# Philippines Monthly Economic Developments

May 2018

- The World Bank maintains its growth forecast for the Philippines at 6.7 percent for 2018.
- In the first quarter of 2018, the Philippine economy grew by 6.8 percent.
- Manufacturing activities continued to expand strongly in March.
- Exports contracted sharply while import growth moderated.
- The Philippine Stock Exchange index continued its retreat in April with sizable net-foreign selling.
- The peso hovered above the Php/US$52.00 mark most of April.
- Faced with rising inflationary pressure, the monetary board raised the key policy rate by 25 basis points on May 10.
- Domestic credit growth continued to expand at high double-digit rates.
- The government fiscal deficit nearly doubled in the first quarter of 2018 compared to a year ago with expenditure growth outpacing revenue growth.



**The World Bank maintains its growth forecast for the Philippines at 6.7 percent for 2018.** The economy is growing at its potential, making productive investment in physical and human capital essential for a continuation on the current growth trajectory. The medium-term economic growth outlook for the Philippines is positive and assumes higher public spending and investment growth in 2018 and 2019.

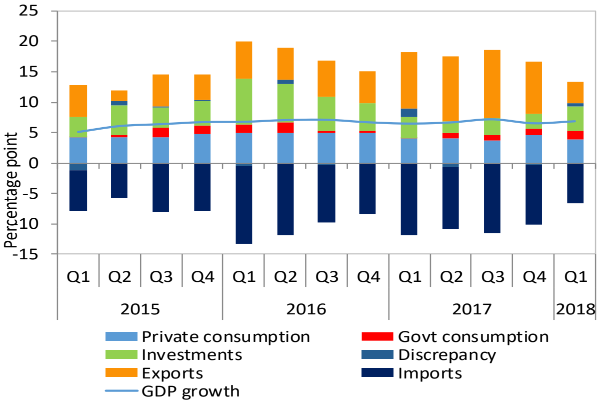
**In the first quarter of 2018, the Philippine economy grew by 6.8 percent.** This compared to the revised 6.5 percent year-on-year in the first quarter of 2017 and the revised 6.5 percent in the last quarter of 2017. Consumption growth at 6.7 percent year-on-year was slightly weaker than the 6.9 percent in the first quarter of 2017 due to higher inflation and weaker consumer confidence that dampened private consumption. However, consumption remained the main growth engine. As the national government expanded its public spending program, the growth in government consumption accelerated to 13.6 percent year-on-year in the first quarter of 2018 compared to 0.1 percent a year ago. The second largest contributor to growth was capital formation which expanded by 12.5 percent in the first quarter of 2018 compared to 11.4 percent a year ago. As a result of softening external demand, export growth decelerated to 6.2 percent year-on-year in the first quarter of 2018 compared to 17.4 percent in the first quarter a year ago. Slower import growth of 9.3 percent compared to 18.7 percent in the first quarter of 2017, was a result of the moderation of consumer goods imports and raw materials and intermediate goods imports.

**Manufacturing activities continued to expand strongly in March.** The volume of production index (VoPI) grew by 13.6 percent year-on-year in March, compared to 24.8 percent February (and 12.3 percent growth in March a year ago). This constituted the third consecutive month of double-digit output expansion. Output expanded strongly in printing, textile and food manufacturing. Average capacity utilization rates remained at a very high level, 84.2 percent (the same as in February) and slightly higher than the 83.8 percent in March a year ago. Twelve of the 20 major industries are now operating at 80 percent and above capacity. Meanwhile, the Nikkei Philippines Purchasing Managers' Index (PMI) rose to 52.7 in April from 51.5 in March, on account of faster rises in new orders and employment.

**Exports contracted sharply while import growth moderated.** Exports shrank for the second consecutive month in March 2018 and contracted by 8.2 percent year-on-year, a sharp reversal from the 26.9 percent growth registered in March 2017. This represents the largest contraction in merchandise exports since July 2016 and contributed to the 6.0 percent year-on-year export contraction in the first quarter of 2018 (compared to 25.5 percent growth in the first quarter of 2017). The contraction was driven by the decline of both agriculture and manufacturing exports. Meanwhile, import growth was flat in March (0.1 percent year-on-year) compared to 21.4 percent a year ago. Imports of consumer goods, capital goods, and raw materials and intermediate goods, which cumulatively account for 88.3 percent of the total import bill, all contracted by 7.6 percent, 2.7 percent, and 2.6 percent, respectively.

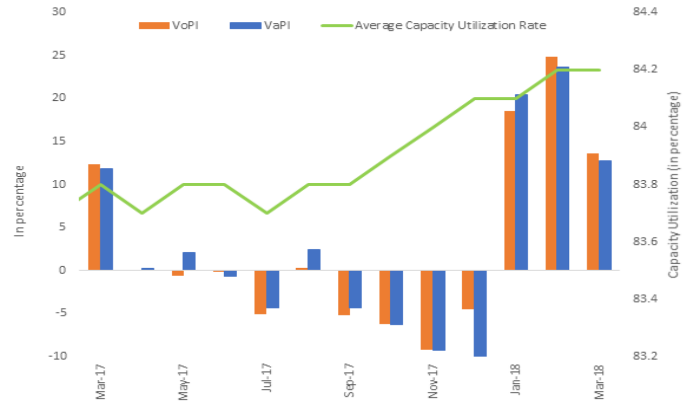
**The Philippine Stock Exchange index (PSEi) continued its retreat in April with sizable net-foreign selling.** The PSEi fell by 2.0 percent month-on-month, but at a slightly slower rate than the 5.8 percent contraction in March. The PSEi was impacted by the prospects of further rate hikes by the US Federal Reserve, global uncertainty amid rising trade protectionism sentiments and geopolitical tensions. The drop of the PSEi was accompanied by the third consecutive month of net-foreign selling of Php8.9 billion in April, but less than the

Figure 1: The Philippine economy expanded by 6.8 percent year-on-year in the first quarter of 2018.




*Source: Philippine Statistics Authority (PSA)*

Figure 2: Manufacturing activities expanded in double-digit for the third consecutive month.



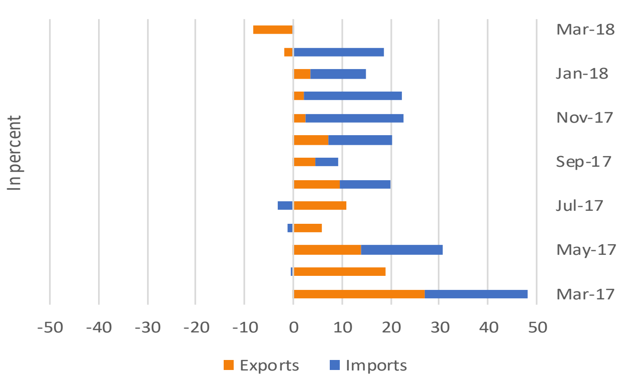

*Source: PSA*

Php19.3 billion registered in March. Since end-2017, the PSEi has declined by 8.6 percent, but is still 1.2 percent higher compared to its closing value as of end-April 2017.

**The peso hovered above the Php/US$52.00 mark most of April.** The Philippine peso slightly recovered at the final trading day in April closing at Php/US$51.97 compared to the Php/US$52.21 closing in end-March. With that the peso appreciated on a monthly basis by 0.5 percent, yet on an annual basis, it depreciated by 4.6 percent from the closing of Php/US$49.70 in April 2017. The peso remained below the Php/US$52.00 mark in early May. The gross international reserves slid to US$80.1 billion in April from US$82.0 billion in April last year, representing a drop in the import coverage to 7.8 months from 8.7 months, respectively. Personal remittances grew by 5.4 percent year-on-year in February compared to 3.3 percent growth in February 2017.

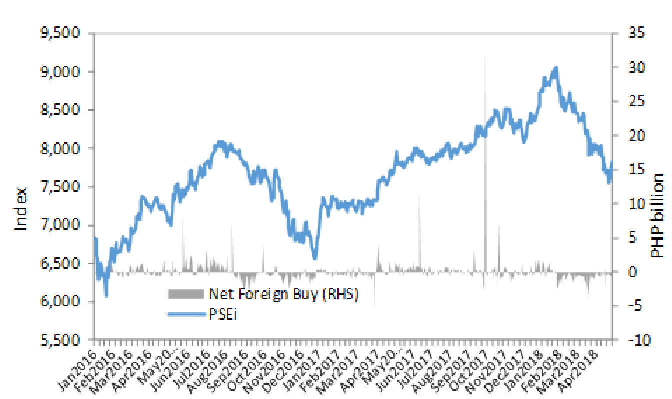
**Faced with continued high inflationary pressure, the monetary board raised the key policy rate by 25 basis points on May 10.** The 12-month consumer price index (CPI) rose in April to 4.5 percent year-on-year from 4.3 percent in March (compared to 3.2 percent in April last year). This brought the year-to-date headline inflation to an average of 4.0 percent, touching the upper bound of the central bank's target range. Among the factors that drove the April inflation were higher food and transport prices. Transport and fuel prices were impacted by rising global oil prices. Core inflation, still measured with the 2006-base, accelerated further from 4.7 percent in March to 5.0 percent year-on-year in April (compared to 3.0 percent in April 2017). As inflation levels remain above the ceiling of the central bank's target of 4 percent, during the monetary board meeting on May 10, the key policy rate was hiked by 25 basis points to 3.25 percent.

Figure 3: Export and import contracted in March.



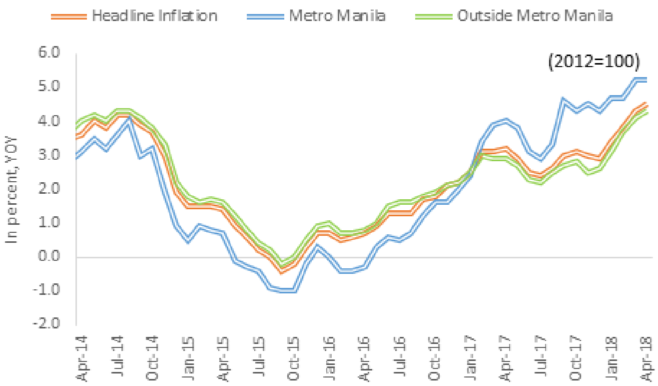

*Source: PSA*

Figure 4: The Philippine Stock Exchange index (PSEi) continued its retreat in April.



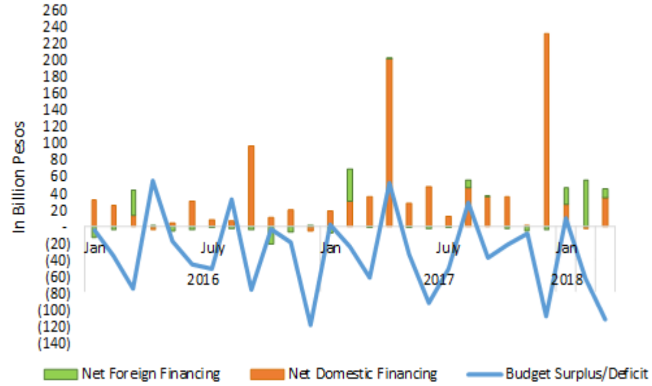

*Source: Philippine Stock Exchange*

Figure 5: Headline inflation further accelerated in April.




*Source: PSA*

Figure 6: The fiscal deficit widened in the first quarter of 2018 as expenditure growth outpaced revenue growth.




*Source: Bureau of the Treasury*

**Domestic credit growth continued to expand at high double-digit rates.** Domestic liquidity (M3) grew by 14.4 percent year-on-year to about Php10.9 trillion in March 2018, faster than the 13.5 percent in February and the 11.7 percent expansion in March last year. This was driven by continued high growth in commercial lending which expanded by 18.3 percent year-on-year in March 2018, slightly slower 19.5 percent in February (and the 20.2 percent in March 2017). Firm credit, which constituted 88.4 percent of the total loan portfolio, grew by 18.1 percent in March, slightly lower than the 18.6 percent growth registered in February and the 18.9 percent registered in March 2017. New firm lending went mainly to the real estate, wholesale and retail trade, and manufacturing sectors. Household credit growth declined to 19.3 percent year-on-year from 19.9 percent growth in February (and 24.5 percent in March 2017) given a slowdown in motor vehicle, salary and other types of household loans.

**The government fiscal deficit nearly doubled in the first quarter of 2018 compared to a year ago with expenditure growth outpacing revenue growth.** In the first three months of 2018, government spending increased by 27.1 percent year-on-year in nominal terms, a significant acceleration from the 4.0 percent growth registered in the first quarter of 2017. This brought expenditures to 20.0 percent of GDP in the first quarter of 2018, higher than the 17.2 percent of GDP recorded over the same period a year ago. This expansion was driven by robust growth both in capital outlays and recurrent expenditure, which expanded in nominal terms by 42.0 percent and 22.0 percent, respectively. Government's infrastructure spending grew in the first quarter of 2018 by 33.7 percent year-on-year in nominal terms, nearly three times the 12.2 percent growth registered over the same period a year ago. Meanwhile, revenues increased by 16.4 percent year-on-year in nominal terms in the first quarter of 2018 compared to 11.1 percent a year ago, reaching 15.8 percent of GDP compared to 14.9 percent of GDP in the first quarter of 2017. Revenue growth was primarily driven by strong tax collections in the first quarter of 2018, which increased by 16.3 year-on-year in nominal terms compared to 12.8 percent over the same period in 2017. As a result, the government's fiscal deficit nearly doubled as a percent of GDP, widening to 4.1 percent in the first quarter of 2018 compared to 2.3 percent in the first quarter of 2017.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