Strong reversal from the pandemic-driven recession

Real GDP growth (%)

-0.7  12.1  7.0  7.8  8.3
-16.9  7.0  6.0  6.0  6.0
-11.6  7.0  6.0  6.0  6.0
-8.2  7.0  6.0  6.0  6.0
-3.8

Q1 2020  Q2 2020  Q3 2020  Q4 2020

Q1 2021  Q2 2021  Q3 2021  Q4 2021  Q1 2022

2022P  2023P  2024P

2020: -9.5

2021: +5.7
### Expansion across sectors

**Real GDP growth (%)**

<table>
<thead>
<tr>
<th>MAJOR INDUSTRIES</th>
<th>Q1 2022 G.R. IN %</th>
<th>EXPENDITURE ITEMS</th>
<th>Q1 2022 G.R. IN %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>0.2</td>
<td>HH Final Consumption</td>
<td>10.1</td>
</tr>
<tr>
<td>Industry</td>
<td>10.4</td>
<td>Govt Final Consumption</td>
<td>3.6</td>
</tr>
<tr>
<td>Services</td>
<td>8.6</td>
<td>Gross Capital Formation</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gross Fixed Capital Formation</td>
<td>11.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exports of Goods and Services</td>
<td>10.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Imports of Goods and Services</td>
<td>15.6</td>
</tr>
</tbody>
</table>
Employment gains continue with the reopening of the economy

Unemployment rate (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5.4</td>
</tr>
<tr>
<td>2017</td>
<td>5.7</td>
</tr>
<tr>
<td>2018</td>
<td>5.3</td>
</tr>
<tr>
<td>2019</td>
<td>5.1</td>
</tr>
<tr>
<td>2020</td>
<td>10.3</td>
</tr>
<tr>
<td>Apr-20</td>
<td>17.6</td>
</tr>
<tr>
<td>Mar-21</td>
<td>7.1</td>
</tr>
<tr>
<td>Mar-22</td>
<td>5.8</td>
</tr>
</tbody>
</table>
Record-high net FDI inflows in 2021 underscore investor confidence in the country’s long-term growth prospects.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net FDI (US$ bn)</th>
<th>YoY Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>10.5</td>
<td></td>
</tr>
<tr>
<td>Jan-Feb 2021</td>
<td>1.6</td>
<td>8.0%</td>
</tr>
<tr>
<td>Jan-Feb 2022</td>
<td>1.7</td>
<td></td>
</tr>
</tbody>
</table>
Sustained solid improvement in manufacturing

S&P Global Philippines Manufacturing Purchasing Managers’ Index (PMI)

54.3

April 2022

Highest in over 4 years
Improving business sentiment and consumer outlook

Consumer outlook

- Next 12 Months
- Next 3 Months
- Current Quarter

Q1  2018
Q2  2018
Q3  2018
Q4  2018
Q1  2019
Q2  2019
Q3  2019
Q4  2019
Q1  2020
Q2  2020
Q3  2020
Q4  2020
Q1  2021
Q2  2021
Q3  2021
Q4  2021

-70  -60  -50  -40  -30  -20  -10  0  10  20  30  40

2018  2019  2020  2021

Next 12 Months
Next 3 Months
Current Quarter
Improving business sentiment and consumer outlook

Business sentiment

<table>
<thead>
<tr>
<th></th>
<th>Q4 2021 survey</th>
<th>Q1 2022 survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2022</td>
<td>39.7</td>
<td>32.9</td>
</tr>
<tr>
<td>Next Quarter</td>
<td>52.8</td>
<td>59.7</td>
</tr>
<tr>
<td>Next 12 Months</td>
<td>67.6</td>
<td>69.8</td>
</tr>
</tbody>
</table>

Q4 2021 survey shows a noticeable improvement in business sentiment compared to Q1 2022.
Shored up market confidence and ensured adequate liquidity and credit

- Reduced the reserve requirement ratio by 200 basis points
- RRR reduction of 200 bps for UKBs and 100 bps for TBs and RCBs

Complement government programs through extraordinary liquidity measures

- Short-term provisional advances to the National Government
- Purchase of Government Securities in the Secondary Market
- Remitted dividends to the National Government

Regulatory and operational relief measures

- Financial relief to borrowers
- Incentivized lending
- Support for continued financial services delivery
- Promotion of continued access to financial services
Reduced the RRP from 4.0% to 2.0%; cut policy rate by 200 basis points (BPS)

<table>
<thead>
<tr>
<th>MB MEETING</th>
<th>RATE CUT (RRP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-Feb-20</td>
<td>25 bps</td>
</tr>
<tr>
<td>19-Mar-20</td>
<td>50 bps</td>
</tr>
<tr>
<td>16-Apr-20</td>
<td>50 bps</td>
</tr>
<tr>
<td>25-Jun-20</td>
<td>50 bps</td>
</tr>
<tr>
<td>19-Nov-20</td>
<td>25 bps</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200 bps</strong></td>
</tr>
</tbody>
</table>
What BSP has done: policy interventions amid the pandemic

**RRR reduction of 200 bps for UKBs and 100 bps for TBs and RCBs**

**RESERVE REQUIREMENT AGAINST DEPOSIT AND DEPOSIT SUBSTITUTE LIABILITIES (%)**

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal/ Commercial Banks (UKBs)(^a/a)</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs) (^a/)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thrift Banks (TBs) (^b/)</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Rural/ Cooperative Banks (RCBs) (^b/)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Effective Reserve Week:
- \(^a\) 03 April 2020 for UKBs and NBQBs
- \(^b\) 31 July 2020 for TBs and RCBs
What BSP has done: policy interventions amid the pandemic

- Short-term provisional advances to the National Government
- Purchase of Government Securities in the Secondary Market
- Remitted PHP20bn in Dividends
What BSP has done: policy interventions amid the pandemic

Injected

Php2.2 trillion (or US$ 41.9 B)

into the financial system

as of 29 March 2022
What BSP has done: key regulatory and operational relief measures for banks

- Financial relief to borrowers
- Support for continued financial service delivery
- Incentivized lending
- Promotion of continued access to financial services

BSP will continue to engage banks in monitoring developments and risks surrounding the impact of CoVID-19
FACTORS CONSIDERED FOR BSP’S EXIT STRATEGY

- Inflation outlook
- Recovery of real sector activity
- Liquidity and credit conditions
- Financial sector risks
- State of public sector health
- Global developments and spillovers

Data-driven exit strategy
For the Philippines, economic recovery came sooner than expected. The economy grew by 8.3 percent in Q1. We expect the economy to grow much faster in Q2, making the growth target for this year of 7.0-9.0 percent doable.
Adequate external liquidity buffers

International reserves (LHS) | Import cover (RHS)


0 | 20 | 40 | 60 | 80 | 100 | 120

0 | 2 | 4 | 6 | 8 | 10 | 12 | 14

Facing the global health crisis from a position of fiscal strength

National Government Debt-to-GDP (%)
Banking system remains stable and resilient

 Outstanding loans of Universal and Commercial Banks, growth in percent (%)

8.9%

March 2022
Banking system remains stable and resilient

Gross non-performing loans ratio of the Philippine Banking System, in percent (%)

4.2%

February 2022
Banking system remains stable and resilient

Capital adequacy ratio of Universal and Commercial Banks (U/KBs), in percent (%)

- BSP Regulatory Requirement: 10%
- International Standard: 8%

Banking system remains stable and resilient.
“Have longer-term goals that go beyond the immediate challenges of achieving full recovery from the pandemic and tempering the impact of the Russia-Ukraine conflict.”
Equipping future-ready workforce

Employers

Enables employers to find the right match to the job role by identifying the skills and competencies of potential employees

The Philippine Skills Framework (PSF) Initiative

PSF is an inter-agency effort to build the skills and competencies to further equip the workforce for the future economy.

As of 2021, 305 Skills Maps and Functional Skills & Competencies defined for Supply Chain and Logistics, Digital Animation, and Game Development

Job-seekers

PSF empowers job seekers to chart their ways forward or upward in a particular industry by specifying the skills and competencies that they would need to acquire to advance in their chosen career path.
Accelerating digitalization in the financial sector

Digital Payments Transformation Roadmap 2020-2023

Digital Payment Streams
Payments - merchants, suppliers, utilities, savings and investments

Digital Infrastructure
Philippine Identification System, Credit Risk Database

Digital Governance
Payment System Oversight Framework, Cybersecurity policies, Open Banking

Objectives by 2023
50% of financial transactions done digitally
70% of Filipino adults to have transaction accounts

Financial Consumer Protection Act
Seeks to strengthen protection for financial consumers against increasing cybercrimes
Digital banks to support delivery of financial products and services

BSP Circular No. 1105: Digital Bank Scope of Authorities

6 digital banking licenses issued

- Loans
- Regular and Basic Deposit Accounts
- FX Deposits
- Correspondent Banking
- Marketable Securities

Digital banks to capitalize on cross-border digital remittances from overseas Filipinos
Promoting a sustainable future for the Philippines

**Sustainable Central Banking Program**
BSP integrates Environmental, Social, and Governance (ESG) related principles in its strategic objectives, corporate governance and risk management and operations

**Sustainable Finance Framework**
Mainstreams sustainability principles in the governance framework, risk management system, strategies, and operations of banks

**Environmental and Social Risk Management (ESRM) Framework**
Embedding the ESRM in banks' existing risk management frameworks and scenario analysis or stress testing exercises
Economic liberalization laws to propel the economy to greater heights

**Amended Retail Trade Liberalization Law**
Allows more foreign players in the retail market by lowering minimum paid-up capital for foreign corporations

**Amended Foreign Investments Act**
Allows foreign nationals to own an MSME with a minimum paid-in capital of US$100,000

**Amended Public Service Act**
Allows up to 100% foreign ownership of public services; e.g., telecommunications, railways, expressways, airports, and shipping industries
Building Today to Power Tomorrow’s Economy

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

- Infrastructure Spending (LHS)
- % of GDP (RHS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Infrastructure Spending (PHP bn)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>590</td>
<td>3.9</td>
</tr>
<tr>
<td>2017</td>
<td>691</td>
<td>4.2</td>
</tr>
<tr>
<td>2018</td>
<td>886</td>
<td>4.9</td>
</tr>
<tr>
<td>2019</td>
<td>1,050</td>
<td>5.4</td>
</tr>
<tr>
<td>2020</td>
<td>870</td>
<td>4.8</td>
</tr>
<tr>
<td>2021</td>
<td>1,124</td>
<td>5.8</td>
</tr>
<tr>
<td>2022</td>
<td>1,271</td>
<td>5.9</td>
</tr>
<tr>
<td>2023</td>
<td>1,295</td>
<td>5.5</td>
</tr>
<tr>
<td>2024</td>
<td>1,377</td>
<td>5.4</td>
</tr>
</tbody>
</table>
Macroeconomic prospects continue to be favorable

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
<td>2022</td>
</tr>
<tr>
<td>Real GDP Growth (%)</td>
<td>5.7</td>
<td>7.0 – 9.0</td>
</tr>
<tr>
<td>Inflation Rate (%)</td>
<td>3.9</td>
<td>2.0 – 4.0</td>
</tr>
<tr>
<td>Growth of goods export (%)</td>
<td>12.4</td>
<td>7.0</td>
</tr>
<tr>
<td>Growth of goods import (%)</td>
<td>31.7</td>
<td>15.0</td>
</tr>
<tr>
<td>OF Cash Remittances, Growth Rate (%)</td>
<td>5.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Net Foreign Direct Investments (US$ bn)</td>
<td>10.5</td>
<td>11.0</td>
</tr>
<tr>
<td>Current Account Balance (% of GDP)</td>
<td>-1.8</td>
<td>-3.8</td>
</tr>
</tbody>
</table>
Shift to sentinel surveillance to protect the more vulnerable population

245.8mn vaccine doses secured as of 3 March 2022 covers around 100mn Filipinos

244,768,560 doses Total Covid-19 vaccine doses that arrived as of 29 April 2022

68,439,449mn 76% fully vaccinated individuals as of 10 May 2022
Year-to-date, headline inflation within 2-4 percent target range

Inflation Contribution by Major Component
Headline CPI (YoY, %), 2018 = 100

Jan-Apr 2022: 3.7

4.9
We must continue to work together to overcome current and emerging challenges. Now more than ever, we must put a premium on stronger international cooperation to achieve a green, resilient, and inclusive global economy that we are all aspiring for.