ISSN 1655-5104

INFLATION REPORT

Q3 2018

Bangko Sentral ng Pilipinas

Foreword

The primary objective of monetary policy is to promote a low and stable rate of inflation conducive to a balanced and sustainable economic growth. The adoption in January 2002 of the inflation targeting framework for monetary policy was aimed at helping to fulfill this objective.

One of the key features of inflation targeting is greater transparency, which means greater disclosure and communication by the BSP of its policy actions and decisions. This Inflation Report is published by the BSP as part of its transparency mechanisms under inflation targeting. The objectives of this Inflation Report are: (i) to identify the risks to price stability and discuss their implications for monetary policy; and (ii) to document the economic analysis behind the formulation of monetary policy and convey to the public the overall thinking behind the BSP's decisions on monetary policy. The broad aim is to make monetary policy easier for the public to understand and enable them to better monitor the BSP's commitment to the inflation target, thereby helping both in anchoring inflation expectations and encouraging informed debate on monetary policy issues.

The government's target for annual headline inflation under the inflation targeting framework has been set at 3.0 percent ± 1.0 percentage point (ppt) for 2018-2020 by the Development Budget Coordination Committee (DBCC). This is consistent with the desired disinflation path over the medium term, favorable trends in inflation dynamics, and expected higher capacity of the economy for growth under a low inflation environment.

The report is published on a quarterly basis, presenting an analysis of the various factors affecting inflation. These include recent price and cost developments, inflation expectations, prospects for aggregate demand and output, labor market conditions, monetary and financial market conditions, fiscal developments, and the international environment. An entire section is devoted to a discussion of monetary policy developments in the most recent quarter, while a separate section provides a comprehensive analysis of the BSP's view of the inflation outlook for the policy horizon.

The Monetary Board approved this Inflation Report at its meeting on 11 October 2018.

NESTOR A. ESPENILLA, JR.
Governor

The Monetary Policy of the Bangko Sentral ng Pilipinas

The BSP Mandate

The BSP's main responsibility is to formulate and implement policy in the areas of money, banking and credit, with the primary objective of maintaining stable prices conducive to a balanced and sustainable economic growth in the Philippines. The BSP also aims to promote and preserve monetary stability and the convertibility of the national currency.

Monetary Policy Instruments

The BSP's primary monetary policy instrument is its overnight reverse repurchase (RRP) or borrowing rate. Other instruments to implement the desired monetary policy stance to achieve the inflation target include (a) increasing/decreasing the reserve requirement; (b) conducting auctions for the term deposit facility (TDF);[1] (c) adjusting the rediscount rate on loans extended to banking institutions on a short-term basis against eligible collateral of banks' borrowers; and (d) outright sales/purchases of the BSP's holdings of government securities.

Policy Target

The BSP's target for monetary policy uses the Consumer Price Index (CPI) or headline inflation rate, which is compiled and released to the public by the National Statistics Office (NSO). The policy target is set by the Development Budget Coordination Committee (DBCC)[2] in consultation with the BSP. The inflation target for 2018-2020 is 3.0 percent ± 1.0 ppt.[3]

BSP's Explanation Clauses

These are the predefined set of acceptable circumstances under which an inflation-targeting central bank may fail to achieve its inflation target. These clauses reflect the fact that there are limits to the effectiveness of monetary policy and that deviations from the inflation target may sometimes occur because of factors beyond the control of the central bank. Under the inflation targeting framework of the BSP, these exemptions include inflation pressures arising from: (a) volatility in the prices of agricultural products; (b) natural calamities or events that affect a major part of the economy; (c) volatility in the prices of oil products; and (d) significant government policy changes that directly affect prices such as changes in the tax structure, incentives, and subsidies.

---

[1] The TDF was introduced under the interest rate corridor system which was implemented on 3 June 2016.

[2] The DBCC, created under Executive Order (E.O.) No. 232 dated 14 May 1970, is an inter-agency committee tasked primarily to formulate the National Government's fiscal program. It is composed of the Office of the President (OP), Department of Budget and Management (DBM), National Economic and Development Authority (NEDA), and the Department of Finance (DOF). The BSP attends the Committee meetings as a resource agency.

[3] During its meeting on 22 December 2017, the DBCC decided to keep the current inflation target at 3.0 percent ± 1.0 percentage point for 2018 - 2020.

The Monetary Board

The powers and functions of the BSP, such as the conduct of monetary policy and the supervision over the banking system, are exercised by its Monetary Board, which has seven members appointed by the President of the Philippines. The Monetary Board holds eight (8) monetary policy meetings in a year to review and decide on the stance of monetary policy.

Chairman & Governor
Nestor A. Espenilla, Jr.

Members
Carlos G. Dominguez III
Felipe M. Medalla
Juan D. De Zuñiga, Jr.
Peter B. Favila
Antonio S. Abacan, Jr.
V. Bruce J. Tolentino

The Advisory Committee

The Advisory Committee was established as an integral part of the institutional setting for inflation targeting. It is tasked to deliberate, discuss, and make recommendations on monetary policy to the Monetary Board. Like the Monetary Board, the Committee meets eight times a year but may also meet between regular meetings, whenever deemed necessary.

Chairman
Nestor A. Espenilla, Jr.
Governor

Members
Diwa C. Guinigundo
Deputy Governor
Monetary and Economics Sector

Ma. Cyd Tuaño-Amador
Deputy Governor
Corporate Services Sector

Chuchi G. Fonacier
Deputy Governor
Financial Supervision Sector

Ma. Ramona GDT Santiago
Senior Assistant Governor
Financial Market Operations Sub-Sector

Johnny Noe E. Ravalo
Assistant Governor
Office of Systemic Risk Management

Francisco G. Dakila, Jr.
Assistant Governor
Monetary Policy Sub-sector

Technical Staff

Chairman
Zeno Ronald R. Abenoja
Senior Director, Department of Economic Research

Members
Mary Jane T. Chiong
Managing Director, Office of the Governor

Lyn I. Javier
Managing Director, Financial Supervision Research and Consumer Protection Sub-sector

Veronica B. Bayangos
Director, Office of the Supervisory Policy Development

Lorelei S. Fernandez
Senior Director, Financial Market Operations Sub-Sector

Redentor Paolo M. Alegre, Jr.
Head, Department of Economic Statistics

Dennis D. Lapid
Deputy Director, Department of Economic Research

Dennis M. Bautista
Deputy Director, Department of Economic Research

Ma. Mediatriz M. Boelsch
Assistant Chief Dealer, Financial Market Operations Sub-Sector

Thea Josefina Natalia W. Santos
Deputy Director, Financial Supervision Sub-Sector 1

Lara Romina E. Ganapin
Bank Officer V, Department of Economic Research

Cherrie F. Ramos
Bank Officer V, Department of Economic Research

Jasmin E. Dacio
Bank Officer V, Department of Economic Research

Gabrielle Roanne L. Moral
Bank Officer V, Department of Economic Research

Eduard Joseph D. Robleza
Bank Officer V, Department of Economic Research

Jan Christopher G. Ocampo
Bank Officer V, Department of Economic Research

Marites B. Oliva
Bank Officer V, Center for Monetary and Financial Policy

Alvin Joshua P. Fama
Acting Bank Officer V, Office of Systemic Risk Management

Sol Elizah T. Roxas
Bank Officer VI, Provident Fund Office

2018 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS				
2018	**Advisory Committee (AC) Meeting**	**Monetary Board (MB) Meeting**	**MB Highlights Publication**	**Inflation Report (IR) Press Conference**
Jan			11 (Thu) (14 Dec 2017 MB meeting)	19 (Fri) (Q4 2017 IR)
Feb	2 (Fri) (AC Meeting No. 1)	8 (Thu) (MB Meeting No. 1)		
Mar	16 (Fri) (AC Meeting No. 2)	22 (Thu) (MB Meeting No. 2)	8 (Thu) (8 Feb 2018 MB meeting)	
Apr			19 (Thu) (22 Mar 2018 MB meeting)	20 (Fri) (Q1 2018 IR)
May	4 (Fri) (AC Meeting No. 3)	10 (Thu) (MB Meeting No. 3)		
Jun	15 (Fri) [1] (AC Meeting No. 4)	21 (Thu) (MB Meeting No. 4)	7 (Thu) (10 May 2018 MB meeting)	
Jul			19 (Thu) (21 Jun 2018 MB meeting)	20 (Fri) (Q2 2018 IR)
Aug	3 (Fri) (AC Meeting No. 5)	9 (Thu) (MB Meeting No. 5)		
Sep	21 (Fri) (AC Meeting No. 6)	27 (Thu) (MB Meeting No. 6)	6 (Thu) (9 Aug 2018 MB meeting)	
Oct			25 (Thu) (27 Sep 2018 MB meeting)	19 (Fri) (Q3 2018 IR)
Nov	9 (Fri) (AC Meeting No. 7)	15 (Thu) (MB Meeting No. 7)		
Dec	7 (Fri) (AC Meeting No. 8)	13 (Thu) (MB Meeting No. 8)	6 (Thu) (15 Nov 2018 MB meeting)	

[1] 15 June 2018 (Friday) may be declared a national holiday in observance of Eidul Fitr. The National Commission on Muslim Filipinos (NCMF) shall inform the Office of the President of the actual date on which the holiday shall fall. The approximate dates shall be determined in accordance with the Islamic calendar (Hijra) or the lunar calendar, or upon Islamic astronomical calculations, whichever is possible or convenient.

List of Acronyms, Abbreviations, and Symbols

AHFF	Agriculture, Hunting, Forestry and Fishing
AONCR	Areas Outside the National Capital Region
ASEAN	Association of Southeast Asian Nations
BES	Business Expectations Survey
BI	Bank of Indonesia
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs; Bank of Canada
BOE	Bank of England
BOJ	Bank of Japan
BPO	Business Process Outsourcing
BTr	Bureau of the Treasury
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CAMPI	Chamber of Automotive Manufacturers of the Philippines, Inc.
CAR	Capital Adequacy Ratio
CBD	Central Business District
CES	Consumer Expectations Survey
CDS	Credit Default Swaps
CI	Confidence Index
CPI	Consumer Price Index
DBCC	Development Budget Coordination Committee
DI	Diffusion Index
DST	Documentary Stamp Tax
EIA	US Energy Information Administration
EMBIG	JP Morgan Emerging Market Bond Index Global
ERC	Energy Regulatory Commission
EU	European Union
FCD	Foreign Currency Deposit
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GNPL	Gross Non-Performing Loan
GOUR	Generation Over/Under Recovery
GS	Government Securities
IMF	International Monetary Fund
IMTS	International Merchandise Trade Statistics
LEM	Loans Especially Mentioned
LFS	Labor Force Survey
LGU	Local Government Unit
LPG	Liquefied Petroleum Gas
LSOUR	Lifeline Subsidy Over/Under Recovery
LTFRB	Land Transportation Franchising and Regulatory Board
MB	Monetary Board
MERALCO	Manila Electric Company
MIAA	Manila International Airport Authority
MISSI	Monthly Integrated Survey of Selected Industries
MOOE	Maintenance and Other Operating Expenses
MTP	Major Trading Partner
NAFTA	North American Free Trade Agreement
NCR	National Capital Region
NEDA	National Economic and Development Authority
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Asset
NG	National Government
NGCP	National Grid Corporation of the Philippines
NIA	National Irrigation Administration; National Income Account
NNPL	Net Non-Performing Loans
NPC	National Power Corporation
ODF	Overnight Deposit Facility
OF	Overseas Filipino
OPEC	Organization of the Petroleum Exporting Countries
PAGCOR	Philippine Amusement and Gaming Corporation
PCE	Personal Consumption Expenditure
PMI	Purchasing Managers' Index
ppt	Percentage Point
PSA	Philippine Statistical Authority; Power Supply Agreement
PSALM	Power Sector Assets and Liabilities Management Corporation
PSEi	Philippine Stock Exchange Composite Index
q-o-q	Quarter-on-Quarter
RBs	Rural Banks
REER	Real Effective Exchange Rate
ROP	Republic of the Philippines
RORO	Roll-on/Roll-off
RP	Repurchase
RR	Reserve Requirement
RREL	Residential Real Estate Loan
RREPI	Residential Real Estate Price Index
RRP	Reverse Repurchase
SBL	Substandard or Below Loan
SDA	Special Deposit Account
SLOS	Senior Bank Loan Officers' Survey
SLOUR	System Loss Over/Under Recovery
SME	Small and Medium Enterprise
SOCCSKSARGEN	South Cotabato, Cotabato, Sultan Kudarat, Sarangani and General Santos City
TAFPPC	True-up Adjustments of Fuel and Purchased Power Cost
TAFxA	Foreign Exchange Related Costs
TBs	Thrift Banks
TDF	Term Deposit Facility
TLP	Total Loan Portfolio
TPI	Trading Partner Index
TPI-A	Trading Partner Index in Advanced Countries
TPI-D	Trading Partner Index in Developing Countries
TRAIN	Tax Reform for Acceleration and Inclusion
U/KBs	Universal and Commercial Banks
VaPI	Value of Production Index
VoPI	Volume of Production Index
WESM	Wholesale Electricity Spot Market
WTO	World Trade Organization
y-o-y	Year-on-Year
ytd	Year-to-Date

Contents

Overview

Headline inflation increases further. Headline inflation in Q3 2018 was at 6.2 percent compared to quarter-ago and year-ago rates of 4.8 percent and 2.7 percent, respectively. This brought the year-to-date (ytd) average inflation to 5.0 percent which is above the high end of the National Government's (NG) announced target range of 3.0 percent ± 1.0 percentage point (ppt) average for the year. Rising food and energy prices continued to drive inflation higher in Q3 2018, with food inflation at 8.2 percent and non-food inflation at 4.1 percent in Q3 2018. Similarly, core inflation - which measures generalized pressures by excluding volatile items such as food and energy – also increased to 4.7 percent in Q3 2018 from 3.8 percent in Q2 2018 and 2.3 percent in Q3 2017.

The BSP's alternative measures for the weighted median, trimmed mean, and net of volatile items measures of core inflation were higher at 4.6 percent (from 3.8 percent), 5.0 percent (from 3.6 percent), and 4.7 percent (from 4.3 percent), respectively. The number of CPI items with inflation rates greater than the threshold of 4.0 percent (the upper end of the 2018 inflation target) rose further to 88 items in Q3 2018 from 61 items in the previous quarter. Majority of these items were food commodities. Collectively, these items accounted for more than half (56.0 percent) of the CPI basket, larger than the quarter-ago share of 46.8 percent.

Inflation expectations rose. The survey on private sector economists for September 2018 showed that the mean inflation forecast for 2018 rose to 5.3 percent from 4.5 percent in the June 2018 survey. Likewise, mean inflation forecasts for 2019 and 2020 increased to 4.3 percent and 3.9 percent (both from 3.8 percent in the previous survey round), respectively. Analysts noted that risks to inflation in 2018 remain tilted to the upside, with possible risks coming from various factors including higher and volatile global oil prices; higher utility rates; rise in wages and transport fares; and higher inflation expectations.

Based on the Q3 2018 BSP Business Expectations Survey (BES), a higher number of respondents in Q3 2018 expect inflation to rise in the current quarter and next quarter, with firms expecting inflation to reach 4.7 percent in Q3 2018 and 4.8 percent in Q4 2018. Likewise, results of the Consumer Expectations Survey (CES) for Q3 2018 indicated that consumers expect inflation in the next 12 months to reach 5 percent, which is higher than the 4.2 percent expected inflation rate in the Q2 2018 survey.

The domestic economy grew, albeit at a slower pace. The Philippine economy grew by 6.0 percent in Q2 2018. This is lower than the 6.6-percent expansion a quarter- and a year-ago. On the expenditure side, the slowdown in the Q2 2018 growth was due to the moderation in government and household consumption and acceleration of imports. On the production side, lower Gross Domestic Product (GDP) growth for the quarter was noted in the services, industry and agriculture, hunting, forestry and fishing sectors.

GDP grew by 6 percent in Q2 2018 with capital formation as key growth driver

High-frequency indicators of domestic activity present mixed signals. The composite Purchasing Managers' Index (PMI) remains firmly above the 50-point mark, pointing to sustained expansion across all sectors. Capacity utilization for the manufacturing sector also suggests that more than half of major manufacturing sectors operate at above 80.0 percent. However, vehicle and energy sales has slowed down. Business outlook turns less optimistic in Q3 2013 while consumer confidence weakens but remains positive.

Global economic growth is steady. The JP Morgan Global All-Industry Output Index decreased to 52.8 in September from 53.4 in August as output expansion eased in both the manufacturing and service sectors. In the US, real GDP expanded by 4.2 percent on a seasonally adjusted quarter-on-quarter (q-o-q) basis in Q2 2018. In the Euro area, Q2 2018 growth remained broadly steady. However, the composite PMI for the Euro area decreased slightly to 54.1 in September from 54.5 in August. In China, year-on-year (y-o-y) Q2 2018 GDP expanded by 6.7, which is slightly lower than the 6.8 percent growth in the previous quarter. In Japan, real GDP was steady as domestic demand growth increased only slightly during Q2 2018.

The domestic financial system remains stable and resilient. Uncertainties in the external and domestic environment has contributed to pressure on the Philippine financial system, which nonetheless remains resilient. The peso has depreciated during the quarter. However, the sustained inflows of foreign exchange from overseas Filipino remittances, foreign direct investments, BPO receipts, as well as the ample level of the country's gross international reserves and the country's solid economic growth, are expected to provide support to the peso.

The affirmation of Fitch Ratings' and Moody's Investors Service of the country's investment grade credit rating helped boost investor confidence, keeping debt spreads relatively tight during the period. As of end-September 2018, the Philippines' 5-year sovereign credit default swaps (CDS) stood at 77 bps, lower than the 91 bps in end-Q2 2018.

The Philippine banking system remains healthy. During the review quarter, banks' balance sheets exhibited sustained growth in assets and deposits. Furthermore, asset quality indicators remained positive while capital adequacy ratios continued to be above international standards, even with the implementation of the tighter Basel III framework. Meanwhile, results of the Q3 2018 Senior Bank Loan Officers' Survey (SLOS) showed that most of the respondent banks continued to maintain their credit standards for loans to both enterprises and households.

The BSP raises key policy rates in Q3 2018. At its monetary policy meeting on 9 August, the BSP raised the key policy rate by 50 bps to 4.0 percent for the overnight reverse repurchase or RRP facility. At the same time, in the 27-September meeting, the BSP decided to hike the policy rate anew by another 50 bps to 4.5 percent. The interest rates on the overnight lending and deposit facilities were likewise raised accordingly.
In deciding to raise the key policy interest rates during the quarter, the BSP recognized that a further tightening of monetary policy was warranted by persistent signs of sustained and broadening price pressures.

Latest baseline forecasts have shifted higher for both 2018 and 2019, with risks to the outlook still leaning toward the upside for 2018 and downside for 2019-2020 due largely to the projected impact of rice tariffication. Equally important, with supply-side forces expected to continue to drive inflation in the coming months, inflation expectations have remained elevated amid indications of second-round effects. Meanwhile, domestic demand conditions have generally held firm, even as the previous monetary policy responses continue to work their way through the economy. The BSP decided to raise the key policy interest rate anew to further anchor inflation expectations and to safeguard the inflation target over the policy horizon.

The BSP raises the key policy rate anew in Q3 2108

The BSP believed that a tighter monetary policy stance will help steer inflation toward a target-consistent path over the medium term by reducing further risks to the inflation outlook, including those emanating from exchange rate volatility given the continued uncertainty in the external environment amid geopolitical tensions and the normalization of monetary policy in advanced economies.

On the basis of new information in the third quarter, the BSP sent a firm signal of its commitment to combat inflation.
A follow-through monetary policy action will help to anchor inflation expectations and sends a strong signal that the BSP is intensifying its systematic response to inflation pressures.

Increased risks from broader inflation pressures, second-round effects and higher inflation expectations constitute the main impetus for strong monetary action. The BSP needs to further anchor inflation expectations which continued to rise based on the latest surveys. A robust policy response can also help support the peso amid heightened exchange rate volatility given continued uncertainty in the global environment and escalation of trade tensions. Firm policy action by the BSP will serve to complement the broader array of targeted responses by the National Government. More importantly, because of transmission lags, monetary policy actions should now be directed toward safeguarding the medium-term inflation target as the latest baseline forecasts already point to a possible breach in 2019.

I. Inflation and Real Sector Developments

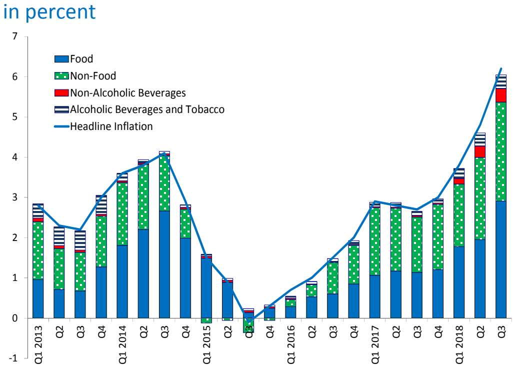
Prices

Headline inflation rises. Headline inflation in Q3 2018 was at 6.2 percent compared to quarter-ago and year-ago rates of 4.8 percent and 2.7 percent, respectively.

Supply-side factors continue to drive price pressures in Q3 2018

This brought the ytd average inflation to 5.0 percent which is above the high end of the NG's announced target range of 3.0 percent ± 1.0 ppt average for the year. Rising food and energy prices continued to drive inflation higher in Q3 2018.

Chart 1. Quarterly Headline Inflation (2012=100)
in percent



Source: Philipine Statistical Authority (PSA), BSP

Food inflation was at 8.2 percent in Q3 2018, higher compared to the previous quarter as faster price increases for commodities such as vegetables, sugar, jam, honey, chocolate, and confectionery, rice and meat more than offset the decline for corn and fruit prices. Likewise, non-food inflation rose to 4.1 percent in Q3 2018 as most non-food groups except for education registered higher prices during the quarter.

Core Inflation. Core inflation - which measures generalized pressures by excluding volatile items such as food and energy – also increased to 4.7 percent in Q3 2018 from 3.8 percent in Q2 2018 and 2.3 percent in Q3 2017. In terms of the BSP-computed alternative measures for core inflation, the weighted median, trimmed mean, and net of volatile items measures of core inflation were higher at 4.6 percent (from 3.8 percent), 5.0 percent (from 3.6 percent), and 4.7 percent (from 4.3 percent), respectively.[4]

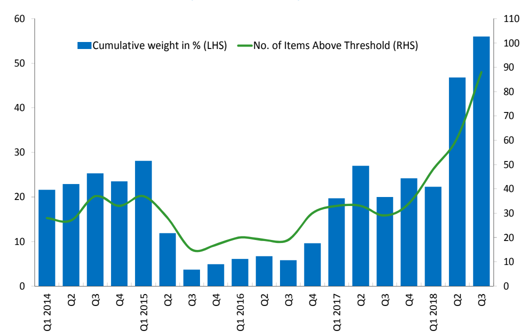
Table 1. Alternative Core Inflation Measures
quarterly averages of year-on-year change

Quarter	Official Headline Inflation	Official Core Inflation	Trimmed Mean [1]	Weighted Median [2]	Net of Volatile Items [3]
2014	**3.6**	**2.6**	**3.3**	**2.8**	**2.8**
Q1	3.6	2.8	3.0	2.4	2.4
Q2	3.8	2.6	3.4	3.0	2.6
Q3	4.1	2.7	3.6	3.2	3.0
Q4	2.9	2.1	3.1	2.6	3.0
2015	**0.7**	**1.0**	**1.5**	**1.7**	**2.2**
Q1	1.5	1.3	2.6	2.7	2.9
Q2	0.9	1.3	1.7	1.7	2.4
Q3	-0.1	0.8	0.9	1.3	1.8
Q4	0.3	0.8	0.9	1.2	1.8
2016	**1.3**	**1.6**	**1.2**	**1.3**	**1.9**
Q1	0.7	1.0	0.8	1.0	1.5
Q2	1.0	1.2	1.1	1.4	1.8
Q3	1.5	1.7	1.4	1.3	2.0
Q4	2.0	2.2	1.6	1.5	2.3
2017	**2.9**	**2.4**	**2.2**	**1.8**	**2.7**
Q1	2.9	2.7	2.1	1.9	2.6
Q2	2.8	2.5	2.3	1.7	2.8
Q3	2.7	2.3	2.1	1.6	2.7
Q4	3.0	2.4	2.3	1.7	2.7
2018	**5.0**	**3.9**	**3.8**	**3.7**	**4.3**
Q1	3.8	3.0	2.9	2.8	3.8
Q2	4.8	3.8	3.6	3.8	4.3
Q3	**6.2**	**4.7**	**5.0**	**4.6**	**4.7**

[1] The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of year-on-year inflation rates for all CPI components.
[2] The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of year-on-year inflation rates.
[3] The net of volatile items method excludes the following items: bread and cereals, vegetables sugar, jam, honey, chocolate, and confectionery, electricity, gas, fuels and lubricants for personal transport equipment, and passenger transport by road, which represents 29.5 percent of all items.
Source: PSA, BSP estimates

The number of Consumer Price Index (CPI) items with inflation rates greater than the threshold of 4.0 percent (the upper end of the 2018 inflation target) rose further to 88 items in Q3 2018 from 61 items in the previous quarter.

Chart 2. CPI Items with Inflation Rates Above Threshold (2012=100)



Source: PSA, BSP staff estimates

[4] Revised 2012-based alternative measures of core inflation

Majority of these items were food commodities. Collectively, these items accounted for more than half (56.0 percent) of the CPI basket, larger than the quarter-ago share of 46.8 percent.

Food Inflation. Food inflation rose to 8.2 percent in Q3 2018 compared to 5.5 percent in Q2 2018 and 3.2 percent in Q3 2017.

Food inflation registers an uptick

Rice inflation increased to 7.5 percent y-o-y in Q3 2018 from 4.4 percent in the previous quarter due to tightness in domestic supply from the ongoing lean season and weather-related disruptions. Recent typhoons also affected the supply of fruits and vegetables while sugar prices rose as continuous rains dampened domestic output. At the same time, higher prices of meat and fish also pushed up inflation during the quarter.

Non-alcoholic beverages also increased to double-digit rates in Q3 2018 to 11.5 percent from 9.9 percent in the previous quarter and 1.1 percent in the same period a year ago, reflecting the excise tax on sweetened beverages. Likewise, the tobacco inflation rate also rose to 29.3 percent due to the scheduled excise tax increase in Q3 2018.

Table 2. Inflation Rates for Selected Food Items
quarterly averages in percent (2012=100)

Commodity	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Food and Non-Alcoholic Beverages	**2.9**	**3.1**	**2.9**	**3.3**	**5.0**	**5.9**	**8.5**
Food	3.0	3.3	3.2	3.4	5.0	5.5	8.2
Bread and Cereals	0.9	1.1	1.0	1.1	2.8	4.2	6.6
Rice	1.0	1.1	0.9	0.9	2.6	4.4	7.5
Corn	-3.4	-4.6	-2.2	4.2	9.7	13.7	11.3
Meat	2.4	4.9	4.6	5.6	6.4	5.0	7.3
Fish	5.0	7.7	8.3	8.9	12.2	11.7	12.4
Milk, Cheese and Eggs	2.3	2.4	2.2	2.1	2.1	2.1	2.7
Oils and Fats	4.6	4.9	4.5	4.3	4.0	3.2	3.8
Fruit	8.3	7.0	4.8	3.3	6.1	5.8	5.6
Vegetables	10.2	3.3	2.6	2.1	3.9	7.4	18.8
Sugar, Jam, Honey, Chocolate and Confectionery	1.1	-0.4	-1.2	-1.9	-1.4	1.4	8.9
Food Products, N.E.C.	0.7	0.0	0.5	0.9	2.0	3.2	4.3
Non-Alcoholic Beverages	0.9	0.9	1.1	1.2	4.6	9.9	11.5
Alcoholic Beverages and Tobacco	7.0	7.2	6.8	6.5	15.9	20.5	21.7

Source of Basic Data: PSA, BSP

Non-Food Inflation. Non-food inflation also increased in Q3 2018 to 4.1 percent from 3.4 percent in the previous quarter.

Non-food inflation increases

Heavily-weighted CPI items like housing and utilities[5] accelerated in Q3 2018 due to upward adjustments in electricity and water rates during the quarter. Meanwhile, rising global oil prices which led to higher domestic petroleum products also exerted some pressure on transport inflation[6], which increased to 7.9 percent during the quarter. Meanwhile, the documentary stamp tax (DST) on gaming tickets also led to higher inflation for recreation and culture during the quarter.
The higher inflation readings for most of the non-food items was partially offset by the decline in education inflation, which declined by 3.8 percent in Q3 2018 as a result of the NG's free tuition program for the public tertiary level.

Table 3. Inflation Rates for Selected Non-Food Items
quarterly averages in percent (2012=100)

Commodity	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Non-Food	**2.8**	**2.6**	**2.3**	**2.7**	**2.6**	**3.4**	**4.1**
Clothing and Footwear	2.8	2.7	2.3	1.9	2.0	2.2	2.4
Housing, Water, Electricity, Gas and Other Fuels	2.9	2.9	2.0	3.2	2.7	3.5	5.2
Electricty, Gas, and Other Fuels	5.2	5.9	3.6	7.2	4.3	6.2	10.6
Furnishings, Household Equipment & Routine Household Maintenance	2.4	2.4	2.2	2.1	2.4	2.9	3.5
Health	3.2	2.9	2.5	1.9	2.2	2.7	4.0
Transport	5.1	4.6	5.2	5.2	4.9	6.0	7.9
Communication	0.4	0.3	0.3	0.3	0.2	0.3	0.4
Recreation and Culture	1.0	1.0	1.6	1.3	1.4	1.4	2.1
Education	3.1	2.8	2.1	1.9	1.8	2.5	-3.8
Restaurant and Miscellaneous Goods and Services	1.9	1.4	1.8	1.9	2.6	3.6	3.9

Source of Basic Data: PSA, BSP

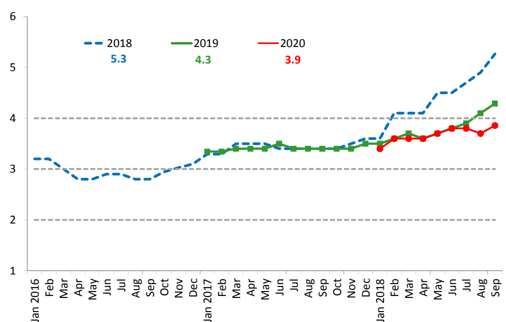
[5] This refers to the housing, water, electricity, gas, and other fuels subcomponent and accounts for 22 percent of the CPI basket.
[6] Transport inflation accounts for 8.1 percent of the CPI basket.

Private Sector Economists' Inflation Forecasts. Results of the BSP's survey of private sector economists for September 2018 showed that mean inflation forecasts for 2018-2020 were higher relative to the results in June 2018.

Private sector economists' mean inflation forecasts for 2018 – 2020 are higher

The survey on private sector economists for September 2018 showed that the mean inflation forecast for 2018 rose to 5.3 percent from 4.5 percent in the June 2018 survey.[7] Likewise, mean inflation forecasts for 2019 and 2020 increased to 4.3 percent and 3.9 percent (both from 3.8 percent in the previous survey round), respectively.

Chart 3. BSP Private Sector Economists' Survey*
mean forecast for full year; in percent
January 2016 to February 2018 (2006=100)
March 2018 to September 2018 (2012=100)



*Based on forecasts provided by 28 respondents.
Source: BSP

Analysts noted that risks to inflation in 2018 remain tilted to the upside. Possible upside risks to inflation are the higher and volatile global oil prices; impact of the implementation of R.A. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law on the prices of domestic goods; weakening peso; rise in the prices of food and other commodities due to adverse weather conditions and supply shortage; higher utility rates; rise in wages and transport fares; strong domestic demand during the holiday season and due to the upcoming election; delay in the implementation of the government's mitigating measures against rising inflation; higher government spending on infrastructure; global trade war; and higher inflation expectations. On the other hand, the key downside risks to inflation were seen to emanate from fiscal policy actions or mitigating measures such as the rice tariffication, *Pantawid Pasada* program, and unconditional cash transfers; the recent and expectations of further policy rate hikes by the BSP; and slower global growth.

Table 4. Private Sector Forecasts for Inflation
annual percentage change; September 2018 (2012=100)

	2018		2019	2020
	Q4	FY	FY	FY
1) Al-Amanah Islamic Bank	6.70	5.50	5.00	4.50
2) Asia ING	5.70	5.10	4.20	3.90
3) Banco de Oro	5.90	4.90	4.20	4.00
4) Bangkok Bank	5.50	5.00	5.00	5.00
5) Bank of Commerce	6.33	5.27	3.96	-
6) Bank of China Ltd.	7.50	7.00	5.50	5.00
7) Bank of the Philippine Islands	7.30	5.60	3.80	3.50
8) Barclays	5.70	5.10	3.50	-
9) Citibank	5.90	5.10	4.00	3.60
10) Chinabank	5.50	5.00	3.80	3.80
11) CTBC Bank	6.10	5.30	4.90	4.00
12) Credit Suisse	6.10	5.10	4.10	-
13) Deutsche Bank	-	4.80	4.40	-
14) Eastwest bank	6.40	5.30	4.30	2.70
15) Global Source	6.19	5.23	4.22	-
16) Korea Exchange Bank	5.90	5.90	4.50	4.50
17) Land Bank of the Phils.	6.40	5.30	4.30	3.80
18) Maybank	5.60	5.10	4.70	4.50
19) Maybank-ATR KimEng	5.90	5.10	3.90	3.10
20) Metrobank	-	5.20	4.20	-
21) Mizuho	5.60	5.00	4.60	4.00
22) Nomura	5.70	5.10	3.70	3.50
23) RCBC	6.00-6.50	5.20-5.30	4.30-4.80	3.00-3.50
24) Robinsons Bank	6.40	5.30	4.00	3.30
25) Philippine Equity Partners	6.50	5.30	4.60	-
26) Security Bank	5.60	5.10	4.00	3.40
27) Union Bank of the Phils.	5.80	5.10	3.90	3.80
28) UBS	6.60	5.40	4.30	-
Median Forecast	6.0	5.2	4.2	3.8
Mean Forecast	**6.1**	**5.3**	**4.3**	**3.9**
High	7.5	7.0	5.5	5.0
Low	5.5	4.8	3.5	2.7
Number of Observations	26	28	28	20
Government Target	**3.0±1.00**	**3.0±1.00**	**3.0±1.00**	**3.0±1.00**

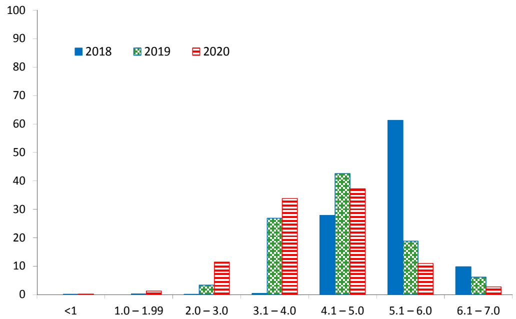
Source: BSP

Meanwhile, inflation is anticipated to moderate in 2019 and 2020 as the impact of TRAIN tapers off, global oil prices stabilize, and the government implements mitigating measures to temper inflation. However, analysts are also watchful of potential inflationary pressures from a possible RR reduction and the implementation of Package 2 of the TRAIN law.

Based on the probability distribution of the forecasts provided by 24 out of 28 respondents, there is a 0.5-percent probability that average inflation for 2018 will settle between the 2-4 percent target range, while there was a 99.5-percent chance that inflation will rise beyond 4 percent. For 2019, the respondents assigned a 30.2-percent probability that inflation will fall within the 2-4 percent target range and 69.5 percent chance that inflation will breach the upper end of the target.

[7] There were 28 respondents in the BSP's survey of private sector economists in September 2018. The survey was conducted from 6 to 14 September 2018.

Chart 4. Probability Distribution for Analysts' Inflation Forecasts* (2018-2020)



*Probability distributions were averages of those provided by 24 out of 28 respondents.
Source: BSP September 2018 Survey

Results of the September 2018 Consensus Economics inflation forecast survey for the Philippines showed that respondents expect 2018 inflation to increase to 5 percent from 4.7 percent in the August 2018 survey.[8] Likewise, mean inflation forecast for 2019 rose to 4 percent from 3.9 percent in the previous month's survey.

Based on the Q3 2018 BSP BES, a higher number of respondents in Q3 2018 expect inflation to rise in the current quarter (from a diffusion index of 63.5 percent to 68.6 percent).

Businesses and consumers expect a breach in the upper end of target range

Likewise, the number of respondents that expect inflation to increase in the next quarter went up (from 47.1 percent to 50.1 percent). Firms expect the rate of increase in consumer prices to breach the upper end of the government's 2 to 4 percent inflation target range at 4.7 percent in Q3 2018 and 4.8 percent in Q4 2018.

Likewise, CES results for Q3 2018 indicated that consumers expect inflation to breach the upper end of the government's target range of 2-4 percent in the next 12 months at 5 percent. This is higher than the 4.2 percent expected inflation rate in the Q2 2018 survey.

[8] There were 17 respondents in the Consensus Economics' survey in September 2018.

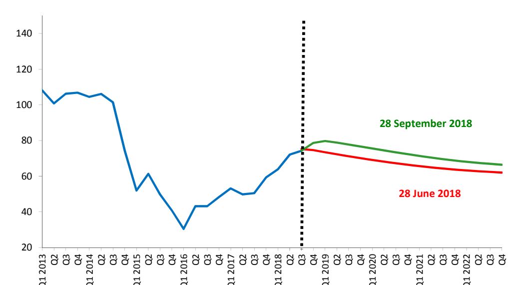
Energy prices. Dubai crude oil prices rose by 3.0 percent in Q3 2018 compared to the previous quarter due to supply concerns over production declines when US sanctions against oil exports from Iran are implemented in November as well as lower output from Venezuela. At the same time, unplanned production disruptions during the quarter from both the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC also exerted upward pressure on oil prices.

Crude oil prices increase over supply concerns

Meanwhile, the continued increase in US crude oil production remains a downside risk to prices. The US Energy Information Administration (EIA) in their September 2018 report[9] expects US crude production to average around 10.7 million barrels per day (mb/d) in 2018 and 11.5 mb/d in 2019. Likewise, ongoing trade tensions between the US and China could affect global crude demand and has led to some price reduction during the quarter.

Estimated futures prices of Dubai crude oil as of end-September 2018, which are based on movements of Brent crude oil, showed a higher path for 2018-2022 compared to the estimates in the previous quarter.[10]

Chart 5. Spot and Estimated Prices of Dubai Crude Oil



*Futures prices derived using Brent crude futures
Source: Bloomberg, BSP

[9] Source: US EIA Short-Term Energy Outlook (September 2018). https://www.eia.gov/outlooks/steo/
[10] Future prices derived using Brent crude futures data. Taken as of 28 September 2018 Source: BSP-staff calculations, Bloomberg.

In September 2018, the US EIA estimates world oil supply to grow by 2 percent in 2018 and 2019. Meanwhile, global oil consumption is projected to increase by 1.6 percent in 2018 and 1.5 percent in 2019.[11]

On a cumulative basis, net adjustments of domestic petroleum prices remained positive for the period January-September 2018. Prices of gasoline, kerosene, and diesel went up on a net basis by ₱10.85 per liter, ₱11.61 per liter, and ₱10.50 per liter, respectively. Likewise, household Liquefied Petroleum Gas (LPG) prices increased by ₱3.41 per liter in end-September compared to the end-2017 level.

Table 5. Actual Adjustments in Domestic Oil Prices (in peso per liter)

Domestic Oil Products	Year-to-Date (September 2018)					
	Increase		Decrease		Net Adjustments	
	Number	Amount (₱/liter)	Number	Amount (₱/liter)	Number	Amount (₱/liter)
Gasoline	21	24.49	17	-13.64	4	10.85
Kerosene	25	20.16	11	-8.55	14	11.61
Diesel	24	26.05	15	-15.55	9	10.50
LPG	7	6.30	3	-2.89	4	3.41

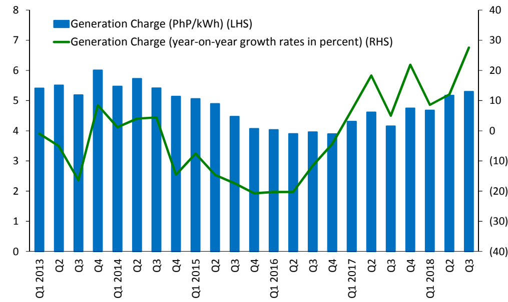
Note: Based on common prices of various market players in Metro Manila.
Source: Department of Energy (DOE)

Power. For Q3 2018, the overall electricity rate in the Meralco franchised area increased by around ₱0.02 per kilowatt hour (kWh) to ₱10.16 per kWh (from ₱10.14 per kWh in Q2 2018).

Retail electricity prices increase on upward adjustment in generation charge

The upward adjustment was due mainly to increases in generation charge. The adjustment in the generation cost in Q3 2018, on average, increased by ₱0.13 per kWh to ₱5.30 per kWh (from ₱5.17 per kWh in Q2 2018). The upward adjustment in the generation cost in Q3 2018 was primarily due to higher rates from the Wholesale Electricity Spot Market (WESM) and the Power Supply Agreements (PSAs). The higher charges from the WESM were attributed to the increase in demand for power in Luzon grid which reached a record high of 10,876 MW in the June supply month. For the PSA, higher charges were due to lower average plant dispatch and higher fuel prices.

Chart 6. Meralco's Generation Charge
Ph₱/kWh; year-on-year growth rates in percent



Source: Meralco

There are potential sources of upside pressures on electricity charges. Meralco has existing petitions for rate increases with the Energy Regulatory Commission (ERC) which include the petition to implement the Maximum Average Price for 2012, 2013, 2014, and 2015, amended application for a rate increase in the January 2014 billing (consisting of incremental fuel costs and deferred generation cost to be collected monthly for six months); and petitions for the refund of generation over/under recovery (GOUR), transmission over/under recovery (TOUR), system loss over/under recovery (SLOUR), and lifeline subsidy over/under recovery (LSOUR) for the period January-December 2011.

In addition, the Power Sector Assets and Liabilities Management (PSALM) has several pending petitions with ERC for the recovery of True-Up Adjustments of Fuel and Purchased Power Costs (TAFPPC), Foreign Exchange Related Costs (TAFxA) and Purchased Power Costs and Foreign Exchange Related Costs by the National Power Corporation (NPC), and NPC's Stranded Debt portion of the universal charge. Likewise, the National Grid Corporation of the Philippines (NGCP) also filed several petitions to recover connection charges and residual sub-transmission charges for 2011-2013 and the costs of repair on damages caused by force majeure events such as earthquake, flooding, landslides, and lightning incidents in 2011-2012.

[11] Source: US EIA Short-Term Energy Outlook (September 2018). Forecast Comparisons: International Crude Oil and Liquid Fuels.
https://www.eia.gov/outlooks/steo/pdf/compare.pdf

Aggregate Demand and Supply[12]

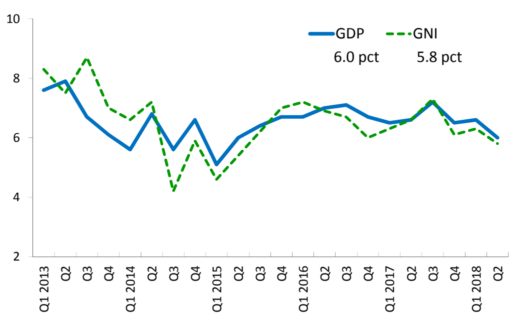
The Philippine economy grew by 6.0 percent in Q2 2018. This is lower than the 6.6-percent expansion a quarter- and a year-ago.

Real GDP is lower in Q2 2018

On the expenditure side, the slowdown in the Q2 2018 growth was due to the moderation in government and household consumption and acceleration of imports. On the production side, the lower GDP growth for the quarter was due to the services, industry and agriculture, hunting, forestry and fishing sectors.

Gross national income (GNI) growth was also lower at 5.8 percent in Q2 2018 compared to the previous quarter's growth of 6.3 percent and the Q2 2017 growth of 6.6 percent. Likewise, net primary income posted growth of 4.7 percent in Q2 2018, lower than the 5.0-percent growth in the previous quarter and the 6.6 percent growth in the same period in 2017.

Chart 7. Gross Domestic Product (GDP) and Gross National Income (GNI)
at constant prices



Source: PSA

Aggregate Demand. On the expenditure side, investments (or capital formation), household spending and government spending contributed 5.3 ppts, 3.7 ppts and 1.5 ppts, respectively to total GDP growth, offsetting the -4.6 ppts contribution of net exports.

Capital formation is key growth driver in Q2 2018

Household expenditure, which accounted for 66.0 percent of the country's output in Q2 2018, grew by 5.6 percent slightly lower than the 5.7 percent growth a quarter ago and 6.0 percent growth in Q2 2017.

The slowdown in the growth of household expenditure in Q1 2018 was accounted for by the deceleration in the consumption of housing, water, electricity, gas and other fuels, health, transport, communication, recreation and culture, education, and restaurants and hotels as well as the contraction in the consumption of clothing, footwear and alcoholic beverages and tobacco. Meanwhile, consumption on food and non-alcoholic beverages, furnishings, household equipment and routine household maintenance and miscellaneous goods and services continued to grow at a faster pace in Q2 2018 vis-a-vis Q1 2018.

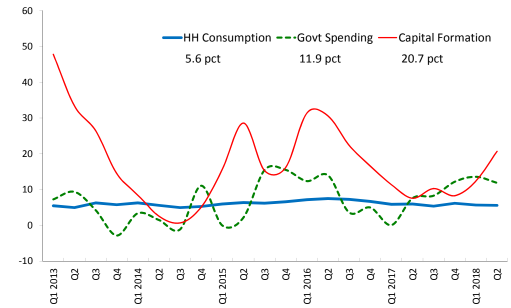
In general, consumer spending remained relatively stable in Q2 2018 even as inflation accelerated, following upward pressure on prices due to increasing international oil prices and higher excise taxes. This may be attributed to better job opportunities, as there was a reported increase in employment generation and a reduction in the unemployment rate for the first semester of 2018.[13] Furthermore, consumer outlook remains optimistic in Q2 2018 on expectations of enhanced peace and order, additional income, increased job availability, and effective government policies. Sustained inflows of cash remittances also contributed to the stable growth in consumer spending.

[12] Based on National Income Accounts (NIA) released as of 9 August 2018.

[13] Based on the Labor Force Survey (LFS) released as of 5 September 2018.

Chart 8. Gross Domestic Product by Expenditure Shares

at constant prices



Source: PSA

Government expenditures grew at a slower but still double-digit rate of 11.9 percent in Q2 2018 from 13.6 percent in Q1 2018, and higher than the 7.6 percent growth in Q2 2017. The lower growth in government spending may be attributed to the lower disbursements for personnel services, maintenance and operating expenses, and subsidies despite the higher budget allocation to local government units (LGUs).

Capital formation accelerated to 20.7 percent in Q2 2018 from 12.4 percent in Q1 2018 with higher growth in (1) private construction, (2) investments in durable equipment, and (3) intellectual property products. However, growth of breeding stock and orchard development, inventory build-up, and public construction decelerated.

Investments in durable equipment provided the largest contribution to the growth in capital formation. The higher growth was due to strong investments in machinery specialized for particular industries (i.e., construction and telecommunications), transport equipment (i.e., road vehicles and water transport), and miscellaneous equipment which grew at 34.6 percent (from 18.5 percent in Q1 2018), 34.7 percent (from 1.3 percent in Q1 2018), and 20.5 percent (from 5.1 percent in Q1 2018), respectively. This can be attributed to the government's continuing initiative towards the development of strategic infrastructure, which includes the establishment of a reliable inter-island shipping through a stronger Roll-on/Roll-off (RORO) network.

The increased investment in private construction has counterbalanced the slight moderate growth in public construction. Public construction slowed down due to the frontloading of local infrastructure projects in the earlier part of the second quarter.

Table 6. Gross Domestic Product by Expenditure Shares

at constant 2000 prices; growth rate in percent

BY EXPENDITURE ITEM	2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2
Household Consumption	5.9	6.0	5.4	6.2	5.7	5.6
Government Consumption	0.1	7.6	8.3	12.2	13.6	11.9
Capital Formation	11.4	7.6	10.3	8.3	12.4	20.7
Fixed Capital Formation	13.8	7.0	7.8	9.4	8.8	21.2
Exports	17.4	21.4	18.8	20.6	6.5	13.0
Imports	18.7	18.6	17.2	18.1	9.6	19.7

Source: PSA

Overall exports grew by 13.0 percent in Q2 2018, twice the growth of 6.5 percent in Q1 2018. This may be due to the acceleration in exports of goods (13.9 percent in Q2 2018 from 3.7 percent in Q1 2018) which contributed 10.8 percentage points to the growth of exports. This outweighed the slowdown in the exports of services which grew by 9.6 percent from 16.4 percent in the last quarter.

The fast acceleration in the exports of goods may be primarily attributed to the positive growth in the exports of semiconductors (from -5.6 percent in Q1 2018 to 22.7 percent in Q2 2018), as reflected in the worldwide increase in sales of semiconductors during the period. On the other hand, exports of agricultural products continued to contract in Q2 2018 due to the decline in export of bananas, pineapple and sugar. Moreover, exports of fishery products also decelerated to 0.8 percent growth in Q2 2018 from 100.3 percent in Q1 2018. This slowdown may be due to the weather disturbances (typhoons and monsoons) in the Visayas.

The slowdown in the exports of services may be due to the large drop in the growth of travel services to 2.2 percent in Q2 2018 from 59.3 percent in Q1 2018. This is reflected in the slowdown of tourist arrivals in the said period due to the heightened regulation of major tourist destinations in the country (e.g., temporary closure of Boracay Island in April 2018).

In the same manner, overall imports increased by 19.7 percent for Q2 2018, almost double than the 9.6 percent growth in Q1 2018. This expansion was due to the higher growth of both the imports of goods and services by 21.8 percent from 9.9 percent and 8.8 percent from 8.5 percent in Q1 2018, respectively.

The higher growth in the imports of goods for Q2 2018 was due to the increase in the imports of electronics, specifically semiconductors and electronic data processing, and transport equipment, which contributed 4.1 percentage points, 2.9 percentage points and 2.6 percentage points to the growth in imports, respectively.

The acceleration in the imports of goods may be attributed to the strong growth of services imported, in the areas of transportation (5.6 percent from -1.6 percent in Q1 2018), insurance (14.5 percent from 0.2 percent), travel (9.6 percent from 1.8 percent), and government (85.7 percent from 82.4 percent). This can be reflected from higher government spending on foreign services and travel receipts.

Other Demand Indicators. High-frequency indicators of domestic activity present mixed signals. The composite PMI remains firmly above the 50-point mark, pointing to sustained expansion across all sectors. Capacity utilization for the manufacturing sector also suggests that more than half of major manufacturing sectors operate at above 80.0 percent. However, vehicle and energy sales has slowed down. Business outlook turns less optimistic in Q3 2013 while consumer confidence weakens but remains positive.

Property Prices

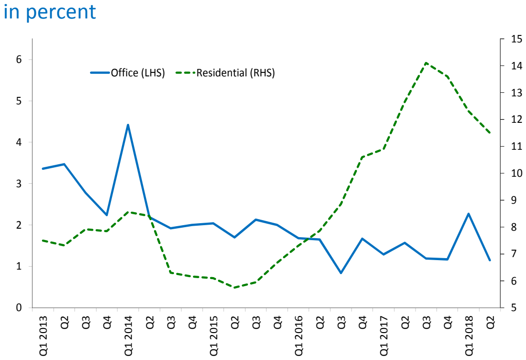
Vacancy Rates. The overall office vacancy rate in Metro Manila decreased to 4.9 percent in Q2 2018 from 5.7 percent in the previous quarter due to strong office demand across major CBDs.

Office vacancy rates decrease

Office vacancy rates in Makati Central Business District (CBD) (1.2 percent from 2.3 percent), Fort Bonifacio (3.6 percent from 4.4 percent), and Ortigas Center (3.9 percent from 6.0 percent) for Q2 2018 was lower relative to their quarter-ago levels. Meanwhile, office vacancy rates in Manila Bay Area slightly increased in Q2 2018 to 1.9 percent from 1.8 percent in the previous quarter due to the delivery of new buildings. The overall office vacancy rate in Metro Manila is projected to reach about 5.0 percent by end-2018. With the upcoming supply being matched with sustained demand, Colliers expects overall vacancy rates in Metro Manila to range between 5.3 percent to 6.0 percent in the next two to three years.

Similarly, the overall residential vacancy rate in Metro Manila decreased to 11.3 percent in Q2 2018 from 12.4 percent in Q1 2018 due to the strong demand across all residential submarkets together with the slower delivery of residential units. According to Colliers, the slower-than-scheduled delivery of residential units was primarily attributed to construction delays brought about by the shortage of construction workers. In particular, vacancy rates in the Makati CBD (11.5 percent from 12.3 percent), Fort Bonifacio (15.8 percent from 17.2 percent), Rockwell Center (10.3 percent from 11.3 percent), Ortigas Center (5.4 percent from 6.2 percent), Eastwood City (5.2 percent from 5.8 percent) and Manila Bay area (12.9 percent from 14.8 percent) were lower in Q2 2018 compared to their quarter-ago levels. The occupancy of residential units went up during the quarter due to stronger leasing demand from both foreign and local professionals working in the CBDs as well as Chinese investors and employees working for offshore gaming companies. Colliers foresees that residential vacancy rates will range to about 11-12 percent in 2018. Residential vacancy rate in Metro Manila is expected to rise to 12-13 percent in 2019-2021 upon delivery of new residential units in the succeeding years.

Chart 9. Vacancy Rates
(Makati Central Business District)
in percent



Source: Colliers International Philippines

Rental Values. Monthly Grade A office[14] rents in the Makati CBD reached ₱1,125/sq.m. in Q2 2018, representing an increase of 9.2 percent from the previous quarter. Similarly, monthly Grade A office rents in the Makati CBD were higher by 16.0 percent relative to Q2 2017.

Office rental values above 1997 levels in nominal terms

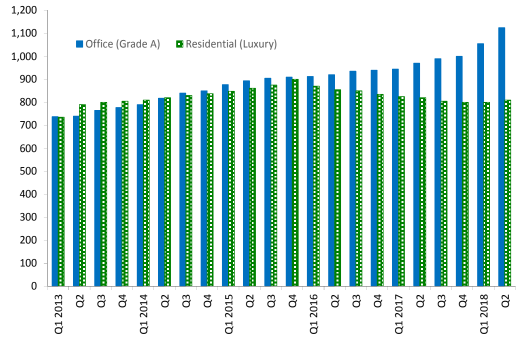
The accelerated appreciation in office rental rates was due to the pick-up of demand from BPO firms as well as brisk demand from online gaming companies, and traditional companies from the construction, telecommunications, banking and finance, warehousing and logistics, manufacturing, and government sectors. Office rental values for Grade A offices were above their 1997 levels in nominal terms. In real terms, office rental values were about 60.8 percent of the comparable levels in 1997.

Monthly rents for luxury three-bedroom condominium units in the Makati CBD was at ₱810/sq.m. in Q2 2018, declining by 0.9 percent from the previous quarter.

Luxury rental values decline

Likewise, monthly rents for the 3-bedroom segment were lower by 0.9 percent compared to the year-ago levels. Residential rental rates in the Makati CBD, Rockwell Center and Fort Bonifacio continued to drop on a y-o-y basis but a slight recovery in rental rates was observed from quarter-ago levels. According to Colliers, the take-up of condominium units from both foreign and local professionals working in the CBDs and Chinese investors and workers employed by offshore gaming companies has helped arrest the decline in rents during the quarter. Residential rental values for luxury three-bedroom high-rise units were above their 1997 levels in nominal terms but were only about 60.4 percent of their 1997 levels in real terms.

Chart 10. Rental Values
(Makati Central Business District)
price per square meter



Source: Colliers International Philippines

Capital Values. Capital values[15] for Grade A office buildings in the Makati CBD in Q2 2018 were higher in nominal terms than their quarter- and year-ago levels. Grade A office capital values in the Makati CBD rose to ₱211,300/sq.m., higher by 3.5 percent and 16.0 percent compared to the quarter- and year-ago levels, respectively. Grade A office capital values were more than two times higher than the 1997 levels in nominal terms. In real terms, office capital values were about slightly higher than the comparable levels in 1997.

Capital values for office and residential buildings rise

Likewise, capital values for luxury residential buildings[16] in Makati CBD in Q2 2018 increased to ₱210,900/sq.m. from their quarter- and year-ago levels. Average prices for three-bedroom luxury residential condominium units grew by 2.9 percent quarter-on-quarter and 9.9 percent year-on-year. Capital values for luxury residential buildings doubled from their levels in 1997. In real terms, residential capital values were about 86.8 percent of the comparable levels in 1997.

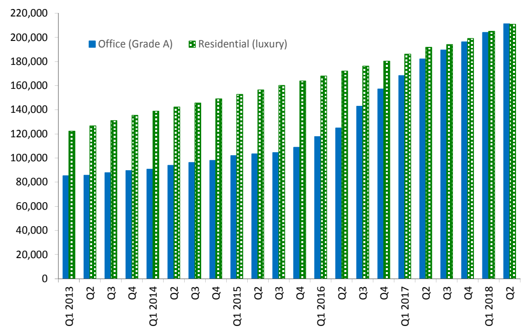
[14] Grade A office refers to office units that are located within the CBD but not in the core area and have quality access to and from the secondary or main avenues. Meanwhile, in terms of general finish, Grade A office buildings have high quality presentation and maintenance.

[15] Probable price that the property would have fetched if sold on the date of the valuation. The valuation includes imputed land and building value.

[16] In terms of location, luxury residential units are located within the CBD core and have quality access to/from and have superior visibility from the main avenue. Meanwhile, in terms of general finish, luxury residential units have premium presentation and maintenance.

Chart 11. Capital Values (Makati Central Business District)

price per square meter



Source: Colliers International Philippines

BSP Residential Real Estate Price Index.[17] Residential real estate prices rose by 4.8 percent year-on-year in Q2 2018 as the Residential Real Estate Price Index (RREPI) increased to 117.2 from 111.8 for the same quarter a year ago.

Residential real estate prices higher in Q2 2018

Year-on-year, prices of townhouses, condominium units, and single detached housing units grew by 13.3 percent, 9.1 percent and 0.8 percent, respectively. Meanwhile, prices of duplex units (which account for only 0.36 percent of total new housing units reported) declined by 4.4 percent year-on-year. Quarter-on-quarter, the RREPI edged higher by 0.8 percent. The RREPI measures the average change in prices of various types of housing units comprising of single detached house, duplex, townhouse, and condominium unit based on data from housing loans granted by universal, commercial, and thrift banks.

The average residential property prices in both the National Capital Region (NCR) and Areas Outside the National Capital Region (AONCR) climbed by 5.1 percent and 4.1 percent compared to year-ago prices, respectively.

Residential property prices higher in NCR and AONCR

In NCR, the growth in prices of condominium units and townhouses outweighed the decline in prices of single detached houses and duplexes. Meanwhile, all types of housing units in AONCR registered price increases.

Table 7. Residential Real Estate Price Index By Area

Q1 2014=100; growth rate in percent

Quarter	Residential Real Estate Price Index [1] (By Area)		
	Overall	NCR	AONCR
2016 Q1	106.9	113.4	103.3
Q2	111.7	116.1	109.3
Q3	109.6	115.7	106.2
Q4	111.1	117.3	107.9
2017 Q1	113.9	118.4	111.6
Q2	111.8	120.4	107.5
Q3	111.6	118.2	108.1
Q4	117.4	127.6	111.1
2018 Q1	116.3	121.6	112.6
Q2	117.2	126.5	111.9
	Year-on-Year Growth Rates		
2016 Q1	1.3	3.5	1.8
Q2	5.9	1.9	9.6
Q3	3.8	0.2	6.9
Q4	3.3	0.6	6.0
2017 Q1	6.5	4.4	8.0
Q2	0.1	3.7	-1.6
Q3	1.8	2.2	1.8
Q4	5.7	8.8	3.0
2018 Q1	2.1	2.7	0.9
Q2	4.8	5.1	4.1
	Quarter-on-Quarter Growth Rates		
2016 Q1	-0.7	-2.7	1.5
Q2	4.5	2.4	5.8
Q3	-1.9	-0.3	-2.8
Q4	1.4	1.4	1.6
2017 Q1	2.5	0.9	3.4
Q2	-1.8	1.7	-3.7
Q3	-0.2	-1.8	0.6
Q4	5.2	8.0	2.8
2018 Q1	-0.9	-4.7	1.4
Q2	0.8	4.0	-0.6

[1] Based on bank reports on residential real estate loans granted per BSP Circular No. 892 dated 16 November 2015.

Source: BSP

[17] The RREPI measures the average changes in prices of different types of housing units over a period of time across different geographical regions where the growth rate of the index measures house inflation. It is computed as a weighted chain-linked index based on the average appraised value per square meter weighted by the share of floor area of new housing units.

For Q2 2018, about seven in ten (77.1 percent) residential real estate loans (RRELs) were for the acquisition of new housing units. By type of housing unit, 46.1 percent of residential property loans were for the purchase of condominium units, followed by single detached units (45.6 percent) and townhouses (7.8 percent). By area, majority of the RRELs granted in the NCR were for the purchase of condominium units, while RRELs granted in AONCR were for single detached houses. By region, NCR accounted for 45.2 percent of the total number of RRELs granted during the quarter, followed by AONCR - Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) (27.9 percent), Central Luzon (6.9 percent), Central Visayas (5.9 percent), Western Visayas (5 percent), Davao Region (3.5 percent) and Northern Mindanao (1.7 percent). Together, the NCR and the six other regions accounted for 96.1 percent of total housing loans granted by banks.

Table 8. Residential Real Estate Price Index By Housing Type

Q1 2014=100; growth rate in percent

Quarter	Residential Real Estate Price Index [1] (By Housing Type)				
	Overall [2]	Single Detached/ Attached	Duplex [3]	Townhouse	Condominium Unit
2016 Q1	106.9	98.9	114.7	107.3	123.2
Q2	111.7	105.8	98.5	109.3	123.9
Q3	109.6	102.6	96.7	100.5	126.4
Q4	111.1	104.9	87.5	107.7	125.5
2017 Q1	113.9	108.0	91.2	107.6	128.3
Q2	111.8	103.6	103.6	112.7	129.3
Q3	111.6	103.4	88.4	107.8	131.0
Q4	117.4	104.6	102.6	116.4	143.3
2018 Q1	116.3	107.4	131.5	122.4	130.9
Q2	117.2	104.4	99.0	127.7	141.1
Year-on-Year Growth Rates					
2016 Q1	1.3	-0.9	10.4	4.0	8.7
Q2	5.9	8.1	0.6	12.9	3.3
Q3	3.8	5.4	-5.1	2.9	3.5
Q4	3.3	4.3	-12.3	6.4	3.6
2017 Q1	6.5	9.2	-20.5	0.3	4.1
Q2	0.1	-2.1	5.2	3.1	4.4
Q3	1.8	0.8	-8.6	7.3	3.6
Q4	5.7	-0.3	17.3	8.1	14.2
2018 Q1	2.1	-0.6	44.2	13.8	2.0
Q2	4.8	0.8	-4.4	13.3	9.1
Quarter-on-Quarter Growth Rates					
2016 Q1	-0.7	-1.7	14.9	6.0	1.7
Q2	4.5	7.0	-14.1	1.9	0.6
Q3	-1.9	-3.0	-1.8	-8.1	2.0
Q4	1.4	2.2	-9.5	7.2	-0.7
2017 Q1	2.5	3.0	4.2	-0.1	2.2
Q2	-1.8	-4.1	13.6	4.7	0.8
Q3	-0.2	-0.2	-14.7	-4.3	1.3
Q4	5.2	1.2	16.1	8.0	9.4
2018 Q1	-0.9	2.7	28.2	5.2	-8.7
Q2	0.8	-2.8	-24.7	4.3	7.8

[1] Based on bank reports on residential real estate loans granted per BSP Circular No. 892 dated 16 November 2015.
[2] No index generated for apartments due to very few observations.
[3] Indices for duplex exhibit more volatility due to relatively small number of reported real estate loans.
Source: BSP

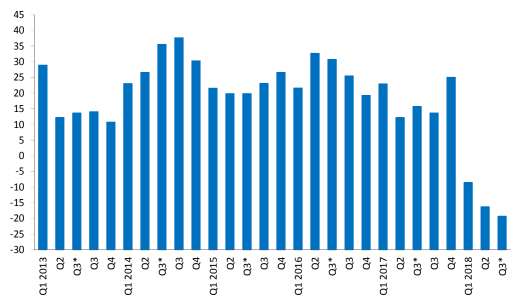
Vehicle Sales. The growth of sales of new vehicles from CAMPI[18] members contracted by 19.2 percent y-o-y in the first two months of Q3 2018 from the 15.7-percent growth recorded in the same period a year ago as sales of both passenger cars and commercial vehicles continued to decline following the imposition of higher excise tax on automobiles early this year.

Sales of new vehicles decline

Sales of passenger cars declined by 34.7 percent y-o-y in July-August 2018 from the 7.1-percent growth in the same period in 2017. New passenger car sales accrued to a total of 15,653 in the first two months of Q3 2018 units from 23,959 units in the same period a year ago.

Chart 12. Vehicle Sales

number of units



* July - August
Source: Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI)

Commercial vehicle sales, which account for about 73.2 percent of total vehicle sales, dropped by 11.6 percent y-o-y in the first two months of Q3 2018 relative to 20.5-percent growth in the same period of 2017. Commercial vehicles sold during the quarter reached 42,698 units from 48,301 units in July-August 2017.

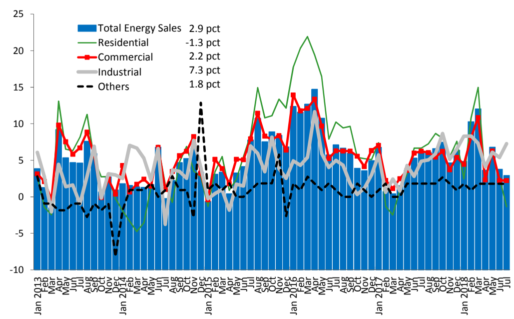
[18] Vehicle sales data is gathered on a monthly basis by the Chamber of Automotive Manufacturers of the Philippines (CAMPI). CAMPI represents the local assemblers and manufacturers of vehicle units in the Philippine automotive industry. The following are the active members of CAMPI: (1) Asian Carmakers Corp., (2) CATS Motors, Inc., (3) Columbian Autocar Corp., (4) Honda Cars Philippines, Inc., (5) Isuzu Philippines Corp., (6) Mitsubishi Motors Philippines Corp., (7) Nissan Motor Philippines Corp., (8) Suzuki Philippines Inc., (9) Toyota Motor Philippines Corp, and (10) Universal Motors Corp.

Energy Sales. Meralco's energy sales for July grew by 2.9 percent, slower compared to the 6.0-percent growth in the same period a year-ago.

Energy sales slow down

Energy sales from the residential sector contracted by 1.3 percent, while the commercial sector and industrial sector increased by 2.2 percent and 7.3 percent, respectively.

Chart 13. Energy Sales
year-on-year growth in percent



Source: Meralco, BSP calculations

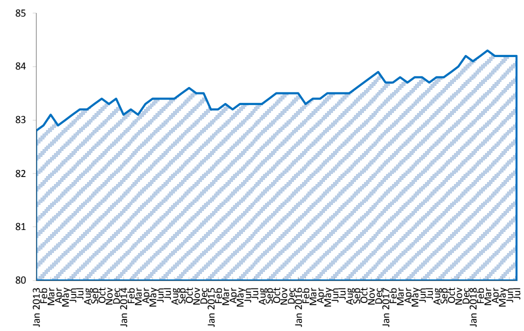
According to Meralco, the growth in electricity consumption was achieved despite coming from a high base in 2017. Growth for residential energy sales was tempered by cooler temperature from January to July in 2018 relative to the same months in 2017. Meanwhile, energy sales growth for commercial sector was mainly driven by higher consumption in Private Services, Real Estate, and Trade sub-sectors. The expansion in industrial energy sales was attributed to the growth in Electrical Machinery, Rubber & Plastic Products, and Food & Beverage sub-sectors.

Capacity Utilization. Based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI), the average capacity utilization rate of the manufacturing sector stood at 84.2 percent in July 2018, unchanged from the month-ago level.

Capacity utilization in manufacturing remains above 80 percent

Of the 682 respondent-establishments, 59.9 percent operated at least at 80.0 percent capacity in July 2018. Data showed that most of the manufacturing companies have been operating above the 80.0 percent capacity since 2010.

Chart 14. Monthly Average of Capacity Utilization for Manufacturing
in percent



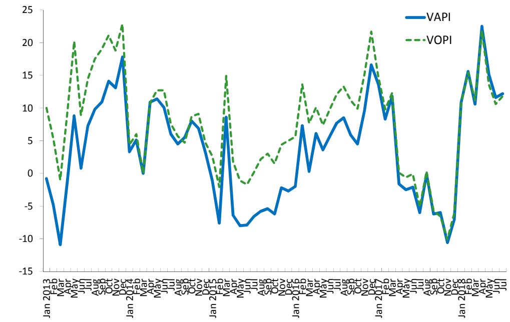
Source: PSA

Volume and Value of Production. Preliminary results of the MISSI showed that volume of production index (VoPI) grew by 11.8 percent y-o-y in July 2018 from a 10.6-percent (revised) growth in the previous month.

Manufacturing sustains growth

The rise in VoPI was due to the expansion in the production of 14 out of 20 major industries namely, petroleum products (38.3 percent), machinery except electrical (12.1 percent); beverages (21.8 percent), basic metals (19.1 percent), food manufacturing (3.7 percent), textiles (33.5 percent), electrical machinery (3.3 percent), fabricated metal products (39.7 percent), miscellaneous manufactures (19.9 percent), rubber and plastic products (9.2 percent), chemical products (2.4 percent), paper and paper products (8.6 percent), transport equipment (2.7 percent), and leather products (8.3 percent).

Chart 15. Volume and Value Indices of Manufacturing Production
year-on-year in percent



Source: PSA

The value of production index (VaPI) also grew by 12.2 percent in July from an 11.6-percent (revised) growth a month ago. This was due to the significant expansion of the following sub-sectors: petroleum products (66.5 percent), electrical machinery (10.3 percent), machinery except electrical (19.1 percent), beverages (38.3 percent), basic metals (29.9 percent), textiles (39.1 percent), miscellaneous manufactures (24.7 percent), and paper and paper products (15.4 percent).

Business Expectations. Business outlook on the economy turned less optimistic for Q3 2018, with the overall confidence index (CI)[19] of the Business Expectations Survey (BES)[20] declining to 30.1 percent from 39.3 percent in the previous quarter. This means that the number of optimists declined but continued to be greater than the number of pessimists during the quarter.

Business outlook turns less optimistic in Q3 2018

Respondents attributed their less optimistic sentiment during the third quarter to: (a) increasing prices of basic commodities in the global market, augmented by the effects of the implementation of the TRAIN law on prices of domestic goods; (b) rising overhead costs and lack of supply of raw materials; (c) seasonal factors such as interruption of business activities and lower crop production during the rainy season, slack in consumer demand as households prioritized enrollment expenses, as well as the suspension of commercial fishing in Davao Gulf from June to August; (d) depreciation of the peso; and (e) stiffer competition.

The sentiment of businesses in the Philippines mirrored the less buoyant business outlook in Canada, Chile, Hong Kong, the Netherlands, New Zealand, South Korea and the US but was in contrast to the more bullish views of those in Australia, Brazil, Denmark, Greece, Hungary, and Mexico.

Table 9. Business Expectations Survey

BUSINESS OUTLOOK INDEX		Current Quarter	Next Quarter
2015	Q1	45.2	58.2
	Q2	49.2	47.3
	Q3	41.4	53.1
	Q4	51.3	43.9
2016	Q1	41.9	49.6
	Q2	48.7	45.3
	Q3	45.4	56.8
	Q4	39.8	34.5
2017	Q1	39.4	47.2
	Q2	43.0	42.7
	Q3	37.9	51.3
	Q4	43.3	39.7
2018	Q1	39.5	47.8
	Q2	39.3	40.4
	Q3	30.1	42.6

Source: BSP

For the quarter ahead (Q4 2018), business outlook turned more upbeat as the next quarter CI rose to 42.6 percent from 40.4 percent in the previous quarter's survey results. This suggests that growth may be sustained in the last quarter of 2018.

Respondents' more positive outlook for Q4 2018 was due to expectations of: (a) uptick in consumer demand during the holiday and harvest seasons; (b) continued increase in orders and projects; (c) expansion of businesses and new product lines; (d) continued rollout of government infrastructure and other development projects; (e) more favorable weather conditions for agricultural products; and (f) opening of high seas/fishing operations in October. Positive outlook was likewise driven by respondents' expectations of more favorable macroeconomic conditions in the country for the next quarter (particularly robust GDP growth), sustained foreign investment inflows

[19] The CI is computed as the percentage of firms that answered in the affirmative less the percentage of firms that answered in the negative with respect to their views on a given indicator. A positive CI indicates an optimistic outlook while a negative CI indicates a pessimistic outlook.

[20] The BES is a quarterly survey of a random sample drawn from the combined list of firms from the Securities and Exchange Commission's Top 7,000 Corporations and BusinessWorlds' Top 1,000 Corporations. The Q3 2018 BES was conducted during the period 2 July - 29 August 2018.

and the steady stream of overseas Filipinos' (OFs) remittances.

Consumer Expectations. Consumer outlook became pessimistic in Q3 2018 as the CI[21] of the Consumer Expectations Survey (CES)[22] turned negative at -7.1 percent from 3.8 percent in the previous quarter. The negative index indicates that the pessimists outnumbered the optimists for Q3 2018.

Consumer confidence weakens but remains positive

The negative consumer outlook for Q3 2018 was mainly brought about by respondents' expectations of: (a) an increase in commodity prices; (b) low salary/income; (c) higher household expenses; (d) high unemployment rate; and (e) no increase in income. Respondents also noted concerns on higher educational expenses and higher transportation expenses as reasons behind their gloomy prospects.

Table 10. Consumer Expectations Survey

CONSUMER OUTLOOK INDEX		Current Quarter	Next 3 Months	Next 12 Months
2015	Q1	-10.0	4.4	17.3
	Q2	-16.2	-0.4	16.4
	Q3	-11.6	5.8	15.8
	Q4	-8.1	5.7	18.0
2016	Q1	-5.7	9.1	25.4
	Q2	-6.4	5.6	26.6
	Q3	2.5	27.3	43.8
	Q4	9.2	18.8	33.4
2017	Q1	8.7	16.5	31.7
	Q2	13.1	13.6	34.3
	Q3	10.2	17.8	33.7
	Q4	9.5	17.5	32.0
2018	Q1	1.7	8.8	24.0
	Q2	3.8	8.7	23.1
	Q3	-7.1	3.8	13.0

Source: BSP

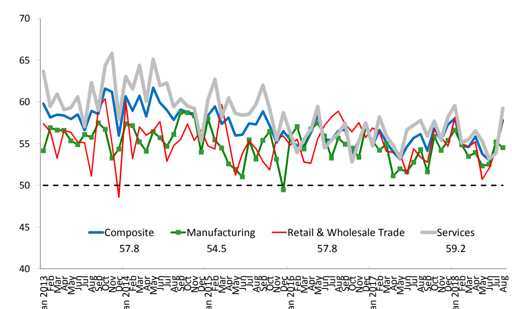
The sentiment of consumers in the Philippines for Q3 2018 mirrored the weakened confidence of consumers in Australia, Indonesia, Japan, South Korea, Switzerland, Taiwan, and United Kingdom but was in contrast to the more favorable views of those in Thailand and the United States, as well as the steady outlook in Euro Area and France.

Consumers' optimism turned less positive for Q4 2018 and the year ahead, as the CIs decline approximately by half from previous quarter's survey at 3.8 percent from 8.7 percent and at 13 percent from 23.1 percent, respectively. Similar to the reasons mentioned for the current quarter, respondents cited expectations of high prices of goods, low salary or income, and rise in expenditures as reasons for their less upbeat outlook for the near term and the year ahead.

Purchasing Managers' Index.[23] The composite PMI in August 2018 remained firmly above the 50-point expansion threshold at 57.8,[24] higher than the July 2018 figure. This was due to the faster rate of expansion of the services and wholesale and retail sectors, which offset the decline in manufacturing.

PMI remains firmly above the 50-point expansion threshold

Chart 16. Purchasing Managers' Index



Source: Philippine Institute of Supply Management (PISM)

[21] The CI is computed as the percentage of households that answered in the affirmative less the percentage of households that answered in the negative with respect to their views on a given indicator. A positive CI indicates an optimistic outlook while a negative CI indicates a pessimistic outlook.
[22] The CES is a quarterly survey of a random sample of about 5,600 households in the Philippines. The Q2 2018 BES was conducted during the period 1-14 July 2018.

[23] Data based on the monthly purchasing managers' index report of the Philippine Institute for Supply Management.
[24] The actual formula used to calculate the PMI assigns weights to each common element and then multiplies them by 1.0 for improvement, 0.5 for no change, and 0 for deterioration. As a result, an index above 50 indicates economic expansion, and an index below 50 implies a contraction. PMI surveys are conducted on the last week of the month.

The manufacturing PMI decreased marginally by 0.7 index points to 54.5 in August from 55.2 in July 2018, which is consistent with managers' expectations amid cyclical demand during the month. The slowdown in demand was reflected in the lower PMIs of the New Orders Index, Production Index, Employment Index, and Inventories Index. While demand weakened in August, the Supplier Deliveries Index, which measures the lead time of delivery of goods to clients, increased due to traffic and port congestions. Nonetheless, all the indices remained well-above the 50-point expansion threshold. In terms of the sector's performance by export category, firms generally decelerated on a month-on-month basis, especially those with export volume of 26 to 50 percent of total revenues, which posted a contraction with a PMI of 46.5. By contrast, companies with export volume of more than 50 percent of total revenues expanded from month ago level. On a per sector basis, seven subsectors grew at a faster pace namely paper (with a PMI of 55.3); motor vehicles (57.5); non-metallic minerals (57.9); publishing (54.3); food and beverages (52.9); textiles and clothing (56.7); and communications and medical equipment (55.9). The rubber and plastic, fuel, and machinery subsectors decelerated, while the following posted a contraction: basic metals and fabricated metal. Meanwhile, survey respondents expect a turnaround for the sector in September.

By contrast, services PMI rose by 5.4 index points to 59.2 in August from 53.9 a month ago. The sector expanded in August in preparation for the holiday season amid rising inflation, exchange rate volatility, and other market uncertainties. This is evident in the continued expansion of all the indices, particularly three indices that breached the 60-point mark namely the Business Activity Index (with a PMI of 63.6), Average Operating Costs Index (62.8), and New Orders Index (62). Meanwhile, nine of the 13 subsectors expanded faster in August (construction; hotels and restaurants; postal and telecommunications; provident and insurance; real estate; health and social work; business and knowledge processing; and education), one subsector expanded at a slower rate (electricity, gas, and water), while the other four subsectors posted contraction (transportation including travel agency; banking and financial intermediation; renting of goods and equipment; and miscellaneous business activities). Prospects are favorable for the sector in the month ahead.

The retail and wholesale PMI also went up by 3.5 index points to 57.8 in August from 54.3 in the previous month, attributed mainly to strong demand, increased sales, higher number of customers, and project expansions. This is evident in the expansion of all sectors in review. The Supplier Deliveries Index also rose due to the sharp increase in the Purchases Index (with a PMI of 60.5). Meanwhile, the PMI of the retail subsector increased by 6.1 index points to 62.8 in August from 56.6 in July. By contrast, the PMI of the wholesale subsector decreased to 47.7 in August due to the contraction of the subsector's Purchases and Sales Indices. Managers are expecting the sector to further accelerate in September.

External Demand[25]

Exports. Exports of goods decreased by 1.3 percent in Q2 2018, albeit at a slower rate compared to the 5.5-percent contraction in Q1 2018.

Exports of goods decrease

In the previous year, exports posted a 23.5-percent growth in the second quarter. The contraction in foreign shipments of coconut products, sugar and related products, fruits and vegetables, other agro-based products and mineral products outweighed the increase in exports of forest products and petroleum products during the quarter. Meanwhile, exports of manufactures in Q2 2018 was broadly at the same level as in Q2 2017.

Table 11. Exports of Goods
growth rate in percent

COMMODITY GROUP	2017	2018	
	Q2	Q1	Q2
Coconut Products	50.6	-39.2	-7.3
Sugar and Products	3,603.5	4.4	-70.6
Fruits and Vegetables	76.0	-21.3	-11.1
Other Agro-Based Products	38.7	-14.3	-10.5
Forest Products	827.6	103.2	98.2
Mineral Products	129.1	29.2	-16.1
Petroleum Products	14.5	-19.5	38.0
Manufactures	15.9	-5.7	0.0
Special Transactions	25.2	-4.8	21.9
Total Exports	**23.5**	**-5.5**	**-1.3**

Source: BSP staff computations based on the Foreign Trade Statistics of the PSA

[25] International Merchandise Trade Statistics (IMTS) concept

Imports. Imports grew by 19.6 percent in Q2 2018 from 6.9 percent in Q1 2018 and 8.3 percent in Q2 2017 due to the faster expansion in the importation of capital goods, raw materials and intermediate goods, mineral fuels and lubricants, and consumer goods.

Imports of goods increase

Table 12. Imports of Goods
growth rate in percent

COMMODITY GROUP	2017	2018	
	Q2	Q1	Q2
Capital Goods	9.8	8.8	17.6
Raw Materials and Intermediate Goods	10.8	7.2	17.9
Mineral Fuels and Lubricants	6.4	6.1	34.5
Consumer Goods	2.2	2.9	17.3
Special Transactions	-24.9	8.0	57.8
Total Imports	**8.3**	**6.9**	**19.6**

Source: BSP staff computations based on the Foreign Trade Statistics of the PSA

Aggregate Supply. On the production side, growth was largely due to the services sector (6.6 percent in Q2 2018 from 6.8 percent in Q1 2018), which accounted for 3.8 ppts of the 6.0 percent growth in GDP. The industry sector decelerated to 6.3 percent in Q2 2018 from 7.7 percent in Q1 2018, contributing 2.1 ppts to the growth of the economy. Lastly, the agriculture, hunting, forestry and fishing (AHFF) sector growth slowed down further to 0.2 percent in Q2 2018 from 1.1 percent in Q1 2018, contributing 0.1 ppt to the 0.2 percent growth in AHFF.

Services sector continues to support supply-side growth

Except for financial intermediation and public administration and defense, and compulsory social security, all other services sub-sectors posted growths lower than Q1 2018, namely: (1) trade and repair of motor vehicles, motorcycles, personal and household goods (6.1 percent from 6.2 percent); (2) transport, storage and communication (6.2 percent from 6.6 percent); (3) real estate, renting and business activities (3.7 percent from 4.9 percent); and (4) other services (5.8 percent from 6.9 percent).

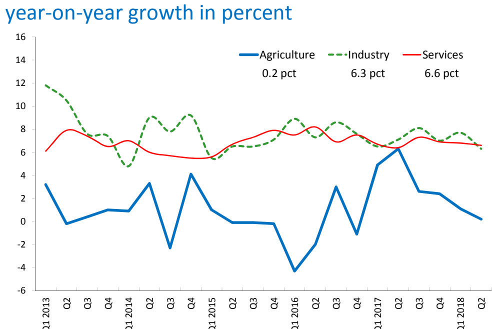
However, the services sub-sectors on financial intermediation and public administration and defense (8.7 percent from 7.8 percent) and compulsory social security (15.0 percent from 13.2 percent) recorded gains that were higher than that of Q1 2018.

The slowdown in the trade and repair of motor vehicles, motorcycles, personal and household goods subsector may be due to the lower growth in household consumption, as retail trade growth trended downwards due to the decrease in the volume of passenger car and commercial vehicle sales.

The deceleration in the transport, storage and communication was due to the lower growth in land transport, storage and services incidental to transport, communication services and water transport. However, air transport grew by 6.8 percent in Q2 2018 from 6.1 percent in Q1 2018 as reflected in the higher passenger revenues for both domestic and international flights.[26]

The lower growth in other services sub-sector was driven by the decline in health and social work, hotels and restaurants, recreational, cultural and sporting activities, and other service activities. This may have been caused by the slower growth in visitor arrivals due to tourism-related activities affected by the government's heightened regulation of major tourist destinations, such as the six-month closure of the Boracay island. However, the deceleration in the other services sub-sector has been tempered by the higher growth in education due to the enrollment season in Q2 2018.

Chart 17. Gross Domestic Product by Industrial Origin (at constant prices)
year-on-year growth in percent



Source: PSA

[26] PSA Economic Indicators

Meanwhile, the increase in the number of transactions in banking institutions and non-bank financial intermediation drove the faster growth in the financial intermediation. The positive growth in government spending for personnel services and maintenance and other operating expenses (MOOE) resulted in the acceleration in public administration and defense.

The deceleration of the industry sector may be attributed to the slower growth in manufacturing (5.6 percent in Q2 2018 from 7.6 percent in Q1 2018), electricity, gas and water supply (3.8 percent from 6.4 percent), and mining and quarrying (-10.9 percent from 6.9 percent). Meanwhile, construction growth increased to 13.5 percent in Q2 2018 from 8.8 percent in Q1 2018.

The manufacturing sub-sector's moderation may be attributed to the deceleration in the radio, television and communication equipment and apparatus; non-metallic mineral products; footwear, leather and leather products; paper and paper products; publishing and printing; rubber and plastic products; office, accounting and computing machinery; electrical machinery and apparatus; and chemical and chemical products, and the negative growth in the manufacture of furniture and fixtures, basic metal industries, and miscellaneous manufactures.

The decline in the chemical and chemical products may be attributed to the strict regulation of controlled chemical and chemical products and the high rates charged by shipping companies for transporting chemicals.

The drop in the manufacture of furniture and fixtures, and radio, television and communication equipment and apparatus may be affected by the weak external demand.

Meanwhile, the higher growth in the manufacture of food, textile, wearing apparels, wood, bamboo, cane and rattan products, petroleum and other fuel products, fabricated metal products, machinery and equipment has tempered the slowdown in manufacturing.

The utilities sub-sector grew by 3.8 percent in Q2 2018 from 6.4 percent in Q1 2018, mainly from the electricity sub-sector, following the gradual growth in Meralco sales and household spending for utilities in the second quarter of 2018. However, this was offset by the higher growth in the water sub-sector and steam production recovery.

The contraction in the mining and quarrying sub-sector may be the result of the moratorium on new large-scale mining projects, the closure of several mining pits, and the imposition of higher excise taxes in both metallic and non-metallic minerals.

Table 13. Gross Domestic Product by Industrial Origin
at constant 2000 prices; growth rate in percent

BY INDUSTRIAL ORIGIN	2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2
Agri., Hunting, Forestry and Fishing	4.9	6.3	2.6	2.4	1.1	0.2
Agriculture and Forestry	5.6	8.1	3.7	3.0	1.9	0.2
Fishing	1.2	-2.7	-2.1	-0.1	-3.6	0.3
Industry Sector	6.5	7.1	8.1	7.0	7.7	6.3
Mining and Quarrying	-17.8	19.2	7.9	5.4	6.9	-10.9
Manufacturing	7.7	8.0	10.1	7.9	7.6	5.6
Construction	9.7	4.3	4.0	4.3	8.8	13.5
Electricity, Gas and Water Supply	1.7	3.0	3.4	5.5	6.4	3.8
Service Sector	6.7	6.4	7.3	6.9	6.8	6.6
Transport, Storage and Communication	4.2	3.3	3.6	4.9	6.6	6.2
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	7.3	5.8	7.3	8.7	6.2	6.1
Financial Intermediation	7.0	9.4	8.9	5.2	7.8	8.7
Real Estate, Renting and Business Activities	7.0	8.1	7.8	6.6	4.9	3.7
Public Administration and Defense; Compulsory Social Security	5.5	8.4	8.2	8.5	13.2	15.0
Other Services	7.3	4.9	7.5	6.3	6.9	5.8

Source: PSA

The growth of the AHFF sector decelerated further to 0.2 percent in Q2 2018 from 1.1 percent in Q1 2018. The slower growth of AHFF for the quarter was due to the slowdown in agriculture, contributing 0.1 ppt to the 0.2 percent growth of AHFF.

In the agriculture sub-sector, the deceleration can be attributed to the decline in the production of palay, corn, mango, cassava, coffee, sugarcane, coconut, copra, rubber, livestock and poultry. However, the improved growth in the production of banana, pineapple, and other crops; agricultural activities and services; and forestry moderated the slowdown in agriculture, hunting and forestry.

Lower palay production in Q2 2018 was due to the early plantings in Q1 2018 given competitive price offers from traders in the Cagayan Valley and hot water conditions in SOCCKSARGEN; crop shifting to cassava and sugarcane in the Cagayan Valley; and the closure and rehabilitation of some of the National Irrigation Administration (NIA) canals in SOCCKSARGEN.

Meanwhile, fishing reverted to a positive growth of 0.3 percent in Q2 2018 from -3.6 percent in Q1 2018.

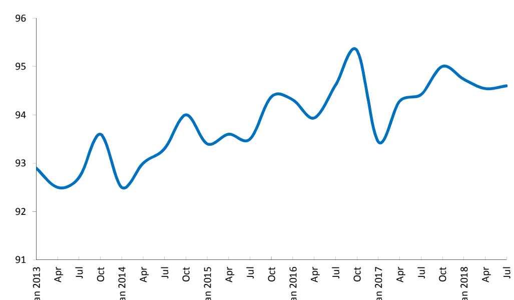
Labor Market Conditions

Similar to the results of the January 2018 and April 2018 rounds of the Labor Force Survey (LFS), the Philippine labor market improved in terms of quantity but slightly deteriorated in terms of quality in the July 2018 round of the LFS. The country's employment rate, overall unemployment rate and youth unemployment rate all improved compared to the same period a year ago while the overall underemployment rate continued to increase.

Labor market shows improvement

During the period, the employment rate rose to 94.6 percent, the unemployment rate declined to 5.4 percent and the youth unemployment rate dropped to 14.1 percent, better compared to respective rates in July 2017 at 94.4 percent, 5.6 percent, 15.2 percent, respectively. These brought the country closer to the targets of the government of reducing the overall unemployment rate to 3.0-5.0 percent and the youth unemployment rate to 8 percent by 2022. However, the government also needs to take more actions to improve the quality of employment as underemployment rate in the country went up again to 17.2 percent level, after settling at 16.3 percent in the third quarter of 2017. For the first three quarters of 2018, the underemployment rate averaged at 17.4 percent.

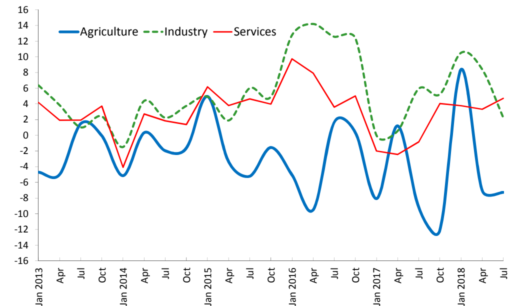
Chart 18. Employment Rate
in percent



Source: PSA

The 94.6 percent employment rate in July 2018 is one of the highest among the July rounds of LFS since 2005.[27] This is equivalent to 488 thousand more employed people compared to the level a year ago, which brings the total of employed individuals to 40.7 million.

Chart 19. Employment by Sector
in percent



Source: PSA

The main employment contributor continued to be the services sector, with net employment gain of 1.1 million or 4.7 percent growth, coming mainly from wholesale and retail trade with 3.2 percent growth. This was followed by the industry sector, with net employment gain of 172,000 or 2.2 percent growth partly due to strong employment in manufacturing subsector that expanded by 4.3 percent. The share to total employment of the manufacturing subsector at 9.0 percent in July 2018 is the highest since the first quarter of 2008. Employment in agriculture sector, however, declined again with net employment loss of 737 thousand or 7.3 percent contraction. This appears to be consistent with the rice and corn situation outlook of the government which projects a possible decline in production of both rice and corn in the third quarter of 2018 due to delayed plantings resulting from late release of irrigation water and late onset of rainfall.[28] Notwithstanding, for the first three quarters of 2018, the average employment generated was 1.2 million, on track in meeting the government's target of 900,000-1.1 million employment generation for 2018.[29]

The 5.4 percent unemployment rate in July 2018 is equivalent to 2.3 million unemployed individuals. The latest unemployment rate is one of the lowest rates that was recorded by the country for the third quarter since 2005.[30] However, this latest unemployment rate led to a

[27] The other highest employment rate was also at 94.6 percent in July 2016.

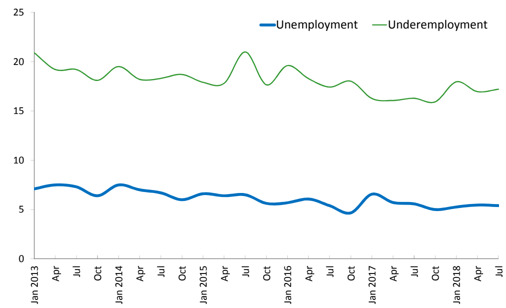
[28] Philippine Statistics Authority (2018), "Rice and Corn Situation and Outlook, July 2018 Round," Special Release 2018-207, 14 August.

[29] NEDA (2018), "Employment Up, Unemployment Down in July 2018," NEDA Press Release, 5 September.

[30] The other lowest unemployment rate was also at 5.4 percent in July 2016.

ytd unemployment rate of 5.4 percent, still beyond the 4.7 to 5.3 percent target of the government for 2018. Among the youth (15-24 age group), the unemployment rate dropped from 15.2 percent in July 2017 to 14.1 percent in July 2018, but as before, this youth unemployment rate remains more than twice of the country's national rate. Also, majority of the unemployed are still the junior high school graduates (30.1 percent share) and college graduates (18.8 percent).

Chart 20. Unemployment and Underemployment
in percent



Source: PSA

Meanwhile, the 17.2 percent underemployment rate in July 2018 is equivalent to 7.0 million underemployed individuals, majority of which are visible (52.9 percent) and are employed in the services (46.8 percent share) and agriculture (32.4 percent share) sectors. On a positive note, however, other aspects of quality of employment improved during the period as evidenced by higher share of remunerative work or wage and salary workers (65.3 percent in July 2018 from 63.6 percent a year ago) and the increase in overall mean hours of work (hours per week) (43.0 in July 2018 from 42.2 in July 2017), which could imply that economic activity increased in the third quarter of 2018.

To further improve the employment condition in the country, the government recognizes the need to equip students with industry-relevant competencies and for stronger linkages between employers, the academe, and the government to ease access to employment information and opportunities.[31] Reforms in labor laws are also crucial to maintain competitiveness and create more employment amid the changing needs of the labor market, particularly with the emergence of new technologies.[32]

[31] National Economic and Development Authority (NEDA) (2018).
[32] NEDA (2018).

II. Monetary and Financial Market Conditions

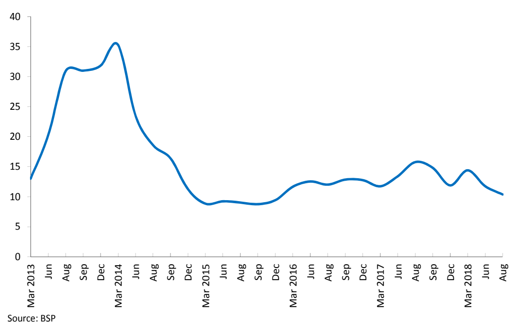
Domestic Liquidity

Domestic liquidity (M3) grew by 10.4 percent y-o-y in August to ₱11.2 trillion, slower than the 11.8-percent expansion as of end-Q2 2018.

Domestic liquidity continues to increase

Money supply continued to increase due mainly to sustained demand for credit. Domestic claims grew by 15.0 percent in August from the 16.1-percent expansion in end-Q2 2018 as credit to the private sector continued to grow. On the other hand, net claims on the central government expanded by 8.7 percent in August from 12.8 percent in end-Q2 2018, on account of higher deposits of the NG with the BSP.

Chart 21. Domestic Liquidity
year-on-year growth rates in percent



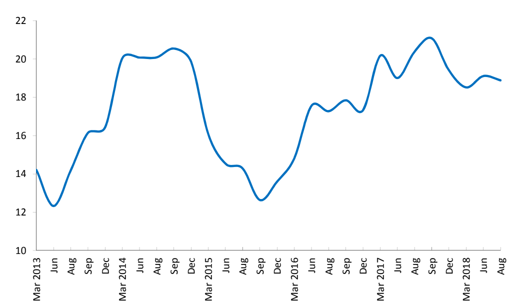
Meanwhile, net foreign assets (NFA) in peso terms contracted by 1.3 percent y-o-y in August, reversing the 2.8-percent expansion in end-Q2 2018. The BSP's NFA position declined in August, reflecting the decrease in gross international reserves. The NFA of banks also contracted as banks' foreign assets grew at a slower pace relative to the growth in their foreign liabilities. Banks' foreign liabilities expanded due mainly to the higher placements and deposits made by foreign banks with their local branches.

Outstanding loans of commercial banks, net of RRP placements with the BSP, increased by 18.9 percent y-o-y as of August 2018, slower than the 19.1-percent and 21.1-percent growth rates posted at end-Q2 2018 and end-Q3 2017, respectively.

...as lending sustains growth due to production activities

The sustained increase in bank lending was due largely to loans for production activities, which expanded by 19.1 percent y-o-y in August 2018 from 19.2-percent growth in end-Q2 2018 and 20.7-percent rise in end-Q3 2017. The expansion in production loans was driven primarily by increased lending to the following sectors: wholesale and retail trade; repair of motor vehicles and motorcycles; financial and insurance activities; real estate activities; manufacturing; electricity, gas, steam and airconditioning supply; and construction.

Chart 22. Loans Outstanding of Commercial Banks
year-on-year growth rates in percent



Meanwhile, loans for household consumption grew by 15.8 percent as of August 2018, lower than the 17.8-percent and 20.0-percent growth rates recorded in end-Q2 2018 and end-Q3 2017, respectively.

Monetary Operations

As of end-Q3 2018, majority of the BSP's monetary operations had been through the term deposit facility (TDF), comprising about 50.9 percent of total. Meanwhile, the BSP's deposit facilities – namely, the reverse repurchase (RRP) facility and the overnight deposit facility (ODF), made up the remaining 49.1 percent.

Market demand for the TDF remained generally strong during the review quarter. The average bid-to-cover ratios for the 7-day, 14-day and 28-day tenors were at 1.2, 1.2, and 1.0, respectively, from 1.3, 1.1, and 1.0 in the previous quarter.[33] On the other hand, the average bid-to-cover ratio for the daily RRP facility remained at about 1.0 during the quarter. The continued strong demand for all tenors could be attributed to the continuing normalization of liquidity conditions and higher interest rates.

Offer volumes for the various tenors of the TDF were reviewed and adjusted accordingly, based on the BSP's assessment of prevailing liquidity conditions. The TDF auctions are conducted every Wednesday while the RRP auction is a daily fine-tuning operation.

Credit Conditions

Credit Standards. Results of the Q3 2018 Senior Bank Loan Officers' Survey (SLOS) showed that most of the respondent banks[34] continued to maintain their credit standards for loans to both enterprises and households during the quarter based on the modal approach.[35]

Majority of banks keep credit standards steady

This is the 38th consecutive quarter since Q2 2009 that the majority of respondent banks reported broadly unchanged credit standards.

Meanwhile, the diffusion index (DI) approach[36,37] showed a net tightening of credit standards for both loans to enterprises and households. In the previous quarter, credit standards for loans to enterprises and households also showed a net tightening based on the DI approach.

Lending to Enterprises. Most banks (76.7 percent of banks that responded to the question) indicated that credit standards for loans to enterprises were maintained during the quarter using the modal approach.

Table 14. General Credit Standards for Loans to Enterprises (Overall)

	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tightened Considerably	0.0	0.0	0.0	0.0	0.0	3.6	2.3
Tightened Somewhat	6.7	10.0	7.4	3.7	3.7	10.7	18.6
Remained Basically Unchanged	**93.3**	**90.0**	**88.9**	**88.9**	**92.6**	**82.1**	**76.7**
Eased Somewhat	0.0	0.0	3.7	7.4	3.7	3.6	0.0
Eased Considerably	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**6.7**	**10.0**	**3.7**	**-3.7**	**0.0**	**10.7**	**18.6**
Weighted Diffusion Index for Credit Standards	**3.3**	**5.0**	**1.9**	**-1.9**	**0.0**	**7.1**	**9.3**
Mean	2.9	2.9	3.0	3.0	3.0	2.9	2.8
Number of Banks Responding	**30**	**30**	**27**	**27**	**27**	**28**	**43**

Note: A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
Source: BSP

Meanwhile, results based on the DI approach pointed to a net tightening of credit standards for the quarter, which was largely attributed by respondent banks to their perception of stricter financial system regulations. DI-based results in terms of specific credit standards[38] pointed to stricter collateral requirements and loan

[33] The BSP started offering the 14-day tenor on 14 February 2018 while the 28-day tenor was reoffered starting 7 February 2018.
[34] Starting in the Q3 2018 survey round, the BSP expanded the coverage of the SLOS to include new foreign commercial banks and top thrift banks. Survey questions were sent to a total of 66 banks (42 universal and commercial banks and 24 thrift banks) for the Q3 2018 survey round, 46 of whom sent their responses representing a response rate of 69.7 percent. In the previous survey round (Q1 2009 - Q2 2018), the survey covers only universal and commercial banks.
[35] In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.

[36] In the diffusion index approach, a positive DI for credit standards indicates that the proportion of banks that have tightened their credit standards are greater compared to those that eased ("net tightening"), whereas a negative DI for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
[37] From Q1 2010 to Q4 2012 survey rounds, the BSP used largely the DI approach in the analysis of survey results. Beginning in Q1 2013, the BSP used both the modal and DI approaches in assessing the results of the survey.
[38] The survey questionnaire asks banks to describe changes in six specific credit standards: (1) loan margins (price-based); (2) collateral requirements; (3) loan covenants; (4) size of credit lines; (5) length of loan maturities; and (6) use of interest rate floors. A loan covenant is an agreement or stipulation laid down in loan contracts, particularly contracts with enterprises, under which the borrower pledges either to take certain action (an affirmative covenant), or to refrain from taking certain action (a negative covenant); this is consequently part of the terms and conditions of the loan. Meanwhile, an interest rate floor refers to a minimum interest rate for loans. Greater use of interest rate floor implies tightening while less use indicates otherwise.

covenants, and increased use of interest rate floors.

In terms of borrower firm size, banks' responses indicated a net tightening of credit standards for loans across all firm sizes namely, top corporations, large middle-market enterprises, small and medium enterprises (SMEs) and micro-enterprises based on the DI approach.

For the next quarter, results based on the modal approach showed that most of the respondent banks anticipate unchanged credit standards. Meanwhile, results based on the DI approach showed that more respondent banks expect overall credit standards for business loans to tighten over the next quarter compared to those that expect the opposite, on account of banks' less favorable economic outlook and expectations of a deterioration of the profile of their corporate borrowers.

Lending to Households. The results of the survey also showed that most respondent banks (75.0 percent) kept their overall credit standards unchanged for loans extended to households during the quarter based on the modal approach. Meanwhile, results based on the DI approach reflected a net tightening of credit standards for household loans, particularly for auto loans and personal salary loans.

Table 15. General Credit Standards for Loans to Households (Overall)

	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tightened Considerably	0.0	0.0	0.0	0.0	0.0	0.0	6.3
Tightened Somewhat	0.0	9.1	5.0	0.0	15.8	5.9	12.5
Remained Basically Unchanged	**100.0**	**81.8**	**90.0**	**90.5**	**78.9**	**94.1**	**75.0**
Eased Somewhat	0.0	9.1	5.0	9.5	5.3	0.0	6.3
Eased Considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**0.0**	**0.0**	**0.0**	**-9.5**	**10.5**	**5.9**	**12.5**
Weighted Diffusion Index for Credit Standards	**0.0**	**0.0**	**0.0**	**-4.8**	**5.3**	**2.9**	**9.4**
Mean	3.0	3.0	3.0	3.1	2.9	2.9	2.8
Number of Banks Responding	**21**	**22**	**20**	**21**	**19**	**17**	**32**

Note: A positive diffusion index for credit standards indicates that more banks have tightened their credit standards compared to those that eased ("net tightening"), whereas a negative diffusion index for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").
Source: BSP

The overall net tightening of standards for household loans reflected reduced credit line sizes, stricter collateral requirements and loan covenants, shorter loan maturities, and increased use of interest rate floors. Respondent banks attribute the tightening of overall credit standards for household loans to their reduced tolerance for risk, deterioration in the liquidity of banks' portfolio as well as in borrowers' profiles, and less favorable economic outlook.

In terms of respondent banks' outlook for the next quarter, results based on the modal approach indicated that the majority of the respondent banks anticipate maintaining their overall credit standards. Meanwhile, DI-based results pointed to expectations of overall net tightening of credit standards for household loans as respondent banks anticipate reduced tolerance for risk, deterioration in the liquidity of their portfolio, as well as weakening of borrowers' profiles and decreased deposit base of banks in the next quarter.

Loan demand. Responses to the survey question on loan demand indicated that the majority of the respondent banks continued to see stable overall demand for loans from both enterprises and households.

Demand for loans from firms and households remain stable

Using the DI approach, however, results showed a net increase in loan demand[39] across all firm sizes and all types of household loans. The net increase in loan demand for firms was attributed by banks to their customers' higher working capital requirements as well as increased investment in plant or equipment, and improvement in corporate customers' economic outlook during the quarter. Meanwhile, respondent banks attributed the net increase in loan demand from households to increased household consumption and more attractive financing terms offered by banks, among others.

Over the next quarter, most of respondent banks expect unchanged overall loan demand from firms. However, results based on the diffusion index approach show a net increase in overall loan demand for business loans as respondent banks anticipate that their corporate clients would need higher working capital and increase their investment in plant or equipment in the next quarter. Most of the respondent banks likewise expect unchanged loan demand from households

[39] The "DI for loan demand" refers to the percentage difference between banks reporting an increase in loan demand and banks reporting a decrease. A positive DI for loan demand indicates that more banks reported an increase in loan demand compared to those stating the opposite, whereas a negative DI for loan demand implies that more banks reported a decrease in loan demand compared to those reporting an increase.

in Q4 2018. However, a larger proportion of respondents expect overall demand for household loans to increase in the next quarter relative to those who indicated the opposite. The anticipated net increase in household loan demand was attributed by respondent banks to higher household consumption and investment and banks' more attractive financing terms.

Real Estate Loans. Most of the respondent banks (84.6 percent) indicated unchanged credit standards for commercial real estate loans in Q3 2018.

Majority of banks maintain credit standards for real estate loans

The DI approach, however, continued to indicate a net tightening of overall credit standards for commercial real estate loans for the eleventh consecutive quarter. The tighter overall credit standards for commercial real estate loans reflected respondent banks' wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors. Over the next quarter, while majority of the respondent banks foresee maintaining their credit standards for commercial real estate loans, DI-based results point to expectations of continued net tightening of credit standards for the said type of loan.

Demand for commercial real estate loans was also unchanged in Q3 2018 based on the modal approach. A number of banks, however, indicated decreased demand for the said type of loan on the back of lower working capital needs of corporate customers as well as an increase in corporate customers' internally-generated funds. Over the next quarter, although most of the respondent banks anticipate generally steady loan demand, a number of banks expect demand for commercial real estate loans to increase.

Meanwhile, credit standards for housing loans extended to households were unchanged based on both modal and DI approaches reflecting unchanged profitability in asset portfolios of respondent banks as well as banks' unchanged tolerance for risk and steady profile of borrowers. Over the next quarter, results based on the modal approach showed that respondent banks foresee unchanged credit standards for housing loans. However, using the diffusion index approach, respondent banks expect a net easing of credit standards for housing loans in Q4 2018 as they anticipate an improvement in the profitability and liquidity of their portfolios, increased tolerance for risk, and expectations of more aggressive competition from other lenders. Most banks reported unchanged housing loan demand in Q3 2018 based on the modal approach while DI-based results pointed to a net increase in demand for housing loans during the quarter. Banks' responses likewise indicated expectations of sustained net increase in demand for housing loans over the next quarter.

Interest Rates

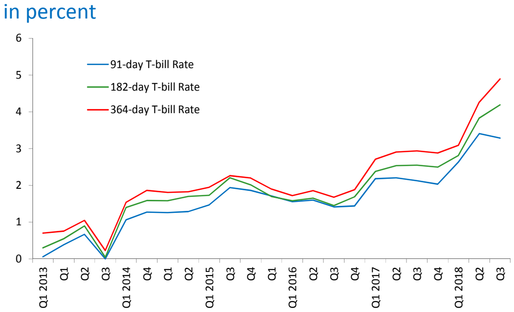
Primary Interest Rates

In Q3 2018, the average rates for the 182-day and 364-day T-bills in the primary market increased to 4.190 percent and 4.892 percent, respectively from 3.829 percent and 4.262 percent in the previous quarter. However, the 91-day T-bill rate decreased to 3.283 percent from 3.408 percent for the same period.

182-day and 364-day T-bill rates in the primary market increase

The results of the auction reflected strong market preference for the shorter-tenored notes amid ample liquidity and the August and September interest rate hikes by the BSP and the US Federal Reserve.

Chart 23. Treasury Bill Rates
in percent



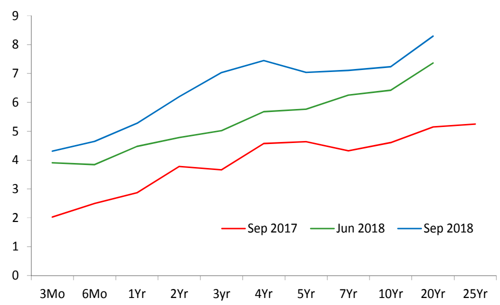
Yield Curve. As of end-September 2018, the secondary market yield for government securities (GS) for all tenors rose relative to the end-June 2018 levels following Fitch Ratings' and Moody's Investor Service's affirmation of the country's investment grade credit rating and as market players remained cautious amid lingering concerns over high inflation.

Yield curve rose in end-June 2018

Debt paper yields were higher by a range of 40.2 bps (3-month GS) to 201.2 bps (3-year GS) compared to end-June 2018 levels.

Chart 24. Yields of Government Securities in the Secondary Market

in percent



Source: Bloomberg

Relative to year-ago levels, the secondary market yields of GS for all maturities likewise increased by a range of 215.0 bps for the 6-month GS to 336.9 bps for the 3-year GS.

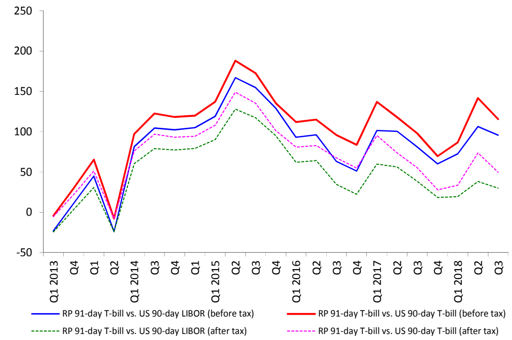
Interest Rate Differentials. The average differentials between domestic and US interest rates, gross and net of tax, narrowed in Q3 2018 relative to the previous quarter.

Interest rate differentials narrow in Q3 2018

The average 91-day RP T-bill rate declined q-o-q by 10.6 bps to 3.295 percent in Q3 2018 from 3.401 percent in Q2 2018. Meanwhile, the average US 90-day LIBOR declined marginally by -0.1 bp to 2.337 in Q3 2018 from 2.338 percent in Q2 2018 while the US 90-day T-bill rate increased by 15.6 bps to 2.140 percent from 1.984 percent for the same period. These developments led to narrower positive gross and net of tax differentials between the 91-day RP T-bill rate and US interest rates. Domestic and foreign interest rates rose during the quarter following the BSP's 100-bp and the US Fed's quarter point policy rate hikes.

Chart 25. Interest Rate Differentials

quarterly averages; in basis points

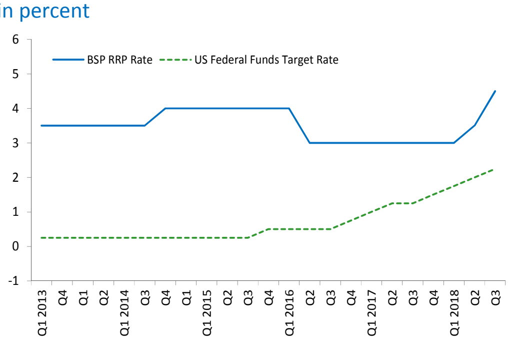


Source: Bloomberg, BTr and BSP

The positive differential between the BSP's overnight borrowing or RRP rate and the US Fed funds target rate widened to a range of 225-250 bps in Q3 2018 from 150-175 bps in Q2 2018, reflecting the impact of the 100-bp increases in the BSP's RRP rate to 4.00 percent on 9 August and 4.50 percent on 27 September as well as the 25-bp increase in the US Fed funds target rate to 2.00-2.25 percent on 27 September 2018.

Chart 26. BSP RRP Rate and US Federal Funds Target Rate

in percent



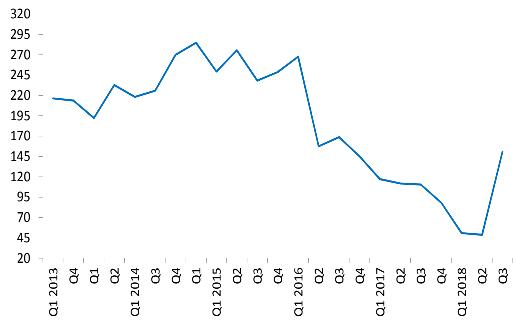
Source: Bloomberg and BSP

Meanwhile, the interest rate differential between the BSP's overnight RRP rate and the US Fed funds target rate adjusted for risk[40] widened to 151 bps as of end-September 2018 from 49 bps in end-June 2018. This development could be traced

[40] The difference between the 10-year ROP note and the 10-year US Treasury note is used as proxy for the risk premium.

to the 75-bp rise in the positive interest rate differential between the BSP's RRP rate and the US Fed funds target rate combined with a lower risk premium following the 18-bp increase in the 10-year US note and the 9-bp decrease in the 10-year ROP note.

Chart 27. Risk-Adjusted Differentials
in basis points



Source: Bloomberg and BSP

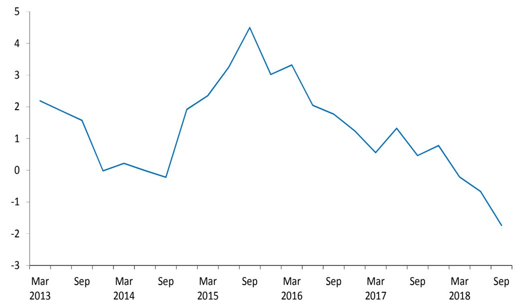
The mixed trend in the 10-year ROP note and the 10-year US note can be attributed to the safe-haven buying of risky assets following the continued trade tensions between the US and its major trading partners (China, the European Union, Mexico, Canada and Turkey), investors' optimism following the overhaul of the North American Free Trade Agreement (NAFTA) by the US and Mexico, market expectations of a less accommodative monetary policy by the Bank of Japan (BOJ), and the release of stronger-than-expected US data on personal consumption, retail sales, non-farm payrolls, new orders for US manufactured durable goods, new home sales, US industrial output and factory growth, and wage growth.

Domestic real lending rate[41] decreased further to -1.7 percent in September 2018 from -0.7 percent in June 2018.

Real lending rate decreases further

This was due to the 150-bp rise in inflation to 6.7 percent (2012=100) combined with the 50-bp increase in actual bank lending rate[42] to 5.0 percent in September 2018.

Chart 28. Philippines' Real Lending Rate
in percent



Source: PSA and BSP

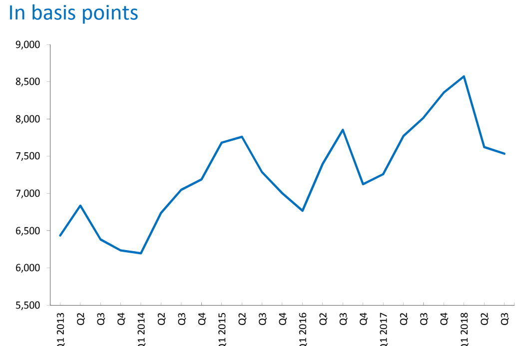
The Philippines' real lending rate at -1.7 percent in September 2018 remained the lowest for the seventh consecutive month in a sample of 10 Asian countries, with Indonesia recording the highest real lending rate at 7.5 percent followed by India at 5.5 percent while Japan posted second to the lowest at -0.3 percent.

Financial Market Conditions

The domestic financial system in Q3 reflected the volatility stemming primarily from the external environment. Nevertheless, sound banking system and firm economic growth prospects supported investor appetite for domestic assets.

Stock Market. During the third quarter of the year, the Philippine Stock Exchange index (PSEi) continued to decline 2.2 percent, q-o-q, to average 7,452.93 index points during the review period.

Chart 29. Quarterly Average PSEi
In basis points



Source: Philippine Stock Exchange, BSP

In the first two months of the third quarter, the benchmark index showed some signs of recovery as foreign funds began to flow back in the country following Fitch Ratings' and Moody's Investors Service affirmation of the country's investment

[41] Real lending rate is measured as the difference between actual bank lending rate and inflation.
[42] The actual bank lending rate for the Philippines is the weighted average interest rate charged by reporting commercial banks on loans and discounts granted during the period.

grade credit rating[43] and on positive corporate earnings reported for the first semester. However, the acceleration of domestic inflation in July and the slower-than-expected growth of the Philippine economy in Q2 soon saw the index pull back slightly.

In the last month of the quarter, the benchmark index declined on profit-taking after the August inflation data hit a fresh nine-year peak and on inflation jitters due to the impact of supertyphoon Ompong. Escalating trade tension between the US and China, particularly after China pulled out of trade talks with the US, also weighed on the market and saw the benchmark drop to bear market territory on 19 September. The quarter closed at 7,276.82 index points on 28 September, higher by 1.2 percent than the closing level of June, but averaging 2.2 percent lower q-o-q at 7,452.93 index points.

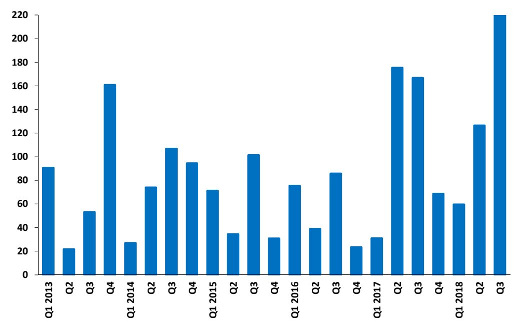
Despite the index's q-o-q decline, total market capitalization rose by 3.2 percent to close at ₱16.29 trillion in end-September from ₱15.79 trillion in end-June. Foreign investors also continued to post net sales amounting to ₱19.41 billion from July to September, albeit lower than the ₱31.78 billion net sales posted in the preceding quarter. Meanwhile, the price-earnings ratio for listed issues were also volatile during the review period rising from 18.37x in end-June to 20.18x in end-August before dipping again to18.69x in end-September.

Government Securities. Results of the T-bill auctions conducted in Q3 2018 (July-September) continued to show robust demand for T-bills with total subscription for the quarter amounting to ₱414.1 billion, about 2.1 times the ₱195.0-billion total offered amount. The oversubscription for Q3 2018, at ₱219.1 billion, was higher than the ₱124.4-billion oversubscription in the previous quarter.

Demand for local GS remains strong

The Bureau of Treasury (BTr) awarded in full all the ₱4.0-billion, ₱5.0-billion and ₱6.0-billion offered amount for the 91-, 182- and 364-day T-bills during the auctions on 23 July, 30 July, 6 August, 13 August, 20 August, 28 August, and 3 September, while the BTr made partial awards for the other auction schedules during the quarter. For the 91-day T-bills, the BTr awarded in full the ₱4.0-billion offered amount during the 2 July, 9 July, and 16 July auctions; while it partially awarded bids for the 10-September auction. At the same time, the BTr rejected all bids for the 91-day T-bill on 17 September. For the 182-day T-bills, the BTr partially awarded bids for the 2-July, 9-July and 16-July auctions vis-à-vis the ₱5.0-billion offered amount; while it fully awarded bids on the 10-September and 17-September auctions. For the 364-day T-bills, the BTr partially awarded bids for the 2-July, 9-July, 16-July and 17-September auctions vis-à-vis the ₱6.0-billion offered amount, while it made full award during the 10-September auction. Moreover, the BTr rejected all bids for the 24-September auction.

Chart 30. Total Oversubscription of T-bill Auctions



Source: Bureau of the Treasury

Sovereign Bond and CDS Spreads. In July, debt spreads narrowed due to some positive external developments such as the agreement between the US and the EU to work together towards eliminating all tariffs, trade barriers and subsidies related to non-auto industrial goods. Locally, the affirmation of Fitch Ratings' and Moody's Investors Service of the country's investment grade credit rating helped boost investor confidence, keeping debt spreads relatively tight during the period.

Debt spreads narrow due to some positive external developments

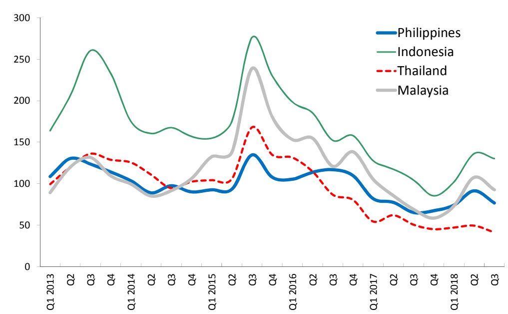
[43] On 17 July, Fitch affirmed the Philippines credit rating at "BBB" with a "stable" outlook, amid strong growth prospects, even as it flagged rising inflation, rapid bank lending and a growing trade gap that could signal overheating risks. Later, on 20 July, Moody's affirmed the Philippines' "Baa2" rating and "stable" outlook, citing the economy's overall strength, even as it flagged risks from rising inflation and the planned shift in government form.

In August, debt spreads narrowed further as the US appeared to outpace other advanced markets in terms of growth as the economy grew above 2 percent in Q1 2018 for the fifth consecutive quarter on broad based domestic demand. Moreover, labor market conditions also strengthened as initial jobless claims continued to decline. The strong optimism of investors was buoyed more by the US Fed's upbeat statement about the country's strong economy, indicating an almost 100 percent probability of a rate hike in the then upcoming September meeting.

In September, debt spreads took a negative turnaround and widened due to spillover concerns of the Turkish currency and debt crisis. Investors associated some additional risk weight to other emerging market economies, thereby creating volatility and contagion jitters. Domestically, the release of August inflation data show a nine-year peak at 6.4 percent. This was the highest figure recorded since inflation accelerated to 6.6 percent in March 2009. Also, Q2 real GDP growth decelerated at 6.0 percent, falling short of market expectations.

As of end-September, the Philippines' 5-year sovereign CDS stood at 77 bps, lower than the 91 bps in end-2Q 2018. It has remained lower than Indonesia's 130 bps and Malaysia's 94 bps but higher than Korea's 37 bps and Thailand's 40 bps in the current quarter.

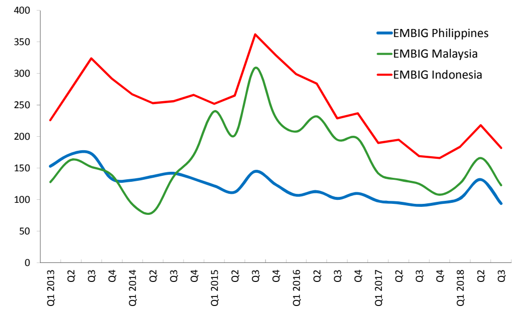
Chart 31. 5-Year CDS Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

Similarly, the Emerging Market Bond Index Global (EMBIG) Philippines ended the quarter narrower at 94 bps when compared to the previous quarter's closing of 132 bps.

Chart 32. EMBIG Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

Banking System

The Philippine banking system continued to lend support to long-term economic growth and stable financial condition. During the review quarter, banks' balance sheets exhibited sustained growth in assets and deposits.

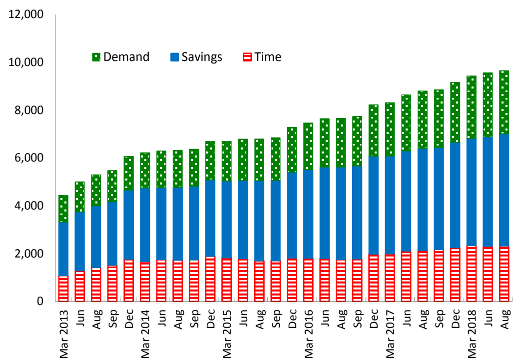
> Philippine banking system exhibits steady growth in assets and deposits

Furthermore, asset quality indicators remained healthy while capital adequacy ratios continued to be above international standards, even with the implementation of the tighter Basel III framework.[44]

[44] Beginning 1 July 2018, covered institutions (universal banks (UBs), commercial banks (KBs)) and their subsidiary banks and quasi-banks (QBs)) must maintain a leverage ratio no lower than five percent. The leverage ratio is a non-risk based measure, which serves as a backstop to the Capital Adequacy Ratio. It is designed to constrain the potential build-up of leverage in the banking industry and to promote stability of the financial system. Also, the BSP sets an observation period of six months (from 1 July 2018 to 31 December 2018) for the Net Stable Funding Requirement (NSFR). This is to ensure a smooth transition to the new prudential standard and to allow prompt assessment and calibration of the components of the NSFR. Beginning 1 January 2019, however, the covered institutions universal and commercial banks (U/KBs) shall maintain an NSFR of 100 percent on both solo and consolidated bases.

Savings Mobilization. Savings deposits remained the primary sources of funds for the banking system. Banks' total deposits as of end-August 2018 amounted to ₱9.6 trillion, 9.7 percent higher than the year-ago level.[45] Relative to the end-June 2018 level, total deposits grew marginally by 0.9 percent. Meanwhile, foreign currency deposits owned by residents (FCD-Residents) reached ₱1.9 trillion during the same period, posting a y-o-y growth of 3.6 percent. With respect to the end-June 2018 level, FCD-Residents grew by 1.4 percent.[46]

Chart 33. Deposit Liabilities of Banks
in billion pesos

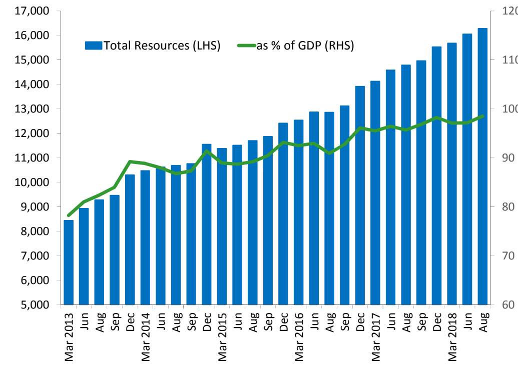


Source: BSP

Institutional Developments. The total resources of the banking system grew by 10.1 percent to reach ₱16.3 trillion as of end-August 2018 from ₱14.8 trillion a year ago. Relative to the June 2018 level, total resources grew marginally by 1.4 percent. As a percentage of GDP, total resources stood at 98.5 percent.[47]

Total resources of the banking system continue to rise

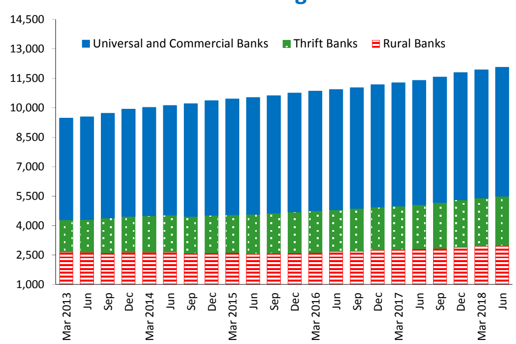
Chart 34. Total Resources of the Banking System
levels in billion pesos; share in percent



Source: BSP

The number of banking institutions (head offices) as of end-June 2018 decreased to 581 offices from the year- and quarter- ago figures of 595 and 585 offices, respectively. The banks' head offices were comprised of 43 universal and commercial banks (U/KBs), 55 thrift banks (TBs), and 483 rural banks (RBs). This indicated continued consolidation of banks as well as the exit of weaker players in the banking system.

Chart 35. Number of Banking Institutions



Source: BSP

Meanwhile, the operating network (head offices and branches/agencies) of the banking system expanded to 12,066 offices as of end-June 2018 from 11,936 offices a quarter ago, due mainly to the increase in the branches/agencies of U/KBs, TBs, and RBs.

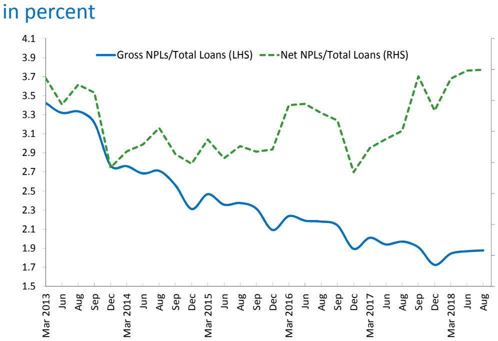
The Philippine banking system's gross non-performing loan (GNPL) ratio improved to 1.9 percent as of end-August 2018 relative to the 2.0 percent registered a year ago. This was unchanged compared to the end-June 2018 ratio.

[45] This refers to the total peso-denominated deposits of the banking system.
[46] FCD-Residents, along with M3, forms part of a money supply measure called M4. Meanwhile, M3 consists of savings deposits, time deposits, demand deposits, currency in circulation, and deposit substitutes.
[47] GDP as of the second quarter of 2018.

Asset quality of Philippine banks remains healthy

Banks' initiatives to improve their asset quality along with prudent lending regulations helped maintain the GNPL ratio below its pre-Asian crisis level of 3.5 percent.[48] Meanwhile, the net non-performing loan (NNPL) ratio slightly increased to 0.9 percent as of end-August 2018 relative to the previous year's ratio of 0.7 percent but remained unchanged from end-June 2018 ratio. In computing for the NNPLs, specific allowances for credit losses on Total Loan Portfolio (TLP) are deducted from the GNPLs. Said allowances increased to ₱92.6 billion in August 2018 from ₱90.9 billion posted as of end-June 2018.[49]

Chart 36. Ratios of Gross Non-Performing Loans and Net Non-Performing Loans to Total Loans
in percent



Source: BSP

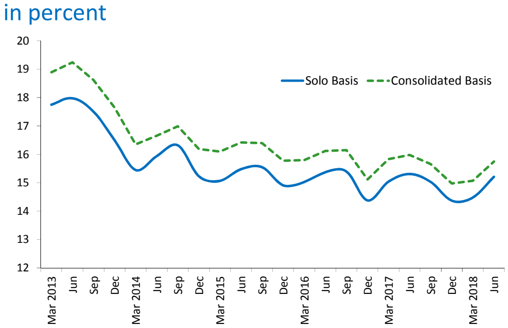
The Philippine banking system's GNPL ratio of 1.9 percent was lower than that of Indonesia (2.6 percent) and Thailand (2.9 percent) but higher with respect to that of Malaysia (1.0 percent) and South Korea (1.1 percent).[50]

The loan exposures of banks remained adequately covered as the banking system registered an NPL coverage ratio of 114.2 percent as of end-August 2018. This was slightly higher than the previous year's ratio of 114.1 percent but remained unchanged relative to the end-June 2018 ratio.

U/KBs' CAR remains above international and regulatory standards

The capital adequacy ratio (CAR) of U/KBs at end-June 2018 increased slightly to 15.2 percent on solo basis, relative to the previous quarter's ratio of 14.5 percent. Likewise, the CAR, on a consolidated basis, increased marginally to 15.8 percent from the quarter-ago ratio of 15.1 percent. Nonetheless, these figures remained well above the BSP regulatory threshold of 10.0 percent and international minimum of 8.0 percent.

Chart 37. Capital Adequacy Ratio of Universal and Commercial Banks
in percent



Source: BSP

The CAR of Philippine U/KBs, on a consolidated basis, was higher than that of South Korea (15.5 percent), but lower than that of Malaysia (17.7 percent), Thailand (18.0 percent) and Indonesia (19.9 percent).[51]

[48] The 3.5 percent NPL ratio was based on the pre-2013 definition.

[49] This type of provisioning applies to loan accounts classified under loans especially mentioned (LEM), substandard-secured loans, substandard-unsecured loans, doubtful accounts and loans considered as loss accounts.

[50] Sources: Malaysia (Banking System's Ratio of net impaired loan/financing to net total loan/financing, August 2018); South Korea (Domestic Banks' Substandard or Below Loans (SBLs) ratio, Q2 2018); Indonesia, IMF and financial stability reports (Banks' Nonperforming Loans to Gross Loans Ratio, Q2 2018); and Thailand (Total Financial Institutions' Gross NPLs ratio, Q2 2018).

[51] Sources: South Korea (Domestic Banks' Capital Ratio, Q2 2018); Malaysia (Banking System's Total Capital Ratio, July 2018); Thailand (Commercial Banks' Capital Funds Percentage of Risk Assets, July 2018); and Indonesia, IMF and financial stability reports (Commercial Banks, Regulatory Capital to Risk-Weighted Assets Ratio Q2 2018).

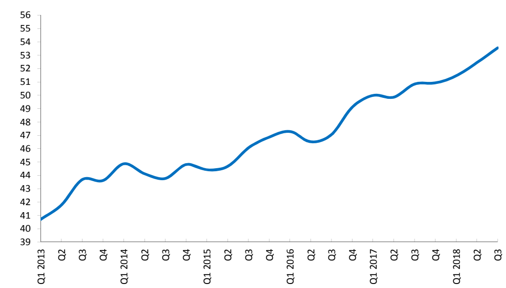
Exchange Rate

The peso averaged ₱53.54/US$1 in Q3 2018, depreciating by 2.07 percent from the previous quarter's average of ₱52.43/US$1.

Peso depreciates against the US dollar in Q3 2018

The peso's depreciation during the quarter was due mainly to concerns over the lingering trade tension between the US and its major trading partners, including China. On a y-o-y basis, the peso likewise depreciated by 5.05 percent relative to the ₱50.84/US$1 average in Q3 2017.[52]

Chart 38. Quarterly Peso-Dollar Rate
PHp/US$; average per quarter



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

In July, the peso averaged ₱53.43/US$1, depreciating by 0.72 percent from the June average amid: (i) lingering trade war concerns (between the U.S. and its major trading partners); (ii) the recent negative trade remarks by US President Trump against the European Union (EU); and (iii) hawkish remarks from US Fed Chairman Powell which strengthened the gradual rate hike path of the US Fed.[53] The release of upbeat US personal consumption data for the month of May likewise added pressure to the peso.[54]

The peso recovered in August as it appreciated by 0.30 percent to an average of ₱53.27/US$1 from the average in July. The peso appreciated amid: (i) market expectation of a third BSP rate hike during its monetary policy meeting on 9 August; (ii) weaker-than-expected US non-farm payrolls report for the month of July;[55] and (iii) market optimism over news of trade talks between the US and Mexico to overhaul the North American Free Trade Agreement, with Canada expected to also agree to the new terms.

In September, the peso depreciated anew to an average of ₱53.94/US$1 declining by 1.24 percent from the average in August due mainly to: (i) market concerns over continued trade tension between the United States and China; and (ii) expectation of a US Fed rate hike in its 25-26 September meeting; and on the domestic side, (iii) wider-than-expected trade deficit in July;[56] and strong corporate demand for US dollar, particularly from oil and power companies.

On a year-to-date basis, the peso depreciated against the US dollar by 7.57 percent to close at ₱54.02/US$1 on 28 September 2018 from the end-December 2017 closing rate of ₱49.93/US$1. The peso depreciated along with other regional currencies except the Thai Baht.[57]

Table 16. Year-to-Date Changes in Selected Dollar Rates
appreciation/(-depreciation); in percent

	2013	2014	2015	2016	2017	2018*
Korean Won	1.13	-4.34	-6.61	-2.63	13.16	-3.74
Singaporean Dollar	-2.72	-4.52	-5.99	-1.99	8.23	-2.27
New Taiwan Dollar	-1.95	-6.16	-3.63	1.89	8.76	-2.57
Chinese Yuan	2.60	-2.70	-4.33	-6.62	6.68	-5.44
Thai Baht (Onshore)	-4.59	-0.68	-8.86	0.14	9.69	0.66
Philippine Peso	**-7.02**	**-0.73**	**-4.97**	**-5.35**	**-0.42**	**-7.57**
Malaysian Ringgit	-5.47	-6.30	-18.55	-4.21	10.69	-2.16
Japanese Yen	-16.26	-12.46	-0.47	3.33	3.83	-0.64
Indian Rupee	-11.40	-2.94	-4.93	-2.88	6.27	-11.95
Indonesian Rupiah	-19.07	-2.08	-9.81	2.32	-0.64	-9.03

Notes:
- Negative value represents depreciation of the currency against the US dollar.
- YTD changes are computed as the percent change between the closing prices for the year indicated versus the closing prices for the preceding year.
* Data as of 4:00 p.m., 28 September 2018
Source: Treasury Department - BSP

Nonetheless, the sustained inflows of foreign exchange from overseas Filipino remittances, foreign direct investments, BPO receipts, as well as

[52] Dollar rates (per peso) or the reciprocal of the peso-dollar rates were used to compute for the percentage change.
[53] According to BusinessWorld, US President Trump said in an interview with CBS aired on 15 July 2018 that the EU is a "foe" of the United States for what the European bloc does to the US in terms of trade. Meanwhile, Reuters reported US Fed Chair Powell said before the Senate Banking Committee on 17 July 2018 that he sees the US on track for years of steady growth amid strong job market and steady inflation.
[54] Reuters reported that the personal consumption expenditures (PCE) price index in the U.S. increased to 2.3 percent in the 12 months through May, its biggest gain since March 2012. Meanwhile, core PCE price index reached 2.0 percent, the biggest gain since April 2012. The core PCE index is the U.S. Fed's preferred inflation measure.
[55] BusinessWorld reported that the US' additional jobs produced in July 157,000 was the slowest gain since March and lower than the market expectation of 190,000 jobs (Reuters poll).
[56] Data from the PSA show that the country's balance of trade in goods, stood at a $3.55 billion deficit in July as imports accelerated while exports grew relatively flat.
[57] Based on the last done deal transaction in the afternoon.

the ample level of the country's gross international reserves and the country's robust economic growth, are expected to provide support to the peso.[58]

Meanwhile, the volatility of the peso's daily closing rates (as measured by the coefficient of variation) stood at 0.65 percent during the review quarter, lower than the 1.05 percent registered in the previous quarter.[59] The volatility of the peso was lower than most of the other currencies in the region.

On a real trade-weighted basis, the peso gained external price competitiveness in the Q3 2018 against the basket of currencies of all trading partners (TPI), trading partners in advanced (TPI-A) and trading partners in developing (TPI-D) countries relative to Q2 2018, as the real effective exchange rate (REER) index of the peso decreased by 1.4 percent, 1.0 percent and 1.7 percent against the TPI, TPI-A and TPI-D baskets, respectively. Overall, the general decrease in the REER index was due mainly to nominal depreciation of the peso during the said months compared to Q2 2018.[60,61]

Relative to Q3 2017, the peso likewise gained external price competitiveness in Q3 2018 across currency baskets. This developed as the nominal depreciation of the peso offset the impact of positive inflation differential, resulting in the decrease in the REER index of the peso by 4.3 percent, 6.6 percent, and 2.5 percent against the TPI, TPI-A and TPI-D baskets, respectively.

---

[58] As of end-August 2018, the country's gross international reserves (GIR) stood at US$77.9 billion (revised). This can cover 7.1 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 6.4 times the country's short-term external debt based on original maturity and 4.4 times based on residual maturity. Foreign direct investments (FDI) remained positive and registered a net inflow of US$5.8 billion as of end-June 2018. Remittances from OF workers likewise continued to flow in from various geographical locations globally totaling US$16.6 billion as of the July 2018. As of June 2018, BPO and tourism receipts reached US$10.9 billion and US$3.9 billion, respectively.

[59] The coefficient of variation is computed as the standard deviation of the daily closing exchange rate divided by the average exchange rates for the period.

[60] The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines, which includes US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-A measures the effective exchange rates of the peso across currencies of trading partners in advanced countries comprising of the US, Japan, Euro Area, and Australia. The TPI-D measures the effective exchange rates of the peso across 10 currencies of partner developing countries which includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

[61] The REER index represents the Nominal Effective Exchange Rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. A decrease in the REER index indicates some gain in the external price competitiveness of the peso, while a significant increase indicates the opposite. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

III. Fiscal Developments

The National Government recorded a ₱282.0-billion fiscal deficit for January-August 2018, sixty percent higher than the deficit posted in the previous year.

NG recorded a fiscal deficit for January-August 2018

Netting out the interest payments in NG expenditures, the primary deficit amounted to ₱43.3 billion, a turnaround from the ₱46.4 billion surplus recorded in January-August 2017.

Table 17. National Government Fiscal Performance
in billion pesos

	2017		2018		Growth Rate (in percent)	
	Aug	Jan-Aug	Aug	Jan-Aug	Aug	Jan-Aug
Surplus/(Deficit)	28.8	-176.2	-2.6	-282.0	-109.0	60.0
Revenues	230.4	1,601.4	256.9	1,909.2	11.0	19.0
Expenditures	201.6	1,777.6	259.5	2,191.1	29.0	23.0

* Totals may not add up due to rounding
Source: Bureau of the Treasury (BTr)

Revenues increased by 19 percent to ₱1,909.2 billion in January-August 2018 compared to ₱1,601.4 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱1,313.6 billion and ₱383.5 billion, respectively. Revenue collections by the BIR and BOC were higher by 13 percent and 35 percent, respectively. The BOC attributed its double growth to the higher exchange rate, increased oil prices, proper valuation, strong enforcement, and revenue-enhancing measures. Meanwhile, income from BTr increased by 24 percent to ₱83.3 billion owing to higher dividends on shares of stocks held by the government and remittance of shares in Philippine Amusement and Gaming Corporation (PAGCOR) and Manila International Airport Authority (MIAA) profits.

Expenditures for the period in review amounted to ₱2,191.1 billion, 23 percent higher than the expenditures in January-August 2017. Excluding interest payments, expenditures went up by 26 percent to ₱1,952.5 billion. Meanwhile, interest payment was ₱16.1 billion higher compared to its year-ago level, reaching ₱238.7 billion in end-August 2018.

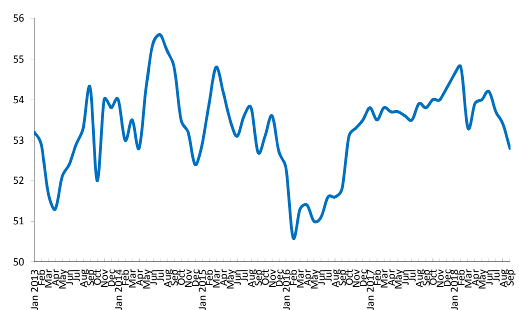
IV. External Developments

The JP Morgan Global All-Industry Output Index decreased to 52.8 in September from 53.4 in August as output expansion eased in both the manufacturing and service sectors.

Global economic growth slowed in September

During the month, economic activity expanded in the US, the euro area, Japan, the UK, and Russia. In contrast, economic activity in Brazil continued to slow down.[62]

Chart 39. JP Morgan Global All-Industry Output Index
index points



Source: Markit Economics

US. Real GDP expanded by 4.2 percent on a seasonally adjusted q-o-q basis in Q2 2018, faster than the 2.2-percent (revised) growth rate in Q1 2018. On a y-o-y basis, real output grew by 2.9 percent, faster than the 2.6 percent (revised) expansion in the previous quarter. The expansion in real GDP in the second quarter reflected faster increases in personal consumption expenditures, nonresidential fixed investment, exports, federal government spending, and state and local government spending. These movements were partly offset by a downturn in private inventory investment and residential fixed investment.[63]

[62] JP Morgan Global Manufacturing & Services PMI, http://www.markiteconomics.com/

[63] US Bureau of Economic Analysis, "Gross Domestic Product: Second Quarter 2018 (Third Estimate)," news release, 27 September 2018. https://www.bea.gov/system/files/2018-09/gdp2q18_3rd_3.pdf

US economy expands faster in Q2 2018

Despite the latest economic expansion, considered as the second-longest in US history, market analysts project a potential recession starting in late 2019 or in early 2020. In their assessment, the analysts considered the current narrowing of the yield curve, the possible overtightening of the US Fed which would decrease asset values, escalating trade tensions, as well as rising energy prices which could dampen investment and demand.[64] Moreover, consensus expectations project that the economic boost from the corporate tax cuts would likely diminish in the coming quarters and thus reduce the US' economic growth potential.[65]

Meanwhile, the manufacturing PMI decreased to 59.8 percent in September from 61.3 percent in August as new orders expanded at a slower pace.[66]

The unemployment rate fell to 3.7 percent in September from 3.9 percent in August. Total nonfarm payroll employment increased by 134,000 during the same month, with employment gains in professional and business services, health care, and transportation and warehousing. Meanwhile, on a y-o-y basis, inflation was 2.3 percent in September, lower than the 2.7-percent inflation in August. The lower inflation was attributed to the decrease in the energy price index.

The Thomson-Reuters/University of Michigan Index of Consumer Sentiment increased to 100.1 in September from 96.2 in August.[67] Meanwhile, the Conference Board Consumer Confidence Index increased to 138.4 in September

[64] Davidson, P. (11 June 2018). The economy is humming. So why do experts foresee a recession in 2020? https://www.usatoday.com/story/money/2018/06/11/recession-2020-heres-why-economists-think-may-happen/686177002/; Colvin, G. (19 July 2018). The end is near for the economic boom. http://fortune.com/longform/economic-expansion-end-is-near/

[65] Farrell, C. (3 August 2018). Is the Next Recession on its Way?, https://www.forbes.com/sites/nextavenue/2018/08/03/is-the-next-recession-on-its-way/#3519e37a4837

[66] Institute for Supply Management, https://www.instituteforsupplymanagement.org

[67] University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/

from 134.7 in August.[68] Consumer sentiment remained favorable as their labor market assessment and short-term outlook improved during the month.

Euro Area. On a q-o-q basis, real GDP growth in the euro area was 0.4 percent in Q2 2018, unchanged from the record in Q1 2018. On a y-o-y basis, real GDP expanded by 2.1 percent in Q2 2018 from 2.4 percent in Q1 2018.[69]

Output growth in the euro is broadly steady

Meanwhile, the composite PMI for the euro area decreased slightly to 54.1 in September from 54.5 in August due to an upturn in service sector activity as incoming new work increased.[70]

Inflation in the euro area is seen to increase to 2.1 percent in September from 2.0 percent in August due to the faster increases in the price indices for energy as well as food, alcohol & tobacco.[71] The seasonally adjusted unemployment rate was lower at 8.1 percent in August from 8.2 percent in July.

The European Commission's Economic Sentiment Indicator in the euro area decreased to 110.9 in September from 111.6 in August due to weaker confidence among consumers and in the industry sector, which was partly offset by improved confidence in the retail trade and construction sectors.

Japan. On a q-o-q basis, real GDP grew by 0.7 percent in Q2 2018 from a 0.2-percent contraction in Q1. Meanwhile, on a y-o-y basis, real GDP grew by 1.3 percent in Q2 2018 from 1.0 percent in the previous quarter.[72] Real GDP growth was steady as domestic demand growth increased only slightly during Q2 2018.

[68] The Conference Board, http://www.conference–board.org/
[69] Eurostat news release 139/2018 dated 7 September 2018
[70] Flash estimate. Markit Eurozone PMI, http://www.markiteconomics.com/
[71] Flash Estimate. Eurostat news release 149/2018 dated 28 September 2018
[72] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/

Manufacturing activity in Japan continues to expand

Meanwhile, the seasonally adjusted manufacturing PMI was 52.5 in September, unchanged from August, as new orders continued to increase amid robust domestic demand conditions.[73]

Inflation rose by 1.3 percent in August from 0.9 percent in July due mainly to higher price increases for food; fuel, light, and water charges; medical care; transportation and communication; and culture and recreation. The seasonally adjusted unemployment rate decreased to 2.4 percent in August from 2.5 percent in July.

China. Real GDP in China expanded by 6.7 percent y-o-y in Q2 2018 from 6.8 percent in the previous quarter. The slower GDP expansion was due primarily to the weaker growth recorded in most industries except for transport, storage, and post, as well as finance.

Indicators point to steady Chinese economic activity

Meanwhile, the seasonally adjusted manufacturing PMI eased slightly to 50.0 in September from 50.6 in August due to a broad stagnation in total new work received by manufacturers.[74]

Inflation rose to 2.3 percent in August from 2.1 percent in July as both food and non-food prices increased during the month.

India. Real GDP in India expanded by 8.2 percent y-o-y in Q2 2018 from 7.7 percent in the previous quarter. The latest GDP growth was driven mainly by growth in manufacturing; electricity, gas, water supply and other utility services; construction; and public administration, defense, and other services.[75]

[73] Nikkei Japan Manufacturing PMI, http://www.markiteconomics .com/
[74] Caixin China General Manufacturing PMI, http://www.markiteconomics.com/
[75] Ministry of Statistics and Programme Implementation. http://mospi.nic.in/

Economic activity in India expands at a slower pace

Meanwhile, the composite PMI decreased to 51.6 in September from 51.9 in August as the rate of expansion in the service sector eased due to a broad stagnation of new business.

Inflation rose to 3.8 percent in September from 3.7 percent in August due to faster price increases of food and beverages as well as pan, tobacco and intoxicants.

ASEAN Region. The Nikkei ASEAN Manufacturing PMI fell to 50.5 in September from 51.0 in August due to slower increases in both output and new orders, with export sales declining further.

Manufacturing conditions in the ASEAN region remain broadly steady

Output expanded faster in the Philippines and in Malaysia while slower rates of expansion were recorded in Vietnam and Indonesia. Manufacturing conditions in Thailand were unchanged during the month, while Singapore and Myanmar remained in the contraction territory.[76]

Policy Actions by Central Banks. Aside from the BSP, the US Federal Reserve (Fed) and Bank Indonesia (BI) have decided to raise their respective policy rates in September. Meanwhile, the Central Bank of the Republic of China (Taiwan), the Reserve Bank of New Zealand, Bank of Thailand, Bank of Japan, the European Central Bank, Bank of England (BOE), the Reserve Bank of Australia, Bank of Canada (BOC), and Bank Negara Malaysia have decided to keep their respective policy rates unchanged during their policy meetings in September.

[76] Nikkei ASEAN Manufacturing PMI, http://www.markiteconomics.com/

A number of central banks tighten their monetary policy settings

On 27 September, the BI Board of Governors increased the BI 7-day reverse repo rate by 25 bps to 5.75 percent to strengthen the rupiah's stability. The decision is also consistent with ongoing efforts to reduce the current account deficit within a manageable threshold while maintaining the attractiveness of domestic financial markets in order to support the country's external resilience. During their earlier policy meeting on 15 August, the BI also decided to raise the 7-day reverse repo rate by 25 bps to 5.5 percent.

Similarly, on 26 September, the US Fed raised the target range for the federal funds rate to 2.0 to 2.5 percent. The decision was based on the Federal Open Market Committee's assessment that further gradual increases in the target range for the federal funds rate will be consistent with sustained economic expansion, strong labor market conditions, and inflation near the symmetric 2-percent objective over the medium term. Moreover, risks to the economic outlook appear roughly balanced.

On 1 August, the Monetary Policy Committee of the BOE decided to increase the bank rate by 25 bps to 0.75 percent based on the assessment that even with a gradual monetary policy tightening, GDP would continue to expand and inflation would remain slightly above 2 percent through most of the forecast period.

During their 1 August policy meeting, the Reserve Bank of India raised the policy repo rate by 25 bps to 6.5 percent given higher-than-projected inflation outcomes and persistent risks to the inflation outlook, such as oil price volatility, geopolitical tensions, and possible supply disruptions.

On 11 July, BOC raised its benchmark interest rate by 25 bps to 1.5 percent, based on the latest economic projections which show a larger potential impact of trade uncertainty on Canadian investment and exports amid mounting trade tensions. Nevertheless, BOC expects that the overall effect of trade uncertainty on Canadian growth and inflation will be modest.

V. Monetary Policy Developments

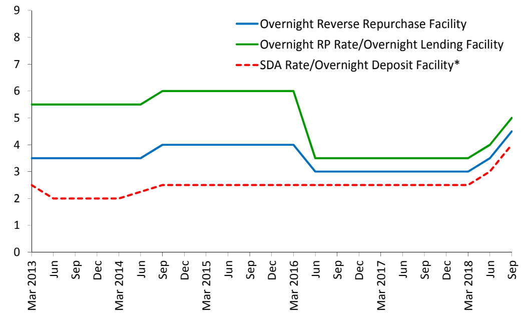
At its monetary policy meeting on 9 August, the BSP raised the key policy rate by 50 bps to 4.0 percent for the overnight reverse repurchase or RRP facility. At the same time, in the 27-September meeting, the BSP decided to hike the policy rate anew by another 50 bps to 4.5 percent. The interest rates on the overnight lending and deposit facilities were likewise raised accordingly.

The BSP raises the key policy rate anew in Q3 2018

In deciding to raise the key policy interest rates during the quarter, the BSP recognized that a further tightening of monetary policy was warranted by persistent signs of sustained and broadening price pressures. Latest baseline forecasts have shifted higher for both 2018 and 2019, with risks to the outlook still leaning toward the upside. Equally important, with supply-side forces expected to continue to drive inflation in the coming months, inflation expectations have remained elevated amid indications of second-round effects. Meanwhile, domestic demand conditions have generally held firm, even as the previous monetary policy responses continue to work their way through the economy.

The BSP decided to raise the key policy interest rate anew to further anchor inflation expectations and to safeguard the inflation target over the policy horizon. The BSP believed that a tighter monetary policy stance will help steer inflation toward a target-consistent path over the medium term by reducing further risks to the inflation outlook, including those emanating from exchange rate volatility given the continued uncertainty in the external environment amid geopolitical tensions and the normalization of monetary policy in advanced economies.

Chart 40. BSP Policy Rates
in percent



* On 3 June 2016, Special Deposit Accounts (SDAs) were replaced by the Overnight Deposit Facility (ODF) in line with the implementation of the Interest Rate Corridor (IRC) System.
Source: BSP

The BSP likewise emphasized the need for timely and appropriate non-monetary measures that will further mitigate the impact of supply-side factors on inflation, including rice tariffication.

VI. Inflation Outlook

BSP Inflation Forecasts

The BSP's latest baseline forecasts have shifted higher for both 2018 and 2019. Inflation is expected to settle above the 3.0 percent ±1.0 percentage point target range for 2018 and 2019. However, the implementation of non-monetary measures, particularly the approval of rice tariffication along with additional importation of rice and other food items, could lead to an earlier return of inflation to within the target range in 2019. Meanwhile, inflation is seen to approach the midpoint of the target range in 2020.

The risks to the inflation outlook remain on the upside. Additional wage adjustments and transport fare hikes, higher electricity rates, and faster-than-expected monetary policy normalization in advanced economies are the main upside risks to inflation.

Meanwhile, the slower global economic growth due to protectionist policies in advanced economies and geopolitical tensions along with the proposed reform in the rice industry involving the replacement of quantitative restrictions with tariffs and the deregulation of rice imports continue to be the main downside risks to inflation.

Risks to future inflation remain on the upside for 2018. However, downside risks to the outlook will dominate in 2019-2020 due largely to the projected impact of rice tariffication.

Inflation could return to the target range in 2019 with the passage of the rice tariffication bill

Demand Conditions. Domestic economic activity decelerated to 6.0 percent in Q2 2018, which was slower than the 6.6-percent growth registered both in Q2 2017 and Q1 2018. The slower-than-expected growth could be attributed primarily to the deceleration in manufacturing, utilities, and agriculture sectors. The rehabilitation of Boracay also contributed to slower growth in the tourism industry. On the expenditure side, growth was driven by the acceleration in capital formation, but was weighed down by net exports. On the production side, the industry and services sectors continue to be the primary drivers of growth.

Economic activity in the Q3 2018 could be driven by public construction with the implementation of the government's infrastructure programs. However, this could be partly offset by the expected slowdown in the agriculture sector due to weather-related disturbances during the quarter and the deceleration in tourism due to the rehabilitation of Boracay.

Looking ahead, prospects for the domestic economy continue to remain buoyant. GDP expansion could be supported by robust growth in the services sector and public construction. Private demand is expected to remain firm, aided mainly by sustained remittance inflows. Private capital formation should likewise contribute to economic growth with construction and investments in durable equipment expected to remain solid as the government's projects and other infrastructure programs get underway, given ample liquidity conditions.

High-frequency real sector indicators point to firm growth prospects in the near term. Capacity utilization for the manufacturing sector suggests more than half of all major manufacturing sectors operating at above 80.0 percent. The composite PMI also remains above the 50-point mark as of August 2018, suggesting sustained expansion across all sectors.

However, results of the BSP expectations surveys have indicated that consumer and business confidence have turned less optimistic for Q3 2018.

Supply Conditions. Higher food inflation could be sustained over the near term due to lower production of key agricultural products, such as rice and corn brought about by weather disturbances and delays in the distribution of imported food items. However, the implementation of non-monetary mitigating measures could temper further price pressures. Moreover, oil prices are expected to remain elevated over the near term before gradually declining over the medium term as suggested by its futures prices.

Commodity prices continue to be elevated over the near term

Global non-oil prices could rise in the coming months before moderating over the medium term. Forecasts by the International Monetary Fund (IMF) suggest that benchmark prices of key grains, particularly wheat and rice, are projected to rise slightly in 2018 before easing in the medium term. The IMF projects non-fuel commodities to rise by 6.0 percent in 2018 and 0.5 percent in 2019 due to buoyant global demand. The rise in non-oil commodity prices for 2018 can be attributed mainly to higher industrial (9.6 percent) and metal (13.0 percent) prices due to higher growth in both advanced and emerging economies.[77]

In the domestic front, *palay* and corn production could decline by 2.0 percent and 15.2 percent, respectively, in Q3 2018 based on standing crop estimates. The projected reduction in *palay* and corn production could be attributed to the shift in planting and harvest schedules in the previous quarters.[78]

International crude oil prices rose significantly compared to the previous quarter's level owing mainly to lower output in Venezuela, the shutdown of several refineries in the US due to weather-related disturbances, and the geopolitical tensions between the US and Iran. Meanwhile, uncertainties surrounding the oil market could emanate from supply dynamics and geopolitical concerns. Higher US production could exert downward pressure on oil prices. Meanwhile, US sanctions against Iran and lower output from Venezuela could pose upside risks to crude oil prices.

The latest futures prices indicate that global crude oil prices could remain elevated in 2018-2019 before gradually declining over the medium term. Similarly, the EIA along with other international agencies expect crude oil prices to remain high until 2019 before decelerating in 2020.[79]

[77] IMF, World Economic Outlook Update, July 2018, available online at http://www.imf.org
[78] PSA, Rice and Corn Situation Outlook, July 2018, available online at http://www.psa.gov.ph
[79] EIA, Short-Term Energy Outlook, September 2018, available online at http://www.eia.gov

Output gap remains slightly positive

The balance of demand and supply conditions as captured by the output gap (or the difference between actual and potential output), provides an indication of potential inflationary pressures in the near term.[80]

Given the latest GDP data, estimates by the BSP show that the output gap remains slightly positive and is broadly steady relative to the previous quarter.[81]

Key assumptions used to generate the BSP's inflation forecasts. The BSP's baseline inflation forecasts generated from the BSP's econometric forecasting models are based on the following assumptions:

1) BSP's overnight RRP rate at 4.0 percent from October 2018 to December 2020;

2) NG fiscal deficits for 2018 to 2019, which are consistent with the DBCC-approved estimates;

3) Dubai crude oil price assumptions consistent with the trend of futures prices of oil in the international market;

4) Increase in nominal wage in October 2018, October 2019, and October 2020 consistent with labor productivity growth and historical wage increases;

5) Real GDP growth is endogenously determined; and

6) Foreign exchange rate is endogenously determined through the purchasing power parity and interest rate parity relationships.

Risks to the Inflation Outlook

The risks to the inflation outlook may be presented graphically through a fan chart. The fan chart depicts the probability of different inflation

[80] Inflation tends to rise (fall) when demand for goods and services exert pressure on the economy's ability to produce goods and services, i.e., when the output gap is positive (negative).
[81] Based on the seasonally-adjusted GDP growth

outcomes based on the central projection (corresponding to the baseline forecast of the BSP) and the risks surrounding the inflation outlook.

Projected inflation path is higher for 2018-2019

Compared to the previous inflation report, the latest fan chart presents an upward shift in the inflation projection for 2018-2019. The increase in the projected inflation path could be attributed mainly to the sharp rise in global crude oil prices, higher prices of domestic food items, the higher-than-expected inflation outturns for July and August 2018, and the peso depreciation.

The BSP's review of current inflation dynamics suggests that the risks surrounding the inflation outlook remains tilted to the upside in 2018. This assessment is depicted in the latest fan chart, wherein the projection bands above the central projection are greater than the bands below it. However, the balance of risks to the outlook could be on the downside for 2019-2020 due mainly to the impact of rice tariffication.

Additional wage adjustments and potential increase in transport fares represent an upside risk to inflation. The higher excise taxes on key commodities could lead to higher-than-assumed minimum wage hikes. However, the planned unconditional cash transfers and other social welfare programs in the pipeline could temper demands for higher wage increases.

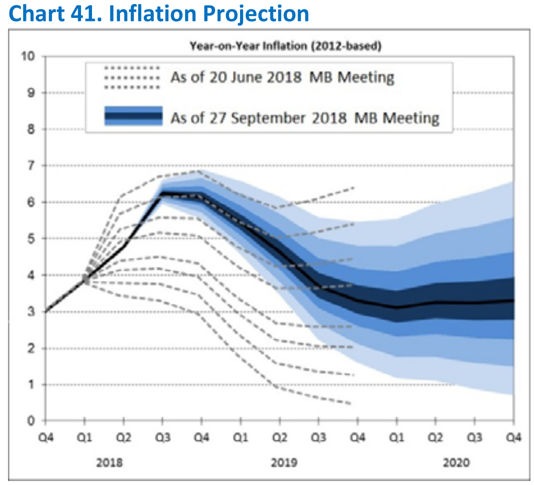
Several transport groups have submitted a petition to the Land Transportation Franchising and Regulatory Board (LTFRB) to raise the minimum jeepney, bus, and taxi fares. The transport groups have cited the significant rise in diesel prices due to the implementation of the TRAIN Act and the higher cost of spare parts due to the weaker peso for the proposed fare hike. Nevertheless, non-monetary measures such as institutional arrangements in setting transportation fares and minimum wages, unconditional cash transfers, as well as transport subsidies are expected to help mitigate these inflationary impulses.

Faster-than-expected policy normalization in the US and other advanced economies could contribute to foreign exchange depreciation pressures and raise inflation. The sustained recovery in economic conditions in the US could warrant further rate hikes by the Federal Reserve. The baseline inflation outlook already incorporates four rate hikes by the US Fed in 2018 and two rate hikes in 2019, consistent with latest market sentiment. However, faster-than-expected monetary policy normalization in the US and other advanced economies could lead to tighter global liquidity conditions and repricing of risks. Consequently, the higher federal funds rate could result in portfolio outflows and higher risk premia, leading to a weaker peso and higher inflation over the policy horizon.

Various petitions for rate adjustments by Meralco and PSALM are also considered as upside risks to inflation and have not yet been added to the baseline forecasts. Meralco's petitions include generation and transmission charges, system loss, lifeline subsidy, the December 2013 rate adjustment, which is the subject of Supreme Court temporary restraining order, and the ₽0.65/ kWh adjustment for the January 2014 billing period that is subject to the ERC's approval. PSALM's petitions cover adjustments for fuel and foreign exchange costs.

The balance of risks to the inflation outlook remains tilted on the upside in 2018, but could shift to the downside in 2019-2020

Chart 41. Inflation Projection



Source: BSP estimates

The proposed reforms in rice importation is the main downside risk to inflation. As the Philippines remains the sole World Trade Organization (WTO) member that still has special treatment exemption, RA No. 8178 or the Agricultural Tariffication Act of 1996 (which maintains the rice QR) would continue to be in effect unless amended or repealed by Congress. Given the significant share of rice in the CPI basket and lower production costs from major import sources such as Thailand and Vietnam, the liberalization of rice importation policy could drive down domestic rice prices.

The global economic outlook is also another source of downside risk to the inflation outlook. The continued policy uncertainty, spillovers from tighter global financial conditions, and geopolitical tensions could lead to slower global trade and economic activity on the whole, thereby leading to potential downward price pressures. Furthermore, the surge in protectionist measures among key economies remains a major risk to the global growth outlook and trade activity. The synchronized recovery in global demand could be undermined by heightened uncertainty in the trade policies especially between the US and China.

The fan chart shows the probability of various outcomes for inflation over the forecast horizon. The darkest band depicts the central projection, which corresponds to the BSP's baseline inflation forecast. It covers 25 percent of the probability distribution. Each successive pair of bands is drawn to cover a further 25 percent of probability, until 75 percent of the probability distribution is covered. Lastly, the lightest band covers the lower and upper 90 percent of the probability distribution. The bands widen (i.e., "fan out") as the time frame is extended, indicating increasing uncertainty about outcomes. The band in wire mesh depicts the inflation profile in the previous report.

The shaded area, which measures the range of uncertainty, is based on the forecast errors from the past years. In greater detail, it can be enhanced by adjusting the level of skewness of the downside and upside shocks that could affect the inflationary process over the next two years in order to change the balance of the probability area lying above or below the central projection.

Implications for the Monetary Policy Stance

On the basis of new information in the third quarter, the BSP sent a firm signal of its commitment to combat inflation. A follow-through monetary policy action will help to anchor inflation expectations and sends a strong signal that the BSP is intensifying its systematic response to inflation pressures.

Increased risks from broader inflation pressures, second-round effects and higher inflation expectations constitute the main impetus for strong monetary action. The BSP needs to further anchor inflation expectations which continued to rise based on the latest surveys. A robust policy response can also help support the peso amid heightened exchange rate volatility given continued uncertainty in the global environment and escalation of trade tensions. Firm policy action by the BSP will serve to complement the broader array of targeted responses by the National Government. More importantly, because of transmission lags, monetary policy actions should now be directed toward safeguarding the medium-term inflation target as the latest baseline forecasts already point to a possible breach in 2019.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2008			
31 Jan 2008	5.00	7.00	The Monetary Board (MB) decided to reduce by 25 basis points (bps) the BSP's key policy interest rates to 5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts (SDAs) were also reduced accordingly. In its assessment of macroeconomic conditions, the MB noted that the latest inflation forecasts indicated that inflation would fall within the 4.0 percent ± 1 percentage point target range in 2008 and the 3.5 ± 1 percentage point target range in 2009.
13 Mar 2008	5.00	7.00	The MB decided to keep the BSP's key policy interest rates at 5 percent for the overnight borrowing or RRP facility and 7 percent for the overnight lending or RP facility. The MB also decided to implement immediately the following refinements in the SDA facility: (1) the closure of existing windows for the two-, three-, and six-month tenors; and (2) the reduction of the interest rates on the remaining tenors. The interest rates on term RRPs and RPs were also left unchanged.
24 Apr 2008	5.00	7.00	The MB kept the BSP's key policy interest rates at 5.0 percent for the overnight borrowing or RRP facility and 7.0 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also left unchanged.
5 Jun 2008	5.25	7.25	The MB decided to increase by 25 bps the BSP's key policy interest rates to 5.25 percent for the RRP facility and 7.25 percent for RP facility as emerging baseline forecasts indicate a likely breach of the inflation target for 2008 along with indications that supply-driven pressures are beginning to feed into demand. Given the early evidence of second-round effects, the MB recognized the need to act promptly to rein in inflationary expectations. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
17 Jul 2008	5.75	7.75	The MB increased by 50 bps the BSP's key policy interest rates to 5.75 percent for the overnight borrowing or RRP facility and 7.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
28 Aug 2008	6.00	8.00	The MB increased by 25 bps the BSP's key policy interest rates to 6.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 8.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
6 Oct 2008	6.00	8.00	The MB kept the BSP's key policy interest rates unchanged at 6.0 percent for RRP facility and 8.0 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
6 Nov 2008	6.00	8.00	The MB decided to keep the BSP's key policy interest rates steady at 6 percent for the overnight borrowing or RRP facility and 8 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
18 Dec 2008	5.50	7.50	The MB decided to reduce the BSP's key policy interest rates by 50 bps to 5.5 percent for the overnight borrowing or RRP facility and 7.5 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also adjusted accordingly. Latest baseline forecasts showed a decelerating inflation path over the policy horizon, with inflation falling within target by 2010. This outlook is supported by the downward shift in the balance of risks, following the easing of commodity prices, the moderation in inflation expectations, and the expected slowdown in economic activity.
2009			
29 Jan 2009	5.00	7.00	The MB decided to reduce the BSP's key policy interest rates by another 50 bps to 5 percent for the overnight borrowing or RRP facility and 7 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also adjusted accordingly. Latest baseline forecasts showed a decelerating inflation path over the policy horizon, with inflation falling within target by 2010. The MB based its decision on the latest inflation outlook which shows inflation falling within the target range for 2009 and 2010. The Board noted that the balance of risks to inflation is tilted to the downside due to the softening prices of commodities, the slowdown in core inflation, significantly lower inflation expectations, and moderating demand.
5 Mar 2009	4.75	6.75	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4.75 percent for the overnight borrowing or RRP facility and 6.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. Given possible upside risks to inflation, notably the volatility in oil prices and in exchange rates, increases in utility rates, and potential price pressures coming from some agricultural commodities, the MB decided that a more measured adjustment of policy rates was needed.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent) RRP Overnight	Levels (in percent) RP Overnight	Monetary Policy Decisions
16 Apr 2009	4.50	6.50	The MB reduced key policy rates by another 25 bps to 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility, effective immediately. This rate cut brings the cumulative reduction in the BSP's key policy rates to 150 bps since December last year. The current RRP rate is the lowest since 15 May 1992. Meanwhile, the interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. In its assessment of macroeconomic conditions, the MB noted that the latest baseline inflation forecasts indicated a lower inflation path over the policy horizon, with average inflation expected to settle within the target ranges in 2009 and 2010. In addition, the MB considered that the risks to inflation are skewed to the downside given expectations of weaker global and domestic demand conditions and a low probability of a significant near-term recovery in commodity prices.
28 May 2009	4.25	6.25	The MB decided to reduce the BSP's key policy interest rates by another 25 bps to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. Baseline forecasts indicated a lower inflation path over the policy horizon, with average inflation expected to settle within the target ranges in 2009 and 2010. In addition, the Monetary Board considered that, on balance, the risks to inflation are skewed to the downside given expectations of weaker global and domestic demand conditions and a low probability of a significant near-term recovery in commodity prices.
9 Jul 2009	4.00	6.00	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility, effective immediately. The interest rates on term RRPs, RPs, and SDAs were reduced accordingly. This is the sixth time since December 2008 that the BSP has cut its policy interest rates.
20 Aug 2009 **1 Oct 2009** **5 Nov 2009** **17 Dec 2009**	4.00	6.00	The MB kept key policy rates unchanged at 4 percent for the RRP facility and 6 percent for the overnight lending RP facility. The decision to maintain the monetary policy stance comes after a series of policy rate cuts since December 2008 totaling 200 bps and other liquidity enhancing measures.
		2 0 1 0	
28 Jan 2010 **11 Mar 2010** **22 Apr 2010** **3 Jun 2010** **15 Jul 2010** **26 Aug 2010** **7 Oct 2010** **18 Nov 2010** **29 Dec 2010**	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the RRP facility and 6 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
		2011	
10 Feb 2011	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
24 Mar 2011	4.25	6.25	The MB decided to increase by 25 bps the BSP's key policy interest rates to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also raised accordingly. The MB's decision was based on signs of stronger and broadening inflation pressures as well as a further upward shift in the balance of inflation risks. International food and oil prices have continued to escalate due to the combination of sustained strong global demand and supply disruptions and constraints.
5 May 2011	4.50	6.50	The MB decided to increase the BSP's key policy interest rates by another 25 bps to 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also raised accordingly. Baseline inflation forecasts continue to suggest that the 3-5 percent inflation target for 2011 remains at risk, mainly as a result of expected pressures from oil prices.
16 Jun 2011	4.50	6.50	The MB decided to keep policy rates steady at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board decided to raise the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point effective on Friday, 24 June 2011. The MB's decision to raise the reserve requirement is a preemptive move to counter any additional inflationary pressures from excess liquidity.
28 Jul 2011	4.50	6.50	The MB maintained the BSP's key policy interest rates at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board increased anew the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point effective on 5 August 2011. The MB's decision to raise the reserve requirement anew is a forward-looking move to better manage liquidity.
8 Sep 2011 **20 Oct 2011** **1 Dec 2011**	4.50	6.50	The MB decided to keep the overnight policy rates steady. At the same time, the reserve requirement ratios were kept unchanged.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2 0 1 2			
19 Jan 2012	4.25	6.25	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly The MB's decision is based on its assessment that the inflation outlook remains comfortably within the target range, with expectations well-anchored and as such, allowed some scope for a reduction in policy rates to help boost economic activity and support market confidence.
1 Mar 2012	4.00	6.00	The MB decided to reduce the BSP's key policy interest rates by another 25 bps to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. The MB is of the view that the benign inflation outlook has allowed further scope for a measured reduction in policy rates to support economic activity and reinforce confidence.
19 Apr 2012	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
14 Jun 2012	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that the inflation environment remains manageable. Baseline forecasts continue to track the lower half of the 3-5 percent target range for 2012 and 2013, while inflation expectations remain firmly anchored. At the same time, domestic macroeconomic readings have improved significantly in Q1 2012.
26 Jul 2012	3.75	5.75	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. This is the third time in 2012 that the BSP has cut its policy rates. The MB's decision was based on its assessment that price pressures have been receding, with risks to the inflation outlook slightly skewed to the downside. Baseline forecasts indicate that inflation is likely to settle within the lower half of the 3-5 percent target for 2012 and 2013, as pressures on global commodity prices are seen to continue to abate amid weaker global growth prospects. At the same time, the MB is of the view that prospects for global economic activity are likely to remain weak.
13 Sep 2012	3.75	5.75	The MB decided to keep the BSP's key policy interest rates steady at 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
			also left unchanged. The MB's decision was based on its assessment that the inflation environment remains benign, with the risks to the inflation outlook appearing to be broadly balanced.
25 Oct 2012	3.50	5.50	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. This is the fourth time in 2012 that the BSP has cut its policy rates. The MB's decision was based on its assessment that the inflation environment continued to be benign with latest baseline forecasts indicating that the future inflation path will remain within target for 2012-2014. A rate cut would also be consistent with a symmetric response to the risk of below-target inflation.
13 Dec 2012	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that current monetary settings remained appropriate, as the cumulative 100-basis-point reduction in policy rates in 2012 continued to work its way through the economy.
		2 0 1 3	
24 Jan 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also maintained accordingly. The reserve requirement ratios were kept steady as well. At the same time, the MB decided to set the interest rates on the SDA facility at 3.00 percent regardless of tenor, effective immediately, consistent with the BSP's continuing efforts to fine-tune the operation of its monetary policy tools.
14 Mar 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rate on the RRP was also set at 3.50 percent regardless of tenor. Following its previous decision to rationalize the SDA facility in January 2013, the MB further reduced the interest rates on the SDA facility by 50 bps to 2.50 percent across all tenors effective immediately.
25 Apr 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rate on the RRP was also set at 3.50 percent regardless of tenor. Meanwhile, the SDA rate was further reduced by 50 basis points to 2.0 percent across all tenors.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
13 Jun 2013 25 Jul 2013 12 Sep 2013 24 Oct 2013 12 Dec 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained.
2 0 1 4			
6 Feb 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained.
27 Mar 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained. Meanwhile, the MB decided to increase the reserve requirement by one percentage point effective on 11 April 2014.
8 May 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained. Meanwhile, the MB decided to increase the reserve requirements for U/KBs and TBs by a further one percentage point effective on 30 May 2014.
19 Jun 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also maintained. The reserve requirement ratios were left unchanged as well. Meanwhile, the MB decided to raise the interest rate on the SDA facility by 25 basis points from 2.0 percent to 2.25 percent across all tenors effective immediately.
31 Jul 2014	3.75	5.75	The MB decided to increase the BSP's key policy rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also raised accordingly. The rate on special deposit accounts (SDA) was left unchanged. Meanwhile, the reserve requirement ratios were also kept steady.
11 Sep 2014	4.00	6.00	The MB decided to increase the BSP's key policy rates by 25 bps to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also raised accordingly. Meanwhile, the reserve requirement ratios were left unchanged.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
23 Oct 2014 **11 Dec 2014**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
			2015
12 Feb 2015 **26 Mar 2015** **14 May 2015** **25 Jun 2015** **13 Aug 2015** **24 Sep 2015** **12 Nov 2015** **17 Dec 2015**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
			2016
11 Feb 2016 **23 Mar 2016** **12 May 2016**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
23 Jun 2016 **11 Aug 2016** **22 Sep 2016** **10 Nov 2016** **22 Dec 2016**	3.00	3.50	The BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The shift to IRC is an operational adjustment and not a change in the monetary policy stance. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF). The interest rates for the standing liquidity facilities form the upper and lower bound of the corridor while the overnight RRP rate is set at the middle of the corridor. The repurchase (RP) and Special Deposit Account (SDA) windows will be replaced by standing overnight lending and overnight deposit facilities, respectively. Meanwhile, the reverse repurchase (RRP) facility will be modified to a purely overnight RRP. In addition, the term deposit facility (TDF) will serve as the main tool for absorbing liquidity. The interest rates for these facilities will be set as follows starting 3 June 2016: • 3.5 percent in the overnight lending facility (a reduction of the interest rate for the upper bound of the corridor from the

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
			current overnight RP rate of 6.0 percent); • 3.0 percent in the overnight RRP rate (an adjustment from the current 4.0 percent); and • 2.5 percent in the overnight deposit facility (no change from the current SDA rate).
		2 0 1 7	
9 Feb 2017 **23 Mar 2017** **11 May 2017** **22 Jun 2017** **10 Aug 2017** **21 Sep 2017** **9 Nov 2017** **14 Dec 2017**	3.00	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight reverse repurchase (RRP) facility, 3.5 percent for the overnight lending facility (OLF) and 2.5 percent for the overnight deposit facility (ODF). The reserve requirement ratios were left unchanged as well.
		2 0 1 8	
8 Feb 2018	3.00	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight reverse repurchase (RRP) facility, 3.5 percent for the overnight lending facility (OLF) and 2.5 percent for the overnight deposit facility (ODF).
15 Feb 2018			The reserve requirement ratio was reduced by one (1) percentage point as an operational adjustment to support the BSP's shift toward a more market-based implementation of monetary policy as well as its broad financial market reform agenda. The reduction will apply to the reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions with reserve requirement at twenty (20) percent.
22 Mar 2018	3.00	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight reverse repurchase (RRP) facility, 3.5 percent for the overnight lending facility (OLF) and 2.5 percent for the overnight deposit facility (ODF).
10 May 2018	3.25	3.75	The MB decided to increase the BSP's key policy interest rates by 25 basis points to 3.25 percent for the overnight reverse repurchase (RRP) facility, 3.75 percent for the overnight lending facility (OLF) and 2.75 percent for the overnight deposit facility (ODF).
24 May 2018			The reserve requirement ratio was reduced by one (1) percentage point as part of its medium-term financial market reform agenda to promote a more efficient financial system by lowering intermediation costs. The reduction will apply to those reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions that are currently subject to a reserve requirement of nineteen (19) percent.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2 0 1 8			
20 June 2018	3.50	4.00	The MB decided to raise the BSP's key policy interest rates by 25 basis points to 3.50 percent for the overnight reverse repurchase (RRP) facility, 4.00 percent for the overnight lending facility (OLF) and 3.00 percent for the overnight deposit facility (ODF).
9 August 2018	4.00	4.50	The MB decided to raise the BSP's key policy interest rates by 50 basis points to 4.00 percent for the overnight reverse repurchase (RRP) facility, 4.50 percent for the overnight lending facility (OLF) and 3.50 percent for the overnight deposit facility (ODF).
27 September	4.50	5.00	The MB decided to raise the BSP's key policy interest rates by 50 basis points to 4.50 percent for the overnight reverse repurchase (RRP) facility, 5.00 percent for the overnight lending facility (OLF) and 4.00 percent for the overnight deposit facility (ODF).

The *BSP Inflation Report* is published every quarter by the Bangko Sentral ng Pilipinas. The report is available as a complete document in pdf format, together with other general information about inflation targeting and the monetary policy of the BSP, on the BSP's website:

www.bsp.gov.ph/monetary/inflation.asp

If you wish to receive an electronic copy of the latest BSP Inflation Report, please send an e-mail to bspmail@bsp.gov.ph.

The BSP also welcomes feedback from readers on the contents of the Inflation Report as well as suggestions on how to improve the presentation. Please send comments and suggestions to the following addresses:

By post: BSP Inflation Report
c/o Department of Economic Research
Bangko Sentral ng Pilipinas
A. Mabini Street, Malate, Manila
Philippines 1004

By e-mail: bspmail@bsp.gov.ph