May 29, 2025

Metrobank

Research and Market Strategy Department

MONTHLY ECONOMIC UPDATE

BSP to outpace the Fed in rate cuts

100 bps

BSP now more dovish?

“Hard data says we have plenty of room to cut, especially because inflation is low.” – BSP Governor Eli Remolona Jr.

METROBANK FORECASTS

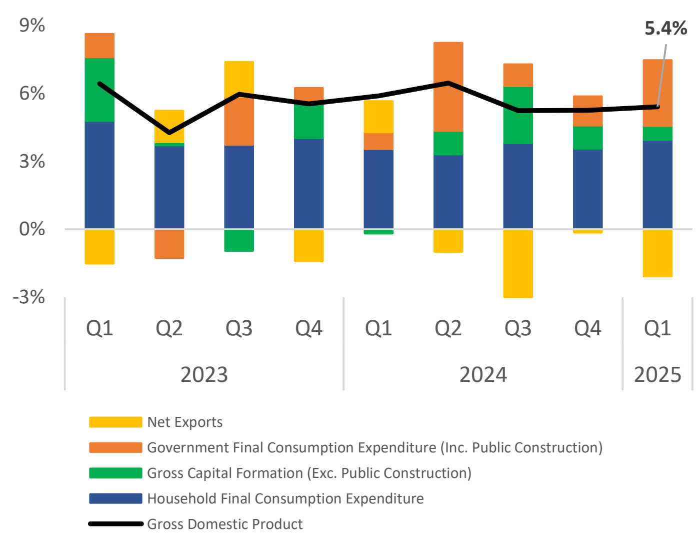
	Actual			Forecasts	
	2022	**2023**	**2024**	**2025**	**2026**
Real GDP (2018=100) average of period	7.6%	5.5%	5.7%	5.7%	6.1%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	2.2%	3.3%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	4.75%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	4.00%	3.50%
USDPHP end of period	55.8	55.4	57.8	56.9	57.7

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Imports to cap growth this year

- The Philippines' gross domestic product (GDP) grew 5.4% year-on-year (YoY) in the first quarter (Q1) of 2025. Q1 2025 GDP growth is lower than Metrobank Research’s 5.7% forecast for the period and is below the 6.0-8.0% government target for the full year.
- On the supply side, there was growth across industries including a reversal of the agriculture sector’s contraction in the three preceding quarters. Growth was led by the services sector, followed by the industry and agricultural sectors.
- On the demand side, there was an acceleration in household spending and government expenditures, but growth was slightly offset by the high volume of imports.
- Moving forward, cooling inflation and the less restrictive monetary policy settings are anticipated to spur growth through improved investments and more robust consumer spending. However, growth will be capped by sustained imports momentum from Filipinos travelling abroad and from the inflow of capital goods as investors position for stronger domestic demand.
- Given this domestic backdrop, the bleak global economic outlook, and the heightened uncertainty from the ongoing trade war, Metrobank revised its GDP growth estimate for 2025 to 5.7% from the previous 5.8%, and for 2026 to 6.1% from the previous 6.2%.
- Related article: [GDP Update: Underwhelming growth to prompt more rate cuts]

PH GDP Growth (in %)
2018=100



Source: Philippine Statistics Authority

MONTHLY ECONOMIC UPDATE

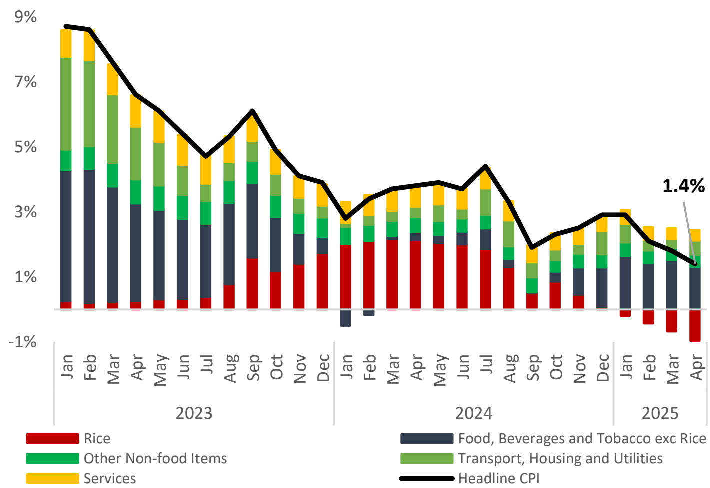
BSP to outpace the Fed in rate cuts

ECONOMIC UPDATES AND OUTLOOK

Inflation: Upcoming bounce toward the year-end

- Headline inflation continued to slow to 1.4% year-on-year (YoY) in April from 1.8% in March, below the 1.8% Bloomberg consensus estimate and within the Bangko Sentral ng Pilipinas (BSP)'s 1.3%-2.1% forecast for April. Core inflation, which excludes volatile food and energy items, maintained its pace at 2.2% in April.
- Pork prices and electricity rates were the main contributors to headline inflation in April. Meanwhile, sustained rice deflation placed downside pressure that offset these increases.
- On a month-on-month basis, consumer prices declined by 0.4% in April, a faster drop compared to 0.2% in March.
- Metrobank forecasts a pickup in headline inflation in the latter part of the year, with rice inflation projected to revert to positive territory after months of negative inflation. We also anticipate the impact of the BSP's monetary easing to fully materialize this year through increased spending, which could also stoke prices.
- Considering these and the recent lower-than-expected inflation prints, Metrobank revised its full-year inflation forecast for 2025 to 2.2%.
- Related article: [Inflation Update: Price-rise eases to a 2019 low]

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority

Fed Funds Rate: Stalling cuts amid uncertainties

- The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 4.25%-4.50% at the Federal Open Market Committee (FOMC) meeting on May 6-7, as widely expected by financial market players. This is the third consecutive meeting that the Fed kept the FFR steady after lowering it by 100 basis points (bps) in 2024.
- Fed Chair Jerome Powell highlighted current uncertainties surrounding US policies. He noted that although risks of unemployment and inflation are increasing, they have yet to materialize. Given the current economic conditions, he said that the right thing for the Fed to do is to wait for clarity before reducing rates any further.
- The Fed's preferred inflation measure, the US Core Personal Consumption Expenditure (Core PCE) Price Index, remained stubborn in the first few months of 2025, with the latest print in March settling at 2.6% year-on-year (YoY). Moving forward, US President Donald Trump's newly imposed tariffs are anticipated to keep inflation at elevated levels.
- Meanwhile, the job market continued to show moderate improvements in 2025 so far, despite disruptions caused by federal job cuts, as unemployment remained steady at 4.2% in April. However, the projected slower economic growth in the US is expected to impact the labor market, leading to potentially higher unemployment.
- Metrobank maintains its forecast of a cumulative 50 bps worth of cuts in 2025, followed by another cumulative 50 bps in 2026. This will bring the target FFR range to 4.00% by year-end and to 3.50% by end-2026.
- Related article: [Fed Update: Uncertainty stalls rate action]

BSP RRP: Fast track cuts

- With inflation in April hitting its slowest rate since 2019, year-to-date inflation settled at 2%—right at the lower end of the 2-4% target by the Bangko Sentral ng Pilipinas (BSP).
- Current level of inflation and the target-consistent outlook provide more room for the BSP to reduce policy rates further following the 25-bp cut in April. This is aimed at supporting economic growth amid ongoing trade war and a bleak global economic outlook. Recent dovish guidance from BSP Governor Eli Remolona, Jr. indicates that the BSP could shift to a more "accommodative" monetary stance, as risks to inflation and growth are now "more manageable." He also hinted at potentially two more rate cuts this year.
- On the BSP's inflation target, Remolona stated that the BSP is mulling to shift to a point target below 3% from the current 2-4% target range. If realized, this will follow the convention of other central banks including the US Federal Reserve.
- Given these developments, Metrobank Research now forecasts a cumulative 100 bps and 50 bps worth of cuts in the BSP's target Reverse Repurchase (RRP) rate this year and next, respectively. These will bring the policy rate down to 4.75% by end-2025 and to 4.25% by end-2026.
- USDPHP has also stayed within the 55-level recently given the dollar's weakness, indicating the capacity for the peso to absorb a narrower BSP and Fed interest rate differential of 75 bps.

May 29, 2025

Metrobank

Research and Market Strategy Department

MONTHLY ECONOMIC UPDATE

BSP to outpace the Fed in rate cuts

ECONOMIC UPDATES AND OUTLOOK

Foreign Exchange: Sell America weakens king dollar

- Though the dollar continues to weaken as global markets react to US President Donald Trump's tariff plans, the greenback experienced less dramatic declines in May compared to April when the tariffs were first announced.
- As ongoing tariff negotiations continue to heighten global uncertainty, investors remain wary of the US' position as a safe haven for investments. With this, the popularity of the “Sell America” trade re-emerged, urging investors to sell off US assets and causing the dollar to weaken further.
- Despite this, some reprieve was given to the dollar on May 13 when Trump placed a 90-day pause on tariffs on Chinese goods, which led to a jump from 55.480 to 55.798 for the USD/PHP.
- Still, uncertainty looms over the trajectory of the dollar as the trade war continues. This was evident on May 23 when Trump announced a 50% tariff on EU imports, causing another steep decline in the dollar's value. Trump eventually delayed the move as well, allowing USD/PHP and the dollar spot index to recover once again.
- As of May 27, 2025, the USD/PHP spot closed at 55.56, a 0.5% drop from the end-April price of 55.86.

USDPHP vs. US 10-Year Treasury Yields

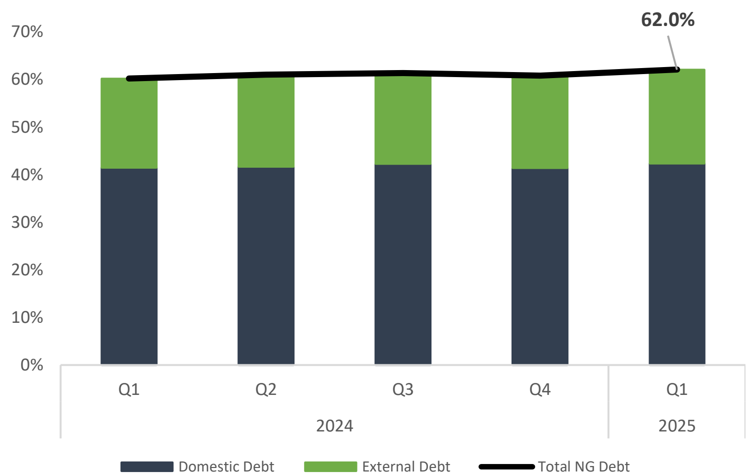
Source: Bloomberg

LOCAL NEWS

NG Debt-to-GDP rises to 62.0% in March on GDP slip

- The Philippines' national government (NG) debt-to-GDP ratio was logged at 62.0% in March, an increase from 60.7% as of end-2024. The latest debt-to-GDP ratio settled above the government's 60.4% end-2025 target under the Medium-Term Fiscal Framework (MTFF).
- Total Philippine NG debt reached PHP 16.7 trillion in March, a 3.9% year-to-date increase from PHP 16.05 trillion in December 2024.
- On a year-on-year basis, NG debt grew by 11.7% from the PHP 14.9 trillion in March last year. This increase reflects recent issuances of domestic debt securities, partially offset by peso appreciation and a slight decline in external debt post-repayments.
- NG debt remains mainly locally sourced, with domestic debt comprising 68.2%, equivalent to 42.3% of GDP. According to the Bureau of the Treasury (BTr), this “prudent approach” in the debt mix helps mitigate external risks while taking advantage of the country's liquid market.
- In April, Fitch Ratings affirmed the Philippines' BBB investment grade rating and stable outlook, citing, among others, the country's strong medium-term growth which supports a gradual reduction in the debt-to-GDP ratio.
- According to the BTr, the Philippines' credit ratings reflect strong investor confidence, leading to increased demand for its bonds and allows the government to continue borrowing at reasonable rates, which is essential for sustained economic growth.

PH Debt-to-GDP Ratio (in %)
2018=100



Source: Bureau of the Treasury