

THE BSP AND PRICE STABILITY

1. *What is inflation?*

Inflation refers to the rate of change in the average prices of goods and services typically purchased by consumers. If inflation is low and stable, then we say that there is price stability.

Inflation is typically defined as the annual percentage change in the Consumer Price Index (CPI). The CPI represents the average price of a standard basket of goods and services consumed by a typical Filipino family for a given period. This standard basket contains hundreds of consumption items (such as food products, clothing, water and electricity) whose price movements are monitored to determine the change in the CPI, or the level of inflation.

The Philippine Statistics Authority¹ (PSA) calculates and announces the monthly CPI and the rate of inflation based on a nationwide monthly survey of prices for a given basket of commodities. The PSA also determines the composition of the CPI basket through surveys that are conducted periodically.

2. *Why do we want price stability?*

Studies based on the experience of many countries have shown that maintaining price stability supports economic growth because it allows households and businesses (including export enterprises) to plan ahead and arrive at better-informed decisions about their consumption, investment, saving and production needs. In the case of export firms, price stability allows them to price their products competitively, reducing the risks related to the rising cost of raw materials.

Price stability also promotes income equality by protecting the purchasing power of the poor who often do not have assets (real or financial) that allow them to hedge against inflation.

The consensus among economists and policymakers is that the primary objective of central banks should be to achieve price stability. Thus, since the 1990s, a growing number of countries have granted institutional independence to their central banks and enacted laws that committed the central banks' monetary policy to achieving price stability.

¹ Under RA 10625, s. 2013 (otherwise known as the Philippine Statistical Act of 2013), the Philippine Statistics Authority (PSA) was created to be primarily responsible for all national censuses and surveys, sectoral statistics, consolidation of selected administrative recording systems and compilation of the national accounts. Effective 29 December 2013, the PSA shall constitute all the major statistical agencies of the government such as the National Statistics Office (NSO); the National Statistical Coordination Board (NSCB); the Bureau of Agricultural Statistics (BAS); and the Bureau of Labor and Employment Statistics, (BLES).

3. *Why is the BSP the main government agency responsible for promoting price stability?*

Among the various government bodies, the Bangko Sentral ng Pilipinas (BSP) is uniquely qualified to promote price stability because it has the sole ability to influence short-term market interest rates. By influencing short-term interest rates, the BSP is able to affect the demand of households and firms for various goods and services. Domestic demand and the aggregate supply of goods and services determine the general price level.

In addition, as the Philippines' central monetary authority, the BSP is tasked to promote price stability conducive to balanced and sustainable economic growth. This is mandated by law under the provisions of Republic Act No. 7653, also known as the New Central Bank Act, which was passed into law on 10 June 1993. Achieving price stability is a universal goal shared by central banks and monetary authorities all over the world.

This does not mean, however, that the BSP pursues price stability to the exclusion of other objectives. Although the price stability objective is the BSP's main priority, other economic goals—such as promoting financial stability and achieving broad-based, sustainable economic growth—are given consideration in policy decision-making. Thus, the BSP coordinates with other government agencies to make sure that its policies are part of a consistent and coherent overall policy framework.

4. *What is the BSP's role in relation to inflation?*

The BSP controls inflation through its conduct of monetary policy which is done primarily by moving its policy interest rate. Adjustments in the interest rate for the BSP's overnight reverse repurchase (RRP) facility, the primary monetary policy instrument, typically leads to corresponding movements in market interest rates, thus affecting the demand by households and firms for goods and services. This, together with the aggregate supply of goods and services, determines the level of prices.

Nevertheless, movements in inflation can be driven by factors beyond the influence of the central bank, and this often poses challenges for the BSP's conduct of monetary policy. The inflation targeting framework of the BSP recognizes these factors, which can 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.

MONETARY POLICY AND ITS CURRENT FRAMEWORK

5. *What is monetary policy?*

Monetary policy is a set of measures or actions implemented by the central bank to affect the supply of money and credit in the economy. Monetary policy actions of the BSP are aimed at influencing the timing, cost and availability of money and credit, as well as other financial factors, in support of its key objective of keeping inflation low and stable.

6. *How does the BSP implement monetary policy?*

The BSP implements monetary policy using various instruments to achieve the inflation target set by the National Government.

The primary monetary policy instrument of the BSP is the overnight RRP rate. The RRP rate is the rate at which the BSP borrows money from commercial banks within the country. The BSP raises or reduces its overnight RRP rate depending on the BSP's assessment of the outlook for inflation and GDP growth, and in doing so, implements its monetary policy stance. If the BSP perceives the inflation forecast to exceed the target, then it can implement contractionary monetary policy by raising its policy interest rate. On the other hand, if the BSP sees the inflation forecast to be lower than the target or there is need to increase liquidity in the financial system, then it can implement expansionary monetary policy by reducing its policy interest rate.

To contract or expand liquidity in the financial system, the BSP can also do the following actions:

- increasing/decreasing the reserve requirement;
- encouraging/discouraging deposits in the overnight deposit facility (ODF) and term deposit facility (TDF) by banks;
- increasing/decreasing the rediscount rate on loans extended by the BSP to banking institutions on a short-term basis against eligible collaterals of banks' borrowers; and
- outright sales/purchases of the BSP's holdings of government securities.

7. *What is the basic approach to monetary policy in the Philippines?*

The BSP uses the inflation targeting framework as its basic approach to monetary policy. Under this approach, the BSP announces an explicit inflation target and strongly commits to achieving it over a policy horizon using various monetary policy instruments. The inflation targeting approach that is currently adopted by the BSP formally replaced the monetary aggregate targeting approach in January 2002.

The monetary aggregate targeting approach is based on the assumption of a stable and predictable relationship between money, output, and inflation. On the assumption that the money velocity² remains stable over time, changes in money supply are directly related to price changes or to inflation. Given the desired level of inflation consistent with economic growth objectives, it is assumed that the BSP can determine the level of money supply needed; thus, the BSP indirectly controls inflation by targeting money supply. In the second semester of 1995, the monetary aggregate targeting approach was modified to put greater emphasis on price stability instead of rigid adherence to the targets set for monetary aggregates. The modified framework also aimed to address the inability of monetary targeting to account for the long and variable time lag in the effects of monetary policy on the economy. Under the modified approach, the BSP can exceed the monetary targets as long as the actual inflation rate is kept within program levels. Also, policymakers monitor a larger set of economic variables in making decisions regarding the appropriate monetary policy stance that includes movements in key interest rates, the exchange rate, domestic credit and equity prices, indicators of demand and supply, and external economic conditions, among other variables.

THE SHIFT TO INFLATION TARGETING

8. *What is inflation targeting?*

On 24 January 2000, the Monetary Board, the BSP's policy-making body, approved in principle the shift by the BSP to inflation targeting as a framework for conducting monetary policy. Inflation targeting focuses mainly on achieving price stability as the ultimate objective of monetary policy. With this approach, the central bank announces an explicit inflation target and promises to achieve it over a given time period. The target inflation rate is set and announced jointly by the BSP and the government through an inter-agency body. Although the responsibility of achieving the target rests primarily with the BSP, this joint announcement reflects active government participation in achieving the goal of price stability and government ownership of the inflation target.

Under inflation targeting, the central bank compares actual headline inflation against inflation forecasts. The central bank uses various monetary policy instruments at its disposal to achieve the inflation target. In the Philippines, this involves mainly adjustments

² The rate at which money is exchanged from one transaction to another, and how much a unit of currency is used in a given period of time.

in the BSP's key policy interest rate. The BSP also uses other instruments such as rediscounting and reserve requirements. The BSP provides regular reports explaining its policy decisions, assessment of the inflation environment, and inflation outlook. If the central bank fails to meet the inflation target, it is required to explain to the public why the target was not met and come up with measures on how to steer inflation towards the target level.

The BSP formally adopted inflation targeting as the framework for monetary policy in January 2002. The Philippines joined a long list of inflation targeters such as Australia, Canada, Finland, Sweden, New Zealand, the United Kingdom, Israel, Brazil, Chile and Thailand, which have moved from high inflation to low inflation following the successful implementation of inflation targeting in their countries.

9. *What are the features of inflation targeting?*

Over the past two decades, financial deregulation and liberalization resulted in the introduction of new products and changes in the structure of the financial system. These changes, however, appeared to have weakened the traditional relationship linking money supply to income and prices. This has prompted many central banks, including the BSP, to review their approach to monetary policy.

Like other central banks, the BSP recognized the important features of inflation targeting as follows:

- simple framework which can, therefore, be easily understood by the public;
- allows greater focus on the goal of price stability, which is the primary mandate of the BSP;
- forward-looking and recognizes that monetary policy actions affect inflation with a lag;
- reflects a comprehensive approach to policy by taking into consideration the widest set of available information about the economy;
- promotes transparency in the conduct of monetary policy through the announcement of targets and the reporting of measures that the BSP will adopt to attain these targets, as well as the outcomes of its policy decisions;
- increases the accountability of monetary authorities to the inflation objective since the announced inflation target serves as a yardstick for the performance of the BSP, and thus helps build its credibility; and

- does not depend on the assumption of a stable relationship between money, output and prices, and can still be implemented even when there are shocks that could weaken the relationship.

10. *What are the requirements for the successful adoption of inflation targeting?*

The success of implementing inflation targeting as the framework for monetary policy depends on the following preconditions that complement and reinforce each other:

- Firm commitment to price stability. The primary objective of the central bank is to maintain price stability that is conducive to a balanced and sustainable economic growth. As such, the central bank should not be bound by multiple objectives such as financing the government's deficit, keeping the exchange rate at a given level, or other policy agenda of the government unless these are necessary to achieve the goals of price stability.
- Central bank independence. The central bank must be able to conduct monetary policy without political interference. It must be able to use whatever monetary policy instrument is needed to achieve price stability. The central bank should also have fiscal independence, i.e., it must not be constrained by the need to finance the fiscal deficit.
- Good forecasting ability. The central bank should have a good statistical model for forecasting inflation.
- Transparency. The central bank should promote transparency by communicating clearly to the public its policy actions and the reasons behind them.
- Accountability. There should be accountability on the part of the central bank should actual inflation deviate from the target.
- Sound financial system. The financial system should be fundamentally sound to make monetary policy more effective in influencing output and prices. The financial system acts as the intermediary by which the BSP influences the supply of money and credit in the economy.

11. Does the Philippines satisfy all the requirements of inflation targeting?

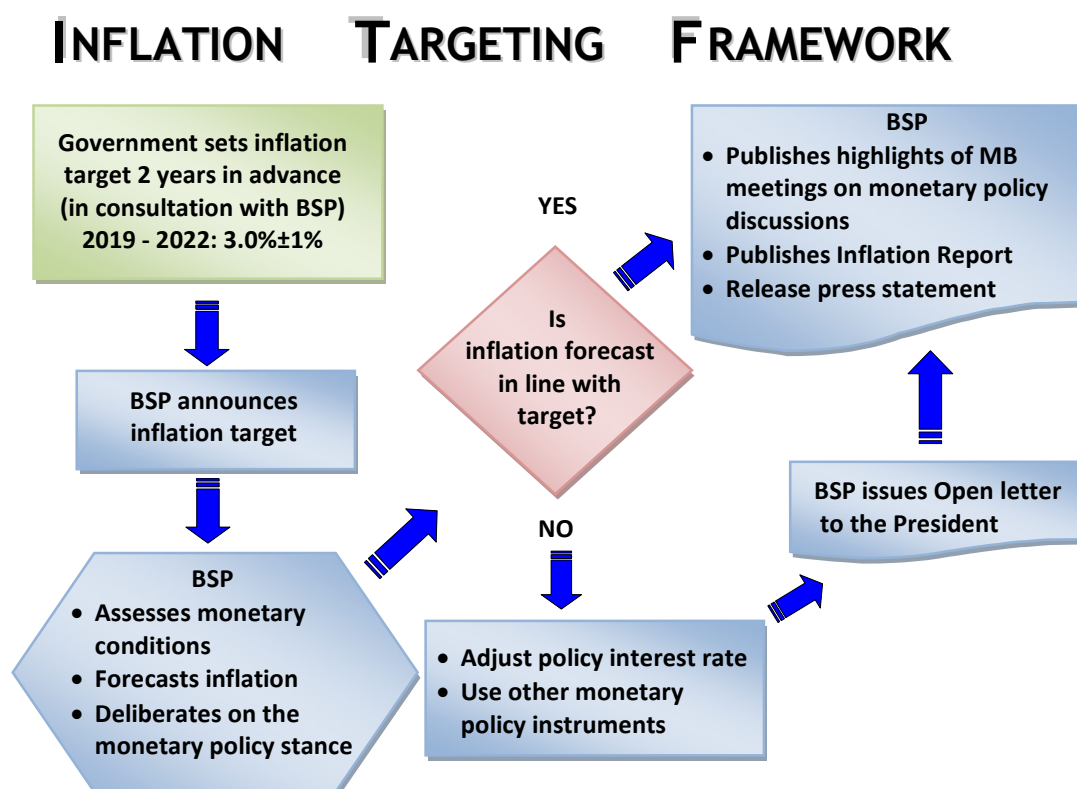
As the table below suggests, the basic requirements for the successful adoption of inflation targeting are already in place in the Philippines.

Requirements for the Adoption of Inflation Targeting	Is it in place in the Philippines?
Central Bank independence	Yes, the law provides fiscal and administrative independence to the BSP as the central monetary authority.
Central Bank commitment	Yes, the law mandates that the BSP should be concerned primarily with maintaining price stability.
Good forecasting ability	Inflation forecasting models are continuously being improved; these are supplemented by judgment and discretion given available economic and financial indicators.
Transparency	In addition to existing reports and publications, the BSP also publishes the Inflation Report and the minutes of relevant Monetary Board discussions on monetary policy (with a lag).
Accountability	The BSP stands firmly behind the inflation target and, should there be any deviations, explains the reasons to the public and higher authorities.
Sound financial system	The financial system is constantly developing, partly in view of the measures implemented by supervisory authorities to strengthen it.

MAKING INFLATION TARGETING OPERATIONAL IN THE PHILIPPINES

12. *How did the BSP make the shift to inflation targeting?*

Since 2002, the BSP has observed the following operational process in its implementation of inflation targeting.



- Setting of the inflation target.** The target-setting process is largely based on the existing framework for coordination among government economic agencies under the Development Budget Coordinating Committee (DBCC), an inter-agency body responsible for setting the annual government targets for macroeconomic variables, particularly the Gross National Income (GNI) and Gross Domestic Product (GDP) growth rates and inflation, which are important inputs in the formulation of the revenue, expenditure and financing programs of the National Government. The National Government, through the DBCC, sets the inflation target two years ahead in consultation with the BSP. The inflation target is defined in terms of the average year-on-year change in the CPI over the calendar year. The BSP Governor makes the public announcement of the inflation target in line with the BSP’s commitment to greater transparency and accountability in its conduct of monetary policy.

When the BSP adopted the inflation targeting framework in 2002, the inflation target was defined in terms of a range (e.g., the target range for 2006-2007 was 4.0-5.0 percent). In December 2006, the Government’s inflation target was re-specified from a

range target to a point target with a tolerance interval of ± 1 percentage point starting in the target for 2008. The inflation target for 2010 was 4.5 percent ± 1 percentage point (or a range equivalent to 3.5-5.5 percent); while the target for 2011 was 4.0 percent ± 1 percentage point (or a range equivalent to 3.0-5.0 percent). On 15 July 2010, the Monetary Board announced the BSP's shift from a variable annual inflation target to a fixed inflation target of 4 ± 1 percent for the medium term starting from 2012 to 2014, which was approved by the DBCC on 9 July 2010 under DBCC Resolution No. 2010-3. This shift from a range target to a point target with a tolerance interval effectively widens the BSP's target band. A broader target band is seen to provide added flexibility to monetary authorities in steering inflation. It helps ensure that the design of the inflation target is more consistent with the country's economic circumstances, and safeguards the credibility of the inflation targeting framework. It also helps align monetary policy practices in the Philippines with those in other inflation targeting countries.

The inflation target was set at 4.0 +/- 1.0 percent for 2013-2014, and at 3.0 percent ± 1.0 percent for 2015-2016 and 2017-2018. Meanwhile, through DBCC Resolution No. 2019-2 dated 26 February 2019, the DBCC decided to keep the current inflation target at 3.0 percent ± 1.0 percent for 2019-2020 and set the inflation target at the same range for 2021-2022 based on the assessment that the current target 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.

Under the inflation targeting framework, the inflation target is different from the inflation forecast. The inflation target represents policymakers' desired inflation rate, which they commit to achieve over the policy horizon. Inflation targets, because of their institutional nature, tend to be less susceptible to revisions — although countries with a history of high inflation tend to set a decelerating path for inflation targets across several years. Meanwhile, the inflation forecast represents the expectation or prediction of the inflation rate over the policy horizon, given current and available information. The inflation forecast can change over time as important new information is incorporated in the assessment of future inflation. The forecast is a major factor considered by monetary authorities when deciding on whether monetary policy instruments should be adjusted to attain the inflation target.

- **Measure of inflation.** The BSP uses the rate of change in the CPI in expressing its target for monetary policy. Also known as the “headline” inflation rate, the rate of change in the CPI is a commonly used and widely known measure of inflation. It is also monitored by an independent statistical agency namely, the PSA, thereby ensuring data integrity, and is announced to the public with a relatively short time lag. The CPI itself represents the average price of a standard “basket” of goods and services consumed by a typical family. In the Philippines, this CPI is composed of various consumer items as determined by the nationwide Family Income and Expenditure Survey (FIES) conducted every six years by the PSA.

In conducting monetary policy, the BSP also monitors “core” inflation. Historically, the CPI inflation tends to be affected by the transitory effects of volatile price movements of certain commodity components. Temporary shocks or disturbances in certain areas of the economy, often attributed to factors outside the direct control of economic policy such as oil price shocks, may cause fluctuations in the CPI inflation that may not necessarily require a monetary response. By eliminating the impact of such disturbances on price data, core or underlying inflation serves as a useful alternative indicator of the path of inflation. The PSA computes the core inflation by excluding selected unprocessed food and energy-related items from the CPI.

- **Models for inflation forecasting.** The BSP uses a suite of quantitative macroeconomic models to forecast inflation over a policy horizon of two years. These economic models are also employed in conducting policy simulations and analysis. Based on statistical tests, these models track the actual inflation outcomes reasonably well. The BSP continuously exerts efforts to develop new economic models and to refine its existing macroeconomic models for forecasting inflation and other macroeconomic variables to address the growing demands of policy studies.
- **Meetings on monetary policy.** Starting in 2012, the Monetary Board (MB) has held monetary policy meetings eight (8) times a year, with meeting intervals of six (6) to eight (8) weeks, to deliberate, discuss, and decide on the appropriate monetary policy stance of the BSP in order to keep inflation within the target. Based on its assessment of the macroeconomic environment and the price situation of commodities, the Monetary Board takes the necessary actions consistent with the chosen monetary policy stance. These actions would involve the use of various instruments discussed in Item No. 6. The decisions of the Monetary Board concerning monetary policy are determined by a majority vote. The votes of individual Board members are not publicly disclosed to emphasize the collegial, consensus-based nature of the decision-making process.

To strengthen the decision-making process, the Monetary Board of the BSP receives recommendations from the Advisory Committee (AC). The AC is the technical body composed of the following members: (1) the BSP Governor, who serves as Chairman; (2) the Deputy Governor for Monetary and Economics Sector; (3) the Deputy Governor for Corporate Services Sector; (4) the Deputy Governor for Financial Supervision Sector; (5) the Senior Assistant Governor of the Financial Market Operations Sub-Sector; (6) the Assistant Governor of the Office of Systemic Risk Management; and (7) the Assistant Governor of the Monetary Policy Sub-Sector. The AC meets regularly a few days prior to each MB monetary policy meeting. The AC meetings serve as a forum for in-depth, comprehensive, and balanced assessment of monetary conditions, the economic outlook, inflation expectations and the forecast inflation path. The AC

members agree, by a majority vote, on a set of recommendations which are submitted to the Monetary Board.

- **Transparency and accountability mechanisms.** The BSP has a number of disclosure and reporting mechanisms to help the public gauge the BSP's commitment to achieve the inflation target. In addition to various reports and publications, the BSP publishes the Quarterly Inflation Report and the Highlights of the Meeting of the Monetary Board on Monetary Policy. The BSP also holds regular seminars and conferences involving the discussion of monetary developments and policy issues.

To ensure accountability in case the BSP fails to achieve the inflation target, the BSP Governor issues an Open Letter to the President explaining the reasons why actual inflation did not fall within the target, along with the steps to be done to bring inflation towards the target. Open Letters to the President have been issued on 16 January 2004, 18 January 2005, 25 January 2006, 19 January 2007, 14 January 2008, 26 January 2009, 28 January 2016, 20 January 2017, and 25 January 2019.

- **Explanation clauses,** or exemptions to the inflation target. Explanation clauses refer to the predefined set of acceptable circumstances under which an inflation-targeting central bank like the BSP may fail to achieve its inflation target. These exemptions recognize that the limitations to the effectiveness of monetary policy and deviations from the inflation target may sometimes occur due to factors beyond the control of the central bank. They include price pressures arising from: (1) volatility in the prices of agricultural products; (2) natural calamities or events that affect a major part of the economy; (3) volatility in the prices of oil products; and (4) significant government policy changes that directly affect prices such as changes in the tax structure, incentives and subsidies. In using explanation clauses, the BSP will have to explain carefully and clearly to the public how the abovementioned factors caused the deviation of the inflation outcome from the target. The BSP also cites the actions to be taken as well as the length of time entailed to achieve the inflation target.

Since the BSP adopted inflation targeting, has the inflation target been achieved?

Below is the summary of inflation developments since the BSP shifted to inflation targeting framework, indicating among others, the actual inflation compared to the target.

Year	Actual Inflation (in percent) ¹	Inflation Target (in percent) ²	Actual vs. Target	Developments/Factors affecting inflation
2002	3.0*	4.5-5.5	Lower	<ul style="list-style-type: none"> • Slowdown in food inflation and subdued demand-pull inflationary pressures
2003	3.0	4.5-5.5	Lower	<ul style="list-style-type: none"> • Absence of significant demand-driven pressures with the continued soft spots in overall demand, soft labor market conditions, and moderate capacity utilization in industries such as manufacturing • Easing cost-push inflationary pressures with the abatement of the El Niño phenomenon and the downtrend in international oil prices
2004	5.5	4.0-5.0	Higher	<ul style="list-style-type: none"> • Supply-side shocks including the increase in global oil prices (which led to higher domestic pump prices of petroleum products and hikes in transport fares) as well as the spate of typhoons and domestic supply constraints affecting the availability of certain food products • Higher meat prices linked to the recurrence of avian flu in other countries
2005	7.6	5.0-6.0	Higher	<ul style="list-style-type: none"> • Continued rise in consumer prices particularly those for food, energy, and transportation • Global increase in oil prices leading to higher domestic pump prices, adjustments in minimum wage throughout the country, as well as hikes in the transport fares and utility charges • Adverse effect of El Niño dry weather on agricultural output, especially on rice and corn production

Year	Actual Inflation (in percent) ¹	Inflation Target (in percent) ²	Actual vs. Target	Developments/Factors affecting inflation
2006	6.2	4.0-5.0	Higher	<ul style="list-style-type: none"> • Higher world oil prices, the two-percentage point increase in the VAT, and the removal of certain VAT exemptions in 2005 itinerary
2007	2.9	4.0-5.0	Lower	<ul style="list-style-type: none"> • Generally stable prices for major food items, favorable supply conditions, particularly the sustained growth in agriculture, and the subsiding base effect of the RVAT on CPI • Firm peso tempering the impact on domestic prices of increasing global commodity prices, including food and oil, which rose during the latter part of the year
2008	8.3	4.0±1	Higher	<ul style="list-style-type: none"> • Confluence of global and supply-side factors beyond the direct control of the BSP such as the big surge in the international prices of oil and food commodities, resulting in higher domestic rice and pump prices of fuel • Supply shocks over a longer period, which contributed to second-round effects, affected wage and price-setting behavior of businesses and households; inflation expectations also rose
2009	4.2	3.5±1	Within	<ul style="list-style-type: none"> • Slowdown in inflationary pressures during the early until the middle part of the year owing to lower oil and other commodity prices due, in large part, to subdued demand conditions • Slight uptick in consumer prices towards the latter part of the year, particularly those for food and petroleum products, due to weather disturbances and lifting of price cap on petroleum products

Year	Actual Inflation (in percent) ¹	Inflation Target (in percent) ²	Actual vs. Target	Developments/Factors affecting inflation
2010	3.8 ^r	4.5±1	Within	<ul style="list-style-type: none"> • Food inflation was lower especially in the first half of the year as domestic supply recovered from the impact of the previous year's typhoons. It posted an uptick in the third quarter as prices of agricultural commodities went up; in particular, sugar prices increased as El Niño affected the harvest and delayed the milling season. • This was more than offset by higher non-food inflation which can be traced to the surge in the prices of electricity and petroleum products.
2011	4.6 ^r	4.0±1	Within	<ul style="list-style-type: none"> • Food inflation was generally stable as ample supply in the aftermath of typhoons tempered the price increases, despite supply shocks triggered by weather-related factors which resulted in production disruptions and agricultural damages thus initially pushing food inflation higher. • Meanwhile, non-food inflation trended upwards during the year as domestic prices of petroleum crude tracked the movement in the international market. Adjustments in electricity and water rates also contributed to the increase.
2012	3.2	4.0±1	Within	<ul style="list-style-type: none"> • Food inflation decelerated as domestic supply remained sufficient. • Lower non-food inflation, particularly for electricity, gas and other fuels as well as transportation, was also posted. The reduction in power generation charges in March, September, and December contributed to the decline.

Year	Actual Inflation (in percent) ¹	Inflation Target (in percent) ²	Actual vs. Target	Developments/Factors affecting inflation
2013	3.0	4.0±1	Within	<ul style="list-style-type: none"> • Inflation was higher during the first quarter as prices of food and alcoholic beverages increased due to weather-related production disruptions and the implementation of the Sin Tax Reform Act of 2012. Meanwhile, inflation decelerated in July and August due to the reduction in prices of domestic petroleum products and power rates. • However from September and towards the end of 2013, tight supply conditions caused by weather-related disruptions and stronger demand during the holiday season pushed food inflation higher. Likewise, non-food inflation rose due to the upward adjustment in electricity rates brought by the maintenance shutdown of Malampaya Gas Field and other generating plants coupled with increases in the prices of gasoline, diesel, LPG and kerosene.
2014	4.1	4.0±1	Within	<ul style="list-style-type: none"> • Food inflation slowed down in Q4 2014 amid adequate domestic supply of major food items, easing port congestion, and moderate prices of imported commodities as compared with the higher food inflation during the first nine months of 2014 brought by weather-related production disruptions, bottlenecks in the supply chain caused by port congestion, and changes in transportation policies. • Likewise, non-food inflation eased due to lower prices of electricity, gas, and other fuels (reflecting declines in international oil prices), which is in contrast to the high non-food inflation during the first three quarters.

Year	Actual Inflation (in percent) ¹	Inflation Target (in percent) ²	Actual vs. Target	Developments/Factors affecting inflation
2015	1.4	3.0±1	Below	<ul style="list-style-type: none"> • Easing petroleum prices and ample food supply contributed largely to the low inflation readings during the year. • Inflation gained momentum in the fourth quarter of the year, traced mainly to seasonal demand for certain food items as well as the adverse impact of recent typhoons on food supply. • Non-food inflation likewise inched higher owing in part to passenger fare increases for air and sea transport.
2016	1.8	3.0±1	Below	<ul style="list-style-type: none"> • Monthly inflation rates for the first eight months of 2016 fell below the target range due to lower food and energy prices. Inflation gained traction starting September to December, exceeding the lower bound of the target as weather-related production disruptions pushed up inflation of key food items such as vegetables and fruit and as the rebound in international oil prices in late 2016 pushed up the prices of domestic petroleum products. • Non-food items: The price indices for non-food items (which include recreation and culture, and restaurants and miscellaneous goods and services) and alcoholic beverages and tobacco recorded an increase in average inflation rates. On the other hand, the inflation for housing, water, electricity, gas and other fuels continued to decline during the year. • Food items: Inflation rate of food and non-alcoholic beverages was unchanged in 2016 as higher price increases in vegetables, meat as well as oils and fats offset the year-on-year decline in rice prices.

Year	Actual Inflation (in percent) ¹	Inflation Target (in percent) ²	Actual vs. Target	Developments/Factors affecting inflation
2017	3.2	3.0±1	Within	<ul style="list-style-type: none"> • Inflation rose during the first quarter of 2017 due to an increase in both food and non-food inflation. Food inflation went up owing to some tightness in domestic supply conditions, while the higher non-food inflation was attributed to upward adjustments in electricity rates and domestic petroleum prices. Meanwhile, inflation held steady in the second and third quarter of the year as food and non-food inflation were generally stable. Inflation gained traction in the fourth quarter due to upward adjustments in the prices of domestic petroleum products as well as higher price increases in selected services. Nonetheless, inflation averaged at 3.2 percent in 2017, well within the National Government’s announced target range of 3.0 percent ±1.0 percentage point for the year.
2018	5.2	3.0±1	Above	<ul style="list-style-type: none"> • Headline inflation increased year-on-year during Q1 and Q2 2018 due largely to the uptick in selected food and non-food prices. During the first two quarters of 2018, food prices went up owing mainly to weather-related food supply disruptions, while non-food prices generally rose due to upward adjustments in electricity rates. For the third quarter of 2018, headline inflation also rose owing to higher food and energy prices. Nonetheless, headline inflation moderated to 5.9 percent in Q4 2018 from 6.2 percent in the previous quarter as both food and non-food inflation eased due to improved supply conditions and lower international oil prices. This brought the full year average inflation to 5.2 percent, which is above the National Government’s (NG) announced target range of 3.0 percent ± 1.0 percentage point for 2018.

2019	2.5	3.0±1	Within	<ul style="list-style-type: none"> Headline inflation decreased year-on-year during Q1 and Q2 2019 as food inflation eased due to sufficient domestic food supply, while non-food inflation also moderated. Inflation settled at 3.8 percent and 3.0 percent during Q1 and Q2 2019, respectively. Headline inflation eased further during the second half of 2019 to 1.7 percent during Q3 and 1.6 percent during Q4. The lower inflation figures can be attributed to the slowdown in food and non-food inflation during the quarter. The average inflation rate for 2019 was recorded at 2.5 percent, which was well within the National Government's (NG) announced target range of 3.0 percent ± 1.0 percentage point for the year.
------	-----	-------	--------	--

¹ Actual inflation figures used for 2002-2004, 2005-2006, 2007-2017, and 2018 were the 1994-, 2000-, 2006-, and 2012-based CPI series, respectively.

² Annual targets

***Note on revision of the 2002 inflation rate:** 1994-based annual inflation for 2002 was originally published at 3.1 percent; however, later CPI revisions placed it at 2.9 percent based on BSP computations, which at the time used expanded decimal form when averaging cumulative CPI figures. However, PSA (formerly NSO) treatment of cumulative inflation is to round off CPI to one decimal prior to computing for the annual percent change. BSP only adopted similar practice around 2012-2013. To be consistent with PSA practice, the 2002 inflation rate was revised to 3.0 percent from 2.9 percent previously.

