

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%	4.00%
BSP Target RRP Rate	5.50%	6.50%	5.75%
USDPHP (BSP)	56.12	55.57	56.10

“We’re somewhat less hawkish than before, which means we could ease (or) cut rates in Q3 (third quarter) or Q4 (fourth quarter) this year.”

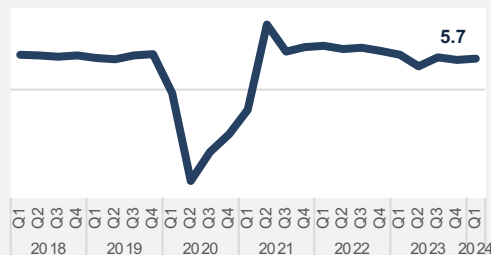
- BSP Governor Eli Remolona, May 16, 2024

OUTLOOK

Real Economy

- The Philippines' Gross Domestic Product (GDP) expanded by 5.7% year-on-year in the first quarter of 2024, driven by robust consumer spending. The country's GDP growth in the first quarter is lower than the Metrobank Research's full year forecast of 6.0% and the Development Budget Coordination Committee (DBCC)'s full-year projection of 6.0%-7.0%.
- On the expenditure side, GDP growth in the first quarter was led by a robust 4.6% year-on-year increase in consumer spending, although weaker than the 6.4% increase recorded in the same quarter of the previous year. Net exports also improved as exports grew by 7.5% year-on-year, while imports grew at a slower pace of 2.3%. Government expenditure and gross capital formation, meanwhile, moderately expanded by 1.7% and 1.3%, respectively.
- On the production side, the services sector led with a 6.9% growth in the first quarter, although slower than the 8.3% recorded in the same period last year. Meanwhile, the industry sector grew by 5.1%, faster than the 4.1% recorded in the same quarter last year. Growth in the agriculture sector fell flat during the quarter at 0.4%, slower than the 2.2% recorded in the same period in 2023.
- For the first quarter of the year, the Philippines outperformed neighboring peers such as Vietnam (5.7%), Indonesia (5.1%), and Singapore (2.7%). In terms of full year growth, the Philippines is projected to be the top performing economy in the ASEAN region, with the Asian Development Bank (ADB) forecasting a 6.0% growth and the International Monetary Fund (IMF) forecasting a 6.2% growth in 2024 despite risks to growth such as elevated inflation, persisting geopolitical tensions in the Middle East, and extreme weather phenomena.
- Metrobank Research maintains its 2024 full year GDP growth forecast at 6.0% on the back of decelerating inflation, as well as the projected monetary easing by the BSP in the fourth quarter of 2024.

Real GDP (2018=100)
YOY % Change

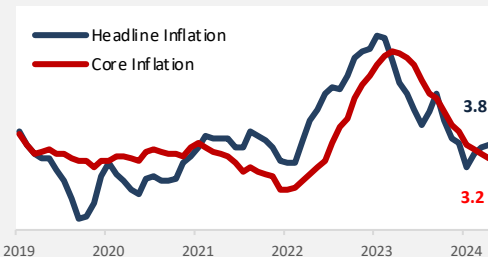


Source: Philippine Statistics Authority (PSA)

Inflation

- The country's headline inflation accelerated to 3.8% in April from the 3.7% in March, driven by the faster year-on-year growth in the prices of food and non-alcoholic beverages. This brings the year-to-date headline inflation to 3.4%.
- On a month-on-month basis, the Philippines continues to see slower growth in the overall prices of goods as it recorded a -0.1% inflation in April, slower than the 0.1 percent in March and the 0.6 percent in February.
- Core inflation, which excludes selected food and energy items, decelerated from 3.2% in April from the 3.4% recorded in the previous month.
- Although rice remains to be the main driver of headline inflation, its year-on-year inflation has slowed down to 23.9% in April. On a month-on-month basis, rice inflation has slowed to 0.4% in April from 1.0% in March, mainly due to the slight decline in global rice prices.
- Despite the recent decline in global rice prices, rice inflation is expected to remain elevated until July 2024, owing to low base effects as rice prices began to soar in August 2023.
- Metrobank Research forecasts a 4.0% full year inflation for 2024, on the back of decelerating rice inflation, persisting geopolitical risks, and extreme weather conditions.

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 rate at 6.50% for the fifth time at its Monetary Board meeting last May 16, 2024.
- The BSP revised its risk-adjusted headline inflation forecast for this year to 3.8% from 4.0%, and for 2025 to 3.7% from 3.5%. Although risks to inflation continue to lean towards the upside, the BSP expects transport charges, electricity rates, and food prices to continue to move lower this year. Moreover, the effect of higher global crude oil prices is projected to have a stronger upward push to inflation in 2025 rather than this year.
- Metrobank Research maintains its view that the US Fed will likely start cutting rates in September with a total of 75 basis points (bps) for the year, bringing the Fed Funds Target Rate to 4.75% by year-end as US inflation is expected to peak by June, with the downward trajectory observable by July. However, in recent less hawkish statements from BSP Governor Eli Remolona Jr., the possibility of a rate cut ahead of the Fed in August has not been ruled out. Should this happen, a rate cut of 25 bps each in August, October, and December could bring the policy rate to 5.75%. Otherwise, a first cut of 25 to 50 bps may happen in October, with the balance in December to deliver a total of 75-bp cut for the year.
- Following the Federal Open Market Committee (FOMC)'s meeting on April 30, 2024, in which the Federal Funds Rate was maintained at 5.5%, the FOMC also said that it does not expect monetary easing to be appropriate until it has gained greater confidence that inflation is moving sustainably toward the 2% target. Additionally, other factors, including labor market conditions, inflation pressures and expectations, and financial and international developments, will also be considered in adjusting the Federal Reserve (Fed)'s monetary stance.

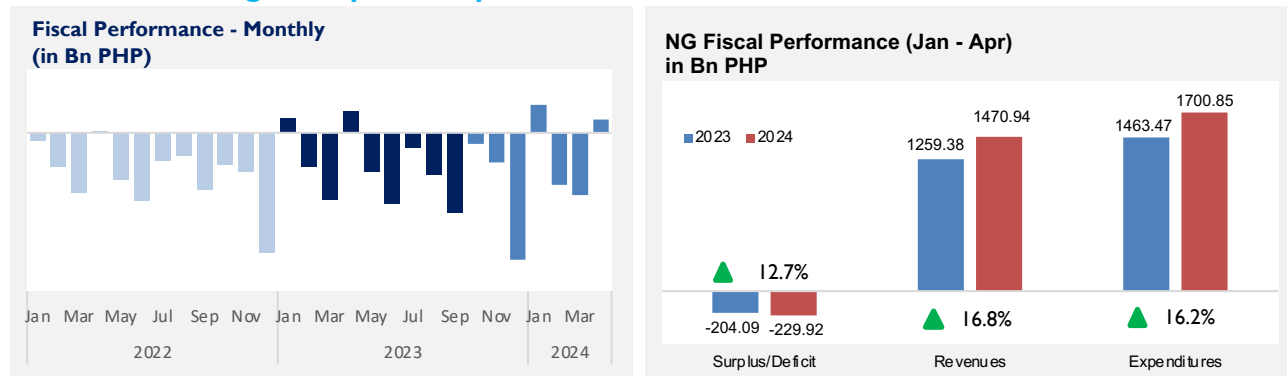
Foreign Exchange

- For the first time in 18 months, the USD/PHP exchange rate closed above the 58-level as the US dollar continued to strengthen as many Fed officials signaled a delay in cutting interest rates amid stickier inflation and a tight labor market in the US. As of May 23, the peso has fallen by -4.73% against the dollar.
- Given the recent dollar strength and peso depreciation – in line with other currencies in the region as most Fed officials signaled a delay in Fed rate cuts amid the lack of progress on US inflation – Metrobank Research expects the USD/PHP exchange rate to end higher at 56.1 by end-2024 from the previous estimate of PHP 54.0 per dollar with an upward bias. The upward revision in the USD/PHP outlook also takes into account the BSP's decision to move towards a less-managed exchange rate framework, existing upside risks, current market sentiment and structural flows supporting the peso.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

NG records Budget Surplus in April



In April 2024, the National Government (NG) recorded a fiscal surplus of PHP 42.7 billion, a 36.0% drop from the PHP 66.8 billion recorded in the same month last year. Accordingly, this resulted in a year-to-date budget deficit of PHP 229.9 billion, a 12.7% percent year-on-year growth from the PHP 204.1 billion fiscal deficit recorded in the same period last year. Despite the year-on-year (YOY) narrowing of the fiscal deficit on a year-to-date basis, the widening of the quarterly deficits calls for the strengthening of the government's revenue mobilization efforts such as enhanced tax collection to sustain the current administration's spending for government projects.

Total revenue collections in April reached PHP 537.9 billion, a year-on-year increase of 21.9% percent from the PHP 440.7 billion recorded in the same month last year. The increase in tax revenues is mainly due to the 13.9% improvement in the collections of tax revenues which reached PHP 461.8 billion in April compared to the PHP 405.4 billion in the same month last year, followed by a 113.9% increase in non-tax revenue collections which reached PHP 75.4 billion in April compared to the PHP 35.3 billion in the same month during the previous year. On a year-to-date basis, total revenues for January to April 2024 improved by 16.8%, attributable to a 13.2% year-on-year increase in tax revenues and a 48.4% year-on-year growth in non-tax revenues for the period.

Meanwhile, NG disbursements reached PHP 494.5 billion in April 2024, a 32.3% growth compared to the PHP 373.9 billion in the same month last year. The main catalyst for the growth in government expenditures are NG disbursements for government programs including infrastructure projects, which reached PHP 311.7 billion in April, equivalent to a 31.9% growth compared to the PHP 236.3 billion recorded in the same month in 2023. This brings the year-to-date total expenditures to PHP 1.7 trillion, a 16.2% increase compared to the PHP 1.5 trillion recorded from January to April 2023.

The Development Budget Coordination Committee (DBCC) projects that the country's fiscal deficit will sustain its downward trajectory with a 5.6% ratio to GDP in 2024 down to a 3.7% ratio to GDP by 2028. In terms of revenues, the DBCC projects total collections of PHP 4.3 trillion in 2024, increasing gradually to PHP 6.1 trillion in 2028. Similarly, the DBCC projects total expenditures to reach PHP 5.8 trillion in 2024, gradually increasing to PHP 7.5 trillion in 2028.

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

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