

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%	6.4%	4.6%
BSP RRP Rate	5.5%	6.25%↑	5.50%↑
USDPHP (BSP)	56.12	55.1	54.4

↑With upside bias

Updated as of October 9, 2023

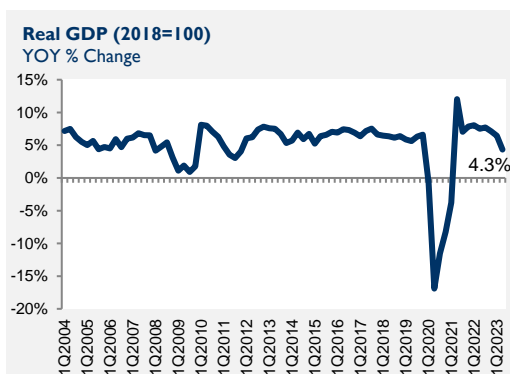
“We’re still analyzing the data,” he said before the weekend. After seeing the 6.1 percent consumer price index (CPI) for September, the BSP chief seems more certain that a policy rate increase on Nov. 16 “is possible”

- Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona, in an interview with Manila Bulletin, October 9, 2023

OUTLOOK

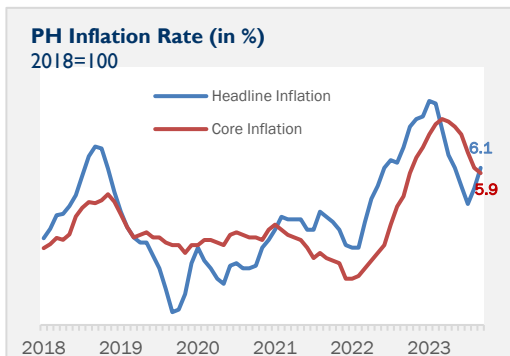
Real Economy

- Consumption is anticipated to continue to moderate in the succeeding quarters but to remain resilient as consumer sentiment improved for Q3 (per BSP 3Q2023 CES) driven by perceived increase in available jobs and higher wages.
- Government spending also posted growth in August, increasing by 9.7% 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.
- Business confidence, however, weakened in Q32023 due to higher prices of raw materials and production costs (per BSP 3Q2023 CES). Expansion plans for the next quarter likewise declined which may manifest as muted investment growth in the succeeding quarters that dampens our growth outlook.
- 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.



Inflation

- Headline inflation further steered to the upside at 6.1% in September versus 5.3% in August 2023, 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 5.9% in September versus 6.1% in August 2023 and 5.0% in September 2022. This continued decline in core prices further indicates easing price pressures from second-round effects in the overall economy, although secondary effects may ripple anew from food and transportation price growths.
- Research continues to see inflation to trend downward but **at elevated levels** given the continued risks posed by higher global rice prices and rising fuel prices. Year-to-Date (YTD) inflation is now at 6.6%, and succeeding months are seen to average at above 5% levels.
- **Given this recent development, Research revises upwards its FY average inflation estimate to 6.4% (from 6.0%) for 2023 but maintains its 4.6% forecast for 2024.**



Source: Philippine Statistics Authority (PSA)

OUTLOOK (Cont.)

Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) has maintained the benchmark interest rates at its current level of 6.25%, for the fourth time since it delivered the first pause in its last Monetary Board meeting in September.
- Moving forward, BSP Governor Remolona asserted that the BSP stands ready to resume tightening should adjustments in transport fares and second-round effects dislodge inflation expectations. Moreover, while the Fed’s decision weigh minimally for the BSP, the anticipated hike by the Fed in November may prompt the BSP to follow suit. .
- Given BSP Governor Remolona’s signals and the persistent upside risks to inflation, Metrobank Research considers an **upside bias to our RRP rate forecasts**: 6.25% by yearend 2023 and 5.50% by yearend 2024, as we continue to monitor developments in inflation.

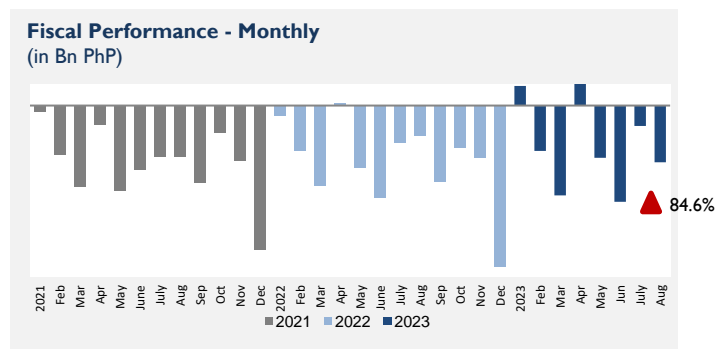
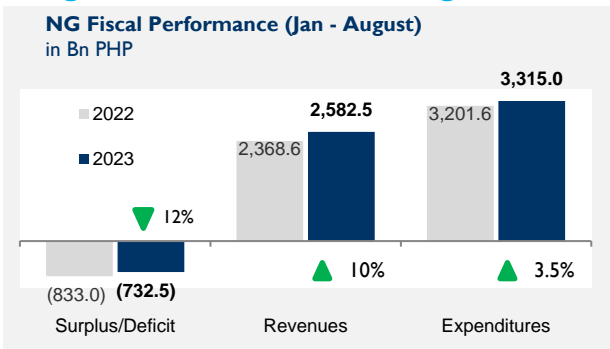
Foreign Exchange

- The USD/PHP continued to trade within a range of 56.40 to 56.90. In September, local dollar supply above 56.90 kept the currency pair tempered and caused players to liquidate long dollar positions when it felt overbought. On the downside, the dollar remained supported by opportunistic buyers.
- Amid the recent USD/PHP volatility, the BSP Governor remains unfazed by the peso depreciation noting that the recent depreciation was due to the broad strength of the USD that impacts not only the peso but other regional currencies as well.
- 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 Widened in August



The National Government (NG) recorded a budget deficit of P133.0 Bn in August 2023, wider than last year’s deficit of P72.0 Bn by 84.63% driven by a moderate drop in revenue collection versus government expenditures. Year-to-Date budget deficit, however, remains lower than the same period last year by 12%.

Revenues in August 2023 slid by 6.58% versus the same month in 2022 partly attributed to the timing of VAT remittances in line with the TRAIN Law. Nonetheless, YTD revenues remain higher vs the preceding period by 9% driven by improved tax and non-tax collections. Taxes comprised the biggest portion of total revenue which grew by 8.15% year-to-date.

Meanwhile, expenditures for August 2023 grew by 9.66% at P443.6 Bn vs last year, mainly due to sizeable capital expenditures of the Department of Public Works and Highways and Department of Transportation, as well as the higher personnel services expenses of the Department of Education.

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