

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
Real GDP (2018=100)	7.6%	5.5%	6.0% - 7.0%
Inflation (2018=100)	5.8%	5.6%	4.6%
BSP RRP Rate	5.5%	6.25%	5.25%
USDPHP (BSP)	56.12	55.1	54.4

Updated as of August 16, 2023

“the Monetary Board deemed it appropriate to maintain monetary policy settings to allow a moderation of inflation even as authorities continue to assess the emerging risks to the inflation outlook.”

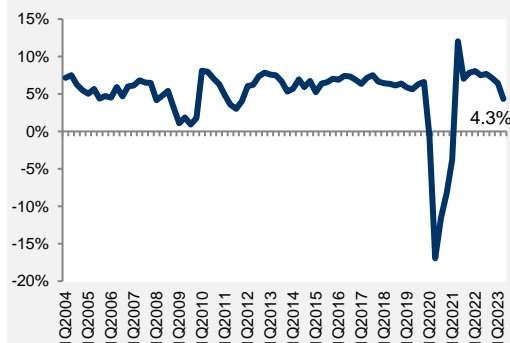
- Bangko Sentral ng Pilipinas (BSP)
Governor Eli Remolona, August 17, 2023

OUTLOOK

Real Economy

- The Philippine economy expanded at a more muted pace of 4.3% year-on-year in the second quarter of 2023 versus last quarter's 6.4% growth and market expectations of 6.0%. This downward growth is driven by the contraction in government and investment spending, and moderating consumption spending.
- Consumption is expected to continue to moderate in the succeeding quarters and to normalize toward its pre-pandemic growth trajectory as pent-up demand fade and impacts of previous monetary policy tightening manifest in the economy.
- Government spending is projected to accelerate in the succeeding months to catch up eventually on the government's programmed disbursements which may lend support to growth.
- However, sluggish imports correlated with meek investment spending which comes from a higher base last year and given currently high interest rate environment dampen our growth outlook.
- Given this, Research's FY 2023 GDP growth projection has been revised downward to 5.5% from 6.0% but maintains its FY 2024 forecast of 6%-7% as we see growth to rebound next year once interest rates start to come down.**

Real GDP (2018=100)
YOY % Change



Inflation

- Headline inflation continued to decline to 4.7% in July 2023 versus 5.4% previously, driven by further easing in prices of utilities, food & non-alcoholic beverages, and transportation.
- Moreover, core inflation further eased to 6.7% in July 2023, versus 7.4% in June 2023 and 3.9% in July 2022. This continued decline in core prices further indicates easing price pressures in the overall economy.
- Research continues to see inflation further decelerating in the coming months, falling within the BSP's target range of 2%-4% in as early as October, versus previous forecast of November.
- However, upside risks remain such as the increase in transport costs in August and price pressures from global rice exporters which we already see feeding into rice inflation which may manifest into the headline inflation in December to continue in the succeeding months.
- Given this recent development, Research has revised its FY average inflation estimate to 5.6% (from 5.8%) for 2023 and 4.6% for 2024 (from 4.3%) to take into account upside risks stemming from rice inflation.**

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK (Cont.)

Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) kept the overnight reverse repurchase (RRP) rate steady at 6.25% in its August Monetary Board meeting for the third consecutive time, as inflation continued to ease and is seen reaching the country's inflation target by Q4 2023 – consistent with our call.
- Governor Remolona, however, further signaled that the monetary board sees no easing in the interest rates in the near-term and signaled no cuts at least in the next meeting (September) and added that the BSP stands ready to respond as necessary to keep inflation expectations anchored and to ensure price stability which has been the BSP's primary mandate.
- Given upside risks to inflation, the BSP has revised their inflation projections upward. While price pressures have significantly tempered for 2023, we see these upside risks to be a major consideration for the BSP that may push currently stable inflation expectations higher. **Thus, we anticipate the BSP to keep interest rates at its current level of 6.25% until yearend with cuts to happen in 2024 and to settle at 5.25% for the said year.**

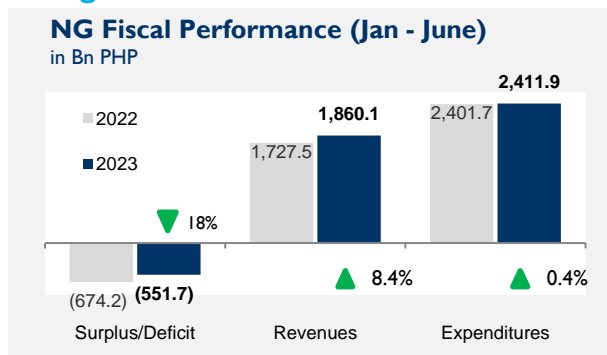
Foreign Exchange

- The recent hawkish signals from the US Federal Reserve (Fed) amid still sticky inflation fueled market expectations of another hike which led to US Treasury yields soaring and bringing back the case of a strong dollar story. Given the dollar's recent strengthening the peso has breached PhP 56 levels.
- Amid the recent USDPHP volatility, the BSP Governor previously noted that the BSP is watching the exchange rate closely, noting that the peso has only weakened slightly compared to other Asian currencies. Deputy Governor Dakila also added that the BSP remains supportive of market-determined exchange rate.
- 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

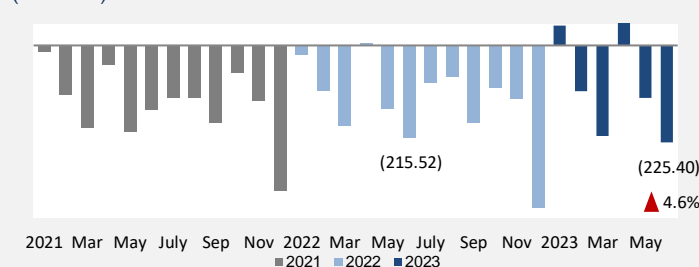
FISCAL PERFORMANCE

Budget Deficit Narrowed in H1



Fiscal Performance - Monthly

(in Bn PhP)



The National Government (NG) recorded a budget deficit of P225.4 Bn in June 2023, wider than last year's deficit of 215.52 Bn by 4.6%, following a stable growth in revenues and a minimal expenditure growth for said month. This brought YTD budget deficit 18% lower vs the same period last year.

Revenues in June 2023 slid by 7.91% versus the same month in 2022 driven by the contraction in tax and non-tax collections. Bureau of Internal Revenues (BIR) collection contracted by 5% versus June 2022, while Bureau of Customs collections also meagerly declined by 2.7%. The Bureau of Treasury's income for June fell by 48.2% vs last year due to lower dividend remittances. Nonetheless, YTD revenues remain higher vs the preceding period by 8.4%.

Meanwhile, expenditures for June 2023 slowed by 2.6% vs last year, due to the lower National Tax Allotment (NTA) shares of LGUs and outstanding checks that were yet to be filed for encashment by suppliers or creditors of the various NGAs. YTD expenditures is meekly higher vs the same period last year by 0.4%.

Government spending is seen ramping up in the succeeding months to boost growth. Budget deficit is still seen ending higher at P1.49Tn versus earlier projection of P1.47 (-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

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