Securing a Robust Recovery amid Rising Challenges

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Table of Contents

01 Recent Developments
02 Risks, Vulnerabilities and Challenges
03 Policy Considerations
The economic recovery is on track and continues to gain traction.
Inflation picked up, and monetary policy normalization started

Source: PSA, Haver, AMRO staff calculations

Note: The inflation data use 2018 as the base year; dotted line represents the forecasts.
Fiscal deficit widened, but the fiscal consolidation is planned

Source: BTr, AMRO staff calculations

Source: Development Budget Coordination Committee (DBCC)
Banking system and external position remain resilient

Source: BSP

Source: BSP, AMRO staff calculations
The peso exchange rate depreciated, reflecting a weakening in the current account and a stronger U.S. dollar.

Source: BSP, AMRO staff calculations

Note: Peso exchange rate is in reverse scale
Risks, Vulnerabilities and Challenges

Risk Map

Likelihood

High

Tightening global financial conditions

Further worsening of Russia-Ukraine conflict

Medium

Financial distress of the banking system

More virulent COVID-19 variants

Scarring effect due to COVID-19

Low

Sovereign debt distress

Perennial Risks

- Climate change
- Cyber attacks
- Natural disasters

Short Term (up to 2 years)  
Medium Term (2 to 5 years)  
Long Term (> 5 years)

Low impact  
Medium impact  
High impact
Policy Considerations

_In near term,_

• Government revenue for 2022 increases due to the improvement of tax administration, while government expenditure for 2022 remains large, focusing on building resilience and sustaining the recovery momentum. The fiscal deficit will narrow down.

• The fiscal consolidation plan should enhance fiscal sustainability without jeopardizing economic recovery.

• The BSP should continue to normalize its monetary policy stance, while the pace of normalization should be determined by the strength of the economic recovery and trajectory of inflation.

• Although the peso depreciated recently, the Philippine economy is well-positioned to weather the adverse impact given its strong external position.
Policy Considerations

In medium to long term,

- The scarring effects caused by the pandemic have raised the urgency to take action to build resilient, sustainable, and inclusive long-term growth. The scarring effects from the pandemic could be significantly reduced if having robust growth in 2022 and 2023. Otherwise, it would take longer time to mitigate the scarring effects.

- Policy should mitigate the scarring effects and address the structural challenges to achieve a more resilient and sustainable long-term growth, e.g., financial digitalization and green policy.

- The focus should gradually shift to upgrading and upskilling the workforce to embrace a more technology-driven economy in the longer term.
Key Messages

• The economic recovery is expected to remain strong this year, with the private sector taking the lead in driving growth on the back of continued policy support.

• Given the high inflation and strong recovery, it is prudent for BSP to normalize monetary policy to dampen inflationary pressure.

• Fiscal consolidation should be combined with targeted support to hard hit sectors to minimize scarring.

• Authorities should continue with plans to digitalize the economy, upskill the workforce, and improve infrastructure.
Thank you

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