

Philippines' central bank policy nearing inflection point, but easing may not be over

The Bangko Sentral ng Pilipinas (BSP) lowered its policy rate by 25bp to 5.00%, signalling a neutral stance amid stable inflation and slowing – but resilient – growth. While the easing cycle is nearing its end, one final rate cut this year remains likely, given our view of weaker GDP growth in the second half of the year



The Philippine peso has continued to appreciate

The BSP lowered the overnight borrowing rate by 25bp to 5.00%, in line with both our expectations and the consensus forecast. While the 2025 CPI inflation forecast was slightly upped to 1.7% year-on-year from 1.6% previously, it's well below BSP's 2-4% target band and below our forecast of 1.8%. The overall tone of the decision was neutral, reflecting a backdrop of stable inflation and a slowing growth outlook. The governor emphasised that while there is still a possibility of one final rate cut this year, any further action will depend on how economic data, especially on growth, evolves in the coming months.

Inflation remains comfortably within the target band, supporting the view that no further rate

adjustments are needed unless there is a significant deterioration in economic conditions. Any consideration of additional easing would require clear signs of weakening GDP, as well as negative signals from business survey data. As per the BSP, current output gap estimates suggest that the central bank is likely nearing the end of its rate-cutting cycle. Given our current assumptions of softer domestic GDP growth in the second half of the year and ongoing uncertainty around tariff-related impacts on investment growth, we continue to expect a final 25bp rate cut by the BSP in the fourth quarter.

On the liquidity front, the central bank noted that there is more liquidity in the system than desired. To address this, it has been issuing BSP bills and managing liquidity through alternative instruments. However, the central bank acknowledged that it may be over-supporting banks in managing liquidity, a role typically played by money markets in other economies. The absence of a developed money market in the domestic financial system has prompted the central bank to take a more active role.

The BSP is also less concerned about any consequent pressure on the Philippine peso from rate differentials. The PHP has continued to appreciate, even when the interest rate differential between the Fed rate and BSP policy rate has remained about 100bp, mitigating any immediate pressure on the local currency or monetary policy stance. We think robust FII inflows in the debt market and likely rate cuts by the Fed this year can support the PHP in the near term.

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