Inflation expected to ease further in 1st quarter

INFLATION is expected to ease further in the first quarter as prices of key commodities stabilize, First Metro Investment Corp. (FMIC) and the University of Asia and the Pacific (UA&P) said.

"We expect inflation to fall within the Bangko Sentral ng Pilipinas (BSP) target in the first quarter, when it averages some 3.2%. This could go even lower if other food prices remain soft," it said in its Market Call on Tuesday.

"Various methodologies do show a definitive easing in inflation. Food prices, except for rice, have stabilized or declined while crude oil prices have quickly headed south after every major event that got traders nervous," it added.

Headline inflation slowed to 3.9% in December, from 4.1% in November and 8.1% a year earlier. This was also the weakest inflation reading in 22 months.

In December, food price growth slowed to 5.5% from 5.8% in November and 10.6% a year earlier.

Prices of diesel also fell 13% year on year, against the 18.4% decline in November. Gasoline price growth was -3.9%, from -4.8% a month earlier.

Inflation averaged 6% in 2023, marking the second straight year that consumer price growth breached the 2-4% target band.

January inflation data will be released on Feb. 6.

FMIC and UA&P see full-year inflation settling at 3.8%, within the central bank's target.

The BSP projects inflation easing to 3.7% this year and further to 3.2% in 2025.

Meanwhile, FMIC and UA&P said they expect to see stronger gross domestic product (GDP) growth this year compared with 2023.

"Robust job numbers, slower inflation and sustained infrastructure spending should power GDP growth in 2024 to 6% from an estimated 5.5% uptick in 2023," they said.

"Economic data released in December 2023 and early January 2024 provide more than sufficient reason to be more optimistic in 2024," they added.

The government is targeting 6.5-7.5% GDP growth this year.

In the nine months to September, the economy grew by a revised 5.6%, still short of the 6-7% target for 2023.

A *BusinessWorld* poll of 20 economists showed that GDP likely grew 5.7% in the fourth quarter, weakening from the revised 6% growth posted in the third quarter and the 7.1% expansion a year earlier.

Fourth-quarter and full-year GDP data will be released today, Jan. 31.

Meanwhile, FMIC and UA&P expect that National Government (NG) debt as a share of GDP will decline to 59% this year.

"NG spending may have eased in November, but last month catch-up spending to exhaust budgeted amounts will likely bulge in December," it said.

"However, with minimal additional borrowing in December, we expect a decline in debt-to-GDP ratio to 60.4% in 2023 from 60.9% in 2022. Faster GDP growth and lower interest rates during the year should push this down further to 59%," it added.

The debt-to-GDP ratio was 60.2% at the end of the third quarter, lower than the 61% at the end of the second quarter and 63.6% a year earlier.

Debt-to-GDP of 60% is the upper limit considered to be sustainable by international development banks for poorer countries. — **Luisa Maria Jacinta C. Jocson**

Storage, transportation named focus areas for hydrogen dev't

THE Department of Energy (DoE) said its guidelines for the hydrogen industry have identified energy storage and transportation as key focus areas for the development of the resource.

"The DoE recognizes the role of hydrogen in the energy transition as an innovation capable of meeting future energy demand with various applications in the power, transportation, commercial, and industrial sectors," the DoE said in a circular dated Jan. 12.

The circular covers all activities related to the establishment, construction, operation, maintenance, decommissioning, and disposal of projects or facilities using hydrogen resources.

Under the guidelines, the DoE said that "prospective uses of hydrogen in the energy sector shall be divided into power generation and electricity storage applications and non-power applications."

"Power generation and electricity storage shall include use of electricity produced from hydrogen energy supplied to the grid or as backup and off grid power supply, industrial scale energy storage, co-firing with hydrogen derivatives in existing fossil fuel power plants, and hydrogen and its derivatives multigeneration systems," the DoE said. — **Sheldeen Joy Talavera**

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Return to pre-2020 track to require 9.4% growth

THE PHILIPPINES needs to grow by 9.4% annually until 2028 to have a change of elevating output to P80 trillion by 2036, the growth trajectory that the government had projected before the pandemic, an analyst said.

During a webinar on Jan. 26, GlobalSource country analyst Diwa C. Guinigundo said while growth in the Philippines bounced back in 2022 despite the setbacks from the pandemic, more still needs to be done.

"The enormous drop in economic activity during the pandemic and the relatively modest economic growth in subsequent periods pose a big challenge," according to Mr. Guinigundo, a former central bank deputy governor.

"Before the pandemic, we were looking at a higher trajectory of growth, inching towards P80 trillion in 2036 from 2022's P22 trillion. To overcome this setback, growth has to average 9.4% through 2028 to return to the original path," he said.

The Philippine Statistics Authority (PSA) estimated the nominal gross domestic product (GDP) of the Philippines at P17.2 trillion as of the third quarter.

"If we go to the government's target of around 7-8% annually, by 2036, we might be reaching only P60 trillion," Mr. Guinigundo said.

Under the medium-term macroeconomic assumptions of the Development Budget Coordination Committee (DBCC), the economy is targeted for an expansion of 6.5-8% each year until 2028.

"We need to concentrate on strengthening our governance and institutions to help in a generalized effort to capitalize on our favorable demographics, emerging industrial structure, and international trade," he said.

The economy may have slowed in the fourth quarter last year, with GDP growth of 5.7%, according to a median forecast of 20 economists polled by *BusinessWorld*.

If realized, the fourth-quarter GDP growth would underperform the 5.9% performance in the third quarter and the 7.1% expansion in the fourth quarter of 2022.

The poll also yielded a median estimate growth of 5.5% for 2023, missing the DBCC's 6-7% GDP growth target. This would lag the 7.6% expansion in 2022 and the weakest since the 9.5% contraction in 2020.

The PSA will announce fourth-quarter and full-year GDP data today.

Meanwhile, Mr. Guinigundo said price pressures have eased since September. The impact of some supply shocks was mitigated in the fourth quarter through higher imports and lower tariff duties.

Headline inflation eased to a 22-month low of 3.9% in December, from 4.1% in November. It marked the first time that inflation fell within the BSP's 2-4% target band after 20 months, from a peak of 8.7% in January 2023.

Inflation accelerated to 6% in 2023 from 5.8% in 2022. It breached the 2-4% target band for the second straight year amid soaring food and oil prices.

However, upside risks to inflation remain, and the Bangko Sentral ng Pilipinas (BSP) is expected to keep policy rates higher for longer, according to Mr. Guinigundo.

"I don't believe the BSP will start moving in the first half of 2024. It is very clear that the risk-adjusted inflation forecast of the BSP continues to exceed the 2-4% at 4.2%," he said. — **Keisha B. Ta-asan**

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