

## DOF Economic Bulletin

### **The Philippine peso remains one of the most stable Asian currencies amid rising risks**

- Despite the rising risks in the global economy, heightened by the spread of COVID-19, the collapse of global stock markets, the crash in Latin American currencies and the downgrading of credit ratings of many economies, the Philippine peso remained firm, almost unmoving from year-end 2019 level.
- As of 15 April 2020, the Philippine peso ranked third, year-to-date (YTD), among the three currencies in Southeast Asia that maintained their value against the US dollar. During the year, the peso appreciated by 0.04% relative to the US\$, ranking third behind the Japanese yen which appreciated by 2.05% and Hongkong dollar which appreciated by 1.28%. All the other currencies depreciated against the US\$.
- The peso-dollar exchange rate also remains stable throughout the period, its coefficient of variation at 0.26%, ranking 1st among 12 regional currencies and lower than the 1.94% Asian average.
- The main reasons for the peso's growing strength and stability are the country's strong balance-of-payments (BOP) position and rising Gross International Reserves (GIR). Strong foreign exchange inflows from exports of services, remittances, income from investments abroad, direct foreign investments and foreign borrowing all contributed to the strong BOP position. These in turn boosted the confidence in the Philippine peso.
- The exchange rate adjusted for the GDP price deflator is significantly correlated to the size of the BOP surplus relative to GDP and the size of the GIR relative to imports of goods and services (see Table 2 for regression results).
- The country had a BOP surplus of US\$7.844B in 2019, 2.2% of GDP, the highest since 2012.
- The GIR rose to US\$88.2B as of end-February, 6.5% higher than the same period last year and equivalent to 7.8 months of imports of goods and services. The GIR level was also 5.1 times the country's short-term external debt.

DOF View

Strong macroeconomic fundamentals support the country's financial position. The BOP surplus in 2019 was the highest in recent history. Manageable budget deficits and prompt adjustment of monetary settings in response to current developments help maintain investor confidence.

| <b>Table 1. Asian Currency/ US\$</b> | <b>31-Dec-19</b> | <b>15-Apr-20</b> | <b>2019 YTD Percent Change</b> | <b>2020 YTD Percent Change</b> | <b>VOLATILITY*/ 2019</b> | <b>VOLATILITY*/ 2020</b> |
|--------------------------------------|------------------|------------------|--------------------------------|--------------------------------|--------------------------|--------------------------|
| <b>China (CNY)</b>                   | <b>6.96</b>      | <b>7.05</b>      | <b>1.23%</b>                   | <b>1.23%</b>                   | 2.27%                    | 0.88%                    |
| <b>Japan (JPY)</b>                   | <b>108.61</b>    | <b>107.22</b>    | <b>-0.98%</b>                  | <b>-1.28%</b>                  | 1.76%                    | 2.06%                    |
| <b>India (INR)</b>                   | <b>71.38</b>     | <b>76.29</b>     | <b>2.31%</b>                   | <b>6.88%</b>                   | 1.31%                    | 2.54%                    |
| <b>Philippines (PHP)</b>             | <b>50.66</b>     | <b>50.63</b>     | <b>-3.62%</b>                  | <b>-0.04%</b>                  | 1.21%                    | 0.26%                    |
| <b>Singapore (SGD)</b>               | <b>1.35</b>      | <b>1.41</b>      | <b>-1.25%</b>                  | <b>5.05%</b>                   | 0.94%                    | 1.97%                    |
| <b>Korea (KRW)</b>                   | <b>1,155.84</b>  | <b>1,217.06</b>  | <b>4.04%</b>                   | <b>5.30%</b>                   | 2.77%                    | 1.81%                    |
| <b>Thailand (THB)</b>                | <b>29.71</b>     | <b>32.64</b>     | <b>-8.11%</b>                  | <b>9.88%</b>                   | 2.13%                    | 3.15%                    |
| <b>Vietnam (VND)</b>                 | <b>23,173.00</b> | <b>23,527.00</b> | <b>-0.01%</b>                  | <b>1.53%</b>                   | 0.23%                    | 0.72%                    |
| <b>Malaysia (MYR)</b>                | <b>4.09</b>      | <b>4.33</b>      | <b>-1.03%</b>                  | <b>5.94%</b>                   | 1.17%                    | 2.26%                    |
| <b>Indonesia (IDR)</b>               | <b>13,925.00</b> | <b>15,645.00</b> | <b>-3.23%</b>                  | <b>12.35%</b>                  | 0.84%                    | 6.66%                    |
| <b>Hong Kong (HKD)</b>               | <b>7.91</b>      | <b>7.75</b>      | <b>1.05%</b>                   | <b>-2.05%</b>                  | 0.28%                    | 0.63%                    |
| <b>Taiwan (TWD)</b>                  | <b>29.99</b>     | <b>30.06</b>     | <b>-1.83%</b>                  | <b>0.22%</b>                   | 1.23%                    | 0.38%                    |
| <b>Average</b>                       |                  |                  | <b>-0.95%</b>                  | <b>3.75%</b>                   | 1.35%                    | 1.94%                    |
| SOURCE:<br>BLOOMBERG                 |                  |                  |                                |                                |                          |                          |
| */ Coefficient of variation          |                  |                  |                                |                                |                          |                          |

**Table** Source: Bloomberg

Notes:

\* Increase in exchange rate means depreciation or weakening of local currency vis-a-vis the US Dollar

\*\* Coefficient of variation (CV); higher CV means higher volatility of the exchange rate

Table 2. Real Exchange Rate Determinants

Dependent variable – Real exchange rate deflated using GNP price deflator, 2000=100

| <b>Independent Variables</b>     | <b>Coefficient</b> | <b>t-stat</b> | <b>Prob.*</b> |
|----------------------------------|--------------------|---------------|---------------|
| <b>BOP position as % of GDP</b>  | -0.089             | -1.875        | 0.071         |
| <b>GIR as % of MGS</b>           | -1.093             | -2.661        | 0.013         |
| <b>DXY, lagged by 2 quarters</b> | 0.017              | 1.597         | 0.100         |
| <b>Constant</b>                  | 28.390             | 15.303        | 0.000         |
| <b>R2 adj = 0.62 n=34</b>        |                    |               |               |
| <b>· Level of significance</b>   |                    |               |               |

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