Policy rate maintained at 2%

The BSP decided to maintain its key policy interest rate at 2.0 percent for the overnight reverse repurchase (RRP) facility during its monetary policy meeting on 17 February 2022. The corresponding interest rates on the overnight deposit and lending facilities were also kept at 1.5 percent and 2.5 percent, respectively.

Inflation projected to be within target

The inflation path is projected to settle within the 2.0-4.0 percent target range over the policy horizon. The higher inflation path in 2022, attributed primarily to higher domestic food and oil inflation, reflects the trends in the international commodities market. Nonetheless, imported oil and food inflation is projected to ease in 2023 as global supply chain disruptions are expected to dissipate.

Inflation is seen to decelerate in early 2022 but could accelerate toward the upper end of the band in Q2 before moving back to within the target range. The initial deceleration of inflation is due mainly to negative base effects from the uptick in pork prices from the previous year. However, inflation is projected to accelerate slightly above the target range in Q2 2022 driven by elevated global oil and non-oil prices and positive base effects. Nonetheless, inflation is projected to decelerate back to within the target in Q3 2022 and in Q4 2022.

Domestic economic activity continues to gain traction

The economic expansion is expected to continue such that GDP would reach pre-pandemic levels by H2 2022. At the same time, estimates point to the closing of the output gap by H2 2022 amid sustained demand recovery. However, downside risks remain elevated with the possible resurgence of new variants of COVID-19 and uncertain global economic prospects.

Providing policy support remains a priority

Preserving ongoing policy support remains a priority given the uncertainty over domestic economic prospects, possible delays in achieving vaccination rate targets, along with the risks surrounding the global oil and food price outlook as well as the monetary policy normalization in advanced economies. There is a risk of a protracted pandemic due to virus resurgence, with prospects for sustainable recovery continuing to largely depend on the progress of the COVID-19 vaccine and booster shots rollout as well as ramped-up health system measures. While the eventual reopening of the global economy given eased restrictions in some countries will contribute to domestic recovery through improvements in exports and remittances, domestic monetary policy support along with expansionary fiscal policy will also continue to help spur domestic demand and mitigate the extent of economic scarring that could affect the growth trajectory over the long term.

Given estimates pointing to the closing of the output gap by the second semester of 2022 amid sustained demand recovery, the BSP continues to refine the timeline and strategy for the gradual exit from pandemic-related measures and accommodative policy settings. Particular attention is being given to the normalization of monetary conditions prior to the eventual tightening. Some groundwork for the exit has been initiated with the significant decline in BSP activity at the secondary government securities market since the last quarter of 2020 and the reduction in the amount of provisional advances to the national government this year. The gradual shift toward eventual normalization of BSPs extraordinary accommodative measures will be appropriately communicated before it is initiated to help BSP remain ahead of the curve.

Risks surrounding the inflation outlook are slightly on the upside in 2022 but broadly balanced in 2023

Upside risks are linked mainly to the continued shortage in domestic pork and fish supply and the possible impact of higher oil prices on transport fares.

Meanwhile, downside risks still emanate from the lingering threat of COVID-19 infections owing to possible case resurgence from new variants, as delays in the easing of containment protocols could temper domestic growth prospects.

Inflation expectations are well anchored

The February 2022 survey shows inflation expectations are still within the government's target range of 2.0-4.0 percent for 2022, albeit with higher mean inflation forecasts. Private sector economists expect inflation in 2022 to average at 3.5 percent from 3.4 percent in the previous month’s survey round. Meanwhile, the mean inflation forecasts for 2023 and 2024 stood lower at 3.1 percent (from 3.2 percent) and 2.9 percent (from 3.3 percent), respectively.