MONTHLY ECONOMIC UPDATE: Brighter prospects ahead

0.25 **Bps cuts at a time by the BSP on the horizon**

"If the data are as we expect, then you would have the normal easing, which is small steps at a time."
- BSP Governor Eli Remolona Jr.

METROBANK RESEARCH FORECASTS

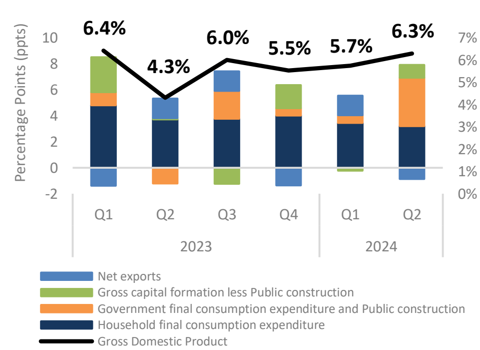
	Actual		Forecasts		
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.60%	5.60%	5.70%	6.20%	6.20%
Inflation (2018=100) average of period	5.80%	6.00%	3.20%	2.90%	3.00%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	4.75%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	3.50%	3.00%
USDPHP end of period	56.12	55.57	55.30	54.50	53.70

OUTLOOK

Real Economy: PH to start gaining momentum

- The World Bank (WB) revised its growth forecasts for the Philippines to 6.0% for 2024 from the previous 5.8%, and to 6.1% for 2025 from 5.9%. This comes as service exports is expected to improve relative to 2023 and as public investments is projected to remain 5% above GDP despite fiscal consolidation.
- However, in its October 2024 World Economic Outlook (WEO), the International Monetary Fund (IMF) trimmed its GDP forecasts for the Philippines to 5.8% for 2024 from the previous 6.0%, and to 6.1% for 2025 from the previous 6.2%, reflecting its view of slower growth in private consumption. While still behind the government's target, the downward revisions position the Philippines as the second-fastest growing economy in Southeast Asia in 2024, behind Vietnam, and as the fastest in 2025, along with Vietnam.
- Meanwhile, the ASEAN+3 Macro Economic Research Office (AMRO) and Asian Development Bank (ADB) maintained their growth forecasts at 6.1% and 6.0%, respectively, for 2024, and 6.3% and 6.2% for 2025.
- Data on PH GDP for Q3 2024 is scheduled for release on November 7. Metrobank Research expects a slightly lower growth in Q3 at 5.5% due to soft consumption and investment spending following lagged effects of the high-interest rate environment. Although the BSP's monetary easing has begun, the full effect of lower interest rates on consumption and investment spending has yet to take effect at the beginning of next year. Full-year (FY) 2024 GDP forecast remains at 5.7%, while FY 2025 and FY 2026 forecasts remain higher at 6.2%.
- Citing easing inflation and improved government spending, Development Budget Coordination Committee (DBCC) Chair and Budget Secretary Amenah F. Pangandaman said that the committee may possibly revise the government's growth targets upwards before year-end.
- Related Article: 1) Philippines sees brighter economic prospects in fourth quarter

PH GDP Growth (in %)
2018=100

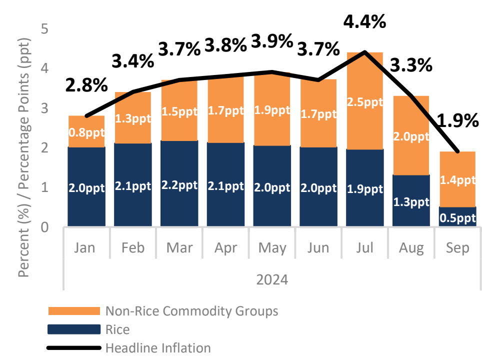


Source: Philippine Statistics Authority (PSA)

Inflation: Target locked in, but risks present

- September headline inflation surprised to the downside at 1.9% year-on-year (YoY) in September, lower than Metrobank Research's expectation and the BSP's 2.0%-2.8% forecast for the month. The latest print is also lower than the 3.3% recorded in the previous month, bringing the year-to-date inflation down to 3.4%, still within the BSP's 2%-4% target for the full year.
- The drop in the country's headline inflation is mainly attributed to the slower year-on-year increase in food prices, particularly of rice, which was the main contributor to inflation in the preceding months. Moving forward, food prices are expected to continue to weigh down on year-on-year inflation.
- Meanwhile, oil prices pose an upside risk to inflation with four consecutive price hikes taking effect in recent weeks. However, pump prices in Metro Manila in the first two weeks of October remain 12.9%-22.0% lower than in the same period last year, implying that the Philippines has capacity to absorb further hikes before direct inflationary pressure from oil prices begins to materialize. Second-round effects, however, cannot be ruled out. Thus, the sustained geopolitical tensions in the Middle East still warrant close monitoring of prices especially for an oil-importing and oil-dependent country such as the Philippines.
- The threat of a La Niña episode, which could disrupt agricultural supply, also remains an upside risk to inflation. Although neutral conditions still prevail, Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAG-ASA) estimates a 71% chance of La Nina forming in September to November, persisting until the first quarter of next year.
- Following the lower-than-expected September print and barring any supply shocks, Metrobank Research revised its full year inflation forecast down to 3.2% for 2024 from the previous 3.3%, as well as to 2.9% for 2025 from the previous 3.0%. Meanwhile, the full year inflation forecast for 2026 is maintained at 3.0%.
- Related Articles: 1) Is the Philippines ready for oil-slicked inflation?

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

BSP RRP: One step at a time

- The Bangko Sentral ng Pilipinas (BSP) continued its monetary easing cycle with another 25-basis-point (bp) policy rate cut, which lowered the target Reverse Repurchase (RRP) Rate to 6.00%, narrowing the RRP and Fed Funds Rate differential back to 100 bps.
- BSP Governor Eli Remolona Jr. maintained his stance that a 50-bp cut would only be possible if the economy were headed for a hard landing. He further emphasized that the BSP "prefers to take baby steps" through cutting rates by only 25 bps at a time, although not necessarily every quarter or every meeting. Nonetheless, Remolona signaled that another 25-bp reduction could still be delivered in the December MB meeting, supporting our call for a total of 75 bps worth of cuts for the year.
- Meanwhile, effective October 25, the BSP also reduced the reserve requirement ratio (RRR) for banks to 7.0% from the previous 9.5%.
- Metrobank Research maintains its baseline forecast of a cumulative 75-bp reduction for the year, with the recent 25-bp cuts each in August and October to be followed by one more 25-bp cut in the December MB meeting. This will bring the upper-end of the target RRP to 5.75% by year-end. Metrobank Research also forecasts 100-bps worth of cuts in 2025 and 50-bps worth of cuts in 2026, which should bring the upper-end of the target RRP to 4.25%.
- Related Articles: 1) Policy rate preview: BSP to make a calibrated move 2) Policy Rate Updates: Philippine central bank takes baby steps in rate cut cycle 3) After lowering policy rates, the central bank will soon reduce banks' cash requirements

Fed Funds Rate: Cutting deeper than the BSP

- The US Federal Reserve (Fed) earlier reduced the Federal Funds Target Rate (FFR) by 50 bps in its Federal Open Market Committee (FOMC) meeting last September 17-18, bringing the upper-end of the target to 5.00%.
- In September, the committee signaled that it is shifting its focus away from inflation, noting that although it remains elevated, it has already made significant progress toward its 2% target. Officials are now more concerned with the labor market, recognizing that job gains have slowed. However, the US later saw a slight pickup in jobs growth in September, as non-farm payrolls (NFPs) increased by 254,000, higher than the expected 150,000 increase for the month and the 159,000 increase in August.
- On September 30, Federal Reserve chair Jerome Powell stated that the US economy is in "solid shape", signaling that more rate cuts would be delivered at a careful pace. Powell further stated that two more 25-bp cuts could be delivered "if the economy performs as expected".
- Based on the latest numbers, US headline CPI and core PCE growth stood at 2.4% and 2.6% YoY, respectively. On a month-on-month basis, headline CPI stood at 0.2% while core PCE stood at 0.1%, signaling a sustained slowdown in inflation.
- As the next FOMC meeting approaches, four Fed policymakers have shared their sentiments regarding rate cuts. Their sentiments differ, however, in terms of the pace that should be taken. The Fed presidents of Kansas, Dallas, and Minneapolis all supported taking a gradual approach in delivering cuts due to strong yet uncertain economic conditions. However, San Francisco Fed President Mary Daly, the only one among the four who has a vote on policy setting, has expressed a more dovish view, noting that interest rates remain high even while inflation and labor continue to slow down.
- Metrobank Research maintains its forecast for the target FFR, expecting a cumulative 100-bps reduction in 2024, which should bring the upper end of the target FFR to 4.50%. Likewise, Metrobank Research also maintains its forecast of a cumulative 100-bps reduction in 2025 and a cumulative 50-bps reduction in 2026, which should bring the upper range of the target FFR to 3.00% by end-2026.
- Related Article: Policy Rate Views: More rate cuts ahead for US and the Philippines

Foreign Exchange: US election weighs on USDPHP?

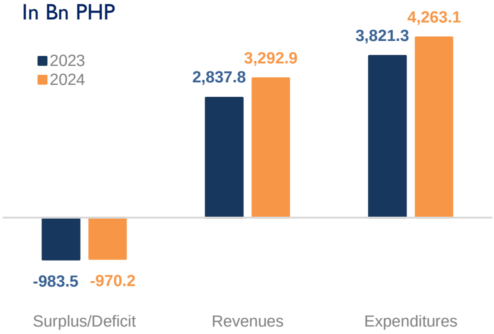
- The dollar has been gaining strength in recent weeks as markets continue pricing in a lower number of Fed cuts for the full year, exacerbated by higher odds of Donald Trump winning the US presidential election in November. A Republican sweep could potentially translate to a stronger dollar, with the former president Trump leaning more toward dollar-supportive policies including corporate tax cuts and higher import tariffs. On October 25, the USD/PHP closed at 58.32.
- During the October 16 Monetary Board meeting, BSP Governor Eli Remolona, Jr. reiterated that the BSP does not target a particular level of the exchange rate, amid concerns of USDPHP breaching the 58 levels, supporting previous statements that they are more concerned on the pace of depreciation rather targeting a specific level and the movement of the peso together with other currencies.
- Metrobank Research projects spot to decline in the Q4 considering the seasonal inflow of BPO bonuses beginning by end-October and remittances from overseas Filipinos beginning November. While we currently expect a stronger peso with the USD/PHP spot at 55.3 by end of 2024, 54.5 by the end of 2025, and 53.7 by the end of 2026, we recognize risks coming from the results of the US presidential election in November which would ascertain projected strength of the dollar.

LOCAL NEWS

PH Fiscal Balance: Deficit slips 1.4% in January to September

- The National Government (NG)'s fiscal deficit widened by 8.9% in September to PHP 273.3 billion, even as revenue growth for the month outpaced expenditure growth at 17.3% and 13.2%, respectively.
- This brings the year-to-date NG deficit to PHP 970.2 billion, lower by 1.4% compared to the PHP 983.5 billion recorded in the first nine months of 2023. The year-to-date deficit is at 65.4% of the government's PHP 1.5 trillion target for the full-year.
- On the revenue side, total year-to-date collections reached PHP 3.3 trillion, 16.0% higher compared to total collections during the same period in 2023 and 4.5% higher than the government's revenue collection target for the first nine months of 2024. Tax revenues remain the main source of government revenues, comprising 85.4% of total collections, while non-tax revenues comprised the remaining 14.6%.
- On the expenditure side, total year-to-date expenditures reached PHP 4.3 trillion, 11.6% higher compared to total expenditures in the first nine months of 2023 and 1.1% above the government's total expenditure target for the first nine months of 2024.
- As of September, the NG has already disbursed 74.1% of the PHP 5.9 trillion revised program for full year 2024.

NG Fiscal Performance (Jan-Sep)
In Bn PHP



Source: Philippine Statistics Authority (PSA)