Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2022	2023	2024
Real GDP (2018=100)	7.6%	**6.0% - 7.0%**	**6.0% - 7.0%**
Inflation (2018=100)	5.8%	**6.0% - 7.0%**	**4.5% - 5.5%**
BSP RRP Rate	5.5%	**6.0%**	**5.0%**
USDPHP (BSP)	50.77	**55.1**	**54.4**

Updated as of February 28, 2023

"There are still other challenges, particularly core inflation. Prices of low volatility items are a bit sticky and continuously increasing, and this would basically put some challenges to our numbers in March."

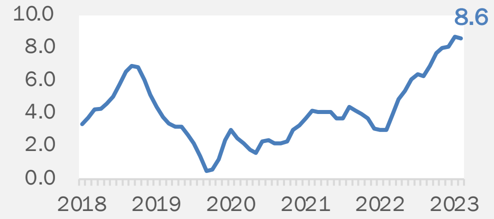
- National Statistician Dennis Mapa said during the February inflation release

OUTLOOK

Real Economy

- Consumption is expected to continue to drive the growth trajectory of the country but is seen to normalize in the coming months as it was mainly propelled by the economic reopening last year.
- More discriminatory and moderate spending in the near term is expected due to rising interest rates and elevated prices.
- Global economic headwinds such as the slowdown of advanced economies, including the US and Europe, as well as China's lower-than-expected growth forecast, may likewise curtail Philippine growth this year but may also reduce inflationary pressures.

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

Inflation

- Headline inflation slightly eased to 8.6% in February 2023 versus 8.7% the previous month due to the deceleration of transport-related prices. This stemmed from a slowdown in diesel, gasoline, and motorcycle prices. Nevertheless, food & non-alcoholic beverages, housing, water, electricity, gas, & other fuels, and transport were the top contributors to February's inflation.
- On the contrary, core inflation, which excludes volatile commodities such as food and energy, climbed to 7.8% (versus 7.4% in January), the highest since 1999. This exhibits the wide-ranging and persistent second-order effects of inflation.
- Inflation is expected to remain elevated due to the continued impact of second-round effects, possible supply shocks of key commodities due to geopolitical risks and local structural issues, and the expected demand recovery of China.

Interest Rates

- Further RRP rate hikes during the first half of 2023 were signaled by the Bangko Sentral ng Pilipinas (BSP) due to elevated prices. A 25-basis point hike is expected in the Monetary Board meeting this March. The RRP rate may peak at around 6.25% to 6.5% but is expected to end the year at the 6.0% level as inflation expectations come down.
- Interest rates in the coming months are expected to rise given consistent rate hike statements by the Fed amid strong jobs and retail sales reports. Fed officials, back in their December 2023 meeting, projected a terminal rate of 5.1%, with a target range of 5.0% to 5.25% within 2023.

Foreign Exchange

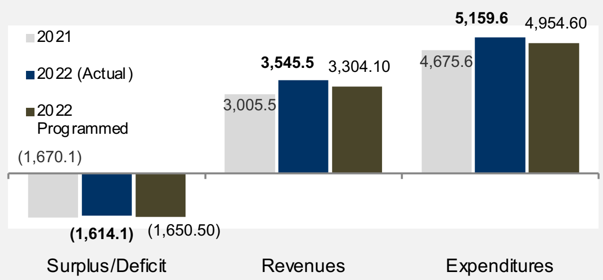
- Sticky prices and a more hawkish-than-expected Fed could lend support to the USD. Moreover, China's demand recovery which may rally oil prices up in Q2, and the PH's import season in Q3 could weaken the peso towards yearend. Expect volatility as uncertainties remain.

LOCAL MACRO NEWS

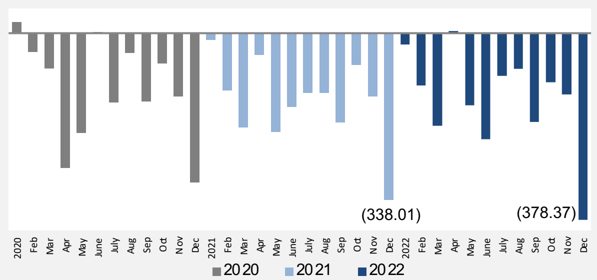
FISCAL PERFORMANCE

2022 budget deficit narrowed versus 2021

NG Fiscal Performance (Jan - Dec)
in Bn PHP



Fiscal Performance - Monthly
(in Bn PhP)



Budget deficit for 2022 slightly narrowed to P1.61Tn versus P1.67Tn in the previous year, falling below the P1.65Tn programmed deficit for 2022.

Revenues grew by 18% in 2022 versus the preceding year driven by higher tax and non-tax collections of the government, exceeding the P3.3Tn programmed revenues for 2022. The growth in revenues was also attributed to the improved collection by the BIR and BOC.

Meanwhile, expenditures expanded by 10%, overtaking programmed disbursements for the year by P205Bn. Higher spending was driven by the higher National Tax Allotment of LGUs, disbursements for capital outlay for the infrastructure program projects, and personnel services expenses. The largest disbursement was seen in December 2022 at P646.6Bn considering the additional budget that was allocated for unprogrammed appropriations.

The full-year 2022 budget deficit captures -7.3% of the GDP in 2022, a tad lower than the -7.6% earlier programmed deficit. Higher spending is still on the horizon in 2023 but higher revenues and projected growth will keep the deficit-GDP ratio within the target (-6.1% for 2023).

Sources: DBM, BTr, DBCC

DEBT NEWS

Outstanding debt hits the highest level yet in January

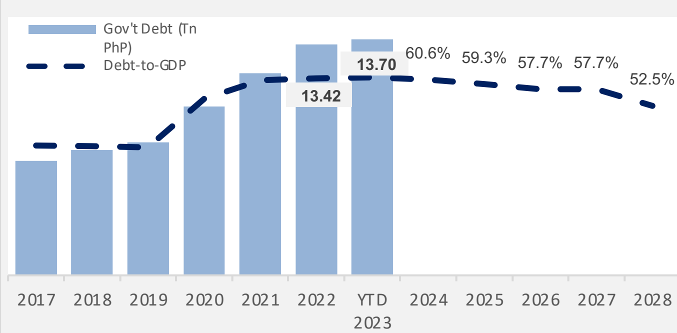
The country's debt stock settled at a higher level of P13.7Tn in January, rising by 2.1% from P13.42Tn in end-2022.

Of the total debt stock, 31.5% was sourced externally while 68.5% were domestic borrowings.

For 2023, the target borrowing of the government is at P2.1Tn (P1.66Tn-domestic; P0.5Tn-external).

Source: BTr

Debt-to-GDP (2016 - YTD 2023)



GLOBAL MACRO NEWS

OTHER NEWS

Higher and possibly faster Fed funds rate hikes may be unleashed

Various US economic data that came out after the Federal Open Market Committee (FOMC) meeting on February 1 were stronger than expected. January's jobs report released last February 3 showed the unemployment rate falling to its lowest levels since May 1969. January inflation data that was released on Feb. 14 was above estimates, only inching down to 6.4% from 6.5% in December 2022, and still more than thrice the Fed's inflation target of 2%.

Adding fuel to the fire, US retail sales and personal consumption rose by 3% and 1.8% respectively in January, the most in nearly two years. This boost in demand was primarily driven by wage gains which led to higher purchases of autos, restaurants, and furniture, among others. Manufacturing and production in US factories likewise rebounded in January.

In view of the recent strong US economic reports, US Federal Reserve Chairman Jerome Powell unleashed hawkish testimonies before Congress on March 7. He remarked that the Federal Reserve will likely raise interest rates at a higher level and at a potentially faster pace than previously predicted, despite last month's smaller hike of 25 basis points (bps).

Note that in the FOMC meeting last December 2022, Fed officials' median forecast showed rates peaking at 5.1% this year, at a range of 5.0% to 5.25%. However, the aforementioned strong economic reports could raise the Fed's projections higher, as Powell conveyed before Congress that the Fed forecast will likely climb when officials submit new projections this month and that the Fed is prepared to return to a bigger hike based on data. Traders are now expecting a 50-bps hike in the next FOMC meeting on March 21-22, and they now see policy rates peaking at the 5.6% level this year, that is, at a range of 5.5% to 5.75% by September 2023.

Given these new developments, the BSP might take into consideration the Fed's actions to prevent the weakening of the local currency and to manage inflationary pressures.

Source: Bloomberg, Reuters, NY Times

China sets moderate growth target for 2023

China in its National People's Congress (NPC), where its key economic targets for the year were outlined, has set a conservative economic growth target of around 5% for the year (the lowest target set in history). This lower-than-expected growth target came in after said country missed its growth target of 5.5% in 2022 and landed a 3% GDP growth.

Further, there will be no large stimulus from the government to help boost growth as the economy intends to rely on a consumer-driven recovery already underway.

While China is seen to rebound in 2023, China officials recognize the short and long-term risks ahead such as the uncertain external environment, high inflation, its housing bubble, and declining workforce, thus the cautious target set.

Despite China's more muted growth outlook, the anticipated expansion is still higher than last year's 3% which can lend support to the global economy. Moreover, this target may help ease inflation worries given jitters about the impact of China's comeback to global prices.

Source: Bloomberg, Al Jazeera