Recovery dependent on faster vaccination, continued policy support

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Recovery from the recession in 2020

Real GDP growth and unemployment rate
(year-on-year, percent)

Sources: PSA, AMRO staff estimates
Resurgent infections raise downside risk

Daily new COVID-19 cases
(7-day moving average)

Real GDP growth
(quarter-on-quarter, percent)

Sources: Department of Health, PSA, AMRO staff calculations

Note: COVID-19 daily infections data are as of June 20, 2021
Vaccination rollout has started, but is proving slow

Vaccination progress and targets

Sources: Our World in Data via Haver Analytics; various media sources; Economist Intelligence Unit; and AMRO staff estimates and calculations.

Note: Percent of population vaccinated shows total administered doses divided by two to reflect the two-dose regime of most vaccines—it does not necessarily reflect the actual number of fully vaccinated people. Aspired 2021 targets and completion dates of widespread vaccination are goals, forecasts, or estimates.

Likely completion date of widespread vaccination

Fully vaccinated  Vaccinated with one dose  To be vaccinated to reach 2021 target  Vaccinated with at least one dose  Aspired 2021 target
Monetary policy remains accommodative

Policy rate and headline inflation

(percent per annum, year-on-year, percent)

Sources: BSP, PSA, AMRO staff calculations

Note: The real policy rate refers to the policy rate excluding headline CPI
Continued expansionary fiscal policy

Assessment of fiscal policy stance

Sources: DBM, AMRO staff estimates
Summary

• Resurgent infections weaken recovery momentum and raise downside risk

• Vaccinations will need to quicken significantly to reach the target set for 2021

• Macroeconomic policies still supportive of recovery, with sufficient policy space to buffer downside risk
Selected Issue 1:
In 2020, remittances fell for the first time in almost 20 years

Total cash remittances
(Billion US dollar; Percentage change year-over-year)

Sources: BSP, Haver Analytics, AMRO staff calculations
Note: Economic crises are shaded in gray, including the Asian Financial Crisis (1997-98), the Global Financial Crisis (2008-09), and the COVID-19 Crisis (2020)
Selected Issue 1: Policies should consider socioeconomic impact of lower remittances

Share of savings from cash remittances received
By size of cash remittances
(April – September 2019, Percent of OFWs)

Sources: Philippine Statistics Authority, AMRO staff calculations
Note: Based on 1.93 million OFWs who sent cash remittances, as captured in the 2019 Survey on Overseas Filipinos
Selected Issue 2: Sufficient fiscal policy space, but recovery momentum is weak

Assessment of fiscal policy space

Block I: Debt sustainability
1. Public debt stock buffer
2. Primary balance buffer

Block II: Financing capacity and debt profile
1. Market assessment of sovereign risk
   (CDS, sovereign credit rating)
2. Debt profile risk
   (Debt held by non-residents, short-term debt)
3. Contingent liabilities
   (External debt, domestic credit)

Block III: Country-specific factors

National government debt

Source: AMRO staff illustration

Sources: Department of Finance, AMRO staff estimates
Note: The debt stock buffer refers to the debt burden threshold (AE 85%, EM 70%) minus the public debt-to-GDP ratio
Selected Issue 2:
Stronger recovery and long-term debt sustainability can be achieved through more expansionary fiscal policy

Debt stress test

Real GDP trajectory

Sources: Department of Finance, AMRO staff illustration

Sources: Philippine Statistics Authority, AMRO staff estimates
Selected Issue 3: Fintech development in the Philippines

Map of Philippine fintech start-ups (2020)

Sources: Fintech News Network, AMRO
Selected Issue 3: Key drivers and constraints

Drivers

- Low financial inclusion
- Improving connectivity, tech savvy young population
- Rising wave of global fintechs
- Supportive policy environment

Constraints

- Weak ICT infrastructure
- Inadequate supporting financial infrastructures
- Low bank account ownership
- Low financial literacy

Sources: AMRO.
Selected Issue 4: Impact of BSP policy rate on output in uncertain times

Bank loans: Selected sectors
(Percent year-on-year)

Sources: BSP, CEIC
Selected Issue 4: Monetary policy less effective in times of economic uncertainty

Relationship between industrial production and policy rate

- 1 ppt ↑ policy rate: [in Tranquil period]: ↓ industrial output by ~ 3% on impact, reduces production in coming months; [in Uncertain period]: Industrial output not significant
- Possible reasons: Wait-and-see attitude by firms; impairment of balance sheet channel

Source: AMRO staff calculations.
Appendix: Balance of Payment

Current Account
(percent-of-GDP)

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<th>Year</th>
<th>Goods</th>
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Sources: BSP, AMRO staff calculations.

Balance of Payment and Reserves
(Billion US Dollars)

Sources: BSP, AMRO staff calculations.
Appendix: Exchange Rate

Peso Exchange Rate and Trade Balance
(Billion US Dollar, 3mma)

Sources: BSP, AMRO staff calculations.

Peso Exchange Rate and US Dollar Index

Sources: BSP, Fed, AMRO staff calculations.