

# ECONOMIC UPDATES

## METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
<b>Real GDP (2018=100)</b>	7.6%	<b>6.0%</b>	<b>6.0% - 7.0%</b>
<b>Inflation (2018=100)</b>	5.8%	<b>5.8%</b>	<b>4.3%</b>
<b>BSP RRP Rate</b>	5.5%	<b>6.0%</b>	<b>5.0%</b>
<b>USDPHP (BSP)</b>	56.12	<b>55.1</b>	<b>54.4</b>

Updated as of July 5, 2023

“The data suggest [an extended pause], but you know the BSP is an inflation-targeting central bank — that means it’s structurally hawkish when it comes to inflation.”

- Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona, adding that *interest rate cuts may be on the table if benchmark rates fall below 4% by October.*

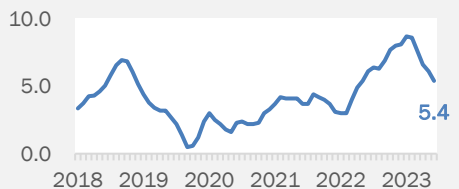
## OUTLOOK

### Real Economy

- Consumption 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 have not reached their pre-pandemic levels.

### PH Inflation Rate (in %)

2018=100



Source: Philippine Statistics Authority (PSA)

### Inflation

- Headline inflation further eased to 5.4% in June 2023 versus 6.1% in May, which was better than expected by analysts and below consensus. The deceleration was primarily driven by slower price upticks of food & non-alcoholic beverages, housing, water, electricity, gas, and other fuels, as well as deflation in transport prices.
- Meanwhile, core inflation, which excludes volatile food and energy commodities, continued to fall, dropping to 7.4% in June 2023 from 7.7% in May, showing that underlying and long-term trends of price movements are on a downward path as well.
- Inflation is expected to further decelerate in the absence of supply shocks, and as base effects and the effect of high interest rates kick in, but may remain elevated as upside risks remain such as the continued impact of second-round effects, price constraints on key food commodities, and the looming El Niño.
- **Given the latest developments, Research’s full-year average inflation forecast is revised downward to 5.8% (previously 6%) for 2023, and to 4.3% (from 4.5%) for 2024.**

### Interest Rates

- The new Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona stated that the latest June inflation print “somewhat” supports an extended pause in tightening.
- Mr. Remolona also expressed that rate cuts are possible within the year if inflation falls below 4% by October 2023. This supports Metrobank Research’s RRP forecast of 6.0% by yearend, which implies a cut by Q4 given easing inflation.
- However, the BSP stated that it would continue to assess the economic performance and future policy choices of the US Federal Reserve.

### Foreign Exchange

- Despite recent hawkish signals from the US Federal Reserve (Fed), the peso has been stable at the P55-P56 levels.
- However, the BSP 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, though domestic considerations will continue to carry more weight.
- Moving forward, 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.

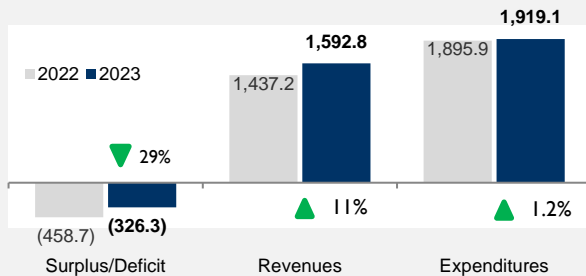
## LOCAL MACRO NEWS

### FISCAL PERFORMANCE

#### Budget deficit narrowed YoY in May

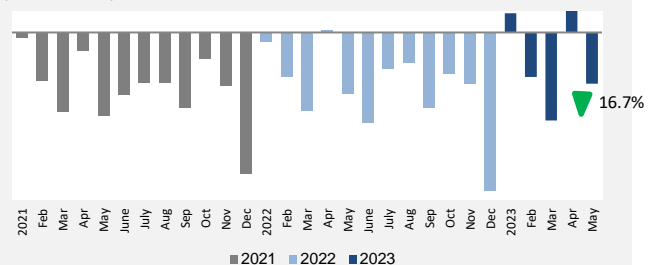
##### NG Fiscal Performance (Jan - May)

in Bn PHP



##### Fiscal Performance - Monthly

(in Bn PHP)



The National Government (NG) recorded a budget deficit of P122.2 Bn for May 2023, leaner than last year's deficit of 146.8 Bn by 16.7%, following a stable growth in revenues and a minimal expenditure growth for said month. This brought YTD budget deficit 29% lower vs the same period last year.

Revenues in May 2023 grew by 9.35% versus the same month in 2022 driven by the continued improvement in tax and non-tax collections. Bureau of Customs collections increased by 17.6% while the Bureau of Treasury's income for May more than doubled vs last year due to higher dividend and PAGCOR remittances, investment income, and Overall, YTD revenues remains higher vs the preceding period by 11%.

Meanwhile, expenditures for May 2023 grew meagerly by 0.9% vs last year, due to lower National Tax Allotment (NTA) shares of LGUs and net lending assistance to government corporations. YTD expenditures is moderately higher vs the same period last year by 1.2%.

Budget deficit is still seen ending at P1.47Tn (-6.1% of GDP) by December 2023 based on NG projections and shall follow a downward trajectory in the subsequent years.

Sources: DBM, BTr, DBCC

### DEBT NEWS

#### Outstanding debt breached P14 Tn in May

The country's debt stock inched higher to P14.1 Tn in May, growing by 1.3% from P13.91Tn in April 2023. This growth is still 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-June, the National Government is already at 76.44% of its total programmed domestic borrowings for 2023 of P1.65Tn.

Source: BTr

##### Debt-to-GDP (2016 - YTD 2023)

