

Philippine data underscores room for policy easing

Recent Philippine data indicates that external trade made a stronger contribution to GDP in 2Q. However, the cautious pace of private investment may remain a drag on overall performance unless government spending accelerates. We maintain our forecast for two additional 25-basis-point rate cuts by year-end, bringing the policy rate to 4.75%



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

Here's a quick snapshot of what the latest data in the Philippines is telling us and what it means for the interest rate outlook.

Trade balance showed a notable improvement in May, surpassing market expectations

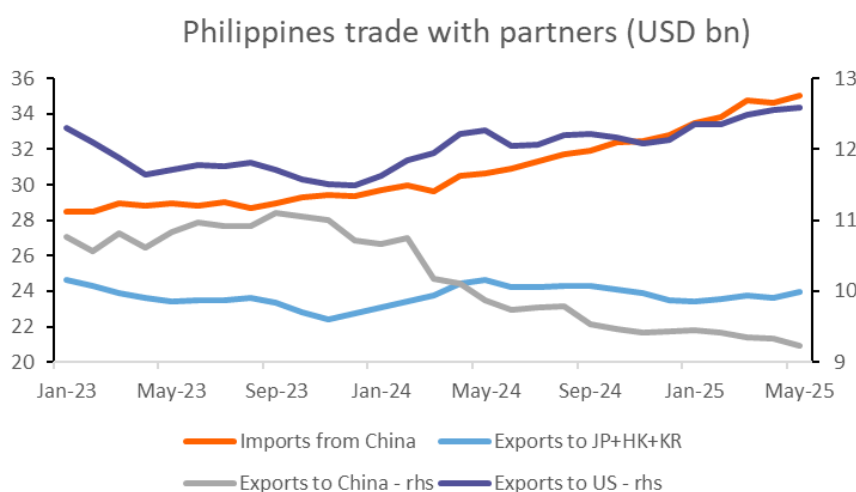
The improved trade balance in May was primarily driven by strong growth in exports – the highest in 13 months -- alongside a moderation in import growth. Export performance was buoyed by

robust demand for electronic products, other manufactured goods, and gold.

One of the factors behind the export surge (10% year-on-year in 2025) could be the re-routing effects -- a trend also observed in the trade data of other ASEAN economies. Recent trends indicate: (1) Exports to the US have clearly accelerated in 2025; (2) imports from China surged 14% year-to-date, with electronic products continuing to dominate among all commodity groups.

Interestingly, the manufacturing purchasing managers' index for the Philippines has also been in the expansion zone for most of 2025, while remaining stronger than other countries in ASEAN except Thailand. This suggests that domestic manufacturing could be benefiting from export gains.

Imports from China and Exports to US have accelerated



Source: CEIC

Wider fiscal deficit could limit FII demand for longer-end; medium-term bonds more attractive

The Philippines' fiscal balance slipped back into deficit in May, largely due to a pickup in government spending. This is likely linked to mid-term election-related expenditures. While revenue growth accelerated to a solid 13.3% year-on-year, it remains relatively soft when viewed through a broader trend lens. Year-to-date, revenue growth stands at 5.4%, while expenditures have grown at a faster pace of 9.7%.

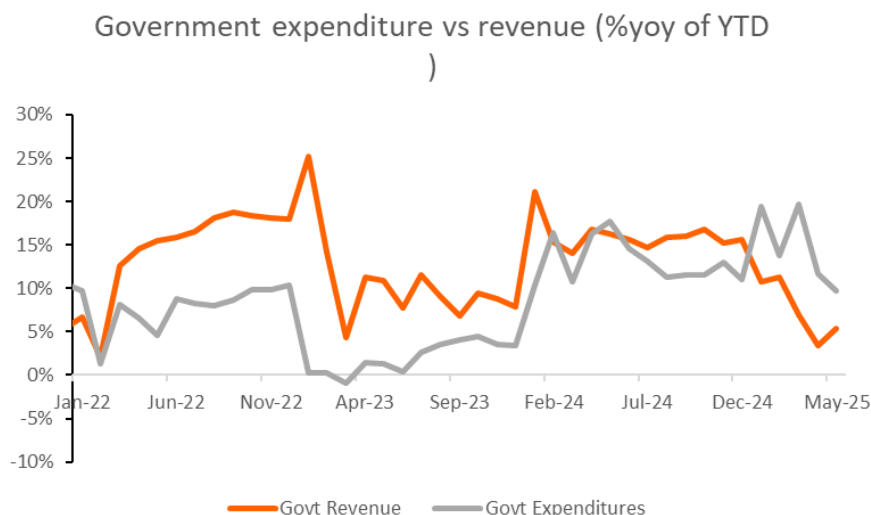
In response to evolving fiscal dynamics, the Development Budget Coordination Committee (DBCC) recently revised its 2025 fiscal deficit target upward to 5.5% of GDP, from the previous 5.3%. This adjustment reflects a downward revision in revenue projections. Despite the near-term widening of the deficit, the government maintains its commitment to fiscal consolidation, aiming to bring the deficit down to 4.3% by 2028.

We believe the revised 5.5% target is more realistic, given the government's focus on capital expenditures amid global growth weakness. Slower global growth is likely to weigh on revenue performance and may necessitate further fiscal easing to support GDP growth.

Fiscal concerns and higher bond issuance could deter foreign investor participation, particularly in

the long end of the yield curve. This is despite inflation remaining well-contained, which gives the central bank room to continue monetary policy easing. In contrast, short-to-medium-term bonds are expected to benefit from the current disinflationary trend and the prospect of further rate cuts.

Government revenue growth remained soft in May'25



Source: CEIC

Growth-inflation mix continues to favor rate cuts

Overall, recent data suggests that the contribution of external trade improved in Q2, which also benefited the manufacturing sector. However, signs of cautious private investment in Q1 may continue to weigh on GDP performance for that quarter, keeping the YoY reading around 5.5%. The pace at which key infrastructure projects are executed will be a critical factor in shaping the growth trajectory moving forward.

Consumer price index inflation came in at 1.4% year-on-year in June, surprising to the downside thanks to lower-than-expected rice prices. Transport inflation remained in negative territory, despite retail fuel price hikes following the global oil price surge. Looking ahead, further downside in domestic rice prices and reversal in oil prices should keep CPI inflation contained. Additionally, easing pressures on the local currency in June should mean lower imported inflation. We continue to expect two more rate cuts of 25bp in 3Q and 4Q each to end 2025 at 4.75%, driven by a lower-than-expected inflation trajectory and downside risks to domestic growth.

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