Reaction to PIDS 2024 Macro Prospects

BPI Lead Economist

February 2024

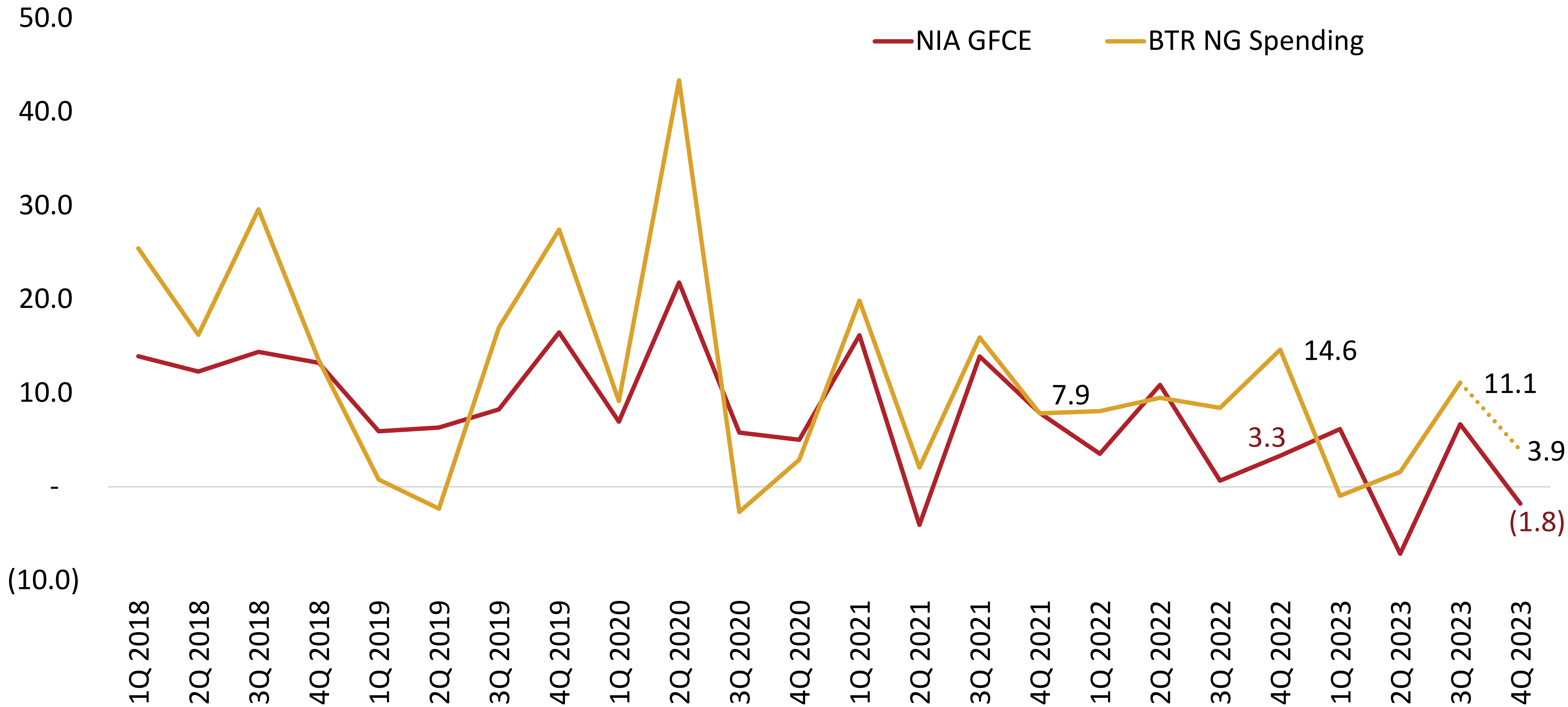
Highlights

- Will 2023 Public Sector spending drag persist?
- “Relevant Range” of GDP growth sensitivity to BSP policy rates
- Others Risks to watch out for
- Some BPI views about 2024 Outlook

Re-run of NG underspending in 2Q2023 possible?

Absorptive capacity of government agencies, LGU underutilization may risk dragging growth again

Government Spending YoY Growth (in %)



Source: PSA, BTR, CEIC

PHL Economy Posted 5.6% Growth in 4Q & FY 23

Official print was slightly higher than the BBG median estimate of 5.5%; ; growth driven by resilient consumption

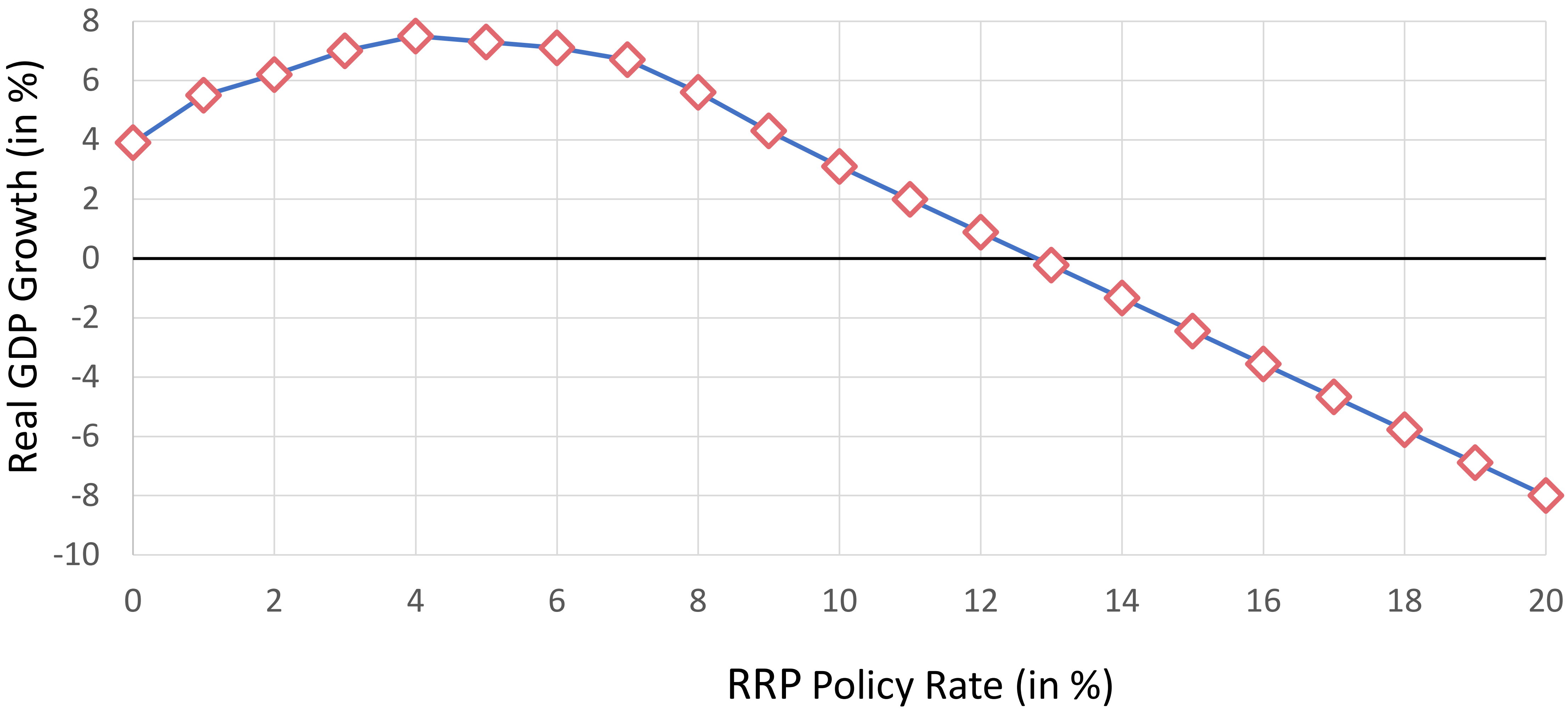
	3Q 2023	4Q 2023	FY 2022	FY 2023
GDP	5.9	**5.6**	7.6	**5.6**
Expenditure Side				
Consumption	5.1	**5.3**	8.3	**5.6**
Government	6.7	**-1.8**	4.9	**0.4**
Investment	-1.4	**11.2**	13.8	**5.4**
Exports	2.6	**-2.6**	10.9	**1.3**
Imports	-1.1	**2.9**	13.9	**1.6**
Supply Side				
Agriculture	0.9	**1.4**	0.5	**1.2**
Industry	5.6	**3.2**	6.5	**3.6**
Service	6.8	**7.4**	9.2	**7.2**

Source: CEIC

Elasticity of growth to interest rates: Constant?

Aside from government underspending, inflation spike dragged growth through most of 2023.

Negative correlation between growth and policy rates are likely non-linear

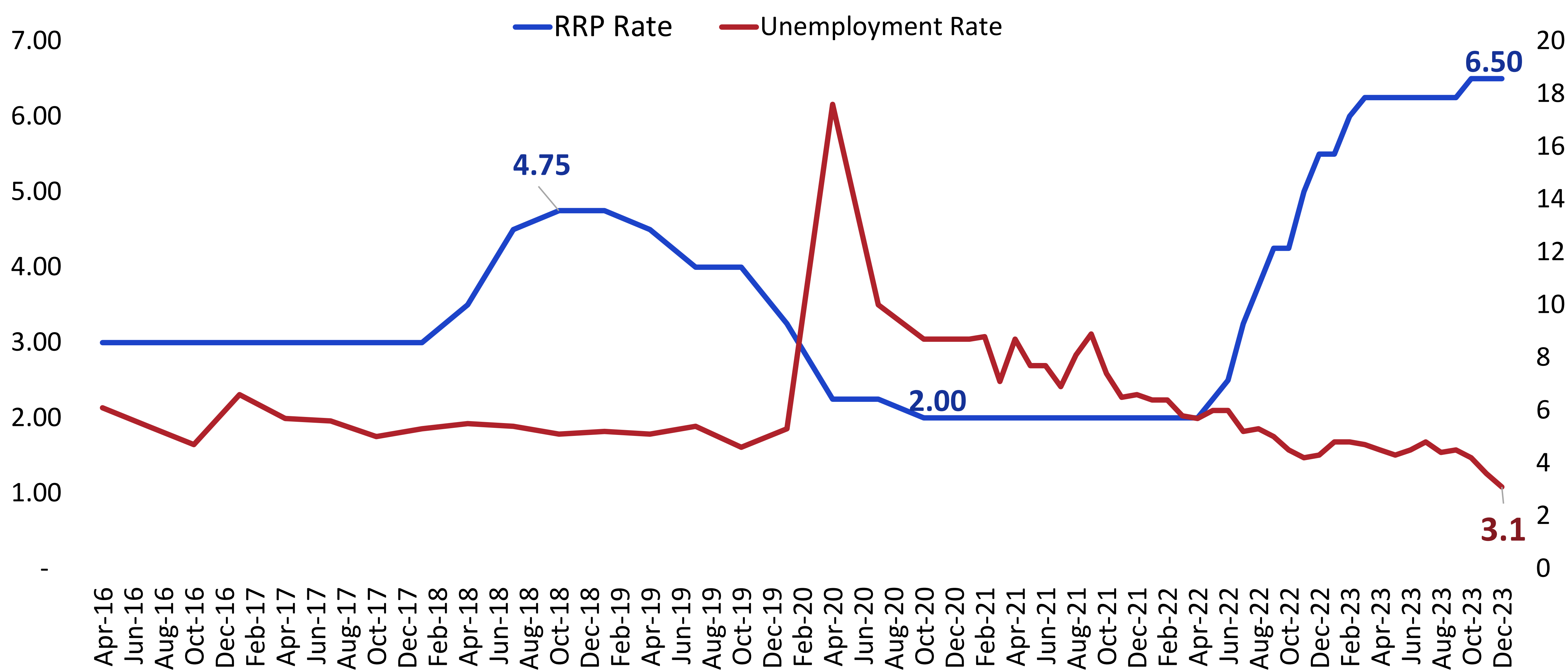


Source: PSA, CEIC, BPI's estimates

Healthy jobs growth amid policy normalization

Policy tightening appear to have anchored expectations & limited 2nd round effects without sacrificing jobs

PHL Unemployment Rate vs RRP Rate



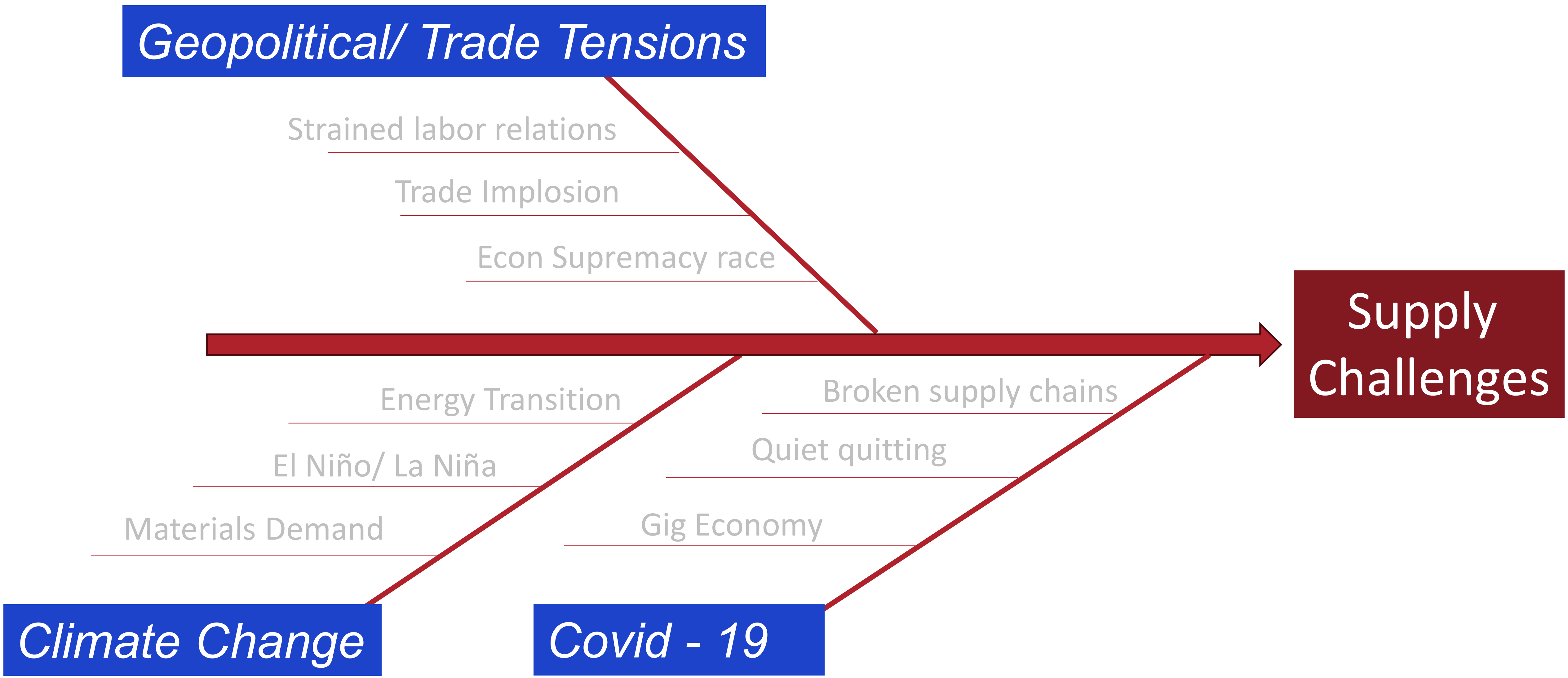
Source: CEIC

June 2023 BIS Annual Econ Report

- high inflation and financial stress are a symptom of the cumulative effect of accommodative monetary and fiscal policy over past decades, culminating in the extraordinary support measures launched in response to the pandemic

- These policy trajectories gave an important and enduring push to inflation and fostered the build-up of fragilities in the financial system.

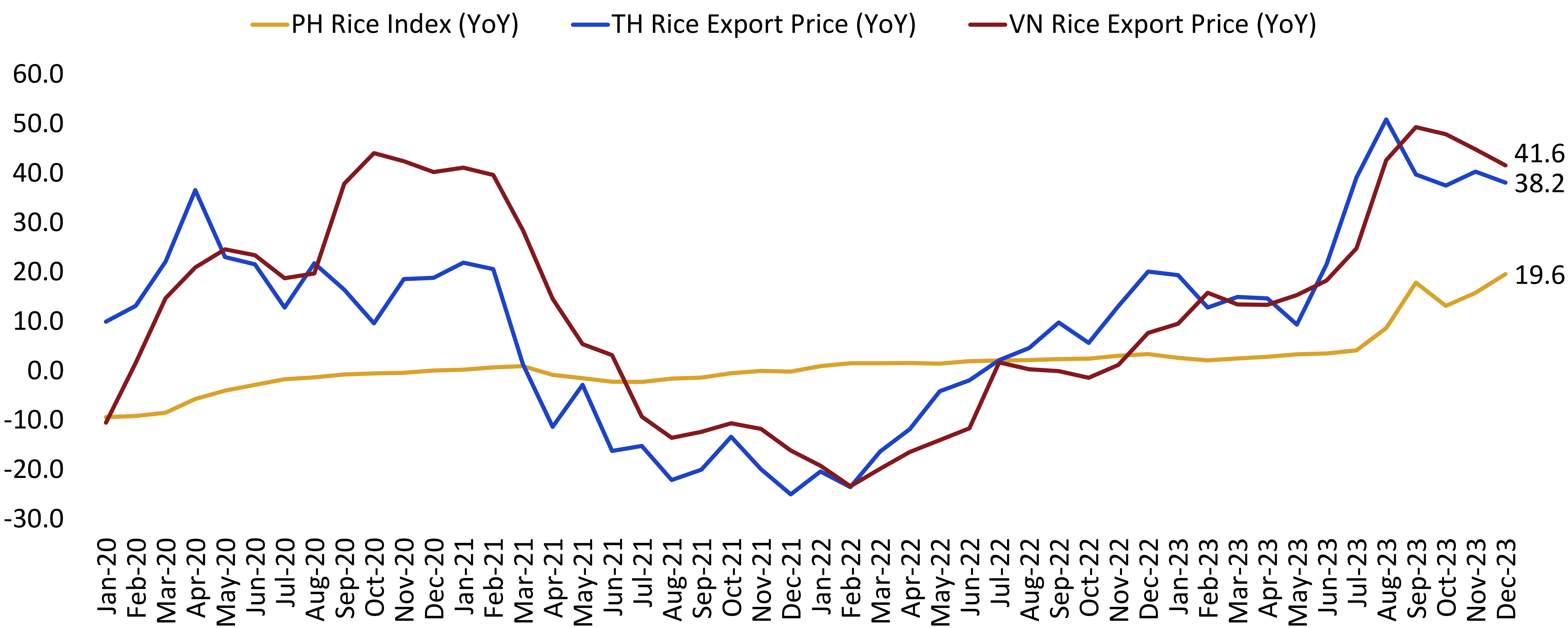
Return of "Pre-GFC" Challenges?



Rising Global Rice Prices

December Thai prices saw a 38.2% YoY jump, Vietnamese rice rose by 41.6% on export curbs, effects of El Nino

Vietnam & Thailand Export Prices White Rice 5% and PH Rice Inflation YoY %

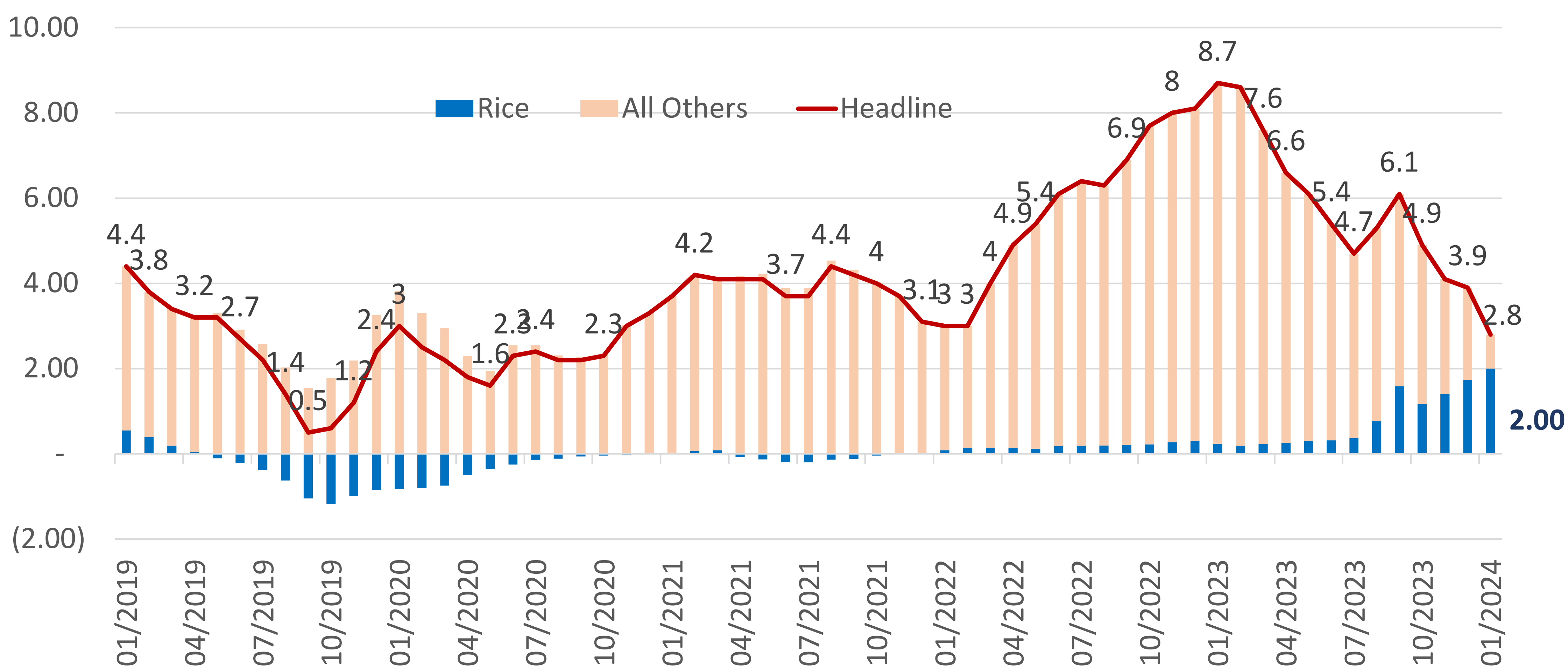


Source: Bloomberg, CEIC

Of the 2.8% Jan print, Rice contributed 2.0 ppts

Rice prices rose anew 19.5% y-o-y

YoY Food Inflation with component breakdown (%)

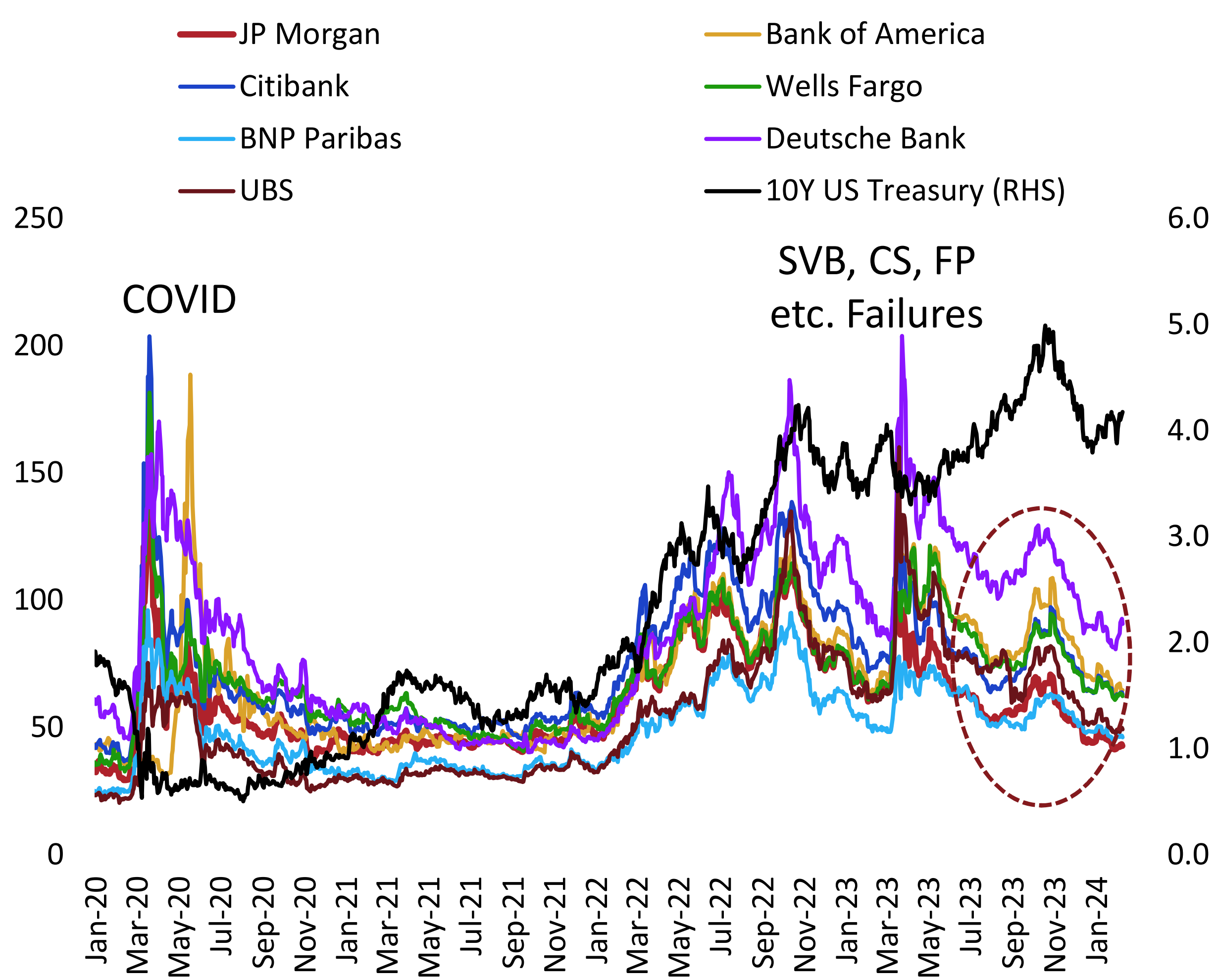


Source: PSA

CDS of Big US Banks Steady, NYCB now Junk

Cut to Ba2 by Moody's, 2 notches below investment grade, citing governance & souring commercial property loans

5Y CDS* in bps & 10Y US Treasury Yield in % (RHS)



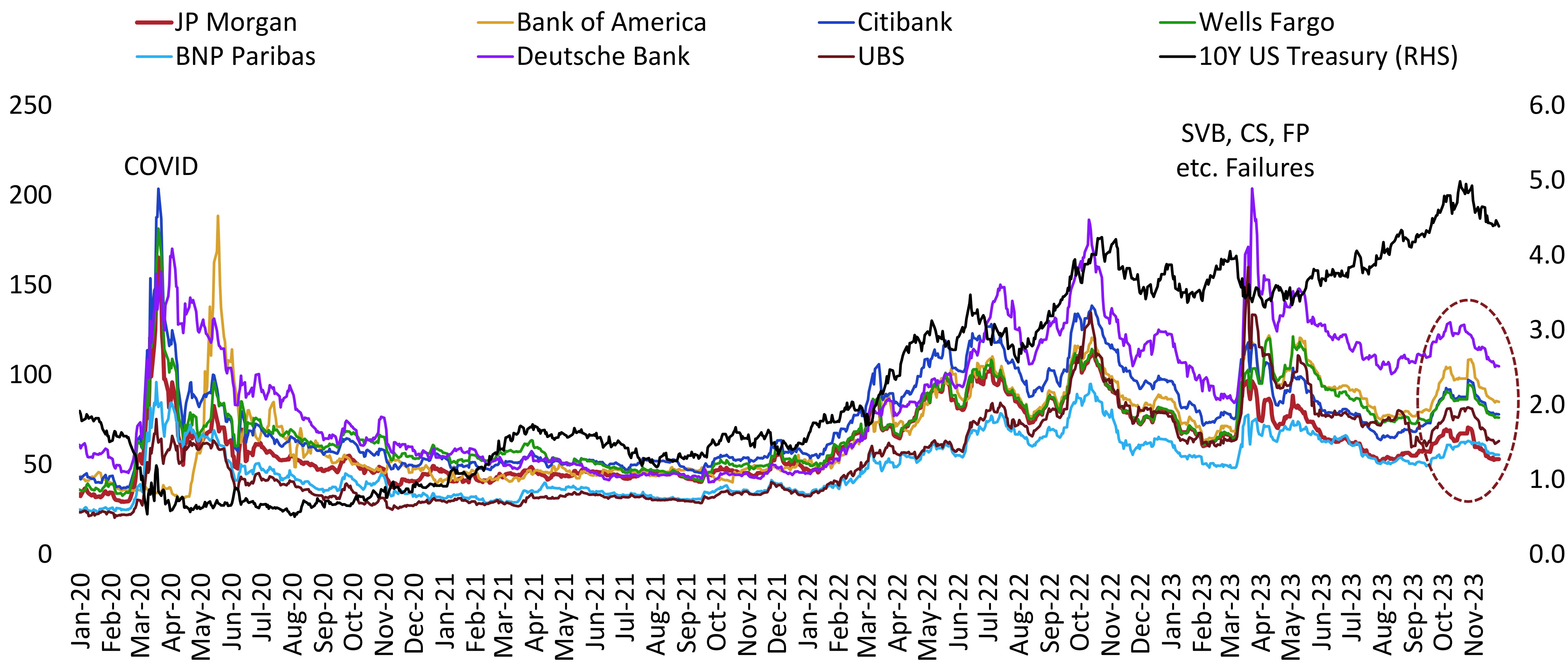
Price of New York Community Bancorp (USD/share)

Source: Bloomberg, *A credit default swap (CDS) is a contract between two parties in which one party purchases protection from another party against losses from the default of a borrower for a defined period of time.

CDS of Big US Banks Dipped as USTs Retreated

Digested weaker than expected US new home sales, dip in durable goods; more bets of a FED pause in Dec & Jan

5Y CDS* of Select US and European Banks in bps (Jan 2020 to Nov 2023) & 10Y US Treasury Yield in % (RHS)



Source: Bloomberg, *A credit default swap (CDS) is a contract between two parties in which one party purchases protection from another party against losses from the default of a borrower for a defined period of time.

PH Economy:
Ready to Buck 2024 Trends?

Economy & Markets In The Next 12 Months

February 2024

Sources of Optimism for 2024

- Big chance that 2024 PH Inflation will be below 4%
- Record-low unemployment in Dec 2023; consumer loans to remain solid
- Loans to real estate growing at double-digit
- Vehicle sales hit a new high in 2023 beating the 2017 record
- PHL is 1 of 3 in ASEAN-6 seeing a manufacturing acceleration
- Mid-term election spending to start in 2H2024
- BSP may reduce interest rates & improve demand further

BPI Forecasts as of Feb 2024

	2020	2021	2022	2023E	2024F
GDP Growth	-9.6	5.7	7.6	5.6	6.3
Inflation	2.4	3.9	5.8	6.0	3.7
BSP Policy Rate	2.00	2.00	5.50	6.50	5.75
USD/PHP	48.023	50.999	55.755	55.370	53.800