COCOLIFE

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ECONOMIC AND MARKET UPDATE

The Philippine Economy at a Glance

GROSS DOMESTIC PRODUCT	FOREIGN EXCHANGE	INFLATION RATE	UNEMPLOYMENT RATE	BSP POLICY RATES	CREDIT RATINGS
7.1% (3Q2021) **4.9%** (YTD)	December 2021 **P50.999/$** (1.21% weaker FTM) (6.20% weaker YTD)	**3.6%** (12M2021) **4.5%** (YTD)	**7.4%** (10M2021)	**2.50%** (lending rate) **2.00%** (borrowing rate) **1.50%** (overnight deposit)	**BBB+** (Standard and Poor's) **BBB** (Fitch Ratings) **Baa2** (Moody's Investor)

Macroeconomic Updates

Inflation eases to lowest in 12 months. According to the Philippine Statistics Authority (PSA), the country's inflation rate slowed to 3.6% in December from 4.2% in November. The latest data was the lowest reading in 12 months, since the 3.5% reading in December 2020. The PSA attributed the lower inflation data due to the slower increase in the prices of food and transport, but the full-year inflation still exceeded the central bank's 2.0-4.0% target band. Moreover, this brought the full-year inflation average to 4.5%, higher than the 2.6% recorded in 2020 and the revised 4.4% forecast for 2021. Notably, this was the highest average in three years, since the 5.2% logged in 2018.

BSP holds rates amid Omicron threat. The Bangko Sentral ng Pilipinas (BSP) has decided to retain its policy rates at record-lows on its last Monetary Board meeting for the year to lend support to the economy amid the threat from the Omicron variant. The local central bank kept the overnight reverse repurchase rate at 2%, while the overnight deposit and lending rates at all-time lows of 1.5% and 2.5%, respectively. The committee noted that it has enough scope to keep a patient hand on policy levers owing to a manageable inflation environment.

Money supply rises in November. The country's money supply rose by an annual 8.3% to P14.8 trillion in November. On a monthly basis, the Philippines' domestic liquidity rose by 0.5%. The government cited the better data was due to credit growth continued to improve in November. Net claims on the central government also increased faster by 23.9% from a revised 21.7% in October due to sustained borrowings by the National Government. Looking ahead, the BSP will ensure that domestic liquidity conditions continue to provide the necessary support to domestic economic activity amid downside risks to the economic recovery, in line with its price and financial stability objectives.

Unemployment rate eases in October. The preliminary report of the PSA's October labor force survey (LFS) noted that the country's unemployment rate eased to 7.4% compared with 8.9% in the previous round. It was the lowest jobless rate in three months or since July 2021's 6.9%. In absolute terms, there were 3.504 million unemployed Filipinos in October, down from 4.255 million in September. The size of the labor force was about 47.330 million in October, down from 47.847 million in September. This brought the labor force participation rate to 62.6% of the working-age population in October from September's 63.3%.

Trade deficit balloons to $4.02 billion in October. The Philippines' exports grew by 2% to $6.41 billion in October, which was a turnaround from the 0.9% drop in the same month last year, albeit slower than the 6.4% growth seen in September 2021. Meanwhile, the country's imports rose by 25.1% to $10.43 billion in October, earmarking a reversal from the 15.9% contraction in October 2020 but slightly faster than the 24.9% import growth in September 2021. In turn, the country's trade balance swung to a deficit of $4.02 billion in October, wider than the $2.05-billion shortfall recorded in the same month last year, as well as the $4 billion gap in September. Year to date, the trade balance ballooned to a $33.21-billion deficit, from a $20-billion gap during the same period in 2020. For the 10-month period, exports and imports jumped by an annual 16.1% to $62.10 billion and 29.7% to $95.31 billion, respectively. Both of which surpassed the Development Budget Coordination Committee (BDBCC) expectations for exports and imports to rise by 10% and 12% this year.

Cash remittances hit three-month high. The country's remittances rose by 2.4% to $2.81 billion year-on-year in October from $2.75 billion. Inflows for the month also jumped by 2.74% from $2.74 billion in September. Markedly, the October remittances were the highest in three months or since the $2.85 billion in July. Analysts cited the higher cash remittances reflected the increase in money sent by OFWs to their families in the Philippines as Christmas approaches. Remittances in the 10-month period reached $25.93 billion, up by 5.3% from the $24.63 billion in the same period of 2020.

November GIR slightly drops to $107.7B. The country's gross international reserves (GIR) slightly declined to $107.67 billion at end-November from the $107.89 billion seen in the previous month. Compared to the same period in 2020 of $104.81 billion, the country's GIR level increased by $2.85 billion year-on-year. The BSP said the latest level continues to be "more than adequate external liquidity buffer equivalent" and is equivalent to 10.2 months' worth of imports of goods and payments of services and primary income.

BoP back to deficit in November. The Philippines' balance of payments (BoP) position returned to a $123-million deficit from the $1.47-billion surfeit seen in November 2020. November's BoP position also reversed the surplus worth $1.14 billion in October. Though, this was the smallest deficit in eight months or since the $73 million logged in March. For the first 11 months of 2021, the BoP posted a $353-million surplus, much smaller than the $11.786-billion surfeit in the same period of 2020.

Budget deficit widens further in November. The Bureau of Treasury (BTr) reported the latest fiscal deficit stood at P128.7 billion in November, inching up 0.33% from last year's P128.3 billion, and doubling the P64.3 billion gap in October. Primary spending rose 7.76% year on year to P381.5 billion meanwhile, government revenues in November reached P284 billion which rose 15.56% from the same month last year. In the 11 months to November, the budget deficit reached P1.33 trillion, up by 24.63% compared to the P1.07 trillion in the same period last year. The 11-month tally was 83% of the expected P1.6 trillion deficit for the year with total spending in November reaching P4.1 trillion or 11.4% higher than the P3.7 trillion spent in the same period in 2020. Meanwhile, revenue collection in the 11-month period hit P2.7 trillion, or 5.99% higher than last year.

September FDI inflows lowest in 4 months. Foreign direct investments (FDI) climbed to $660 million in September, although this was the lowest in four months as the elevated number of COVID-19 cases dampened investor sentiment. According to the BSP, FDIs increased 30.4% year on year to $660 million in September from $506 million. However, this was down 23.8% from the $866 million in August and the lowest since the $448 million inflows seen in May. The year-on-year increase in FDI net inflows reflected the low base effect and the improvement in economic activities as restrictions were gradually relaxed. For the first nine months, FDI inflows stood at $7.288 billion, rising 43.8% from the $5.068 billion a year ago.

Hot money flows improve in end-November. According to the BSP, the Philippines' foreign portfolio investments or "hot money" posted a net inflow of $109.56 million last month, lower than a year earlier but reversing from two straight months of net outflow. Analysts pointed out that November was in a better position for business compared with other months, but threats to the investment climate remain given new coronavirus variants. In November, inflows dropped by 18% to $1.284 billion from a year earlier, while outflows fell by 12.3% to $1.174 billion. In turn, hot money in the 11 months to November yielded a net outflow of $570 million, 85% smaller than the net outflow posted a year earlier.

Peso finished weak in end-2021. The Philippine peso closed at P50.999/dollar last December 31, closing 6.2% weaker year-on-year, as the Federal Reserve adopted a more hawkish stance to deal with inflation. Analysts noted that the currency was considerably weaker than the previous year's close as the Federal Reserve turned more hawkish in its policy stance amid the lingering risk of entrenched elevated inflation in the US. Furthermore, the peso even succumbed to its weakest close of P51.00/$ in 21 months last December 29 amid new concerns over higher COVID-19 infections in the country.

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