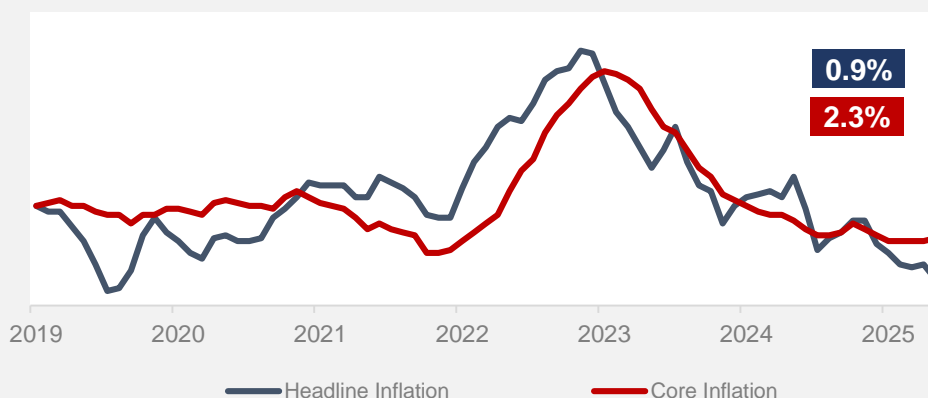


INFLATION UPDATE

BSP's low-inflation safety net

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority

- Philippine headline inflation moderated to 0.9% year-on-year (YoY) in July from the 1.4% recorded in the preceding month. The latest inflation print lies within the Bangko Sentral ng Pilipinas (BSP)'s 0.5%-1.3% forecast for the month but lower than the 1.1% Bloomberg consensus estimate.
- Rice continues to be among the primary drivers of the downward trend in inflation, dropping to a lowest inflation rate since at least 1995, based on statistics agency data. This trend is attributed to a continuous decline in global rice prices, low rice tariffs and improved local harvest under neutral conditions this year.
- Core inflation, which excludes volatile food and energy items, slightly accelerated at 2.3% YoY in July, from the 2.2% YoY in June. According to the Philippine Statistics Authority (PSA), this slight acceleration is attributed to higher prices of selected vegetables included in the core inflation basket.
- Month-on-month (MoM), consumer prices rose for the second consecutive month at 0.3% in July, faster than the 0.1% in June.

Sources of downside pressure

1	HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS
	<ul style="list-style-type: none"> 2.1% YoY inflation rate and 45.1% share to the downtrend Due to slower increase in prices of electricity and LPG
2	FOOD AND NON-ALCOHOLIC BEVERAGES
	<ul style="list-style-type: none"> -0.2% YoY inflation rate and 43.4% share to the downtrend Due to faster deflation in the prices of cereals, vegetables, and tubers and slower increase in prices of fruits and nuts
3	TRANSPORT
	<ul style="list-style-type: none"> -2.0% YoY inflation rate and a 6.9% share to the downtrend Due to slower increase in prices of passenger transport by sea and faster deflation in the prices of gasoline and passenger transport by air

Major contributors to overall headline inflation

1	HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS
	<ul style="list-style-type: none"> 2.1% YoY inflation rate and a 0.4 ppt contribution to the total 0.9% headline inflation Due rentals, water supply, and electricity
2	RESTAURANTS AND ACCOMODATION SERVICES
	<ul style="list-style-type: none"> 2.3% YoY inflation rate and 0.2 ppt contribution to headline inflation Due to higher prices at restaurants and cafes
3	ALCOHOLIC BEVERAGES AND TOBACCO
	<ul style="list-style-type: none"> 4.2% YoY inflation rate and a 0.1 ppt contribution to headline inflation Due to higher prices of cigarettes, beer, spirits and liquor

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METROBANK'S TAKE

Rice deflated further

In response to the low price of imported rice and its adverse impact on local farmers, Agriculture Secretary Francisco Tiu Laurel has recommended to the President a temporary suspension of rice imports and a gradual return to 35% tariff. Some lawmakers are also seeking to amend legislation that currently authorizes the President to adjust tariff rates.

While import restrictions and higher import costs could increase rice prices, current low levels provide enough buffer against supply-side pressure, preventing a significant surge.

A rebound on the horizon

Year to date, headline inflation settled at 1.7% YoY, below the government's 2%-3% target for the full year. However, the PSA noted that the projected reversal of rice inflation from September onward, as well as possible price pressure from pork, fish, and vegetables, could lead to faster inflation in the coming months.

Considering these, Metrobank maintains its full-year (FY) inflation forecast at 2.0% YoY in 2025. For FY 2026 and 2027, we forecast faster inflation within the government's 2%-4% full-year targets at 3.7% and 3.0%, respectively, owing to the projected impact of the Bangko Sentral ng Pilipinas' (BSP) monetary easing, which could stoke demand, exacerbated by higher import costs arising from increased tariffs.

More cuts cemented

Despite the slight acceleration in core inflation, current inflation levels still point to weak domestic demand, which cements the need for a policy rate reduction to support domestic spending.

Below-target inflation keeps the door open for the BSP to cut rates further this year to support economic growth.

Metrobank maintains its forecast that the BSP will deliver two more 25-bp cuts by year-end, bringing the target reverse repurchase (RRP) rate down to 4.75%. The inflation data along with the upcoming GDP data, which is seen to show a slight pickup, will provide guidance for the BSP's next move.

BSP RISK-ADJUSTED FULL-YEAR AVERAGE INFLATION FORECAST

	as of Feb 2025	as of Apr 2025	as of June 2025
2025	3.5%	2.3%	1.6%
2026	3.7%	3.3%	3.4%
2027		3.2%	3.3%

METROBANK RESEARCH FULL-YEAR AVERAGE INFLATION FORECAST

2024 Actual	2025	2026	2027
3.2%	2.0%	3.7%	3.0%

METROBANK RESEARCH YEAR-END TARGET RRP RATE FORECAST

2024 Actual	2025	2026	2027
5.75%	4.75%	4.25%	4.25%

Related articles: 1) [Inflation Preview: Still muted amid the storm;](#)
2) [Monthly Recap: Rate cuts ahead for the Fed and BSP](#)

INFLATION UPDATE

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ANNEX

HEADLINE INFLATION OF MAIN COMMODITY ITEMS

All Items
Food and non-alcoholic beverages
Alcoholic beverages and tobacco
Clothing and footwear
Housing, water, electricity, gas, and other fuels
Furnishings, household equipment, and routine household maintenance
Health
Transport
Information and communication
Recreation, sport, and culture
Education services
Restaurants and accommodation services
Financial services
Personal care, and miscellaneous goods and services

July 2025 (in %)

0.9
-0.2
4.2
1.8
2.1
2.1
2.6
-2.0
0.5
2.2
4.3
2.3
0.0
2.3

Legend

Lower vs last month Higher vs last month

