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% - 5.0%
BSP RRP Rate	2.0%	4.0%*	4.0% - 5.0%
USDPHP (BSP)	50.77	55.7*	56.5*

**with upward bias*

Updated as of September 12, 2022

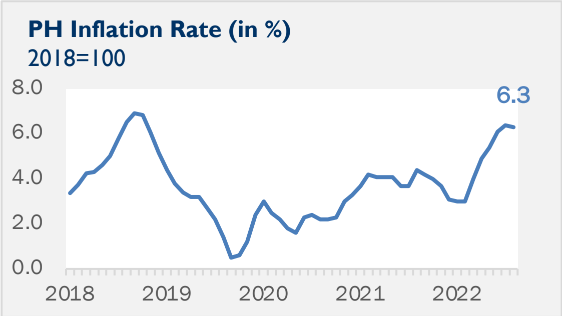
"..And of course, you cannot say it's the end of it [hiking policy rates] because if the US keeps doing 75 (bps hikes), we cannot, not react."

- Bangko Sentral ng Pilipinas Governor Felipe Medalla, on peso depreciation and PH & US interest rates

OUTLOOK

Real Economy

- Given continued supply chain disruptions from the Russian-Ukraine conflict and China's Zero-COVID strategy, commodity prices are expected to continue to soar, thereby affecting consumer spending.
- A further decline in oil prices due to renewed recession concerns may help encourage growth in the second half of 2022, unless OPEC further cuts oil production by a substantial amount.
- The continued re-opening of the economy, the resumption of face-to-face classes, and the targeted increased infrastructure spending may help bolster growth.



Source: Philippine Statistics Authority (PSA)

Inflation

- Although PH inflation slightly eased by 0.1% in August due to slower rise in transport costs and food & non-alcoholic beverages prices, second-round effects are still seen to put upward pressure on inflation. These effects are evidenced by higher minimum wages and transport fares, with another jeepney fare hike due this September.
- The heatwave in China and the massive flooding in Pakistan may constrict supply for rice and other food commodities, which may push prices up.
- There is still 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 12% since yearend 2021.
- Interest rates in the coming months are expected to rise given the consistent hawkish policy stance of the Fed despite the slight increase in US unemployment rate in August and a slight easing of US inflation in July. The terminal fed funds rate is likely to end at 3.75% to 4.0%, or even higher, this year as Federal Reserve Chair Jerome Powell signaled no pivot until 2024, indicating more aggressive Fed rate action.

Foreign Exchange

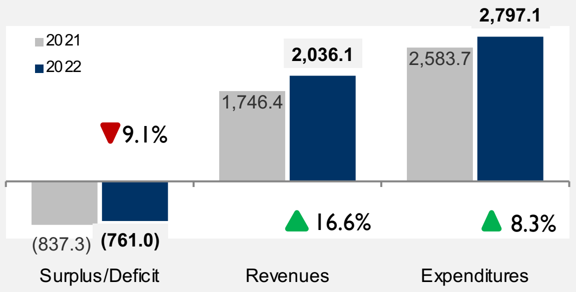
- High global inflation and expectations of further Fed rate hikes would lend support to the USD in the coming months. This is evident with USD-PHP hitting the P57 levels early September. Expect volatile exchange rates.

LOCAL MACRO NEWS

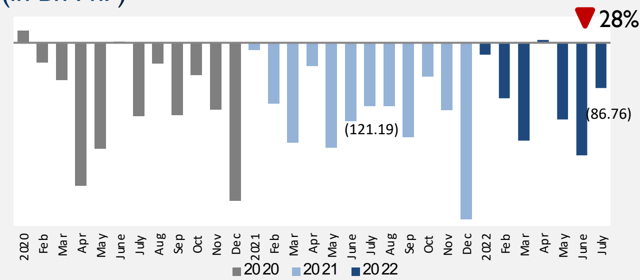
FISCAL PERFORMANCE

NG budget deficit narrowed in July 2022

NG Fiscal Performance (Jan - July)
in Bn PHP



Fiscal Performance - Monthly
(in Bn PhP)



Fiscal balance remained in deficit in July 2022 but narrowed to PhP 86.8 Bn, declining by 28% vs July 2021. Total budget deficit as of July 2022 shrunk by 9.1% vs the accumulated total of the same month in 2021. This decline is linked to faster YTD growth in revenues (16.6%) vs expenditures (8.3%).

Revenues grew due to higher income generated by the Bureau of Treasury, continuous improvement in tax collections, and revenues from the Bureau of Customs reaching another all-time high in July. Meanwhile, growth in expenditures is primarily due to higher primary expenditures, subsidies to PhilHealth, and higher National Tax Allocation transfers.

Revenues are projected to grow by 9.9% in 2022 to achieve target deficit ceiling for FY 2022 at P1.65 trillion (-7.6% of GDP).

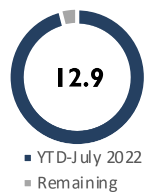
Source: Bureau of Treasury

DEBT

NG Debt at PhP 12.9 Tn as of end-July 2022

National Government debt is recorded at P12.89 trillion as of end-July 2022 increasing by P0.96 trillion from end-June 2022 due to net issuances of domestic and external loans. Domestic debt accounts for 68.5% of the total debt stock which grew by 0.7% while external debt, which accounts the remaining 31.5% of the total debt stock also grew by 0.8% vs previous month.

in Tn PhP

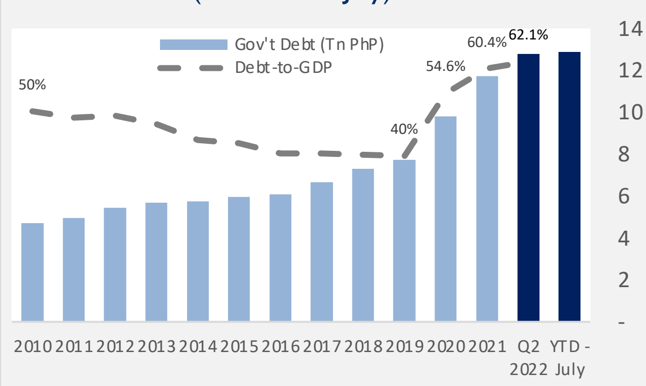


As of July 2022, debt stock remains at 96% of the projected P13.43 trillion outstanding debt by end-2022.

Issuance of government securities seen to increase in the coming months given upcoming large maturities (RTBs) in December 2022 and February 2023.

Source: Bureau of Treasury

Debt-to-GDP (2010 - YTD July)



Source: Debt Indicators, Bureau of Treasury

GLOBAL MACRO NEWS

OTHER NEWS

Unwavering hawkish policy stance of the Federal Reserve

At the Federal Reserve's annual economic conference in Jackson Hole, Wyoming, Fed Chair Jerome Powell reiterated that the Fed will remain firm on its restrictive policy stance and will continue to impose aggressive rate hikes in its goal to restore price stability. Mr. Powell has signaled that rate cuts or pauses are not viable in the near-term, unless there are signs that US inflation is returning to the 2% target.

Additionally, despite the unemployment rate rising to 3.7% in August from 3.5% the previous month, this was because a large amount of people entered the labor market, driving up the labor force. Moreover, job growth was slower than the previous month but still higher than expected at 315,000 in August. Because of this, the Fed is highly likely to push for more aggressive rate hikes, since the recently released jobs data did not suggest any imminent recession.

Hence, further depreciation of the peso is expected, especially with the Federal Open Market Committee's (FOMC) meeting this month with a possible 50 or 75 bps hike and subsequently, a possible raise in the Fed funds terminal rate outlook.

Sources: New York Times, Reuters, Philippine Star

OPEC+ to cut oil production by 100,000 barrels a day

OPEC+ members in their September 5 meeting agreed to cut oil output by 100,000 bpd in October. This is really just a blip and more symbolic, to send a signal that they are willing to take action. The price slump in oil, growing fears of recession in Europe and in US, and declining demand from China amid Covid lockdowns led to this move, with the cartel and its partners seemingly determined to defend prices at $100/bbl levels.

Meanwhile, oil prices jumped post OPEC's announcement of production cut although it was not sustained as prices weakened a few days after hitting all-time low levels since January. Brent crude futures, the international standard, grew to $96.75/bbl while West Texas Intermediate (WTI), the U.S. benchmark, grew to $90.18 on September 5 but declined to $88/bbl (Brent) and $81.9/bbl (WTI) on September 7.

Nonetheless, oil prices are expected to remain erratic in the coming days. Recession fears remain and China lockdowns continue, but oil prices are likely to be influenced as well by potential growth in demand from Europe as Russia cuts off gas supply via Nord Stream prompting a surge in natural gas prices. They also will not supply oil to countries that will implement the EU and US oil price caps, which will reduce supply and keep prices up.

Sources: The New York Times, Barron, Financial Times

Double-digit inflation in the UK and elevated inflation prints in other countries

	Inflation
US	8.5% (July)
UK	10.1% (July)
EU	9.1% (August)
PH	6.3% (August)

For the UK and other developed European countries, latest inflation figures have increased versus the prior month. UK already reached double-digit inflation and a four-decade high in July, while EU reached its highest inflation print since the creation of the Euro. Inflation expectations also remain elevated for other countries due to continued geopolitical tensions which result in supply chain bottlenecks and trade disruptions especially in energy commodities.

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