

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

| | Actual | Forecasts | |
|-----------------------------|--------|--------------|----------------|
| | 2021 | 2022 | 2023 |
| Real GDP (2018=100) | 5.7% | 6.3% | 6% - 7% |
| Inflation (2018=100) | 3.9% | 5.4% | 3% - 5% |
| BSP RRP rate | 2.0% | 3.5% | 4% - 5% |
| USDPHP (BSP) | 50.77 | 55.1* | 56.5* |

*with upward bias

Updated as of July 13, 2022

“ We should be moving to a policy rate that is higher than the midpoint of our [2-4% inflation] target, which is 3% at the very least. That means we have to do 100 [bps] more at least. ”

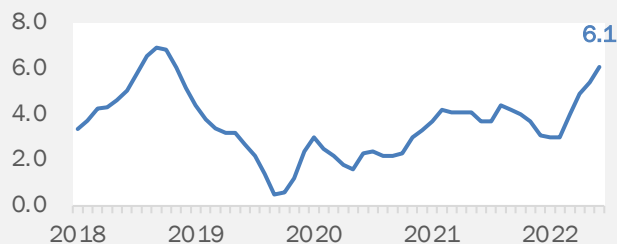
- Bangko Sentral ng Pilipinas (BSP)
Governor Felipe Medalla

OUTLOOK

Real Economy

- Heightened inflation expectations pose as headwinds to consumer spending, and in turn, economic growth, as prices continue to soar.
- Despite the adverse effect of rising prices on consumer spending, this could be offset by the weaker peso which raises the value of the earnings of the business process outsourcing (BPO) sector and the remittances of overseas Filipino workers (OFWs), as well as exports.
- The continued implementation of lower alert levels in most parts of the country due to relatively low COVID-19 cases can continue to bolster economic growth.

PH Inflation Rate (in %) 2018=100



Source: Philippine Statistics Authority (PSA)

Inflation

- Surging prices are expected to intensify owing to prolonged supply chain disruptions arising from the conflict between Russia and Ukraine, with further peso depreciation in the books. Note that the inflation rate for June 2022 spiked to 6.1% from 5.4% the previous month primarily due to an uptick in food and transport prices.
- There is still upward pressure for global energy commodity prices as the Northern Hemisphere enters the winter season. This will push inflation to a higher level and will likely cascade to the Philippines.

Interest Rates

- The Bangko Sentral ng Pilipinas (BSP) may consider bigger rate hikes due to faster acceleration of prices and to lend support to the peso. It has signaled increasing policy rates by at least 100 bps by end-2022, which will bring the benchmark rate to 3.5% (from currently 2.5%).
- Along with the hawkish policy stance of the Federal Reserve, interest rates in the coming months are expected to rise should inflation continue to escalate. The terminal fed funds rate is likely to end at 3.5% this year owing to high inflation expectations and therefore aggressive rate hikes are expected.

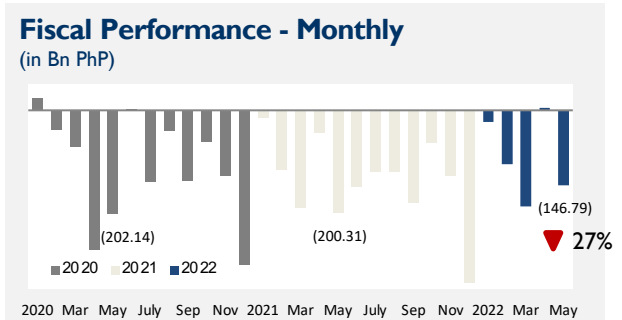
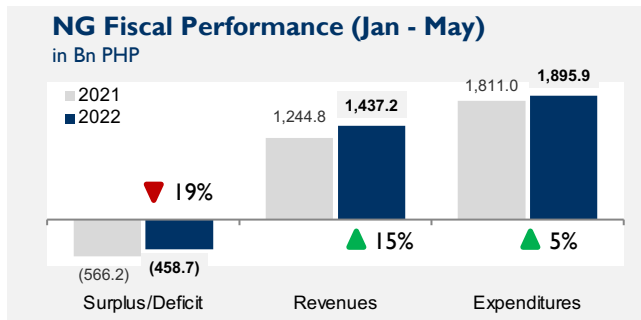
Foreign Exchange

- High global inflation and expectations of further Fed rate hikes would lend support to the USD in the coming months. This is evident with USD-PHP trading at the P55-P56 levels as of date. Expect volatile exchange rates and a weaker peso.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Budget deficit narrowed by 19% vs past year as revenues grew



Fiscal balance reverted to deficit in May but nonetheless declined by 27% year-on-year. On a YTD basis, fiscal performance also posed a slimmer deficit vs. 2021, shrinking by 19% from P566.2 billion as of May last year to P458.7 billion as of May 2022. Decline in YTD May 2022 deficit vs. YTD May 2021 is attributed to growth in revenues by 15% or P1,437.2 billion, mainly driven by tax collections which also grew during this period along with other non-tax revenues. Meanwhile, expenditures grew by 5%.

YTD spending as of May 2022 is at 38% of the P4,954.6 billion programmed disbursement for 2022, thus acceleration in spending in the coming months is anticipated to fulfill infrastructure, health and social programs.

With a target deficit ceiling of P1.65 trillion (-7.6% of GDP) for FY 2022, lower than P1.67 trillion (-8.6% of GDP) in 2021, further cuts in budget deficit is projected as the current administration aims to cut budget deficit to -3% of GDP by 2028 – deemed attainable with continuous adoption of DOF’s fiscal consolidation strategy.

Sources: DBM, BTr, DBCC, various news sources

DEBT

Debt stock trimmed to P12.5 Tn in May

Outstanding NG debt stock as of May 2022 is at P12.5 trillion, down by 2.1% vs. end-April 2022 level upon full repayment of the P300 billion short-term provisional advance from the BSP.

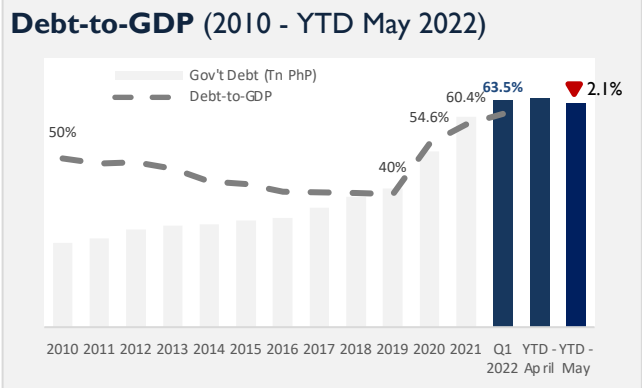
in Tn PhP



■ YTD-May 2022

YTD debt stock figure is already at 93% of the projected P13.43 trillion outstanding debt by end-2022, with YTD gross borrowings nearly 50% of the programmed gross borrowings for 2022.

Debt-to-GDP ratio to remain manageable as economic managers lean towards a GDP growth strategy to temper the said ratio.



Source: Debt Indicators, Bureau of Treasury

Sources: BTr, DBCC, PIDS Discussion Paper, various news sources

GLOBAL MACRO NEWS

OTHER NEWS

US Recession a possibility due to policy normalization, said Fed Chair

The US Federal Reserve (Fed) has sounded off another policy rate hike in July by about 50 bps or 75 bps, with the succeeding series of rate hikes seen to be as aggressive. Fed Chair Jerome Powell did not exclude the possibility of a US recession in light of this policy tightening, citing it as a risk in pursuing the Fed's primary goal of curbing inflation given that there is no indication of inflation moderating substantially, and considering a still strong US labor market. He however mentioned that the intention is to achieve a 'soft landing' – raising interest rates to result in just an adequate slowdown in the economy without inducing a recession or sharply exacerbating the unemployment rate.

The Philippines is still seen to be resilient should a US recession really take place, although the country may in time feel unfavorable effects. Robust consumption spending (driven by the economic reopening and revenge spending) and capital formation, sustained infrastructure development, and stimulation of the local business environment, especially the small and medium enterprises (SMEs), are pillars to support Philippine growth. Despite the possible risks of a US recession, where OFW remittances, foreign direct investments, and exports may be impacted, analysts and research units/firms* forecast Philippine GDP to end at a range of 6% to 7% in 2022 (versus the government's recently updated forecast of 6.5% to 7.5%) which is in line with the Research team's forecast of 6.3%, taking into account other risks such as supply chain disruptions, soaring prices, slowdown in China, contractionary policy in the US, and possible Omicron variants. These GDP numbers would allow the Philippines to be one of the fastest growing economies in Asia in 2022 despite the aforementioned external shocks, more particularly when compared to the ASEAN and other East Asian economies.

*Pantheon Macroeconomics, FocusEconomics, S&P Global, The Asean+3 Macroeconomic Research Office (AMRO), Sun Life Investment Management and Trust Corp., HSBC

Sources: The Associated Press, ABS-CBN News

EU braces for further dwindling gas supply as winter approaches

International Energy Agency head in June 22 had warned of Russia potentially halting gas supply to Europe come winter. Shortfalls in gas supply have been reported across Europe in the past weeks, with countries noting below than expected amount being delivered. Meanwhile, Russia points to technical issues and maintenance as the cause of dwindling supply. The main Nord Stream pipeline carrying Russian gas to Germany, for instance, is due for a 10-day shutdown on July 11 for maintenance, drawing out fears of a permanent shutdown, and thus calls for contingency plans as winter approaches.

So far, EU has shifted to liquefied natural gas (LNG), increasing its imports to compensate for the Russian fossil fuels. In 2021, LNG imports comprised 20% of total extra-EU gas imports which grew to more than one third of the total extra-EU gas imports from Jan-May 2022. Meanwhile, Germany is set to revive its coal plants, similar with Italy and Austria, while the Netherlands removed the production cap of its existing coal plants, adding to the demand of coal-dependent countries potentially prompting higher coal prices in the months to come.

Sources: BBC News, Bloomberg, European Commission, The Washington Post

Double-digit inflation in the horizon for US, UK, EU

| | Inflation |
|----|-------------|
| US | 8.6% (May) |
| UK | 9.1% (May) |
| EU | 8.6% (June) |
| PH | 6.1% (June) |

For the US, UK, and other developed European countries, inflation expectations also remain elevated as inflation prints are nearing double digit levels, and it is already a given that the US will aggressively hike rates to combat such inflation expectations. Expect more rate hikes in the future.