June 30, 2025

Metrobank

Research and Market Strategy Department

MONTHLY ECONOMIC UPDATE

Fed cuts incoming

50 bps

Fed officials increasingly open to easing

"It is time to consider adjusting the policy rate." – Federal Reserve Vice Chair for Supervision Michelle Bowman

METROBANK FORECASTS

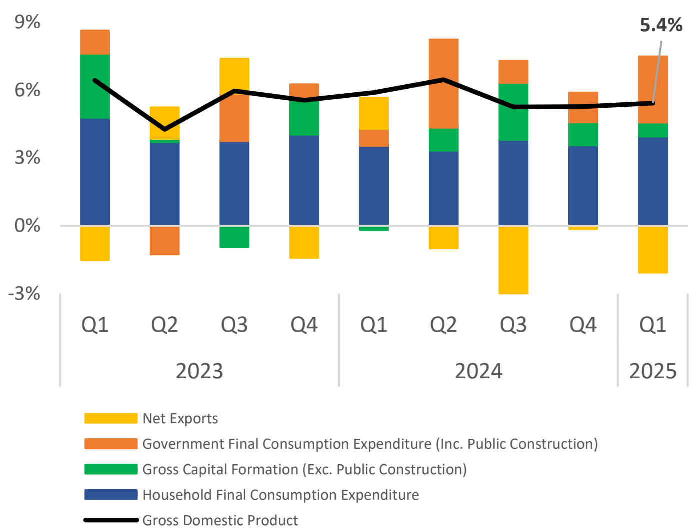
	Actual			Forecasts	
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.6%	5.5%	5.7%	5.7%	6.1%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	2.2%	3.3%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	4.75%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	4.00%	3.50%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

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Continually navigating turbulent times

- The Philippine government trimmed its gross domestic product (GDP) growth estimate for this year to 5.5%-6.5% and for next year to 6.0%-7.0%, from 6.0%-8.0% previously for both years. The revision reflects heightened uncertainties amid the escalation of tensions in the Middle East and the imposition of US tariffs.
- S&P Global revised its 2025 GDP growth forecast for the Philippines upward to 5.9% from 5.7% previously. This revision puts the Philippines as one of S&P's fastest growing economies in the Southeast Asia, on par with Vietnam. Philippine GDP growth forecasts for 2026 and 2027 also ticked upwards to 6.0% and 6.6%, respectively.
- S&P Global said resilient domestic demand would limit the effects of a potential economic slowdown in economies less exposed to exports.
- On the other hand, World Bank economists reiterated the multilateral lending agency's 2025 Philippine GDP growth forecast of 5.3%, according to media reports.
- They cited the robust job market, low and stable inflation, and supportive fiscal and monetary policies as helping support the economy amid global uncertainty. They underscored the need to further support small and medium-sized enterprises (SMEs) to increase economic performance and resilience.
- Metrobank maintains its forecast for 5.7% GDP growth in the Philippines for 2025 and 6.1% for 2026, as heightened uncertainty from tariffs and geopolitical tensions continue to weigh on the local economy.

PH GDP Growth (in %)
2018=100



Source: Philippine Statistics Authority

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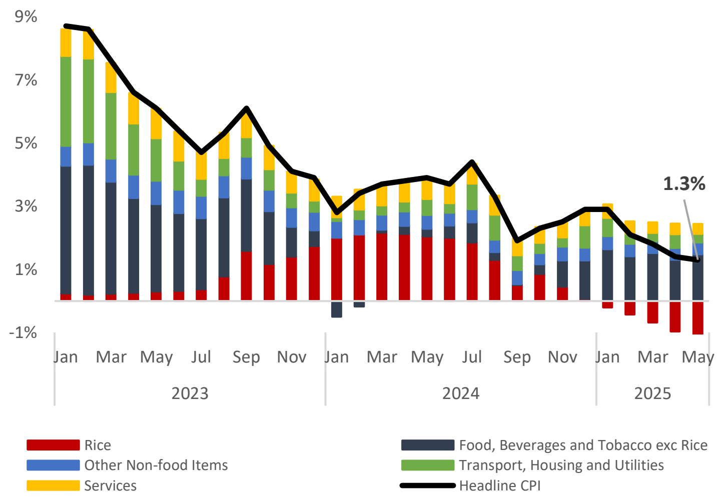
ECONOMIC UPDATES AND OUTLOOK

Inflation: Lowdown on the slowdown

- Given moderating inflation, the government narrowed its full year inflation target to 2.0%-3.0% for 2025 from the previous 2.0%-4.0%.
- Headline inflation slowed to 1.3% year-on-year (YoY) in May, from 1.4% the month prior. This was consistent with the 1.3% Bloomberg consensus estimate and lies within the Bangko Sentral ng Pilipinas' (BSP) 0.9%-1.7% forecast range, while remaining below the full year target.
- Core inflation, which excludes volatile goods like food and energy, maintained its pace at 2.2% YoY in May.
- Oil and electricity drove the downward trend, although rice remained to be a large source of downside pressure due to the declining global rice prices.
- Pork remains the largest contributor to headline inflation after posting an 11.9% YoY increase in price.
- Month-on-month inflation declined by 0.1% in May compared to than the 0.4% decline in April.
- Metrobank keeps its inflation forecast for 2025 at 2.2%, as headline inflation continues to slow and rice deflation is set to reverse.
- Related articles: 1) Inflation Update: Price rise slows further, allows rate cuts; 2) Inflation Preview: Electric shock

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority

Fed Funds Rate: Rates maintained as prices climb

- The US Federal Reserve (Fed) once again maintained the Federal Funds Target Rate (FFR) at 4.25%-4.50% at the recent Federal Open Market Committee (FOMC) meeting. This is the fourth consecutive meeting wherein the Fed kept the FFR steady after lowering it by 100 basis points (bps) in 2024.
- Fed Chair Jerome Powell gave insight into how US President Donald Trump's tariff policy has affected the economic environment. He said that though the impact of tariffs peaked in April, increases in tariffs are likely to pull inflation higher and dampen economic activity.
- In their June Summary of Economic Projections (SEP), the Fed revised its median inflation projections upwards, considering the impact of the ongoing tariff war. Their median PCE inflation rate for 2025 was revised to 3% from 2.7% in March. Median PCE inflation rates for 2026 and 2027 were also revised upward to 2.4% and 2.1%, respectively.
- Unemployment remained at 4.2% in May. Even as the month saw a below-average increase in nonfarm payrolls, Powell reiterated that the labor market is still currently seeing relatively low and stable unemployment, while staying consistent with maximum employment.
- While Powell stays neutral with no rush to cut policy rates, Fed Vice Chair Michelle Bowman has taken a more dovish stance, saying rates should be cut as soon as July to support the labor market. Meanwhile, New York Fed Chair John Williams maintains his hawkishness, saying policy rates should remain the same until the impact of recent policy changes on the economy is fully assessed.
- Metrobank maintains its forecast of a cumulative 50 bps worth of Fed rate cuts in 2025, followed by another cumulative 50 basis points (bps) in 2026. This will bring the target FFR range to 4.00% by end-2025 and to 3.50% by end-2026.
- Related article: BSP and Fed Update: Moving to their own rhythm

BSP RRP: A cut before the Fed

- The BSP Monetary Board delivered its second consecutive rate cut on June 19, reducing the reverse repurchase rate by 25 bps to 5.25%. This also narrows the interest rate differential between the BSP and the Fed to 75 bps.
- BSP Governor Eli Remolona cited easing inflation rates as the reason behind his dovish stance, while also mentioning uncertainty from US trade and Middle East conflicts to justify the need for "a more accommodative policy stance."
- Remolona also mentioned the possibility of another 25-bps rate cut before the year ends if current conditions persist.
- While managing inflation remains the BSP's biggest priority in its policy decisions, Remolona said moderate depreciation of the peso in relation to the dollar will not affect inflation.
- Given these developments, Metrobank maintains its forecast that the BSP will cut by an additional 50 bps this year followed by another cumulative 50 bps next year. These will bring the policy rate down to 4.75% by end-2025 and to 4.25% by end-2026.
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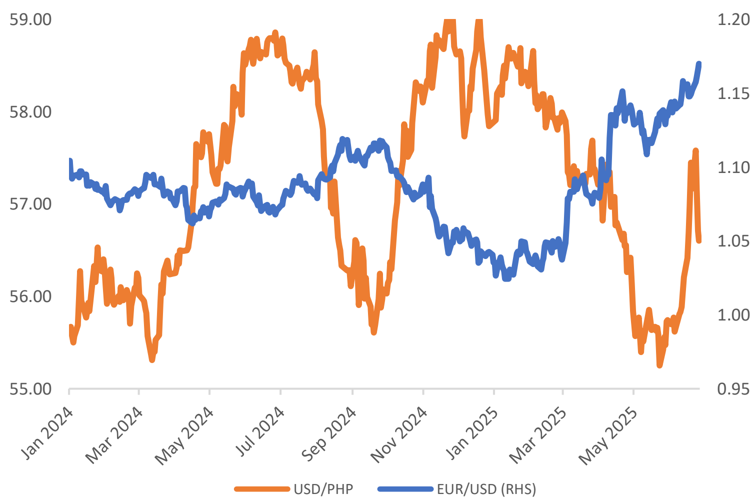
Foreign Exchange: Dollar's haven appeal waning

- Following the popularity of the "Sell America" trade in May, the dollar saw renewed strength in mid-June as investors flocked to buy dollars amid the rising geopolitical tension between Israel and Iran.
- The dollar-peso spot closed as high as 57.58 on June 23 but pivoted to a downward trend from then on, as the greenback began to lose haven appeal. This came after Trump's announcement of a ceasefire in the Israel-Iran conflict. This, which signaled easing geopolitical risks, prompted market players to price in more rate cuts from the Fed, further weakening the dollar and causing other currencies including the Euro, Swissie, and Yen to gain traction.
- On the peso side, the narrower interest rate differential between the BSP and the Fed's policy rates—following the recent rate cut by the former—has weakened the local currency. However, this only partially offset dollar weakness.
- After days of breaching the 57-level, the USD/PHP once again closed at the 56-level on June 25.
- As USD/PHP breached the 57-level in June from strong dollar demand during a period of global uncertainty, Remolona said the BSP only intervenes in the market for "regular liquidity reasons", although peso depreciation sustained over several weeks may require intervention.
- Considering the current spot level, the anticipated dollar demand in the third quarter amid peak import season, and renewed peso strength come the fourth quarter, Metrobank projects that the USD/PHP will settle at 56.9 by end-2025 and at 57.7 by end-2026.

USD/PHP and EUR/USD spot



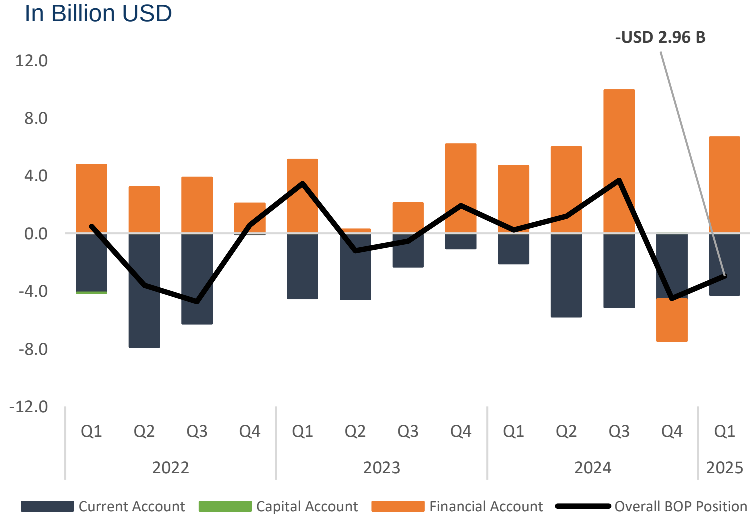
Source: Bloomberg

LOCAL NEWS

PH BOP reverses to deficit in Q1

- The Philippines recorded a balance of payments (BOP) deficit of USD 2.96 billion in the first quarter of 2025, a reversal from the USD 237.55 million surplus in the same quarter last year.
- The reversal reflects a wider current account deficit, which more than doubled to USD 4.25 billion from USD 2.07 billion in Q1 2024, as exports growth outpaced imports growth. The BSP also reported that the wider current account deficit is partly due to lower transport services receipts and increased outbound travel spending, although partly offset by higher remittances from overseas Filipinos.
- Meanwhile, both the financial and capital accounts posted surpluses at USD 6.65 billion and USD 22.61 million, respectively, up from USD 4.65 billion and USD 16.63 million as of Q1 last year.
- According to preliminary data, the country's overall BOP position for the first five months of the year stands at a deficit of USD 5.8 billion, a reversal from the USD 1.6 billion surplus as of end-May 2024.
- The overall deficit for the first five months of the year reflects the sustained trade in goods deficit despite strong exports growth in May. The decline was partly offset by inflows of remittances from overseas Filipinos, foreign borrowings by the national government, and foreign portfolio investments.

PH Balance of Payments (BoP)
In Billion USD



Source: Bureau of the Treasury