The Philippines: Pursuing Reforms, Accelerating Growth, Reaching New Heights

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Speaker: BSP Governor Benjamin E. Diokno

To the officers and staff of the Banco Bilbao Vizcaya Argentaria, guests from other banks, ladies, and gentlemen, good morning. It is my pleasure to provide you an overview of the Southeast Asian region with a focus on the Philippines as an ideal investment destination.

Member-economies of the Association of Southeast Asian Nations - or ASEAN - entered 2021 on an optimistic note with the containment of the pandemic that started in 2020. The accelerated vaccination efforts in the second half of 2021 allowed easing of mobility restrictions, thus boosting economic recovery in the region.

In the case of the Philippines, its 8.3-percent growth in the first quarter of 2022 made it the fastest-growing economy in the region.

Nevertheless, risks exist. A prolonged Ukraine-Russia conflict may keep food and energy prices elevated, which may push up inflation and dampen growth in the region as most of our economies are net energy importers.

The S&P Global ASEAN Manufacturing PMI rose to 52.8 in April from 51.7 in March as business conditions in the region continued to improve despite protracted supply chain disruptions and broadening inflationary pressures.

All ASEAN countries included in the regional PMI registered growth in their respective manufacturing sectors, with Singapore posting the fastest growth in manufacturing activity followed by the Philippines, Thailand, and Indonesia.

Looking ahead, firms remain confident that manufacturing output will continue to recover.

The Philippine economy's 8.3-percent growth in the first quarter, which followed the 5.7-percent expansion in 2021, already surpassed the pre-pandemic GDP level and exceeded the median analysts' forecast of 6.7 percent.

We expect our full-year growth to range from 7.0 to 8.0 percent this year and 6.0 to 7.0 perc
2023 to 2025.

Growth in the first quarter was broad-based.

On the supply side, all sectors expanded, driven by industry at 10.4 percent, followed by services at 8.6 percent.

On the expenditure side, growth was driven by the 10.1-percent increase in private consumption, a stark reversal of 4.8-percent contraction in the same quarter a year ago.

Investments and external trade also performed well.

The employment situation has likewise improved. The unemployment rate declined to 5.8 percent last March from a peak of 17.6 percent in April 2020.

More granular data indicate that the quality of employment in the country is gradually returning to the pre-pandemic levels as the recent employment gains from wage and salary workers in private establishments posted significant improvements.

Foreign direct investments reached an all-time high last year of USD10.5 billion.

In the first two months of this year, FDIs grew by 8.0 percent to USD1.7 billion.

Manufacturing activity has strongly rebounded, with the purchasing managers' index above the 50-point threshold for the seventh consecutive month at 52.8 in April 2022.

All these came on the back of a whole-of-government approach to pandemic recovery.

Complementing the national government's efforts, the central bank implemented its own COVID-response measures.

We ensured adequate liquidity in the financial system and helped bolster domestic economic activity,

Overall liquidity conditions thus continue to provide support for the economy. The various liquidity-easing measures of the central bank have injected the equivalent of approximately US$ 41.9 billion into the financial system. This is equivalent to about 11.3 percent of GDP.

As the economy recovers, the central bank will scale back its extraordinary measures, guided by its outlook on inflation and growth, state of public health, and domestic and global risks to the economy.

In the IMF-World Bank Spring Meetings last April, the challenge of balancing the need to safeguard economic recovery and controlling inflation was highlighted.

Achieving that balance requires a well-calibrated and well-communicated exit strategy.

For the Philippines, economic recovery came sooner than expected. The economy grew by 8.3 percent in the first quarter. We expect the economy to grow much faster in the second quarter, making the growth target for this year of 7.0-8.0 percent doable.

Moreover, employment is nearing its pre-pandemic rate.

The strong rebound in domestic economic activity and improvement in the labor market conditions in Q1 2022 provide scope for the central bank to continue rolling back the pandemic-induced interventions as defined under the central bank's exit strategy.

Earlier, the central bank's provisional advances to the national government – this is our version of QE – amounted to USD10.3 billion - in 2020 and 2021 was down to USD5.7 billion in January 2022. To date, the national government has fully paid the central bank advances.

With the Philippine recovery underway, the central bank raised the policy rate by 25 basis points to 2.25 percent last May 19.

The government's fiscal space allowed it to finance the huge COVID-19 response without incurring unmanageable debts.

The government's Comprehensive Tax Reform Program strengthened the country's fiscal house. It simplified the tax system, increased tax rates on automobiles, petroleum, and tobacco products; expanded the value-added tax base; introduced excise tax on sugar-sweetened beverages; and lowered the estate and donor's tax.

With the new tax system, the incoming administration will be in a better position to face the challenges of the post-pandemic economy.

The Philippines entered the pandemic in a position of strength. Its hefty external accounts and gross international reserves acted as a buffer during the pandemic.

In line with the movement of other emerging market currencies amid the Ukraine-Russia conflict, the peso depreciated but only by 2.4 percent as of May 23 from its end-2021 level. And you can see it in comparison, it depreciated the least or lower than, of course than other countries except Singapore, but the rest depreciated more.

The BSP keeps its market-determined exchange-rate policy and intervenes only to ensure orderly market conditions and prevent excessive short-term volatility in the exchange rate.

Our banking system is stable, benefitting from regulatory reforms over the years. Banks have been extending loans to households and businesses, with credit activity growing since August last year.

Prudent lending standards of banks also help keep the rise in bad debts within manageable levels while ample capitalization enables them to absorb shocks.

On digital transformation, the BSP or the central bank's policy agenda include digitalization (
country's payments system.

By 2023, we aim to digitalize at least half of retail payments and onboard at least 70 percent of Filipino adults to the formal financial system through transaction accounts.

Complementing our digitalization agenda is the new Financial Consumer Protection Act. The law improves the resolution mechanisms for financial consumer complaints, including those involving cybercrimes.

The central bank has also issued six digital banking licenses.

The BSP is at the forefront of promoting sustainable finance.

We have issued regulations requiring banks to incorporate sustainability principles into their operations.

The central bank is also among the early investors in the Bank for International Settlements' Green Bond Fund and the Asian Green Bond Fund.

Amid the pandemic, the government continued to pursue game-changing reforms that help make the Philippines a preferred investment destination.

For instance, it pursued the passage of the Corporate Recovery and Tax Incentives for Enterprises or CREATE, which cut corporate income taxes to make it more competitive with our ASEAN neighbors and rationalized the fiscal incentives system.

In addition, three new landmark laws further open the Philippines to foreign investors: the amendments to the Retail Trade Liberalization Act, the Foreign Investments Act, and the Public Services Act.

These game-changing reforms will help stimulate the economy, generate more jobs, and allow for the exchange of skills and technology with the country's foreign partners.

The Duterte administration invested much more in infrastructure under the "Build, Build, Build" program than what previous governments have invested - around double the percentage of GDP over the past few years compared to the past few decades

From 2016 to 2020, infrastructure spending as a percent of GDP averaged 4.6 percent. This increased to 5.8 percent in 2021.

These numbers tell the story of the government's commitment to improve mobility and create a better investment climate.

Taking all these into consideration, we are optimistic about the Philippine economy. We expect the economy to grow by 7.0 to 8.0 percent this year and by 6.0 to 7.0 percent next year and beyond.

That said, like the rest of the world, the Philippines faces risks to its growth outlook and thes include the possible deterioration in the COVID situation and a prolonged Russia-Ukraine cc

While the IMF has cut its global economic growth forecast in its April 2022 World Economic Outlook, it raised its GDP growth projection for the Philippines from 6.3 percent to 6.5 percent this year.

On COVID-19, the Philippines is managing risks of potentially new variants emerging through sentinel surveillance and protecting the vulnerable population through accelerated vaccination.

As of May 17, 68.8 million out of the target 90 million Filipinos have already been fully vaccinated.

On the Ukraine-Russia conflict, there's an impact to domestic prices, but we expect inflation to remain manageable.

Based on the most recent BSP forecasts, inflation this year could average 4.6 percent. That is above our target range of 2.0 to 4.0 percent, but by next year, we expect inflation to average 3.9 percent, well within the central bank's target range.

The BSP supports timely implementation of targeted non-monetary measures by the national government to prevent price pressures from broadening. These measures include direct financial transfers to vulnerable sectors, and efforts to boost domestic production and importation of certain food commodities.

The central bank stands ready to take further action following our 25-basis points rate hike in May, if necessary.

Now before the pandemic hit the Philippines, we were on our way to A-level credit rating.

While the virus set us back, the Philippine economy was strong and the Duterte administration continued pursuing game-changing reforms. Not surprisingly, all the international and regional rating agencies unanimously affirmed their investment-grade ratings of the Philippines throughout the pandemic despite a wave of ratings downgrades for many advanced and emerging economies.

We will continue the country's pursuit of A-level rating. And this can be done by crafting, among others, a well-thought-out fiscal consolidation framework, which has to be prepared by the Executive Department and ratified by Congress.

In closing, as many of us in this room may have come to realize, the pandemic has taught us that fundamentals matter and pursuing structural reforms makes our country resilient to shocks.

For the Philippines, at the height of the pandemic, we didn't sit idly by and wait for the virus to recede. Instead, we continued to push for game-changing reforms. We continued to invest in physical and human capital. All these are meant to improve the Philippines' competitiveness, boost its productive capacity, and make it an even more attractive investment destination.

Thank you and good day.