

Philippines Monthly Economic Developments

November 2016



- The World Bank Philippines' growth outlook is positive with upside risks.
- In September, manufacturing activities continued to expand with several sectors working close to full capacity.
- The banking system shows ample liquidity and strong credit growth
- October headline inflation was steady while food inflation inched up further impacted by adverse weather conditions.
- The national government deficit widened in January-September as expenditure growth outpaced revenue growth.
- Poverty fell significantly in 2015, as improved employment outcomes, incomes and social welfare programs lifted 1.8 million Filipinos out of poverty since 2012.

The World Bank Philippines' growth outlook is positive with upside risks.

In the recently published *Philippines Economic Update*, the World Bank maintains its forecasts of 6.4 percent growth in 2016 and 6.2 percent in 2017 and 2018. These growth projections incorporate the impact of the July election and include the assumption that public expenditures would rise through 2018. However, the current forecast assumes that capacity limitations may slow the implementation of large-scale public infrastructure projects, and that it could take longer to overcome these obstacles. Meanwhile, some remaining uncertainty regarding the new administration's reform agenda will lead to caution among investors and consumers. However, if the government is able to successfully address these challenges, growth could exceed current projections of 6.2 percent projected for 2017-2018.

In September, manufacturing activities continued to expand with several sectors working close to full capacity.

The Volume of Production Index for manufacturing expanded by 9.9 percent year-on-year in September, compared to 3.0 percent in September 2015. Strong manufacturing production was driven by basic metals, machinery, and rubber and plastic production. Meanwhile, the Nikkei ASEAN manufacturing purchasing manager's index (PMI) for the Philippines slowed marginally to 56.5 in October from 57.5 in September. Still, the PMI reading is the highest among Southeast Asian economies, and indicative of a strong expansion in manufacturing activity in the country. The average capacity utilization rate inched up to 83.6 percent in September from 83.4 percent from September last year. A further increase in output levels would require significant capital investments.

The banking system shows ample liquidity and strong credit growth.

Domestic liquidity (M3) increased by 12.6 percent year-on-year to reach Php8.8 trillion in September 2016. Domestic credit growth of 16.1 percent remained the main source of money supply growth in September 2016, driven by increased private sector lending. In particular, commercial

bank lending continued its rapid expansion at 17.7 percent year-on-year in September. Firm credit grew by 17.3 percent year-on-year, compared to 13.2 percent in September 2015. Household credits grew by 21.7 percent in September year-on-year, compared to 12.7 percent in September 2015, with the fastest growth in salary loans at 50.0 percent. At the same time, non-performing loans continued to decline as a share of the total loan portfolio to 1.64 percent in September from 1.86 percent in September 2015. Demand for the *Bangko Sentral ng Pilipinas'* term deposit facility remained strong with every auction in October oversubscribed by a factor of two or more.

October headline inflation was steady while food inflation inched up further impacted by adverse weather conditions.

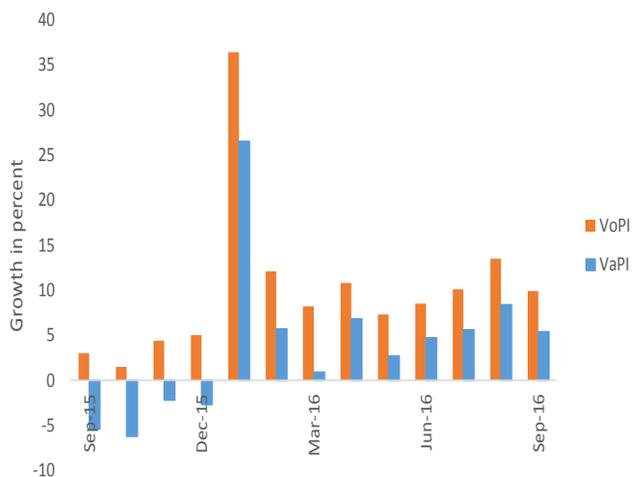
The 12-month Consumer Price Index remained at 2.3 percent in October. However, inflation rates have progressively risen since the beginning of the year, from 1.3 percent in January, yet remain within the 2-4 percent target band of the central bank. The main driver of inflation was food inflation, which doubled in annual terms since January from 1.7 percent to 3.4 percent in October (and 3.1 percent in September). Prices of fruits and vegetables rose in October alone by 8.8 percent and 12.6 percent, respectively, resulting from the negative impact of typhoons Karen and Lawin on farm outputs. Meanwhile core inflation and non-food inflation, remained largely stable compared to September.

The national government deficit widened in January-September as expenditure growth continued to outpace revenue growth.

Total revenues increased by 2.6 percent as of September year-on-year, reaching Php1.6 trillion as tax revenues grew significantly, by 8.6 percent. Meanwhile, government expenditure continued its strong growth, which increased by 14.1 percent year-on-year as of end-September 2016 to reach Php1.9 trillion. As a result, the government recorded a wider budget deficit as of end-September 2016 of Php213.7 billion, compared to the Php25.5 billion deficit in the same period in 2015.



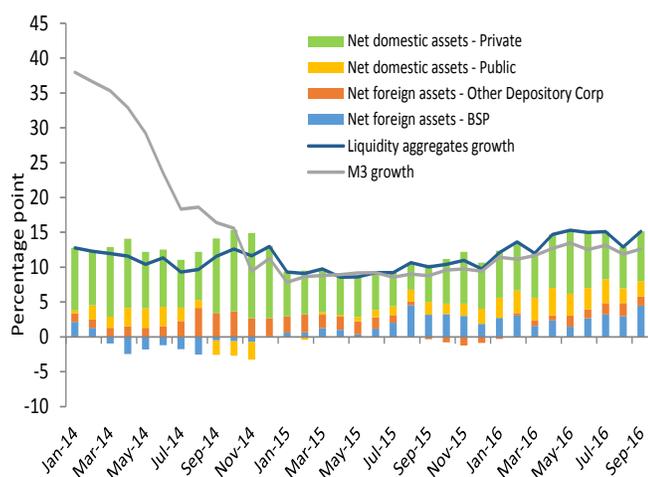
Figure 1: Manufacturing output growth remains strong



Source: PSA

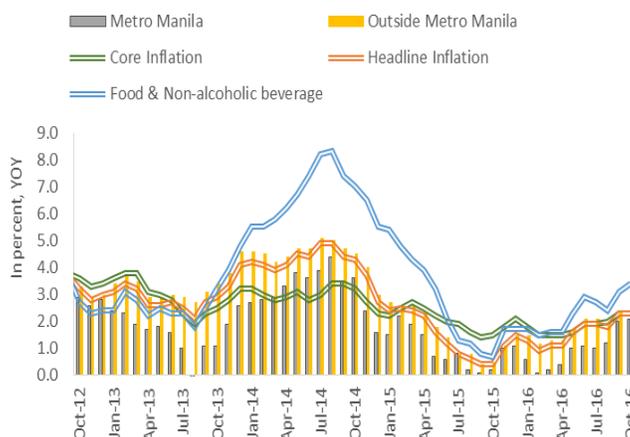
The outstanding government debt continued to increase in the third quarter of 2016. Government debt reached Php6.09 trillion as of end-September 2016, a 2.2 percent increase from its end-2015 level, and a 1.8 percent increase compared to September 2015. Roughly a third of the government debt is external debt and two-thirds domestic. Domestic government debt increased by 0.5 percent since end-2015 to Php3.9 trillion by end-September 2016. The increase in domestic debt is due to the net issuance of government securities worth Php19.8 billion. Meanwhile, external government external debt increased by 5.4 percent since end-2015, reaching Php2.2 trillion as of end-September 2016. In September alone, it increased by 4.1 percent (Php85.9 billion), mainly due to foreign exchange adjustments on the US dollar and third currency-denominated debt.

Figure 3: Money supply continued to expand by double digits



Source: PSA

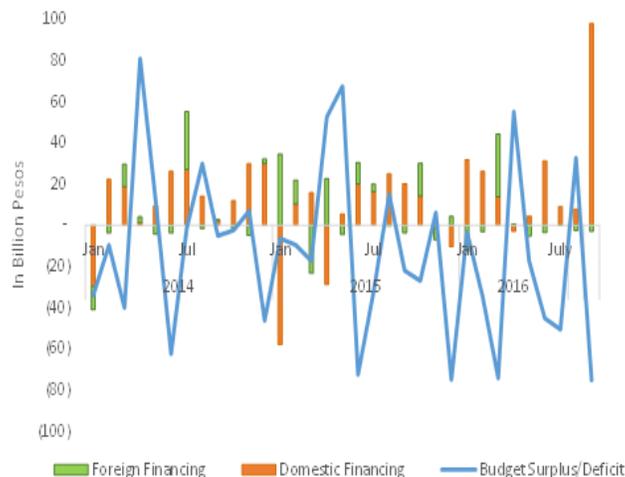
Figure 2: Headline was stable in October, yet food inflation accelerated



Source: BSP

Gross international reserves moderated to US\$85.8 billion in October, and the Monetary Board approved the inclusion of the Renminbi in the official international reserves of the central bank. Gross international reserves decreased slightly from US\$86.2 billion in September. The decrease was due to payments made by the government for its maturing foreign exchange obligations, and due to a revaluation of the central bank's gold holdings given a decrease in the international price of gold. The decline was partially offset, however, by the reclassification of Renminbi-denominated accounts from non-reserve to reserve eligible assets. Effectively October 13, the Monetary Board approved the inclusion of the Renminbi in the official international reserves. The current reserves level covers 10.0 months of imports. It covers 6.1 times the size of the country's short term external debt based on original maturity, providing a buffer from external shocks.

Figure 4: The government deficit continued to widen



Source: BTR

Figure 5: Reserves moderated while remittances recorded its highest growth in more than two years

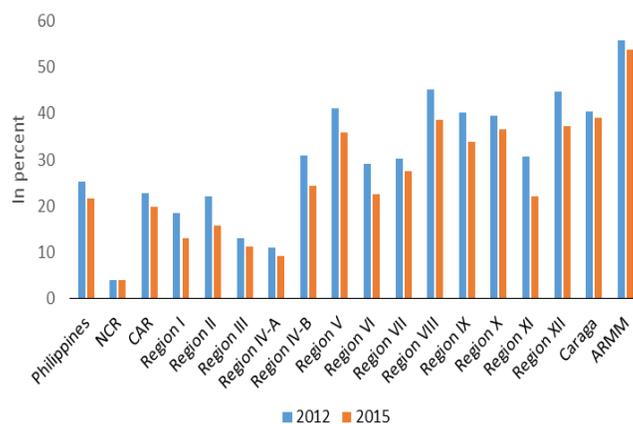


Source: BSP

Remittances from Filipinos overseas reached its highest growth in more than two years. Personal remittances increased by 16 percent year-on-year in August 2016, reaching US\$2.6 billion. This is the fastest growth since March 2014, and a sharp rebound from the 5.4 percent decline in July of this year. In the first eight months of 2016, remittances reached US\$19.5 billion, which is 4.4 higher than in the same period in 2015. Meanwhile, cash remittances increased by 16.3 percent year-on-year in August, bringing the cumulative amount of cash remittances to US\$17.6 billion, 4.6 percent greater than in the same period in 2015.

Poverty incidence among Filipinos dropped to 21.6 percent in 2015 from 25.2 percent in 2012, representing 1.8 million Filipinos lifted out of poverty within three years. The National Economic Development Authority attributed the decline in the number of poor to a higher employment rate, a generally stable inflation environment and improved incomes. Another significant contributor has been the government's conditional cash transfer program, the *Pantawid Pamilyang Pilipino Program*, whose budget increased by almost 200 percent to Php62.3 billion between 2011 and 2015, and whose household coverage almost doubled to 4.4 million households. The poverty rate is within the 20-23 percent target set for 2015 under the Philippine Development Plan 2011-2016.

Figure 6: Poverty incidence improved significantly in the Philippines from 2012 to 2015.



Source: PSA

Improved incomes also translated into greater equality in 2015, although disparity within regions remains significant. Inequality improved as average family incomes continued to increase since 2012 especially among the lowest income deciles. The 2015 Family Income and Expenditure survey revealed that in constant 2006 prices, the average income of Filipino families increased by 5.0 percent since 2012 to Php189,000 in 2015. Meanwhile, the average expenditure increased at a slower pace, growing at 2.7 percent. This resulted in a 15.6 percent increase in average savings per family in real terms to Php37,000 in 2015. Within income deciles, the average family incomes increased for all per capita income deciles from 2012 to 2015. The first four deciles experienced the largest increase, averaging 13.4 percent increase in real terms, compared to an average of 4.5 percent for the fifth to tenth decile. As a result, the Gini coefficient improved to 0.44 in 2015 from 0.46 in 2012.

On October 11, the president signed an Executive Order, approving and adopting the *Ambisyon Natin 2040*. The *Ambisyon Natin 2040* is a 25-year long term vision for the Philippines with the ambitious goal to eradicate hunger and poverty in the country by 2040, or sooner.

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