

PH ECONOMY: HARNESSING THE BRIGHT SPOTS

Felipe M. Medalla, Ph.D.

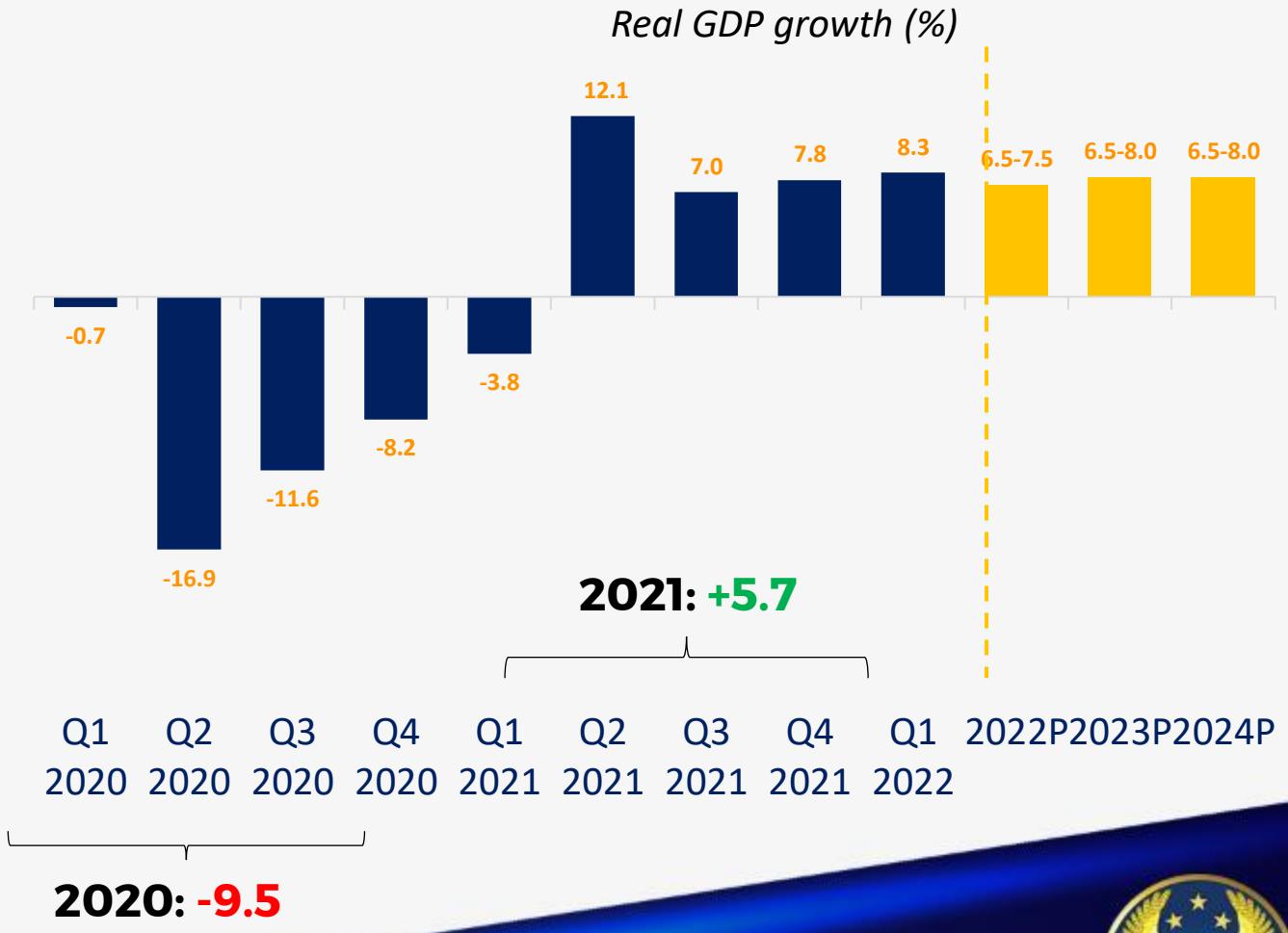
BSP Governor

The Manila Times Mid-year Economic Forum
29 July 2022

Strong reversal from the pandemic-driven recession

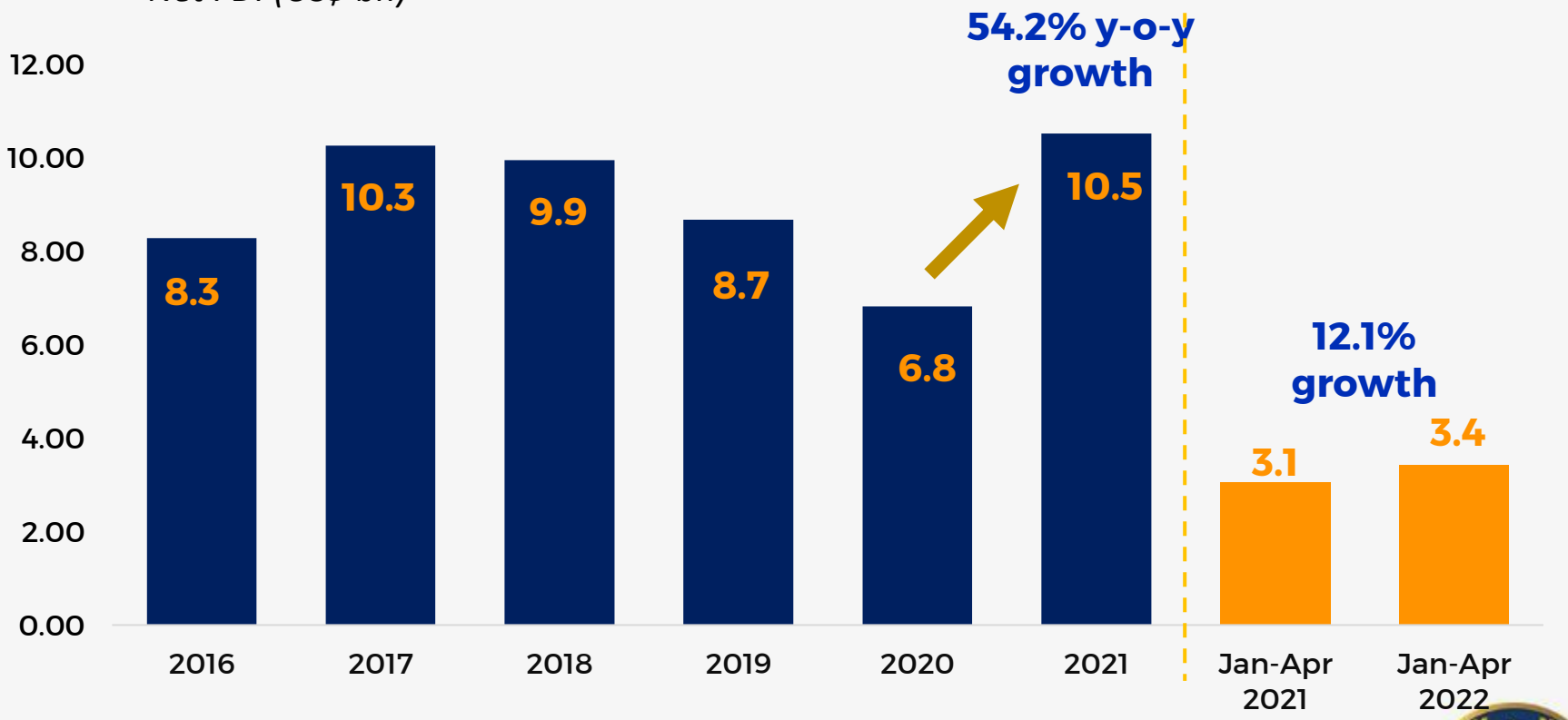
The recovery of the Philippine economy came sooner than expected.

The economy grew by 8.3 percent in Q1. We expect the economy to grow much faster in Q2, making the growth target for this year of 6.5-7.5 percent doable.



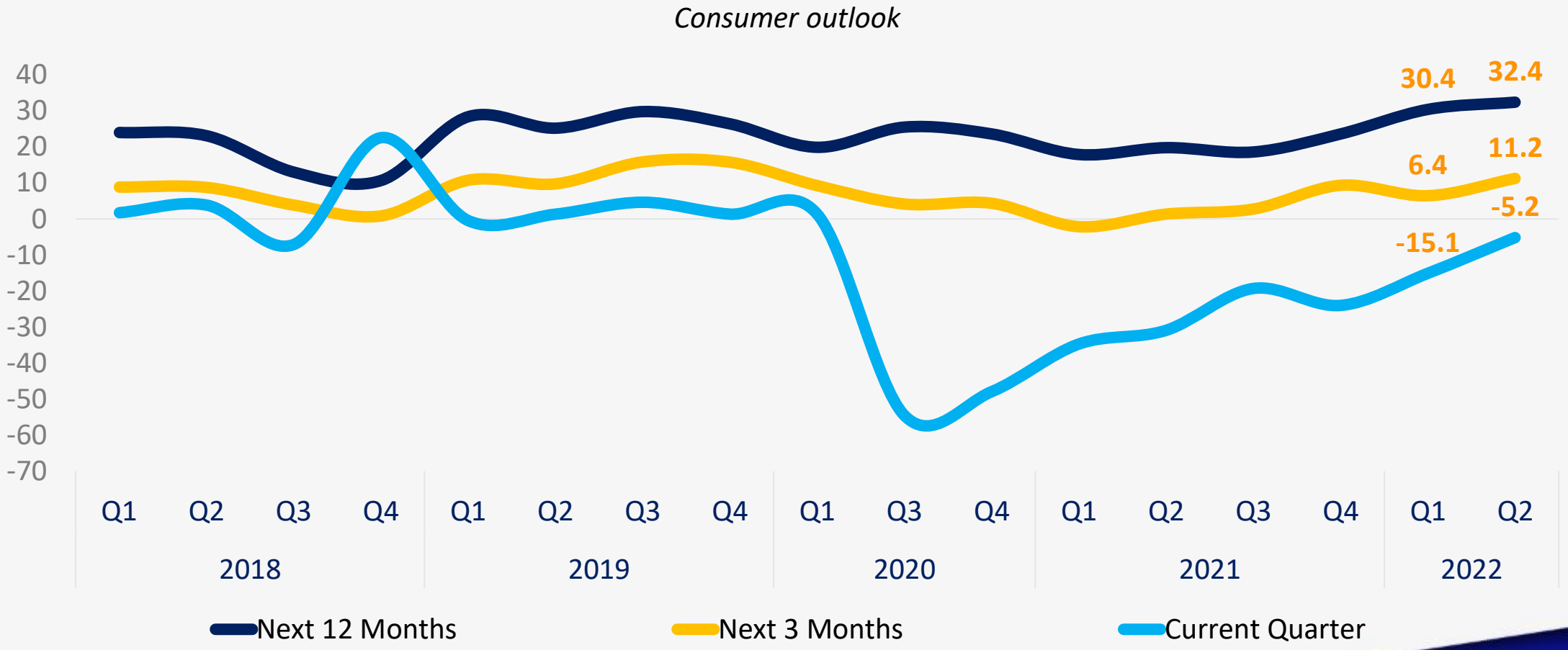


Record-high net FDI inflows in 2021 underscore investor confidence in the country's long-term growth prospects

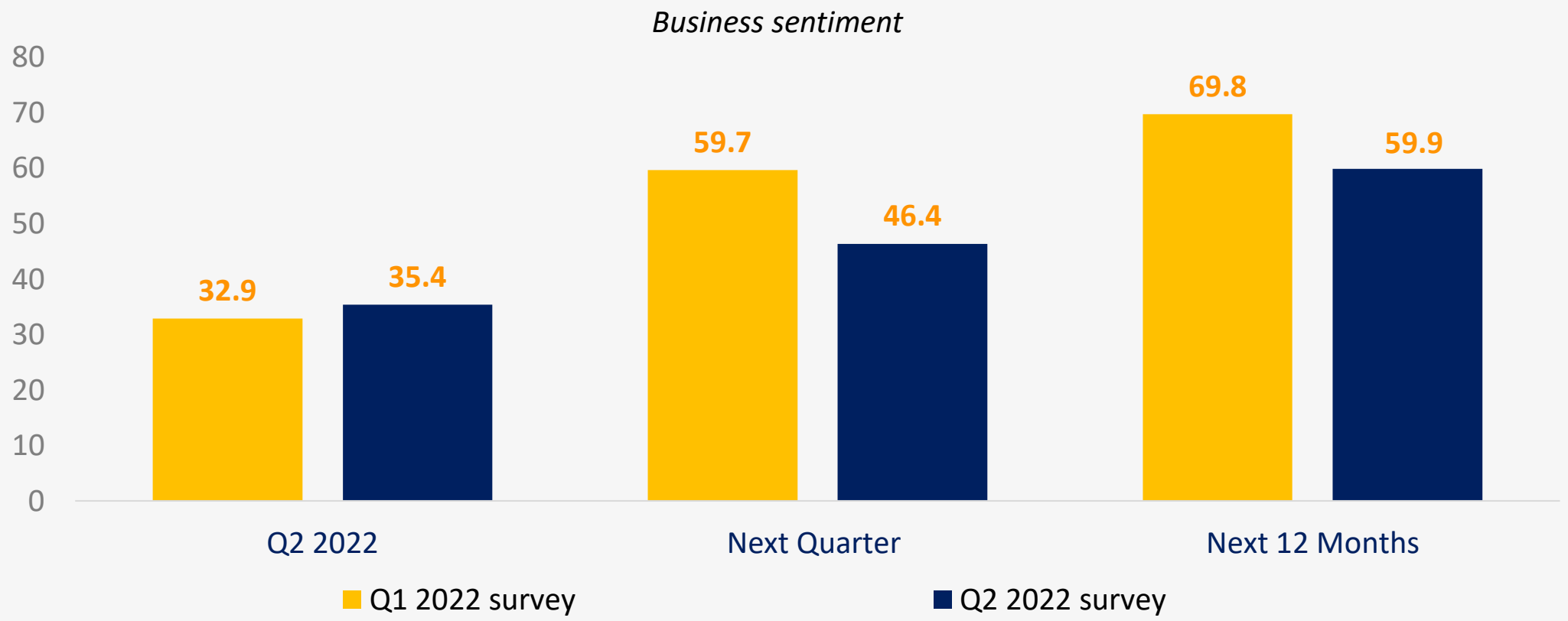


Source: BSP

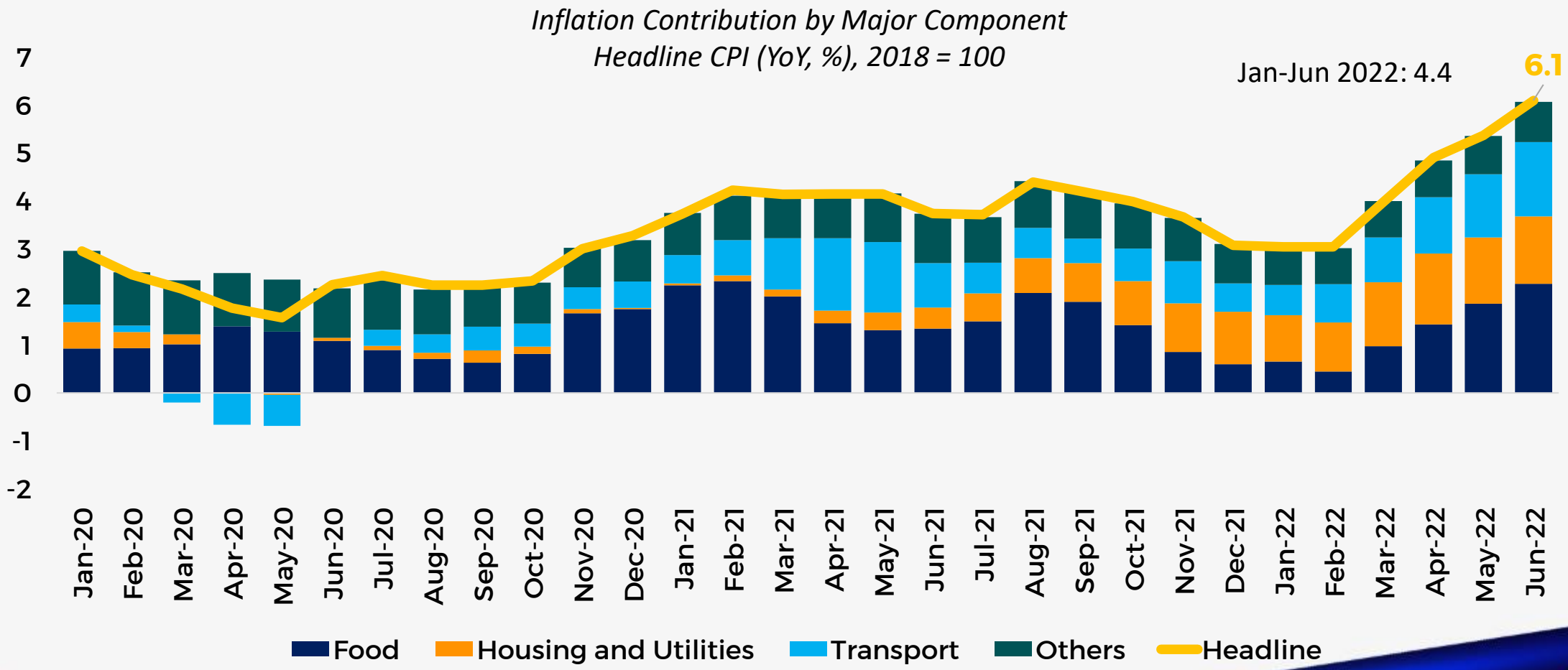
Improving consumer outlook



Positive business sentiment

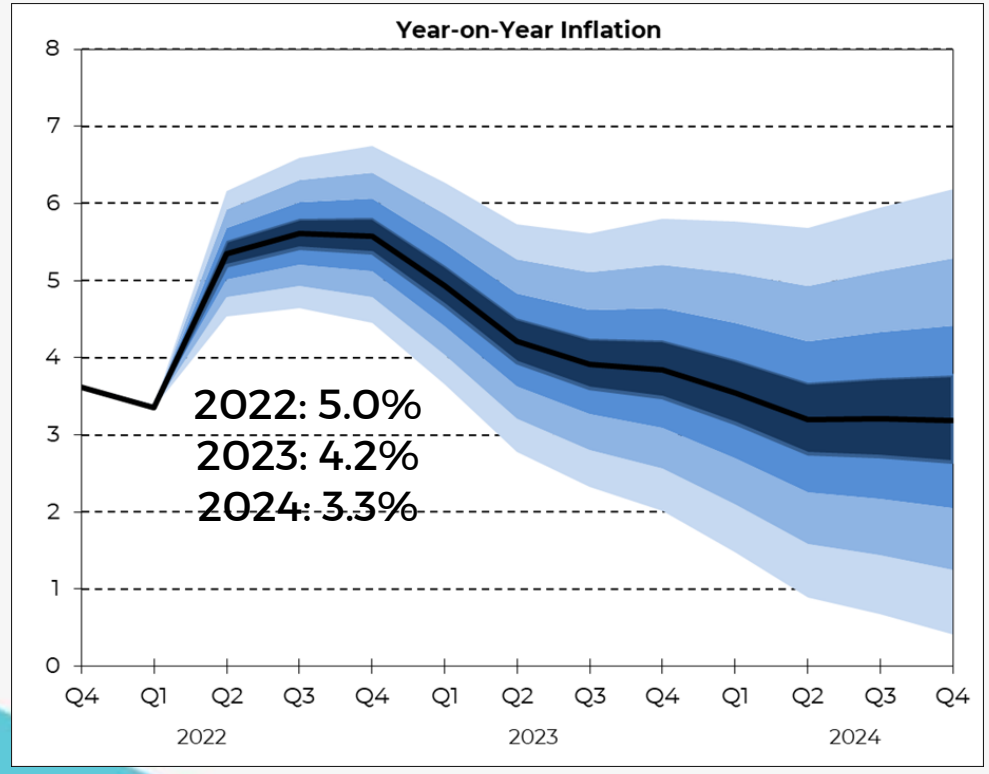


Headline inflation rises further, reflecting supply-side price pressures



Inflation could remain elevated in 2022-2023

BSP Baseline Inflation Forecast
(As of 23 June 2022 monetary policy meeting)



Source: Bangko Sentral ng Pilipinas

Inflation Forecasts for the Philippines, 2022-2028

	2022	2023	2024	2025	2026	2027	2028
BSP's Survey of Private Sector Economists a/	4.9	3.9	3.6	n.a.	n.a.	n.a.	n.a.
AMRO b/	4.4	3.8	n.a.	n.a.	n.a.	n.a.	n.a.
Oxford Economics c/	6.0	4.1	2.1	2.6	2.9	3.0	3.0
ADB d/	4.2	3.5	n.a.	n.a.	n.a.	n.a.	n.a.
IMF e/	4.3	3.7	3.0	3.0	3.0	3.0	n.a.

Sources: a/ BSP, as of June 2022; b/ AMRO Regional Economic Outlook, July 2022; c/ Oxford Economics, 13 July 2022; d/ ADB Asian Development Outlook, April 2022; e/ IMF World Economic Outlook, April 2022; n.a. – not available

BSP starts normalizing policy stance, as part of its exit strategy from monetary accommodation

Raise the key policy rate

- Raised the key policy rate by 25 basis points each on 19 May and 23 June and by 75 basis points on 14 July (off-cycle)

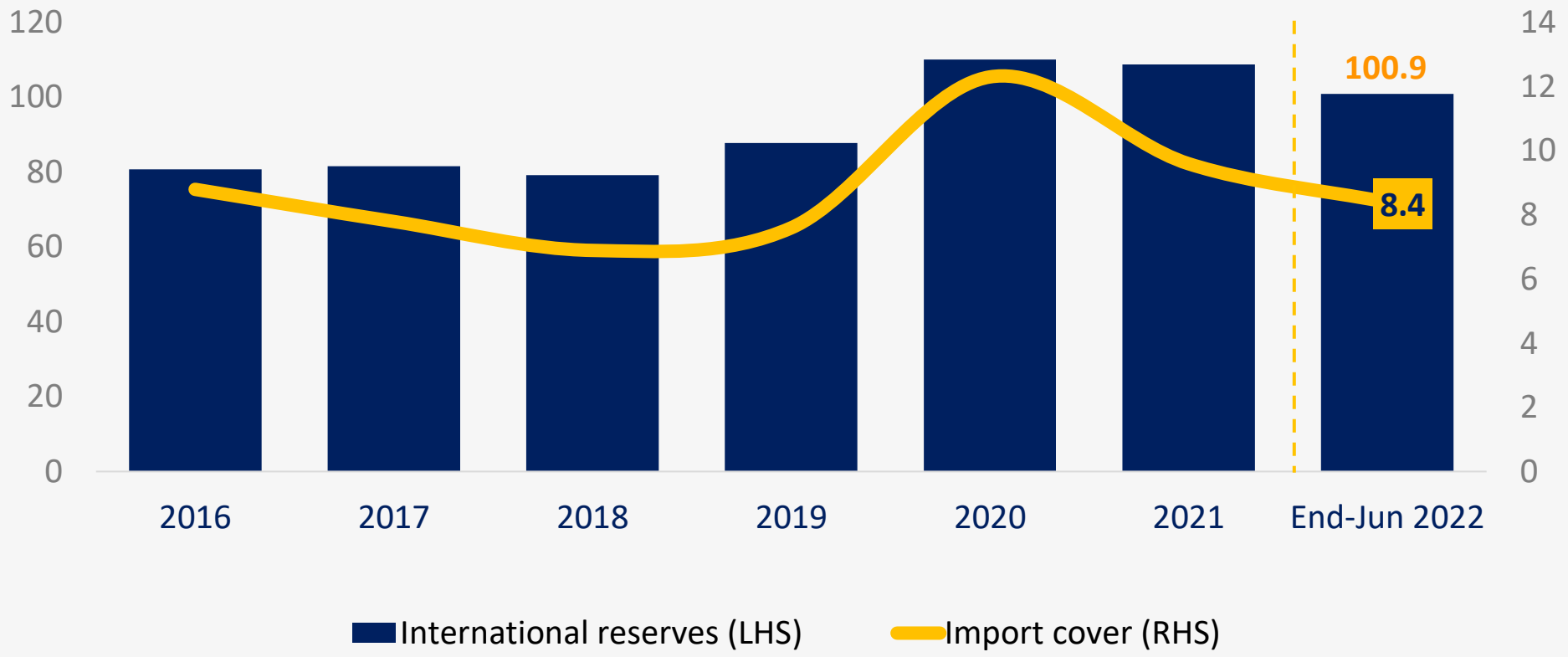
Wind down provisional advances to the National Government

- The NG has fully settled the Php300 billion on 20 May 2022

Shift government securities window from crisis to a normal liquidity facility

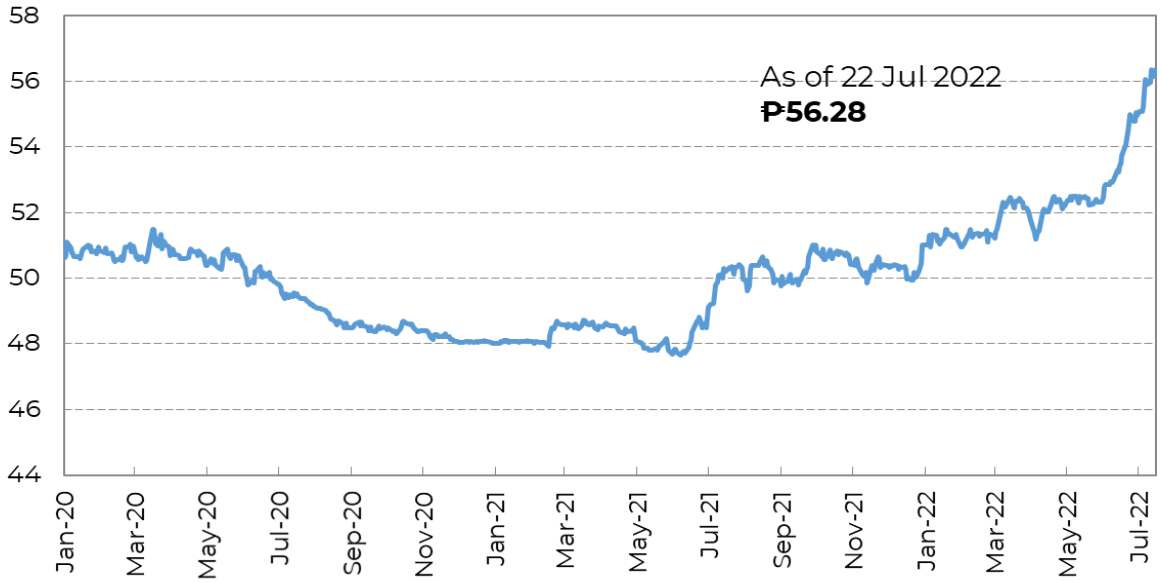
- Scale down government securities holdings
- Relaunch government securities window

Adequate external liquidity buffers



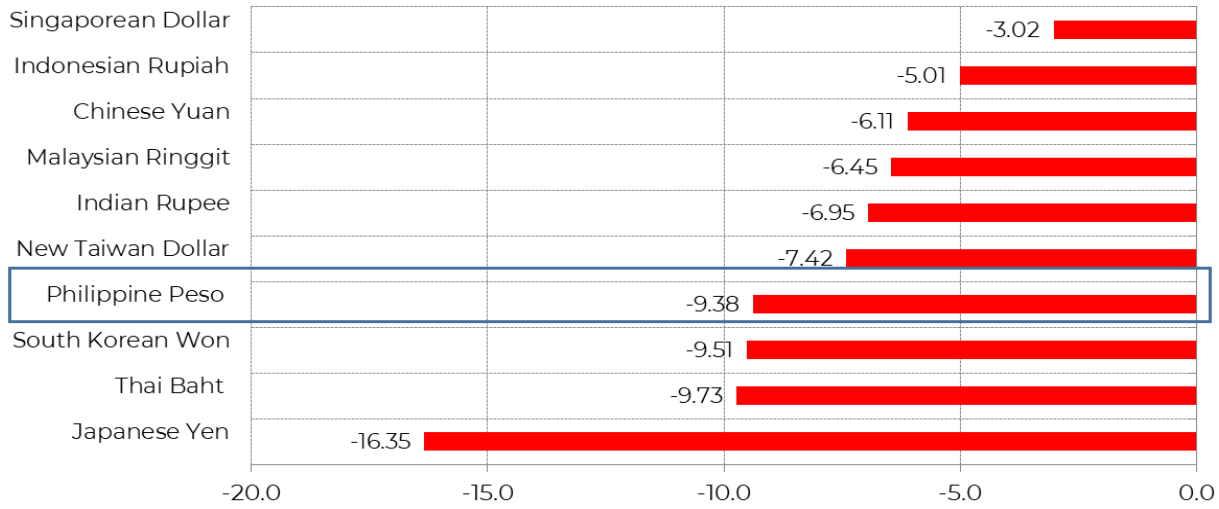
Peso continues to be determined by market forces

Peso per US dollar Exchange Rate



Year-to-date Appreciation (+)/Depreciation (-) of Asian Currencies against the US dollar

(In percent, as of 22 Jul 2022)



Note: Based on last done deal transaction (closing price) as of 4:00 pm Manila Time

Peso-dollar rate will continue to be flexible and market-determined

Depreciation pressures

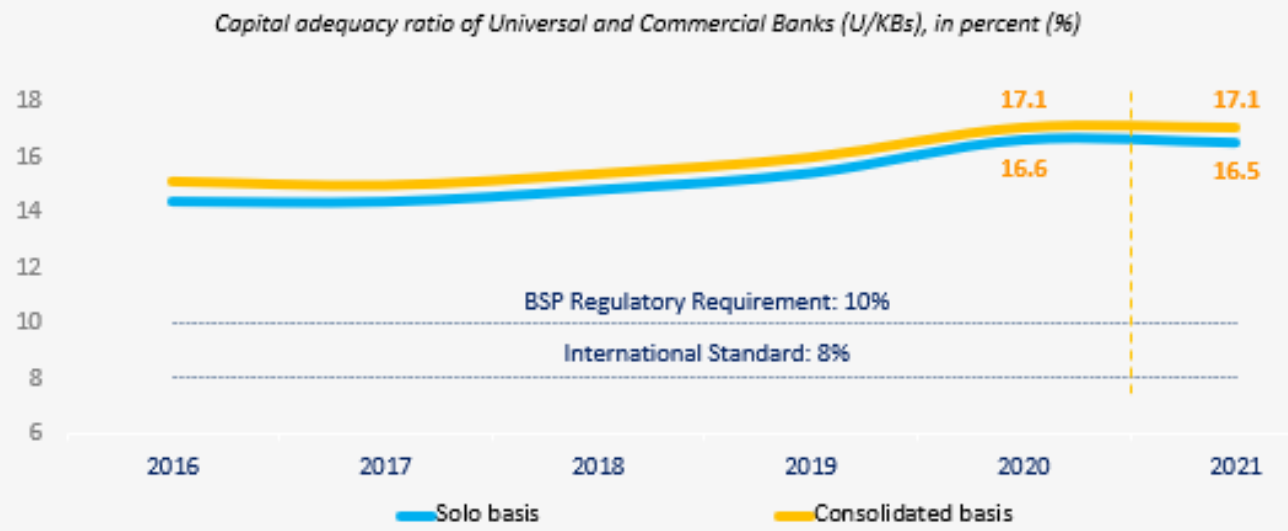
- Aggressive monetary policy tightening by US Fed
- Increased market risk aversion amid continuing conflict in Russia-Ukraine
- Widening trade gap amid improving domestic demand and uptick in global oil prices

Appreciation pressures

- Gradual policy normalization of the BSP
- Expected pick-up in FX inflows via improvement in tourism revenues, BPO receipts and OF remittances as economies reopen
- Ample FX reserves

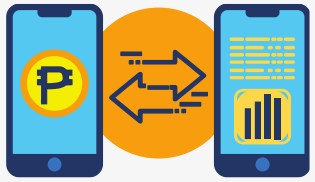
Banks remains stable and resilient

Key Asset Quality Indicators of Philippine Banking System		
Reference Period	**Ratios** (in %)	
	NPL Coverage	**Gross NPL**
May 2022	94.8	3.7
April 2022	90.6	3.9
March 2022	88.4	4.1
February 2022	86.1	4.2
January 2022	87.3	4.1
December 2021	87.7	4.0
May 2021	80.0	4.5
May 2020	97.3	2.4
Source: DSA, SPRD Estimates		



Accelerating digitalization in the financial sector

Digital Payments Transformation Roadmap 2020-2023



Digital Payment Streams

Payments - merchants, suppliers, utilities, savings and investments



Digital Infrastructure

Philippine Identification System, Credit Risk Database



Digital Governance

Payment System Oversight Framework, Cybersecurity policies, Open Banking



Objectives by 2023

50% of financial transactions done digitally 70% of Filipino adults to have transaction accounts



Financial Consumer Protection Act

Seeks to strengthen protection for financial consumers against increasing cybercrimes

Digital banks to support delivery of financial products and services

BSP Circular No. 1105: Digital Bank Scope of Authorities

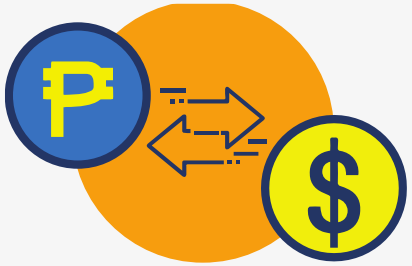
6 digital banking licenses issued



Loans



Regular and Basic Deposit Accounts



FX Deposits



Correspondent Banking



Marketable Securities

Digital banks to capitalize on cross-border digital remittances from overseas Filipinos

Macroeconomic prospects continue to be favorable

	Actual	Projections	
	2022	**2022**	**2023**
Inflation Rate (%)	4.4 Jan-Jun	4.5 – 5.5	2.5 – 4.5
Real GDP Growth (%)	8.3 Q1	6.5 – 7.5	6.5 – 8.0
Current Account Balance (% of GDP)	-5.0	-4.6	-4.4
Growth of goods export (%)	11.3 Q1	7.0	6.0
Growth of goods import (%)	28.6 Q1	18.0	6.0
OF Cash Remittances, Growth Rate (%)	2.5 Jan – May	4.0	4.0
Net Foreign Direct Investments (US$ bn)	3.4 Jan-Apr	11.0	12.0

BSP's Policy Directions

1. **On price stability**
   - **continued vigilance against inflation risk. We will employ all necessary measures within our disposal to bring inflation in line with the target consistent with our price stability mandate**

2. **On financial stability**
   - **intensify monitoring and surveillance to ensure that they remain responsive to emerging risks and to promote the continued soundness, stability, resilience and inclusivity of the banking system.**

3. **On external sector stability**
   - **strengthen resilience to external shocks , including that of maintaining a market-determined exchange rate, keeping a comfortable level of reserves, and keeping the country's external debt manageable.**

Key Messages

- Domestic growth recovery gains more traction and is expected to be sustained over the medium term, providing scope for the BSP to roll back its pandemic-induced interventions.

- We are committed to fostering an enabling regulatory environment for the financial institutions under our supervision.

- The BSP is prepared to take all necessary policy actions to bring inflation toward a target-consistent path over the medium term, consistent with its primary objective to promote price stability.

- The BSP advocates for the increased role of digital platforms in achieving greater efficiency and financial inclusion.



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