Philippines central bank delivers expected rate cut and signals dovish bias

Bangko Sentral ng Pilipinas (BSP) lowered its policy rate by 25bp to 4.5%, in line with expectations, citing benign inflation and a weakening growth outlook. We expect further easing in the first quarter of 2026 as growth underperforms

Bangko Sentral ng Pilipinas (the central bank of the Philippines)

BSP cuts policy rate as expected

The BSP lowered its target rate by 25bp to 4.5%, in line with our expectations and the consensus. The decision carried a dovish tone, driven by benign inflation and a weakening growth outlook, particularly as soft government spending has weighed on both consumer and business sentiment.

BSP Governor Eli Remolona, Jr signalled scope for further easing should growth deteriorate more than expected. Inflation is expected to stay contained despite the BSP's slightly higher forecasts of 3.2% for 2025 and 3.0% for 2026-27. Benign oil prices and the limited pass-through from peso weakness to domestic prices also provided comfort to the BSP on inflation risks.

Softer GDP growth likely to trigger another cut

Recent GDP data underscores the risk that weak government spending could remain a persistent drag, weighing on fiscal outlays and private sector confidence even through the current quarter. While household consumption may rebound in Q4, investment and public spending are likely to stay muted, keeping overall growth subdued.

The impact of recent floods on agriculture and infrastructure is still uncertain, but will add to the pain. We expect Q4 GDP growth to remain soft at around 4.0% YoY, similar to Q3. Although the finance minister has indicated a return to normal spending by Q1 2026, we believe a meaningful pickup will only occur in the second half of the year.

The drag from fiscal weakness has been significant, and even when spending improves, consumer confidence will take time to recover. Overall, we forecast 2026 growth at 5.4%, with risks tilted to the downside.

Peso weakness a lesser immediate inflation concern for BSP

The Philippines' balance of payments swung sharply into deficit in 2025, posting a $4.6bn shortfall up to October versus a small surplus in 2024. Goods exports held up (+13% YoY YTD), but services exports contracted by 1% YoY in the first half of the year, widening the current account gap, while FDI inflows fell 30% YoY. Recent tariff changes – lower duties on China and a hike in the Philippines' own tariff rate to 19% from 10% – could erode earlier competitive advantages.

Despite recent peso weakness, the BSP governor noted limited pass-through to domestic inflation. On balance, we expect external balances to remain under pressure and BSP to maintain a less defensive stance, keeping PHP biased to the downside over the medium term.

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