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INFLATION REPORT

Q4 2019



BANGKO SENTRAL NG PILIPINAS

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 set at 3.0 percent $\pm$ 1.0 percentage point (ppt) for 2019-2022 by the Development Budget Coordination Committee. This is consistent with the desired disinflation path over the medium term, favorable trends in inflation dynamics, and expected higher capacity of the economy for growth under a low inflation environment.

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 16 January 2020.



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);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 2018-2020 is 3.0 percent $\pm$ 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.

¹ The TDF was introduced under the interest rate corridor system which was implemented on 3 June 2016.

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 The DBCC, in coordination with the BSP, through DBCC Resolution No. 2019-1 dated 26 February 2019, decided to keep the inflation target at 3.0 percent $\pm$ 1.0 percentage point for 2019 – 2020 and to set the inflation target at 3.0 percent $\pm$ 1.0 percentage point for 2021 – 2022.

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.

Chairman & Governor

Benjamin E. Diokno

Members

Carlos G. Dominguez III

Felipe M. Medalla

Juan D. De Zuñiga, Jr.

Peter B. Favila

Antonio S. Abacan, Jr.

V. Bruce J. Tolentino

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.

Chairman

Benjamin E. Diokno

Governor

Members

Francisco G. Dakila, Jr.

Deputy Governor

Monetary and Economics Sector

Ma. Cyd Tuaño-Amador

Deputy Governor

Corporate Services Sector

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Deputy Governor

Financial Supervision Sector

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Senior Assistant Governor

Financial Market Operations Sub-Sector

Johnny Noe E. Ravalo

Assistant Governor

Office of Systemic Risk Management

Illuminada T. Sicat

Assistant Governor

Monetary Policy Sub-sector

**2019 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT
PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS**

2019	Advisory Committee (AC) Meeting	Monetary Board (MB) Meeting	MB Highlights Publication	Inflation Report (IR) Press Conference
Jan			10 (Thu) (13 Dec 2018 MB meeting)	18 (Fri) (Q4 2018 IR)
Feb	1 (Fri) (AC Meeting No. 1)	7 (Thu) (MB Meeting No. 1)		
Mar	15 (Fri) (AC Meeting No. 2)	21 (Thu) (MB Meeting No. 2)	7 (Thu) (7 Feb 2019 MB meeting)	
Apr			17 (Wed) (21 Mar 2019 MB meeting)	26 (Fri) (Q1 2019 IR)
May	3 (Fri) (AC Meeting No. 3)	9 (Thu) (MB Meeting No. 3)		
Jun	14 (Fri) (AC Meeting No. 4)	20 (Thu) (MB Meeting No. 4)	6 (Thu) (9 May 2019 MB meeting)	
Jul			18 (Thu) (20 Jun 2019 MB meeting)	19 (Fri) (Q2 2019 IR)
Aug	2 (Fri) (AC Meeting No. 5)	8 (Thu) (MB Meeting No. 5)		
Sep	20 (Fri) (AC Meeting No. 6)	26 (Thu) (MB Meeting No. 6)	5 (Thu) (8 Aug 2019 MB meeting)	
Oct			24 (Thu) (26 Sep 2019 MB meeting)	25 (Fri) (Q3 2019 IR)
Nov	8 (Fri) (AC Meeting No. 7)	14 (Thu) (MB Meeting No. 7)		
Dec	6 (Fri) (AC Meeting No. 8)	12 (Thu) (MB Meeting No. 8)	12 (Thu) (14 Nov 2019 MB meeting)	

**2020 SCHEDULE OF MONETARY POLICY MEETINGS, INFLATION REPORT
PRESS CONFERENCE AND PUBLICATION OF MB HIGHLIGHTS**

2020	Advisory Committee (AC) Meeting	Monetary Board (MB) Meeting	MB Highlights Publication	Inflation Report (IR) Press Conference
Jan	31 (Fri) (AC Meeting No. 1)		9 (Thu) (12 Dec 2019 MB meeting)	24 (Fri) (Q4 2019 IR)
Feb		6 (Thu) (MB Meeting No. 1)		
Mar	13 (Fri) (AC Meeting No. 2)	19 (Thu) (MB Meeting No. 2)	5 (Thu) (6 Feb 2020 MB meeting)	
Apr			16 (Thu) (19 Mar 2020 MB meeting)	24 (Fri) (Q1 2020 IR)
May	15 (Fri) (AC Meeting No. 3)	21 (Thu) (MB Meeting No. 3)		
Jun	19 (Fri) (AC Meeting No. 4)	25 (Thu) (MB Meeting No. 4)	18 (Thu) (21 May 2020 MB meeting)	
Jul			23 (Thu) (25 Jun 2020 MB meeting)	24 (Fri) (Q2 2020 IR)
Aug	14 (Fri) (AC Meeting No. 5)	20 (Thu) (MB Meeting No. 5)		
Sep	25 (Fri) (AC Meeting No. 6)		17 (Thu) (20 Aug 2020 MB meeting)	
Oct		1 (Thu) (MB Meeting No. 6)	29 (Thu) (1 Oct 2020 MB meeting)	30 (Fri) (Q3 2020 IR)
Nov	13 (Fri) (AC Meeting No. 7)	19 (Thu) (MB Meeting No. 7)		
Dec	11 (Fri) (AC Meeting No. 8)	17 (Thu) (MB Meeting No. 8)	17 (Thu) (19 Nov 2020 MB meeting)	

List of Acronyms, Abbreviations, and Symbols

ASF	African Swine Fever	NBQBs	Non-Banks with Quasi-Banking Function
AHFF	Agriculture, Hunting, Forestry and Fishing	NCR	National Capital Region
AONCR	Areas Outside the National Capital Region	NEDA	National Economic and Development Authority
ASEAN	Association of Southeast Asian Nations	NEER	Nominal Effective Exchange Rate
BAP	Bankers Association of the Philippines	NFA	Net Foreign Asset
BES	Business Expectations Survey	NG	National Government
BI	Bank Indonesia	NGCP	National Grid Corporation of the Philippines
BIR	Bureau of Internal Revenue	NIA	National Income Accounts
BIS	Bank for International Settlements	NNPL	Net Non-Performing Loans
BNM	Bank Negara Malaysia	NPC	National Power Corporation
BOC	Bureau of Customs	NSFR	Net Stable Funding Ratio
BOT	Bank of Thailand	NSS	Net Settlement Surplus
bp	Basis Point	ODF	Overnight Deposit Facility
BPO	Business Process Outsourcing	OFW	Overseas Filipino Worker
BTr	Bureau of the Treasury	OP	Office of the President
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon	OPEC	Organization of the Petroleum Exporting Countries
CAMPI	Chamber of Automotive Manufacturers of the Philippines, Inc.	OPR	Overnight Policy Rate
CAR	Capital Adequacy Ratio	PBOC	People's Bank of China
CBD	Central Business District	PISM	Philippine Institute for Supply Management
CDS	Credit Default Swap	PMI	Purchasing Managers' Index
CES	Consumer Expectations Survey	ppt	Percentage Point
CI	Confidence Index	PSA	Philippine Statistics Authority;
CPI	Consumer Price Index		Power Supply Agreement
DA	Department of Agriculture	PSALM	Power Sector Assets and Liabilities Management
DBCC	Development Budget Coordination Committee	PSEi	Philippine Stock Exchange Index
DBM	Department of Budget and Management	QBs	Quasi-Banks
DI	Diffusion Index	q-o-q	Quarter-on-Quarter
DOE	Department of Energy	RBs	Rural Banks
DOF	Department of Finance	REER	Real Effective Exchange Rate
DPWH	Department of Public Works and Highways	RP	Repurchase
EIA	Energy Information Administration	RR	Reserve Requirement
EMBIG	Emerging Market Bond Index Global	RREL	Residential Real Estate Loan
ERC	Energy Regulatory Commission	RREPI	Residential Real Estate Price Index
FCD	Foreign Currency Deposit	RRP	Reverse Repurchase
FDI	Foreign Direct Investment	RRR	Reserve Requirement Ratio
FOMC	Federal Open Market Committee	SBL	Substandard or Below Loan
GDP	Gross Domestic Product	SDA	Special Deposit Account
GIR	Gross International Reserve	SEC	Securities and Exchange Commission
GNi	Gross National Income	SLOS	Senior Bank Loan Officers' Survey
GNPL	Gross Non-Performing Loan	SLOUR	System Loss Over/Under Recovery
GOUR	Generation Over/Under Recovery	SME	Small and Medium Enterprise
GS	Government Securities	SRR	Statutory Reserve Requirement
IMF	International Monetary Fund	TAFPPC	True-up Adjustments of Fuel and Purchased Power Cost
IMTS	International Merchandise Trade Statistics	TAFxA	True-up Adjustments of Foreign Exchange Related Costs
IPP	Independent Power Producers	TBs	Thrift Banks
kWh	Kilowatt Hour	TDF	Term Deposit Facility
LEM	Loans Especially Mentioned	TLP	Total Loan Portfolio
LFS	Labor Force Survey	TOUR	Transmission Over/Under Recovery
LGU	Local Government Unit	TPI	Trading Partner Index
LRT	Light Railway Transit	TPI-A	Trading Partner Index in Advanced Countries
LSOUR	Lifeline Subsidy Over/Under Recovery	TPI-D	Trading Partner Index in Developing Countries
MB	Monetary Board	U/KBs	Universal and Commercial Banks
mb/d	Million Barrels per Day	VaPI	Value of Production Index
MERALCO	Manila Electric Company	VoPI	Volume of Production Index
MISSI	Monthly Integrated Survey of Selected Industries	WEO	World Economic Outlook
MTP	Major Trading Partner	WESM	Wholesale Electricity Spot Market
MUP	Military and Uniformed Personnel	WTO	World Trade Organization
		y-o-y	Year-on-Year
		y-t-d	Year-to-Date

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Overview

Headline inflation settles within target in 2019.

Average headline inflation eased slightly to 1.6 percent year-on-year (y-o-y) in Q4 2019 from 1.7 percent in the previous quarter. This brings the full year average inflation to 2.5 percent, well within the government's target range of 3.0 percent $\pm$ 1.0 percentage point (ppt) for the year. The slowdown in the Q4 inflation can be traced to food and non-food inflation.

Headline inflation falls within target in 2019

Likewise, core inflation – which excludes selected volatile food and energy items to measure underlying price pressures – decelerated to 2.7 percent y-o-y in Q4 2019 from 2.9 percent in the previous quarter. Two of the BSP-computed alternative core inflation measures, namely, the weighted median and trimmed mean inflation measures, also eased in Q4 2019 relative to the previous quarter, while the net of volatile items measure remained unchanged. Consistent with the downtrend in overall inflation, the number of Consumer Price Index (CPI) items with inflation rates higher than the threshold of 4.0 percent (the upper end of the 2019 inflation target) fell to 48 items in Q4 2019 from 54 items in the previous quarter. Collectively, these items accounted for 12.6 percent of the total CPI basket.

Inflation expectations for 2019 and 2020 are lower. Results of the BSP's survey of private sector economists in December 2019 showed lower mean inflation forecasts for 2019 and 2020 relative to the results in September 2019. For 2019 and 2020, mean inflation forecasts declined to 2.4 percent and 2.9 percent, respectively, from 2.7 percent and 3.1 percent. Meanwhile, mean inflation forecast for 2021 was steady at 3.1 percent.

Analysts expect within-target inflation in 2019 as risks to inflation outlook were broadly balanced. In 2020, analysts anticipate a benign inflation environment with the risks to inflation outlook tilted to the upside due mainly to the implementation of other packages under the Comprehensive Tax Reform Program such as the excise taxes on oil and tobacco.

Domestic growth accelerates. Real gross domestic product (GDP) expanded at a faster rate of 6.2 percent in Q3 2019. This is higher than the 5.5-percent and 6.0-percent growth rates in Q2 2019 and Q3 2018, respectively. On the expenditure side, Q3 growth was supported by the catch-up spending of the government at 9.6 percent, as well as the continued robust household consumption at 5.9 percent. On the production side, services sector remained the key driver as it expanded by 6.9 percent.

Real GDP growth accelerates in Q3 2019

Higher-frequency demand indicators point to a generally positive outlook. The composite Purchasing Managers' Index (PMI) in November 2019 remained above the expansion threshold, although a contraction in the retail and wholesale sub-sector PMI was noted. Similarly, energy sales by Meralco continued to grow albeit at a slower rate. Meanwhile, vehicle sales increased in Q3 2019, rebounding from a contraction in the previous year. The BSP's business and consumer expectations surveys mirror these trends, as well. Survey results for Q4 2019 reported optimism for the review quarter and a positive although weaker outlook for Q1 2020.

Global economic activity recovers. The JP Morgan Global All-Industry Output Index rose slightly to 51.7 in December 2019 from 51.4 in November on higher new incoming business. Output expansions were recorded in the US, China, euro area, India, Brazil, and Russia. In contrast, contractions were recorded in the UK, Australia, Italy, and Japan. Meanwhile, several central banks, namely, the US Federal Reserve, Bank Indonesia (BI), People's Bank of China (PBOC), Bank Negara Malaysia (BNM) and Bank of Thailand (BOT) eased their monetary policy settings in Q4 2019 to provide support to their respective economies.

The domestic financial system remains stable, supported by firm macroeconomic fundamentals.

The Philippine equities market declined slightly in Q4 2019, quarter-on-quarter (q-o-q), weighed down largely by negative sentiments abroad. Nevertheless, this was tempered partially at the domestic front by the decline in inflation rates, easing monetary policy and higher real GDP

outturn in Q3. Meanwhile, the peso appreciated in Q4, buoyed by market's expectations of a US Fed rate cut. Investor appetite for local currency government securities remained healthy with oversubscriptions in the Bureau of the Treasury's (BTR) scheduled auctions. The upbeat investor sentiment was also reflected in the generally narrower bond spreads and lower credit default swaps (CDS). Finally, the Philippine banking system remained sound and resilient, marked by sustained growth in assets and deposits, and with capital adequacy ratios comfortably above the BSP's and Bank for International Settlements' (BIS) prescribed levels. In addition, bank lending standards for loans to both enterprises and households were also broadly unchanged during the quarter using the modal approach.

The BSP kept monetary policy steady in Q4 2019.

The BSP maintained the key policy interest rate at 4.0 percent for the overnight reverse repurchase or RRP facility. The BSP noted the benign inflation environment in its decision to keep policy settings steady. Latest baseline forecasts indicate that the future inflation path remains within the target range of 3.0 ± 1.0 ppt in 2020-2021, with well-anchored inflation expectations.

The balance of risks to the inflation outlook continue to lean slightly toward the upside in 2020 and toward the downside in 2021. Upside risks to inflation over the near term emanate mainly from potential volatility in international oil prices amid geopolitical tensions in the Middle East as well as from the potential impact of the African Swine Fever (ASF) outbreak and recent weather disturbances on domestic food prices. However, uncertainty over trade policies in major economies continue to weigh down on global economic activity and demand and could thus mitigate upward pressures on commodity prices.

On the other hand, the BSP announced the reduction in the reserve requirement for universal/commercial banks (U/KBs) and thrift banks (TBs) by 100 bps in October 2019. This is in line with the BSP's broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs.

Going forward, the BSP will continue to monitor developments affecting the inflation outlook and demand conditions to ensure that the monetary policy stance remains consistent with its price and financial stability objectives.

I. Inflation and Real Sector Developments

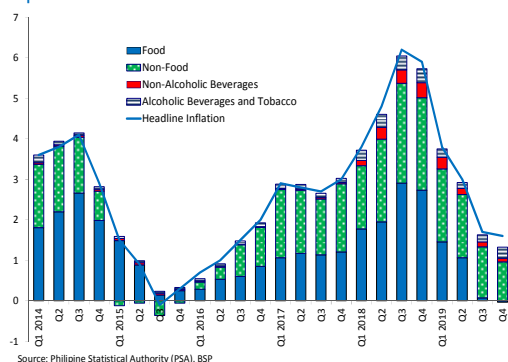
Prices

Headline inflation. Average headline inflation rate eased further to 1.6 percent y-o-y in Q4 2019 from 1.7 percent in the previous quarter. The slowdown can be traced to lower food and non-food inflation during the quarter.

Headline inflation falls within target in 2019

The average inflation rate for 2019 was recorded at 2.5 percent, which was well within the government's 2-4 percent target for the year.

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



Core Inflation. Likewise, core inflation— which excludes selected volatile food and energy items to measure underlying price pressures—also decelerated to 2.7 percent y-o-y in Q4 2019 from 2.9 percent in the previous quarter.

Official core inflation decelerates

Similarly, two of the BSP-computed alternative core inflation measures (i.e., the trimmed mean and weighted median inflation) also eased in Q4 2019 relative to the previous quarter. Meanwhile, the net of volatile items measure was unchanged from its level in the previous quarter (Table 1).

Table 1. 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
2016	1.3	1.6	1.2	1.3	1.9
Q1	0.7	1.0	0.8	1.0	1.5
Q2	1.0	1.2	1.1	1.4	1.8
Q3	1.5	1.7	1.4	1.3	2.0
Q4	2.0	2.2	1.6	1.5	2.3
2017	2.9	2.4	2.2	1.8	2.7
Q1	2.9	2.7	2.1	1.9	2.6
Q2	2.8	2.5	2.3	1.7	2.8
Q3	2.7	2.3	2.1	1.6	2.7
Q4	3.0	2.4	2.3	1.7	2.7
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

¹ The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of year-on-year inflation rates for all CPI components.

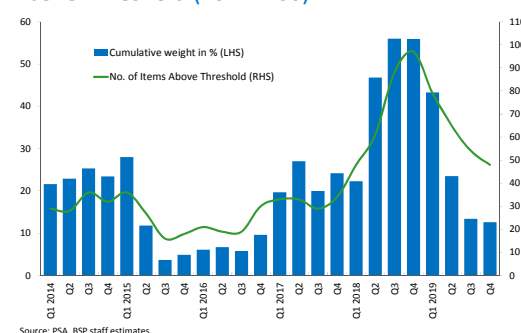
² The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of year-on-year inflation rates.

³ The net of volatile items method excludes the following items: bread and cereals, vegetables sugar, jam, honey, chocolate, and confectionery, electricity, gas, fuel and lubricants for personal transport equipment, and passenger transport by road, which represents 29.5 percent of all items.

Source: PSA, BSP estimates

The number of CPI items with inflation rates higher than the threshold of 4.0 percent also fell to 48 items in Q4 2019 from 54 items in the previous quarter.

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



Collectively, these items accounted for around 12.6 percent of total CPI basket, lower than the 13.4 percent share in the previous quarter.

Food Inflation. Year-on-year food inflation was nil in Q4 2019 (from 0.2 percent in the previous quarter) due to the continued decline in rice prices compared to 2018 levels (Table 2). Domestic rice prices has been generally stable or trending downwards during the quarter with the ongoing main harvest season along with the continued arrival of rice imports by the private sector.

Food inflation eases further in Q4 2019

Likewise, inflation for sugar, jam, honey, chocolate, and confectionery declined further to -3.8 percent in Q4 2019 from -2.8 percent in the previous quarter. At the same time, y-o-y inflation for corn continued to fall, albeit less negative compared to the previous quarter's level. Inflation for non-alcoholic beverages also slowed down to 3.2 percent in Q4 2019 from 4.2 percent in the previous quarter.

By contrast, y-o-y inflation for fish, fruits, and vegetables in Q4 2019 increased due in part to tight domestic supply conditions triggered by weather-related disruptions. Inflation for alcoholic beverages and tobacco also remained elevated, posting double-digit rates during the quarter.

Table 2. Inflation Rates for Selected Food Items
quarterly averages in percent (2012=100)

Commodity	2018	2019	
	Q4	Q3	Q4
Food and Non-Alcoholic Beverages	8.0	0.5	0.3
Food	7.7	0.2	0.0
Bread and Cereals	7.1	-3.6	-5.6
Rice	8.2	-5.8	-8.3
Corn	4.9	-3.6	-2.5
Meat	6.4	2.8	3.1
Fish	12.0	2.7	3.6
Milk, Cheese and Eggs	2.9	2.7	3.2
Oils and Fats	4.8	1.8	0.6
Fruit	4.0	7.3	8.5
Vegetables	11.7	-1.0	2.7
Sugar, Jam, Honey, Chocolate and Confectionery	10.4	-2.8	-3.8
Food Products, N.E.C.	5.4	6.5	5.9
Non-Alcoholic Beverages	12.9	4.2	3.2
Alcoholic Beverages and Tobacco	21.7	11.1	17.5

Source of Basic Data: PSA, BSP

Non-food Inflation. Non-food inflation also decelerated in Q4 2019 to 1.8 percent from 2.1 percent in the previous quarter as most subcomponents registered slower or negative inflation rates during the quarter (Table 3).

Non-food inflation also decelerates

Inflation of CPI items related to utilities such as housing, electricity, gas, and other fuels eased in Q4 2019. This can be traced to the slower inflation for rentals for housing—which accounts for around 12.9 percent of the CPI basket—and

the further decline in y-o-y inflation for electricity, gas, and other fuels. Year-on-year transport inflation also turned more negative during the quarter as prices for domestic airfare continued to decline relative to year-ago levels. At the same time, y-o-y inflation rate for restaurants also went down in Q4 2019 from the previous quarter.

Table 3. Inflation Rates for Selected Non-Food Items
quarterly averages in percent (2012=100)

Commodity	2018	2019	
	Q4	Q3	Q4
Non-Food	3.9	2.1	1.8
Clothing and Footwear	2.6	2.6	2.7
Housing, Water, Electricity, Gas and Other Fuels	4.3	1.6	1.2
Electricity, Gas, and Other Fuels	6.8	-2.3	-2.5
Furnishings, Household Equipment & Routine Household Maintenance	3.8	2.9	2.9
Health	4.5	3.1	3.0
Transport	7.2	-0.2	-0.7
Communication	0.4	0.3	0.3
Recreation and Culture	3.2	2.1	1.4
Education	-3.8	4.4	4.6
Restaurant and Miscellaneous Goods and Services	4.4	3.2	2.8

Source of Basic Data: PSA, BSP

Private Sector Economists' Inflation Forecasts.

Results of the BSP's survey of private sector economists in December 2019 showed lower mean inflation forecasts for 2019 and 2020 relative to the results in September 2019.

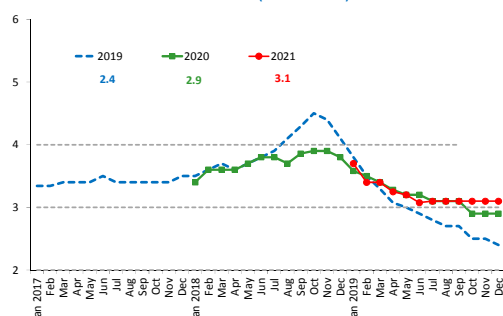
Private sector economists' mean inflation forecasts for 2019 and 2020 are lower

In particular, the mean inflation forecast for 2019 decreased to 2.4 percent from 2.7 percent in the September 2019 survey.⁴ Similarly, the mean inflation forecast for 2020 declined to 2.9 percent from 3.1 percent during the same review period. Meanwhile, the mean inflation forecast for 2021 was steady at 3.1 percent.

⁴ There were 26 respondents in the BSP's survey of private sector economists in December 2019. The survey was conducted from 9 to 23 December 2019.

Chart 3. BSP Private Sector Economists' Survey*

mean forecast for full year; in percent
January 2016 to February 2018 (2006=100)
March 2018 to December 2019 (2012=100)



*Based on forecasts provided by 26 respondents.
Source: BSP

Analysts expect manageable and within-target inflation in 2019 as risks to the inflation outlook remain broadly balanced. The key downside risks to inflation are seen to emanate from the continued implementation of the rice tariffication law and a stronger peso against the US dollar. On the other hand, upside risks to inflation include strong rebound in global oil prices; higher domestic demand during the holiday season; elevated prices of meat alternatives (e.g., beef, chicken, and fish) amid the African Swine Fever; and adverse effects of weather conditions on domestic food supply.

Meanwhile, analysts anticipate a benign inflation environment in 2020, with risks to the inflation outlook likely to be tilted to the upside due mainly to the implementation of other packages under the Comprehensive Tax Reform Program such as the excise taxes on oil and tobacco.

Table 4. Private Sector Forecasts for Inflation

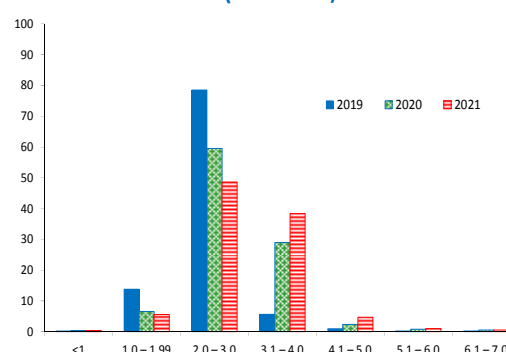
annual percentage change; December 2019 (2012=100)

	2019	2020		2021	
	FY	Q1	Q2	FY	FY
1) Al-Amanah Islamic Bank	2.42	2.00	2.50	2.50	2.50
2) Banco De Oro	2.50	2.40	2.63	3.00	3.10
3) Bangkok Bank	2.30	2.80	3.00	3.00	3.20
4) Bank of Commerce	2.47	2.42	2.41	-	-
5) Bank of China Ltd.	2.00	2.40	2.60	3.00	3.00
6) Bank of the Philippine Islands	1.40	2.50	2.70	3.10	3.00
7) Barclays	2.46	2.60	2.90	3.10	3.50
8) Citibank	2.40	2.70	2.90	2.80	2.80
9) Chinabank	2.50	3.00	3.00	3.00	3.00
10) CTBC Bank	2.60	2.00	3.00	3.00	3.50
11) Deutsche Bank	2.50	-	-	2.60	3.50
12) Eastwest Bank	2.50	2.40	2.80	3.00	3.60
13) Global Source	2.50	2.40	2.80	2.90	3.00
14) Korea Exchange Bank	3.10	2.00	1.50	1.75	2.00
15) Land Bank of the Phils	2.40	2.30	2.80	2.70	2.40
16) Maybank-ATR KimEng	2.50	2.50	2.80	3.00	3.00
17) Metrobank	2.50	-	-	2.00 - 3.00	2.00 - 3.00
18) Mizuho	2.70	3.00	3.40	3.60	3.50
19) Nomura	2.50	2.80	3.00	3.10	3.30
20) RBCB	2.50	2.20 - 2.40	2.40 - 2.90	2.70 - 3.10	3.20 - 3.70
21) Robinsons Bank	2.50	2.60	2.90	3.00	3.00
22) Philippine Equity Partners	2.50	2.70	-	2.80	2.80
23) Security Bank	2.50	2.60	2.70	3.00	3.00
24) Standard Chartered	2.50	2.60	3.20	3.30	4.00
25) Union Bank of the Phils.	2.40	2.50	2.60	2.80	3.70
26) UBS	2.50	2.50	2.80	2.90	3.40
Median Forecast	2.5	2.5	2.8	3.0	3.0
Mean Forecast	2.4	2.5	2.8	2.9	3.1
High	3.1	3.0	3.4	3.6	4.0
Low	1.4	2.0	1.5	1.8	2.0
Number of Observations	26	24	23	25	25
Government Target	3.0±1.00	3.0±1.00	3.0±1.00	3.0±1.00	3.0±1.00

Source: BSP

Based on the probability distribution of the forecasts provided by 21 out of 26 respondents, there is an 84.2-percent probability that average inflation for 2019 will settle between the 2-4 percent range. For 2020 and 2021, the respondents assigned probabilities of 88.5 percent and 87 percent that inflation will fall within the target band.

Chart 4. Probability Distribution for Analysts' Inflation Forecasts* (2019-2021)



*Probability distributions were averages of those provided by 21 out of 26 respondents.
Source: BSP December 2019 Survey

Based on the Q4 2019 BSP Business Expectations Survey (BES), a higher number of respondents in Q4 2019 expect inflation to increase in the current quarter (i.e., the diffusion index (DI) rose from -5.1 percent to 0.1 percent).

Firms and consumers expect inflation to rise but remain within the government's target range

Furthermore, respondents generally anticipate higher inflation in the next quarter (i.e., the DI decreased from 13.7 percent to 10.6 percent but remains positive). Firms generally expect the rate of increase in consumer prices to remain within the government's 2 to 4 percent inflation target range at 2.9 percent in Q4 2019 and 3 percent in Q1 2020 (from 3.4 percent and 3.5 percent, respectively, in the previous quarter's survey results).

Consumer Expectations Survey (CES) results for Q4 2019 indicated that consumers expect inflation to increase over the next 12 months. However, the number of consumers that said so declined from a quarter ago. Moreover, inflation is anticipated to fall within the government's target range at an average of 3.9 percent from 4.3 percent in the Q3 2019 survey. Meanwhile, prices are expected to decline for the following items: rice (2.9 percent); bread and cereals (4.2 percent); meat (4 percent); fish and seafood (5.2 percent); fruits (5.1 percent); vegetables (5.7 percent); non-alcoholic beverages (5.1 percent); alcoholic beverages (6.7 percent); clothing (2.1 percent); house rent (2.3 percent); water (3.2 percent); light (5.4 percent); fuel (3.5 percent); medical care (2.4 percent); transportation (6.1 percent); communication (1.5 percent); education (3.4 percent); and personal care (4.6 percent).

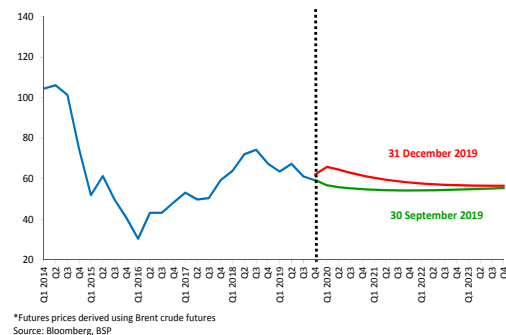
Energy prices. Dubai crude oil spot price, on average, rose by 1.5 percent in Q4 2019 relative to the previous quarter's level, which can be attributed to the decision of the Organization of the Petroleum Exporting Countries (OPEC) and its allies to deepen production cuts. At the same time, optimism over ongoing trade negotiations between the US and China also contributed to higher oil prices.

Global oil prices increase in Q4 2019

In terms of global oil supply and demand growth, the US Energy Information Administration (EIA) reduced its supply growth forecast to 1.4 million barrels per day (mb/d) for 2020 (from 1.7 mb/d in its November 2019 report) amid expectations of lower oil production from OPEC.⁵ For 2020, US EIA forecasts global oil demand to increase by 1.4 mb/d, unchanged from the previous month's estimates.

Estimated futures prices of Dubai crude oil as of end-December 2019,⁶ which are based on movements of Brent crude futures price, showed a higher path for 2020 – 2023 compared to the previous quarter's level.⁷

Chart 5. Spot and Estimated Prices of Dubai Crude Oil



On a cumulative basis, net price adjustments of domestic petroleum products as of 31 December 2019 remained positive. Based on the Department of Energy (DOE) data,⁸ prices of gasoline, kerosene, and diesel went up on a net basis by ₱7.32 per liter, ₱2.61 per liter, and ₱5.81 per liter, respectively.

⁵ US EIA Short-Term Energy Outlook (December 2019) forecast comparisons: International Crude Oil and Liquid Fuels.

⁶ Future prices using Brent crude futures data. Taken as of 31 December 2019.

⁷ Future prices derived using Brent crude futures data. Taken as of 30 September 2019 Sources: BSP-staff calculations, Bloomberg L.P.

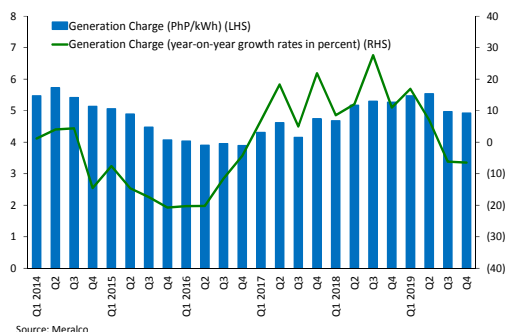
⁸ Based on actual prevailing common prices of domestic petroleum products for Metro Manila reported by the DOE. Net adjustments are based on monitor report on the DOE website: <https://www.doe.gov.ph/oil-monitor?page=1>. Effective 31 December 2019.

Power. Despite the three consecutive monthly increases in Q4 2019, the overall electricity rate in the Manila Electric Company (Meralco)-franchised area declined by around ₱0.03 per kilowatt hour (kWh) to ₱9.50 per kWh (from ₱9.53 per kWh in Q3 2019).

Despite monthly increases in Q4 2019, retail electricity prices went down relative to Q3 2019

The monthly upward adjustments were attributed mainly to higher generation charge. The surge in generation charge was due primarily to the smaller (second and third installment) refunds of Net Settlement Surplus (NSS)⁹ for October and November from the Wholesale Electricity Spot Market (WESM). Generation charge from the WESM also registered an increase on the back of tighter supply conditions in the Luzon grid. At the same time, generation charges from the Independent Power Producers (IPPs) and Power Supply Agreements (PSAs) increased in December as a result of lower average plant dispatch as well as peso appreciation against the US dollar, respectively.

Chart 6. Meralco's Generation Charge
₱/kWh; year-on-year growth rates in percent



There are potential sources of upside pressures on electricity charges. Meralco has existing petitions for rate increases with Energy Regulatory Commission (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

⁹ On 1 August 2019, the ERC approved Case No. 2019-018 MC, directing the NSS correction/adjustment of ₱1.774 billion through refund for a period of more than one (1) year.

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. In addition, the Power Sector Assets and Liabilities Management (PSALM) has several pending petitions with ERC for the recovery of True-Up Adjustments of Fuel and Purchased Power Costs (TAFPPC), Foreign Exchange Related Costs (TAFxR) and Purchased Power Costs and Foreign Exchange Related Costs by the National Power Corporation (NPC), and NPC's Stranded Debt portion of the universal charge. 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 Supply¹⁰

The Philippine economy grew by 6.2 percent in Q3 2019. This is higher than the 5.5-percent and 6.0-percent expansion in Q2 2019 and Q3 2018, respectively.

Real GDP growth is higher in Q3 2019

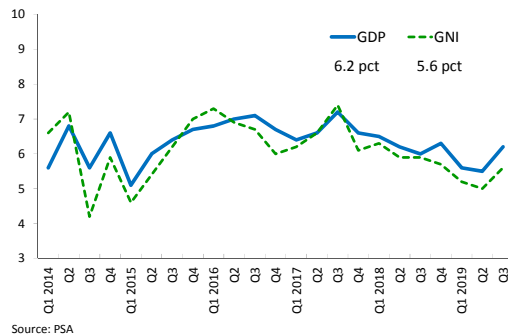
On the expenditure side, growth in Q3 2019 was driven by the increase in government spending at 9.6 percent (from 7.3 in Q2 2019) and household consumption at 5.9 percent (from 5.5 percent in Q2 2019). Exports and investments decelerated to 0.2 percent and 2.1 percent, respectively from 4.8-percent and 8.5 percent in Q2 2019. On the production approach, the industry sector and the agriculture, hunting, forestry and fishing (AHFF) sector expanded by 5.6 percent and 3.1 percent, respectively in Q3 2019 from 3.7 percent and 0.8 percent in Q2 2019. Meanwhile, the services sector grew slower by 6.9 percent from 7.2 percent for the same period.

Gross national income (GNI) growth accelerated to 5.6 percent in Q3 2019, compared with the

¹⁰ Based on revised National Income Accounts (NIA) released as of 8 August 2019. Updated NIA released on 23 January 2020 revised Q3 2019 GDP growth to 6.0 percent and showed real GDP expansion of 6.4 percent in Q4 2019, bringing full-year growth to 5.9 percent.

Q2 2019 expansion of 5.0 percent and Q3 2018 increase of 5.9 percent. Net primary income grew by 2.9 percent from 2.3 percent in Q2 2019 and 5.2 percent in Q3 2018.

Chart 7. Gross Domestic Product (GDP) and Gross National Income (GNI) at constant prices

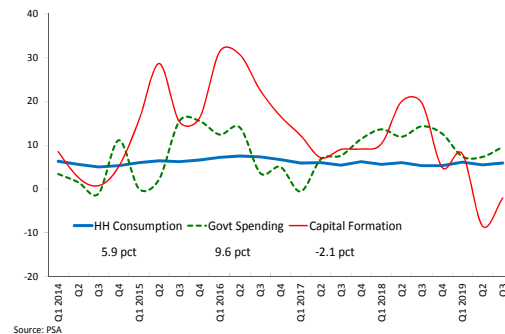


Aggregate Demand. Under the expenditure approach, household spending, government spending and exports contributed 3.9 ppts, 1.1 ppts, and 0.1 ppt, respectively, to total GDP growth in Q3 2019, which more than offset the negative contribution of investments at -0.7 percentage point.

Household spending is key growth driver in Q3 2019

Household expenditures, which accounted for 66.6 percent of the country's total output in Q3 2019, grew by 5.9 percent, higher than the quarter- and year-ago growth rates of 5.5 percent and 5.3 percent, respectively (Table 5). This is supported by easing price pressures coupled with more upbeat consumer sentiment due to better labor market conditions. In particular, majority of the consumer items posted higher growth during the reference quarter. Transport expenditures went up as the volume of passenger cars sold increased alongside declining domestic oil prices. Meanwhile, less water supply disruptions during the rainy season and cheaper household liquefied petroleum gas contributed to the increase in spending for housing, water, electricity, gas, and other fuels. Additionally, the following commodity groups also recorded faster growth: miscellaneous goods and services, restaurants and hotels, health, communication, furnishings, household equipment, routine household maintenance, and recreation and culture.

Chart 8. Gross Domestic Product by Expenditure Shares at constant prices



Growth in government expenditures accelerated to 9.6 percent in Q3 2019 from 7.3 percent in Q2 2019, albeit slower than the 14.3-percent growth registered in Q3 2018. Based on data from the Department of Budget and Management (DBM)¹¹, expenditures under personnel services increased, driven by higher base pay of both civilian employees and military and uniformed personnel (MUP), higher pension of retired MUP, creation/filing of positions, and payment of retirement gratuity and terminal leave benefits of retiring employees in various agencies. Likewise, the government's maintenance and other operating expenses increased as payments for the government's free tertiary education and vocational courses and unconditional cash transfers were released.

Capital formation continued to contract in Q3 2019 (-2.1 percent from -8.5 percent) despite significant increase in public construction which grew by 11.0 percent, a reversal from the 27.2-percent drop in the previous quarter. Public spending on infrastructure and capital outlays recorded a strong rebound after two consecutive quarters of decline, buoyed by disbursement for the projects of Department of Public Works and Highways (DPWH) and the construction of the Supreme Court building. Meanwhile, private construction growth also remained robust at 23.0 percent. At the same time, growth in intellectual property products also contributed to the improved performance of total investments.

¹¹ As cited in the report of the National Economic and Development Authority (NEDA)

Table 5. Gross Domestic Product by Expenditure Shares

at constant 2000 prices; growth rate in percent

BY EXPENDITURE ITEM	2018	2019		
	Q3	Q1	Q2	Q3
Household Consumption	5.3	6.1	5.5	5.9
Government Consumption	14.3	7.4	7.3	9.6
Capital Formation	19.6	8.0	-8.5	-2.1
Fixed Capital Formation	16.6	6.4	-4.6	2.1
Exports	14.2	5.7	4.8	0.2
Imports	19.1	8.6	-0.1	0.0

Source: PSA

Investments in durable equipment declined in Q3 2019 as the faster growth in miscellaneous equipment and general industry machinery was offset by the contraction in machineries specialized for agriculture, mining and construction activities as well as the continued drop in transport equipment particularly road vehicles and air transport.

Overall exports growth moderated to 0.2 percent in Q3 2019 from 4.8 percent in Q2 2019 and 14.2 percent in Q3 2018 as the decline in merchandise exports outweighed the acceleration in exports of services. The subdued contraction in exports of goods was mainly driven by the decline in exports of electronic components, particularly semiconductors as global sales across all regional markets decreased amid persisting trade war between the US and China. Trade of agricultural products also weakened during the period as exports of almost all commodities exhibited deceleration.

Overall imports registered no growth in Q3 2019 compared to a slight decline of 0.1 percent in Q2 2019. Merchandise imports improved marginally due mainly to base metals and transport equipment. However, growth in services imports slowed down on account of decline in transportation.

Other Demand Indicators. Higher-frequency demand indicators point to a generally positive outlook for the domestic economy. The composite PMI remained above the expansion threshold, indicating continued activity ahead. Energy sales of Meralco accelerated while sales of new vehicles from CAMPI grew faster in Q3 2019, a reversal from the contraction recorded in the same period a year ago. Similarly, business and consumer expectations surveys reported continued positive prospects, albeit weaker.

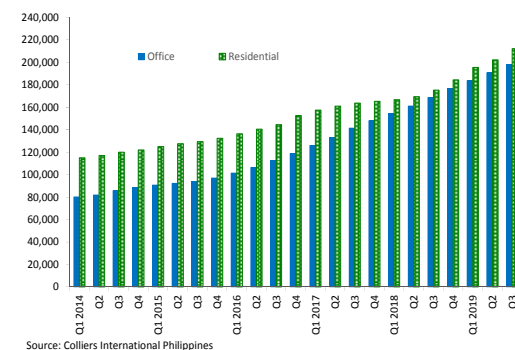
Property Prices

Capital Values. Capital values¹² for office buildings in Metro Manila¹³ in Q3 2019 were higher in nominal terms than their quarter- and year-ago levels.

Capital values for office and residential buildings increase

Average capital values in Metro Manila rose to ₱197,831/sq.m., higher by 3.8 percent and 17.4 percent compared to the quarter- and year-ago levels, respectively. In terms of location, capital values for office buildings in Manila Bay area recorded the highest y-o-y growth at 41.9 percent in Q3 2019, a further increase from the 24.4-percent expansion in the same period in 2018.

Chart 9. Capital Values
price per square meter



Likewise, average capital values for luxury residential buildings¹⁴ in Metro Manila¹⁵ in Q3 2019 increased to ₱212,134/sq.m. from their quarter- and year-ago levels. Average prices for three-bedroom luxury residential condominium units in Metro Manila grew by 4.9 percent q-o-q and 21.1 percent y-o-y. In terms of location, capital values for three-bedroom luxury residential condominium units in Fort

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 Central Business District (CBD), Fort Bonifacio, Ortigas, Eastwood, Alabang, and Manila Bay Area.

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.

Bonifacio area recorded the highest y-o-y growth at 27.1 percent in Q3 2019, a further increase from the 10.7-percent expansion in the same period in 2018.

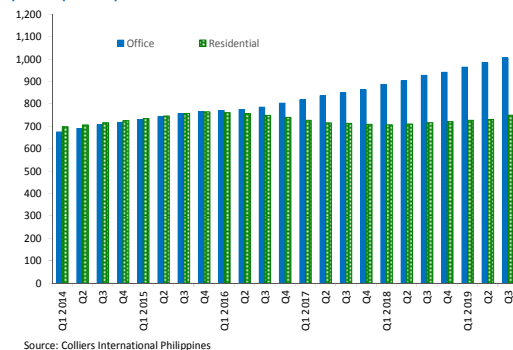
Rental Values. Average monthly office rents in Metro Manila reached ₱1,005/sq.m. in Q3 2019, an increase of 2.0 percent from the previous quarter. Similarly, average monthly office rents in Metro Manila were higher by 8.3 percent relative to Q3 2018.

Rental values rise

The appreciation in office rental rates was due to the sustained demand from offshore gaming and traditional firms. In terms of location, rental values for office buildings in Manila Bay area recorded the highest y-o-y growth at 16.9 percent in Q3 2019, albeit slower than the 25.3-percent expansion in the same period in 2018.

Average monthly rents for luxury three-bedroom condominium units in the Metro Manila was recorded at ₱750/sq.m. in Q3 2019, higher by 2.7 percent compared to the previous quarter. Meanwhile, average monthly rents for the 3-bedroom segment in Metro Manila were higher by 4.7 percent compared to the year-ago levels.

Chart 10. Rental Values
price per square meter



The increase in rents in Metro Manila in Q3 2019 could be attributed to the continued demand from foreign and local employees, especially in business districts. In terms of location, capital values for three-bedroom luxury residential condominium units in Makati CBD and Fort Bonifacio both recorded the highest y-o-y growth at 6.1 percent in Q3 2019, both increments from the same period in 2018.

Vacancy Rates. The overall office vacancy rate in Metro Manila slightly rose to 5.0 percent in Q3 2019 from 4.9 percent in the Q2 2019 due mainly to the delivery of new leasable space, particularly in Ortigas Center.

Office vacancy rates rise slightly

Office vacancy rates in Ortigas Center (4.4 percent from 1.0 percent) increased in Q3 2019 compared to the previous quarter. By contrast, the office vacancy rates in Makati CBD (1.7 percent from 1.8 percent) and Fort Bonifacio (5.3 percent from 6.8 percent) declined in Q3 2019 compared to the previous quarter. Meanwhile, vacancy rates for the Manila Bay Area was unchanged at 0.6 percent. The overall office vacancy rate in Metro Manila is projected at 6.2 percent for 2020 due mainly to sustained take up from offshore gaming and traditional tenants. However, Colliers International Philippines projects a slower take-up from this segment over the next 12 to 24 months amid slower economic growth prospects as well as uncertainty over the government's tax reform proposal and the sustainability of offshore gaming firms in Metro Manila.

Chart 11. Vacancy Rates
in percent



Meanwhile, the overall residential vacancy rate in Metro Manila increased to 10.8 percent in Q3 2019 from 10.6 percent in Q2 2019 due to the completion of additional units across Metro Manila. In particular, residential vacancy rates across all major CBDs in Metro Manila, except Ortigas Center (lower at 4.5 percent), were higher in Q3 2019 from their respective quarter-ago levels, namely: Makati CBD (10.8 percent from 10.7 percent), Fort Bonifacio (14.7 percent from 14.4 percent), Rockwell Center (9.7 percent from 9.6 percent), Eastwood City (4.4 percent from 4.2 percent), and Manila Bay area (13.0 percent

from 12.1 percent). Colliers foresees sustained leasing across Metro Manila in 2020 to 2021 on the back of demand from local and foreign workers. Hence, Colliers sees only marginal rise in vacancy in the said period.

BSP Residential Real Estate Price Index (RREPI).¹⁶

Residential real estate prices increased by 10.4 percent y-o-y in Q3 2019 as the RREPI increased to 128.7 from 116.6 in Q3 2018.

Residential real estate prices register higher growth rate in Q3 2019

Y-o-y prices increased across all types of housing units. Prices of condominium units in Q3 2019 registered the highest growth rate since Q1 2016 at 29.1 percent (compared to Q3 2018) (Table 6). This was followed by duplexes (24.8 percent), townhouses (6.0 percent), and single detached/attached houses (2.4 percent). Similarly, the RREPI went up by 9.5 percent q-o-q to 128.7 from 117.5 in Q2 2019, as all types of housing units registered price increases.

Table 6. Residential Real Estate Price Index By Housing Type
Q1 2014=100; growth rate in percent

Residential Real Estate Price Index ¹ (By Housing Type)						
Quarter	Overall ²	Single Detached/ Attached	Duplex ³	Townhouse	Condominium Unit	
2017	Q1	113.9	108.0	91.2	107.6	128.3
	Q2	111.8	103.6	103.6	112.7	129.3
	Q3	111.6	103.4	88.4	107.7	131.0
	Q4	117.4	104.6	102.6	116.3	143.3
2018	Q1	116.2	107.3	131.5	122.4	130.9
	Q2	117.0	105.1	99.0	128.4	138.5
	Q3	116.6	103.6	115.5	127.7	138.6
	Q4	118.1	102.6	98.8	129.9	144.2
2019	Q1	120.0	105.7	121.0	134.4	145.2
	Q2	117.5	100.7	111.4	133.9	151.8
	Q3	128.7	106.1	144.2	135.4	178.9
Year-on-Year Growth Rates						
2017	Q1	6.5	9.2	-20.5	0.3	4.1
	Q2	0.1	-2.1	5.1	3.2	4.4
	Q3	1.8	0.8	-8.6	7.2	3.6
	Q4	5.7	-0.3	17.3	8.0	14.2
2018	Q1	2.0	-0.6	44.2	13.8	2.0
	Q2	4.7	1.4	-4.4	13.9	7.1
	Q3	4.5	0.2	30.7	18.6	5.8
	Q4	0.6	-1.9	-3.7	11.7	0.6
2019	Q1	3.3	-1.5	-8.0	9.8	10.9
	Q2	0.4	-4.2	12.5	4.3	9.6
	Q3	10.4	2.4	24.8	6.0	29.1
Quarter-on-Quarter Growth Rates						
2017	Q1	2.5	3.0	4.2	-0.1	2.2
	Q2	-1.8	-4.1	13.6	4.7	0.8
	Q3	-0.2	-0.2	-14.7	-4.4	1.3
	Q4	5.2	1.2	16.1	8.0	9.4
2018	Q1	-1.0	2.6	28.2	5.2	-8.7
	Q2	0.7	-2.1	-24.7	4.9	5.8
	Q3	-0.3	-1.4	16.7	-0.5	0.1
	Q4	1.3	-1.0	-14.5	1.7	4.0
2019	Q1	1.6	3.0	22.5	3.5	0.7
	Q2	-2.1	-4.7	-7.9	-0.4	4.5
	Q3	9.5	5.4	29.4	1.1	17.9

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

The average residential property prices in Q3 2019 in both the National Capital Region (NCR) and Areas Outside the NCR (AONCR) increased by 22.2 percent and 4.9 percent, respectively, compared to year-ago prices (Table 7).

In the NCR, the increase in prices of duplexes and condominium units outweighed the decline in prices of single detached houses and townhouses. Meanwhile, price increases were observed across all types of housing in AONCR.

¹⁶ 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.

**Table 7. Residential Real Estate Price Index
By Area**

Q1 2014=100; growth rate in percent

Quarter	Residential Real Estate Price Index ¹ (By Area)		
	Overall	NCR	AONCR
2017 Q1	113.9	118.4	111.6
Q2	111.8	120.4	107.5
Q3	111.6	118.2	108.1
Q4	117.4	127.6	111.1
2018 Q1	116.2	121.6	112.5
Q2	117.0	125.7	112.0
Q3	116.6	126.4	110.5
Q4	118.1	129.8	110.2
2019 Q1	120.0	132.5	113.1
Q2	117.5	132.2	110.8
Q3	128.7	154.4	115.9
Year-on-Year Growth Rates			
2017 Q1	6.5	4.4	8.0
Q2	0.1	3.7	-1.6
Q3	1.8	2.2	1.8
Q4	5.7	8.8	3.0
2018 Q1	2.0	2.7	0.8
Q2	4.7	4.4	4.2
Q3	4.5	6.9	2.2
Q4	0.6	1.7	-0.8
2019 Q1	3.3	9.0	0.5
Q2	0.4	5.2	-1.1
Q3	10.4	22.2	4.9
Quarter-on-Quarter Growth Rates			
2017 Q1	2.5	0.9	3.4
Q2	-1.8	1.7	-3.7
Q3	-0.2	-1.8	0.6
Q4	5.2	8.0	2.8
2018 Q1	-1.0	-4.7	1.3
Q2	0.7	3.4	-0.4
Q3	-0.3	0.6	-1.3
Q4	1.3	2.7	-0.3
2019 Q1	1.6	2.1	2.6
Q2	-2.1	-0.2	-2.0
Q3	9.5	16.8	4.6

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

Source: BSP

For Q3 2019, the purchase of new housing units accounted for 74 percent of residential real estate loans (RREs). By type of housing units, 51.8 percent of residential property loans were used for the acquisition of condominium units, followed by single detached/attached houses (38.1 percent) and townhouses (9.5 percent).

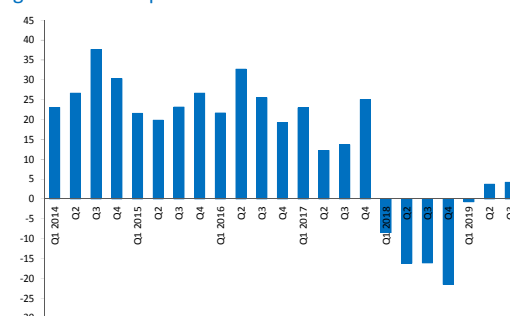
By area, most of the RREs granted in NCR were for the purchase of condominium units (43.1 percent), while RREs granted in AONCR were for the purchase of single detached/attached houses (35.5 percent). By region, NCR accounted for 48.7 percent of the total number of RREs granted during the quarter, followed by CALABARZON (25.1 percent), Central Luzon (7.6 percent), Central Visayas (6.5 percent), Western Visayas (3.6 percent), Davao Region (2.8 percent) and Northern Mindanao (2.3 percent). Together, NCR and these six other regions accounted for 96.6 percent of total housing loans granted by banks during the quarter.

Vehicle Sales. Sales of new vehicles from CAMPI¹⁷ members rose by 4.2 percent y-o-y in Q3 2019, faster than the 3.7-percent expansion in Q2 2019 and a reversal from the 16.2-percent contraction recorded in Q3 2018, due mainly to higher sales of passenger and commercial vehicles during the period.

Sales of new vehicles increase

Commercial vehicle sales, which account for about 70.1 percent of total vehicle sales, rose by 1.5 percent y-o-y in Q3 2019 from the 16.2-percent decline in the same period of 2018. Commercial vehicles sold during the period reached 65,330 units from 64,373 units in Q3 2018.

**Chart 12. Vehicle Sales
growth rate in percent**



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

Similarly, sales of passenger cars went up by 11.2 percent y-o-y in Q3 2019, a turnaround from the 27.2-percent contraction in the same period in 2018. New passenger car sales accrued to a total of 27,899 units in Q3 2019 from 25,094 units in the same period a year ago.

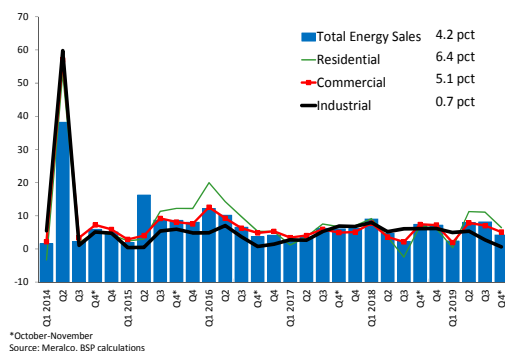
¹⁷ Vehicle sales data is gathered on a monthly basis by the Chamber of Automotive Manufacturers of the Philippines (CAMPI). CAMPI represents the local assemblers and manufacturers of vehicle units in the Philippine automotive industry. The following are the active members of CAMPI: (1) Asian Carmakers 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.

Energy Sales. Energy sales of Meralco increased by 4.2 percent year-on-year in Q4 2019 (October–November), slower compared to the 7.4-percent growth in the same period a year-ago.

Energy sales increase

Energy sales from the residential sector, commercial sector, and industrial sector increased by 6.4 percent, 5.1 percent, and 0.7 percent, respectively.

Chart 13. Energy Sales
year-on-year growth in percent

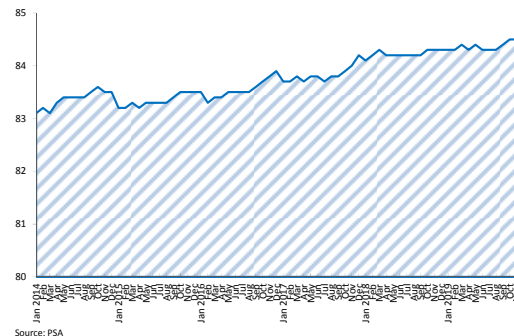


Capacity Utilization. The average capacity utilization rate of the manufacturing sector stood at 84.5 percent in November 2019, unchanged from the month-ago level based on the PSA’s Monthly Integrated Survey of Selected Industries (MISSI).

Capacity utilization in manufacturing remains above 80 percent

Of the 625 respondent-establishments, 60.6 percent operated at a capacity of at least 80.0 percent in November 2019. Data showed that most of the manufacturing companies have been operating above the 80.0-percent capacity since 2010.

Chart 14. Monthly Average of Capacity Utilization for Manufacturing
in percent



There were 12 (out of the 20) major industries in the sector that operated above the 80.0-percent capacity level that include: petroleum products (89.9 percent); basic metals (88.3 percent); non-metallic mineral products (86.5 percent); machinery except electrical (86.3 percent); food manufacturing (85.4 percent); chemical products (85.1 percent); electrical machinery (85 percent); printing (84.5 percent); paper and paper products (84 percent); rubber and plastic products (83.2 percent); wood and wood products (82.1 percent); and textiles (80.2 percent).

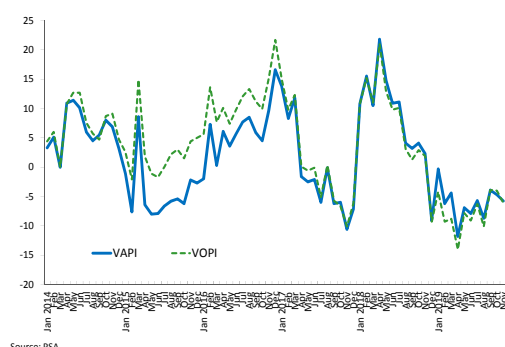
Volume and Value of Production. Preliminary results of the MISSI showed that volume of production index (VoPI) contracted by 6.1 percent year-on-year in November 2019 from the 4-percent (revised) drop in the previous month. Of the 20 major industries, eight posted contractions namely, electrical machinery (-13 percent), petroleum products (-21.8 percent), basic metals (-29.5 percent), transport equipment (-16.7 percent), miscellaneous manufactures (-22.1 percent), furniture and fixtures (-41.2 percent), non-metallic mineral products (-2.6 percent), and textiles (-1.6 percent).

Manufacturing output declines further

Factory output – as measured by the VoPI – declined on a year-on-year basis from the October figure amid less favorable near-term outlook for the manufacturing sector. NEDA emphasized the need for industries to innovate and adopt efficient technologies to attract more investments as in the case of our ASEAN peers such as Thailand, Malaysia, and Vietnam. In addition, the signing of the 2020 budget into law ensures continuity of the

government's Build, Build, Build program, which is expected to provide support to the sector. At the same time, NEDA noted that the passage of the Corporate Income Tax and Incentives Rationalization Act, as well as the proposed amendments on the Foreign Investments Act, Public Service Act, and Retail Trade Act will eliminate policy uncertainties affecting the business climate in the Philippines.

Chart 15. Volume and Value Indices of Manufacturing Production
year-on-year in percent



Likewise, the value of production index (VaPI) posted a 5.8-percent decline in November 2019 from a 4.7-percent contraction a month-ago. This was attributed to the deceleration of the following sub-sectors: electrical machinery (-16.6 percent), petroleum products (-25.6 percent), basic metals (-36.2 percent), transport equipment (-20.6 percent), miscellaneous manufactures (-20.7 percent), textiles (-7 percent), wood and wood products (-2.1 percent), furniture and fixtures (-1.2 percent), and paper and paper products (-0.2 percent).

Business Expectations. The positive business outlook on the economy improved for Q4 2019 as the overall confidence index (CI)¹⁸ of the Business Expectations Survey (BES)¹⁹ increased to 40.2 percent from 37.3 percent in the previous quarter (Table 8). This reflected the higher increase in the percentage of optimists which outweighed the increase in the percentage of

¹⁸ 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.

¹⁹ The BES is a quarterly survey of a random sample drawn from the combined list of firms from the Securities and Exchange Commission's (SEC) Top 7,000 Corporations in 2010 and BusinessWorld's Top 1,000 Corporations in 2017. The Q4 2019 BES was conducted during the period 3 October–25 November 2019.

pessimists from the previous quarter's survey results.

Business outlook strengthens in Q4 2019

Respondents attributed their more optimistic sentiment for Q4 2019 to: (a) higher consumer demand during the holiday and harvest seasons; (b) increase in sales, orders, and projects; (c) more favorable macroeconomic conditions such as higher GDP growth and lower inflation and unemployment rates; (d) higher government spending, mainly in infrastructure; and (e) business expansion. Firms also cited the anticipated positive impact of the country's hosting of the 2019 Southeast Asian Games in terms of availability of more jobs and increase in consumer spending.

The sentiment of businesses in the Philippines mirrored the more buoyant business outlook in Brazil, Chile, Hungary, and the Netherlands. By contrast, business sentiments in Bulgaria, Croatia, Greece, Israel, Norway, and Ukraine were less optimistic. Meanwhile, Canada, China, Denmark, Euro Area, Hong Kong, New Zealand, Singapore, South Korea, Thailand, United Kingdom, and the United States remained pessimistic.

Table 8. Business Expectations Survey

BUSINESS OUTLOOK INDEX	Current Quarter	Next Quarter
2016 Q1	41.9	49.6
Q2	48.7	45.3
Q3	45.4	56.8
Q4	39.8	34.5
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

Source: BSP

However, for the quarter ahead (Q1 2020), positive business outlook weakened as the next quarter CI declined to 40.3 percent from 56.1 percent in the previous quarter. The less favorable outlook for Q1 2020 was due mainly to expectations of: (a) lower consumer demand after the holiday and harvest seasons; (b) decline in sales and orders; (c) stiffer competition; and (d) other factors such as rising prices and concerns over the African swine fever outbreak.

Consumer Expectations. The country's consumer outlook weakened but remained optimistic for Q4 2019 as the overall CI²⁰ of the Consumer Expectations Survey (CES)²¹ declined to 1.3 percent from 4.6 percent in Q3 2019 (Table 9). The lower but still positive CI reflected the combined decline in the percentage of optimists and increase in the percentage of pessimists compared to the previous quarter's survey results.

Consumer confidence weaker but remains positive

The less favorable consumer outlook for Q4 2019 was due to the following concerns: (a) higher prices of commodities; (b) low or no increase in salary/income; and (c) increase in household expenses, among others.

The sentiment of consumers in the Philippines mirrored the less upbeat outlook of consumers in Australia, Indonesia, and Italy while views in Czech Republic were more optimistic for Q4 2019. Meanwhile, consumer outlook in the Euro Area, Japan, South Korea, Switzerland, Taiwan, Thailand, United Kingdom, and the United States remained pessimistic.

For the next quarter (Q1 2020), consumer sentiment remained steady as the CI showed only a 0.1 ppt decline to 15.7 percent from 15.8 percent in the previous quarter's survey. Meanwhile, consumer outlook for the next 12 months was less optimistic as the CI decreased

to 26.4 percent from 29.8 percent, a quarter ago.

Table 9. Consumer Expectations Survey

CONSUMER OUTLOOK INDEX	Current Quarter	Next 3 Months	Next 12 Months
2016 Q1	-5.7	9.1	25.4
Q2	-6.4	5.6	26.6
Q3	2.5	27.3	43.8
Q4	9.2	18.8	33.4
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

Source: BSP

Similar to Q4 2019, the lower CI for the next quarter and next 12 months stemmed from households' anticipation of: (a) higher prices of commodities; (b) no or low increase in salary/income; (c) high unemployment rate; and (d) increase in household expenses.

Purchasing Managers' Index.²² The composite PMI in November 2019 remained above the 50-point expansion threshold²³ at 53.1, albeit slightly lower than the October PMI at 53.6.

PMI remains above the 50-point expansion threshold

This was due to the slower expansion of the services sector and contraction of the retail and wholesale sector.

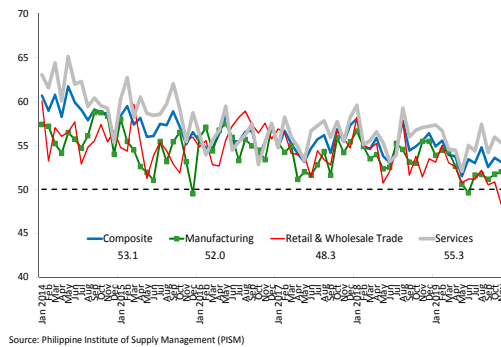
²⁰ The CI is computed as the percentage of households that answered in the affirmative less the percentage of households that answered in the negative with respect to their views on a given indicator. A positive CI indicates an optimistic outlook while a negative CI indicates a pessimistic outlook.

²¹ The CES is a quarterly survey of a random sample of around 5,000 households in the Philippines. The Q4 2019 CES was conducted during the period 1 - 12 October 2019.

²² Data based on the monthly purchasing managers' index report of the Philippine Institute for Supply Management (PISM).

²³ The actual formula used to calculate the PMI assigns weights to each common element and then multiplies them by 1.0 for improvement, 0.5 for no change, and 0 for deterioration. As a result, an index above 50 indicates economic expansion, and an index below 50 implies a contraction. PMI surveys are conducted on the last week of the month.

Chart 16. Purchasing Managers' Index



The manufacturing PMI marginally increased by 0.3 index point to 52 in November 2019 from 51.7 in October, consistent with respondents' expectations of an acceleration during the month. The sector expanded at a faster pace due to strong demand for manufacturing goods during the peak season, supported by higher number of customers, development of new products/services, and branch expansion. This is evident mainly in the 1.48-index point increment of the New Orders Index. The Inventories Index, however, took the brunt of firms' slack in production amid increased demand, which fell slightly by 0.3 index point in November. At the same time, lead time for delivery of major production inputs was shorter due to slower production activity. Likewise, the Employment Index slowed down a bit in November. Meanwhile, all firms by export category accelerated in November, except those with export volume between 26 percent and 50 percent of total revenues which contracted at a PMI of 47.8. On a per sector basis, six out of 12 subsectors grew at a faster pace namely, food and beverages (at a PMI of 63.4), textiles (60.2), publishing (54.5), non-metallic minerals (53.6), communication and medical equipment (51.4), and machinery (50.8). Fuel and fuel products, as well as rubber and plastic decelerated, while the following posted a contraction: paper and paper products, motor vehicles, basic metals, and fabricated metal. Prospects are assessed to be less favorable for the manufacturing sector in December as firms typically shut down operations during the month.

By contrast, the services PMI decreased by 0.6 index point to 55.3 from 55.9, which is contrary to business managers' expectations of a faster expansion in November. This may be attributed mainly to weaker demand as evident in the deceleration of Business Activity Index and New Orders Index, which resulted to lower Average Operating Cost Index. Likewise, Outstanding Business Index – which measures

work in progress but not yet completed – also declined in November. By contrast, Employment Index increased during the month likely in anticipation of holiday demand surge, which may have contributed in the higher Price Charge Index. Nonetheless, all the indices remained well-above the 50-point expansion threshold. On a per sector basis, 11 of the 14 subsectors were on faster expansion in November (electricity, gas, and water; construction; hotels and restaurants; postal and telecommunications; banking and financial intermediation; provident and insurance; real estate; renting of goods and equipment; miscellaneous business activities; health and social work; and recreational, cultural, and sporting activities which rose to a high index of 84.4 reflecting the impact of the recently concluded Southeast Asian games). Two subsectors expanded at a slower rate (transportation and business/knowledge processing), while Education was stable. Survey respondents expect the sector to decelerate next month.

Similarly, the retail and wholesale PMI went down by 2.5 index points to 48.3 in November from 50.8 in the previous month, which is also contrary to managers' expectations. This was attributed mainly to sluggish November demand as evident in the contraction of Purchases Index and significant drop of Inventories Index. Respondents also noted that suppliers of retail and wholesale firms delivered limited supply of products amid low prices. Likewise, the Employment Index contracted in November. By contrast, the Sales Revenue Index and Supplier Deliveries Index were relatively stable. Meanwhile, the PMI of the retail subsector decreased by 4.31 index points to 49.24 in November from 53.55 in October as the contraction of Purchases and Employment more than offset the expansion of Sales Revenues, Supplier Deliveries, and Inventories. The PMI of the wholesale subsector also went down by 4.32 index points to 47.63 from 53.94 brought about by the hefty declines of Purchases, Sales Revenues, and Employment. Managers are anticipating further deceleration in the month ahead.

External Demand²⁴

Exports. Exports of goods went up by 1.0 percent y-o-y in Q3 2019, albeit slower than the 1.8-percent and 2.5-percent expansion in Q2 2019 and Q3 2018, respectively (Table 10).

Exports of goods decline

The lower outbound shipments of coconut products, sugar products, other agro-based products, and petroleum products tempered the growth in exports of fruits and vegetables, forest products, mineral products, and manufactures.

Table 10. Exports of Goods
growth rate in percent

COMMODITY GROUP	2018	2019		
	Q3	Q1	Q2	Q3
Coconut Products	-39.6	-28.7	-4.7	-12.0
Sugar and Products	-78.8	-55.2	91.0	-90.4
Fruits and Vegetables	8.4	43.1	39.1	39.5
Other Agro-Based Products	0.5	-3.8	-13.2	-16.2
Forest Products	34.5	51.8	36.5	48.5
Mineral Products	1.2	4.9	12.3	4.2
Petroleum Products	69.0	-26.7	-92.6	-66.2
Manufactures	3.0	-4.0	1.4	1.3
Special Transactions	41.7	-1.2	-24.1	-22.1
Total Exports	2.5	-2.9	1.8	1.0

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

Imports. Imports of goods dropped by 7.8 percent y-o-y in Q3 2019, a further decline from the 5.9-percent contraction in Q2 2019 and a turnaround from the 26.6-percent growth in Q3 2018 (Table 11).

Imports of goods decline further

The contraction in inward shipments during the period was due largely to lower imports of raw materials and intermediate goods, and mineral fuels and lubricant.

Table 11. Imports of Goods
growth rate in percent

COMMODITY GROUP	2018	2019		
	Q3	Q1	Q2	Q3
Capital Goods	22.0	11.5	-0.8	1.1
Raw Materials and Intermediate Goods	30.8	-0.9	-14.4	-17.6
Mineral Fuels and Lubricants	41.2	-5.2	0.0	-13.7
Consumer Goods	16.2	12.0	-0.1	1.9
Special Transactions	47.7	31.5	46.3	38.0
Total Imports	26.6	4.7	-5.9	-7.8

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

Aggregate Supply. On the production side of the economy, the service sector, industry sector and AHFF sector contributed 4.1 ppts, 1.9 ppts and 0.2 ppt respectively, to total GDP growth in Q3 2019.

Service sector supports supply-side growth

The service sector posted a strong growth of 6.9 percent in Q3 2019, maintaining the rate recorded in Q3 2018 but slower relative to the growth rate in the previous quarter, brought about by the slowdown in public administration and defense, trade, and other services (Table 12).

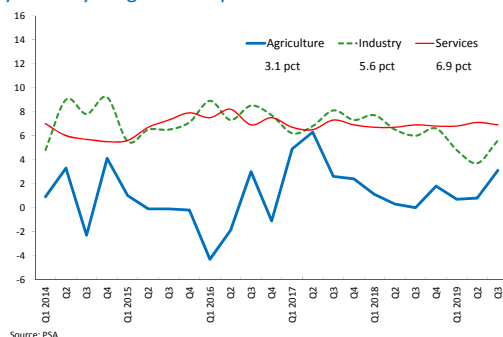
Transport, storage and communication sector registered an accelerated growth due to stronger performance of the communication sector and transport and storage sector during the period. Meanwhile, the growth of the transportation and storage sector was driven mainly by the accelerated growth in land transport, reflecting increased Light Railway Transit (LRT) Line 2 ridership. The growth of the financial services sector can be attributed to the acceleration of growth in non-bank financial intermediation and insurance. Growth in real estate, renting and business activities edged up as demand for office property was driven by offshoring and outsourcing firms, offshore gaming operators, and flexible workspace operators. On the other hand, demand for residential properties was buoyed up by expatriate employees, online gaming employees, local workforce, investing high-net-worth individuals, as well as other end-users.

Meanwhile, trade and repair of motor vehicles, motorcycles, personal and household goods grew slower due to the deceleration in retail trade

²⁴ International Merchandise Trade Statistics (IMTS) concept

despite the stronger growth in maintenance and repair of motor vehicles, motorcycles, personal and household goods and wholesale trade.

Chart 17. Gross Domestic Product by Industrial Origin (at constant prices)
year-on-year growth in percent



The growth of the industry sector accelerated to 5.6 percent in Q3 2019, higher than the 3.7 percent in Q2 2019, albeit slightly slower than the 6.0-percent growth in Q3 2018. The stronger performance of the sector can be traced to the rebound in construction, which more than offset the moderation in manufacturing and utilities sectors, as well as the contraction in mining and quarrying.

Construction growth accelerated to 16.3 percent, due to the growth rebound in public construction amid the government's campaign to expedite its infrastructure projects. Private construction also sustained its growth with total floor area based on the number of building permits growing by 17.8 percent in July-August 2019.

Table 12. Gross Domestic Product by Industrial Origin
at constant 2000 prices; growth rate in percent

BY INDUSTRIAL ORIGIN	2018	2019		
	Q3	Q1	Q2	Q3
Agri., Hunting, Forestry and Fishing	0.0	0.7	0.8	3.1
Agriculture and Forestry	0.2	0.6	0.4	3.5
Fishing	-0.9	1.4	3.4	1.0
Industry Sector	6.0	4.8	3.7	5.6
Mining and Quarrying	-1.3	4.7	14.6	-4.9
Manufacturing	3.8	4.9	3.9	2.4
Construction	15.2	5.4	-0.5	16.3
Electricity, Gas and Water Supply	5.0	3.1	7.8	7.2
Service Sector	6.9	6.8	7.1	6.9
Transport, Storage and Communication	5.4	7.6	5.9	9.1
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	5.1	7.3	8.4	8.1
Financial Intermediation	7.2	10.2	9.2	10.0
Real Estate, Renting and Business Activities	5.7	3.7	3.8	4.2
Public Administration and Defense; Compulsory Social Security	17.8	9.7	8.6	5.3
Other Services	7.9	5.3	7.7	5.1

Source: PSA

The agriculture sector grew faster by 3.1 percent in Q3 2019 from 0.8 percent in Q2 2019 and nil growth in Q3 2018. The upturn is mainly due to the increase in corn production (24.1 percent in Q3 2019 from -8.4 percent in Q2 2019) resulting from a recovery in damages brought by Typhoon "Mangkhut" (Ompong) in 2018 and observed shifts from cassava and sugarcane production to corn in Cagayan Valley. Seed program interventions by the local government units (LGUs) and the Department of Agriculture (DA) also improved corn yields in Central Luzon and Northern Mindanao. Faster growth rates in Q3 2019 were also seen in the production of poultry (8.4 percent from 4.1 percent); coconut including copra (0.4 percent from -0.4 percent); and pineapple (1.1 percent from 0.8 percent).

Labor Market Conditions

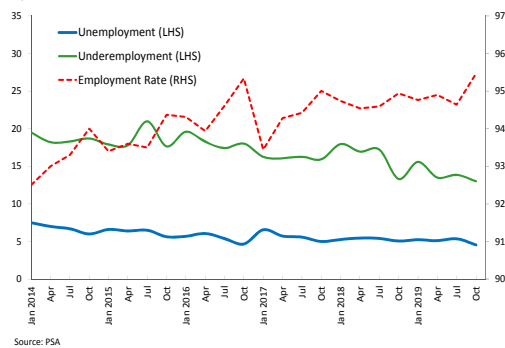
The Philippine labor market made a remarkable performance in the fourth quarter of 2019 as major indicators for both quantity and quality of employment all improved from the same period a year ago.

Labor market improves in Q4 2019

Compared to October 2018 round of the labor force survey (LFS), results of the October 2019 round showed that the country's employment rate increased to 95.5 percent (from 94.9 percent), unemployment rate dropped to 4.5 percent (from 5.1 percent), underemployment rate declined to 13.0 percent (from 13.3 percent), and youth unemployment fell to 12.8 percent (from 13.3 percent). These translated into full-year 2019 averages of 94.9 percent for employment rate, 5.1 percent for unemployment rate, 14.0 percent for underemployment rate, and 13.6 percent for youth unemployment rate. The country was able to meet its unemployment rate target that was set between 4.3 and 5.3 percent for the year, but not in terms of youth unemployment rate, which was set at 9.8 percent.²⁵

²⁵ NEDA (2019), "Socio Economic Report 2018." There were no targets for overall employment rate and underemployment rate.

Chart 18. Unemployment, Underemployment and Employment Rate in percent



The higher employment rate in October 2019 is equivalent to 43.1 million employed individuals. The survey indicated an employment gain of 1.8 million or 4.4 percent higher compared to 41.3 million employed persons in the same period a year ago. Employment gains were recorded in all major sectors of the economy, led by services and industry sectors. Employment in the services sector increased by 5.9 percent to 24.9 million, mainly due to wholesale and retail trade, transportation and storage, education, and public administration and defense. Employment in industry sector rose by 3.3 percent, mainly due to construction, as employment in manufacturing declined during the period. These results indicate that public spending continued to improve in the fourth quarter of 2019. Meanwhile, employment growth in agriculture also remained positive at 1.8 percent. This continued the improvement in agriculture employment in the previous quarter, after five consecutive quarters of employment contractions from Q2 2018 to Q2 2019, mainly due to adverse weather conditions. For full year 2019, employment generation averaged at 1.3 million, way above the government's annual target of 900,000 to 1.1 million. This was mainly attributed to services sector, which generated 1.3 million employment that did not only exceed the 471,000 target for 2019 but also compensated for the employment loss recorded by agriculture sector (-296,117) that more than offset the employment gain in industry sector (271,637).

Chart 19. Employment by Sector in percent



Meanwhile, the latest unemployment rate at 4.5 percent is the lowest recorded by the country for all surveys conducted since 2005. The unemployment level declined by 7.0 percent, equivalent to 153 thousand less unemployed individuals in the last quarter of 2019. In terms of highest grade completed, majority of the unemployed are still college graduates (27.9 percent share) and junior high school graduates (26.4 percent). In terms of age, the bulk belongs to the 15-24 age group or the youth (46.1 percent), followed by 25-34 years old (29.5 percent). The number of unemployed youth declined by 3.7 percent during the period.

The quality of employment slightly improved as underemployment rate dropped from 13.3 percent to 13.9 percent. This is equivalent to 113 thousand increase in the number of employed individuals who wanted more work compared to October 2018. Other aspects of quality of employment did not improve during the period. This is evidenced by lower share of remunerative work or wage and salary workers (64.2 percent in October 2019 from 64.4 percent a year ago) and the decline in overall mean hours of work (hours per week) from 42.8 in October 2018 to 41.8 in October 2019.

To further improve the employment condition in the country, the government recognizes the need to fast-track the implementation of policies and programs that will help create quality employment and improve productivity, particularly for the youth. This will be done by further developing the competencies and capabilities of the youth, including their life skills and work ethics through apprenticeship, learnership and dual training programs.²⁶

²⁶ NEDA (2019), "PH Labor Market Remains Vibrant but Gains Need to be Sustained," 5 December.

II. Monetary and Financial Market Conditions

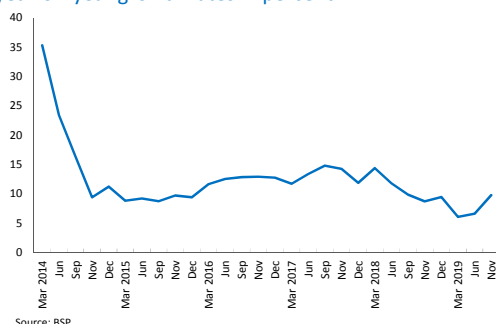
Domestic Liquidity

Domestic liquidity (M3) grew by 9.8 percent y-o-y in November 2019 to ₱12.4 trillion, faster than the 7.7-percent expansion as of end-Q3 2019.

Domestic liquidity expands faster

Money supply continued to increase due mainly to sustained demand for credit. Domestic claims rose by 8.3 percent in November from 7.5 percent as of end-Q3 2019 due to the sustained growth in credit to the private sector. Meanwhile, net claims on the central government grew by 13.9 percent in November, faster than the 6.0 percent growth as of end-Q3 2019.

Chart 20. Domestic Liquidity
year-on-year growth rates in percent



Net foreign assets (NFA) in peso terms grew by 11.5 percent y-o-y in November from a growth of 8.3 percent in end-Q3 2019 as the NFA position of the BSP and banks improved during the month. The BSP's NFA position continued to expand in November, supported by foreign exchange inflows coming mainly from overseas Filipinos' remittances and business process outsourcing receipts. On the other hand, the NFA of banks increased as their foreign assets grew as a result of higher loans and investments in marketable debt securities.

Outstanding loans of commercial banks, net of reverse repurchase (RRP) placements with the BSP, increased by 10.1 percent y-o-y in November 2019, slower than the 10.5-percent growth rate posted at end-Q3 2019 and the 15.7-percent growth rate recorded in end-Q4 2018.

Although bank lending eases

Bank lending growth eased as the expansion in loans for production activities slowed to 8.1 percent y-o-y in November from 9.0 percent in end-Q3 2019 and 15.8 percent in end-Q4 2018. The expansion in production loans was driven primarily by sustained lending to the following sectors: real estate activities; financial insurance activities; construction; electricity, gas, steam and air conditioning supply.

Chart 21. Loans Outstanding of Commercial Banks
year-on-year growth rates in percent



Meanwhile, loans for household consumption grew by 26.6 percent in November 2019, higher than the 26.2-percent growth and 13.6-percent expansion in end-Q3 2019 and end-Q4 2018, respectively.

Monetary Operations

As of end-Q4 2019, majority of the BSP's liquidity-absorbing monetary operations had been through the overnight RRP facility, comprising about 35.7 percent of total outstanding amount of liquidity absorbed in BSP liquidity facilities. Meanwhile, the combined placements in the overnight deposit facility (ODF) and the term deposit facility (TDF) made up the remaining 64.3 percent.

Consistent with the BSP's assessment of prevailing liquidity conditions and taking into account lower national government (NG) deposits with the BSP as well as the 200-bp cumulative reserve requirement reduction effective in November and December 2019, the average weekly total offer volumes for the TDF auctions was higher at about ₱126.9 billion in Q4 2019 relative to the ₱74.6 billion average weekly volume offered in the previous quarter. The average bid-to-cover ratios for the 7-day, 14-day, and 28-day tenors were recorded at 1.1, 1.1, and 1.1 compared to 1.4, 1.3, and 1.3, respectively, in the previous quarter. Meanwhile, the average bid-to-cover ratio for the daily RRP offerings was higher at around 1.3 during the quarter from 1.1 in Q3 2019.

Credit Conditions

Credit Standards. Results of the Q4 2019 Senior Bank Loan Officers' Survey (SLOS) showed that most of the respondent banks continued to maintain their overall credit standards for loans to both enterprises and households during the quarter based on the modal approach.²⁷

Majority of banks keep credit standards steady

This is the 43rd consecutive quarter since Q2 2009 that the majority of respondent banks reported broadly unchanged credit standards.

The DI approach,^{28,29} meanwhile, indicated a net tightening of credit standards for loans to

²⁷ In the modal approach, the results of the survey are analyzed by looking at the option with the highest share of responses.

²⁸ 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

enterprises and households. In the previous quarter, credit standards for loans to enterprises showed a net tightening while loans to households were unchanged based on the DI approach.

Lending to Enterprises. Most banks (84.8 percent of banks that responded to the question) indicated that they maintained their credit standards for loans to enterprises during the quarter using the modal approach (Table 13).

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

	2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened Considerably	0.0	3.6	2.3	6.7	2.1	4.8	4.1	0.0
Tightened Somewhat	3.7	10.7	18.6	20.0	22.9	11.9	12.2	15.2
Remained Basically Unchanged	92.6	82.1	76.7	71.1	72.9	81.0	81.6	84.8
Eased Somewhat	3.7	3.6	0.0	0.0	0.0	0.0	0.0	0.0
Eased Considerably	0.0	0.0	2.3	2.2	2.1	2.4	2.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	0.0	10.7	18.6	24.4	22.9	14.3	14.3	15.2
Number of Banks Responding	27	28	43	45	48	42	49	46

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

Meanwhile, results based on the DI approach pointed to a net tightening of credit standards for the quarter, which was attributed by respondent banks largely to their perception of stricter financial system regulations, deterioration in the profitability and liquidity of banks' portfolios as well as in the profile of borrowers, and lower risk to tolerance. In terms of specific credit standards, the net tightening of overall credit standards was reflected in the reduced credit line sizes; stricter collateral requirements and loan covenants; and the increased use of interest floors.

Banks' responses likewise pointed to a net tightening of credit standards across all borrower firm sizes, namely, top corporations, large middle-market enterprises, small and medium enterprises (SMEs) and micro-enterprises based on the DI approach.

Over the next quarter, results based on the modal approach showed that most of the respondent banks expect credit standards to remain unchanged. Meanwhile, results based on the DI approach indicated expectations of net tightening credit standards. Respondent banks attributed their anticipation of net tighter overall credit standards largely to expectations of deterioration in the profitability of banks'

indicates that more respondent banks have eased their credit standards compared to those that tightened ("net easing").

²⁹ 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.

portfolios, less favorable economic outlook, stricter financial system regulations, and a reduced tolerance for risk.

Lending to Households. The results of the survey likewise showed that most respondent banks (89.7 percent) kept their overall credit standards unchanged for loans extended to households during the quarter based on the modal approach (Table 14). However, results based on the DI approach reflected net tightening of credit standards for household loans.

Table 14. General Credit Standards for Loans to Households (Overall)

	2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tightened Considerably	0.0	0.0	6.3	10.7	3.3	4.0	3.1	0.0
Tightened Somewhat	15.8	5.9	12.5	7.1	16.7	8.0	6.3	6.9
Remained Basically Unchanged	78.9	94.1	75.0	78.6	73.3	88.0	81.3	89.7
Eased Somewhat	5.3	0.0	6.3	3.6	3.3	0.0	9.4	3.4
Eased Considerably	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diffusion Index for Credit Standards	10.5	5.9	12.5	14.3	13.3	12.0	0.0	3.4
Number of Banks Responding	19	17	32	28	30	25	32	29

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

The overall net tightening credit standards for household loans was attributed by respondent banks largely to their more uncertain economic outlook, perceptions of stricter financial system regulations, reduced tolerance for risk, and a deterioration in borrowers' profile.

In terms of respondent banks' outlook for the next quarter, results based on both the modal and DI approaches indicated expectations of unchanged overall credit standards for household loans largely on account of respondent banks' unchanged tolerance for risk and steady economic outlook, as well as expectations of unchanged profile of banks' borrowers.

Loan demand. Responses to the survey question on loan demand indicated that the majority of respondent banks continued to see stable overall demand for loans from both enterprises and households during the quarter.

Demand for loans from firms and households remains stable

Meanwhile, results based on the DI approach showed a net increase in overall demand³⁰ for

³⁰ The "DI for loan demand" refers to the percentage difference between banks reporting an increase in loan demand and

business loans (across all firm sizes) and household loans (except for auto loans, which showed a net decrease). The overall net increase in loan demand from firms was attributed by respondent banks largely to their customers' higher working capital requirements. Meanwhile, respondent banks attributed the overall net increase in household loan demand to higher household consumption, banks' lower interest rates and more attractive financing terms.

Over the next quarter, most of respondent banks expect steady overall loan demand from firms and households. However, DI-based results suggested expectations of a net increase in overall loan demand for business and household loans. For business loans, the expected net increase in demand was associated largely with corporate clients' higher working capital requirements. Meanwhile, the expected net increase in loan demand from households was attributed largely to expectations of higher household consumption and more attractive financing terms offered by banks.

Real Estate Loans. Most of the respondent banks (93.1 percent) reported that overall credit standards for commercial real estate loans were maintained in Q4 2019.

Majority of banks maintain credit standards for real estate loans

The DI approach, however, continued to point to a net tightening of overall credit standards for commercial real estate loans for the 16th consecutive quarter, which was attributed largely to perceived deterioration in the liquidity of banks' portfolios and reduced tolerance for risk. The net tightening of overall credit standards for commercial real estate loans reflected respondent banks' wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors. Over the next quarter, while most of the respondent banks anticipate maintaining their credit standards for commercial real estate loans, DI-based results point to expectations of continued net tightening

banks reporting a decrease. A positive DI for loan demand indicates that more banks reported an increase in loan demand compared to those stating the opposite, whereas a negative DI for loan demand implies that more banks reported a decrease in loan demand compared to those reporting an increase.

of overall credit standards for the said type of loan.

Demand for commercial real estate loans was also unchanged in Q4 2019 based on the modal approach. However, DI-based results showed a net decrease in demand for commercial real estate loans for the fourth consecutive quarter. Over the next quarter, although most of the respondent banks anticipated generally steady loan demand, more banks expected demand for commercial real estate loans to increase compared to those expecting the opposite.

For housing loans extended to households, most of the respondent banks (87.5 percent) reported maintaining their credit standards, while the DI approach pointed to a net tightening of overall credit standards attributed to respondent banks' perception of stricter financial regulations. Over the next quarter, results based on the modal approach showed that respondent banks expect overall credit standards for housing loans to remain unchanged. However, using the DI approach, survey results suggested expectations of a net tightening of credit standards for housing loans in Q1 2020 as respondent banks anticipate a deterioration in the profitability of banks' loan portfolio and a decline in risk tolerance.

Most banks reported unchanged demand for housing loans in Q4 2019 based on the modal approach while DI-based results pointed to a net increase in demand for housing loans, which was attributed by respondent banks largely to higher household consumption, more attractive financing terms offered by banks, and lower interest rates. Furthermore, banks' responses indicated expectations of a net increase in demand for housing loans over the next quarter supported largely by lower interest rates, more attractive financing terms offered by banks, and higher household consumption.

Interest Rates

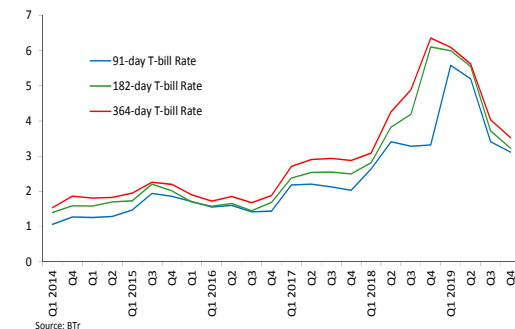
Primary Interest Rates

In Q4 2019, the weighted average interest rates for the 91-, 182- and 364-day T-bills in the primary market decreased to 3.118 percent, 3.229 percent, and 3.528 percent from 3.415 percent, 3.723 percent, and 4.040 percent, respectively.

T-bill rates decrease further

The results of the auctions during the quarter reflected market players' strong demand for government securities in anticipation of policy rate cuts from the BSP on the back of easing inflation expectations. The appetite for government notes was also driven by the 200-bp reduction in cumulative reserve requirement ratios during the quarter (effective in November and December 2019).

Chart 22. Treasury Bill Rates
in percent



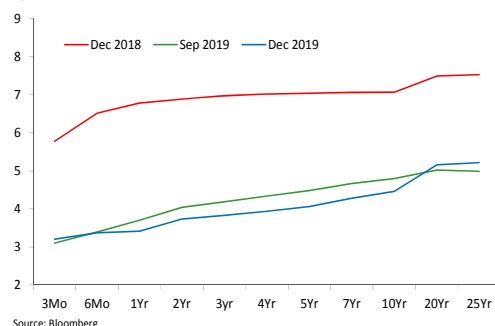
Yield Curve.³¹ As of end-December 2019, the secondary market yield for government securities (GS) declined generally (except for the 3-month, 20-year and 25-year GS) relative to the end-September 2019 levels, as market players invested their excess liquidity and serviced their clients' requirements in anticipation of the additional liquidity following the reductions in the reserve requirement ratios.

³¹ 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.

Yields for GS decline generally

Debt paper yields were lower by a range of 2.1 bps for the 6-month GS to 42.0 bps for the 5-year GS compared to end-September 2019 levels. Meanwhile, secondary market yields for the 3-month, 20-year and 25-year GS rose by 10.2 bps, 13.7 bps and 22.8 bps, respectively.

Chart 23. Yields of Government Securities in the Secondary Market
in percent



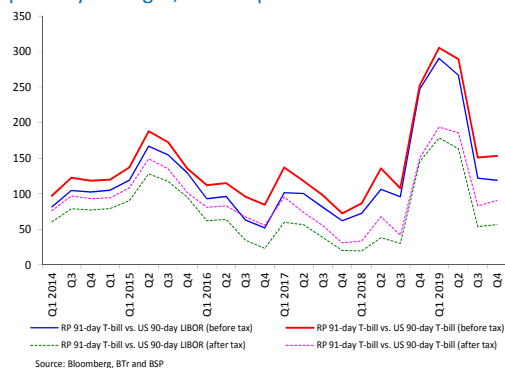
Relative to year-ago levels, the secondary market yields for GS for all maturities decreased by a range of 231.0 bps (for the 25-year GS) to 336.8 bps (for the 1-year GS).

Interest Rate Differentials. The average differentials between domestic and US interest rates, gross and net of tax, widened generally in Q4 2019 relative to the previous quarter.

Interest rate differentials widen in Q4 2019

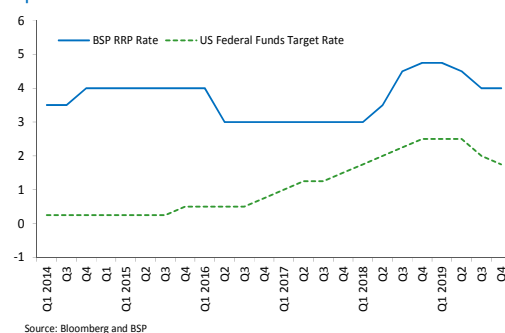
The average 91-day RP T-bill rate declined q-o-q by 29.7 bps to 3.118 percent in Q4 2019 from 3.415 percent in Q3 2019. Likewise, the average US 90-day LIBOR and the US 90-day T-bill rate declined by 26.5 bps and 31.9 bps, respectively to 1.930 percent and 1.587 percent in Q4 2019. These developments led generally to wider positive gross and net of tax differentials between the 91-day RP T-bill rate and US interest rates. Domestic and foreign interest rates fell following the BSP cuts in the reserve requirement ratios and the reduction in the US federal funds target rate during the quarter.

Chart 24. Interest Rate Differentials
quarterly averages; in basis points



The positive differential between the BSP's overnight borrowing or RRP rate and the US Fed funds target rate widened to a range of 225-250 bps in Q4 2019, reflecting the impact of the 25-bp increase in the US federal funds rate target range to 1.50-1.75 percent on 31 October 2019, with the BSP's overnight RRP rate remaining steady at 4.0 percent.

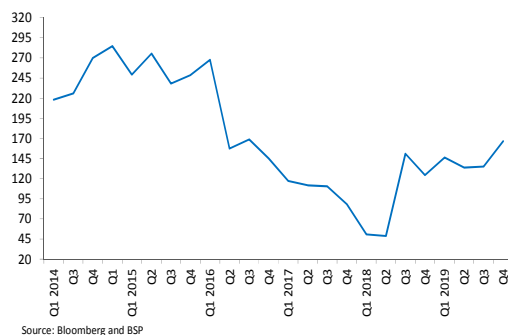
Chart 25. BSP RRP Rate and US Federal Funds Target Rate
in percent



Meanwhile, the interest rate differential between the BSP's overnight RRP rate and the US Fed funds target rate adjusted for risk³² widened further to 167 bps as of end-December 2019 from 135 bps in end-September 2019.

³² The difference between the 10-year ROP note and the 10-year US Treasury note is used as proxy for the risk premium.

Chart 26. Risk-Adjusted Differentials
in basis points



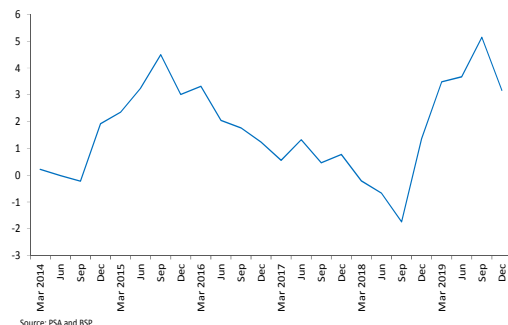
This development could be traced to the 25-bp increase in the interest rate differential between the BSP's overnight RRP rate and the US federal funds rate.

Domestic real lending rate³³ declined to 3.2 percent in December 2019 from 5.1 percent in September 2019.

Real lending rate declines

The decrease in domestic real lending rate was due to the 160.0-bp rise in inflation to 2.5 percent and 30.0-bp decline in actual bank lending rate³⁴ to 5.7 percent in December 2019.

Chart 27. Philippines' Real Lending Rate
in percent



The Philippines' real lending rate at 3.2 percent in December 2019 is the fifth lowest in a sample of 10 Asian countries, with Indonesia recording the highest real lending rate at 7.3 percent

³³ Real lending rate is measured as the difference between actual bank lending rate and inflation.

³⁴ The actual bank lending rate for the Philippines is the weighted average interest rate charged by reporting commercial banks on loans and discounts granted during the period.

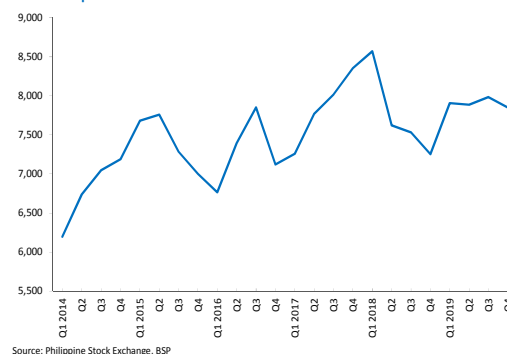
followed by Thailand at 5.1 percent while Japan posted the lowest at 0.5 percent.

Financial Market Conditions

The domestic financial system remained stable, supported by firm macroeconomic fundamentals in the final quarter of 2019.

Stock Market. In the last quarter of 2019, the Philippine Stock Exchange index (PSEi) declined by 1.7 percent, q-o-q, to average 7,853.9 index points.

Chart 28. Quarterly Average PSEi
In basis points



The main index was weighed down largely by negative sentiments from overseas: the pro-democracy unrest in Hong Kong; conflicting signals about the US-China trade talks; fears that China's economic slowdown will spillover to its neighboring countries; and the impeachment case of President Trump. Domestically, the issues relating to the government's contracts with private water concessionaires also dampened trading.

However, the stock market's decline was tempered partly by declining inflation due to improving supply-side conditions and the BSP's easing monetary policy stance; the gradual pick-up in domestic economic growth; and cheaper valuations with the PSEi trading at 17x P/E ratio in the last three months of the year from 19x in the first half. Hence, on the last trading of the year, the benchmark index rose by 4.7 percent year-to-date (y-t-d) to close at 7,815.26 index points on 27 December.

The main index's q-o-q decline was similarly reflected in some stock market indicators. Total market capitalization fell by 0.3 percent q-o-q to close at ₱16.7 trillion on 27 December 2019. Foreign investors continued to post net

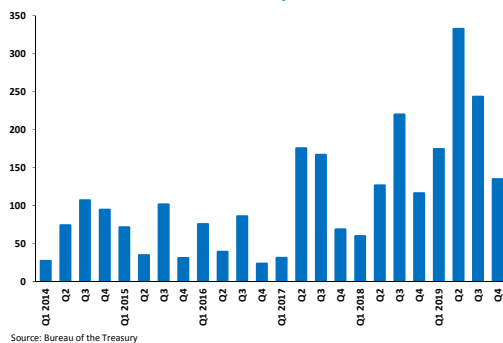
outflows during the quarter with net sales of ₱18.6 billion, higher than the ₱16.9 net outflows registered in Q3. Meanwhile, the price-earnings ratio for listed firms also rose slightly from 16.86x in end-September to 16.94x in end-December.

Government Securities. Results of the T-bill auctions conducted in October-December 2019 continued to show robust demand for short-term government securities with total subscription for the quarter amounting to around ₱234.5 billion or about 2.3 times the ₱100.0-billion aggregate offered amount.

Demand for T-bills remains strong

The oversubscription for Q4 2019, at ₱134.5 billion, was lower than the ₱243.0-billion oversubscription in the previous quarter. The BTr awarded in full the ₱8.0-billion, ₱6.0-billion and ₱6.0-billion offered amounts for the 91-, 182- and 364-day T-bills in all auctions, except during the T-bill auction on November 4 and 18 when partial awards were made for the 182-day T-bills and the auction on October 21 and November 4 when all bids for the 91-day T-bill were rejected.

Chart 29. Total Oversubscription of T-bill Auctions



Results of the T-bond auctions during the quarter likewise showed sustained demand for longer-term government debt papers.

Sovereign Bond and Credit Default Swap (CDS)

Spreads. In October, debt spreads widened due to the concerns on a possible US-EU trade war as the World Trade Organization (WTO) cleared the US to impose tariffs on up to US\$7.5 billion worth of goods from the EU to make up for illegal subsidies given by the EU bloc to plane-maker Airbus.

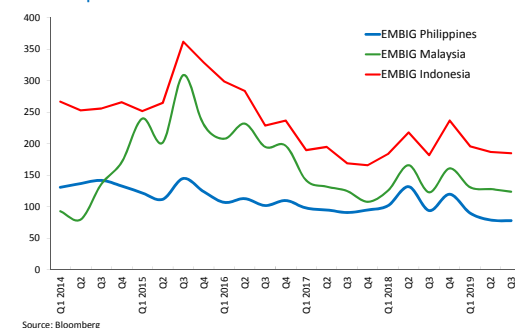
Debt spreads narrow due to positive developments on the external front

In November, debt spreads narrowed as the uncertainty in the global market was overshadowed by positive domestic developments. In particular, inflation rate continued to decrease and the economy grew better-than-expected at 6.2 percent in the third quarter of 2019.

In December, debt spreads further narrowed due to positive external developments such as the initial trade deals between the US and China.

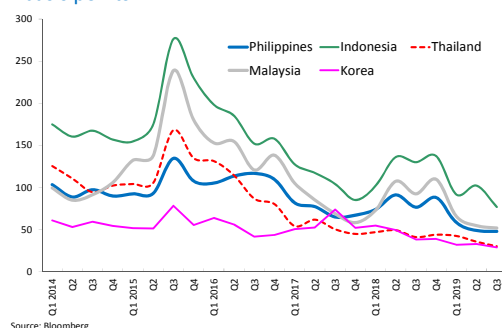
As of 31 December 2019, the extra yield investors demanded to own Philippine sovereign debt over US Treasuries or the Emerging Market Bond Index Global (EMBIG) Philippines spread stood at 67 bps from the end-September level of 78 bps.

Chart 30. EMBIG Spreads of Selected ASEAN Countries
in basis points



Meanwhile, the country's 5-year sovereign CDS decreased to 34 bps from its end-September level of 48 bps. Against other neighboring economies, the Philippine CDS traded narrower than Malaysia's 35 bps and Indonesia's 62 bps but wider than Thailand's 23 bps and Korea's 22 bps spreads.

Chart 31. 5-Year CDS Spreads of Selected ASEAN Countries
in basis points



Banking System

The Philippine banking system continued to lend support to the country's long-term economic growth and stable financial condition. During the fourth quarter of 2019, banks' balance sheets show sustained growth in assets and deposits.

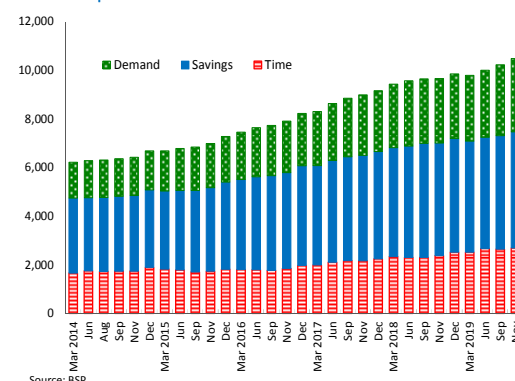
Philippine banking system shows stable growth in assets and deposits

Furthermore, asset quality indicators remained healthy while capital adequacy ratios continued to be above international standards, even with the implementation of the tighter Basel III framework.³⁵

³⁵ Beginning 1 July 2018, covered institutions (universal banks [UBs], commercial banks [KBs] and their subsidiary banks and quasi-banks [QBs]) must maintain a leverage ratio of no lower than five (5) percent. The leverage ratio is a non-risk based measure, which serves as a backstop to the Capital Adequacy Ratio. It is designed to constrain the potential build-up of leverage in the banking industry and to promote stability of the financial system. Also, the BSP sets an observation period of six months (from 1 July 2018 to 31 December 2018) for the Net Stable Funding Ratio (NSFR). This is to ensure a smooth transition to the new prudential standard and to allow prompt assessment and calibration of the components of the NSFR. Beginning 1 January 2019, however, the covered institutions (U/KBs) shall maintain an NSFR of 100.0 percent on both solo and consolidated bases.

Savings Mobilization. Savings deposits remained the primary sources of funds for the banking system. Banks' total deposits as of end-November 2019 amounted to ₱10.5 trillion, 8.5 percent higher than the year-ago level.³⁶ Relative to the end-September 2019 level, total deposits likewise increased by 2.5 percent.

Chart 32. Deposit Liabilities of Banks
in billion pesos



Meanwhile, foreign currency deposits owned by residents (FCD-Residents) reached ₱2.0 trillion as of end-November 2019, posting a marginal y-o-y growth of 0.3 percent. With respect to the end-September 2019 level, FCD-Residents meanwhile declined by 1.3 percent.³⁷

Institutional Developments. The total resources of the banking system grew by 8.6 percent to reach ₱18.2 trillion as of end-November 2019 from ₱16.7 trillion a year ago. Relative to the end-September 2019 level, total resources of the banking system increased slightly by 0.7 percent. As a percent of GDP, total resources stood at 99.4 percent.³⁸

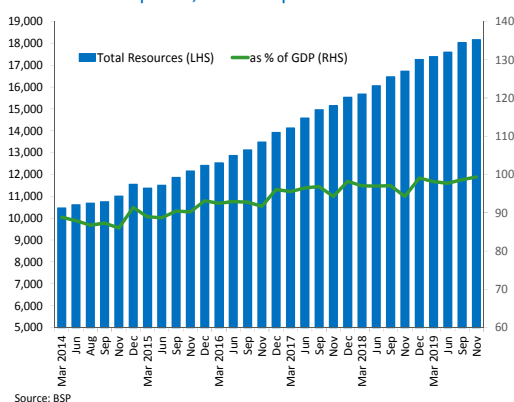
Total resources of the banking system continue to grow

³⁶ This refers to the total peso-denominated deposits of the banking system.

³⁷ 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.

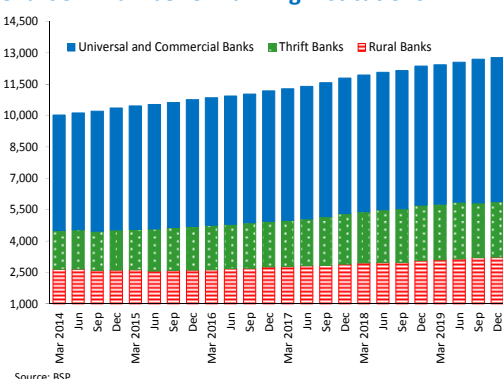
³⁸ GDP as of the 3rd quarter of 2019.

Chart 33. Total Resources of the Banking System
levels in billion pesos; share in percent



The number of banking institutions (head offices) as of end-December 2019 decreased to 547 offices from 552 last end-September 2019. The banks' head offices are comprised of 46 U/KBs, 50 TBs, and 451 rural banks (RBs).

Chart 34. Number of Banking Institutions



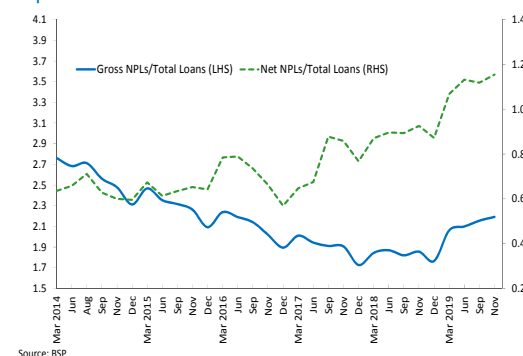
During the same period, the operating network (head offices and branches/agencies) of the banking system expanded to 12,772 offices from 12,688 offices in end-September 2019. The expansion was due mainly to the increase in the branches/agencies led by TBs, followed by RBs and U/KBs.

The Philippine banking system's gross non-performing loan (GNPL) ratio remained unchanged at 2.2 percent as of end-November 2019 relative to the end-September 2019 level but increased slightly from the 1.9 percent registered a year ago.

Asset quality of Philippine banks remains healthy

Banks' initiatives to improve their asset quality along with prudent lending regulations helped maintain the GNPL ratio below its pre-Asian crisis level of 3.5 percent.³⁹ Similarly, net non-performing loan (NNPL) ratio grew moderately to reach 1.2 percent as of end-November 2019 from the previous year's ratio of 0.9 percent and the end-September 2019 ratio of 1.1 percent. In computing for the NNPLs, specific allowances for credit losses on Total Loan Portfolio (TLP) are deducted from the GNPLs. Said allowances increased slightly to ₱110.3 billion in November 2019 from ₱109.4 billion posted as of end-September 2019.⁴⁰

Chart 35. Ratios of Gross Non-Performing Loans and Net Non-Performing Loans to Total Loans
in percent



The Philippine banking system's GNPL ratio of 2.2 percent was higher with respect to those of Malaysia (1.0 percent) and South Korea (0.9 percent) but was lower than that of Indonesia (2.6 percent) and Thailand (3.0 percent).⁴¹

The loan exposures of banks remained adequately covered with the banking system's NPL coverage ratio at 91.5 percent as of end-November 2019. This was, however, lower than the previous year's and quarter's ratios of 108.2 percent and 91.9 percent, respectively.

³⁹ The 3.5 percent NPL ratio was based on the pre-2013 definition.

⁴⁰ This type of provisioning applies to loan accounts classified under loans especially mentioned (LEM), substandard-secured loans, substandard-unsecured loans, doubtful accounts and loans considered as loss accounts.

⁴¹ Sources: Malaysia (Banking System's Ratio of net impaired loans to net total loans, November 2019); South Korea (Domestic Banks' Substandard or Below Loans [SBLs] ratio, September 2019); Indonesia, IMF and financial stability report (Banks' Nonperforming Loans to Gross Loans Ratio, September 2019); and Thailand (Total Financial Institutions' Gross NPLs ratio, September 2019).

U/KBs' CAR remains above international and regulatory standards

The capital adequacy ratio (CAR) of U/KBs at end-September 2019, on solo basis, increased marginally to 15.6 percent from 15.3 percent as of end-June 2019. On a consolidated basis, CAR of U/KBs remained unchanged at 15.9 percent in September 2019 relative to its end-June 2019 level. These figures remained well above the BSP's regulatory threshold of 10.0 percent and international standard of 8.0 percent.

Chart 36. Capital Adequacy Ratio of Universal and Commercial Banks in percent



The CAR of Philippine U/KBs, on consolidated basis, was higher than that of South Korea (15.4 percent) but lower than those of Malaysia (17.6 percent), Thailand (19.6 percent) and Indonesia (23.3 percent).⁴²

Exchange Rate

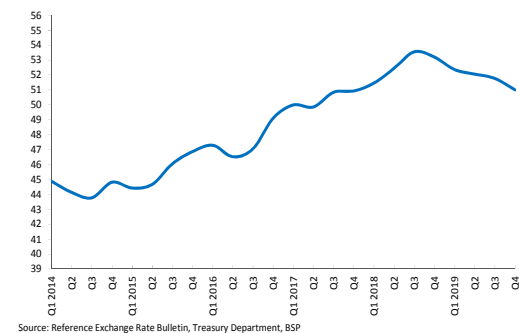
The peso averaged ₱51.03/US\$1 in Q4 2019, appreciating by 1.39 percent from the previous quarter's average of ₱51.74/US\$1.

Peso appreciates on US Fed rate cut expectations

⁴² Sources: South Korea (Capital Ratios of Banks and Bank Holding Companies, September 2019); Malaysia (Banking System's Total Capital Ratio, November 2019); Thailand (Commercial Banks' Capital Funds Percentage of Risk Assets, November 2019); and Indonesia, IMF and financial stability report (Commercial Banks, Regulatory Capital to Risk-Weighted Assets Ratio, September 2019).

The peso's appreciation during the period was due mainly to the benign domestic inflation environment, sustained inflows from OF remittances, foreign direct investments (FDI) and business process outsourcing (BPO) receipts. Likewise, the peso was also buoyed by the market's anticipation of interest rate reduction by the US Federal Reserve. On a y-o-y basis, the peso likewise appreciated by 4.38 percent relative to the ₱53.26/US\$1 average in Q4 2018.⁴³

Chart 37. Quarterly Peso-Dollar Rate PHP/US\$; average per quarter



In October, the peso recovered to an average of ₱51.50/US\$1, appreciating by 1.17 percent from the ₱52.11/US\$1 average in September. The peso appreciated amid market expectation of another rate cut in the US and positive developments in Brexit negotiations as well as the US-China trade talks. Meanwhile, on the domestic side, market optimism on the high level of GIR (gross international reserves); slower domestic inflation for the month of September; robust OFW remittance growth data for the month of August; and the narrowing of Philippine trade deficit to US\$2.4 billion in August from US\$3.6 billion in the same period a year ago, likewise contributed to the appreciation of the peso.

The peso continued to appreciate against the US dollar in November 2019, as it averaged ₱50.73/US\$1, 1.53 percent higher than its average in the previous month. The peso was supported by the release of domestic inflation data for October which eased to a three-year low; the rebound in the country's economic growth in Q3 2019; and the US Federal Reserve rate cut.

⁴³ Dollar rates (per peso) or the reciprocal of the peso-dollar rates were used to compute for the percentage change.

Meanwhile, the peso depreciated marginally against the US dollar in December by 0.08 percent to an average of ₱50.77/US\$1, relative to its average in the previous month. The peso's slight depreciation was due partly to lingering uncertainty in the US-China trade negotiation.

On a y-t-d basis, the peso appreciated against the US dollar by 3.84 percent to close at ₱50.64/US\$1 on 27 December 2019 from the end-December 2018 closing rate of ₱52.58/US\$1.⁴⁴

Sustained inflows of foreign exchange from OF remittances, foreign direct investments, BPO receipts, ample level of the country's GIR and the country's robust economic growth continued to provide support to the peso.

The volatility of the peso's daily closing rates (as measured by the coefficient of variation) stood at 0.80 percent during the review quarter. This was lower than the 1.01 percent registered in the previous quarter.⁴⁵ The volatility of the peso in Q4 2019 was slightly higher than the volatility of some currencies in the region.

On a real trade-weighted basis, the peso lost external price competitiveness in Q4 2019 against the basket of currencies of all trading partners (TPI) and trading partners in advanced (TPI-A) and developing (TPI-D) countries relative to Q3 2019. This was indicated by the increase in the real effective exchange rate (REER) index of the peso by 1.40 percent, 1.88 percent, and 1.13 percent, against the TPI, TPI-A and TPI-D baskets, respectively.^{46,47}

⁴⁴ Based on the last done deal transaction in the afternoon.

⁴⁵ 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.

⁴⁶ The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners (MTP:s) of the Philippines, which includes 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 includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

⁴⁷ 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.

Relative to Q4 2018, 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 inflation differential, resulting in the increase in the REER index of the peso by 3.87 percent, 4.39 percent and 3.58 percent against the TPI, TPI-A and TPI-D baskets, respectively.

III. Fiscal Developments

The NG recorded a ₱409.1 billion fiscal deficit for the first eleven months of 2019, which is 14.3 percent lower than that recorded in 2018 (Table 15).

NG records a fiscal deficit for January-November 2019

Netting out the interest payments in NG expenditures, the primary deficit amounted to ₱77.4 billion, which is half of the amount recorded in January-November 2018.

Table 15. National Government Fiscal Performance
in billion pesos

	2018		2019		Growth Rate (in percent)	
	Nov	Jan-Nov	Nov	Jan-Nov	Nov	Jan-Nov
Surplus/(Deficit)	-39.1	-477.2	-60.9	-409.1	55.6	-14.3
Revenues	259.7	2,618.0	304.7	2,894.2	17.4	10.6
Expenditures	298.8	3,095.2	365.6	3,303.3	22.4	6.7

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

Revenues increased by 10.6 percent to ₱2,894.2 billion in January-November 2019 compared to ₱2,618.0 billion in the same period last year. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) contributed ₱2,012.9 billion and ₱578.1 billion, respectively. Revenue collections by the BIR and BOC were higher by 11.8 percent and 7.4 percent, respectively. Income from the BTr, which increased by 30.0 percent, amounted to ₱134.7 billion while the remainder came from other offices.

Expenditures for the period in review amounted to ₱3,303.3 billion, 6.7 percent higher than the expenditures in January-November 2018. Excluding interest payments, expenditures went

up by 7.1 percent to ₱2,971.6 billion. Meanwhile, interest payment was 11.7 percent higher compared to its year-ago level, reaching ₱331.8 billion in January-November 2019.

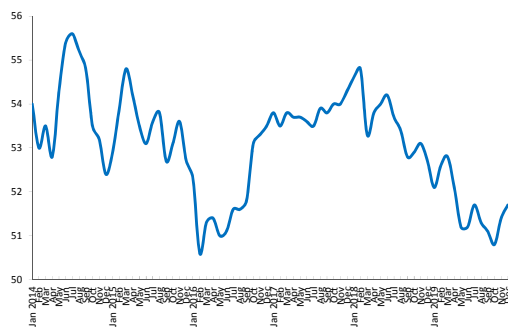
IV. External Developments

The JP Morgan Global All-Industry Output Index rose to 51.7 in December from 51.4 in November as the level of new incoming business grew.

Global economic activity recovers in December

During the month, output expansions were recorded in the US, China, the euro area, India, Brazil, and Russia. Meanwhile, contractions were recorded in the UK, Australia, Italy, and Japan.⁴⁸

Chart 38. JP Morgan Global All-Industry Output Index
index points



Source: Markit Economics

US. Real GDP expanded by 2.1 percent on a seasonally adjusted q-o-q basis in Q3 2019, faster than the 2.0-percent growth rate in Q2 2019. On a y-o-y basis, real output grew by 2.1 percent in Q3 2019 from the 2.3-percent expansion in the previous quarter.

US economy continues to expand in Q3 2019

The increase in real GDP in the third quarter reflected positive contributions from personal

⁴⁸ JP Morgan Global Manufacturing & Services PMI, <http://www.markiteconomics.com/>

consumption expenditures, federal government spending, residential investment, exports, and state and local government spending. These movements were partly offset by negative contributions from nonresidential fixed investment and private inventory investment.⁴⁹

Meanwhile, US manufacturing activity remained in contraction territory with a PMI reading of 47.2 percent in December from 48.1 percent in November due to a decline in new orders amid weak demand.⁵⁰

The unemployment rate was 3.5 percent in December, the same rate posted in November. Total nonfarm payroll employment rose by 145,000 during the month. Employment gains occurred in retail trade and health care. Meanwhile, on a y-o-y basis, inflation rose to 2.3 percent in December from 2.1 percent in November, driven largely by an increase in the energy price index.

The Conference Board Consumer Confidence Index fell to 126.5 in December from 126.8 in November.⁵¹ While consumers' assessment of current business and labor market conditions improved during the month, their short-term outlook regarding jobs and financial prospects softened. By contrast, the Thomson-Reuters/University of Michigan Index of Consumer Sentiment rose to 99.3 in December from 96.8 in November.⁵²

Euro Area. On a q-o-q basis, real GDP growth in the euro area rose by 0.2 percent in Q3 2019, the same rate posted in the previous quarter. On a y-o-y basis, real GDP was at 1.2 percent in Q3 2019, unchanged from the growth recorded in Q2 2019.⁵³

Output growth in the euro area holds firm

⁴⁹ US Bureau of Economic Analysis, "Gross Domestic Product: Third Quarter 2019 (Third Estimate)," news release, 20 December 2019. https://www.bea.gov/system/files/2019-12/gdp3q19_3rd.pdf

⁵⁰ Institute for Supply Management, <https://www.instituteforsupplymanagement.org>

⁵¹ The Conference Board, <http://www.conference-board.org/>

⁵² Preliminary. University of Michigan Survey of Consumers, <http://www.sca.isr.umich.edu/>

⁵³ Eurostat news release 184/2019 dated 5 December 2019

Meanwhile, composite PMI for the euro area rose to 50.9 in December from 50.6 in November as incoming new work increased only marginally amid weak foreign demand.⁵⁴

Inflation in the euro area is expected to have risen to 1.3 percent in December from 1.0 percent in November. The increase in inflation is seen to be driven by higher inflation for food, alcohol & tobacco; services; non-energy industrial goods; and energy.⁵⁵ Meanwhile, the seasonally adjusted unemployment rate was 7.5 percent in November, the same rate recorded in October.

The European Commission's Economic Sentiment Indicator in the euro area rose to 101.5 in December from 101.2 in November due to higher confidence in services, construction, and retail trade sectors, while confidence weakened among consumers and remained steady in the industry sector.

Japan. On a q-o-q seasonally adjusted basis, real GDP grew by 0.4 percent in Q3 2019 from 0.5 percent (revised) in Q2 2019. Meanwhile, on a y-o-y basis, real GDP expanded by 1.7 percent in Q3 2019 from 0.9 percent (revised) in the previous quarter as both public and private demand rose during the quarter.⁵⁶

Manufacturing activity in Japan remains in contraction territory

The seasonally adjusted manufacturing PMI remained in contraction at 48.4 in December from 48.9 in November as new orders continued to decline amid weak demand in both domestic and international markets.⁵⁷

Inflation rose to 0.5 percent in November from 0.2 percent in October, driven mainly by higher inflation for food; housing; and fuel, light, and water charges. Meanwhile, the seasonally adjusted unemployment rate was 2.2 percent in November from 2.4 percent in October.

⁵⁴ Markit Eurozone PMI, <http://www.markiteconomics.com/>

⁵⁵ Flash estimate. Eurostat news release 2/2020 dated 7 January 2020

⁵⁶ Second Preliminary Estimate. Department of National Accounts, Economic and Social Research Institute, Cabinet Office. <http://www.esri.cao.go.jp/>

⁵⁷ Jibun Bank Japan Manufacturing PMI, <http://www.markiteconomics.com/>

China. Real GDP in China grew by 6.0 percent y-o-y in Q3 2019, slower than the 6.2 percent growth in Q2 2019. The slower expansion in Q3 2019 was attributed to the impact of the country's trade dispute with the US on external demand as well as investment.

Meanwhile, the seasonally adjusted manufacturing PMI decreased slightly to 51.5 in December from 51.8 in November, reflecting the softer upturn in total new business as export orders improved only marginally.⁵⁸

Expansion in Chinese manufacturing activity slows down

Inflation remained at 4.5 percent in December from the same rate in November as food inflation slowed down while non-food inflation accelerated.

India. Real GDP in India expanded by 4.5 percent y-o-y in Q3 2019 from 5.0 percent in the previous quarter. Albeit slower, the latest GDP expansion was driven mainly by growth in trade, hotels, transport, communication and services related to broadcasting; financial, real estate and professional services; and public administration, defense, and other services.⁵⁹

Meanwhile, the composite PMI rose to 53.7 in December from 52.7 in November as output in both the manufacturing and service sectors expanded at faster rates due to the uptick in aggregate new orders.

Economic activity in India grows at a faster pace

Inflation rose to 7.4 percent in December from 5.5 percent in November, driven by higher inflation for food and beverages; pan, tobacco, and intoxicants; clothing and footwear; and fuel and light.

⁵⁸ Caixin China General Manufacturing PMI, <http://www.markiteconomics.com/>

⁵⁹ Ministry of Statistics and Programme Implementation. <http://mospi.nic.in/>

ASEAN Region. The Nikkei ASEAN Manufacturing PMI remained in contraction as it posted a reading of 49.8 in December from 49.2 in November. The softer downturn was attributed to the slight increase in output amid uptick in new orders.

Manufacturing conditions in the the ASEAN region continue to deteriorate

Manufacturing conditions continued to improve in Myanmar, Philippines, Vietnam, and Thailand. Meanwhile, manufacturing activity in Malaysia stagnated, while Indonesia and Singapore remained in contraction territory.⁶⁰

Policy Actions by Central Banks. On 21 November 2019, Bank Indonesia reduced the minimum rupiah reserve requirements for conventional commercial banks and Islamic banks/Islamic business units by 50 bps to 5.5 percent and 4.0 percent, respectively.

Several central banks have eased their monetary policy settings during the fourth quarter of 2019

On 20 November, the People's Bank of China lowered the loan prime rate by 5 bps to 4.15 percent from 4.20 percent to lower funding costs for businesses and support the economy amid the impact of US tariffs and slowing demand. On 5 November, the PBOC also reduced the interest rate on its one-year medium-term lending facility loans for the first time since early 2016 to 3.25 percent from 3.30 percent.

On 8 November 2019, Bank Negara Malaysia lowered the statutory reserve requirement (SRR) ratio by 50 bps to 3.0 percent from 3.5 percent, effective 16 November 2019. The decision to reduce the SRR is to maintain sufficient liquidity in the domestic financial system to support the efficient functioning of domestic financial markets and facilitate effective management

by the banking institutions.

On 6 November 2019, Bank of Thailand decided to lower its policy rate by 25 bps to 1.25 percent. Five of the seven members of the Monetary Policy Committee of the BOT voted for the policy rate cut based on the view that a more accommodative monetary policy stance would spur economic activity and support the rise of inflation toward the target. The members assessed that the Thai economy would expand at a slower rate than previously expected and further below its potential due to the slowdown in exports which affected domestic demand and employment.

On 30 October 2019, the Federal Open Market Committee (FOMC) of the US Federal Reserve decided to lower the target range for the federal funds rate by 25 bps to 1.5-1.75 percent. The FOMC's decision was based on implications of global developments for the economic outlook as well as muted inflation pressures.

⁶⁰ Nikkei ASEAN Manufacturing PMI, <http://www.markiteconomics.com/>

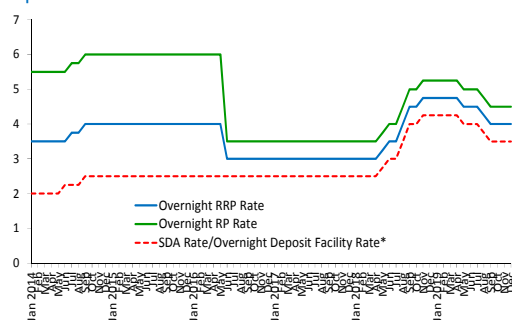
V. Monetary Policy Developments

At its monetary policy meetings in 14 November and 12 December, the BSP decided to maintain the key policy interest rate at 4.0 percent for the overnight reverse repurchase or RRP facility. The corresponding interest rates on the overnight lending and deposit facilities were also kept steady.

The BSP maintains monetary policy settings during the quarter

The BSP's decision is based on its assessment of a benign inflation environment. Latest baseline forecasts indicate that the future inflation path remains within the target range of 3.0 ± 1.0 percentage point in 2020-2021, with well-anchored inflation expectations.

Chart 39. BSP Policy Rates
in percent



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

Equally important, the balance of risks to the inflation outlook continue to lean slightly toward the upside in 2020 and toward the downside in 2021. Upside risks to inflation over the near term emanate mainly from potential volatility in international oil prices amid geopolitical tensions in the Middle East as well as from the potential impact of the African Swine Fever outbreak and recent weather disturbances on domestic food prices. However, uncertainty over trade policies in major economies continue to weigh down on global economic activity and demand and could thus mitigate upward pressures on commodity prices.

Notwithstanding the weak global growth outlook, prospects for the Philippine economy continue to be robust on the back of firm domestic demand. Sustained policy support from increased fiscal spending, and improved domestic liquidity conditions owing to recent monetary adjustments, as well as the cut in reserve requirement, are expected to support growth in the coming months.

Given these considerations, the BSP is of the view that the within-target inflation outlook and solid prospects for domestic growth support keeping monetary policy settings steady.

On the other hand, the BSP announced the reduction in the reserve requirement for universal/commercial and thrift banks by 100 bps on 24 October 2019. This is in line with the BSP's broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs. At the same time, the adjustment in reserve requirement ratios is aimed to ensure sufficient domestic liquidity in support of economic activity. The reduction took effect on the first day of the first reserve week of December 2019.

Going forward, the BSP will continue to monitor developments affecting the inflation outlook and demand conditions to ensure that the monetary policy stance remains consistent with its price and financial stability objectives.

VI. Inflation Outlook

BSP Inflation Forecasts

The latest baseline forecasts indicate that inflation will settle firmly within the 3.0 percent $\pm$ 1.0 percentage point target range for 2020 to 2021. Inflation approached the low-end of the target range in Q4 2019 and is projected to settle close to the midpoint of the target range for 2020 and 2021.

The forecast path for 2020 and 2021 is broadly unchanged compared to the outlook presented in the previous report as higher global crude oil prices were offset by the peso appreciation.

The risks to the inflation outlook appear to be on the upside for 2020, but are tilted to the downside in 2021. The volatility in global crude oil prices, petitions for electricity rates and transport fare adjustments, the proposed increase in the excise taxes of alcoholic beverages, and the impact of ASF on meat prices are the main upside risks to inflation.

Meanwhile, slower global economic growth due to trade policy uncertainty as well as geopolitical tensions continues to be the main downside risks to inflation.

Inflation is projected to settle firmly within the target range for 2020 – 2021

Demand Conditions. Domestic growth prospects continue to be firm amid the acceleration in Q3 2019. Domestic economic activity grew faster to 6.2 percent in Q3 2019 from the 5.5 percent growth in Q2 2019 and 6.0 percent expansion in Q3 2018. On the expenditure side, growth was driven by sustained expansion in household consumption and the strong pick-up in public spending. On the production side, the industry and services sectors continue to be the primary drivers of the expansion. At the same time, agriculture sector expanded notably as a result of generally favorable weather condition during the quarter.

Looking ahead, prospects for the domestic economy continue to remain firm over the medium term. Private demand is expected to remain buoyant, aided mainly by sustained

remittance inflows and stable inflation. Private capital formation should likewise contribute to economic growth with construction expected to remain solid as the government's projects and other infrastructure programs get underway, given ample liquidity conditions. However, the continued trade policy uncertainty and geopolitical tensions could temper domestic economic activity.

High-frequency real sector indicators also point to firm growth prospects in the near term. Capacity utilization for the manufacturing sector suggests that more than half of all major manufacturing sectors are operating at or above 80.0 percent. The composite PMI also remains above the 50-point mark as of November 2019, suggesting sustained expansion across all sectors. Moreover, results of the BSP expectations surveys indicate improved business sentiment and optimistic consumer confidence in Q4 2019.

Supply Conditions. Food inflation picked up in December 2019 due to the impact of tropical storms *Tisoy* and *Urusula* during the month. However, food prices could remain benign over the near term as neutral weather conditions are expected to persist in the first half of 2020.

Food prices could remain benign with neutral weather conditions

Similarly, global non-fuel prices are likely to remain subdued over the medium term. Heightened trade tensions have affected global trade and investments thereby dampening global demand for commodities. The International Monetary Fund (IMF) projects global non-oil price inflation to settle at 1.7 percent in 2020 and 1.3 percent in 2021 from 0.5 percent and 0.7 percent, respectively in the July 2019 World Economic Outlook (WEO). Meanwhile, prices of agricultural commodities, except for meat, have remained low due to sufficient rainfall conditions in key producers of grains. Meanwhile, meat prices in Asia, Europe, and North America have risen because of the rapid spread of ASF.

Global crude oil prices rebounded in Q4 2019 following the OPEC's decision to cut production, positive sentiment from the initial trade deal between the US and China, and the escalation of

geopolitical tensions in the Middle East due to US airstrikes on Iraq and Syria. The latest futures prices indicate that global crude oil prices could remain elevated in 2020-2021. This is in line with projections of the EIA along with other international agencies for crude oil prices to remain broadly steady in the near term.

Domestic economic activity remains broadly in line with potential output growth

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.⁶¹

Given the latest GDP data, estimates by the BSP show that the output gap remains broadly neutral and stable relative to the previous quarter.⁶²

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 4.00 percent from January 2020 to December 2021;
- 2) NG fiscal deficits for 2020 to 2021, which are consistent with the DBCC-approved estimates;
- 3) Dubai crude oil price assumptions consistent with the trend of futures prices of oil in the international market;
- 4) Increase in nominal wages consistent with historical wage increases and labor productivity growth;
- 5) Real GDP growth is endogenously determined; and
- 6) Foreign exchange rate is endogenously determined through the purchasing power parity and interest rate parity relationships.

⁶¹ 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).

⁶² Based on the seasonally-adjusted GDP growth

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 shows a similar inflation path. The inflation outlook for 2020 and 2021 is broadly unchanged compared to the previous report as higher global crude oil prices were offset by the recent peso appreciation owing to the monetary policy easing in advanced economies.

Inflation path is broadly unchanged compared to the previous report

The BSP's review of current inflation dynamics suggests that the risks surrounding the inflation outlook appear to be on the upside for 2020, but are tilted to the downside in 2021.

The volatility in global crude oil prices represents an upside risk over the near term. The recent escalation of geopolitical tensions in the Middle East have raised concerns over supply disruptions with the potential blockage of the Strait of Hormuz, wherein majority of global oil supply are being transported, and further retaliatory attacks on Saudi Arabia's oil facilities. Consequently, oil prices could remain elevated over the near term with the prolonged uncertainty in the region.

Various petitions for rate adjustments by Meralco and PSALM are also considered as upside risks to inflation and are not part of the baseline scenario. Meralco's petitions include generation and transmission charges, system loss, lifeline subsidy, the December 2013 rate adjustment, which is the subject of Supreme Court temporary restraining order, and the ₱0.65/ kWh adjustment for the January 2014 billing period that is subject to the ERC's approval. PSALM's petitions cover adjustments for fuel and foreign exchange costs.

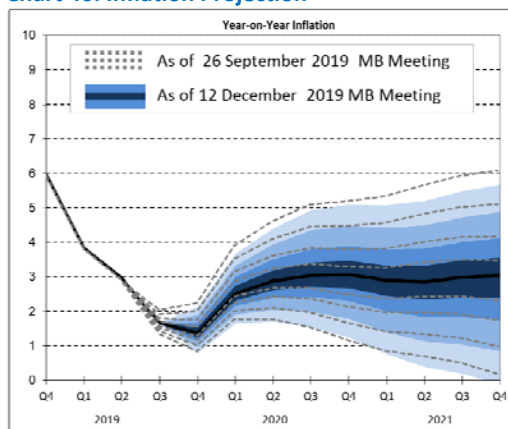
Higher excise taxes for alcoholic beverages present an additional upside risk to inflation. The House of Representatives and the Senate have ratified the

bill that raises the sin taxes of alcoholic beverages (0.7 percent of the CPI basket). Under the proposed bill, the specific taxes of distilled spirits, wines, and fermented liquor specified in the Sin Tax Reform Act of 2012 (Republic Act No. 10351) will be raised in addition to the higher annual indexation of 6.0 percent from 4.0 percent previously.

The recent outbreak of ASF could lead to an uptick in meat prices over the near term. Meat products account for 6.2 percent of the CPI basket, of which 4.8 percent is from fresh or frozen meat and 1.4 percent from canned and processed meat. The outbreak of ASF is expected to lower domestic hog supply and also temper demand. Consequently, consumers could substitute away from pork products, resulting in possible increased demand and higher prices of chicken and beef products. Recent reports indicate that processed meat products have already been contaminated by ASF.

The balance of risks to the inflation outlook is on the upside for 2020, but is tilted to the downside in 2021

Chart 40. Inflation Projection



The slower global economic outlook and the escalation of trade tensions remain as downside risks to inflation. The October 2019 WEO highlighted the continued trade tensions, risk-off episodes from long-standing global financial vulnerabilities, global disinflationary pressures, and geopolitical risks as the primary downside risks to global growth over the medium term. The escalation of trade tensions between the US and China and other countries on global trade

and investments could result in further downward adjustments to world growth. The imposition of additional trade barriers would raise consumer prices and the cost of capital goods, thereby dampening momentum from consumption and investment. The expected slowdown in global demand is seen to dominate the impact of higher prices of commodities in the US and China due to the increased tariff rates.

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, which measures the range of uncertainty, is based on the forecast errors from the past years. In greater detail, it can be enhanced by adjusting the level of skewness of the downside and upside shocks that could affect the inflationary process over the next two years in order to change the balance of the probability area lying above or below the central projection.

Implications for the Monetary Policy Stance

The BSP held the monetary policy interest rate unchanged during the quarter. The Monetary Board recognized the benign inflation outlook over the policy horizon, with baseline projections continuing to indicate that inflation would likely settle within the lower half of the inflation target range of 3.0 percent $\pm$ 1.0 percentage point in 2019-2022. Inflation expectations likewise stayed firmly anchored within the inflation target band. At the same time, while prospects for domestic economic growth remained firm due to steady domestic spending and progress on various macroeconomic policy reforms, the outlook for global economic growth continued to weaken owing mainly to uncertainty over trade policies in major economies.

Meanwhile, following the reduction in reserve requirement ratios in May, the Monetary Board decided to reduce reserve requirement ratios by 100 basis points each in November and December. The cut in reserve requirements is expected to support credit activity by lowering financial intermediation costs, in line with the BSP's broader financial sector reform agenda.

The BSP is of the view that the within-target inflation outlook and solid prospects for domestic growth support keeping monetary policy settings steady for the time being to allow prior monetary policy adjustments to continue working their way through the usual channels of monetary policy. Going forward, the BSP will continue to monitor emerging price and output developments to ensure that monetary policy settings remain consistent with price stability while being supportive of sustained non-inflationary economic growth over the medium term.

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 RRP, RP, 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 percentage point target range in 2008 and the 3.5 ± 1 percentage point 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 RRP and RP 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 RRP, RP, 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 RRP, RP, 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 RRP, RP, 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 RRP, RP, and SDAs were also left unchanged.
18 Dec 2008	5.50	7.50	The MB decided to reduce the BSP's key policy interest rates by 50 bps to 5.5 percent for the overnight borrowing or RRP facility and 7.5 percent for the overnight lending or RP facility. The interest rates on term RRP, RP, and SDAs were also adjusted accordingly. Latest baseline forecasts showed a decelerating inflation path over the policy horizon, with inflation falling within target by 2010. This outlook is supported by the downward shift in the balance of risks, following the easing of commodity prices, the moderation in inflation expectations, and the expected slowdown in economic activity.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2009			
29 Jan 2009	5.00	7.00	The MB decided to reduce the BSP's key policy interest rates by another 50 bps to 5 percent for the overnight borrowing or RRP facility and 7 percent for the overnight lending or RP facility. The interest rates on term RRP, RP, 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 RRP, RP, 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 RRP, RP, 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 RRP, RP, and SDAs were also reduced accordingly. Baseline forecasts indicated a lower inflation path over the policy horizon, with average inflation expected to settle within the target ranges in 2009 and 2010. In addition, the Monetary Board considered that, on balance, the risks to inflation are skewed to the downside given expectations of weaker global and domestic demand conditions and a low probability of a significant near-term recovery in commodity prices.
9 Jul 2009	4.00	6.00	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility, effective immediately. The interest rates on term RRP, RP, and SDAs were reduced accordingly. This is the sixth time since December 2008 that the BSP has cut its policy interest rates.
20 Aug 2009 1 Oct 2009 5 Nov 2009 17 Dec 2009	4.00	6.00	The MB kept key policy rates unchanged at 4 percent for the RRP facility and 6 percent for the overnight lending RP facility. The decision to maintain the monetary policy stance comes after a series of policy rate cuts since December 2008 totaling 200 bps and other liquidity enhancing measures.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2 0 1 0			
28 Jan 2010			
11 Mar 2010			
22 Apr 2010			
3 Jun 2010			
15 Jul 2010	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the RRP facility and 6 percent for the RP facility. The interest rates on term RRP's, RP's, and SDAs were also left unchanged.
26 Aug 2010			
7 Oct 2010			
18 Nov 2010			
29 Dec 2010			
2 0 1 1			
10 Feb 2011	4.00	6.00	The MB decided to keep the BSP's key policy interest rates steady at 4 percent for the overnight borrowing or RRP facility and 6 percent for the overnight lending or RP facility. The interest rates on term RRP's, RP's, 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 RRP's, RP's, 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 RRP's, RP's, and SDAs were also raised accordingly. Baseline inflation forecasts continue to suggest that the 3-5 percent inflation target for 2011 remains at risk, mainly as a result of expected pressures from oil prices.
16 Jun 2011	4.50	6.50	The MB decided to keep policy rates steady at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board decided to raise the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point effective on Friday, 24 June 2011. The MB's decision to raise the reserve requirement is a preemptive move to counter any additional inflationary pressures from excess liquidity.
28 Jul 2011	4.50	6.50	The MB maintained the BSP's key policy interest rates at 4.5 percent for the overnight borrowing or RRP facility and 6.5 percent for the overnight lending or RP facility. At the same time, the Board increased anew the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point effective on 5 August 2011. The MB's decision to raise the reserve requirement anew is a forward-looking move to better manage liquidity.
8 Sep 2011			
20 Oct 2011	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.
1 Dec 2011			

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2 0 1 2			
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 RRP's, 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 RRP's, 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 RRP's, 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 RRP's, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that the inflation environment remains manageable. Baseline forecasts continue to track the lower half of the 3-5 percent target range for 2012 and 2013, while inflation expectations remain firmly anchored. At the same time, domestic macroeconomic readings have improved significantly in Q1 2012.
26 Jul 2012	3.75	5.75	The MB decided to reduce the BSP's key policy interest rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRP's, 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 RRP's, RPs, and SDAs were also left unchanged. The MB's decision was based on its assessment that the inflation environment remains benign, with the risks to the inflation outlook appearing to be broadly balanced.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
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 RRP, RP, 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 RRP, RP, and SDAs were also left unchanged. The MB's decision was based on its assessment that current monetary settings remained appropriate, as the cumulative 100-bp reduction in policy rates in 2012 continued to work its way through the economy.
2 0 1 3			
24 Jan 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRP and RP were also maintained accordingly. The reserve requirement ratios were kept steady as well. At the same time, the MB decided to set the interest rates on the SDA facility at 3.00 percent regardless of tenor, effective immediately, consistent with the BSP's continuing efforts to fine-tune the operation of its monetary policy tools.
14 Mar 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rate on the RRP was also set at 3.50 percent regardless of tenor. Following its previous decision to rationalize the SDA facility in January 2013, the MB further reduced the interest rates on the SDA facility by 50 bps to 2.50 percent across all tenors effective immediately.
25 Apr 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rate on the RRP was also set at 3.50 percent regardless of tenor. Meanwhile, the SDA rate was further reduced by 50 bps to 2.0 percent across all tenors.
13 Jun 2013 25 Jul 2013 12 Sep 2013 24 Oct 2013 12 Dec 2013	3.50	5.50	The MB decided to keep the BSP's key policy interest rates steady at 3.50 percent for the overnight borrowing or RRP facility and 5.50 percent for the overnight lending or RP facility. The interest rates on term RRP, RP, and SDA were also maintained.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)		Monetary Policy Decisions
	RRP Overnight	RP Overnight	
2 0 1 4			
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 RRP, RP, 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 RRP, RP, 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 RRP, RP, 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 RRP and RP were also maintained. The reserve requirement ratios were left unchanged as well. Meanwhile, the MB decided to raise the interest rate on the SDA facility by 25 bps from 2.0 percent to 2.25 percent across all tenors effective immediately.
31 Jul 2014	3.75	5.75	The MB decided to increase the BSP’s key policy rates by 25 bps to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRP and RP 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 RRP, RP, 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 RRP, RP, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
2 0 1 5			
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 RRP, RP, 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	
2 0 1 6				
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 RRP’s, RPs, and special deposit accounts were also kept steady. The reserve requirement ratios were left unchanged as well.
23 Jun 2016 11 Aug 2016 22 Sep 2016 10 Nov 2016 22 Dec 2016	3.00	2.50	3.50	The BSP formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations. The shift to IRC is an operational adjustment and not a change in the monetary policy stance. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF). The interest rates for the standing liquidity facilities form the upper and lower bound of the corridor while the overnight RRP rate is set at the middle of the corridor. The repurchase (RP) and Special Deposit Account (SDA) windows will be replaced by standing overnight lending and overnight deposit facilities, respectively. Meanwhile, the reverse repurchase (RRP) facility will be modified to a purely overnight RRP. In addition, the term deposit facility (TDF) will serve as the main tool for absorbing liquidity. The interest rates for these facilities will be set as follows starting 3 June 2016: • 3.5 percent in the overnight lending facility (a reduction of the interest rate for the upper bound of the corridor from the current overnight RP rate of 6.0 percent); • 3.0 percent in the overnight RRP rate (an adjustment from the current 4.0 percent); and • 2.5 percent in the overnight deposit facility (no change from the current SDA rate).
2 0 1 7				
9 Feb 2017 23 Mar 2017 11 May 2017 22 Jun 2017 10 Aug 2017 21 Sep 2017 9 Nov 2017 14 Dec 2017	3.00	2.50	3.50	The MB decided to maintain the BSP’s key policy interest rates at 3.0 percent for the overnight (RRP) facility, 3.5 percent for the overnight lending facility (OLF) and 2.5 percent for the overnight deposit facility (ODF). The reserve requirement ratios were left unchanged as well.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
2 0 1 8				
8 Feb 2018	3.00	2.50	3.50	The MB decided to maintain the BSP’s key policy interest rates at 3.0 percent for the overnight RRP facility, 3.5 percent for the OLF and 2.5 percent for the ODF.
15 Feb 2018				The reserve requirement ratio was reduced by one (1) percentage point as an operational adjustment to support the BSP’s shift toward a more market-based implementation of monetary policy as well as its broad financial market reform agenda. The reduction will apply to the reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions with reserve requirement at twenty (20) percent.
22 Mar 2018	3.00	2.50	3.50	The MB decided to maintain the BSP’s key policy interest rates at 3.0 percent for the overnight RRP facility, 3.5 percent for the OLF and 2.5 percent for the ODF.
10 May 2018	3.25	2.75	3.75	The MB decided to increase the BSP’s key policy interest rates by 25 basis points to 3.25 percent for the overnight RRP facility, 3.75 percent for the OLF and 2.75 percent for the ODF.
24 May 2018				The reserve requirement ratio was reduced by one (1) percentage point as part of its medium-term financial market reform agenda to promote a more efficient financial system by lowering intermediation costs. The reduction will apply to those reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions that are currently subject to a reserve requirement of nineteen (19) percent.
20 Jun 2018	3.50	3.00	4.00	The MB decided to raise the BSP’s key policy interest rates by 25 basis points to 3.50 percent for the overnight RRP facility, 4.00 percent for the OLF and 3.00 percent for the ODF.
9 Aug 2018	4.00	3.50	4.50	The MB decided to raise the BSP’s key policy interest rates by 50 basis points to 4.00 percent for the overnight RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.
27 Sep 2018	4.50	4.00	5.00	The MB decided to raise the BSP’s key policy interest rates by 50 basis points to 4.50 percent for the overnight RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
15 Nov 2018	4.75	4.25	5.25	The MB decided to raise the BSP’s key policy interest rates by 25 basis points to 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.
13 Dec 2018	4.75	4.25	5.25	The MB decided to maintain the BSP’s key policy interest rates at 4.75 percent for the overnight RRP facility, 5.25 percent for the OLF and 4.25 percent for the ODF.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
2 0 1 9				
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				The MB decided to reduce the reserve requirements by 200 basis points (or 2 percentage points) which shall be implemented according to the following schedule: 100 basis points on 31 May 2019; 50 basis points on 28 Jun 2019; and 50 basis points on 26 Jul 2019. The reduction will apply to those reservable liabilities of universal and commercial banks (U/KBs) that are currently subject to a reserve requirement of eighteen (18) percent.
23 May 2019				The MB complemented the reduction in reserve requirements for universal and commercial banks (U/KBs) with a phased 200-basis-point reduction in the reserve requirements for thrift banks (TBs) and non-bank financial institutions with quasi-banking functions (NBQBs), as well as a 100-basis-point reduction for demand deposits and NOW accounts of rural and cooperative banks on 31 May 2019. Moreover, long-term negotiable certificates of time deposits issued by all banks and NBQBs will have reduced and uniform reserve requirement ratio of 4.0 percent. The reductions on reserve requirements will take effect for U/KBs, TBs, and NBQBs on the reserve weeks beginning 31 May 2019, 28 Jun 2019, and 26 Jul 2019. The lower ratios shall apply to all reservable liabilities except bonds and mortgage/chattel mortgage certificates as the BSP continues to assess the impact of a reduction in the reserve requirements on said instruments.
20 Jun 2019	4.50	4.00	5.00	The MB decided to maintain the BSP’s key policy interest rates at 4.50 percent for the overnight RRP facility, 5.00 percent for the OLF and 4.00 percent for the ODF.
8 Aug 2019	4.25	3.75	4.75	The MB decided to reduce the BSP’s key policy interest rates by 25 basis points to 4.25 percent for the overnight RRP facility, 4.75 percent for the OLF and 3.75 percent for the ODF.
26 Sep 2019	4.00	3.50	4.50	The MB decided to cut the BSP’s key policy interest rates by 25 basis points to 4.00 percent for the overnight RRP facility, 4.50 percent for the OLF and 3.50 percent for the ODF.
27 Sep 2019				The MB decided to reduce the reserve requirements for U/KBs, TBs, and RBs by 100 bps (or one percentage point). The reduction in reserve requirements will apply to the deposits and deposit substitute liabilities in local currency of banks. The reserve requirement of U/KBs was reduced from 16 percent to 15 percent, TBs from 6 percent to 5 percent, and RBs from 4 percent to 3 percent. The reduction will be effective on the first day of the first reserve week of November 2019.

Summary of Monetary Policy Decisions

Effectivity Date	Levels (in percent)			Monetary Policy Decisions
	Overnight Reverse Repurchase Facility	Overnight Deposit Facility	Overnight Lending Facility	
2 0 1 9				
24 Oct 2019				The MB decided to reduce the reserve requirements for U/KBs and TBs by 100 bps (or one percentage point). The MB complemented the move with a reduction in the RRs for NBQBs. The reduction in reserve requirements will apply to the deposits and deposit substitute liabilities in local currency of banks and NBQBs. The reserve requirement of U/KBs was reduced from 15 percent to 14 percent, TBs from 5 percent to 4 percent, and NBQBs from 16 percent to 14 percent. The reduction will be effective on the first day of the first reserve week of December 2019.
14 Nov 2019	4.00	3.50	4.50	The MB decided to maintain the BSP's key policy interest rates 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.

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:



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

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