Metrobank

Research and Market Strategy Department

MONTHLY ECONOMIC UPDATE: GDP DIP POINTS TO BSP CUT

5.6% **Full-year GDP adds to case for more easing**

"We're growing at a little bit below capacity."
- BSP Governor Eli Remolona Jr.

METROBANK RESEARCH FORECASTS

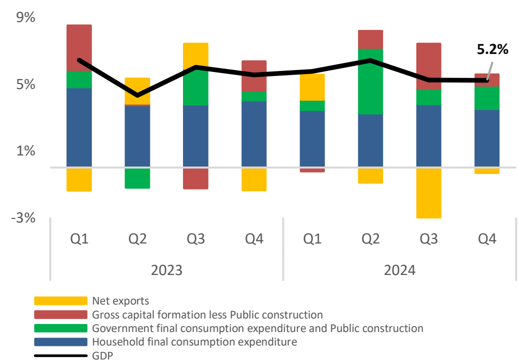
	Actual			Forecasts	
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.6%	5.6%	5.6%	6.2%	6.2%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	3.2%	3.0%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.00%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	3.75%	3.00%
USDPHP end of period	55.8	55.4	57.8	57.9	56.5

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Philippines poised to reach target this year

- The Philippines saw economic expansion at 5.2% in fourth quarter (Q4) 2024, below Metrobank Research's 5.4% forecast and a consensus estimate of 5.8% in a Bloomberg survey.
- This brings the annual gross domestic product (GDP) growth to 5.6%, lower than the government's 6.0%-6.5% target for the year, marking the second consecutive year of below-goal expansion.
- On the expenditure side, household consumption remained the main contributor to growth in Q4, despite returning to a sub-5.0% growth-level. Government spending, including public construction, secured the second spot on a slight pickup in Q4, following a dip in Q3 after the government frontloaded expenses in the first half of 2024. Investments also remained tepid in Q4, while the wider trade deficit for the quarter continued to be a drag.
- On the sectoral side, the services sector remained the main contributor to growth in Q4, led by the wholesale and retail trade growth. Meanwhile, the industry sector slightly moderated on a construction slowdown. The agriculture, forestry, and fishing sector continued to weigh down on growth after contracting for a third consecutive quarter.
- Metrobank Research maintains its forecast that annual GDP growth will quicken to 6.2% this year and the next, as the lagged impact of the Bangko Sentral ng Pilipinas (BSP)'s monetary easing surfaces to support consumption and capital formation.
- Related Articles: 1) GDP Update: Subdued growth may open rate-cut door
  2) GDP Preview: Philippine economic growth quickens in Q4

PH GDP Growth (in %)
2018=100

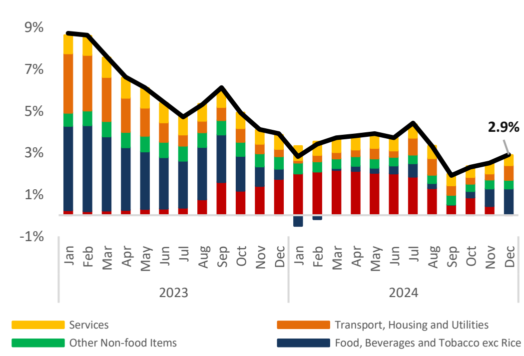


Source: Philippine Statistics Authority (PSA)

Inflation: Target-consistent over policy horizon

- Philippine headline inflation accelerated to 2.9% in December, faster than the 2.5% in November but slower than the 3.9% recorded in December 2023. The latest inflation print is also quicker than the 2.6% Bloomberg consensus estimate but is within the BSP's 2.3%-3.1% forecast for December 2024. Average annual inflation settled at 3.2% for 2024, in line with Metrobank Research's forecast and within the BSP's 2%-4% full-year target.
- Core inflation, which excludes volatile food and energy items, settled at 2.8% in December, faster than the 2.5% recorded in the preceding month but slower than the 4.4% recorded in December 2023. This brings annual average core inflation to 3.0%.
- Rice significantly contributed to inflation in the first half of 2024, but is expected to have a minimal impact in 2025 due to stable global prices and reduced tariffs. However, ongoing geopolitical tensions and local weather disturbances pose risks to overall food inflation.
- Barring any supply-side shocks, Metrobank Research maintains its full-year inflation forecast at 3.2% in 2025 and 3.0% in 2026, well within BSP's target.
- Related Article: Inflation Update: Faster price rise settles within target

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

ECONOMIC UPDATES AND OUTLOOK

Fed Funds Rate: FOMC takes a breather

- The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 4.25% to 4.50% at the January 28-29 FOMC meeting, as widely expected by financial-market players. This is the first time that the Fed paused its latest easing cycle after a total 100-basis-point (bps) of reductions made at the preceding three meetings.
- Early in December, Fed Chair Jerome Powell said that it can now "afford to be a little more cautious" given that the US economy is in a very good shape. He doubled down on this statement in his January 29 speech, emphasizing the importance of the pace and magnitude of rate cuts to both inflation and the labor market.
- Powell reiterated that Fed officials are still waiting for how President Donald Trump's specific policies play out, particularly those related to tariffs, immigration, fiscal measures, and regulatory changes to properly assess their implications to the economy.
- Metrobank Research maintains its baseline forecast that the Fed will continue its easing cycle in 2025 with a total of 50-75 bps in cuts, though these will be delivered on a moderate pace. This will bring the upper-bound FFR to 4.0% or 3.75% by end-2025. This less dovish stance is due to higher short-term inflation expectations in the US, influenced by policy uncertainties with the new administration.
- Related Articles: 1) Fed Update: Hitting the pause button
  2) Fed Preview: Starting the year with a break

BSP RRP: Below-target growth necessitates BSP cuts

- The BSP's Reverse Repurchase (RRP) rate is now 75 bps below its peak of 6.50%, following a cumulative 75-bps worth of cuts at the last three Monetary Board (MB) meetings.
- The lower-than-target full-year GDP growth in 2024 adds to case for BSP to deliver a rate cut at the next MB meeting to aid economic recovery by supporting consumption and investment spending. With inflation forecast to settle within target this year and the next, BSP could turn their focus to supporting growth. In a recent interview, BSP Governor Eli Remolona Jr. said that the MB will consider further easing in its next meeting, contingent on the latest macroeconomic factors.
- The BSP rescheduled its first policy meeting of 2025 to February 13, 2025, from the original date of February 20, 2025, to accommodate Remolona's attendance at the Financial Action Task Force Plenary in Paris.
- Metrobank Research forecasts that the BSP will reduce its target RRP rate by a total 75 bps each this year and the next, bringing the BSP's policy rate to 5.00% by end-2025 and to 4.25% by end-2026. Metrobank Research also expects the BSP to proceed with a 25-bp cut in February to support growth.
- Related Article: BSP moves in lockstep with Fed

Foreign Exchange: Tariff delay upsets king dollar

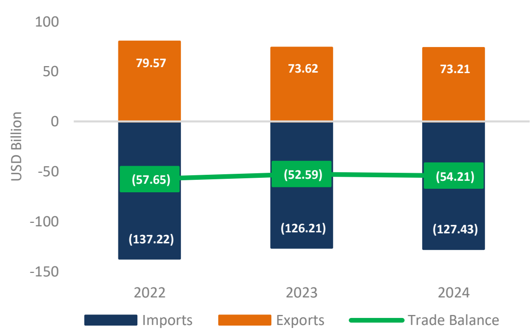
- The USD/PHP spot closed at 58.37 on January 31, coming down from the year-to-date peak of 58.7 on January 13, reflecting movements in dollar strength.
- Since end-September 2024, the dollar index – which reflects the dollar strength relative to other key currencies – has increased considerably, as financial market players began to speculate on a stronger dollar prior to the November 2024 US federal elections. This generally increasing trend in the dollar index continued as Trump won the elections, accompanied by a Republican sweep in both the upper and lower houses.
- The dollar index, however, peaked on January 13 and proceeded to decline, following Trump's statement on implementing additional tariffs on Mexican and Canadian products by February 1, 2025. This statement disappointed financial-market players who earlier expected a more aggressive approach on tariffs through immediate implementation on Trump's first day in office.
- Taking into account dollar strength, peso seasonality, and the forecast 125-bps interest rate differential between the target RRP and the target FFR, Metrobank Research maintains its view that the USD/PHP spot will end at 57.9 in 2025 and 56.5 in 2026.

LOCAL NEWS

Trade Balance: Philippines sees wider deficit

- The Philippines' trade deficit reached USD 54.2 billion in 2024, up 3.1% from the USD 52.6 billion recorded in the preceding year. The wider trade gap is attributed to a 1.0% increase in imports coupled with a 0.5% decline in exports in 2024.
- The decline in total exports was led by a 6.7% contraction in electronic exports, following a drop in external demand for the country's semiconductor products. This was, however, partially offset by a 85.4% increase in coconut oil exports.
- Similarly, the increase in total imports was also led by a 2.7% expansion in electronic exports after increased demand for the country's electronic data processing devices.
- The United States of America remained the country's top export market in 2024, followed by Japan, China, Hong Kong, and Singapore. Meanwhile, China remains the country's largest source of imports, followed by Japan, South Korea, Indonesia, and the United States of America.
- The DBCC expects goods exports and imports to grow by 6.0% and 5.0%, respectively, in 2025.

PH Trade Balance
FOB value



Source: Philippine Statistics Authority (PSA)