MONETARY POLICY REPORT

JUNE 2025

Foreword

The Bangko Sentral ng Pilipinas (BSP) aims to promote low and stable inflation conducive to a balanced and sustainable growth. To help achieve this, it employs an inflation targeting framework for monetary policy.

Transparency is a key feature of this approach. The BSP regularly communicates its policy decisions and stance through the *Monetary Policy Report*. This report provides stakeholders with updated assessments of inflation and macroeconomic trends, helping the public better understand and track the BSP's commitment to the inflation target.

The report now shows 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 that illustrate possible risks to the outlook. Compared with traditional fan charts, these alternative scenarios provide a clearer view of inflation risks and uncertainty. Further details are provided in *Box Article 1: Understanding the BSP's Central Projections and Alternative Scenarios*.

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

The Monetary Board approved this *Monetary Policy Report* at its meeting on 3 July 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 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.[1] The inflation target for 2025–2028 is 3.0 percent ± 1.0 ppt.[2]

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 acknowledge the limitations to the effectiveness of monetary policy and recognize that deviations from the inflation target may occur due to factors beyond the control of the central bank. Under the BSP's inflation targeting framework, these exemptions include inflation pressures arising from (a) volatility in the prices of agricultural products; (b) natural calamities or events that affect 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 the meeting on 23 June 2025, the DBCC, in consultation with the BSP, decided to retain the inflation target of 3.0 percent ± 1.0 ppt for 2025–2028.

The Monetary Board

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

Chairman and Governor

Eli M. Remolona, Jr.

Members

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

The Advisory Committee

The Advisory Committee was established as an integral part of the institutional setting for inflation targeting. It is tasked to deliberate, discuss, and make recommendations on monetary policy to the Board. Like the MB, the Committee met seven times in 2024.

Chairman

Eli M. Remolona, Jr.
Governor

Members

Zeno Ronald R. Abenoja
Deputy Governor
Monetary and Economics Sector

Chuchi G. Fonacier
Deputy Governor
Financial Supervision Sector

Elmore O. Capule
Deputy Governor
Corporate Services Sector

Edna C. Villa
Senior Assistant Governor
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Dennis D. Lapid
Officer-in-Charge
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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 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	3 (Thursday) (MB meeting no. 2)		
May		8 (Thursday) (3 April 2025 MB meeting)	
June	19 (Thursday) (MB meeting no. 3)		
July			4 (Friday) (MPR II, June 2025)
August	28 (Thursday) (MB meeting no. 4)		
September			12 (Friday) (MPR III, August 2025)
October	9 (Thursday) (MB meeting no. 5)		
November		6 (Thursday) (9 October 2025 MB meeting)	
December	11 (Thursday) (MB meeting no. 6)		26 (Friday) (MPR IV, December 2025)

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List of Acronyms and Abbreviations

BOE	Bank of England
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
CPI	Consumer Price Index
CTP	Comprehensive Tariff Program
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
EO	Executive Order
EU	European Union
FAVAR	factor-augmented vector autoregression
GDP	gross domestic product
GPMN	Global Projection Model Network
GS	government securities
IMF	International Monetary Fund
INI	inflation news indices
IRF	impulse response function
MB	Monetary Board
Meralco	Manila Electric Railroad and Light Company
MISSI	Monthly Integrated Survey of Selected Industries
MPR	Monetary Policy Report
NEER	nominal effective exchange rate
OPEC+	Organization of Petroleum Exporting Countries Plus
PAMPh	Policy Analysis Model for the Philippines
PCA	principal component analysis
PMI	Purchasing Managers' Index
ppt	percentage point
PSA	Philippine Statistics Authority
PSEi	Philippine Stock Exchange Index
RA	Republic Act
REER	real effective exchange rate
RRP	reverse repurchase
RRR	reserve requirement ratio
SVAR	structural vector autoregression
T-bill	Treasury bill
T-bond	Treasury bond
TDF	term deposit facility
TPI	trading partners index
UAE	United Arab Emirates
US	United States
US Fed	US Federal Reserve
VaPI	value of production index

VAR	vector autoregression
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 5.25 percent during the 19 June 2025 monetary policy meeting. The rates on the overnight deposit and lending facilities were correspondingly adjusted to 4.75 percent and 5.75 percent, respectively.

The Monetary Board's decision reflects the more subdued inflation outlook for 2025 and a slightly higher inflation path for 2026 and 2027. The central projection shows average inflation at 1.6 percent in 2025, 3.4 percent in 2026, and 3.3 percent in 2027. Inflation is expected to remain below the 2.0–4.0 percent target range until Q4 2025. In 2026, inflation is projected to rise, primarily due to higher electricity rates and base effects. By 2027, inflation is anticipated to ease slightly but remain above 3.0 percent as global commodity prices stabilize.

The risks surrounding the inflation outlook remain broadly balanced. Both high- and low-inflation scenarios indicate below-target inflation for 2025. For 2026 and 2027, inflation is seen to remain within the 2-4 percent target range under the low-inflation scenario. The high-inflation scenario could exceed the target as it considers potential supply-side pressures, including increases in electricity rates, higher oil prices, and adjustments to rice tariffs. Conversely, the low-inflation scenario accounts for the possible impact of United States (US) policies on global trade and investment, which could dampen domestic economic activity.

Inflation expectations remain well-anchored. Results from the BSP's June 2025 survey of external forecasters indicate that analysts expect inflation to remain within the target range from 2025 to 2027. Upside risks include geopolitical tensions, trade disruptions, commodity supply shocks, higher import costs, and possible increases in electricity rates. Downside risks include lower rice prices and weaker domestic and global growth.

The outlook for domestic economic activity has moderated in the near term. Recent forecasts indicate lower-than-expected investments and net exports in Q1 2025, as well as a downward revision to global gross domestic product (GDP) growth assumptions due to the impact of global trade policies. These factors are partly offset by stronger household spending and government consumption in early 2025. Economic activity is expected to accelerate in 2027, supported by lower real policy rates.

The Monetary Board sees the need for a more accommodative monetary policy stance. Emerging risks to inflation from rising geopolitical tensions and external policy uncertainty require closer monitoring. The Board will also continue to assess the impact of prior monetary policy adjustments.

A. Economic outlook

I. Central projections

The inflation outlook moderates over the near term. Inflation is seen to remain below the target range through Q4 2025. Compared with the previous round, the 2025 inflation projection is significantly lower. Contributing to the decline are lower domestic food prices, particularly rice, and lower global oil prices.

Inflation is projected to settle within the 2.0-4.0 percent range in 2026 and 2027. Higher electricity rates and possible base effects are expected to drive inflationary pressures in 2026, peaking in Q3 2026. Inflation will then ease slightly in 2027, though remaining above the target's midpoint, as global commodity prices stabilize.

Table 1
Inflation could fall below target for 2025
but is projected to settle within target for 2026 and 2027
central projections, in percent

	February 2025 Monetary Policy Report[a]	June 2025 Monetary Policy Report[b]
2025	3.5	1.6
2026	3.5	3.4
2027	–	3.3

Source: Bangko Sentral ng Pilipinas estimates

[a] Central projections from the 13 February 2025 monetary policy meeting
[b] Central projections from the 19 June 2025 monetary policy meeting

The domestic economy will continue to expand, albeit at a slower pace compared with the previous assessment. Economic growth is projected to remain within the DBCC's target range of 5.5–6.5 percent in 2025. However, it is anticipated to settle below the 6.0–7.0 percent target range in 2026 before rebounding to within the target range in 2027.[3]

The sharp deterioration in the global outlook could lead to slower investments and net exports, weighing on domestic growth. Nevertheless, higher household and government consumption partly offset this decline.

These headwinds are also partially offset by the BSP's monetary policy easing. However, uncertainty surrounding global economic policies, particularly the potential impact of US policies on global trade and investment, poses an additional risk to domestic growth.

The economy is anticipated to expand below its potential over the near term amid subdued domestic and external demand-side pressures. Forecasts from the BSP's

[3] Based on the DBCC meeting on 23 June 2025, the growth target is set at 5.5–6.5 percent for 2025 and 6.0–7.0 percent for 2026 and 2027.

Policy Analysis Model for the Philippines (PAMPh) indicate that the output gap is expected to close toward the end of 2027, driven by increases in real wages. Recovering productivity from economic activity and infrastructure investments, as well as structural reforms that support increased investment and business activity, could also sustain potential output growth.

The exchange rate is projected to settle within the Development Budget Coordination Committee's assumptions for 2025–2027.[4] Over the near term, this reflects the general weakness of the US dollar against major currencies in early 2025. This also reflects in part the higher real policy rate differential between the Philippines and the US, given lower domestic inflation. However, the recent peso depreciation amid geopolitical tensions in the Middle East partly offsets this effect. The central projections incorporate market expectations of a 50-basis point (bp) reduction in the US federal funds rate in 2025, a further 25-bp cut in 2026, and a 25-bp hike in 2027.

II. Key forecast assumptions

External factors

The global economy is expected to decelerate, with the global output gap projected to turn negative in Q2 2025. This outlook is based on the May 2025 forecasts from the Global Projection Model Network (GPMN) and the April 2025 World Economic Outlook (WEO) of the International Monetary Fund (IMF). These assumptions factor in the 90-day pause in the implementation of higher US tariffs and the renegotiation of bilateral trade terms with the US.

- The US economy contracted in Q1 2025 but is still expected to grow by 1.5 percent during the year, driven by a few successful trade deals and delays in tariff implementation.

- Growth in the euro area remains constrained at 1.0 percent due to low consumer and investor sentiment amid escalating disputes between the European Union (EU) and the US.

- Following a temporary tariff reduction agreement with the US, China's economy is anticipated to grow by 4.9 percent in 2025. However, growth could ease to 3.9 percent in 2026 due to weak global demand and lingering issues in the property market.

- The growth forecast for Japan has been revised downward for 2025, as a weakening global economy and disruptions in global supply chains are likely to weigh heavily on the export-oriented economy.

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

Table 2

World GDP growth is expected to remain stable but modest

in percent

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	2.9	2.7
2026	2.7	2.4
2027	–	2.8

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

International crude oil prices are assumed to be lower. Global crude oil assumptions are based on futures data as of 16 June 2025, with domestic oil prices expected to broadly track the trend in world oil prices. Dubai crude oil prices have fallen since February 2025 but have risen anew due to concerns over the Iran-Israel conflict, which could disrupt supply from the Middle East. However, expectations of lower global oil demand following the implementation of new US tariffs offset this increase. Additionally, member countries of the Organization of the Petroleum Exporting Countries Plus (OPEC+) reaffirmed and accelerated their planned production hikes through July 2025, which could boost global oil inventories and exert downward pressure on prices.

Table 3

Global oil prices are assumed to decelerate

average; in US$ per barrel

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	76.75	70.75
2026	72.20	67.94
2027	–	67.12

Sources: Bloomberg; Bangko Sentral ng Pilipinas estimates

Domestic inflation could breach the 2.0–4.0 percent target range if Dubai crude oil prices average US$80.0 per barrel in 2026 and US$110.0 per barrel in 2027. These projections consider direct effects only and exclude potential second-round impacts.

Table 4

Inflation could exceed the target if crude oil prices average above US$80 per barrel in 2026, above US$110 per barrel in 2027

in percentage points

Year	2025	2026	2027
Central projection for inflation (US$)	1.6	3.4	3.3
60	1.4	2.8	3.3
70	1.5	3.5	3.5
80	1.7	4.1	3.6
90	1.8	4.7	3.8
100	1.9	5.1	3.9
110	2.0	5.6	4.0
120	2.0	6.0	4.1
130	2.1	6.4	4.2

Source: Bangko Sentral ng Pilipinas estimates

The scenarios assume oil prices will remain at these levels starting July 2025.

World non-oil prices are expected to increase. According to the IMF's April 2025 WEO, non-fuel commodity prices are expected to rise in 2025 to levels higher than projections made in the previous round. Prices of precious metals, such as gold, have increased since the beginning of the year, driven by strong demand for safe havens amid geopolitical tensions and uncertainty. Base metals prices faced demand pressures from front-loading ahead of tariffs but declined in the first week of April as trade tensions escalated.

Table 5

Non-oil prices are expected to rise due to higher prices for beverage and metals

in percent

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	2.5	4.4
2026	-0.1	0.2
2027	–	-0.9

Sources: World Economic Outlook (WEO) (International Monetary Fund [IMF], October 2024); WEO (IMF, January and April 2025)

Assumptions for the US federal funds rate are based on futures prices as of 16 June 2025. Market expectations suggest a cumulative 50-bp cut in 2025, a further 25-bp reduction in 2026, and a 25-bp hike in 2027. While US inflation remains close to the US Federal Reserve (US Fed)'s target over the near term, concerns about heightened inflation persist. Businesses are expected to pass on some of the rising

costs from higher import levies to consumers. Analysts likewise observed signs of renewed consumer caution amid uncertainty over tariff policy.

Table 6
Projections for federal funds rate are based on latest futures prices
end-period; in percent

	February 2025 Monetary Policy Report	June 2025 Monetary Policy Report
2025	3.9	3.9
2026	3.7	3.3
2027	–	3.5

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 target RRP rate is set at 5.5 percent and the reserve requirement ratio (RRR) at 5.0 percent from June 2025 through the end of 2026.

Annual minimum wage increases of 5.0 percent from 2025 to 2027 were incorporated. These projections are consistent with historical minimum wage adjustments observed from 2015 to 2024.

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

The central projections accounted for legislated tax adjustments. These adjustments include the annual increases in excise taxes on alcoholic beverages and cigarettes under Republic Act (RA) No. 11467 and increases in tobacco product taxes under RA No. 11346.

Utility rate adjustments were incorporated into the central projections. These include approved water rate increases for the Manila Water Company and Maynilad Water Services. Electricity rate adjustments were also accounted for, such as the Manila Electric Railroad and Light Company (Meralco)'s higher pass-through charges due to a new gas supply agreement, the collection of outstanding reserve market charges, and rate changes resulting from the nullification of cap prices and under-recoveries by the National Grid Corporation of the Philippines.

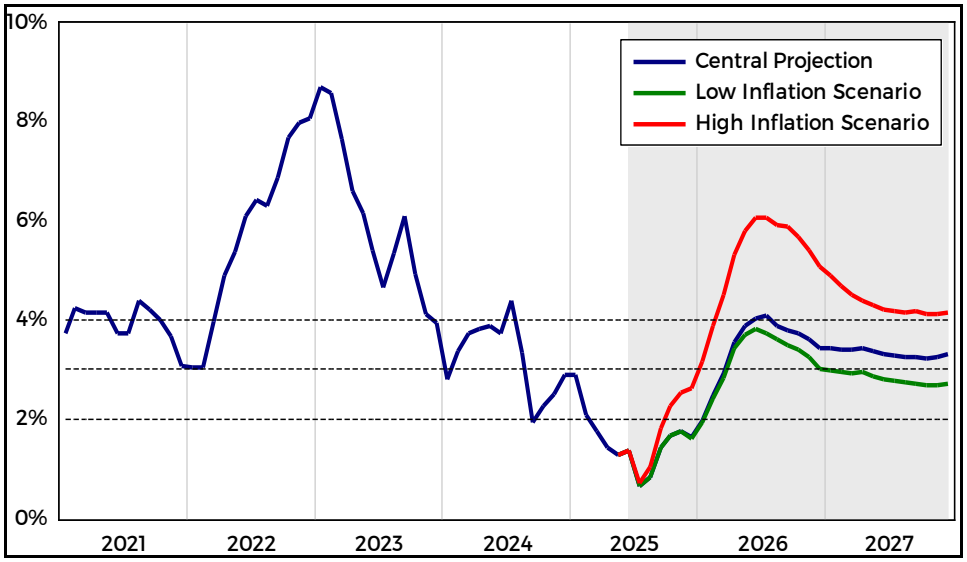
The recent reduction in tariffs on rice imports is expected to have a moderating effect on inflation until end-2025.[5,6] This measure is anticipated to lower the landed cost of imported rice. The direct impact is expected to have spillover effects, which will likewise reduce the prices of domestically produced rice.

III. Alternative scenarios[7]

There are two alternative scenarios, with relatively low probabilities, on the emerging risks surrounding the inflation outlook. The high inflation scenario considers supply-side factors that could push inflation above the central projections. These factors include upward adjustments in electricity rates, rising oil prices, and higher rice tariffs. In contrast, the low inflation scenario explores the potential impact of US policies on global trade and investment, which could bring inflation below the central projections.

Central Projection and Alternative Scenarios

year-on-year; in percent



Source: Bangko Sentral ng Pilipinas

High inflation scenario: Upward adjustments in electricity rates, rising oil prices, and a possible reversion to higher rice tariffs could lead to a more elevated inflation path. Inflation is expected to breach the upper end of the target range starting Q2 2026 and continue to settle above the target until 2027.

[5] 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 bring down the cost of imported rice. The reduced rice tariff will be in effect from 7 July 2024 to 2028, subject to a review every four months.

[6] DEPDev also announced the approval of the new Comprehensive Tariff Program (CTP) from 2024 to 2028. The CTP includes tariff reductions on other essential items in the energy and manufacturing sectors while retaining the prevailing low rates on key agricultural products.

[7] **For more information, see** *Box Article 1: Understanding the BSP's Central Projections and Alternative Scenarios.*

Electricity rates could increase further over the forecast horizon. While the central projections already account for the impact of several electricity rate petitions, possible additional adjustments have been reflected in the alternative scenario.

Oil prices could drive inflation higher. Concerns over potential disruptions to the global oil supply have pushed the spot price of Dubai crude oil above US$70.0 per barrel. The alternative scenario assumes oil prices would rise due to a shutdown in Iranian oil production. Israeli attacks on oil infrastructure could halt all oil exports from Iran, reducing global oil supply by 3.4 million barrels per day (4.0 percent), other things being equal. This would raise oil prices to around US$90.0 per barrel, remaining at that level through the end of 2025 before gradually declining until 2027.

Higher rice tariff is expected to add upward pressure to inflation. The rice import tariff was reduced from 35.0 percent to 15.0 percent in July 2024 under EO No. 62. The alternative scenario assumes a gradual increase in rice tariff to 20.0 percent in September 2026, 25.0 percent in September 2027, and 35.0 percent in September 2028.

Low inflation scenario: The domestic impact of US policies on global trade and investment could lower inflation. This scenario is based on the IMF's risk assessment in its April 2025 WEO reference forecast. It considers the effects of global divergences, trade war, heightened global uncertainty, and tighter financial conditions, all of which could result in wider global imbalances and a fall in global output relative to the IMF's central projections. The decrease in global activity would be disinflationary, with global headline inflation expected to decline by 0.4 ppts by 2027.

Table 7
Impact on world gross domestic product
in percentage points

	2025	2026	2027
Global divergences	-0.1	-0.1	-0.1
Trade war	-0.2	-0.4	-0.5
Global uncertainty	-0.5	-0.9	-0.6
Tighter financial conditions	-0.5	-0.6	-0.4
Total	**-1.3**	**-2.0**	**-1.6**

Source: World Economic Outlook Box 1.1 (International Monetary Fund, April 2025)

Under these considerations, domestic economic activity and inflation are estimated to be lower, with the impact peaking in 2027.

Under the high inflation scenario, inflation is projected to breach the upper end of the target at 5.2 percent in 2026 and 4.3 percent in 2027. Meanwhile, under the low inflation scenario, inflation is expected to decelerate below the midpoint of the target range by 2027.

Table 8
The high inflation scenario will result in a breach in the upper end of the inflation target in 2026
in percent

	Low Inflation Scenario	Central Projections	High Inflation Scenario
2025	1.6	1.6	1.8
2026	3.2	3.4	5.2
2027	2.8	3.3	4.3

Source: Bangko Sentral ng Pilipinas estimates

Based on the central inflation projection and alternative scenarios and using a 90.0-percent confidence interval, the probability of inflation falling below the target in 2025 has increased significantly to 76.8 percent from 9.1 percent in the previous round. Nevertheless, the likelihood of inflation settling within the target in 2026 and 2027 remains dominant at above 50.0 percent.

Table 9
Probability distribution of inflation forecasts
in percent

	Pr(<2%)	Pr(2–4%)	Pr(>4%)
2025	76.8	23.2	0.0
2026	9.0	53.6	37.4
2027	13.2	50.6	36.2

Source: Bangko Sentral ng Pilipinas estimates

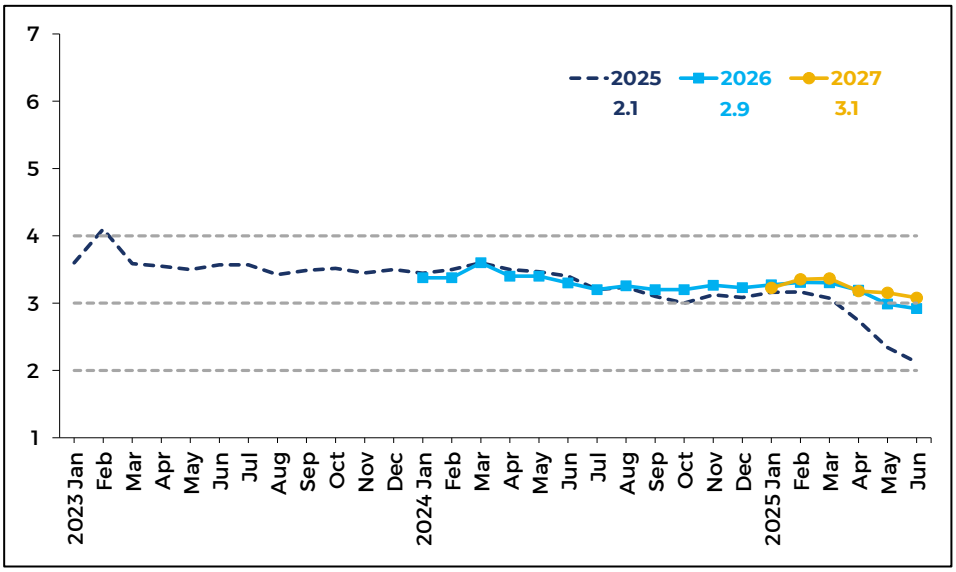
IV. Inflation expectations

The June 2025 BSP's Survey of External Forecasters (BSEF) indicated that analysts expect inflation to remain within the 2.0–4.0 percent target range over the medium term as food price pressures ease. The mean inflation forecast for 2025 fell to 2.1 percent (from 2.3 percent in May), while forecasts for 2026 and 2027 declined to 2.9 percent and 3.1 percent, respectively.

Figure 2

Inflation expectations remain well-anchored

mean forecast for the full year; in percent



Source: Bangko Sentral ng Pilipinas

This was based on forecasts provided by 23 respondents.
The survey was conducted from 5–18 June 2025.

Analysts cited several upside risks to inflation, including geopolitical tensions, trade disruptions, commodity supply shocks, higher import costs, and possible increases in electricity rates. Some also expect base effects and rising global oil prices to push inflation higher in 2026.

On the downside, lower rice prices and weaker domestic and global growth were identified as key factors that could temper inflation.

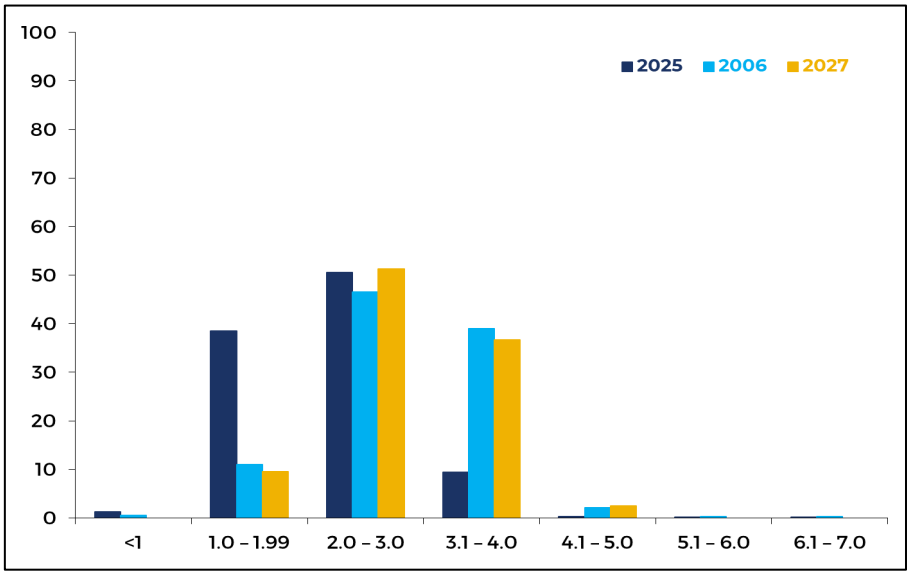
Given these developments, the probability that inflation will remain within the target range slightly declined. For 2025, analysts assigned a 60.0-percent chance (from 66.6 percent in May) that inflation will stay within target. Meanwhile, the likelihood of inflation falling below the target range increased slightly to 38.5 percent (from 34.3 percent). For 2026 and 2027, the probabilities that inflation will remain within the target range are at 85.5 percent (from 88.3 percent) and 87.9 percent (from 94.0 percent), respectively.

Most analysts now expect the BSP to cut policy rates by 25–75 bps in 2025, 25–50 bps in 2026, and to either hold or further ease by 25–100 bps in 2027.

Figure 3

The probability of inflation settling within the target range in 2025–2027 slightly decreased

2025–2027



Source: Bangko Sentral ng Pilipinas Survey (June 2025)

Probability distributions were averages of those provided by 18 out of 22 respondents.

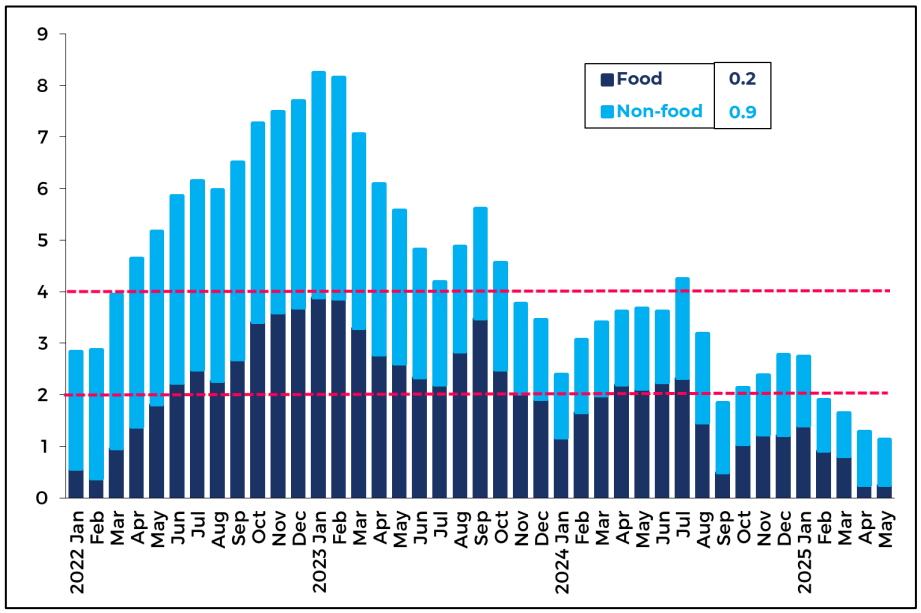
B. Current developments

I. Price conditions

Headline inflation continued to moderate in May, settling at 1.3 percent, which is below the target range of 2.0–4.0 percent. The easing was mainly driven by declines in electricity rates and domestic petroleum prices, which helped reduce non-food inflation. Meanwhile, food inflation remained subdued and unchanged at 0.7 percent. Rice prices sustained their decline, supported by lower international prices, ample supply from the ongoing dry season harvest, and direct government interventions to stabilize prices.

These downward pressures were partly offset by higher inflation in other food categories, including meat, fish, fruits and nuts, vegetables, dairy, and eggs. The May 2025 inflation outcome fell within the BSP's month-ahead forecast range of 0.9–1.7 percent.

Figure 4
The average year-to-date inflation is at the low end of the target range
2018=100
in percent



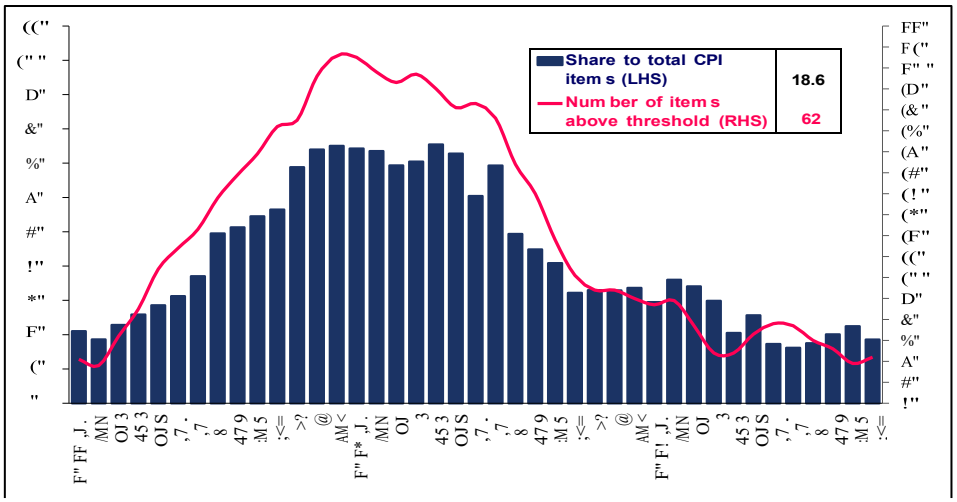
Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

Out of the 315 items in the consumer basket, over half (54.3 percent) recorded inflation below 2.0 percent. The number of items with inflation above the upper end of the target range rose slightly from 59 in April to 62 in May. However, these items accounted for a smaller share of the overall CPI basket— 18.6 percent of total weight, down from 22.5 percent previously. Meanwhile, 69 items posted inflation rates within the target range.

Figure 5

A lower share of items in the CPI basket breached 4.0 percent

2018=100



Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas

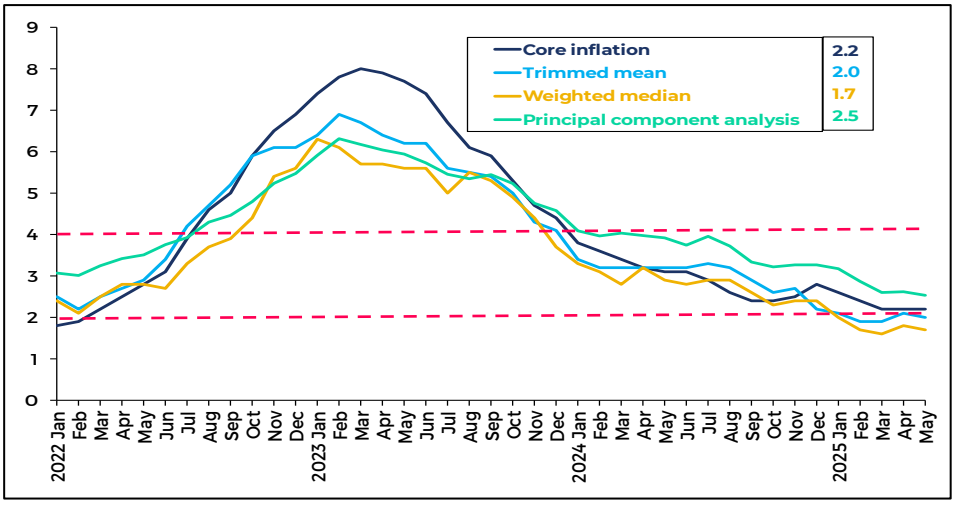
RHS – right-hand side
LHS – left-hand side

Core inflation remained low, indicating the absence of significant demand-driven price pressures. Both official and BSP-computed measures of core inflation continued to decelerate for the third consecutive month in May. Core inflation excludes 10 volatile food and energy items from the headline index.

Figure 6

Core inflation continued to signal absence of demand pressures

year-on-year; in percent

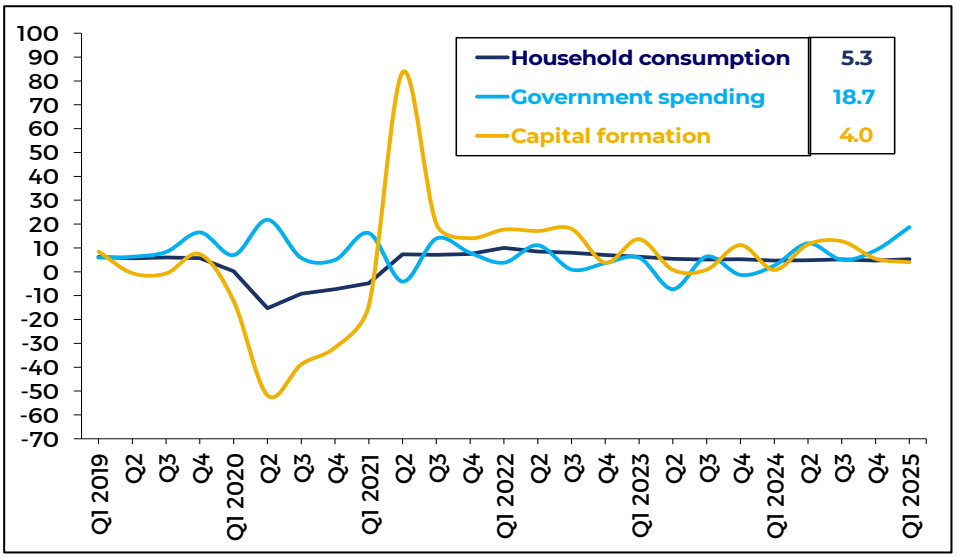


Sources: Philippine Statistics Authority; Bangko Sentral ng Pilipinas staff calculations

II. Demand conditions

Output expanded by 5.4 percent in Q1 2025, moderating from the previous quarter and falling below the government's 2025 growth target range of 6.0–8.0 percent. Nonetheless, the Philippines recorded the second-fastest growth among Asian economies that reported data for the period. Vietnam led with a 6.9 percent growth rate, while China registered the same growth as the Philippines at 5.4 percent. Indonesia, Malaysia, and Singapore followed with 4.9 percent, 4.4 percent, and 3.8 percent, respectively.

Figure 7
The economy posted modest growth despite higher government spending
at constant 2018 prices; growth rates in percent



Source: Philippine Statistics Authority

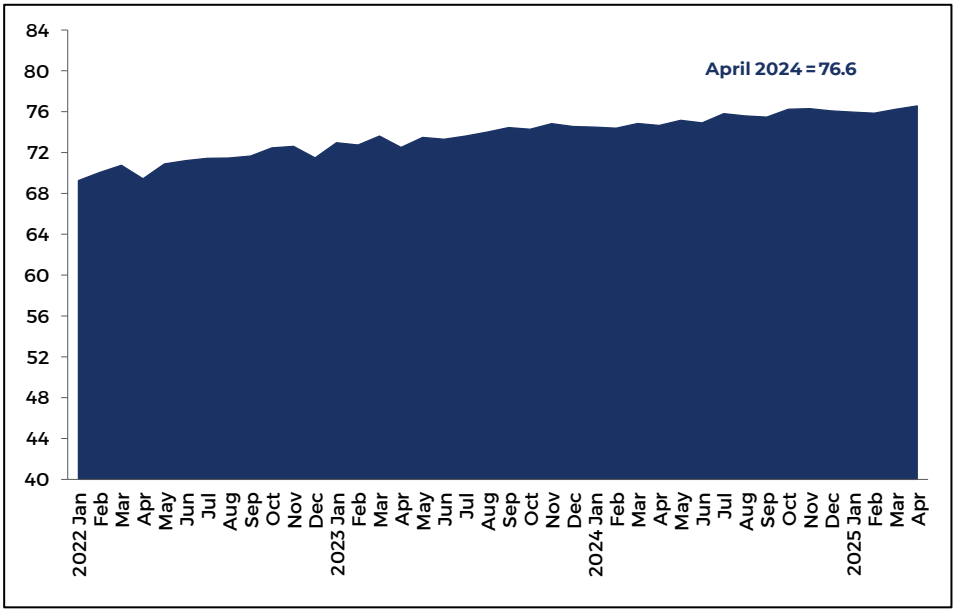
Robust domestic demand primarily supported growth. Household consumption accelerated, driven by increased spending on food and non-alcoholic beverages, transport, and restaurant and hotel services. This rise was facilitated by easing inflation and stable labor market conditions. Targeted government cash transfers under social protection programs provided additional support.

Government expenditure also increased, reflecting higher maintenance and operating expenses early in the year. Spending related to preparations for the 2025 midterm elections, as well as a modest rise in personnel expenses following the second tranche of salary adjustments for government employees, contributed to this increase.

Investment activity strengthened, led by residential construction and a rebound in durable equipment. Public construction gained momentum, driven by carryover of infrastructure projects, emergency and disaster-related civil works, and key infrastructure initiatives that were exempt from the election spending ban.

Capacity utilization improved. Based on the PSA's Monthly Integrated Survey of Selected Industries (MISSI), 56.6 percent of surveyed establishments operated at or above 80.0 percent capacity level in April 2025, up from 55.7 percent in the previous month.[8]

Figure 8
Capacity utilization continued to improve
2018=100
preliminary; in percent

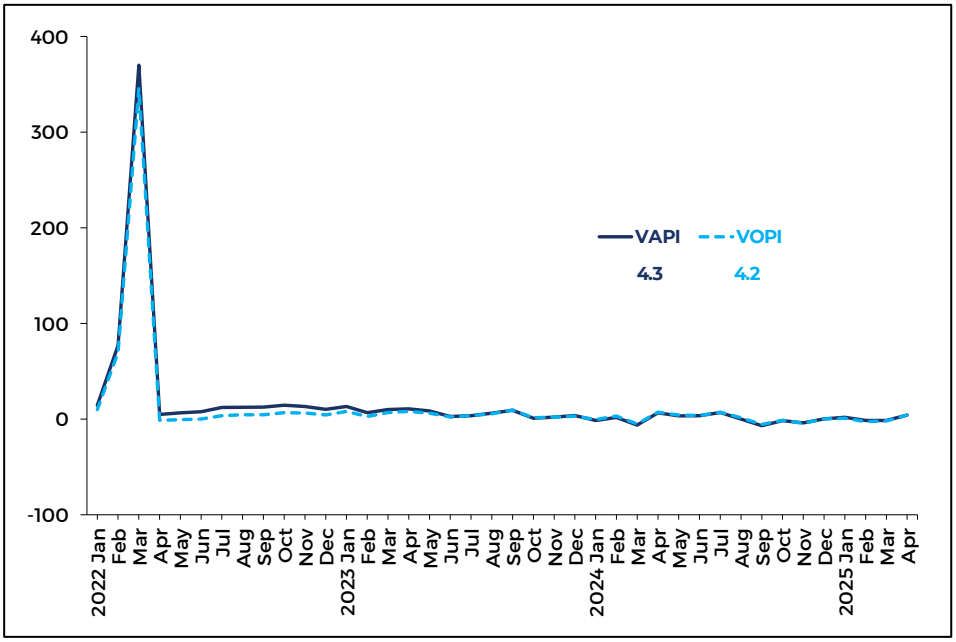


Source: Philippine Statistics Authority

Preliminary results from the MISSI showed a rebound in factory output in April 2025, led by growth in food production and the manufacture of basic metals and transport equipment. The value of production index (VaPI) also expanded during the month.

[8] Monitoring the response rate helps the BSP assess the quality of reported data. The response rate of surveyed establishments increased from 53.3 percent (preliminary) in March 2025 to 53.6 percent (preliminary) in April 2025. The revised response rate for March 2025 was 71.8 percent.

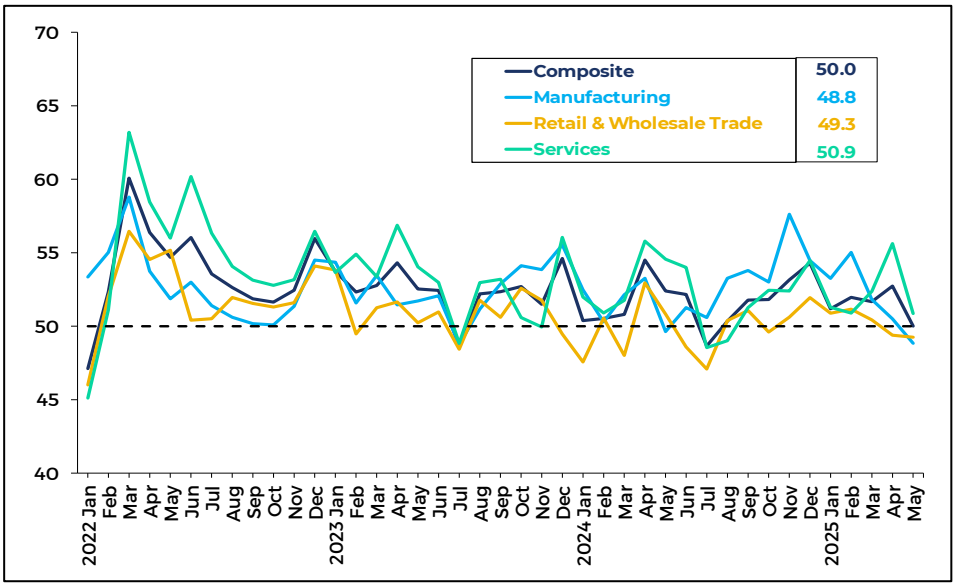
Figure 9
Factory output and the value of production rebounded
2018=100
year-on-year; in percent



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

The purchasing managers' index (PMI) reflected stable but cautious business sentiment. The May 2025 reading stood at 50.0 index points, indicating broadly stable business conditions. Business activity softened in the manufacturing, retail, and wholesale sectors amid weaker demand, while the services sector expanded at a slower pace. Looking ahead, retail, wholesale, and services managers expect further moderation in business conditions in June due to post-election spending adjustments. Manufacturing firms remain cautious, citing ongoing trade uncertainties.

Figure 10
The PMI remained stable amid cautious sentiment
in percent



Source: Philippine Institute of Supply Management

III. Supply conditions

On the production side, services continued to be the primary growth driver in Q1 2025. The expansion was led by wholesale and retail trade, motor vehicle and motorcycle repairs, financial and insurance activities, and transportation and storage. However, growth moderated due to softer gains in financial services and the normalization in tourism-related sectors, particularly in accommodation and food services.

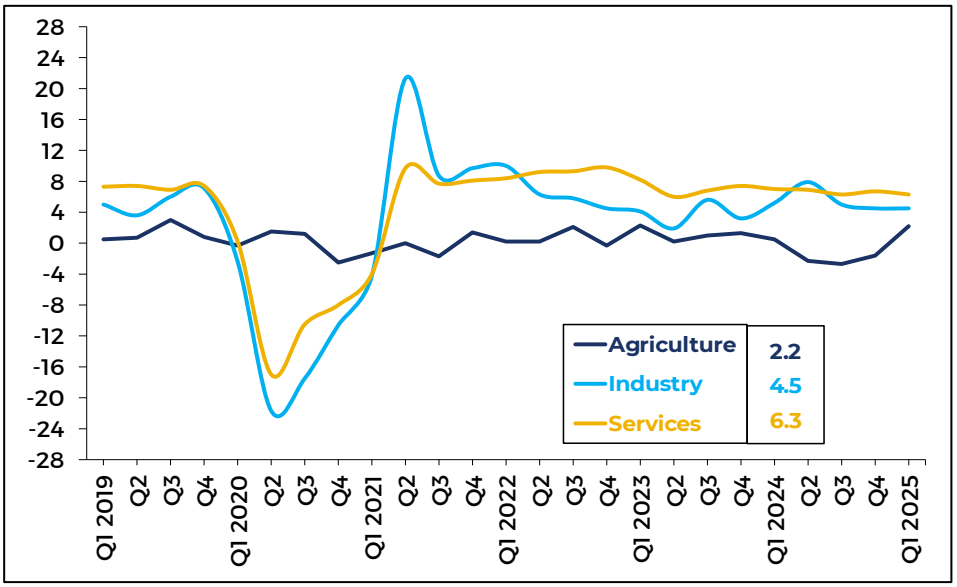
Growth in the industry sector also decelerated across all subsectors, except for mining and quarrying. Despite the slowdown, manufacturing and construction continued to underpin industry performance.

Agriculture registered improved performance, supported by favorable climate and weather conditions. Growth was led by poultry and egg production, followed by sugarcane and *palay*.

Figure 11

Production output moderated despite the improvement in agriculture

at constant 2018 prices; in percent

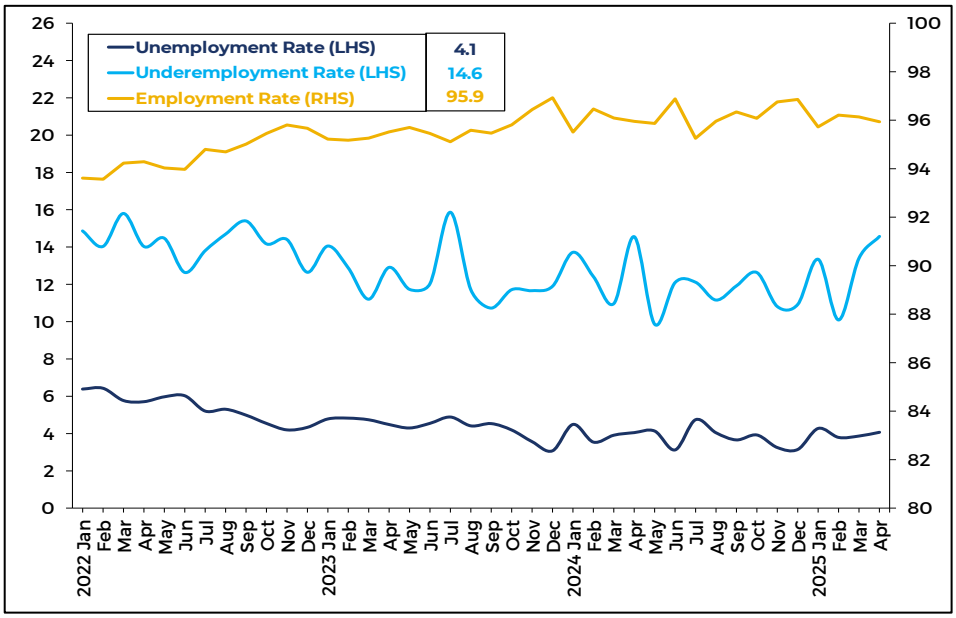


Source: Philippine Statistics Authority

Global crude oil prices declined in March 2025, reflecting heightened uncertainty. Evolving US tariff policies and their impact on trade and oil demand are expected to weigh on the global economy in the near term. Additional downward pressure on oil prices came from OPEC+ plans to unwind voluntary supply cuts starting April 2025 and the potential easing of sanctions on Russian oil should a ceasefire in Ukraine materialize.

Labor market conditions suggest easing growth momentum. The unemployment rate slightly rose to 4.1 percent in April 2025, as labor force growth outpaced employment gains. The year-to-date (y-t-d) average unemployment rate stood at 4.0 percent, which is below the 10-year average of 4.8 percent. Meanwhile, the underemployment rate stayed at 14.6 percent, with the number of underemployed individuals rising modestly to 7.1 million from 7.0 million a year earlier.

Figure 12
Labor market indicators showed mixed improvements
in percent



Source: Philippine Statistics Authority
RHS – right-hand side
LHS – left-hand side

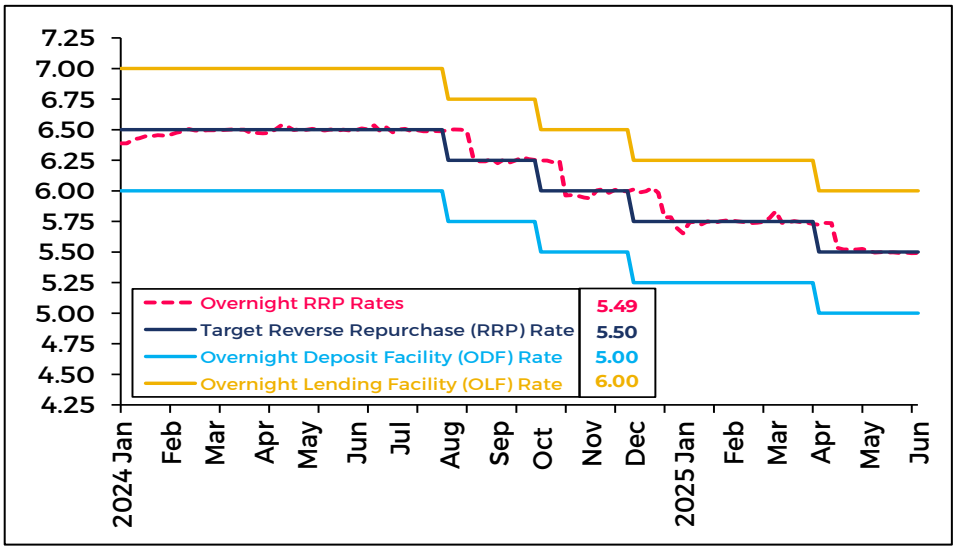
IV. Monetary operations

As of 4 June 2025, the BSP's monetary operations absorbed ₱1.6 trillion in liquidity. The BSP-SF accounted for the largest share at 44.0 percent of total placements. The TDF made up 12.0 percent, while the overnight RRP and overnight deposit facilities comprised 28.5 percent and 15.4 percent, respectively. These operations effectively kept the overnight RRP rate aligned with the target RRP rate.

Figure 13

The overnight RRP rate remains aligned with the target RRP rate

in percent



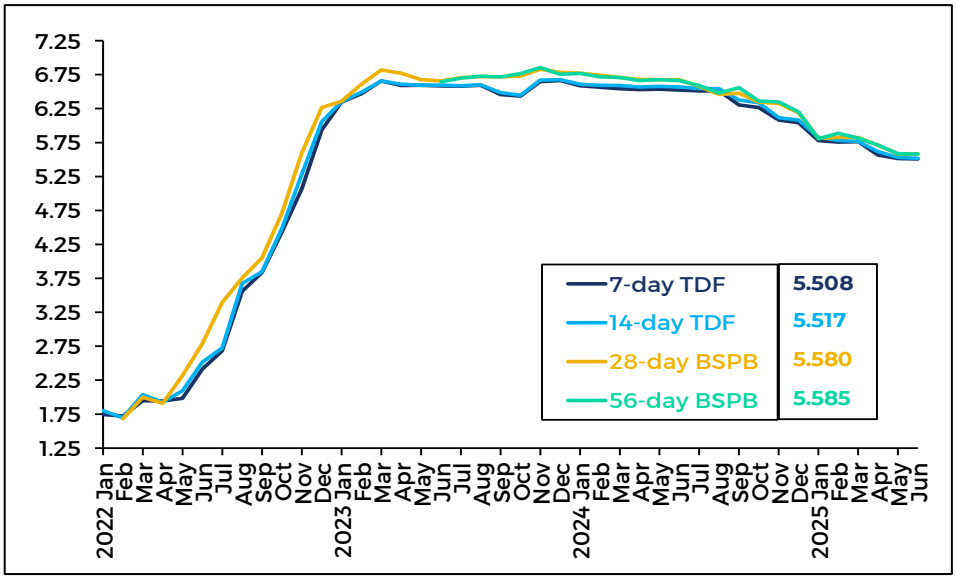
Source: Bangko Sentral ng Pilipinas

Interest rates in the TDF and BSP bills (BSPB) fully reflected the cumulative 100-bp policy rate reduction since August 2024. During the 4 June 2025 TDF auction, rates declined to 5.5083 percent for the 7-day tenor and 5.5173 percent for the 14-day tenor. Similarly, the 30 May 2025 BSPB auction saw rates fall to 5.5801 percent for the 28-day bill and 5.5846 percent for the 56-day bill.

Figure 14

The term deposit facility and BSP bill rates fully reflected policy rate cuts

in percent

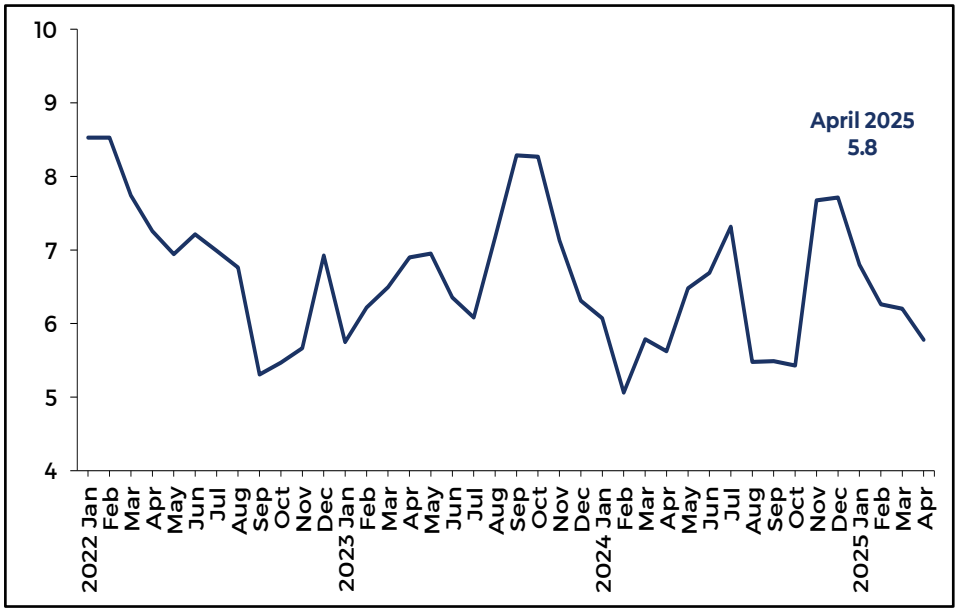


Source: Bangko Sentral ng Pilipinas

V. Financial conditions

Domestic liquidity (M3) grew slowly. This reflected sustained bank lending to non-financial private corporations and households, alongside increased net claims on the government amid ongoing borrowing. A rise in currency in circulation also contributed to M3 growth.

Figure 15
Domestic liquidity expanded at a slower pace
year-on-year; growth rate in percent

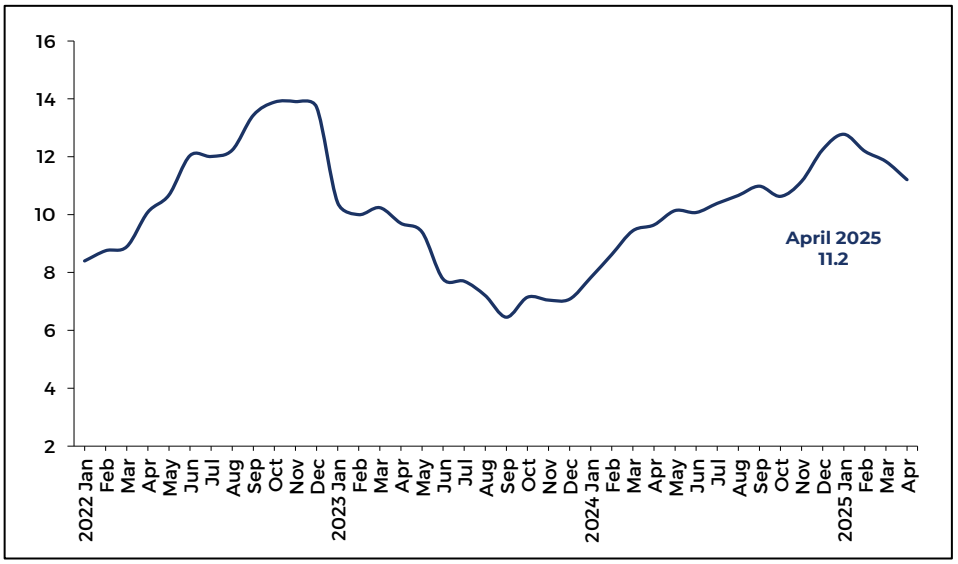


Source: Bangko Sentral ng Pilipinas

Bank lending increased in April 2025, albeit at a slower pace, supported by continued credit flows to key industries. Outstanding loans of universal and commercial banks, net of RRP placements, grew by 11.2 percent in April, slightly below the 11.8-percent growth in March.

Loans to residents grew more slowly, while loans to non-residents declined. The moderation was driven by slower expansion in lending to the real estate, wholesale and retail trade, manufacturing, financial and insurance, information and communication, and transportation sectors. In contrast, consumer loans accelerated, mainly due to increased credit card lending.

Figure 16
Growth in bank lending slightly slowed down
year-on-year; growth rate in percent



Source: Bangko Sentral ng Pilipinas

Credit standards for enterprises remained broadly unchanged in Q1 2025, based on the modal approach.[9] Meanwhile, the diffusion index (DI) showed fewer banks tightened standards compared with the previous quarter. Looking ahead, both methods suggest that lending standards will remain steady, citing stable economic outlooks and borrower risk profiles.

On loan demand, the modal approach showed a broadly unchanged percentage of banks reporting steady demand for enterprise loans in Q1 2025. The DI method indicated a net increase in loan demand from firms, attributed to higher inventory financing needs and improved client economic expectations. Over the next quarter, modal responses suggest that banks anticipate steady loan demand. Meanwhile, DI results point to a net rise, supported by higher inventory financing needs, improved economic outlooks, and increased short-term financing requirements.

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

Table 10

Credit standards remain broadly unchanged as fewer banks report tightening

	2022				2023				2024				2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
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
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
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**
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
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
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**24.0**	**15.2**	**14.6**	**14.9**	**13.3**	**6.5**	**6.4**	**12.0**	**9.8**	**13.0**	**11.8**	**16.7**	**10.9**
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**
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
Number of banks responding	**50**	**46**	**48**	**47**	**45**	**46**	**47**	**50**	**51**	**54**	**51**	**54**	**55**

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).

For household loans, the modal approach indicated that fewer banks maintained their credit standards in Q1 2025. The DI method reflected a net tightening due to concerns over worsening portfolio profitability and borrower profiles. Looking ahead, the modal approach suggests that most banks expect consumer loan standards to remain unchanged, whereas the DI approach anticipates a net tightening, reflecting concerns over portfolio quality.

Household loan demand remained steady based on the modal approach and rose according to the DI, supported by attractive financing terms and increased consumption. Over the next quarter, more than half of surveyed banks expect steady demand for household credit, according to the modal approach. However, DI results suggest a net increase in demand, supported by rising consumption and more favorable credit terms.

Table 11

Banks tightened credit standards for household loans

	2022				2023				2024				2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
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
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
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**
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
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
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
Diffusion index for credit standards	**-7.5**	**-5.4**	**-2.7**	**0.0**	**-6.1**	**-6.1**	**0.0**	**-5.9**	**0.0**	**0.0**	**2.9**	**0.0**	**2.6**
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**
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
Number of banks responding	**40**	**37**	**37**	**35**	**33**	**33**	**32**	**34**	**35**	**38**	**35**	**38**	**38**

Source: Bangko Sentral ng Pilipinas

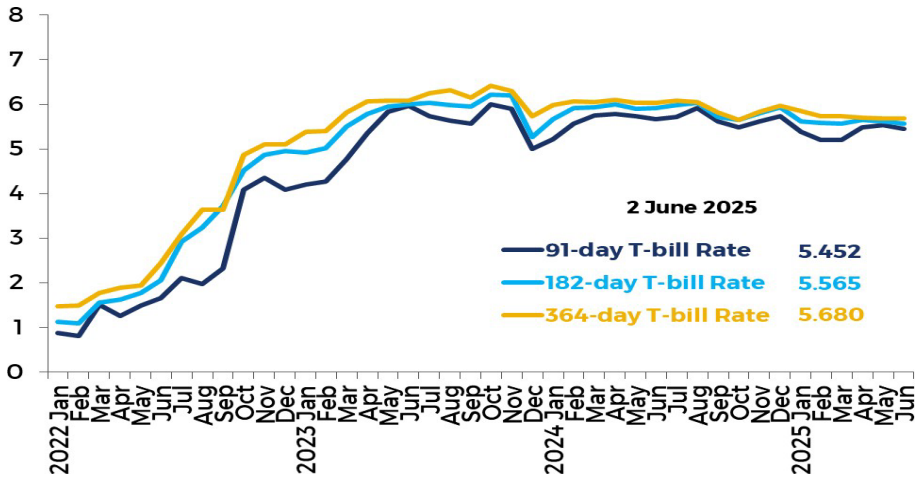
A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared with those that eased (net tightening), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared with those that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

VI. Capital market

The primary government securities market in early June 2025 reflected expectations of further easing in inflation. The Bureau of the Treasury (BTr) raised ₱28.6 billion through Treasury bill (T-bill) auctions, exceeding the initial ₱25.0 billion offering. Investor demand was strong, with total tenders reaching ₱116.3 billion, or 4.7 times the initial offer. The BTr also doubled the accepted non-competitive bids for the 364-day T-bills.

On 3 June 2025, the BTr fully awarded ₱30.0 billion of the reissued 5-year Treasury bond (T-bond) (FXTN 07-70), which was two times oversubscribed, with total tenders amounting to ₱59.9 billion. The average yield for the 5-year T-bond declined by 5.6 bps to 5.887 percent relative to its previous reissue on 29 April 2025.

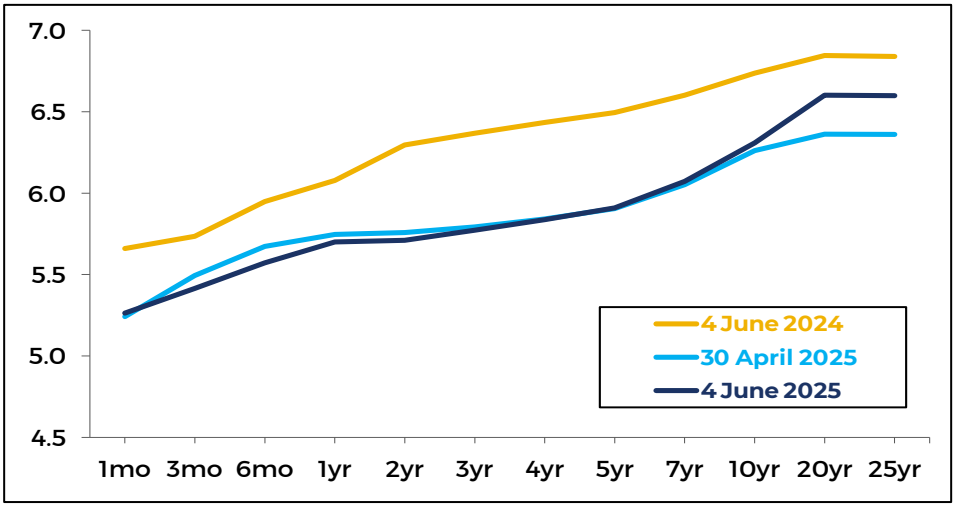
Figure 17
Treasury bill rates declined amid expectations of lower inflation
in percent



Source: Bureau of the Treasury

In the secondary market, yields of government securities were mixed, as participants weighed prospects of further BSP policy easing against evolving inflation dynamics. As of 4 June 2025, the spread between the 10-year and 1-year rates of government securities (GS) widened to 60.9 bps (from 51.5 bps at the end of April). Meanwhile, the spread between the 10-year and 5-year rates widened to 40.0 bps (from 35.6 bps). These shifts stemmed from a rise in the 10-year rate, alongside a decrease in the 1-year rate and a marginal increase in the 5-year rate.

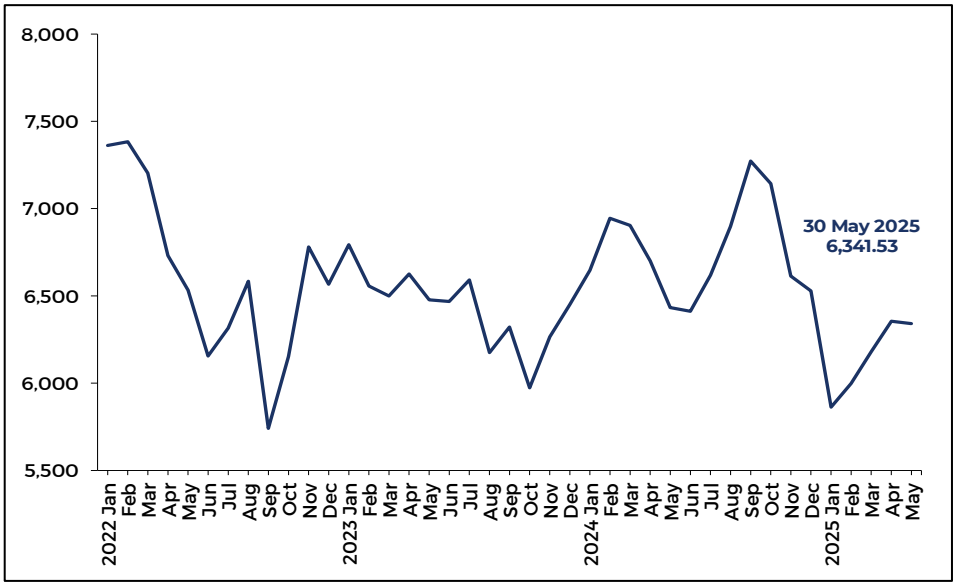
Figure 18
Secondary market rates of government securities are mixed
in percent



Source: Bloomberg

The Philippine Stock Exchange Index declined marginally in May 2025. This decline was due to investor concerns over weaker-than-expected Q1 GDP growth, potential US credit rating downgrades, and the possibility of new US tariffs on EU imports. Nonetheless, positive US trade developments and lower domestic inflation helped temper risk aversion.

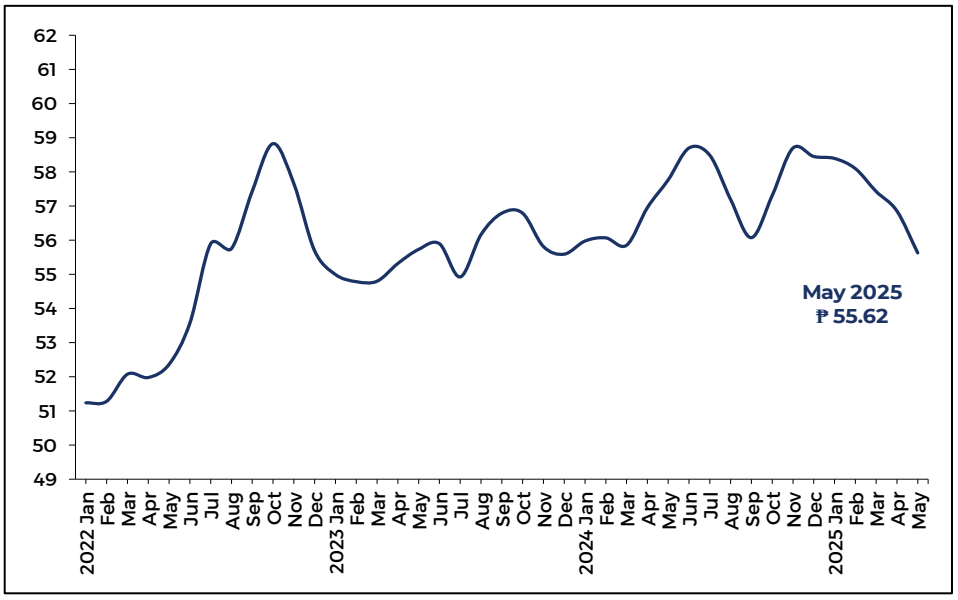
Figure 19
Weaker growth during the first quarter weighed down the stock market
index points



Sources: Philippine Stock Exchange; Bangko Sentral ng Pilipinas

The peso appreciated in May 2025. This increase was supported by a weaker US dollar due to soft US data, a five-year low in domestic inflation, higher overseas Filipino remittances, and a narrowing trade deficit. However, a below-target GDP growth, lower gross international reserves, a weaker foreign direct investment, and a higher balance of payments deficit partially offset these gains. As of 4 June 2025, the peso closed at ₱55.77/US$1, appreciating by 3.72 percent y-t-d relative to the end of December 2024.

Figure 20
The peso appreciated amid a weakening US dollar
PHP/USD



Source: Reference Exchange Rate Bulletin

On a real trade-weighted basis, the peso lost competitiveness against the basket of currencies of all trading partners and those in developing countries, owing to nominal appreciation and a widening inflation differential. Conversely, the peso gained competitiveness relative to currencies of advanced economies.[10,11]

VII. External developments

Global economic activity remained subdued, with divergent performance across sectors and regions. In May 2025, the JP Morgan All-Industry Output Index showed a modest uptick from the low in the previous month. However, momentum remained weak due to a sharp slowdown in emerging markets, especially China, alongside sluggish manufacturing activity and lingering trade-related concerns. India outperformed, while contractions in China, the United Kingdom, Brazil, and Canada weighed on the overall outlook. Despite some positive signs from the US and the eurozone, prospects stayed muted amid ongoing trade tensions. [12]

[10] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates (REERs) of the peso against the currencies of 14 major trading partners of the Philippines, which include 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 across 10 currencies of partner developing countries, which include China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, UAE, and Thailand.
[11] 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.
[12] JP Morgan Global Composite Purchasing Managers' Index (https://www.pmi.spglobal.com). A diffusion index is calculated for each survey variable. The index is the sum of the percentage of "higher" responses and half the percentage of "unchanged" responses. The indices range from 0 to 100, with a reading above 50 indicating an overall increase compared with the previous month, and below 50 indicating an overall decrease. This was released on 5 June 2025.

Figure 21

The JP Morgan Global All-Industry Output Index showed a modest uptick, but momentum remained weak

index points

Source: Markit Economics

In the April 2025 WEO Update, the IMF lowered its global growth forecast for 2025 to 2.8 percent, down 0.5 ppts from the January projection. The downgrade reflects (a) resurgent trade protectionism, which disrupts supply chains and dampens investment; (b) heightened policy uncertainty due to uncoordinated fiscal and trade measures in major economies; and (c) persistent inflationary pressures, complicating monetary policy amid uneven demand-supply dynamics.

Advanced economies, including the United States, face mounting challenges as tighter financial conditions and slower consumption offset earlier resilience. Emerging markets and developing economies are encountering additional headwinds from escalating trade tensions and restrictive measures, with China's slowdown intensifying regional spillovers.

The IMF also flagged asymmetric downside risks to the projection: (a) escalating trade tensions, with new tariffs and non-tariff barriers potentially fragmenting global markets; (b) procyclical fiscal policies from expansionary measures in major economies that could risk fueling inflation and currency volatility; and (c) geopolitical conflicts from prolonged disruptions to energy and commodity markets. Although trade agreements or structural reforms could boost growth, such outcomes seem increasingly unlikely under current conditions.

Most central banks monitored by the BSP had a cautious tone in their monetary policy stance amid elevated uncertainty. Some expressed readiness to pursue further rate cuts as economic conditions evolve. In their May 2025 meetings, the Bank of England, the People's Bank of China, the Reserve Bank of Australia, Bank Indonesia, the Reserve Bank of New Zealand, and the Bank of Korea lowered their policy interest rates. Meanwhile, the Bank of Canada kept its policy rate unchanged.

Selected thematic articles

Box Article 1:

Understanding the BSP's Central Projections and Alternative Scenarios

The Bangko Sentral ng Pilipinas (BSP) produces a set of inflation and macroeconomic forecasts for each monetary policy meeting, drawing from the latest data, its workhorse macroeconomic models, and the collective judgment of its technical staff and management.

The central projection represents the BSP's view of the most likely path of inflation and domestic economic activity over the policy horizon. The central forecast depends on the baseline assumption for global and domestic economic conditions, as well as supply-side risks that are more likely to affect the inflation outlook.

External variables— such as world gross domestic product growth, foreign interest rates, international food prices, and Dubai crude oil prices— are treated as exogenous in the BSP's workhorse models. The assumptions for external growth and global food prices primarily reflect the projections of the International Monetary Fund in its World Economic Outlook and the Global Projection Model Network. Meanwhile, the central assumptions for the United States federal funds rate and Dubai crude oil prices are assumed to follow the futures market.

Domestic assumptions are based on comprehensive surveillance by various sector desks, with a focus on labor, fiscal, food, utility, and transport sectors. The assessment is complemented by regular discussions with the BSP's counterparts in other government agencies and the private sector.

These external and domestic assumptions, along with the identified supply-side risks, are reflected in the BSP's workhorse models to generate its central projection of the most likely path of inflation over the policy horizon. The central projections are then complemented by several alternative scenarios that could push inflation above or below the reference outlook.

This approach aligns with recommendations from the recent review of the Bank of England (BOE)'s forecasting, led by former Federal Reserve Chair Ben S. Bernanke. The Bernanke Report suggested that the BOE's Monetary Policy Committee candetermine which alternative scenarios to publish based on those it finds most informative for its policy decision. Publishing alternative scenarios alongside the baseline is expected to enhance public understanding of the risk management considerations behind the monetary policy decision.

In line with the release of alternative scenarios, the BSP will discontinue publishing the inflation fan chart. The Bernanke Report similarly recommended that the BOE

remove the fan chart from its communications, noting that it conveys limited value beyond the baseline and alternative scenarios and receives minimal public attention. For the BSP, detailed quantitative alternative scenarios can provide a more consistent approach to communicate the risks and uncertainty surrounding the inflation outlook compared with the inflation fan chart.

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Box Article 2:

Inflation News Indices: An Alternative Method for Monitoring Inflation[1]

Introduction

Monitoring inflation trends is essential for central banks, particularly those operating under an inflation-targeting framework, such as the Bangko Sentral ng Pilipinas (BSP). Recent advances in sentiment analysis and natural language processing have enabled innovative approaches to track inflation using real-time data sources, including point-of-sale transactions, online retail websites, internet searches, social media posts, and news articles.

This box article discusses the construction of novel indices developed by the BSP to monitor inflation trends using online media reports. Sourcing information from online news platforms offers advantages in timeliness and cost-effectiveness. Additionally, digital press coverage tends to be comprehensive, as media outlets typically report major developments affecting inflation.[2]

The BSP's inflation news indices (INIs) provide quantitative summaries of digital news coverage related to inflation and price movements. Unlike sentiment indices, the INIs do not associate inflation with positive or negative connotations. Instead, they offer insights into inflation trends as reported in Philippine online news and serve as supplementary tools for inflation surveillance.

Data sources

The news articles used in this study were sourced from selected Philippine media outlets, primarily from the business, finance, and economy sections.[3] The news database covers various periods, but the common period with available data from all outlets spans from January 2018 to the present.

To ensure relevance, articles were filtered using the keywords *inflation*, *price*, and *prices*. Only sentences containing these keywords were scored for index construction.

From these, 3,000 randomly selected sentences from relevant articles were annotated. Each sentence was labeled as 1 (indicating increasing inflation), -1 (decreasing inflation), or 0 (no change). This annotation process is critical for generating the indices and implementing further enhancements.

Index construction

Two approaches were used to construct the indices:

- **Lexicon-based sentiment analysis enhanced by reinforcement learning (INI-D index) [4]:** This method identifies words closely associated with increases or decreases in inflation based on the annotated dataset. Reinforcement learning is used to refine the lexicon.[5]

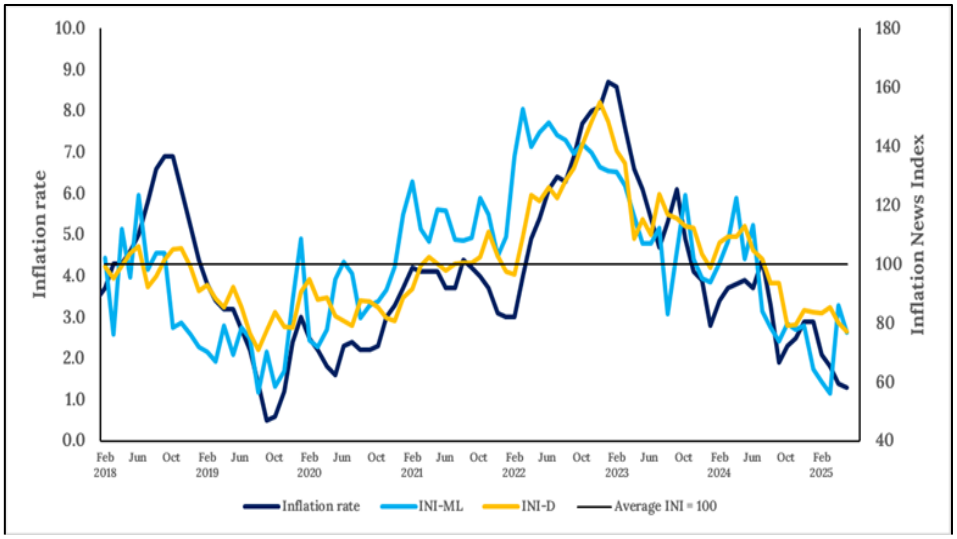
- **Machine learning with Long Short-Term Memory models (INI-ML index):** This approach applies a deep learning Long Short-Term Memory model to predict inflation trends from annotated sentences.[6]

Both methods score relevant sentences, aggregate the scores per article, and compile monthly indices. The INIs are normalized to have a mean of 100. Values above 100 indicate more frequent news coverage of rising inflation than the historical average, while values below 100 suggest fewer media reports on higher inflation compared with the historical norm.

Results

Figure 1

Inflation News Indices as of 31 May 2025



Source: Bangko Sentral ng Pilipinas–Department of Economic Research staff estimates

As shown in *Figure 1*, the INIs closely track actual inflation trends. For instance, during the relatively low inflation period of 2019–2020, the INIs remained below 100, reflecting fewer reports of rising inflation or prices. As inflationary pressures intensified from 2021 to early 2023, the INIs rose above 100, indicating increased media coverage of rising inflation. As inflation pressures subsided in the latter half of 2023, the indices declined. Since June 2024, both INIs have fallen below 100, consistent with low inflation outcomes. The most recent estimates for May 2025 show that the INIs remain below the historical average, suggesting a continued manageable inflation environment.

Conclusion

The INIs developed in this study enable policymakers to leverage news media for real-time insights into price trends and other factors influencing inflation. The results indicate that these indices reliably track inflation trends, serving as valuable tools for inflation surveillance.

These news-based indices offer a timely and cost-effective alternative to traditional surveys. Ultimately, the study contributes to the literature on the use of big data and advanced analytics for monitoring macroeconomic indicators.

ENDNOTES

1/ The authors of this box article are Ma. Ellysah Joy T. Guliman and Alan Chester T. Arcin. The study has been accepted for publication in the Conference Proceedings of the Central Bank of Sri Lanka International Research Conference 2024 and the Conference on Advanced Research Methods and Analytics 2024.

2/ Larsen et al. (2021) found that news topics are good predictors of inflation and expectations.

3/ The media outlets are Business Mirror, BusinessWorld, Manila Bulletin, Manila Standard, and Philippine Daily Inquirer.

4/ Lexicons refer to a predefined set of words usually grouped into classes. In this study, the classes correspond to either "increase" or "decrease" in inflation.

5/ To derive the lexicon from the annotated sentences, Pointwise Mutual Information is utilized to determine the set of words most associated with each of the two classes. Reinforcement learning is then used to refine the lexicon further.

6/ The study employs a Bidirectional Long Short-Term Memory model. This model categorizes sentences into three classes based on the direction of inflation: (a) increase, (b) decrease, and (c) no change.

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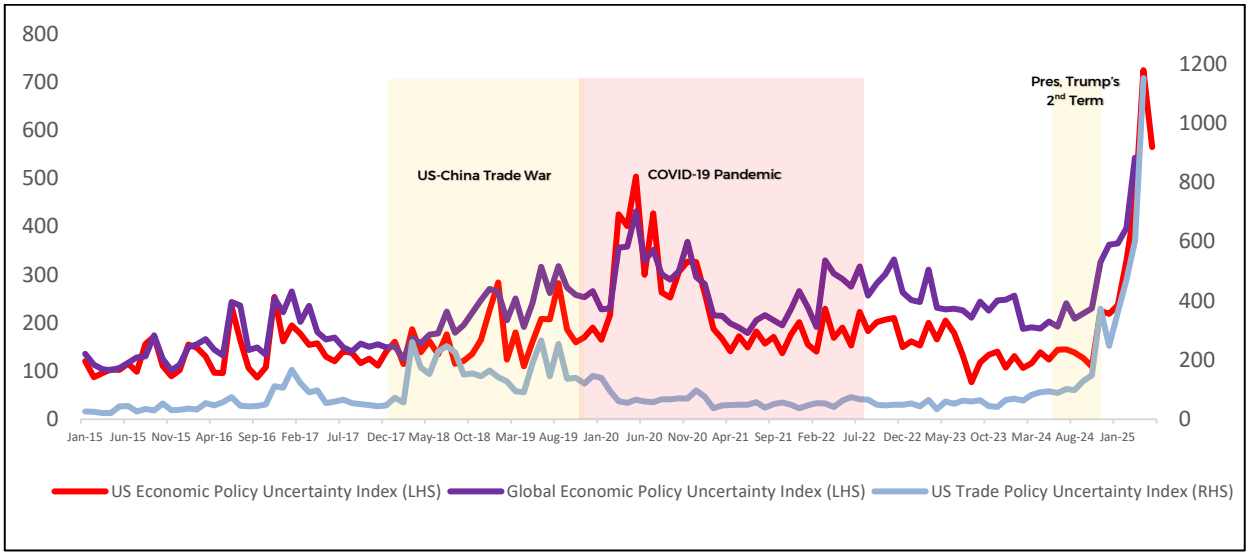
Box Article 3:

Implications of Global Uncertainty for the Philippine Economy[1]

Uncertainty has emerged at the forefront of the global economic landscape following the announcement of new tariff measures by the United States (US) and countermeasures from its trading partners. Although a 90-day tariff pause and prospects of bilateral negotiations provided partial relief to global financial markets, this relief may only be temporary. Ongoing geopolitical tensions in the Middle East are also seen to increase global uncertainty further. As shown in *Figure 1*, record-high levels of economic and trade policy uncertainty in the US, as well as global economic policy uncertainty, were observed starting in late 2024.

Figure 1
Monthly News-Based Uncertainty Indicators



Sources: Caldara et al. (2020); Baker et al. (2016)

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

For small open economies like the Philippines, this heightened environment of uncertainty— primarily driven by international trade tensions and geopolitical instability— poses significant challenges to monetary policy formulation and macroeconomic management. Increased uncertainty can dampen investment, disrupt consumption, and tighten financial conditions (Dees & Güntner, 2014; Kang et al., 2017), making it more difficult for central banks to calibrate policy responses to achieve their primary mandates.

This article examines the response of domestic macroeconomic variables to external sources of uncertainty, quantified through survey-based indicators (i.e., dispersion in professional forecasts for US economic output and prices) and news-based indices (i.e., count of keywords related to uncertainty in foreign news articles). The analysis employs structural vector autoregression (SVAR) and factor-augmented vector autoregression (FAVAR) models, utilizing monthly data spanning the period 2002–2024.

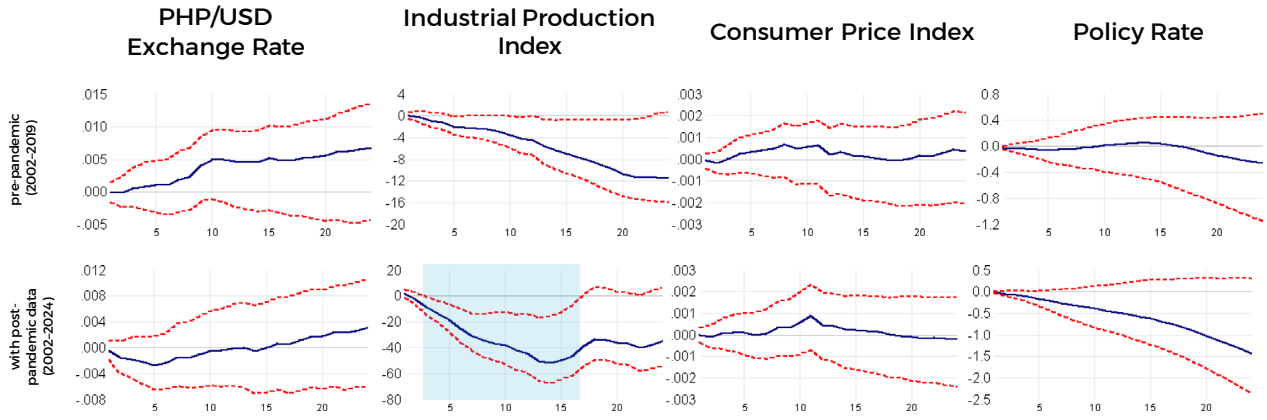
The overall framework of this study is reflected in the SVAR's Cholesky ordering. Meanwhile, the FAVAR framework incorporates a broader set of observed and latent factors to better capture the complex interactions among the variables.[2]

Following Ha et al. (2024), this study employs a Cholesky ordering of endogenous variables, where US economic output and prices determine the level of external policy uncertainty, which, in turn, influences the outturns for Philippine macro variables. Alternative ordering schemes, where uncertainty drives US economic output and inflation, were also checked for robustness.

Figure 2 displays the response of key domestic macroeconomic variables to shocks in global economic policy uncertainty during both pre- and post-COVID-19 periods. Based on the estimated SVAR model, news-driven surges in global economic policy uncertainty led to a decline in the Philippine industrial production index over a 13-month horizon. The impact is more substantial when the COVID-19 pandemic period is included in the sample. A similar decline in economic activity is observed when the Purchasing Managers' Index (PMI) is used as a proxy for domestic output.

Figure 2

Impulse Response of Philippine Macroeconomic Variables to Global Economic Policy Uncertainty Using Structural Vector Autoregression[3]



Source: Bangko Sentral ng Pilipinas staff estimates

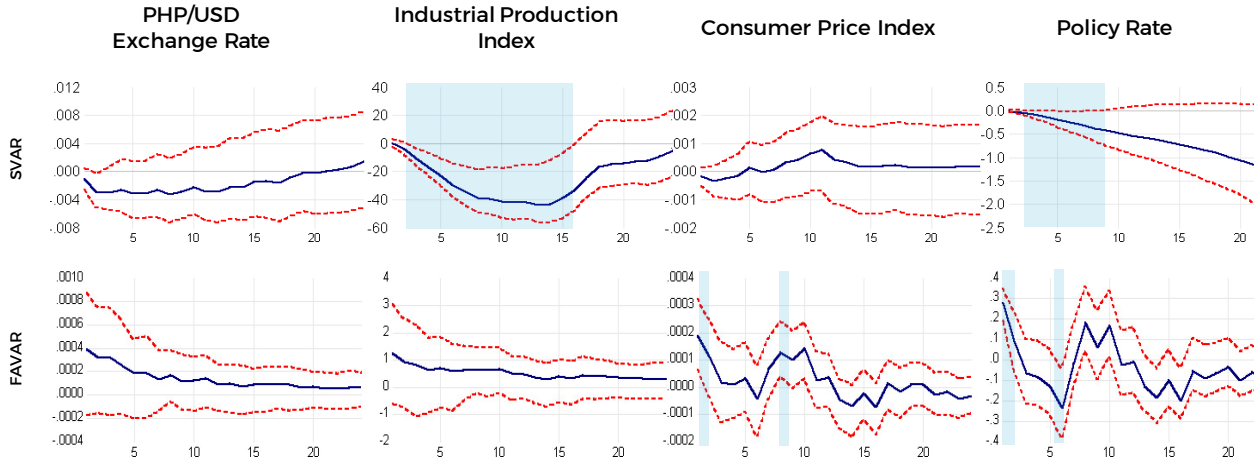
The impulse response functions show the responses of the macroeconomic variables above to a 1.0-percent shock in uncertainty. The blue shade denotes statistically significant periods.

In contrast, bilateral exchange rate, domestic prices, and monetary policy exhibit muted responses to global economic policy uncertainty shocks, with the confidence bands of their respective impulse response functions (IRFs) encompassing the baseline or zero level throughout the horizon.

Figure 3 illustrates the response of domestic macroeconomic variables to shocks related to US economic policy uncertainty, using both SVAR and FAVAR models, with data spanning 2002–2024. The PHP/USD exchange rate continues to exhibit no statistically significant response to shocks in US economic policy uncertainty.

Meanwhile, similar to the effect of global policy uncertainty, US economic policy uncertainty poses a significant and negative impact on the Philippine industrial production and PMI. This response is observed in both pre- and post-pandemic periods but is less pronounced in the FAVAR model.

Figure 3
Impulse Response of Philippine Macroeconomic Variables to United States Economic Policy Uncertainty Using Structural and Factor-Augmented Vector Autoregression[3]
2002–2024



Source: Bangko Sentral ng Pilipinas staff estimates

The impulse response functions show the responses of the macroeconomic variables above to a 1.0-percent shock in uncertainty. The blue shade denotes statistically significant periods.

Furthermore, ambiguities in the direction of US economic policy have a statistically significant negative influence on domestic price levels in the short term, reflecting the downside impact of uncertainty on aggregate demand. The policy rate also demonstrates a brief but significant downward adjustment in both SVAR and FAVAR models. This reflects the central bank's proactive response to ease monetary policy to mitigate the contractionary effects of external uncertainty.

As former Federal Reserve Chair Alan Greenspan (2003) noted, "Uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic of that landscape." Monetary authorities must remain vigilant to global sources of risks and uncertainty that could affect domestic macroeconomic conditions.

Preliminary empirical evidence from the Philippines (*Table 1*) suggests that uncertainty shocks result in a decline in industrial production, accompanied by lower inflation and a reduction in the policy rate in the short term. This result remains robust in periods both before and after the COVID-19 pandemic, using various empirical approaches and specifications. Future research can assess the impact of global uncertainty on capital flows and investments, as well as explore potential nonlinear effects.

Table 1

Significant Reactions of Philippine Macroeconomic Variables to External Uncertainty

	Exchange Rate				Industrial Production				Inflation				Policy Rate			
	2002-2019		2002-2024		2002-2019		2002-2024		2002-2019		2002-2024		2002-2019		2002-2024	
	SVAR	FAVAR	SVAR	FAVAR	SVAR	FAVAR	SVAR	FAVAR	SVAR	FAVAR	SVAR	FAVAR	SVAR	FAVAR	SVAR	FAVAR
US Output Uncertainty						↓			↓	↓		↓		↓		↓
US Inflation Uncertainty						↓				↓		↓		↓		↓
US EPU	↓				↓		↓			↓	↓		↓		↓	
Global EPU					↓		↓			↑						

Source: Bangko Sentral ng Pilipinas staff estimates

The arrows indicate the direction of the impact from uncertainty based on the impulse response functions.
SVAR – structural vector autoregression
FAVAR – factor-augmented vector autoregression EPU
–Economic Policy Uncertainty

ENDNOTES

1/ The authors of this box article are Rossvern S. Reyes, Jan Christopher G. Ocampo, and Jasmin E. Dacio of the Department of Economic Research. A full version of this study is forthcoming.

2/ In the FAVAR model, principal component analysis (PCA) is used to extract a small number of underlying factors from numerous economic time series. This enables the summarized factors to be included in the vector autoregression, capturing broader economic dynamics more effectively. The PCA employed in this study includes world commodity prices, US stock market volatility indicators, and other news-based measures of uncertainty.

3/ The IRF charts display 95.0-percent confidence bands as red dashed lines. Shaded blue areas indicate periods when response is significant to a 1.0-percent shock in uncertainty. The horizontal axis represents a 24-month horizon.

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