



Stories Numbers Tell

Understanding the Economy to Improve Your Financial Planning

Economic and Financial Learning Program (EFLP)
Session for the Workforce
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Outline

What we'll learn today

DOMESTIC
INDICATORS

01 | The Economy in General

Gross Domestic Product (GDP)
Inflation

02 | The Domestic Financial Market

Domestic Liquidity
Bank Lending

INTERNATIONAL
INDICATORS

03 | The External Sector

External Debt
Gross International Reserves (GIR)
Balance of Payments (BOP)
Foreign Exchange (FX)



Gawa → **GROSS DOMESTIC PRODUCT** → *Pilipinas*
Dito sa



CONCEPTUAL FRAMEWORK

01 | The Economy in General
Gross Domestic Product

GROSS DOMESTIC PRODUCT (GDP)

represents the monetary value of all final goods and services produced within the economy in a given period of time.

HOW TO CALCULATE GDP

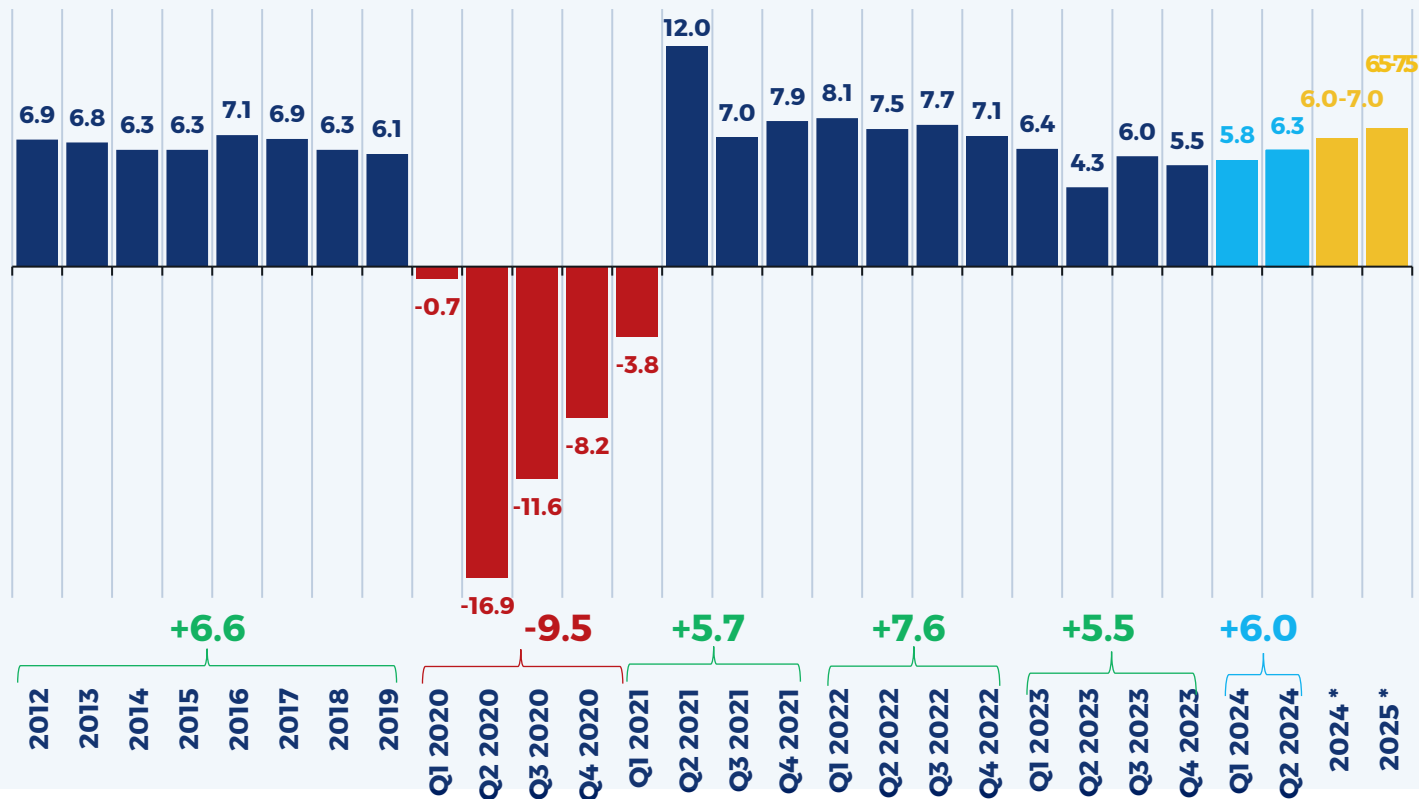
$$\mathbf{C + I + G + NX}$$

CONSUMPTION INVESTMENT GOVERNMENT EXPENDITURE NET EXPORTS

The Philippine economy grew in Q2 2024, as the country continues to recover from the pandemic.

GDP (at constant 2018 prices)

Year-on-Year Growth Rates (in percent)
2012 - Q2 2024



Source: BSP, PSA

Classification: GENERAL

Recent Updates



Gross Domestic Product (GDP) grew at a faster pace in Q2 2024, reflecting the sustained expansion of key sectors.

- Household (C) and government (G) spending drove demand in Q2 2024.
- When GDP is growing strongly, employment is likely to be increasing as companies hire more workers for their factories and people have more money in their pockets.
- When GDP is shrinking, as it did in many countries during the recent global economic crisis, employment often declines.

INFLATION



CONCEPTUAL FRAMEWORK

01 | The Economy in General Inflation



INFLATION

sustained increase in the average prices of goods and services typically purchased by consumers.



CONSUMER PRICE INDEX (CPI)

represents the average price of a standard basket of goods and services consumed by a typical Filipino family for a given period



INFLATION RATE

annual percentage changes in CPI

$$\frac{CPI_t - CPI_{t-1}}{CPI_{t-1}} \times 100\%$$

3.3%

**Inflation falls
in August 2024**



Inflation reduces the purchasing power of consumers, meaning that a unit of currency buys less than it did before inflation

For example, higher food, gasoline, and utility costs mean less money for savings or discretionary spending. To compensate, consumers buy less or switch to cheaper substitutes

Year-to-date average inflation rate of 3.6% remains within the Government's average inflation target range for 2024.



Government's target range is **2-4 percent** for 2024-2026.

DOMESTIC LIQUIDITY

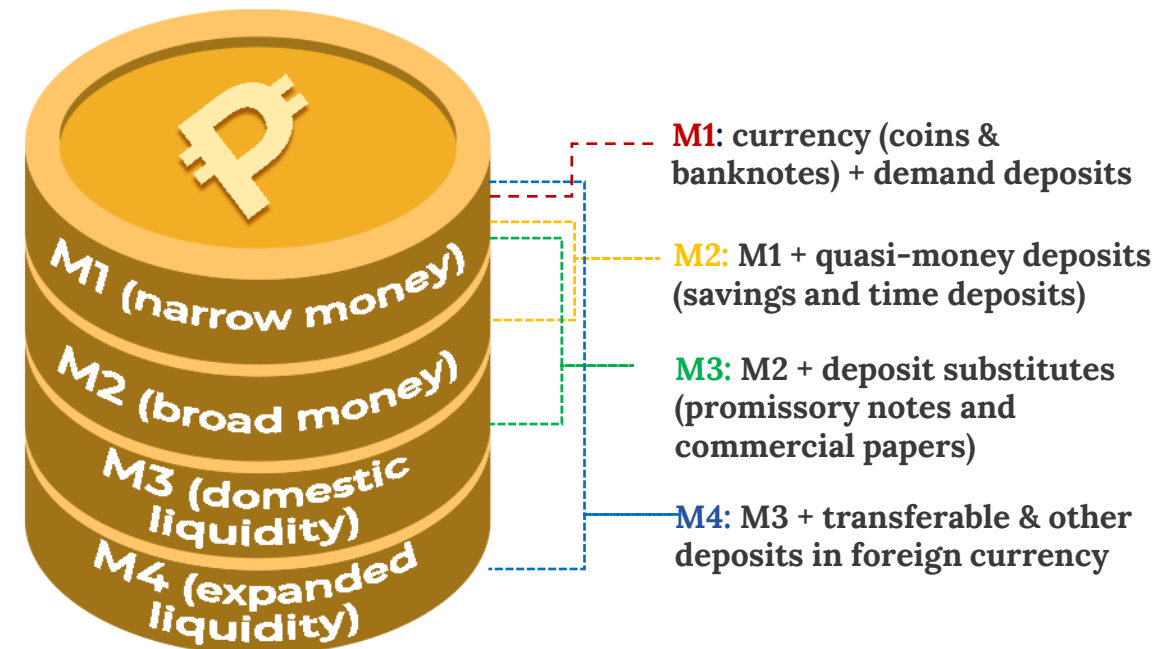


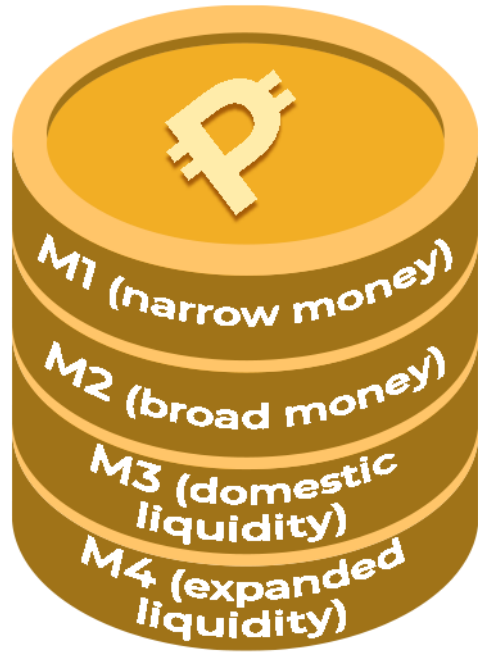
CONCEPTUAL FRAMEWORK

02 | The Domestic Financial Market
Domestic Liquidity

DOMESTIC LIQUIDITY or M3

refers to money supply that is regularly reported by the BSP





7.2% Year-on-Year

Preliminary data show that domestic liquidity (M3) grew by 7.2% year-on-year to about ₱17.5 trillion in July 2024.

- ✓ **Sufficient supply of money or liquidity in the economy supports economic activities such as investment resulting to higher job opportunities. This can boost spending and investments activities which, in turn, will lead to favorable growth of the economy and business outlook**
- ✓ **Banks play an important role in financing economic activities including business investment and consumer spending. Positive development in bank lending leads to increased production and output and higher employment levels.**

BANK LENDING



CONCEPTUAL FRAMEWORK

02 | The Domestic Financial Market Bank Lending

BANK LENDING

statistic that shows the country's overall lending environment (e.g., outstanding loans of universal and commercial banks, loans for production activities, lending interest rates, liquidity circulating in the financial system, etc.)

LENDING RATE

is the bank rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to creditworthiness of borrowers and objectives of financing. (Source: IMF)



10.4% Year-on-Year

Preliminary data show that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP continued to grow amid steady demand for loans.

8.3%
JUNE



8.8%
JULY

LENDING FOR PRODUCTION ACTIVITIES



20.6%
Transportation & Storage



12.0%
Real Estate Activities



6.0%
Wholesale & Retail Trade,
Repair of Motor Vehicles
and Motorcycles



7.9%
Manufacturing



LENDING FOR OTHER SECTORS

24.3%
JUNE



25.0%
JULY

CONSUMER LOANS



28.2%
CREDIT CARDS

EXTERNAL DEBT



CONCEPTUAL FRAMEWORK

03 | The External Sector External Debt

EXTERNAL DEBT

The portion of a country's debt that is borrowed from foreign lenders through commercial banks, governments, or international financial institutions.

- Must usually be paid in the currency in which the loan was made, including interest.
- If a country cannot repay its external debt, it faces a debt crisis.

EXTERNAL DEBT-TO-GDP RATIO

A metric comparing a country's debt to its gross domestic product.

- Indicates that particular country's ability to pay back its debts
- A country with a high external debt-to-GDP ratio typically has trouble paying off external debts

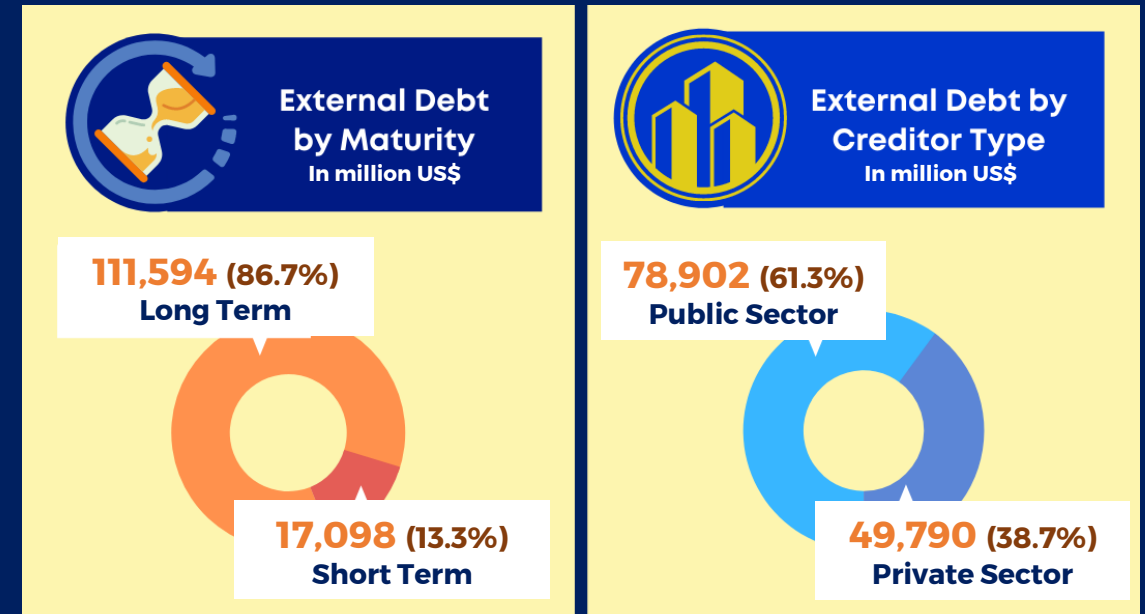
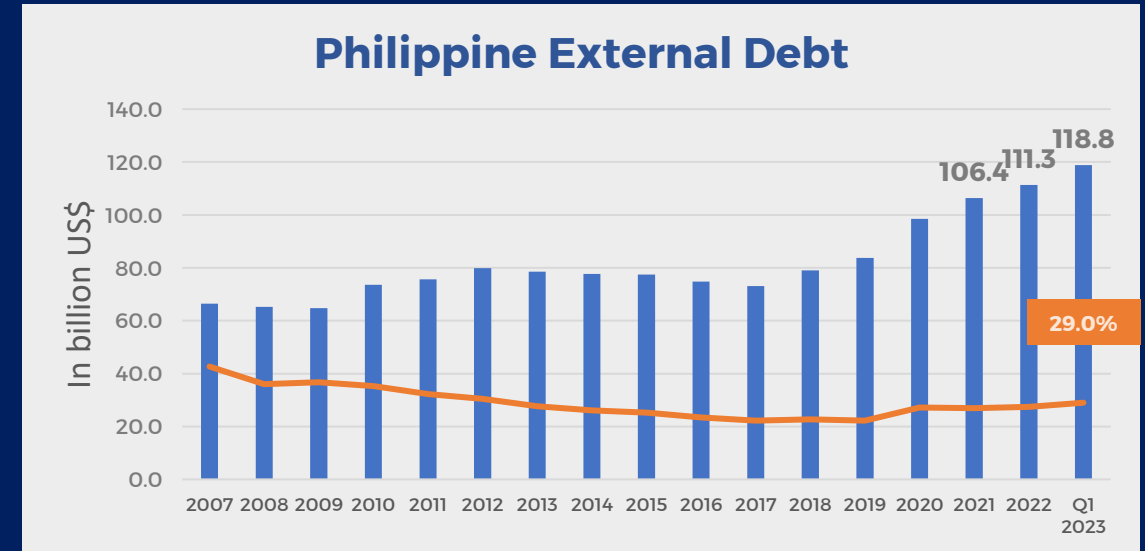
Recent Updates

29.0%

external debt-to-GDP ratio (end-March 2024)

The country's external debt to GDP ratio indicates the country's sustained strong capacity to service maturing foreign borrowings.

This means that the country's debt payment schedule is manageable and financially sustainable, and the government can meet all its current and future payment obligations. This also means that significant investments in education, housing, and nutrition, among others, can be sustained in the country.



Source: BSP

GROSS INTERNATIONAL RESERVES



CONCEPTUAL FRAMEWORK

03 | The External Sector

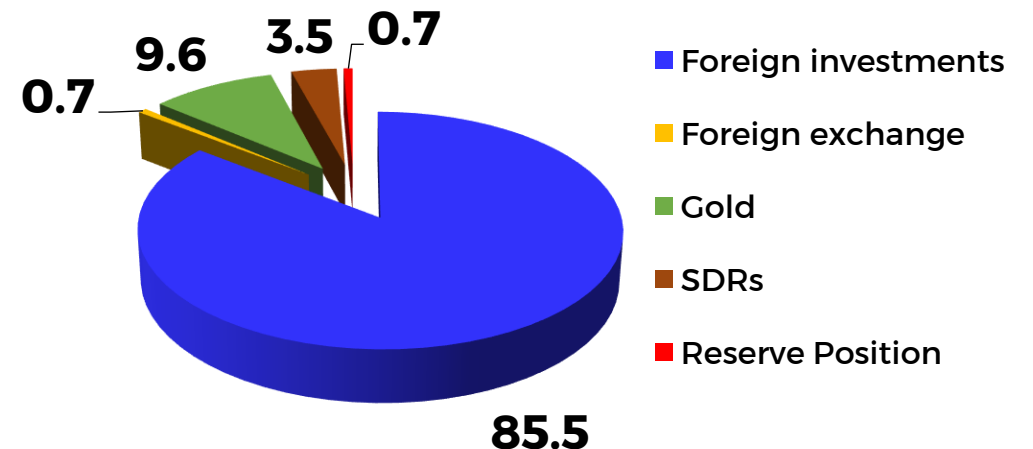
Gross International Reserves

GROSS INTERNATIONAL RESERVES (GIR)

Reserves are “external assets” that are readily available to and controlled by monetary authorities for direct financing of payment imbalances, for directly regulating the magnitude of such imbalances through participation in exchange markets to affect the currency exchange rate, and/or for other purposes

COMPOSITION OF GIR

as of August 2024



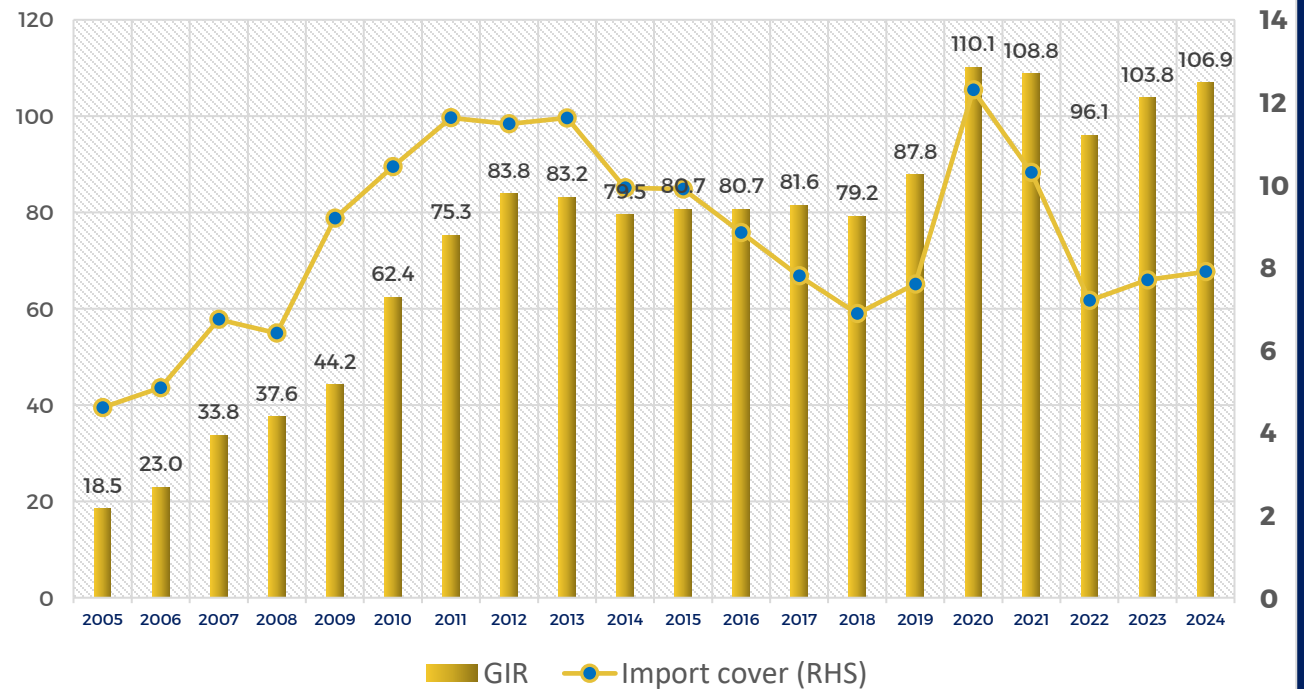
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US\$106.9 billion

International reserves give more than adequate external liquidity buffer.

Adequate reserves promote international stability and convertibility of the Philippine peso and satisfy any foreseeable demand for foreign exchange (servicing central bank liabilities and national government demands for foreign currency). Currency convertibility is important for international trade as globally sourced goods must be paid for example, in US dollar.

GIR (USD bn) and months of import cover



Source: BSP

BALANCE OF PAYMENTS



CONCEPTUAL FRAMEWORK

03 | The External Sector

Balance of Payments

BALANCE OF PAYMENTS (BOP)

- BOP is an accounting statement that summarizes economic transactions between a country's residents and its non-residents for a specific period.
- BOP is like a giant receipt that shows all the flows coming in and out of a country in different areas of the economy.
- Overall BOP Position can be in surplus, deficit, or in balance



Current Account

Goods, Services, Primary income, and Secondary income



Capital Account

Capital transfers, Acquisitions/ disposals of non-produced, and non-financial assets











Financial Account

Direct investment, Portfolio investment, Financial derivatives, other investment, and reserve assets

Recent Updates

US\$1.4 billion Overall BOP position posted a surplus

The BOP is important to national planning and has a significant impact to economic development. It indicates the country's position in international economic growth. Thus, it is an important input to policy formulation. For example, one country may implement a policy to attract foreign investment. Looking at the positive side, more foreign investment foreign investment could generate employment, promote economic development, and contribute to the country's sustained growth.

	January - June	
	2023	2024
OVERALL BOP POSITION*	\$2.3B (surplus)	\$1.4B (surplus)
CURRENT ACCOUNT	-\$8.6B (deficit)	-\$7.1B (deficit)
 Goods	-\$33.2B (deficit)	-\$31.5B (deficit)
 Services	\$8.5B (surplus)	\$7.2B (surplus)
 Primary Income	\$1.6B (surplus)	\$2.2B (surplus)
 Secondary Income	\$14.6B (surplus)	\$15.0B (surplus)
CAPITAL ACCOUNT	\$30B (surplus)	\$34B (surplus)
FINANCIAL ACCOUNT**	-\$6.2B (net inflows)	-\$10.5B (net inflows)
 Direct Investment	-\$2.2B (net inflows)	-\$2.0B (net inflows)
 Portfolio Investment	+\$2.9B (net outflows)	-\$4.6B (net inflows)
 Financial Derivatives	-\$0.1B (net outflows)	-\$0.2B (net inflows)
 Other Investment	-\$6.7B (net outflows)	-\$3.7B (net inflows)

Source: BSP

FOREIGN EXCHANGE



The BSP adopts a FLOATING EXCHANGE RATE SYSTEM

The BSP does not set, fix, or dictate, but leaves the determination of the ER to market forces (supply and demand of FX in the country)

CONCEPTUAL FRAMEWORK

03 | The External Sector Foreign Exchange

EXCHANGE RATE (ER)

The price of a unit of foreign currency in terms of the domestic currency. (E.g., 1 USD=52.21 Php*)

Why is ER important?

- ✓ It serves as a basic link between the local and overseas markets for various goods, services, and financial assets.
- ✓ It affects the actual inflation and expectations on future price movements.
- ✓ It is an important determinant of the country's competitiveness.
- ✓ It affects the cost of servicing the country's foreign debt.

Factors affecting ER



Investor
Sentiment



Overseas
Filipinos
(OF)
Remittances



Foreign
Direct
Investments



Appreciation &
Depreciation of
the US\$



Export
Earnings



Foreign
Portfolio
Investments

*as of 28 March 2022

Recent Updates

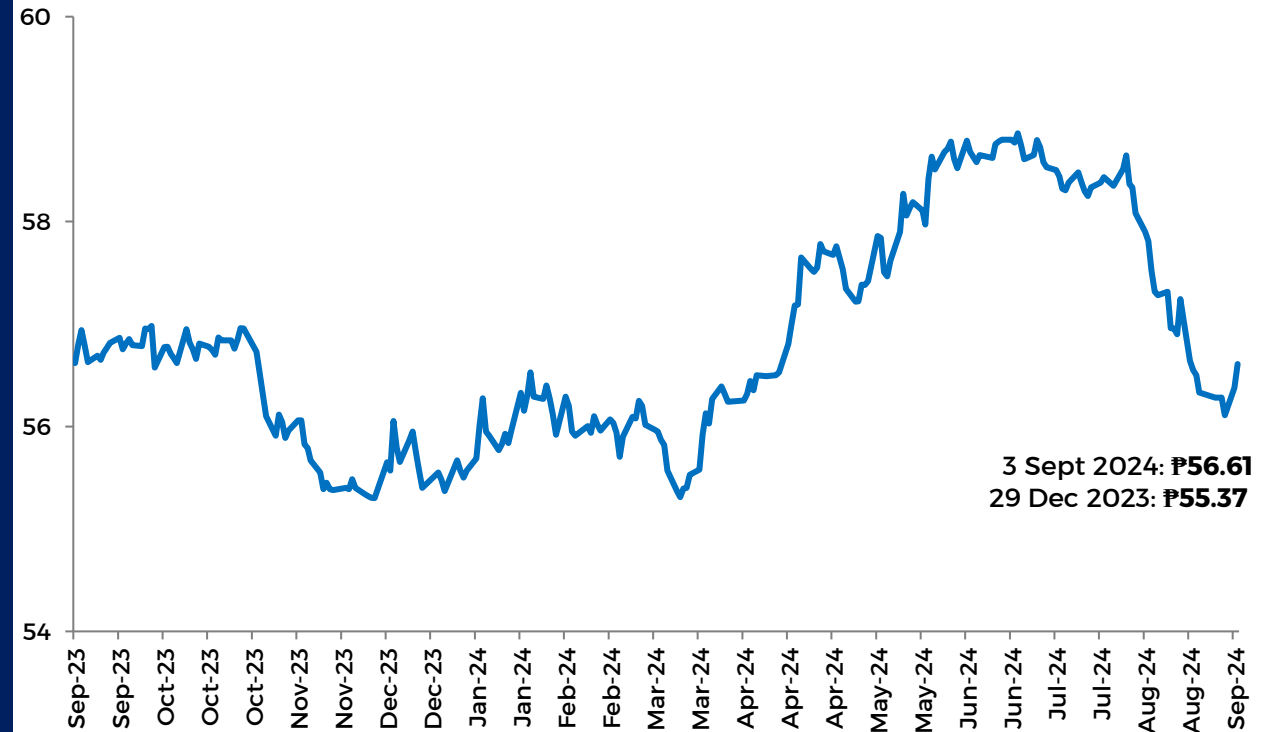
₱56.61: US\$1*

On a year-to-date (YTD) basis, the peso closed at ₱56.61/US\$1, depreciating by 2.14 percent relative to the end-December 2023 level.

When the peso depreciates, prices of imported commodities like petroleum products becomes more expensive for Filipinos. Meanwhile, recipients of remittances from overseas Filipinos benefit when the peso depreciates since they would get more pesos for every dollar sent to them.

**as of 3 September 2024*

Daily Philippine Peso Per U.S. Dollar Rate





KEY TAKE-AWAYS

- ✓ Statistics and numbers provide stories about current and future trends in the economy.
- ✓ Leading economic and financial indicators are key in assessing the health of an economy.
- ✓ Basic understanding of these indicators allows us to appreciate how each sector contributes to the overall condition of the country.



**Thank you and
stay safe!**

Website: <http://www.bsp.gov.ph>
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