Metrobank

Research and Business Analytics Department

ECONOMIC UPDATES

METROBANK RESEARCH FORECASTS

	Actual	Forecasts	
	2021	2022	2023
Real GDP (2018=100)	5.7%	**6.8%**	**6.0% - 7.0%**
Inflation (2018=100)	3.9%	**5.6%**	**4.0% - 5.0%**
BSP RRP Rate	2.0%	**4.0%**	**4.0% - 5.0%**
USDPHP (BSP)	50.77	**55.7**	**56.5**

Updated as of August 16, 2022

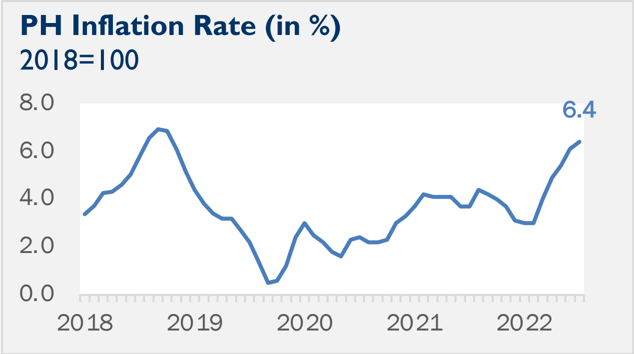
As PH inflation rose to 6.4% in July 2022, there is pressure for the Bangko Sentral ng Pilipinas (BSP) to stay hawkish, and BSP Governor Felipe Medalla was quoted saying,

“The BSP is prepared to take all necessary policy action to bring inflation toward a target-consistent path over the medium term and deliver on its primary mandate of price stability.”

OUTLOOK

Real Economy

- Given continued supply chain disruptions from the Russian-Ukraine conflict and China’s Zero-COVID policy, commodity prices are expected to continue to soar, thereby affecting consumer spending.
- With the recent drop in global oil prices, a further decline may help encourage growth in the second half of 2022.
- The continued re-opening of the economy, the resumption of face-to-face classes, and the targeted increased infrastructure spending may help bolster growth.



Source: Philippine Statistics Authority (PSA)

Inflation

- Despite the recent decrease in oil prices, prolonged supply chain disruptions arising from the conflict between Russia and Ukraine and continued implementation of the Zero-COVID strategy in China can still accelerate prices. Note that the PH inflation rate for July 2022 spiked to 6.4% from 6.1% 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

- Further rate hikes by the Bangko Sentral ng Pilipinas (BSP) are expected due to rising prices and to lend support to the peso. It has signaled increasing policy rates by 25 to 50 bps this August, following the recent off-cycle rate hike of 75 bps last July 14. This entails a benchmark rate of 3.50% or 3.75% after its August meeting.
- Interest rates in the coming months are expected to rise despite the recent easing of US inflation to 8.5% in July (from 9.1% the prior month) owing to the continued hawkish policy stance of the Federal Reserve. The terminal fed funds rate is likely to end at 3.5% this year owing to persistent high inflation expectations.

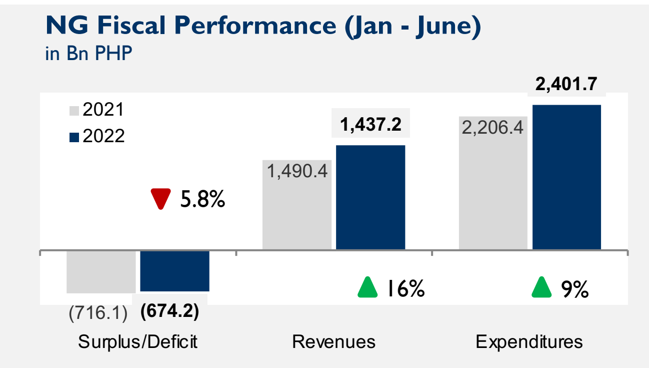
Foreign Exchange

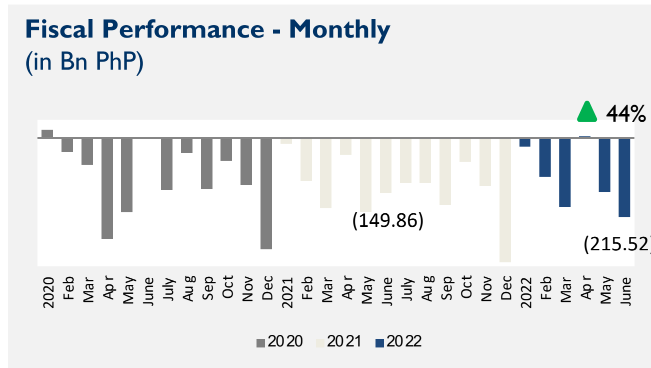
- High global inflation and expectations of further Fed rate hikes would lend support to the USD in the coming months, despite the recent easing of both US inflation and peso depreciation. Expect volatile exchange rates.

LOCAL MACRO NEWS

FISCAL PERFORMANCE

Slimmer budget deficit recorded in H1 vs previous year





Fiscal balance remained in deficit in June and widened to PhP 215.5 Bn (44% increase vs June 2021). Nonetheless, accumulated total in the first half (H1) of the year declined by 5.8% vs the same period in the previous year. Decline in H1 budget deficit vs past year is attributed to growth in revenues by 16% in terms of tax collections and growth in revenues from the Bureau of Customs.

Meanwhile, expenditures grew by 9% driven by the 27.9% growth in spending in June 2022 due to the increase in capital outlay disbursements for road and transport infrastructure programs of DPWH and DOTr, along with projects of DND, social protection programs of DSWD, and release of coco levy funds.

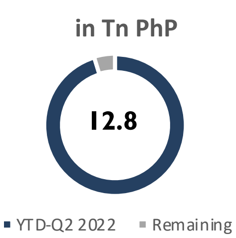
The target deficit ceiling for FY 2022 remains at P1.65 trillion (-7.6% of GDP) with a declining trajectory to reach P1.12 trillion (-3% of GDP) in 2028.

Sources: DBM, BTr, DBCC, various news sources

DEBT

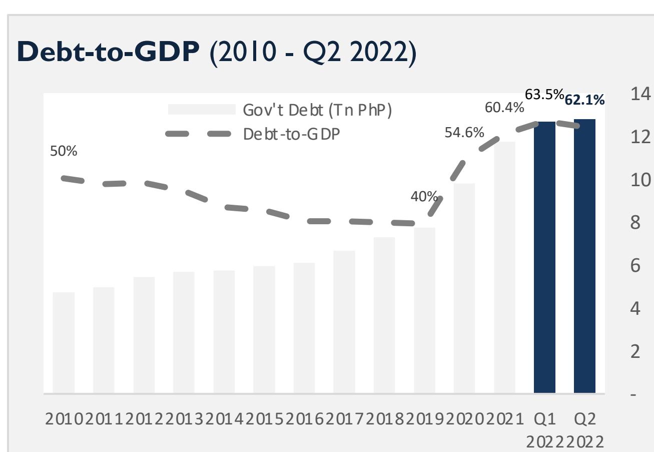
Debt-to-GDP ratio trimmed to 62.1% in Q2

National Government debt is recorded at P12.79 trillion as of end-June 2022 increasing by P0.3 trillion from May 2022. Of the total debt, 68.5% is domestic while 31.5% is externally sourced.



Debt stock as of Q2 2022 is already at 96% of the projected P13.43 trillion outstanding debt by end-2022.

While the debt stock increased, GDP also registered growth pulling down the debt ratio to 62.1% from 63.5% in the first quarter of 2022 only 0.3% shy of the 61.8% target ratio for FY 2022.



Source: Debt Indicators, Bureau of Treasury

Sources: BTr, DBCC, various news sources

GLOBAL MACRO NEWS

OTHER NEWS

US' strong labor market and eased inflation amid technical recession

The US economy contracted during the first two quarters of the year, by -1.6% and -0.9%, respectively. This can be described as a technical recession, which is defined to be two quarters of consecutive GDP contraction. Nevertheless, the US National Bureau of Economic Analysis (BEA) has not yet officially declared a recession.

This seems to be the case because of other factors not confined to just GDP growth. Point in case is the strong labor market of the US, with the unemployment rate dropping to 3.5% in July from 3.6% the previous month, and with an additional 528,000 jobs in July from 250,000 in June.

Of note as well was the US' recent reprieve from high prices, with inflation slowing but still high at 8.5% in July from 9.1% the previous month, primarily due to falling gas prices. Moreover, prices were stable from June to July on a monthly basis.

Despite these tailwinds, policymakers are still signaling further Fed rate hikes unless new inflation data show that price increases are indeed consistently easing. Fed Chair Jerome Powell stressed that they would need to see a series of lower inflation prints before the Fed will pause rate hikes. Mr. Powell signaled policy rates to be at 3.25% to 3.5% by end of this year (from 2.25% to 2.50% at present) and 3.75% to 4.0% by end of next year during the latest Fed meeting last July.

Sources: The Associated Press, Business Insider, Inquirer

Oil prices down but may be short-lived

Gasoline prices have recently gone down reaching less than $4 per gallon for the first time since March 2022. Brent crude futures has likewise gone down to 98.2 as of August 12, and the week-on-week price of Dubai crude, where the Philippines mainly sources crude oil, has also decreased by almost $6.50/bbl.

The fall in prices is attributed to heightened fears of recession due to fiscal contraction and rising tension between US and China. Demand from China has also softened amid their rising Covid cases and Zero-Covid Policy, and the release of one million barrels from the Strategic Petroleum Reserve (SPR) of US to provide a record amount of crude oil supply to the U.S. economy has helped curb high prices.

Experts warn, however, that the fall in prices may be short-lived as the global energy market remains unstable. Europe is also in search for petroleum products, China may reopen as soon as Covid cases reach zero that will push up demand, and release of barrels from the SPR is ending in October 2022, and which therefore could push prices back to their high levels.

Sources: CNBC, Markets Insider, DOE

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

	Inflation
US	8.5% (July)
UK	9.4% (June)
EU	8.9% (July)
PH	6.4% (July)

For the UK and other developed European countries, latest inflation figures have increased versus the prior month. UK reached a four-decade high in June, while EU reached its highest inflation print since the creation of the Euro. Inflation expectations also remain elevated as inflation prints are nearing double digit levels. Although US inflation recently slowed, it remained high at 8.5%, and aggressive rate hikes by the Fed are still anticipated to combat maintained high inflation expectations, unless succeeding inflation prints show a downtrend.

Sources: TIME, U.S. Bureau of Labor Statistics, CNBC