

# ECONOMIC UPDATES

## METROBANK RESEARCH FORECASTS

	Actual		Forecasts
	2022	2023	2024
<b>Real GDP</b> (2018=100)	<b>7.60%</b>	<b>5.60%</b>	<b>6.00%</b>
<b>Inflation</b> (2018=100)	<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>5.75%</b>
<b>USDPHP</b> (BSP)	<b>56.12</b>	<b>55.57</b>	<b>54.00</b> ↑

“Things have gotten worse in terms of inflation. So yes, if the trend continues, it [policy rate cuts] won’t happen this year.”

- BSP Governor Eli Remolona,  
April 17, 2024

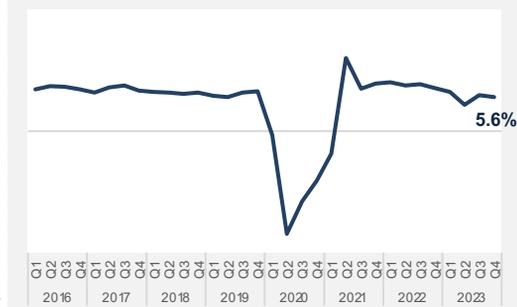
↑ With upward bias ↓ With downward bias

## OUTLOOK

### Real Economy

- The Philippines’ Gross Domestic Product (GDP) in the fourth quarter of 2023 expanded at a moderate pace of 5.6% year-on-year, driven by the recovery in investment spending and strong consumer spending, bringing the full-year GDP average to 5.6% (vs. 5.5% Metrobank Research forecast).
- The Philippines is projected to be among the best-performing economies in the region this year despite risks to growth such as the continuous acceleration of rice prices, increased geopolitical tension in the Middle East, and heightened El Niño phenomenon.
- During the 187<sup>th</sup> Meeting of the Development Budget Coordination Committee (DBCC) last April 4, 2024, the government adjusted its economic growth projection for 2024 to 6.0-7.0%, a downward revision from the previous projection of 6.5-7.5%, reflecting the latest trade outlook amid existing geopolitical tensions. The DBCC likewise narrowed its projection for 2025 to 6.5-7.5% from the previous 6.5-8.0%, while it has retained its projection of 6.5-8.0% annual growth for 2026-2028. The DBCC is expected to once again revisit the country’s economic growth projections after the release of the first quarter GDP figures on May 9, 2024.
- With the increasing risks to the global economic outlook, multilateral agencies such as the Asian Development Bank (ADB) and the International Monetary Fund (IMF) also revised their growth forecasts. ADB now projects a 6.0% GDP growth for the Philippines in 2024 from its previous projection of 6.2% (versus average ASEAN-5 GDP growth rate projection of 4.9%). Meanwhile, the IMF revised its projection upward to 6.2% from 6.0% (versus average ASEAN-5 GDP growth rate projection of 4.5%).
- 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 4<sup>th</sup> quarter of 2024.

**Real GDP (2018=100)**  
YOY % Change

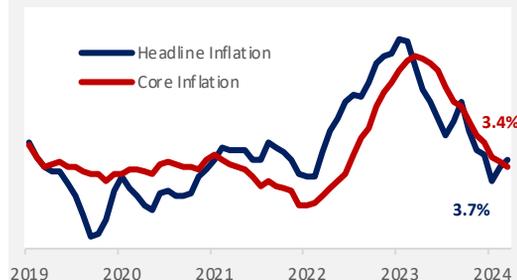


Source: Philippine Statistics Authority (PSA)

### Inflation

- The country’s headline inflation accelerated to 3.7 percent in March 2024 from 3.4 percent in the previous month, on account of faster growth in the prices of food and non-alcoholic beverages. On a month-on-month basis, March saw a relatively slower inflation at 0.1 percent compared to the 0.6 percent recorded in the preceding month.
- Rice remains to be the main driver of inflation, comprising 45.6% of the 3.7% overall inflation rate. Year-on-year, rice inflation accelerated to 24.4% in February, exacerbated by low base effects.
- According to the Philippine Statistics Authority (PSA), rice inflation is expected to trend higher until July 2024 as global rice prices continue to increase, intensified by base effects in August 2023 when prices began to spike. The Department of Agriculture (DA) also expects to import less rice in 2024, on account of the projected increase in domestic rice production even amid the El Niño phenomenon.
- Metrobank Research retains its yearend average inflation forecast at 4.3% (with a downward bias), owing to persistent inflation from rising rice prices, the effects of El Niño, and emerging geopolitical risks.

**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 fourth time at its second Monetary Board (MB) meeting this year.
- The BSP also revised its risk-adjusted inflation forecast to 4.0% from 3.9% previously, given the risk of higher transport prices from recent oil supply disruptions in the global space, and the more salient, persistent uptrend in local rice inflation. Other factors in the higher inflation outlook include the potential increase in nominal wages with the recently passed PHP 100 wage hike in the Senate, and higher electricity prices.
- Metrobank Research has re-weighted its base case and now expects that the first rate cut will happen more likely in Q4 2024, by a total of 75 basis points (bps) only this year to end at 5.75% given the heightened upside risk to inflation driven by the acceleration of rice and transport prices, exacerbated by current geopolitical tensions, along with BSP Governor Eli Remolona's hawkish statements on the beginning of rate cuts this year.
- The BSP is likely to delay its first cut until the US Federal Reserve begins its monetary easing especially with the current weakness of the peso. Despite Governor Remolona reiterating the independence of BSP's decision on policy rate adjustment from the Fed's, it is unlikely that the BSP will move ahead of the Fed.

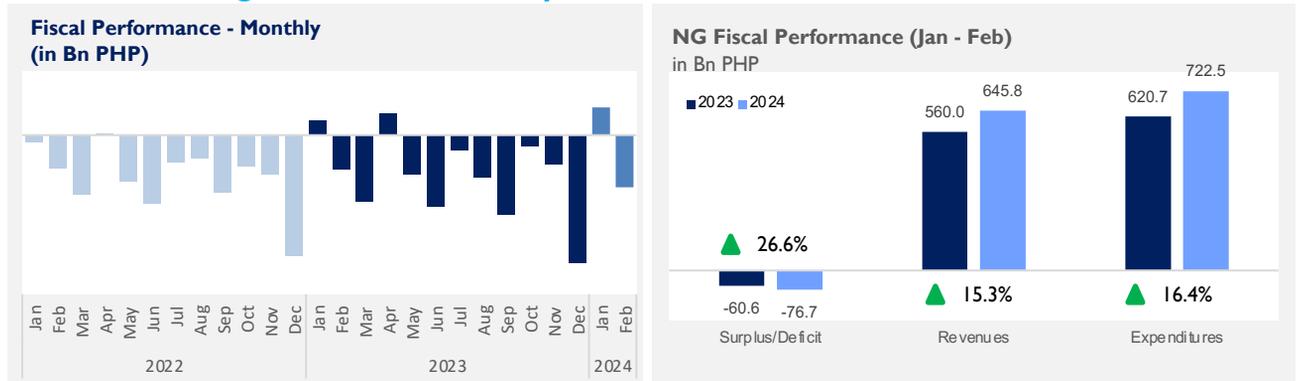
### Foreign Exchange

- Following a stronger dollar environment as the market speculates on a rather less-aggressive monetary easing by the Fed and tensions in the Middle East, this has led to a -2.82% year-to-date spot rate return for the peso relative to the dollar as of 17 April 2024. In comparison to other Asian currencies, this places the Philippine peso in the middle of the pack.
- For 2024, Metrobank Research retains its forecast of a PHP54 USD/PHP exchange rate, but with an upward bias considering existing upside risks and current market sentiment.

## LOCAL MACRO NEWS

### FISCAL PERFORMANCE

### NG records Budget Deficit in February



In February 2024, the National Government (NG) recorded a fiscal deficit of PHP 164.7 billion, a 54.8 percent growth from the PHP 106.4 billion recorded the same month last year and a reversal from the PHP 88.0 billion surplus recorded in the first month of 2024. This brings the fiscal deficit to PHP 76.7 billion as of end February, a year-on-year growth of 26.6 percent compared to the PHP 60.6 billion recorded in the same period last year. The increased budget deficit is primarily due to the faster growth in government expenditures relative to the increase in total revenue collections.

For the month of February, the Philippines recorded total revenues amounting to PHP 224.0 billion, a 5.7 percent increase from the PHP 221.9 billion recorded in the same period last year. The improved revenue collection for the month is attributed to tax revenues, which increased by 8.6 percent to PHP 211.3 in February. Moreover, non-tax revenues weighed in negatively on total revenues as the former registered a 26.2 percent decline for the month, with non-tax collections reaching only PHP 12.7 billion. On a year-to-date basis, total revenues reached PHP 645.8 billion, a 15.3 percent improvement from the PHP 645.8 billion recorded during the same period in 2023.

On the expenditure side, total disbursements sharply increased by 22.1 percent in February as total expenditures reached PHP 388.7 billion, a significant increase compared to the PHP 318.2 recorded in the same month last year. This year-on-year increase is mainly attributed to the 36.5 percent uptick in disbursements to local government units (LGUs), followed by a 12.5 percent increase in NG disbursements. On a year-to-date basis, the Philippines recorded a 16.4 percent increase in total expenditures as it reached PHP 722.5 billion as of end-February 2024 vis-à-vis the PHP 620.6 billion recorded during the same period in 2023.

Based on the latest projections of the DBCC as of 04 April 2024, the NG deficit as a percentage of GDP will drop to 5.6% in 2024 from the 6.2% in 2023 and will gradually decline to 3.7% in 2028. This reflects the impact of the projected increase in NG spending which shall benefit key sectors such as infrastructure, human capital development, and social services.

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

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