



MONETARY POLICY REPORT

NOVEMBER 2022

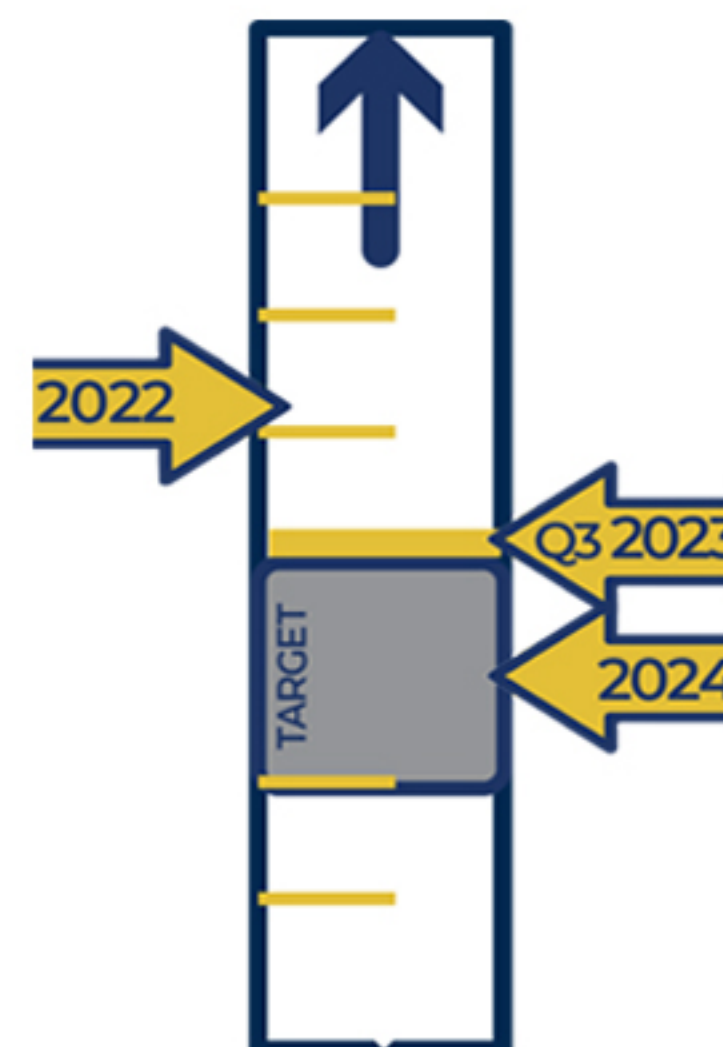
Visual Summary

In summary:

5 KEY POLICY RATE% .00

The BSP decided to raise the key policy rate by 75 basis points (bps) to 5.0 percent.

By raising the policy rate anew, the BSP aims to reduce the risk of inflation expectations further shifting away from the inflation target.



Inflation is projected to remain elevated in the near term before easing to within the target range.

The latest inflation forecast has been revised upwards to show that inflation for 2022 and 2023 will likely be above the 2.0-4.0 percent target range before easing to the low end of the target range in 2024.



There are many factors that could push inflation higher, particularly in 2023. These include higher global food prices, transport fare hikes, higher prices of sugar, fruits, and vegetables, and sustained supply disruptions in key food commodities. Meanwhile, a slowdown in global economic recovery may temper price pressures.

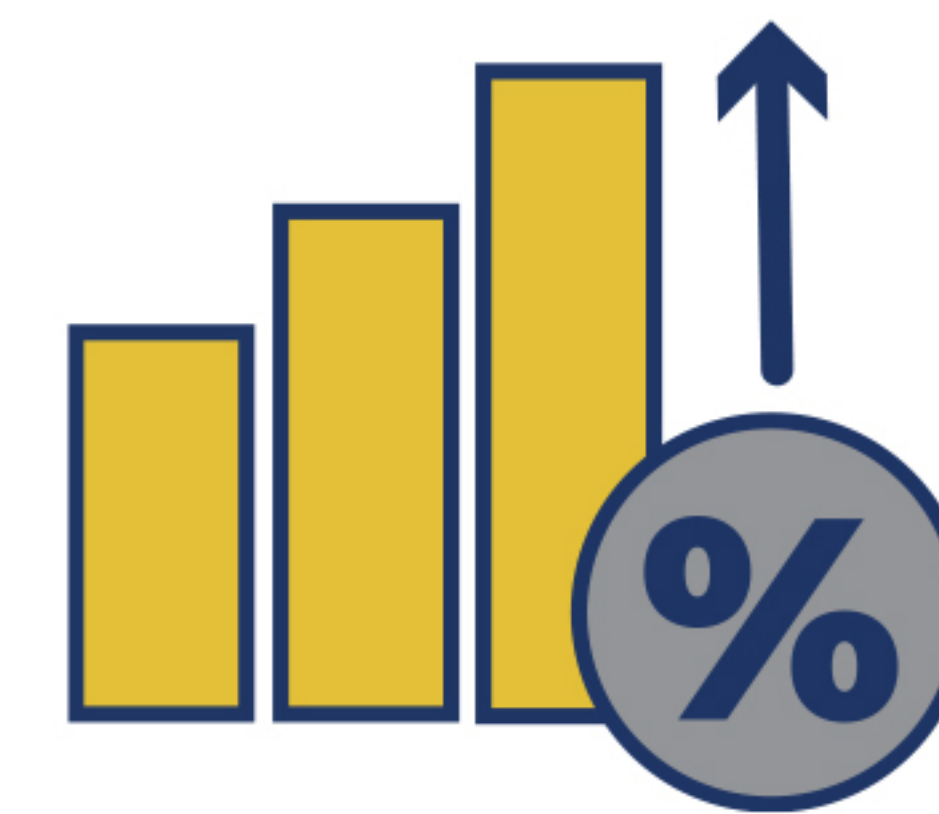


Inflation expectations of private sector economists have risen and are at risk of diverging from the target.



Domestic economic activity has recovered above its pre-pandemic level and is expected to sustain its growth momentum.

The growth of the country's gross domestic product is projected to settle within the government's target of 6.5-7.5 percent for 2022. The economy is expected to sustain its growth momentum in 2023 and 2024, but at a slower pace.



A firm policy action from the BSP, in tandem with timely implementation of supply-side non-monetary measures is crucial in taming inflation and steering the economy towards a sustainable growth path.

The BSP decided to raise the key policy interest rate to 5.0 percent.

5 KEY POLICY RATE% .00

On 17 November 2022, the BSP decided to raise its key policy rate by 75 basis points (bps) to 5.0 percent effective 18 November 2022.

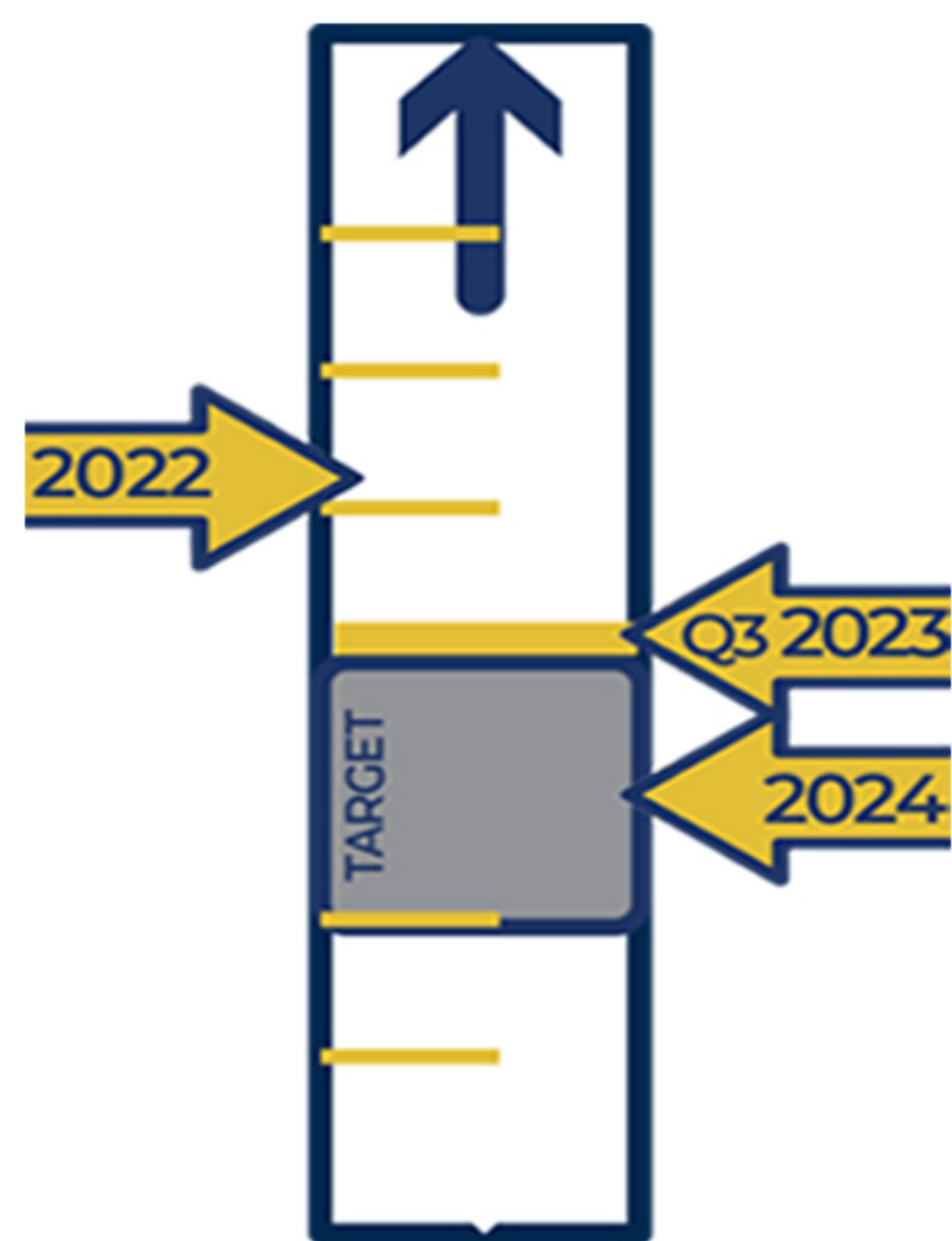
In deciding to raise the policy rate again, the BSP aims to reduce the risk of inflation expectations further shifting away from the inflation target and broadening price pressures and for high inflation to become permanent.

The increase in the BSP's policy rate is also meant to cushion against the impact of large, sustained movements of the peso-dollar rate on inflation expectations.

The series of policy rate hikes is meant to bring inflation back to within the target range of 2.0-4.0 percent in the medium term.

An increase in the BSP's policy rate will encourage less spending particularly on non-basic items until such time when price conditions normalize. Credit and consumption activities could slow down. Nevertheless, the Philippine banks remain stable and the domestic economy is seen to grow within target in 2022.

Inflation is projected to remain elevated in the near term.



The latest BSP forecast indicates that inflation is likely to peak in Q4 2022 and remain above the 2.0-4.0 percent target range until Q2 2023.

Inflation is seen to decelerate back to within the target range by Q3 2023. It will approach the low end of the target range by Q4 2023 up to Q1 2024. Eventually, inflation is expected to stabilize close to the midpoint of the target by Q2 2024.

Latest BSP estimates show that inflation will average 5.8 percent this year, 4.3 percent next year, and 3.1 percent in 2024.

Several factors could push inflation higher in 2022 and 2023.



There are more factors that could push inflation higher compared to factors that could push inflation lower.

The factors that could push inflation higher include rising global food prices due to increasing fertilizer costs, adverse weather conditions, and stringent trade restrictions, which would then lead to tighter supply of certain imported goods. Domestically, possible upward pressures on inflation include transport fare hikes, higher prices of sugar, fruits, and vegetables, and the non-extension of Executive Order No. 171, s. 2022, which would lead to higher tariffs on pork, rice, corn, and coal.

Meanwhile, a further slowdown in global economic activity, which reduces global demand, may temper price pressures.

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



Analysts expect inflation to breach the upper end of the government’s target range in 2022 as the sources of price pressures become broader.

They also expect inflation to remain beyond the target range in 2023. Meanwhile, they expect inflation to decelerate toward the upper end of the band in 2024.

In a BSP survey conducted in November 2022, private sector economists expect inflation to reach 5.9 percent this year, faster than the 5.7 percent forecast recorded in the October 2022 round of the survey.

The respondents also expect inflation to reach 4.9 percent next year, up from their previous estimate of 4.6 percent; and to ease to 4.0 percent in 2024, up from their previous forecast of 3.8 percent.

Most of the survey respondents anticipate the BSP to further increase the policy rate by a range of 75-150 bps in the remainder of this year.

They also expect the BSP to raise the policy rate by another 25-75 bps next year, before reducing the policy rate by 25-150 bps in 2024.



Domestic economic activity has recovered above its pre-pandemic level.

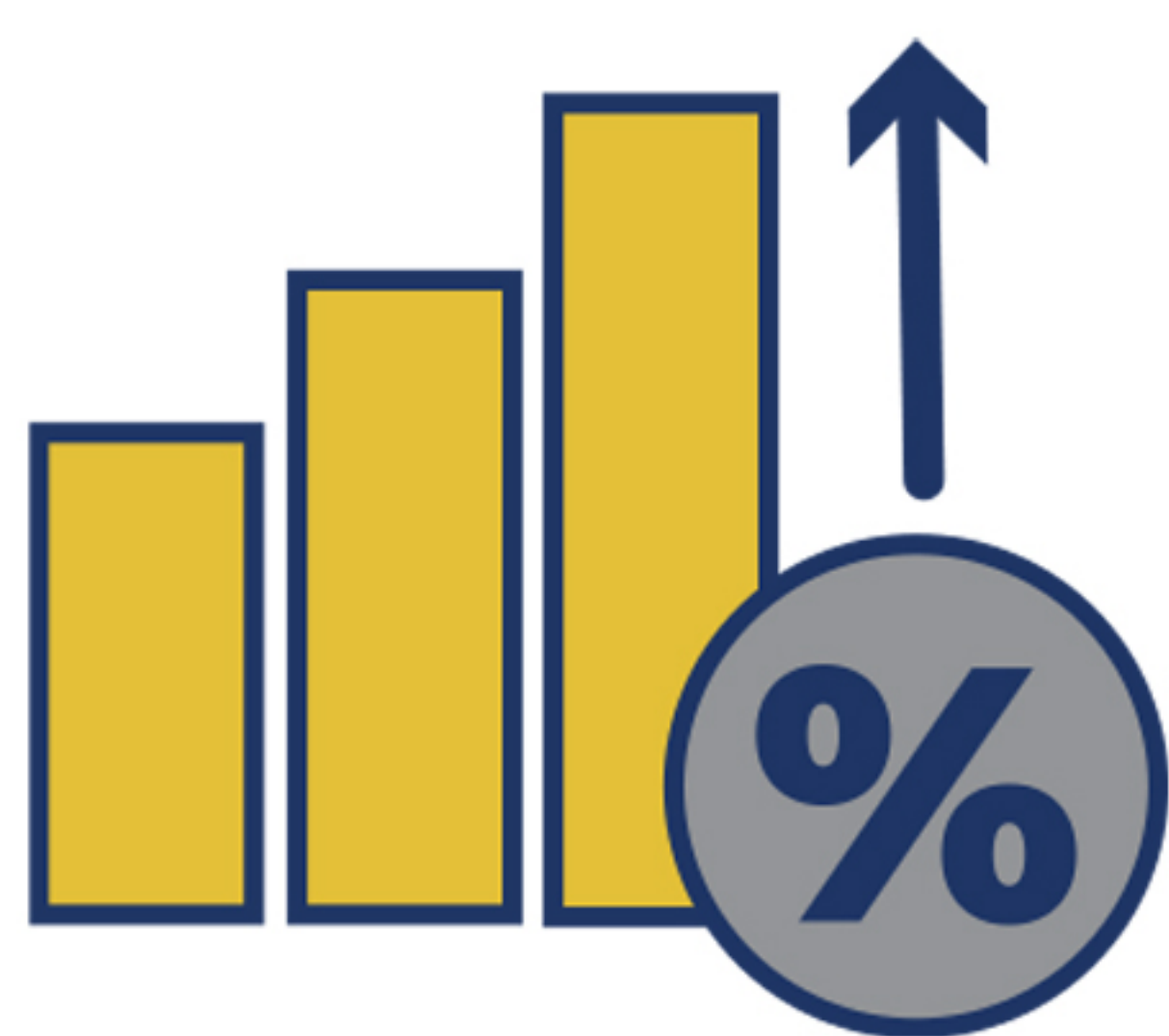


The economy, measured in terms of the gross domestic product (GDP), grew by 7.6 percent in Q3 2022, slightly higher than the recorded expansions of 7.5 percent in the previous quarter and 7.0 percent in the same period last year. Key sectors such as wholesale, retail and manufacturing have returned to pre-pandemic levels.

GDP growth is projected to settle within the government's target range of 6.5-7.5 percent for the full year 2022. Economic growth is expected to continue, although at a slower pace, in 2023 and 2024.

Domestic growth is seen to remain robust over the succeeding quarters in view of looser mobility restrictions, higher investments, return of domestic and foreign tourism, as well as increased business activities for micro, small, and medium enterprises (MSMEs) as face-to-face classes resume.

The BSP's policy rate hikes, as well as the timely and targeted implementation by relevant government agencies of measures to boost the supply of basic commodities, are crucial in taming inflation and steering the economy toward a sustainable growth path.



Inflation is proving to be more persistent than previously expected. A rise in core inflation—which is an indicator of long-term inflation—has been observed following transport fare hikes.

The latest increase in the BSP's policy rate will help further address demand-side price pressures.

Inflation expectations affect future inflation—that is, if people think prices will significantly increase in the future, they will advance their purchases of goods and services, thereby causing demand and inflation to rise. As such, keeping inflation expectations aligned with the inflation target range will help stabilize inflation.

Meantime, the government's efforts to boost the supply of basic commodities, including those aimed at strengthening farm productivity, are also crucial in addressing inflation. This is because ample supply of food commodities relative to demand tend to stabilize food commodity prices.

Looking ahead, the BSP will take all necessary actions to help bring inflation back to within the target band over the medium term.

The BSP raised its key policy interest rate to 5.0 percent.

This means...



Banks may be attracted to deposit more of their funds to the BSP to earn from higher interest rates. As a result, growth in bank lending may slow down, thereby tempering demand and inflation.

This also means...



Banks are expected to eventually increase their own lending rates, making borrowing more costly for individuals and businesses. Higher interest rates on loans could lead to reduced spending, slowing down demand and gradually resulting in low and stable inflation.

View the full 2022 Nov Monetary Policy Report
https://www.bsp.gov.ph/SitePages/PriceStability/FullReportMPR/MonetaryPolicyReport_Nov2022.aspx

