



IT'S ALL ABOUT GOVERNANCE!

*DIWA C. GUINIGUNDO
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BANGKO SENTRAL NG PILIPINAS
MANAGEMENT ASSOCIATION OF THE PHILIPPINES
12 MARCH 2025*

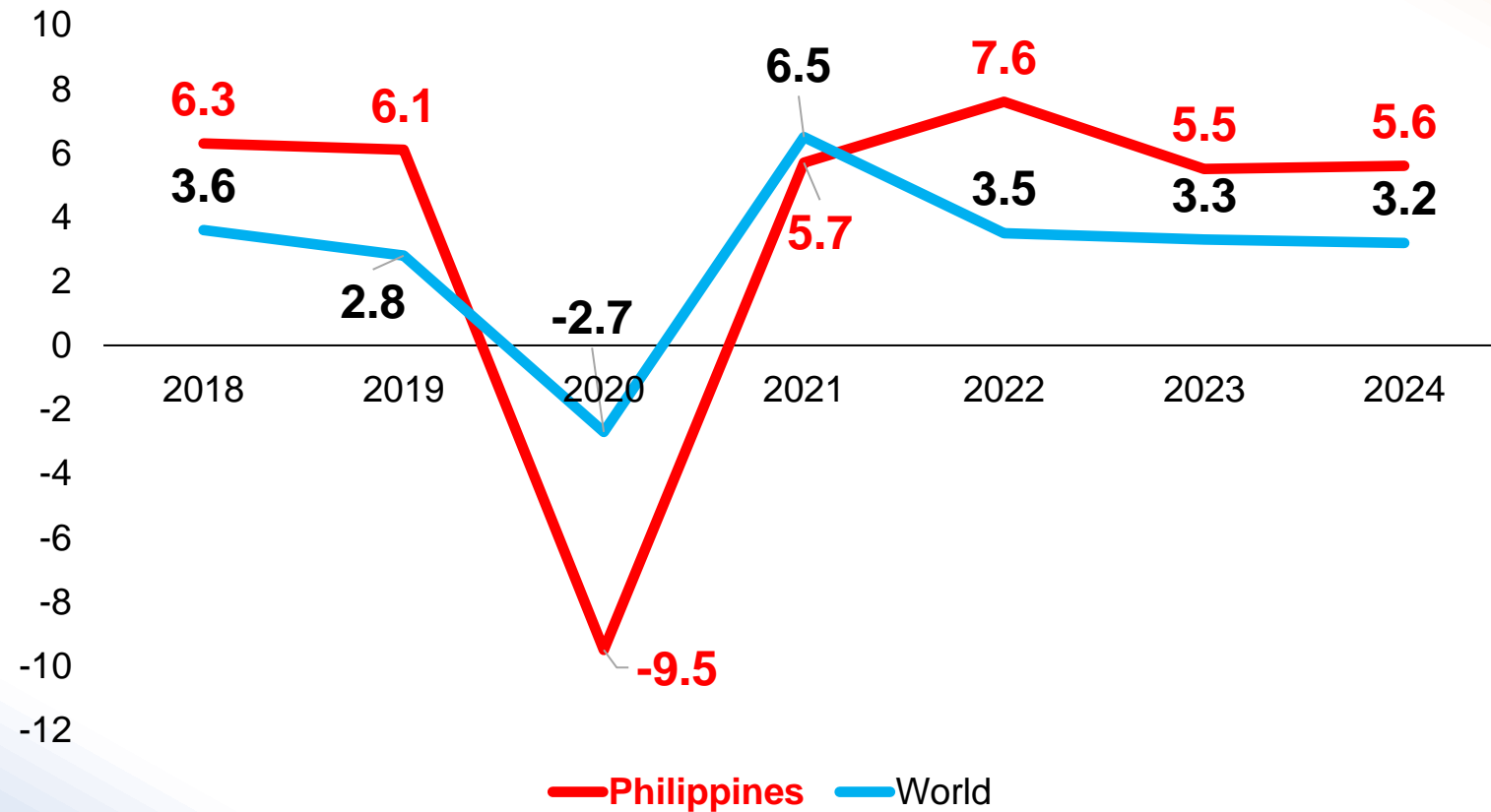
IT'S ALL ABOUT GOVERNANCE!

- PHILIPPINE ECONOMY: CAN WE SUSTAIN GROWTH?
- DO WE HAVE WHAT IT TAKES TO GROW, AND GROW SUSTAINABLY?
- ALL GOES BACK TO GOVERNANCE
- WHAT KIND OF PROSPECTS ARE WE LOOKING AT?
- RISKS AND CHALLENGES: THE GAMECHANGERS
- PHILIPPINES: CAN WE ESCAPE THE LOWER MIDDLE INCOME TRAP?

PHILIPPINE ECONOMY: CAN WE SUSTAIN GROWTH?

ECONOMIC RECOVERY CONTINUES

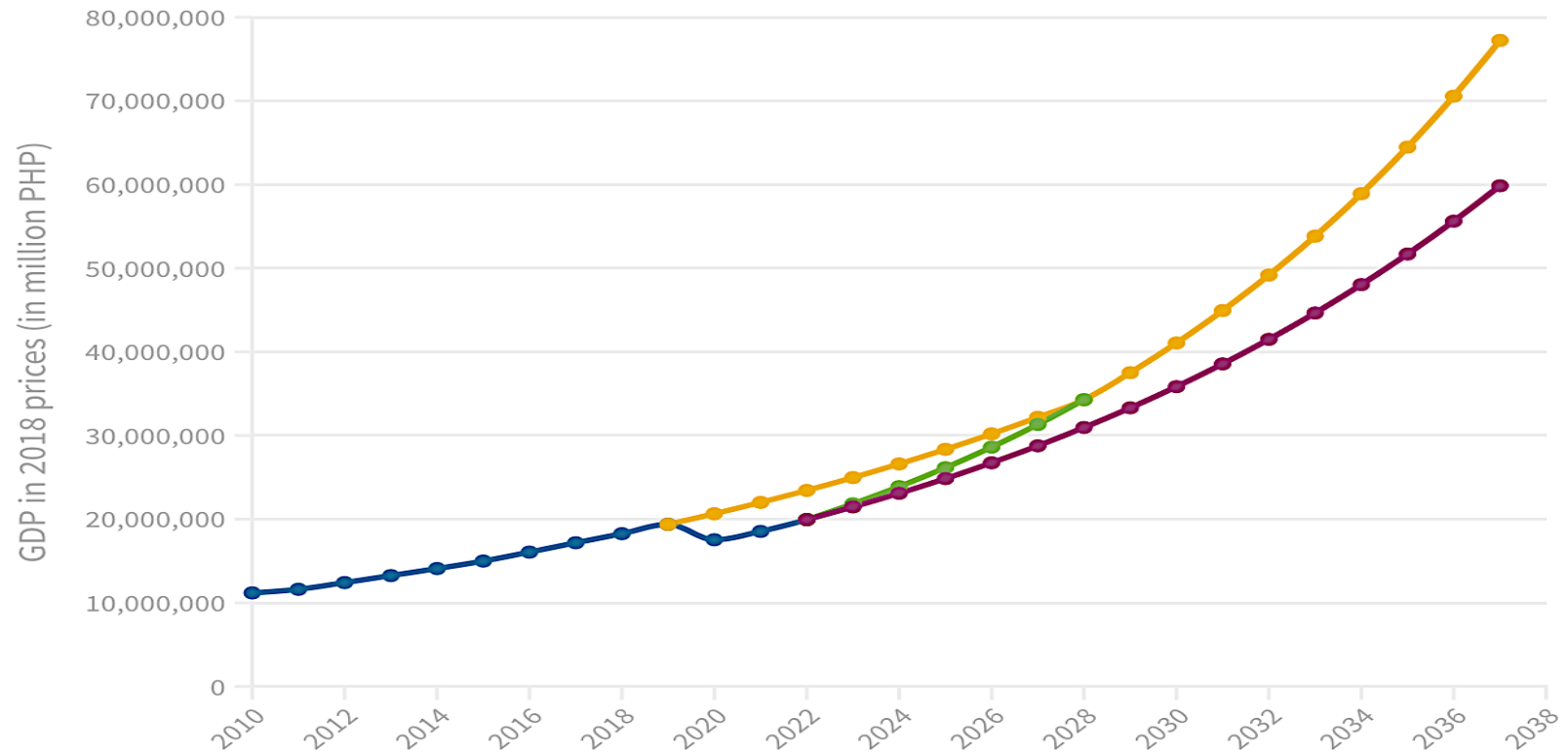
REAL GROSS DOMESTIC PRODUCT Annual Growth Rate, In Percent



Source: Philippine Statistics Authority, World Economic Outlook (WEO) of the International Monetary Fund (IMF) January 2025

RETURN TO PRE-PANDEMIC PATH BY 2028 REQUIRES ANNUAL GROWTH OF AT LEAST 9.4%?

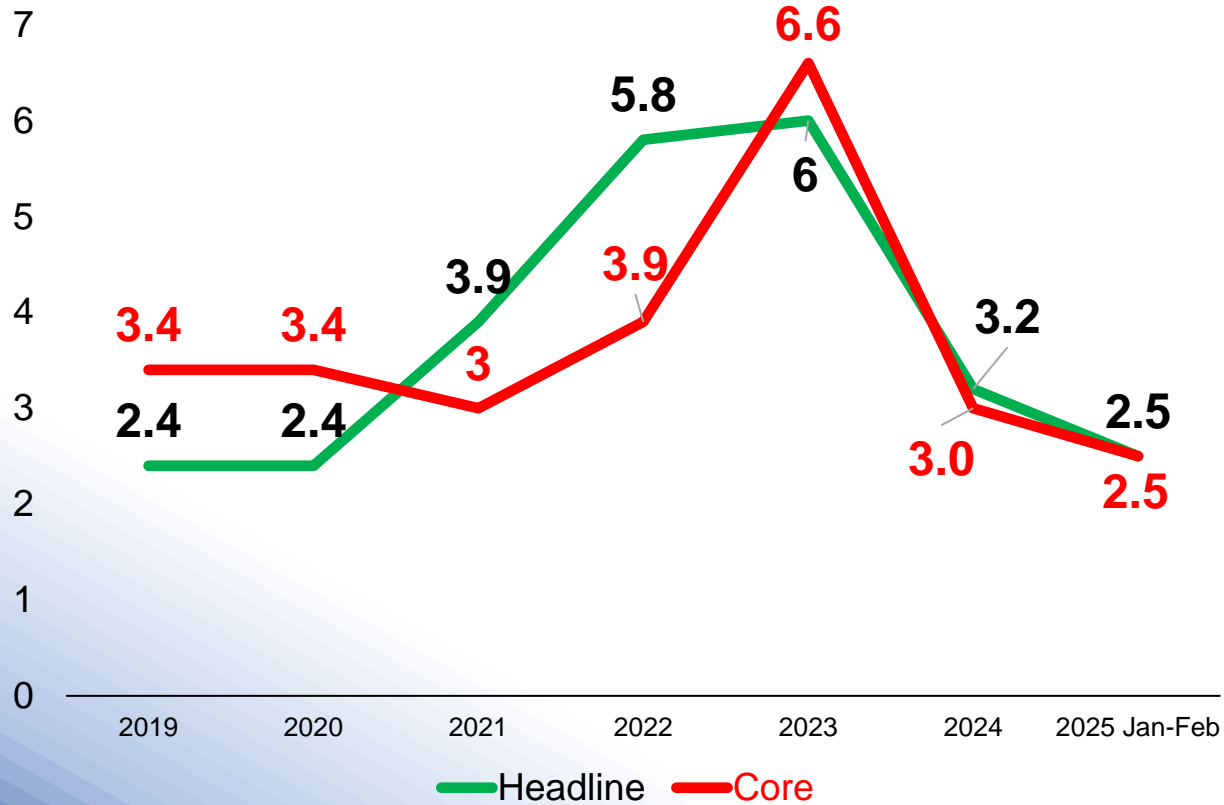
■ GDP ■ GDP (pre-pandemic projection) ■ GDP (if we catch up by 2028)
■ GDP (if GDP grows by just 7.6% annually)



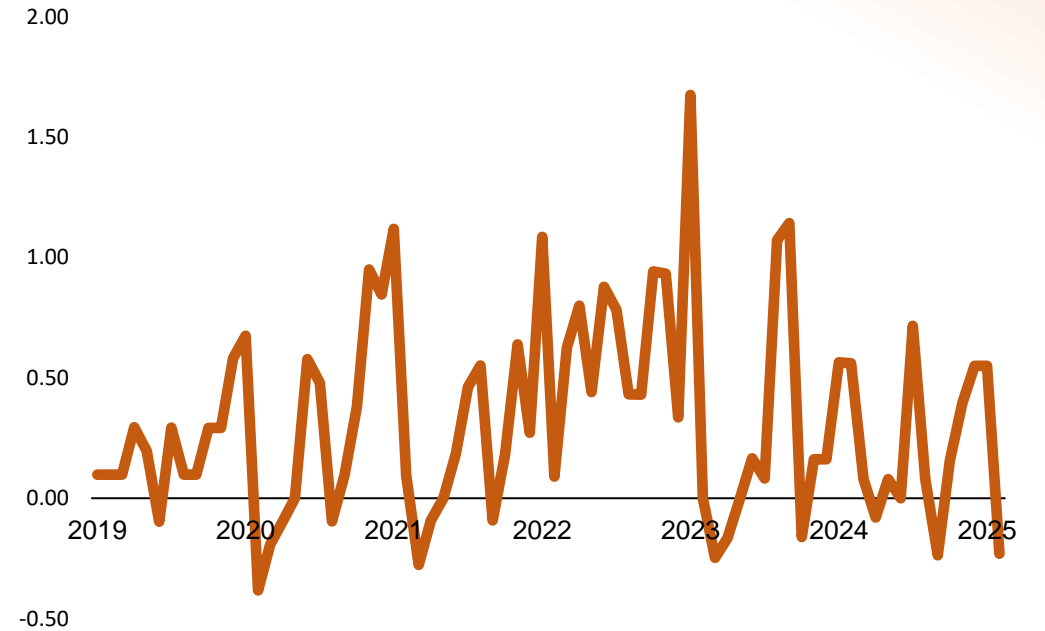
Source: PSA and author's computations • Yellow line assumes 6.54% ave. growth rate (from 2014-2019). Green line assumes 9.44% annual growth (computed from CAGR formula; used to be 9.18%). Graph by JC Punongbayan, PhD.

PRICE PRESSURES RECEDE

INFLATION In Percent

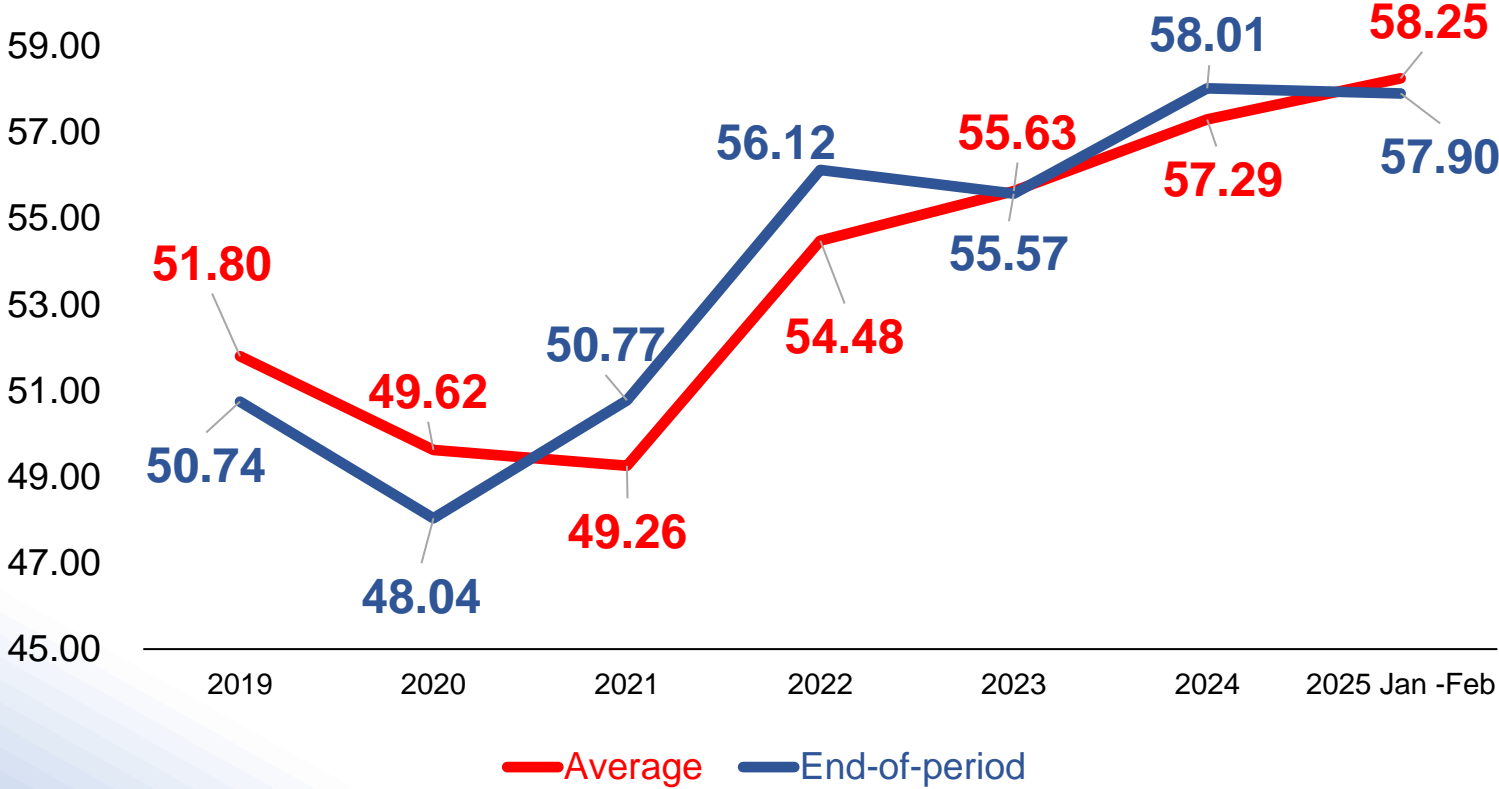


MONTH-ON-MONTH INFLATION 2019-2025



BUT PESO RECENTLY WEAKENS DUE TO EASING MP?

PESO-US\$ RATE

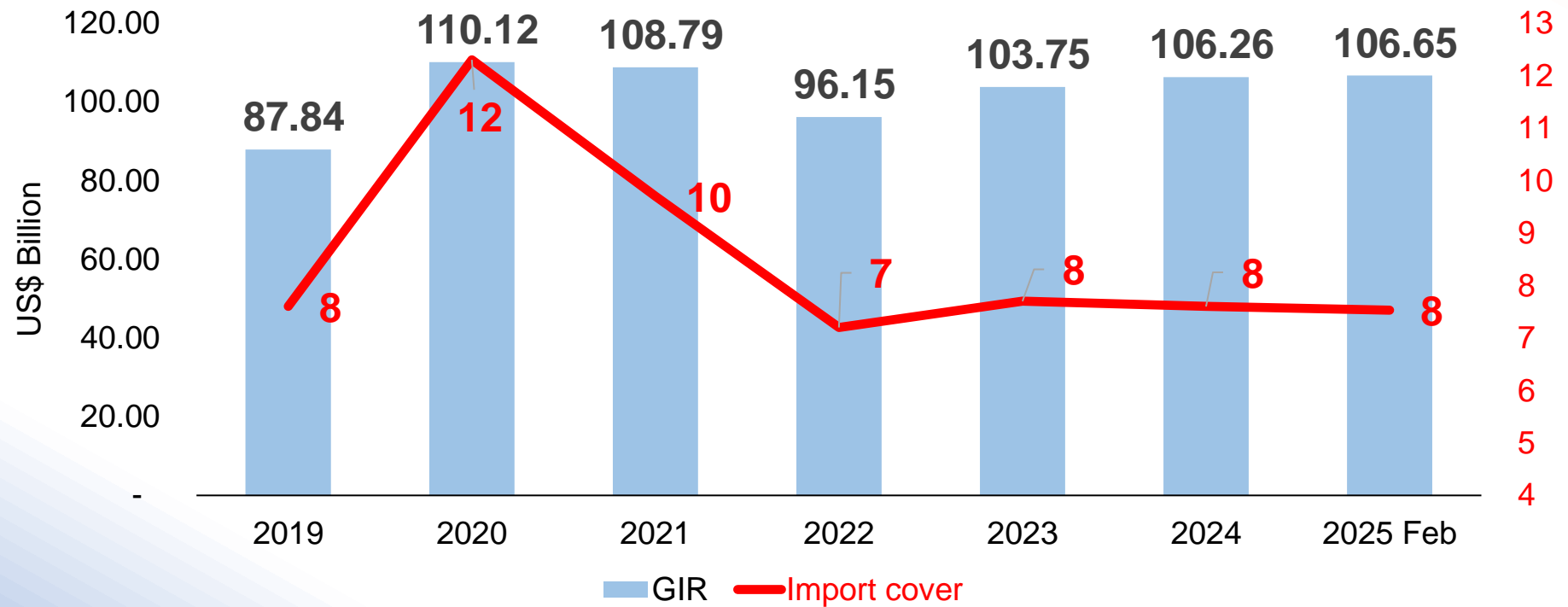


Source: Bangko Sentral ng Pilipinas

FX RESERVES RECOVER LEVEL ABOVE \$100 BILLION

GROSS INTERNATIONAL RESERVES

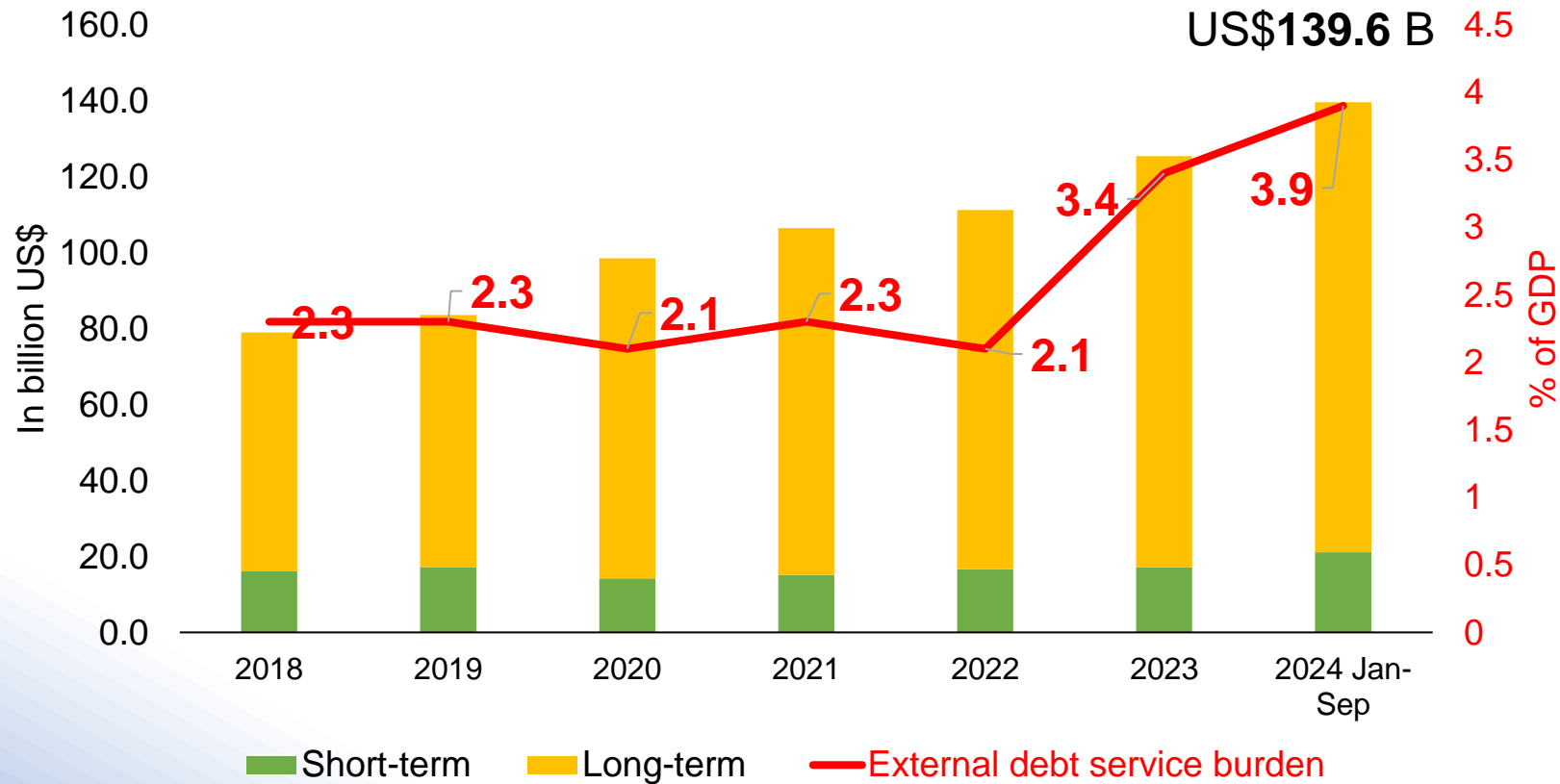
In Billion \$, In Months of Imports



Source: Bangko Sentral ng Pilipinas

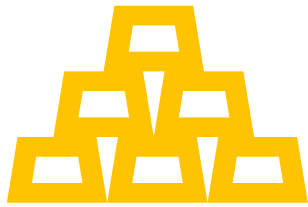
BUT FOREIGN DEBT RAPIDLY INCREASING

EXTERNAL DEBT AND DEBT SERVICE BURDEN AS % OF GDP



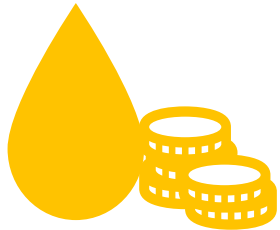
Source: Bangko Sentral ng Pilipinas

PHILIPPINE BANKING SYSTEM SOUND AND STABLE



16.4%

Adequate capital buffer
Capital Adequacy Ratio (Solo)
As of Q3 2024



7.7%

Ample liquidity growth
Domestic liquidity (M3)
As of December 2024



96.1%

High coverage ratio of non-performing loans
As of December 2024



9.0%

Assets further expanded
As of December 2024

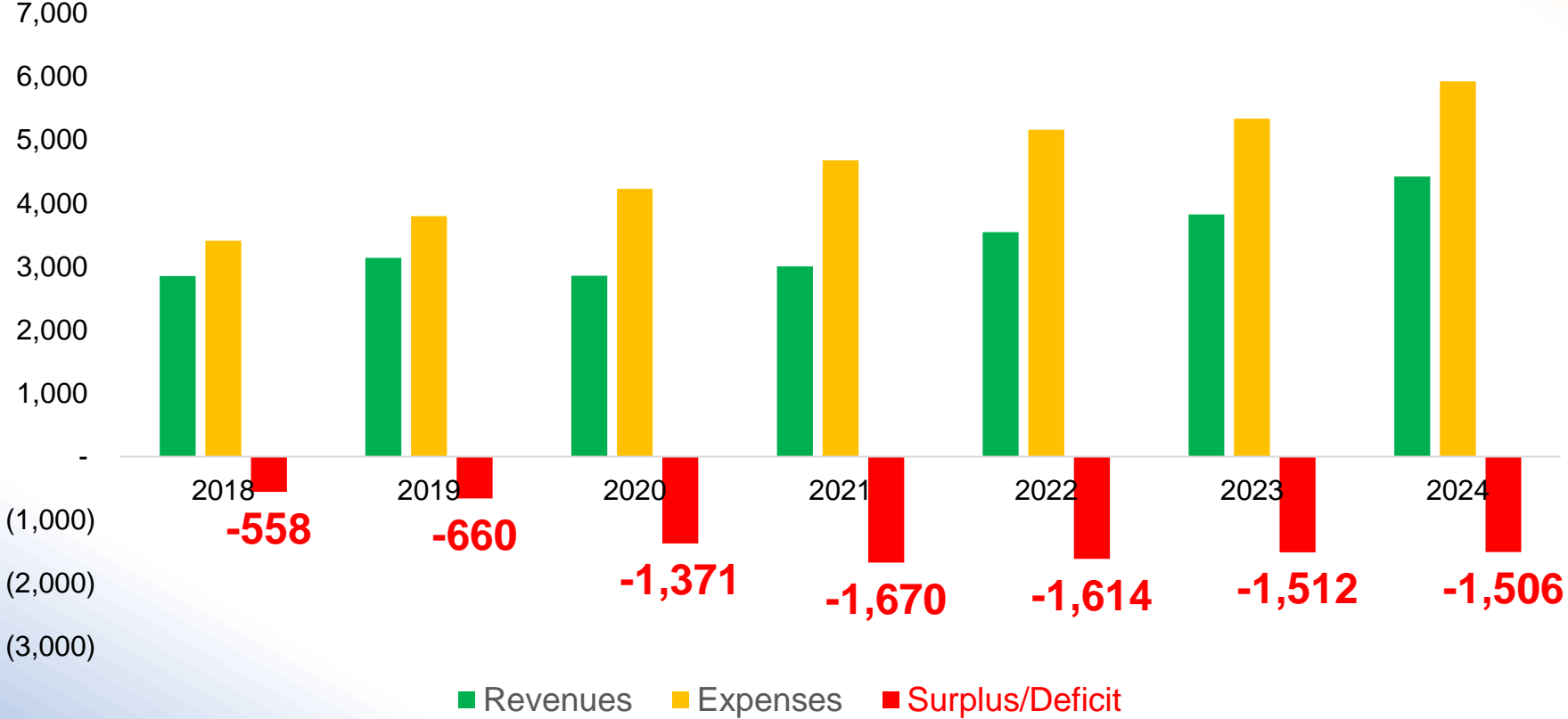


7.1%

Deposits continued to grow
As of December 2024

NG CASH OPERATIONS CONTINUE TO YIELD DEFICIT

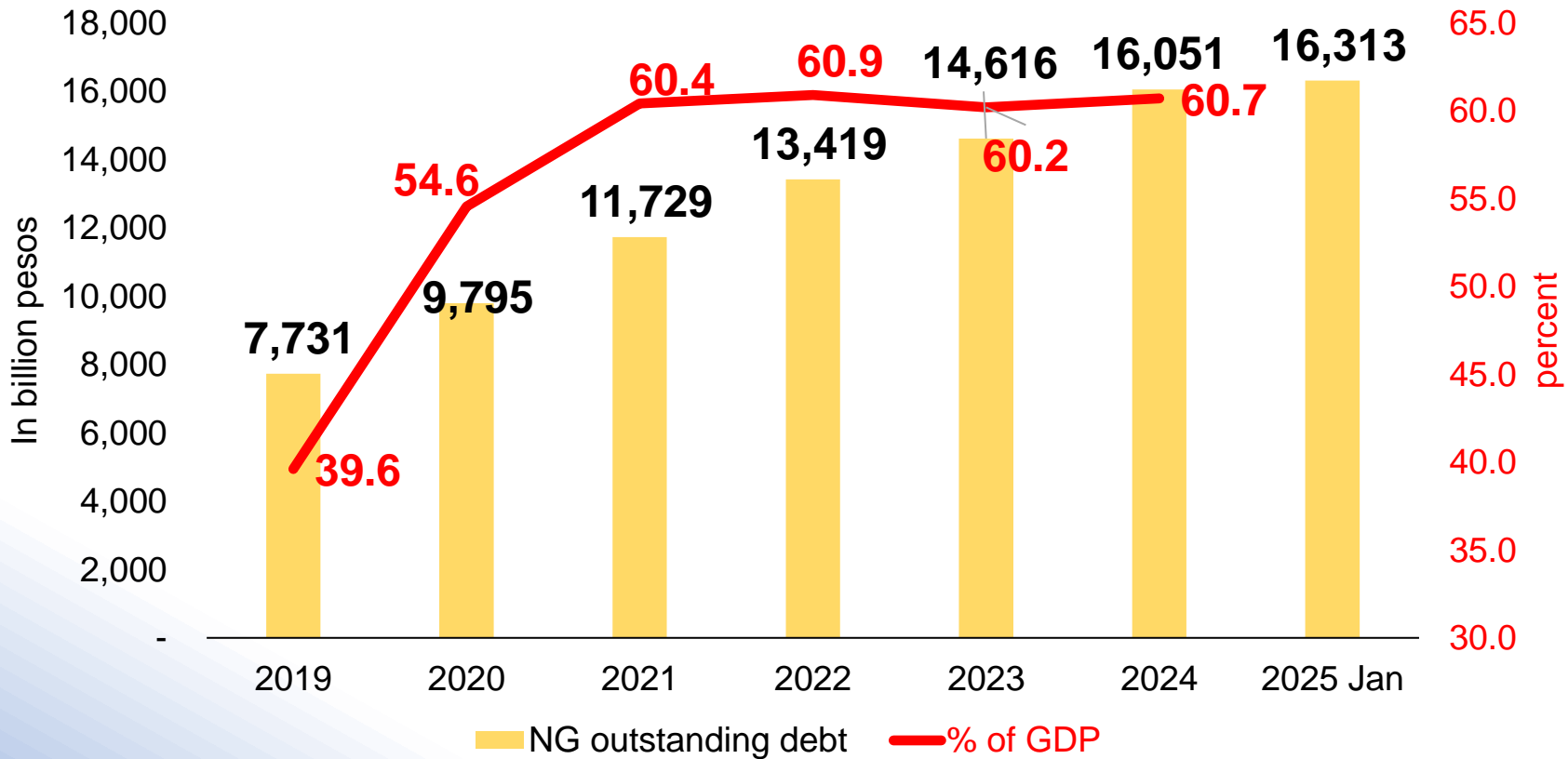
NATIONAL GOVERNMENT CASH OPERATIONS In Billion Pesos



Source: Bureau of the Treasury

PANDEMIC, CORRUPTION-INDUCED HIGHER DEFICIT LEADS TO HIGHER PUBLIC DEBT

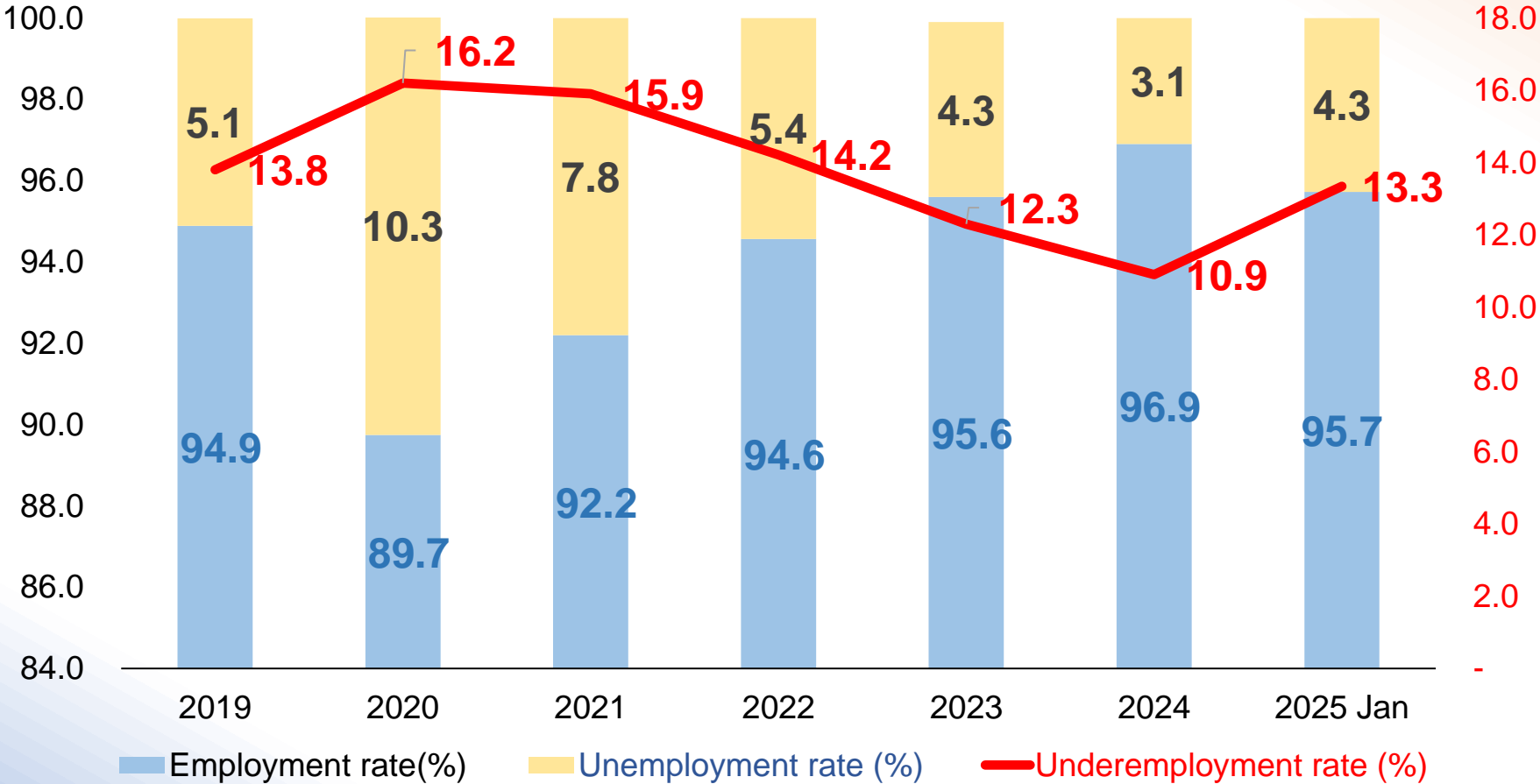
NATIONAL GOVERNMENT OUTSTANDING DEBT LEVELS AND AS PERCENT OF GDP



Source: Bureau of the Treasury

LABOR MARKET SUSTAINS GAINS

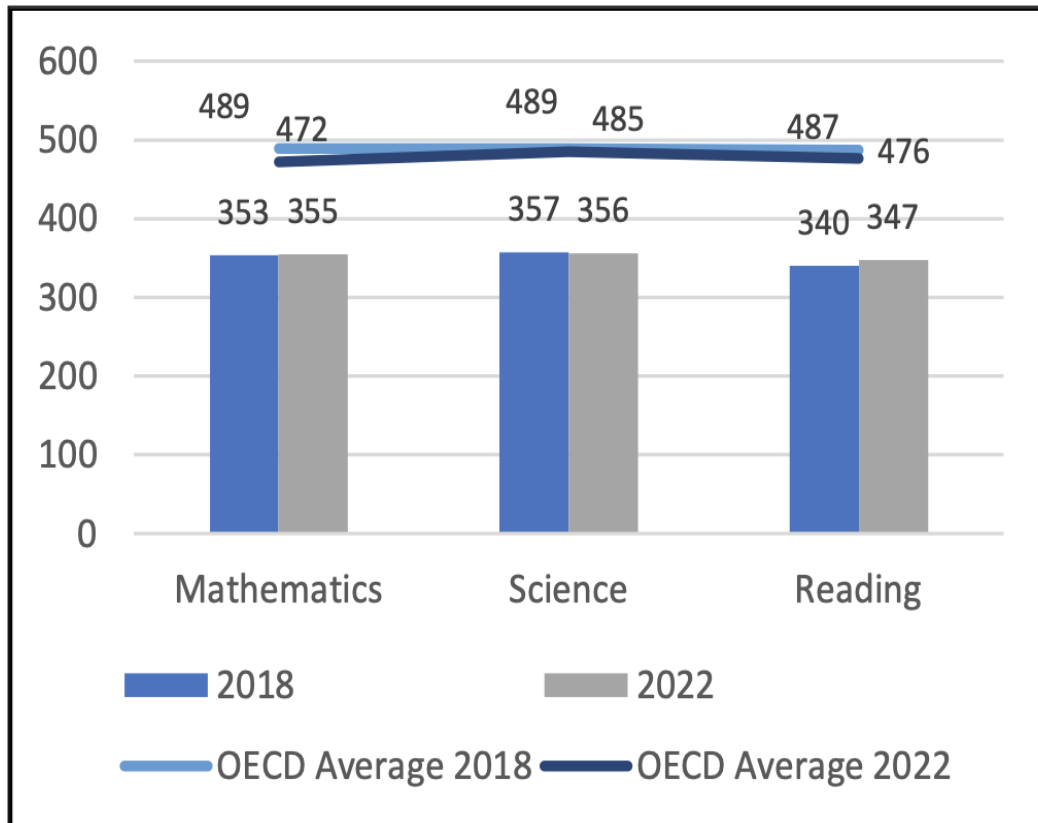
EMPLOYMENT, UNEMPLOYMENT AND UNDEREMPLOYMENT



Source: Philippine Statistics Authority

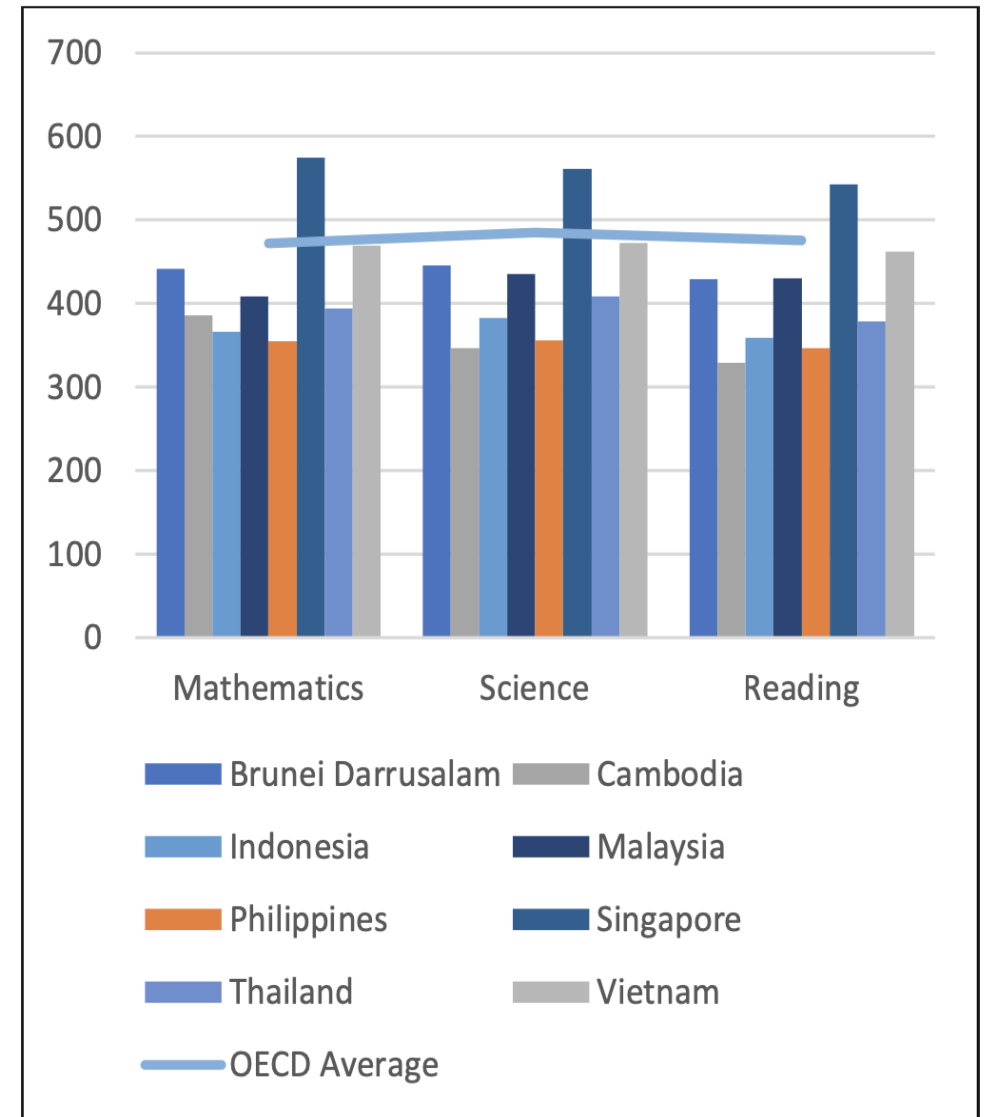
BUT QUALITY OF EDUCATION DISMALLY LOW

PH PERFORMANCE IN THE 2018 AND 2022 PISA



Source: OECD PISA 2018 and 2022

ASEAN PERFORMANCE IN THE 2022 PISA



Source: OECD PISA 2022

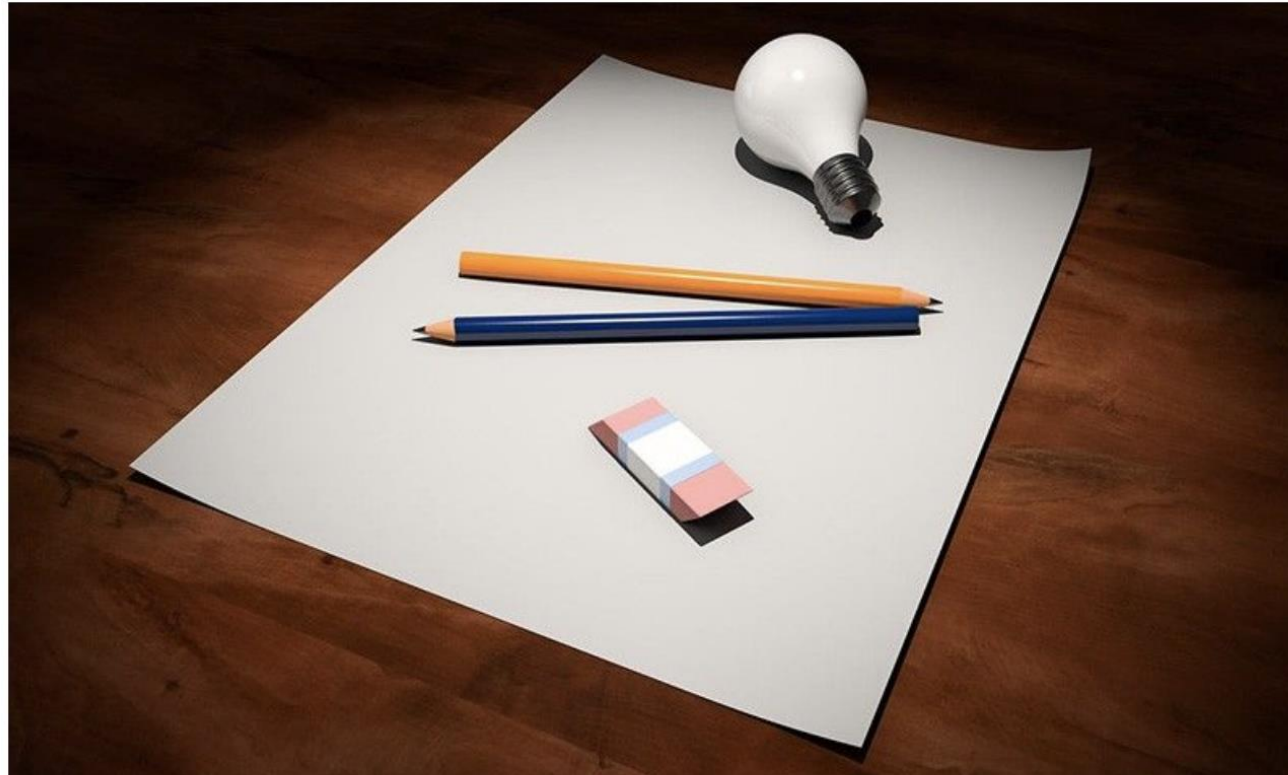
DUE TO UNFAVORABLE SYSTEM OF SUPPORT

STUDENT CONDITION AND SUPPORT

Student Condition & Support	% Phils.	OECD Average
Technology and Independent Learning		
students reported that they were supported daily through live virtual classes on a video communication program.	21%	51%
students feel confident or very confident about using a video communication program,	52%	77%
students feel confident or very confident about motivating themselves to do school work	68%	58%
Safety in School		
students reported not feeling safe in their classrooms at school and in other places in school (e.g. hallway, cafeteria, restroom).	14%	9%
Students reported being the victim of bullying acts at least a few times a month.	Average of 48% for both boys and girls	Average of 21% for both boys and girls
students reported that they were asked daily, by someone from the school, how they were feeling.	18%	13%

Source: OECD PISA 2022

WORSE, IN CREATIVE THINKING FILIPINO STUDENTS RANK EVEN LOWER



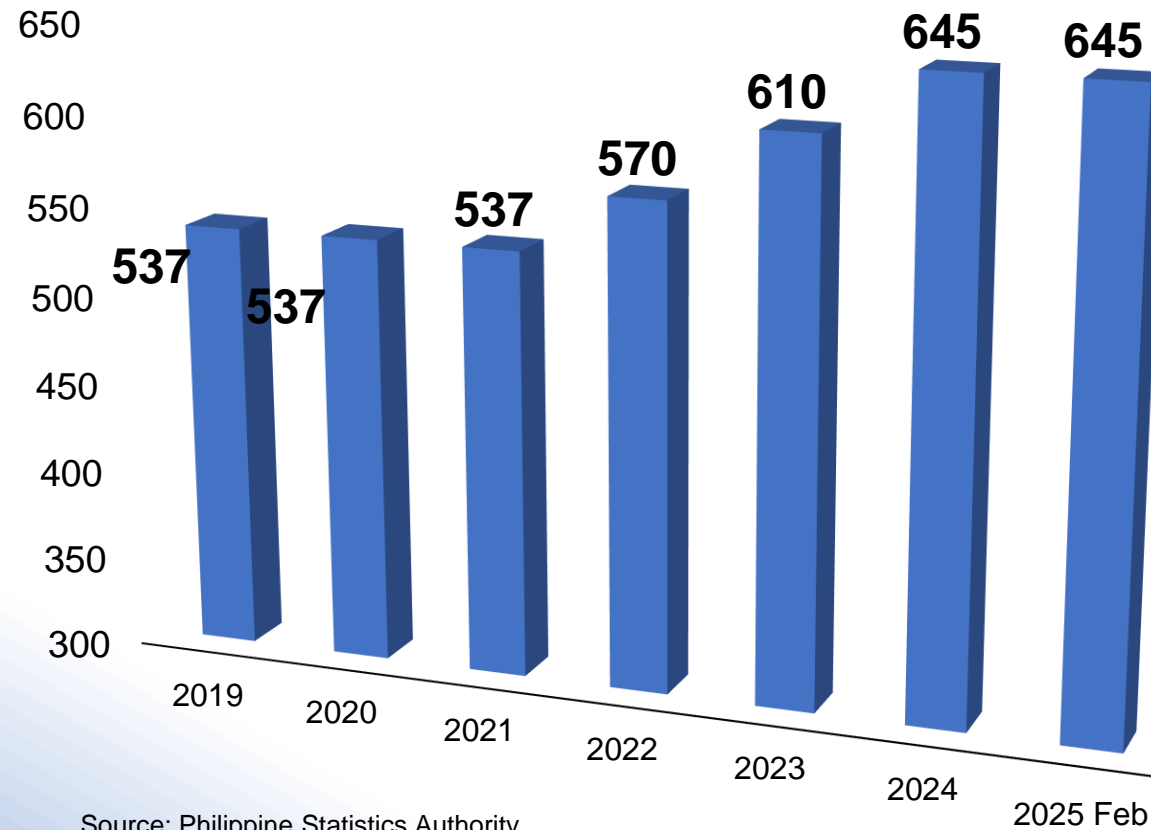
Empty paper, pens and a light bulb symbolize ideas.

- FILIPINO STUDENTS RANKED IN THE SAME SCORE RANGE AS THREE OTHER COUNTRIES ON THE BOTTOM : ALBANIA, UZBEKISTAN AND MOROCCO.
- THE PHILIPPINES' MEAN SCORE OF 14 ALSO WELL BELOW THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) AVERAGE OF 33
- COUNTRIES THAT LANDED IN THE TOP FIVE ARE SINGAPORE (WITH STUDENTS' AVERAGE SCORE BEING 41), KOREA (38), CANADA (38), AUSTRALIA (37) AND NEW ZEALAND (36).

NON-AGRI WAGE RATES HAVE RISEN DUE TO PRICE PRESSURES

WAGE RATES

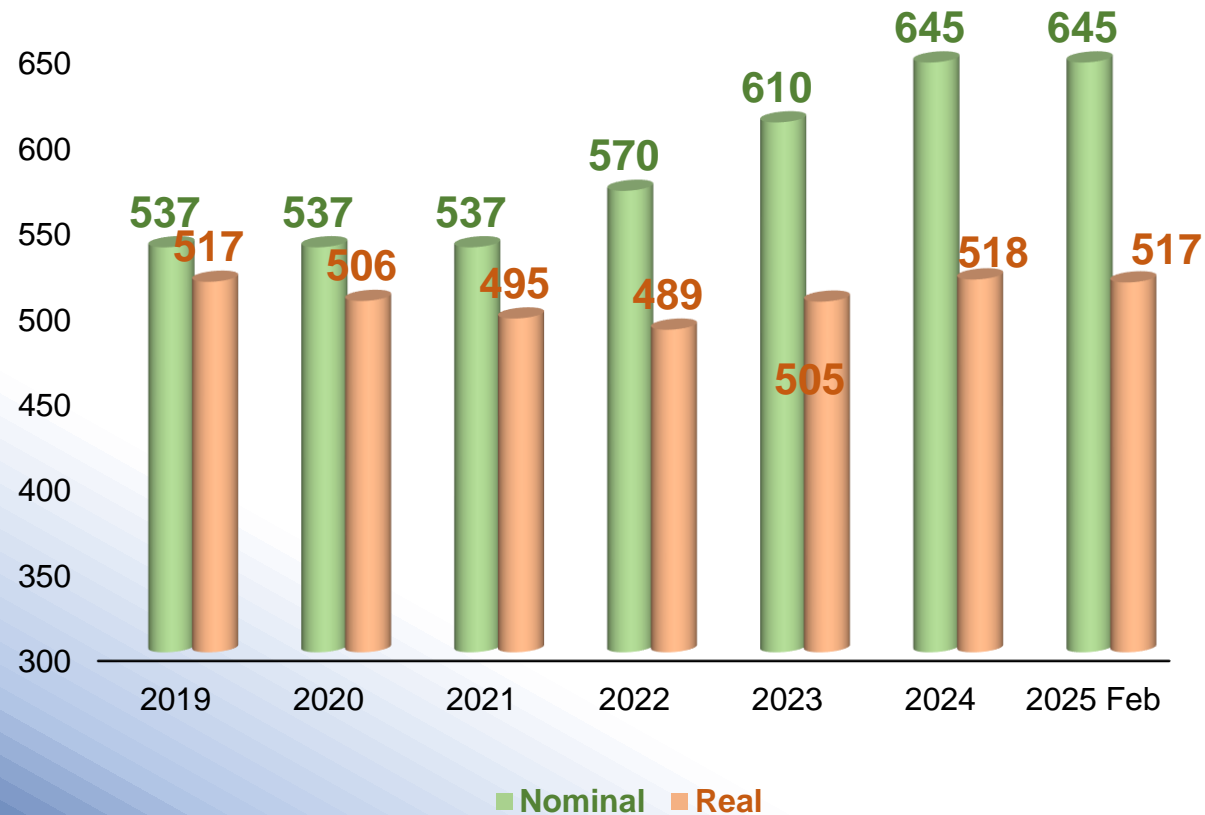
Legislated Daily Wage Rate of Non-Agricultural Workers in Metro Manila



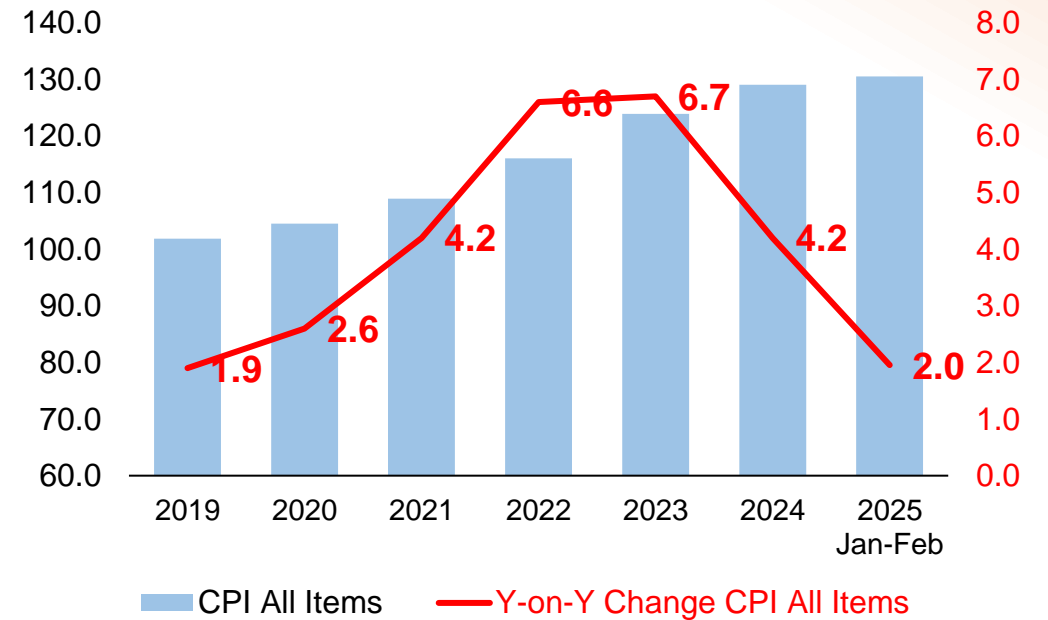
Source: Philippine Statistics Authority

WHICH ACTUALLY ERODES REAL WAGES

Legislated Daily Wage Rate of Non-Agricultural Workers in Metro Manila



CPI for the Bottom 30% Income Households in the Philippines (2018=100)

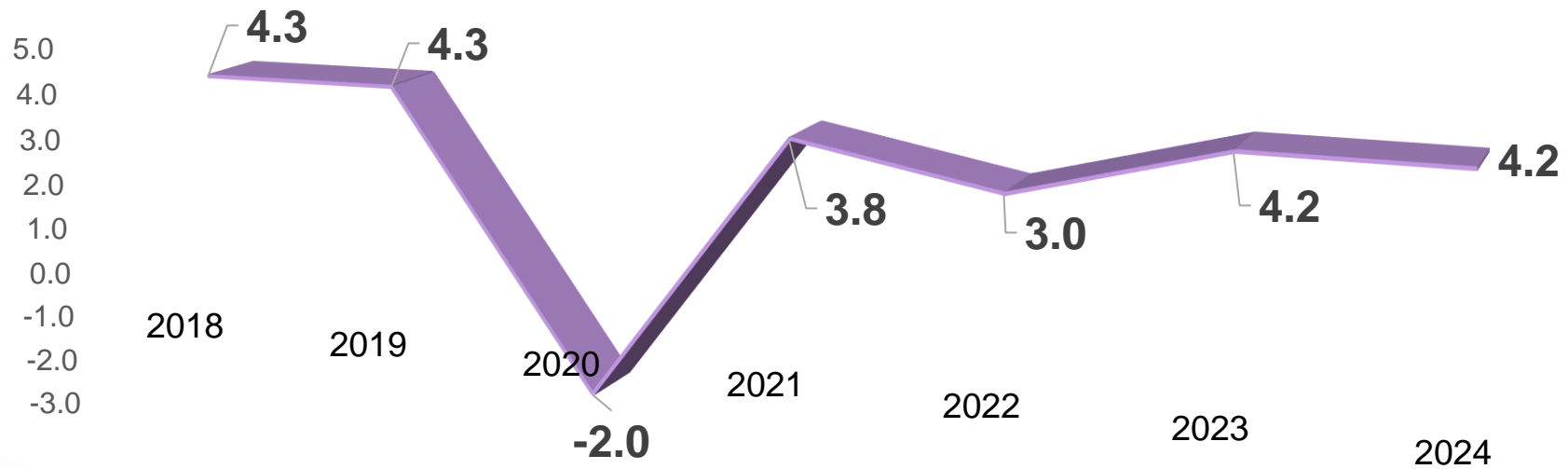


Sources: Philippine Statistics Authority, Department of Labor and Employment - Bureau of Local Employment, Department of Migrant Workers, National Conciliation and Mediation Board, and National Wages and Productivity Commission

**DO WE HAVE WHAT IT TAKES TO
GROW, AND GROW SUSTAINABLY?**

ECONOMIC EFFICIENCY UNSTEADY?

INCREMENTAL CAPITAL OUTPUT RATIO (ICOR) ESTIMATES



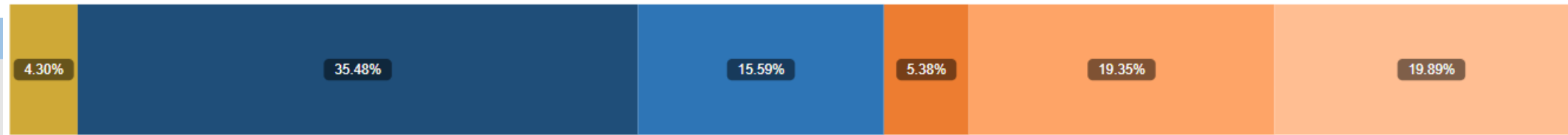
Note: National Income Accounts were in constant 2018 prices
Source of basic data: Philippine Statistics Authority

INFRA PROJECTS MOSTLY WORK IN PROGRESS

GOVERNMENT INFRASTRUCTURE/FLAGSHIP PROJECTS

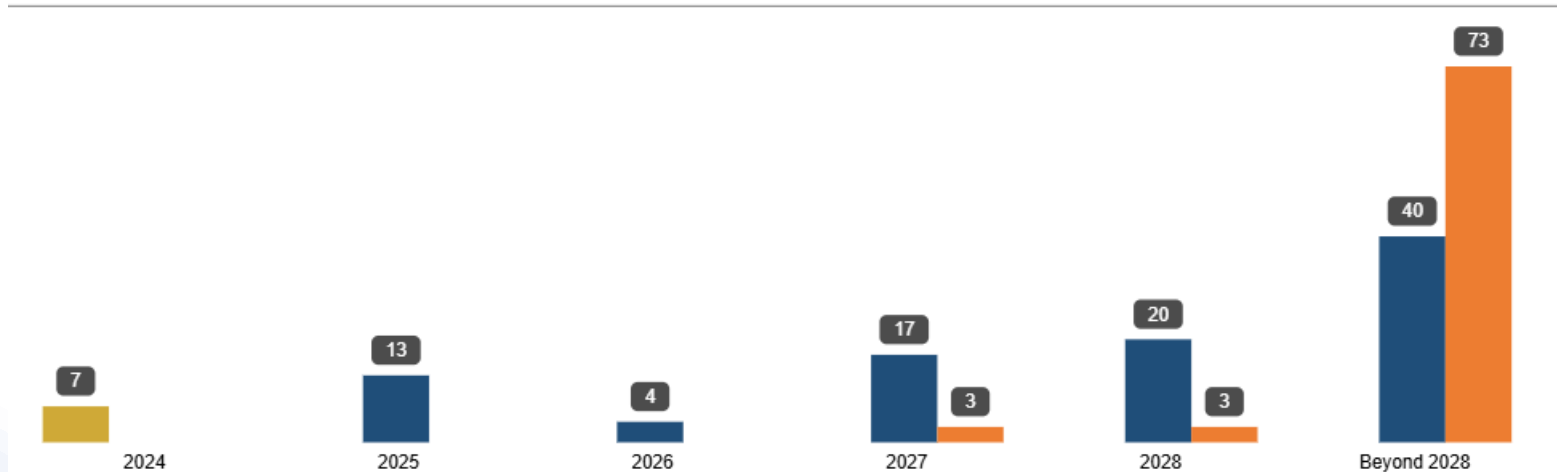
As of 4th Qtr 2024

Distribution of Projects by Status / Milestone



Completed Ongoing Approved for implementation For government approval Under project preparation Pre-project preparation

No. of Projects by Target Year of Completion



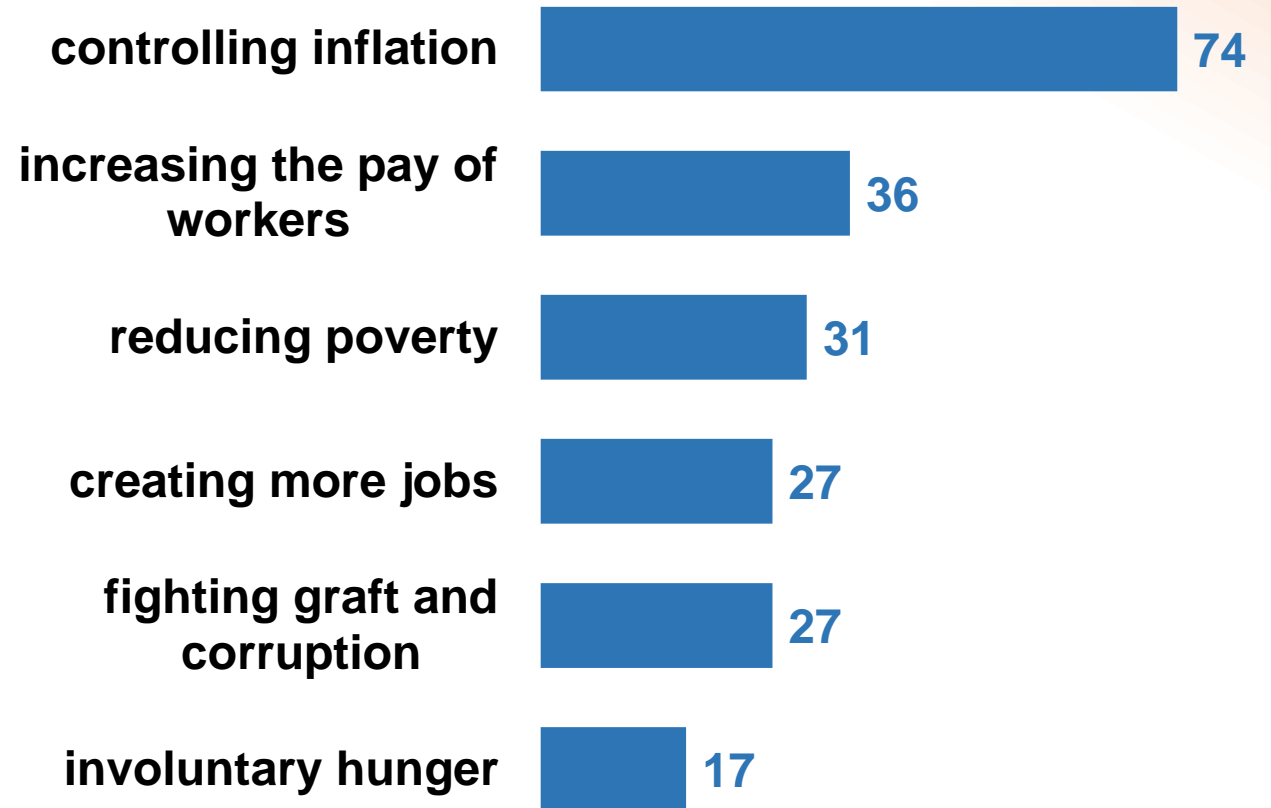
Completed Ongoing, Approved for implementation For government approval, Under project preparation, Pre-project preparation

SECTORS		
	Physical Connectivity	135
	Water Resources	29
	Agriculture	9
	Health	5
	Digital Connectivity	4
	Power and Energy	1
	Education	1
	Other Infra	2

ALL GOES BACK TO GOVERNANCE...

FILIPINOS CONCERNED ABOUT INFLATION, JOBS, PAY AND GOVERNANCE ISSUES

7 out of 10
Filipinos are
concerned about
controlling
inflation
and other gut
issues



GLOBAL CORRUPTION PERCEPTION OF RP STILL HIGH, RANK ALMOST UNCHANGED

CORRUPTION INDEX

Year	Index	Rank over 180 countries
2018	36	99
2019	34	113
2020	34	115
2021	33	117
2022	33	116
2023	34	115
2024	33	114

Source: Transparency International's Corruption Perception Index, BusinessWorld Online

MORE NEEDS TO BE DONE ON GOVERNANCE ESPECIALLY ON POLITICAL STABILITY

GOVERNANCE INDICATORS 2013-2023

Indicator	Country	Year	Number of Sources	Governance (-2.5 to +2.5)	Percentile Rank	Standard Error
Political Stability and Absence of Violence/Terrorism	Philippines	2013	9	-1.08	16.11	0.23
		2018	9	-1.10	12.74	0.21
		2023	8	-0.57	23.70	0.22
Government Effectiveness	Philippines	2013	9	0.21	61.14	0.20
		2018	9	0.06	53.81	0.21
		2023	9	0.15	58.02	0.25
Regulatory Quality	Philippines	2013	10	0.02	53.55	0.19
		2018	10	0.03	56.19	0.19
		2023	10	0.16	57.55	0.20

Source: Worldwide Governance Indicators, World Bank

PHIL GOVT PURSUES VARIOUS POLICY, STRUCTURAL REFORMS

Reforms to attract investments	Corporate Recovery and Tax Incentive Enterprises Act (CREATE), Amendments to the Foreign Investments Act, Amendments to the Retail Trade Liberalization Act, Amendments to the Public Service Act, Revised Renewable Energy Act IRR, Green Lanes for Strategic Investments, Innovation Act, Digitalization initiatives, Laws to support human development such as EBET Framework Act, PENCAS Law
Policies to promote public-private partnerships	Revised IRR of Build-Operate-Transfer Law, Revised Investment Coordination Committee (ICC) Guidelines, Public-Private Partnership Code, Revised NEDA Joint Venture Guidelines
Key reforms under the Medium-Term Fiscal Framework	Comprehensive Tax Reform Program (CTRP), VAT on Digital Service Providers, Rationalization of Mining Fiscal Regime, Excise Taxes on Sweetened Beverages and Junk Food, Ease of Paying Taxes Act Increase capacity of LGU's (local government units) to implement devolved functions, Reforms to increase equitable allocation of resources to LGU's
Priority bills by the Legislative-Executive Development Advisory Council	E-Government Act, National Government Rightsizing Program, Amendments to the Government Procurement Law, Amendments to the Electric Power Industry Reform Act, and Blue Economy Act CREATE MORE, Dept. Water Resources
BSP legislative priorities	Bank Deposits Secrecy Bill, Financial Accounts Regulation Act, Digital Payments Bill. Financial Inclusion, E-Learning Academy

**WHAT KIND OF PROSPECTS
ARE WE LOOKING AT ?**

RP MAINTAINS INVESTMENT-GRADE CREDIT RATING

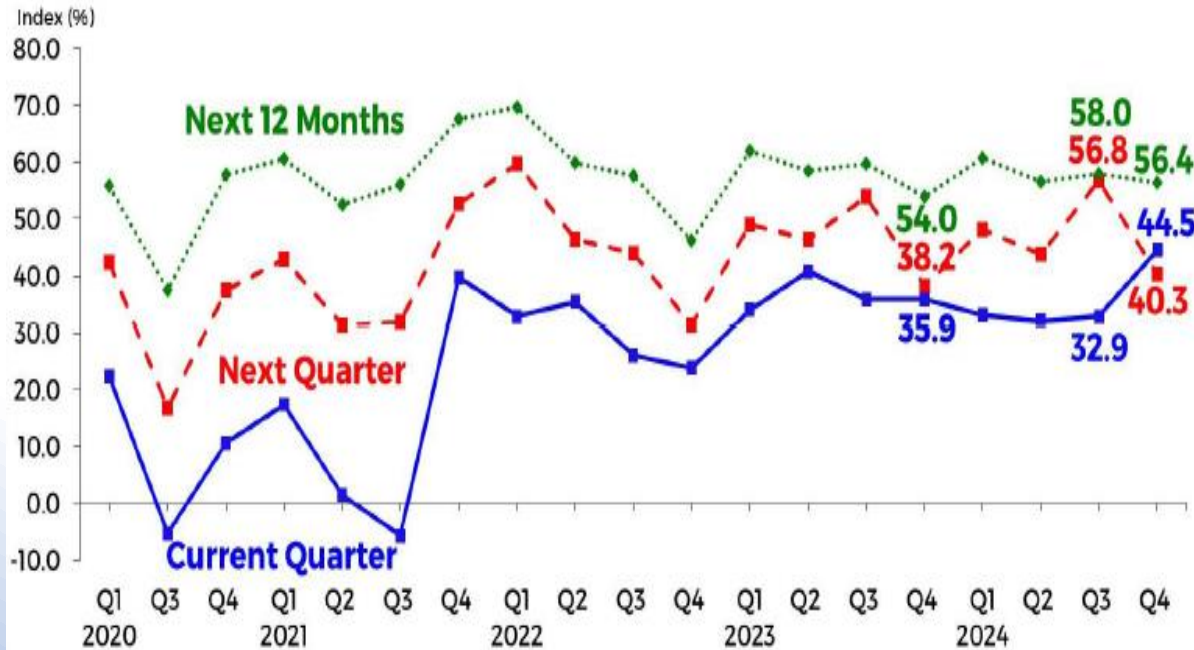
CREDIT RATINGS OF THE PHILIPPINES LONG TERM FOREIGN CURRENCY DEBT

	2018	2019	2020	2021	2022	2023	2024	2025
Standard and Poor's (S&P)	BBB	BBB+				BBB+/A-2	BBB+/A-2	
Moody's Investors Service	Baa2				Baa2	Baa2	Baa2 stable outlook	
Rating and Investment Information, Inc. (R&I)	BBB	BBB	BBB+	BBB+	BBB+	BBB+	A- stable outlook	
Fitch Ratings	BBB	BBB	BBB	BBB-	BBB-	BBB stable outlook	BBB+ stable outlook	BBB stable outlook

Sources: Standard and Poor's (November 2024), Moody's Investor Service (August 2024), Fitch Ratings (January 2025), Rating and Investment Information Inc. (August 2024)

BUSINESS AND CONSUMER SENTIMENTS: OPTIMISTIC, LESS PESSIMISTIC

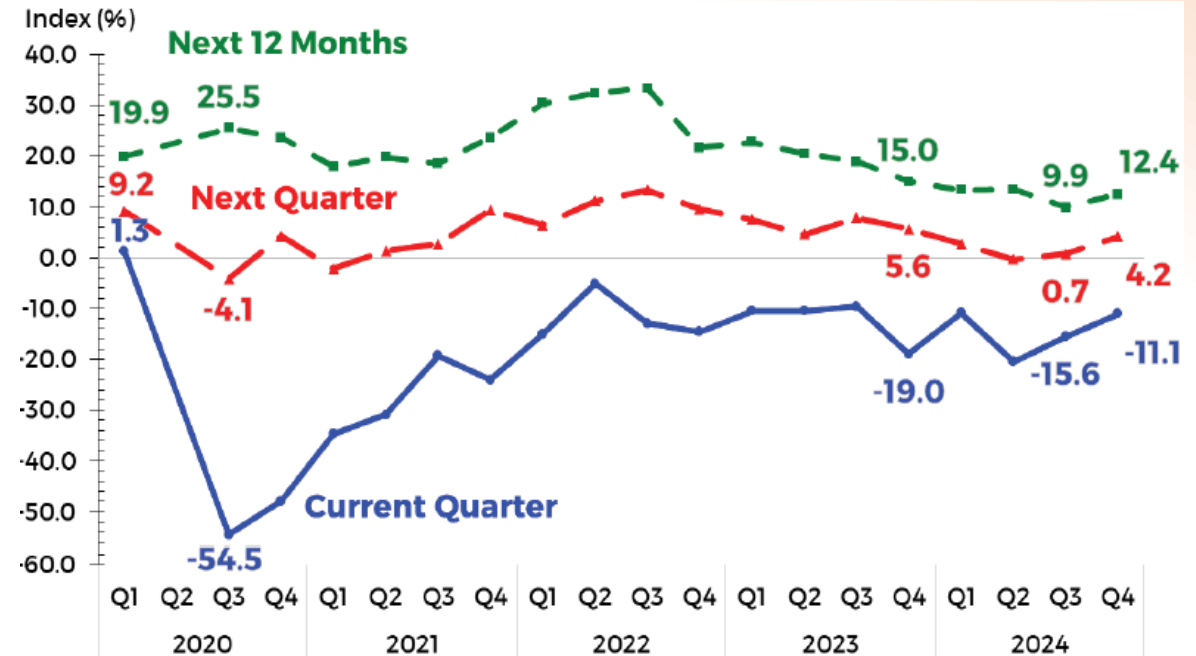
BUSINESS EXPECTATIONS SURVEY Q4 2024



Optimistic outlook in Q4 2024 due to

- Increase in demand for goods and services
- Seasonal uptick in business activities
- Easing of inflation
- Lower interest rates
- Expansion and improvement of business operations

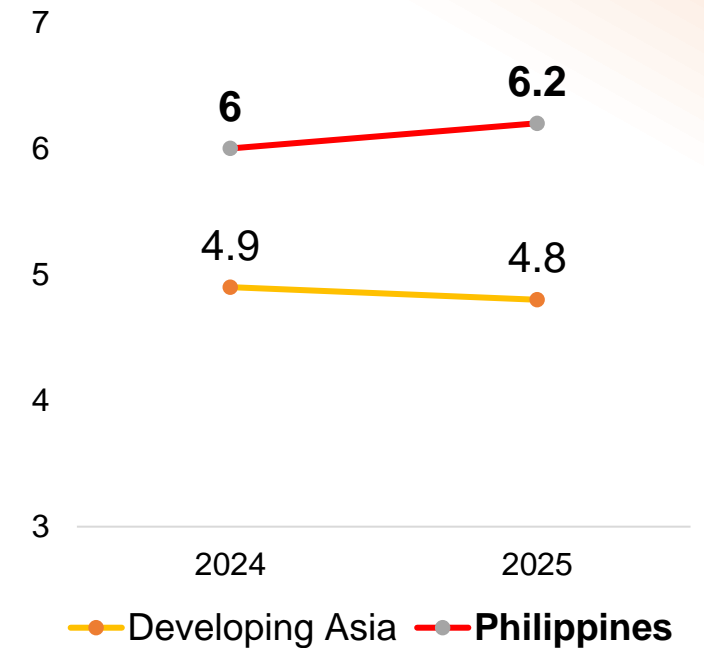
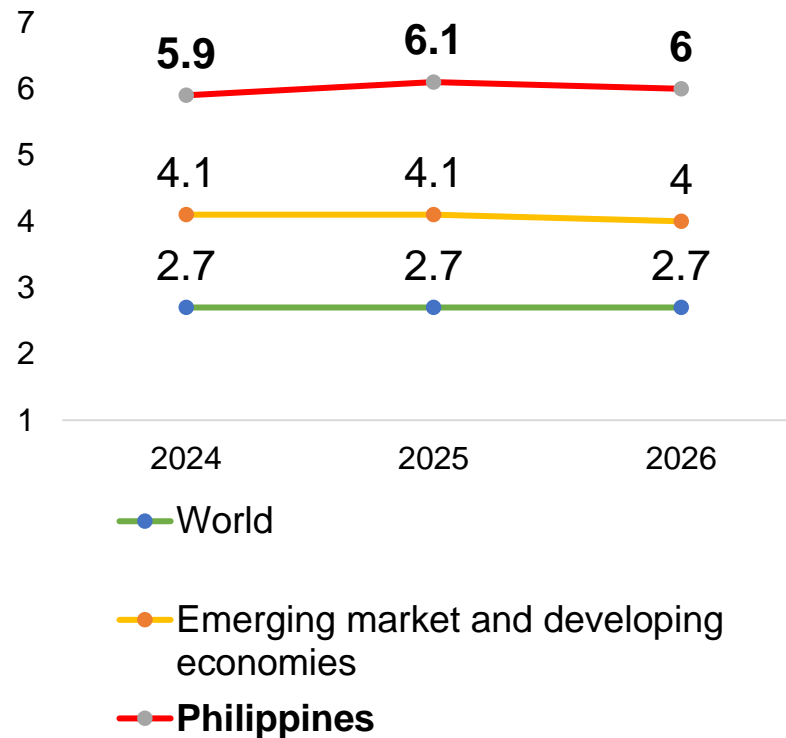
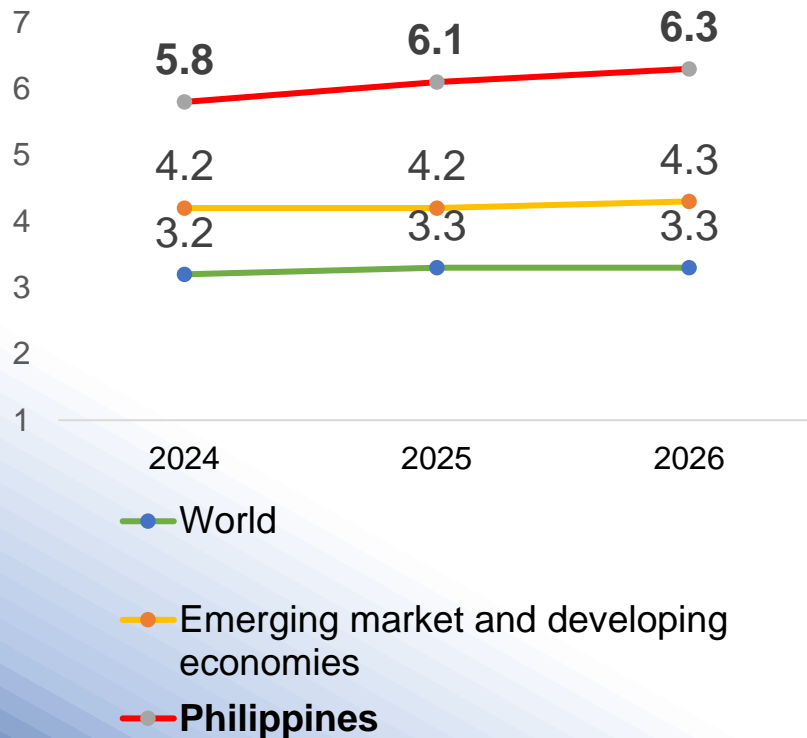
CONSUMER EXPECTATIONS SURVEY Q4 2024



Less pessimism in Q4 2024 due to

- Higher and additional sources of income
- More working family members
- More available jobs and permanent employment

IFIs' FORECASTS SHOW RP GROWTH SURPASSES GLOBAL, EMEs OUTPUT PERFORMANCE



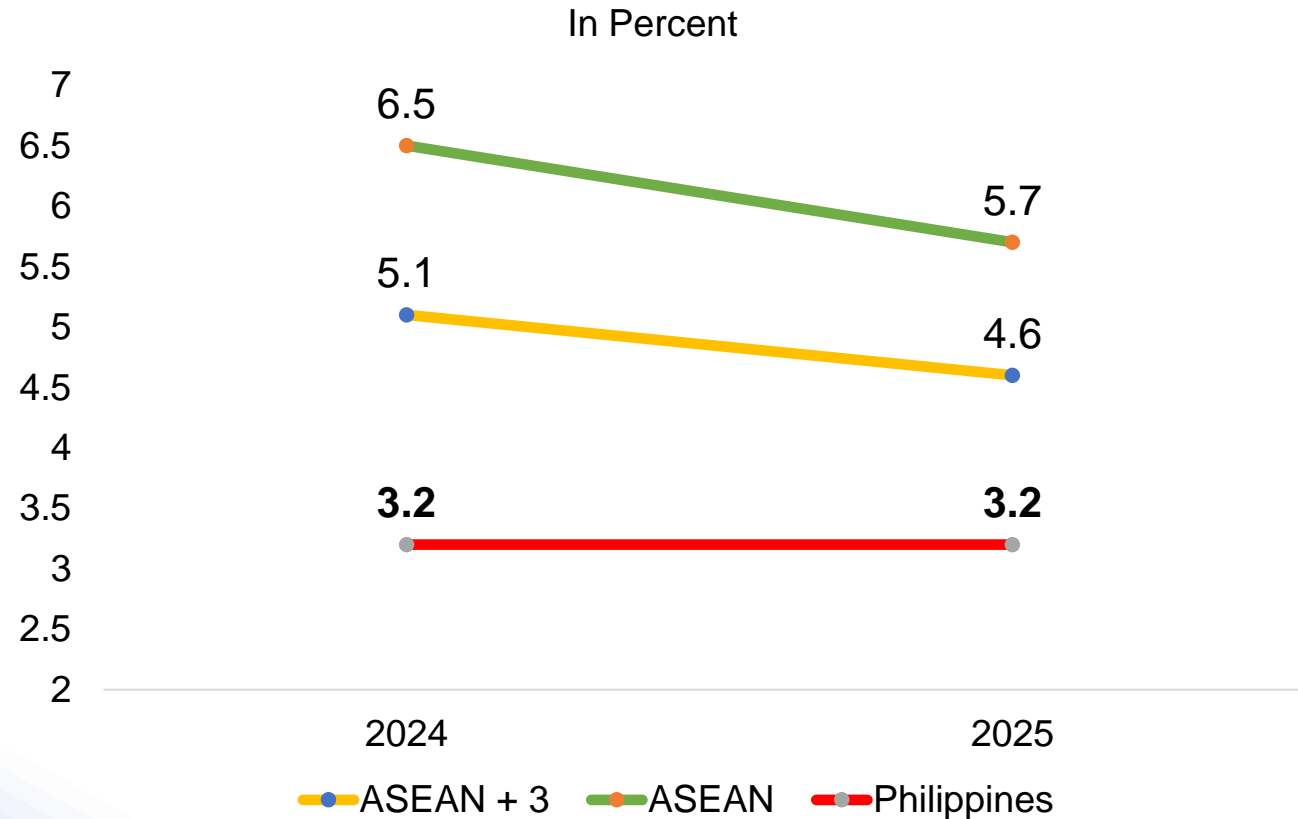
Source: World Economic Outlook, January 2025, International Monetary Fund

Source: Global Economic Prospects, January 2025, The World Bank

Source: Asian Development Outlook, December 2024, Asian Development Bank

RP INFLATION, FORECAST IMPROVING

AMRO FORECASTS FOR INFLATION FOR ASEAN AND ASEAN + 3 COUNTRIES



Note: 3 countries included are China, Japan, and Korea

Source: ASEAN + 3 Macroeconomic Research Office (AMRO), ASEAN + 3 Regional Economic Outlook, January 2025

GROWTH AND INFLATION TARGETS, HOW REALISTIC?

DBCC Forecasts	2025	2026	2027	2028
GDP growth, %	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0
Inflation, %	2 - 4	2 - 4	2 - 4	2 - 4

Source: National Economic and Development Authority, DBCC Joint Statement, December 2024
<https://www.dbm.gov.ph/index.php/management-2/3118-189th-dbcc-joint-statement-on-the-review-of-the-medium-term-macroeconomic-assumptions-and-fiscal-years>

BSP Survey Forecasts of Inflation, %	2025	2026
Target	2-4	2-4
BSP Forecasts (risk adjusted)	3.5	3.7
BSP Survey (private sector)	2 - 4	2 – 4
BSP Survey (external analysts)	3.2	3.3

Source: Bangko Sentral ng Pilipinas, Monetary Policy Report December 2024

“Risk comes from not knowing
what you're doing.”

Warren Buffett

RISKS AND CHALLENGES: THE GAMECHANGERS

AT LEAST FIVE...

*Geo-econ
fragmentation*

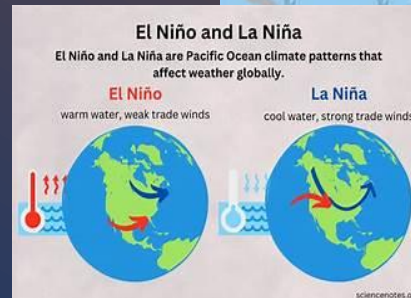


Resurgence in oil prices

*Trump policies
& US Fed move*

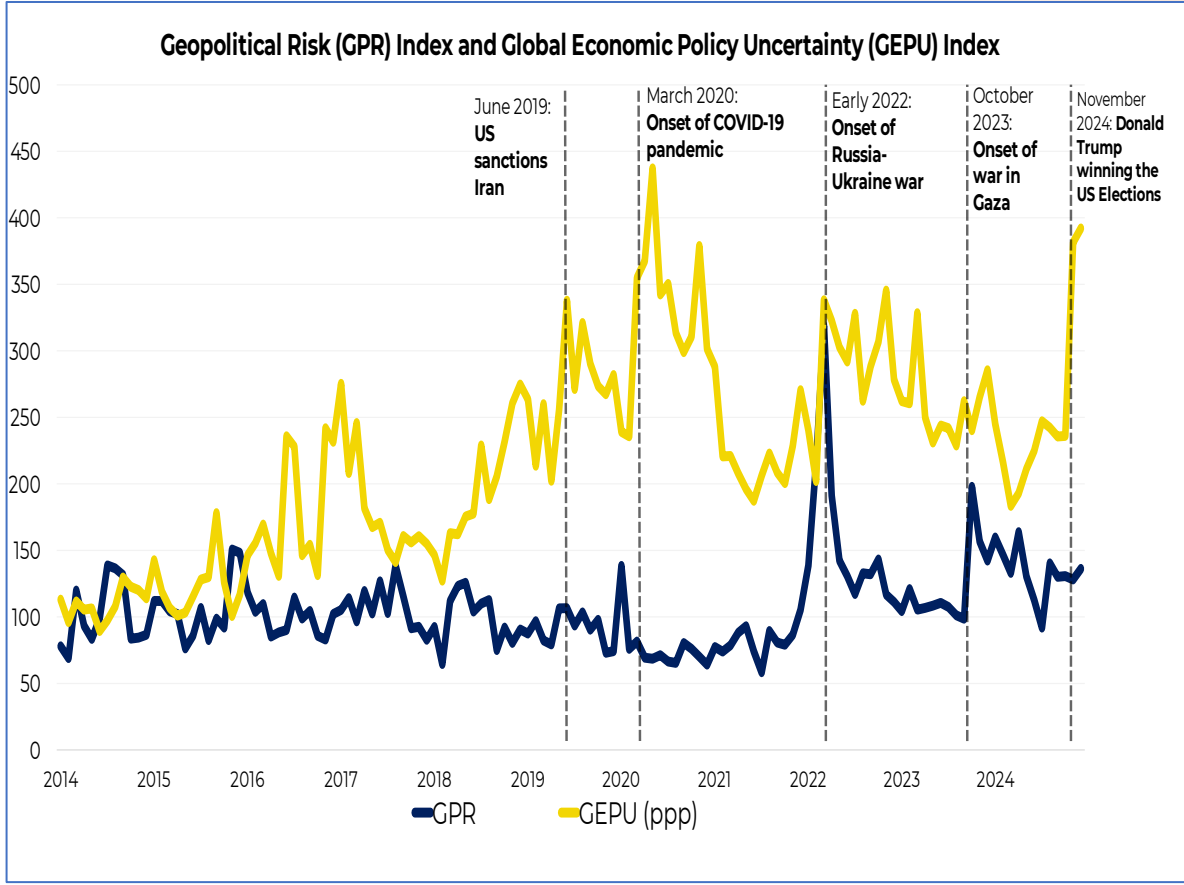
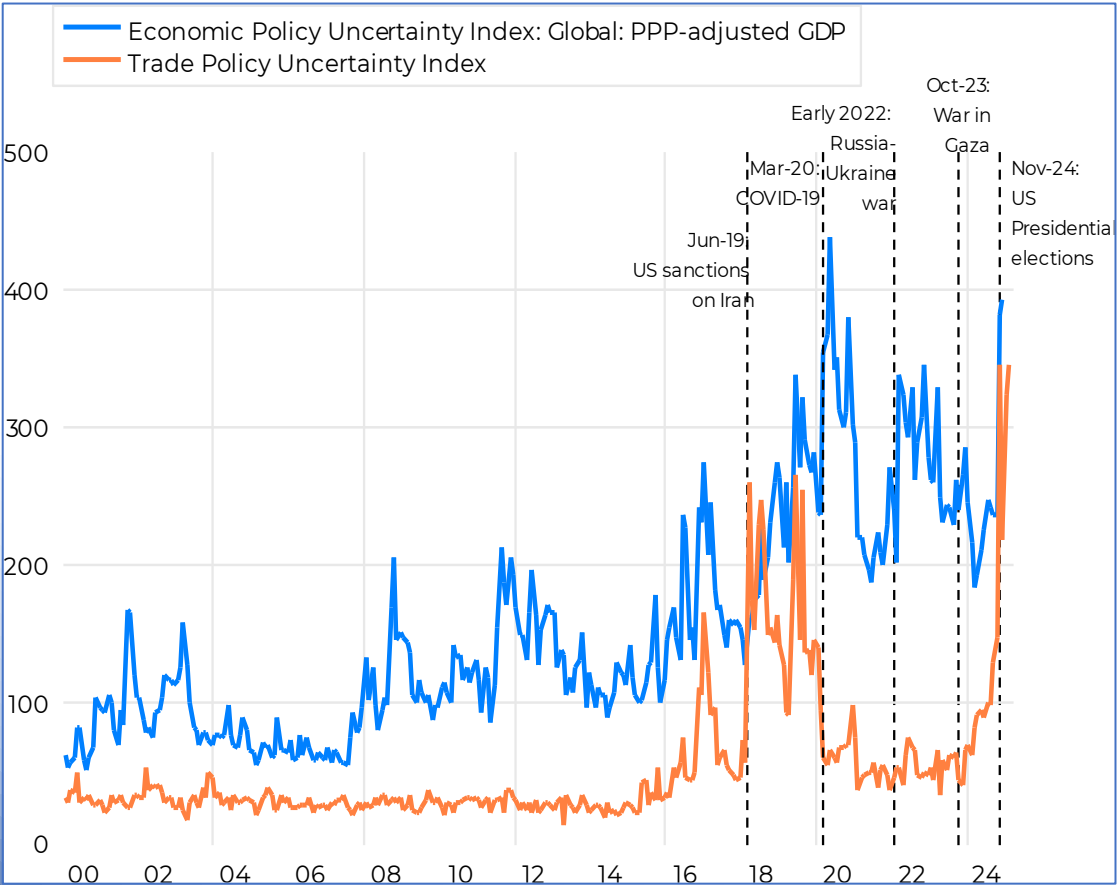


West Phil Sea Row



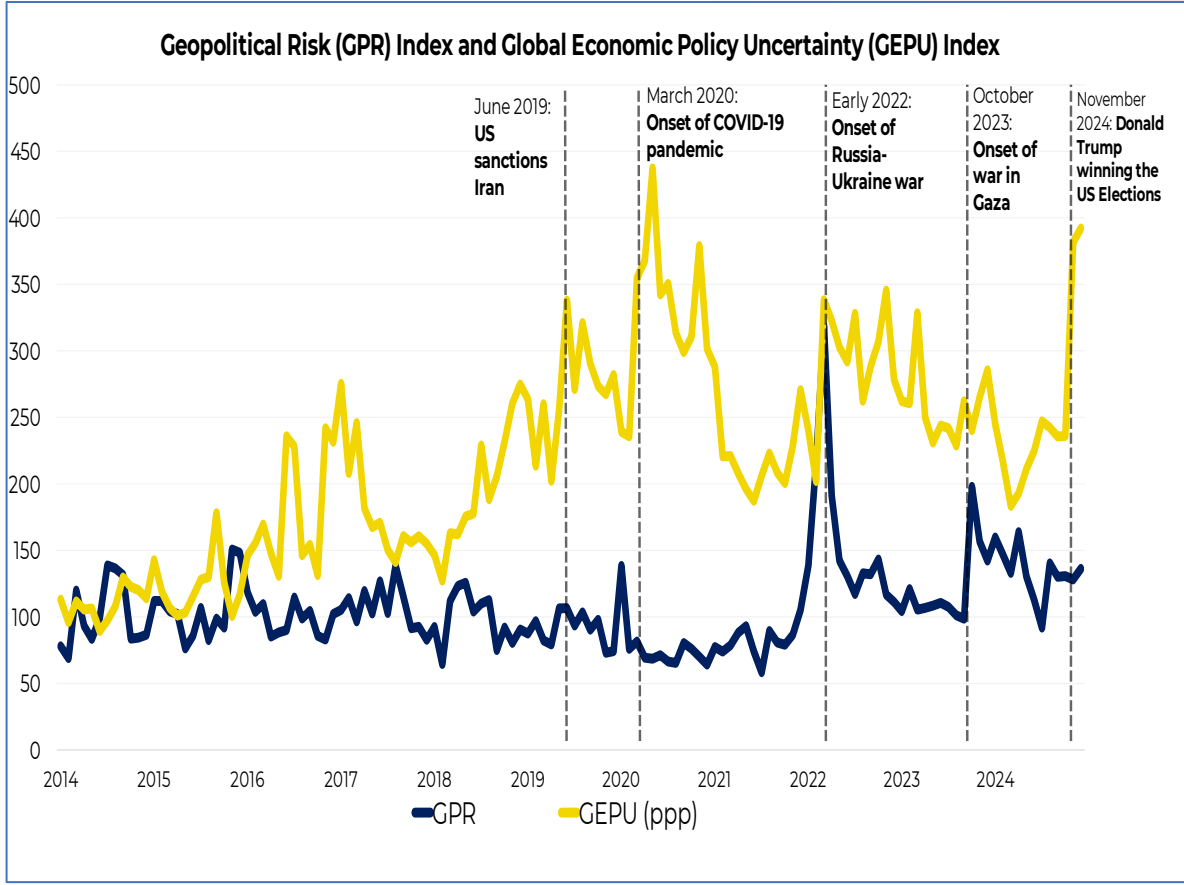
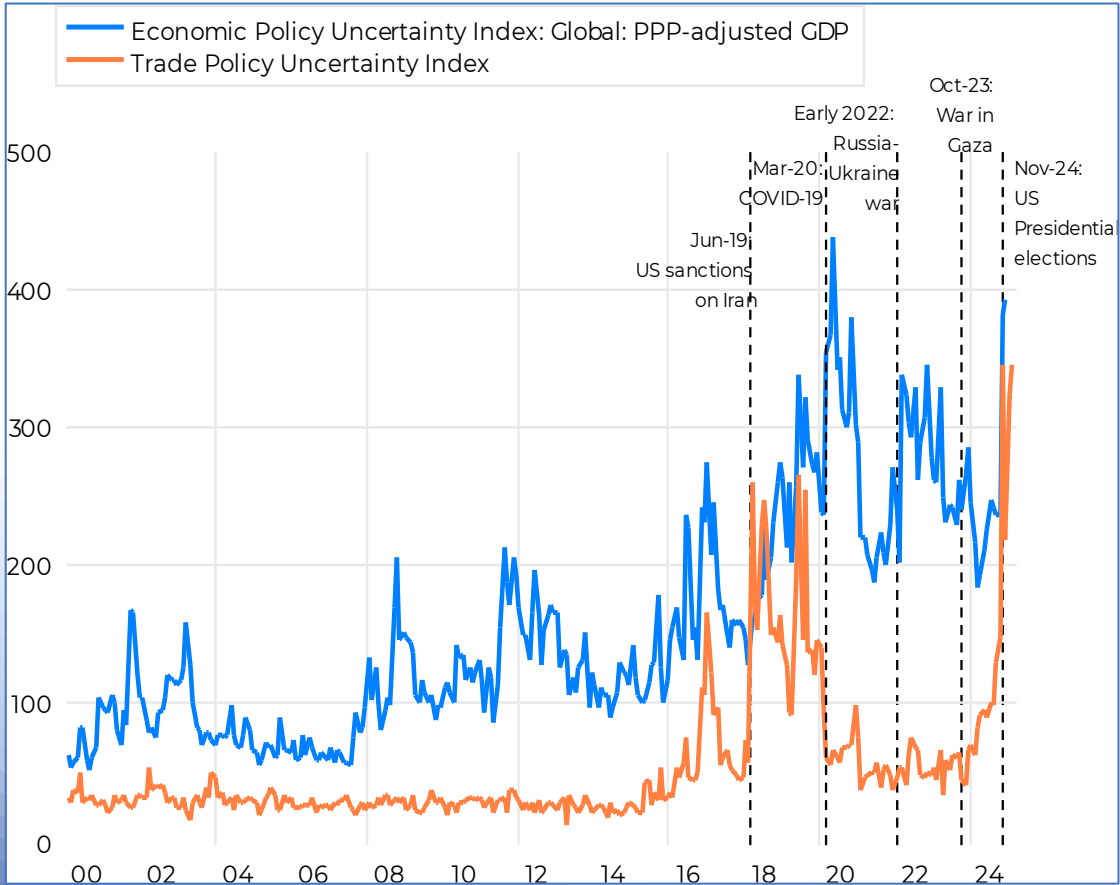
Climate risks

CHALLENGING EXTERNAL ENVIRONMENT TRIGGERS POLICY UNCERTAINTY, INCREASES GLOBAL RISKS...



Source: BSP, based on *Global Economic Policy Uncertainty (GEPU) Index*, Davis (2016); *Trade Policy Uncertainty index*, Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020)

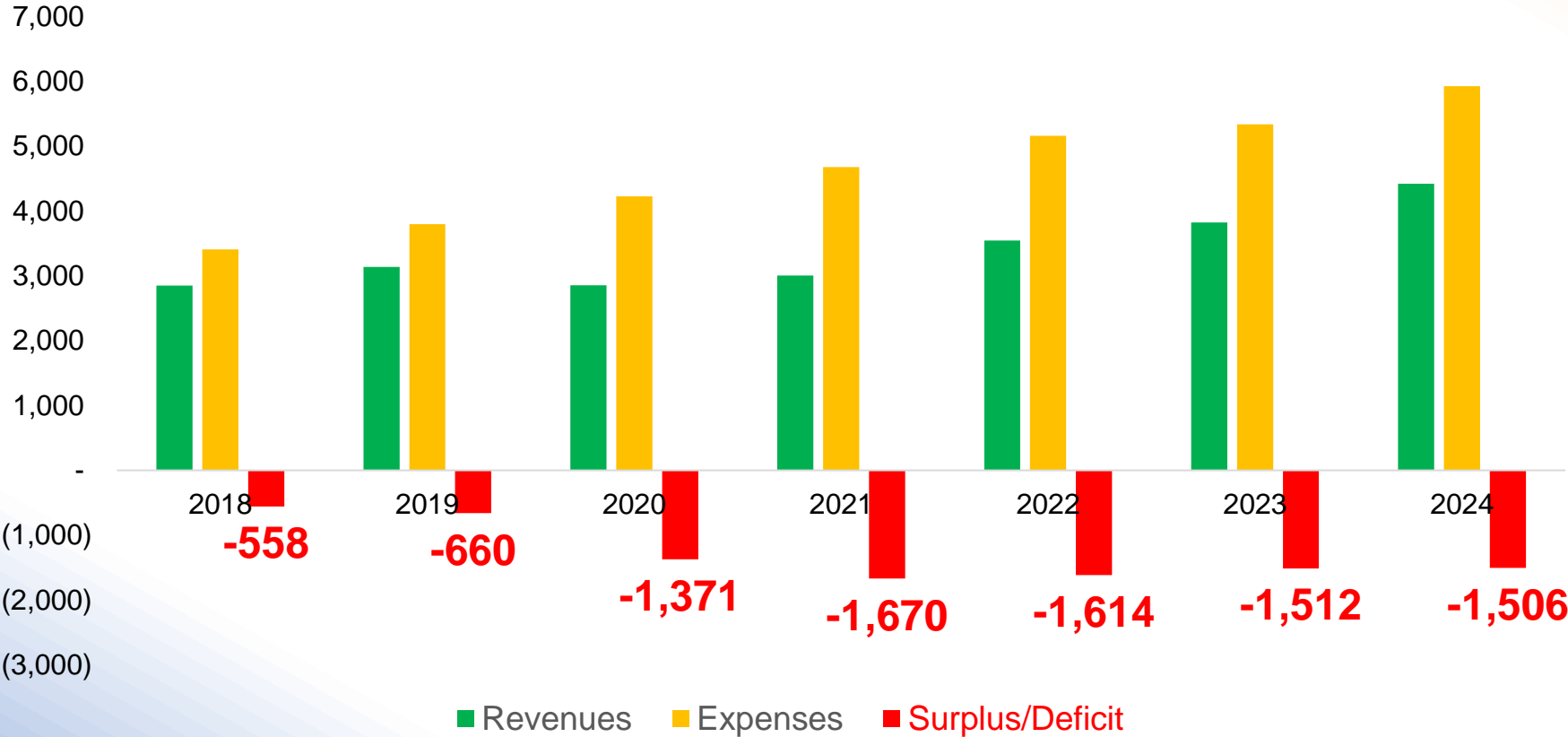
CHALLENGING EXTERNAL ENVIRONMENT TRIGGERS POLICY UNCERTAINTY, INCREASES GLOBAL RISKS...



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RISK ONE: FISCAL AND DEBT SUSTAINABILITY

NG CASH OPERATIONS CONTINUE TO YIELD DEFICIT



Source: Bureau of the Treasury

THE PROBLEM IS THAT REVENUE EFFORT REMAINS LOW

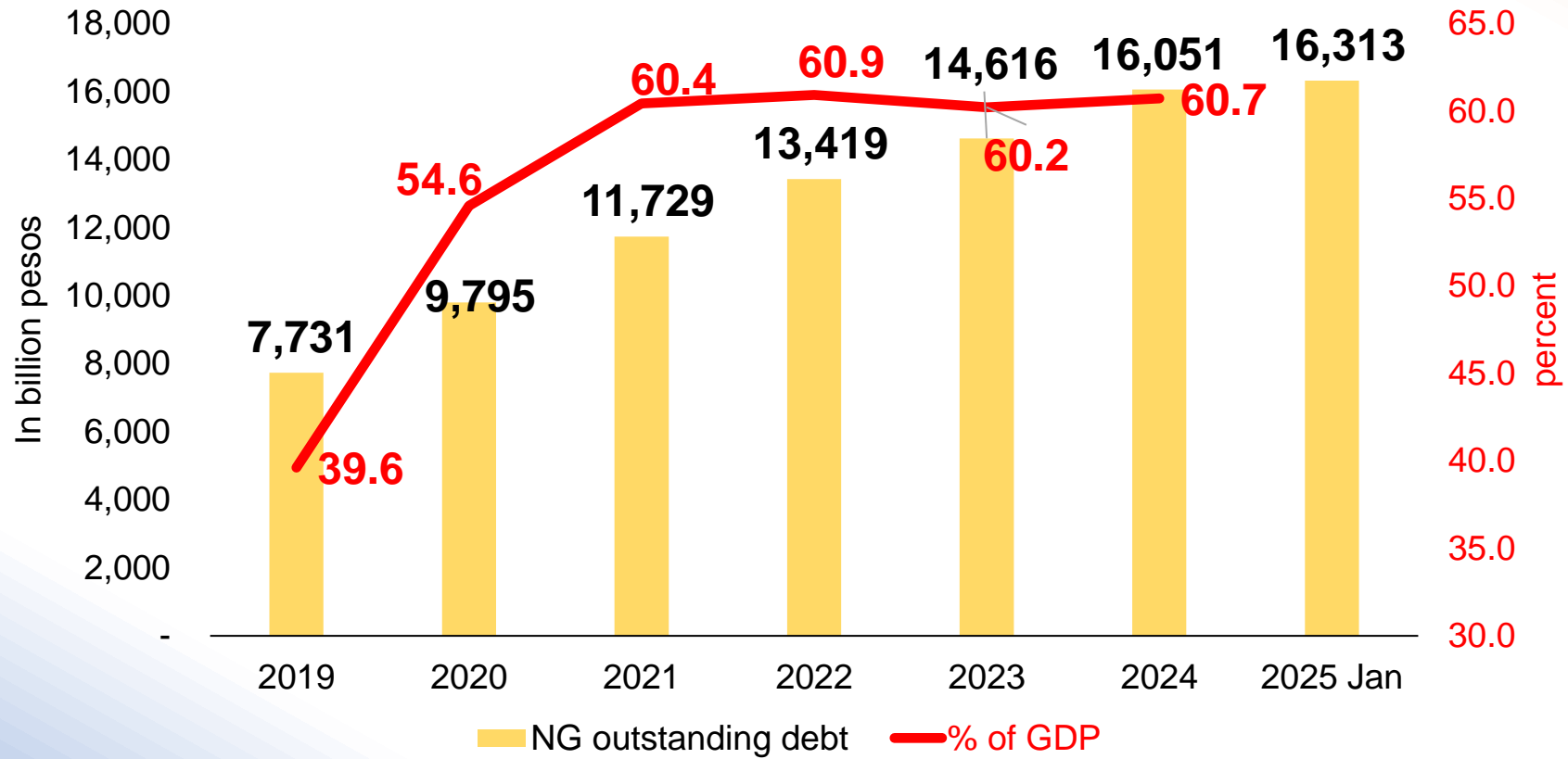
NATIONAL GOVERNMENT CASH OPERATIONS In Billion Pesos

	2018	2019	2020	2021	2022	2023	2024
Revenues, of which:	2,850	3,137	2,856	3,006	3,546	3,824	4,419
(% to GDP)	15.6	16.1	15.9	15.5	16.1	15.7	16.7
Tax	2,566	2,828	2,507	2,746	3,220	3,429	3800
(% to GDP)	14.0	14.5	14.0	14.1	14.6	14.1	14.4
Non-Tax including Grants	284	310	349	260	325	395	618
Expenditures	3,408	3,798	4,227	4,676	5,160	5,336	5,925
(% to GDP)	18.7	19.5	23.5	24.1	23.4	21.9	22.4
Surplus (+)/Deficit (-)	-558	-660	-1,371	-1,670	-1,614	-1,512	-1,546
(% to GDP)	-3.1	-3.4	-7.6	-8.6	-7.3	-6.2	-5.7

Source: Bureau of the Treasury, Philippine Statistics Authority

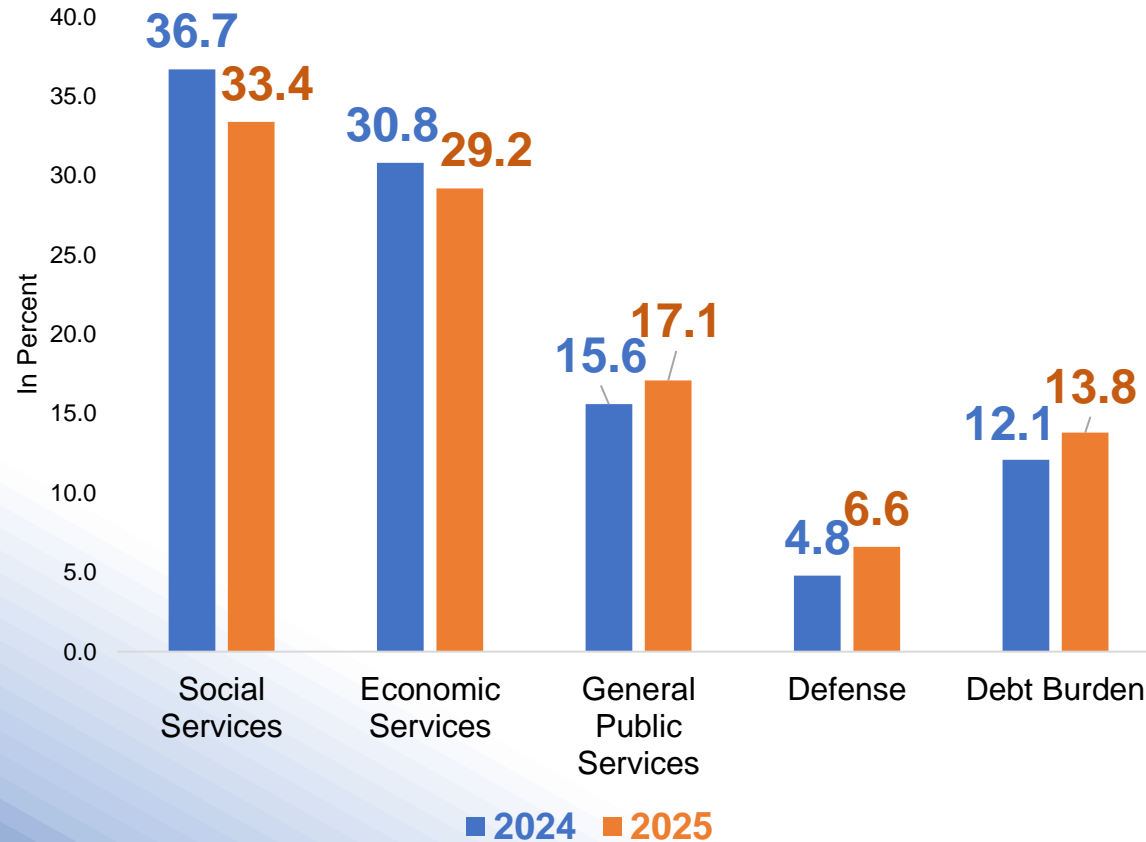
THUS, PANDEMIC, CORRUPTION-INDUCED HIGHER DEFICIT LEADS TO HIGHER PUBLIC DEBT

NATIONAL GOVERNMENT OUTSTANDING DEBT LEVELS AND AS PERCENT OF GDP



Source: Bureau of the Treasury

APPROVED 2025 NATIONAL BUDGET FAILS TO SUPPORT SOCIAL GOALS



Source: Department of Budget and Management

- PUBLIC WORKS WAS ALLOTTED P1.1 TRILLION WHILE THE DEPARTMENT OF EDUCATION GOT P737 BILLION. THIS VIOLATES THE CONSTITUTIONAL MANDATE OF GIVING THE HIGHEST PRIORITY TO EDUCATION.
- THERE WAS ZERO ALLOCATION TO PHILHEALTH. THIS IS ALSO IN VIOLATION OF THE CONSTITUTIONAL MANDATE TO PRIORITIZE THE NEEDS OF THE UNDERPRIVILEGED, THE SIN TAX LAW AND THE UNIVERSAL HEALTH CARE ACT
- HIGHER ALLOCATIONS TO BOTH THE SENATE AND HOUSE OF REPRESENTATIVES (RETENTION OF PORK BARREL FUNDS).

RISK TWO: DISUNITY IN THE UNITEAM

- VP SARA DUTERTE THREATENED ASSASSINATION OF THE PRESIDENT, THE FIRST LADY AND THE SPEAKER OF THE HOUSE WHILE BEING CHARGED OF CORRUPTION.
- HOUSE TO INITIATE IMPEACHMENT OF THE VP WITH FOUR IMPEACHMENT COMPLAINTS
- THE PRESIDENT CAUTIONED AGAINST SUCH AN IMPEACHMENT MOVE AGAINST THE VP.
- DISBARMENT CASE FILED AGAINST THE FORMER PRESIDENT DUTERTE FOR VIOLATING THE CODE OF PROFESSIONAL RESPONSIBILITY AND ACCOUNTABILITY (CPRA) AND FOR CONDUCT UNBECOMING A LAWYER.
- INDIGNANT RALLIES AGAINST THE 2025 BUDGET, IN FAVOR OF VP IMPEACHMENT, AND CALL FOR MARCOS AND DUTERTE ACCOUNTABILITY FOR CORRUPTION IN THE USE OF PUBLIC MONEY

RISK THREE: FOOD SECURITY EMERGENCY

- THE PHILIPPINES REPORTED TO HAVE THE THIRD WORST INCIDENCE OF SEVERE AND MODERATE FOOD INSECURITY IN SOUTHEAST ASIA BASED ON THE REPORT OF THE UNITED NATIONS FAO.
- THE PHILIPPINES SHOWS THE THIRD HIGHEST INCIDENCE OF SEVERE AND MODERATE FOOD SECURITY (44.1% OF THE POPULATION) AFTER TIMOR-LESTE (53.7%) AND CAMBODIA (50.5%) IN THE PERIOD 2021-2023..
- GOVERNMENT JUST ANNOUNCED FOOD SECURITY EMERGENCY IN THE MIDST OF CHANGING CLIMATE, POPULATION GROWTH, LOWER PRODUCTION, RISING FOOD PRICES AND NATURAL DISASTERS.

Source: www.ibon.org/ph-food-insecurity-worsening/
www.fao.org/interactive/state-of-food-security-nutrition/en/

PHILIPPINES: CAN WE ESCAPE THE LOWER MIDDLE INCOME TRAP?

**In the context
of the Phil. Dev't. Plan
2023-2028**





IT'S ALL ABOUT GOVERNANCE!

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