5.8% 2024 GDP Forecast

"We will be close to six percent, maybe a bit above it for 2024." - BSP Governor Eli M. Remolona

METROBANK RESEARCH FORECASTS

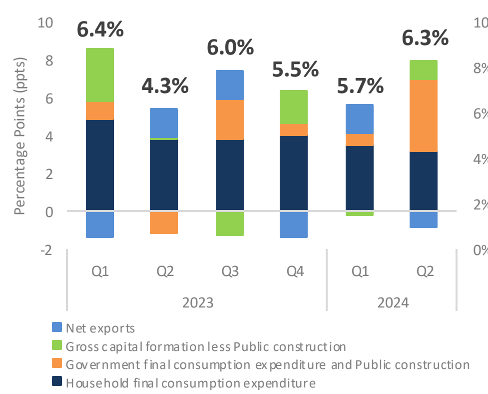
	Actual		Forecasts	
	2022	2023	2024	2025
Real GDP (2018=100) average of period	7.60%	5.60%	5.80%	6.00%
Inflation (2018=100) average of period	5.80%	6.00%	3.30%	3.10%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.00%
USDPHP end of period	56.12	55.57	57.20	56.30

OUTLOOK

Real Economy

- The Philippine economy grew by a robust 6.3% year-on-year (YoY) in the second quarter of 2024. First-quarter growth was also revised higher to 5.8% from 5.7% previously. Year-to-date, GDP growth is at 6.0%.
- Government spending (including public construction) was the main driver of growth, contributing 3.7 percentage points (ppts) out of the total 6.3% as government activity expanded by 14.7% YoY. This was followed by private consumption with 3.2 ppts. Household consumption remained modest over the quarter with 4.6% YoY growth, only matching its pace in the previous quarter.
- Similar to the moderation of growth in the first quarter of the year, elevated inflation and high interest rates continue to weigh on private consumption and investments. However, as the Bangko Sentral ng Pilipinas (BSP) begins its easing cycle, we expect growth to recover and accelerate, supported by improved liquidity and credit environment.
- Following the higher-than-expected growth in the second quarter and the upward revision in the first quarter growth, Metrobank Research has nudged up its full-year growth forecast to 5.8% YoY from the previous 5.7%.
- Related Article: GDP Update: Government spending propels Philippines' GDP to 6.3%

PH GDP Growth (in %)
2018=100

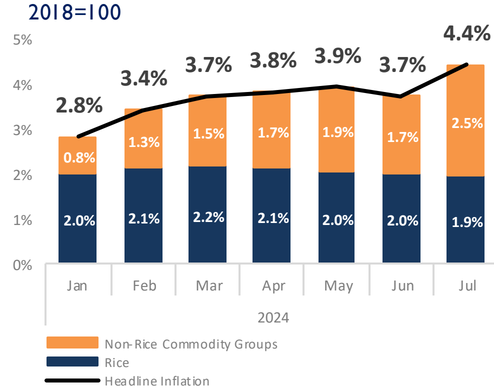


Source: Philippine Statistics Authority (PSA)

Inflation

- July headline inflation surprised on the upside as it accelerated to 4.4% YoY from the 3.7% YoY recorded in June. Although within the BSP's forecast range of 4.0%-4.8%, the latest inflation print settled above the Bloomberg consensus estimate of 4.1% and the Metrobank Research forecast of 3.8%.
- On a month-on-month (MoM) basis, inflation accelerated by 0.7%.
- Core inflation, which excludes selected food and energy items, continued to slow and settled at 2.9% YoY from the 3.1% in June.
- Despite the higher-than-expected July reading, the year-to-date inflation rate of 3.7% is within the BSP's target range of 2.0%-4.0%.
- Prior to the release of the latest inflation print, BSP indicated that they expect inflation to peak in July. BSP cited base effects and the still relatively elevated rice prices for the target breach. In the next months, base effects should flip to push down rice inflation which would in turn lower by the reduced rice tariffs.
- With year-to-date average inflation at 3.7%, Metrobank Research maintains its latest FY2024 inflation forecast of 3.3%, given fading supply and demand side pressures and in anticipation of the continued impact of lower rice tariffs. Full year inflation in 2025 is also projected at 3.1%.
- Related Article: Inflation Update: Philippine inflation expected to ease despite 4.4% spike in July

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

BSP RRP

- The BSP has finally begun its monetary easing cycle last August 15 as it reduced its target reverse repurchase rate (RRP) by 25 basis points (bps) down to 6.25%.
- Despite the higher-than-expected inflation print in July and the seemingly robust economic growth posted in the second quarter, BSP Governor Eli Remolona cited the "target-consistent" inflation path and the tepid growth as the primary reasons for the BSP's shift towards a less restrictive monetary stance.
- Given that full year inflation is expected to be within the BSP's 2.0%-4.0% target range, Metrobank Research expects a total of 75 bps worth of cuts in 2024, which shall bring the BSP's policy rate to 5.75% by year-end. We also forecast a total of 75 bps worth of cuts in the first half of 2025, which shall bring the BSP's target RRP down to 5.00% by end-2025.
- Related Articles: 1) Policy Rate Updates: BSP begins easing cycle to support growth momentum
  2) How deep is your cut?

Fed Funds Rate

- The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 5.25% - 5.50% in its Federal Open Market Committee (FOMC) meeting last July 30-31 as markets widely anticipated a pause.
- During the meeting, FOMC Chairperson Jerome Powell maintained a dovish tone and opened the possibility of "zero and several cuts" by the Fed for the year. Chairperson Powell also mentioned that inflation is now only "somewhat elevated" as it gains "modest" further progress toward the 2.0% target.
- Metrobank Research still sees minimal signs of inflation re-accelerating in the US, as the core personal consumption expenditure (core PCE) price index has moderately eased since the beginning of the year. The labor market also continues to move into better balance with unemployment rate remaining low despite its recent increase to 4.3% last June.
- Metrobank Research forecasts that the Fed may begin cutting rates as early as their September 18 meeting and up to a total of 75 basis points (bps) for the full-year, which will bring the federal funds rate to 4.50%-4.75% by year-end.
- Related Articles: 1) Economic Balancing Act: Remember to stick the landing
  2) Policy Rate Views: US Fed weighs key factors for potential monetary easing

Foreign Exchange

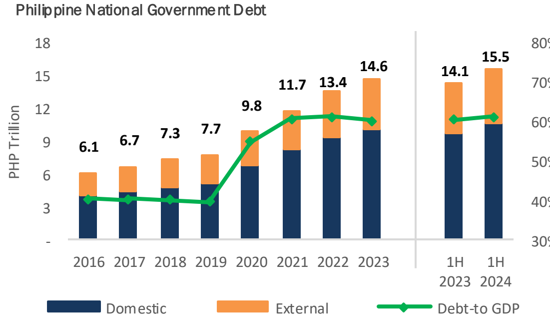
- The USD/PHP spot closed relatively stronger at 56.65 on Monday, August 19, amid a weak dollar environment as markets bet on the possibility of a September cut by the Fed. This comes as traders anticipate clues from the minutes of the Federal Reserve's July meeting to be released on August 21 and from FOMC Chairperson Jerome Powell's upcoming speech at the Jackson Hole Symposium on August 23. Prior to this, the USD/PHP spot closed slightly higher at 57.24 last Friday, August 16, after dropping to a close of 56.93 on Thursday following the BSP's decision to shift to a less restrictive monetary stance.
- Year-to-date, the peso has fallen by 2.23% against the dollar, outperforming the Japanese yen, South Korean won, and the Taiwanese dollar.
- Depreciation pressure may be imminent in the next few months as we enter the imports season. Metrobank Research maintains its forecast peso to settle at 57.2 by year-end, as we continue to anticipate a narrowing current account balance given the projected BPO revenue and OFW remittances in the fourth quarter.
- Related Article: Forecast Updates: Steady progress but at a slower pace

LOCAL NEWS

National Government closes first half of the year with PHP 15.48-trillion debt

- As of June 2024, the national government (NG)'s outstanding debt stock reached PHP 15.48 trillion, equivalent to a 5.9% increase from the PHP 14.62 trillion end-2024 level and a 9.4% year-on-year (YoY) growth compared to the PHP 14.15 level in June 2023.
- Year-to-June, NG domestic debt has increased by PHP 555.19 billion or 5.5% from the PHP 10.02 trillion level in December 2023, while external debt has increased by PHP billion or 6.8% from its PHP 4.60 trillion level in December of last year.
- On a year-on-year (YoY) basis, NG domestic debt expanded by PHP 870.29 billion or 9.0% from the PHP 9.70 trillion level in June 2023, while external debt grew by PHP 465.36 billion or 10.5% from the PHP 4.45 trillion level in the same month last year.
- As of end-June 2024, the Philippines' debt-to-GDP ratio stands at 60.9%, down from the 61.0% as of end-June last year, although still slightly above the 60.0% internationally accepted threshold.

Philippine National Government Debt



Source: Philippine Statistics Authority (PSA)

- During the latest review of the medium-term projections in June 2024, the Development Budget Coordination Committee (DBCC)'s projects that the debt-to-GDP ratio will fall to 60.6% by end-2024 and to 56.0% by the end of President Ferdinand Marcos Jr.'s term in 2028, slightly higher than previous long-term projection of 55.9% as of April 2024.
- The government's fiscal consolidation program, which aims to gradually reduce the deficit-to-GDP ratio over the medium term, is consistent with the DBCC's target to lower its debt-to-GDP ratio while remaining supportive of economic growth. According to Department of Finance (DOF) Secretary Ralph Recto, the government is on track to meet its fiscal program for the year with both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) already achieving half of their respective year-end collection targets. The government's revenue collection efforts continue as the department ramps up programs on the digitalization of tax-related transactions, strict enforcement of tax policies, and addressing leakages in the tax system.
- On debt sustainability, the government has managed to maintain a domestic bias in terms of the sources of debt, which ensures greater predictability in terms of repayment as this minimizes risks associated with foreign exchange rates. As of June 2024, domestic debt comprises 68.3% of the government's total outstanding debt.