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
8.3% (1Q2022)	July 2022 **P55.13/$** (0.28% weaker FTM) (8.10% weaker YTD)	**6.1%** (Jun 2022) **(based on 2018 prices)**	**6.0%** (Jun 2022)	**3.75%** (lending rate) **3.25%** (borrowing rate) **2.75%** (overnight deposit)	**BBB+** (Standard and Poor's) **BBB** (Fitch Ratings) **Baa2** (Moody's Investor)

Macroeconomic Updates

Inflation likely to grow faster in July. The country's inflation rate is expected to accelerate further in July due to higher food prices and transport fares, but a cut in electricity rates and rollback in pump prices may have tempered the price pressures. Market analysts yielded a median estimate of 6.2% for July inflation, well within the 5.6-6.4% forecast of the Bangko Sentral ng Pilipinas (BSP). This would also be faster than the 6.1% print seen in June and the 3.7% in July 2021, as well as exceed the BSP's 2.0-4.0% target band for the fourth straight month. If realized, the July print would be the highest in 45 months or nearly 4 years since 6.9% in October 2018. The Philippine Statistics Authority (PSA) will release the July consumer price index (CPI) data on August 5.

BSP delivers surprising 75-bps in an off-cycle meeting. The BSP unexpectedly raised its benchmark interest rates by 75 basis points (bps) as it seeks to tame the fastest inflation in nearly four years. Governor Felipe Medalla said the Monetary Board raised its key rate to 3.25%, which brought back the rate to the March 2020 level. Rates on the overnight deposit and lending facilities were also hiked by 75 bps to 2.75% and 3.75%, respectively. The decision followed the previous two 25-bp rate hikes each in May and June. As of July, the Monetary Board hiked policy rates by 125 bps.

IMF sees slower growth for PHL in 2023. The International Monetary Fund (IMF) raised its gross domestic product (GDP) forecast for the Philippines to 6.7% this year but expects slower growth in 2023 amid global uncertainties. The GDP projection for the Philippines was hiked to 6.7% from 6.5% previously and is within the government's revised 6.5-7.5% target band for this year. However, the think tank lowered its Philippine GDP forecast to 5% for 2023, from 6.3% previously, due to global shocks. On the other hand, the multilateral lender maintained its 5.3% growth outlook for the five Association of Southeast Asian Nations (ASEAN) member countries this year. Furthermore, the IMF downgraded their projections for ASEAN-5 to 5.1% next year, from the 5.9% given in April.

Unemployment rate jumps to a three-month high. The country's unemployment rate accelerated to a three-month high in May amidst the increased economic activity. The latest data reached 6.0% which was higher than the 5.7% in April. Yet, this was still lower compared to the 7.7% seen a year ago. In figures, the number of unemployed Filipinos rose by 165,000 to 2.927 million in a month alone while on an annual basis, the number declined by 812,000 from 3.739 million. This brought the labor force participation rate (LFPR) to 64.0% of the country's working-age population in May improving from 63.4% the previous month.

Trade gap widens in May. The country's exports jumped by 6.2% year on year to $6.31 billion, steady from April's upwardly revised 6.2% but lower than 30.8% in May last year. Meanwhile, imports climbed by 31.4% annually to $11.989 billion in May, which reflected the higher prices of goods including oil. May's import growth was the highest in five months or since the 39.1% growth in December 2021. It also marked the 15th straight month of double-digit growth. In turn, the trade balance stood at a record monthly deficit of $5.68 billion in May which was wider than the $3.18 billion gap a year ago and the revised $5.35 billion deficit in April. In the five months to May, imports grew by 29.0% to $56.80 billion. The growth rate was well above the revised 18% target for 2022. Meanwhile, exports rose by 8.4% to $31.87 billion, also above the 7% growth target set by the interagency Development Budget Coordination Committee (DBCC) for this year. As such, the year-to-date sum of the trade balance ballooned to a $24.922-billion deficit from the $14.623-billion trade gap a year ago.

Money supply grows moderately in May. The country's money supply in May grew by 6.9% to P15.3 trillion. This was also slower compared to 7.2% in April. The BSP said the dynamics remain broadly in line with their prevailing outlook for inflation and economic activity, and vowed to ensure that overall monetary conditions are conducive to maintaining price and financial stability.

June int'l reserves drop to $101.98B. The country's gross international reserves (GIR) dropped in June to $101.983 billion, lower by 1.6% from the $103.646 billion recorded in May and by 3.5% from the record $105.762-billion level seen in June 2021. The central bank said the decrease reflected the National Government's payments of its foreign currency debt obligations and the adjustment in the BSP's gold holdings amidst its downward valuation. The country's GIR is enough to cover 8.5 months' worth of imports of goods and payments of services and primary income. The BSP sees the country's reserves ending the year at $105 billion.

BOP deficit hits $1.57B in June. The country's balance of payments (BOP) lingered at a deficit for a third straight month in June, as more dollars flowed out of the country to pay for the government's foreign debt. The BoP gap widened to $1.57 billion in June, from the $312-million deficit in the same month last year. However, the deficit was narrower than the $1.61-billion gap in May, which was the widest since $2.019 billion in February 2021. Accordingly, the BoP deficit widened to $3.10 billion, from the $1.90 billion deficit in the same period in 2021 for the first half of the year.

Budget deficit widens to P215 billion. The country's budget balance swung to a deficit in June, as revenues grew by double digits but was outpaced by faster spending. The budget gap stood at P215.5 billion in June, 43.8% higher than the P149.9 billion in the same month a year ago. Broken down, government expenditures rose by 28.0% to P505.8 billion during the month. On the other hand, total revenue collection jumped by 18.2% to P290.3 billion in June from P245.57 billion in the same period last year. Nevertheless, in the first six months of 2022, the budget deficit narrowed to P674.2 billion, 5.84% lower than the P716.1-billion gap a year ago and 18.64% below the program. The government aims to reduce the deficit to 7.6% of GDP this year, and further to 6.1% in 2023, 5.1% in 2024, 4.1% in 2025, 3.5% in 2026, 3.2% in 2027, and 3% in 2028.

FDI net inflows rise to 4-month high. Foreign direct investments (FDIs) surged to a four-month high in April as the further reopening of the economy and trade liberalization reforms lifted investor confidence. The latest data rose by 48.3% to $989 million in April from $667 million in the same month in 2021. Markedly, this was the highest monthly FDI inflow recorded since the $1.06 billion in December last year. For the first four months of the year, total FDI net inflows grew by 12.1% to $3.4 billion. For full-year 2022, the central bank projects FDI net inflows will reach $11 billion this year.

Hot money outflows climb in June. Foreign portfolio investments, also known as 'hot money', yielded outflows in June to reach $342 million from $270 million in May, reversing net inflows of $334 million in June 2021. More than two-thirds, or 69.0% of foreign investments withdrawn from the Philippines in June went to the US. Still, the latest monthly result brought the aggregate amount of BSP-registered foreign investments in the first six months of 2022 to net inflows of $728 million, a turnaround from net outflows of $106 million in the first semester of 2021.

Peso finishes at the P55/$ zone in July. The Philippine peso closed at P55.13/dollar last July 29, depreciating by 8.10% from end-2021 close. The peso continued to be spooked by sentiments over the hawkish statements of the US Fed and the bigger trade deficit incurred during the month. Most players endure in fleeing emerging markets including the Philippines to prefer the safer-haven dollar-denominated securities. The souring bets were slightly moderated after the peso took some confidence from the softer US economic growth in the second quarter that fueled recession fears, coupled with global crude oil prices hovering to almost its lowest in about three months. The downtrend in the oil price can help ease inflationary pressures and lower the country's oil import bill.

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