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INFLATION REPORT

Q1 2019

BANGKO SENTRAL NG PILIPINAS

Foreword

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

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

The government's target for annual headline inflation under the inflation targeting framework has been set at 3.0 percent ± 1.0 percentage point (ppt) for 2019-2022 by the Development Budget Coordination Committee (DBCC). This is consistent with the desired disinflation path over the medium term, favorable trends in inflation dynamics, and expected higher capacity of the economy for growth under a low inflation environment.

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

The Monetary Board approved this Inflation Report at its meeting on 17 April 2019.

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);[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 Statistical Authority (PSA). The policy target is set by the Development Budget Coordination Committee (DBCC)[2] in consultation with the BSP. The inflation target for 2018-2020 is 3.0 percent ± 1.0 ppt.[3]

BSP's Explanation Clauses

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

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

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

[3] The DBCC, in coordination with the BSP, through DBCC Resolution No. 2019-1 dated 26 February 2019, decided to keep the inflation target at 3.0 percent ± 1.0 percentage point for 2019 – 2020 and to set the inflation target at 3.0 percent ± 1.0 percentage point for 2021 – 2022.

The Monetary Board

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

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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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2019 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS

2019	Advisory Committee (AC) Meeting	Monetary Board (MB) Meeting	MB Highlights Publication	Inflation Report (IR) Press Conference
Jan			10 (Thu) (13 Dec 2018 MB meeting)	18 (Fri) (Q4 2018 IR)
Feb	1 (Fri) (AC Meeting No. 1)	7 (Thu) (MB Meeting No. 1)		
Mar	15 (Fri) (AC Meeting No. 2)	21 (Thu) (MB Meeting No. 2)	7 (Thu) (7 Feb 2019 MB meeting)	
Apr			17 (Wed) (21 Mar 2019 MB meeting)	26 (Fri) (Q1 2019 IR)
May	3 (Fri) (AC Meeting No. 3)	9 (Thu) (MB Meeting No. 3)		
Jun	14 (Fri) (AC Meeting No. 4)	20 (Thu) (MB Meeting No. 4)	6 (Thu) (9 May 2019 MB meeting)	
Jul			18 (Thu) (20 Jun 2019 MB meeting)	19 (Fri) (Q2 2019 IR)
Aug	2 (Fri) (AC Meeting No. 5)	8 (Thu) (MB Meeting No. 5)		
Sep	20 (Fri) (AC Meeting No. 6)	26 (Thu) (MB Meeting No. 6)	5 (Thu) (8 Aug 2019 MB meeting)	
Oct			24 (Thu) (26 Sep 2019 MB meeting)	25 (Fri) (Q3 2019 IR)
Nov	8 (Fri) (AC Meeting No. 7)	14 (Thu) (MB Meeting No. 7)		
Dec	6 (Fri) (AC Meeting No. 8)	12 (Thu) (MB Meeting No. 8)	12 (Thu) (14 Nov 2019 MB meeting)	

List of Acronyms, Abbreviations, and Symbols

AHFF	Agriculture, Hunting, Forestry and Fishing	NNPL	Net Non-Performing Loans
AONCR	Areas Outside the National Capital Region	NPC	National Power Corporation
BAP	Bankers Association of the Philippines	NSFR	Net Stable Funding Requirement
BES	Business Expectations Survey	ODF	Overnight Deposit Facility
BICRA	Banking Industry Country Risk Assessment	OECD	Organization for Economic Co-Operation and Development
BIR	Bureau of Internal Revenue		
BOC	Bureau of Customs	OP	Office of the President
BP	Basis Point	OPEC	Organization of the Petroleum Exporting Countries
BPO	Business Process Outsourcing	PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
BTr	Bureau of the Treasury		
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon	PAGCOR	Philippine Amusement and Gaming Corporation
CAMPI	Chamber of Automotive Manufacturers of the Philippines, Inc.	PBOC	People's Bank of China
		PCE	Personal Consumption Expenditure
CAR	Capital Adequacy Ratio	PISM	Philippine Institute for Supply Mangement
CBD	Central Business District	PMI	Purchasing Managers' Index
CDS	Credit Default Swap	Ppt	Percentage Point
CES	Consumer Expectations Survey	PSA	Philippine Statistics Authority; Power Supply Agreement
CI	Confidence Index		
CPI	Consumer Price Index	PSALM	Power Sector Assets and Liabilities Management
DBCC	Development Budget Coordination Committee	PSEi	Philippine Stock Exchange Composite Index
DBM	Department of Budget and Management	QBs	Quasi-Banks
DepED	Department of Education	q-o-q	Quarter-on-Quarter
DI	Diffusion Index	RBI	Reserve Bank of India
DOF	Department of Finance	RBs	Rural Banks
DSWD	Department of Social Welfare and Development	REER	Real Effective Exchange Rate
ECB	European Central Bank	RP	Repurchase
EIA	Energy Information Administration	RR	Reserve Requirement
EMBIG	Emerging Market Bond Index Global	RREL	Residential Real Estate Loan
ERC	Energy Regulatory Commission	RREPI	Residential Real Estate Price Index
FB	Food and Beverage	RRP	Reverse Repurchase
FCD	Foreign Currency Deposit	RTB	Retail Treasury Bond
FDI	Foreign Direct Investment	SBL	Substandard or Below Loan
FTSE	Financial Times Stock Exchange	SDA	Special Deposit Account
GDP	Gross Domestic Product	SEC	Securities and Exchange Commission
GIR	Gross International Reserve	SLOS	Senior Bank Loan Officers' Survey
GNI	Gross National Income	SLOUR	System Loss Over/Under Recovery
GNPL	Gross Non-Performing Loan	SMC	San Miguel Corporation
GOUR	Generation Over/Under Recovery	SME	Small and Medium Enterprise
GS	Government Securities	TAFPPC	True-up Adjustments of Fuel and Purchased Power Cost
IMF	International Monetary Fund		
IMTS	International Merchandise Trade Statistics	TAFxA	True-up Adjustments of Foreign Exchange Related Costs
IPP	Independent Power Producer		
JGS	JG Summit Holdings, Inc.	TBs	Thrift Banks
kWh	Kilowatt Hour	TDF	Term Deposit Facility
LEM	Loans Especially Mentioned	TLP	Total Loan Portfolio
LFS	Labor Force Survey	TOUR	Transmission Over/Under Recovery
LSOUR	Lifeline Subsidy Over/Under Recovery	TPI	Trading Partner Index
MB	Monetary Board	TPI-A	Trading Partner Index in Advanced Countries
mb/d	Million Barrels per Day	TPI-D	Trading Partner Index in Developing Countries
MDM/MSM	Mechanically-Deboned or Separated Meat	U/KBs	Universal and Commercial Banks
MERALCO	Manila Electric Company	VaPI	Value of Production Index
MISSI	Monthly Integrated Survey of Selected Industries	VoPI	Volume of Production Index
		WB	World Bank
MTP	Major Trading Partner	WESM	Wholesale Electricity Spot Market
NCR	National Capital Region	WTO	World Trade Organization
NEDA	National Economic and Development Authority	y-o-y	Year-on-Year
NEER	Nominal Effective Exchange Rate	y-t-d	Year-to-Date
NFA	Net Foreign Asset; National Food Authority		

Contents

Overview

Headline inflation eases in Q1 2019 amid improved food supply conditions. Headline inflation in Q1 2019 slowed down further to 3.8 percent from 5.9 percent in Q4 2018, reflecting mainly the significant deceleration in food inflation amid improved supply conditions. The headline inflation for Q1 2019 is within the National Government's (NG) announced target range of 3.0 percent ± 1.0 percentage point (ppt) for the year.

Q1 2019 inflation reverts to within 2.0-4.0 percent target band

Similarly, the official core inflation declined to 3.9 percent year-on-year (y-o-y) in Q1 2019 from 4.9 percent in Q4 2018. In terms of the BSP-computed alternative measures for core inflation, the weighted median, trimmed mean, and net of volatile items measures of core inflation were also lower at 3.4 percent (from 5.2 percent), 3.8 percent (from 5.2 percent), and 3.7 percent (from 4.9 percent), respectively. Consistent with the downtrend in overall inflation, the number of Consumer Price Index (CPI) items with inflation rates higher than the threshold of 4.0 percent (the upper end of the 2018 inflation target) also fell to 79 items in Q1 2019 from 97 items in the previous quarter. Collectively, these items accounted for 43.3 percent of the total CPI basket, lower than the 55.9 percent share in Q4 2018.

Inflation expectations for 2019 and 2020 are likewise lower and aligned to the inflation target. Results of the BSP's survey of private sector economists in March 2019 showed lower mean inflation forecasts for 2019 and 2020 relative to the results in December 2018. In particular, the mean inflation forecast for 2019 decreased to 3.3 percent from 4.1 percent. Likewise, the mean inflation forecast for 2020 declined to 3.4 percent from 3.8 percent during the same review period. Meanwhile, the mean inflation forecast for 2021 stood at 3.4 percent.

Analysts expect inflation in 2019 and 2020 to settle within the target range, with downward pressures seen to dominate the risks to the inflation outlook. Possible downside risks to inflation include the implementation of the rice tariffication law, which is expected to improve domestic rice supply and stabilize prices, and lower global crude oil prices. On the other hand, the key upside risks to inflation are seen to emanate from adverse weather conditions such as El Niño; volatile global oil prices and foreign exchange market; possible policy rate cut by the BSP; higher domestic demand due to the upcoming midterm elections and school enrollment; and higher electricity rates.

Real GDP growth stays firm. The Philippine economy grew by 6.3 percent (revised) in Q4 2018, higher compared to its quarter-ago rate of 6.0 percent (revised). This brought the full-year 2018 Gross Domestic Product (GDP) growth to 6.2 percent which fell short of the revised government's growth target of 6.5 percent to 6.9 percent for 2018. On the production side, growth was driven by the industry and services sectors, particularly the construction and retail trade and related services. On the expenditure side, growth was supported by sustained double-digit growth in government spending and robust household spending.

Domestic economy sustains growth momentum in Q4 2018

High-frequency real sector indicators continued to point to overall firm domestic growth prospects in the near term. The composite Purchasing Managers' Index (PMI) indicated sustained expansion in the period ahead. In addition, business and consumer expectations surveys reported a more upbeat business and household sentiment over the prospects of the economy in the next quarter and the year ahead. At the same time, data on the manufacturing sector's utilization rate point to the economy's capacity to absorb further expansion. Energy sales also continued to increase, albeit at a slower pace. Meanwhile, vehicle sales contracted.

Global economic activity shows signs of weakness. In the US, real GDP continued to expand in Q4 2018, reflecting positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, private inventory investment, and federal government spending. GDP growth in Japan, China, and India softened slightly in Q4 2018, although recent indicators continued to point to stable demand conditions. Meanwhile, economic activity improved slightly in the euro area. However, risks to global growth remain skewed to the downside amid elevated trade tensions, tighter financial conditions, and policy uncertainty in advanced economies.

The domestic financial system remained stable, supported by firm macroeconomic fundamentals. During the quarter, the Philippine equities market recorded gains over the improving domestic inflation outlook, the US Federal Reserve's dovish policy stance during its first policy meeting in 2019 and optimism over easing trade tensions between the US and China. Meanwhile, sovereign debt spreads narrowed as investment sentiment was lifted by the US Fed's decision to keep policy rates steady, the approval of the rice tariffication law, as well as the approved amendments to the BSP charter. Amid all these developments, the Philippine banking system remained sound and resilient, marked by sustained growth in assets and deposits, and with capital adequacy ratios comfortably above the BSP's regulatory threshold and international standard. In addition, preliminary results of the Q1 2019 Senior Bank Loan Officers' Survey (SLOS) showed that most of the respondent banks continued to maintain their credit standards for loans to both enterprises and households, indicating that banks continue to be prudent in managing their risks.

The BSP keeps monetary policy settings unchanged in Q1 2019. At its monetary policy meetings on 7 February and 21 March, the BSP maintained the key policy rate at 4.75 percent for the overnight reverse repurchase (RRP) facility. The interest rates on the overnight lending and deposit facilities were likewise held steady. The BSP's decisions to keep the policy rate steady were based on its assessment of a more manageable inflation environment.

The BSP is of the view that current monetary policy settings are appropriate

Current monetary policy settings remain appropriate. The inflation forecasts presented during the quarter indicated inflation settling within the target band of 3.0 percent ± 1.0 percentage point for 2019-2020, as price pressures continued to recede amid the decline in international crude oil prices and the normalization of supply conditions for key food items. Inflation expectations have also continued to stabilize within the target band, while overall prospects for domestic activity remain firm.

While the risks to the inflation outlook are assessed to be evenly balanced for 2019, the BSP notes that further risks could emerge from a prolonged El Niño weather condition and higher-than-expected increases in global oil and food prices. For 2020, the risks lean toward the downside amid slowdown in global economic activity.

With better-behaved inflation dynamics, the BSP continues to have the leeway to allow the cumulative 175-basis-point policy rate hikes in 2018 to work their way through the traditional channels of monetary policy, as monetary policy works with long and variable lags. Real sector activity suggests moderate demand-pull pressures on prices going forward. Meanwhile, increased uncertainty over global macroeconomic prospects offers scope for the BSP to hold its policy settings steady for the time being. These require the BSP to remain vigilant to ensure that monetary policy settings remain consistent with its primary mandate of price stability.

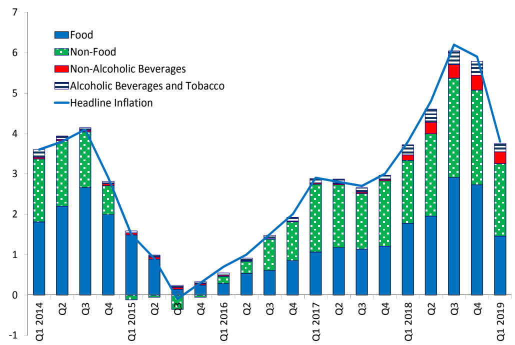
I. Inflation and Real Sector Developments

Prices

Headline inflation. Headline inflation rate eased further to 3.8 percent y-o-y in Q1 2019 from 5.9 percent in the previous quarter, and is now within the NG's announced target range of 3.0 percent ± 1.0 ppt for the year.

Q1 2019 headline inflation within 2-4 percent target

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



Source: Philipine Statistical Authority (PSA), BSP

Core Inflation. Likewise, core inflation—which excludes selected volatile food and energy items to measure underlying price pressures—has also slowed down to 3.9 percent y-o-y in Q1 2019 from 4.9 percent in Q4 2018.

Official core inflation likewise slows down in Q1 2019

In terms of the BSP-computed alternative measures for core inflation, the weighted median, trimmed mean, and net of volatile items measures of core inflation were also lower at 3.4 percent (from 5.2 percent), 3.8 percent (from 5.2 percent), and 3.7 percent (from 4.9 percent), respectively.

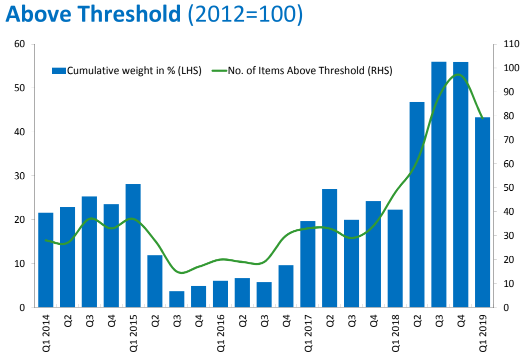
Table 1. Alternative Core Inflation Measures
quarterly averages of year-on-year change

Quarter	Official Headline Inflation	Official Core Inflation	Trimmed Mean [1]	Weighted Median [2]	Net of Volatile Items [3]
2014	**3.6**	**2.6**	**3.3**	**2.8**	**2.8**
Q1	3.6	2.8	3.0	2.4	2.4
Q2	3.8	2.6	3.4	3.0	2.6
Q3	4.1	2.7	3.6	3.2	3.0
Q4	2.9	2.1	3.1	2.6	3.0
2015	**0.7**	**1.0**	**1.5**	**1.7**	**2.2**
Q1	1.5	1.3	2.6	2.7	2.9
Q2	0.9	1.3	1.7	1.7	2.4
Q3	-0.1	0.8	0.9	1.3	1.8
Q4	0.3	0.8	0.9	1.2	1.8
2016	**1.3**	**1.6**	**1.2**	**1.3**	**1.9**
Q1	0.7	1.0	0.8	1.0	1.5
Q2	1.0	1.2	1.1	1.4	1.8
Q3	1.5	1.7	1.4	1.3	2.0
Q4	2.0	2.2	1.6	1.5	2.3
2017	**2.9**	**2.4**	**2.2**	**1.8**	**2.7**
Q1	2.9	2.7	2.1	1.9	2.6
Q2	2.8	2.5	2.3	1.7	2.8
Q3	2.7	2.3	2.1	1.6	2.7
Q4	3.0	2.4	2.3	1.7	2.7
2018	**5.2**	**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					
Q1	**3.8**	**3.9**	**3.8**	**3.4**	**3.7**

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

Consistent with the downtrend in overall inflation, the number of CPI items with inflation rates higher than the threshold of 4.0 percent (the upper end of the 2019 inflation target) also fell to 79 items in Q1 2019 from 97 items in the previous quarter.

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



Source: PSA, BSP staff estimates

Collectively, these items accounted for 43.3 percent of the total CPI basket in Q1 2019, lower than the 55.9 percent share in Q4 2018.

Food Inflation. Improving supply conditions brought down food inflation in Q1 2019. Food inflation rate decelerated to 4.1 percent y-o-y in Q1 2019, markedly lower than the 7.7 percent in the previous quarter.

Food inflation decelerates in Q1 2019

Rice inflation rate eased in Q1 2019 with the onset of the summer harvest season and continued arrival of rice imports. At the same time, other agricultural commodities like meat, fish, fruits, vegetables, and sugar posted slower price increases during the quarter.

Inflation for non-alcoholic beverages remained at double-digit rates in Q1 2019 at 10.0 percent, albeit lower compared to the 12.9-percent inflation rate in the previous quarter. Similarly, inflation rate for alcoholic beverage and tobacco moderated to 13.0 percent in Q1 2019 from 21.7 percent in Q4 2018.

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

Commodity	2018				2019
	Q1	Q2	Q3	Q4	Q1
Food and Non-Alcoholic Beverages	**5.0**	**5.9**	**8.5**	**8.0**	**4.6**
Food	5.0	5.5	8.2	7.7	4.1
Bread and Cereals	2.8	4.2	6.6	7.1	3.0
Rice	2.6	4.4	7.5	8.2	3.0
Corn	9.7	13.7	11.3	4.9	-0.7
Meat	6.4	5.0	7.3	6.4	4.4
Fish	12.2	11.7	12.4	12.0	6.8
Milk, Cheese and Eggs	2.1	2.1	2.7	2.9	2.6
Oils and Fats	4.0	3.2	3.8	4.8	4.1
Fruit	6.1	5.8	5.6	4.0	1.9
Vegetables	3.9	7.4	18.8	11.7	4.8
Sugar, Jam, Honey, Chocolate and Confectionery	-1.4	1.4	8.9	10.4	7.9
Food Products, N.E.C.	2.0	3.2	4.3	5.4	4.3
Non-Alcoholic Beverages	4.6	9.9	11.5	12.9	10.0
Alcoholic Beverages and Tobacco	15.9	20.5	21.7	21.7	13.0

Source of Basic Data: PSA, BSP

Non-Food Inflation. Non-food inflation also slowed down in Q1 2019 as majority of non-food subcomponents registered slower inflation rates. Inflation rates for rent and utilities[4] eased in Q1 2019 while air and ship fares declined during the quarter, also contributing to the slowdown in non-food inflation.

[4] Rent and utilities refer to housing, water, electricity, gas and other fuels.

Non-food inflation also slows down

At the same time, education inflation rate remained negative in Q1 2019, reflecting the implementation of the government's free-tuition program for public tertiary education. Inflation rate for restaurant and miscellaneous goods and services also moderated in Q1 2019 to 3.9 percent from 4.4 percent in the previous quarter.

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

Commodity	2018				2019
	Q1	Q2	Q3	Q4	Q1
Non-Food	**2.6**	**3.4**	**4.1**	**3.9**	**3.0**
Clothing and Footwear	2.0	2.2	2.4	2.6	2.4
Housing, Water, Electricity, Gas and Other Fuels	2.7	3.5	5.2	4.3	3.7
Electricty, Gas, and Other Fuels	4.3	6.2	10.6	6.8	4.9
Furnishings, Household Equipment & Routine Household Maintenance	2.4	2.9	3.5	3.8	3.7
Health	2.2	2.7	4.0	4.5	4.1
Transport	4.9	6.0	7.9	7.2	2.3
Communication	0.2	0.3	0.4	0.4	0.4
Recreation and Culture	1.4	1.4	2.1	3.2	3.1
Education	1.8	2.5	-3.8	-3.8	-3.8
Restaurant and Miscellaneous Goods and Services	2.6	3.6	3.9	4.4	3.9

Source of Basic Data: PSA, BSP

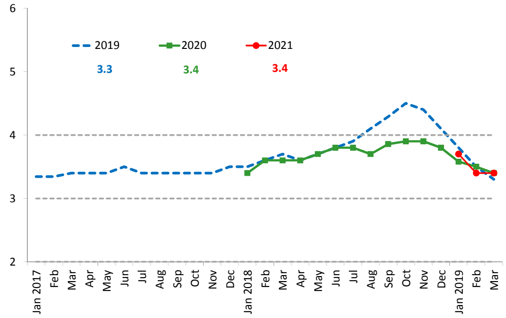
Private Sector Economists' Inflation Forecasts. Results of the BSP's survey of private sector economists in March 2019 showed lower mean inflation forecasts for 2019 and 2020 relative to the results in December 2018.

Private sector economists' mean inflation forecasts for 2019 and 2020 are lower

In particular, the mean inflation forecast for 2019 decreased to 3.3 percent from 4.1 percent in the December 2018 survey.[5] Likewise, the mean inflation forecast for 2020 declined to 3.4 percent from 3.8 percent during the same review period. Meanwhile, the mean inflation forecast for 2021 stood at 3.4 percent.

[5] There were 26 respondents in the BSP's survey of private sector economists in March 2019. The survey was conducted from 11 to15 March 2019.

Chart 3. BSP Private Sector Economists' Survey*
mean forecast for full year; in percent
January 2016 to February 2018 (2006=100)
March 2018 to March 2019 (2012=100)



*Based on forecasts provided by 26 respondents.
Source: BSP

Analysts expect inflation in 2019 and 2020 to settle within the target range, with downward pressures seen to dominate the risks to the inflation outlook. Possible downside risks to inflation include the implementation of the rice tariffication law, which is expected to improve domestic rice supply and stabilize prices, and lower global crude oil prices. On the other hand, the key upside risks to inflation are seen to emanate from adverse weather conditions such as El Niño, volatile global oil prices and foreign exchange market, possible policy rate cut by the BSP, higher domestic demand due to the upcoming midterm elections and school enrollment, and higher electricity rates.

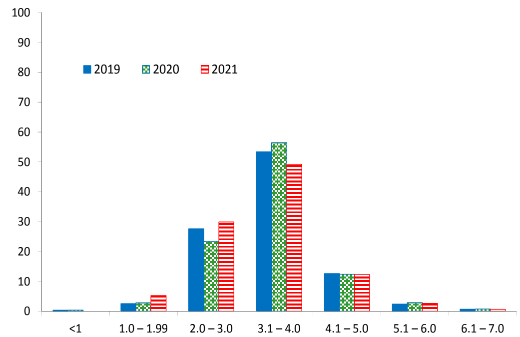
Table 4. Private Sector Forecasts for Inflation
annual percentage change; March 2019 (2012=100)

	2019			2020	2021
	Q2	Q3	FY	FY	FY
1) Al-Amanah Islamic Bank	4.00	4.00	4.00	4.00	4.00
2) Asia ING	3.40	3.10	3.40	3.30	3.30
3) Banco de Oro	3.90	3.10	3.60	3.70	3.50
4) Bangkok Bank	3.40	3.20	3.30	3.30	3.20
5) Bank of Commerce	3.27	2.27	2.89	-	-
6) Bank of China Ltd.	4.00	4.00	3.50	4.00	4.00
7) Bank of the Philippine Islands	3.40	2.30	2.90	3.40	3.00
8) Barclays	3.20	2.30	3.00	3.50	-
9) Citibank	3.50	1.90	3.20	3.20	3.10
10) Chinabank	3.50	3.50	3.50	3.50	3.50
11) CTBC Bank	3.50	3.25	3.50	3.50	3.50
12) Deutsche Bank	-	-	3.60	3.20	-
13) Eastwest bank	2.70	1.40	2.20	2.60	2.90
14) Korea Exchange Bank	5.40	5.20	5.20	5.20	5.20
15) Land Bank of the Phils.	3.80	2.90	2.60	3.20	3.20
16) Maybank-ATR KimEng	3.10	2.00	3.00	2.80	2.80
17) Metrobank	-	-	3.20	2.50 -	2.50 -
18) Mizuho	3.50	2.80	3.40	-	-
19) Nomura	3.30	2.30	3.00	3.10	-
20) RCBC	3.00-3.30	1.80-2.30	2.60-3.00	3.10-3.60	3.50-4.00
21) Robinsons Bank	3.50	2.70	3.20	3.20	3.00
22) Philippine Equity Partners	3.50	2.60	3.20	3.60	-
23) Security Bank	4.00	3.70	3.50	3.00	2.00
24) Standard Chartered	3.00	1.90	2.70	4.20	4.00
25) Union Bank of the Phils.	3.60	3.20	3.50	3.10	3.00
26) UBS	3.40	2.20	2.90	3.50	-
Median Forecast	3.5	2.8	3.2	3.3	3.2
Mean Forecast	**3.5**	**2.8**	**3.3**	**3.4**	**3.4**
High	5.4	5.2	5.2	5.2	5.2
Low	2.7	1.4	2.2	2.6	2.0
Number of Observations	24	24	26	24	19
Government Target	**3.0±1.00**	**3.0±1.00**	**3.0±1.00**	**3.0±1.00**	**3.0±1.00**

Source: BSP

Based on the probability distribution of the forecasts provided by 21 out of 26 respondents, there is an 81.0-percent probability that average inflation for 2019 will settle between the 2-4 percent range, while there is a 16.1-percent chance that inflation will rise beyond 4 percent. For 2020, the respondents assigned a 79.8-percent probability that inflation will fall within the 2-4 percent target range and 17.0-percent chance that inflation will breach the upper end of the target.

Chart 4. Probability Distribution for Analysts' Inflation Forecasts* (2019-2021)



*Probability distributions were averages of those provided by 21 out of 26 respondents.
Source: BSP March 2019 Survey

Survey-based inflation expectations moderate

Based on the Q1 2019 BSP Business Expectations Survey (BES), more respondents in Q1 2019 expect inflation to decline in the current quarter (from a diffusion index of 62.1 percent to -9.8 percent).

Similarly, a higher number of respondents anticipate lower inflation in the next quarter (from 24.1 percent to -0.8 percent). However, firms expect the rate of increase in consumer prices to remain above the government's 2 to 4 percent inflation target range at 5.0 percent in Q1 2019 and 4.9 percent in Q2 2019.

Consumer Expectations Survey (CES) results for Q1 2019 indicated that consumers expect inflation to decrease over the next 12 months at 4.7 percent from 5.1 percent in the Q4 2018 survey. However, a lower number of respondents expect inflation to breach the upper end of the government's target range of 2-4 percent in the next 12 months. Consumers expect lower inflation for the following items: rice (-0.8 percent), meat (-0.5 percent), fish and seafood (-0.6 percent), fruits (-1 percent), vegetables (-0.9 percent), non-alcoholic beverages (-1 percent), clothing (-0.5 percent), water (-0.1 percent), light (-0.4 percent), fuel (-0.4 percent), medical care (-0.2 percent), transportation (-1.7 percent), education (-0.8 percent), personal care (-0.4 percent), and restaurants and cafes (-0.6 percent).

Energy prices. Dubai crude oil prices, on average, declined in Q1 2019 by 5.8 percent relative to the previous quarter's level due to expectations of lower demand.

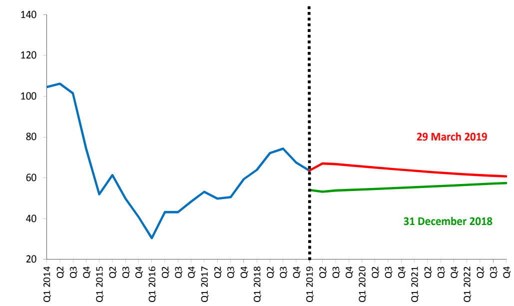
Energy prices decline in Q1 2019 on expectations of weaker demand

However, despite averaging lower in Q1 2019, Dubai crude oil prices have been steadily rising since January 2019 due to tighter supply. This can be attributed to several factors: (1) the Organization of the Petroleum Exporting Countries (OPEC) and selected non-OPEC countries' decision to extend production cuts, (2) Saudi Arabia statements that it would be reducing its production by more than the agreed quantity, (3) supply disruptions in Libya, and (4) United States sanctions on Venezuela's state-owned oil company Petroleos de Venezuela (PDVSA).

Estimated futures prices of Dubai crude oil as of end-March 2019,[6] which are based on movements of Brent crude oil, showed a higher path for 2019 – 2022 compared to the estimates in the previous quarter.[7]

[6] Future prices using Brent crude futures data. Taken as of 29 March 2019.
[7] Future prices derived using Brent crude futures data. Taken as of 31 December 2018 Sources: BSP-staff calculations, Bloomberg L.P.

Chart 5. Spot and Estimated Prices of Dubai Crude Oil



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

The US Energy Information Administration (EIA) estimates world oil production to grow by 1.1 percent in 2019 to around 101.6 million barrels per day (mb/d) while global oil consumption is also expected to increase by 1.5 percent to 101.4 mb/d in 2019.[8]

On a cumulative basis, net price adjustments of domestic petroleum products[9] are positive for Q1 2019. Prices of gasoline, kerosene, and diesel went up on a net basis by ₱6.64 per liter, ₱3.41 per liter, and ₱6.99 per liter, respectively.

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

Domestic Oil Products	Year-to-Date (March 2019)					
	Increase		Decrease		Net Adjustments	
	Number	Amount (₱/liter)	Number	Amount (₱/liter)	Number	Amount (₱/liter)
Gasoline	11	10.59	2	-3.95	9	6.64
Kerosene	8	6.84	4	-3.43	4	3.41
Diesel	9	9.29	3	-2.30	6	6.99

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

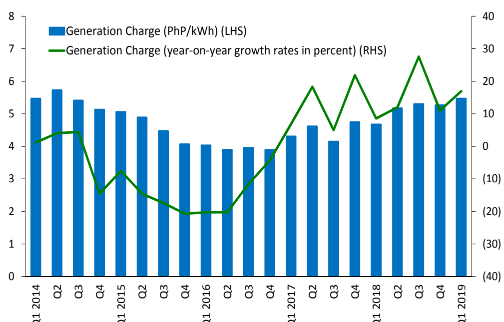
[8] Source: US EIA Short-Term Energy Outlook (March 2019). International Petroleum and other Liquids Production, Consumption, and Inventories. https://www.eia.gov/outlooks/steo/
[9] Based on actual prevailing common prices of domestic petroleum products for Metro Manila reported by the Department of Energy.

Power. For Q1 2019, the overall electricity rate in the Meralco-franchised area increased by around ₱0.17 per kilowatt hour (kWh) to ₱10.25 per kWh (from ₱10.08 per kWh in Q4 2018).

Retail electricity prices rise due mainly to the upward adjustment in generation charge

The upward adjustment was attributed mainly to the average increase in the generation cost by ₱0.20 per kWh to about ₱5.47 per kWh (from ₱5.27 per kWh in Q4 2018). In turn, the higher generation cost in Q1 2019 was primarily due to registered increases in generation charges from the Wholesale Electricity Spot Market (WESM) due to tighter supply conditions in Luzon as several large power plants went on scheduled maintenance outages, as well as the Power Supply Agreements (PSAs) due to the early completion of annual capacity fee payments for the previous year, wherein capacity fees returned to levels prescribed in the PSAs approved by the Energy Regulatory Commission (ERC). At the same time, cost of power from the Independent Power Producers (IPPs) also contributed to the higher generation cost as a result of the depreciation of the peso against the US dollar and the lower average plant dispatch.

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



Source: Meralco

There are potential sources of upside pressures on electricity charges. Meralco has existing petitions for rate increases with ERC which include the petition to implement the Maximum Average Price for 2012, 2013, 2014, and 2015, amended application for a rate increase in the January 2014 billing (consisting of incremental fuel costs and deferred generation cost to be collected monthly for six months); and petitions for the refund of generation over/under recovery (GOUR), transmission over/under recovery (TOUR), system loss over/under recovery (SLOUR), and lifeline subsidy over/under recovery (LSOUR) for the period January-December 2011. In addition, the Power Sector Assets and Liabilities Management (PSALM) has several pending petitions with ERC for the recovery of True-Up Adjustments of Fuel and Purchased Power Costs (TAFPPC), Foreign Exchange Related Costs (TAFxA) and Purchased Power Costs and Foreign Exchange Related Costs by the National Power Corporation (NPC), and NPC's Stranded Debt portion of the universal charge. Likewise, the National Grid Corporation of the Philippines (NGCP) also filed several petitions to recover connection charges and residual sub-transmission charges for 2011-2013 and the costs of repair on damages caused by force majeure events such as earthquake, flooding, landslides, and lightning incidents in 2011-2012.

Aggregate Demand and Supply[10]

The Philippine economy grew by 6.3 percent (revised) in Q4 2018. This is higher than the 6.0-percent expansion in Q3 2018 but is lower than the 6.6-percent growth in Q4 2017.

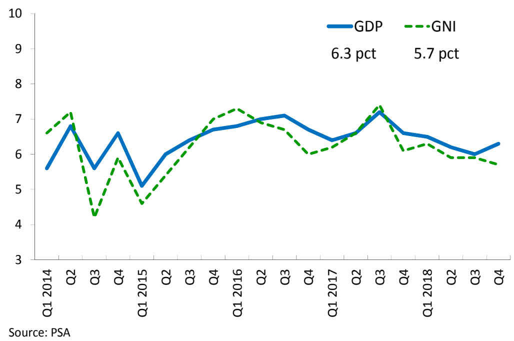
Real GDP is higher in Q4 2018

On the expenditure side, growth in household consumption was unchanged at 5.3 percent in Q4 2018 while government spending and investments (capital formation) at 12.6 percent and 4.9 percent, respectively were lower than the 14.3-percent and 19.6-percent growth in Q3 2018. On the production side, the performance of the industry sector and the agriculture, hunting, forestry and fishing (AHFF) sector remained strong as they expanded by 6.6 and 1.8 percent, respectively in Q4 2018 from 6.0 percent and 0.0 percent in Q3 2018.

Gross national income (GNI) growth was lower at 5.7 percent in Q4 2018 compared to the 5.9- and 6.1-percent growth in Q3 2018 and Q4 2017. Likewise, net primary income decelerated to 2.7 percent from the 5.2- and 3.1-percent growth in Q3 2018 and Q4 2017.

[10] Based on revised National Income Accounts (NIA) released as of 4 April 2019.

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

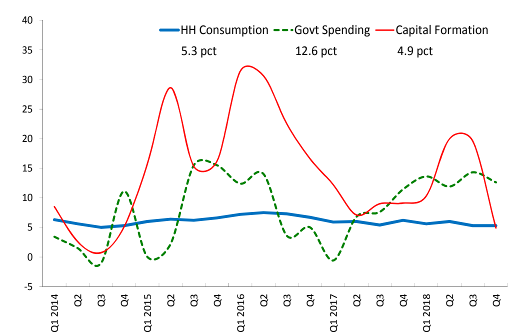


Aggregate Demand. On the expenditure side, household spending, investments (or capital formation), and government spending contributed 3.8 ppts, 1.5 ppts, and 1.1 ppts, respectively, to the total GDP growth, offsetting the negative contribution of net exports at -0.6 ppt.

Government spending is key growth driver in Q4 2018

Household expenditure, which accounted for 71.7 percent of the country's total output in Q4 2018, was unchanged from the 5.3-percent growth recorded in Q3 2018, and was lower than 6.2 percent growth in Q4 2017. Slower spending was recorded for education, housing, water, electricity, gas, and other fuels,.

Chart 8. Gross Domestic Product by Expenditure Shares
at constant prices



Government expenditures grew at a lower rate of 12.6 percent in Q4 2018 from 14.3 percent in Q3 2018 and 11.4 percent in Q4 2017. Aside from spending on personnel services, which continued to grow due to the Department of Education's (DepEd) increased disbursements, the maintenance and operating expenses remained firm on account of the Pantawid Pamilyang Pilipino Program and other social protection programs of the Department of Social Welfare and Development (DSWD).

Capital formation decelerated to 4.9 percent in Q4 2018 from 19.6 percent in Q3 2018. The growth was dampened by the slower investments in durable equipment (2.3 percent from 18.5 percent in Q3 2018). Expansion in construction remained strong with 17.6 percent recorded growth in Q4 2018 from 13.3 percent in Q3 2018. The deceleration in investments was mirrored by the less optimistic business sentiment.

Table 6. Gross Domestic Product by Expenditure Shares
at constant 2000 prices; growth rate in percent

BY EXPENDITURE ITEM	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	5.9	6.0	5.4	6.2	5.6	6.0	5.3	5.3
Government Consumption	-0.6	6.8	7.6	11.4	13.6	11.9	14.3	12.6
Capital Formation	12.2	7.1	9.0	9.1	10.3	20.0	19.6	4.9
Fixed Capital Formation	12.9	6.8	8.3	9.5	8.2	19.3	16.6	8.5
Exports	17.4	21.2	19.3	20.8	10.3	14.7	14.2	14.4
Imports	18.8	18.3	17.3	18.3	11.3	21.0	19.1	12.4

Source: PSA

Overall exports grew by 14.4 percent in Q4 2018, slightly higher than the 14.2-percent growth in Q3 2018. Such growth was due partly to the acceleration in exports of services (7.4 percent in Q4 2018 from 1.9 percent in Q3 2018), which may be the effect of the expansion in miscellaneous services, transportation, and government services. The overall export growth outweighed the slowdown in exports of goods (from 16.8 percent in Q3 2018 to 16.1 percent in Q4 2018) due to continued slowdown in exports of semiconductors. This may be attributed to the significant decline in the US semiconductor stocks in the earlier part of 2018. On the upside, the growth in exports of agricultural products increased in the last quarter of 2018 because of higher demand for bananas in China, Japan, and South Korea and for coconut oil in the United States, Netherlands, and Spain.

In the same manner, overall imports decelerated to 12.4 percent in Q4 2018 from 19.1 percent in Q3 2018. The moderation in imports of goods was due mainly to the decline in imports of transport equipment, metalliferous ores and metal scrap, textile yarns, chemical products, and paper products, albeit higher demand for electronics. Meanwhile, imports of services accelerated by

10.8 percent in Q4 2018 (from 8.1 percent in Q3 2018) on the back of the growth in transportation, miscellaneous services, and government services.

Other Demand Indicators. High-frequency real sector indicators continued to point to overall firm domestic growth prospects in the near term. The composite Purchasing Managers' Index (PMI) indicated sustained firm expansion in the period ahead. In addition, business and consumer expectations surveys reported a more upbeat business and household sentiment over the prospects of the economy in the next quarter and the year ahead. At the same time, data on the manufacturing sector's utilization rate point to the economy's capacity to absorb further expansion. Energy sales also continued to increase, albeit at a slower pace. Meanwhile, vehicle sales contracted.

Property Prices

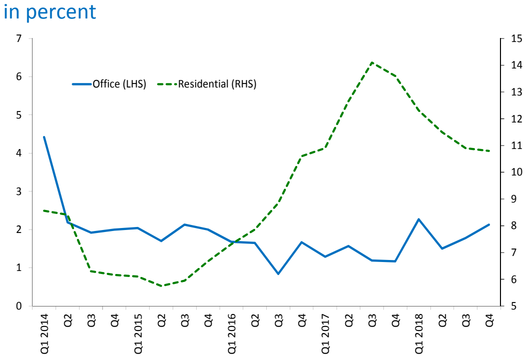
Vacancy Rates. The overall office vacancy rate in Metro Manila slightly decreased to 4.7 percent in Q4 2018 from 4.8 percent in the previous quarter due to sustained office demand.

Office vacancy rates slightly decrease

Office vacancy rates in the Ortigas Center (2.7 percent from 4.0 percent), Fort Bonifacio (4.4 percent from 5.0 percent) and Manila Bay Area (0.7 percent from 2.3 percent) decreased in Q4 2018 compared to the previous quarter. Meanwhile, office vacancy rate in the Makati Central Business District (CBD) in Q4 2018 was higher at 2.1 percent from 1.8 percent in the previous quarter. The overall office vacancy rate in Metro Manila is projected at about 5.0 percent in 2019 amid sustained robust office demand. Colliers International Philippines noted that about 28 percent of office spaces scheduled to be completed within the next 12 months has already been pre-leased as of end-2018.

Similarly, the overall residential vacancy rate in Metro Manila decreased to 10.6 percent in Q4 2018 from 10.8 percent in Q3 2018 due to the strong leasing demand from both foreign and local professionals working in the CBDs and Chinese investors and employees working for offshore gaming companies, as well as sustained end-user demand from mid-income households. In particular, residential vacancy rates across all major CBDs in Metro Manila were lower in Q4 2018 from their respective quarter-ago levels namely, in the Makati CBD (10.8 percent from 10.9 percent), Fort Bonifacio (14.6 percent from 14.9 percent), Rockwell Center (9.7 percent from 10.0 percent), Ortigas Center (4.8 percent from 5.0 percent), Eastwood City (4.3 percent from 4.7 percent) and Manila Bay area (12.1 percent from 12.5 percent). Colliers foresees a residential vacancy rate of about 10.5 percent in 2019 due to sustained demand alongside with the slower delivery of residential units.

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



Source: Colliers International Philippines

Rental Values. Monthly Grade A office[11] rents in the Makati CBD reached ₱1,085/sq.m. in Q4 2018, representing an increase of 0.9 percent from the previous quarter. Similarly, monthly Grade A office rents in the Makati CBD were higher by 8.5 percent relative to Q4 2017.

Office rental values above 1997 levels in nominal terms

The appreciation in office rental rates was due to the sustained take-up from diversified tenants composed of business process outsourcing (BPO) and offshore gaming firms, as well as traditional companies. Office rental values for Grade A offices were above their 1997 levels in nominal terms.

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

In real terms, office rental values were about 57.1 percent of the comparable levels in 1997.

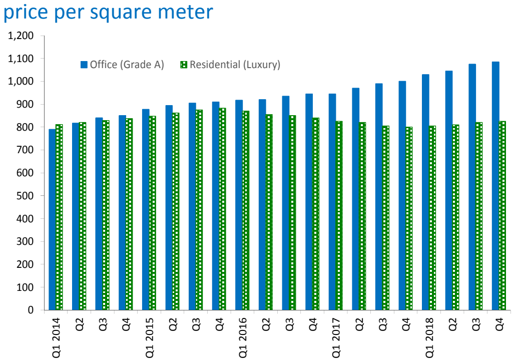
Monthly rents for luxury three-bedroom condominium units in the Makati CBD was at ₱825/sq.m. in Q4 2018, increasing by 0.6 percent from the previous quarter.

Luxury rental values rise

Likewise, monthly rents for the 3-bedroom segment were higher by 3.1 percent compared to the year-ago levels. The marginal increase in rents in Q4 2018 and in the previous quarter is a turnaround from the contraction in rents recorded in 2016 to the first semester of 2018. Residential rental values for luxury three-bedroom high-rise units were above their 1997 levels in nominal terms but were only about 59.9 percent of their 1997 levels in real terms.

Chart 10. Rental Values (Makati Central Business District)

price per square meter



Source: Colliers International Philippines

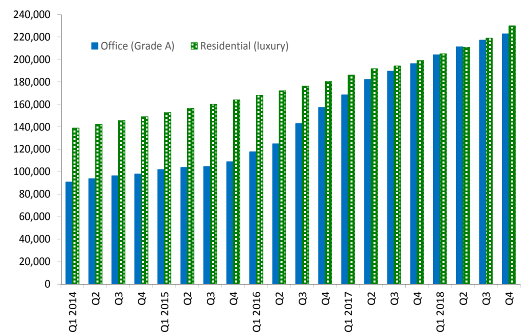
Capital Values. Capital values[12] for Grade A office buildings in the Makati CBD in Q4 2018 were higher in nominal terms than their quarter- and year-ago levels. Grade A office capital values in the Makati CBD rose to ₱222,700/sq.m., higher by 2.5 percent and 13.4 percent compared to the quarter- and year-ago levels, respectively. Grade A office capital values were more than two times higher than the 1997 levels in nominal terms. In real terms, office capital values were higher by 9.6 percent than the comparable levels in 1997.

Capital values for office and residential buildings increase

Likewise, capital values for luxury residential buildings[13] in Makati CBD in Q4 2018 increased to ₱229,900/sq.m. from their quarter- and year-ago levels. Average prices for three-bedroom luxury residential condominium units grew by 5.0 percent q-o-q and 15.5 percent y-o-y. Capital values for luxury residential buildings were more than twice their levels in 1997. In real terms, residential capital values were about 92.2 percent of the comparable levels in 1997.

Chart 11. Capital Values (Makati Central Business District)

price per square meter



Source: Colliers International Philippines

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

[13] 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.

BSP Residential Real Estate Price Index (RREPI).[14] Residential real estate prices slightly rose by 0.5 percent y-o-y in Q4 2018 as the RREPI increased to 118.0 from 117.4 for the same quarter a year ago.

Residential real estate prices edge slightly higher in Q4 2018

Year-on-year prices of townhouses and condominium units grew by 11.4 percent and 0.6 percent, respectively. Meanwhile, prices of single detached housing units declined by 1.9 percent. Likewise, prices of duplex units (which account for only 0.37 percent of total new housing units reported) also decreased by 3.7 percent y-o-y. Quarter-on-quarter, the RREPI rose by 1.3 percent. For full year 2018, residential property prices, on average, grew by 2.9 percent compared to the previous year.

By area, the average residential property prices in the National Capital Region (NCR) increased by 1.6 percent y-o-y, while those in areas outside the National Capital Region (AONCR) declined by 0.8 percent.

Residential property prices rise in the NCR, but decline in AONCR

In NCR, the rise in prices of single detached houses and townhouses more than offset the decline in prices of duplexes and steady prices of condominium units. In AONCR, the decline in prices of single detached houses outweighed the increase in prices of duplexes, townhouses, and condominium units.

[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.

Table 7. Residential Real Estate Price Index By Area

Q1 2014=100; growth rate in percent

Quarter	Residential Real Estate Price Index [1] (By Area)		
	Overall	NCR	AONCR
2016 Q1	106.9	113.4	103.3
Q2	111.7	116.1	109.3
Q3	109.6	115.7	106.2
Q4	111.1	117.3	107.9
2017 Q1	113.9	118.4	111.6
Q2	111.8	120.4	107.5
Q3	111.6	118.2	108.1
Q4	117.4	127.6	111.1
2018 Q1	116.3	121.6	112.6
Q2	117.2	126.5	111.9
Q3	116.5	126.2	110.5
Q4	118.0	129.6	110.2
	Year-on-Year Growth Rates		
2016 Q1	1.3	3.5	1.8
Q2	5.9	1.9	9.6
Q3	3.8	0.2	6.9
Q4	3.3	0.6	6.0
2017 Q1	6.5	4.4	8.0
Q2	0.1	3.7	-1.6
Q3	1.8	2.2	1.8
Q4	5.7	8.8	3.0
2018 Q1	2.1	2.7	0.9
Q2	4.8	5.1	4.1
Q3	4.4	6.8	2.2
Q4	0.5	1.6	-0.8
	Quarter-on-Quarter Growth Rates		
2016 Q1	-0.7	-2.7	1.5
Q2	4.5	2.4	5.8
Q3	-1.9	-0.3	-2.8
Q4	1.4	1.4	1.6
2017 Q1	2.5	0.9	3.4
Q2	-1.8	1.7	-3.7
Q3	-0.2	-1.8	0.6
Q4	5.2	8.0	2.8
2018 Q1	-0.9	-4.7	1.4
Q2	0.8	4.0	-0.6
Q3	-0.6	-0.2	-1.3
Q4	1.3	2.7	-0.3

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

For Q4 2018, about 75 percent of residential real estate loans (RRELs) were for the acquisition of new housing units. By type of housing unit, 50.4 percent of residential property loans were for the purchase of condominium units, followed by single detached units (39.8 percent) and townhouses (9.3 percent). By area, most of the RRELs granted in the NCR were for the purchase of condominium units, while RRELs granted in AONCR were for single detached houses. By region, NCR accounted for 49.5 percent of the total number of RRELs granted during the quarter, followed by AONCR—CALABARZON (24.2 percent), Central Luzon (7.4 percent), Central Visayas (5.5 percent), Western Visayas (4.2 percent), Davao Region (3 percent) and Northern Mindanao (2 percent). Together, NCR and the six other regions accounted for 95.8 percent of total housing loans granted by banks.

Table 8. Residential Real Estate Price Index By Housing Type

Q1 2014=100; growth rate in percent

Quarter		Overall [2]	Single Detached/ Attached	Duplex [3]	Townhouse	Condominium Unit
		Residential Real Estate Price Index [1] (By Housing Type)				
2016	Q1	106.9	98.9	114.7	107.3	123.2
	Q2	111.7	105.8	98.5	109.3	123.9
	Q3	109.6	102.6	96.7	100.5	126.4
	Q4	111.1	104.9	87.5	107.7	125.5
2017	Q1	113.9	108.0	91.2	107.6	128.3
	Q2	111.8	103.6	103.6	112.7	129.3
	Q3	111.6	103.4	88.4	107.8	131.0
	Q4	117.4	104.6	102.6	116.4	143.3
2018	Q1	116.3	107.4	131.5	122.4	130.9
	Q2	117.2	104.4	99.0	127.7	141.1
	Q3	116.5	103.6	115.5	127.5	138.6
	Q4	118.0	102.6	98.8	129.7	144.2
		Year-on-Year Growth Rates				
2016	Q1	1.3	-0.9	10.4	4.0	8.7
	Q2	5.9	8.1	0.6	12.9	3.3
	Q3	3.8	5.4	-5.1	2.9	3.5
	Q4	3.3	4.3	-12.3	6.4	3.6
2017	Q1	6.5	9.2	-20.5	0.3	4.1
	Q2	0.1	-2.1	5.2	3.1	4.4
	Q3	1.8	0.8	-8.6	7.3	3.6
	Q4	5.7	-0.3	17.3	8.1	14.2
2018	Q1	2.1	-0.6	44.2	13.8	2.0
	Q2	4.8	0.8	-4.4	13.3	9.1
	Q3	4.4	0.2	30.7	18.3	5.8
	Q4	0.5	-1.9	-3.7	11.4	0.6
		Quarter-on-Quarter Growth Rates				
2016	Q1	-0.7	-1.7	14.9	6.0	1.7
	Q2	4.5	7.0	-14.1	1.9	0.6
	Q3	-1.9	-3.0	-1.8	-8.1	2.0
	Q4	1.4	2.2	-9.5	7.2	-0.7
2017	Q1	2.5	3.0	4.2	-0.1	2.2
	Q2	-1.8	-4.1	13.6	4.7	0.8
	Q3	-0.2	-0.2	-14.7	-4.3	1.3
	Q4	5.2	1.2	16.1	8.0	9.4
2018	Q1	-0.9	2.7	28.2	5.2	-8.7
	Q2	0.8	-2.8	-24.7	4.3	7.8
	Q3	-0.6	-0.8	16.7	-0.2	-1.8
	Q4	1.3	-1.0	-14.5	1.7	4.0

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

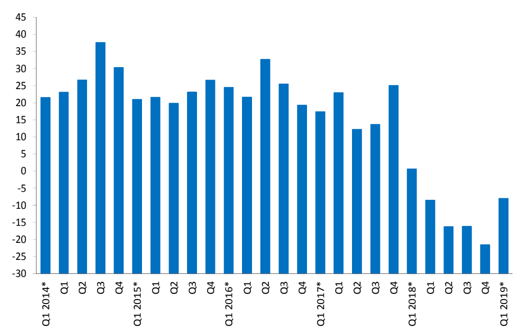
Vehicle Sales. Sales of new vehicles from CAMPI[15] members contracted by 8.0 percent y-o-y in the first two months of Q1 2019, a reversal from the 0.6-percent growth recorded in the same period a year ago, as sales of both passenger cars and commercial vehicles continued to decline during the period.

Sales of new vehicles decline

Sales of passenger cars declined by 5.7 percent y-o-y in January-February 2019, albeit an improvement from the 10.5-percent contraction in the same period in 2018. New passenger car sales accrued to a total of 16,958 in the first two months of Q1 2019 from 17,982 units in the same period a year ago.

Chart 12. Vehicle Sales

number of units



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

Commercial vehicle sales, which account for about 68.1 percent of total vehicle sales, dropped by 9.0 percent y-o-y in the first two months of Q1 2019 from the 6.6-percent growth in the same period of 2018. Commercial vehicles sold during the quarter reached 36,257 units from 39,839 units in January-February 2018.

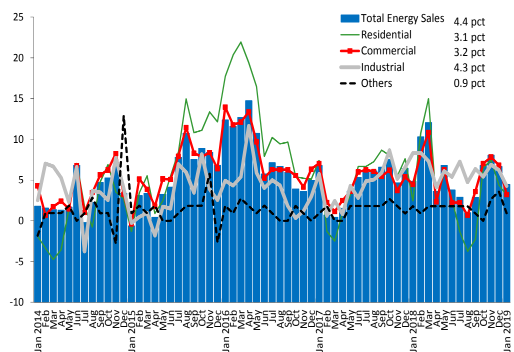
[15] Vehicle sales data is gathered on a monthly basis by the Chamber of Automotive Manufacturers of the Philippines (CAMPI). CAMPI represents the local assemblers and manufacturers of vehicle units in the Philippine automotive industry. The following are the active members of CAMPI: (1) Asian Carmakers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

Energy Sales. Energy sales of the Meralco increased by 4.4 percent y-o-y in January 2019, slower compared to the 4.9-percent growth in the same period a year ago.

Energy sales expand

Energy sales from the residential sector, commercial sector, and industrial sector increased by 3.1 percent, 3.2 percent, and 4.3 percent, respectively.

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



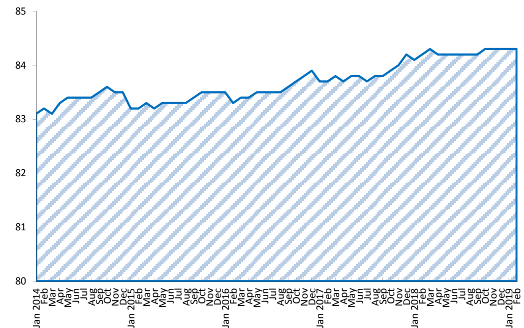
Source: Meralco, BSP calculations

Capacity Utilization. Based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI), the average capacity utilization rate of the manufacturing sector stood at 84.3 percent in February 2019, unchanged from the month-ago level.

Capacity utilization in manufacturing remains above 80 percent

Of the 696 respondent-establishments, 59.7 percent operated at least at 80.0 percent capacity. Data showed that most of the manufacturing companies have been operating above the 80.0 percent capacity since 2010.

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



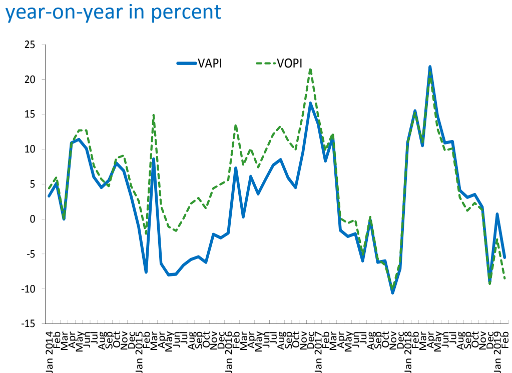
Source: PSA

Volume and Value of Production. Preliminary results of the MISSI showed that volume of production index (VoPI) contracted by 8.5 percent y-o-y in February 2019 from a 2.9-percent (revised) slump in the previous month.

Manufacturing output declines

The contraction in VoPI was due to the production declines of 8 out of 20 major industries namely, food manufacturing (-19.5 percent), electrical machinery (-8.2 percent), non-metallic mineral products (-12 percent), machinery except electrical (-2.8 percent), basic metals (-4.5 percent), tobacco products (-4.4 percent), petroleum products (-0.5 percent), and furniture and fixtures (-6.5 percent).

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



Source: PSA

Similarly, the value of production index (VaPI) posted a 5.5-percent slump in February from a 0.7-percent contraction a month ago. This was attributed to the following sub-sectors: food manufacturing (-21.9 percent), basic metals (-9.5 percent), electrical machinery (-8.2 percent), and non-metallic mineral products (-4 percent).

Business Expectations. Business outlook on the economy turned more optimistic for Q1 2019, with the overall confidence index (CI)[16] of the Business Expectations Survey (BES)[17] rising to 35.2 percent from 27.2 percent in the previous quarter. This means that the number of optimists increased and continued to be greater than the number of pessimists during the quarter.

Business outlook turns more optimistic in Q1 2019

Respondents attributed their more upbeat sentiment during the first quarter to the following factors: (a) more business activities during the start of the campaign period for the forthcoming midterm elections; (b) increased orders and consumer purchases with the easing of inflation; (c) higher government infrastructure spending with the "Build, Build, Build" program of the current administration; (d) introduction of new and enhanced business strategies and processes; and (e) expansion of businesses and new product lines. They were also optimistic that their business operations would benefit from the favorable macroeconomic conditions in the country, particularly lower inflation and interest rates.

The sentiment of businesses in the Philippines mirrored the positive business outlook in Chile, Greece, Israel, Mexico, the Netherlands, and South Korea. However, business sentiments in Australia, Brazil, China, Hong Kong, Singapore, Thailand, UK, and US were less buoyant.

Table 9. Business Expectations Survey

BUSINESS OUTLOOK INDEX		Current Quarter	Next Quarter
2016	Q1	41.9	49.6
	Q2	48.7	45.3
	Q3	45.4	56.8
	Q4	39.8	34.5
2017	Q1	39.4	47.2
	Q2	43.0	42.7
	Q3	37.9	51.3
	Q4	43.3	39.7
2018	Q1	39.5	47.8
	Q2	39.3	40.4
	Q3	30.1	42.6
	Q4	27.2	29.4
2019	Q1	35.2	52.0

Source: BSP

Respondents turned more bullish in the next quarter (Q2 2019) as the CI rose to 52.0 percent from 29.4 percent in the previous quarter. This next quarter reading is the highest since Q4 2016. Respondents attributed their heightened optimism for Q2 2019 to the following: (a) usual increase in demand during summer (i.e., in view of the foreseen increase in the number of local and foreign tourists), enrollment and harvest periods; (b) election-related spending in the run-up to the elections in May 2019; (c) sustained increase in orders and projects leading to higher volume of production; and (d) more construction activities during the dry season.

Consumer Expectations. Consumer outlook improved in Q1 2019 as the overall CI[18] of the Consumer Expectations Survey (CES)[19] rose to -0.5 percent from -22.5 percent in the previous quarter. The higher, albeit negative, CI indicates that the number of households with optimistic views considerably increased, but was still lower than those who think otherwise during the quarter.

Consumer confidence improves in Q1 2019

[16] 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.

[17] The BES is a quarterly survey of a random sample drawn from the combined list of firms from the Securities and Exchange Commission's (SEC) Top 7,000 Corporations and BusinessWorlds' Top 1,000 Corporations. The Q1 2019 BES was conducted during the period 22 January-19 March 2019.

[18] 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.

[19] The CES is a quarterly survey of a random sample of about 5,562 households in the Philippines. The Q1 2019 CES was conducted during the period 5-16 February 2019.

The improved consumer outlook for Q1 2019 was brought about by the following reasons: (a) additional/high income; (b) improvement in peace and order situation; (c) availability of more jobs; and (d) good governance.

The sentiment of consumers in the Philippines for Q1 2019 mirrored the less pessimistic outlook of those in the Euro Area, France, South Korea, Switzerland, Taiwan, Thailand, and the United Kingdom. However, this was in contrast to the less optimistic views of consumers in Australia and Indonesia.

Table 10. Consumer Expectations Survey

CONSUMER OUTLOOK INDEX		Current Quarter	Next 3 Months	Next 12 Months
2016	Q1	-5.7	9.1	25.4
	Q2	-6.4	5.6	26.6
	Q3	2.5	27.3	43.8
	Q4	9.2	18.8	33.4
2017	Q1	8.7	16.5	31.7
	Q2	13.1	13.6	34.3
	Q3	10.2	17.8	33.7
	Q4	9.5	17.5	32.0
2018	Q1	1.7	8.8	24.0
	Q2	3.8	8.7	23.1
	Q3	-7.1	3.8	13.0
	Q4	-22.5	-0.8	10.7
2019	Q1	-0.5	10.7	28.4

Source: BSP

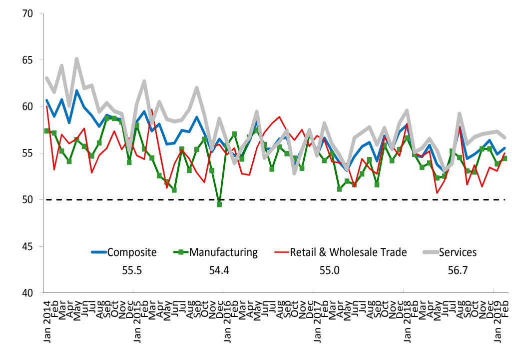
Improvement in consumer sentiment was carried to the subsequent periods as the quarter-ahead CI reverted to positive territory at 10.7 percent from -0.8 percent in the previous quarter, and the year ahead CI rose to 28.4 percent from 10.7 percent in Q4 2018.

Similar to the current quarter, the consumer outlook was more upbeat for the next quarter and the year ahead due to expectations of additional/high income and availability of more jobs. Furthermore, respondents anticipated stable prices of goods and salary increases for the next 12 months.

Purchasing Managers' Index.[20] The composite PMI in February 2019 remained firmly above the 50-point expansion threshold at 55.5,[21] higher than the January 2019 PMI. The faster rate of expansion of the manufacturing and retail and wholesale sectors offset the slight deceleration of the services sector.

PMI remains firmly above the 50-point expansion threshold

Chart 16. Purchasing Managers' Index



Source: Philippine Institute of Supply Management (PISM)

The manufacturing PMI increased marginally by 0.6 index point to 54.4 in February 2019 from 53.9 in January 2019, which is consistent with business managers' expectations. Business managers attributed the sector's turnaround to easing domestic prices that helped stabilize demand during the month. This is reflected in the higher PMIs of the New Orders Index, Employment Index, and Inventories Index. By contrast, the Production and Supplier Deliveries Indices decreased, reflecting shorter lead time or faster deliveries brought about by slower demand for production inputs. Nonetheless, all the indices remained well-above the 50-point expansion threshold. In terms of the sector's performance by export category, firms with export volume of at least 26 percent of total revenue posted faster expansion during the month, which more than offset the deceleration of both non-exporting firms and those with export volume of up to 25 percent of revenues. On a per sector basis, seven subsectors grew at a faster pace namely, rubber and plastic (with a PMI of 59.8); paper and paper products (58.2); communication and medical equipment (58.1); non-metallic minerals (57.7); chemical/fuel (54.9); basic metals (54); and machinery (52.4). Textiles/clothing and food and beverages both decelerated, while the following posted a contraction: motor vehicles;

[20] Data based on the monthly purchasing managers' index report of the Philippine Institute for Supply Management (PISM).

[21] 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.

fabricated metal; and publishing. Survey respondents expect the sector to expand further in March 2019.

Similarly, the retail and wholesale PMI rose by 1.9 index points to 55.0 in February from 53.1 in the previous month, attributed to robust demand following the continued easing of domestic prices. This is evident in the continued expansion of all the indices, particularly Sales Revenues, Purchases, and Employment Indices. The Supplier Deliveries Index expanded at a slower rate, indicating shorter delivery time due to improved logistics efficiency in handling purchase activities. Meanwhile, the PMI of the retail subsector increased by 2.6 index points to 56.4 in February 2019 from 53.9 in January. By contrast, the PMI of the wholesale subsector decreased by 2.5 index points to 51.5 in February from 53.6 in the previous month. Managers are anticipating a deceleration next month.

Meanwhile, the services PMI declined slightly by 0.6 index point to 56.7 in February 2019 from 57.3 a month ago. All the variables in review, except for Employment, went down led by the significant drop of the New Orders Index to 55.3 from 58.4. On a per sector basis, seven of the 13 subsectors expanded faster in February (hotels and restaurants; business and knowledge processing; education; postal and telecommunications; construction; transportation including travel agency; and health and social work). Three subsectors expanded at a slower rate (provident and insurance; electricity, gas, and water; and renting of goods and equipment), while the other three subsectors posted contraction (real estate; banking and financial intermediation; and miscellaneous business activities). Prospects were assessed to be favorable for the sector in the month ahead.

External Demand[22]

Exports. Exports of goods decreased by 2.1 percent y-o-y in Q4 2018, a reversal from the 1.5-percent and 13.4-percent growth recorded in Q3 2018 and Q4 2017, respectively.

Exports of goods decrease

The contraction in foreign shipments of coconut products, sugar and related products, other agro-based products, mineral products, petroleum products, and manufactures outweighed the higher exports of fruits and vegetables, and forest products during the quarter.

Table 11. Exports of Goods
growth rate in percent

COMMODITY GROUP	2017	2018	
	Q4	Q3	Q4
Coconut Products	-8.4	-36.2	-13.1
Sugar and Products	960.8	-71.5	-97.1
Fruits and Vegetables	-17.7	35.0	66.7
Other Agro-Based Products	2.8	-0.8	-15.3
Forest Products	633.0	46.8	4.3
Mineral Products	70.4	0.5	-28.9
Petroleum Products	69.7	71.1	-14.6
Manufactures	11.2	1.1	-1.5
Special Transactions	29.9	31.4	21.7
Total Exports	**13.4**	**1.5**	**-2.1**

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

Imports. The growth of imports in Q4 2018 slowed down to 5.8 percent year-on-year from 22.2 percent in Q3 2018 and 21.1 percent in Q4 2017 due to the slower expansion in the importation of capital goods, raw materials and intermediate goods, and mineral fuels and lubricants, as well as the contraction in inward shipments of consumer goods.

Imports of goods also decline

Table 12. Imports of Goods
growth rate in percent

COMMODITY GROUP	2017	2018	
	Q4	Q3	Q4
Capital Goods	15.2	21.8	4.6
Raw Materials and Intermediate Goods	22.1	23.1	7.5
Mineral Fuels and Lubricants	47.6	31.4	16.3
Consumer Goods	16.5	14.6	-2.7
Special Transactions	19.7	42.5	16.4
Total Imports	**21.1**	**22.2**	**5.8**

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

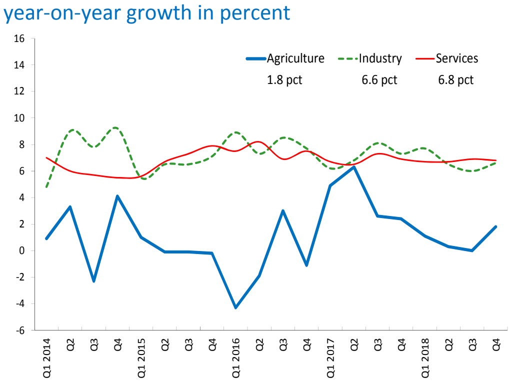
[22] International Merchandise Trade Statistics (IMTS) concept

Aggregate Supply. On the production side, growth was due largely to the industry sector, which accounted for 2.3 ppts of GDP growth. The AHFF sector and industry sector contributed 0.2 ppts and 3.8 ppts, respectively.

Industry sector supports supply-side growth

The industry sector accelerated to 6.6 percent in Q4 2018 from 6.0 percent in Q3 2018. The main contributor to growth was construction, which grew by 20.0 percent in Q4 2018 from 15.2 percent in the previous quarter. The growth in construction was the highest recorded since Q1 2013 and was primarily driven by the acceleration in private construction activities, which was reflected in the cumulative increase of the total floor area based on the number of building permits issued in October and November 2018.

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



Source: PSA

The utilities sub-sector, specifically electricity, gas and water supply, accelerated from 5.0 percent in Q3 2018 to 6.7 percent growth in Q4 2018. This was due to faster increases in electricity and water production, which was reflected in the growth in revenues of the NGCP and major water concessionaires such as Maynilad Water Services, Inc. and Manila Water Company, Inc.

Manufacturing continued to decelerate for the fifth consecutive quarter, recording a 3.2 percent growth (from 3.8 percent in the previous quarter), which was the lowest recorded since Q3 2011. This can be attributed to the less upbeat business sentiment and sluggish export demand due to the volatility of world oil prices, higher importation cost and shortage of raw materials. The mining and quarrying sector, however, recovered in Q4 2018, with a 8.1-percent growth from -1.3 percent in Q3 2018.

The services sector was slightly lower by 6.8 percent in Q4 2018 from 6.9 percent in Q3 2018. The slight decline in the services sector was driven mainly by the decline in public administration and defense, and compulsory social security (14.7 percent in Q4 2018 from 17.8 percent in Q3 2018), transportation, storage and communication (3.7 percent in Q4 2018 from 5.4 percent in Q3 2018), and real estate, renting and business activities (4.1 percent in Q4 2018 from 5.7 percent in Q3 2018).

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

BY INDUSTRIAL ORIGIN	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agri., Hunting, Forestry and Fishing	4.9	6.3	2.6	2.4	1.1	0.3	0.0	1.8
Agriculture and Forestry	5.6	8.1	3.7	3.0	2.0	0.3	0.2	1.7
Fishing	1.2	-2.7	-2.1	-0.1	-3.6	0.4	-0.9	2.5
Industry Sector	6.2	6.8	8.1	7.3	7.7	6.5	6.0	6.6
Mining and Quarrying	-16.0	12.7	4.3	4.9	7.4	-5.4	-1.3	8.1
Manufacturing	7.7	8.0	10.0	8.2	7.3	5.7	3.8	3.2
Construction	7.0	3.8	5.1	5.0	10.2	13.0	15.2	20.0
Electricity, Gas and Water Supply	1.7	3.0	3.4	5.5	6.4	4.1	5.0	6.7
Service Sector	6.7	6.5	7.3	6.9	6.7	6.7	6.9	6.8
Transport, Storage and Communication	4.2	3.3	3.6	5.0	6.6	6.0	5.4	3.7
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	7.3	5.8	7.3	8.5	6.1	6.0	5.1	6.7
Financial Intermediation	7.0	9.4	8.9	5.3	7.8	7.6	7.2	6.3
Real Estate, Renting and Business Activities	7.0	8.1	7.8	6.5	4.6	4.5	5.7	4.1
Public Administration and Defense; Compulsory Social Security	6.4	9.3	9.2	9.5	13.2	15.0	17.8	14.7
Other Services	7.2	4.8	7.4	6.2	7.0	6.8	7.9	9.4

Source: PSA

The AHFF sector grew by 1.8 percent in Q4 2018 from 0.0 percent in Q3 2018. The acceleration was due to the higher output growth in poultry and the recovery of corn and fishery production. The higher growth in poultry was caused by the higher volume of chicken and egg production, while sufficient rainfall during the planting period, coupled with the Department of Agriculture's intervention programs pertaining to seeds, fertilizers, and training of farmers helped in expanding corn production. Moreover, the positive fishery output from a contraction in the previous quarter was triggered by higher y-o-y increases in the production of tilapia, seaweed and other fishery products.

However, the growth of the AHFF sector for Q4 2018 was tempered by the decrease in palay production as it was affected by several typhoons in Q3 and Q4 2018 (i.e., Habagat in Ilocos Region and Central Luzon; Henry, Inday, Josie, Luis, Ompong, and Rosita in Northern Luzon) as well as the inadequate supply of irrigation water and insufficient rainfall amount in Central Visayas.

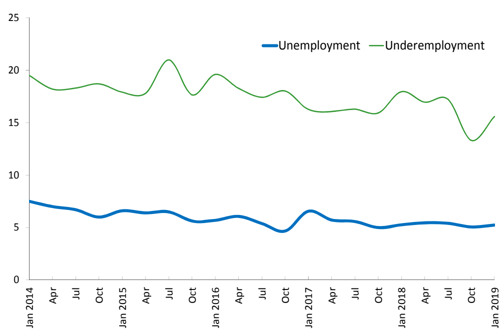
Labor Market Conditions

The Philippine labor market posted a mixed performance in the first quarter of 2019 as major indicators for both quantity and quality of employment improved, except for employment generation and youth unemployment rate.

Labor market shows improvement

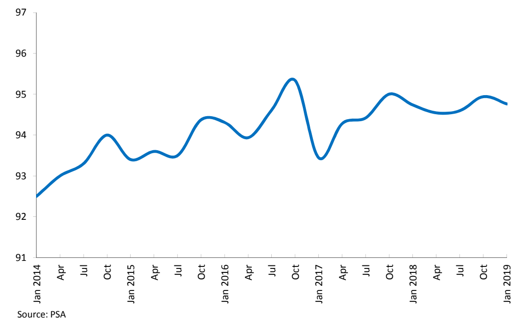
Compared to January 2018 survey round, the results of the January 2019 round of the labor force survey (LFS) showed that the country's employment rate slightly increased to 94.8 percent from 94.7 percent while the rates of unemployment and underemployment declined to 5.2 percent from 5.3 percent and 15.6 percent from 18.0 percent, respectively. However, in terms of level of employment, the survey indicated an employment loss of 387 thousand while youth unemployment rate increased to 14.1 percent from 12.5 percent during the period.

Chart 18. Unemployment and Underemployment
in percent



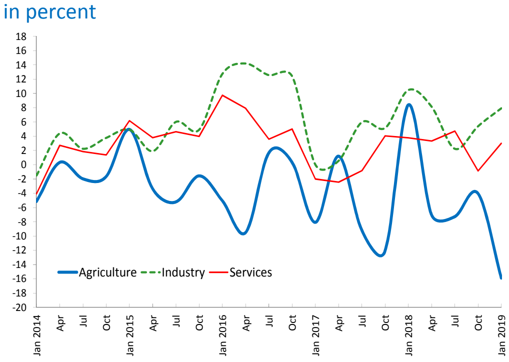
The slightly higher employment rate of 94.8 percent in January 2019 is equivalent to 41.4 million employed individuals. However, this is lower by 387 thousand compared to 41.8 million employed persons in the same survey round a year ago, mainly due to employment losses in the agriculture sector that reached 1.7 million.

Chart 19. Employment Rate
in percent



Employment in agriculture has been declining for four consecutive quarters since the second quarter of 2018. This trend has been partly attributed to the rising cost of inputs amidst low profit, limited access to credit, poor infrastructure, and vulnerability to environmental risks.[23] The sector also continued to experience the spillover effects of tropical depression Usman[24] that hit the country in the latter part of 2018. The more than a million employment loss in agriculture more than offset the additional employment generated by industry and services sectors, which reached 607 thousand and 718 thousand, respectively. The 1.7 percent growth in employment in the services sector was partly driven by public administration and defense and other services activities while the 1.5 percent employment growth in the industry sector was mainly contributed by construction and manufacturing subsectors. The share of manufacturing employment to total employment was at 8.8 percent, higher than 8.5 percent a year ago but still below the government's target of 10.4 percent for 2019.

Chart 20. Employment by Sector
in percent



[23] NEDA (2019), "Sustainable Agricultural Policies Vital to Improving Employment Situation," NEDA Media Release, 7 March.
[24] Based on interview with Department of Labor and Employment, "Employment rate, bahagyang tumaas sa Enero 2019," Bandila, ABS-CBN News, 8 March 2019.

Meanwhile, the unemployment level declined by 1.5 percent, equivalent to 34 thousand lesser unemployed individuals. The latest unemployment rate is also the lowest recorded by the country for all surveys conducted in the January rounds since 2006. However, in terms of highest grade completed, majority of the unemployed are still the junior high school graduates (28.2 percent share) and college graduates (20.9 percent). In terms of age, the bulk belongs to the 15-24 age group or the youth (43.7 percent), followed by 25-34 years old (30.6 percent). The higher youth unemployment rate in January 2019 at 14.1 percent is mainly due to lower growth of youth labor force as the number of unemployed youth declined by 0.4 percent during the period.

Aside from lower number of unemployed, the quality of employment also improved. The 15.6 percent underemployment rate is equivalent to 1.1 million reduction in the number of employed individuals who wanted more work compared to January 2018. Similar to unemployment rate, this 15.6 percent underemployment rate is the lowest achieved by the country for all surveys conducted in the January rounds since 2006. Moreover, other aspects of quality of employment improved during the period. This is evidenced by higher share of remunerative work or wage and salary workers (65.8 percent in January 2019 from 61.7 percent a year ago) and the increase in overall mean hours of work (hours per week) from 40.6 in January 2018 to 43.2 in January 2019, which could imply that economic activity has increased in the first quarter of 2019.

To further improve the employment condition in the country, the government recognizes the need to remain committed to providing policies and programs that are conducive to creating more and better employment such as reducing the cost of doing business and more aggressive reductions in foreign investment restrictions. Focus will also be given to the agriculture sector, particularly with the implementation of the Rice Industry Modernization Act.[25]

[25] NEDA (2019).

II. Monetary and Financial Market Conditions

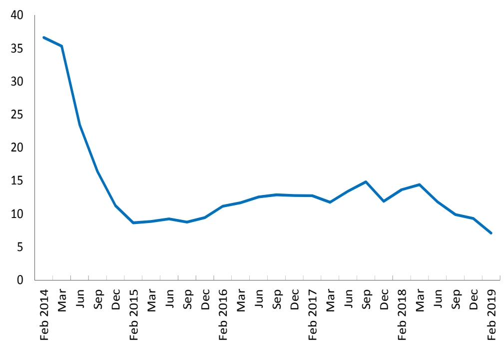
Domestic Liquidity

Domestic liquidity (M3) grew by 7.1 percent y-o-y in February to ₱11.5 trillion, slower than the 9.5-percent (revised) expansion as of end-Q4 2018.

Domestic liquidity slows down...

Money supply continued to increase due mainly to sustained demand for credit. Domestic claims grew, albeit slower, by 11.7 percent in February from the 14.9-percent (revised) expansion in end-Q4 2018 due mainly to the sustained growth in credit to the private sector. On the other hand, net claims on the central government expanded by 8.3 percent in February from 16.9 percent in end-Q4 2018.

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



Source: BSP

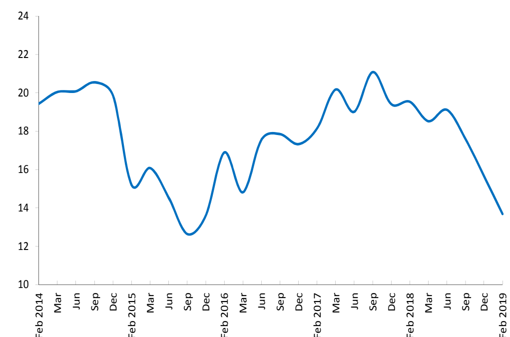
Meanwhile, net foreign assets (NFA) in peso terms declined by 1.5 percent y-o-y in February from a growth of 1.3 percent in end-Q4 2018 as the NFA of banks posted a larger contraction. The NFA of banks contracted in February as their foreign assets grew at a slower pace relative to the growth in their foreign liabilities. Banks' foreign assets expanded slower as growth in interbank loans and investments in marketable debt securities eased. Meanwhile, the BSP's NFA position improved in February, reflecting the y-o-y increase in gross international reserves (GIR).

Outstanding loans of commercial banks, net of RRP placements with the BSP, increased by 13.7 percent y-o-y as of February 2019, slower than the 15.7-percent and 18.5-percent growth rates posted at end-Q4 2018 and end-Q1 2018, respectively.

...as lending growth decelerates

The sustained increase in bank lending was due largely to loans for production activities, which expanded by 13.6 percent y-o-y in February 2019 from 15.8-percent growth in end-Q4 2018 and 18.2-percent rise in end-Q1 2018. The expansion in production loans was driven primarily by increased lending to the following sectors: real estate activities; wholesale and retail trade, repair of motor vehicles and motorcycles; financial and insurance activities; manufacturing; construction; and, electricity, gas, steam and airconditioning supply.

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



Source: BSP

Meanwhile, loans for household consumption grew by 14.9 percent as of February 2019, higher than the 13.6-percent growth in end-Q4 2018 but lower than the 19.8-percent expansion in end-Q1 2018.

Monetary Operations

As of end-Q1 2019, majority of the BSP's liquidity absorbing monetary operations had been through the overnight RRP facility, comprising about 65.9 percent of total outstanding amount of liquidity absorbed in BSP liquidity facilities. Meanwhile, placements in the overnight deposit facility (ODF) and the term deposit facility (TDF) made up the remaining 34.1 percent.

Consistent with the BSP's assessment of prevailing liquidity conditions and taking into account higher NG deposits with the BSP coming from NG debt issuances (particularly, the higher-than-expected Retail Treasury Bond (RTB) issuance) and tax remittances, the average weekly total offer volumes for the TDF auctions were lower at about ₱46.2 billion in Q1 2019 relative to the ₱74.6 billion average weekly volume offered in the previous quarter. The average bid-to-cover ratios for the 7-day, 14-day, and 28-day tenors were recorded at 1.5, 1.3, and 1.1 compared to 1.1, 1.3, and 1.3, respectively, in the previous quarter. On the other hand, the average bid-to-cover ratio for the daily RRP offerings was steady at about 1.0 during the quarter.

Credit Conditions

Credit Standards. Results of the Q1 2019 Senior Bank Loan Officers' Survey (SLOS) showed that most of the respondent banks continued to maintain their credit standards for loans to both enterprises and households during the quarter based on the modal approach.[26]

Majority of banks keep credit standards steady

This is the 40th consecutive quarter since Q2 2009 that the majority of respondent banks reported broadly unchanged credit standards.

Meanwhile, the diffusion index (DI) approach[27,28] continued to indicate a net tightening of credit standards for both loans to enterprises and households. In the previous quarter, credit standards for loans to enterprises and households also showed a net tightening based on the DI approach.

Lending to Enterprises. Most banks (72.9 percent of banks that responded to the question) indicated that they maintained their credit standards for loans to enterprises during the quarter using the modal approach.

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

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Tightened Considerably	0.0	0.0	0.0	0.0	0.0	3.6	2.3	6.7	2.1
Tightened Somewhat	6.7	10.0	7.4	3.7	3.7	10.7	18.6	20.0	22.9
Remained Basically Unchanged	**93.3**	**90.0**	**88.9**	**88.9**	**92.6**	**82.1**	**76.7**	**71.1**	**72.9**
Eased Somewhat	0.0	0.0	3.7	7.4	3.7	3.6	0.0	0.0	0.0
Eased Considerably	0.0	0.0	0.0	0.0	0.0	0.0	2.3	2.2	2.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**6.7**	**10.0**	**3.7**	**-3.7**	**0.0**	**10.7**	**18.6**	**24.4**	**22.9**
Number of Banks Responding	**30**	**30**	**27**	**27**	**27**	**28**	**43**	**45**	**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

Meanwhile, results based on the DI approach pointed to a net tightening of credit standards for the quarter, which was attributed by respondent banks to their reduced tolerance for risk, deterioration in the profitability and liquidity of their portfolio, less favorable economic outlook, and perception of stricter financial system regulations. In terms of specific credit standards,[29] DI-based results suggested stricter collateral requirements and loan covenants as well as increased use of interest rate floors.

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

[26] In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.
[27] In the DI approach, a positive DI for credit standards indicates that the proportion of banks that have tightened their credit standards exceeds those that eased ("net tightening"), whereas a negative DI for credit standards indicates that more banks have eased their credit standards compared to those that tightened ("net easing").

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

Over the next quarter, results based on the modal approach showed that most of the respondent banks expect credit standards to remain unchanged. Meanwhile, results based on the DI approach showed that more respondent banks expect overall credit standards for business loans to tighten over the next quarter compared to those that expect the opposite, on the back of respondent banks' expectations of stricter financial system regulations and reduced tolerance for risk, among others.

Lending to Households. The results of the survey likewise indicated that most respondent banks (73.3 percent) kept their overall credit standards unchanged for loans extended to households during the quarter based on the modal approach. Meanwhile, results based on the DI approach reflected a net tightening of credit standards for household loans, particularly for auto loans and personal/salary loans.

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

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Tightened Considerably	0.0	0.0	0.0	0.0	0.0	0.0	6.3	10.7	3.3
Tightened Somewhat	0.0	9.1	5.0	0.0	15.8	5.9	12.5	7.1	16.7
Remained Basically Unchanged	**100.0**	**81.8**	**90.0**	**90.5**	**78.9**	**94.1**	**75.0**	**78.6**	**73.3**
Eased Somewhat	0.0	9.1	5.0	9.5	5.3	0.0	6.3	3.6	3.3
Eased Considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**0.0**	**0.0**	**0.0**	**-9.5**	**10.5**	**5.9**	**12.5**	**14.3**	**20.0**
Number of Banks Responding	**21**	**22**	**20**	**21**	**19**	**17**	**32**	**28**	**30**

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

The overall net tightening of standards for household loans reflected stricter collateral requirements and loan covenants, shorter loan maturities, and increased use of interest rate floors. Respondent banks attributed the tightening of overall credit standards for household loans largely to their reduced tolerance for risk and deterioration in the profitability of their portfolio.

In terms of respondent banks' outlook for the next quarter, results based on the modal approach showed that the majority of the respondent banks anticipate maintaining their overall credit standards. Meanwhile, DI-based results indicated expectations of overall net tightening of credit standards for household loans as respondent banks anticipate a deterioration in borrowers' profiles and in profitability of banks' portfolio as well as lower tolerance for risk.

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

Demand for loans from firms and households remains stable

Using the DI approach, however, results showed a net increase in loan demand[30] particularly from large middle-market enterprises and small and medium enterprises as well as for credit card loans. The overall net increase in loan demand from firms was attributed by banks to their customers' higher working capital requirements as well as increased investment in plant or equipment. Meanwhile, respondent banks attributed the overall net increase in household loan demand to higher household consumption, among others.

Over the next quarter, most of respondent banks expect unchanged overall loan demand from firms and households. However, results based on the diffusion index approach suggested expectations of a net increase in overall loan demand for both business and household loans. For business loans, the expected net increase in demand was associated by respondent banks largely to their corporate clients' higher working capital requirements, among others. Meanwhile, the anticipated net increase in loan demand from households was attributed by respondent banks to expectations of higher household consumption, lower interest rates, and banks' attractive financing terms, among others.

Real Estate Loans. Most of the respondent banks (73.3 percent) reported that credit standards for commercial real estate loans were maintained in Q1 2019.

Majority of banks maintain credit standards for real estate loans

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

The DI approach, however, continued to point to a net tightening of overall credit standards for commercial real estate loans for the 13th consecutive quarter due to respondent banks' perception of stricter financial system regulations and reduced tolerance for risk. The net tightening of overall credit standards for commercial real estate loans reflected respondent banks' wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors. Over the next quarter, while most of the respondent banks anticipate maintaining their credit standards for commercial real estate loans, DI-based results point to expectations of continued net tightening of credit standards for the said type of loan.

Demand for commercial real estate loans was also unchanged in Q1 2019 based on the modal approach. Meanwhile, DI-based results showed a net decrease in demand for commercial real estate loans, which respondent banks attributed to borrowers' decreased working capital needs, increase in customers' internally-generated funds, higher interest rates, and less optimistic economic outlook, among others. Over the next quarter, although most of the respondent banks anticipate generally steady loan demand, more banks expect demand for commercial real estate loans to increase compared to those expecting the opposite.

Majority of the respondent banks (82.6 percent) reported unchanged credit standards for housing loans extended to households based on the modal approach. DI-based results also suggested maintained credit standards for housing loans attributed largely to respondent banks' unchanged tolerance for risk. Over the next quarter, results based on the modal approach showed that respondent banks expect credit standards for housing loans to remain unchanged. However, using the DI approach, survey results suggested expectations of a net tightening of credit standards for housing loans in Q2 2019 as respondent banks anticipate stricter financial system regulations and lower risk tolerance.

Most banks reported unchanged demand for housing loans in Q1 2019 based on the modal approach while DI-based results pointed to a net decrease in demand for housing loans, which was attributed by respondent banks to high interest rates and less attractive financing terms offered by banks. Nonetheless, banks' responses indicated expectations of a net increase in demand for housing loans over the next quarter supported by more attractive financing terms offered by banks, among others.

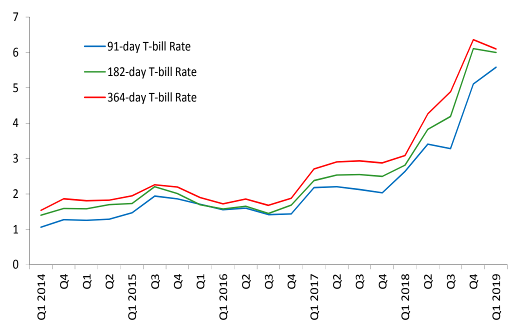
Interest Rates

Primary Interest Rates

In Q1 2019, the average 182- and 364-day T-bill rates in the primary market decreased to 6.000 percent and 6.098 percent from 6.110 percent and 6.357 percent, respectively, while the average 91-day T-bill rate increased to 5.583 percent from 5.105 percent. The results of the auctions during the quarter reflected market players' appetite for longer-tenored government securities (GS) amid sustained expectations of lower inflation path in the coming months.

T-bill rates decrease generally

Chart 23. Treasury Bill Rates
in percent



Source: BTr

Yield Curve.[31] As of end-March 2019, the secondary market yield for government securities (GS) for all maturities (except for the 3-month GS) declined relative to the end-December 2018 levels, as market players invested their excess liquidity and serviced their clients' requirements on the back of easing domestic inflation and prospects of cuts in the BSP's reserve requirement ratio.

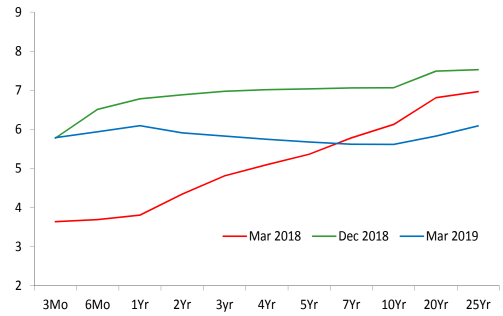
Yields for GS decline

[31] 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.

Debt paper yields were lower by a range of 57.2 basis points (bps) for the 6-month GS to 165.9 bps for the 20-year GS compared to end-December 2018 levels. Meanwhile, yield for the 3-month GS rose by 1.2 bps.

Chart 24. Yields of Government Securities in the Secondary Market

in percent



Source: Bloomberg

Relative to year-ago levels, the secondary market yield for GS with maturities of 3 months to 5 years increased by a range of 31.3 bps (for the 5-year GS) to 228.8 bps (for the 1-year GS) while the secondary market yield for GS with maturities of 7 years to 25 years declined by a range of 16.8 bps (for the 7-year GS) to 97.9 bps (for the 20-year GS).

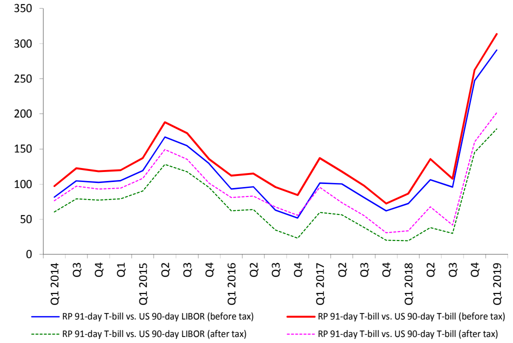
Interest Rate Differentials. The average differentials between domestic and US interest rates, gross and net of tax, widened further in Q1 2019 relative to the previous quarter.

Interest rate differentials widen further in Q1 2019

The average 91-day RP T-bill rate rose q-o-q by 48.6 bps to 5.591 percent in Q1 2019 from 5.105 percent in Q4 2018. Likewise, the average US 90-day LIBOR rose by 5.3 bps to 2.686 percent in Q1 2019. However, the US 90-day T-bill rate declined by 2.6 bps to 2.457 percent in Q1 2019. These developments led to wider positive gross and net of tax differentials between the 91-day RP T-bill rate and US interest rates.

Chart 25. Interest Rate Differentials

quarterly averages; in basis points

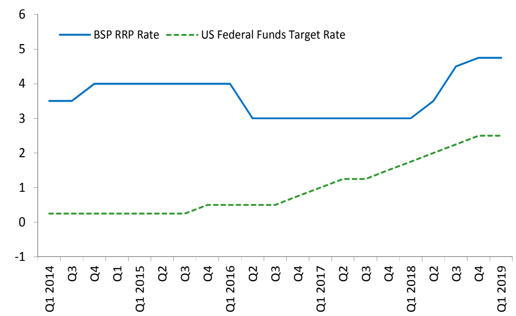


Source: Bloomberg, BTr and BSP

The positive differential between the BSP's overnight borrowing or RRP rate and the US Fed funds target rate was unchanged at a range of 225-250 bps in Q1 2019, as the policy settings for both central banks were kept steady.

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

in percent

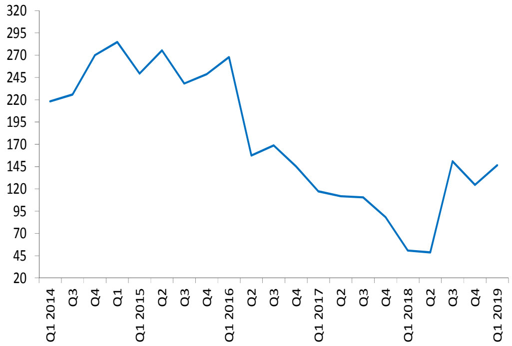


Source: Bloomberg and BSP

Meanwhile, the interest rate differential between the BSP's overnight RRP rate and the US Fed funds target rate adjusted for risk[32] widened to 147 bps as of end-March 2019 from 124 bps in end-December 2018. This development could be traced to the lower risk premium following the 51.0-bps and 28.0-bps decline in the interest rates for the 10-year ROP note and 10-year US Treasury note, respectively. The 10-year ROP and US Treasury note rates fell amid strong demand for sovereign bonds due to the continued trade tensions between the US and China, uncertainty over Brexit and growing concerns over a possible global economic slowdown following a slump in the equities markets amid political turmoil in the US and the release of weaker-than-expected US data on jobs, core inflation, sales in the retail and food services sector, and manufacturing activity.

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

Chart 27. Risk-Adjusted Differentials
in basis points



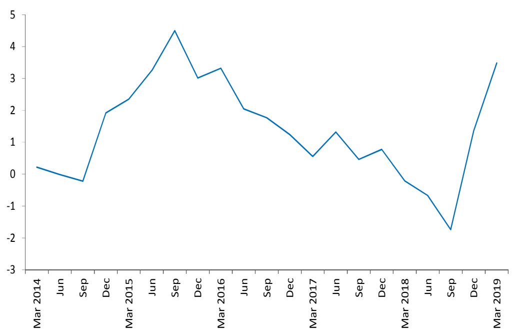
Source: Bloomberg and BSP

Domestic real lending rate[33] rose to 3.5 percent in March 2019 from 1.4 percent in December 2018.

Real lending rate increases

This was due to the 180-bp decline in inflation to 3.3 percent and the 30-bp increase in actual bank lending rate[34] to 6.8 percent in March 2019.

Chart 28. Philippines' Real Lending Rate
in percent



Source: PSA and BSP

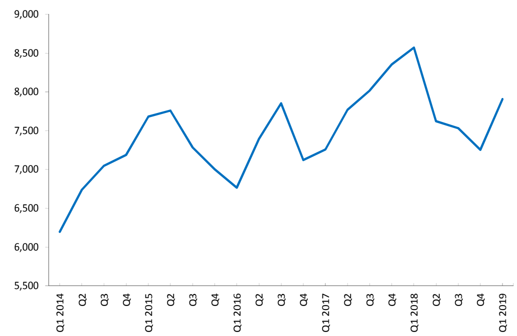
The Philippines' real lending rate at 3.5 percent in March 2019 is the fifth lowest in a sample of 10 Asian countries, with Indonesia recording the highest real lending rate at 7.9 percent followed by India at 6.6 percent while Japan posted the lowest at 0.8 percent.

Financial Market Conditions

The domestic financial system in Q1 2019 reflected the volatility coming primarily from the external environment. Nevertheless, sound banking system and firm economic growth prospects supported investor appetite for domestic assets.

Stock Market. During the first three months of 2019, the Philippine Stock Exchange index (PSEi) increased by 9.0 percent, q-o-q, to average 7,896.44 index points.

Chart 29. Quarterly Average PSEi
In basis points



Source: Philippine Stock Exchange, BSP

The benchmark index peaked at 8,144.16 index points on February 1 over the slower-than-expected domestic inflation in December, the US Federal Reserve's dovish policy stance during its first policy meeting in 2019 and optimism over easing trade tensions between the US and China. However, for the remainder of the quarter, local shares declined following: (i) the delay in the ratification of the 2019 national budget; (ii) concerns over a global economic slowdown as indicated by the lower economic growth forecasts of the European Central Bank (ECB), China, the Organization for Economic Co-Operation and Development (OECD) and the International Monetary Fund (IMF) and the so-called inversion of the US yield curve; (iii) uncertainty over the outcome of the US-China trade negotiations; and (iv) fears of a no-deal UK exit from the EU. Partly tempering the decline were (i) significant improvement in the domestic inflation outlook, (ii) expectations of the positive impact on domestic inflation of the rice tariffication law, (iii) the enactment of the amended BSP charter (RA No. 11211), (iv) the Financial Times Stock Exchange (FTSE) index

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

rebalancing[35] as well as the dovish monetary policy stance of the US Fed and the BSP. On 29 March, the PSEi closed at 7,920.93 index points, higher by 6.1 percent than the end-December level.

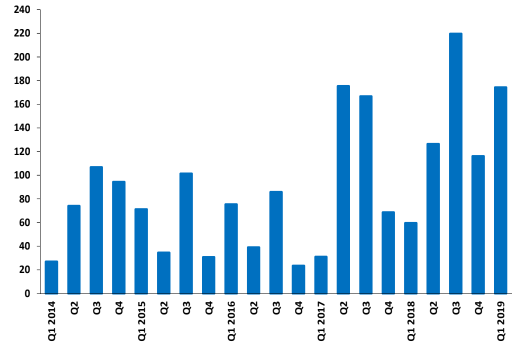
Mirroring the index's q-o-q rally, total market capitalization similarly rose by 6.7 percent to close at ₱17.2 trillion on 29 March from ₱16.1 trillion in end-December. Foreign investors were also net buyers of ₱32.6 billion worth of shares from January to March, higher than the net purchases of ₱23.9 billion posted in the preceding quarter. Meanwhile, the price-earnings ratio for listed issues also rose from 18.94x in end-December to 19.38x in end-March.

Government Securities. Results of the T-bill auctions conducted in January–March 2019 continued to show robust demand for short-term government securities with total subscription for the quarter amounting to ₱397.5 billion or about 1.8 times the ₱220.0-billion total offered amount.

Demand for T-bills remains strong

The oversubscription for Q1 2019, at ₱177.5 billion, was higher than the ₱98.1-billion oversubscription in the previous quarter. The Bureau of the Treasury (BTr) awarded in full the ₱6.0-billion, ₱6.0-billion and ₱8.0-billion offered amounts for the 91-, 182- and 364-day T-bills only in 3 out of 11 auctions (4 February, 11 February, and 11 March) but made partial awards for the other scheduled auctions during the quarter. Moreover, during the 14 January T-bill auction, the BTr awarded a total of ₱22.4 billion, higher than its initial ₱20.0-billion programmed offering amid the surge in demand, particularly for the longer-tenored notes.

Chart 30. Total Oversubscription of T-bill Auctions



Source: Bureau of the Treasury

Similarly, results of the T-bond auctions showed strong demand for T-bonds during the quarter on the back of lower inflation expectations. Moreover, following the offer period from 26 February-8 March 2019, the BTr issued a total of ₱235.9 billion (7.9 times the initial planned issuance of ₱30.0 billion) worth of 5-year RTBs on 12 March 2019 amid strong demand from the public.

Sovereign Bond and Credit Default Swap (CDS) Spreads. In January, debt spreads narrowed due to positive external developments such as (1) the optimism that the US Fed will slow its pace of interest rate hikes in 2019 and avoid tighter financial conditions and (2) muted trade tensions between China and the US.

Debt spreads narrow on positive external developments

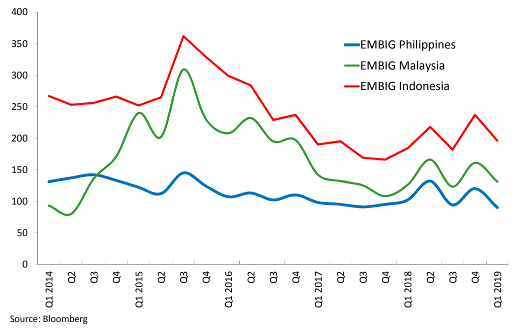
In February, debt spreads continued to narrow as investor sentiment was lifted by the US Fed's decision to keep policy rates steady. On the domestic front, the slowdown in inflation and the approval of the rice tariffication law as well as the amendments to the new central bank act boosted investor sentiment.

In March, debt spreads narrowed further as global risks such as the trade tensions between US and China remained muted. Locally, S&P upgraded the Philippines Banking Industry Country Risk Assessment (BICRA) to Group '5' from Group '6' (with 1 indicative of lowest risk banking system and 10 as the highest risk banking system), providing additional market confidence.

[35] The latest FTSE index rebalancing, which took effect on 15 March, added JG Summit Holdings, Inc. (JGS), San Miguel Food and Beverage, Inc., (FB) and San Miguel Corp. (SMC) to the FTSE large cap index.

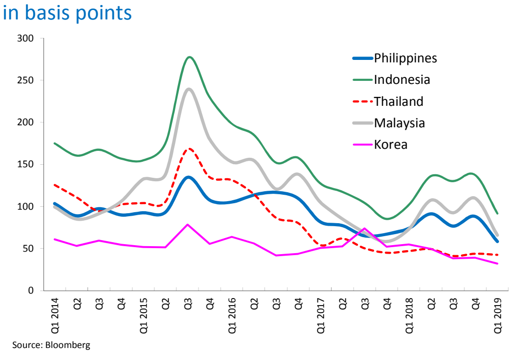
As of 29 March 2019, the extra yield investors demanded to own Philippine sovereign debt over U.S. Treasuries or the Emerging Market Bond Index Global (EMBIG) Philippines spread stood at 90 bps from the end-December level of 120 bps.

Chart 31. EMBIG Spreads of Selected ASEAN Countries
in basis points



Similarly, the country's 5-year sovereign CDS decreased to 59 bps from its end-December level of 88 bps. Against other neighboring economies, the Philippine CDS traded closely with Malaysia's 61 bps, narrower than Indonesia's 103 bps, but wider than Thailand's 42 bps and Korea's 34 bps spreads.

Chart 32. 5-Year CDS Spreads of Selected ASEAN Countries
in basis points



Banking System

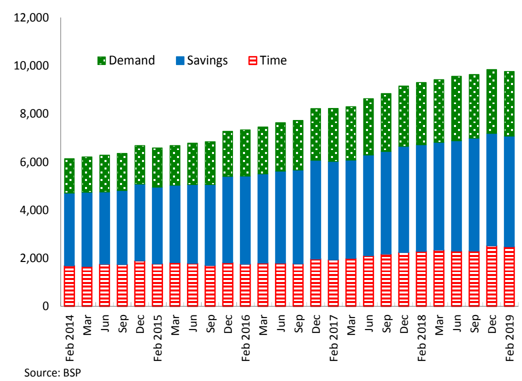
The Philippine banking system continued to lend support to the country's long-term economic growth and stable financial condition. During the first quarter of 2019, banks' balance sheets exhibited sustained growth in assets and deposits.

Philippine banking system exhibits steady growth in assets and deposits

Furthermore, asset quality indicators came in to remain healthy while capital adequacy ratios continued to be above international standards, even with the implementation of the tighter Basel III framework.[36]

Savings Mobilization. Savings deposits remained the primary sources of funds for the banking system. Banks' total deposits as of end-February 2019 amounted to ₱9.8 trillion, 4.9 percent higher than the year-ago level.[37] Relative to the end-December 2018 level, total deposits declined slightly by 0.8 percent.

Chart 33. Deposit Liabilities of Banks
in billion pesos



Meanwhile, foreign currency deposits owned by residents (FCD-Residents) reached ₱2.0 trillion as of end-February 2019, posting a y-o-y growth of 3.4 percent. With respect to the end-December

[36] Beginning 1 July 2018, covered institutions (universal banks [UBs], commercial banks [KBs] and their subsidiary banks and quasi-banks [QBs]) must maintain a leverage ratio of no lower than five (5) percent. The leverage ratio is a non-risk based measure, which serves as a backstop to the Capital Adequacy Ratio (CAR). It is designed to constrain the potential build-up of leverage in the banking industry and to promote stability of the financial system. Also, the BSP sets an observation period of six months (from 1 July 2018 to 31 December 2018) for the Net Stable Funding Requirement (NSFR). This is to ensure a smooth transition to the new prudential standard and to allow prompt assessment and calibration of the components of the NSFR. Beginning 1 January 2019, however, the covered institutions (universal and commercial banks [U/KBs]) shall maintain an NSFR of 100.0 percent (100.0%) on both solo and consolidated bases.

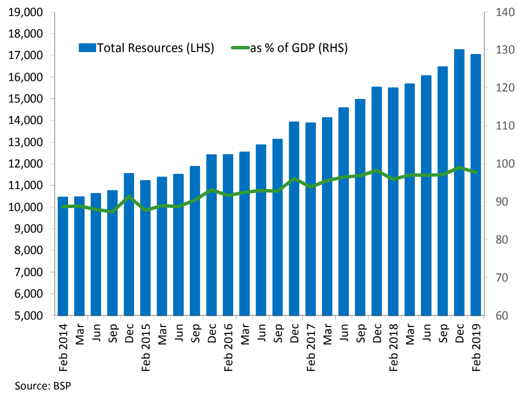
[37] This refers to the total peso-denominated deposits of the banking system.

2018 level, FCD-Residents grew marginally by 1.0 percent.[38]

Institutional Developments. The total resources of the banking system grew by 9.9 percent to reach ₽17.0 trillion as of end-February 2019 from ₽15.5 trillion a year ago but decreased slightly by 1.3 percent from ₽17.3 trillion as of end-December 2018. As a percent of GDP, total resources stood at 97.7 percent.[39]

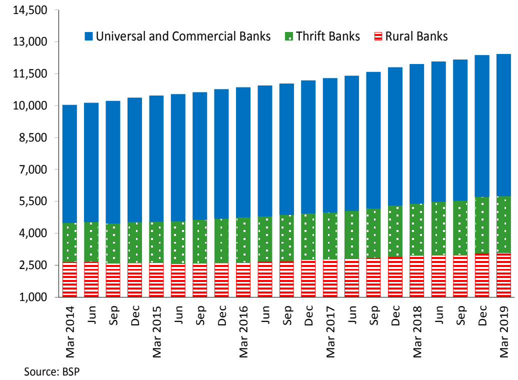
Total resources of the banking system continue to rise

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



The number of banking institutions (head offices) as of end-March 2019 has decreased to 569 offices from 585 a year ago and 571 a quarter ago. The banks' head offices are comprised of 46 U/KBs, 53 thrift banks (TBs), and 470 rural banks (RBs).

Chart 35. Number of Banking Institutions



During the same period, the operating network (head offices and branches/agencies) of the banking system expanded to 12,417 offices from 11,936 offices a year ago and 12,364 offices a quarter ago. The expansion is due mainly to the increase in the branches/agencies led by UKBs and followed by TBs and RBs.

The Philippine banking system's gross non-performing loan (GNPL) ratio increased slightly to 2.1 percent as of end-February 2019 relative to the 1.9 percent and 1.8 percent registered a year and a quarter ago.

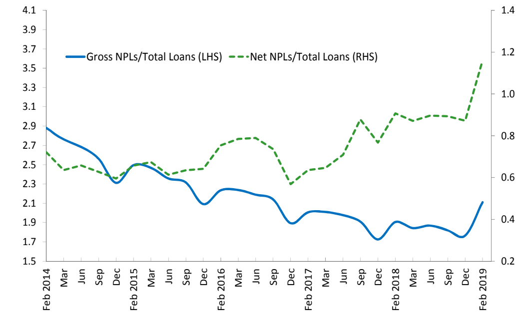
Asset quality of Philippine banks remains healthy

Banks' initiatives to improve their asset quality along with prudent lending regulations helped maintain the GNPL ratio below its pre-Asian crisis level of 3.5 percent.[40] Similarly, net non-performing loan (NNPL) ratio grew moderately to reach 1.2 percent as of end-February 2019 from the previous year's and quarter's ratio of 0.9 percent. In computing for the NNPLs, specific allowances for credit losses on Total Loan Portfolio (TLP) are deducted from the GNPLs. Said allowances increased to ₽94.2 billion in February 2019 from ₽90.0 billion posted as of end-December 2018.[41]

[38] 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.
[39] GDP as of the fourth quarter of 2018.

[40] The 3.5 percent non-performing loans (NPL) ratio was based on the pre-2013 definition.
[41] This type of provisioning applies to loan accounts classified under loans especially mentioned (LEM), substandard-secured loans, substandard-unsecured loans, doubtful accounts and loans considered as loss accounts.

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



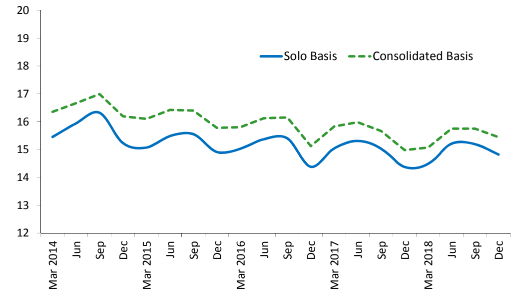
Source: BSP

The Philippine banking system's GNPL ratio of 2.1 percent was higher with respect to that of Malaysia (1.4 percent) and South Korea (1.0 percent) but lower than that of Indonesia (2.3 percent) and Thailand (2.9 percent).[42] The loan exposures of banks remained adequately covered with the banking system's NPL coverage ratio of 92.6 percent as of end-February 2019. This was, however, slightly lower than the previous year's and quarter's ratio of 116.4 percent and 105.2 percent, respectively.

U/KBs' CAR remains above international and regulatory standards

The capital adequacy ratio (CAR) of U/KBs at end-December 2018 decreased marginally on solo basis to 14.8 percent from 15.2 percent during the previous quarter. Similarly, on a consolidated basis, CAR of U/KBs decreased to 15.4 percent from 15.8 percent registered a quarter ago. Nonetheless, these figures remained well above the BSP's regulatory threshold of 10.0 percent and international standard of 8.0 percent.

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



Source: BSP

The CAR of Philippine U/KBs, on a consolidated basis was of the same level with that of South Korea (15.4 percent) but lower than those of Malaysia (17.9 percent), Thailand (18.3 percent) and Indonesia (22.9 percent).[43]

Exchange Rate

The peso averaged ₱52.37/US$1 in Q1 2019, appreciating by 1.71 percent from the previous quarter's average of ₱53.26/US$1.

Peso appreciates against the US dollar in Q1 2019

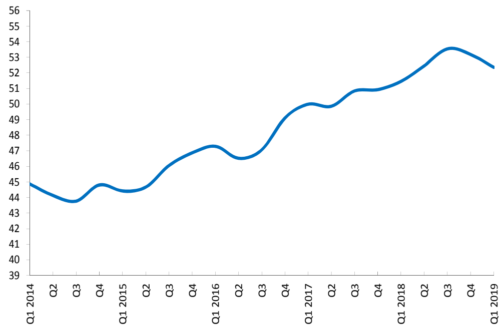
The peso's appreciation was due mainly to the country's easing inflation, improving trade performance, and the recent dovish stance of the US Federal Reserve. On a y-o-y basis, the peso meanwhile depreciated by 1.78 percent relative to the ₱51.43/US$1 average in Q1 2018.[44]

[42] Sources: Malaysia (Banking System's Ratio of net impaired loans to net total loans, February 2019); South Korea (Domestic Banks' Substandard or Below Loans [SBLs] ratio, December 2018); Indonesia, IMF and financial stability reports (Banks' Nonperforming Loans to Gross Loans Ratio, December 2018); and Thailand (Total Financial Institutions' Gross NPLs ratio, December 2018).

[43] Sources: South Korea (Capital Ratios of Banks and Bank Holding Companies, December 2018); Malaysia (Banking System's Total Capital Ratio, February 2019); Thailand (Commercial Banks' Capital Funds Percentage of Risk Assets, January 2019); and Indonesia, IMF and financial stability reports (Commercial Banks, Regulatory Capital to Risk-Weighted Assets Ratio, December 2018).

[44] Dollar rates (per peso) or the reciprocal of the peso-dollar rates were used to compute for the percentage change.

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



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

The peso's appreciation continued in February at it averaged ₽52.19/US$1, rising further by 0.53 percent from the average in January. The peso appreciated on the back of: (i) slower-than-expected domestic inflation data for the month of January 2019 and better-than-expected trade data for the month of December 2018; (ii) dovish signals from the US Federal Reserve; and (iii) market optimism on the trade negotiations between the US and China, and the upcoming second meeting between US President Trump and North Korean leader Kim.

Meanwhile, in March, the peso depreciated slightly to an average of ₽52.41/US$1 declining by 0.43 percent from the average in February. The peso's depreciation was due mainly to: (i) the release of domestic trade balance report for January 2019, which registered a higher deficit relative to the December 2018 level; (ii) "risk-off" sentiment among investors resulting from the ECB's lower inflation and growth outlook for the Eurozone; and (iii) market cautiousness ahead of the 21 March BSP policy meeting.

On a year-to-date (ytd) basis, the peso appreciated against the US dollar by 0.15 percent to close at ₽52.50/US$1 on 29 March 2019 from the end-December 2018 closing rate of ₽52.58/US$1. The peso appreciated along with most of regional currencies.[45]

Nonetheless, the sustained inflows of foreign exchange from overseas Filipino remittances, foreign direct investments (FDI), BPO receipts, as well as the ample level of the country's GIR and the country's robust economic growth, are expected to continue to provide support to the peso.

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

Meanwhile, the volatility of the peso's daily closing rates (as measured by the coefficient of variation) stood at 0.55 percent during the review quarter. This is lower than the 1.25 percent registered in the previous quarter.[46] The volatility of the peso was lower than the volatility of most currencies in the region.

On a real trade-weighted basis, the peso lost external price competitiveness in Q1 2019 against the basket of currencies of all trading partners (TPI), and trading partners in advanced (TPI-A) and developing (TPI-D) countries relative to Q4 2018 as the real effective exchange rate (REER) index of the peso increased by 2.39 percent, 4.88 percent and 0.89 percent against the TPI, TPI-A and TPI-D baskets, respectively.[47,48] Relative to Q1 2018, the peso likewise lost external price competitiveness in Q1 2019 across currency baskets. This developed following the nominal appreciation of the peso and the widening inflation differential, resulting in the increase in the REER index of the peso by 4.51 percent, 4.24 percent, and 4.68 percent against the TPI, TPI-A and TPI-D baskets, respectively.

[46] 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.

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

[48] 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 ₱31.8-billion fiscal deficit for the first two months of 2019, twenty-three percent lower than the amount recorded in the last year.

NG recorded a fiscal deficit for January-February 2019

Netting out the interest payments in NG expenditures, the primary surplus amounted to ₱39.4 billion, which is forty percent higher from the ₱28.1 billion surplus recorded in January-February 2018.

Table 16. National Government Fiscal Performance
in billion pesos

	2018		2019		Growth Rate (in percent)	
	Feb	Jan-Feb	Feb	Jan-Feb	Feb	Jan-Feb
Surplus/(Deficit)	-51.7	-41.5	-76.4	-31.8	48.0	-23.0
Revenues	178.5	417.4	202.1	458.8	13.0	10.0
Expenditures	230.2	458.9	278.5	490.7	21.0	7.0

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

Revenues increased by 10 percent to ₱458.8 billion in January-February 2019 compared to ₱417.4 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱320.8 billion and ₱92.6 billion, respectively. Revenue collections by the BIR and BOC were higher by 10.0 percent and 9.0 percent, respectively. Meanwhile, income from the BTr increased by 35.0 percent to ₱18.8 billion attributed to the dividend from the BSP and NG share in PAGCOR income.

Expenditures for the period in review amounted to ₱490.7 billion, 7 percent higher than the expenditures in January-February 2018. Excluding interest payments, expenditures went up by 8.0 percent to ₱419.4 billion. Meanwhile, interest payment was ₱1.6 billion higher compared to its year-ago level, reaching ₱71.2 billion in January-February 2019.

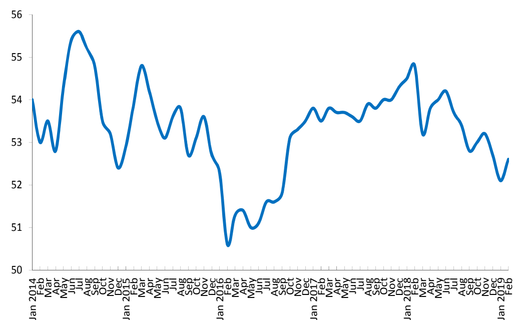
IV. External Developments

The JP Morgan Global All-Industry Output Index rose to 52.8 in March 2019 from 52.6 in February due mainly to the faster growth in new orders in the service sector.

Global economic activity expands at a slightly faster pace

During the month, economic activity expanded faster in China, Brazil, and Russia, but slower in the US, euro area, and Japan.[49]

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



Source: Markit Economics

US. Real GDP expanded by 2.2 percent on a seasonally adjusted q-o-q basis in Q4 2018, slower than the 3.4-percent growth rate in Q3 2018. On a y-o-y basis, real output grew by 3.0 percent, unchanged from the 3.0-percent expansion in the previous quarter. The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, private inventory investment, and federal government spending. These movements were partly offset by negative contributions from residential fixed investments, and state and local government spending. [50]

US economy expands in Q4 2018

Meanwhile, the manufacturing PMI increased to 55.3 in March from 54.2 in the previous month as new orders grew amid strong customer demand.[51]

The unemployment rate was unchanged at 3.8 percent in March. Total nonfarm payroll employment increased by 196,000 during the month, with employment gains in health care and professional and technical services. Meanwhile, on a y-o-y basis, inflation was higher at 1.9 percent in March from 1.5 percent in February. The faster inflation was attributed mainly to the increase in the food price index.

The Conference Board Consumer Confidence Index decreased to 124.1 in March from 131.4 in February.[52] Meanwhile, the Thomson-Reuters/University of Michigan Index of Consumer Sentiment increased to 98.4 in March from 93.8 in February.[53] Buoyant consumer sentiment was mainly attributed to income gains among households with incomes in the bottom two-thirds of the income distribution. Moreover, all income groups expressed more favorable growth prospects for the overall economy.

Euro Area. On a q-o-q basis, real GDP growth in the euro area rose to 0.2 percent in Q4 2018 from 0.1 percent in Q3 2018. On a y-o-y basis, real GDP expanded by 1.1 percent in Q4 2018 from 1.6 percent in Q3 2018.[54]

Output growth in the euro area holds firm

Meanwhile, the composite PMI for the euro area decreased slightly to 51.6 in March from 51.9 in February as the decline in new work in the manufacturing sector offset the growth in the service sector.[55]

Inflation in the euro area fell to 1.4 percent in March from 1.5 percent in February due to lower

[49] JP Morgan Global Manufacturing & Services PMI, http://www.markiteconomics.com/
[50] US Bureau of Economic Analysis, "Gross Domestic Product: Fourth Quarter 2018 (Third Estimate)," news release, 28 March 2019. https://www.bea.gov/system/files/2019-03/gdp4q18_3rd_1.pdf

[51] Institute for Supply Management, https://www.instituteforsupplymanagement.org
[52] The Conference Board, http://www.conference–board.org/
[53] University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/
[54] Eurostat news release 42/2019 dated 7 March 2019
[55] Markit Eurozone PMI, http://www.markiteconomics.com/

inflation for food, alcohol, and tobacco; services; and non-energy industrial goods.[56] The seasonally adjusted unemployment rate was 7.8 percent in February 2019, unchanged from the record in the previous month.

The European Commission's Economic Sentiment Indicator in the euro area decreased to 105.5 in March from 106.2 in February due to weaker confidence in the industry and service sectors. Meanwhile, confidence improved in retail trade and construction and remained broadly stable among consumers.

Japan. On a q-o-q basis, real GDP grew by 0.5 percent in Q4 2018 from a 0.6-percent contraction in Q3 2018. Similarly, on a y-o-y basis, real GDP expanded by 0.3 percent in Q4 2018 from a 0.1-percent growth in the previous quarter due higher private demand growth.[57]

Manufacturing activity in Japan eases

Meanwhile, the seasonally adjusted manufacturing PMI remained in contraction territory at 49.2 in March from 48.9 in February as domestic and foreign new orders eased amid deteriorating demand conditions.[58]

Inflation rose to 0.5 percent in March from 0.2 percent in February due mainly to the increases in the price indices for furniture and household utensils; clothes and footwear; and medical care. The seasonally-adjusted unemployment rate fell to 2.3 percent in February from 2.5 percent in January 2019.

China. Real GDP in China expanded by 6.4 percent y-o-y in Q4 2018 from 6.5 percent in Q3 2018. The slower rate of expansion in Q4 was mainly attributed to weak investment and declining confidence in the Chinese economy amid the country's trade conflict with the US.

[56] Eurostat news release 47/2019 dated 15 March 2019
[57] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/
[58] Nikkei Japan Manufacturing PMI, http://www.markiteconomics .com/

Chinese manufacturing activity rebounds

Meanwhile, the seasonally adjusted manufacturing PMI rose to 50.8 in March from 49.9 in February owing to a stronger, albeit still relatively muted, rise in total new work and new export orders.[59]

Inflation rose to 2.3 percent in March from 1.5 percent in February due to the faster increase in food prices during the month.

India. Real GDP in India expanded by 6.6 percent y-o-y in Q4 2018 from 7.0 percent (revised) in the previous quarter. Albeit slower, the latest GDP expansion was driven mainly by growth in construction; gas, water supply, and other utility services; public administration, defense, and other services; financial, real estate, and professional services; hotels, transport, communication and services related to broadcasting; manufacturing; agriculture, forestry, and fishing; and mining and quarrying.[60]

Economic activity in India expands at a weaker pace

Meanwhile, the composite PMI fell to 52.7 in March from 53.8 in February due to a slower expansion in new work in the service sector.

Inflation rose to 2.9 percent in March from 2.6 percent in February due primarily to higher inflation for food and beverages as well as fuel and light.

ASEAN Region. The Nikkei ASEAN Manufacturing PMI rebounded to 50.3 in March from 49.6 in February as a slight rise in sales and production growth supported business sentiment.

Overall manufacturing conditions in the ASEAN region improve

[59] Caixin China General Manufacturing PMI, http://www.markiteconomics.com/
[60] Ministry of Statistics and Programme Implementation. http://mospi.nic.in/

Manufacturing output growth accelerated in Vietnam and Indonesia, but slower in Myanmar and the Philippines. The manufacturing sector in Thailand returned to expansion, while Singapore and Malaysia remained in the contraction territory.[61]

Policy Actions by Central Banks. On 7 February 2019, the Reserve Bank of India (RBI) decided to reduce the policy repo rate by 25 bps to 6.25 percent on account of the decline in retail inflation and expectations of lower headline inflation in the near term, reflecting the current low inflation environment as well as the benign food inflation outlook. The RBI's policy decision also took into account the lower-than-potential actual output and the need to strengthen private investment activity.

The Reserve Bank of India reduces the policy repo rate in February 2019

Other than the RBI, most central banks monitored by the BSP decided to keep policy rates unchanged during Q1 2019, citing manageable domestic inflation and broad-based global economic growth as the basis for their respective monetary policy decisions. Meanwhile, the People's Bank of China (PBOC) did not announce any adjustment in its benchmark one-year lending rate.

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

V. Monetary Policy Developments

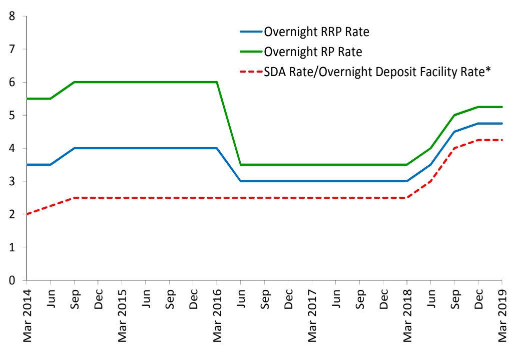
At its monetary policy meetings in 7 February and 21 March, the BSP decided to maintain the key policy interest rate at 4.75 percent for the overnight reverse repurchase or RRP facility. The corresponding interest rates on the overnight lending and deposit facilities were also kept steady.

The BSP maintains monetary policy settings during the quarter

The BSP's decision is based on its assessment of a more manageable inflation environment. The baseline forecast presented then showed inflation settling within the target band of 3.0 percent ± 1.0 percentage point for 2019-2020, while inflation expectations continued to stabilize within the target band. Inflation pressures have eased further during the quarter, reflecting mainly the decline in food inflation amid improved supply conditions.

Meanwhile, the BSP observed that overall prospects for domestic activity continued to be firm, supported by a projected recovery in household spending and the continued implementation of the government's infrastructure program.

Chart 40. BSP Policy Rates
in percent



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

The BSP also noted that the risks to the inflation outlook remained broadly balanced for 2019 even as it observed that further risks could emerge from prolonged El Niño and higher-than-expected increases in global oil and food prices. For 2020, the risks lean toward the downside amid slowdown in global economic activity.

Given these considerations, the BSP was of the view that the within-target inflation outlook and firm domestic growth supported keeping monetary policy settings steady during the quarter. The BSP reiterated that, looking ahead, it will continue to monitor developments affecting the inflation outlook to ensure that the monetary policy stance remains consistent with its price stability objective.

7VI. Inflation Outlook

BSP Inflation Forecasts

The baseline forecasts presented during the quarter indicated that inflation has continued to ease with average inflation for 2019 and 2020 projected to settle within the 3.0 percent ± 1.0 percentage point target range. The decline in the forecast path for 2019-2020 can be attributed primarily to the lower-than-expected inflation outturns in Q1 2019 and slower domestic liquidity growth.

The risks to the inflation outlook are assessed to be broadly balanced for 2019 before tilting toward the downside for 2020. Higher electricity rates, transport fare adjustments, proposed adjustments in the excise taxes on alcoholic beverages, and a prolonged *El Niño* episode are the main upside risks to inflation.

Meanwhile, slower global economic growth due to protectionist policies in advanced economies and geopolitical tensions, the potential renegotiation on the concessions for lower tariff rates on meat products, and the impact of the re-enacted budget of the NG continue to provide downside risks to inflation.

Inflation has continued to ease and is projected to settle within the target range in 2019 – 2020

Demand Conditions. Domestic growth prospects continue to be firm despite the slight deceleration in 2018. Domestic economic activity picked up slightly to a revised growth of 6.3 percent in Q4 2018 from the revised 6.0-percent growth in Q3 2018, but below the 6.5-percent expansion in Q4 2017. Nonetheless, domestic growth has remained above 6.0 percent for the 15th consecutive quarter. On the expenditure side, growth was driven by acceleration in government consumption and sustained exports growth. On the production side, the industry and services sectors continue to be the primary drivers of growth.

Economic activity in Q1 2019 could be boosted by the upcoming midterm national elections, continued strength in both public and private construction with the implementation of the government's infrastructure spending program as well as the expected rebound in the tourism-related sectors. However, the delay in the implementation of the 2019 national budget could lower public construction and expenditures. This will delay the implementation of social programs and other infrastructure projects under the proposed 2019 budget.

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

High-frequency real sector indicators also point to firm growth prospects in the near term. Capacity utilization for the manufacturing sector suggests that more than half of all major manufacturing sectors are operating at or above 80.0 percent. The composite PMI also remains above the 50-point mark as of February 2019, suggesting sustained expansion across all sectors. Moreover, results of the BSP expectations surveys indicated that consumer and business confidence have improved for Q1 2019.

Supply Conditions. Food inflation could decline further over the near term due to the implementation of non-monetary measures to ease import requirements. In addition, the passage of the Rice Tariffication Law is expected to support the downtrend in inflation. Meanwhile, the volatility in the global crude oil market and the possibility of a prolonged El Niño episode could pose additional upside price pressures.

Improved domestic food supply conditions have contributed to decelerating price pressures

The deceleration in global non-fuel prices is expected to continue over the medium term. Heightened trade tensions have affected global trade and investments thereby dampening global demand for commodities. Prices of agricultural commodities and metals could remain stable in the near term due to subdued demand conditions. Commodity prices started to decline in the H2 2018 with the trade barriers imposed by the US and China. Similarly, metal prices have fallen following the effects of tariffs on consumer and capital goods. [62, 63]

In the domestic front, *palay* and corn production could rise by 0.5 percent and 3.0 percent, respectively, in Q1 2019 based on standing crop estimates. The projected rise in *palay* and corn production could be attributed to an increase in harvest areas after production declined in 2018.[64]

The reforms in rice importation could significantly lower food prices in 2019. With the implementation of the Rice Tariffication Law and the accelerated issuance of certifications for the private sector's out-quota rice importation by the NFA, domestic rice prices could decline to levels similar to major import sources of rice, such as Thailand and Vietnam.

Meanwhile, international crude oil prices increased in February and March 2019 due mainly to higher-than-announced production cuts by Saudi Arabia, the recently implemented sanctions by the US against Iran and Venezuela, and supply disruptions in other major producers. However, global oil prices remain lower compared to the previous quarter's level. Uncertainties surrounding the oil market could further emanate from supply dynamics and developments in the trade negotiations between the US and China.

The latest futures prices indicate that global crude oil prices could remain subdued in 2019-2020. Similarly, the EIA along with other international agencies expect crude oil prices to remain broadly steady moving forward.

Domestic economic activity remains in line with potential growth

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.[65]

Given the latest GDP data, estimates by the BSP show that the output gap remains neutral and broadly stable relative to the previous quarter.[66]

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

1) BSP's overnight RRP rate at 4.75 percent from April 2019 to December 2020;

2) NG fiscal deficits for 2019 to 2020, which are consistent with the DBCC-approved estimates;

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

4) Increase in nominal wage in November 2019 and November 2020 consistent with historical wage increases;

5) Real GDP growth is endogenously determined; and

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

Risks to the Inflation Outlook

The risks to the inflation outlook may be presented graphically through a fan chart. The fan chart depicts the probability of different inflation outcomes based on the central projection (corresponding to the baseline forecast of the BSP) and the risks surrounding the inflation outlook.

Compared to the previous inflation report, the latest fan chart shows a downward shift in the inflation projections for 2019-2020. The lower projected inflation path could be attributed mainly

[62] IMF, World Economic Outlook Update, January 2019, available online at http://www.imf.org
[63] World Bank (WB), Global Economic Prospects, January 2019, available online at http://www.worldbank.org
[64] PSA, Rice and Corn Situation Outlook, January 2019, available online at http://www.psa.gov.ph

[65] 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).
[66] Based on the seasonally-adjusted GDP growth

to the lower-than-expected inflation outturns in Q1 2019 and slower domestic liquidity growth.

Projected inflation path is lower for 2019 – 2020

The BSP's review of current inflation dynamics suggests that the risks surrounding the inflation outlook is broadly balanced in 2019 before tilting to the downside in 2020. This assessment is depicted in the latest fan chart, wherein the projection bands below the central projection are greater than the bands above it.

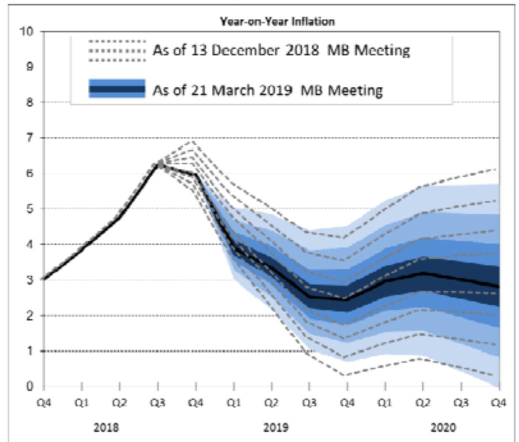
Various petitions for rate adjustments by Meralco and PSALM are also considered as upside risks to inflation and are not part of the baseline scenario. Meralco's petitions include generation and transmission charges, system loss, lifeline subsidy, the December 2013 rate adjustment, which is the subject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

Higher excise taxes for alcoholic beverages present an additional upside risk to inflation. The draft bill proposes to raise the sin taxes of alcoholic beverages (0.7 percent of the CPI basket). Under the proposed bill, the specific taxes of distilled spirits, wines, and fermented liquor specified in the Sin Tax Reform Act of 2012 (Republic Act No. 10351) could be raised in addition to the higher annual indexation of 7.0 percent from 4.0 percent previously.

A prolonged *El Niño* weather episode likewise presents upside price pressures on food prices. The start of a weak *El Niño* condition could lead to droughts in the first half of 2019. The latest assessment of the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) showed that slightly warmer average temperature and significant reduction in rainfall could result in moderate to severe drought conditions over the forecast horizon. This could result in higher prices of key food items broadly similar to previous *El Niño* episodes.

The risks to the inflation outlook remains broadly balanced in 2019, but is tilted to the downside in 2020

Chart 41. Inflation Projection



Source: BSP estimates

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

The potential renegotiation of the higher tariff rates on several meat products owing to concessions related to rice tariffication could likewise present downside risks to inflation. Under Executive Order No. 23 several food items, such as meat, dairy, and vegetables, were granted lower tariff rates as a concession with the World Trade Organization (WTO) for the extension of the quantitative restrictions on rice importation. However, with the removal of quantitative restrictions in favor of rice tariffication, the tariff rates of these food items could revert back to its previously higher rates. For example, the tariff on Mechanically-Deboned or Separated Meat (MDM/MSM) will return to 40.0 percent from 5.0 percent upon the reversal of the concessions. MDM/MSMs are used as inputs for affordable processed meats like hotdog and luncheon meat, among others. However, the tariff increase could be potentially reversed following the renegotiation by the government and the issuance of an Executive Order by the President.

The extension of the NG's reenacted budget is an additional downside risk to the outlook. The baseline forecast assumes a reenacted budget until Q1 2019. A further extension could lead to a deceleration in domestic demand, which could dampen infrastructure development and private consumption with the delayed rollout of social spending programs.

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

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

Implications for the Monetary Policy Stance

On the basis of new information in the first quarter, the BSP has deemed it appropriate to maintain its monetary policy settings. Latest baseline projections indicate a within-target inflation trajectory in 2019 and 2020, as inflation momentum eases further amid the normalization of food supply conditions. Inflation expectations have also settled within the inflation target band, supported by the continued decline in inflation readings during the quarter.

With better-behaved inflation dynamics, the BSP continues to have the leeway to allow the cumulative 175-bp policy rate hikes in 2018 to work their way through the traditional channels of monetary policy, as monetary policy works with long and variable lags. Indications of firm albeit moderating real sector activity suggest a possible cooling down of demand-pull pressures on prices going forward. Meanwhile, increased uncertainty over global macroeconomic prospects offer scope for the BSP to hold its policy settings steady for the time being. These require the BSP to remain vigilant to ensure that monetary policy settings remain consistent with its primary mandate of price stability.

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 percentage point target range in 2008 and the 3.5 ± 1 percentage point target range in 2009.
13 Mar 2008 **24 Apr 2008**	5.00	7.00	The MB decided to keep the BSP's key policy interest rates at 5 percent for the overnight borrowing or RRP facility and 7 percent for the overnight lending or RP facility. The MB also decided to implement immediately the following refinements in the SDA facility: (1) the closure of existing windows for the two-, three-, and six-month tenors; and (2) the reduction of the interest rates on the remaining tenors. The interest rates on term RRPs and RPs were also left unchanged.
5 Jun 2008	5.25	7.25	The MB decided to increase by 25 bps the BSP's key policy interest rates to 5.25 percent for the RRP facility and 7.25 percent for RP facility as emerging baseline forecasts indicate a likely breach of the inflation target for 2008 along with indications that supply-driven pressures are beginning to feed into demand. Given the early evidence of second-round effects, the MB recognized the need to act promptly to rein in inflationary expectations. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
17 Jul 2008	5.75	7.75	The MB increased by 50 bps the BSP's key policy interest rates to 5.75 percent for the overnight borrowing or RRP facility and 7.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
28 Aug 2008	6.00	8.00	The MB increased by 25 bps the BSP's key policy interest rates to 6.0 percent for the overnight borrowing or RRP facility and 8.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
6 Oct 2008 **6 Nov 2008**	6.00	8.00	The MB kept the BSP's key policy interest rates unchanged at 6.0 percent for RRP facility and 8.0 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
18 Dec 2008	5.50	7.50	The MB decided to reduce the BSP's key policy interest rates by 50 bps to 5.5 percent for the overnight borrowing or RRP facility and 7.5 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also adjusted accordingly. Latest baseline forecasts showed a decelerating inflation path over the policy horizon, with inflation falling within target by 2010. This outlook is supported by the downward shift in the balance of risks, following the easing of commodity prices, the moderation in inflation expectations, and the expected slowdown in economic activity.
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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
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 Monetary Board considered that, on balance, the risks to inflation are skewed to the downside given expectations of weaker global and domestic demand conditions and a low probability of a significant near-term recovery in commodity prices.
9 Jul 2009	4.00	6.00	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility, effective immediately. The interest rates on term RRPs, RPs, and SDAs were reduced accordingly. This is the sixth time since December 2008 that the BSP has cut its policy interest rates.
20 Aug 2009 **1 Oct 2009** **5 Nov 2009** **17 Dec 2009**	4.00	6.00	The MB kept key policy rates unchanged at 4 percent for the RRP facility and 6 percent for the overnight lending RP facility. The decision to maintain the monetary policy stance comes after a series of policy rate cuts since December 2008 totaling 200 bps and other liquidity enhancing measures.
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 percent for the RRP facility and 6 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
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.
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.
25 Oct 2012	3.50	5.50	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. This is the fourth time in 2012 that the BSP has cut its policy rates. The MB's decision was based on its assessment that the inflation environment continued to be benign with latest baseline forecasts indicating that the future inflation path will remain within target for 2012-2014. A rate cut would also be consistent with a symmetric response to the risk of below-target inflation.
13 Dec 2012	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that current monetary settings remained appropriate, as the cumulative 100-basis-point reduction in policy rates in 2012 continued to work its way through the economy.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent) RRP Overnight	Levels (in percent) RP Overnight	Monetary Policy Decisions
2 0 1 3			
24 Jan 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also maintained accordingly. The reserve requirement ratios were kept steady as well. At the same time, the MB decided to set the interest rates on the SDA facility at 3.00 percent regardless of tenor, effective immediately, consistent with the BSP's continuing efforts to fine-tune the operation of its monetary policy tools.
14 Mar 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rate on the RRP was also set at 3.50 percent regardless of tenor. Following its previous decision to rationalize the SDA facility in January 2013, the MB further reduced the interest rates on the SDA facility by 50 bps to 2.50 percent across all tenors effective immediately.
25 Apr 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rate on the RRP was also set at 3.50 percent regardless of tenor. Meanwhile, the SDA rate was further reduced by 50 basis points to 2.0 percent across all tenors.
13 Jun 2013 **25 Jul 2013** **12 Sep 2013** **24 Oct 2013** **12 Dec 2013**	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained.
2 0 1 4			
6 Feb 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained.
27 Mar 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained. Meanwhile, the MB decided to increase the reserve requirement by one percentage point effective on 11 April 2014.
8 May 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also maintained. Meanwhile, the MB decided to increase the reserve requirements for U/KBs and TBs by a further one percentage point effective on 30 May 2014.
19 Jun 2014	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also maintained. The reserve requirement ratios were left unchanged as well. Meanwhile, the MB decided to raise the interest rate on the SDA facility by 25 basis points from 2.0 percent to 2.25 percent across all tenors effective immediately.

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.
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.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Lending Facility	
	2016		
23 Jun 2016 **11 Aug 2016** **22 Sep 2016** **10 Nov 2016** **22 Dec 2016**	3.00	3.50	The BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The shift to IRC is an operational adjustment and not a change in the monetary policy stance. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF). The interest rates for the standing liquidity facilities form the upper and lower bound of the corridor while the overnight RRP rate is set at the middle of the corridor. The repurchase (RP) and Special Deposit Account (SDA) windows will be replaced by standing overnight lending and overnight deposit facilities, respectively. Meanwhile, the reverse repurchase (RRP) facility will be modified to a purely overnight RRP. In addition, the term deposit facility (TDF) will serve as the main tool for absorbing liquidity. The interest rates for these facilities will be set as follows starting 3 June 2016: • 3.5 percent in the overnight lending facility (a reduction of the interest rate for the upper bound of the corridor from the 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**	**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 Lending Facility	
2018			
8 Feb 2018	**3.00**	**3.50**	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight 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**	**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**	**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**	**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**	**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 September 2018	**4.50**	**5.00**	The MB decided to raise the BSP's key policy interest rates by 50 basis points to 4.50 percent for the overnight RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
15 November 2018	**4.75**	**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 December 2018	**4.75**	**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.
2019			
7 February 2019 **21 March 2019**	**4.75**	**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.

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

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

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

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