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“Press Statement at the Conclusion of IMF Staff Mission to the Philippines”

The following statement was issued in Manila today at the conclusion of an International Monetary Fund (IMF) staff mission to the Philippines for the 2011 Article IV Consultations:

“The Philippines is being affected along with other countries in the region by the fragile global economic environment, but macroeconomic conditions remain generally sound. The authorities’ policy management is supporting confidence and has built up room for a strong response should further negative shocks occur. The key challenge now is to navigate through the period of global uncertainty to maintain macroeconomic stability while building the foundations for faster and more inclusive growth.

“GDP growth slowed in the first three quarters of 2011 owing to a fall in semiconductor exports and a temporary fall in public investment as new practices are put in place to improve the transparency and efficiency of government expenditure. The staff team expects growth to average 3.7 percent in 2011 and rise to 4.2 percent in 2012 as public spending recovers and private demand remains resilient. The global environment remains a key risk to the outlook. Inflation is expected to remain within the target range this year and next, and the balance of payments to stay in surplus.

“Monetary policy has responded well to changing circumstances. Policy tightening in early 2011 helped to forestall inflation pressures, while the pause in tightening in recent months has been justified by extreme global uncertainty and low core inflation. Monetary conditions remain supportive of growth, suggesting that an easing of conditions is not needed at this time. If global downside risks or further negative shocks were to materialize, monetary policy could be recalibrated.

“Fiscal policy should provide welcome support for growth in 2012, as expenditures rise from their unexpectedly low level this year. Over the medium term, the planned fiscal consolidation should strengthen the ability of the budget to respond to future shocks. Expenditure is being appropriately reoriented toward social and infrastructure priorities for inclusive growth. Higher revenue will be needed in order to meet these objectives. The authorities’ emphasis on strengthening tax compliance is appropriate and the Fund continues to support these efforts with technical assistance. In addition, it will be important to reform excises, rationalize fiscal incentives, and broaden the tax base.

“The financial sector has been resilient to the global turbulence. Vulnerabilities from concentration and interest rate risks, real estate exposures, and potential spillovers from global financial disruptions need to be carefully monitored. It remains important that amendments to the BSP Charter be quickly approved to give supervisors stronger legal protection as well as allow the BSP to issue its own debt securities for more effective conduct of monetary policy and promotion of macroeconomic stability.”