Monetary policy summary

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

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

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

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

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

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

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