Philippines Monthly Economic Developments
July 2018

- The Philippine Stock Exchange index (PSEi) contracted in June for the fifth consecutive month.
- The Philippine peso continued to depreciate reaching Php/US$53.5 in June, weakest since 2006.
- Exports declined for the fifth consecutive month while import growth remained robust.
- Bangko Sentral ng Pilipinas (BSP) raised the key policy rate again in June amidst rising inflation.
- Fiscal deficit narrowed slightly in May as revenue growth outpaced expenditure growth.

The World Bank maintains its growth projection for the Philippines at 6.7 percent for 2018 and 2019. The quarterly forecast exercise considered recent economic data and revised the composition of expected growth as compared to the released April edition of the World Bank Philippine Economic Update. Given recent fiscal trends, government consumption growth was revised upwards, while private consumption growth was kept at around six percent in 2018 and in 2019. Due to higher public capital outlays, including increased infrastructure spending, investment growth was slightly upgraded. Overall, it is anticipated that real GDP growth in the final quarter of 2018 and first two quarters of 2019 will be boosted by higher election-related public spending. Export growth – the main growth driver of the economy in 2017—is projected to moderate in the coming years as global growth is expected to decelerate.

The Philippine Stock Exchange index (PSEi), contracted in June for the fifth consecutive month. The PSEi closed at 7,194 by declining by 4.0 percent month-on-month in June 2018, similar to the 4.1 percent contraction registered in May. This represents the lowest level since March 2017. The sustained decline of the PSEi was fueled by persistent outflows of foreign capital, increasing global trade tensions and a more aggressive stance by the US monetary policy. In June, net-foreign selling increased to Php13.4 billion from Php9.1 billion in May, representing a sharp reversal from the Php19.1 billion in net-foreign buying registered in June 2017. Since January, the PSEI has declined by 15.9 percent, among the worst performing major stock indexes in the Asia-Pacific Region.

The Philippine peso continued to depreciate, reaching Php/US$53.5 in June, lowest since 2006. This represents a 1.6 percent month-on-month depreciation from the closing in May and a 6.1 percent year-on-year depreciation from the closing in June 2017. The weakening of the peso was partly the result of increased net-foreign selling and continuous weak exports. The BSP may have intervened to stem excessive volatility in the exchange rate market, leading international reserves to decline to US$77.7 billion in June from US$79.2 billion in May (compared to US$81.3 billion in June 2017). At its current level, the reserves can cover 7.5 months’ worth of import of goods and payment of services and primary income, a decline from 8.4 months’ worth in June 2017.

Exports declined for the fifth consecutive month while import growth remained robust. Merchandise exports fell by 3.8 percent year-on-year in May, contracting for the fifth consecutive month. This represents a reversal from the 24.0

Figure 1: The Philippine economy is projected to grow at 6.7 percent in 2018 and 2019.

Source: Philippine Statistics Authority (PSA) and WB staff projection

Figure 2: The PSEI contracted for the fifth consecutive month in June.

Source: Philippine Stock Exchange
percent growth year-on-year recorded in May 2017. Manufacturing exports, which made up 83.8 percent of the total export bill, contracted by 2.7 percent year-on-year. This represents a significant deceleration from the 18.9 percent growth a year ago. Slower growth in manufacturing exports were driven by sharp declines in exports of processed food, wood manufactures, chemicals, and iron and steel. Agriculture exports declined by 23.2 percent year-on-year in May. Meanwhile, merchandise imports grew by double digits for the second consecutive month, expanding in May by 11.4 percent year-on-year, less than the 20.2 percent in May 2017. Robust import growth was driven by strong imports of consumer and capital goods as well as petroleum crude which grew by 11.6 percent, 10.1 percent, and 42.0 percent year-on-year, respectively.

**Manufacturing output remained strong, growing by double digits for the fifth consecutive month.** The volume of production index (VoPI) increased by 19.8 percent year-on-year in May, recovering from a contraction of 0.6 percent in May 2017. Output expanded strongly in printing, petroleum and food products. Average capacity utilization rates declined slightly to 84.2 in May from 84.3 percent in April, although higher than the 83.8 percent in May 2017. Twelve of the 20 major industries are operating at 80 percent and above capacity. The Nikkei Philippines Purchasing Managers’ Index (PMI) declined to 52.9 in June from 53.7 in May and 53.9 in June last year.

**The Bangko Sentral ng Pilipinas raised the key policy rate amidst rising inflation.** The 12-month consumer price index remained elevated, reaching 5.2 percent year-on-year in June, higher than the 4.6 percent in May, and more than double than the 2.5 percent recorded in June 2017. Higher food prices were the main driver of inflation in June, which was accompanied by high inflation on educational services arising from the approved tuition fee increases for academic year 2018-2019. Year-to-date headline inflation increased to 4.3 percent, exceeding the BSP’s 2.4 percent inflation target range. Excluding the volatile food and energy items, core inflation hit 4.3 percent in June, an increase from 3.6 percent in May and doubling the 2.1 percent recorded in June 2017. Year-to-date core inflation averaged 3.4 percent. On June 20, the BSP raised its key policy rate by 25 basis points, bringing the overnight reverse repurchase (RRP) rate to 3.5 percent. This is the second raise this year to stem the rising inflation.

**Domestic liquidity and bank lending continued to expand in May.** Domestic liquidity (M3) grew by 14.3 percent year-on-year reaching Php11.0 trillion in May, similar to the 14.2 percent expansion in April but higher than the 11.5 percent in May 2017. Liquidity growth was driven by increased commercial lending and higher government borrowing. Commercial lending to firms, which constituted 88.5 percent of the banks’ total loan portfolio, grew by 19.3 percent in May, similar to the 19.6 percent in April and the 17.6 percent in May 2017. It went largely to wholesale and retail trade, and financial and insurance activities. Lending to households grew at a slower rate of 18.4 percent year-on-year in May compared to the 19.0 percent recorded in April, and significantly lower than the 23.6 percent growth in May 2017. The slower growth was due to the slower growth in motor vehicle, salary and other types of household loans.
Fiscal deficit narrowed slightly in May, as revenue growth outpaced expenditure growth. Public expenditures expanded by 11.5 percent year-on-year in nominal terms to Php291.9 billion in May, lower than the 20.4 percent expansion registered in May 2017. Expenditure growth was driven by strong growth in capital outlays expanding in nominal terms by 14.8 percent year-on-year. In particular, infrastructure and other capital outlays expenditure expanded by 25.6 percent year-on-year, slightly less than the 31.4 percent growth registered a year ago. Infrastructure outlays were driven by ongoing projects of the Department of Public Works and Highways for roads improvements and rehabilitation, flood control, maintenance of bridges, and school facilities.

Revenues expanded in May by 13.5 percent year-on-year in nominal terms to Php259.0 billion, slightly lower than the 14.3 percent growth recorded a year ago. The sustained growth in revenue collection was driven by the acceleration in tax revenue growth that expanded by 12.9 percent year-on-year in May compared to the 8.6 percent growth in May 2017. As a result, the fiscal deficit was slightly lower (Php32.9 billion) in May than a year ago (Php33.4 billion).