**RBAP Economic Update**

3 August 2015; 3:00 PM; EBC—Visayas/ Mindanao

**Real sector**

* Real Gross Domestic Product growth for the first quarter of 2015 was lower than expected at 5.2 percent due to lower government spending and weak exports; but it was still the third fastest in Asia, after China and Vietnam.
  + Supply side drivers: Strong performance of the services sector (5.6% year-on-year growth), particularly the transportation, communication and storage (8.6%); real estate, renting and business activities (6.4%); and other services (5.8%); and robust growth of industry sector (5.5%).
* Demand side drivers: increased consumer spending (5.4% year-on-year growth), reinforced by fixed capital (10.1%), particularly durable equipment (14.3%).

**Monetary sector**

* In June 2015, inflation decelerated further to 1.2 percent from 1.6 percent in May 2015. This was mainly due to the slower increases in prices of food items (i.e., rice, meat, milk, fish, oils, and fruits) as a result of adequate domestic supply.
* Year-to-date average inflation rate at 2.0 percent was at the lower end of the government’s 3.0 percent ± 1.0 percentage point target range in 2015 to 2016. The government also approved an inflation target of 3.0 percent ± 1.0 percentage point for 2017 to 2018.
* Risks to future inflation continue to be broadly balanced. Inflation is projected to fall within target range in 2015 to 2016.
* Upside risks: Pending petitions for power rate adjustments and the potential impact of stronger-than-expected El Niño weather condition on food prices and utility rates.
* Downside risk: Slower-than-expected global economic activity.

**External sector**

* Personal remittances from OFs for January to May 2015 reached US$11.0 billion, higher by 5.2 percent year-on-year.
* International reserves was at US$80.6 billion as of end-June 2015, which was sufficient to cover 10.6 month’s worth of imports of goods and payments of services.
* External debt-to-GDP ratio declined from 52.7 percent in 2005 to around 26.1 percent as of end-March 2015.
* On a year-to-date basis, the peso depreciated against the US dollar by 2.0 percent on 30 July 2015 as it closed at P45.25/ US$1, moving in tandem with other Asian currencies except for the New Taiwan dollar, which appreciated vis-à-vis the US Dollar.[[1]](#footnote-1)
* Commodity prices: (US$/MT)

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| --- | --- | --- | --- |
| **Commodity\*** | **June 2015** | **May 2015** | **% Change (month-on-month)** |
| Copra | 740 | 748 | (1.1%) |
| Refined Sugar | 270 | 290 | (6.9%) |

\*Source: World Bank Commodities Price Data released on 2 July 2015

**Banking sector**

* Resources of the banking system declined slightly by 1.2 percent to P11.0 trillion as of end-March 2015 from a quarter-ago but increased by 9.2 percent from the year-ago level.
* The banking system is also adequately capitalized. The CAR of U/KBs at end-May 2015 stood at 16.3 percent and 17.0 percent on solo and consolidated bases, respectively, higher than the BSP (10%) and international (8%) standards.
* The gross non-performing loans (NPL) ratio of the rural banking system increased slightly to 11.92 percent as of March 2015 from 11.77 percent a quarter earlier. Meanwhile, rural banks’ loan loss reserves stood at 57.4 percent of their gross NPLs as of March 2015, slightly lower than the 58.0 percent in the previous quarter.

1. Based on the last done deal transaction in the afternoon. [↑](#footnote-ref-1)