Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2021	2022	2023
Real GDP (2018=100)	5.7%	7.2%	6.0% - 7.0%
Inflation (2018=100)	3.9%	5.8%	4.0% - 6.0%*
BSP RRP Rate	2.0%	5.5%	5.75% - 6.25%
USDPHP (BSP)	50.77	58.2	59.6

*with upward bias

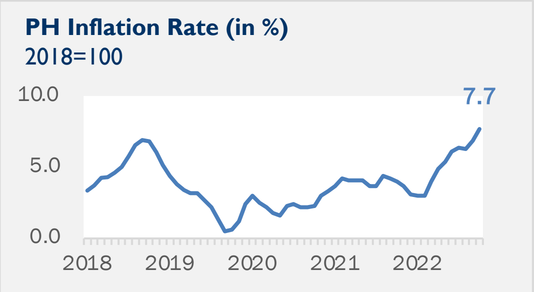
Updated as of November 10, 2022

> "Of course, anything can happen but our best guess is that it [inflation] will peak either this month or the last month of the year."
>
> *- Bangko Sentral ng Pilipinas (BSP) Governor Felipe Medalla, during a November interview with Bloomberg*

OUTLOOK

Real Economy

- Easing of mobility restrictions on the back of the continued economic reopening has allowed the resumption of face-to-face classes and the recovery of certain sectors such as Tourism, thereby fueling a better-than-expected 7.6% GDP growth in October. This could continue to support the growth trajectory of the country.
- The expected seasonal increase in OFW remittances and holiday demand in Q4 may help boost consumption and bolster growth.
- However, 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 in the coming months.



Source: Philippine Statistics Authority (PSA)

Inflation

- Inflation soared to 7.7% in October (versus 6.9% the prior month), the highest in almost 14 years. This was primarily driven by faster acceleration in the prices of food and non-alcoholic beverages due to the impact of recent weather disturbances, particularly Typhoon Karding, on food supply.
- Inflation is expected to remain elevated and to peak towards the end of the year due to the agricultural damage brought about by Typhoon Paeng, as well as heightened spending and seasonal increase in OFW remittances owing to the Christmas season.
- There is upward pressure for global energy commodity prices owing to the impending EU ban on Russian crude imports this December. This may push inflation to a higher level and may cascade to the Philippines.

Interest Rates

- Further RRP rate hikes matching the US Federal Reserve (Fed) rate hikes were signaled by the Bangko Sentral ng Pilipinas (BSP) due to rising prices, aggressive policy stance of the Fed, and to lend support to the peso. The RRP rate is expected to end at 5.50% by yearend 2022.
- Interest rates in the coming months are expected to rise given the consistent hawkish statements by the Fed in its November meeting. Terminal fed funds rate (FFR) projections are at 4.25% to 4.50% by end-2022, and markets are projecting FFR to reach 5.0% within the first half of next year.

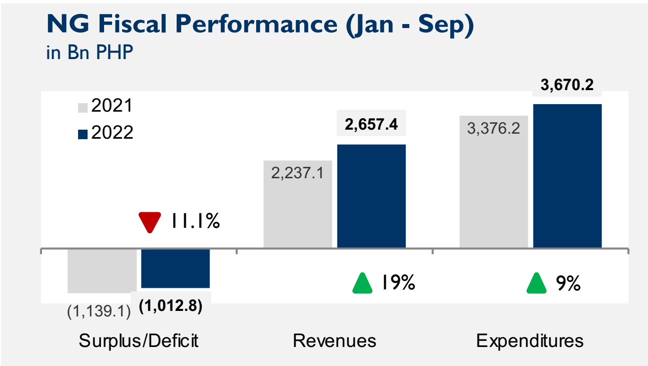
Foreign Exchange

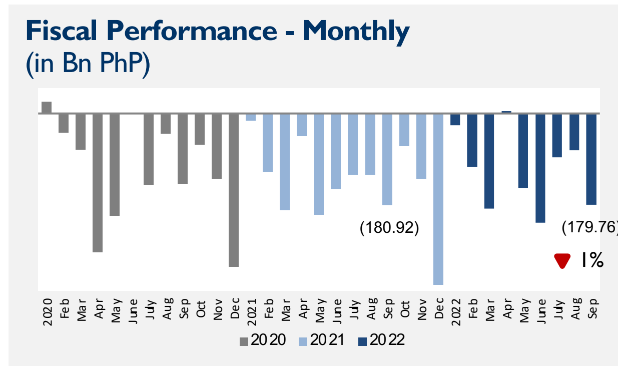
- High global inflation and expectations of further Fed rate hikes could lend support to the USD in the coming months. However, interventions by the BSP as well as expected seasonal increase in OFW flows and exports during the fourth quarter may help strengthen the peso.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Wider budget deficit posted in September





Budget deficit widened in September to P179.8Bn but slightly contracted by 1% vs last year. Cumulative total as of September 2022 likewise declined by 11% vs the same period in 2021 attributed to the further rise in revenues by 19% in terms of tax collections and growth in revenues from the Bureau of Customs, Bureau of the Treasury, and other offices.

Meanwhile, expenditures grew by 9% driven by higher capital expenditures, National Tax Allotment Transfers, Interest Payments, and subsidy releases to PhilHealth for the National Health Insurance Program. September 2022 YTD spending already captures 74% of the P5Bn programmed expenditures for the year.

The target deficit ceiling for FY 2022 remains at P1.65Tn (-7.6% of GDP) with a declining trajectory to reach P1.12Tn (-3% of GDP) in 2028.

Sources: DBM, BTr, DBCC, various news sources

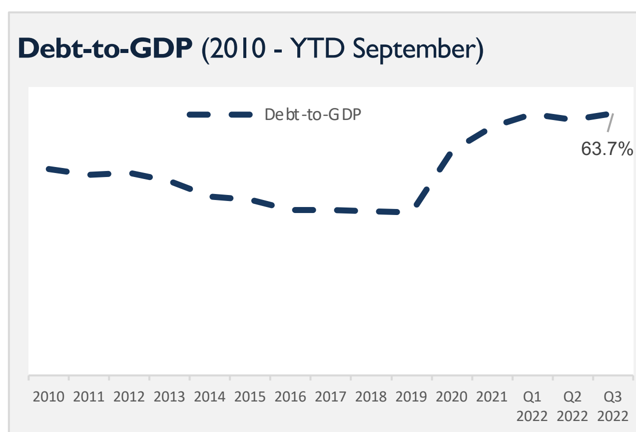
DEBT

NG Debt grew to PhP13.52Tn as of end-September 2022

National Government debt grew to P13.52Tn as of end-September 2022 increasing by P495.55Bn from August 2022.

According to the Bureau of Treasury, the increase in debt stock this month was primarily due to peso depreciation against the USD and the net issuance of government securities to support the budget. Domestic debt portfolio increased by 13.8%, while external debt portfolio increased by 18.5% since the beginning of the year.

As of September 2022, debt-to-GDP ratio has reached 63.7%.



Source: Debt Indicators, Bureau of Treasury

Sources: BTr, DBCC, various news sources

GLOBAL MACRO NEWS

OTHER NEWS

Fed signals no stopping of rate hikes

US Federal Reserve Chair Jerome Powell, during the Fed's November 2 meeting, stated that it is still too early to consider pausing rate hikes and that interest rates may peak higher than their previous forecast of 4.6% next year, as inflation has not relented and pausing prematurely can be destructive. During said meeting, the Fed hiked benchmark rates by 75 basis points to a range of 3.75% - 4.0%. Markets are pricing in a terminal Fed funds rate of 5.0% within the first half of next year.

Some factors that support the aggressive Fed rate hikes are the higher job openings in September which rose by half a million from August. However, the Fed also expressed that it could soon slow down rate increases, perhaps as early as December, hinting 50-basis point hikes instead of the usual 75 bps in its past meetings. This is also supported by the recent lower-than-expected US inflation print, only rising 7.7% y-o-y in October 2022 versus 8.2% the previous month.

Nevertheless, US inflation is still far from the Fed's 2% target, but slower rate increases are expected given the October US inflation report that was better than anticipated.

Sources: The New York Times, Reuters

On global fuel prices: Slight uptick seen in oil, while natural gas slide

Brent crude settled 1.1% higher at $93.67 per barrel (bbl) while U.S. West Texas Intermediate crude grew by 0.8% settling at $84.67 per bbl in November 11. These upticks came after three days of consecutive declines (November 7 to 9) as market concerns grew over rising COVID cases in China and its likely impact to fuel demand, which has since tapered by the latest release of US inflation data showing decline at 7.7%, exceeding expectations. The downtrend in US inflation has sparked hopes of less aggressive hikes in the upcoming FOMC meetings that could revive oil demand. Meanwhile, natural gas prices continue to slide on account of stockpiling ahead of winter and less colder winter forecasts leading to lower-than-expected demand.

Sources: Reuters, investing.com, oilprice.com, Markets Insider

Double-digit inflation in Europe and elevated inflation prints in other countries

	Inflation
US	7.7% (October)
UK	10.1% (September)
EU	10.7%* (October)
PH	7.7% (October)

**flash estimate by the Eurostat*

For the UK and other developed European countries, latest inflation figures have increased versus the prior month. UK already reached double-digit inflation in September (returning to July's four-decade high), while EU reached its highest inflation print since the creation of the Euro. US inflation slightly cooled to 7.7% in October (from 8.2% the prior month), though still far from its target of 2%. Continuous supply-side pressures may push inflation higher.

Sources: U.S. Bureau of Labor Statistics, ONS, Reuters, Philippine Statistics Authority