ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual		Forecasts	
	2022	2023	2024	2025
Real GDP (2018=100)	7.60%	5.60%	6.00%	6.00-7.00%
Inflation (2018=100)	5.80%	6.00%	3.30-3.60%	3.30-3.70%
BSP Target RRP Rate	5.50%	6.50%	6.00%	5.00%
USDPHP (BSP)	56.12	55.57	56.10	54.00

"The MB also expects price pressures to ease further on the second half of the year… If sustained, an improvement in the inflation outlook would allow more scope to consider a less restrictive monetary stance…"

"[An August rate cut is] somewhat more likely."

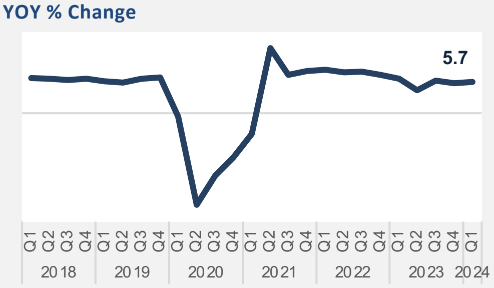
BSP Governor Eli Remolona, June 27, 2024

OUTLOOK

Real Economy

- The Philippines' gross domestic product (GDP) expanded by 5.7% year-on-year in the first quarter of 2024. lower than 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%.
- The Philippines first quarter growth outperformed that of neighboring peers namely Vietnam (5.7%), Indonesia (5.1%), and Singapore (2.7%).
- The Development Budget Coordination Committee (DBCC) maintained their growth assumptions at 6.0%-7.0% for 2024 during DBCC's 188th Meeting on June 27, 2024 as it expects the Philippines to continue surpassing most emerging economies in the region despite external headwinds. For the full-year, the Philippines is projected to sustain its position as the top performing country 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.
- Given the momentum, GDP growth is expected at 6.5%-7.5% in 2025 and 6.5%-8.0% annually from 2026 to 2028.
- Metrobank Research maintains its 2024 full year GDP growth forecast at 6.0% on the back of faster-than-expected deceleration in domestic inflation, the projected monetary easing by the BSP in the fourth quarter of 2024, as well as the expected pick up in government spending.

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

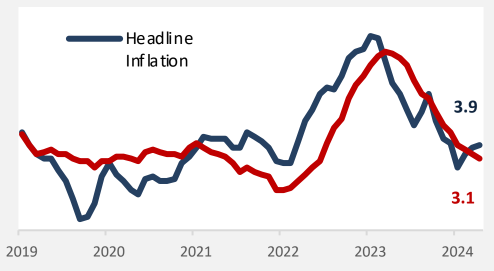


Source: Philippine Statistics Authority (PSA)

Inflation

- Philippines headline inflation slightly increased to 3.9% year-on-year in May from 3.8% in April, driven by the increase in the index of housing, water, electricity, gas and other fuels. This brings the year-to-date average inflation from January to May 2024 to 3.5%. On a month-on-month basis, May inflation rose to 0.1% from -0.1% in the previous month.
- Core inflation, which excludes selected food and energy items, continued to ease to 3.1% in May from 3.2%.
- Rice remains to be the major contributory factor to May inflation as it continued to accelerate by 23.0% year-on-year from 23.9% in April after its peak in March at 24.4% year-on-year. However, on a month-on-month basis, prices accelerated only by 0.2% in May, slightly slower than the 0.4% in the previous month.
- Following Metrobank Research's last Inflation report dated June 5, which indicated a downside bias to the 4.0% average inflation forecast for full year (FY) 2024 owing to the slower than expected sequential growth in the May inflation print (3.9% year-on-year vs. 4.0% Metrobank Research estimate), Metrobank Research has revised its FY2024 and FY2025 forecasts to 3.3-3.6% and 3.3-3.7%, respectively, owing to the recently approved rice tariff reduction from 35% to 15%.
- Metrobank Research estimated that the tariff reduction could reduce the current market price of rice by around PHP 7 to 9 per kilogram, which would bring the percentage point contribution of rice to headline inflation to -0.2 to 0.2, a significant drop from its 1.6ppt contribution last May 2024.

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



Source: Philippine Statistics Authority (PSA)

OUTLOOK

Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) maintained its target reverse repurchase (RRP) rate at 6.50% and reduced its risk-adjusted headline inflation forecast for this year and 2025 to 3.1% from 3.8% and to 3.1% from 3.7%, respectively.
- Governor Remolona stated that data supports the course of a possible 25 bps cut each in the third quarter and in the fourth quarter prior to the US Federal Reserve's meeting in September, which could bring the year-end policy rate down to 6.0%.
- Metrobank Research maintains its baseline forecast that the BSP will begin its monetary easing cycle with a 25-bps cut in its October 17 Monetary Board meeting, followed by another 25bps on December 19, which would bring the RRP to 6.0% by year-end. However, with inflation cooling faster than previously expected, the risk of an earlier cut by the BSP has risen.
- Despite the BSP's more dovish tone, Metrobank Research continues to believe the BSP will lag the Fed's easing cycle to support the Peso by maintaining at least a 100bps interest rate differential to the US Federal Funds Rate. This is especially with the Peso being the worst performing currency in the region after the Japanese Yen since mid-April, and with the Q3 peak import season approaching.

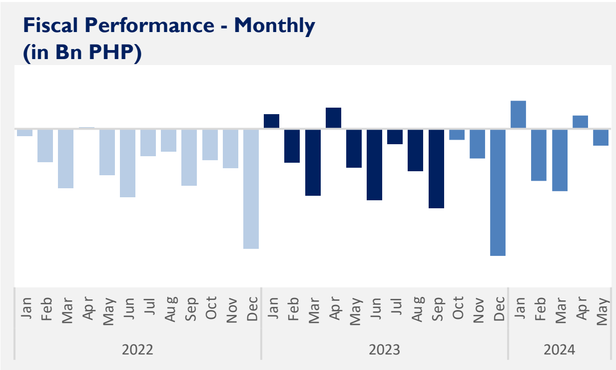
Foreign Exchange

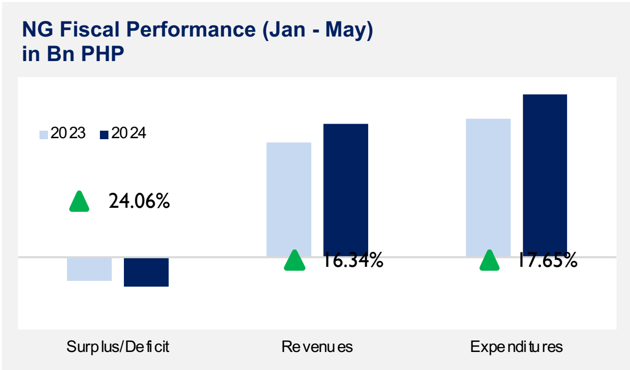
- As of June 27, the USD/PHP exchange rate reached a year-to-date (YTD) high of 58.92 due to BSP Governor Remolona's more dovish remarks that an August rate cut is "somewhat more likely" and that the BSP is "on track to cut in the third quarter."
- Moreover, a strong US labor market, along with the Fed's June dot plot indicating a single rate cut this year compared to the previous three rate cuts projected last March, also contributed to the strong dollar narrative. Year-to-date, the peso has fallen by -5.92% against the dollar.
- Metrobank Research maintains its view that the Fed may begin cutting rates as early as their September 18 Federal Open Market Committee (FOMC) meeting and by a total of 50 bps for the full-year to 4.75% - 5.00%
- Metrobank Research expects the Peso to be supported by a narrowing current account balance as the BSP forecasts an improving trade deficit and recovering travel exports, accompanied by an expected uptick in BPO revenues and OFW remittances in the fourth quarter.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

National Government Budget Deficit Widens in May





The National Government's (NG) budget deficit reached PHP 174.9 billion in May 2024, increasing by 43.10% (PHP 52.7 billion) from the previous year's level. The higher deficit resulted from an acceleration in government spending, pushing disbursement growth for the month to 22.24% against revenue expansion of 14.59%. Consequently, the cumulative budget deficit for the 5-month period widened to PHP 404.8 billion, 24.06% or PHP 78.5 billion more than the PHP 326.3 billion recorded during the same period in 2023.

The jump in expenditures was due to the implementation of capital outlay projects of the Department of Public Works and Highways (DPWH) and the Department of National Defense (DND), as well as the social and health programs of the Department of Social Welfare and Development (DSWD) and the Department of Health (DOH). Meanwhile, revenue growth was driven by higher nontax collections which nearly doubled in May. Tax revenues also increased due to higher collections on value-added tax (VAT), taxes on net income and profit (withholding at source and on wages of personal income tax), and miscellaneous tax.

The DBCC kept its deficit ceilings for 2026 to 2028, but revised its revenue and expenditure programs. On average, revenues are expected to grow by 10.3% every year from 2024 to 2028, reaching PHP 6.25 trillion (16.9% of GDP) by the end of the Marcos Jr. administration. The DBCC also expects expenditures to remain at an average of about 21.0% of the GDP from 2024 until 2028. The government will maintain high investments in infrastructure, which will be between 5% and 6% of GDP from 2024 to 2028. This is expected to create a multiplier effect on the economy, and support the creation of quality jobs. Lastly, the country's economic managers expect the debt-to-GDP ratio to decline from 60.6% this year to 56.0% in 2028, lower than the 60% threshold considered to be manageable for developing economies.

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