

Philippines: Economy back on track, opens door for BSP rate hike next week

The Philippine economy grew 8.3% in 1Q despite Omicron lockdown



Source: Shutterstock

8.3%

1Q22 GDP

GDP now back at pre-Covid levels

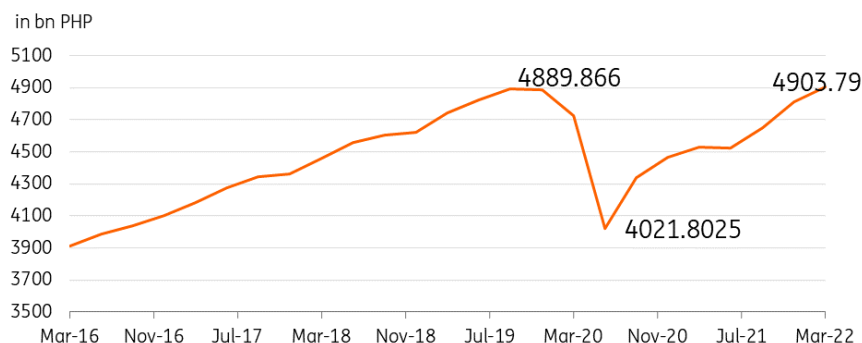
Higher than expected

1Q GDP surprises on the upside

Economic activity remained brisk in 1Q22, despite an Omicron-induced surge of Covid infections early on in the quarter. Economic re-opening as mobility restrictions were lifted helped raise GDP growth to 8.3%YoY, bringing it back to pre-Covid levels.

Private consumption jumped 10.1%YoY, with a strong pickup in sectors related to transportation and recreation. Capital formation also delivered strong growth, gaining 20%. Fixed capital formation rose 11% given robust construction spending. Government spending was also positive, though slowed to a 3.6%YoY gain.

Back on track: PHL GDP returns to pre-Covid levels after 1Q GDP grows 8.3%



Source: Philippine Statistics Authority

Ball in BSP's court, expect a rate hike next week

This robust economic recovery coupled with above-target inflation points to policy normalization from Bangko Sentral ng Pilipinas (BSP). BSP Governor Diokno has been keeping rates unchanged to help support the economic recovery. But with GDP now back to pre-Covid levels and with inflation accelerating, we fully expect BSP to hike policy rates at the 19 May meeting next week.

Next leader inherits a robust economy but plenty of headwinds

Although the Commission on Elections has yet to proclaim a winner in the recent Presidential Election, unofficial election returns point to a win by Ferdinand Marcos Jr. The next president inherits a robust economy as 2Q GDP growth will likely show another healthy expansion delivered by election-related expenditure. On top of a robust economy, Marcos will enjoy a substantial amount of political capital to begin his term, as his senate is set to secure 11 out of the 12 seats in the upper house. A majority mandate on top of sizable political capital opens the door for opportunities for Marcos to implement substantial economic reforms early on in his single 6-year term.

The investor community now awaits Marcos' cabinet picks, in particular, the composition of his economic team and his plans on how to address key issues such as accelerating inflation and debt consolidation - Marcos inherits a sizable amount of debt from his predecessor.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com