

An Economic Agenda for the New Administration: Perspectives from the BSP

Raising the Next Tiger
Albert Del Rosario Institute
28 September 2016

DIWA C. GUINIGUNDO
Deputy Governor
Monetary Stability Sector



BANGKO SENTRAL NG PILIPINAS

Outline

I. The Inheritance: A Position of Strength

II. The Imperative of Continuity

III. Moving Forward: Macroeconomic Outlook



BANGKO SENTRAL NG PILIPINAS

The Philippines is in a position of strength

	Key Indicators	2007-2014 Average	2015	2016
Strong growth momentum	Real GDP growth (%)	5.4	5.9	6.9 (Jan-Jun)
Benign inflation	Headline inflation (%)	4.3	1.4	1.5 (Jan-Aug)
Sustained fiscal discipline	Fiscal balance (% of GDP)	-1.8	-0.9	-1.7 (Jan-Jun)
Ample liquidity and credit	Domestic Liquidity (% of GDP)	52.2	63.3	63.1 (Jun)
	(% y-o-y change)	13.1	9.4	13.1 (Jul)
	Domestic Credit (% of GDP)	51.2	59.1	60.1 (Jun)
	(% y-o-y change)	14.5	13.6	17.7 (Jul)
Sound and stable banking system	Non-performing loans (% of total loans) - U/KBs*	2.8	1.6	1.7 (Jul)
	Capital Adequacy Ratio (consolidated basis) - U/KBs**	16.9	15.8	15.8 (Mar)
Robust external payments position	Current Account Balance (US\$ Bn)	7.3	8.4	0.07 (Q2)
	% of GDP	3.4	2.9	0.1 (Q2)
	Gross International Reserves (in months of imports of goods and services and primary income)	9.7	10.1	10.5 (end-Aug)
	External debt (% of GDP)	34.9	26.5	26.2 (End-Jun)
	External debt service burden (% of exports of goods, receipts of services & income)	9.2	5.3	5.5 (End-Jun)

* Data starting 2012 are computed as prescribed under BSP Circular No. 772. Gross NPL represents the actual level of NPL without any adjustment for loans treated as "loss" and fully provisioned. U/KBs stand for universal and commercial banks.

**Computation based on the combined reports of parent bank (head office and branches) and its subsidiaries engaged in financial undertakings but excluding insurance; also excludes trust department; 2007-2013 figures are calculated under the Basel II regime while 2014-2016 figures are under Basel III framework.

Dissecting the Philippine Economic Narrative

Our “Values” Proposition

Good Governance & Institutions

- Better institutions resulted in policy space
- Emphasis on governance restored trust and confidence in the public sector

Commitment to Reform

- Proactive reform pipeline across economic sectors improved efficiency and increased productivity

Resilience

- Demonstrated relative strength amidst external shocks
- Maintained positive alignment between growth and inflation

Behind PH's achievements are long history of structural reforms

Year	Selected Structural/Policy Reforms in the Philippine Economy
1993	Creation of the Bangko Sentral ng Pilipinas
1994	Liberalization of foreign bank entry
1995	Liberalization of the telecommunications industry
1996	An Act to Further Liberalize Foreign Investments, Amending for the Purpose RA7042
1997	Privatization of water services (MWSS)
1998	Deregulation of the oil industry; Adoption of consolidated bank supervision
2000	Philippine E-Commerce Act
2001	Liberalization of the power sector (EPIRA)
2002	Inflation Targeting Framework; Special Purpose Vehicle Act; PhilPass
2003	Government Procurement Reform Act
2004	Securitization Act; Adoption of Basel 2
2005	Expanded value-added tax (E-VAT); Fixed Income Exchange
2006	Wholesale Electricity Spot Market (WESM)
2007	Risk-based bank supervision
2009	Privatization of the National Transmission Corporation (TransCo) and National Power Corporation's (NPC) assets
2010	Launched PPP Program; Bureau of Customs Electronic Mobile System; Zero-based Budgeting approach; Reinvigorated implementation of programs against corrupt officials



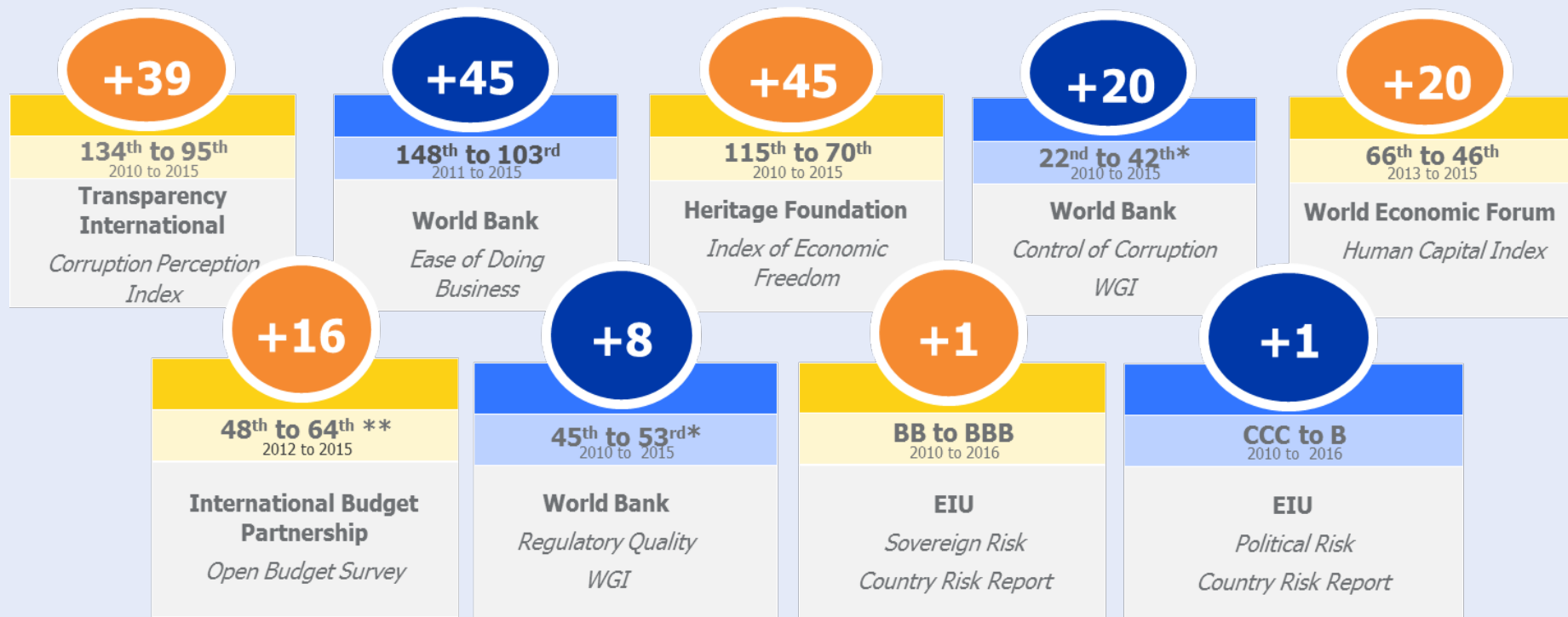
Behind PH's achievements are long history of structural reforms

Year	Selected Structural/Policy Reforms in the Philippine Economy
2011	Philippine Financial Reporting Standards (PFRS) 9; Phased-in migration to Basel III
2012	Amendments to the Anti-Money Laundering Law; Amendments to Sin Tax Law
2013	Act allowing the infusion of foreign equity in the capital of rural banks (RA 10574); Revised excise tax rates on alcohol and tobacco
2014	Liberalization of Entry of Foreign Banks in PHL; Basel III Framework; Financial Consumer Protection Framework; Macroprudential measures on real estate exposure
2015	Philippine Competition Act; Credit Surety Fund Cooperatives (RA10744); Lifting of BSP moratorium for granting of licenses for establishment of new banks
2016	Credit Card Industry Regulation Law; Amendment to Foreign Investment Restrictions; Economic and Financial Literacy Act; Freedom of Information; Further Liberalization of FX regulations
	Other Structural Reforms in the Pipeline
	Amendments to the Bangko Sentral ng Pilipinas Charter
	Enactment of the Payment Systems Act
	Amendments to the Anti-Money Laundering Act



BANGKO SENTRAL NG PILIPINAS

Track record of continued institutional strengthening

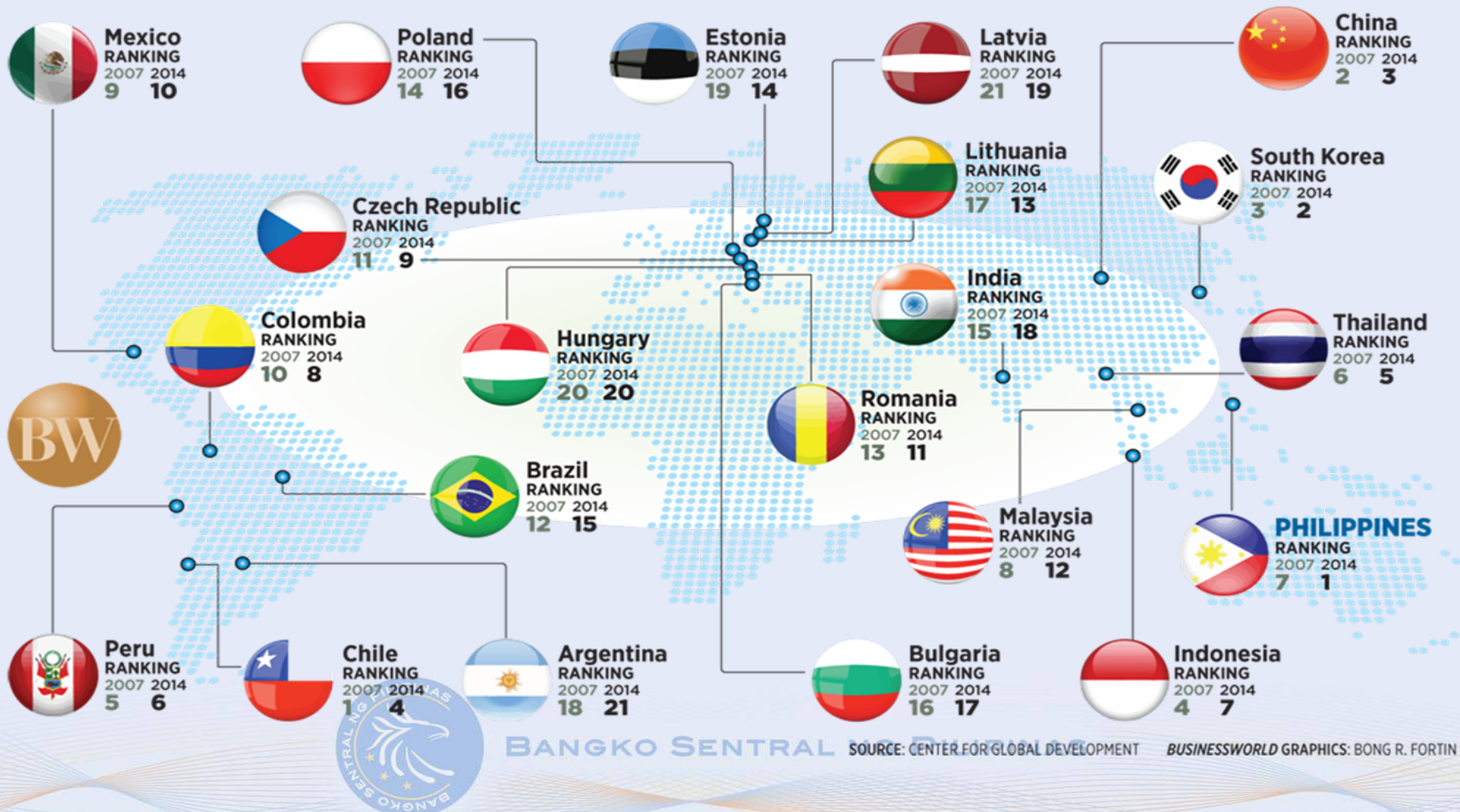


BANGKO SENTRAL NG PILIPINAS

*Percentile rank, ** Inverse ranking
Source: Various third-party annual ranking reports

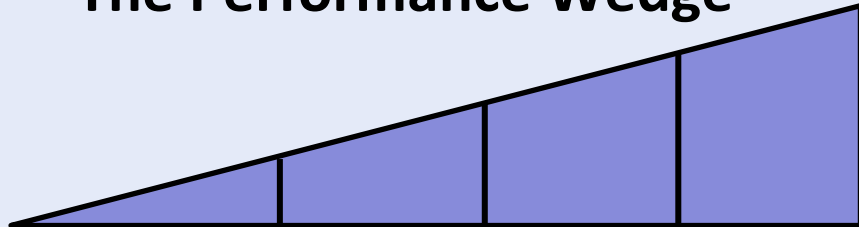
The Philippine economy ranked first in resilience

RESILIENCE RANKING OF SELECT COUNTRIES



Economic track record decoupled from politics

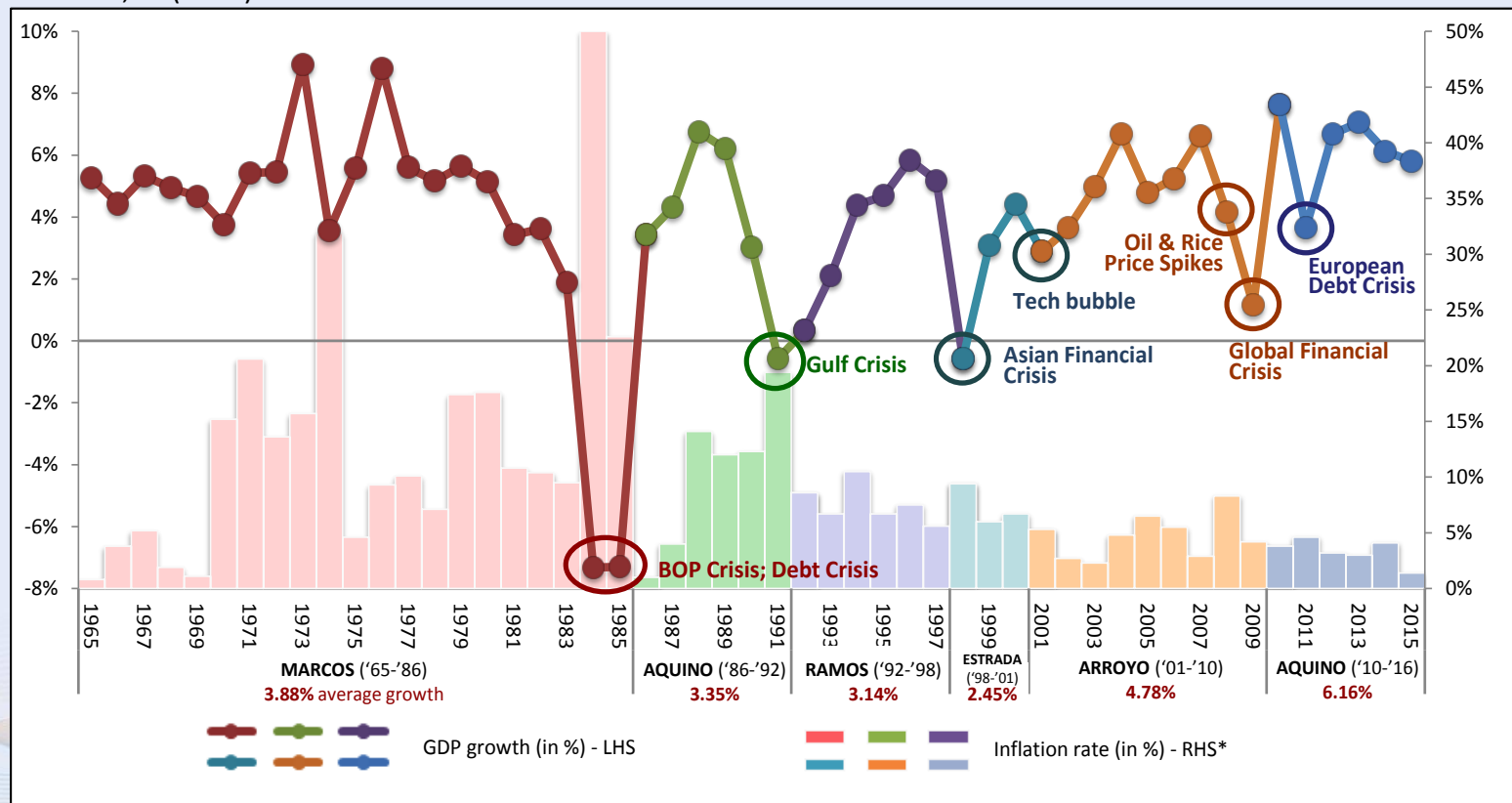
The Performance Wedge



Awful Adequate Good Great

- Three 'values proposition' enabled economic policy to deliver

* Source: Barber, M (2015). How to Run a Government



Outline

I. The Inheritance: A Position of Strength

II. The Imperative of Continuity

III. Moving Forward: Macroeconomic Outlook



BANGKO SENTRAL NG PILIPINAS

The Imperative of Continuity

- Broad-based drivers of growth
- Benign inflation environment
- Firm demand conditions and bullish sentiment
- Sound and stable banking system
- Robust external payments position

Strengths

- Persistent poverty and inequality
- Vulnerable employment
- Infrastructure bottlenecks

Weaknesses

- Resurging manufacturing and industry sectors
- Improving potential capacity
- Demographic window
- ASEAN Integration

Opportunities

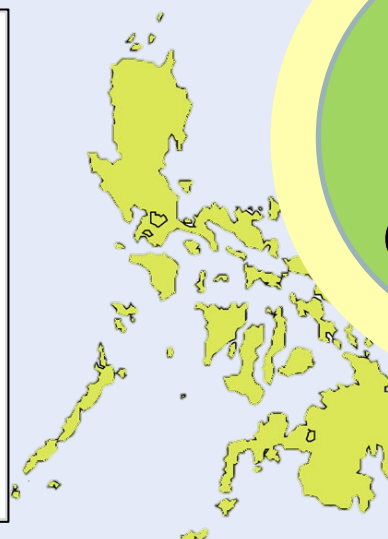
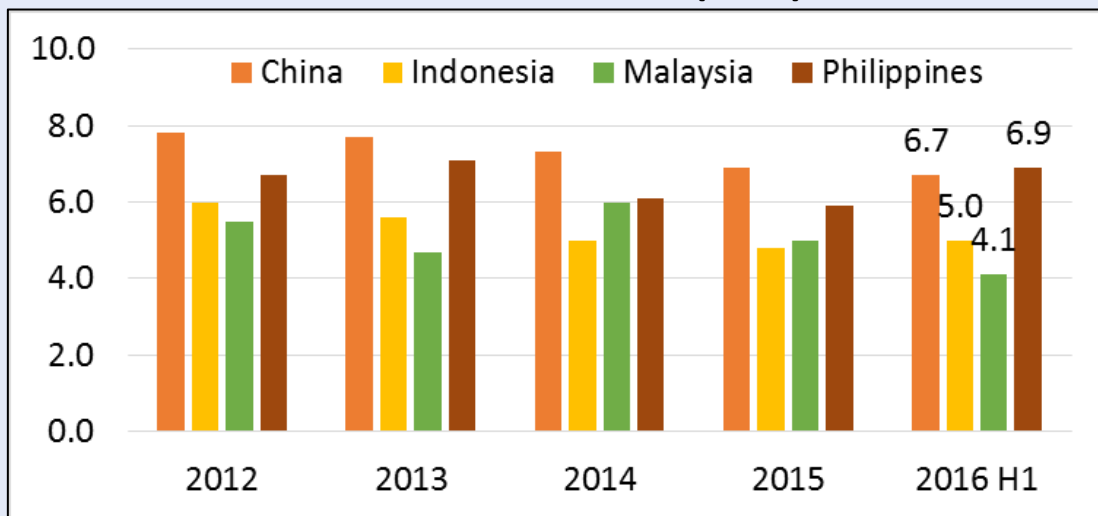
- Subpar global growth
- Monetary policy divergence
- Volatility of commodity prices
- Brexit

Threats

Sustained domestic growth momentum

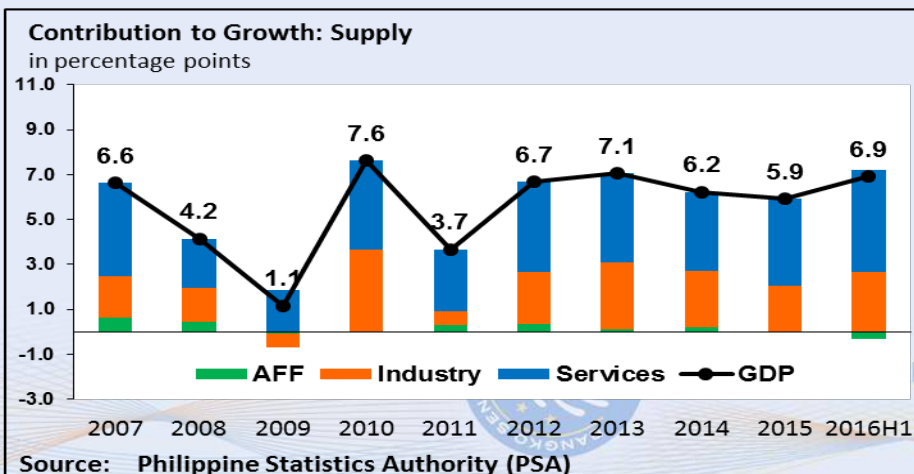
One of Asia's fastest growing economies

Real GDP Growth (in %)

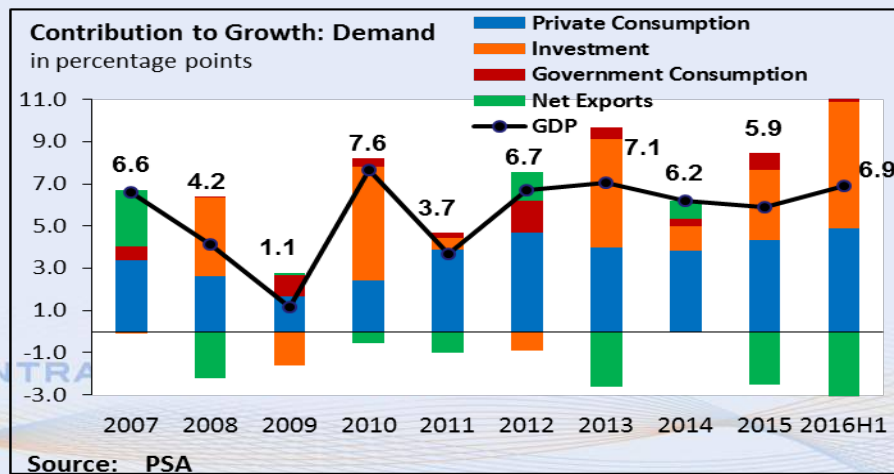


7%
Q2 2016

Supply-side drivers: Industry and Services

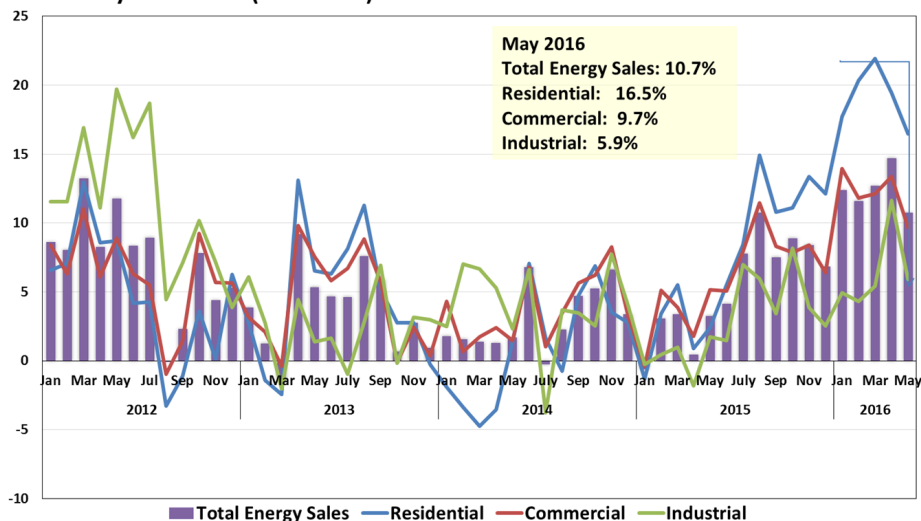


Demand-side driver: Private consumption

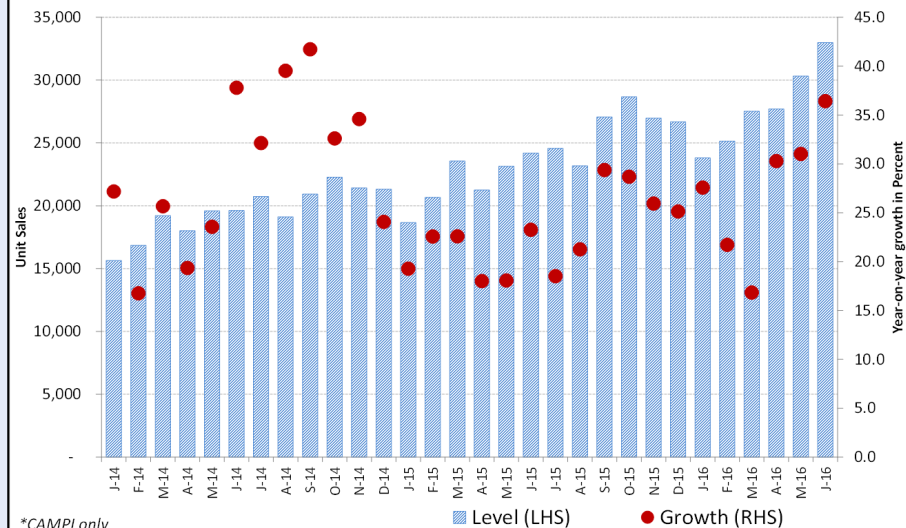


Firm demand conditions

Energy Sales
Year-on-year Growth (in Percent)



Vehicle Sales*

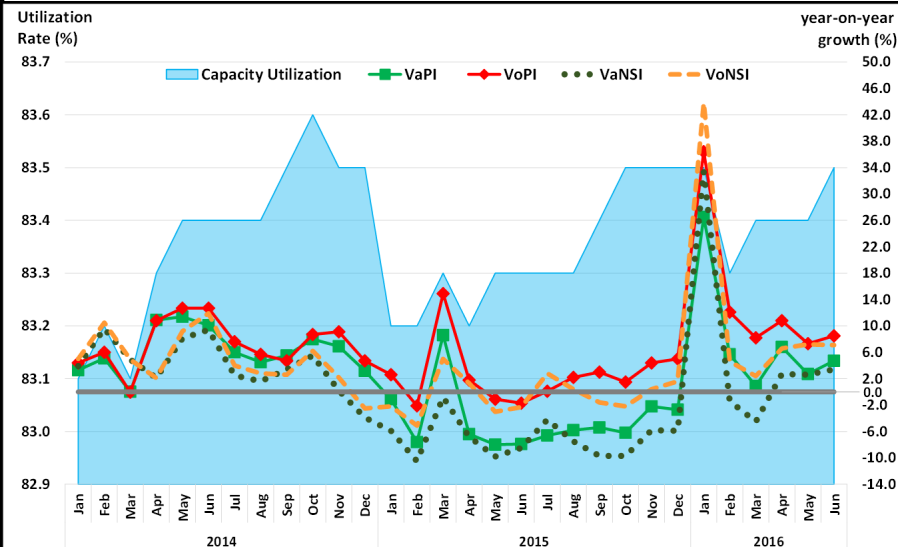


*CAMPI only

Purchasing Managers' Index
January 2011 - June 2016

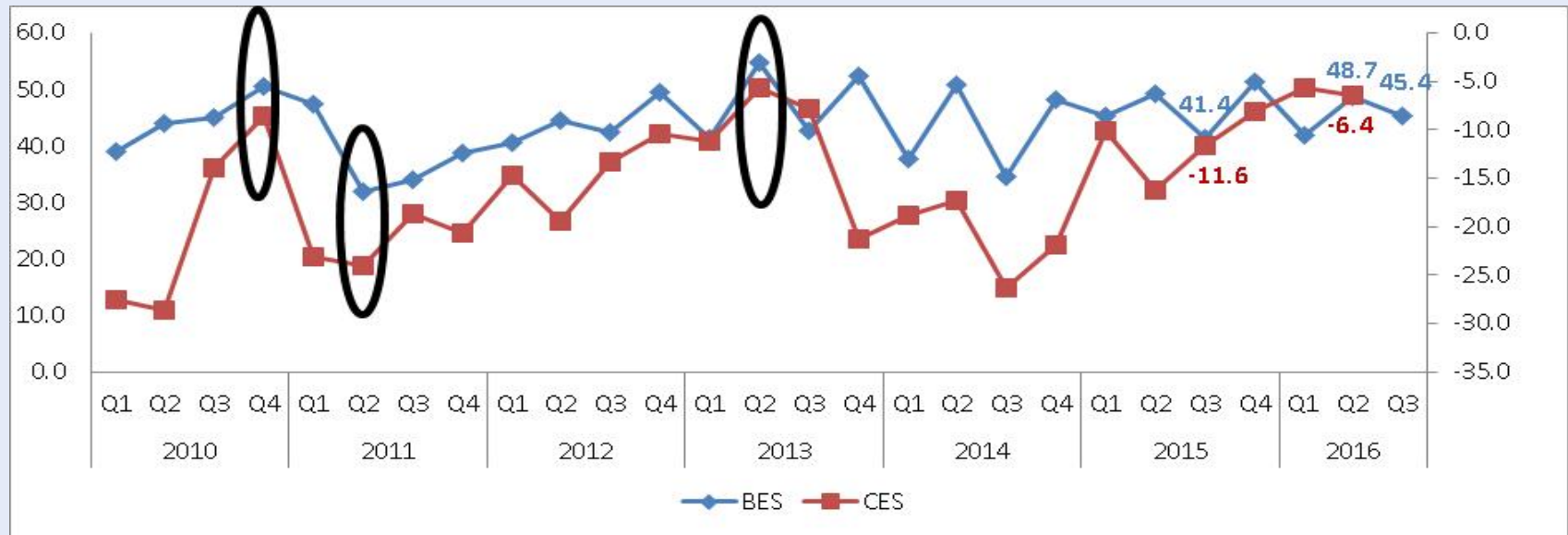


Manufacturing Sector (January 2014 - June 2016)



Consumer and business sentiments remain bullish

BES index remains positive while the CES index is generally moving upward since Q3 2014 (BES/CES updated)

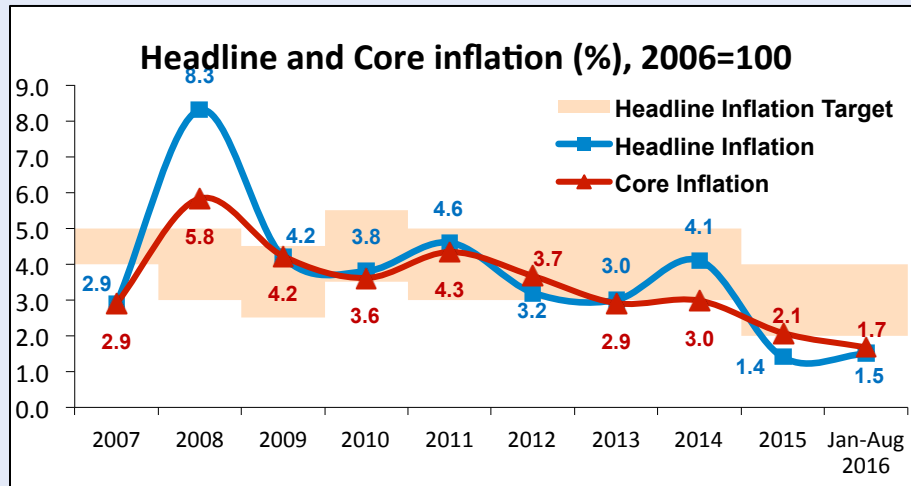


Source: Business Expectations Survey, Q3 2016; Consumer Expectations Survey, Q2 2016



Inflation remains benign

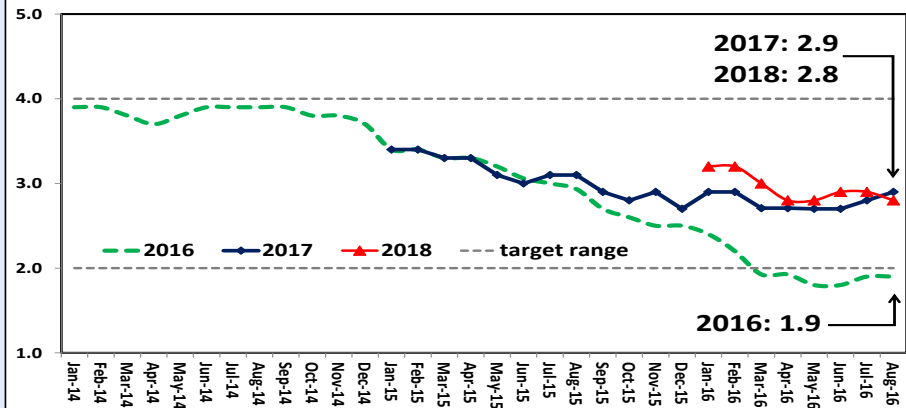
Low inflation outturn



Source: PSA

Anchored inflation expectations

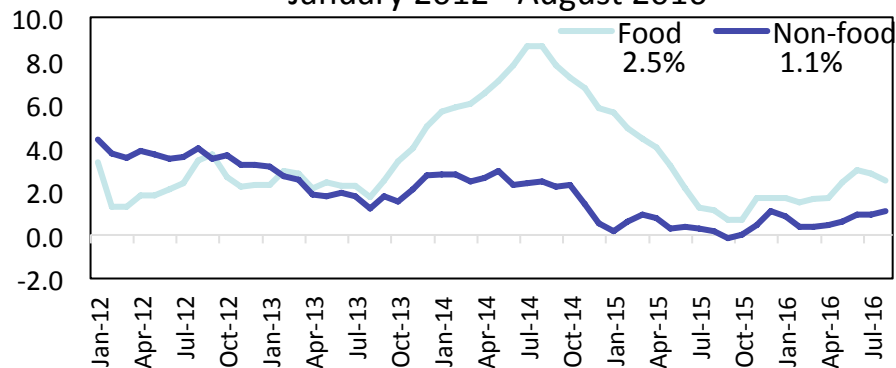
BSP Private Sector Economists' Survey
Mean forecast for full year, in percent



Source: Bangko Sentral ng Pilipinas (BSP)

Food vs. Non-Food Inflation

January 2012 - August 2016



Source: PSA

Inflation Forecasts for the Philippines

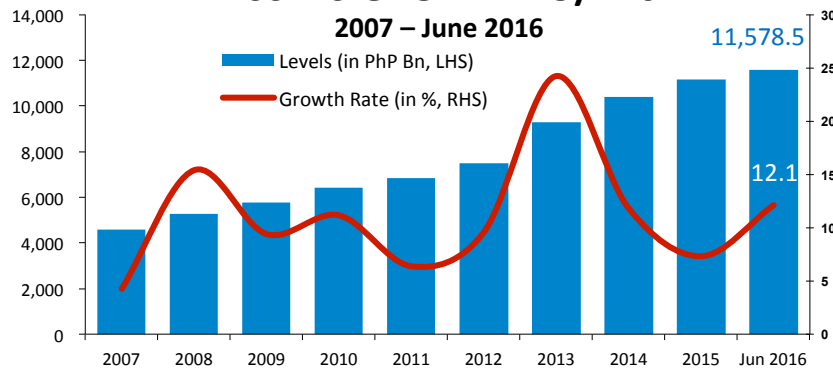
	2016	2017
International Monetary Fund (average)	2.0	3.4
Institute of International Finance (end-of-period)	1.8	2.5
AP Consensus Forecasts (average)	1.9	2.8

Sources: IMF World Economic Outlook April 2016, IIF Global Economic Monitor June 2016, Consensus Economics, July 2016

Banking system remains sound and strong

Solid assets growth

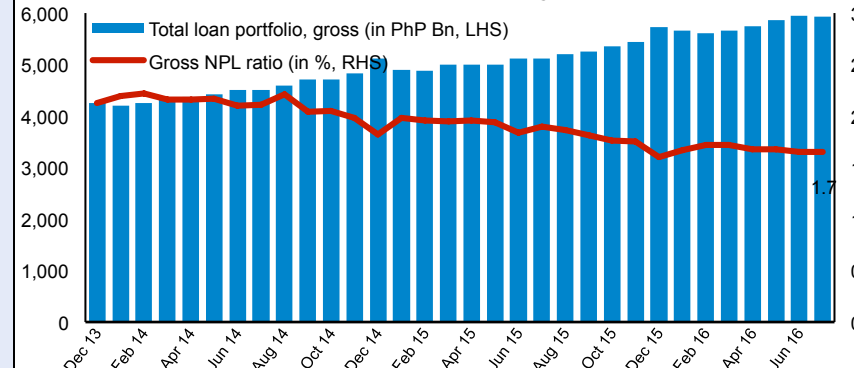
ASSETS GROWTH: U/KBs
2007 – June 2016



Source: BSP

Improved quality of loans

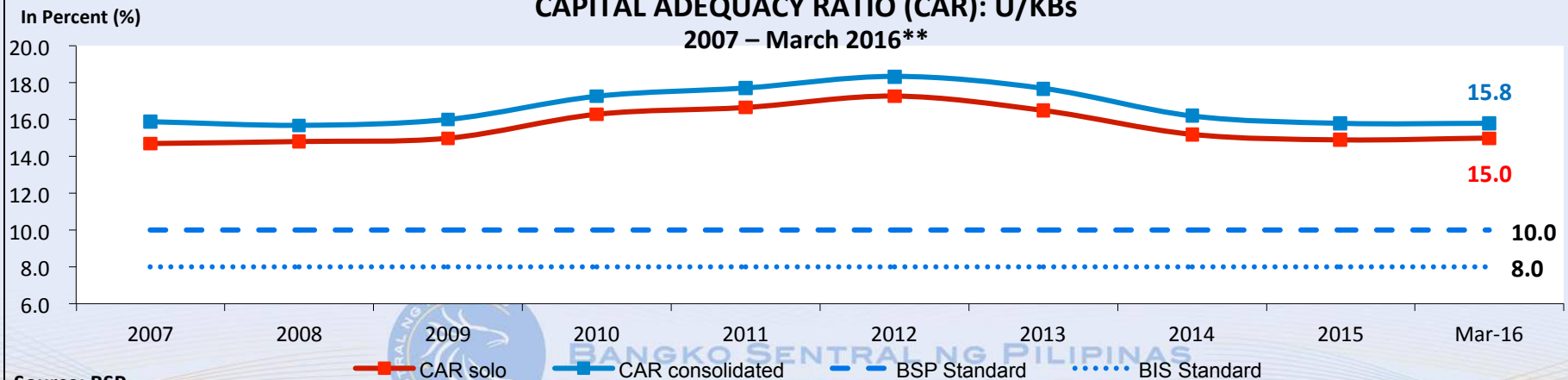
TOTAL LOAN PORTFOLIO and GROSS NPL RATIO: U/KBs
December 2013 – July 2016*



Source: BSP

Strong capitalization

CAPITAL ADEQUACY RATIO (CAR): U/KBs
2007 – March 2016**



Source: BSP

* Starting January 2013, figures are computed as prescribed under BSP Circular No. 772. Gross Non-Performing Loans (NPL) represents the actual level of NPL without any adjustment for loans treated as "loss" and fully provisioned.

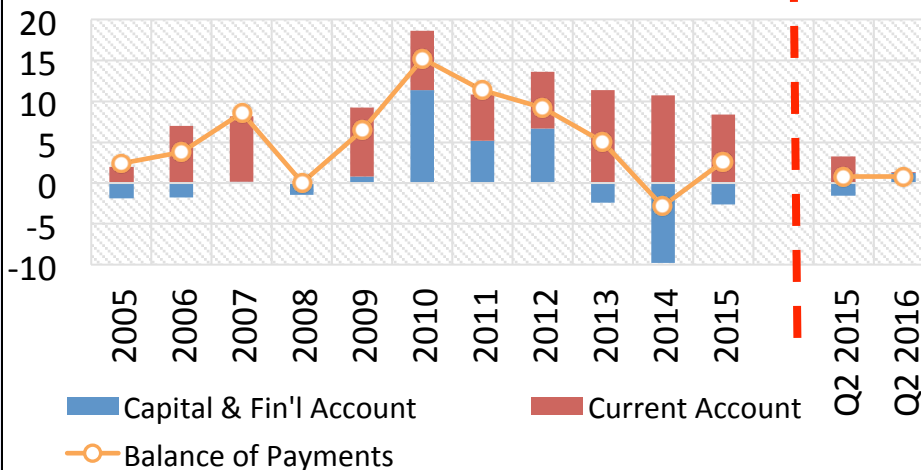
** 2007-2013 figures are calculated under the Basel II regime while 2014-2016 figures are under Basel III.

External position is robust

Consistent current account surplus

Balance of Payments (BPM6)

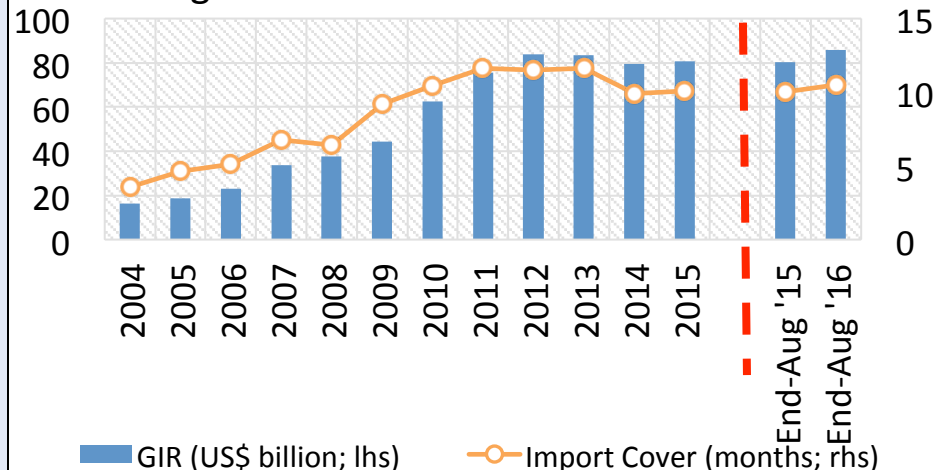
2005-Q2 2016 (in US\$ Billion)



Ample FX reserves

Gross International Reserves

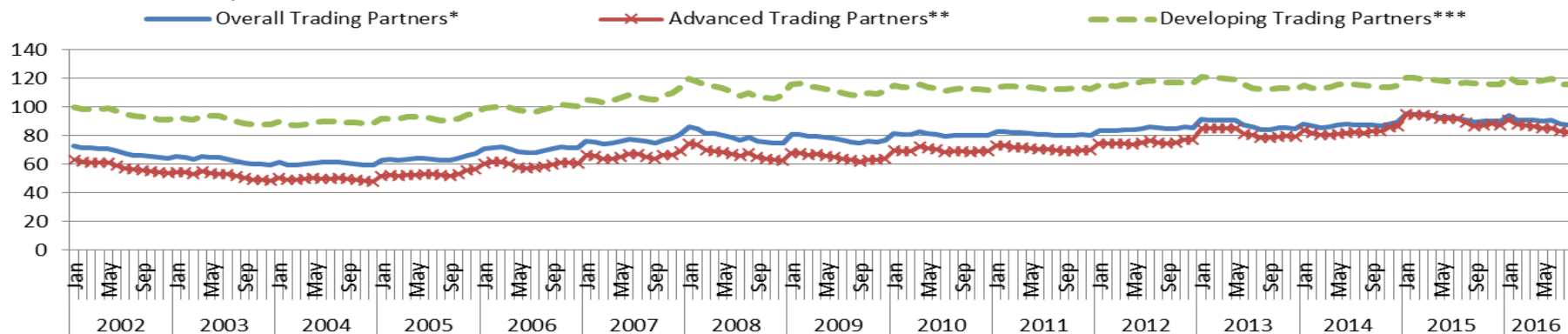
2004 – August 2016



...supporting the broad stability of the peso

Real Effective Exchange Rate of the Peso (January 2000 - Aug 2016)

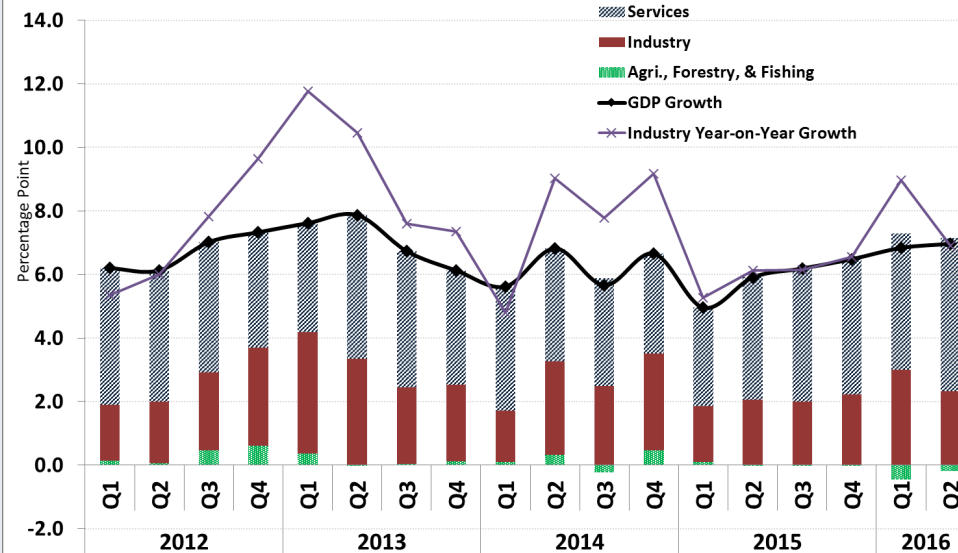
1980=100, in index points



Seizing the opportunities

Contribution to GDP Growth

Supply Side

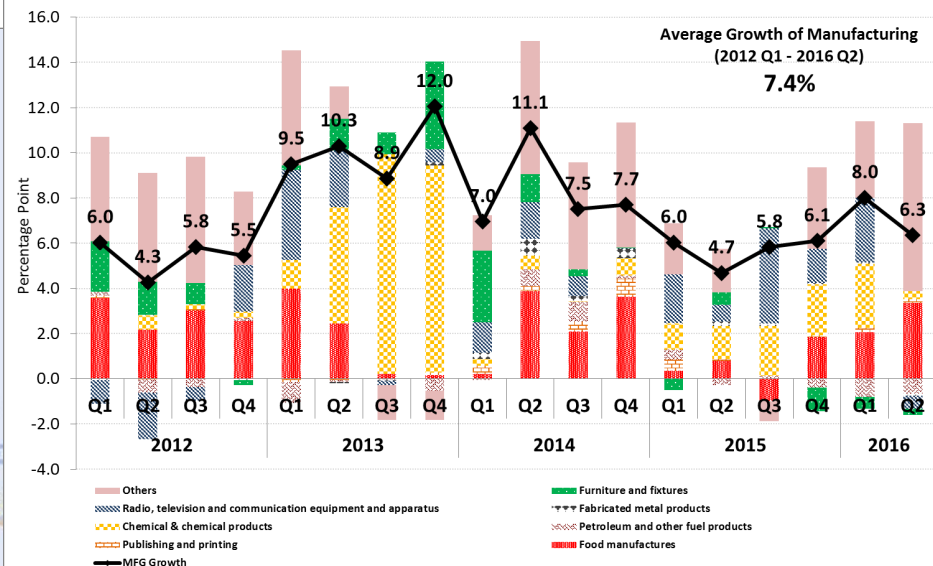


Source: PSA

Average Growth Rate (2012 Q1 – 2016 Q2)

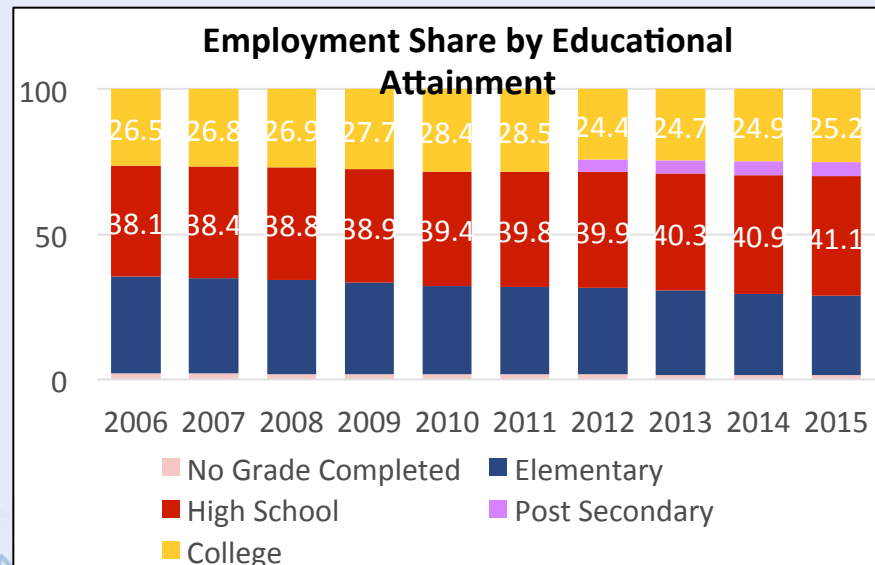
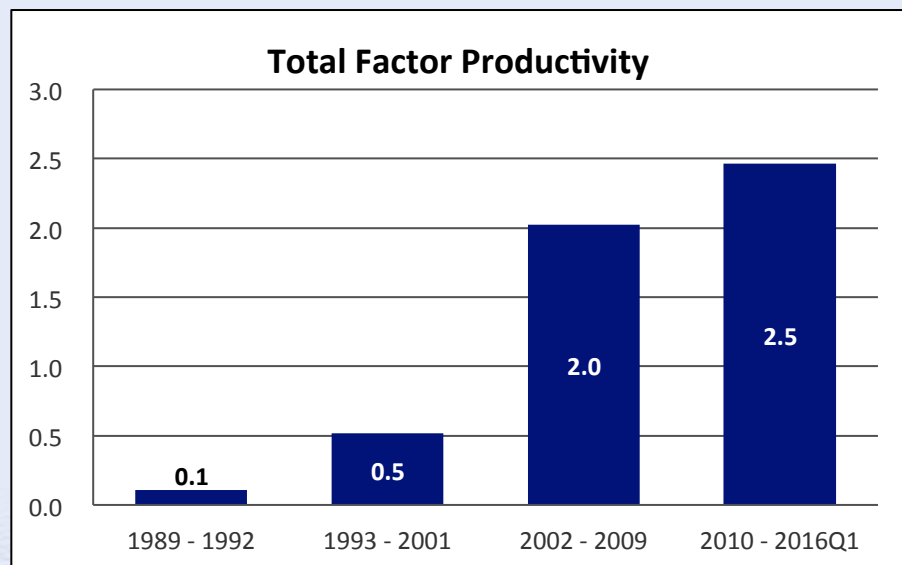
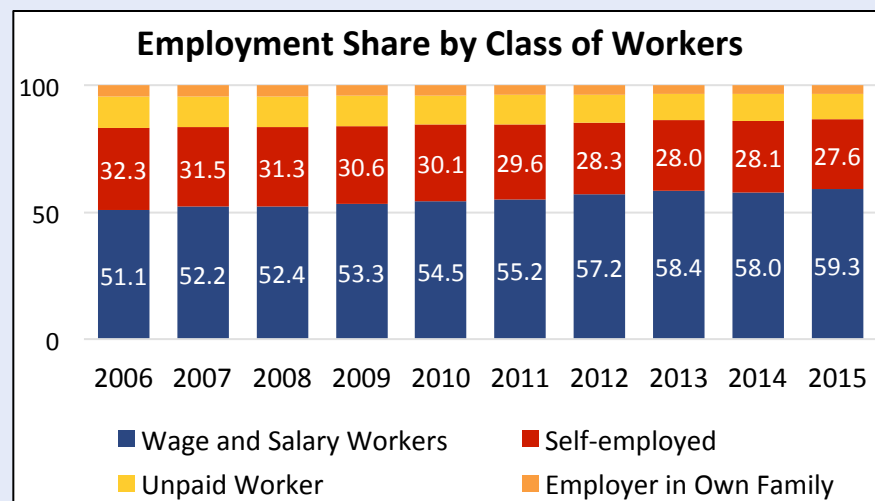
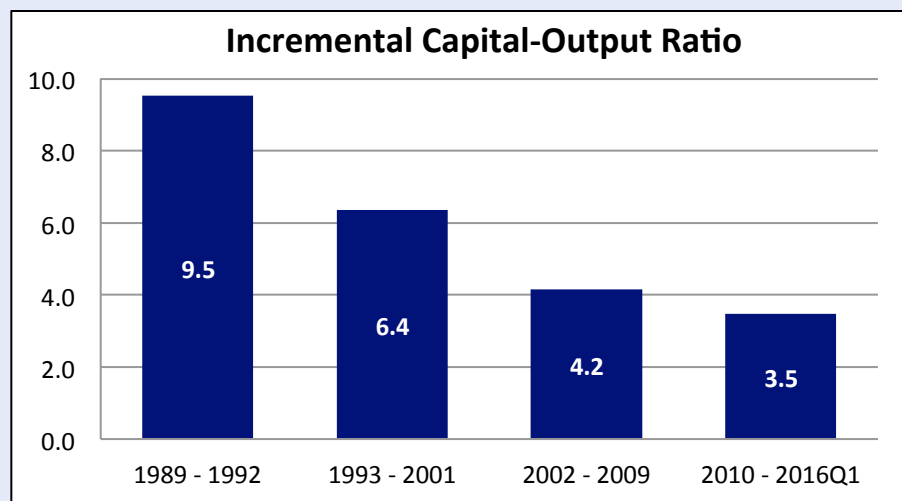
- Industry Sector: 7.6%
- Manufacturing Sector: 7.4%

Contributions to Manufacturing Growth, Q1 2012 - Q1 2016



BANGKO SENTRAL NG PILIPINAS

Seizing the opportunities to further strengthen the economy's foundations

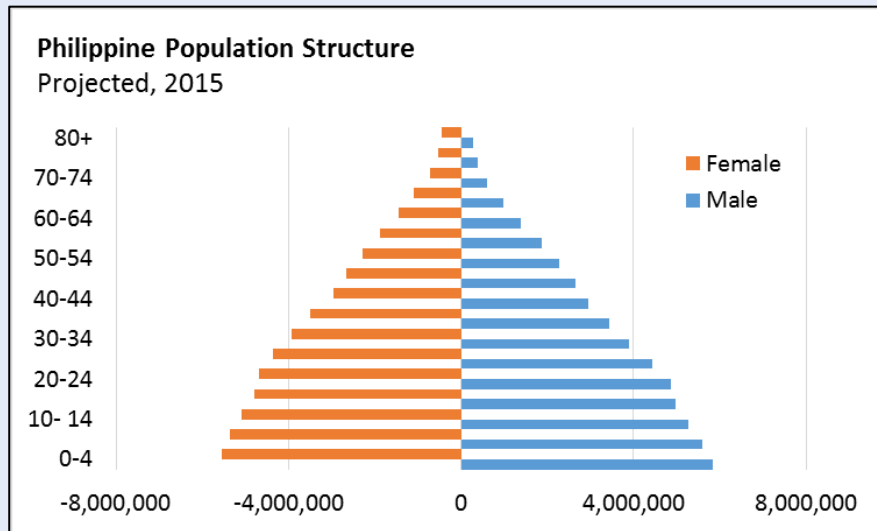


Source: Latest BSP staff estimates

Source: PSA

Seizing the opportunities in the neighborhood

Take advantage of the demographic window



Source: PSA

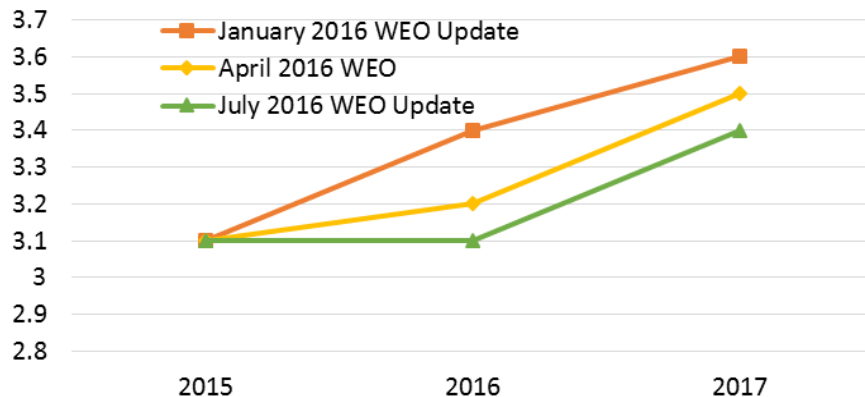
Maximize positioning in the ASEAN



BANGKO SENTRAL NG PILIPINAS

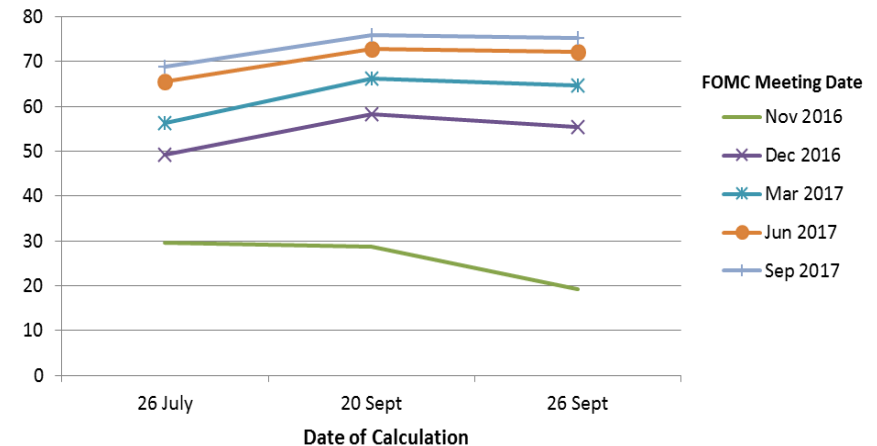
Global headwinds may dampen the momentum

IMF Global Growth Projections for 2016 and 2017
in percent



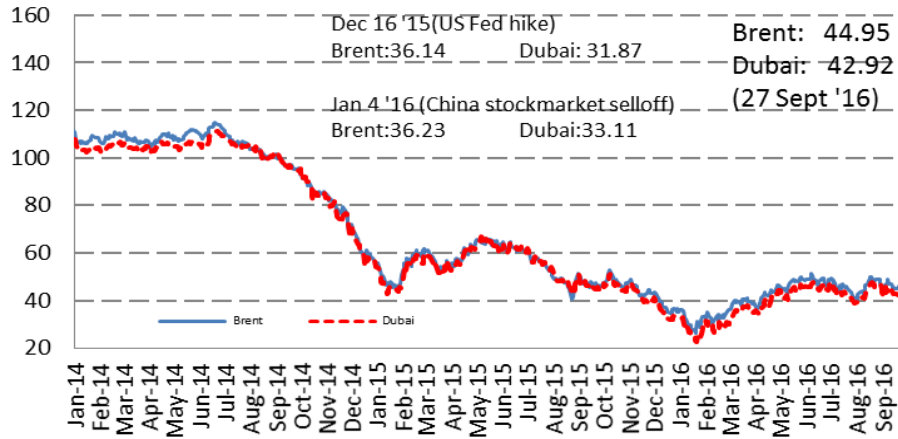
Subpar global growth

Probability of US Fed Hike (implied by Fed Futures)



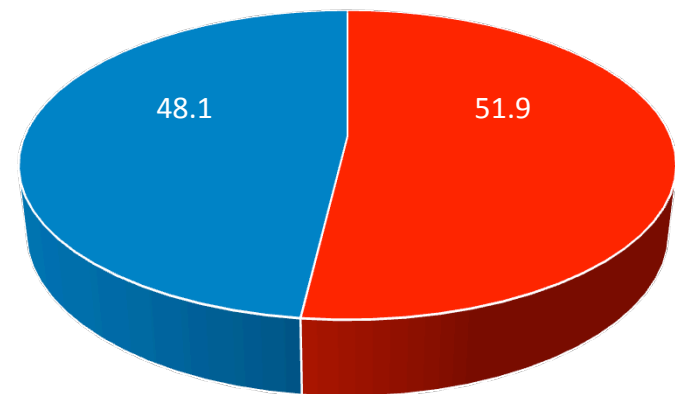
Monetary policy divergence

Spot Price of Brent and Dubai Crude Oil
in US\$ per barrel



Commodity price volatility

Final Results of EU Referendum
(in % of total votes)



Brexit

Outline

I. The Inheritance: A Position of Strength

II. The Imperative of Continuity

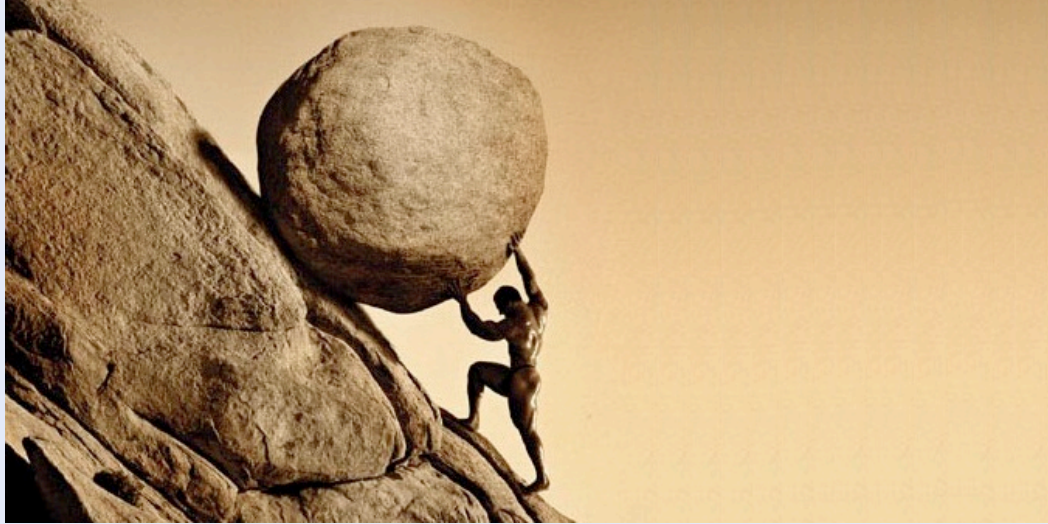
III. Moving Forward: Macroeconomic Outlook



BANGKO SENTRAL NG PILIPINAS

The Risk of Reversal?

The Curse of Sisyphus



- Loss of economic confidence as a pervasive global risk
- Capital mobility as given
- Opportunity windows as essentially time-bounded



BANGKO SENTRAL NG PILIPINAS

The 10-Point Economic Agenda



**MACROECONOMIC
POLICIES**



**TAX
REFORM**



**COMPETITIVENESS
AND EASE OF
DOING BUSINESS**



**INFRASTRUCTURE
SPENDING**



**RURAL
DEVELOPMENT**



**LAND
ADMINISTRATION &
MANAGEMENT**



**HUMAN CAPITAL
DEVELOPMENT**



**SCIENCE,
TECHNOLOGY &
ARTS**



**SOCIAL PROTECTION
PROGRAMS**



**RESPONSIBLE
PARENTHOOD AND
RH LAW**



BANGKO SENTRAL NG PILIPINAS

Sound fundamentals provide basis for an optimistic and confident outlook

- **Philippines poised to attain strong domestic growth**

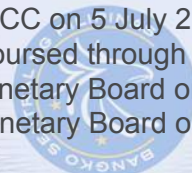
Indicators	Projections
	2016
GDP Growth (% , 2000=100)	6.0 – 7.0 ^{a/}
Headline Inflation (% , 2006=100)	2.0 – 4.0 ^{a/}
Merchandise Exports (% growth rate) Per BPM6 concept	3.0 ^{a/ c/}
Merchandise Imports (% growth rate) Per BPM6 concept	7.0 ^{a/ c/}
OF Remittances^{b/} Growth Rate (%)	4.0 ^{c/}
Balance of Payments (USD bn)	2.0 ^{c/}
Gross International Reserves (USD bn)	84.8 ^{d/}

^{a/} Approved by the DBCC on 5 July 2016.

^{b/} Cash remittances coursed through banks.

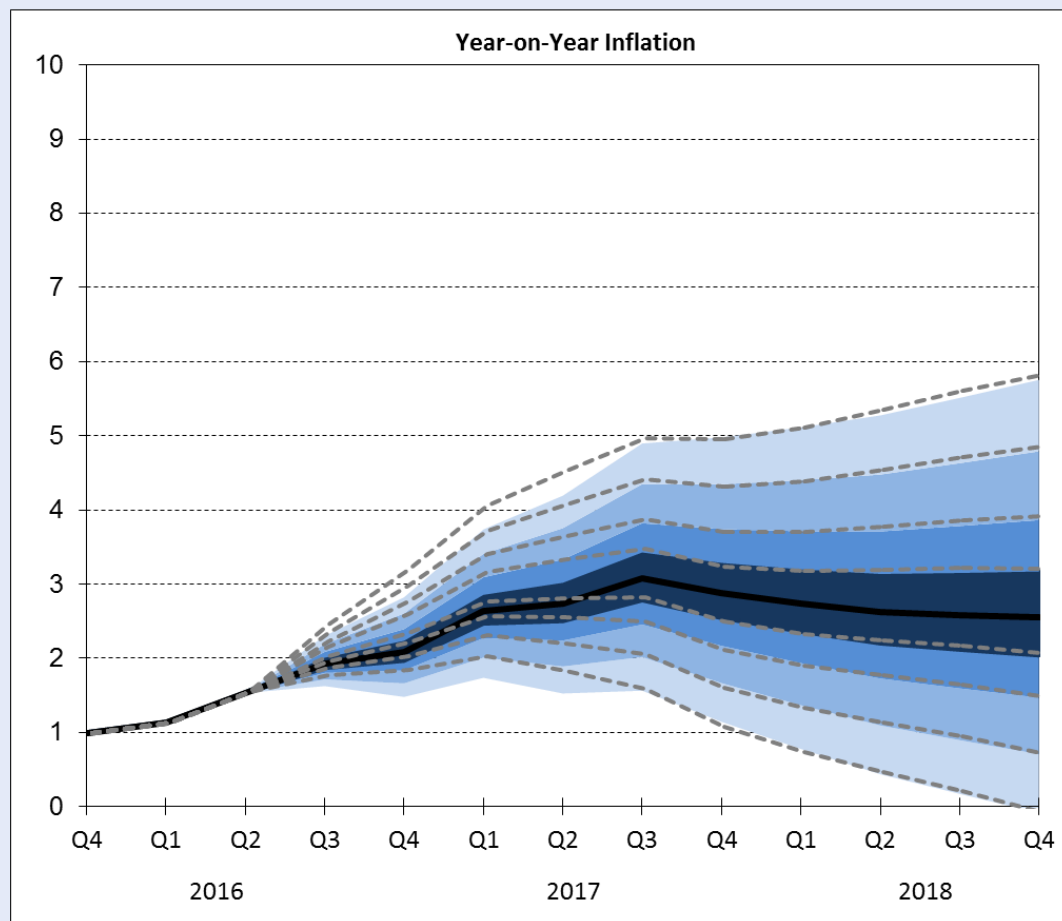
^{c/} Approved by the Monetary Board on 26 May 2016

^{d/} Approved by the Monetary Board on 30 June 2016.



BANGKO SENTRAL NG PILIPINAS

There is ample monetary policy space



- **Current monetary policy settings remain appropriate**
- **Risks to future inflation appear to be broadly balanced**
- **Inflation will rise moderately and settle within target range for 2016-2017.**



As of 5 August 2016 (11 August 2016 MB Meeting)



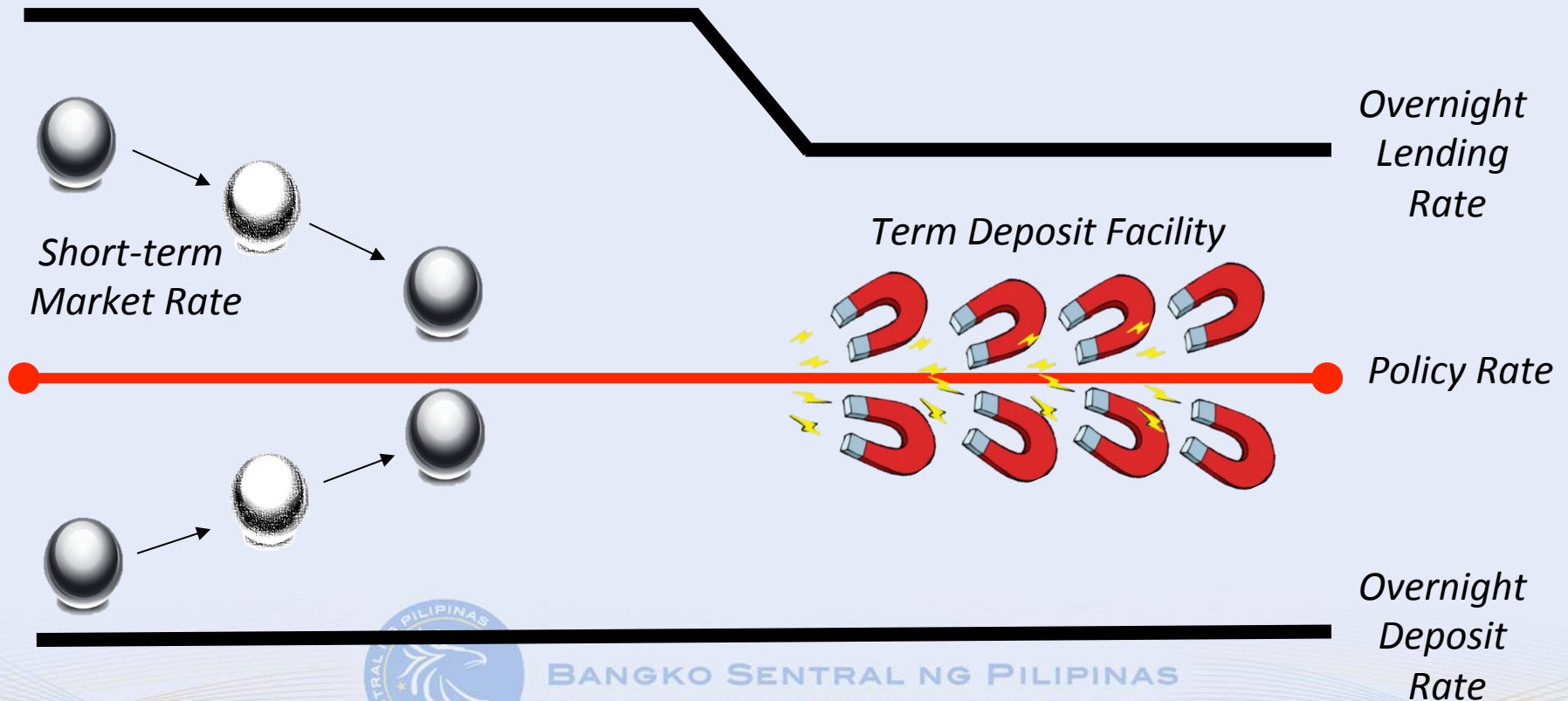
As of 6 September 2016 (22 September 2016 MB Meeting)

BSP remains committed to its mandate

On price stability: Safeguard the inflation target in line with our primary mandate



Interest rate corridor (IRC) system



Advocating for inclusive growth and prosperity

Financial inclusion



Credit Surety Fund Program



Financial consumer protection

Economic and financial learning



An Economic Agenda for the New Administration: Perspectives from the BSP

Raising the Next Tiger
Albert Del Rosario Institute
28 September 2016

DIWA C. GUINIGUNDO
Deputy Governor
Monetary Stability Sector



BANGKO SENTRAL NG PILIPINAS