MONTHLY ECONOMIC UPDATE: SOMEWHAT LESS DOVISH

50 bps

BSP still on easing path, looking to get timing right

"The issue is when do we ease." – BSP Governor Eli Remolona Jr.

METROBANK FORECASTS

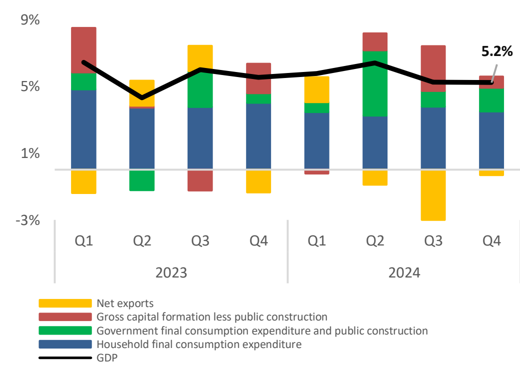
	Actual			Forecasts	
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.6%	5.6%	5.6%	5.8%	6.2%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	3.4%	3.0%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.25%	4.50%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	4.00%	3.25%
USDPHP end of period	55.8	55.4	57.8	57.9	56.5

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Short of target again?

- Metrobank revised its GDP growth forecast for 2025 to 5.8%, below the government's target of 6.0%-8.0% for the full year. The revision accounts for a faster inflation projection and fewer policy rate cuts anticipated from the Bangko Sentral ng Pilipinas (BSP). Meanwhile, Metrobank maintains its GDP growth forecast of 6.2% for 2026.
- Budget Secretary Amenah Pangandaman, who chairs the Development Budget Coordination Committee (DBCC), said that the government may revise its growth target "if needed." Pangandaman added that any adjustments to the government's macroeconomic assumptions will consider several factors including GDP growth, inflation, employment, and monetary policy.
- Meanwhile, in its Global Economic Prospects released in January, the World Bank upgraded its GDP growth forecast for the Philippines to 6.1% for 2025 and 6.0% for 2026, from the previous 5.9% annual growth for both years.
- The World Bank projects that the Philippines will maintain its spot among the top performing countries in the region this year, lagging only behind Vietnam (6.6%) but outpacing Cambodia (5.5%), Indonesia (5.1%), and Malaysia (4.5%).
- Related Articles: GDP Update: Subdued growth may open rate-cut door

PH GDP Growth (in %)
2018=100

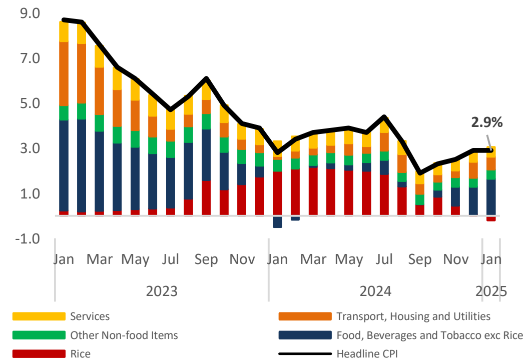


Source: Philippine Statistics Authority (PSA)

Inflation: Prices clock in faster, but still target-consistent

- Philippine headline inflation remained steady in January at 2.9%, the same pace as in December but slightly faster than the 2.8% in January 2024. The latest print is slightly faster than the 2.8% Bloomberg consensus estimate but is within the BSP's 2.5%-3.3% forecast for the month.
- Core inflation, which excludes volatile food and energy items, decelerated to 2.6% in January from the 2.8% recorded in the preceding month and the 3.8% in January 2024.
- Rice inflation, which was the main contributor to headline inflation in 2024, dropped to -2.3% in January. This is the first instance of negative rice inflation since 2021 and the deepest rice-price contraction since June 2020. The deflation in rice prices is mainly due to reduced rice tariffs and increased local supply following the harvest season, exacerbated by high base effects from the same month last year. The Philippine Statistics Authority (PSA) projects that rice inflation will remain negative until August 2025.
- Metrobank revised its inflation forecast to 3.4% from the previous 3.2%, factoring potential imported inflation from the projected peso depreciation. A weaker peso would translate to higher cost of food and energy imports, exerting upward pressure on overall domestic prices. We maintain our 3.0% forecast for 2026. Higher utility costs, as well as potential oil-price hikes associated with persistent geopolitical tensions and increased demand from China's economic recovery, were also factored into our expectations.
- Related Article: Inflation Update: Steady inflation cements BSP's rate cut

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

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ECONOMIC UPDATES AND OUTLOOK

Fed Funds Rate: Powell turns less dovish

- In his testimony at the Capitol Hill on February 11, 2025, Federal Reserve (Fed) Chairman Jerome Powell said monetary authorities are not in a hurry to adjust policy. Powell said: "With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance." This less-dovish statement comes after the Fed paused its monetary easing in its January 28-29 meeting for the first time since it began reducing its policy rate with a 50-basis point (bp) cut in September 2024. The Fed cut its Federal Funds Rate (FFR) by a total of 100 bps in 2024, bringing its upper bound down to the current 4.50%.
- Metrobank revised its forecast to a total of 50 bps worth of cuts in 2025, considering the projected impact of President Donald Trump's policies on US inflation and jobs market, as well as the now less-dovish statements from the Fed. An additional 25 bps cut later in the year may also be on the horizon, should inflation and labor conditions remain favorable. This will bring the upper bound of the FFR to 4.00% or 3.75% by end-2025.
- Meanwhile, Metrobank maintains its forecast of a cumulative 75 bps worth of cuts by the Fed next year, which will bring the upper bound of the FFR to 3.25% or 3.00% by end-2026.
- Related Articles: Fed Update: Hitting the pause button

BSP RRP: Still on an easing mode

- The BSP Monetary Board (MB) paused its easing cycle at its February 13, 2025 meeting, keeping the reverse repurchase (RRP) rate at 5.75%. This is the first time that the BSP paused its monetary easing cycle after a cumulative 75 bps worth of cuts in 2024.
- BSP Governor Eli Remolona Jr. attributed the MB's decision to pause its easing cycle to policy uncertainties in the global space, particularly in international trade.
- Despite the decision to pause, Remolona confirmed that the BSP is still in its monetary easing cycle and is still considering a cumulative 50 bps worth of cuts for the year. He emphasized, however, that the BSP will employ a "measured" approach, which translates to reducing rates by 25 bps at a time.
- The BSP also announced a 200-bps reduction in the reserve requirement ratio (RRR) of banks, effective March 28, 2025. Although the RRR reduction should boost consumption and investment, additional money supply freed up could flow straight back into BSP's overnight or term facilities given still attractive elevated policy rates.
- The projected weak economic growth and target-consistent inflation will continue to provide room for the BSP to further reduce rates in its next MB meetings. However, in line with the higher projected inflation for 2025, Metrobank now forecasts a cumulative 50 bps worth of cuts for this year, with a possible additional 25 bps toward the end of the year should price pressure continue to ease. This will bring the target RRP to 5.25% or 5.00% by end-2025.
- Metrobank, meanwhile, maintains its forecast of a total of 75 bps worth of cuts in 2026, which will bring the BSP's target RRP to 4.50% or 4.25%.
- Related Article: BSP Update: Defying expectations with steady rates

Foreign Exchange: Tariff story continues to move king dollar

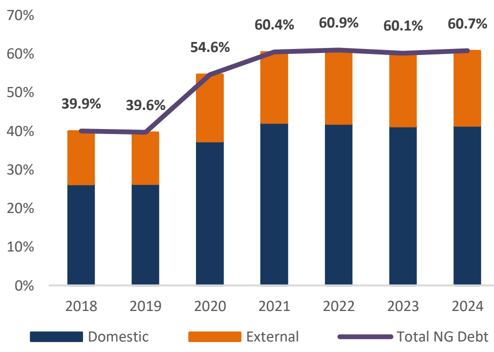
- The USD/PHP spot remains volatile, mainly due to movements in the dollar.
- Following a sharp drop and an eventual recovery in the dollar index toward the end of January, the index once again peaked on February 3, 2025 after US President Trump announced the imposition of additional tariffs on Mexico, Canada, and China. Mexican President Claudia Sheinbaum later said that they will impose retaliatory tariffs on the US, while Canadian Prime Minister Justin Trudeau also announced retaliatory levies. Meanwhile, China said it will file a complaint with the World Trade Organization (WTO) and take "corresponding measures." After initial reaction from the market, the dollar strength slightly declined thereafter, but picked up on February 10, 2025 after Trump announced 25% tariffs on all steel and aluminum imports.
- On February 24, 2025, the USD/PHP spot ended at 57.81.
- Considering dollar strength, peso seasonality, and the projected 125-bps interest rate differential and the target RRP and FFR, Metrobank maintains its forecast that the USD/PHP spot will end at 57.9 in 2025 and 56.5 in 2026.

LOCAL NEWS

NG Debt: PH debt reaches PHP 16.05 trillion

- Total Philippine national government (NG) debt reached PHP 16.05 trillion in December 2024, a slight 0.2% drop from the PHP 16.09 trillion in November but 9.8% higher than the PHP 14.62 trillion in December 2023.
- NG debt remains mainly locally-sourced, with domestic debt comprising 68.1%, equivalent to 41.3% of GDP.
- According to the Bureau of the Treasury (BTr), the year-on-year increase in the debt stock is mainly attributed to the PHP 1.31 trillion net issuances in 2024 and the PHP 208.73 billion valuation effect of the strong US dollar, partly offset by third currency movements which reduced debt by PHP 80.74 billion.
- In terms of debt-to-GDP ratio, NG debt ended at 60.7% in 2024, higher than the 60.1% recorded at the end of 2023. According to the BTr, the higher-than-estimated debt-to-GDP ratio was due to the lower-than-expected GDP growth over the period.
- Signed into law on December 30, 2024, the General Appropriations Act (GAA) of 2025 allocates a national budget of PHP 6.326 trillion for the year, 9.7% more than the PHP 5.768 trillion national budget in 2024. According to Finance Chief Ralph Recto, only PHP 4.64 trillion of this year's budget can be supported by revenues. This means that on top of the projected revenue collections in 2025, the government will have to raise an additional PHP 1.69 trillion to support government spending for the year through new sources of revenue, borrowing, or both.

PH National Government Debt
% of GDP



Source: Bureau of the Treasury

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