

**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 markets, the extreme volatility in currencies and the downgrading of credit ratings of many economies, the Philippine peso remained firm, appreciating from year-end 2019 level.
- In 2020, the Philippine peso was in the middle of the pack among the nine currencies in Asia that maintained their value against the US dollar. During the year, the peso appreciated by 5.18% relative to the US\$, in the middle of the pack of nine Asian currencies including the Taiwan dollar, Chinese yuan, Taiwan dollar, Korean won and Japanese yen which appreciated by 6.33%, 6.26%, 6.07%, and 4.94%, respectively.
- The peso-dollar exchange rate also remained stable in 2020, its coefficient of variation at 2.11%, in the middle of the pack of 12 regional currencies and an improvement against the 2.24% Asian average.
- The peso depreciated slightly in the first month of 2021 but this is in line with regional currencies which also depreciated at a slightly higher 0.11% average.
- The main reasons for the peso's continued strength and stability are the country's strong balance-of-payments (BOP) position and rising Gross International Reserves (GIR).
- The country generated a BOP surplus of US\$12.8B in 2020, helped by slower imports and outward payments.
- The GIR rose to US\$109.8B in end-2020, up 21.6% from US\$87.84 the year before. As a ratio of imports of goods and services, it rose to 11.7 months from 7.7 months in 2019. 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\$12.8B in 2020, 3.5% of GDP and the highest since 2010.

DOF View

Despite the pandemic and global economic contraction, strong macroeconomic fundamentals support the country's favorable financial footing. The BOP surplus in 2020 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>31-Dec-20</b>	<b>25-Jan-21</b>	<b>2020 Percent Change</b>	<b>2021 YTD Percent Change</b>	<b>VOLATILITY*/ 2020</b>
<b>China (CNY)</b>	6.96	6.53	6.48	-6.26%	-0.80%	2.33%
<b>Japan (JPY)</b>	108.61	103.25	103.70	-4.94%	0.44%	1.79%
<b>India (INR)</b>	71.38	73.07	72.92	2.37%	-0.21%	2.10%
<b>Philippines (PHP)</b>	50.66	48.03	48.08	-5.18%	0.10%	2.11%
<b>Singapore (SGD)</b>	1.35	1.32	1.33	-1.67%	0.17%	2.02%
<b>Korea (KRW)</b>	1,155.84	1,085.66	1,100.88	-6.07%	1.40%	3.12%
<b>Thailand (THB)</b>	29.71	29.96	29.97	0.86%	0.03%	2.79%
<b>Vietnam (VND)</b>	23,173.00	23,098.00	23,070.50	-0.32%	-0.12%	0.64%
<b>Malaysia (MYR)</b>	4.09	4.02	4.05	-1.72%	0.63%	2.32%
<b>Indonesia (IDR)</b>	13,925.00	14,050.00	14,044.00	0.90%	-0.04%	5.01%
<b>Hong Kong (HKD)</b>	7.91	7.75	7.75	-2.04%	-0.01%	0.46%
<b>Taiwan (TWD)</b>	29.99	28.09	28.00	-6.33%	-0.34%	2.13%
<b>Average</b>				<b>-2.53%</b>	<b>0.11%</b>	2.24%
SOURCE: BLOOMBERG						
*/ Coefficient of variation						

**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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