



Understanding the Economy to Improve Your Financial Planning

Stories Numbers Tell

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27 September 2023



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)

Stories they tell to improve your financial planning



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



CONCEPTUAL FRAMEWORK

01 | The Economy in general Gross Domestic Product

GROSS DOMESTIC PRODUCT (GDP)

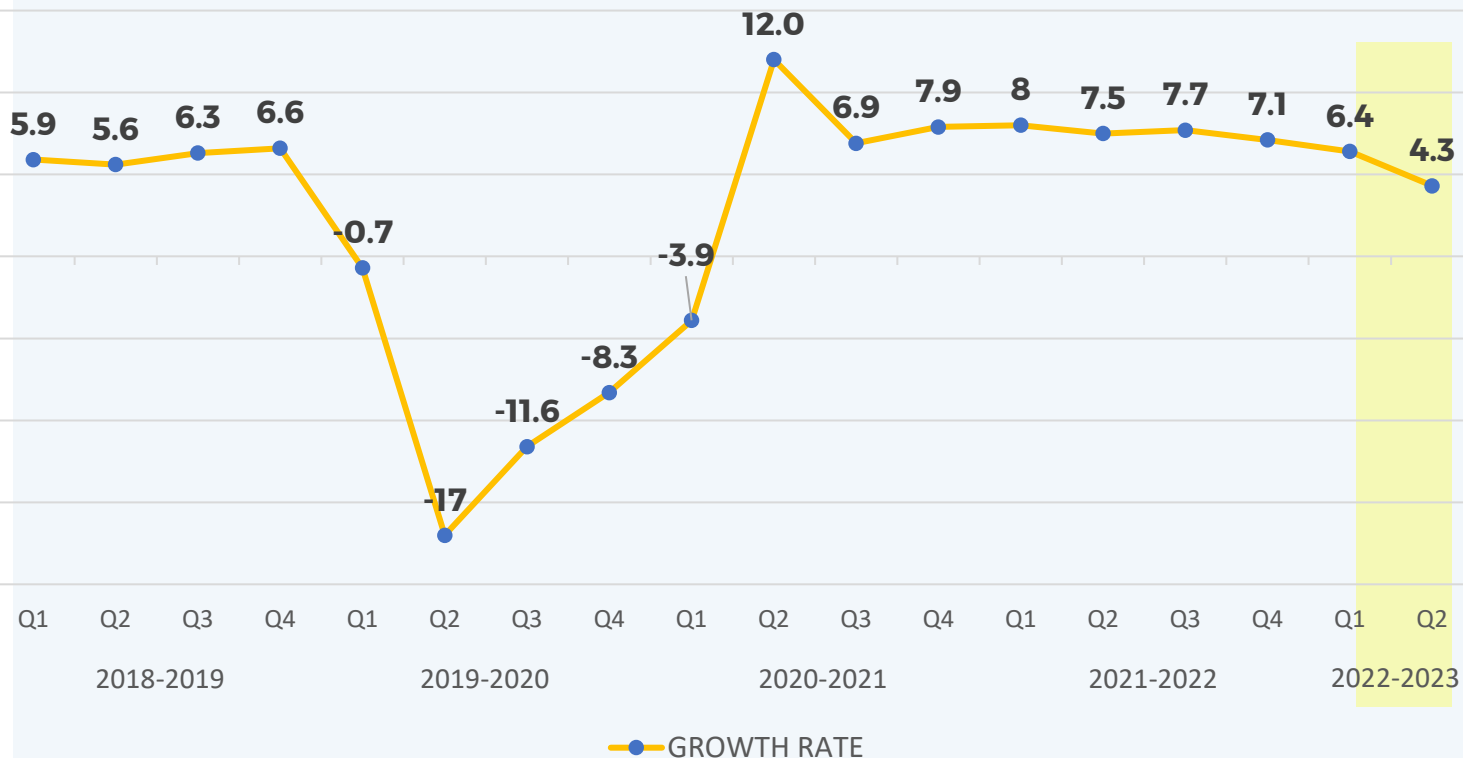
represents the monetary value of all final goods and services produced within the economy in a given period of time.

HOW TO CALCULATE GDP

$$\begin{array}{cccc} \mathbf{C} & + & \mathbf{I} & + & \mathbf{G} & + & \mathbf{NX} \\ \text{CONSUMPTION} & & \text{INVESTMENT} & & \text{GOVERNMENT} & & \text{NET EXPORTS} \\ & & & & \text{EXPENDITURE} & & \end{array}$$

The economy grew at a slower pace in Q2 2023, reflecting contractions in key sectors.

GDP (At constant 2018 Prices)
Year-on-Year Growth Rates (in percent)
Q1 2018-2019 to Q2 2022-2023



Source: BSP, PSA

Classification: GENERAL

Recent Updates



Real GDP expanded by 4.3% y-o-y in Q2 2023, slower than the 6.4% and 7.5% growth posted in Q1 2023 and Q2 2022, respectively.

Household consumption slowed down due to higher commodity prices. Meanwhile, government spending declined relative to the previous year.

- ✓ When GDP is growing, 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

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

5.3%
Inflation rose
in August 2023



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

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 6.6% remains above the Government's average inflation target range for 2022.



Government's Target Range is
2%-4% for 2021-2024

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.



M1 (narrow money)
M2 (broad money)
M3 (domestic liquidity)
M4 (expanded liquidity)

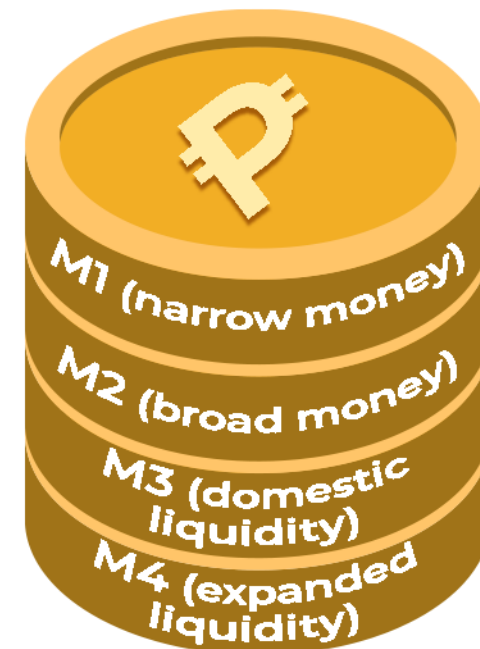
M1 currency (coins & banknotes) + demand deposits
M2 M1 + quasi-money deposits (savings and time deposits)
M3 M2 + deposit substitutes (promissory notes and commercial papers)
M4 M3 + transferable & other deposits in foreign currency

CONCEPTUAL FRAMEWORK

02 | The Domestic Financial Market Domestic Liquidity

DOMESTIC LIQUIDITY or M3

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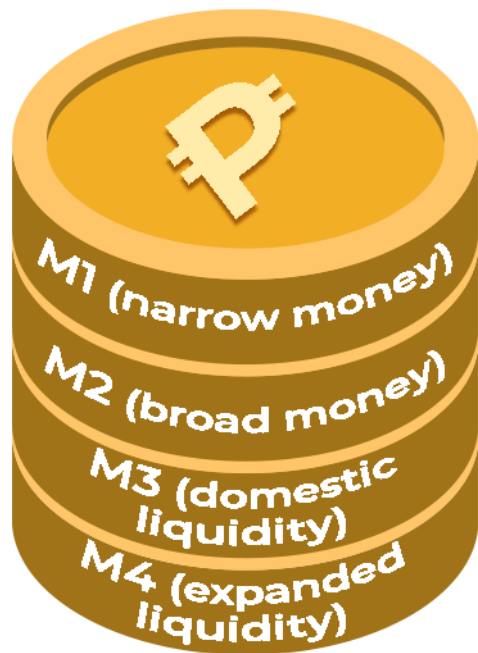


M1: currency (coins & banknotes) + demand deposits

M2: M1 + quasi-money deposits (savings and time deposits)

M3: M2 + deposit substitutes (promissory notes and commercial papers)

M4: M3 + transferable & other deposits in foreign currency



5.9% Year-on-Year

Preliminary data show that domestic liquidity (M3) grew by 5.9% year-on-year to about ₱16.4 trillion in June 2023.

- ✓ *Sufficient supply of money or liquidity in the economy supports economic activities which can create more jobs. This can further boost spending and investment activities.*

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)



7.8% 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, expanded for the sixth consecutive month in June as easing COVID-19 restrictions and the continuing vaccine rollout supported market sentiment and demand.

7.9%
MAY



6.3%
JUNE

LENDING FOR PRODUCTION ACTIVITIES



21.1%

Water Supply, Sewerage,
Waste Management and
Remediation Activities



10.6%

Transportation and
Storage

9.7%

Wholesale & Retail Trade,
Repair of Motor Vehicles
and Motorcycles

HIGHER BORROWINGS ON THE FOLLOWING



7.7%

Financial and
Insurance Activities



5.6%

Human Health and
Social Work Activities

LENDING FOR OTHER SECTORS

22.7%
MAY



23.7%
JUNE

CONSUMER LOANS CONTINUED TO
INCREASE



29.3%

CREDIT CARDS



7.8% Year-on-Year

Banks play an important role in financing economic activities, including business investment and consumer spending. Higher bank lending can increase production and create more jobs.

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 foreign 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

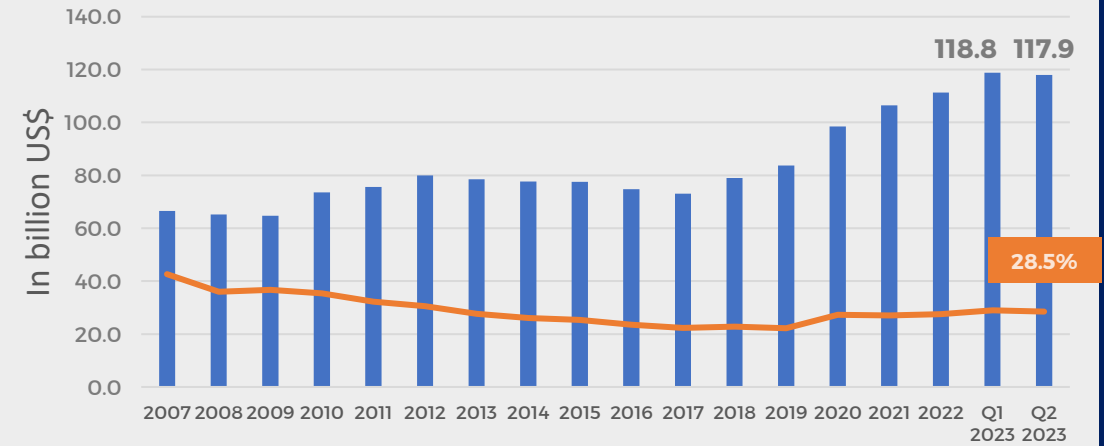
28.5%

External debt to GDP ratio (end-June 2023)

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.

Philippine External Debt



External Debt by Maturity

100,602 (85.3%)
Medium to Long-Term

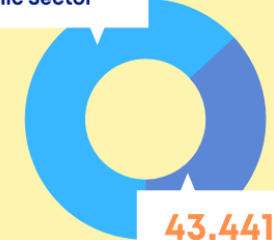


15,090 (14.7%)
Short Term



External Debt by Creditor Type

74,477 (63.2%)
Public Sector



43,441 (36.8%)
Private Sector

Source: BSP

GROSS INTERNATIONAL RESERVES



CONCEPTUAL FRAMEWORK

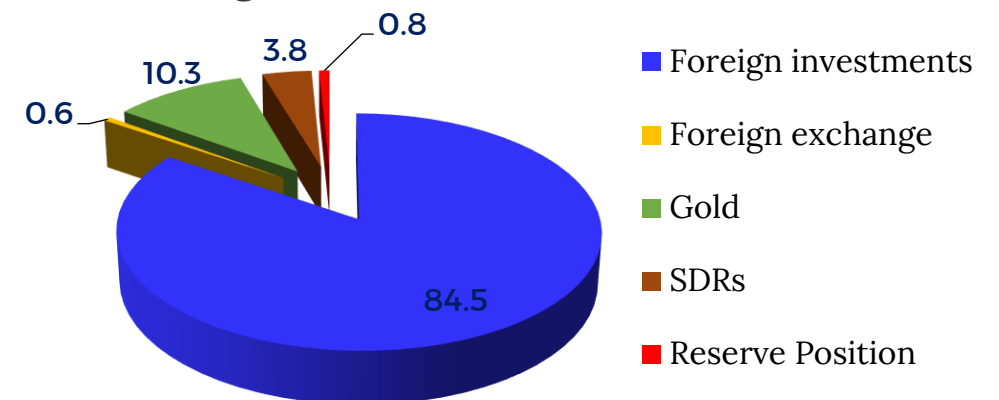
03 | The External Sector

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 GIR as of August 2023



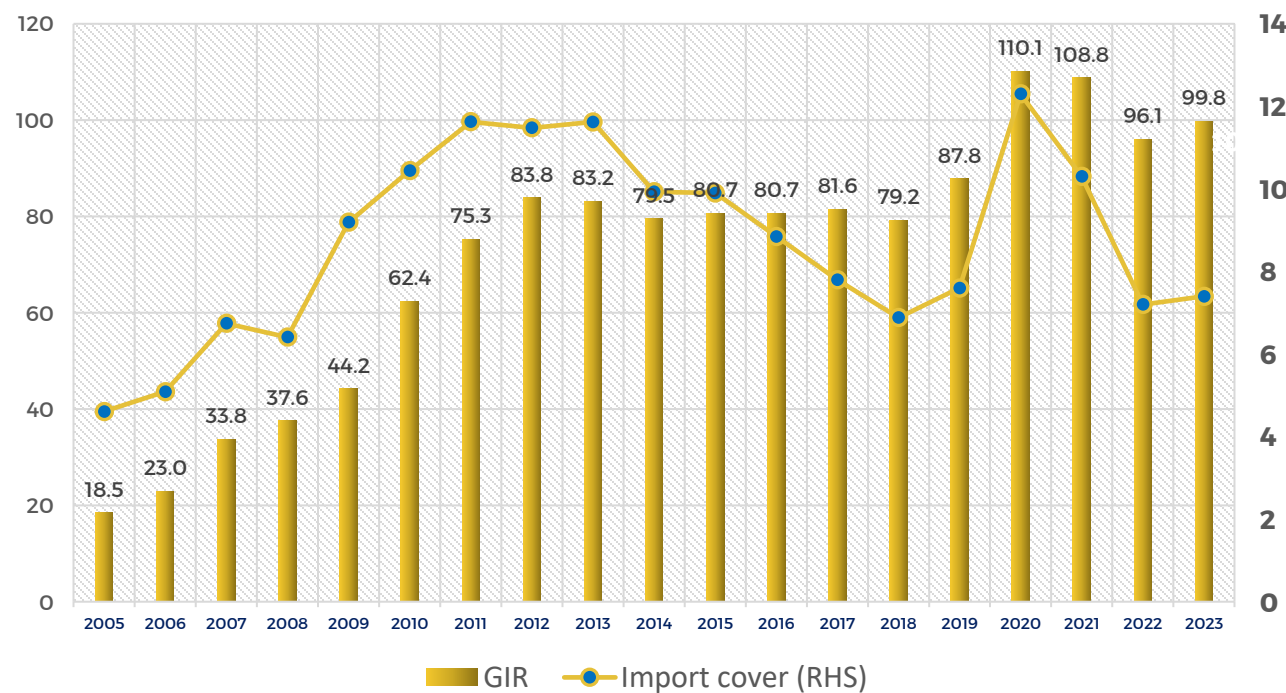
Recent Updates

US\$99.8 billion (end-August 2023)

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 in foreign exchange; 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\$1.2 billion

Overall BOP position posted a lower deficit; Reverses to a surplus in the first half of 2023

Overall BOP position can be in surplus, in deficit, or in balance. A surplus increases international reserves and a deficit does the opposite. Details involving these flows help us in economic analysis, forecasting, and policy formulation.

	Q2 2023	JAN-JUN 2023
OVERALL BOP POSITION*	-\$1.2B (deficit) from -\$3.6B	+\$2.3B (surplus) from -\$3.1B
CURRENT ACCOUNT	-\$3.6B (deficit) from -\$8.0B	-\$8.2B (deficit) from -\$12.1B
 Goods	-\$16.0B (deficit) from -\$19.3B	-\$33.2B (deficit) from -\$35.1B
 Services	+\$4.2B (net receipts) from +\$3.0B	+\$8.7B (net receipts) from +\$6.2B
 Primary Income	+\$930M (net receipts) from +\$1.2B	+\$1.7B (net receipts) from +\$2.4B
 Secondary Income	+\$7.3B (net receipts) from +\$7.2B	+\$14.6B (net receipts) from +\$14.4B
CAPITAL ACCOUNT	+\$18M (surplus) from +\$19M	+\$36M (surplus) from -\$3M
FINANCIAL ACCOUNT**	-\$2.0B (net inflows) from -\$3.0B	-\$8.4B (net inflows) from -\$7.7B
 Direct Investment	-\$1.3B (net inflows) from -\$1.4B	-\$2.1B (net inflows) from -\$3.0B
 Portfolio Investment	+\$823M (net outflows) from -\$174M	+\$117M (net outflows) from -\$136M
 Financial Derivatives	-\$72M (net inflows) from -\$25M	-\$52M (net inflows) from -\$24M
 Other Investment	-\$1.41B (net inflows) from -\$1.43B	-\$6.4B (net inflows) from -\$4.5B

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 of, and demand for, 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=56.74 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 11 September 2023

Recent Updates

₱56.73: US\$1*

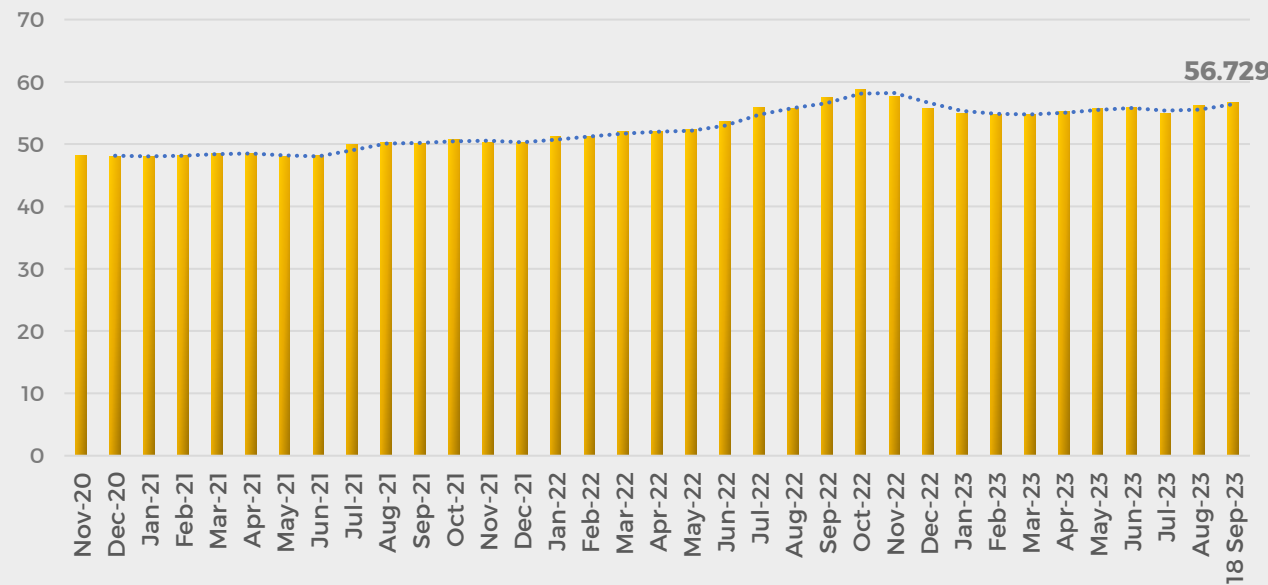
The peso averaged ₱56.73/US\$1 as of 18 September 2023, depreciating by 1.01% from the August 2023 average of ₱56.16/US\$1.

This may be attributed to the US Fed's signal that it will raise its interest rates further to address rising inflation in the US and the subdued outlook on the economic growth of the Philippines.

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 18 September 2023*

Daily Philippine Peso Per U.S. Dollar Rate





KEY TAKE-AWAYS

- ✓ Statistics are numbers that provide stories about developments 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 they can influence our economic well-being.



**Thank you &
Stay safe!**

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