

Philippines: GDP growth at 6.4%, sluggish momentum points to BSP easing

The Philippines recorded GDP growth of 6.4% in 4Q, bringing full-year growth to 5.9%



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6.4%

4Q GDP

FY GDP growth at 5.9%

As expected

Growth target missed

The Philippines posted a 6.4%YoY expansion in the fourth quarter with government spending and robust household consumption paving the way for a strong finish to the year. Household consumption, which drives the bulk of economic activity grew 5.6% with inflation falling below the lower end of the BSP's inflation target in both October and November. Meanwhile, the authorities attempted to implement catchup spending with government expenditure posting 18.7% growth. Despite the pickup in growth momentum in 4Q, full-year GDP only hit 5.9%, shy of the

government's 6.0-6.5% target.

Sluggish growth momentum points to the need for BSP easing

Economic planning secretary, Pernia, tagged the delay in the passage of the 2019 budget as the main culprit for the growth miss, as roughly Php1bn worth of planned government spending was delayed until mid-year. Meanwhile, capital-formation took a hit with private sector investments contracting, likely in reaction to the lagged effects of aggressive central bank tightening in 2018, and possibly also uncertainties stemming from the US-China Trade war. The subdued pace of recovery coupled with higher growth aspirations (government 2020 target at 6.5-7.5%) means that the Philippine economy will likely need a boost from both fiscal and monetary policy this year. Previously, Bangko Sentral ng Pilipinas (BSP) Governor Diokno hinted at a possible 25 bps rate cut by 1Q20 to bolster GDP growth. The growth miss and damage from the recent volcanic eruption could prod the BSP to cut policy rates sooner rather than later. We continue to pencil in a 25 bps rate cut at the 6 February meeting given the disappointing growth numbers.