Monetary policy summary

The BSP decided to reduce its target reverse repurchase rate by 25 basis points to 6.25 percent during its monetary policy meeting on 15 August 2024. The BSP also lowered the interest rates on the overnight deposit and lending facilities to 5.75 percent and 6.75 percent, respectively.

Forecasts point to within-target average inflation. The latest baseline inflation forecasts stand at 3.4 percent for 2024, 3.1 percent for 2025, and 3.2 percent for 2026. After the uptick in July, headline inflation will likely trend downward, owing to stable core inflation and a moderation in food and energy prices. Core inflation has been trending downward since March 2023.

The balance of risks to the inflation outlook leans toward the downside for 2024 and 2025, with a slight tilt toward the upside for 2026. Lower import tariffs on rice could reduce domestic rice prices, posing a main downside risk to the outlook. Meanwhile, upside risks could arise from higher electricity rates and external factors. If these risks materialize, average inflation could settle at 3.3 percent in 2024, 2.9 percent in 2025, and 3.3 percent in 2026, all within the target range.

Inflation expectations continue to be well-anchored. The BSP's August 2024 survey of external forecasters (BSEF) showed that analysts continue to expect within-target inflation, with mean and median forecasts declining toward the midpoint of the target range.

The outlook for domestic output growth is largely intact over the medium term. Economic growth could settle within the government's target in 2024 but may fall below targets for 2025 and 2026. Growth prospects are also relatively stable for the rest of the year, backed by robust construction spending and the timely implementation and expanded coverage of various government programs.

Domestic demand continues to buoy output growth. Despite the deceleration in household consumption, strong construction activities drove domestic demand. Public investment, alongside easing price pressures and robust employment conditions, will continue to support economic activity.

A calibrated reduction in the BSP's policy interest rate is appropriate as inflation continues to move toward the target range. The risk-adjusted forecast (RAF) path still indicates a downtrend, and the balance of risks remains tilted to the downside. Inflation expectations also remain well-anchored. At the same time, domestic demand is likely to hold firm, supported by solid economic growth despite tight financial conditions. Nevertheless, the BSP remains mindful of lingering upside risks to inflation. Moving forward, the BSP will continue to take a measured approach to ensuring price stability, conducive to balanced and sustainable economic growth and employment.