

Philippines: 2Q GDP disappoints as revenge-spending fades and rate hikes finally weigh on momentum

2Q23 GDP grew 4.3%YoY, much slower than the market expectation of a 6% gain.



Source: Shutterstock

4.3%

YoY growth

slowest pace of expansion since 2011

Lower than expected

2Q23 GDP disappoints in a big way

The Philippine economy grew 4.3%YoY in the second quarter of 2023, much slower than the market expectation, which was for a 6% gain. On a quarter-on-quarter basis, the economy contracted by 0.9% as high inflation and the lagged impact of previous monetary tightening weighed on economic activity.

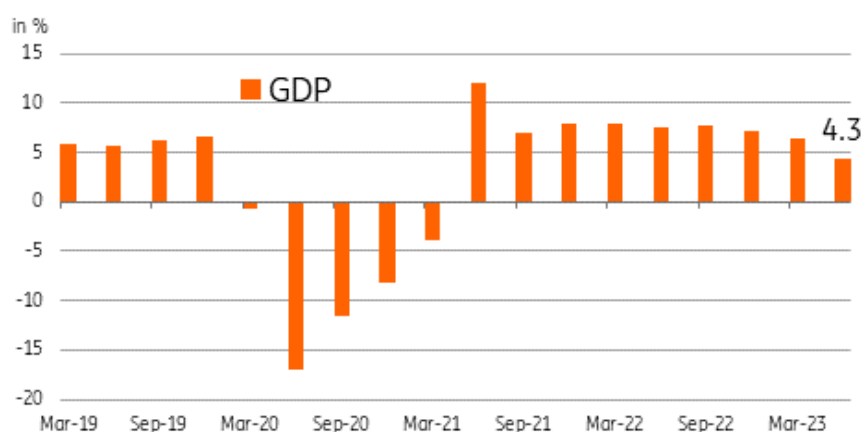
This was the slowest pace of expansion since 2011, with growth momentum slowing due to a challenging global landscape, price pressures, lacklustre fiscal stimulus and elevated borrowing costs.

Overall, this was a disappointing report with the slowdown evident in all major sectors of the economy. Household consumption posted slower growth of 5.5%YoY, slowing from the 6.4% expansion in 1Q23. A combination of fading revenge-spending on top of an unfavourable base effect (presidential elections were held in 2Q 2022) capped household consumption.

Meanwhile, the aggressive tightening carried out by Bangko Sentral ng Pilipinas last year weighed on capital formation, with overall investment outlays unchanged from last year.

Lastly, government spending, which had been an important source of support throughout the pandemic, contracted by 7.1%YoY. Year-to-date growth slowed to 5.3%, much lower than the government’s target of 6-7% growth, which now looks out of reach given our expectation for [growth to slow further in the coming quarters](#).

PHL economic growth sputters to slowest pace (YoY%) since 2011



Source: Philippine Statistics Authority

Governor Remolona stuck between slowing growth and rising inflation risk

BSP meets next week to discuss monetary policy against a backdrop of slowing domestic growth momentum and rising upside risks to the inflation outlook. The Philippines imports energy and grain, and the prices of both have been on the rise recently, potentially threatening the current downward path of inflation.

BSP Governor Remolona has indicated that any policy decision will remain data-dependent and today’s disappointing GDP report will likely figure in next week’s decision.

We believe Governor Remolona will need to consider a pause to provide growth with some support while remaining hawkish in his statement by vowing to hike if upside risks to the inflation outlook materialize.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.