



MONETARY POLICY REPORT

DECEMBER 2025

Foreword

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

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

The report presents a central forecast that reflects the BSP's view of the most likely path of inflation and domestic economic activity. It also presents alternative quantitative scenarios to illustrate the potential impact of risks to the outlook arising from demand and supply factors.

The Development Budget Coordination Committee (DBCC) has retained the government's annual headline inflation target at 3.0 percent \pm 1.0 percentage point (ppt) for 2025–2028. This reflects the government's medium-term goal of price stability, consistent with the changing structure of the Philippine economy.

The Monetary Board approved this *Monetary Policy Report* at its meeting on 11 December 2025.


ELI M. REMOLONA, JR.
Governor



The Monetary Policy of the Bangko Sentral ng Pilipinas

The BSP mandate

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

Monetary policy instruments

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

Policy target

The BSP's target for monetary policy is headline inflation, which is the average annual inflation rate based on the Consumer Price Index (CPI), compiled and released to the public by the Philippine Statistics Authority (PSA). The policy target is set by the DBCC in consultation with the BSP.¹ The inflation target for 2025–2028 is 3.0 percent \pm 1.0 ppt.²

The BSP's explanation clauses

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

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

² During its meeting on 23 June 2025, the DBCC, in consultation with the BSP, decided to retain the inflation target of 3.0 percent \pm 1.0 ppt for 2025–2028.

The Monetary Board

The powers and functions of the BSP, such as the conduct of monetary policy and supervision over the banking system, are exercised by its Monetary Board (MB).³ It has seven members appointed by the President of the Philippines. In 2025, the MB held six 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 six times in 2025.

Chairman

Eli M. Remolona, Jr.
Governor

Members

Zeno Ronald R. Abenoja
Deputy Governor
Monetary and Economics Sector

Lyn I. Javier
Deputy Governor
Financial Supervision Sector

Elmore O. Capule
Deputy Governor
Corporate Services Sector

Edna C. Villa
Senior Assistant Governor
Financial Markets

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

Veronica B. Bayangos
Assistant Governor
Office of Systemic Risk Management

³ The listing reflects the membership and composition as of the 11 December 2025 MB meeting.

Technical Staff

Head

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Officer-in-Charge
Department of Economic Research

Members

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Senior Director
Department of Economic Statistics

Florabelle M. Santos-Madrid
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Thea Josefina Natalia W. Santos
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Capital Markets and Trust Supervision Department

Eduard Joseph D. Robleza I
Acting Director
Monetary Policy Research Group

Dennis M. Bautista
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Economic and Financial Forecasting Group

Christofer A. Martin
Bank Officer VI
Office of Systemic Risk Management

Ma. Mediatríz 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
External Sector Research Group
Domestic Sector Research Group
Market Intelligence and Data Analytics Group

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

Month	Monetary Board Meeting	Monetary Board Highlights	Monetary Policy Report
January			3 (Friday) (MPR IV, December 2024)
February	13 (Thursday) (MB meeting no. 1)		28 (Friday) (MPR I, February 2025)
March			
April	10 (Thursday) (MB meeting no. 2)		
May		15 (Thursday) (10 April 2025 MB meeting)	
June	19 (Thursday) (MB meeting no. 3)		
July			11 (Friday) (MPR II, June 2025)
August	28 (Thursday) (MB meeting no. 4)		
September			19 (Friday) (MPR III, August 2025)
October	9 (Thursday) (MB meeting no. 5)		
November		20 (Thursday) (9 October 2025 MB meeting)	
December	11 (Thursday) (MB meeting no. 6)		9 January 2026 (Friday) (MPR IV, December 2025)

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List of Acronyms and Abbreviations

bp/bps	basis point/basis points
BSEF	Bangko Sentral ng Pilipinas Survey of External Forecasters
BSP	Bangko Sentral ng Pilipinas
BSPB	Bangko Sentral ng Pilipinas bill
BSP-SF	Bangko Sentral ng Pilipinas Securities Facility
BTr	Bureau of the Treasury
BVAL	Bloomberg Valuation Service
CPI	Consumer Price Index
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DEPDev	Department of Economy, Planning, and Development
DI	diffusion index
DOF	Department of Finance
DPWH	Department of Public Works and Highways
EO	Executive Order
GDP	gross domestic product
GS	government securities
IaR	Inflation-at-Risk
IMF	International Monetary Fund
MB	Monetary Board
Meralco	Manila Electric Company

MISSI	Monthly Integrated Survey of Selected Industries
MPR	Monetary Policy Report
NEER	nominal effective exchange rate
OPEC+	Organization of the Petroleum Exporting Countries Plus
PAMPh	Policy Analysis Model for the Philippines
PMI	Purchasing Managers' Index
ppt	percentage point
RA	Republic Act
RRP	reverse repurchase
SMGP	San Miguel Global Power Holdings Corporation
T-bill	Treasury bill
T-bond	Treasury bond
TDF	term deposit facility
TPI	Trading Partners Index
UAE	United Arab Emirates
US	United States
VaPI	value of production index
VoPI	volume of production index
WEO	World Economic Outlook
y-o-y	year-on-year
y-t-d	year-to-date

Monetary policy summary

The Monetary Board reduced the BSP's target reverse repurchase rate by 25 basis points to 4.50 percent at its monetary policy meeting on 11 December 2025. Correspondingly, the rates on the overnight deposit and lending facilities were adjusted to 4.00 percent and 5.00 percent, respectively.

The inflation outlook remains benign. The central projection shows average inflation at 3.2 percent in 2026 and 3.0 percent in 2027, both within the government's target range of 3.0 percent \pm 1.0 ppt.

The Monetary Board discussed two alternative scenarios that highlight the risks to the inflation outlook. One is a supply shock scenario that considers the possible impact of upward adjustments in electricity charges and higher rice tariffs. The other involves a protracted decline in economic sentiment, reflecting weaker investment growth following investigations into flood control projects.

Inflation expectations remain well-anchored. Results from the November 2025 BSP Survey of External Forecasters (BSEF) show that analysts continue to expect inflation to settle within target over the medium term. Respondents cited adverse weather conditions, upward adjustments in electricity rates, wage increases, external developments and tariffs, and base effects as possible upside risks. Meanwhile, governance issues surrounding flood control projects were identified as potential sources of downside risks.

The outlook for domestic economic activity suggests significantly slower growth in the near term. Updated forecasts reflect weaker-than-expected Q3 2025 performance, driven mainly by subdued construction activity and investments. Economic growth is expected to remain modest through H1 2026 before rebounding in 2027, partly supported by earlier monetary policy easing.

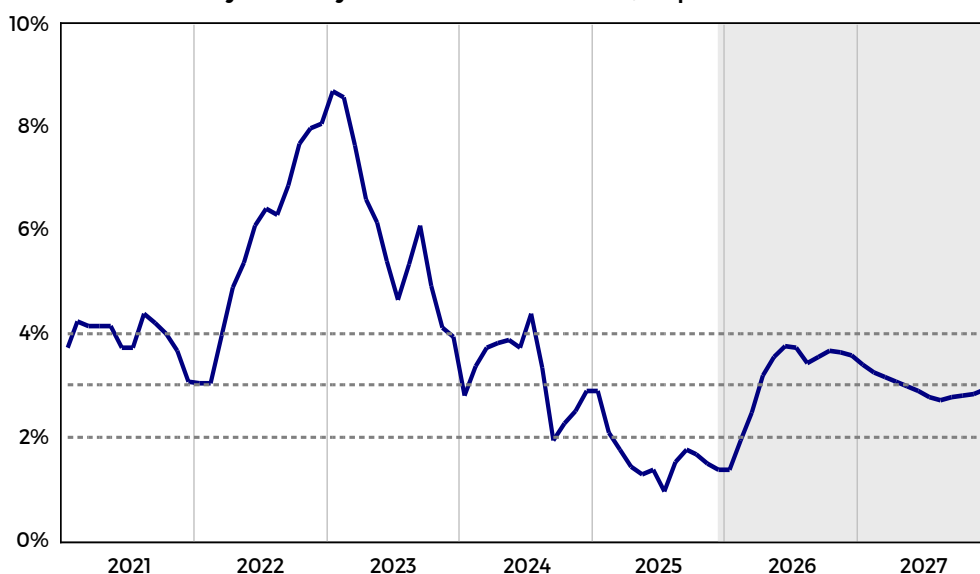
The Monetary Board views the current monetary policy easing cycle as nearing its end. Any further easing is anticipated to be limited and will depend upon incoming data. Moving forward, the MB will ensure that overall policy settings remain consistent with maintaining price stability conducive to sustainable economic growth.

A. Economic outlook

I. Central projections

Inflation is projected to settle within the target range in 2026 and 2027 after a subdued inflation environment in 2025. Compared with the previous round, inflation projections over the forecast horizon are lower, largely reflecting the decline in oil prices. This downward impact is partly offset by the lagged impact of the BSP’s policy rate reductions in August and October 2025, as well as peso depreciation.

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



Source: Bangko Sentral ng Pilipinas

Higher electricity rates and possible positive base effects could drive inflationary pressures. These base effects follow the decline in food prices, particularly rice prices, in 2025. Inflation is then expected to approach 4.0 percent by mid-2026 before easing toward 3.0 percent by Q2 2027, as global commodity prices stabilize.

Table 1
Inflation is projected to settle within the target in 2026 and 2027.
 central projections; year-on-year headline inflation; in percent

	August 2025 Monetary Policy Report ¹	December 2025 Monetary Policy Report ²
2026	3.3	3.2
2027	3.4	3.0

Source: Bangko Sentral ng Pilipinas estimates

¹ Central projections from the 28 August 2025 monetary policy meeting

² Central projections from the 11 December 2025 monetary policy meeting

Domestic growth is projected to be significantly weaker, as adverse business sentiment weighs on investment activity. Compared with the previous round, the growth forecast for 2025 has been revised downward, reflecting the weaker-than-expected Q3 2025 outturn, driven by subdued construction activity and investment. The growth outlook for 2026 has likewise been lowered, as the investment slowdown is expected to persist through the first half of the year amid less favorable economic sentiment.

Growth is projected to be slightly higher in 2027, supported by the lagged impact of the BSP's policy rate cuts since August 2024. Nonetheless, persistent uncertainty surrounding global economic policies, particularly in trade and investment, continues to pose downside risk to domestic growth.

The output gap⁴ has become more negative relative to the previous round, as governance issues have dampened investment prospects. This reflects the lower-than-expected Q3 2025 gross domestic product (GDP) growth, largely due to slower investment growth. Investment activity is expected to moderate further in 2026, resulting in a negative output gap throughout the year. The output gap is projected to gradually narrow and approach a neutral level by end-2027.^{5,6,7}

At the same time, potential output growth is expected to moderate in the near term, as weak economic sentiment continues to constrain private investment. This is compounded by subdued public infrastructure spending following the proposed removal of flood control projects from the 2026 budget of the Department of Public Works and Highways (DPWH). Nonetheless, rising real wages and household incomes could support consumption, while a gradual recovery in investment activity and infrastructure spending is expected to underpin overall demand beginning in 2027.

⁴ The output gap, measured as the difference between the actual and potential output, is a summary indicator of the relative demand and supply conditions in the economy. The BSP monitors the output gap to assess the degree of demand-based inflation pressure. All else equal, if the output gap is positive over time, prices will begin to rise in response to demand pressures. Similarly, if actual output falls below potential output over time, reflecting economic slack, prices will begin to fall to reflect weak demand relative to supply.

⁵ The Q3 2025 output gap estimate is based on the simple average of four output gap models: (a) the production function approach, (b) structural vector autoregression, (c) the macroeconomic unobserved components model, and (d) the Policy Analysis Model for the Philippines (PAMPh). A detailed discussion of the first three methods can be found in Mariano et al. (2018), while the PAMPh output gap is discussed in Dakila et al. (2024).

⁶ Mariano, R. S., Ozmucur, S., Bayangos, V. B., Cacnio, F. C. Q., & Oliva, M. B. (2018). *Review of the potential output and output gap estimation models of the Bangko Sentral ng Pilipinas* [Bangko Sentral ng Pilipinas Working Paper No. 2018-01]. <https://www.bsp.gov.ph/Sites/researchsite/Publications/BSP-Working-PaperSeries/WPS201801.pdf>

⁷ Dakila, F. G. D., Jr., Bautista, D. M., Dacio, J. E., Amodia, R. A., Castañares, S. J. A., Alhambra, P. R. R., Ocampo, J. C. G., Marquez, C. J. P., Romaraog, M. R. S., Karam, P. D., Baksa, D., & Vleck, J. (2024). *A monetary and financial policy analysis and forecasting model for the Philippines (PAMPh2.0)* [International Monetary Fund Working Paper No. 2024-148]. <https://www.imf.org/en/Publications/WP/Issues/2024/07/12/A-Monetary-and-Financial-Policy-Analysis-and-Forecasting-Model-for-the-Philippines-PAMPh2-551768>

II. Key forecast assumptions

External factors

Global economic growth is expected to improve modestly.⁸ World GDP growth assumptions for 2026 and 2027 were unchanged from the previous round. Trade barriers, geopolitical tensions, high borrowing costs, and a mildly negative global output gap contributed to the modest growth.

- In the US, the economic outlook has improved, supported by strong business sentiment and resilient consumer spending, with only a short-lived adverse impact from the recent government shutdown.
- In the euro area, economic activity is expected to expand modestly, as heightened global trade uncertainty and ongoing supply chain disruptions continue to weigh on manufacturing output.
- In China, growth is projected to slow in 2026, reflecting weaker consumption, continued contraction in the property sector, and softer investment.
- In Japan, the growth outlook remains subdued due to higher US tariffs and sluggish wage growth, while the expected fiscal stimulus program has yet to be announced.

Table 2

The global economy is expected to remain stable, albeit with modest growth.

world gross domestic product growth rate; in percent

	August 2025 Monetary Policy Report	December 2025 Monetary Policy Report
2026	2.5	2.5
2027	2.8	2.8

Sources: Global Projection Model Network (June and October 2025); World Economic Outlook (International Monetary Fund, July and October 2025); Bangko Sentral ng Pilipinas estimates

International crude oil prices are assumed to be lower. The downward revision to global crude oil price assumptions for 2026 and 2027 is due to the increased production from the Organization of the Petroleum Exporting Countries Plus (OPEC+), based on average futures data as of 3 December 2025. Following the easing of oil production cuts from April to September 2025, OPEC+ further raised oil production starting in October 2025 to regain market share. Additionally, lower oil demand due to persistent trade tensions and expectations of oversupply contributed to the decline.

⁸ This outlook is based on the October 2025 forecasts from the Global Projection Model Network and the October 2025 World Economic Outlook (WEO) of the International Monetary Fund (IMF). Adjustments were made by BSP staff to incorporate the impact of higher effective tariff rates.

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

	August 2025 Monetary Policy Report	December 2025 Monetary Policy Report
2026	66.23	60.28
2027	65.85	61.80

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Domestic inflation could breach the inflation target range if Dubai crude oil prices average US\$80.0 per barrel in 2026 and US\$90.0 per barrel in 2027. These projections consider direct effects only and exclude potential second-round impacts.

Table 4
Inflation is seen to breach the target if crude oil prices average US\$80.0 per barrel in 2026 and US\$90.0 per barrel in 2027.
 year-on-year headline inflation; in percent

	2026	2027
Central projection for inflation	3.2	3.0
Crude oil price (US\$ per barrel)		
70	3.6	3.4
80	4.1	3.8
90	4.5	4.2
100	4.8	4.5
110	5.1	4.8

Source: Bangko Sentral ng Pilipinas estimates

The scenarios assume that oil prices will remain at these levels starting in September 2025.

World non-oil prices are expected to rise. The upward revision reflects expectations that metal prices will remain elevated through 2026. Nonetheless, agricultural commodity prices are projected to decline due to ample supply amid favorable weather conditions. Meanwhile, consistent with the previous round, non-oil prices are expected to ease in 2027, as coffee prices normalize and other commodity prices remain stable.

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

	August 2025 Monetary Policy Report	December 2025 Monetary Policy Report
2026	2.0	4.1
2027	-0.9	-0.7

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

The central projections assume further policy rate cuts by the United States Federal Reserve in 2026. Assumptions for the US federal funds rate are broadly unchanged from the previous round and are based on futures prices as of 3 December 2025. Market expectations point to a cumulative 50-bp cut in 2026, as US inflation remains above 2.0 percent. The central projections assume no policy rate adjustment in 2027.

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

	August 2025 Monetary Policy Report	December 2025 Monetary Policy Report
2026	3.0	3.0
2027	3.2	3.1

Source: Bloomberg

Domestic factors

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

The assumed annual minimum wage increase of 5.5 percent for 2026 and 2027 is consistent with historical minimum wage adjustments observed from 2015 to 2025.

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

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

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

- San Miguel Global Power Holdings Corporation (SMGP)'s recovery of ₱5.0 billion for incremental fuel costs from March to May 2022;
- rate changes resulting from the Supreme Court's nullification of the Energy Regulatory Commission's decision to cap the wholesale electricity spot market prices from November to December 2013;
- Manila Electric Company (Meralco)'s rate adjustment for November 2025, including a higher Feed-in-Tariff Allowance;
- higher transmission charges following the National Grid Corporation of the Philippines' implementation of higher maximum allowable revenue and collection of its under-recovery from 2016 to 2022; and
- Meralco's refund for over-recovery rates for the lapsed period 1 July 2022 to 31 December 2024, as well as all collected and unutilized regulatory reset expert costs.

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

III. Alternative scenarios

Two alternative scenarios depict the emerging risks surrounding the inflation outlook. The supply shock scenario considers the impact of upward adjustments in electricity charges and higher rice tariffs. Meanwhile, the scenario involving a protracted decline in economic sentiment explores the impact of lower investment growth following investigations on flood control projects.

Supply shock scenario: Upward adjustments in electricity rates and higher rice tariffs could lead to a more elevated inflation path.

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

- adjustments related to Meralco’s proposed annual revenue requirements and performance incentive schemes for the revised fifth regulatory period,
- the National Power Corporation’s proposal to recover ₱7.4 billion in deferred fuel costs, and
- SMGP’s motion to recover ₱29.0 billion in fuel cost losses in 2022.

Higher rice tariffs are expected to exert upward pressure on inflation. Under EO No. 62, the rice import tariff was reduced from 35.0 percent to 15.0 percent in July 2024, with the reduction extended through end-2025 under EO No. 105. EO No. 105 also provides for tariff adjustments beginning January 2026 based on movements in international rice prices, with rates ranging from 15.0 percent to 35.0 percent. The alternative scenario assumes a tariff of 25.0 percent by January 2026 and 35.0 percent by January 2027.

Demand shock scenario via a protracted decline in economic sentiment: This alternative scenario assumes lower investment growth through HI 2027, following ongoing investigations on flood control projects that could dampen business sentiment. A more prolonged period of weak investor sentiment would lead to a more protracted slowdown in private investment and a wider negative output gap.

Based on the central inflation projection and the alternative scenarios, and using a 90.0 percent confidence interval, the highest probability is assigned to inflation falling within the target range in 2026 and 2027.

Table 7
Inflation is expected to settle within the target for 2026–2027.
 probability distribution; in percent

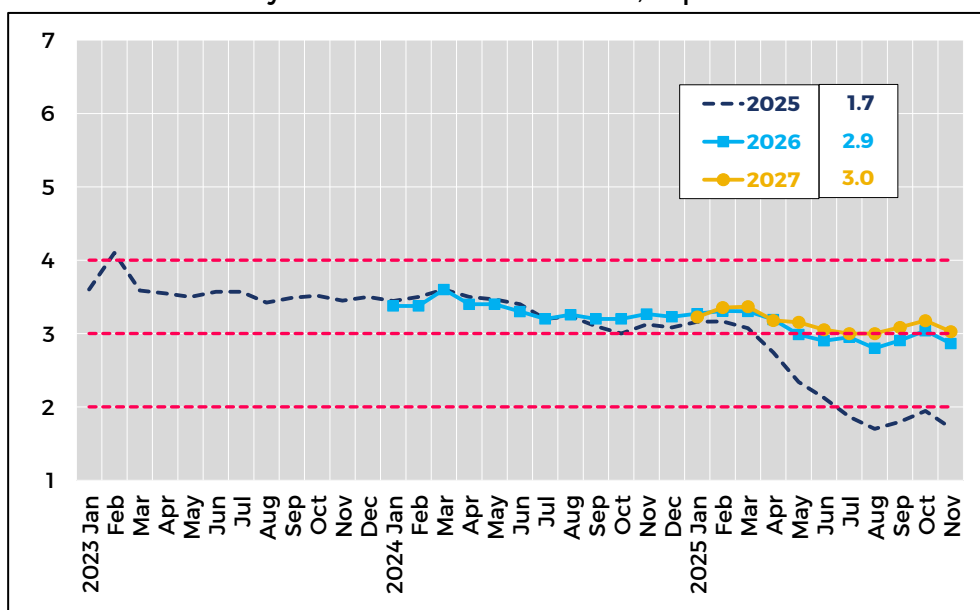
	Pr(<2%)	Pr(2%-4%)	Pr(>4%)
2026	13.8	57.0	29.2
2027	20.7	52.7	26.6

Source: Bangko Sentral ng Pilipinas estimates

IV. Inflation expectations

Results from the November 2025 BSEF show that analysts expect inflation to remain within the 3.0 percent \pm 1.0 ppt target range over the medium term, as price pressures from key commodities remain benign. Relative to the October 2025 survey round, the mean inflation forecasts were lower at 2.9 percent (from 3.0 percent) for 2026 and 3.0 percent (from 3.2 percent) for 2027.

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



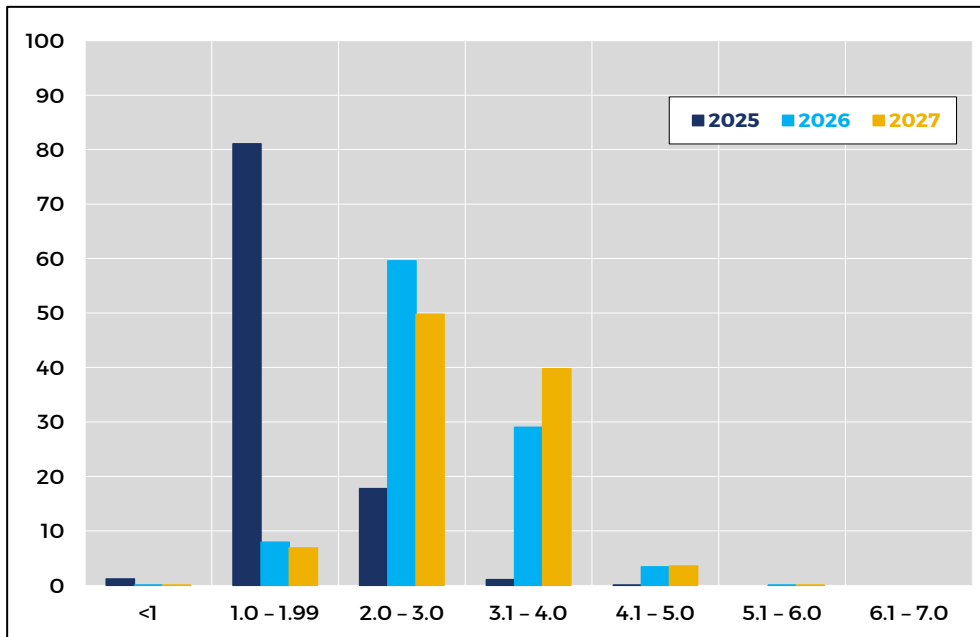
Source: Bangko Sentral ng Pilipinas
 This was based on forecasts provided by 23 respondents.
 Survey results are as of 28 November 2025.

Analysts cited the following upside risks to inflation: adverse weather conditions that could exacerbate food supply issues, upward adjustments in electricity rates, wage hikes, external developments and tariffs, and base effects. The downside risk is seen to emanate from governance issues related to flood control projects, which could dampen the growth and inflation outlook.

Amid these developments, the probability of inflation remaining within target declined, with a higher probability assigned to inflation falling below the low end of the target range in the near term. For 2026, analysts assigned an 88.6 percent probability (from 75.4 percent in October) that inflation would remain within target. The probability of inflation settling within the target range for 2027 also increased to 89.6 percent (from 71.2 percent).

Most analysts expect the BSP to further reduce the policy interest rate by another 25-75 bps in 2026 and hold policy settings in 2027.

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



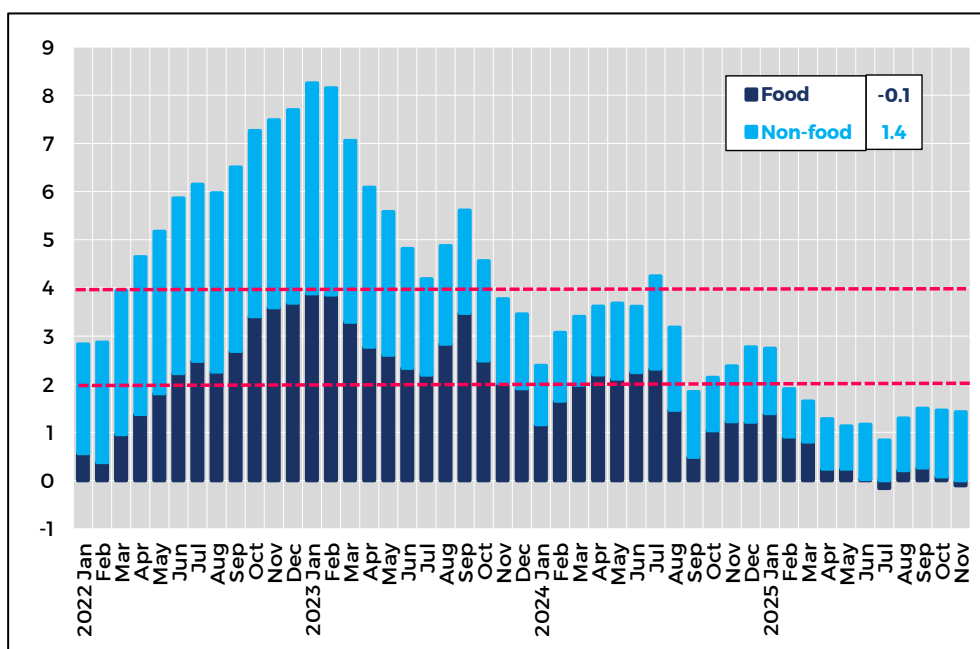
Source: Bangko Sentral ng Pilipinas Survey of External Forecasters (November 2025)
 Probability distributions are averages of those provided by 17 out of 23 respondents.

B. Current developments

I. Price conditions

Headline inflation decelerated from 1.7 percent in October 2025 to 1.5 percent in November 2025. Food inflation eased due to a stable supply of vegetables, the lifting of the ban on chicken imports, and direct government measures to moderate rice prices. Meanwhile, electricity rates and domestic prices of selected petroleum products increased, contributing to higher non-food inflation. November 2025 inflation outturn was within the BSP’s month-ahead forecast range of 1.1-1.9 percent.

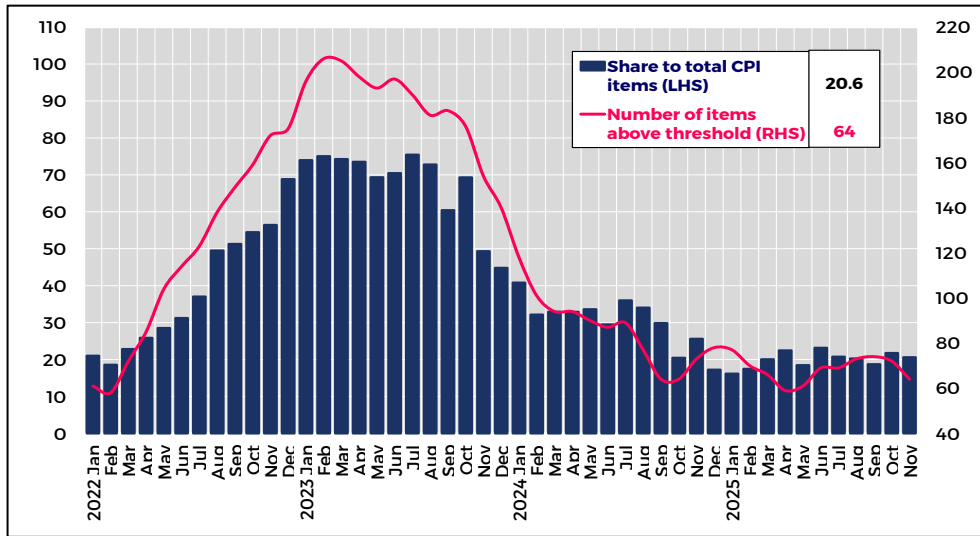
Figure 4
The average year-to-date inflation fell below the target range.
 contribution to year-on-year headline inflation; in percent
 2018=100



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Nearly half (46.8 percent) of the total consumer basket recorded inflation rates below 2.0 percent. The number of items with inflation rates above 4.0 percent decreased from 72 in October to 64 in November, accounting for 20.6 percent of the total CPI basket. Meanwhile, the remaining 72 CPI items registered inflation rates within the target range.

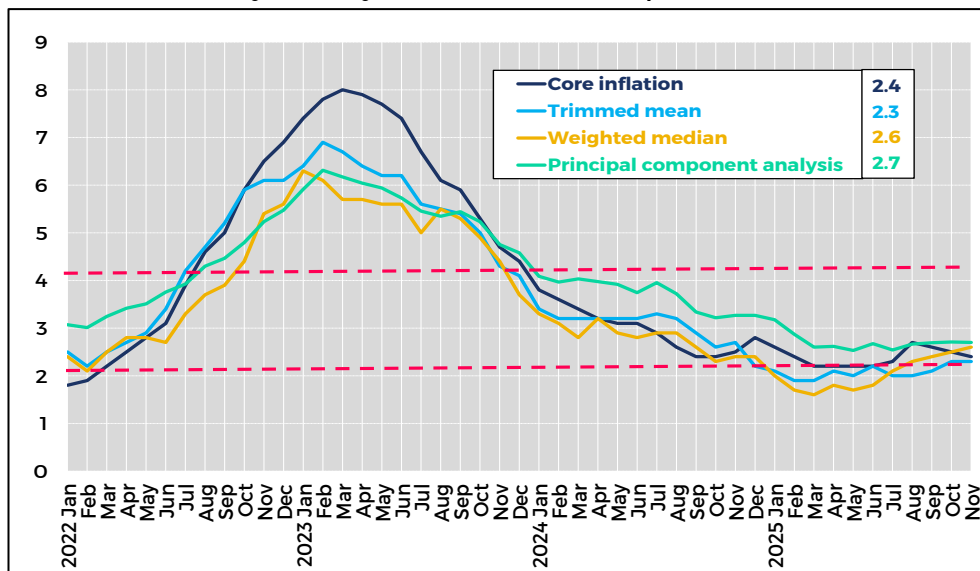
Figure 5
Fewer Consumer Price Index items posted inflation rates above 4.0 percent.
 number and percent share of items above target
 2018=100



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas
 CPI - Consumer Price Index
 RHS - right-hand side
 LHS - left-hand side

Core inflation, which excludes volatile food and energy items, slowed, as underlying inflationary pressures remained manageable. In contrast, the weighted median measure of core inflation increased, while other BSP-computed core inflation measures, such as the trimmed mean and principal components analysis, were unchanged.

Figure 6
Core inflation continued to signal manageable price pressures.
 year-on-year core inflation; in percent



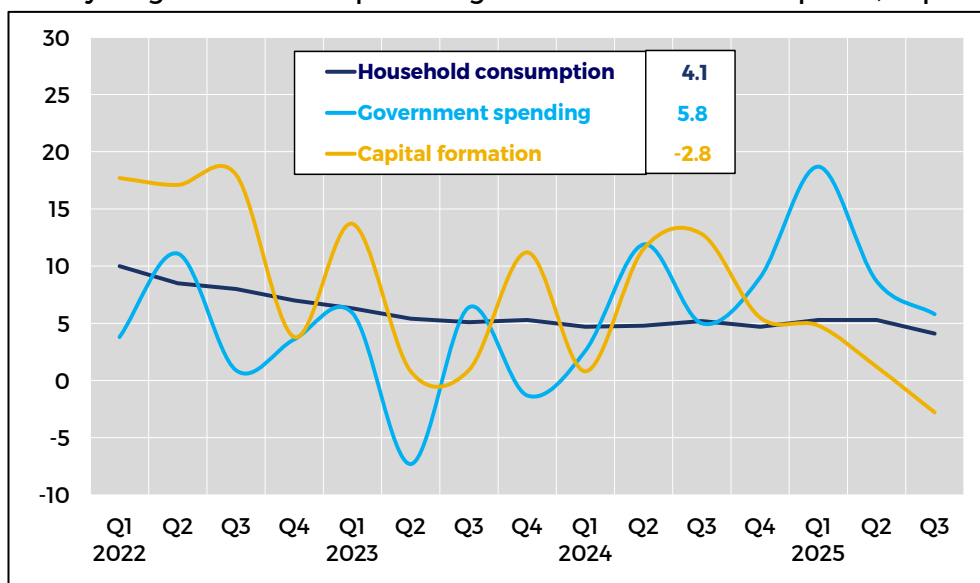
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas staff calculations

II. Demand conditions

The Philippine economy expanded by 4.0 percent in Q3 2025. Output grew slower than the previous quarter, settling below the government's 2025 growth target range of 5.5–6.5 percent. On a seasonally adjusted basis, quarter-on-quarter GDP growth eased from 1.5 percent in Q2 2025 to 0.4 percent in Q3 2025.

Figure 7

The economy slowed down due to subdued domestic demand and investments.
year-on-year gross domestic product growth at constant 2018 prices; in percent



Source: Philippine Statistics Authority

Economic growth in Q3 2025 weakened primarily due to a contraction in investment activity. Public construction declined, as stricter validation of DPWH civil works and weather-related delays hampered project implementation. Spending on durable equipment also remained subdued amid heightened uncertainty. Nonetheless, growth in private construction partly offset these declines.

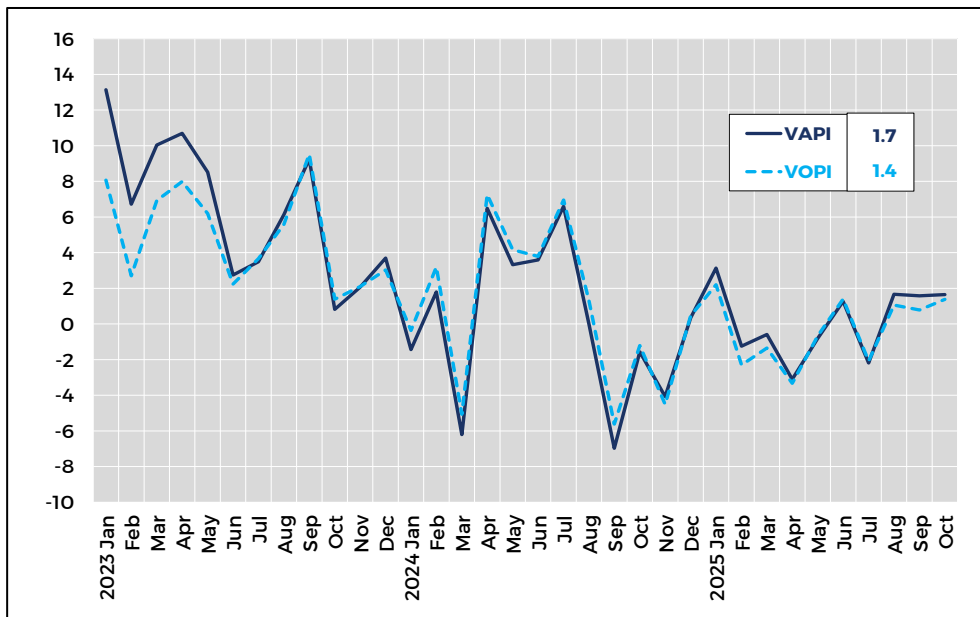
Household consumption decelerated due to typhoon-related disruptions, concerns over government infrastructure investigations, and extended school suspensions due to influenza and other outbreaks. Additionally, lower disbursements of conditional cash transfers due to software system issues further dampened consumption growth.

Government expenditures continued to expand, supported by higher spending on personnel services and transfers to local government units. Meanwhile, net exports contributed positively, as the expansion of merchandise exports outpaced the moderation in merchandise imports.

Capacity utilization remained firm to meet resilient demand. Based on the PSA’s Monthly Integrated Survey of Selected Industries (MISSI), 59.5 percent of surveyed establishments operated at or above 80.0 percent capacity in September 2025, slightly lower than the 60.7 percent in August 2025.⁹

Preliminary MISSI results showed faster growth in factory output in September 2025, driven by the manufacture of computer, electronic, and optical products, with support from food manufacturing. The value of production index also expanded during the month.

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

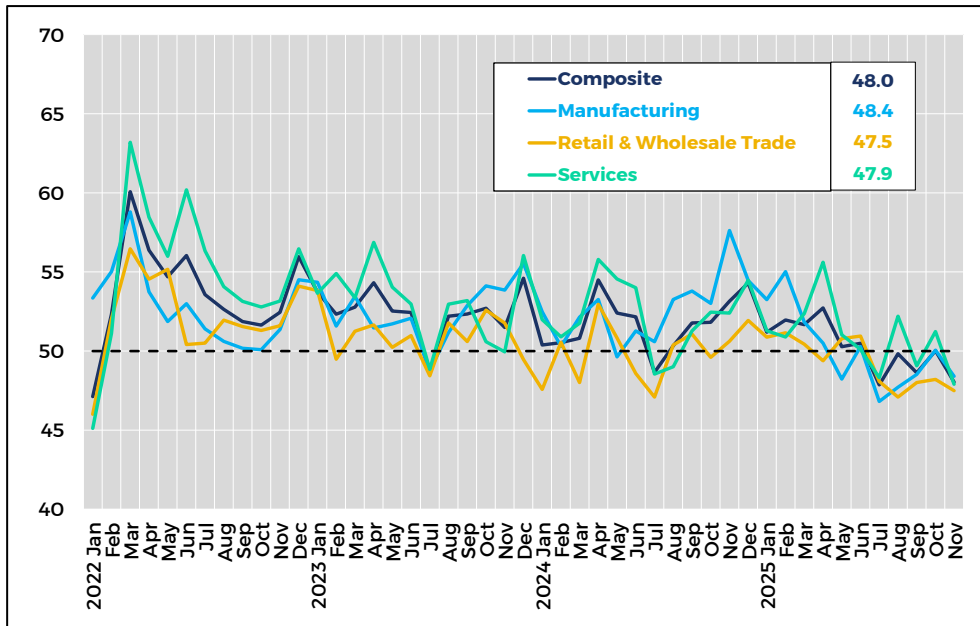


Source: Philippine Statistics Authority
 2022 figures are excluded due to low base in 2021.
 VoPI - volume of production index
 VaPI - value of production index

⁹ The response rate of surveyed establishments increased from 55.9 percent (preliminary) in August 2025 to 56.6 percent (preliminary) in September 2025. The revised response rate for August 2025 is 68.1 percent.

The Purchasing Managers' Index returned to neutral territory in October 2025, reflecting a recovery after three consecutive months of contraction. The Purchasing Managers' Index (PMI) stood at 50.0, indicating stable overall business activity. Emerging signs of recovery were evident in the manufacturing and services sectors, reflecting firmer demand and smoother operations. However, the retail and wholesale sector remained in contraction, weighed down by slower household spending and lingering effects of weather-related disruptions.

Figure 9
Activity in the manufacturing and services sectors improved.
 Purchasing Managers' Index; in index points



Source: Philippine Institute of Supply Management

III. Supply conditions

All three major industry groups contributed positively to growth. The services sector remained the primary growth driver in Q3 2025 despite weaker performance in financial and insurance activities, professional and business services, transportation and storage, and tourism. Nonetheless, faster growth was observed in public administration and defense, as well as in education.

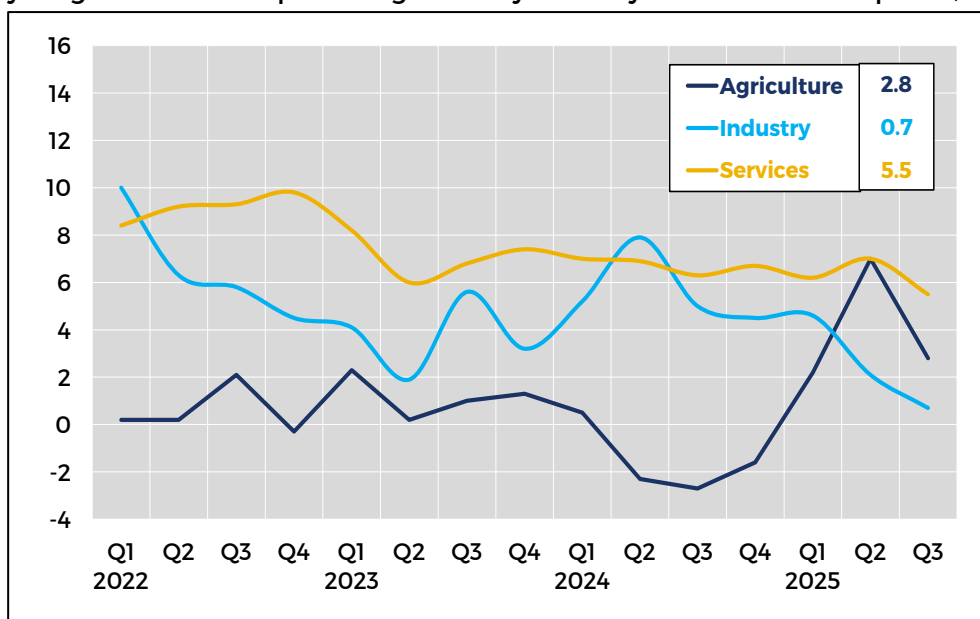
Growth in the industry sector moderated across all subsectors, except mining and quarrying. Construction; manufacturing; and electricity, steam, water, and waste management also decelerated.

Meanwhile, the agriculture sector rebounded, reflecting a recovery from the effects of *El Niño* and *La Niña* in the previous year. Growth was mainly driven by *palay*, abaca, forestry and logging, livestock, and banana, consistent with the year-on-year (y-o-y) increase in total domestic output for these products.

Figure 10

The services and industry sectors grew modestly, while the agriculture sector rebounded.

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



Source: Philippine Statistics Authority

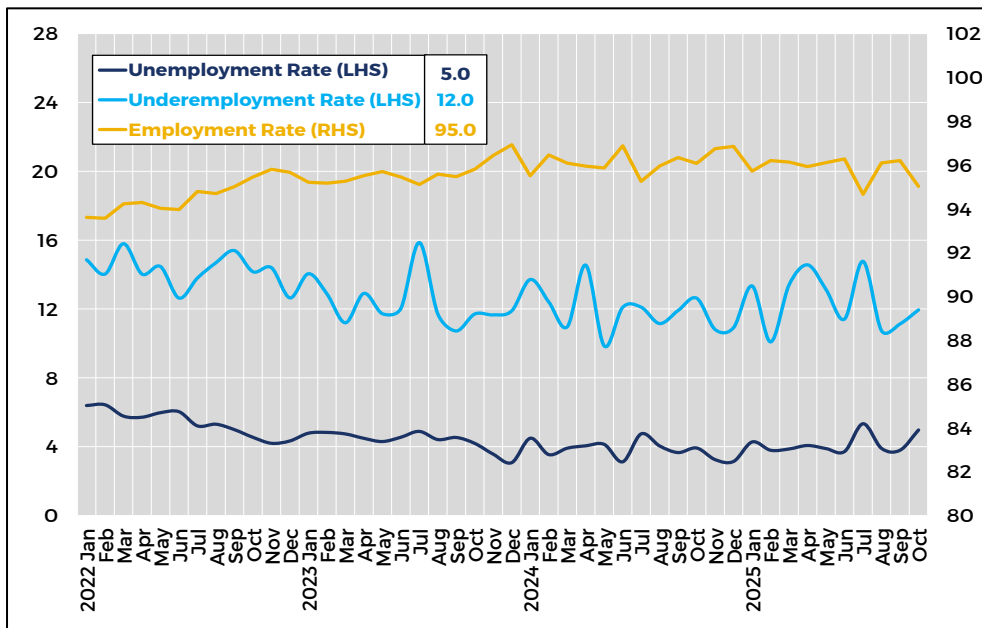
Global crude oil prices increased in mid-November 2025, reflecting improved global sentiment. Heightened geopolitical risks also contributed to higher oil prices, but aggressive output increases from OPEC+ offset the upward pressure.

Labor market conditions were softer. The unemployment rate rose slightly to 3.8 percent in September 2025. Both labor force participation and employment levels declined, with employment losses mainly recorded in the services sector. The year-to-date (y-t-d) average unemployment rate stood at 4.1 percent, lower than the 10-year average of 4.7 percent. The number of underemployed individuals fell by 421,000 y-o-y, bringing the underemployment rate down to 11.1 percent.

Figure 11

Labor market performance was mixed.

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



Source: Philippine Statistics Authority

RHS - right-hand side

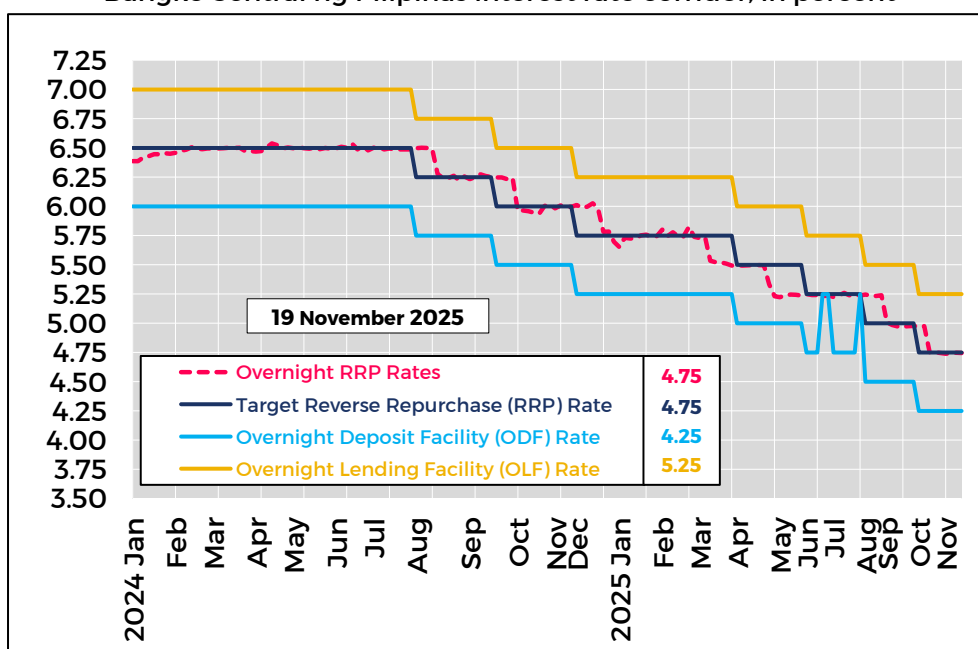
LHS - left-hand side

IV. Monetary operations

The BSP's monetary operations effectively kept the overnight reverse repurchase rate aligned with the target reverse repurchase rate. As of 19 November 2025, the BSP's monetary operations absorbed ₱1.5 trillion in liquidity. The BSP's securities facilities accounted for the largest share at 42.4 percent of total placements. The rest were absorbed through the overnight RRP facility (34.6 percent), overnight deposit facilities (17.6 percent), and term deposit facilities (5.4 percent).

Figure 12
The overnight reverse repurchase rate closely tracked the target reverse repurchase rate.

Bangko Sentral ng Pilipinas interest rate corridor; in percent

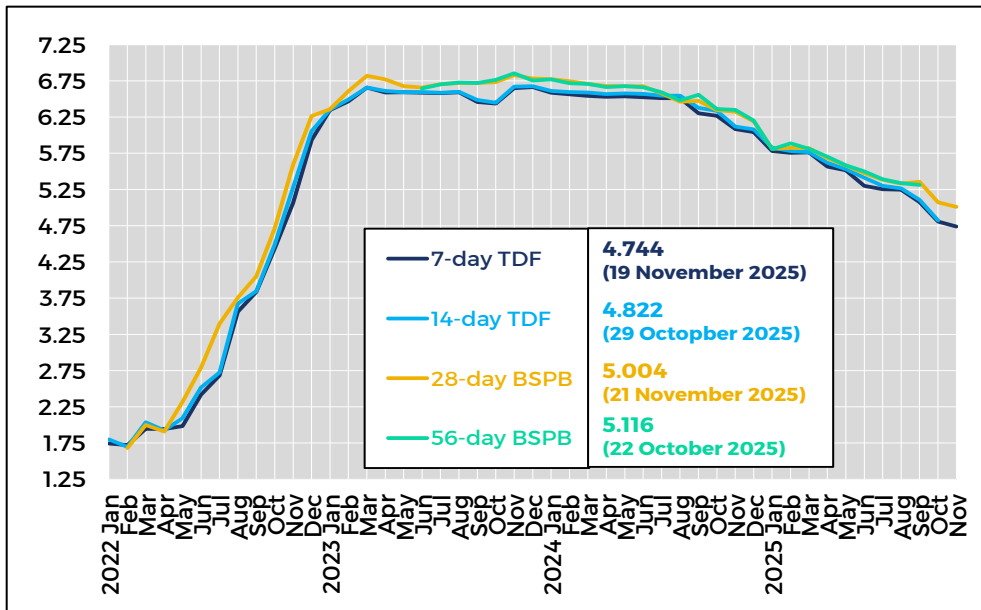


Source: Bangko Sentral ng Pilipinas

Interest rates in the term deposit facility and the BSP Securities Facility fully reflected the cumulative 175-basis-point policy rate cuts since August 2024. Beginning 3 November 2025, the BSP shifted to a single-tenor offering for its term facilities to rationalize the number of liquidity facilities and concentrate on tenors that would enhance monetary policy transmission, retaining the 7-day TDF and 28-day BSP bill.

Figure 13

The central bank's term facilities fully reflected policy rate cuts.
 term deposit facility and Bangko Sentral ng Pilipinas bill rates; in percent



Source: Bangko Sentral ng Pilipinas

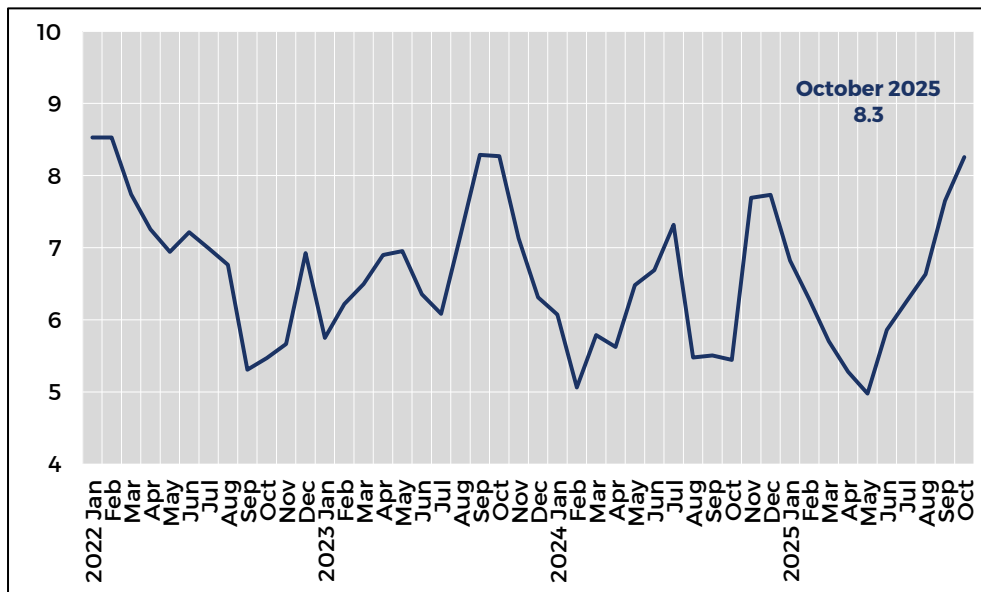
TDF – term deposit facility

BSPB – Bangko Sentral ng Pilipinas bill

V. Financial conditions

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

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



Source: Bangko Sentral ng Pilipinas

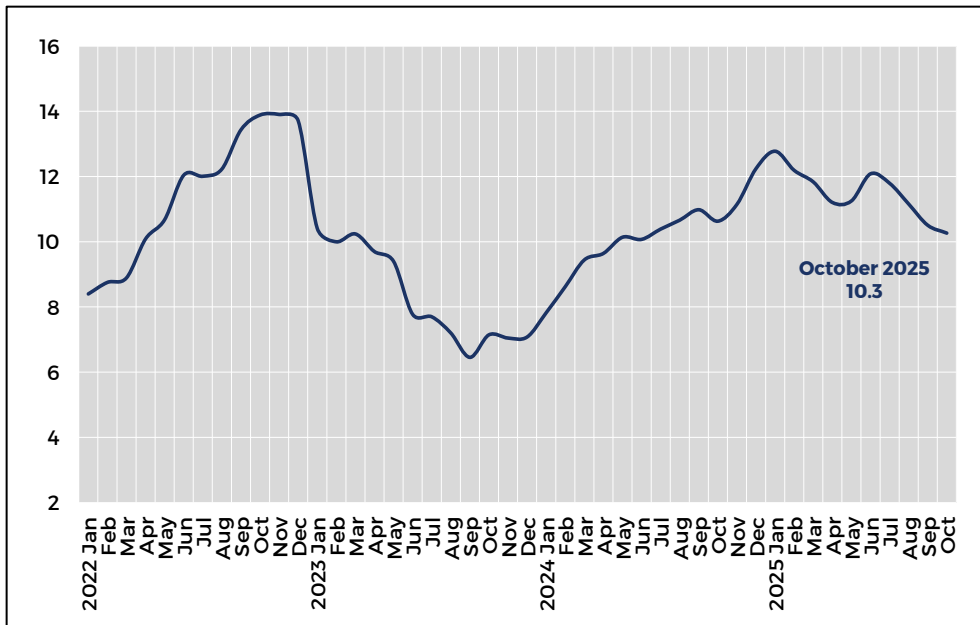
Bank lending expanded, driven by sustained credit flows to key industries. Outstanding loans of universal and commercial banks, net of RRP placements, grew by 10.3 percent in October 2025, slower than the 10.5-percent growth in September 2025.

Business-related loans were steady, with loans directed toward real estate; electricity, gas, steam, and air-conditioning supply; wholesale and retail trade, repair of motor vehicles and motorcycles; financial and insurance activities; information and communication; and transportation and storage. Consumer loans to residents continued to grow at double-digit rates, albeit at a slower pace, mainly due to credit card, motor vehicle, and general-purpose salary loans.

Figure 15

Bank lending continued to grow at a double-digit rate.

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



Source: Bangko Sentral ng Pilipinas

Most banks maintained steady credit standards for enterprise loans in Q3 2025, based on the modal approach.¹⁰ Meanwhile, the diffusion index (DI)¹¹ showed that more banks tightened standards compared with the previous quarter. Looking ahead, both approaches indicate that banks expect steady loan demand over the next quarter.

¹⁰ In the modal approach, survey results are analyzed based on the most frequently selected option. The three options are (a) tightening, (b) easing, or (c) unchanged credit standards for loans to enterprises and households.

¹¹ Under the DI method, a positive DI for credit standards indicates that the proportion of respondent banks that tightened their credit standards exceeds those that eased (“net tightening”), whereas a negative DI indicates that more respondent banks eased their credit standards compared to those that tightened (“net easing”).

Table 8

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

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

	2022				2023				2024				2025		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	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	1.9	1.8	3.6	7.0
Tightened somewhat	16.0	13.0	8.3	12.8	13.3	4.3	10.6	12.0	11.8	11.1	13.7	14.8	12.7	12.5	12.3
Remained basically unchanged	72.0	76.1	77.1	80.9	73.3	89.1	80.9	88.0	86.3	87.0	80.4	83.3	81.8	82.1	78.9
Eased somewhat	2.0	4.3	4.2	2.1	6.7	2.2	6.4	0.0	2.0	0.0	3.9	0.0	3.6	1.8	1.8
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion index for credit standards	24.0	15.2	14.6	14.9	13.3	6.5	6.4	12.0	9.8	13.0	11.8	16.7	10.9	14.3	17.5
Weighted diffusion index	17.0	10.9	12.5	9.6	10.0	5.4	4.3	6.0	4.9	7.4	6.9	9.3	6.4	8.9	12.3
Mean	2.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.9	2.8	2.8
Number of banks responding	50	46	48	47	45	46	47	50	51	54	51	54	55	56	57

Source: Bangko Sentral ng Pilipinas

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

An unchanged credit standard in the DI approach indicates that the proportion of respondent banks that tightened their credit standards equals the proportion that eased them.

For household loans, the modal approach indicates that more banks maintained their credit standards in Q3 2025. Meanwhile, the DI method reflects a steady net tightening. Over the next quarter, both approaches suggest that banks anticipate robust household credit demand.

Table 9

Banks maintained credit standards for household loans, based on the modal approach.
distribution of banks' responses based on the modal and diffusion index approaches;
in index points

	2022				2023				2024				2025		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	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	0.0	0.0	5.0	2.5
Tightened somewhat	12.5	5.4	10.8	8.6	18.2	9.1	15.6	11.8	11.4	7.9	8.6	5.3	7.9	10.0	12.5
Remained basically unchanged	62.5	73.0	64.9	71.4	51.5	69.7	68.8	70.6	77.1	84.2	80.0	89.5	86.8	82.5	77.5
Eased somewhat	17.5	13.5	18.9	14.3	27.3	12.1	12.5	14.7	11.4	7.9	8.6	5.3	5.3	2.5	7.5
Eased considerably	5.0	2.7	0.0	0.0	0.0	6.1	3.1	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion index for credit standards	-7.5	-5.4	-2.7	0.0	-6.1	-6.1	0.0	-5.9	0.0	0.0	2.9	0.0	2.6	12.5	7.5
Weighted diffusion index	-5.0	-1.4	1.4	2.9	-1.5	-4.5	-1.6	-4.4	0.0	0.0	2.9	0.0	1.3	8.8	5.0
Mean	3.1	3.0	3.0	2.9	3.0	3.1	3.0	3.1	3.0	3.0	2.9	3.0	3.0	2.8	2.9
Number of banks responding	40	37	37	35	33	33	32	34	35	38	35	38	38	40	40

Source: Bangko Sentral ng Pilipinas

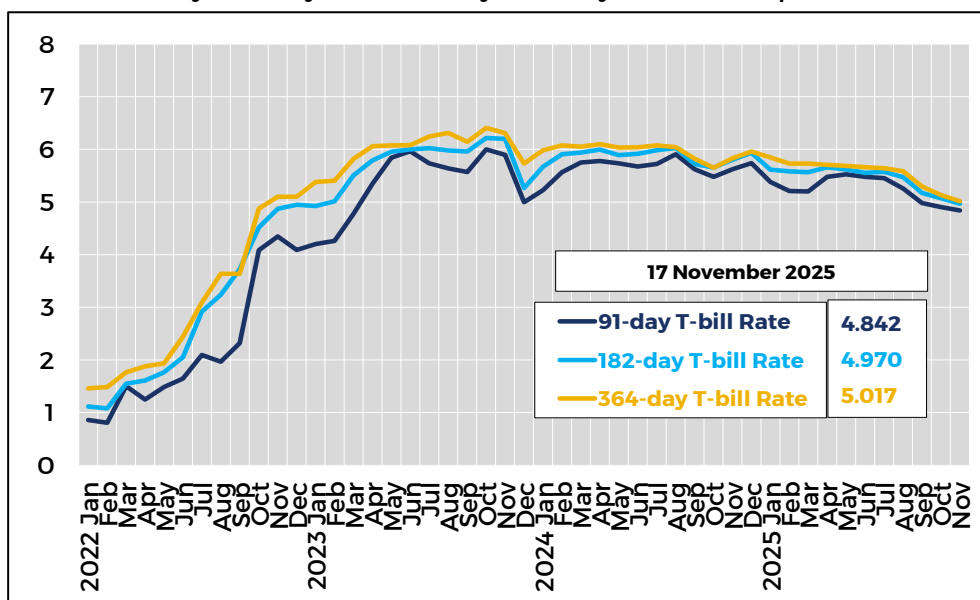
A positive diffusion index (DI) for credit standards indicates that banks that tightened their credit standards outnumbered those that eased (net tightening). In contrast, a negative DI indicates that banks that eased their credit standards outnumbered those that tightened (net easing).

VI. Capital market

Average awarded yields in the primary government securities market fell, reflecting expectations of a further policy rate cut in December 2025. During the 17 November 2025 auction, the Bureau of the Treasury (BTr) raised ₱25.0 billion through T-bill auctions, exceeding the initial ₱22.0 billion offer. Total tenders reached ₱84.0 billion, or 3.8 times the initial offer.

On 18 November 2025, the BTr fully awarded its dual-tranche offering of the reissued 7-year Treasury bond (T-bond) 10-69 and 20-year T-bond 20-27. The 7-year T-bond was issued at a yield of 5.740 percent, 1.7 bps higher than the prevailing Bloomberg Valuation Service (BVAL) rate, and was 3.5 times oversubscribed. Similarly, the 20-year T-bond was 5.1 bps above the BVAL benchmark and 2.5 times oversubscribed.

Figure 16
Treasury bill rates in the primary market declined.
 91-day, 182-day, and 364-day Treasury bill rates; in percent

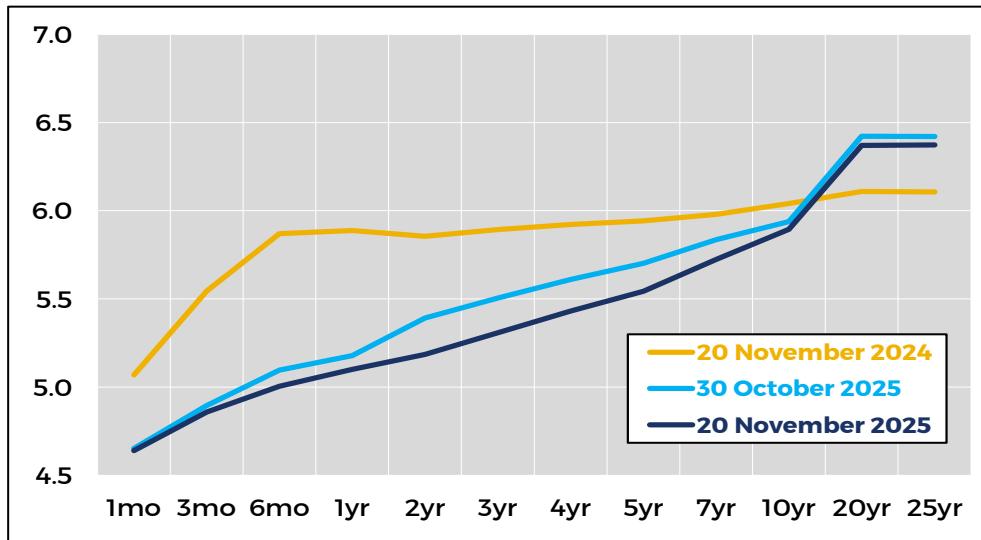


Source: Bureau of the Treasury

The secondary market government securities yield curve steepened, reflecting market expectations of further BSP rate cuts. A weaker-than-expected Q3 2025 GDP growth drove this steepening. As of 20 November 2025, the spread between the 10-year and 1-year government securities (GS) rate widened to 79.5 bps (from 76.0 bps as of end-October 2025). Similarly, the 10-year and 5-year spreads broadened to 35.2 bps (from 23.6 bps). These reflect the larger fall in the 1-year and 5-year rates relative to the decline in the 10-year GS rate.

Figure 17

Government securities yields in the secondary market decreased.
secondary market rates of government securities; in percent



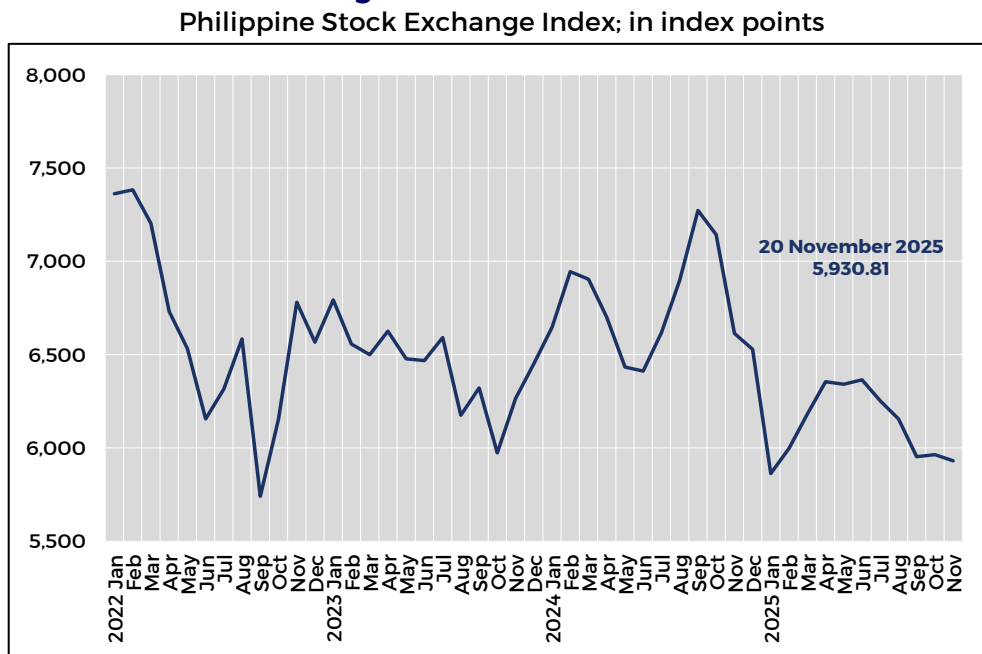
Source: Bloomberg

The Philippine Stock Exchange Index continued to decline in November 2025.

The decline was due to the slower-than-expected third-quarter economic growth, weak foreign direct investment data, and concerns over the ongoing controversy surrounding infrastructure spending, which weighed on public confidence.

The daily market price-to-earnings (P/E) ratio stood at 9.6 times on 18 November 2025, lower than the 10.1 times recorded in end-October 2025, and below the five-year average of 16.3 times. Compared to neighboring economies, the country's P/E ratio was lower than Indonesia's 20.7 times, and Malaysia's 15.4 times, but higher than Thailand's 8.8 times.

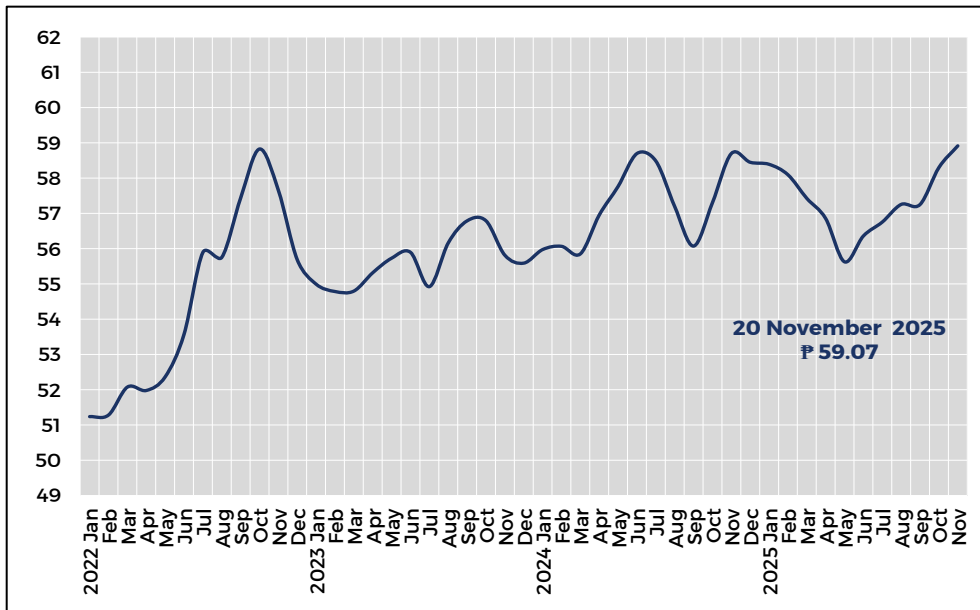
Figure 18
Uncertainty surrounding the domestic economic outlook continued to weigh on the stock market.



Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

In the third week of November 2025, the peso weakened further due to a stronger United States dollar. The peso’s weakness may also be attributed to the slower Q3 2025 GDP growth, steady October domestic inflation, and persistent concerns over the infrastructure spending controversy. As of 20 November 2025, the peso closed at ₱59.07/US\$1, reflecting a 2.1-percent y-t-d depreciation relative to end-December 2024.

Figure 19
The peso depreciated against the dollar.
 daily Philippine peso per United States dollar rate; in PHP/USD



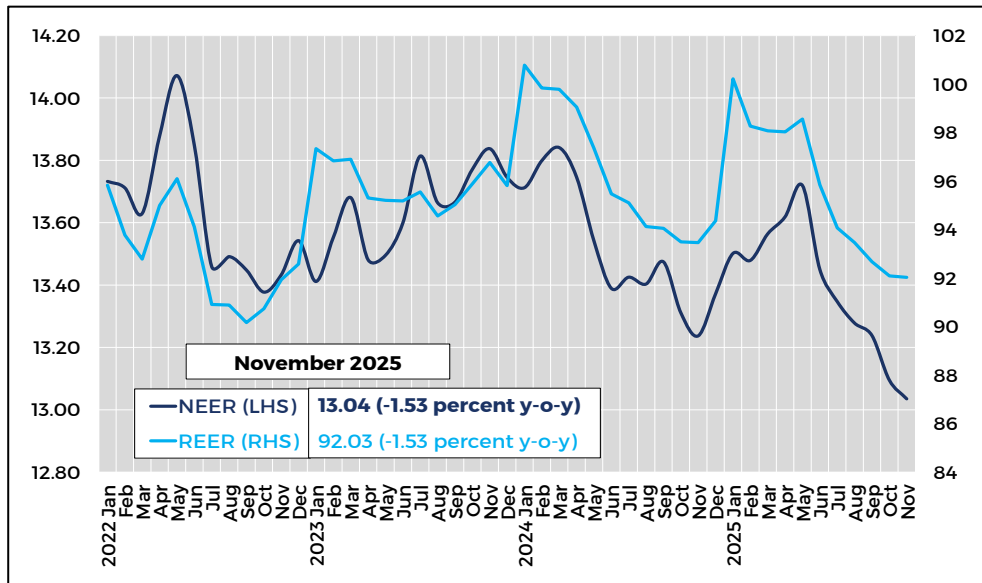
Source: Reference Exchange Rate Bulletin

The nominal depreciation of the peso partly contributed to the competitiveness of Philippine exports relative to those of our trading partners in developing and advanced countries.^{14,15}

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

¹⁵ The real effective exchange rate (REER) index represents the peso's nominal effective exchange rate (NEER), adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. Meanwhile, the NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

Figure 20
The effective exchange rate indices decreased.
 nominal and real effective exchange rates; in index points



Source: Bangko Sentral ng Pilipinas

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

NEER - nominal effective exchange rate

REER - real effective exchange rate

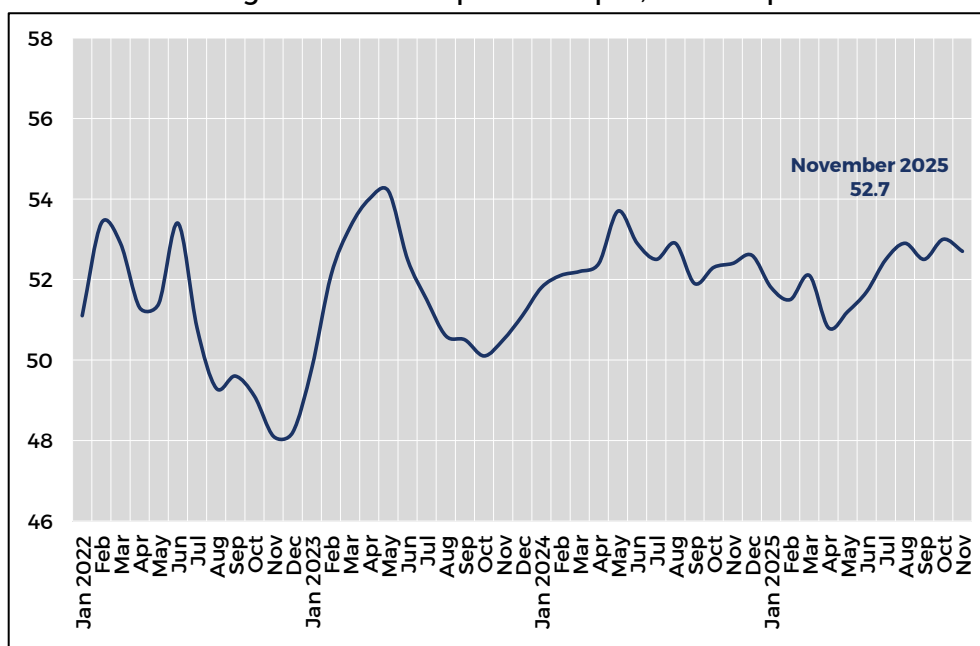
RHS - right-hand side

LHS - left-hand side

VII. External developments

Global economic activity expanded despite lingering uncertainty in global trade and heightened geopolitical tensions. In October 2025, the JP Morgan Global Composite Output Index accelerated, reflecting stronger performance in the manufacturing and services sectors. The US, the euro area, Japan, and the United Kingdom posted faster growth, while growth in China, India, and Australia eased.¹⁴

Figure 21
The global economy grew modestly.
JP Morgan Global Composite Output; in index points



Source: Markit Economics

In its October 2025 WEO Update, the IMF raised its global growth forecast for 2025 to 3.2 percent, up by 0.2 ppt from the July 2025 projection. The upward revision reflects resilient private investment and consumption despite persistent trade fragmentation, weak productivity, and fiscal constraints.

Advanced economies are expected to expand, supported by ongoing fiscal initiatives and robust private sector investment in the US. The growth outlook for emerging markets and developing economies improved modestly, driven by stabilization in China.

¹⁴ JP Morgan Global Composite Purchasing Managers' Index (<http://www.pmi.spglobal.com>). A DI is calculated for each survey variable. The index represents the sum of the percentage of "higher" responses and half the percentage of "unchanged" responses. The indices range from 0 to 100, with a reading above 50 indicating an overall increase from the previous month, and a reading below 50 indicating an overall decrease. The index was released on 5 November 2025.

Risks to the global growth outlook remain firmly skewed to the downside due to concerns over: (a) a potential resurgence of trade tensions and the imposition of new tariffs, (b) persistent policy uncertainties, and (c) heightened geopolitical stress affecting supply chains.

Most central banks monitored by the Bangko Sentral maintained a cautious monetary policy stance amid elevated uncertainty. In November 2025, the Reserve Bank of Australia, Bank Negara Malaysia, the Bank of England, Bank Indonesia, and the People's Bank of China kept their key policy rates unchanged as they continued to evaluate the effects of previous policy actions amid persistent uncertainty.

Selected thematic article

Inflation-at-Risk for the Philippines^{1,2}

Extreme inflation episodes can undermine price stability and threaten broader macroeconomic stability. For inflation-targeting central banks such as the Bangko Sentral ng Pilipinas (BSP), understanding the risks associated with extreme inflation outcomes is critical to achieving price stability. However, focusing solely on point estimates or conditional mean projections is insufficient to fully understand inflation dynamics. Economic relationships may vary depending on the state of the economy—for example, whether inflation is low or high. Thus, quantifying tail risks allows policymakers to implement proactive and appropriate monetary policy interventions to better manage extreme inflationary episodes.

This article discusses an Inflation-at-Risk (IaR) model for the Philippines to assess the risks of extreme inflation episodes and examine potential nonlinear economic relationships across inflation outcomes. Using quantile regression within an open-economy Phillips Curve framework, the analysis identifies the influence of macroeconomic and financial factors on different points of the inflation distribution.

Specifically, the analysis aims to: (a) identify the macroeconomic drivers of extreme inflation outcomes across forecast horizons, (b) quantify nonlinear relationships between risk factors and inflation across the conditional distribution, and (c) generate probabilistic inflation forecasts that inform policymakers about the likelihood of inflation deviating from the target range.

Model specification

The IaR model is grounded in an open-economy Phillips Curve framework. It specifies the τ -th quantile of 12-month-ahead inflation, $\hat{Q}_\tau(\pi_{t+12}|x_t)$, the primary focus of this analysis, as a linear function of (a) current inflation (π_t), capturing inflation persistence; (b) weighted inflation expectations (π_t^{exp}), reflecting forward-looking price-setting behavior; (c) the output gap ($ygap_t$), representing demand-driven inflation pressures; (d) Dubai crude oil prices (π_t^{oil}), capturing energy-related supply shocks; (e) the trade-weighted food price index (π_t^{food}), reflecting global food supply shocks; (f) the credit gap ($cgap_t$), indicating the potential impact of credit conditions on inflation; and (g) the peso-dollar exchange rate (er_t), capturing exchange rate pass-through effects.

Equation 1:

$$\hat{Q}_\tau(\pi_{t+12}|x_t) = \hat{\beta}_{0,\tau} + (1 - \hat{\beta}_{1,\tau})\pi_t + \hat{\beta}_{1,\tau}\pi_t^{exp} + \hat{\beta}_{2,\tau}ygap_t + \hat{\beta}_{3,\tau}\pi_t^{oil} + \hat{\beta}_{4,\tau}\pi_t^{food} + \hat{\beta}_{5,\tau}cgap_t + \hat{\beta}_{6,\tau}er_t$$

Empirical approach

This study employed a three-step empirical approach to construct the IaR model. First, quantile regression coefficients were estimated to identify the effect of explanatory variables on different points of the conditional inflation distribution. Second, inflation quantiles were constructed using the estimates to generate predictions for key quantiles (from the 10th to the 90th percentile) of future inflation. Lastly, a skewed t-distribution was fitted to the estimated quantiles to derive full predictive density functions and calculate probabilities for various inflation outcomes.

Following Franta and Vlček (2025), this study adopted non-crossing quantile constraints to address challenges associated with the relatively short data sample available for the Philippines. These constraints ensure a logical ordering of forecasts across quantiles—for example, that the 10th percentile does not exceed the median forecast, which, in turn, does not exceed the 90th percentile. By linking tail estimates to the typically more stable estimation of the median, this approach provided additional information that helped address the instability of tail estimates for conditional quantiles and improved overall model robustness.

To construct confidence bands for the quantile regression estimates, following López-Salido and Loria (2024), the study employed the stationary “blocks-of-blocks” bootstrap method of Politis and Romano (1994). This approach is suitable for time-series data with non-symmetric statistics, such as quantile regression coefficients, and preserves time dependence that a naive bootstrap would disrupt.

The model is estimated using monthly data from June 2009 to October 2025, yielding 196 observations. This sample period captures the post-Global Financial Crisis era and includes significant inflation episodes, allowing the model to capture extreme inflation outcomes. *Table 1* presents the data used to estimate *Equation 1*.

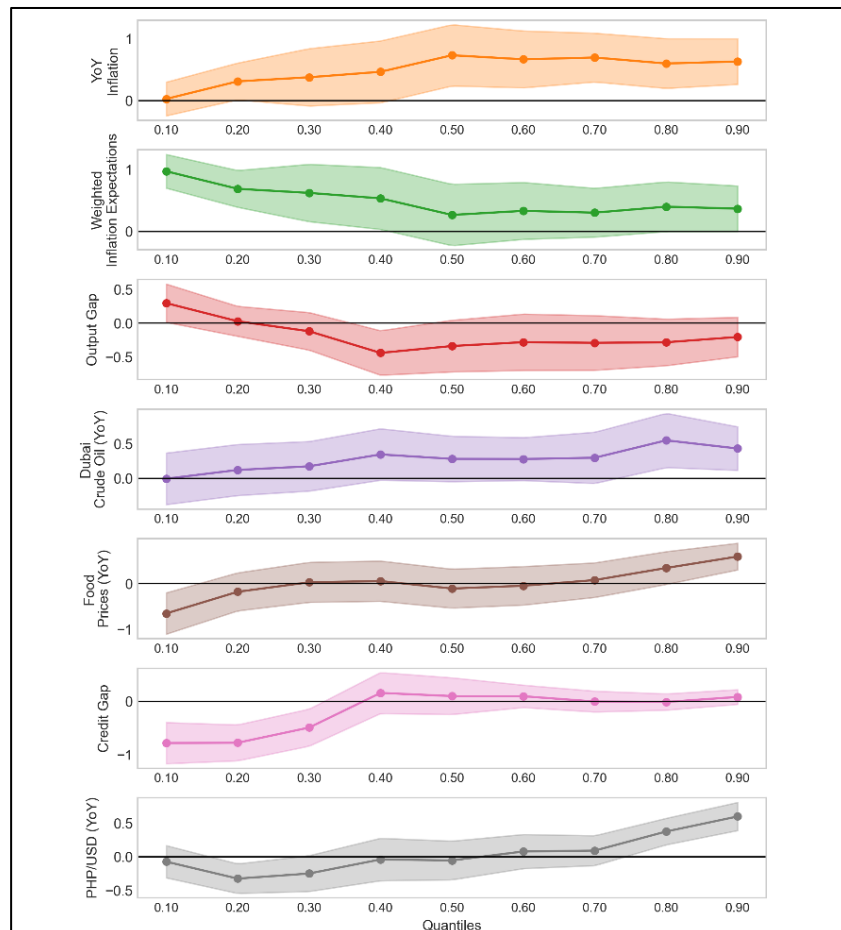
Table 1
Data Definition and Sources

Indicator	Notation	Data definition	Data source
Dependent variable			
12-month-ahead inflation (%)	π_{t+12}	year-on-year (y-o-y) change in Consumer Price Index (CPI)	Philippine Statistics Authority (PSA)
Regressors			
Current inflation (%)	π_t	y-o-y change in CPI	PSA
Weighted inflation expectations for the current year and the next year (%)	π_t^{exp}	weighted sum of expectations for the current year and the next year	Asia-Pacific Consensus Survey
Output gap (%)	$ygap_t$	extracted via multivariate filter	Staff estimates
Dubai crude oil prices (% change)	π_t^{oil}	y-o-y change in Dubai crude oil prices	Organization of the Petroleum Exporting Countries, via CEIC Data
Trade-weighted world food index (% change)	π_t^{food}	y-o-y change in trade-weighted world food index	Staff estimates
Credit gap (%)	$cgap_t$	outstanding loans to households and firms extracted via one-sided Hodrick-Prescott filter	Staff estimates
Bilateral peso-dollar exchange rate (% change)	er_t	y-o-y change in nominal exchange rate	Bangko Sentral ng Pilipinas, via CEIC Data

Results and discussion

I. Quantile regression coefficients

Figure 1
Nonlinearities in the 12-Month-Ahead Inflation Distribution
October 2025



Source: Bangko Sentral ng Pilipinas staff calculations

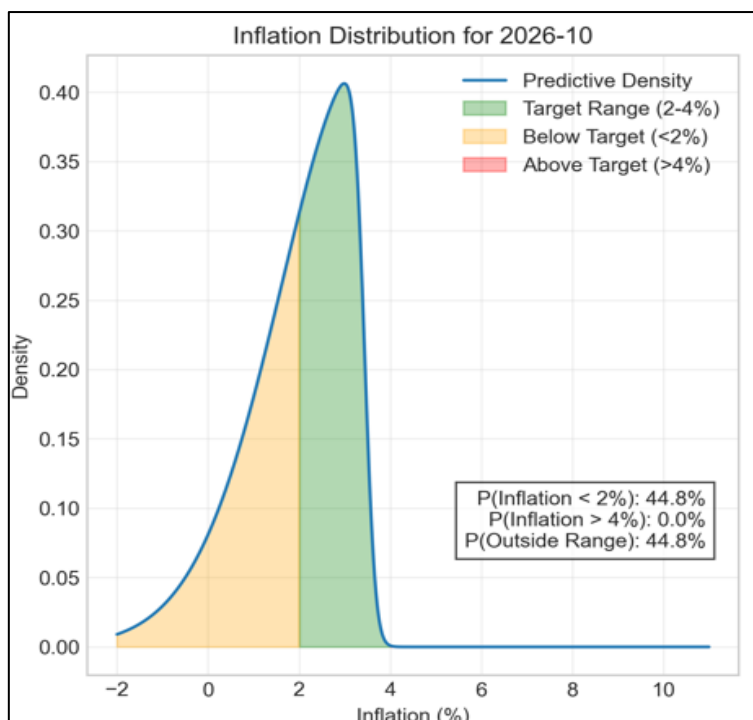
The estimated quantile regression coefficients for 12-month-ahead inflation reveal significant nonlinearities at higher inflation quantiles (*Figure 1*), with important implications for understanding inflation risks in the Philippines.

- **Inflation expectations matter more than current inflation in explaining future inflation during low-inflation episodes. However, at higher inflation quantiles, current inflation becomes more important.** This shows that price-setting behavior becomes less forward-looking during episodes of high inflation.
- **The effect of exchange rate movements intensifies at the upper end of the inflation distribution.** It had a significant coefficient of 0.60 at the 90th percentile. Thus, peso depreciation has a stronger impact on upside inflation risk, consistent with findings for other emerging markets (Banerjee et al., 2024; Caselli & Roitman, 2016).

- **World oil inflation is insignificant during low-inflation periods but becomes a major driver of upside risk at higher quantiles.** It had a significant coefficient of 0.43 at the 90th percentile. Consistent with the broader literature, oil price changes tend to have a larger effect during high-inflation episodes (De Santis & Tornese, 2023; Garzon & Hierro, 2021; López-Salido & Loria, 2024).
- **The impact of global food inflation is strongest at the upper tail.**³ It had a coefficient of 0.59 at the 90th percentile. This is particularly relevant for the Philippines, where food accounts for nearly 38 percent of the Consumer Price Index (CPI) basket.
- **The output gap and the credit gap are generally insignificant across most quantiles for 12-month forecasts.** This suggests minimal influence on inflation risks relative to external commodity and exchange rate factors.⁴

II. Inflation distribution forecasts and risk assessment

Figure 2
Predictive Densities for October 2026
 October 2025



Percentile	10 th	50 th	90 th
October 2026	0.3	2.2	3.2

Source: Bangko Sentral ng Pilipinas staff calculations

The IaR model generates predictive density distributions for the 12-month-ahead inflation, providing a comprehensive view of inflation risks relative to the BSP’s 3.0 percent \pm 1.0 percentage point target range. *Figure 2* presents the estimated predictive density for October 2026 based on data as of October 2025. The estimated distribution may evolve as new data are incorporated into the estimation.

For October 2026, the forecast shows a 10th percentile of 0.3 percent, a median of 2.2 percent, and a 90th percentile of 3.2 percent. The total probability of inflation falling outside the target range is 44.8 percent, with downside risks dominating. Inflation is projected to fall below 2.0 percent with a 44.8 percent probability, while the probability of exceeding 4.0 percent is essentially zero (0.0 percent). Factors limiting upside inflation risks include benign inflation outturns and expectations, as well as moderate global oil and food inflation.

Conclusion

The analysis reveals significant nonlinearities in the Philippine inflation process across different points of the distribution.

Evidence of nonlinear effects from inflation risk factors supports the adoption of a risk management approach that complements central forecast analysis with tail risk assessment. At the 12-month horizon, upside inflation risk is primarily driven by inflation persistence, peso depreciation, and shocks to global oil and food prices. The study also highlights the nonlinear nature of exchange rate pass-through to inflation, which becomes disproportionately stronger during high-inflation episodes. This finding underscores the need for more forceful policy responses when inflation pressures intensify. In contrast, downside inflation risks are most strongly influenced by inflation expectations, particularly in an environment of sustained benign inflation.

Looking ahead, the estimated predictive distributions for 2026 point to a continued emergence of downside inflation risks, driven by subdued global commodity prices and recent low inflation outturns. A substantial probability (i.e., 44.8 percent by October 2026) indicates that inflation may fall below the lower end of the government's target range. These results provide valuable inputs for monetary policy deliberations by broadening the information set beyond baseline projections. Overall, the findings highlight the importance of sustained risk-based surveillance and a flexible, data-driven approach to monetary policy to effectively safeguard price stability.

ENDNOTES

- 1/ A full version of the study is forthcoming. **Authors:** Shereena S. Salas, Sarah Jane A. Castañares, Zeno Ronald R. Abenoja, Dennis M. Bautista, and Jasmin E. Dacio.
- 2/ **Disclaimer:** The views expressed in this article are those of the authors and do not represent the official position of the Bangko Sentral ng Pilipinas.

- 3/ The trade-weighted food price specification yields a counterintuitive negative coefficient at the 10th percentile (-0.65), suggesting that higher global food prices are associated with lower year-on-year inflation in low-inflation scenarios. This result contradicts economic theory and likely reflects the measurement properties of the trade-weighted index rather than an actual economic relationship. Using an alternative specification (i.e., Philippine CPI-weighted world food prices) eliminates this anomaly while preserving most relationships observed in the baseline specification.
- 4/ However, there is a statistically significant negative relationship between the credit gap and inflation at lower quantiles—a counterintuitive result, given that credit growth is typically expected to raise inflation. This negative coefficient can be understood by considering the model’s specification and recent economic conditions. The credit gap is included in the model as a first difference, implying that the coefficient captures the impact of credit growth acceleration on inflation. The post-pandemic period was marked by both a deceleration in credit growth (a negative first difference) and high inflation. Thus, the model likely reflects this recent correlation—where the large, negative values of the differenced credit gap coincided with high inflation—producing a negative coefficient. This suggests that the extraordinary economic conditions of the pandemic may be overshadowing the more typical, positive relationship between credit and inflation.

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