

# Coping with Macroeconomic Vulnerabilities and Spillovers: The Philippine Experience

IMF and University of Tokyo Joint Seminar on  
Coping with Macroeconomic Vulnerabilities and  
Spillovers  
7-8 November 2016  
Tokyo, Japan

**DIWA C.  
GUINIGUNDO**  
Deputy Governor  
Monetary Stability Sector



**BANGKO SENTRAL NG PILIPINAS**

## **I. Vulnerabilities and Spillovers**

- Fragile global growth and trade prospects
- Asynchronous monetary policies
- Brexit potential impact

## **II. Policy Responses**

- Ample monetary, fiscal policy space
- Sound macroprudential policies
- Flexible exchange rate, comfortable FX reserves
- Structural reforms



# *Vulnerabilities and Spillovers*

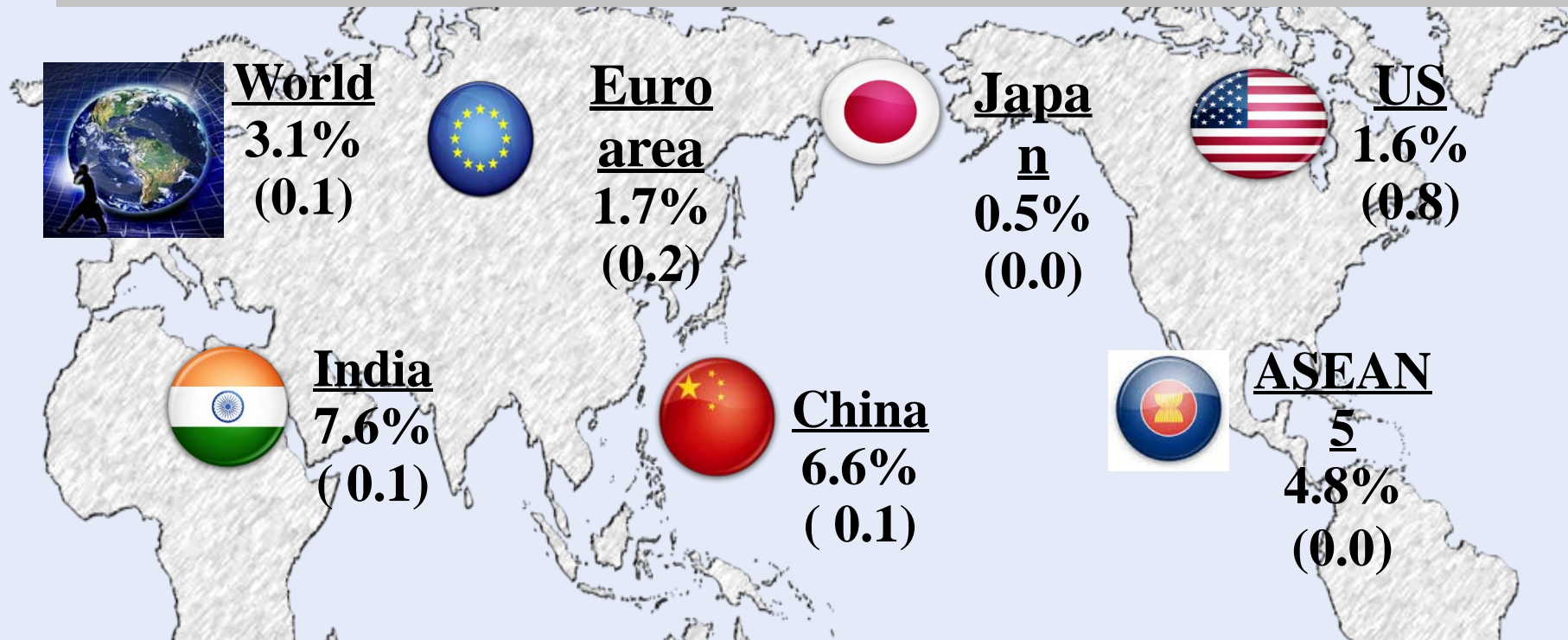


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# *Economic activity remains sluggish in many advanced economies...*

## **IMF 2016 Growth Projections, as of October 2016\***

(Difference from April 2016 WEO projections, in percentage points)



- **Growth prospects remain fragile and uneven**

- In advanced economies, a modest and uneven recovery is expected to continue
- Growth in emerging market and developing economies is even more varied than advanced economies, but is generally expected to strengthen in 2016

...compounded by the slowdown

# China GDP and Trade Growth (% change, q-on-q)

## China's Share of Global GDP and Imports (%)



China: Real Consumption and Investment (% of GDP)

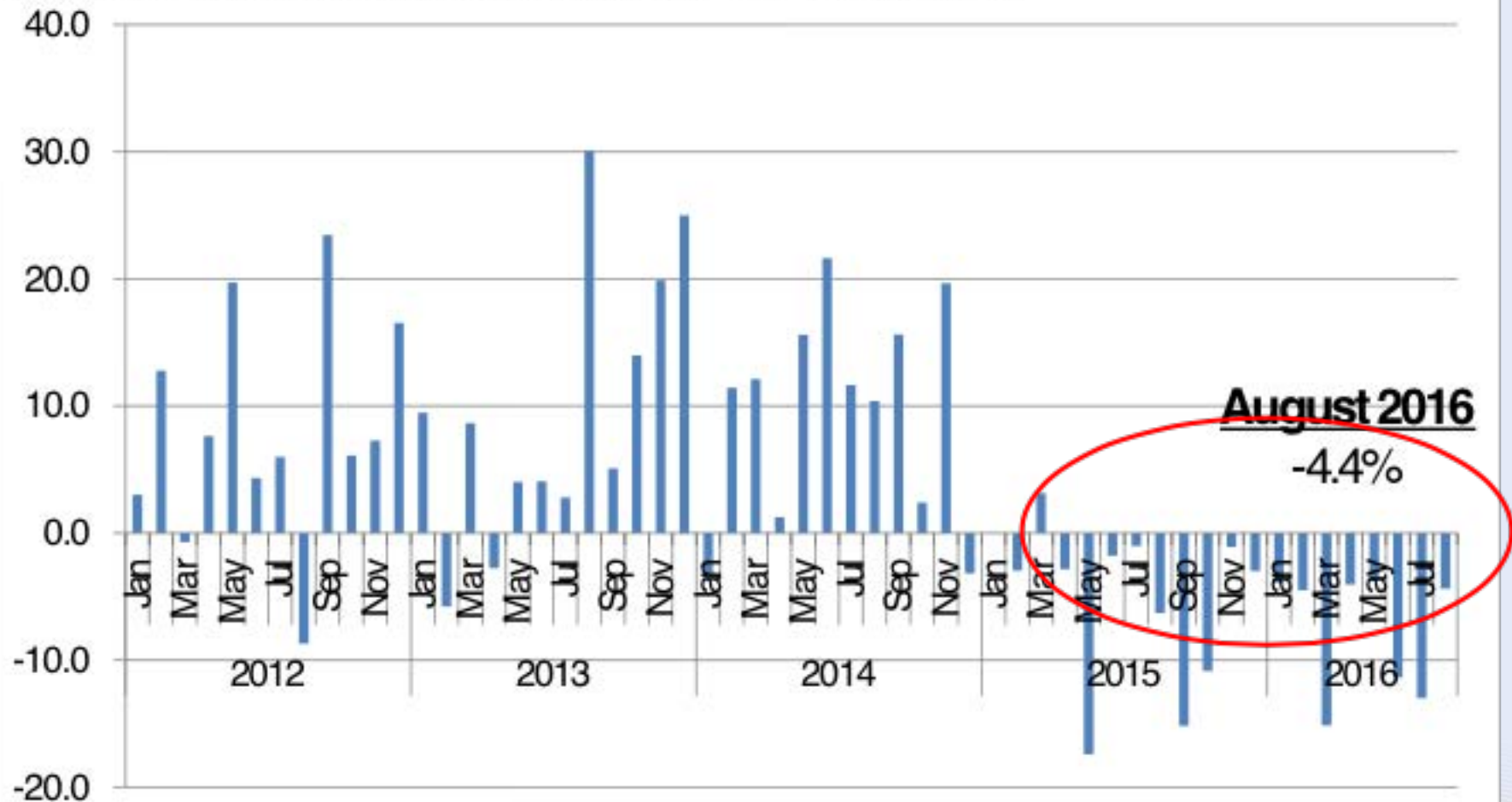


Source: IMF WEO; IMF Staff Calculations

# *Weak external environment moderates Philippine growth...*

## Philippine Merchandise Exports

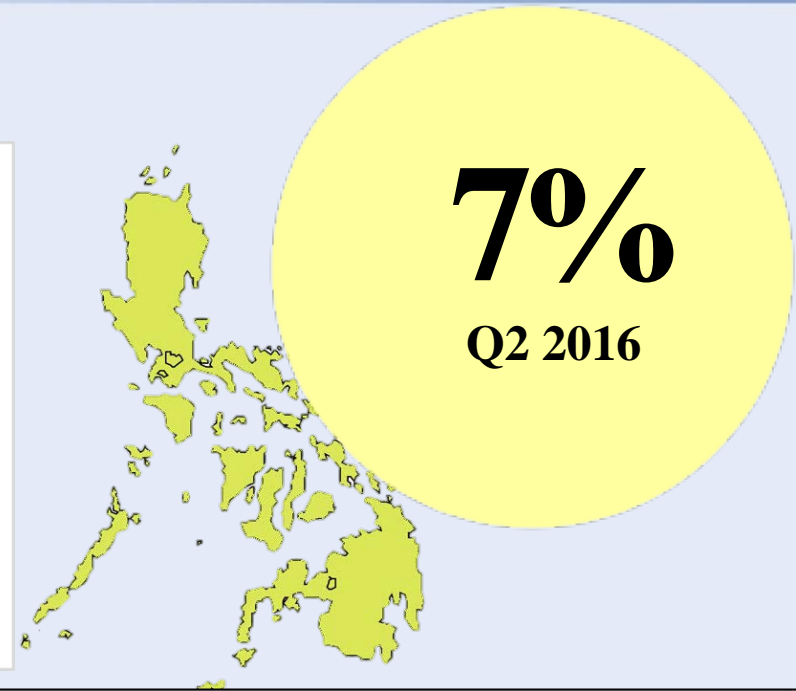
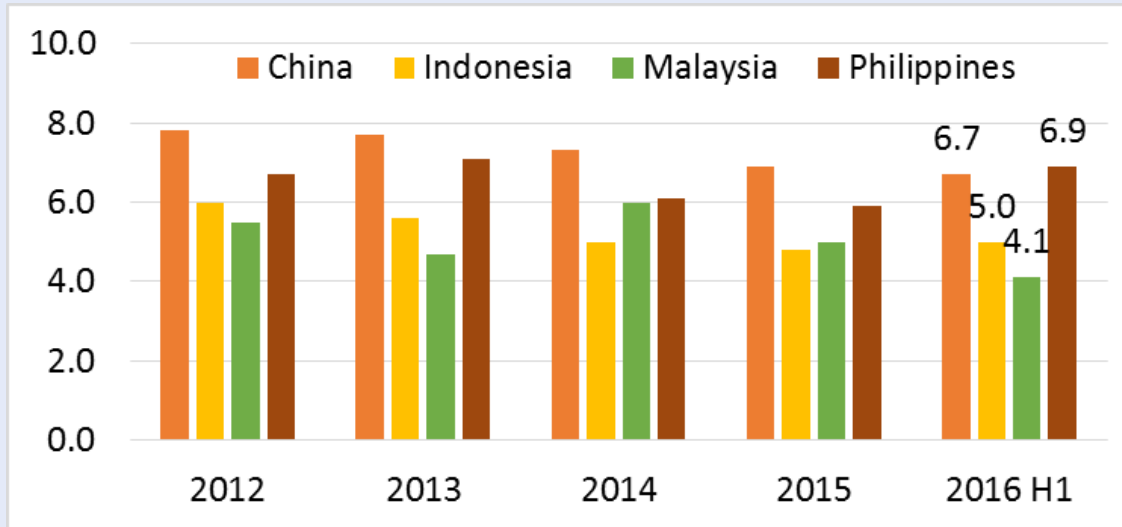
Year-on-year growth rate, in percent, Jan 2012 - August 2016



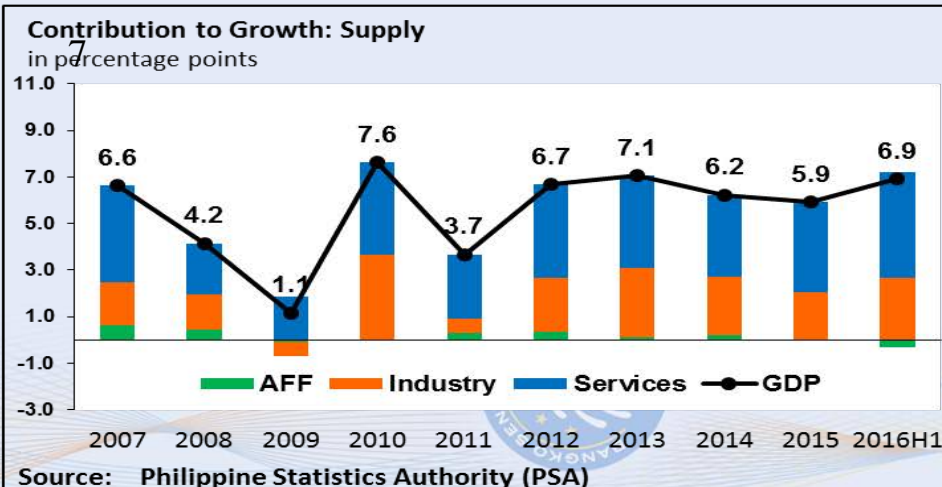
Source: PSA  
(NSO)

# ...but strong domestic demand supports economy's near-term outlook

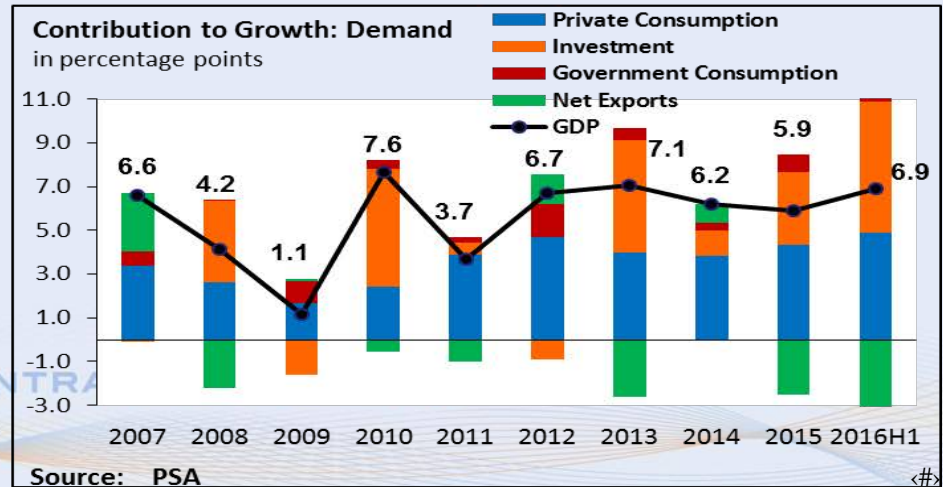
## Real GDP Growth (in %)



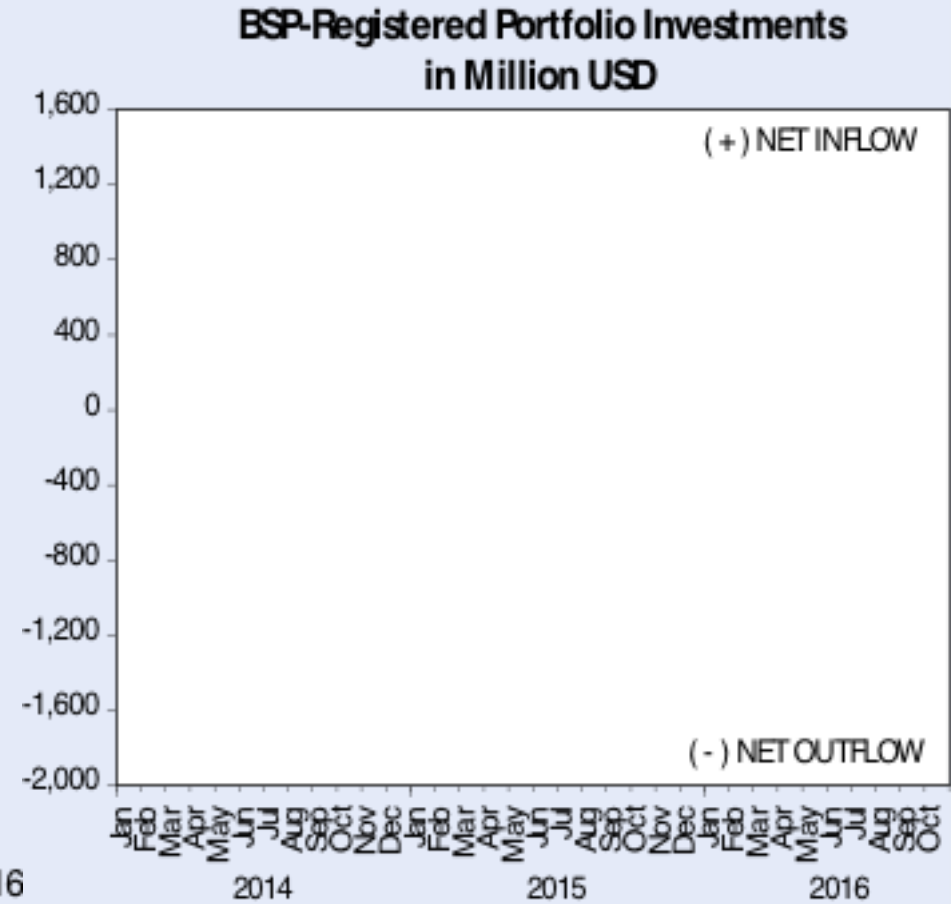
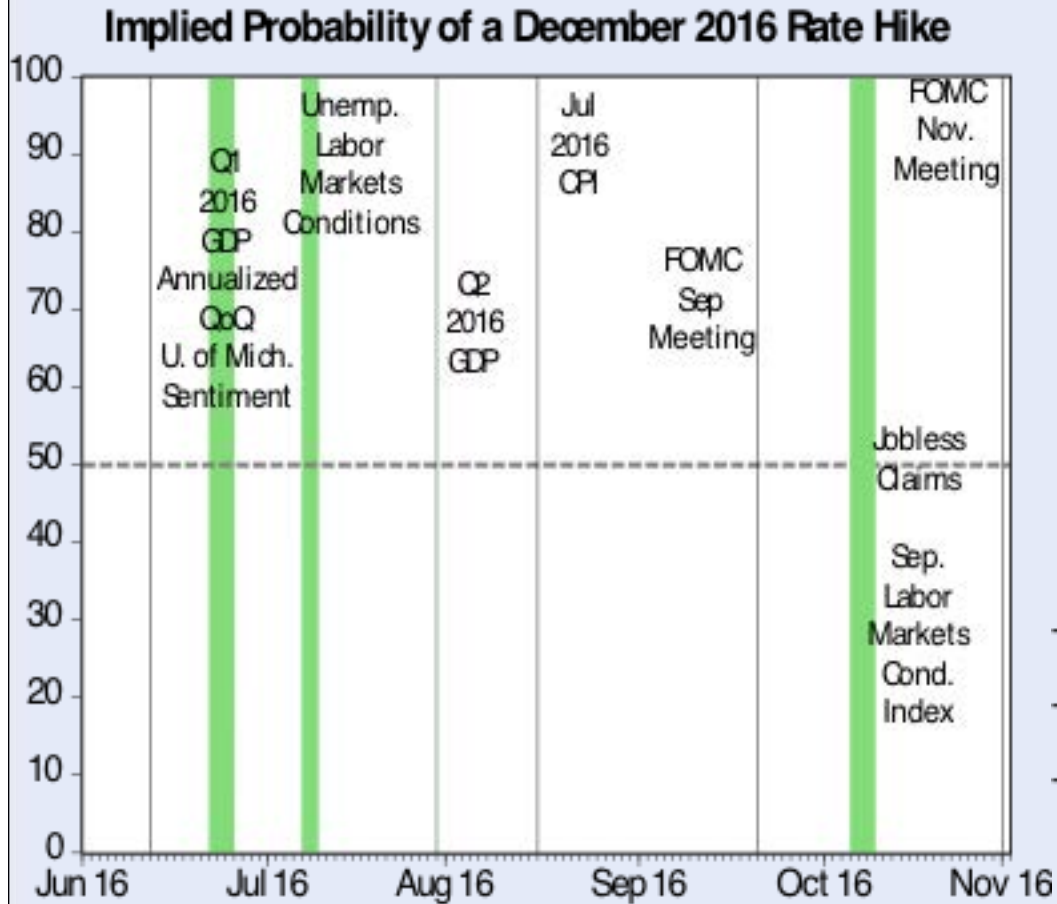
## Supply-side drivers: Industry and Services



## Demand-side driver: Private consumption



# US Fed move induces capital flow reversal; uncertainty over timing fuels market volatility

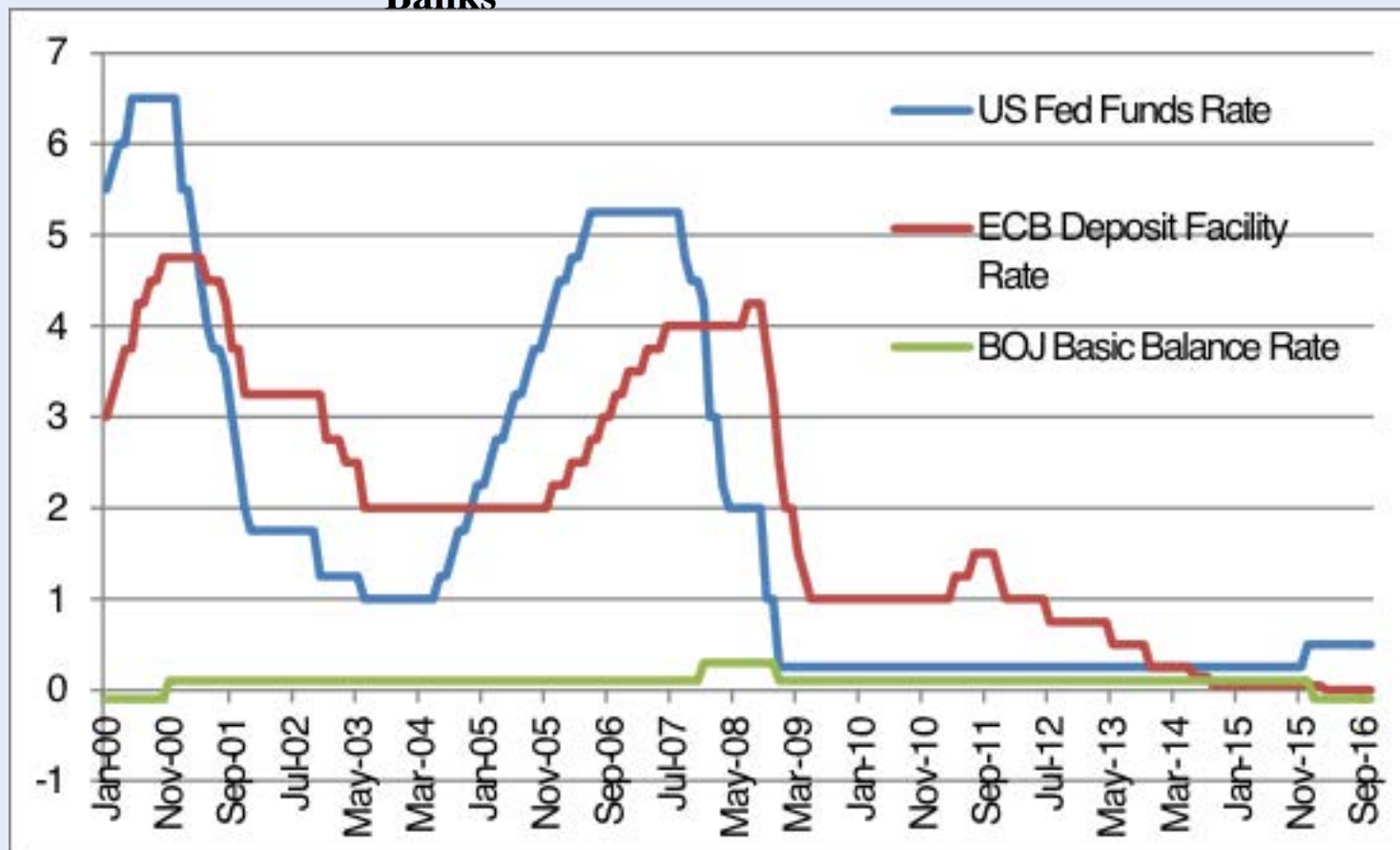


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# *Sustained accommodation by ECB and BoJ could offset potential capital flow reversals*

**Policy Rates of Major Central Banks**



Source:  
Bloomberg



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# Philippines' good macro fundamentals and outlook strong pull factors

**6.9 %**

(H1 2016, 2000=100)

GDP Growth

**1.6 %**

(Jan-Sep, 2006=100)

Headline Inflation

**-1.7 %**

(Jan-Jun, % of GDP)

Fiscal Balance

**15.8**

(Consolidated, Mar 16)

Capital Adequacy Ratio

**-7.8 %**

(Jan-Aug, % Growth)

Merch. Exports

**14.1%**

(Jan-Aug, % Growth)

Merch. Imports

**US\$15.3  
billion**

(Jan-Jul)

OF Cash Remittances

**US\$1.5 billion**

(Jan-Aug)

Balance of Payments

**US\$85.9  
billion**

(end-Sept)

Gross Reserves

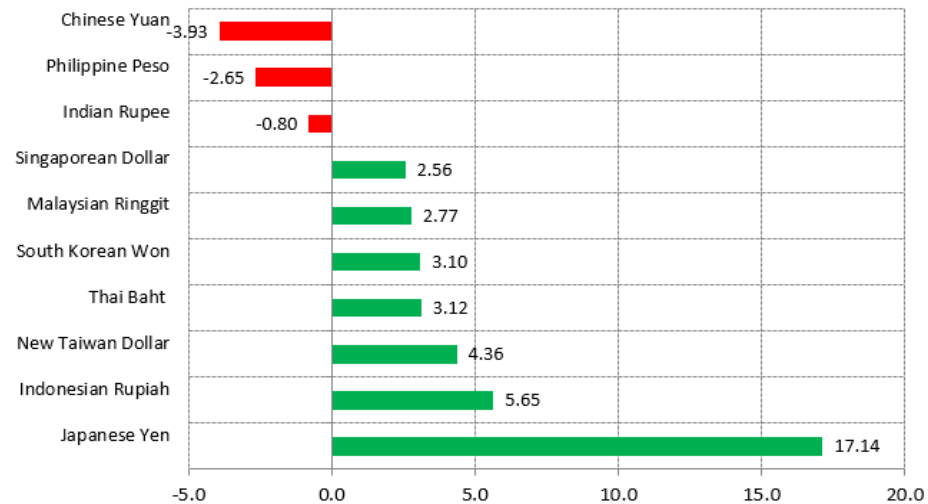


Sources: BSP, PSA

\*\* Data on merchandise trade is based on BSP BOP Statistics

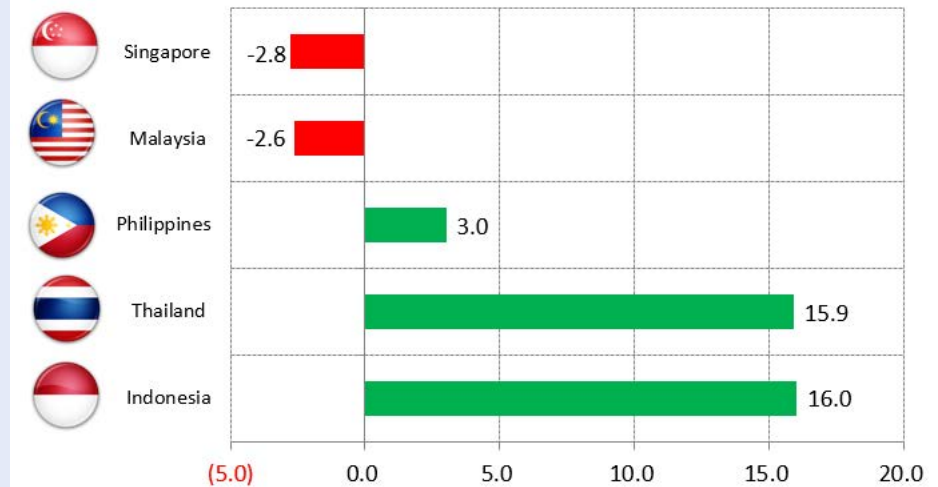
# Capital flows may affect monetary and financial stability

**Year-to-date Appreciation/Depreciation of Asian Currencies against US dollar**  
(in percent, as of 03 November 2016)

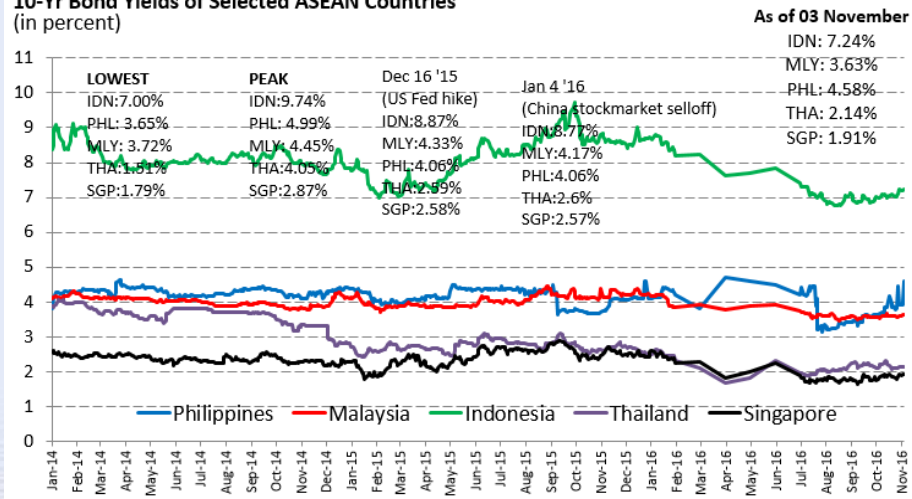


Note: Based on last done deal transaction (closing price) as of 4:00pm, Manila Time

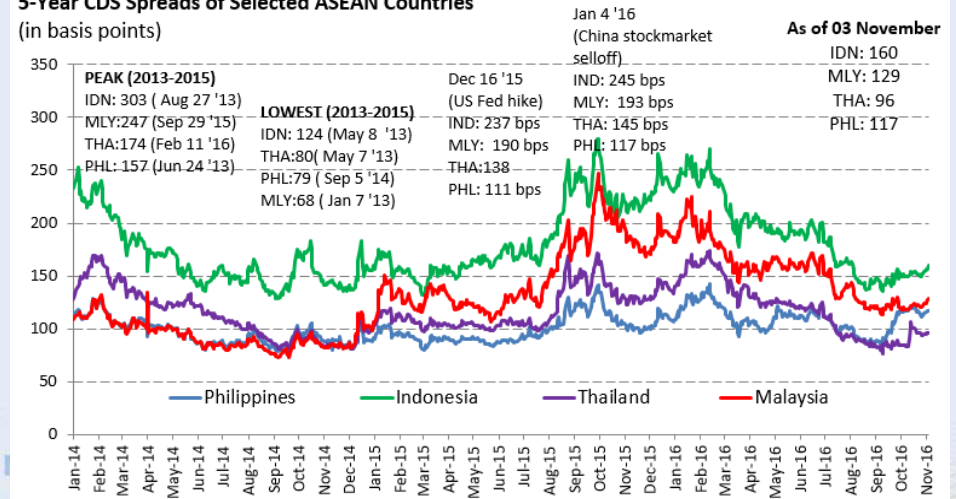
**Year-to-date Growth in ASEAN Stock Exchange Indices**  
(in percent, as of 03 November 2016)



**10-Yr Bond Yields of Selected ASEAN Countries**  
(in percent)



**5-Year CDS Spreads of Selected ASEAN Countries**  
(in basis points)



## *Direct impact of Brexit on Philippines limited...*

### PH-UK Bilateral Relations

	2012	2013	2014	2015	2016
<b>EXPORTS</b>					<b>(Jan-Jul)</b>
% of Total Exports	1.3	1.0	0.7	0.8	0.9
FOB Value (in US\$ billion)	0.66	0.58	0.46	0.50	0.28
<b>IMPORTS</b>					<b>(Jan-Jul)</b>
% of Total Imports	0.4	0.5	0.6	0.6	0.6
FOB Value (in US\$ billion)	0.27	0.30	0.39	0.40	0.29
<b>GROSS PLACEMENT OF FDI</b>					<b>(Jan-Jul)</b>
% of Total Gross Placement of FDI	1.7	3.8	6.7	14.4	0.5
Gross FDI (in US\$ billion)	0.04	0.09	0.15	0.39	0.01
<b>GROSS PLACEMENT OF FPI</b>					<b>(Jan-Sep)</b>
% of Total Gross Placement of FPI	27.0	27.0	25.5	26.5	30.4
Value (in US\$ billion)	4.95	7.52	5.53	5.25	4.18
<b>REMITTANCES</b>					<b>(Jan-Aug)</b>

*...but questions remain on broader impact  
on EU and rest of the world*

**Philippines – Europe Bilateral Economic  
Relations**



**EXPOR  
TS**

**13.3 %**

(Jan-Jul, % of total)  
FOB Value: US\$4.2 billion



**IMPOR  
TS**

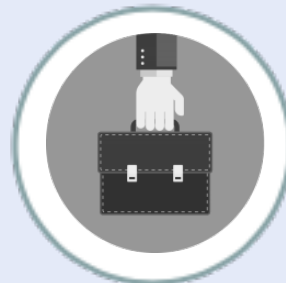
**9.0 %**

(Jan-Jul, % of total)  
FOB Value: US\$4.1 billion



**GROSS  
FDI  
PLACEMENT**  
**10.0 %**

(Jan-Jul, % of total)  
US\$0.2 billion



**GROSS FPI  
PLACEMENT**  
**49.2 %<sup>NT</sup>**

(Jan-Sep, % of total)  
US\$6.8 billion



**REMITTAN  
CES**  
**14.3 %**

(Jan-Aug, % of total)  
US\$2.5 billion



**TOURIST  
ARRIVALS**  
**10.7 %**

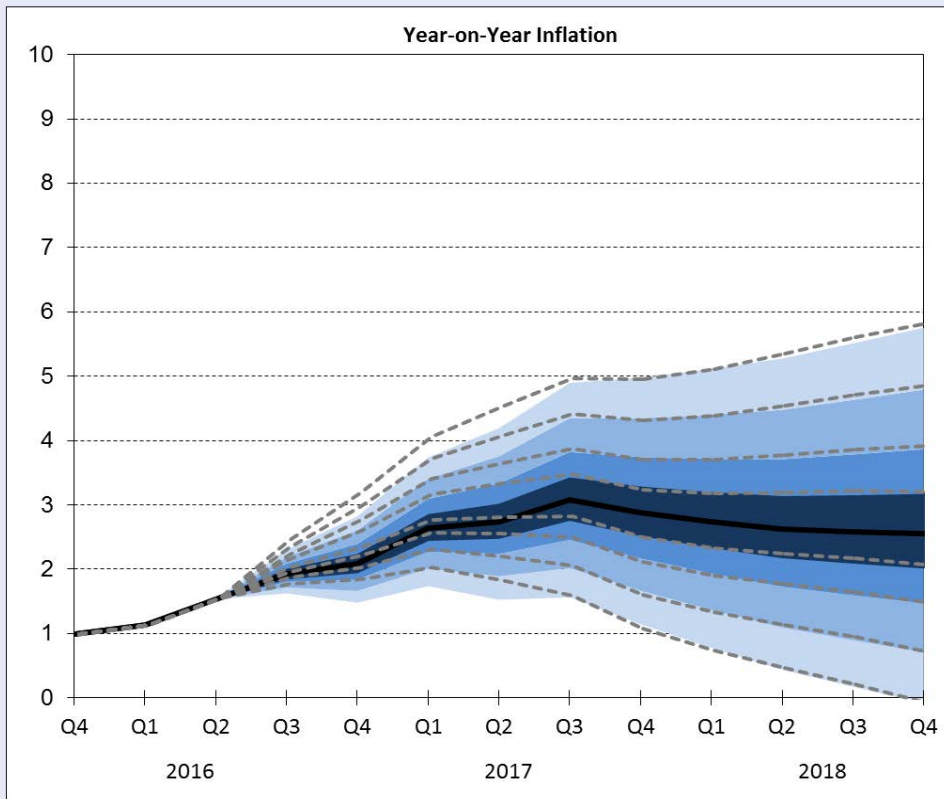
(Jan-Jul, % of total)  
377,000 persons

# *Policy Responses*



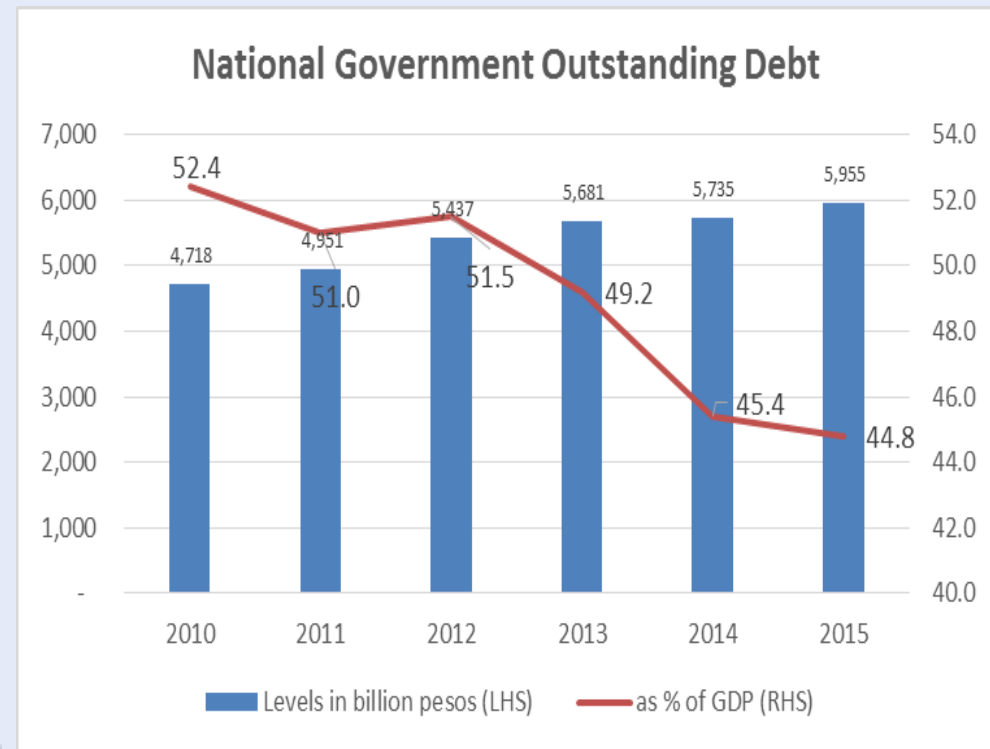
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# Ample policy space: monetary, fiscal



 As of 5 August 2016 (11 August 2016 MB Meeting)  
 As of 6 September 2016 (22 September 2016 MB Meeting)

Source: BSP



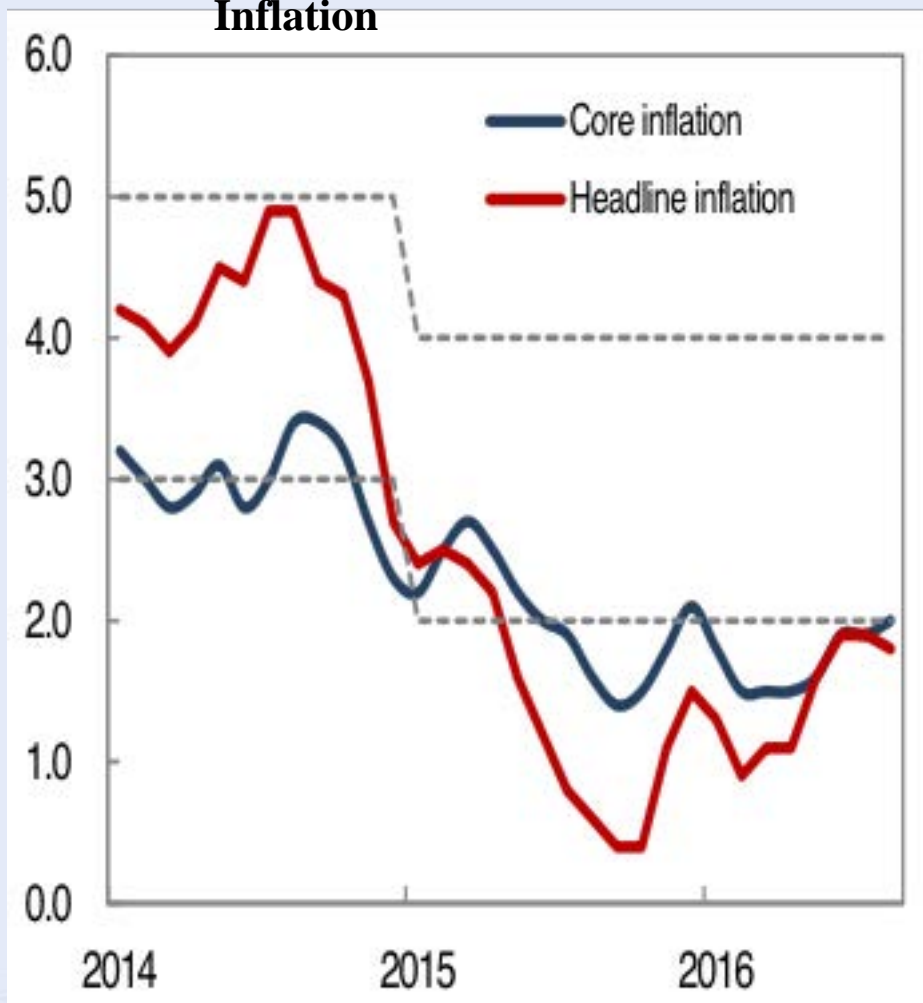
Source: BSP, DBM  
BESF



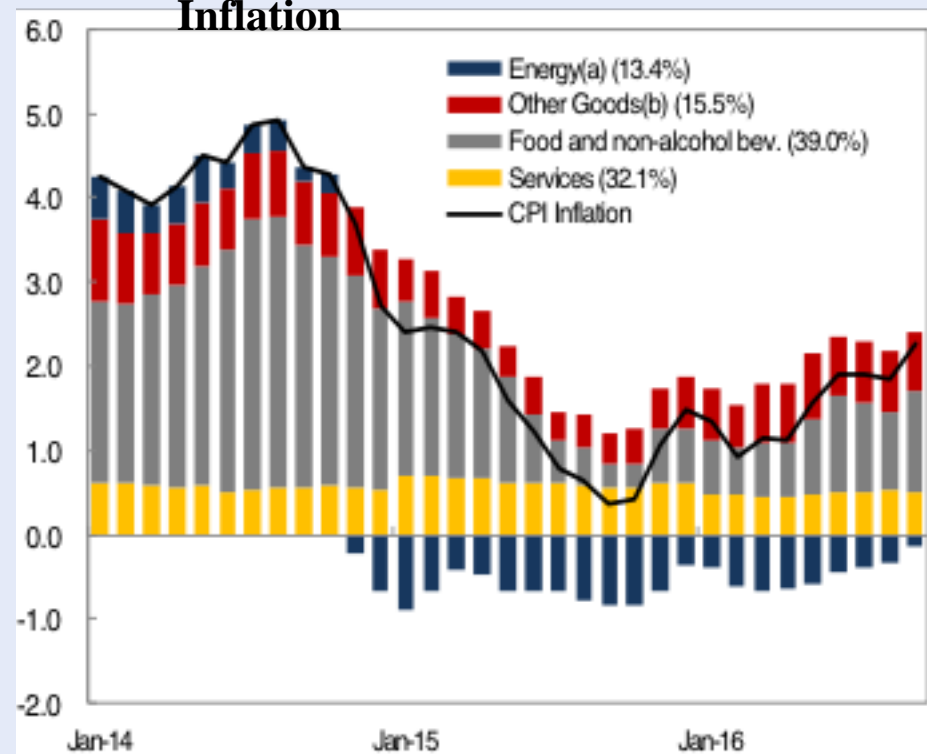
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# Supply-driven inflation allows BSP to maintain monetary policy settings

## Core and Headline Inflation



## Factors Driving Headline Inflation



DER staff estimates

(a) Transport services namely, passenger transport for road, air, railway, and sea are included under energy items due to oil-price effect on fares.

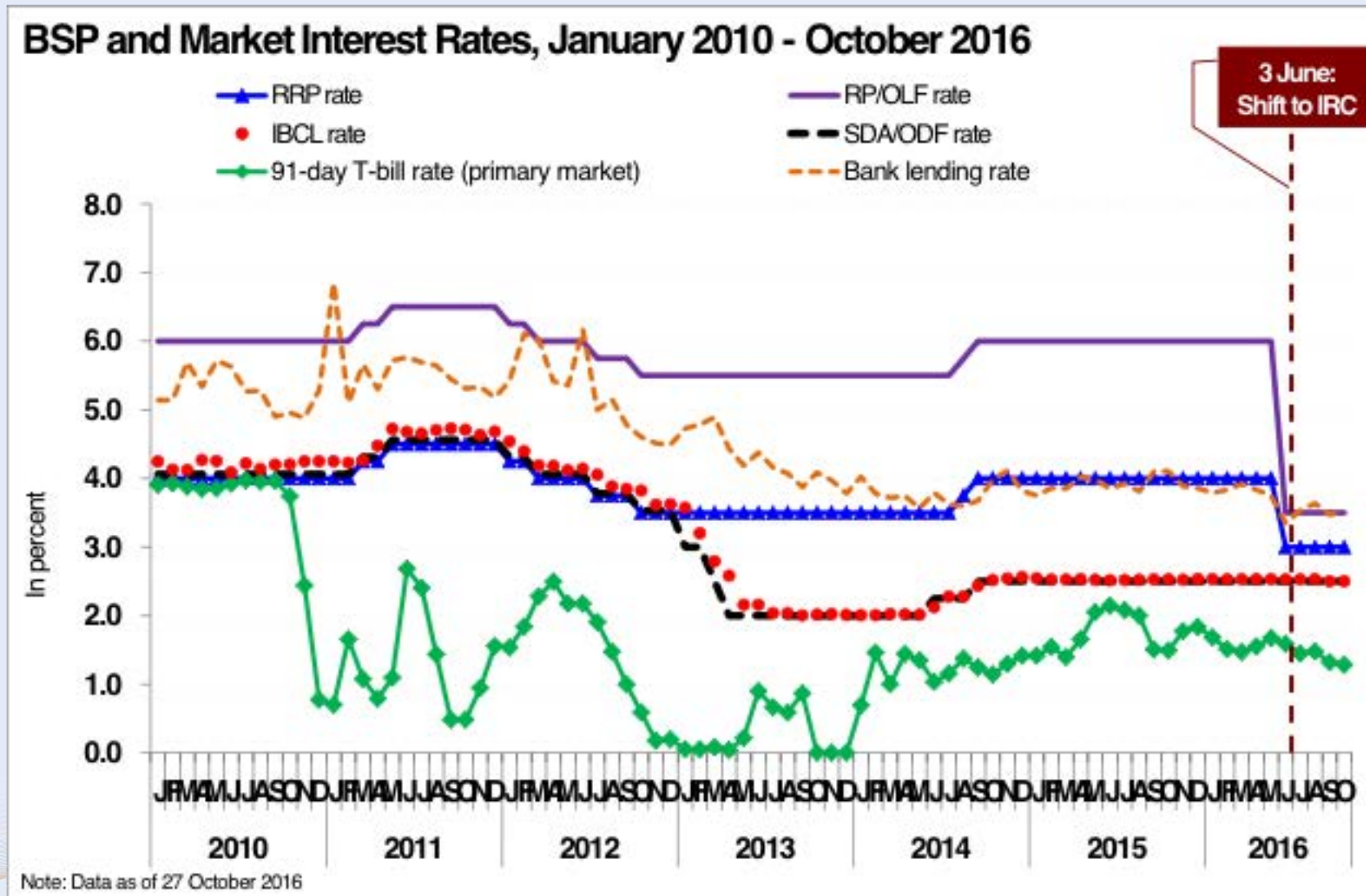
(b) Computed as the difference between headline inflation and sum of other contributions as identified in the chart.



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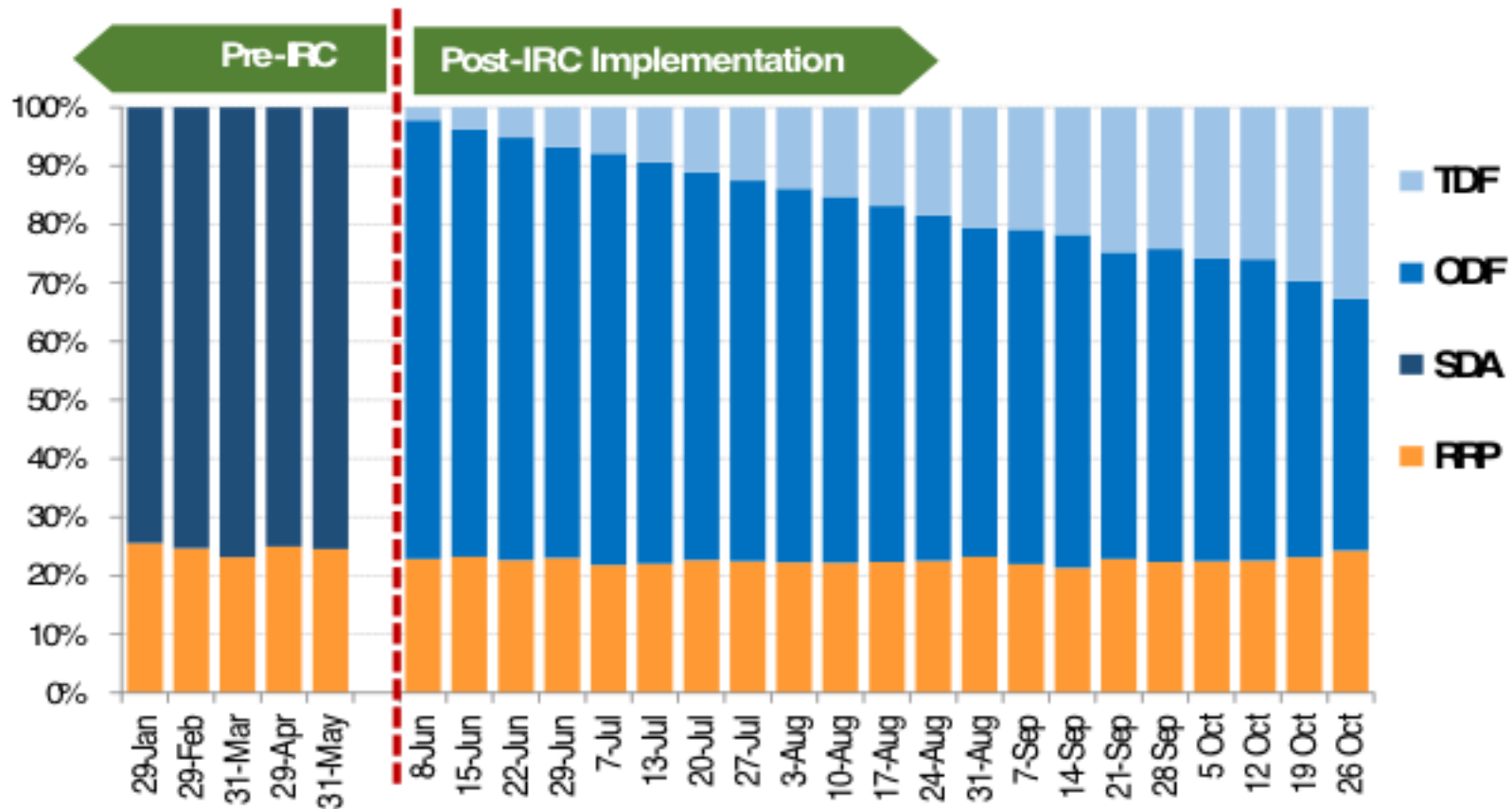


# Recent reforms to strengthen monetary policy implementation



# IRC allows BSP to better manage domestic liquidity conditions

**Distribution of Outstanding Volume of BSP Monetary Operations**  
January - October 2016



**Notes:**

TDF = Term Deposit Facility; ODF = Overnight Deposit Facility; RRP = Reverse Repurchase Facility;  
SDA = Special Deposit Account

## *Some caveats on limits of traditional monetary policy instruments*

- **Prudential regulation and supervision**, BSP's first line of defense against possible financial imbalances brought on by capital flows
- Expanded **macroprudential toolkit**:
  - Real Estate Stress Test (REST) Limit for Real Estate Exposures
  - Guidelines on Sound Credit Risk Management Practices
  - RREPI to better capture real estate dynamics
- Revisiting **other applicable macroprudential measures**, such as existing caps on loan-to-value (LTV) ratios, SBL...



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*There may also be some short-term gains  
from capital controls...*



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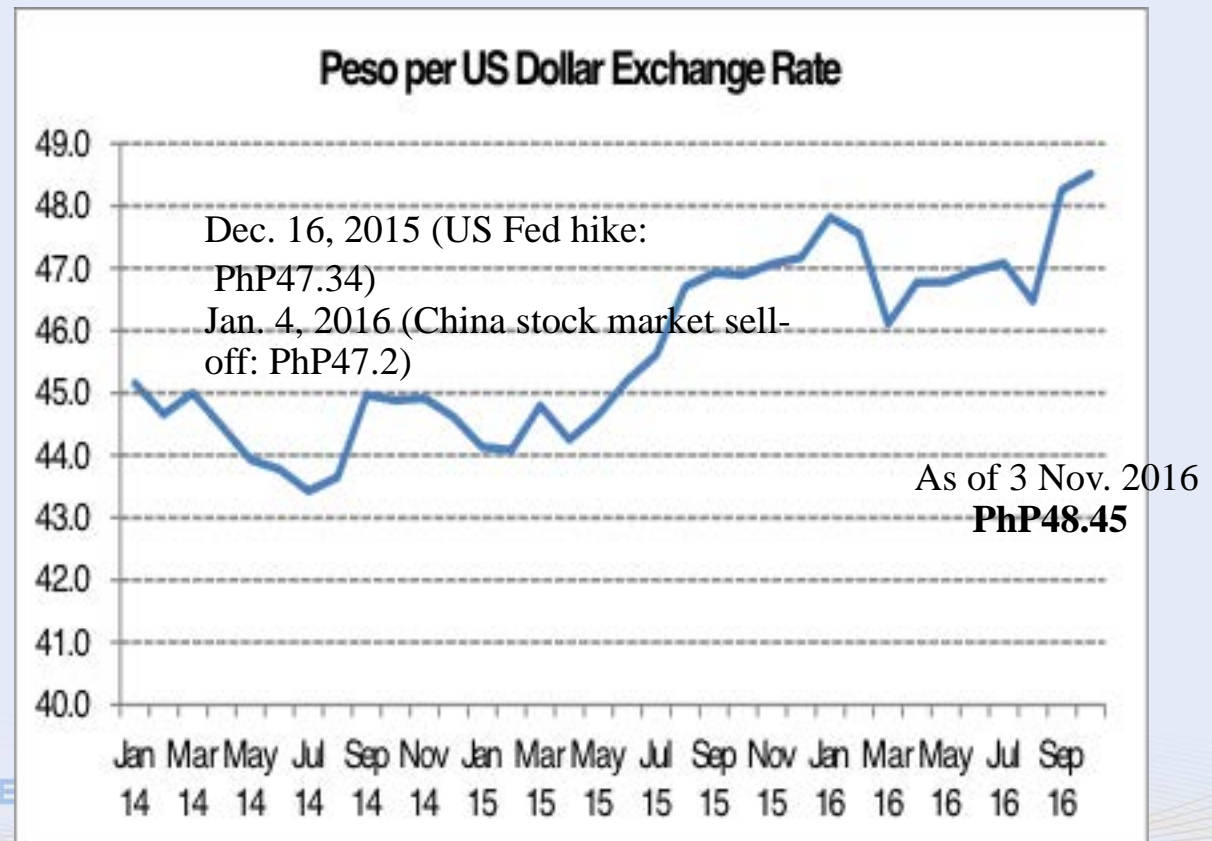
*...but there are also practical questions  
on imposing capital controls*



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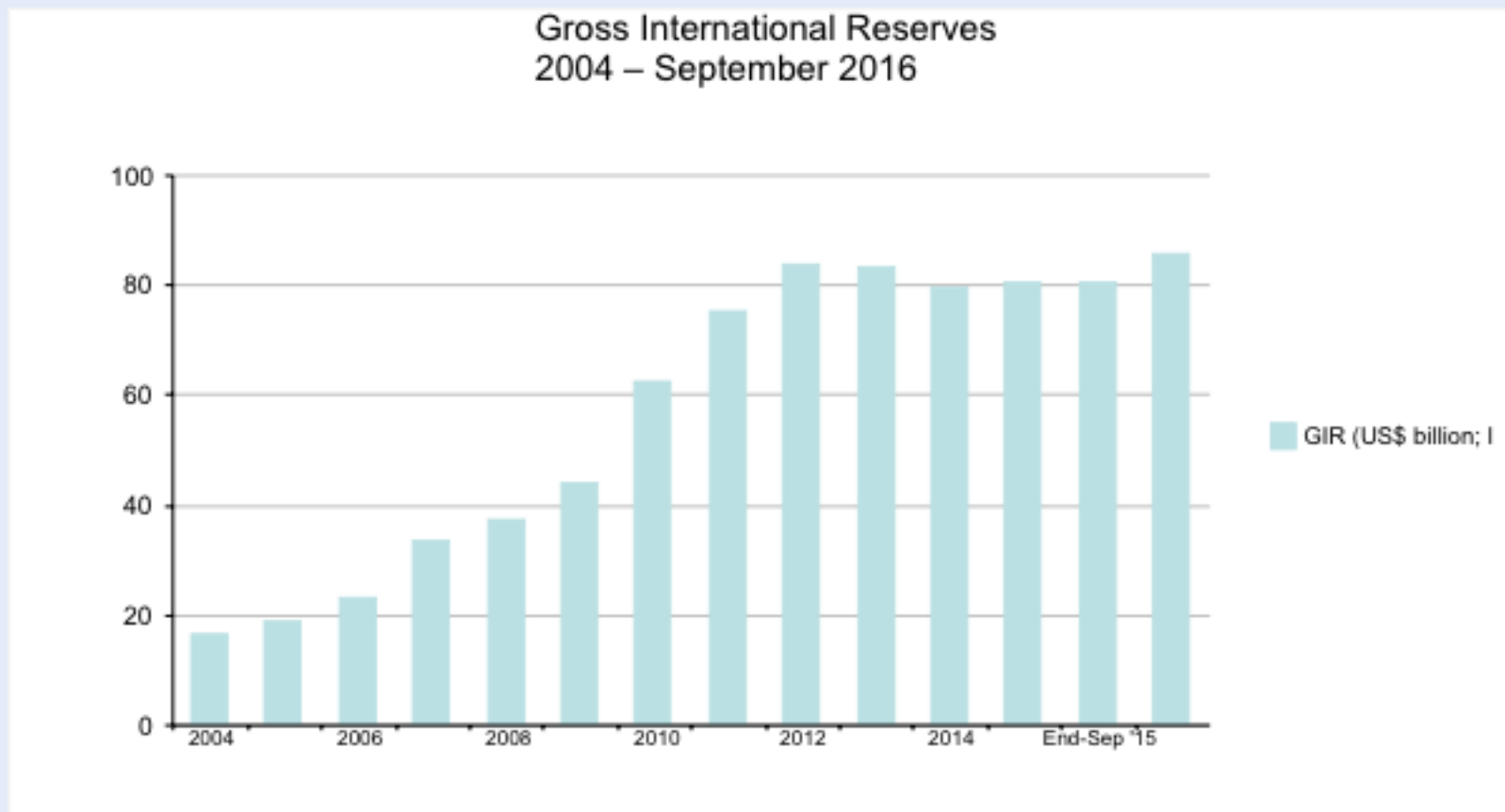
## *Adhering to market-friendly measures to deal with capital flows...*

- **Exchange-rate flexibility**, buffer against external shocks and allows for some degree of monetary autonomy
  - FX market participation to limit volatility to the extent that movements affect the outlook for inflation and growth



## *Gross FX reserves can help calm markets*

- The country's GIR can cover 10 months' worth of imports of goods and payments of services.



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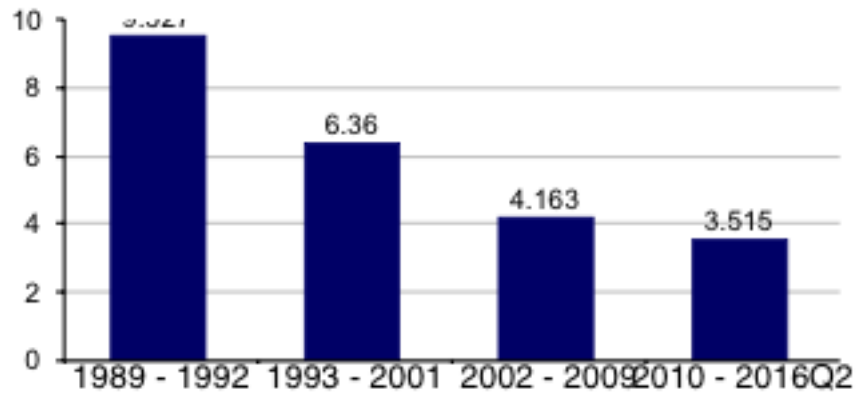
## *Sustaining resiliency: Establishing reform-oriented institutions*

Year	Selected Structural/Policy Reforms in the Philippine Economy (1993-2016)
1993	Creation of the Bangko Sentral ng Pilipinas
1994 - 2001	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
2002	Adoption by BSP of Inflation Targeting Framework
2003-2009	Passage of the Securitization Act; Adoption of Basel II; Passage of expanded value-added tax; Establishment of the Wholesale Electricity Spot Market (WESM); Full implementation of risk-based bank supervision; Privatization of the National Transmission Corporation 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	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



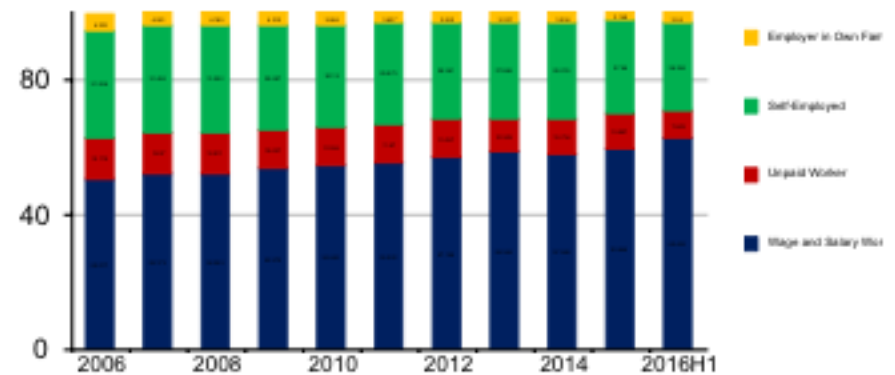
# Sustaining resiliency: Elevating potential capacity

Incremental-Capital Output Ratio



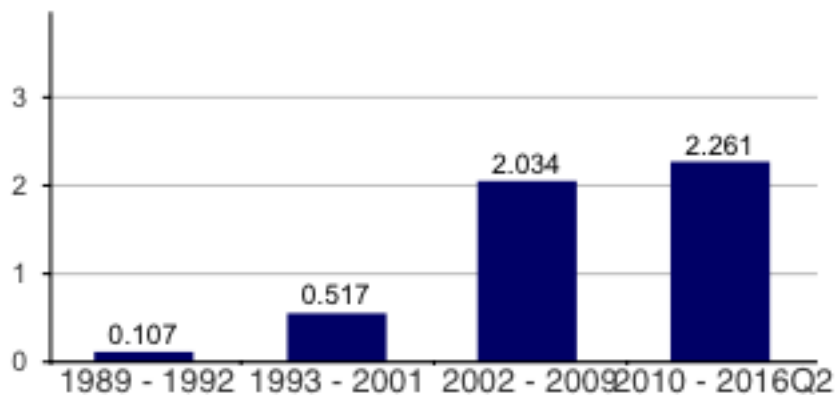
Source: Latest BSP staff estimates

Employment Share by Class of Workers



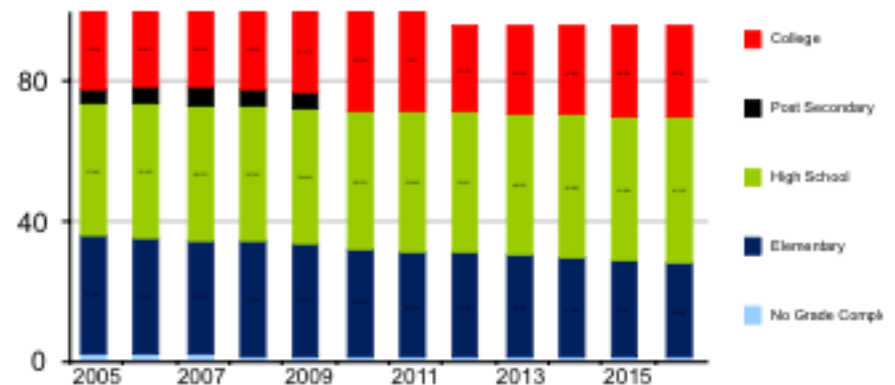
Source: Philippine Statistics Authority (PSA)

Total Factor Productivity



Source: Latest BSP staff estimates

Employment Share by Educational Attainment



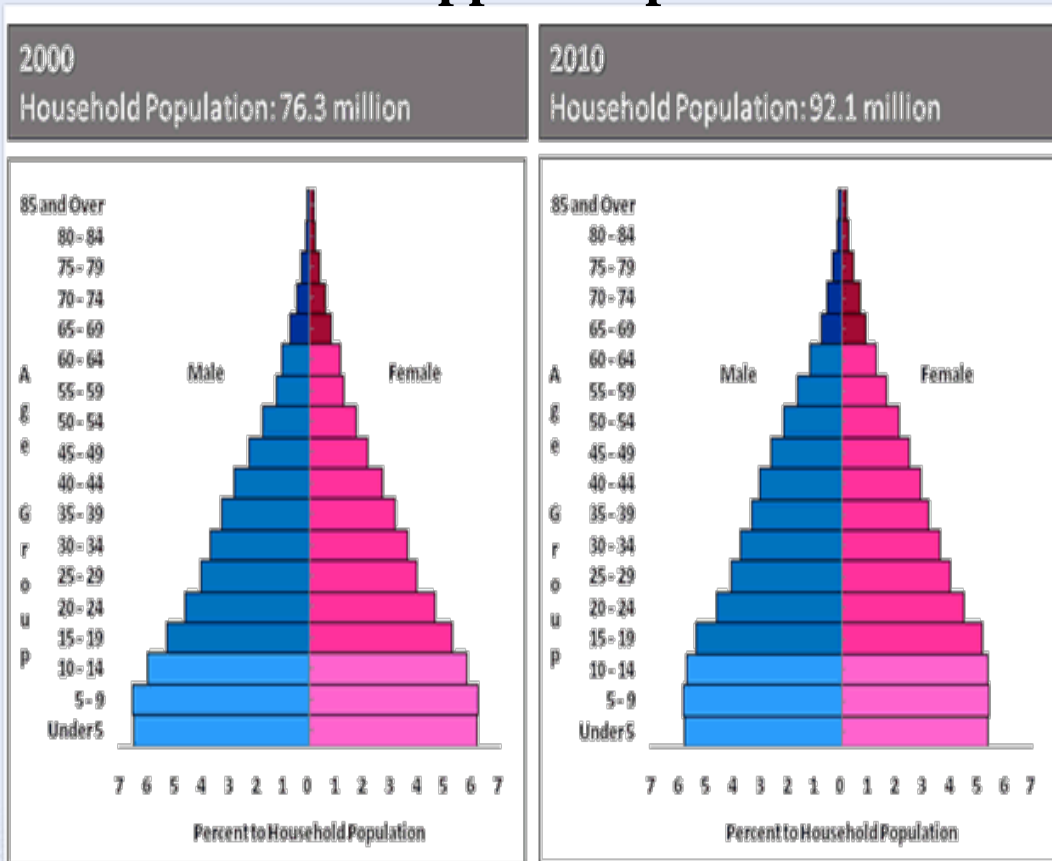
Source: PSA



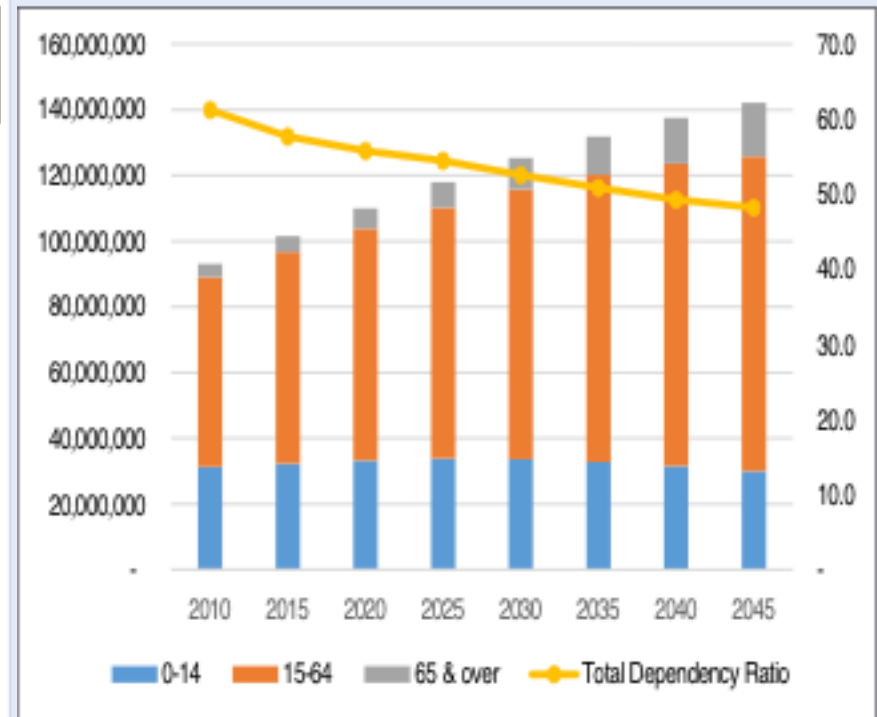
# Sustaining resiliency: Optimizing demographic sweet spot

- The Philippines is in a **rare demographic window** of opportunity that could spur rapid economic growth over a long period.

## Age-Sex Structure of the Philippine Population



## Total Dependency Ratio (%)

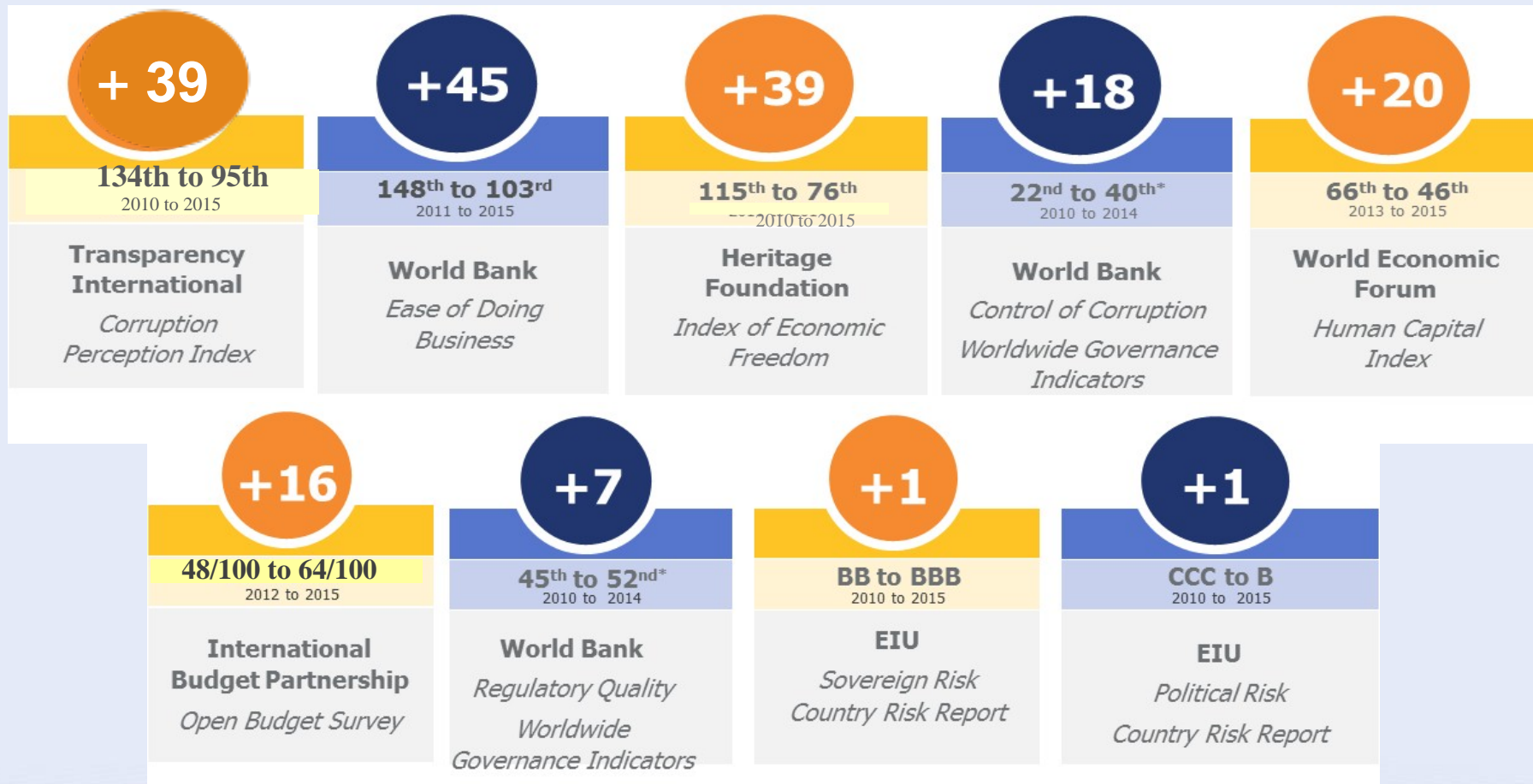


Total dependency ratio to decline from 61.2% in 2010 to 48.2% by 2045

Median Age of the Population: **23.4 years old**

# Sustaining resiliency: governance and doing business

*Results of institutional and governance reforms are positively recognized  
by independent third-party assessors*



Source: Various third-party annual ranking reports, DOF, DTI



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## *Long term perspective: Amendments to the BSP charter*

- Increase in capitalization
- Restoration of authority to issue debt securities
- Granting of authority to obtain pertinent data from all entities, public or private
- Authority to put up reserves against FX fluctuations and cost of monetary operation
- Formal recognition of financial stability in the BSP mandate



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## *Summary*

- Philippine economy derives resilience from structural and policy reforms.
- BSP operates with monetary, fiscal space to address macroeconomic vulnerabilities with new initiatives including IRC , macroprudential measures
- Institution building of the monetary authority is critical if it were to continue helping stabilize macroeconomy and banking system



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