Ideal conditions for rate cut in the Philippines as inflation falls below target

March's below-target CPI inflation and the global growth uncertainty caused by US tariffs strengthen our expectation of a rate cut by the Bangko Sentral ng Pilipinas (BSP) in next week's policy review. This view is further supported by a stable local currency and high policy rates

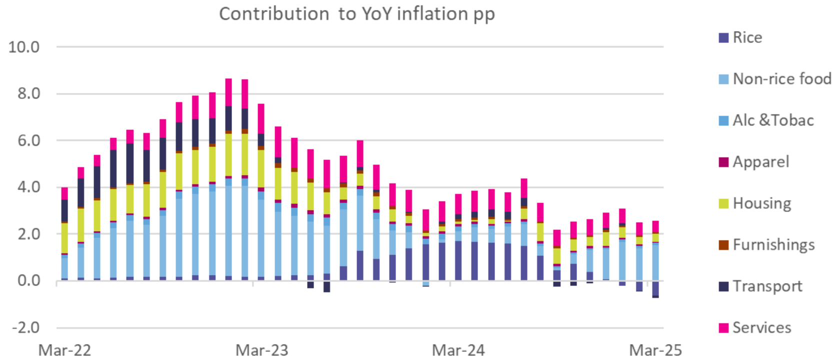
Bags of rice at a market in Manila, Philippines

Headline CPI inflation has fallen below the central bank's target

Headline CPI inflation for the Philippines fell to 1.8% year-on-year in March, lower than our expectations of 1.9% YoY. This marks the second consecutive decline in monthly inflation readings and places inflation below the central bank's target range of 2-4%. The drop in this monthly print was largely driven by rice prices, which fell 7.7% YoY, and transportation prices, which fell 1.1% YoY. Among the key components, only non-rice food contributed more to headline CPI inflation, while the others declined.

It was also good news for core CPI inflation, which edged down to 2.2% YoY, registering the third consecutive annual decline and nearing the lower bound of the central bank's target range. This indicates that lower inflation is not just driven by food and fuel prices but also by slowing demand pressures.

Lower rice and transportation prices largely behind lower inflation



Substantial tariffs on Asia suggest downside risks to regional growth

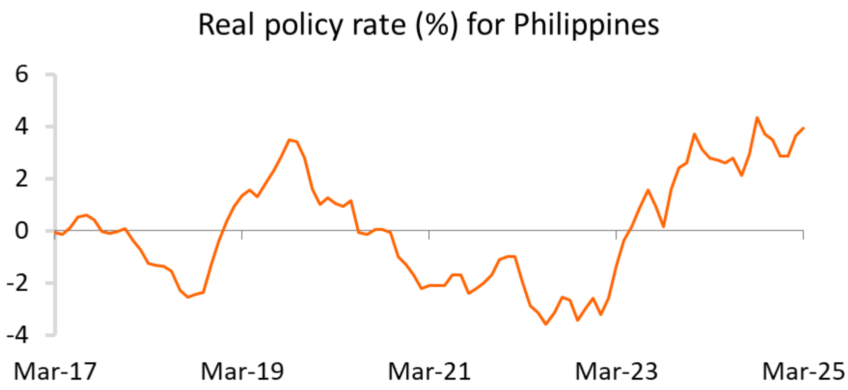
Although the Philippines is relatively well-positioned with a lower tariff rate and reduced exposure to US exports, it is unlikely to remain completely unaffected. According to our estimates, direct and indirect exports of goods from the Philippines to the US account for approximately 3% of the Philippines' GDP (more here).

Moreover, the tariffs imposed by US President Trump will exert downward pressure on US growth and the Federal Reserve to cut rates. We continue to forecast September and December rate cuts with a third in March 2026, but the gloomier near-term outlook for the economy means that risks are skewed to the central bank having to do more this year. This should take away concerns around the Philippines cutting rates too fast too soon, and staying largely aligned with US rate actions.

Stable currency and high real policy rates give space to manoeuvre

Following the tariff announcements, the Philippine peso (PHP) has strengthened against the US dollar (USD), and the real policy rate surged close to all-time highs of 4% after the March inflation print. This presents an opportune moment to cut rates to support growth.

Real policy rate close to all-time highs



25bp rate cut likely next week

This inflation reading, combined with uncertainty on global growth due to the new US tariffs, has reinforced our expectation of a rate cut by the BSP in the upcoming policy review next week. We anticipate the BSP will reduce the overnight borrowing rate by 25bp to 5.5%.

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