

Monetary policy summary

The Monetary Board reduced the BSP's target reverse repurchase rate by 25 basis points to 4.50 percent at its monetary policy meeting on 11 December 2025. Correspondingly, the rates on the overnight deposit and lending facilities were adjusted to 4.00 percent and 5.00 percent, respectively.

The inflation outlook remains benign. The central projection shows average inflation at 3.2 percent in 2026 and 3.0 percent in 2027, both within the government's target range of 3.0 percent $\pm$ 1.0 ppt.

The Monetary Board discussed two alternative scenarios that highlight the risks to the inflation outlook. One is a supply shock scenario that considers the possible impact of upward adjustments in electricity charges and higher rice tariffs. The other involves a protracted decline in economic sentiment, reflecting weaker investment growth following investigations into flood control projects.

Inflation expectations remain well-anchored. Results from the November 2025 BSP Survey of External Forecasters (BSEF) show that analysts continue to expect inflation to settle within target over the medium term. Respondents cited adverse weather conditions, upward adjustments in electricity rates, wage increases, external developments and tariffs, and base effects as possible upside risks. Meanwhile, governance issues surrounding flood control projects were identified as potential sources of downside risks.

The outlook for domestic economic activity suggests significantly slower growth in the near term. Updated forecasts reflect weaker-than-expected Q3 2025 performance, driven mainly by subdued construction activity and investments. Economic growth is expected to remain modest through H1 2026 before rebounding in 2027, partly supported by earlier monetary policy easing.

The Monetary Board views the current monetary policy easing cycle as nearing its end. Any further easing is anticipated to be limited and will depend upon incoming data. Moving forward, the MB will ensure that overall policy settings remain consistent with maintaining price stability conducive to sustainable economic growth.