MONETARY POLICY REPORT

FEBRUARY 2022

Visual Summary

In summary:

During our monetary policy meeting on 17 February 2022, we decided to maintain our key policy interest rate* at 2%.

Our view is that inflation** will be within our 2%-4% target over the next two years.

Several factors could push inflation higher in 2022.

Economists from the private sector expect inflation to be within the government's inflation target.

Domestic economic activity continues to improve.

We kept our key policy interest rate unchanged because, given our current outlook on inflation, our priority is to preserve the ongoing support to the economy. However, we continue to be vigilant of developments that may affect future prices.

**The key policy interest rate refers to the interest rate of the reverse repurchase instrument of the BSP. It signals the stance of the BSP's monetary policy.*

***Inflation is the rate of change in prices.*

We decided to maintain our key policy interest rate at 2%.

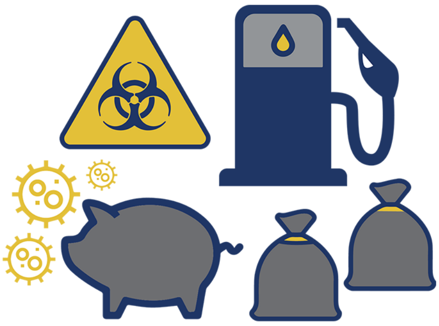
We have decided to keep the key policy interest rate at 2.0% during the monetary policy meeting on 17 February 2022. Our latest inflation forecasts indicate that price increases will average at 3.7% for 2022 and 3.3% for 2023, both within the government's target range of 2.0% to 4.0%.

Our view is that inflation will be within our 2%-4% target range over the next two years.

We see a higher inflation path in 2022. We expect higher domestic prices for food and oil this year. The faster increase in prices will come from supply-chain disruptions in the global market, which are expected to be resolved by 2023.

In 2022, inflation may slow down in the early part of the year but could be slightly higher than 4% in the 2nd quarter, before falling within our target range of 2%-4% in the 3rd and 4th quarters.

Several factors could push inflation higher in 2022.



Although we see several factors that could push inflation higher in 2022, we do not expect them to continue in 2023. The continued increase in international oil and food prices, shortage in the supply of domestic pork, and possible increases in transport fares may cause higher inflation (upside risks). However, delays in easing mobility restrictions and slower global economic growth due to the spread of new COVID-19 variants could possibly dampen demand and bring down inflation (downside risks).

Economists from the private sector expect inflation to be within the government's inflation target.

Based on the BSP's survey on inflation expectations in February 2022, although average inflation is now higher at 3.5% compared to results of the January 2022 survey of 3.4%, it is still expected to be within the target range of 2%-4% in 2022. Meanwhile, the survey also showed that average inflation is expected to be lower at 3.1% (from 3.2%) and 2.9% (from 3.3%) for 2023 and 2024, respectively.

Domestic economic activity continues to improve.

Our view is that economic expansion is expected to continue such that gross domestic product (GDP) would reach pre-pandemic levels by the second half of 2022. However, we also see several likely factors that could slow down growth, including the possible resurgence of new variants of COVID-19 and the uncertainty surrounding global economic recovery.

Our economy grew at 7.7% in Q4 2021 (from 6.9% the previous quarter) and at 5.6% for the full year of 2021 (higher than the government's target range of 5.0-5.5%). On one hand, the shift to Alert Level 3 from Alert Level 2 in Metro Manila and other major provinces due to the spread of the COVID-19 Omicron variant in January 2022, and the damage caused by typhoon Odette may hamper our economic recovery in Q1 2022. On the other hand, election-related spending, expected easing of quarantine restrictions in Q2 2022, sustained high vaccination rates, improved employment, and global economic recovery are seen to boost economic activities.

We kept our key policy interest rate unchanged because, given our current outlook on inflation, our priority is to preserve the ongoing support to the economy.

There is still much uncertainty surrounding our domestic economic prospects. Based on our assessment, there are some factors that may still impede our economic recovery, including possible delays in achieving our vaccination target and risks surrounding the global prices of oil and food as well as the withdrawal of supportive monetary policy (MP) in advanced economies that could dampen our growth prospects.

Going forward, we will continue to refine our timeline and strategies to implement our gradual exit from pandemic-related policy measures. We aim to start with the gradual withdrawal of our pandemic-related actions prior to moving toward the possibility of increasing our key policy interest rate. We will constantly communicate all developments related to these exit measures.[1]

While we continue to provide appropriate policy support to our economy during this time, we stand ready to do all we can to ensure that prices remain stable over time.

We have kept the key policy interest rate steady at 2% ...

for YOU, this means...

The cost of borrowing money from banks will remain low, which makes it more affordable for you to apply for a loan to purchase a motorcycle or a car, or to finance house repairs. This boosts demand contributing to economic growth.

for BUSINESSES, this means...

The cost of borrowing money from banks will remain low, encouraging you to start a new business or expand your existing business activities. This also contributes to economic growth.

View the full 2022 February Monetary Policy Report
https://www.bsp.gov.ph/Price%20Stability/MonetaryPolicyReport/FullReport_2022_1.pdf

[1]Withdrawal of supportive MP measures, including policy interest rate hikes, can weaken spending in these countries and, in turn, reduce their demand for our exports, among others.