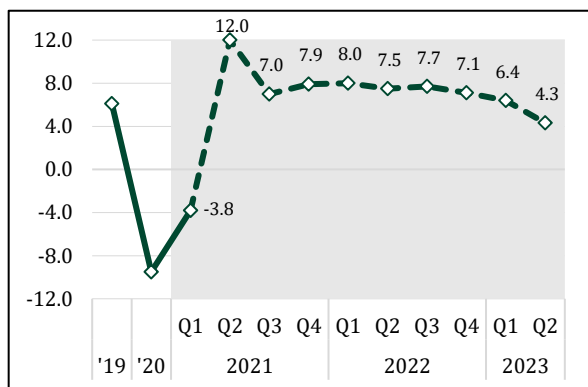




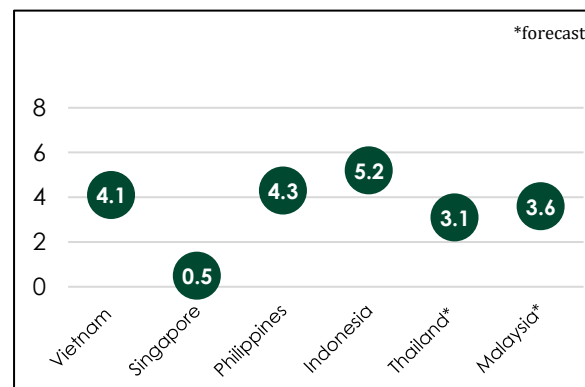
PH GDP growth moderated to 4.3% in Q2 2023; Economic managers remain steadfast in attaining 6-7% target rate

Figure 1. Philippine Economic Growth (%)



Basic Source: PSA, 2023a; Reuters, 2023a; Reuters, 2023b; MTI, 2023; GSO, 2023

Figure 2. Q2 Growth of Select Asian Economies (%)



Prepared by: ERTD-ERAD

1. The Philippine's (PH) gross domestic product (GDP) moderately grew at 4.3% in the second quarter of 2023, bringing the real GDP growth for the first semester of this year to 5.3% (**Figure 1**). However, the economic expansion for the month of April to June was both lower than the 7.5% growth registered in the same quarter last year and 6.4% in the first quarter of 2023.
2. The main drivers of growth were the activities of wholesale and retail trade at 5.3%; financial and insurance activities at 5%; and transportation and storage at 17.3%. Sectorally, all major economic sectors logged positive growth for the quarter: agriculture, forestry, and fishing at 0.2%; industry at 2.1%; and services at 6.0%. The AFF's decline is connected to the contraction of production output as fisheries exhibited lower yields. According to the Philippine Statistics Authority (PSA), the value of production in agriculture and fisheries at current prices declined to P551.5 Billion in Q2 from P569.9 Billion last quarter.
3. On the demand side, the Household Final Consumption Expenditure which represents consumer spending, showed a 5.5% growth. Slightly down by 0.9 points from Q1 and reflective of the pessimism in consumer confidence at -10.4% in the latest Q2 Consumer Expectation Survey (CES). Concerns about elevated prices of goods, lower income, and job scarcity, among others continue to influence spending patterns. Moreover, contraction was also observed in Government Final Consumption Expenditure at -7.1% and Gross capital formation at -0.04%. The reversal is mainly due to underspending by the government at P2.41 Trillion out of the P2.58 Trillion expenditure program allotted for the first half of the year, along with the absence of election-related expenditures.
4. Meanwhile exports and imports of goods and services showed a positive growth of 4.1% and 0.4%, respectively after experiencing a 33.3% decline in trade deficit in June. This is comparatively better from the previous quarter where exports of goods and services only grew by 1.0% while imports ballooned by 4.7%.
5. Even with slower growth, the Philippine economic output is still one of the fastest among other Asian economies this quarter, following Indonesia with 5.2% and ahead of 4.1% in Vietnam, 0.5% in Singapore, 3.1% in Thailand, and 3.6% in Malaysia (**Figure 2**).
6. The lag effects of interest rate hikes, price volatility, external, and environmental risks such as the El Niño as well as the consecutive typhoons, among others, remain a major challenge in meeting the government growth target of 6-7% this year. Hence, the economic managers are committed to accelerating the execution of government programs under the 2023 budget, intensifying supply-side interventions and demand-side management measures to maintain overall price stability, and closely monitoring domestic and external developments to immediately rectify policies in accordance with the country's medium-term growth targets.

Sources: PSA, 2023a; Reuters, 2023a; Reuters, 2023b; MTI, 2023; GSO, 2023; NEDA, 2023; PSA, 2023b; PSA, 2023c; BusinessWorld, 2023; Nikkei Asia, 2023



Maharlika Investment Fund Act, the country's first-ever sovereign wealth fund, signed into law



Photo Source: Screen grabbed from [PTV News](#)

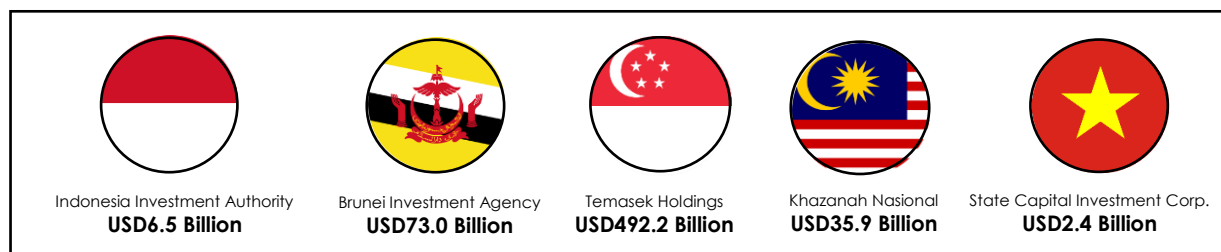
7. Senate Bill No. 2020 and House Bill No. 6608, establishing the Maharlika Investment Fund (MIF), was signed into law by Ferdinand R. Marcos Jr. last 18 July. Republic Act 11954 or the Maharlika Investment Fund Act of 2023 sets up the country's first-ever sovereign wealth fund (**see page 3 for further information on SWF**).
8. The economic managers, namely the heads of the Department of Budget and Management, Department of Finance, the National Economic and Development Authority, and the Bangko Sentral ng Pilipinas, fully supported the establishment of MIF citing it as a vehicle for economic growth. The MIF shall pool funds from founding government financial institutions (GFIs), national government agencies, and government-owned and controlled corporation (GOCCs) to be invested in infrastructure projects, equities, fixed income securities, currencies, joint ventures, projects on health, education, research and innovation, and more.
9. Particulars reflected in RA 11954 include the PHP500.00 Billion authorized capital stock of the MIF, the financial reporting framework and audit of records, and the reports and records which specify the fund's adherence to the Santiago Principles and other internationally-accepted standards of transparency and accountability. The governance of the fund, e.g. the members of the board of directors, their power and functions, is also explicitly detailed in the law.
10. The SEC, as corporate registrar and capital market regulator, actively participated as resource person during the committee hearings and floor debates. Among the Commission's inputs are: suggestions in the incorporation of good corporate governance principles, ascertaining the bill's consistency with the Securities Regulation Code, the Revised Corporation Code, and other applicable laws, and ensuring that there are sufficient controls and safeguards in place for the achievement of the fund's policy objectives.

Sources: [Official Gazette, 2023](#); [DOF, 2023a](#); [DOF, 2023b](#); [Bloomberg, 2023](#); [SEC Facebook Page, 2023](#)



Sovereign Wealth Fund: Its role and significance to economic development

Figure 3. Various Sovereign Wealth Funds in the ASEAN region by Total Assets, June 2023



Basic Source: SWFI, 2023

Prepared by: ERTD-ERAD

11. A sovereign wealth fund (SWF) is a special-purpose investment fund integrated into a country's economic policy framework. Investments may come in the form of shares, bonds, property, or other areas of potential growth. It is owned and managed by the state on behalf of its citizens, primarily to stimulate long-term economic growth and cushion the economy from short-term shocks. SWFs can be used to finance socio-economic projects, insulate the government's budget, manage foreign exchange reserves, or provide resources for pension liabilities. Usually, it is sourced from government savings incurred from trade surpluses, earnings from the sale of natural resources, revenues from state-owned corporations, proceeds from privatization, and budgetary appropriations.
12. The modern economy has witnessed the rapid rise of SWFs around the world, which are becoming more relevant and powerful financial players on a global scale. The Norway Government Pension Fund Global, which is the largest SWF in the world, has total assets amounting to USD1.37 Trillion with billion worth of shares in lucrative companies such as Apple and Microsoft.
13. Meanwhile, in ASEAN, the Temasek Holdings of Singapore has the largest total assets amounting to USD492.2 Billion. Despite being scarce with natural resources, Singapore was able to pull off an SWF through its financial wealth. Currently, its investment activities cover a broad spectrum of industries that are aligned with long-term policies on digitization, sustainable living, future consumption, and longer lifespans. With the strong fundamental credit quality of Temasek, it was able to earn credit ratings of Aaa and AAA from Moody's Investor Service and S&P Global Ratings, respectively. Its inception allowed Singapore to supplement its annual budget through the net investment return contribution (NIRC) and fund long-term programs on education, research and development, and healthcare, among others. In 2022, NIRC reached SGD21.6 Billion representing 20% of the country's annual appropriations.
14. Aside from Temasek, the Brunei Investment Agency (BIA) with a total asset of USD73.0 Billion manages Brunei's revenues from oil and gas by investing them in foreign financial securities and real investment projects. Other SWFs in the region are the Khazanah Nasional of Malaysia, with total assets amounting to USD35.9 Billion; Indonesia Investment Authority, with USD6.5 Billion; and the State Capital Investment Corporation of Vietnam, with USD2.4 Billion worth of assets (**Figure 3**).
15. Indonesia's SWF, created in 2021, has raised over USD20 Billion from sovereign partners through co-investment opportunities, and with the recent enactment of RA No. 11954, the Philippines may now have a similar opportunity to grow impressively from greater domestic and foreign direct investments in areas of logistics, telecom, and transportation infrastructure, which are crucial for growth and development.
16. Like any other form of investments, return is not absolute, however, the success of SWFs are dependent on (a) the appropriate budget and a well-integrated policy framework; (b) efficient resource management; (c) well-framed corporate governance arrangements, which include setting the fund objectives and governance structure; and (d) clear accountability procedures to gain public support with a transparency arrangement that entails regular public disclosure of investment objectives. Studies have shown that setting up an SWF that meets these important conditions may help reduce inflation, counter exchange rate appreciation, and boost transparency, among others.

Sources: SWFI, 2023; Saphantharak, 2019; World Economic Forum, 2017; Temasek, 2023a; Temasek, 2023b; MOF, 2023; US Department of State, 2022; Khazanah Nasional, 2022; IMF, 2008; IMF, 2009; Milken Institute, 2023; Official Gazette, 2023; PWC, 2011



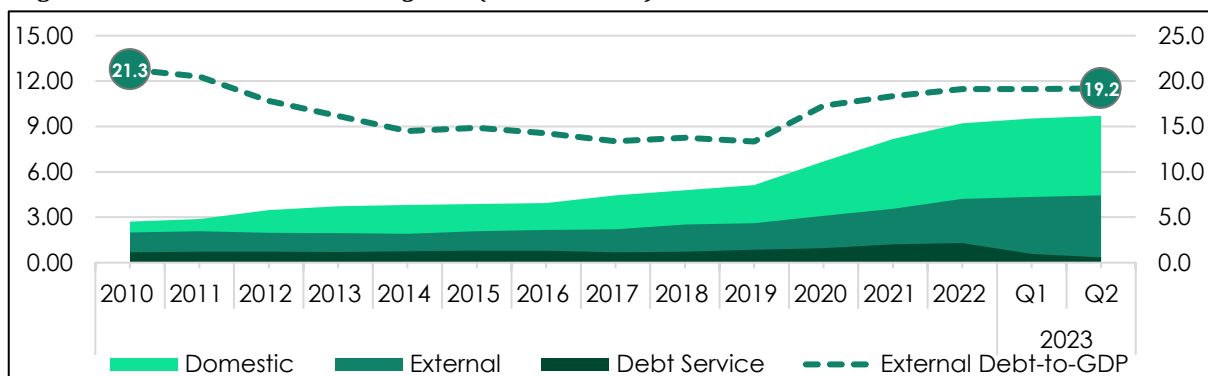
PBBM underscores the importance of digitalization during SONA; SEC continues to launch new digitalization initiatives for EODB

17. The NG has been aggressive in fostering the country to be an attractive and reliable investment hub. President Ferdinand R. Marcos Jr., together with the economic managers, lobbied abroad the opportunities and potential investments in the PH bringing an estimated PHP3.9 Trillion investment value and 175,000 expected jobs.
18. As underscored by President Marcos Jr. during his second State of the Nation Address (SONA), the NG will thrive the country's competitiveness in other potential sectors while addressing the weaknesses backed by the implementation of the recent economic structural reforms and strengthened bilateral and regional ties.
19. While recent structural reforms have created green lanes for strategic investments and advanced business processes and operations, President Marcos Jr. still calls for government agencies to fully adopt digitalization immediately to further improve the ease of doing business (EODB).
20. In consonance with the President's directive, the Securities and Exchange Commission has long been a digital leader in implementing digital transformation initiatives, such as online systems for company registration, annual reports submission, and transaction fee payment, among others, through its Digital Transformation and Technology Modernization Roadmap (DTMR), to improve the EODB in the country, capital market growth, and the protection of investors.
21. With the DTMR, the Commission was able to advance its web systems which results in a higher number of local companies and partnerships registered in Electronic Simplified Processing of Application for Registration of Company (eSPARC) and One-Day Submission and Express Registration of Companies (OneSEC)—as of Q1 2023, there are 13,331 new registrations; and increase in the submission of reportorial requirements in the Electronic Filing and Submission Tool (e-FAST)—as of Q2 2023, 154,315 annual financial statements (AFS) and 133,825 general information sheets (GIS) were received, and in the payment of fees through the Electronic System for Payment to SEC (eSPAYSEC). Recently, the Commission has launched new e-services to further improve the registration and monitoring of corporations (**see SEConomics Issue No. 30 for further information**).
22. Aside from digitalization efforts, the Commission has also been instituting reforms and policies in the PH capital market. In line with the President's aim to boost local agricultural production, the Commission launched the Securing and Expanding Capital for Farms and Agri-business Related Modernization Schemes (SEC FARMS) which will support farm-based small and medium enterprises (SMEs) to raise up to PHP500 Million capital in financing their agricultural projects through selling securities (**see SEC Memorandum Circular No. 08, s. 2023 for further information**). It has also been pushing for the passage of some legislative agenda such as Warehouse Receipts Law, Capital Market Development Act, Collective Investment Schemes Law, and the recently enacted Maharlika Investment Fund Act (**see Page 2 on MIF**).
23. Moreover, the SEC continues to pitch crowdfunding as one of the financing source options for micro, small, and medium enterprises (MSMEs) and start-ups requiring expansion. Crowdfunding refers to the offer or sale of securities of a limited scale done through an online electronic platform. As of December 2022, over 200 businesses from a total of more than 1,000 registered issuers have successfully raised capital through the platforms of Investree and Seedin Technology.
24. The increase in efficiency of the government's process—payments of fees, company and business registrations, submission of reports, issuance of permits and licenses, and revenue collection, among others—resulting from digitalization and complemented by well-structured reforms will help in help in realizing socioeconomic targets.



Global public debt soared to USD92 Trillion in 2022; PH debt remains manageable at PHP14.15 Trillion as of Q2

Figure 4. 2010-2023 PH Outstanding Debt (in PHP Trillion)



Basic Source: BTr, 2023a

Prepared by: ERTD-ERAD

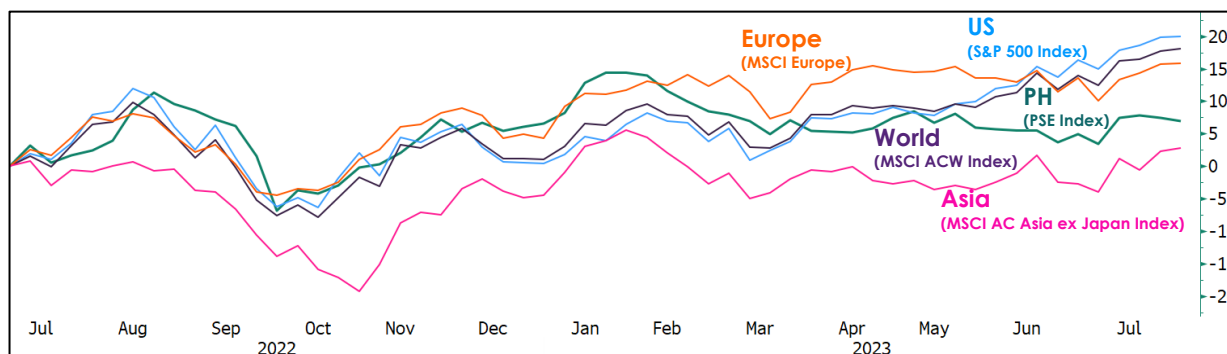
25. The United Nations (UN) warned global public debt has reached an all-time high of USD92 Trillion in 2022—surging five times the 2000 public debt level of USD17 Trillion. In a report by the UN, 70% of the global public debt is owed by developed countries while around 30% is by developing economies.
26. While such is the case, the debt levels of developing countries accelerated faster than developed countries. The debt surge in developing economies is mainly due to the inadequacy of alternative financing modes and mounting financing needs, as countries keep off the adverse effects of the COVID-19 pandemic, the cost of living crisis, and climate change. This increased the number of economies with high debt levels—with a public debt-to-GDP ratio of 60% and higher—to 59 in 2022 from only 22 economies in 2011.
27. With this, the UN developed a road map of multilateral actions, which includes reforming the International Financial Architecture to foster a more inclusive system and empower developing economies in governing the international financial system; tackling the high cost of debt and rising risk of debt distress; expanding contingency finance to provide greater liquidity during crises; and massively scaling up affordable long-term financing.
28. In the case of the PH, total debt swelled since 2020 resulting from a widening fiscal gap as the national government (NG) increased its spending on public health and relief measures. By the first half of 2023, the country's debt reached PHP14.15 Trillion, inching up the debt-to-GDP ratio to 61.0% from 60.9% in 2022. While this is a huge sum in nominal terms and PH's debt-to-GDP ratio slightly breached the 60% threshold for emerging markets, it is still manageable as it still falls within the NG's Medium-Term Fiscal Framework target of 61.2% for 2023 (**Figure 4**).
29. The PH has also been on track to be less reliant on foreign creditors since 2010; however, Covid-19 happened. Nonetheless, the PH's external debt has only accounted for around 31.1% of the total borrowings during the pandemic years (2020-2022) and around 31.4% in Q2 2023, much lower compared to 42.4% in 2010. Moreover, the PH's external debt-to-GDP ratio of 18.3% in 2021 is lower than the 29% debt-to-GDP ratio of developing economies reported by the UN in the same period.
30. While there is no one-size-fits-all policy on preferred external debt levels, lower foreign borrowings make the PH less susceptible and expose to global or external shocks and reduce the risk of currency fluctuations, among others. Developing countries, like the PH, should and will strike a balance between leveraging debt to fund government projects and investments and maintaining fiscal sustainability to avoid financial and economic instability.

Sources: UN, 2023a; UN, 2023b; BTr, 2023a; BTr, 2023b; Senate of the Philippines, 2022



Global equities kicked off Q3 with gains; PSEi ended July in the green

Figure 5. PH and Global Major Indices Weekly Movement July 2022 – July 2023 (normalized % change)



Basic Source: Bloomberg Finance L.P., 2023a

Prepared by: ERTD-ERAD

31. Equities in both developed and developing markets generally advanced in July on the back of moderating inflation and resilient economic data (**Figure 5**). US shares recorded gains, Nasdaq Composite was up by 4.1% month-on-month (m-o-m), S&P 500 was up 3.2% m-o-m, and Dow Jones Industrial Average rose by 3.4% m-o-m. The investor sentiment stateside continued to pick up following improved economic prospects — the U.S. Federal Reserve dropped recession forecast, ongoing inflation deceleration, and recovered consumer confidence. Additionally, corporate earnings for Q2 2023 started to come in showing that out of the 254 partial submissions, 60% reported earnings growth, 38% reported decline while 2% was in line.
32. Eurozone shares slightly rose amid mixed factors including a cooling headline inflation and higher GDP growth in Q2 2023 coupled with a stickier core inflation and weaker Purchasing Managers' Index of 48.9 (from 49.9 in June). While the European Central Bank (ECB) once again hiked interest rates in July, there is a shift in expectations that the ECB might end its rate-hiking cycle soon. This shift and the moderating inflation outlook also buoyed UK shares during the month.
33. Emerging markets including those in Asia outperformed developed markets during the month. China, Malaysia, Taiwan, Thailand, Indonesia and the Philippines all recorded m-o-m gains on the back of positive economic news from the US, continued investor enthusiasm over artificial intelligence (AI) and chipmaking stocks, and optimism on China's targeted government stimulus.

Table 1. PSEi Performance as of End of July 2023

	Close	Comparative Change (%)	
		m-o-m	YTD
PSEi	6,591.47	1.91	0.38
All Shares	3,516.67	1.85	1.58
Financials	1,940.59	5.06	17.97
Industrials	9,176.73	-0.56	-1.87
Holding Firms	6,328.99	-0.90	-1.62
Property	2,709.85	3.90	-7.47
Services	1,613.19	3.07	-1.29
Mining and Oil	10,364.31	4.59	-4.11

Basic Source: PSE, 2023b

Prepared by: ERTD-ERAD

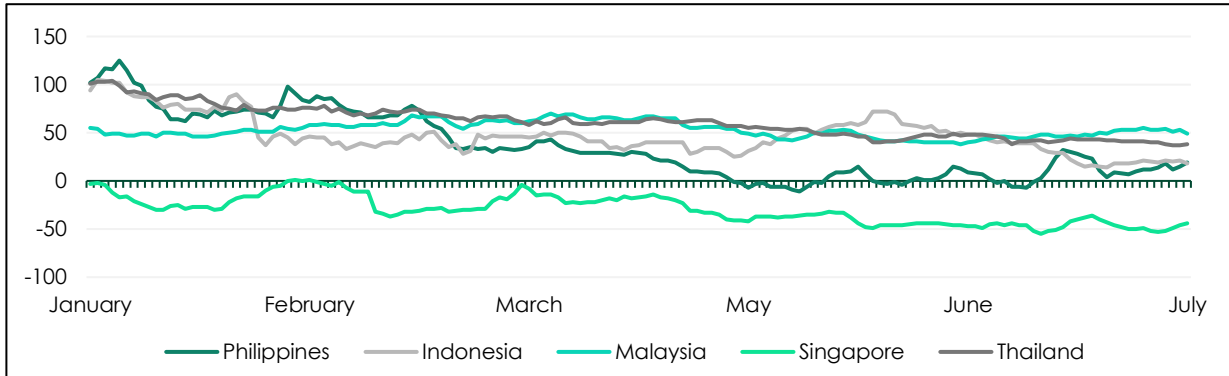
34. Philippine equities generally recorded gains in July, with the Philippine Stock Exchange Index (PSEi) ending the month 1.91% up to 6,591.47 points (**Table 1**). This is an improvement to the flat performance last June and the decline last May. Financials led the recovery ending at 1,940.59 points, up by 5.06% m-o-m. Mining and Oil (4.59%), Property (3.90%), and Services (3.07%) recorded m-o-m increases. Meanwhile, Industrials and Holding Firms modestly pulled back in July.
35. The domestic market's positive performance was driven by better-than-expected US and PH inflation, optimism over domestic corporate earnings, and the upward revision of PH's growth forecast by the International Monetary Fund.

Sources: Capital Economics, 2023a; Capital Economics, 2023b; Fidelity International, 2023; Wall Street Journal, 2023; Nasdaq, 2023; Russel Investment, 2023a; Schroders, 2023; Yahoo Finance, 2023; Lazard Asset Management, 2023; Russel Investment, 2023b; J.P. Morgan Asset Management, 2023; PSE, 2023a; PSE, 2023b



PH benchmark yield curve returned to a positive slope; Fixed Income trade volume surged in July

Figure 6. Selected ASEAN Economies LCY Yield Spread - 2yrs vs 10yrs (%)

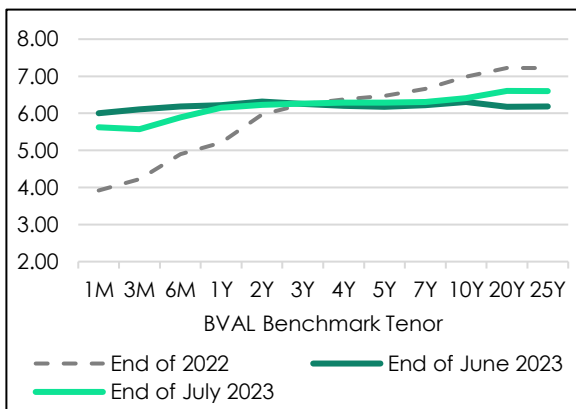


Basic Source: [AsianBondsOnline, 2023](#)

Prepared by: ERTD-ERAD

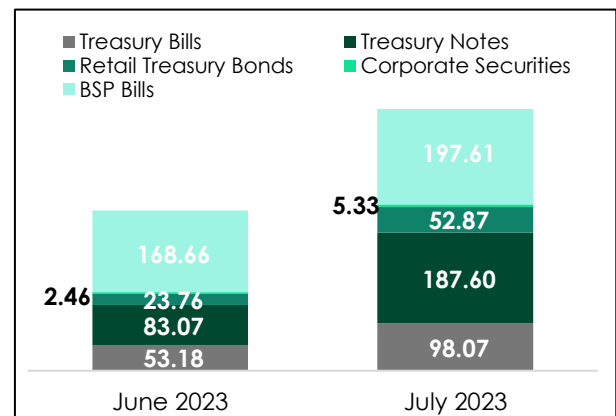
36. The 2-year to 10-year local currency (lcy) bond yield spread in ASEAN markets were mixed in July (**Figure 6**). The 2Y-10Y yield spread in Malaysia and PH expanded, indicating steepening of their respective yield curves while Indonesia and Thailand's narrowed. Nevertheless, all yield spreads remained in the positive territory which means Indonesia, Malaysia, PH, and Thailand have normal yield curves (short-term debt instruments carry lower yields than long-term debt instruments). Singapore's 2Y-10Y yield spread, on the other hand, remained on the negative side, averaging at around -46.9 in July. Its yield curve has been inverted since Q4 2022.
37. The PH benchmark yield curve returns to a positive slope in July after sporadic inversions in May and June (**Figure 7**). Yields of the 1-Month to 2-Year tenors have decline following growing expectations of the end to the rate hiking cycle, while yields of the 3-Year to 15-Year tenors increased giving way to the steepening of the yield curve. As of end of July, PH's 2Y-10 yield spread was at 19 basis points.
38. Fixed Income (FI) trade volume for the month jumped by 63.52% to PHP541.47 Billion from PHP331.14 last June (**Figure 8**). The increase was broad-based across all types of FI securities. Trade volume for Treasury Notes(PHP187.60 Billion), Retail Treasury Bonds (PHP52.87 Billion), and Corporate Securities (PHP5.33 Billion) more than doubled, recording 125.8%, 122.48%, and 116.75% m-o-m growth respectively. Treasury Bills' trade volume amounted to PHP98.07 Billion, significantly up by 84.42% while BSP Bills' hit PHP197.61 Billion translating to 17.16% m-o-m growth.

Figure 7. End of Period Yields across benchmark tenors (% BVAL Yield)



Basic Source: [PDS, 2023a](#); [PDS, 2023b](#)

Figure 8. PDEX Fixed Income Trade Volume Trends (in PHP Billions)



Prepared by: ERTD-ERAD

Sources: [AsianBondsOnline, 2023](#); [Nikko Asset Management, 2023](#); [Capital Economics, 2023c](#); [Capital Economics, 2023d](#)



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