

ECONOMIC UPDATES

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%	6.0%	4.6%
BSP RRP Rate	5.5%	6.25%	5.25%
USDPHP (BSP)	56.12	55.1	54.4

Updated as of September 5, 2023

“...if there are no further supply shocks beyond the [inflation] uptick in August, then it won't be necessary to hike the policy rate.”

“...I think we should hit the [2-4%] target range by October if there are no further supply shocks.”

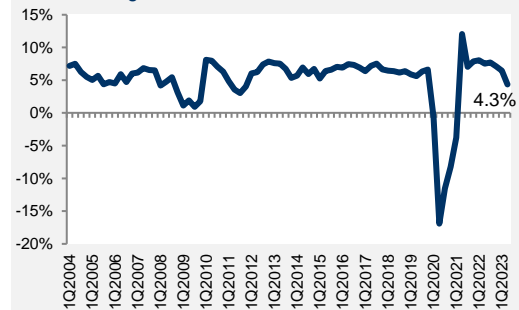
- *Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona, September 14, 2023*

OUTLOOK

Real Economy

- Consumption is anticipated to continue to moderate in the succeeding quarters as pent-up demand fade and consumer sentiment remain pessimistic on spending on big ticket items amid higher interest rates (per BSP 2Q2023 CES). Nonetheless, seasonal consumption growth may still be seen in Q4.
- Government spending has started to pick up in July, growing by 16% versus the same period last year, and may continue to accelerate in the succeeding months to catch up eventually on the government's programmed disbursements.
- Meanwhile, import of goods remains sluggish based on latest data (July) which is correlated with meek investment spending that continue dampen our growth outlook for the year.
- Given this, **Research's FY 2023 GDP growth projection remain at 5.5%**. Nonetheless, we may see **moderate rebound in 2024** where growth could **settle within 6%-7%** once interest rates start to come down and lend support to growth.

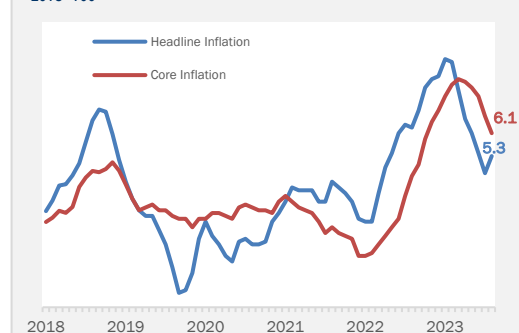
Real GDP (2018=100)
YOY % Change



Inflation

- Headline inflation steered to the upside at 5.3% in August 2023 versus 4.7% previously, and after consistent downtrend in the previous months, driven primarily by the uptick in prices of food and non-alcoholic beverages, restaurants and accommodation services, and transport.
- Nonetheless, core inflation continued to ease further to 6.1% in August 2023, versus 6.7% in July 2023 and 4.6% in August 2022 which further indicates easing price pressures from second-round effects in the overall economy. However, another round of rippling price increases from food and transportation price growths may be anticipated.
- Research continues to see inflation further decelerating in the coming months **but at more elevated levels** given the risks posed by higher global rice prices and weaker peso particularly this Q3 import season, impact of weather disturbances on food production, and rising fuel prices.
- **Given this recent development, Research reverts its FY average inflation estimate back to 6.0% (from 5.6%) for 2023 but maintains its 4.6% forecast for 2024.**

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK (Cont.)

Interest Rates

- Governor Remolona recently signaled that the inflation uptick in August doesn't warrant another hike, indicating that the central bank may **pause** in its next monetary policy setting on September 21, keeping the benchmark interest rate at 6.25%. It could be recalled that the recent uptick in inflation was driven by supply shocks, which BSP governor Remolona noted to be temporary by nature and shall dissipate quickly.
- In the past, the monetary board has been consistent with its signaling that it sees no easing in the interest rates in the near-term and that the BSP stands ready to ensure price stability which has been the BSP's primary mandate.
- Given persistent upside risks to inflation, we continue to anticipate the **BSP to hold interest rates at its current level of 6.25% until yearend** and to start easing in 2024 once inflation settles comfortably within the target, ending **2024 at 5.25%**.

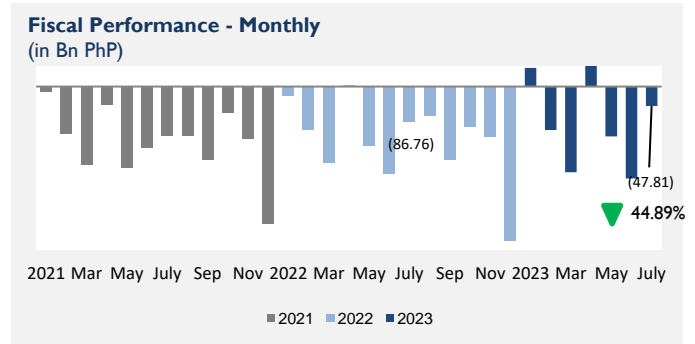
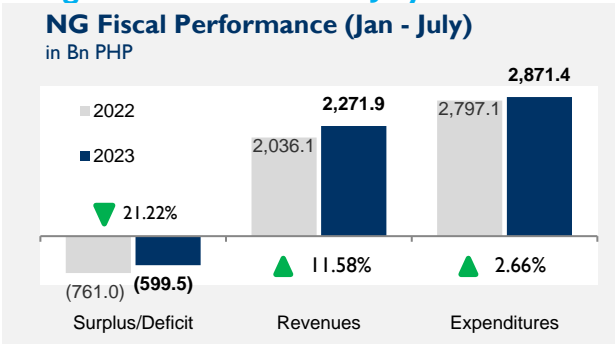
Foreign Exchange

- Given the dollar's continued strength against the peso, the latter has remained stable at above-PhP 56 levels since it breached PhP 56 in August. Nevertheless, these levels remain stronger versus last year's performance in the same month where the currency pair rapidly depreciated from PhP 56 to above-PhP58 levels.
- Amid the recent USDPHP volatility, the BSP Governor 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, a rebound in Q4 on account of OFW remittance inflows is expected to strengthen the peso anew, **seen to end the year at PhP55.1/USD 1 in 2023, and PhP54.4/USD 1 in 2024**. Expect volatility as uncertainties remain.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Budget Deficit Shrinks in July



The National Government (NG) recorded a budget deficit of P47.8 Bn in July 2023, narrower than last year's deficit of P86.8 Bn by 44.89% on the back of higher growth in revenue collection versus government expenditures. This brought YTD budget deficit 21.22% lower vs the same period last year.

Revenues in July 2023 slid by 33.4% versus the same month in 2022 driven improved tax and non-tax collections. Taxes comprised the biggest portion of total revenue, despite the double-digit decline in the Bureau of Custom's (BOC) collection as this was offset by the 38.37% increase in Bureau of Internal Revenue (BIR) collection to P273.1 Bn. Nonetheless, YTD revenues remain higher vs the preceding period by 11.58%.

Meanwhile, expenditures for July 2023 grew by 16.22% to P459.5 Bn vs last year, mainly due to higher disbursements by the Department of Social Welfare and Development (DSWD), Department of Health and Department of Agriculture. YTD, expenditures posted a 2.66% growth vs the same period last year.

Government spending is seen ramping up in the succeeding months to boost economic 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