The Halftime Report

The BSP's Pursuit of Price Stability

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The Manila Times Midyear Economic Forum
Ascott Hotel
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Classification: GENERAL

A proven gameplan: The BSP's core mandates



Price Stability



Financial Stability

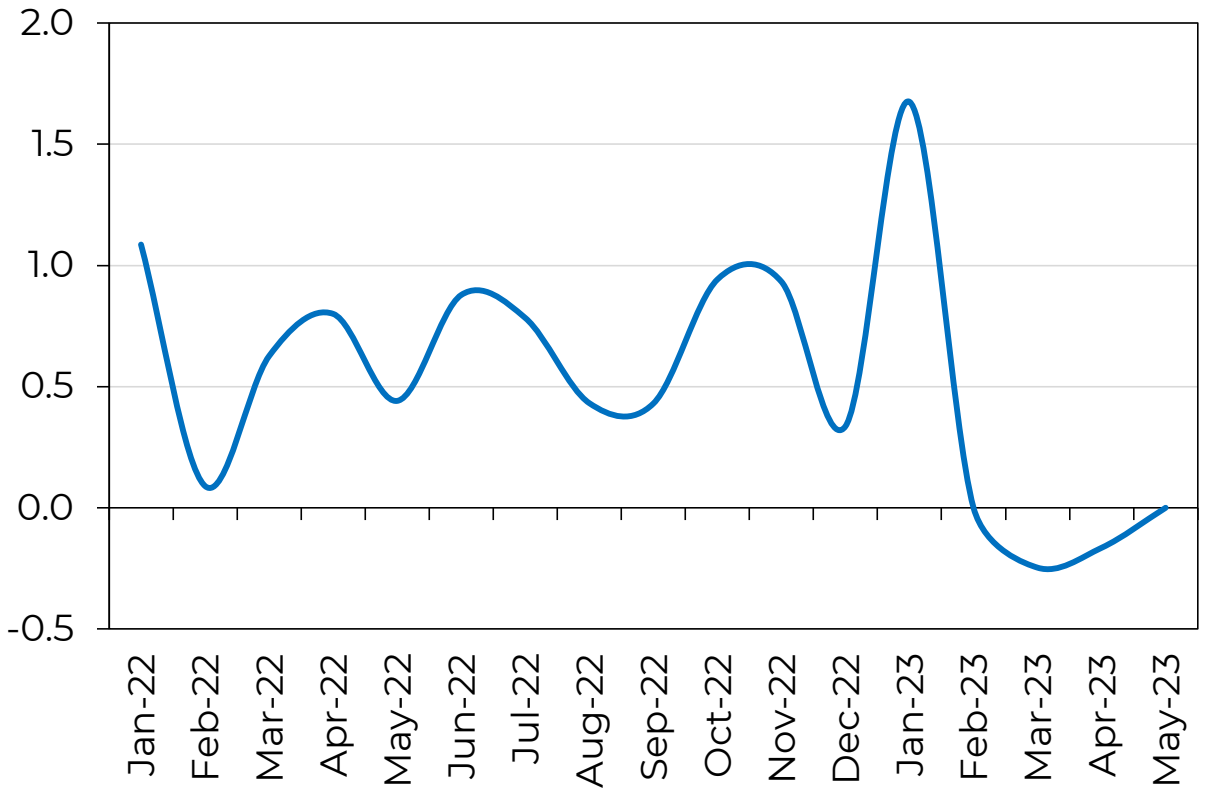


Safe, Secure and Efficient Payments and Settlements System

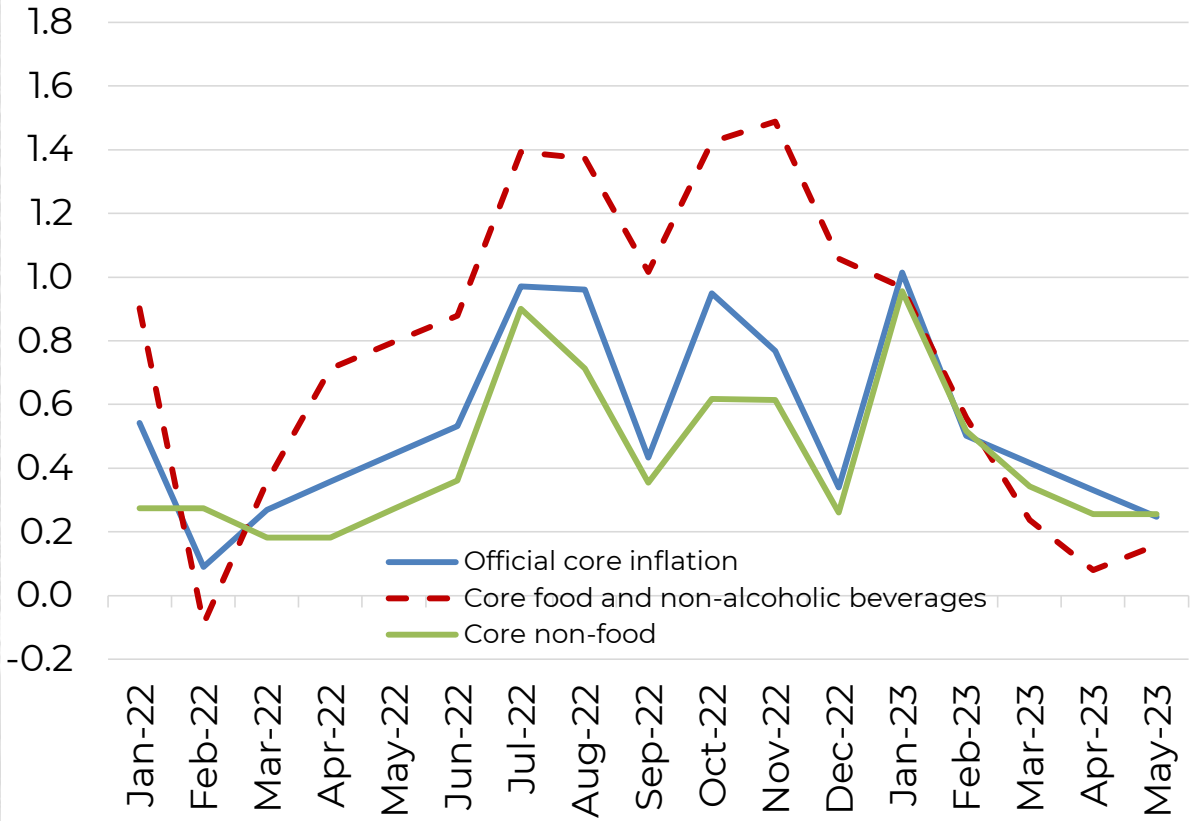
Classification: GENERAL

Headline and core inflation appear to have peaked in January 2023

Month-on-month headline inflation
in percent



Month-on-month core inflation
(in percent), non-seasonally adjusted

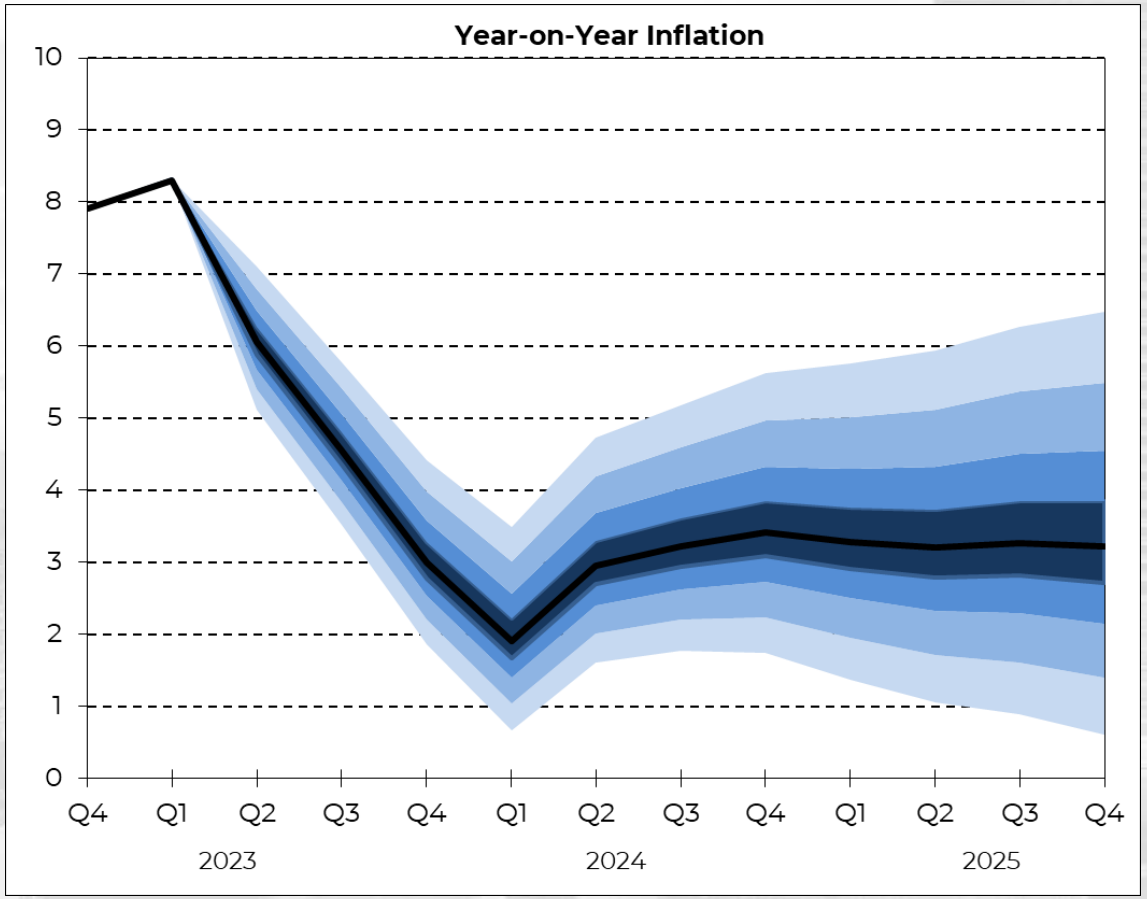


Source: PSA for basic data and BSP staff estimates

Inflation seen to return to 2-4 percent target by year-end

BSP Year-on-Year Inflation Forecast Q2 2023 – Q5 2024

As of 22 June 2023, Monetary Board Policy Meeting



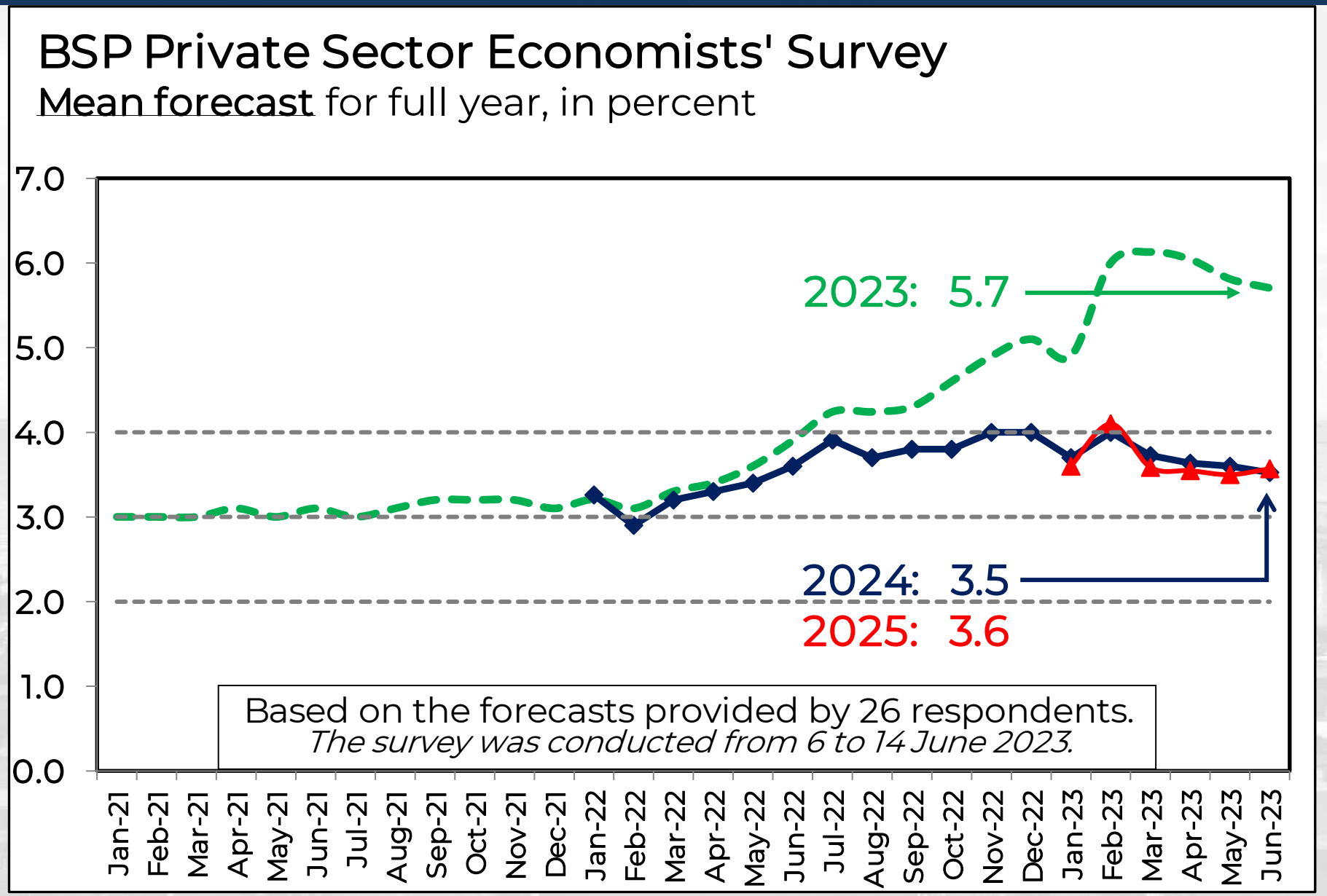
Source: BSP Staff Computations

BSP Baseline Inflation Forecast

Year	18-May MB Meeting	22-Jun MB Meeting
2023	5.5	5.4
2024	2.8	2.9
2025	-	3.2

Classification: GENERAL

Private sector inflation expectations have declined and are starting to settle firmly within the target band



Source: BSP

Classification: GENERAL

Non-monetary government measures and agricultural enhancements now and in the future are crucial

Short-term strategies to mitigate food and non-food inflation

- Alleviating the impact of El Niño
- Directly connecting consumers and producers through an enhanced Kadiwa program
- Timely and sufficient importation of key commodities
- Augmenting and pursuing programs related to energy conservation and efficiency, as well as food security
- Targeted cash transfers and subsidies towards vulnerable stakeholders
- Continuous monitoring of relevant developments and coordination with the private sector

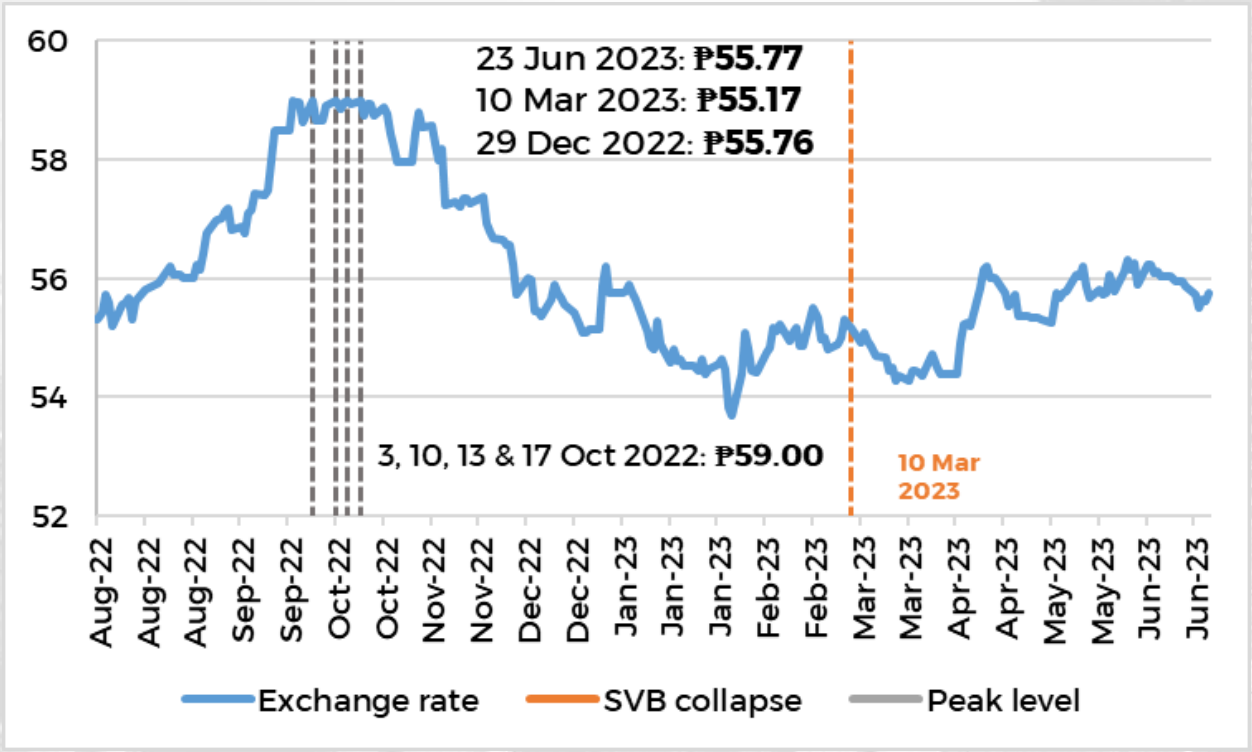
Medium- to Long-term strategies to address key supply-side challenges

- Strengthening of local food systems
- Improving digital and physical infrastructure
- Enabling regulatory system conducive to investments and ease in doing business
- Creating and facilitating adoption of improved technology
- Safeguarding energy, food, and water security

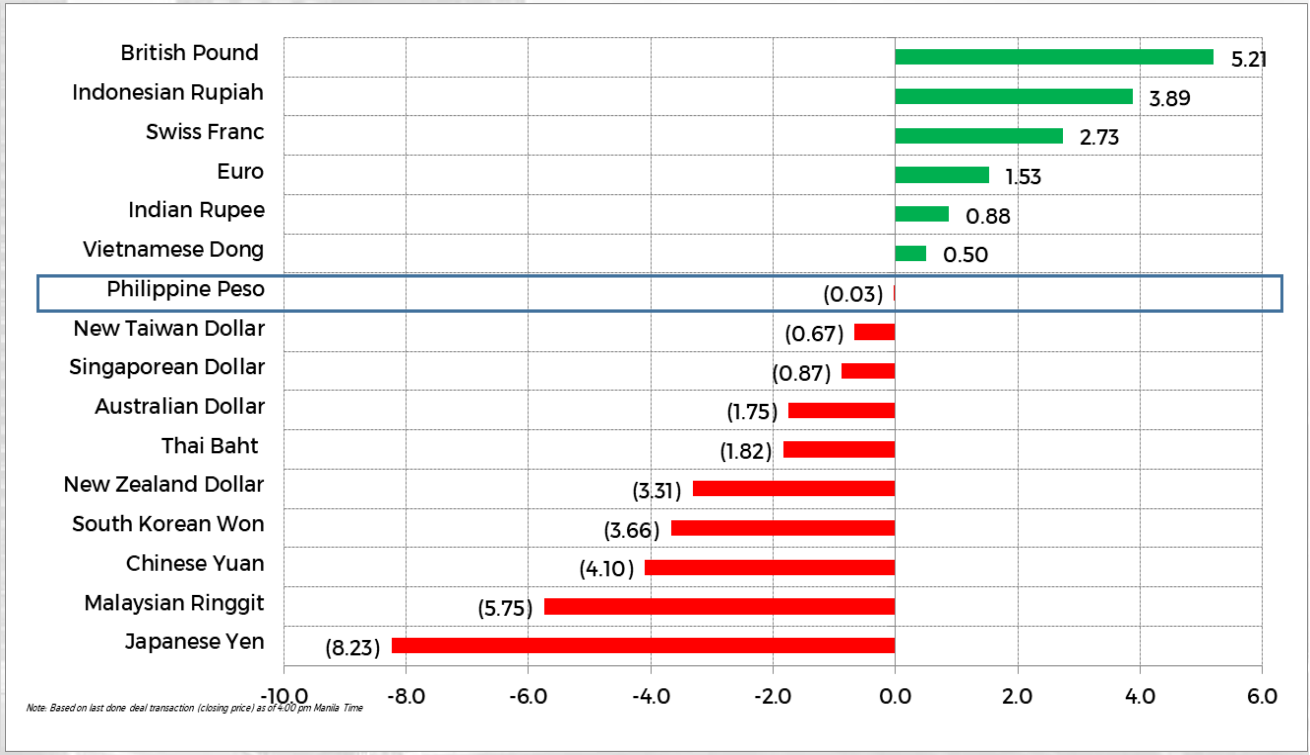
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Foreign exchange pressures have eased

Peso per US dollar Exchange Rate
Closing prices as of 23 June 2023



YTD movement against the USD
as of 23 June 2023

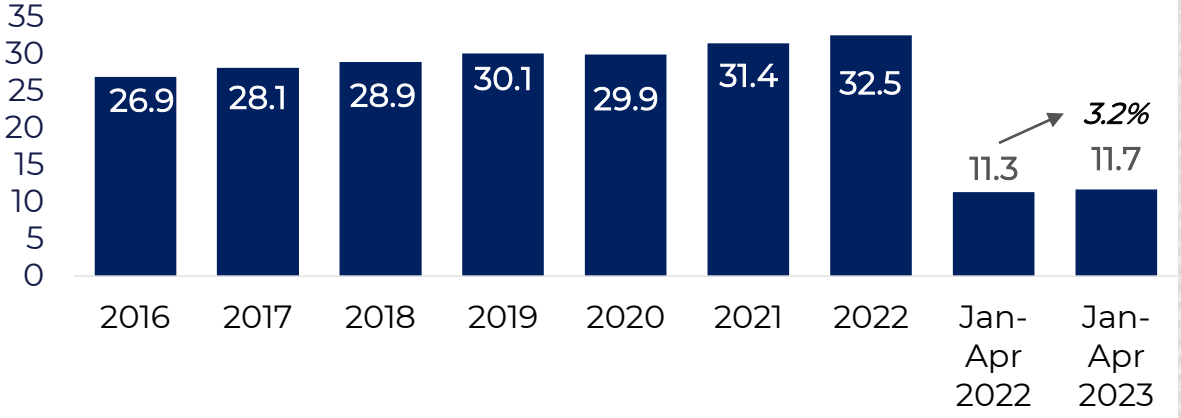


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Robust external accounts cushion against global spillovers

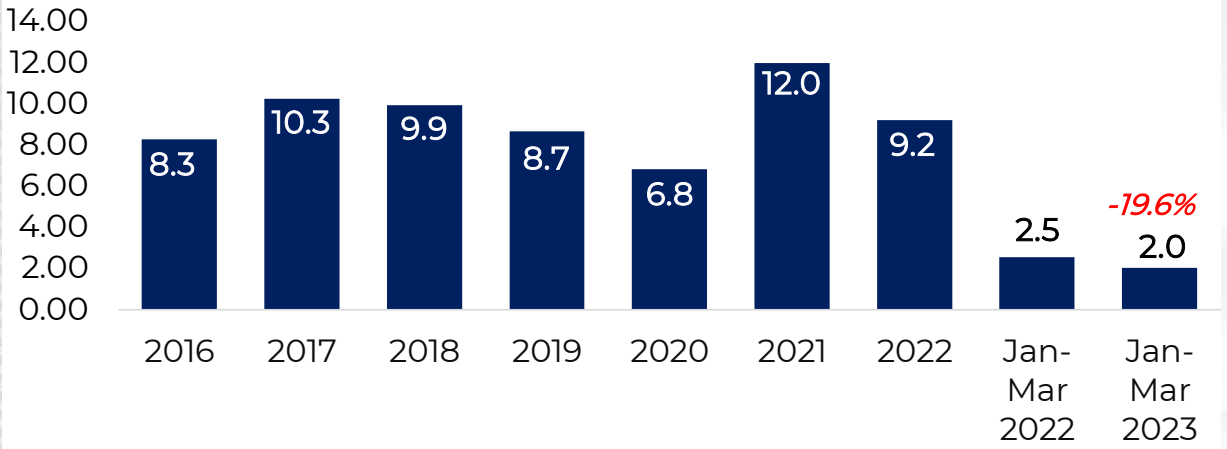
Overseas Filipinos' Cash Remittances

In US$ billion



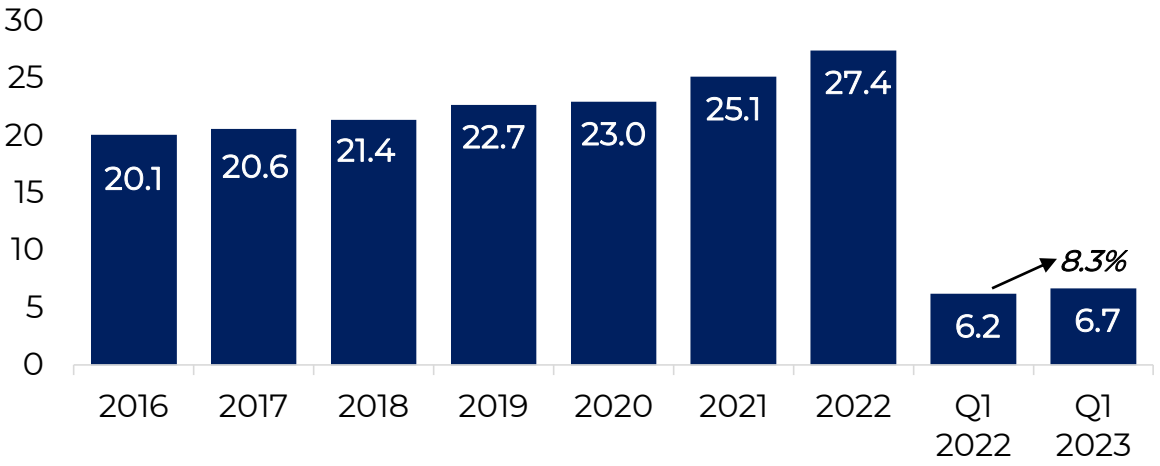
Net Foreign Direct Investments

In US$ billion



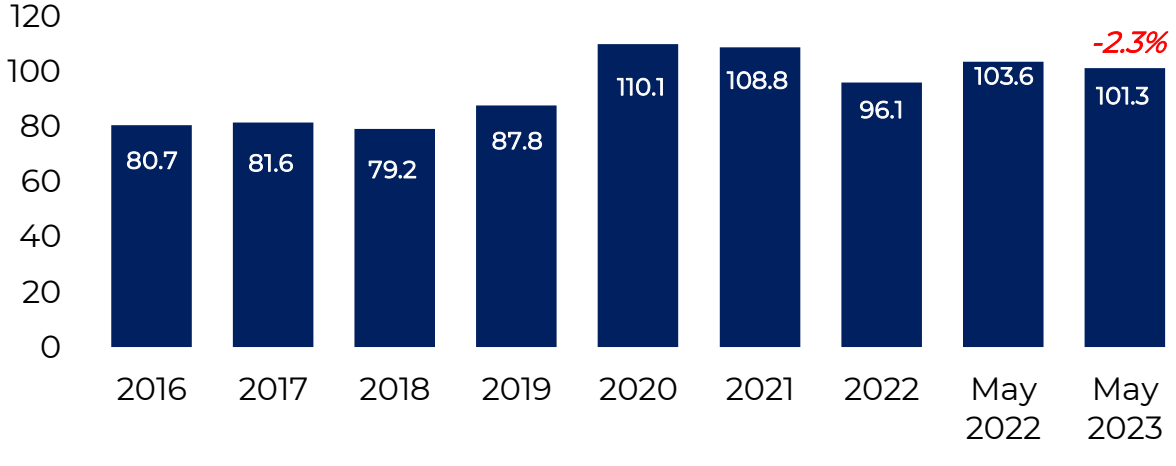
Business Process Outsourcing (BPO) Revenues

In US$ billion



Gross International Reserves

In US$ billion, end-of-period



Source: BSP

Classification: GENERAL

BSP's pragmatic use of expanded toolkit

Countries	Absolute change in policy interest rate (bps)	Nominal Exchange Rate Changes	% Change in GIR	Absolute change in GIR (in USD billion)
	cumulative rate hikes since August 2021 a/	as of 23 June 2023	End-2021 data vs latest available data c/	
Philippines	**425**	**0.03**	**-7.5**	**-8.2**
South Korea	300	-3.7	-9.1	-42.1
India	250	0.5	-6.9	-43.5
Indonesia	225	3.9	-3.9	-5.6
Vietnam	50	0.5	-20.8	-22.8
Malaysia	125	-5.8	-3.6	-4.2
Thailand	150	-1.8	-10.2	-25.2
Taiwan	75	-0.7	2.6	14.5

Source: BSP and CEIC

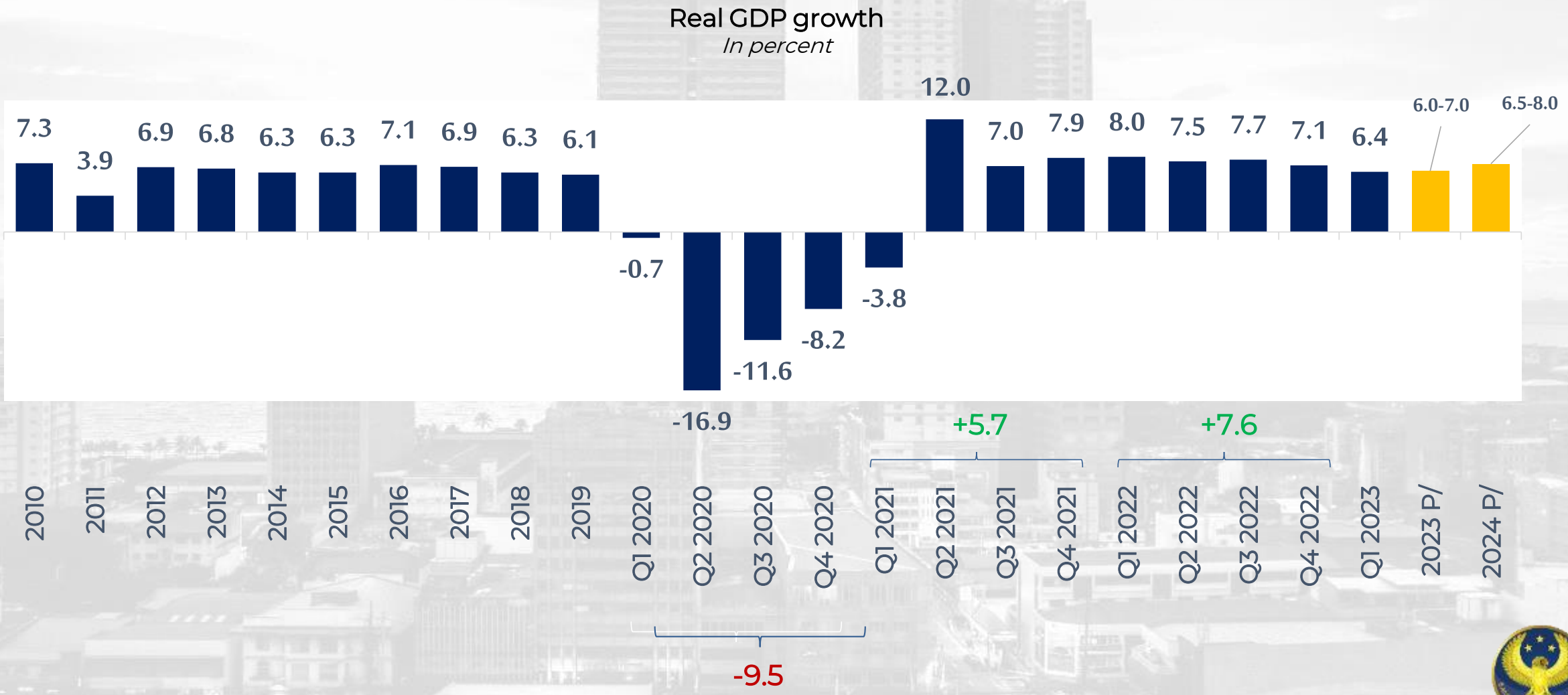
a/ July 2021 policy rate vis-à-vis latest policy meetings in 2023.

b/ FX data as of 23 June 2023. Last quoted price as of 4pm (except for PhP which is the last done deal in the session)

c/ Foreign exchange reserves for India and Vietnam are based on April 2023 and December 2022, respectively.

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Growth settles within target in Q1 2023 but may moderate in the coming months



p – GDP growth targets by the Development Budget Coordination Committee (DBCC)

Classification: GENERAL

Pent-up demand has been a key growth driver

23.8%
YoY increase in spending in hotels and restaurants for Q1 2023

Recovery in services

44.8%
YoY increase in car sales for January to May 2023

Uptick in demand
For vehicles

4.5%
Unemployment rate for April 2023

Improvement in
Employment conditions

1.47 million
International tourist arrivals from January to April 2023

PhP 214 billion
Tourism-related revenues for Q1 2023

(Re)turning point for tourism

Classification: GENERAL

Philippine banking system stands on solid footing



Banks remain well-capitalized

CAR at **16.5%** and **16.1%** on solo and consolidated bases, respectively
As of end-March 2023 and end-December 2022



Assets sustain positive growth

9.7% y-o-y growth
PHP22.7 trillion
As of end-Apr 2023



Liquidity remains ample

185.7% and **185.4%** liquidity coverage ratio on a solo and consolidated basis by end-2022





Deposit growth reflects sustained public confidence

8.2% y-o-y growth
PHP17.5 trillion
As of end-Apr 2023



Loan quality remains satisfactory

NPL Ratio at **3.4%**
As of end-Apr 2023



Loan portfolio further expands

10.0% y-o-y growth
PHP12.5 trillion
As of end-Apr 2023

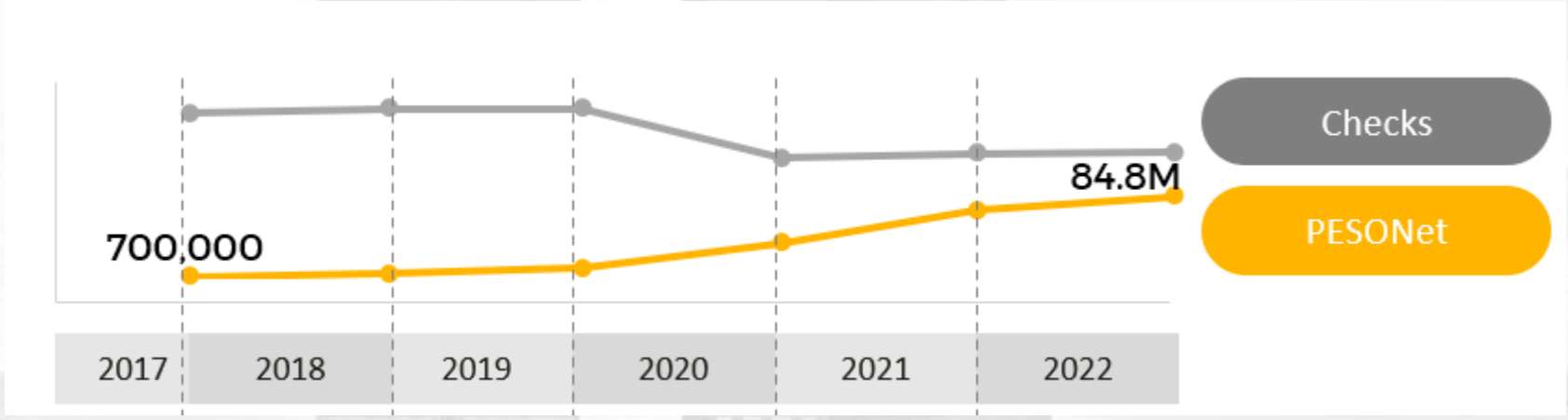


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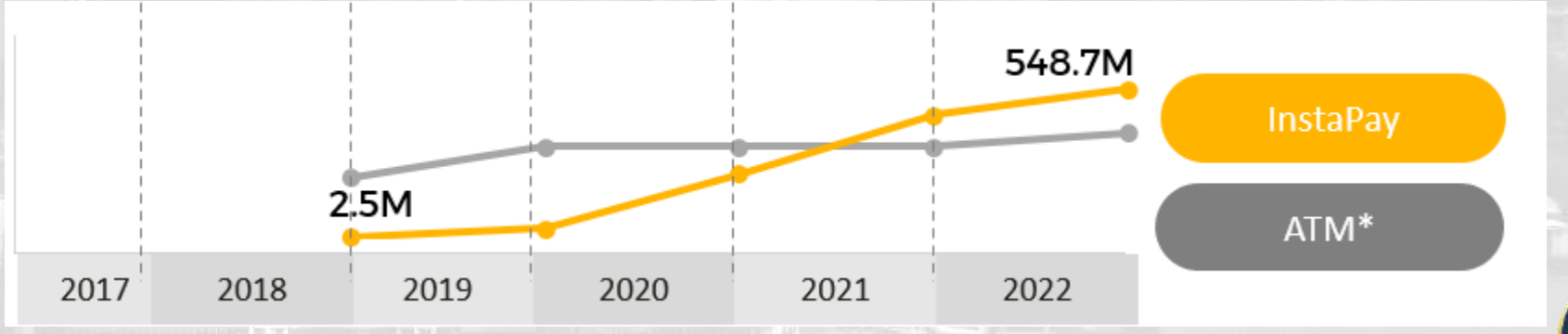
Digital payments momentum gains ground and continue to grow

ANNUAL TRANSACTION VOLUMES ON THE RISE

PESONet



instaPay



Classification: GENERAL

Key takeaways

1. Current circumstances have allowed the BSP to prioritize its mandate of price stability.

2. The BSP will continue to work towards an enabling regulatory landscape for the Philippine banking system, which remains sound, stable and supportive of economic growth.

3. The BSP will continue to harness technology to make the payment system more digital and inclusive.

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