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Angelo King Institute  
for Economic and Business Studies

## Monitoring the Philippine Economy Fourth Quarter Report for 2021

### Project of Angelo King Institute

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*The economy ends the year on a positive note and as it continues its recovery—posting a 7.7 percent GDP growth after expanding in the two previous quarters.*

**The Philippines records third consecutive quarter growth.** GDP continues to grow as it expands by 7.7 percent, an improvement from the 7.1 percent growth in the previous quarter, and a stark contrast from the 8.3 percent contraction in the same quarter in the previous year. All major components of aggregate demand improved although the increase in government expenditure slowed while the trade deficit grew. On the other side, all major components of aggregate supply also tallied positive growth, posting higher growth rates than in the third quarter of 2021 and the same quarter in the previous year. Private consumption and gross capital formation churned out faster growth than in the third quarter, while government expenditure continued to grow albeit at a slower rate. The fourth quarter promises consistent and continuous growth, pointing towards pandemic recovery in the following quarters. However, challenges like typhoons and emerging COVID-19 variants still pose a threat to economic growth and, therefore, sound economic policies (both fiscal and monetary) together with effective health protocols will be key for the Philippines' effective and efficient pandemic recovery.

- **Major components of aggregate demand**
  - **Private consumption experiences positive growth for the third consecutive quarter.** Household Final Consumption Expenditure (HFCE) increased by 7.5 percent year-on-year (y-o-y) in fourth quarter 2021, continuing the HFCE y-o-y growth of 7.1 and 7.3 percent in the two preceding quarters. This is a very significant improvement from the 7.3 percent y-o-y contraction in the fourth quarter of the previous year. Based on data from the Philippine Statistics Authority (PSA)<sup>2</sup>, the HFCE components in this quarter that exhibited positive growth are Recreation and Culture (41.6 percent from -49.06 percent, y-o-y); Restaurants and Hotels (21.9 percent from -42.7 percent, y-o-y); Health, (17.7 percent from -2.9 percent, y-o-y); Transport (14.7 percent from -31.2 percent, y-o-y); Clothing and Footwear (8.6 percent from -12.1 percent, y-o-y); Communication (8.0 percent from 4.5 percent, y-o-y); Education (7.5 percent from -14.6 percent, y-o-y); Miscellaneous goods and

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<sup>1</sup> Report is based on latest available data as of August 10, 2021. For comments and questions, please email [mitzie.conchada@dlsu.edu.ph](mailto:mitzie.conchada@dlsu.edu.ph)

<sup>2</sup> <https://psa.gov.ph/sites/default/files/4th%20Quarter%202021%20National%20Accounts%20of%20the%20Philippines.pdf>

services (6.9 percent from -1.6 percent, y-o-y); Food and non-alcoholic beverages (5.2 percent from 5.3 percent, y-o-y); Housing, water, electricity, gas and other fuels (2.6 percent from 6.3 percent, y-o-y). Recreation and culture, Restaurants and hotels, and Transport are among the top four sectors that grew the most, induced by looser mobility restrictions imposed during the quarter that increased private consumption for these goods and services compared to the same quarter in the past year. In contrast, two sectors still contracted but at a slower pace, namely, Alcoholic beverages and tobacco (-8.4 percent from -18.9 percent, y-o-y) and Furnishings, household equipment, and routine household maintenance (-0.8 percent from -5.7 percent, y-o-y). Overall, the Philippines experienced a 7.5 percent y-o-y increase in HFCE which is attributable to more holiday activities allowed by the looser pandemic restrictions and increasing rates of vaccination as cases of infections were decreasing<sup>3</sup>.

- **Gross capital formation (GCF) continues double-digit growth.** GCF growth in this quarter posted a 12.6 percent y-o-y growth, its third consecutive double-digit expansion after growing by 7.3 and 7.1 percent y-o-y in the two previous quarters. This is a significant improvement over its contraction of 32.2 percent y-o-y in the same quarter in 2021. Five out of the six components of GCF posted stronger growth, specifically Valuables (60.4 percent from -43.9 percent, y-o-y); Intellectual Property Products (17.9 percent from -4.2 percent, y-o-y); Construction (15 percent from -36 percent, y-o-y); Durable Equipment (2.7 percent from -24.5 percent, y-o-y); and Breeding Stock and Orchard Development (-6.1 percent from -9.5 percent, y-o-y). The only component that experienced a more negative growth is Changes in Inventories (-196.3 percent from -161.2 percent, y-o-y). However, compared to the preceding quarter, all components except Valuables posted slower growth, which explains why growth this quarter is not as high as in the two previous ones. Among the slower growing components, Construction grew 15 percent compared to 23.8 percent in the previous quarter; and investments in Durable Equipment grew 2.7 percent this quarter compared to 6.6 percent in the previous one. Nevertheless, the 12.6 percent GCF growth shows that it is bouncing back and domestic investments have been improving, buoyed by the looser restrictions that allowed more construction activities<sup>4</sup>.
- **Government spending increases at a slower rate.** Government Final Consumption Expenditure (GCFE) expanded by 7.4 percent y-o-y in the fourth quarter, slower compared to the 13.6 percent y-o-y increase in the previous quarter but faster than the 5.1 percent y-o-y growth in the fourth quarter last year. According to the Bureau of Treasury, national government disbursements were at 317.4 billion pesos in October<sup>5</sup>, 412.7 in November<sup>6</sup>, and 569.3 in December<sup>7</sup>. Ninety percent of the disbursements for October<sup>8</sup> were for primary expenditures. For November<sup>9</sup> the growth is attributable to the higher spending of DPWH, DND, DOH, CHED, and

<sup>3</sup> <https://www.pna.gov.ph/articles/1166545>

<sup>4</sup> <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1985-joint-statement-of-the-duterte-administration-s-economic-managers-on-the-philippine-economic-performance-for-the-third-quarter-of-2021>

<sup>5</sup> [https://www.treasury.gov.ph/wp-content/uploads/2021/11/COR-Press-Release-October-2021\\_final\\_ed.pdf](https://www.treasury.gov.ph/wp-content/uploads/2021/11/COR-Press-Release-October-2021_final_ed.pdf)

<sup>6</sup> [https://www.treasury.gov.ph/wp-content/uploads/2021/12/COR-Press-Release-November-2021\\_final\\_ed.pdf](https://www.treasury.gov.ph/wp-content/uploads/2021/12/COR-Press-Release-November-2021_final_ed.pdf)

<sup>7</sup> [https://www.treasury.gov.ph/wp-content/uploads/2022/03/COR-Press-Release-December-2021\\_final\\_ed.pdf](https://www.treasury.gov.ph/wp-content/uploads/2022/03/COR-Press-Release-December-2021_final_ed.pdf)

<sup>8</sup> [https://www.treasury.gov.ph/wp-content/uploads/2021/11/COR-Press-Release-October-2021\\_final\\_ed.pdf](https://www.treasury.gov.ph/wp-content/uploads/2021/11/COR-Press-Release-October-2021_final_ed.pdf)

<sup>9</sup> [https://www.treasury.gov.ph/wp-content/uploads/2021/12/COR-Press-Release-November-2021\\_final\\_ed.pdf](https://www.treasury.gov.ph/wp-content/uploads/2021/12/COR-Press-Release-November-2021_final_ed.pdf)

DSWD, and for December<sup>10</sup>, it is due to the expenses for vaccine procurement, equity infusion in GFI programs, and higher IRA shares of LGUs. In retrospect, the 7.4 percent growth in this quarter continues the growth from the third quarter, albeit, at a slower pace.

- **Trade deficit worsens as imports balloon faster than exports.** Trade balance remained at a deficit with negative 28.5 percent y-o-y, although a slight improvement from last year's negative 38.9 percent. Based on PSA data<sup>11</sup>, total exports increased by 8.3 percent y-o-y compared to how it suffered the negative growth of -10.2 percent y-o-y in the same quarter in the previous year. Moreover, exports of goods increased by 5.3 percent y-o-y, which is bolstered by the increase in exports of Telecommunication (262.7 percent), Components/devices – semiconductors (47.34 percent), and Chemicals (20 percent). On the other hand, exports of services increased by 14.1 percent y-o-y, which is attributable to export increases in Manufacturing services on physical inputs owned by others (31 percent), Transport (12.9 percent), Telecommunications, computer, and information services (19 percent). Meanwhile, total imports increased by 13.7 percent y-o-y compared to how it shrank by 20.2 percent in the same quarter in the previous year, and it is an improvement from the 13.2 percent growth in the previous quarter of the same year. Imports of goods increased by 14.5 percent y-o-y, which can be credited to the growths of Medicinal and Pharmaceutical products (316.9 percent); Cereals and cereal preparation (73.4 percent); Mineral fuels, lubricants and related materials (31.4 percent); and Transport Equipment (23.4 percent); this growth is countered by the negative growth realized by components which has an accumulated share of 36.5 percent. On the other hand, imports of services grew by 9.8 percent y-o-y, and behind this growth is the expansion of Telecommunications, computer, and information services (33.2 percent) Insurance and Pension Services (39.1 percent), Transport (26.9 percent). Lesser restrictions in the international market led to the growth in imports. However, since imports expanded more than exports, the trade balance worsened.<sup>12</sup>

- **Major components of aggregate supply**

*In this report, we present results from an alternative to the “traditional” (TRAD) method of decomposing growth of GDP in constant prices into sector contributions. This alternative method is a “generalized” (GEN) growth decomposition that applies to GDP in constant prices (e.g., in the Philippines) and to GDP in chained prices (e.g., in Canada and the US). While TRAD recognizes only “quantity” growth as the source of a sector’s contribution to GDP growth, GEN posits that a sector’s contribution comes from “quantity” growth and from “real price” growth where this price is, by definition, the ratio of a sector’s deflator to the overall GDP deflator. The GDP deflator as the common denominator of the above ratio makes real GDP the numeraire and, thus, this ratio is the relative price or exchange value of the GDP of a sector in “GDP units,” i.e., the “real price” of a sector’s GDP. Therefore, a sector’s positive “quantity”*

<sup>10</sup> [https://www.treasury.gov.ph/wp-content/uploads/2022/03/COR-Press-Release-December-2021\\_final\\_ed.pdf](https://www.treasury.gov.ph/wp-content/uploads/2022/03/COR-Press-Release-December-2021_final_ed.pdf)

<sup>11</sup> <https://psa.gov.ph/sites/default/files/4th%20Quarter%202021%20National%20Accounts%20of%20the%20Philippines.pdf>

<sup>12</sup> <https://psa.gov.ph/content/highlights-philippine-export-and-import-statistics-november-2021-preliminary>

*growth contribution will be diminished if accompanied by a negative “real price” growth of the same sector that may even result in a negative net contribution by the sector to GDP growth. On the other hand, a sector’s positive “quantity” growth contribution will be enhanced if accompanied by a positive “real price” growth (see Table 3).<sup>13</sup>*

- **Services sector records a strong performance.** The services sector posted positive y-o-y growth for the third consecutive quarter, achieving a 7.9 percent y-o-y fourth quarter expansion. This is a significant improvement over the 8 percent y-o-y contraction recorded in the same quarter of 2020 and over the 7.7 percent y-o-y growth recorded in the third quarter of 2021. It remains the largest sector, accounting for 58.7 percent of fourth quarter GDP. All sub sectors also posted positive growths this quarter, with most bouncing back from a contraction, namely, Other services (30.1 percent from -43.4 percent, y-o-y); Accommodation and food service activities (22.8 percent from -45.6 percent, y-o-y); Transportation and storage (18.2 percent from -20 percent, y-o-y); Professional and business services (7.2 percent from -8.9 percent, y-o-y); Wholesale and retail trade (7.4 percent from -4 percent, y-o-y); Education (5.9 percent from -12.3 percent, y-o-y); Real estate and ownership of dwellings (3.4 percent from -14.9 percent, y-o-y). The other four components that posted positive growth in the fourth quarter of 2020 and again posted positive growth in the same quarter this year are Human Health and Social Work activities (15.9 percent from 1.5 percent, y-o-y); Information and Communication (8.5 percent from 1.9 percent, y-o-y); Financial and insurance activities (4.6 percent from 4.3 percent, y-o-y); Public administration and defense, compulsory social activities (3.3 percent from 1.3 percent, y-o-y). It is important to mention that lesser mobility restrictions permitted more service activities to boost services sector expansion. In total, the Services sector accounts for 58.7 percent of the total GDP, and contributed 4.6 percentage points of quantity growth to the total 7.7 percent y-o-y GDP growth in this period (table 3), making it the main driver of GDP growth on the supply-side.
- **Industry sector continues to recover.** The industry sector expanded by 9.5 percent y-o-y in the fourth quarter of 2021, a stark increase from the 4.4 percent y-o-y contraction it suffered in the same period last year. It is also an improvement from the 8.1 percent y-o-y growth it realized in the third quarter of 2021. Moreover, all components of the industry sector posted positive growth, with Manufacturing accounting for 64.9 percent of the total sector in the fourth quarter and posting a growth of 7.9 percent from -16.4 percent, y-o-y. Together with the growth of Construction (18.5 percent from -26.8 percent, y-o-y); Mining and quarrying (7.9 percent from -16.4 percent, y-o-y); and Electricity, steam, water, and waste management (7.2 percent from -4.9 percent, y-o-y), all components were able to contribute positively to the expansion of the Industry sector. Much of this growth is attributable to how more activities are permitted due to the implementation of less strict pandemic

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<sup>13</sup> See the footnote to Table 3 for the source of the GDP growth contributions.

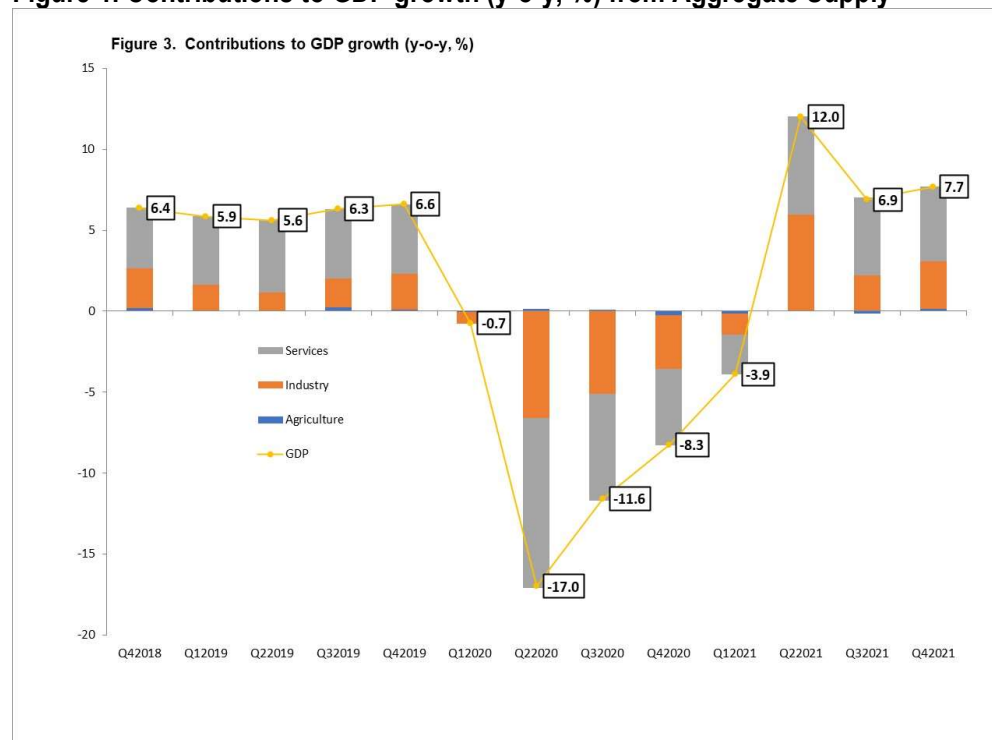
guidelines. In total, the Industry sector accounted for 31.2 percent of the fourth quarter GDP and contributed 2.9 percentage points of quantity growth to the 7.7 percent y-o-y GDP growth in the fourth quarter of 2021 (table 3), making it the second biggest contributor on the supply-side.

- Agriculture sector bounces back in the fourth quarter.** Agriculture, Forestry, and Fishing (AFF) realized a 1.4 percent y-o-y increase in the fourth quarter of 2021 bouncing back from its -2.51 percent y-o-y growth in the same period last year. It is also a clear improvement from its 1.7 percent y-o-y contraction in the third quarter of 2021. This growth is primarily driven by Corn (28.7 percent from 0.4 percent, y-o-y); Support activities to AFF (8.1 percent from 4.1 percent, y-o-y); Cacao (11.8 percent from 7.7 percent, y-o-y); and Poultry and egg production (2.8 percent from -4.9 percent, y-o-y). The other sub-sectors that expanded are Tobacco (4.7 percent from 11.8 percent, y-o-y); Forestry and logging (4.4 percent from 2.2 percent, y-o-y); Cassava (3.5 percent from 0.5 percent, y-o-y); Coconut including copra (3.0 percent from -0.9 percent, y-o-y); Sugarcane including muscovado sugar-making in the farm (1.4 percent from 8.0 percent, y-o-y); Fishing and aquaculture (1.4 percent from -4.3 percent, y-o-y); Pineapple (0.5 percent from 1.5 percent, y-o-y); Banana (0.2 percent from 1.2 percent, y-o-y); and Palay (0.2 percent from -1.1 percent, y-o-y). The seven other sub-sectors that realized negative growths are Other agricultural crops, n.e.c. (-0.7 percent from -2.8 percent, y-o-y); Mango (-0.8 percent from -0.9 percent, y-o-y); Rubber (-2 percent from 6.2 percent, y-o-y); Other animal production (-4 percent from -3.9 percent, y-o-y); Coffee (-5.9 percent from 2.5 percent, y-o-y); Livestock (-9.7 percent from -13 percent, y-o-y); and Abaca (-11.1 percent from 1.3 percent, y-o-y). The various typhoons that hit the country, especially the agricultural regions, hampered the growth of the AFF sector and forced the Department of Agriculture to lower its 2 percent target growth to 1 percent in the fourth quarter<sup>14</sup>. Despite the various challenges, the increase in demand brought by the holiday season also helped the sector bounce back<sup>15</sup>. In total, the AFF sector accounted for 10.1 percent of the fourth quarter GDP and contributed almost 0.2 percentage points of quantity growth to the 7.7 percent GDP growth in the period (table 3), maintaining the smallest share among the sectors.

<sup>14</sup> <https://www.bworldonline.com/da-expects-modest-growth-for-agriculture-sector-in-4th-quarter/>

<sup>15</sup> <https://www.cnnphilippines.com/business/2022/1/26/agriculture-output-Q4-2021.html>

**Figure 1. Contributions to GDP growth (y-o-y, %) from Aggregate Supply**



Source: Author's calculations based on data in Table 3 below.

## Road towards slow economic recovery

- **Economy bounces back and is on its way to recovery.** In the fourth quarter of 2021, less strict mobility guidelines and quarantine restrictions were implemented. For most of the quarter, the country was placed under alert level 2 which removed age-based mobility restrictions and allowed more business activities like dining in restaurants, entertainment, and domestic travel<sup>16</sup>. Starting with the holiday season, less strict restrictions allowed more activities that helped the economy to recover. Still, there are looming challenges like (1) the African Swine Fever (ASF), which has been disrupting hog production and meat prices<sup>17</sup>; (2) the various typhoons like typhoon Odette which caused extensive damage to housing and infrastructure and losses to the AFF sector<sup>18</sup>; and (3) the new SARS-CoV-2 strain called Omicron, whose first domestic case was recorded in December 15 and has been affecting the global market as well<sup>19</sup>. Policies such as tighter border control would be key as the Philippine COVID-19 Inter-Agency Task Force (IATF) has done<sup>20</sup>. In retrospect, the economy has shown resilience but there are factors that challenges its recovery. The government must continue striking the balance between a high-functioning economy and a healthy environment so that the economy continues its recovery and builds up on this fourth quarter growth.
- **More Filipinos find jobs; the unemployment rate declines.** After the eight-month high of 8.9 percent unemployment last September, more Filipinos found jobs as the unemployment rate fell to 7.4, 6.5, and 6.6 percent in the three respective months of the fourth quarter. Still, pay is not enough as underemployment is relatively high, reaching 14.7, 14.2, and 16.1 percent in the above three months.<sup>21</sup> The easing of mobility restrictions, coupled with the seasonal increase in economic activities, provide more work opportunities for Filipinos. Still, the unemployment rate remains relatively high compared to its pre-pandemic level and demand for higher pay getting louder even with the implementation of Executive Order No. 140 or the National Employment Recovery Strategy which aimed to alleviate the effects of the pandemic on employment and livelihood<sup>22</sup>.
- **Headline inflation slows down while core inflation remains steady<sup>23</sup>.** The headline inflation slowed down in the fourth quarter to 4.2 percent, lower than the 4.5 percent in the past quarter and 3.1 percent inflation in the fourth quarter of the previous year. As for its components, food inflation settled at 4.1 percent from the 5.8 percent rise in the previous quarter. This is attributed to the easing supply constraints on pork importation and the base effects of the significant vegetable price increase in the past

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<sup>16</sup> <https://www.rappler.com/nation/philippines-covid-19-alert-status-december-16-31-2021/>

<sup>17</sup> <https://www.rappler.com/nation/general-santos-south-cotabato-sarangani-step-up-drive-against-asf-anew/>

<sup>18</sup> <https://www.bworldonline.com/phl-economy-rebounds-in-2021/>

<sup>19</sup> <https://www.rappler.com/nation/philippines-detects-first-cases-covid-19-omicron-variant/>

<sup>20</sup> [https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr\\_2021.pdf](https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr_2021.pdf)

<sup>21</sup> <https://www.rappler.com/business/unemployment-rate-philippines-october-2021/>

<sup>22</sup> <https://www.pna.gov.ph/articles/1145306>

<sup>23</sup> [https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr\\_2021.pdf](https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr_2021.pdf)

year. Meanwhile, non-food inflation rose to 3.8 percent from the previous quarter's 3.3 percent due to the higher inflation in energy-related products like petroleum and electricity. Going into specifics, in December 2021, while overall inflation was slowed by relatively low annual increase in prices of food and non-alcoholic beverages (3.1 percent), other notable contributions to inflation were registered by Alcoholic beverages and tobacco (6.5 percent), Furnishing, household equipment and routine maintenance of the house (2.3 percent), Transport (6.1 percent), and Restaurant and miscellaneous goods and services (3.5 percent). On the other hand, core inflation remains steady at 3.2 percent y-o-y, indicating manageable underlying pressures in prices.

**Figure 2. Consumer price index (y-o-y, %)**



Source: Graph prepared by author based on Philippine Statistics Authority data.



## Other recent developments

- **Banks eased rules for households and tightened standards for businesses<sup>24</sup>.** As the pandemic abates, the easing of terms on housing, credit card, and personal loans coupled with the extension of loan maturities and reduction of interest rate floors, on the one hand, ease consumer borrowings to accommodate the expected increase in household borrowing due to increased consumption. On the other hand, the tightening of credit standards for businesses due to deterioration in the profitability of banks' portfolios and reduced tolerance for risk translate to stricter collateral requirements and adjusted loan terms coupled with increased interest rate floors. However, the above opposing forces appear to tilt towards a more favorable economic outlook considering the improved performance of the economy and vaccination efforts in the past two quarters and improvements in borrower profiles for both household and enterprise borrowers. Statistics released by BSP showed the banking industry's non-performing loan ratio eased to 4.35 percent during the month, which is its lowest since its 4.21 percent performance in March. Moreover, BSP estimates showed that bank lending grew for the fourth consecutive time as it tallied a 4 percent y-o-y expansion in November<sup>25</sup>.
- **Typhoon Odette dampens growth<sup>26</sup>.** Typhoon Odette wreaked havoc in the southern part of the country in mid-December and estimates on its damage to the agriculture sector are at P13.3 billion. There are also expected losses on the Tourism sector, most especially now that travel guidelines are less strict, as it has damaged several tourist destinations like Siargao. The estimated damages and losses in all sectors total P33.4 billion, amounting to 0.17 percent of the country's GDP that on top of the pandemic is making the government work harder to mitigate its negative effects on the economy's growth.
- **Alert level systems implemented nationwide, allowing more holiday activities<sup>27</sup>.** On November 11, 2021, Executive Order No. 151 was approved and mandated the nationwide implementation of the alert level system which replaced the old quarantine classification system. It was fully implemented on November 22, 2021, and provided benefits for fully-vaccinated people while imposing less strict age-based mobility restrictions. The implementation of the alert level system is expected to streamline processes and lessen confusion among the general public regarding pandemic response. Moreover, most of the country is placed under Alert Level 2 which removes age-based restrictions and allows for more in-person activities like dining in restaurants, cinema viewing, extended mall hours, and religious activities. Furthermore, considering the consumption-driven nature of the Philippine economy and bustle of the holiday season,

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<sup>24</sup> <https://www.bworldonline.com/banks-eased-credit-rules-for-households-tightened-standards-for-businesses-in-q4-bsp/>

<sup>25</sup> [https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr\\_2021.pdf](https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr_2021.pdf)

<sup>26</sup> <https://www.bworldonline.com/phl-economy-rebounds-in-2021/>

<sup>27</sup> <https://www.rappler.com/nation/iatf-completes-nationwide-implementation-covid19-alert-level-system/>

business groups expect better sales in the fourth quarter that will help them bounce back from the losses incurred throughout the pandemic<sup>28</sup>.

- **COVID-19 Vaccination rates continue to increase, vaccines for minors now approved<sup>29</sup>.** By December 28, 2021, the national vaccination total—taking into account both doses—reached 107, 277, 506; ranked 18th out of 205 in terms of total doses administered. Breaking down the total, 55.3 percent of the total population has been administered their first doses only while 44.1 percent is fully vaccinated and only 1.5 percent has received their booster dose. This is an improvement from the full-vaccination rate of 27 percent in the previous quarter. Lastly, in terms of 7-day averages, it has grown to 611, 768 vaccinations, which is the 3<sup>rd</sup> in the ASEAN, 9<sup>th</sup> in Asia, and 13<sup>th</sup> globally. Despite these growing vaccination numbers and decreasing cases of infections in the fourth quarter, stakeholders must remain cautious as the new variant, Omicron, emerges. Overall, the Philippines must continue its vaccine rollout; strive to maintain equitable and higher vaccination rates; and implement effective health protocols to mitigate the effects of the emerging variant so as not to delay or derail the economy's recovery.
- **Domestic market conditions remain stable in the fourth quarter<sup>30</sup>.** Supported by a positive economic outlook, the financial market conditions remain relatively stable in the fourth quarter of 2021. The Philippine Stock Exchange index (PSEi) averaged 7, 206.92 index points in the fourth quarter, higher by 6.8 percent compared to the previous quarter. Moreover, the domestic debt market also remained stable as auctions for Treasury bills and bonds attract participation which resulted in oversubscriptions. Most listed firms like SM Prime Shares rode on this upward trend as the economic reopening lifted them from the danger of being on the red<sup>31</sup>. Looking at each month in the fourth quarter, October and November saw impressive growth powered by the optimism over the easing of restrictions and robust third-quarter corporate earnings, and even saw the initial public offering of some firms like AllDay Marts Inc., while December saw concerns regarding the lingering effects of Typhoon Odette and the Omicron variant.
- **Peso continues to depreciate in the middle of the US Federal Reserve's tightening<sup>32</sup>.** The peso average PHP 50.45/1 USD in the fourth quarter of 2021, depreciating by 0.68 percent compared to the third quarter's peso average of PHP 50.11 /1 USD. This is in the middle of the increased pace of the US Federal Reserve's tightening and inflation concerns. On a y-o-y basis, the peso also depreciated by 4.33 percent relative to its average in the same period in the previous year of PHP 48.27/1 USD. On a per month basis, the peso depreciated by 1.2 percent in October, where it posted an average of PHP 50.75/1 USD, weighed down by concerns over the US Federal Reserve's plans, the impact of the increase in global oil prices on overall inflation, China's underwhelming economic growth in the previous quarter, and the widening of the

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<sup>28</sup> <https://business.inquirer.net/333266/group-expects-businesses-to-recover-as-holiday-season-nears/>

<sup>29</sup> <https://www.philippine-embassy.org.sg/ph-vaccination-rollout-reached-100-million-mark/>

<sup>30</sup> [https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr\\_2021.pdf](https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr_2021.pdf)

<sup>31</sup> <https://www.bworldonline.com/economic-reopening-holiday-spending-lift-sm-prime-shares/>

<sup>32</sup> [https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr\\_2021.pdf](https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr_2021.pdf)

country's trade deficit in August. In the next month, the peso appreciated by 0.78 percent relative to its October average, where it averaged PHP 50.36/1 USD, bolstered by the release of strong PMI data for the previous month, recovery of the country's external trade, the easing of mobility restrictions, and the better-than-expected third quarter economic performance. In the last month of the quarter, the peso continued to appreciate and posted an average of PHP 50.25/1 USD, 0.22 percent higher than its November average, powered by market optimism, decline of unemployment in October, and buoyancy of the Christmas season.

- **Business expectations record the highest level since the pandemic while consumer expectations decline<sup>33</sup>.** The positive index of 39.7 percent in the Business Expectations Survey (BES)19 is an increase from the -5.6 percent it tallied in the previous quarter of the year. This is the result of the combined effects of an optimistic market outlook and the decrease in the percentage of pessimists. The optimism for the quarter is attributed to easing of mobility restrictions and opening of borders, increased economic activity over the holidays, increasing vaccination rates, and decreasing COVID-19 cases. Further, this mirrored the business outlook of China and other foreign players like Australia, Bulgaria, Croatia, the US, Mexico, and the European Union. On the other hand, consumer sentiment index turned out more pessimistic as it declined to -24 percent from the -19.3 percent recorded in the previous quarter. This increase in pessimism is attributed to increasing prices of household essential goods while fewer family members are working during the pandemic. This is comparable to the pessimistic outlook of consumers in the European Union, Netherlands, Taiwan, the UK, and the US.

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<sup>33</sup> [https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr\\_2021.pdf](https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR4qtr_2021.pdf)



**Table 1. Philippine Economic Indicators**

Monthly Leading Indicators	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Industrial Production (y-o-y, %)	-14.8	-14.3	-43.8	-73.2	152.5	260.9	447.5	534.8	535.4	125.5	25.2	25.3 ...	
Consumer Price Index (y-o-y, %)	3.7	4.2	4.1	4.1	4.1	3.7	3.7	4.4	4.2	4.0	3.7	3.2	3.0
Retail Sales (y-o-y, %)	-12.1	-13.3	18.7	187.3	62.9	16.0	2.5	7.9	7.4	13.8 ...	...	...	
Exports (y-o-y, %)	-4.4	-1.4	33.4	74.1	30.8	18.9	13.8	18.9	6.4	2.0	6.6	7.1 ...	
Imports (y-o-y, %)	-11.8	9.0	22.1	153.2	55.8	43.4	29.6	30.9	24.9	25.1	36.8	38.3 ...	
Trade Balance, US\$ million	-2,878	-2,707	-2,759	-3,098	-3,180	-3,397	-3,667	-3,515	-3,995	-4,019	-4,706	-5,214 ...	
Total Reserves (less gold), US\$ billion	98	96	95	98	97	97	98	99	98	99	99	99 ...	
Policy Rate	2	2	2	2	2	2	2	2	2	2	2	2 ...	
Quarterly/Annual Economic Indicators	2015	2016	2017	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Real GDP (y-o-y, %)	6.3	7.1	6.9	6.3	6.0	-0.7	-17.0	-11.6	-8.3	-3.9	12.0	6.9	7.7
- Private Consumption	6.4	7.1	6.0	5.8	5.9	0.2	-15.3	-9.2	-7.3	-4.7	7.3	7.1	7.5
- Government Consumption	7.9	9.4	6.5	13.4	9.6	7.0	21.8	5.8	5.1	16.1	-4.2	13.8	7.4
- Gross Capital Fixed Formation	13.4	20.8	10.9	11.3	2.5	-12.1	-51.5	-39.5	-32.2	-14.8	80.3	20.8	12.6
Current Account (% of GDP)	2.9	-0.4	-0.7	-2.6	-0.8	0.3	6.2	4.8	3.9	-0.7	-1.2	-1.0 ...	
Financial Account ( US\$ million)	2,523	175	-2,798	-9,332	-8,034	2,973	-442	646	-6,502	4,089	-2,940	-1,133 ...	
- Net Direct Investments, US\$ million	-122	-5,883	-6,952	-5,833	-5,320	-883	-917	-1,111	-282	-1,691	-1,400	-2,177 ...	
- Net Portfolio Investments, US\$ million	4,757	1,480	2,454	1,448	-2,474	793	234	2,887	-2,539	7,884	-807	954 ...	
Overall BOP position (US\$, million)	2,616	-1,038	-863	-2,306	7,843	-68	4,177	2,769	9,144	-2,844	905	1,274 ...	
Unemployment rate	6.0	5.1	5.7	5.1	5.1	5.3	17.6	10	8.7	7.1	7.7	8.9	6.5
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fiscal Balance (million pesos)	-298,532	-314,458	-197,754	-242,827	-164,062	-73,092	-121,689	-353,422	-350,637	-558,259	-660,236	-1,371,447	-1,332,095
Others	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Overseas Filipinos' Remittances (US\$, million)	2,603	2,476	2,514	2,305	2,382	2,638	2,853	2,609	2,737	2,812	2,502 ...	...	

... = not available

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Asian Development Bank.



**Table 2. Level of Philippine GDP, 2020Q4 – 2021Q4**

	Nominal GDP (million current pesos)		Real GDP (million constant pesos*)	
	2020Q4	2021Q4	2020Q4	2021Q4
Agriculture	550,140	579,362	519,641	527,005
Industry	1,581,116	1,768,825	1,480,956	1,621,106
Mining and quarrying	37,152	46,601	31,248	33,709
Manufacturing	1,081,900	1,174,334	980,713	1,051,732
Electricity, steam, water and waste management	139,222	148,530	143,428	149,740
Construction	322,842	399,359	325,567	385,926
Services	3,023,887	3,319,247	2,823,070	3,047,108
Wholesale and retail trade; repair of motor vehicles and motorcycles	945,811	1,035,798	935,054	1,004,410
Transportation and storage	148,797	172,419	137,984	163,145
Accommodation and food service activities	68,624	87,077	61,903	76,001
Information and communication	168,695	182,504	167,133	181,352
Financial and insurance activities	448,479	480,215	431,077	451,045
Real estate and ownership of dwellings	267,295	284,182	252,671	261,306
Professional and business services	314,250	339,205	278,367	299,587
Public administration and defense; compulsory social activities	306,382	325,249	251,436	259,741
Education	184,889	199,365	156,548	165,857
Human health and social work activities	98,311	118,317	82,352	95,477
Other services	72,353	94,916	68,544	89,186
Sum = GDP	5,155,143	5,667,434	4,823,666	5,195,219

Source: Philippine Statistics Authority

\*Base year 2018



**Table 3. Industry Contributions to Philippine GDP Growth, 2020Q4 – 2021Q4**

	TRAD GDP Growth PGE* (percent)	GEAD PGE* (percent) (1)	GEAD PCE* (percent) (2)	GEAD GDP Growth PGE* + PCE* (percent) (1)+(2)
GDP Growth	7.70	7.70	0.00	7.70
Industry Growth Contribution				
Agriculture	0.15	0.15	0.08	0.24
Industry	2.91	2.91	0.01	2.91
Mining and quarrying	0.05	0.05	0.19	0.24
Manufacturing	1.47	1.47	0.51	1.99
Electricity, steam, water and waste management	0.13	0.13	-0.28	-0.15
Construction	1.25	1.25	-0.41	0.84
Services	4.64	4.64	-0.09	4.55
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.44	1.44	-1.14	0.30
Transportation and storage	0.52	0.52	-0.11	0.42
Accommodation and food service activities	0.29	0.29	0.08	0.37
Information and communication	0.29	0.29	-0.29	0.00
Financial and insurance activities	0.41	0.41	-0.22	0.19
Real estate and ownership of dwellings	0.18	0.18	-0.02	0.16
Professional and business services	0.44	0.44	0.24	0.68
Public administration and defense; compulsory social activities	0.17	0.17	0.80	0.97
Education	0.19	0.19	0.35	0.54
Human health and social work activities	0.27	0.27	0.27	0.54
Other services	0.43	0.43	-0.05	0.38

Source: DLSU-AKI Philippine Economic Monitor calculations by applying the data in Table 2 to a "generalized exactly additive decomposition" (GEAD) of GDP growth into pure growth effect (PGE\*) and price change effect (PCE\*) as an alternative to the "traditional" (TRAD) GDP growth decomposition that recognizes PGE\* but not PCE\*. PGE\* is the result of real GDP or "quantity" growth holding relative price (real price) constant and PCE\* is the result of "real price" growth holding quantity constant. PCE\* measures the change in value of an industry's output when outputs of all industries are converted to the same unit of measure, in terms of the economy's "GDP basket." The GEAD formulas for PGE\* and PCE\* and the TRAD formula (which equals PGE\*) are given, respectively, by equations (39), (40), and (46) in Dumagan, Jesus C. (2018), "Modifying the 'Generalized Exactly Additive Decomposition' of Growth of GDP and Aggregate Labor Productivity in Practice for Consistency with Theory," Working Paper Series No. 2018-07-053, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. The paper by Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," Review of Income and Wealth, 59 (Issue 1): 157-168 decomposed growth of aggregate labor productivity (ALP), which is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth becomes a decomposition of GDP growth into the modified PGE\* and PCE\* formulas which were implemented in this Table 3.