

Meeting with Canon Institute of Global Studies

19 February 2019

Tokyo, Japan



Breaking the *Boom-Bust* Cycle

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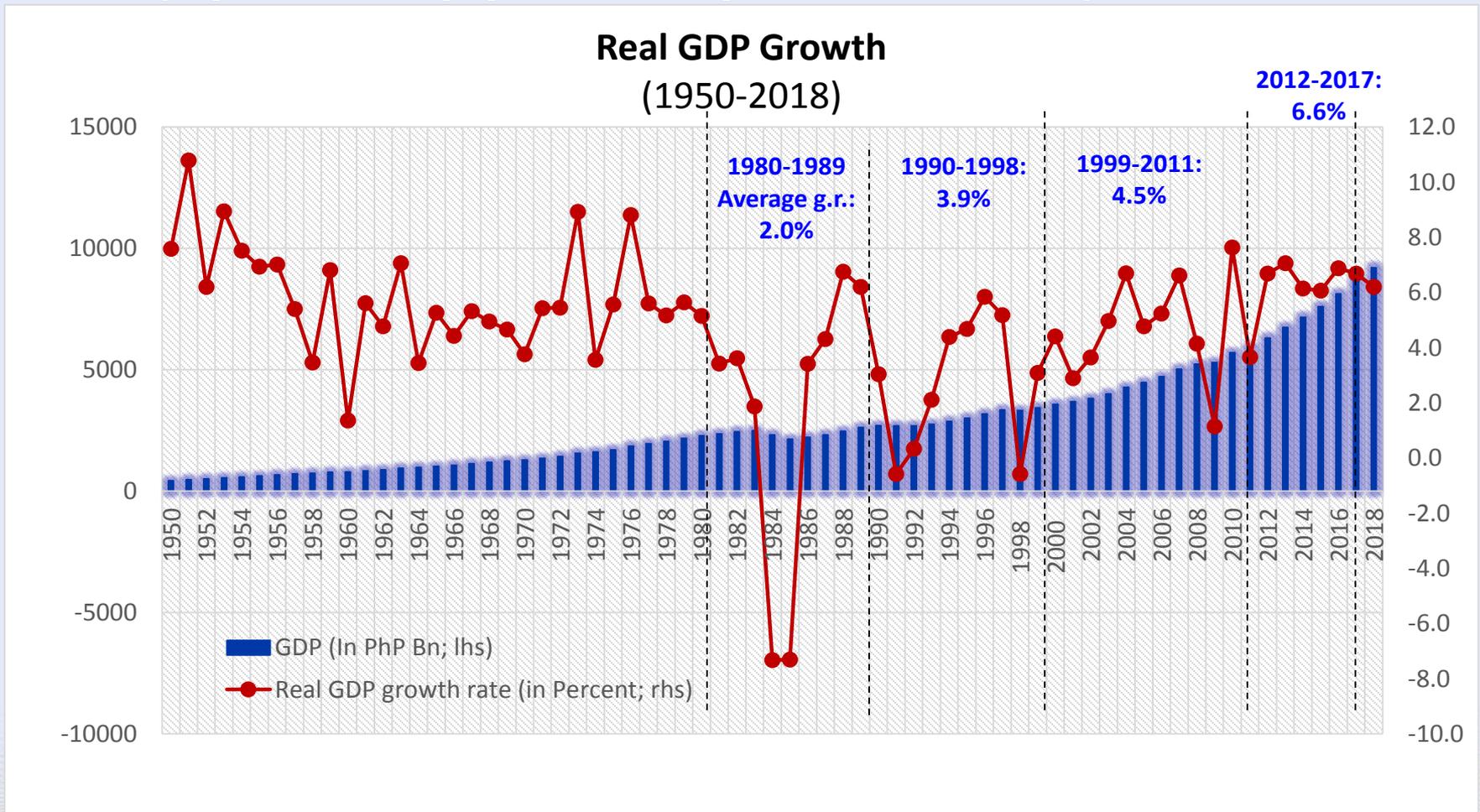
Deputy Governor



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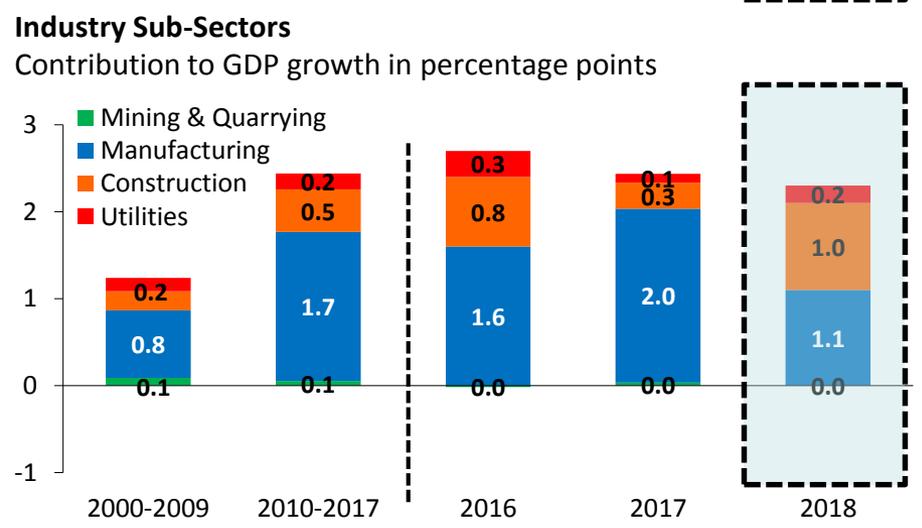
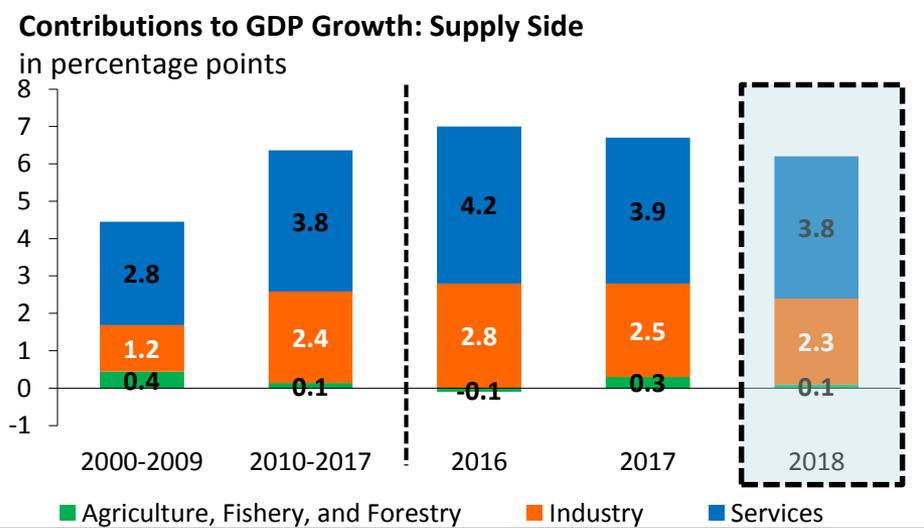
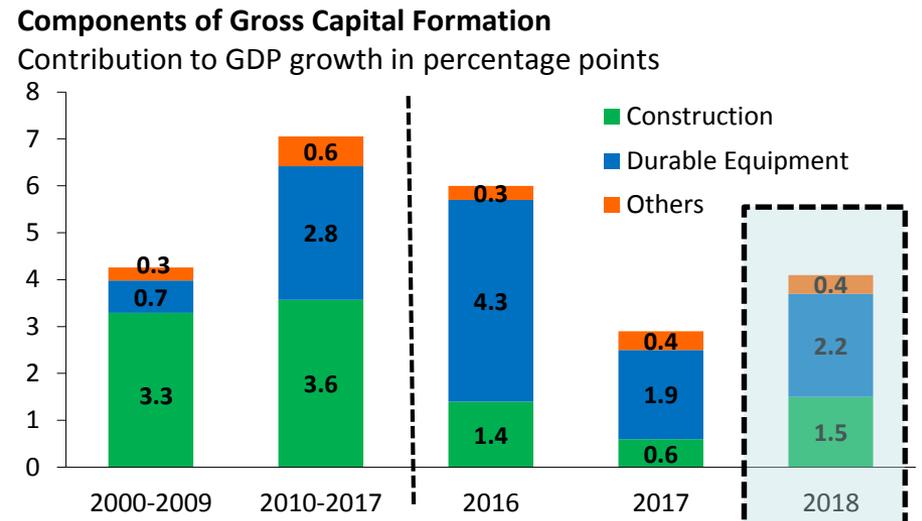
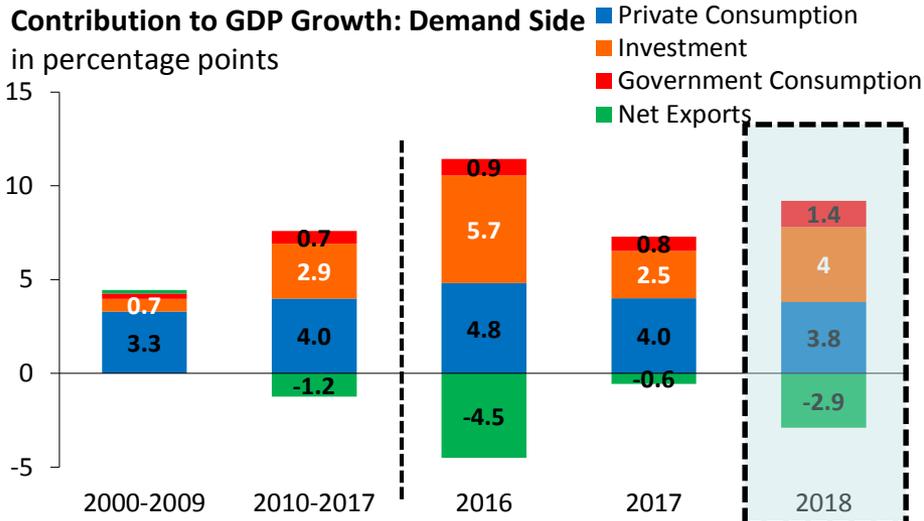
Breaking the boom-bust cycle

- The Philippine economy has sustained **80 consecutive quarters** of positive growth, breaking the boom-bust cycle
- For 2012-2018, the domestic economy has posted an **average GDP growth of 6.5 percent annually**, against a challenging domestic and global economic landscape



Reaping dividends from broadening growth drivers

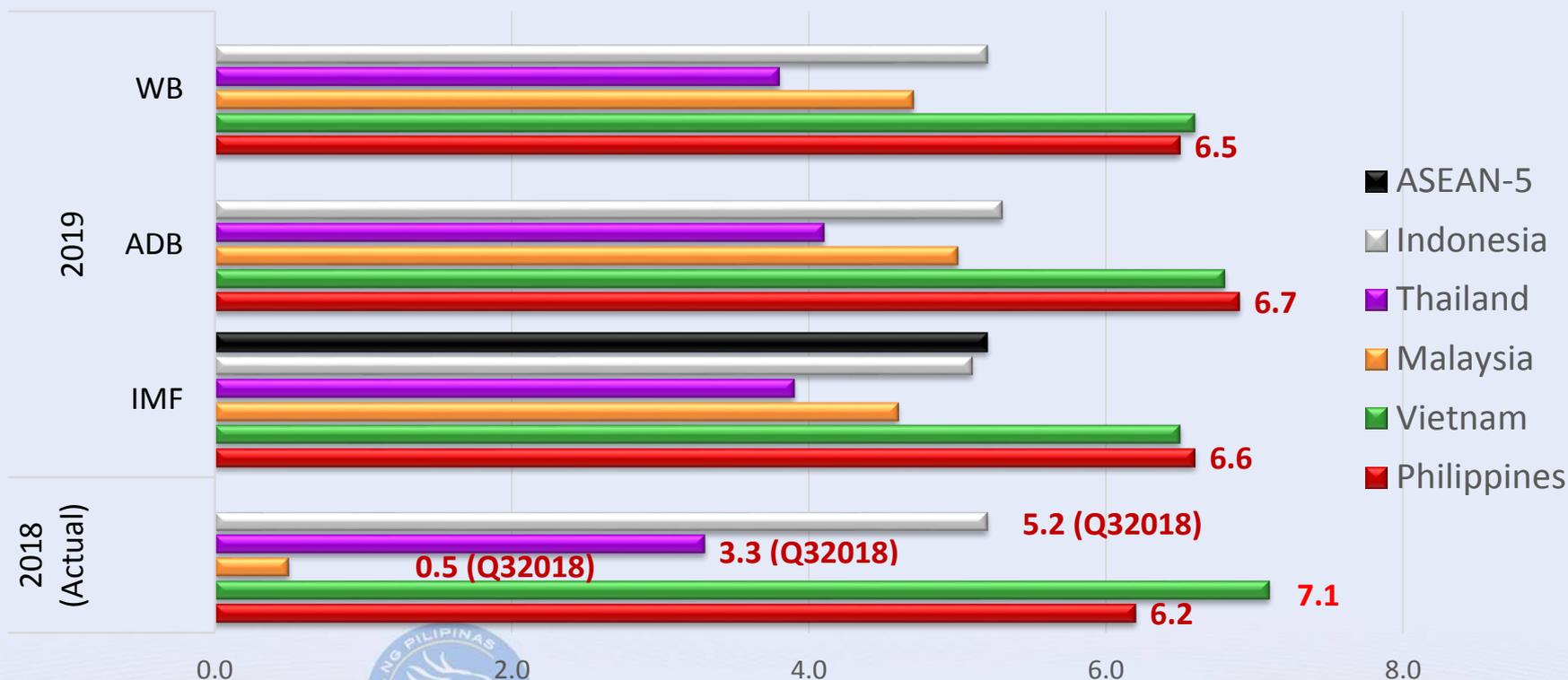
- Sustained expansion has been **broad-based**



PH to sustain economic boom

- PH economy expected to **remain one of the fastest-growing economies** in the region and in the world in 2019.
- IMF, WB, and ADB project PH economy to grow between 6.5-6.9 percent in 2019, broadly in line with the NG's growth targets

ASEAN-5 : Growth Projections 2019



Sources:

International Monetary Fund (IMF) World Economic Outlook, October 2017 and IMF Regional Economic Outlook: APD, October 2018

World Bank (WB) Global Economic Prospects, January 2019

Asian Development Bank (ADB) Asian Development Outlook Supplement, July 2018



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Future-proofing PH's growth through structural reforms

- More than 25 years of purposeful policy and structural reforms promote high, inclusive and sustainable growth

Selected Structural/Policy Reforms in the Philippine Economy (1993-present)

1993	Creation of the Bangko Sentral ng Pilipinas
1994 - 2001	Harmonization of the BSP's Business Expectations Survey (BES) with International Practices; Liberalization of foreign bank entry and the telecommunications industry; Privatization of water services (MWSS); Deregulation of the oil industry; Passage of the Philippine E-Commerce Act; Liberalization of the power sector; Introduction of Tariff Reform Program (TRP) III; Accession to the World Trade Organization (WTO)
2002	Adoption by BSP of Inflation Targeting Framework
2003-2009	Launch of the BSP's Consumer Expectations Survey (CES); Passage of the Securitization Act; Adoption of Basel II; Passage of E-VAT; Establishment of the Wholesale Electricity Spot Market (WESM); Full implementation of risk-based bank supervision; Privatization of the National Transmission Corp. and National Power Corporation
2011-2015	Adoption of phased-in migration to Basel III; Liberalization of entry of foreign banks in the Philippines; Implementation of macroprudential measures on real estate exposure; Passage of the Philippine Competition Act
2016-2017	Adoption by BSP of Interest Rate Corridor (IRC) Framework; Credit Card Industry Regulation Law; Amendment to Foreign Investment Restrictions; Economic and Financial Literacy Act; Freedom of Information; Further Liberalization of FX regulations; Implementation of Interest Rate Corridor; Financial Inclusion Steering Committee; Implementing Rules and Regulations of the Philippine Competition Act; Designated Casinos as Covered Persons under the Anti-Money Laundering Act
2018	Tax Reform for Acceleration and Inclusion (TRAIN) Law Package 1; Ease of Doing Business Act, National ID System; Amendment to the Foreign Investment Negative List (FINL)
Other Structural Reforms in the Pipeline for 2019-onwards	Amendments to the Bangko Sentral ng Pilipinas Charter (For President's signature) Replacing Quantitative Restrictions (QR) on Rice with Tariffs (For President's signature) Corporate Income Tax and Incentives Reform Act (TRAIN Package 2) Amendments to Bank Secrecy Laws Exemption of Small Scale Miners from Payment of Income and Excise Tax on Sale of Gold to BSP

From “junk” grade to “investment” grade since 2010

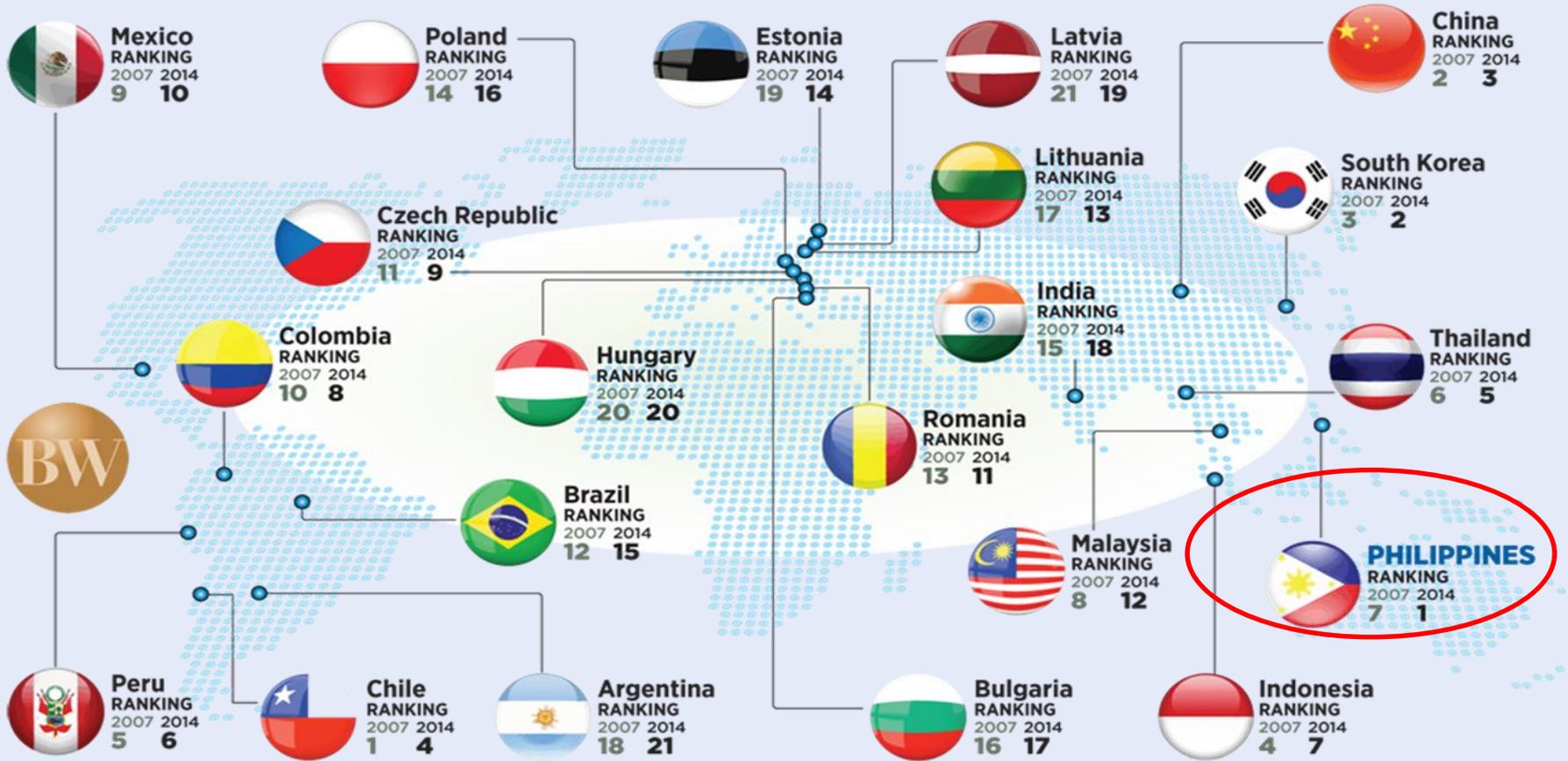
Multiple credit rating upgrades of the Philippines since 2010:
A show of faith in PH’s prospects globally

Philippine Credit Rating

	BBB	Re-affirmed BBB rating with stable outlook 17 July 2018
	BBB	Re-affirmed BBB rating and upgraded outlook to “positive” 26 April 2018
	Baa2	Re-affirmed Baa2 rating with stable outlook 20 July 2018
	BBB	Re-affirmed BBB rating with stable outlook 18 December 2017
	BBB+	Re-affirmed BBB+ rating with stable outlook 26 April 2018

Philippines 1st in resilience among selected emerging markets

RESILIENCE RANKING OF SELECT COUNTRIES



SOURCE: CENTER FOR GLOBAL DEVELOPMENT BUSINESSWORLD GRAPHICS: BONG R. FORTIN

Source: Center for Global Development, 2015



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Strengthened institutions to support reform momentum

Results of entrenched reforms are positively recognized by various independent third-party assessors



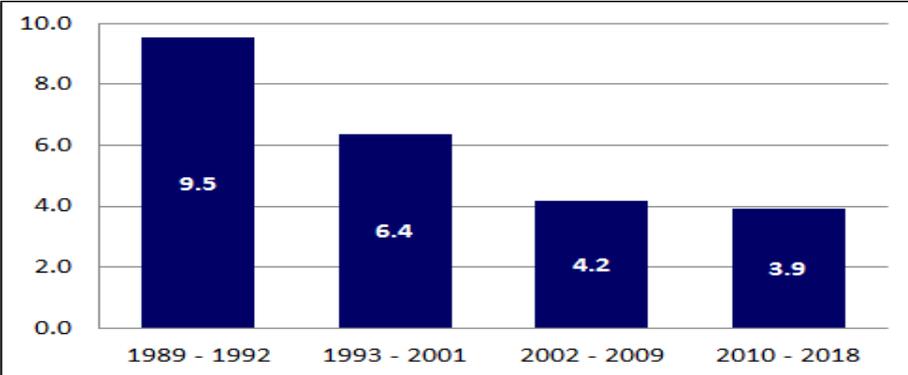
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*Percentile rank, ** Score out of 100
Source: Various third-party annual ranking reports

Unlocking higher growth potential

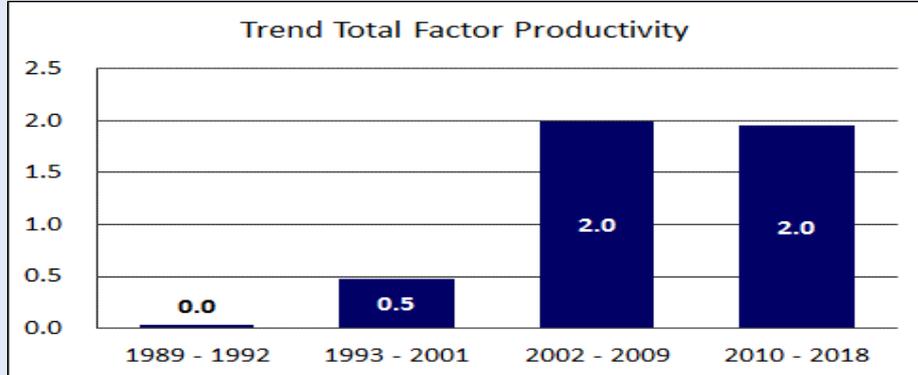
- Expanding further PH's **productive capacity** to allow it to keep up with robust demand

Incremental Capital-Output Ratio

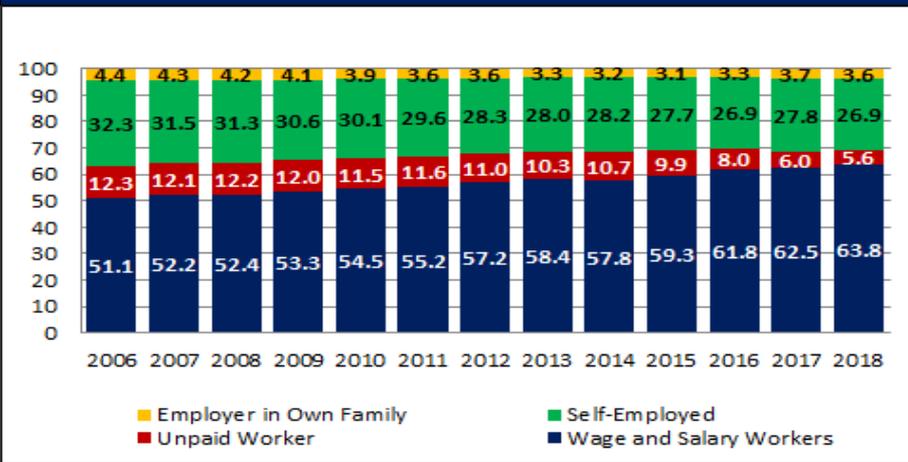


Source: Staff estimates as of 25 January 2019

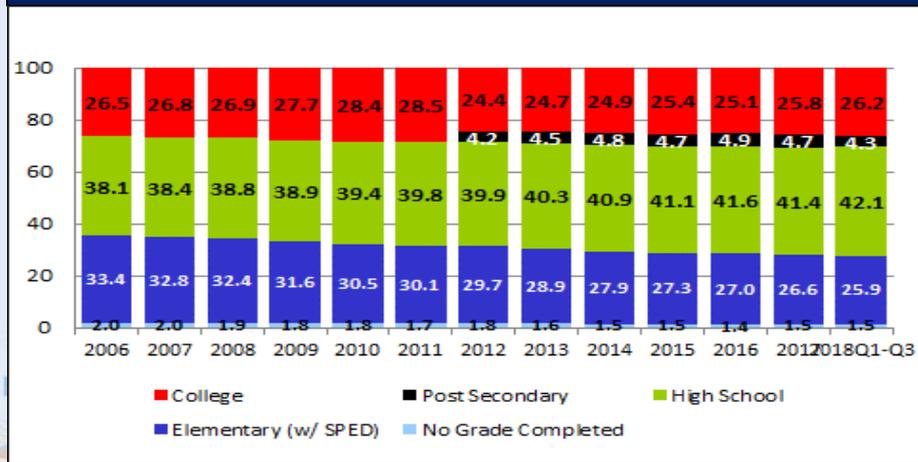
Total Factor Productivity



Employment Share by Class of Workers



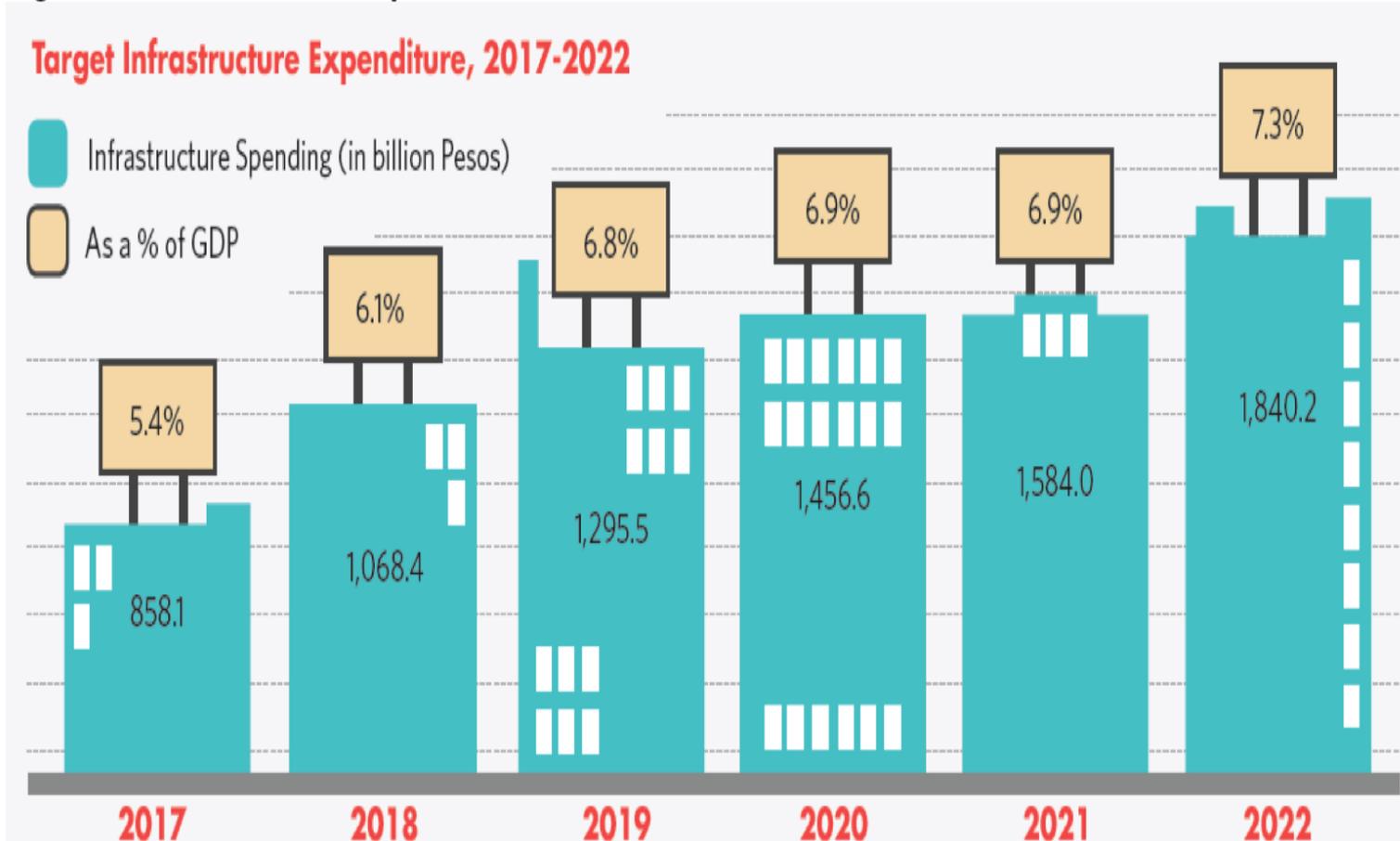
Employment Share by Educational Attainment



Source: PSA

Unlocking higher growth potential

Target Infrastructure Expenditure



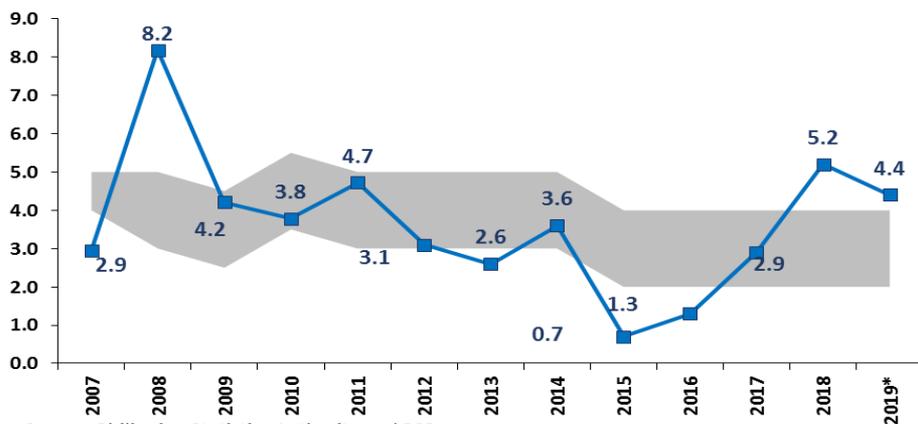
Source: Department of Budget and Management (DBM), 2018 People's Budget



Monetary action plus NG non-monetary measures to help manage inflationary pressures

Recent inflation outturns driven by supply-side factors

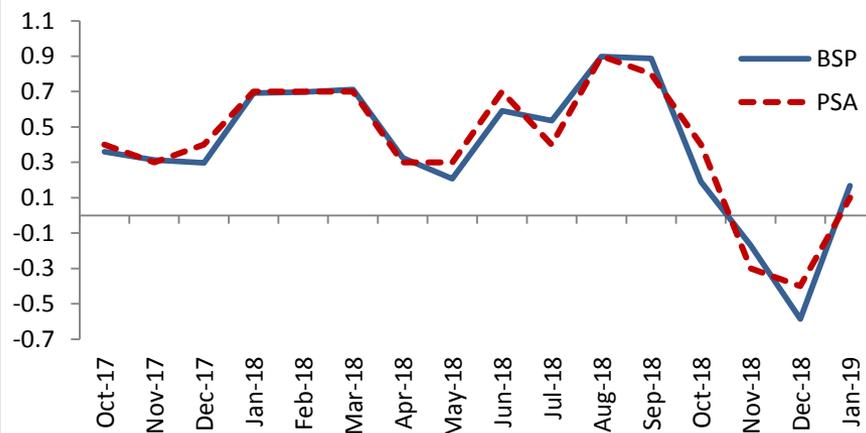
Headline Inflation (2012=100)
year-on-year in percent



Source: Philippine Statistics Authority and BSP

Inflation momentum slows down further

Seasonally-adjusted Headline Inflation (%), 2012=100



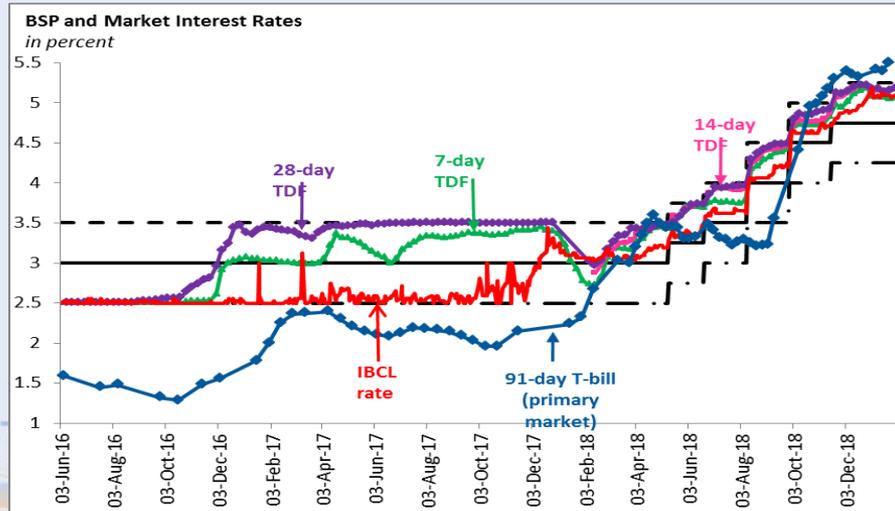
Growth and inflation forecasts

	2018	2019
ROP Official Targets		
Real GDP, % (October 2018)	6.5-6.9	7.0-8.0
Inflation, %	2.0-4.0	2.0-4.0
<i>BSP Forecast, % (2012-based)*</i>	-	3.1
IMF (October 2018)		
Real GDP, %	6.5	6.6
Inflation, %	4.9	3.9
ADB (December 2018)		
Real GDP, %	6.4	6.7
Inflation, %	5.3	4.0

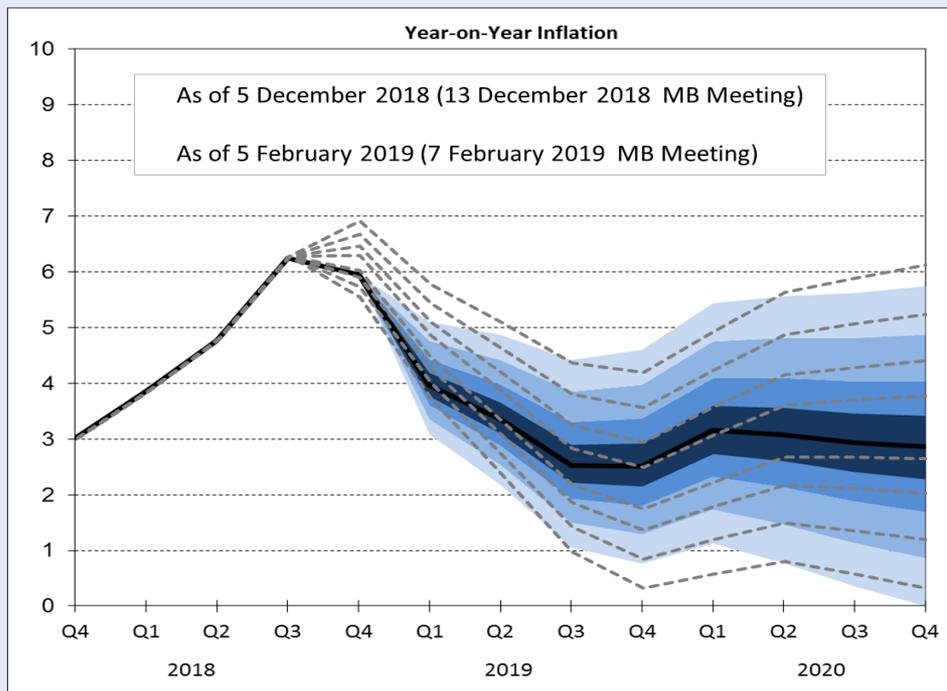
*7 February 2019 MB Meeting

Sources: BSP, PSA, IMF, and ADB

Market rates have adjusted to BSP policy hikes

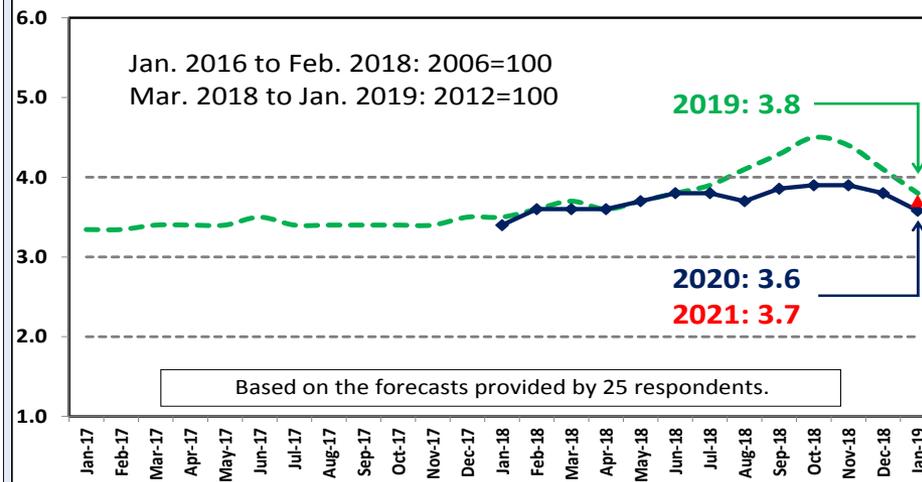


Inflation expected to revert to within target in 2019 and 2020



BSP Private Sector Economists' Survey

Mean forecast for full year, in percent



Source: BSP

Inflation Forecasts (in %, 2012-based)

Forecasters	2019	2020
AP Consensus (January 2019)	3.9	3.5
Oxford Economics Country Economic Forecast (January 2019)	4.0	4.0
Asian Development Bank Asian Development Outlook (December 2018)	4.0	n. a.

Sources: AP Consensus, Oxford Economics and ADB

Inflation (%)

13 Dec 2018
MB Meeting

7 Feb 2019
MB Meeting

2019

3.2

3.1

2020

3.0

3.0

Source: BSP



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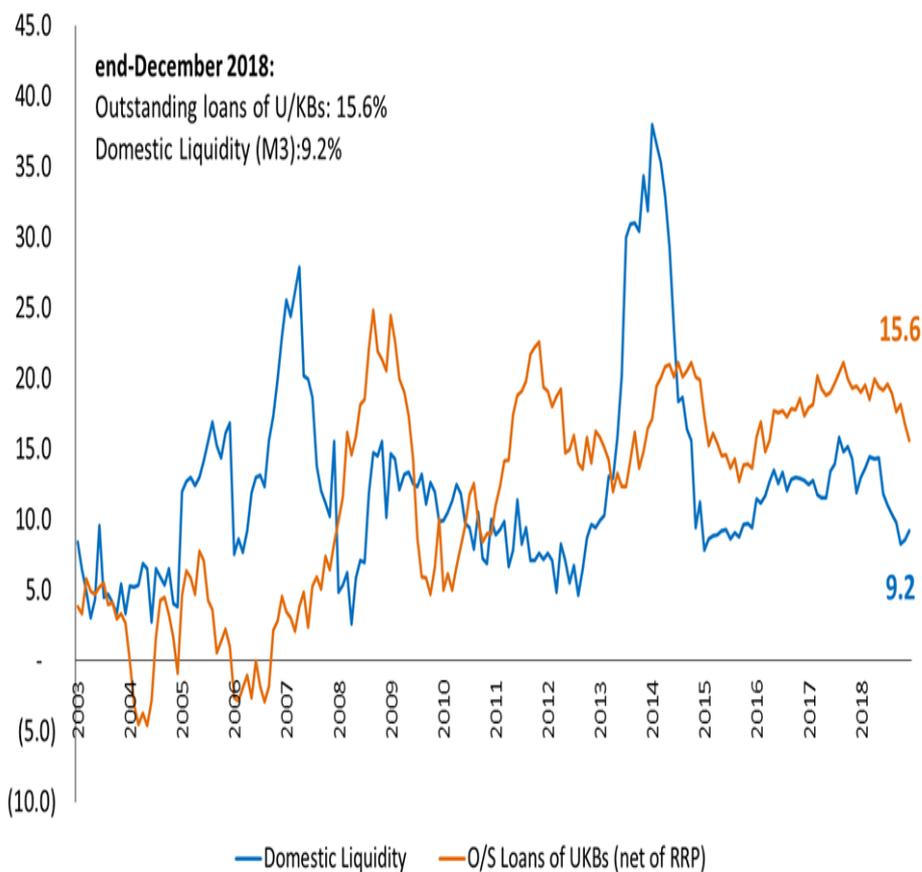
Credit growth consistent with expanding economic activity

Supportive liquidity and credit conditions

Solid demand for loans across key economic sectors

M3 and Outstanding Loans of Universal and Commercial Banks

Year-on-Year Growth in Percent



Sectors	Share to Total Loans (Net of RRP)	Contribution to Loan Growth (Net of RRP)
Financial and Insurance Activities	9.5	2.6
Electricity, Gas, Steam and Airconditioning Supply; and, Water Supply, Sewerage and Waste Management	12.2	1.6
Real Estate Activities	16.8	1.9
Agriculture, Forestry and Fishing	2.3	0.4
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles; Transportation and Storage; and Information and Communication	20.9	3.2
Manufacturing	12.8	1.7
Other sectors	17.6	3.1
Households	7.9	1.1
Total	100.0	-
Growth of Universal and Commercial Bank Loans (December 2018)	-	15.6

Notes: The reclassification of industries starting in the June 2015 data is based on the 2009 PSIC. Changes in the names of the industries are as follows:

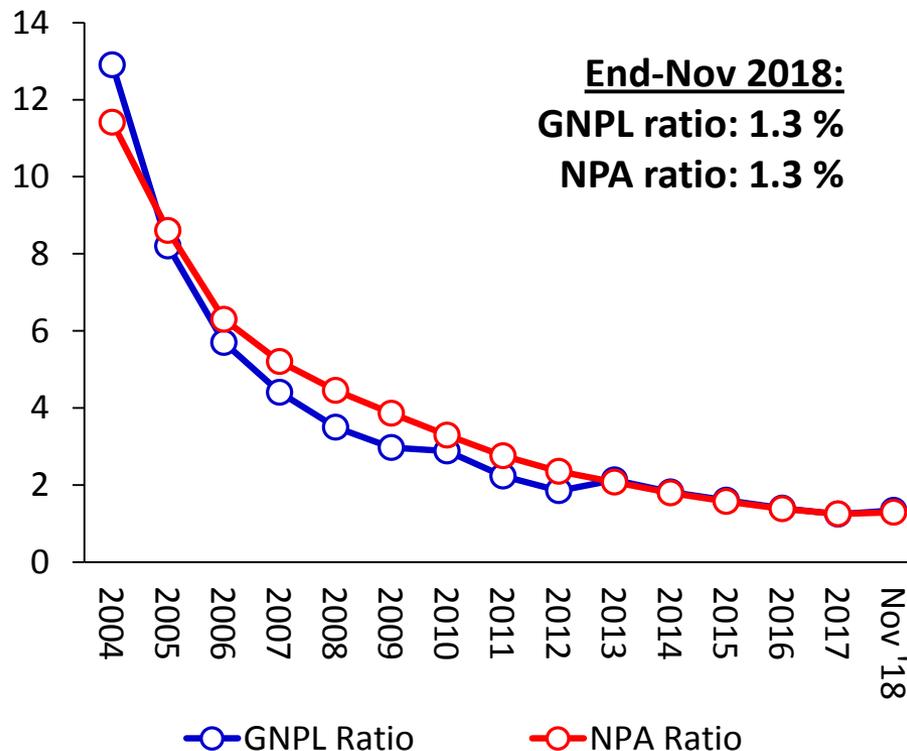
1. Financial Intermediation = Financial and Insurance Activities
2. Electricity, Gas and Water = Electricity, Gas, Steam and Airconditioning Supply; and, Water Supply, Sewerage and Waste Management and Remediation Activities
3. Real Estate, Renting and Business Activities = Real Estate Activities
4. Agriculture, Hunting & Forestry = Agriculture, Forestry and Fishing
5. Trade, Transportation, Storage and Communication = Wholesale and Retail trade, Repair of Motor Vehicles and Motorcycles; Transportation and Storage; and, Information and Communication

PH banks remain effective intermediators of loanable funds

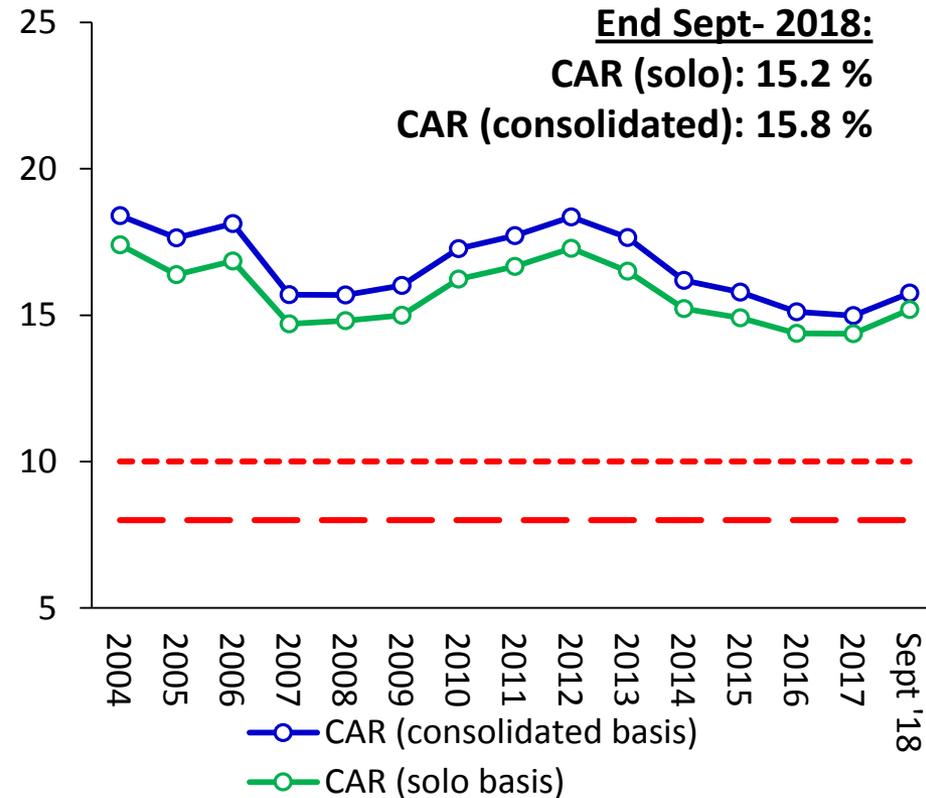
Quality of assets and loan portfolios sustain improvement.

Philippine banks remain adequately capitalized providing buffers to mitigate shocks.

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

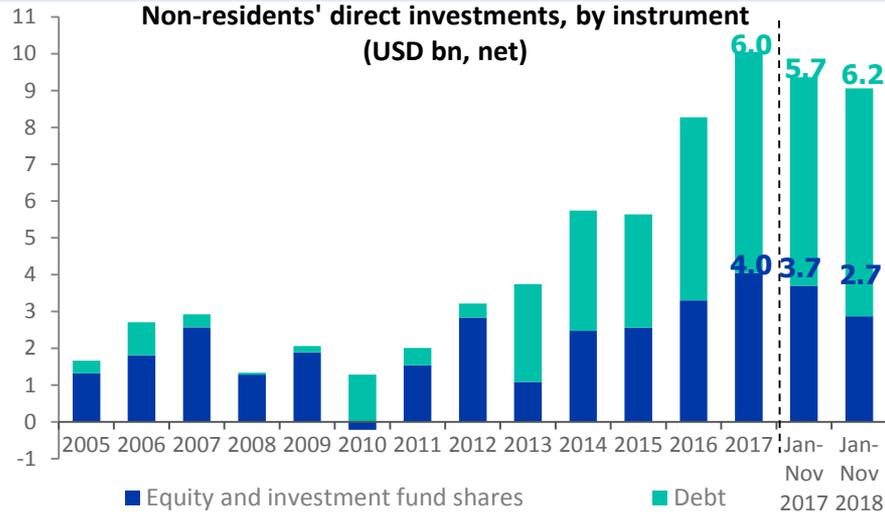


Capital Adequacy Ratio of UKBs (in percent)

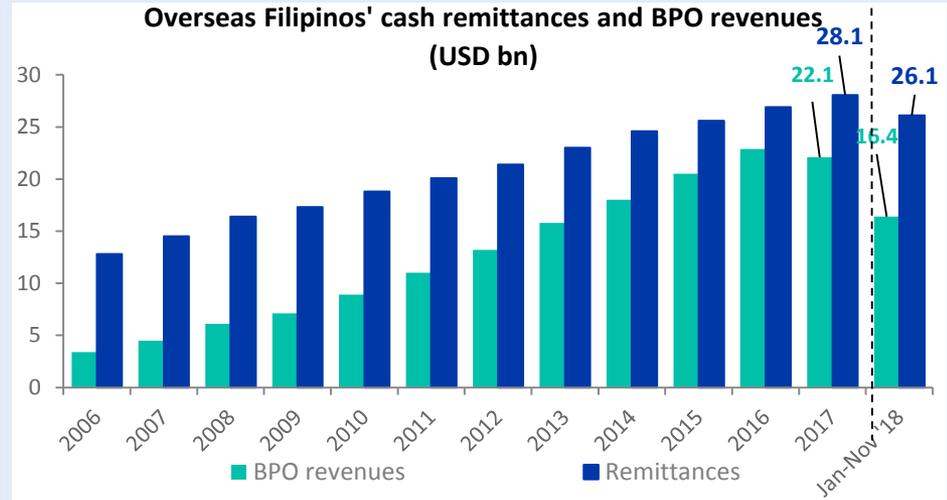


Adequate buffers against global headwinds

Resilient Foreign Direct Investments

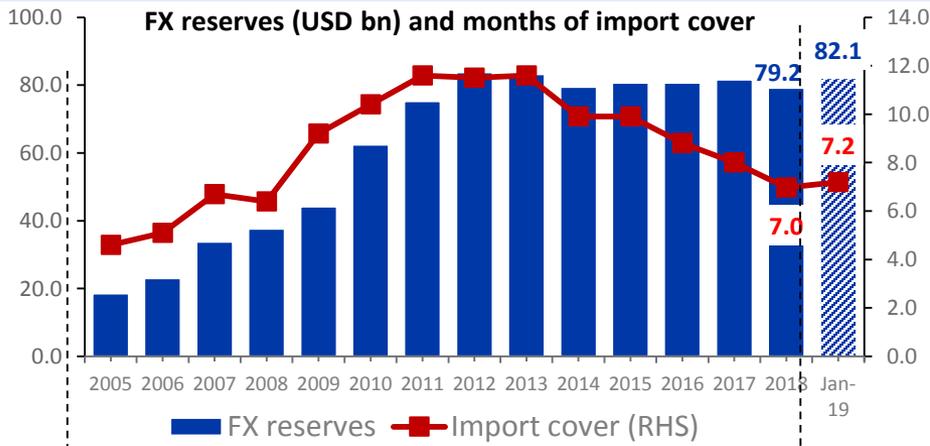


Sustained structural flows from remittances and BPOs

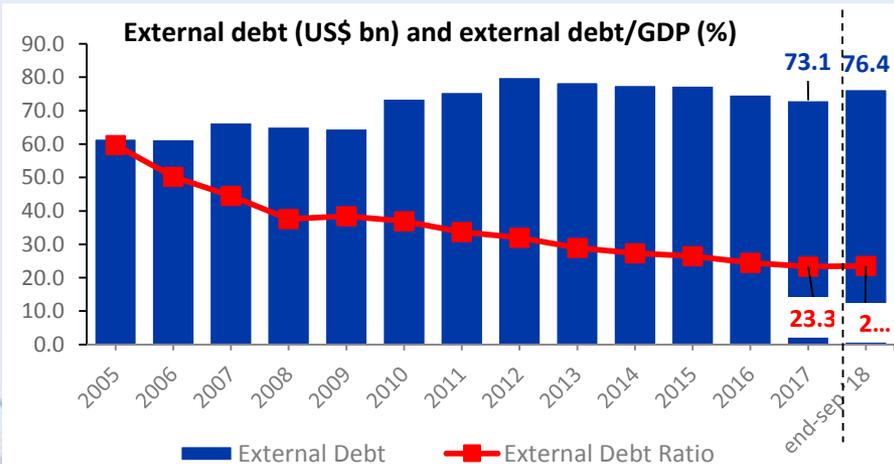


*2017 and Jan-Sep BPO data based and BOP Concept

Ample cushion from external headwinds

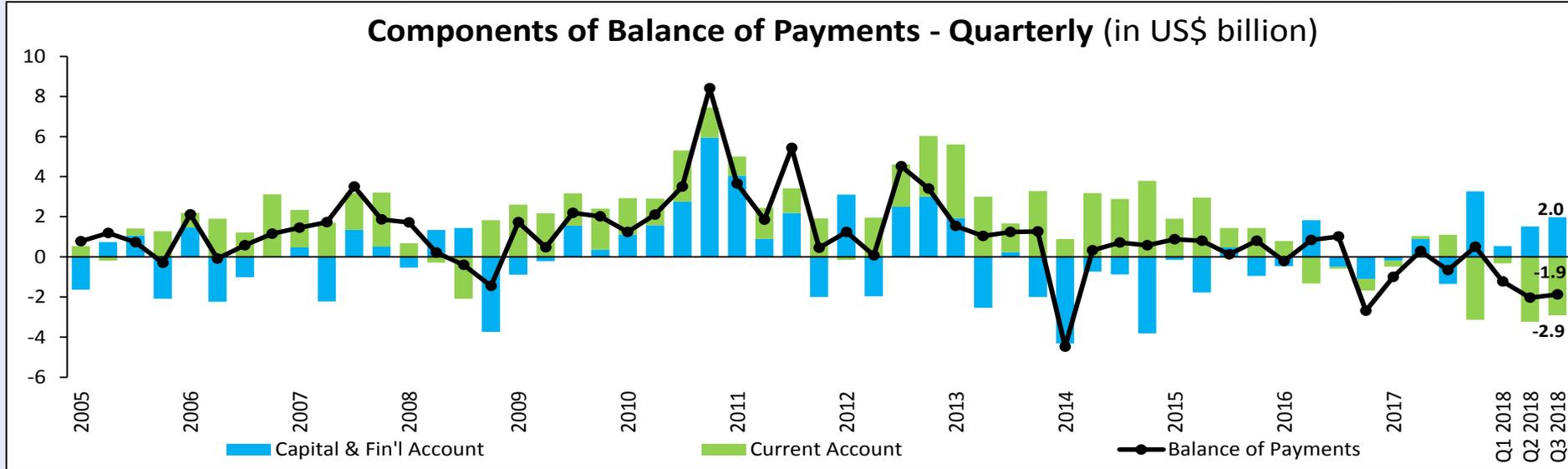


Improved Debt Profile

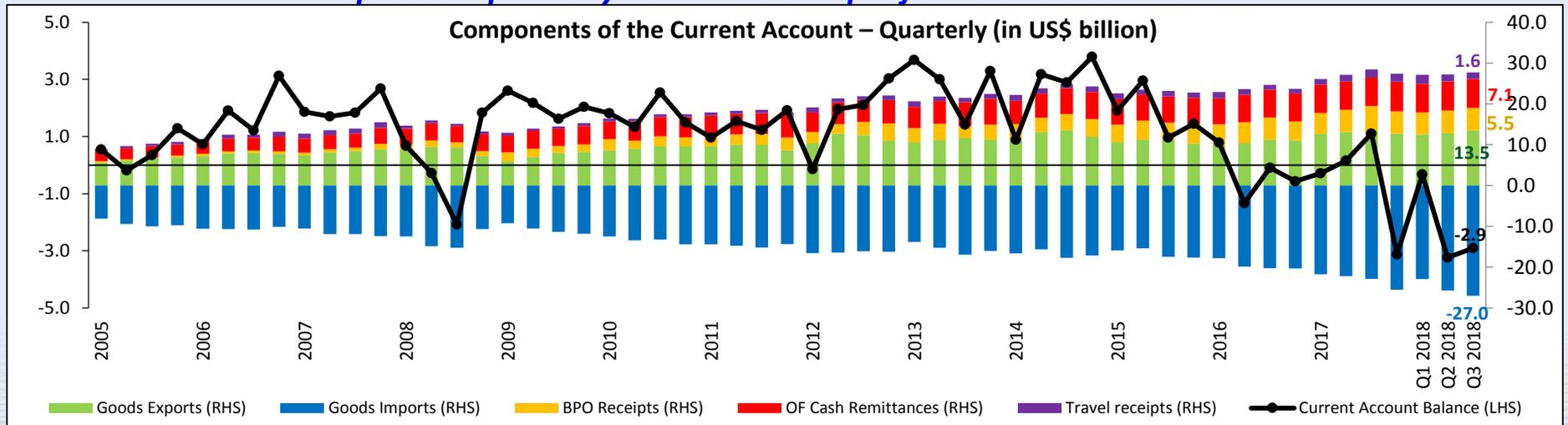


Source: BSP

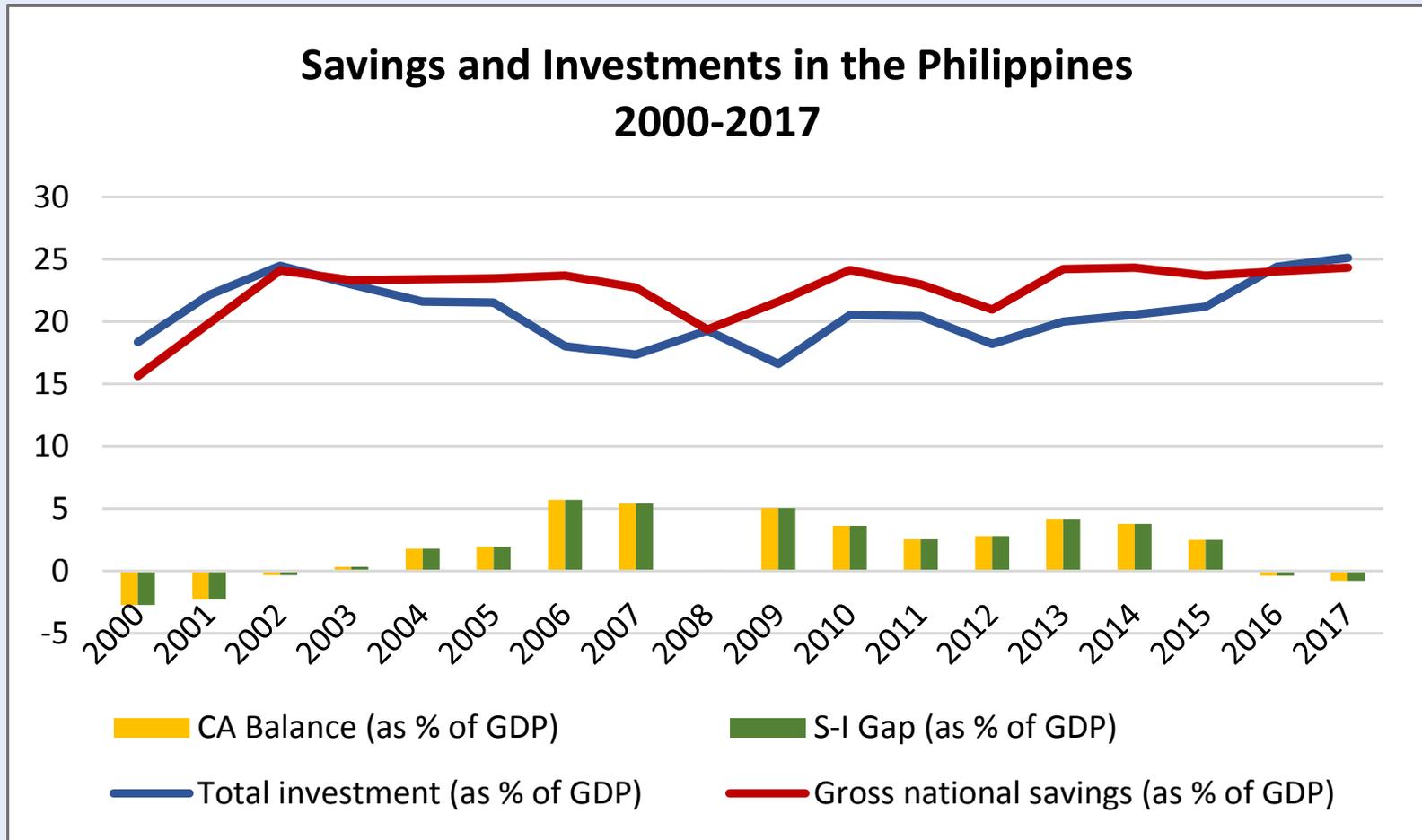
Manageable external payments position another buffer against external headwinds



Strong growth in goods imports led to narrowing of current account; impact tempered by sustained receipts from traditional sources



Current account dynamics reflect efforts to support expansion of PH's potential capacity



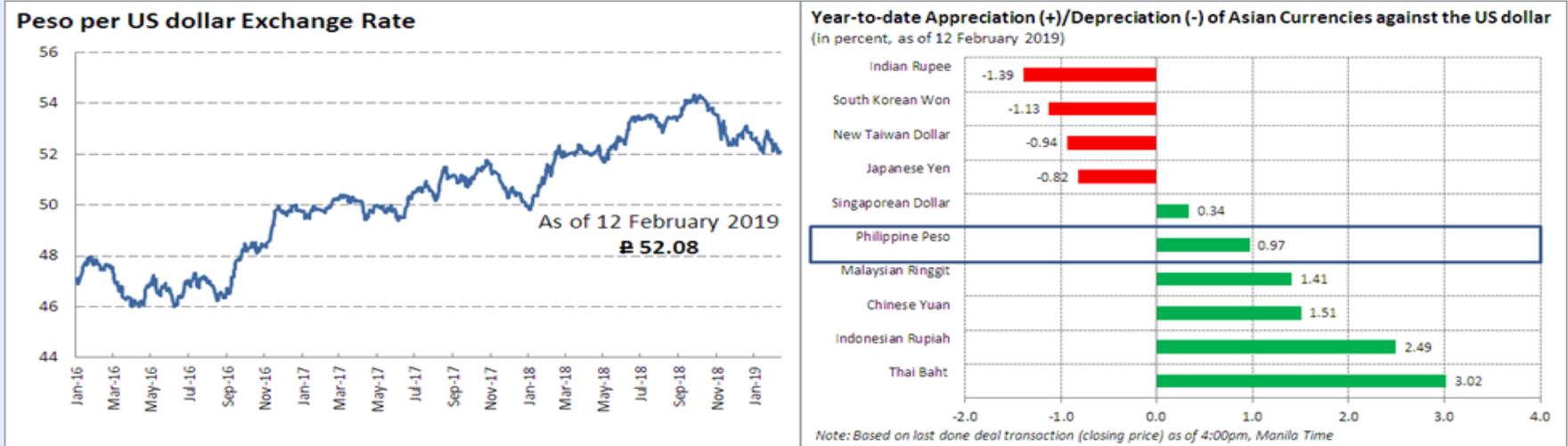
Source: IMF WEO Database, October 2018



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Peso trend consistent with macro fundamentals

- Current peso movement reflects a confluence of factors from both external and domestic environment.



The Mega-Currents



Rising protectionist policies



Disruptive technology



Uncertainty over pace of US Fed policy normalization



Global economic slowdown



Infrastructure gaps



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Philippine economy poised to sustain its growth momentum

- Robust monetary, financial, and external sectors are expected to continue to lend support to economic growth over the near and medium term

Indicators	Actual			2019	Projections	
	2016	2017	2018		2018	2019
GDP Growth (% , 2000=100)	6.9	6.7	6.2	n/a.	6.5 – 6.9 ^{a/}	7.0 – 8.0 ^{a/}
Fiscal Balance (% of GDP)	-2.4	-2.2	-3.0 (Jan-Sep)	n/a	-3.0 ^{a/}	-3.2 ^{a/}
Headline Inflation (% forecasts, 2012=100)	1.3	2.9	5.2	4.4 (Jan)	4.8-5.2 ^{a/}	3.0 – 4.0 ^{a/}
Goods Exports, per BPM6 concept (% growth rate)	-1.1	21.4	-0.9 (Jan-Sep)	n/a	1.0 ^{a/}	6.0 ^{a/}
Goods Imports, per BPM6 concept (% growth rate)	17.7	18.0	13.2 (Jan-Sep)	n/a	10.0 ^{a/}	9.0 ^{a/}
OF Remittances ^{b/} Amount (USD bn) Growth Rate (%)	26.9 5.0	28.1 4.3	(Jan-Nov) 26.1 3.1	n/a	28.9 ^{c/} 3.0 ^{c/}	29.8 ^{c/} 3.0 ^{c/}
Balance of Payments (USD bn)	-0.4	-0.9	-2.3	n/a	-5.5 ^{c/}	-3.5 ^{c/}
Gross International Reserves (USD bn)	80.7	81.6	78.5	82.1 (Jan)	76.0 ^{c/}	77.0 ^{c/}

^{a/} Approved by the DBCC on 16 October 2018.

^{b/} Cash remittances coursed through banks.

^{c/} Approved by the Monetary Board on 6 December 2019.

*Inflation forecasts as part of macroassumptions for the national budget.

r – revised; n.a. – not available

Key take-aways

- The Philippine economy has sustained **80 consecutive quarters** of positive growth, **breaking the boom-bust cycle** of the past.
- The Philippine economy is expected to **remain one of the fastest-growing economies** in the region and in the world in 2019-2020.
- Sustained commitment to pursue NG's **infrastructure and reform agenda** will support **high, inclusive and sustainable growth**
- The Philippine economy has **built domestic sources of resilience** to help cushion against external and domestic challenges.
- **The BSP remains watchful and vigilant**, ready to address any potential threats to its monetary and financial stability objectives.



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