

## RBAP Economic Update

As of 28 March 2017

### Real sector

- Real GDP grew by 6.6% year-on-year in Q4 2016. This was lower than the 7.1% growth in Q3 2016 but higher than the 6.5% in Q4 2015.
  - Supply side: The industry sector grew the fastest at 7.6% in Q4 2016 compared with 6.5% in Q4 2015. The services sector grew by 7.4%, while the agriculture sector contracted by 1.1%.
  - Demand side: Investments grew by 15.0% in Q4 2016, higher than the 13.3% growth in Q4 2015. The main drivers of growth were intellectual property products (28.7%) and durable equipment (26.2%). Meanwhile, household consumption, exports, and government spending grew by 6.3%, 10.4%, and 4%, respectively.

### Monetary sector

- Headline inflation rose to 3.3% y-o-y in February 2017 from 2.7% in January 2017. The increase was attributed to the higher prices of food items (such as meat, fish, milk, cheese, eggs, and vegetables), electricity rates (due to increase in generation and transmission charges), and domestic petroleum products (gasoline, diesel, kerosene and LPG). The year-to-date average inflation rate at 3.0% is within the government's 3.0%  $\pm$  1.0% target range for 2017.
- Risks to future inflation:
  - Upside risks:
    - pending petitions for adjustments in electricity rates along with the short-term impact of the Malampaya maintenance shutdown
    - impact of the government's fiscal reform program
  - Downside risk:
    - continued uncertainty in global economic landscape

### External sector

- Cash remittances from OFs reached US\$26.9 billion in 2016, 5.0% higher than the US\$25.6 billion recorded in 2015. Meanwhile, the January 2017 cash remittances amounted to US\$2.169 billion, which is 8.6% higher than the year ago level of US\$1.997 billion.
- International reserves stood at US\$81.4 billion as of end-February 2017, US\$0.06 billion higher than the end-January GIR. The end-February GIR level can cover 9.0 months' worth of imports of goods and payments of services and income.
- Philippine external debt stood at US\$74.8 billion as of end-2016, a decline of US\$1.9 billion from the end-September 2016 level. Consequently, external debt-to-GDP ratio improved to 24.6% in 2016 from 26.5% a year ago.
- On a year-to-date (YTD) basis, the peso depreciated against the US dollar by 1.2% on 24 March 2017 as it closed at ₱50.33/US\$1.
- Commodity prices: (in US\$/MT)

Commodity*	Feb. 2017	Jan. 2017	% change (m-o-m)
Copra	\$1,146/MT	\$1,225/MT	(6.45)
Raw Sugar	\$450/MT	\$450/MT	-

\*Source: World Bank Commodities Price Data released on 2 March 2017

### Banking sector

- Total resources of the banking system reached ₱13.8 trillion as of January 2017, lower than a month-ago level, but higher by 12.3% from a year ago.
- The banking system remains adequately capitalized. The CAR of U/KBs at end-June 2016 stood at 15.37% and 16.12% on solo and consolidated bases, respectively, albeit higher than the previous quarter's figures (15.03% solo and 15.80% consolidated). However, the said CAR of U/KBs is higher than the BSP (10%) and BIS (8%) standards.
- The gross NPL ratio of the rural banking system decreased to 10.63% as of September 2016 from 10.95% a quarter ago. Rural banks' loan loss reserves stood at 7.90% of their gross NPLs as of September 2016, higher than the 7.81% in the previous quarter. The CAR of rural banks at end-June 2016 stood at 18.27%, higher than the 17.83% in the previous quarter.

- References:

<http://www.nscb.gov.ph/sna/>

<http://www.worldbank.org/en/research/commodity-markets>

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