Philippines Monthly Economic Developments

January 2019

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

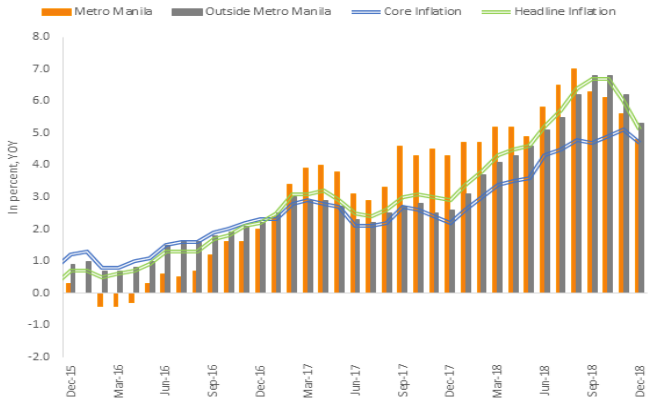
- Headline inflation dropped further in December.
- Manufacturing activities expanded at a slower pace in November.
- Government expenditure growth decelerated in November but remained high, driven by infrastructure and personal spending.

The headline inflation rate dropped to 5.1 percent in December, putting the full-year inflation rate above the central bank's target range. The Consumer Price Index (CPI) slowed from 6.0 percent in November to 5.1 percent in December, year-on-year. The main contributors to the lower inflation rate in December were lower food and transport prices as a result of the fall in international oil prices, the provisional rollback of jeepney fares in select areas, and the large rice supply during the ongoing harvest season. Nevertheless, the full-year average inflation rate increased from 2.9 percent in 2017 to 5.2 percent in 2018–above the central bank's 2-4 percent target range. Excluding volatile food and energy items, the core inflation rate also decreased from 5.1 percent in November, year-on-year, to 4.7 percent in December. The full-year average core inflation rate reached 4.1 percent in 2018, up from 2.5 percent in 2017. On November 16, the central bank raised its key policy rate by 25 basis points to 4.75 percent, resulting in a total increase of 175 basis points in 2018.

The Philippine Stock Exchange index (PSEi) continued its modest recovery in December for the second consecutive month. The PSEi rose by 1.3 percent, month-on-month, in December, following a 3.2 percent expansion in November, to close the year at 7,466. However, the index fell by an average 12.8 percent in 2018—a reversal from the 25.1 percent gain registered in 2017. In line with other countries in the region, the PSEi displayed a strong momentum in early 2018 (it exceeded 9,000 in January), then fell sharply due to a combination of domestic (e.g. rising inflation) and external headwinds (e.g. trade tensions, US Fed monetary tightening) that resulted in significant net foreign selling throughout the year. Total net foreign selling reached Php57.1 billion in 2018, compared to net foreign buying of Php54.8 billion in 2017, reflecting an overall risk aversion to emerging market economies.

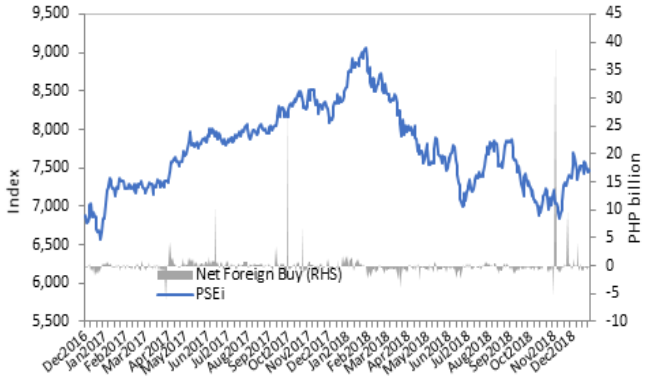
The Philippine peso depreciated in December. The peso depreciated 0.2 percent, month-on-month, in December, a reversal from the 1.9 percent appreciation in November. Moreover, the peso depreciated 5.3 percent, yoy, in December, up from 4.3 percent depreciation in December 2017. Higher international oil prices, coupled with the U.S. Federal Reserve's unexpected aggressive policy stance, put downward pressure on the peso, outweighing the effects of an expected influx of remittances during the holiday season. In addition to global economic headwinds, a wider trade deficit and high average inflation contributed to the large year-on-year currency depreciation in December.

Figure 1: Inflation fell for the second consecutive month in December 2018.



Source: Philippine Statistics Authority.

Figure 2: The PSEi slightly recovered in November after a significant decline amid domestic and external economic



Source: Philippine Stock Exchange.

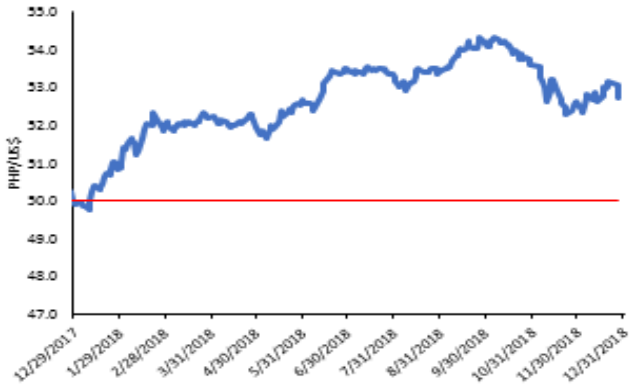
Merchandise exports contracted for the first time in six months in November while import growth slowed significantly to single digits. Merchandise exports fell by 0.3 percent, year-on-year, in November—a sharp reversal from 5.5 percent growth registered in October. The contraction in merchandise exports was driven by the decline in electronics exports, the country's primary export commodity, which contracted by 1.6 percent in November, from 0.6 percent growth in October. Meanwhile, import growth decelerated from 21.4 percent in October to 6.8 percent in November. The slowdown in import growth was driven by the contraction in consumer goods imports (7.5 percent in October to -3.8 percent in November) and a deceleration in the growth of imports of capital goods (from 21.2 percent in October to 4.9 percent in November) and raw materials and intermediate goods (from 22.2 in October to 6.7 percent in November). As a result, the Philippines posted a US$3.9 billion merchandise trade deficit in November, against US$4.1 billion deficit in October.

Gross international reserves recovered month-on-month in December but remain lower than the level reached in December 2017. Gross international reserves fell from US$81.6 billion in December 2017 to US$75.7 billion in November 2018, before increasing to US$78.5 billion in December. The country's current level of reserves can cover 6.9 months' worth of imports of goods and payment of services and primary income, down from 7.7 months' worth in December 2017.

Manufacturing activities expanded at a slower pace in November. The volume of production index (VoPI) expanded by 1.0 percent in November, down from 3.9 percent in October. This marked the seventh month of consecutive decline in the growth of manufacturing activities. Factory activities in textiles, miscellaneous manufactures, and petroleum products expanded by double digits, while activities in food manufacturing and machinery (except electrical) contracted. Meanwhile, the Nikkei Philippines Manufacturing Purchasing Managers' Index fell slightly from 54.2 in November to 53.2 in December, as business conditions were supported by the expansion in new orders and the growth in purchasing activities.

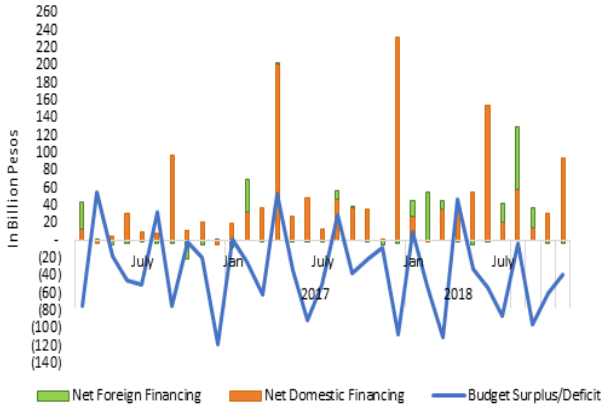
Government expenditure growth decelerated in November but remained high, driven by infrastructure and personal spending. Public expenditure growth decelerated from 35.2 percent in October to 18.5 percent in November. The still high expenditure growth was driven by infrastructure and other capital outlays, which expanded by 43.6 percent in November, and personnel services, which grew by 25.3 percent in the same month. Meanwhile, national government revenue growth decelerated from 20.3 percent in October to 6.7 percent in November. The slowdown was due to moderate growth in tax revenue collection. As a result, the government posted a fiscal deficit of Php39.1 billion in November, resulting in a total fiscal deficit of Php477.2 billion at the end of November, or 91.0 percent of the programmed deficit of Php523.7 billion in 2018.

Figure 3: The Philippine peso depreciated in December 2018.



Source: Bangko Sentral ng Pilipinas.

Figure 4: The public deficit widened for the seventh straight month in November 2018, as spending outpaced revenue.



Source: Bureau of the Treasury.

Selected Economic and Financial Indicators								
	2016	2017	Q1 2018	Q2 2018	Q3 2018	Oct-18	Nov-18	Dec-18
Real GDP growth, at constant market prices	6.9	6.7	6.6	6.2	6.1			
Private consumption	7.2	5.9	5.7	5.9	5.2			
Government consumption	8.8	7.1	13.6	11.9	14.3			
Gross fixed capital investment	26.6	9.5	8.8	21.2	16.5			
Exports, goods and services	11.7	19.6	6.5	12.6	14.3			
Imports, goods and services	20.5	18.2	9.6	18.5	18.9			
Industry Performance								
Value of Production Index	6.2	-0.7	17.8	24.0	8.2	3.1	2.1	
Volume of Production Index	11.5	0.3	18.7	23.0	8.2	3.9	1.0	
Capacity Utilization	83.5	83.8	84.2	84.3	84.2	84.3	84.3	
Nikkei ASEAN Purchasing Managers' Index		53.2	51.3	53.1	51.6	54.0	54.2	53.2
Monetary and Banking sector								
Headline Consumer Price Index	1.3	2.9	3.8	4.8	6.3	6.7	6.0	5.1
Core Consumer Price Index	1.5	2.5	3.0	3.8	4.7	4.9	5.1	4.7
Domestic liquidity (M3)	12.5	13.3	13.7	13.4	10.3	8.3	8.4	
Credit growth	16.6	17.8	17.2	17.9	16.7	16.8		
Business loans	13.5	17.4	17.0	18.1	17.2	17.4		
Consumer loans	20.5	20.5	19.1	16.5	13.3	12.0		
Fiscal sector						**(In billions Php)**		
Fiscal balance (% of GDP)	-2.4	-2.2	-3.9	-0.9	-4.4	-59.9	-39.1	
Total Revenue (% of GDP)	15.2	15.7	15.8	18.2	16.6	246.8	259.7	
Tax Revenue (% of GDP)	13.7	14.2	14.3	16.1	15.2	222.2	242.2	
Total Expenditure (% of GDP)	17.6	17.9	19.7	19.2	21.0	306.6	298.8	
National government debt (% of GDP)	42.1	42.1	42.6	42.5	42.3	7,167	7,195	
Stock market								
PSEi (month-end value)	6,841	8,558	7,980	7,194	7,277	7,140	7,368	7,466
External accounts								
Current account balance (% of GDP)	-0.4	-0.7	-0.2	-3.6	-3.7			
Exports of merchandise goods (growth rate)	-2.5	18.4	-5.4	-1.3	2.5	5.5	-0.3	
Imports of merchandise goods (growth rate)	18.4	13.6	7.2	20.0	19.5	21.4	6.8	
Net foreign direct investment (in million US$)	8,279	10,057	2,227	3,528	2,234	491		
Balance of payment (% of GDP)	-0.1	-0.3	-1.6	-2.5	-2.4			
International reserves (in million US$)	83,515	81,273	80,722	78,779	76,531	74,772	78,461	
Import cover	9.7	8.4	7.6	7.2	7.0	6.8	6.9	
Nominal exchange rate	47.49	50.40	51.45	52.45	53.54	54.00	52.81	52.77
Labor Market								
Unemployment rate	5.5	5.7	5.3	5.5	5.4	5.1		
Underemployment rate	18.4	16.2	18	17	17.2	13.3		
Sentiments								
Consumer confidence index (end of period)	9.2	9.5	1.7	3.8	-7.1	-22.5		
Business confidence index (end of period)	39.8	43.3	39.5	39.3	30.1	27.2		

Prepared by a World Bank team consisting of Rong Qian, Kevin Chua, Kevin Thomas Cruz, Karen Lazaro and Isaku Endo, under the guidance of Ndiame Diop.

Contact Rong Qian (rqian@worldbank.org) for questions.