

Monetary Policy Summary

At its monetary policy meeting on 16 May 2024, the BSP decided to hold the target overnight reverse repurchase (RRP) rate steady at 6.50 percent. The interest rates on the overnight deposit and lending facilities were likewise maintained at 6.0 percent and 7.0 percent, respectively.

The baseline inflation forecast for 2024 is revised downward while that for 2025 is revised upward relative to the projections cited in the February 2024 Monetary Policy Report. Inflation for 2024 is now projected to settle at 3.5 percent on account of lower projected inflation for Q2 2024. Inflation for 2025 is now expected to reach 3.3 percent due to the recent increase in global crude oil prices and the depreciation of the peso.

Average inflation is still seen to settle within the target range over the policy horizon. Nevertheless, inflation is seen to breach the upper end of the target range from May to July 2024. Constraints to the domestic supply of key food items, particularly rice, will continue to exert upside pressures. Positive base effects may also emanate from the slowdown in food and energy inflation during the same period in 2023. Subsequently, inflation is projected to return to within the target range as pressures on food and crude oil prices ease.

However, the risks to the inflation outlook remain skewed to the upside. The risk-adjusted forecasts, which assume that risks will materialize at their assigned probabilities, are seen to reach 3.8 percent in 2024 and 3.7 percent in 2025. The upside risks to the inflation outlook are linked to higher transport charges and toll rates, food prices, electricity rates, and global oil prices. No downside risk was identified.

Inflation expectations continue to be well-anchored. Results of the BSP's survey of external forecasters for May 2024 showed that the mean and median inflation forecasts for 2024 have declined slightly relative to those in the April 2024 survey round. Meanwhile, expectations for 2025 and 2026 remain slightly above the midpoint of the inflation target range. Analysts expect within-target inflation over the policy horizon, although upside risks continue to dominate due mainly to supply chain disruptions.

Domestic growth prospects remain intact over the medium term amid tight financial conditions. Economic growth in 2024 could settle below the government's target as higher global crude oil prices and positive real interest rates temper domestic demand. However, growth is seen to pick up in 2025 on stronger net exports amid an improving global growth outlook. Meanwhile, the latest estimates of the output gap point to the economy operating slightly below potential, thus suggesting possible deflationary pressures going forward.

Keeping monetary policy settings sufficiently tight is appropriate until inflation moves sustainably toward the target range. Risks to the inflation outlook continue to be skewed to the upside over the policy horizon. At this point, keeping monetary policy settings unchanged will allow the BSP to monitor potential risks to the inflation outlook, as the lagged impact of previous monetary policy action is

anticipated to fully take hold in the coming months. Preserving the restrictive monetary policy stance will also help keep inflation expectations anchored amid a possible buildup in upside risks to future inflation. Moreover, the BSP reiterates its support for the national government's non-monetary measures to address persistent supply-side pressures on food prices and prevent further second-round effects. Moving forward, the BSP remains ready to adjust its monetary policy settings as necessary, in keeping with its primary mandate to safeguard price stability.