Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
Real GDP (2018=100)	7.6%	**6.0%**	**6.0% - 7.0%**
Inflation (2018=100)	5.8%	**6.0%**	**4.5%**
BSP RRP Rate	5.5%	**6.0%**	**5.0%**
USDPHP (BSP)	56.12	**55.1**	**54.4**

Updated as of June 6, 2023

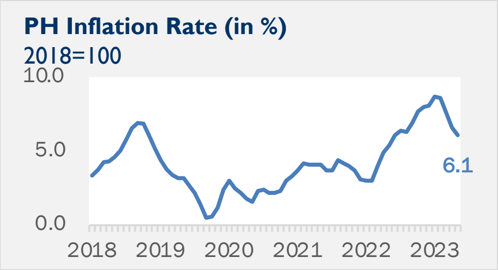
"What the Fed does will remain relevant, but right now, domestic considerations carry more weight."

- BSP Deputy Governor Francisco G. Dakila, Jr.

OUTLOOK

Real Economy

- Pent-up demand is expected to continue to drive growth of the country but is seen normalizing toward the pre-pandemic growth trajectory already.
- Challenges remain due to fading pent-up demand, still-elevated inflation, high interest rates, and external challenges such as the looming El Niño and global headwinds.
- Nonetheless, the Philippines is still expected to experience robust growth in 2023, estimated at 6%, in line with the 6%-7% government projections to be driven still by consumption and the growth potential of certain sectors that haven't reached their pre-pandemic levels.



Source: Philippine Statistics Authority (PSA)

Inflation

- Headline inflation further eased to 6.1% in May 2023 versus 6.6% in April primarily driven by the deceleration in price upticks of transport, food & non-alcoholic beverages, and restaurant & accommodation services.
- Meanwhile, core inflation, which excludes volatile food and energy commodities, continued its gradual easing, falling to 7.7% in May 2023 from 7.9% in April, the second time it moderated since January 2022.
- Inflation is expected to further decelerate in the absence of supply shocks but to remain elevated as upside risks remain such as the continued impact of second-round effects and the looming El Niño.
- **Given the latest developments, Research's FY 2023 inflation forecast is retained at 6%, but FY 2024 estimate is revised to 4.5% (from 4.5% to 5.5%).**

Interest Rates

- The Bangko Sentral ng Pilipinas' (BSP) previous signal of a pause in the next 2-3 meetings is still likely as the Fed paused its policy rate in its latest rate-setting meeting,
- New signals from the Fed of two more 25-basis point rate hikes within the year may put a constraint on the BSP from doing monetary easing even if domestic conditions may warrant it.
- However, the BSP also stated that it does not need to move in tandem with the US Federal Reserve (Fed). Further signals from the BSP in its June 22 rate-setting meeting might shed more light on their next steps as they weigh their price stability efforts versus the Fed's recent hawkish signals.

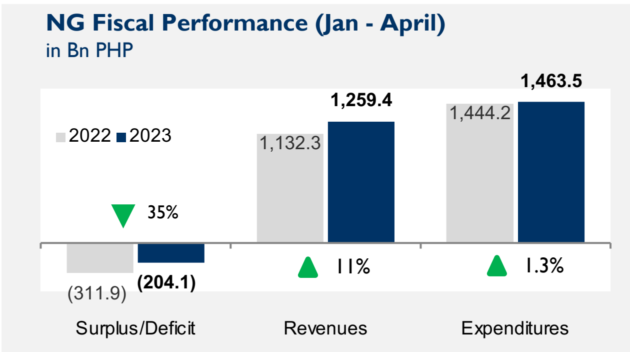
Foreign Exchange

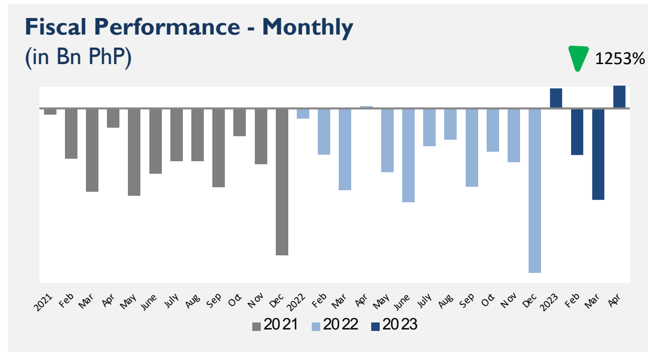
- The recent surprising signals of further policy rate hikes by the US Federal Reserve, vis-à-vis the statement by the Bangko Sentral ng Pilipinas (BSP) that domestic considerations will carry more weight in their monetary policy decisions, may weaken the peso. However, the BSP also said that the Fed's moves remain relevant and that the former will monitor the latter's interest rate decisions to manage the USD/PHP exchange rate
- Moving forward, China's demand recovery in Q2 and PH's import season in Q3 is expected to weaken the peso until towards yearend followed by a rebound in Q4 on account of OFW remittance inflows. Expect volatility as uncertainties remain.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Revenues outpaced expenditures in April





The National Government (NG) recorded a budget surplus of P66.8 Bn for April 2023, topping last year's surplus of P4.9 Bn by 1253%, following a surge in revenues in the said month and a minimal expenditure growth. This brough YTD budget deficit 35% lower vs the same period last year.

Revenues in April 2023 grew by 26.7% versus the same month in 2022 (both tax collection months) driven by the significant improvement in tax collections especially given the rise in VAT payments for the first quarter that were due in April. Non-tax collections from offices (privatization, proceeds, fees, and charges) also improved by 24.16% .Overall, YTD revenues remains higher vs the preceding period by 11%.

Meanwhile, expenditures for April 2023 grew by 9% vs last year, attributed to subsidy releases to PhilHealth, larger capital expenditures of DPWH and DOTr, and higher debt interest payments. YTD expenditures is moderately higher vs the same period last year by 1.3%.

Budget deficit is still seen ending at P1.47Tn (-6.1% of GDP) by December 2023 based on NG projections.

Sources: DBM, BTr, DBCC

DEBT NEWS

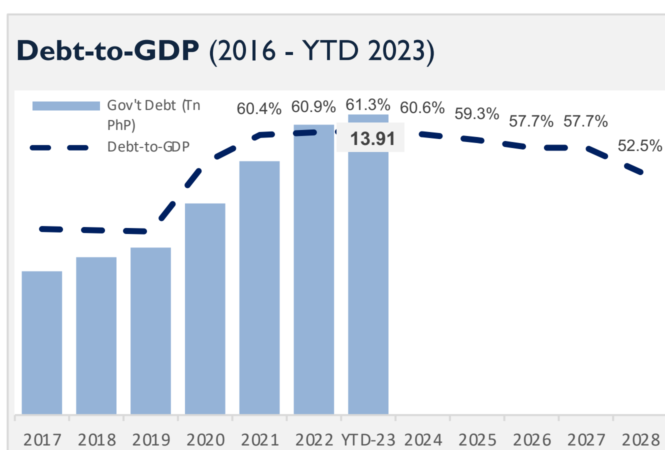
Outstanding debt on a new high in April

The country's debt stock settled at a higher level of P13.91Tn in April, growing by 0.4% from P13.86Tn in March 2023. This growth is attributed to higher net issuance of external debt and local currency depreciation vs the dollar.

Ratio of external and domestic borrowings is at 32% and 68% of the total borrowings, respectively.

As of end-May, the National Government is already at 68.8% of its total programmed domestic borrowings for 2023 of P1.6Tn.

Source: BTr



GLOBAL MACRO NEWS

OTHER NEWS

Back to the hawkish Fed?

Just as the US Federal Reserve (Fed) followed through with its anticipated pause in policy rates at the 5.0% to 5.25% level in its June 14 meeting, it also unexpectedly signaled potentially two more 25-basis-point hikes this year, implying that peak tightening has not yet been reached as was previously expected. Terminal Fed funds rate projections are now at 5.6% by end-2023 (from the 5.1% estimate in March) and 4.6% (from 4.3%) by end-2024.

The pause in rate hikes was merely a cautious move to give the Fed some space to gather more information before deciding if there is a need to hike interest rates again, according to Fed Chair Jerome Powell. He said that inflationary pressures continue to be on the high side, still far from the 2% target although already easing, and that stronger-than-expected growth estimates and lower unemployment estimates point to the possibility of continuing the Fed's battle against inflation with less economic damage.

Certain analysts interpret the signals as a "jawboning tool", or a strategy by the Federal Reserve to proactively address potential loosening of financial conditions in response to its decision to pause interest rate adjustments. Additionally, some experts believe that the Fed will increase interest rates to a lesser extent than suggested by the new dot plot.

Source: Bloomberg, Reuters

China seeks post-pandemic recovery strategies

As China seems to struggle with its post-pandemic economic recovery, with trimmed down growth projection, moderating retail sales, softening industrial production, and struggling fixed-asset investments, senior Chinese officials gathered business leaders and economists for advice.

Chinese officials arranged consultations to seek strategies geared to stimulate the economy, restore confidence in the private sector and revive the real estate industry, according to attendees. According to insiders, business leaders and economists called on the government to make urgent policy revisions and adopt a more market-oriented approach to growth.

Just recently, the People's Bank of China (PBOC) unexpectedly cut its short-term policy rate, taking a more decisive action to rebound. The Chinese government is also weighing on ramping up stimulus to boost its wavering economy.

Source: Bloomberg

How other central banks are faring

Around the world, other central banks are still battling against inflation with rate hikes. This month, global central banks have developed a renewed inclination for implementing tighter monetary policies in response to persistent inflationary pressures.

For one, the European Central Bank (ECB) has raised rates to its highest level since 2001 this June. The bank raised its deposit rates by a quarter percentage point to 3.5%, as inflation in the Eurozone is estimated to remain high for too long. Note also that the Eurozone has gone into a recession earlier this year due to high food and energy prices. The ECB signaled that they also are not considering pausing anytime soon and that it is likely to raise rates again in July.

In a similar fashion, Canada and Australia caught investors off guard last week by resuming their efforts to tighten monetary policies. Both countries' yield curves inverted on Thursday, marking the first occurrence since the financial crisis.

Central banks now believe higher rates are necessary despite economic softening or recession.

Source: Bloomberg