MONETARY POLICY REPORT

FEBRUARY 2022

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 inaugural Monetary Policy Report plays a primary part in the BSP's transparency mechanisms under inflation targeting. It is geared towards sharing with stakeholders, including market counterparties, the latest assessment for the stance of monetary policy based on an analysis of the economic and financial prospects. At the same time, the broad aim is to contribute to making monetary policy accessible to the public. The report will help enable them to better understand and monitor the BSP's commitment to the inflation target, and promote the anchoring of inflation expectations as well as encourage informed debate on monetary policy issues.

The Monetary Policy Report, which replaces the quarterly publication of the Inflation Report, will henceforth serve as the flagship BSP publication on monetary policy to provide the public a detailed view of the BSP's forecasts as well as the guidance on the likely direction of monetary policy over the next two years. The report will convey to the public the overall thinking behind the BSP's decisions on monetary policy. A greater part of the report will be devoted to the forward-looking discussions on inflation and the key macroeconomic variables that affect inflation, as well as the risks and uncertainty surrounding the BSP's inflation forecasts.

The government's target for annual headline inflation under the inflation targeting framework has been retained at 3.0 percent ± 1.0 percentage point (ppt) for 2022-2024 by the Development Budget Coordination Committee. The inflation target range continues to be an appropriate quantitative representation of the medium-term goal of price stability that is optimal for the Philippines given the current structure of the economy and outlook of macroeconomic conditions over the next few years.

The Monetary Board approved this Monetary Policy Report at its meeting on 17 February 2022.

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

Policy Target

The BSP's target for monetary policy is the average annual Consumer Price Index (CPI) (or headline) inflation rate, which is compiled and released to the public by the Philippine Statistics Authority (PSA). The policy target is set by the Development Budget Coordination Committee (DBCC)[2] in consultation with the BSP. The inflation target for 2022-2024 is 3.0 percent ± 1.0 ppt.[3]

BSP's Explanation Clauses

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

[1] The TDF was introduced under the interest rate corridor (IRC) system which was implemented on 3 June 2016. In addition, the BSP Securities Facility was introduced on 18 September 2020 with the first issuance of the BSP 28-day bills.

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

[3] During the DBCC meeting held on 14 December 2022, the DBCC in consultation with the BSP, decided to retain the current inflation target range at 3.0 percent ± 1.0 percentage point (ppt) for 2022 – 2024.

The Monetary Board

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

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Felipe M. Medalla
Peter B. Favila
Antonio S. Abacan, Jr.
V. Bruce J. Tolentino
Anita Linda R. Aquino

The Advisory Committee

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

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Bank Officer VI, Provident Fund Office

2022 SCHEDULE OF MONETARY POLICY MEETINGS, PUBLICATION OF THE MB HIGHLIGHTS AND MONETARY POLICY REPORT

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

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Monetary Policy Summary

At its monetary policy meeting on 17 February 2022, the BSP decided to maintain its key policy interest rate at 2.0 percent for the overnight reverse repurchase (RRP) facility. The corresponding interest rates on the overnight deposit and lending facilities were also kept at 1.5 percent and 2.5 percent, respectively. While the latest inflation forecasts for 2022 and 2023 are slightly higher, the projected inflation path is expected to settle within the 2-4 percent target range over the policy horizon. Moreover, the higher inflation path in 2022, attributed primarily to higher domestic food and oil inflation, are reflective of the trends in the international commodities market. Nonetheless, imported oil and food inflation is projected to ease in 2023 as global supply chain disruptions are expected to dissipate.

Inflation is seen to decelerate in early 2022 but could accelerate towards the upper end of the band in Q2 before moving back to within the target range. The initial deceleration of inflation is due mainly to negative base effects from the uptick in pork prices from the previous year. However, inflation is projected to accelerate slightly above the target range in Q2 2022 driven by elevated global oil and non-oil prices and positive base effects. Nonetheless, inflation is projected to decelerate back to within the target in Q3 2022 and in Q4 2022.

Domestic supply-side price pressures are also being actively addressed through direct non-monetary measures. It is important to refine these measures as needed to address supply shortfalls of key commodities. Given that volatility in oil has again increased, it is important to remain vigilant in implementing measures that could help avoid second round effects in terms of fare hikes and undue wage adjustments, as needed.

Risks to the inflation outlook appear to be slightly on the upside for 2022 but is broadly balanced for 2023. The potential impact of higher global food prices, the continued shortage in domestic pork supply, and jeepney fare hikes due to higher oil prices are the major upside risks over the near term. Meanwhile, the possible impact on domestic economic growth prospects of delays in the easing of containment measures as well as a weaker-than-expected global recovery owing to the spread of new COVID-19 variants are the main sources of downside risks. Risks to the global growth outlook are tilted to the downside in view of tight labor markets in advanced economies as well as uncertainty on inflation and monetary policy.

Meanwhile, the February 2022 survey shows inflation expectations are still within the government's target range of 2-4 percent, albeit with higher mean inflation forecasts for 2022. Private sector economists expect inflation in 2022 to average at 3.5 percent from 3.4 percent in the previous month's survey round. Meanwhile, the mean inflation forecasts for 2023 and 2024 stood lower at 3.1 percent (from 3.2 percent) and 2.9 percent (from 3.3 percent), respectively.

Economic recovery appears to be gaining traction. The projected expansion for Q1 2022 is partly dampened by the shift to Alert Level 3 from Alert Level 2 in NCR and other major provinces in January 2022. Based on NEDA estimates, this could reduce the country's GDP by ₱3.0 billion a week.[4] In addition, the Technical Staff baseline forecasts assume that majority of the country will shift to Alert Level 1 by Q2 2022, which is consistent with the removal of most social mobility restrictions. NEDA estimates indicate that shift from Alert Level 2 to Alert Level 1 could result in weekly increase in domestic demand of ₱23.6 billion.[5]

Preserving ongoing policy support remains a priority given the uncertainty over domestic economic prospects, possible delays in achieving vaccination rate targets, along with the risks surrounding the global oil and food price outlook as well as the monetary policy normalization in advanced economies. There is a risk of a protracted pandemic due to virus resurgence with prospects for sustainable recovery continuing to largely depend on the progress of the COVID-19 vaccine and booster shots rollout as well as ramped-up health system measures.

While the eventual re-opening of the global economy given eased restrictions in some countries will contribute to domestic recovery through improvements in exports and remittances, domestic monetary policy support along with expansionary fiscal policy will also continue to help spur domestic demand and mitigate the extent of economic scarring that could affect the growth trajectory over the long term.

Given estimates pointing to the closing of the output gap by the second semester of 2022 amid sustained demand recovery, the BSP continues to refine the timeline and strategy for the gradual exit from pandemic-related measures and accommodative policy settings. Particular attention is being given to the normalization of monetary conditions prior to the eventual tightening. Some groundwork for the exit has been initiated with the significant decline in BSP activity at the secondary government securities market since the last quarter of 2020 and the reduction in the amount of provisional advances to the NG this year. The gradual shift towards eventual normalization of BSP's extraordinary accommodative measures will be appropriately communicated before it is initiated to help BSP remain ahead of the curve.

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

[4] DBCC joint statement dated 7 January 2022 https://neda.gov.ph/dbcc-joint-statement-on-the-surge-of-covid-19-cases/

[5] The ₱23.6 billion impact from a shift to Alert Level 2 to Alert Level 1 was based on NEDA's estimates presented during the Economic Journalists Association of the Philippines' (EJAP) virtual economic forum last 28 October 2021. This is the sum of the impact for both NCR (+10.3b) and AONCR (+13.3b).

I. Economic Outlook

1. Baseline Forecasts

The latest baseline forecasts indicate that inflation will likely settle within the government's target range of 3.0 percent ± 1.0 ppt at 3.7 percent for 2022 and at 3.3 percent for 2023, using the 2018-based CPI. The inflation forecasts reflect the sharp increase in global crude oil prices in recent weeks, elevated global non-oil prices, and the depreciation of the peso.

Table 1. BSP Average Baseline Inflation Projections
in percent

	Q4 2021 Inflation Report[1] (2012-based)	February 2022 Monetary Policy Report[2] (2018-based)
2022	3.4	3.7
2023	3.2	3.3

Source: Staff estimates
[1] Baseline forecasts from 16 December 2021 monetary policy meeting.
[2] Baseline forecasts from 17 February 2022 monetary policy meeting.

While inflation decelerated in January 2022 to 3.0 percent due mainly to negative base effects from the uptick in pork prices from the previous year, inflation is projected to trend higher in the near term. The latest inflation nowcast for February 2022 indicate that inflation could accelerate on a y-o-y basis due to higher oil prices and elevated food prices from the weather disturbances in the previous months along with the seasonal fishing ban.

Inflation is seen to accelerate slightly above the target in Q2 2022 due to elevated global oil and non-oil prices and positive base effects. Nonetheless, inflation is projected to decelerate back to within the target by H2 2022 once supply-side price pressures dissipate. Inflation is projected to further decelerate near the midpoint of the target by 2023 with the easing of global oil and non-oil price pressures as supply constraints get addressed. In addition, negative base effects from elevated food prices in 2022 could contribute to the deceleration in inflation for 2023.

Over the near term, the inflation path continues to be driven primarily by supply-side factors which continue to be addressed by timely non-monetary policy interventions. Such measures could help ease directly domestic supply constraints of the affected commodities and mitigate the possibility of inflation breaching the upper end of the target range. The direct interventions being pursued by the National Government could help secure domestic food supply, particularly for pork and fish, and minimize the potential impact of weather disturbances on inflation throughout the year.

GDP growth is projected to be consistent with the Development Budget Coordination Committee's (DBCC) target of 7.0-9.0 percent for 2022 and 6.0-7.0 target for 2023.

The expansion of GDP growth is seen to continue over the near term. However, economic activity in Q1 2022 could be adversely affected by the shift to Alert Level 3 from Level 2 in NCR and other major provinces in January 2022 due to the spread of the Omicron variant. This is estimated to reduce the country's GDP by about ₱3.0 billion a week based on NEDA estimates.[6] In addition, the damage caused by typhoon *Odette* on infrastructure is likely to dampen tourism-related activities.

Meanwhile, election-related spending could support economic recovery as it temporarily stimulates economic activity in certain industries such as retail trade, communications, and other sectors engaged in the production of election materials. However, the impact of campaign spending on inflation could be modest as demand conditions continue to be largely muted and the election-related spending will come at a time when the economy is still operating below full its capacity.[7]

The baseline forecasts assume that majority of the country will shift to Alert Level 1 by Q2 2022, consistent with the removal of most social mobility restrictions. NEDA estimates indicate that the shift from Alert Level 2 to Alert Level 1 could result in weekly increase in domestic demand of ₱23.6 billion.[8]

Domestic growth is seen to pick up in succeeding quarters in view of looser mobility restrictions, continued widespread deployment of COVID-19 vaccines and booster shots, and improvements in the global economy. The eventual re-opening of the global economy as restrictions ease, vaccination rates increase and labor market conditions improve is seen to bolster domestic recovery through increased exports and remittances. However, the global economic outlook remains uneven as some countries are expected to have a weaker recovery amid the contagion of the Omicron variant and renewed mobility restrictions.

Domestic economic activity is projected to return to its pre-pandemic level by Q3 2022. GDP remained 4.5 percent below its end-2019 level at the end of 2021 but is expected to return to its pre-pandemic level by Q3 2022. Domestic economic activity in 2022 and 2023 will be supported by the implementation of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law and Financial Institutions Strategic Transfer (FIST) Act as well as improvements in external demand.

The CREATE Act is seen to raise domestic investments by reducing the corporate income tax rate (CIT) by 5.0 ppts to 25.0 percent from 2020 to 2022 with annual reductions until it reaches 20.0 percent in 2027. The CREATE Act is expected to shore up investments and business activity and support both actual and potential output. Similarly, the FIST Act provides support to financial institutions in transferring non-performing assets (NPAs) to Financial Institution Strategic Transfer Corporations (FISTCs), thereby allowing banks to resume credit activity, especially to MSMEs.

[6] DBCC joint statement dated 7 January 2022 https://neda.gov.ph/dbcc-joint-statement-on-the-surge-of-covid-19-cases/

[7] Historically, elections do not impact significantly on inflation due to several reasons, such as short-term nature of the electoral process, limits imposed on election candidates' campaign expenditures, and broadly unchanged supply of money as campaign-related expenditures would only redistribute liquidity which is already in the financial system.

[8] The ₱23.6 billion impact from a shift to Alert Level 2 to Alert Level 1 was based on NEDA's estimates presented during the Economic Journalists Association of the Philippines' (EJAP) virtual economic forum last 28 October 2021. This is the sum of the impact for both NCR (+10.3b) and AONCR (+13.3b).

The output gap is projected to close and turn positive in H2 2022. The overall 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. The BSP's Policy Analysis Model for the Philippines (PAMPh)[9] points to a moderately improving path for the country's output gap. The projected closing of the output gap reflects the ongoing economic recovery, which will be supported by the favorable impact of the tax reform bills on investment and overall economic activity, as well as the continued recovery in world GDP over the forecast horizon. At the same time, potential output is seen to improve, bolstered by increased investments and improvements in labor supply. These estimates will be updated as more information on the recovery of economic activity and labor market conditions become available.

Domestic liquidity (M3) is projected to grow at rate that is consistent with the financing needs of the economy. M3 growth is projected to return to double-digit rates as bank lending recovers following improved domestic growth prospects along with the support from the FIST Act.

The BSP's monetary policy continues to ensure that the expansion of money and credit amid the low interest environment will not lead to excessive inflation pressures nor trigger financial stability risks. When domestic developments warrant a recalibration or withdrawal of such policy support, the BSP will ensure a smooth normalization of its time- and state-bound measures. In line with this, the BSP continues to recalibrate its monetary operations consistent with current liquidity and funding conditions.

The latest exchange rate outlook is consistent with the DBCC's assumption of ₱48.00-53.00/US$1 for 2022 and 2023. The baseline projection incorporates some exchange rate depreciation compared to the previous round due to the impact of the faster-than-expected tightening of the US Federal Reserve over the policy horizon, consisting of four 25-bp rate hikes in 2022 and three rate hikes in 2023.

2. Key Forecast Assumptions

External Factors

World GDP Growth. The latest global growth assumptions are based on the IMF's WEO Update as of January 2022. Global economic prospects have weakened compared to the previous forecast round due to the spread of the Omicron variant across most major economies.

[9] The PAMPh is a monetary policy model for a small open-economy like the Philippines. It is a semi-structural gap model based on New Keynesian foundations with a general equilibrium framework and forward-looking features that allow for the assessment of the dynamic path of key macroeconomic variables in a theoretically consistent manner.

Table 2. World GDP Growth
in percent

	Q4 2021 Inflation Report	February 2022 Monetary Policy Report
2022	4.9	4.4
2023	3.6	3.8

Source: WEO Update (IMF, January 2022), WEO (IMF, October 2021)

In the WEO Update for January 2022, the IMF downgraded its full-year world growth projection for 2022 by 0.4 ppt to 4.5 percent, slower than the estimated 5.9 percent full-year growth for 2021. Global economic growth is projected to grow slower than initially expected as prospects in the US and China have weakened amid easing fiscal policy support, earlier tightening of financial conditions, and protracted supply disruptions. World growth is projected to further decelerate to 3.8 percent for 2023.

The projected slower growth of global economy in 2022 reflects the downward revisions in Advanced Economies (AE) and Emerging Markets and Developing Economies (EMDE) as prolonged COVID-related disruptions and tightening global financial conditions stymied prospects of a durable recovery. The IMF downgraded its growth forecasts for AEs for 2022 by 0.2 ppt to 4.0 percent due mainly to weaker fiscal policy support in the US, prolonged disruptions in global supply chains, and abrupt tightening of monetary conditions.

Growth forecasts for EMDEs were revised downwards by 0.2 ppt to 4.9 percent for 2022 owing mainly to weaker output recovery amid the spread of the Omicron COVID-19 variant as well as the considerable slowdown in China due to its property sector. In addition, China's zero-COVID strategy may lead to repeated mobility restrictions and lockdown measures which could disrupt economic activities and further aggravate supply chain pressures. Growth projections for Brazil, Mexico, Russia, and South Africa were likewise marked down due to deteriorating private consumption and production capacities owing to rising COVID-19 infections and elevated inflation. By contrast, the growth forecast for the ASEAN region was slightly revised upwards as the Philippines and Thailand are poised to grow faster on the back of higher election spending and progressive recovery of the tourism sector.

The trade-weighted world GDP growth of the country's major trading partners have recovered above its end-2019 level in 2021 due to the strong recovery in the Eurozone and the US. In addition, the average growth forecast for 2022-2023 is close to the average growth prior to the pandemic. Nonetheless, the level of world GDP is seen to remain below the pre-pandemic trend by end-2023 due the scarring effects among the country's trading partners in Asia.

Dubai Crude Oil Prices. Global crude oil prices are set to be consistent with oil futures market data and the latest assessment by international energy agencies on the outlook for the global oil market. Developments in the domestic oil market are also assumed to broadly follow the trend in the world oil market.

Table 3. Dubai Crude Oil Price Assumptions
average, in US$ per barrel

	Q4 2021 Inflation Report	February 2022 Monetary Policy Report
2022	72.7	83.3
2023	68.7	75.7

Source: Bloomberg, Staff Estimates

Dubai crude oil prices accelerated to its highest level since October 2014 settling close to US$90.00 per barrel in February 2022 due to production shortfalls among OPEC+ members despite its decision to maintain its scheduled production increases. At the same time, demand for crude oil has increased following shortages in natural gas and coal.

The latest assumptions for global crude oil prices are US$83.3 for 2022 and US$75.7 for 2023. These are higher than the previous assumptions by US$10.7 per barrel in 2022 and US$7.0 per barrel in 2023. The futures price curve remains in backwardation with Dubai crude oil prices seen to decelerate to US$79.0 per barrel by end-2022 and US$73.4 per barrel by end-2023.

To determine the impact on the inflation forecasts for 2022 – 2023 of various outturns for world oil prices, scenarios ranging from US$60 to US$110 per barrel were simulated (Table 4). The scenarios assumed that oil prices are sustained at these levels starting March 2022. Inflation could settle above the target range if crude oil prices average higher than US$95 per barrel for 2022 and 2023.

It should be noted that the oil price scenarios below consider only the direct effects and do not incorporate any potential second-round effects on transport fares, food prices, and wage increases among others.

Table 4. Impact of Alternative Dubai Crude Oil Price Scenarios on Inflation
Deviation from baseline in percentage points

Year	2022	2023
Baseline Inflation Forecast	3.7	3.3
$60	-0.6	-0.8
$65	-0.5	-0.5
$70	-0.4	-0.3
$75	-0.2	-0.1
$80	-0.1	0.2
$85	0.0	0.3
$90	0.1	0.5
$95	0.2	0.7
$100	0.3	0.9
$105	0.4	1.0
$110	0.5	1.2

Source: Staff estimates

World Non-Oil Prices. Global non-fuel price inflation is expected to remain elevated due to the impact of higher oil prices, fertilizer prices, weather disturbances, and freight costs on food prices. The latest assumption for world non-oil inflation is at 3.1 percent in 2022 followed by a contraction by 1.9 percent in 2023 as the impact of the global supply chain bottlenecks and weather-related production disruptions begin to moderate based on the IMF's WEO Update in January 2022. The latest assumption for 2022 is higher than the previous IMF projection of a 0.9 percent contraction.

Table 5. World Non-Oil Price Inflation
in percent

	Q4 2021 Inflation Report	February 2022 Monetary Policy Report
2022	-0.9	3.1
2023	-1.5	-1.9

Source: WEO Update (IMF, January 2022), WEO (IMF, October 2021)

Food price inflation has remained elevated as of Q4 2021 at 23.6 percent despite the slowdown from the peak of 38.0 percent in Q2 2021. The continued price pressures on agricultural products were driven by droughts in major food exporters, higher freight costs due to supply chain bottlenecks, the pass-through of higher oil prices, and the impact of the increase in global fertilizer prices.

The IMF projects global inflation to accelerate in 2022 before decelerating in 2023. Average inflation in AEs is projected to rise to 3.8 percent for 2022 from 3.1 percent in 2021, before slowing down to 2.0 percent for 2023. Similarly, inflation in EMDEs is seen to pick up to 5.8 percent for 2022 and 4.6 percent for 2023. The primary inflationary drivers were attributed to ongoing supply chain disruptions and high energy prices continuing in 2022.

Federal Funds Rate. The latest federal funds futures path has shifted upwards compared to the previous forecast round with expectations of four rate hikes in 2022 and three rate hikes 2023. The federal funds rate is expected to rise starting in March 2022 based with a 25-bp hike in each succeeding quarter until Q3 2023 based on the latest futures path.

Table 6. Federal Funds Rate
end-period, in percent

	Q4 2021 Inflation Report	February 2022 Monetary Policy Report
2022	0.6	1.4
2023	1.3	1.9

Source: Bloomberg

The FOMC has signaled in in its January 2022 meeting that it could start raising its federal funds rate target in its March 2022 meeting following the end of the tapering off its US$120 billion monthly asset purchase program.

A gradual adjustment in US interest rates could help arrest possible rise in financial vulnerabilities from the unprecedented policy support amid the global pandemic. However, unexpected increases in US interest rates could lead to tighter global financial conditions and weigh on the recovery process of emerging market economies, including the Philippines. Demand for dollars could also rise as imports pick up with the projected recovery of aggregate demand in the near term.

Domestic Factors

RRP Rate and Reserve Requirement Ratio (RRR). The latest baseline forecasts assume that the RRP rate will remain at 2.0 percent over the policy horizon. The latest forecasts also assume an RRR of 12.0 percent until end-2023.

Wages. The National Wages and Productivity Commission (NWPC) have not indicated any potential adjustments in the minimum wage for NCR, which has remained unchanged in since November 2018. (The AONCR minimum wage has also been unchanged since March 2020.) The latest forecasts assume an increase in the minimum wage by 3.9 percent in 2022 and 3.8 percent in 2023 in line with historical wage increases, and taking into account the scheduled deliberations of the regional wage board at end-February 2022.

Tariff on Imported Pork. On 15 May 2021, the President signed Executive Order (E.O.) 134, which sets the new tariff rate on pork imports under the minimum access volume (MAV) at 10.0 percent for the first three months and 15.0 percent in the next nine months. Meanwhile, the tariff rate outside MAV would be reduced to 20.0 percent for the first three months and 25.0 percent in the succeeding months. EO 134 became effective upon its complete publication in the Official Gazette or newspaper of general circulation and will remain in effect until May 2022. The Department of Agriculture estimates that the reduction of tariffs could reduce the landed cost of pork by 14.0 to 15.0 percent. In addition, E.O. 133 issued last 10 May 2021, raised the MAV for pork imports from 54,210 metric tons (MT) by an additional 200,000 MT effective 12 July 2021.

Fiscal sector. The baseline inflation forecasts are consistent with government's fiscal deficit assumption of 7.7 percent for 2022 and 6.1 percent for 2023, based on the medium-term macroeconomic assumptions of the DBCC as of 14 December 2021.

Alcoholic Drinks. The baseline forecasts reflect the impact of annual adjustments in the prices of alcoholic beverages (0.7 percent of the CPI basket) as mandated in Republic Act (R.A.) No. 11467. Higher excise taxes for fermented liquor, wine, and distilled spirits will be implemented on a staggered basis from 2020 to 2024 and shall increase by 6.0 percent every year from 2025 onwards.

Tobacco Products. The President signed Republic Act 11346, increasing further the excise tax on tobacco products (0.9 percent of the CPI basket) to fund the Universal Healthcare Act. Under the law, the tax per pack of cigarettes will be raised on a staggered basis to ₱60.00 per pack in 2023 and subject to a 5.0 percent annual indexation onwards.

Table 7. Excise Tax

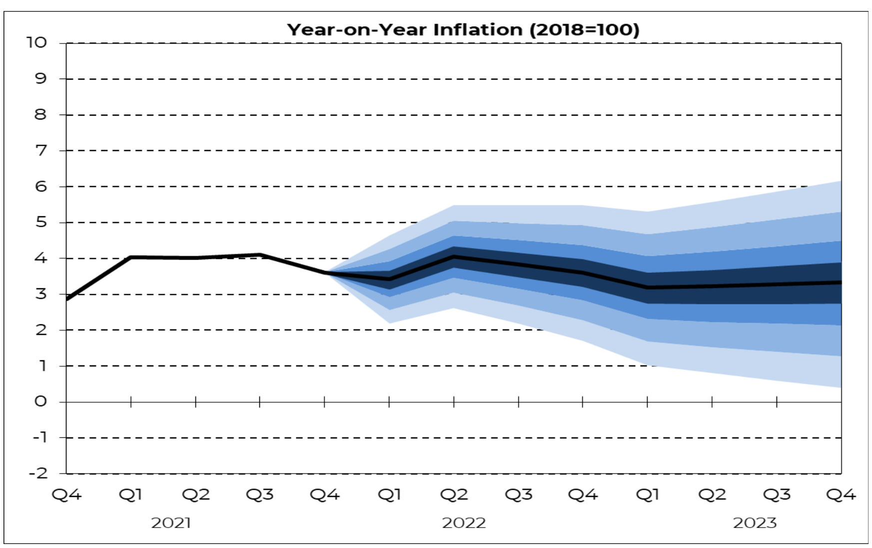
Year	R.A. 11346 Cigarettes (per pack)	R.A. 11467 Fermented Liquor (₱ per liter)	Wine (₱ per liter)	Distilled Spirits Excise Tax (₱ per liter)	Ad Valorem Tax (%)
2020	50.0	35.0	50.0	42.0	22%
2021	55.0	37.0	53.0	47.0	22%
2022	60.0	39.0	56.2	52.0	22%
2023		41.0	59.6	59.0	22%
2024	5% Indexation	43.0	63.1	66.0	22%
2025		6% Indexation			22%

3. Risks to the Outlook

Using the 90 percent confidence intervals for the fan chart, estimates indicate that the probability of average annual inflation settling within the 3.0 percent ± 1.0 ppt target range is 50.9 percent for 2022 and 53.1 percent for 2023. The probability of inflation breaching the low end of the target range is 8.5 percent for 2022 and 18.6 percent for 2023. The probability of inflation breaching the high end of the target range is 40.6 percent for 2022 and 28.2 percent for 2023.

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 25.0 percent of the probability distribution. Each successive pair of bands is drawn to cover a further 25.0 percent of probability, until 75.0 percent of the probability distribution is covered. Lastly, the lightest band covers the lower and upper 90.0 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.

Chart 1. Inflation Projection
in percent



Source: Staff estimates

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.

Table 8. Inflation Projection Ranges at Various Confidence Intervals Using the Fan Chart
in percent

Confidence Interval (%)	Projection Range (%)	
	2022	2023
80	2.5 – 4.9	1.3 – 5.2
90	2.2 – 5.3	0.7 - 5.7

Source: Staff estimates

Table 9. Probability Distribution of Inflation Forecasts
in percent

	AC Meeting 14 February 2021		
	Pr(<2%)	Pr(2-4%)	Pr(>4%)
2022	8.5%	50.9%	40.6%
2023	18.6%	53.1%	28.2%

Source: Staff estimates

The risks to the inflation outlook appear to be slightly on the upside for 2022 but is broadly balanced for 2023. The potential impact of higher global food prices, continued shortage in domestic pork supply, higher fish prices and ongoing petition for jeepney fare hikes due to higher oil prices are the major upside risks over the near term. Meanwhile, the potential impact on domestic economic growth prospects of delays in the easing of alert levels as well as a weaker-than-expected global recovery owing to the spread of new COVID-19 variants are the main sources of downside risks.

Table 10. Risk Matrix[10]

	Risks	Probability
Upside Risks	Higher global food prices	Low
	Petitions for transport fare increases	Low
	Higher fish prices	Low
	Prolonged pork supply shortage	Low
Downside Risks	Slower global growth	Low
	Delays in easing of quarantine measures	Low

[10] The BSP considers different scenarios that pertain to upside and downside risks to the inflation outlook, which is summarized in a risk matrix. The various scenarios are then assigned probability values. Scenarios that have more than 75 percent probability of taking place over the forecast horizon are incorporated in the baseline. The estimated impact of each scenario is then multiplied by the assigned probabilities. The sum of the weighted impact for each year will indicate whether the risks to the outlook are balanced, on the upside, or on the downside.

Global food prices pose upside risks to inflation in the near term. The price of non-oil commodities in the global market has increased in 2021 due to stronger demand following the recovery of global economic activity as well as supply disruptions in key food items. The baseline scenario assumes that global non-oil prices will increase by 3.1 percent for 2022 based on IMF projections. However, elevated energy prices could spill over to food prices, while the global supply bottlenecks continue to persist.

Higher jeepney fares are a possible source of second-round effects from higher oil prices. Transport groups led by *Pasang Masda* filed for a nationwide increase in the minimum jeepney fare to the Land Transportation Franchising and Regulatory Board (LTFRB) in October 2021. The petition asks for a provisional increase in jeepney fares from ₱9.00 to ₱12.00 (33.3 percent) due to the continued increase in diesel prices. Recent information, however, show that the LTFRB is unlikely to act on the petition in order to align with the thrust of the Department of Transportation (DOTr) to continue its financial assistance through *Pantawid Pasada* cash aid and service contracting program.[11]

Higher fish prices pose an upside risk to inflation. The expected fish supply deficit in 2022 could result in higher fish inflation. Based on DA estimates, fish imports covered by the recently approved CNI are not enough to augment the projected fish supply shortfall, mainly driven by the close fishing season and impact of adverse weather condition.[12] This is based on the country's experience during the period 2016, 2018, 2020 and 2021, where total fish supply (production and importation) contracted by 3.1 percent on average based on the Fishery Supply and Utilization Accounts. An increase in fish inflation for 2022 could raise overall inflation by 0.35 ppt.

Prolonged shortage in pork supply. Pork prices in the country could remain elevated until 2022 if there are no significant improvements in domestic hog production amid the discontinuation of EO 134 and 135. Delays in the arrivals of pork imports due to supply chain bottlenecks and more stringent non-tariff measures (e.g., strict market restrictions on the MAV Plus and labelling requirements) will also affect adversely domestic pork supply. However, the National Economic Development Authority (NEDA), with support from the Department of Finance (DOF), is proposing to extend the validity of EO 133 which raises the MAV for pork imports until end-2022.

The continued uncertainty brought about by the pandemic represents a downside risk to the outlook. Risks to the global growth outlook are tilted to the downside in view of tight labor markets in advanced economies, uncertainty on inflation and monetary policy normalization, and possible emergence of more virulent COVID-19 variants. Downside risks may also emanate from geopolitical tensions, social unrest, worsening climate crisis, rising energy commodity prices, continued tariff increases, and cross-border technology frictions. Conversely, upside risk factors include higher vaccination rates, earlier-than-expected easing of supply chain pressures, and lower inflation. Nevertheless, recovery prospects and growth trajectories of AEs and EMDEs are expected to remain asynchronous as varying vaccination rates, surging prices, and divergent monetary policy withdrawal exacerbate the global economy's uneven recovery.

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[11] https://www.philstar.com/pilipino-star-ngayon/metro/2022/02/10/2159760/walang-taas-pasahe-ltfrb
[12] https://www.da.gov.ph/da-sees-necessity-to-import-60k-mt-of-fish-in-first-quarter-of-2022/

II. Current Developments

Overview of current developments

Headline inflation has slowed as non-food price pressures eased. Using the 2018-based CPI series, year-on-year inflation settles toward the midpoint of the target range at 3.0 percent in January 2022 from 3.2 percent in the previous month. This is also lower than the year-ago inflation of 3.7 percent. Food inflation remained steady while non-food inflation declined.

Rising foreign fuel and food prices exert pressure on the supply side. Average Dubai crude oil prices increased to US$83.12 per barrel in January 2022 and further to US$91.11 per barrel in February on geopolitical tensions and tight supply. Domestic fuel prices have also increased as a result of the uptrend. Nevertheless, global oil supply is expected to be in surplus for most of 2022 and 2023, which can help ease pressures going forward. Meanwhile, food commodities in the global market rose in January 2022 owing to the combined strong demand amid supply-side constraints. This was reflected in the elevated prices of some domestic food items such as corn.

Inflation expectations for the next two years remain within the target range despite elevated inflation in 2021. Results of the BSP's survey of private sector economists for February 2022 showed the mean inflation forecast for 2022 rising slightly to 3.5 percent from 3.4 percent in the January 2022 survey. Meanwhile, the mean inflation forecasts for 2023 and 2024 were lower at 3.1 percent (from 3.2 percent) and 2.9 percent (from 3.3 percent), respectively.

The Philippine economy further accelerated in Q4 2021, reinforcing clear indicators of the recovery process. Real GDP grew faster in Q4 2021 at 7.7 percent from 6.9 percent a quarter ago and a turnaround from the contraction of 8.3 percent a year ago. Growth for the full year 2021 stood at 5.6 percent, higher than the government's target range of 5.0-5.5 percent. All the major sectors from the demand side and supply side of the economy posted positive outturns.

Other demand indicators likewise show sustained expansion. Vehicle sales continue to increase in December 2021 while energy consumption in residential, commercial and industrial sectors further rose in November 2021. Similarly, capacity utilization in manufacturing remains steady, declining only marginally to 67.3 percent in December 2021 from the month-ago level of 67.8 percent. Meanwhile, the composite Purchasing Managers' Index (PMI) rose to 53.9 index points in December 2021.

Labor market conditions generally improve in the last month of the year. Based on the Labor Force Survey (LFS) as of December 2021, unemployment rate fell by 6.6 percent. On the other hand, the employment rate posted significant improvement compared to November 2021 and pre-pandemic levels.

Major economies sustain growth recovery. The US, euro area and China expanded in Q4 2021. Meanwhile, the JP Morgan All-Industry Output Index stood at 51.4 index points in January 2022, remaining in the expansion territory.

Persistent inflationary pressures in some economies set the stage for some central banks, namely, the Bank of Korea and Bank of England to raise their key policy interest rates. At the same time, the US Federal Reserve signaled the need for further withdrawal of monetary policy support.

Financial conditions remain supportive of economic activity amid anticipation of a US Fed hike. Domestic liquidity grew by 7.7 percent in December. Bank lending, likewise, increased by 4.6 percent during the same period. Primary Treasury bill rates decline across the 91-, 182- and 354-tenors while the 5-year Treasury bonds increased. Similarly, secondary market yields fell in the short-end and middle of the curve while yields at the longer end increased.

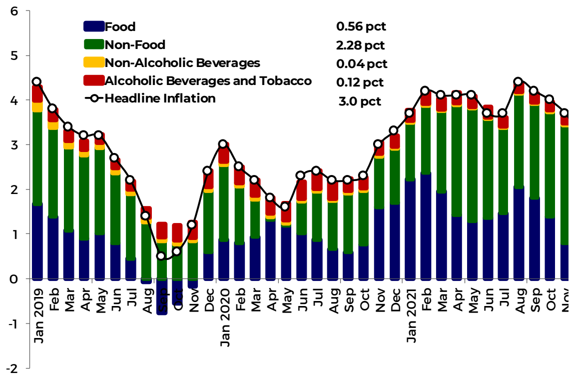
Monetary authorities continue to affirm their support for the economy while keeping an eye on the increased potential risks to future inflation. With recovery gaining firmer ground in 2022, some of the initial preparations have begun for an eventual gradual exit from pandemic-related measures and accommodative policy settings. Particular emphasis is being given to planning for the prospective normalization of monetary conditions as a prerequisite to eventual tightening once conditions warrant.

1. Prices[13]

Headline inflation. Using the 2018-based CPI series, year-on-year headline inflation fell toward midpoint of the target range at 3.0 percent in January 2022 from 3.2 percent in the previous month. This is also lower than the 3.7 percent inflation in the same period in 2021.

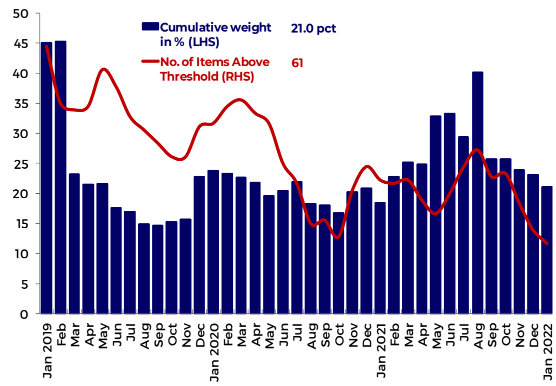
Preliminary estimates show that the number of CPI items[14] with inflation rates above the threshold of 4.0 percent fell to 61 items in January from 65 in the previous month.[15] These items were equivalent to around 21.0 percent of the total Consumer Price Index (CPI) basket from 23.1 percent in December 2021.

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



Source: Philipine Statistical Authority (PSA), BSP

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



Source: PSA, BSP staff estimates

Food Inflation. Inflation for food and non-alcoholic beverages in January 2022 was steady at 1.6 percent from the previous month y-o-y as the higher price for corn was offset by easing in meat prices. Year-on-year meat inflation moderated in January as pork supply stabilized on targeted efforts from the government and private sector. The moderation in meat inflation was also due partly to negative base effects as pork prices spiked in the same month last year. By contrast, corn inflation continued to rise at double-digit rates in January. On the other hand, vegetable inflation continued to decline in January albeit less negative compared to the previous month following the damage brought about by typhoon Odette.

Non-food Inflation. Meanwhile, non-food inflation eased, driven mainly by the slowdown in the large-weighted items in the CPI basket such as housing, water, electricity, gas, and other fuels as well as restaurants and accommodation services.[16] Electricity rates fell during the month due to lower generation costs

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[13] The Interagency Committee on Price Statistics (IACPS) is reviewing the list of excluded items for the official core inflation for the Philippines using the rebased CPI series. Latest available data on core CPI is still for December 2021 using the 2012-based series.
[14] Data are preliminary based on BSP staff calculations using the 6-digit classification ("item" level). There are 315 items under the 6-digit level. In the 2012-based CPI, the staff used the 5-digit CPI (sub-classes) level data, which had 239 items.
[15] It should be noted that this exercise has some bias due to rounding given that inflation for 6-digit are computed with an expanded decimal place especially with the threshold set at 4.0 percent or 2.0 percent. For instance, inflation rates that is equivalent to 4.01 are classified as above 4.0 percent while CPI items with inflation rate at 1.98 is also classified below threshold.
[16] Using the 2018-based CPI, the share of *Housing, Water, Electricity, Gas, and Other Fuels* CPI in the total basket is 21.38 percent while *Restaurants and Accommodation Services* CPI accounts for 9.62 percent. In total, these two items account for 31 percent of the total CPI basket.

while prices of liquefied petroleum gas (LPG) also declined. This, in turn, was enough to offset the continued increase in domestic fuel prices amid rising global crude oil prices.

Table 11. Inflation rates for Selected Food Items (2018=100)
year-on-year; in percent

Commodity	Jan 2021	Dec 2021	Jan 2022
Food and Non-Alcoholic Beverages	5.9	1.60	1.6
Food	6.4	1.6	1.6
Cereals	0.3	0.9	2.4
Bread	2.3	2.3	2.5
Rice	0.2	-0.1	1.0
Corn	1.2	16.4	27.8
Meat	12.2	8.7	4.3
Fish	3.0	6.2	6.2
Milk	2.1	0.7	0.9
Cheese	1.3	0.9	0.8
Eggs	3.2	0.5	1.0
Oils and Fats	3.4	8.0	8.5
Fruit and Nuts	13.2	-3.7	-5.7
Vegetables	26.3	-15.1	-10.9
Sugar, Confectionery and Desserts	0.8	2.1	2.8
Ready-Made Food and Other Food Products, N.E.C.	3.0	1.3	1.9
Non-Alcoholic Beverages	1.5	1.2	1.3
Alcoholic Beverages and Tobacco	11.3	6.2	11.3

Source of Basic Data: PSA, BSP

Table 12. Inflation Rates for Selected Non-Food Items (2018=100)
year-on-year, in percent

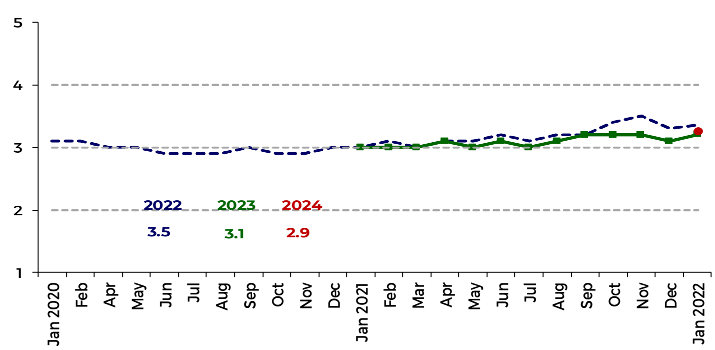
Commodity	Jan 2021	Dec 2021	Jan 2022
Non-Food	**2.10**	**3.90**	**3.80**
Clothing and Footwear	1.60	1.90	2.00
Housing, Water, Electricity, Gas and Other Fuels	0.20	5.10	4.50
Electricty, Gas, and Other Fuels	-3.70	14.30	12.30
Furnishings, Household Equipment & Routine Household Maintenance	2.60	2.10	2.40
Health	3.80	3.20	3.10
Transport	6.60	6.60	7.00
Passenger Transport Services	15.50	0.10	-0.10
Information anf Communication	0.60	0.60	0.70
Recreation, Sport and Culture	-0.60	1.60	1.50
Education Services	1.00	0.70	0.60
Restaurant and Accommodation Services	2.60	3.20	3.00
Financial Services	0.00	43.30	43.30
Personal Care and Miscellaneous Goods and Services	2.40	2.10	2.20

Source of Basic Data: PSA, BSP

Private Sector Economists' Inflation Forecasts. Results of the February 2022 BSP's survey of private sector economists show higher mean inflation forecast for 2022, and lower mean forecasts for 2023 and 2024.

The mean inflation forecast for 2022 rose to 3.5 percent from 3.4 percent based on the January 2022 survey.[17] Meanwhile, the mean inflation forecasts for 2023 and 2024 were lower at 3.1 percent (from 3.2 percent) and 2.9 percent (from 3.3 percent), respectively.

Chart 4. BSP Private Sector Economists' Survey
mean forecast for full year; in percent



*Based on forecasts provided by 22 respondents. The survey was conducted from 4-10 February 2022.
Source: BSP

Analysts expect inflation to settle within the government's target range in 2022, with broadly balanced risks surrounding the outlook. Inflation is expected to ease and settle close to the midpoint of the target over the policy horizon, with most of

[17] There were 22 respondents in the BSP's survey of private sector economists in February 2022. The survey was conducted from 4 to 10 February 2022.

the analysts anticipating the BSP to end its accommodative stance and increase the RRP rate by a range of 25 to 125 bps in 2022-2024.

The upside risks to inflation include (a) persistently high global oil prices which could result in higher transport costs; (b) supply chain disruptions due to lingering concerns over the COVID-19 Omicron variant, the aftereffects of typhoon Odette, and possible occurrence of other weather disturbances; (c) normalization of economic activities given continued vaccine rollout and easing of mobility restrictions to boost domestic demand; (d) election-related spending; and (e) higher energy prices.

The downside risks to inflation are seen to emanate from (a) the continued implementation of quarantine measures as COVID-19 cases remain elevated, which could dampen consumer demand and likely impede economic recovery; (b) base effects; and (c) lower domestic food prices and ample food supply owing to non-monetary government interventions, such as the lowering of import tariffs on pork and rice.

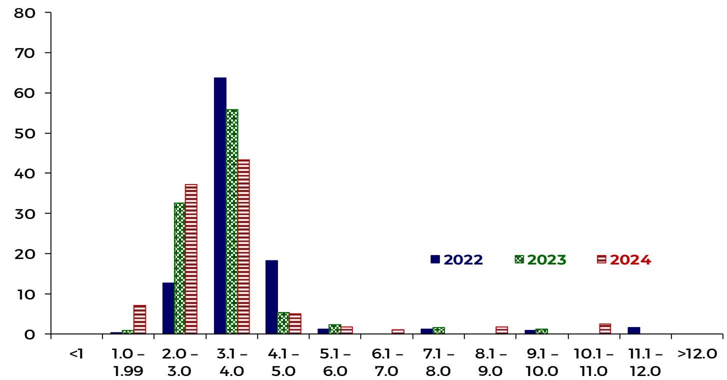
Table 13. Private Sector Forecasts for Inflation
annual percentage change; February 2022

	2022			2023	2024
	Q1	Q2	FY	FY	FY
1) Al-Amanah Islamic Bank	3.20	3.50	4.00	3.50	3.00
2) Asia ING	3.30	3.40	3.30	3.40	3.20
3) Banco De Oro	2.88	3.86	3.57	3.40	3.00
4) Bangkok Bank	3.20	3.30	3.20	3.00	3.00
5) Bank of Commerce	3.32	4.30	3.94	-	-
6) Barclays	3.10	3.40	3.40	3.00	-
7) Citibank	2.70	3.40	3.20	3.50	3.40
8) CTBC Bank	3.10	3.50	3.40	3.10	2.90
9) Deutsche Bank	-	-	3.20	3.40	-
10) Eastwest Bank	3.70	3.60	3.50	3.20	3.00
11) Global Source	-	-	3.80	-	-
12) Korea Exchange Bank	3.10	3.50	3.20	2.30	2.50
13) Land Bank of the Phils	3.40	4.80	4.20	2.20	1.70
14) Maybank	3.10	3.00	3.00	2.50	2.50
15) Maybank-ATR KimEng	3.30	4.10	3.40	2.70	2.70
16) Mizuho	3.20	3.20	3.20	3.10	3.00
17) RCBC	3.30	4.10	3.70	3.00 - 3.50	3.20 - 3.70
18) Robinsons Bank	3.30	4.40	4.00	3.50	3.50
19) Security Bank	3.00	3.50	3.50	3.70	3.00
20) Standard Chartered	-	-	3.00	2.90	-
21) Union Bank of the Phils.	-	-	3.50	3.20	3.30
22) UBS	2.90	3.30	3.10	3.00	-
Median Forecast	3.2	3.5	3.4	3.2	3.0
Mean Forecast	3.2	3.7	3.5	3.1	2.9
High	3.7	4.8	4.2	3.7	3.5
Low	2.7	3.0	3.0	2.2	1.7
Number of Observations	18	18	22	20	16
Government Target	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

Source: BSP

Based on the probability distribution of the forecasts provided by 16 out of 22 respondents, there is a 76.4-percent probability that average inflation for 2022 will settle within the 2-4 percent range, while there is a 23.3-percent chance that inflation will exceed 4.0 percent. Meanwhile, the probabilities that inflation will fall within the target band in 2023 and 2024 are seen at 88.4 percent and 80.7 percent, respectively.

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

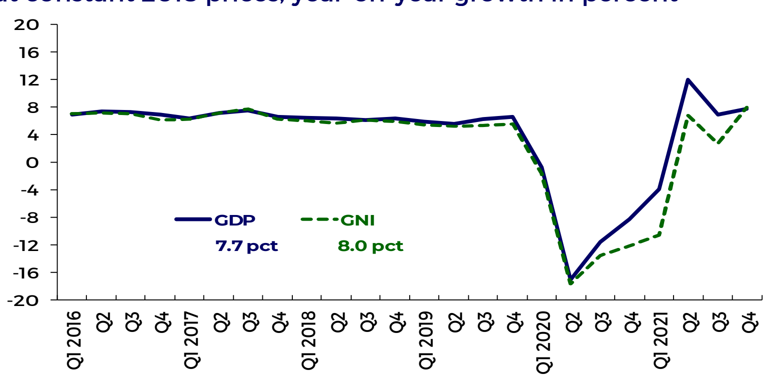


*Probability distributions were averages of those provided by 16 out of 22 respondents.
Source: February 2022 BSP Survey

2. Demand Conditions

The Philippine economy grew by 7.7 percent y-o-y in Q4 2021, higher than the 6.9-percent (revised) growth in Q3 2021 and a turnaround from the 8.3-percent contraction posted in Q4 2020. The expansion mainly stemmed from the shift toward more flexible alert level system with granular lockdowns allowing low risk areas to resume business. Quarantine restrictions were also less stringent during the last part of Q4 2021. This brought the full-year GDP growth rate to 5.6 percent year-on-year in 2021 from a 9.6-percent slump in 2020.

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



Source: PSA

The full-year GDP figure for 2021 also exceeded the Development Budget and Coordination Committee (DBCC) target of 5.0 to 5.5 percent for the year.[18] On a seasonally adjusted basis, quarter-on-quarter GDP was broadly stable at 3.1 percent in Q4 2021.

Gross national income (GNI) increased by 8.0 percent year-on-year in Q4 2021, higher than the 2.7-percent growth in Q3 2021 and 13.5-percent contraction in Q4

[18] Based on DBCC medium-term macroassumptions adopted on 14 December 2021. Retrieved from: https://www.dbm.gov.ph/index.php/dbcc-matters/macroeconomic-assumptions-and-fiscal-targets/180th-dbcc-meeting

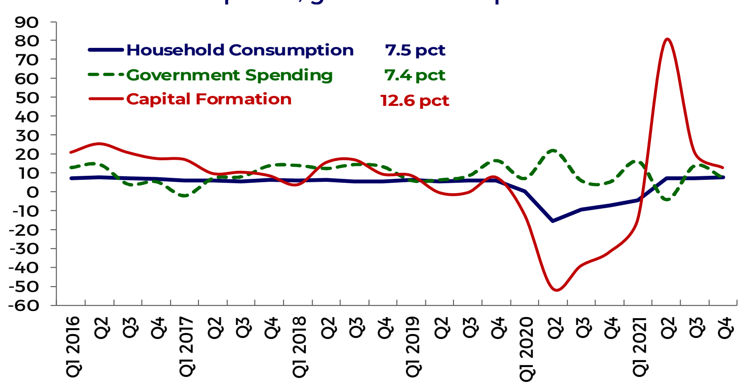
2020. Net primary income recovered by 15.0 percent from double-digit declines of -50.6 percent and -55.9 percent in Q3 2021 and Q4 2020, respectively.

Aggregate Demand. Under the expenditure approach, household spending contributed the most to the growth at 5.7 percentage points (ppts) while government spending and investments (or capital formation) also remained buoyant, contributing 1.0 ppt and 2.6 ppts, respectively. On the other hand, net exports contributed -2.5 ppt to total GDP growth in Q4 2021 as imports continued to expand.

Household expenditures, which accounted for 75.5 percent of GDP in Q4 2021, expanded by 7.5 percent in Q4 2021. This is an improvement from the 7.1-percent growth in the previous quarter and a turnaround from the -7.3 percent recorded in Q4 2020. The growth in household spending was supported by the gradual easing of quarantine restrictions, improving labor market outcomes, and higher vaccination rates. Except for furnishings, household equipment and routine household maintenance, and alcoholic beverages and tobacco, all the other items contributed positively to the growth of household spending, particularly: food and non-alcoholic beverages, restaurants and hotels, miscellaneous goods and services, transport, and health, as more establishments were allowed to operate at higher capacity. Demand was also stronger during the holidays as reflected by increased mobility particularly in retail establishments and recreational areas, which reverted to pre-pandemic levels in December 2021.

Government expenditures slowed down in Q4 2021 at 7.4 percent from 13.8 percent growth in Q3 2021, albeit still higher than the 5.1-percent expansion in Q4 2020.

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



Source: PSA

Capital formation grew by 12.6 percent year-on-year in Q4 2021, slower than the 20.8 percent growth in Q3 2021 but a turnaround from the 32.2-percent contraction in Q4 2020. The expansion was attributed to the registered increase in fixed capital investments from construction activities, durable equipment, and intellectual property products.

Overall exports grew by 8.3 percent in Q4 2021, slower than the 9.1-percent expansion in Q3 2021 but an improvement compared to the 10.2-percent drop in Q4 2020. The growth was attributed to the reported gains in merchandise exports, particularly, components/ devices (semiconductors), coconut oil, telecommunication, other exports of goods, and office equipment. Similarly, exports of services expanded, driven by growth in business services, manufacturing services on physical inputs owned by others, telecommunications, computer and information services, miscellaneous services, and travel. This was due to some recovery in business services and double-digit increase in the number of visitor arrivals for tourism in Q4 2021.

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

BY EXPENDITURE ITEM	2020	2021	
	Q4	Q3	Q4
Household Final Consumption Expenditure	-7.3	7.1	7.5
Government Final Consumption Expenditure	5.1	13.8	7.4
Gross Capital Formation	-32.2	20.8	12.6
Gross Fixed Capital Formation	-30.0	15.5	9.5
Exports of Goods and Services	-10.2	9.1	8.3
Imports of Goods and Serrvices	-20.2	13.0	13.7

Source: PSA

Overall imports slightly increased by 13.7 percent in Q4 2021 from 13.0 percent in the previous quarter. The y-o-y growth was due to the increase in merchandise imports of mineral fuels, lubricants and related materials, medical and pharmaceutical products, cereals and cereal preparation, transport equipment, and industrial machinery and equipment. Imports of services also increased supported by growth in transport, telecommunications, computer, and information services, insurance and pension services, travel, and charges for the use of intellectual property.

Property Prices[19]

Capital Values, Metro Manila. Average capital values[20] for office buildings in Metro Manila[21] in Q4 2021 declined to ₱158,700/sq.m., lower by 9.8 percent y-o-y and 2.6 percent q-o-q. The decline was due mainly to the decrease in capital values for office buildings in major business hubs in Metro Manila such as Makati CBD, Ortigas Center, Fort Bonifacio, Eastwood, and Manila Bay Area amid subdued investor interest.

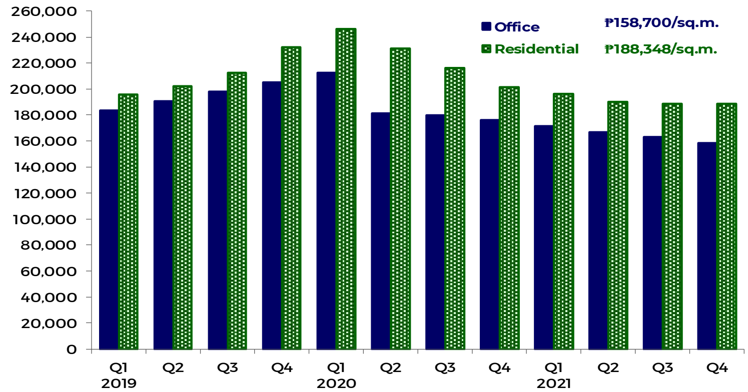
Market experts have observed that some firms taking a wait-and-see stance during the pandemic are occupying flexible workspaces, which they are using only as swing or temporary offices. Furthermore, the rise in COVID-19 cases due mainly to the Omicron variant will likely delay occupiers' back-to-office initiatives.

Average capital values for luxury residential buildings[22] in Metro Manila[23] in Q4 2021 reached ₱188,348/sq.m., lower by 6.5 percent y-o-y, albeit slightly higher by 0.1 percent q-o-q. The y-o-y decline was due mainly to lower capital values for

[19] Q4 2021 Colliers International Philippines Report
[20] Probable price that the property would have fetched if sold on the date of the valuation. The valuation includes imputed land and building value.
21 This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, Alabang, and Manila Bay Area.
[22] 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.
[23] This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, and Rockwell.

luxury residential buildings in Makati CBD, Rockwell, Fort Bonifacio, and Eastwood amid muted business and consumer confidence. Meanwhile, the take-up of units in the secondary market remained lackluster due to the absence of demand from POGOs and slower take-up from expatriates and local professionals.

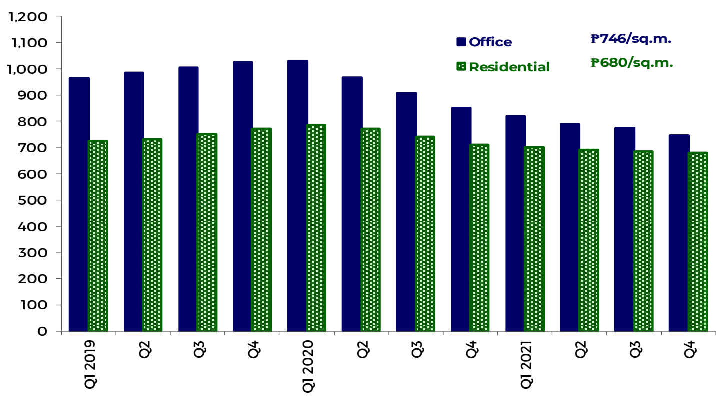
Chart 8. Capital Values, Metro Manila
price per square meter



Source: Colliers International Philippines

Rental Values, Metro Manila.[24] Average monthly office rent in Metro Manila was valued at ₱746/sq.m. in Q4 2021, lower by 12.3 percent y-o-y. This was also lower by 3.5 percent relative to Q3 2021. The depreciation in office rental rates was due largely to the subdued leasing and rising office vacancy.

Chart 9. Rental Values
price per square meter



Source: Colliers International Philippines

According to market analysts, they expect a slow recovery in office lease rates starting in the second half of 2022 supported by sustained office absorption as inquiries are likely to materialize after six to 12 months. The completion of new office spaces and the substantial decline in rents in Fort Bonifacio, Ortigas CBD, and Manila Bay Area should enable occupiers to reconsider these prime locations for their expansion and return to office plans in the next 12 months.

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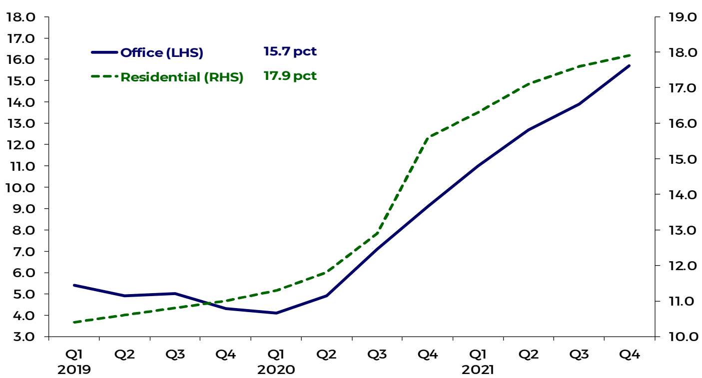
[24] Rental values discussed in this section pertain to high-end rented properties, which may be considered as indicators of wealth and demand.

Due to an anemic demand for residential projects, residential rental rates have been generally declining, across all Metro Manila submarkets since Q3 2020. In Q4 2021, average monthly luxury three-bedroom condominium rents in Metro Manila were recorded at ₱680/sq.m., lower by 4.3 percent y-o-y and 0.7 percent q-o-q. Residential leasing continued to be lukewarm due to the absence of demand from offshore gaming firms and other expatriates while some local professionals went back to their home provinces.

Market analysts see that recovery in the leasing market for residential properties will partly hinge on the government's successful inoculation program which should urge more employers to welcome more of their employees on-site by 2022. Based on Colliers Q3 2021 Survey Report, about 31 percent were already expecting full on-site work.[25] This improvement in office space utilization should push up prices and rents back to their pre-COVID levels.

Vacancy Rates, Metro Manila. The office vacancy rate in Metro Manila rose to 15.7 percent in Q4 2021 from 13.9 percent in Q3 2021. In terms of location, the office vacancy rates in Makati CBD (13.4 percent from 12.0 percent), Fort Bonifacio (10.4 percent from 9.5 percent), Ortigas Center (14.5 percent from 13.8 percent), and Manila Bay Area (40.7 percent from 32.4 percent) increased in Q4 2021 compared to the previous quarter.

Chart 10. Vacancy Rates
In percent



Source: Colliers International Philippines

Market analysts continue to see office vacancy to increase further in 2022 due to the delivery of close to 900,000 sq.m. of new supply as well as low pre-commitment levels of upcoming buildings. Nonetheless, market analysts expect that outsourcing and traditional occupiers to lead absorption in Metro Manila in 2022. Outside the NCR, there continues to be a healthy demand pipeline from Cebu, Iloilo, and Pampanga.

Similarly, the overall residential vacancy rate in Metro Manila further went up to 17.9 percent in Q4 2021 from 17.6 percent in Q3 2021 due to the completion of new units. In terms of location, residential vacancy rates were higher in Makati CBD (16.5 percent from 16.1 percent), Rockwell Center (12.9 percent from 12.6 percent), and Manila Bay area (25.0 percent from 24.5 percent). By contrast, residency vacancy rates were lower in Fort Bonifacio (21.6 percent from

[25] No survey on the matter was conducted for the Colliers Q4 2021 Report. The report cited the quick survey conducted for the Colliers Q3 2021 Survey Report.

21.8 percent), Ortigas Center (7.4 percent from 7.5 percent), Eastwood City (7.2 percent from 7.3 percent) compared to the previous quarter.

Residential vacancy is expected to decline by end-2022, buoyed by the government's economic recovery projects, rebound in office leasing, and the return of expatriates to the Philippines with the easing of travel restrictions. On top of these, local professionals' return to traditional offices should also raise demand for units in major business hubs, thereby partly helping improve vacancy.

The optimism from market analysts is consistent with the improvement in consumer and business confidence. In the BSP's Q4 2021 Consumer Expectation Survey, the percentage of households planning to buy properties within the next 12 months improved to 4.2 percent from 3.2 percent in the Q3 2021 survey results. Meanwhile, the BSP's Q4 2021 Business Expectation Survey showed that the overall business expectations outlook in the NCR increased to 43.7 percent from -7.9 percent in the previous quarter.

Nonetheless, the spread of a more virulent COVID-19 variant may discourage employees to report on site, thereby posing a risk to residential recovery.

BSP Residential Real Estate Price Index.[26] Following two consecutive quarters of decline, the residential real estate prices of various types of new housing units in the Philippines recovered in Q3 2021, based on the year-on-year (y-o-y) growth of the Residential Real Estate Price Index (RREPI). The nationwide house prices increased by 6.3 percent y-o-y (from -9.4 percent in Q2 2021) partly due to a stronger consumer demand for residential property, particularly townhouses and condominium units. This is consistent with the outcome of the Q3 2021 Consumer Expectations Survey (CES), which showed a higher percentage of consumers preferring to buy real estate property in the reference quarter amid signs of economic recovery.[27] Relative to the previous quarter, the nationwide real property prices also increased by 0.7 percent.
In Q3 2021, the number of RRELs granted for all types of new housing units in the country expanded by 51.1 percent y-o-y and 32.3 percent q-o-q. A similar trend was observed in NCR and areas outside NCR (AONCR).

The purchase of new housing units accounted for 84.7 percent of the total RRELs during the period.[28] By type of housing unit, most of the residential property loans were used for the acquisition of single detached/attached houses (43 percent), followed by condominium units (39.2 percent) and townhouses (17.1 percent).

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[26] The RREPI measures average changes in prices of different types of housing units over a period across different geographical regions where the growth rate of the index measures house inflation. The RREPI is computed as a weighted chain-linked index based on the average appraised value per square meter of new housing units, using as weight the share of floor area of new housing units. In addition to the overall RREPI, sub-indices were constructed for the different types of housing units (i.e., single detached/attached house, duplex, townhouse, and condominium units). These indices cover areas in the National Capital Region (NCR) and areas outside the NCR (AONCR).
[27] The Q3 2021 CES results showed that the percentage of Filipino households, who considered Q3 2021 as a favorable time to buy a house and lot, grew by 16.7 percent y-o-y in Q3 2021, from 14.4 percent in Q3 2020.
[28] The remaining portions of the RRELs were for pre-owned (14.5 percent) and foreclosed (0.8 percent) residential housing properties.

Table 15. RREPI by Area
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index [1] (By Area)	RREPI			Year-on-Year Growth Rates (in percent)			Quarter-on-Quarter Growth Rates (in percent)		
	2020	2021		2020	2021		2020	2021	
	Q3	Q2	Q3	Q3	Q2	Q3	Q3	Q2	Q3
Overall	131.2	138.5	139.5	-0.4	-9.4	6.3	-14.1	4.8	0.7
National Capital Region	137.3	147.6	153.0	-12.2	-18.3	11.4	-24.0	3.4	3.7
Areas Outside the NCR	127.1	133.9	133.3	6.4	-0.6	4.9	-5.6	5.1	-0.4

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

Most of the RRELs granted in NCR were for the purchase of condominium units, while RRELs granted in AONCR were for the purchase of single detached/attached houses. By region, 37.2 percent of the total number of RRELs granted were from the NCR, while the rest were distributed in AONCR—CALABARZON (28.5 percent), Central Luzon (13 percent), Central Visayas (5 percent), Western Visayas (4.7 percent), Davao Region (3.6 percent), and Bicol Region (2.1 percent). NCR and the said six regions combined accounted for 94.1 percent of total housing loans granted by banks

Table 16. RREPI by Housing Type
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index [1] (By Housing Type)	RREPI			Year-on-Year Growth Rates (in percent)			Quarter-on-Quarter Growth Rates (in percent)		
	2020	2021		2020	2021		2020	2021	
	Q3	Q2	Q3	Q3	Q2	Q3	Q3	Q2	Q3
Overall [2]	131.2	138.5	139.5	-0.4	-9.4	6.3	-14.1	4.8	0.7
Single Detached/Attached	116.3	118.1	111.4	7.4	-7.4	-4.2	-8.8	2.2	-5.7
Duplex [3]	131.5	144.7	131.3	-8.8	28.9	-0.2	17.1	9.1	-9.3
Townhouse	155.1	174.7	212.6	12.0	15.1	37.1	2.2	11.1	21.7
Condominium Unit	154.7	172.2	175.8	-15.0	-14.3	13.6	-23.0	5.5	2.1

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

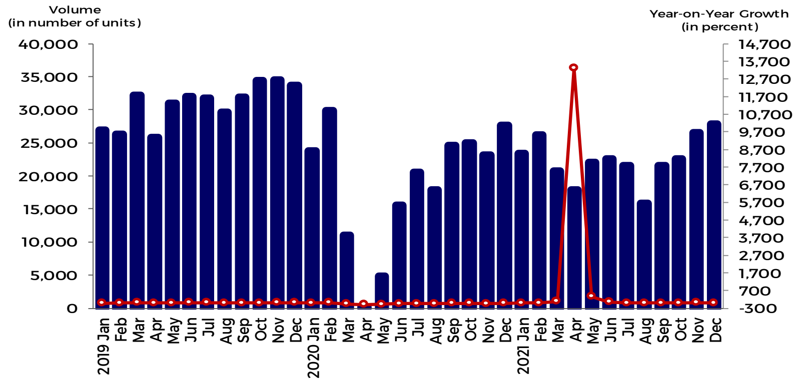
Vehicle Sales. The sales of new vehicles from CAMPI-TMA[29] members increased by 0.9 percent in December 2021. This was slower than the 14.2 percent rise recorded in November 2021. Similarly, on a m-o-m basis, sales went up by 5.3 percent in December 2021 from 17.2 percent in the previous month.

By category, commercial vehicle sales grew by 3.1 percent y-o-y in December 2021, markedly lower than the 18.7-percent growth rate in the previous month. By

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

contrast, passenger car sales declined by 3.8 percent year-on-year during the month.

Chart 11. Vehicle Sales
Volume in number of units; growth rate in percent

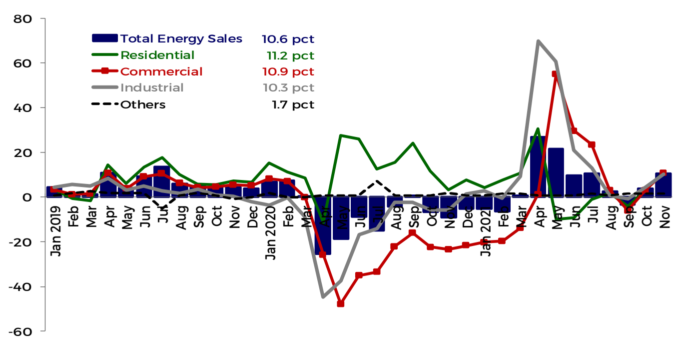


Source: Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI)

Energy Sales. Total energy sales of Meralco increased by 10.6 percent y-o-y in November 2021, an improvement from the 3.8-percent growth in October and 8.9-percent contraction in the same period a year-ago.

Energy sales from the residential, commercial, and industrial sectors grew by 11.2 percent, 10.9 percent, and 10.3 percent, respectively.

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

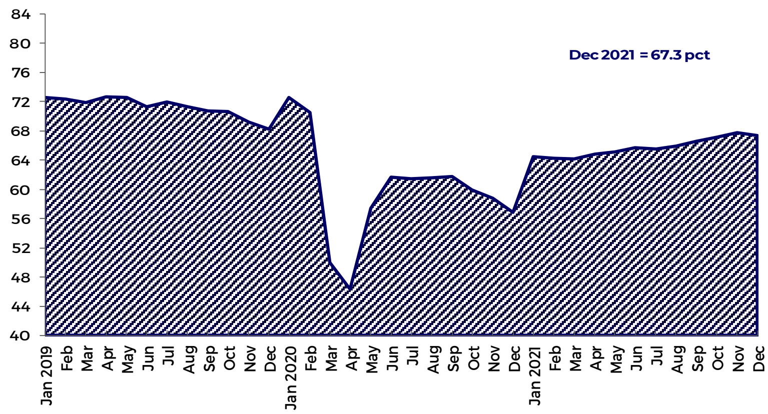


Source: Meralco, BSP calculations

Capacity Utilization. The manufacturing sector's average capacity utilization rate decreased slightly to 67.3 percent in December 2021 from the month-ago level of 67.8 percent (revised) based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

Of the 605 respondent-establishments surveyed by the PSA, about 44.7 percent operated at or above the 80.0 percent capacity level in December 2021, lower than the 46.2 percent recorded in November 2021. The response rate of 65.8 percent (preliminary) in December is markedly higher than the previous month's preliminary rate of 60.0 percent.

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

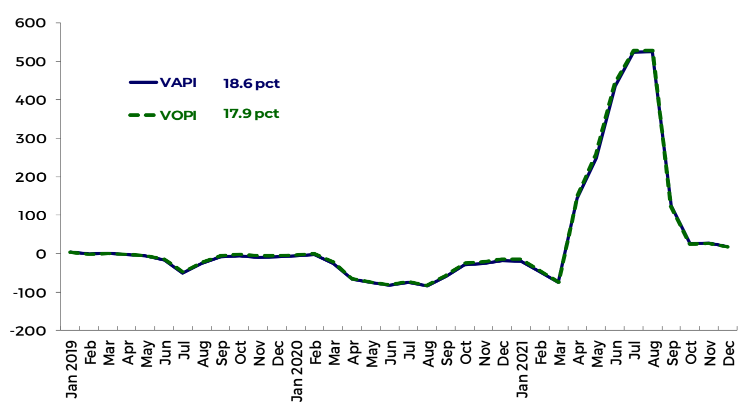


Source: PSA

Average capacity utilization deteriorated slightly in December 2021, in line with the slower growth rates recorded in both volume and value indices. Of the 22 major industries, only two, namely tobacco products and other non-metallic mineral products, operated above the 80.0 percent capacity level. Meanwhile, 15 industries operated at the 60 to 79 percent capacity range while three industries operated at the 50 to 59 percent capacity range. Two industries operated below the 50 percent capacity level.

Volume and Value of Production. Preliminary results of the MISSI showed that the volume of production index (VoPI) expanded by 17.9 percent y-o-y in December 2021, slower than the 25.8-percent (revised) growth recorded in November 2021 owing mainly to limited production capacity amid persistent supply constraints and delivery delays. Of the 22 subsectors, 11 increased their production volume, while the other 11 subsectors recorded contractions.

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



Source: PSA

Similarly, the growth of the value of production index (VaPI) moderated to 18.6 percent in December 2021 from 27.2 (revised) percent in the previous month as shortages of raw materials stymied the y-o-y growth of most industry divisions.

Table 17. Growth in Volume of Production Index by Industry Division (2018=100)
year-on-year in percent

	GAINERS	Dec-21
1.)	Wood, Bamboo,Cane, Rattan Articles and Related Products	122.6
2.)	Machinery and Equipment Except Electrical	50.0
3.)	Electrical Equipment	49.6
4.)	Coke and Refined Petroluem Products	47.6
5.)	Fabricated Metal Products, except Machinery and Equipment	40.4
6.)	Other Non-Metallic Mineral Products	37.0
7.)	Food Products	31.5
8.)	Computer, Electronic and Optical Products	27.4
9.)	Other Manufacturing and Repair and Installation of Machinery and Equipment	22.5
10.)	Textiles	13.7
11.)	Leather and Related Products, Including Footwear	4.5
	LOSERS	**Dec-21**
1.)	Basic Pharmaceutical Products and Pharmaceutical Preparations	-30.2
2.)	Beverages	-14.6
3.)	Tobacco Products	-14.5
4.)	Rubber and Plastic Products	-13.7
5.)	Transport Equipment	-11.7
6.)	Chemical and Chemical Products	-10.4
7.)	Wearing Apparel	-9.0
8.)	Basic Metals	-6.9
9.)	Paper and Paper Products	-6.6
10.)	Furniture	-2.4
11.)	Printing and Reproduction of Recorded Media	-0.8

Source: PSA

Table 18. Growth in Value of Production Index by Industry Division (2018=100)
year-on-year in percent

	GAINERS	Dec-21
1.)	Wood, Bamboo,Cane, Rattan Articles and Related Products	93.6
2.)	Coke and Refined Petroluem Products	75.1
3.)	Electrical Equipment	58.1
4.)	Machinery and Equipment Except Electrical	43.9
5.)	Fabricated Metal Products, except Machinery and Equipment	39.6
6.)	Other Non-Metallic Mineral Products	37.4
7.)	Food Products	33.9
8.)	Other Manufacturing and Repair and Installation of Machinery and Equipment	20.8
9.)	Textiles	19.5
10.)	Computer, Electronic and Optical Products	11.1
11.)	Leather and Related Products, Including Footwear	6.2
12.)	Basic Metals	0.9
	LOSERS	**Dec-21**
1.)	Basic Pharmaceutical Products and Pharmaceutical Preparations	-29.5
2.)	Tobacco Products	-13.8
3.)	Beverages	-11.8
4.)	Transport Equipment	-10.4
5.)	Rubber and Plastic Products	-8.8
6.)	Wearing Apparel	-8.5
7.)	Chemical and Chemical Products	-5.6
8.)	Paper and Paper Products	-5.1
9.)	Furniture	-3.0
10.)	Printing and Reproduction of Recorded Media	-2.1

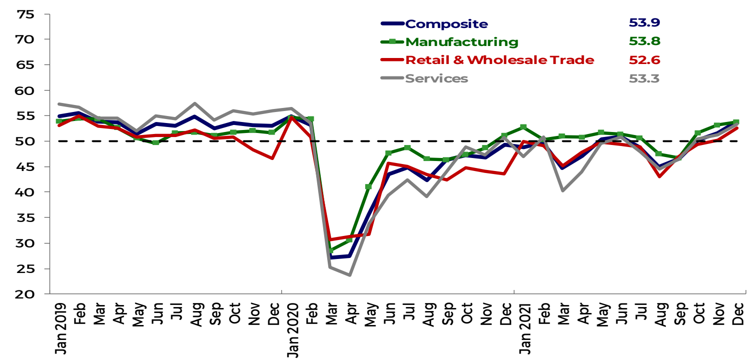
Source: PSA

Purchasing Managers' Index.[30] The composite PMI in December 2021 gained 2.3 index points to 53.9, expanding faster from the previous month's index of 51.6.[31] The economy's faster growth may be attributed to improving operating conditions as well as recovering demand amid easing pandemic-related restrictions. The declining COVID-19 cases and strong seasonal demand underpinned the faster growth rates recorded in the Retail and Wholesale, Services, and Manufacturing sectors. However, firms' production capacity remained limited due mainly to persistent input shortages and protracted supply chain disruptions.

The retail and wholesale PMI increased to 52.6 in December, about 2.4 index points higher than the 50.2 recorded in November. Purchases (at a PMI of 55.8), Inventory (54.4), and Lead Time (51.6) grew faster, gaining 5.0 index points, 3.5 index points, and 0.8 index point, respectively. Meanwhile, Employment (48.4) contracted at a slower rate after increasing by 3.5 index points from the month-ago PMI of 44.9. On a per sector basis, the PMIs of the retail and wholesale subsectors increased owing mainly to the faster expansions in Lead Time as well as demand indicators such as Purchases, Sales Revenues, and Inventory. However, the Employment PMIs of both subsectors continued to contract as businesses further reduced headcount in view of the ongoing excess capacity. Overall, managers in the wholesale and retail sector expect business conditions to be less favorable in January 2022 as renewed quarantine restrictions amid the Omicron surge moderate demand growth.

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

Chart 15. Purchasing Managers' Index
diffusion index



Source: Philippine Institute of Supply Management (PISM)

Similarly, the services PMI gained 2.0 index points to a PMI of 53.3 in December from 51.3 in November as relaxed quarantine restrictions enabled service-oriented firms to increase operating capacity. Demand indicators such as New Orders (at a PMI of 57.4), Outstanding Business (56.3), and Business Activity (54.1) continued to expand in December, underpinned by the economy's gradual reopening as well as strong seasonal demand. Accordingly, Employment (50.0) increased by 4.1 index points as businesses ramped up hiring efforts to meet recovering demand. Meanwhile, Average Price Charge (49.8) and Average Operating Cost (47.4) continued to contract in December as historically subdued demand for service-oriented activities pulled commercial rental rates lower. On a per sector basis, a total of seven out of 14 subsectors expanded, namely, hotels and restaurants; transportation including travel agency; provident and insurance; banking and finance; real estate; health and social work; and recreational, cultural, and sporting activities. The remaining seven subsectors contracted: electricity, water, and gas; construction; postal and telecommunications; rental of goods; miscellaneous business; business and knowledge processing; and education. Service-oriented firms expect business activities to deteriorate in the month ahead as the detection of the Omicron COVID-19 variant weighed on the recovery outlook.

The manufacturing sector also expanded at a faster rate in December to a PMI of 53.8 from the month-ago level of 53.2. With the exception of Inventory (at a PMI of 53.9) which expanded slower after losing 1.1 index points amid persistent input shortages, all sub-indices rose as against the previous month. Lead Time (55.3), Employment (50.6), New Orders (54.1), and Production (55.0) increased by 1.4 index points, 1.2 index points, 0.5 index point, and 0.5 index point, respectively. Despite prolonged supply chain disruptions and rising input prices, there were 10 out of the 12 subsectors that posted expansions month-on-month, namely, food and beverages; textiles; paper; chemicals and fuel; rubber and plastic products; basic metals; fabricated metals; machinery; communication and medical equipment; and motor vehicles. By contrast, activity in the publishing and non-metallic mineral subsectors contracted in December 2021. Meanwhile, all firms by export category were above the 50-point expansion threshold, except those with export volume of 26 to 50 percent of total revenues. Respondent-firms observed significant declines in export orders as Omicron-related restrictions in the international markets weighed on global economic activity. Correspondingly, prospects for the sector are assessed to be less favorable in January 2022.

External Demand

Exports. Merchandise exports rose by 7.1 percent in December 2021, faster than the 6.6-percent expansion in November 2021 and 1.8-percent increase in December 2020. The positive export performance of agro-based products, mineral products, and manufactures outpaced the negative export performance of forest products and petroleum products during the month.

Table 17. Exports of Goods
year-on-year growth rate in percent

COMMODITY GROUP	2020	2021	
	Dec	Nov	Dec
Coconut Products	-12.7	104.6	113.5
Sugar and Products	-6.6	-4.5	-47.7
Fruits and Vegetables	-28.7	1.7	9.2
Other Agro-Based Products	1.6	28.4	43.1
Forest Products	20.8	6.0	-3.9
Mineral Products	2.3	-8.9	0.1
Petroleum Products	-59.3	-95.2	-96.5
Manufactures	3.9	5.9	5.5
Special Transactions	-2.0	9.6	-5.2
Total Exports	**1.8**	**6.6**	**7.1**

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

For full-year 2021, merchandise exports went up by 14.5 percent, a turnaround from the 8.1-percent contraction in 2020. This was due mainly to higher outward shipments of agro-based products, forest products, mineral products, and manufactures.

Imports. Similarly, merchandise imports increased by 38.3 percent in December 2021, faster than the 36.8-percent expansion in November 2021 and a reversal from the 4.7-percent contraction in December 2020. The increase in imports was due largely to higher inbound shipments of capital goods; raw materials and intermediate goods; mineral fuels, lubricants, and related materials; and consumer goods.

Inbound shipments for full-year 2021 were also higher by 31.1 percent, a turnaround from the 19.5-percent contraction in 2020. This was mainly due to the increase in imports of capital goods; raw materials and intermediate goods; mineral fuels, lubricants, and related materials; and consumer goods.

Table 18. Imports of Goods
year-on-year growth rate in percent

COMMODITY GROUP	2020	2021	
	Dec	Nov	Dec
Capital Goods	-8.2	18.8	13.3
Raw Materials and Intermediate Goods	12.9	39.2	49.2
Mineral Fuels and Lubricants	-48.1	141.2	146.1
Consumer Goods	5.7	22.7	17.6
Special Transactions	58.3	-8.9	-15.1
Total Imports	**-4.7**	**36.8**	**38.3**

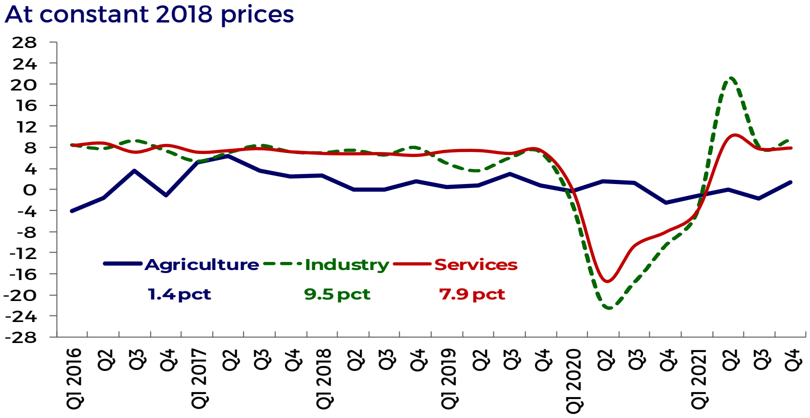
Source: BSP staff computations based on the Foreign Trade Statistics of the PSA

3. Supply Conditions

Aggregate Supply. On the production side of the economy, the agriculture, industry, and services sectors contributed 0.2 ppt, 2.9 ppts and 4,6 ppts, respectively, to total GDP growth in Q4 2021.

The industry sector continued to improve in Q4 2021 at 9.5 percent, reflecting strong demand brought about by the easing of quarantine restrictions as well as holiday spending. This was faster than the 8.1-percent growth in Q3 2021 and 10.6-percent contraction in Q4 2020. This was mainly driven by the expansion in the manufacturing of food products, coke and refined petroleum products, other non-metallic mineral products, computer, electronic, and optical products, and machinery and equipment. At the same time, construction, electricity, steam, water, and waste management, and mining and quarrying improved in Q4 2021 due to recovery in private construction, higher utilities consumption, and the Department of Environment and Natural Resources (DENR) decision to lift the ban on open-pit mining for metals and the provision for additional enhanced parameters criteria for surface mining methods, respectively.

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



Source: PSA

The services sector likewise grew in Q4 2021 by 7.9 percent, slightly higher than the 7.7-percent growth posted in the Q3 2021 and a turnaround from the 8.0-percent contraction in Q4 2020. The growth in the services sector was largely driven by the strong performance in wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, professional and business services, other services, and financial and insurance activities. In addition, information and communication, accommodation and food service activities, human health and social work activities, education, real estate and ownership of dwellings, and public administration and defense; compulsory social activities contributed to the growth of the services sector in Q4 2021.

Table 19. Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

BY INDUSTRIAL ORIGIN	2020	2021	
	Q4	Q3	Q4
Agriculture, Forestry, and Fishing	-2.5	-1.7	1.4
Industry Sector	-10.6	8.1	9.5
Mining and Quarrying	-16.4	3.0	7.9
Manufacturing	-4.9	6.4	7.2
Electricity, Steam, Water and Waste Management	0.6	3.0	4.4
Construction	-26.8	17.4	18.5
Service Sector	-8.0	7.7	7.9
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	-4.0	6.5	7.4
Transportation and Storage	-20.1	15.4	18.2
Accomodation and Food Service Activities	-45.6	11.8	22.8
Information and Communcation	1.9	8.6	8.5
Financial and Insurance Activities	4.3	3.9	4.6
Real Estate and Ownership of Dwellings	-14.9	3.8	3.4
Professional and Business Services	-8.9	10.6	7.6
Public Administration and Defense; Compulsory Social Security	1.3	5.4	3.3
Education	-12.3	13.6	5.9
Human Heath and Social Work Activities	1.5	17.5	15.9
Other Services	-43.4	19.6	30.1

Source: PSA

Meanwhile, the agriculture sector grew by 1.4 percent y-o-y in Q4 2021, recovering from the 1.7-percent and 2.5-percent declines posted in Q3 2021 and Q4 2020, respectively. The growth in the agriculture sector was due mainly to the higher output for corn, and slower decline in livestock production. Moreover, the performance of support activities to agriculture, forestry, and fishing, poultry and egg production, fishing and aquaculture, coconut including copra, palay, cassava, sugarcane including muscovado sugar making in the farm, banana, cacao, pineapple, tobacco, and forestry and logging also improved.

Oil developments. Dubai crude oil spot price surged thus far in February 2022, compared to the previous month's levels. The sharp rise in oil prices can be attributed to worries over tight supply conditions given geopolitical tensions in emerging Europe between Russia and Ukraine as well as Saudi Arabia, UAE, and Houthi rebels. Furthermore, supply disruptions also supported rising oil prices following Kazakhstan protests, which adversely affected trainlines while pipeline maintenance in Libya also led to lower production.

During its meeting on 2 February 2022, the Organization of the Petroleum Exporting Countries and its partners (OPEC+) decided to keep its monthly production adjustment[32] despite requests to raise output even as some members continued to struggle to meet production quotas.

Heating oil demand is also expected to strengthen given snowfall in the Central and North-Eastern in the US, which led to freezing temperatures in the region. This is tempered slightly by the disruption in road and air travel due to adverse weather conditions. At the same time, still elevated natural gas prices, which could be exacerbated with the ongoing Ukraine crisis, could drive oil prices higher as consumers switch to oil products.

Nevertheless, analysts expect a surplus for most of 2022 and 2023 as OPEC+ unwinds its production cuts and higher output from non-OPEC producers. Latest report from the US Energy Information Administration (EIA)[33] shows that Brent crude oil prices could average US$90 per barrel in February given continued drawdowns in inventory, which could keep oil prices elevated in the near term. Projections also show supply rising to outstrip global oil consumption starting in March until end 2022. On average, US EIA also expects oil supply-demand dynamics to be in surplus in 2023.

Similarly, other research entities also expect oil prices to decline. On average, Capital Economics forecasts Brent crude oil prices to start declining in 2H 2022 from US$79 per barrel in 1H 2022, down to US$76 per barrel for Q3 2022 and US$72 per barrel in Q4 2022. Some of the assumptions cited include potentially weaker-than-expected growth particularly, in US and China. At the same time, risk appetite may also weaken as monetary and fiscal policy become less accommodative.

Domestic fuel prices increased, reflecting the current developments in international oil. On a year-to-date basis (for the week ending 1 February 2022), price changes of domestic petroleum products showed a net price increase compared to end-2021 levels.[34] In particular, prices of gasoline, diesel and kerosene prices were adjusted upwards by ₱5.40 per liter, ₱7.95 per liter, and ₱6.33 per liter, respectively.

Developments in the agriculture sector. The Agriculture, Forestry, and Fishing (AFF) sector registered a 1.4-percent expansion in Q4 2021, a reversal from the 1.7-percent and 2.5-percent declines posted in Q3 2021 and Q4 2020, respectively.[35] The y-o-y growth in AFF was due mainly to higher output of the crops, poultry, and fisheries subsectors, which outweighed the continued contraction for livestock.

In particular, crop production, which accounted for 59.1 percent of the total value of agricultural output, rose by 2.6 percent in Q4 2021 owing to increased production of corn (at 28.6 percent), *palay* (0.2 percent), cacao (11.4 percent), coconut (3.6 percent), tobacco (3.4 percent), eggplant (3.0 percent), cassava (2.8 percent), mongo (2.4 percent), sugarcane and sweet potato (both 1.4 percent), ampalaya (0.9 percent), calamansi (0.6 percent), pineapple (0.5 percent), and other

[32] Source: OPEC Press Release "*25th OPEC and non-OPEC Ministerial Meeting concludes*" 2 February 2022. URL: https://www.opec.org/opec_web/en/press_room/6796.htm Next OPEC+ meeting will be on 2 March 2022.
[33] Based on the US EIA Short-Term Energy Outlook (February 2022).
[34] This price table shown by staff is based on common prices in Metro Manila as compiled by the Department of Energy (DOE).
[35] Based on the Q4 2021 National Accounts report published by the Philippine Statistics Authority on 27 January 2022.

crops (0.8 percent).[36] Similarly, poultry production grew by 2.7 percent attributed mainly to higher production of chicken eggs (12.7 percent).

The fisheries subsector likewise expanded by 1.4 percent in Q4 2021 from year-ago level due to growth in the production of blue crab (33.1 percent), tilapia (17.8 percent), cavalla (15.9 percent), mudcrab (15.1 percent), grouper (13.8 percent), threadfin bream and roundscad (both by 11.2 percent), squid (10.8 percent), bigeye tuna (10.2 percent), milkfish (0.6 percent), and other fisheries (6.7 percent).

By contrast, livestock production fell by 9.7 percent in Q4 2021 due mainly to output cutbacks for hog (-12.6 percent), which was still weighed down by the impact of the African Swine Fever (ASF).

Global food prices. The United Nations' Food Authority Organization (FAO) Food Price Index (FPI) rose in January 2022 to 135.7 points, higher than the month-ago and year-ago levels of 134.1 points and 113.5 points, respectively. The month-on-month increase was driven by higher international prices of some cereals, vegetable oil, dairy, and meat products.

- The cereal price index marginally increased reflecting higher maize prices brought about by unfavorable dry weather conditions in key producers – Argentina and Brazil. International rice prices also edged up as main crop harvests in major producers concluded on the back of strong international demand.

- The vegetable oil price index surged primarily on concerns over tight supply amid robust overseas demand for palm oil, soy, rapeseed, and sunflower seed oils. Rising crude oil prices also pushed prices of vegetable oil products upward.

- Similarly, the dairy price index rose due to lower export availabilities and anticipated below-average production for milk in western Europe and Oceania, respectively, as well as processing and transportation delays amid COVID-19-related labor shortages.

- The meat price index likewise increased as strong global import demand for bovine meat exceeded export supplies. Pig meat prices also inched up due to labor shortages and rising input costs, which dampened global supply.

- By contrast, the sugar price index declined due to favorable output prospects in major exporters India and Thailand, as well as improved crop conditions and lower ethanol prices in Brazil.

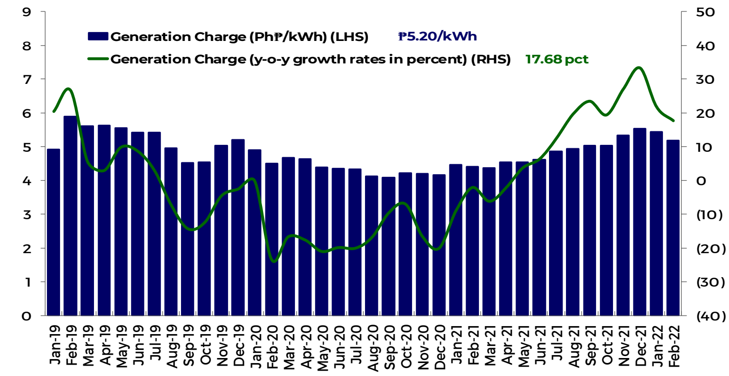
Developments in the utilities sector

Power. The overall electricity rate continued to decline slightly by around ₱0.1185 per kilowatt hour (kWh) to ₱9.5842 per kWh in February 2022 (from ₱9.7027 per kWh in January 2022) due mainly to lower generation charge. According to Meralco, the downward adjustment in the generation cost was on the back of lower costs from Independent Power Producers (IPPs) and Wholesale

[36] The growth rates of the subsectors and commodities are based on the October to December 2021 Performance of Philippine Agriculture report published by the Philippine Statistics Authority on 26 January 2022.

Electricity Spot Market (WESM). Charges from the IPPs fell due to higher plant dispatch of Quezon Power[37] and First Gas - Sta. Rita[38]. Similarly, WESM charges went down due to significant reduction in Meralco's WESM purchases, which mitigated the impact of higher spot market prices during the January 2022 supply month.[39]

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



Source: PSA, BSP staff estimates

Meanwhile, the decreases in IPPs and WESM charges were partly offset by the increase in costs from the Power Supply Agreements (PSAs) lower demand that led to lower excess energy deliveries as well as the lower plant dispatch of San Buenaventura amid scheduled maintenance.

For the supply month, share to Meralco's total power requirements of IPPs, PSAs, and WESM account for 52.2 percent, 47.4 percent, and 0.4 percent, respectively.

Water. The MSCI and MWSI signed its respective Revised Concession Agreement (RCA) with the government in April 2021 and May 2021, respectively. Some of the salient features of the two water concessionaires' RCAs include the removal of the foreign currency differential adjustment (FCDA) and imposition of a tariff freeze until 31 December 2022.

- MWCI RCA.[40] According to MWSS, among the new CA provisions to protect the government's interest is the removal of government non-interference clauses and the removal of conditions that duly compromise medium- and long- term government liabilities. Meanwhile, for consumer protection, the CA includes provisions as follows: (a) Corporate Income Tax cannot be charged to the consumer; (b) tariff freeze until 31 December 2022 that will help consumers recover from the economic impact of COVID pandemic; (c) tariff adjustment for inflation will be 2/3s of the Consumer Price Index unlike the previous contract which had a 100-percent inflationary impact; (d) and removal of the Foreign Currency Difference Adjustment to prevent tariff spikes.

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[37] Quezon Power resumed normal operations in the January 2022 supply month after experiencing some outages and deration in December 2021.
[38] First Gas – Sta. Rita's output increased following the completion of the scheduled maintenance outage in December 2021.
[39] Despite lower demand because of cooler weather, the Luzon grid was placed on Yellow Alert on January 10 and 11 due to forced plant outages. The tight supply condition led to sustained high WESM prices, which triggered the imposition of the secondary price cap 28.37% of the time.
[40] Source: https://mwss.gov.ph/new-concession-agreement-beneficial-to-all/

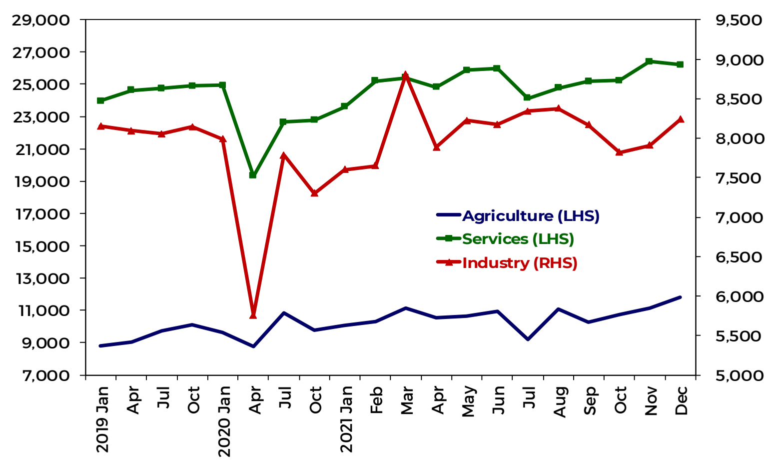
- MWSI RCA.[41] The RCA of MWSI included the removal of onerous provisions such as the non-interference clause and burdening consumers with corporate income tax were removed. At the same time, with the signing of the new agreement, MWSI will impose a tariff freeze until 31 December 2022. It will also forego collecting the P3.4 billion compensation from the government, which was ordered by the Permanent Court of Arbitration in Singapore.

4. Labor Market Conditions[42]

Employment conditions. Based on the December 2021 Labor Force Survey (LFS), the continued implementation of less stringent COVID-19 alert level in major economic areas in the country[43] resulted in more economic activities in December 2021.

The employment rate in December 2021 is equivalent to 46.3 million employed individuals, the highest level of employment that the country has ever recorded since 2005. This is an improvement from the employment levels in November 2021 (45.5 million) and pre-pandemic (42.5 million).

Chart 17. Employment by Sector



Source: PSA

Compared to the pre-pandemic survey, employment was higher by 8.8 percent or a 3.7 million net employment gain. Hence, the country continued to maintain the higher than pre-pandemic employment level that was regained starting in August 2021. The higher employment was mainly due to increased hiring in agriculture and forestry, wholesale and retail trade, and administrative and support service activities subsectors. However, employment losses were continued to be recorded in subsectors that require close contact such as accommodation and food service activities and transportation and storage.

By class of worker, the employment growth mainly came from the self-employed without any paid employee and those who worked without pay in own family-

[41] Source: https://mwss.gov.ph/new-concession-agreement-with-maynilad-puts-water-security-projects-on-track/
[42] There have been no new wage adjustment approvals since the start of the COVID-19 pandemic in 2020.
[43] The Alert Level 2 in Metro Manila in November was extended in December 2021 that allowed for greater mobility.

operated farm or business. The total number of wage and salary workers in December 2021 was only higher by 1.7 percent (466 thousand) compared to January 2020. This was mainly due to a still low number of wage and salary workers in private establishment, indicating that the more remunerative work has not yet returned to its pre-pandemic condition.

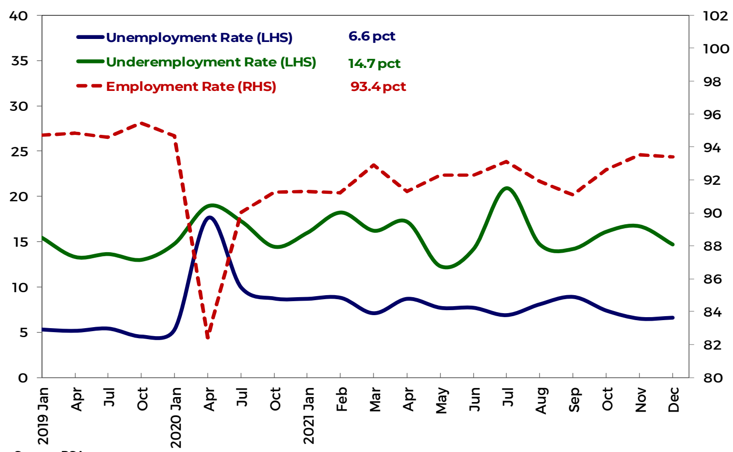
By occupation, employment gain is primarily among elementary occupations,[44] skilled agricultural, forestry and fishery workers, and service and sales workers. These more than offset the decline in employment recorded by managers and plant and machine operators and assemblers. In terms of age, employment gains were recorded primarily by 25-34 and 35-44 age groups.

On an m-o-m basis, the 1.8 percent growth in employment in December 2021 was equivalent to 797 thousand net employment gain. The major drivers of increase in employment were agriculture and forestry, manufacturing, and human health. These more than offset the employment losses primarily experienced in fishing and aquaculture, education and public administration and defense subsectors. In terms of class of worker, employment improved mainly for self-employed without any paid employee and unpaid family worker. All major employment classes experienced increases in employment levels, including wage and salary workers that posted a m-o-m growth of 0.2 percent due mainly to improvement in the number of workers for private establishment. By occupation, employment gains were posted mainly by skilled agricultural, forestry and fishery workers and managers. In terms of age, the increase in employment was experienced mostly by workers in the 25-44 age group. The m-o-m performance, particularly the three successive months of positive growth rates of the more remunerative wage and salary workers in private establishments, continues to show a possible green shoot in the quality of employment in the country. Crucial, however, is the continuation of these improvements in the succeeding months.

The unemployment rate in December 2021 is equivalent to 3.3 million unemployed individuals or only 881 thousand more unemployed compared to pre-pandemic. Most of the increase in unemployment relative to January 2020 came from the 25-44 age groups, female workers, and those who were college undergraduates and junior high school graduates. Like in the previous month, the number of unemployed youth in December was also lower relative to the pre-pandemic period.

[44] Elementary occupations involve the performance of simple and routine tasks which may require the use of hand-held tools and considerable physical effort. Most occupations in this major group require skills at the first ISCO skill level.

Chart 18. Unemployment Rate, Underemployment Rate and Employment Rate
in percent



Source: PSA

The underemployment rate declined in December 2021, lower than pre-pandemic and previous month's rates. Relative to January 2020, the underemployment level of 6.8 million was higher by 512 thousand or 8.1 percent. Most of the increase in underemployment was in the services sector and from those who were visibly underemployed or those who worked for less than 40 hours.

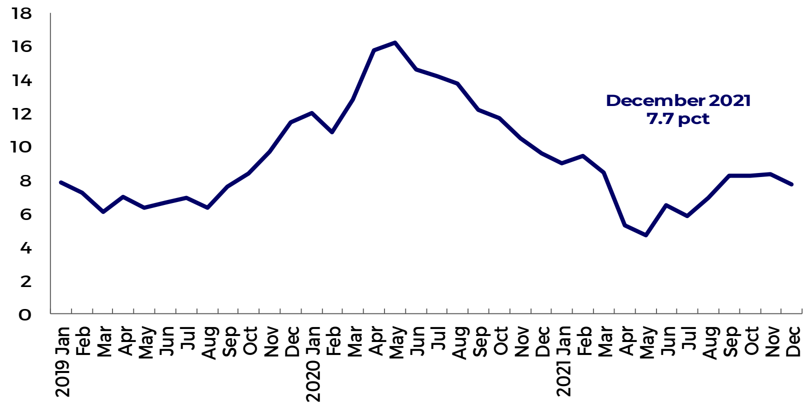
Youth labor force participation rate (YLFPR) was at 36.7 percent in December 2021, lower than 37.5 percent in the previous month and 37.4 percent in January 2020. Compared to pre-pandemic and in the previous month, youth labor force declined while youth population slightly increased.

5. Financial Conditions

Domestic Liquidity. Preliminary data show that domestic liquidity (M3) grew by 7.7 percent y-o-y to about ₱15.3 trillion in December 2021 following an 8.3-percent expansion in November. On a month-on-month seasonally-adjusted basis, M3 rose by 0.2 percent.

Domestic claims grew by 8.0 percent year-on-year in December from 8.1 percent in the previous month due to the sustained expansion in net claims on the central government as well as the continued improvement in bank lending to the private sector. Net claims on the central government rose by 21.7 percent in December from 24.0 percent (revised) in November due to the sustained borrowings by the National Government. Claims on the private sector, driven by bank lending to non-financial private corporations, increased by 3.6 percent in December from 3.0 percent in November.

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



Source: BSP

Net foreign assets (NFA) in peso terms expanded by 6.5 percent in December from 8.8 percent in November. The slower growth in BSP's NFA position during the month reflected the decline in the country's gross international reserves relative to the same period a year ago. Meanwhile, the NFA of banks increased as banks' foreign assets increased on account of higher loans with nonresident banks.

Bank Lending. Preliminary data show that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, grew at a faster rate of 4.6 percent year-on-year in December from 4.0 percent in November. Credit activity continued to improve due to a more favorable economic outlook from businesses and households amid the sustained rollout of COVID-19 vaccines and the easing of community restrictions during the month. On a month-on-month seasonally-adjusted basis, outstanding universal and commercial bank loans, net of RRPs, increased by 0.4 percent.

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

Source: BSP

Outstanding loans for production activities went up by 5.8 percent in December from 5.4 percent in November given the continued rise in lending for real estate activities (9.1 percent); information and communication (27.3 percent); manufacturing (9.4 percent); financial and insurance activities (9.9 percent); and transportation and storage (9.1 percent). Outstanding loans to other industries, mainly activities of households as employers; undifferentiated goods-and-services-producing activities of private households for own use (-21.9 percent), fell at a slower pace in December.

Meanwhile, consumer loans to residents declined at a softer rate of 5.7 percent in December from a 7.1-percent decrease in the previous month amid the y-o-y rise in credit card loans.

Credit Standards

Results of the Q4 2021 Senior Bank Loan Officers' Survey (SLOS)[45] showed that most of the respondent banks kept their overall credit standards generally unchanged for loans to both enterprises and households based on the modal approach.[46]

Meanwhile, the diffusion index (DI) approach[47,48] showed a net tightening of general lending standards for loans to enterprises while a net easing of overall credit standards was reflected for loans to households.

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

Lending to enterprises. The modal-based approach indicated that results for Q4 2021 showed that a high percentage of respondent banks (75.0 percent) pointed to generally unchanged overall credit standards for loans to enterprises. Meanwhile, the DI-based method reflected a net tightening of credit standards across all borrower firm sizes (particularly top corporations, large middle-market enterprises, small and medium enterprises, and micro enterprises). However, the diffusion indices indicating a net tightening of credit standards are notably lower across all firm sizes, suggesting that the extent of tightening of credit standards in Q4 2021 has decreased compared to previous quarters. Nonetheless, respondent banks specified that the observed tightening of overall credit standards was largely driven by the deterioration in the profitability of bank's portfolio and borrowers' profile as well as a reduced tolerance for risk, among other factors.

[45] The survey consists of questions on loan officers' perceptions relating to the overall credit standards of universal/commercial banks (U/KBs) and selected large thrift banks (TBs) in the Philippines, as well as to factors affecting the supply of and demand for loans by both enterprises and households. Survey questionnaires were sent to 64 U/KBs and TBs, of which, 50 banks responded to the current survey representing a response rate of 78.1 percent.
[46] In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.
[47] In the DI approach, a positive DI for credit standards indicates that the proportion of respondent banks that have tightened their credit standards exceeds those that eased ("net tightening"), whereas a negative DI for credit standards indicates that more respondent banks have eased their credit standards compared to those that tightened ("net easing").
[48] During the Q1 2010 to Q4 2012 survey rounds, the BSP used the DI approach in the analysis of survey results. Beginning in Q1 2013, the BSP used both the modal and DI approaches in assessing the results of the survey.

Table 20. General Credit Standards for Loans to Enterprises (Overall)

	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened Considerably	2.1	4.8	4.1	0.0	2.8	20.4	20.5	14.6	10.6	8.0	4.2	4.2
Tightened Somewhat	22.9	11.9	12.2	15.2	30.6	49.0	27.3	17.1	14.9	20.0	20.8	14.6
Remained Basically Unchanged	**72.9**	**81.0**	**81.6**	**84.8**	**66.7**	**24.5**	**45.5**	**63.4**	**66.0**	**70.0**	**70.8**	**75.0**
Eased Somewhat	0.0	0.0	0.0	0.0	0.0	6.1	6.8	4.9	8.5	2.0	4.2	6.3
Eased Considerably	2.1	2.4	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**22.9**	**14.3**	**14.3**	**15.2**	**33.3**	**63.3**	**40.9**	**26.8**	**17.0**	**26.0**	**20.8**	**12.5**
Number of Banks Responding	**48**	**42**	**49**	**46**	**36**	**49**	**44**	**41**	**47**	**50**	**48**	**48**

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

For specific credit standards, the net tightening of overall credit standards was revealed in terms of stricter collateral requirements and loan covenants as well as increased use of interest rate floors.[49] However, some form of easing in lending standards was identified in terms of narrower margin on loans and longer loan maturities.

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

Lending to households. Majority of respondent banks (65.7 percent) maintained their overall credit standards for loans extended to households. Meanwhile, DI-based results showed a net easing of overall credit standards for household loans, specifically for housing, credit card, and personal/salary loans.[50] Respondents linked the general easing of credit standards for household loans with a more favorable economic outlook and an improvement in borrower's profile.

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

[49] Interest rate floor refers to the minimum interest rate set by banks for loans. Increased use of interest rate floors implies generally tighter credit conditions.
[50] Lending standards on credit card loans reportedly eased amid the issuance of BSP Memorandum Circular No. 1098 which sets a ceiling rate of 24 percent per annum on the interest or finance charge that can be imposed on all credit card transactions (except credit card installment loans). In April 2021, the BSP announced that the cap on credit card charges will be retained in line with the low interest rate environment and the BSP's accommodative monetary policy stance.

Table 22. General Credit Standards for Loans to Households (Overall)

	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened Considerably	3.3	4.0	3.1	0.0	0.0	39.4	16.7	3.7	9.4	5.7	5.6	2.9
Tightened Somewhat	16.7	8.0	6.3	6.9	21.7	21.2	30.0	11.1	9.4	20.0	11.1	8.6
Remained Basically Unchanged	**73.3**	**88.0**	**81.3**	**89.7**	**69.6**	**33.3**	**50.0**	**77.8**	**75.0**	**68.6**	**69.4**	**65.7**
Eased Somewhat	3.3	0.0	9.4	3.4	8.7	6.1	3.3	7.4	6.3	5.7	13.9	17.1
Eased Considerably	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**13.3**	**12.0**	**0.0**	**3.4**	**13.0**	**54.5**	**43.3**	**7.4**	**12.5**	**20.0**	**2.8**	**-11.4**
Number of Banks Responding	**30**	**25**	**32**	**29**	**23**	**33**	**30**	**27**	**32**	**35**	**36**	**35**

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

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

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

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

In the next quarter, majority of respondent banks expect an overall steady loan demand from firms and consumers based on the modal approach. It should also be noted that a considerable portion of banks also indicated expectations of a net increase in demand for credit from both businesses and households amid the market's optimistic economic outlook due to the easing of COVID-19 quarantine restrictions and the continued rollout of vaccines.[51] Results from the DI method reflected expectations of a net rise in overall loan demand from businesses which were mainly associated with clients' improvement in economic outlook as well as increased inventory and accounts receivable financing needs. Similarly, the DI approach manifested banks' anticipation of net increase in overall consumer loan

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

demand which was attributed to banks' more attractive financing terms and higher household consumption.

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

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

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

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

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

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

Monetary Operations. As of end-January 2021, total outstanding amount absorbed in the BSP liquidity facilities stood at about ₱2.049 trillion. The bulk of the BSP's monetary operations to absorb excess liquidity had been conducted through the term deposit facility (TDF), comprising about 41.0 percent of total (or about ₱840.1 billion). Placements in the overnight deposit facility (ODF), BSP Securities facility (BSP-SF), and overnight reverse repurchase (RRP) facility made up about 24.6 percent (₱504.1 billion), 19.5 percent (₱399.9 billion), and 14.9 percent (₱305.0 billion), respectively, of the total amount of liquidity absorbed by the BSP.

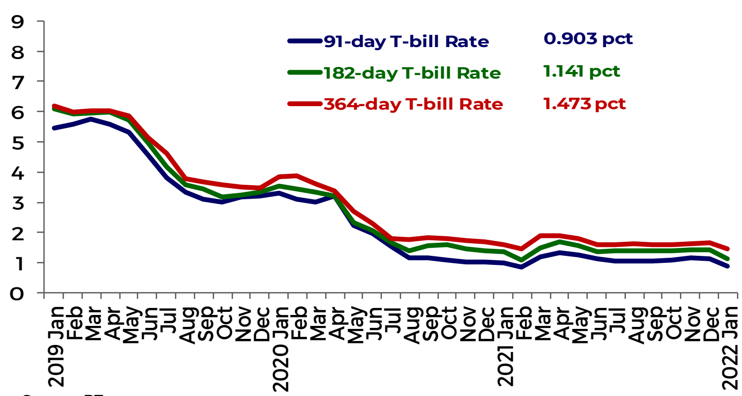
For the month of February 2022,[52] average weekly bid-to-cover ratios for the 7-day and 14-day TDFs stood at 1.026 (from 1.302 for January 2022) and 1.197 (from 1.575 for January 2022), respectively. The TDF auction results during the review period show continued normalization in the financial system following the December 2021 holidays amid ample liquidity. Moreover, short-term market interest rates remain low.[53]

For the daily RRP auctions, the average bid-to-cover ratio in February 2022[54] was recorded at 3.719, lower than the bid-to-cover ratio in January 2022 at 4.123.

Primary GS market and rates. During the 31 January 2022 T-bill auction, the average interest rates for the 91-, 182-, and 364-day T-bills fell by 0.2 basis point (bp) to 0.691 percent, 5.4 bps to 1.023 percent, and 0.2 bp to 1.408 percent, respectively, from the rates fetched during the previous auction on 24 January 2022.

The Bureau of the Treasury (BTr) awarded in full a total of ₱15.0 billion as planned. The 91-, 182-, and 364-day securities were fully awarded at ₱5.0 billion each. Total tenders for all tenors reached ₱59.8 billion or about 4.0 times the offered amount. Results of the auction reflected strong demand for short-term debt papers ahead of the release of the CPI data for January 2022 on 4 February 2022, which is expected to ease further.

Chart 21. Treasury Bill Rates
in percent



Source: BTr

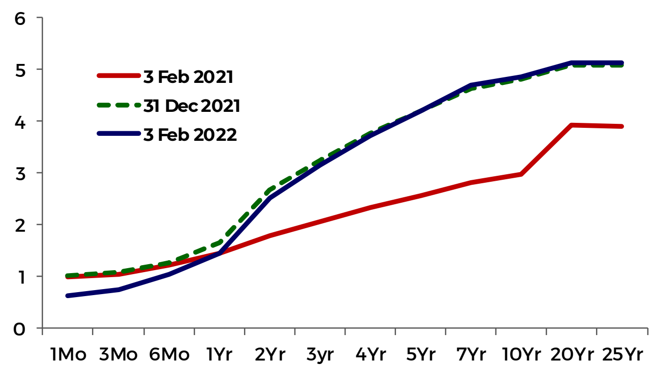
On 02 February 2022, the BTr fully awarded ₱35 billion of the re-issued 5-year T-bonds with a remaining life of 4 years and 2 months. The said T-bond fetched an average interest rate of 4.089 percent, higher by 7.7 bps than the 4.012-percent average interest rate fetched by the 5-year papers during the auction on 11 January 2022.

The auction was oversubscribed with tenders reaching around ₱60.7 billion or about 1.7 times the offered amount of ₱35.0 billion.

[52] As of 2 February 2022
[53] The 28-day TDF has not been offered starting the 14 October 2020 TDF auction, reflecting the full migration of auction volumes to the 28-day BSP Bills.
[54] As of 3 February 2022

Secondary market GS yield curve. Secondary market GS yields in the short-end and middle of the curve declined while yields in the long-end of the curve increased on 3 February 2022 relative to the end-December 2021 levels following the hawkish statement from US Fed Chairman Jerome Powell after the Federal Open Market Committee (FOMC) meeting on 25-26 January 2022. The decline in yields in the short-end and middle of the curve reflects market players' preference for short-dated notes on risk-averse sentiment amid anticipation of an earlier-than-expected policy rate hike of the US Fed.

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



Source: Bloomberg

As of 3 February 2022, the spread between the 10-year and 1-year GS rates was wider at 342.8 bps (from 316.3 bps as of end-December 2021) due to the combined effects of the increase in 10-year GS rate and the decline in 1-year GS rate. Similarly, the spread between the 10-year and 5-year rates were wider at 66.2 bps (from 62.6 bps as of end-December 2021) as a result of the larger increase in 10-year GS rate relative to the rise in 5-year GS rate.

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

Stock Market. In end-January 2022, the Philippine Stock Exchange index (PSEi) increased by 3.4-percent m-o-m to 7,361.75 index points. The benchmark index rallied amid the slower-than-expected December inflation rate at 3.7 percent and other positive developments, as well as on BSP's assurance of continued monetary support for the domestic economy and the World Bank maintaining its economic outlook on the Philippines.[55] However, the rising trend in the equities market was tempered by the elevated inflation in the US and rising coronavirus infections globally. Investors also stayed on the sidelines after the US Fed signaled its plans to steadily tighten policy.[56]

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[55] The World Bank kept its growth projection for the Philippine economy at 5.9 percent for 2022 and 5.7 percent for 2023.

[56] On 27 January, the US Fed indicated that it would likely raise interest rates and reaffirmed its plans to end its bond purchases in March before launching a significant reduction in its asset holdings.

Chart 26. PSEi
end-period; index points

Source: Philippine Stock Exchange, BSP

The rising trend in the PSEi continued in February. Local shares rose on improved market sentiment over the continued decline in COVID-19 cases that resulted in the easing of mobility restrictions in Metro Manila to Alert Level 2 from 1-15 February[57] and news of the above-target 2021 GDP growth.[58] The main index also mirrored the rise in Wall Street as investors became less worried about the US Fed's plans to tighten monetary policy policy amid upbeat corporate earnings results. However, share prices were partly tempered by profit taking and the weaker manufacturing activity in January.[59] The index closed at 7,382.77 index points on 3 February, up by 0.3 percent than the closing index in end-January and by 3.7 percent year-to-date.

On a regional perspective, most equity markets in Southeast Asia rose year-to-date on 3 February on upbeat sentiment following the rally in Wall Street as strong corporate earnings results offset initial concerns about the Federal Reserve's plans to tighten monetary policy. The rally was led by Singapore's FSSTI, which advanced by 4.0 percent, followed by the Philippines' PSEi (3.7 percent), Indonesia's JCI (1.6 percent), and Thailand's SET (0.8 percent). In contrast, Malaysia's FBMKLCI declined by 2.8 percent y-t-d during the same period.

Sovereign Bond and Credit Default Swap (CDS) Spreads. In December, debt spreads narrowed as investors became more confident as the country's average daily new cases of virus infection dropped to below one thousand coupled with the gradual reopening of business establishments. Optimism over the holiday season spending, which is expected to boost the country's economic growth, likewise contributed to the narrowing of debt spreads. In January 2022, debt spreads took a negative turnaround, widening at the start of the year as the resumption of economic activity was marred by the emergence of the Omicron where the government was forced to reimpose restrictions to prevent the spread of the more transmissible COVID-19 variant.

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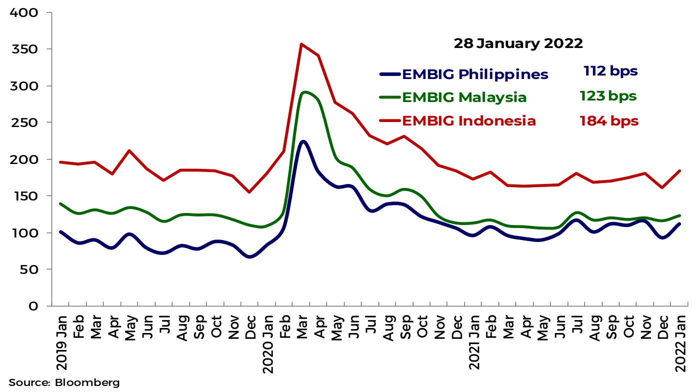
[57] On 30 January, the government relaxed lockdown restrictions in Metro Manila and seven provinces to under the less restrictive Alert Level 2. Businesses in areas under Alert Level 2 are allowed up to 50 percent indoor capacity for fully vaccinated people and 70 percent capacity for outdoor venues.
[58] The country's gross domestic product (GDP) grew by 7.7 percent in the fourth quarter, a reversal of the 8.3 percent contraction in the comparable 2020 period. This brought the full-year growth to 5.6 percent, higher than the 5.0 to 5.5 percent 2021 growth forecast of the Development Budget Coordination Committee.
[59] The IHS Markit Philippine Manufacturing PMI slid from 51.8 in December 2021 to 50 in January 2022, ending four straight months of growth. A reading above 50 indicates improvement in manufacturing conditions, while anything below suggest the opposite.

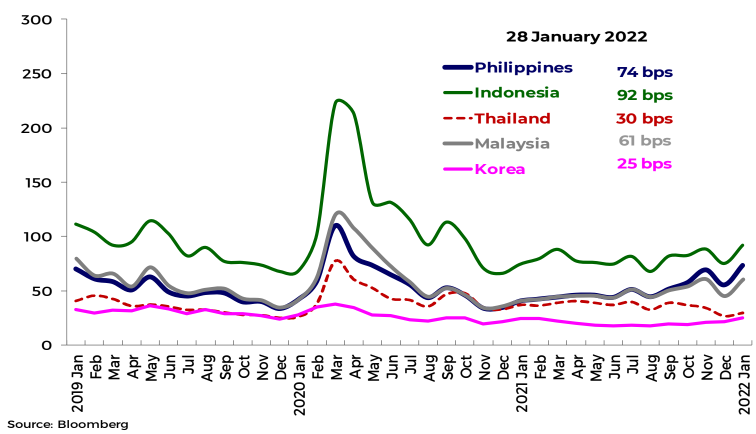
As of 28 January 2022, the Emerging Market Bond Index Global (EMBIG) Philippines spread or the extra yield that investors demanded to hold Philippine sovereign debt over US Treasuries stood at 112 basis points (bps). This was higher from the end-December level of 93 bps.

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



Similarly, the country's 5-year sovereign credit default swap (CDS) increased and settled at 74 bps from 55 bps as of the end-December. Against other neighboring economies, the Philippine CDS was narrower than Indonesia's 92 bps but wider than Malaysia's 61 bps, Thailand's 30 bps and Korea's 25 bps spreads.

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



Exchange rate. In January 2022, the peso depreciated by 1.93 percent to an average of ₱51.24/US$1 from the December 2021 average of ₱50.25/US$1. The peso depreciated due partly to concerns over the impact of typhoon Odette on the economy and the reimposition of tighter restrictions in NCR and some areas in the country due to a surge in coronavirus cases.[60] In addition, (i) expectations of

[60] The Inter-Agency Task Force (IATF) reimposed heightened restrictions in the National Capital Region (NCR) under Alert Level 3 from 3-15 January 2022 as coronavirus cases and the positivity rate saw a rapid uptick amid the holidays. On 14 January, the government announced the extension of NCR's Alert Level 3 restriction until Jan. 31 as COVID-19 cases continue to rise. (Source: BusinessWorld online and CNN Philippines online)

hawkish stance from the US Federal Reserve amid inflation risks;[61] (ii) the increase in global oil prices following geopolitical tensions in the Middle East;[62] and (iii) the slowdown in China's economy alongside the surprise policy rate cut by the People's Bank of China (PBOC) likewise weighed down the peso.

On a year-to-date basis, the peso likewise depreciated against the US dollar by 0.10 percent to close at ₱51.05/US$1 on 3 February 2022 from the end-December 2021 closing rate of ₱51.00/US$1.[63] Most regional currencies monitored depreciated except the Japanese yen, Thai baht, and Singapore dollar.

On a real trade-weighted basis, the peso gained external price competitiveness in December 2021 (y-o-y) against the basket of currencies of all trading partners (TPI) and trading partners in developing (TPI-D) countries. This developed following the nominal depreciation of the peso which more than offset the widening of inflation differential vis-a-vis the TPI and TPI-D. As a result, the REER index of the peso decreased against the TPI and TPI-D by 0.90 percent and 1.91 percent, respectively. Meanwhile, against the basket of currencies of trading partners in advanced (TPI-A) countries, the REER index of the peso increased by 0.97 percent.[64,65]

6. External Developments

The JP Morgan All-Industry Output Index expanded at a slower rate in January 2022 to a PMI of 51.4 from 54.3 in the previous month as growth of output, new business, and outstanding business moderated due mainly to surging COVID-19 cases worldwide.

Despite the broad slowdown in economic output, nine out of 13 countries registered output expansions with Ireland and the UK growing fastest. By contrast, economic activity in Japan, Spain, Australia, and Kazakhstan declined as rising COVID-19 cases weighed on business activities in the manufacturing and service sectors.[66]

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[61] The minutes of the US Federal Reserve's latest policy review showed officials mulling a possible need to quicken the pace of their timetable for tapering asset purchases and hiking interest rate amid elevated price increases. (Source: BusinessWorld online)

[62] On 18 January 2022, the United Arab Emirates (UAE) called for a meeting of the United Nations Security Council to condemn an attack on Abu Dhabi by Yemen's Houthi movement on 17 January 2022.
(Source: BusinessWorld online)

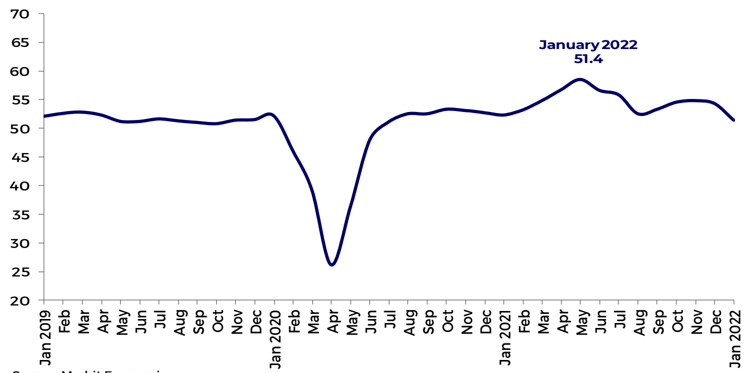
[63] Based on the last done deal transaction in the afternoon.

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

[65] 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.

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

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



Source: Markit Economics

US. On a seasonally adjusted q-o-q basis, real GDP grew by 6.9 percent in Q4 2021 from the 2.3-percent growth recorded in the previous quarter. On a y-o-y basis, real GDP expanded by 5.5 percent in Q4 2021 from a 4.9-percent growth in the previous quarter. The q-o-q real GDP growth in Q4 2021 reflected expansions in private inventory investment, exports, personal consumption expenditures, and nonresidential fixed investments which were partly offset by decreases in both federal and state and local government spending as well as an increase in total imports.[67]

The expansion of the US manufacturing PMI slowed to 57.6 percent in January from 58.8 (revised) in December 2021. New orders, production, and inventories expanded at subdued rates as rising prices, protracted supply disruptions, and lack of qualified labor constrained the industry's overall performance. Although supplier deliveries lengthened at a slower rate in January, most respondent-firms reported that production schedules remained in disarray due to input shortages and transportation delays.[68]

Despite the temporary shutdown of businesses due to the spread of the Omicron COVID-19 variant, total nonfarm payroll employment rose by 467,000 in January owing to notable job gains in leisure and hospitality, professional and business services, retail trade, and transportation and warehousing. However, the unemployment rate increased slightly to 4.0 percent from 3.9 percent in December 2021 as the labor force participation rate rose to 62.2 percent in January from 61.9 percent in the previous month. Meanwhile, y-o-y inflation surged to 7.5 percent in January from 7.0 percent in December owing mainly to higher prices of used cars and trucks, new vehicles, energy commodities, energy services, transportation services, and food.

The Conference Board Consumer Confidence Index declined anew in January to 113.8 from 115.2 in December. Consumer's assessment of current business and labor market conditions improved as notable wage gains and expectations of peaking inflation bolstered the present situation index. By contrast, the expectations index

[67] US Bureau of Economic Analysis, "Gross Domestic Product, Fourth Quarter and Year 2021 (Advance Estimate)" news release, 27 January 2022, https://www.bea.gov/news/2022/gross-domestic-product-fourth-quarter-and-year-2021-advance-estimate.
[68] Institute for Supply Management, https://www.instituteforsupplymanagement.org/

declined as the rapid spread of the Omicron COVID-19 variant weakened short-term growth prospects. Similarly, the Thomson-Reuters/University of Michigan Index of Consumer Sentiment deteriorated to 61.7 in early February from 67.2 in January, the lowest level since July 2011, as weakening personal financial prospects amid elevated inflation, declining confidence in the US government's economic policies, and expectations of weaker economic growth pulled down consumers' current economic conditions.[69]

Euro Area. On a q-o-q basis, real GDP in the euro area expanded by 0.3 percent in Q4 2021, slower than the 2.3-percent (revised) growth in Q3 2021. On a y-o-y basis, real GDP grew by 4.6 percent in Q4 2021 from 3.9 percent (revised) in the previous quarter. Based on the latest preliminary estimates, the euro area's full-year economic output increased by 5.2 percent in 2021 after the 6.4-percent contraction in the previous year.[70]

The composite PMI for the euro area fell to an 11-month low of 52.3 in January from 53.3 in December due mainly to the reintroduction of stringent restrictions amid the rapid spread of the Omicron COVID-19 variant which stalled the service sector's recovery. By contrast, the manufacturing sector expanded faster in January relative to the previous month as easing supply chain disruptions in select European ports helped boost production of most firms.[71]

Inflation in the euro area is expected to accelerate to 5.1 percent in January from 5.0 percent in December due to expectations of higher inflation for energy, food, alcohol and tobacco, services, and non-energy industrial goods.[72] The seasonally adjusted unemployment rate improved to 7.0 percent in December from 7.1 percent in the previous month.

The European Commission's Economic Sentiment Indicator (ESI) in the Euro Area fell to 112.7 in January from 113.8 in December as confidence weakened in industry, services, and construction sectors.

Japan. On a q-o-q seasonally adjusted basis, real GDP contracted by 0.9 percent in Q3 2021, following a 0.5-percent (revised) growth in Q2 2021. Despite the improvement in public domestic demand, the decline in private demand weighed on economic activity during the quarter.[73]

The seasonally adjusted manufacturing PMI rose to 55.4 in January from 54.3 in December as improving operating conditions helped boost the production capacity of firms. However, input stock levels and prices continued to increase as materials shortages persisted due to sustained disruptions in global supply networks.[74]

Meanwhile, inflation increased slightly to 0.8 percent in December from 0.6 percent in November owing to higher prices of food; housing; fuel, light, and water charges; clothes and footwear; education; culture and recreation; and

[69] University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/
[70] Preliminary Estimate. Eurostat news release 15/2022 dated 31 January 2022.
[71] Flash Estimate. Markit Eurozone PMI, http://www.markiteconomics.com/
[72] Flash Estimate. Eurostat news 17/2022 dated 2 February 2022
[73] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/
[74] Jibun Bank Japan Manufacturing PMI, http://www.markiteconomics.com/

miscellaneous. The seasonally adjusted unemployment rate fell to 2.7 percent in December from 2.8 percent in November.

China. The y-oy- real GDP growth in China rose by 4.0 percent in Q4 2021, slower than the 4.9 percent recorded in Q3 2021 as renewed COVID-19 outbreaks weighed on household consumption and overall economic output. Despite the significant slowdown in the debt-distressed property sector, full-year economic growth reached 8.1 percent in 2021 due to a surge in exports growth amid recovering global demand.

China's seasonally adjusted manufacturing PMI contracted in January with a reading of 49.1 from 50.9 in December. Output, new orders, purchasing activity, and supplier performance deteriorated as quarantine measures were reinstated to curb rising COVID-19 cases.[75]

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

India. Real GDP in India expanded by 8.4 percent in Q3 2021 from a 20.1 percent growth in the previous quarter due to output gains recorded in agriculture, forestry, and fishing; mining and quarrying; manufacturing; electricity, gas, water supply, and other utility services; construction; trade, hotels, transport, communication, and services; financial, real estate, and professional services; and public administration, defense, and other services.

The composite PMI declined to 53.0 in January from 56.4 in December as output expansion in the manufacturing and service sectors moderated amid the reintroduction of pandemic-related protocols due to rising COVID-19 cases.

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

ASEAN Region. The Nikkei ASEAN Manufacturing PMI settled at 52.7 index points in January, unchanged from the previous month as operating and demand conditions in the region continued to improve.

Singapore recorded the fastest growth followed by Indonesia, Vietnam, Thailand, Malaysia, and the Philippines. Meanwhile, the ongoing political unrest in Myanmar resulted in the contraction of manufacturing output as firms' operating capacity remained limited.[76]

Policy Actions by Other Central Banks. On 14 January 2022, the BOK raised the Base Rate by 25 bps to 1.25 percent to address rising inflation owing to higher prices of petroleum products, non-petroleum industrial commodities, and food items. Despite the resurgence of COVID-19 cases, BOK expects the economy to sustain its recovery momentum owing to strong exports growth and improving private consumption.

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[75] Caixin China General Manufacturing PMI, http://www.markiteconomics.com/
[76] Nikkei ASEAN Manufacturing PMI, http://www.markiteconomics.com/

Likewise, on 3 February 2022, the BOE raised the Bank Rate by 25 bps to 0.5 percent as domestic inflationary pressures persist due mainly to higher energy prices and rising wages amid a tightening labor market. In addition, the BOE will begin to unwind its bond purchase program by ceasing to reinvest maturing assets as it expects inflation to peak at 7.25 percent in April 2022 before gradually dissipating in the latter half of the year. However, inflation is projected to return within target no earlier than 2024 as underlying wage growth and elevated inflation expectations boost price pressures in the subsequent quarters.

By contrast, on 20 January 2022, the People's Bank of China (PBOC) further reduced the one-year loan prime rate by 10 bps to 3.70 percent from 3.80 percent as the reimposition of quarantine restrictions weighed on private consumption and manufacturing activity. Moreover, the continued slump in China's overleveraged property sector further dampened recovery prospects as more developers faced liquidity constraints amid contracting sales and maturing bond payments. The PBOC has not announced any reduction in the RRR since 15 December 2021. The weighted average RRR of financial institutions remains at 8.4 percent.

Meanwhile, the Bank of Japan, Bank Negara Malaysia, Bank Indonesia, Bank of Canada, Federal Reserve (Fed), Reserve Bank of Australia, and European Central Bank, Bank of Thailand, and Reserve Bank of India maintained their key policy rates during their most recent monetary policy meetings in 2022 to sustain the recovery of their respective economies.

On 20 January 2022, Bank Indonesia announced that it will increase the RRR this year by 150 bps in March, 100 bps in June, and 50 bps in September to stabilize foreign exchange volatility ahead of the Fed's expected withdrawal of ultra-accommodative monetary policy starting March 2022. As mounting inflationary pressures threaten the US economy's ongoing recovery, the Fed acknowledges that there is a need for a further withdrawal of monetary policy support to ease inflationary pressures and ensure the US economy's sustainable long-term growth. Fed officials are of the view that the Fed Funds rate must be increased by at least 75 basis points in 2022 to effectively manage inflation expectations and mitigate downside risks to the growth outlook.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2008			
31 Jan 2008	5.00	7.00	The Monetary Board (MB) decided to reduce by 25 bps the BSP's key policy interest rates to 5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts (SDAs) were also reduced accordingly. In its assessment of macroeconomic conditions, the MB noted that the latest inflation forecasts indicated that inflation would fall within the 4.0 percent ± 1 ppt target range in 2008 and the 3.5 ± 1 ppt target range in 2009.
13 Mar 2008 **24 Apr 2008**	5.00	7.00	The MB decided to keep the BSP's key policy interest rates at 5 percent for the overnight borrowing or RRP facility and 7 percent for the overnight lending or RP facility. The MB also decided to implement immediately the following refinements in the SDA facility: (1) the closure of existing windows for the two-, three-, and six-month tenors; and (2) the reduction of the interest rates on the remaining tenors. The interest rates on term RRPs and RPs were also left unchanged.
5 Jun 2008	5.25	7.25	The MB decided to increase by 25 bps the BSP's key policy interest rates to 5.25 percent for the RRP facility and 7.25 percent for RP facility as emerging baseline forecasts indicate a likely breach of the inflation target for 2008 along with indications that supply-driven pressures are beginning to feed into demand. Given the early evidence of second-round effects, the MB recognized the need to act promptly to rein in inflationary expectations. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
17 Jul 2008	5.75	7.75	The MB increased by 50 bps the BSP's key policy interest rates to 5.75 percent for the overnight borrowing or RRP facility and 7.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
28 Aug 2008	6.00	8.00	The MB increased by 25 bps the BSP's key policy interest rates to 6.0 percent for the overnight borrowing or RRP facility and 8.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.
6 Oct 2008 **6 Nov 2008**	6.00	8.00	The MB kept the BSP's key policy interest rates unchanged at 6.0 percent for RRP facility and 8.0 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
18 Dec 2008	5.50	7.50	The MB decided to reduce the BSP's key policy interest rates by 50 bps to 5.5 percent for the overnight borrowing or RRP facility and 7.5 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also adjusted accordingly. Latest baseline forecasts showed a decelerating inflation path over the policy horizon, with inflation falling within target by 2010. This outlook is supported by the downward shift in the balance of risks, following the easing of commodity prices, the moderation in inflation expectations, and the expected slowdown in economic activity.
2009			
29 Jan 2009	5.00	7.00	The MB decided to reduce the BSP's key policy interest rates by another 50 bps to 5 percent for the overnight borrowing or RRP facility and 7 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also adjusted accordingly. Latest baseline forecasts showed a decelerating inflation path over the policy horizon, with inflation falling within target by 2010. The MB based its decision on the latest inflation outlook which shows inflation falling within the target range for 2009 and 2010. The Board noted that the balance of risks to inflation is tilted to the downside due to the softening prices of commodities, the slowdown in core inflation, significantly lower inflation expectations, and moderating demand.
5 Mar 2009	4.75	6.75	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4.75 percent for the overnight borrowing or RRP facility and 6.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. Given possible upside risks to inflation, notably the volatility in oil prices and in exchange rates, increases in utility rates, and potential price pressures coming from some agricultural commodities, the MB decided that a more measured adjustment of policy rates was needed.
16 Apr 2009	4.50	6.50	The MB reduced key policy rates by another 25 bps to 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility, effective immediately. This rate cut brings the cumulative reduction in the BSP's key policy rates to 150 bps since December last year. The current RRP rate is the lowest since 15 May 1992. Meanwhile, the interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. In its assessment of macroeconomic conditions, the MB noted that the latest baseline inflation forecasts indicated a lower inflation path over the policy horizon, with average inflation expected to settle within the target ranges in 2009 and 2010. In addition, the MB considered that the risks to inflation are skewed to the downside given expectations of weaker global and domestic demand conditions and a low probability of a significant near-term recovery in commodity prices.
28 May 2009	4.25	6.25	The MB decided to reduce the BSP's key policy interest rates by another 25 bps to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. Baseline forecasts indicated a lower inflation path over the policy horizon, with average inflation expected to settle within the target ranges in 2009 and 2010. In addition, the MB considered that, on balance, the risks to inflation are skewed to the downside given expectations of weaker global and domestic demand conditions and a low probability of a significant near-term recovery in commodity prices.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
9 Jul 2009	4.00	6.00	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility, effective immediately. The interest rates on term RRPs, RPs, and SDAs were reduced accordingly. This is the sixth time since December 2008 that the BSP has cut its policy interest rates.
20 Aug 2009 1 Oct 2009 5 Nov 2009 17 Dec 2009	4.00	6.00	The MB kept key policy rates unchanged at 4.0 percent for the RRP facility and 6.0 percent for the overnight lending RP facility. The decision to maintain the monetary policy stance comes after a series of policy rate cuts since December 2008 totaling 200 bps and other liquidity enhancing measures.
2010			
28 Jan 2010 11 Mar 2010 22 Apr 2010 3 Jun 2010 15 Jul 2010 26 Aug 2010 7 Oct 2010 18 Nov 2010 29 Dec 2010	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4.0 percent for the RRP facility and 6.0 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
2011			
10 Feb 2011	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
24 Mar 2011	4.25	6.25	The MB decided to increase by 25 bps the BSP's key policy interest rates to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also raised accordingly. The MB's decision was based on signs of stronger and broadening inflation pressures as well as a further upward shift in the balance of inflation risks. International food and oil prices have continued to escalate due to the combination of sustained strong global demand and supply disruptions and constraints.
5 May 2011	4.50	6.50	The MB decided to increase the BSP's key policy interest rates by another 25 bps to 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also raised accordingly. Baseline inflation forecasts continue to suggest that the 3-5 percent inflation target for 2011 remains at risk, mainly as a result of expected pressures from oil prices.
16 Jun 2011	4.50	6.50	The MB decided to keep policy rates steady at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board decided to raise the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions (NBQBs) by one percentage point effective on Friday, 24 June 2011. The MB's decision to raise the reserve requirement is a preemptive move to counter any additional inflationary pressures from excess liquidity.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
28 Jul 2011	4.50	6.50	The MB maintained the BSP's key policy interest rates at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board increased anew the reserve requirement on deposits and deposit substitutes of all banks and NBQBs by one percentage point effective on 5 August 2011. The MB's decision to raise the reserve requirement anew is a forward-looking move to better manage liquidity.
8 Sep 2011 20 Oct 2011 1 Dec 2011	4.50	6.50	The MB decided to keep the overnight policy rates (OPR) steady. At the same time, the reserve requirement ratios (RRR) were kept unchanged.
2012			
19 Jan 2012	4.25	6.25	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. The MB's decision is based on its assessment that the inflation outlook remains comfortably within the target range, with expectations well-anchored and as such, allowed some scope for a reduction in policy rates to help boost economic activity and support market confidence.
1 Mar 2012	4.00	6.00	The MB decided to reduce the BSP's key policy interest rates by another 25 bps to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. The MB is of the view that the benign inflation outlook has allowed further scope for a measured reduction in policy rates to support economic activity and reinforce confidence.
19 Apr 2012	4.00	6.00	The MB decided to keep the BSP’s key policy interest rates steady at 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
14 Jun 2012	4.00	6.00	The MB decided to keep the BSP’s key policy interest rates steady at 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB’s decision was based on its assessment that the inflation environment remains manageable. Baseline forecasts continue to track the lower half of the 3-5 percent target range for 2012 and 2013, while inflation expectations remain firmly anchored. At the same time, domestic macroeconomic readings have improved significantly in Q1 2012.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
26 Jul 2012	3.75	5.75	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. This is the third time in 2012 that the BSP has cut its policy rates. The MB's decision was based on its assessment that price pressures have been receding, with risks to the inflation outlook slightly skewed to the downside. Baseline forecasts indicate that inflation is likely to settle within the lower half of the 3-5 percent target for 2012 and 2013, as pressures on global commodity prices are seen to continue to abate amid weaker global growth prospects. At the same time, the MB is of the view that prospects for global economic activity are likely to remain weak.
13 Sep 2012	3.75	5.75	The MB decided to keep the BSP's key policy interest rates steady at 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that the inflation environment remains benign, with the risks to the inflation outlook appearing to be broadly balanced.
2 0 1 2			
25 Oct 2012	3.50	5.50	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. This is the fourth time in 2012 that the BSP has cut its policy rates. The MB's decision was based on its assessment that the inflation environment continued to be benign with latest baseline forecasts indicating that the future inflation path will remain within target for 2012-2014. A rate cut would also be consistent with a symmetric response to the risk of below-target inflation.
13 Dec 2012	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that current monetary settings remained appropriate, as the cumulative 100-bp reduction in policy rates in 2012 continued to work its way through the economy.
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.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
31 Jul 2014	3.75	5.75	The MB decided to increase the BSP's key policy rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also raised accordingly. The rate on special deposit accounts (SDA) was left unchanged. Meanwhile, the reserve requirement ratios were also kept steady.
11 Sep 2014	4.00	6.00	The MB decided to increase the BSP's key policy rates by 25 bps to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also raised accordingly. Meanwhile, the reserve requirement ratios were left unchanged.
23 Oct 2014 **11 Dec 2014**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
2015			
12 Feb 2015 **26 Mar 2015** **14 May 2015** **25 Jun 2015** **13 Aug 2015** **24 Sep 2015** **12 Nov 2015** **17 Dec 2015**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
2016				
11 Feb 2016 **23 Mar 2016** **12 May 2016**	4.00		6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
23 Jun 2016 **11 Aug 2016** **22 Sep 2016** **10 Nov 2016** **22 Dec 2016**	3.00	2.50	3.50	The BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF). The interest rates for these facilities will be set as follows starting 3 June 2016: • 3.5 percent in the overnight lending facility (a reduction of the interest rate for the upper bound of the corridor from the current overnight RP rate of 6.0 percent); • 3.0 percent in the overnight RRP rate (an adjustment from the current 4.0 percent); and • 2.5 percent in the overnight deposit facility (no change from the current SDA rate).
2017				
9 Feb 2017 **23 Mar 2017** **11 May 2017** **22 Jun 2017** **10 Aug 2017** **21 Sep 2017** **9 Nov 2017** **14 Dec 2017**	3.00	2.50	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight (RRP) facility, 3.5 percent for the overnight lending facility (OLF) and 2.5 percent for the overnight deposit facility (ODF). The reserve requirement ratios were left unchanged as well.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
2018				
8 Feb 2018	3.00	2.50	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight RRP facility, 3.5 percent for the OLF and 2.5 percent for the ODF.
15 Feb 2018				The reserve requirement ratio was reduced by one (1) percentage point as an operational adjustment to support the BSP's shift toward a more market-based implementation of monetary policy as well as its broad financial market reform agenda. The reduction will apply to the reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions with reserve requirement at twenty (20) percent.
22 Mar 2018	3.00	2.50	3.50	The MB decided to maintain the BSP's key policy interest rates at 3.0 percent for the overnight RRP facility, 3.5 percent for the OLF and 2.5 percent for the ODF.
10 May 2018	3.25	2.75	3.75	The MB decided to increase the BSP's key policy interest rates by 25 basis points to 3.25 percent for the overnight RRP facility, 3.75 percent for the OLF and 2.75 percent for the ODF.
24 May 2018				The reserve requirement ratio was reduced by one (1) percentage point as part of its medium-term financial market reform agenda to promote a more efficient financial system by lowering intermediation costs. The reduction will apply to those reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions that are currently subject to a reserve requirement of nineteen (19) percent.
20 Jun 2018	3.50	3.00	4.00	The MB decided to raise the BSP's key policy interest rates by 25 basis points to 3.50 percent for the overnight RRP facility, 4.00 percent for the OLF and 3.00 percent for the ODF.
9 Aug 2018	4.00	3.50	4.50	The MB decided to raise the BSP's key policy interest rates by 50 basis points to 4.00 percent for the overnight RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.
27 Sep 2018	4.50	4.00	5.00	The MB decided to raise the BSP's key policy interest rates by 50 basis points to 4.50 percent for the overnight RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
15 Nov 2018	4.75	4.25	5.25	The MB decided to raise the BSP's key policy interest rates by 25 basis points to 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.
13 Dec 2018	4.75	4.25	5.25	The MB decided to maintain the BSP's key policy interest rates at 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
2020				
16 Apr 2020	2.75	2.25	3.25	The MB decided to cut the interest rate on the BSP's overnight reverse repurchase (RRP) facility by 50 basis points (bps) to 2.75 percent, effective Friday, 17 April 2020. The interest rates on the OLF and ODF were reduced to 3.25 percent and 2.25 percent, respectively. The off-cycle rate cut is meant to strongly encourage lending to various sectors, especially the most vulnerable, amid the COVID-19 pandemic.
25 Jun 2020	2.25	1.75	2.75	The MB decided to cut the interest rate on the BSP's overnight reverse repurchase (RRP) facility by 50 basis points (bps) to 2.25 percent, effective Friday, 26 June 2020. The interest rates on the OLF and ODF were reduced to 2.75 percent and 1.75 percent, respectively. Amidst a benign inflation outlook, the MB sees a critical need for continuing measures to bolster economic activity and support financial conditions.
20 Aug 2020 **1 Oct 2020**	2.25	1.75	2.75	The MB decided to maintain the BSP's key policy interest rates at 2.25 percent for the overnight RRP facility, 2.75 percent for the OLF and 1.75 percent for the ODF.
19 Nov 2020	2.00	1.50	2.50	The MB decided to cut the key policy interest rate by 25 bps to 2.00 percent, effective 20 November 2020. The interest rates on the OLF and ODF were reduced to 2.50 percent and 1.50 percent, respectively.
17 Dec 2020	2.00	1.50	2.50	The MB decided to maintain the BSP's key policy interest rates at 2.00 percent for the overnight RRP facility, 2.50 percent for the OLF and 1.50 percent for the ODF.
2021				
11 Feb 2021 **25 Mar 2021** **13 May 2021** **24 Jun 2021** **12 Aug 2021** **23 Sep 2021** **18 Nov 2021** **16 Dec 2021**	2.00	1.50	2.50	The MB decided to maintain the BSP's key policy interest rates at 2.00 percent for the overnight RRP facility, 2.50 percent for the OLF and 1.50 percent for the ODF.

The *BSP Monetary Policy Report* is published four (4) times a year by the Bangko Sentral ng Pilipinas. The report is available as a complete document in pdf format, together with other general information about inflation targeting and the monetary policy of the BSP, on the BSP's website:

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

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