

Economy sustains expansion driven by services as employment conditions and tourism-related spending improve

- GDP expanded by 4.3% in Q2 2023 with major supply-side sectors, agriculture, industry, and services growing at 0.2%, 2.1%, and 6.0%, respectively. Household expenditure, gross fixed capital formation and net exports grew 5.5%, 3.9% and 3.7%, respectively, on the demand side. Tourism-related spending and commercial investments drove economic expansion for the quarter.
- H1 2023 GDP grew by 5.3%, anchored on historic high employment levels, acceleration of tourism, and increasing investment registration activities.
- The government implements catch-up plans and expedites programs and projects for the rest of the year to achieve the growth target of 6.0% to 7.0% for 2023.

R&I's positive outlook signals likelihood of a rating upgrade in the near term

- Japanese credit rating agency, Rating and Investment Information Inc. (R&I), affirmed the Philippines' investment grade rating of 'BBB+' and revised its outlook to 'Positive' from 'Stable,' citing the country's robust macroeconomic fundamentals, improving fiscal position, sound banking system, comfortable external payments position, and stable political environment.
- The revision indicates R&I's views on the medium-term prospects of the country, stating that it "will upgrade the rating once the factors, such as the economic growth path sought under the Philippine Development Plan 2023-2028, the stable macroeconomic condition, and the improving trend of fiscal consolidation are confirmed."

Monetary Board maintains policy settings amid easing inflation

- Inflation further decelerated to 4.7% in July from 5.4% in June. The latest inflation readings support the BSP's assessment that inflation will return to within target range of 2.0% to 4.0% by Q4 2023, despite a generally higher path, reflecting the impact of higher international oil prices.
- The balance of risks to the inflation outlook continues to lean toward the upside, due to potential price pressures linked to the impact of possible higher transport charges; higher minimum wage adjustments; persistent supply constraints on key food items; and effects of El Niño on food prices and power rates. Given these considerations, the Monetary Board deemed it appropriate to maintain monetary policy settings to allow a moderation of inflation even as authorities continue to assess the emerging risks to the inflation outlook. The BSP remains prepared to respond as necessary to safeguard the inflation target, in keeping with its primary mandate to ensure price stability.

Philippines' Credit Ratings

As of 7 August 2023

Fitch	Affirmed at BBB/ Stable – May 2023
JCR	Affirmed at A-/Stable – Mar 2023
S&P	Affirmed at BBB+/Stable – Nov 2022
Moody's	Affirmed at Baa2/Stable – Sep 2022
R&I	Affirmed at BBB+/Positive – Aug 2023

R&I's Analytical Pillars and Rating Commentary

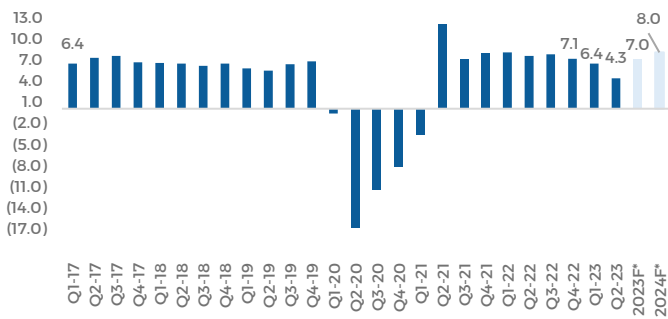
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Economic Fundamentals	Fiscal Conditions
<i>"The Philippine economy has been performing well despite uncertainty surrounding the global economy."</i>	<i>"R&I believes that the fiscal deficit will likely improve to a level in line with government target, due partly to the solid trend of tax revenue."</i>
Policy Management	Socio-Political Fundamentals
<i>"In terms of economic policies, the Marcos Jr. administration has continued the previous administration's policies to address key infrastructure development and structural reforms, leading to better prospects that the country will make progress in raising income levels, which has been a key challenge."</i>	<i>"The high approval rating of President Ferdinand Romualdez Marcos Jr. contributes to maintaining a stable political environment."</i>

Commitment toward a sustained rapid, solid, and inclusive economy

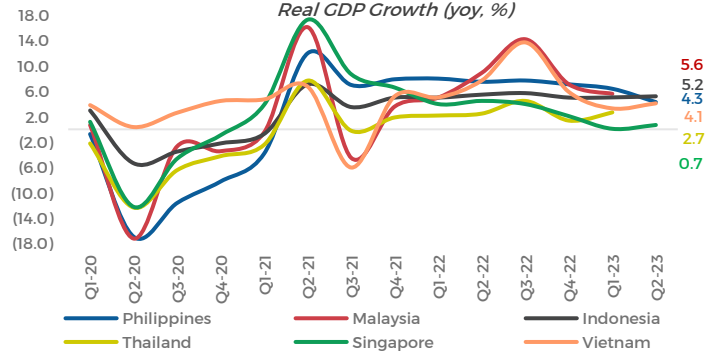
Stronger growth rebound anchored on sound fundamentals

Real GDP Growth (yoy, %)



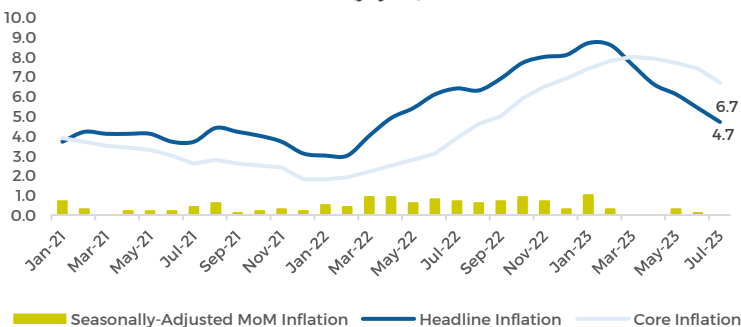
Philippines remains among the fastest growing economies in Southeast Asia

Real GDP Growth (yoy, %)

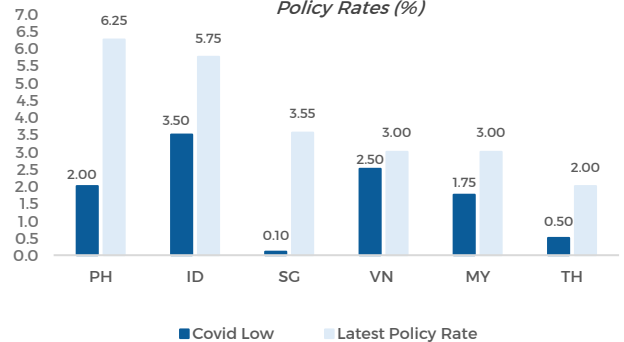


Maintain policy settings amid easing inflation, while assessing emerging risks^{1/}

Headline CPI (yoy, %), 2018 = 100

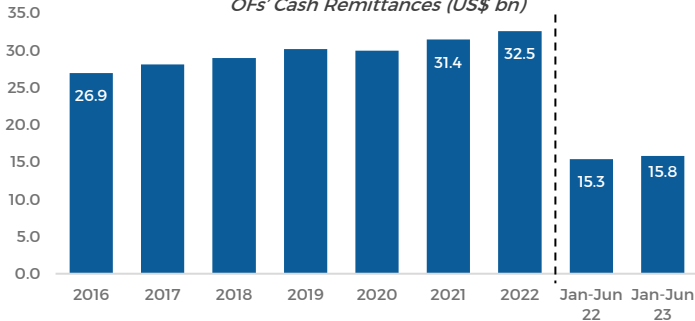


Policy Rates (%)


^{1/} Since May 2022, the BSP has increased its policy rate by 425 bps.

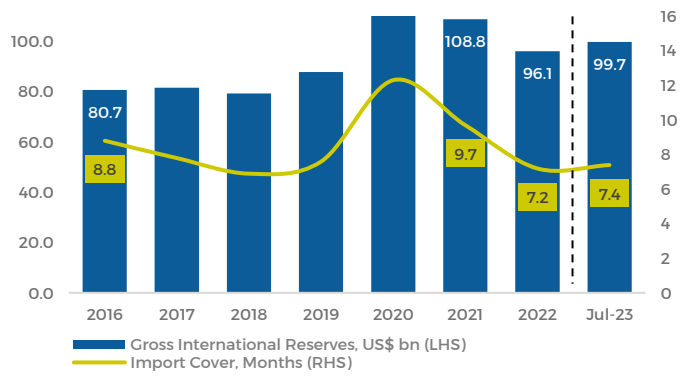
Remittances are a strong source of growth and stability for the Peso

OFs' Cash Remittances (US\$ bn)



Ample reserves support solid external position

Gross International Reserves (US\$ bn); Import Cover (months)



Strong loan expansion led by household consumption

Sectors	May 2023 (PHP bn)	Share to Total (Net of RRP, %)	Growth (%)
Loans to Productive Sector	9497.8	87.0	7.9
Real Estate Activities	2191.0	20.1	5.5
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles	1229.7	11.3	8.6
Manufacturing	1150.8	10.5	0.6
Electricity, Gas, Steam and Air-Conditioning Supply	1210.2	11.1	14.1
Financial and Insurance Activities	996.0	9.1	7.3
Construction	423.5	3.9	5.8
Information and Communication	602.6	5.5	15.9
Transportation and Storage	359.8	3.3	7.5
Agriculture, Forestry, and Fishing	202.1	1.9	3.7
Others	1131.9	10.4	4.1
Loans to Household Consumption	1092.9	10.0	24.3
Loans to Residents (Res), net of RRP Agreements	10590.7	97.1	10.1
Loans to Non-Residents (Non-Res)	320.9	2.9	12.7
Total Loans to Res and Non-Res, net of RRP	10911.5	100.0	10.2

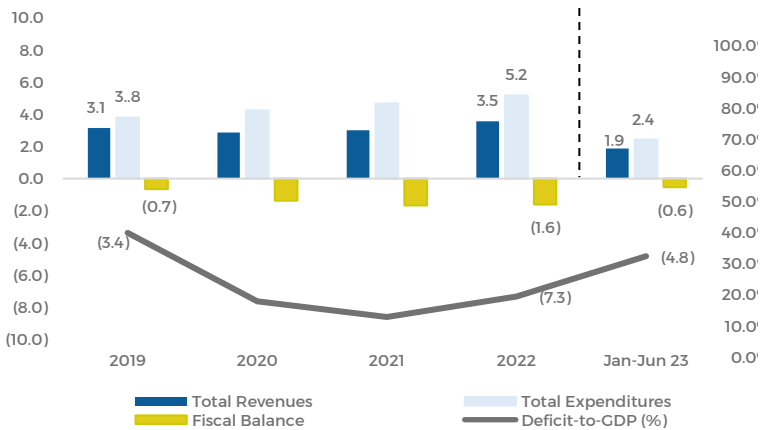
Improving loan demand on better paying capacity

U/KBs Outstanding Loans (PHP tn) and Non-Performing Loans (NPL) Ratio (%)



Efficient mobilization and utilization of resources to help achieve fiscal sustainability

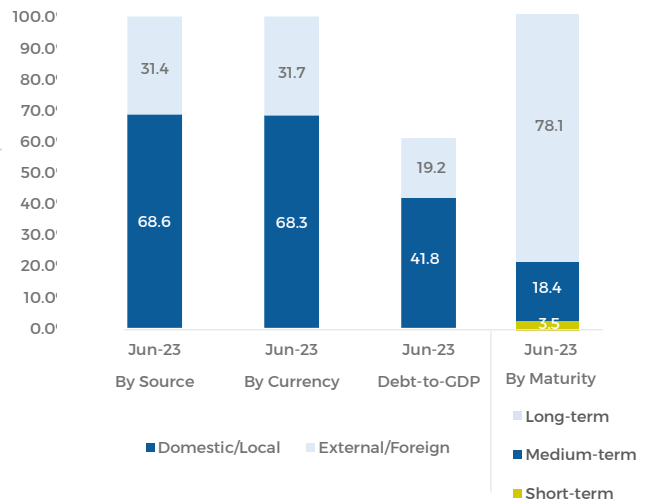
National Government (NG) Expenditure, Revenue, and Deficit (PHP tn)



Note: Deficit-to-GDP is as of Q2 2023
Figures may not add up due to rounding

Debt structure remains resilient; on track with fiscal consolidation goal

National Government Outstanding Debt (% share)



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