2021 Inflation Report

Third Quarter

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 retained at 3.0 percent ± 1.0 percentage point (ppt) for 2021-2022 and set at the same rate for 2023-2024 by the Development Budget Coordination Committee. The inflation target range continues to be an appropriate quantitative representation of the medium-term goal of price stability that is optimal for the Philippines given the current structure of the economy and outlook of macroeconomic conditions over the next few years.

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 14 October 2021.

BENJAMIN E. DIOKNO
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 (RR); (b) conducting auctions for the term deposit facility (TDF) and BSP Securities Facility;[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 Philippine Statistics Authority (PSA). The policy target is set by the Development Budget Coordination Committee (DBCC)[2] in consultation with the BSP. The inflation target for 2021-2024 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 (IRC) system which was implemented on 3 June 2016. In addition, the BSP Securities Facility was introduced on 18 September 2020 with the first issuance of the BSP 28-day bills.
[2] The DBCC, created under Executive Order 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 the Development Budget Coordination Committee (DBCC) meeting held on 18 August 2021, the DBCC in consultation with the BSP, decided to retain the current inflation target range at 3.0 percent ± 1.0 percentage point (ppt) for 2021 – 2022 and set the inflation target range at 3.0 percent ± 1.0 ppt for 2023 – 2024.

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 (MB), 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.

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Antonio S. Abacan, Jr.
V. Bruce J. Tolentino
Anita Linda R. Aquino

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.

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2021 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS

2021	Advisory Committee (AC) Meeting	Monetary Board (MB) Meeting	MB Highlights Publication	Inflation Report (IR) Press Conference
Jan			14 (Thu) (17 Dec 2020 MB meeting)	21 (Thu) (Q4 2020 IR)
Feb	8 (Mon) (AC Meeting No. 1)	11 (Thu) (MB Meeting No. 1)		
Mar	22 (Mon) (AC Meeting No. 2)	25 (Thu) (MB Meeting No. 2)	4 (Thu) (11 Feb 2021 MB meeting)	
Apr			22 (Thu) (25 Mar 2021 MB meeting)	22 (Thu) (Q1 2021 IR)
May	10 (Mon) (AC Meeting No. 3)	13 (Thu) (MB Meeting No. 3)		
Jun	21 (Mon) (AC Meeting No. 4)	24 (Thu) (MB Meeting No. 4)	10 (Thu) (13 May 2021 MB meeting)	
Jul			22 (Thu) (24 Jun 2021 MB meeting)	22 (Thu) (Q2 2021 IR)
Aug	9 (Mon) (AC Meeting No. 5)	12 (Thu) (MB Meeting No. 5)		
Sep	20 (Mon) (AC Meeting No. 6)	23 (Thu) (MB Meeting No. 6)	2 (Thu) (12 Aug 2021 MB meeting)	
Oct			28 (Thu) (23 Sep 2021 MB meeting)	21 (Thu) (Q3 2021 IR)
Nov	15 (Mon) (AC Meeting No. 7)	18 (Thu) (MB Meeting No. 7)		
Dec	13 (Mon) (AC Meeting No. 8)	16 (Thu) (MB Meeting No. 8)	16 (Thu) (18 Nov 2021 MB meeting)	

List of Acronyms, Abbreviations, and Symbols

AMRO	ASEAN+3 Macroeconomic Research Office
AONCR	Areas Outside the National Capital Region
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Fever
BAP	Bankers Association of the Philippines
BES	Business Expectations Survey
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
bp	Basis Point
BPO	Business Process Outsourcing
BSP-SF	Bangko Sentral ng Pilipinas Securities Facility
BTr	Bureau of the Treasury
BvD	Bureau van Dijk
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CAMPI	Chamber of Automative Manufacturers of the Philippines, Inc.
CAR	Capital Adequacy Ratio
CBD	Central Business District
CDS	Credit Default Swap
CES	Consumer Expectations Survey
CI	Confidence Index
CNI	Certificate of Necessity to Import
CPI	Consumer Price Index
CREATE	Corporate Recovery and Tax Incentives for Enterprises
CREL	Commercial Real Estate Loan
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DI	Diffusion Index
DOE	Department of Energy
DOF	Department of Finance
DOT	Department of Tourism
DPWH	Department of Public Works and Highways
ECB	European Central Bank
ECQ	Enhanced Community Quarantine
EIA	Energy Information Administration
EMBIG	Emerging Market Bond Index Global
ERC	Energy Regulatory Commission
ESI	Economic Sentiment Indicator
FCD	Foreign Currency Deposit
FIST	Financial Institutions Strategic Transfer
GDP	Gross Domestic Product
GIR	Gross International Reserve
GNI	Gross National Income
GNPL	Gross Non-Performing Loan
GS	Government Securities
IMF	International Monetary Fund
IMTS	International Merchandise Trade Statistics
IPP	Independent Power Producer
IRC	Interest Rate Corridor
kWh	Kilowatt Hour
LFPR	Labor Force Participation Rate
LFS	Labor Force Survey
MAV	Minimum Access Volume
MB	Monetary Board
MECQ	Modified Enhanced Community Quarantine
MERALCO	Manila Electric Company
MISSI	Monthly Integrated Survey of Selected Industries
MTP	Major Trading Partner
NAP	National Accounts of the Philippines
NBFIs	Non-Bank Financial Intermediaries
NBQBs	Non-Banks with Quasi-Banking Functions
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
NNPL	Net Non-Performing Loans
ODF	Overnight Deposit Facility
OP	Office of the President
OPEC	Organization of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
PBOC	People's Bank of China
P/E	Price-to-Earnings
PEPP	Pandemic Emergency Purchase Programme
PISM	Philippine Institute for Supply Management
PMI	Purchasing Managers' Index
ppt	Percentage Point
PSA	Philippine Statistics Authority; Power Supply Agreement
PSEi	Philippine Stock Exchange Index
PUVMP	Public Utility Vehicle Modernization Program
q-o-q	Quarter-on-Quarter
RBs	Rural Banks
RDBs	Retail Dollar Bonds
REER	Real Effective Exchange Rate
RP	Repurchase
RR	Reserve Requirement
RREL	Residential Real Estate Loan
RREPI	Residential Real Estate Price Index
RRP	Reverse Repurchase
RRR	Reserve Requirement Ratio
SBL	Substandard or Below Loan
SDA	Special Deposit Account
SLOS	Senior Bank Loan Officers' Survey
TBs	Thrift Banks
TDF	Term Deposit Facility
TMA	Truck Manufacturers Association
TPI	Trading Partner Index
TPI-A	Trading Partner Index in Advanced Countries
TPI-D	Trading Partner Index in Developing Countries
U/KBs	Universal and Commercial Banks
VaPI	Value of Production Index
VoPI	Volume of Production Index
WAIR	Weighted Average Interest Rate
WB	World Bank
WEO	World Economic Outlook
WESM	Wholesale Electricity Spot Market
YLFPR	Youth Labor Force Participation Rate
y-o-y	Year-on-Year
y-t-d	Year -to-Date

Contents

Overview

Headline inflation increases anew in Q3 2021. Average headline inflation rose to 4.5 percent, higher than the quarter- and year-ago rates of 4.3 percent and 2.5 percent, respectively. This brought average inflation for the first three quarters of the year to 4.5 percent which is above the government's target range of 2-4 percent for 2021. Food inflation accelerated to 6.2 percent from 4.9 percent in the previous quarter. Prices of key food items went up on supply disruptions due to weather disturbances and the prolonged impact of the African swine fever (ASF) on meat stocks. In addition, transport bottlenecks with the reimposition of strict quarantine restrictions also contributed to the increase in food inflation. Meanwhile, non-food inflation eased to 3.3 percent from 3.7 percent in the previous quarter. Transport inflation slowed down owing to base effects following the spike in tricycle fares in the same period last year.

Headline inflation rises above 2021 target range, driven by supply-side factors

Nevertheless, core inflation remains steady during the quarter. Core inflation, which measures underlying demand-side price pressures, remained steady at 3.2 percent. Estimates of alternative core inflation measures, meanwhile, showed mixed trends. The core inflation estimate based on trimmed mean increased to 3.1 percent (from 2.5 percent last quarter) while measures based on the weighted median and net of volatile items both eased to 1.6 percent (from 1.7 percent) and 4.1 percent (from 4.5 percent), respectively. The number of CPI items with inflation rates higher than the 4-percent upper threshold decreased to 49 items from 52 items in the previous quarter. However, these items accounted for a higher portion of the CPI basket at around 37.1 percent (from 33.2 percent).

Inflation expectations rise for 2021 but remain within target in 2022-2023. The BSP's survey of private sector economists for September 2021 showed that average inflation forecast for 2021 is higher at 4.3 percent from 4.2 percent in the June survey. For 2022 and 2023, mean inflation forecasts reverted to within the target range at 3.2 percent. Compared to the previous survey, the 2022 average forecast remained unchanged while that for 2023 increased from 3.1 percent. Analysts expect inflation to remain slightly above the upper end of the government's target range in 2021, with broadly balanced risks surrounding the outlook. Most analysts expect the BSP to keep policy settings unchanged in 2021 to support economic recovery and increase the policy interest rate by a range of 25-100 basis points (bps) by end-2022. Of the 17 out of 21 respondents, there is an 82.3-percent probability that average inflation will rise above 4.0 percent in 2021. Meanwhile, the probabilities that inflation will fall within the target band in 2022 and 2023 are seen at 84.2 percent and 86.7 percent, respectively.

The Philippine economy grows in Q2 2021, in part due to low-base effect. Real Gross Domestic Product (GDP) grew by 11.8 percent, a turnaround following five consecutive quarters of contraction. However, on a seasonally-adjusted quarterly basis, GDP declined by 1.3 percent in Q2 2021, a reversal from the 0.7-percent growth in Q1 2021. This brings real GDP growth for the first half of 2021 to 3.7 percent, year-on-year (y-o-y). On the demand side, the key drivers of growth were investments and household consumption which expanded by 75.5 percent and 7.2 percent, respectively. These sectors more than offset the 4.9-percent decline in government spending. On the supply side, the industry and service sectors expanded by 20.8 percent and 9.6 percent, respectively, while the agriculture sector contracted by 0.1 percent.

Real GDP, y-o-y, expands for the first time since the pandemic

Other demand indicators continued to show ongoing corrections with signs that recovery could be underway. For Q2 2021, property prices and rentals of offices and residences in the central business districts in NCR, on a y-o-y basis, remained in decline amid increasing vacancy rates. On the other hand, based on the Q2 2021 Residential Real Estate Price Index, on a quarter-on-quarter (q-o-q) basis, residential prices in NCR and Areas Outside NCR (AONCR) increased. For vehicle sales, a slight moderation was recorded due to the reimposition of strict quarantine measures in August. In contrast, Meralco sales rose as energy consumption in residential, industrial and commercial areas increased. Meanwhile, leading indicators for economic activity showed more subdued signals, which could be due to the return to stricter mobility restrictions in August. The composite Purchasing Managers' Index (PMI) for August was at the contraction territory of 45.0-point index. The results of the Business and Consumers Expectations Survey likewise showed pessimistic sentiment for Q3 2021. However, business and household confidence became more upbeat for the next quarter.

Global economic activity gains momentum but hampered by supply-chain disruptions and higher input costs. The JP Morgan Global All-Industry Output Index improved slightly to 53.0 in September from 52.5 in August. Manufacturing and services activity accelerated although supply-chain disruptions and higher commodity prices increased input costs of firms. Nevertheless, the return in demand indicates that recovery in key economies have gained momentum. For Q2 2021, the US, euro area, Japan, China and India reported positive growth outturns. Moreover, leading indicators for manufacturing activity in most of these countries have remained in the expansion zone. Similarly, manufacturing PMI in the ASEAN region stayed at the neutral 50.0-point index as expansions in some countries were dampened by deterioration in operating conditions in other jurisdictions. Despite rising inflation, the lingering economic uncertainty led most of the monitored central banks to maintain accommodative monetary policy settings. However, during their September meetings, the European Central Bank indicated that they can maintain favorable financing conditions under a moderately lower pace of asset purchases while the US Federal Reserve (US Fed) noted that a moderation in asset purchases may soon be warranted. Meanwhile, the Bank of Korea raised the base rate by 25 bps on 26 August 2021 amid continued economic recovery.

Domestic market conditions continue to be stable amid accommodative monetary settings and ample liquidity in the financial system. Financial market conditions remained stable in Q3 2021. The equities market index increased on average to 6,750.0 index points during the quarter, buoyed by investors' optimism over the continued monetary accommodation. In the domestic debt market, government issuances continued to attract robust market participation in the weekly auctions. The excess demand allowed the Bureau of the Treasury (BTr) to raise more funds through non-competitive awards. In the foreign exchange market, the peso depreciated on average to ₱50.11/US$1 during the quarter. The depreciation was due to market cautiousness with the reimposition of strict quarantine measures as well as signals from the US Fed of a possible tapering of its asset purchases within the year. Finally, the Philippine banks continued to exhibit resilience and stability. While non-performing loans ratio rose, these loan exposures remained manageable and adequately covered.

The BSP maintains an accommodative policy setting in Q3 2021. The BSP decided to maintain the key policy interest rate at 2.0 percent in the overnight reverse repurchase or RRP facility. The corresponding interest rates on the overnight deposit and lending facilities were also kept at 1.5 percent and 2.5 percent, respectively. During the review period, the BSP noted that latest baseline forecasts indicate a higher inflation path over the policy horizon. Average inflation is seen to settle slightly above the upper end of the target band of 2-4 percent in 2021, as supply disruptions kept food prices elevated. Nevertheless, the BSP emphasized that inflation is projected to revert to the midpoint of the target range in 2022 and 2023.

The BSP maintains the key policy rate at 2.0 percent

The risks to the inflation outlook have shifted towards the upside for the remaining months of 2021 but remains broadly balanced for 2022 and 2023. Upside risks could emanate from pressures on international commodity prices amid improving global demand and lingering supply-chain bottlenecks, as well as the potential effects of weather disturbances and a possible prolonged recovery from the ASF outbreak. Meanwhile, the spread of more contagious coronavirus variants continue to pose downside risks as potential delays in the lifting of containment measures could further dampen prospects for global growth and domestic demand.

Economic recovery, amid the continued threat of more contagious infections, would depend critically on timely measures to prevent any deeper scarring. In this regard, the acceleration of the government's vaccination program and recalibration of existing quarantine protocols should help support economic activity while safeguarding public welfare.

Given the manageable inflation environment and uncertain growth outlook, the BSP believes that keeping an accommodative stance for monetary policy remains appropriate. Together with appropriate fiscal and health interventions, keeping a steady hand on the BSP's policy levers should allow the economic recovery to gain more traction in the coming months. Looking ahead, the BSP will remain vigilant against any emerging risks to the outlook for inflation and growth, in order to ensure that monetary policy settings remain in line with its price and financial stability objectives.

I. Inflation and Real Sector Developments

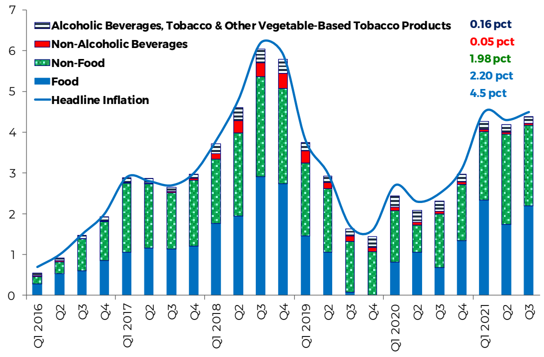
Prices

Headline inflation. Year-on-year headline inflation rose to 4.5 percent in Q3 2021, which was higher than the quarter- and year-ago rates of 4.3 percent and 2.5 percent, respectively.

Headline inflation rises anew in Q3 2021 driven by supply-side factors

This brought the year-to-date (y-t-d) average inflation to 4.5 percent in the first three quarters of 2021, which is above the National Government's (NG) target range of 2-4 percent for the year.

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



Source: Philipine Statistical Authority (PSA), BSP

Core Inflation. Nevertheless, core inflation held steady at 3.2 percent y-o-y in Q3 2021 from the previous quarter's rate. The core inflation measure excludes selected volatile food and energy items to reveal the presence of underlying demand-side price pressures.

Meanwhile, core inflation remains stable

On the other hand, estimates of the alternative core inflation measures showed mixed trends in Q3 2021. The core inflation estimate based on the trimmed mean was higher in Q3 2021 at 3.1 percent from 2.5 percent in the previous quarter. Meanwhile, core inflation based on the weighted median and net of volatile items both eased to 1.6 percent (from 1.7 percent) and 4.1 percent (from 4.5 percent), respectively.

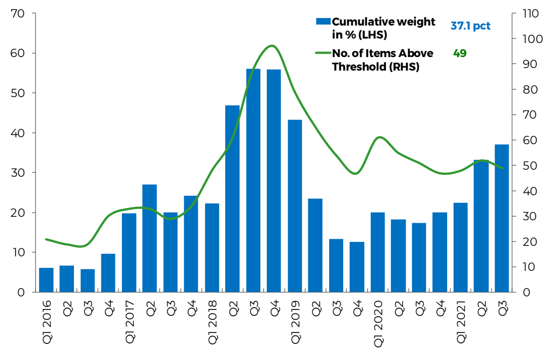
Table 1. Official and Alternative Core Inflation Measures
quarterly averages of year-on-year change

Quarter	Official Headline Inflation	Official Core Inflation	Trimmed Mean [1]	Weighted Median [2]	Net of Volatile Items [3]
2018	**5.2**	**4.2**	**4.2**	**4.1**	**4.5**
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
Q4	5.9	4.9	5.2	5.2	4.9
2019	**2.5**	**3.2**	**2.6**	**2.9**	**3.3**
Q1	3.8	3.9	3.8	3.4	3.7
Q2	3.0	3.4	2.9	3.0	3.0
Q3	1.7	2.9	1.9	2.8	3.3
Q4	1.6	2.7	1.7	2.6	3.3
2020	**2.6**	**3.2**	**2.1**	**2.3**	**3.4**
Q1	2.7	3.2	2.2	2.6	3.8
Q2	2.3	2.9	2.1	2.3	3.5
Q3	2.5	3.2	2.0	2.2	3.0
Q4	3.1	3.2	2.2	2.2	3.1
2021					
Q1	4.5	3.5	2.5	1.9	4.2
Q2	4.3	3.2	2.5	1.7	4.5
Q3	**4.5**	**3.2**	**3.1**	**1.6**	**4.1**

[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, fuel 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 items in the Consumer Price Index (CPI) with inflation rates higher than the upper threshold of the target range dropped to 49 items in Q3 2021 from 52 items in Q2 2021. However, these items accounted for a higher portion of the CPI basket at around 37.1 percent in Q3 2021 from 33.2 percent in the previous quarter.

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



Source: PSA, BSP staff estimates

Food Inflation. Food inflation increased to 6.2 percent y-o-y as most food items posted higher inflation in Q3 2021 compared to the previous quarter. Vegetable inflation went up to 12.3 percent y-o-y because of supply disruptions from damage caused by monsoon rains.

Supply disruptions push food inflation higher in Q3 2021

Similarly, adverse weather conditions hampered fishing activities and port operations, which led to higher fish inflation during the quarter. Fish inflation rose to 10.6 percent y-o-y. The government has issued a Certificate of Necessity to Import (CNI) to help ensure stable fish supply during the closed fishing season.

Table 2. Inflation Rates for Selected Food Items (2012=100)
year-on-year, in percent

Commodity	2020	2021	
	Q3	Q2	Q3
Food and Non-Alcoholic Beverages	**1.9**	**4.6**	**5.8**
Food	1.9	4.9	6.2
Bread and Cereals	-0.2	0.2	0.5
Rice	-0.9	-0.7	-0.4
Corn	-0.4	4.5	8.3
Meat	3.9	21.1	16.0
Fish	2.9	7.5	10.6
Milk, Cheese and Eggs	2.9	1.2	0.7
Oils and Fats	2.4	4.1	4.8
Fruit	7.2	-0.5	-0.3
Vegetables	-0.9	-4.0	12.3
Sugar, Iam, Honey, Chocolate and Confectionery	0.1	0.8	1.2
Food Products, N.E.C.	5.3	1.1	1.6
Non-Alcoholic Beverages	2.1	1.6	1.6
Alcoholic Beverages and Tobacco	16.5	11.7	10.3

Source of Basic Data: PSA, BSP

Aside from weather disturbances, transportation bottlenecks with the reimposition of strict quarantine restrictions in selected areas have also contributed to the increase in food inflation.

Meanwhile, y-o-y meat inflation, albeit still elevated, slowed down in Q3 2021 due to the continued arrival of pork imports. This is in line with the government's measures to improve pork supply by increasing minimum access volume (MAV) for imported pork and temporarily reducing pork tariff. Inflation for non-alcoholic beverages was unchanged at 1.6 percent y-o-y in Q3 2021 from the previous quarter's rate.

Non-food Inflation. Non-food inflation decreased in Q3 2021 to 3.3 percent compared to the previous quarter's 3.7 percent. The slowdown was mostly traced to lower y-o-y transport inflation owing to base effects following the significant increase in tricycle fares in the same period in 2020 with the imposition of social-distancing protocols.

Slower non-food inflation linked mostly to base effects

Meanwhile, the deceleration in non-food inflation was slightly tempered by the higher inflation for electricity, gas and other fuels. This was driven by upward adjustments in electricity rates due to higher generation charges as well as increase in prices of liquefied petroleum gas (LPG) and kerosene.

Table 3. Inflation Rates for Selected Non-Food Items (2012=100)
year-on-year, in percent

Commodity	2020	2021	
	Q3	Q2	Q3
Non-Food	**2.2**	**3.7**	**3.3**
Clothing and Footwear	2.0	1.6	1.8
Housing, Water, Electricity, Gas and Other Fuels	1.0	2.0	3.1
Electricty, Gas, and Other Fuels	-2.7	2.6	8.2
Furnishings, Household Equipment & Routine Household Maintenance	3.9	2.3	2.4
Health	2.8	3.1	3.1
Transport	7.0	14.5	6.4
Transport Services	13.6	13.4	3.8
Communication	0.3	0.3	0.3
Recreation and Culture	0.2	-0.6	0.3
Education	0.6	1.1	1.0
Restaurant and Miscellaneous Goods and Services	2.3	3.7	3.8

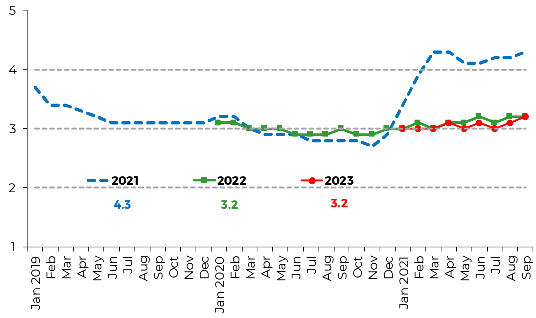
Source of Basic Data: PSA, BSP

Private Sector Economists' Inflation Forecasts. The results of the BSP's survey of private sector economists for September 2021 showed higher mean inflation forecast for 2021 at 4.3 percent from 4.1 percent based on the June 2021 survey.[4]

Inflation expectations are higher for 2021 and 2023, while unchanged for 2022

The mean inflation forecast for 2022 was unchanged at 3.2 percent, while the mean inflation forecast for 2023 was higher at 3.2 percent from 3.1 percent.

Chart 3. BSP Private Sector Economists' Survey* (2012=100)
mean forecast for full year; in percent



*Based on forecasts provided by 21 respondents. The survey was conducted from 7 to 13 September 2021.
Source: BSP

Analysts expect inflation to remain slightly above the upper end of the government's target range in 2021, with broadly balanced risks surrounding the outlook. The BSP is seen keeping current policy settings unchanged for the rest of 2021 to support the economy's gradual recovery. Meanwhile, inflation is expected to settle close to the midpoint of the target by 2022 and 2023, with most of the analysts anticipating the BSP to end its accommodative stance by end-2022.

The upside risks to inflation include: (a) supply disruptions brought about by the reimposition of stricter quarantine measures, adverse weather conditions during the rainy season, and persistence of ASF; (b) rising global crude oil prices; and (c) weakening of the peso against the US dollar.

The downside risks to inflation are seen to emanate mainly from subdued domestic demand due to low purchasing power (brought about by high unemployment) and the prolonged and stricter lockdown measures amid the local transmission of the Delta variant, which could weigh down on recovery efforts. Another downside risk revolves around increased food importation following the implementation of lower import tariffs on pork and rice, which are seen to augment domestic food supply and lower food prices.

Table 4. Private Sector Forecasts for Inflation (2012=100)
annual percentage change; September 2021

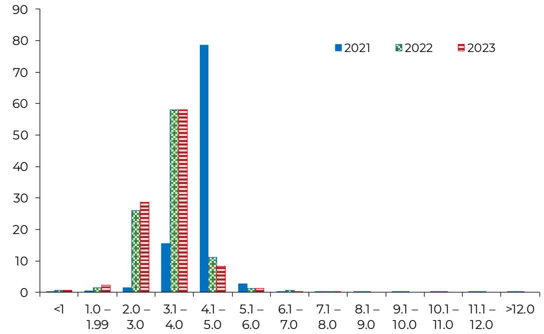
	2021			2022	2023
	Q3	Q4	FY	FY	FY
1) Al-Amanah Islamic Bank	4.90	4.60	4.50	4.00	3.50
2) Banco De Oro	4.64	4.32	4.45	3.50	3.30
3) Bangkok Bank	4.50	4.00	4.40	3.50	3.00
4) Bank of Commerce	4.63	4.04	4.38	-	-
5) Barclays	4.60	3.90	4.30	3.40	3.00
6) CTBC Bank	4.60	3.80	4.30	3.30	3.10
7) Deutsche Bank	-	-	4.10	3.40	-
8) Eastwest Bank	4.50	4.50	4.50	4.00	3.00
9) Global Source	4.60	4.10	4.40	3.20	3.50
10) Korea Exchange Bank	4.50	4.30	4.40	3.50	3.20
11) Land Bank of the Phils	4.60	3.80	4.40	3.00	3.50
12) Maybank	4.70	4.20	4.30	2.75	2.50
13) Maybank-ATR KimEng	4.60	3.80	4.30	2.50	3.00
14) Metrobank	-	-	4.10	3.00	-
15) Mizuho	4.50	4.30	4.50	2.50	3.00
16) Nomura	4.60	3.80	4.30	3.30	-
17) Philippine Equity Partners	4.60	4.00	4.40	3.00	3.30
18) RCBC	4.60	4.10	4.40	3.00-3.40	3.00-3.50
19) Robinsons Bank	4.60	4.30	4.50	4.00	3.50
20) Standard Chartered	-	-	3.90	3.00	2.70
21) Union Bank of the Phils.	4.70	4.20	4.40	2.70	3.20
Median Forecast	4.6	4.1	4.4	3.3	3.2
Mean Forecast	4.6	4.1	4.3	3.2	3.2
High	4.9	4.6	4.5	4.0	3.5
Low	4.5	3.8	3.9	2.5	2.5
Number of Observations	18	18	21	20	17
Government Target	**3.0±1.00**	**3.0±1.00**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

Source: BSP

Based on the probability distribution of the forecasts provided by 17 out of 21 respondents, there is a 17.2-percent probability that average inflation for 2021 will settle within the 2-4 percent range, while there is an 82.3-percent chance that inflation will rise above 4.0 percent. Meanwhile, the probabilities that inflation will fall within the target band in 2022 and 2023 are seen at 84.2 percent and 86.7 percent, respectively.

[4] There were 21 respondents in the BSP's survey of private sector economists in September 2021. The survey was conducted from 7 to 13 September 2021.

Chart 4. Probability Distribution for Analysts' Inflation Forecasts* (2021-2023)



*Probability distributions were averages of those provided by 17 out of 21 respondents.
Source: September 2021 BSP Survey

Based on the BSP's Q3 2021 Business Expectations Survey (BES), respondent firms continue to expect inflation to rise in Q3-Q4 2021 and in the next 12 months.

Firms and consumers expect a within-target inflation in the near term

Relative to the previous survey, a higher number of respondents in Q3 2021 expect inflation to increase in the current quarter (i.e., the diffusion index (DI) rose to 50.0 percent from 40.6 percent). Likewise, more respondents anticipate higher inflation in the next quarter (i.e., the DI rose to 45.8 percent from 37.7 percent). At the same time, businesses expect that the rate of increase in commodity prices will hover near the upper end of the government's 2 to 4 percent inflation target range for 2021 and 2022. In particular, inflation is projected to settle at 3.9 percent in Q3 2021, Q4 2021, and the next 12 months (from 4.1 percent, 4.2 percent, and 4.1 percent, respectively in the Q2 2021 survey results).

Similarly, the BSP Consumer Expectations Survey (CES) results for Q3 2021 indicated that consumers expect inflation to remain within the government's target range for 2021. In particular, households generally anticipate a 3.4 percent inflation for the next 12 months. Meanwhile, inflation is expected to decline for the following items: bread and cereals (3.6 percent); meat (4.9 percent); fruits (4.0 percent); milk, cheese, and eggs (3.6 percent); non-alcoholic beverages (2.8 percent); alcoholic beverages (5.1 percent); clothing (0.2 percent); water (3.7 percent); fuel (3.0 percent); medical care (2.0 percent); transportation (6.6 percent); communication (0.5 percent); education (0.8 percent); and restaurants and cafes (1.8 percent).

Energy prices. The average price of Dubai crude oil has increased further in Q3 2021, compared to the previous quarter. Oil prices went up in July given optimism over demand recovery particularly, in the US and Europe, as well as steady draws on global oil inventory. However, oil prices reversed direction in August, declining amid worries over demand outlook with the resurgence of COVID-19 cases along with higher crude oil production from the Organization of the Petroleum Exporting Countries and its allies (OPEC+). Prices rose anew in September following production disruptions in the Gulf of Mexico caused by Hurricane Ida in late August.

International oil price increases due to global inventory drawdowns and weather-related production disruptions

The outlook for the global energy industry remains highly uncertain given developments relating to the pandemic although, market structure appears to still be in backwardation in September 2021.[5] This is consistent with projections from the US Energy Information Administration (EIA), which showed that consumption is expected to outstrip supply in 2021. However, given expectations of higher growth in output from OPEC+, US tight oil production,

[5] Based on estimated futures prices of Dubai crude oil as of 30 September 2021. These estimates are based on movements in Brent crude oil futures.

and other non-OPEC producers, supply will eventually outpace slowing consumption in 2022.[6]

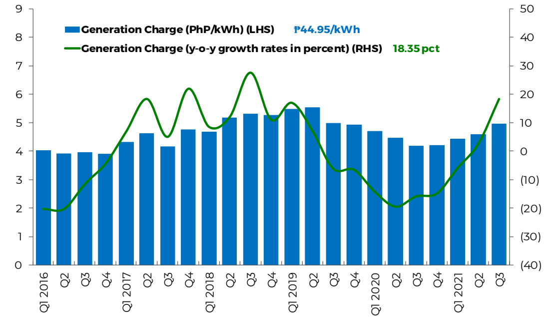
In terms of the domestic market, on a y-t-d basis, price changes in domestic petroleum products as of 28 September 2021 showed a net price increase compared to end-2020 levels. In particular, prices of gasoline, kerosene, and diesel in Metro Manila were adjusted upwards by ₱7.40 per liter, ₱10.65 per liter, and ₱8.42 per liter, respectively.[7]

Power. The overall electricity rate in the Meralco-serviced area rose by around ₱0.45 per kilowatt hour (kWh) to about ₱9.01 per kWh (from ₱8.56 per kWh in Q2 2021) due mainly to higher generation charge. According to Meralco, the upward adjustment in the generation cost was primarily due to higher charges from the Wholesale Electricity Spot Market (WESM) and Independent Power Producers (IPPs) along with the rise in charges from Power Supply Agreements (PSAs).

Retail electricity prices increase in Q3 2021

Amid the Malampaya natural gas supply restriction, WESM charges in July 2021 increased due to tight supply conditions in the Luzon grid.[8] Similarly, charges from the IPPs rose as power plants affected by the reduction of supply from Malampaya resorted to the use of more expensive liquid fuel to continue operations. At the same time, the increase in charges from IPPs during the review period was attributed to the continued depreciation of the peso against the US dollar, lower average plant dispatch,[9] as well as the increase in Malampaya natural gas prices following quarterly repricing to reflect increases in world crude oil prices. Higher charges from the PSAs were also observed in September 2021 as a result of lower excess energy deliveries due to the reduction in demand amid the reimposition of enhanced community quarantine (ECQ) in Metro Manila and neighboring regions.

Chart 5. Meralco's Generation Charge
Ph₱/kWh; year-on-year growth rates in percent



Source: PSA, BSP staff estimates

Nonetheless, the increase in the generation charge in Q3 2021 was offset by the lower charges from WESM in August 2021 and September 2021 due to improved power situation in the Luzon grid with cooler temperature and improved availability of generating plants, as well as the registered reduction in charges from PSAs in July 2021 and August 2021 because of higher energy deliveries.

There are potential sources of upside pressures on electricity charges, which are mainly associated with still-pending petitions from previous years. 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

[6] Source: US EIA Short-Term Energy Outlook, September 2021.
[7] Source: Department of Energy (DOE).
[8] Meralco noted that the Luzon grid was placed on Red Alert from 31 May to 2 June 2021 and on Yellow Alert on 4 June 2021 amid the unplanned shutdown of power plants, which shaved off as much as 4,000 megawatts (MW) of power from the grid. In addition, Luzon demand reached 11,640 MW on 28 May 2021, the highest so far on record.

[9] Lower average plant dispatch due to the forced outage of Quezon Power (460 MW) from August 18 to 22 and scheduled outage of San Lorenzo Module 50 (265 MW) starting August 16. Fuel costs of Sta. Rita and San Lorenzo is around 60 percent of IPPs' total cost.

for six months). Likewise, the National Grid Corporation of the Philippines (NGCP) also filed several petitions, which are under evaluation, 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.

Aggregate Demand and Supply[10]

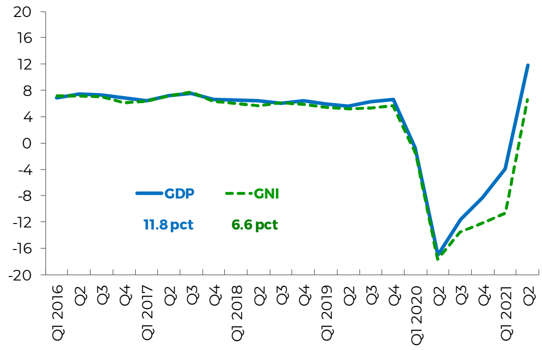
The Philippine economy grew by 11.8 percent y-o-y in Q2 2021 due partly to base effects. This was an improvement following five consecutive quarters of contraction and was the highest in 32 years since Q4 1988. However, on a seasonally-adjusted basis, q-o-q GDP declined by 1.3 percent in Q2 2021, a reversal of the 0.7-percent growth registered in Q1 2021. Given the latest figures, this brings the real GDP growth to 3.7 percent y-o-y in the first half of 2021 from -9.3 percent in the same period in 2020.

Real GDP improves in Q2 2021

Gross national income (GNI) accelerated by 6.6 percent y-o-y in Q2 2021, an improvement from the -10.6 percent and -17.6 growth in Q1 2021 and Q2 2020, respectively. Net primary income continued to decline at double-digit rates in Q2 2021, dropping by 53.8 percent, albeit less negative compared to the -75.6 percent in Q1 2021, due mainly to the slower contraction in the flow of compensation and growth in the inflow of property income.

On the demand side, the recovery in Q2 2021 GDP growth was attributed to the expansion in investments and private consumption. Investment in fixed capital recovered (37.4 percent in Q2 2021 from -18.0 percent in Q1 2021) on account of the significant improvement in construction (33.4 percent from -25.3 percent) and durable equipment (89.2 percent from -10.3 percent). Household spending also grew (7.2 percent from -4.7 percent) as consumer confidence improved, offsetting the decline in government spending (-4.9 percent from 16.1 percent).

Chart 6. Gross Domestic Product and Gross National Income
at constant 2018 prices



Source: PSA

Meanwhile, total exports registered double-digit growth of 27.0 percent in Q2 2021 (from -8.8 percent in Q1 2021), although this was offset by the stronger growth in imports (37.8 percent from -7.0 percent) bringing net exports to decline by 81.4 percent in Q2 2021 from the 1.4-percent growth in Q1 2021.

On the supply side, the industry and services sectors posted positive growths despite the imposition of the ECQ and Modified Enhanced Community Quarantine (MECQ) in April and May 2021. The industry sector grew by 20.8 percent in Q2 2021 from the 4.4 percent contraction in Q1 2021, due mainly to the recovery in manufacturing (22.3 percent in Q2 2021 from 0.5 percent in Q1 2021) and construction (25.7 percent from -22.6 percent). Meanwhile, the growth in services (9.6 percent from -4.1 percent), emanated from the expansion in real estate (16.7 percent from -11.7 percent), trade (5.4 percent from -3.4 percent), other services (39.4 percent from -38.7 percent), and transportation and storage (23.4 percent from -19.6 percent). By contrast, the agriculture sector registered a 0.1-percent contraction

[10] Estimates on the first quarter 2021 National Accounts of the Philippines (NAP) are based on the 2018 base year following the revision and rebasing of the NAP series.

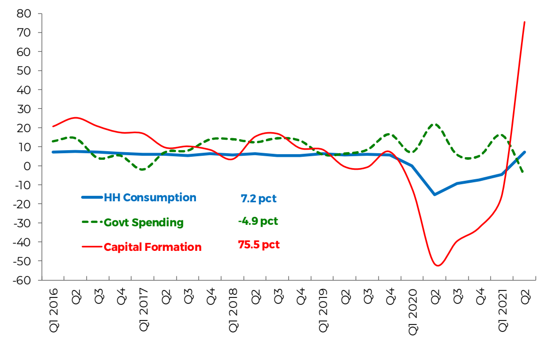
due mainly to the decline in livestock production owing to the adverse impact of ASF in the hog industry.

Aggregate Demand. Under the expenditure approach to GDP, household spending, government spending, investments (or capital formation), and net exports contributed 5.1 percentage points (ppts), -1.0 ppt, -4.9 ppts, and 11.5 ppts, respectively, to total GDP growth in Q2 2021.

Consumption and investments expand in Q2 2021

Household expenditures, which accounted for 67.6 percent of GDP in Q2 2021, grew by 7.2 percent in Q2 2021, a recovery from 4.7-percent and 15.3-percent declines in Q1 2021 and Q2 2020, respectively. Consumer sentiment slightly improved in Q2 relative to the previous quarter, albeit still negative, which may be attributed to the less stringent quarantine restrictions compared to the same period a year ago, as well as the availability of vaccines and provision of financial assistance during the reference period. Moreover, the labor force survey results for June 2021 indicated that the economy generated additional 2.5 million jobs compared to the pre-pandemic level. The quality of employment also improved given the lower underemployment rate.

Chart 7. Gross Domestic Product by Expenditure Shares
at constant 2018 prices



Source: PSA

Except for alcoholic beverages and tobacco, all the other items contributed positively to the growth of household spending, particularly: food and non-alcoholic beverages, transport, housing, water, electricity, gas and other fuels, and restaurants and hotels. Latest data on mobility reports indicated that visits to parks, retail and recreation establishments, and transit stations increased in Q2 2021 relative to the previous quarter.

Government expenditures declined by 4.9 percent in Q2 2021, from double-digit growths of 16.1 percent and 21.8 percent in Q1 2021 and Q2 2020, respectively. This was also the first contraction in government spending since the start of the pandemic in Q1 2020. The y-o-y decline could be attributed to base effects from the rollout of emergency subsidies in Q2 2020. Maintenance and other operating expenses significantly declined by 29.1 percent in Q2 2021 from the 39.8-percent expansion in Q1 2021. Disbursements for personnel services also decelerated to 4.9 percent in Q2 2021 from 7.8 percent in Q1 2021.

Table 5. Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent

BY EXPENDITURE ITEM	2020	2021	
	Q2	Q1	Q2
Household Consumption	-15.3	-4.7	7.2
Government Consumption	21.8	16.1	-4.9
Capital Formation	-51.5	-14.8	75.5
Fixed Capital Formation	-35.8	-18.0	37.4
Exports	-33.5	-8.8	27.0
Imports	-37.3	-7.0	37.8

Source: PSA

Capital formation grew by 75.5 percent in Q2 2021, the highest recorded growth starting the quarterly 1981 series. The y-o-y expansion was attributed to the registered increase in fixed capital investments from construction activities, durable equipment, intellectual property products, and valuables.

Construction growth accelerated by 33.4 percent in Q2 2021 (from -25.3 percent in Q1 2021), driven by the significant increase in construction activities by households (286.3 percent in Q2 2021 from -24.0 percent in Q1 2021) and general government (49.7 percent from 25.3 percent). Similarly, investments in durable equipment rose sharply in Q2 2021 (89.2 percent from -10.3 percent), owing to the significant growth in road transport (180.0 percent from -21.4 percent) with the continued implementation of the public utility vehicle modernization program (PUVMP).

In addition, investments in valuables (28.6 percent from -19.2 percent) and intellectual property products (9.2 percent from 2.6 percent) also increased, while breeding stock and orchard development (-2.8 percent from -3.1 percent) posted a slower contraction.

Overall exports grew by 27.0 percent in Q2 2021, an improvement after the five consecutive quarters of contraction. The growth was largely attributed to the recovery in exports of services, particularly travel and business services. Similarly, merchandise exports accelerated driven largely by the faster growth in exports of electronic products, particularly, semiconductors and electronic data processing. The significant increase in semiconductor exports was due to the strong demand for medical electronics, computers, and other digital devices used in response to the COVID-19 pandemic, evident by the increased sales among top markets such as Hong Kong and China.

Overall imports grew by 37.8 percent in Q2 2021, a reversal from the 7.0 percent contraction in Q1 2021 and 37.3 percent decline in Q2 2020. Merchandise imports surged (46.4 percent in Q2 2021 from -0.5 percent in Q1 2021) driven by significant increase in mineral fuels, lubricants, and related materials, electronic products, and transport equipment. Imports of services also improved (-4.4 percent from 31.3 percent) owing to less negative contraction in travel and the rebound in transport.

Other Demand Indicators.[11] Other demand indicators continue to show ongoing corrections with signs that recovery could be underway. Property prices in the central business districts continued to decline amid increasing vacancy rates, although the Q2 2021 Residential Real Estate Price Index reported q-o-q rise in residential property prices in NCR and AONCR. For vehicle sales, a slight moderation was recorded due to the reimposition of strict quarantine measures in August. Meanwhile, Meralco sales rose as energy consumption in residential, industrial and commercial areas increased. On the other hand, leading indicators of economic activity show subdued signals. The composite PMI for August was at the contractionary territory of 45.0-point index. Similarly, the results of the Business and Consumers Expectations Survey were pessimistic for the review quarter although the outlook turned optimistic for the next quarter.

Property Prices

Capital Values, Metro Manila. Average capital values[12] for office buildings in Metro Manila[13] in Q2 2021 continued to decline to ₱166,861/sq.m., lower by 8.0 percent and 2.6 percent compared to the year- and quarter-ago levels, respectively.

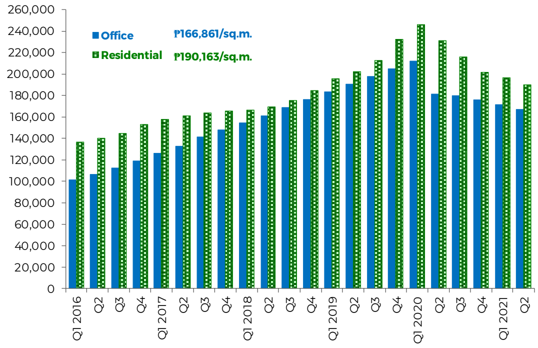
Capital values for both office and residential spaces continue to depreciate

The decline was due mainly to the decrease in capital values for office buildings in major business hubs in Metro Manila such as Makati Central Business District (CBD), Ortigas Center,

[11] There were no surveys conducted for Q2 2020 BES and CES.
[12] Probable price that the property would have fetched if sold on the date of the valuation. The valuation includes imputed land and building value.
[13] This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, Alabang, and Manila Bay Area.

Fort Bonifacio, Eastwood, and Manila Bay Area amid subdued investor interest.

Chart 8. Capital Values, Metro Manila
price per square meter



Source: Colliers International Philippines

Meanwhile, average capital values for luxury residential buildings[14] in Metro Manila[15] in Q2 2021 reached ₱190,163/sq.m., lower by 17.7 percent and 3.2 percent compared to the year- and quarter-ago levels, respectively. The decline was due mainly to lower capital values for luxury residential buildings in Makati CBD, Rockwell, Fort Bonifacio, and Eastwood amid muted business and consumer confidence.

Rental Values, Metro Manila.[16] Average monthly office rent in Metro Manila was valued at ₱788/sq.m. in Q2 2021, a decline of 3.8 percent from the previous quarter. This was also lower by 18.6 percent relative to Q2 2020. The depreciation in office rental rates was due largely to the reduced demand from firms amid the pandemic. Existing tenants continued to rationalize office space by not renewing unused spaces and exercising pre-termination option.

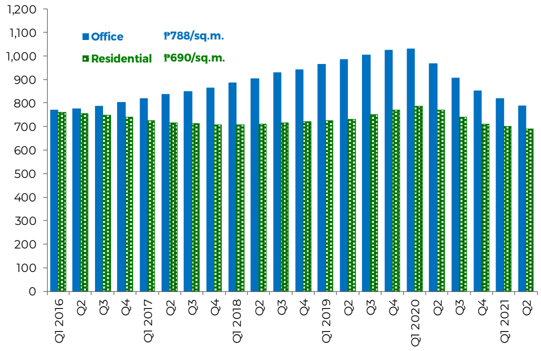
[14] In terms of location, luxury residential units are located within the CBD core and have quality access to/from and have superior visibility from the main avenue. Meanwhile, in terms of general finish, luxury residential units have premium presentation and maintenance.
15 This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, and Rockwell.
[16] Rental values discussed in this section pertain to high-end rented properties, which may be considered as indicators of wealth and demand.

Low demand push down rental rates for office and residential units

According to market analysts, they expect a further correction in lease rates, especially in submarkets with high vacancies. Market analysts see that office leasing recovery will be positively impacted by the pace of domestic inoculation against COVID-19 and developments in the recently enacted the Corporate Recovery and Tax Incentives for Enterprises (CREATE) law.

Due to an anemic demand for residential projects, residential rental rates have been consistently declining across all Metro Manila submarkets since Q2 2020. In Q2 2021, average monthly luxury three-bedroom condominium rents in Metro Manila were recorded at ₱690/sq.m., lower by 1.4 percent and 10.4 percent compared to the previous quarter and year-ago levels, respectively. The weak office leasing demand contributed to subdued residential demand. Nonetheless, residential leasing is projected to recover in 2022.

Chart 9. Rental Values, Metro Manila
price per square meter



Source: Colliers International Philippines

Meanwhile, market analysts continue to see an uptick in the demand for affordable to mid-income properties[17] near transport hubs. Innovative payment schemes and proximity to infrastructure projects have also lured investors to acquire residential units in the fringes of major business districts. Further,

[17] Affordable to mid-income is estimated at ₱1.7 million to ₱5.9 million.

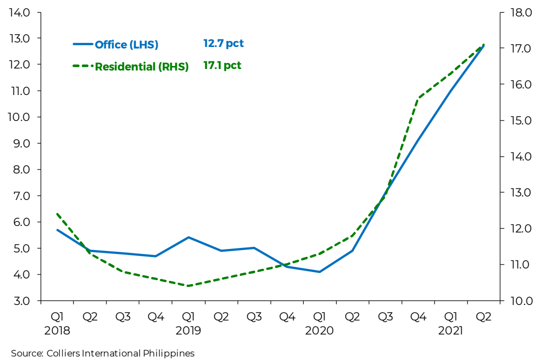
demand for mid-income to upscale house and lot properties outside the NCR have also been increasing as Filipino families start to prefer larger spaces and gravitate towards less dense communities in key urban areas in northern and southern Luzon.

Vacancy Rates, Metro Manila. The office vacancy rate in Metro Manila rose to 12.7 percent in Q2 2021 from 11.0 percent in Q1 2021 as firms continue to rationalize and pre-terminate office space. In terms of location, the office vacancy rates in Makati CBD (9.9 percent from 7.0 percent), Fort Bonifacio (9.0 percent from 7.8 percent), Ortigas Center (13.8 percent from 13.5 percent), and Manila Bay Area (23.8 percent from 14.2 percent) increased in Q2 2021 compared to the previous quarter.

Vacancy rates for offices and residences continue to increase

Market analysts continue to see occupants vacating office spaces in Metro Manila. Office vacancy is likely to increase further by end-2021 due mainly to the completion of office spaces and weak pre-leasing.

Chart 10. Vacancy Rates
in percent



Source: Colliers International Philippines

Similarly, the overall residential vacancy rate in Metro Manila further went up to 17.1 percent in Q2 2021 from 16.3 percent in Q1 2021 due to the slower take-up of units in areas near the core business districts as well as completion of new units. In terms of location, residential vacancy rates were higher in Makati CBD (15.6 percent from 14.1 percent), Fort Bonifacio (21.3 percent from 20.8 percent), Rockwell Center (12.1 percent from 11.6 percent), Ortigas Center (7.0 percent from 6.5 percent), Eastwood City (7.0 percent from 6.4 percent), and Manila Bay area (23.8 percent from 23.3 percent).

BSP Residential Real Estate Price Index (RREPI).[18] Based on the y-o-y growth of the RREPI, the residential real estate prices of various types of new housing units in the Philippines declined for two consecutive quarters.

RREPI declines in Q2 2021 as nationwide property prices contract anew

In Q2 2021, the nationwide house prices contracted by 9.4 percent y-o-y from the 4.2-percent dip in the previous quarter due to the continued effects of the pandemic on the residential property demand. High base effects may also have contributed to the drop in prices given the registered peak of the index in Q2 2020.[19] By contrast, property prices increased by 4.8 percent q-o-q.[20]

[18] 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. The RREPI was computed based on data from housing loans granted by universal, commercial, and thrift banks.
[19] Despite rising COVID-19 cases in Q2 2020, the RREPI peaked at 152.8 in the said quarter, rising by 26.6 percent y-o-y. This was due to the significant decrease in the proportion or the weight of properties valued at less than ₱100,000 per sqm amid the pandemic, which consequently resulted in an increase in the proportion of properties valued at ₱100,000 or more per sqm and led to substantial increase in the level of the RREPI during the said period. Meanwhile, loan applications for properties valued at less than ₱100,000 per sqm declined by 70 percent in Q2 2020.
[20] Similarly, it may be noted that the housing rent inflation rate was lower at 1.7 percent y-o-y and 0.1 percent q-o-q in Q2 2021 from 1.9 percent and 0.4 percent, respectively in Q1 2021. Source: PSA

By area, residential property prices in NCR and AONCR decreased y-o-y, but registered increases q-o-q. The y-o-y contraction in the nationwide residential property prices was driven mainly by the downtrend of property prices in the NCR, which fell by 18.3 percent relative to Q2 2020, marking four consecutive quarters of decline since Q3 2020. The decline emanated from the negative price changes of single detached, condominium and, townhouse units in the NCR. In the case of duplex housing, no bank loans were granted and reported to the BSP in Q2 2021.

Table 6. RREPI by Area
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index[1] (By Area)	RREPI			Year-on-Year Growth Rates (in percent)			Quarter-on-Quarter Growth Rates (in percent)		
	2020	2021		2020	2021		2020	2021	
	Q2	Q1	Q2	Q2	Q1	Q2	Q2	Q1	Q2
Overall	152.8	132.2	138.5	26.6	-4.2	-9.4	10.7	-1.6	4.8
National Capital Region	180.6	142.8	147.6	34.3	-10.0	-18.3	13.8	-0.8	3.4
Areas Outside the NCR	134.7	127.4	133.9	17.8	0.8	-0.6	6.6	-2.1	5.1

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

Likewise, property prices in AONCR decreased marginally by 0.6 percent y-o-y as the drop in the prices of single detached/attached houses more than offset the growth in the prices of townhouses, duplexes, and condominium units. On a q-o-q basis, house prices grew in NCR (by 3.4 percent) and AONCR (by 5.1 percent), following the national trend.

In Q2 2021, the purchase of new housing units accounted for 79.1 percent of residential real estate loans (RRELs). Meanwhile, by type of housing unit, most of the residential property loans were used for the acquisition of condominium units (49.5 percent), followed by single detached/attached houses (39.2 percent), and townhouses (10.3 percent).

Table 7. RREPI by Housing Type
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index[1] (By Housing Type)	RREPI			Year-on-Year Growth Rates (in percent)			Quarter-on-Quarter Growth Rates (in percent)		
	2020	2021		2020	2021		2020	2021	
	Q2	Q1	Q2	Q2	Q1	Q2	Q2	Q1	Q2
Overall[2]	152.8	132.2	138.5	26.6	-4.2	-9.4	10.7	-1.6	4.8
Single Detached/Attached	127.5	115.6	118.1	23.4	0.2	-7.4	10.5	-0.3	2.2
Duplex[3]	112.3	132.6	144.7	0.8	-20.7	28.9	-32.9	-25.6	9.1
Townhouse	151.8	157.2	174.7	10.8	8.3	15.1	4.6	-7.4	11.1
Condominium Unit	201.0	163.2	172.2	30.1	-10.7	-14.3	10.0	2.0	5.5

[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

Most of the RRELs granted in NCR were for the purchase of condominium units, while RRELs granted in AONCR were for the purchase of single detached/ attached houses. By region, 44.9 percent of the total number of RRELs granted were from the NCR, while the rest were distributed in CALABARZON (26.4 percent), Central Luzon (10.5 percent), Central Visayas (5.3 percent), Western Visayas (4.4 percent), Davao Region (3.2 percent), and Northern Mindanao (1.2 percent). NCR and the said six regions combined accounted for 95.9 percent of total housing loans granted by banks during the period.

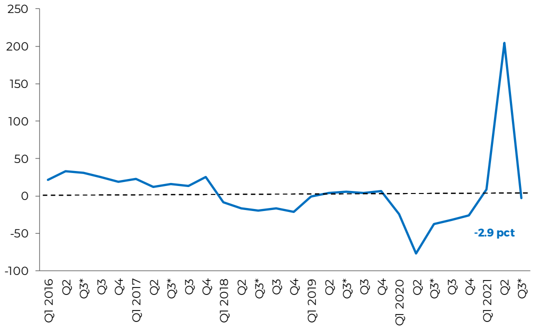
Vehicle Sales. The sales of new vehicles from CAMPI-TMA[21] members fell by 2.9 percent y-o-y for the period July-August 2021, albeit lower than the 37.4-percent contraction recorded in the same period in 2020.

Sales of new commercial and passenger car vehicles decrease

The decline was due mainly to decreased sales of commercial vehicles amid stricter community quarantine classification in the NCR and nearby provinces during the period as the threat of more transmissible COVID-19 variants persisted.

[21] Vehicle sales data is gathered on a monthly basis by the Chamber of Automotive Manufacturers of the Philippines (CAMPI) and the Truck Manufacturers Association (TMA). 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.

Chart 11. Vehicle Sales
growth rate in percent



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

Commercial vehicle sales, which account for 67.9 percent of total vehicle sales, went down by 5.5 percent y-o-y for the period July-August 2021 from the 37.9-percent decline in the same period in 2020. Commercial vehicles sold during the period reached 25,349 units from 26,837 units in the same period a year ago.

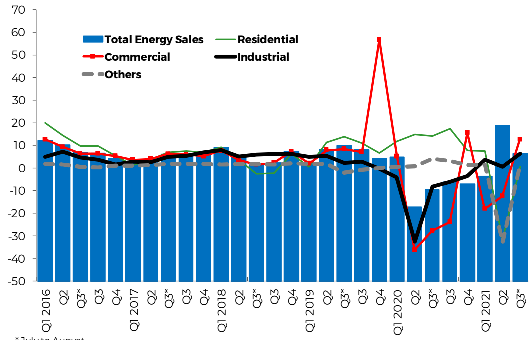
By contrast, passenger car sales rose by 3.3 percent y-o-y for the period July-August 2021, a reversal from the 36.1-percent dip in the same period in 2020. New passenger car sales accrued to a total of 11,996 units for the period July-August 2021 from 11,661 units in the same period a year ago.

Energy Sales. Energy sales of Meralco expanded by 6.5 percent y-o-y in Q3 2021 (July – August), a reversal from the 9.5-percent contraction in the same period a year-ago but slower than the 24.9-percent growth in Q2 2021 (April – May).

Energy sales increase

Energy sales from the residential sector, commercial sector and industrial sector increased by 0.4 percent, 13.3 percent and 6.8 percent, respectively.

Chart 12. Energy Sales
year-on-year growth in percent



* July to August
Source: Meralco, BSP calculations

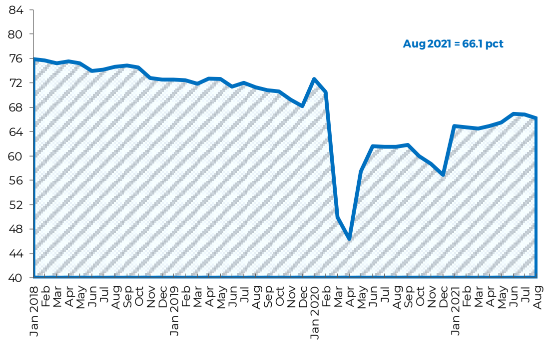
Capacity Utilization. The average capacity utilization rate of the manufacturing sector stood at 66.1 percent in August 2021, lower by 0.7 ppt than the month-ago level of 66.8 percent (revised) based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

Utilization of the manufacturing sector in August 2021 declines further amid the reimposition of strict quarantine measures

Of the 558 respondent-establishments surveyed by the PSA, 42.0 percent operated at or above the 80.0 percent capacity level in August 2021, lower than the previous month's 45.6 percent.

The August response rate of 60.7 percent (preliminary) remained relatively unchanged from the 60.5 percent recorded in the previous month's preliminary results.

Chart 13. Monthly Average of Capacity Utilization for Manufacturing (2018=100)
in percent



Source: PSA

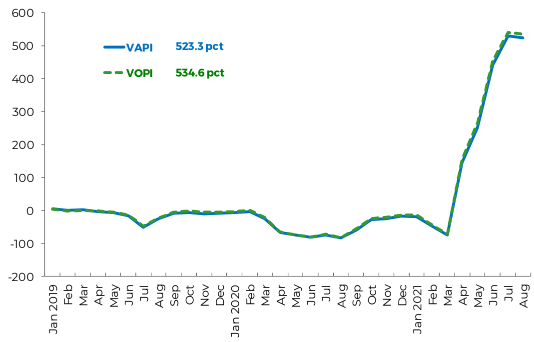
The average capacity utilization further declined in August 2021 due to firms' limited operations amid mobility restrictions, historically-elevated input prices, and muted demand conditions. Of the 22 major industries, only furniture (83.1 percent) and tobacco products (81.6 percent) operated above the 80.0 percent capacity level. Meanwhile, 14 industries operated at the 60 to 79 percent capacity range namely, other non-metallic mineral products (79.3 percent); coke and refined petroleum products (77.5 percent); electrical equipment (74.0 percent); textiles (71.4 percent); machinery and equipment except electrical (68.6 percent); fabricated metal products, except machinery and equipment (68.1 percent); basic metals (67.3 percent); computer, electronic, and optical products (67.1 percent); beverages (66.0 percent); wearing apparel (65.7 percent); transport equipment (65.1 percent); other manufacturing and repair and installation of machinery and equipment (65.0 percent); rubber and plastic products (65.0 percent); and food products (63.0 percent). Meanwhile, three major industries operated at the 50 to 59 percent capacity range: chemical and chemical products (58.4 percent); basic pharmaceutical products and pharmaceutical preparations (56.1 percent); and printing and reproduction of recorded media (54.0 percent). The following three industries operated below 50 percent: wood, bamboo, cane, rattan articles, and related products (49.6 percent); paper and paper products (42.5 percent); and leather and related products, including footwear (30.6 percent).

Volume and Value of Production. The preliminary MISSI data for August 2021 continued to expand in both volume and value indices due mainly to the low-base effects from the previous year's slump.

Manufacturing output in August expands significantly due mainly to low-base effects from the previous year's contraction

However, the y-o-y growth rates of both indices slowed in August as opposed to the recorded rates in July amid the reimposition of strict quarantine measures across the country.

Chart 14. Volume and Value Indices of Manufacturing Production (2018=100)
year-on-year in percent



Source: PSA

Preliminary results of the MISSI showed that volume of production index (VoPI) grew by 534.6 percent year-on-year in August 2021, lower compared to the 539.7-percent (revised) growth recorded in July 2021. Of the 22 subsectors, 15 expanded their production volume.

Table 8. Growth in Volume of Production Index by Industry Division (2018=100)

year-on-year in percent

GAINERS	Aug 2021
Manufacture of coke and refined petroleum products	3,800.9
Manufacture of fabricated metal products, except machinery and equipment	194.2
Manufacture of wood, bamboo, cane, rattan articles and related products	94.0
Manufacture of computer, electronic, and optical products	51.5
Manufacture of furniture	50.6
Manufacture of electrical equipment	36.7
Manufacture of other non-metallic mineral products	29.0
Manufacture of machinery and equipment except electrical	19.9
Manufacture of paper and paper products	13.1
Manufacture of food products	10.8
Manufacture of leather and related products, including footwear	6.9
Manufacture of basic metals	2.2
Manufacture of rubber and plastic products	1.6
Other manufacturing and repair and installation of machinery and equipment	1.6
Manufacture of transport equipment	1.2
LOSERS	**Aug 2021**
Manufacture of tobacco products	-53.8
Manufacture of chemical and chemical products	-25.5
Manufacture of basic pharmaceutical products and pharmaceutical preparations	-16.2
Manufacture of beverages	-13.9
Manufacture of wearing apparel	-11.4
Manufacture of textiles	-9.0
Printing and reproduction of recorded media	-6.3

Source: PSA

Table 9. Growth in Value of Production Index by Industry Division (2018=100)

year-on-year in percent

GAINERS	Aug 2021
Manufacture of coke and refined petroleum products	4,388.7
Manufacture of fabricated metal products, except machinery and equipment	194.6
Manufacture of wood, bamboo, cane, rattan articles and related products	45.0
Manufacture of electrical equipment	41.4
Manufacture of other non-metallic mineral products	25.2
Manufacture of furniture	24.6
Manufacture of computer, electronic, and optical products	23.5
Manufacture of paper and paper products	14.7
Manufacture of machinery and equipment except electrical	13.8
Manufacture of food products	13.1
Manufacture of leather and related products, including footwear	7.6
Manufacture of basic metals	6.4
Manufacture of rubber and plastic products	6.2
Manufacture of transport equipment	2.5
LOSERS	**Aug 2021**
Manufacture of tobacco products	-53.8
Manufacture of chemical and chemical products	-19.7
Manufacture of basic pharmaceutical products and pharmaceutical preparations	-16.1
Manufacture of beverages	-12.4
Manufacture of wearing apparel	-12.0
Manufacture of textiles	-5.8
Printing and reproduction of recorded media	-5.3
Other manufacturing and repair and installation of machinery and equipment	-3.2

Source: PSA

Similarly, the value of production index (VaPI) increased by 523.3 percent in August 2021 from a 528.7-percent (revised) expansion in the previous month. This was attributed to the expansion of 14 out of 22 sub-sectors.

Business Expectations. After three consecutive quarters of optimistic sentiment, the outlook of business owners on the economy turned pessimistic as the overall confidence index (CI)[22] of the Business Expectations Survey (BES)[23] declined to -5.6 percent in Q3 2021 from 1.4 percent in Q2 2021. The negative index stemmed from the combined effects of decrease in the percentage of optimists and the increase in the percentage of pessimists.

[22] 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.
[23] The Q3 2021 BES was conducted during the period 22 July-15 September 2021. There were 1,511 firms surveyed nationwide. Samples were drawn from the Top 7,000 Corporations ranked based on total assets in 2016 from the Bureau van Dijk (BvD) database, consisting of 584 companies in NCR and 927 firms in AONCR, covering all regions nationwide.

Business confidence turns pessimistic in Q3 2021

The respondents' pessimism for Q3 2021 was attributed to the protracted adverse impact of the COVID-19 pandemic to their businesses; re-imposition of stricter community quarantine classification, particularly in NCR in August 2021; decrease in sales, orders, and income; concerns over government policies, particularly actions to curb the spread of COVID-19; and higher prices of raw materials.

The sentiment of businesses in the Philippines mirrored the business outlook in Australia, which also turned pessimistic in Q3 2021. Business sentiment in New Zealand, South Korea, and Thailand was, however, more pessimistic. On the other hand, the view of businesses in Brazil, Bulgaria, Canada, Chile, China, Croatia, Denmark, Euro Area, France, Germany, Greece, Hong Kong, Hungary, Israel, Mexico, Netherlands, the US, and the UK was optimistic.

Table 10. Business Expectations Survey

BUSINESS OUTLOOK INDEX		Current Quarter	Next Quarter	Next 12 Months
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	-
	Q4	27.2	29.4	-
2019	Q1	35.2	52.0	-
	Q2	40.5	47.6	-
	Q3	37.3	56.1	-
	Q4	40.2	40.3	59.6
2020	Q1	22.3	42.3	55.8
	Q2	-	-	-
	Q3	-5.3	16.8	37.5
	Q4	10.6	37.4	57.7
2021	Q1	17.4	42.8	60.5
	Q2	1.4	31.4	52.5
	Q3	-5.6	31.9	56.0

Source: BSP

For Q4 2021, business sentiment improved as the overall CI increased slightly to 31.9 percent from 31.4 percent a quarter ago. The respondents' optimism for Q4 2021 was attributed primarily to expectations of the availability of more vaccines and the prospect of achieving herd immunity; easing of community quarantine and restrictions; improvement in economic conditions and recovery from losses incurred during the stricter community quarantines; and increase in volume of sales and orders. Respondents also cited the coming holiday season as one of the reasons for their improved sentiment for Q4 2021.

For the next 12 months, business sentiment was more optimistic as the overall CI increased to 56 percent from previous quarter's survey result of 52.5 percent. The respondents' more upbeat outlook was based on their optimism for Q4 2021 as well as their expectations of continued recovery in economic and business environment.

Consumer Expectations. Based on the Q3 2021 Consumer Expectations Survey (CES),[24] consumer sentiment in the country continued to improve as the overall CI[25] was less negative at -19.3 percent from -30.9 percent in Q2 2021.

Consumer sentiment continues to improve in Q3 2021

Notably, the consumer outlook has been improving steadily since Q3 2020, the quarter when the index reverted to negative due mainly to the impact of the COVID-19 pandemic. The higher Q3 2021 CI, albeit remaining negative, showed that the number of households with optimistic views increased relative to the number in the previous quarter, but was still lower than those with pessimistic views during Q2 2021.

[24] The CES is a quarterly survey of a random sample of around 5,700 households in the Philippines. The Q3 2021 CES was conducted during the period 1 – 14 July 2021.

[25] 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.

According to the respondents, the improved outlook during Q3 2021 was brought about by expectations of availability of more jobs and more working family members; additional/higher income; and effective government policies and programs, particularly in addressing COVID-19-related concerns, such as the availability and rollout of vaccines, provision of financial assistance, and easing of quarantine restrictions.

The sentiment of consumers in the Philippines was comparable to the less pessimistic outlook of consumers in Columbia, Japan, Poland, and the UK for Q3 2021. Meanwhile, consumer outlook in the Euro Area, the Netherlands, Thailand, Turkey, and the US was more pessimistic.

Table 11. Consumer Expectations Survey

CONSUMER OUTLOOK INDEX		Current Quarter	Next 3 Months	Next 12 Months
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
	Q4	-22.5	-0.8	10.7
2019	Q1	-0.5	10.7	28.4
	Q2	-1.3	9.7	25.2
	Q3	4.6	15.8	29.8
	Q4	1.3	15.7	26.4
2020	Q1	1.3	9.2	19.9
	Q2	-	-	-
	Q3	-54.5	-4.1	25.5
	Q4	-47.9	4.3	23.6
2021	Q1	-34.7	-2.2	17.9
	Q2	-30.9	1.3	19.8
	Q3	-19.3	2.7	18.6

Source: BSP

Consumer sentiment for Q4 2021 turned more optimistic as the CI increased to 2.7 percent from the Q2 2021 survey result of 1.3 percent. However, the respondent's outlook for the next 12 months was less optimistic as the CI declined to 18.6 percent from the previous quarter's survey result of 19.8 percent. Respondents attributed their optimism to the availability of more jobs; additional and high income; effective government policies and programs; and stable prices of commodities.

Purchasing Managers' Index.[26] The composite PMI in August 2021 remained below the 50-point expansion threshold[27], contracting further by 3.8 index points to 45.0 from the July PMI of 48.8. The lower composite PMI in August may be attributed to the faster contractions recorded in the retail and wholesale, services, and manufacturing sectors amid the reimposition of stricter quarantine restrictions to temper the spread of the COVID-19 Delta variant. Respondent firms expect business conditions to improve in September as higher vaccination rates and increasing vaccine supply underpin the domestic economy's gradual reopening and recovery.

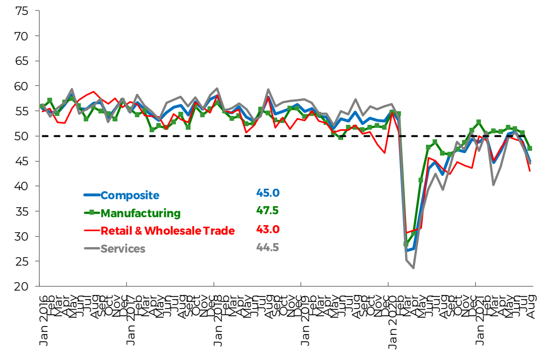
Composite PMI remains below the expansion threshold

The manufacturing sector deteriorated in August to a PMI of 47.5, lower by 3.2 index points from the previous month's 50.6. Production (at a PMI of 43.2), New Orders (45.6), and Inventory (45.7) contracted faster, losing 6.4 index points, 5.2 index points, and 3.4 index points, respectively. Despite the observed downturn in manufacturing activities, Employment (49.3) contracted at a slower rate as job shedding eased. Lead Time (57.1), on the other hand, continued to expand due mainly to persistent supply chain disruptions amid the reimposition of tighter quarantine protocols. Meanwhile, all firms by export category contracted
at a faster rate in August except for firms exporting more than 50 percent of total sales. On a per sector basis, nine out of 12 manufacturing subsectors contracted, namely, Motor Vehicles (45.9); Paper and Paper Products (45.7); Chemicals and

[26] Data based on the monthly PMI report of the Philippine Institute for Supply Management (PISM).
[27] 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.

Fuel (45.7); Basic Metals (45.1); Textiles (44.2); Non-metallic minerals (43.3); Communication and Medical Equipment (43.3); Food and Beverages (42.6); and Publishing and Printing (37.2). By contrast, the following posted expansions: Rubber and Plastic (54.3); Machinery and Equipment (53.0); and Fabricated Metal (50.7). Respondent firms are anticipating business conditions to recover next month.

Chart 15. Purchasing Managers' Index



Source: Philippine Institute of Supply Management (PISM)

The services PMI likewise declined by 3.3 index points to a PMI of 44.5 in August from 47.9 in July. All subindices contracted as the rapid spread of the COVID-19 Delta variant disrupted business activities in the services sector. Business Activity (at a PMI of 42.0), New Orders (43.1), and Average Operating Cost (45.4) declined most, losing 5.8 index points, 4.8 index points, and 4.0 index points, respectively. Outstanding Business (42.7), Employment (45.4), and Average Price Charge (48.5) also lost 3.9 index points, 1.9 index points, and 0.8 index point, respectively.
On a per sector basis, eleven out of the 14 subsectors contracted in August, namely, Business/Knowledge Processing (49.6); Provident and Insurance (46.8); Transportation including Travel Agency (46.1); Electricity, Gas, and Water (45.6); Construction (44.4); Health and Social Work (42.3); Banking and Financial Intermediation (41.3); Education (40.8); Hotels and Restaurants (37.0); Real Estate (36.5); and Recreational, Cultural, and Sporting Activities (28.4). The three other subsectors expanded at faster rates, namely, Business Activities (66.1); Renting of Goods and Equipment (53.8); and Postal and Telecommunications (50.3).

Service managers are expecting business activities to improve in September 2021.

Similarly, the retail and wholesale PMI declined by 5.9 index points to a PMI of 43.0 in August from 48.9 the previous month. Purchases (at a PMI of 35.2), Sales Revenues (40.2), and Inventory (44.4) declined by 15.9 index points, 5.8 index points, and 5.1 index points, respectively, as demand remained subdued amid weak business conditions due to quarantine restrictions and limited mobility. Meanwhile, Lead Time (52.1) continued to expand at a faster rate as logistical constraints delayed the delivery and distribution of products from suppliers to consumers. Despite the overall deterioration of the sector's performance in August, Employment (49.8) contracted at a slower rate as respondent firms anticipate a pickup in business in the month ahead. On a per sector basis, the wholesale and retail subsectors declined to 42.3 and 42.0, respectively, due to the significant declines in Purchases, Sales Revenues, and Inventories. Conversely, Lead Time for both subsectors increased as tighter mobility restrictions impeded the timely delivery of products. Respondents expect more favorable prospects for the wholesale and retail sector in the month ahead.

External Demand[28]

Exports. Exports of goods went up by 36.6 percent y-o-y in Q2 2021, a further improvement from the 8.4-percent expansion in Q1 2021 and a turnaround from the 25.6-percent contraction in Q2 2020.

Exports of goods improve in Q2 2021

The higher outbound shipments of coconut products, sugar products, agro-based products, forest products, mineral products, and manufactures outpaced the decline in exports of fruits

[28] International Merchandise Trade Statistics (IMTS) concept

and vegetables, and petroleum products in Q2 2021.

Table 12. Export of Goods
year-on-year growth rate in percent

COMMODITY GROUP	2020	2021	
	Q2	Q1	Q2
Coconut Products	-25.0	24.0	41.9
Sugar and Products	-60.1	1.3	156.7
Fruits and Vegetables	-13.2	-35.6	-19.1
Other Agro-Based Products	-12.6	9.1	6.0
Forest Products	-46.7	35.1	98.4
Mineral Products	-7.0	-6.9	34.1
Petroleum Products	773.3	-97.9	-97.1
Manufactures	-27.6	12.4	40.7
Special Transactions	-50.3	21.4	74.6
Total Exports	**-25.6**	**8.4**	**36.6**

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

Imports. Imports of goods likewise rose by 71.4 percent y-o-y in Q2 2021, a further increase from the 5.1-percent expansion in Q1 2021 but a reversal from the 41.9-percent drop in Q2 2020.

Imports of goods rise in Q2 2021

The increase in inward shipments during the period was due largely to higher imports of capital goods, raw materials and intermediate goods, mineral fuels and lubricant, and consumer goods.

Table 13. Import of Goods
year-on-year growth rate in percent

COMMODITY GROUP	2020	2021	
	Q2	Q1	Q2
Capital Goods	-39.7	5.5	55.7
Raw Materials and Intermediate Goods	-31.4	9.7	60.1
Mineral Fuels and Lubricants	-74.3	-9.5	232.1
Consumer Goods	-44.5	2.6	80.1
Special Transactions	-39.9	21.3	41.9
Total Imports	-41.9	5.1	71.4

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

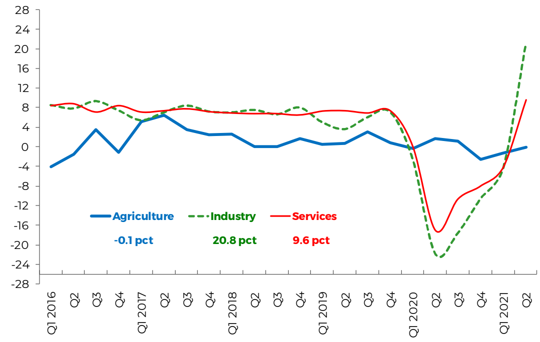
Aggregate Supply

On the production side of the economy, both industry and services sectors contributed 5.9 ppts to total GDP growth in Q2 2021, while share of the agriculture sector was almost nil.

Industry and services sector expand in Q2 2021

The agriculture sector registered a -0.1 percent y-o-y slump in Q2 2021, from the 1.3-percent decline in Q1 2021. The weaker contraction in the agriculture sector in Q2 20201 was due mainly to the improvement in the production of poultry and egg and sugarcane, as well as the slower decline in livestock.

Chart 16. Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: PSA

The industry sector significantly increased by 20.8 percent in Q2 2021, rebounding from the 4.4-percent and 21.8-percent contraction in Q1 2021 and Q2 2020, respectively. This was mainly driven by the expansion in manufacturing, construction, and electricity, steam, water, and waste management.

Manufacturing sub-sector show double-digit growth in Q2 2021

Manufacturing sector grew by 22.3 percent in Q2 2021 from 0.5-percent in Q1 2021 and -21.2-percent in Q2 2020 as all subsectors improved including food products, coke and refined petroleum products, chemical and chemical products, computer, electronic and optical products, and other non-metallic mineral products. Moreover, the MISSI recorded an average capacity utilization of 66.1 percent in Q2 2021, an increase from the 63.5 percent in Q1 2021 and 55.1 percent in Q2 2020. Similarly, the Purchasing Manager Index (PMI) stood at 50.8 in June 2021 driven by slower declines in output, new orders, and employment, as well as expansion in pre-production inventories.

Table 14. Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

BY INDUSTRIAL ORIGIN	2020	2021	
	Q2	Q1	Q2
Agri., Hunting, Forestry and Fishing	1.6	-1.3	-0.1
Industry Sector	-21.8	-4.4	20.8
Mining and Quarrying	-21.7	1.0	0.8
Manufacturing	-21.2	0.5	22.3
Electricity, Gas and Water Supply			
Construction	-29.4	-22.6	25.7
Service Sector	-17.1	-4.1	9.6
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	-14.1	-3.4	5.4
Transportation and Storage	-58.5	-19.6	23.4
Accomodation and Food Service Activities	-67.1	-22.5	53.4
Information and Communcation	10.7	6.5	14.2
Financial and Insurance Activities	4.8	4.3	4.2
Real Estate and Ownership of Dwellings	-29.9	-11.7	16.7
Professional and Business Services	-15.7	-4.4	11.7
Public Administration and Defense; Compulsory Social Security	7.1	7.5	4.0
Education	-14.5	0.2	10.0
Human Heath and Social Work Activities	-15.4	13.2	12.1
Other Services	-63.7	-38.7	39.4

Source: PSA

Construction sector grew by 25.7 percent in Q2 2021, a reversal from the 22.6-percent and 29.4-percent contractions in Q1 2021 and Q2 2020, respectively. Private and public construction projects were permitted despite community restrictions implemented in some areas, subject to the guidelines issued by the Department of Public Works and Highways (DPWH).

Electricity, steam, water, and waste management sector expanded by 9.8 percent in Q2 2021, higher than the 1.1-percent growth in Q1 2021, driven by the recovery in electricity (11.4 percent in Q2 2021 from 1.0 percent in Q1 2021) and water supply (5.0 percent from 1.1 percent). The growth in electricity subsector reflected increase in energy sales during Q2 2021 based on revenues reported by MERALCO and the NGCP.

Meanwhile, mining and quarrying slightly moderated in Q2 2021 with 0.8-percent growth, from 1.0 percent in Q1 2021. The slowdown was attributed to lower coal production and slower growth in gold and other precious metal ores, and nickel ores.

The services sector grew by 9.6 percent in Q2 2021, a turnaround from the 4.1-percent and 17.1-percent declines in Q1 2021 and Q2 2020, respectively. This emanated from the strong growth in real estate and ownership of dwellings, wholesale and retail trade, other services, transportation and storage, professional and business services, accommodation and food service activities, education, and information and communication.

Real estate and ownership dwellings expanded by 16.7 percent in Q2 2021, a turnaround from the 11.7-percent and 29.9-percent declines in Q1 2021 and Q2 2020, respectively. The y-o-y growth was attributed to the substantial increase in real estate activities, supported by demand from outsourcing and traditional firms.

Trade and repair of motor vehicles, motorcycles, personal and household goods sector registered a 5.4-percent growth in Q2 2021 (from -3.4 percent in Q1 2021), due mainly to faster growth in retail trade and sale and repair of motor vehicles and motorcycles.

Other services rebounded to 39.4 percent in Q2 2021 from -38.7 percent in Q1 2021 and -63.7 percent in Q2 2020, as arts, entertainment and recreation and other service activities recovered during the reference period.

Transport and storage rose by 23.4 percent in Q2 2021 from the -19.6 percent in Q1 2021, amid significant improvements in land transport and air transport as travel restrictions were less stringent compared to the previous year. Moreover, warehousing and storage and support activities as well as postal and courier activities also accelerated in Q2 2021.

Professional and business service activities sector grew by 11.7 percent in Q2 2021, a recovery from the -4.4 percent in Q1 2021 and -15.7 percent in Q2 2020. This was largely attributed to the government's decision to allow the business process outsourcing (BPO) industry to operate at full capacity amid implementation of various quarantine measures, as well as on the continued delivery of professional services using hybrid work arrangements and online videoconferencing applications.

Accommodation and food service activities grew by 53.4 percent in Q2 2021, a reversal from the 22.5-percent and 67.1-percent contractions in Q1 2021 and Q2 2020, respectively. Both food and beverage service activities, as well as accommodation, posted double-digit growth given the easing of quarantine restrictions in Q2 2021, which allowed dine-in services at limited capacity and permitted hotels and accommodations to operate subject to the Department of Tourism (DOT) accreditation.

Education sector registered a double-digit growth at 10.0 percent in Q2 2021, higher than the 0.2-percent increase in Q1 2021, due to the strong performance of both private and public education during the reference period.

Information and communication sector grew by 14.2 percent in Q2 2021, higher than the 6.5-percent increase in Q1 2021, due mainly to the expansion in communication, and information and publishing.

Financial and insurance activities slightly moderated to 4.2 percent in Q1 2021 (from the 4.3 percent in Q1 2021) amid slowdown in banking institutions and activities auxiliary to financial services activities as banks continued to tighten overall credit standards for both enterprises and households.

Public administration and defense slowed down to 4.0 percent in Q2 2021 (from 7.5 percent in Q1 2021), due to base effects resulting from the pay-out of COVID-19 hazard pay for uniformed personnel in Q2 2020.

Human health and social work activities sector grew by 12.1 percent in Q2 2021, marginally lower than the 13.2-percent growth in Q1 2021, owing to the contraction in public human health and social work activities.

Labor Market Conditions

Based on the July 2021 labor force survey (LFS), major employment indicators point to a relatively weak labor market condition compared to the previous month, except for employment rate and total unemployment rate. While majority of the rates improved in July 2021 relative to a year-ago (July 2020), the deterioration in underemployment rate and labor force participation rate (LFPR) is worrisome. As expected, the employment condition in July 2021 is not at par yet to the condition prior to the pandemic (January 2020).

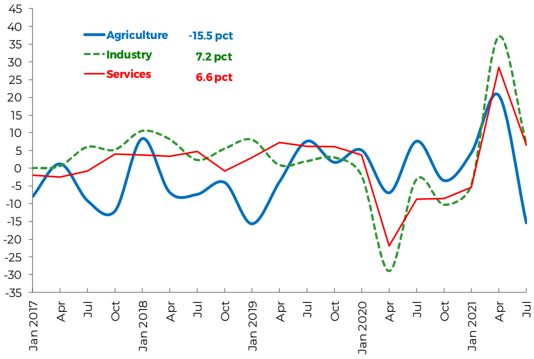
More granular data indicate that the quality of employment in the country has not yet recovered as recent employment gains were mostly low-skilled and less remunerative. The country was also not able to maintain the employment gains it has been reporting since February 2021. Considering that labor market indicators are highly sensitive to the level of quarantine restrictions, it may take time for the country's employment condition, particularly in terms of quality, to return to the pre-pandemic levels, and this may contribute to economic scarring.

The employment rate in July 2021 is equivalent to 41.7 million employed individuals, lower relative to the previous month at 45.1 million and the pre-pandemic level of 42.5 million in January 2020, but slightly higher than the same period a year ago at 41.3 million.

Labor market conditions remain weak in July 2021

Compared to the pre-pandemic survey, employment was lower by 2.1 percent or an 876 thousand net employment loss. This means that the country was not able to maintain the higher than pre-pandemic employment level it has been recording since February 2021. This is mainly due to reduction in employment in accommodation and food service activities, transportation and storage, and agriculture and forestry. The first two sectors are expected due to community quarantine restrictions. The latter, however, is mainly caused by adverse weather conditions. Typhoon Fabian hit the country around mid-July, and based on NEDA's estimate,[29] it destroyed around ₱700 million worth of output and affected several regions from Northern Luzon down to Western Visayas. The employment losses more than offset gains from construction, administrative and support service activities, and professional, scientific, and technical activities.

Chart 17. Employment by Sector
in percent



Source: PSA

[29] NEDA (2021), "The July 2021 Labor Force Survey Results Joint Statement of the Duterte Administration's Economic Managers," 7 September 2021.

By class of worker, the decline in employment mainly came from those who worked without pay in own family-operated farm or business, and self-employed without any paid employee. The total number of wage and salary workers in July 2021 is a bit higher by 0.7 percent compared to January 2020, mainly due to higher number of wage and salary workers in private households. However, more granular data indicates that the main contributor to lower employment in July 2021 was wage and salary workers who worked in private establishments. This indicates that the more remunerative work has not yet fully recovered from the impact of the pandemic.

By occupation, employment decline is primarily among managers, service and sales workers, and elementary occupations.[30] They more than offset the positive employment growth recorded by technicians and associate professionals, craft and related trade workers[31], and skilled agricultural, forestry and fishery workers. In terms of age, most of the decline in employment came from the 15-24 age group or youth, and this more than offset the employment gains from the 25-34 age group.

On a y-o-y basis, the slight employment gain in July 2021 was only 365,000 or a growth of 0.9 percent. The bulk of the employment gains came from administrative and support service activities, construction, and education. Employment losses were recorded in agriculture and forestry, wholesale and retail trade, and mining and quarrying.

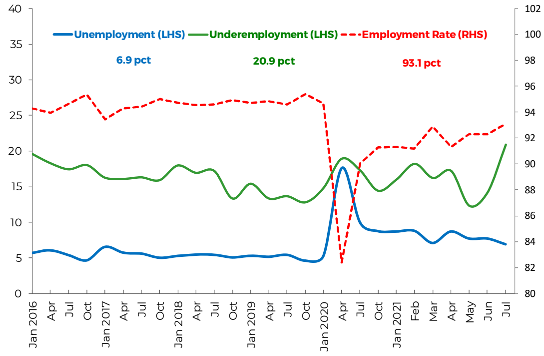
[30] Elementary occupations involve the performance of simple and routine tasks which may require the use of hand-held tools and considerable physical effort. Most occupations in this major group require skills at the first ISCO skill level.
[31] Craft and related trades workers apply specific knowledge and skills in the fields to construct and maintain buildings, form metal, erect metal structures, set machine tools, or make, fit, maintain and repair machinery, equipment, or tools, carry out printing work produce or process foodstuffs, textiles, or wooden, metal and other equipment or tools, carry out printing work produce or process foodstuffs, textiles, or wooden, metal and other articles, including handicraft goods.

In terms of class of worker, employment improved mainly for wage and salary workers, particularly for those who worked for private household.

Employment declines were recorded by those who worked without pay in own family-operated farm or business and self-employed. By occupation, employment gains were posted by technicians and associate professionals, service and sales workers, and craft and related trades workers while employment losses were recorded among skilled agricultural, forestry and fishery workers and elementary occupations. In terms of age, the slight growth in employment relative to the same period a year ago was experienced mostly by persons 25-34 age group. Employment loss was recorded by the youth.

Chart 18. Unemployment, Underemployment and Employment Rate

in percent



Source: PSA

The unemployment rate in July 2021 is the lowest rate since the start of the pandemic. It is equivalent to 3.1 million unemployed individuals or 682,000 more unemployed compared to pre-pandemic. Most of the increase in unemployment relative to January 2020 came from the 25-34 and 35-44 age groups, female workers, and with educational attainment of college undergraduates and junior high school graduates.

Relative to the same period a year ago, the number of unemployed declined by 1.5 million. Most of the reduction in unemployment came from the 15-24 and 25-34 age groups, male workers, and with educational attainment of college and junior high school graduates. In terms of share, the pool of unemployed was dominated by the 25-34-yearold age group (33.0 percent), followed by the youth or the 15-24 age group (33.0 percent). Majority of the unemployed were male and their highest grade completed were junior high school graduate (26.9 percent) and college graduate (19.3 percent). Of the total unemployed workforce, 39.5 percent looked for work while the remaining 32.0 percent cited ECQ/COVID-19 as their reason for not looking for job opportunities.

The underemployment rate shot up in July 2021, recording the highest underemployment rate since the pandemic. Relative to January 2020, The underemployment level of 8.7 million was higher by 2.4 million or 38.0 percent. Most of the growth in underemployment was in the services sector and from those who were invisibly underemployed or working for at least 40 hours. Compared to July 2020, the underemployment level was higher by 1.6 million or 21.8 percent. Most of the increase in the underemployed individuals was in the services sector and from those working for 40 hours or more. The increased interest for more work of employed individuals who are already working for more than 40 hours may reflect not only poor quality of employment in the country but also the possible deterioration in income of workers amid the pandemic. Meanwhile, the overall mean hours of work went higher to 41.8 in July 2021 from 38.2 a year ago and 41.3 relative to pre-pandemic levels.

In July 2021, youth labor force participation rate (YLFPR) was recorded at 33.3 percent, lower than the 38.9 percent in July 2020 and the 37.4 percent in January 2020. The lower YLFPR, which is estimated by dividing the youth labor force with the youth population, was mainly due to the decline in the number of youths in the labor force in July 2021 relative to July 2020 (-15.1 percent) and

January 2020 (-11.6 percent) since youth population declined marginally during these respective periods (-0.8 percent in July 2020 and -0.6 percent in January 2020). Based on official PSA data, the two main reasons of youth for not being in the labor force (not in employment, not in education and not in training) are household family duties (38.0 percent share) and the ECQ/COVID-19 (19.3 percent share).

Relative to pre-pandemic, youth employment declined by 13.3 percent In July 2021, although the unemployed youth was also lower by 0.5 percent. The underemployed youth grew by 32.0 percent. Compared to July 2020, youth employment declined by 7.4 percent and the number of unemployed youths dropped by 41.7 percent, but underemployed youth expanded by 11.9 percent.

II. Monetary and Financial Market Conditions

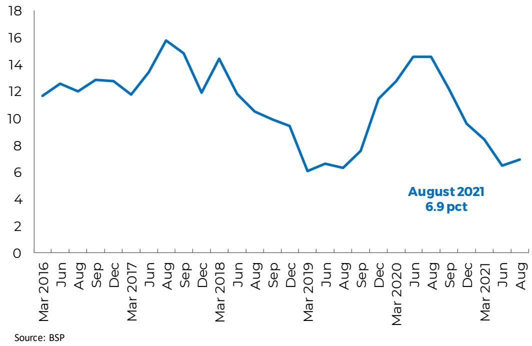
Domestic Liquidity

Domestic liquidity (M3) rose by 6.9 percent y-o-y in August 2021 to ₱14.4 trillion, faster than the 6.5-percent expansion as of end-Q2 2021.

Domestic liquidity expands by 6.9 percent, y-o-y, in August

Domestic claims grew by 6.7 percent in August 2021 from 5.3 percent as of end-Q2 2021 due mainly to the expansion in net claims on the central government and improvement in bank lending to the private sector. Net claims on the central government expanded by 23. 5 percent in August owing partly to the sustained borrowings by the National Government.

Chart 19. Domestic Liquidity
year-on-year growth rates in percent



Net foreign assets (NFA) in peso terms expanded by 9.7 percent y-o-y in August from 12.7 percent in end-Q2 2021. The slower expansion in the BSP's NFA position reflected the lower y-o-y growth in gross international reserves (GIR). Meanwhile, the NFA of banks declined as banks' foreign liabilities increased on account of higher deposits and placements made by foreign banks with their local branches.

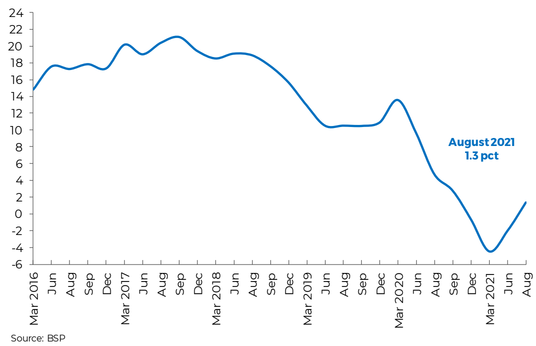
Bank Lending

Outstanding loans of commercial banks, net of reverse repurchase (RRP) placements with the BSP, grew by 1.3 percent y-o-y in August 2021 after decreasing by 2.0 percent in end-Q2 2021. Credit activity showed signs of recovery amid improvements in sentiment brought about by the continued rollout of COVID-19 vaccines and the gradual easing of quarantine restrictions.

Credit conditions gradually improve

Likewise, total loans for production activities increased by 3.1 percent y-o-y in August 2021 following a 0.6-percent decline in end-Q2 2021. The increase in outstanding loans for production activities in August was driven by the growth in loans for real estate activities; information and communication; manufacturing; professional, scientific, and technical activities; and transportation and storage. However, the decrease in outstanding loans to other industries such as agriculture, forestry and fishing; wholesale and retail trade and repair of motor vehicles and motorcycles; and activities of households as employers, undifferentiated goods and services, tempered the overall expansion in outstanding loans for production activities.

Chart 20. Loans Outstanding of Commercial Banks
year-on-year growth rates in percent



Meanwhile, consumer loans contracted by 8.1 percent y-o-y in August 2021 from the reported 8.6-percent decrease in end-Q2 2021 amid the continued decline in motor vehicle and credit card loans.

Monetary Operations

As of end-Q3 2021, total outstanding amount absorbed in the BSP liquidity facilities stood at about ₱2.0 trillion, lower than ₱2.2 trillion recorded in end-Q2 2021. Of this outstanding amount, most of the BSP's liquidity-absorbing operations had been through the term deposit facility (TDF), comprising about 44.6 percent of the total. Meanwhile, placements in the BSP Securities Facility (BSP-SF), and reverse repurchase (RRP) facility made up 22.3 percent and 15.5 percent, respectively. Finally, the standing overnight deposit facility (ODF) accounted for 17.6 percent of the total absorbed liquidity.

The average weekly total offer volume in the TDF auctions was higher at about ₱547.7 billion in Q3 2021 relative to around ₱509.2 billion average weekly volume offered in the previous quarter. The average weekly bid-to-cover ratios for the 7-day and 14-day in Q3 2021 were recorded at 1.3x and 1.1x the offer volumes, respectively. There were no 28-day term deposits offered during the quarter as the BSP started migrating funds from the 28-day TDF to 28-day BSP Securities starting with the 16 October 2020 auction.

The average bid-to-cover ratio for BSP Securities weekly auction was recorded at 1.5x the offer volume, higher than the 1.4x average bid-to-cover ratio during the previous quarter. Meanwhile, the average bid-to-cover ratio for the daily RRP offerings for the quarter fell slightly to 3.8x the offer volume from around 4.0x in the previous quarter. The sustained strong demand for the BSP's auction facilities reflect continued ample liquidity in the financial system.

Credit Conditions

Credit Standards. Results of the Q3 2021 Senior Bank Loan Officers' Survey (SLOS)[32] indicated that majority of the respondent banks maintained their overall credit standards for loans to both enterprises and households based on the modal approach.[33] At the same time, results shown by the DI approach[34,35] continued to reflect a net tightening of overall credit standards for loans to enterprises and households during the quarter.

Credit standards continue to reflect banks' cautious lending stance

Respondents' inputs for the Q3 2021 SLOS were gathered amid the government's reimposition of quarantine measures to address the outspread of COVID-19 infection rates since March 2020. Respondents' inputs for the Q3 2021 survey were collected between 1 September to 4 October 2021.

Lending to Enterprises. Using the modal-based approach, initial results showed that most of the respondent banks (70.8 percent) stated generally unchanged overall credit standards for

[32] The survey consists of questions on loan officers' perceptions relating to the overall credit standards of universal/commercial banks (U/KBs) and selected large thrift banks (TBs) in the Philippines, as well as to factors affecting the supply of and demand for loans by both enterprises and households. Survey questionnaires were sent to 64 U/KBs and TBs, of which, 51 banks responded to the current survey representing a response rate of 79.7 percent.
[33] In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.
[34] In the DI approach, a positive DI for credit standards indicates that the proportion of respondent banks that have tightened their credit standards exceeds those that eased ("net tightening"), whereas a negative DI for credit standards indicates that more respondent banks have eased their credit standards compared to those that tightened ("net easing").
[35] During the Q1 2010 to Q4 2012 survey rounds, the BSP used the diffusion index (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.

loans to enterprises in Q3 2021. However, results of the DI-based method revealed a net tightening of lending standards across all borrower firm sizes (specifically top corporations, large middle-market enterprises, small and medium enterprises, and micro enterprises). Respondent banks conveyed that the reported tightening of overall credit standards was mainly due to a deterioration in the profiles of borrowers and in the profitability of banks' portfolio, a less favorable economic outlook, and a reduced tolerance for risk, among other factors.

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

	2019				2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tightened Considerably	2.1	4.8	4.1	0.0	2.8	20.4	20.5	14.6	10.6	8.0	4.2
Tightened Somewhat	22.9	11.9	12.2	15.2	30.6	49.0	27.3	17.1	14.9	20.0	20.8
Remained Basically Unchanged	**72.9**	**81.0**	**81.6**	**84.8**	**66.7**	**24.5**	**45.5**	**63.4**	**66.0**	**70.0**	**70.8**
Eased Somewhat	0.0	0.0	0.0	0.0	0.0	6.1	6.8	4.9	8.5	2.0	4.2
Eased Considerably	2.1	2.4	2.0	0.0	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	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**22.9**	**14.3**	**14.3**	**15.2**	**33.3**	**63.3**	**40.9**	**26.8**	**17.0**	**26.0**	**20.8**
Number of Banks Responding	**48**	**42**	**49**	**46**	**36**	**49**	**44**	**41**	**47**	**50**	**48**

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

On specific credit standards, the net tightening of overall credit standards was evident in terms of reduced credit line sizes; stricter collateral requirements and loan covenants; and increased use of interest rate floors.[36] However, some form of easing in lending standards was identified in terms of longer loan maturities.

For Q4 2021, while majority of the respondent banks generally anticipate unchanged overall credit standards for loans to businesses, DI-based results pointed to expectations of net tighter standards given the following factors: an uncertain economic outlook, a deterioration of borrowers' profiles and in the liquidity of banks' portfolio, and banks' decreased tolerance for risk.

Lending to Households. Most respondent banks (69.4 percent) retained their overall credit standards for loans extended to households in Q3 2021. On the other hand, DI-based results specified a net tightening of overall credit standards for household loans, particularly for housing, auto, and personal/salary loans while results for credit card loans showed easing lending standards.[37] Respondents associated the overall tightening of credit standards for consumer loans with a less favorable economic outlook, a deterioration in borrowers' profile, and a reduced tolerance for risk.

Table 16. General Credit Standards for Loans to Households (Overall)

	2019				2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tightened Considerably	3.3	4.0	3.1	0.0	0.0	39.4	16.7	3.7	9.4	5.7	5.6
Tightened Somewhat	16.7	8.0	6.3	6.9	21.7	21.2	30.0	11.1	9.4	20.0	11.1
Remained Basically Unchanged	**73.3**	**88.0**	**81.3**	**89.7**	**69.6**	**33.3**	**50.0**	**77.8**	**75.0**	**68.6**	**69.4**
Eased Somewhat	3.3	0.0	9.4	3.4	8.7	6.1	3.3	7.4	6.3	5.7	13.9
Eased Considerably	3.3	0.0	0.0	0.0	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	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**13.3**	**12.0**	**0.0**	**3.4**	**13.0**	**54.5**	**43.3**	**7.4**	**12.5**	**20.0**	**2.8**
Number of Banks Responding	**30**	**25**	**32**	**29**	**23**	**33**	**30**	**27**	**32**	**35**	**36**

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

For specific credit standards, the overall net tightening of credit standards to households was manifested in reduced credit line sizes, stricter loan covenants, and collateral requirements. Meanwhile, partial easing of lending standards for loans to consumers was reflected in forms of narrower loan margins and longer loan maturities.

Over the next quarter, the modal approach showed that majority of the respondent banks expect to maintain their overall credit standards. Contrary to this, DI-based results indicated that respondent banks anticipate further net easing of overall credit standards for household loans, influenced by the expected improvements in borrowers' profiles and positive economic prospects.

[36] Interest rate floor refers to the minimum interest rate set by banks for loans. Increased use of interest rate floors implies generally tighter credit conditions.

[37] Lending standards on credit card loans reportedly eased amid the issuance of BSP Memorandum Circular No. 1098 which sets a ceiling rate of 24 percent per annum on the interest or finance charge that can be imposed on all credit card transactions (except credit card installment loans). In April 2021, the BSP announced that the cap on credit card charges will be retained in line with the low interest rate environment and the BSP's accommodative monetary policy stance

Loan demand. Results for the Q3 2021 survey indicated that majority of the respondent banks reported an overall steady loan demand from both businesses and consumers. By contrast, DI-based results pointed to a net increase in overall demand for business loans across all major loan categories while a net decline in demand for all key categories of household loans was observed (particularly credit card loans, auto loans, and personal or salary loans).

Loan demand rises for enterprises, falls for households

As identified by the respondent banks, the slight net increase in loan demand from enterprises was induced by the increased inventory financing needs of clients and accounts receivable as well as the improvement in customers' economic outlook. Meanwhile, respondent banks pointed to lower household consumption, banks' less attractive financing terms, and higher interest rates as the main elements that influenced the reported fall in overall consumer loan demand.

For the following quarter, majority of respondent banks anticipate generally steady loan demand from firms and consumers, signaling the improvement in market sentiment brought about by the continued rollout of COVID-19 vaccines and the gradual easing of quarantine restrictions.[38] Results from the DI method show expectations of a net increase in overall loan demand from businesses which were largely attributed to corporate clients' higher inventory financing requirements and accounts receivable financing needs as well as improvement in customers' economic outlook. Likewise, the DI approach pointed to banks' outlook of a net increase in overall loan demand from consumers driven by higher household consumption, lower income prospects, and banks' more attractive financing terms.

Real Estate Loans. Latest survey results also showed that most of the respondent banks (75.0 percent) stated generally steady overall credit standards for commercial real estate loans (CRELs). Meanwhile, the DI-based approach reflected a net tightening of overall credit standards for CRELs for the 23rd consecutive quarter. Respondent banks mentioned a decreased tolerance for risk, deterioration in borrowers' profile, and a more uncertain economic outlook as significant factors to the tightening of overall credit standards for CRELs in Q3 2021.

Credit standards for real estate loans remain tight

Regarding specific credit standards, the net tightening of overall lending standards for CRELs was attributed to wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, increased use of interest rate floors, and shortened loan maturities. Over the following quarter, the DI approach indicated expectations of net tighter credit standards for CRELs.

In Q3 2021, a larger portion of the respondents stated unchanged demand for CRELs using the modal approach. However, DI-based results pointed to a marginal net increase in demand for CRELs given the lower interest rates and a decline in customers' internally-generated funds.

For Q4 2021, the modal approach showed expectations of a generally unchanged loan demand while DI-based

[38] Latest results of the BSP's Q3 2021 CES indicated improvement in consumer sentiment for Q3 2021 and the next quarter. According to respondents, their improved outlook during the current quarter was brought about by their expectations of: (a) availability of more jobs and more working family members; (b) additional/higher income; and (c) effective government policies and programs, particularly in addressing COVID-19-related concerns, such as the availability and rollout of vaccines, provision of financial assistance, and easing of quarantine restrictions. By contrast, the BSP's Q3 2021 BES showed the business confidence turns pessimistic during the quarter, but more optimistic for Q4 2021.

results stated the respondents' prospects of an overall net rise in demand for CRELs. Respondent banks associated the expected net increase in CRELs mainly to customers' improved economic outlook and lower interest rates.

On housing loans extended to households, a larger portion of respondents (71.9 percent) also indicated unchanged lending standards while DI-based approach identified a net tightening in Q3 2021. Over the next quarter, DI-based results anticipate a net easing in lending standards for housing loans, driven by the expected improvements in borrowers' profiles and more favorable economic prospects.

A higher percentage of respondents indicated that overall loan demand for housing loans in Q3 2021 was kept unchanged. On the other hand, DI-based results revealed a net increase in housing loan demand during the quarter amid the rise in household consumption, housing investment, and lower interest rates. Nevertheless, survey results stated expectations of a net increase in housing loan demand in Q4 2021 in anticipation of banks' more attractive financing terms, lower interest rates, and consumers' increasing housing investments.

Interest Rates

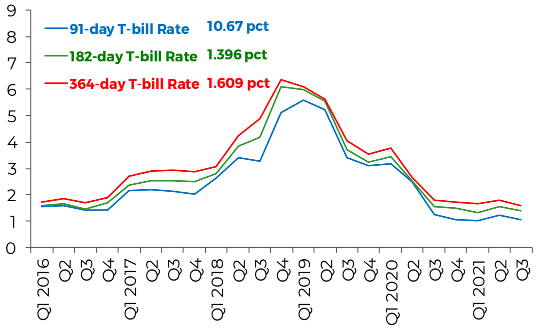
Primary Interest Rates.

The weighted average interest rates (WAIR) for the 91-, 182- and 364-day T-bills in the primary market fell to 1.067 percent, 1.396 percent, and 1.609 percent in Q3 2021 from 1.234 percent, 1.555 percent, and 1.798 percent, respectively, in the previous quarter.

T-bill rates decrease across all tenors

Amid ample financial system liquidity, the results of the auctions during the quarter reflected market players' preference for short-term government notes on concerns over sustained uncertainty due to the COVID-19 pandemic. At the same time, the decline in yields toward the latter part of the review period reflected market participants' pricing in of the BSP's continued accommodative policy.

Chart 21. Treasury Bill Rates
in percent



Source: BTr

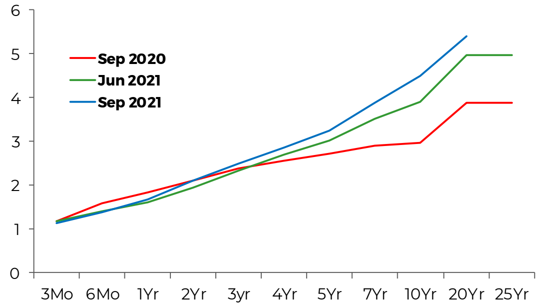
Yield Curve.[39] As of end-September 2021, the secondary market yield for government securities (GS) for all maturities (except for the 3-month and 6-month tenors) rose relative to the end-June 2021 levels.

GS yields rise generally in Q3 2021

Debt paper yields were higher by a range of 6.4 bps for the 1-year GS to 58.1 bps for the 10-year GS compared to end-June 2021 levels. However, the yields for the 3-month and 6-month GS were lower by 4.5 bps and 1.7 bps, respectively.

[39] On 29 October 2018, the Bankers Association of the Philippines (BAP) replaced the PDST Reference Rates and launched the PHP BVAL Reference Rates which will be used as the Philippine Peso GS benchmark. The PHP BVAL Reference Rates are calculated by Bloomberg Finance Singapore L.P. and/or its affiliates in an agreement with the BAP.

Chart 22. Yields of Government Securities in the Secondary Market
in percent



Source: Bloomberg

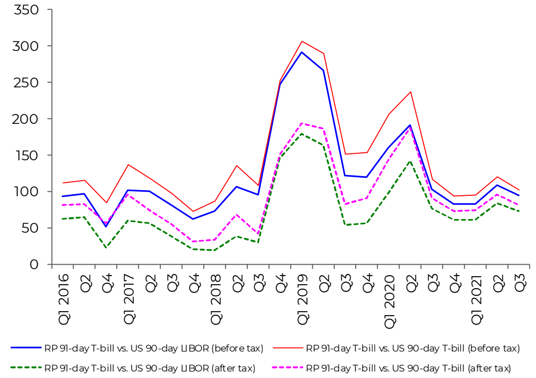
Relative to year-ago levels, the secondary market yields for GS with longer maturities increased generally by a range of 12.6 bps (for the 3-year GS) to 154.8 bps (for the 25-year GS). Debt paper yields for the 3-month, 6-month, 1-year and 2-year GS decreased by 3.8 bps, 19.7 bps, 17.8 bps and 1.6 bps, respectively.

Interest Rate Differentials. The average differentials between domestic and US interest rates, gross and net of tax, narrowed in Q3 2021 relative to the previous quarter.

Interest rate differentials narrow in Q3 2021

The average 91-day RP T-bill rate declined q-o-q by 17.0 bps to 1.067 percent in Q3 2021 from 1.237 percent in Q2 2021. The average US 90-day LIBOR declined by 3.1 bps to 0.126 percent while the US 90-day T-bill rate rose slightly by 0.8 bp to 0.043 percent in Q3 2021. These developments led to narrower positive net of tax differentials between the 91-day RP T-bill rate and US interest rates.

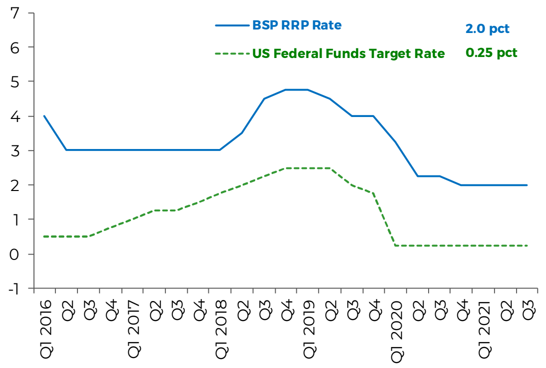
Chart 23. Interest Rate Differentials
quarterly averages; in basis points



Source: Bloomberg, BTr and BSP

The positive differential between the BSP's overnight borrowing or RRP rate and the US Fed funds target rate was unchanged at a range of 175-200 bps in Q3 2021, as the BSP's overnight RRP rate and the US federal funds target range were kept steady at 2.00 percent and 0.00-0.25 percent, respectively.

Chart 24. BSP RRP Rate and US Federal Funds Target Rate
in percent

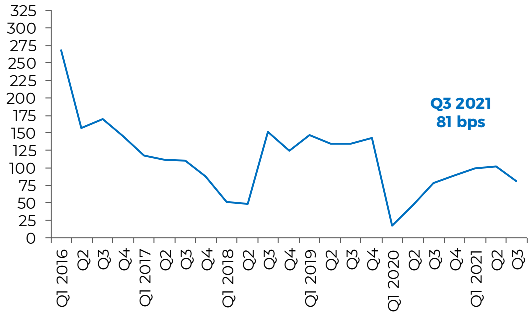


Source: US Federal Reserve and BSP

Meanwhile, the interest rate differential between the BSP's overnight RRP rate and the US Fed funds target rate adjusted for country risk premium[40] narrowed to 81 bps as of end-September 2021 from 102 bps in end-June 2021 due to higher risk premium.

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

Chart 25. Risk-Adjusted Differentials
in basis points



Source: Bloomberg and BSP

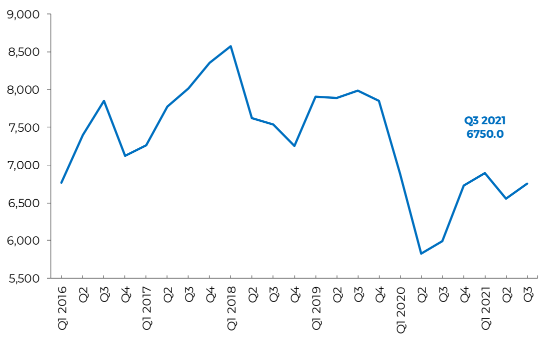
This development could be traced to the 21-bp rise in the country risk premium following the 21-bp increase in the 10-year ROP Note and as the 10-year US Note remained steady at 1.45 percent.

Financial Market Conditions

The domestic financial system continues to show stability, supported by ample liquidity. The equities market index increased on average during the quarter, buoyed by investors' optimism over the continued monetary accommodation. Domestic debt papers continued to attract strong market participation, allowing the BTr to increase the amount awarded in the primary market. Meanwhile, the country's debt spreads widened compared to peer economies with the domestic resurgence of COVID-19 cases.

Stock Market. In Q3 2021, the Philippine Stock Exchange index (PSEi) averaged 6,750.0 index points, higher by 2.9 percent than the preceding quarter's average of 6,561.3 index point.

Chart 26. Quarterly Average PSEi
index points



Source: Philippine Stock Exchange, BSP

Local share prices ended on an upbeat note amid investor optimism over the BSP's decision to keep monetary policy settings accommodative and the positive economic data released during the quarter. Comparing end-quarter levels, the PSEi inched up by 0.7 percent to close at 6,952.9 index points in end-September. Meanwhile, on a y-t-d basis, the PSEi dropped by 2.6 percent.

During the quarter-in-review, the favorable reports on the macroeconomy, such as: revision in the Q1 2021 GDP estimate, which showed a softer contraction; faster-than-expected Q2 2021 GDP growth; better-than-expected second-quarter corporate earnings; improved factory activity in July and September; decline in unemployment rate in Q3; increase in BOP surplus in July; and rise in overseas Filipino remittances in June and July all contributed to the rise in the benchmark index. Japan Credit Rating Agency's affirmation of the country's "A-" rating and reports of on arrival of more COVID-19 vaccines also supported the rebound in the PSEi.

The main index continued to rise despite several risks factors including: imposition of stricter lockdown measures in Metro Manila and surrounding provinces due to the rise in COVID-19 Delta variant cases; sluggish vaccine rollout; forecast and outlook downgrades by the International Monetary Fund (IMF), the World Bank, ASEAN+3 Macroeconomic Research Office (AMRO), Oxford Economics, S&P Global Ratings, Moody's Investors Service and Fitch Rating; and elevated domestic inflation.

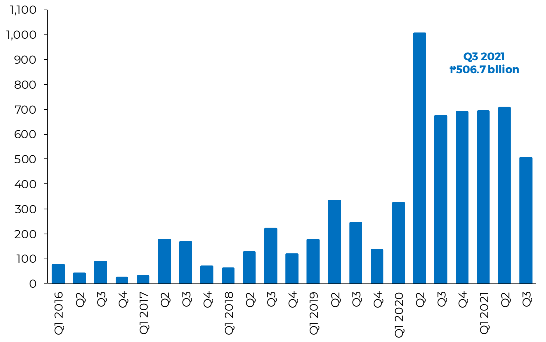
Other stock market indicators mirrored the rise in the PSEi. As of 30 September, total market capitalization went up by 14.4 percent q-o-q to reach ₱19.1 trillion. Meanwhile, foreign investors remained net sellers of ₱8.9 billion, albeit lower than the ₱30.1 billion net sales recorded in the previous quarter. Furthermore, investors' willingness to hold local shares remained high as indicated by the price-to-earnings (P/E) ratio of listed firms which stood at 23.3x in Q3, up from the 22.6x posted in Q2.

Government Securities. Results of the weekly T-bill auctions conducted from July – September 2021 continued to show market players' strong demand for government securities, with total subscription for Q3 2021 amounting to ₱701.7 billion or about 3.6 times the ₱195-billion aggregated original offered amounts.

Sustained strong demand for T-bills

Total oversubscription for the T-bill auctions in Q3 2021 reached ₱506.7 billion, which is lower than the ₱733.8 billion in the previous quarter, attributed mainly to lower programmed T-bill offer volumes. [41]

Chart 27. Total Oversubscription of T-bill Auctions
in billion pesos



Source: Bureau of the Treasury

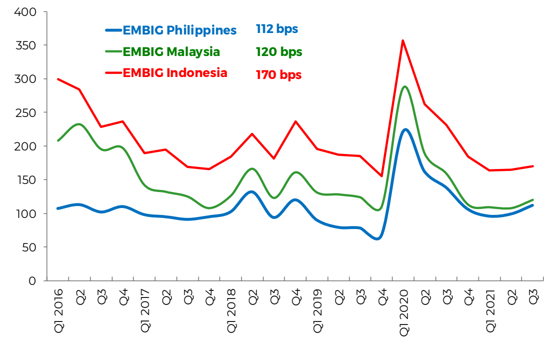
Amid the continued preference for T-bills, the BTr awarded in full the offered amounts in all of the auctions during the quarter. Moreover, strong demand for safe-haven GS during the 27-September auction allowed the BTr to increase the amount awarded for non-competitive bids for the 364-day T-bill, resulting in higher total accepted amounts than the original weekly offered amount.[42] Meanwhile, the BTr has not offered the 35-day T-bills since Q4 2020.[43]

Sovereign Bond and Credit Default Swap (CDS) Spreads. In July and August, debt spreads widened amid continued recovery concerns and downgrades in the country's growth outlook with the emergence of the new Covid-19 Delta variant. In September, debt spreads narrowed marginally as inoculation gained traction coupled with deceleration in the number of reported COVID-19 cases[44].

Debt spreads widen in July and August

As of 30 September 2021, the Emerging Market Bond Index Global (EMBIG) Philippines spread or the extra yield that investors demanded to hold Philippine sovereign debt over U.S. Treasuries stood at 112 bps. This is higher from the end-June level of 99 bps.

Chart 28. EMBIG Spreads of Selected ASEAN Countries
in basis points



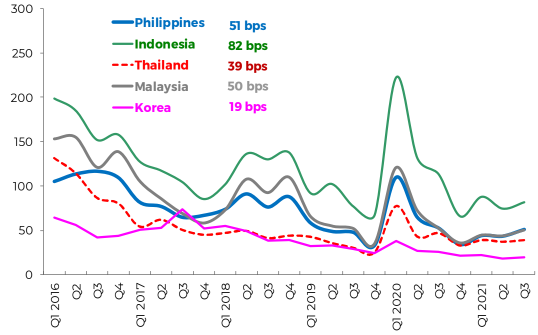
Source: Bloomberg

[41] The BTr's borrowing program via the T-bills in Q3 2021 amounted to ₱195 billion, lower than its ₱275-billion borrowing program in Q2 2021. It should be noted that, starting in June 2021, the BTr adjusted its borrowing program via the T-bills to a mix of ₱5.0 billion offer volume each for the 91-, 182-, and 364-day tenors from a mix of ₱5.0 billion, ₱8.0 billion, and ₱12.0 billion offer volumes, respectively, in May 2021.

[42] The awarded amount for the 364-day T-bill in the 27 September 2021 auction was ₱7.0 billion, higher than the original offer volume of ₱5.0 billion.
[43] The 35-day T-bills were offered twice and six times in Q3 and Q2 2020, respectively.
[44] On 25 September, OCTA Research Group noted that the seven-day average of infections in the country declined to 17,526 from 20,218 with a negative growth rate of 13 percent. Similarly, the reproduction number, or the number of persons an infected person can transfer the virus to, declined to 0.99 from last week's 1.03.

Similarly, the country's 5-year sovereign CDS increased to 51 bps from 44 bps as of the end-June. Against other neighboring economies, the Philippine CDS was narrower than Indonesia's 82 bps but wider than Malaysia's 50 bps, Thailand's 39 bps and Korea's 19 bps debt spreads.

Chart 29. Five-Year CDS Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

Banking System

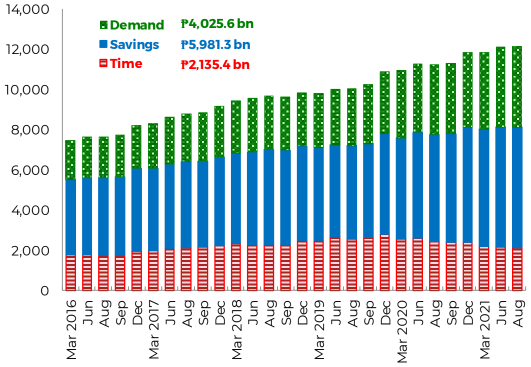
The Philippine banking system exhibited resilience and stability as the country's economic activities and financial transactions continued to recover from the disruption caused by the pandemic and quarantine measures.

Banking system assets and deposits continue to grow

During the review period, banks' balance sheets sustained growth in assets and deposits. At the same time, asset quality remained manageable while capital adequacy ratios stayed above international standards. Banks maintained dominance in the financial sector, with universal and commercial banks (U/KBs) accounting for about 92.3 percent of total banks' resources. In terms of the number of head offices and branches/agencies, non-bank financial intermediaries (NBFIs) have the widest physical network, consisting mainly of pawnshops.

Savings Mobilization. Savings deposits remained the primary source of funds for the banking system. Banks' total deposits as of end-August 2021 amounted to ₱12.1 trillion, 8.1 percent and 0.4 percent higher than the levels posted during the same period last year and in end-June 2021.[45]

Chart 30. Deposit Liabilities of Banks
in billion pesos



Source: BSP

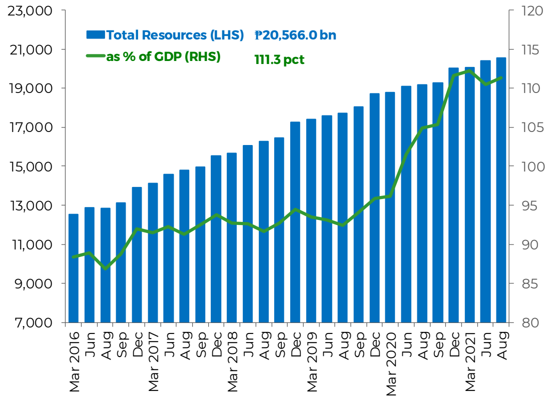
Meanwhile, foreign currency deposits owned by residents (FCD-Residents) settled at ₱2.1 trillion as of end-August 2021, 2.5 percent and 3.7 percent higher than the level reported a year ago and in end-June 2021.[46]

Institutional Developments. The total resources of the banking system grew by 7.3 percent to reach ₱20.6 trillion as of end-August 2021 from ₱19.2 trillion registered a year ago. Relative to the end-June 2021 level, the total resources of the banking system likewise increased by 0.8 percent. As a percent of GDP, total resources stood at 111.3 percent.[47]

Total resources of the banking system increase

[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 end-June 2021.

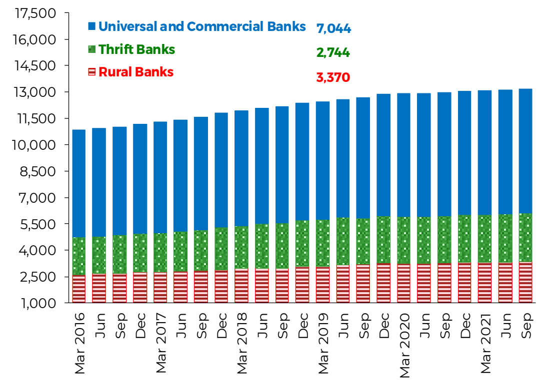
Chart 31. Total Resources of the Banking System
levels in billion pesos; share in percent



Source: BSP

The number of banking institutions (head offices) as of end-September 2021 declined to 517 offices from 523 offices as of end-June 2021. The banks' head offices are comprised of 46 U/KBs, 47 TBs, and 424 rural banks (RBs). During the same period, the operating network (head offices and branches/agencies) of the banking system increased to 13,158 offices from 13,126 offices in end-June 2021.

Chart 32. Number of Banking Institutions



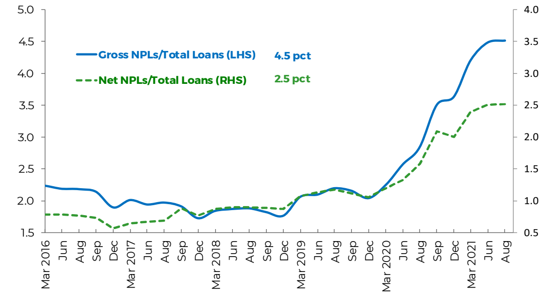
Source: BSP

In terms of asset quality, the Philippine banking system's gross non-performing loans (GNPL) ratio rose to 4.5 percent as of end-August 2021 relative to the 2.8 percent posted a year ago but was unchanged from the ratio registered in June 2021.

NPLs rise but remain manageable

Similarly, the net non-performing loans (NNPL) ratio increased to 2.5 percent as of end-August 2021 relative to the 1.6 percent registered a year ago but was unchanged from the ratio posted in June 2021.

Chart 33. Ratios of Gross Non-Performing Loans and Net Non-Performing Loans to Total Loans
in percent



Source: BSP

Compared with regional counterparts, the Philippine banking system's GNPL ratio was higher with respect to South Korea (0.5 percent), Malaysia (1.0 percent), Indonesia (3.0 percent) and Thailand (3.2 percent).[48]

Loan exposures of banks remained adequately covered with the banking system's NPL coverage ratio at 83.5 percent as of end-August 2021, lower than the 107.4 percent recorded a year ago but higher than the 82.4 percent posted in June 2021.

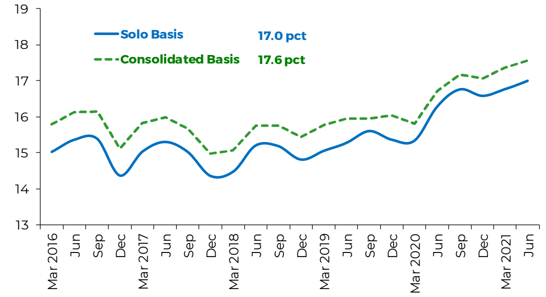
U/KBs' CAR remains well above international and regulatory standards

The capital adequacy ratio (CAR) of U/KBs at end-June 2021, on solo basis,

[48] Sources: Malaysia (Banking System's Ratio of net impaired loans to net total loans, August 2021); South Korea (Domestic Banks' Substandard or Below Loans [SBLs] ratio, June 2021); Indonesia (Commercial Banks' Nonperforming Loans to Gross Loans Ratio, June 2021); and Thailand (Total Commercial Banks' Gross NPL ratio, March 2021).

increased to 17.0 percent from the 16.8 percent posted a quarter ago. Similarly, on a consolidated basis, CAR of U/KBs increased to 17.6 percent from the 17.4 percent registered in the previous quarter. These figures remained well above the BSP's regulatory threshold of 10.0 percent and international standard of 8.0 percent.

Chart 34. Capital Adequacy Ratio of Universal and Commercial Banks
in percent



Source: BSP

The CAR of Philippine U/KBs, on consolidated basis, was higher than that of South Korea (15.7 percent) but lower than those of Malaysia (18.5 percent), Thailand (19.9 percent) and Indonesia (24.3 percent).[49]

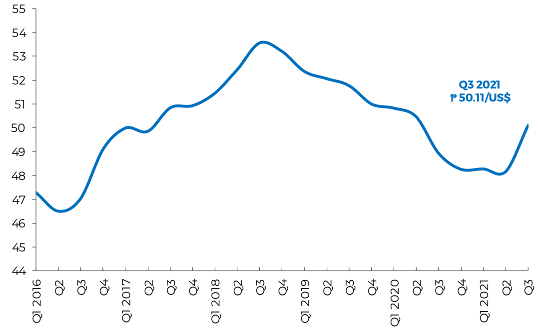
Exchange Rate

The peso averaged ₱50.11/US$1 in Q3 2021, depreciating by 3.86 percent from the Q2 2021 average of ₱48.17/US$1 due mainly to concerns over the spread of the COVID-19 Delta variant in the country and the reimposition of strict quarantine measures in the NCR and nearby provinces.

Peso depreciates amid concerns over the spread of COVID-19 Delta variant in the country

On a y-o-y basis, the peso likewise depreciated by 2.32 percent relative to the ₱48.94/US$1 average in Q3 2020.[50]

Chart 35. Quarterly Peso-Dollar Rate
PHP/US$; average per quarter



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

In July, the peso averaged ₱49.94/US$1, depreciating by 3.64 percent from the ₱48.12/US$1 average in June 2021. The peso depreciated on negative market sentiment amid concerns over (i) the spread of the COVID-19 Delta variant in the country; (ii) increased demand for US dollar amid continued recovery in the country's imports;[51] (iii) the deadlock in oil output talks among members of the Organization of the Petroleum Exporting Countries and its allies (OPEC+);[52] (iv) Fitch Ratings' outlook downgrade for the Philippines' sovereign credit rating;[53] and (iv) the release of local balance of payments (BoP) and budget data for June 2021, which both showed deficit levels.[54]

[49] Sources: South Korea (Domestic Banks' Total Capital Ratio, June 2021); Malaysia (Banking System's Total Capital Ratio, August 2021); Thailand (Commercial Banks' Capital Funds Percentage of Risk Assets, August 2021); and Indonesia (Commercial Banks' Regulatory Capital to Risk-Weighted Assets Ratio, June 2021).

[50] Dollar rates (per peso) or the reciprocal of the peso-dollar rates were used to compute for the percentage change.
[51] Data released by the PSA showed the country's imports increased by 47.7 percent to US$8.65 billion in May 2021 from a year earlier.
[52] Ministers of the OPEC+ called off oil output talks on 12 July after the United Arab Emirates rejected a proposed eight-month extension to curb output, meaning no deal to boost production has been agreed.
[53] On 14 July 2021, Fitch Ratings downgraded its outlook for the Philippines to "negative" from "stable" but kept its investment grade "BBB" rating for the country. A "negative" outlook means the country could get a rating downgrade within the next 12 to 18 months.
[54] The country's overall BoP position posted a deficit of US$312 million in June 2021, a reversal from the US$80 million BoP surplus recorded in the same month last year. Similarly, the government posted a budget deficit of ₱149.9 billion in June 2021, shifting from a ₱1.8 billion surplus in the same month a year earlier.

The depreciation of the peso continued in August as it averaged ₱50.23/US$1, 0.58 percent lower than the previous month's average. The peso depreciated on market cautiousness due partly to (i) the ECQ reimposition in NCR and nearby provinces amid the rising cases of COVID-19 Delta variant in the country; and (ii) signals from the US Federal Reserve of a possible tapering of its asset purchases within the year.

Meanwhile, the peso slightly recovered in September as it appreciated to an average of ₱50.14/US$1, 0.18 percent higher than the average in August. The peso appreciated partly on positive sentiment following (i) the arrival of more coronavirus vaccines which fueled hopes for the gradual reopening of the economy; (ii) the BSP's statement of continued policy support if needed to sustain economic recovery; and (iii) the BTR's successful maiden issuance of onshore retail dollar bonds (RDBs).

On a y-t-d basis, the peso depreciated against the US dollar by 5.84 percent to close at ₱51.0/US$1 on 30 September 2021 from the end-December 2020 closing rate of ₱48.02/US$1.[55]

Meanwhile, the volatility of the peso's daily closing rates (as measured by the coefficient of variation) stood at 0.76 percent in Q3 2021, slightly higher than the 0.72 percent registered in the previous quarter.[56] The volatility of the peso in the review quarter was, however, lower than the volatility of some currencies in the region.

On a real trade-weighted basis, the peso gained external price competitiveness in Q3 2021 against the basket of currencies of all trading partners (TPI), trading partners in advanced (TPI-A) and developing (TPI-D) countries relative to Q2 2021. This was indicated by the decrease in the real effective exchange rate (REER) index of the peso by 4.06 percent, 4.59 percent and 3.77 percent, respectively.[57,58]

Relative to Q3 2020, the peso likewise gained external price competitiveness against the basket of currencies of TPI and TPI-D countries during the review period. This developed as the nominal depreciation of the peso more than offset the widening inflation differentials vis-à-vis the TPI and TPI-D. As a result, the REER index of the peso decreased against the TPI and TPI-D by 1.22 percent and 2.29 percent, respectively. Meanwhile, against the basket of currencies of TPI-A countries, the REER index of the peso increased by 0.79 percent.

[55] Based on the last done deal transaction in the afternoon.

[56] 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.

[57] The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners (MTPs) of the Philippines, which include 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 include China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

[58] 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 ₱958.2 billion fiscal deficit for the period January–August 2021, 29-percent higher than the fiscal deficit registered a year ago at ₱740.7 billion.

NG records a fiscal deficit for January-August 2021

Netting out interest payments from expenditures, the primary deficit amounted to ₱666.7 billion, which is 41-percent higher than the amount recorded in 2020.

Table 17. National Government Fiscal Performance
in billion pesos

	2020		2021		Growth Rate	
	Aug	Jan-Aug	Aug	Jan-Aug	Aug	Jan-Aug
Surplus/(Deficit)	-40.1	-740.7	-120.9	-958.2	201.8	29.4
Revenues	243.2	1,931.0	259.3	2,005.7	6.6	3.9
Expenditures	283.3	2,671.7	380.2	2,963.9	34.2	10.9

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

Revenues increased by 3.9 percent to ₱2,005.7 billion in January–August 2021 compared to ₱1,931.0 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱1,388.7 billion and ₱412.3 billion, respectively. Revenue collections by the BIR and BOC were higher by 6.6 percent and 18.7 percent, respectively. Meanwhile, the BTr recorded an income of ₱99.9 billion, 48.2 percent lower than the amount recorded last year. The decrease was attributed to the normalization of collections coming from last year's high-base effects resulting from the provisions of the Bayanihan to Heal as One Act.

Expenditures for the period in review amounted to ₱2,963.9 billion, reflecting an increase of 10.9 percent from the previous year. Excluding interest payments, expenditures went up by 11.3 percent to ₱2,672.4 billion. Meanwhile, interest payment was 8.1 percent higher compared to its year-ago level, reaching ₱291.5 billion in January–August 2021.

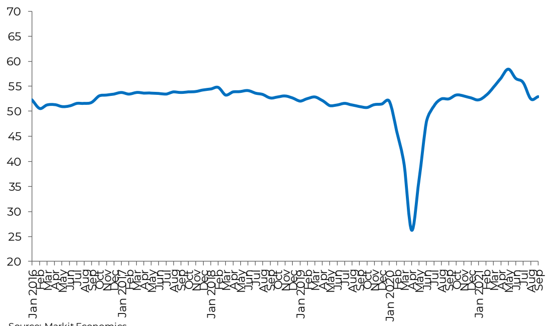
IV. External Developments

The JP Morgan Global All-Industry Output Index slightly improved to 53.0 in September from 52.5 in August amid better business conditions in both manufacturing and services sectors. However, economic growth remained subdued in September as supply chain disruptions and higher commodity prices increased the average cost burdens of firms.

Global economic output continues to grow as business conditions improve

Economic activity expanded in the US, euro area, UK, India, Brazil, and Russia. By contrast, Japan and Australia continued to post contractions in September.[59]

Chart 36. JP Morgan Global All-Industry Output Index
index points



Source: Markit Economics

US. On a seasonally adjusted q-o-q basis, real GDP grew by 6.7 percent in Q2 2021 (revised) following a 6.3-percent expansion in Q1 2021. On a y-o-y basis, real GDP expanded by 12.2 percent in Q2 2021 from a 0.5-percent growth in the previous quarter. The q-o-q expansion in real GDP in the second quarter reflected increases in personal consumption expenditures, nonresidential fixed investments, exports, and state and local government spending. These were partially offset by decreases in private inventory investment, residential fixed investment, and federal government spending.[60]

US manufacturing activity expands for the sixteenth consecutive month

The US manufacturing PMI increased to 61.1 percent in September from 59.9 percent in August as input prices, backlog of orders, employment, supplier deliveries, and inventories registered faster growth rates.[61]

The unemployment rate improved to 4.8 percent in September from 5.2 percent in August. Total nonfarm payroll employment rose by 194,000 with notable job gains in leisure and hospitality, professional and business services, retail trade, and transportation and warehousing. However, the labor force participation rate of 61.6 percent remained below the pre-pandemic level of 63.3 percent in February 2020. Meanwhile, on a y-o-y basis, inflation accelerated by 5.4 percent in September from 5.3 percent in August. The faster inflation was driven mainly by higher prices of food, energy commodities and services, used cars and trucks, transportation services, and shelter.

The Conference Board Consumer Confidence Index declined to a seven-month low in September to 109.3 from 115.2 in August. Consumers'

[59] JP Morgan Global Composite PMI, http://www.markiteconomics.com/. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

[60] US Bureau of Economic Analysis, "Gross Domestic Product, (Third Estimate), GDP by Industry, and Corporate Profits (Revised), Second Quarter 2021" news release, 30 September 2021, https://www.bea.gov/news/2021/gross-domestic-product-third-estimate-gdp-industry-and-corporate-profits-revised-2nd. The significantly higher y-o-y growth rate may be attributed to low-base effects from the contractions recorded in the previous year.

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

assessment of current business as well as their short-term outlook for income, business, and labor market conditions further worsened amid the continued spread of the highly transmissible COVID-19 Delta variant. Meanwhile, the Thomson-Reuters/University of Michigan Index of Consumer Sentiment rose to 72.8 in September from 70.3 in August. However, the slight improvement continued to reflect weak optimism among consumers due to the emergence of the Delta variant, persistent inflation, and unfavorable long-term US economy prospects.[62]

Euro Area. On a q-o-q basis, real GDP in the euro area grew by 2.2 percent in Q2 2021 following a 0.3-percent contraction in Q1 2021. On a y-o-y basis, real GDP expanded by 14.3 percent in Q2 2021 (revised) following a 1.2-percent decline in the previous quarter (revised).[63]

Composite PMI in the euro area slows amid persistent global supply chain issues

The composite PMI for the euro area declined to 56.2 in September from 59.0 in August as growth in new orders eased amid slower demand expansion in both manufacturing and service sectors. Respondent firms reported higher input costs, increased backlogs, and longer lead times due to persistent global supply chain disruptions.[64]

Inflation in the euro area is expected to increase to 3.4 percent in September from 3.0 percent in August due mainly to elevated energy prices amid the shortage of natural gas and other energy commodities.[65] The seasonally-adjusted unemployment rate improved to 7.5 percent in August from 7.6 percent in July.

The European Commission's Economic Sentiment Indicator (ESI) in the Euro Area rose to 117.8 in September from 117.6 (revised) in August, reflecting the higher confidence in construction and among consumers.

Japan. On a q-o-q seasonally adjusted basis, real GDP grew by 0.5 percent in Q2 2021 following a contraction of 1.1 percent in Q1 2021. On a y-o-y basis, real GDP grew by 7.6 percent in Q2 2021 following a 1.3-percent contraction in the previous quarter due to the expansion of both private and public domestic demand.[66]

Expansion of manufacturing output in Japan softens

The seasonally adjusted manufacturing PMI fell to 51.5 in September from 52.7 in August as output contracted amid rising COVID-19 cases, as well as sustained shortages of raw materials, while new orders fell due to weaker client confidence in the Japanese market.[67]

Meanwhile, inflation decelerated by 0.4 percent in August from negative 0.3-percent in July due to contractions in the prices of transportation and communication, food, and medical care. The seasonally adjusted unemployment rate was unchanged at 2.8 percent in August from the rate posted in July.

[62] University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/
[63] Final Estimate. Eurostat news release 101/2021 dated 7 September 2021. The significantly higher y-o-y growth rate may be attributed to low-base effects from the contractions recorded in the previous year.
[64] Final Estimate. Markit Eurozone PMI, http://www.markiteconomics.com/
[65] Preliminary Estimate. Eurostat news 109/2021 dated 1 October 2021
[66] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/ The significantly higher y-o-y growth rate may be attributed to low-base effects from the contractions recorded in the previous year.
[67] Jibun Bank Japan Manufacturing PMI, http://www.markiteconomics.com/

China. Real GDP in China grew at a slower pace by 7.9 percent y-o-y in Q2 2021 from 18.3 percent in the previous quarter as growth of retail consumption and industrial production slowed. Supply shortages and higher cost of raw materials weighed on the economy's recovery momentum.

Chinese manufacturing activity rose in September

China's seasonally adjusted manufacturing PMI rose in September to a PMI of 50.0 from 49.2 in August as business conditions improved owing mainly to easing pandemic-related restrictions and strong domestic demand recovery. However, inflationary pressures worsened in view of materials shortages and higher energy prices.[68]

Inflation slowed to 0.7 percent in September from 0.8 percent in August as prices of food, tobacco, and liquor, and other articles and services contracted.

India. Real GDP in India rose by 20.1 percent in Q2 2021 following a 1.6-percent growth in the previous quarter due to expansion in agriculture, forestry, and fishing; mining and quarrying; manufacturing; electricity, gas, water supply, and other utility services; construction; trade, hotels, transport, communication, and services; financial, real estate, and professional services; and public administration, defense, and other services.

India's composite PMI remains in expansion territory

The composite PMI remained relatively unchanged at 55.3 in September from 55.4 the previous month as aggregate business activity further expanded amid the broad-based recovery of the manufacturing and services sectors. In addition, the employment index stabilized in September after contracting for 18 consecutive months as business and operating conditions continued to improve.

Inflation in India fell to 4.4 percent in September from 5.3 percent in August, which may be attributed to the lower inflation for housing.

ASEAN Region. The Nikkei ASEAN Manufacturing PMI increased to the neutral PMI reading of 50.0 in September from 44.5 in the previous month as new orders and output posted softer contractions.

Overall manufacturing conditions in the ASEAN region improves

Three of the seven monitored countries recorded expansions in their respective manufacturing sectors, namely, Singapore, Indonesia, and the Philippines. By contrast, the manufacturing PMIs of Thailand, Malaysia, Myanmar, and Vietnam declined owing mainly to weak demand conditions and deteriorating operating conditions amid supply chain disruptions and labor shortages in select jurisdictions. [69]

Policy Actions by Other Central Banks. On 26 August 2021, the Monetary Policy Board of the BoK decided to raise the base rate by 25 bps to 0.75 percent from 0.50 percent as the Korean economy continued to recover amid better labor market conditions, prospects of higher investments, and stronger export demand. The BoK expects inflation to breach the 2-percent mark in 2021, while they project GDP to grow at around 4 percent.

[68] Caixin China General Manufacturing PMI, http://www.markiteconomics.com/

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

The Bank of Korea (BoK) raised the base rate by 25 basis points as the Korean economy sustained its recovery

Meanwhile, aside from the BSP, the Reserve Bank of Australia, Bank of Canada, Bank Negara Malaysia, the European Central Bank (ECB), People's Bank of China (PBOC), Bank of Japan, Bank Indonesia, Federal Reserve, Central Bank of the Rep. of China (Taiwan), Bank of England, and Bank of Thailand maintained their respective key policy rates during their monetary policy meetings in September to provide continued support to their respective economies.

The ECB's governing council stated during its September 2021 meeting that it is of the view that it can maintain favorable financing conditions with a moderately lower pace of net asset purchases under the Pandemic Emergency Purchase Programme (PEPP). The ECB intends to disclose the PEPP reduction plan in the following months as discussions among governing council members continue.

Likewise, on 22 September 2021, The US Fed acknowledged that the US economy has since made progress toward its price stability and maximum employment goals. The Federal Open Market Committee noted that a moderation in asset purchases may soon be warranted if the economy continues to recover as expected.

The People's Bank of China has not announced any change in the one-year loan prime rate thus far in September 2021. However, on 9 July 2021, the PBOC announced a 50-bp reduction in the reserve requirement ratio (RRR) for all banks, except for some small lenders that operate only in Chinese rural areas and whose RRR is already at 5 percent. Effective on 15 July 2021, the RRR cut is intended to support the economic recovery and ensure that overall financing costs remain stable amid adequate liquidity in the financial system. This will reduce the weighted average RRR of financial institutions to 8.9 percent.

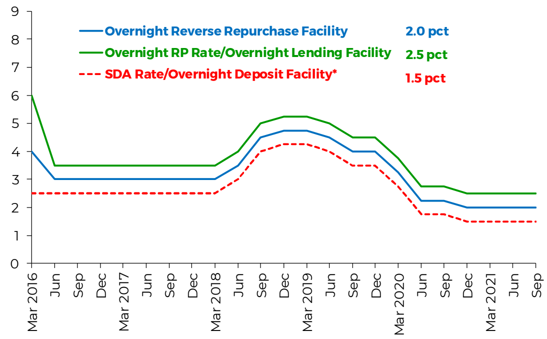
V. Monetary Policy Developments

At its monetary policy meetings on 12 August and 23 September, the BSP decided to maintain the key policy interest rate at 2.0 percent for the overnight reverse repurchase or RRP facility. The corresponding interest rates on the overnight deposit and lending facilities were also kept at 1.5 percent and 2.5 percent, respectively.

BSP maintains monetary policy settings during the quarter

During the review period, the BSP noted that the latest baseline forecasts indicate a higher inflation path over the policy horizon. Average inflation is seen to settle slightly above the upper end of the target band of 2-4 percent in 2021. This reflects the impact of recent supply disruptions on food prices, which contributed in part to the higher-than-expected inflation outturn in August. Nevertheless, the BSP emphasized that inflation is projected to settle close to the midpoint of the target range in 2022 and 2023. Moreover, inflation expectations remain firmly aligned with the baseline projection path.

Chart 37. 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

Equally important, at its latest monetary policy meeting, the BSP observed that the risks to the inflation outlook have tilted towards the upside for the remaining months of 2021 but remains broadly balanced for 2022 and 2023. Upside risks may emanate from pressures on international commodity prices amid improving global demand and lingering supply-chain bottlenecks. The potential effects of weather disturbances and a possible prolonged recovery from the ASF outbreak could also continue to lend upside pressures on prices. Meanwhile, downside risks are seen from the spread of more contagious coronavirus variants, as potential delays in the lifting of containment measures could further dampen prospects for global growth and domestic demand.

The BSP also noted that the outlook for recovery continues to hinge on timely measures to prevent deeper negative effects on the Philippine economy. To this end, the acceleration of the Government's vaccination program and a recalibration of existing quarantine protocols will be crucial in supporting economic activity while safeguarding public health and welfare.

On balance, the BSP was of the view that prevailing monetary policy settings remain appropriate during the quarter given the manageable inflation environment and uncertain growth outlook. The BSP reiterated that, together with appropriate fiscal and health interventions, keeping a steady hand on its policy levers will allow the momentum of economic recovery to gain more traction by helping boost domestic demand and market confidence.

Going forward, the BSP will continue to closely monitor evolving conditions for any threats to the inflation target. The BSP stands ready to take appropriate measures as necessary to ensure that the monetary policy stance remains in line with its price and financial stability mandates.

VI. Inflation Outlook

BSP Inflation Forecasts

The latest baseline forecasts indicate that inflation could settle above the government's target range of 3.0 percent ± 1.0 ppt for 2021 at 4.4 percent and decelerate close to the midpoint of the target at 3.3 percent for 2022 and 3.2 percent for 2023.

Table 18. Inflation Forecasts
in percent

	Q2 2021 Inflation Report [1]	Q3 2021 Inflation Report [2]
2021	4.0	4.4
2022	3.0	3.3
2023	3.0	3.2

[1] Baseline forecasts from 25 June 2021 monetary policy meeting
[2] Baseline forecasts from 23 September 2021 monetary policy meeting

The upward revision in the inflation forecasts over the policy horizon was due mainly to higher-than-expected inflation outturn in Q3 2021 owing to upward adjustments in the prices of selected food items and electricity rates. Higher global crude and non-oil prices along with the peso depreciation contributed as well to the higher inflation forecasts. These factors were partly offset by the lower GDP growth outlook due to stricter quarantine measures implemented during the quarter following the increased local transmission of the COVID-19 Delta variant.

Inflation is seen to remain above the target range up to October 2021, but is expected to decelerate within the target by November. Inflation is projected to ease near the low end of the target range in Q1 2022 due to negative base effects as global oil and non-oil prices moderate from their high levels in 2021. Meanwhile, inflation is estimated to approach the high end of the target by end-2022 with the reversal to positive base effects and the projected recovery in domestic economic activity before decelerating close to the midpoint of the target by 2023.

The risks to the inflation outlook appear to be on the upside in the near term, but broadly balanced for 2022 to 2023. The potential impact of weather disturbances and other supply disruption on the prices of key food items is the major upside risks in the remaining months of 2021. The uptick in global commodity prices due to strong global demand amid supply-chain bottlenecks could also pose upside risks to inflation along with the possibility of a prolonged ASF outbreak in the country. Meanwhile, the potential impact on domestic economic growth prospects of delays in the easing of containment measures as well as a weaker-than-expected global recovery owing to the rapid spread of new and more infectious COVID-19 variants are the main sources of downside risks.

Inflation could settle above the high end of the Government target in 2021 and is seen to move close to midpoint of target range in 2022 and 2023

Demand Conditions. The domestic economy grew by 11.8 percent in Q2 2021, a reversal of the 3.9-percent decline in Q1 2021 and the 17.0-percent drop in the same quarter a year ago. The improvement follows after five consecutive quarters of contraction.

Significant growth was observed across key economic sectors. On the production side, the industry and services posted positive growth rates due to the easing of quarantine restrictions. Meanwhile, agriculture contracted reflecting the continued adverse impact of the ASF on hog production. On the expenditure side, gross capital formation showed notable recovery, while household spending increased as consumer confidence improved, offsetting the decline in government spending.

GDP is likely to expand further in Q3 2021, albeit at a slower pace due to the imposition of quarantine measures in NCR and surrounding provinces with the faster local transmission of the COVID-19 Delta variant. However, the economic impact of the containment measures is expected to be less severe with said measures considered less restrictive compared to the lockdowns implemented in 2020 as shown in the improvements in mobility indicators across different locations. The domestic economy is seen to recover broadly in line with the 4.0 – 5.0 percent expectations of the DBCC for 2021.[70]

Recovery in domestic output could continue in Q3 2021

The recovery in growth over the medium term is projected to be driven by higher government spending and the implementation of structural reform programs, such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act and the Financial Institutions Strategic Transfer (FIST) Law. Improvements in global growth prospects will likewise support the country's growth trajectory. The IMF projects the world economy to expand by 5.9 percent and 4.9 percent in 2021 and 2022, respectively, based on the October 2021 World Economic Outlook (WEO) .

The said assessment is consistent with the gradual easing of quarantine measures towards the end of 2021 with the complete lift off in 2022 following the mass deployment of vaccines by end of year. The availability of a vaccine for COVID-19 and its subsequent roll out are expected to further ease the strict containment measures in place throughout the country, which will likely increase the operating capacity of the economy and accelerate the recovery process.

[70] Based on the 18 August 2021 DBCC meeting on review of growth assumptions for FY 2021

Supply Conditions. Global non-fuel price inflation has started to moderate in Q3 2021 following the uptrend in the previous quarter and is expected to further decelerate in the remaining months of the year. The deceleration in the global non-fuel inflation was partly due to the slowdown in the metal and industrial inputs inflation.

Meanwhile, global food price inflation remains elevated driven by higher prices of cereals, sugar, and vegetables oils due to unfavorable weather condition in major food exporters like Brazil. Commodity prices remained elevated on the whole as global demand further recovered from the pandemic.

Global crude oil prices increased compared to the previous quarter due to the expected recovery in global economic activity despite the decision of OPEC+ members to ease production cuts. Consequently, the global crude oil price assumptions for the current forecast cycle increased.

Global commodity prices remain elevated

Output Gap. 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.[71]

The country's real GDP could return to its 2019 level by the end of 2022. Estimates by the BSP show that the output gap is projected to remain negative over the policy horizon. This reflects the potential adverse impact of the pandemic on economic activity and the country's production capacity. This also implies that the economy will likely operate below its full employment capacity over

[71] 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).

the policy horizon. Nonetheless, this will be temporary as firms and households gradually adjust to the post-pandemic operating environment.

Key assumptions used to generate the BSP's inflation forecasts. The BSP's baseline inflation forecasts are based on the following assumptions:

1) BSP's overnight RRP rate at 2.0 percent from October 2021 to December 2023;

2) NG fiscal deficits for 2021 to 2023, which are consistent with the DBCC-approved estimates as of 18 August 2021;

3) Increase in nominal wages consistent with historical wage increases and labor productivity growth;

4) Real GDP growth is endogenously determined;

5) Foreign exchange rate is endogenously determined through the purchasing power parity and interest rate parity relationships;

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

7) Global growth and non-oil price outlook based on the IMF's forecasts.

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

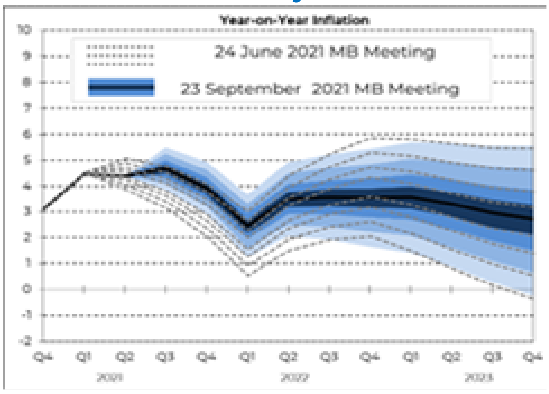
The latest fan chart presents an upward shift in the inflation projections for 2021 - 2023. Compared to the previous quarter, the higher forecasts for said years were due mainly to higher-than-expected inflation outturn in Q3 2021 owing to upward adjustments in the prices of selected food items and electricity. Higher global crude and non-oil prices and peso depreciation contributed to the higher inflation forecasts as well. These factors were partly offset by slower GDP growth outlook due to the stricter quarantine measures implemented during the quarter following the local transmission of the COVID-19 Delta variant.

The BSP's review of current inflation dynamics suggests that the risks to the inflation outlook appear to be on the upside over the near term, but broadly balanced for 2022 to 2023.

The risks to inflation outlook appear on the upside over the near term but broadly balanced for 2022 to 2023

The potential impact of weather disturbances on the prices of key food items is the major upside risk in the remaining months of 2021. PAGASA estimates around seven to 10 tropical cyclones to develop in the Philippine area of responsibility for the period September 2021 to February 2022. These could affect local supply and distribution, pushing the prices of key food items upward. Moreover, the possibility of a prolonged ASF outbreak in the country could keep pork prices elevated until 2022. The uptick in global commodity prices due to strong global demand amid supply chain bottlenecks could also pose upside risks to inflation with the IMF projecting global non-oil prices to increase by 26.5 percent in 2021.

Chart 38. Inflation Projection



Meanwhile, the potential impact on domestic economic growth prospects of continued implementation of containment measures as well as a weaker-than-expected global recovery owing to the rapid spread of new and more infectious COVID-19 variants are the main sources of downside risks.

Using the 90 percent confidence intervals for the fan chart, estimates indicate that the probability of average annual inflation settling within the 3.0 percent
± 1.0 percentage point target range is 16.5 percent for 2021, 54.7 percent for 2022 and 52.0 percent for 2023. The probability of inflation breaching the low end of the target range is 0.2 percent for 2021, 17.2 percent for 2022 and 19.9 percent for 2023. The probability of inflation breaching the high end of the target range is 83.3 percent for 2021, 28.1 percent for 2022 and 28.1 percent for 2023.

Table 19. Inflation Projection Ranges at Various Confidence Intervals Using the Fan Chart

Confidence Interval	2021	2022	2023
80%	4.0 - 4.7	2.1 - 4.5	1.1 - 5.1
90%	3.9 - 4.8	1.7 - 4.8	0.6 - 5.6

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.

Table 20. Probability Distribution of Inflation Forecasts

	Pr(<2%)	Pr(2-4%)	Pr(>4%)
2021	0.2%	16.5%	83.3%
2022	17.2%	54.7%	28.1%
2023	19.9%	52.0%	28.1%

The shaded area measures the range of uncertainty which is based on the deviation of forecasts from actual outcomes in the past years. The relative magnitude of the probability areas lying above and below the central projection captures the level of skewness based on the downside and upside shocks that affect the inflationary process over the next two years.

Implications for the Monetary Policy Stance

The BSP maintained the monetary policy stance during the quarter. At the last meeting of the MB on 23 September 2021, baseline forecasts indicated a higher inflation path over the policy horizon. The impact of recent supply disruptions on food prices on recent inflation outturns could push average inflation slightly above the upper end of the target band of 2-4 percent in 2021. Nonetheless, inflation is projected to ease towards the midpoint of the target range in 2022 and 2023.

The risks to the inflation outlook shifted towards the upside for the rest of 2021 but remained broadly balanced for 2022 and 2023. Upside risks could emanate from pressures on international commodity prices amid improving global demand and lingering supply-chain bottlenecks, as well as the potential effects of weather disturbances and a possible prolonged recovery from the ASF outbreak. Meanwhile, the spread of more contagious coronavirus variants continued to pose downside risks to the outlook, as potential delays in the lifting of containment measures could further dampen prospects for global growth and domestic demand.

At the same time, the continued threat of infections due to more contagious coronavirus variants meant that the economic recovery would depend critically on timely measures to prevent any deeper scarring. In this regard, the acceleration of the Government's vaccination program and the recalibration of existing quarantine protocols should help support economic activity while safeguarding public welfare.

Given the manageable inflation environment and uncertain growth outlook, the BSP believes that keeping an accommodative stance for monetary policy remains appropriate. Together with appropriate fiscal and health interventions, keeping a steady hand on the BSP's policy levers should allow the economic recovery to gain more traction in the coming months.

Looking ahead, the BSP will remain vigilant against any emerging risks to the outlook for inflation and growth, in order to ensure that monetary policy settings remain in line with its price and financial stability objectives.

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 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 ppt target range in 2008 and the 3.5 ± 1 ppt target range in 2009.
13 Mar 2008 **24 Apr 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.
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 RRP facility and 8.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
6 Oct 2008 **6 Nov 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.
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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
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.
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 MB 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 4.0 percent for the overnight borrowing or RRP facility and 6.0 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 4.0 percent for the RRP facility and 6.0 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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent) RRP Overnight	RP Overnight	Monetary Policy Decisions
2010			
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 4.0 percent for the RRP facility and 6.0 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
2011			
10 Feb 2011	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 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 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 (NBQBs) 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 NBQBs 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 (OPR) steady. At the same time, the reserve requirement ratios (RRR) were kept unchanged.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2012			
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 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rate**s** 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 4.0 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 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 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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2012			
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-bp reduction in policy rates in 2012 continued to work its way through the economy.
2013			
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 bps to 2.0 percent across all tenors.
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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2014			
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 bps 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.
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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent): Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	Monetary Policy Decisions
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	2.50	3.50	The BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. 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 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 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).
2017				
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	2.50	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight (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.
2018				
8 Feb 2018	3.00	2.50	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight RRP facility, 3.5 percent for the OLF and 2.5 percent for the ODF.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent): Overnight Reverse Repurchase Facility	Levels (in percent): Overnight Deposit Facility	Levels (in percent): Overnight Lending Facility	Monetary Policy Decisions
2018				
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	2.50	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight RRP facility, 3.5 percent for the OLF and 2.5 percent for the ODF.
10 May 2018	3.25	2.75	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 RRP facility, 3.75 percent for the OLF and 2.75 percent for the 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.
20 Jun 2018	3.50	3.00	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 RRP facility, 4.00 percent for the OLF and 3.00 percent for the ODF.
9 Aug 2018	4.00	3.50	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 RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.
27 Sep 2018	4.50	4.00	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 RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
15 Nov 2018	4.75	4.25	5.25	The MB decided to raise the BSP's key policy interest rates by 25 basis points to 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.
13 Dec 2018	4.75	4.25	5.25	The MB decided to maintain the BSP's key policy interest rates at 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent) Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	Monetary Policy Decisions
2019				
7 Feb 2019 **21 Mar 2019**	4.75	4.25	5.25	The MB decided to keep the BSP's key policy interest rates at 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.
9 May 2019	4.50	4.00	5.00	The MB decided to reduce the BSP's key policy interest rates by 25 basis points to 4.50 percent for the overnight RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
16 May 2019	4.50	4.00	5.00	The MB decided to reduce the reserve requirements by 200 basis points (or 2 percentage points) which shall be implemented according to the following schedule: 100 basis points on 31 May 2019; 50 basis points on 28 Jun 2019; and 50 basis points on 26 Jul 2019. The reduction will apply to those reservable liabilities of universal and commercial banks (U/KBs) that are currently subject to a reserve requirement of eighteen (18) percent.
23 May 2019				The MB complemented the reduction in reserve requirements for universal and commercial banks (U/KBs) with a phased 200-basis-point reduction in the reserve requirements for thrift banks (TBs) and non-bank financial institutions with quasi-banking functions (NBQBs), as well as a 100-basis-point reduction for demand deposits and NOW accounts of rural and cooperative banks on 31 May 2019. Moreover, long-term negotiable certificates of time deposits issued by all banks and NBQBs will have reduced and uniform reserve requirement ratio of 4.0 percent. The reductions on reserve requirements will take effect for U/KBs, TBs, and NBQBs on the reserve weeks beginning 31 May 2019, 28 Jun 2019, and 26 Jul 2019. The lower ratios shall apply to all reservable liabilities except bonds and mortgage/chattel mortgage certificates as the BSP continues to assess the impact of a reduction in the reserve requirements on said instruments.
20 Jun 2019	4.50	4.00	5.00	The MB decided to maintain the BSP's key policy interest rates at 4.50 percent for the overnight RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
8 Aug 2019	4.25	3.75	4.75	The MB decided to reduce the BSP's key policy interest rates by 25 basis points to 4.25 percent for the overnight RRP facility, 4.75 percent for the OLF and 3.75 percent for the ODF.
26 Sep 2019	4.00	3.50	4.50	The MB decided to cut the BSP's key policy interest rates by 25 basis points to 4.00 percent for the overnight RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent): Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	Monetary Policy Decisions
2019				
27 Sep 2019				The MB decided to reduce the reserve requirements for U/KBs, TBs, and RBs by 100 bps (or one percentage point). The reduction in reserve requirements will apply to the deposits and deposit substitute liabilities in local currency of banks. The reserve requirement of U/KBs was reduced from 16.0 percent to 15.0 percent, TBs from 6.0 percent to 5.0 percent, and RBs from 4.0 percent to 3.0 percent. The reduction will be effective on the first day of the first reserve week of November 2019.
24 Oct 2019				The MB decided to reduce the reserve requirements for U/KBs and TBs by 100 bps (or one percentage point). The MB complemented the move with a reduction in the RRs for NBQBs. The reduction in reserve requirements will apply to the deposits and deposit substitute liabilities in local currency of banks and NBQBs. The reserve requirement of U/KBs was reduced from 15.0 percent to 14 percent, TBs from 5 percent to 4.0 percent, and NBQBs from 16 percent to 14.0 percent. The reduction will be effective on the first day of the first reserve week of December 2019.
14 Nov 2019	4.00	3.50	4.50	The MB decided to maintain the BSP's key policy interest rate at 4.00 percent for the overnight RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.
12 Dec 2019	4.00	3.50	4.50	The MB decided to maintain the BSP's key policy interest rates at 4.00 percent for the overnight RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.
2020				
6 Feb 2020	3.75	3.25	4.25	The MB decided to cut the key policy interest rate by 25 bps to 3.75 percent. The interest rates on the OLF and ODF were reduced to 4.25 percent and 3.25 percent, respectively.
19 Mar 2020	3.25	2.75	3.75	The MB decided to cut the key policy interest rate by 50 bps to 3.25 percent, effective 20 March 2020. The interest rates on the OLF and ODF were reduced to 3.75 percent and 2.75 percent, respectively.
24 Mar 2020				The MB announced a 200-bp reduction in the RR ratio of reservable liabilities of universal and commercial banks (U/KBs) effective 3 April 2020. This puts RRR of U/KBs to 12 percent. The RR cut is intended to calm the markets and to encourage banks to continue lending to both retail and corporate sectors. This will ensure sufficient domestic liquidity in support of economic activity amidst the global pandemic due to the COVID-19.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent): Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	Monetary Policy Decisions
2020				
16 Apr 2020	2.75	2.25	3.25	The MB decided to cut the interest rate on the BSP's overnight reverse repurchase (RRP) facility by 50 basis points (bps) to 2.75 percent, effective Friday, 17 April 2020. The interest rates on the OLF and ODF were reduced to 3.25 percent and 2.25 percent, respectively. The off-cycle rate cut is meant to strongly encourage lending to various sectors, especially the most vulnerable, amid the COVID-19 pandemic.
25 Jun 2020	2.25	1.75	2.75	The MB decided to cut the interest rate on the BSP's overnight reverse repurchase (RRP) facility by 50 basis points (bps) to 2.25 percent, effective Friday, 26 June 2020. The interest rates on the OLF and ODF were reduced to 2.75 percent and 1.75 percent, respectively. Amidst a benign inflation outlook, the MB sees a critical need for continuing measures to bolster economic activity and support financial conditions.
20 Aug 2020 **1 Oct 2020**	2.25	1.75	2.75	The MB decided to maintain the BSP's key policy interest rates at 2.25 percent for the overnight RRP facility, 2.75 percent for the OLF and 1.75 percent for the ODF.
19 Nov 2020	2.00	1.50	2.50	The MB decided to cut the key policy interest rate by 25 bps to 2.00 percent, effective 20 November 2020. The interest rates on the OLF and ODF were reduced to 2.50 percent and 1.50 percent, respectively.
17 Dec 2020	2.00	1.50	2.50	The MB decided to maintain the BSP's key policy interest rates at 2.00 percent for the overnight RRP facility, 2.50 percent for the OLF and 1.50 percent for the ODF.
2021				
11 Feb 2021 **25 Mar 2021**	2.00	1.50	2.50	The MB decided to maintain the BSP's key policy interest rates at 2.00 percent for the overnight RRP facility, 2.50 percent for the OLF and 1.50 percent for the ODF.
13 May 2021 **24 Jun 2021**	2.00	1.50	2.50	The MB decided to maintain the BSP's key policy interest rates at 2.00 percent for the overnight RRP facility, 2.50 percent for the OLF and 1.50 percent for the ODF.
12 Aug 2021 **23 Sep 2021**	2.00	1.50	2.50	The MB decided to maintain the BSP's key policy interest rates at 2.00 percent for the overnight RRP facility, 2.50 percent for the OLF and 1.50 percent for the 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:

https://www.bsp.gov.ph/SitePages/PriceStability/PriceStability.aspx

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