



View From Manila: Outlook for 2023 & 2024

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Philippine Economic Briefing
Washington D.C.
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The Three Pillars of Central Banking: The BSP's Guiding Principles



**Price
Stability**



**Financial
Stability**

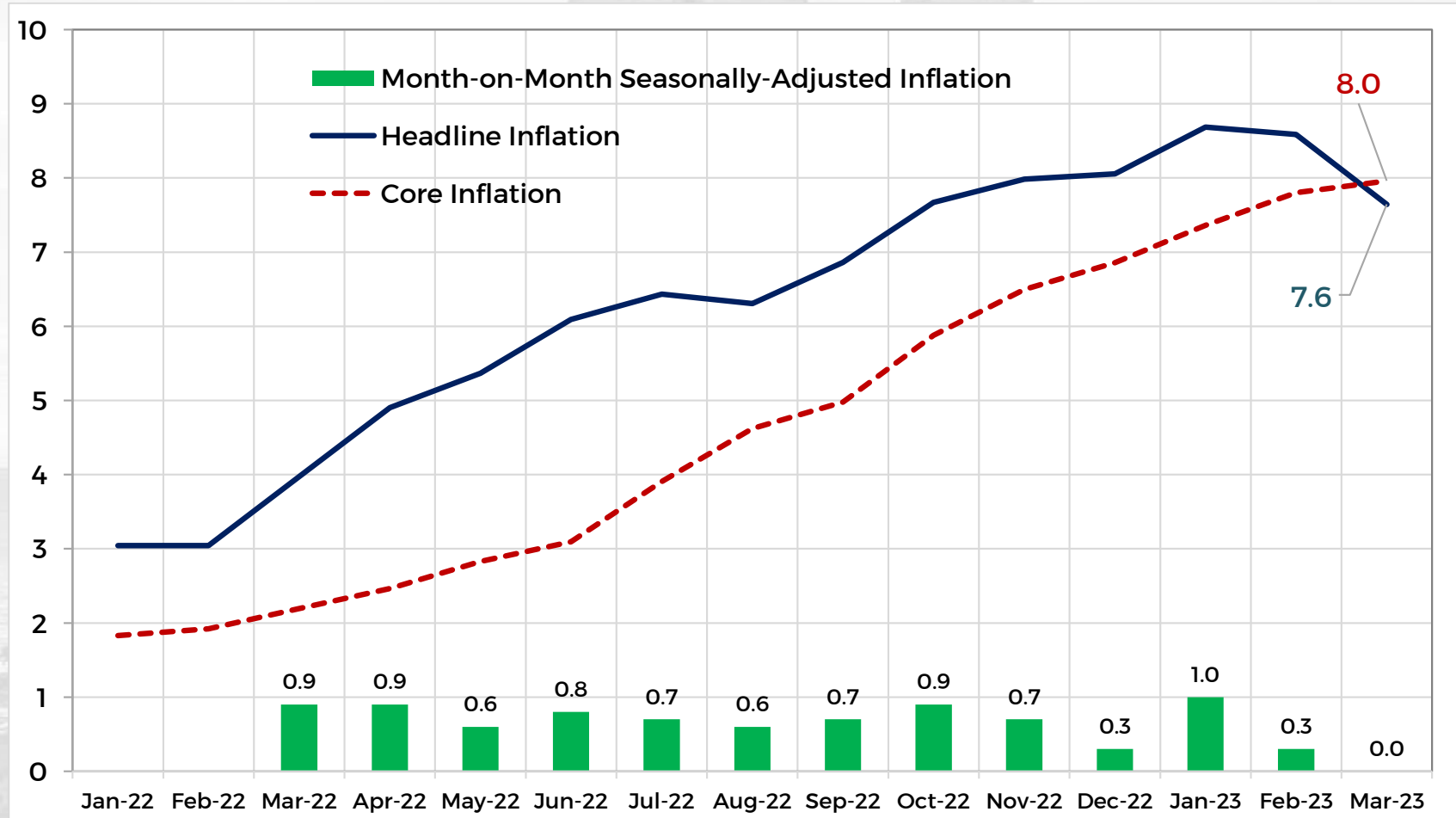


**Safe, Secure and Efficient
Payments and Settlements
System**



Supply-side pressures feed on to core inflation

Headline and Core Inflation, 2020-2023
(in percent)

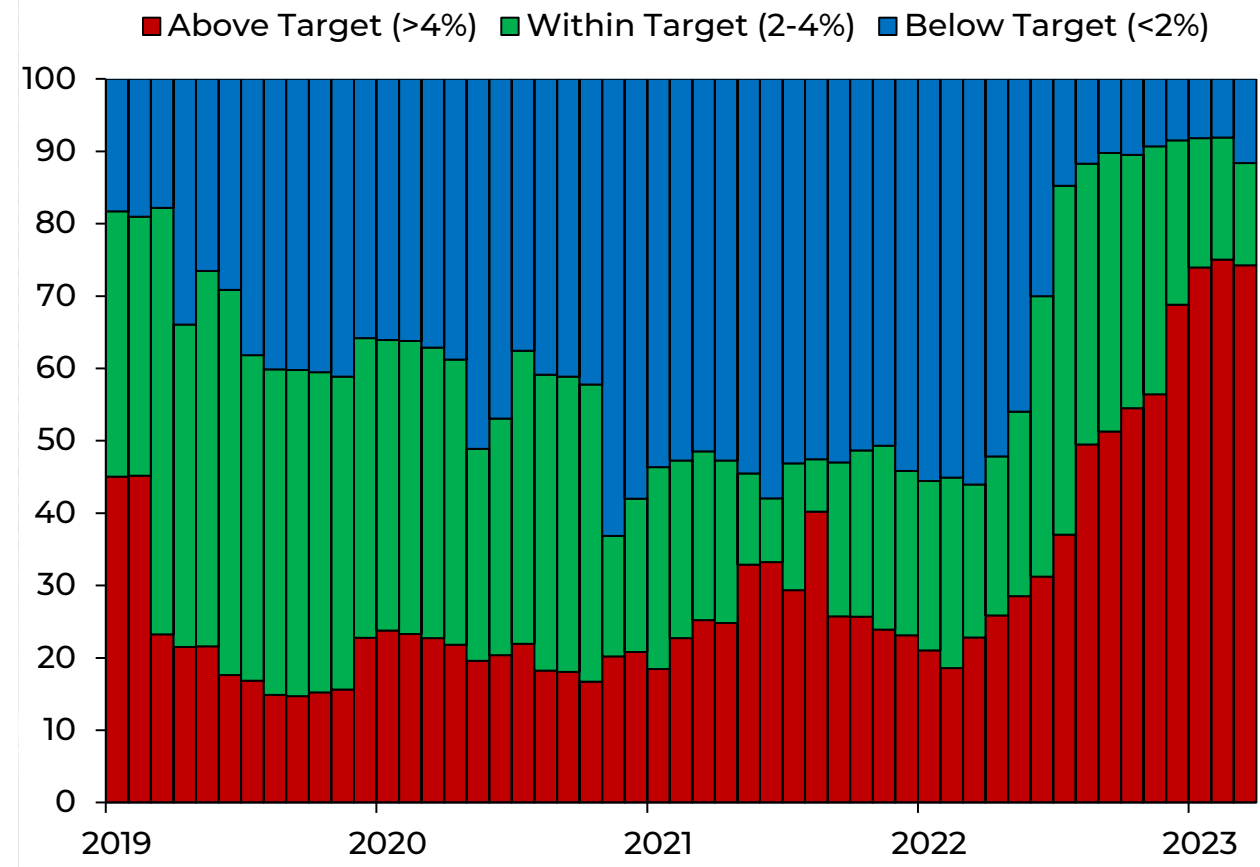
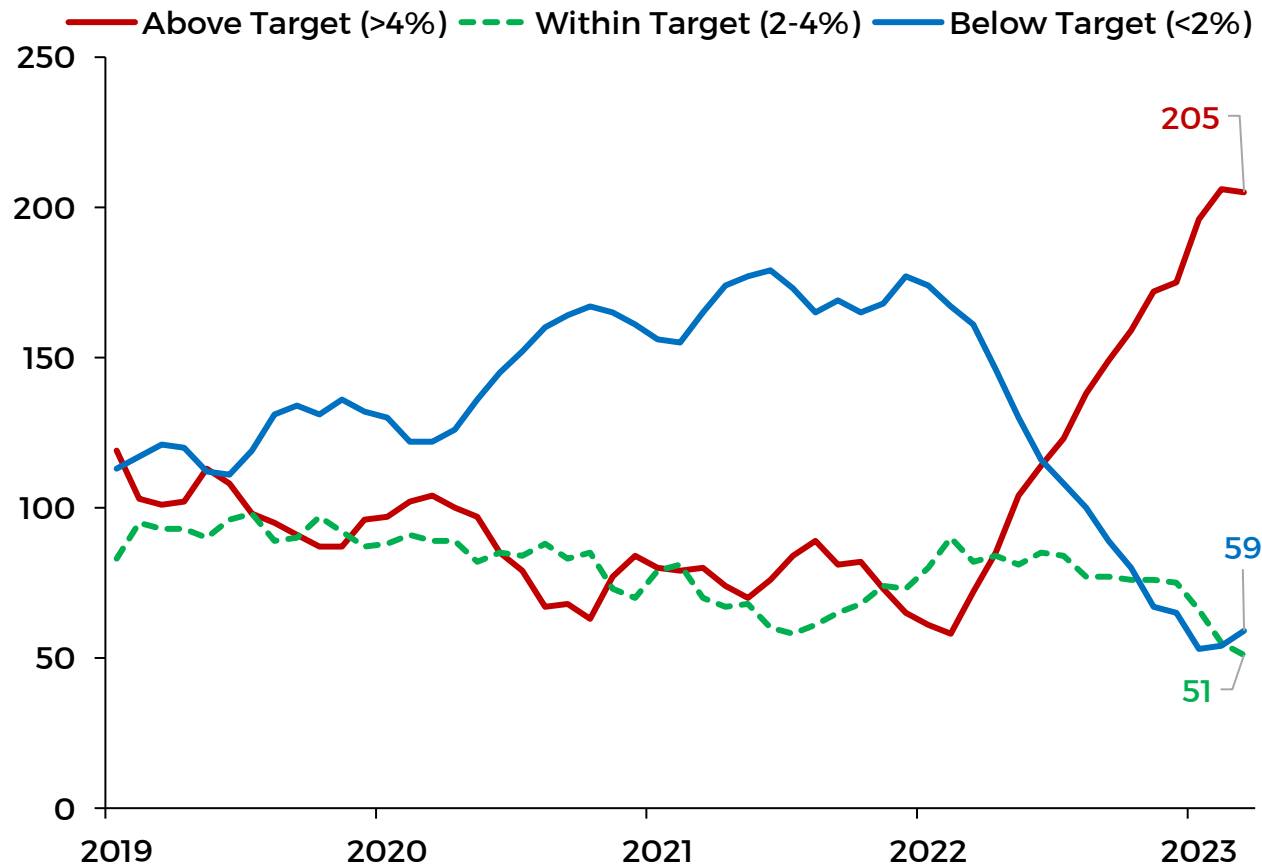


Source: Philippine Statistics Authority

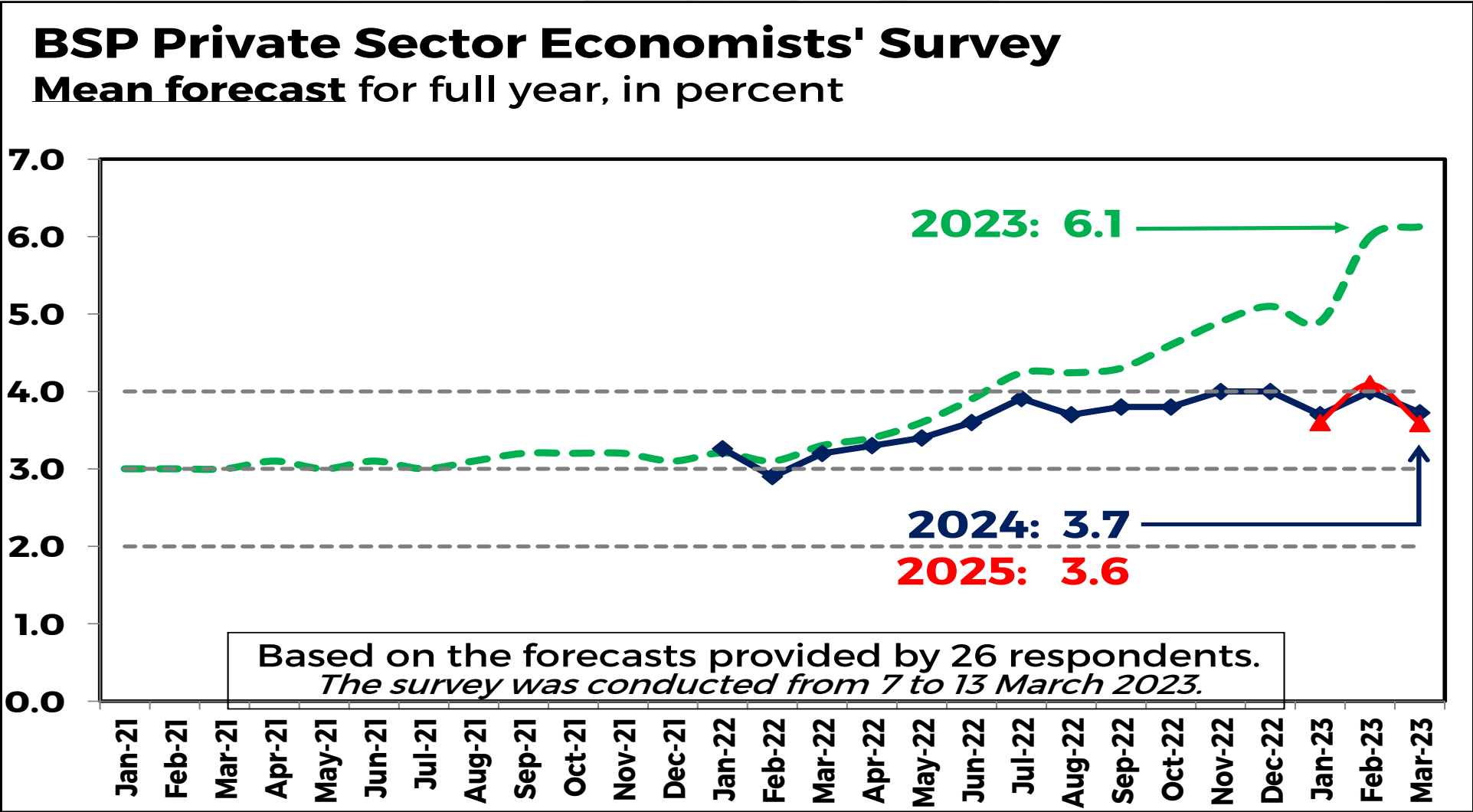


Above-target CPI items on the rise as price pressures broaden

Number and Weights of CP Items Below, Above, and Within the Target (2018=100)



Private sector inflation expectations remain elevated



Source: BSP

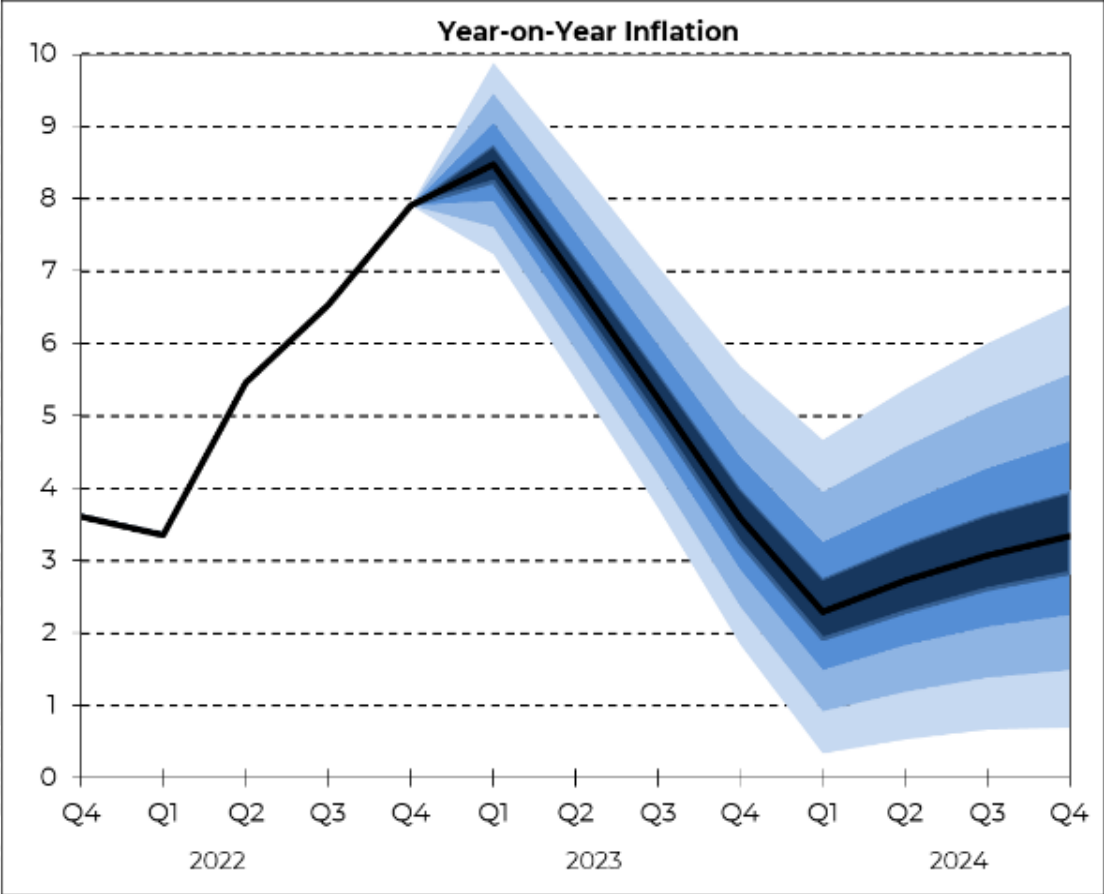


Inflation expected to decelerate by mid-2023 before returning to within target by end of the year

BSP Baseline Inflation Forecast

Year	16-Feb MB Meeting	23-Mar MB Meeting
2023	6.1	6.0
2024	3.1	2.9

BSP Year-on-Year Inflation Forecast Q1 2023 – Q4 2024
As of 23 March 2023, Monetary Board Policy Meeting



Source: BSP Staff Computations



Non-monetary interventions remain crucial

Safety nets for vulnerable sectors

- Fuel subsidy program for public utility vehicles
- Fuel discount for farmers and fisherfolk
- Targeted cash transfers
- Fertilizer subsidy program for farmers

Importation of Key Commodities

- Executive Order No. 10, s. 2023 extending reduced tariff rates on rice, corn, and pork under EO No. 171 up to 31 December 2023
- Sugar Order Nos. 2 and 3 or the 150-TMT Sugar Import Program for Crop Year 2022-2023
- Authorized importation of 21.060 TMT of onions to fill a supply gap

Medium-term strategies to enhance farm productivity

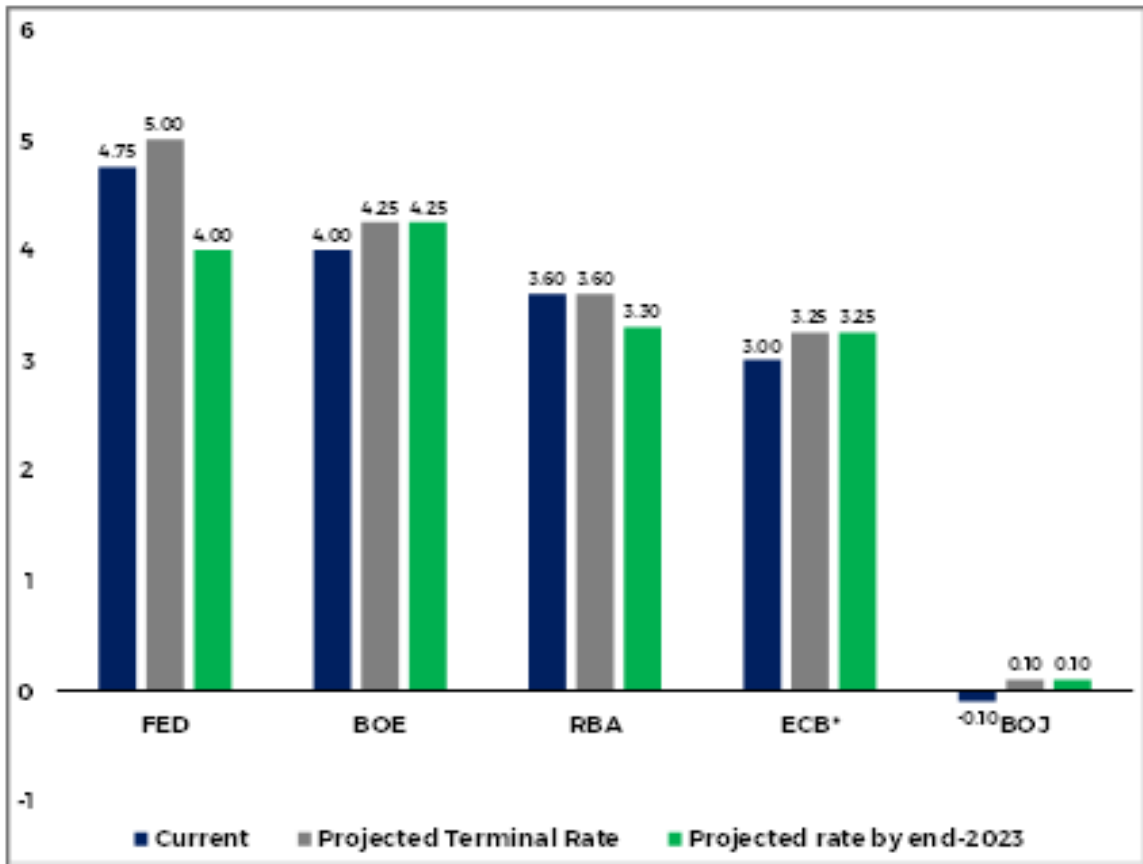
- Philippine Integrated Rice Program
- Modernizing the fisheries sector
- Speed up hog repopulation program
- Passage of the Livestock Development and Competitiveness bill

To ensure stable food supply and ease food prices in order to help address the recent uptick in inflation

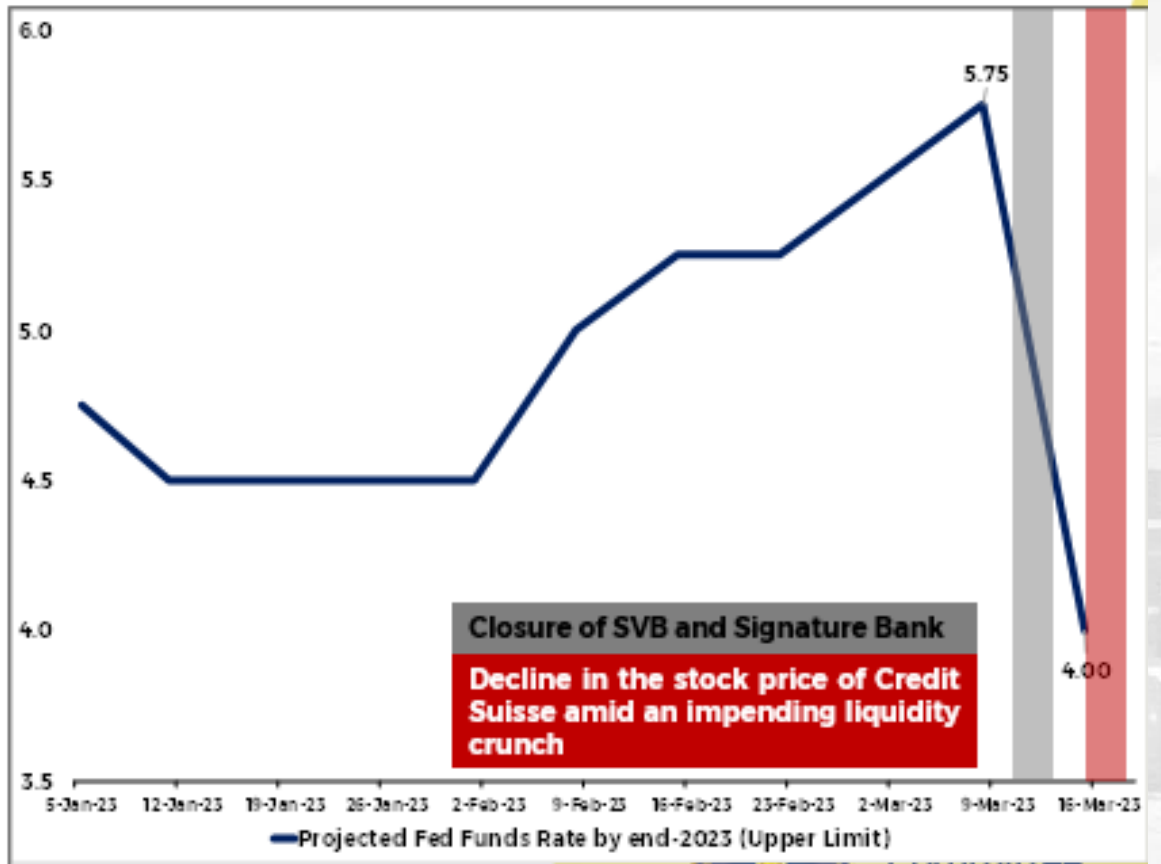


Fed policy actions are still relevant but less of a factor in decision-making

WIRP-Derived Key Policy Rates, data as of 16 March 2023

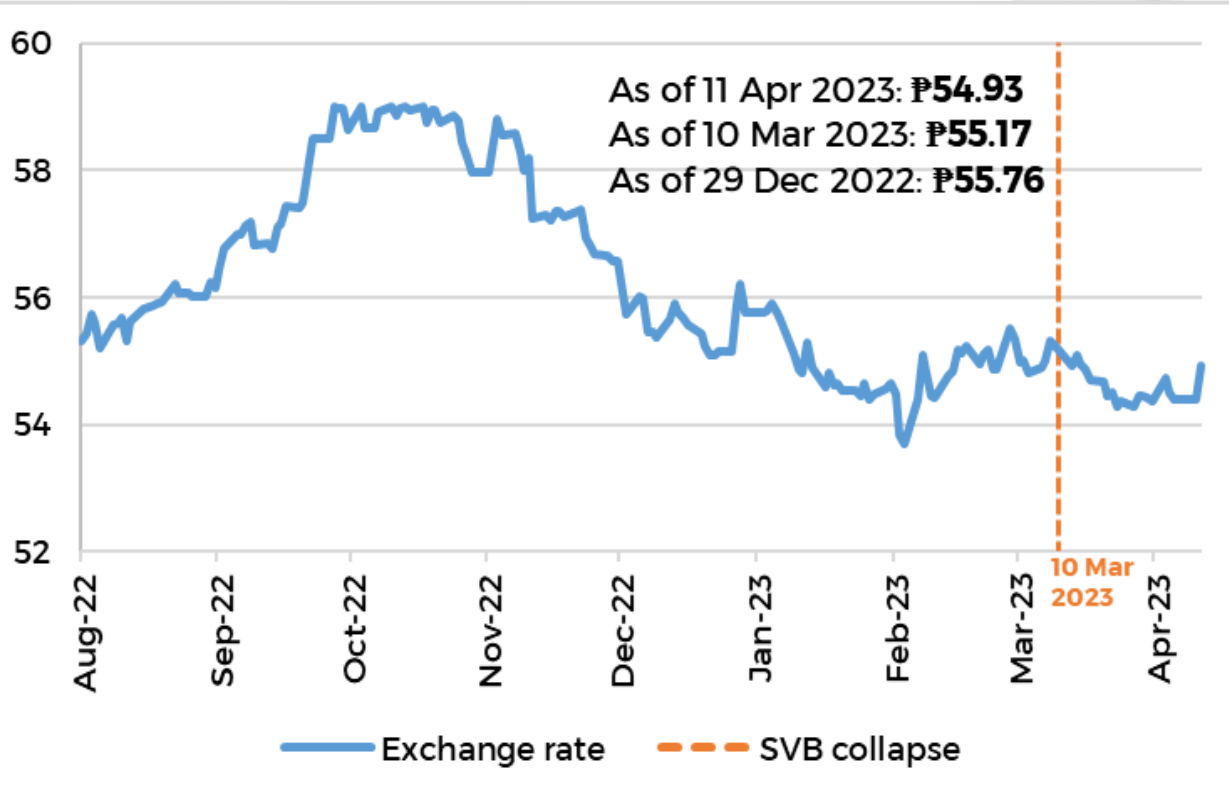


Futures-Derived Fed Funds Upper Limit, 1 Jan - 16 Mar

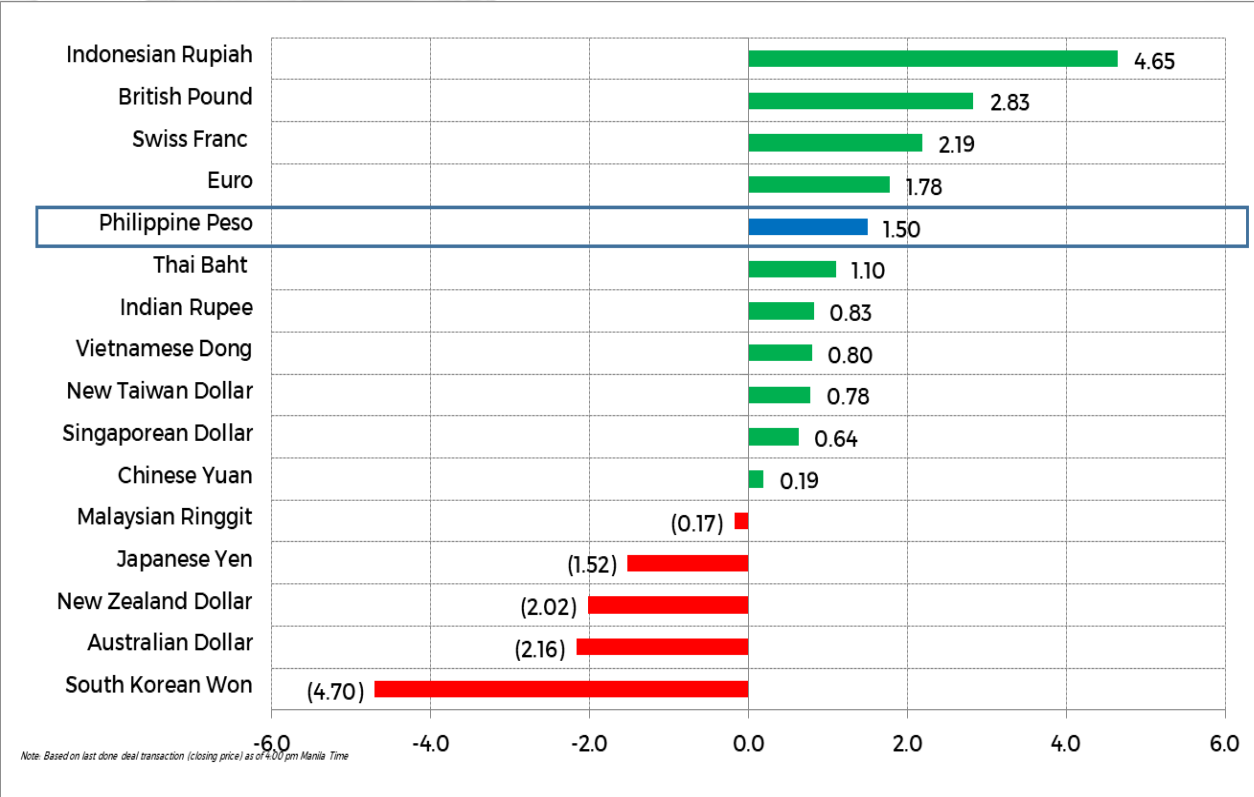


Foreign exchange rate pressures have dissipated, but case for vigilance remains

Peso per US dollar Exchange Rate Closing prices as of 11 Apr 2023



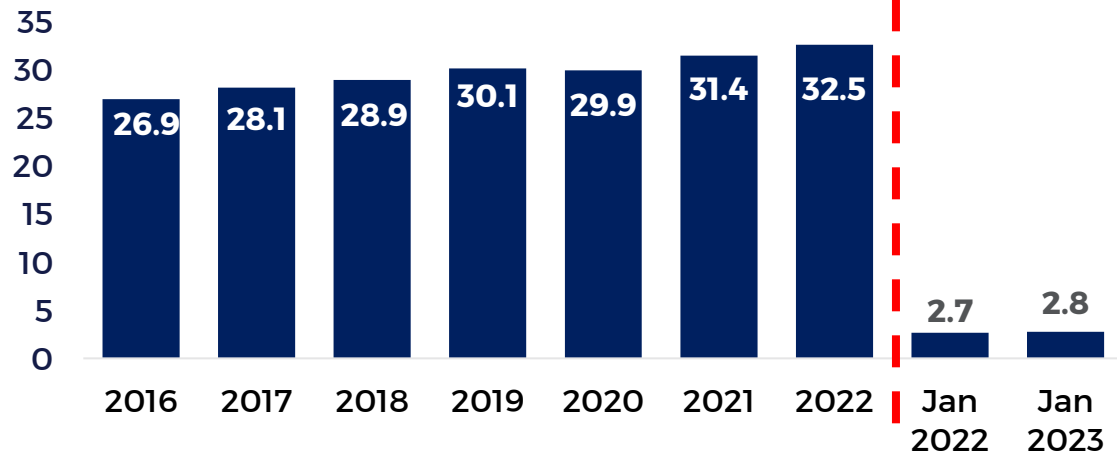
YTD movement against the USD as of 11 Apr 2023



Robust FX inflows lend support to the peso

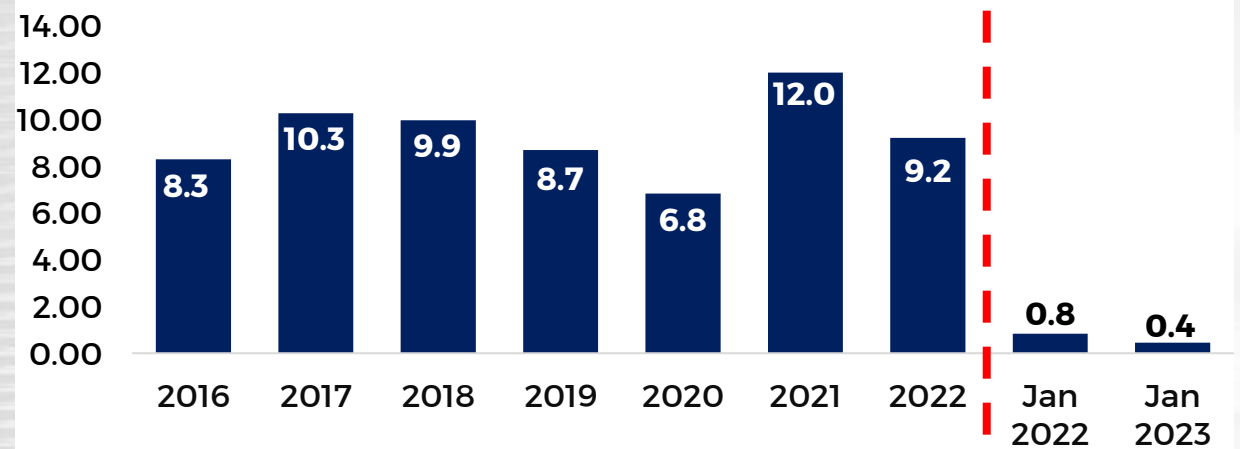
Overseas Filipinos' Cash Remittances

In US\$ billion



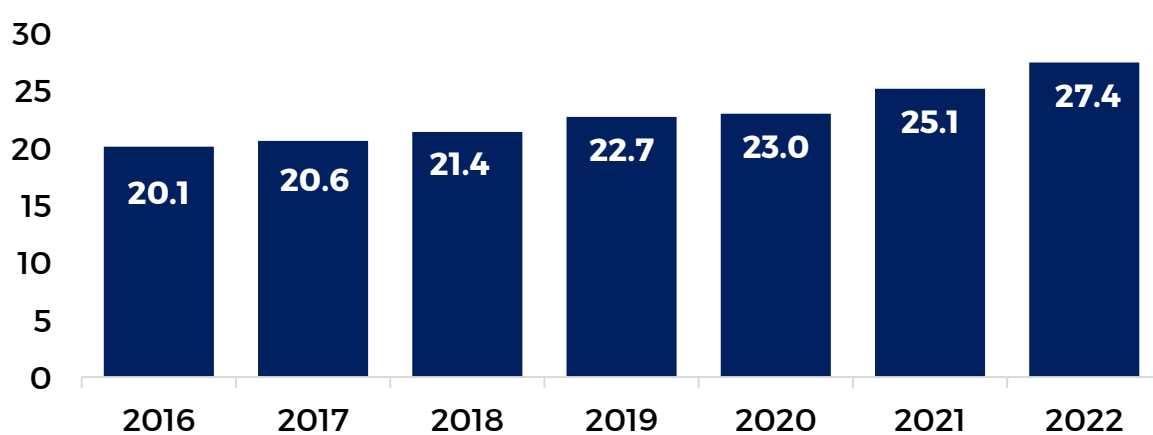
Net Foreign Direct Investments

In US\$ billion



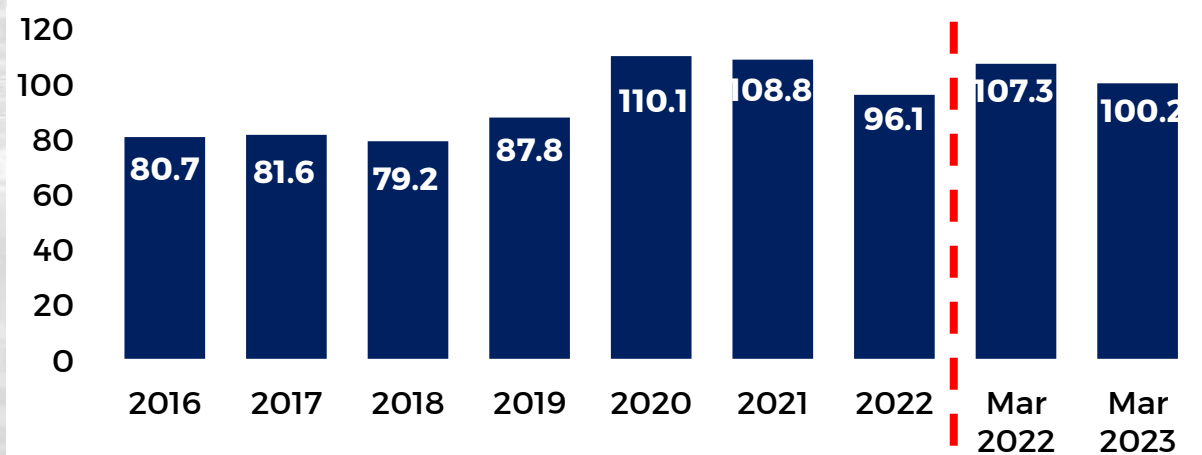
Business Process Outsourcing (BPO) Revenues

In US\$ billion



Gross International Reserves

In US\$ billion, end-of-period



Pragmatic use of expanded toolkit

Countries	Change in policy interest rate (in basis points)	Nominal Exchange Rate Changes	Change in GIR (in percent)	Change in GIR (in USD billion)
	Cumulative policy rate adjustment since August 2021 ^{a/}	as of 11 April 2023 ^{b/}	End-2021 data vs latest available data ^{c/}	
Philippines	425	1.5	-7.9	-8.6
S. Korea	300	-4.1	-8.0	-37.0
India	250	-	-11.2	-70.9
Indonesia	225	4.6	0.2	0.3
Vietnam	100	0.7	-19.9	-21.8
Malaysia	100	0.1	-1.2	-1.4
Thailand	125	1.2	-8.7	-21.5
Taiwan	75	-	1.8	10.0

Sources: BSP, Bloomberg, CEIC, and Central Bank Websites

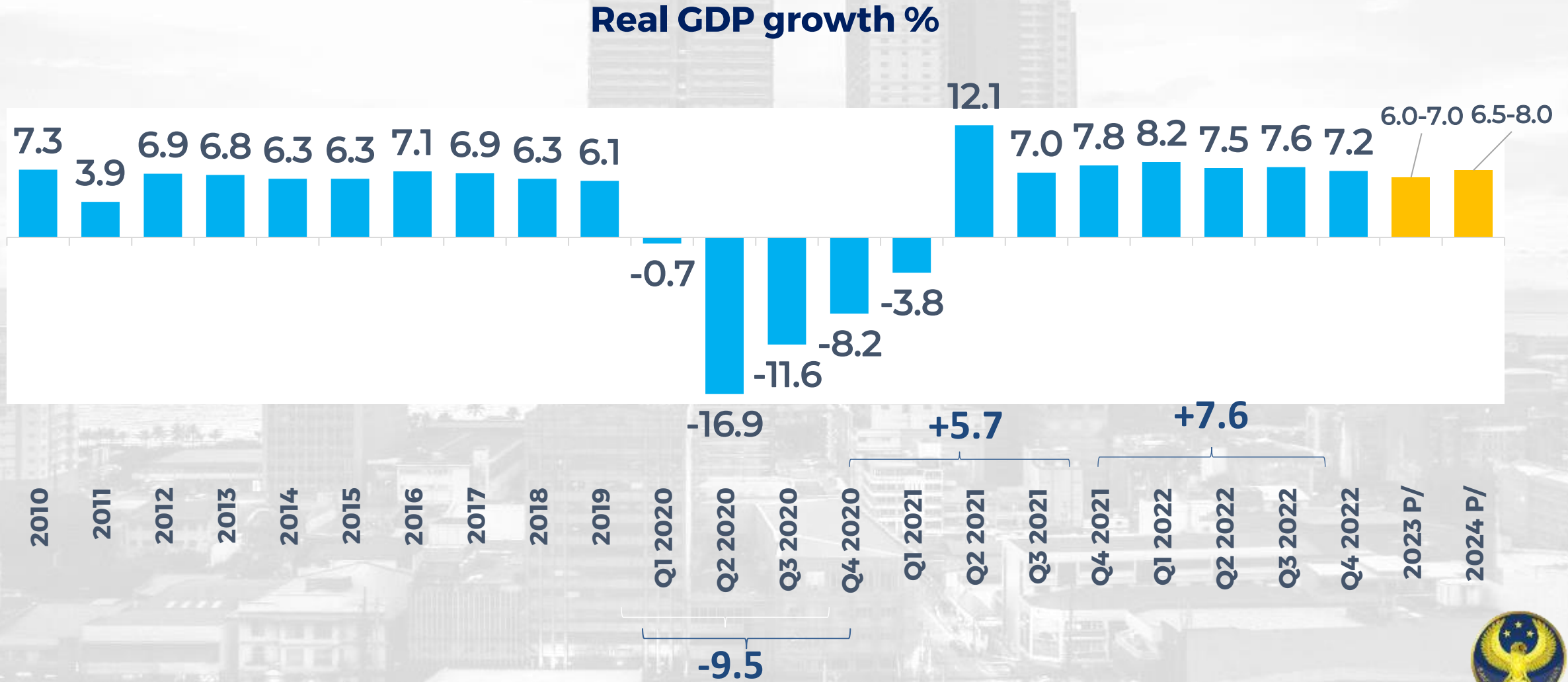
^{a/} Policy rate change as of end-August 2021 compared to latest policy rate. Note that the State Bank of Vietnam reduced its discount rate in March 2023 by 100 bps to 3.5 percent from 4.5 percent.

^{b/} FX data as of 11 April 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 data in February 2023 and September 2022, respectively.



Growth in 2022 exceeded expectations



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



Pent-up demand has been a key growth driver



24.7%
YoY increase in
spending in hotels
and restaurants for
Q4 2022

RECOVERY IN SERVICES



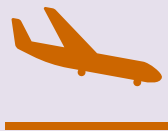
31.3%
YoY increase in
car sales for 2022

**UPTICK IN DEMAND
FOR VEHICLES**



4.8%
Unemployment rate
for January 2023

**IMPROVEMENT IN
EMPLOYMENT
CONDITIONS**



2.65 million
International tourist
arrivals for 2022



5.23 million
Tourism-generated jobs
for 2022

(RE)TURNING POINT FOR TOURISM



Philippine banking system at a glance: A picture of resilience

Banks remain well-capitalized

CAR at **15.8%** and **16.4%** on solo and consolidated bases, respectively
As of end-September 2022



Assets sustain positive growth

9.4% y-o-y growth
PHP22.5 trillion
As of end-January 2023



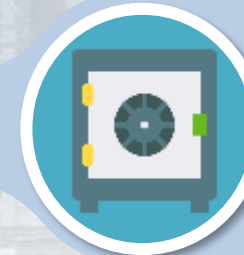
Bank profits soar in 2022

38.0% y-o-y growth
PHP310.1 billion
For the year-ended 2022



Deposit growth reflects sustained public confidence

7.7% y-o-y growth
PHP17.3 trillion
As of end-January 2023



Loan quality remains satisfactory

NPL Ratio at **3.3%**
As of end-January 2023



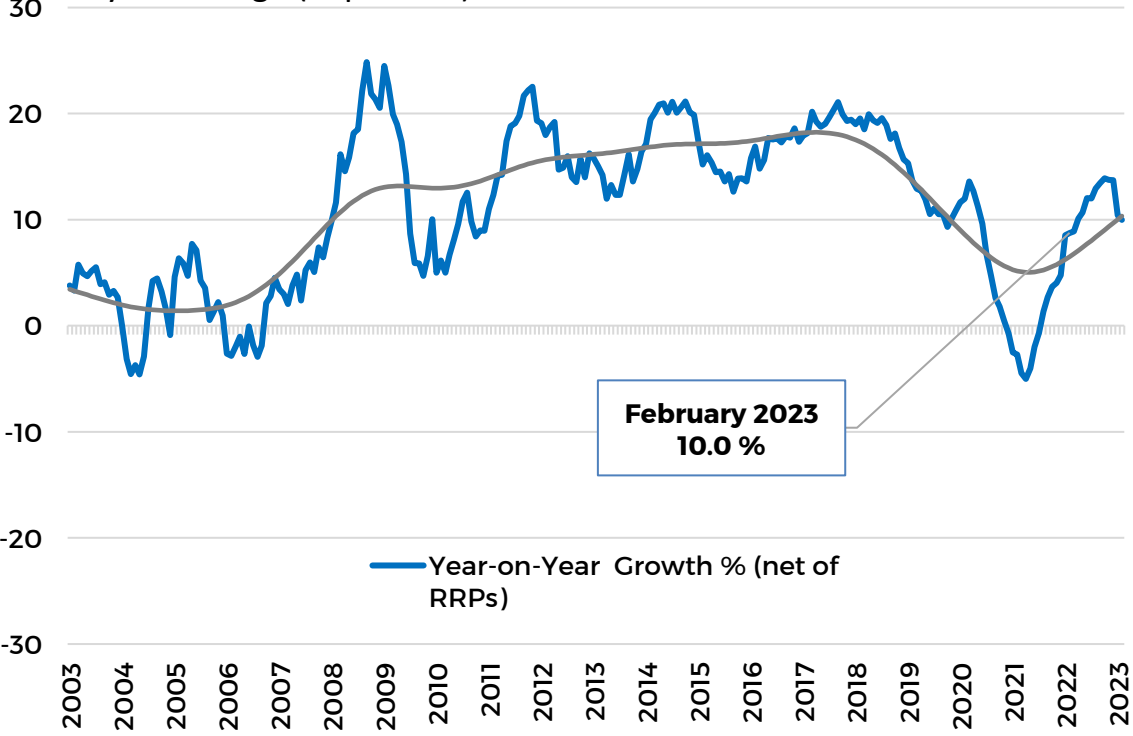
Loan portfolio further expands

10.8% y-o-y growth
PHP12.3 trillion
As of end-January 2023

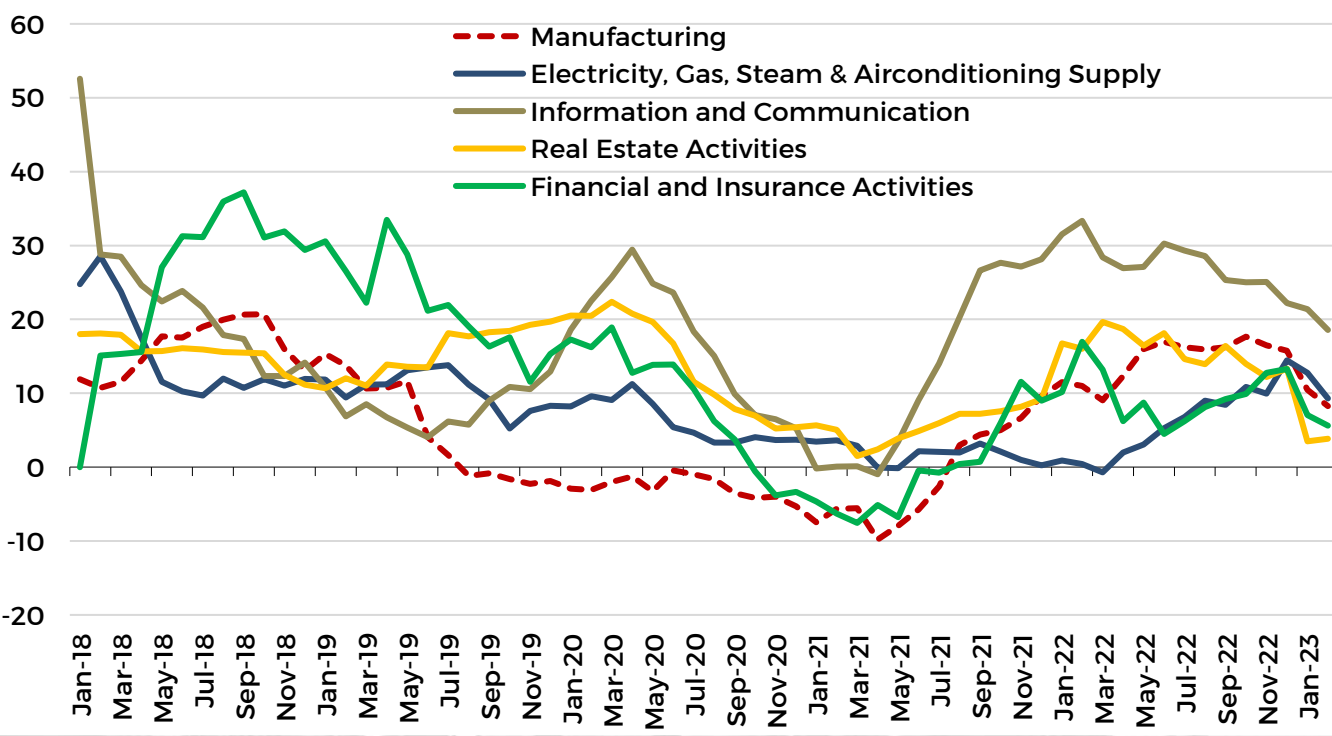


Banks lend support to domestic recovery

Universal and Commercial Banks (UKBs) Loans
year-on-year change (in percent)



UKBs Loans to Selected Productive Sectors
year-on-year change (in percent)



PH banking system prepared to withstand shocks from banking turmoil abroad

Limited exposure to bank closures

Generally lower balance sheet vulnerabilities

Banks maintain sufficient capital to absorb losses from policy rate increases

Banks remain highly liquid with a wide deposit base

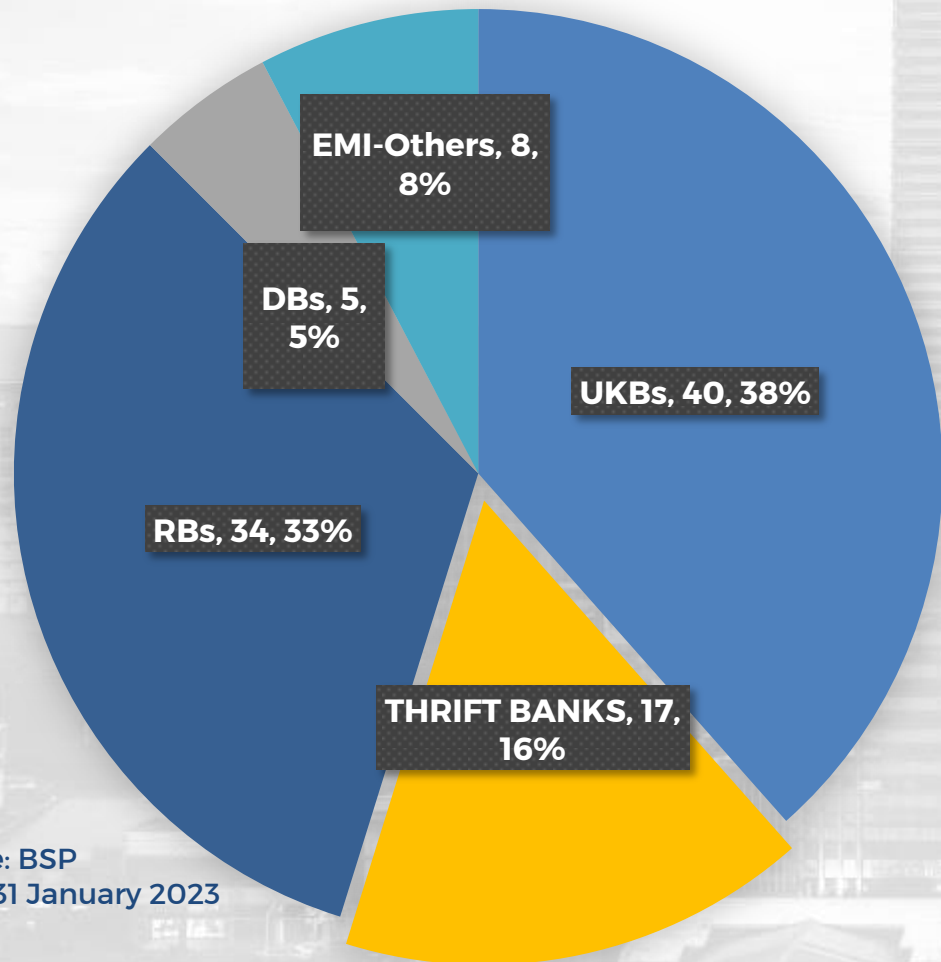
Structural reforms are in place to ensure soundness of banks

The Philippine Banking System

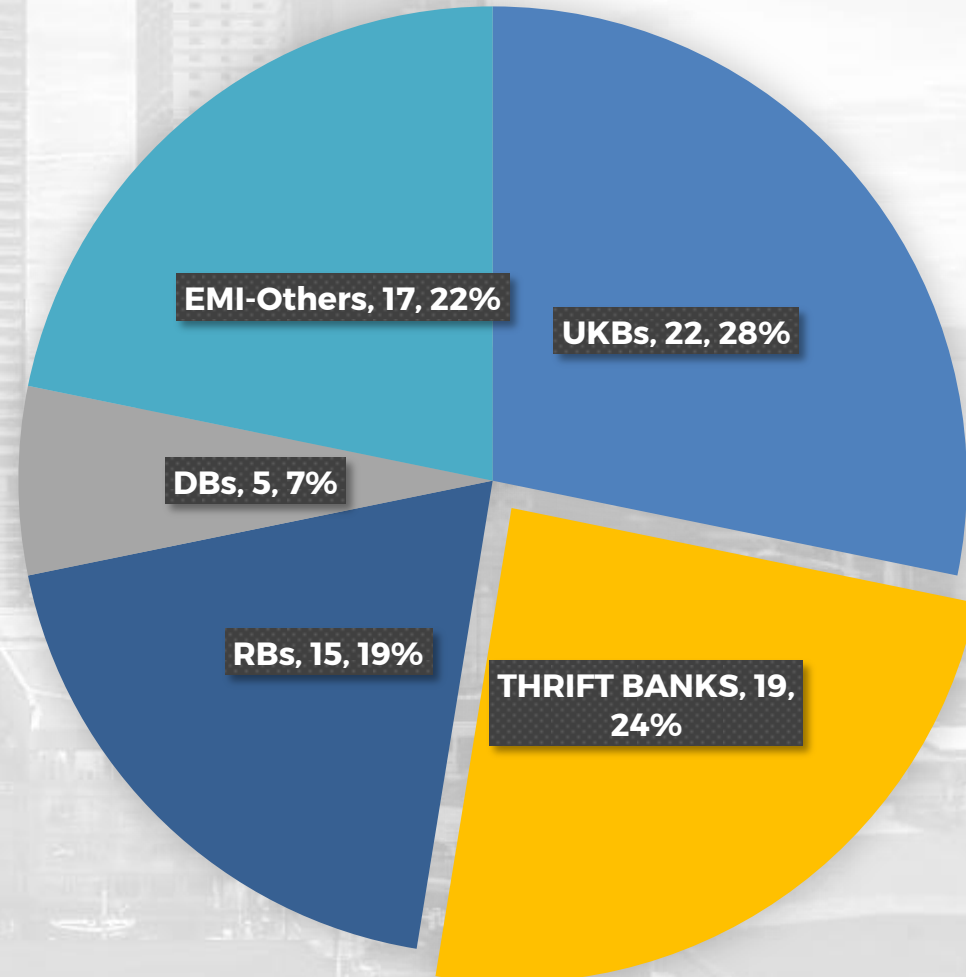


Various market players leveraging PesoNet and InstaPay

PESONet



InstaPay



Source: BSP
*As of 31 January 2023



Key takeaways

- 1 The BSP is committed to maintaining both price and financial stability.**
- 2 The BSP will continue to strive for an enabling regulatory landscape for the Philippine banking system, which remains sound, stable and supportive of economic growth.**
- 3 Guided by its three pillars, the BSP will continue to adapt to the changing needs and evolving economic landscape.**





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