

Philippines: 4Q GDP surprise supercharged by revenge spending

4Q GDP growth surged to 7.7%, lifting full-year growth to 5.6%



Source: Shutterstock

7.7%

4Q YoY GDP growth

2021 FY growth at 5.6%

Better than expected

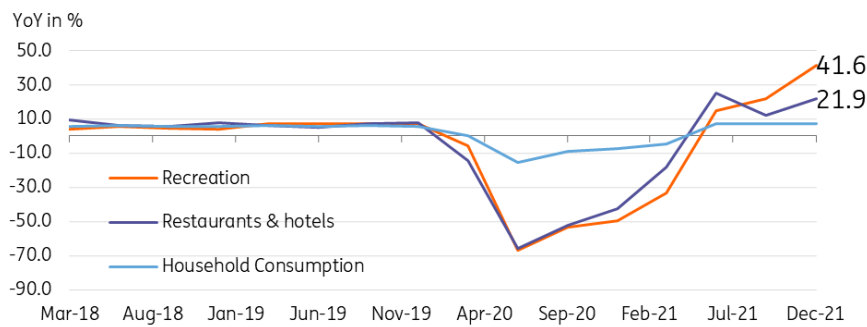
4Q GDP hits 7.7%, supercharged by revenge spending

Economic activity picked up considerably in 4Q 2021 with GDP growth hitting 7.7% YoY. Growth moved past market expectations for a 6.3% expansion and lifted full-year growth to 5.6%. Aided by a favourable base, 4Q GDP growth was supercharged by surging household consumption, which was up 7.5%. Falling Covid-19 daily infections helped spur so-called revenge spending on recreation & culture (41.6%) and restaurants & hotels (21.9%) ahead of the holiday season. Growth was broad-based with government expenditures and capital formation also posting respectable growth of 7.4% and 12.6%, respectively. Full-year growth of 5.6% was better than the

government growth target of 4.5-5.5%. However, it should be noted that the target was originally pegged at 6.5-7.5% at the start of 2021.

Growth momentum may hit a speed bump in 1Q 2022 after Covid-19 daily infections surged to record highs. But despite this, growth dynamics suggest that a decent recovery is still possible, even more so with the elections in May likely to provide a boost to overall economic activity.

Consumption supercharged by revenge spending on leisure



Source: Philippine Statistics Authority

Improving growth dynamic trigger point for BSP reversal?

Bangko Sentral ng Pilipinas (BSP) Governor, Diokno, has maintained his dovish leaning in 2021, pledging sustained support for the country's economic recovery. An improving growth dynamic in 2022 alongside a decidedly hawkish Federal Reserve could see the BSP finally consider some form of policy normalization. Diokno has suggested that his trigger point for a potential rate hike would likely be at least "a couple" of quarters of strong growth. Today's upside surprise is the first leg of that decision and we expect BSP to prepare for a potential policy reversal by 2Q 2022.