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 (BSP)	56.12	55.57*	54.00

↑ With upside bias

*Actual data

Updated as of January 2, 2024

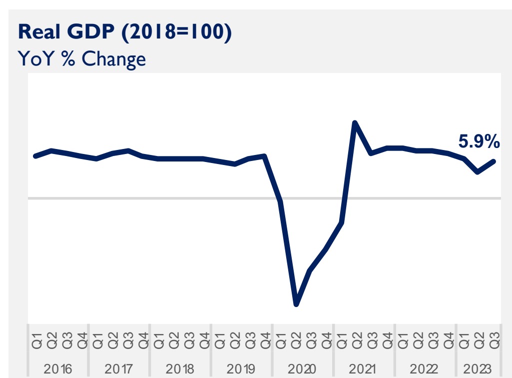
"GDP growth could settle below the Development Budget Coordination Committee's (DBCC) target from 2023 to 2025 as subdued global economic conditions and the lagged impact of the policy rate adjustments weigh on economic activity"

- Bangko Sentral ng Pilipinas (BSP), January 17, 2024

OUTLOOK

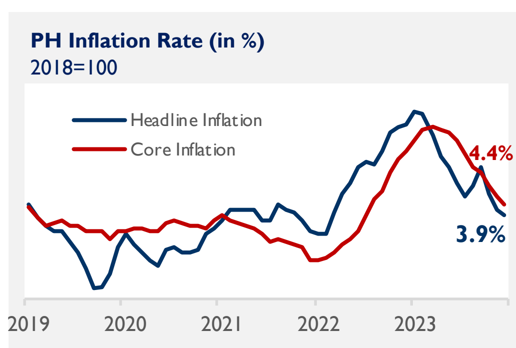
Real Economy

- At its December meeting, the Development Budget Coordination Committee (DBCC) maintained its growth target at 6-7% for 2023 amid robust domestic demand. The GDP growth goal range for 2024 was narrowed to 6.5-7.5% from 6.5-8% previously, while the 6.5-8% goal from 2025 to 2028 was retained.
- However, Bangko Sentral ng Pilipinas (BSP) said that the Philippines' GDP will likely fall short of the government growth targets through 2025 as the impact of multi-year high interest rates may continue to weigh on the economy.
- Metrobank Research retains its full-year 2023 GDP growth projection at 5.5%, but notes an upward bias, as domestic consumption is expected to have picked 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 this 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.



Inflation

- Philippines headline inflation dropped to 3.9% year-on-year in December 2023 from 4.1% in November (+0.16% month-on-month), mainly driven by a slower annual increase in the prices of Electricity, LPG and Rentals, followed by lower inflation on vegetables, meats, and coffee and coffee substitutes.
- The latest headline print brings full year 2023 average headline inflation to 6%, noting the highest recorded inflation for the year of 8.7% in January and the lowest recorded inflation for the year in December. Last year's inflation is slightly higher than the annual average inflation rate of 5.8% in 2022.
- The 2023 full-year average headline inflation is in-line with Metrobank Research's baseline forecast of 6.0%. We therefore retain our FY2024 average local inflation forecast at 4.3%.
- While our estimates show that headline inflation will remain above the BSP's target band from 2Q2024 onwards, we think that dissipating price pressures in other non-volatile commodity prices as indicated by the move lower in core inflation (from 4.7% in November to 4.4% in December), will make the case for the BSP to consider lowering rates as early as June.



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.
- We think that policy rates may not need to be as restrictive at current levels throughout the year, especially if core inflation continues to move lower, as the average difference between the BSP policy rate and domestic headline inflation (from 2009-2023) has been at 28 bps vs. 260bps currently.
- 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 this 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.

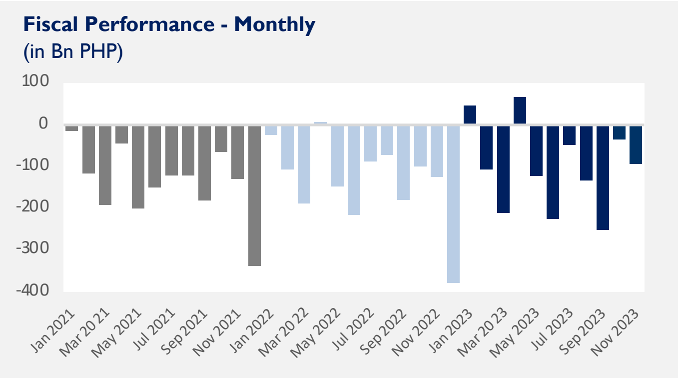
Foreign Exchange

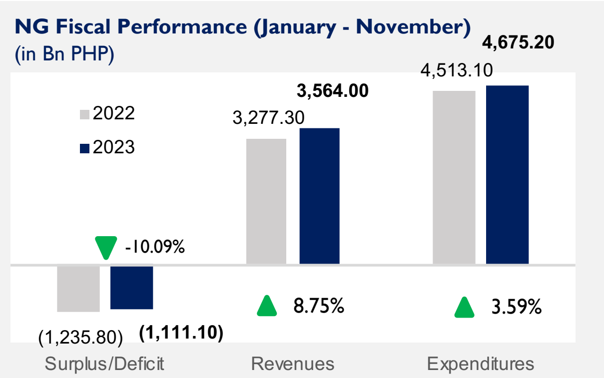
- The results of the Fed's December 13 Federal Open Market Committee (FOMC) meeting resulted in a weaker USD in global FX markets, bringing the USD/PHP below 56 the following day. Despite the news surrounding Fed rate cuts in 2024, USD/PHP continued to trade in a range of 55.60-55.90 following remarks that the BSP is comfortable with the current level of USD/PHP.
- Market players repositioned to be better buyers of the USD on expectations that it will end the year above 56 but reduction of USD holdings ahead of the Christmas holidays helped bring spot back down to the 55.40-level. The USD/PHP exchange rate closed the year at 55.37, down by -0.4%.
- For 2024, we reiterate our view for USD/PHP to trade within a lower range of 53.00-56.50 and end the year at 54.00 on the expectation of further dollar weakness as global markets price in Fed rate cuts in the months to come.
- While the BSP is also expected to ease monetary policy, high borrowing costs may keep investment spending and imports tempered. However, we still see a strong possibility of USD/PHP retesting the 56.00 level in Q2 and Q3 2024 when imports normally peak. By Q4, the usual seasonality factors of decreasing import volumes, OFW remittances, and BPO bonuses should help USD/PHP trend lower until the end of the year.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Budget Deficit Narrows in November





The National Government's (NG) recorded a budget deficit of PHP 93.3 billion in November 2023 from PHP 123.9 billion a year ago, driven by a rise in revenue collections outpacing government expenditure growth. Year-to-date, budget deficit decreased to PHP 1.11 trillion from the PHP 1.24 trillion posted in the corresponding period last year.

Revenue collections in November reached PHP 340.4 billion, 2.82% YoY higher from last year. Cumulative collections from January to November also increased to PHP 3.564 trillion, 8.75% or PHP 286.7 billion better than the previous year.

Government spending, meanwhile, slowed down by 4.69% YoY to PHP 21.3 billion due to the lower National Tax Allotment shares of LGUs, lower direct payments made by development partners for the foreign-assisted rail transport projects of the DOTr, as well as the different timing or schedule of big-ticket disbursements in the DPWH and the DSWD. Since the beginning of the year, expenditures amounted to PHP 4.675 trillion, up by an annualized rate of 3.59%.

Expenditures is expecting to ramp up in the coming months especially with the disbursements in DPWH and DSWD on the big-ticket projects. The National Government sees the budget deficit ending higher at PHP 1.49 trillion versus earlier projection of PHP 1.47 trillion (-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.

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