Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2021	2022	2023
Real GDP (2018=100)	5.7%	**6.8%**	**6.0% - 7.0%**
Inflation (2018=100)	3.9%	**5.6%**	**4.0% - 6.0%**
BSP RRP Rate	2.0%	**5.25%**	**5.5% - 6.0%**
USDPHP (BSP)	50.77	**58.2**	**59.6**

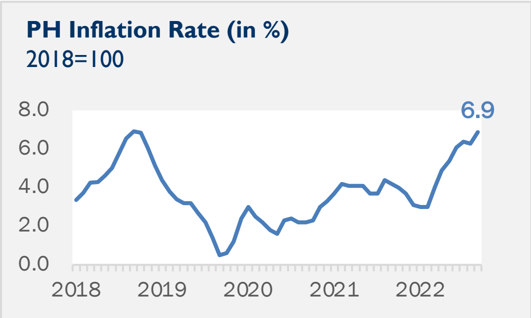
Updated as of September 23, 2022

> "Clearly the Fed's policies have affected our choices. We don't want to match the Fed, at the same time we have to respond."
>
> *- Bangko Sentral ng Pilipinas (BSP) Governor Felipe Medalla*

OUTLOOK

Real Economy

- Commodity prices are expected to continue to soar owing to second-round effects, which may lead to a discrimination and possibly a contraction in consumer spending.
- The steep oil production cut announced by OPEC+ may rally oil prices up in the coming months, unless recession concerns remain or even worsen, which may help offset the potential rise in oil prices due to weakened demand.
- The continued re-opening of the economy, the resumption of face-to-face classes, and the expected high OFW remittances in Q4 may help bolster growth.



Source: Philippine Statistics Authority (PSA)

Inflation

- Inflation spiked to 6.9% in September (versus 6.3% the prior month), the highest since October 2018. This was primarily driven by faster acceleration in the prices of food and non-alcoholic beverages, as well as housing, water, electricity, gas, and other fuels.
- Inflation is expected to remain elevated due to higher public transport fares that took effect this month and the impact of Typhoon Karding and other weather disturbances on food supply. Food shortages that lead to an upsurge in food commodity prices, such as in the case of sugar, could also heighten inflation.
- There is upward pressure for global energy commodity prices as the Northern Hemisphere enters the winter season with limited supply sources. This will push inflation to a higher level and will likely cascade to the Philippines.

Interest Rates

- Further rate hikes were signaled by the Bangko Sentral ng Pilipinas (BSP) due to rising prices, expected aggressive rate hikes by the Fed, and to lend support to the peso as it further weakens, already depreciating by around 15.6% since yearend 2021 according to the Bankers Association of the Philippines (BAP).
- Interest rates in the coming months are expected to rise given the consistent hawkish policy stance of the Fed. In the September meeting of the Federal Open Market Committee (FOMC), terminal fed funds rate projections were raised to 4.25% to 4.50% by end-2022, and 4.50% to 4.75% by end-2023. This is amid Federal Reserve Chair Jerome Powell signaling no pivot until 2024, indicating more aggressive Fed rate action.

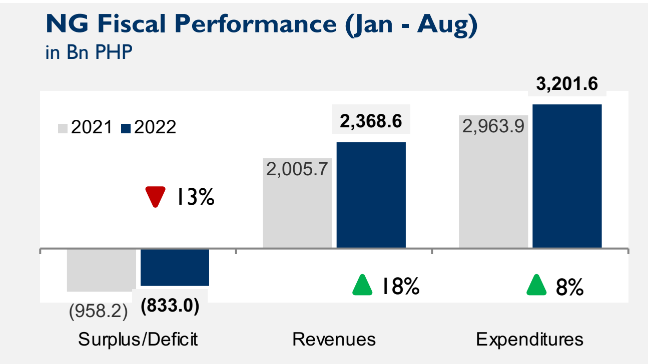
Foreign Exchange

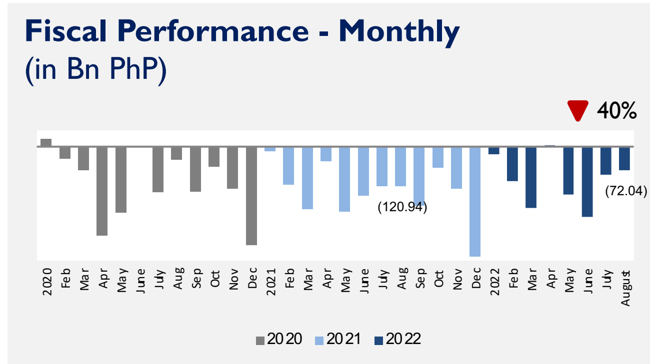
- High global inflation and expectations of further Fed rate hikes would lend support to the USD in the coming months. This is evident with USD-PHP hitting the P59 levels early October. Expect volatile exchange rates.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Slimmer budget deficit posted in August





Fiscal balance remained in deficit in August but further narrowed to PhP72Bn declining by 40% vs August 2021. Accumulated total as of August 2022 likewise declined by 13% vs the same period in the previous year. Decline in August 2022 YTD budget deficit vs past year is attributed to further expansion in revenues by 18% in terms of tax collections and growth in revenues from the Bureau of Customs. In addition, revenue collection is already at 72% of the PhP3.3Tn full-year program of the BIR. Similarly, BOC revenues has posted another highest YoY for the year, pushing government revenues up.

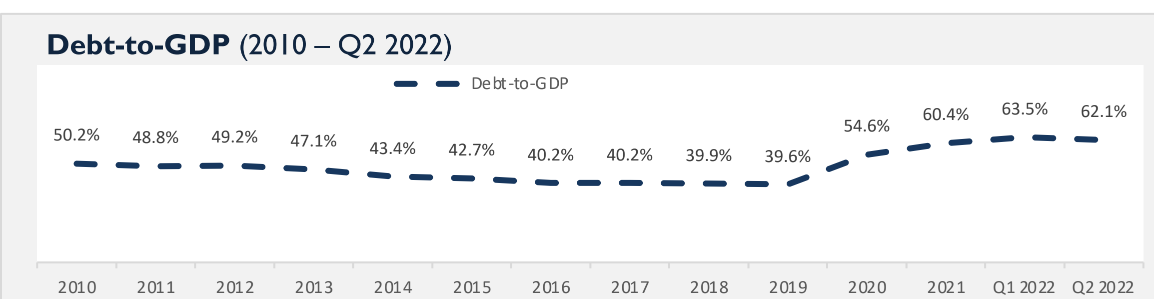
Meanwhile, expenditures grew by 8% - slower than previous month's YTD - driven by higher National Tax Allotment Transfers and Interest Payments. Programmed expenditures for the year is at PhP4.9Tn, resulting in the target deficit ceiling for FY 2022 at P1.65 trillion (-7.6% of GDP) with a declining trajectory to reach P1.12 trillion (-3% of GDP) in 2028.

Sources: DBM, BTr, DBCC, various news sources

DEBT

NG Debt expanded to PhP 13.02 Tn as of end-August 2022

National Government debt grew to P13.02 trillion as of end-August 2022 increasing by P133.64 billion from July 2022. Increase in debt stock vs last month was due to higher net issuance of domestic securities and currency adjustments. As of August 2022, debt stock increased to 97% of the projected P13.43 trillion outstanding debt by end-2022.



In Tn PhP	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2022	Q2 2022
NG Debt	4.72	4.95	5.44	5.68	5.74	5.95	6.09	6.65	7.29	7.73	9.80	11.73	12.68	12.76
Nominal GDP	9.40	10.14	11.06	12.05	13.21	13.94	15.13	16.56	18.27	19.52	17.95	19.41	19.97	20.59

Sources: BTr, DBCC, various news sources

GLOBAL MACRO NEWS

OTHER NEWS

OPEC+ to cut oil production by two million barrels per day (bpd)

Back in September, OPEC+ members had agreed to cut oil output by a meager 100,000 bpd starting October. However, just this October 5, OPEC+ had concurred to sharp oil production cuts by 2 million bpd starting November 2022. This is their biggest production cut in more that two years, in an attempt to defend and raise oil prices, citing the recent recession concerns that brought down brent crude prices (the international benchmark) hovering below the USD90/barrel levels during the 2nd half of September, and which might cause oil demand and prices to further plunge.

This agreement, led by Saudi Arabia and Russia, is in contrast with the US and European leaders' appeal for more oil production to ease gasoline prices due to rising inflation and due to an already tight energy market. Note that after OPEC+'s announcement on October 5, brent crude prices rose by around 1.7% to $93/barrel and was brought back to mid-September levels.

This substantial oil production cut may very well increase oil prices and subsequently, add to global inflationary pressures. Still, there are some policy options that the US may utilize to reduce energy prices. One of them is by releasing more oil from the Strategic Petroleum Reserve (SPR), the world's largest emergency stockpile of oil. However, its reserves have dropped to the lowest levels since 1984, and there might be risks in allowing additional SPR oil withdrawals should there be other unforeseen events such as a natural disaster. Apart from this, US President Biden has stated that they are eyeing other alternatives to mitigate the effects of the production cut.

Nonetheless, oil prices are expected to remain erratic in the coming days. Though prices may rise due to the production cut, recession fears remain which might diminish demand and partially offset the potential increase in prices. However, with the Northern Hemisphere entering the winter season, this might also be a catalyst that will keep oil prices up.

Sources: The New York Times, Reuters

Central banks worldwide on the fight against inflation

To tame inflation, the United States has been the most hawkish in terms of using monetary policy, already hiking its policy rates by a total of 300 basis points as of September. Along with the Fed's 75-bps rate hike on September 22, other central banks have also taken action during the same week. For the Philippines, the BSP delivered a 50-bps hike which raised the benchmark rate to 4.25%. The United Kingdom also hiked rates by 50 bps to 2.25%, the highest level in 14 years. The Swiss National Bank hiked by 75 bps to 0.5%, its biggest rate hike ever and ending several years of negative interest rates. In Norway, the Norges Bank raised its key policy rate by 50 bps to 2.25%, while Sweden raised by a full percentage point or by 100 bps to 1.75%. Meanwhile, the Bank of England raised its key interest rate by 50 bps to 2.25%.

Earlier in September, Australia hiked policy rates by 50 bps to 2.35%, and EU by 75 bps to 1.25%. Canada, on the other hand, was the first among the world's advanced economies to deliver a 100 bps hike, raising policy rates to 3.25%.

This only goes to show that high inflation is a worldwide phenomenon, and central banks all around the world have stepped up their game in this battle to manage inflation. Expect more rate hikes by BSP in the remaining months. RRP terminal rate outlook of the Research team is at 5.25% by end-2022.

Sources: New York Times, Reuters

Global dip in foreign currency reserves

Fall in global foreign currency reserves has been at the fastest pace since 2003, according to Bloomberg, as central banks mediate to support their currency. Reserves have declined by about $1Tn based on Bloomberg data. Meanwhile, global foreign currency reserves has dipped from $12,806Bn in Q2 2021 to $12,037Bn in the same period in 2022 based on the latest IMF data (See right chart). The decline is partly attributed to devaluation changes as the dollar continues to strengthen.

For PH, GIR is likewise on a decline currently at $97.44Bn as of August 2022, 9.7% lower vs the same month in 2021 and 1.5% lower vs August 2020.

Sources: Bloomberg, IMF

World - Official Foreign Currency Reserves by Currency (in Bn USD)