Research and Business Analytics Department

# ECONOMIC UPDATES

## METROBANK RESEARCH FORECASTS

| | Actual | | Forecasts |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| Real GDP (2018=100) | 7.60% | 5.60% | 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 downward bias

*"I can't say that we're going to ease soon. I think it's unlikely that we will tighten some more. But we'll see what the data says."*

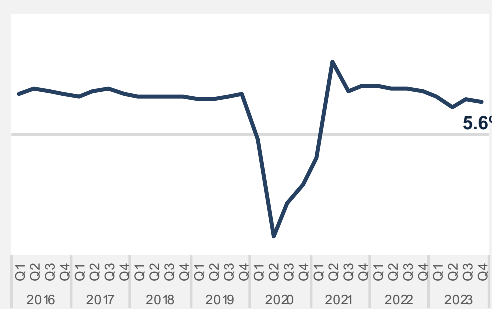
*- BSP Governor Eli Remolona, March 6, 2024*

## 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 (DBCC) 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, DOF Secretary Ralph Finance Secretary Ralph Recto believes that the economic growth forecast provided by multilateral organizations at 5.8% to 6.3% is a more realistic target range for the Philippines than the current government target due to the slower-than-expected global growth recovery, as well as challenges facing the Philippine economy such as the El Niño weather phenomenon, inflation and high interest rates.
- The DBCC is expected to revise the country's economic growth targets after the release of the first quarter GDP figures on May 9.
- 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

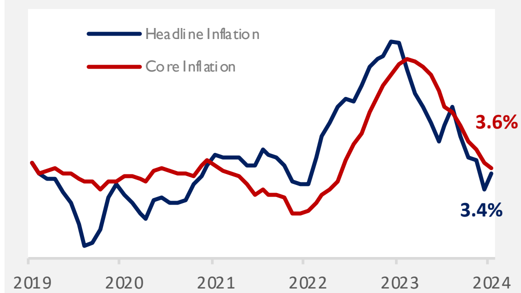



*Source: Philippine Statistics Authority (PSA)*

### Inflation

- Philippines headline inflation rose more than expected to 3.4% year-on-year in February from 2.8% in January, mainly driven by an increase in the prices of food and non-alcoholic beverages. January and February recorded the same month-on-month growth at 0.6%, suggesting that inflation is not yet slowing sequentially.
- The major contributory factor to the February inflation was the continuous acceleration of rice prices which increased further to 23.7% year-on-year from 22.6% in January, as local rice prices continued to track elevated global commodity prices which was exacerbated by low base effects from the same period last year. It also offset the decrease in other prices of key food items like vegetables.
- For now, Metrobank Research retains its yearend average inflation forecast at 4.3% (with a downward bias) as there continues to be strong upward inflation pressure for the year due to the rising rice prices and the impending effects of El Niño on food items and of emerging geopolitical risks on global market prices.

**PH Inflation Rate (in %)**
2018=100




*Source: Philippine Statistics Authority (PSA)*

Metrobank

# 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 last February 15. 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, 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

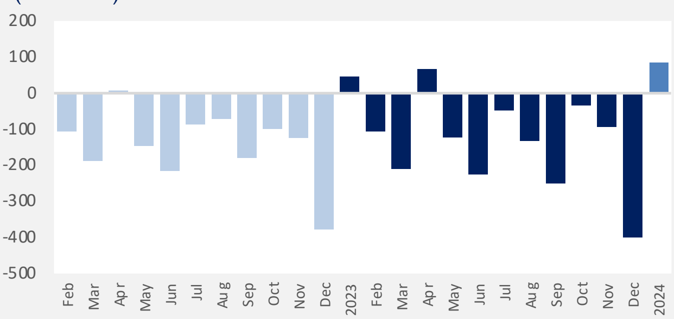
- Ahead of the Fed's FOMC meeting on March 20, it remains to be seen whether most of the demand for March has already been serviced, with many importers opportunistically picking up on the dip to 55.30 due to recent stronger-than-expected US economic data prints (i.e. PPI and Initial Jobless Claims). With consensus predicting a pause from the Fed, market players will be looking forward to the Fed's rhetoric and the release of the updated dot plot to shed light on members' own interest rate projections.
- Our initial support from current levels remain at 55.45/50 ahead of year-to-date lows at 55.30/35. On the other hand, resistance is at 55.60/65 before 55.75/80.
- 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

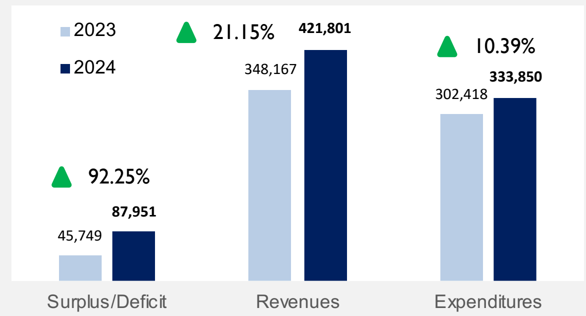
### FISCAL PERFORMANCE

## NG records Budget Surplus in January

**Fiscal Performance - Monthly**
(in Mn PHP)




**NG Fiscal Performance (January)**
(in Mn PHP)




The National Government (NG) posted a larger budget surplus of PHP 88 billion for January 2024 compared to the PHP 45.7 billion recorded a year ago, reflecting an increase of 92.25% YoY or PHP 42.2 billion, driven by a faster 21.15% YoY increase in revenue collection outpacing the 10.39% expansion in government spending.

Revenue collections in January rose to PHP 421.8 billion from PHP 348.2 billion last year due to higher tax collections which comprised 91.31% or PHP 385.2 billion of the total collection. Meanwhile, the remaining 8.69% or PHP 36.6 billion was generated through non-tax sources which declined by 8.68% YoY.

Government spending, meanwhile, sped up to PHP 333.9 billion, 10.39% (PHP 31.4 billion) higher relative to last year's spending of PHP 302.4 billion. Primary expenditures which accounted for 77.77% of the total inched up to PHP 259.6 billion from PHP 255.4 billion posted a year ago. Meanwhile, interest payments, which accounted for the remaining 22.23%, rose to PHP 74.2 billion

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. For 2024, NG is projecting a downward trajectory for deficit until 2028 as government revenue from tax collection is expected to continue to increase given potential tax reforms and higher efficiency in tax collection under the leadership of DOF Secretary Ralph Recto. The budget deficit is seen ending lower at PHP 1.36 trillion (-5.1% of GDP) this year versus the PHP 1.51 trillion (-6.2% of GDP vs. -6.1% est.) recorded for full year 2023.

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