2021 Inflation Report

First Quarter

Foreword

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

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

The government's target for annual headline inflation under the inflation targeting framework has been retained at 3.0 percent ± 1.0 percentage point (ppt) for 2021-2022 and set at the same rate for 2023-2024 by the Development Budget Coordination Committee. The inflation target range continues to be an appropriate quantitative representation of the medium-term goal of price stability that is optimal for the Philippines given the current structure of the economy and outlook of macroeconomic conditions over the next few years.

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

The Monetary Board approved this Inflation Report at its meeting on 15 April 2021.

BENJAMIN E. DIOKNO
Governor

The Monetary Policy of the Bangko Sentral ng Pilipinas

The BSP Mandate

The BSP's main responsibility is to formulate and implement policy in the areas of money, banking and credit, with the primary objective of maintaining stable prices conducive to a balanced and sustainable economic growth in the Philippines. The BSP also aims to promote and preserve monetary stability and the convertibility of the national currency.

Monetary Policy Instruments

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

Policy Target

The BSP's target for monetary policy uses the Consumer Price Index (CPI) or headline inflation rate, which is compiled and released to the public by the Philippine Statistics Authority (PSA). The policy target is set by the Development Budget Coordination Committee (DBCC)[2] in consultation with the BSP. The inflation target for 2021-2024 is 3.0 percent ± 1.0 ppt.[3]

BSP's Explanation Clauses

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

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[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 Development Budget Coordination Committee (DBCC) meeting held on 03 December 2020, the DBCC in consultation with the BSP, decided to retain the current inflation target range at 3.0 percent ± 1.0 percentage point (ppt) for 2021 – 2022 and set the inflation target range at 3.0 percent ± 1.0 ppt for 2023 – 2024.

The Monetary Board

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

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Antonio S. Abacan, Jr.
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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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2021 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS

2021	Advisory Committee (AC) Meeting	Monetary Board (MB) Meeting	MB Highlights Publication	Inflation Report (IR) Press Conference
Jan			14 (Thu) (17 Dec 2020 MB meeting)	21 (Thu) (Q4 2020 IR)
Feb	8 (Mon) (AC Meeting No. 1)	11 (Thu) (MB Meeting No. 1)		
Mar	22 (Mon) (AC Meeting No. 2)	25 (Thu) (MB Meeting No. 2)	4 (Thu) (11 Feb 2021 MB meeting)	
Apr			22 (Thu) (25 Mar 2021 MB meeting)	22 (Thu) (Q1 2021 IR)
May	10 (Mon) (AC Meeting No. 3)	13 (Thu) (MB Meeting No. 3)		
Jun	21 (Mon) (AC Meeting No. 4)	23 (Wed) (MB Meeting No. 4)	3 (Thu) (13 May 2021 MB meeting)	
Jul			22 (Thu) (23 Jun 2021 MB meeting)	22 (Thu) (Q2 2021 IR)
Aug	9 (Mon) (AC Meeting No. 5)	12 (Thu) (MB Meeting No. 5)		
Sep	20 (Mon) (AC Meeting No. 6)	23 (Thu) (MB Meeting No. 6)	2 (Thu) (12 Aug 2021 MB meeting)	
Oct			28 (Thu) (23 Sep 2021 MB meeting)	21 (Thu) (Q3 2021 IR)
Nov	8 (Mon) (AC Meeting No. 7)	11 (Thu) (MB Meeting No. 7)		
Dec	13 (Mon) (AC Meeting No. 8)	16 (Thu) (MB Meeting No. 8)	9 (Thu) (11 Nov 2021 MB meeting)	

List of Acronyms, Abbreviations, and Symbols

AONCR	Areas Outside the National Capital Region
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Fever
BAP	Bankers Association of the Philippines
BES	Business Expectations Survey
BI	Bank Indonesia
BIR	Bureau of Internal Revenue
BNM	Bank Negara Malaysia
BOC	Bureau of Customs
BoP	Balance of Payments
bp	Basis Point
BSPB	Bangko Sentral ng Pilipinas Bills
BSP-SF	Bangko Sentral ng Pilipinas Securities Facility
BTr	Bureau of the Treasury
BvD	Bureau van Dijk
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CAMPI	Chamber of Automative Manufacturers of the Philippines, Inc.
CAR	Capital Adequacy Ratio
CBD	Central Business District
CDS	Credit Default Swap
CES	Consumer Expectations Survey
CI	Confidence Index
CPI	Consumer Price Index
CREATE	Corporate Recovery and Tax Incentives for Enterprises
CREL	Commercial Real Estate Loan
DA	Department of Agriculture
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DI	Diffusion Index
DND	Department of National Defense
DOE	Department of Energy
DOF	Department of Finance
EQQ	Enhanced Community Quarantine
EIA	Energy Information Administration
EMBIG	Emerging Market Bond Index Global
ERC	Energy Regulatory Commission
ESI	Economic Sentiment Indicator
FCD	Foreign Currency Deposit
FIST	Financial Institutions Strategic Transfer
GCQ	General Community Quarantine
GDP	Gross Domestic Product
GIR	Gross International Reserve
GNI	Gross National Income
GNPL	Gross Non-Performing Loan
GOUR	Generation Over/Under Recovery
GS	Government Securities
HCW	Health Care Worker
IMTS	International Merchandise Trade Statistics
IPP	Independent Power Producer
IRC	Interest Rate Corridor
kWh	Kilowatt Hour
LFPR	Labor Force Participation Rate
LFS	Labor Force Survey
LSOUR	Lifeline Subsidy Over/Under Recovery
MB	Monetary Board
mb/d	Million Barrels per Day
MECQ	Modified Enhanced Community Quarantine
MERALCO	Manila Electric Company
MGCQ	Modified General Community Quarantine
MISSI	Monthly Integrated Survey of Selected Industries
m-o-m	Month-on-Month
MOOE	Maintenance and Other Operating Expenses
mt	Metric Ton
MTP	Major Trading Partner
NAP	National Accounts of the Philippines
NBFIs	Non-Bank Financial Intermediaries
NBQBs	Non-Banks with Quasi-Banking Functions
NCR	National Capital Region
NEDA	National Economic and Development Authority
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Asset
NG	National Government
NGCP	National Grid Corporation of the Philippines
NNPL	Net Non-Performing Loans
NSFR	Net Stable Funding Ratio
ODF	Overnight Deposit Facility
OFW	Overseas Filipino Worker
OP	Office of the President
OPEC	Organization of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
P/E	Price-Earning Ratio
PISM	Philippine Institute for Supply Management
PMI	Purchasing Managers' Index
PNP	Philippine National Police
Ppt	Percentage Point
PS	Personnel Services
PSA	Philippine Statistics Authority
PSEi	Philippine Stock Exchange Index
QBs	Quasi-Banks
q-o-q	Quarter-on-Quarter
RBA	Reserve Bank of Australia
RBs	Rural Banks
RCEF	Rice Competitiveness Enhancement Fund
REER	Real Effective Exchange Rate
RP	Repurchase
RR	Reserve Requirement
RREL	Residential Real Estate Loan
RREPI	Residential Real Estate Price Index
RRP	Reverse Repurchase
RRR	Reserve Requirement Ratio
SAP	Social Amelioration Program
SBL	Substandard or Below Loan
SDA	Special Deposit Account
SLOS	Senior Bank Loan Officers' Survey
SLOUR	System Loss Over/Under Recovery
TBs	Thrift Banks
TDF	Term Deposit Facility
TMA	Truck Manufacturers Association
TOUR	Transmission Over/Under Recovery
TPI	Trading Partner Index
TPI-A	Trading Partner Index in Advanced Countries
TPI-D	Trading Partner Index in Developing Countries
U/KBs	Universal and Commercial Banks
VaPI	Value of Production Index
VoPI	Volume of Production Index
WAIR	Weighted Average Interest Rate
WESM	Wholesale Electricity Spot Market
y-o-y	Year-on-Year
y-t-d	Year -to-Date

Contents

Overview

Headline inflation for Q1 2021 rises beyond target range. Year-on-year (y-o-y) headline inflation averaged 4.5 percent in Q1 2021. This was higher than the quarter- and year-ago inflation at 3.1 percent and 2.7 percent, respectively. The Q1 inflation was also higher than the national government's (NG) 2-4 percent target range for average inflation in 2021. Food inflation, mainly coming from supply-side factors, accelerated to 6.6 percent y-o-y and drove overall inflation higher during the review quarter. Moreover, non-food inflation also increased to 2.8 percent y-o-y which can be attributed mainly to higher transport prices.

Inflation in Q1 2021 exceeds the range of the annual average target for the year

Core inflation, which excludes selected volatile food and energy items, suggests that underlying demand-side price pressures was relatively subdued. For Q1 2021, core inflation increased to 3.5 percent y-o-y from 3.2 percent in the previous quarter. Meanwhile, preliminary estimates of alternative core inflation measures also showed moderate inflation with one indicator even showing a downtrend. Core inflation estimates based on the trimmed mean and net of volatile items measures were higher during the quarter compared to the previous quarter while weighted median inflation was lower. In terms of the number of CPI items with inflation rates higher than the threshold, there was a marginal increase in Q1 2021 to 48 items from 47 items a quarter ago. This accounted for a limited portion of the CPI basket at around 22.4 percent in Q1 2021 but slightly higher from 20.1 percent in the previous quarter.

Inflation expectations are higher for 2021, but anchored to target in 2022-2023. The March 2021 results of the BSP's survey of private sector economists showed mean inflation forecast for the year to be higher at 4.3 percent (from 2.9 percent) but unchanged at 3.0 for 2022. For 2023, inflation forecast averaged 3.0 percent. The elevated inflation expectations in the near term reflects the upside bias of the risks to the inflation outlook due to supply disruptions and rising global crude oil prices. Moreover, based on 18 of the 24 respondents to the survey, there is a 66.2 percent chance that inflation will rise above 4.0 percent in 2021.

Domestic economy contracts in 2020 with early signs of recovery in Q4 2020. The real gross domestic product (GDP) declined by 8.3 percent y-o-y in Q4 2020, a slight improvement from -11.6 percent in Q3 but a reversal from the 6.6-percent growth posted in Q4 2019. For full year 2020, real GDP fell to its sharpest decline (since 1946) at -9.6 percent, at the low end of the government's -9.5 to -8.5 percent estimate range for the year. On the demand side, household spending and investment contracted less in Q4 2020 than the quarter ago at -7.3 percent (from -9.2 percent) and -30.0 percent (from -38.0 percent), respectively, due to a slight improvement in confidence as economic activity further returned. Meanwhile, government expenditure continued to slow down to 5.1 percent (from 5.8 percent). On the supply side, all three production sectors recorded a decline in Q4 2020. Agriculture reversed to -2.5 percent (from 1.2 percent) while the industry and service sectors improved to -10.6 percent (from -17.6 percent) and -8.0 percent (from -10.6 percent), respectively.

Full year 2020 GDP contracts but with recent signs of nascent recovery

Other demand indicators in Q1, while generally weak, showed pockets of recovery. Property prices for office and residential spaces in the main business districts in NCR continued their downward corrections due to high vacancy rates. In contrast, property prices in areas outside NCR increased. New vehicle sales for passenger cars recovered, however, temporary import duties on commercial units led to the overall contraction. For energy consumption, Meralco sales to residential and industrial sectors improved but were offset by a slump in the commercial sector. Similarly, leading indicators of economic activity also show tentative improvements. The composite Purchasing Managers' Index (PMI) as of February 2021 stood at 49.8, just marginally below the 50-point expansion threshold. Meanwhile, average capacity utilization for February 2021, using 2018-based series of the Monthly Integrated Survey of Selected Industries (MISSI), declined at

53.8 percent as volume and value of production orders in the manufacturing sector continued to contract. Nevertheless, business sentiment became more optimistic for Q1-Q2 2021 as well as for the next 12 months, due mainly to looser quarantine measures and the reopening of business activities.

Meanwhile, global economic recovery gains modest traction. The JP Morgan Global All-Industry Output Index further strengthens to 53.2 in February from (52.3 in January). New orders rose to a three-month high amid stable new export orders and improved conditions in several markets. The output index corresponds to encouraging developments in major economies. Growth in Q4 2020 real GDP were recorded in the US and Japan on quarter-on-quarter (q-o-q) basis, as well as that for China and India on y-o-y basis. Similarly, PMIs as of March 2021 showed expansions in the US, Euro area, Japan, China and India (as of February). Meanwhile, manufacturing PMI for the ASEAN region deteriorated. The uneven and uncertain pace of economic recovery prompted the surveyed central banks to maintain their accommodative monetary policy stance in Q1 2021.

The Philippine financial system remains healthy amid favorable liquidity conditions. The Philippine Stock Exchange index (PSEi) increased by 2.5 percent q-o-q to average 6,886.50 index points in Q1 2021. The arrival and start of inoculation of COVID-19 vaccines in the country as well as optimism over proposed reforms in Congress boosted investor sentiment. In the debt market, demand for government Treasury papers remained robust amid ample liquidity in the financial system. The weekly auctions by the Bureau of the Treasury (BTr) were oversubscribed with rates generally declining across tenors. Moreover, the BTr also raised about ₱463.3 billion worth of 3-year Retail Treasury Bonds (RTBs) during the quarter, around 15.4 times the planned minimum issuance size of ₱30 billion. In the foreign exchange market, the peso averaged ₱48.28/US$1 in Q1 2021, depreciating slightly by 0.03 percent from the previous quarter's average of ₱48.27/US$1. The risk-off sentiment was fueled by the renewed spike of virus infection in the country as well as the recent uptrend in US Treasury bond yields that strengthened the US dollar and made it more attractive to investors. Nevertheless, the banking system remained steady. Banks have been observed to improve their capital adequacy, with ratios well above the BSP's and international standards, and while non-performing loans rose to 3.7 percent as of end-January 2021, loan exposures remained adequately covered.

The BSP's key policy rate remains unchanged in Q1 2021. The BSP maintained the interest rate at 2.0 percent for the overnight reverse repurchase or RRP facility in its meetings on 11 February and 25 March. These decisions were underscored by latest inflation forecasts which show that while the inflation path has shifted higher over the near term, it is still expected to return within the target band by late 2021 and over the policy horizon.

The BSP keeps key policy rate steady during the quarter

The latest baseline forecasts show that average inflation may breach the upper end of the target range in 2021, reflecting the impact of supply-side constraints on domestic prices of key food commodities as well as the continuing uptick in international oil prices. Nevertheless, inflation is still seen to return within the target band in 2022 as supply-side influences subside. Equally important, the balance of risks to the inflation outlook remains broadly balanced around the baseline path in 2021 while leaning toward the downside in 2022. On one hand, tighter domestic supply could lend further upside pressures on inflation. On the other hand, the pandemic continues to pose downside risks to the inflation outlook.

Given these considerations, the BSP is of the view that prevailing monetary policy settings remain appropriate. The recent uptick in inflation highlights the need for the continued timely and targeted implementation of non-monetary interventions to mitigate the impact of supply-side pressures on inflation. Nevertheless, the BSP will remain watchful for any signs of inflation becoming broader based and spilling over as second-round effects. At the same time, the BSP's monetary stance will continue to be supportive of the economy, given that domestic demand is still in its nascent stages of recovery. The BSP will aim to implement a preplanned strategy for the unwinding of monetary policy stimulus when recovery becomes fully self-sustaining, taking care to ensure the sustainability of growth while also guarding against any emerging threats to price and financial stability.

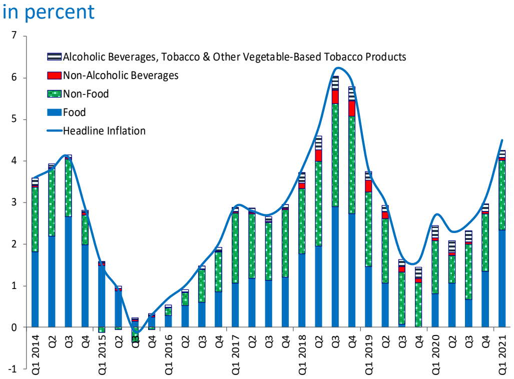
I. Inflation and Real Sector Developments

Prices

Headline inflation. Year-on-year headline inflation increased to 4.5 percent in Q1 2021, which was higher than both the 3.1-percent and 2.7-percent inflation recorded in the previous quarter and in the same period in 2020, respectively. This was also higher than the National Government's 2-4 percent target range for the year.

Headline inflation exceeds target in Q1 2021

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



Source: Philipine Statistical Authority (PSA), BSP

Core Inflation. Similarly, core inflation, which excludes selected volatile food and energy items to depict underlying demand-side price pressures, rose to 3.5 percent y-o-y in Q1 2021 from 3.2 percent in the previous quarter.

Official core inflation increases but at modest pace

On the other hand, preliminary estimates of alternative core inflation measures showed mixed trends in Q1 2021. Core inflation estimates based on the trimmed mean and net of volatile items measures were higher during the quarter compared to the previous quarter while weighted median inflation was lower.

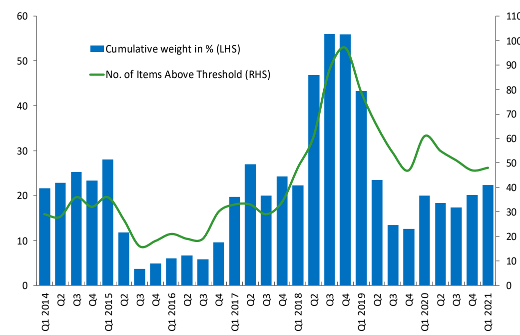
Table 1. Alternative Core Inflation Measure
quarterly averages of year-on-year change

Quarter	Official Headline Inflation	Official Core Inflation	Trimmed Mean [1]	Weighted Median [2]	Net of Volatile Items [3]
2019	**2.5**	**3.2**	**2.6**	**2.9**	**3.3**
Q1	3.8	3.9	3.8	3.4	3.7
Q2	3.0	3.4	2.9	3.0	3.0
Q3	1.7	2.9	1.9	2.8	3.3
Q4	1.6	2.7	1.7	2.6	3.3
2020	**2.6**	**3.2**	**2.1**	**2.3**	**3.4**
Q1	2.7	3.2	2.2	2.6	3.8
Q2	2.3	2.9	2.1	2.3	3.5
Q3	2.5	3.2	2.0	2.2	3.0
Q4	3.1	3.2	2.2	2.2	3.1
2021					
Q1	**4.5**	**3.5**	**2.5**	**1.9**	**4.2**

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

The number of CPI items with inflation rates higher than the threshold inched up slightly to 48 items in Q1 2021 from 47 items in Q4 2020 and accounted for a higher portion of the CPI basket at around 22.4 percent in Q1 2021 from 20.1 percent in the previous quarter.

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



Source: PSA, BSP staff estimates

Food Inflation. Supply-side factors exerted some upward pressure on food inflation during the quarter. Inflation rate for food items accelerated to 6.6 percent y-o-y in Q1 2021 from 3.8 percent in the previous quarter on faster price increases of selected food items. Meat inflation more than doubled in Q1 2021 on tighter pork supply as the African Swine Fever (ASF) outbreak persisted. As such, authorities have implemented various non-monetary measures such as, imposing a

60-day price ceiling on selected pork and chicken products in the National Capital Region (NCR)[4] along with mobilization of pork supply from surplus provinces to NCR among others, to ease price pressures.

Supply-side factors raise food inflation in Q1 2021

Fish inflation also rose amid the closed fishing season combined with colder weather conditions, which limited availability of certain types of fish. Likewise, inflation for fruits and vegetables remained elevated during the quarter, which further contributed to the faster food inflation.

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

Commodity	2020		2021
	Q1	Q4	Q1
Food and Non-Alcoholic Beverages	**2.3**	**3.7**	**6.2**
Food	2.3	3.8	6.6
Bread and Cereals	-4.0	0.3	1.0
Rice	-6.1	-0.2	0.4
Corn	-2.2	-0.9	1.9
Meat	3.0	7.6	19.6
Fish	9.3	4.1	4.5
Milk, Cheese and Eggs	3.3	1.9	1.7
Oils and Fats	1.0	2.6	3.3
Fruit	8.7	5.5	6.7
Vegetables	8.1	11.3	15.5
Sugar, Jam, Honey, Chocolate and Confectionery	-1.7	0.3	0.3
Food Products, n.e.c	6.8	4.2	3.9
Non-Alcoholic Beverages	2.8	1.9	1.7
Alcoholic Beverages and Tobacco	18.4	12.0	12.0

Source of Basic Data: PSA, BSP

Non-food Inflation. Non-food inflation also spiked in Q1 2021 at 2.8 percent y-o-y from 2.3 percent in Q4 2020. The increase in non-food inflation can be attributed mainly to higher transport inflation, which already reached double-digit rate in Q1 2021 at 11.0 percent y-o-y from 8.0 percent in the previous quarter. Rising international crude oil prices along with still elevated inflation for transport services continued to drive transport inflation higher.

[4] Executive Order (EO) No. 124, which imposes mandated price ceilings on selected pork and chicken products in NCR, was approved on 1 February 2021 and took effect on 8 February 2021.

Non-food inflation increases on higher energy prices

Another contributing factor to non-food inflation was the increase in inflation for restaurants and miscellaneous goods and services, which rose to 3.1 percent y-o-y in Q1 2021 from 2.4 percent in Q4 2020 owing to higher inflation for catering services.

Table 3. Inflation Rates for Selected Non-Food Items (2012=100)
year-on-year, in percent

Commodity	2020		2021
	Q1	Q4	Q1
Non-Food	**2.1**	**2.3**	**2.8**
Clothing and Footwear	2.7	1.6	1.6
Housing, Water, Electricity, Gas and Other Fuels	1.9	0.7	0.7
Electricty, Gas, and Other Fuels	-0.8	-2.8	-1.5
Furnishings, Household Equipment & Routine Household Maintenance	3.6	3.5	2.4
Health	2.9	2.6	2.8
Transport	1.0	8.0	11.0
Transport Services	0.8	16.4	16.8
Communication	0.4	0.3	0.3
Recreation and Culture	1.5	-0.6	-0.7
Education	4.7	1.1	1.1
Restaurant and Miscellaneous Goods and Services	2.6	2.4	3.1

Source of Basic Data: PSA, BSP

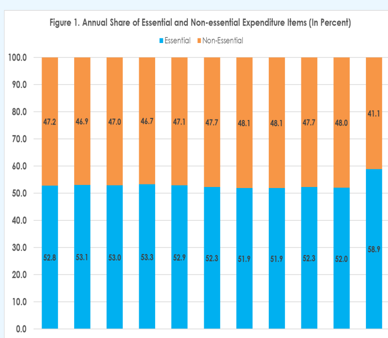
Box Article: Changes in Household Spending due to COVID-19 and its Impact on the Consumer Price Index (CPI) Basket

The COVID-19 pandemic, through its impact on economic activity and operating environment, has affected consumer spending patterns in many countries around the world. With quarantine measures and mobility restrictions imposed, consumers are buying more essential items and spending less on non-essential ones. The Philippines is no exception to this. This note provides a preliminary analysis of the possible changes in Philippine household spending due to COVID-19 and the containment measures, as well as the consequent impact on the consumer price index (CPI) basket.

Changes in household spending pattern

Adjustments in the expenditure pattern of consumers were observed in the data for household final consumption of the national income accounts as of January 2021. As a result of quarantine measures and mobility restrictions, the share of the essential expenditure items to the total household final consumption rose to 58.9 percent in 2020 from 52.0 percent in 2019 as consumers spent more on items consumed at home (see Figure 1). In particular, increases were observed in food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; communication; and health. Meanwhile, the share of non-essential expenditure items declined to 41.1 percent in 2020 from 48.0 percent in 2019 with consumers spending less on tourism and travel-related items, such as restaurants and hotels; transport; and recreation and culture (see Figure 1). Declining share was also observed for education; alcoholic beverage and tobacco; clothing and footwear; and furnishings, household equipment and routine household maintenance.

The shift in the spending pattern was most evident in Q2 2020 when the strictest form of community quarantine was implemented. The share of essential items increased to 65.2 percent in Q2 2020 from 53.2 percent in the same quarter in 2019. This is also markedly higher than the Q2 average for 2000 to 2019 period at 52.5 percent (see Figure 2). By contrast, the share of non-essential items declined substantially in Q2 2020, falling to 34.8 percent from 46.8 percent in the same quarter in 2019 as well as the 47.5-percent Q2 historical average. However, as the community quarantine was loosened, the shares of the said expenditure items are expected to revert closer to the pre-pandemic levels thereafter.[1]



Source of basic data: PSA

Impact on the CPI

The observed shift in household spending pattern could introduce bias to the officially-released CPI as the current weights may not reflect actual consumer expenditure during the pandemic period. For instance, the actual shares in consumer expenses of essential items whose prices have been rising could be higher than the current weights attached to these items in the CPI basket. Conversely, actual shares in consumer expenses of non-essential items whose prices could be falling now due to lower demand may be lower than the non-essential items' current weights in the CPI basket. This may lead to underestimation of the official inflation rate during the pandemic.

Cavallo (2020) using data on credit and debit card transactions to quickly update the official US CPI weights found that the re-estimated inflation rates ("COVID inflation rates") were higher compared to the inflation rates based on the official US CPI in the first three months of the pandemic. Similarly, results by Reinsdorf (2020) indicated that adjusting the CPI weights to account for the changes in the consumer expenditure pattern could yield higher adjusted inflation in most regions of the world.

Official CPI compilation

The more frequent updating of the CPI basket is difficult. CPI weights are often based on expenditure surveys that are conducted far in between, i.e. not annual, with the results due to the extensiveness of the survey typically subject to long processing time.

In the Philippines, the Family Income and Expenditure Survey (FIES), which forms the basis of the official CPI basket, is conducted every three years with a publication lag of 18 months after the reference year.[1] In addition, data on household final consumption are published quarterly about 40 days after the reference quarter for the first to third quarters of the year and less than 30 days after the fourth quarter.[1] The details however are limited to two-digit Philippine Classification of Individual Consumption According to Purpose (PCOICOP) classification.

The official compilation and updating of CPI follow a rigorous statistical process based on internationally-recommended concepts, methods, and practices. This process is anchored on the accurate representation of market basket of goods and services, varieties and prices of the items collected, as well as the sample household. The CPI is also constructed to measure price changes under normal economic conditions. Based on the International Monetary Fund (IMF) special note entitled "CPI weights and COVID-19 Household Expenditure Patterns," it is not practical to officially adjust the CPI to conform to the pandemic expenditure pattern since the available information on expenditure is limited. Doing so could also compromise the accuracy of the index in the long run once the pandemic was addressed and the spending patterns have reverted to the pre-pandemic trends. However, the COVID-19 pandemic highlighted the possible need to update CPI more frequently as it may result in a long-term change in expenditure pattern.

The Philippine CPI is rebased periodically in accordance with the PSA Board Resolution No. 1, Series of 2017-149, which mandates the synchronized rebasing of the price indices every six years. The PSA recognizes that the periodic rebasing of CPI is important because some of the items in the basket may no longer exist or are no longer commonly bought due to technological and quality changes as well as adjustments in consumer taste and preference. During the rebasing period, the PSA determines and updates the market basket based on the Survey of Key Informants (SKI). This nationwide survey is conducted to store managers, sellers or proprietors, with questions on most commonly purchased items or commodities. The household consumption patterns (weights) are also updated based on the FIES results on the consumption priorities of households. The methodology in computing the CPI is also reviewed during this period. Finally, the results of the rebasing will be presented to the Interagency Committee on Price Statistics and then to the PSA Board for approval.

The official Philippine CPI had gone through multiple updating and rebasing since it was first constructed in 1945 with 1941 as the base year. The latest CPI rebasing from 2006 to 2012 marked the 9th time the CPI was updated and rebased. The result of the latest rebasing exercise was released in March 2018 with 2012 FIES as the source of the consumption weights. [1] With the availability of 2018 FIES along with the recently concluded 2021 SKI, the CPI will be updated and rebased to 2018.

The conduct of 2021 SKI, which was administered nationwide on 8-12 March 2021, is timely as the results could reflect the impact of COVID-19, giving way to the updated composition of goods and services for the CPI market basket. However, the consumption weights based on the 2018 FIES could not still capture the shift in the spending pattern caused by the COVID-19 pandemic. The PSA plans to release the new series by Q4 2021.[1]

Conclusions

The COVID--19 pandemic has significantly affected consumer spending patterns as lockdown and mobility restrictions were imposed. Spending on essential items went up significantly, while expenditure on non-essential items declined, particularly when the strictest form of quarantine was implemented. Nonetheless, these are expected to revert to pre-pandemic trends as the quarantine measure becomes less restricted.

The foregoing analysis provides some insight into how consumer spending patterns might have adjusted in response to the Covid-19 shock, with possible impact on the inflation estimate. While periodic updating of the CPI basket may reveal possible shifts in consumption behavior and price dynamics over the longer term, constraints in the statistical system prevent said adjustments. Ad hoc adjustments that do not adhere to the regular revision protocols, solely to consider the possible impact of the pandemic on expenditure patterns, should be discouraged. Such adjustment in the CPI weights may compromise the accuracy of the index in the long run when the pandemic was addressed and the spending pattern back to the pre-pandemic level. Instead, a frequent updating of the index could be considered to reflect the evolving changes in consumer preferences as a result of economic shocks like the COVID-19 pandemic.

End notes:
1/ Essential expenditure items include spending on food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; health; and communication. Non-essential expenditure items consist of alcoholic beverages, tobacco; clothing and footwear; furnishings, household equipment and routine household maintenance; transport; recreation and culture; education; restaurants and hotels; and miscellaneous goods and services.
2/ https://psa.gov.ph/philippine-statistical-system/sds/stat-activities
3/ https://psa.gov.ph/national-accounts/release-calendar
4/ https://psa.gov.ph/statistics/survey/price/psa-updates-base-year-consumer-price-index-all-income-households-2012-2006
5/ https://psa.gov.ph/price-indices/cpi-ir/title/PSA%20Conducts%20the%202021%20Survey%20of%20Key%20Informants

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Philippine Statistics Authority (2021). *PSA Conducts the 2021 Survey of Key Informants* [Press release]. 26 March. Available at https://psa.gov.ph/content/psa-conducts-2021-survey-key-informants (Accessed: 31 March 2021).

Reinsdorf, M., Tebrake, J., 'Hanlon, N., & Graf, B. (2020). 'CPI Weights and COVID-19 Household Expenditure Patterns'. *IMF Special Notes Series on COVID-19*

Reinsdorf, M. (2020). 'COVID-19 and the CPI: Is Inflation Underestimated?'. *International Monetary Fund Working Paper.* WP No. 20-224.

Private Sector Economists' Inflation Forecasts. The results of the BSP's survey of private sector economists for March 2021 showed higher mean inflation forecast for 2021 at 4.3 percent from 2.9 percent based on the December 2020 survey.[5]

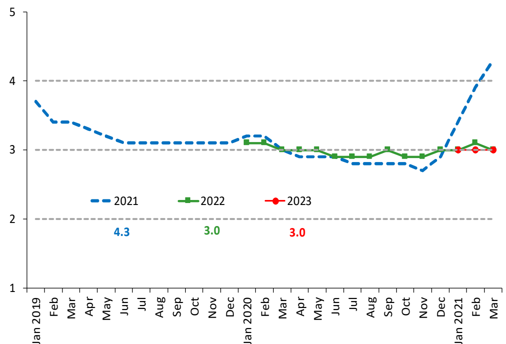
Inflation expectations are higher for 2021 and steady for 2022

By contrast, mean inflation forecast for 2022 was unchanged at 3.0 percent. Similarly, mean inflation forecast for 2023 was at 3.0 percent.

Chart 3. BSP Private Sector Economists' Survey*

mean forecast for full year; in percent

2012=100



*Based on forecasts provided by 24 respondents.

Source: BSP

Analysts expect inflation to remain elevated in the near term, with risks to the inflation outlook tilted to the upside due to supply disruptions and rising global crude oil prices. Nonetheless, analysts expect the BSP to keep its accommodative stance to provide support to the economy's recovery. The upside risks to inflation include (a) supply disruptions brought about by adverse weather conditions and African Swine Fever (ASF); (b) rising global crude oil prices, which could push up transportation costs; (c) higher government spending, renewed consumer demand, and normalization of business operations; (d) continued rollout of vaccines; (e) low interest rate environment; and (f) base effects.

Downside risks to inflation are seen to emanate mainly from subdued domestic demand due to low purchasing power and implementation of localized lockdown measures amid the recent spike in new COVID-19 cases, which could slow the pace of economic recovery. Meanwhile, the implementation of the 60-day price ceiling on selected pork and chicken products (Executive Order No. 124), importation of such products, and mobilization of domestic meat supply from the provinces to the Metro areas are anticipated to ease price pressures.

Table 4. Private Sector Forecasts for Inflation

annual percentage change; March 2021

2012=100

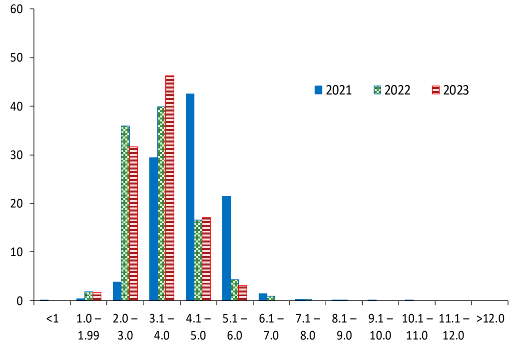
	2021			2022	2023
	Q2	Q3	FY	FY	FY
1) Al-Amanah Islamic Bank	4.5	4.0	3.5	3.5	3.0
2) Banco de Oro	5.5	5.6	5.1	3.5	3.1
3) Bangkok Bank	4.0	3.8	3.8	3.2	3.0
4) Bank of Commerce	5.1	5.0	4.7	-	-
5) Bank of China Ltd.	4.0	4.1	3.5	3.0	3.0
6) Barclays	4.3	4.3	4.2	3.3	-
7) Citibank	4.9	4.1	4.2	2.5	-
8) CTBC Bank	5.2	4.9	4.4	2.8	3.3
9) Deutsche Bank	-	-	4.6	2.2	-
10) Eastwest Bank	4.5	4.0	3.8	3.0	3.0
11) Korea Exchange Bank	4.2	4.2	4.2	3.0	2.8
12) Land Bank of the Phils.	4.1	3.5	3.7	2.4	3.1
13) Maybank	4.4	4.2	4.2	2.8	2.5
14) Maybank-ATR KimEng	4.6	5.0	4.0	2.0	2.8
15) Metrobank	-	-	4.1	-	-
16) Mizuho	4.1	4.1	4.2	3.2	3.2
17) Nomura	4.6	3.6	3.9	3.3	-
18) RCBC	5.0	5.0	4.50-5.00	3.00-3.50	3.00-3.50
19) Robinsons Bank	5.0	4.6	4.5	4.0	3.5
20) Philippine Equity Partners	4.9	4.4	4.4	2.7	-
21) Security Bank	5.3	5.1	5.0	2.7	3.2
22) Standard Chartered	5.7	4.9	4.8	2.6	2.7
23) Union Bank of the Phils.	5.3	5.2	4.9	3.5	3.0
24) UBS	4.5	4.4	4.3	3.2	-
Median Forecast	4.6	4.4	4.2	3.0	3.0
Mean Forecast	**4.7**	**4.5**	**4.3**	**3.0**	**3.0**
High	5.7	5.6	5.1	4.0	3.5
Low	4.0	3.5	3.5	2.0	2.5
Number of Observations	22	22	24	22	16
Government Target	**3.0±1.0**	**3.0±1.0**	**3.0±1.0**	**3.0±1.0**	**3.0±1.0**

Source: BSP

Based on the probability distribution of the forecasts provided by 18 out of 24 respondents, there is a 33.3-percent probability that average inflation for 2021 will settle within the 2-4 percent range, while there is a 66.2 percent chance that inflation will rise above 4.0 percent. Meanwhile, the probabilities that inflation will fall within the target band in 2022 and 2023 are seen at 75.8 percent and 77.9 percent, respectively.

[5] There were 24 respondents in the BSP's survey of private sector economists in March 2021. The survey was conducted from 5 to 16 March 2021.

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



*Probability distributions were averages of those provided by 18 out of 24 respondents.
Source: March 2021 BSP Survey

Based on the BSP's Q1 2021 Business Expectations Survey (BES), respondent firms expect inflation to increase in Q1-Q2 2021 and in the next 12 months relative to their expectations during the Q4 2020 survey round.

Firms expect inflation to increase but remain within the government's target range

Relative to the previous survey, a higher number of respondents in Q1 2021 expect inflation to increase in the current quarter (i.e., the diffusion index (DI) increased significantly to 55.1 percent from 14.8 percent). Likewise, more respondents generally anticipate higher inflation in the next quarter (i.e., the DI jumped to 43.9 percent from 18.7 percent). Nonetheless, businesses expect that the rate of increase in commodity prices will remain within the government's 2 to 4 percent inflation target range for 2021 and 2022.
In particular, inflation is projected to settle at 3.6 percent for Q1 2021 and 3.7 percent for both Q2 2021 and the next 12 months (from 2.5 percent, 2.6 percent, and 2.6 percent, respectively in the Q4 2020 survey results).[6]

Energy prices. The average price of Dubai crude oil increased significantly by 34.5 percent q-o-q in Q1 2021. Oil prices increased during the quarter due to production cuts from the Organization of the Petroleum Exporting Countries and its allies (OPEC+) along with Saudi Arabia's announcement that it would cut an additional 1.0 million barrel per day (mb/d) from its production in February and March, which was later extended until April.

International oil price surged on OPEC+ production cuts and optimism over demand outlook

In addition to production limits, prices also went up due to disruptions following extreme cold weather conditions experienced in the United States in February. Meanwhile, concerns over potential disruption caused by the grounding of a ship at the Suez Canal also led to some price increase in March.

Aside from supply-side factors, optimism over global demand recovery amid the rollout of vaccine programs and over the US stimulus package also placed some upward pressure on oil prices during the quarter. However, rising COVID-19 cases notably in Europe, have also dampened global oil demand prospects.

The estimated futures prices of Dubai crude oil, which are based on movements in Brent crude oil futures, in March 2021[7] showed a much higher path for 2021 to 2024 compared to the estimates in December 2020.

On a year-to-date (y-t-d) basis, there was a net price increase of domestic petroleum products as of 30 March 2021 in Metro Manila. Domestic prices of gasoline, diesel, and kerosene rose by ₱2.55 per liter, ₱2.62 per liter, and ₱4.37 per liter, respectively, compared to end-2020 levels.[8]

Power. The overall electricity rate in the Meralco-serviced area rose slightly by around ₱0.07 per kilowatt hour (kWh) to about ₱8.58 per kWh (from ₱8.51 per kWh in Q4 2020) due to higher generation charge in January 2021.

Retail electricity prices increase in Q1 2021

[6] The release of the Q1 2021 Consumer Expectations Survey (CES) will be delayed.

[7] Estimated futures price of Dubai crude oil as of 31 March 2021.

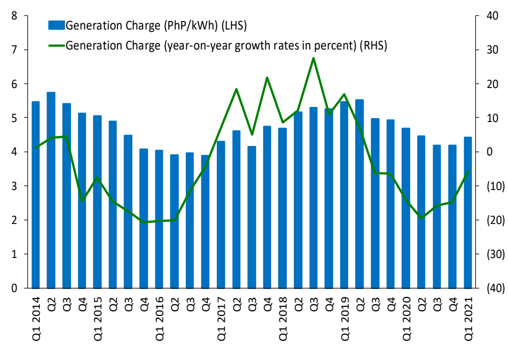
[8] Source: Department of Energy (DOE)

According to Meralco, the upward adjustment in the generation cost in January 2021 was primarily due to higher charges from Power Supply Agreements (PSAs) and Independent Power Producers (IPPs) as peak demand in Luzon decreased in December 2020 on the back of cooler temperature as well as more non-working holidays relative to November. Similarly, the demand for power in Meralco's franchise in December 2020 fell to its lowest since the lifting of the enhanced community quarantine (ECQ) in May 2020. Meralco stated that the lower demand led to fixed costs from power suppliers being spread over lower energy volume, which resulted in higher effective generation rates to consumers.

Nonetheless, the increase in the overall electricity rate in Q1 2021 was offset by the lower electricity rates in February and March. The downward adjustment in power rate in February was attributed mainly to lower generation charge from the PSAs due to lower fixed charges. Meanwhile, the overall rate decrease in March was due mainly to the implementation of the Distribution Rate True-Up refund.[9]

Chart 5. Meralco's Generation Charge

PhP/kWh; year-on-year growth rates in percent



Source: Meralco

There are potential sources of upside pressures on electricity charges, which are mainly associated with still-pending petitions from previous years. Meralco has existing petitions for rate increases with ERC which include the petition to implement the Maximum Average Price for 2012, 2013, 2014, and 2015; amended application for a rate increase in the January 2014 billing (consisting of incremental fuel costs and deferred generation cost to be collected monthly for six months); and petitions for the refund of generation over/under recovery (GOUR), transmission over/under recovery (TOUR), system loss over/under recovery (SLOUR), and lifeline subsidy over/under recovery (LSOUR) for the period January-December 2011. Likewise, the National Grid Corporation of the Philippines (NGCP) also filed several petitions to recover connection charges and residual sub-transmission charges for 2011-2013 and the costs of repair on damages caused by force majeure events such as earthquake, flooding, landslides, and lightning incidents in 2011-2012.

Aggregate Demand and Supply[10]

Real Gross Domestic Product (GDP) contracted by 8.3 percent year-on-year in Q4 2020, less negative than the -11.6 percent growth in Q3 2020 but a reversal of the 6.6-percent growth posted in Q4 2019.

Real GDP remains in contraction in Q4 2020

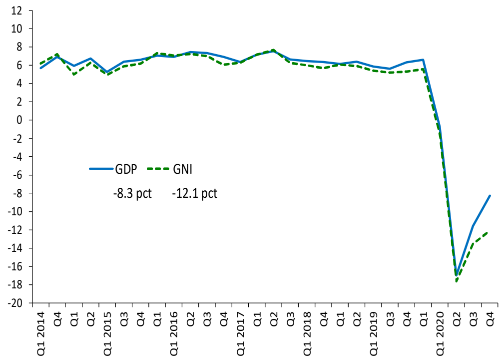
This brought the full-year GDP growth rate to -9.6 percent year-on-year in 2020—the sharpest decline since the PSA started collecting data on annual growth rates in 1946. The 2020 full-year GDP is also at the low end of the estimate range of the Development Budget and Coordination Committee (DBCC) of -9.5 to -8.5 percent for the year.[11] On a seasonally-adjusted basis, q-o-q GDP grew by 5.6 percent in Q4 2020, slower than the 8.0-percent expansion in Q3 2020.

[9] The Energy Regulatory Commission (ERC) granted Meralco's petition to refund around ₱13.9 billion to customers, given the difference between the actual weighted average tariff and the ERC-approved interim average rate for distribution-related charges for the period July 2015 to November 2020. The refund will be reflected in electricity bills as "Dist True-Up".

[10] Estimates on the fourth quarter 2020 National Accounts of the Philippines (NAP) are based on the 2018 base year following the revision and rebasing of the NAP series.

[11] Based on DBCC medium-term macroassumptions adopted on 3 December 2020. Retrieved from: https://www.dbm.gov.ph/index.php/dbcc-matters/macroeconomic-assumptions-and-fiscal-targets/178th-dbcc-meeting

Chart 6. Gross Domestic Product (GDP) and Gross National Income (GNI)
at constant 2018 prices



Source: PSA

Gross national income (GNI) fell by 12.1 percent in Q4 2020, a reversal from the 5.6-percent growth registered in Q4 2019 but a small improvement compared to the 13.5-percent decline in Q3 2020. Net primary income declined further by 55.9 percent in Q4 2020, from -5.0 percent in Q4 2019 and -32.6 percent in Q3 2020.

On the demand side, consumer and investor sentiment improved in Q4 2020. Investments in fixed capital was less negative at -30.0 percent in Q4 2020 from -38.0 percent in Q3 2020, driven by smaller declines from construction (-36.0 percent from -45.4 percent) and purchases of durable equipment (-24.5 percent from -33.8 percent). Similarly, household consumption improved (-7.3 percent from -9.2 percent) brought about by the holiday season spending. The combined effect of less negative investments and improved private consumption resulted in the smaller contraction of domestic demand (-11.1 percent from -15.3 percent).

Meanwhile, total exports dropped at a slower pace (-10.2 percent from -15.1 percent) while imports contracted less (-20.2 percent from -20.7 percent), resulting in the decline of net exports by 38.9 percent in Q4 2020 (from -37.9 percent in Q3 2020).

On the supply side, several industries posted slower contraction in Q4 2020 following the resumption of business operations as community quarantine measures were further eased. In particular, smaller decline in construction (-26.8 percent in Q4 2020 from -39.7 percent in Q3 2020) and manufacturing (-4.9 percent from -10.4 percent) contributed to the industry sector's improvement (-10.6 percent from -17.6 percent). The services sector continued to decline by 8.0 percent in Q4 2020 but less negative compared to the -10.6 percent in Q3 2020, supported by the less contraction in real estate and ownership of dwellings (-14.9 percent from -19.2 percent), trade (-4.0 percent from -6.3 percent), and transportation and storage (-20.1 percent from -29.5 percent). The agriculture sector declined by 2.5 percent in Q4 2020, a reversal from the 1.2-percent growth in Q3 2020 due mainly to the damage and losses incurred from the recent typhoons.

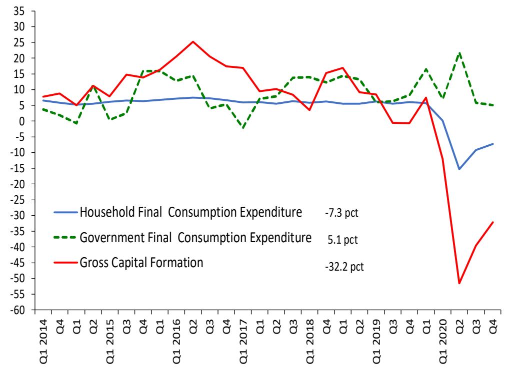
Aggregate Demand. Under the expenditure approach to GDP, household spending, government spending, net exports, and investments (or capital formation) contributed -5.4 percentage point (ppt), 0.6 ppt, 5.2 ppt, -9.0 ppt, respectively, to total GDP growth in Q4 2020.

Consumption and investments continue to drag overall demand

Household expenditures, which accounted for 73.7 percent of GDP in Q4 2020, contracted by 7.3 percent in Q4 2020, an improvement from the 9.2-percent decline in Q3 2020. This was attributed to the less pessimistic consumer sentiment during the quarter amid more relaxed community quarantine restrictions, further reopening of businesses, and better labor market conditions. The improvement in consumer demand during the holiday season as well as the reopening of domestic tourism also contributed to the increase in household expenditure in Q4 2020.

Consumption for most household commodities posted smaller declines in Q4 2020 such as transport and hotels and restaurants, while food and non-alcoholic beverages expenditure increased. By contrast, household utilities and communication eased while miscellaneous goods and services declined in Q4 2020.

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



Source: PSA

Government expenditures slowed down to 5.1 percent in Q4 2020 from the 5.8-percent and 16.5-percent growth in Q3 2020 and Q4 2019, respectively. On a full-year basis, public spending increased by 10.5 percent in 2020, higher than the 9.1 percent posted in 2019, due mainly to the national government's fiscal stimulus in response to the COVID-19 pandemic.

In particular, growth in maintenance and other operating expenses (MOOE) decelerated due to the delays encountered in the implementation of various COVID-19 recovery programs under Bayanihan II, which include social programs by the Department of Social Welfare and Development (DSWD), recovery initiatives for the transport industry, health related responses and reinforcement for the operation of Department of Health (DOH) hospitals, and employment assistance programs by the Department of Labor and Employment (DOLE).

Similarly, expenditures for personnel services (PS) slowed down due to some base effects resulting from the payments made for the retired military and uniformed personnel's pension differential.

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

BY EXPENDITURE ITEM	2019	2020	
	Q4	Q3	Q4
Household Final Consumption	6.0	-9.2	-7.3
Government Final Consumption	8.3	5.8	5.1
Gross Capital Formation	-0.7	-39.5	-32.2
Gross Fixed Capital Formation	5.3	-38.0	-30.0
Exports	1.5	-15.1	-10.2
Imports	0.0	-20.7	-20.2

Source: PSA

Capital formation contracted at a slower pace by 32.2 percent in Q4 2020 from -39.5 percent in Q3 2020 primarily due to stronger business confidence. Meanwhile, total fixed capital investments dropped by 30.0 percent in Q4 2020 (from -38.0 percent in Q3 2020). This was due to some recovery in the construction industry, particularly government along with financial and non-financial construction, as community quarantine restrictions eased and various public infrastructure projects recommenced. Moreover, investments in durable equipment, road transport, and professional machinery equipment also increased in Q4 2020.

Meanwhile, inventory and intellectual property products declined at a slower pace to 4.2 percent in Q4 2020 from the 11.4-percent contraction registered in the previous quarter. This was due to the reopening of more business establishments as restrictions on economic activities were gradually lifted.

Overall exports contracted by 10.2 percent in Q4 2020, an improvement from the 15.1-percent decline in Q3 2020. This was due largely to the registered recovery in export of services, particularly telecommunications, computer and information, and business services. Meanwhile, merchandise exports continued to decline owing to reduced exports of semiconductors and agricultural products.

Overall imports continued to contract by 20.2 percent in Q4 2020, from the 20.7-percent decline in Q3 2020. This slower decline was due to the slight improvement in the performance of merchandise imports (-13.3 percent in Q4 2020 from -18.9 percent in Q3 2020), particularly transport equipment and electronic products.

Other Demand Indicators.[12] Other demand indicators in Q1 2021, while generally weak, show signs of subsector recovery. Property prices in the main business districts in NCR continued to fall while that in areas outside NCR saw an increase. New vehicle sales for passenger cars improved, however, import duties on commercial units led to overall contraction. Meralco sales to residential and industrial sectors improved but were offset by a slump in the commercial sector. The composite Purchasing Managers' Index (PMI) as of February 2021 stood at 49.8. Meanwhile, average capacity utilization for February 2021, using 2018-based series of the Monthly Integrated Survey of Selected Industries (MISSI), continued to decline. Nevertheless, business sentiment became more optimistic for Q1-Q2 2021 due mainly to the reopening of the economy.

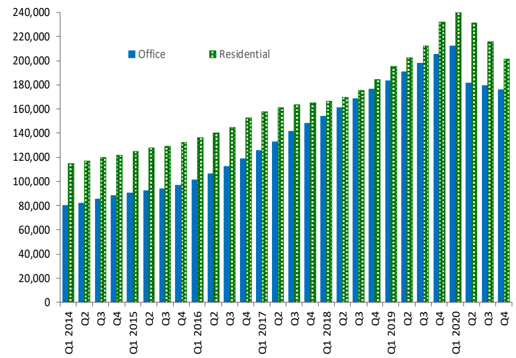
Property Prices

Capital Values, Metro Manila. Average capital values[13] for office buildings in Metro Manila[14] in Q4 2020 declined to ₱175,908/sq.m., lower by 14.2 percent and 2.1 percent compared to the year- and quarter-ago levels, respectively. 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 and office deals.

Capital values decline for both office buildings and residential spaces

Meanwhile, average capital values for luxury residential buildings[15] in Metro Manila[16] in Q4 2020 reached ₱201,464 sq.m., lower by 13.2 percent and 6.6 percent compared to the year- and quarter-ago levels, respectively. The decline was due mainly to the decrease in capital values for luxury residential buildings in Makati CBD, Fort Bonifacio, and Eastwood amid muted business and consumer confidence.

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



Source: Colliers International Philippines

Rental Values, Metro Manila.[17] Average monthly office rents in Metro Manila reached ₱851/sq.m. in Q4 2020, a decrease by 6.2 percent from the previous quarter. This was also lower by 16.9 percent relative to Q4 2019. The depreciation in office rental rates was due to the reduced demand from firms amid the pandemic.

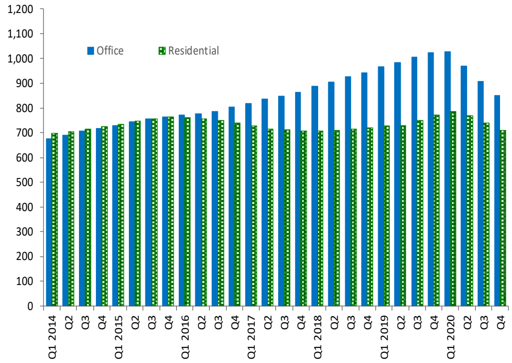
Office and residential spaces see rental rate corrections

According to market analysts, they expect a further correction in lease rates especially in submarkets with high vacancy due to lease terminations (e.g., Quezon City, Makati Fringe, and Alabang) where a substantial amount of office space was vacated by Philippine Offshore Gaming Operators (POGOs) and high levels of upcoming supply (e.g., Bay Area, Fort Bonifacio and Ortigas CBD). Overall, the decrease in office demand will likely result in a rental correction in 2021 before its predicted recovery which should start in 2022.

[12] There were no surveys conducted for Q2 2020 BES and CES.
[13] Probable price that the property would have fetched if sold on the date of the valuation. The valuation includes imputed land and building value.
[14] This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, Alabang, and Manila Bay Area.
[15] 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.
16 This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, and Rockwell.

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

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



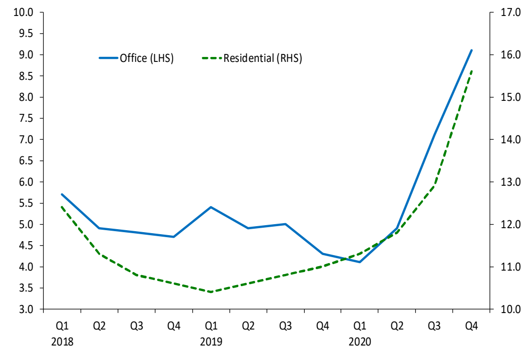
Average monthly rents for luxury three-bedroom condominium units in Metro Manila was recorded at ₱710/sq.m. in Q4 2020, lower by 4.0 percent and 7.8 percent compared to the previous quarter and year levels, respectively. The slowdown in rents in Metro Manila in the quarter relative to the previous quarter could be attributed to the lesser demand from foreign and local employees, especially in business districts. A precarious Metro Manila office leasing market continues to hamper the recovery of the capital region's residential markets. Market analysts do not see a recovery in rental rates in the next 12 months but expect the rise in residential rates starting in 2022.

Vacancy Rates, Metro Manila. The office vacancy rate in Metro Manila rose to 9.1 percent in Q4 2020 from 7.1 percent in Q3 2020 due mainly to slower leasing from all segments as well as a rise in vacated spaces. In terms of location, the office vacancy rates in Makati CBD (4.7 percent from 3.0 percent), Fort Bonifacio (6.1 percent from 4.9 percent), Ortigas Center (13.3 percent from 11.7 percent), and Manila Bay Area (10.2 percent from 5.0 percent) increased in Q4 2020 compared to the previous quarter.

Vacancy rates for offices and residences continue to increase

Following the adverse impacts of the pandemic and community quarantine, office vacancy rate is expected to rise in 2021 due mainly to slowdown in leasing activities, weak demand, and a cautious market.

Chart 10. Vacancy Rates
in percent



Similarly, the overall residential vacancy rate in Metro Manila increased to 15.6 percent in Q4 2020 from 12.9 percent in Q3 2020 due to the slower take-up of units in areas near the core business districts. In particular, residential vacancy rates were higher in Makati CBD (13.7 percent from 12.1 percent), Fort Bonifacio (20.0 percent from 16.8 percent), Rockwell Center (11.5 percent from 10.9 percent), Ortigas Center (6.4 percent from 5.5 percent), Eastwood City (6.3 percent from 5.4 percent), and Manila Bay area (22.8 percent from 17.1 percent).

The rental market continues to face headwinds. Residential vacancy is seen to further increase in 2021, especially in business districts with substantial stock such as Manila Bay area and Fort Bonifacio.

BSP Residential Real Estate Price Index (RREPI).[18] After a decline in Q3 2020, nationwide residential property prices went up in Q4 2020 relative to prices in the previous year and quarter. House price growth reverted to the positive territory as RREPI rose by 0.8 percent y-o-y, and by 2.4 percent q-o-q.

Uptick in RREPI as property prices in areas outside NCR increase

[18] The RREPI measures the average changes in prices of different types of housing units over a period of time across different geographical regions where the growth rate of the index measures house inflation. It is computed as a weighted chain-linked index based on the average appraised value per square meter weighted by the share of floor area of new housing units. The RREPI was computed based on data from housing loans granted by universal, commercial, and thrift banks.

By area, residential property prices expanded y-o-y in Areas Outside NCR (AONCR), but contracted in NCR. The positive y-o-y growth in the overall residential property prices was driven mainly by those in AONCR, which grew by 5.9 percent relative to Q4 2019. Prices across all types of housing units in AONCR, except for the prices of condominium units, increased in Q4 2020. Meanwhile, the slump in property prices in Metro Manila continued for the second consecutive quarter, contracting by 4.8 percent in Q4 2020. The decrease in the prices of condominium units in the NCR outweighed the increase in the prices of duplexes, townhouses, and single detached/attached houses. By contrast, house prices rose q-o-q in the NCR, tracking the national trend.

Table 6. Residential Real Estate Price Index[1] by Area

Q1 2014=100; growth rate in percent

Quarter	Residential Real Estate Price Index [1] (By Area)		
	Overall	NCR	AONCR
2018 Q1	118.8	123.1	115.9
Q2	119.7	127.2	115.4
Q3	119.3	128.0	113.8
Q4	120.7	131.4	113.5
2019 Q1	122.6	133.5	116.5
Q2	120.7	134.5	114.3
Q3	131.7	156.4	119.4
Q4	133.3	151.2	122.9
2020 Q1	138.0	158.7	126.4
Q2	152.8	180.6	134.7
Q3	131.2	137.3	127.1
Q4	134.4	143.9	130.1
Year-on-Year Growth Rates			
2018 Q1	1.8	2.8	0.8
Q2	4.5	4.3	4.2
Q3	4.5	7.0	2.2
Q4	0.5	1.7	-0.8
2019 Q1	3.2	8.4	0.5
Q2	0.8	5.7	-1.0
Q3	10.4	22.2	4.9
Q4	10.4	15.1	8.3
2020 Q1	12.6	18.9	8.5
Q2	26.6	34.3	17.8
Q3	-0.4	-12.2	6.4
Q4	0.8	-4.8	5.9
Quarter-on-Quarter Growth Rates			
2018 Q1	-1.1	-4.7	1.3
Q2	0.8	3.3	-0.4
Q3	-0.3	0.6	-1.4
Q4	1.2	2.7	-0.3
2019 Q1	1.6	1.6	2.6
Q2	-1.5	0.7	-1.9
Q3	9.1	16.3	4.5
Q4	1.2	-3.3	2.9
2020 Q1	3.5	5.0	2.8
Q2	10.7	13.8	6.6
Q3	-14.1	-24.0	-5.6
Q4	2.4	4.8	2.4

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

Source: BSP

In Q4 2020, the purchase of new housing units accounted for 83.4 percent of residential real estate loans (RRELs). Meanwhile, by type of housing unit, most of the residential property loans were used for the acquisition of condominium units (42.2 percent), followed by single detached/attached houses (30.5 percent), and townhouses (26.9 percent). As noted in Q4 2020, the number of loans granted for the purchase of townhouses registered the largest y-o-y expansion on account of the 253.3-percent increase in AONCR.

Table 7. Residential Real Estate Price Index[1] by Housing Type

Q1 2014=100; growth rate in percent

Quarter	Residential Real Estate Price Index [1] (By Housing Type)				
	Overall [2]	Single Detached/ Attached	Duplex [3]	Townhouse	Condominium Unit
2018 Q1	118.8	109.6	131.5	125.2	133.3
Q2	119.7	107.3	99.0	131.3	141.0
Q3	119.3	105.8	115.5	130.6	141.0
Q4	120.7	104.7	98.8	132.9	146.8
2019 Q1	122.6	107.5	121.0	137.4	147.8
Q2	120.7	103.3	111.4	137.0	154.5
Q3	131.7	108.3	144.2	138.5	182.1
Q4	133.3	110.8	148.6	146.2	174.6
2020 Q1	138.0	115.4	167.3	145.1	182.7
Q2	152.8	127.5	112.3	151.8	201.0
Q3	131.2	116.3	131.5	155.1	154.7
Q4	134.4	116.0	178.3	169.7	160.0
Year-on-Year Growth Rates					
2018 Q1	1.8	-0.5	44.2	13.7	2.1
Q2	4.5	1.5	-4.4	13.8	7.1
Q3	4.5	0.2	30.7	18.5	5.8
Q4	0.5	-1.9	-3.7	11.5	0.7
2019 Q1	3.2	-1.9	-8.0	9.7	10.9
Q2	0.8	-3.7	12.5	4.3	9.6
Q3	10.4	2.4	24.8	6.0	29.1
Q4	10.4	5.8	50.4	10.0	18.9
2020 Q1	12.6	7.3	38.3	5.6	23.6
Q2	26.6	23.4	0.8	10.8	30.1
Q3	-0.4	7.4	-8.8	12.0	-15.0
Q4	0.8	4.7	20.0	16.1	-8.4
Quarter-on-Quarter Growth Rates					
2018 Q1	-1.1	2.7	28.2	5.0	-8.6
Q2	0.8	-2.1	-24.7	4.9	5.8
Q3	-0.3	-1.4	16.7	-0.5	0.0
Q4	1.2	-1.0	-14.5	1.8	4.1
2019 Q1	1.6	2.7	22.5	3.4	0.7
Q2	-1.5	-3.9	-7.9	-0.3	4.5
Q3	9.1	4.8	29.4	1.1	17.9
Q4	1.2	2.3	3.1	5.6	-4.1
2020 Q1	3.5	4.2	12.6	-0.8	4.6
Q2	10.7	10.5	-32.9	4.6	10.0
Q3	-14.1	-8.8	17.1	2.2	-23.0
Q4	2.4	-0.3	35.6	9.4	3.4

[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

By area, 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, 40.1 percent of the total number of RRELs granted were from the NCR, while the rest were distributed in CALABARZON (24.4 percent), Central Luzon (12.8 percent), Central Visayas (4.8 percent), Davao Region (4.2 percent), Western Visayas (3.7 percent), and Caraga (3.1 percent). NCR and the said six regions combined accounted for 93.1 percent of total housing loans granted by banks.

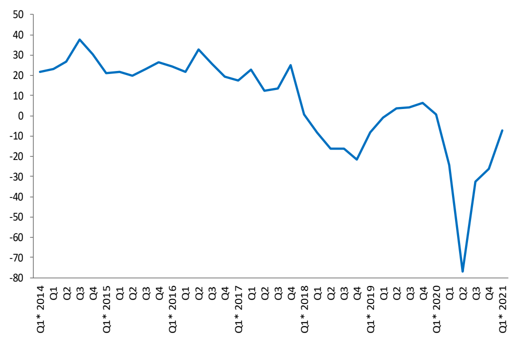
Vehicle Sales. The sales of new vehicles from CAMPI-TMA[19] members fell by 7.3 percent y-o-y for the period January-February 2021, a turnaround from the 0.6-percent expansion recorded in the same period in 2020.

Sales of new vehicles, mainly commercial units, remain weak

The decline was due mainly to lower sales of commercial vehicles amid the imposition of the provisional safeguard duties on car imports starting February 2021.[20]

Chart 11. Vehicle Sales

growth rate in percent



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

[19] 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.

[20] The Bureau of Customs has ordered the collection of safeguard duties in the form of cash bond on imported completely built up (CBU) passenger cars and light commercial vehicles (LCVs) effective 1 February 2021. This is in accordance with Customs Memorandum Order (CMO) No. 6-2021 dated 1 February 2021, which will last for 200 days from issuance. The CMO is pursuant to the order from the Department of Trade and Industry for the imposition of provisional safeguard duties of ₱70,000 per unit of imported CBU passenger cars and ₱110,000 per unit of imported CBU LCVs. The safeguard measure is expected to level the playing field to enable the domestic motor vehicle assemblers to compete with the imported vehicles and pave the way for the expansion of the country's car manufacturing and employ more Filipinos in their factories. (Sources: Bureau of Customs, Manila Bulletin)

Commercial vehicle sales, which account for about 69.4 percent of total vehicle sales, went down by 11.5 percent y-o-y for the period January-February 2021 from the 7.2-percent increase in the same period in 2020. Commercial vehicles sold during the period reached 34,416 units from 38,877 units in the same period a year ago.

By contrast, passenger car sales increased by 3.8 percent y-o-y for the first two months of 2021, a reversal from the 13.7-percent dip in the same period in 2020. New passenger car sales accrued to a total of 15,194 units for the period January-February 2021 from 14,636 units in the same period a year ago.

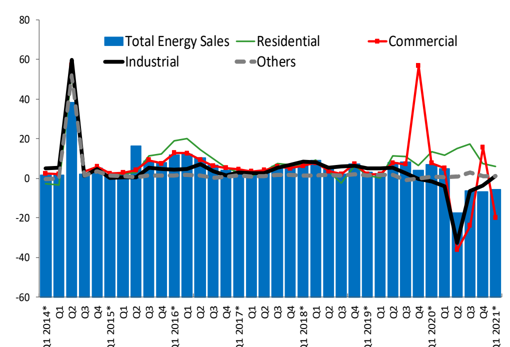
Energy Sales. Energy sales of Meralco contracted by 5.7 percent y-o-y in Q1 2021 (January – February), a reversal from the 7.0-percent growth in the same period a year-ago while an improvement from the 7.7-percent contraction in Q4 2020 (October – November).

Energy sales remain in contraction

The contraction in Q1 2021 continued to reflect the impact of the implementation of the quarantine protocols implemented in Meralco's service area. Energy sales from the residential sector and industrial sector increased by 6.0 percent and 1.2 percent, respectively, while energy sales form the commercial sector continued to contract by 19.9 percent.

Chart 12. Energy Sales

year-on-year growth in percent



* January to February
Source: Meralco, BSP calculations

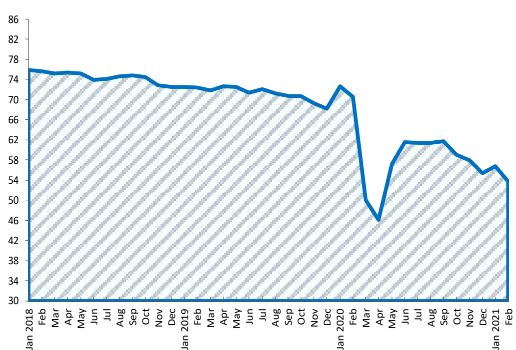
Capacity Utilization. The average capacity utilization rate of the manufacturing sector stood at 53.8 percent in February 2021, lower than the month-ago level at 56.7 percent (revised) based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

Despite the implementation of more relaxed quarantine measures, firms' average capacity utilization dipped further as the number of establishments that operated below 80 percent increased significantly. Of the 579 respondent-establishments, about 75.5 percent operated below the 80.0-percent capacity level in February 2021, significantly higher than the previous month's 56.9 percent.

Utilization rate in February 2021 remains below optimal capacity

Meanwhile, the February response rate of 62.9 percent (preliminary) is higher than the 37.4 percent recorded in the previous month's preliminary results.

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



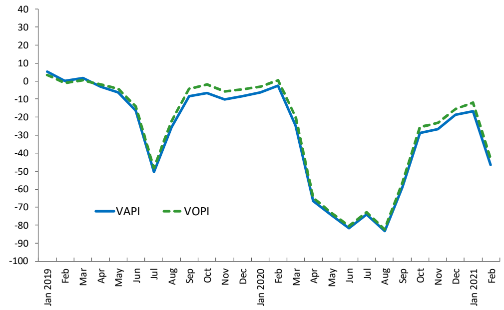
Source: PSA

Average capacity utilization continued to decline in February, in line with the deeper contractions of both volume and value indices. In terms of industry sectors, no major industry was able to reach the 80.0-percent capacity level. In particular, only six major industries operated at the 60 to 79 percent capacity range namely, furniture (72.7 percent); manufacturing and repair and installation of machinery and equipment (65.0 percent); computer, electronic, and optical products (63.8 percent); machinery and equipment except electrical (61.3 percent); rubber and plastic products (60.6 percent); and electrical equipment (60.2 percent). Nine major industries operated at the 50 to 59 percent capacity range: textiles (59.4 percent); other non-metallic mineral products (56.3 percent); transport equipment (53.4 percent); food products (53.3 percent); basic metals (52.5 percent); fabricated metal products, except machinery and equipment (51.6 percent); basic pharmaceutical products and pharmaceutical preparations (51.6 percent); beverages (51.6 percent); and chemical and chemical products (50.1 percent).

Volume and Value of Production. Preliminary results of the MISSI showed that volume of production index (VoPI) contracted by 43.6 percent year-on-year in February 2021, faster than the deceleration of 12.0 percent (revised) in January 2021. Of the 22 major industries, there were 19 sub-sectors that posted contractions: coke and refined petroleum products (-85.4 percent); machinery and equipment except electrical (-48.5 percent); textiles (-32.6 percent); furniture (-30.3 percent); tobacco products (-28.3 percent); wearing apparel (-26.6 percent); manufacturing and repair and installation of machinery and equipment (-21.3 percent); leather and related products including footwear (-18.3 percent); basic pharmaceutical products and pharmaceutical preparations (-17.4 percent); beverages (-15.9 percent); rubber and plastic products (-15.5 percent); wood, bamboo, cane, rattan articles, and related products (-14.2 percent); printing and reproduction of recorded media (-12.4 percent); chemical and chemical products (-10.2 percent); transport equipment (-8.7 percent); food products (-8.1 percent); basic metals (-7.5 percent); other non-metallic mineral products (-3.0 percent); and computer, electronic, and optical products (-2.3 percent).

Manufacturing output continues to deteriorate

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



Source: PSA

Likewise, the value of production index (VaPI) declined faster by 46.5 percent in February 2021 from a 16.7-percent slump in the previous month. This was attributed to the contraction of 20 out of 22 sub-sectors: coke and refined petroleum products (-89.3 percent); machinery and equipment except electrical (-50.8 percent); furniture (-33.6 percent); textiles (-33.2 percent); wearing apparel (-29.9 percent); tobacco products (-29.5 percent); manufacturing and repair and installation of machinery and equipment (-23.1 percent); leather and related products, including footwear (-21.2 percent); basic pharmaceutical products and pharmaceutical preparations (-18.6 percent); wood, bamboo, cane, rattan articles, and related products (-17.1 percent); computer, electronic, and optical products (-16.9 percent); rubber and plastic products (-15.3 percent); beverages (-13.5 percent); printing and reproduction of recorded media (-12.8 percent); chemical and chemical products (-9.9 percent); transport equipment (-9.2 percent); food products (-6.5 percent); basic metals (-5.3 percent); other non-metallic mineral products (-4.1 percent); and paper and paper products (-2.6 percent).

Business Expectations.[21] Business confidence on the economy continued to improve as the overall confidence index (CI)[22] of the Business Expectations Survey (BES)[23] for Q1 2021 increased to 17.4 percent from 10.6 percent in Q4 2020. Similarly, business sentiment for Q2 2021 also rose to 42.8 percent from the previous quarter's survey result of 37.4 percent. The positive reading for both Q1 and Q2 2021 indicates greater optimism for many of the respondents.

Business sentiment reflects optimism for Q1 and Q2 2021

The respondents' optimism for the first two quarters of 2021 was attributed primarily to the easing of quarantine restrictions and reopening of businesses; observation that people are adapting to the "new normal;" increase in volume of sales and orders; the rollout of vaccine for COVID-19; and the development of new business strategies. Similarly, respondents cited expectations of higher demand for electricity and construction activities during summer for their more buoyant views for Q2 2021.

The sentiment of businesses in the Philippines mirrored the business outlook in Australia and Chile, which turned optimistic. Further, business confidence in Brazil, Canada, and US was more buoyant, while that of Bulgaria and Germany was less favorable. However, the sentiment of businesses in Croatia, Denmark, Euro Area, France, Greece, Hong Kong, Hungary, Israel, Mexico, Netherlands, New Zealand, South Korea, and Thailand was pessimistic, while that of the UK was neutral.

[21] The publication of the Q1 2021 Consumer Expectations Survey (CES) has been delayed and, therefore, could not be included in this report.
[22] The CI is computed as the percentage of firms that answered in the affirmative less the percentage of firms that answered in the negative with respect to their views on a given indicator. A positive CI indicates an optimistic outlook while a negative CI indicates a pessimistic outlook.
[23] The Q1 2021 BES was conducted during the period 4 February – 12 March 2021. There were 1,512 firms surveyed nationwide. Samples were drawn from the Top 7,000 Corporations ranked based on total assets in 2016 from the Bureau van Dijk database, consisting of 585 companies in NCR and 927 firms in AONCR, covering all 16 regions nationwide.

Table 8. Business Expectations Survey Current Quarter Next Quarter

BUSINESS OUTLOOK INDEX		Current Quarter	Next Quarter	Next 12 Months
2017	Q1	39.4	47.2	-
	Q2	43.0	42.7	-
	Q3	37.9	51.3	-
	Q4	43.3	39.7	-
2018	Q1	39.5	47.8	-
	Q2	39.3	40.4	-
	Q3	30.1	42.6	-
	Q4	27.2	29.4	-
2019	Q1	35.2	52.0	-
	Q2	40.5	47.6	-
	Q3	37.3	56.1	-
	Q4	40.2	40.3	59.6
2020	Q1	22.3	42.3	55.8
	Q2	-	-	-
	Q3	-5.3	16.8	37.5
	Q4	10.6	37.4	57.7
2021	Q1	17.4	42.8	60.5

Source: BSP

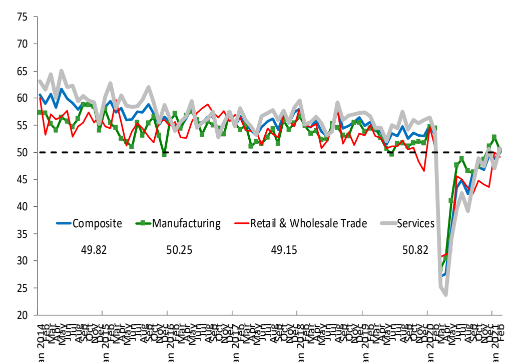
Similarly, business outlook on the country's economy for the next 12 months was also more upbeat as the CI increased to 60.5 percent from the Q4 2020 survey result of 57.7 percent. Notably, the next 12 months CI is the highest index recorded since the start of the 12-month outlook in Q3 2019.

Purchasing Managers' Index.[24] The composite PMI in February 2021 remained below the 50-point expansion threshold[25] at 49.8, albeit higher than the January PMI of 48.8. The higher PMI in February may be attributed mainly to the expansion of the services sectors, a turnaround from the previous month's contraction. Meanwhile, the slower expansion of the manufacturing sector and faster contraction of the retail-wholesale sector weighed down on the composite PMI. The continued implementation of quarantine restrictions slower-than-expected domestic vaccine inoculations, and resurgence of COVID-19 cases globally impeded the domestic economy's recovery.

Composite PMI recovered but remains below the expansion threshold

The services PMI gained 3.8 index points to a PMI of 50.8 in February from 47.0 in January despite the continued implementation of quarantine restrictions amid rising COVID-19 cases. Except for Price Charge (at a PMI of 48.5) and Employment (46.1), which shed 2.8 index points and 1.4 index points, respectively, all sub-indices posted faster expansions on a month-on-month basis in February. Outstanding Business (52.9), New Orders (52.1), Business Activity (53.2), and Operating Costs (51.3) gained 9.9 index points, 6.4 index points, 5.2 index points, and 2.0 index points, respectively. On a per sector basis, nine out of fourteen subsectors expanded in February, namely, Miscellaneous Business Activities (74.4); Real Estate (57.0); Banking and Financial Intermediation (55.6); Postal and Telecommunications (54.8); Electricity, Gas, and Water (53.8); Education (53.3); Provident and Insurance (53.3); Construction (50.7); and Hotels and Restaurants (50.5). The five other subsectors posted contraction, namely, Business/Knowledge Processing (49.9), Health and Social Work (49.6), Transportation including Travel Agency (46.8), Recreational, Cultural, and Sporting Activities (40.0), and Renting of Goods and Equipment (38.5). Service managers are expecting business activities to improve in March 2021.

Chart 15. Purchasing Managers' Index



Source: Philippine Institute of Supply Management (PISM)

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

[25] 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.

By contrast, the manufacturing PMI decreased by 2.4 index points to 50.3 from 52.7 a month ago, in line with business managers' expectations of a deterioration in business conditions. The sector's slower expansion in February may be attributed to weaker domestic demand evident mainly in the faster contraction of New Orders (at a PMI of 48.8) and Production (48.5), which fell by 5.7 index points and 2.8 index points, respectively. The slower expansion of Inventory (51.9) and Supplier Deliveries (55.9), which declined by 1.3 index points and 0.2 index point, respectively, also weighed on the manufacturing sector's performance in February. Employment, on the other hand, increased by 0.3 index point to a PMI of 49.4. Meanwhile, all firms by export category decreased month-on-month. However, firms with export volume of up to 50 percent of total revenues managed to remain in expansion in February. On a per sector basis, eight out of twelve manufacturing sub-sectors expanded, namely, Fabricated Metal (58.9), Motor Vehicles (54.4), Non-metallic minerals (53.3), Rubber and Plastics (52.9), Machinery (51.2), Food and Beverages (51.0), Basic Metals (50.8), and Publishing and Printing (50.1). By contrast, the following posted contractions: Chemicals/Fuel (49.8), Paper and Paper Products (49.4), Textiles (43.0), and Communications and Medical Equipment (36.2). Meanwhile, prospects for the manufacturing sector are assessed to be favorable in the month ahead.

The retail and wholesale PMI also declined by 0.8 index point to 49.2 from the previous month's 50.0. Aside from Employment (at a PMI of 50.4) which gained 3.8 index points, all sub-indices deteriorated in February. Inventory (48.6), Sales Revenues (48.0), and Purchases (48.4) posted faster contractions resulting to declines of 3.6 index points, 2.1 index points, and 1.3 index points, respectively. Supplier Deliveries (51.4) remained in expansion, albeit lower by 1.9 index points compared to last month's 53.3. On a per sector basis, the PMI of the retail subsector decreased by 0.3 index point to 49.9 in February from 50.2 in January due to the faster contraction of Sales Revenues and Inventories, as well as slower expansion of Purchases and Supplier Deliveries. By contrast, the wholesale subsector expanded by 2.5 index points to a PMI of 51.3 from last month's 48.8 due to the faster expansion of Purchases, Sales Revenues, and Supplier Deliveries. Retail managers are anticipating a further worsening of business conditions for the sector in March 2021.

External Demand[26]

Exports. Exports of goods went up by 1.4 percent y-o-y in Q4 2020, a reversal from the 6.5-percent contraction in Q3 2020, but still lower than the 6.2-percent expansion in Q4 2019.

Exports of goods improve in Q4 2020

The higher outbound shipments of sugar products, forest products, mineral products, and manufactures outpaced the decline in exports of coconut products, fruits and vegetables, agro-based products, and petroleum products in Q4 2020.

Table 9. Export of Goods
growth rate in percent, year-on-year

COMMODITY GROUP	2019	2020	
	Q4	Q3	Q4
Coconut Products	-21.2	-3.4	-1.2
Sugar and Products	78.3	1,370.5	6.3
Fruits and Vegetables	36.1	-20.2	-20.6
Other Agro-Based Products	-5.5	-13.6	-7.2
Forest Products	21.6	-14.1	21.8
Mineral Products	26.7	10.0	25.2
Petroleum Products	-26.6	-98.4	-71.5
Manufactures	5.9	-6.2	1.9
Special Transactions	-17.3	-27.9	-18.6
Total Exports	**6.2**	**-6.5**	**1.4**

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

Imports. Imports of goods fell by 15.3 percent y-o-y in Q4 2020, a slight improvement from the 20.2-percent drop in Q3 2020, but lower than the 4.9-percent contraction in Q4 2019

Imports of goods continue to decline

The decline in inward shipments during the period was due largely to lower imports of capital goods, raw materials and intermediate goods, minerals and lubricant, and consumer goods.

[26] International Merchandise Trade Statistics (IMTS) concept

Table 10. Import of Goods
growth rate in percent, year-on-year

COMMODITY GROUP	2019	2020	
	Q4	Q3	Q4
Capital Goods	2.6	-24.6	-15.6
Raw Materials and Intermediate Goods	-13.5	-8.8	-6.7
Mineral Fuels and Lubricants	-11.7	-42.3	-42.2
Consumer Goods	5.6	-20.9	-15.3
Special Transactions	11.3	5.7	22.2
Total Imports	**-4.9**	**-20.2**	**-15.3**

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

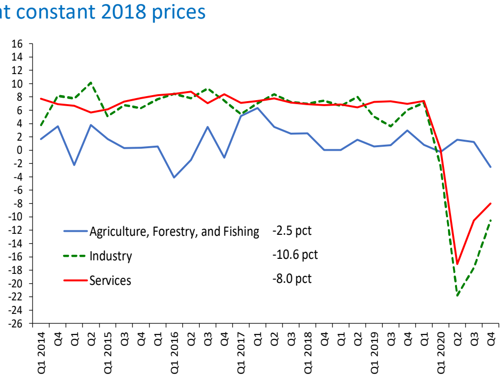
Aggregate Supply

On the production side of the economy, the agriculture, industry, and services sectors contributed -0.3 ppt, -3.3 ppt and -4.7 ppt, respectively, to total GDP growth in Q4 2020.

Activities in the production sectors contract

The agriculture sector registered a 2.5-percent decline in Q4 2020, a reversal from the 1.2-percent growth in Q3 2020. This was due mainly to the lower production of palay (-1.1 percent from 15.4 percent), fishing and aquaculture (-4.3 percent from 2.1 percent), and livestock (-13.0 percent from -7.7 percent).

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



Source: PSA

The contraction in agricultural output was primarily on account of the damage and losses caused by the recent typhoons, which amounted to ₱16.6 billion. Among the commodities affected were rice and high value crops, with production losses at ₱6.5 billion and ₱4.9 billion, respectively. Meanwhile, the decline in fish production was attributed to the onset of the fishing ban in Visayas and typhoon damages. In addition, the continued spread of African Swine Fever (ASF) dampened the country's pork production as piggery farms in 25 provinces were affected and 432,000 hogs were already culled.

The industry sector declined by 10.6 percent in Q4 2020, less negative than the 17.6-percent slump in Q3 2020, which can be attributed to the improved performance of the construction and manufacturing subsectors.

Manufacturing sector contracted by 4.9 percent in Q4 2020, although slower than the 10.4-percent drop in Q3 2020 as most of the subsectors such as chemical and chemical products, export-oriented manufactures, food manufactures, beverages, transport equipment, textiles, and rubber and plastic products posted moderate declines in Q4 2020 compared to the previous quarter. Moreover, the improved performance in the manufacturing sector reflected the more optimistic sentiment during Q4 2020, with business confidence index at 10.6 percent from -5.3 percent in Q3 2020.

Table 11. Gross Domestic Product by Industrial Origin
at constant 2018 prices; growth rate in percent

BY EXPENDITURE ITEM	2019	2020	
	Q4	Q3	Q4
Agriculture, Forestry, and Fishing	3.0	1.2	-2.5
Industry	6.0	-17.6	-10.6
Mining and Quarrying	-3.1	-13.0	-16.4
Manufacturing	1.4	-10.4	-4.9
Electricity, Steam, Water and Waste Management	7.3	0.2	0.6
Construction	16.8	-39.7	-26.8
Services	6.9	-10.6	-8.0
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	8.3	-6.3	-4.0
Transportation and Storage	7.9	-29.5	-20.1
Accommodation and Food Service Activities	6.0	-54.6	-45.6
Information and Communication	5.5	3.0	1.9
Financial and Insurance Activities	12.8	4.2	4.3
Real Estate and Ownership of Dwellings	5.5	-19.2	-14.9
Professional and Business Services	0.9	-11.1	-8.9
Public Administration and Defense; Compulsory Social Activities	8.7	4.7	1.3
Education	0.8	-16.7	-12.3
Human Health and Social Work Activities	6.6	-3.3	1.5
Other Services	5.2	-48.7	-43.4

Source: PSA

Mining and quarrying sector sustained its contraction at -16.4 percent in Q4 2020 from -13.0 percent in Q3 2020 due mainly to the decline in output of coal, and crude petroleum and natural gas.

Electricity, steam, water and waste management sector marginally grew by 0.6 percent in Q4 2020 from the 0.2-percent growth in Q3 2020 attributed to the recovery in the electricity, water supply, and waste management subsectors.

Construction sector recovered, posting -26.8-percent growth in Q4 2020 from -39.7 percent in Q3 2020. This was attributed to the transition to MGCQ in most parts of the country during Q4 2020 wherein all private and public construction projects are allowed to proceed subject to the construction safety guidelines issued by the Department of Public Works and Highways (DPWH).

The services sector declined by 8.0 percent in Q4 2020, albeit less than the 10.6-percent contraction posted in Q3 2020. This was primarily due to the slower declines in most subsectors particularly real estate and ownership of dwellings, wholesale and retail trade, transport and storage, as well as information and communication, and financial and insurance activities.

Trade and repair of motor vehicles, motorcycles, personal and household goods sector continued to contract to -4.0 percent in Q4 2020 from -6.3 percent in Q3 2020, as performance of all subsectors improved namely, for retail trade, wholesale trade and sale and repair of motor vehicles.

Performance of the transport and storage segment fell by 20.1 percent in Q4 2020 from -29.5 percent in Q3 2020. All subsectors recorded weaker declines particularly, land transport, air transport, warehousing and storage, and water transport. Postal and courier activities sustained its growth but at a slower pace in Q4 2020.

Accommodation and food service activities declined by 45.6 percent in Q4 2020, albeit an improvement from the 54.6-percent drop in Q3 2020. Accommodation and food and beverage service activities gradually recovered following the transition of most parts of the country to MGCQ, which allowed dine-in services at 50 percent capacity or more, subject to physical distancing protocols. For accommodation, establishments in areas under GCQ or MGCQ were permitted to operate at full capacity subject to hotel management's decision and compliance with safety guidelines.

Information and communication sector grew by 1.9 percent in Q4 2020, slower than the 3.0-percent growth in Q3 2020 due to the registered decline in the communication subsector.

Financial and insurance activities slightly rose to 4.3 percent in Q4 2020 from 4.2 percent in Q3 2020 due to the improvements on the insurance and pension funding, non-bank financial intermediation and activities auxiliary to financial intermediation which offset the slowdown in banking institutions.

Real estate and ownership dwellings continued to decline by 14.9 percent in Q4 2020, albeit slower than the 19.2-percent contraction in Q3 2020. This was due to the recovery noted for real estate and ownership of dwellings on account of the lifted restrictions for real estate activities in MGCQ areas.

Growth in the professional and business service activities sector improved at -8.9 percent in Q4 2020 from -11.1 percent in Q3 2020. This was attributed to the continued support from the government that allowed information technology-business process outsourcing (IT-BPO) industry to operate from 50 to 95 percent capacity, as well as the notable growth in health care, telecommunications, financial services, and e-commerce.

Education sector registered weaker contraction of 12.3 percent in Q4 2020 from -16.7 percent in Q3 2020 due to the less negative growth in both public education and private education.

Human health and social work activities sector grew by 1.5 percent in Q4 2020, a reversal from the 3.3-percent contraction in Q3 2020 due to the growth performance in public human health and social work activities.

The contraction in other services remained in double-digits, albeit at a lesser degree at -43.4 percent in Q4 2020 from -48.7 percent in Q3 2020. This was largely due to slower declines noted in other service activities, and arts, entertainment and recreation.

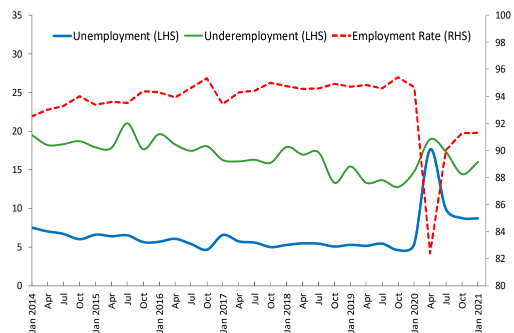
Labor Market Conditions

The Philippine labor market did not improve in Q1 2021 compared to Q4 2020 and even worsened relative to the same period a year ago.

Employment conditions remain tepid in Q1 2021

It is worth noting, however, that netting out seasonality, all employment indicators improved in January 2021 relative to the previous quarter. For full year 2021, the government targets unemployment rate at 7.0-9.0 percent and youth unemployment rate at 14.5-16.5 percent.[27]

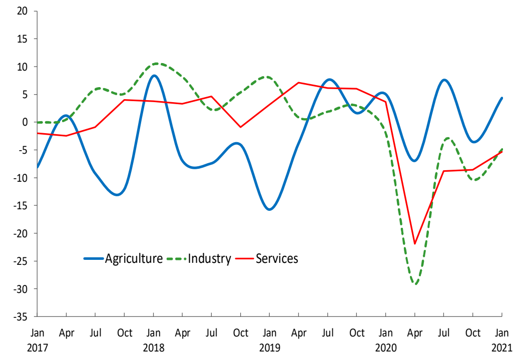
Chart 17. Unemployment, Underemployment and Employment Rate
in percent



Source: PSA

The employment rate in January 2021 was equivalent to 41.2 million employed individuals, 3.0 percent lower compared to 42.5 million employed persons in the same period a year ago. The 1.3 million employment loss mainly came from the services sector, which contracted by 5.3 percent primarily due to lower employment in accommodation and food service activities as well as transportation and storage subsectors. Employment in the industry sector also declined by 4.9 percent, largely on account of weaker employment in manufacturing and utilities subsectors that offset the employment growth in construction. However, these were partly offset by employment gains in the agriculture sector, which posted a 4.4 percent growth. Compared to October 2020, the country generated 1.4 million employed individuals, mostly in agriculture and forestry, wholesale and retail trade, and construction. The labor force participation rate (LFPR) also improved to 60.5 percent in January 2021 from 58.7 percent in October 2020.

Chart 18. Employment by Sector
in percent



Source: PSA

The unemployment rate in January 2021 is equivalent to 4.0 million unemployed individuals or 1.6 million additional workers who lost their jobs from the same period a year ago. Relative to the previous quarter, the number of unemployed increased only by 141 thousand. In terms of educational attainment, majority of the unemployed were junior high school graduates (26.9 percent) and college graduates (23.6 percent share). In terms of age, majority of unemployed was the 15-24 age group or the youth (34.8 percent), followed by 25-34-year-old age group (33.9 percent). The number of unemployed youth increased by 35.0 percent during the period (Figure 47). Other aspects of employment quality showed mixed performance in Q1 2021 compared to a year ago levels and in the previous quarter. The share of remunerative work or wage and salary workers declined to 62.8 percent in January 2021 from 65.2 percent a year ago, but slightly higher than 62.5 percent in Q4 2020. The overall mean hours of work, however, fell to 39.3 in January 2021 from 41.3 in January 2020 and 40.8 in October 2020.

[27] Updated Philippine Development Plan 2021-2022. No national underemployment target is available.

II. Monetary and Financial Market Conditions

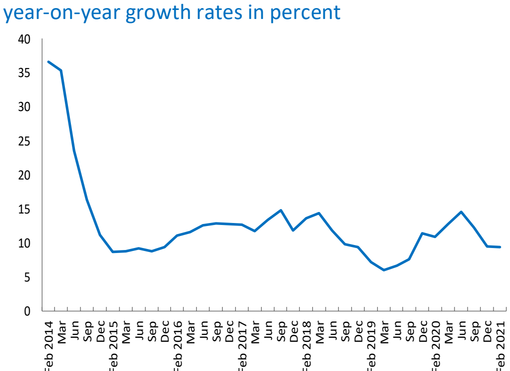
Domestic Liquidity

Domestic liquidity (M3) rose by 9.4 percent y-o-y in February 2021 to ₱14.0 trillion, slightly slower than the 9.5-percent expansion as of end-Q4 2020.

Domestic liquidity grows by 9.4 percent, y-o-y in February

Domestic claims grew by 5.6 percent in February 2021 from 4.5 percent as of end-Q4 2020 due to the faster growth in net claims on the central government, even as overall bank lending remained weak. Net claims on the central government grew by 47.1 percent in February from 31.1 percent as of end-Q4 2020, owing partly to the sustained borrowings by the National Government.

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



Source: BSP

Net foreign assets (NFA) in peso terms grew by 21.8 percent y-o-y in February from 25.5 percent in end-Q4 2020. The slower expansion in the BSP's NFA position reflected the lower increase in gross international reserves. Meanwhile, the NFA of banks expanded as banks' foreign liabilities declined on account of lower foreign bills payables.

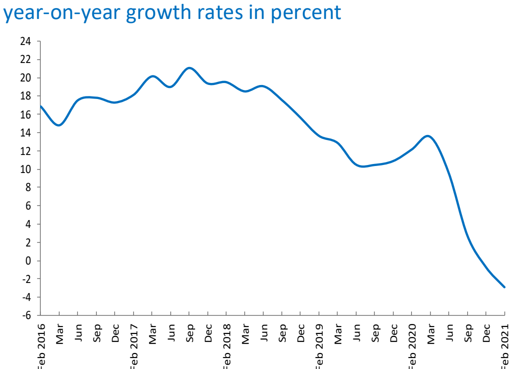
Bank Lending

Outstanding loans of commercial banks, net of reverse repurchase (RRP) placements with the BSP, declined by 2.7 percent y-o-y in February 2021, following the 0.7-percent decrease reported in end-Q4 2020. Credit activity eased further in February 2021 as demand for loans remained soft amid the ongoing pandemic.

Lending growth contracts due to soft loan demand

Loans for production activities fell by 1.3 percent y-o-y in February 2021 after declining by 0.4 percent in end-Q4 2020. Outstanding loans to major industries continued to decline, particularly to wholesale and retail trade and repair of motor vehicles and motorcycles, financial and insurance activities, and manufacturing.

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



Source: BSP

Likewise, growth in consumer loans went down by 8.3 percent in February 2021, reversing the 4.1-percent growth in end-Q4 2020 due to the continued decline in credit card and motor vehicle loans as well as the slowdown in salary-based consumption loans.

Monetary Operations

As of end-Q1 2021,1 total outstanding amount absorbed in the BSP liquidity facilities stood at about P2.1 trillion. Bulk of the BSP's liquidity-absorbing monetary operations had been through the term deposit facility (TDF), comprising about 39.4 percent of the combined outstanding amount of liquidity absorbed through the BSP liquidity facilities. Meanwhile, placements in the reverse repurchase (RRP) facility, BSP Securities facility (BSP-SF) and overnight deposit facility (ODF) made up 14.6 percent, 14.3 percent, and 31.7 percent, respectively.

The average weekly total offer volume in the TDF auctions was higher at about P561.5 billion in Q1 2021 relative to around P480.8 billion average weekly volume offered in the previous quarter. The average weekly bid-to-cover ratios for the 7-day and 14-day in Q1 2021 were recorded at 1.3x and 1.2x, respectively. There were no 28-day term deposits offered during the quarter as the BSP started migrating funds from the 28-day TDF to 28-day BSP Securities starting with the 16 October 2020 auction. Meanwhile, the average bid-to-cover ratio for the daily RRP offerings remained at around 4.0x during the quarter. Moreover, the results of the weekly auctions of BSP Securities reflected sustained strong demand amid ample liquidity in the financial system, with average bid-to-cover ratio for the quarter recorded at 1.4x.

Credit Conditions

Credit Standards. Results of the Q1 2021 Senior Bank Loan Officers' Survey (SLOS)[28] showed that majority of the respondent banks maintained their overall credit standards for loans to both enterprises and households during the quarter based on the modal approach.[29] Meanwhile, results based on the diffusion index (DI) approach,[30,31] continued to point to a net tightening of overall credit standards for both loans to enterprises and households in Q1 2021 mirroring the results in Q4 2020.

Credit standards continue to show overall net tightening

The Q1 2021 survey was conducted amid the government's continued implementation of quarantine measures to control the spread of coronavirus since March 2020. Respondent banks' answers to the SLOS were gathered during the period 1 March - 8 April 2021.

Lending to Enterprises. Using the modal approach, majority of the respondent banks (66.0 percent) indicated unchanged overall credit standards for loans to enterprises during the quarter. The DI-based results, meanwhile, pointed to a net tightening of lending standards across all borrower firm sizes, specifically, top corporations, large middle-market enterprises, small and medium enterprises, and micro enterprises. Respondent banks attributed the reported tightening of overall credit standards largely to a deterioration in the profiles of borrowers, reduced tolerance for risk, and less favorable economic outlook, among other factors.

Table 12. General Credit Standards for Loans to Enterprises (Overall)

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

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

Under specific credit standards, the net tightening of overall credit standards was reflected in reduced credit line sizes; stricter collateral requirements and loan covenants; and increased

28 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, 51 banks responded to the current survey representing a response rate of 79.7 percent.

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

30 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").

31 During the Q1 2010 to Q4 2012 survey rounds, the BSP used the diffusion index (DI) approach in the analysis of survey results. Beginning in Q1 2013, the BSP used both the modal and diffusion index (DI) approaches in assessing the results of the survey.

use of interest rate floors.[32] On the other hand, some form of easing was shown in terms of narrower loan margins and longer loan maturities.

While most of the respondent banks expect unchanged overall credit standards for loans to enterprises over the next quarter, DI-based results point to expectations of net tighter standards on the back of a more uncertain outlook on the economy along with deterioration in borrowers' profiles, and banks' lower tolerance for risk.

Lending to Households. Majority of the respondent banks (75.0 percent) maintained their overall credit standards for loans extended to households in Q1 2021. Meanwhile, the DI-based results reflected a net tightening of overall credit standards for household loans specifically for housing, auto, and personal/salary loans. Respondent banks cited a more uncertain economic outlook, a deterioration in borrowers' profile, and reduced tolerance for risk as the key factors that contributed to the overall tightening of credit standards for household loans.

Table 13. General Credit Standards for Loans to Households (Overall)

	2019				2020				2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Tightened Considerably	3.3	4.0	3.1	0.0	0.0	39.4	16.7	3.7	9.4
Tightened Somewhat	16.7	8.0	6.3	6.9	21.7	21.2	30.0	11.1	9.4
Remained Basically Unchanged	**73.3**	**88.0**	**81.3**	**89.7**	**69.6**	**33.3**	**50.0**	**77.8**	**75.0**
Eased Somewhat	3.3	0.0	9.4	3.4	8.7	6.1	3.3	7.4	6.3
Eased Considerably	3.3	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
Diffusion Index for Credit Standards	**13.3**	**12.0**	**0.0**	**3.4**	**13.0**	**54.5**	**43.3**	**7.4**	**12.5**
Number of Banks Responding	**30**	**25**	**32**	**29**	**23**	**33**	**30**	**27**	**32**

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

In terms of specific credit standards, the general net tightening of credit standards for household loans was revealed in reduced credit line sizes as well as stricter loan covenants and collateral requirements. Nonetheless, easing of credit standards for loans to households was partly observed in terms of narrower loan margins and longer loan maturities.

Over the following quarter, most of the respondent banks expect to keep their overall credit standards steady based on the modal approach. However, DI-based results indicated respondent banks' anticipation of net tighter overall credit standards for household loans due largely to less favorable economic outlook as well as expected deterioration in borrowers' profile.

[32] 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.

Loan demand. Survey results for Q1 2021 revealed that majority of the respondent banks observed an unchanged overall loan demand from both enterprises and households. However, DI-based results pointed to a net decrease in overall loan demand across all types of business and household loans (except for housing loans which reflected a slight net increase in demand).

Overall loan demand declines except for housing loans

The net decrease in loan demand from businesses was attributed by respondent banks to deterioration in customers' economic outlook; reduced need for inventory financing and accounts receivable financing; and lower investment in plant or equipment. Meanwhile, respondent banks pointed to lower household consumption and housing investment as the major factors that contributed to the observed decline in overall household loan demand.

Over the next quarter, most of the respondent banks anticipate broadly steady overall loan demand from both enterprises and households indicating an optimistic view from firms and consumers amid the anticipated availability of the vaccine.[33] DI-based results manifested expectations of a net increase in overall loan demand from enterprises associated largely with corporate clients' improved economic outlook along with their higher inventory financing and accounts receivable financing needs. Likewise, the DI approach pointed to banks' anticipation of a net increase in overall loan demand from households buoyed by higher household consumption and lack of other sources of funds, among other factors.

[33] The BSP's Q1 2021 Business Expectations Survey (BES) indicated that the sentiment of business owners improved for the second consecutive quarter. The overall confidence index (CI) for Q1 and Q2 both posted increases from previous quarter results, indicating greater optimism for many of the respondents. The respondents' optimism for the two quarters of 2021 was attributed primarily to the following: (a) easing of quarantine restrictions and reopening of businesses, (b) observation that people are adapting to the "new normal," (c) increase in volume of sales and orders, (d) the rollout of vaccine for COVID-19, and the development of new business/marketing strategies.

Real Estate Loans. The latest survey results also showed that most of the respondent banks reported broadly unchanged overall credit standards for commercial real estate loans (CRELs). DI-based results, however, continued to reflect a net tightening of overall credit standards for CRELs for the 21st consecutive quarter. Respondent banks quoted a less favorable economic outlook, a lower tolerance for risk, as well as deterioration in borrowers' profile as the main contributors to the tightening of overall credit standards for CRELs. Based on specific credit standards, the net tightening of overall credit standards for CRELs continued to reflect 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 next quarter, banks' responses suggested expectations of continued net tighter credit standards for CRELs based on the DI approach.

Credit standards for real estate loans remain tight

Most of the respondents reported unchanged demand for CRELs in Q1 2021, while DI-based results continued to show a net decline in loan demand as customers' outlook for the economy diminish while other sources of funds remain available. In the following quarter, both the modal and DI-based results pointed to anticipation of a broadly unchanged loan demand for CRELs amid customers' expectations of stable economic environment, steady internally-generated funds and accounts receivable financing, as well as availability of other sources of funds.

For housing loans extended to households, most of the respondent banks (67.7 percent) also indicated unchanged credit standards while DI-based results manifested a net tightening in Q1 2021. Over the next quarter, DI-based approach also indicated an expectation of net tighter overall credit standards for housing loans due largely to more uncertain economic prospects, a deterioration in borrowers' profile, and lower tolerance for risk, among other reasons.

Most of the respondent banks observed unchanged overall loan demand for housing loans in Q1 2021. DI-based results, meanwhile, pointed to a slight net increase in demand for housing loans in Q1 2021 on higher housing investment and low interest rates. Survey responses likewise pointed to anticipation of continued net increase in housing loan demand in Q2 2021, reflecting largely the consumers' higher household consumption, lack of other sources of funds, and increase in housing investment.

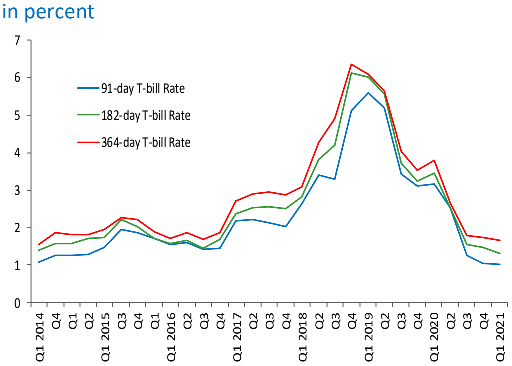
Interest Rates

Primary Interest Rates. The weighted average interest rates (WAIRs) for the 91-, 182- and 364-day T-bills in the primary market fell further to 1.024 percent, 1.318 percent, and 1.667 percent in Q1 2021 from 1.046 percent, 1.481 percent, and 1.745 percent, respectively, in the previous quarter.

T-bill rates decline across all tenors

The results of the auctions during the quarter reflected continued strong market interest on government securities amid ample liquidity in the financial system as a result of the liquidity-enhancing measures implemented by the BSP in 2020. Despite the overall q-o-q decline in T-bill rates, however, an increase in yields were observed from the middle to latter part of the quarter reflecting investors' concerns over accelerating domestic inflation and, to some extent, a correction in yields after US Treasury bond yields continued to increase.

Chart 21. Treasury Bill Rates
in percent



Source: BTr

Nonetheless, T-bill rates went down across tenors during the last auction for the quarter on the back of strong demand for safe-haven assets following the reimposition of stricter lockdown measures in the NCR and neighboring provinces.

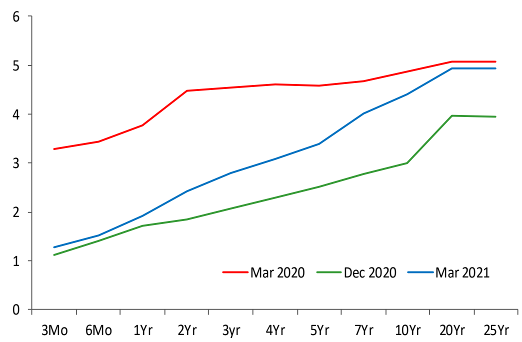
Yield Curve.[34] As of end-March 2021, the secondary market yield for government securities (GS) for all maturities rose relative to the end-December 2020 levels.

GS yields rise in Q1 2021

Debt paper yields were higher by a range of 10.6 bps for the 6-month GS to 141.3 bps for the 10-year GS compared to end-December 2020 levels.

Relative to year-ago levels, the secondary market yields for GS for all maturities decreased by a range of 12.2 bps (for the 20-year GS) to 205.0 bps (for the 2-year GS).

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



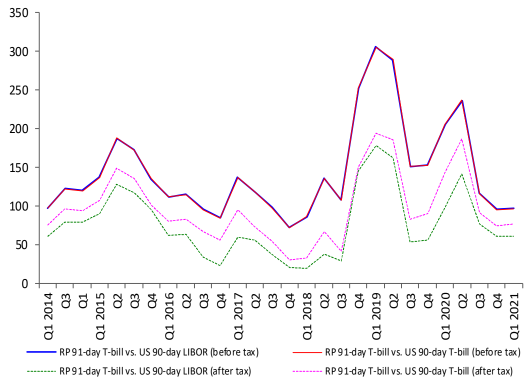
Source: Bloomberg

Interest Rate Differentials. The average differentials between domestic and US interest rates, net of tax, widened in Q1 2021 relative to the previous quarter.

Interest rate differentials widen in Q1 2021

The average 91-day RP T-bill rate declined q-o-q by 2.4 bps to 1.019 percent in Q1 2021 from 1.043 percent in Q4 2020. Likewise, the average US 90-day LIBOR and the US 90-day T-bill rate declined by 2.4 bps and 3.5 bps respectively, to 0.201 percent and 0.050 percent in Q1 2021. These developments led to wider positive net of tax differentials between the 91-day RP T-bill rate and US interest rates.

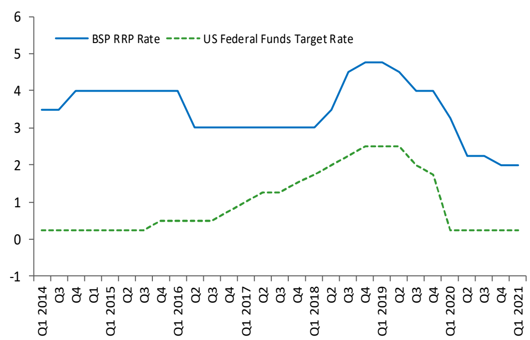
Chart 23. Interest Rate Differentials
quarterly averages; in basis points



Source: Bloomberg, BTr and BSP

The positive differential between the BSP's overnight borrowing or RRP rate and the US Fed funds target rate was unchanged at a range of 175-200 bps in Q1 2021, as the policy settings for both central banks were kept steady.

Chart 24. BSP RRP Rate and US Federal Funds Target Rate
in percent

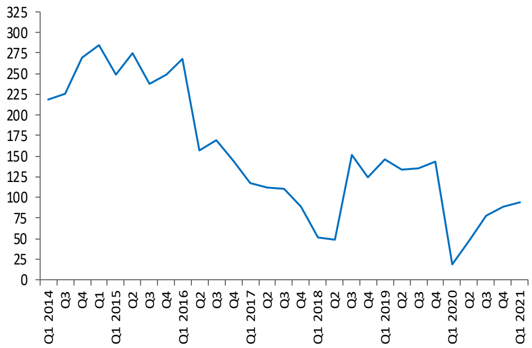


Source: Bloomberg and BSP

The positive differential between the BSP's overnight borrowing or RRP rate and the US Fed funds target rate was unchanged at a range of 175-200 bps in Q1 2021, as the policy settings for both central banks were kept steady.

[34] On 29 October 2018, the Bankers Association of the Philippines (BAP) replaced the PDST Reference Rates and launched the PHP BVAL Reference Rates which will be used as the Philippine Peso GS benchmark. The PHP BVAL Reference Rates are calculated by Bloomberg Finance Singapore L.P. and/or its affiliates in an agreement with the BAP.

Chart 25. Risk-Adjusted Differentials
in basis points



Source: Bloomberg and BSP

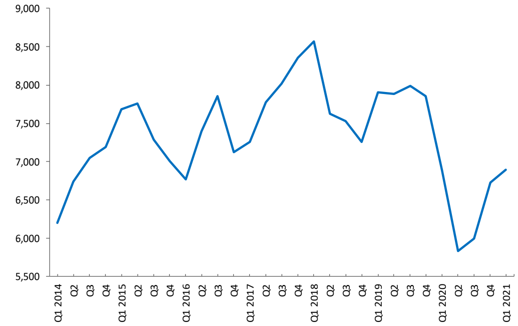
This development could be traced to the 6-bp decline in the country risk premium following the larger increase in the 10-year US Note relative to the increase in the 10-year ROP Note.

Financial Market Conditions

Financial conditions remained stable amid accommodative monetary settings and ample financial liquidity. The Philippine stock market continued to improve as investor sentiment were boosted by the arrival of the initial batch of vaccines. In the debt market, demand for government Treasury papers remained robust amid ample liquidity. Meanwhile, the country's debt spreads generally widened but was lower than in the previous quarter. Moreover, the banking system remained strong during the review quarter.

Stock Market. The Philippine Stock Exchange index (PSEi) increased by 2.5 percent q-o-q to average 6,886.50 index points in Q1 2021. The arrival of the COVID-19 vaccines in the country, the start of the local vaccine rollout, the BSP's decision to keep the policy rate steady to support the economy, and optimism over the economic reforms lined up in the legislature boosted investor sentiment. However, gains were muted by the periodic spike in daily Covid-19 cases and the subsequent implementation of stricter quarantine measures. By end-March 2021, the main index declined by 9.8 percent from 7,139.71 index points in end-2020 to close at 6,443.09 index points.

Chart 26. Quarterly Average PSEi
index points



Source: Philippine Stock Exchange, BSP

The rise in the average benchmark index was due largely to market optimism over the passage of key legislative measures [35] including 1) House Bill No. 8628 or the Bayanihan to Arise as One Act (Bayanihan III) to help revive the Philippine economy [36] and 2) Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) Act which reduces the corporate income tax rate of companies.[37] Moreover, the initial public offering of the real estate investment trust (REIT) of Double Dragon Properties Corp., the BSP's decision to maintain accommodative monetary policy settings, and investors' bargain hunting helped lift the main index higher. The PSEi also mirrored the rally of stock markets in the US given reports on the availability and distribution of Covid-19 vaccines around the globe alongside the US Federal Reserve's decision to keep its key interest rate near zero and the approval of US$1.9-trillion economic stimulus package to support the US economy. Towards the end of the quarter, the arrival of the COVID-19 vaccines in the Philippines and the start of the local vaccine rollout also helped lift the average PSEi.

However, the benchmark index was weighed down by risk-off sentiment following the surge in daily coronavirus cases nationwide[38] that resulted in the reimposition of targeted lockdown measures [39]

[35] The discussion in the House of Representatives on amending restrictive economic provisions in the 1987 Philippine Constitution to attract more foreign investments into the country also contributed to investors' positive sentiment.
[36] Bayanihan III is a P420-billion stimulus package aimed at reviving the country's economy amid the COVID-19 pandemic.
[37] Republic Act 11534 or CREATE Act aims, in particular, to reduce corporate income tax from the current 30 percent to 20 percent for micro, small, and medium enterprises (MSMEs).
[38] Daily Covid-19 infections surged to 10,016 on 29 March, setting a new high for single-day increases since the pandemic arrived in the Philippines.
[39] Malacañang Memorandum Circular 85 dated 19 March 2021 ordered the reduction in on-site capacity for government offices, limited the travel to and from the bubble area, restricted the entry of foreigners and Filipinos arriving from

and the extension of the enhanced community quarantine (ECQ) in the National Capital Region (NCR) and surrounding provinces.[40] Recovery expectations were also clouded by the decline in the country's GDP growth in Q4 2020, the rise in the Philippines' external debt to US$98.5 billion in end-2020,[41] uncertainty over the release of Q4 2020 corporate earnings report, and the continued increase in domestic inflation in 2021. The realignment of local funds given the rebalancing in the Financial Times Stock Exchange (FTSE)[42] during the quarter likewise contributed to the weakening of the index.

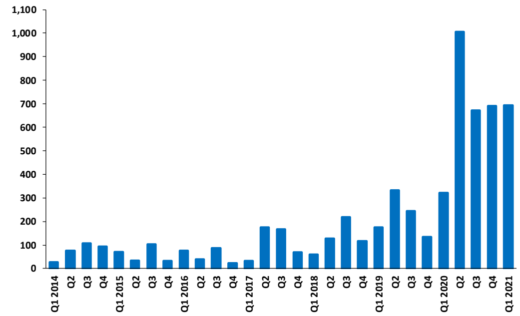
The general downtrend in the benchmark index during the review period was also reflected in other stock market indicators. Total market capitalization declined by 3.3 percent from ₱15.89 trillion in end-2020 to reach ₱15.37 trillion in end-March 2021. Foreign investors also continued to withdraw from the local bourse during the review period, posting net sales of ₱47.8 billion in Q1 2021, nearly double than the ₱24.7-billion net sales recorded in Q4 2020.

Government Securities. Results of the T-bill auctions conducted in January – March 2021 continued to show market players' robust demand for government securities (GS) with total subscription for the quarter amounting to around ₱966.3 billion or about 3.7 times the ₱260.0-billion aggregated original amounts on offer.

Sustained strong demand for T-bills

Total oversubscription for the T-bill auctions in Q1 2021 reached ₱706.3 billion, slightly higher than the ₱698.6 billion total oversubscription recorded in the previous quarter.

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



Source: Bureau of the Treasury

Amid the healthy demand for T-bills, the Bureau of the Treasury (BTr) awarded in full the offered amounts in all the auctions during the quarter. Moreover, similar to the previous quarter, the strong demand has allowed the BTr to increase the amount awarded for non-competitive bids for eight (8) out of 13 T-bill auctions,[43] resulting in higher total accepted amounts than the original weekly offered amount. Meanwhile, the BTr has not offered the 35-day T-bills since Q4 2020.[44]

The BTr also offered 3-year Retail Treasury Bonds (RTBs) during the quarter with a coupon rate of 2.375 percent. Said RTB was offered to the public for the period 9 February – 4 March 2021, with the BTr raising about ₱463.3 billion worth of 3-year RTBs or around 15.4 times the planned minimum issuance size of ₱30 billion, on the back of strong demand from the public.[45] Similarly, results of the T-bond auctions during the quarter showed robust demand for longer-term GS amid the ample liquidity in the financial system.

Sovereign Bond and Credit Default Swap (CDS) Spreads. In January, debt spreads slightly widened as new variants of Covid-19 spread across the globe.

Debt spreads widen

abroad, suspended the operation of leisure and entertainment businesses, and reduced the capacity of business and religious gatherings in Metro Manila and other areas under general community quarantine (the National Capital Region and nearby provinces such as Cavite, Laguna, Rizal, and Bulacan, or the bubble "NCR Plus") from March 22 to April 4, amid the surge in Covid-19 cases.

[40] On 31 March, the Department of Health proposed a possible extension of the enhanced community quarantine (ECQ) for two more weeks to curb the virus count.

[41] The country's outstanding external debt rose by 7.1 percent from US$92.0 billion level as of end-September 2020.

[42] FTSE indices provide the basis for worldwide investment analysis, performance measurement, asset allocation and hedging. Its rebalancing typically results in fund managers reallocating their funds depending on the change in the weight for each index stock.

[43] T-bill auction on 4, 11, 18, 25 January, 1, 8, 15 February, and 29 March 2021

[44] The 35-day T-bills were offered twice and six times in Q3 and Q2 2020, respectively.

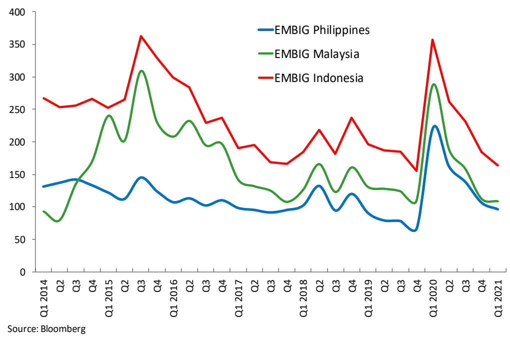
[45] The settlement/issuance date for the 3-year RTBs was set on 9 March 2021.

In February, debt spreads narrowed marginally reflecting the improved investor sentiment over the positive developments on the availability and the successful inoculation of coronavirus vaccines particularly on advanced economies.

In March, debt spreads widened as Covid-19 cases in the Philippines recorded an alarming spike that led to another round of re-imposition of quarantine measures such as curfews and isolated lockdowns.

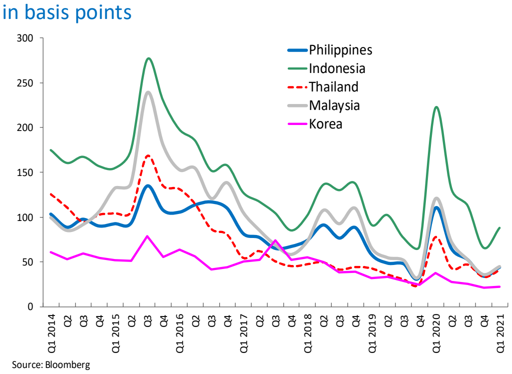
As of 31 March 2021, the extra yield investors demanded to own Philippine sovereign debt over U.S. Treasuries, or the Emerging Market Bond Index Global (EMBIG) Philippines spread, stood at 96 basis points (bps) from end-December 2020 level of 105 bps.

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



Meanwhile, the country's 5-year sovereign credit default swap (CDS) increased to 44 bps from its end-December level of 34 bps. Against other neighboring economies, the Philippine CDS was narrower than Malaysia's 45 bps and Indonesia's 88 bps but wider than Thailand's 40 bps and Korea's 22 bps spreads.

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



Banking System

The Philippine banking system exhibited resilience and stability in Q1 2021 as the country's economic activities and financial transactions continued to recover from the disruption caused by the pandemic and quarantine measures.

Banking system assets and deposits show moderate growth

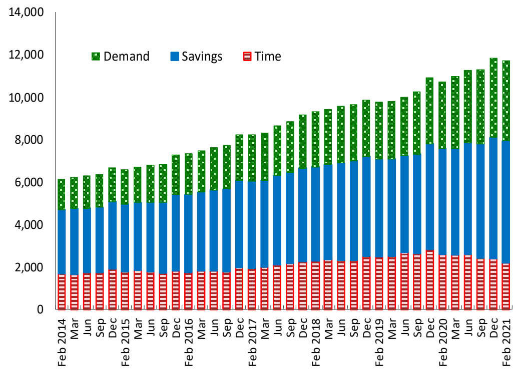
During the review period, banks' balance sheets sustained annual growth in assets and deposits. At the same time, asset quality remained steady while capital adequacy ratios stayed above international standards.[46] Banks maintained dominance in the financial sector, with universal and commercial banks (U/KBs) accounting for about 93 percent of total banks' resources. In terms of the number of head offices and branches/agencies, non-bank financial intermediaries have the widest physical network, consisting mainly of pawnshops.

Savings Mobilization. Savings deposits remained the primary source of funds for the banking system. Banks' total deposits as of end-February 2021 amounted to ₱11.7 trillion, 9.1 percent higher than the level in end-February 2020 but down by 1.0 percent relative to end-December 2021.[47]

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

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

Chart 30. Deposit Liabilities of Banks
in billion pesos



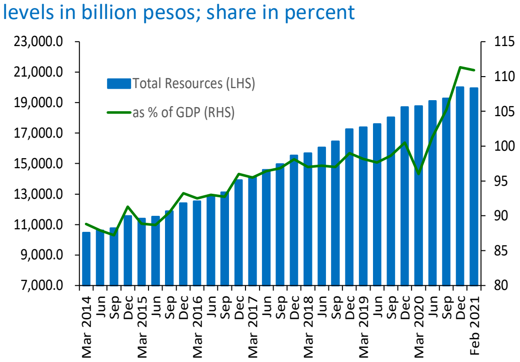
Source: BSP

Meanwhile, foreign currency deposits owned by residents (FCD-Residents) settled at ₱2.0 trillion as of end-February 2021, 0.4 percent and 0.1 percent lower than the levels posted in the previous year and a month ago.[48]

Institutional Developments. The total resources of the banking system grew by 7.8 percent to reach ₱19.9 trillion as of end-February 2021 from the ₱18.5 trillion registered a year ago. Relative to the end-December 2020 level, total resources of the banking system decreased by 0.4 percent. As a percent of GDP, total resources stood at 110.9 percent.[49]

Total resources of the banking system exhibit modest rise

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

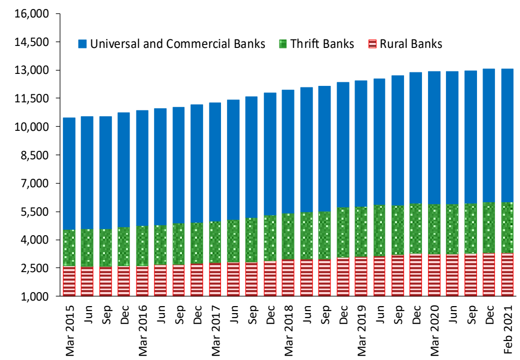


Source: BSP

[48] FCD-Residents, along with M3, forms part of a money supply measure called M4. Meanwhile, M3 consists of savings deposits, time deposits, demand deposits, currency in circulation, and deposit substitutes.
[49] GDP as of end-December 2020.

The number of banking institutions (head offices) as of end-February 2021 declined to 532 offices from 535 offices as of end-December 2020. The banks' head offices are comprised of 46 U/KBs, 48 TBs, and 438 rural banks (RBs). During the same period, the operating network (head offices and branches/agencies) of the banking system increased to 13,056 offices from 13,044 offices in end-December 2020.

Chart 32. Number of Banking Institutions

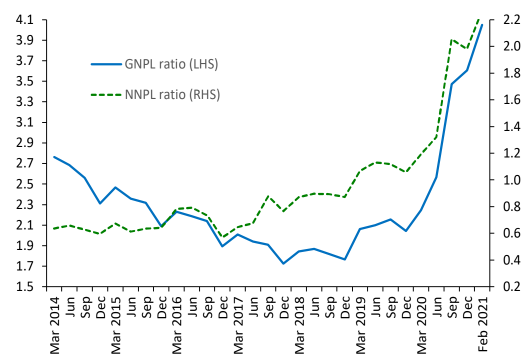


Source: BSP

In terms of asset quality, the Philippine banking system's gross non-performing loans (GNPL) ratio rose to 4.0 percent as of end-February 2021 relative to the 2.2 percent posted a year ago and 3.6 percent posted in December 2020.

NPLs rose but remain manageable

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



Source: BSP

Similarly, the net non-performing loans (NNPL) ratio increased to 2.3 percent as of end-February 2021 relative to 1.2 percent posted a year ago, and 2.0 percent registered in December 2020.

Compared with regional counterparts, the Philippine banking system's GNPL ratio of 4.0 percent was higher with respect to those of South Korea (0.6 percent), Malaysia (1.0 percent), Indonesia (2.8 percent) and Thailand (3.1 percent).[50]

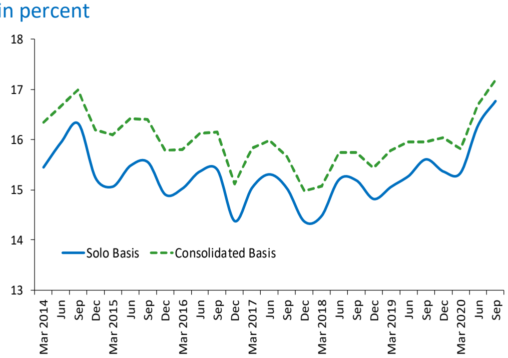
Loan exposures of banks remained adequately covered with the banking system's NPL coverage ratio at 87.3 percent as of end-February 2021, lower than the 91.2 percent recorded a year ago and the 93.7 percent posted in December 2020.

U/KBs' CAR remains well above international and regulatory standards

The capital adequacy ratio (CAR) of U/KBs at end-September 2020, on solo basis, increased to 16.8 percent from the 16.3 percent posted a quarter ago. Similarly, on a consolidated basis, CAR of U/KBs rose to 17.2 percent from the 16.7 percent registered in the previous quarter. These figures remained well above the BSP's regulatory threshold of 10.0 percent and international standard of 8.0 percent.

Chart 34. Capital Adequacy Ratio of Universal and Commercial Banks

in percent



Source: BSP

The CAR of Philippine U/KBs, on consolidated basis, was higher than that of South Korea (15.0 percent) but lower than those of Malaysia (18.5 percent), Thailand (20.1 percent) and Indonesia (23.8 percent).[51]

Exchange Rate

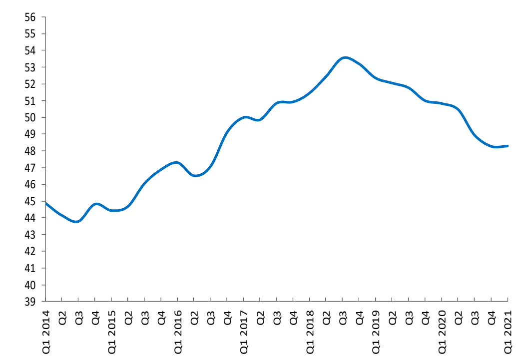
The peso averaged ₱48.28/US$1 in Q1 2021, depreciating slightly by 0.03 percent from the Q4 2020 average of ₱48.27/US$1 due partly to the rise in new coronavirus infections domestically.

Peso depreciates amid surge in covid-19 infections in the country

Nonetheless, the country's macroeconomic fundamentals—a manageable inflation environment, strong and resilient banking system, prudent fiscal position, and a high level of international reserve buffer—continued to provide support to the peso. On a y-o-y basis, the peso meanwhile appreciated by 5.28 percent relative to the ₱50.83/US$1 average in Q1 2020.[52]

Chart 35. Quarterly Peso-Dollar Rate

PH₱/US$; average per quarter



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

In January, the peso averaged ₱48.061/US$1, appreciating marginally by 0.005 percent from the ₱48.064/US$1 average in December 2020. The peso appreciated partly on positive sentiment amid the country's record-high gross international reserves (GIR) at end-December 2020 of $109.8 billion, as well as Fitch Ratings' affirmation

[50] Sources: Malaysia (Banking System's Ratio of net impaired loans to net total loans, January 2021); South Korea (Domestic Banks' Substandard or Below Loans [SBLs] ratio, December 2020); Indonesia (Commercial Banks' Nonperforming Loans to Gross Loans Ratio, December 2020); and Thailand (Total Commercial Banks' Gross NPL ratio, June 2020).

[51] Sources: South Korea (Domestic Banks' Total Capital Ratio, December 2020); Malaysia (Banking System's Total Capital Ratio, January 2021); Thailand (Commercial Banks' Capital Funds Percentage of Risk Assets, January 2021); and Indonesia (Commercial Banks' Regulatory Capital to Risk-Weighted Assets Ratio, December 2020).

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

of the Philippines' "BBB" investment credit rating. However, market cautiousness over (i) the continued rise in coronavirus infections in the country; (ii) the release of lower-than-expected foreign direct investments (FDI) in October 2020; and (iii) increasing global oil prices partly tempered the peso's appreciation.

Meanwhile, in February, the peso averaged ₱48.20/US$1 depreciating by 0.30 percent from the previous month's average. The peso depreciated on market expectation of a recovery in the country's imports amid growing calls for further reopening of the economy coupled with recent uptrend in US Treasury bond yields that strengthened the US dollar and made it more attractive to investors. These factors increased the demand for US dollar, thereby contributing to the depreciation of the peso.

In March, the peso depreciated further to an average of ₱48.57/US$1, 0.76 percent lower than the average in February. The peso depreciated on risk-off sentiment amid the surge in new coronavirus infections in the country as well as the decline in overseas Filipinos (OF) cash remittances in January given continued repatriations and tighter restriction measures in host economies. The negative market sentiment over the reimposition of lockdown measures in the National Capital Region (NCR) and selected localities as well as the deficit posted in the country's fiscal balance in January (due to lower tax collections) added to the peso's depreciation. On a y-t-d basis, the peso depreciated against the US dollar by 1.04 percent to close at ₱48.53/US$1 on 31 March 2021 from the end-December 2020 closing rate of ₱48.02/US$1.[53]

Meanwhile, the volatility of the peso's daily closing rates (as measured by the coefficient of variation) stood at 0.54 percent in Q1 2021, higher than the 0.07 percent registered in the previous quarter.[54] The volatility of the peso in the review quarter was, however, lower than the volatility of most currencies in the region.

On a real trade-weighted basis, the peso lost external price competitiveness in Q1 2021 against the basket of currencies of all trading partners (TPI) and trading partners in advanced (TPI-A) and developing (TPI-D) countries relative to Q4 2020. This was indicated by the increase in the real effective exchange rate (REER) index of the peso by 3.30 percent, 6.26 percent, and 1.68 percent, respectively.

Relative to Q1 2020, the peso likewise lost external price competitiveness across currency baskets during the review period. This developed following the nominal appreciation of the peso and the widening of inflation differentials vis-à-vis trading partners resulting in the increase in the REER index of the peso by 5.10 percent, 5.48 percent, and 4.89 percent against the TPI, TPI-A and TPI-D baskets, respectively.[55,,56]

[53] Based on the last done deal transaction in the afternoon.
[54] The coefficient of variation is computed as the standard deviation of the daily closing exchange rate divided by the average exchange rates for the period.

[55] The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners (MTP:s) of the Philippines, which include US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-A measures the effective exchange rates of the peso across currencies of trading partners in advanced countries comprising of the US, Japan, Euro Area, and Australia. The TPI-D measures the effective exchange rates of the peso across 10 currencies of partner developing countries which include China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.
[56] The REER index represents the Nominal Effective Exchange Rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. A decrease in the REER index indicates some gain in the external price competitiveness of the peso, while a significant increase indicates the opposite. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

III. Fiscal Developments

The NG recorded a ₱14.1 billion fiscal deficit for January 2021, reversing the ₱23.0 billion fiscal surplus registered a year ago.

Fiscal position reverses to deficit from a year ago

Netting out interest payments from expenditures, the fiscal position for the review period reverses to a primary surplus amounting to ₱33.0 billion, which is 61 percent lower than the amount recorded in 2020.

Table 14. National Government Fiscal Performance
in billion pesos

	2020			Jan		
	Jan-Dec			2020	2021	Growth Rate (in %)
	Levels (in billion pesos)		Percentage Share (in %)	Levels (in billion pesos)		
	Actual	Program	Program			
Surplus/(Deficit)	-1,371.4	-1,815.4	75.5	23.0	-14.1	-161.3
Revenues	2,856.0	2,519.8	113.3	294.6	260.7	-11.5
Expenditures	4,227.4	4,335.2	97.5	271.6	274.8	1.2

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

Revenues decreased by 11.5 percent to ₱260.7 billion in January 2021 compared to ₱294.6 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱182.2 billion and ₱47.3 billion, respectively. Revenue collections by the BIR and BOC were lower by 6.5 percent and 15.4 percent, respectively. The drop in collections were due to the continued economic disruptions brought about by the health crisis. Meanwhile, the Bureau of the Treasury (BTr) recorded an income of ₱18.7 billion, 34.3 percent lower than the amount recorded last year. The decrease was attributed to a high base effect of dividend remittances from GOCCs in January 2020.

Expenditures for the period in review amounted to ₱274.8 billion, reflecting a modest increase of 1.2 percent than the expenditures in January 2020. Excluding interest payments, expenditures went up by 8.4 percent to ₱227.8 billion. Meanwhile, interest payment was 23.4 percent lower compared to its year-ago level, reaching ₱47.0 billion in January 2021.

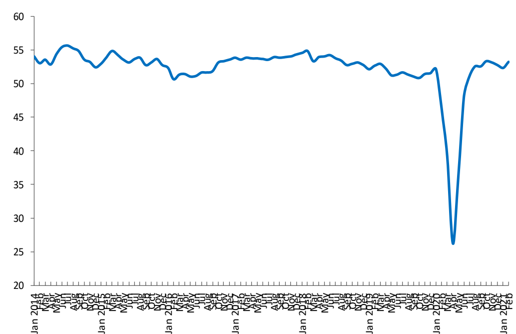
IV. External Developments

The JP Morgan Global All-Industry Output Index rose to 53.2 in February from 52.3 in January as growth in new orders rose to a three-month high amid improved conditions in several markets and stable new export orders.

Global economic output expands at a faster pace

Output expanded in the US, India, China, Germany, Italy, Russia, and Australia, while downturns were recorded in Japan, the UK, France, and Brazil.[57]

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 4.3 percent in Q4 2020 following a 33.4-percent expansion in Q3. On a y-o-y basis, real GDP contracted by 2.4 percent in Q4 2020 from a 2.8-percent decline in the previous quarter.

US manufacturing sustains its recovery

The q-o-q expansion in real GDP in the fourth quarter reflected increases in exports, nonresidential fixed investment, personal consumption expenditures, residential fixed investment, and private inventory investment. These movements were partly offset by decreases in state and local government spending as well as federal government spending.[58]

The US manufacturing PMI rose to 64.7 percent in March from 60.8 percent in February due to higher indices for production and new orders amid continued improvement in demand.[59]

The unemployment rate eased to 6.0 percent in March from 6.2 percent in February. Total nonfarm payroll employment rose by 916,000 in March, with notable employment gains in leisure and hospitality, public and private education, and construction. Meanwhile, on a y-o-y basis, inflation went up to 1.7 percent in February from 1.4 percent in January, driven by higher energy inflation.

The Conference Board Consumer Confidence Index increased to 109.7 in March from 90.4 in February as consumers' assessment of current business and labor market conditions and short-term outlook improved. Similarly, the Thomson-Reuters/University of Michigan Index of Consumer Sentiment rose to 84.9 in March from 76.8 in February amid the third disbursement of relief checks and the better than anticipated vaccination progress.[60]

Euro Area. On a q-o-q basis, real GDP in the euro area decreased by 0.7 percent in Q4 2020 following a 12.5-percent expansion in Q3 2020. On a y-o-y basis, real GDP contracted by 4.9 percent in Q4 2020 following a 4.2-percent decline in the previous quarter.[61]

Euro area returns to expansion on improved global demand

The composite PMI for the euro area returned to expansion in March, rising to 52.5 from 48.8 in February with the increase in manufacturing output amid the recovery in global demand.[62]

[57] JP Morgan Global Composite PMI, http://www.markiteconomics.com/

[58] US Bureau of Economic Analysis, "Gross Domestic Product: Fourth Quarter 2020 (Third Estimate)," news release, 25 March 2021. https://www.bea.gov/sites/default/files/2021-03/gdp4q20_3rd.pdf

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

[60] University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/

[61] Eurostat news release 30/2021 dated 9 March 2021

[62] Flash estimate. Markit Eurozone PMI, http://www.markiteconomics.com/

Inflation in the euro area was projected to be 1.3 percent in March, up from 0.9 percent in February owing to higher inflation for energy and services.[63] Meanwhile, the seasonally adjusted unemployment rate was at 8.1 percent in January 2021, unchanged from the rate posted in December 2020.

The European Commission's Economic Sentiment Indicator (ESI) in the euro area rose to 101.0 in March from 93.4 in February, reflecting the improved confidence in industry, services, retail trade, and construction as well as among consumers.

Japan. On a q-o-q seasonally adjusted basis, real GDP expanded by 2.8 percent in Q4 2020 from 5.3 percent in Q3 2020. On a y-o-y basis, real GDP declined by 1.4 percent in Q4 2020 following a 5.8-percent contraction in the previous quarter due to weak public and private domestic demand.[64]

Manufacturing output in Japan further rise on improved demand

The seasonally adjusted manufacturing PMI increased to 52.7 in March from 51.4 in February owing to the rise in production volumes and new orders amid improved demand conditions.[65]

Inflation rose slightly to negative 0.4 percent in February from negative 0.6 percent in January amid lower indices for fuel, light, and water charges; medical care; transportation and communication; education; and culture and recreation. Similarly, seasonally adjusted unemployment rate eased to 2.8 percent in February from 2.9 percent in January.

China. Real GDP in China expanded by 6.5 percent y-o-y in Q4 2020 from 4.9 percent in the previous quarter, reflecting the country's resilient export sector, driven by foreign demand for Chinese goods amid prevailing COVID-19 disruptions in other markets.

Chinese manufacturing activity expands albeit at a slower pace

Meanwhile, China's seasonally adjusted manufacturing PMI declined slightly to 50.6 in March from 50.9 in February as production and new orders expanded at a modest pace.[66]

Inflation declined by 0.2 percent in February after a 0.3-percent drop in January as both food and non-food inflation fell during the month.

India. Real GDP in India rose by 0.4 percent in Q4 2020 following a 7.3-percent contraction in Q3 2020 due to expansion in agriculture, forestry, and fishing; manufacturing; electricity, gas, water supply, and other utility services; construction; and financial, real estate, and professional services.

Economic activity in India accelerates

The composite PMI rose to 57.3 in February from 55.8 in January as new orders reached a four-month high, particularly among manufacturing firms.

Inflation in India rose to 5.0 in February from 4.1 percent in January due to higher inflation for food and beverages as well as clothing and footwear.

ASEAN Region. The Nikkei ASEAN Manufacturing PMI fell to 49.7 in February from 51.4 in January, the first deterioration in the health of the sector since October 2020.

Output indicators in the ASEAN region deteriorate

The decline in manufacturing conditions was attributed to renewed contractions in both factory production and order book volumes. Across the seven monitored countries, Myanmar posted the

[63] Flash estimate. Eurostat news release 32/2021 dated 31 March 2021
[64] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/
[65] Jibun Bank Japan Manufacturing PMI, http://www.markiteconomics .com
[66] Caixin China General Manufacturing PMI, http://www.markiteconomics.com/

steepest decline while downturns were sustained in Thailand and Malaysia. Singapore saw the strongest improvement in its manufacturing operations while Indonesia and Vietnam registered modest improvements in their respective manufacturing sectors. In the Philippines, manufacturing conditions were broadly unchanged.[67]

Policy Actions by Other Central Banks.
On 18 February 2021, Bank Indonesia (BI) decided to lower the BI 7-day reverse repo rate by 25 bps to 3.50 percent in a follow-up effort to support the momentum of Indonesia's economic recovery. The BI considers the decision as consistent with projected low inflation and exchange-rate stability.

Most central banks maintain policy settings in Q1 2021

Meanwhile, aside from the BSP, the Reserve Bank of Australia, Bank Negara Malaysia, Bank of Canada, European Central Bank, US Federal Reserve, Central Bank of the Republic of China (Taiwan), Bank of England, Bank of Japan, People's Bank of China, and Bank of Thailand maintained their respective key policy rates during their monetary policy meetings in March.

The People's Bank of China did not announce any change in the one-year loan prime rate during the quarter.

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

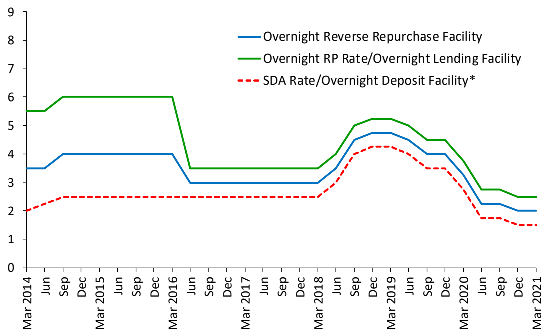
V. Monetary Policy Developments

At its monetary policy meetings on 11 February and 25 March, the BSP decided to maintain the key policy interest rate at 2.0 percent for the overnight reverse repurchase or RRP facility. The corresponding interest rates on the overnight deposit and lending facilities were also kept at 1.5 percent and 2.5 percent, respectively.

BSP maintains monetary policy settings during the quarter

During the review period, the BSP noted that latest inflation forecasts have shifted higher over the policy horizon. Inflation may breach the upper end of the target range of 2-4 percent in 2021, reflecting the impact of supply-side constraints on domestic prices of key food commodities such as meat as well as the continuing uptick in international oil prices. Nevertheless, inflation is still seen to return within the target band in 2022 as supply-side influences subside.

Chart 37. BSP Policy Rates
in percent



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

Equally important, the balance of risks to the inflation outlook remains broadly balanced around the baseline path in 2021 while leaning toward the downside in 2022. Tighter domestic supply of meat products and improved global economic activity could lend further upside pressures on inflation. However, the ongoing pandemic also continues to pose downside risks to the inflation outlook, as the recent surge in virus infections and challenges over mass vaccination programs continue to temper prospects for domestic demand.

Given these considerations, the BSP is of the view that prevailing monetary policy settings remain appropriate to support the Government's broader efforts to facilitate the recovery of the economy. At the same time, however, the BSP emphasizes that the timely implementation of non-monetary interventions is crucial in mitigating the impact of supply-side pressures on inflation and thereby preventing them from spilling over as second-round effects.

Looking ahead, the BSP reiterated that it will remain watchful for any signs of inflation becoming broader based. The BSP is prepared to take immediate measures as appropriate to ensure that the monetary policy stance continues to support the BSP's price and financial stability objectives.

VI. Inflation Outlook

BSP Inflation Forecasts

The latest baseline forecasts indicate that inflation could settle at 4.2 percent and 2.8 percent in 2021 and 2022, respectively. The above-target inflation forecast in 2021 reflects the impact of supply-side constraints on domestic prices of key food commodities as well as the continuing rise in world crude oil prices. Nevertheless, inflation is still seen to return to within target band in 2022 as supply-side influences subside.

The upward revision in the 2021 forecast was due largely to the continued rise in global crude oil prices and the higher-than-expected inflation outturn in Q1 2021 due to the uptick in the prices of key food items, which reflected impact of weather disturbances as well as ongoing African Swine Fever (ASF).

Inflation is projected to remain above the target range from Q2 to Q3 2021 due to the transitory impact of supply-side price pressures. Positive base effects owing to the deceleration of inflation in the same period last year, which reflected impact of the COVID-19 pandemic on global prices of key commodities, likewise contributed to the inflation uptrend. Nevertheless, the inflation path is seen to decelerate below the midpoint of the target range by end-2021 and Q1 2022 before settling close to the midpoint by H2 2022 as global oil and non-oil prices start to moderate.

The balance of risks to the inflation outlook remains broadly balanced around the baseline path in 2021, while leaning toward the downside in 2022. Tighter domestic supply of meat products and improved prospects on the global economy could lend upward pressures on inflation. However, the ongoing pandemic also continues to pose downside risks to the inflation outlook, as the recent surge in virus infections and challenges over mass vaccination programs continue to temper prospects for domestic demand. More importantly, the timely and effective implementation of government measures to directly address the supply constraints could help mitigate the possibility of a target breach in 2021.

Inflation could settle above the Government target in 2021 but seen to return to within target band in 2022

Demand Conditions. Full-year 2021 GDP growth is seen to be consistent with the government's growth target. Nonetheless, the nowcast for Q1 2021 growth indicates that the economy could continue to contract, but at a slower pace compared to the previous quarter. The decline in GDP during the quarter could be driven by the sectors that remain heavily affected by the pandemic. In particular, the services sector could continue to contract driven primarily by the slowdown in transport, tourism, and other service activities. The agriculture sector, meanwhile, is projected to expand slightly due to improved weather conditions. Similarly, the industry sector could improve as construction activity picks up, aided by government infrastructure projects. High-frequency real sector indicators point to mixed trends. Manufacturing's volume of production index continued to decline in February 2021, while the composite PMI in March 2021 is still below the 50-point mark.

With the acceleration in local COVID-19 cases, consumer and business sentiment could remain subdued and continue to be affected until a vaccine becomes available for mass use.

Growth is expected to recover in 2021 and 2022

GDP growth is projected to recover in 2021 and 2022 driven by higher government spending and the passage of structural reform programs, such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act and the Financial Institutions Strategic Transfer (FIST) Act. Improvements in global growth prospects will likewise support the country's growth trajectory. Moreover, the implementation of well-targeted amelioration and recovery programs as well as the restart of the infrastructure spending program will help the country regain confidence, restore employment rates to pre-crisis levels, and attain higher economic growth. The country's recovery from the COVID-19 pandemic is expected to be fast-tracked by additional jobs that could be generated from higher infrastructure investments.

The said assessment is consistent with the assumption of vaccine mass use by Q1 2022. An earlier mass local deployment of the COVID-19 vaccine will likely result in higher output growth in 2021. The availability of a vaccine for COVID-19 and its subsequent roll out is expected to ease the strict containment measures in place throughout the country, which will likely increase the operating capacity of the economy and accelerate the recovery process.

Supply Conditions. Global non-fuel prices could rise temporarily in 2021 as the world demand recovers from the pandemic. This is expected to be driven by food as well as industrial inputs like metals.

Global crude oil prices also rose significantly in Q1 2021 owing to expected recovery in global economic activity with the rollout of vaccines in key economies along with the decision of OPEC+ members to extend its production cuts. Consequently, the global crude oil price assumptions increased significantly compared to the previous forecast round.

Economic activity is projected to operate below its full capacity over the policy horizon

The balance of demand and supply conditions as captured by the output gap (or the difference between actual and potential output), provides an indication of potential inflationary pressures in the near term.[68]

Based on the Q4 2020 GDP outturn, estimates by the BSP show that the output gap is projected to remain negative over the policy horizon. This reflects the potential adverse impact of the pandemic on economic activity and the country's production capacity. This also implies that the economy will likely operate below its full employment capacity over the policy horizon as firms and households gradually adjust to the post-pandemic operating environment. However, the projected contraction in economic activity could be temporary in nature, as public health measures to control the spread of the pandemic alongside macroeconomic policy gain full traction in reviving the economy.

Key assumptions used to generate the BSP's inflation forecasts. The BSP's baseline inflation forecasts are based on the following assumptions:

1) BSP's overnight RRP rate at 2.0 percent from April 2021 to December 2022;

2) NG fiscal deficits for 2021 to 2022, which are consistent with the DBCC-approved estimates;

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

4) Increase in nominal wages consistent with historical wage increases and labor productivity growth;

5) Real GDP growth is endogenously determined; and;

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

Risks to the Inflation Outlook

The risks to the inflation outlook may be presented graphically through a fan chart. The fan chart depicts the probability of different inflation outcomes based on the central projection (corresponding to the baseline forecast of the BSP) and the risks surrounding the inflation outlook. Compared to the previous inflation report, the latest fan chart presents an upward shift in the inflation projection for 2021 due largely to higher-than-expected inflation outturns for Q1 2021 and the sharp uptick in global crude oil prices.

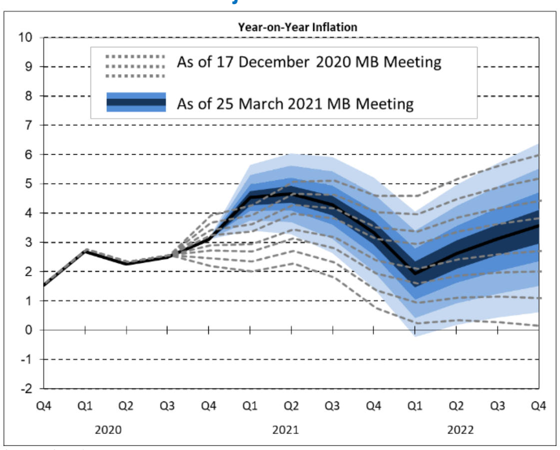
The BSP's review of current inflation dynamics suggests that the risks to the inflation outlook appear to be broadly balanced for 2021 but could remain on the downside for 2022.

[68] Inflation tends to rise (fall) when demand for goods and services exert pressure on the economy's ability to produce goods and services, i.e., when the output gap is positive (negative).

The balance of risks to inflation outlook remains broadly balanced around the baseline path in 2021, while leaning toward the downside in 2022

Supply-side price pressures from meat prices along with the impact of an earlier rollout of COVID-19 vaccines and stronger global growth on domestic economic activity are the upside risks to inflation. However, the ongoing pandemic also continues to pose downside risks to the inflation outlook, as the recent surge in virus infections and challenges over mass vaccination programs continue to temper prospects for domestic demand. Similarly, direct government intervention to address food supply issues, such as the temporary reduction in the tariffs of pork products, also pose downside risks to inflation in the near term.

Chart 38. Inflation Projection



Source: BSP estimates

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

The shaded area measures the range of uncertainty which is based on the deviation of forecasts from actual outcomes in the past years. The relative magnitude of the probability areas lying above and below the central projection captures the level of skewness based on the downside and upside shocks that affect the inflationary process over the next two years.

Implications for the Monetary Policy Stance

The Monetary Board (MB) maintained the BSP's monetary policy stance during the quarter as latest inflation forecasts shifted higher over the policy horizon. At the last meeting of the MB on 25 March 2021, inflation was projected to breach the upper end of the target range of 2-4 percent in 2021, reflecting the impact of supply-side constraints on domestic prices of meat products as well as the continuing uptick in international oil prices. Nevertheless, inflation was still seen to return within the target band in 2022.

Given these considerations, the BSP is of the view that prevailing monetary policy settings remain appropriate. The recent uptick in inflation need not necessarily trigger an immediate tightening of the monetary policy stance, as the trend is expected to be largely transitory. In this regard, the BSP emphasizes that non-monetary interventions must continue to be implemented in a timely and targeted manner to mitigate the impact of supply-side pressures on inflation. The BSP will remain watchful for any signs of inflation becoming broader based and spilling over as second-round effects, which may necessitate a calibrated response to safeguard the public's inflation expectations.

At the same time, the BSP's monetary stance must continue to be supportive of the economy, given that domestic demand is still in its nascent stages of recovery. When the recovery becomes fully self-sustaining, the BSP will aim to implement a preplanned strategy for the unwinding of monetary policy stimulus, taking care to ensure the sustainability of growth while also guarding against any emerging threats to the BSP's price and financial stability objectives.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2010			
28 Jan 2010 **11 Mar 2010** **22 Apr 2010** **3 Jun 2010** **15 Jul 2010** **26 Aug 2010** **7 Oct 2010** **18 Nov 2010** **29 Dec 2010**	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the RRP facility and 6 percent for the RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
2011			
10 Feb 2011	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged.
24 Mar 2011	4.25	6.25	The MB decided to increase by 25 bps the BSP's key policy interest rates to 4.25 percent for the overnight borrowing or RRP facility and 6.25 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also raised accordingly. The MB's decision was based on signs of stronger and broadening inflation pressures as well as a further upward shift in the balance of inflation risks. International food and oil prices have continued to escalate due to the combination of sustained strong global demand and supply disruptions and constraints.
5 May 2011	4.50	6.50	The MB decided to increase the BSP's key policy interest rates by another 25 bps to 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also raised accordingly. Baseline inflation forecasts continue to suggest that the 3-5 percent inflation target for 2011 remains at risk, mainly as a result of expected pressures from oil prices.
16 Jun 2011	4.50	6.50	The MB decided to keep policy rates steady at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board decided to raise the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point effective on Friday, 24 June 2011. The MB's decision to raise the reserve requirement is a preemptive move to counter any additional inflationary pressures from excess liquidity.
28 Jul 2011	4.50	6.50	The MB maintained the BSP's key policy interest rates at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board increased anew the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point effective on 5 August 2011. The MB's decision to raise the reserve requirement anew is a forward-looking move to better manage liquidity.
8 Sep 2011 **20 Oct 2011** **1 Dec 2011**	4.50	6.50	The MB decided to keep the overnight policy rates (OPR) steady. At the same time, the reserve requirement ratios (RRR) were kept unchanged.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
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.
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 shift to IRC is an operational adjustment and not a change in the monetary policy stance. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF). The interest rates for the standing liquidity facilities form the upper and lower bound of the corridor while the overnight RRP rate is set at the middle of the corridor. The repurchase (RP) and Special Deposit Account (SDA) windows will be replaced by standing overnight lending and overnight deposit facilities, respectively. Meanwhile, the reverse repurchase (RRP) facility will be modified to a purely overnight RRP. In addition, the term deposit facility (TDF) will serve as the main tool for absorbing liquidity. The interest rates for these facilities will be set as follows starting 3 June 2016: • 3.5 percent in the overnight lending facility (a reduction of the interest rate for the upper bound of the corridor from the current overnight RP rate of 6.0 percent); • 3.0 percent in the overnight RRP rate (an adjustment from the current 4.0 percent); and • 2.5 percent in the overnight deposit facility (no change from the current SDA rate).
2017				
9 Feb 2017 **23 Mar 2017** **11 May 2017** **22 Jun 2017** **10 Aug 2017** **21 Sep 2017** **9 Nov 2017** **14 Dec 2017**	3.00	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.

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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.

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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-basis-point 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.
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 percent to 15 percent, TBs from 6 percent to 5 percent, and RBs from 4 percent to 3 percent. The reduction will be effective on the first day of the first reserve week of November 2019.

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Effectivity Date	Levels (in percent) Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	Monetary Policy Decisions
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 percent to 14 percent, TBs from 5 percent to 4 percent, and NBQBs from 16 percent to 14 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.
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 and1.75 percent for the ODF.

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Effectivity Date	Levels (in percent) Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	Monetary Policy Decisions
2020				
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 and1.50 percent for the ODF.
2021				
11 Feb 2021 **25 Mar 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 and1.50 percent for the ODF.

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

https://www.bsp.gov.ph/SitePages/PriceStability/PriceStability.aspx

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