

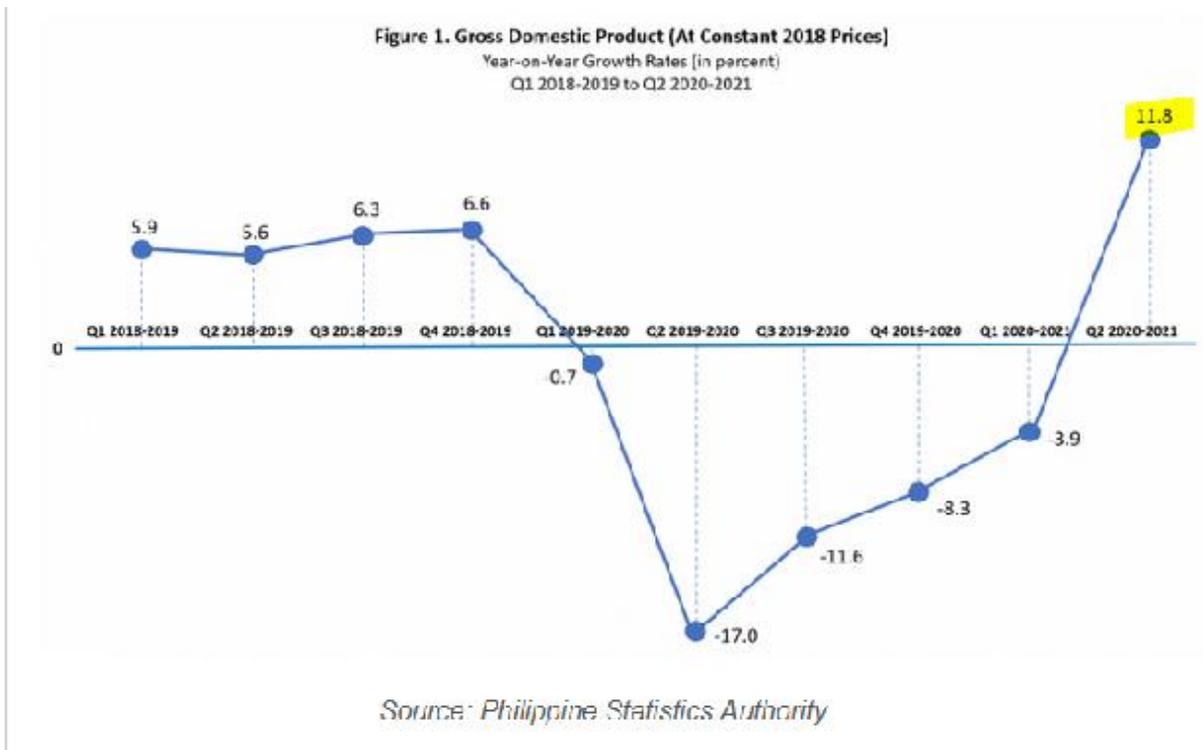
PHILIPPINE REPORT SUBMITTED TO THE ASIAN FINANCIAL SERVICES ASSOCIATION
October 28, 2021 Meeting

The Philippine government continues to release funds to support various corona virus response programs. As of September, 2021 a steady growth for both spending and revenue collections of the government was observed. This is a positive development as the local economy continues to suffer from a deep and prolonged negative effects of the pandemic.

As of October 26, 2021, the Philippine health authorities declared that the country is now at low risk from corona virus amid declining infections. The decline in infections was due to vaccination programs and public compliance with health protocols.

ECONOMIC INDICATORS
Oct. 27, 2021

I. Gross Domestic Products

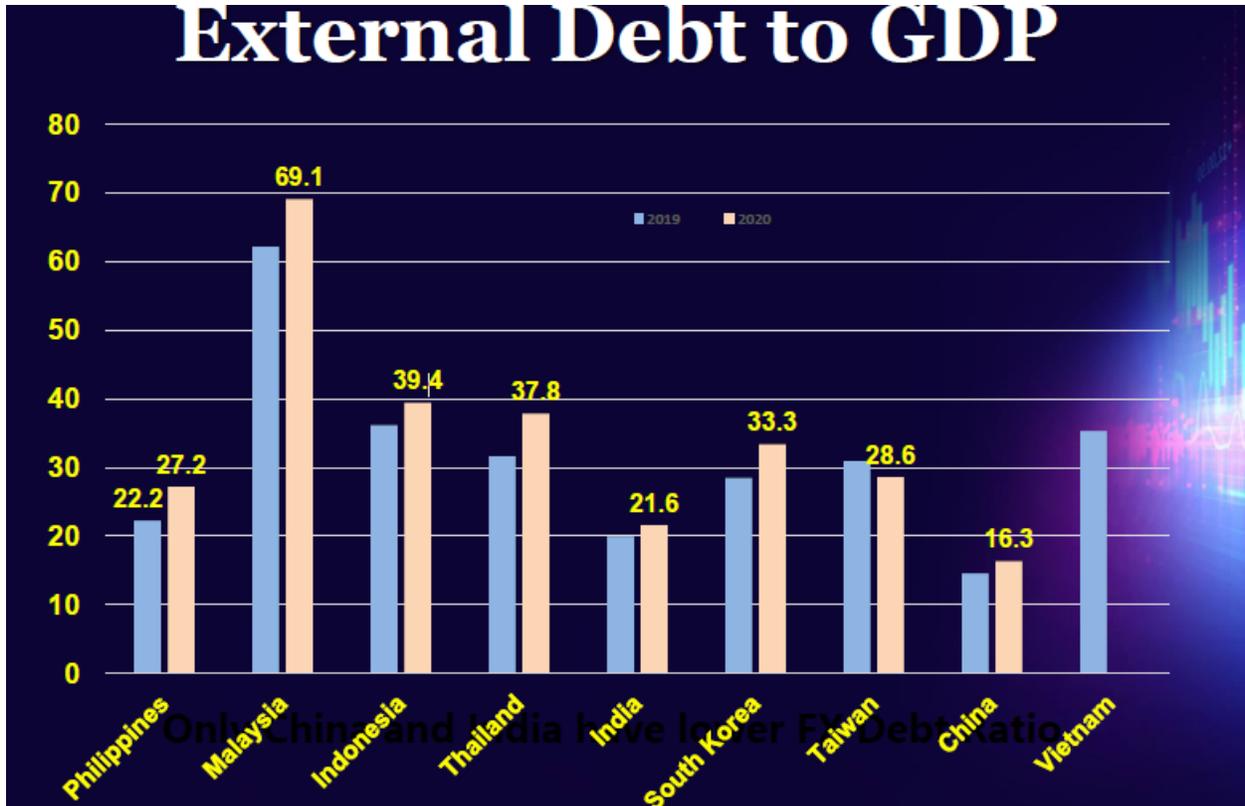


The Philippine Domestic Product (GDP) grew by 11.8% in the 2nd quarter of 2021 from the -17% in the same period last year. This is the highest since the 12% growth posted in the 4th quarter of 1988. Economists call this the “base effect” where the latest GDP is compared to a much lower figure. Technically, the economy is still -5.2% before the pandemic.

The Development Budget Coordination Committee of NEDA has revised its growth forecast for 2021 from 6% - 7% to 4% - 5% due to re-imposition of stricter mobility restrictions in Aug. 2021. Meanwhile, Fitch

Ratings lowered its forecast to 4.4% from the previous 5% citing the country’s slow vaccination rollout which could revert to stricter lockdowns.

II. External Debt to GDP



Source : First Metro Investment Corp.

PH’s foreign external debt rose to \$101.2Bn as of end June 2021, this is the first time the country’s foreign debt history exceeds \$100Bn as the Duterte administration has been borrowing more to finance the budget deficit and the COVID-19 response. This was an increase of \$13.7Bn from the \$87.5Bn in the same period last year translating to 15.66% increase year on year.

BSP Governor Benjamin Diokno on his part pointed out that country’s external debt to GDP is still considered at “prudent level” because the ratio “slightly eased” to 26.5% compared Mar. 2021’s 26.6%. He stressed that PH still has the lowest external debt to GDP ratio in the ASEAN bloc. Mr. Diokno also said that PH’s \$107Bn gross international reserves as of end Aug. 2021 is still higher and can cover up to 75 times the country’s short term based on the original maturity.

III. Inflation Rate

**Table B. Year-on-Year Inflation Rates in the Philippines, All Items
In Percent
January 2017 – September 2021
(2012=100)**

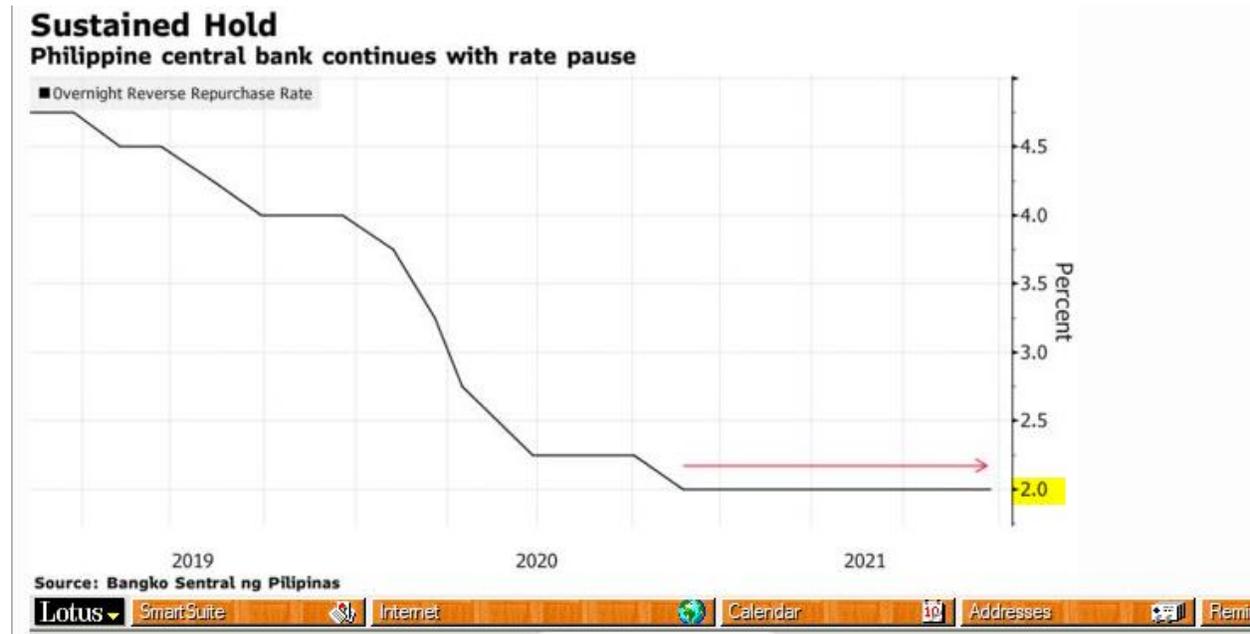
Month	Year				
	2017	2018	2019	2020	2021
January	2.5	3.4	4.4	2.9	4.2
February	3.1	3.8	3.8	2.6	4.7
March	3.1	4.3	3.3	2.5	4.5
April	3.2	4.5	3.0	2.2	4.5
May	2.9	4.6	3.2	2.1	4.5
June	2.5	5.2	2.7	2.5	4.1
July	2.4	5.7	2.4	2.7	4.0
August	2.6	6.4	1.7	2.4	4.9
September	3.0	6.7	0.9	2.3	4.8
October	3.1	6.7	0.8	2.5	
November	3.0	6.0	1.3	3.3	
December	2.9	5.1	2.5	3.5	
Average	2.9	5.2	2.5	2.6	

*Source: Retail Price Survey of Commodities for the Generation of Consumer Price Index
Philippine Statistics Authority*

Inflation eased in Sept. 2021 to 4.8% from 4.9% in Aug. 2021, this brings the country's average inflation rate at 4.5% from Jan. 2021 to Sept. 2021. However, this was still above the 2.3% posted in the same period last year.

NEDA attributed the decline in Sept. inflation on government's policies aimed at bringing down food prices and noted that zero growth in prices of rice as a result of E.O. 135 which lowered the tariff on rice imports to 35% from 40% for a year. Inflation is expected to reach beyond the BSP target range of 2%-4% at 4.4% this year meanwhile the BSP chief said it is expected to return to within target at 3.3% in 2022 and 3.2% in 2023.

IV. Interest Rates



The BSP sees no need for rate adjustments in 2021 according to BSP Governor Diokno as he stressed that raising interest rates may be premature as the recovery of PH's economy is just starting to gain traction. The Monetary Board has kept its key interest rates at a record low of 2% in the last seven meetings. It will hold two more meetings this year on Nov. 18 and Dec. 16.

The BSP stressed that there is more harm in tightening monetary policy too soon than doing it too late. He said that some central banks raised their rates for fear of inflation and fast deterioration of their exchange rate. In the Asia Pacific, the Bank of Korea and New Zealand have already hiked their interest rates while the Monetary Authority of Singapore tightened monetary policy.

V. Foreign Exchange Rate

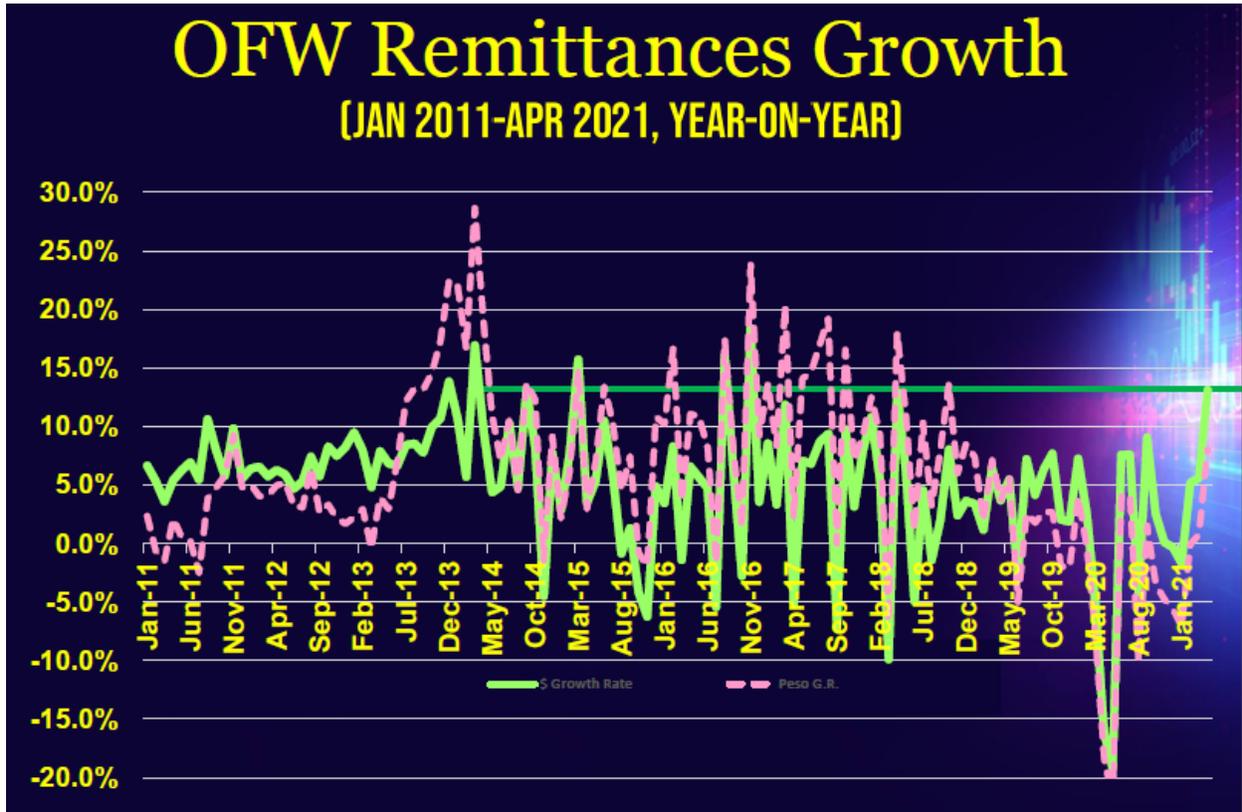
DAILY PHILIPPINE PESO PER U.S. DOLLAR RATE													
Oct 20 to Oct 21													
Date	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21
AVERAGE	48.481	48.252	48.064	48.061	48.204	48.574	48.462	47.955	48.125	49.943	50.234	50.142	50.746

Source: Reference Exchange Rate Bulletin, Financial Market Operations Sub-Section, BSP

Peso is not likely to breach P53 to \$1 even with US Federal rate normalization in 2023 according to BSP Chief Diokno. The BSP does not release any foreign exchange forecasts but for the purpose of setting the National Government budget, the government and BSP has a peso-dollar rate assumption of P48 to P53 until 2024. The Peso closed at P50.767 vs \$1 on Oct. 26, 2021.

Mr. Diokno cited the hefty \$107Bn GIR and structural foreign exchange flow such as overseas remittances and foreign direct investments that will support the country from the expected gradual normalization of the US Fed's monetary policy as US central bank could start reducing the pace of its \$120Bn a month asset purchases this year.

VI. OFW Remittances



Source : UA&P

BSP reported the 5.1% year on year jump in cash remittances last Aug. 2021 to \$2.609Bn and 5.7% increase in the first eight months of 2021 to \$20.38Bn however, Aug. remittance inflows are lower than July's \$2.853Bn. Remittance from OFWs are expected to further increase as the Christmas holiday nears and further reopening of economies in OFW host countries especially in areas where there is high demand for medical and economic frontliners.

VII. Philippine Stock Exchange Index (PSEi)

PSEi by end-2021, 13% upside, PE of 17x.



First Metro Investment Corporation

PSEi closed in Sept. 2021 at 6,952.88 up by 1.4% however it was down by 2.6% year on year.

Factors that support the markets are :

- Lower Covid-19 cases in the country as well as low reproduction rates nationwide.
- Implementation of less restrictive granular lockdowns.
- BSP's accommodating policy stance.

Factors that dragged the markets are:

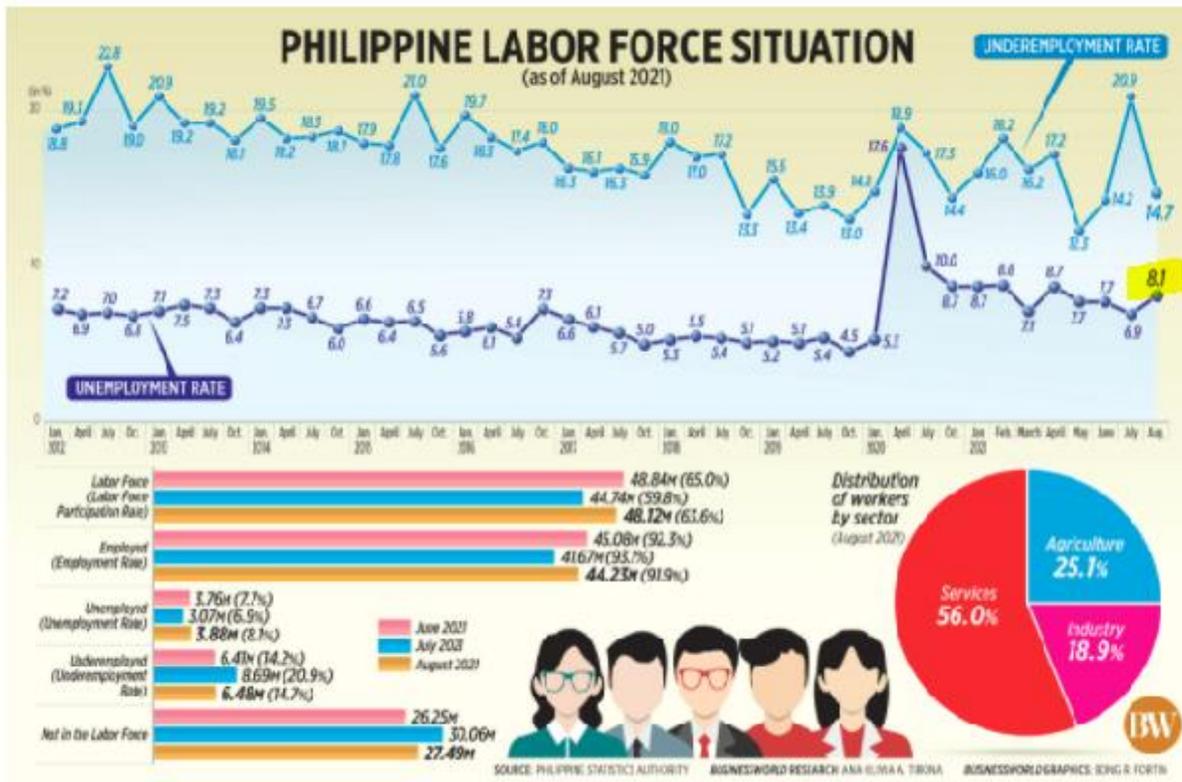
- Less dovish US central bank
 - Means Fed's tapering bond purchases which could result to higher interest rates. Normally raising of interest rates is not good for equities.
- Evergrande issue
 - The company through aggressive expansion became one of China's biggest companies borrowing more than \$300Bn. Last year, the Chinese government issued new rules to control the amount owned by real estate companies. This led Evergrande to offer its properties at a discount to keep the business afloat . It struggled to meet interest payments on its debts.

Starting Oct. 2021, PSEi has breached the 7,000 level as it closed at 7,252.10 on Oct. 26, 2021 up by 40.56 points or 0.56% as investors went bargain hunting and after the release of corporate earnings of index member firms. Majority of sectoral indices posted gains except for property which lost 40.12 points of 1.22%.

value turnover rose to P6.43Bn with 834.55 million shares switching hands up from P5.57Bn with 913.57 million shares issued the previous day. Net foreign purchases surged to P127.74Mn higher than P79,74Mn a day before. Decliners outperformed advancers 110 against 89 as 52 names were unchanged.

In Aug. 2021 report, analysts at First Metro Investment Corp. and University of Asia & the Pacific said they still expect PSEi to finish at 7,400 to 7,800 by end 2021 on expectations that corporate earnings will continue to show signs of recovery.

VIII. Unemployment Rate



PH's unemployment rate in Aug. 2021 was at 8.1% an increase of 1.2% from 6.9% in July 2021 as the country reverted to another round of lockdowns due to surging cases of virus. The latest figure was higher than 6.9% reported in July. Total number of unemployed persons in Aug. 2021 was at 3.88 million individuals.

Underemployed rate was at 14.7% in Aug. 2021 the third lowest this year. Underemployed are those working less than 40 hours in a week and expressed the desire to have additional job or to have a new job with longer working hours.

Sources : BSP, PSA, NEDA, First Metro Investment, UA & P, Rappler, Businessworld, Manila Bulletin

THE PHILIPPINE FINANCE ASSOCIATION MEMBERS INDUSTRY FINANCIAL HIGHLIGHTS

An analysis of the asset and income performance of the top thirty (30) finance and leasing companies during the start of the pandemic in 2020 reveal the deep wounds inflicted on the leasing and finance industry. Total assets of the sampled thirty (30) finance firms dropped by 6.93% from a total of P 259,567,556,770.00 in 2019 to P 241,561,960,306.00 in 2020. The strict lockdowns imposed by the government restricted people movements, mandated closure of business operations and consequently, resulted into massive loss of employment. New bookings of finance firms were cut by approximately 50%. The government mandated moratoriums on loan payments. As a result, the tabulated income of above finance firms dropped to negative P 812 million from the positive P 6.4 billion in 2019.

FINANCE LEASE INDUSTRY PORTFOLIO

Out of the more than 600 finance firms registered with the Philippine Securities and Exchange Commission, only fifteen (15) finance firms are actively engaged in offering Financial Leases covering motor vehicles. In 2019, these fifteen finance firms reported a total finance lease portfolio of P 97,568,258,035. As the sale of brand new motor vehicles suffered a sharp drop in 2020, the finance lease portfolio followed the trend and dropped by 7.20% to P 90,542,954,194.00.

BRAND NEW MOTOR VEHICLE SALES PERFORMANCE

Car manufacturers sold a total of 21,492 units in September 2021, a double digit sales growth (35.6%) compared to August 2021 attributed to strong sales performance of passenger cars and commercial vehicles, according to a joint report by Chamber of Automotive Manufacturers (CAMPI) and Truck Manufacturers Association (TMA) released in October 2021. On the other hand, sales of trucks and buses declined by 19.2%. On a year on year, vehicle sales dropped 12% from 24,523 sold in the same month a year ago.

For the first nine (9) months covering January 2021 to September 2021, vehicle sales jumped by 29.5% to 191,605 from 148,012 during the same period in 2020. The industry is aiming to sell 295,400 units this year, higher than the 244,274 units sold in 2020. (Sources: Manila Bulletin, Philippine Standards, Business World).

Prior to the pandemic, 2019 brand new vehicles sales totalled 416,627 units. The 2020 unit sales of P 244,274 therefore is only 58.63% compared to 2019 sales.

NON PERFORMING LOANS OF BANKS

The Non Performing Loans held by banks increased to P 491.9 billion in August 2021 as borrowers struggle to service their loan obligations amid the slow economic activity. Based on the Central Bank data, NPL in August jumped by 61% from P 304.9 billion a year earlier, and to P 486.4 billion in July 2021.

Non Performing Loans stood at 4.5% for the second straight month up from 2.84% the previous year. This is the highest since 4.52% in September 2008 during the global financial crisis. According to the Central Bank Governor, NPL ratio is likely to reach 5 -6 % by end of 2021 before peaking at 8.2% in 2022. If this

happens, this will be significantly lower than the 17.6% in the aftermath of the Asian Financial Crisis in 2002.

NON PERFORMING LOANS OF QUASI BANKS

Meanwhile, NPL held by quasi-banks increased to 10.4% at P 14.593 billion as of end of June 2021 according to the Central Bank data. Bad loans climbed 87.7% from P 7.776 billion with NPL ratio at 5% in the same period of 2020. On the other hand, gross portfolio of quasi-banks increased by 5% to P 139.979 billion as of end of June 2021 from P 133.36 billion the previous year.

Restructured loans stood at P 2.065 billion more than 4x the P 449 million seen in the same period of 2020. Quasi-banks beefed up their loan loss reserves to P 5.259 billion in the 1st half of the year increasing by 90% from P 2.768 billion in the same period of 2020. This is equivalent to 3.8% of the entire loan portfolio, up from 2.1% a year ago. (Source: Business World Online)

Non Performing Loan ratio of leasing and finance companies is expected to be much higher than the NPL ratio of quasi-banks.

SUBMITTED BY:

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