MONTHLY ECONOMIC UPDATE: BSP EASING CYCLE CONTINUES

5.50% **Remolona's "degrees of freedom" for rate cuts**

"Lower inflation gives us more degrees of freedom." – BSP Governor Eli Remolona Jr.

METROBANK FORECASTS

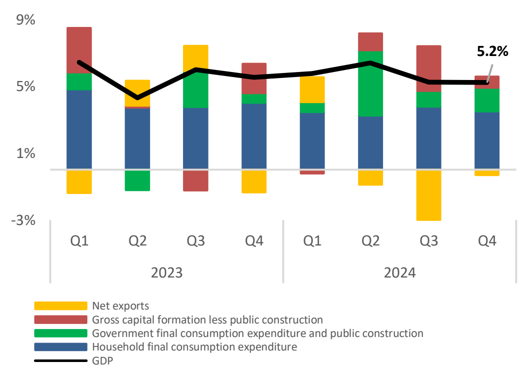
	Actual			Forecasts	
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.6%	5.5%	5.7%	5.8%	6.2%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	2.6%	3.3%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.00%	4.50%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	4.00%	3.50%
USDPHP end of period	55.8	55.4	57.8	57.7	56.5

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Global outlook taints domestic

- In its April 2025 Asian Development Outlook, the Asian Development Bank (ADB) maintained its GDP growth forecast for 2025 at 6.0%. However, the ADB slightly trimmed its 2026 forecast to 6.1% from the previous 6.2%. The latest forecasts, however, have yet to incorporate the estimated impact of US President Donald Trump's 17% blanket tariffs on Philippine exports.
- On the upside, the ADB report noted that growth this year and the next will be driven by stronger domestic demand and sustained private investments amid moderate inflation and the more accommodative monetary policy. Public infrastructure investment will also continue to support growth.
- In its latest World Economic Outlook, the International Monetary Fund also trimmed its growth forecast for the Philippines to 5.5% this year from 6.1% previously. This reflects the direct impact of higher tariffs on the Philippines' goods exports to the US, downward revisions to trading partners' growth, and increased global uncertainty.
- Meanwhile, Socioeconomic Planning Secretary Arsenio Balisacan said that the upper-end of the government's 6.0%-8.0% GDP growth target for the year may no longer be attainable amid the ongoing trade war and the increasing possibility of a global recession. He said, however, the government remains confident that the Philippines will reach the lower end of the target range.
- Metrobank maintains its full-year GDP growth forecast of 5.8% for 2025 and 6.2% for 2026.
- Metrobank Research forecasts Q1 2025 growth at 5.7%. The Philippine Statistics Authority (PSA) is set to release the Philippines' Q1 2025 GDP on May 8, 2025.

PH GDP Growth (in %)
2018=100

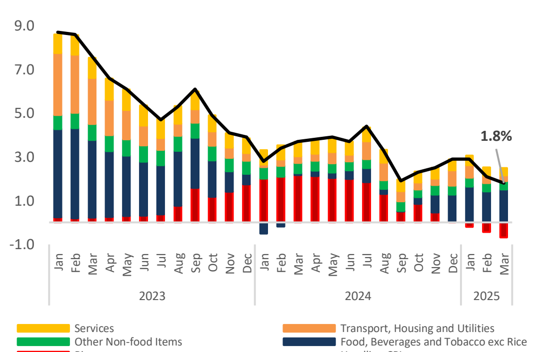


Source: Philippine Statistics Authority (PSA)

Inflation: Soft landing this year before possible bounce next year

- Philippine headline inflation slowed further to 1.8% year-on-year (YoY) in March from the 2.1% recorded in February. The latest inflation print is below the 2.0% Bloomberg consensus estimate but within the Bangko Sentral ng Pilipinas (BSP)'s 1.7%-2.5% forecast for the month.
- Core inflation, which excludes volatile food and energy items, decelerated to 2.2% in March from the 2.4% recorded in February 2025.
- While the increase in pork prices slightly decelerated year-on-year, it remained the top contributor to March inflation. Rice prices dropped year-on-year at an even faster rate compared to last month, marking its lowest decline since April 2020.
- Metrobank lowered its full-year inflation forecast for 2025 to 2.6% due to the downward pressure exerted by food commodities and global oil prices. Meanwhile, the full-year inflation forecast for 2026 is nudged upward to 3.3% from the previous 3.2%, considering low base effects and expectations for imported inflation due to higher global commodity prices.
- Related article: [Inflation Update: Price-rise slows to a near five-year low](#)

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

ECONOMIC UPDATES AND OUTLOOK

Fed Funds Rate: Putting the ball in the Fed's court

- Fed Chair Jerome Powell recently became the target of a series of attacks from Trump due to the US Federal Reserve's (Fed's) decision to maintain 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. Markets reacted and braced for Trump's next moves, but his decision to walk back on his statements provided relief.
- 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. Nonfarm Payrolls (NFPs) increased by 228,000 in March, remaining resilient despite economic uncertainty.
- Meanwhile, Core PCE, the Fed's preferred inflation metric, accelerated back to 2.8 in February, continuing to stray away from the Fed's target of 2%.
- We maintain our base case forecast that the Fed will cut the FFR by a total of 50 bps this year, although at a moderate pace. This should bring the target FFR range to 3.75-4.00% by year-end. However, we revise our end-2026 FFR forecast to 3.25%-3.50%. The major risk to monetary easing in the US is higher short-term inflation expectations, with the impact of tariffs playing a key role.
- Related article: Fed Update: Still pausing on rate action

BSP RRP: Expect more cuts this year

- After the widely unexpected pause in February, the BSP resumed its policy-rate-cut cycle with a 25 basis-point (bp) reduction at its April 10 meeting. This brings the target Reverse Repurchase (RRP) rate to 5.50% and narrows the RRP and Federal Funds Rate (FFR) differential to 100 bps.
- Following the April 10 meeting, BSP Governor Eli Remolona Jr. said that the current monetary condition remains slightly restrictive and implied that there is room to further reduce its policy rate without stoking inflation. In line with previous statements, Remolona continued to emphasize that the BSP prefers to reduce its policy rate in "baby steps" or by 25 bps at a time, except in the case of a hard landing.
- Further, on the sidelines of the IMF-World Bank meetings in Washington, Remolona said that low inflation gives the BSP "more degrees of freedom" and makes it "easier" to cut rates.
- Given easing inflationary expectations, the BSP's attention has shifted to supporting the domestic economy amid the ongoing trade war and the increasing risk of a global economic slowdown. Against this backdrop, Metrobank revised its forecast to a cumulative 75 bps worth of cuts this year and a cumulative 50 bps in the next. This will bring the target RRP down to 5.00% by end-2025 and to 4.50% by end-2026. The lower policy rate this year and next should provide a more accommodative environment for household consumption and private investment.
- Related article: BSP Update: BSP chooses baby steps once more

Foreign Exchange: King dollar weighed down by tariffs

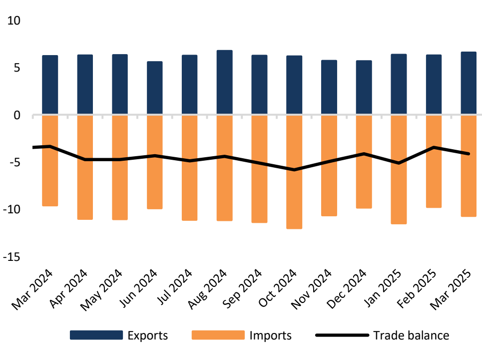
- On April 25, 2025, USDPHP spot ended at 56.265, a drop from 57.210 at end-March. This reflects the dollar's weakening over the month, with the dollar index dropping to 99.471 on April 25, 2025 from 104.210 at end-March.
- The weaker dollar in April reflects market expectations of a slowdown in the US economy, as the trade war shows little sign of deescalating.
- Trump started the month off by announcing his long-promised blanket tariffs on various countries with which the US incurred a trade deficit. A baseline tariff of 10% was imposed, with some nations slapped with rates up to 50%. China then responded by imposing a retaliatory tariff of 34% on all imported US goods, while Canada added 25% tariffs to non-USMCA vehicles made in the US, and the European Union voted for their own countermeasures.
- Although the blanket tariffs were brought back down to 10% for all countries for 90-days on April 9, China's tariff rate was raised to 145%. China then raised its tariffs on US imports to 125% in retaliation. Meanwhile, the European Union suspended its countermeasures placed on the US.
- US Treasury Secretary Scott Bessent stated that the tariffs on both the China and the US are unsustainable but that "it's up to China to de-escalate".
- Due to the ongoing trade war and greater inflationary pressure on the horizon for the US, concerns regarding economic growth continue to fester. As such, Metrobank revises its year-end USDPHP forecast to 57.7 from 57.9 considering recent dollar near term weakness. Meanwhile, we maintain our 2026 year-end forecast at 56.5.

LOCAL NEWS

Trade balance widens slightly

- The trade deficit widened further to USD 4.13 billion at the end of the first quarter as growth of imports outpaced that of exports. Imports grew at an average rate of 8.4% while exports grew by only 5.7% throughout the January to March period.
- Electronic products remained the top export throughout the quarter, contributing more than 50% of total export value. However, electronic product exports increased by only 0.4% year-on-year last quarter. The sluggish growth can be attributed to weaker semiconductor sales, which were offset only slightly by other electronic products.
- Raw materials and intermediate goods comprised the largest share of imports compared to other product types, making up 37% of total import value in the first quarter. Meanwhile, capital goods imports grew by 8.8% year-on-year, largely driven by higher imports of telecommunication equipment and electrical machinery.
- Although the greater value of imports contributed to the wider trade deficit, the increase in inflows of capital goods also indirectly results in the wider trade deficit's impact on GDP being offset by an increase in investments.

PH Trade
In USD Billion



Source: Philippine Statistics Authority (PSA)