MONTHLY ECONOMIC UPDATE: GREEN LIGHT FOR EASING?

2.1% **Subdued inflation leaves door wide open for easing**

"Yes, there's a good chance that we will cut by 25 basis points in April." – BSP Governor Eli Remolona Jr.

METROBANK FORECASTS

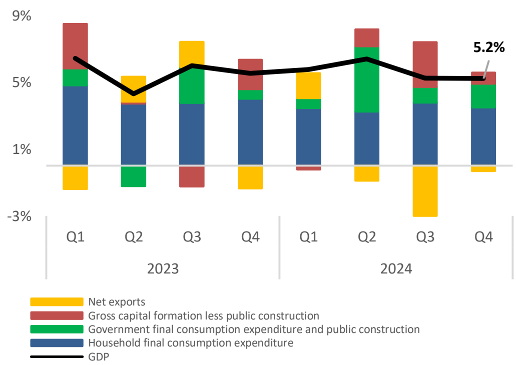
	Actual			Forecasts	
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.6%	5.5%	5.6%	5.8%	6.2%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	3.1%	3.2%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.25%	4.50%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	4.00%	3.25%
USDPHP end of period	55.8	55.4	57.8	57.9	56.5

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Gloomy global outlook

- A less upbeat outlook for the global economy amid uncertainty over US policies will likely ripple through to the Philippines, causing a slowdown in the country's economic growth in the short term.
- This month, the Organization for Economic Co-operation and Development lowered their growth projection for the global economy, citing policy uncertainty and trade tensions.
- The Bangko Sentral ng Pilipinas (BSP) anticipates moderate economic performance for the Philippines this year and the next. Monetary authorities currently project that gross domestic product (GDP) growth will "settle near the lower bound of the Development Budget Coordination Committee's 6.0-8.0% target range."
- Moody's Analytics trimmed its GDP forecast for the Philippines for 2025 and 2026 to 5.9% and 5.8% from previous projections of 6.0% and 6.1%, respectively. Meanwhile, Fitch Ratings' forecast is currently at 6.0% for this year and the next.
- Both Moody's Analytics and Fitch Ratings anticipate that the Philippines will still remain as one of the fastest-growing economies in Southeast Asia.
- Metrobank maintains its full-year GDP forecast for 2025 and 2026 at 5.8% and 6.2%, respectively.
- Related article: GDP Update: Subdued growth may open rate-cut door

PH GDP Growth (in %)
2018=100

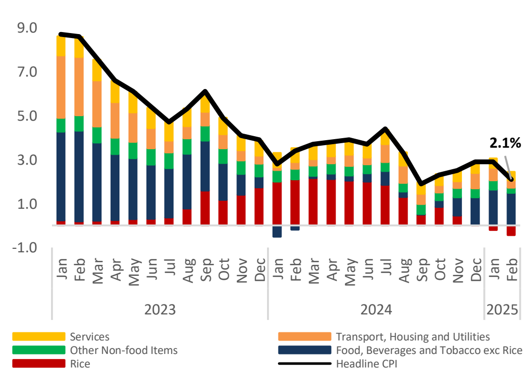


Source: Philippine Statistics Authority (PSA)

Inflation: February print paints slower price-rise this year

- Philippine headline inflation slowed to 2.1% year-on-year in February from the 2.9% posted in each of the two preceding months. The February number was below the Bloomberg consensus estimate (2.6%) and the Bangko Sentral ng Pilipinas' (BSP) 2.2-3.0% forecast.
- Core inflation, which excludes volatile food and energy items, also decelerated to 2.4% in February from the 2.6% recorded in January 2025.
- Food prices remained the main contributor to inflation, led by pork costs which increased due to supply disruptions caused by the African Swine Fever.
- While pork prices continue to pose an upside risk, rice inflation – which comprises a substantial share of the consumer price index (CPI) – will partially offset any possible surge in pork costs as the downtrend in the price of the grain is expected to extend to August.
- Metrobank forecasts annual headline inflation in March to remain at 2.1% and revises its full-year average projection for 2025 to 3.1% from 3.4% previously, barring any other supply shocks. The forecast for the full-year average inflation for 2026 is revised to 3.2% from 3.0% to account for base effects and expectations of higher import costs.
- Related article: Inflation Update: Slowest price-rise in five months

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

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ECONOMIC UPDATES AND OUTLOOK

Fed Funds Rate: Tariffs warrant extended pause

- The US Federal Reserve (Fed) maintained the target Federal Funds Rate (FFR) at 4.25% to 4.50% at the Federal Open Market Committee (FOMC)'s meeting on March 18-19. Fed Chairman Jerome Powell said given "unusually elevated" uncertainty, the monetary authority was not in a hurry to cut rates, adding that it remains in a good position to wait for more clarity.
- The Fed's latest Summary of Economic Projections points to a higher risk of stagflation in the US, as it shows expectations of slower economic growth, faster inflation, and higher unemployment for this year. With prospects of slow growth offset by inflation and unemployment, the Fed's March dot plot was unchanged across the entire forecast period from December's projections. The latest dot plot shows that the median target FFR is still at 3.875% this year. This translates to a cumulative 50-bp cut this year. Meanwhile, the terminal rate is still projected at 3.00%.
- We maintain our base case forecast that the Fed will cut the FFR by a total 50 bps this year, although at a moderate pace. This should bring the target FFR range to at most 3.75-4.00% by year-end. The current elevated risk of stagflation in the US could also allow the possibility for an additional 25-bp cut toward the end of the year. The major risk to monetary easing in the US is higher short-term inflation expectations, with the impact of tariffs playing a major role.
- Related article: Fed Update: Still pausing on rate action

BSP RRP: Back on track

- While the BSP's Monetary Board opted to pause at its meting on February 13, 2025, recent comments from BSP Governor Eli Remolona hint that rate reductions may resume at the April meeting. He said there is a "good chance" that the BSP will cut rates by 25 basis points.
- The Governor reiterated that the BSP remains on an easing cycle and is considering 50 bps in rate cuts this year. On the other hand, Finance Secretary Ralph Recto expects a total of 50 to 75 bps in rate cuts this year, emphasizing that there is room to ease policy settings in the next meeting given that inflation "has been controlled".
- The previously announced 200-bps reduction in the reserve requirement ratio (RRR) of banks took effect on March 28, 2025, a move that may have a moderate impact on investment activity. Additional money supply freed up by the move could flow back into BSP's overnight or term facilities given still attractive interest rates.
- Projected soft economic growth and lower-than-expected inflation will provide room for the BSP to further reduce rates at its next MB meeting. Metrobank maintains a cumulative 50 bps worth of cuts for this year, with a possible additional 25 bps toward the end of the year to stimulate the economy further. This will bring the target RRP to 5.25% or 5.00% by end-2025.
- Metrobank 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: Growth risks drive dollar slump

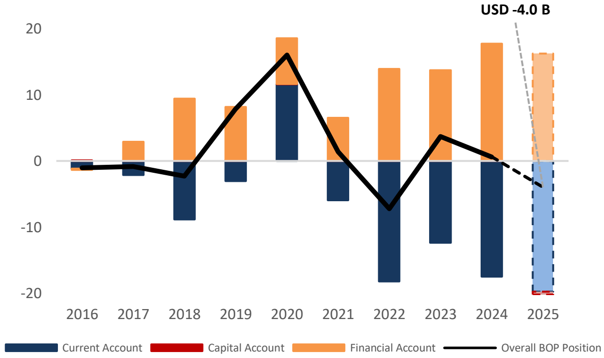
- On March 28, 2025, the USDPHP spot ended at 57.381, a drop from the 57.995 as of end-February. This move reflects the weakening of the dollar over the month, with the dollar index dropping to 104.044 by end-March from 107.614 as of end-February.
- The weaker dollar in March reflects market expectations of a slowdown in the US economy as the trade war intensifies.
- Early in March, the US imposed the long-anticipated additional 25% tariffs on Canadian and Mexican goods and raised the tariffs on Chinese goods to 20% from the initial 10%. In response, Canada and China each announced another round of retaliatory tariffs on select US goods, which included agricultural products and electric vehicles. Trump later announced adjustments to the Canadian and Mexican tariffs, particularly in energy and automotive products.
- In mid-March, the US also imposed 25% tariffs on all steel, aluminum, and derivative products. Canada retaliated with 25% tariffs on goods including electronics. Meanwhile, the European Union announced retaliatory actions effective April 1, including additional tariffs on US whisky and other alcoholic beverages.
- By the last week of March, Trump also signed executive orders extending sanctions on Venezuela by imposing 25% tariffs on goods imported into the US from any country that imports Venezuelan oil, effective April 2, and putting in place 25% tariffs on all car and car parts, effective April 3.
- 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

Balance of payments outlook pivots on uncertainty

- The BSP revised its FY 2025 balance of payments (BOP) projection to a USD 4.0 billion deficit, a reversal from the USD 2.1 billion surplus previously projected and the first deficit since 2022. The BSP also forecasts a USD 4.3 billion deficit for FY 2026.
- According to the BSP, slower world trade and subdued investor confidence due to increased uncertainty in global trade and geopolitical space weighed down on the overall BOP outlook for this year and next. However, domestic expansion driven by private consumption, investments, government spending, and improved business environment is expected to support the country's BOP position.
- The pivot to a BOP deficit is mainly due to the projected widening of the current account deficit stemming from more expensive imports, weaker demand for exports, and a slightly slower growth in cash remittances. This will be slightly offset by a projected surplus in the financial account arising from sustained net inflows from foreign investments.
- Related article: Philippines' BoP faces risks on several fronts

PH Balance of Payments
In USD billion



Source: Bangko Sentral ng Pilipinas (BSP)

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