Snap | 4 September 2026 RATES PHILIPPINES

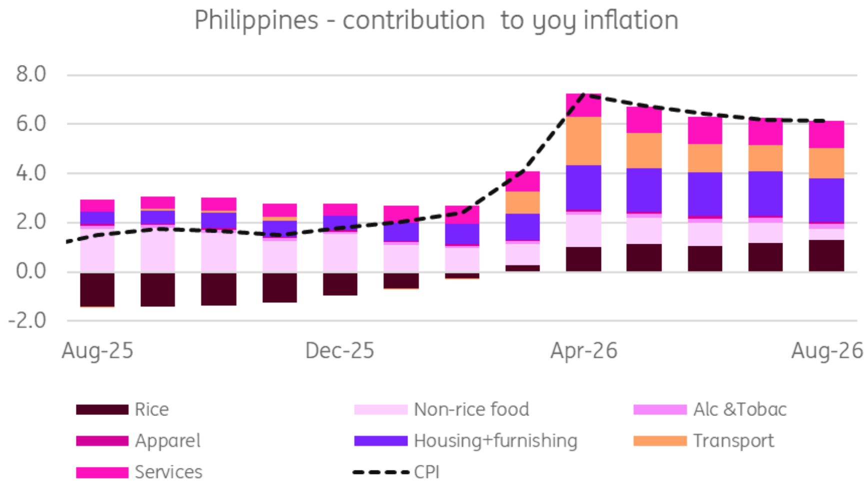
Philippine inflation pressures persist despite softer CPI

While Philippine headline CPI eased marginally, persistent core inflation and rising food-price risks from El Niño suggest prices will stay above target for longer. This supports our call for an additional rate hike in the fourth quarter

Inflation remains sticky despite a modest easing in headline CPI

Headline CPI inflation eased marginally to 6.1% YoY in August from 6.2% in July, in line with expectations. Food and beverage inflation moderated to 4.6% YoY, reflecting softer price pressures in non-rice food items. However, rice prices continued to accelerate, rising to 19.4% YoY from 17.0%, highlighting persistent supply-side pressures. Underlying inflation remained largely unchanged, with core prices holding above 4% YoY and services costs contributing a steady 1.1 percentage points to headline inflation. Fuel price developments were mixed, as transport costs accelerated while electricity prices declined.

Rice inflation made a larger contribution to headline inflation in August

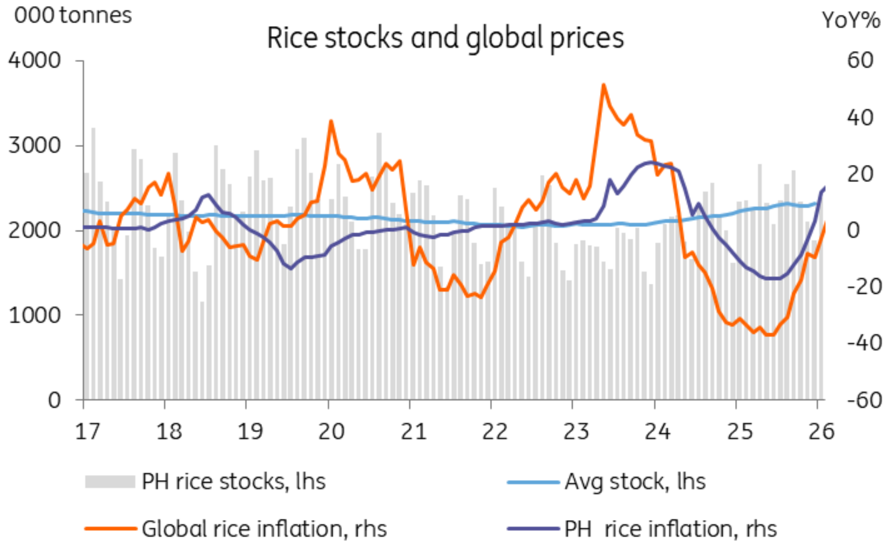


El Niño, rice prices and wage pressures keep upside risks elevated

Looking ahead, inflation risks remain tilted to the upside. Although domestic rice inventories remain relatively comfortable, both global and local rice price inflation continue to accelerate. Meanwhile, El Niño conditions are now firmly established. The World Meteorological Organisation expects weather disruptions to strengthen and persist until at least February 2027. The risk of renewed food‑price pressure is rising, especially for rice and other weather‑sensitive crops. This could slow the disinflation process. The government has also indicated that the Philippines may need to import as much as five million metric tons of rice to secure adequate supplies as storms, monsoon rains and a developing El Niño-related drought threaten domestic harvests.

Moreover, core inflation remains sticky above 4% YoY, while renewed upward pressure from oil prices could keep headline inflation elevated. We expect CPI inflation to remain above 5.5% YoY for the remainder of 2026. The risk of further wage pass-through into services inflation remains. As a result, inflation is unlikely to return sustainably to the Bangko Sentral ng Pilipinas' target range before 2028.

Rice inflation is picking up despite healthy stocks



One more rate hike likely in 4Q26

We continue to expect one additional 25bp rate hike in 4Q26. Uncertainty surrounding the severity and duration of El Niño, higher oil prices, depreciating PHP, and the extent of wage pass-through is unlikely to be fully resolved before then. Together with persistent core inflation and elevated inflation expectations, these factors should keep the BSP focused on ensuring that inflation returns to target on a sustained basis.

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