

# ECONOMIC UPDATES

## METROBANK RESEARCH FORECASTS

	Actual		Forecasts
	2022	2023	2024
<b>Real GDP (2018=100)</b>	<b>7.60%</b>	<b>5.60%</b>	<b>6.00%</b>
<b>Inflation (2018=100)</b>	<b>5.80%</b>	<b>6.00%</b>	<b>4.30%</b> ↓
<b>BSP Target RRP Rate</b>	<b>5.50%</b>	<b>6.50%</b>	<b>5.50%</b>
<b>USDPHP (BSP)</b>	<b>56.12</b>	<b>55.57</b>	<b>54.00</b>

↓ With downward bias  
\*Actual data

"The projected GDP growth path [6.5%-7.5%] is supported by the improved global growth outlook and decline in global crude oil prices, tempered in part by the lagged impact of the policy rate adjustments"

- BSP February 2024 Monetary Policy Report

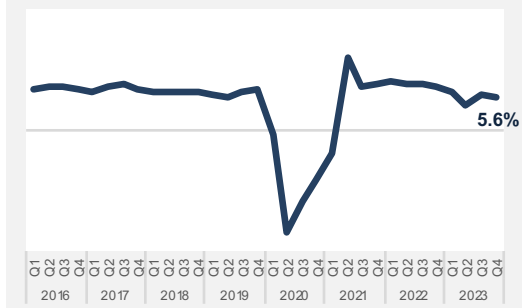
## OUTLOOK

### Real Economy

- The Philippines' Gross Domestic Product (GDP) in the fourth quarter of 2023 expanded at a moderate pace by 5.6% year-on-year versus last quarter's 6.0% growth, driven by the recovery in investment spending and strong consumer spending. This brings the full year GDP average to 5.6% (vs. 5.5% Metrobank Research forecast).
- Although higher than consensus estimates, the latest GDP print fell below the government's target of 6% to 7%.
- While growth was primarily fueled by a robust investment spending, moderating consumption, a gradual recovery in government spending and lower imports suggest continuing tailwinds to the local economy. Add to these the threats of external risks such as the El Nino weather condition and emerging geopolitical conflicts.
- The growth target for 2024 of the Development Budget Coordination Committee under the Medium Term Fiscal Framework (MTFF) was adjusted to 6.5% to 7.5% (from 6.5% to 8.0%) in December 2023. However, newly appointed DOF Secretary Ralph Recto said that the MTFF's targets are currently under review given the global geopolitical conflicts in 2023 which will continue to affect global economic growth. According to him, the country's economic team will come up with more realistic growth targets for 2024 until 2028.
- Metrobank Research retains its 2024 full-year average GDP forecast at 6.0% on the back of decelerating inflation and interest rate cuts by the BSP in the second half of the year.

### Real GDP (2018=100)

YOY % Change



Source: Philippine Statistics Authority (PSA)

### Inflation

- Philippines headline inflation eased to 2.8% year-on-year in January from 3.9% in December 2023, mainly driven by slower annual increases in the prices of food and non-alcoholic beverages in particular vegetables, followed by lower prices of housing, water, electricity, gas, and other fuels, and transport.
- Despite easing headline inflation, rice prices for January further to 22.6% year-on-year from 19.6% in December 2023, the highest reported since the rice crisis in March 2009. The Philippine Statistics Authority (PSA) expects rice inflation to sustain its upward trend until July because of these base effects as rice prices spiked beginning in August 2023.
- Metrobank Research retains its 2024 full-year average inflation forecast at 4.3%, albeit with a strong downward bias as our estimates show above-target inflation for most the part of the year due to the impending effects of El Niño on food items, emerging geopolitical risks and rising rice prices in the world market.
- Although headline inflation eased within the 2-4% target range of the Bangko Sentral ng Pilipinas (BSP), Metrobank Research still maintains its view of rate cuts by the second half of the year. This assumption is hinged on a possible uptick in inflation by the second quarter due the risk of a more protracted El Nino, supply constraints from geopolitical tensions, as well as the proposed minimum wage adjustments.

### PH Inflation Rate (in %)

2018=100



Source: Philippine Statistics Authority (PSA)

## OUTLOOK

### Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) maintained its target overnight reverse repurchase (RRP) rate at 6.50% for the third time at its first Monetary Board meeting this year. While the Monetary Board recognizes improvements in inflation, prevailing upside risks to prices remain, specifically higher transport charges, increased electricity rates, higher oil and domestic food prices, and the additional impact on food prices due to a strong El Niño episode.
- The BSP's latest risk-adjusted inflation forecast for this year eased to 3.9% from 4.2%, while the outlook for 2025 remain relatively steady at 3.5% from 3.4%, both within the 2-4% target range of the central bank.
- Metrobank Research retains its baseline forecast on the timing of the BSP's easing cycle, which will likely begin in the second half of the year.
- Relative to the US Federal Reserve's interest rate path, Metrobank Research maintains its outlook that the BSP is likely to delay its first cut by up to a full quarter later than that of the Fed. BSP will likely cut by up to a total of 100 basis points (bps) in 2024 but note that its easing cycle will be gradual as upside risks to inflation may persist.

### Foreign Exchange

- The results of the January US Nonfarm Payrolls (NFP) on February 2 resulted in a stronger US dollar in global foreign exchange markets, bringing the USD/PHP from 55.92 to 56.10 the following day. USD/PHP eventually reached the 56.30-level before traders started trimming their position.
- Market players repositioned to be better buyers of the peso around the 56.20-level amid strong remittances along with light corporate demand for dollars. Upside risks for USD/PHP may be possible for the first half of the year as markets start to price in a protracted period of high interest rates, with the Fed Funds Futures showing the first rate cut to happen by June.
- For 2024, Metrobank Research reiterates its year-end view for USD/PHP at 54.00. While the BSP is expected to ease monetary policy, high borrowing costs may keep investment spending and imports tempered. However, Metrobank Research still sees 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.

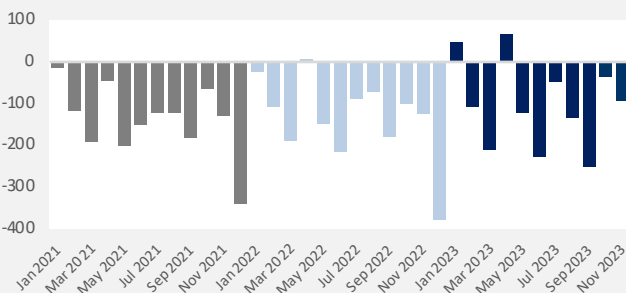
## LOCAL MACRO NEWS

### FISCAL PERFORMANCE

#### Budget Deficit Narrows in November

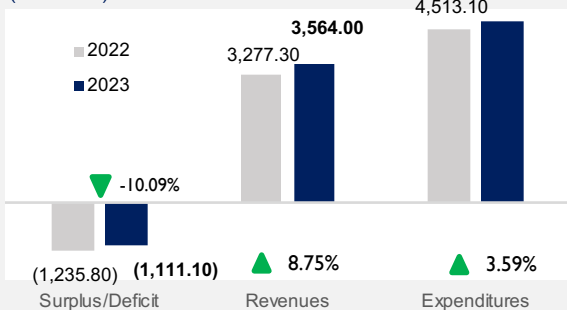
##### Fiscal Performance - Monthly

(in Bn PHP)



##### NG Fiscal Performance (January - November)

(in Bn PHP)



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 are expected to ramp up this year with the implementation of big-ticket "Build Better More" infrastructure projects led by the DPWH and DOTr. 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. This year, NG is projecting a downward trajectory for deficit until 2028 as government revenue from tax collection is expected to increase given potential tax reforms and higher efficiency in tax collection under the leadership of DOF Secretary Ralph Recto. For 2024, budget deficit is projected to decrease to PHP 1.37 trillion (-5.1% of GDP).

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

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