October 03, 2025

Research and Market Strategy Department

MONTHLY ECONOMIC UPDATE

Fed back on track

75 bps

Fed restarts the easing cycle

“We’re now reacting to the much lower level of job creation… and that warrants a change in policy.” – Fed Chair Jerome Powell

METROBANK FORECASTS

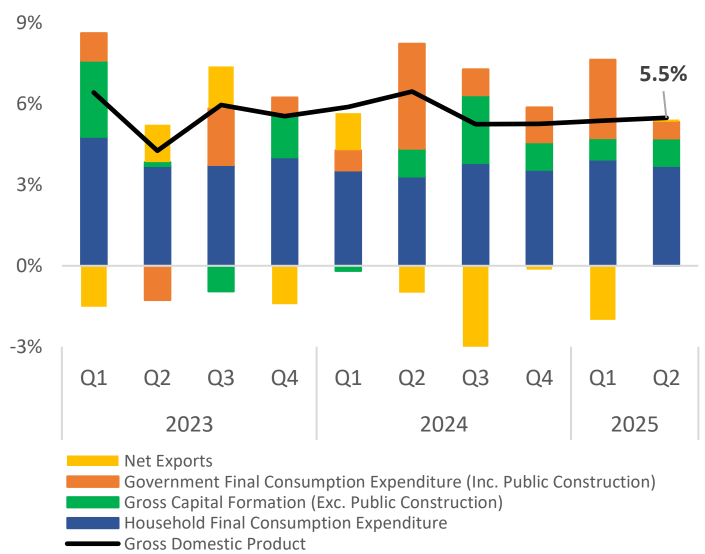
	Actual			Forecasts		
	2022	2023	2024	2025	2026	2027
Real GDP (2018=100) average of period	7.6%	5.5%	5.7%	5.4%	6.1%	6.0%
Inflation (2018=100) average of period	5.8%	6.0%	3.2%	2.1%	3.6%	3.0%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	4.75%	4.50%	4.50%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	3.75%	2.75%	2.75%
USDPHP end of period	55.8	55.4	57.8	55.8	54.4	54.0

ECONOMIC UPDATES AND OUTLOOK

Real Economy: Just below target

- The Asian Development Bank (ADB) maintained its Philippine gross domestic product (GDP) growth forecast at 5.6% for 2025 but revised its 2026 estimate to 5.7% from 5.8% previously. Despite the revision, it is seen growing the second-fastest in Southeast Asia behind Vietnam.
- According to ADB, uncertainty risks and inclement weather are still present. As of publication, 16 cyclones have hit the Philippines, which has hampered growth in the agricultural sector. Despite this, growth may still improve if investments expand and monetary policy is accommodative.
- The International Monetary Fund (IMF) also recently lowered its GDP projections from 5.5% to 5.4% for the year. This changes in outlook is mainly because of external headwinds such as global trade uncertainty, higher tariffs (especially US tariffs), and a slower-than-expected first-half growth performance in 2025.
- S&P Global Ratings has also trimmed its Philippine growth outlook to 5.6% for 2025, 5.8% for 2026, and 6.5% for 2027. They cited global headwinds such as higher US tariffs and subdued investment sentiment, though projections remain within the government's official targets.
- Despite being faster than many of its Asian peers, S&P Global Ratings says Philippine growth remains below trend, highlighting the economy's vulnerability to external shocks and domestic uncertainties.
- With this, Metrobank also revises its forecast for Philippine GDP to 5.4% from 5.5% for 2025, as consumption remains low. Meanwhile, we maintain our 6.1% growth outlook for 2026.

PH GDP Growth (in %)
2018=100



Source: Philippine Statistics Authority

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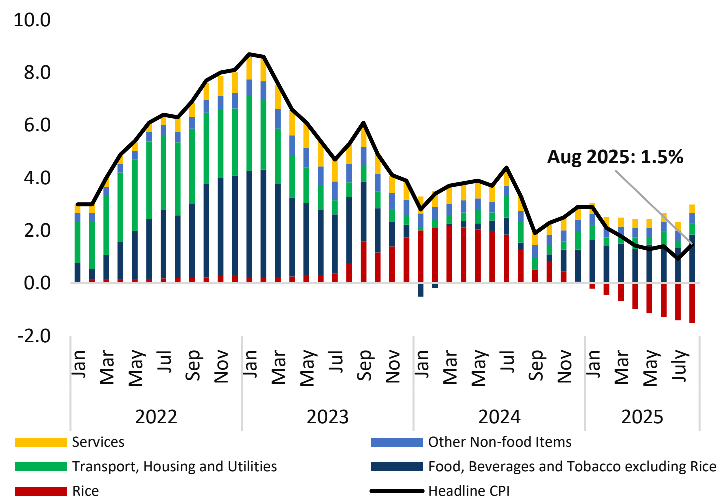
ECONOMIC UPDATES AND OUTLOOK

Inflation: Looking at the upside

- Headline inflation quickened to 1.5% YoY in August from the 0.9% recorded in July. The latest inflation number lies within the Bangko Sentral ng Pilipinas (BSP)'s 1.0%-1.8% forecast for August, but higher than the 1.2% Bloomberg consensus estimate.
- Core inflation, which excludes volatile food and energy items, accelerated to 2.7% YoY in August from 2.3% in July.
- Month-on-month (MoM), consumer prices rose for the second consecutive month at 0.6% in August, faster than the 0.3% in July and marking the third consecutive month of increase.
- Year to date, headline inflation stayed at 1.7% YoY, still below the government's 2%-3% full-year target. While rice deflation was initially expected to reverse in the latter months of the year, the latest data suggests that rice deflation will persist at a slower pace until year-end.
- Metrobank revises its full-year (FY) inflation forecast upward to 2.1% in 2025, as this year's storms are expected to provide upward pressure to food prices. We also revise our FY inflation forecast for 2026 downward to 3.6% due to higher base effects, while maintaining our FY 2027 inflation forecast to 3.0%
- *Related articles: 1) Inflation Preview: Back within target in September; 2) Inflation Update: Storm-slicked price increases*

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority

Fed Funds Rate: First rate cut of the year

- The US Federal Reserve (Fed) delivered its first rate cut of the year during their September 17 meeting, reducing the Federal Funds Target Rate (FFR) by 25 basis points (bps) to 4.00%-4.25%. This widens the IRD between the US and Philippines to 75 bps.
- While the Fed still operates with the dual mandate of managing inflation and achieving maximum employment, the weakening labor market was the primary driver behind the cut, even if inflation remains elevated. This comes after massive downward revisions of job growth over the 12 months through March 2025, indicating 911,000 fewer jobs were created than initially reported. Additionally, the US unemployment rate rose to 4.3% in August from 4.2% in the month prior, and is the highest level the figure has reached since October 2021.
- Meanwhile, the US Core Personal Consumption Expenditure (PCE) index settled at 2.9% year-on-year in July, still above the Fed's 2.0% long-run target. While consumers' inflation expectations are elevated, Fed Chair Jerome Powell expects the effects of tariffs on prices to be short-lived.
- Powell entertained the possibility of more rate cuts before the year end, but said that the Fed will make decisions on a "meeting-by-meeting" basis. The Fed dot plot also moved downward in the latest Summary of Economic Projections (SEP), bringing the year-end median target FFR projection by end-2025 to 3.875%. Expectations for 2026 and 2027 were also adjusted lower. With this, Metrobank also adjusted its forecasts to accommodate more cuts on the horizon, as we now expect two more 25-bp cuts by end-2025 to bring the target FFR to 3.75%. We also revise our end-2026 projections for the target FFR downward to 2.75%, equivalent to four 25-bp cuts in the year.
- *Related articles: 1) Fed Update: Rate cut amid shaky jobs market, 2) A tale of two central banks*

BSP RRP: In the Goldilocks zone

- Though BSP Governor Eli Remolona Jr. entertained the idea of cutting the target reverse repurchase (RRP) rate as early as October if growth slows, he still considers the current RRP rate the "Goldilocks zone" for balancing inflation and growth. He added that larger reductions in the policy rate this year are unlikely.
- While inflation remains below the BSP's target at 1.7% year-to-date, relatively weak consumption and demand will still warrant further easing for this year and next year to allow economic growth to quicken.
- Metrobank maintains its forecast of one more 25-bp cut by the BSP before the year-end to bring the target RRP rate to 4.75%. We also expect two more 25-bp cuts next year to bring the end-2026 target RRP rate to 4.25%.
- *Related article: BSP Update: Rate cuts will be back shortly*

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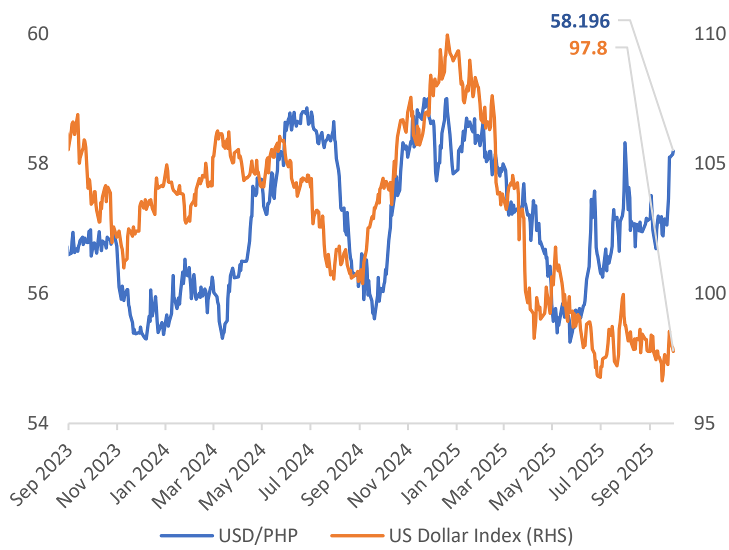
ECONOMIC UPDATES AND OUTLOOK

Foreign Exchange: Bearish dollar as Fed cuts policy rate

- Dollar strength was mainly bearish in September, with the dollar index falling to as low as 96.633 on September 16, the lowest since early July. This weakening of the US dollar came ahead of the widely anticipated Fed cut on September 17.
- The dollar rallied later in the month, with the dollar index ending at 98.553 on September 25, as the market priced in less Fed cuts following an upward revision in the US' second quarter GDP growth to 3.8% from the initially reported 3.3%.
- US President Donald Trump also announced an additional 100% tariff on pharmaceutical products, which provided a boost to the dollar's safe haven demand, adding to the currency's strength.
- However, dollar strength reversed toward the end of September, with the dollar index ending the month at 97.775. This weakening of the dollar came as markets expected more Fed cuts amid a faster rise in the US personal consumption expenditure (PCE) and a lower-than-expected consumer sentiment. Concerns over a US government shut down also contributed to the drop in the dollar's strength.
- Despite the weakening of the dollar toward the end of the month, the USD/PHP pair remained resilient, closing at 58.196 on September 30, 2025, factoring in increased dollar demand in the domestic space during importing season.

USD/PHP and Dollar Index



Source: Bloomberg

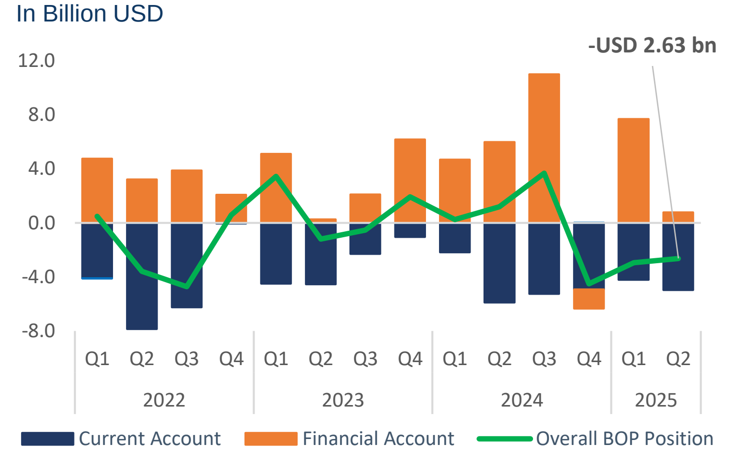
- Considering recent dollar movement, the expected peso rebound during the remittances and BPO bonuses season in the fourth quarter, and changes in the projected IRD, Metrobank recently revised its USD/PHP forecast for the year-end (YE) 2025 to 55.8, YE 2026 to 54.4, and YE 2027 to 54.0.

LOCAL NEWS

Balance of Payments: Still a deficit in Q2

- The Philippines' balance of payments (BOP) recorded a deficit of USD 2.6 billion in the second quarter of 2026, a reversal from the USD 1.2 billion surplus in the period last year. Year-to-date, the country's BOP position stands at USD 5.6 trillion shortfall, a reversal from the USD 1.4 trillion surplus in the first half of last year.
- The reversal of the country's BOP position is mainly due to a significant decline in the net inflows to the financial account to USD 791.6 million from USD 6.0 billion in the same quarter last year. According to the BSP, the lower net inflow is due to the servicing of foreign obligations and an increase in the domestic banks' lending to overseas borrowers. These were, however, slightly offset by a decline in the net inflows in direct and portfolio investments as investors remain cautious amid global uncertainty.
- Meanwhile, the current account deficit narrowed to USD 5.0 billion in Q2 2026 from USD 5.9 billion in the same quarter last year. This is due to an improved trade in goods position as exports growth outpaced imports growth.

PH Balance of Payments (BOP)
In Billion USD



Source: Bloomberg

- The BSP recently revised its BOP projection to USD 6.9 billion for FY 2025 and USD 3.4 billion for FY 2026, wider than the previous forecasts of USD 6.3 billion and USD 2.8 billion, respectively. According to the BSP, the revision reflects a wider trade in goods deficit, subdued services receipts, and restrained capital inflows amid global uncertainty.