

**BSP Economic and Financial Learning Program
Session for Educators**

EkonoMEya: Ekonomiya + Ako

27 April 2023, Thursday, 1:30 – 4:30 PM

**Resilient, Inclusive and Future-Ready:
The Philippine Economy
in the Post-COVID 19 Era**

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BSP Research Academy**



Disclaimer: The views contained in this presentation are those of the speaker and does not necessarily reflect the views of the Bangko Sentral ng Pilipinas (BSP).



Outline

- 1 The Philippine economy post-COVID 19
- 2 Outlook and prospects
- 3 Downside risks and headwinds
- 4 Policy directions
- 5 Key takeaways



1. The Philippine economy post-COVID 19

- Prior to the COVID-19 pandemic, Philippine economy experienced sustained positive growth for almost 2 decades (i.e., since 1999).
- Economic deceleration in 2020 was the worst in post-WW II period.
- Gradual re-opening of the economy led to strong recovery and robust growth.

Real GDP Growth, 2001 – 2022

At 2018 constant prices, in percent



Source: Philippine Statistics Authority (PSA)

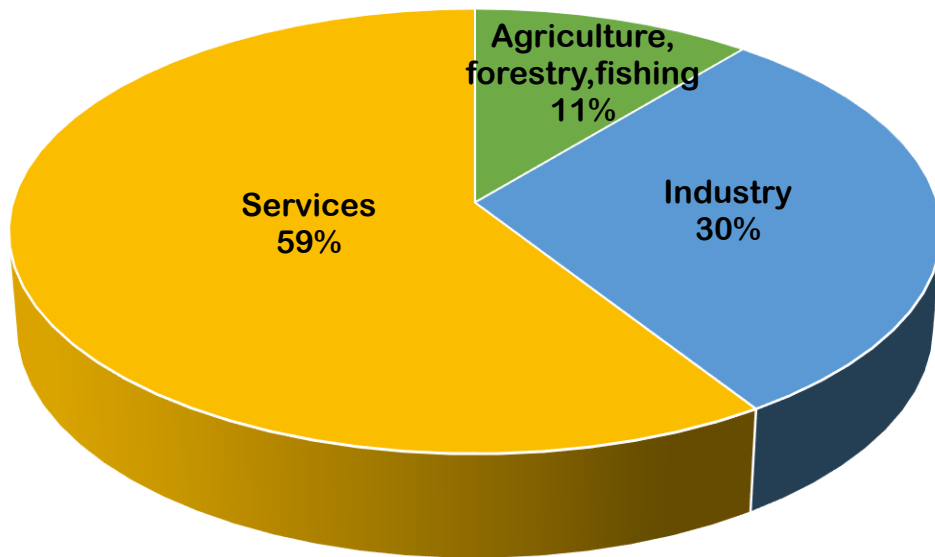


1. The Philippine economy post-COVID 19

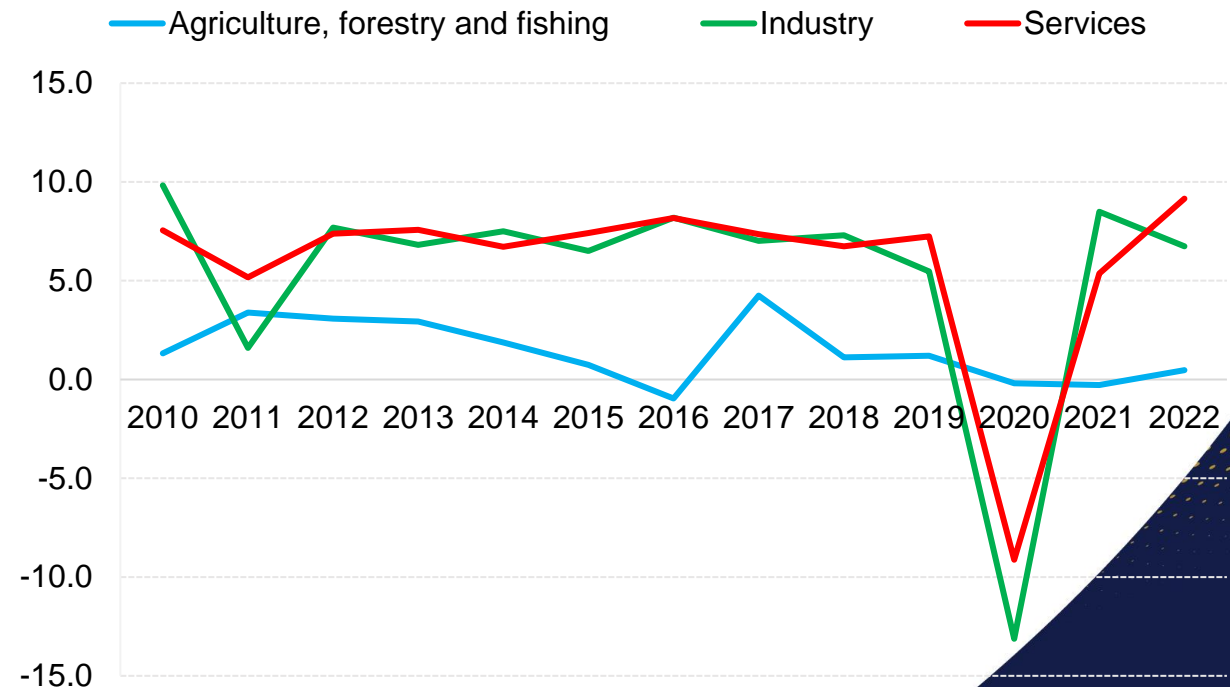
On the supply side

- Services sector accounts for the largest share in the country's total output.
- In 2020, the three major industries of the economy contracted with the industry sector posting the biggest decline.
- Industry and services sectors are registering strong growth with re-opening of economy.

Sectoral Share to GDP: 2010 - 2022
(in percent)



GDP by industry: 2010 - 2022
At 2018 constant prices
Growth rates in percent



Source: PSA

Classification: GENERAL

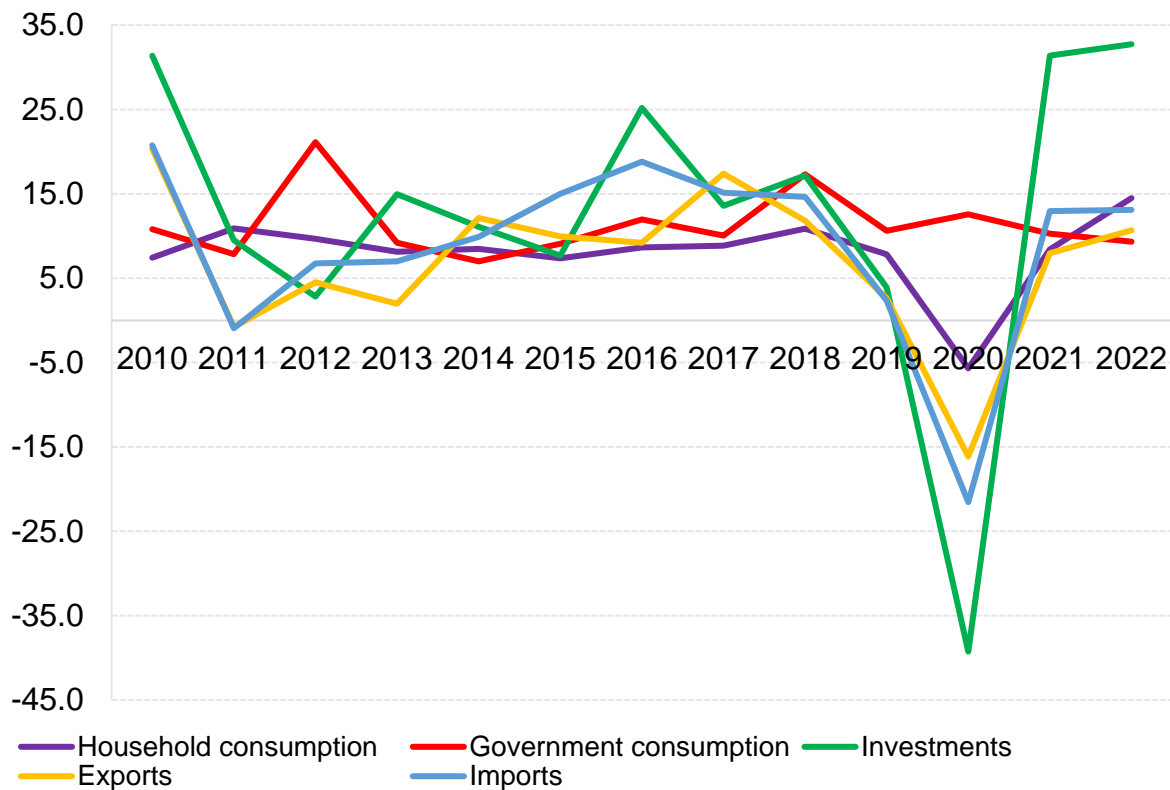


1. The Philippine economy post-COVID 19

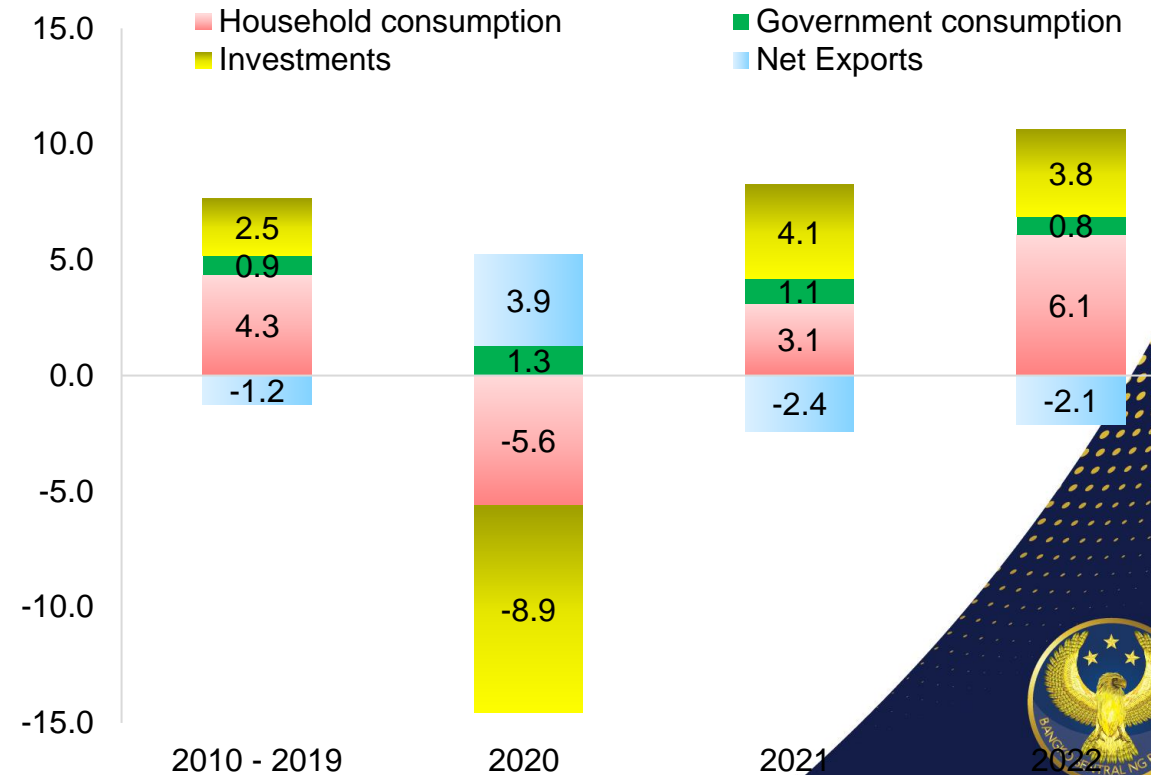
On the demand side

- Household final consumption and investments are major contributors to economic recovery.
- Investments registered strong growth in 2021 and 2022.

GDP by expenditure: 2010 - 2022
At 2018 constant prices
Growth rates in percent



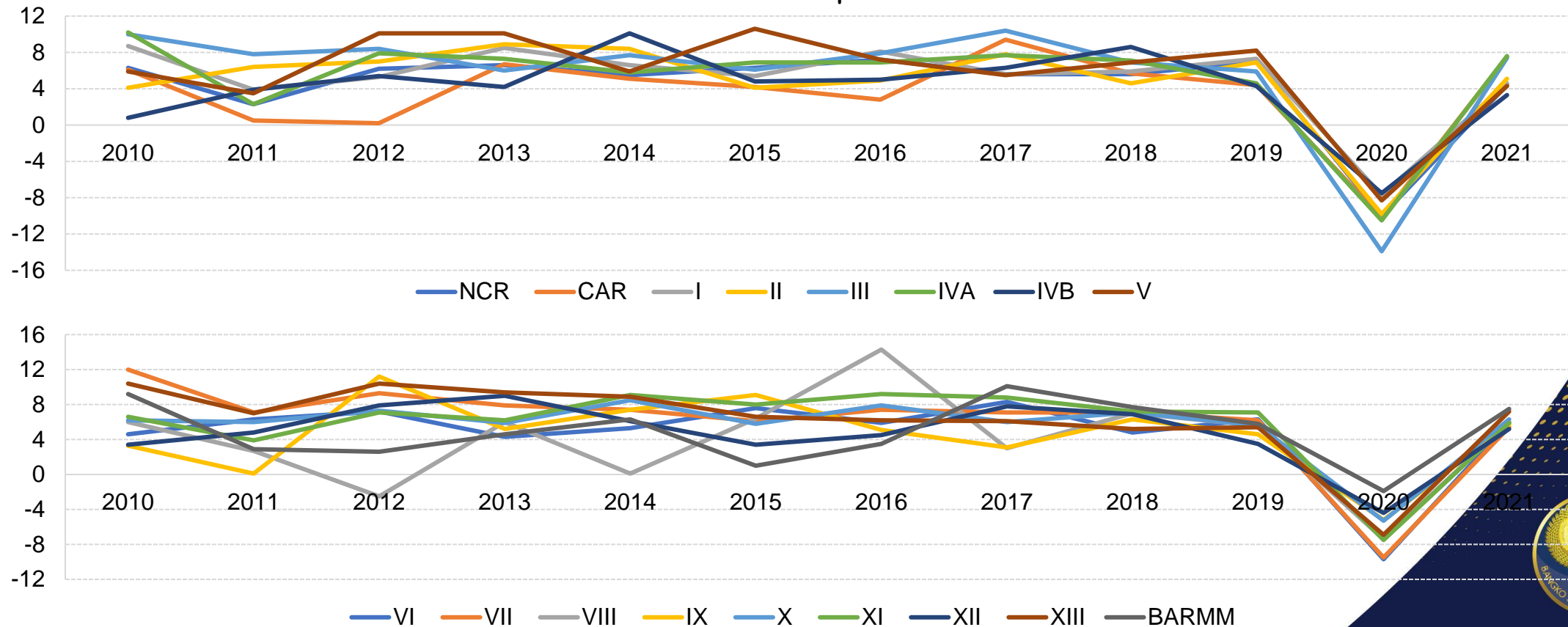
Contributions to Growth in percentage points



1. The Philippine economy post-COVID 19

- Regional economies recorded positive growths in 2021.
- CALABARZON registered the fastest growth at 7.6 percent in 2021, followed by Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) and Cordillera Administrative Region (CAR) at 7.5 percent each.

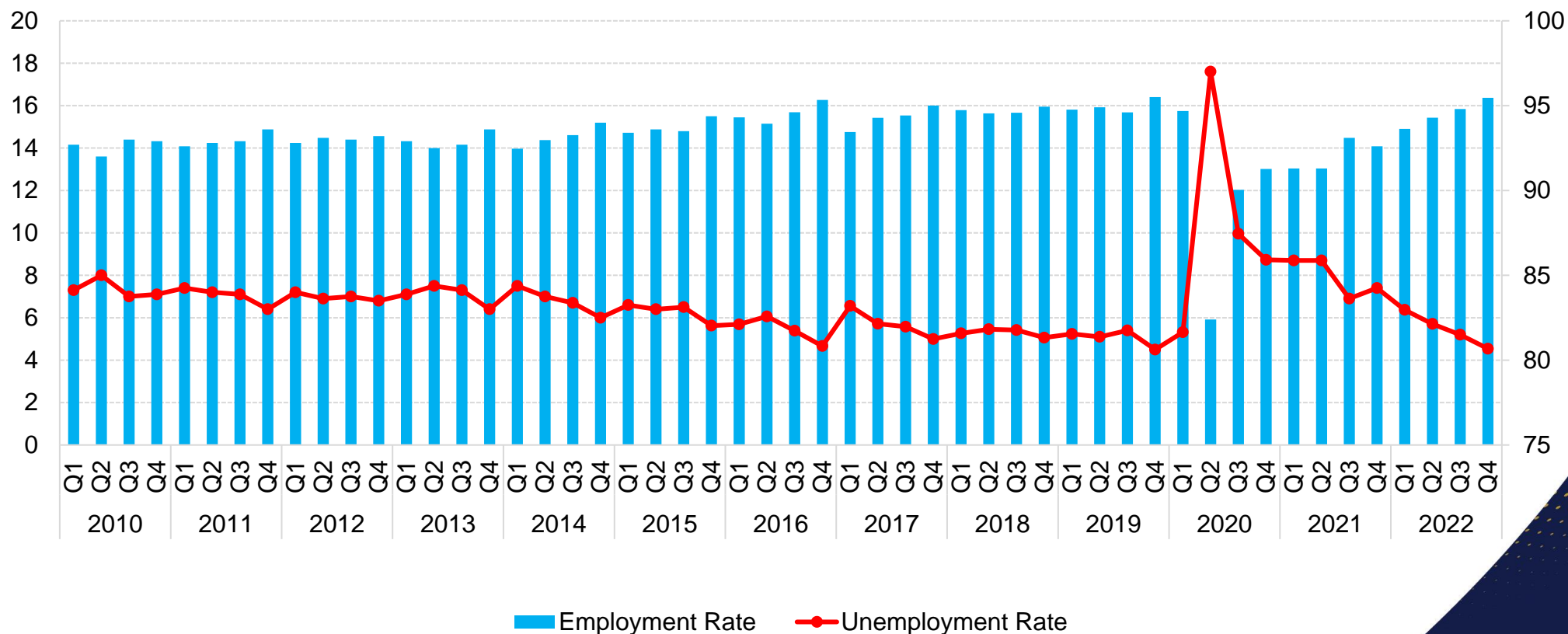
Gross Regional Domestic Product (GRDP): 2010 - 2021
At 2018 constant prices
Growth rates in percent



1. The Philippine economy post-COVID 19

- Significant improvements have been observed in the domestic labor market.

Employment rate and Unemployment rate: Q1 2020 – Q4 2022
(in percent)



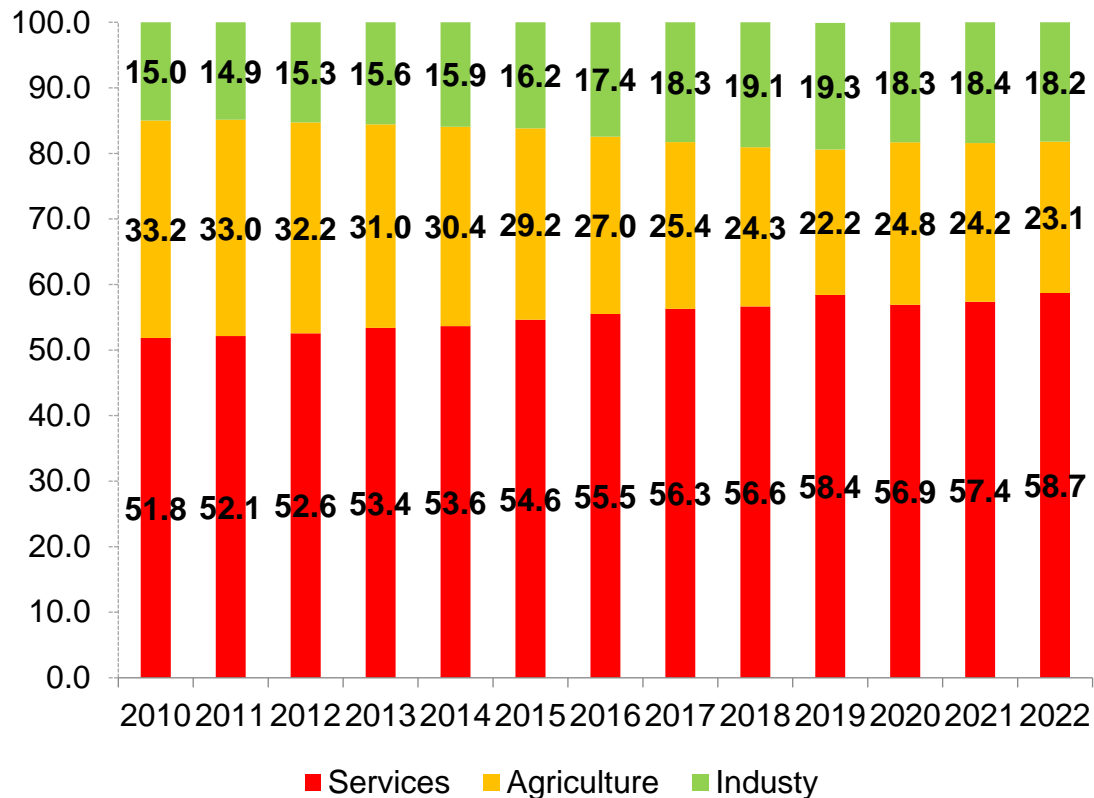
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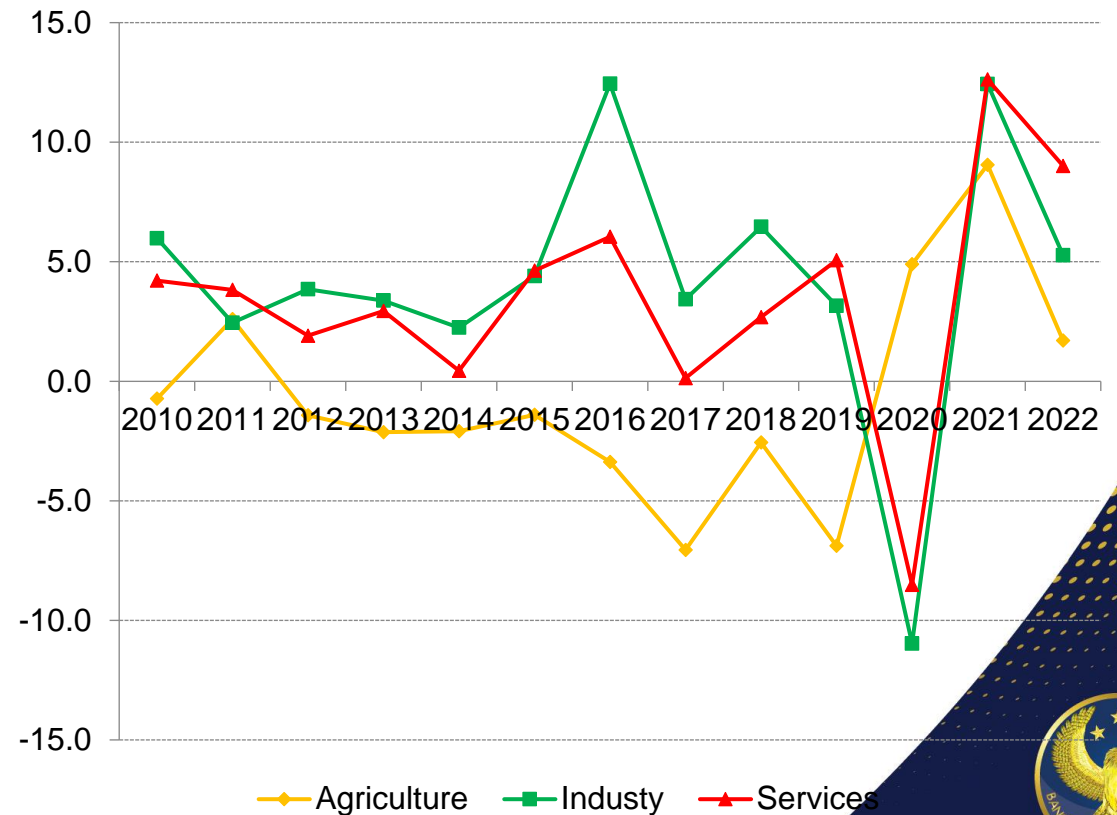
1. The Philippine economy post-COVID 19

- Services sector accounts for the largest share in sectoral employment.

**Sectoral employment share
(% to total employment)**



**Sectoral employment growth rate
(in percent)**



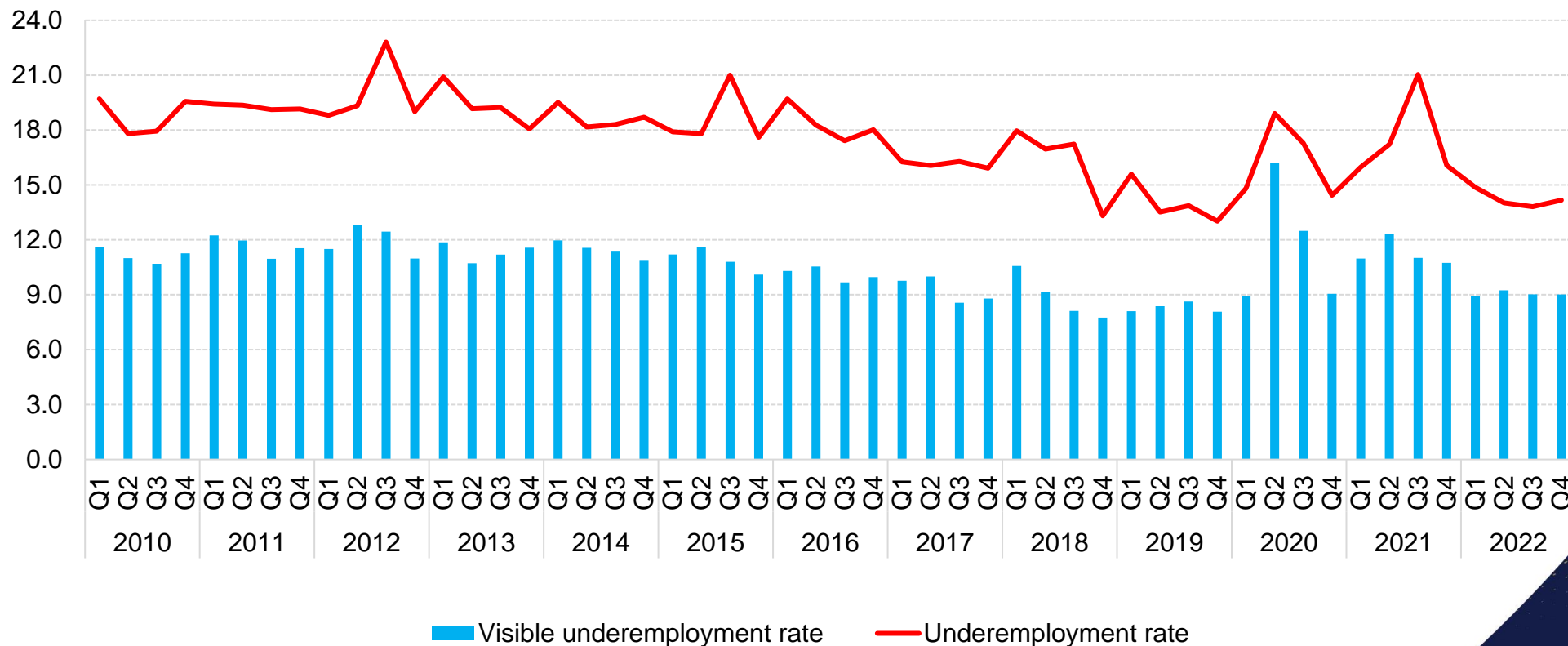
Source: PSA



1. The Philippine economy post-COVID 19

- Underemployment rate has declined in recent quarters.

Underemployment rate and Visible Underemployment rate: Q1 2020 – Q4 2022
in percent



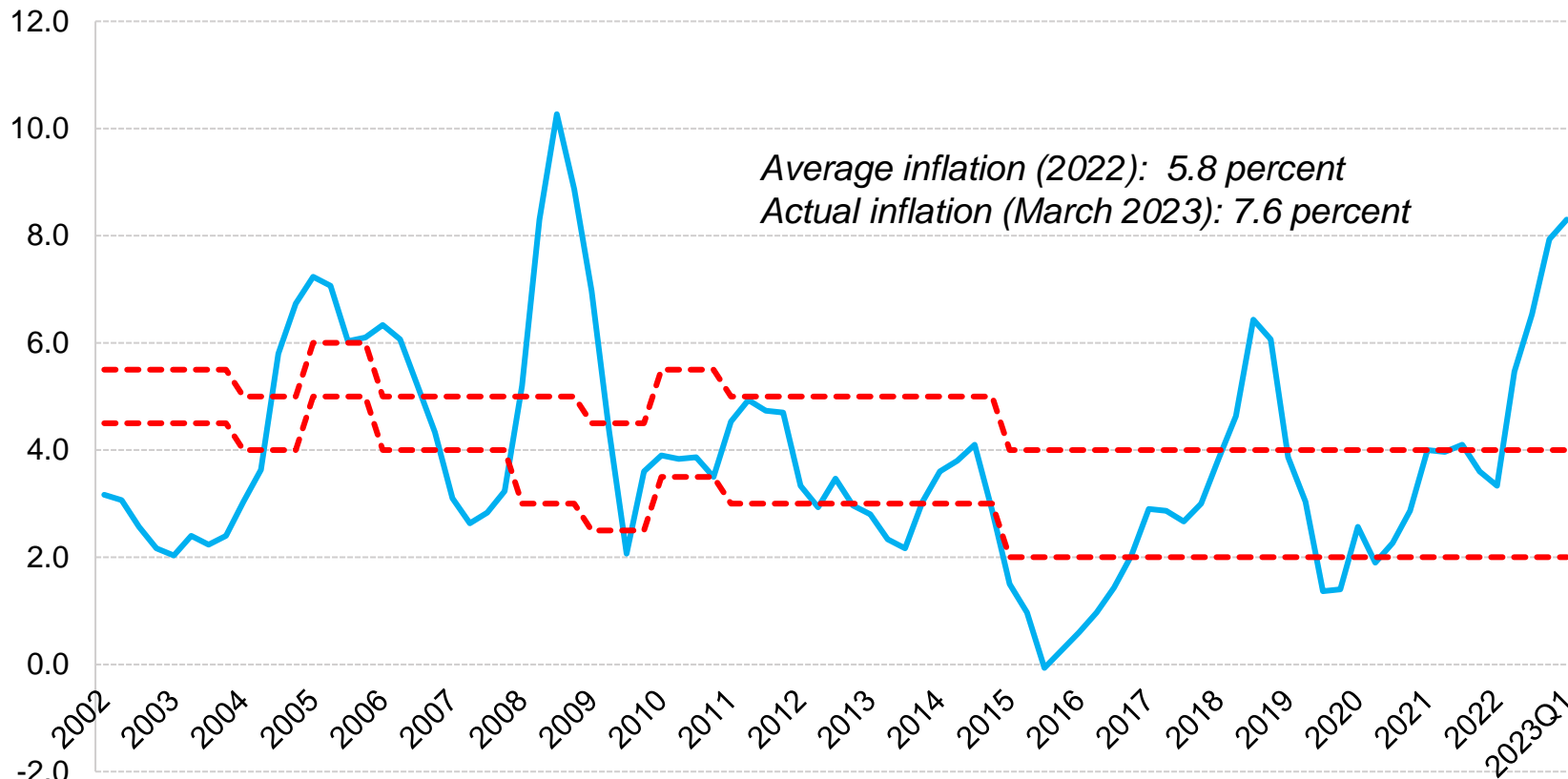
Source: PSA



1. The Philippine economy post-COVID 19

- Since 2002, average inflation has significantly declined.
- However, inflation started to rise following COVID-19 pandemic.
- Supply chain disruptions and bottlenecks, lower food production due in part to weather disturbances, Ukraine-Russia War are some of the factors contributing to higher inflation.

Inflation (2018 = 100): Q1 2002 and Q1 2023



	Average	Volatility
2002 – 2009	4.7	2.3
2010 – 2019	3.0	1.5
2020 – Q1 2023	4.4	2.1

Source of data: PSA

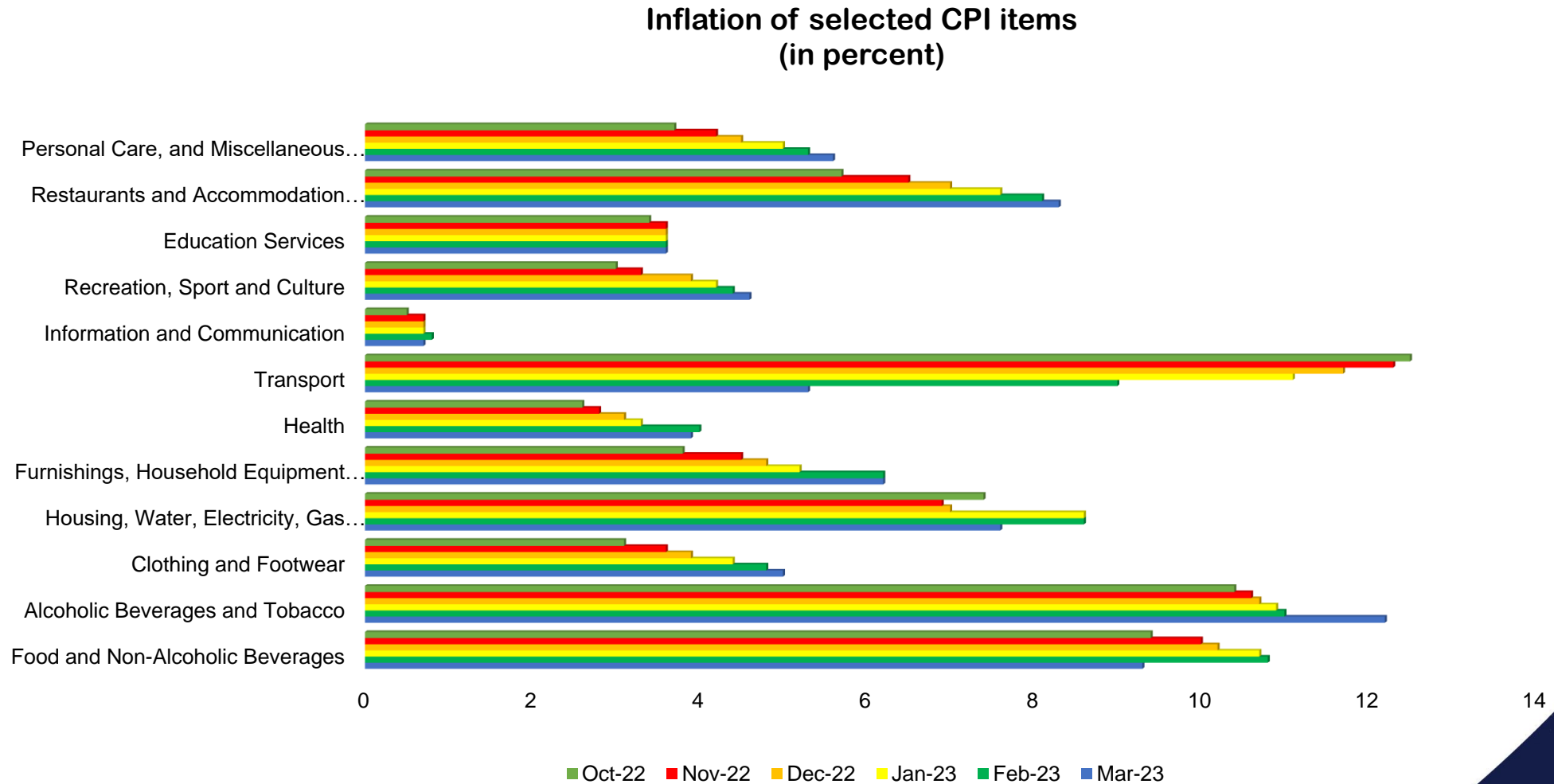
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Classification: GENERAL



1. The Philippine economy post-COVID 19

- Inflation has started to ease mainly due to lower price increases in food and non-alcoholic beverages, transport and housing, water, electricity, gas, and other fuels.



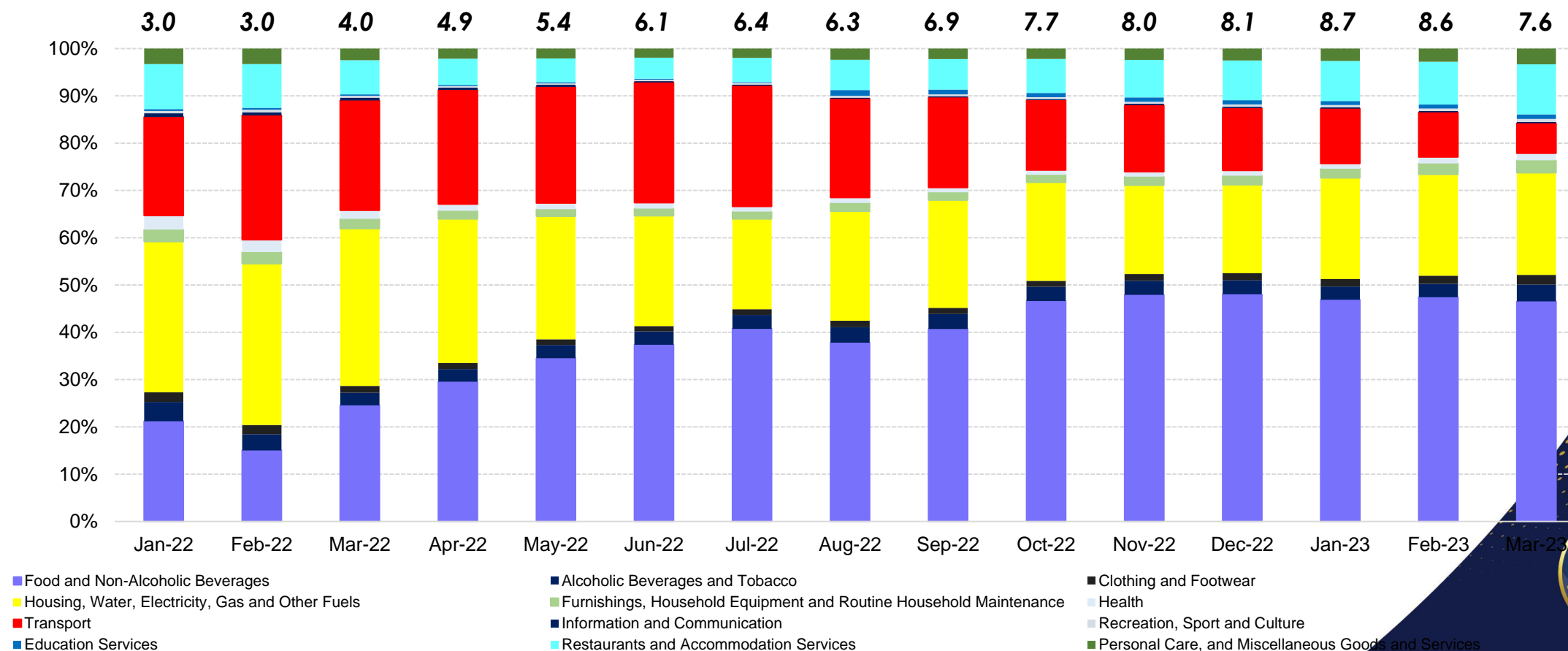
Source: PSA



1. The Philippine economy post-COVID 19

- Among the CPI items, key contributors to inflation are food and non-alcoholic beverages, transport, housing, water, electricity and gas and restaurants and accommodation services.

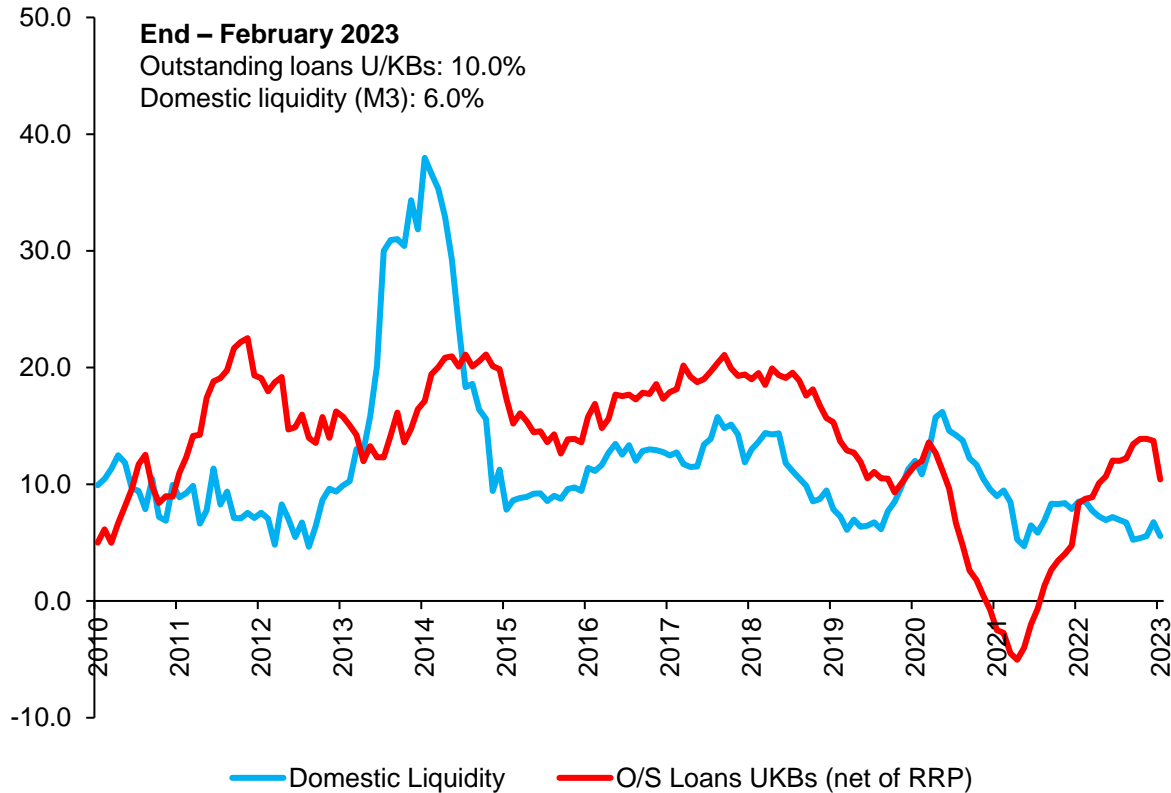
Year-on-year contribution of selected CPI components
(2018 = 100)



1. The Philippine economy post-COVID 19

- Credit and liquidity conditions are conducive to economic recovery and growth.

M3 and Outstanding Loans of Universal and Commercial Banks
year-on-year growth in percent



Loans Outstanding for Production and Consumer Loans of Universal and Commercial Banks: February 2023

Sectors	Share to Total Loans (Net of RRP)
Financial and Insurance Activities	9.7
Electricity, Gas, Steam and Air-conditioning Supply; and, Water Supply, Sewerage and Waste Management	12.0
Real Estate Activities	19.9
Agriculture, Forestry and Fishing	1.9
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles; Transportation and Storage; and Information and Communication	20.0
Manufacturing	11.0
Other sectors	15.7
Households	9.8
Total	100.0

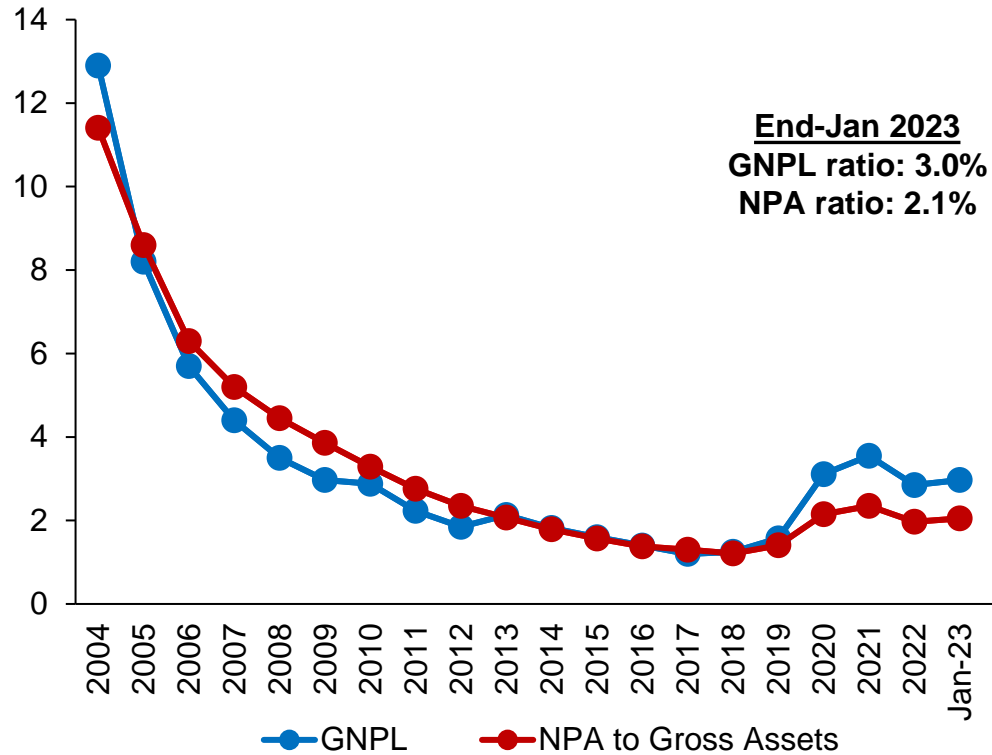
Source: BSP



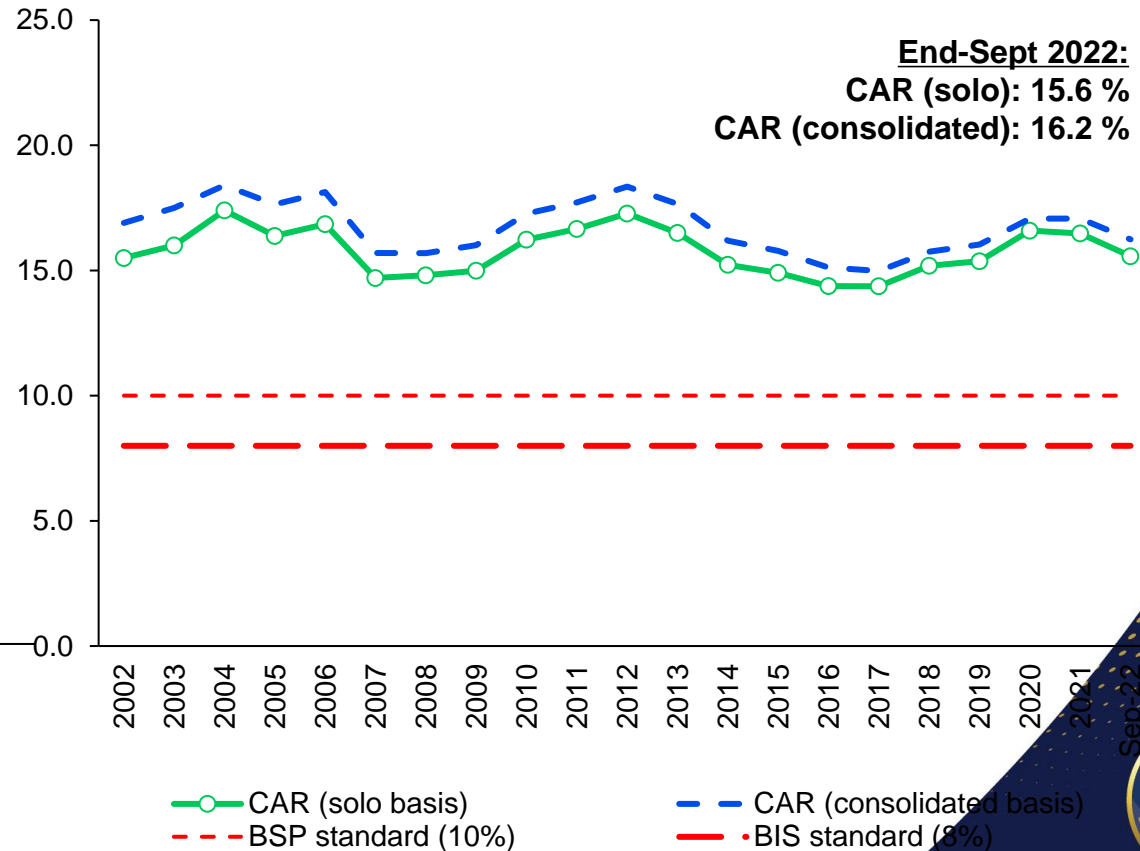
1. The Philippine economy post-COVID 19

- Key indicators point to a sound and resilient banking system.
- Stable financial system is an important anchor of economic growth.

Gross Non-Performing Loans (GNPL) and Non-Performing Assets Ratios of UKBs (in percent)



Capital Adequacy Ratio of UKBs (in percent)



Source: BSP

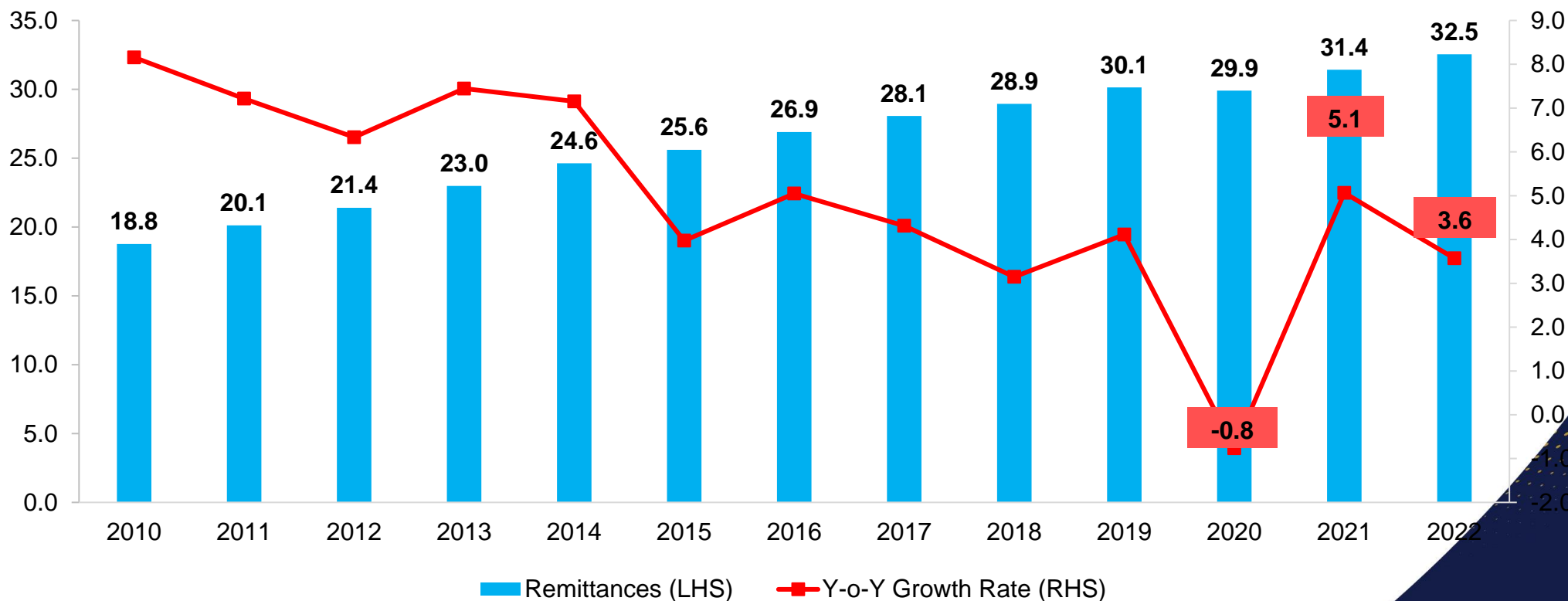


1. The Philippine economy post-COVID 19

The Philippines' external position remains strong.

- Remittances strongly rebounded from a slowdown in 2020 with the re-opening of economies and increasing demand for Filipino workers abroad.

Overseas Filipinos' cash remittances in levels (USD bn) and growth rates (in percent)



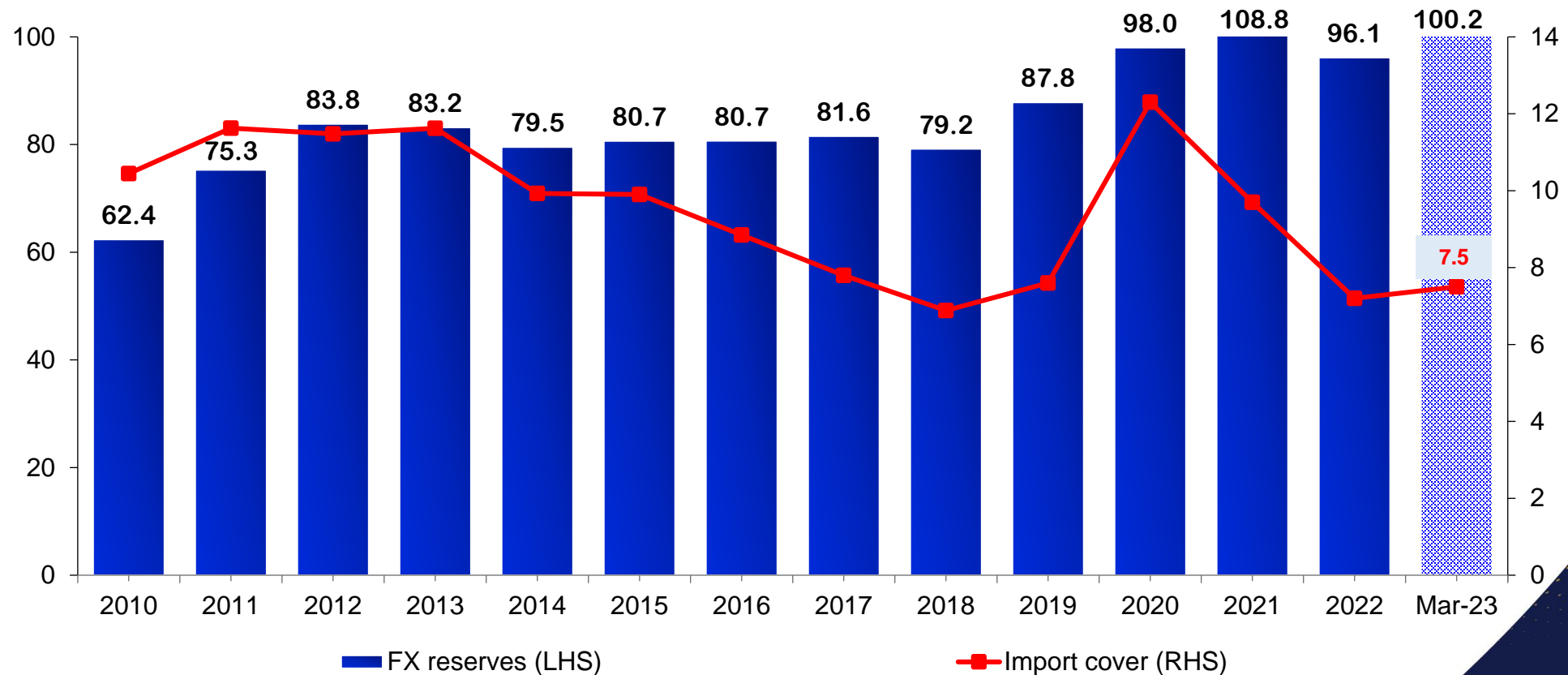
Source: BSP



1. The Philippine economy post-COVID 19

- International reserves provides ample external liquidity buffer.

FX reserves (USD bn) and months of import cover



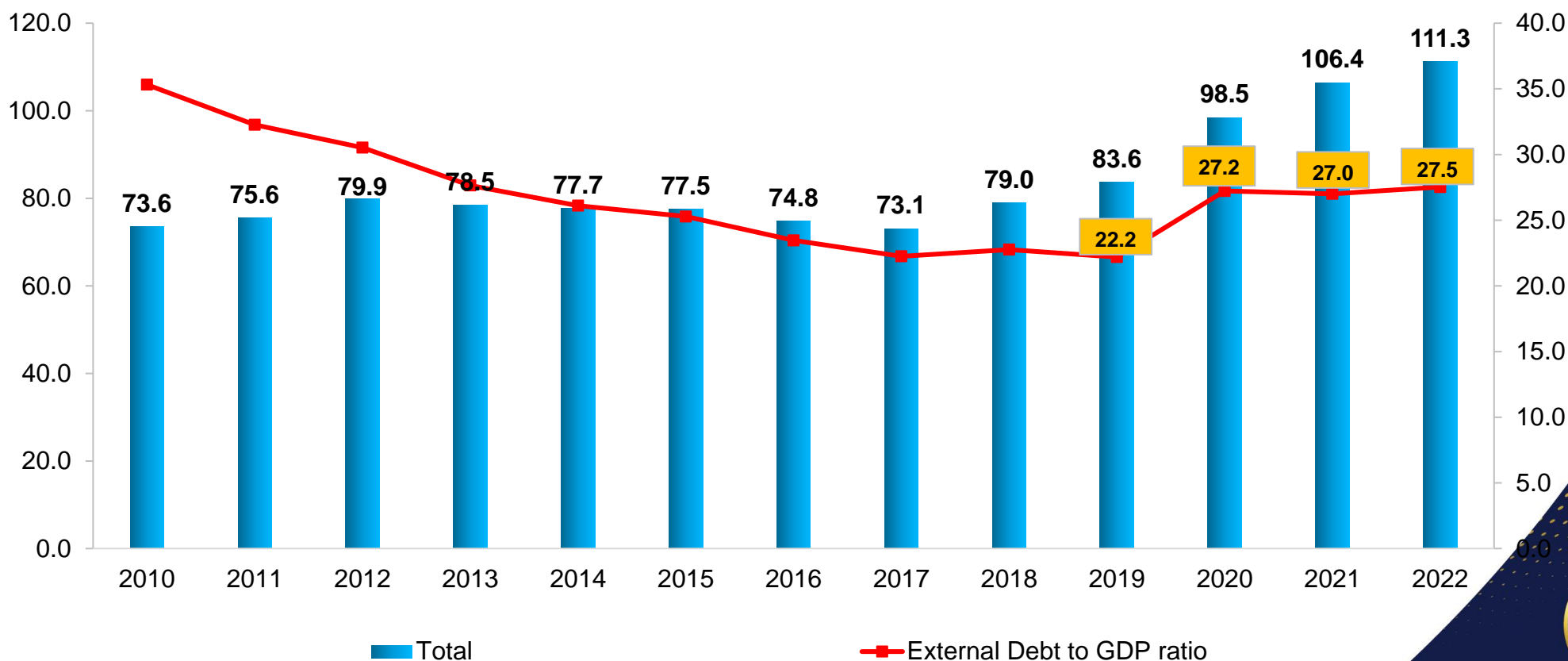
Source: BSP



1. The Philippine economy post-COVID 19

- External debt levels stay within manageable levels.

External debt (US\$ bn) and external debt/GDP ratio (%)



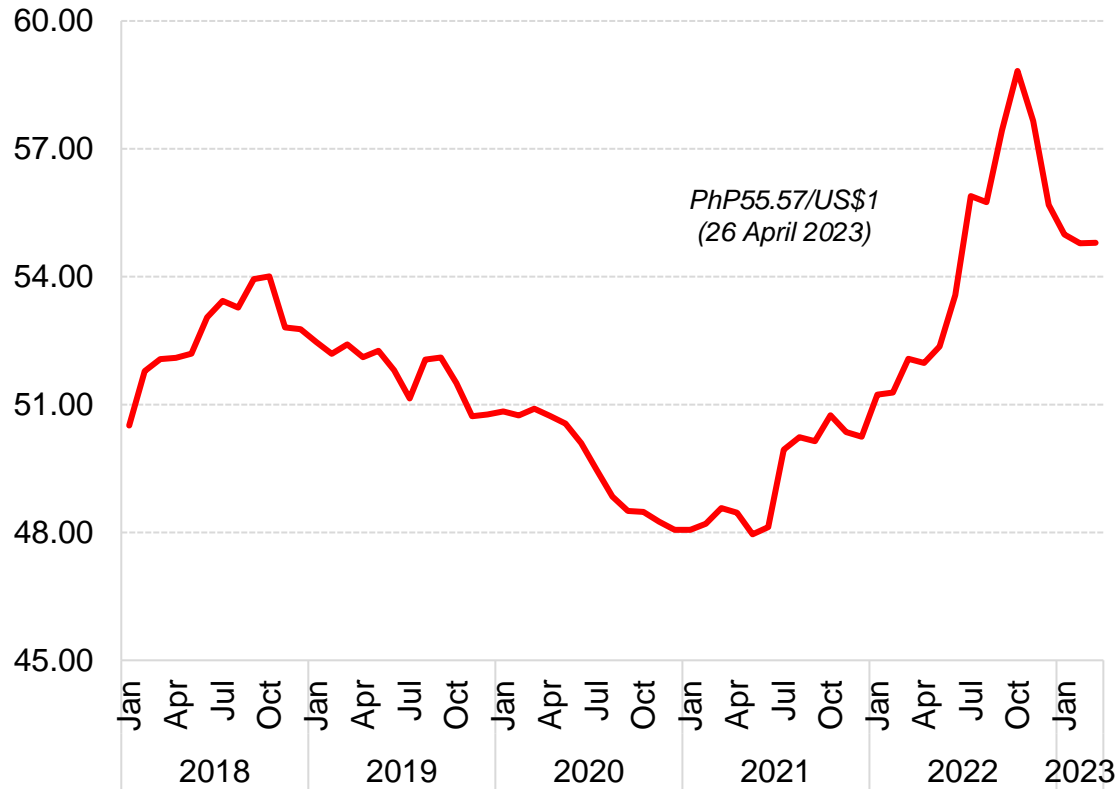
Source: BSP



1. The Philippine economy post-COVID 19

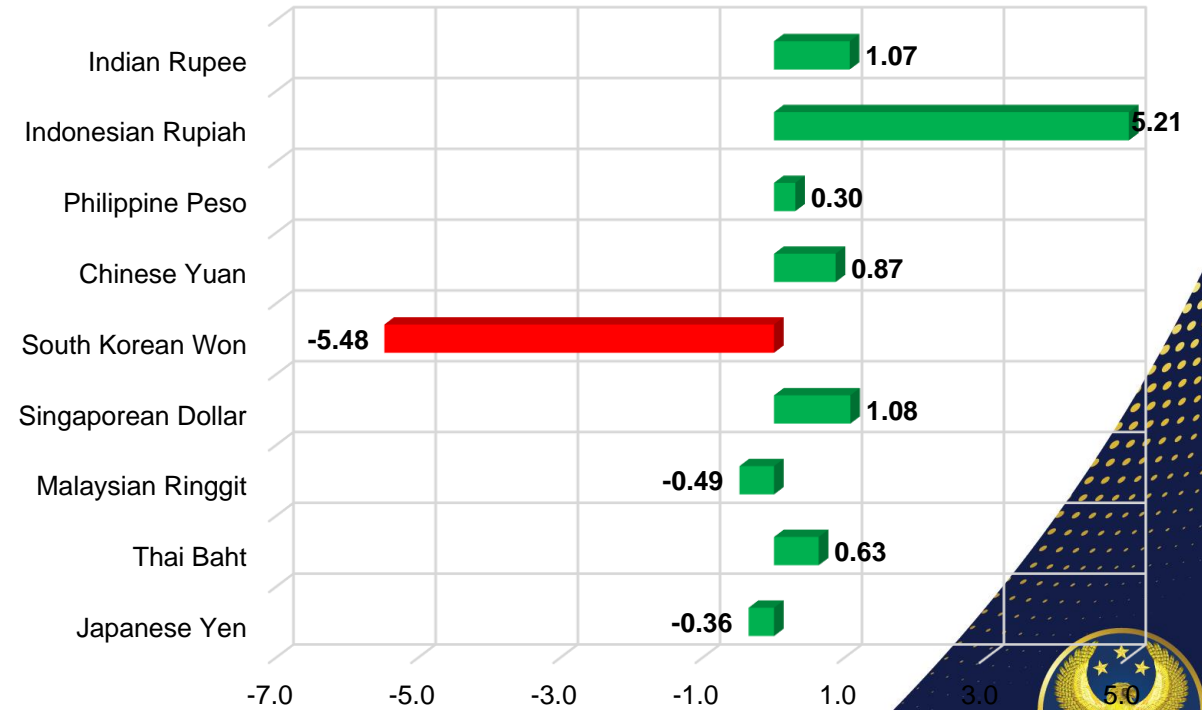
- The current movement of the peso reflects developments in both the external and domestic environment.

Peso per US dollar exchange rate



Source: BSP

Year-to-date Appreciation (+)/Depreciation (-) of Asian Currencies against the US dollar
(in percent, as of 25 April 2023)



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



2. Outlook and prospects

- Philippine economy is projected to grow by 6.0 to 7.0 percent in 2023 and accelerating to 6.5 to 8.0 percent in 2024 to 2028.

Medium-Term Macroeconomic Assumptions for 2023 to 2028^{1/}

Indicators	Actual	Projections	
	2022	2023	2024 - 2028
Real GDP growth (%) ^{2/}	7.6	6.0 – 7.0	6.5 – 8.0
Headline inflation (%) ^{3/}	5.8	5.0 – 7.0	2.0 – 4.0
Growth of goods exports (%) ^{4/}	4.0	3.0	6.0
Growth of goods imports (%) ^{4/}	20.0	4.0	8.0
Foreign exchange rate (PhP/USD)	54 – 55	53 – 57	53 – 57
Fiscal Balance (% of GDP) ^{5/}	-6.9%	-6.1%	-5.1% to -3.0%

Sources: NEDA, BSP, DOF

1/ Projections are based on the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2023 to 2028 (24 April 2023).

2/ GDP at Constant 2018 prices.

3/ Inflation rate using 2018-based CPI.

4/ Based on the IMF's Balance of Payments and International Investment Position Manual, 6th edition (BPM6).

5/ For fiscal balance (% of GDP), the projections are -5.1% (2024), -4.1%(2025), -3.5%(2026), -3.2%(2027) and -3.0%(2028).



2. Outlook and prospects

- Business firms are optimistic of the country's economic prospects in 2023.

Overall Business Confidence Index (CI)
Q1 2018 – Q1 2023



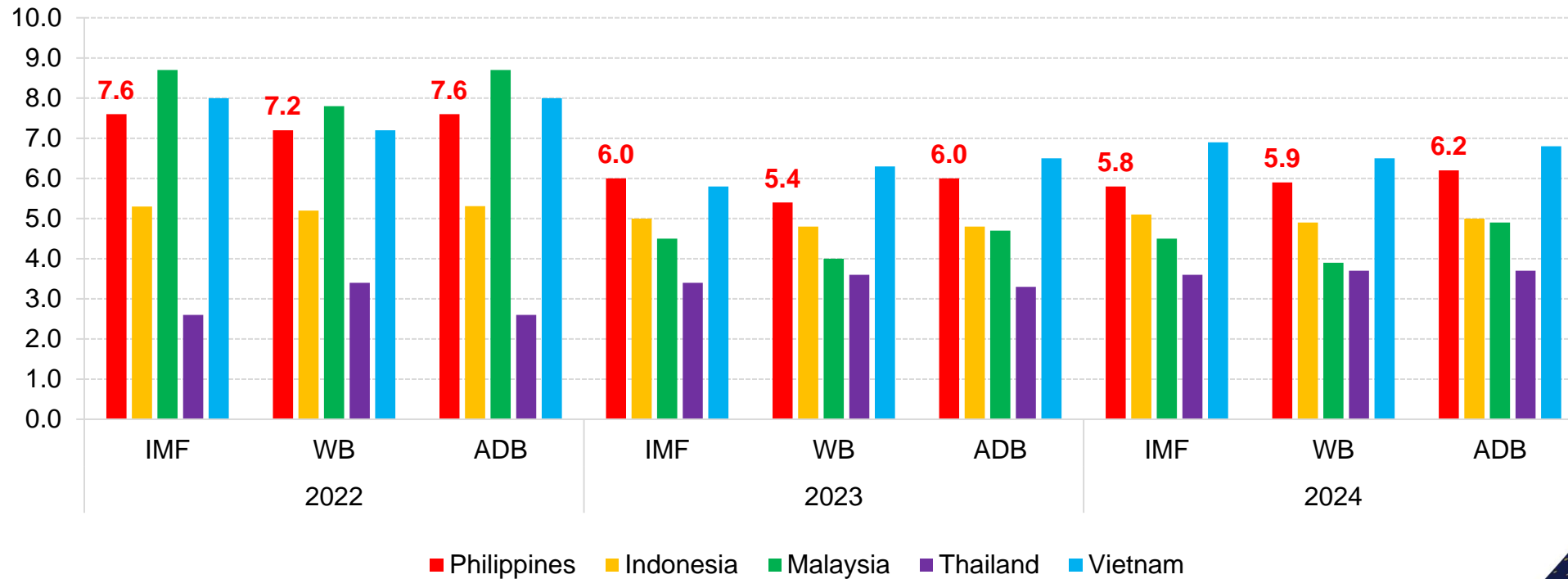
Source: BSP



2. Outlook and prospects

- The Philippine economy is projected to be one of the fastest growing economies in the region in the post-pandemic period.

**ASEAN-5 : Growth Projections
2020-2021**



Sources:
World Bank (WB) Global Economic Prospects, January 2023
International Monetary Fund (IMF) World Economic Outlook, April 2023
Asian Development Bank (ADB) Asian Development Outlook, April 2023



3. Downside risks and headwinds

DOMESTIC



Food security



Climate change



High inflation



Geopolitical tensions



High uncertainty

GLOBAL



Global economic slowdown



Financial market turmoil



4. Policy directions

- The Philippines' economic policy is guided by clear and sound frameworks.

8 – Point
Socioeconomic
Agenda

Philippine
Development
Plan
2023 – 2028

Medium-Term
Fiscal
Framework



4. Policy directions

- The 8-Point Socioeconomic Agenda focuses on both *near-term concerns ...*



1. Protect purchasing power of families

- Ensure food security
- Reduce transport and logistics costs
- Reduce energy cost to families



2. Reduce vulnerability and mitigate scarring from the COVID-19 pandemic

- Ensure capacity of healthcare in case of surges
- Address learning losses
- Strengthen social protection



3. Ensure sound macroeconomic fundamentals and government processes

- Enhance bureaucratic efficiency and sound fiscal management
- Ensure a resilient and innovative financial sector



4. Policy directions

.... and **medium-term issues** to economic transformation.



4. Create more jobs

- Promote investments
- Improve infrastructure
- Ensure energy security



5. Create quality jobs

- Increase employability
- Advance R&D and innovation
- Enhance the digital economy



6. Create green jobs

- Establish livable and sustainable communities
- Pursue a green and blue economy



7. Ensure a level playing field



8. Uphold public order and safety, peace and security



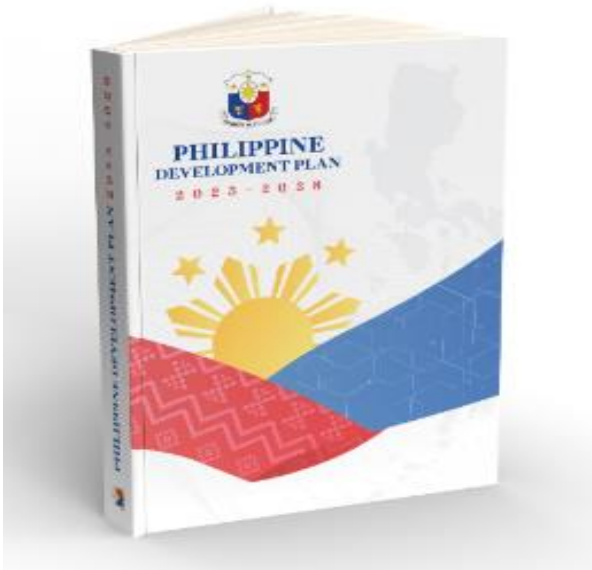
4. Policy directions

The Life of all Filipinos by 2040
Matatag, Maginhawa at Panatag na Buhay



Philippine Development Plan (PDP) 2023-2028

The PDP 2023-2028 is a plan for deep economic and social transformation to reinvigorate job creation and accelerate poverty reduction by steering the economy back on a high-growth path. This growth must be inclusive, building an environment that provides equal opportunities to all Filipinos, and equipping them with skills to participate fully in an innovative and globally competitive economy.



4. Policy directions

Medium-Term Fiscal Framework

- Comprehensive plan that aims to sustain the country's strong post-pandemic economic recovery and support accelerated growth.
- Serves as a roadmap for developing the government's annual National Expenditure Program (NEP).
- Aims at reducing both the National Government (NG) debt-to-GDP ratio to less than 60 percent by 2025 and the NG deficit-to-GDP ratio to 3 percent by 2028.

Medium-Term Fiscal Program 2022 – 2028^{1/}

(in billion pesos)

PARTICULARS	2023	2024	2025	2026	2027	2028
	Projections	Projections	Projections	Projections	Projections	Projections
Revenues	3,729.0	4,184.4	4,692.0	5,255.4	5,895.9	6,621.6
% of GDP	15.2%	15.7%	16.1%	16.5%	16.9%	17.2%
Disbursements	5,228.4	5,547.3	5,887.7	6,372.2	7,014.8	7,773.4
% of GDP	21.3%	20.8%	20.2%	20.0%	20.1%	20.2%
Deficit	(1,499.4)	(1,362.9)	(1,195.7)	(1,116.8)	(1,118.9)	(1,151.7)
% of GDP	-6.1%	-5.1%	-4.1%	-3.5%	-3.2%	-3.0%

^{1/} Projections are based on the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2023 to 2028 (24 April 2023).



4. Policy directions



Medium-Term Infrastructure Program

- Centerpiece program of the National Government (NG) to boost economic growth and development amounting to PhP1.33 trillion (USD 23.9 billion).
- Total of 194 infrastructure flagship projects (IFPs) approved covering various sectors (physical connectivity, agriculture, health, water resources, digital connectivity, power and energy and other infrastructure).
- Over the medium-term, NG aims to sustain annual spending on infrastructure at 5% to 6% of GDP.



4. Policy directions

Monetary policy and rising inflation

- With rising inflation, the BSP hiked its key policy rate (i.e., interest rate on the BSP's overnight reverse repurchase facility) by a cumulative 425 bps (4.25 percent) between March 2022 and March 2023.
- The BSP is committed to undertake calibrated and timely response cool down inflationary pressures.

Months (2022)	BSP Monetary Policy Decisions
17 February and 24 March	Maintained key policy rate at 2.0 percent.
19 May	Raised key policy rate by 25 bps to 2.25 percent.
23 June	Raised key policy rate by 25 bps to 2.5 percent.
14 July	Raised key policy rate by 75 bps to 3.25 percent.
18 August	Raised key policy rate by 50 bps to 3.75 percent.
22 September	Raised key policy rate by 50 bps to 4.25 percent.
17 November	Raised key policy rate by 75 bps to 5.0 percent.
15 December	Raised key policy rate by 50 bps to 5.5 percent.
16 February 2023	Raised key policy rate by 50 bps to 6.0 percent.
23 March 2023	Raised key policy rate by 25 bps to 6.25 percent.

Source: <https://www.bsp.gov.ph/SitePages/PriceStability/MonetaryPolicyDecision.aspx>



5. Key takeaways

- Gradual re-opening of the economy led to strong recovery and robust growth.
- Significant improvements have been observed in the domestic labor market.
- Following months of rising inflation, price pressures have started to ease.
- Credit and liquidity conditions are conducive to economic recovery and growth.
- Key indicators point to a sound and resilient banking system.
- The country's external position remains strong.
- The Philippines is expected to sustain its growth momentum going forward.
- However, economic headwinds and downside risks cloud the outlook.
- The Philippines' economic policy is guided by clear and sound frameworks and plans.
- For its part, the BSP is committed to undertake calibrated and timely response cool down inflationary pressures.



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Thank you!
Maraming salamat!

