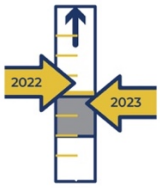
MONETARY POLICY REPORT

MAY 2022

Visual Summary

In Summary:

The BSP decided to raise the key policy interest rate by 25 basis points to 2.25%.



Inflation is expected to settle above the target range of 2-4% in 2022 and could average near the upper band of the target in 2023.

Several factors could push inflation higher in 2022 and 2023.

Private sector economists also expect inflation to be higher than target range in 2022 and could settle close to the upper end of the target band in 2023 before decelerating in 2024.

Domestic economic activity is seen to remain strong and return to its pre-pandemic level by mid-2022.

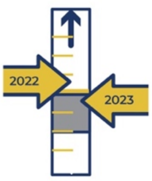
The timely increase in the key policy rate, based on the latest outlook on inflation and economic growth, is expected to help slow down further price increases from second-round effects* and manage inflation expectations.

** Second-round effects happen when inflation pressures from the supply side, such as higher oil prices, persist leading to increase in prices and wages that affect demand.*

The BSP decided to raise the key policy interest rate to 2.25%.

During its monetary policy meeting on 19 May 2022, the BSP's Monetary Board decided to raise the key policy rate by 25 basis points (bps) to 2.25%, effective 20 May 2022.

Inflation is expected to settle above the target range of 2-4% in 2022 and could average near the upper band of the target in 2023.



The BSP expects 2022 inflation to settle above the target range, reaching an average of 4.6%, higher than the previous estimate of 3.7%. On the other hand, the 2023 inflation is projected to settle toward the upper end of the target band at 3.9%, higher than the previous estimate of 3.3%.

Several factors could push inflation higher in 2022 and 2023.

Higher expected inflation is primarily due to elevated prices of global non-oil commodities, such as food and agricultural products and metals, continued shortage in domestic pork supply, higher fish prices, and possible jeepney fare hikes due to higher oil prices (upside risks). Meanwhile, slower global economic recovery as well as possible reimposition of quarantine measures due to domestic resurgence of COVID-19 cases may weaken demand and could slow down inflation (downside risks).

Private sector economists also expect inflation to be higher than target in 2022 and could settle close to the upper end of the target in 2023 before decelerating in 2024.

Based on the BSP's survey of private sectors economists for May 2022, analysts expect inflation to be higher than the target range in 2022, as the ongoing Russia-Ukraine conflict could further increase global oil and food prices. Meanwhile, inflation is expected to be at the upper end of the target in 2023 before decelerating in 2024. Most of the analysts expect the BSP to begin tightening its policy and raising the key policy rate in Q2 2022.

Domestic economic activity is seen to remain strong, returning to its pre-pandemic level by mid-2022.

The economy is expected to grow faster in 2022, within the government's target range of 7-9%. The economy grew faster than expected at 8.3% in Q1. Growth is seen to accelerate in Q2 as the community quarantine restrictions ease. However, this could be tempered by the possible slower growth of the global economy in the succeeding quarters of the year. Nonetheless, the economy is expected to remain strong in 2023, growing within target of 6-7%.

The timely increase in the key policy rate, based on the latest outlook on inflation and economic growth, is expected to help slow down further price increases from second-round effects* and manage inflation expectations.

This decision is based on the BSP's assessment that inflation could be higher than the previous estimates in March, as inflation pressures continue to persist. The timely increase in the BSP's policy interest rate is expected to temper second-round effects on transport fares, food prices, and wage increases, among others, and manage inflation expectations. Meanwhile, the BSP emphasizes its support for the sustained implementation of non-monetary interventions, such as ensuring adequate food supply to lessen the impact of persistent supply-side factors on inflation.

The strong economic activity and improved labor conditions provide scope for the BSP to roll back its pandemic-induced interventions, such as the reduced provisional advances to the National Government, which will be settled on 20 May 2022.

Given ample liquidity, a gradual recovery in credit activity, and stable financial market conditions, the BSP has decided to reconfigure the government securities (GS) purchasing window from a crisis intervention measure into a regular liquidity facility under the interest rate corridor framework.

Looking ahead, the pace and timing of further monetary policy actions by the BSP shall be guided by data outcomes, in keeping with the BSP's price and financial stability objectives.

The BSP raised its key policy interest rate to 2.25% ...

This means...

Banks are expected to eventually increase their own lending rates, making borrowing more costly for individuals and businesses. This could lead to lesser spending, slowing down demand, and ultimately resulting to low and stable inflation. By raising its key policy interest rate, inflation is slowed down resulting in more affordable goods and services for everyone.

View the full 2022 May Monetary Policy Report
https://www.bsp.gov.ph/SitePages/PriceStability/FullReportMPR/MonetaryPolicyReport_Full_May2022.aspx