Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
Real GDP (2018=100)	7.60%	5.50%↑	6.0% - 7.0%
Inflation (2018=100)	5.80%	6.10%	4.60%
BSP Target RRP Rate	5.50%	6.50%	6.00%
USDPHP	56.12	55.10	54.40

↑With upside bias

Updated as of November 9, 2023

"Looking ahead, the Monetary Board deems it necessary to keep monetary policy settings **tighter-for-longer** until inflationary expectations are better anchored and a sustained downward trend in inflation becomes evident."

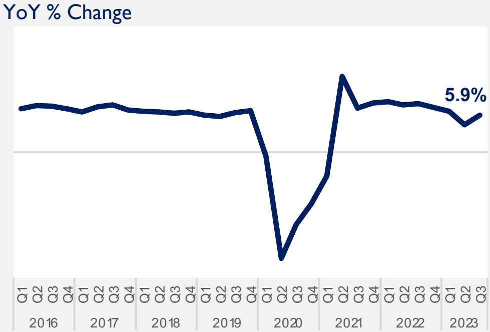
- Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona, October 26, 2023

OUTLOOK

Real Economy

- The Philippines' Gross Domestic Product (GDP) for the third quarter expanded at a faster pace by 5.9% year-on-year versus the previous quarter's 4.3% growth, driven by a recovery in government spending and positive growth on exports.
- While government spending last quarter contributed much to the 5.9% GDP growth, an already moderating domestic consumption plus contractions in imports and investment spending suggest continuing tailwinds from elevated domestic inflation and high interest rates.
- **Metrobank Research retains its full-year 2023 GDP growth projection at 5.5%,** but notes an upward bias, as domestic consumption is expected to pick up during the holiday season. Meanwhile, a **moderate rebound is expected in 2024** where growth could **settle within 6%-7%** once interest rates start to come down and lend support to growth.
- Metrobank Research sees that the Philippines will likely be insulated from external shocks i.e., geopolitical risks, as the sources of growth continue to be largely from domestic consumption and services.
- Continued recoveries in tourism, remittances, BPO revenues, as well as the imminent liberalization reforms to attract more foreign investments are some of the bright spots that will prompt a return to the Philippines' high-growth trajectory.

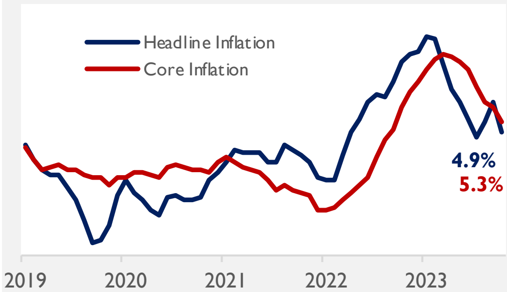
Real GDP (2018=100)
YoY % Change



Inflation

- Philippines' October headline inflation came in lower than the consensus forecast at 5.6% and Metrobank Research's 6% estimate, which suggests a sharper deceleration from the upside surprise seen in the past two months, when rice and transport prices soared amid export restrictions, extreme weather conditions, and fare hikes.
- Metrobank Research's baseline forecast prior to the supply shocks seen in the third quarter is in line with the 4.9% headline print for October, **which reverts our estimate of full-year 2023 average inflation downward to 6.1% (from 6.4%, previously).**
- While Research continues to forecast price pressures to trend downward through to end-2024, local inflation in the coming months is still expected to be above the BSP's 2-4% target band. Hence, our view is that the BSP will continue to hold on to its "tighter-for-longer" rhetoric and delay any possible rate cuts until the second half of next year.
- We maintain our view that the near-term risks to inflation continue to tilt to the upside due to the potential impact of higher transport fares, electricity rates, international oil prices, as well as minimum wage adjustments outside NCR.

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) kept key interest rates unchanged at 6.5% as it deemed current policy settings “sufficiently tight” following its off-cycle hike last October 26. However, it maintained its tighter-for-longer stance as it established a new set of risk-adjusted inflation forecasts.
- The BSP’s latest risk-adjusted inflation estimates, which are different from its baseline forecast in that it incorporates a probability weighting on a number of identified risks, were reported to be 6.1% for 2023, 4.4% for 2024, and 3.4% for 2025.
- We see the BSP keeping the benchmark rate stable at 6.50% in its next Monetary Board meeting on December 14, the last one for the year, and expect rate cuts late next year to bring end-2024 target benchmark interest rate at 6.00%.

Foreign Exchange

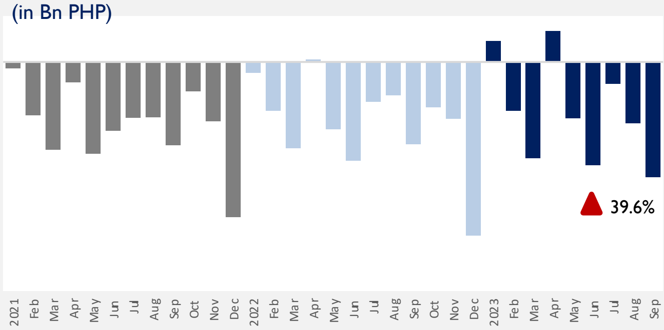
- Last October, a combination of profit-taking in global FX and OFW remittance inflows have helped kept the USD/PHP lower, albeit still supported at the 56.60-level. The BPO sector is also expected to unload its dollar supply to fund employee bonuses. This, along with increased OFW remittances and a general lack of import activity in the fourth quarter, should bring USD/PHP below the 56.00 level once more.
- Following the move lower in the broad dollar index that pared its year-to-date gains, USD/PHP now trades at a lower range of 55.40-55.80.
- Looking ahead, a continued downtrend in the dollar amid lower US yields as markets double down on expectations that the Fed is done hiking rates, and a stronger peso on account of OFW remittance inflows supports our year-end forecast of **PhP55.1/USD 1 in 2023, and PhP54.4/USD 1 in 2024**.

LOCAL MACRO NEWS

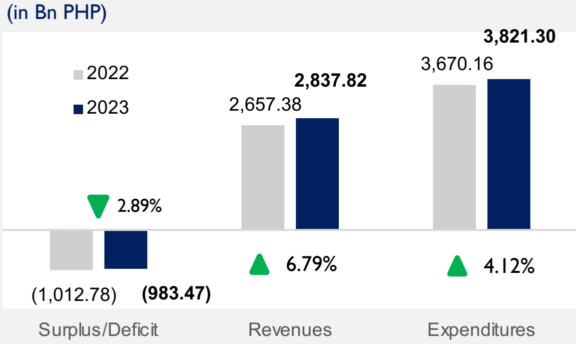
FISCAL PERFORMANCE

Budget Deficit Widens in September

Fiscal Performance - Monthly
(in Bn PHP)



NG Fiscal Performance (January - September)
(in Bn PHP)



The National Government (NG) recorded a budget deficit of P250.9 Bn in September 2023, wider than last year’s deficit of P179.8 Bn by 39.6% year-on-year, driven by a decline in revenue collection and a rise in government expenditures. Year-to-Date budget deficit, however, narrowed by 2.89% to P983.5 Bn from P1.01 Tn a year ago.

Revenues in September slid by 11.57% year-on-year to P255.4 Bn as tax revenues dropped by 8.43% to P233.5 B. Nevertheless, the P2.837 Tn year-to-date collection, which accounted for 76.10% of the P3.729 Tn full-year program, still grew by 6.79% YoY and surpassed the nine-month target by 2.98%.

Meanwhile, government expenditures for the month jumped by 8.06% to P506.3 Bn vs last year, mainly attributed to the implementation of banner social protection and health programs of the Department of Social Welfare and Development, and Department of Health, respectively, as well as capital outlay projects of the Department of Public Works and Highways. For the nine months ending September, spending rose by 4.12% to P3.82 Tn from P3.67 Tn a year ago. It missed its nine-month P3.86-Tn target by 1.06%.

Research sees catch-up spending to continue in the coming months which should provide further boost to economic growth in the fourth quarter. Budget deficit is still seen ending higher at P1.49 Tn versus earlier projection of P1.47 Tn (-6.1% of GDP) by December 2023 based on NG projections and shall follow a downward trajectory in the subsequent years.

Sources: Department of Budget and Management (DBM), Bureau of the Treasury (BTr), Development Budget Coordination Committee (DBCC)