



Moving from Crisis to Recovery, and Further to the Post Covid 19 Economy

BSP Governor Benjamin E. Diokno, Ph.D.

“Conversations with the Governor”

**Official Monetary and Financial Institutions Forum
10 September 2021**

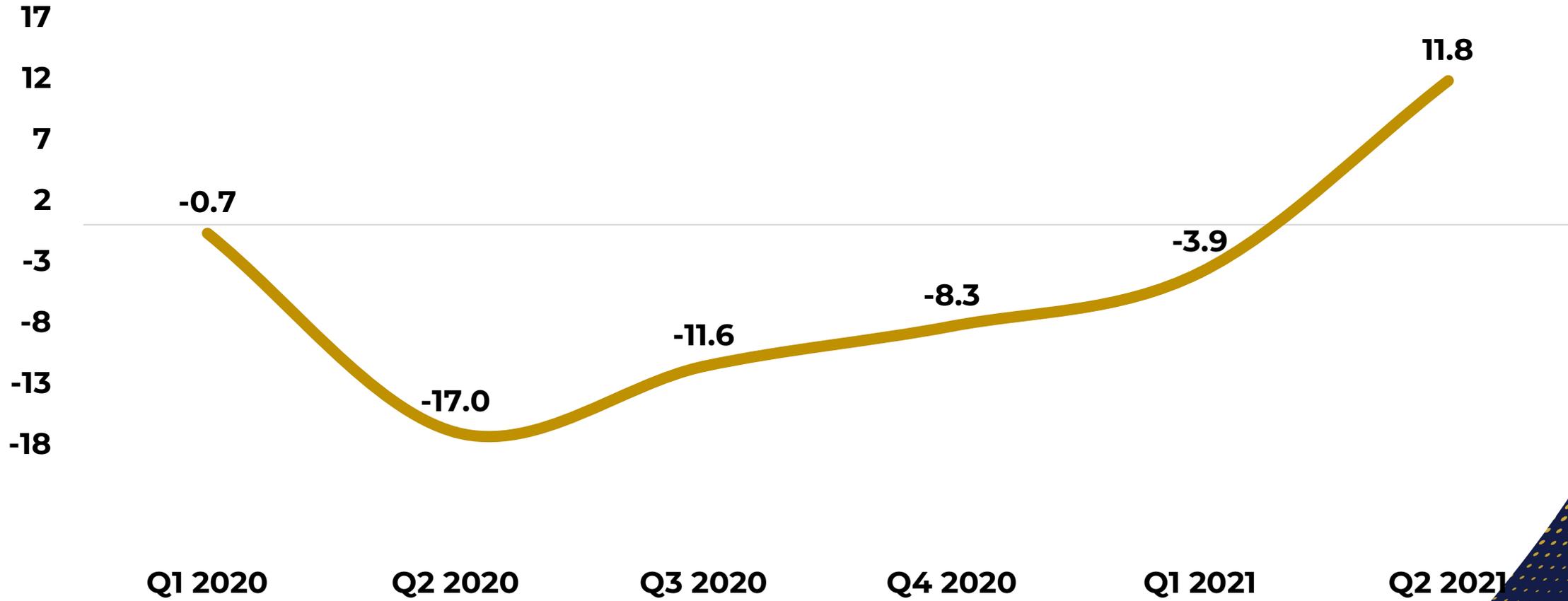




The Philippine economy returns to positive growth in Q2 2021

Economic recovery is gaining more traction

Real GDP growth (%), Q1 2020 – Q2 2021



The Philippine economy returns to positive growth in Q2 2021

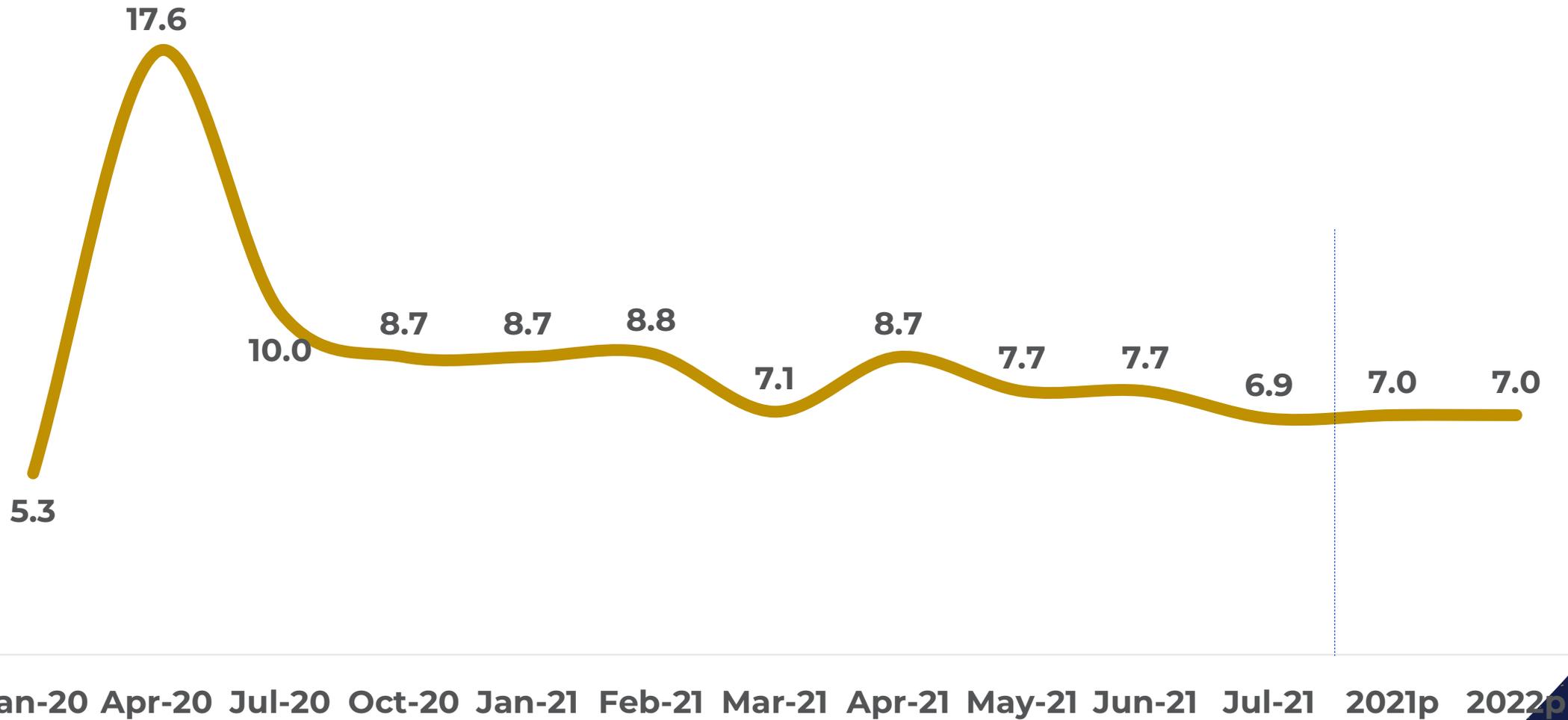
Top contributors to GDP Growth	Q2 2021 y-o-y growth rate (%)
By production	
• Manufacturing	22.3
• Construction	25.7
• Wholesale and retail trade	5.4
By expenditure	
• Household final consumption expenditure	7.2
• Public Construction	49.7
• Durable equipment	89.2





Jobs are being restored as the economy reopens

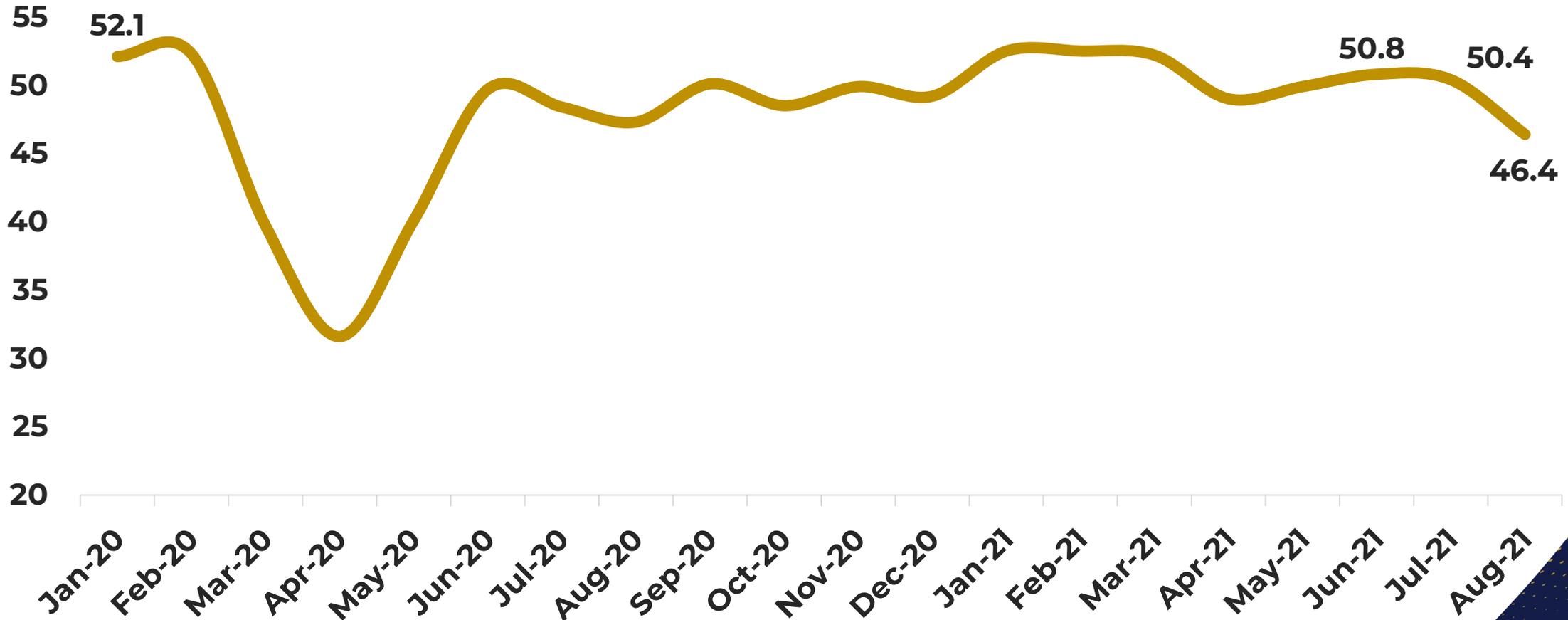
Unemployment Rate (%)



Note: The Updated Philippine Development Plan (2017-2022) targets a decrease in unemployment rate to 7-9% in 2021 and 2022
Source: National Economic and Development Authority; Philippine Statistics Authority

Two consecutive months of expansion mode pre-lockdown

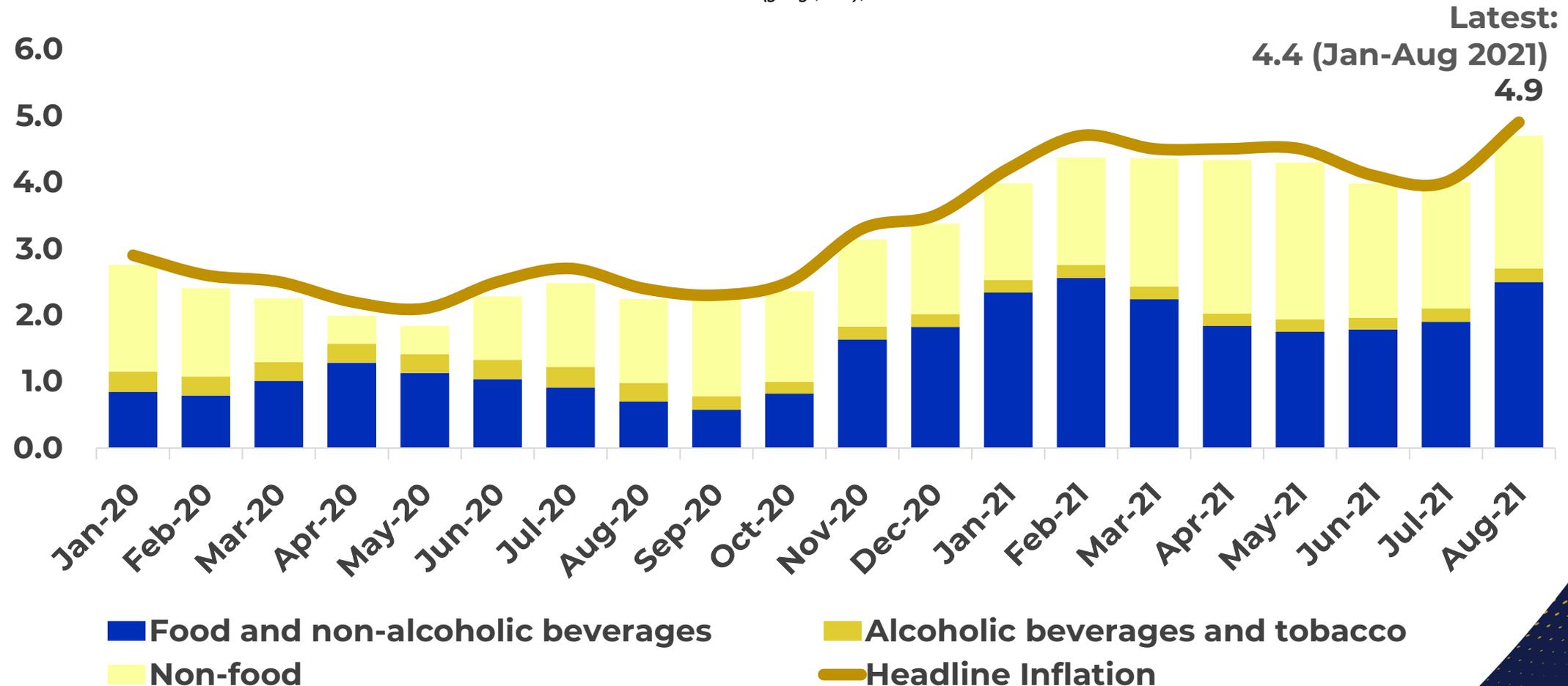
IHS Markit Philippines' Manufacturing Purchasing Manager's Index (PMI)



Manageable inflation

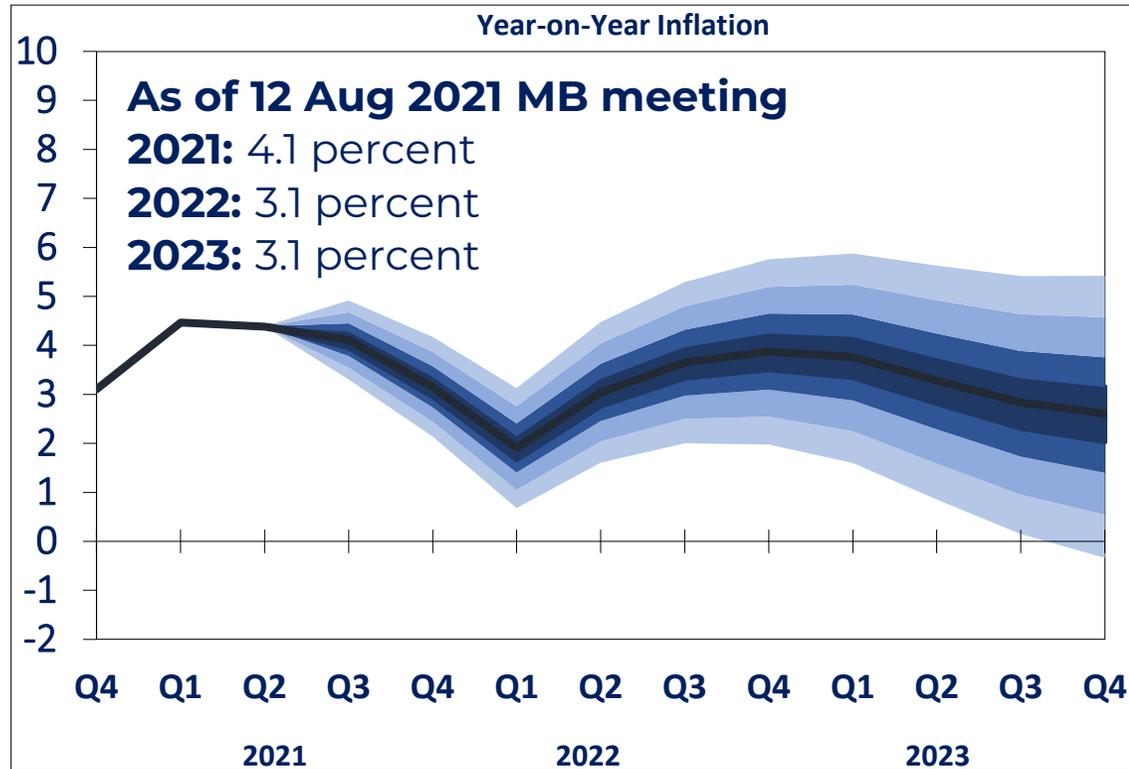
Inflation Contribution by Major Component

Headline CPI (yoy, %), 2012=100



Inflation is projected to settle slightly above target in 2021 but will moderate in 2022-2023

BSP Baseline Inflation Forecasts^{1/}



Inflation Expectations for 2021-2023 (in %) ^{2/}

Inflation Forecasts	2021	2022	2023
BSP Survey (Jul-21)	4.2	3.1	3.0
IMF World Economic Outlook (Jun-20)	4.2	3.0	3.0
ADB (Jul-21)	4.1	3.5	n.a.
World Bank (Jun-21)	4.0	3.2	3.0

Source:

^{1/}Bangko Sentral ng Pilipinas

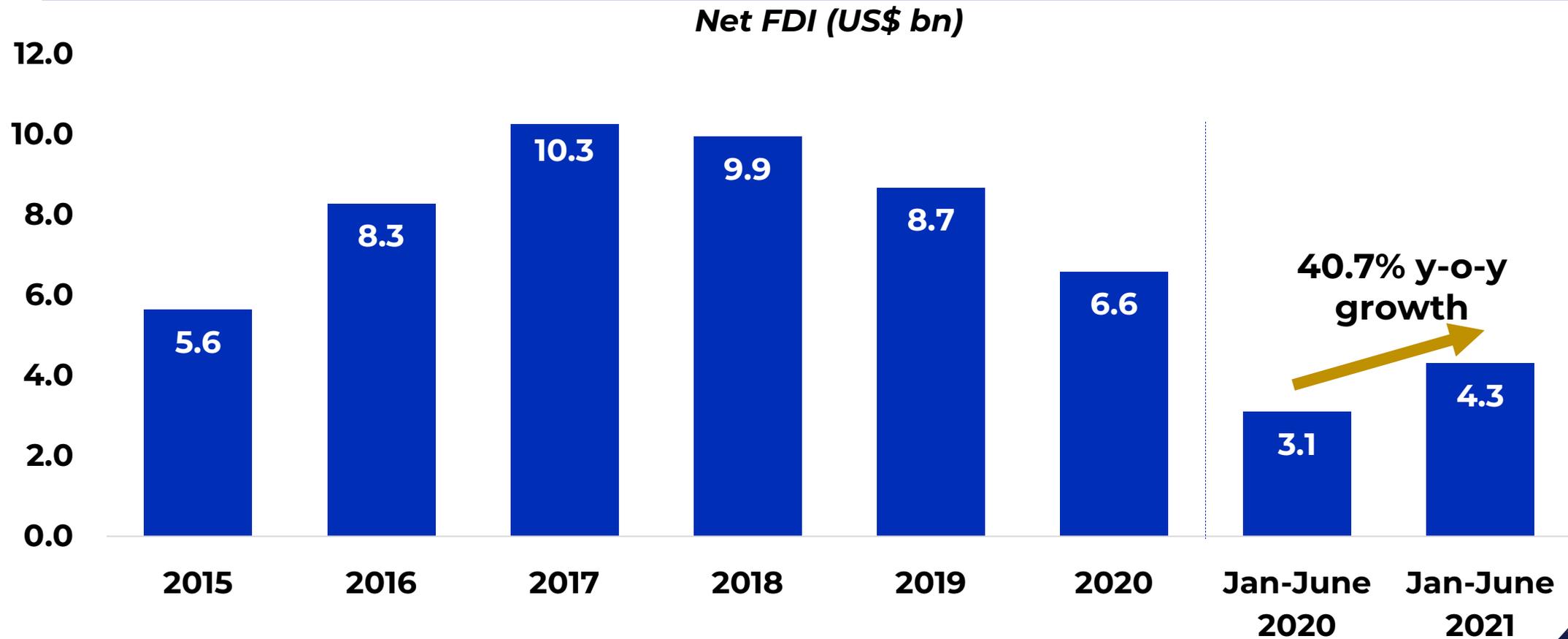
^{2/}Bangko Sentral ng Pilipinas, International Monetary Fund, Asian Development Bank, World Bank

n.a. – not available



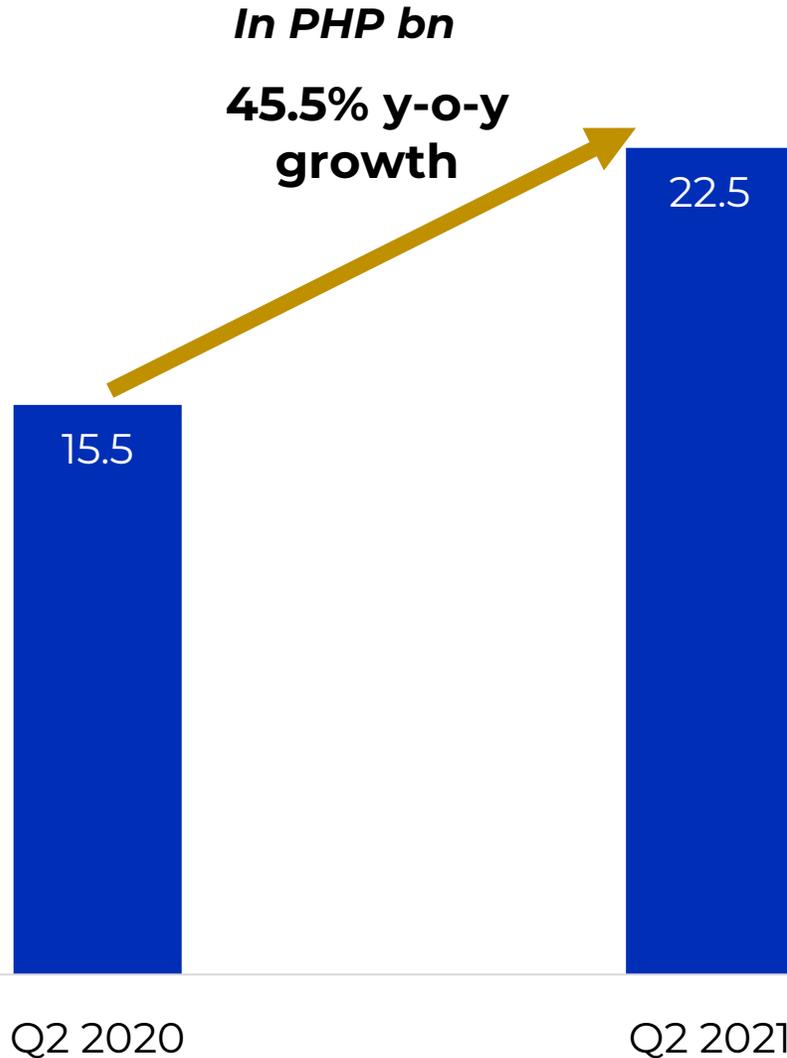
Investment inflows reflect confidence on economic recovery

Net FDI inflows continue to be resilient despite uncertainties from the pandemic

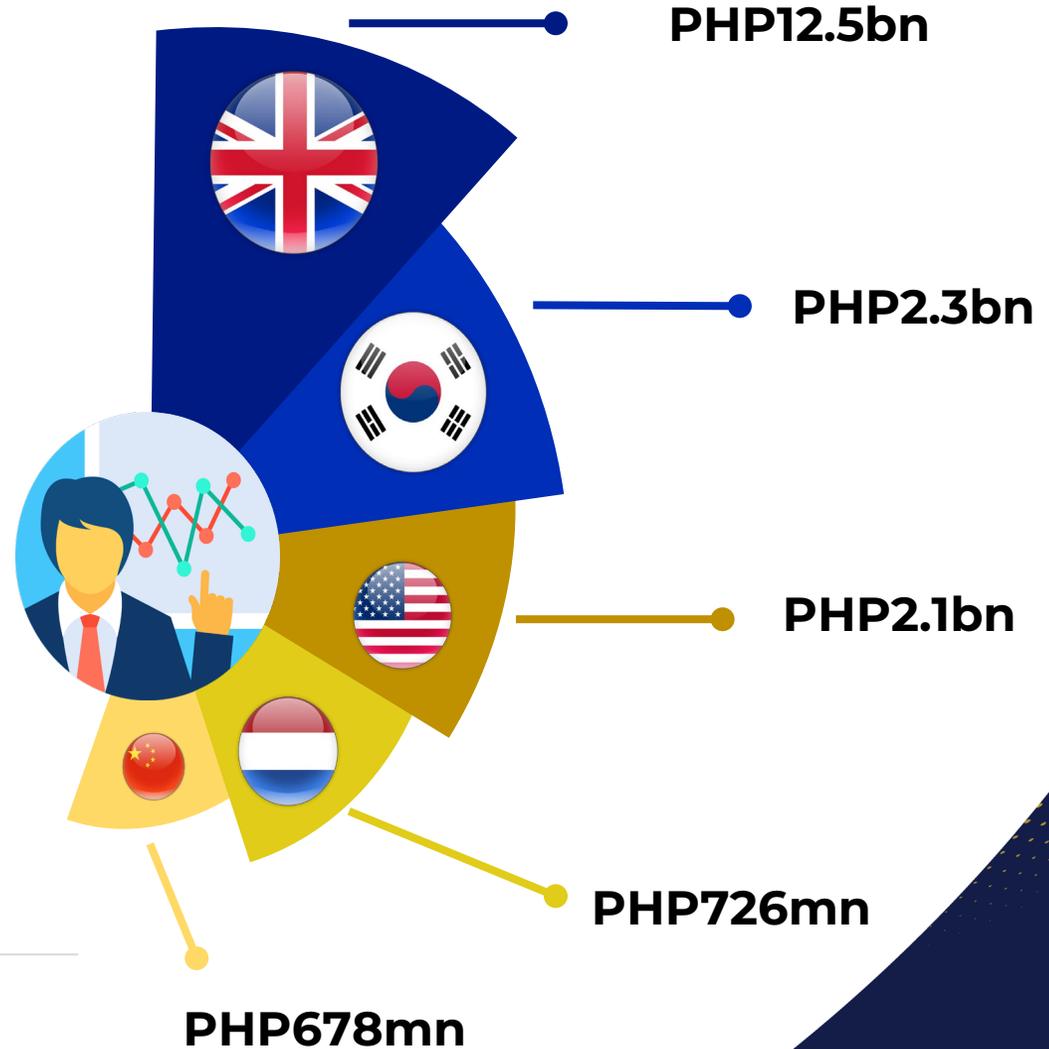


Investment pledges reflect confidence on economic recovery

Total Approved Foreign Investments in Q2 2021



Top 5 Foreign Investors in Q2 2021

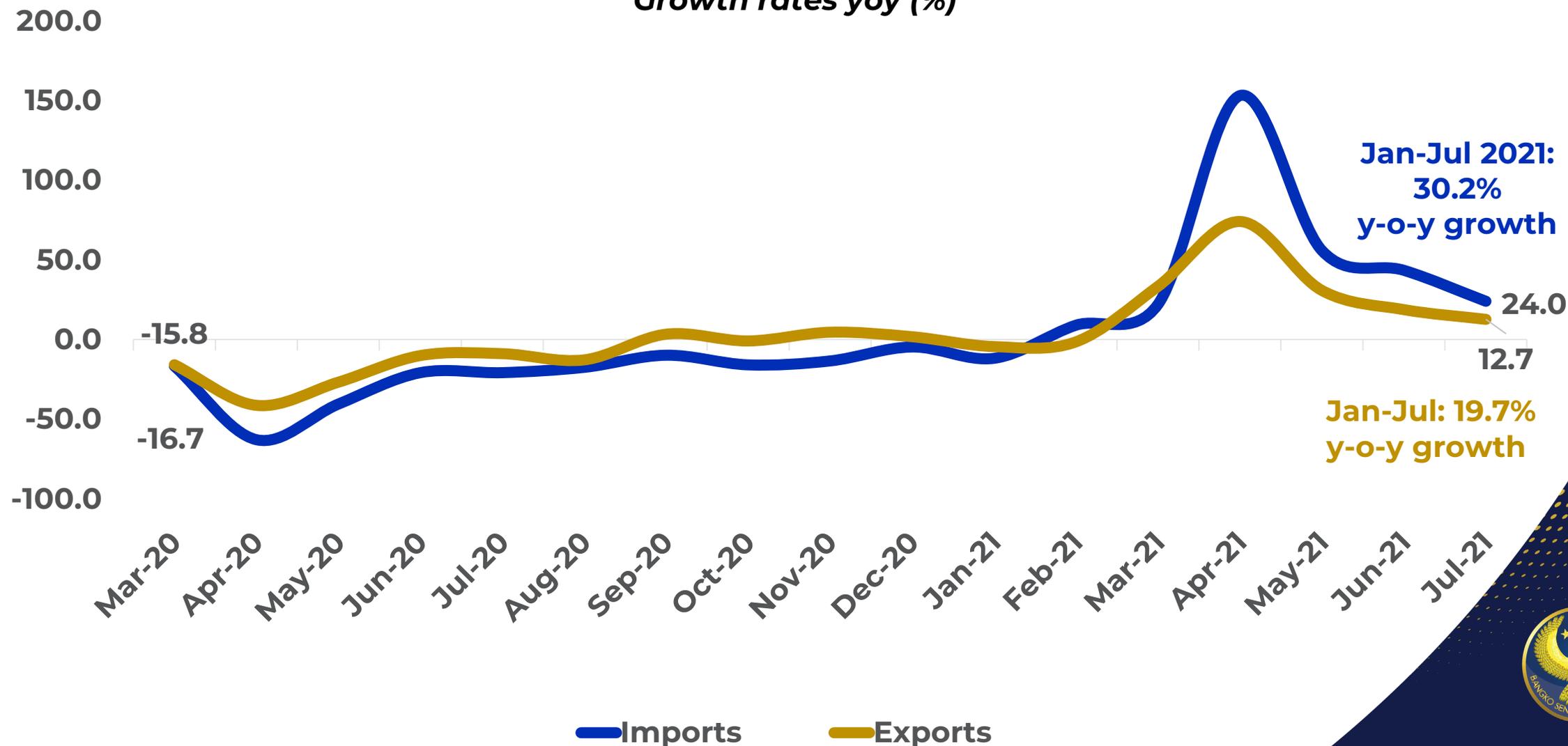




External trade rebounds

Goods import and export continue to rebound

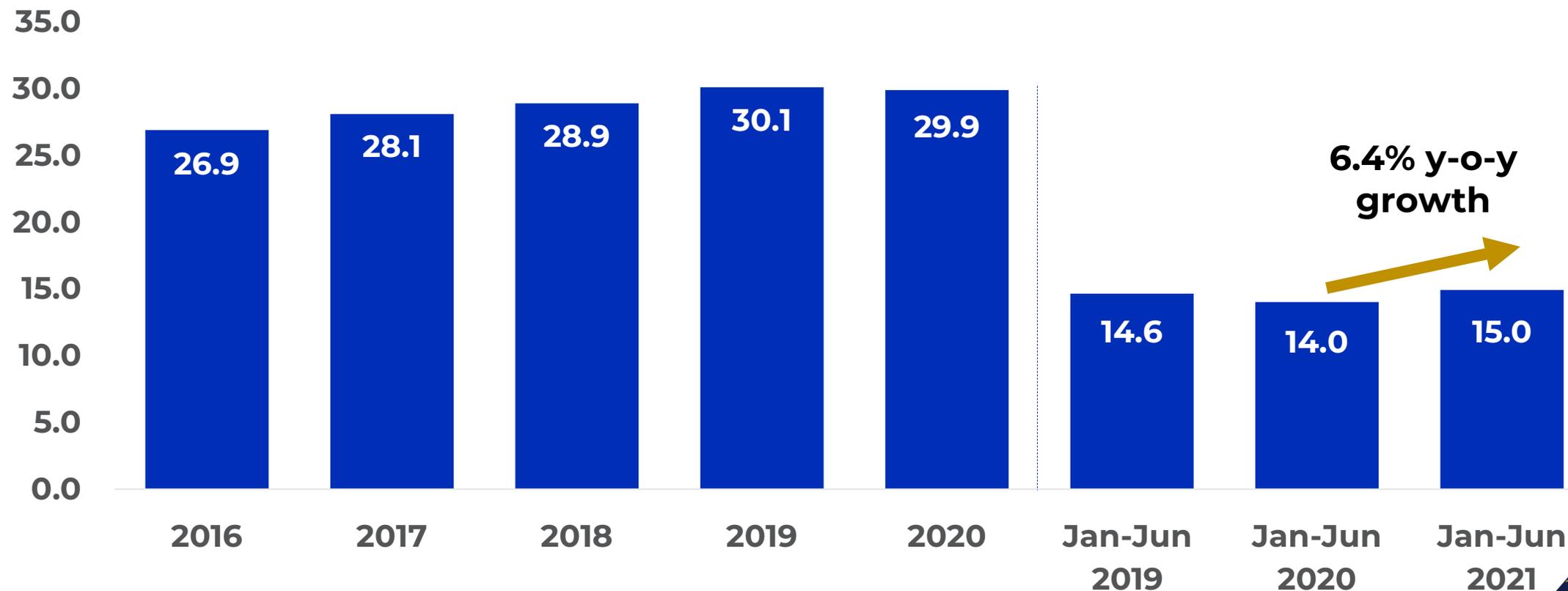
Growth rates yoy (%)



Robust external accounts

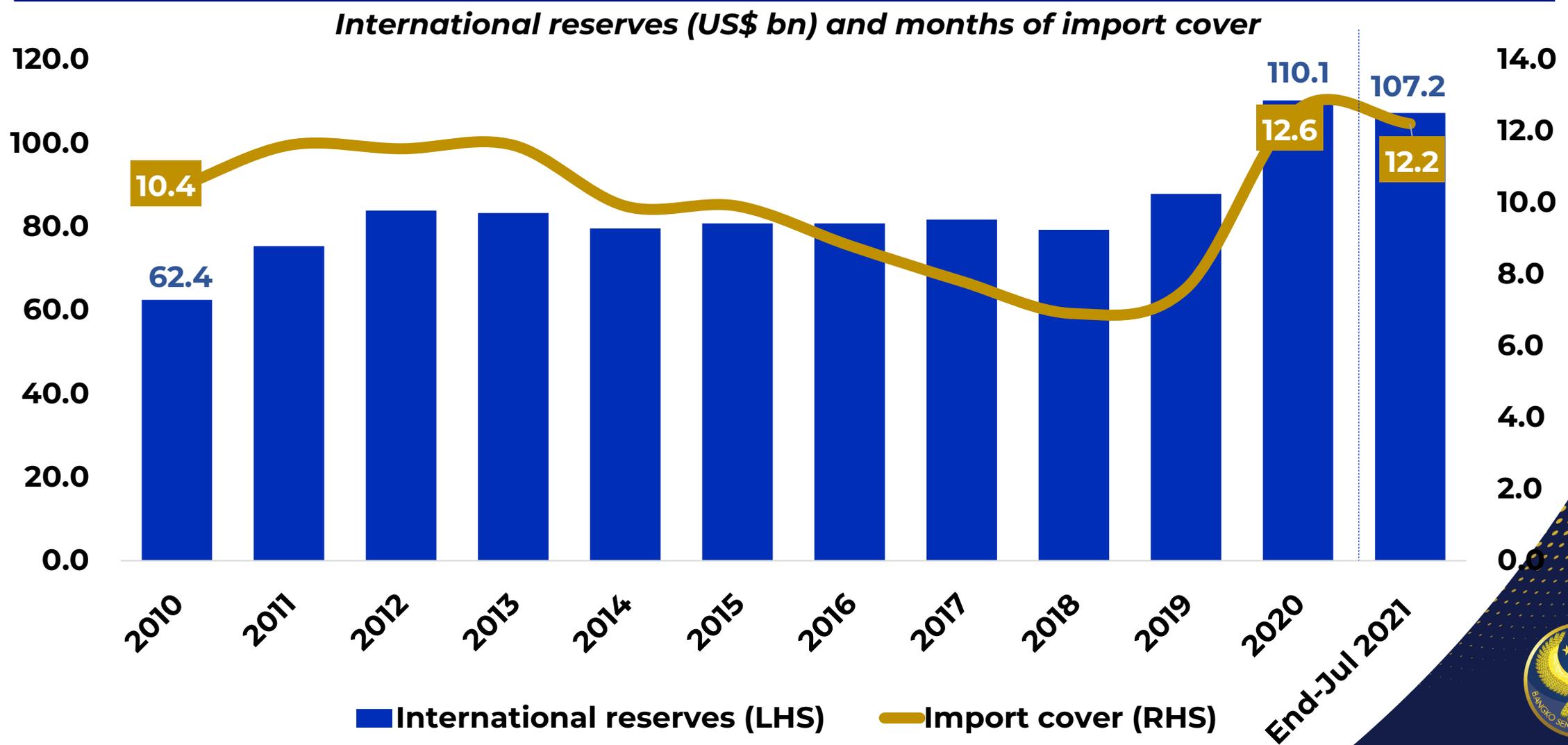
Overseas Filipinos' remittances flows resilient amidst the pandemic

Overseas Filipinos' cash remittances (US\$ bn)



Adequate external liquidity buffers

Hefty level of reserves

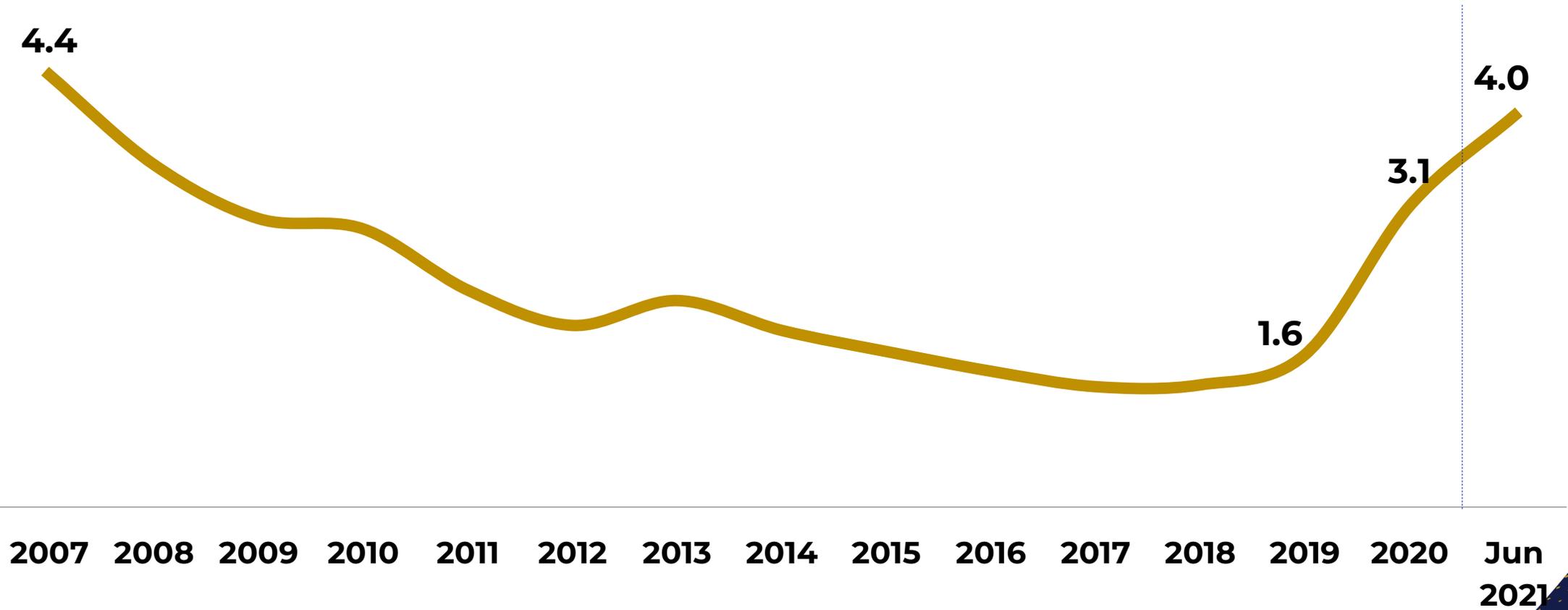




Banking system remains stable and resilient amid the crisis

Loan portfolio remains manageable and significantly lower than levels during the Asian Financial Crisis

Universal and commercial bank's gross non-performing loan (NPL) ratio (in %)

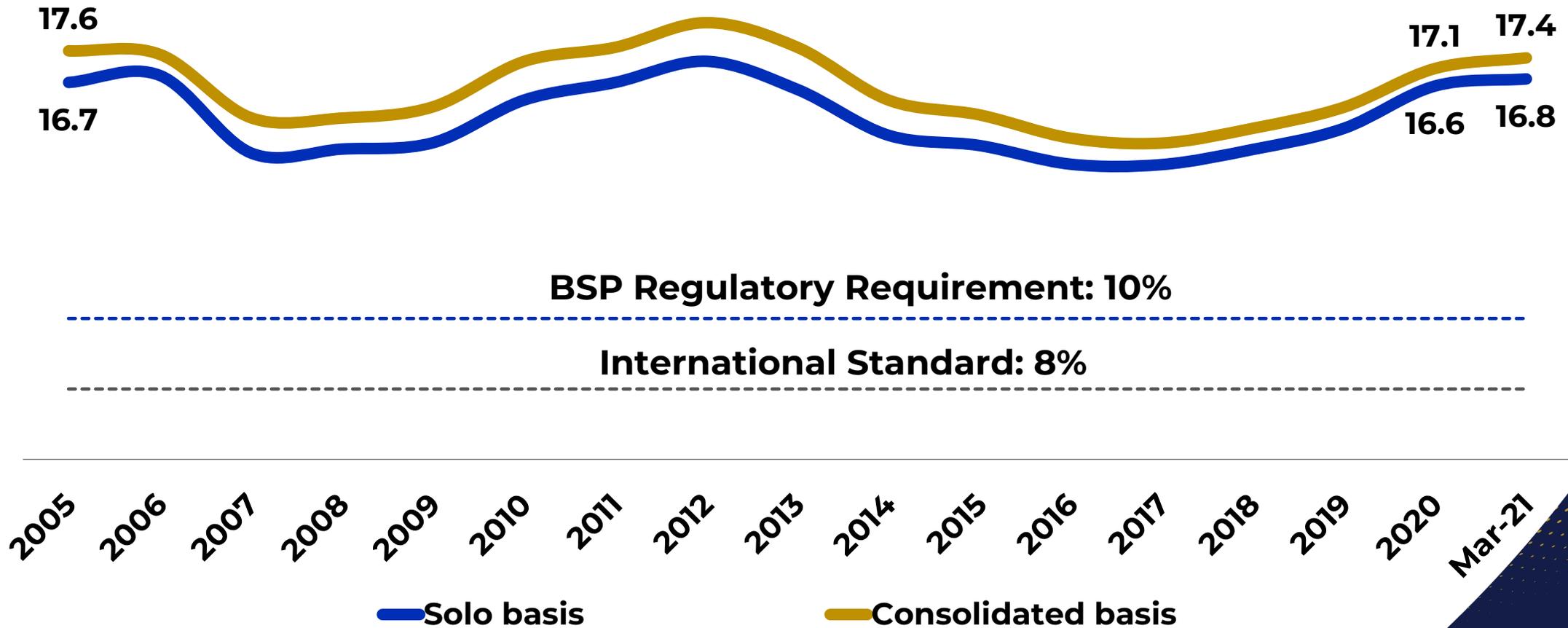




Banking system remains stable and resilient amid the crisis

Sufficient capitalization that is well-above international norms, promoting institutional stability

Capital adequacy ratio (in %)

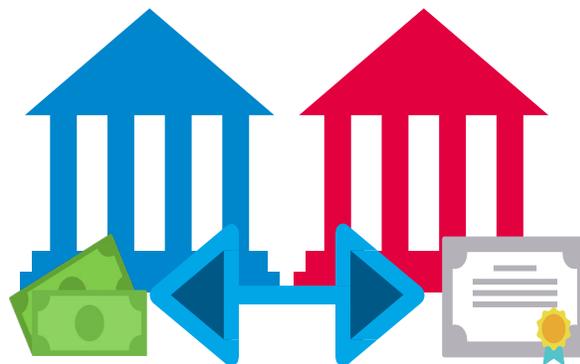


BSP's policy interventions amid the pandemic

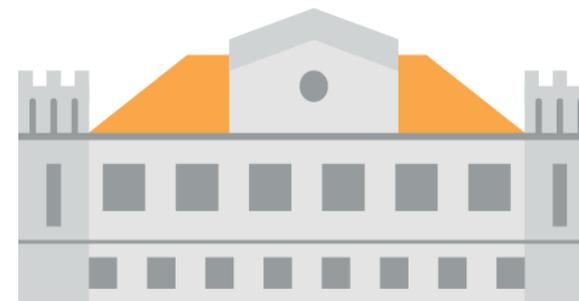
Complement government programs through extraordinary liquidity measures



**PHP540 BILLION
SHORT-TERM
PROVISIONAL
ADVANCES TO NG**



**PURCHASE OF
GOVERNMENT
SECURITIES IN THE
SECONDARY
MARKET**



**PHP20 BILLION
REMITTED
DIVIDENDS**



The BSP has so far injected PHP2.2 trillion (US\$44 billion) in liquidity to the financial system, equivalent to 12.5% of the country's GDP



BSP's regulatory relief measures

Extend Financial Relief to Borrowers	Incentivize Lending	Promote Continued Access to Financial Services	Support for Continued Financial Services Delivery
<ul style="list-style-type: none">▪ Excluded loans from past due▪ Staggered booking of allowance for credit losses▪ Provided grace period on settlement or restructure loans▪ Issued temporary cap on interest rates of credit card receivables	<ul style="list-style-type: none">▪ Reduced credit risk weights on MSME loans▪ Assigned 0% risk weight to guaranteed loans▪ Allowed loans to MSMEs as alternative RR compliance▪ Reduced minimum liquidity ratio▪ Temporarily increased SBL*▪ Allowed use of capital and liquidity buffers▪ Non-sanction of foreign banks' SBL* breach	<ul style="list-style-type: none">▪ Relaxed KYC requirements▪ Suspended fees and charges for online banking▪ Temporarily waived fees i.e., application for Electronic Payments and Financial Services (EPFS), PhilPaSS fund transfer transactions	<ul style="list-style-type: none">▪ Waived notarization requirement for bank certifications▪ Relief measures on mark-to-market of investments▪ Relaxed penalties on reserve requirement deficiencies▪ Extended the transition period of interest rate risk implementation in the banking book

* Single Borrower's Limit

Economic recovery underway

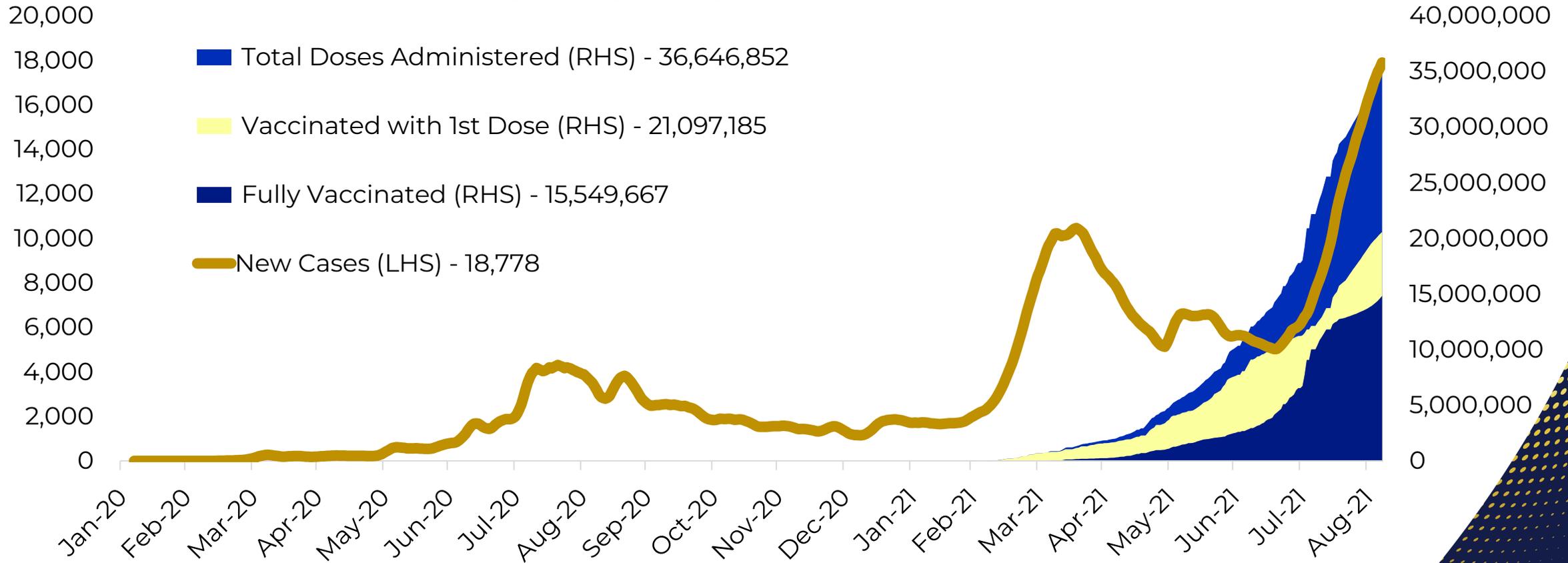
Strong growth potential remains because of early reforms and sound macroeconomic fundamentals

Indicators	2020	Targets/Projections	
		2021	2022
GDP Growth (% , 2018=100)	-9.6	4.0 – 5.0	7.0 – 9.0
Headline Inflation (% , 2012=100)	2.6	2.0– 4.0	2.0 – 4.0
Goods Exports, per BPM6 concept Growth Rate	-11.3	8.0	6.0
Goods Imports, per BPM6 concept Growth Rate	-22.9	12.0	10.0
OF Cash Remittances Amount (US\$ bn) Growth Rate	29.9 -0.8	4.0	4.0
Net FDI, Liabilities (US\$ bn)	6.5	7.5	8.5
Overall Balance of Payments Position (US\$ bn)	16.0	7.1	2.7
Current Account Balance (US\$ bn)	13.0	10.0	6.7
Gross International Reserves (US\$ bn)	110.1	115.0	117.0

Vaccine rollout to support economic recovery

Philippines' COVID cases and vaccinations

7-day Rolling Averages as of 7 September 2021



Wave in April 2021 (Alpha Variant)

Wave in August 2021 (Delta Variant)

Mild and Asymptomatic Cases (%)

98.8

97.3

Hospital Bed Occupancy Rate (%)

53.5

67.5

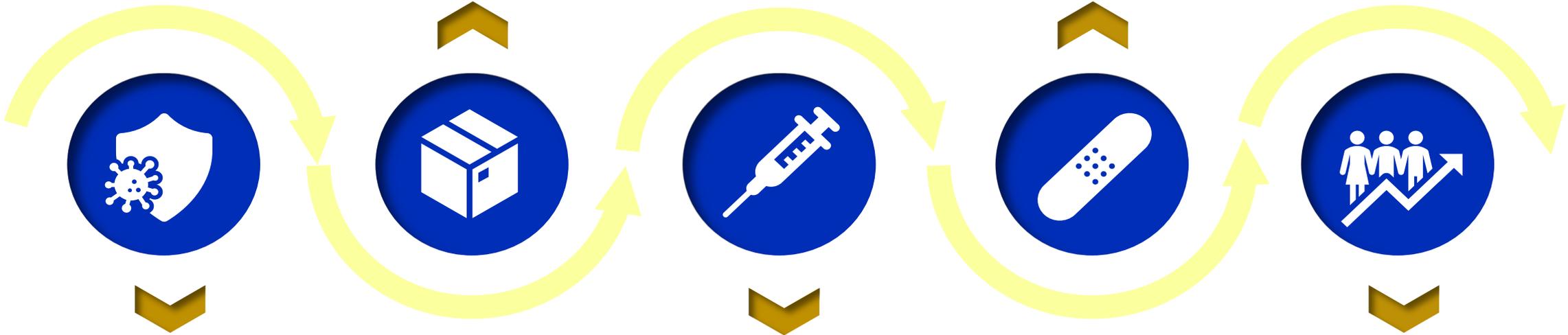


Vaccine rollout to support economic recovery

National Vaccinations in Full Speed

140mn doses
set to arrive from September to
December this year

710,482 jobs
highest recorded daily
inoculation in August



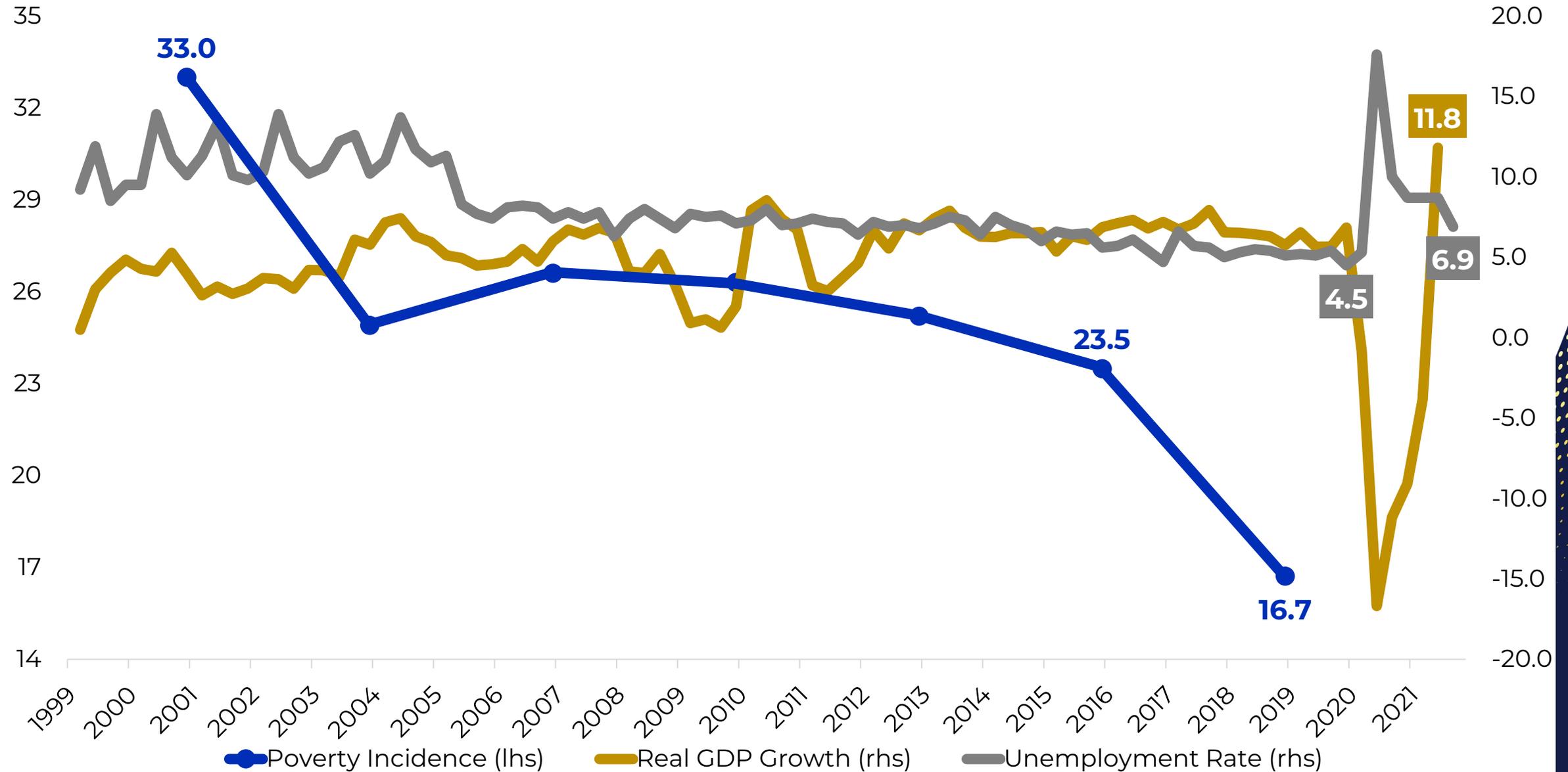
192.6mn vaccine doses
secured as of August 31
covers around 100mn
Filipinos

500k jobs daily
targeted to bring about
population protection in
130 days

Forecasts:

- In July 2021, the WHO forecasted that the Philippines may exceed the 40% threshold before end-2021.
- OCTA Research Group experts also estimated that the Philippines could achieve population protection by September or October 2021.
- NCR achieved population protection in August, three months ahead of target.

Solid economic track record



“Post-COVID-19 Economy”
stronger, more
technologically advanced,
and more inclusive

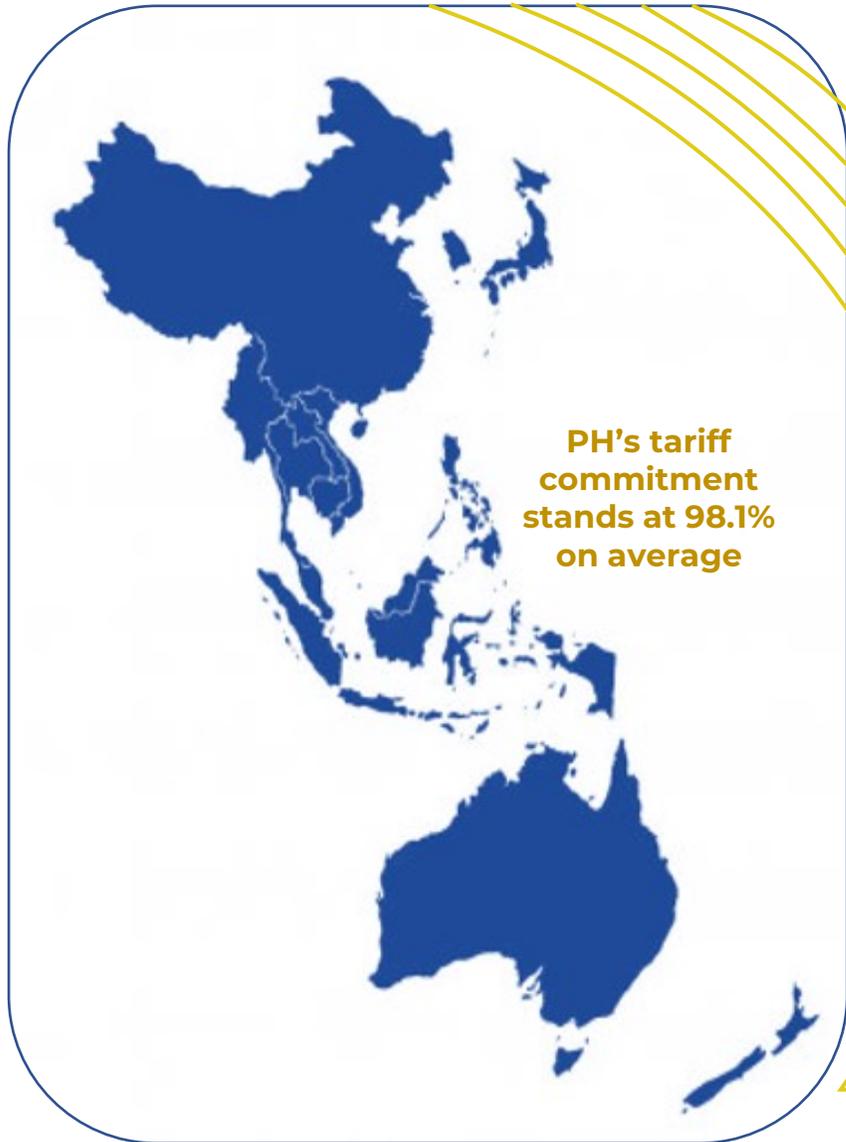


**The Philippines submitted its
“Nationally Determined
Contributions” to the UN
Framework Convention on Climate
Change, committing to reduce its
projected carbon emissions by 75
percent by 2030**



Seizing opportunities from regional economic cooperation

Regional Comprehensive Economic Partnership



PH's tariff commitment stands at 98.1% on average

• 29.7% of the world's population

• 28.2% of the global GDP

• 27.8% of the world's trade

• 23.6% of global inward FDI

• 33.5% of global outward FDI



Creating environment for quality investments

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act



Largest fiscal stimulus program for enterprises in the country's history

This gives out **tax relief** to the corporate sector to sustain employment or use for investments.



Provides hefty corporate income tax rate cuts

The law provides an immediate 10 percentage point cut in the corporate income tax rate of domestic MSMEs (from 30 percent to 20 percent), while the rest of the corporations enjoy a 5-percentage point reduction (from 30 percent to 25 percent).



Provides more flexibility in the grant of fiscal and non-fiscal incentives

The law rationalizes fiscal incentives, creating an enhanced incentives package that is performance-based, time-bound, targeted, and transparent.



Critical economic reforms to further improve investment environment

**Amendments
to the Retail
Trade
Liberalization
Act**

**Amendments
to the Public
Service Act**

**Amendments
to the Foreign
Investments
Act**



Digital banks to support growth in e-money accounts



**Electronic Money
Accounts**



2.5mn

2019
29.4mn
accounts

2020
31.9mn
accounts



Making strides in digitalization

Digital Payments Transformation Roadmap



Payments - merchants, suppliers, utilities, savings and investments

Digital Payment Streams



Philippine Identification System, Credit Risk Database

Digital Infrastructure



Payment System Oversight Framework, Cybersecurity policies, Open Banking

Digital Governance



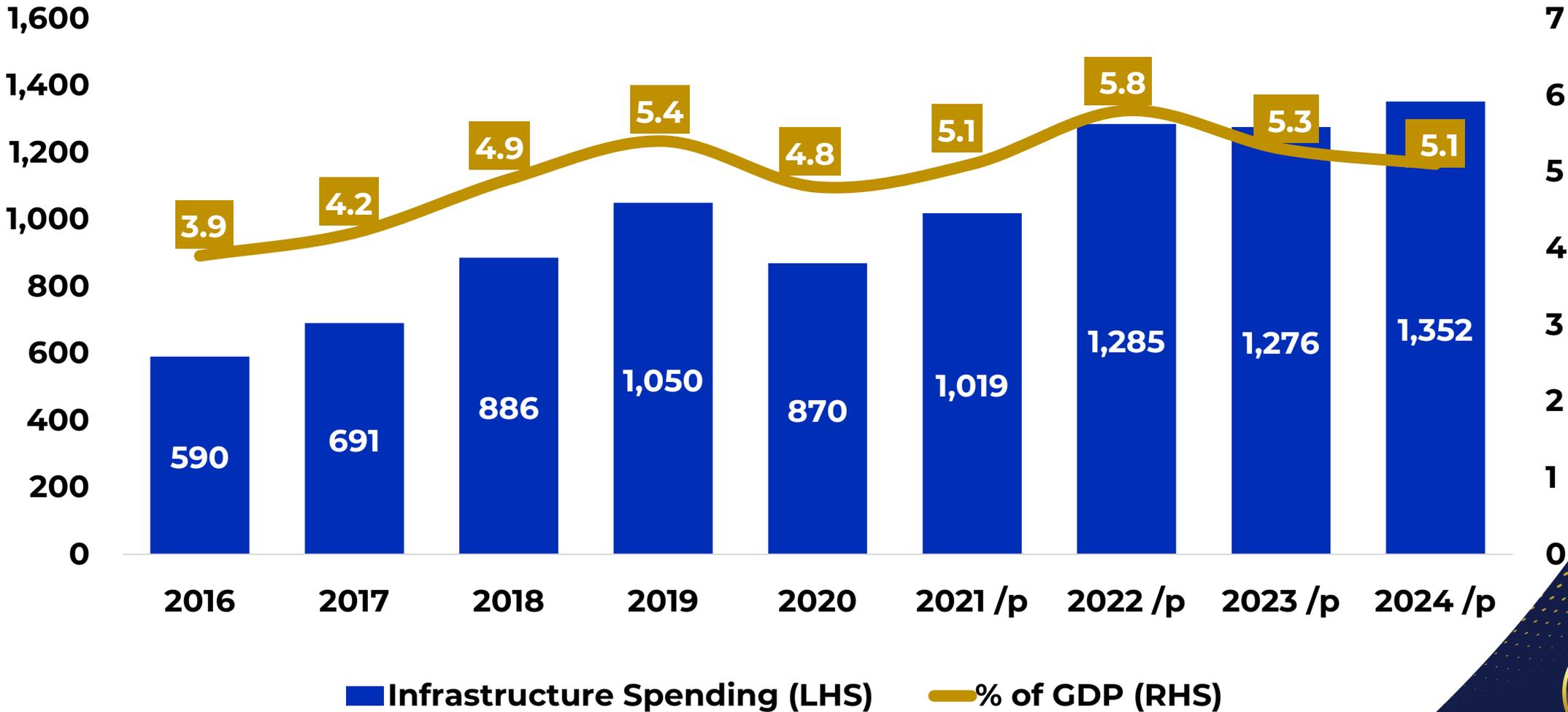
50% of financial transactions done digitally
70% of Filipino adults to have financial accounts

Objectives by 2023



Massive infrastructure development to fuel economic recovery

Infrastructure spending¹ actual and program (PHP bn, % of GDP)



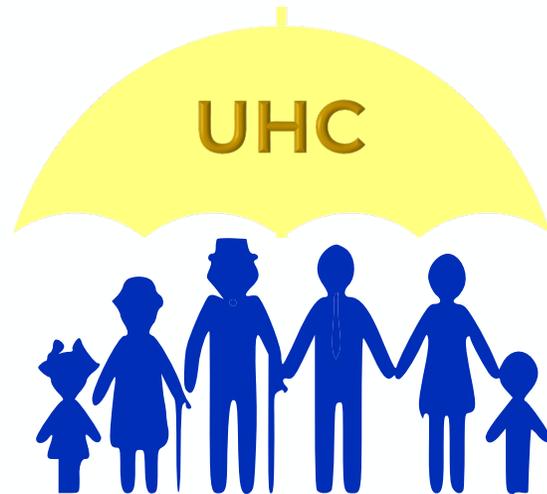
¹/ Disbursement basis, the government transitioned to cash-based budgeting starting FY 2019

Future-proofing through investing in human capital

Universal Health Care (UHC) Act RA No. 11223 (2019)

A massive reform in the Philippine health sector.

All Filipinos are guaranteed equitable access to quality and affordable health care goods and services and protected against financial risk



Ensures deserving Filipinos are given equitable access to educational opportunities

Free Higher Education
Free Technical-Vocational Education and Training
Tertiary Education Subsidy
Student Loan Program

Universal Access to Tertiary Education
RA No. 10931 (2017)



BSP promotes advocacies that support financial inclusion

Digital Finance Advocacy

- Support the Philippine Identification System (PhilSys)
- Promotes use of transaction account for digital payments, *i.e.*, *e-money accounts*
- Digital literacy programs
- Capacity Building



Agriculture and MSME Finance Advocacy

- Promotion of Agri Value Chain Financing
- Spearheads the promotion of Credit Surety Fund
- Legislative advocacies, *i.e.*, *Financial Consumer Protection Act, Agri-Agra Amendment, Warehouse Receipts Law, Credit Information System*
- Financial education in partnership with shareholders



Key takeaways

- **First**, the Philippines' **economic fundamentals remain sound**; inflation is manageable, external payments is robust, and the banking system remains resilient and stable.
- **Second**, as indicators show, the Philippines has begun the recovery process. The **central bank will keep its policy settings and regulatory relief measures supportive of the economy as needed**. The withdrawal of policy measures will only be done once full recovery is underway.
- And **third**, the monetary authorities will **continue to provide an enabling environment for the attainment of the Philippines' long-term economic goals**, such as through price and financial stability, and promotion of financial digitalization and sustainable finance.



Moving from Crisis, to Recovery, and further to the 'New Economy'

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