Metrobank
Research and Market Strategy Department

MONTHLY ECONOMIC UPDATE: BACK-TO-BACK CUTS

75 Bps cuts anticipated for the Fed and BSP in 2025

"We would be open to a cut (on the first Monetary Board meeting in 2025), given the data, of course,"
- BSP Governor Eli Remolona Jr.

METROBANK RESEARCH FORECASTS

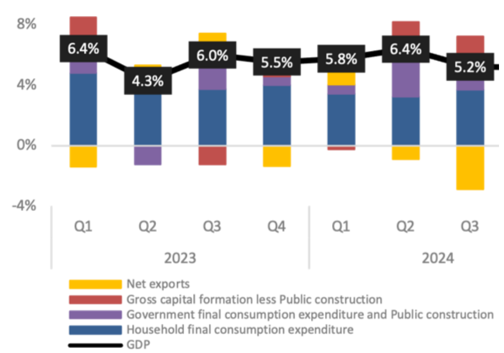
	Actual		Forecasts		
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.60%	5.60%	5.60%	6.20%	6.20%
Inflation (2018=100) average of period	5.80%	6.00%	3.20%	3.20%	3.00%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.00%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	3.75%	3.00%
USDPHP end of period	56.12	55.57	58.80	57.90	56.50

OUTLOOK

Real economy: Climate hurdles persist

- Fourth quarter (Q4) GDP may continue to slump. The lower-than-expected 5.2% year-on-year (YoY) expansion of gross domestic product (GDP) in Q3 and external and internal uncertainties prompted the Development Budget Coordination Committee (DBCC) to revise their target down to 6.0%–6.5% from 6.0%–7.0%.
- The World Bank lowered their growth outlook for the Philippines in 2024 to 5.9% from 6.0%. The revision was made largely due to bad weather disrupting the agricultural sector and the slump in Q3 growth.
- During the latest post-Monetary Board meeting press conference, Bangko Sentral ng Pilipinas (BSP) Assistant Governor Zeno Abenoja signaled that the current economic outlook may reach the government target but at the lower bound.
- Due to the lower-than-expected Q3 GDP along with the lingering economic impact brought about by recent typhoons, Metrobank Research maintains its 2024 full-year average forecast at 5.6%. However, as the economy begins to recover and the effect of lower rates continues to kick in at the beginning of next year, we expect to grow by 6.2% in both 2025 and 2026.
- Related Articles: 1) Forecast Update: Faster 2025, 2026 GDP growth follows tough year
  2) GDP Update: Growth slowdown adds case to BSP rate cuts

PH GDP Growth (in %)
2018=100

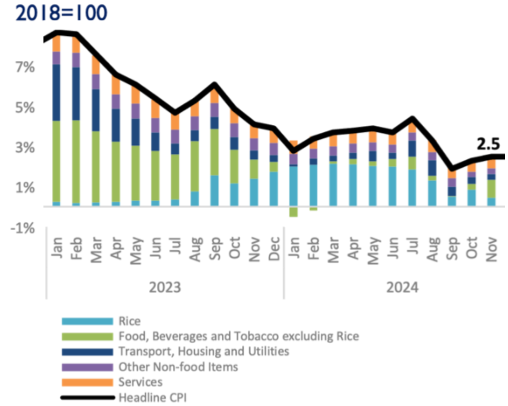


Source: Philippine Statistics Authority (PSA)

Inflation: Closing the year within target

- Headline inflation accelerated to 2.5% YoY in November, in line with estimates. The latest print is slightly higher than the 2.3% recorded in the previous month and brought the year-to-date inflation to 3.2%, well within the BSP's 2%-4% target for the full year.
- Higher prices of food and non-alcoholic beverages as well as the slower decrease in prices of transport contributed largely to the increase in headline inflation.
- Core inflation, which excludes selected food and energy items, accelerated slightly to 2.5% YoY.
- On a month-on-month (MoM) basis, headline inflation was 0.2% in November compared to 0.4% clocked in the previous month.
- This December, Metrobank Research expects inflation be steady at 2.5%, amid the lingering impact of recent typhoons.
- Following the still subdued November print and accounting for upside pressure from inclement weather and geopolitical tensions, Metrobank Research maintains its full year inflation forecast of 3.2% for 2024 and 3.2% for 2025. Higher demand side pressure is expected, given the projected impact of the BSP's easing cycle.
- Related Article: Inflation Update: Benign prices cast a rate cut in stone

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

Fed: Pivoting back to inflation

- The US Federal Reserve's (Fed) monetary easing cycle was in full swing this year. The Federal Open Market Committee (FOMC) at its December 18-19 meeting reduced the Federal Funds Target Rate (FFR) by another 25 basis points (bps), bringing the upper end of the target to 4.50%.
- The Fed's Summary of Economic Projections (SEP) show upward revisions to inflation estimates but mostly downward revisions to unemployment, signaling the Fed's focus has reverted to consumer prices.
- As 2025 approaches, Fed is signaling a less hawkish stance, as officials try to navigate the inflation impact of Republican-proposed policies. However, given that details surrounding policies such as tariffs and tax cuts have yet to materialize, Fed Chair Jerome Powell emphasized that the Fed is only able to assess possible scenarios without drawing conclusions just yet.
- Due to the expectation of higher US inflation and hawkish sentiments from the Fed, Metrobank Research maintains an estimate of 75 bps worth of rate cuts in 2025, bringing the FFR to 3.75%. Likewise, as elevated inflation will impact growth in 2026, we anticipate the Fed to continue easing and deliver another 75 bps in cuts, settling at the terminal rate of 3.00% by end-2026.
- Related Articles: 1) Forecast Update: Faster 2025, 2026 GDP growth follows tough year
  2) BSP moves in lockstep with Fed

BSP: Maintaining rate differential

- The Bangko Sentral ng Pilipinas (BSP) followed the Fed and reduced the Reverse Repurchase (RRP) rate by 25 bps to 5.75% at the last Monetary Board (MB) meeting this year on December 19. Current RRP and FFR interest rate differential (IRD) stands at 125 bps.
- Given "target-consistent inflation", BSP Governor Remolona signaled that the BSP will continue easing in the absence of a big economic surprise. However, he said that "100 bps may be a bit much" and reiterated previous statements that the BSP will take "baby steps" in reducing rates.
- In a later interview, he signaled that the BSP may deliver another cut as early as the first meeting in 2025 if data dictates so.
- Metrobank Research expects the BSP to continue with its easing cycle in the next two years and deliver 75 bps worth of cuts for each of the next two years, ending the RRP at 4.25% by end-2026, maintaining the 125-bp differential with the Fed.
- Related Articles: 1) Forecast Update: Faster 2025, 2026 GDP growth follows tough year
  2) BSP moves in lockstep with Fed

Foreign Exchange: Spot in the spotlight

- Recent less dovish sentiments from the Fed have led to sustained dollar strength. The US dollar index rose to as high as 108.408 on December 19, the highest level since November 2022. This, together with policy uncertainties tied with Donald Trump's return to the White House in January, adds pressure on other currencies including the peso. On December 20, spot closed at 58.81.
- Amid concerns on recent peso depreciation, BSP's Remolona reiterated during the post-MB meeting press conference that the BSP is not targeting a certain foreign-exchange (FX) level and is looking into the passthrough of currency swings to inflation. Currently, that passthrough is modest.
- Moreover, in a recent Bloomberg interview, Remolona mentioned that the BSP has been actively intervening in the FX market and is recalibrating thresholds every day. He also said the BSP may allow the peso to trade above 60 if currency volatility and inflation are kept in check.
- With this, Metrobank Research expects spot to end this year close to the 59-level at 58.8. However, the peso is expected to appreciate through 2025 and 2026 with year-end forecasts at 57.9 and 56.5, respectively. These forecasts have been previously adjusted to account for policy uncertainties with Trump's re-election.
- Related Article: Forecast Updates: Stronger dollar, risks to inflation

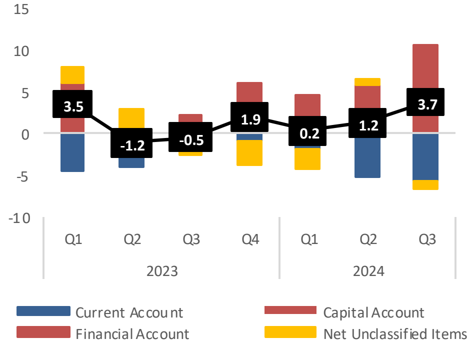
LOCAL NEWS

Philippines' Balance of Payments: Could 2025 end with deficit?

Q3 BOP ended with a surplus

- The Philippines' overall balance of payments (BOP) recorded a surplus of USD 3.7 billion in Q3, higher than the USD 1.4 billion surplus in Q2 and a reversal from the USD 524 million deficit recorded in the same quarter last year.
- That was driven by a higher surplus in the capital account, which increased 19.4% year-on-year given higher receipts from gross disposals of non-produced non-financial assets. Net inflows in the financial account, which significantly increased by 418.3% year-on-year, also contributed to the surplus. The surge in net inflows is attributed to the reversal of portfolio investment account to net inflows and higher direct and other investments.
- This was offset by a higher current account deficit of USD 3.7 billion, which increased 154.4% year-on-year. This is mainly due to a higher goods trade deficit and lower net receipts from services and primary income accounts, partially offset by net receipts from services, primary income and secondary income.

PH BOP Position
In PHP billion



Source: Bangko Sental ng Pilipinas

October and November pivots to deficit

- The BOP is reversing to a deficit in Q4 2024, with October and November numbers reflecting higher outflows than inflows, as the government pays for foreign debt obligations.
- November's deficit was recorded at USD 2.276 billion, the highest level in 26 months.
- In the first 11 months of 2024, the Philippines posted a BOP surplus of USD 2.117 billion from USD 3.030 billion surplus recorded in the same period last year, due to government's foreign borrowings and lower net trade receipts.