Monetary Policy Summary

At its monetary policy meeting on 14 February 2024, the BSP decided to keep the target overnight reverse repurchase (RRP) rate unchanged at 6.50 percent. Thus, the interest rates on the overnight deposit and lending facilities were likewise maintained at 6 percent and 7 percent, respectively.

The latest baseline forecasts show a slightly lower path. Baseline inflation is seen to settle at an average of 3.6 percent for 2024, and 3.2 percent for 2025. The forecast path is driven by the lower-than-expected inflation outturns, peso appreciation, and lower global crude oil prices, partly offset by higher assumptions for global non-oil prices, stronger domestic growth outlook, impact of El Niño weather conditions, and minimum wage adjustments in areas outside NCR.

The risks to the inflation outlook have receded but continue to lean toward the upside. The upside risks to the inflation outlook are linked mainly to higher transport charges, increased electricity rates, higher oil and domestic food prices, and the additional impact on food prices of a strong *El Niño* episode. Meanwhile, the implementation of government measures to mitigate the impact of *El Niño* weather conditions is the primary downside risk to the outlook.

The estimated impact of upside risks on the inflation outlook outweighs the possible effect of downside risks. Nevertheless, the risk-adjusted forecast of 3.9 percent for 2024 is now within the BSP's inflation target range. Meanwhile, inflation could settle at 3.5 percent in 2025. The risk-adjusted forecast is lower for 2024 which can be attributed to the lower baseline forecast and the decline in the estimated risks for the year. The lower estimated impact of risks for 2024 emanates from (1) the removal of the impact of higher transport fares from the jeepney modernization; (2) lower probability of fare hikes for traditional jeepneys; (3) lower impact of higher global oil prices; and (4) the removal of the risk from the non-extension of Executive Order (E.O.) No. 10. Meanwhile, the risk-adjusted forecast for 2025 is relatively steady due mainly to the shift in the assumed implementation of higher electricity rates.

Inflation expectations are more firmly anchored within the target range. The results of the BSP's survey of external forecasters for February 2024 showed unchanged mean inflation forecast for 2024 (at 3.9 percent) as well as for 2026 (at 3.4 percent) relative to the forecasts in the January 2024 survey round. By contrast, the mean inflation forecast for 2025 rose to 3.5 percent (from 3.4 percent).

Domestic economic activity is seen to remain intact over the medium term. The projected GDP growth path is supported by the improved global growth outlook and decline in global crude oil prices, tempered in part by the lagged impact of the policy rate adjustments. While the projected impact of the BSP's policy rate adjustments is likely to peak in 2024, growth in the medium term could also be supported by structural reform measures that could enhance investment climate as well as economic sentiment in the country.

The economy is projected to operate slightly below its potential. The output gap is estimated to be broadly neutral in Q4 2023, and will turn slightly negative over the rest of the policy horizon. The overall balance of demand and supply conditions, as captured by the output gap, indicates possible disinflationary pressures over the policy horizon.

In consideration of prevailing risks, the BSP deems it appropriate to keep monetary policy settings unchanged in the near term even as inflation conditions continue to improve. The decline in headline inflation, as well as the sustained downtrend in core inflation since Q2 2023, suggests that inflation momentum may continue to decelerate in the coming months in the absence of additional supply shocks. In the meantime, non-monetary measures to address lingering supply-side pressures on prices and sustain the disinflation process.

At the same time, the BSP remains ready to adjust its monetary policy settings as necessary in keeping with its primary mandate to safeguard price stability.