Philippines Monthly Economic Developments

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- After a brief rally in early June, the Philippine stock exchange index (PSEi) flattened out by the end of the month.
- The Philippine peso weakened in June and once again crossed the Php/US$50.00 mark
- During the first five months of the year exports registered double-digit growth.
- Manufacturing activities expanded at a weaker pace in May.
- After peaking in April, headline and core inflation further slowed during June.
- In May, the government's fiscal balance swung into deficit as spending for infrastructure and operation & maintenance accelerated.
- In the first quarter of 2017, the balance of payments deficit increased significantly, fueled by a widening merchandise trade deficit and persistent capital outflows.

The World Bank projects continued strong growth for the Philippines and expects the economy to expand at 6.8 percent in 2017. The slightly revised 2017 projection considers recent economic trends and compares with the 6.9 percent forecast released in the April edition of the World Bank Philippine Economic Update. The forecast for 2018 remains unchanged at 6.9 percent. Growth in the first quarter of 2017 was in line with the World Bank growth projection, given the high base in the first quarter of 2016, when large election-related spending boosted growth. Consumption is anticipated to grow at a stable rate, supported by robust remittance flows. Global economic activity and trade are gradually improving which is expected to boost demand for Philippine exports. However, higher investment levels will be critical to sustain the economy's growth momentum in the medium term, and the government's ability to realize its infrastructure spending agenda will determine if the Philippines can achieve the growth target of 6.5-7.5 percent for 2017.

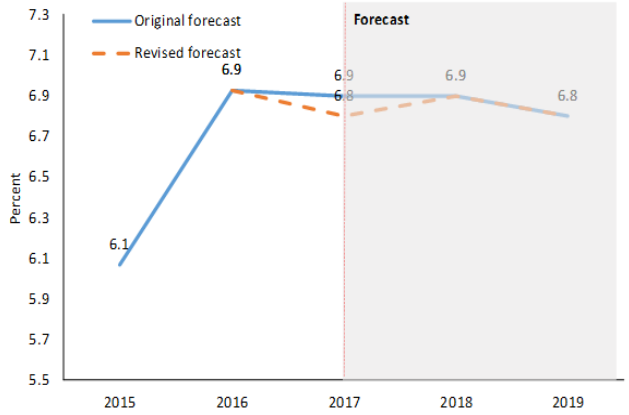
After a brief rally in early June, the Philippine stock exchange index (PSEi) flattened out by the end of the month. The PSEi closed at the end of June at 7,843, slightly higher than the 7,837 at the end of May. Following the US Federal Reserve's decision to raise interest rates by 25 basis points for the second time this year, and the slump in global oil prices, it failed to sustain a brief rally in early June when it breached the 8,000 level. Nevertheless, the PSEi still improved for the fourth consecutive month, due to strong foreign participation in the local stock exchange. Since January, the PSEi has expanded by 14.7 percent, and is among the top performers in the Asia Pacific region. Total net-foreign buying reached Php19.1 billion in June, an increase of 31.5 percent year-on-year compared to the Php14.5 billion net-foreign buying recorded in June 2016.

The Philippine peso weakened in June and once again crossed the Php/US$50.00 mark. The peso closed at the end of June at Php/US$50.47, which represents a 1.2 percent month-on-month depreciation compared to end-May. The weakening was linked to the Federal Reserve's mid-June decision to hike interest rates and is in line with the reactions of most regional currencies. On an annual basis, the peso has depreciated 7.1 percent from the Php/US$47.13 closing at end-June 2016.

During the first five months of the year exports registered double-digit growth. Exports continued their strong recovery in 2017, expanding by 13.7 percent year-on-year in May, compared to a 1.4 percent contraction in May 2016. This growth was fueled by the continued rise of electronics exports, which account for half of total goods exports. Meanwhile, imports grew in May at a slower rate, by 17.8 percent year-on-year, compared to the 46.2 percent growth in May 2016. Imports were driven by strong capital goods imports, which increased in May by 20.1 percent year-on-year.

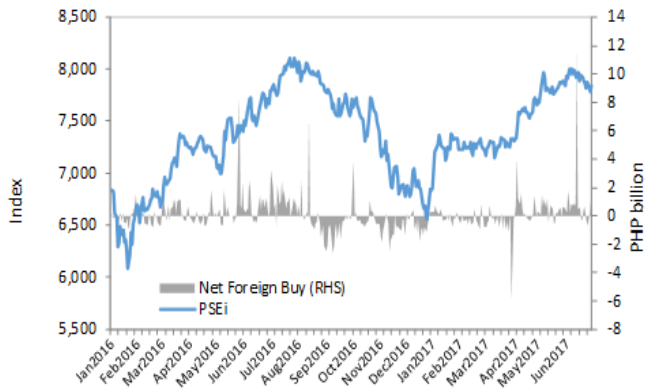
Manufacturing activities expanded at a weaker pace in May. Growth in the volume of production index (VoPI) softened in May to 5.8 percent year-on-year compared to 7.4 percent in May 2016, marking the slowest expansion since January 2016. This was largely due to weaker activities in the rubber, plastic and chemical production. Nevertheless, the overall performance of the manufacturing sector remains solid, especially for the apparel and metal production. Signaling a slight slowdown, the June Nikkei Philippines Manufacturing Purchasing Managers' index (PMI) slid to 53.9 from 54.3 in May. However, growth in new orders remained the key drivers of growth. The average capacity utilization rate remained high in May at 83.8 percent (compared to 83.4 percent in May 2016), with 11 of the 20 major industries operating at 80 percent and above capacity utilization.

Figure 1: The World Bank broadly maintains the growth projections for the Philippines.



Source: Philippine Statistics Authority (PSA) and World Bank staff estimates

Figure 2: After a brief rally, the PSEi closed flat as of end-June.

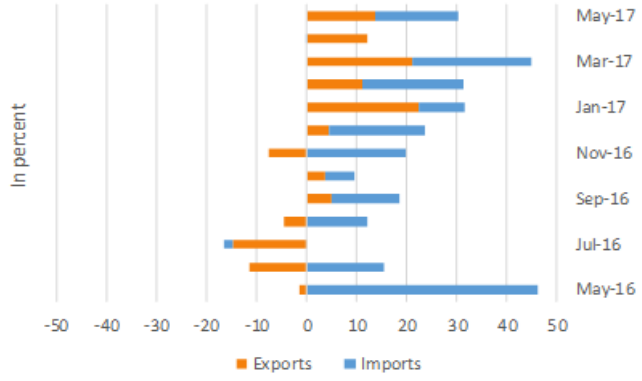


Source: Philippine Stock Exchange

After peaking in April, headline and core inflation further slowed during June. The 12-month Consumer Price Index declined in June to 2.8 percent year-on-year from 3.1 percent in May, and compared to its peak of 3.4 percent in April. Food inflation decelerated significantly to 3.5 percent year-on-year compared to 3.8 percent in May, and 4.0 percent when it peaked in March. This was due to lower price increases for key food items such as fruits, vegetables, and oils and fats. Energy prices also rose less following a downward adjustments in electricity charges and price reductions in petroleum products. Core inflation, which excludes volatile food and energy prices, eased in June to 2.6 percent year-on-year from 2.9 percent in May, compared to its peak of 3.0 percent in April. The year-to-date average headline inflation rate stood at 3.1 percent, which is within the 2-4 percent central bank's target range. The central bank's monetary board met on June 22 and decided to maintain its key policy rate unchanged 3.0 percent.

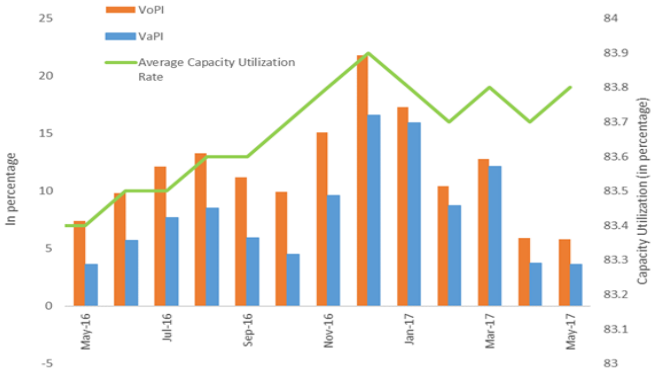
Strong credit growth was sustained as domestic liquidity continued to grow. Domestic liquidity (M3) continued to expand in double-digits and expanded in May by 11.3 percent year-on-year to Php9.6 trillion. This sustained the 11.2 percent expansion from the previous month. Lending from commercial banks, net of reverse repurchase, increased in May by 18.7 percent year-on-year from 19.2 percent in April. On an annual basis, firm loans grew by 17.6 percent compared to 18.4 percent in April. They constitute nearly 90 percent of the total loan portfolio and largely comprise loans to the real estate, manufacturing and wholesale & retail sectors. Although representing a smaller market segment, household loans continue to grow at an even faster rate: 23.6 percent year-on-year in May due to the rapid increase in motor vehicle and credit card loans. The banking system remained stable with non-performing loans standing in May at around 2.0 percent of the total loan portfolio and the latest available capital adequacy ratio of 15.6 percent.

Figure 3: Exports expanded for the fifth consecutive month in the double digits.



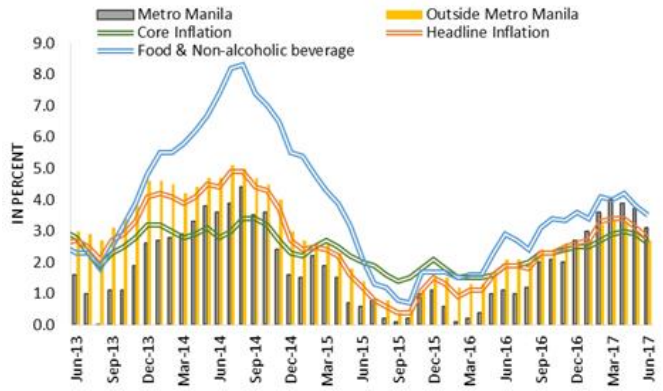
Source: PSA

Figure 4: Manufacturing activities expanded in May at a weaker pace.



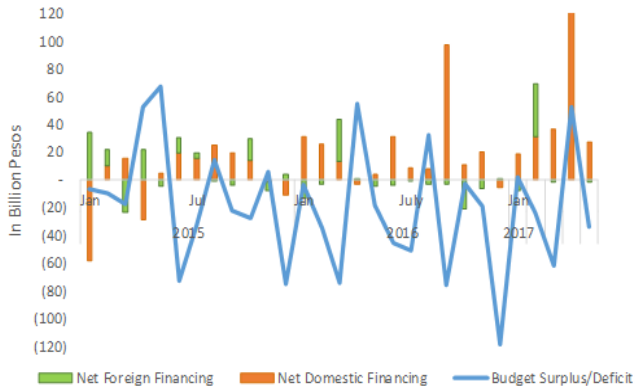
Source: PSA

Figure 5: Headline and core inflation further eased during June.



Source: PSA

Figure 6: The budget balance swung into deficit as spending significantly picked up in May.



Source: Bureau of the Treasury

In May, the government's fiscal balance swung back into deficit as spending for infrastructure and operation & maintenance accelerated. Government expenditures reached Php261.7 billion in May, increasing in nominal terms by 20.4 percent year-on-year, similar to the 24.1 percent growth posted in May 2016. The rise in public spending was the result of double-digit growth in several expenditure categories. This included infrastructure spending which increased in nominal terms by 31.4 percent year-on-year (compared to 47.1 percent in May 2016) due to higher spending on the rehabilitation and construction of roads, flood control projects, and military equipment upgrades. Maintenance & operating expenditures increased in nominal terms by 34.0 percent year-on-year (compared to 53.1 percent in May 2016). At the same time, revenues increased in nominal terms by 14.3 percent year-on-year (reaching Php228.3 billion) which represents a reversal from the 17.6 percent contraction in May 2016. This was largely due to an increase in non-tax revenues, as government-owned and controlled corporations remitted their dividends to the Bureau of the Treasury. Tax revenues grew in May by 8.6 percent year-on-year in nominal terms, but less than the 17.9 percent expansion over the same period a year ago. While the Bureau of Internal Revenue failed to meet its collection target for the month, the Bureau of Customs increased its collection by 23.5 percent year-on-year. Overall, the fiscal deficit nearly doubled in May, to Php33.5 billion, compared to Php17.7 billion a year ago.

In the first quarter of 2017, the balance of payments (BOP) deficit increased significantly, fueled by a widening merchandise trade deficit and persistent capital outflows. In the first three months of 2017, the current account registered a deficit of US$318 million (or 0.4 percent of GDP), a reversal from the US$730 million surplus in the same period last year. The current account deficit was driven by a surge in the country's merchandise trade deficit, as goods import growth outpaced goods export growth. The Philippines registered a US$9.8 billion merchandise trade deficit in the first quarter of 2017, which was partially offset by the surplus in services trade of US$2.4 billion, and net receipts of US$7.1 billion from the primary and secondary income accounts. In the first quarter of 2017, the BOP deficit increased to US$994 million, nearly five times the US$210 million deficit of the first quarter of 2016. The deficit was driven by net outflows from the financial account, which reached US$579 million as the result of US$3.2 billion outflows in portfolio investments. This was partially offset by foreign direct investment, which registered net inflows of US$1.1 billion and the other investment account which registered net inflows of US$1.3 billion.

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