Debt service,
from S1/1

Still, these payments were partly reduced by the record RTB issuance in February, which included a bond exchange program involving holders of papers set to mature in March meant to lengthen maturities of the government's obligations, Mr. Ricafort said.

The government raised a record P584.86 billion from its February offering of five-year retail bonds, surpassing its P400-billion target.

The BTr initially borrowed P212.719 billion through the RTBs during the rate-setting auction for the papers.

The government raised an additional P372.14 billion during the nine-day public offer period. Of this amount, the government raised P243.45 billion from the bond switch program, while P128.69 billion came from new money.

The five-year RTBs fetched a coupon rate of 6.25%, 12.5 basis points (bps) higher than the 6.125% quoted for the five-and-a-half-year RTBs offered in February 2023.

"Higher debt servicing was also due to higher interest rates from a year ago that increased the NG's interest rate payments," Mr. Ricafort added.

The Bangko Sentral ng Pilipinas (BSP) raised borrowing costs by 450 bps from May 2022 to October 2023, bringing its policy rate to a near 17-year high of 6.5%.

The Monetary Board will hold its next policy review on May 16.

Mr. Ricafort said a weaker peso versus a year ago also increased the peso value of foreign currency or dollar-denominated debt payments.

Based on BSP data, the peso-dollar exchange rate averaged P55.849 in March, depreciating from the P54.796 average in the same month in 2023.

"For the coming months, possible US Federal Reserve and local policy rate cuts could help mitigate debt servicing costs of the NG," Mr. Ricafort said.

BSP Governor Eli M. Remolona, Jr. earlier said the central bank may begin cutting rates by the fourth quarter. However, if inflation risks persist, the start of its easing cycle could be pushed back to the first quarter of 2025.

Meanwhile, Fed Chair Jerome H. Powell last week said that after starting 2024 with three months of faster-than-expected price increases, it "will take longer than previously expected" for policy makers to become comfortable that inflation will resume the decline towards 2% that had cheered them through much of last year, Reuters reported.

That steady progress has stalled for now, and while Mr. Powell said rate increases remained unlikely, he set the stage for a potentially extended hold of the benchmark policy rate in the 5.25%-5.5% range that has been in place since July.

US central bankers still believe the current policy rate is putting enough pressure on economic activity to bring inflation under control, Mr. Powell said, and they would be content to wait as long as needed for that to become apparent — even if inflation is simply "moving sideways" in the meantime.

The Fed's preferred inflation measure — the personal consumption expenditures price index — increased at a 2.7% annual rate in March, an acceleration from the prior month. — **Luisa Maria Jacinta C. Jocson** *with* ***Reuters***

GDP,
from S1/1

ELEVATED INFLATION, INTEREST RATES

"Household consumption edged higher as inflation further eased during the period. GDP growth was also supported by a recovery in exports, led by the semiconductor industry. On the supply side, all sectors recorded positive growth rates, with services primarily powering the economy," China Bank Research said in an e-mail.

"However, the high interest rate environment continued to challenge private construction activities, while agricultural production was adversely affected by El Niño," it added.

Philippine headline inflation averaged 3.3% in the first quarter, slower than the 8.3% average in the same period last year. This was likewise below the Bangko Sentral ng Pilipinas' (BSP) 3.8% forecast and within its 2-4% target for the year.

The central bank last month left its policy rate unchanged at a near 17-year high of 6.5% for a fourth straight meeting and signaled a possible delay in rate cuts due to inflation risks.

BSP Governor Eli M. Remolona, Jr. earlier said upside risks to inflation have worsened, making them more hawkish than before. He added that rate cuts may begin in the fourth quarter of this year or in the first quarter of 2025, depending on how price risks pan out.

Michael Wan, MUFG senior currency analyst for Global Markets Research, likewise said in an e-mail that private consumption likely showed gradual improvement last quarter amid slower inflation, a resilient labor market, and a pickup in tourism spending.

"Nonetheless, growth remains capped by still high interest rates coupled with upside risks to inflation including on food prices. We are now forecasting the first BSP rate cut from first quarter of 2025, pushing it out from third quarter of 2024 previously, to help curb excessive volatility in the Philippine peso," Mr. Wan said.

Ruben Carlo O. Asuncion, chief economist at Union Bank of the Philippines, Inc. said in an e-mail that the Philippine economy likely grew "below potential" amid "the drought's effects on farm output and inflation, sustained net pessimism among households and businesses in the latest BSP surveys, while missing the strong fiscal spending stimulus, amid the familiar setting of high interest rates and credit tightness."

For 2024, economic expansion is expected to remain strong but remain below the government's target amid persistent headwinds, said Harumi Taguchi, principal economist at S&P Global Market Intelligence.

"Downside risks will remain from still-sluggish overseas demand amid soft demand from advanced economies and concerns of China's economic prospects. Lagged effects from previous monetary policy tightening and tightened financial conditions will also continue to weigh on economic prospects," Ms. Taguchi said in an e-mail.

"Looking ahead, we anticipate that the Philippine economy has a higher growth potential this year, supported by easing inflationary pressures, a recovery in fiscal spending and exports, and possible monetary easing in the latter part of the year," China Bank Research added.

Meanwhile, Oxford Economics' Mr. Tsuchiya expects Philippine GDP growth to average 5.2% this year, well below the government's target.

"With heightened geopolitical conflicts in the European and Middle East causing pressure on some commodity prices and climate change effects such as El Niño disrupting agricultural yields, increased heat is pushing energy demand higher, causing higher prices, thus keeping inflation elevated... This will mean higher interest rates for a bit longer than anticipated. This could keep growth from reaching the government's [full-year] target. However, increased infrastructure spending could mitigate the effects," Jonathan L. Ravelas, senior adviser at professional service firm Reyes Tacandong & Co., added in a Viber message.

Climate to push more Asians to emigrate — ADB

MORE citizens of Asia-Pacific countries are expected to emigrate, forced out by the increasing vulnerability of many countries to climate change, the Asian Development Bank (ADB) said.

"Up to 4% of the active Philippine labor force worked abroad in 2023. Some scenarios predict that these numbers could potentially increase as climate change worsens," the ADB said in a blog.

International mobility in the Asia-Pacific has intensified in recent years given the region's vulnerability to climate-related disasters.

"In Asia and the Pacific, international mobility is already particularly pronounced, with many workers migrating temporarily to Middle Eastern countries as construction workers or domestic helpers," the ADB said.

Remittances from these migrants can "cushion income shocks" for their families back home, especially from risks like climate change impacts.

"In East Asia, and in the Pacific, these financial flows from overseas amounted to as much as ten times the annual overseas development assistance over the past decade, making them a critical component of risk-coping," the ADB said.

However, increased emigration due to climate risks has pushed governments of host countries to impose stricter migration rules.

"By tightening border controls and increasing the selectivity of migrants, one important strategy for coping with disasters is being severely curtailed," the ADB said.

The bank also noted that poverty in vulnerable regions rose by 13% amid restrictions in international migration.

At the same time, disasters also impact job opportunities back home for workers rendered incapable of emigrating, the bank said.

"When floods affect rural areas, regions reliant on agricultural production can no longer absorb workers who are unable to migrate due to the ban, creating a double burden for affected communities," it said.

Source and host countries must enter into bilateral agreements to protect migrant rights, the ADB said.

It cited a 2013 labor agreement between the Philippines and Saudi Arabia guaranteeing protections for Filipino migrant workers.

"In addition to ensuring the safety of their citizens living abroad, governments should also create safe pathways for people forced to migrate due to climate change," ADB said.

The bank also pushed for efforts to reduce transaction costs for post-disaster remittances, which are deemed crucial "for smoothing income shocks caused by disasters." — **Beatriz Marie D. Cruz**

Spending, remittances to fuel PHL growth, with climate seen as drag on economy

THE Philippine economy is expected to grow stronger this year on the back of household spending and remittances, but climate-related disasters may temper any momentum, the Organisation for Economic Co-operation and Development (OECD) said.

In an economic outlook, the OECD said an export boom in information technology-business process outsourcing (IT-BPO) and a recovery in tourism will also be major growth drivers.

"In 2024, the (Philippines) will continue its rapid economic recovery, driven by a robust household consumption, and an improved global growth outlook," according to the report.

"Other key drivers supporting economic growth momentum in the near term include sustained remittance inflows, fast-growing exports in the IT-BPO sector and steady expansion of the tourism sector."

The OECD noted that Emerging Asia economies, including the Association of Southeast Asian Nations (ASEAN) countries and China and India, will be resilient throughout the year. However, growth risks include external headwinds, extreme weather, and elevated levels of debt.

"Economic growth in the region this year will be driven by robust domestic and regional demand and a continued recovery of the service sector, particularly tourism. However, the region still faces challenges such as weak external demand," the OECD said.

Continued recovery in the region's manufacturing activity is also expected to benefit high-technology exporters in ASEAN amid higher-for-longer interest rates, OECD said.

"The anticipated end of monetary tightening by OECD economies in the second half of the year should help boost investments adding fuel to a global trade rebound."

Potential rate cuts could also boost high-tech automotive sectors and digital services in the Philippines, Thailand, Indonesia, Malaysia, and Singapore.

Improved factory activity would also mean more foreign direct investment especially in ASEAN's semiconductor and automotive manufacturing industries, the report said.

"ASEAN's role as a manufacturing hub is expected to strengthen over the medium and long term as it continues to attract global investment despite reshoring trends elsewhere," OECD said. — **Beatriz Marie D. Cruz**

Rate hikes,
from S1/1

Rice was the most affected commodity and accounted for 53.2% of the damage, equivalent to P3.14 billion. This was followed by corn, which recorded P1.76 billion in damage or 29.8% of total losses.

"Rice and corn alone account for over 10% of the basket. With delayed imports, it is difficult to sustain food security and stable prices. Moreover, power failure in a number of hydroelectric plants could restrain manufacturing and other business activities," Mr. Guinigundo added.

China Bank Research said inflation may continue to surpass the BSP's target band in the coming months.

"Looking ahead, unfavorable base effects and persistent price pressures may drive inflation above the BSP's target from May to July, unless we see significant price reversals," it said in an e-mail.

"Whether the economy can withstand another hike depends on the severity and persistence of the inflation increase. Again, the BSP will likely weigh the need to control inflation against the risk of slowing economic growth," Mr. Roces said.

The government targets gross domestic product (GDP) growth of 6-7% this year.

The Philippine economy likely expanded by 5.9% in the first quarter, according to a *BusinessWorld* poll of 20 analysts last week.

If realized, this would be faster than the 5.5% growth recorded in the fourth quarter but slower than the 6.4% in the first quarter of 2023.

Finance Secretary Ralph G. Recto earlier said GDP likely expanded by 5.8-6.3% last quarter.

With inflation remaining elevated, analysts expect the BSP to extend its policy pause.

"With risks still leaning to the upside, the BSP will likely hold its policy rate at 6.5% at their May 16 meeting," China Bank Research said.

ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa said the BSP will likely only cut rates once the US Federal Reserve begins its own easing cycle.

"We maintain our expectation that the BSP will be cutting rates as soon as the Fed, and with the Fed likely delaying and downscaling the size of easing, we expect BSP to do the same," he said.

Mr. Remolona earlier said the central bank may reduce rates by the fourth quarter, though this could be delayed to the first quarter of 2025 if inflation risks persist.