

Philippines: 2Q GDP falls well short of expectations but don't expect a pause from the central bank

The Philippine economy grew 7.4% YoY, but was well below expectations



Source: Shutterstock

7.4% YoY

 2Q GDP growth

Lower than expected

2Q GDP at 7.4%

2Q Philippine GDP rose 7.4%YoY which disappointed market participants who were expecting growth to settle at 8.4% (from 8.2% in 1Q). Rapidly rising prices blunted mainstay household consumption, which grew 8.6% YoY but contracted 2.7% QoQ as inflation averaged 5.5% YoY for the period.

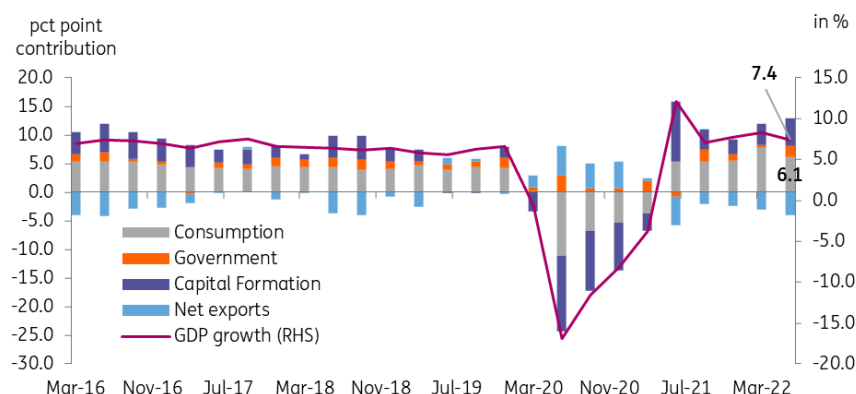
Also weighing on overall growth momentum was the stark widening of the trade gap as import growth sustained double-digit gains. The June trade report, also released today, showed the trade deficit at an all-time high (-\$5.84bn). Economic planning secretary Balisacan suggested that the trade gap could widen further in the coming months, pointing to a sustained drag on overall GDP for the rest of the year.

2022 growth likely to settle at the lower-end of government target

Today's GDP report points to full year growth settling at the lower-end of the government's 6.5-7.5% growth target. The economy is facing the [triple threat of accelerating inflation, rising borrowing costs and a relatively high debt-to-GDP ratio](#). Faster inflation, which was last reported at 6.4%, should cap overall household spending while rising interest rates are likely to deter investment outlays. Meanwhile, elevated levels of debt could act as a handicap and mitigate the ability of the national government to provide stimulus in the near term.

All together the headwinds facing the Philippine economy could force 2022 GDP growth to settle at 6.5%, at the lower-end of the BSP's aspirational target.

Growth weighed down by surging inflation



Source: Philippine Statistics Authority and ING

Growth miss not likely to deter BSP resolve

Despite the disappointing growth report, we still expect Bangko Sentral ng Pilipinas (BSP) to maintain its hawkish bias for the rest of the year. Prior to the GDP release, BSP Governor Medalla hinted that the central bank was more inclined to hike policy rates by 50bp to help combat inflation that surge well-past BSP's target. We believe however that BSP may dial down the magnitude of tightening, resorting to 25bp rate increases for the remainder of the 2022 policy meetings.