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) **7.8%** (1H2022)	September 2022 **P58.625/$** (4.41% weaker FTM) (14.95% weaker YTD)	**6.9%** (Sep 2022) **(based on 2018 prices)**	**6.0%** (Jun 2022)	**4.75%** (lending rate) **4.25%** (borrowing rate) **3.75%** (overnight deposit)	**BBB+** (Standard and Poor's) **BBB** (Fitch Ratings) **Baa2** (Moody's Investor)

Macroeconomic Updates

Inflation rises to 6.9% in September. The country's inflation rate rose to 6.9% in September from the 6.3% in August as food and energy costs mainly driving the increase in commodity prices. The recent reading is faster than the 4.2% print last year and falls within the 6.6-7.4% range seen by the Bangko Sentral ng Pilipinas (BSP) for September. Year-to-date inflation now stands at 5.1%, still above the central bank's 2.0-4.0% target band for 2022.

World Bank upgrades PH growth outlook. The World Bank upgraded its growth forecast for the Philippines for this year and 2023, citing an "accommodative" fiscal policy conducive to recovering domestic demand despite a hawkish central bank and a pessimistic global economic outlook. The multinational lender raised the Philippines' gross domestic product (GDP) outlook to 6.5%, from the 5.7% given in April. Meanwhile, the World Bank projects the economy to grow by 5.8% in 2023, from 5.6% previously. If realized, the growth projections for the Philippines are second highest in the region, only lagging behind Vietnam's 7.2% for 2022 and 6.7% for 2023. Although, for next year, growth is expected to moderate as pent-up demand is expected to eventually fade amid continued elevated inflation, while public spending is anticipated to slow down in view of the limited fiscal space.

Moody's affirms PHL credit rating. Moody's Investor Service kept the country's credit rating to "Baa2" with a "stable" outlook, citing the challenging global credit conditions will not derail the Philippines' ongoing recovery from the pandemic, although the severity of the pandemic shock has led to an erosion in the rating agency's assessment of economic strength. Moreover, the continued policy and commitment of reform from the current administration will help to assure gradual fiscal repair following the reversal of the strengthening of the government's fiscal and debt metrics resulting from the pandemic. Moody's sees sufficient momentum to support real GDP growth of 6.6% for 2022 and 6.2% for 2023, as price pressures are set to moderate as commodity prices ease from peaks recorded earlier this year.

Unemployment rate eases to year-low in July. The country's unemployment rate eased to its lowest reading since the COVID-19 pandemic in July to 5.2%. The latest reading improved from the 6.0% in June and the 7.2% in July last year. In figures, the number of jobless Filipinos reached 2.60 million, down by 388,000 from June. However, job quality deteriorated as the underemployment rate rose to 13.8% in July from 12.6% in June. However, this was still lower than the 21% underemployment rate in July last year. On the other hand, the size of the labor force was estimated at 49.99 million in July, up by 412,000 from 49.58 million in June. This brought the labor force participation rate (LFPR) to 65.2% of the country's working-age population in July, inching up from 64.8% the previous month.

BSP hikes rates to 4.25%. The BSP raised its key interest rates further to 4.25% during its September Monetary Board meeting amid the weakening peso and elevated inflation. The latest decision followed a similar 50-basis point upward adjustment in August. The BSP's announcement was almost at par with the aggressive policy tightening of major central banks across the globe.

July trade deficit widens to $5.9B. Philippine exports declined by 4.2% in July to $6.21 billion from the $6.49 billion a year ago. It was also lower than the revised $6.64 billion recorded in June. Notably, July's contraction ended 16 straight months of export growth and was the sharpest fall in 18 months since the 4.4% decline in January 2021. Meanwhile, the country's imports continued to grow by at least double digits in July to increase by 21.5% annually to $12.14 billion from $9.99 billion in the same month last year. However, the pace eased from 26.3% year-on-year expansion in June. This brought the trade-in-goods balance to a record $5.93 billion deficit in July, which was wider than the $5.87 billion gap recorded the previous month and the revised $3.51 billion deficit in July 2021. Year-to-date, exports rose by 5.4% to $44.74 billion, below the 7% growth target set by the Development Budget Coordination Committee (DBCC). Meanwhile, imports also increased by 25.9% to $80.49 billion in the January to July period and already above the government's 18.0% full-year target this year. The total trade balance increased 11.4% to $18.35 billion in July, slower than the revised 16.2% in the preceding month and the 21.8% of the same month last year.

PH GIR declines to $99B in August. The country's gross international reserves (GIR) slipped to its lowest level in two years in end-August. The latest reading stood at $98.98 billion, slipping by 0.85% from the $99.83 billion amid the National Government's debt repayments and the lower valuation of the central bank's gold holdings. The August GIR level is sufficient to cover about 7.1 times the country's short-term external debt based on original maturity and 4.6 times based on residual maturity. It is also equivalent to 8.3 months' worth of imports of goods and payments of services and primary income.

PH remittances post highest for the year. The country's remittances grew by 2.3% to $2.92 billion in July from $2.85 billion in the same month last year. Markedly, this was the biggest in seven months since the $2.99 billion in December 2021. Cash remittances from land-based workers went up by 2.5% to $2.36 billion while the sea-based workers' remittances inched up by 1.3% to $552 million. Year-to-date, the seven-month tally of cash remittances expanded by 2.8% to $18.26 billion from $17.77 billion in the same period last year. However, the growth recorded during the seven-month period is below the 4.0% percent growth target set by the BSP for this year.

BoP deficit lowest since April. The country's balance of payments (BoP) settled at a deficit for a fifth straight month in August. The latest deficit stood at $572 million, a turnaround from the $1-billion surplus recorded in the same month last year. Still, this was the lowest deficit posted in four months or since the $415 million seen in April. More so, the August BoP gap was also lower than the $1.82-billion deficit recorded in July. The gap reflected outflows arising mainly from the National Government's foreign currency withdrawals from its deposits with the BSP to settle its foreign currency debt obligations and pay for its various expenditures. For the first eight months of the year, the country's BoP deficit widened to $5.49 billion from the $253 million seen in the same period in 2021.

PH fiscal deficit sharply narrows in August. The Philippines' budget balance swung to a deficit in August as the growth in government revenues outpaced expenditures. The Treasury reported that the country's deficit stood at P72.04 billion in August. Government expenditures rose 6.39% to P404.48 billion during the month, "owing to higher National Tax Allotment (NTA) transfers and Interest Payments (IP)". On the other hand, total revenue collection jumped 28.23% to P332.44 billion in August from P259.3 billion in the same period last year. In the first eight months, the budget deficit narrowed to P833 billion, 13.06% lower than the P958.2 billion gap a year ago. 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.

August 'hot money' outflows settles at 3-month low. Foreign portfolio investments also known as "hot money" saw a net outflow of $86 million in August, the smallest in three months. The latest data was 16% lower than the $103-million net outflows recorded in July and a reversal from the $11.5 million net inflows in the same month in 2021. The aggressiveness in the monetary tightening cycle in advanced economies and investors' perception that these economies are safer to invest in prompted greater outflows from the Philippines. For the eight months to August, foreign investments yielded a net inflow of $539 million, a turnaround from the $434-million net outflows in the same period last year.

Peso closes September in new record low. The Philippine peso closed at P58.625/dollar last September 30 after hitting a fresh historic low within the week. The month was filled with the peso hitting low after lows, even breaching the P59/$ level as the general aggression in major central banks' rate hikes served as fuel for the souring sentiments which colluded by the ongoing Russian invasion of Ukraine. Nevertheless, the local unit slightly strengthened as the central bank tightened the reporting requirements for foreign exchange transactions. Year-to-date, the Peso recorded a downside of 14.95% from end-2021 close of P50.999/$.