

RUNNING SMART THROUGH THE END OF THE TUNNEL

SOME COMMENTARY ON PHILIPPINE ECONOMIC FUTURE

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SharePhil Summit
28 August 2020

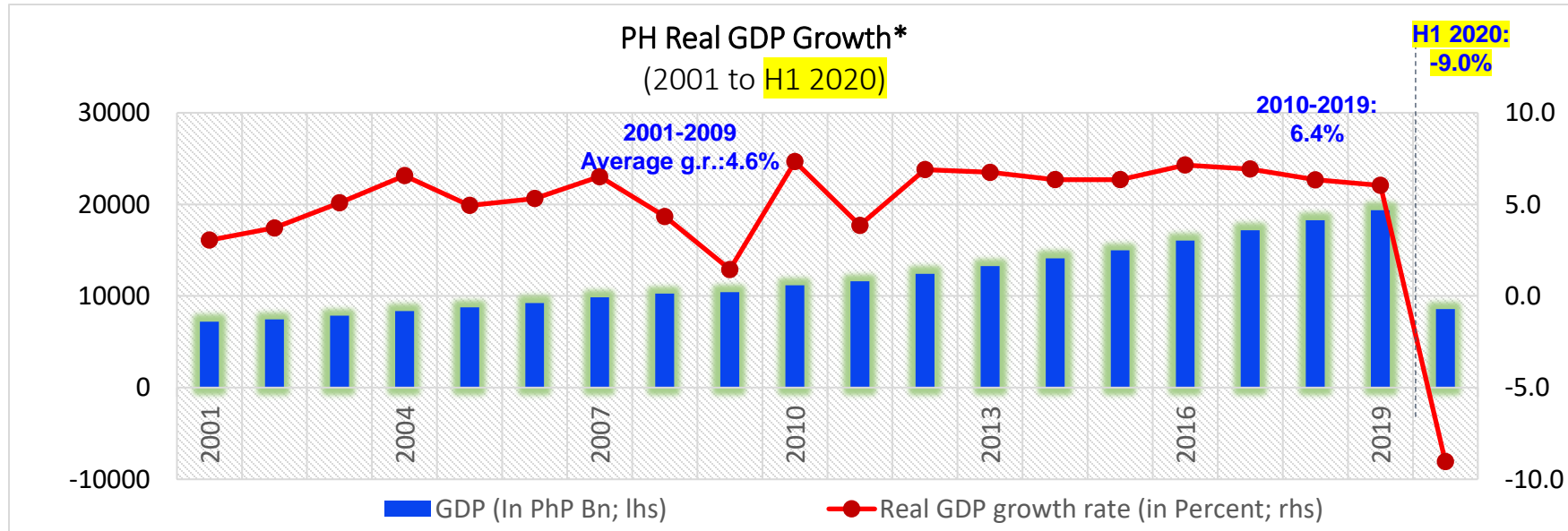


THREE PROPOSITIONS ON DRIVING THROUGH THE TUNNEL

- *Gas tank was quite full when we started driving through the tunnel*
- *Going through the tunnel unexpected: headwinds strong, roadblocks and speed bumps*
- *Unless we run smarter and hurdle roadblocks and speed bumps, we could run on empty*

Gas tank full: Done it before

Positive economic growth for 84 consecutive quarters , 2 decades



* At constant 2018 prices

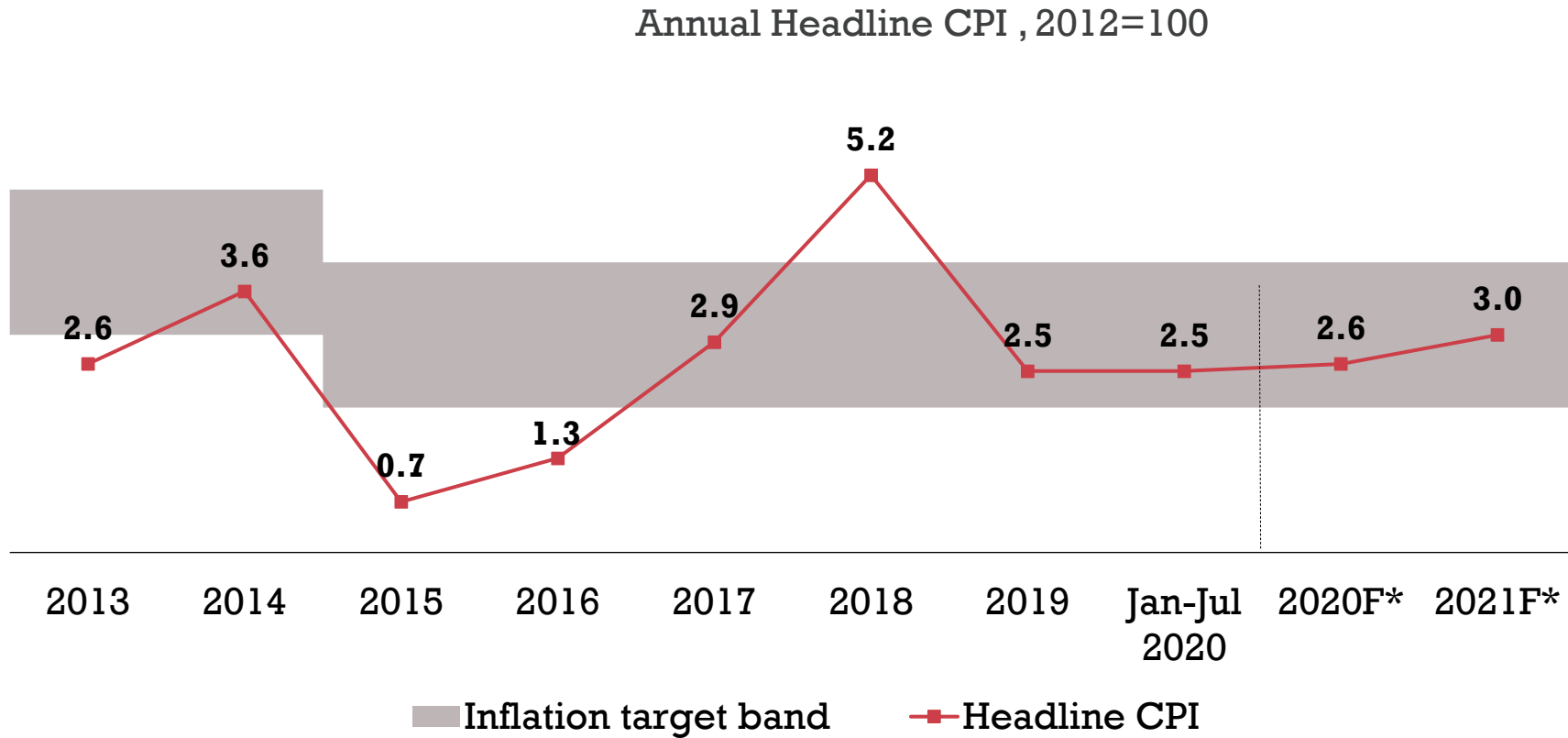
Source: Philippine Statistics Authority (PSA)

Year-on-year average and volatility of real GDP (Standard deviations; percentage points)		
	Average	Volatility
2001 – 2009	4.6	1.6
2010 – 2019	6.4	1.0

Source: BSP staff estimates

Gas tank full: done it before

Continued easing of headline inflation

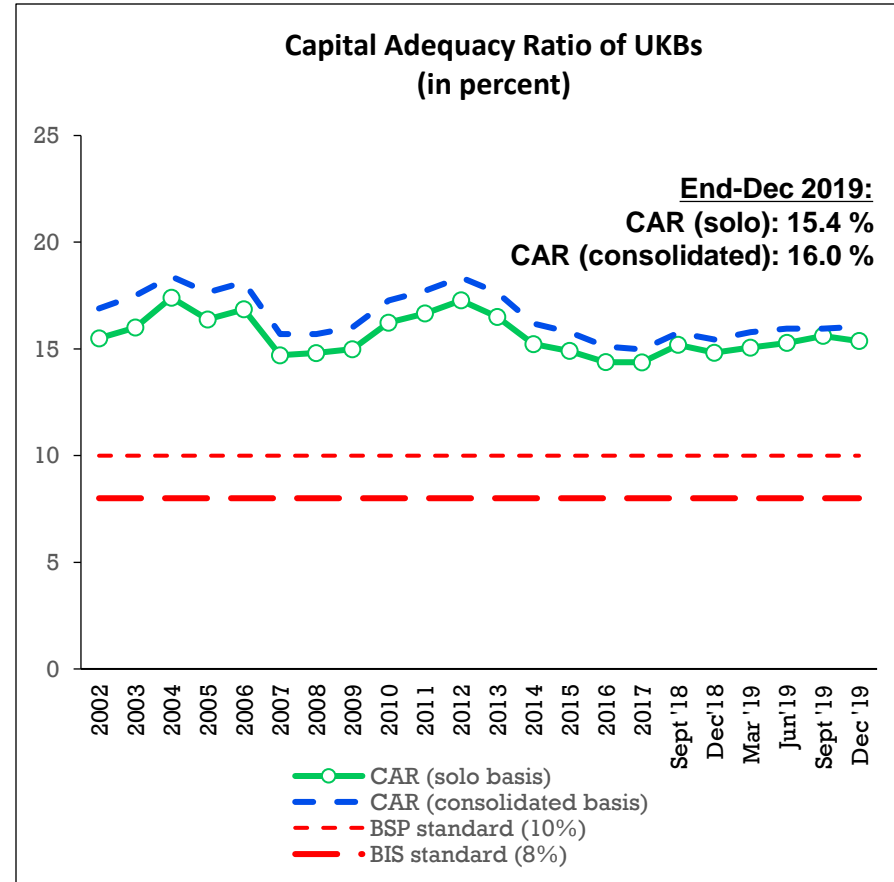
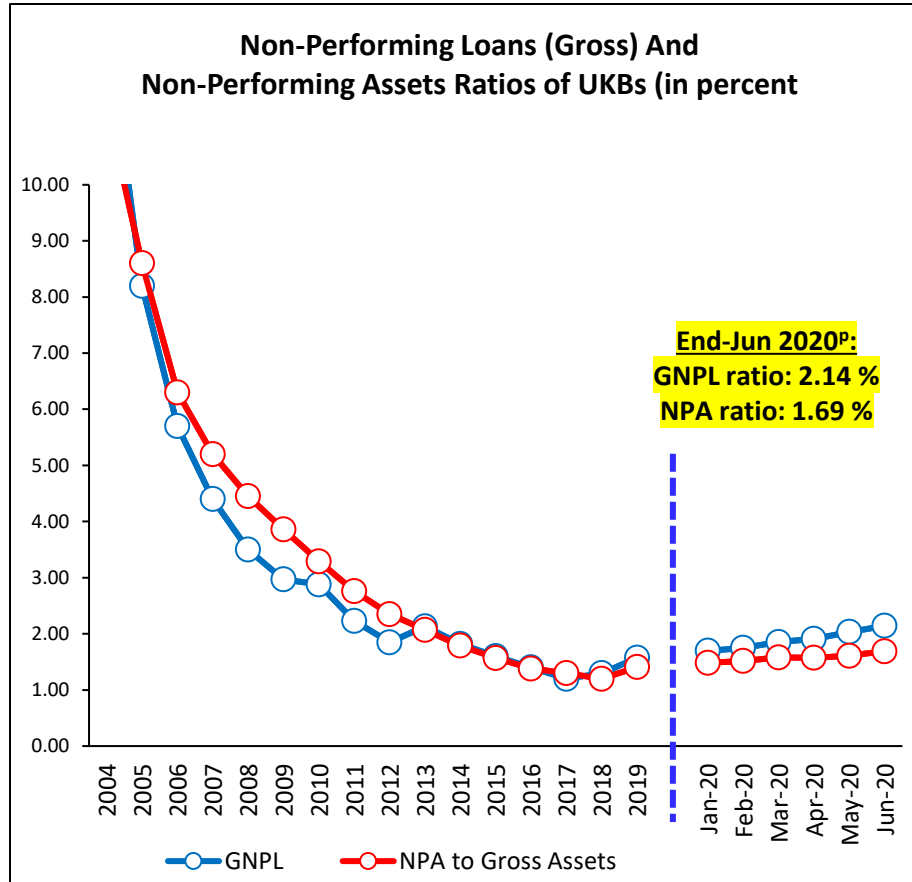


* Forecast as of 20 August 2020 Monetary Board meeting

Source: BSP

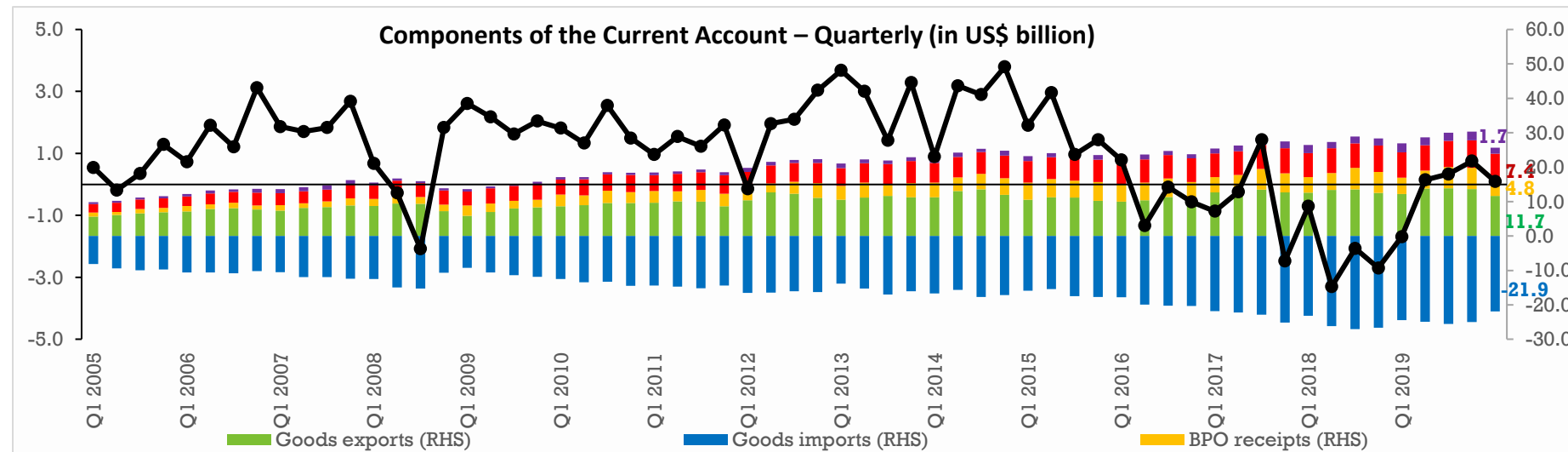
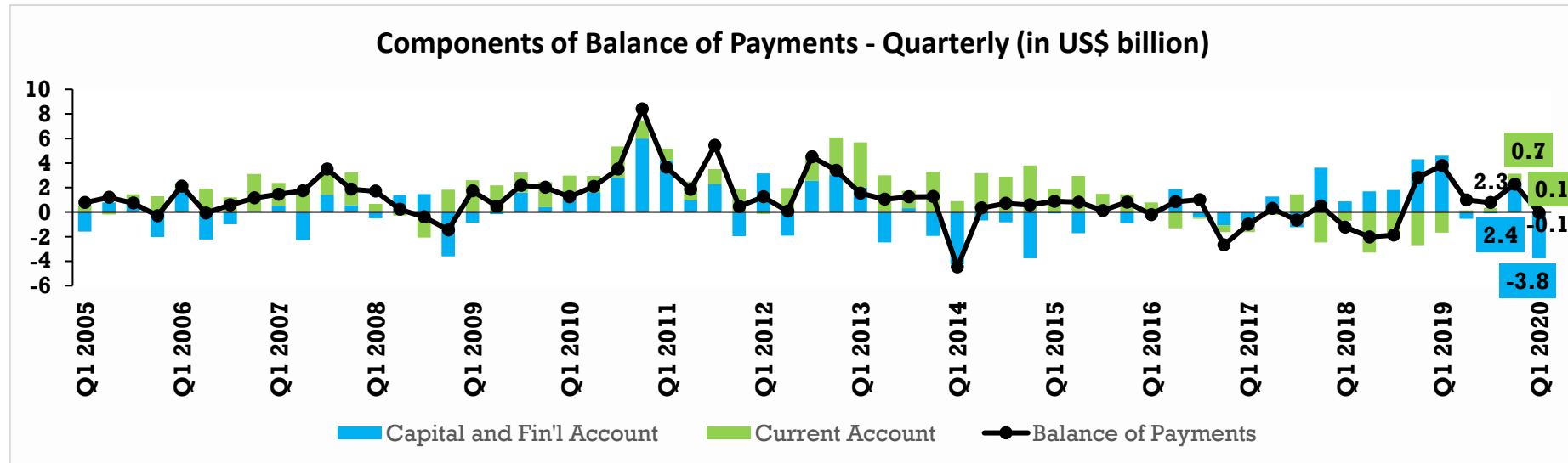
Gas tank full: Done it before

Domestic banking system remains sound



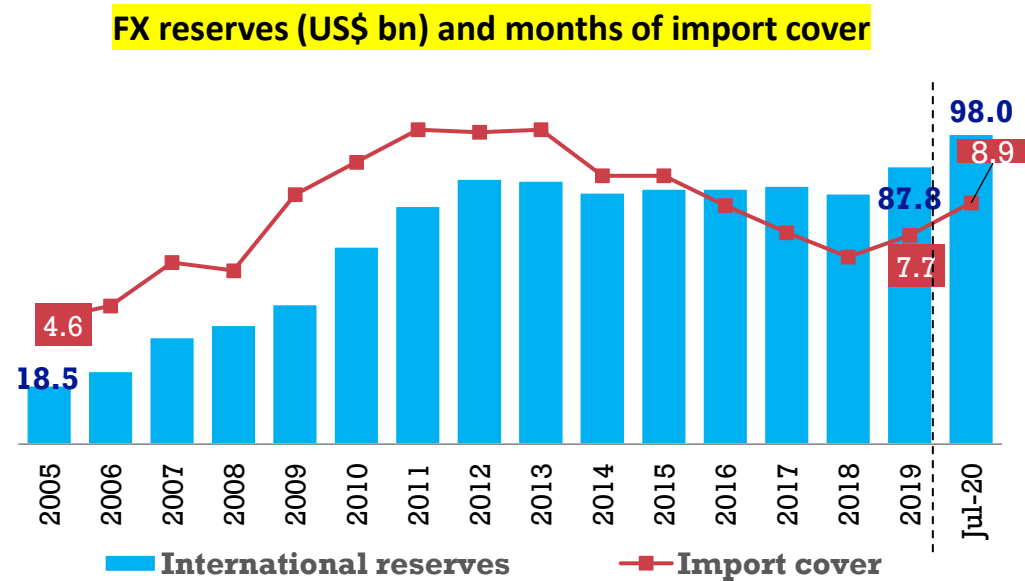
Gas tank full: Done it before

Strong external payments position provides buffers against global headwinds.



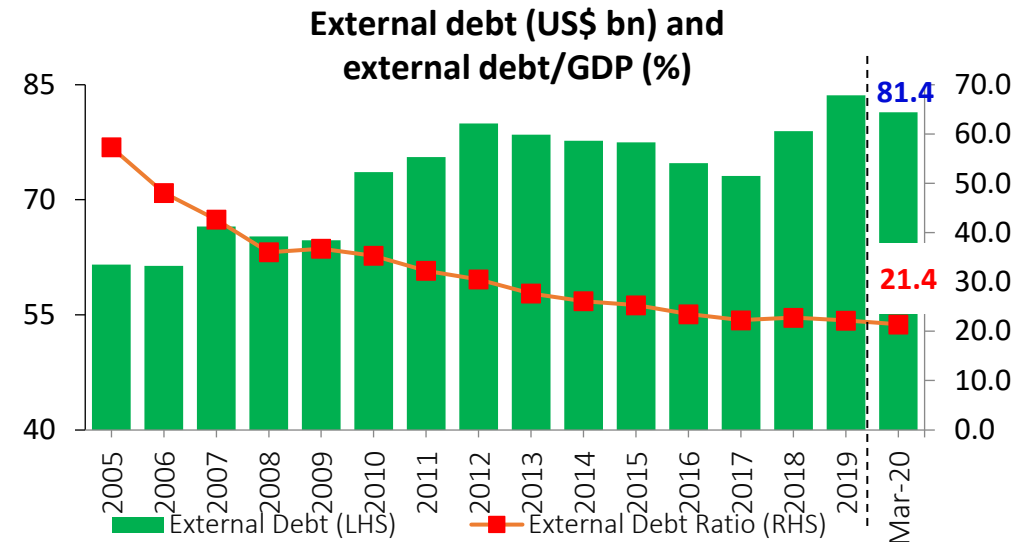
Gas tank full: Done it before

Ample cushion from external headwinds



Source: BSP

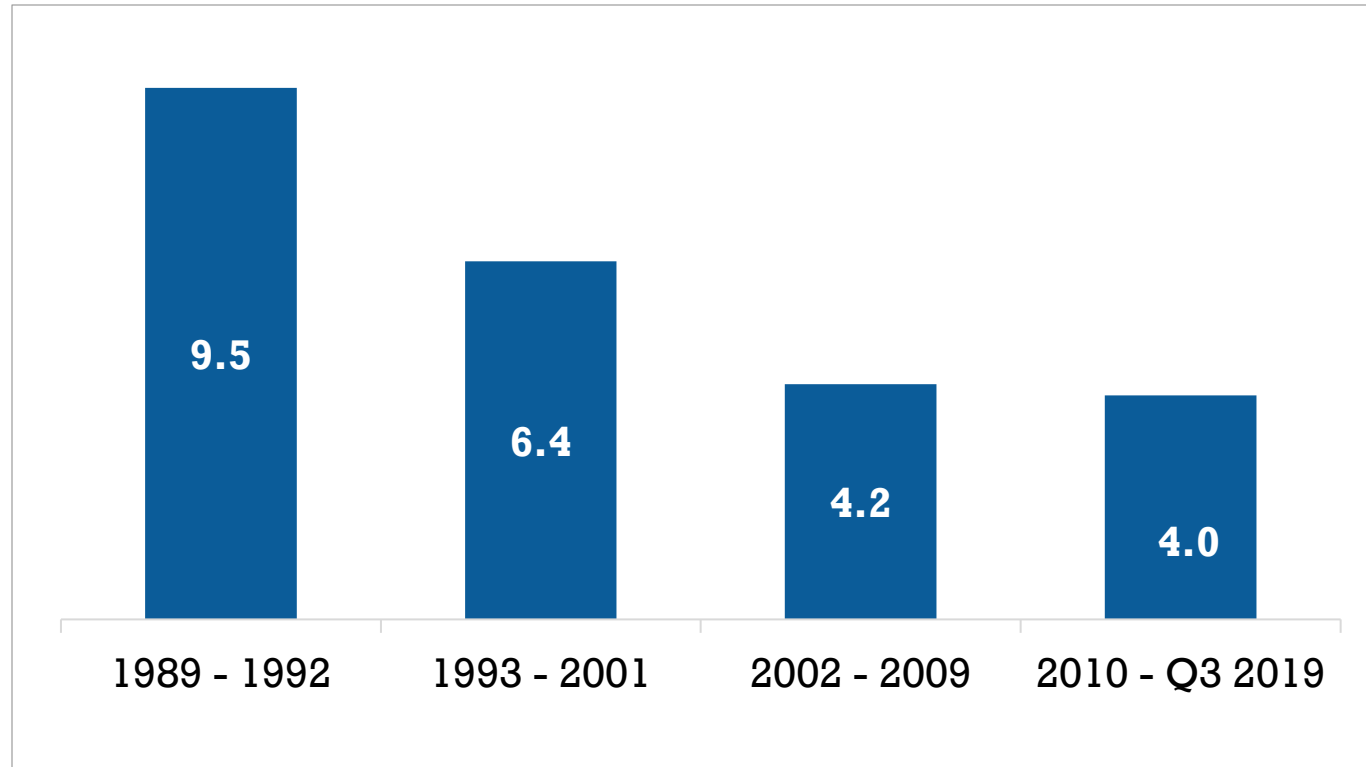
Improved external debt profile



Gas tank full: the additives

Investment efficiency improving over the years.

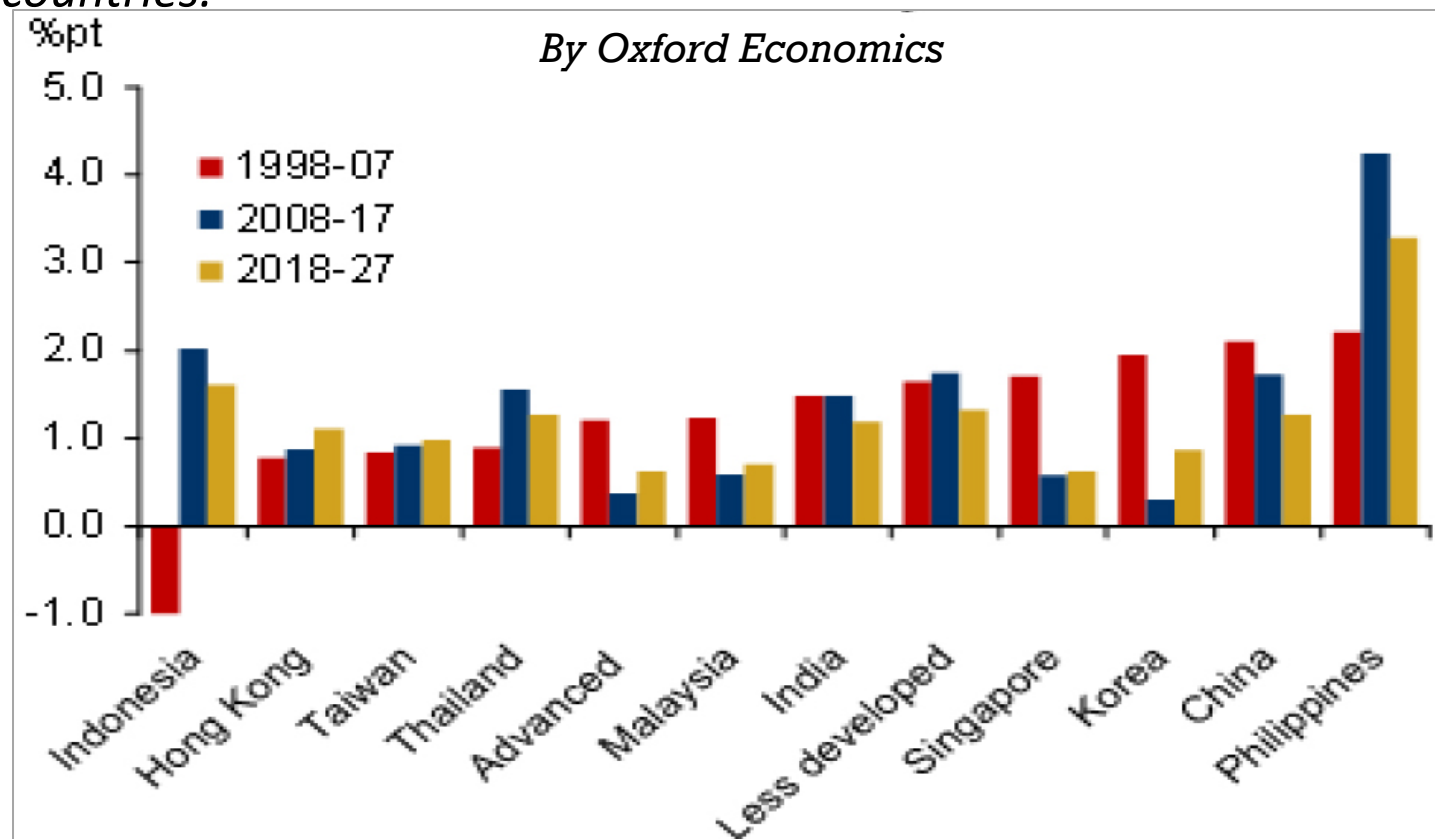
Incremental Capital-Output Ratio



Source: BSP and PSA

Gas tank full: the additives

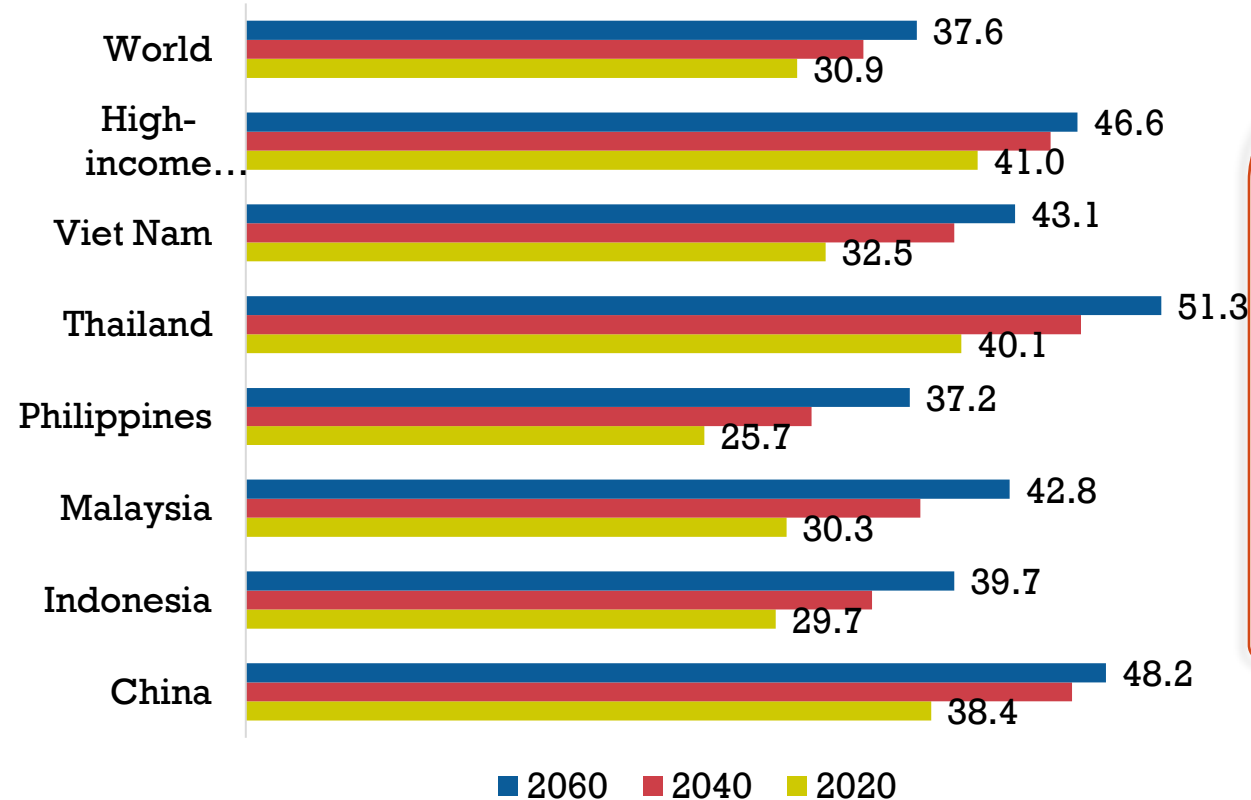
RP has highest total factor productivity (TFP) among selected Asian countries.



Gas tank full: the additives

Filipinos are the youngest compared to neighbors, rest of the world up to 2060.

Median age of the total population (years)



Philippines' workforce is:

- Highly educated and English Proficient
- Strongly customer-oriented
- Highly trainable with fast learning curve
- Adaptable to universal cultures
- High level of commitment and loyalty

Gas tank full: the additives

Quality Education

- **Enhanced Basic Education Act of 2013 (RA No. 10533)** institutionalises the implementation of the K-12 program
- **Universal Access to Quality Tertiary Education Act (RA No. 10931)** mandates the free tuition and miscellaneous fees in state universities and colleges (SUCs).
- **Technical Education and Skills Development Authority (TESDA)** was established in 1994 to develop the skills of its human resources; enhancement of skills allows the workforce to seize employment opportunities created by sustained economic growth in the domestic economy.
- **National Technical Education and Skills Development Plan 2018-2022 (NTESDP).** A blueprint for policy making and implementation of programs that support the goals and objectives of the national government; aligned to the Philippine Qualifications Framework and all instituted standards; and responsive to the skills-set demand of the labor market.
- **Conditional Cash Transfer or 4Ps** – RA No. 11310 or the Pantawid Pamilyang Pilipino Program Act was signed by President Duterte on 17 April 2019 which institutionalized the 4Ps into a regular program. As of March 2019, 4.2mn active 4Ps households benefit from it. Budget for the program continuously increased from PHP62.7bn in 2016 to PHP89.8bn in 2019

Better Health

- **Universal Health Care Act (RA No. 11223)** grants every Filipino automatic coverage by the PhilHealth
- **Attaining and sustaining “Zero Unmet Need For Modern Family Planning”** through the strict implementation of the responsible parenthood and reproductive health act, providing funds therefore, and for other purposes (EO No. 12)
- **RA No. 11058 or An Act Strengthening Compliance with Occupational Safety and Health Standards (OSHS)** ensures safe and healthful workplace for workers by giving them full protection against all hazards at work
- **RA No. 11358 or the National Vision Screening Program for Kindergarten Pupils**

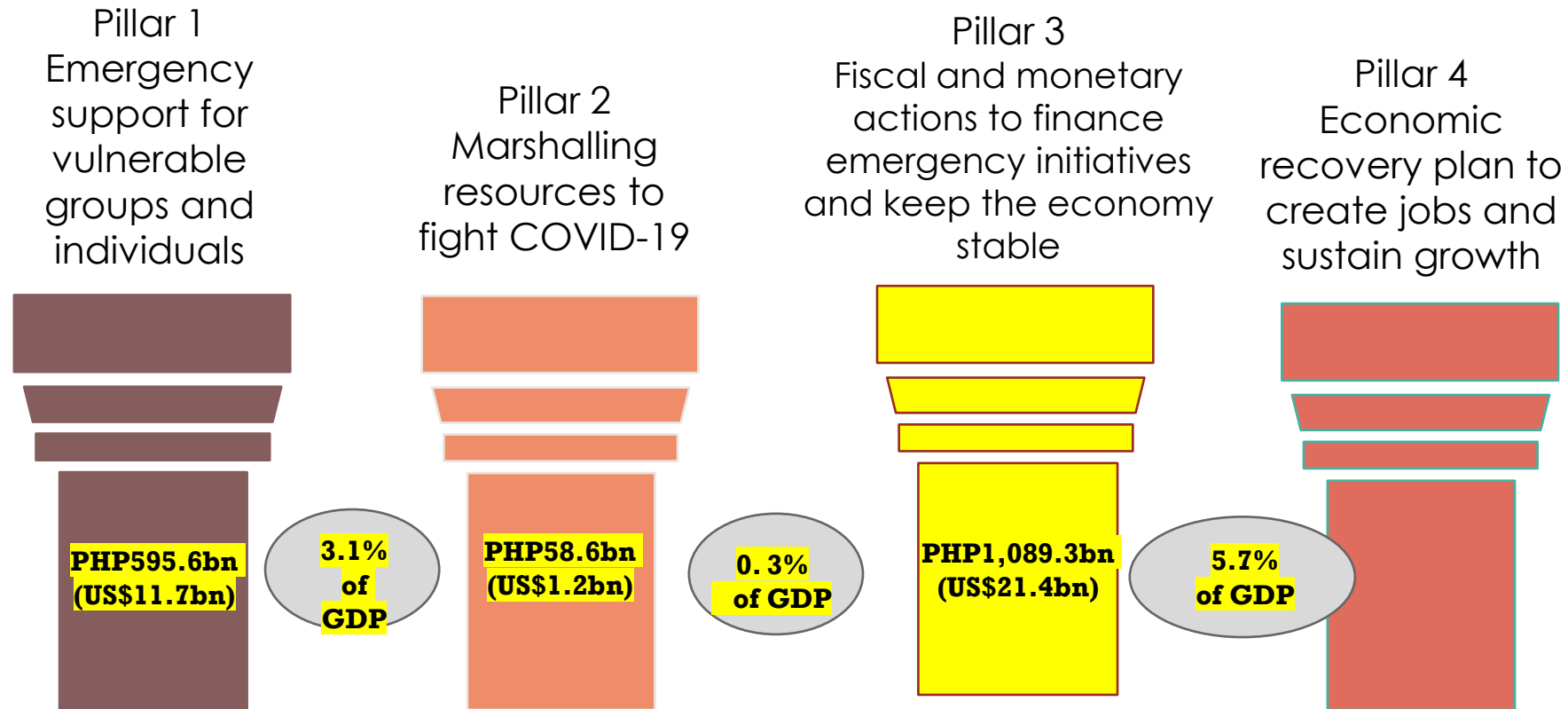
Gas tank full: the Underpinnings

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)
2019	Amendments to the Bangko Sentral ng Pilipinas Charter; Rice Liberalization Act ; Extended Maternity Leave Law, Universal Healthcare Law, Revised Corporation Code
Other Structural Reforms in the Pipeline for 2020-onwards	Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO) Bill; Islamic Banking Bill; Anti-Bank Hacking Bill; Amendments to Bank Secrecy Law; Amendments to the Public Service Act; Amendments to the Foreign Investments Act; Amendments to the Credit Information System Act; Amendments to the Agri-Agra law; and Financial Consumer Protection Bill.

Gas tank full: the roadmap

4-PILLAR SOCIOECONOMIC STRATEGY AGAINST COVID-19

USD34.3 bn Economic Recovery Package, or 9.1percent of GDP
to mitigate the impact of the pandemic

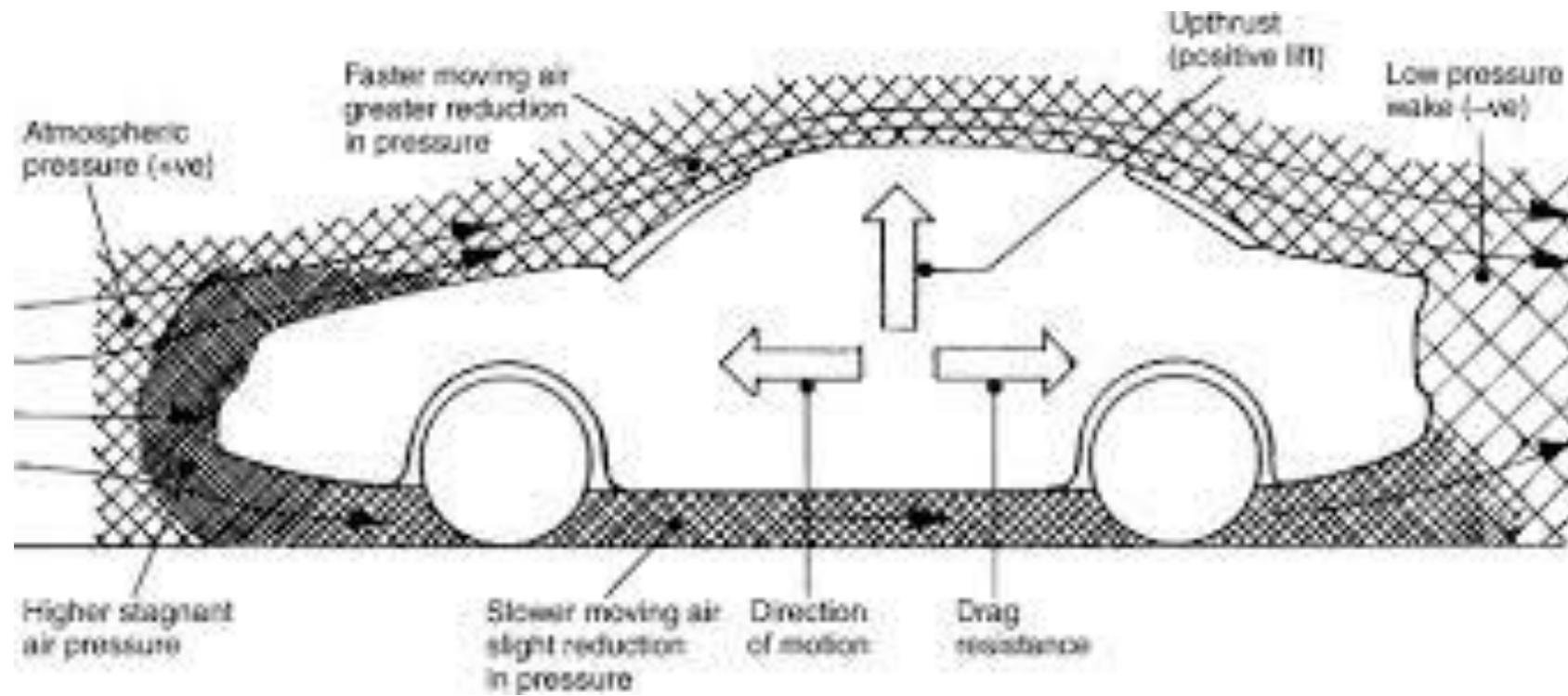


Source: Department of Finance, as of 19 May 2020

Gas tank full: the road ahead...



There are strong headwinds



There are strong headwinds: weak public health



There are road blocks, speed bumps



1 Unclear health plan and execution

There are road blocks, speed bumps



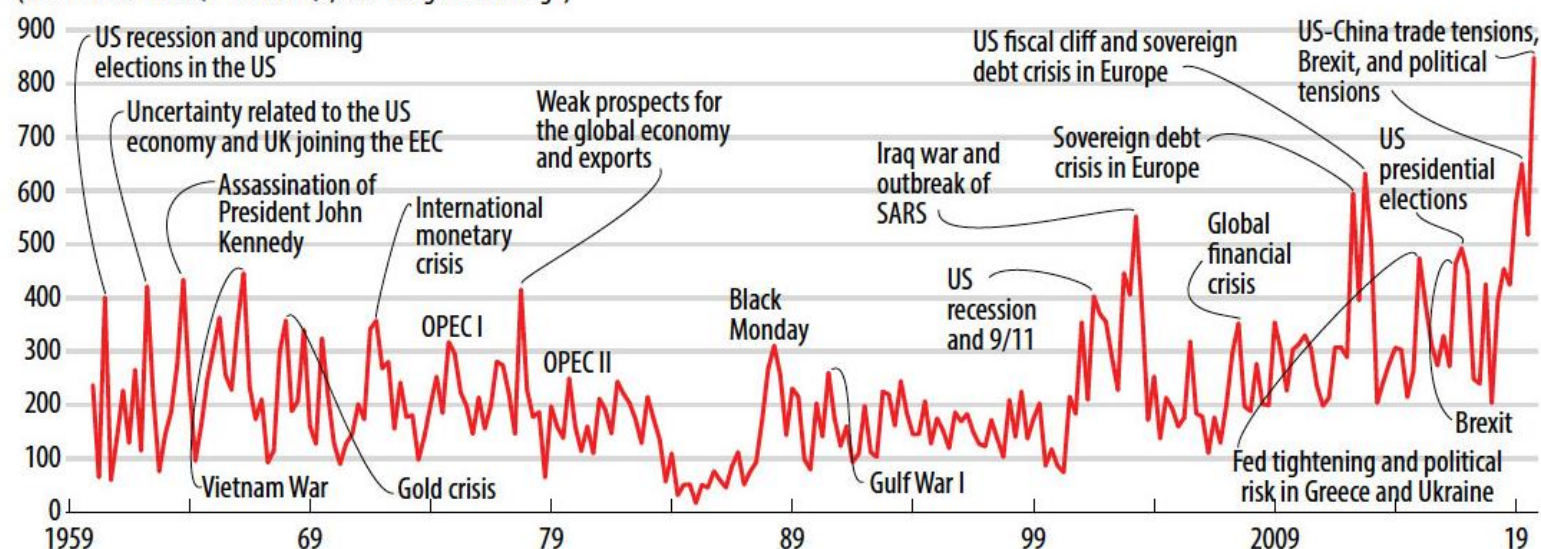
2 Problems in governance

There are road blocks, speed bumps

Uncertain times

Global uncertainty has surged to a record high.

(WUI index: 1959 Q1 to 2019 Q4, GDP weighted average)



Sources: Ahir, H., N. Bloom and D. Furceri (2018), World Uncertainty Index (WUI), mimeo.

Note: The WUI is computed by counting the frequency of the word "uncertain" (or the variant) in Economist Intelligence Unit country reports. The WUI is then normalized by total number of words and rescaled by multiplying by 1,000. A higher number means higher uncertainty and vice versa. The aggregate and disaggregate data by country and regions are available at www.worlduncertaintyindex.com.

3 Lots of uncertainty

BSP has done a lot of heavy lifting

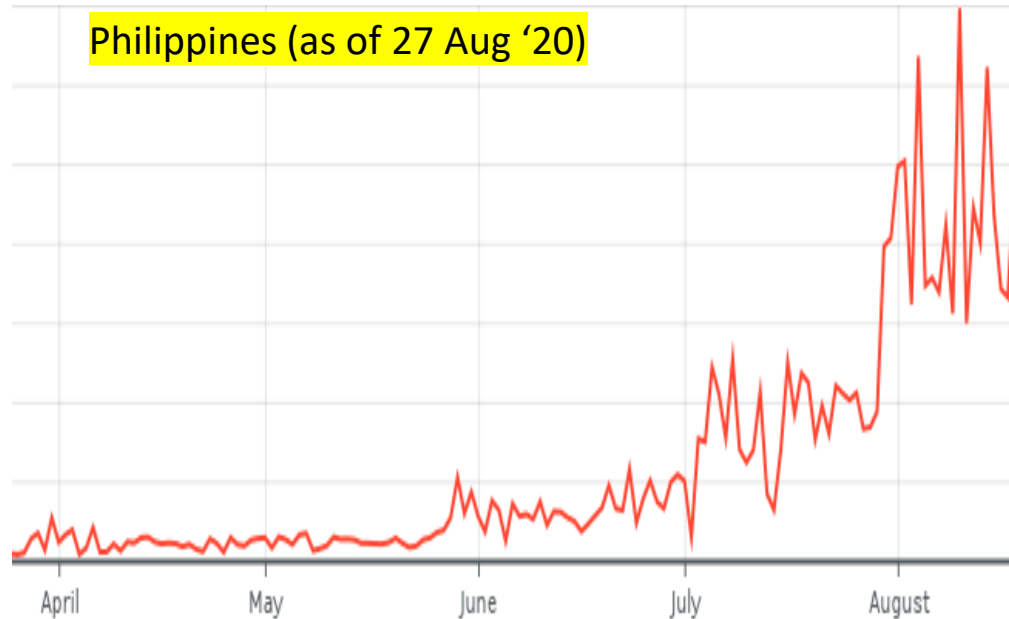
BSP interventions: provide liquidity, relax regulations, support to MSMEs)

Policy interest rate cuts	<ul style="list-style-type: none">▪ 25-basis-point (bp) cut in policy rate in February 2020▪ 50-bp cut each in policy rate in March and April 2020▪ 50-bp cut in policy rate in June 2020 (RRP now at 2.25 percent)
Large-scale asset purchases	<ul style="list-style-type: none">▪ P300 billion purchases of government securities (GS) from the National Government under repurchase agreement.▪ Purchase GS from banks in the secondary market
Forward guidance	<ul style="list-style-type: none">▪ “BSP is prepared to use its full range of monetary instruments and to deploy regulatory relief measures as needed.”
Targeted liquidity and lending operations	<ul style="list-style-type: none">▪ RRR reduced by 200 bps on reservable liabilities of universal and commercial banks (UKBs) and non-bank institutions with quasi-banking functions (NBQBs), effective on reserve week beginning on 3 April 2020. RRR was previously cut by 600 bps in 2018-2019.▪ A 100-bp reduction in the RRR of thrift banks (TBs) and rural and cooperative banks (RCBs) effective 31 July 2020.▪ Timely suspension of the term deposit facility auctions for certain tenors (zero offering for 14- and 28-day tenors).▪ Cancellation of TDF auction on 18 March and zero offering on 25 March and 1 April 2020 to ensure availability of liquidity in the financial system▪ BSP remits ₱20 billion in advance dividends to NG▪ Reduction in the O/N RRP volume offering

BSP has done a lot of heavy lifting

<i>Extension of financial relief to Borrowers</i>	<ul style="list-style-type: none"> ▪ Financial assistance (loans, advances, other forms of credit accommodations) to officers affected by the calamity ▪ Temporary grace period for payment or upon approval of restructuring ▪ Staggered booking of allowance for credit losses (needs prior BSP approval) ▪ Moratorium, without penalty, on monthly payments due to BSP, for a period of 6 months from 8 March 2020
<i>Incentivize Lending</i>	<ul style="list-style-type: none"> ▪ Reduction of credit risk weights of loans granted to MSMEs ▪ Zero-percent risk weight to loans guaranteed by the Philippine Guarantee Corporation as well as loans that are guaranteed by the Agricultural Guarantee Fund Pool (AGFP) and the Agricultural Credit Policy Council (ACPC) ▪ Peso-denominated loans to MSMEs as form of alternative compliance with banks'/QBs' reserve requirements (subject to certain control measures) ▪ SBL was temporarily raised to 30 percent from 25 percent for a period of six (6) months from March 2020 ▪ Minimum liquidity ratio of stand-alone TBs and R/CBs was also reduced from 20 percent to 16 percent until end-December 2020
<i>Promotion of continued access to financial services</i>	<ul style="list-style-type: none"> ▪ Relaxed the Know-Your-Customer (KYC) requirements, particularly, the presentation of valid IDs by retail clients, including micro-business owners, to facilitate their access to formal financing channels ▪ Waived fees on digital financial services from 8 March 2020 ▪ Granted operational relief measures for foreign exchange (FX) transactions
<i>Support for continued financial services delivery</i>	<ul style="list-style-type: none"> ▪ Non-imposition of monetary penalties for delays incurred in the submission of all supervisory reports due to be submitted from 8 March 2020 ▪ Implemented accounting relief measures to reduce the impact of mark-to-market (MTM) losses on the financial condition ▪ The exposure limit of 15 percent of the market value of the Unit Investment Trust Fund (UITF) was temporarily eased

Challenge 1: Flattening the curve



Country	Total Cases	Total Deaths	Total Recoveries
Philippines	205,581	3,234	133,990

As of 27 August 2020
Source: DOH, WHO

Challenge 2: Fiscal policy support



Forecasts

Downgrades of growth for 2020 due to COVID

Institution	World	ASEAN	Philippines
IMF	-4.9	-0.6 ^{1/}	-3.6
World Bank	-5.2		-1.9
ADB		-2.7 ^{2/}	-3.8

Sources: IMF World Economic Outlook (WEO), June 2020; WB Global Economic Prospects (GEP), June 2020; ADB Asian Development Outlook Supplement, June 2020.

^{1/}ASEAN-5: Indonesia, Malaysia, Philippines, Thailand, Vietnam.

^{2/}ASEAN 10 + Timor Leste

Assessments

*Downgraded 2020 growth given Q2 GDP outturn,
room for optimistic on recovery in 2021*

Institution/PH growth outlook for 2020	Commentary
Nomura -6.6 (from -2.4) (7 Aug 2020)	Taking into account the Q2 outturn but also some latest developments such as surge in unemployment to 17.7% in April and a larger-than-expected decline of remittances to -19.3% in May. Forecasts GDP growth to rise to 8.1% in 2021.
Citi -7.9 (from -4.5) (6 Aug 2020)	Effects from unemployment and COVID-19 uncertainties likely weigh on private sector spending, leading to sharper Q3 and Q4 contraction vs. our earlier forecast. Forecasts GDP growth at 7.0% growth in 2021.
Barclays -9.0 (from -5.5) 6 Aug 2020	Reflecting its base case of weak recovery momentum in H2 2020 amid the Philippines' inability to flatten the COVID curve and the re-implementation of tighter restrictions on movement which pose a significant threat to the expected rebound in H2. 2021 GDP growth forecast is kept unchanged at 7.5%.
Deutsche Bank -10.0 6 Aug 2020	We expect consumption will be only moderately higher in Q3 than Q2 with a renewed lockdown in Luzon . But popular support for lockdowns is weakening as the economic effects are felt to be increasingly unbearable -- we see the same in Indonesia -- so we expect social distancing will gradually relax, easing the supply and demand constraints on the economy. Annual GDP to rise 8% next year.

Some ray of hope...

Debt Spreads: Phil continues to enjoy confidence

Movements of JP Morgan EMBI Sovereign Spreads					
Issuer/Country	07/31/2020	06/30/2020	05/29/2020	03/31/2020	01/31/2020
	End-Jul	End-Jun	End-May	End-Mar	End-Jan
ASEAN 5 plus Vietnam					
Philippines	130	162	163	222	83
Indonesia	232	262	277	357	181
Malaysia	159	188	203	287	181
Thailand	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.
Vietnam	178	211	272	426	117
Price Source: Bloomberg					
Note: According to JPM Counterparty, Thailand and Singapore have no outstanding sovereign dollar-denominated issuance.					
EMBI is generated by JP Morgan					

Some ray of hope...

CDS Spreads: Phil continues to enjoy confidence

Movements of 5-year CDS Spread, in bps (bid price)												
Issuer/Country	Credit Ratings (Moody's/S&P/Fitch)	08/14/2020 (except for Australia)	07/31/2020	06/30/2020	05/29/2020	03/31/2020	01/31/2020	Changes				
								End Jul to latest level	End Jun to latest level	End May to latest level	End Mar to latest level	End Jan to latest level
		Latest Level	End-Jul	End-Jun	End-May	End-Mar	End-Jan					
ASEAN 5 plus Vietnam												
Philippines	Baa2 / BBB+ / BBB	48.99	54.86	63.92	72.27	96.40	40.21	-5.86	-14.93	-23.28	-47.41	8.78
Indonesia	Baa2 / BBB / BBB	103.32	113.30	131.07	173.00	205.40	64.81	-9.98	-27.75	-69.68	-102.08	38.51
Malaysia	A3 / A- / A-	49.13	57.05	71.54	87.42	109.48	40.66	-7.92	-22.41	-38.29	-60.35	8.48
Thailand	Baa1 / BBB+ / BBB+	38.00	39.84	42.11	47.25	60.72	23.81	-1.85	-4.11	-9.25	-22.73	14.19
Singapore	Aaa / AAA / AAA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Vietnam	Ba3 / BB / BB	136.74	155.02	172.76	214.90	223.27	89.32	-18.28	-36.02	-78.16	-86.53	47.42
Other EMEAP Countries												
Australia	Aaa / AAA / AAA	25.88	n.a.	25.88	27.55	35.23	16.91	n.a.	0.00	-1.67	-9.35	8.97
China	A1 / A+ / A+	38.81	42.00	48.76	55.28	48.76	41.03	-3.18	-9.95	-16.47	-9.95	-2.22
Hongkong	Aa3 / AA+ / AA-	40.76	40.77	40.59	37.07	34.44	27.63	-0.01	0.17	3.69	6.32	13.13
Japan	A1 / A+ / A	14.58	15.87	16.01	20.31	41.14	18.15	-1.29	-1.44	-5.73	-26.56	-3.57
Korea	Aa2 / AA / AA-	20.70	22.53	26.86	27.44	34.10	26.07	-1.83	-6.16	-6.73	-13.40	-5.36
New Zealand	Aaa / AA / AA	17.22	17.22	19.16	26.12	33.09	14.39	0.00	-1.94	-8.90	-15.87	2.83

Price Source: Bloomberg

Note: CDS data in Bloomberg has one-day lag

Singapore data is not available

Australia latest available data as of 06/12/2020

Reaching the end of the tunnel
With some fuel to spare...





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