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News and Information Bureau

POST-SONA PHILIPPINE ECONOMIC BRIEFING
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BSP MANAGING DIRECTOR LAMBINO: Welcome to the 2023 Post-SONA Philippine Economic Briefing. We are your hosts … beside me is the Undersecretary of the Department of Budget and Management Margaux Salcedo.

DBM USEC. SALCEDO: And co-hosting again today is none other than the Managing Director of the Bangko Sentral ng Pilipinas Tony Lambino.

BSP MANAGING DIRECTOR LAMBINO: Good morning, Margaux.

DBM USEC. SALCEDO: Good morning, Tony.

BSP MANAGING DIRECTOR LAMBINO: Good morning, everyone.

DBM USEC. SALCEDO: And we are so excited, it seems just like yesterday, Tony, that we were here for the first ever Post-SONA Philippine Economic Briefing. And today, we all welcome you to the second Post-SONA Economic Briefing.

BSP MANAGING DIRECTOR LAMBINO: This is the second Post-SONA Economic Briefing of President Ferdinand R. Marcos Jr.'s administration, with the theme: "*Agenda for Prosperity:, Economic Transformation Towards Inclusivity and Sustainability.*

Today's event will serve as a platform to elaborate on the President's economic pronouncements during yesterday's SONA. The economic team will be providing us updates on the government's commitments and accomplishments vis-à-vis the country's economic blueprint, the Philippine Development Plan 2023 to 2028. We will also be joined by representatives from the private sector and multilateral organizations who will share their views on the SONA and the country's socioeconomic agenda.

DBM USEC. SALCEDO: Before anything else, we would like to acknowledge the presence of course of the members of the Cabinet, the diplomatic corps with Monsignor [foreign name] representing Archbishop Charles Brown; and we would like to also welcome the esteemed members of the financial institutions and the financial community.

So without further ado, let's kickoff today's program with the message from Bangko Sentral ng Pilipinas, Governor Eli M. Remolona, Jr.

[VTR]

BSP MANAGING DIRECTOR LAMBINO: Thank you Governor Remolona. Please know that we are broadcasting live on PTV-4 and live streaming on the Facebook pages of RTVM, the Presidential Communications Office, DOF, BSP, NEDA, DBM with sign language interpretation; and we are also live streaming with simultaneous interpretation in Cebuano through the BSP Cebuano Facebook page, in Ilocano through the BSP Ilocano Facebook page and in Filipino through the BSP's Filipino Facebook page.

To open today's discussions may we call onstage, Finance Secretary Benjamin E. Diokno and Nomura's Managing Director and Chief Economist for Southeast Asia Mr. Euben Paracuelles for a fireside discussion?

MR. EUBEN PARACUELLES: Thank you and good morning everyone. Before we start the chats, I would like to invite Secretary Ben Diokno to provide his opening statements.

DOF SEC. DIOKNO: Thank you, Euben.

Ladies and gentlemen, good morning! Today, I will discuss the country's fiscal performance and outlook and the policy tools we need to pursue to sustain the Philippine economy's growth momentum. The Philippines is one of the fastest growing emerging economies in the region with much promise of growth in the years ahead – and this is amid a fragile global economy.

In 2022 the economy grew by 7.6%, the highest in the last of 46 years. This is followed by a robust Q1 2023 growth of 6.4%. This year, we expect the economy to grow between six to seven percent then pick up the pace to 6.5 to 8 percent from 2024 to 2028.

The pillars that hold up the strength and resilience of the Philippine economy are built on a solid fiscal framework guided by the medium term fiscal framework. To recall, the framework's goals are to attain a national government deficit to GDP ratio of 3% by 2028 – that's where we were before the pandemic. Debt to GDP ratio below 6% by 2025 and around 51% by 2028 and sustained infrastructure spending at 5 to 6 percent of GDP annually.

Our consistently strong fiscal performance as well as improving revenue generation and spending efficiency, brings us closer to these goals. From January to June this year, revenue collections of the national government reached 1.9 trillion pesos – up by 133 billion pesos or 7.7% year-on-year. Tax collections grew by 7.5% while non-tax collections grew by 9.1%.

Our stellar performance was the result of higher economic activity and efficiency gains from the digital transformation of our revenue agencies. The digitalization of the Bureau of Internal Revenue and the Bureau of Customs have continued to maximize the government's revenue potential, simplify taxpayer compliance and improve the ease of doing business.

Now, sustaining revenue collection requires a simpler, fairer and more efficient tax system reinforced by a combination of tax policy and tax administration measures. Reforms in the pipeline include Package 4 or the Passive Income and Financial Intermediary Taxation – a VAT on non-resident, digital service providers and excise taxes on single-use plastics and pre-mixed alcoholic beverages which are expected to be implemented starting 2024. Higher economic activity and increased investments will bring us to even greater heights. The policy environment for foreign direct investments is the most open and liberal it has ever been.

Aside from the economic liberalization measures which have effectively opened many sectors such as retail trade, renewable energy, tall roads, airports, telecommunications and shipping to 100% foreign ownership, the Philippine government is sharpening its public-private partnerships or PPP policy tools.

This will allow us to engage the private sector more effectively in the funding and implementation of high-impact infrastructure flagship projects which was significantly enhanced [by] the quality and pace of infrastructure development in critical sectors. Furthermore, the recently enacted Maharlika Investment Fund will serve as a vehicle for growth.

As an additional source of funding, the MIF is expected to widen the fiscal space, reduce reliance on official development assistance in funding big-ticket items, and some target investment areas include green and blue projects, rural development, digitalization, sustainable development and healthcare. So I look forward to discussing these in further details today.

Thank you.

MR. EUBEN PARACUELLES: Okay, thank you very much, Secretary Diokno. And again, thanks for this opportunity to be able discuss with you a little bit more detail particularly the fiscal outlook which, I think, is an important topic not just for those who are here domestically, but also offshore investors which I speak to a lot being based in Singapore.

So I'll start with the revenue side, so just under the MTFF. And congratulations, revenue collections have been holding up this year – 14.4% of GDP, that's pretty strong. And under the MTFF revenues are projected to reach 17.6% of GDP by 2028 from 15.3% this year. I think that's ambitious. How do you get there? Is there scope for more revenues to be raised on a more permanent basis? Is tax administration improvement going to be enough to get to that goal for revenues?

DOF SEC. DIOKNO: Thank you, Euben, for that question. You know, every president has a fixed term – it has a beginning and an end. And in the Philippines, the president has a six-year term without re-election. So you got to do what you can do within those six years. That's why as early as the first month of the Marcos Jr.'s administration, we designed what is called the Medium-Term Fiscal Framework. And so that's our north star, we want to be, as you mentioned, where we want to be by 2028.

Luckily, we inherited a tax system that is superior to what they inherited, the previous administration inherited from the previous one. So that said, the tax system that we inherited is a good one but it's not a perfect one – nothing is perfect, right? So I think for the first three years or two years, we can afford to just rely on administrative measures. But down the road, we will continue to reform the tax system; make it even better. That's why I mentioned some measures that we intend to do – the tax on single-use plastic, higher tax on sugary beverages, tax on [unclear] – and these measures were also mentioned by the President, by the way, in his State-of-the-Nation Address.

So on top of increasing administrative reforms plus digitalization, the President mentioned that we have some measures that we have actually lined up. In fact, I have roughly estimated what we can collect additionally from the two tax measures – between 2024 and 2028, it will amount to about one trillion pesos.

MR. EUBEN PARACUELLES: Okay, so interesting. So I think that needs to be emphasized, the sequencing – tax administration measures at the beginning and then complemented with the measures when they get passed through Congress.

Okay, so that's the revenue side. On spending, I want to ask, how crucial are the reforms on pension payments of military and uniformed personnel? And when are you targeting that to be implemented?

DOF SEC. DIOKNO: That reform on military pension is going to be a game-changer, okay. And this I said, this has been an elephant in the room. The previous administrations don't want to talk about it, recognizing it's difficult to push. But this President, having been elected with majority of 60%—by the way, this is the first time that a Philippine president has won more than 50%, okay. Because usually, we have several candidates and you can elect a president with only 25% voters, okay, voting for the president. This President was elected by 60% of Filipino voters. As they said, yeah, we have to address this issue once and for all otherwise it will have a catastrophic impact in the future.

So this military pension reform will be, as I said, game-changer; it will open up a lot of fiscal space in the budget. If my numbers are right, 2024, we have allocated something like 300 billion pesos – three hundred billion, that's approximately US$6 billion for the military pension.

Now, how soon will it be implemented? I think we are pushing for this; the military pension reform is part of the top priority legislative agenda of the President, concurred in by Congress and we expect this to be passed before the end of the year, and so it will have an impact as soon as January of next year.

MR. EUBEN PARACUELLES: Okay. Wow, that's soon if it's going to happen this year. Can I follow-up? I know you've been doing the rounds and doing consultations with the stakeholders, what has been the feedback so far?

DOF SEC. DIOKNO: I think so far, as we explained to them that this is really for their own good – to make the pension system more sustainable in the future; and I think they are very receptive. Well, there are three types of beneficiaries from this reform: Those who are already retired – we'll not touch them, more or less, because that's like a contractual obligation to them; those who are in active service will be asked to contribute gradually to the system; and those who are going to be recruited for the first time will pay the full amount of the benefit. That's basically the way it will be structured. We have the treasurer, and my several undersecretaries have been going around and explaining to them. And so far, I think the results of the consultation are very encouraging.

MR. EUBEN PARACUELLES: Okay. I want to move to credit ratings, the Road to A. I know Fitch just recently put back the outlook to the stable from negative. And Moody's was in town recently with discussions from the policymakers. What is your sense of the likelihood that there will be more upward pressure on the ratings? What are these rating agencies looking for to get to that?

DOF SEC. DIOKNO: I think it's much more difficult to get an A upgrade, right from BBB+ to A. But that is still our goal. Our goal is still to what we call to Road to A. And so, we expect to have that 'A' rating before the end of the President's term. Actually, Japan already has A- for us, rate; for China, the Philippines is AAA rating. But we want to get 'A' rating from the three major rating agencies. I think they are still looking for—do not doubt our ability to service our debts – I don't think so. So they are looking for more structural reforms that will maybe make our fiscal position stronger. And I think, with this military pension before plus the rightsizing of the bureaucracy plus more tax reform, I think we qualify for 'A' rating.

MR. EUBEN PARACUELLES: Okay, that's clear. Moving on to infrastructure which the President also mentioned a lot in his SONA yesterday, and on the funding side, so you talk about the MIF. Can you just give us a sense of how do you expect the MIF to accelerate the infrastructure implementation? And you know, giving that it's only starting out, how soon do you realistically expect the impact to be felt?

DOF SEC. DIOKNO: Let me give you a background: Under the previous administration, I look at the … when I joined the previous administration I looked at our infra as a percent of GDP for the last 50 years before the Duterte administration, we were only spending something like two percent. That's why we suffer in comparison with our ASEAN peers, okay, as I said, this can't. We cannot sustain this, we've got to increase our expenditures for infrastructure, and that brought about what I call the golden age of infrastructure – I started that – and it became Build, Build, Build later on.

So, the previous administration spent something like five to six percent and they delivered, despite the crisis, on that. And I think we should have a cycle of maybe the next …from the previous administration, the next 20years should be …we should continue to build, okay.

Now, previously under the previous administration when we came in we don't have ready to implement projects. But you know, project development is kind of it takes time, right - project ID, evaluation, detailed engineering, so forth.

Luckily this government has immediately—it has a list of ready to implement projects – some 194 priority projects worth 8.3 trillion pesos. We need a lot of money for that. I looked at the funding source for this 8.3 [trillion], about 55% will be Official Development Assistance (ODA), 10% will be through the budget and then 30% through public private partnership. But we need these projects done as soon as possible so, the Maharlika Fund will be an additional avenue for funding these 194 and counting because we continue to develop new projects, as I said, for the next 20 years, okay. So, that's the source of funding that Maharlika can provide us and it's a different form

– it's no longer borrowing, it will have less stress on the budget because there will be equity contribution for this Build, Build, Build program.

MR. EUBEN PARACUELLES: And in terms of the timing, when do you see that starting to have an impact on some of these projects?

DOF SEC. DIOKNO: Okay. The Maharlika Bill was signed into law few weeks ago. The law says we have 90 days to prepare the implementing rules and regulations. But immediately after the approval by the Senate of the bill we started the preparation of the IRR, so we expect the implementing rules and regulations to be available by mid-August or, at the latest last day of August and then we expect this to be organized, appoint people in the right places by around September and I so think the Maharlika will be off and running by early next year.

MR. EUBEN PARACUELLES: Okay, thanks. I guess I have time for two more questions if that's okay. One is more for financial market – I get this question a lot from our clients on the currency. So, the government is very clear in its prioritization of building infrastructure; but what that also meant is you probably need a lot of importation for capital goods which could increase the current account deficit and therefore could put some pressure on the currency. So, from your perspective as DOF secretary but also BSP Monetary Board Member, how does the government strike that balance?

DOF SEC. DIOKNO: Well, the peso right now is in a comfortable place that we are actually shooting for what we call competitive peso – we don't want it to be strong or weak, right. So, again our current account surplus right now we have…when we were not spending too much on infrastructure we have a current account surplus, remember that – so, the peso was appreciating at that time.

Now, because of the needs for infrastructure spending, we may have some current account deficit but that's a good way of having a deficit because you are investing in infrastructure which will grow the economy, expand the capacity of the economy plus we now have a steady source of foreign exchange. Before, we don't have the remittances which easily bring something like 30 to 32 billion US dollars annually; we have the business process outsourcing that used to be not available to us. BPO is bringing approximately the same amount and growing, I think, I'm bullish about our BPO prospects plus now, foreign direct investments are coming in and also tourism.

So, with all those steady source of funding plus we have a hefty gross international reserves. Our gross international reserve is in the neighborhood of seven to eight months' worth of imports. The rule of thumb is if you got three months' worth of imports, you're okay. So, with all those, I'm not worried about the possible peso depreciation at this time.

MR. EUBEN PARACUELLES: Okay, thanks. And final question from me on the MTFF, just going back: So the target is 3% of GDP fiscal deficit by 2028. How open are you to the possibility of allowing slightly higher than 3% if, for example the economy is facing a lot of external headwinds even though that might mean that it might be more difficult to keep the GDP at less than 60%?

DOF SEC. DIOKNO: I've been in government for too long to see the folly of stopping the infra whenever there is some problem that you pointed out. No, I won't stop the infrastructure spending, because slowing it down will only have negative consequences like there will be many unfinished projects and you prolong the completion of some projects which would then change the calculation on that net percent value, the internal rate of return and so forth and so on.

I think once you start a project, you've got to make sure that you finish that project, okay. And therefore, when you make a plan it's not going to be a straight line because there will be some adjustments along the way and so I'm willing to maybe increase the deficit, if necessary, as long as we can continue our infrastructure projects.

MR. EUBEN PARACUELLES: Yeah. I guess that also means that infrastructure and better quality spending will be…

DOF SEC. DIOKNO: Of course, we have to make sure that the quality of spending is retained all the way, okay.

MR. EUBEN PARACUELLES: Okay. I think that's all the time we have for this chat. Thank you very much, Secretary Diokno for the candid answers.

DBM USEC. SALCEDO: Thank you very much, Finance Secretary Benjamin Diokno and Mr. Paracuelles for that very engaging and very encouraging, I hope that it brings in even more investors now that wonderful discussion. Thank you so much. And may we kindly request Secretary Diokno to please stay on stage as we proceed to our panel discussion.

BSP MANAGING DIRECTOR LAMBINO: With the President's SONA yesterday and the fireside chat just happened here in PICC, we have been provided a better sense of the administration's economic plans and priorities. And now for the first panel session, we will hear straight from the economic officials; their plans on how to further transform the country into a fast-growing and forward-looking economy.

DBM USEC. SALCEDO: To give us more details, let me now call on stage our key economic officials and please join Secretary Diokno starting with National and Economic and Development Authority (NEDA) Secretary Arsenio M. Balisacan, Bangko Sentral ng Pilipinas Deputy Governor Francisco G. Dakila Jr., and the Department of Budget and Management's Principal Economist Joselito R. Basilio.

BSP MANAGING DIRECTOR LAMBINO: Good morning again. Good morning, sirs. Thank you for joining Margaux and I for this panel discussion.

Let's start with a short opening statement from each of our panelist starting with NEDA Secretary Arsenio Balisacan.

NEDA SEC. BALISACAN: Thank you. Good morning, everyone. Complementing what we heard earlier from my colleague, Sec. Ben, the Marcos administration wasted no time formulating a sound development blueprint and creating an enabling policy environment supporting strong economic recovery and sustained growth momentum in its first year in office.

President Bongbong Marcos quickly set his 8-Point Socioeconomic Agenda which served as the framework for the Philippine Development Plan 2023 to 2028 and accompanying regional development plans providing us a development strategy roadmap in the medium term. To improve our economy's competitiveness and signal our country's openness to business, the government works to create an investment-friendly policy environment through the issuance of the implementing rules and regulations of the amended Public Service Act, the revised IRR of the Build-Operate-Transfer Law, the amended Joint Venture Guidelines of the National Economic and Developmental Authority or NEDA among others.

Furthermore, following a whole-of-government and whole-of-society approach, President Marcos and his Cabinet convened the NEDA Board and its cabinet-level committees – the Legislative Executive Development Advisory Council, the National Innovation Council, and other Inter-Agency Committees – to assess and approve 20 high-impact national and regional projects, harmonize legislative priorities and formulate policies in line with the objectives contained in the PDP. Such efforts resulted in our economy's robust recovery and return to the high growth norm, sustain improvement in our labor market indicators and a continued downtrend for inflation.

So, what can investors, the investor community and the public look forward to in the coming years? To ensure that we remain on track to meet our goals and recalibrate our strategies as necessary, we (NEDA), in coordination with the other agencies will monitor and evaluate the implementation of our development roadmaps. We likewise monitor the progress of the government’s Infrastructure Flagship Projects or IFPs and ensure that concerned agencies take appropriate steps to resolve implementation constraints and ramp up our country's infrastructure drive.

The government will create and promote an enabling policy and regulatory environment, conducive to investment, innovation, and high-quality job creation. In line with this objective, we will continue to strengthen our Public-Private Partnership or PPP framework and facilitate the efficient assessment of PPPs. We will also enable a dynamic innovation ecosystem through the policy and advocacy initiatives of the National Innovation Council.

Of course, we remain committed to monitoring critical socio-economic indicators and undertake rigorous analysis or evidence-based policymaking as we tackle emerging issues. We will take action and coordinate our efforts as we push for legislative-executive priority measures supporting the development agenda. Through these initiatives, the Marcos administration will bring our economy closer to one that is prosperous, inclusive and resilient aligned with our long-term vision of providing a firmly-rooted, comfortable and secure life for all Filipinos, Thank you.

DBM USEC. SALCEDO: Thank you so much, Secretary Balisacan. And now, to give his insights on where the Bangko Sentral ng Pilipinas stands and how our economy stands, we welcome now the message of Bangko Sentral ng Pilipinas Deputy Governor Francisco G. Dakila Jr.

BSP DEPUTY GOVERNOR FRANCISCO G. DAKILA JR.: Good morning to everyone. I will provide some updates on key developments on areas within the purview of the BSP. Now, let me start with our very short discussion of the dynamics of inflation.

Last year, inflation spiked across the globe mainly due to supply chain disruptions related to the pandemic as well as to brewing geopolitical tensions and that has not spared emerging market economies including the Philippines.

This has prompted the Central Bank in both advanced and emerging economies including the Philippines to raise policy interest rates, which consequently tightened global financial conditions. The good news is that, in recent months, headline inflation has started to decline. So, the latest number that we have this June is at 5.4%. Significantly down from its peak at the start of the year and this is due to easing supply-side constraints, lower global oil prices and the policy actions undertaken by the BSP. And that is illustrated on the left panel of this chart, which shows the inflation outlook as coming from our forecasting models.

So our latest baseline forecast indicates that inflation could average 5.4% for this year, which is above our inflation target range. But it will go down to 2.9% for next year as can be seen on the right panel of this chart, which is comfortably within our target range of 2 to 4%. While we expect inflation to average above the target in the first half of this year, as can be seen again on the left panel, in the June monetary policy meeting, we are seeing inflation will continue to decelerate through the third quarter of this year and then to settle within target by Q4, barring any new unforeseen shocks especially coming from the supply side.

Thereafter, inflation is projected to decelerate quite close to the lower-end of the target in the first quarter of next year largely due to base effects and the likely deceleration in both global oil and non-oil prices.

Now, in the following slide, I want to emphasize that that deceleration is due also in large part to the BSP's policy response amid the price pressures and the ensuing portfolio rebalancing which influenced fluctuations in capital flows and exchange rates.

As can be seen in this chart, we have been the most aggressive among the central banks in the region and the BSP has raised its policy rate by an accumulative 425 basis points from May of last year until March of this year, before taking a prudent pause during the last two monetary board meetings. And we have also let the peso move in line with market fundamentals.

While the sensitivity of inflation to the exchange rate has remained low and that has happened after we shifted to inflation targeting and after we have let the market determine the broad direction of exchange rate movements, the key concern is anchoring inflation expectations. And there was a point during the second half of last year when the fed was quite aggressive in adjusting its policy rate when it was introducing some volatility in the exchange rate, and that has been addressed by the prompt monetary policy actions of the monetary board.

So, we are confident that the policy rate adjustments as well as the years of implementation and enforcement of the BSP's comprehensive policy tools and regulations will not result from financial imbalances as the Philippine Banking System continues to stand in a position of strength.

Key banking indicators are summarized in this slide, and they will show for example that in the first quarter of this year bank profits have actually grown by almost 35% year-on-year. Deposit gross has reflected the sustained confidence of the public with an 8.2% year-on-year growth as of end May of this year, and the non-performing loan ratios actually gone down to 3 and a half percent (3.5%), again as of end May.

So we see this continuing, the robust performance of banks, as evidenced by all of this key indicators and that we see banks remaining well capitalized, well managed and well governed, giving us confidence that the policy rate adjustment were done without risking financial stability. Now, having said that, we will remain vigilant in monitoring international developments and their potentially impact on the domestic financial system. And we want to assure that the BSP remains well equipped to provide support to the domestic banking system against the impact of external shocks.

So, let me summarized and then with the following key point first, that indications of our previous monetary tightening has exerting its impact on the economy along with the projected return-of-inflation to target in average for next year has given the BSP's monetary board cause for a prudent pause. However, as has been emphasized in the policy statements following the decisions of the monetary board, the BSP remains watchful and remains ready to resume monetary actions as warranted by the data on the inflation outlook and the domestic demand prospects. The focus remains on bringing inflation back to a [unclear], consistent with achieving the target.

Future monetary policy actions by the BSP will continue to be data-dependent and guided by evolving domestic developments, particularly the latest outlook on inflation and sustained economic growth. So, thank you and let me pause there.

BSP MANAGING DIRECTOR LAMBINO: Thank you, Deputy Governor Dakila.

Next, we have DBM's Principal Economist, Doctor Joselito Basilio.

DBM DR. BASILIO: Thank you, Tony, on behalf of the DBM Secretary Amenah Pangandaman, good morning to our colleagues in government and to our partners in the private sector.

The full year 2023 budget, the administration's first full year budget was signed into law by President Marcos in less than 4 months last year, following a submission to Congress making history as the fastest signed general appropriation act. Amounting to 5.2368 trillion, the national budget prioritizes programs under the 8-point socioeconomic agenda and is anchored on the Philippine Development Plan.

Determined to be an example of bureaucratic efficiency, as of June 30, 2023 the DBM has already released 90% of this National budget for the immediate implementation of these programs.

We aim to sustain the country achievements through various reforms: First, through digitalization. We have a digital transformation roadmap that will not only enhance bureaucratic efficiency but also create a sound investment climate towards our agenda for prosperity. This year we saw a milestone: The issuance of Executive Order Number 29, directing the full adoption of the integrated financial management information system for all government agencies. This will ensure an increased efficient delivery of quality services to the public.

Second is through inclusivity. Toward this end, the Philippines has already secured a momentous win for open governance in the country with the signing of Executive Order Number 31. This one institutionalizes Philippine open government partnership. This huge win puts the Philippines again in the spotlight, giving the world an example, a prime one, on how to institutionalize open governance.

Third is by going green. For a resilient and sustainable economy, we have significantly increased the budget for climate change adaptation and mitigation measures by about 60% for 2023 through CCET (Climate Change Expenditure Tagging). We will continue to monitor the scope and the distribution of climate action in our public expenditures. There are more but of all these reforms will guarantee the continuity of gains from this year's priority programs and make the Philippines an ideal destination for foreign businesses and finance communities.

Looking ahead, the national budget for Fiscal Year 2024 will continue to prioritize shovel-ready infrastructure projects, investment in human capital development, food security and environmental sustainability. With the proposed fiscal year 2024 budget proposal already—almost ready for submission, we hope to make history once again, in the name of greater efficiency, accelerated transformation and faster progress for all.

It is the administration fervent hope that this budget, the 2024 budget, will lay the groundwork for future-proofing the economy and the making country's growth inclusive and sustainable for Filipinos of today and generations to come.

Thank you and good morning.

DBM USEC. SALCEDO: Thank you so much to our Principal Economist Joselito Basilio. Listening to all of you this morning just makes me so proud to be a Filipino at this time, congratulations. I think we should give our economics manager a round of applause for all they have done for economy.

Open government, climate change—the budget to address climate change has increased by 60%, they did 7.6% growth which is the highest since 1976; it's just wonderful news everywhere, so congratulation Sirs.

And so now, may we ask the head of Economic Cluster Secretary Diokno: So, yesterday at the State of the Nation Address of President BBM, he said that collaboration is 'Key'. So after he mentioned that, of course in just one year he rattled up all of your achievements with that phrase collaboration is 'Key', and we have members of the private sector here. What is the government's vision of PPP, and what are points of alignment looking forward?

SEC DIOKNO: PPP, Public-Private Partnership. You know within 100 days of President Marcos' term, we revised the implementing rules and regulations of BOT (Built-Operate-Transfer) Law because there were many complains that the private sector is lukewarm, they don't want to engage into PPP because of certain provision, so we amended that law within 100 day.

And right now, we have approved under the new rules some of 212 billion pesos worth of 4 projects, okay. I remember the PGH Cancer Center, that's one; the other one is the airport project, NAIA, was also approved; and then the Laguindingan Airport; and there's another one TPLEX extension to La Union, that's—we approved those 4 projects under the new Public-Private-Partnership. Within—The TPLEX was approved within 10 weeks, that's a record but the most recent one, the NAIA improvement was approved in 6 weeks, another record.

So, given the new rules, I think they will be, the private sector, will be encouraged to participate in Public-Private-Partnership. As I said, out of the 194 priority projects, around 30% of those will be funded through PPP. And now with the Maharlika fund, I think we can combine that, I think also, plus the recent amendment to the Public Service Act, that will really encourage public-private partnership in this country.

DBM USEC. SALCEDO: Sir, just a follow-up. You already mentioned the Maharlika fund, so just to explain to everyone or those who might not yet be well-acquainted with it – in layman's terms, what is the Maharlika fund, Maharlika Investment Fund?

DOF SEC. DIOKNO: Well, as I said, out of the 194 projects, without the Maharlika fund, 55% of those projects will be funded through official development assistance, so we borrow from ADB, we borrow from the World Bank, some bilateral sources; and then another 10% will be funded through the budget, and then another 30% approximately will be funded through public-private partnership. Now, that's without the Maharlika fund.

Now, with the Maharlika fund, then we have another source and a different source of funding without … it's a funding that will not put strain in our budget and will not put additional borrowing or burden on our people. And so that is the nature of the Maharlika Fund.

Of course, every investment fund or wealth fund evolves overtime. But to us, the priority use of that Maharlika Fund is to fund those priority projects, okay.

DBM USEC. SALCEDO: Thank you, sir.

BSP MANAGING DIRECTOR LAMBINO: Thank you, Secretary Diokno. We received a lot of questions from the registration system, and we received one for the Bangko Sentral ng Pilipinas, in particular DG Francis, on the US Fed's policy decisions: So how important is the US Fed's policy rate in the Monetary Board's monetary policymaking, if the Fed does hike two more times at 25 basis points by the end of the year, that would bring them to a top rate of 5.75% on the upper limit? Where is the BSP's policy rate likely to be?

BSP DEPUTY GOVERNOR DAKILA, JR: Thank you for that question. I think it's a question not just in the mind of market players here in the Philippines but also in most emerging market economies. The first Fed decision will come in the last week of July, before the scheduled meeting of the Monetary Board on monetary policy which will come in the middle of August. So by then, we will have a number of observations on how the market reacts to the Fed decision.

Now, what's good is that we have a number of improvements that we have introduced into our policy instruments that enhance the transmission of these instruments to the market interest rates including the introduction of 56-day BSP Bill. And right now, for the main policy instrument which is the overnight reference rate, we have introduced a … still a fixed-rate but a full-allotment auction, meaning that all the … being accepted by the BSP. And pretty soon, we will be moving to a variable rate auction for the RRP and all of this will serve to manage any reactions by the market in the interim between those two policy decisions.

But having said that, of course, the Monetary Board will take into account the market reaction and implications of all of these on the inflation outlook and how that outlook relates to the attainment of the inflation target.

Again, as I've said in the introductory PowerPoint and as the board has been emphasizing in this monetary policy statements that the BSP remains ready to act to ensure that inflation will be on the path that is consistent with achieving the target.

Now, again, having said that, the environment today is very different from what we saw in the third quarter of last year when the Fed was just beginning to undertake series of very aggressive policy actions. And right now, the market is seeing that perhaps, the Fed will do two more before pausing.

So it's a different situation with respect to the Fed, and very importantly, it's a different situation with respect to the outlook on inflation for us, for the Philippines. In the third quarter of last year, I can recall that inflation was still on an upward trajectory. And for some time actually we were thinking that perhaps the supply shocks are already finished, but we saw another spike in food prices in January of this year. But right now, inflation is firmly on a downward trajectory, and what we are seeing is that barring any new supply shocks, inflation will go down to within the target range by the fourth quarter. In the first quarter of next year actually, it will hover quite close to the lower bound of the target or it may even go a little bit below target during the third quarter before going back to close to the midpoint of the target.

So, in short the situation now is very different compared to what it was and the board will, I'm sure, take that into account in coming up with appropriate monetary policy action.

BSP MANAGING DIRECTOR LAMBINO: So, it will be evidence in form including looking up changing conditions, especially looking up the difference between now and the third quarter of last year.

DBM USEC. SALCEDO: Yeah. Everything is much better, I remember, at the first Philippine Economic Briefing. In the succeeding ones, we were always being asked about inflation and we were always like holding our breaths, but now everything is really looking much more better.

So with that, we move on with to our NEDA secretary. How does the NEDA, as the primary agency responsible for economic planning and policy coordination, envisioned leveraging on the country's fast-paced economic growth to promote inclusive development innovation – yesterday po at the SONA, President BBM talked about having a culture of innovation and he called it Filipinnovation – and also digital transformation. What is the NEDA's plan on leveraging the country's fast-paced economic growth to promote this?

NEDA SEC. BALISACAN: Okay. Thank you for that difficult question that requires a one lecture. But to put it briefly, I think the challenge for this economy, for our economy, is to sustain growth over the medium term and over the long term to achieve economic and social transformation.

Now, that requires nothing less than increase in productivity. But increase in productivity is not a manna from heaven, we have to invest in measures that raise productivity. While economic growth per se will give us some elbow room for such investment like investing in digitalization, infrastructure, it also goes the other way. Such investment will sustain that growth because increase in productivity will allow the economy to grow over the long haul.

So, I think that's what we have put in place in the Philippine Development Plan – we have looked at how one—we can mainstream digitalization, we can mainstream inclusivity in the growth because there's a big space there for inclusivity because what we don't want is a growth that is exclusive, a growth that only benefits the few. We have seen that in our past and we have seen that in many countries, and when that happens growth is not going to be sustainable.

So, inclusivity is very important – we have to invest in health, in education, in social protection as we allow the economy to grow rapidly expanding the economic pie. So, the constraints to making such investment are spelled out in the PDP and as I said, digitalization is the key to that because the current state of technology requires us to move the economy in that direction.

DBM USEC. SALCEDO: And if you would all like to view or read the Philippine Development Plan 2023 to 2028, just go to the website of NEDA. And of course we would like to ask the Principal Economist of the Department of Budget and Management: What do you think are the key priority sectors looking forward?

DBM PRINCIPAL ECONOMIST BASILIO: Thank you. First, the proposed national budget for 2024 would amount to 5.768 trillion pesos which is higher by 9.5% year-on-year and still equivalent to around 20 to 21% of GDP. So, that means we have additional 500 billion pesos in the next year's budget when compared to this year.

And what would be funded? Primary expenditure directions will continue to be anchored on the 8-Point Socioeconomic Agenda – so that means we will spend on ensuring food security. The national budget will continue to provide increased allocations for DA's banner programs on prime commodities such as rice, corn and high value crops and fisheries among others; and then there will be spending on reducing transport and logistics cost and because government is determined to maintain high public investments in infrastructure at around five to six percent of GDP.

The bulk will be allocated for physical infrastructure aimed at improving connectivity throughout the country through the construction of accessible road networks and railways. Significant funding support will of course go to social infrastructure such as school buildings and health centers. And then reduction in energy cost will be a primary expenditure item also and that includes not only public investments in energy but making sure that there will be a private sector participation in investments in renewable energy.

And then we have the most important ones, the triple social spending: We have items to address learning losses because education remains a top priority as mandated by the Constitutions which shall cover around 15 to 20% of the fiscal year 2024 budget; and then improving health, health sector will be supported by ample budget support to provide accessible and inclusive public health services even to the far regions in the country; and then strengthening social protection to support or provide banner programs such as 4PH program for housing which is a new one and then food stamps in addition to the previous ones. The last ones would involve improving bureaucratic efficiency and ensuring sound fiscal management.

So, in the budget there are no surprises, it is as predictable and as transparent as ever. The 2024 budget aims to walk the talk in the SONA and, we can do that because the government finance is also sound and improving as the President has indicated in his SONA. Thank you.

BSP MANAGING DIRECTOR LAMBINO: Thank you very much, Principal Economist Joselito Basilio of the Department of Budget and Management.

We have a lot more questions. What we don't have is more time for this panel. So, please join me in thanking the members of the first panel – I hope the session gave everyone more insights on the administration's economic plans and priorities – Principal Economist Joselito Basilio, Deputy Governor Francis Dakila, Secretary Arsenio Balisacan, Secretary Benjamin Diokno.

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