II. Current Developments

Overview of current developments

Headline inflation rise further in July 2022. Inflation continued to increase, registering at 6.4 percent in July 2022, the highest recorded since October 2018, from 6.1 percent in the previous month. The resulting year-to-date average inflation of 4.7 percent was higher than the National Government's target range of 2.0-4.0 percent for the year. The further rise in the July inflation was due mainly to supply constraints particularly in food and the continued elevated prices of oil in the international market.

Oil prices in the international market remain highly volatile given uncertainties. Dubai crude oil prices have mostly declined in July and, thus far, in August due mainly to concerns over weaker demand prospects. Nonetheless, oil prices have remained elevated and highly volatile. Significant uncertainties arising from the Russia-Ukraine conflict and potential supply disruptions continue to exert upward pressure on oil prices.

Inflation expectations are above target in 2022 and 2023 but remain within target in 2024. The BSP's survey of private sector economists for August 2022 showed that mean inflation forecasts for 2022 and 2023 were higher than the inflation target range at 5.4 percent and 4.2 percent, respectively. Meanwhile, mean inflation forecast for 2024 remained within the target range at 3.7 percent.

The domestic economy sustains growth in Q2 2022 but at a slower rate. Real GDP expanded by 7.4 percent in Q2 2022, slower than 8.2 percent (revised) and 12.1 percent a quarter- and year-ago. Under the expenditure approach, household consumption, government spending and investments grew by 8.6 percent, 11.1 percent and 20.5 percent, respectively. Under the production approach, service, industry and agriculture sectors expanded by 9.1 percent, 6.3 percent and 0.2 percent, respectively.

Nonetheless, other demand indicators still show optimism for economic expansion. The manufacturing sector's preliminary average capacity utilization rate improved to 71.1 percent in June 2022 from the revised month-ago rate of 70.9 percent. Similarly, the preliminary composite Purchasing Managers' Index (PMI) in July 2022 remained in expansion territory at 53.4 index points albeit lower than the 56.0 index points posted in the previous month.

Labor market conditions also continue to recover. Unemployment rate in June 2022 stood at 6.0 percent from 7.7 percent a year ago. However, this remained higher than the January 2020 pre-pandemic rate of 5.3 percent. Meanwhile, following the minimum-wage review across regions, 16 new wage orders have been approved by their respective regional wage boards for May and June. The average increase for the 16 regions was seen at 13.6 percent.

Domestic financial conditions remain supportive of economic recovery. Preliminary data showed that domestic liquidity in June 2022 remained unchanged from a month ago at 6.9 percent. Meanwhile, bank lending grew at a faster pace of 12.0 percent in June from 10.7 percent a month ago. In the domestic bond market, primary auctions continue to be oversubscribed. The average interest rate for the 91-day Treasury bill declined amid strong demand while that for the 182-day and 364-day tenors rose. In contrast, secondary market GS yields declined generally, particularly in the long end of the curve, following a strong buying activity.

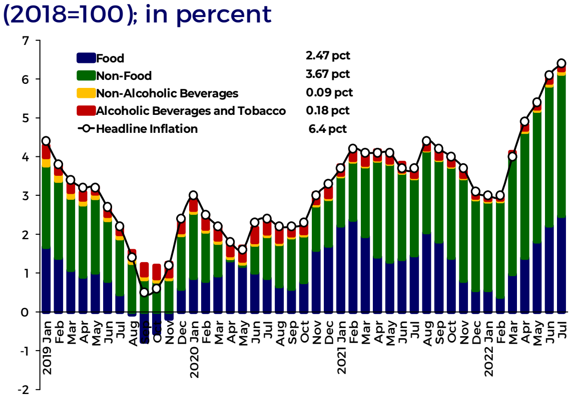
Global economy sustains recovery at a more moderate pace. Global economic activity expanded at a slower rate in July 2022. This reflected contractions in US, Germany and Italy which were mitigated by improvements in China, India, and Brazil. The JP Morgan All-Industry Output Index fell to 50.8 index points in July from 53.5 points. Moreover, in the July 2022 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) downgraded further its full-year economic growth projections for 2022 and 2023 to 3.2 percent and 2.9 percent respectively, relative to the April WEO forecasts. Amid these developments, majority of central banks raised their respective policy rates since July 2022 to temper inflationary pressures. In contrast, the Bank of Japan and Bank Indonesia maintained their respective accommodative monetary settings.

1. Prices[11]

Headline inflation. Year-on-year (y-o-y) headline inflation rose further to 6.4 percent in July 2022 from 6.1 percent in June 2022 and 3.7 percent in July 2021. This was also the highest recorded inflation since October 2018. The resulting year-to-date average inflation of 4.7 percent is above the NG's average inflation target range of 2.0-4.0 percent for the year. On a month-on-month (m-o-m) seasonally-adjusted basis, inflation moderated to 0.6 percent in July from 1.0 percent in June. Inflation of heavily-weighted food and non-alcoholic beverages rose due mainly to supply constraints and still elevated oil prices in the international market.

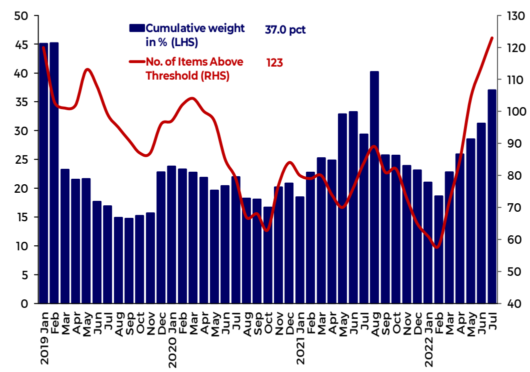
The rise in headline inflation was also reflected in the increase in the number of CPI Items with inflation rate above threshold, which went up to 123 items (out of 315 total CPI items) in July 2022 using the 6-digit level CPI from 114 items in the previous month. These 123 items accounted for 37.0 percent of the total CPI weight, from 31.2 percent in June 2022. By contrast, the number of CPI items with inflation rate below target declined further to 108 in July 2022 from 116 in the previous month. The remaining 84 items in July 2022 from 85 items in June 2022 have inflation rate within target.

Chart 2. Headline Inflation
(2018=100); in percent



Source: Philipine Statistical Authority (PSA), BSP

Chart 3. CPI Items with Inflation Rates Above Threshold (2018=100)



Source: PSA, BSP staff estimates

Food inflation. Inflation for food and non-alcoholic beverages as well as alcoholic beverages and tobacco rose to 6.9 percent and 8.5 percent, respectively in July 2022, faster than its previous month's rate. Heavily weighted food items namely, meat, cereals, fish and sugar were among the drivers of higher food inflation in July. The higher food inflation could be attributed to some tightness in supply partly brought about by adverse weather conditions.

Non-food inflation. Non-food inflation rose to 6.1 percent in July 2022 from 6.0 percent in June 2022 and 3.3 percent in July 2021. Double-digit transport inflation rates continued to climb as the slowdown in fuel inflation was offset by higher transport fares. Likewise, inflation rates for restaurant and accommodation services, recreation, sports and culture, clothing and footwear, personal care and

[11] The 2018-based series for core inflation is being reviewed by the Interagency Committee on Price Statistics (IACPS).

miscellaneous goods and services, as well as furnishings, household equipment and routine household maintenance also went up, contributing to the increase.

Table 11. Inflation rates for Selected Food Items (2018=100)

year-on-year; in percent

Commodity	Jul 2021	Jun 2022	Jul 2022
Food and Non-Alcoholic Beverages	**3.9**	**6.0**	**6.9**
Food	4.2	6.4	7.1
Cereals and Cereal Products	-0.7	4.1	4.5
Cereals	-1.7	3.4	3.6
Rice	-2.2	2.0	2.1
Corn	7.3	24.7	27.6
Flour, Bread and Other Bakery Products, Pasta Products, and Other Cereals	1.8	5.7	6.8
Meat and Other Parts of Slaughtered Land Animals	13.5	8.1	9.9
Fish and Other Seafood	7.7	6.7	9.2
Milk, Other Dairy Products, and Eggs	0.5	2.7	4.5
Oils and Fats	5.6	15.5	18.4
Fruits and Nuts	-3.5	1.1	3.6
Vegetables Tubers, Cooking Bananas and Pulses	7.9	14.4	5.6
Sugar, Confectionery and Desserts	1.0	10.9	17.6
Ready-Made Food and Other Food Products, N.E.C.	0.6	4.3	5.2
Non-Alcoholic Beverages	0.9	2.5	3.1
Alcoholic Beverages and Tobacco	**9.3**	**7.8**	**8.5**

Source of Basic Data: PSA, BSP

Table 12. Inflation Rates for Selected Non-Food Items (2018=100)

year-on-year, in percent

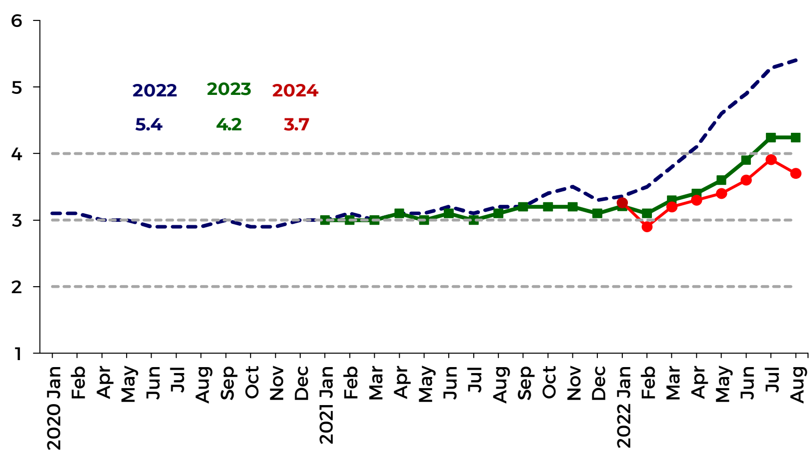
Commodity	Jul 2021	Jun 2022	Jul 2022
Non-Food	**3.3**	**6.0**	**6.1**
Clothing and Footwear	1.9	2.2	2.5
Housing, Water, Electricity, Gas and Other Fuels	2.7	6.6	5.7
Electricity, Gas, and Other Fuels	6.2	18.3	14.5
Furnishings, Household Equipment & Routine Household Maintenance	2.1	2.9	3.1
Health	3.9	2.6	2.4
Transport	7.1	17.1	18.1
Passenger Transport Services	4.7	2.9	7.2
Information anf Communication	0.5	0.5	0.5
Recreation, Sport and Culture	-0.6	1.9	2.2
Education Services	1.0	0.6	0.6
Restaurant and Accommodation Services	3.8	2.8	3.4
Financial Services	43.3	0.0	0.0
Personal Care and Miscellaneous Goods and Services	2.3	2.6	2.8

Source of Basic Data: PSA, BSP

Private sector economists' inflation forecasts. Results of the BSP's survey of private sector economists for August 2022 showed higher mean inflation forecast for 2022 at 5.4 percent from 5.3 percent in the July 2022 survey.[12] By contrast, the mean inflation forecast for 2023 was unchanged at 4.2 percent. Meanwhile, mean inflation forecast for 2024 was lower at 3.7 percent from 3.9 percent.

Chart 4. BSP Private Sector Economists' Survey

mean forecast for full year; in percent



*Based on forecasts provided by 23 respondents. The survey was conducted from 5-11 August 2022.
Source: BSP

[12] There were 23 respondents in the BSP's survey of private sector economists in August 2022. The survey was conducted from 5 to 11 August 2022.

Analysts expect inflation to breach the upper-end of the government's target range in 2022, with risks to the inflation outlook tilted to the upside amid lingering inflationary pressures brought about by global supply chain disruptions, second-round effects, and continued depreciation of the peso against the US dollar. Meanwhile, inflation is expected to settle above the upper end of the target in 2023 and decelerate to within the target range in 2024. Most of the analysts anticipate the BSP to further tighten monetary policy settings and increase the RRP rate by a range of 25 to 150 bps in 2022, with the possibility of taking a pause in its tightening cycle in 2023 and 2024.

Table 13. Private Sector Forecasts for Inflation
annual percentage change; August 2022

	2022			2023	2024
	Q3	Q4	FY	FY	FY
1) Al-Amanah Islamic Bank	6.60	6.60	6.00	5.60	5.50
2) Asia ING	6.40	6.20	5.40	4.30	3.80
3) Bangkok Bank	5.60	5.00	4.90	4.40	3.80
4) Bank of Commerce	6.24	5.83	5.22	-	-
5) Bank of the Philippine Islands	6.50	6.90	5.40	4.40	3.00
6) Barclays	6.20	6.30	5.30	3.80	-
7) Citibank	6.00	5.10	5.00	3.60	3.20
8) CTBC Bank	5.80	4.90	4.85	3.50	3.00
9) Deutsche Bank	-	-	5.20	4.00	-
10) Eastwest Bank	6.60	6.30	5.40	4.50	4.00
11) JP Morgan	6.10	6.10	5.30	3.90	-
12) Korea Exchange Bank	6.60	6.80	6.50	6.30	6.60
13) Land Bank of the Phils	6.50	6.60	5.40	4.10	2.50
14) Maybank	7.00	7.20	5.75	4.00	3.50
15) Maybank Investment Banking (	6.40	6.40	5.30	3.90	3.00
16) Metrobank	-	-	5.40	3.00 - 5.00	-
17) Mizuho	5.90	5.30	5.03	3.30	3.50
18) RCBC	6.30	6.00	5.30	3.50 - 4.00	3.00 - 3.50
19) Robinsons Bank	6.30	6.30	5.40	4.00	4.00
20) Security Bank	6.10	5.50	5.10	4.60	3.50
21) Standard Chartered	6.40	6.30	5.40	3.50	3.10
22) Union Bank of the Phils.	6.30	6.10	5.30	3.50	3.30
23) UBS	6.50	6.90	5.60	4.40	-
Median Forecast	6.3	6.3	5.3	4.0	3.5
Mean Forecast	6.3	6.1	5.4	4.2	3.7
High	7.0	7.2	6.5	6.3	6.6
Low	5.6	4.9	4.9	3.3	2.5
Number of Observations	21	21	23	22	17
Government Target	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

Source: BSP

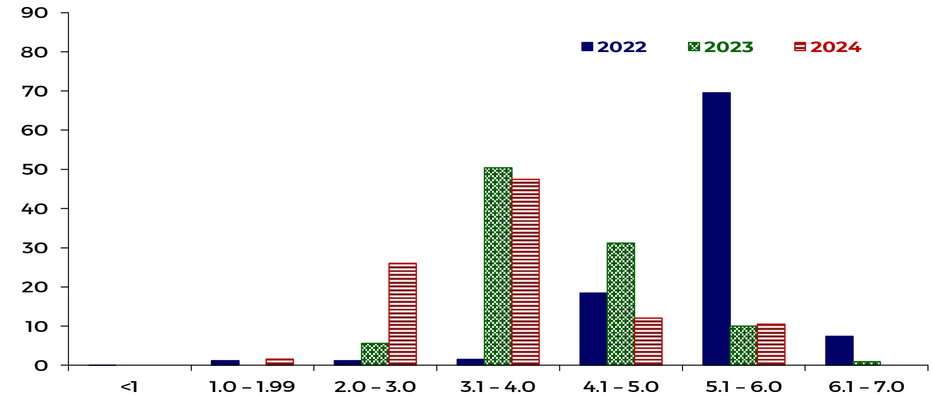
The upside risks to inflation include (a) still elevated global food and oil prices amid global supply chain disruptions brought about by the ongoing Russia-Ukraine war, as well as due to the continued COVID-19-related lockdowns in China and local weather disturbances; (b) higher prices of selected goods and services due to delayed reaction to rising input costs; (c) continued depreciation of the peso against the US dollar due in part to the aggressive policy rate hikes by the US Federal Reserve (US Fed);[13] and (d) second-round effects such as higher transport costs and wage hikes.

Meanwhile, analysts observed the recent easing of global oil prices which is a possible source of downside risk to the inflation outlook. Other downside risks cited are expectations of policy rate hike by the BSP, resurgence of COVID-19 cases, fears of an impending global economic recession, along with weaker-than-expected global economic recovery due to the slowing down of China's economy.

[13] On passthrough: "further policy rate hikes by the US Federal Reserve could add further pressures on the peso and exacerbate the impact of its deprecation on the inflation outlook."

Based on the probability distribution of the forecasts provided by 17 out of 23 respondents, analysts assigned a slim 2.7-percent (from 1.5 percent) probability that average inflation for 2022 will settle within the 2-4 percent range, while there is a 96.2-percent (from 98.3 percent) chance that inflation will exceed 4.0 percent. Meanwhile, the probability that inflation will fall within the target band in 2023 has increased to 56.0 percent (from 38.2 percent). Likewise, the probability of a within-target inflation outturn in 2024 was higher at 73.5 percent (from 60.7 percent).

Chart 5. Probability Distribution for Analysts' Inflation Forecasts*
(2022-2024)

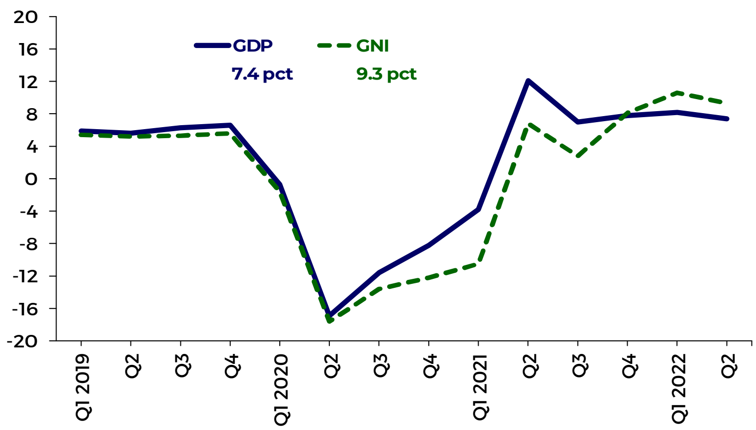


*Probability distributions were averages of those provided by 17 out of 23 respondents.
Source: August 2022 BSP Survey

2. Demand Conditions

The Philippine economy expanded by 7.4 percent y-o-y in Q2 2022. This was slower than the 8.2-percent (revised) growth in Q1 2022, and the 12.1-percent growth posted in Q2 2021. Output growth continued to be supported by robust domestic demand in Q2 2022 though inflationary pressures weighed down on growth. On a seasonally-adjusted basis, quarter-on-quarter GDP contracted by 0.1 percent in Q2 2022, slower than the 1.5-percent growth in Q1 2022.

Chart 6. Gross Domestic Product and Gross National Income
at constant 2018 prices; year-on-year growth in percent

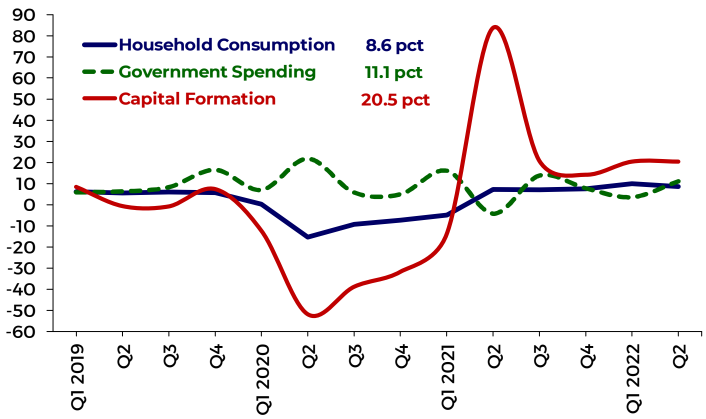


Source: PSA

Gross national income (GNI) increased by 9.3 percent YoY in Q2 2022, lower than the 10.6-percent growth in Q1 2022 but higher than the 6.8-percent growth in the same quarter a year ago. Net primary income rose by 64.8 percent, a deceleration from 105.4-percent growth in Q1 2022 but a reversal of the double-digit decline of -55.7 percent in Q2 2021.

Aggregate demand. Under the expenditure approach, growth was driven by household consumption (8.6 percent in Q2 2022 from 7.3 percent in Q2 2021) and government spending (11.1 percent from -4.2 percent). Total investments also sustained its double-digit increase to 20.5 percent in Q2 2022, supported by the expansion in public and private construction. Meanwhile, net exports declined as exports decelerated notably in Q2 2022, growing by only 4.3 percent from 10.4 percent in the previous quarter. Meanwhile, imports remained strong, expanding by 13.6 percent.

Chart 7. Gross Domestic Product by Expenditure Shares
at constant 2018 prices; growth rate in percent



Source: PSA

Household expenditures, which accounted for 68.2 percent of GDP in Q2 2022, expanded by 8.6 percent in Q2 2022, but is slower than the 10.0-percent growth in the previous quarter and an improvement from the 7.3-percent increase recorded in Q2 2021. The 8.6-percent growth was attributed mainly to improved mobility amid more relaxed COVID-related quarantine measures. Election spending also contributed to the increase in consumer spending in Q2 2022. Per capita household consumption grew by 7.3 percent in Q2 2022 from 5.9 percent in Q2 2021, albeit remained below pre-pandemic levels.

Government expenditures, which accounted for 18.1 percent of GDP in Q2 2022, rose significantly in Q2 2022 to 11.1 percent, from 3.6 percent in Q1 2022 and -4.2 percent in Q2 2021. The growth may be attributed to the implementation of social programs and election-related spending such as: (1) Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers (TUPAD); (2) Pantawid Pamilyang Pilipino Program (4Ps); (3) the Unified Student Financial Assistance System for Tertiary Education, and (4) the conduct of the May 2022 National and Local Elections.

Capital formation, which accounted for 27.7 percent of GDP in Q2 2022, was broadly unchanged at 20.5 percent in Q2 2022 relative to the 20.4 percent in the previous quarter. This was fueled mostly by improvements in public construction activities with the implementation of infrastructure projects of the Department of Public Works and Highways (DPWH) and rail transport projects of the Department of Transportation (DOTr). Meanwhile, durable equipment also contributed to capital formation supported by government programs namely, Public Utility Modernization Program alongside railway projects.

Overall exports grew by 4.3 percent in Q2 2022, significantly lower than the 10.4-percent and 28.6 expansion in Q1 2022 and Q2 2021, respectively. External demand slowed down due to elevated fuel and logistics costs. This was slightly counterbalanced by the double-digit expansion in services exports with the easing of COVID-related restrictions and improvement in tourism numbers.

Overall imports declined to 13.6 percent in Q2 2022 from 15.4 percent in the previous quarter and 40.3 percent in Q2 2021. The expansion was mostly traced to higher prices in imports of mineral fuels, lubricants and related materials, and transport equipment. On the other hand, rebound in travel amid easing restrictions also drove import of services to double-digit rates in Q2 2022.

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

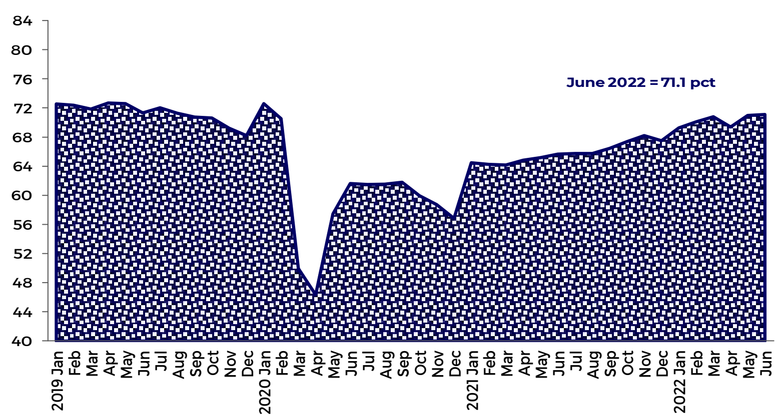
BY EXPENDITURE ITEM	2021	2022	
	Q2	Q1	Q2
Household Final Consumption Expenditure	7.3	10.0	8.6
Government Final Consumption Expenditure	-4.2	3.6	11.1
Gross Capital Formation	83.7	20.4	20.5
Gross Fixed Capital Formation	39.7	11.8	13.2
Exports of Goods and Services	28.6	10.4	4.3
Imports of Goods and Serrvices	40.3	15.4	13.6

Source: PSA

Other demand indicators

Capacity utilization. The manufacturing sector's preliminary average capacity utilization rate improved to 71.1 percent in June 2022 from the revised month-ago level of 70.9 percent based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

Chart 8. Monthly Average of Capacity Utilization for Manufacturing
(2018=100); in percent



Source: PSA

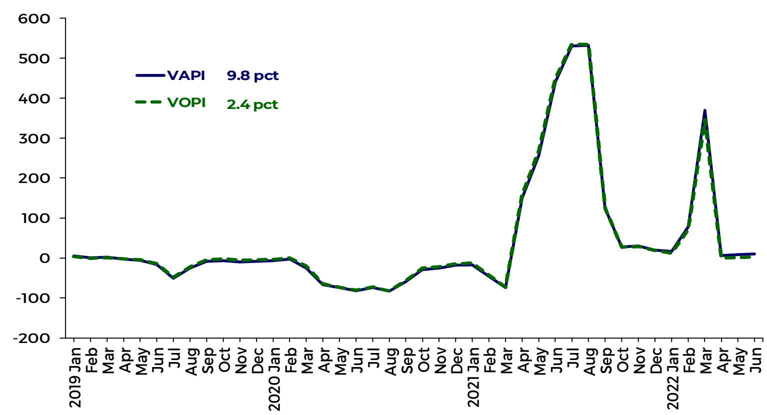
Of the 684 respondent-establishments surveyed by the PSA, about 44.6 percent operated at or above the 80.0 percent capacity level in June 2022, lower than the 45.3 percent recorded in May 2022. The response rate of 72.1 percent (preliminary) in June is higher than the previous month's' preliminary rate of 70.1 percent.

Average capacity utilization increased in June 2022 as improving demand conditions underpinned production in the manufacturing sector. Of the 22 major industries, two industries operated above the 80.0 percent capacity level, while 18 industries operated at the 60 to 79 percent capacity range. The remaining two industries operated at the 50 to 59 percent capacity range.

The average capacity utilization of the following top five subsectors with the biggest share to manufacturing GVA declined in June 2022, particularly firms manufacturing food products; chemical and chemical products; basic metals; and computer, electronic and optical products, while beverages increased. There was a shake up in the top five subsectors as basic metals replaced coke and refined petroleum products.

Volume and value of production. Preliminary results of the MISSI showed that factory output – as measured by the volume of production index (VoPI) – grew by 2.4-percent y-o-y in June 2022, faster than the 0.9-percent (revised) growth recorded in May 2022, but significantly lower than the 448.2-percent expansion in June 2021. Of the 22 subsectors, 13 posted y-o-y expansions, while the remaining nine subsectors recorded contractions.

Chart 9. Volume and Value Indices of Manufacturing Production
2018=100; year-on-year in percent



Source: PSA

Similarly, value of production index (VaPI) grew by 9.8 percent in June 2022, faster than the previous month's (revised) growth of 8.0 percent, but lower than the previous year's 448.2 percent expansion. Of the 22 subsectors, 16 posted y-o-y expansions, while the remaining six subsectors recorded contractions.

Table 15. Growth in Volume of Production Index by Industry Division (2018=100)

year-on-year; in percent

	GAINERS	Jun-22
1.)	Machinery and Equipment Except Electrical	45.3
2.)	Fabricated Metal Products, except Machinery and Equipment	31.4
3.)	Wood, Bamboo,Cane, Rattan Articles and Related Products	31.0
4.)	Textiles	26.6
5.)	Chemical and Chemical Products	24.0
6.)	Paper and Paper Products	14.9
7.)	Computer, Electronic and Optical Products	10.5
8.)	Transport Equipment	9.0
9.)	Food Products	6.8
10.)	Other Manufacturing and Repair and Installation of Machinery and Equipment	5.7
11.)	Other Non-Metallic Mineral Products	5.5
12.)	Furniture	4.8
13.)	Rubber and Plastic Products	0.7
	LOSERS	**Jun-22**
1.)	Printing and Reproduction of Recorded Media	-25.1
2.)	Basic Metals	-18.5
3.)	Basic Pharmaceutical Products and Pharmaceutical Preparations	-16.1
4.)	Electrical Equipment	-15.4
5.)	Coke and Refined Petroluem Products	-14.0
6.)	Wearing Apparel	-9.9
7.)	Beverages	-3.7
8.)	Leather and Related Products, Including Footwear	-1.8
9.)	Tobacco Products	-0.8

Source: PSA

Table 16. Growth in Value of Production Index by Industry Division (2018=100)

year-on-year; in percent

	GAINERS	Jun-22
1.)	Machinery and Equipment Except Electrical	51.8
2.)	Chemical and Chemical Products	36.1
3.)	Fabricated Metal Products, except Machinery and Equipment	32.4
4.)	Textiles	30.1
5.)	Wood, Bamboo,Cane, Rattan Articles and Related Products	26.5
6.)	Paper and Paper Products	19.2
7.)	Food Products	17.2
8.)	Computer, Electronic and Optical Products	14.0
9.)	Other Non-Metallic Mineral Products	13.1
10.)	Transport Equipment	12.5
11.)	Furniture	7.5
12.)	Other Manufacturing and Repair and Installation of Machinery and Equipment	7.1
13.)	Rubber and Plastic Products	5.1
14.)	Coke and Refined Petroluem Products	5.0
15.)	Tobacco Products	2.5
16.)	Beverages	0.3
	LOSERS	**Jun-22**
1.)	Printing and Reproduction of Recorded Media	-25.1
2.)	Basic Pharmaceutical Products and Pharmaceutical Preparations	-15.1
3.)	Electrical Equipment	-12.6
4.)	Basic Metals	-11.7
5.)	Wearing Apparel	-3.8
6.)	Leather and Related Products, Including Footwear	-0.5

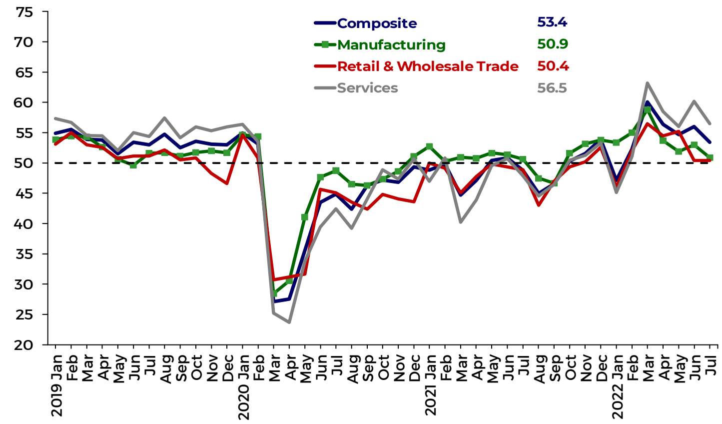
Source: PSA

Purchasing managers' index.[14] The preliminary composite PMI in July 2022 decreased by 2.6 index points to 53.4 from the previous month's PMI of 56.0 (revised).[15] This may be attributed to the slower expansion of all three sectors amid rising inflationary pressures. Looking ahead, business managers expect economic conditions for the services sector to improve in August 2022, while respondent-firms for the manufacturing and retail and wholesale sectors were pessimistic.

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

[15] 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.

Chart 10. Purchasing Managers' Index
Diffusion index



Source: Philippine Institute of Supply Management (PISM)

The services PMI declined by 3.7 index points to 56.5 in July 2022 from 60.2 in June due to the slower m-o-m expansions recorded for demand indicators such as Outstanding Business (at a PMI of 54.5), New Orders (57.7), Business Activity (59.2), which decreased by 5.9 index points, 5.7 index points, and 5.5 index points, respectively. Similarly, indicators of operating conditions also posted slower MoM growth rates, with Average Operating Cost (57.1) and Average Price Charge (57.8) declining by 6.5 index points and 2.1 index points, respectively. Heightened inflationary pressures on basic commodities, such as oil and energy, weighed on the sector's performance. Nevertheless, hiring activity in the services sector expanded faster in July, with Employment PMI rising by 3.0 index points to 52.9. Meanwhile, service managers are expecting business activities to improve in August 2022.

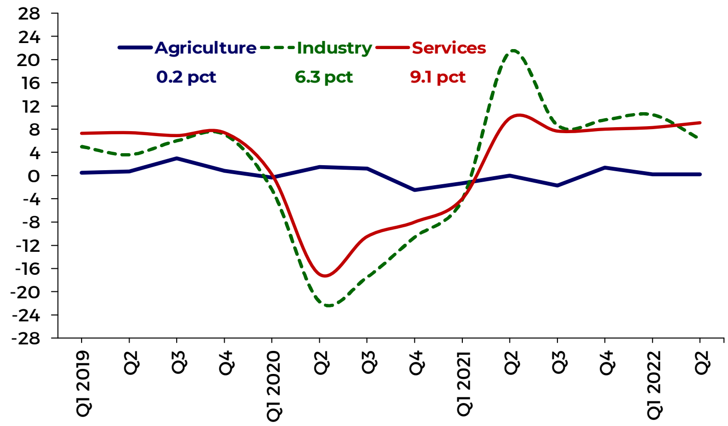
Likewise, manufacturing PMI fell by 2.1 index points to 50.9 PMI in July 2022 from 53.0 in the previous month, albeit remained above the 50-point threshold. The sector's slower expansion may be attributed to weaker production capacity as reflected in the contraction of Production (at a PMI of 49.7) and Employment (47.5), which dipped by 3.8 index points and 3.4 index points, respectively. Additionally, subdued demand conditions also weighed on the sector as New Orders (51.0) and Inventory (53.4) decreased by 2.3 index points and 1.6 index points, respectively. Meanwhile, Lead Time (55.8) expanded faster due mainly to supply chain disruptions. Prospects are assessed to be less favorable for the sector in the month ahead.

The retail and wholesale sector's PMI marginally decreased m-o-m by 0.1 index point to 50.4 in July 2022. Lead Time (52.1), Inventory (50.8), and Purchases (51.5) expanded at a faster rate, rising by 1.6 index points, 0.8 index point, and 0.8 index point, respectively. However, these were offset by the contractions of Sales Revenues (49.5) and Employment (48.8). Looking ahead, retail and wholesale firms anticipate business conditions to weaken further.

3. Supply Conditions

Aggregate supply. On the production side of the economy, Q2 2022 GDP growth was attributed to the expansion of the services sector (which contributed 5.5 ppts to total GDP growth) and industry sector (which contributed 1.9 ppts to total GDP GDP growth). The services and industry sectors grew by 9.1 percent and 6.3 percent, respectively. Meanwhile, the performance of the agriculture sector remained weak at 0.2 percent growth owing to the adverse impact of natural calamities and rising input costs. Most of the sectors affected by COVID-19 restrictions continued to recover in Q2 2022 such as transport, accommodation and food service, and other services albeit output levels remained below pre-pandemic levels.

Chart 11. Gross Domestic Product by Industrial Origin
at constant 2018 prices



Source: PSA

The industry sector grew at a slower rate of 6.3 percent in Q2 2022, from the 10.5-percent and 21.3-percent expansion in Q1 2022 and Q2 2021, respectively. This was driven by the moderation in growth for manufacturing, electricity, steam, water and waste management, and construction.

Manufacturing sector grew by 2.1 percent in Q2 2022, slower than the 22.4 percent in Q2 2021 due to the weaker growth in computer, electronic and optical products, chemical and chemical products, and food products.

Electricity, steam, water and waste management sector increased by 5.4 percent in Q2 2022 from 9.5 percent in Q2 2021 due mainly to the increase in energy sales in Q2 2022 as establishments resumed operating at full capacity in areas under Alert Level 1 based on revenues reported by Meralco.

Construction sector posted double-digit growth in Q2 2022 at 19.0 percent, albeit slower than the 27.4 percent growth in Q2 2021, as construction activities by the government, financial and non-financial corporations, and households increased.

The services sector grew by 9.1 percent in Q2 2022, faster than the 8.3-percent growth in Q1 2022 but a moderation compared to the 9.9-percent increase in Q2 2021. This was driven by the growth in trade and repair of motor vehicles, motorcycles, personal and household goods sector, transport and storage, public administration and defense, and other services.

Trade and repair of motor vehicles, motorcycles, personal and household goods sector registered a 9.7-percent growth in Q2 2022 (from 5.4 percent in Q2 2021) on the back of increased mobility particularly in retail and recreation centers and amid faster growth in retail and wholesale trade.

The growth in transport and storage was driven by the expansion in land transport, air transport, and water transport amid increased mobility as quarantine restrictions became less stringent.

The growth in public administration and defense is attributed to higher disbursements in Personnel Services due to the implementation of the third tranche of the Salary Standardization Law, the release of mid-year bonuses for government employees, and payout of retirement gratuity/terminal leave benefits and pension requirements.

Other services grew as arts, entertainment and recreation (56.8 percent), and other service activities (18.3 percent) posted double-digit growth given the easing of restrictions amid improving vaccination coverage and better health care systems capacity during the quarter.

Table 17. Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

BY INDUSTRIAL ORIGIN	2021	2022	
	Q2	Q1	Q2
Agriculture, Forestry, and Fishing	0.0	0.2	0.2
Industry Sector	21.3	10.5	6.3
Mining and Quarrying	4.2	20.3	-7.3
Manufacturing	22.4	9.8	2.1
Electricity, Steam, Water and Waste Management	9.5	5.6	5.4
Construction	27.4	14.7	19.0
Service Sector	9.9	8.3	9.1
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	5.4	7.0	9.7
Transportation and Storage	24.3	26.3	27.1
Accomodation and Food Service Activities	56.7	20.3	29.9
Information and Communcation	12.6	7.4	10.7
Financial and Insurance Activities	5.2	7.7	4.2
Real Estate and Ownership of Dwellings	16.8	5.9	3.9
Professional and Business Services	9.7	8.3	7.7
Public Administration and Defense; Compulsory Social Security	5.1	0.8	9.1
Education	12.5	8.5	5.3
Human Heath and Social Work Activities	14.0	1.4	1.8
Other Services	37.6	22.7	39.5

Source: PSA

Oil market developments. Dubai crude oil prices declined in July and thus far in August due mainly to concerns over demand prospects following weaker manufacturing PMI data and declines in consumer sentiment, which was further supported by the IMF's downward revision of growth projections for both 2022 and 2023. Worries of a slowdown in economic growth were likewise reflected in supply-demand dynamics, which is projected to be in surplus for most of 2022 and 2023.[16] Meanwhile, Brent crude oil futures remained in backwardation.

[16] Based on US Energy Information Administration (EIA) Short-Term Energy Outlook, August 2022.

Oil prices retreated recently amid worries over demand outlook as manufacturing PMI figures in Japan, China, and the US fell in July while Eurozone manufacturing PMI also dropped below 50-threshold in July. The JP Morgan global manufacturing PMI eased to 51.1 in July.[17] US Energy Information Administration (EIA)[18] also noted the decline in consumer sentiment in both the Euro Area and the US. Data from the European Commission showed consumer confidence in the Euro Area fell -27.0 in July. Likewise, the US University of Michigan's consumer sentiment survey also declined to 50 in June from 58.4 in the previous month.[19] The IMF has also recently revised downwards its global growth projections for both 2022 and 2023.[20]

Oil prices have remained highly volatile given significant uncertainties arising from the Russia-Ukraine conflict, impact of sanctions on Russia, and OPEC+ decision on production targets. Moreover, potential supply disruptions also continued to exert upward pressure on oil prices.

The recent decline in global oil prices was reflected in the successive rollbacks in domestic pump prices in Metro Manila. Diesel and kerosene prices have been reduced for six consecutive weeks while gasoline prices were also adjusted downwards for most of July. However, on a year-to-date basis (for the week ending 9 August 2022), price changes of domestic petroleum products still showed a net price increase compared to end-2021 levels.[21] In particular, prices of gasoline, kerosene, and diesel were adjusted upwards by ₱10.40 per liter, ₱23.32 per liter, and ₱27.95 per liter, respectively.

Developments in the agriculture sector. The Agriculture, Forestry, and Fishing (AFF) sector posted a 0.2-percent growth in Q2 2022, a minimal improvement from a nil growth recorded a year ago, and the 0.17-percent expansion a quarter ago.[22] The higher AFF outturn this quarter was due to the increased *palay*, corn, livestock, and poultry production, outweighing the decline in the output for fisheries, sugarcane, and other crops. The country's vulnerability to natural calamities as well as rising fertilizer and fuel costs, continue to weigh on agricultural production this quarter.

In particular, crop production, which accounted for 54.9 percent of the total value of agriculture and fisheries production, decreased by 2.8 percent in Q2 2022, a further reduction from the quarter-ago and year-ago figures. This can be attributed to the lower value of production for sugarcane (-53.8 percent), coffee (-7.1 percent), tomato (-6.4 percent), mango (-3.8 percent), potato (-3.3 percent), cabbage (-3.3 percent), pineapple (-1.4 percent), and other crops (-12.9 percent). The decrease in these sectors partly offset production values which went up for *palay* (0.7 percent), corn (3.3 percent), onion (20.2 percent), mongo (6.4 percent), sweet potato (4.0 percent), and coconut (2.0 percent), among others.[23]

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[17] PMI data by S&P Global https://www.pmi.spglobal.com/Public/Release/PressReleases
[18] US Energy Information Administration (EIA) Short-Term Energy Outlook, August 2022.
[19] Surveys of Consumers - University of Michigan https://data.sca.isr.umich.edu/
[20] IMF World Economic Outlook Update (July 2022).
[21] Based on common prices of domestic petroleum products in Metro Manila as compiled by the Department of Energy (DOE).
[22] Based on the Q2 2022 National Accounts report published by the Philippine Statistics Authority on 9 August 2022.
[23] The growth rates of the subsectors and commodities are based on the April to June 2022 Performance of Philippine Agriculture report published by the Philippine Statistics Authority on 8 August 2022.

Similarly, the fisheries subsector recorded a year-on-year contraction of 2.3 percent in Q2 2022 due to significant decreases in the production of milkfish or *bangus* (-15.5 percent), tilapia (-9.7 percent), roundscad or *galunggong* (-2.8 percent), tiger prawn or *sugpo* (-30.8 percent), mudcrab or *alimango* (-20.9 percent), and frigate tuna or *tulingan* (-21.8 percent).

By contrast, livestock and poultry production in Q2 2022 grew by 2.1 percent and 7.8 percent, respectively. This can be attributed largely to higher production of hogs (3.0 percent), dairy (22.2 percent), chicken (6.9 percent), chicken eggs (10.5 percent), and duck eggs (11.5 percent). Registering a positive growth rate in the livestock sector after eight consecutive quarters of decline indicates that swine repopulation efforts are gaining traction since the African Swine Fever (ASF) outbreak and that the recovery in hog production is underway.

Global food prices. In July 2022, international prices of Thai and Vietnam rice declined, while the price of India rice variety marginally increased.

- The price of Thai 5% broken rice averaged US$419.20 per ton in July, significantly lower than the June level of US$449.00 per ton due mainly to the inconsistent demand for Thai rice overseas, particularly from Africa and Asia, on the back of a weaker Thai baht against the US dollar.

- Similarly, the price of Vietnam 5% broken rice decreased to US$395.60 per ton in July from the previous month's level of US$405.67 per ton due to sluggish demand amid ample rice supply following the summer-autumn harvest.

- By contrast, the price of India 5% broken rice slightly increased to US$346.80 per ton from US$346.00 per ton driven by robust import demand, particularly in Africa and Bangladesh.

The FAO Food Price Index (FPI) dropped for the fourth consecutive month in July 2022 to 140.9 points from 154.3 points in June 2022, albeit remained significantly higher from year-ago level of 124.6 points. The MoM decline was driven by the deceleration in the prices of all food items led by cereals and vegetable oils due mainly to improved supply conditions amid slower demand.

- The cereal price index dropped in July as prices of wheat and maize eased following reports of possible resumption of grains exports from Ukraine, as well as increased supply amid ongoing harvests in key producing countries. Similarly, international rice prices decreased on the back of fluctuating demand and currency depreciation in major exporters.

- Similarly, the vegetable oil price index decreased reflecting lower prices of palm, soybean, rapeseed, and sunflower oils given ample crop supplies and weak import demand.

- The sugar price index likewise fell due to subdued global import demand, favorable supply prospects for sugar particularly in India, as well as due to the weakening of the Brazilian real against the US dollar and lower ethanol prices.

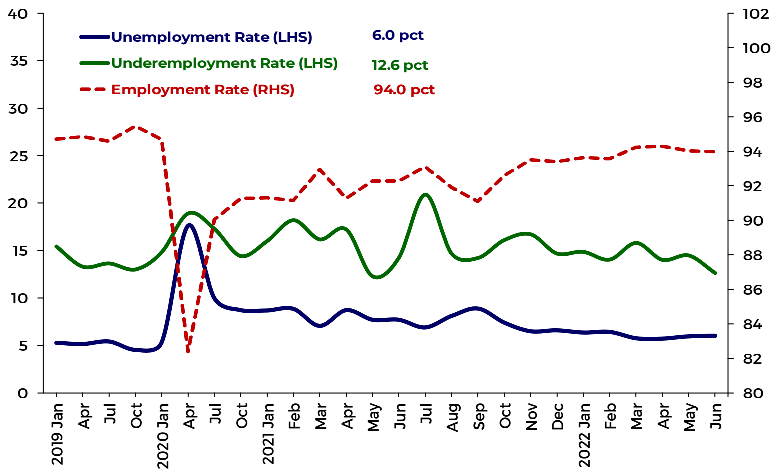
- The dairy price index also eased reflecting the slowdown in import demand for milk powders and butter in Europe and China.

- The meat price index declined as well owing to increased supply, on the bank of weak demand for ovine and bovine meats. By contrast, poultry meat prices soared to an all-time high level amid tight global supply following the avian influenza outbreaks in the northern hemisphere.

4. Labor Market Conditions

The unemployment rate in June 2022 remained unchanged at 6.0 percent relative to the previous month and was lower than the year-ago rate of 7.7 percent. However, the unemployment rate in June 2022 was higher than the January 2020 pre-pandemic rate of 5.3 percent.

Chart 12. Labor Market Indicators
in percent



Source: PSA

Employment rate likewise remained steady at 94.0 percent relative to the previous month but was higher than the year-ago rate of 92.3 percent. Moreover, the employment rate in June 2022 was lower than the January 2020 pre-pandemic rate of 94.7 percent.

Underemployment rate was at 12.6 percent, an improvement from the month- and year-ago rates of 14.5 percent and 14.2 percent, respectively. Moreover, the June underemployment was lower than 14.8 percent posted in pre-pandemic period of January 2020.

Youth labor force participation rate (YLFPR) also improved at 35.9 percent. This was lower than the 36.2 percent, 39.8 percent, and 37.4 percent posted a month- and year-ago, as well as in January 2020.

Wage developments. Following the minimum wage review across regions amid the surge in energy prices as well as the long lag since the last wage adjustment, all 17 regional wage board have approved new wage orders for their respective jurisdictions in May and June. The average increase for all 17 regions is 13.1 percent.

On 14 May 2022, the Regional Tripartite Wage and Productivity Board (RTWPB) for the National Capital Region has approved a ₱33 increase in basic pay for the region's non-agricultural and agriculture sectors. This will bring the new minimum wage for the region to ₱570.00 from ₱537.00 for non-agricultural workers and ₱533.00 from ₱500.00 for agricultural workers. According to the Department of Labor and Employment (DOLE), this is expected to benefit around one million minimum wage earners in private establishments for the region. This wage order took effect on 4 June 2022.

Likewise, the RTWPB for Region VI (Western Visayas) has approved a ₱55 and ₱110 increase in basic pay for the region's non-agriculture, industrial, and commercial establishments employing more than 10 workers and those employing 10 or less workers, respectively. This will bring the new minimum wages in the region to ₱450 for establishments with more than 10 workers and ₱420 for establishments with 10 or less workers. Meanwhile, agriculture workers have been granted a ₱95 increase in basic pay which brings the new minimum wage to ₱410 for the sector. This wage order took effect on 5 June 2022.

Meanwhile, as of 18 May 2022, the RTWPBs for Regions I (Ilocos Region), II (Cagayan Valley), and XIII (CARAGA) also approved an increase in the basic pay for each regions' minimum wage earners. The RTWPB for Ilocos Region has approved a ₱60 increase in basic pay for the region's non-agriculture establishments employing more than 10 workers. This will bring the new minimum wage to ₱400 for establishments with more than 10 workers. Similarly, the RTWPB for Cagayan Valley has approved a wage order granting wage increases ranging from ₱50 to ₱75 in two to three tranches. After the full implementation, this will bring the minimum wage rate in the region in the range of ₱400 to ₱420. The RTWPB for CARAGA also approved the integration of the ₱15 cost of living allowance (COLA) to the basic salary and an additional ₱30 increase in basic pay for the region which brings the minimum wage for non-agriculture workers to ₱350.

In addition, as of 20 May 2022, the RTWPBs of Regions IV-B (MIMAROPA) and SOCCSKSARGEN granted higher pay for minimum wage earners for their respective regions. The RTWPB for MIMAROPA granted an increase of ₱35 for the region's non-agriculture workers which brings the new minimum wage to ₱329 for establishments with less than 10 workers and ₱355 for establishments employing 10 or more workers. Meanwhile, the RTWPB for SOCCSKSARGEN increased the daily wage by ₱32 (to be given in two tranches) which will eventually bring the new minimum wage rate to ₱368 for the non-agriculture sector and ₱347 for agriculture/service/retail establishments.

As of 24 May 2022, the RTWPB of Region V (Bicol Region) likewise approved an increase in their minimum wage to be given in two tranches – a ₱35 increase upon effectivity of the wage order after its publication and another ₱20 on 1 December 2022. This brings the new minimum wage in Bicol to ₱365 for the non-agriculture sector.

Similarly, as of 25 May 2022, the RTWPB of Region VII (Central Visayas) approved raising the minimum wage in the region for non-agriculture workers by ₱31 which brings the new minimum wage for Central Visayas to ₱435. Similarly, the RTWPB for the Cordillera Administrative Region (CAR) approved an additional ₱50 to ₱60 to the minimum wage which will come in two tranches. The first tranche provides an additional ₱30-₱40 in basic pay by 14 June 2022 while the remaining ₱20 will take effect on 1 January 2023. This brings the new minimum wage for CAR to ₱400 for the non-agriculture sector.

Meanwhile, as of 30 May 2022, the RTWPB of Region X (Northern Mindanao) approved an increase in the minimum wage to be given in two tranches – a ₱25 hike in basic pay by 18 June 2022 and a ₱15 to ₱22 adjustment by 16 December 2022. Once effective, the two tranches raise the minimum wage in the region to ₱383 to ₱405 for the non-agriculture sector and ₱393 for the agriculture sector.

As of 31 May 2022, the RTWPB of Region III (Central Luzon) approved a ₱40 daily salary increase for minimum wage earners in the region. The wage increase will be given in two tranches – the first trance is ₱30 which will be implemented 15 days after the publication of the wage adjustment while the remaining ₱10 will take effect in January 2023. This brings the new minimum wage in the region to between ₱409 - ₱460 for the non-agriculture sector.

On 3 June 2022, the RTWPBs of Regions IV-A (CALABARZON) and XI (Davao) approved an increase in their minimum wages. Workers in CALABARZON are set to receive a ₱70-increase in their basic pay which brings the new minimum wage in the region to ₱470. For the Davao Region, the ₱47-increase will be given in two tranches, a ₱31 hike on 18 June 2022 and a ₱16 increase in basic pay on 1 January 2023. After full implementation of the wage tranches, the new minimum wage for the region is ₱443 for the non-agriculture sector and ₱438 for the agriculture sector.

As of 9 June 2022, the RTWPB of Region VIII (Eastern Visayas) approved an across the board ₱50 daily basic pay increase which brings the new minimum wage to ₱375 for non-agriculture workers. Likewise, the RTWPB of Region IX (Zamboanga Peninsula) approved a ₱35-increase in the daily basic pay which brings the new minimum wage for the non-agriculture sector to ₱351.

On 15 June 2022, the Bangsamoro Tripartite Wages and Productivity Board (BTWPB) approved to increase the minimum wage of workers in the region by ₱16 which brings the new minimum wage for the region to a range of ₱316 to ₱341 for the non-agriculture sector and ₱306 to ₱316 for non-plantation, plantation, and retail workers classified under the agriculture sector.

5. Monetary Operations

As of 2 August 2022, the total outstanding amount absorbed in the BSP liquidity facilities stood at about ₱1.650 trillion, higher than the total placements of ₱1.3 trillion recorded in pre-IRC period as of 25 May 2016[24] and nearly two time the pre-pandemic end-December 2019 level of ₱854 billion. The bulk of the BSP's monetary operations to absorb excess liquidity had been conducted through the BSP Securities facility (BSP-SF), comprising about 36.3 percent of total (or about ₱599.3 billion). Placements in the term deposit facility (TDF), overnight deposit facility (ODF), and overnight reverse repurchase (RRP) facility made up about

[24] Last Wednesday of May before the start of IRC implementation in 2016.

25.2 percent (₱416.6 billion), 20.0 percent (₱329.2 billion), and 18.5 percent (₱305.0 billion), respectively, of the total amount of liquidity absorbed by the BSP.

As of 3 August 2022, the weighted average interest rate (WAIR) for the 7-day increased to 3.5089 percent, settling higher by 12.500 basis points (bps) from the rate fetched during the 27-July 2022 TDF auction. Similarly, the WAIR for the 14-day term deposits rose to 3.5723 percent, higher by 8.230 bps from the previous auction. As of the latest data in August 2022,[25] average weekly bid-to-cover ratios for the 7-day and 14-day TDFs stood at 1.29x (from 1.19x in July 2022) and 1.07x (from 1.08x in July 2022), respectively.[26]

For the issuance of BSP Bills (BSPB), the resulting WAIR for the 28-day BSPB rose to 3.6439 percent on 5 August 2022 from 3.5129 percent fetched during the BSPB auction on 29 July 2022. In August 2022,[27] the average weekly bid-to-cover ratio for the 28-day BSPB stood at 1.01x (from 1.48x in July 2022).

The auction results for the TDF and BSP Bills during the review period reflected the pass-through of the off-cycle 75-bp policy rate increase on 14 July 2022 on short term rates. Moreover, market participants may also be looking forward to the expected Retail Treasury Bond issuance in August 2022.

For the daily RRP auctions, the average bid-to-cover ratio in August 2022[28] was recorded at 2.79x, slightly higher than the bid-to-cover ratio in July 2022 at 2.74x.

[25] As of 3 August 2022
[26] The 28-day TDF has not been offered starting the 14 October 2020 TDF auction, reflecting the full migration of auction volumes to the 28-day BSP Bills.
[27] As of 5 August 2022
[28] As of 2 August 2022

Box Article No. 2: Understanding the BSP Balance Sheet

A central bank's balance sheet reveals how monetary authorities use the various instruments in their policy toolkit in fulfilling its mandates. Hence, changes in its size and structure provides useful information, not only on how a central bank deployed its tools to affect money supply, but also on the potential consequences and risks that may need to be considered for future policy actions.

The BSP balance sheet has grown substantially since January 2002, when the BSP switched its monetary policy framework from monetary targeting to inflation targeting. Through the new framework, the BSP was better able to focus on its primary mandate of promoting price stability.

Between December 2001 and May 2016, the BSP's assets grew from ₱1,135.94 billion to ₱4,456.30 billion. Meanwhile, the BSP's liabilities stood at only at ₱974.50 billion in December 2001, eventually expanding to ₱4,408.79 billion as of May 2016.

Moreover, the structure of the BSP's balance sheet had been relatively stable throughout this period. International reserves formed the bulk of the BSP's assets especially since 2007, as the BSP accumulated hefty reserves partly due to strong capital inflows into the Philippines following the Global Financial Crisis. Between December 2001 and May 2016, international reserves accounted for an average of about 85 percent of the BSP's total assets.

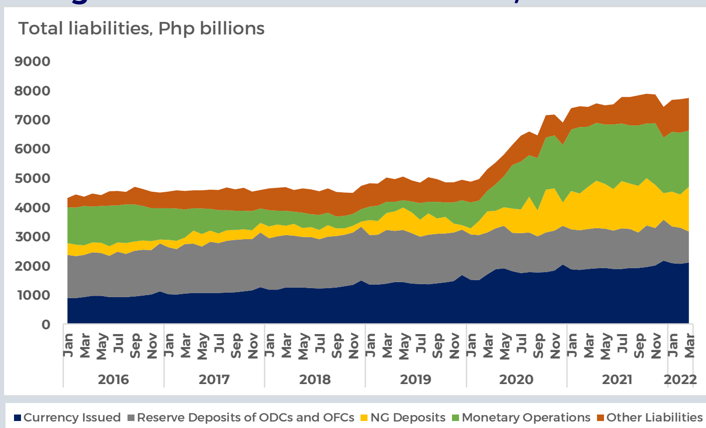
At the same time, monetary operations and reserve deposits combined to account for an average of about 64 percent of the BSP's liabilities during the period, reflecting the BSP's heavy use of the special deposit account (SDA)—a passive facility for absorbing liquidity—and reserve requirements to sterilize capital inflows and prevent excess liquidity from stoking inflationary pressures or risks to financial stability.

The Interest Rate Corridor Framework and the BSP's Balance Sheet

In June 2016, the BSP adopted the interest rate corridor (IRC) framework for its monetary operations with the intent to improve the traction of monetary policy on market interest rates. The shift entailed converting the BSP's existing repurchase facilities into a solely overnight lending facility and replacing the SDA with a purely overnight deposit facility. At the same time, the BSP also introduced new instruments that enhanced its ability to absorb excess liquidity from the financial system, particularly the term deposit facility (TDF).

These changes were evident in a shift in the structure of the BSP's balance sheet, especially on the liabilities side (Figure 1). With the use of more active instruments for liquidity absorption, the BSP had found some leeway to reduce its reliance on reserve requirements for managing liquidity conditions. Consequently, starting with a gradual reduction in reserve requirement ratios in 2018, the share of banks' reserve deposits to the BSP's total liabilities had fallen from as much as 36.3 percent as of end-2016 to about 31.4 percent by the end of 2019.

Figure 1. Balance sheet liabilities, 2016-2022



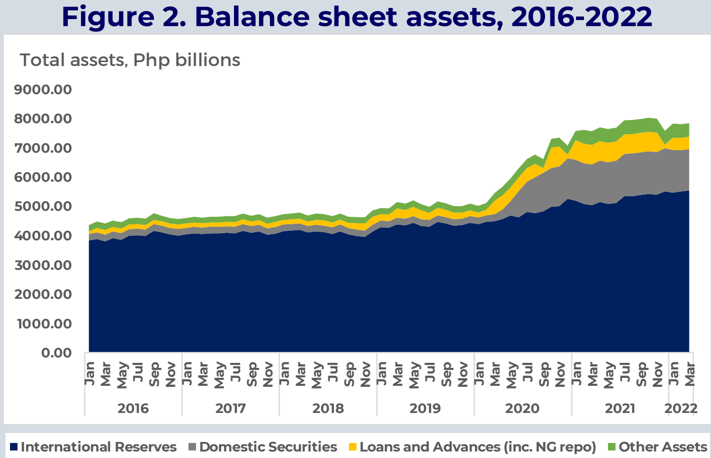
Source: BSP

The BSP's Balance Sheet Amid the COVID-19 Pandemic

The pandemic required the BSP to implement various measures to ensure the smooth functioning of the financial system and provide support to the economy. Beginning in March 2020, the BSP deployed multiple monetary interventions, including the purchases of government securities (GS) in the secondary market, direct bridge financing assistance to the National Government (NG), and a reduction in reserve requirements ratios. All these saw corresponding shifts in the size and structure of the BSP's balance sheet.

On the asset side, the BSP's holdings of domestic securities rose from only a little over 4 percent of its total assets in end-2019 to nearly 20 percent as of end-2020 after the BSP opened a window to purchase GS in the secondary market in March 2020 (Figure 2). At the same time, loans and advances increased markedly, reflecting the BSP's direct provisional advances to the NG in support of the government's various programs to counter the social and economic impact of the COVID-19 pandemic.

Figure 2. Balance sheet assets, 2016-2022



Source: BSP

Meanwhile, on the liabilities side, the share of reserve deposits declined further to only about 19 percent by the end of 2020 following the reduction in reserve requirement ratios to encourage banks to continue lending during the pandemic.

Meanwhile, the size of monetary operations increased from 16 percent of total liabilities pre-pandemic to 25 percent during the pandemic. Moreover, the issuance of BSP Securities beginning in September 2020 also contributed to the rise in the share of monetary operations to the BSP's total liabilities.

Looking ahead

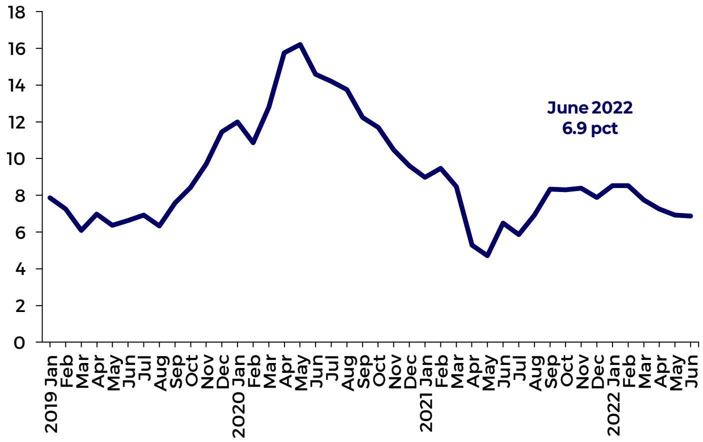
The BSP's balance sheet has expanded considerably during the pandemic. Between March 2020 and March 2022, the BSP's total assets have risen from ₱5,441.11 billion to ₱7,838.27 billion, while total liabilities have grown from ₱5,305.51 billion to ₱7,739.76 billion.

As the Philippine economy recovers from the impact of the pandemic, the BSP will continue to unwind some of the measures it implemented as it facilitates the shift to post-pandemic conditions. With the turn in the monetary policy cycle, a strategy for balance sheet normalization will be developed and communicated as part of managing the smooth exit from pandemic measures.

6. Financial Conditions

Domestic liquidity. Preliminary data show that domestic liquidity (M3) grew by 6.9 percent y-o-y to about ₱15.4 trillion in June, the same rate of expansion as in May. On a m-o-m seasonally-adjusted basis, M3 increased by 0.7 percent.

Chart 13. Domestic Liquidity
year-on-year growth rate; in percent



Source: BSP

Domestic claims rose by 9.6 percent y-o-y in June from 8.9 percent in the previous month due to the improvement in bank lending to the private sector. Claims on the private sector grew by 8.7 percent in June from 7.5 percent in May with increased bank lending to non-financial private corporations and households. Meanwhile, net claims on the central government rose by 14.8 percent in June from 15.3 percent in May owing to the sustained borrowings by the National Government.

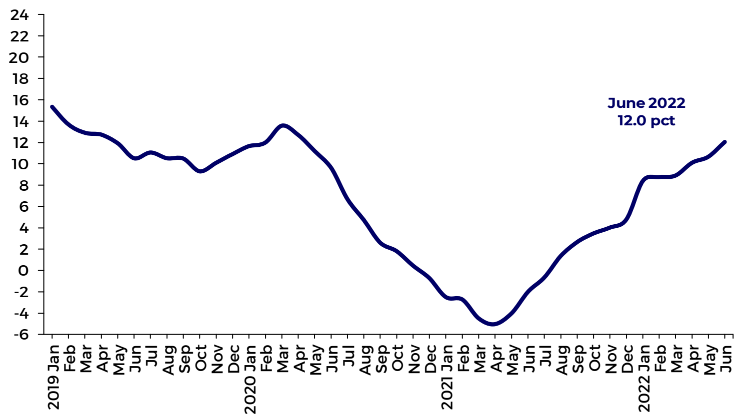
Net foreign assets (NFA) in peso terms increased by 5.7 percent in June from 3.4 percent in May. The NFA of banks expanded at a faster pace on account of higher investments in marketable debt securities.

On the liabilities side, the growth in M3 was on account of the expansion in transferable deposits and savings deposits, which contributed 3.8 ppts and 2.0 ppts to M3 growth, respectively. Savings deposits are primarily placed by other resident sectors[29] while transferable deposits are primarily placed by other nonfinancial corporations.

Bank lending. Preliminary data show that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, grew at a faster pace of 12.0 percent y-o-y in June relative to the 10.7-percent uptick in May. On a m-o-m seasonally-adjusted basis, outstanding universal and commercial bank loans, net of RRPs, expanded by 2.3 percent.

[29] Other resident sectors refer to household sectors

Chart 14. Loans Outstanding of Commercial Banks
year-on-year growth rate; in percent



Source: BSP

Outstanding loans to residents, net of RRPs, increased by 11.9 percent in June from 10.6 percent in the previous month. Outstanding loans for production activities grew by 12.0 percent in June from 10.8 percent in May due mainly to the rise in credit for real estate activities (18.1 percent); manufacturing (17.5 percent); information and communication (29.7 percent); and wholesale and retail trade, repair of motor vehicles and motorcycles (8.0 percent).

Likewise, growth in consumer loans to residents accelerated to 10.6 percent in June from 8.5 percent in May, driven by the y-o-y rise in credit card loans and salary-based general purpose consumption loans. At the same time, outstanding loans to non-residents[30] rose at a faster rate of 16.3 percent in June from 12.5 percent in the previous month.

Credit Standards[31]

Latest results of the Q2 2022 Senior Bank Loan Officers' Survey (SLOS) showed that a higher number of bank respondents retained their overall credit standards for loans to enterprises and consumers as indicated by the modal approach.[32] However, the diffusion index (DI) results[33,34] revealed diverse trends as lending standards for businesses generally reflected a net tightening while a net easing of credit standards is observed for consumer loans.

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[30] Outstanding loans to non-residents include loans by UKB's foreign currency deposit units (FCDUs) to non-residents.

[31] 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. For the Q2 2022 survey, questionnaires were sent to a total of 64 banks (42 universal and commercial banks and 22 thrift banks), 49 of whom sent in their responses, showing a response rate of 76.6 percent. It should be noted that survey responses for the Q2 2022 SLOS were gathered between 16 June – 15 July 2022.

[32] In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.

[33] 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").

[34] 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 DI approaches in assessing the results of the survey.

Lending to enterprises. The Q2 2022 modal-based results indicated that most respondents (76.1 percent) indicated generally unchanged overall lending standards for business loans. Meanwhile, the DI approach showed a net tightening of overall lending standards across all borrower firm sizes (specifically top corporations, large middle-market enterprises, small and medium enterprises, and micro enterprises). Bank respondents reported that the overall tightening of credit standards was mainly due to the following factors: deterioration of borrowers' profile and of the profitability of banks' portfolio, and a more uncertain economic outlook.

Table 18. General Credit Standards for Loans to Enterprises (Overall)

	2019				2020				2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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	10.0	6.5
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	16.0	13.0
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**	**72.0**	**76.1**
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	2.0	4.3
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	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	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**	**24.0**	**15.2**
Number of Banks Responding	**48**	**42**	**49**	**46**	**36**	**49**	**44**	**41**	**47**	**50**	**48**	**48**	**50**	**46**

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

While a bigger proportion of respondent banks expect generally unchanged lending standards for firms in Q3 2022, the DI approach continue to show anticipations of a net tightening in credit standards given the following reasons: less favorable economic prospects, decline in risk tolerance, and deterioration of borrowers' profile as well as banks' profitability and liquidity.

Lending to households. The latest survey shows that a majority of the survey participants (73.0 percent) maintained their lending standards for loans extended to households. Meanwhile, overall results from the DI method pointed to a net easing in credit standards for consumer loans which respondent banks attributed to optimistic economic outlook, increased risk tolerance, and improvement in borrowers' profile.

Table 19. General Credit Standards for Loans to Households (Overall)

	2019				2020				2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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	2.5	5.4
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	12.5	5.4
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**	**62.5**	**73.0**
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	17.5	13.5
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	5.0	2.7
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	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**	**-7.5**	**-5.4**
Number of Banks Responding	**30**	**25**	**32**	**29**	**23**	**33**	**30**	**27**	**32**	**35**	**36**	**35**	**40**	**37**

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

Over the next quarter, the modal-based results showed that a larger percentage of respondent banks expect to maintain their overall credit standards. Mirroring the survey results from the previous quarter, the DI-based approach indicated bank respondents' expectations of net easing overall credit standards for consumers due to improvement in borrowers' profile and profitability of banks' portfolio, less uncertain economic outlook, and increased tolerance for risk.

Loan demand. Results for Q2 2022 indicated that most respondent banks are seeing generally steady loan demand from both businesses (56.3 percent) and households (67.6 percent) based on the modal approach. At the same time, DI-based results showed a net increase in overall credit demand from across all firm classifications and key categories of consumer loans (particularly housing loans, credit card loans, and auto loans) amid the improvement in business and consumer confidence.[35] The reported net rise in demand for business loans was ascribed to increased customer inventory and accounts receivable financing needs, and improvement in customers' economic outlook. Similarly, the net increase in demand for household credit was mainly linked to higher household consumption and banks' more attractive financing terms.

For Q3 2022, more than half of the respondent banks expect unchanged loan demand from both firms and households. Meanwhile, based on the DI method, survey participants anticipate a net increase in credit demand from businesses and consumers. Banks' expectations of a net rise in overall demand for credit from firms is driven by customers' more optimistic economic outlook as well as increased inventory and accounts receivable financing needs. Similarly, banks' expectations of a net increase in overall loan demand from households are due to the expected uptick in consumption and housing investment, lower interest rates, and banks' more attractive financing terms.

Commercial real estate loans. Results for Q2 2022 showed that a majority of respondent banks (73.3 percent) reported broadly maintained overall credit standards for commercial real estate loans (CRELs). Meanwhile, the DI method indicated a net tightening of loan standards for CRELs in Q2 2022 for the 26th consecutive quarter due largely to decreased risk tolerance and deterioration of borrowers' profile. For Q3 2022, the modal approach pointed to most survey respondents anticipating unchanged standards for CRELs while the DI method continued to indicate respondents' expectations of net tighter credit standards for CRELs.

In terms of loan demand for CRELs in Q2 2022, most respondent banks reported generally unchanged demand based on the modal approach. On one hand, the DI-based results pointed to a net rise in credit demand driven by the improvement in customers' economic prospects as well as clients' higher need for managing inventory and accounts receivables. Modal-based results for Q3 2022 indicated respondents' continued expectations of unchanged loan demand for CRELs. The

[35] Results of the BSP Q2 2022 Business Expectations Survey (BES) showed that the more buoyant outlook of the business sector was attributed to: (a) easing of COVID-19 restrictions; (b) reopening of the economy and return to normal business operations; (c) increase in sales/orders/demand (e.g., enrollment, loans, leasing, and utilities); and (d) uptick in economic activities due to election-related spending. Meanwhile, the BSP Q2 2022 Consumer Expectations Survey (CES) indicated a less pessimistic outlook of households brought about by their expectations of: (a) availability of more jobs and permanent employment; (b) positive developments related to the COVID-19 situation, such as declining number of COVID-19 cases and the consequent easing of travel and social gathering restrictions; and (c) additional and high income.

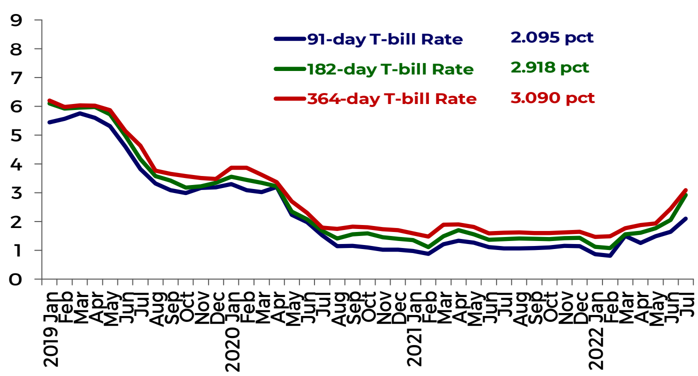
DI values, meanwhile, showed an expected net rise in credit demand for CRELs in the next quarter due to customers' positive economic outlook, bank's more attractive financing terms, as well as an increase in customers' inventory and accounts receivable financing requirements.

Residential real estate loans. On housing loans extended to households In Q2 2022, a majority of survey participants (71.9 percent) indicated unchanged lending standards based on the modal approach. Similar with the previous quarter, the DI approach showed a net easing for residential real estate loans due largely to banks' more favorable economic outlook, improvement in borrowers' profile, and increased tolerance for risk. For the next quarter, a larger share of respondent banks anticipates credit standards for housing loans to be maintained, while DI-based results indicate a net easing of housing loan standards

Most survey participants observed a broadly steady demand for housing loans in Q2 2022 and expect housing loan demand to be sustained in Q3 2022. Meanwhile, DI-based results reflected a net increase in residential real estate credit demand for both the current quarter and the next quarter driven by lower interest rates,[36] and higher housing investment and household consumption.

Primary GS market and rates. During the 1 August 2022 T-bill auction, the Bureau of the Treasury (BTr) fully awarded bids for the 91-, 182-, and 364-day T-bills. The average interest rate for the 91-day T-bills declined by 18.3 basis points (bps) to 2.090 percent. Meanwhile, the average interest rates for the 182- and 364-day T-bills increased by 4.6 bps and 12.4 bps to 3.188 percent and 3.480 percent, respectively, from the rates fetched during the 25 July 2022 auction.

Chart 15. Treasury Bill Rates
in percent



Source: BTr

Total bids awarded amounted to ₱15.0 billion as planned with total tenders for all tenors reaching about ₱43.3 billion (or 2.9x the offered amount). The results of the auction reflected market participants' strong demand for government notes while pricing in the expectation of continued monetary policy tightening from the BSP.

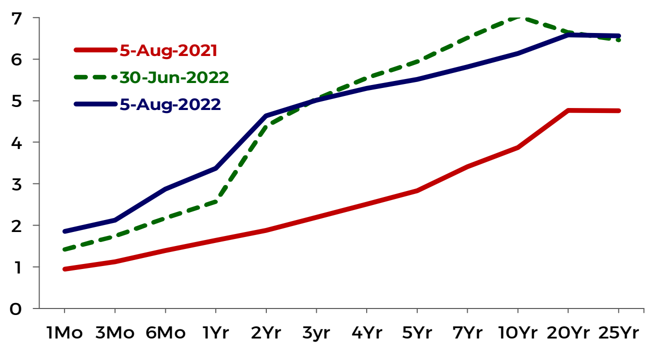
[36] Forty banks out of the final 49 respondent banks have submitted their answers to the survey between 16 June to 11 July 2022. This was prior to the 75-bps policy rate hike announced by the BSP on 14 July 2022. Hence, majority of the respondent banks may not have yet accounted for the off-cycle policy rate increase in their responses.

On 2 August 2022, the BTr awarded in full the ₱35.0 billion offered amount for the newly issued 3.5-year T-bonds. The coupon rate for the said T-bond was 5.250 percent, 23.9 bps lower than the 5.489 percent fetched for the four-year tenor at the secondary market based on the Bloomberg Valuation Reference Rates.

The auction for the T-bonds was oversubscribed with tenders reaching ₱106.3 billion or around 3.0 times the offered amount of ₱35.0 billion. To accommodate excess demand, the BTr opened its tap facility window for the T-bonds and raised another ₱10 billion.

Secondary market GS yield curve. On 5 August 2022, secondary market GS yields declined generally compared to end-June 2022, particularly in the long-end of the curve. Buying activity was seen following the release of the statement of the BSP that it is prepared to use the full force of available instruments to address risks to inflation and price expectations due to a depreciating peso. The demand for long-dated government notes is supported by the release of BTr borrowing schedule for August 2022 which showed less issuances of debt papers in the long-end of the curve. Consequently, the positive spreads of secondary market rates over the BSP overnight RRP rate on 5 August 2022 were narrower relative to end-June 2022 levels.

Chart 16. Yields of Government Securities in the Secondary Market
in percent

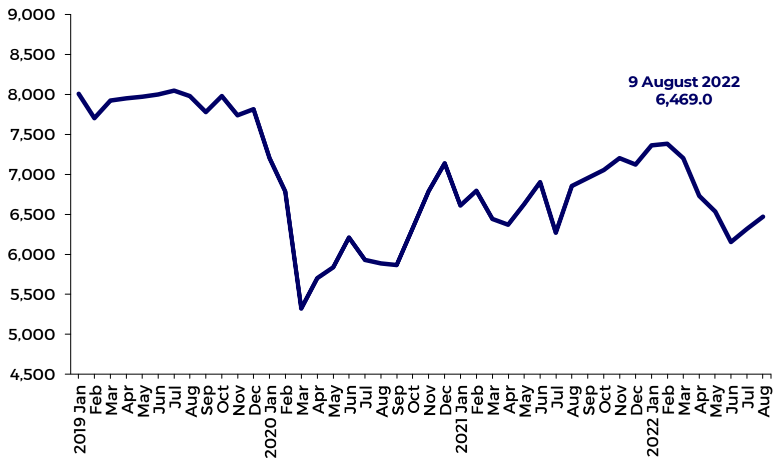


Source: Bloomberg

As of 5 August 2022, the spread between the 10-year and 1-year GS rates was narrower at 276.9 bps (from 446.7 bps as of end-June 2022) due mainly to the decline in the 10-year GS rate. Similarly, the spread between the 10-year and 5-year GS rates was narrower at 62.7 bps (from 109.6 bps as of end-June 2022) as a result of the larger decrease in the 10-year GS rate relative to the decline in the 5-year GS rate.

Stock market. For the period 1-9 August 2022, the Philippine Stock Exchange Index (PSEi) averaged 6,413.7 index points, higher compared to July's average of 6,284.3 index points. This follows the widely expected 75-bp rate hike by the US Fed, eliminating the uncertainty of a larger policy hike of 100 bps, and the within-target Q2 2022 domestic growth outturn of 7.4 percent. On a year-to-date basis, the PSEi declined by 9.2 percent to close at 6,469.0 index points on 9 August 2022 from its end-December 2021 closing level of 7,122.6 index points.

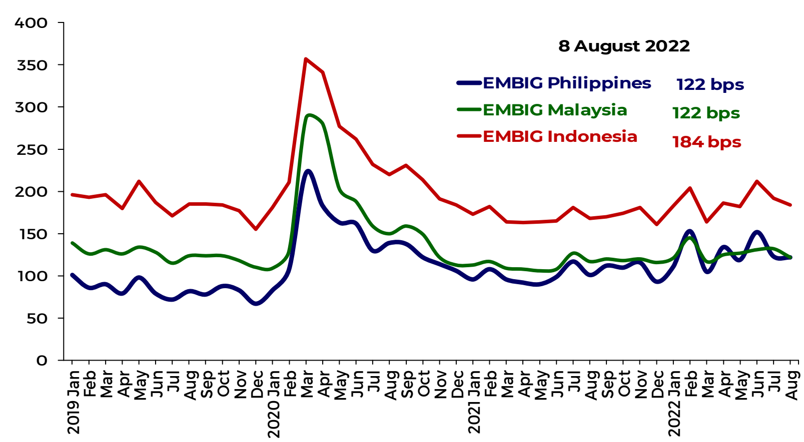
Chart 17. Philippine Stock Exchange Index
index points



Source: Philippine Stock Exchange, BSP

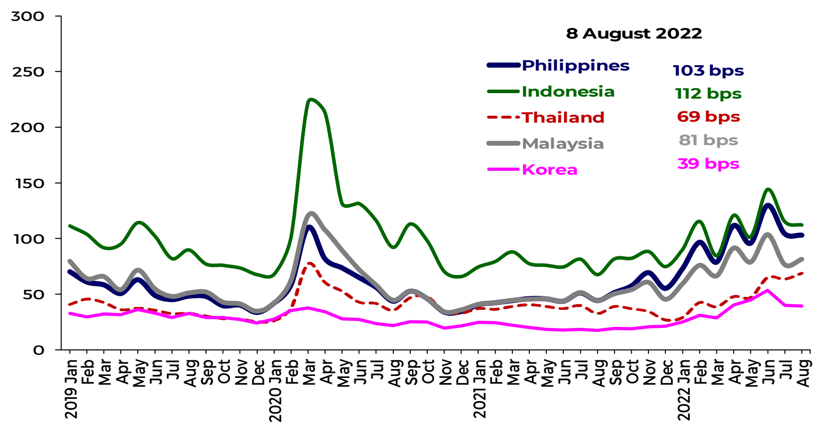
Sovereign bond and credit default swap spreads. Debt spreads have initially widened from June to mid-July due to the sustained aggressive monetary tightening by the US Fed which largely contributed to the weakening of regional currencies. From mid-July to early August, debt spreads eventually narrowed amid hawkish monetary policy actions in the region to address increasing inflationary risks. As of 8 Aug 2022, the Emerging Market Bond Index Global (EMBIG) Philippines spread, the extra yield investors demand to hold Philippine sovereign debt relative to US Treasuries, stood at 122 basis points (bps). This was slightly lower from the end-July 2022 level of 123 bps. Similarly, the country's 5-year sovereign credit default swap (CDS) was moderately unchanged at 103 bps from 104 bps during the same period.

Chart 18. EMBIG Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

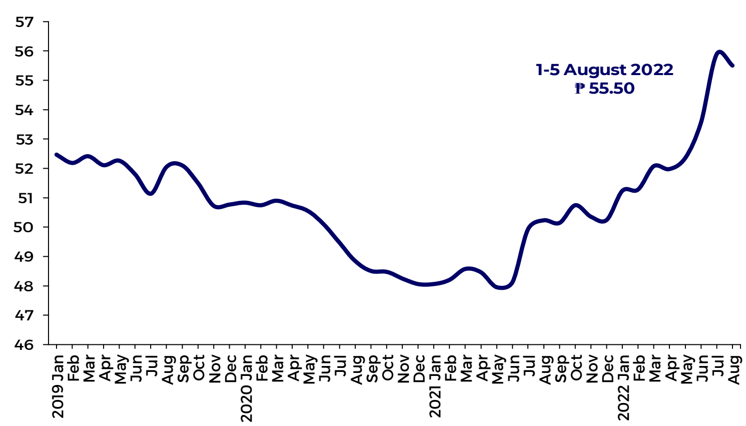
Chart 19. Five-Year CDS Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

Exchange rate. For the period 1-5 August, the peso averaged ₱55.50/US$1 appreciating by 0.71 percent from the average in July amid expectations of a slower pace of US Fed monetary policy tightening following the dovish comments from US Fed Chair Jerome Powell in the latest FOMC meeting.[37] On a year-to-date basis, the peso depreciated against the US dollar by 7.61 percent to close at ₱55.22/US$1 on 5 August 2022 from the end-December 2021 closing rate of ₱51.00/US$.[38] The Philippine peso depreciated along with the other Asian currencies.

Chart 20. Peso-Dollar Rate
PHp/US$



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

On a real trade-weighted basis, the peso gained external price competitiveness in June 2022 (y-o-y) against the basket of currencies of all trading partners (TPI) and trading partners in developing (TPI-D) countries. This was indicated by the decrease in the real effective exchange rate (REER) index of the peso by 1.65 percent and 0.36 percent against the TPI and TPI-D, respectively, due mainly to the

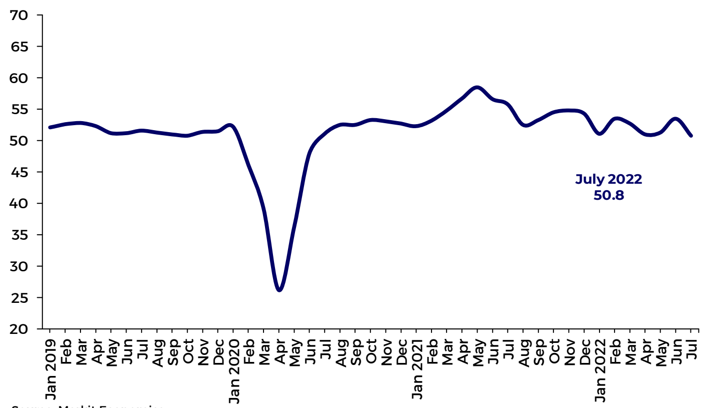
[37] At the conclusion of the US Fed meeting on 27 July, US Fed Chair Jerome Powell said it will likely be appropriate to slow the pace of increases as rates get more restrictive. He added that a lack of certainty into the economy's future trajectory means the Fed can only provide reliable guidance on a "meeting by meeting" basis. (Source: Reuters)
[38] Based on the last done deal transaction in the afternoon.

peso's nominal depreciation which more than offset widening inflation differential. Meanwhile, against the basket of currencies of trading partners in advanced (TPI-A) countries, the REER index of the peso increased by 0.37 percent.[39,40]

7. External Developments

Global economic activity expands at a slower rate in July as manufacturing output stagnated while service sector activity growth eased to a six-month low. Contractions were recorded in the US, Germany, and Italy. The aggregate slowdown was partially offset by improved economic activity in emerging markets such as China, India, and Brazil.

Chart 21. JP Morgan Global All-Industry Output Index
index points



Source: Markit Economics

JP Morgan All-Industry Output Index fell to 50.8 in July from 53.5 in June due mainly to the decline in new export business. Economic activity contracted in the US, Germany, and Italy, but this was partially offset by the expansions recorded in France, Spain, China, India, Brazil, and Russia.[41]

In the July 2022 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) further downgraded its full-year economic growth projections for 2022 and 2023 by 0.4 and 0.7 percentage point, respectively, relative to the April 2022 WEO forecasts. Global GDP is estimated to have

[39] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners 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-Advanced (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-Developing (TPI-D) measures the effective exchange rates of the peso across 10 currencies of partner developing countries which includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.
[40] 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.
[41] 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.

contracted in Q2 2022 due mainly to decreased economic activity amid prolonged COVID-19 restrictions in China as well as war-related supply disruptions emanating from Eastern Europe. In addition, the recovery momentum of private consumption slowed in the first half of the year as successive supply shocks and the resulting surge in inflation eroded the purchasing power of households. The sustained increase in prices and the resulting broad-based deterioration in living standards have prompted monetary authorities to tighten financial conditions faster than previously communicated.

For advanced economies (AEs), the IMF revised down its baseline growth projections as heightened inflationary pressures and the rapid tightening of financial conditions weigh on the recovery momentum of major economies in North America, particularly the US and Canada. Meanwhile, the growth forecast for the euro area was likewise reduced as significant downgrades in France, Germany, and Spain more than offset improved prospects for Italy's tourism and industrial sectors. Similarly, the IMF slashed its growth estimate for emerging markets and developing economies (EMDEs) to reflect China's sharp economic slowdown as well as the moderation in India's economic expansion. China's strict adherence to its zero-COVID strategy has resulted in the reimposition of strict quarantine restrictions and repeated lockdown measures in major manufacturing hubs such as Shanghai, Shenzhen, and Xiamen. Meanwhile, the growth projection for India was also pared down in view of less favorable external conditions amid the accelerated normalization of global financial conditions.

On balance, risks to the global growth outlook are overwhelmingly tilted toward the downside. The IMF cited the following downside risks to the global economic performance: (1) persistently high inflation and the potential adverse impact of the Russia-Ukraine war in energy prices; (2) rising food and energy prices that can cause widespread hardship, famine, and unrest; (3) continued economic slowdown in China; (3) disinflation more costly than expected; and (4) tighter financial conditions that could trigger debt distress in economies with weak institutions and inferior fiscal frameworks. In addition, the possible resurgence of COVID-19 cases worldwide and geopolitical fragmentation pose downside risks to the outlook.

Policy Actions by Other Central Banks. Majority of the central banks monitored by the BSP have raised their respective policy rates since July, namely, Bank Negara Malaysia, Bank of Korea, Reserve Bank of New Zealand, Bank of Canada, European Central Bank, Federal Reserve, Reserve Bank of Australia, Bank of England, Reserve Bank of India and Bank of Thailand.

On 6 July 2022, Bank Negara Malaysia raised the overnight policy rate by 25 bps to 2.25 percent as it began normalizing monetary conditions in view of the economy's sustained recovery. Despite rising global commodity prices and resurgent domestic demand, domestic inflation remains within expectations as price pressures were tempered by government-led fuel subsidies and price controls.

Likewise, on 13 July 2022, the Bank of Korea increased the base rate by 50 bps to 2.25 percent to moderate rising inflation expectations and curb inflation as price pressures have become broad based.

On 13 July 2022, the Bank of Canada (BOC) raised the overnight policy rate anew by 100 bps to 2.5 percent amid the continued buildup of excess demand in the Canadian economy on the back of broadening inflation. The BOC signaled further rate hikes in the following months to achieve its 2-percent inflation target.

On 21 July 2022, the European Central Bank (ECB) raised the interest rate on the main refinancing operations by 50 bps to 0.50 percent. The higher-than-expected increase in the policy rate is intended to curb record-high inflation and arrest the disanchoring of inflation expectations amid the continued increase in global commodity prices. The ECB also approved the Transmission Protection Instrument (TPI) to support the effective transmission of monetary policy amid the ongoing financial fragmentation in the euro area. Accordingly, the TPI will be activated to counter the unwarranted and disorderly market dynamics that pose a considerable threat to the ECB's mandate of promoting price and financial stability.

On 27 July 2022, the US Fed raised the US federal funds target rate by 75 bps to 2.25-2.50 percent in order to moderate rising price pressures emanating from sustained wage growth amid the persistent tightness in the US labor market. Despite increased risk of a global economic slowdown in view of the rapid tightening of financial conditions, the Federal Open Market Committee anticipates that further rate hikes will be appropriate in the next policy meetings to anchor inflation expectations and successfully achieve its dual mandate of promoting price stability as well as maximum sustainable employment.

On 2 August 2022, the Reserve Bank of Australia increased the cash rate target by another 50 bps to 1.85 percent due to heightened price pressures emanating from strong domestic demand, tight labor market conditions, and prolonged global capacity constraints.

Similarly, on 4 August 2022, the Bank of England (BOE) raised the bank rate by 50 bps to 1.75 percent to address rising inflation owing to the persistent tightness in the UK labor market, significant cost pass-through of domestic firms, and near doubling of wholesale gas prices since May 2022. The BOE's Monetary Policy Committee expects the UK economy to fall into a recession beginning Q4 2022 as short-term real incomes and consumption fall sharply amid sustained inflationary pressures.

On 5 August 2022, the Reserve Bank of India (RBI) increased the policy repo rate by 50 bps to 5.4 percent to anchor inflation expectations and contain second-round effects amid high domestic inflation due to elevated global commodity prices.

On 10 August 2022, the Bank of Thailand (BOT) raised the policy rate by 25 bps to 0.75 percent in order to temper upside risks to medium-term inflation expectations. BOT's Monetary Policy Committee (MPC) expects economic recovery to proceed due to improved tourism prospects amid the relaxation of international travel restrictions. Accordingly, the MPC judges that monetary settings should be normalized to levels that are consistent with the BOT's objective of maintaining price stability and preserving long-term sustainable growth.

On 17 August 2022, the Reserve Bank of New Zealand increased the official cash rate (OCR) by 50 bps to 3.0 percent in order to tighten monetary conditions and anchor inflation expectations. The MPC will continue raising the OCR until it is confident that monetary conditions are sufficiently tight to bring inflation back within the target range.

By contrast, on 15 August 2022, the People's Bank of China (PBOC) reduced the 7-day reverse repo rate and 1-year medium-term lending facility (MLF) rate by 10 bps apiece to 2.00 percent and 2.75 percent, respectively. The PBOC's unexpected policy rate cut is intended to spur growth amid a slowdown in economic activity due to increased uncertainty emanating from the government's strict adherence to its zero COVID strategy. In view of these developments, market participants expect the PBOC to cut the 1-year loan prime rate late this August.

Meanwhile, Bank of Japan and Bank Indonesia maintained their respective policy rates during their most recent monetary policy meetings. Despite rising inflationary pressures, these central banks opted to maintain their accommodative monetary stance to boost the expansion of economic activity and mitigate the potential impact of a global slowdown on domestic business prospects.

Aside from the BSP, three more central banks are scheduled to meet in August 2022, namely, Bank Indonesia (23rd), Bank of Korea (25th) and People's Bank of China (TBA).