Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
Real GDP (2018=100)	7.6%	**6.0% - 7.0%**	**6.0% - 7.0%**
Inflation (2018=100)	5.8%	**6.0% - 7.0%**	**4.5% - 5.5%**
BSP RRP Rate	5.5%	**6.0%**	**5.0%**
USDPHP (BSP)	50.77	**55.1**	**54.4**

Updated as of February 28, 2023

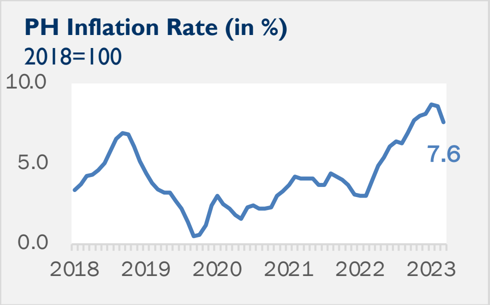
A pause is likely "if the April CPI (consumer price index) is not higher than the March CPI" or if there is "zero or negative month-on-month inflation" in April.

BSP Governor Felipe Medalla said in a telephone message to Reuters

OUTLOOK

Real Economy

- Consumption is expected to continue to drive the growth trajectory of the country but is seen to normalize in the coming months as it was mainly propelled by the economic reopening last year.
- More discriminatory and moderate spending in the near term is expected due to rising interest rates and elevated prices.
- Global economic headwinds such as the slowdown of advanced economies, including the US and Europe, as well as concerns over China's weaker-than-expected demand recovery, may likewise curtail Philippine growth this year but may also reduce inflationary pressures.



Source: Philippine Statistics Authority (PSA)

Inflation

- Headline inflation eased to 7.6% in March 2023 versus 8.6% in February primarily due to a downturn in food & non-alcoholic beverages inflation, driven by price deceleration of vegetables and tubers, meat, and sugar. The decline likewise stemmed from a slowdown in transport prices as pump prices decreased, and a downturn in the prices of housing, water, electricity, gas, and other fuels induced by a decline in LPG prices and slower price uptick of electricity.
- On the contrary, core inflation, which excludes volatile food and energy commodities, climbed to 8.0% (versus 7.8% in February), the highest since 1999. This exhibits the wide-ranging and persistent second-order effects of inflation.
- Inflation is expected to remain elevated due to the continued impact of second-round effects, possible supply shocks of key commodities due to geopolitical risks and local structural issues, and the expected demand recovery of China.

Interest Rates

- Further RRP rate hikes during the first half of 2023 were signaled by the Bangko Sentral ng Pilipinas (BSP) due to elevated prices, though a pause is being considered in May should April inflation not accelerate. The RRP rate may peak at around 6.25% to 6.5% and is expected to end the year at the 6.0% level with rate cuts likely before yearend.

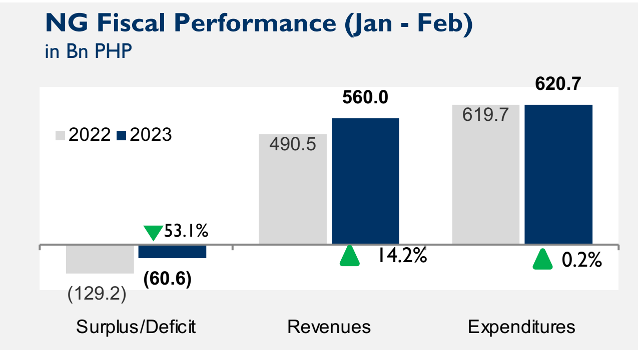
Foreign Exchange

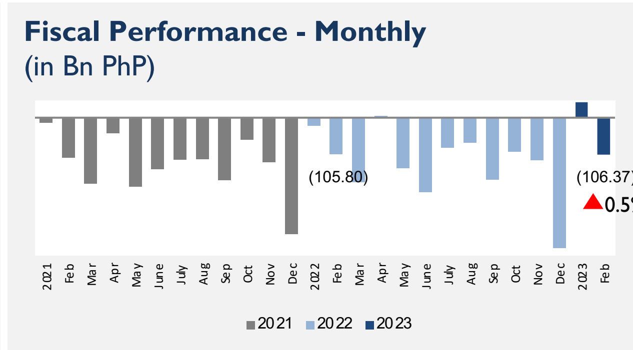
- Sticky prices and a hawkish Fed could lend support to the USD. Moreover, China's demand recovery which may rally oil prices up in Q2, and the PH's import season in Q3 could weaken the peso towards yearend. Expect volatility as uncertainties remain.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

February Budget Deficit inched higher YoY





Budget deficit for February 2023 slightly widened to P106.37 Bn versus P105.8 Bn in February 2022, following a surplus in the previous month, on account of higher spending and lower revenue collection. Nonetheless, YTD budget deficit is still 53.1% lower vs the same period last year.

While revenues in February 2023 declined by a measly 0.25% versus the same month in 2022, YTD revenues vs the preceding period was 14.2% higher and is seen growing further in the succeeding months to be driven by higher tax and non-tax collections of the government. The government projects 3.7 Tn revenues in 2023, 4.5% higher than the actual revenues generated in 2022.

Meanwhile, expenditures for February 2023 and YTD marginally inched higher vs previous periods attributed to the lower National Tax Allotment (NTA) shares of Local Government Units (LGUs) for 2023.

Budget deficit as of February 2023 is at P60.6 Bn and is seen to end at P1.47Tn (-6.1% of GDP) by December 2023 based on NG projections.

Sources: DBM, BTr, DBCC

DEBT NEWS

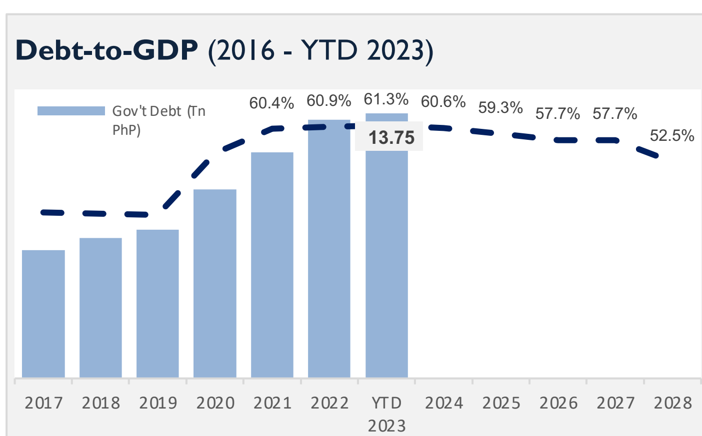
Outstanding debt on another high in February

The country's debt stock settled at a higher level of P13.75Tn in February, growing by 0.4% from P13.7Tn in January 2023. This growth is attributed to higher net issuance of domestic securities.

Of the total debt stock, 31.3% was sourced externally while 68.7% were domestic borrowings.

For April 2023, the government is slated to borrow P160 Bn from the domestic market (P60Bn T-Bills and P100Bn T-Bonds) and is eyeing to issue retail dollar bonds in Q2.

Source: BT, BusinessWorld



GLOBAL MACRO NEWS

OTHER NEWS

US labor market remains resilient

Different sets of jobs data in the US show that the labor market is cooling, although at a gradual pace. US job openings, which correspond to labor demand, dropped to their lowest value for almost two years in February 2023, settling at 9.9 million (a decline of 632,000 versus the previous month). Nonfarm payrolls only moderately increased by 236,000 in March 2023 and annual wages grew at the slowest pace since May 2021. Moreover, the labor force participation rate climbed to 62.6%, the highest in over three years. These developments should help cool the labor market and subsequently, inflation.

However, the US labor market also showed its resilience as the unemployment rate further decreased to 3.5% in March from 3.6% in February. This jobs data, though signaling that the jobs market is slowing a bit, also sent the message that the US labor market is still resilient. This can further support another 25 basis point (bp) hike by the US Federal Reserve this coming May.

Note that the projected terminal Fed Funds rate, based on the Fed's March rate-setting meeting, is at 5.1% by yearend 2023, unchanged from its December forecasts. This signals another 25 basis point hike before the Fed is expected to pause. Cuts are seen by next year, with a Fed Funds terminal rate of 4.3% for yearend 2024.

Source: Bloomberg, Reuters, NY Times

IMF and World Bank's Spring Meetings to tackle pressing concerns for the global economy

The World Bank Group (WBG) board of governors and the International Monetary Fund (IMF) bring together central bankers, ministers of finance and development, and representatives from civil society organizations and the private sector to discuss global concerns, including the world economic outlook, poverty eradication, economic development, and aid effectiveness. This is held from April 10-15, 2023, in Washington D.C and below are the pre-meeting updates from IMF that will be tackled in the 6-day series:

On global growth outlook: 5-year growth projection weakest since 1990

The IMF cautioned that its global economic growth outlook over the next five years is the weakest at 3% expansion, urging nations to bolster productivity and evade economic fragmentation triggered by geopolitical tensions.

On inflation and interest rates: on track to reversal but with caveats

According to IMF, inflation is seen to be under control which would then push advanced economies' central banks to reverse recent rises in interest rates to return to pre-pandemic levels. However, how far or soon real interest rates would go back to their pre-pandemic levels would depend on how the persistent rise of public debt and the extent of financial fragmentation would be managed.

On geopolitical tensions: US-China tensions pose risk to global growth

US and China tensions triggering geopolitical fragmentation is seen to pose risks in damaging the global economy as this fragmentation will cause Foreign Direct Investments and other capital being channeled toward aligned blocs of each countries. IMF added that a fragmented world will likely be a poorer one.

Source: Bloomberg, IMF