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	**56.6****	**58.0**

*with upward bias
**with downward bias

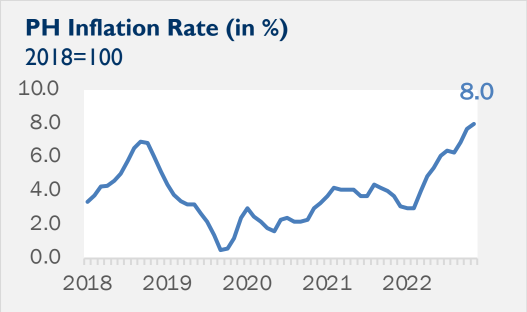
Updated as of December 9, 2022

> "The last time the prices of food and non-alcoholic beverages were at this level was back in September 2018. It amounted to 10.2%."
>
> *- Deputy National Statistician Divina Gracia Del Prado, commenting on food & non-alcoholic beverages' November YoY inflation rate of 10%.*

OUTLOOK

Real Economy

- Easing of more COVID-19 curbs on the back of the economic re-opening may 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.
- Global economic headwinds such as the slowdown of advanced economies may likewise pull down PH growth in the coming months going into next year.



Source: Philippine Statistics Authority (PSA)

Inflation

- Inflation spiked to 8.0% in November (versus 7.7% the prior month), the highest in 14 years. The main driver was food and non-alcoholic beverages due to the impact of recent weather disturbances, particularly Typhoon Paeng, on food supply. Other contributors to the high inflation were housing, water, electricity, gas, & other fuels, as well as transport.
- Inflation is expected to remain elevated and to further climb in December due to the heightened spending and seasonal increase in OFW remittances owing to the holiday season, higher prices of food products due to elevated fertilizer prices, and damage brought about by recent typhoons.
- There is upward pressure for global energy commodity prices owing to the EU ban on Russian crude imports this December. This may push inflation to a higher level and may cascade to the Philippines. However, recession concerns may lead to volatility in oil markets and may push prices down.

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 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 consistent rate hike statements by the Fed in its November meeting, albeit at a slower pace. Expected terminal Fed funds rate (FFR) projections are at 4.25% to 4.50% by end-2022, and markets are expecting terminal FFR to reach 5.0% within the first half of next year.

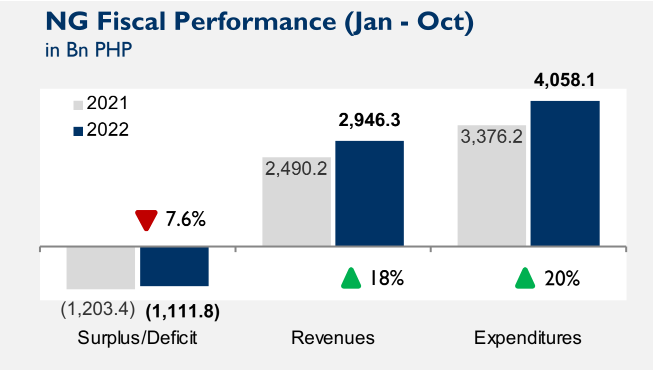
Foreign Exchange

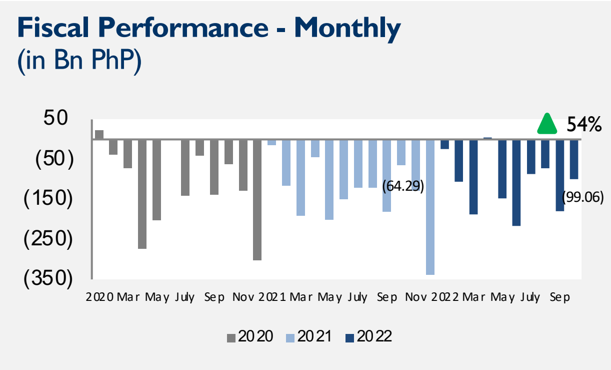
- High global inflation and expectations of further Fed rate hikes could lend support to the USD in the coming months. However, sentiments of a less hawkish Fed, interventions by the BSP, as well as expected seasonal increase in OFW flows and exports during the fourth quarter may help strengthen the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

LOCAL MACRO NEWS

FISCAL PERFORMANCE

PhP 99 Bn Budget Deficit Posted in October





Budget deficit narrowed in October to P99Bn vs previous month but is 54% higher vs October last year driven by acceleration in government spending for the said month. Nonetheless, year-to-date budget deficit is 7.6% lower vs the same period last year given the boost in revenues this year.

Revenues from January to October grew by 18% vs the same period last year driven by higher tax and non-tax collections of the government. Given higher revenue performance consistently seen this year, the DBCC in its 183rd meeting and press briefing had adjusted upward its revenue projection for the year from P3.3Tn to P3.5Tn.

Meanwhile, expenditures from January to October grew by 20% driven by higher National Tax Allotment of LGUs, Interest Payments, and subsidy releases for programs implemented by government corporations. Projection for the 2022 disbursements was likewise adjusted upward from P4.95Tn to P5.02Tn.

Given upward revisions in the government's fiscal projections for 2022, budget deficit is seen to end at P1.5Tn (-6.9% of GDP) vs earlier projection of P1.65Tn (-7.6% of GDP).

Sources: DBM, BTr, DBCC

NG MEDIUM-TERM MACROECONOMIC ASSUMPTIONS AND TARGETS

DBCC holds 183rd meeting to update projections

The Development Budget Coordination Committee (DBCC) having reviewed the NG's medium-term macroeconomic assumptions, fiscal program, and growth targets for FY 2023-2028 considering recent developments has revised its projections:

DBCC Macroeconomic Parameter Projections							
Parameter	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Real GDP Growth (%)	6.5 – 7.5	6.0 – 7.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0
Inflation (%)	5.8	2.5 – 4.5	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
Dubai Crude Oil (US$/bbl)	98 – 100	80 – 100	70 – 90	70 – 90	70 – 90	70 – 90	70 – 90
ForEx (P/US$)	54 – 55	55 – 59	53 – 57	53 – 57	53 – 57	53 – 57	53 – 57
Growth of Goods Export (%)	4	3	6	6	6	6	6
Growth of Goods Import (%)	20	4	8	8	8	8	8
Medium-Term Fiscal Program	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
		Projections					
Revenues (in Tn PhP)	3.52	3.71	4.20	4.64	5.21	5.85	6.58
Disbursements (in Tn PhP)	5.02	5.18	5.56	5.84	6.32	6.95	7.72
Deficit (in Tn PhP)	-1.50	-1.47	-1.36	-1.20	- 1.11	- 1.11	-1.14

Source: DBM; Notes: Revised upwards/downwards

GLOBAL MACRO NEWS

OTHER NEWS

Strong US jobs report despite Fed rate action

US employment data for November showed that the labor market remained resilient with 263,000 additional jobs for said month, still above the Fed's target of only 100,000 additional jobs per month. This is despite the Fed's efforts to slow down the economy through aggressive rate hikes, which was supposed to translate to an increase in unemployment that should subsequently lower wages and therefore, prices. But this seems not to be the case, as unemployment persists to be near a half-century low.

To recall, US Fed Chair Jerome Powell stated during the Fed's November 2 meeting that it is still too premature to consider pausing rate hikes, and that the expected terminal Fed funds rate may be higher than their previous forecast of 4.6% for next year.

However, the Fed also expressed that it could soon slow down interest rate increases, potentially as early as December, hinting 25- to 50- basis point hikes. As a result, markets had priced in the slower pace of rate hikes signaled by the Fed, with the greenback slipping against various currencies, including the peso, during late November to early December.

Still, the latest jobs report may prompt the Fed to stay hawkish. Expected terminal Fed funds rate rose to 5.0% again, and US' October inflation, though lower than previous month, was still high at 7.7% which was far from the Fed's 2% target.

Note that the release of the US' November inflation report would be simultaneous with the Fed's meeting this December.

Sources: The New York Times, Reuters

Russian oil sanctions, economic worries trigger oil market volatility

The EU embargo and G7's price cap on Russian oil has taken effect in Dec. 5, pushing oil prices up. Brent crude futures rose to \$83.5/bbl while West Texas Intermediate crude (WTI) rose to \$77.6/bbl. Easing COVID-19 restrictions likewise influenced prices to go up. This came after consecutive drops in prices given worries of a still aggressive policy tightening of the Fed.

The uptick, however, was not sustained as economic uncertainty and recession concerns remained. This led Brent futures to plunge to \$79.4/bbl and WTI to \$74.25 – said to be Brent's largest daily slump since September and WTI's lowest settlement this year. Saudi Arabia, the world's top oil exporter likewise cut its official selling price for Asian buyers this coming January on account of uncertain demand and potential rise in Russian competition given the sanctions imposed. Given these, the oil market is seen to remain volatile as the market awaits and responds to new developments.

Sources: Reuters , The New York Times

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

	Inflation
US	7.7% (October)
UK	11.1% (October)
EU	10.6% (October)
PH	8.0% (November)

For the UK and other developed European countries, latest inflation figures have increased versus the prior month. UK's double digit inflation already reached a 41-year high in October, while EU reached its highest inflation print in October since the creation of the Euro. Note however that based on a flash estimate of Eurostat, EU inflation may have come down to 10.0% in November. 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, CNN, Eurostat, Philippine Statistics Authority