2021 Inflation Report

Second 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 July 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 18 May 2021, 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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Peter B. Favila
Antonio S. Abacan, Jr.
V. Bruce J. Tolentino
Anita Linda R. Aquino

The Advisory Committee

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

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Sol Elizah T. Roxas
Bank Officer VI, Provident Fund Office

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)	10 (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

ADB	Asian Development Bank
AML	Anti-Money Laundering
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
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
bp	Basis Point
BPO	Business Process Outsourcing
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
CRR	Cash Reserve Ratio
CTF	Counter Terrorism Financing
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DepED	Department of Education
DI	Diffusion Index
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DPWH	Department of Public Works and Highways
ECQ	Enhanced Community Quarantine
EIA	Energy Information Administration
EMBIG	Emerging Market Bond Index Global
ERC	Energy Regulatory Commission
ESI	Economic Sentiment Indicator
FATF	Financial Action Task Force
FCD	Foreign Currency Deposit
FDI	Foreign Direct Investment
FIST	Financial Institutions Strategic Transfer
GAA	General Appropriations Act
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
IMF	International Monetary Fund
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
MAV	Minimum Access Volume
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
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
NDTL	Net Demand and Time Liabilities
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Asset
NG	National Government
NGCP	National Grid Corporation of the Philippines
NNPL	Net Non-Performing Loans
ODF	Overnight Deposit Facility
OFW	Overseas Filipino Worker
OP	Office of the President
OPEC	Organization of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
OWID	Our World in Data
PISM	Philippine Institute for Supply Management
PMI	Purchasing Managers' Index
POGO	Philippine Offshore Gaming Operator
ppt	Percentage Point
PSA	Philippine Statistics Authority; Power Supply Agreement
PSEi	Philippine Stock Exchange Index
q-o-q	Quarter-on-Quarter
RBs	Rural Banks
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
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
WB	World Bank
WEO	World Economic Outlook
WESM	Wholesale Electricity Spot Market
WHO	World Health Organization
y-o-y	Year-on-Year
y-t-d	Year -to-Date

Contents

Overview

Average headline inflation gradually eases. The headline inflation for Q2 2021 declined to 4.3 percent, lower than last quarter's 4.5 percent but higher than last year's 2.3 percent. This brought the year-to-date (y-t-d) average to 4.4 percent, higher than the National Government's (NG) target range of 2-4 percent for 2021. Food inflation decelerated during the review quarter as prices for rice, fruits and vegetables declined with the normalization in supply due to summer harvests. Meanwhile, non-food inflation increased mainly on higher energy prices. Transport increased as domestic petroleum prices were adjusted upward during the review quarter.

Average inflation in Q2 2021 eases toward upper limit of target range

Moreover, core inflation, which looks at underlying demand pressures, remains subdued. Core inflation, which excludes selected volatile food and energy items to reveal demand-side price pressures, decelerated to 3.2 percent from 3.5 percent in the previous quarter. Meanwhile, preliminary estimates for the alternative measures for core inflation showed mixed trends. The estimate for core inflation based on the trimmed mean remained unchanged from the previous quarter. On the other hand, core inflation estimate based on the weighted median decreased while the estimate using net of volatile items increased. For the number of CPI items with inflation rates higher than the 4-percent threshold, there was an increase to 52 items in Q2 2021 from 48 items last quarter. These items corresponded to a higher portion of the CPI basket at around 33.2 percent in Q2 2021 from 22.4 percent in the previous quarter.

Inflation expectations settle lower for 2021 and remain within target in 2022-2023. The results of the BSP's survey of private sector economists for June 2021 showed a lower mean inflation forecast for 2021 at 4.1 percent from 4.3 percent in the March 2021 survey. Meanwhile, the mean inflation forecasts for 2022 and 2023 increased relative to last quarter's survey results to 3.2 percent (from 3.1 percent) and 3.1 percent (from 3.0 percent), respectively. For 2021, analysts expect inflation to move towards the NG's target range. Nevertheless, risks to outlook lean to the upside as rollout of vaccines could lead to a further reopening of economic activities. For 2022, analysts see inflation within the target band with most of them anticipating the BSP to end its accommodative monetary policy stance. Of the survey respondents, 18 out of 23 see a 40.6-percent probability that 2021 inflation will be within 2-4 percent and a 58.6-percent chance that it will rise above 4.0 percent. For 2022-2023, the probabilities for inflation to be within the target range are at 76.9 percent and 84.5 percent, respectively.

Real GDP contracts by 4.2 percent in Q1 2021. Real gross domestic product (GDP) declined by 4.2 percent in Q1 2021, a slight improvement from the -8.3 percent in Q4 2020 but lower than -0.7 percent in Q1 2020. Accounting GDP by expenditure, government spending accelerated by 16.1 percent (from 5.1 percent in Q4 2020). Meanwhile, household consumption declined by 4.8 percent (from -7.3 percent) and investments contracted 18.3 percent (from -32.2 percent), respectively. In terms of GDP by industrial origin, the services, industry and agriculture sectors declined by 4.4 percent, 4.7 percent and 1.2 percent, from -8.0 percent, -10.6 percent and -2.5 percent, respectively.

Real GDP in Q1 2021 remains in contraction

Nevertheless, other demand indicators are showing signs of recovery. Property prices, including rental rates, for office and residential spaces in the main business districts in the National Capital Region (NCR) continued to decline amid increasing vacancy rates. However, residential property prices outside NCR continued to increase slightly. For vehicle sales, there was a notable turnaround which could be attributed to base effects as well as higher sales amid easing of lockdown restrictions. Similarly, Meralco reported a rise in their power sales as energy consumption in residential, industrial and commercial areas improved. Leading indicators of activity likewise reflect optimism. The composite Purchasing Managers' Index (PMI) in May 2021 reached expansion territory at 50.4 index points after being in contraction for the past 15 months. Similarly, recent survey on business confidence moderated but remained optimistic for Q2 and Q3 2021. Moreover, consumer sentiment turned less pessimistic for Q2 2021, with outlook becoming upbeat for Q3 2021.

Global economy sustains growth momentum in Q2 2021. The JP Morgan Global All-Industry Output Index continues to strengthen, accelerating to 58.4 index points in May from 56.7 in April. This is attributed mainly to improved international trade flows and a positive outlook for the global economy. The US and China showed strong growth outturns in Q1 2021 amid sustained recovery from the pandemic. On the other hand, the Euro area and Japan continued to show improvement. Meanwhile, manufacturing conditions in the ASEAN region reverted to a contraction in June from an expansion in May amid surging COVID-19 cases. In view of the continued uneven pace of recovery across the global economy, majority of surveyed central banks maintained their respective accommodative policy settings in Q2 2021.

The domestic financial system remains stable amid ample liquidity. The Philippine Stock Exchange index (PSEi) declined by 4.7 percent on a quarter-on-quarter (q-o-q) basis to average 6,561.31 index points. Expectations of recovery were dampened by investor concerns on surging cases of the new virus variant and the reimposition of strict quarantine measures on NCR and adjacent provinces from end-March to mid-May. In the domestic debt market, the Bureau of the Treasury (BTr) continued to see oversubscriptions in their weekly auctions for Treasury bills and bonds. The excess demand for government securities (GS) allowed the BTr to raise more funds through non-competitive bids and the tap facility. In the foreign exchange market, the peso appreciated slightly to average ₱48.18/US$1 in Q2 2021. The positive sentiment on the currency was supported by easing headline inflation and improvements in economic indicators. Finally, the banking system continued to exhibit resilience and stability during the review quarter. While the non-performing loans ratio continued to rise, these loan exposures remained adequately covered.

The BSP keeps key policy rate steady in Q2 2021. 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. During the review quarter, the BSP's latest inflation forecasts indicate that average inflation is likely to settle near the upper end of the target range in 2021. The BSP expects that average inflation will ease towards the midpoint of the 2-4 percent target in 2022 and 2023.

The BSP maintains the key policy rate at 2.0 percent

The risks to the inflation outlook remain broadly balanced around the baseline projection path. Upside pressures on inflation could emanate from the uptick in international commodity prices amid supply-chain bottlenecks and global demand recovery. However, downside risks to the inflation outlook continue to emanate from the emergence of new coronavirus variants, which could delay easing of containment measures and temper prospects for domestic growth. Equally important, the BSP observed that economic activity has improved in recent weeks although the overall momentum of economic recovery remains tentative. The sustained implementation of targeted fiscal initiatives as well as the acceleration of the NG's vaccination program should help boost market confidence and recovery of the economy in the coming months.

The BSP believes that sustained monetary policy support for domestic demand should help the economic recovery gain more traction, especially as risk aversion continues to temper credit activity despite ample liquidity in the financial system. Looking ahead, the BSP affirms its support to the economy for as long as necessary to ensure its strong and sustainable recovery. The BSP will also remain vigilant against any emerging risks to the outlook for inflation and growth and will adjust its policy settings as needed to safeguard its price and financial stability objectives.

I. Inflation and Real Sector Developments

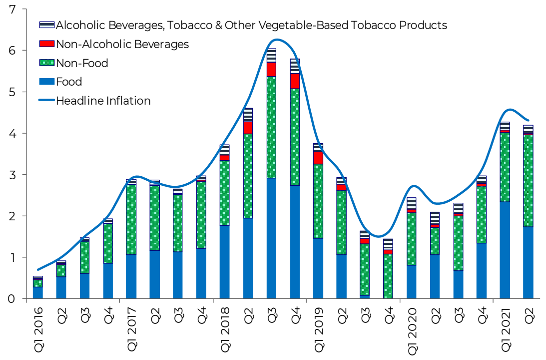
Prices

Headline inflation. Year-on-year (y-o-y) headline inflation eased to 4.3 percent in Q2 2021, a decline from 4.5 percent in the previous quarter though still higher than the 2.3 percent recorded in the same period in 2020.

Headline inflation eases in Q2 2021 on lower food inflation...

This brought the y-t-d average inflation rate to 4.4 percent in the first half of 2021, which remains above the NG's annual target range of 2-4 percent for the year.

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, also decelerated to 3.2 percent y-o-y in Q2 2021 from 3.5 percent in the previous quarter.

...while core inflation also slows down during the quarter

On the other hand, estimates of alternative core inflation measures showed mixed trends in Q2 2021. Core inflation estimate based on the trimmed mean was unchanged from the rate in the previous quarter while core inflation based on the weighted median eased. Meanwhile, inflation using the net of volatile items measure increased further in Q2 2021 compared to the previous quarter's rate.

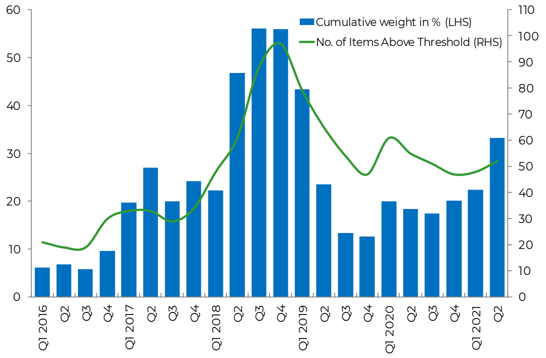
Table 1. Official and Alternative Core Inflation Measures
quarterly averages of year-on-year change

Quarter	Official Headline Inflation	Official Core Inflation	Trimmed Mean [1]	Weighted Median [2]	Net of Volatile Items [3]
2018	**5.2**	**4.2**	**4.2**	**4.1**	**4.5**
Q1	3.8	3.0	2.9	2.8	3.8
Q2	4.8	3.8	3.6	3.8	4.3
Q3	6.2	4.7	5.0	4.6	4.7
Q4	5.9	4.9	5.2	5.2	4.9
2019	**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
Q2	**4.3**	**3.2**	**2.5**	**1.7**	**4.5**

[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 Consumer Price Index (CPI) items with inflation rates higher than the threshold increased to 52 items in Q2 2021 from 48 items in Q1 2021. These items also accounted for a higher portion of the CPI basket at around 33.2 percent in Q2 2021 from 22.4 percent in the previous quarter.

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



Source: PSA, BSP staff estimates

Food Inflation. Inflation for food items decelerated in Q2 2021 as rice inflation turned negative with the onset of the summer harvest season.

Food inflation moderates following summer harvest season

Similarly, inflation for fruits and vegetables also turned negative during the quarter due to a drop in prices as domestic supply normalized amid improved weather conditions. These developments helped temper the increases in y-o-y meat and fish inflation during the quarter.

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

Commodity	2020	2021	
	Q2	Q1	Q2
Food and Non-Alcoholic Beverages	**3.0**	**6.2**	**4.6**
Food	3.0	6.6	4.9
Bread and Cereals	-1.4	1.0	0.2
Rice	-2.8	0.4	-0.7
Corn	-0.2	1.9	4.5
Meat	2.7	19.6	21.1
Fish	8.0	4.5	7.5
Milk, Cheese and Eggs	3.6	1.7	1.2
Oils and Fats	2.0	3.3	4.1
Fruit	11.1	6.7	-0.5
Vegetables	7.4	15.5	-4.0
Sugar, Iam, Honey, Chocolate and Confectionery	-0.8	0.3	0.8
Food Products, N.E.C.	6.6	3.9	1.1
Non-Alcoholic Beverages	2.6	1.7	1.6
Alcoholic Beverages and Tobacco	18.1	12.0	11.7

Source of Basic Data: PSA, BSP

Non-food Inflation. Non-food inflation continued to increase in Q2 2021 due mainly to higher energy prices. This was reflected in the increase in inflation for gas and liquid fuels during the quarter.

Non-food inflation increases on higher energy prices

At the same time, y-o-y inflation for transport also increased in Q2 2021 as domestic petroleum prices were adjusted upward. This was slightly tempered by the slowdown in transport services inflation owing to base effects (particularly in June) given the significant increase in tricycle fares in the same period in 2020.

Inflation for restaurants and miscellaneous goods and services also went up in Q2 2021 to 3.7 percent y-o-y from 3.1 percent in the previous quarter. This further contributed to the increase in non-food inflation.

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

Commodity	2020	2021	
	Q2	Q1	Q2
Non-Food	**1.1**	**2.8**	**3.7**
Clothing and Footwear	2.5	1.6	1.6
Housing, Water, Electricity, Gas and Other Fuels	0.2	0.7	2.0
Electricty, Gas, and Other Fuels	-5.0	-1.5	2.6
Furnishings, Household Equipment & Routine Household Maintenance	4.1	2.4	2.3
Health	2.8	2.8	3.1
Transport	-3.1	11.0	14.5
Transport Services	3.4	16.8	13.4
Communication	0.3	0.3	0.3
Recreation and Culture	1.4	-0.7	-0.6
Education	3.6	1.1	1.1
Restaurant and Miscellaneous Goods and Services	2.4	3.1	3.7

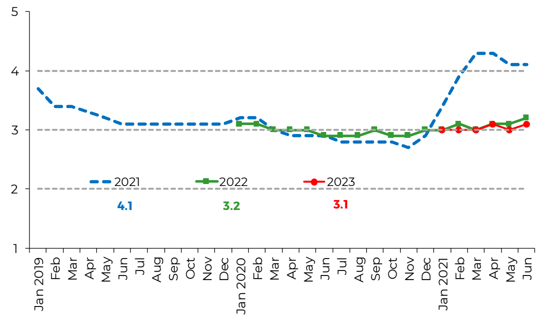
Source of Basic Data: PSA, BSP

Private Sector Economists' Inflation Forecasts. The results of the BSP's survey of private sector economists for June 2021 showed lower mean inflation forecast for 2021 at 4.1 percent from 4.3 percent based on the March 2021 survey.[4]

Inflation expectations are lower for 2021 and higher for 2022-2023

Meanwhile, the mean inflation forecasts for 2022 and 2023 increased to 3.2 percent (from 3.0 percent) and 3.1 percent (from 3.0 percent), respectively.

Chart 3. BSP Private Sector Economists' Survey* (2012=100)
mean forecast for full year; in percent



*Based on forecasts provided by 23 respondents.
Source: BSP

Analysts expect inflation to gradually move towards the government's target range in 2021, with risks to the inflation outlook generally tilted to the upside on expectations that the continued vaccine rollout will help further reopen the economy. Meanwhile, inflation is seen settling within the target band by 2022, with most of the analysts anticipating the BSP to end its accommodative stance and raise the RRP rate.

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 due to the recovering global demand; (c) the continued rollout of vaccines which will likely normalize economic activity and improve recovery prospects; (d) low interest rate environment; and (e) base effects.

The downside risks to inflation are seen to emanate mainly from subdued domestic demand due to low purchasing power (brought about by high unemployment) and the prolonged implementation of quarantine restrictions amid the still elevated number of new COVID-19 cases, which could slow the pace of economic recovery. Favorable weather conditions and the implementation of measures to ease constraints to food supply, particularly the reduction of import tariffs on pork and rice as well as the increase in meat importation via the minimum access volume (MAV), were also seen as downside risks to overall inflation.

Table 4. Private Sector Forecasts for Inflation (2012=100)
annual percentage change; June 2021

	2021				2022	2023
	Q2	Q3	Q4	FY	FY	FY
1) Al-Amanah Islamic Bank	4.50	4.40	4.30	4.20	4.00	3.50
2) Banco De Oro	4.43	4.44	4.01	4.34	3.50	3.10
3) Bangkok Bank	4.20	3.80	4.00	3.50	3.00	3.00
4) Bank of Commerce	4.37	3.98	3.04	3.97	-	-
5) Bank of China Ltd.	4.50	4.10	4.00	4.30	3.50	3.00
6) Barclays	4.40	4.30	3.70	4.20	3.30	-
7) CTBC Bank	4.50	4.10	3.40	4.10	3.10	3.30
8) Deutsche Bank	-	-	-	4.10	3.20	3.10
9) Eastwest Bank	4.50	4.10	4.00	4.30	4.00	3.00
10) Global Source	4.30	4.00	3.40	4.10	3.20	3.00
11) Land Bank of the Phils	4.40	4.30	3.70	4.20	2.90	3.60
12) Maybank	4.40	4.03	4.01	2.75	2.50	2.50
13) Maybank-ATR KimEng	4.40	3.80	2.70	3.80	2.50	3.00
14) Metrobank	-	-	-	4.10	-	-
15) Mizuho	4.40	4.20	4.00	4.30	3.50	-
16) Nomura	4.50	3.80	2.70	3.90	3.30	-
17) RCBC	4.30	4.00	3.60	3.90-4.20	2.80-3.10	3.00-3.50
18) Robinsons Bank	4.40	4.40	3.90	4.30	4.00	3.50
19) Philippine Equity Partners	4.40	4.20	3.70	4.20	3.00	-
20) Security Bank	4.50	4.80	4.80	4.70	3.00	3.00
21) Standard Chartered	4.30	3.50	2.60	3.90	2.70	2.70
22) Union Bank of the Phils.	4.50	4.50	3.60	4.30	2.50	3.00
23) UBS	4.50	4.40	3.70	4.30	3.20	-
Median Forecast	4.4	4.1	3.7	4.2	3.2	3.0
Mean Forecast	4.4	4.2	3.7	4.1	3.2	3.1
High	4.5	4.8	4.8	4.7	4.0	3.6
Low	4.2	3.5	2.6	2.8	2.5	2.5
Number of Observations	21	21	21	2.3	21	16
Government Target	**3.0±1.00**	**3.0±1.00**	**3.0±1.00**	**3.0±1.01**	**3.0±1.01**	**3.0±1.00**

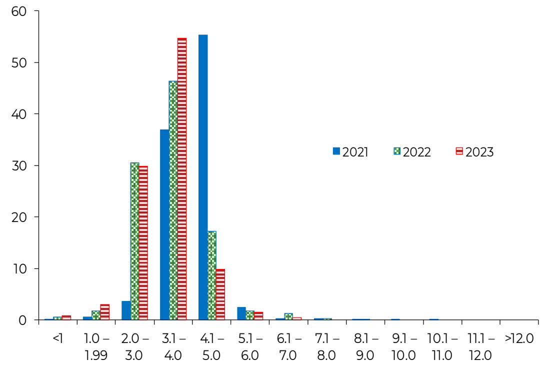
Source: BSP

Based on the probability distribution of the forecasts provided by 18 out of 23 respondents, there is a 40.6-percent probability that average inflation for 2021 will settle within the 2-4 percent range, while there is a 58.6-percent chance that inflation will rise above 4.0 percent. Meanwhile, the probabilities that inflation will fall within the target band

[4] There were 23 respondents in the BSP's survey of private sector economists in June 2021. The survey was conducted from 4 to 14 June 2021.

in 2022 and 2023 are seen at 76.9 percent and 84.5 percent, respectively.

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



*Probability distributions were averages of those provided by 18 out of 23 respondents.
Source: June 2021 BSP Survey

Based on the BSP's Q2 2021 Business Expectations Survey (BES), respondent firms continue to expect inflation to rise in Q2-Q3 2021 and in the next 12 months.

Firms expect inflation to breach the upper range of NG's target

Relative to the previous survey, however, there is a decrease in the number of respondents in Q2 2021 who expect inflation to increase in the current quarter (i.e., the diffusion index (DI) declined to 40.6 percent from 55.1 percent). Similarly, fewer respondents anticipate higher inflation in the next quarter (i.e., the DI fell to 37.7 percent from 43.9 percent). At the same time, businesses expect that the rate of increase in commodity prices will breach the upper end of the government's 2 to 4 percent inflation target range for 2021 and 2022. In particular, inflation is projected to settle at 4.1 percent for Q2 2021, 4.2 percent for Q3 2021, and 4.1 percent for the next 12 months (from 3.6 percent, 3.7 percent, and 3.7 percent, respectively in the Q1 2021 survey results).

By contrast, the BSP Consumer Expectations Survey (CES) results for Q2 2021 indicated that consumers expect inflation to remain within the government's target range for 2021.

In particular, households generally anticipate inflation to fall slightly below the midpoint of the target to 2.9 percent for Q2 2021, 3.0 percent for Q3 2021, and 3.2 percent for the next 12 months.

Consumers anticipate inflation to hover near the midpoint of the target

Meanwhile, inflation is expected to decline for the following items: rice (4.5 percent); bread and cereals (3.8 percent); meat (5.7 percent); fish and seafood (6.5 percent); fruits (4.1 percent); vegetables (5.1 percent); milk, cheese, and eggs (4.5 percent); non-alcoholic beverages (3.5 percent); alcoholic beverages (5.6 percent); clothing (0.7 percent); house rent (1.2 percent); water (4.1 percent); light (5.6 percent); fuel (3.1 percent); medical care (2.6 percent); transportation (7.3 percent); communication (0.7 percent); education (0.8 percent); personal care (2.9 percent); and restaurants and cafes (1.9 percent).

Energy prices. The price of Dubai crude oil continued to increase in Q2 2021. Optimism over the global demand outlook with the summer driving season in the US as well as reports of easing lockdown restrictions in Europe and the US boosted the increase in oil prices in Q2 2021. This was further reinforced by positive economic data namely, manufacturing PMIs in China, US, and Europe, which remained in expansionary territory. In addition, OPEC+ production limits have also contributed to the increase.

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

Demand prospects were slightly dampened by the resurgence of COVID-19 cases in some countries, which led to renewed lockdowns.

Daily new cases in India, a major oil consumer, rose sharply in April[5] while other parts of Asia have also seen a spike in cases during the quarter. At the same time, worries over potentially higher supply from Iran have also tempered the oil price increase.

However, expectations of continued demand recovery outweighed some of these concerns. Based on data from the US Energy Information Administration (EIA), global oil demand could outstrip supply with an estimated average withdrawal from inventory of around 0.8 million barrels per day (mb/d) for the year.[6]

In terms of the domestic market, prices of petroleum rose further. On a y-t-d basis, there was a net price increase of domestic petroleum products as of 29 June 2021 in Metro Manila. Domestic prices of gasoline, kerosene, and diesel were higher by ₱11.30 per liter, ₱9.27 per liter, and ₱7.67 per liter, respectively, compared to end-2020 levels.[7]

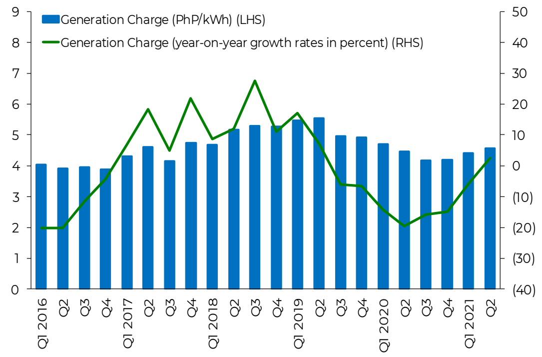
Power. Notwithstanding the decrease in the overall electricity rate to about ₱8.56 per kWh (from ₱8.58 per kWh in Q1 2021) in Meralco-serviced areas in Q2 2021, month-on-month (m-o-m) increases in electricity rates were observed during the review period.

Month-on-month increases are seen in the retail electricity prices in Q2 2021

During the quarter, the m-o-m increases were primarily due to higher generation charge**.** According to Meralco, higher charges from the Wholesale Electricity Spot Market (WESM) led to the upward adjustment in the generation charge. WESM prices rose due to tight supply conditions in the Luzon grid. At the same time, the increase in the overall electricity rate in May 2021 is attributed to the completion of the refund of over-recovery in pass-through charges.[8]

Nevertheless, the m-o-m increases in the overall electricity rate during the quarter were tempered by the implementation of the Distribution Rate True-Up refund. 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". At the same time, the decline in the overall rate is attributed to the adjustments for over- and under-recoveries. Meanwhile, the increase in WESM charges was generally offset by the decreases in charges from the Independent Power Producers (IPPs) and Power Supply Agreements (PSAs) due to improved average plant dispatch and the appreciation of peso against the US dollar.

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

[5] Source: Our World in Data (OWID).
[6] Source: US EIA Short-Term Energy Outlook, June 2021.
[7] Source: Department of Energy (DOE).

[8] The ERC directed MERALCO to refund over-recoveries in transmission and other charges. MERALCO implemented the ERC-approved adjustments starting January 2021 and completed the refund of over-recoveries last April. The impact to residential customers, from the months of January to April 2021, was a refund of around ₱0.15 per kWh.

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[9]

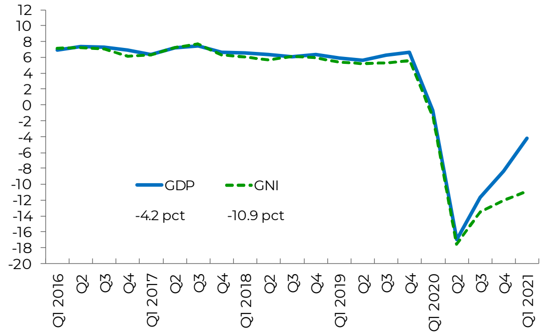
Real GDP contracted by 4.2 percent y-o-y in Q1 2021, more moderate than the 8.3-percent decline in Q4 2020 but lower than the -0.7 percent recorded in Q1 2020. On a seasonally-adjusted basis, q-o-q GDP slowed down to 0.3 percent in Q1 2021 from 3.8 percent in Q4 2020.

Real GDP remains in contraction in Q1 2021

Gross national income (GNI) dropped by 10.9 percent in Q1 2021, a smaller contraction compared to the 12.1-percent decline in Q4 2020. Net primary income declined further by 75.8 percent in Q1 2021, from -55.9 percent in Q4 2020, brought about by less inflows from compensation and property income.

[9] Estimates on the first quarter 2021 National Accounts of the Philippines (NAP) are based on the 2018 base year following the revision and rebasing of the NAP series.

Chart 6. Gross Domestic Product and Gross National Income
at constant 2018 prices



Source: PSA

On the demand side, consumer and investor sentiment improved as communities adjust to the ‘new normal’ along with the initial roll-out of the government’s vaccination program. The significant increase in government spending in Q1 2021 also supported the slower contraction in domestic growth. Investments in fixed capital was less negative at -20.2 percent in Q1 2020 from -30.0 percent in Q4 2020, driven by smaller declines from construction and purchases of durable equipment. Similarly, household consumption improved (-4.8 percent in Q1 2021 from -7.3 percent in Q4 2020), while government spending grew by 16.1 percent in Q1 2021 from 5.1 percent in the previous quarter.

Meanwhile, total exports remained weak albeit less negative at -9.0 percent from -10.2 percent while imports contracted less by 8.3 percent (from -20.2 percent), bringing net exports to decline by 6.1 percent in Q1 2021 from the 38.9-percent contraction in Q4 2020.

On the supply side, several industries posted slower contraction in Q1 2021 as more businesses reopened. The industry sector recovered, albeit still negative, driven by the growth in the manufacturing subsector, as well as the smaller decline in construction subsector. The services sector continued to decline supported by the lesser contraction in accommodation and food service activities, education, and public administration and defense. The agriculture sector also posted a 1.2-percent slump in Q1 2021 from

-2.5 percent in Q4 2020, as output for livestock was weighed down by the adverse impact of the ASF.

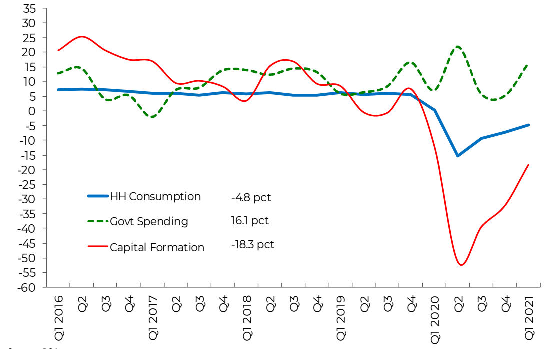
Aggregate Demand. Under the expenditure approach to GDP, household spending, government spending, net exports, and investments (or capital formation) contributed -3.6 percentage points (ppts), 2.0 ppts, 0.6 ppt, -4.1 ppts, respectively, to total GDP growth in Q1 2021.

Contraction in consumption and investments relatively moderates

Household expenditures, which accounted for 74.3 percent of GDP in Q1 2021, contracted by 4.8 percent in Q1 2021, an improvement from the 7.3-percent decline in Q4 2020. This was attributed to the more relaxed community quarantine restrictions and reopening of domestic tourism. In particular, some recovery were noted for household spending on restaurants and hotels (-16.1 percent in Q1 2021 from -42.7 percent in Q4 2020), recreation and culture (-32.5 percent from -49.6 percent), alcoholic beverages and tobacco (-11.9 percent from -18.9 percent), and miscellaneous goods and services (-0.6 percent from -1.6 percent). Moreover, household spending on education marginally increased by 0.3 percent in Q1 2021 from -14.6 percent in Q4 2021 with the enrolment of students for the second semester of the academic year 2020-2021. Expenditures on essential services such as health (4.8 percent from -2.9 percent) and communication (6.2 percent from 4.5 percent) also improved in Q1 2021 compared to the previous quarter.

Meanwhile, household consumption on food and non-alcoholic beverages (2.2 percent in Q1 2021 to 5.3 percent in Q4 2020) and housing, water, electricity, gas, and other fuels (0.3 percent from 6.3 percent) were driven, in part, by higher inflation rates in Q1 2021.

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



Source: PSA

Government expenditures grew by 16.1 percent in Q1 2021, significantly higher than the 5.1-percent and 7.0-percent increments registered in Q4 2020 and Q1 2020, respectively. The increase in government expenditures was attributed to the implementation of various COVID-19 emergency measures pursuant to the Bayanihan II and the General Appropriations Act (GAA), with validity until June 2021 and end-December 2021, respectively. Specifically, maintenance and other operating expenses rose by 39.8 percent in Q1 2020 (from 31.5 percent in Q4 2020)[10] following the implementation of health-related measures and reinforcement for the operation of Department of Health (DOH), the World Health Organization (WHO) solitary vaccine trial of the Department of Science and Technology (DOST), airfare and hotel accommodation expenses of returning Overseas Filipino Workers (OFWs), and Bayanihan II expenditures namely, rice program and research and development, purchase of testing kits, shipment costs for vaccines, employment assistance programs by the Department of Labor and Employment (DOLE), and welfare programs for OFWs.

Moreover, expenditures on personnel services grew by 7.8 percent in Q1 2021 due mainly to the release of the service recognition incentive for the Department of Education (DepEd) employees, and the 2018 pension

[10] Based on PSA Key Economic Indicators for Q1 2021 and Q4 2020 (Confidential).

differential of retired military and uniformed personnel.

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

BY EXPENDITURE ITEM	2020		2021
	Q1	Q4	Q1
Household Consumption	0.2	-7.3	-4.8
Government Consumption	7.0	5.1	16.1
Capital Formation	-12.1	-32.2	-18.3
Fixed Capital Formation	-2.0	-30.0	-20.2
Exports	-4.4	-10.2	-9.0
Imports	-7.4	-20.2	-8.3

Source: PSA

Capital formation contracted at a slower pace, decreasing by 18.3 percent in Q1 2021 from -32.2 percent in Q4 2020, due to the recovery in fixed capital investments (-20.2 percent in Q1 2021 from -30.0 percent in Q4 2020) and inventories (39.7 percent from -161.2 percent). This was due to the improved performance of the construction industry (-27.2 percent from -36.0 percent), particularly in public construction following the resumption of various public infrastructure projects as community quarantine restrictions eased for most of Q1. Investments in durable equipment improved (-13.8 percent from -24.5 percent) owing to smaller contraction in transport equipment (-25.1 percent from -34.3 percent).

Meanwhile, intellectual property products increased by 1.2 percent in Q1 2021, a reversal from the -4.2-percent contraction registered in the previous quarter. Breeding stock and orchard development (-3.2 percent from -9.5 percent) and valuables (-14.0 percent from -43.9 percent) also improved in Q1 2021.

Overall exports contracted by 9.0 percent in Q1 2021, less negative than the 10.2-percent decline in Q4 2020. This was due largely to the registered growth in merchandise exports by 2.4 percent in Q1 2021 owing to the increased exports sales of semiconductors, particularly in Hong Kong and China, on the back of tight global supply for electronics and subcomponents. Export of services was still weak as travel activities and business services remained limited amid imposition of various lockdowns.

Overall imports continued to contract by 8.3 percent in Q1 2021, from the 20.2-percent decline in Q4 2020. This slower decline was due to the improved performance of merchandise imports (-1.6 percent in Q1 2021 from -13.3 percent in Q4 2020), particularly electronic products and transport equipment. Similarly, the contraction in imports of services eased (-33.2 percent from -42.4 percent) driven by the substantial growth in insurance and pension services and charges for the use of intellectual properties.

Other Demand Indicators.[11] Other demand indicators are showing signs of recovery. Property prices outside NCR continued to increase slightly while vehicle sales posted a notable turnaround. Similarly, Meralco's power sales rose in the residential, industrial and commercial areas. Leading indicators of activity likewise reflect optimism. The composite PMI in May 2021 reached expansion territory at 50.4 index points after being in contraction for the past 15 months. Similarly, recent survey on business confidence moderated but remained optimistic for Q2 and Q3 2021. Moreover, while consumer sentiment turned less optimistic for Q2 2021, the outlook became upbeat for Q3 2021.

Property Prices

Capital Values, Metro Manila. Average capital values[12] for office buildings in Metro Manila[13] in Q1 2021 continued to decline to ₱171,318/sq.m., lower by 19.2 percent and 2.6 percent compared to the year- and quarter-ago levels, respectively. The decline was due mainly

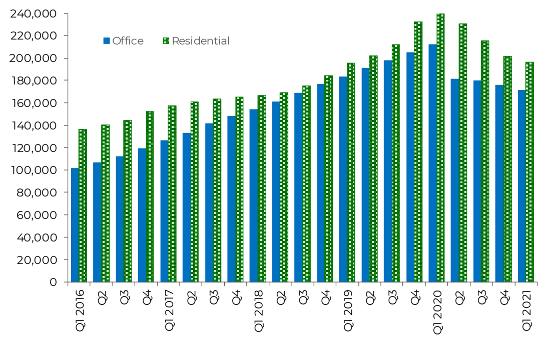
[11] There were no surveys conducted for Q2 2020 BES and CES.
[12] Probable price that the property would have fetched if sold on the date of the valuation. The valuation includes imputed land and building value.
13 This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, Alabang, and Manila Bay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

to the decrease in capital values for office buildings in major business hubs in Metro Manila such as Makati Central Business District (CBD), Ortigas Center, Fort Bonifacio, Eastwood, and Manila Bay Area amid subdued investor interest and office deals.

Capital values continue to decline for both office buildings and residential spaces

Meanwhile, average capital values for luxury residential buildings[14] in Metro Manila[15] in Q1 2021 reached 196,410/sq.m., lower by 20.1 percent and 2.5 percent compared to the year- and quarter-ago levels, respectively. The decline was due mainly to lower 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.[16] Average monthly office rent in Metro Manila was valued at ₱819/sq.m. in the first three months of 2021, a decline of 3.8 percent from the previous quarter. This was also lower by 20.4 percent relative to Q1 2020.

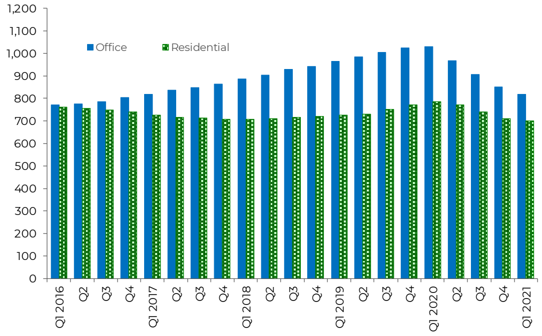
[14] In terms of location, luxury residential units are located within the CBD core and have quality access to/from and have superior visibility from the main avenue. Meanwhile, in terms of general finish, luxury residential units have premium presentation and maintenance.
[15] This includes Makati CBD, Fort Bonifacio, Ortigas, Eastwood, and Rockwell.
[16] Rental values discussed in this section pertain to high-end rented properties, which may be considered as indicators of wealth and demand.

The depreciation in office rental rates was due largely to the reduced demand from firms amid the pandemic. Existing tenants continued to rationalize office space by not renewing unused spaces and exercising pre-termination option.

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 vacancies due to lease cancellations (e.g., Quezon City, Makati Fringe, and Fort Bonifacio) and significant amount of upcoming supply in areas such as Manila Bay and Ortigas. Market analysts see that office leasing recovery beyond 2021 will likely hinge on the pace of domestic inoculation against COVID-19, especially the proposed inclusion of business process outsourcing (BPO) employees in the vaccination priority list and developments in the recently enacted CREATE law.

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



Source: Colliers International Philippines

In the residential segment, average monthly rents for luxury three-bedroom condominium units in Metro Manila was recorded at ₱700/sq.m. in Q1 2021, lower by 1.5 percent and 11.0 percent compared to the previous quarter and year-ago levels, respectively. The weak office leasing demand contributed to subdued residential demand. Nonetheless, residential leasing is projected to recover in 2022.

Due to the impact of COVID-19 on the leasing market, market analysts have observed tenants putting housing requirements on hold. This was partially due to the rising number of cases and concerns about additional move-in expenses like mandatory COVID-19 testing. Given the current leasing market situation, selected landlords are now offering discounts (20-25 percent). This is particularly common in condominium developments with higher vacancies, including those in the Bay Area. Aside from discounts, some tenants have also started asking for additional concessions such as discounted maintenance fees. On the other hand, tenants opted for house and lot properties over condominiums. This is likely due to the limited usability of amenities in condominiums, as property management personnel continue to follow strict social distancing protocols. House and lot properties also offer larger living spaces that are popular with families.

Vacancy Rates, Metro Manila. The office vacancy rate in Metro Manila rose to 11.0 percent in Q1 2021 from 9.1 percent in Q4 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 (7.0 percent from 4.7 percent), Fort Bonifacio (7.8 percent from 6.1 percent), Ortigas Center (13.5 percent from 13.2 percent), and Manila Bay Area (14.2 percent from 10.2 percent) increased in Q1 2021 compared to the previous quarter.

Vacancy rates for offices and residences continue to increase

The increase in office vacancy was due mainly to lease non-renewals, cancellations, pre-terminations, and substantial available new supply. Market analysts see demand coming from E-commerce, outsourcing, data centers, and even Philippine Offshore Gaming Operators (POGOs) moving forward, which should temper vacancy increases in 2022.

Chart 10. Vacancy Rates
in percent

Source: Colliers International Philippines

Similarly, the overall residential vacancy rate in Metro Manila further went up to 16.3 percent in Q1 2021 from 15.6 percent in Q4 2020 due to the slower take-up of units in areas near the core business districts as well as completion of new units. In terms of location, residential vacancy rates were higher in Makati CBD (14.1 percent from 13.7 percent), Fort Bonifacio (20.8 percent from 20.0 percent), Rockwell Center (11.6 percent from 11.5 percent), Ortigas Center (6.5 percent from 6.4 percent), Eastwood City (6.4 percent from 6.3 percent), and Manila Bay area (23.3 percent from 22.8 percent).

The rental market continues to face headwinds. Residential vacancy is seen to further increase in 2021, especially in business districts with substantial units set to complete this year.

BSP Residential Real Estate Price Index (RREPI).[17] Following a slight uptick in Q4 2020, residential real estate prices of various types of new housing units in the Philippines declined in Q1 2021 based on the RREPI. Nationwide house prices contracted by 4.2 percent y-o-y and by 1.6 percent q-o-q due to the subdued

[17] 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.

demand for residential properties amid the pandemic.[18]

RREPI declines in Q1 2021 as nationwide property prices contract

By area, residential property prices decreased y-o-y in NCR but went up in Areas Outside NCR (AONCR). The negative y-o-y growth in nationwide residential property prices was driven mainly by the downtrend of property prices in the NCR, which fell by 10 percent relative to Q1 2020, marking three consecutive quarters of declines since Q3 2020. This was due to the decline in the prices of condominium units, which outweighed the increase in the prices of duplexes, single detached/attached houses, and townhouses. Meanwhile, property prices in AONCR rose marginally by 0.8 percent y-o-y as the growth in the prices of townhouses and condominium units more than offset the drop in the prices of duplexes and single detached/attached houses. On a q-o-q basis, house prices contracted in the NCR (-0.8 percent) and AONCR (-2.1 percent) following the national trend.

Table 6. RREPI by Area
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index[1] (By Area)	RREPI			Year-on-Year Growth Rates (in percent)			Quarter-on-Quarter Growth Rates (in percent)		
	2020		2021	2020		2021	2020		2021
	Q1	Q4	Q1	Q1	Q4	Q1	Q1	Q4	Q1
Overall	138.0	134.4	132.2	12.6	0.8	-4.2	3.5	2.4	-1.6
National Capital Region	158.7	143.9	142.8	18.9	-4.8	-10.0	5.0	4.8	-0.8
Areas Outside the NCR	126.4	130.1	127.4	8.5	5.9	0.8	2.8	2.4	-2.1

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

In Q1 2021, the purchase of new housing units accounted for 79.5 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 (52 percent), followed by single detached/attached houses (38.6 percent), and townhouses (8.1 percent).

Table 7. RREPI by Housing Type
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index[1] (By Housing Type)	RREPI			Year-on-Year Growth Rates (in percent)			Quarter-on-Quarter Growth Rates (in percent)		
	2020		2021	2020		2021	2020		2021
	Q1	Q4	Q1	Q1	Q4	Q1	Q1	Q4	Q1
Overall[2]	138.0	134.4	132.2	12.6	0.8	-4.2	3.5	2.4	-1.6
Single Detached/Attached	115.4	116.0	115.6	7.3	4.7	0.2	4.2	-0.3	-0.3
Duplex[3]	167.3	178.3	132.6	38.3	20.0	-20.7	12.6	35.6	-25.6
Townhouse	145.1	169.7	157.2	5.6	16.1	8.3	-0.8	9.4	-7.4
Condominium Unit	182.7	160.0	163.2	23.6	-8.4	-10.7	4.6	3.4	2.0

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

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, 48.4 percent of the total number of RRELs granted were from the NCR, while the rest were distributed in CALABARZON (25.4 percent), Central Luzon (9.6 percent), Central Visayas (5.4 percent), Western Visayas (3.7 percent), Davao Region (3.0 percent), and Northern Mindanao (1.3 percent). NCR and the said six regions combined accounted for 96.8 percent of total housing loans granted by banks.

Vehicle Sales. Coming off a low base, the sales of new vehicles from CAMPI-TMA[19] members rose by more than seven times (710.9 percent) y-o-y for the period April-May 2021, a turnaround from the 91.3-percent contraction recorded in the same period in 2020.

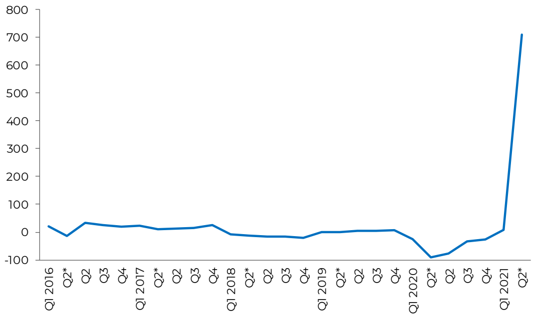
[18] Similarly, it may be noted that the housing rent inflation rate was lower at 1.9 percent y-o-y, but higher at 0.4 percent q-o-q in Q1 2021 from 2.5 percent and 0.2 percent, respectively in Q4 2020. Source: PSA

[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.

Sales of new commercial and passenger car vehicles increase

The increase was due mainly to higher sales of commercial and passenger car vehicles amid softer lockdown imposition in mid-May 2021.[20] It may be noted that a stricter quarantine classification was imposed in Luzon during the same period last year.

Chart 11. Vehicle Sales
growth rate in percent



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

Commercial vehicle sales, which account for about 67.0 percent of total vehicle sales, went up by 662.6 percent y-o-y for the period April-May 2021 from the 91.3-percent decline in the same period in 2020. Commercial vehicles sold during the period reached 26,736 units from 3,506 units in the same period a year ago.

Similarly, passenger car sales increased by 830.7 percent y-o-y for the period April-May 2021, a reversal from the 91.5-percent dip in the same period in 2020. New passenger car sales accrued to a total of 13,169 units for the period April-May 2021 from 1,415 units in the same period a year ago.

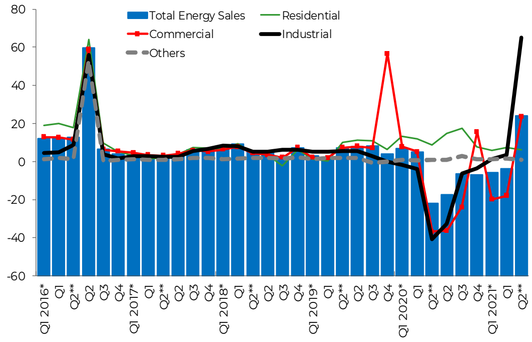
Energy Sales. Energy sales of Meralco grew by 22.9 percent y-o-y in Q2 2021 (April-May), a significant improvement from the 22.5-percent and 5.7-percent contractions in the same period a year ago and in Q1 2021 (January-February), respectively.

[20] Metro Manila and adjacent provinces were under a modified enhanced community quarantine (MECQ) to curb a spike in COVID-19 infections until May 14.

Energy sales increase significantly

Energy sales from the residential sector, commercial sector, and industrial sector increased by 10.2 percent, 28.1 percent, and 65.3 percent, respectively.

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



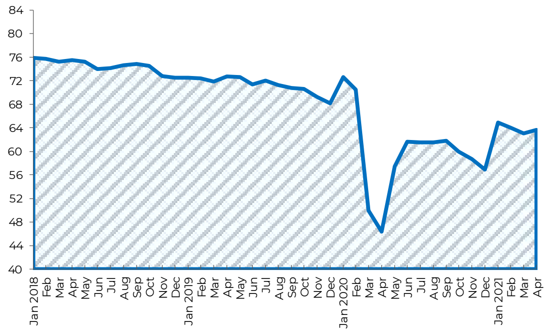
* January to February
** April to May
Source: Meralco, BSP calculations

Capacity Utilization. The average capacity utilization rate of the manufacturing sector stood at 63.6 percent in April 2021, slightly higher than the month-ago level at 63.0 percent based on the Philippine Statistics Authority's Monthly Integrated Survey of Selected Industries (MISSI).

Utilization rate improves but remains below 80-percent capacity

Of the 570 respondent-establishments, about 41.8 percent operated above the 80.0-percent capacity level in April 2021, higher than the previous month's 38.5 percent. Meanwhile, the April response rate of 62.0 percent (preliminary) is slightly higher than the 60.4 percent recorded in the previous month's preliminary results.

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



Source: PSA

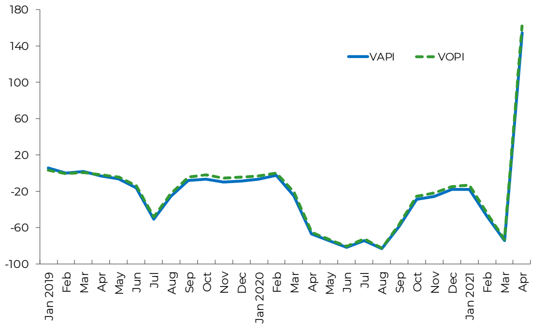
Average capacity utilization slightly improved in April. Of the 22 major industries, furniture (81.3 percent) and other non-metallic mineral products (80.9 percent) operated above the 80.0 percent capacity level, while 14 industries operated at the 60 to 79 percent capacity range namely, electrical equipment (75.2 percent); machinery and equipment except electrical (69.9 percent); other manufacturing and repair and installation of machinery and equipment (69.2 percent); basic metals (68.9 percent); textiles (67.7 percent); rubber and plastic products (67.1 percent); coke and refined petroleum products (66.6 percent); transport equipment (65.9 percent); wearing apparel (65.6 percent); computer, electronic, and optical products (64.5 percent); food products (64.0 percent); basic pharmaceutical products and pharmaceutical preparations (63.9 percent); tobacco products (62.0 percent); and beverages (62.0 percent). Two major industries operated at the 50 to 59 percent capacity range: fabricated metal products, except machinery and equipment (51.4 percent); and chemical and chemical products (50.7 percent). Meanwhile, the following four industries operated below 50 percent: paper and paper products (33.3 percent); reproduction of recorded media (32.5 percent); leather and related products, including footwear (26.3 percent); and wood, bamboo, cane, rattan articles, and related products (26.1 percent).

Volume and Value of Production. Preliminary results of the MISSI showed that volume of production index (VoPI) grew by 162.1 percent y-o-y in April 2021, a significant improvement compared to the 73.3 (revised) contraction in March 2021.

Manufacturing output improves

Of the 22 major industries, a total of 20 sub-sectors expanded namely, basic metals (687.5 percent); fabricated metal products, except machinery and equipment (610.1 percent); furniture (577.4 percent); wearing apparel (555.5 percent); transport equipment (436.7 percent); printing and reproduction of recorded media (429.9 percent); textiles (329.9 percent); other non-metallic mineral products (307.2 percent); electrical equipment (246.9 percent); other manufacturing and repair and installation of machinery and equipment (216.7 percent); rubber and plastic products (168.1 percent); beverages (162.9 percent); leather and related products, including footwear (148.8 percent); wood, bamboo, cane, rattan articles and related products (135.6 percent); computer, electronic, and optical products (103.9 percent); paper and paper products (65.6 percent); food products (38.5 percent); chemical and chemical products (35.9 percent); machinery and equipment except electrical (35.7 percent); and tobacco products (10.3 percent). On the other hand, the following two sub-sectors contracted: basic pharmaceutical products and pharmaceutical preparations (-18.9 percent), and coke and refined petroleum products (-32.3 percent).

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) increased by 154.3 percent in April 2021 from a 74.2-percent (revised) slump in the previous month. This was attributed to the expansion of 20 out of 22 sub-sectors: basic metals (729.1 percent); fabricated metal products, except machinery and equipment (571.6 percent); furniture (546.2 percent); wearing apparel (521.8 percent); printing and reproduction of recorded media (429.9 percent); transport equipment (419.6 percent); textiles (335.2 percent); other non-metallic mineral products (294.4 percent); electrical equipment (246.0 percent); other manufacturing and repair and installation of machinery and equipment (205.0 percent); rubber and plastic products (173.9 percent); beverages (166.8 percent); leather and related products, including footwear (146.0 percent); wood, bamboo, cane, rattan articles and related products (133.3 percent); computer, electronic, and optical products (68.3 percent); paper and paper products (61.8 percent); food products (39.2 percent); chemical and chemical products (32.3 percent); machinery and equipment except electrical (28.2 percent); and tobacco products (9.7 percent). Meanwhile, two sub-sectors declined namely, basic pharmaceutical products and pharmaceutical preparations (-19.4 percent), and coke and refined petroleum products (-24.5 percent).

Business Expectations. Business confidence on the economy moderated for Q2 and Q3 2021, as the positive overall confidence index (CI)[21] of the Business Expectations Survey (BES)[22] for both quarters decreased from previous quarter's survey results. In particular, the CI for Q2 2021 dropped to 1.4 percent from 17.4 percent in Q1 2021 while that for Q3 2021, declined to 31.4 percent from the previous quarter's survey result of 42.8 percent.

Business confidence moderates but remains optimistic in Q2 and Q3 2021

The respondents' less optimistic outlook for Q2 and Q3 2021 was attributed primarily to the upsurge of COVID-19 cases; reimposition of stricter community quarantine, particularly in NCR Plus[23]; and elevated inflation outturn due to supply constraints. Respondents also cited concerns over the pace of the vaccination roll-out for the current quarter as well as the expected seasonal factors for Q3 2021 such as the close of the milling season and the usual slack in demand for power and construction materials during the rainy season as reasons for their less buoyant sentiment for Q2 and Q3 2021, respectively.

[21] 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.
[22] The Q2 2021 BES was conducted during the period 7 April – 27 May 2021. There were 1,513 firms surveyed nationwide. Samples were drawn from the Top 7,000 Corporations ranked based on total assets in 2016 from the Bureau van Dijk(BvD) database, consisting of 585 companies in NCR and 928 firms in AONCR, covering all 16 regions nationwide.
[23] Metro Manila and the provinces of Laguna, Bulacan, Cavite, and Rizal.

Table 8. Business Expectations Survey

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
	Q2	1.4	31.4	52.5

Source: BSP

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

Similarly, due to the aforementioned reasons, the business outlook on the country's economy for the next 12 months was less upbeat as the CI decreased to 52.5 percent from the Q1 2021 survey result of 60.5 percent.

Consumer Expectations. Based on the latest Consumer Expectations Survey (CES),[24] the country's consumer sentiment continued to improve in Q2 2021 as the overall CI[25] turned less pessimistic to -30.9 percent from -34.7 percent in Q1 2021.

Consumer sentiment turns less pessimistic in Q2 2021

The improved CI, albeit remaining negative, indicates that the number of households with pessimistic views went down relative to the number in Q1 2021, but was still more than those with optimistic views.

Table 9. Consumer Expectations Survey

CONSUMER OUTLOOK INDEX		Current Quarter	Next 3 Months	Next 12 Months
2017	Q1	8.7	16.5	31.7
	Q2	13.1	13.6	34.3
	Q3	10.2	17.8	33.7
	Q4	9.5	17.5	32.0
2018	Q1	1.7	8.8	24.0
	Q2	3.8	8.7	23.1
	Q3	-7.1	3.8	13.0
	Q4	-22.5	-0.8	10.7
2019	Q1	-0.5	10.7	28.4
	Q2	-1.3	9.7	25.2
	Q3	4.6	15.8	29.8
	Q4	1.3	15.7	26.4
2020	Q1	1.3	9.2	19.9
	Q2	-	-	-
	Q3	-54.5	-4.1	25.5
	Q4	-47.9	4.3	23.6
2021	Q1	-34.7	-2.2	17.9
	Q2	-30.9	1.3	19.8

Source: BSP

According to respondents, their improved outlook during the current quarter was brought about by their expectations of more jobs and permanent employment; additional/higher income; and effective government policies and programs, particularly to address COVID-19-related concerns, such as the availability of vaccines, provision of financial assistance, and easing of quarantine restrictions. The sentiment of consumers in the Philippines was comparable to the less pessimistic outlook of consumers in the Euro area, France, Poland, Switzerland, and the UK for Q2 2021. Meanwhile, consumer outlook in Japan, Thailand, and the US were more pessimistic.

Consumer confidence was also upbeat for Q3 2021 and the next 12 months. In particular, the CI for Q3 2021 reverted to positive 1.3 percent from the Q1 2021

[24] The CES is a quarterly survey of a random sample of more than 5,700 households in the Philippines. The Q2 2021 CES was conducted during the period 21 April – 1 May 2021.
[25] The CI is computed as the percentage of households that answered in the affirmative less the percentage of households that answered in the negative with respect to their views on a given indicator. A positive CI indicates an optimistic outlook while a negative CI indicates a pessimistic outlook.

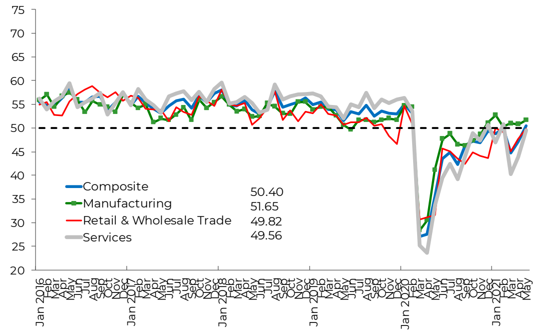
survey result of -2.2 percent, while the next 12 months CI rose to 19.8 percent from the Q1 2021 survey result of 17.9 percent. Respondents attributed their more optimistic views to the same reasons cited above. In addition, anticipation of additional working family members was also cited as reason for their favorable views for the next quarter.

Purchasing Managers' Index.[26] The composite PMI in May 2021 breached the 50-point expansion threshold[27] for the first time in the last 15 months, which stood at 50.4, higher by 3.3 index points from the April PMI of 47.1. The faster expansion of the manufacturing sector, as well as the slower contraction of the services and retail and wholesale subsectors contributed to the increase in the PMI, indicative that the economy's recovery is gradually proceeding. The sectors' better performance was attributed mainly to the imposition of a modified lockdown this year (less stringent than the restrictions implemented at the height of the pandemic in 2020) which allowed more firms to resume business operations. Meanwhile, respondent-firms expressed mixed sentiment over business conditions in June 2021 amid COVID-19 uncertainties.

Composite PMI in May 2021 reaches expansion threshold

The manufacturing PMI gained 0.9 index point to 51.7 in May from 50.8 in April as more respondent-firms reported expansion month-on-month, while those that posted contractions decreased. Majority of the firms cited improvement in overall demand, evident in the faster expansion of the New Orders (51.6), Inventories (52.2), and Employment (50.1), as well as the slower contraction of Production (49.9). These sub-indices increased by 1.2 index points, 0.3 index point, 0.2 index point, and 1.0 index point, respectively. Likewise, Supplier Deliveries increased by 1.7 index points to a PMI of 57.1 as the extended lockdowns weighed on delivery lead time. Meanwhile, all firms by export category expanded faster in May except for firms exporting more than 50 percent of total sales. On a per sector basis, eight out of 12 manufacturing subsectors expanded, namely, Motor Vehicles (58.5); Food and Beverages (55.0); Fabricated Metal (55.0); Chemicals and Fuel (54.0); Basic Metals (52.4); Rubber and Plastic (53.1); Publishing and Printing (50.8); and Non-metallic minerals (50.6). By contrast, the following posted contractions: Machinery and Equipment (49.2); Paper and Paper Products (49.0); Communication and Medical Equipment (48.4); and Textiles (42.7). Meanwhile, prospects for the manufacturing sector are seen to be less favorable in June 2021.

Chart 15. Purchasing Managers' Index



Source: Philippine Institute of Supply Management (PISM)

The services PMI likewise rose by 5.7 index points to a PMI of 49.6 in May from 43.9 a month ago as the less stringent quarantine restrictions supported the reopening and recovery of service-oriented firms. All sub-indices, with the exemption of Operating Costs, improved on a month-on-month basis in May. Demand indicators namely Business Activity (at a PMI of 51.1), New Orders (50.5), and Outstanding Business (50.5) gained 8.8 index points, 8.5 index points, and 6.1 index points, respectively. Average Price Charge (49.8) and Employment (47.9), although still below

[26] Data based on the monthly purchasing managers' index report of the Philippine Institute for Supply Management (PISM).
[27] 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.

the 50-point expansion threshold, went up by 4.1 index points and 3.0 index points, respectively. On a per sector basis, eight out of 13 subsectors expanded in May, namely, Provident and Insurance (74.3); Hotels and Restaurants (65.2); Health and Social Work (59.5); Construction (54.8); Transportation including Travel Agency (53.7); Education (53.2); Banking and Financial Intermediation (53.1); and Business/Knowledge Processing (51.2). The five other subsectors contracted at a slower rate, namely, Real Estate (49.9); Renting of Goods and Equipment (47.0); Electricity, Gas, and Water (46.9); Postal and Telecommunications (44.5); and Miscellaneous Business Activities (38.8). Meanwhile, service managers are expecting business activities to slow down in the month ahead.

Similarly, the retail and wholesale PMI increased by 2.1 index points to 49.8 from the previous month's 47.7. Majority of the respondent-firms attributed the sector's better performance from the recovery of domestic demand. In particular, Purchases (at a PMI of 50.4) and Inventories (50.3) expanded faster, while Sales Revenue (49.5) and Employment (48.3) posted slower contraction. These sub-indices rose by 4.4 index points, 3.8 index points, 2.7 index points, and 0.2 index point, respectively. Supplier Deliveries (51.2) continued to expand, albeit slower, as the modified lockdown measures allowed more workers and transport vehicles to operate. On a per sector basis, the wholesale subsector increased by 10.1 index points to a PMI of 53.2 in May from 43.1 in April due to significant increases in Purchases, Sales Revenues, and Inventories. Conversely, the retail subsector continued to contract, albeit at a slower pace, as Sales Revenues and Purchases increased amid the implementation of less stringent quarantine restrictions. However, the deeper contraction of Inventories and Employment weighed on the retail subsector's recovery. Retail and Wholesale managers are anticipating favorable business conditions next month.

External Demand[28]

Exports. Exports of goods went up by 8.2 percent y-o-y in Q1 2021, a further improvement from the 1.7-percent expansion in Q4 2020 and a turnaround from the 1.6-percent contraction in Q1 2020.

Exports of goods improve in Q1 2021

The higher outbound shipments of coconut products, sugar products, agro-based products, forest products, and manufactures outpaced the decline in exports of fruits and vegetables, mineral products, and petroleum products in Q1 2021.

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

COMMODITY GROUP	2020		2021
	Q1	Q4	Q1
Coconut Products	3.0	2.8	23.2
Sugar and Products	10.6	6.5	1.3
Fruits and Vegetables	21.2	-17.6	-35.6
Other Agro-Based Products	-6.5	-6.8	8.2
Forest Products	-18.6	16.2	35.1
Mineral Products	9.2	26.8	-9.5
Petroleum Products	13.6	-71.4	-97.9
Manufactures	-2.7	2.1	12.5
Special Transactions	-34.3	-21.7	21.3
Total Exports	**-1.6**	**1.7**	**8.2**

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

Imports. Imports of goods likewise rose by 4.9 percent y-o-y in Q1 2021, a reversal from the 8.0-percent and 11.6-percent drop in Q1 2020 and Q4 2020, respectively.

Imports of goods rise in Q1 2021

The increase in inward shipments during the period was due largely to higher imports of capital goods, raw materials

[28] International Merchandise Trade Statistics (IMTS) concept

and intermediate goods, and consumer goods.

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

COMMODITY GROUP	2020 Q1	2020 Q4	2021 Q1
Capital Goods	-10.1	-11.7	5.3
Raw Materials and Intermediate Goods	-6.7	-1.7	9.6
Mineral Fuels and Lubricants	-9.2	-41.4	-9.6
Consumer Goods	-5.4	-12.3	2.5
Special Transactions	-18.5	19.6	21.3
Total Imports	-8.0	-11.6	4.9

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

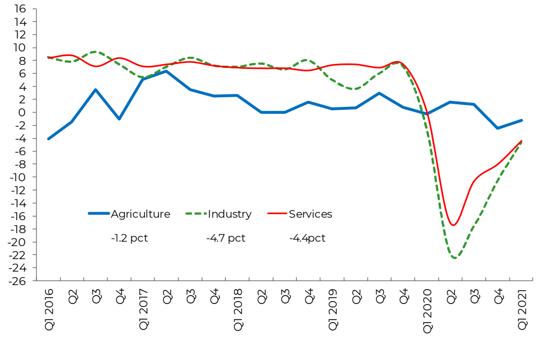
Aggregate Supply

On the production side of the economy, the agriculture, industry, and services sectors contributed -0.1 ppt, -1.4 ppts and -2.6 ppts, respectively, to total GDP growth in Q1 2021.

Production sectors improve but remain in contraction

The agriculture sector recorded a smaller contraction (-1.2 percent in Q1 2021 from -2.5 percent in Q4 2020) due mainly to the increased palay output (8.6 percent in Q1 2021 from -1.1 percent in Q4 2020), fishing and aquaculture (0.6 percent from -4.3 percent), and corn (6.4 percent from 0.4 percent) brought about by favorable weather conditions as well as the lifting of the Visayan Sea fishing ban.

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



Source: PSA

However, the continued spread of ASF dampened domestic pork production by -23.2 percent in Q1 2021 (from -13.0 percent in Q4 2020) with estimated 471,416 hogs culled, equivalent to 2.3 percent of total hog production in 2020. As such, the government has recently approved the tariff rates reduction and the increased MAV for pork imports to help address pork supply and elevated meat prices.

The industry sector declined by 4.7 percent in Q1 2021 (from -10.6 percent in Q4 2020), which can be attributed to the improved performance of the manufacturing, electricity, steam, water and waste management, construction, and mining and quarrying subsectors.

Manufacturing sub-sector show modest growth in Q1 2021

Manufacturing grew by 0.5 percent in Q1 2021, a turnaround from the 4.9-percent and 3.3-percent contractions in Q4 2020 and Q1 2020, respectively, as most subsectors such as computer, electronic and optical products, other non-metallic products, other manufacturing, and printing and reproduction of recorded media recovered in Q1 2021.

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

BY INDUSTRIAL ORIGIN	2020		2021
	Q1	Q4	Q1
Agri., Hunting, Forestry and Fishing	-0.3	-2.5	-1.2
Industry Sector	-2.5	-10.6	-4.7
Mining and Quarrying	-21.3	-16.4	-1.0
Manufacturing	-3.3	-4.9	0.5
Electricity, Gas and Water Supply			
Construction	-0.3	-26.8	-24.2
Service Sector	0.1	-8.0	-4.4
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	1.4	-4.0	-3.9
Transportation and Storage	-11.4	-20.1	-18.8
Accomodation and Food Service Activities	-15.9	-45.6	-20.6
Information and Communcation	4.7	1.9	6.3
Financial and Insurance Activities	8.8	4.3	5.2
Real Estate and Ownership of Dwellings	-2.9	-14.9	-13.2
Professional and Business Services	-2.5	-8.9	-6.5
Public Administration and Defense; Compulsory Social Security	5.5	1.3	7.5
Education	1.3	-12.3	-1.0
Human Heath and Social Work Activities	3.0	1.5	11.7
Other Services	-9.8	-43.4	-38.0

Source: PSA

Moreover, the easing of quarantine measures during the reference period contributed to moderate declines in manufactures of essential commodities such as food products and beverages.

Mining and quarrying posted a 1.0-percent contraction in Q1 2021, an improvement from the -16.4 percent in Q4 2020, due mainly to the higher output for coal, and gold and other precious metal ores.

Electricity, steam, water and waste management expanded by 1.9 percent in Q1 2021, higher than the 0.6-percent growth in Q4 2020, driven by the recovery in the electricity (2.4 percent in Q1 2021 from 0.2 percent in Q4 2020) and steam (0.8 percent from -1.2 percent) subsectors. The growth in electricity subsector was reflected in the increased energy sales for residential and industrial segments during Q1 2021, based on Meralco's latest financial and operating results.

Construction marginally improved, from a 26.8-percent contraction in Q4 2020 to a 24.2-percent decline in Q1 2021. This was attributed to some recovery in public construction, as only major public construction projects were allowed to progress at full capacity during the Enhanced Community Quarantine (ECQ) in March 2021. Meanwhile, private and public construction projects were permitted under General Community Quarantine (GCQ) and Modified General Community Quarantine (MGCQ), but subject to the construction safety guidelines issued by the Department of Public Works and Highways (DPWH).

The services sector declined by 4.4 percent in Q1 2021, less than the 8.0-percent contraction posted in Q4 2020, owing to the improved performance of most subsectors particularly accommodation and food service activities, education, public administration and defense, human health and social work, financial and insurance activities, information and communication, professional and business services, other services, wholesale and retail trade, real estate and ownership of dwellings, and transport and storage.

Trade and repair of motor vehicles, motorcycles, personal and household goods continued to contract to -3.9 percent in Q1 2021 (from -4.0 percent in Q4 2020), driven mainly by growth in the sale and repair of motor vehicles and motorcycles following the posted increments in car sales, passenger vehicle sales, and commercial vehicle sales.

Transport and storage segment declined by 18.8 percent in Q1 2021 compared to -20.1 percent in Q4 2020, amid the expansion in warehousing and storage and support activities for transportation, as well as the smaller contraction in air transport subsector.

Accommodation and food service remained subdued, dropping by 20.6 percent in Q1 2021, from -45.6 percent in the previous quarter. Nevertheless, food and beverage service activities, as well as accommodation, has shown some signs of recovery with the transition of most parts of the country to GCQ in Q1 2021, which allowed dine-in services at 50 percent capacity or more, subject to minimum public health standards. For accommodation, establishments in areas under GCQ were likewise permitted to operate subject to DOT accreditation.

Information and communication grew by 6.3 percent in Q1 2021, higher than the 1.9-percent increase in Q4 2020, due to the expansion in communication, and publishing and information subsectors.

Financial and insurance activities rose by 5.2 percent in Q1 2021 (from 4.3 percent in Q4 2020) amid improved performance of the insurance and pension funding, non-banks, and activities auxiliary to financial services subsectors.

Real estate and ownership dwellings continued to drop by 13.2 percent in Q1 2021, albeit slower than the 14.9-percent contraction in Q4 2020. This was due to the less negative growth in real estate activities, supported by project completion of new residential and office spaces as well as the strong demand from industries, particularly e-commerce, outsourcing, and data centers.

Professional and business service activities declined by 6.5 percent in Q1 2021, less negative than the -8.9 percent drop in Q4 2020. This was attributed to the government's decision to allow the BPO industry to operate at full capacity amid implementation of various quarantine measures, as well as the notable growth in health care, e-commerce and retail, banking, finance and administration, and insurance subsectors.

Public administration and defense expanded by 7.5 percent in Q1 2021 (from 1.3 percent in Q4 2020), following the issuance of the service recognition incentive for the DepEd employees, as well as the 2018 pension differential of retired military and uniformed personnel.

Education registered weaker contraction of 1.0 percent in Q1 2021 (from -12.3 percent in Q4 2020) due to the improved performance of both public and private education subsectors.

Human health and social work activities grew by 11.7 percent in Q1 2021 (from 1.5 percent in Q4 2020) given accelerated growth in public human health and social work activities, alongside smaller decline in private human health.

Other services continued to contract, albeit at a lesser degree at -38.0 percent in Q1 2021 from -43.4 percent in Q4 2020, as arts, entertainment and other service activities marginally recovered amid restrictions for indoor and outdoor tourist attractions, personal care services, and social events.

Labor Market Conditions

The Philippine labor market slightly deteriorated in April 2021 compared to March and January 2021 due to the re-imposition of stricter quarantine measures from 29 March to 15 May 2021 in response to the surge in COVID-19 cases.

Labor market conditions improve in April 2021

Nevertheless, the overall labor market condition was better relative to April 2020 as the government employed more strategic risk-based restrictions.[29]

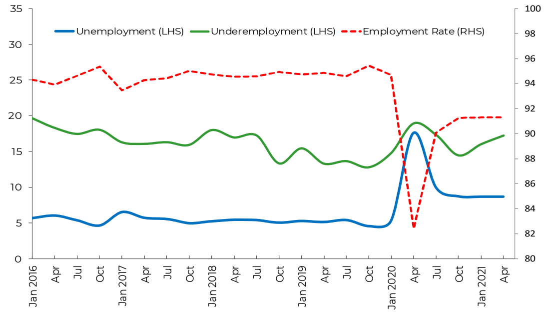
The year-to-date (y-t-d) unemployment rate averaged at 8.7 percent, which is within the government target of 7.0-9.0 percent for the year. The y-t-d youth unemployment rate, however, averaged at 17.8 percent, which was worse relative to the 14.5-16.5 percent target for 2021.[30]

The labor force participation rate (LFPR) improved to 63.2 percent in April 2021 from 55.7 percent in April 2020, 60.5 percent in January 2021 and 61.7 percent in January 2020. This, however, is lower compared to 65.0 percent in March 2021.

[29] NEDA (2021), "Joint Statement of the Duterte Administration's Economic Managers," 8 June.
[30] Targets are based on updated Philippine Development Plan 2021-2022. No national underemployment target is available.

Chart 17. Unemployment, Underemployment and Employment Rate

in percent



Source: PSA

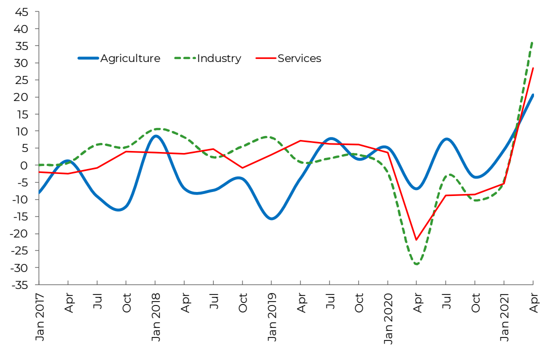
The employment rate in April 2021 is equivalent to 43.3 million employed individuals, slightly lower from the previous month's 45.3 million but higher than the pre-pandemic level of 42.5 million in January 2020. Compared to pre-pandemic survey, employment grew by 1.7 percent and was created mainly by wholesale and retail trade, agriculture and forestry, fishing, education, and construction. These more than offset the employment losses from accommodation and food service activities and transportation and storage. However, by class of worker, the employment growth mainly came from self-employed without any paid employee and those who worked without pay in own family-operated farm or business. The number of wage and salary workers in April 2021 was lower by 3.2 percent compared to January 2020, indicating that remunerative work has not yet recovered from the impact of the pandemic, unlike the other classes of workers.

On an m-o-m basis,[31] employment loss in April 2021 was 2.1 million or a 4.5 percent decline as all major sectors contracted. The bulk of the employment loss came from construction, agriculture and forestry, and wholesale and retail trade. Significant employment gains were only recorded in education and accommodation and food service activities. In terms of class of worker, mostly affected were wage and salary workers and self-employed without any paid employee.

On a y-o-y basis, employment expanded by 27.9 percent, with positive contributions from all major sectors of the economy. A total of 9.4 million employment were generated in April 2021. Deducting the 8.7 million employment loss in April 2020, the economy generated a net employment of 0.7 million relative to the pre-pandemic period. Sub-sectors that significantly contributed to employment growth include wholesale and retail trade, agriculture and forestry, construction, and manufacturing. By class of worker, majority of the generated employment was in the form of wage and salary workers, particularly for private establishment, and self-employed without any paid employee.

Chart 18. Employment by Sector

in percent



Source: PSA

The unemployment rate in April 2021 was equivalent to 4.1 million unemployed individuals or 3.1 million less workers who lost their jobs from the same period a year ago. However, this level of unemployment was still higher by 1.7 million compared to 2.4 million unemployed in January 2020. The number of unemployed in April 2021 was also higher by 697 thousand compared to March 2021. The pool of unemployed was dominated by 25-34-year-old age group (34.2 percent), followed by the youth or the 15-24 age group (29.2 percent).

[31] Comparing employment in April 2021 with that in March 2021, however, should be considered with caution as the two surveys have significant difference in the number of eligible sample households. The April 2021 LFS had 44,344 sample households and only a quarter of this was considered in March 2021.

In terms of highest grade completed, junior high school graduates (29.6 percent) and college graduates (24.0 percent share) accounted for majority of the unemployed. With the resumption of more economic activities compared to same period last year, there has been a marked reduction in the number of unemployed youth (-40.8 percent) and the increase in youth labor force (18.3 percent). Relative to March 2021, however, youth unemployment rate rose due to significant decline in youth labor force.

The other aspects of employment quality showed mixed performance in April 2021 compared to the same period a year ago. The share of remunerative work or wage and salary workers declined to 61.0 percent in April 2021 from 63.2 percent in April 2020. The overall mean hours of work, however, increased to 38.0 in April 2021 from 35.0 a year ago. The latest share of wage and salary workers and mean hours of work were also below the pre-pandemic levels which were at 65.2 percent and 41.3 percent, respectively. This supports the estimated negative contribution to employment growth of wage and salary workers in April 2021 relative to January 2020. Relative to March 2021, the latest employment quality indicators were a deterioration as the share of remunerative work was 62.0 percent and mean hours of work was 39.7 in the previous month..

II. Monetary and Financial Market Conditions

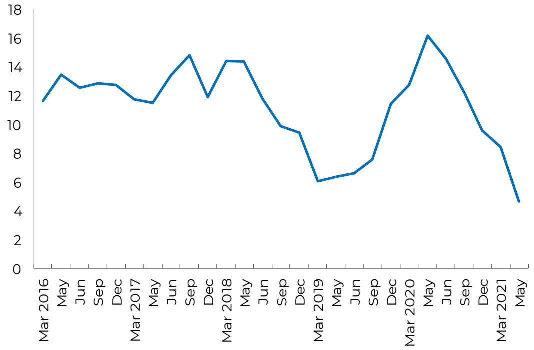
Domestic Liquidity

Domestic liquidity (M3) rose by 4.7 percent y-o-y in May 2021 to ₱14.3 trillion, slower than the 8.4-percent expansion as of end-Q1 2021.

Domestic liquidity grows by 4.7 percent, y-o-y, in May

Domestic claims grew by 2.6 percent in May 2021 from 5.7 percent as of end-Q1 2021 due mainly to the expansion in net claims on the central government, even as overall bank lending remained weak. Net claims on the central government expanded by 22.6 percent in May owing partly to the sustained NG borrowings.

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



Source: BSP

Net foreign assets (NFA) in peso terms grew by 14.5 percent y-o-y in May from 18.1 percent in end-Q1 2021. The slower expansion in the BSP's NFA position reflected the lower growth in gross international reserves (GIR). Meanwhile, the NFA of banks expanded as banks' foreign assets rose on account of higher interbank loans and investments in marketable securities.

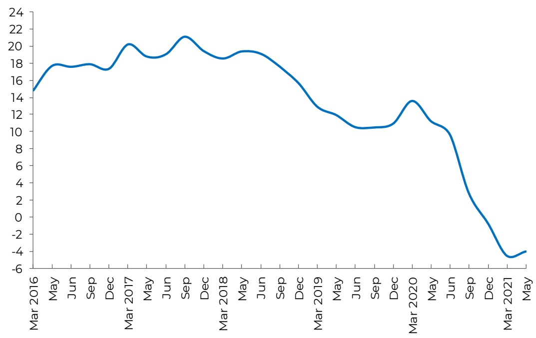
Bank Lending

Outstanding loans of commercial banks, net of reverse repurchase (RRP) placements with the BSP, fell by 4.0 percent y-o-y in May 2021 after a 4.5-percent decline recorded in end-Q1 2021. Credit activity remained tepid on banks' tighter lending standards as a resurgence in coronavirus cases dampened the domestic economic outlook.

Credit activity remains muted

Overall, total loans for production activities went down by 2.9 percent y-o-y in May 2021 following a 3.2-percent decrease in end-Q1 2021. Outstanding loans to major industries fell anew, particularly to manufacturing, wholesale and retail trade and repair of motor vehicles and motorcycles, and professional, scientific and technical activities. However, the decrease in outstanding loans to these industries was partially offset by the increase in loans to real estate activities, information and communication, human health and social work activities, and construction.

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



Source: BSP

At the same time, consumer loans decreased by 9.2 percent y-o-y in May 2021, a slower pace compared to the 9.9-percent fall in end-Q1 2021, as motor vehicle loans and salary-based consumption loans continued to contract.

Monetary Operations

As of end-Q2 2021,[32] total outstanding amount absorbed in the BSP liquidity facilities stood at about ₱2.1 trillion. Bulk of the BSP's liquidity-absorbing monetary operations had been through the term deposit facility (TDF), comprising about 43.0 percent of the combined outstanding amount of liquidity absorbed through the BSP liquidity facilities. Meanwhile, placements in the overnight deposit facility (ODF), BSP Securities facility (BSP-SF), and reverse repurchase (RRP) facility made up 23.7 percent, 18.9 percent, and 14.4 percent, respectively.

The average weekly total offer volume in the TDF auctions was lower at about ₱509.2 billion in Q2 2021 relative to around ₱561.5 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 1.2x and 1.1x, 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 continued to reflect sustained strong demand amid ample liquidity in the financial system, with average bid-to-cover ratio for the quarter recorded at 1.4x.

[32] As of 29 June 2021

Credit Conditions

Credit Standards. Results of the Q2 2021 Senior Bank Loan Officers' Survey (SLOS)[33] showed that majority of the respondent banks kept their overall credit standards for loans to both enterprises and households generally unchanged during the quarter based on the modal approach.[34] Similar with the previous quarter's outcome, results indicated by the diffusion index (DI) approach[35,36] showed a net tightening of overall credit standards for both loans to enterprises and households in Q2 2021.

Credit standards continue to reflect banks' cautious lending stance

Responses for the Q2 2021 survey were collected during the government's ongoing implementation of quarantine measures to moderate the spread of the COVID-19 infection rates since March 2020. Respondent banks' inputs to the SLOS were gathered during the period 2 - 25 June 2021.

Lending to Enterprises. Based on the modal approach, majority of the respondents (70.0 percent) specified

[33] 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, 53 banks responded to the current survey representing a response rate of 82.8 percent.

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

[35] 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").

[36] During the Q1 2010 to Q4 2012 survey rounds, the BSP used the DI approach in the analysis of survey results. Beginning in Q1 2013, the BSP used both the modal and DI approaches in assessing the results of the survey.

that overall credit standards for loans to enterprises were maintained during the quarter. At the same time, DI-based results showed a net tightening of lending standards across all borrower firm sizes, particularly, top corporations, large middle-market enterprises, small and medium enterprises, and micro enterprises. As indicated by respondents, the reported tightening of overall credit standards was largely due to a deterioration in the profiles of borrowers and profitability of banks' portfolio, reduced tolerance for risk, as well as a more uncertain 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	Q2
Tightened Considerably	2.1	4.8	4.1	0.0	2.8	20.4	20.5	14.6	10.6	8.0
Tightened Somewhat	22.9	11.9	12.2	15.2	30.6	49.0	27.3	17.1	14.9	20.0
Remained Basically Unchanged	**72.9**	**81.0**	**81.6**	**84.8**	**66.7**	**24.5**	**45.5**	**63.4**	**66.0**	**70.0**
Eased Somewhat	0.0	0.0	0.0	0.0	0.0	6.1	6.8	4.9	8.5	2.0
Eased Considerably	2.1	2.4	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	**22.9**	**14.3**	**14.3**	**15.2**	**33.3**	**63.3**	**40.9**	**26.8**	**17.0**	**26.0**
Number of Banks Responding	**48**	**42**	**49**	**46**	**36**	**49**	**44**	**41**	**47**	**50**

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

On specific credit standards, the net tightening of overall credit standards was evident in terms of reduced credit line sizes; stricter collateral requirements and loan covenants; and increased use of interest rate floors.[37] Meanwhile, some form of easing was shown in terms of narrower loan margins and longer loan maturities.

In terms of outlook for the next quarter, while majority of the respondent banks anticipate steady overall credit standards for lending to businesses, DI-based results indicate expectations of net tighter standards amid a deterioration of borrowers' profiles and profitability of banks' portfolio, less favorable economic outlook, along with decreased tolerance for risk.

Lending to Households. Most respondent banks (68.6 percent) kept their overall credit standards for loans extended to households unchanged in Q2 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 while results for credit card loans pointed to a net easing of standards. Respondent banks quoted the following elements that added to the general tightening of credit standards for consumer loans: a deterioration in borrowers' profile and profitability in bank's portfolio; a lower tolerance for risk; more uncertain economic outlook; and reduced tolerance for risk.

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

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

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

In terms of specific credit standards, the overall net tightening of lending standards to consumers was reflected in reduced credit line sizes as well as stricter loan covenants and collateral requirements. However, partial easing of credit standards for loans to households was reported in forms of narrower loan margins and longer loan maturities.

In Q3 2021, most of the respondent banks expect to retain their overall credit standards based on the modal approach. Conversely, DI-based results pointed to respondent banks' anticipation of a net easing of overall credit standards for household loans, citing expected improvement in borrowers' profiles and positive economic prospects.

Loan demand. Results for the Q2 2021 survey indicated that most of the respondent banks observed an unchanged overall loan demand from both businesses and households. On the other hand, DI-based results showed a net increase in overall demand for business loans (particularly, top

[37] 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.

corporations) while a net decline in demand for all categories of consumer loans was observed.

Loan demand rises for enterprises, falls for households

According to respondent banks, the slight net increase in loan demand from enterprises was driven by the improvement in customers' economic outlook, increased accounts receivable and inventory financing needs of clients. Meanwhile, respondent banks pointed to lower household consumption amid households' reduced appetite to spend for big ticket items (similar to the outcome in the Consumers Expectations Survey) and banks' less attractive financing terms as the main factors that contributed to the observed decrease in overall household loan demand.

Over the next quarter, most of respondent banks expect overall loan demand from both businesses and households to be broadly steady signifying improved economic prospects from enterprises and households as vaccination drives speed up.[38] DI-based results revealed expectations of a net increase in overall loan demand from firms associated mainly with corporate clients' higher inventory financing requirements and accounts receivable financing needs along with their improved economic outlook. Similarly, the DI approach pointed to banks' prospects of a net increase in overall loan demand from consumers driven largely by higher household consumption and lower income prospects.

[38] Results of the BSP's Q2 2021 CES indicated Improvement in consumer sentiment for Q2 2021, Q3 2021, and the next 12 months. According to respondents, their improved outlook was brought about by their expectations of: (a) more jobs and permanent employment; (b) additional/higher income; and (c) effective government policies and programs, particularly to address COVID-19-related concerns, such as the availability of vaccines, provision of financial assistance, and easing of quarantine restrictions. Meanwhile, the BSP's Q2 2021 BES pointed to weaker CI for firms compared the previous quarter.

Real Estate Loans. Results from the Q2 2021 survey also showed that majority of respondent banks (71.1 percent) reported broadly unchanged overall credit standards for commercial real estate loans (CRELs). Meanwhile, the DI-based method pointed to a net tightening of overall credit standards for CRELs for the 22nd consecutive quarter. Respondent banks cited a more uncertain economy, a lower tolerance for risk, as well as deterioration in borrowers' profile as the key contributors to the tightening of overall credit standards for CRELs for the quarter.

In terms of specific lending standards, the net tightening of overall credit standards for CRELs continued to indicate wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, increased use of interest rate floors, and shortened loan maturities. For the next quarter, banks' responses continued to point to expectations of net tighter credit standards for CRELs based on the DI approach.

Credit standards for real estate loans remain tight

Majority of the respondents reported unchanged demand for CRELs in Q2 2021 as determined by the modal approach. Meanwhile, DI-based results pointed to a slight net increase in demand for CRELs due to a rise in customers' inventory and accounts receivable financing needs, decline in consumers' internally-generated funds, and improvement in customers' economic outlook. In the next quarter, modal-based results indicated broadly steady loan demand while DI-based approach showed anticipation of an overall net increase in demand for CRELs. Respondent banks attributed the expected net rise in CRELs to customers' improved economic projections, increased customer inventory financing requirements and accounts receivable financing needs.

On housing loans extended to households, majority of the respondents (65.6 percent) also reported unchanged credit standards while DI-based results presented a net tightening in Q2 2021. Meanwhile, over the next quarter, DI-based results indicated prospects of net easing of credit standards for housing loans largely on the back of expected improvement in borrowers' profiles and more favorable economic projections.

Majority of respondents reported maintained overall loan demand for housing loans in Q2 2021. However, DI-based results pointed to a net decline in demand for housing loans in Q2 2021 amid a decline in household consumption and housing investment. Nonetheless, survey results pointed to expectations of net increase in housing loan demand in Q3 2021, reflecting mainly the consumers' rising household consumption and investments as well as banks' more attractive financing terms.

Interest Rates

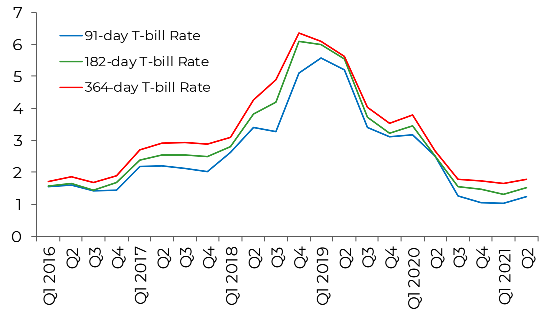
Primary Interest Rates. The weighted average interest rates (WAIR) for the 91-, 182- and 364-day T-bills in the primary market rose to 1.234 percent, 1.555 percent, and 1.798 percent in Q2 2021 from 1.024 percent, 1.318 percent, and 1.227 percent, respectively, in the previous quarter.

T-bill rates increase across all tenors

Notwithstanding the overall q-o-q increase in T-bill rates, downward movement in yields were observed from the middle to latter part of the quarter which could be attributed to ample financial system liquidity and market players' preference for short-term government notes amid sustained uncertainty due to the COVID-19 pandemic.

Easing inflation concerns amid a manageable inflation outlook for the year likewise supported the decline in yields towards the latter part of the quarter.

Chart 21. Treasury Bill Rates
in percent



Source: BTr

Yield Curve.[39] As of end-June 2021, the secondary market yield for government securities (GS) for all maturities (except for the 20-year and 25-year tenors) declined relative to the end-March 2021 levels.

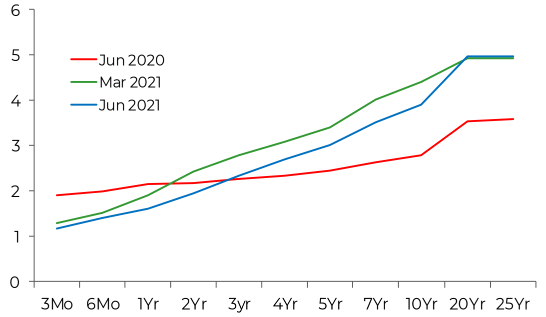
GS yields decline generally in Q2 2021

Debt paper yields were lower by a range of 11.2 bps for the 3-month GS to 50.4 bps for the 7-year GS compared to end-March 2021 levels. However, the yields for the 20-year and 25-year GS were higher by 2.7 bps and 3.4 bps, respectively.

Relative to year-ago levels, the secondary market yields for GS for all maturities increased generally by a range of 7.5 bps (for the 3-year GS) to 142.3 bps (for the 20-year GS). Debt paper yields for the 3-month, 6-month, 1-year and 2-years GS decreased by 73.1 bps, 60.1 bps, 55.8 bps and 21.7 bps, respectively.

[39] 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 22. Yields of Government Securities in the Secondary Market
in percent



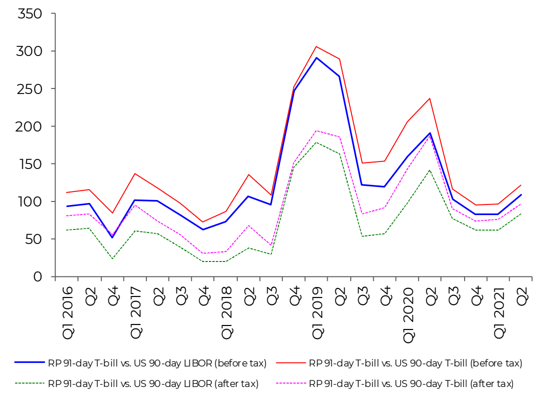
Source: Bloomberg

Interest Rate Differentials. The average differentials between domestic and US interest rates, net of tax, widened further in Q2 2021 relative to the previous quarter.

Interest rate differentials widen further in Q2 2021

The average 91-day RP T-bill rate rose q-o-q by 21.8 bps to 1.237 percent in Q2 2021 from 1.019 percent in Q1 2021. However, the average US 90-day LIBOR and the US 90-day T-bill rate declined by 4.4 bps and 3.2 bps respectively, to 0.157 percent and 0.023 percent in Q2 2021. These developments led to wider positive net of tax differentials between the 91-day RP T-bill rate and US interest rates.

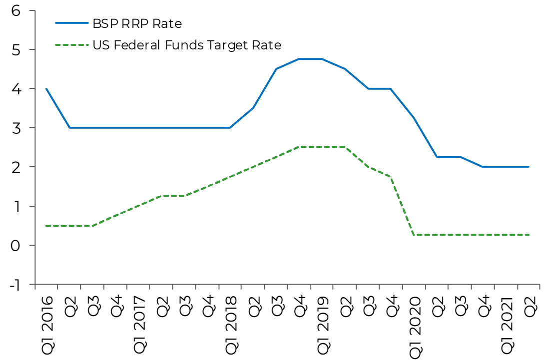
Chart 23. Interest Rate Differentials
quarterly averages; in basis points



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 Q2 2021, as the policy settings for both central banks were kept steady.

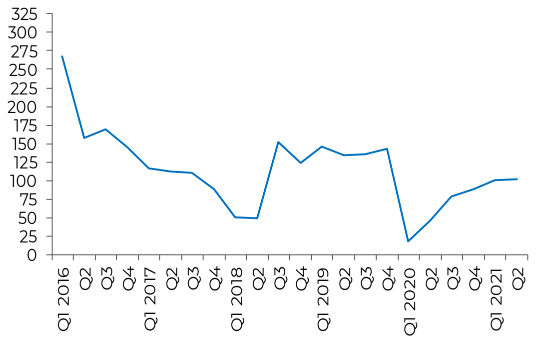
Chart 24. BSP RRP Rate and US Federal Funds Target Rate
in percent



Source: US Federal Reserve and BSP

Meanwhile, the interest rate differential between the BSP's overnight RRP rate and the US Fed funds target rate adjusted for country risk premium[40] widened slightly to 102 bps as of end-June 2021 from 100 bps in end-March 2021 due to lower risk premium.

Chart 25. Risk-Adjusted Differentials
in basis points



Source: Bloomberg and BSP

This development could be traced to the 2-bp decline in the country risk premium following the larger decrease in the 10-year ROP Note relative to the decrease in the 10-year US Note.

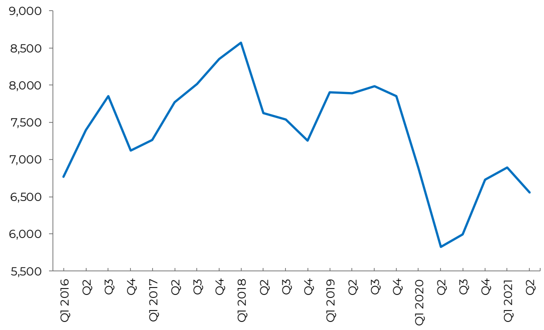
[40] The difference between the 10-year ROP note and the 10-year US Treasury note is used as proxy for the risk premium.

Financial Market Conditions

Financial market conditions remained stable amid accommodative monetary settings and ample financial liquidity. The equities market showed mixed trends as expectations of recovery were dampened by investor concerns on surging COVID-19 cases. Meanwhile, market participants' interest for Philippine debt papers remained robust. The country's debt spreads showed mixed trends, reflecting market developments in peer economies. Nevertheless, the banking system continued to exhibit resilience and stability during the review quarter.

Stock Market. In Q2 2021, the PSEi showed mixed trends. The main index declined by 4.7 percent on a q-o-q basis to average 6,561.31 index points.

Chart 26. Quarterly Average PSEi
index points



Source: Philippine Stock Exchange, BSP

Recovery expectations were clouded by investor concerns over occasional spikes in COVID-19 cases, the detection of a new COVID-19 variant, initial setbacks in the vaccination program and the reimposition of targeted lockdown measures from March to May. Likewise, reports of below-expected economic figures such as the weak economic data in the NCR in 2020,[41] the decline in factory activity in April, the contraction in the country's Q1 2021 growth for the fifth straight quarter, the retreat in bank lending in March and elevated domestic inflation during the quarter contributed to the drop in the PSEi. Moreover, the cut in Philippine's 2021 growth forecasts by Fitch Ratings, Asian Development Bank (ADB), Institute of International Finance, the World Bank (WB) and the International Monetary Fund (IMF), alongside the US Federal Reserve's hawkish statement[42] further dampened investor sentiment and weighed down the index during the quarter-in-review.

Meanwhile, comparing end-quarter levels, the PSEi increased by 7.1 percent to close at 6,901.91 index points in end-June from 6,443.09 index points in end-March. Market optimism over the release of ₱23-billion worth of financial assistance through the Bayanihan to Recover as One Act, the approval of the third stimulus package under House Bill No. 9411 or the Bayanihan to Arise as One Act, and the relaxation of the mining rules to reopen the economy to fresh mining investments boosted the index higher. Furthermore, the slight improvement in the country's manufacturing PMI in May[43] and factory output data in April,[44] positive news on exports, foreign direct investments[45] and the government's higher programmed spending[46] in the second half of the year saw the market close in positive territory in June. Shares also climbed following Improvements in the vaccination

[41] Preliminary results from the PSA Regional Accounts showed NCR shrank by 10.1 percent in 2020 from the 7.0 percent growth in 2019.

[42] On 16 June, the US Federal Reserve announced an accelerated timetable for interest rate increases, projecting a two-rate increase in 2023, much earlier than its initial target of 2024, amid optimism about the US labor market and heightened concerns for inflation.

[43] The country's manufacturing PMI reached 49.9 in May, a slight uptick from 49 in April but still below the 50 neutral mark that delineates contraction from expansion.

[44] The MISSI showed factory output, as measured by the volume of production index, surged by 162.1 percent y-o-y in April, a reversal from the 73.3 percent annual decline recorded in the previous month as well as the 64.8 percent drop in April 2020.

[45] Exports in April surged by 72.1 percent to US$5.71 billion versus the previous year's 41.3-percent decline. Meanwhile, foreign direct investments (FDI) inflows in March more than doubled to US$808 million from US$337 million in the same month last year. This helped fuel a 45 percent rise in the first quarter FDI inflows to US$2.377 billion from US$1.638 billion in the same period in 2020.

[46] The DBCC set a ₱2.3-trillion target spending in the second half of the year to help boost the economy. This is 3.9 percent higher than the ₱2.214 trillion in actual expenditures recorded in the same period last year.

program[47] and the further easing of quarantine restrictions in Metro Manila and nearby provinces towards the end of the quarter.[48] The US Fed Chairman Jerome Powell's dovish testimony in Congress [49] and the BSP's decision to keep benchmark interest rates steady also raised investor sentiment.

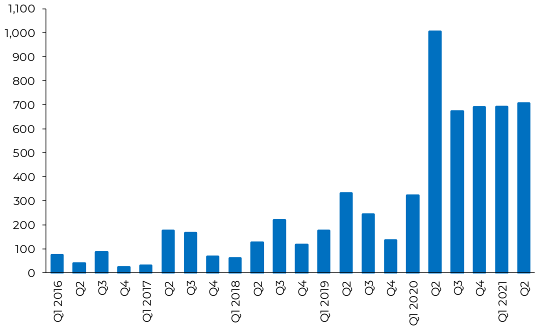
During the review period, total market capitalization went up by 8.6 percent q-o-q to reach ₱16.7 trillion in end-June 2021. All sectoral indices posted gains, led by the industrial sector which went up by 26.5 percent q-o-q. Meanwhile, foreign investors continued to withdraw from the local bourse, posting net sales of ₱30.1 billion from April to June. This was lower than the ₱47.8-billion net sales recorded in Q1 2021.

Government Securities. Results of the weekly T-bill auctions conducted in April – June 2021 continued to show market players' strong demand for government securities with total subscription for the quarter amounting to around ₱1.0 trillion or about 3.7 times the ₱275.0-billion aggregated original amounts on offer.

Robust demand for T-bills remains

Total oversubscription for the T-bill auctions in Q2 2021 reached ₱733.8 billion, higher than the ₱706.3 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 a healthy demand for T-bills, the BTr awarded in full the offered amounts in all of the auctions during the quarter. Moreover, the strong demand for GS has continued to allow the BTr to increase the amount awarded for non-competitive bids for six (6) out of 13 T-bill auctions,[50] resulting in higher total accepted amounts than the original weekly offered amount. It should be noted, however, that the BTr adjusted its borrowing program in July 2021 for its T-bill offerings to a mix of ₱5.0 billion volume offering each for the 91-, 182-, and 364-day tenors (from a mix of ₱5.0 billion, ₱8.0 billion, and ₱15.0 billion volume offerings, respectively, in June 2021). In addition, to accommodate excess demand, the BTr opened its tap facility for the 364-year T-bills in six (6) out of the 13 T-bill auctions during the quarter,[51] which raised another ₱34 billion in total. Meanwhile, the BTr has not offered the 35-day T-bills since Q4 2020.[52]

Sovereign Bond and Credit Default Swap (CDS) Spreads. In April, debt spreads widened due to concerns over the unstable rise in Covid-19 infections and delays in the country's vaccination program.

Debt spreads narrow in June

[47] The government has given out more than 8 million coronavirus vaccine doses since its vaccination drive started in March.
[48] For the period 1-15 June, the NCR Plus was kept under GCQ. For the period 16-30 June, the NCR and the province of Bulacan were placed under GCQ "with some restrictions". Meanwhile, the provinces of Rizal, Laguna, and Cavite remained under a general quarantine "with heightened restrictions."
[49] On 22 June, US Fed Chair Jerome Powell said that, while price pressures have increased notably, inflation will drift back to the US Fed's longer-term 2 percent target.

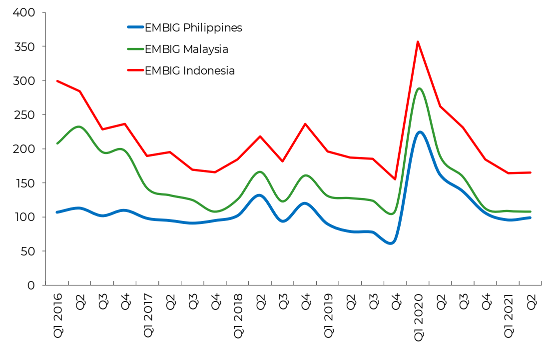
[50] T-bill auctions on 3, 10, and 31 May 2021 as well as on 7, 14, and 21 June 2021
[51] T-bill auctions on 19 and 26 April as well as on 3, 10, 17, and 24 May 2021
[52] The 35-day T-bills were offered twice and six times in Q3 and Q2 2020, respectively.

In May, the trend had mixed signals due to lack of positive developments in the availability of vaccines while cases are continuing to grow at a decreasing rate.

In June, debt spreads narrowed marginally as the inoculation gained some traction, meeting the vaccination program targets coupled by the decreasing number of infections and the loosening of quarantine restrictions that led to more businesses opening operations.

As of 30 June 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 99 basis points (bps), up from end-March 2021 level of 96 bps.

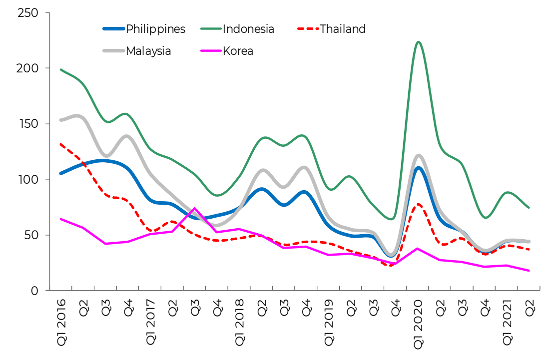
Chart 28. EMBIG Spreads of Selected ASEAN Countries
in basis points



Source: Bloomberg

Meanwhile, the country's 5-year sovereign CDS remained stable at 44 bps, unchanged from its end-March level.

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



Source: Bloomberg

Against other neighboring economies, the Philippine CDS was the same with Malaysia's 44 bps and narrower than Indonesia's 74 bps but wider than Thailand's 37 bps and Korea's 18 bps spreads.

Banking System

The Philippine banking system exhibited resilience and stability in Q2 2021 as the country's economic activities and financial transactions continued to recover from the disruption caused by the pandemic and quarantine measures.

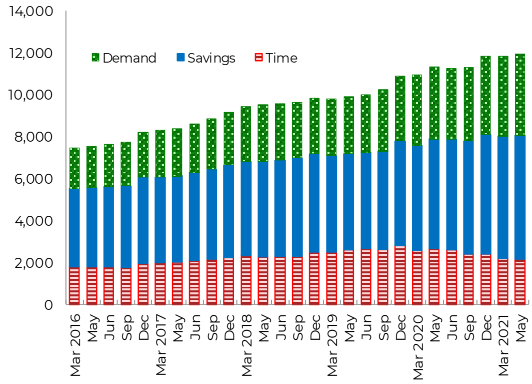
Banking system assets and deposits sustain growth

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. Banks maintained dominance in the financial sector, with universal and commercial banks (U/KBs) accounting for about 92.5 percent of total banks' resources. In terms of the number of head offices and branches/agencies, non-bank financial intermediaries (NBFIs) 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-May 2021 amounted to ₱11.9 trillion, 5.4 percent and 0.9 percent higher than the levels posted a year- and a month- ago.[53]

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

Chart 30. Deposit Liabilities of Banks
in billion pesos



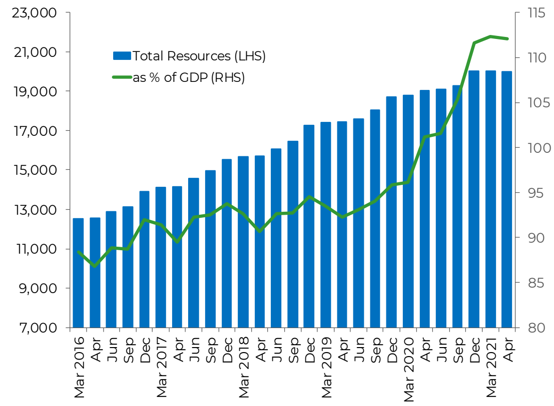
Source: BSP

Meanwhile, foreign currency deposits owned by residents (FCD-Residents) settled at ₱2.0 trillion as of end-May 2021, lower by 1.4 percent from the level reported a year ago but higher by 1.2 percent from its level last month.[54]

Institutional Developments. The total resources of the banking system grew by 5.0 percent to reach ₱20.0 trillion as of end-April 2021 from the ₱19.0 trillion registered a year ago. Meanwhile, relative to the end-March 2021 level, the total resources of the banking system decreased by 0.2 percent. As a percent of GDP, total resources stood at 112.1 percent.[55]

Total resources of the banking system exhibit modest rise

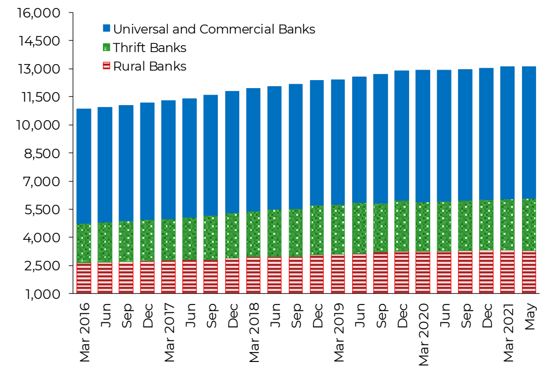
Chart 31. Total Resources of the Banking System
levels in billion pesos; share in percent



Source: BSP

The number of banking institutions (head offices) as of end-May 2021 declined to 524 offices from 528 offices as of end-March 2021. The banks' head offices are comprised of 46 U/KBs, 48 TBs, and 430 rural banks (RBs). During the same period, the operating network (head offices and branches/agencies) of the banking system increased to 13,108 offices from 13,089 offices in end-March 2021.

Chart 32. Number of Banking Institutions



Source: BSP

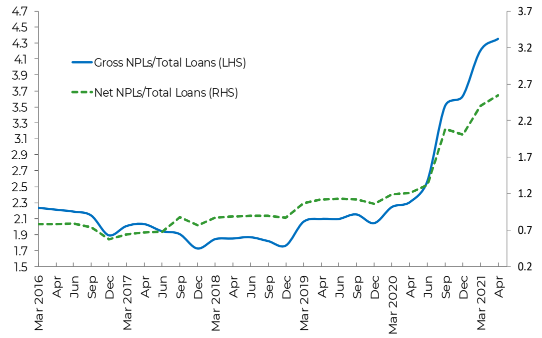
In terms of asset quality, the Philippine banking system's gross non-performing loans (GNPL) ratio rose to 4.4 percent as of end-April 2021 relative to the 2.3 percent posted a year ago and 4.2 percent registered in March 2021.

NPLs rise but remain manageable

[54] 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.
[55] GDP as of end-March 2021.

Similarly, the net non-performing loans (NNPL) ratio increased to 2.5 percent as of end-April 2021 relative to the 1.2 percent posted a year ago, and the 2.4 percent registered in March 2021.

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



Source: BSP

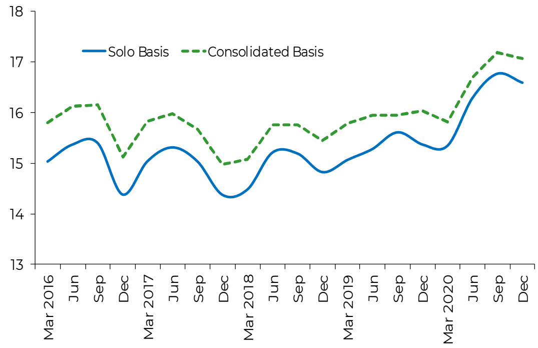
Compared with regional counterparts, the Philippine banking system's GNPL ratio of 4.4 percent was higher with respect to those of South Korea (0.6 percent), Malaysia (1.0 percent), Indonesia (2.8 percent) and Thailand (3.1 percent).[56]

Loan exposures of banks remained adequately covered with the banking system's NPL coverage ratio at 81.5 percent as of end-April 2021, lower, however, than the 94.7 percent recorded a year ago and the 83.2 percent posted in March 2021.

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

The capital adequacy ratio (CAR) of U/KBs at end-December 2021, on solo basis, decreased slightly to 16.6 percent from the 16.8 percent posted a quarter ago. Similarly, on a consolidated basis, CAR of U/KBs declined to 17.1 percent from the 17.2 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 (15.3 percent) but lower than those of Malaysia (18.3 percent), Thailand (20.2 percent) and Indonesia (24.1 percent).[57]

Exchange Rate

The peso averaged ₱48.18/US$1 in Q2 2021, appreciating slightly by 0.21 percent from the Q1 2021 average of ₱48.28/US$1 due to positive market sentiment as the economy continued to show signs of recovery amid the pandemic.

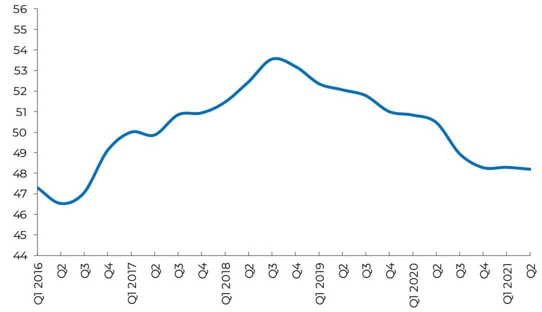
[56] Sources: Malaysia (Banking System's Ratio of net impaired loans to net total loans, April 2021); South Korea (Domestic Banks' Substandard or Below Loans [SBLs] ratio, March 2021); Indonesia (Commercial Banks' Nonperforming Loans to Gross Loans Ratio, March 2021); and Thailand (Total Commercial Banks'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

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

Peso appreciates as the economy shows signs of recovery

On a y-o-y basis, the peso likewise appreciated by 4.74 percent relative to the ₱50.46/US$1 average in Q2 2020.[58]

Chart 35. Quarterly Peso-Dollar Rate
PHP₱/US$; average per quarter



Source: Reference Exchange Rate Bulletin, Treasury Department, BSP

In April, the peso averaged ₱48.46/US$1, appreciating by 0.23 percent from the ₱48.57/US$1 average in March 2021. The peso appreciated on market optimism following (i) the easing of headline inflation in March 2021; (ii) upbeat remittance data for February 2021; (iii) Moody's Investors Service improved outlook on the local banking industry; (iv) the NG issuance of euro bonds amounting to EUR 2.1 billion; and (v) increase in the available vaccine supply in the country.

In May, the appreciation of the peso continued, as it averaged ₱47.96/US$1, 1.06 percent higher than the previous month's average. The peso appreciated on positive market sentiment amid (i) the improvement in local trade data in March 2021 on the back of a strong rebound in exports; (ii) the easing in the country's unemployment rate in March to its lowest level since the onset of the pandemic at 7.1 percent from 8.8 percent in February; (iii) the slower-than-expected domestic inflation in April 2021; (iv) the decline in new cases of COVID-19 locally; (v) higher GIR for April 2021 relative to the previous month; and (vi) dovish signals from the US Federal Reserve.

Meanwhile, in June, the peso depreciated to an average of ₱48.12/US$1, 0.35 percent lower than the average in May. The peso depreciated on risk-off sentiment amid (i) market cautiousness after the US Federal Reserve signalled it could raise interest rates earlier than previously hinted; (ii) the release of faster May inflation data in the United States; and (iii) the announcement by the Financial Action Task Force (FATF) of the inclusion of the Philippines in the list of countries that will be under increased monitoring to prove its effective implementation of anti-money laundering (AML) and counter-terrorism financing (CTF) measures.

On a y-t-d basis, the peso depreciated against the US dollar by 1.59 percent to close at ₱48.80/US$1 on 30 June 2021 from the end-December 2020 closing rate of ₱48.02/US$1.[59]

Meanwhile, the volatility of the peso's daily closing rates (as measured by the coefficient of variation) stood at 0.72 percent in Q2 2021, slightly higher than the 0.54 percent registered in the previous quarter.[60] 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 April-May 2021 against the basket of currencies of all trading partners (TPI) and trading partners in developing (TPI-D) countries relative to Q1 2021. This was indicated by the increase in the real effective exchange rate (REER) index of the peso by 0.15 percent and 0.83 percent, respectively. Meanwhile, relative to trading partners in advanced (TPA) countries, the REER index of the peso decreased by 1.04 percent.

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

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

[60] 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.

Relative to Q2 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 the TPI and TPI-A. For the TPI-D, the nominal depreciation of the peso failed to neutralize the higher inflation differential. As a result, the REER index of the peso increased by 2.50 percent, 4.95 percent, and 1.24 percent against the TPI, TPI-A and TPI-D baskets, respectively.[61,62]

[61] The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners (MTPs) 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.

[62] The REER index represents the Nominal Effective Exchange Rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. A decrease in the REER index indicates some gain in the external price competitiveness of the peso, while a significant increase indicates the opposite. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

III. Fiscal Developments

The National Government recorded a ₱566.2-billion fiscal deficit for the period January – May 2021, generally unchanged from the fiscal deficit level registered a year ago at ₱562.2 billion.

NG records a fiscal deficit for January-May 2021

Netting out interest payments from expenditures, the primary deficit amounted to ₱387.6 billion, which is four percent lower than the amount recorded in 2020.

Table 14. National Government Fiscal Performance
in billion pesos

	2020		2021		Growth Rate (in percent)	
	May	Jan-May	May	Jan-May	May	Jan-May
Surplus/(Deficit)	-202.1	-562.2	-200.3	-566.2	-0.9	0.7
Revenues	151.5	1,102.3	256.4	1,244.8	69.3	12.9
Expenditures	353.6	1,664.5	456.7	1,811.0	29.2	8.8

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

Revenues increased by 12.9 percent to ₱1,244.8 billion in January – May 2021 compared to ₱1,102.3 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱872.4 billion and ₱249.6 billion, respectively. Revenue collections by the BIR and BOC were higher by 29.5 percent and 18.6 percent, respectively. The increase in revenue collection is driven by the growth in tax collections. Meanwhile, the BTr recorded an income of ₱60.8 billion, 64.6 percent lower than the amount recorded last year. The decrease was attributed to the normalization compared to last year's collections generated to the provisions of the Bayanihan to Heal as One Act.

Expenditures for the period in review amounted to ₱1,811.0 billion, reflecting an increase of 8.8 percent than the expenditures in the previous year.

Excluding interest payments, expenditures went up by 8.5 percent to ₱1,632.4 billion. Meanwhile, interest payment was 11.6 percent higher compared to its year-ago level, reaching ₱178.6 billion in January – May 2021.

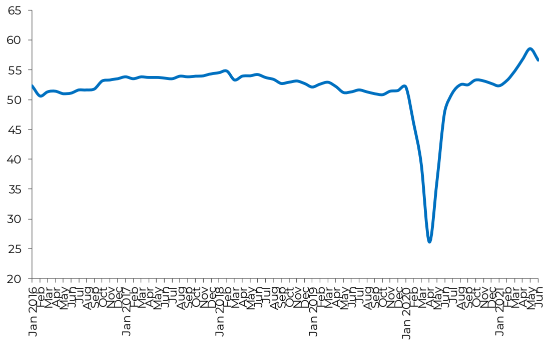
IV. External Developments

The JP Morgan Global All-Industry Output Index declined to 56.6 in June from 58.5 in May as growth in Asia slowed amid the surge in COVID-19 cases due to the emergence of new coronavirus variants. Nevertheless, both manufacturing and service sectors continued to expand, reflecting the recoveries seen in North America, Euro Area, and Oceania.

Global economic output expansion slows down in June

Output expanded in the US, UK, Euro Area, Brazil, Australia, and China, while downturns were recorded in Japan and India.[63]

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



Source: Markit Economics

US. On a seasonally adjusted q-o-q basis, real GDP grew by 6.4 percent in Q1 2021 following a 4.3-percent expansion in Q4 2020. On a y-o-y basis, real GDP expanded by 0.4 percent in Q1 2021 from a 2.4-percent decline in the previous quarter. The q-o-q expansion in real GDP in the first quarter reflected increases in personal consumption expenditures, nonresidential fixed investments, federal government spending, residential fixed investment, and state and local government spending. These movements were partly offset by decreases in private inventory investment and exports.[64]

US manufacturing activity continues to recover strongly, albeit at a slower pace

The US manufacturing PMI decreased to 60.6 percent in June from 61.2 percent in May due to declines in new orders, backlog of orders, employment, and supplier deliveries.[65]

The unemployment rate marginally increased to 5.9 percent in June from 5.8 percent in May. Total nonfarm payroll employment rose by 850,000 in June, with employment gains in leisure and hospitality, public and private education, professional and business services, retail trade, and other services. Despite the significant gains in nonfarm payroll employment, the unemployment rate inched up as voluntary resignations increased in June. Meanwhile, on a y-o-y basis, inflation went up to 5.4 percent in June from 5.0 percent in May due primarily to higher prices of used cars and trucks, energy, transportation services, and food.

The Conference Board Consumer Confidence Index improved to 127.3 in June from 120.0 in May as consumers' short-term outlook for income, business, and labor market conditions as well as the appraisal of current conditions improved. Similarly, the Thomson-Reuters/University of Michigan Index

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

[64] US Bureau of Economic Analysis, "Gross Domestic Product (Third Estimate),GDP by Industry, and Corporate Profits (Revised), 1st Quarter 2021" news release, 24 June 2021 https://www.bea.gov/sites/default/files/2021-06/gdp1q21_3rd_1.pdf

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

of Consumer Sentiment rose to 85.5 in June from 82.9 in May, reflecting mainly the optimism among middle- and upper-income households as well as expectations of stronger US economic growth.[66]

Euro Area. On a q-o-q basis, real GDP in the euro area decreased by 0.3 percent in Q1 2021 following a 0.6-percent contraction in Q4 2020. On a y-o-y basis, real GDP contracted by 1.3 percent in Q1 2021 following a 4.7-percent decline in the previous quarter.[67]

Composite PMI in the euro area improves further

The composite PMI for the euro area rose to 59.5 in June from 57.1 in May as the easing of COVID-19-related restrictions across member economies supported output growth and new business volumes in both manufacturing and service sectors.[68]

Inflation in the euro area declined to 1.9 percent in June from 2.0 percent in May due mainly to lower inflation for energy and services.[69] The seasonally-adjusted unemployment rate fell to 7.9 percent in May from 8.1 percent in April.

The European Commission's Economic Sentiment Indicator (ESI) in the euro area further rose to 117.9 in June from 114.5 in May, reflecting the improved confidence in the industry, services, retail trade, and construction sectors.

Japan. On a q-o-q seasonally adjusted basis, real GDP contracted by 1.0 percent in Q1 2021 from a growth of 2.8 percent in Q4 2020. On a y-o-y basis, real GDP declined by 1.6 percent in Q1 2021 following a 1.1-percent contraction in the previous quarter due mainly to weak private domestic demand.[70]

Manufacturing output in Japan expands at a slower pace

The seasonally adjusted manufacturing PMI declined to 52.4 in June from 53.0 in May due partly to the weaker expansions in production volumes and new orders.[71]

Meanwhile, inflation contracted by 0.1 percent in May, less negative from the 0.4-percent decline in April due to increases in the indices for housing, furniture and household utensils, clothes and footwear, education, culture and recreation as well as miscellaneous items. Meanwhile, the seasonally adjusted unemployment rate went up to 3.0 percent in May from 2.8 percent in April.

China. Real GDP in China grew by 18.3 percent y-o-y in Q1 2021 from 6.5 percent in the previous quarter, driven by strong retail consumption as well as increase in industrial production and fixed assets investments amid strong foreign demand.

Chinese economic activity continues to expand

China's seasonally adjusted manufacturing PMI fell to 51.3 in June from 52.0 in May as production and new orders declined amid the resurgence of COVID-19 cases and continued disruptions in global supply chains.[72]

[66] Final Estimate. University of Michigan Survey of Consumers, http://www.sca.isr.umich.edu/
[67] Eurostat news release 66/2021 dated 8 June 2021
[68] Final Estimate. Markit Eurozone PMI, http://www.markiteconomics.com/
[69] Final estimate. Eurostat news release dated 16 July 2021
[70] Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. http://www/esri.cao.go.jp/
[71] Jibun Bank Japan Manufacturing PMI, http://www.markiteconomics .com/
[72] Caixin China General Manufacturing PMI, http://www.markiteconomics.com/

Inflation decelerated to 1.1 percent in June from 1.3 percent in May as food inflation decreased.

India. Real GDP in India rose by 1.6 percent in Q1 2021 following a 0.5-percent growth in Q4 2020 due to expansion in agriculture, forestry, and fishing; manufacturing; electricity, gas, water supply, and other utility services; construction; financial, real estate, and professional services; and public administration, defense and other services.

India's composite PMI contracts

The composite PMI-declined to 43.1 in June from 48.1 in May due to the sharp drop in new orders in both manufacturing and service sectors amid the escalation of the pandemic.

Inflation in India remained at 6.3 percent in June due to higher inflation for food and beverages; clothing and footwear; fuel and light; and miscellaneous items.

ASEAN Region. The Nikkei ASEAN Manufacturing PMI reverted to contraction territory to a PMI of 49.0 in June from 51.8 in May as output and new orders declined amid surging COVID-19 cases in the region.

Overall manufacturing conditions in the ASEAN region revert to contraction in June

Across the seven monitored countries, contractions were recorded in Malaysia, Myanmar, Singapore, Vietnam, and Thailand. Meanwhile, the respective manufacturing sectors of Indonesia and Philippines remained above the expansion territory. [73]

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

Policy Actions by Other Central Banks. Aside from the BSP, the Reserve Bank of Australia, Bank of Canada, European Central Bank, Reserve Bank of India, Bank Indonesia, Bank of Japan, Bank Negara Malaysia, Reserve Bank of New Zealand, Bank of Korea, Bank of Thailand, Central Bank of the Republic of China (Taiwan), Bank of England, and the US Federal Reserve maintained their respective key policy rates during their monetary policy meetings held in Q2 2021.

Most central banks maintain their respective policy settings in Q2 2021

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

Meanwhile, the Reserve Bank of India restored the cash reserve ratio (CRR) to its pre-pandemic rate by raising the CRR by a cumulative of 100 bps during Q2 2021. The RBI normalized the CRR to open up space for a variety of market operations to inject additional liquidity into the economy as needed. Banks now face a CRR of 4.0 percent of net demand and time liabilities (NDTL), 100 bps higher than the year-ago rate of 3.0 percent.

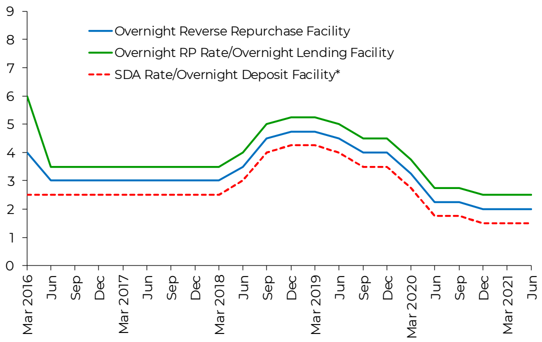
V. Monetary Policy Developments

At its monetary policy meetings on 12 May and 24 June, 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 the latest inflation forecasts indicate that the average inflation is likely to settle near the upper end of the target range of 2-4 percent in 2021; the BSP expects that average inflation will ease towards the midpoint of the target range in 2022 and 2023. Price pressures on food commodities have abated with favorable weather conditions and the facilitation of meat imports to augment domestic supply. The BSP emphasized that the continued implementation of direct non-monetary measures will be crucial in mitigating further supply-side pressures on meat prices and inflation.

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

At the same time, the risks to the inflation outlook remain broadly balanced around the baseline projection path. The uptick in international commodity prices amid supply-chain bottlenecks and the recovery in global demand could lend upside pressures on inflation. However, downside risks to the inflation outlook continue to emanate from the emergence of new coronavirus variants, which could delay the easing of containment measures and temper prospects for domestic growth.

Equally important, the BSP observed that economic activity has improved in recent weeks, but the overall momentum of the economic recovery remains tentative as the threat of COVID-19 infections continues. Nevertheless, the sustained implementation of targeted fiscal initiatives as well as the acceleration of the Government's vaccination program should help boost market confidence and recovery of the economy in the coming months.

On balance, the expected path of inflation and downside risks to domestic economic growth warrant keeping monetary policy settings unchanged. The BSP believes that sustained monetary policy support for domestic demand should help the economic recovery gain more traction, especially as risk aversion continues to temper credit activity despite ample liquidity in the financial system.

Looking ahead, the BSP affirmed its support to the economy for as long as necessary to ensure its strong and sustainable recovery. The BSP will also remain vigilant against any emerging risks to the outlook for inflation and growth and will adjust its policy settings as needed to safeguard its price and financial stability objectives.

VI. Inflation Outlook

BSP Inflation Forecasts

The latest baseline forecasts suggest that inflation could settle close to the high-end of government's target range of 3.0 percent ± 1.0 ppt for 2021 at 4.0 percent and at the midpoint of the target for 2022 – 2023 at 3.0 percent. The downward revision in the 2021 forecast was due mainly to the lower-than-expected inflation outturn in Q2 2021 as well as the impact of the temporary reduction in the tariffs on imported pork. These factors were partly offset by the higher assumptions for global oil and non-oil prices. Meanwhile, the inflation forecast for 2022 is revised upwards from the previous forecast owing largely to higher global crude oil prices and improved domestic growth prospects.

Inflation could settle close to the high end of the Government target in 2021

Inflation is seen to remain near the high end of the target range in Q3 2021 but is expected to decelerate close to the midpoint of the target by Q4 2021 due to lower tariffs on pork imports. Further deceleration of inflation to below target is projected for Q1 2022 due to negative base effects as global oil and non-oil prices moderate from their high levels in the previous year. Meanwhile, inflation is estimated to approach the high end of the target band by end-2022 owing to reversal to positive base effects and stronger recovery in domestic growth.

The risks to the inflation outlook appear to be broadly balanced for 2021 to 2023. The uptick in global commodity prices due to strong global demand amid supply chain bottlenecks, the impact of easing of quarantine measures, and stronger global growth could pose upside risks to inflation. Meanwhile, the potential impact on domestic economic growth, prospects of delays in the easing of containment measures, as well as a weaker-than-expected global recovery owing to the spread of new COVID-19 variants are the main sources of downside risks.

Inflation is seen to move close to the midpoint of target range in 2022 and 2023

Demand Conditions. The domestic economy contracted by 4.2 percent in Q1 2021, less negative than the 8.3-percent slowdown in Q4 2020, but lower than the 0.7-percent decline posted in the same quarter a year ago.

The declines across sectors were smaller relative to Q4 2020. On the production side, both industry and services showed smaller contractions, while the decline in agriculture reflected mainly the effects of the ASF on the hog industry. On the expenditure side, household spending also recorded a smaller decline, while public spending expanded on the back of additional fiscal packages and the continued rollout of government infrastructure projects.

Nonetheless, GDP growth could start to rebound beginning in Q2 2021, driven mainly by the low base from the significant contraction in the same quarter a year ago resulting from the implementation of strict quarantine measures in the country during the start of the pandemic. However, on a q-o-q seasonally adjusted basis, economic activity could still contract consistent with the implementation of stricter quarantine measures in Metro Manila and surrounding provinces during the quarter. The economic impact of the quarantine measures is expected to be less severe as said measures were less restrictive compared to the lockdowns implemented in 2020 as shown in the improvements in the mobility indicators across different locations.

Growth could start to rebound in Q2 2021 and continue to recover in 2022 and 2023

The growth recovery is projected to be driven by higher government spending and the implementation 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 gradual easing of quarantine measures in 2021 with the complete lift off in 2022 following the mass deployment of vaccines. 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 economy recovers from the pandemic but is expected to remain benign over the medium term. The rise in global non-fuel prices is expected to be driven by the uptick in prices of food as well as industrial inputs like metals.

Meanwhile, global crude oil prices continued to increase compared to the previous quarter due to the anticipated recovery in global economic activity despite the decision of OPEC+ members to ease production cuts. Consequently, the global crude oil price assumptions increased significantly.

The economy 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.[74]

Based on the Q1 2021 GDP outturn, estimates by the BSP show that the output gap is projected to remain negative over the medium term. This reflects the potential adverse impact of the pandemic on economic activity and the country's production capacity. This implies that the economy might operate below its full employment capacity over the policy horizon as firms and households continue to gradually adjust to the post-pandemic economic conditions. 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 July 2021 to December 2023;

2) NG fiscal deficits for 2021 to 2023, which are consistent with the DBCC-approved estimates;

[74] 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).

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 a downward shift in the inflation projection for 2021 but a slightly upward shift in 2022. The lower forecast for 2021 was due mainly to lower-than-expected inflation outturn in Q2 2021 as well as the impact of lower tariffs on imported pork while the higher forecast for 2022 was driven by increase in global crude oil prices and improved domestic growth prospects.

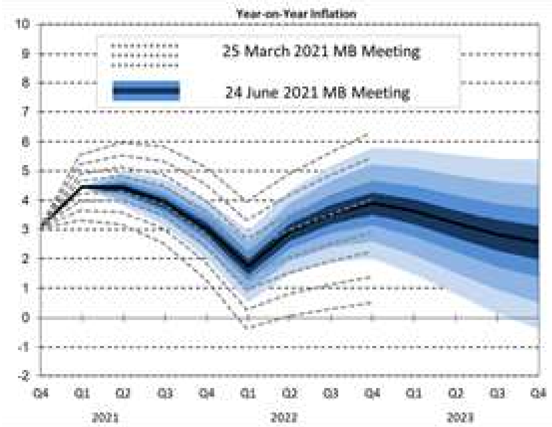
The BSP's review of current inflation dynamics suggests that the risks to the inflation outlook appear to be broadly balanced for 2021 to 2023.

> The risks to inflation outlook appear broadly balanced for 2021 to 2023

The uptick in global commodity prices due to strong global demand amid supply chain bottlenecks could pose upside risks to inflation in the near term. The IMF in its April 2021 World Economic Outlook (WEO) Report for instance projects food inflation to accelerate to 13.3 percent, while the international price of metals could increase to 32.1 percent in 2021. The stronger-than-expected global recovery could imply larger increases in the international price of key commodities, which will likewise affect domestic inflation dynamics. The impact of an earlier-than-expected easing of quarantine measures and stronger global growth are likewise possible sources of price pressures as they contribute to domestic demand.

Meanwhile, the potential impact on domestic economic growth, prospects of delays in the easing of containment measures as well as a weaker-than-expected global economic recovery owing to the spread of new COVID-19 variants are the main sources of downside risks.

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. At the last meeting of the MB on 24 June 2021, inflation was projected to settle near the upper end of the target band of 2-4 percent in 2021. Meanwhile, average inflation was seen to ease towards the midpoint of the target range in 2022 and 2023.

Price pressures on food commodities have abated with favorable weather conditions and the facilitation of meat imports to augment domestic supply. The continued implementation of direct non-monetary interventions will therefore be crucial in mitigating further supply-side pressures on meat prices and inflation.

The risks to the inflation outlook remain broadly balanced around the baseline projection path over the policy horizon. Upside price pressures could emanate from the uptick in international commodity prices amid supply-chain bottlenecks and the recovery in global demand. However, the emergence of new coronavirus variants lends downside risks to the inflation outlook, as it could delay the easing of containment measures and temper domestic economic activity.

At the same time, indicators of economic activity suggest that the recovery remains tentative amid the continued threat of COVID-19 infections. In this regard, the sustained implementation of targeted fiscal and health measures, as well as the acceleration of the Government's vaccination program, should help boost market confidence and facilitate the gradual reopening of the economy in the coming months.

Given these considerations, the BSP believes that the monetary policy stance must remain accommodative for as long as necessary to ensure a strong and sustainable recovery of the economy. Keeping monetary policy settings unchanged should help the economic recovery gain more traction, especially as risk aversion continues to temper credit activity despite ample liquidity in the financial system.

Looking ahead, the BSP will remain vigilant against any emerging risks to the outlook for inflation and growth, in order to ensure that monetary policy settings remain in line with its price and financial stability objectives.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
26 Jul 2012	3.75	5.75	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also reduced accordingly. This is the third time in 2012 that the BSP has cut its policy rates. The MB's decision was based on its assessment that price pressures have been receding, with risks to the inflation outlook slightly skewed to the downside. Baseline forecasts indicate that inflation is likely to settle within the lower half of the 3-5 percent target for 2012 and 2013, as pressures on global commodity prices are seen to continue to abate amid weaker global growth prospects. At the same time, the MB is of the view that prospects for global economic activity are likely to remain weak.
13 Sep 2012	3.75	5.75	The MB decided to keep the BSP's key policy interest rates steady at 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that the inflation environment remains benign, with the risks to the inflation outlook appearing to be broadly balanced.
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.
2013			
24 Jan 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also maintained accordingly. The reserve requirement ratios were kept steady as well. At the same time, the MB decided to set the interest rates on the SDA facility at 3.00 percent regardless of tenor, effective immediately, consistent with the BSP's continuing efforts to fine-tune the operation of its monetary policy tools.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
31 Jul 2014	3.75	5.75	The MB decided to increase the BSP's key policy rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also raised accordingly. The rate on special deposit accounts (SDA) was left unchanged. Meanwhile, the reserve requirement ratios were also kept steady.
11 Sep 2014	4.00	6.00	The MB decided to increase the BSP's key policy rates by 25 bps to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDA were also raised accordingly. Meanwhile, the reserve requirement ratios were left unchanged.
23 Oct 2014 **11 Dec 2014**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
2015			
12 Feb 2015 **26 Mar 2015** **14 May 2015** **25 Jun 2015** **13 Aug 2015** **24 Sep 2015** **12 Nov 2015** **17 Dec 2015**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
2016			
11 Feb 2016 **23 Mar 2016** **12 May 2016**	4.00	6.00	The MB decided to maintain the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRPs, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
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.

Summary of Monetary Policy Decisions

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

Summary of Monetary Policy Decisions

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

The *BSP 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:

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By post: BSP Inflation Report
c/o Department of Economic Research
Bangko Sentral ng Pilipinas
A. Mabini Street, Malate, Manila
Philippines 1004

By e-mail: bspmail@bsp.gov.ph