

Recovery dependent on faster vaccination, continued policy support

Dr. Matthew Yiu, Group Head

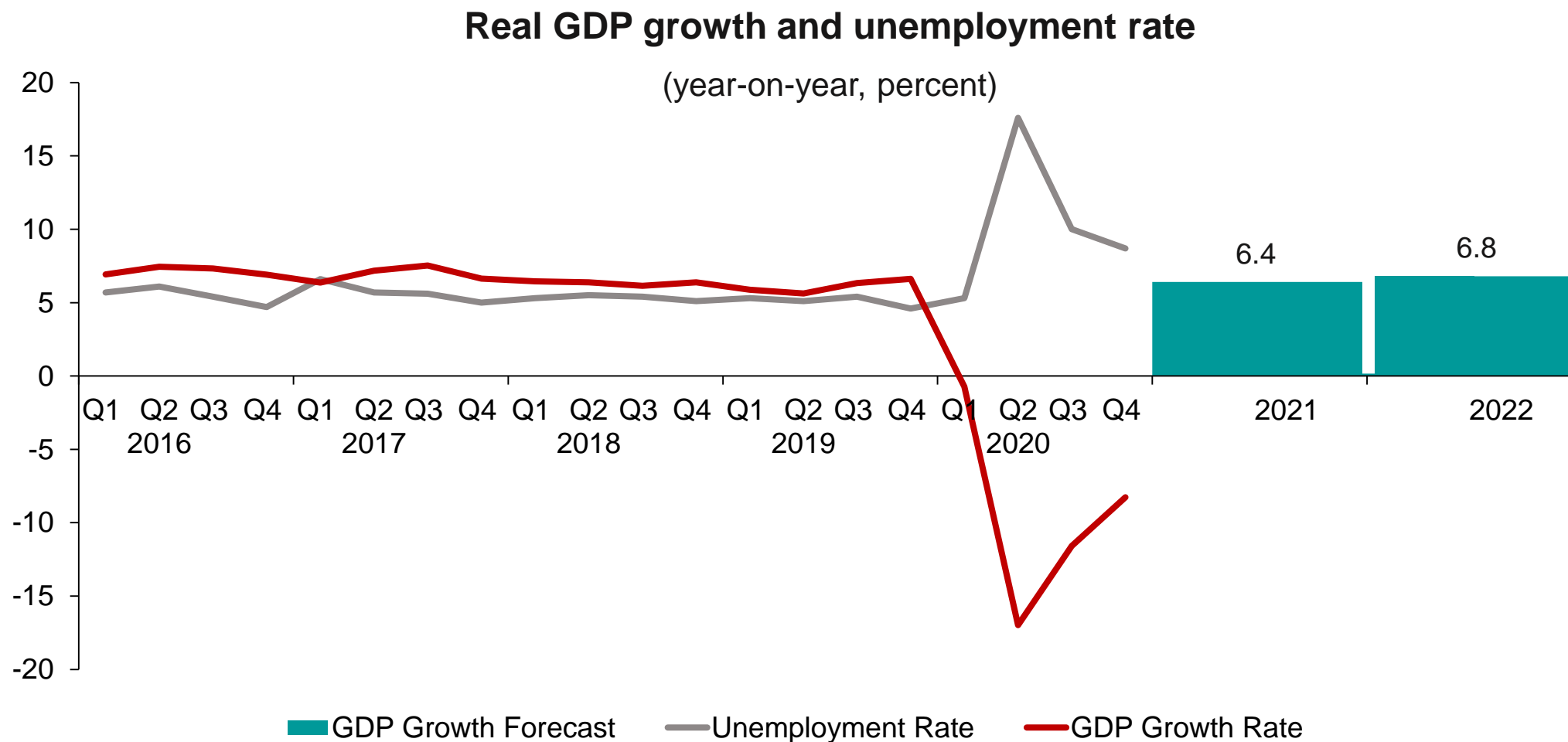
Dr. Zhiwen Jiao, Desk Economist

Media Briefing

June 29, 2021



Recovery from the worst recession



Resurgent infections raise downside risk

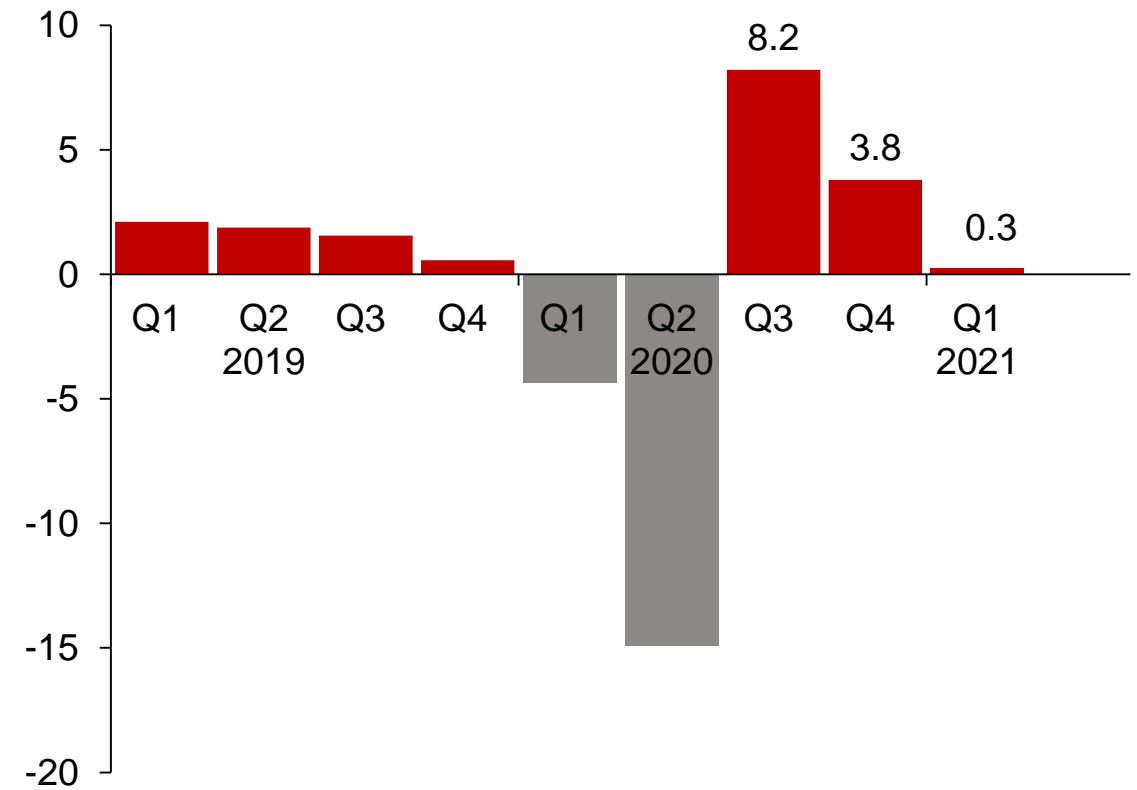
Daily new COVID-19 cases

(7-day moving average)



Real GDP growth

(quarter-on-quarter, percent)



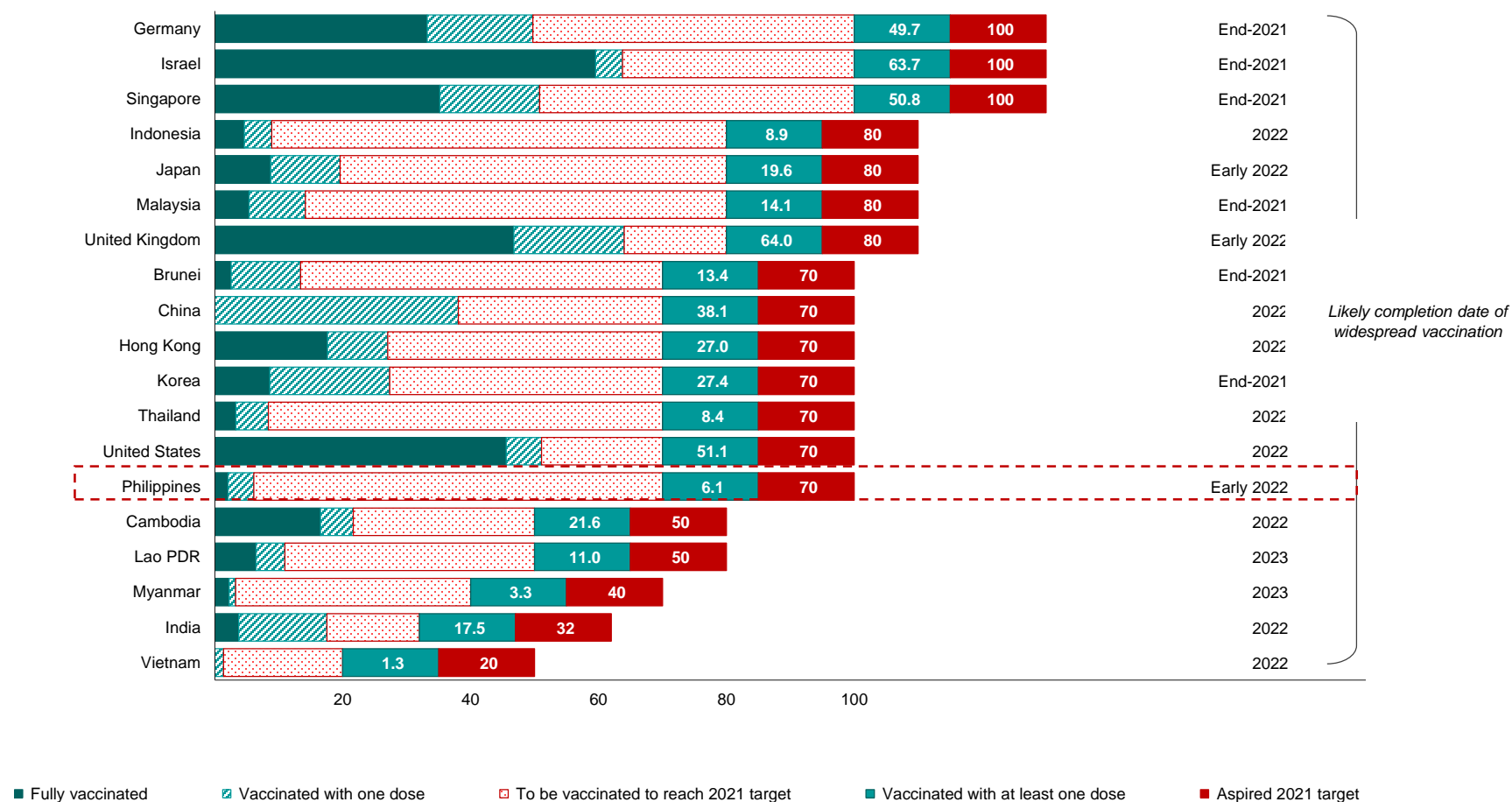
Sources: Department of Health, PSA, AMRO staff calculations

Note: COVID-19 daily infections data are as of June 20, 2021

Sources: PSA, AMRO staff calculations

Vaccination rollout has started, but is proving slow

Vaccination progress and targets

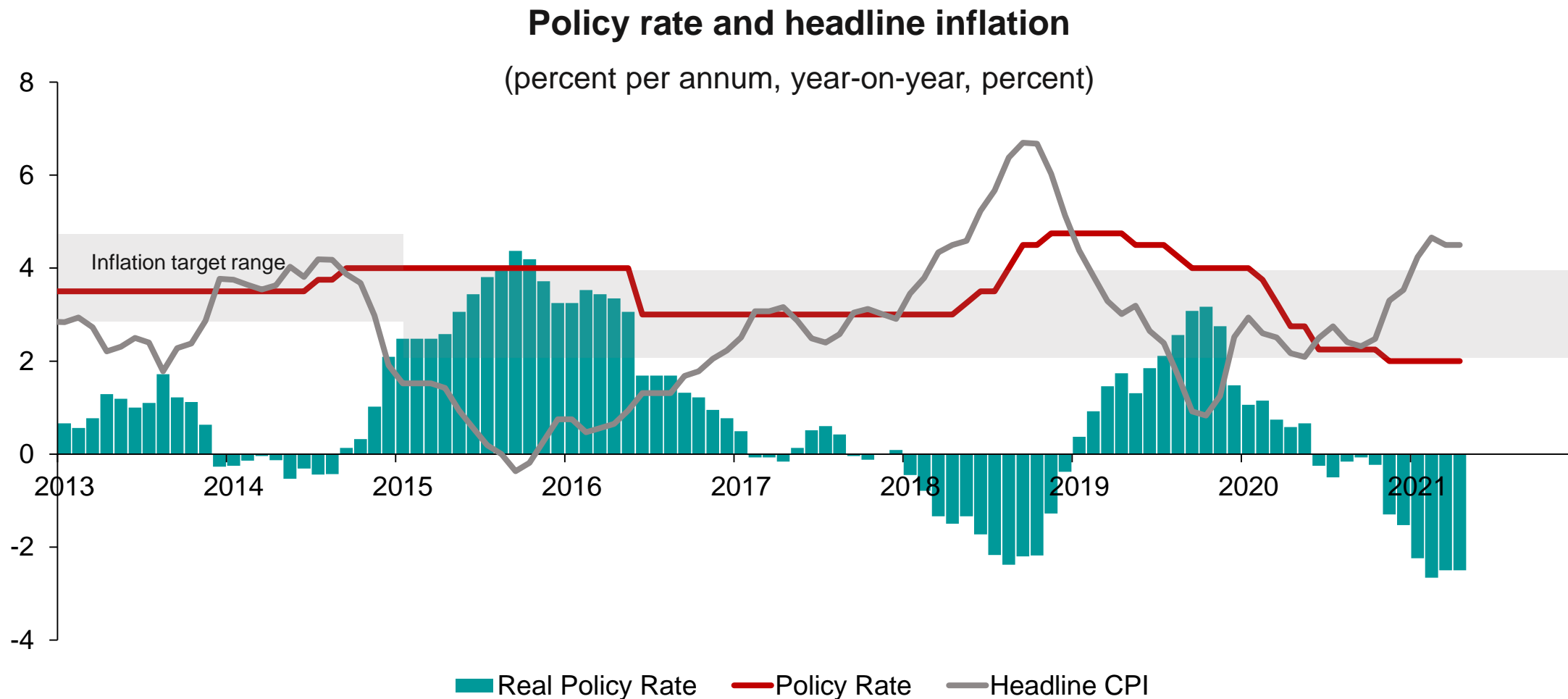


Sources: Our World in Data via Haver Analytics; various media sources; Economist Intelligence Unit; and AMRO staff estimates and calculations.

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.

Monetary policy remains accommodative

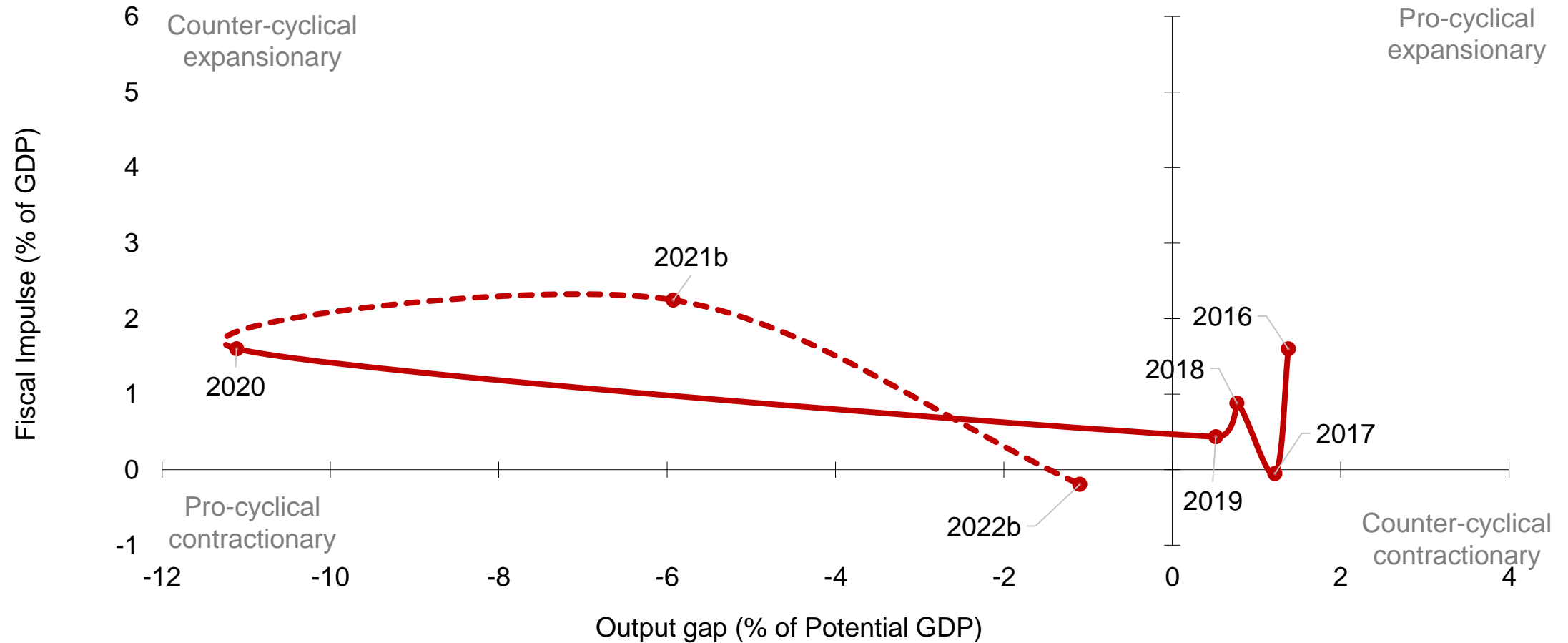


Sources: BSP, PSA, AMRO staff calculations

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

Continued expansionary fiscal policy

Assessment of fiscal policy stance



Summary

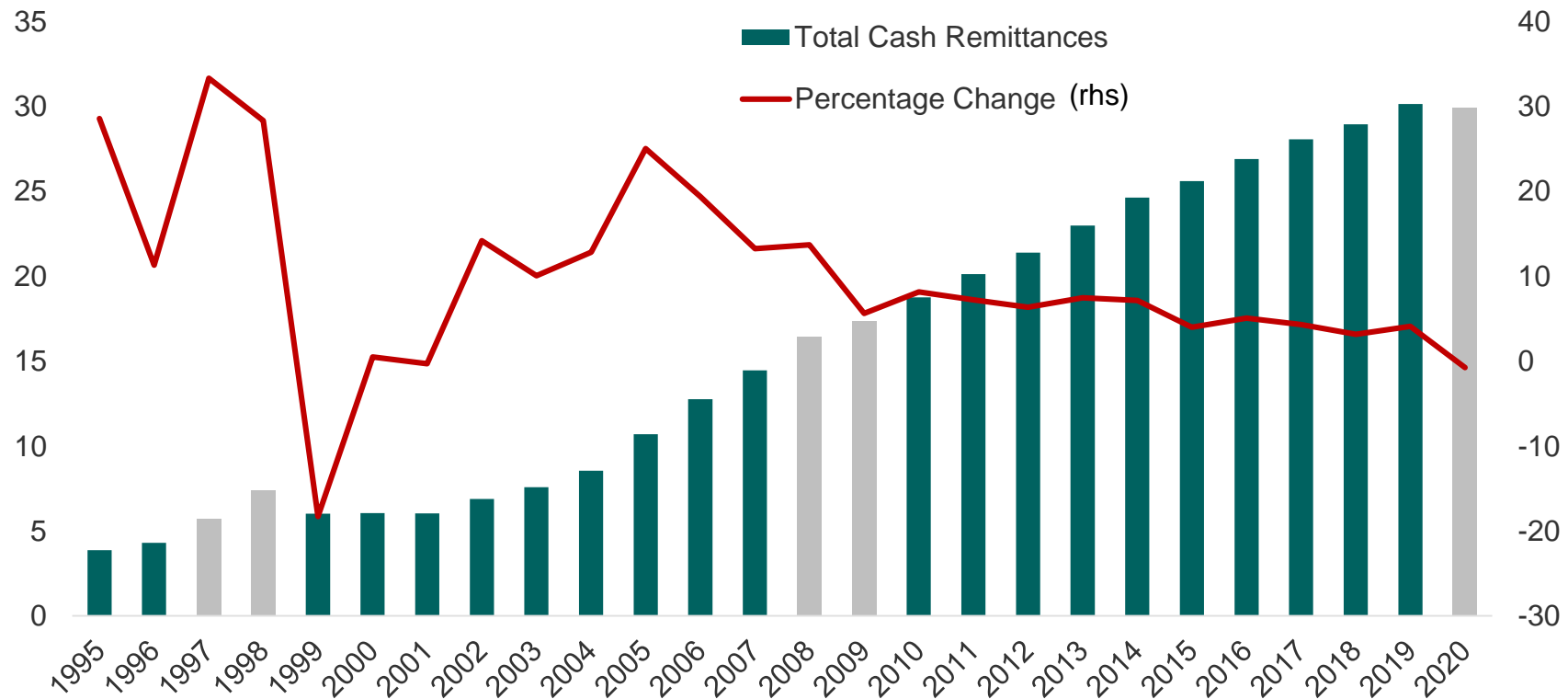
- Resurgent infections weaken recovery momentum and raise downside risk
- Vaccinations will need to quicken significantly to reach the target set for 2021
- Macroeconomic policies still supportive of recovery, with sufficient policy space to buffer downside risk

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)

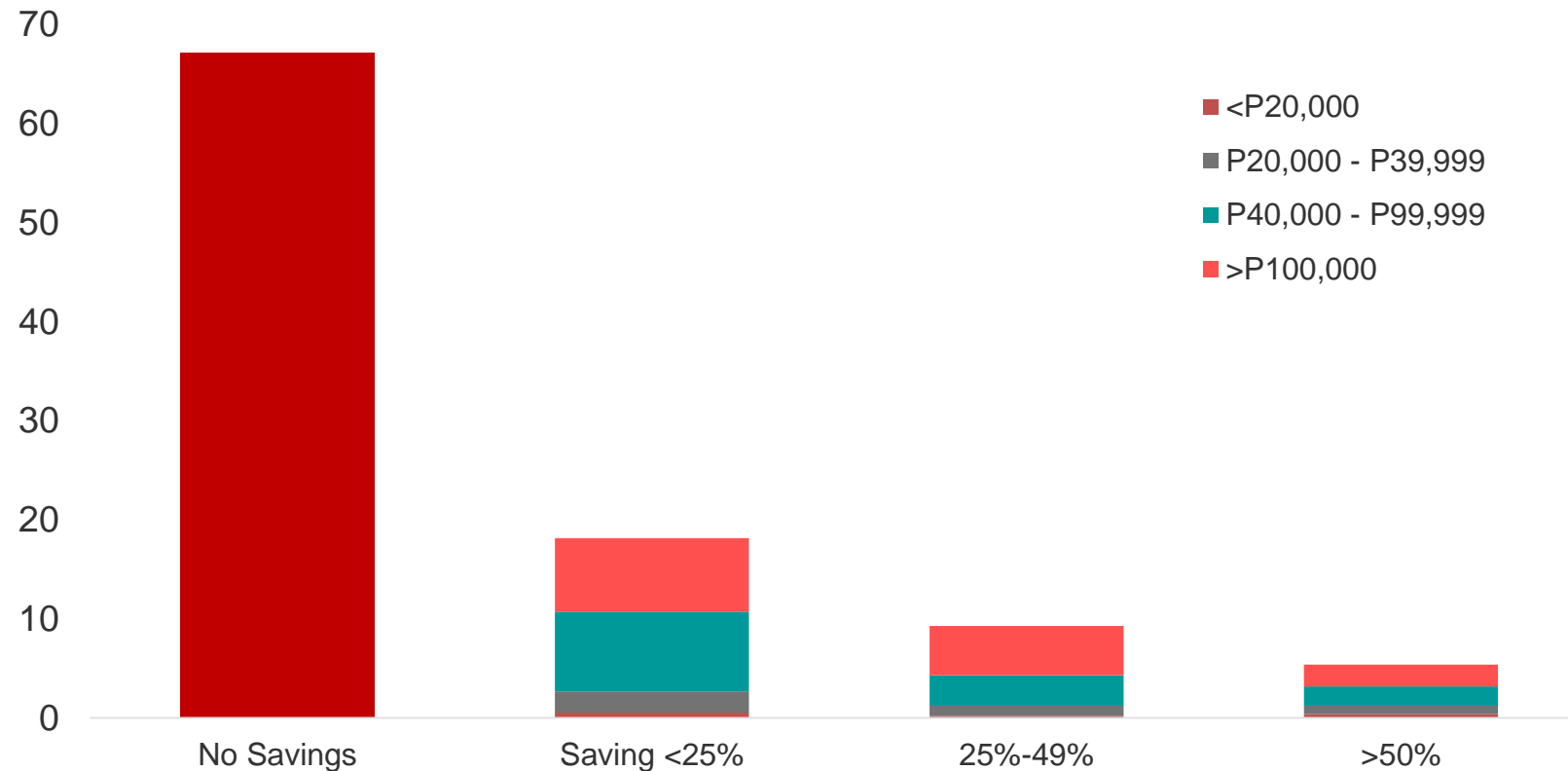


Sources: BSP, Haver Analytics, AMRO staff calculations

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

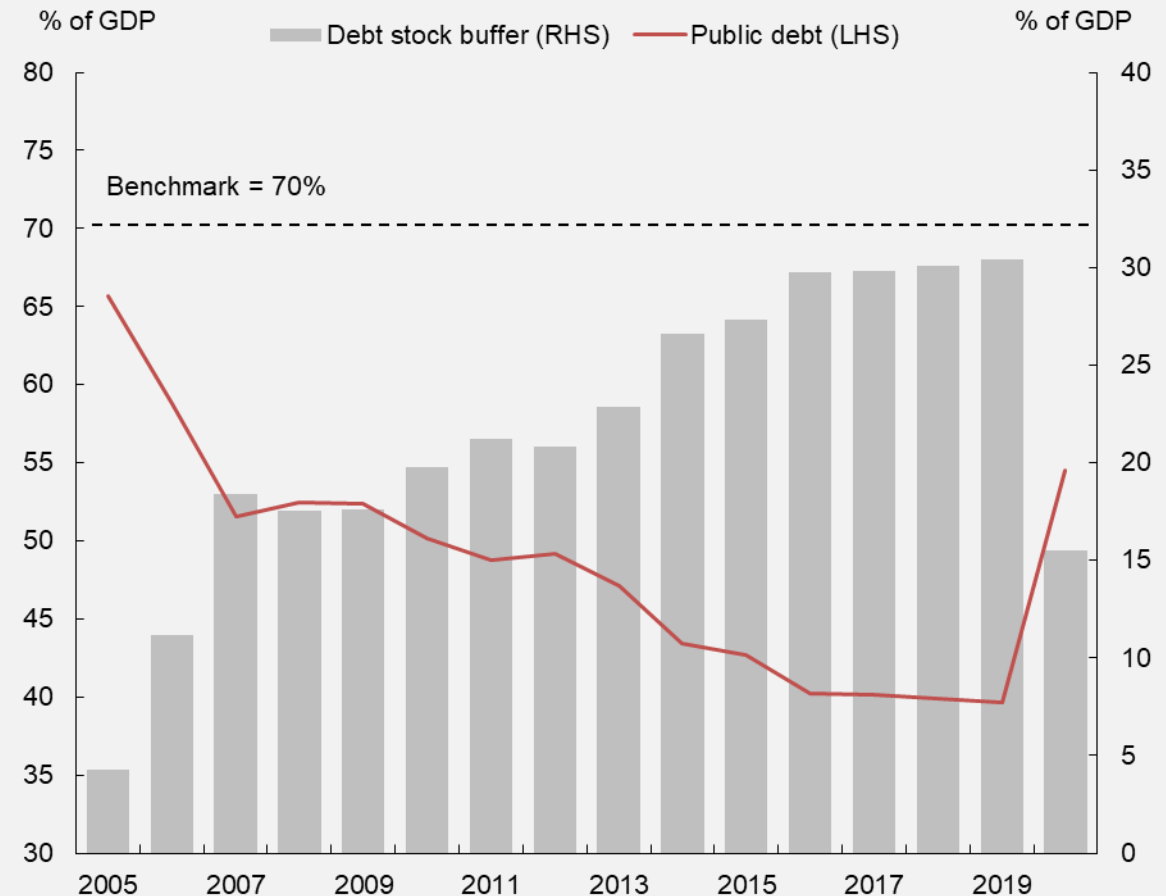
Selected Issue 2: Sufficient fiscal policy space, but recovery momentum is weak

Assessment of fiscal policy space

Block I: Debt sustainability	<ol style="list-style-type: none"> 1. Public debt stock buffer 2. Primary balance buffer
Block II: Financing capacity and debt profile	<ol style="list-style-type: none"> 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	

Source: AMRO staff illustration

National government debt

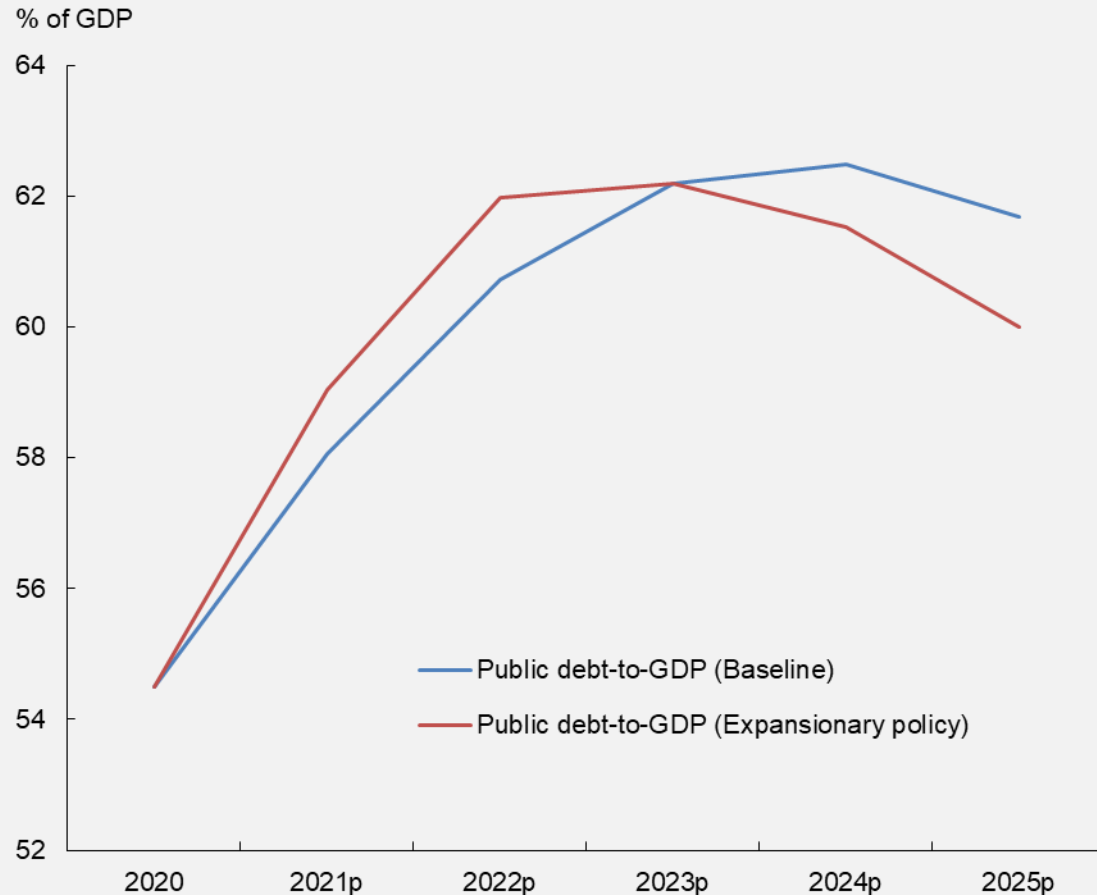


Sources: Department of Finance, AMRO staff estimates

Note: The debt stock buffer refers to the debt burden threshold (AE 85%, EM 70%) minus the public debt-to-GDP ratio

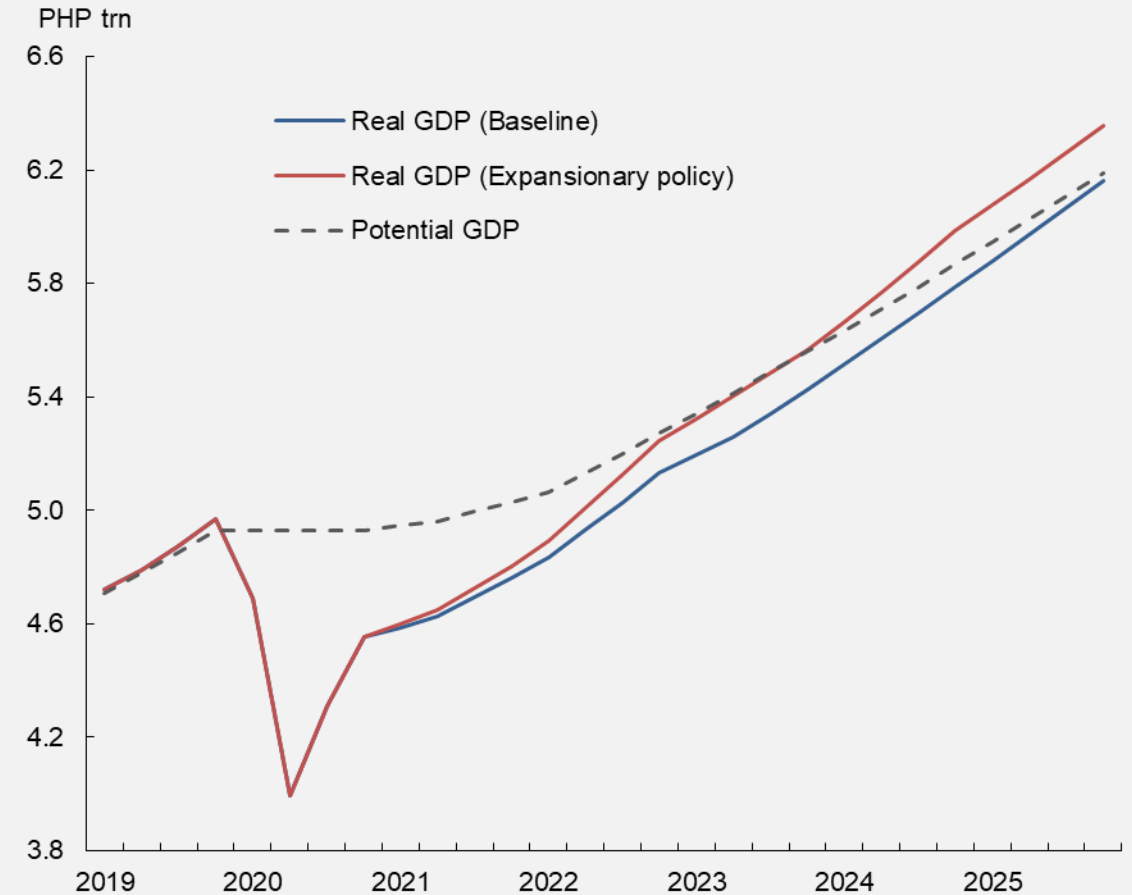
Selected Issue 2: Stronger recovery and long-term debt sustainability can be achieved through more expansionary fiscal policy

Debt stress test



Sources: Department of Finance, AMRO staff illustration

Real GDP trajectory



Sources: Philippine Statistics Authority, AMRO staff estimates

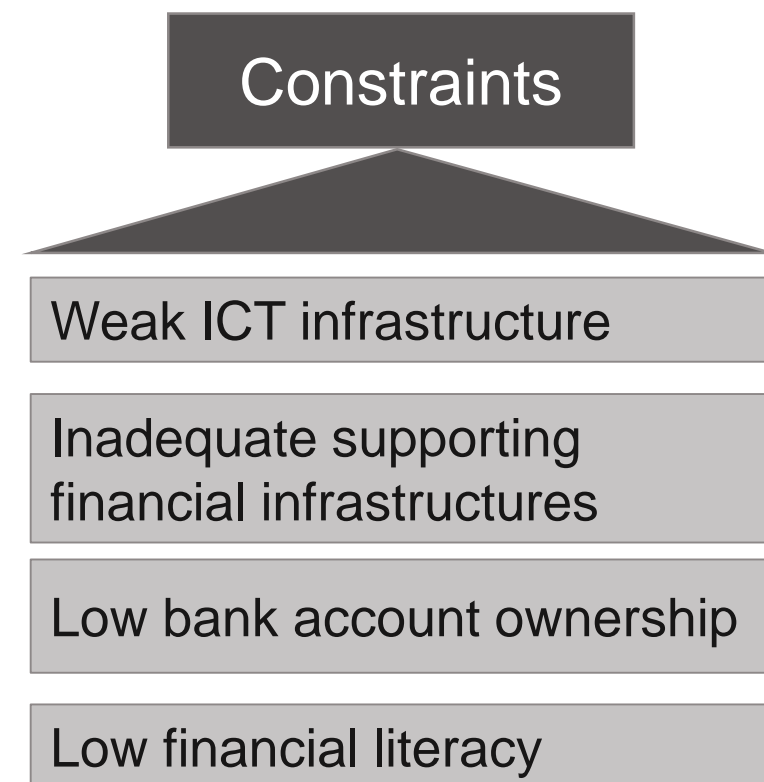
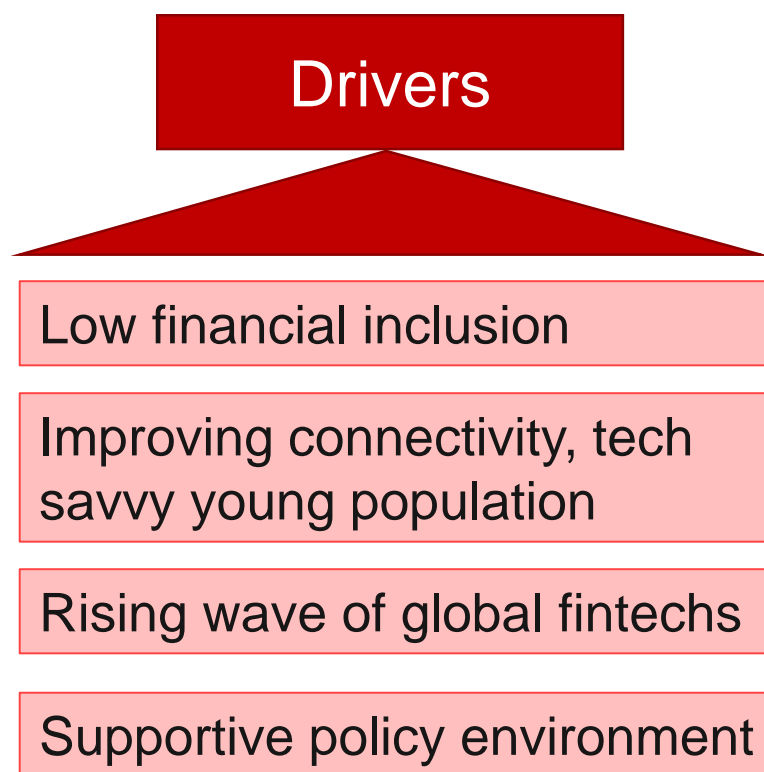
Selected Issue 3: Fintech development in the Philippines

Map of Philippine fintech start-ups (2020)



Sources: Fintech News Network, AMRO

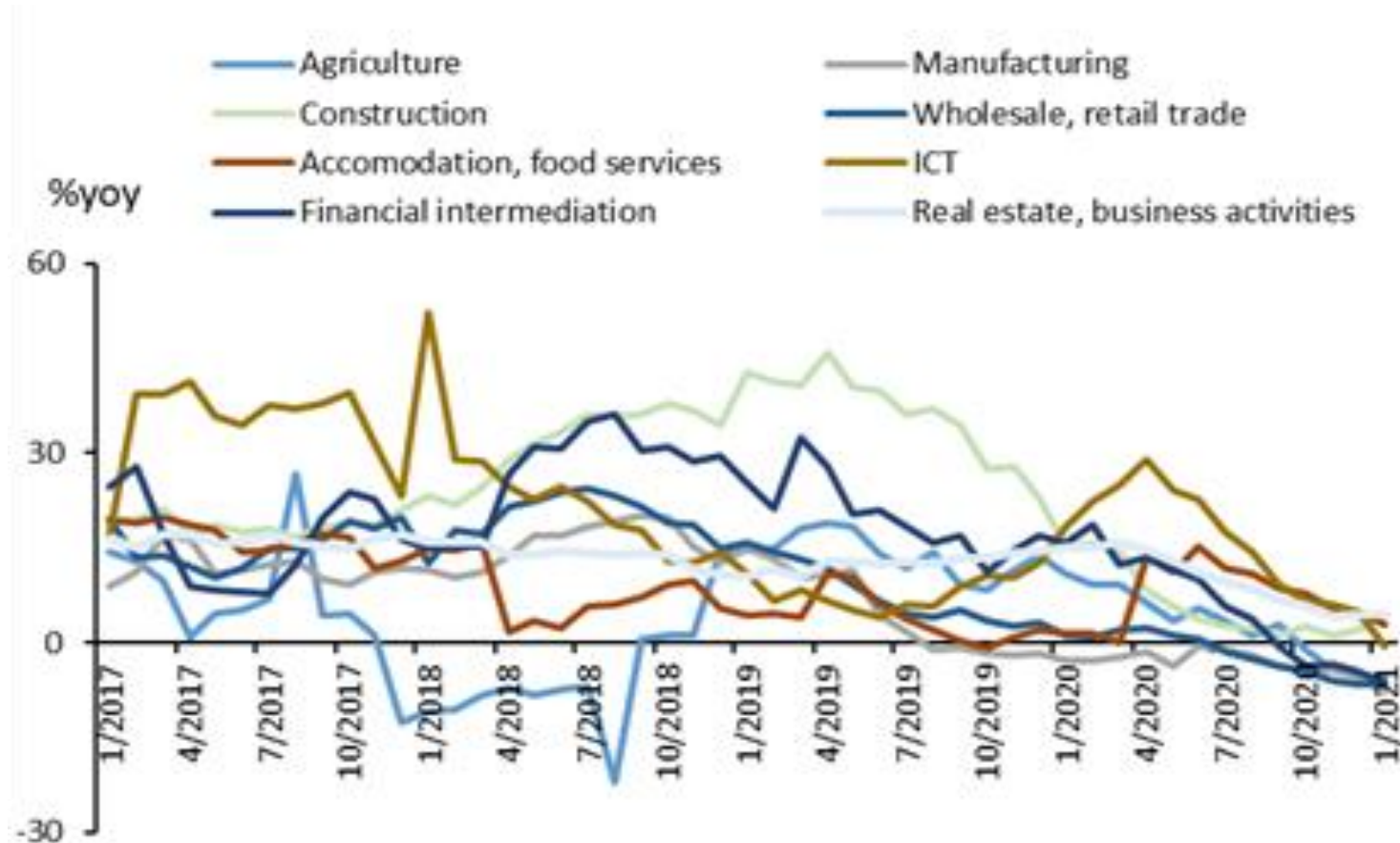
Selected Issue 3: Key drivers and constraints



Sources: AMRO.

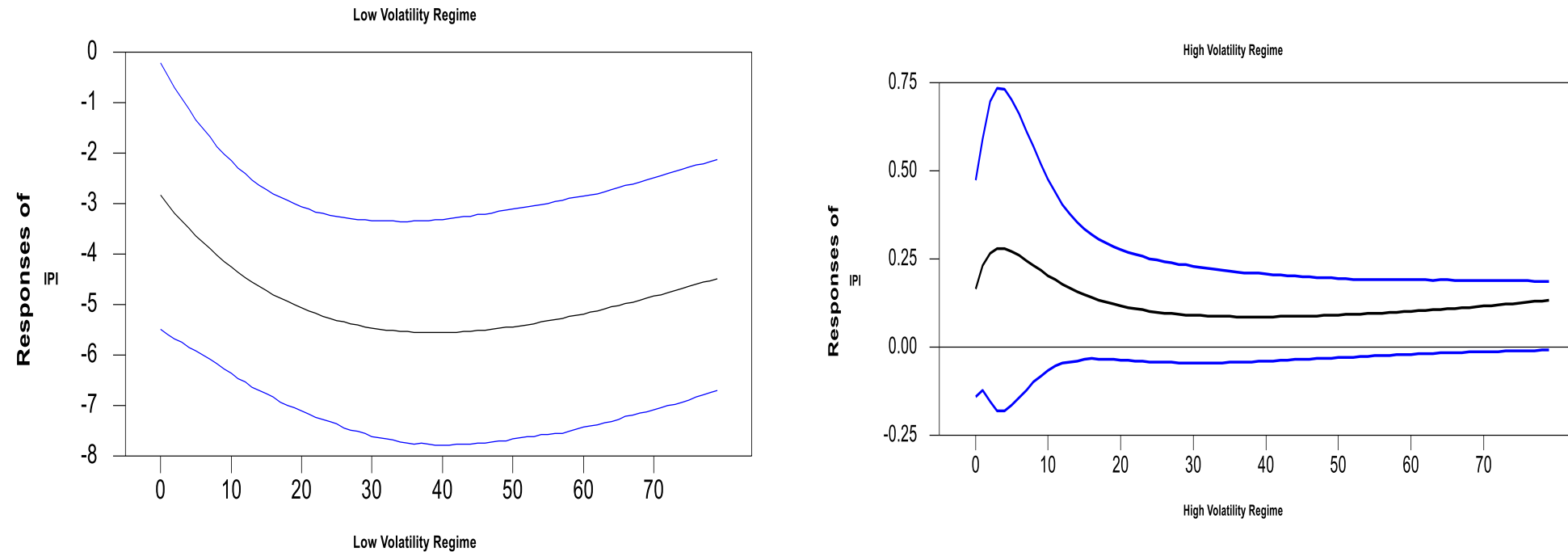
Selected Issue 4: Impact of BSP policy rate on output in uncertain times

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



Selected Issue 4: Monetary policy less effective in times of economic uncertainty

Relationship between industrial production and policy rate



Source: AMRO staff calculations.

- 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

Appendix: Balance of Payment

Current Account

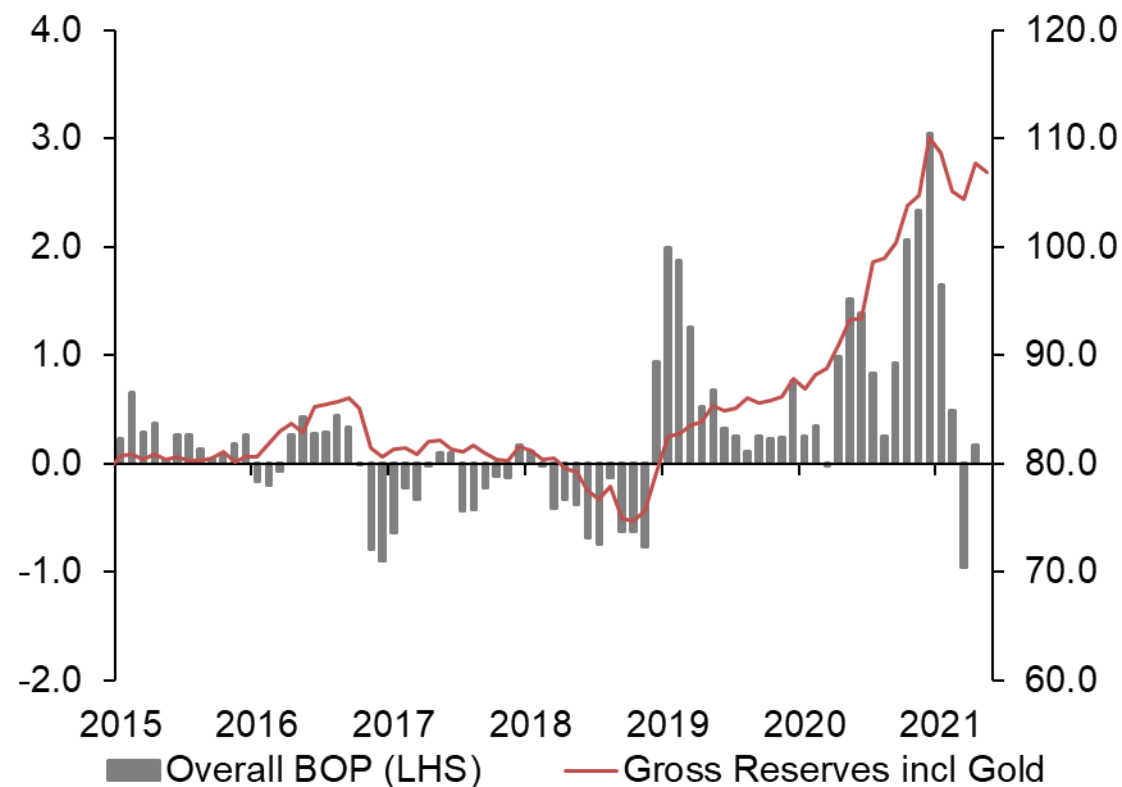
(percent-of-GDP)



Sources: BSP, AMRO staff calculations.

Balance of Payment and Reserves

(Billion US Dollars)

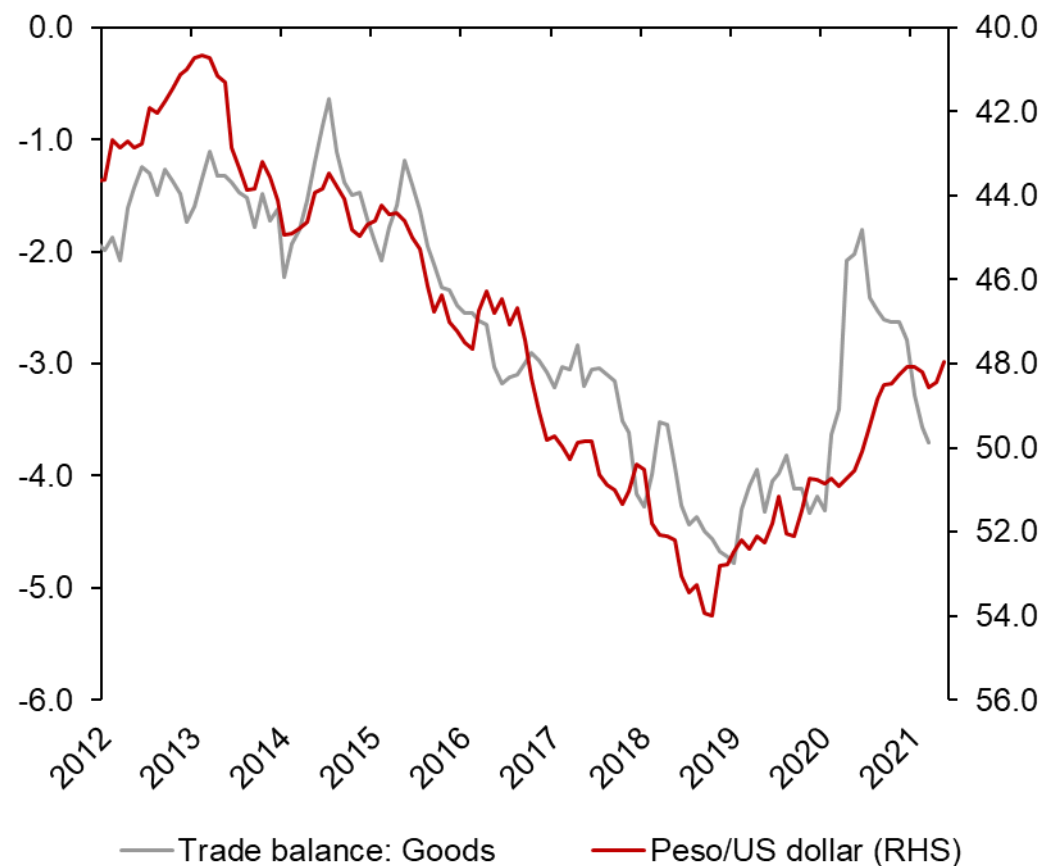


Sources: BSP, AMRO staff calculations.

Appendix: Exchange Rate

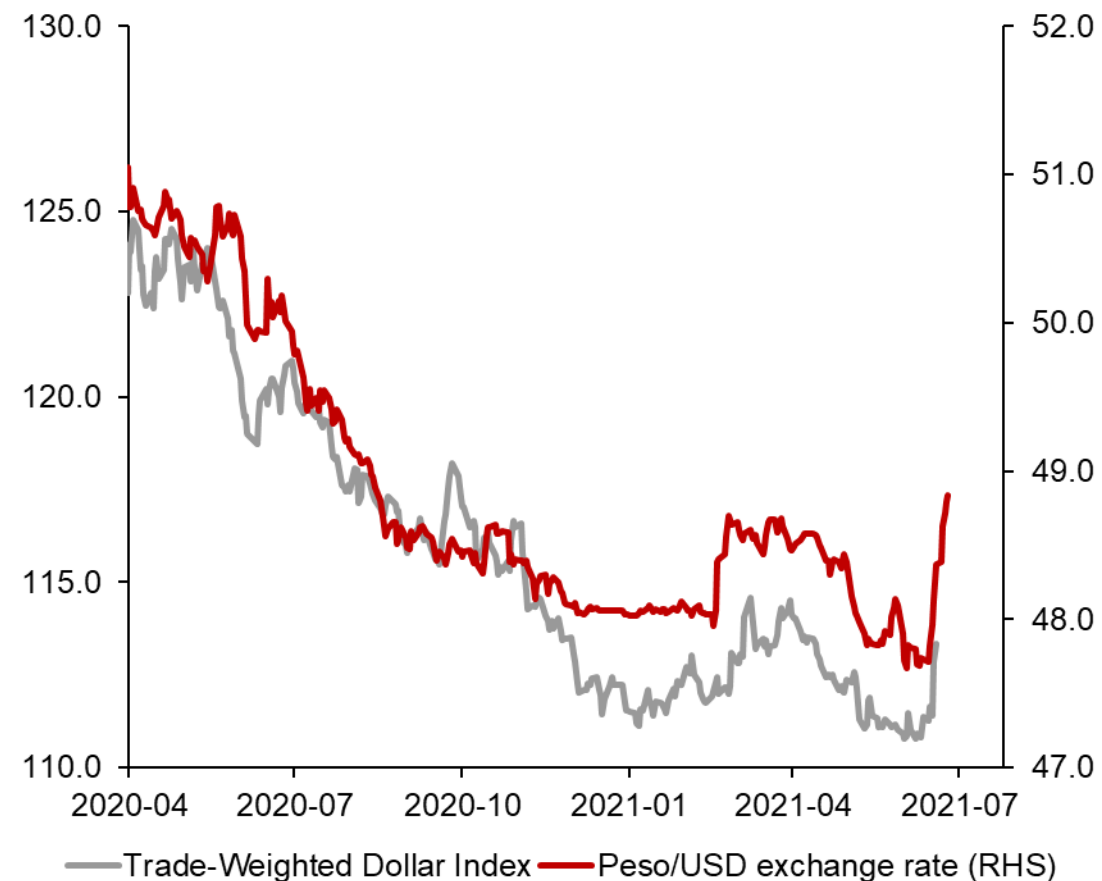
Peso Exchange Rate and Trade Balance

(Billion US Dollar, 3mma)



Sources: BSP, AMRO staff calculations

Peso Exchange Rate and US Dollar Index



Sources: BSP, Fed, AMRO staff calculations.