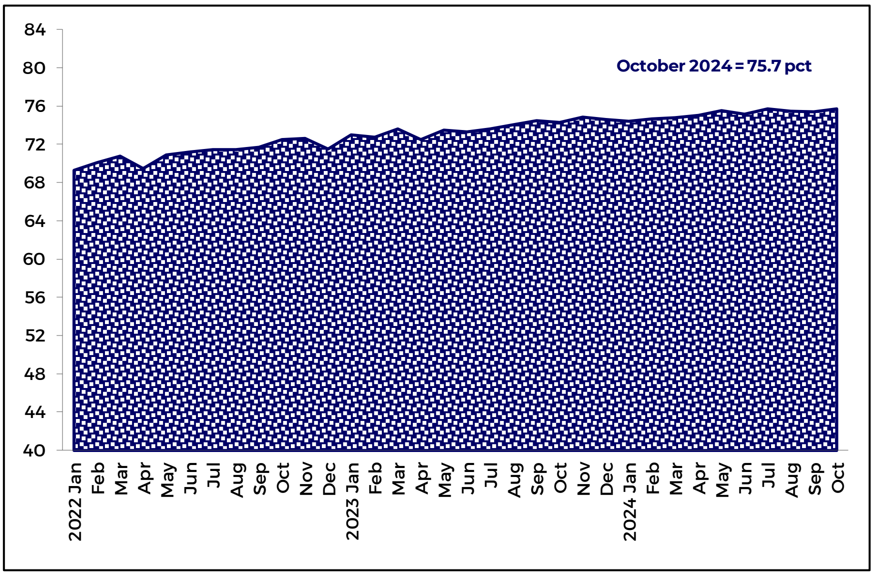
Expenditure shares	2023 Q3	2024 Q2	2024 Q3
Household final consumption expenditure	5.1	4.7	5.1
Government final consumption expenditure	6.7	11.9	5.0
Gross capital formation	-0.3	11.6	13.1
Gross fixed capital formation	8.2	9.7	7.5
Exports of goods and services	2.5	4.2	-1.0
Imports of goods and services	-1.6	5.3	6.4

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 rose in October 2024.

Figure 9
Monthly Average of Capacity Utilization for Manufacturing
2018=100
in percent



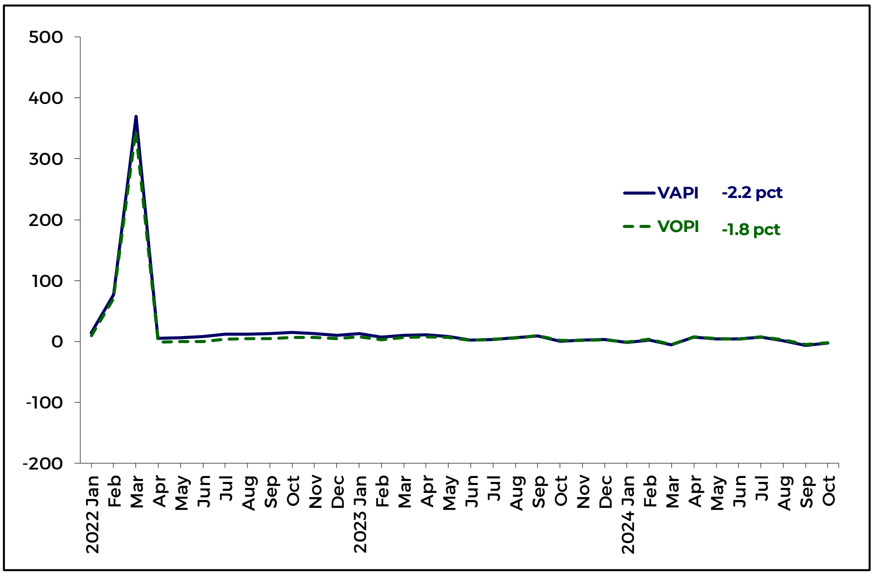
Source: Philippine Statistics Authority

Of the 575 establishments surveyed by the PSA, 55.4 percent operated at or above the 80.0 percent capacity level, an increase from 51.8 percent in September 2024.[12]

Volume and value of production. Preliminary MISSI results showed that factory output, as measured by the volume of production index (VoPI), fell in October 2024. Among the 22 subsectors, the manufacture of electrical equipment posted the highest year-on-year (y-o-y) expansion, followed by the manufacture of leather and related products including footwear, and the manufacture of machinery and equipment except electrical equipment. In contrast, the manufacture of basic metals posted the largest contraction for the month.

[12] Monitoring the response rate helps the BSP assess the reported data's quality and representativeness. The response rate of surveyed establishments increased from 58.0 percent (preliminary) in September 2024 to 60.2 percent (preliminary) in October 2024. The revised response rate for September 2024 was 72.8 percent.

Figure 10
Volume and Value Indices of Manufacturing Production
2018=100
year-on-year; in percent



Source: Philippine Statistics Authority

The value of production index (VaPI) also contracted in October 2024. Among the monitored subsectors, those with the highest growth rates and steepest contractions aligned with the trends observed in the VoPI.

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

Gainers	October 2024
1) Electrical equipment	64.8
2) Leather and related products, including footwear	29.0
3) Machinery and equipment, except electrical	28.8
4) Wood, bamboo, cane, rattan articles and related products	26.4
5) Wearing apparel	23.6
6) Textiles	17.8
7) Paper and paper products	11.8
8) Furniture	10.3
9) Tobacco products	10.2
10) Rubber and plastic products	7.3
11) Beverages	6.8
12) Transport equipment	6.7
13) Food products	5.9
Losers	**October 2024**
1) Basic metals	-30.7
2) Printing and reproduction of recorded media	-23.0
3) Other manufacturing, repair, and installation of machinery and equipment	-14.8
4) Coke and refined petroleum products	-11.1
5) Other non-metallic mineral products	-5.6
6) Fabricated metal products, except machinery and equipment	-5.1
7) Chemical and chemical products	-4.8
8) Basic pharmaceutical products and pharmaceutical preparations	-3.7
9) Computer, electronic and optical products	-0.9

Source: Philippine Statistics Authority

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

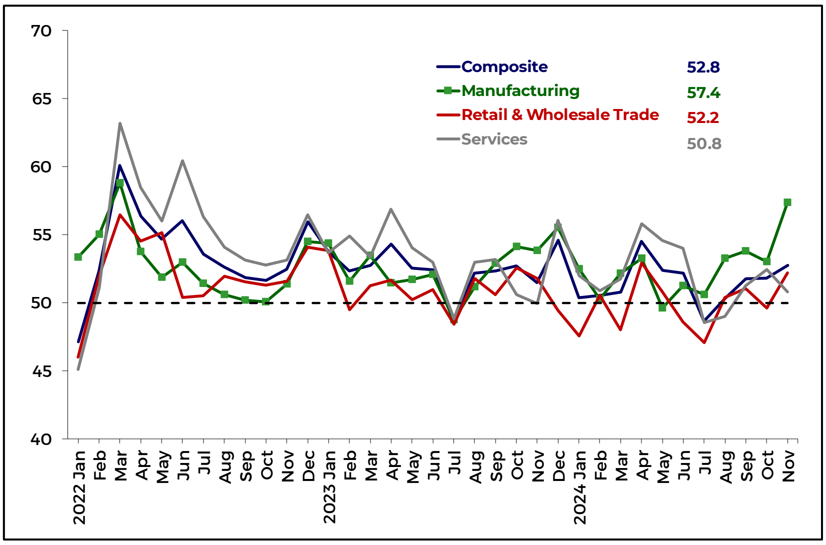
Gainers		October 2024
1)	Electrical equipment	60.5
2)	Leather and related products, including footwear	33.2
3)	Machinery and equipment, except electrical	32.1
4)	Wearing apparel	26.8
5)	Wood, bamboo, cane, rattan articles and related products	26.2
6)	Textiles	15.7
7)	Tobacco products	13.6
8)	Paper and paper products	10.3
9)	Furniture	9.1
10)	Beverages	8.6
11)	Transport equipment	7.9
12)	Food products	7.5
13)	Rubber and plastic products	6.0
14)	Computer, electronic, and optical products	1.4
Losers		**October 2024**
1)	Basic metals	-29.3
2)	Printing and reproduction of recorded media	-20.0
3)	Other manufacturing, repair, and installation of machinery and equipment	-12.7
4)	Coke and refined petroleum products	-12.0
5)	Other non-metallic mineral products	-8.8
6)	Fabricated metal products, except machinery and equipment	-8.1
7)	Chemical and chemical products	-4.5
8)	Basic pharmaceutical products and pharmaceutical preparations	-2.5

Source: Philippine Statistics Authority

Purchasing managers' index. The preliminary composite purchasing managers' index (PMI) for November 2024 rose to a seven-month high. The economy expanded faster during the month, driven by holiday sales that boosted overall demand conditions.[13] Business activity in the manufacturing, and retail and wholesale sectors grew faster due to rising consumer spending. Meanwhile, growth in the service sector moderated but remained above the expansion threshold. Looking ahead, business managers expect firm economic conditions until the end of 2024, supported by improving consumer confidence during the holiday season.

[13] The formula used to calculate the PMI assigns weights to each common element and multiplies them by 1.0 for improvement, 0.5 for no change, and 0 for deterioration. As a result, an index above 50 indicates economic expansion, while an index below 50 implies a contraction. PMI surveys are conducted on the last week of the month.

Figure 11
Purchasing Managers' Index Diffusion Index



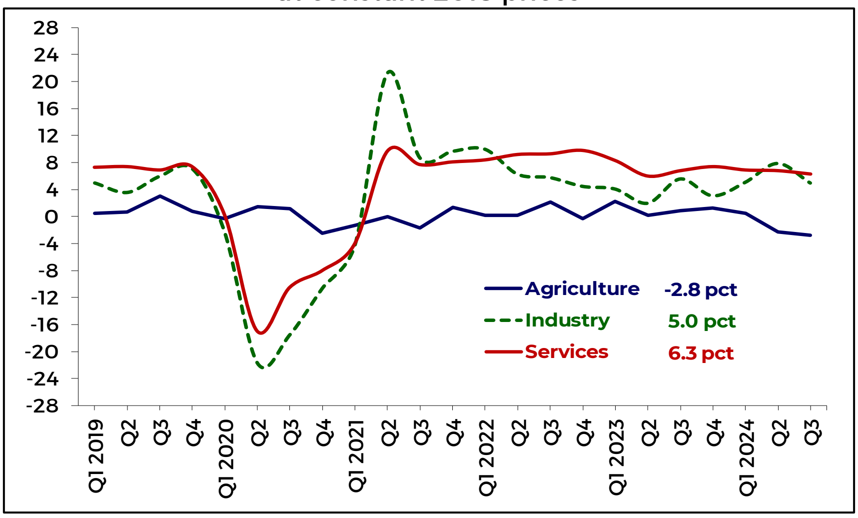
Source: Philippine Institute of Supply Management

IV. Supply conditions

Aggregate supply. On the production side of the economy, the slower growth in Q3 2024 was attributed to the contraction in agriculture and the deceleration in the industry and services sectors.

The agriculture sector declined due to the adverse impact of *El Niño*, followed by a series of tropical cyclones and heavy rains brought by the southwest monsoon. Consequently, output fell for major crops such as *palay*, livestock, fishing and aquaculture, and other crops like sugarcane, banana, mango, cassava, coconut, rubber, and pineapple.

Figure 12
Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: Philippine Statistics Authority

Growth in the industry and services sectors also moderated compared with that in the previous quarter, largely due to weather disturbances that caused administrative delays and supply chain disruptions. Despite the slower pace, all industry segments grew, led by construction, mining and quarrying, electricity, steam, water, and waste management, and manufacturing. Services also expanded, albeit at a slower pace, led by wholesale and retail trade, financial and insurance activities, and professional and business services.

Table 20
Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

Industrial origin	2023	2024	
	Q3	Q2	Q3
Agriculture, forestry, and fishing	0.9	-2.3	-2.8
Industry sector	5.6	7.9	5.0
Mining and quarrying	5.0	6.6	1.0
Manufacturing	1.9	3.9	2.8
Electricity, steam, water, and waste management	6.3	9.1	7.4
Construction	14.5	16.1	9.0
Service sector	6.8	6.8	6.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	5.0	5.8	5.2
Transportation and storage	12.1	14.8	6.3
Accommodation and food service activities	21.0	12.1	10.7
Information and communication	4.1	6.6	4.3
Financial and insurance activities	9.6	8.0	8.8
Real estate and ownership of dwellings	4.2	7.6	5.4
Professional and business services	6.5	7.8	8.3
Public administration and defense, compulsory social security	3.6	1.8	3.7
Education	6.3	1.9	2.6
Human health and social work activities	7.2	9.4	11.9
Other services	15.8	10.2	7.3

Source: Philippine Statistics Authority

Oil market developments. The spot price of Dubai crude oil decreased in the first week of December 2024 compared with the full-month and first-week average in November 2024. The decline was driven by a subdued oil demand outlook, especially for China, and market expectations of ample oil supply in 2025.[14]

Upside risks to global oil prices stemmed from heightened geopolitical tensions in the Middle East and between Russia and Ukraine. The uncertainty created by the removal of Syrian President Bashar al-Assad, along with Israel's continued threats and attacks in Lebanon despite a ceasefire, increased the geopolitical risk premium on global oil prices.

[14] Reuters (6 December 2024). "Oil prices fall on supply glut fears despite OPEC+ output cut extension." https://www.reuters.com/business/energy/oil-prices-dip-extended-opec-supply-cuts-highlight-weak-demand-2024-12-06/

The extension of the OPEC+ voluntary oil supply cuts—2.2 mb/d until March 2025 (originally until December 2024) and 1.7 mb/d until end-2026 (originally until end-2025)—helped offset the decline in global oil prices. Expectations of continued easing monetary policy and expanding manufacturing activity in China in November 2024 also partly tempered the downtrend in global oil prices in December 2024.[15,16,17]

On the domestic front, week-on-week (w-o-w) prices for gasoline rose by ₱0.90 per liter. Meanwhile, w-o-w prices for kerosene and diesel declined by ₱0.41 per liter and ₱2.70 per liter, respectively, as of 3 December 2024.

Developments in the agriculture sector. Agriculture, forestry, and fishing (AFF) output contracted in Q3 2024 amid the decline in the gross value added from *palay*, livestock, and fishing and aquaculture. This was partially offset by increases in poultry and egg production, corn, and support activities for the AFF sector.

Crop production, which contributed 53.2 percent of the total value of agriculture and fisheries, fell in Q3 2024.[18] This contraction may be attributed to the negative impact of *El Niño* on crops. *Palay*, the largest contributor to the decline, posted an annual decrease of 12.3 percent. This was partly offset by the improved production of other crops such as corn, onion, and cabbage.

Livestock production, which accounted for 15.5 percent of total agricultural output, decreased in Q3 2024. While local hog production has shown improvement since the ASF outbreak, it has yet to return to pre-ASF levels. Despite ongoing vaccination efforts by the NG, ASF remains a threat to the domestic hog supply.

The fisheries sector, which comprised 14.0 percent of the total value of production in agriculture and fisheries, also recorded a contraction in Q3 2024. The government has emphasized the need to upgrade and expedite the development of more aquaculture farms and mariculture parks to support the fisheries sub-sector.

Poultry production, which contributed 17.3 percent to total agricultural output, grew in Q3 2024. This improvement can be attributed to recoveries from Avian flu. Based on the Department of Agriculture's status update as of 2 December 2024, Avian flu cases remain in only four regions or eight provinces in the country.

Global food prices. The Food and Agriculture Organization (FAO) All Rice Price Index decreased to an average of 125.7 points in October 2024. The month-on-month (m-o-m) decline was driven by increased export competition as India relaxed its export restrictions.

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[15] Somasekhar, A. (2024, December 9). Oil rises over 1% on ouster of Syria's Assad, Chinese monetary policy. *Reuters*. https://www.reuters.com/business/energy/oil-prices-mixed-rising-mideast-tensions-offset-demand-concerns-2024-12-08

[16] Khan, S. (2024, December 3). Oil rises on fears about Lebanon, further OPEC+ supply cuts. *Reuters*. https://www.reuters.com/markets/commodities/oil-prices-little-changed-ahead-opec-meeting-2024-12-03

[17] Somasekhar, A. (2024, December 3). Oil steady, traders hopeful on China demand but worried about Fed. *Reuters*. https://www.reuters.com/markets/commodities/oil-inches-up-upbeat-china-data-shaky-israel-lebanon-ceasefire-2024-12-02

[18] The growth rates of the subsectors and commodities are derived from the July to September 2024 *Performance of Philippine Agriculture Report*, which was published by the PSA on 6 November 2024.

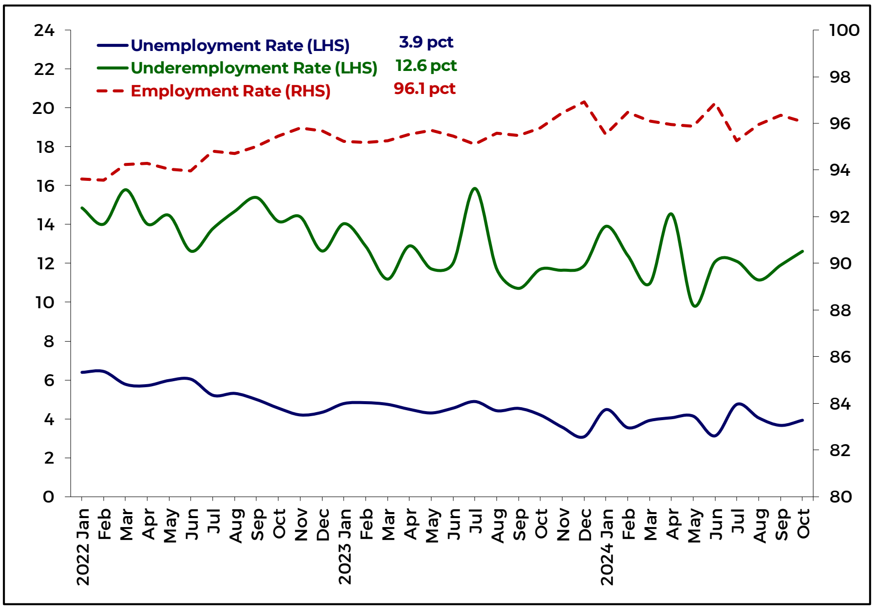
As of October 2024, quotes for 5% broken rice varieties from Vietnam, Thailand, and Pakistan were higher y-o-y by 11.1 percent, 12.1 percent, and 10.7 percent, respectively.

The FAO Food Price Index rose to 127.4 points in October 2024. The m-o-m increase was attributed to higher price quotations for all commodities in the index, except for meat.

V. Labor market conditions

Unemployment rate increased slightly to 3.9 percent in October 2024. Nonetheless, it remained lower than last year's rate of 4.2 percent and the 10-year average of 4.9 percent, indicating improving labor market conditions. Underemployment rate also rose to 12.6 percent but remained lower than the 10-year average rate of 14.5 percent. This rise was due to the increases in both visible and invisible underemployment.

Figure 13
Labor Market Indicators
in percent



Source: Philippine Statistics Authority

VI. Monetary operations

The total outstanding amount absorbed in the BSP liquidity facilities reached ₱2.047 trillion, reflecting a 12.0-percent m-o-m and 11.4-percent y-o-y increase. The robust demand for BSP liquidity facilities continued amid ample liquidity in the financial system. Term instruments, namely the BSP bills (BSPB) and the term deposit facilities (TDF), accounted for most of the BSP's monetary operations with a combined share of 63.6 percent.[19] Meanwhile, the overnight RRP facility and

19 Out of the 63.6 percent, BSPB and TDF had shares of about 45.1 percent and 18.6 percent, respectively.

overnight deposit facility (ODF) had shares of 28.5 percent and 7.9 percent, respectively.

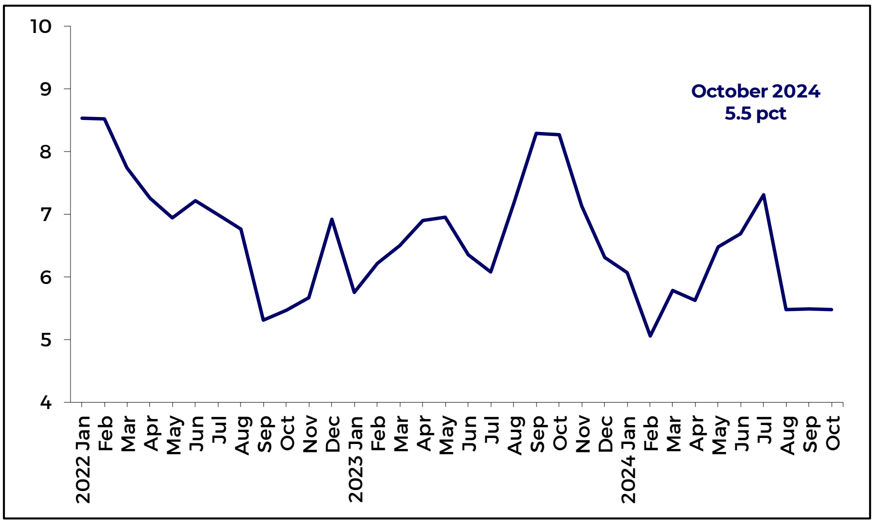
ON RRP Rate. During the 11 December 2024 auction, the ON RRP rate settled at 5.9866 percent, 1.34 bps lower than the target RRP rate of 6.0 percent. The month-to-date average spread between the ON RRP rate and the target RRP rate narrowed to -0.56 bps as of 11 December 2024, a decline from the average of -0.64 bps in the previous month.

TDF and BSPB Interest Rates. Interest rates for the TDF and BSPB have declined since the cumulative 50-bp reductions in the policy rate in August 2024 and October 2024. During the 11 December 2024 TDF auction, the WAIRs for the 7-day and 14-day TDF declined by 48.71 bps to 6.02 percent and by 48.26 bps to 6.06 percent, respectively. Similarly, during the 6 December 2024 BSPB auction, the WAIRs for the 28-day and 56-day BSPBs fell by 37.08 bps to 6.19 percent and by 38.19 bps to 6.20 percent, respectively.

VII. Financial conditions

Domestic liquidity. Preliminary data showed that domestic liquidity (M3) grew by 5.5 percent y-o-y to ₱17.7 trillion in October 2024, maintaining the same pace as the previous month.

Figure 14
Domestic Liquidity
year-on-year; growth rate in percent

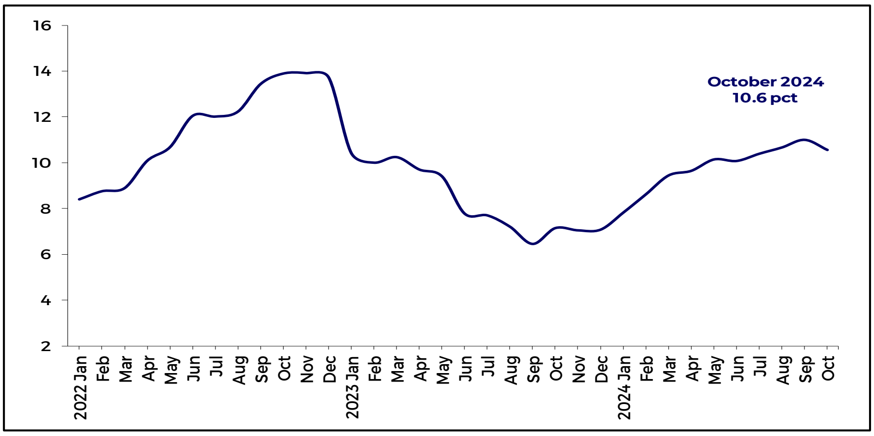


Source: Bangko Sentral ng Pilipinas

The expansion in M3 was driven by an increase in domestic claims, as bank lending to non-financial private corporations and households grew. Net claims on the central government also expanded due to higher borrowings by the NG. On the liabilities side, the growth in time deposits mainly contributed to the increase in M3.

Bank lending. Bank lending sustained double-digit growth, supported by strong demand from households and businesses. Preliminary data showed that outstanding loans of universal and commercial banks (U/KBs), net of RRP placements with the BSP, grew at a slightly slower pace y-o-y in October 2024.

Figure 15
Outstanding Loans of Commercial Banks
year-on-year; growth rate in percent



Source: Bangko Sentral ng Pilipinas

Outstanding loans to residents, net of RRPs, decelerated slightly in October 2024. Meanwhile, outstanding loans to non-residents rose.[20] Loans for production activities increased, driven by loans to key industries such as real estate, wholesale and retail trade, repair of motor vehicles and motorcycles, and manufacturing. Consumer loans to residents grew at a slightly faster rate in October, mainly due to higher credit card and motor vehicle loans.

Credit standards

In Q3 2024, bank respondents reported unchanged credit standards and loan demand from enterprises. Over the next quarter, participating banks anticipate a broadly steady business loan demand.

Lending to enterprises. Survey results showed that majority of respondent banks retained credit standards for firms in Q3 2024. 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.

[20] Outstanding loans to non-residents include loans extended by U/KBs through their foreign currency deposit units.

Table 21

General Credit Standards for Loans to Enterprises (Overall)

	2022				2023				2024		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tightened considerably	10.0	6.5	10.4	4.3	6.7	4.3	2.1	0.0	0.0	1.9	2.0
Tightened somewhat	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0	11.8	11.1	13.7
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**
Eased somewhat	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0	2.0	0.0	3.9
Eased considerably	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
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**
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**
Mean	2.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Number of banks responding	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**	**54**	**51**

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. Modal results indicated that many banks maintained their lending standards for households in Q3 2024. However, the DI method reflected a net tightening of overall credit standards, following unchanged loan standards in the previous quarter. This net tightening was mainly attributed to the deterioration in borrowers' profiles, profitability of banks' portfolios, and banks' lower 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	Q3
Tightened considerably	2.5	5.4	5.4	5.7	3.0	3.0	0.0	0.0	0.0	0.0	2.9
Tightened somewhat	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8	11.4	7.9	8.6
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**
Eased somewhat	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7	11.4	7.9	8.6
Eased considerably	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9	0.0	0.0	0.0
Total	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**
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**
Mean	3.1	3.0	3.0	2.9	3.0	3.1	3.0	3.1	3.0	3.0	2.9
Number of banks responding	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**	**38**	**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 Q4 2024, modal results showed that majority of respondent banks expect unchanged household loan standards. Similarly, the DI method indicated that banks anticipate steady lending standards with expectations of unchanged risk tolerance and stable borrower profiles.

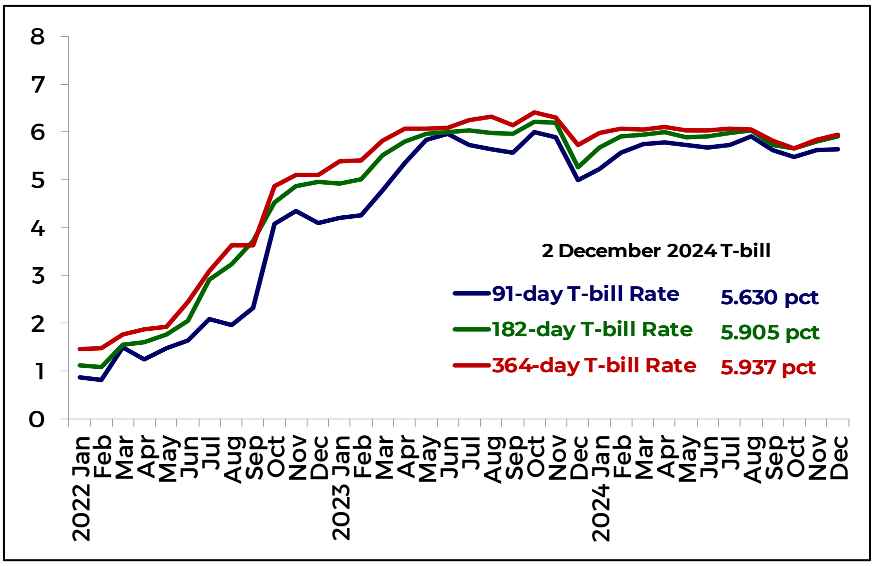
Loan demand. For Q3 2024, modal approach results showed a slight decrease in the percentage of banks indicating unchanged household loan demand. Meanwhile, the DI approach suggested a higher net increase in household loan demand, driven mainly by higher household consumption and favorable financing terms offered by banks.[21]

For Q4 2024, modal results indicated that most respondent banks expect steady demand for household credit. However, DI results showed banks' expectations of a net increase in household loan demand due to higher household consumption and more favorable lending terms.

Capital markets

Primary government securities market and rates. During the 2 December 2024 Treasury bill (T-bill) auction, the average interest rates for the 182-day and 364-day T-bills rose by 2.3 bps and 3.2 bps, respectively. Meanwhile, the 91-day T-bill rate declined by 1.7 bps from the rate fetched during the 25 November 2024 auction.

Figure 15
Treasury Bill Rates
in percent



Source: Bureau of the Treasury

The Bureau of the Treasury (BTr) Auction Committee fully awarded the offered amount of ₱5.0 billion each for the 91-day, 182-day, and 364-day T-bills. Total tenders

[21] The BSP's Q3 2024 Consumer Expectations Survey (CES) indicated that consumer sentiment improved due to expectations of: (a) higher income from wages/salaries, remittances, and other sources; (b) additional sources of income; (c) permanent employment and more available jobs; and (d) additional working family members.

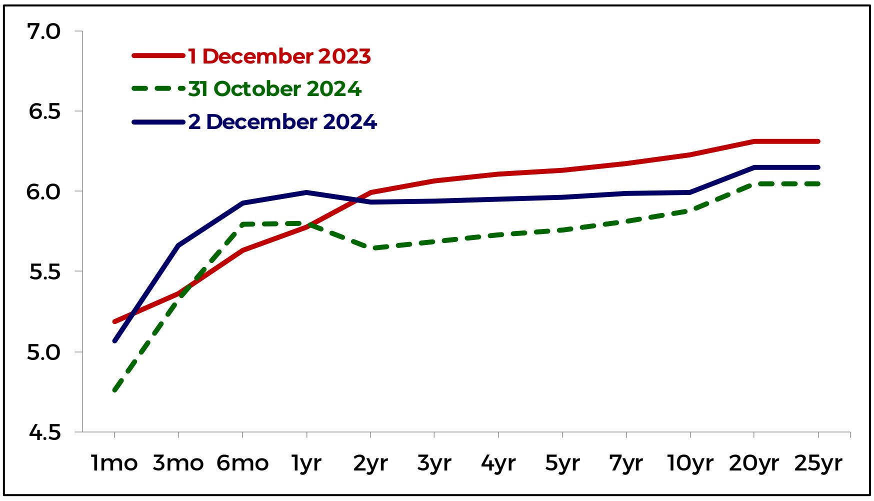
for all maturities reached ₱57.8 billion, about 3.9 times the total amount offered of ₱15.0 billion.

On 26 November 2024, the BTr fully awarded ₱15 billion of the reissued 5-year Treasury bonds (T-bonds) with a remaining life of four years and five months. The T-bond fetched an average rate of 5.954 percent, lower by 20.2 bps from the 6.156 percent average interest rate quoted for the same tenor during the 13 February 2024 auction. The auction was oversubscribed with tenders reaching around ₱55.8 billion, or 3.7 times the offered amount.

Secondary market government securities yield curve. On 2 December 2024, secondary market GS yields increased relative to end-October 2024, driven by the continued cautious sentiment among market participants ahead of the release of key economic indicators such as the November CPI data on 5 December 2024 and US jobs data on 6 December 2024. Additionally, the recent victory of Donald J. Trump contributed to the rise in yields, as market participants anticipated inflationary effects from his proposed tariffs and pro-US growth policies. As a result, the generally negative spreads in the secondary market rates over the BSP overnight RRP rate narrowed.

As of 2 December 2024, the spreads between the 10-year and 1-year GS rates and the 10-year and 5-year GS rates marginally narrowed to 0.2 bp (from 7.6 bps as of end-October 2024) and 3.1 bps (from 11.6 bps as of end-October 2024), respectively. This narrowing was due to the larger increase in the 1-year and 5-year GS rates relative to the rise in the 10-year GS rate.

Figure 17
Yields of Government Securities in the Secondary Market
in percent



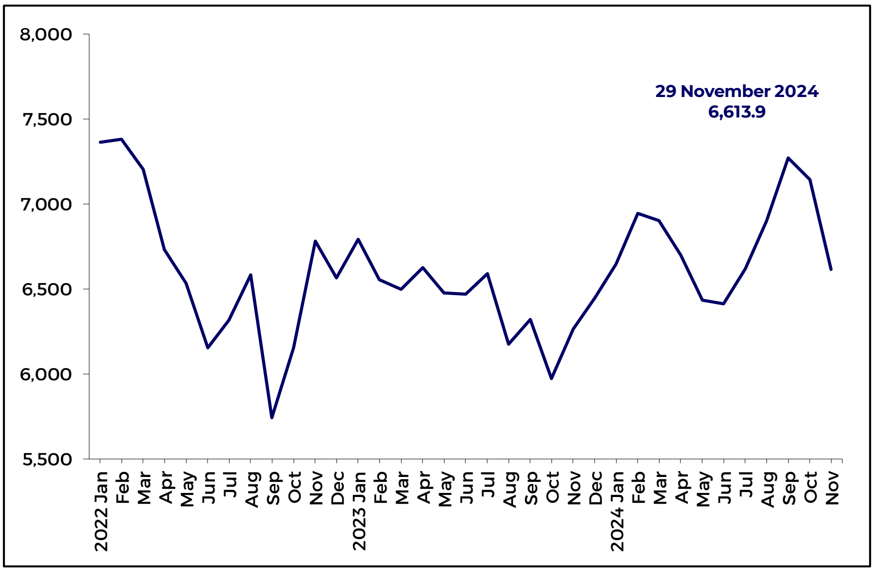
Source: Bloomberg

Stock market. The Philippine Stock Exchange Index (PSEi) closed below the 7,000-mark at 6,613.9 index points on 29 November 2024. The decline in the index was attributed to increased investor uncertainty following the results of the 2024 US elections. On the domestic front, the lower-than-expected Q3 2024 GDP growth,[22]

[22] The Philippine GDP posted a year-on-year growth of 5.2 percent in the third quarter of 2024, lower than the 6.0 percent recorded in the same period last year. This brings the country's annual GDP growth rate to 5.8 percent, lower than the government's target of 6.0-7.0 percent for the year. (psa.gov.ph)

declines in the country's gross international reserves (GIR)[23] and foreign direct investments (FDIs), and the lower growth forecast of Fitch Solutions' Business Monitoring International (BMI) unit also weighed on the PSEi.[24] However, positive investor sentiment amid expectations of a BSP monetary policy interest rate cut in December, S&P's upgraded credit rating outlook for the country,[25] and Goldman Sachs' "overweight" rating on the PSEi[26] probably helped temper the decline in the local bourse.

Figure 18
Philippine Stock Exchange Index
index points



Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

Exchange rate. For the period 1-28 November 2024, the peso averaged ₱58.70/US$1, depreciating by 2.37 percent against the September average. The peso depreciated in October and November due to the broad strengthening of the US dollar after the US Fed signaled that there was no urgency to ease policy rates further.[27] Concerns about the inflationary impact of US President-elect Donald J. Trump's economic policies also weighed on the peso. On the domestic front, the peso's depreciation was influenced by the slower GDP growth in Q3 2024, higher outstanding NG debt in September, a wider trade-in-goods deficit in September, a larger balance of payments deficit in October, and increased political uncertainty.

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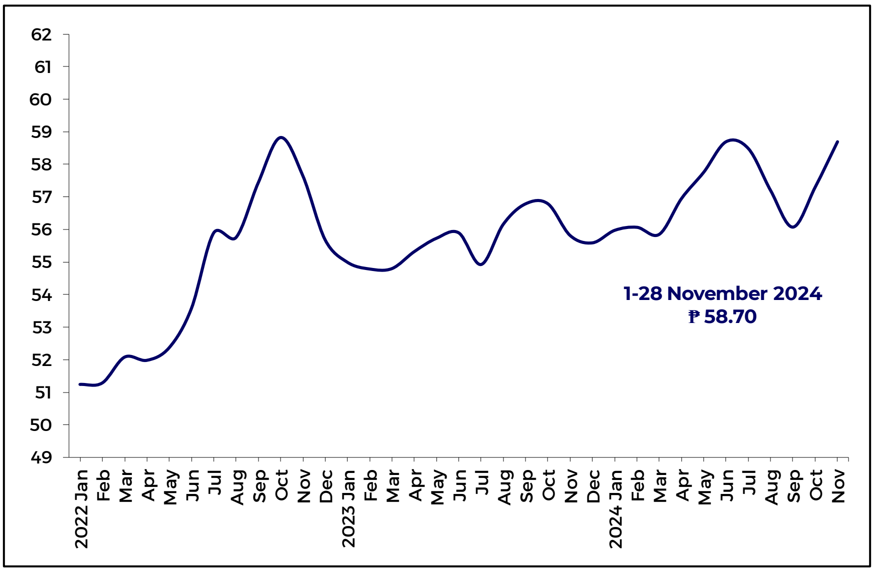
[23] The country's GIR level, based on preliminary data, settled lower at US$112.4 billion as of end-October 2024 from the end-September 2024 level of US$112.7 billion. (bsp.gov.ph)
[24] Fitch Solution's BMI unit lowered its GDP growth forecast for the Philippines from 6.0 percent to 5.8 percent for 2024.
25 S&P Global Ratings affirmed the Philippines' investment grade rating and raised its outlook to from 'stable' to 'positive', reflecting the economy's strong growth potential. (bworldonline.com)
26 Overweight rating indicates that the PSEi is expected to outperform its stock market peers.
[27] Chairman Jerome Powell stated that strong economic activity, a resilient labor market, and moderating inflation allow the US Fed to slow the pace of its monetary policy easing. US inflation rose to 2.6 percent (year-on-year) in October from 2.4 percent in September. Similarly, the seasonally adjusted US Producer Price Index increased by 0.2 percent (month-on-month) in October 2024 from 0.1 percent in September. Meanwhile, initial US jobless claims decreased to 217,000 for the week ending 9 November from previous week's 221,000. (US DOL, US BLS, Bloomberg)

Nonetheless, the peso's depreciation was partly tempered by sustained structural FX inflows from FDIs and foreign portfolio investment, and higher overseas Filipinos remittances.

On a year-to-date basis, the peso closed at ₱58.67/US$1 on 28 November 2024, depreciating by 5.63 percent against the US dollar.

Figure 19
Peso-Dollar Rate
PHP/USD



Source: Reference Exchange Rate Bulletin

On a real trade-weighted basis, the peso gained external price competitiveness y-o-y in October 2024, as reflected in the decline in the real effective exchange rate (REER) indices against the currency baskets of all trading partners, partners in AEs, and partners in developing countries.[28] The real depreciation of the peso was primarily driven by the sustained strength of the US dollar.[29]

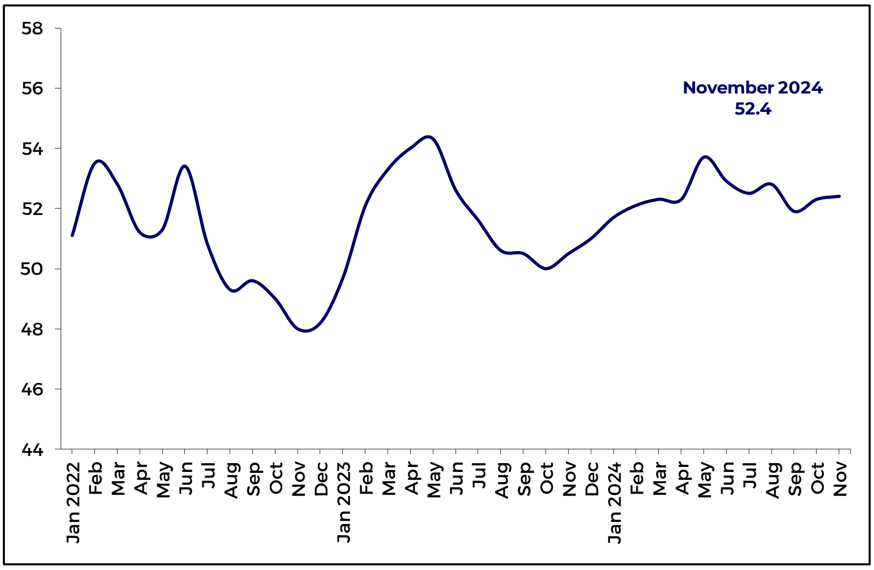
VIII. External developments

Global economic activity expanded amid subdued demand and renewed business optimism. In November 2024, the JP Morgan All-Industry Output Index increased as economic activity in the service and manufacturing sectors improved. Business activity in the service sector continued to rise due to higher output in the business, consumer, and financial service sub-industries. Manufacturing activity also expanded after contracting in October, driven by increased demand for consumer goods ahead of the holiday season. Among the surveyed countries, India, Ireland,

[28] 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, 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, which include China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, UAE, and Thailand.
[29] The 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.

and the US saw strong expansion rates, while business activity in the euro area remained in contraction. [30]

Figure 20
JP Morgan Global All-Industry Output Index
index points



Source: Marikit Economics

In its October 2024 World Economic Outlook (WEO) Update, the International Monetary Fund (IMF) maintained its 2024 global economic growth projection at 3.2 percent, unchanged from the forecast in the July WEO Update. The outlook reflects stronger growth in the US, which more than offsets deteriorating growth prospects in other advanced economies (AEs). In emerging market and developing economies (EMDEs), downward revisions caused by weather-related disruptions in Central Asia and heightened geopolitical tensions in the Middle East were mitigated by upgrades in emerging Asia (EA). The higher growth forecasts for EA were driven primarily by increased demand for semiconductors and electronics amid significant investments in artificial intelligence.

Overall, risks to the global outlook are tilted to the downside. The following downside risks to the revised growth forecasts have gained more prominence:

1. Monetary policy tightening having a greater-than-expected impact on global economic activity.
2. Repricing of financial markets.
3. Rising sovereign debt distress in EMDEs.
4. China's property sector contracting more than expected.
5. Renewed spikes in commodity prices due to climate shocks, regional conflicts, and broader geopolitical tensions.
6. Protectionist policies.
7. Social unrest.

[30] JP Morgan Global Composite PMI, 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 vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

Nonetheless, more favorable outcomes for global growth remain plausible, including:

1. Stronger recovery in investment in AEs.
2. Accelerated implementation of structural reforms.

Policy actions by other central banks. In their December 2024 meetings, the Reserve Bank of India and the Reserve Bank of Australia maintained their respective key policy rates.

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https://www.bsp.gov.ph/SitePages/PriceStability/PriceStability.aspx

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