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IMF Executive Board Concludes 2013 Article IV Consultation with the Philippines

On March 29, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Philippines.[1]

Background

In 2012, the Philippine economy shrugged off weakness abroad to grow by more than 6½ percent, while preserving internal and external stability. This reflected strong consumption and investment, fuelled by exceptionally-low interest rates and sustained remittances, as well as continued export product diversification. The current account surplus remained around 3 percent of GDP supported by remittances and business process outsourcing exports, while inflation moderated to 3.1 percent in year-average terms.

Large and stable inflows from abroad contributed to the cumulative 10 percent real appreciation since end 2009. Despite the faster nominal increase in the peso last year, reserves rose by about US$9 billion, and at 34 percent of GDP, are at a high level. Capital inflows moderated in 2012 relative to the previous year, but picked up in early 2013.

Financial and real estate markets have been buoyant. Equity prices rose by one third in 2012, bank credit and other sources of financing are growing briskly, while short-term T-bill rates have

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

dropped below 0.2 percent. Real estate activity is proceeding quickly, although price growth remains in the single digits.

Despite the strong economic performance over the past decade, the benefits have not permeated the broader population. Unemployment is around 6¾ percent—high from a regional perspective—and the poverty rate remains stubbornly elevated. The weak investment climate of poor infrastructure, limited competition due to tight restrictions on foreign investment and concentrated ownership, and continued red tape and corruption are seen as contributing factors.

Policies are geared to maintaining stability and supporting sustained and inclusive growth. The Bangko Sentral ng Pilipinas (BSP) has reduced its policy interest rate while utilizing a broader range of tools than in the past to respond to easing domestic inflation pressures and low interest rates abroad. The fiscal stance was mildly supportive of growth in 2012. The government is undertaking reforms to raise fiscal revenue while increasing social and infrastructure spending and lowering the debt ratio. In the financial sphere, oversight and regulation of the real estate sector has been stepped up. Expanded social programs will help meet basic needs, while numerous Public-Private Partnership projects in various stages of preparation are intended to alleviate infrastructure-related growth bottlenecks.

Executive Board Assessment

Executive Directors commended the authorities' prudent policies which have delivered strong macroeconomic outcomes and set the stage for favorable economic prospects for the near term. However, Directors noted risks associated with global uncertainties, volatile capital inflows, banks' increasing exposure to some sectors, and the possibility of stretched asset prices. Accordingly, they stressed the importance of continued prudent policy implementation and stepped up reforms to bolster resilience, sustain high growth, and reduce poverty.

Directors welcomed the broadening of the policy toolkit to strengthen monetary control and preserve macrofinancial stability. In this context, they noted that authorities' participation in the foreign exchange market continues to be limited to smoothing excessive volatility, and urged that the exchange rate continue to move broadly in line with fundamentals. Careful deployment of macroprudential measures will be key to managing inflows and risks of asset price bubbles. Directors highlighted that arrangements to ensure adequate central bank capital will be essential to support operational independence of monetary policy.

Directors commended the generally proactive financial sector oversight. Further steps to close supervisory gaps, including by broadening the central bank's authority to allow supervision of conglomerate parents of banks and strengthening legal protections for supervisors would help mitigate systemic risks from real estate, shadow banking, and concentrated credit exposures. Directors welcomed recent actions to address weaknesses in the regime to combat money laundering and the financing of terrorism.

Directors endorsed the authorities' continued focus on further strengthening the fiscal position over the medium term. Efforts to improve tax administration and compliance, broaden the tax base, and reduce exemptions will be necessary to generate budgetary space for infrastructure and social spending. Recent increases in alcohol and tobacco excises are welcome steps in this direction.

Directors noted with satisfaction some improvement in the business climate. However, to sustain strong growth, increase domestic job creation, and reduce poverty, they saw the need for further reforms geared toward increasing investment, improving infrastructure, and enhancing governance. Directors agreed that the expanded coverage of public health care, conditional cash transfers, and longer compulsory schooling would help meet immediate basic needs and support a more productive workforce. To catalyze private investment, Directors encouraged the authorities to relax limits on foreign ownership, execute public–private partnerships in a transparent manner, and strengthen the medium–term fiscal framework.

Philippines: Selected Economic Indicators, 2009–14

	2009	2010	2011	2012	2013	2014
				Staff proj.		
GDP and prices (percent change)						
Real GDP	1.1	7.6	3.9	6.6	6.0	5.5
CPI (annual average)	4.2	3.8	4.7	3.1	3.1	3.2
CPI (end year)	4.4	3.6	4.2	2.9	3.7	3.0
Investment and saving (percent of GDP)						
Gross investment	16.6	20.5	21.7	19.4	20.1	20.6
National saving	22.1	25.0	24.8	22.4	22.5	22.6
Public finances (percent of GDP)						
National government balance (authorities' definition)	–3.7	–3.5	–2.0	–2.2	–2.0	–2.0
National government balance 1/	–3.8	–3.6	–2.1	–2.3	–2.0	–2.0
Nonfinancial public sector balance 2/	–3.1	–3.4	–1.0	–1.1	–1.0	–1.0
Revenue and grants	20.0	18.4	18.3	18.5	19.1	19.4
Expenditure	23.1	21.8	19.3	19.6	20.1	20.4
Nonfinancial public sector debt	58.1	54.8	55.7	54.5	51.3	48.7
Monetary sector (percent change, end of period)						
Broad money (M3)	8.3	10.6	6.3	10.6	…	…
Interest rate (91–day treasury bill, end of period, in percent) 3/	4.3	1.3	1.7	0.5	…	…
Credit to the private sector (in percent)	10.0	8.9	19.3	16.2	…	…
External sector						
Export value (percent change)	–22.1	34.9	–6.4	8.1	4.6	5.9
Import value (percent change)	–24.0	32.9	2.1	6.0	7.8	7.5
Current account (percent of GDP)	5.6	4.5	3.1	3.0	2.4	2.1
Capital and Financial account (US$ billions)	–1.6	7.4	5.2	1.3	1.2	1.9
Direct investment (net)	1.6	0.7	1.3	0.6	0.9	0.9
Errors and omissions (US$ billions)	–1.3	–2.0	–2.0	–2.4	0.0	0.0
Overall balance (US$ billions)	6.4	14.3	10.2	6.4	7.9	8.6
Total external debt (percent of GDP) 4/	38.8	37.4	34.1	31.8	28.4	26.5
Debt service ratio 5/	14.3	11.3	11.9	10.5	11.3	11.1
Reserves(US$ billions)	44.2	62.4	75.3	83.8	91.8	100.4
Reserves/short–term liabilities 6/	391.0	403.2	476.6	457.0	469.7	492.3
Exchange rate (period averages)						
Pesos per U.S. dollar	47.6	45.1	43.3	42.2	n.a.	n.a.
Nominal effective exchange rate (2005 =100)	106.7	109.4	108.3	112.2	n.a.	n.a.
Real effective exchange rate (2005 =100)	120.4	125.9	126.7	132.7	n.a.	n.a.

Sources: Philippine authorities; World Bank, and IMF staff projections.

1/ Fund definition. Excludes privatization receipts and includes deficit from restructuring of the previous central bank (Central Bank–Board of Liquidators).
2/ Includes the national government, 14 government–owned enterprises, social security institutions, and local governments.
3/ Secondary market rate.
4/ Includes external debt not registered with the central bank, and private capital lease agreements.
5/ In percent of exports of goods and nonfactor services.
6/ Reserves as a percent of short–term debt (including medium– and long–term debt due in the following year).