Monetary policy summary

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

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

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

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

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

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