IMF warns it will cut global growth forecast again with 'darkened' outlook

THE INTERNATIONAL Monetary Fund (IMF) warned it will again cut the forecast for global economic growth as impacts reverberate from Russia's invasion of Ukraine, pandemic-related shutdowns in China and higher inflation.

The outlook for this year and next will be downgraded later this month when the IMF releases its World Economic Outlook Update, Managing Director Kristalina Georgieva wrote in a blog post published on Wednesday, without providing specific figures.

"The outlook remains extremely uncertain," she wrote. "It is going to be a tough 2022 — and possibly an even tougher 2023, with increased risk of recession."

The global recovery from the pandemic has been compromised by surging commodities prices on the back of the Ukraine war and a slowdown in China amid sustained coronavirus disease 2019 (COVID-19) restrictions. Stronger inflation is also forcing policy makers to raise interest rates, moves aimed at cooling price growth but that risk tipping economies into recessions.

The IMF's warning follows its April downgrade for global expansion this year to 3.6%, from 4.4% seen before the war in Ukraine. It also comes ahead of a meeting later this week of finance ministers and central bankers from the Group of 20.

"The global economic outlook has darkened considerably, while inflation remains high," the IMF said in a related note, adding that recent indicators point to a "very weak" second quarter.

Ms. Georgieva's comments on gross domestic product come a day after she raised the alarm on a global debt crisis in the making as central banks raise interest rates to curb inflation, increasing debt-servicing costs for vulnerable nations.

Separately on Tuesday, the IMF downgraded its forecast for US gross domestic product this year and next, warning that a surge in inflation poses "systemic risks" to both the country and the global economy. — ***Bloomberg***

BSP,

from S1/1

"By taking urgent action, the Monetary Board aims to anchor inflation expectations further and temper mounting risks to the inflation outlook. In particular, policy action is intended to help manage spillovers from other countries that could potentially disanchor inflation expectations," Mr. Medalla said.

The BSP is ready "to take further necessary actions to steer inflation towards a target-consistent path over the medium term," he added.

Mr. Medalla said the BSP will still hold a policy meeting on Aug. 18.

Inflation rose by 6.1% year on year in June, the fastest in nearly four years and exceeded the central bank's 2-4% target band for a third straight month. The average inflation rate in the first six months is 4.4%, still below the BSP's full-year forecast of 5%.

BSP Deputy Governor Francisco G. Dakila, Jr. said any revisions on inflation targets will be done in the Aug. 18 meeting.

"It is because, again, we would want to incorporate the latest data... the updated numbers on inflation, as well as inflation expectations and on GDP (gross domestic product) growth," he said.

The Philippine Statistics Authority (PSA) is scheduled to release July inflation data on Aug. 5, and second-quarter GDP data on Aug. 9.

Mr. Dakila said the initial results of the BSP's partial survey of private sector economists showed higher mean inflation forecasts for this year (5.4% from 4.9% previously) and 2023 (4.4% from 3.9% previously).

The policy move should help temper the risks to the inflation outlook, he said.

Also, the BSP intends to cut the reserve requirement ratio (RRR) to single digits.

"The adjustments in the reserve requirements are meant to be not indicative of any change in the monetary policy stance but it will be an operational adjustment," Mr. Dakila said.

Cutting the RRR would give banks more money to lend and reduce the cash holdings that they keep in their vaults as standby funds that do not generate returns.

ECONOMIC OUTLOOK

Mr. Medalla also said the favorable growth conditions this year "suggests that the domestic economy can accommodate a further tightening of monetary policy."

In a separate statement, Finance Secretary Benjamin E. Diokno said the Philippine economy is robust enough to absorb the policy rate hike.

"The growth outlook is seen to be supported by the maintenance of loosened quarantine restrictions as well as the positive impact of structural reforms... The National Government will continue to adopt a gradual and calibrated path of fiscal consolidation to help preserve the strong growth momentum," Mr. Diokno, a former BSP governor, said.

The economy expanded by a faster-than-expected 8.3% in the first quarter. The Development Budget Coordination Committee (DBCC) is targeting 6.5-7.5% GDP growth this year.

BSP's Mr. Dakila said the GDP targets for this year are achievable, adding that second-quarter growth is "very likely to be strong or may even be stronger than the first-quarter numbers."

While GDP may slow down a bit due to higher interest rates, Bank of the Philippine Islands (BPI) Lead Economist Emilio S. Neri, Jr. said "it might be worse if inflation goes up further."

"The economy managed to grow by 6.3% and 6.1% in 2018 and 2019 even if the policy rate was above 4%. A prolonged period of high inflation will eventually hurt consumers, which will likely affect the economy more severely compared to higher interest rates," Mr. Neri said in a statement.

Former BSP Deputy Governor Diwa C. Guinigundo said he was not surprised that the central bank came out "appropriately aggressive in an off-cycle meeting."

"It's timely for the BSP to focus on stabilizing inflation and the exchange rate because both would also affect market rates. Uncertainty as to the direction of policy when inflation is hitting historic highs and the peso is performing poorly could also push interest rates and consequently debt servicing costs," he said in a Viber message.

MORE RATE HIKES

The central bank may increase policy rates further this year as it continues its fight against inflation, ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa said in an e-mail note.

"BSP Governor Medalla will need to sustain the recent hawkish rhetoric to re-anchor inflation expectations and establish the bank's commitment to fighting inflation," Mr. Mapa said.

"We expect BSP to hike again at least one more time in 3Q with the possibility of further tightening should inflation continue to remain stubbornly high. The peso will get an immediate reprieve in the short term but chronic trade deficits could mean that any rally in the currency may be capped," he added.

Makoto Tsuchiya, assistant economist at Oxford Economics, said the BSP may raise rates by 50 bps at the August meeting to end the year at 3.75%. Inflation is expected to peak above 8% in the fourth quarter, averaging 5.9% for the year, he added.

"But if the (Philippine peso) were to depreciate sharply from here or inflation surprised on the upside, this would justify further tightening this year. For now, we expect that with global trade set to slow and a negative output gap, the BSP will be conscious to not stifle the recovery in domestic demand," he said in a note.

PESO RECOVERS

The Philippine peso, which had hit a record low early this week versus the US dollar, recovered some lost ground.

The local unit closed at P56.15 per dollar on Thursday, gaining 11 centavos from its P56.26 finish on Wednesday, based on Bankers Association of the Philippines data.

Year to date, the local unit has weakened by 10.09% or by P5.15 from its close of P51 versus the dollar on Dec. 31, 2021.

The peso is the worst-performing currency in Southeast Asia this year as the greenback continues to strengthen on expectations for faster Federal Reserve policy tightening.

The Fed is seen stepping up its tightening campaign with a supersized 100-basis-point rate hike this month after a report showed inflation racing at four-decade highs.

The BSP's move was meant to support or at least stabilize the peso exchange rate, said Michael L. Ricafort, chief economist at Rizal Commercial Banking Corp. in Manila.

A weak peso adds further pressure on inflation, threatening to derail recovery of the consumption-driven domestic economy.

"More rate hikes are still possible, if needed, as a function of any further Fed rate hikes to bring down elevated inflation," Mr. Ricafort said. — *with **Reuters***

Debt,

from S1/1

DEBT LEVELS

The national debt can return to pre-pandemic levels if there is faster growth, favorable interest rate conditions, and a longer time horizon, a researcher from the Philippine Institute for Development Studies (PIDS) said.

"If we assume that GDP growth, real interest rate, and the exchange rate are fixed and constant, then the only major variable that the government has a handle on is the primary balance," said John Paul Corpus, PIDS supervising research specialist, on a PIDS webinar on Thursday.

Primary balance is the difference between a government's revenue and its non-interest expenditure.

"The government must improve its primary balance, either by cutting primary spending or raising more revenues, or doing a combination of both," he said.

Nonetheless, quickly returning would be challenging as "fiscal policy might need to continue to be conducive to supporting the country's economic recovery, especially given the difficult global economic environment," Mr. Corpus added.

Mr. Diokno said last week that it is not "crucial" to return to the 39.6% debt-to-GDP ratio seen as of end-2019, considering the country's experience at the height of the coronavirus pandemic.

"We have to prioritize growth first rather than going back to that number," he said.

OUTGROWING DEBT

The National Government's outstanding debt slipped by 2.1% to P12.5 trillion as of end-May.

"It may not be something to worry about for some but it is something to worry about for ordinary people who directly feel its impact. We can outgrow debt only if all sectors and stakeholders will cooperate and coordinate," John Paolo R. Rivera, an economist from the Asian Institute of Management, said.

Analysts agreed that outgrowing the debt would require at least 6% annual GDP growth in the next six years.

"Debt is expected to remain elevated with the borrowing and spending that the government will need to do to support recovery amid inflation headwinds. As such, sustained growth will give it some room to do this while balancing fiscal prudence," said Robert Dan J. Roces, chief economist at Security Bank Corp.

Leonardo A. Lanzona, director of the Ateneo Center for Economic Research and Development, said the government should still prioritize investing in human capital over debt repayment.

"These should mean significant investments in education, housing, and nutrition, which are investments needed to place the economy back [on] its feet... Ignoring these in favor of short-term maturing investments for economic recovery and debt repayments can force the economy to drift away further from the initial human capital stocks before the pandemic, placing us in a much more difficult position in the long term," he said.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said fiscal discipline is needed to cut the debt-to-GDP ratio, which includes rationalizing government spending.

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link
<bit.ly/GDP071522>

Vehicle,

from S1/1

The CAMPI-TMA report showed that Toyota Motor Philippines Corp. had the highest market share for the January to June period with 51.71% after selling 80,090 units.

Mitsubishi Motors Philippines Corp. had the second-highest market share at 13.39% with 20,734 units sold.

It was followed by Nissan Philippines, Inc. (7.22% or 11,188 sold units); Suzuki Phils., Inc. (6.36% or 9,851 sold units); and Ford Motor Co. Phils. Inc. (5.78% or 8,956 units sold).

Mr. Gutierrez is hopeful that vehicle sales momentum will be sustained in the next few months.

"The industry is optimistic of sustaining motor vehicle sales in its current pre-pandemic trendline in the coming months, albeit challenging amid the ongoing headwinds to the economic recovery, which continue to affect consumer confidence and overall employment," Mr. Gutierrez said.

CAMPI previously announced that it is targeting to sell 336,000 units in 2022, 17% higher than the 268,488 units sold in 2021. — **Revin Mikhael D. Ochave**