2021 Inflation Report
Fourth 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 20 January 2022.

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 DBCC meeting held on 14 December 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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Bank Officer VI, Provident Fund Office

2022 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS

2022	Advisory Committee (AC) Meeting	Monetary Board (MB) Meeting	MB Highlights Publication	Monetary Policy Report (MPR)
Jan			13 (Thu) (16 Dec 2021 MB meeting)	
Feb	14 (Mon) (AC Meeting No. 1)	17 (Thu) (MB Meeting No. 1)		18 (Fri) (MPR - Feb. 2022)
Mar	21 (Mon) (AC Meeting No. 2)	24 (Thu) (MB Meeting No. 2)	17 (Thu) (17 Feb 2021 MB meeting)	
Apr			21 (Thu) (24 Mar 2021 MB meeting)	
May	16 (Mon) (AC Meeting No. 3)	19 (Thu) (MB Meeting No. 3)		20 (Fri) (MPR – May 2022)
Jun	20 (Mon) (AC Meeting No. 4)	23 (Thu) (MB Meeting No. 4)	16 (Thu) (19 May 2021 MB meeting)	
Jul			21 (Thu) (23 Jun 2021 MB meeting)	
Aug	15 (Mon) (AC Meeting No. 5)	18 (Thu) (MB Meeting No. 5)		19 (Fri) (MPR – Aug. 2022)
Sep	19 (Mon) (AC Meeting No. 6)	22 (Thu) (MB Meeting No. 6)	15 (Thu) (18 Aug 2021 MB meeting)	
Oct			20 (Thu) (22 Sep 2021 MB meeting)	
Nov	14 (Mon) (AC Meeting No. 7)	17 (Thu) (MB Meeting No. 7)		18 (Fri) (MPR – Nov. 2022)
Dec	12 (Mon) (AC Meeting No. 8)	15 (Thu) (MB Meeting No. 8)	15 (Thu) (17 Nov 2021 MB meeting)	

List of Acronyms, Abbreviations, and Symbols

ADB	Asian Development Bank
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
BI	Bank Indonesia
BIR	Bureau of Internal Revenue
BOC	Bank of Canada; Bureau of Customs
BOE	Bank of England
BOJ	Bank of Japan
BOT	Bank of Thailand
bp	Basis Point
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
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
ECB	European Central Bank
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
IMTS	International Merchandise Trade Statistics
IPP	Independent Power Producer
IRC	Interest Rate Corridor
ISCO	International Standard Classification of Occupations
kWh	Kilowatt Hour
LFS	Labor Force Survey
LPG	Liquefied Petroleum Gas
LTFRB	Land Transportation Franchising and Regulatory Board
MB	Monetary Board
MERALCO	Manila Electric Company
MISSI	Monthly Integrated Survey of Selected Industries
m-o-m	Month-on-Month
MPC	Monetary Policy Committee
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
OFW	Overseas Filipino Worker
OP	Office of the President
OPEC	Organization of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PBOC	People's Bank of China
P/E	Price-to-Earnings
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
q-o-q	Quarter-on-Quarter
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBs	Rural Banks
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
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 eases in Q4 2021. Year-on-year (y-o-y) headline inflation slowed down to 4.2 percent in Q4 2021, lower than the quarter-ago rate of 4.5 percent but higher than the year-ago rate of 3.1 percent. This brought the full year average to 4.5 percent, breaching the national government's (NG) target range of 2-4 percent for 2021. Food inflation eased to 4.1 percent from 5.8 percent a quarter ago on slower price increases of key food items. This was due to easing supply constraints on continued pork importation and partly to base effects given the significant price increase of vegetables a year ago. Meanwhile, non-food inflation rose to 3.8 percent from 3.3 percent a quarter ago. This was due mainly to higher inflation in energy-related items, specifically higher prices of petroleum products and charges for electricity generation and transmission.

Full-year inflation averages above target range for 2021

Core inflation remains steady. Core inflation, which measures underlying demand-side price pressures, held steady at 3.2 percent y-o-y in Q4 2021 from the previous quarter. Meanwhile, alternative core inflation estimates also indicated manageable underlying price pressures although they showed mixed trends. Estimates using trimmed mean and net of volatile items measures were lower at 2.9 percent (from 3.1 percent) and 3.5 percent (from 4.1 percent). Meanwhile, the estimate using the weighted median rose slightly to 1.7 percent (from 1.6 percent). The general easing of price pressures was also seen in the number of CPI items with inflation rates higher than the upper threshold of the target declining to 42 items in Q4 2021 from 49 items in Q3 2021. These items accounted for a smaller portion of the CPI basket at around 33.4 percent from 37.1 percent in the previous quarter.

Inflation expectations rise for 2021 and 2022, decline in 2023, but remain anchored to the target for the next 2 years. The BSP's survey of private sector economists in December 2021 showed that average inflation forecasts increased slightly to 4.4 percent (from 4.3 percent, in the September 2021 survey) for 2021 and 3.3 percent (from 3.2 percent) for 2022. Meanwhile, the mean inflation forecast for 2023 was lower at 3.1 percent from 3.2 percent. Analysts expected average inflation to return close to the midpoint of the target by 2022 and 2023. Most of the analysts anticipate the BSP to increase the key policy interest rate by 25 to 150 basis points (bps) in 2022 and 2023. Sixteen out of 20 respondents assigned an 87.4-percent probability that average inflation will exceed the target and a 12.5-percent chance that it will settle within the target range for 2021. Meanwhile, the probabilities that inflation will fall within the target band are seen at 74.8 percent in 2022 and 80.4 percent in 2023.

Domestic economy sustains growth in Q3 2021, albeit slightly subdued. Real Gross Domestic Product (GDP) expanded by 6.9 percent (revised) in Q3 2021, slower than the 12.0-percent growth a quarter ago. Growth was slightly muted by the reimposition of strict mobility restrictions in August-September, along with adverse weather disturbances that hampered the agricultural sector. This brought real GDP growth for the first three quarters of 2021 to 4.8 percent. On the expenditure side, key growth drivers were the sustained albeit slower expansions in household consumption and investment at 7.1 percent and 20.8 percent, respectively, as well as the recovery in government spending at 13.8 percent. On the production side, Q3 growth was supported by the tempered expansions in industry and service sectors at 8.1 percent and 7.7 percent, respectively. These offset the contraction in agriculture by 1.7 percent.

Real GDP in Q3 2021 sustains growth albeit at slightly subdued pace

Other demand indicators also showed continued improvement. The Q3 2021 Residential Real Estate Price Index, which is a nationwide measure, increased as residential property prices in the National Capital Region (NCR) and areas outside NCR (AONCR) rose, indicating improving demand. However, property prices in Metro Manila central business districts CBDs) remained in decline amid weak business activity. Vehicle sales increased mainly on higher sales of commercial vehicles. Similarly, Meralco sales continued to rise due to higher consumption in residential, industrial and commercial areas. Several leading indicators for economic activity likewise indicate an optimistic outlook. The composite Purchasing Managers' Index (PMI) in November 2021 rose to 51.6 points, above the neutral 50.0-point threshold. Business sentiment was also upbeat for Q4 2021 as well as for the succeeding quarter. Finally, consumer confidence remained weak for Q4 2021 but turned positive for the next quarter.

Global economic activity continues to expand although at a slower pace. The JP Morgan All-Industry Output Index pointed to sustained expansion in December at 54.3. On a y-o-y basis, Q3 2021 GDP expanded in the US, euro area, China and India. Moreover, the PMIs in these countries remained in the expansion territory, indicating a continued optimistic outlook. Similarly, the Association of Southeast Asian Nations (ASEAN) PMI rose slightly as demand conditions continued to improve amid easing quarantine restrictions. The improvement in business conditions in key economies led to higher inflation in their respective jurisdictions. Nevertheless, most of the central banks being monitored maintained their accommodative monetary policy settings amid lingering uncertainty surrounding growth amid the rapid spread of the COVID-19 Omicron variant. On the other hand, the Bank of England raised the Bank Rate by 15 bps to 0.25 percent and indicated the necessity of a further rate hike in the coming months. Similarly, the US Federal Reserve (US Fed) announced that it would be accelerating the tapering of its asset purchases.

Domestic market conditions are stable amid accommodative monetary settings and ample liquidity in the financial system. Financial market conditions remained stable in Q4 2021, supported by ample liquidity and improving economic outlook. The Philippine Stock Exchange index (PSEi) averaged 7,206.92 index points in Q4, higher by 6.8 percent from the previous quarter. In the domestic debt market, auctions for Treasury bills and bonds continued to attract robust market participation, resulting in sustained oversubscriptions. In addition, the Bureau of the Treasury (BTr) issued about ₱360 billion worth of Retail Treasury Bonds on 2 December 2021 amid good demand. Meanwhile, the peso continued to depreciate, averaging ₱50.45/US$1 amid prospects of a faster pace of tightening by the US Fed and inflation concerns. Finally, Philippine banks continued to exhibit resilience and stability. While the non-performing loans ratio was higher, overall loan exposures remained manageable and adequately covered.

The BSP keeps an accommodative policy setting in Q4 2021. The BSP maintained the key policy interest rate on the overnight reverse repurchase (RRP) facility at 2.0 percent. The corresponding interest rates on the overnight deposit and lending facilities remained at 1.5 percent and 2.5 percent, respectively. The projected inflation path remains within the inflation target band of 2-4 percent over the policy horizon. Average inflation is seen to settle close to the midpoint of the target range in 2022 and 2023. Moreover, inflation expectations continue to be anchored to the target band.

The BSP keeps key policy interest rate steady in Q4 2021

The risks to the inflation outlook have shifted toward the upside for 2022 but remain broadly balanced for 2023. Upside risks are linked mainly to the potential impact of continuing constraints on the supply of key food items and petitions for transport fare hikes. Strong global demand amid lingering supply-chain bottlenecks may also exert further upward pressures on international commodity prices. Meanwhile, the emergence of new COVID-19 variants continues to pose downside risks to the outlook for growth and inflation. On the other hand, recent indicators also suggest that economic growth now stands on firmer ground. In particular, credit activity has gradually recovered in recent months.

On balance, there remains enough scope for the BSP to keep a patient hand on its policy levers owing to a manageable inflation environment. The sustained implementation of non-monetary interventions will help ensure adequate domestic food supply and thereby mitigate further supply-side pressures on inflation. At the same time, preserving ongoing monetary policy support shall help sustain the economy's momentum over the next few quarters, especially as downside risks to the economic recovery continue to emanate from the spread of new COVID-19 variants as well as the potential tightening of global financial conditions.

Looking ahead, the BSP affirms its support for the economy while keeping an eye on the potential risks to future inflation. The BSP stands ready to respond to potential second-round effects arising from supply-side pressures, in line with its price and financial stability objectives.

I. Inflation and Real Sector Developments

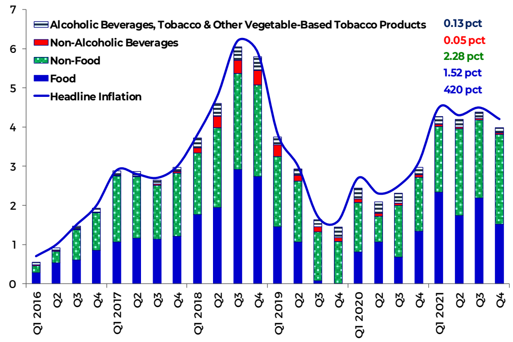
Prices

Headline inflation. On a year-on-year (y-o-y) basis, headline inflation was at 4.2 percent in Q4 2021. This was lower than the quarter-ago rate of 4.5 percent but higher than the year-ago rate of 3.1 percent.

Headline inflation eases in Q4 2021

This brought the average inflation rate to 4.5 percent in 2021, which is above the government's annual inflation 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. Meanwhile, core inflation, which excludes selected volatile food and energy items to depict underlying demand-side price pressures, held steady at 3.2 percent y-o-y in Q4 2021 from the previous quarter.

Core inflation holds steady from the previous quarter

Estimates of alternative measures of core inflation indicated manageable underlying price pressures although showing mixed trends in Q4 2021. Core inflation estimate based on the trimmed mean and net of volatile items (NoVI) measures were both lower than in the previous quarter while core inflation based on the weighted median rose in Q4 2021 compared to Q3 2021.

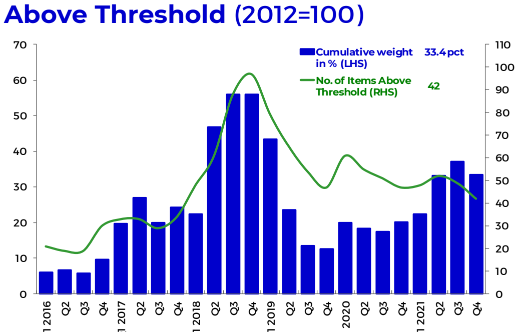
Table 1. Official and Alternative Core Inflation Measures
quarterly averages of year-on-year change

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	**4.5**	**3.3**	**2.7**	**1.7**	**4.1**
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
Q4	**4.2**	**3.2**	**2.9**	**1.7**	**3.5**

[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 general easing of price pressures during the review quarter was evident in the number of Consumer Price Index (CPI) items with inflation rates higher than the threshold (upper end of the target) which dropped to 42 items in Q4 2021 from 49 items in Q3 2021. These items accounted for a smaller portion of the CPI basket at around 33.4 percent in Q4 2021 from 37.1 percent in the previous quarter.

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



Source: PSA, BSP staff estimates

Food Inflation. Food and non-alcoholic beverages inflation eased to 4.1 percent y-o-y in Q4 2021 from 5.8 percent in the previous quarter on slower price increases of key food items such as, meat and fish. Meat inflation moderated amid the continued arrival of pork imports and as frozen pork inventories were unloaded from cold storage. Meanwhile, vegetable inflation turned negative in Q4 2021 after rising to double-digit rates in the previous quarter. The lower inflation for these items could also be partly attributed to base effects given the significant increase in the same period a year ago.

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

Commodity	2020	2021	
	Q4	Q3	Q4
Food and Non-Alcoholic Beverages	**3.7**	**5.8**	**4.1**
Food	3.8	6.2	4.3
Bread and Cereals	0.3	0.5	1.7
Rice	-0.2	-0.4	0.8
Corn	-0.9	8.3	14.4
Meat	7.6	16.0	11.2
Fish	4.1	10.6	8.1
Milk, Cheese and Eggs	1.9	0.7	1.1
Oils and Fats	2.6	4.8	5.8
Fruit	5.5	-0.3	0.5
Vegetables	11.3	12.3	-0.9
Sugar, Jam, Honey, Chocolate and Confectionery	0.3	1.2	1.9
Food Products, N.E.C.	4.2	1.6	2.3
Non-Alcoholic Beverages	1.9	1.6	1.6
Alcoholic Beverages and Tobacco	12.0	10.3	7.9

Source of Basic Data: PSA, BSP

Non-food Inflation. By contrast, non-food inflation increased in Q4 2021 to 3.8 percent y-o-y from the previous quarter's rate of 3.3 percent. The increase was on the back of higher y-o-y inflation of energy-related CPI items. Transport inflation rose due to higher domestic petroleum prices, reflecting the increase in international oil prices. Similarly, inflation for electricity, gas and other fuels also went up in Q4 2021. This is due to higher electricity rates owing to the increase in generation and transmission charges along with the upward price adjustments 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	
	Q4	Q3	Q4
Non-Food	**2.3**	**3.3**	**3.8**
Clothing and Footwear	1.6	1.8	1.9
Housing, Water, Electricity, Gas and Other Fuels	0.7	3.1	4.6
Electricity, Gas, and Other Fuels	-2.8	8.2	12.2
Furnishings, Household Equipment & Routine Household Maintenance	3.5	2.4	2.4
Health	2.6	3.1	3.1
Transport	8.0	6.4	7.3
Transport Services	16.4	3.8	1.2
Communication	0.3	0.3	0.2
Recreation and Culture	-0.6	0.3	1.0
Education	1.1	1.0	0.7
Restaurant and Miscellaneous Goods and Services	2.4	3.8	3.6

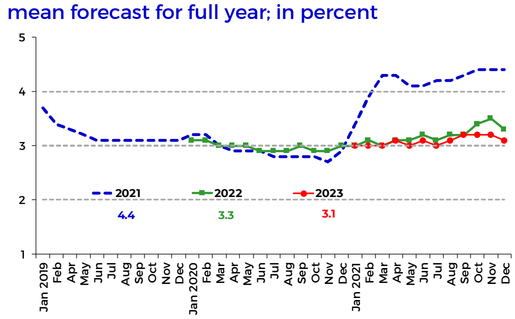
Source of Basic Data: PSA, BSP

Private Sector Economists' Inflation Forecasts. The results of the BSP's survey of private sector economists for December 2021 showed that relative to the survey in September, mean inflation forecasts were higher for 2021 and 2022, and lower for 2023.[4]

Inflation expectations rise for 2021 and 2022, and decline in 2023 but remain anchored to the target for the next 2 years

The average inflation forecasts increased slightly to 4.4 percent (from 4.3 percent, in the September 2021 survey) for 2021 and 3.3 percent (from 3.2 percent) for 2022. Meanwhile, the mean inflation forecast for 2023 was lower at 3.1 percent from 3.2 percent.

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



*Based on forecasts provided by 20 respondents. The survey was conducted from 9 to 13 December 2021.
Source: BSP

[4] There were 20 respondents in the BSP's survey of private sector economists in December 2021. The survey was conducted from 9 to 13 December 2021.

Analysts expect inflation to settle above the upper end of the government's target range in 2021, with broadly balanced risks surrounding the outlook. Meanwhile, inflation is seen to return close to the midpoint of the target by 2022 and 2023, with most of the analysts anticipating the BSP to end its accommodative stance in 2021 and increase the RRP rate by a range of 25 to 150 bps in 2022 and 2023.

The upside risks to inflation include:
(a) less stringent quarantine measures and normalization of business activities given the improved pace of vaccinations to boost domestic demand;
(b) persistently high global oil prices which could result in higher transport costs; (c) election-related spending;
(d) supply chain disruptions amid the pandemic; and (e) increased government spending on infrastructure.

The downside risks to inflation are seen to emanate from: (a) potential global resurgence of COVID-19 infections due to the emergence of the new Omicron variant, which could result in the re-imposition of lockdown measures; (b) base effects; (c) domestic oil price rollback; and (d) lower domestic food prices and ample food supply owing to non-monetary government interventions, such as the lowering of import tariffs on pork and rice.

Table 4. Private Sector Forecasts for Inflation (2012=100)

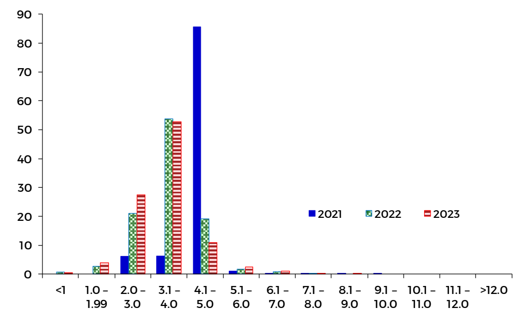
annual percentage change; December 2021

	2021		2022			2023
	Q4	FY	Q1	Q2	FY	FY
1) Al-Amanah Islamic Bank	4.00	4.50	4.80	3.90	4.50	3.90
2) Banco De Oro	4.15	4.40	2.80	3.69	3.36	3.42
3) Bangkok Bank	4.50	4.40	4.00	3.50	3.75	3.00
4) Bank of Commerce	4.11	4.38	2.77	3.75	3.49	-
5) Barclays	4.10	4.40	2.70	3.60	3.20	3.00
6) Deutsche Bank	-	4.10	-	-	3.40	-
7) Eastwest Bank	4.40	4.50	4.50	4.00	4.00	3.00
8) Global Source	4.00	4.40	2.70	-	3.50	3.50
9) Korea Exchange Bank	4.50	4.20	3.80	3.20	2.50	2.20
10) Land Bank of the Phils	4.20	4.50	3.10	4.10	3.70	3.20
11) Maybank	4.33	4.43	3.50	3.37	3.00	2.50
12) Maybank-ATR KimEng	3.90	4.40	3.00	3.60	2.80	3.00
13) Nomura	4.10	4.40	2.90	3.20	2.90	3.10
14) RCBC	4.20	4.40	2.80	3.60	3.00-3.50	3.00-3.50
15) Robinsons Bank	4.20	4.40	2.90	3.70	3.30	3.50
16) Philippine Equity Partners	4.21	4.40	3.35	4.10	3.70	3.10
17) Security Bank	4.50	4.50	3.50	3.50	3.50	3.00
18) Standard Chartered	-	4.30	-	-	3.00	2.90
19) Union Bank of the Phils.	4.10	4.40	2.70	3.30	3.00	3.20
20) UBS	3.80	4.30	2.50	3.30	3.10	3.00
Median Forecast	4.2	4.4	3.0	3.6	3.3	3.1
Mean Forecast	4.2	4.4	3.2	3.6	3.3	3.1
High	4.5	4.5	4.8	4.1	4.5	3.9
Low	3.8	4.1	2.5	3.2	2.5	2.2
Number of Observations	18	20	18	17	20	18
Government Target	**3.0±1.00**	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

Source: BSP

Based on the probability distribution of the forecasts provided by 16 out of 20 respondents, there is an 87.4-percent probability that average inflation for 2021 will exceed 4.0 percent while there is a 12.5-percent chance that it will settle within the 2-4 percent range. Meanwhile, the probabilities that inflation will fall within the target band in 2022 and 2023 are seen at 74.8 percent and 80.4 percent, respectively.

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



*Probability distributions were averages of those provided by 16 out of 20 respondents.
Source: December 2021 BSP Survey

Based on the BSP's Q4 2021 Business Expectations Survey (BES), respondent firms anticipate inflation to rise in Q4 2021, Q1 2022, and in the next 12 months.

Firms anticipate higher inflation, while consumers expect within-target inflation in the near term

Relative to the previous survey, a higher number of respondents in Q4 2021 expect inflation to increase in the current quarter (i.e., the diffusion index (DI) rose to 53.9 percent from 50.0 percent). By contrast, a lower number of respondents anticipate higher inflation in the next quarter (i.e., the DI declined to 30.6 percent from 45.8 percent). At the same time, businesses expect inflation to breach the government's 2 to 4 percent inflation target range for 2021 and 2022. In particular, inflation is projected to settle at 4.2 percent in Q4 2021, Q1 2022, and the next 12 months (from 3.9 percent across said periods in the Q3 2021 survey results).

By contrast, the BSP Consumer Expectations Survey (CES) results for Q4 2021 indicate that consumers expect inflation to remain within the government's target range for 2021 and 2022. In particular, households generally anticipate inflation to settle at 3.5 percent in Q4 2021 (unchanged from the mean forecast in the Q3 2021 survey round). Meanwhile, households expect inflation to decrease to 3.6 percent (from 3.7 percent) in Q1 2022 and 3.7 percent (from 4.1 percent) in the next 12 months.

Energy prices. The price of Dubai crude oil rose further in Q4 2021, on average, compared to the previous quarter given strengthening global oil demand amid restrained supply. Oil prices surged noticeably in October due to concerns over tight energy supply as the shortage in natural gas and coal led to a shift towards oil products. Furthermore, easing restrictions amid lower COVID-19 cases also contributed to the price increase.

International oil price continued to increase amid strengthening global oil demand amid restrained supply

Oil prices eased slightly in November following the decision from the US and other selected countries that they would release their strategic oil reserves to stabilize oil prices. Downward price pressures also came from rising COVID-19 cases in Europe and worries over the potential impact of the new Omicron variant on global oil consumption.

Energy outlook remained subject to considerable uncertainty given developments relating to COVID-19. The US Energy Information Administration (EIA) expects supply to outpace consumption in 2022 as OPEC+ gradually unwinds its production cuts along with higher production from US tight oil and other non-OPEC producers.[5]

Given the continued rise in international oil prices, domestic fuel prices also increased significantly in 2021. On a year-to-date (y-t-d) basis, price changes of domestic petroleum products as of 28 December 2021 showed a net price increase compared to end-2020 levels. Prices of gasoline, kerosene, and diesel prices in Metro Manila were adjusted upwards by ₱16.70 per liter, ₱12.37 per liter, and ₱10.12 per liter, respectively.[6]

Power. The overall electricity rate in the Meralco-serviced areas rose slightly by around ₱0.45 per kilowatt hour (kWh) to about ₱9.46 per kWh (from ₱9.01 per kWh in Q3 2021) due mainly to the combined effects of the increases in transmission and generation charges during the review period. In October 2021, according to Meralco, transmission charges increased on the back of higher ancillary charges, which accounted for about 33 percent of the National Grid Corporation of the Philippines' (NGCP) total transmission charge.

Retail electricity prices increase slightly in Q4 2021

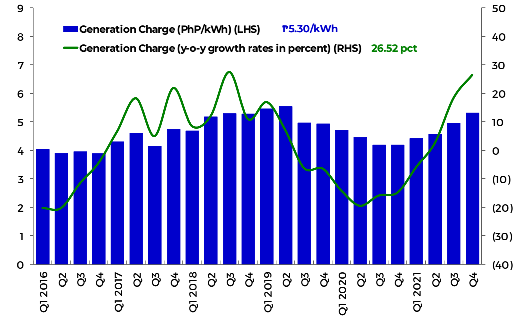
Meanwhile, generation charges rose in November and December 2021 primarily due to the maintenance shutdown of Malampaya natural gas facility from 2 to 25 October 2021. This resulted in higher power costs from the Wholesale Electricity Spot Market (WESM) and Independent Power Producers (IPPs), and the inclusion of the first of the four monthly installments covering the deferred costs from the November bill as well as the increase in charges from the Power Supply Agreements (PSAs), respectively.[7]

[5] Source: US EIA Short-Term Energy Outlook, December 2021.

[6] Source: Department of Energy (DOE).

[7] The deferred cost pertains to the generation costs arising from the impact of the shutdown of Malampaya natural gas facility on 2-25 October 2021. The ERC directed Meralco to defer the collection of portions of their suppliers' generation costs and to bill these on a staggered basis beginning this December until March 2022. Meanwhile, charges from the PSA increased due to higher prices of international coal and lower plant dispatch of some PSAs.

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



Source: PSA, BSP staff estimates

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 for six months). Likewise, the 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[8]

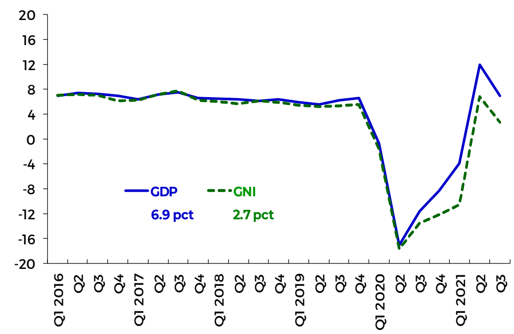
The Philippine economy grew by 6.9 percent (revised) y-o-y in Q3 2021, slower than the 12.0-percent growth in Q2 2021, but a reversal of the 11.6-percent contraction posted in Q3 2020. The slowdown mainly stemmed from stricter community quarantine measures along with adverse weather disturbances, which affected agricultural sector.

On a seasonally adjusted basis, quarter-on-quarter GDP rose by 3.1 percent in Q3 2021, an improvement from the 1.1-percent deceleration in Q2 2021.

Real GDP growth moderates in Q3 2021

Gross national income (GNI) increased by 2.7 percent year-on-year in Q3 2021, lower than the 6.8 percent in Q2 2021 but a turnaround from the -13.5 percent contraction in the same period in 2020. Net primary income continued to decline at double-digit rates in Q3 2021, dropping by 50.6 percent, albeit less negative compared to the -54.4 percent in Q2 2021.

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



Source: PSA

Aggregate Demand. Under the expenditure approach to GDP, household spending, government spending, investments (or capital formation), and net exports contributed 5.2 percentage points (ppts), 2.0 ppts, 3.8 ppts, and -2.1 ppt, respectively, to total GDP growth in Q3 2021.

Consumption and investments sustain expansions in Q3 2021

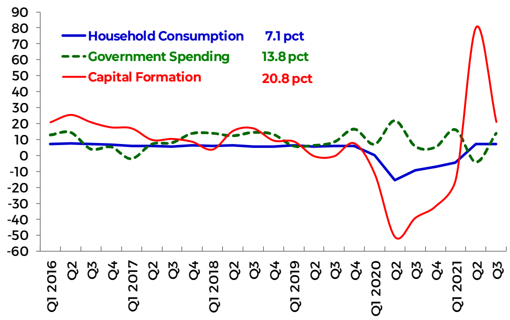
Household expenditures, which accounted for 73.4 percent of GDP in Q3 2021, grew by 7.1 percent in Q3 2021, from the 7.3-percent growth and -9.2-percent decline in Q2 2021 and Q3 2020, respectively. Except for alcoholic beverages and tobacco, all the other items contributed positively to the

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

growth of household spending, particularly: food and non-alcoholic beverages, miscellaneous goods and services, transport, health, and education.

Government expenditures expanded by 13.8 percent in Q3 2021, recovering from the -4.2 percent and 5.8 percent growth in Q2 2021 and Q3 2020, respectively.

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



Source: PSA

Capital formation grew by 20.8 percent year-on-year in Q3 2021, markedly slower than the 80.3 percent growth in Q2 2021 but a reversal of the 39.5-percent contraction in Q3 2020. The expansion was attributed to the registered increase in fixed capital investments from construction activities, durable equipment, intellectual property products.

Overall exports grew by 9.1 percent in Q3 2021, slower than the 27.8 percent expansion in Q2 2021 but still an improvement compared to the 15.1-percent slump in Q3 2020. The growth was attributed to the reported gains in merchandise exports, particularly, components/devices (semiconductors), electronic data processing, other exports of goods, telecommunication, and pineapple and pineapple products. Similarly, exports of services expanded driven by growth in telecommunications, computer and information services, manufacturing services on physical inputs owned by others, and travel.

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

BY EXPENDITURE ITEM	2020	2021	
	Q3	Q2	Q3
Household Final Consumption Expenditure	-9.2	7.3	7.1
Government Final Consumption Expenditure	5.8	-4.2	13.8
Gross Capital Formation	-39.5	80.3	20.8
Gross Fixed Capital Formation	-38.0	39.8	15.5
Exports of Goods and Services	-15.1	27.8	9.1
Imports of Goods and Services	-20.7	39.8	13.0

Source: PSA

Overall imports expanded by 13.0 percent in Q3 2021, from the 39.8-percent and -20.7 percent growth in Q2 2021 and Q3 2020, respectively. The y-o-y growth was due to the increase in merchandise imports particularly, other import of goods, components/devices (semiconductors), mineral fuels, lubricants and related materials, medicinal and pharmaceutical products, and base metals.

Other Demand Indicators. The other demand indicators show general improvement. Nationwide real estate prices increased, indicating demand although property prices in Metro Manila CBDs remained in decline amid weak business activity. Moreover, vehicle sales improved and Meralco sales continued to increase. Several leading indicators for economic activity, likewise, indicate an optimistic outlook. The composite Purchasing Managers' Index (PMI) in November 2021 increased by 1.3 index points to clear the 50-point expansion threshold at 51.6 points. Business sentiment was upbeat for Q4 2021 as well as for the succeeding quarter. Finally, consumer confidence remained weak for Q4 2021 but turned positive for the next quarter.

Property Prices

Capital Values, Metro Manila. Average capital values[9] for office buildings in Metro Manila[10] in Q3 2021 continued to decline to ₱163,000/sq.m., lower by 9.3 percent and 2.3 percent compared

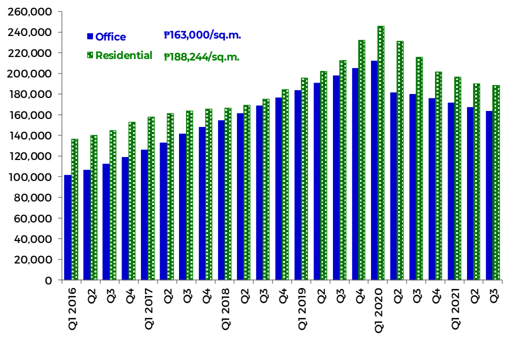
[9] Probable price that the property would have fetched if sold on the date of the valuation. The valuation includes imputed land and building value.
10 This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, Alabang, and Manila Bay Area.

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 CBD, Ortigas Center, 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[11] in Metro Manila[12] in Q3 2021 reached ₱188,244/sq.m., lower by 12.8 percent and 1.0 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.[13] Average monthly office rent in Metro Manila was valued at ₱773/sq.m. in Q3 2021, a slower decline of 1.9 percent from the previous quarter. This was also lower by 14.8 percent relative to Q3 2020. The depreciation in office rental rates was due largely to the subdued leasing and rising office vacancy.

Subdued demand pushes down rental rates for office and residential units

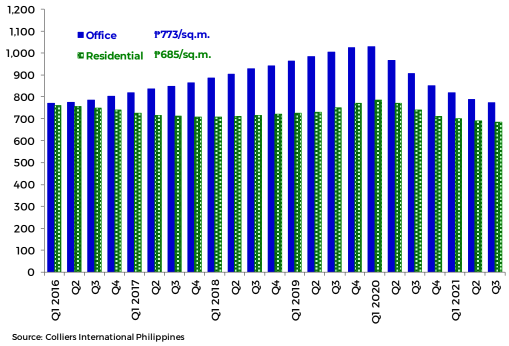
According to market analysts, they expect a further correction in lease rates, especially in submarkets with substantial space vacated due to lease terminations and significant amount of upcoming supply. Market analysts see that office leasing recovery will hinge on ramped up COVID-19 vaccination, which should enable more employees to report back to their workplaces. Meanwhile, the recovery of major economies such as the US could play a role in sustaining demand from outsourcing firms beyond 2021.

Due to an anemic demand for residential projects, residential rental rates have been declining, across all Metro Manila submarkets since Q3 2020. In Q3 2021, average monthly luxury three-bedroom condominium rents in Metro Manila were recorded at ₱685/sq.m., lower by 0.7 percent and 7.4 percent compared to the previous quarter and year-ago levels, respectively. The weak office leasing demand contributed to subdued residential demand. Leasing continues to be lukewarm due to the absence of demand from offshore gaming firms and other expatriates while some local professionals went back to their home provinces.

[11] 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.
12 This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, and Rockwell.

[13] Rental values discussed in this section pertain to high-end rented properties, which may be considered as indicators of wealth and demand.

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



Market analysts see that the ramped-up rollout of the government's vaccination program could increase consumer optimism and encourage more companies to allow employees to work on-site and partly buoy demand for condominiums for lease. Moreover, demand in both the pre-selling and secondary markets is likely to pick up on the back of an economic rebound, increase in vaccinations, and further easing of mobility restrictions in the country. The recovery in office sector by the second half of 2022 could signal the gradual recovery of condominium rents and prices during the period.

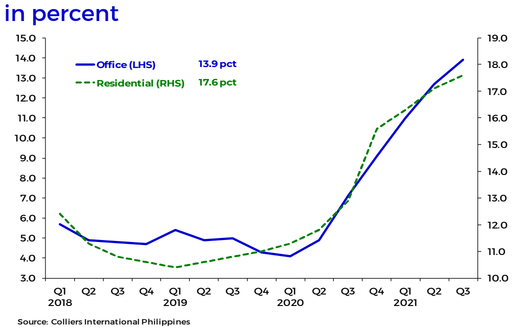
Vacancy Rates, Metro Manila. The office vacancy rate in Metro Manila rose to 13.9 percent in Q3 2021 from 12.7 percent in Q2 2021. In terms of location, the office vacancy rates in Makati CBD (12.0 percent from 9.9 percent), Fort Bonifacio (9.3 percent from 9.0 percent), and Manila Bay Area (32.5 percent from 23.8 percent) increased in Q3 2021 compared to the previous quarter. Meanwhile, vacancy rate in Ortigas Center remained unchanged at 13.8 percent compared to the previous quarter.

Market analysts continue to see occupants vacating office spaces in Metro Manila, albeit at a slower pace. Office vacancy is likely to increase further by end-2021 due mainly to weak pre-leasing.

Vacancy rates for offices and residences continue to increase

Similarly, the overall residential vacancy rate in Metro Manila further went up to 17.6 percent in Q3 2021 from 17.1 percent in Q2 2021 due to the completion of new units. In terms of location, residential vacancy rates were higher in Makati CBD (16.1 percent from 15.6 percent), Fort Bonifacio (21.8 percent from 21.3 percent), Rockwell Center (12.6 percent from 12.1 percent), Ortigas Center (7.5 percent from 7.0 percent), Eastwood City (7.3 percent from 7.0 percent), and Manila Bay area (24.5 percent from 23.8 percent).

Chart 10. Vacancy Rates
in percent



Residential vacancy is seen to further increase towards the end of 2021, before a slight easing in 2022 anchored by economic rebound, improvement in vaccination, and gradual recovery in office leasing, which should support the return to traditional offices.

BSP Residential Real Estate Price Index (RREPI).[14] Following two consecutive quarters of decline, the residential real estate prices of various types of new housing units in the Philippines recovered in Q3 2021 based on the RREPI y-o-y growth.

[14] 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.

RREPI recovers in Q3 2021

The nationwide house prices increased by 6.3 percent y-o-y (from -9.4 percent in Q2 2021) due partly to the stronger consumer demand for residential property, particularly townhouses and condominium units. This is consistent with the outcome of the Q3 2021 CES, which showed a higher percentage of consumers preferring to buy real estate property in the reference quarter amid signs of economic recovery.[15] Likewise, nationwide property prices increased by 0.7 percent q-o-q.

By area, residential property prices in the NCR and AONCR expanded y-o-y but declined q-o-q in the AONCR. After trending downwards for the past four consecutive quarters since Q3 2020, the nationwide residential property prices rose by 6.3 percent, driven mainly by the double-digit growth of 11.4 percent in the NCR.

The considerable uptick in the NCR residential property prices was brought about by the rise in the prices of townhouse and condominium units, which outweighed the decline in the prices of single detached/attached houses in the NCR. In the case of duplex housing units in the NCR, no bank loans were granted and reported to the BSP in Q3 2021.[16]

[15] The Q3 2021 CES results showed that the percentage of Filipino households, who considered Q3 2021 as a favorable time to buy a house and lot, grew by around 16 percent y-o-y, from 14.4 percent in Q3 2020, to 16.7 percent in Q3 2021.

[16] The RREPI is constructed using bank data on actual mortgage loans that are granted within a given period and reported to the BSP. As such, if no loans were granted and reported for a certain type of residential property within the reference period, the price relative will be undefined. Thus, the index level and price change of the pertinent residential property type for the current quarter will be the same as the previous quarter's index level and price change.

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	
	Q3	Q2	Q3	Q3	Q2	Q3	Q3	Q2	Q3
Overall	131.2	138.5	139.5	-0.4	-9.4	6.3	-14.1	4.8	0.7
National Capital Region	137.3	147.6	153.0	-12.2	-18.3	11.4	-24.0	3.4	3.7
Areas Outside the NCR	127.1	133.9	133.3	6.4	-0.6	4.9	-5.6	5.1	-0.4

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

Source: BSP

Similarly, property prices in the AONCR increased by 4.9 percent y-o-y as the growth in the prices of townhouses, duplex housing units, and condominium units more than offset the drop in the prices of single detached/attached houses. On a q-o-q basis, residential property prices grew in the NCR (by 3.7 percent), following the national trend, but fell marginally in the AONCR (by 0.4 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	
	Q3	Q2	Q3	Q3	Q2	Q3	Q3	Q2	Q3
Overall [2]	131.2	138.5	139.5	-0.4	-9.4	6.3	-14.1	4.8	0.7
Single Detached/Attached	116.3	118.1	111.4	7.4	-7.4	-4.2	-8.8	2.2	-5.7
Duplex [3]	131.5	144.7	131.3	-8.8	28.9	-0.2	17.1	9.1	-9.3
Townhouse	155.1	174.7	212.6	12.0	15.1	37.1	2.2	11.1	21.7
Condominium Unit	154.7	172.2	175.8	-15.0	-14.3	13.6	-23.0	5.5	2.1

[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

In Q3 2021, the purchase of new housing units accounted for 84.7 percent of residential real estate loans (RRELs).[3] Meanwhile, by type of housing unit, most of the residential property loans were used for the acquisition of single detached/attached houses (43 percent), followed by condominium units (39.2 percent) and townhouses (17.1 percent).

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, 37.2 percent of the total number of RRELs granted were from the NCR, while the rest were distributed in CALABARZON (28.5 percent), Central Luzon (13 percent), Central Visayas (5 percent), Western Visayas (4.7 percent), Davao Region (3.6 percent), and Bicol Region

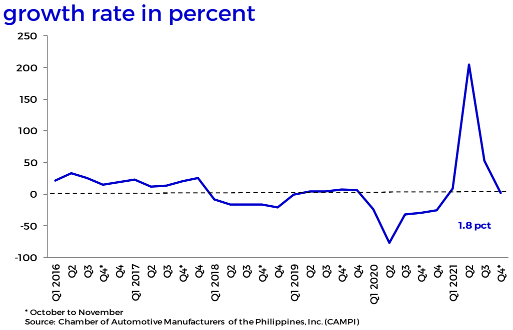
(2.1 percent). NCR and the said six regions combined accounted for 94.1 percent of total housing loans granted by banks during the period.

Vehicle Sales. The sales of new vehicles from CAMPI-TMA[17] members rose by 1.8 percent y-o-y for the period October-November 2021, a reversal from the 30.0-percent contraction recorded in the same period in 2020.

Sales of new commercial vehicles improve

The increase was due mainly to increased sales of commercial vehicles amid the easing of mobility restrictions and resumption of economic activities during the period.

Chart 11. Vehicle Sales
growth rate in percent



Commercial vehicle sales, which account for 67.7 percent of total vehicle sales, went up by 5.7 percent y-o-y for the period October-November 2021 from the 36.2-percent decline in the same period in 2020. Commercial vehicles sold during the period reached 33,206 units from 31,407 units in the same period a year ago.

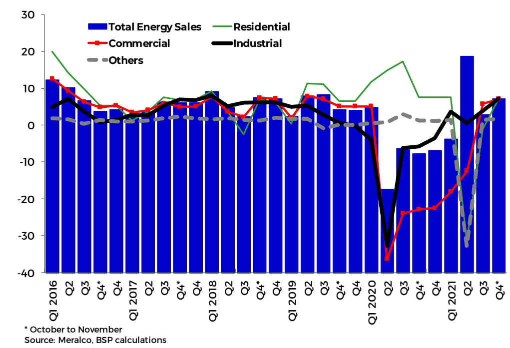
By contrast, passenger car sales declined by 5.6 percent y-o-y for the period October-November 2021, albeit lower than the 14.5-percent dip in the same period in 2020. New passenger car sales accrued to a total of 15,831 units for the period October-November 2021 from 16,778 units in the same period a year ago.

Energy Sales. Energy sales of Meralco expanded by 7.2 percent y-o-y in Q4 2021 (October – November). This is a reversal from the 7.7-percent contraction in the same period a year-ago and an improvement over the 6.5-percent growth in Q3 2021 (July – August).

Energy sales further increase

Energy sales from the residential sector, commercial sector and industrial sector increased by 7.2 percent, 7.1 percent and 7.3 percent, respectively.

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



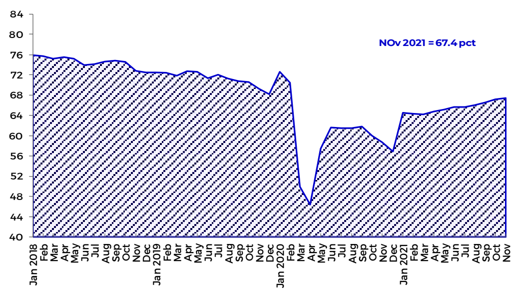
Capacity Utilization. The manufacturing sector's average capacity utilization rate rose to 67.4 percent in November 2021 from the month-ago level of 67.2 percent (revised) based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

Utilization of the manufacturing sector in November 2021 improves as easing restrictions allow businesses to increase output capacity

[17] 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.

Of the 552 respondent-establishments surveyed by the PSA, 46.2 percent operated at or above the 80.0 percent capacity level in November 2021, higher than the 43.0 percent recorded in October 2021. Meanwhile, the November response rate of 60.0 percent (preliminary) is marginally lower than the previous month's preliminary rate of 60.2 percent.

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



Source: PSA

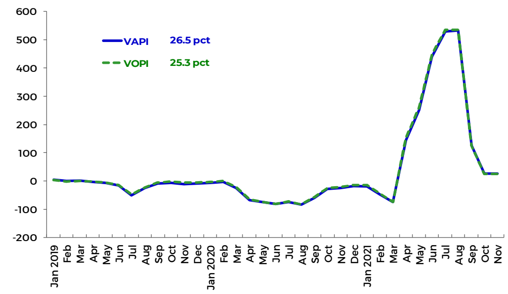
Average capacity utilization improved further in November 2021. Of the 22 major industries, furniture and other non-metallic mineral products operated above the 80.0 percent capacity level. Meanwhile, 14 industries operated at the 60 to 79 percent capacity range. At the same time, four industries operated at the 50 to 59 percent capacity range while the remaining two industries operated below the 50 percent capacity level.

Volume and Value of Production. The preliminary MISSI data for November 2021 expanded for the eighth consecutive month in both volume and value indices.

Manufacturing output expands further in November as holiday spending and declining COVID-19 cases spur consumer spending

The industry's average capacity utilization further increased in November, as demand conditions improved amid easing quarantine restrictions and higher consumer spending ahead of the holiday season.

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 the volume of production index (VoPI) expanded by 25.3 percent y-o-y in November 2021, faster than the 25.2-percent (revised) growth recorded in October 2021 as relaxed quarantine restrictions and holiday spending underpinned stronger demand for manufactured goods. Of the 22 subsectors, 12 increased their production volume while 10 recorded contractions.

Likewise, the growth of the value of production index (VaPI) accelerated to 26.5 percent in November 2021 from 25.9 (revised) percent in the previous month due mainly to the expansion of 15 out of 22 subsectors amid the notable improvement in demand conditions. Coke and refined petroleum products, wood, bamboo, cane, rattan articles and related products, and electrical equipment posted the fastest y-o-y expansion rates.

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

year-on-year in percent

GAINERS	Nov 2021
Coke and refined petroleum products	84.8
Wood, bamboo, cane, rattan articles and related products	83.9
Other non-metallic mineral products	49.7
Electrical equipment	45.4
Computer, electronic, and optical products	43.3
Machinery and equipment except electrical	40.9
Fabricated metal products, except machinery and equipment	37.7
Food products	20.1
Furniture	17.7
Basic metals	10.4
Printing and reproduction of recorded media	8.9
Leather and related products, including footwear	5.6
LOSERS	**Nov 2021**
Tobacco products	-20.4
Chemical and chemical products	-12.2
Basic pharmaceutical products and pharmaceutical preparations	-10.6
Wearing apparel	-10.2
Transport equipment	-6.2
Rubber and plastic products	-4.9
Textiles	-4.8
Other manufacturing and repair and installation of machinery and equipment	-4.0
Beverages	-3.7
Paper and paper products	-0.5

Source: PSA

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

year-on-year in percent

GAINERS	Nov 2021
Coke and refined petroleum products	123.4
Wood, bamboo, cane, rattan articles and related products	57.4
Electrical equipment	53.6
Other non-metallic mineral products	48.1
Machinery and equipment except electrical	41.3
Fabricated metal products, except machinery and equipment	35.6
Computer, electronic, and optical products	25.6
Food products	23.1
Basic metals	18.3
Furniture	16.9
Printing and reproduction of recorded media	7.5
Leather and related products, including footwear	7.4
Paper and paper products	1.2
Rubber and plastic products	0.5
Textiles	0.4
LOSERS	**Nov 2021**
Tobacco products	-19.8
Wearing apparel	-11.0
Basic pharmaceutical products and pharmaceutical preparations	-8.8
Chemical and chemical products	-7.0
Other manufacturing and repair and installation of machinery and equipment	-5.3
Transport equipment	-5.1
Beverages	-0.9

Source: PSA

Business Expectations. In Q4 2021, the outlook of business owners on the economy turned optimistic as the overall confidence index (CI)[18] of the Business Expectations Survey (BES)[19] went up to 39.7 percent from -5.6 percent in Q3 2021. This was the highest level recorded since the onset of the COVID-19 pandemic in the country in Q1 2020. The positive index resulted from the combined effects of increase in the percentage of optimists and the decrease in the percentage of pessimists.

Business confidence turns optimistic in Q4 2021

The respondents' optimism for Q4 2021 was attributed to the easing of COVID-19 restrictions and opening of borders; increase in demand and sales; continuous vaccine roll out; seasonal factors (e.g., uptick in demand during the holiday season, start of mining and milling seasons); and the decreasing number of COVID-19 cases. The release of positive economic news, such as the real GDP performance for Q3 2021, may have also influenced the more upbeat business expectations.

The sentiment of businesses in the Philippines mirrored the business outlook in China, which also turned optimistic in Q4 2021. Further, business sentiment in Australia, Bulgaria, Croatia, Euro Area, France, Greece, Hungary, Israel, Mexico, and the US was more optimistic. Meanwhile, the business sentiment of Brazil, Canada, Chile, Denmark, Germany,

[18] 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.

[19] The BES is a quarterly survey of firms drawn at random from the list of Top 7,000 Corporations ranked based on total assets in 2016 from the Bureau van Dijk (BvD) database. Results of the BES provide advance indication of the direction of the change in overall business activity in the economy and in the various measures of companies' operations as well as in selected economic indicators. The Q4 2021 BES was conducted during the period 8 October to 18 November 2021.

Hong Kong, Netherlands, and the UK was less optimistic. However, the view of businesses in New Zealand, South Korea, and Thailand was pessimistic

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
	Q4	39.7	52.8	67.6

Source: BSP

For Q1 2022, the business sentiment further improved as the overall CI increased to 52.8 percent from 31.9 percent a quarter ago. The respondents' optimism for the Q1 2022 was attributed primarily to expectations of availability of more vaccines and the prospect of achieving herd immunity; easing of community quarantines; increase in the volume of sales and orders; improvement in economic conditions and prospect of recovery from losses incurred during the stricter community quarantines; and the continuous decline in the number of COVID-19 cases.

For the next 12 months, business sentiment was more optimistic as the overall CI increased to 67.6 percent from previous quarter's survey result of 56 percent. The respondents' more upbeat outlook for the next 12 months was attributed to the aforementioned reasons, including the expected resumption of business operations in the near future.

Consumer Expectations. Based on the Q4 2021 Consumer Expectations Survey (CES),[20] consumer sentiment in the country was more pessimistic as the overall CI[21] declined to -24.0 percent from –19.3 percent in Q3 2021.

Consumer sentiment remains pessimistic in Q4 2021

The lower negative index recorded in Q4 2021 showed that the number of households with pessimistic views increased relative to the number in the previous quarter and continued to surpass those with optimistic views. According to respondents, their weaker outlook in Q4 2021 was brought about by their expectations of higher unemployment rate; low income; ongoing COVID-19 pandemic; faster increase in the prices of goods; and less working family member. Some respondents added the occurrence of typhoons during the period for their more pessimistic sentiment in Q4 2021.

The sentiment of consumers in the Philippines was comparable to the more pessimistic outlook of consumers in Euro Area, Netherlands, Poland, Taiwan, Turkey, the UK, and the US in Q4 2021. Meanwhile, consumer outlook in Australia, Canada, and South Korea was more optimistic.

[20] The CES is a quarterly survey of a random sample of about 5,000 households in the Philippines. Results of the CES provide advance indication of consumer sentiments for the current and next quarters and the next 12 months, as reflected in the overall CI, as well as in the selected economic indicators. The Q4 2021 CES was conducted during the period 1-13 October 2021.
[21] The CI is computed as the percentage of households that answered in the affirmative less the percentage of households that answered in the negative with respect to their views on a given indicator. A positive CI indicates an optimistic outlook while a negative CI indicates a pessimistic outlook.

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
	Q4	-24.0	9.3	23.6

Source: BSP

Meanwhile, consumer sentiment for the next quarter and the next 12 months improved as the CI increased to 9.3 percent and 23.6 percent from the Q3 2021 survey result of 2.7 percent and 18.6 percent, respectively. Respondents attributed their optimism on the availability of more jobs and permanent employment; additional and high income; effective government policies and programs; and good governance.

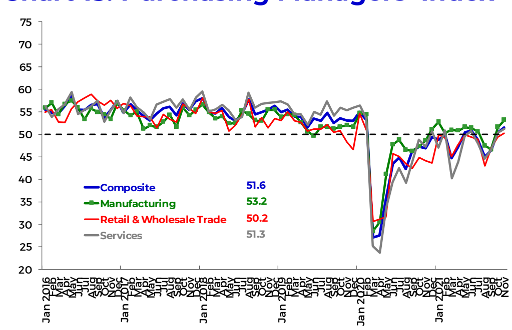
Purchasing Managers' Index.[22] The composite PMI in November rose by 1.3 index points to 51.6 from 50.3 in the previous month.[23] The economy's continued growth may be attributed to the faster expansions recorded in all sectors as easing quarantine restrictions and improving business operations underpinned demand recovery. Seasonal spending likewise contributed to the gradual recovery of private consumption as households have started increasing purchases ahead of the year-end holidays. Respondent-firms in all industries reported that prospects are assessed to be more favorable in December as declining COVID-19 cases and seasonal spending boost economic activity.

[22] Data based on the monthly PMI report of the Philippine Institute for Supply Management (PISM).
[23] 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.

Composite PMI improves further in November 2021

The manufacturing PMI expanded faster to 53.2 from 51.6, higher by 1.6 index points as improving economic prospects amid loose quarantine restrictions and declining COVID-19 cases supported the sector's recovery momentum. Production (at a PMI of 54.5) and New Orders (53.6) expanded faster after gaining 4.6 index points and 1.2 index points, respectively, as demand for manufactured goods progressively grew in November. Inventories (55.0) likewise expanded at a faster rate as firms continued to increase input stock levels in anticipation of higher demand and material shortages in the coming months. Lead Time[24] expanded, albeit at a slower rate, as ports remained congested due to supply chain disruptions and elevated trade flows amid the global economy's continued recovery. In addition, foreign demand for domestically manufactured goods increased across all firms by export category resulting in the expansion of ten out of 12 manufacturing sub-sectors. Manufacturing firms expect business conditions to further improve in December.

Chart 15. Purchasing Managers' Index



Source: Philippine Institute of Supply Management (PISM)

[24] Delivery time from suppliers to manufacturers, retailers, and wholesalers. An index above 50 means that lead times for delivery is longer, suggesting higher demand for production inputs. Conversely, an index below 50 means that lead times for delivery is shorter, suggesting lower demand for production inputs. As indicated in the PISM PMI manual, longer lead times contribute to an improvement in the overall index.

Meanwhile, the retail and wholesale PMI gained 0.8 index point in November to 50.2 from the previous month's 49.4 as relaxed quarantine restrictions and declining COVID-19 cases bolstered establishment footfall and sales. Sales Revenue (at a PMI of 52.7) and Purchases (50.8) rose by 2.9 index points and 2.7 index points, respectively, owing to a surge in consumer spending ahead of the year-end holidays. Inventories (51.0) also continued to expand as Lead Time (50.8) lengthened due to supply chain disruptions. On a sectoral basis, the retail subsector expanded anew amid significant improvements in Sales Revenue, Purchases, Inventories, and Lead Time. However, Employment in the Retail subsector continued to decline as firms reported incessant excess capacity. By contrast, the wholesale subsector contracted anew despite improving economic conditions. Although Sales Revenue, Inventories, and Lead Time improved from their month-ago PMIs, Purchases and Employment contracted at faster rates due mainly to weaker-than-expected demand recovery despite easing pandemic-related restrictions. Prospects are assessed to be more favorable for the wholesale and retail sector in the month ahead. The services sector likewise expanded in November as easing restrictions improved mobility in Metropolitan areas where most service-oriented firms are situated. The services PMI rose by 0.8 index point to 51.3 from 50.5 in October as New Orders (at a PMI of 54.0), Business Activity (54.9), and Outstanding Business (52.8) further grew after gaining 3.4 index points, 2.6 index points, and 2.0 index points, respectively. However, the faster contraction of Employment (45.9), Average Operating Cost (47.7), and Price Charge (49.1) weighed on the sector's recovery momentum and overall performance. Of the 14 subsectors in the services sector, only seven expanded in November. Nonetheless, service managers expect business activities to recover further in December.

External Demand[25]

Exports. Exports of goods went up by 12.8 percent y-o-y in Q3 2021, albeit slower than the 36.6-percent expansion in Q2 2021 but a turnaround from the 6.2-percent contraction in Q3 2020.

Exports of goods continue to improve in Q3 2021

The higher outbound shipments of coconut products, fruits and vegetables, other agro-based products, forest products, mineral products, and manufactures outpaced the decline in exports of sugar products and petroleum products in Q3 2021.

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

COMMODITY GROUP	2020	2021	
	Q3	Q2	Q3
Coconut Products	4.5	41.9	72.1
Sugar and Products	1,374.8	156.7	-72.6
Fruits and Vegetables	-18.3	-18.8	0.2
Other Agro-Based Products	-11.1	6.0	16.0
Forest Products	-18.0	98.4	13.1
Mineral Products	11.6	34.1	33.7
Petroleum Products	-98.4	-97.1	-16.0
Manufactures	-6.1	40.7	10.5
Special Transactions	-32.3	74.6	-5.8
Total Exports	**-6.2**	**36.6**	**12.8**

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

Imports. Imports of goods likewise rose by 28.4 percent y-o-y in Q3 2021, a reversal from the 16.1-percent dip in Q3 2020, but lower than the 71.4-percent uptick in Q2 2021.

Imports of goods also rise in Q3 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.

[25] International Merchandise Trade Statistics (IMTS) concept

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

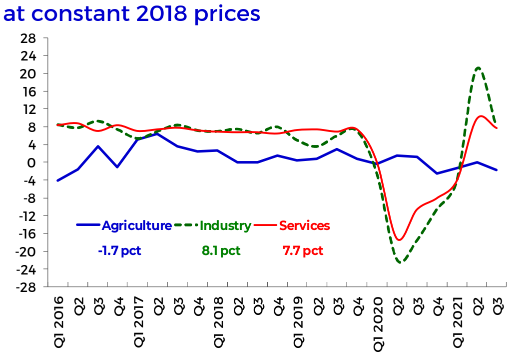
COMMODITY GROUP	2020	2021	
	Q3	Q2	Q3
Capital Goods	-20.7	55.7	14.9
Raw Materials and Intermediate Goods	-3.4	60.1	30.6
Mineral Fuels and Lubricants	-40.6	232.1	106.3
Consumer Goods	-17.4	80.2	10.8
Special Transactions	1.7	41.9	20.5
Total Imports	-16.1	71.4	28.4

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

Aggregate Supply

On the production side of the economy, the agriculture, industry, and services sectors contributed -0.2 ppt, 2.2 ppts and 4.9 ppts, respectively, to total GDP growth in Q3 2021.

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



Source: PSA

The industry sector continued to improve in Q3 2021 at 8.1 percent, albeit slower than the 21.0-percent growth in Q2 2021 but higher compared to the 17.6-percent contraction in Q3 2020. This was mainly driven by the expansion in the manufacturing of computer, electronic and optical products, food products, other non-metallic mineral products, basic metals, and basic pharmaceutical products and pharmaceutical preparations. At the same time, construction, electricity, steam, water, and waste management, and mining and quarrying improved in Q3 2021.

Industry and services sector continue to expand in Q3 2021

The services sector likewise grew in Q3 2021 by 7.7 percent from the 9.8-percent in the previous quarter. This was also a turnaround from the -10.6-percent contraction posted in Q3 2020. The growth in the services sector was mainly driven by the strong performance in retail trade particularly, wholesale and retail trade, repair of motor vehicles and motorcycles. At the same time, professional and business services, financial and insurance activities, education, transportation and storage, human health and social work activities, real estate and ownership of dwellings, other services, accommodation and food service activities, public administration and defense, and compulsory social activities contributed to the growth of the services sector in Q3 2021.

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

BY INDUSTRIAL ORIGIN	2020	2021	
	Q3	Q2	Q3
Agriculture, Forestry, and Fishing	1.2	0.0	-1.7
Industry Sector	-17.6	21.0	8.1
Mining and Quarrying	-13.0	0.0	3.0
Manufacturing	-10.4	22.2	6.4
Electricity, Steam, Water and Waste Management	0.2	9.5	3.0
Construction	-39.7	27.1	17.4
Service Sector	-10.6	9.8	7.7
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	-6.3	5.4	6.5
Transportation and Storage	-29.5	24.7	15.4
Accomodation and Food Service Activities	-54.6	56.7	11.8
Information and Communcation	3.0	12.3	8.6
Financial and Insurance Activities	4.2	5.2	3.9
Real Estate and Ownership of Dwellings	-19.2	16.7	3.8
Professional and Business Services	-11.1	9.6	10.6
Public Administration and Defense; Compulsory Social Security	4.7	5.1	5.4
Education	-16.7	12.6	13.6
Human Heath and Social Work Activities	-3.3	13.5	17.5
Other Services	-48.7	37.6	19.6

Source: PSA

By contrast, the agriculture sector declined by 1.7 percent year-on-year in Q3 2021, from the 0.02-percent and 1.2-percent growth posted in Q2 2021 and Q3 2020, respectively. The contraction in the agriculture sector was due mainly to the lower output for livestock due to the continued impact of the African Swine Fever (ASF) in the domestic hog production. Corn and agricultural crops, as well as fisheries and aquaculture also dropped in Q3 2021. These outweighed increments in the production of crops such as palay, pineapple, and coconut, as well as poultry and support activities to agriculture, forestry and fishing.

Labor Market Conditions

Based on the October 2021 labor force survey (LFS), the implementation of less stringent quarantine measures in major economic areas in the country[26] resulted in greater economic activities. Major employment indicators point to better labor market conditions relative to a year ago and the previous month (except for the underemployment rate). Some of the employment losses since the start of the pandemic in 2020 have also been gradually recovered as employment levels in October 2021 rose above the pre-pandemic level.

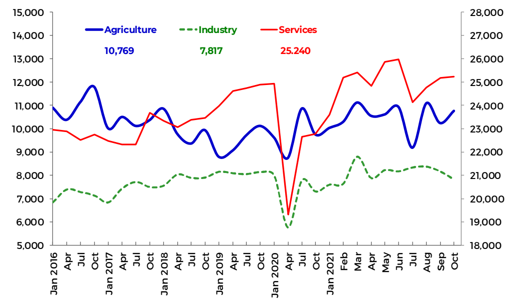
However, more granular data still indicate that the quality of employment in the country has not yet recovered as recent employment gains were mostly low-skilled and less remunerative. While the imposition of less strict quarantine measures and granular lockdowns in the succeeding months could lead to improvement in labor and employment condition, it may still take time for the quality of employment in the country to return to the pre-pandemic levels since pandemic uncertainty remains.

The employment rate in October 2021 is equivalent to 43.8 million employed individuals, higher relative to the previous month (43.6 million), the same period a year ago (39.8 million) and the pre-pandemic level (42.5 million).

Labor market conditions show improvement in October 2021

Compared to the pre-pandemic survey, employment was higher by 3.0 percent or a 1.3 million net employment gain. The country continued to maintain the higher than pre-pandemic employment level which was regained in August 2021. This is mainly due to higher employment in wholesale and retail trade, agriculture and forestry, and construction. Meanwhile, the main subsectors that posted employment losses were accommodation and food service activities, transportation and storage, and manufacturing.

Chart 17. Employment by Sector



Source: PSA

By class of worker, employment growth mainly came from the self-employed without any paid employee and those who worked without pay in own family-operated farm or business. The total number of wage and salary workers in October 2021 is lower by 1.3 percent (369 thousand) compared to January 2020, mainly due to the decline in the number of wage and salary workers for private establishment. This indicates that the more remunerative work has not yet fully recovered from the impact of the pandemic.

By occupation, employment gain is primarily among elementary occupations[27] and skilled agricultural, forestry and fishery workers. These more than offset the decline in employment recorded by managers and professionals. In terms of age, while employment of 15-24 age group or youth declined, this was more than offset by employment gains from other age groups, particularly the 25-34 years old.

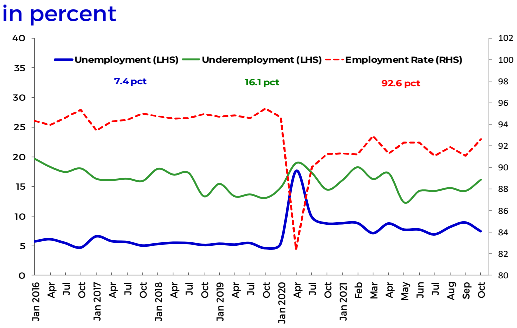
[26] The Alert Level 4 in Metro Manila in the latter part of September was extended in the first half of October 2021. On 15th of October, Metro Manila was downgraded to Alert Level 3 and this was implemented until the end of the month.

[27] 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 International Standard Classification of Occupations (ISCO) skill level.

On a y-o-y basis, the 10.0-percent growth in employment in October 2021 was equivalent to almost 4 million employment gain. The bulk of the increase in employment came from wholesale and retail trade, administrative and support service activities, and fishing and aquaculture. However, employment losses were recorded in agriculture and forestry, transportation and storage, and mining and quarrying. In terms of class of worker, employment improved mainly for those who work without pay in own family-operated farm or business and those who work for private establishment, although all employment classes experienced increases in employment levels. By occupation, employment declines were posted by skilled agricultural forestry and fishery workers and plant and machine operators and assemblers. However, these did not offset the employment gains recorded particularly by elementary occupations and service and sales workers. In terms of age, the increase in employment was experienced mostly by people in the 25-44 age group.

Chart 18. Unemployment, Underemployment and Employment Rate

in percent



Source: PSA

The unemployment rate in October 2021 is equivalent to 3.5 million unemployed individuals or 1.1 million 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 junior high school graduate and college graduate. Compared to the same period a year ago, the number of unemployed declined by 309 thousand. Lower levels of unemployment were recorded mainly by the 15-34 age groups, male workers, and with educational attainment of college undergraduate and junior high school graduate.

The underemployment rate rose in October 2021, higher than pre-pandemic, same period a year ago and previous month's rates. Relative to January 2020, the underemployment level of 7.0 million was higher by 745 thousand or 11.8 percent. Most of the increase in underemployment was in the services sector and from those who are visibly underemployed or those who worked for less than 40 hours. Compared to October 2020, the underemployment level was higher by 1.3 million or 22.6 percent. Most of the increase in underemployment was in the services sector and from those who are visibly underemployed. The increase in interest for more work of employed individuals may reflect some deterioration in the quality of employment during the month, particularly with the strong contribution of invisibly underemployed relative to the previous month. Meanwhile, the overall mean hours of work declined to 39.7 in October 2021, lower relative to 40.8 in October 2020, 40.2 in September 2021 and 41.3 prior to pandemic.

In October 2021, youth labor force participation rate (YLFPR) was at 35.7 percent, higher than 33.9 percent in the same period a year ago, but lower than 35.8 percent in September 2021 and 37.4 percent in January 2020. Relative to October 2020, the increase in YLFPR was due to increase in the number of youths in the labor force in October 2021 while youth population recorded a miniscule growth. Compared to pre-pandemic, youth labor force decreased in October 2021.

II. Monetary and Financial Market Conditions

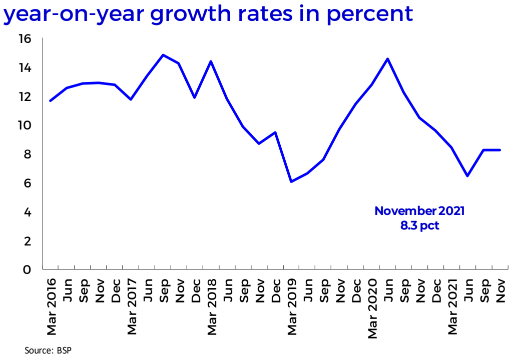
Domestic Liquidity

Domestic liquidity (M3) rose by 8.3 percent y-o-y in November 2021 to ₱14.8 trillion, unchanged from the growth rate recorded as of end-Q3 2021.

Domestic liquidity expands in November

Domestic claims grew by 8.1 percent in November 2021 from 7.7 percent as of end-Q3 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 23.9 percent in November owing 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 8.8 percent y-o-y in November from 11.3 percent in end-Q3 2021. The slower expansion in the BSP's NFA position reflected the lower y-o-y growth in gross international reserves. Meanwhile, the NFA of banks increased as banks' foreign assets went up on account of higher loans with nonresident banks.

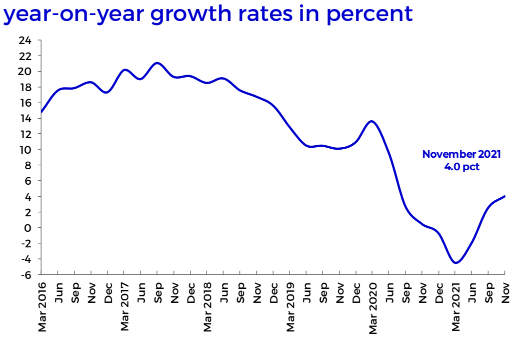
Bank Lending

Outstanding loans of commercial banks, net of reverse repurchase (RRP) placements with the BSP, expanded at quicker pace of 4.0 percent y-o-y in November 2021 from a 2.7-percent increase in end-Q3 2021. Bank lending continues to gain traction on a more favorable economic outlook amid the easing of COVID-19 restrictions and the continued rollout of vaccines.

Bank lending gains traction

Similarly, total loans for production activities grew by 5.3 percent y-o-y in November 2021, faster than the 4.4-percent rise during end-Q3 2021. The continued expansion in loans for production activities was driven by the growth in in loans for real estate activities; information and communication; financial and insurance activities; manufacturing; and transportation and storage. However, the fall in outstanding loans to other sectors such as agriculture, forestry and fishing as well as activities of households as employers and undifferentiated goods and services moderated the overall growth of outstanding loans for production.

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



Meanwhile, consumer loans decreased at a slower rate of 7.1 percent y-o-y in November 2021 from the reported 7.8-percent decline in end-Q3 2021 with the y-o-y increase in credit card loans.

Monetary Operations

As of end-Q4 2021, total outstanding amount absorbed in the BSP liquidity facilities stood at about ₱1.9 trillion. Bulk of the BSP's liquidity-absorbing monetary operations had been through the overnight deposit facility (ODF), comprising about 37.5 percent of the combined outstanding amount of liquidity absorbed through the BSP liquidity facilities. Meanwhile, placements in the term deposit facility (TDF), reverse repurchase (RRP) facility and BSP Securities facility (BSP-SF), made up 32.9 percent, 15.9 percent, and 13.6 percent, respectively.

The average weekly total offer volume in the TDF auctions was lower at about ₱463.8 billion in Q4 2021 relative to around ₱547.7 billion average weekly volume offered in the previous quarter. The average weekly bid-to-cover ratios for the 7-day and 14-day in Q4 2021 were recorded at 1.3x and 1.1x, respectively.[28]

For the daily RRP offerings for Q4 2021, the average bid-to-cover ratio stood at 4.0x, higher than the average bid-to-cover ratio of 3.8x for the previous quarter.

For the weekly auctions of BSP Securities, results continued to reflect strong demand from the market reflecting ample liquidity in the financial system. The average bid-to-cover ratio for the quarter recorded at 1.3x.

[28] 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.

Credit Conditions

Credit Standards. Results of the Q4 2021 Senior Bank Loan Officers' Survey (SLOS)[29] showed that most of the respondent banks kept their overall credit standards generally unchanged for loans to both enterprises and households based on the modal approach.[30]

Credit standards continue to reflect banks' cautious lending stance

Meanwhile, the diffusion index (DI) approach[31,32] showed a net tightening of general lending standards for loans to enterprises while a net easing of overall credit standards was reflected for loans to households.

The responses for the Q4 2021 SLOS were collected between 29 November 2021 – 11 January 2022. It is important to note that data collection for the Q4 2021 survey round was implemented amid the government's extension of the COVID-19 alert level 2 measures in Metro Manila, a quarantine classification that allows more economic activity and has fewer restrictions.

[29] 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, 50 banks responded to the current survey representing a response rate of 78.1 percent.
[30] In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.
[31] 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").
[32] During the Q1 2010 to Q4 2012 survey rounds, the BSP used the DI approach in the analysis of survey results. Beginning in Q1 2013, the BSP used both the modal and DI approaches in assessing the results of the survey.

Lending to Enterprises. The modal-based approach indicated that results for Q4 2021 showed that a high percentage of respondent banks (75.0 percent) pointed to generally unchanged overall credit standards for loans to enterprises. Meanwhile, the DI-based method reflected a net tightening of credit standards across all borrower firm sizes (particularly top corporations, large middle-market enterprises, small and medium enterprises, and micro enterprises). However, the diffusion indices indicating a net tightening of credit standards are notably lower across all firm sizes, suggesting that the extent of tightening of credit standards in Q4 2021 has decreased compared to previous quarters. Nonetheless, respondent banks specified that the observed tightening of overall credit standards was largely driven by the deterioration in the profitability of bank's portfolio and borrowers' profile as well as 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	Q4
Tightened Considerably	2.1	4.8	4.1	0.0	2.8	20.4	20.5	14.6	10.6	8.0	4.2	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	14.6
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**	**75.0**
Eased Somewhat	0.0	0.0	0.0	0.0	0.0	6.1	6.8	4.9	8.5	2.0	4.2	6.3
Eased Considerably	2.1	2.4	2.0	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	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**	**12.5**
Number of Banks Responding	**48**	**42**	**49**	**46**	**36**	**49**	**44**	**41**	**47**	**50**	**48**	**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

For specific credit standards, the net tightening of overall credit standards was revealed in terms of stricter collateral requirements and loan covenants as well as increased use of interest rate floors.[33] However, some form of easing in lending standards was identified in terms of narrower margin on loans and longer loan maturities.

Over the next quarter, while most of the respondent banks expect generally unchanged overall credit standards for loans to firms, DI-based results showed anticipation of net tighter standards mainly due to less favorable economic outlook and deterioration of borrower's profile. However, in comparison with survey results from Q1 2020 to Q4 2021, the diffusion indices pointed to fewer number of banks expecting a net tightening of lending standards in the following quarter.

Lending to Households. In Q4 2021, majority of respondent banks (65.7 percent) maintained their overall credit standards for loans extended to households. Meanwhile, DI-based results showed a net easing of overall credit standards for household loans, specifically for housing, credit card, and personal/salary loans.[34] Respondents linked the general easing of credit standards for household loans with a more favorable economic outlook and an improvement in borrower's profile.

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

	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened Considerably	3.3	4.0	3.1	0.0	0.0	39.4	16.7	3.7	9.4	5.7	5.6	2.9
Tightened Somewhat	16.7	8.0	6.3	6.9	21.7	21.2	30.0	11.1	9.4	20.0	11.1	8.6
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**	**65.7**
Eased Somewhat	3.3	0.0	9.4	3.4	8.7	6.1	3.3	7.4	6.3	5.7	13.9	17.1
Eased Considerably	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7
Total	100.0	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**	**-11.4**
Number of Banks Responding	**30**	**25**	**32**	**29**	**23**	**33**	**30**	**27**	**32**	**35**	**36**	**35**

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

In terms of specific credit standards, the overall net easing of lending standards to consumers was identified in longer loan maturities and decreased use of interest rate floors. However, partial tightening of credit standards for loans to households was revealed in forms of wider loan margins, reduced size of credit lines as well as stricter collateral requirements and loan covenants.

[33] 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.

[34] 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.

For the following quarter, modal-based results showed that a larger proportion of respondent banks expect to retain their overall credit standards. At the same time, DI-based results showed that respondent banks anticipate the continued net easing of overall credit standards for consumer loans amid optimistic economic prospects and expected improvement in borrower's profile.

Loan demand. Results for the Q4 2021 survey showed that most respondent banks pointed to an overall steady loan demand from both businesses and consumers. Contrary to this, the DI-based method determined a net increase in overall demand for business loans across all major loan categories (particularly for top corporations, large middle-market firms, small and medium enterprises, and micro-enterprises) and for three key categories of consumer loans (specifically housing loans, credit card loans, and auto loans).

Loan demand rises for enterprises, falls for households

Based on the survey responses, the net increase in businesses' demand for credit was influenced by the improvement in customers' economic outlook and the rise in customers' financing requirements for inventory and accounts receivable. Likewise, the net increase in loan demand for households was reportedly due to the higher households consumption, bank's more attractive financing terms, and lower interest rates.

In the next quarter, majority of respondent banks expect an overall steady loan demand from firms and consumers based on the modal approach. It should also be noted that a considerable portion of banks also indicated expectations of a net increase in demand for credit from both businesses and households amid the market's optimistic economic outlook due to the easing of COVID-19 quarantine restrictions and the continued rollout of vaccines.[35] Results from the DI method reflected expectations of a net rise in overall loan demand from businesses which were mainly associated with clients' improvement in economic outlook as well as increased inventory and accounts receivable financing needs. Similarly, the DI approach manifested banks' anticipation of net increase in overall consumer loan demand which was attributed to banks' more attractive financing terms and higher household consumption.

Real Estate Loans. Latest Q4 2021 survey pointed to most respondents (75.8 percent) reporting generally unchanged overall credit standards for commercial real estate loans (CRELs). However, the DI-based approach determined a net tightening of overall lending standards for CRELs for the 24th consecutive quarter. During the quarter, respondent banks conveyed a declined tolerance for risk, deterioration in borrowers' profile, and a less favorable outlook as key elements to the tightening of overall credit standards for CRELs.

Credit standards for real estate loans remain tight

In terms of 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

[35] Results of the latest BSP's Q4 2021 BES indicated that the outlook of business owners on the economy turned optimistic which was attributed to the: (a) easing of COVID-19 restrictions and opening of borders, (b) increase in demand and sales, (c) continuous vaccine roll out, leading to herd immunity, (d) seasonal factors, such as the uptick in demand during the holiday season, and start of mining and milling seasons, as well as (e) decreasing number of COVID-19 cases. The release of positive economic news, such as the real GDP performance for Q3 2021, may have also influenced the more sanguine business expectations. Meanwhile, the Q4 2021 CES indicated that consumer sentiment weakened brought about by (a) higher unemployment rate, (b) low income, (c) ongoing COVID-19 pandemic, higher cases, and restrictions/lockdown/travel ban, (d) faster increase in the prices of goods, and (e) less working family members.

rate floors, and shortened loan maturities. Over the following quarter, the DI approach indicated expectations of net tighter credit standards for CRELs.

Majority of the respondents in Q4 2021 stated unchanged demand for CRELs using the modal approach. On the other hand, DI-based results indicated a slight net decline in demand for CRELs given the decreased investment in plant or equipment of clients and the deterioration in customers' economic outlook.

Over the next quarter, modal-based results displayed expectations of a generally unchanged loan demand for CRELs, while the DI approach reflected a slight increase in demand. Respondent banks anticipate the credit demand for CRELs to rise largely due to the market's positive economic outlook as well as the increased customer inventory and accounts receivable financing needs.

On housing loans extended to households, a higher portion of respondents (71.9 percent) also indicated maintained lending standards while DI-based approach identified a net easing in Q4 2021. Over the following quarter, DI-based results also showed expectations of net easing in credit standards for housing loans, driven by less uncertain economic outlook and improvement in borrowers' profile.

A higher percentage of respondents indicated that overall loan demand for housing loans in Q4 2021 was broadly steady. Meanwhile, DI-based results presented a net increase in housing loan demand during the quarter amid higher household consumption and housing investment. Nonetheless, survey respondents stated a continued anticipation of a net rise in housing loan demand in Q1 2022 which was significantly attributed to expected higher housing investment and bank's more attractive financing terms.

Interest Rates

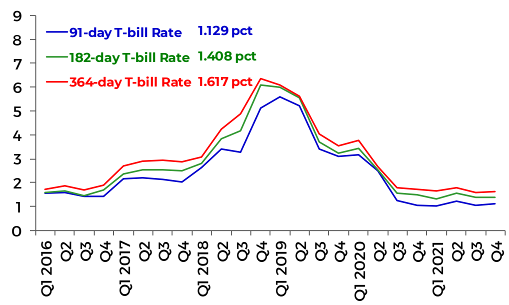
Primary Interest Rates

The weighted average interest rates (WAIRs) for the 91-, 182- and 364-day T-bills in the primary market rose to 1.129 percent, 1.406 percent, and 1.615 percent in Q4 2021 from 1.067 percent, 1.396 percent, and 1.609 percent, respectively, in the previous quarter.

T-bill rates increase across all tenors

The upward movement in yields during the review period reflected market players' anticipation of monetary policy tightening by the US Fed as well as concerns over higher domestic inflation. The increase in T-bill rates is also driven by the reduced demand on T-bills due to the issuance of the Retail Treasury Bonds in November 2021.

Chart 21. Treasury Bill Rates
in percent



Source: BTr

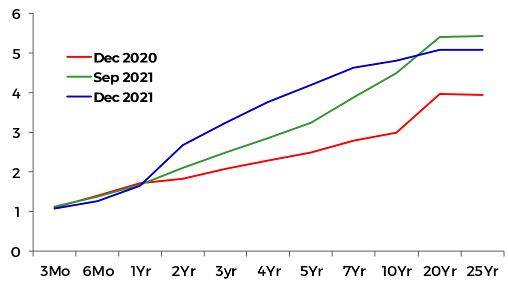
Yield Curve.[36] As of end-December 2021, the secondary market yield for government securities (GS) for all maturities (except for the 3-month, 6-month, 1-year, 20-year and 25-year tenors) rose generally relative to the end-September 2021 levels.

[36] 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.

GS yields rise generally in Q4 2021

Debt paper yields were higher by a range of 32.4 bps for the 10-year GS to 95.8 bps for the 5-year GS compared to end-September 2021 levels. However, the yields for the 3-month, 6-month, 1-year, 20-year and 25-year GS were lower by 3.2 bps, 11.6 bps, 0.7 bp, 31.2 bps and 34.0 bps, respectively.

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



Source: Bloomberg

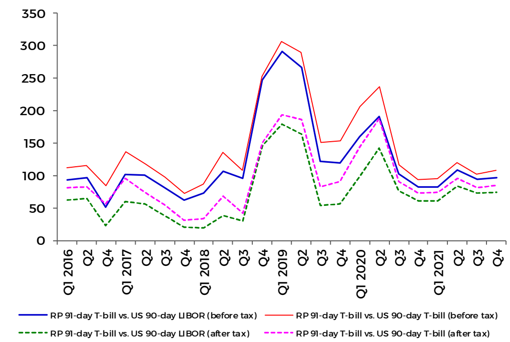
Relative to year-ago levels, the secondary market yields for GS with longer maturities increased generally by a range of 83.2 bps (for the 2-year GS) to 184.8 bps (for the 7-year GS). Debt paper yields for the 3-month, 6-month and 1-year GS decreased by 2.3 bps, 14.5 bps and 5.2 bps, respectively.

Interest Rate Differentials. The average differentials between domestic and US interest rates, gross and net of tax, widened in Q4 2021 relative to the previous quarter.

Interest rate differentials widen in Q4 2021

The average 91-day RP T-bill rate rose q-o-q by 6.5 bps to 1.132 percent in Q4 2021 from 1.067 percent in Q3 2021. Likewise, the average US 90-day LIBOR and US 90-day T-bill rate rose by 3.8 bps and 0.7 bp, respectively, to 0.164 percent and 0.052 percent in Q4 2021. These developments led to wider positive net of tax differentials between the 91-day RP T-bill rate and US interest rates.

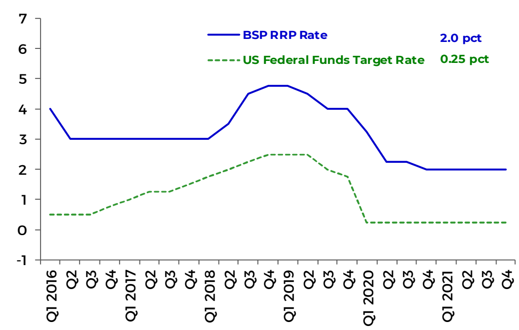
Chart 23. Interest Rate Differentials
quarterly averages; in basis points



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 Q4 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

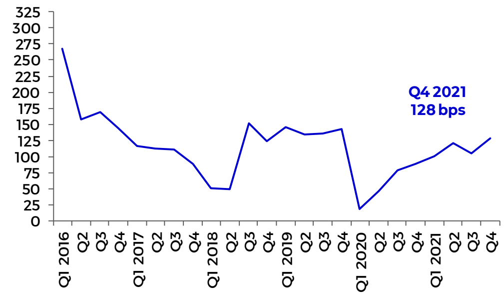


Source: US Federal Reserve and BSP

Meanwhile, the interest rate differential between the BSP's overnight RRP rate and the US Fed funds target rate adjusted for country risk premium[37] widened to 128 bps as of end-December 2021 from 105 bps in end-September 2021 due to lower risk premium.

[37] 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

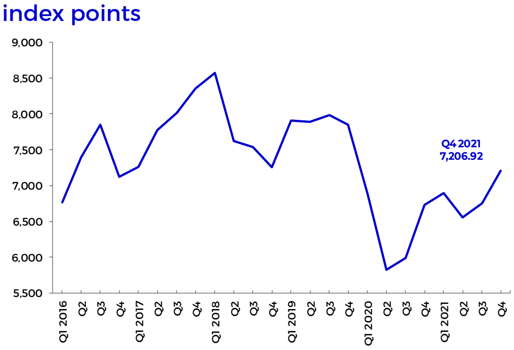
This development could be traced to the 23-bp decline in the country risk premium following the 17-bp decrease in the 10-year ROP Note and 6.0-bp increase in the 10-year US Note.

Financial Market Conditions

The domestic financial system continues to show stability, supported by ample liquidity. The equities market index continued to increase during the quarter, buoyed by investors' optimism over sustained monetary accommodation. Debt issuances by the NG continued to attract strong market participation, leading to oversubscriptions in the Treasury auctions. Moreover, the country's debt spreads narrowed as of end-2021 on renewed investor confidence on the back of the anticipated holiday spending.

Stock Market. During the review quarter, the Philippine Stock Exchange index (PSEi) averaged 7,206.92 index points, higher by 6.8 percent than the preceding quarter's average of 6,750.01 index points.

Chart 26. Quarterly Average PSEi
index points



Source: Philippine Stock Exchange, BSP

The PSEi advanced on investor optimism over the decline in the country's Covid-19 cases, the government's aggressive vaccination program and the easing of lockdown restrictions. Moreover, the higher Q3 corporate earnings, faster-than-expected Q3 GDP growth as well as the BSP's decision to keep key interest rates accommodative supported the rising trend of the PSEi.

On a month-on-month (m-o-m) basis, the benchmark index advanced in October and November before retreating in the last month of the year. The market rallied in October on optimism over the further reopening of the Philippine economy amid the decline in local COVID-19 cases and favorable reports on the macroeconomy (i.e., lower inflation, higher Markit PMI in September, factory output in August and rise in foreign direct investments in July).

Local share prices continued to increase in November on optimism over the further easing of restrictions amid lower COVID-19 cases, robust Q3 corporate earnings and higher-than-expected Q3 GDP growth. Furthermore, reports on rising manufacturing activity, increasing GIR and declining headline inflation in October, rising overseas Filipino (OF) remittances in September and the successful initial public offering of AllDay Marts, Inc. contributed to the rise in the benchmark index during the month.

In December, investors were initially optimistic over the improved growth outlook on the Philippines by S&P, Fitch Ratings, Asian Development Bank (ADB) and DBCC, and the country's aggressive vaccination campaign. Moreover, the lower inflation in November that supported the BSP's decision to keep policy rates unchanged, Congressional approval of the ₱5.024-trillion national budget for 2022 as well as news over the country's improvement in Bloomberg's pandemic resilience ranking also contributed to the uptick in the benchmark index. However, towards the end of the month, the rising trend was not sustained as the main index was weighed down by concerns over the agricultural and infrastructure damages by Typhoon Odette, surge in new Covid-19 cases, and the raising of mobility restrictions in January 2022. The year-end profit taking and expectations of a quicker-than-planned US Fed exit from its easy monetary policy likewise sent the PSEi tumbling on the last trading day of the year.

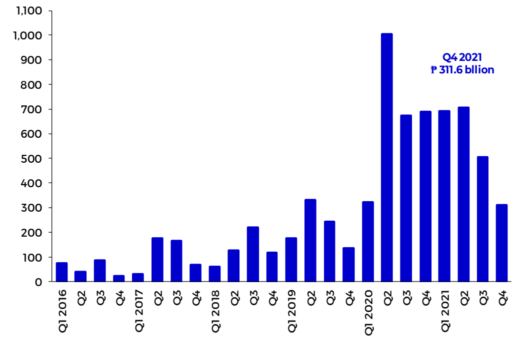
Other stock market indicators mirrored the general uptrend in the average PSEi during the quarter. In particular, the price-to-earnings (P/E) ratio of listed firms increased from 22.4 in end-September to 23.5 in end-December. Foreign investors also reverted to net buying of ₱84.0 billion in Q4 amid the sale of shares of Converge ICT Solutions[38] and Aboitiz Power Corporation[39]. However, total market capitalization fell by 5.4 percent from ₱19.1 trillion in end-September to ₱18.1 trillion on 31 December.

Government Securities. Results of the weekly T-bill auctions conducted in October - December 2021 continued to show market players' strong demand for GS with total subscription for the quarter amounting to around ₱461.6 trillion or about 3.1x the ₱150.0-billion aggregated original amounts on offer. Total oversubscription for the T-bill auctions in Q4 2021 reached ₱311.6 billion, lower than the ₱506.7 billion total oversubscription recorded in the previous quarter.

Robust demand for T-bills remains

Amid a healthy demand for T-bills, the BTr awarded in full the offered amounts in all of the auctions during the quarter. The BTr adjusted downward its borrowing program in December 2021 for its T-bill offerings to a mix of ₱5.0 billion, ₱3.0 billion, and ₱2.0 billion offer volumes for the 91-, 182-, and 364-day tenors, respectively, from a mix of ₱5.0 billion offer volume each for all tenors in October and November.

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



Source: Bureau of the Treasury

In addition, on the back of strong demand from the public, the BTr sold a total of ₱360 billion of Retail Treasury Bonds (RTBs) (around 12 times the initial planned issuance of ₱30 billion) with tenor of 5.5 year during the conclusion of the offer period on 26 November 2021.[40]

Sovereign Bond and Credit Default Swap (CDS) Spreads. In October, debt spreads widened due to negative external developments such as rising oil prices and geopolitical tensions.

Debt spreads widen in October and November

Debt spreads continued to expand in November despite loosening of quarantine measures across the country as a new variant of concern emerged and started to spread across the globe. In December, debt spreads narrowed as investors became more confident as the country's average daily new cases of COVID-19 dropped to below one thousand. Optimism over the holiday season spending, which is expected to

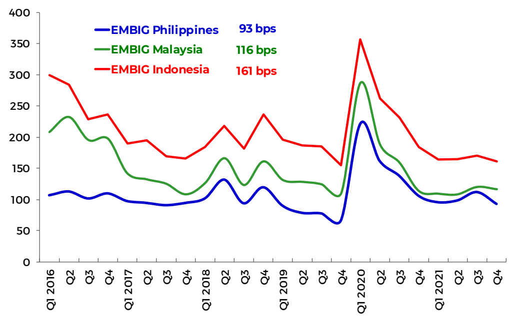
[38] Coherent Cloud Investments, Converge ICT Solutions' second biggest stockholder, sold ₱12.6-billion worth of shares which widened Converge's public float from 20.4 to 26.0 percent.
[39] JERA Co. Inc. ("JERA"), Japan's largest power generation company, acquired a 27 percent stake in Aboitiz Power Corporation (AboitizPower), valued at $1.463 billion, to promote clean and renewable energy in the country. This was reflected as a block sale totaling ₱79.5 billion.

[40] The public offer period for the 3-year RTBs was scheduled on 16-26 November 2021, while the settlement date is set on 2 December 2021.

boost the country's economic growth, likewise contributed to the narrowing of debt spreads.

As of 31 December 2021, the Emerging Market Bond Index Global (EMBIG) Philippines spread or the extra yield that investors demand to hold Philippine sovereign debt over U.S. Treasuries narrowed to 93 bps. This was tighter than the end-September level of 112 bps.

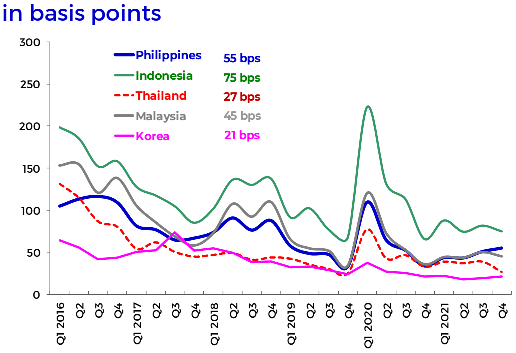
Chart 28. EMBIG Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

Meanwhile, the country's 5-year sovereign CDS increased to 55 bps from end-September's 51 bps. Against other neighboring economies, the Philippine CDS was narrower than Indonesia's 75 bps but wider than Malaysia's 45 bps, Thailand's 27 bps and Korea's 21 bps spreads.

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



Source: Bloomberg

Banking System

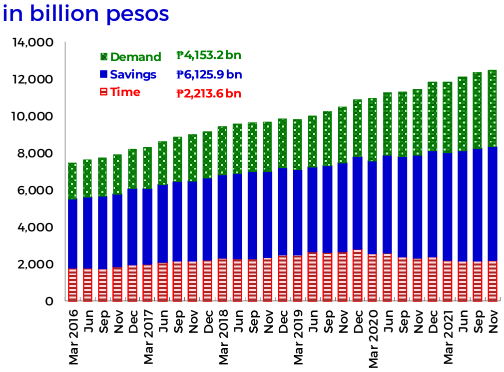
The Philippine banking system exhibited resilience and stability as the country's economic activities and financial transactions continued to recover from the disruption caused by the pandemic.

Banking system assets and deposits sustain moderate increase

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-November 2021 amounted to ₱12.5 trillion, 9.2 percent and 1.3 percent higher than the levels posted during the same period last year and in end-September 2021.[41]

Chart 30. Deposit Liabilities of Banks
in billion pesos



Source: BSP

[41] This refers to the total peso-denominated deposits of the banking system.

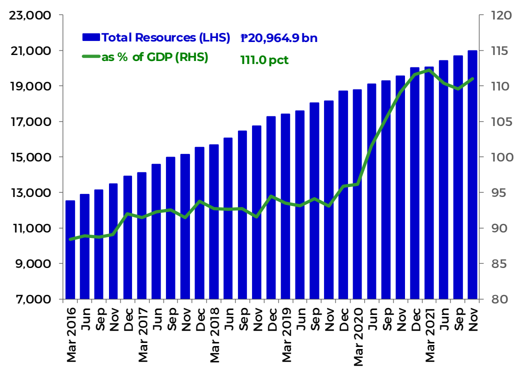
Meanwhile, foreign currency deposits owned by residents (FCD-Residents) settled at ₱2.2 trillion as of end-November 2021, 6.8 percent and 0.3 percent higher than the level reported a year ago and in end-September 2021.[42]

Institutional Developments. The total resources of the banking system grew by 7.1 percent to reach ₱21.0 trillion as of end-November 2021 from ₱19.6 trillion registered a year ago.

Total resources of the banking system expand year-on-year

Relative to the end-September 2021 level, the total resources of the banking system increased by 1.3 percent. As a percent of GDP, total resources stood at 111.0 percent.[43]

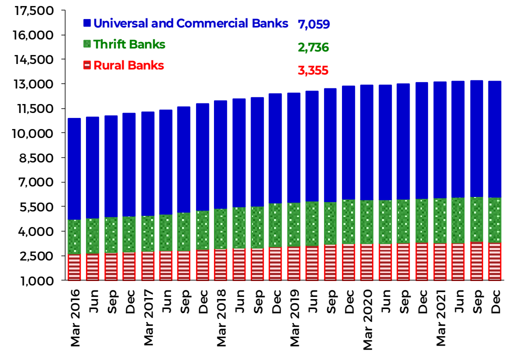
Chart 31. Total Resources of the Banking System
levels in billion pesos; share in percent



Source: BSP

The number of banking institutions (head offices) as of end-December 2021 declined to 506 offices from the 517 offices recorded in end-September 2021. The banks' head offices are comprised of 46 U/KBs, 47 TBs, and 413 rural banks (RBs). During the same period, the operating network (head offices and branches/agencies) of the banking system increased to 13,150 offices from 13,175 offices in end-September 2021.

Chart 32. Number of Banking Institutions



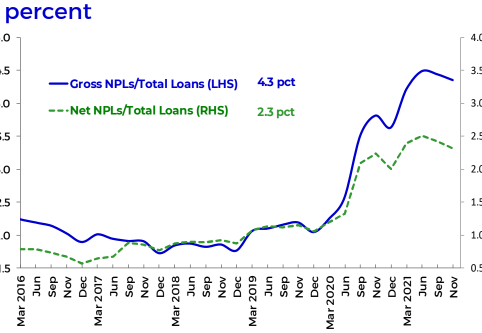
Source: BSP

In terms of asset quality, the Philippine banking system's gross non-performing loans (GNPL) ratio rose to 4.3 percent as of end-November 2021 relative to the 3.8 percent posted in November 2020, but was slightly lower than the 4.4 percent posted in September 2021.

NPLs rise but remain manageable

Similarly, the net non-performing loans (NNPL) ratio increased slightly to 2.3 percent as of end-November 2021 relative to the 2.2 percent registered in November 2020 but was slightly lower than the 2.4 percent registered in September 2021.

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



Source: BSP

[42] 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.
[43] GDP as of end-September 2021.

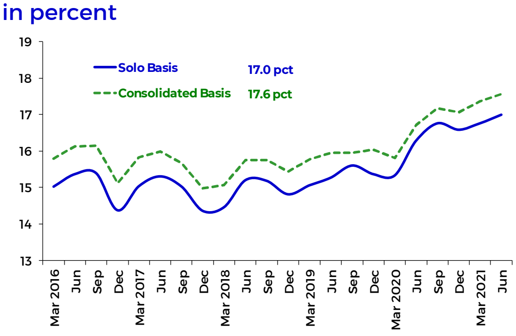
Compared with regional counterparts, the Philippine banking system's GNPL ratio was higher with respect to South Korea (0.5 percent), Malaysia (0.9 percent), Indonesia (3.0 percent) and Thailand (3.2 percent).[44]

Loan exposures of banks remained adequately covered with the banking system's NPL coverage ratio at 87.13 percent as of end-November 2021, marginally lower than the 87.16 percent recorded a year ago but higher than the 84.42 percent posted in September 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, 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 (15.9 percent) but lower than those of Malaysia (18.0 percent), Thailand (20.0 percent) and Indonesia (25.2 percent).[45]

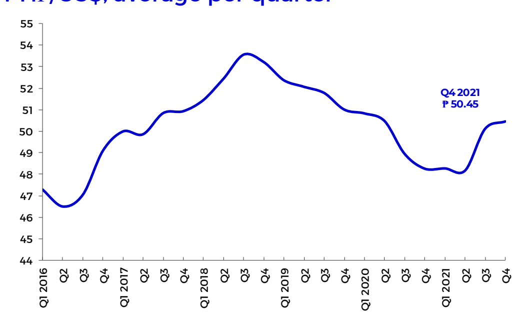
Exchange Rate

The peso averaged ₱50.45/US$1 in Q4 2021, depreciating marginally by 0.68 percent from the Q3 2021 average of ₱50.11/US$1 amid prospects of a faster pace of tightening by the US Federal Reserve (US Fed) and inflation concerns with the general increase in global oil prices during the quarter.

Peso depreciates amid prospects of a faster pace of tightening by the US Federal Reserve

On a y-o-y basis, the peso likewise depreciated by 4.33 percent relative to the ₱48.27/US$1 average in Q4 2020.[46]

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



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

In October, the peso depreciated by 1.20 percent to a monthly average of ₱50.75/US$1. The peso depreciated as sentiment was weighed down by concerns over (i) the US Federal

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

[45] Sources: South Korea (Domestic Banks' Total Capital Ratio, September 2021); Malaysia (Banking System's Total Capital Ratio, November 2021); Thailand (Commercial Banks' Capital Funds Percentage of Risk Assets, October 2021); and Indonesia (Commercial Banks' Regulatory Capital to Risk-Weighted Assets Ratio, September 2021).
[46] Dollar rates (per peso) or the reciprocal of the peso-dollar rates were used to compute for the percentage change.

Reserve's plan to taper its asset purchases following hawkish signals from some US Fed officials; (ii) the inflation impact of the continued increase in global oil prices due to supply-demand mismatches; (iii) the release of China's weaker-than-expected economic growth in Q3 2021; and (iv) the widening of the country's trade deficit in August on the back of rebound in imports.

Meanwhile, in November, the peso appreciated to ₱50.36/US$1, 0.78 percent higher than the average in October. The peso recovered amid positive market sentiment following (i) the release of strong Philippines PMI data for October 2021;[47] (ii) the rebound in the country's external trade in September;[48] (iii) the better-than-expected Philippine GDP growth for Q3 2021;[49] (iv) the increase in the country's gross international reserves (GIR) in October 2021[50]; (v) the easing of mobility restrictions in Metro Manila as COVID-19 cases continued to decline; and (vi) the NG's three-day massive vaccination drive to speed up the rollout of vaccine doses.[51]

The appreciation of the peso continued in December to an average of ₱50.25/US$1, 0.22-percent higher than the average in November. The peso appreciated on market optimism amid positive domestic developments, including: (i) the easing of inflation for the third straight month in November; (ii) the decline in unemployment rate in October; (iii) the rise in the PMI in November; and (iv) the seasonal increase in Overseas Filipino Workers (OFW) remittances amid the Christmas holiday.[52] In addition, the extension of the NG's three-day massive vaccination drive;[53] the BSP's decision to keep policy rates unchanged; gains posted in the local stock market; as well as the government's move to raise its growth target[54] provided support to the peso. 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 31 December 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 0.56 percent in Q4 2021 lower than the 0.76 percent registered in the previous quarter.[56] The peso's volatility during the review quarter was also lower than the volatility of most currencies in the region.

On a real trade-weighted basis, the peso gained external price competitiveness in Q4 2021 against the basket of currencies of all trading partners (TPI) and trading partners in developing (TPI-D) countries relative to Q3 2021.[57] This was indicated

[47] The country's factory activity in October 2021 was the strongest in seven months with the PMI inching up to 51.0 from 50.9 a month ago.
[48] Imports rose by 24.8 percent y-o-y to $10.67 billion in September while exports increased by 6.3 percent to $6.68 billion. This brought the trade deficit to $4.0 billion in September, wider than the deficit of $3.51 billion in August and the $2.27 billion deficit a year earlier.
[49] GDP expanded by 7.1 percent y-o-y in Q3 2021, slower than the 12 percent growth in the previous quarter.
[50] The GIR as of end-October 2021 rose by 1.3 percent to $107.9 billion from $106. 6 billion a month earlier, and by 4.0 percent from the $103.8 billion a year earlier.
[51] A three-day massive vaccination drive was held from 29 November to 1 December 2021 to administer 15 million vaccine jabs during the three-day event.

[52] Inflation rate slowed down to 4.2 percent in November from 4.6 percent in October. The unemployment rate fell to 7.4 percent in October from 8.9 percent in September. Meanwhile, the Philippine PMI rose to 51.7 in November from 51.0 n October.
[53] The two-day extension of the national vaccination drive allowed the government to fully vaccinate 37.334 million people as of 2 December 2021.
[54] On 14 December 2021, the DBCC upgraded its growth target for 2021 to 5.0-5.5 percent from the 4.0-5.0 percent set in August.
[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,

by the decrease in the real effective exchange rate (REER) index of the peso by 0.25 percent and 0.73 percent, respectively.

Meanwhile, against the basket of currencies of trading partners in advanced (TPI-A) countries, the REER index of the peso increased by 0.64 percent.[58]

Relative to Q4 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 1.54 percent and 2.54 percent, respectively. Meanwhile, against the basket of currencies of TPI-A countries, the REER index of the peso increased by 0.32 percent.

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 (NG) recorded a ₱1,332.1 billion fiscal deficit for the first eleven months of 2021, which is 25-percent higher than recorded in 2020.

NG records a fiscal deficit for January-November 2021

Netting out the interest payments in NG expenditures, the primary deficit amounted to ₱930.0 billion, thirty percent higher than the amount recorded in January – November 2020.

Table 17. National Government Fiscal Performance
in billion pesos

	2020		2021		Growth Rate	
	Nov	Jan-Nov	Nov	Jan-Nov	Nov	Jan-Nov
Surplus/(Deficit)	-128.3	-1,068.9	-128.7	-1,332.1	10.3	24.6
Revenues	245.8	2,617.4	284.0	2,774.2	15.6	6.0
Expenditures	374.1	3,686.3	412.7	4,106.3	0.3	11.4

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

Revenues increased by 6 percent to ₱2,774.2 billion in January – November 2021 compared to ₱2,617.4 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱1,915.8 billion and ₱583.3 billion, respectively. Revenue collections by the BIR and BOC were higher by 7.2 percent and 18.5 percent, respectively. Meanwhile, income from the BTr decreased by 42.9 percent to ₱120.6 billion.

Expenditures for the period in review amounted to ₱4,106.3 billion, 11.4 percent higher than the expenditures in January – November 2020. Excluding interest payments, expenditures went up by 11.2 percent to ₱3,704.2 billion. Meanwhile, interest payment was 13.2 percent higher compared to its year-ago level, reaching ₱402.1 billion in January – November 2021.

IV. External Developments

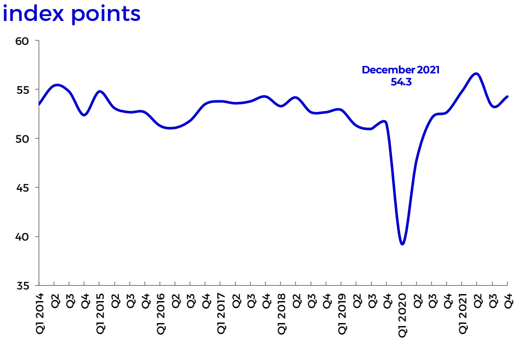
The JP Morgan All-Industry Output Index expanded at a slightly slower rate in December to 54.3 from 54.8 in November as growth of output, new business, and employment moderated amid the rapid spread of the COVID-19 Omicron variant.

Global economic output expands slower amid rising COVID-19 cases

Output growth decelerated in all but one of the 12 countries covered by the survey. China's output expanded faster as international trade continued to recover owing to higher seasonal holiday demand. By contrast, output in Germany contracted most after 17 consecutive months of expansion as rising COVID-19 cases weighed on business activities in the manufacturing and services sectors.[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 growth expanded by 2.3 percent in Q3 2021, slower than the 6.7-percent expansion recorded in Q2 2021. On a y-o-y basis, real GDP expanded by 4.9 percent in Q3 2021 from a 12.2-percent growth in the previous quarter. The q-o-q expansion in real GDP during Q3 2021 reflected increases in private inventory investment, personal consumption expenditures, state and local government spending, and nonresidential fixed investments which were partly offset by decreases in residential fixed investments and federal government spending as well as the widening trade deficit amid a surge in imports and contraction in exports.[60]

US manufacturing activity expands slower as persistent supply constraints and rising prices curb demand growth

The US manufacturing PMI declined to 58.7 percent in December from 61.1 percent in November as new orders, production, and employment expanded at subdued rates amid supply constraints and rising prices. Inventory of raw materials grew faster as supplier deliveries continued to improve although backlogs and customers inventories continued to deteriorate as transportation and delivery constraints persisted due to the shortage of truck drivers and continued tightness of the labor market.[61]

The unemployment rate declined to 3.9 percent in December from 4.2 percent in November. Total nonfarm payroll employment rose by 199,000, with notable job gains in leisure and hospitality, professional and business services, manufacturing, construction, and transportation and warehousing.

[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 Quarter 2021 (Third Estimate); Corporate Profits, Third Quarter 2021 (Revised Estimate)" news release, 22 December 2021, https://www.bea.gov/sites/default/files/2021-12/gdp3q21_3rd.pdf.

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

Meanwhile, y-o-y inflation increased to 7.0 percent in December from 6.8 percent in November due to higher inflation for food, new vehicles, used cars and trucks, apparel, medical care commodities, and non-energy related services.

The Conference Board Consumer Confidence Index rose to 115.8 in December from 111.9 in November as consumers' short-term outlook for income, business, and labor market conditions improved amid weaker concerns on inflation and COVID-19. The present situation index remains high albeit lower, suggesting that the US economy has maintained its momentum in the latter part of 2021. Meanwhile, the Thomson-Reuters/University of Michigan Index of Consumer Sentiment rose to 70.6 in December from 67.4 in November due partly to the announced raise in Social Security payments as well as increases in expected wage among the youngest workers.[62]

Euro Area. On a q-o-q basis, real GDP in the euro area expanded by 2.2 percent in Q3 2021, slightly higher than the 2.1-percent (revised) growth in Q2 2021. On a y-o-y basis, real GDP grew by 3.7 percent in Q3 2021 from 14.2 percent (revised) in Q2 2021.[63]

Economic activity in the euro area eases

The composite PMI for the euro area fell to 53.3 in December from 55.4 in November, reflecting the impact of rising COVID-19 cases on demand conditions in the manufacturing and service sectors. [64]

Inflation in the euro area is seen to increase to 5.0 percent in December from 4.9 percent in November due to expectations of higher inflation for food, alcohol, and tobacco as well as non-energy industrial goods.[65] The seasonally adjusted unemployment rate declined to 7.2 percent in November from 7.3 percent in October.

The European Commission's Economic Sentiment Indicator (ESI) in the Euro Area fell to 115.3 in December from 117.5 in November, driven by the decline in confidence in services and retail trade, as well as among consumers.

Japan. On a q-o-q seasonally adjusted basis, real GDP contracted by 0.9 percent in Q3 2021, slower than the revised growth of 0.5 percent in Q2 2021. Despite the growth in public domestic demand, the decline in private demand weighed on economic activity during the quarter.[66]

Manufacturing output in Japan expands, albeit slower

The seasonally adjusted manufacturing PMI marginally declined to 54.3 in December from 54.5 in November due mainly to the slower expansion in output and new orders as rising cost burdens, material shortages, and persistent delivery delays weighed on overall production capacity.[67]

Meanwhile, inflation rose to 0.6 percent in November from 0.1 percent in October owing to higher inflation for food; fuel, light, and water charges; clothes and footwear; and education. The seasonally adjusted unemployment rate went up to 2.8 percent in November from 2.7 percent in October.

China. Real GDP growth in China slowed to 4.9 percent in Q3 2021 from 7.9 percent in Q2 2021 as power outages, supply chain disruptions, and surging input costs suppressed economic activity in the industrial and services sectors.

[62] University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/
[63] Preliminary Estimate. Eurostat news release 130/2021 dated 16 November 2021.
[64] Final Estimate. Markit Eurozone PMI, http://www.markiteconomics.com/
[65] Flash Estimate. Eurostat news 2/2022 dated 7 January 2022
[66] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/.
[67] Jibun Bank Japan Manufacturing PMI, http://www.markiteconomics.com/

Chinese manufacturing activity returns to expansion territory

China's seasonally adjusted manufacturing PMI reverted into expansionary territory with a PMI reading of 50.9 in December from 49.9 in November. Output, new business, and purchasing activity expanded faster owing to improving external demand conditions and easing domestic quarantine restrictions.[68]

Inflation fell to 1.5 percent in December from 2.3 percent in November as prices of food, tobacco, and alcohol decreased.

India. Real GDP in India expanded by 8.4 percent in Q3 2021 from a 20.1-percent growth in the previous quarter due to output gains recorded 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.

Economic activity in India expands at a slower pace

The composite PMI declined to 56.4 in December from 59.2 in November amid the broad-based slowdown in output, employment, and new orders.

Meanwhile, inflation in India rose to 5.6 percent in December from 4.9 percent in November in view of higher prices for food and beverages as well as clothing and footwear.

ASEAN Region. The Nikkei ASEAN Manufacturing PMI rose to 52.7 in December from 52.3 in November as demand conditions continued to improve amid easing quarantine restrictions.

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

Manufacturing activity in ASEAN expands quicker amid improving demand conditions

With the exception of Thailand and Myanmar, the manufacturing industries of all member-countries recorded faster expansions as recovering demand and easing restrictions support the region's recovery. Singapore recorded the fastest growth followed by Indonesia, Malaysia, Vietnam, and the Philippines. By contrast, manufacturing conditions in Myanmar further deteriorated as political unrest continued to impede the manufacturing sector's recovery. Similarly, the manufacturing PMI of Thailand contracted anew owing mainly to rising input prices, material shortages, and port congestion. Overall, ASEAN manufacturers noted that inflationary pressures in the region intensified further as supply constraints and delivery delays pushed input prices higher.[69]

Policy Actions by Other Central Banks. On 16 December, the Bank of England raised the Bank Rate by 15 bps to 0.25 percent to address persistent domestic cost and price pressures amid the economy's continued recovery. In view of rising inflation and improving economic prospects, the Monetary Policy Committee (MPC) judges that it would be necessary to further increase the Bank Rate in the coming months.

Bank of England (BoE) raises the Bank Rate to address rising inflation

Similarly, on 15 December 2021, the Federal Reserve announced that it will accelerate the tapering of its asset purchases to ease inflationary pressures and ensure the US economy's sustainable long-term growth.

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

Meanwhile, aside from the BSP, the Reserve Bank of Australia (RBA), Reserve Bank of India (RBI), Bank of Canada (BOC), Federal Reserve, Bank Indonesia (BI), Central Bank of the Republic of China (Taiwan), European Central Bank (ECB), Bank of Japan (BOJ), and Bank of Thailand (BOT) maintained their key policy rates during their recent monetary policy meetings in December to sustain the recovery of their respective economies amid rising global inflation.

The People's Bank of China (PBOC) announced on 20 December 2021 that the one-year loan prime rate will be reduced by 5 bps to 3.80 percent from 3.85 percent as the continued slump in the property sector and reimposition of quarantine restrictions due to the spread of the COVID-19 Omicron variant weighed on the economy's growth and recovery prospects. In addition, on 6 December 2021, the PBOC announced an additional 50-bp cut in the RRR, effective 15 December 2021. The reduction in the RRR will release US$188 billion (1.2 trillion yuan) in long-term liquidity to prop up China's slowing economy amid the continued debt distress in the property sector. This brings the weighted average RRR of financial institutions from 8.9 percent down to 8.4 percent.

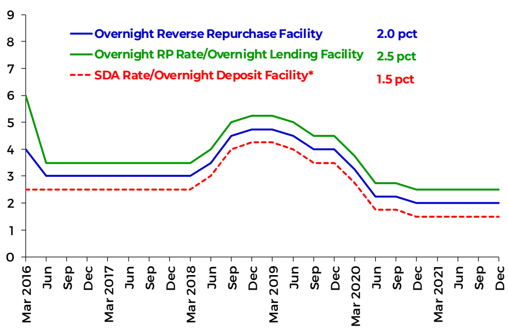
V. Monetary Policy Developments

At its monetary policy meetings on 18 November 2021 and 16 December 2021, 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 its 16-December policy meeting, the BSP noted that while the latest baseline forecasts for 2021 and 2022 are slightly higher from the previous assessment round owing to the higher-than-anticipated inflation outturn in November, the projected inflation path remains within the inflation target band of 2-4 percent over the policy horizon. Average inflation is seen to settle close to the midpoint of the target range in 2023. Moreover, inflation expectations continue to be anchored to the target level.

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 December monetary policy meeting, the BSP observed that the risks to the inflation outlook also continue to lean towards the upside for 2022 while remaining broadly balanced for 2023. Upside risks are linked mainly to the potential impact of continuing constraints on the supply of key food items and petitions for transport fare hikes. Strong global demand amid lingering supply-chain bottlenecks could also exert further upward pressures on international commodity prices. The effective implementation of non-monetary interventions to ensure adequate domestic food supply must be sustained in order to mitigate potential supply-side pressures on inflation.

Meanwhile, the emergence of new COVID-19 variants continues to pose downside risks to the outlook for growth and inflation. Nonetheless, the BSP observed that economic growth now appears to be on firmer ground, supported by the Government's accelerated vaccination program and calibrated relaxation of quarantine protocols. In particular, credit activity has gradually recovered in recent months, reflecting improved business activity and market sentiment.

On balance, the BSP sees enough scope to keep a patient hand on the BSP's policy levers owing to a manageable inflation environment. At the same time, downside risks to the economic recovery emanate from the emergence of new COVID-19 variants as well as the potential tightening of global financial conditions. Hence, preserving ongoing monetary policy support at this juncture shall help sustain the economy's momentum over the next few quarters.

Looking ahead, the BSP affirms its support for the economy while keeping an eye on the potential risks to future inflation. The BSP stands ready to respond to potential second-round effects arising from supply-side pressures, in line with its price and financial stability objectives.

VI. Inflation Outlook

BSP Inflation Forecasts

The latest baseline forecasts indicate that inflation could settle back to within the government's target range of 3.0 percent ± 1.0 ppt at 3.4 percent for 2022 and 3.2 percent for 2023.

Table 18. Inflation Forecasts
in percent

	Q3 2021 Inflation Report [1]	Q4 2021 Inflation Report [2]
2022	3.3	3.4
2023	3.2	3.2

[1] Baseline forecasts from 23 September 2021 monetary policy meeting
[2] Baseline forecasts from 16 December 2021 monetary policy meeting

The inflation forecast for 2022 is slightly higher due mainly to the higher global crude oil prices, the faster projected expansion in domestic activity, and higher-than-expected inflation outturn in Q4 2021 owing to upward adjustments in the prices of selected food items and electricity rates. Meanwhile, forecast for 2023 is unchanged compared to the previous round.

Inflation is seen to further decelerate between the low-end and mid-point of the target range in Q1 2022 due to negative base effects as pork and non-oil prices moderate from their high levels in the previous year. Inflation is then expected to accelerate close to the high-end of the target range by Q3 2022 owing to the projected recovery in domestic economic activity and the reversal to positive base effects, before decelerating close to the midpoint of the target by 2023.

The risks to the inflation outlook appear to be slightly on the upside for 2022 but are broadly balanced for 2023. The potential impact of weather disturbances on the prices of key food items and petitions for jeepney fare hikes, due to higher oil prices, are the major upside risks over the near term. The uptick in global prices of non-oil commodities owing to strong global demand amid supply chain bottlenecks along with the possibility of a prolonged shortage in domestic pork supply further provide upward price pressures. 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 spread of new COVID-19 variants are the main sources of downside risks.

Inflation is projected to settle within the target range in 2022 and 2023

Demand Conditions. The domestic economy grew by 7.1 percent in Q3 2021, slower than the 12.0-percent growth in the previous quarter, but a reversal of the 11.6-percent contraction in the same quarter a year ago.

On the production side, the industry sector continued to improve with the expansion of manufacturing. Likewise, the services sector posted growth, driven mainly by strong performance of trade. Meanwhile, agriculture declined modestly with the African Swine Fever (ASF) continuing to lower hog production and the drop in some agricultural crops. On the expenditure side, higher household spending contributed most to GDP growth. Government expenditure likewise posted expansion. Capital formation grew, albeit significantly slower from the previous quarter, with the increase in fixed capital investments.

GDP is likely to expand further in Q4 2021 with the adoption of less strict quarantine classifications in the country. The economic impact of the containment measures is also expected to be less severe as said measures are less restrictive compared to the form of lockdowns implemented in 2020.
This is evidenced by the upward trend

in mobility indicators and increase in purchasing managers' indices. The domestic economy is seen to settle within the DBCC's revised 5.0 – 5.5 percent target for 2021.[70]

Domestic economic activity is projected to return to its pre-pandemic level in 2022

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.

The said assessment is consistent with the assumed gradual easing of quarantine measures with the complete lift off in 2022 following the mass deployment of vaccines. The increasing availability of vaccines 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. Election-related spending is also expected to contribute to domestic economic activity in the first half of 2022.

The continued expansion in global GDP will likewise support the country's growth trajectory. The trade-weighted world GDP growth of the country's major trading partners has recovered above its end-2019 level as of Q3 2021 due to the strong recovery in the Eurozone and the US. Nonetheless, global growth is seen to remain below the pre-pandemic trend up to end-2023 due to potential scarring effects.

Over the near term, growth in China and US could be weighed down by higher global energy and non-energy prices, which have been adversely affected by supply and transport bottlenecks. In addition, the slow vaccine rollout in various Asian economies could further delay the reopening of factories in the region, which will further contribute to disruptions in the supply chain of semi-conductors and other manufactured goods.

Nonetheless, the global economy is still projected to grow by 4.9 percent in 2022 and by 3.6 percent in 2023 on the back of strong infrastructure and social spending in the US and other advanced economies, which could offset the output losses from emerging market and developing economies. The IMF anticipates that the balance of risks to global outlook remains on the downside, reflecting the potential spread of new COVID-19 variants, supply chain disruptions causing upward price pressures and faster monetary policy normalization, and a smaller-than-assumed fiscal package in the US.

Supply Conditions. Global non-fuel prices remained elevated at the start of the quarter but are expected to decelerate in the remaining months of the year. The elevated prices are due to the impact of higher oil prices, fertilizer prices, weather disturbances, and freight costs on food prices.

Meanwhile, global food price inflation remained high owing to increased prices of wheat, maize, and soybeans. The continued price pressures on agricultural products were driven by droughts in major food exporting countries, higher freight costs due to supply chain bottlenecks, the pass-through of higher oil prices, and the impact of the increase in global fertilizer prices.

Forecasts from the IMF point to a transitory increase in global non-energy commodity prices due to droughts in major producers, export restrictions in key country sources, and stockpiling of food supplies.

Global crude oil prices increased, driven by the decision of OPEC and Russia to maintain its scheduled production increase of 0.4 million barrels per day until September 2022. In addition, prices

[70] Based on the 14 December 2021 DBCC meeting on review of growth assumptions for FY 2021

of global natural gas have risen by a factor of 3 to 4 times in Europe and Asia, reflecting the onset of winter season in the Northern Hemisphere and the lower global inventory levels with the recovery in global industrial production. Higher natural gas prices have caused spillover effects in the crude oil and coal market as alternative energy sources for heating and power generation amid tight supplies.

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 second half of 2022. The BSP continues to estimate a negative output gap for the Philippines in Q3 2021. This reflects the potential adverse impact of the pandemic on actual economic activity and the country's production capacity. This also implies that the economy will likely operate below its full employment capacity in the coming quarters. Nonetheless, this will be temporary as firms and households gradually adjust to the post-pandemic operating environment. The output gap is expected to close in late 2022, returning to positive levels in 2023.

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 January 2022 to December 2023;

2) NG fiscal deficits for 2022 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; and

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 October 2021 WEO Update.

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 2022. Compared to the previous quarter, the higher forecast for said year was due mainly to higher-than-expected inflation outturn in Q4 2021 owing to upward adjustments in the prices of selected food items and electricity. Meanwhile, inflation projection for 2023 is broadly unchanged.

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

[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 risks to the inflation outlook also continue to lean towards the upside for 2022 while remaining broadly balanced for 2023

Global non-oil prices pose upside risks to inflation in the near term. Non-energy prices have accelerated in 2021 due to stronger demand following the recovery of global economic activity as well as supply chain disruptions among key commodities. In addition, potential spillovers from higher global energy prices could further exacerbate the global supply bottlenecks which could further result in elevated non-energy prices.

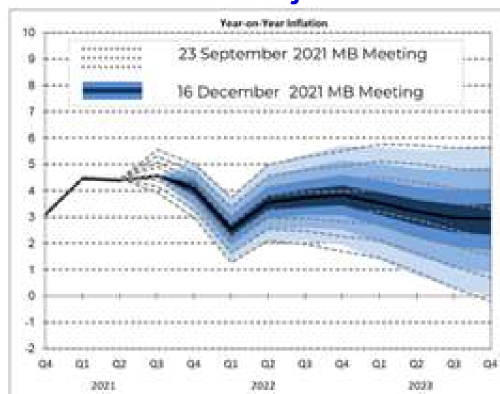
On the domestic front, the prices of key food items like fruits, vegetables, and fish could rise in the near term due to weather-related disturbances. PAGASA projects around two to eight tropical cyclones to develop in the Philippine area of responsibility from December 2021 to May 2022 which could affect local supply and distribution, thereby pushing the prices of key food items upward.

Pork prices in the country could remain elevated until 2022 if there are no significant improvements in domestic hog production amid the expiration of E.O. 134 and 135, which temporarily lowered tariff rates and expanded the volume of pork imports. Delays in the arrivals of pork imports due to supply chain bottlenecks and more stringent non-tariff measures (e.g., strict market restrictions on the MAV Plus and labelling requirements) will also affect adversely domestic pork supply.

Higher jeepney fares are a potential source of second-round effects from higher oil prices. Transport groups have filed for a nationwide increase in the minimum jeepney fares to the Land Transportation Franchising and Regulatory Board (LTFRB) in October 2021. The petition asks for a provisional increase in jeepney fares, which accounts for 1.9 percent of the CPI basket, from ₱9.00 to ₱12.00 (33.3 percent) due to the continued increase in diesel prices.

The potential impact on domestic economic growth prospects of delays in the easing of quarantine measures as well as a weaker-than-expected global recovery with the rapid spread of new and more infectious COVID-19 variants are the main sources of downside risks.

Chart 38. Inflation Projection



Source: BSP estimate

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 ppt target range is 53.3 percent for 2022 and 52.4 percent for 2023. The probability of inflation breaching the low end of the target range is 14.8 percent for 2022 and 20.3 percent for 2023. The probability of inflation breaching the high end of the target range is 31.9 percent for 2022 and 27.3 percent for 2023.

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

Confidence Interval	2022	2023
80%	2.2 - 4.6	1.2 - 5.1
90%	1.9 - 5.0	0.6 - 5.6

Table 20. Probability Distribution of Inflation Forecasts

	Pr(<2%)	Pr(2-4%)	Pr(>4%)
2022	14.8%	53.3%	31.9%
2023	20.3%	52.4%	27.3%

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

The shaded area 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 Monetary Board (MB) maintained the BSP's monetary policy stance during the quarter. At the last meeting of the MB for the year held on 16 December 2021, baseline forecasts indicated a slightly higher inflation path over the policy horizon. 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 2022 but remained broadly balanced for 2023. Upside risks are linked mainly to the potential impact of continuing constraints on the supply of key food items and petitions for transport fare hikes. Strong global demand amid lingering supply-chain bottlenecks could also exert further upward pressures on international commodity prices. Meanwhile, the emergence of new COVID-19 variants continues to pose downside risks to the outlook for growth and inflation.

Recent indicators also suggested that economic growth now stood on firmer ground. In particular, credit activity has gradually recovered in recent months, reflecting improved business activity and market sentiment on the back of the Government's accelerated vaccination program and the calibrated relaxation of quarantine protocols.

On balance, there remains enough scope to keep a patient hand on the BSP's policy levers owing to a manageable inflation environment. The sustained implementation of non-monetary interventions should help ensure adequate domestic food supply and thereby mitigate further supply-side pressures on inflation. At the same time, preserving ongoing monetary policy support shall help sustain the economy's momentum over the next few quarters, especially as downside risks to the economic recovery continue to emanate from the emergence of new COVID-19 variants as well as the potential tightening of global financial conditions.

Looking ahead, the BSP affirms its support for the economy while keeping an eye on the potential risks to future inflation. The BSP stands ready to respond to potential second-round effects arising from supply-side pressures, 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.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent) RRP Overnight	Levels (in percent) RP Overnight	Monetary Policy Decisions
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.
			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 rates on term RRPs, RPs, and SDAs were also left unchanged.
14 Jun 2012	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4.0 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.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
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.
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)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
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-bp-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)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
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 13 May 2021 24 Jun 2021 12 Aug 2021 23 Sep 2021 18 Nov 2021 16 Dec 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:

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

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