3 cuts expected from the BSP

"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..." - BSP Governor Eli M. Remolona

METROBANK RESEARCH FORECASTS

	Actual		Forecasts	
	2022	2023	2024	2025
Real GDP (2018=100)	7.60%	5.60%	5.70%	6.00%
Inflation (2018=100)	5.80%	6.00%	3.30%	3.10%
BSP Target RRP Rate	5.50%	6.50%	5.75%	5.00%
USDPHP (BSP)	56.12	55.57	57.20	56.30

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OUTLOOK

Real Economy

- Metrobank Research has revised its GDP growth forecast to 5.7% for 2024 and 6.0% for 2025, from 6.0% and 6.0-7.0%, respectively.
- Consumer spending, which has been the country's primary driver of economic growth, is expected to be tame in the remaining months of the year as reflected in tepid consumer growth and rising household debt. Moreover, the tight monetary policy environment this year will continue to constrain investment momentum.
- Both investment and consumer spending are foreseen to recover in 2025 and will drive economic growth upwards.
- In the ASEAN (Association of Southeast Asian Nations) +3 Macroeconomic Research Office (AMRO)'s latest report, the multilateral organization reduced their 2024 growth outlook on the Philippines to 6.1% from the previous 6.3%, noting a weak external environment which may weigh down the economy.
- Meanwhile, the Asian Development Bank (ADB) maintained its GDP growth forecast for the Philippines at 6.0% for 2024 and 6.2% for 2025, citing moderating inflation and the anticipated monetary easing of the Bangko Sentral ng Pilipinas (BSP) as catalysts for household consumption and investments.
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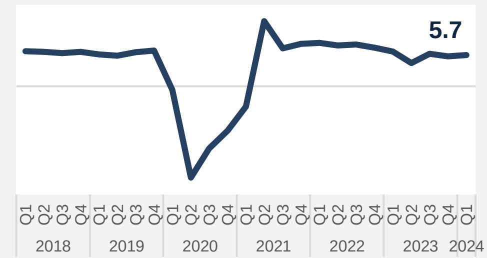
Real GDP (2018=100)
YOY % Change



Source: Philippine Statistics Authority (PSA)

Inflation

- The Philippines' headline inflation rose slower-than-expected to 3.7% year-on-year (YoY) in June (versus the Bloomberg consensus of 3.9% and Metrobank Research's forecast of 4.1%) from 3.9% in May. Year-to-June average inflation remained at 3.5%. On a month-on-month (MoM) basis, inflation was flat in June at 0.0% from 0.1% in May.
- Core inflation, which excludes selected food and energy items, on the other hand, remained similar to May at 3.1%.
- Rice prices, which rose 22.5% YoY in June, remained the main contributor to headline inflation with a share of 2.0 percentage points out of the 3.7% headline inflation. Rice prices are expected to remain elevated until July due to low base effects.
- Metrobank Research expects lower rice tariffs to substantially slow headline inflation going forward. The Philippine Statistics Authority (PSA) sees the proposed reduction in rice tariffs to be implemented by July, but we estimate that the full impact will be observable in August.
- With the new tariff policy ahead, Metrobank Research has revised its inflation forecast at 3.3% for the full year and 3.1% in 2025 from 3.3%-3.6% and 3.3%-3.7%, respectively, considering lower-than-expected inflation prints in recent months, the anticipated impact of reduced rice tariffs beginning in August and the upside risks for the second half of the year on increased electricity rates and the effect of the La Nina phenomenon.
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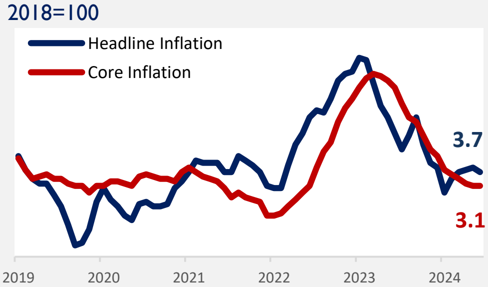
PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

BSP RRP

- During the Economic Journalists Association of the Philippines (EJAP) – San Miguel Corporation (SMC) Economic Forum last July 8, 2024, BSP Governor Eli Remolona maintained his more dovish tone, noting that the latest June inflation print of 3.7% was slightly below expected, thus giving the BSP "more scope towards easing, possibly in August".
- While the Governor acknowledged the improvement in inflation numbers, he also mentioned that it could still breach 4.0% given persisting upside risks and thus, "there is a risk that [the BSP] will overdo [the monetary easing]". Moreover, he emphasized that the BSP must be cautious, meaning that it should "not wait too long for easing" as this could cause a loss of output.
- On the BSP cutting policy rates ahead of the US Federal Reserve (Fed), Governor Remolona acknowledged that the timing of policy actions affects the foreign exchange but emphasized as well that the Fed's action are not the most important data" and are "not the deciding factor". Further, he expressed uncertainty on who will cut first between the Fed and the BSP, although he thinks that the Fed will likely start easing within the year albeit currently sticky inflation.
- Metrobank Research has revised its BSP policy rate forecast to 5.75% by year-end, as it pencils in 25-bp cuts each in the three remaining Monetary Board (MB) meetings scheduled on August 15, October 17, and December 19.
- Related Articles: 1) Policy Rate Updates: Earlier BSP action possible with lower inflation trajectory
  2) Forecast Updates: Steady progress but at a slower pace

Fed Funds Rate

- Inflation, which has kept the Federal Reserve Funds Rate higher for longer, has started to subside. US Core Personal Consumption Expenditure (Core PCE), which is the Fed's preferred inflation measure, slightly picked up pace at 0.18% MoM in June compared to the previous month's 0.13%. However, Core PCE slowed to 2.63% YoY compared to the 4.28% in June 2023, leaving expectations of a September interest rate cut from the Federal Reserve intact. Meanwhile, headline PCE was recorded at 0.08% MoM in June, up from the 0.03% in the prior month. Year on year, headline PCE dropped to 2.5% from the 3.20% in June 2023.
- Labor data also support the possibility of a September cut as non-farm payrolls increased only by 206,000 in June compared to the 240,000 in the month last year. This suggests a weaker labor market in the US YoY, as unemployment reached 4.0% in June, higher than the 3.8% in the previous month and the 3.6% in June 2023.
- As of July 29, markets are fully pricing in a 25-bps cut in the September FOMC meeting, and a total of 50-75bps worth of cuts by the end of the year.
- Metrobank Research forecasts that the Fed will bring down its Federal Funds Rate to 5.00% by year-end, cutting by 25bps each in its September18, November 7, and December 18 meetings, given the recent downward trend of inflation towards the Federal Reserve's 2.0% target and the cooling of the US labor market.

Foreign Exchange

- On June 27, the USD/PHP exchange rate reached a year-to-date (YTD) high of of 58.92 following BSP Governor Remolona's more dovish remarks on the likelihood of an August rate cut. The USD/PHP has been on a general downtrend since, closing at 58.35 on July 26, 2024. Year-to-date, the peso has fallen by -5.08% against the dollar, placing the peso in the middle of the pack compared to other Asian currencies.
- Metrobank Research forecasts a stronger peso at 57.2 by year-end, supported by a narrowing current account balance as we anticipate an uptick in BPO revenues and OFW remittances in the fourth quarter.
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LOCAL MACRO NEWS

National Government Budget Deficit Widens in June

The National Government's (NG) budget deficit declined to PHP 209.1 billion in June, a 7.2% drop from the previous year's level of PHP 225.4 billion. The lower budget deficit for the month is attributed to the 10.9% improvement in revenue collections which outpaces the 2.6% increase in government expenditures. Year-to-date, the country's budget deficit stands at PHP 613.9 billion, higher by 11.3% compared to the PHP 551.7 billion in the first six months of 2023.

Total revenues for the month reached PHP 296.5 billion in June, higher than the PHP 267.3 billion recorded in the same month last year. The growth in revenues is largely attributed to non-tax collections which grew by 80.6% compared to June last year, as privatization proceeds tripled.

Meanwhile, total expenditures for the month reached PHP 505.6 billion, slightly higher than the PHP 492.7 billion recorded in June 2023. The growth in government expenditures is mainly attributed to the implementation of activities and projects of the Department of Public Works and Highways (DPWH), Department of National Defense (DND), and the Commission on Elections (COMELEC).

The DBCC retained its deficit ceilings for 2026 to 2028 but revised its revenue and expenditure programs during the 188th DBCC press conference. Revenues are expected to grow by average 10.3% annually from 2024 to 2028, with a target of PHP 4.3 trillion this year, with an expected increase overtime to PHP 6.3 trillion by 2028. The DBCC also projects expenditures to remain at an average of around 21.0% of GDP, gradually declining from 21.7% of GDP in 2024 to 20.6% of GDP by 2028.