

Philippines Monthly Economic Developments

January 2018

- The Philippine Stock Exchange index (PSEi) ended 2017 on a new record high.
- The Philippine peso strengthened in December, ending the year below the Php/US\$50 mark.
- Export growth slowed to its lowest rate of the year while import growth continued to accelerate.
- Manufacturing activities contracted for the third consecutive month.
- Inflation steadied in December at 3.3 percent, bringing the full-year inflation rate close to the mid-point of the Central Bank's target range.
- Government revenues continued to grow in the double-digits while expenditure growth slowed.
- The president signed the first tax reform package into law on December 19, 2017.
- Consumer and business confidence remained positive for the fourth quarter of 2017, although consumer sentiment declined for the second consecutive quarter.

The Philippine Stock Exchange index (PSEi) ended 2017 on a new record high. The PSEi closed at a new record of 8,558 in December, ending the year on a high note. This was fueled by an improving global environment and strong corporate earnings reports. On an annual basis, the PSEi grew by 25.1 percent in 2017, reversing the 1.6 percent contraction registered in 2016. The PSEi's performance for 2017 was in line with the top-performing stock indices in the region. Overall, foreign investors remained bullish on the Philippines' prospects during 2017 with net-foreign buying amounting to Php54.8 billion in 2017, a significant pick-up from the Php2.2 billion net-foreign buying registered in the previous year.

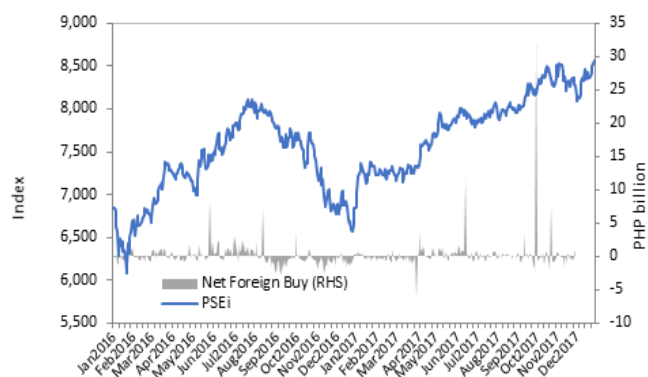
The Philippine peso strengthened in December, ending the year below the Php/US\$50 mark. The Philippine peso closed at Php/US\$49.93 in December which represents a 0.9 percent month-on-month appreciation from the Php/US\$50.37 closing in end-November. This was the strongest reported value for the peso since its 11-year low in October. However, on an annual basis the peso depreciated by 0.2 percent from the Php/US\$49.81 closing at end-2016. The relative strong December performance was due a seasonal boost in remittances during the holiday season and strong inflows of foreign funds to the local stock market. Gross international reserves remained stable in December, at US\$81.5 billion compared to US\$80.3 billion in November (and US\$80.7 billion in December 2016). At its current level, foreign exchange reserves could cover 8.3 months' worth of imports and payments of services and primary income, which is smaller than the 8.8 months' coverage at end-2016.

Export growth slowed to its lowest rate of the year while import growth continued to accelerate. Export growth decelerated to 1.6 percent year-on-year in November from 7.1 percent in October, the lowest growth rate since November

2016 when exports contracted by 4.5 percent. Electronics exports which accounted for nearly sixty percent of total exports in November continued to expand at a strong pace, growing by 12.7 percent year-on-year, and reversing the 7.9 percent contraction registered a year ago. However, this was not enough to compensate for the contraction in other major goods export, such as the contraction in manufacturing exports (1.5 percent year-on-year) and agricultural exports (28.5 percent year-on-year). Meanwhile, import growth continued to accelerate in November, expanding by 18.5 percent year-on-year, higher than the 13.1 percent growth in October, but slightly lower than the 21.0 percent growth a year ago. This was fueled by strong annual growth in imports across all major categories: raw materials and intermediate goods (18.9 percent), capital goods (16.1 percent), and consumer goods (14.4 percent), reflecting robust domestic demand.

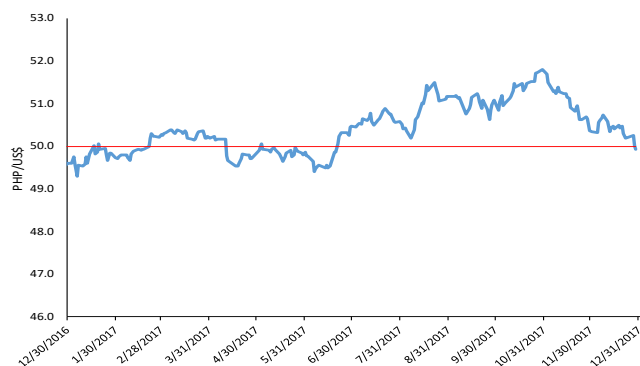
Manufacturing activities contracted for the third consecutive month. The volume of production index (VoPI) contracted by 8.1 percent year-on-year in November, a reversal from the 15.1 percent year-on-year expansion in November 2016. This marked the third-month of output contraction since September, with the overall decline driven by chemical production, tobacco production and textiles production. However, the Nikkei Philippines Manufacturing Purchasing Managers' index (PMI) remained in December in expansion territory at 54.2, just marginally lower than the 54.8 reported in November. Growth in new orders arising from strong domestic demand remains a key driver of optimism in the manufacturing sector.

Figure 1: The Philippine Stock Exchange index ended 2017 on a high note.



Source: Philippine Stock Exchange

Figure 2: The peso strengthened to just below the Php/US\$50 mark.

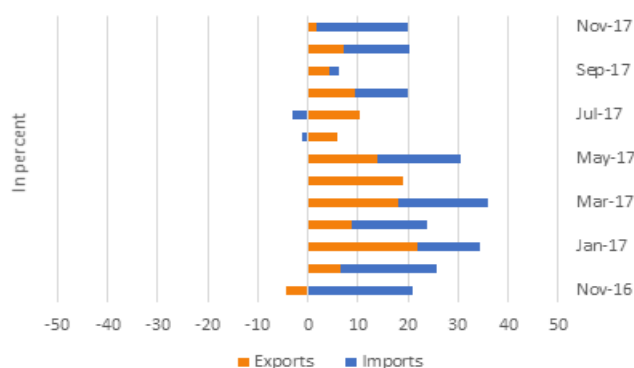


Source: Philippine Statistics Authority (PSA)

Inflation steadied in December at 3.3 percent, bringing the full-year inflation rate close to the mid-point of the Central Bank’s target range. The 12-month Consumer Price Index stabilized at 3.3 percent year-on-year in December, registering the same rate as in November, but higher than the 2.6 percent recorded in December 2016. This brought the 2017 full-year inflation to 3.2 percent, significantly higher than the 1.8 percent of 2016, but still close to the mid-point of the *Bangko Sentral ng Pilipinas’* (BSP) target range of 2-4 percent for 2017. In December, strong demand for food products during the holiday season resulted in higher food inflation, but was offset by downward price adjustment for most non-food items, especially for electricity and fuel. Core inflation, which excludes food and energy items, softened to 3.0 percent year-on-year in December from 3.3 percent in the previous month (and 2.5 percent in December 2016). However, full-year core inflation rose to 2.9 percent in 2017 from 1.9 percent in 2016.

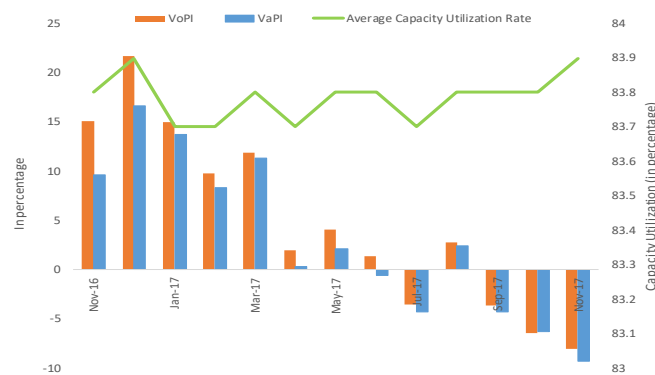
Domestic liquidity and credit growth remained strong in November. Domestic liquidity (M3) grew by 14.0 percent year-on-year to Php10.4 trillion in November, slightly slower than the 14.8 percent expansion in October, but remained higher than the 12.7 percent growth registered in November 2016. The growth in M3 remained broadly consistent with the BSP’s outlook for inflation and economic activity. On an annual basis, growth in bank lending, net of reverse repurchase placements, slightly slowed to 19.2 percent in November from 19.9 percent in October, yet was still faster than the 18.6 percent growth from November 2016. Business loans, which comprised nearly 90.0 percent of banks’ aggregate loan portfolio, grew at 18.5 percent year-on-year in November, and largely went to the utilities, real estate, and information and communication sectors, while household loans grew 20.6 percent year-on-year with growth accelerating mainly for credit card loans.

Figure 3: Export growth slowed to its lowest rate of the year.



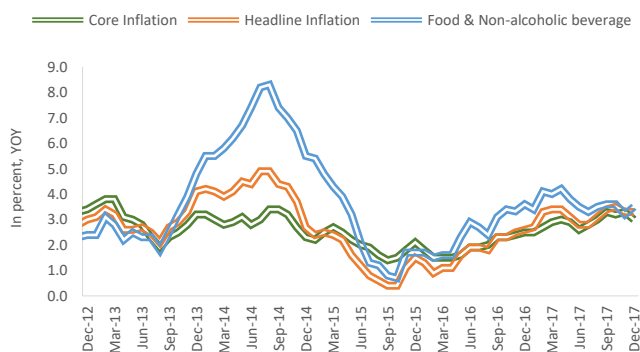
Source: PSA

Figure 4: Manufacturing activities contracted once again in November.



Source: PSA

Figure 5: Inflation steadied and ended the year at 3.3 percent.

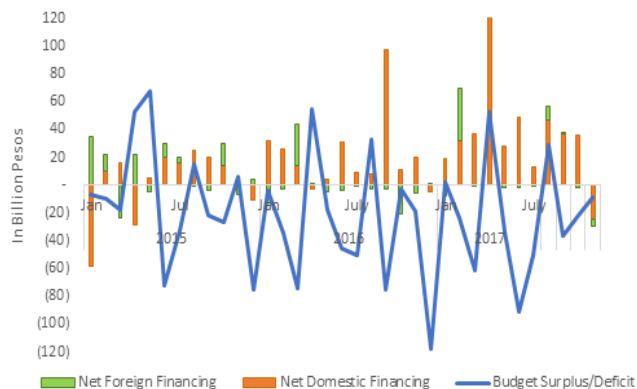


Source: Bangko Sentral ng Pilipinas (BSP)

Government revenues continued to grow in the double-digits while expenditure growth slowed.

Government expenditures totaled Php252.1 billion in November, expanding in nominal terms by 10.4 percent year-on-year, at a much slower pace compared to 28.2 percent in October and 33.2 percent in November 2016. Disbursements increased due to a sustained pick-up in infrastructure spending for the completion of several road and flood control projects, the purchase of equipment for the Philippine National Police, and maintenance of Coast Guard vessels. Infrastructure spending grew by 44.8 percent year-on-year in November, similar to the 49.3 percent growth registered in the previous year. Meanwhile, revenues expanded at a strong pace in November, continuing to increase in the double-digits, by 16.4 percent year-on-year in nominal terms to reach Php243.5 billion, slightly lower than the 17.9 percent growth reported in November 2016. The revenue growth was driven by a continued expansion in tax collection by 15.4 percent year-on-year compared to 19.2 percent in the previous year. As revenue growth outpaced expenditure growth, the government registered a narrower fiscal deficit of Php8.6 billion in November, a contraction of 55.1 percent year-on-year in nominal terms compared to the Php19.1 billion deficit of November 2016.

Figure 6: The government registered a narrower fiscal deficit in November.



Source: Bureau of the Treasury

Reform for Acceleration and Inclusion (TRAIN), was signed into law just before the end of 2017. The law is referred to as package 1A of the government’s tax reform initiative and is expected to bring in an additional Php90 billion in revenues during its first year of implementation in 2018. The additional revenues is planned to be used for the government’s *Build, Build, Build* program (70 percent) and spending on social services (30 percent). Congress is targeting the passage of a supplemental tax package 1B within the first quarter of 2018, which is expected to include a real estate tax amnesty, a general tax amnesty, amendments to the bank-secrecy law, and adjustments in the Motor Vehicle Users Charge. Package 1B is estimated to bring in Php38.9 billion in additional revenues, according to the Department of Finance.

Consumer and business confidence remained positive for the fourth quarter of 2017, although consumer sentiment declined for the second consecutive quarter.

Business sentiment strengthened in the fourth quarter of 2017 as the business confidence index increased to 43.3 percent from 37.9 percent in the third quarter (and 39.8 in the fourth quarter of 2016). However, consumer expectations continued to weaken while remaining in positive territory. The consumer confidence index fell to 9.5 percent in the fourth quarter of 2017 from 10.2 in the previous quarter, but stood slightly higher than the 9.2 percent registered a year ago, according to the BSP Business and Consumer Expectations Survey.

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