Metrobank

MONTHLY ECONOMIC UPDATE

Waiting on Jay Powell

50 bps

Fed to resume cuts

“The baseline outlook and the shifting balance of risks may warrant an adjustment in the policy stance.” – Fed Chair Jerome Powell

METROBANK FORECASTS

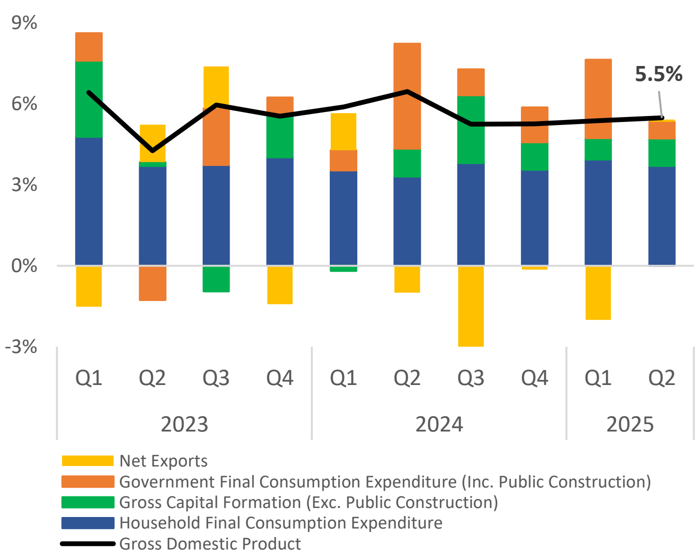
	Actual			Forecasts		
	2022	2023	2024	2025	2026	2027
Real GDP (2018=100) average of period	7.6%	5.5%	5.7%	5.5%	6.1%	6.0%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	2.0%	3.7%	3.0%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	4.75%	4.25%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	4.00%	3.50%	3.50%
USDPHP end of period	55.8	55.4	57.8	56.1	55.7	55.3

ECONOMIC UPDATES AND OUTLOOK

Real Economy: PH growth accelerates in Q2

- The Philippines' gross domestic product (GDP) grew 5.5% year-on-year (YoY) in the second quarter (Q2) of 2025, slightly faster than the 5.4% growth in Q1 and slightly lower than Bloomberg consensus estimate of 5.6% forecast for Q2.
- Year-to-date GDP growth settled at 5.4% YoY. Department of Economy, Planning, and Development Secretary Arsenio Balisacan said that growth should accelerate by at least 5.6% in the second half of the year to reach the government’s full year target band of 5.5-6.5%.
- On the demand side, household consumption remained the largest contributor to growth, followed by private investments, as the impact of a more accommodative policy environment and slow inflation started to materialize.
- Government expenditure expanded at a slower pace compared to the preceding quarter, while net exports saw a slight improvement as the export growth outpaced import growth.
- On the sectoral side, all sectors contributed positively to the economic expansion, although services remained the main growth driver. The sustained rebound within the agricultural sector was largely driven by improved harvest of palay and corn post-El Niño.
- Metrobank maintains its forecast that the full-year average GDP growth this year will settle at 5.5%, at the lower bound of the government’s 5.5-6.5% target for the year.
- *Related article:* [GDP Update: Growth picks up pace]

PH GDP Growth (in %)
2018=100



Source: Philippine Statistics Authority

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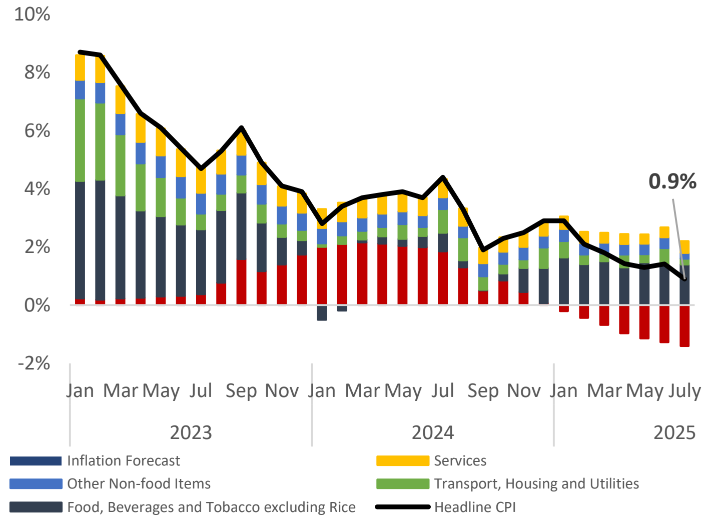
ECONOMIC UPDATES AND OUTLOOK

Inflation: Still sub-target

- Headline inflation moderated to 0.9% YoY in July from the 1.4% recorded in the preceding month. The latest inflation number lies within the Bangko Sentral ng Pilipinas (BSP)'s 0.5%-1.3% forecast for July, but lower than the 1.1% Bloomberg consensus estimate.
- Core inflation, which excludes volatile food and energy items, slightly accelerated to 2.3% YoY in July, from the 2.2% in June.
- Month-on-month (MoM), consumer prices rose for the second consecutive month at 0.3% in July, faster than the 0.1% in June.
- Year to date, headline inflation settled at 1.7% YoY, below the government's 2%-3% target for the full year. However, the statistics agency noted that the projected reversal of rice inflation from September onward, as well as possible price pressure from pork, fish, and vegetables, could lead to faster inflation in the coming months.
- Considering these, Metrobank maintains its full-year (FY) inflation forecast at 2.0% in 2025. We also forecast FY inflation at 3.7% in 2026 and 3.0% in 2027, owing to the projected impact of both the BSP's monetary easing, which could stoke demand, and of higher import costs.
- *Related articles: 1) Inflation Preview: Price hikes float to the surface; 2) Inflation Update: Price rise hits near six-year low*

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority

Fed Funds Rate: Powell's final Jackson Hole Symposium

- During the Jackson Hole Symposium held last August 22, Federal Reserve (Fed) Chair Jerome Powell said that in the near term, risks to inflation are titled to the upside, while risks to employment are titled to the downside. He acknowledged that this situation places tension on the Fed's dual mandate.
- Powell also said that despite the Fed's policy rate now being 100 basis points (bps) closer to the neutral rate than it was a year ago, the policy environment remains restrictive and, thus, the baseline outlook and the shifting balance of risks may warrant an adjustment in the policy stance.
- Metrobank maintains its forecast that the Fed will reduce its policy rate by a cumulative 50 bps in 2025, followed by another 50 bps in 2026. These will bring the Federal Funds Rate (FFR) down to 3.75%-4.00% by end-2025 and to 3.25%-3.50% by end-2026.

BSP RRP: One more cut this year

- The BSP reduced its policy rate by another 25 basis points (bps) at its fourth meeting this year, held on August 28. This is BSP's third consecutive rate cut delivered in 2025, which brings the target reverse repurchase (RRP) rate down to 5.00% and narrows its interest rate differential (IRD) with the US Federal Funds Rate to 50 bps.
- According to BSP Governor Eli Remolona Jr., the recent policy rate decision brings us to the "Goldilocks" rate that is neither too low nor too high and places us at the "sweet spot" between inflation and output.
- In terms of forward guidance, Remolona said that the BSP remains relatively less dovish than before reaching the "Goldilocks" rate. Despite this, the BSP chief hinted at the possibility of another 25-bp policy rate cut toward the end of the year.
- The recent policy rate cut is in line with Metrobank's expectations. We maintain our forecast of a cumulative of 100 bps worth of cuts this year, followed by another cumulative 50 bps worth of cuts next year. These will bring the BSP's target reverse repurchase (RRP) rate to 4.75% by end-2025 and 4.25% by end-2026.
- *Related article: BSP Update: Turning less dovish*

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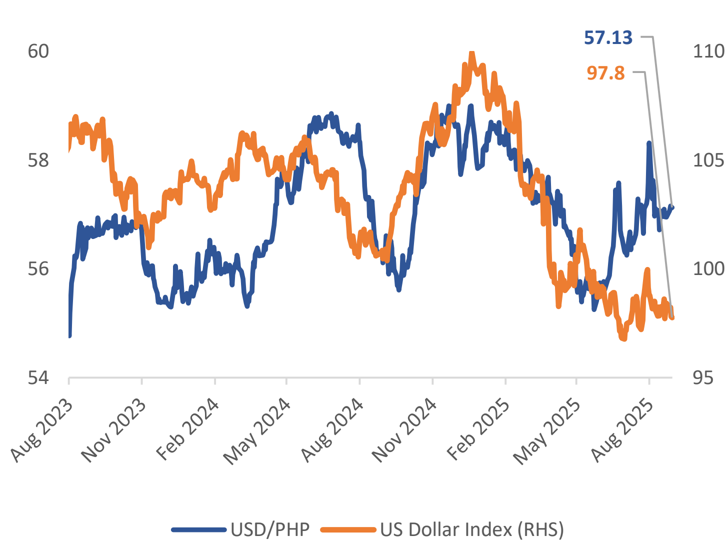
ECONOMIC UPDATES AND OUTLOOK

Foreign Exchange: Rate cuts challenge currencies' strength

- US President Donald Trump's reciprocal tariffs were finally implemented on August 7, following a period of pauses and negotiations after their first announcement in April. Tariffs on Philippine goods settled at 19%, higher than the originally announced 17% and putting the country on the same level as most other ASEAN countries.
- Due to markets already pricing in the tariffs in the months prior, the tariff rollout did not substantially affect the dollar's strength in August, which had already waned significantly since the start of the year.
- However, August started with USD/PHP shooting up to the 58-level following a stronger-than-expected Q2 US GDP figure. It eventually returned to the 57-level after drastic downward revisions of July nonfarm payrolls by the US Bureau of Labor Statistics. USD/PHP softly fluctuated in the 56 to 57 levels throughout the month.
- USD/PHP saw an uptick toward the end of the month in anticipation of a BSP rate cut, which was eventually delivered on August 28. The exchange rate settled at 57.13 by the end of August.
- The Dollar's strength was also challenged, as US economic performance was called into question. Following Fed Chair Powell's dovish comments at his Jackson Hole speech, the Dollar Index slipped below the 98 level and settled at 97.771 by month-end.
- Metrobank Research expects Dollar weakness to be sustained, with an eventual Fed rate cut later in the year to bring the IRD at 75 bps. We maintain our forecast that USD/PHP will settle at 56.1 by end-2025 and at 55.7 by end-2026.

USD/PHP and Dollar Index



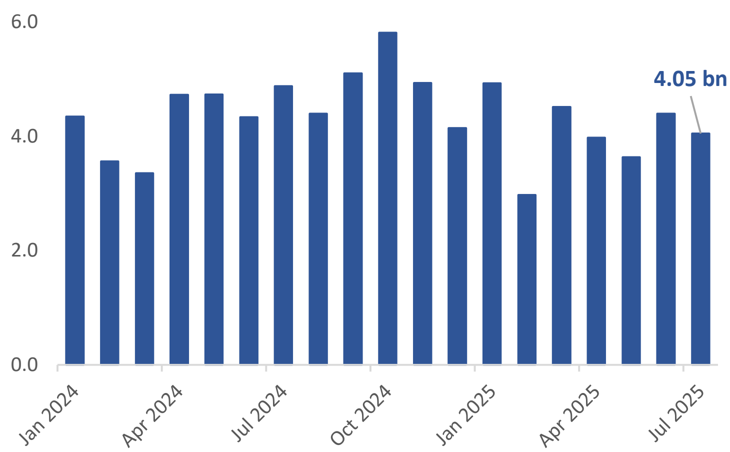
Source: Bloomberg

LOCAL NEWS

Philippine trade deficit narrows in July

- The Philippine trade deficit narrowed by 7.7% year-on-year (YoY) to USD 4.05 billion in July, as export growth outpaced import growth. Year-to-date, the country's trade deficit decreased to USD 28.46 billion.
- Though the trade deficit narrowed, this was not an indicator of strong Philippine trade, as both import and export growth decelerated in the month. Philippine exports rose 17.3% YoY in July, slowing from the 26.1% growth from the month prior. On the other hand, Philippine imports grew 2.3% YoY, decelerating from the 10.8% growth from the month prior.
- Despite remaining the country's top export commodity, manufactured goods exports declined month-on-month, contributing to the deceleration in export growth. Meanwhile, a slowdown in capital goods imports led to the weakening of overall import growth.
- The US, Hong Kong, and Japan were the country's top export destinations, while China, the Republic of Korea, and Indonesia were the country's top sources of imports for the month.
- *Related article: Trade Update: Narrower deficit but not stronger*

Philippine Trade Deficit (In USD billion)



Source: Philippine Statistics Authority