Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
Real GDP (2018=100)	7.60%	5.50% ↑	6.00%
Inflation (2018=100)	5.80%	6.00%	4.30%
BSP Target RRP Rate	5.50%	6.50%	5.50%
USDPHP	56.12	55.10	54.00

↑ With upside bias

Updated as of December 15, 2023

If inflation remains higher than we thought and [inflation] expectations begin to get de-anchored, then we have to do more about inflation. On the other hand… if inflation continues on its path and the expectations should be well-anchored, then we will start to consider easing

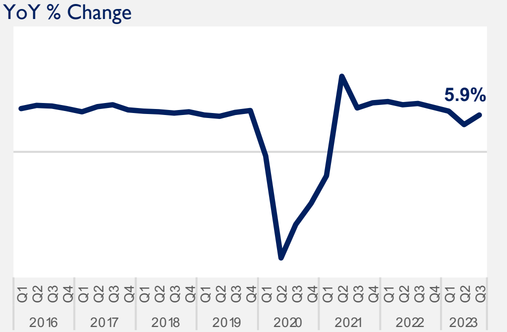
- Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona, December 20, 2023

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, economic growth is seen to average at 6% in 2024 as above average inflation and high borrowing costs will likely continue to weigh on growth next year.
- 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.

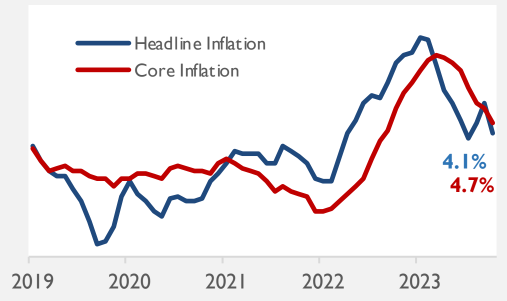
Real GDP (2018=100)
YoY % Change



Inflation

- Philippines headline inflation eased further to 4.1% year-on-year in November from 4.9% in October (+0.16% month-on-month), driven by a slower annual increase in the prices of food and non-alcoholic beverages, transportation, as well as restaurants and accommodation services.
- The lower-than-expected annual inflation rate is reassuring as it is slowly approaching the BSP's target range of 2%-4% inflation. However, given the presence of existing geopolitical conflicts and lingering supply constraints which could be exacerbated by the effects of El Nino until early next year, Metrobank Research sees above-target inflation to persist through 2024.
- Given that the downtrend in headline inflation beat Metrobank Research's baseline estimates from November, we make the following downward revision in our forecast: 2023 Average inflation at 6.0% (from 6.1% previously) and 2024 Average inflation at 4.3% (from 4.6% previously).

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) kept key rates at 6.50% in its last Monetary Board meeting last December 14, citing a moderation in consumers' inflation expectations and a downward revision in its baseline and risk-adjusted inflation forecasts.
- The BSP revised its risk-adjusted inflation forecasts lower to 6.0% average in 2023 from 6.1% (in line with Metrobank Research's baseline forecast), as well as its 2024 forecast to 4.2% (vs. Metrobank Research's 4.3% baseline forecast) from 4.4% previously.
- While the BSP maintained its hawkish stance, reiterating its preparedness to adjust monetary policy settings to manage inflation, our view is that the BSP is done hiking rates and will be better positioned to consider rate cuts as early as the second quarter next year.
- Relative to the Fed, we think that the BSP will take on a more gradual pace of rate cuts. Our base case is that the Fed will deliver its first cut in March, but the BSP will lag the pivot by two to three months to begin its easing cycle by June 2024.
- We forecast a total of 100 bps worth of cuts by the BSP next year, which will bring the target RRP rate to 5.50% by end-2024.

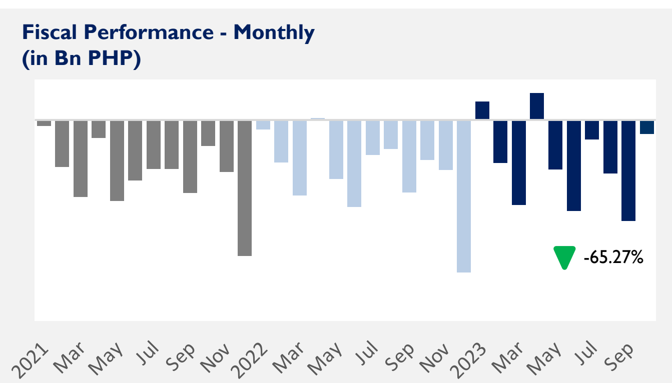
Foreign Exchange

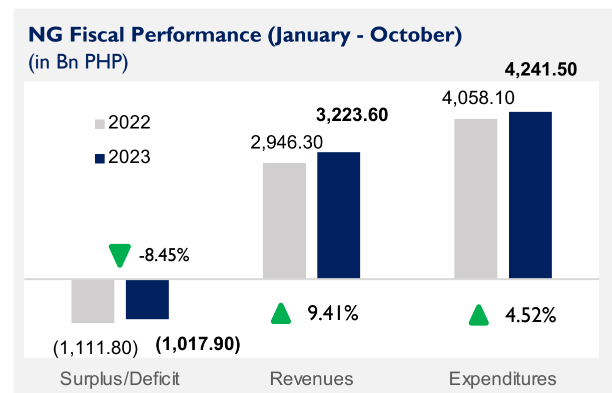
- The USDPHP exchange rate saw choppy trading in early November as global markets digested the Fed's second consecutive rate pause while the local space started to see increasing Overseas Filipino Worker (OFW) remittances and decreasing import requirements. The USDPHP descended from a high of 56.60 at the start of the month to averaging around the 55.50-level by the second half of November.
- In December, USDPHP continued its downward trajectory, hitting an intra-month low of 55.22 on December 4. However, the market was not able to push lower, resulting in panic buying as dealers covered their short dollar positions. USDPHP soon retraced above 55.50 in the second week of December and even briefly traded above 56.00 for a day. With the Fed signaling lower future interest rates in its latest yearend projections, USDPHP returned below 56.00 and has remained volatile within a range of 55.60-55.90.
- Despite the recent move higher, Metrobank Research expects remittances to build-up during the holidays, which should provide relief for the peso and bring the exchange rate towards the yearend forecast of 55.10.
- USDPHP will likely trade in a tighter range of 53.00-56.00 next year and Metrobank Research has revised its yearend 2024 forecast to 54.00 (from 54.40 previously) on the expectation of further dollar weakness as global markets aggressively price in Fed interest rate cuts.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Budget Deficit Narrows in October





The National Government's (NG) recorded a budget deficit of PHP 34.4 billion in October 2023 from PHP 99 billion a year ago, driven by a rise in revenue collections outpacing government expenditure growth. Year-to-date, budget deficit decreased to PHP 1.02 trillion from the PHP 1.11 trillion posted in the corresponding period last year.

Revenue collections in October reached PHP 385.8 billion, 33.56% YoY higher from last year. Cumulative collections from January to October also increased to PHP 3.224 trillion, 9.41% or PHP 277.4 billion better than the previous year.

Government spending, meanwhile, rose 8.32% YoY to PHP 420.2 billion amid higher operating expenses from the Barangay and Sangguniang Kabataan elections during the month. Since the beginning of the year, expenditures amounted to PHP 4.24 trillion, up by an annualized rate of 4.52%.

The National Government sees the budget deficit ending higher at P1.49 Tn versus earlier projection of P1.47 Tn (-6.1% of GDP) by December 2023 and will follow a downward trajectory in the subsequent years as revenues will the growth of government expenditures.

Meanwhile, based on the indicative borrowing program released by the Department of Budget and Management, the planned domestic borrowing for 2024 stands at PHP 1.8 trillion from PHP 1.6 trillion in 2023. The borrowing program includes bond issuances in the 3-25-year tenor buckets.

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