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Research and Market Strategy Department

QUARTERLY ECONOMIC GROWTH RELEASE

5.6%
FY 2024 GDP

Subdued GDP to give BSP reason to cut?

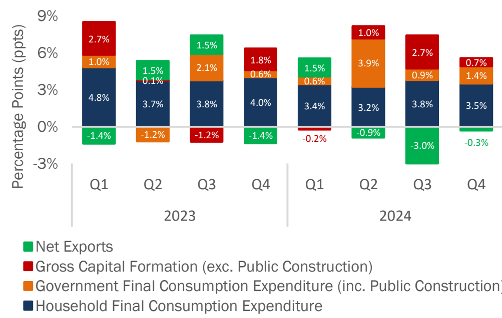
The Philippines' gross domestic product (GDP) grew 5.2% year-on-year (YoY) in the fourth quarter (Q4) of 2024, bringing the full-year (FY) expansion to 5.6%. FY 2024 GDP growth is slightly lower than Metrobank Research's 5.7% forecast and is below the government's target for the second consecutive year.

The full-year print was weighed down by the slower economic growth in the second half of the year, when GDP growth averaged 5.2% versus the 6.1% in the first half of the year. This is partly attributed to destructive typhoons that devastated the country as well as the high-interest-rate environment that continued to curtail consumption and investment.

Expenditure Share: Consumption chugs along but at subdued pace

- In Q4 2024, household consumption remained the largest contributor to economic growth, delivering 3.5 percentage points (ppts) out of the total 5.2% YoY. However, expansion in household consumption slipped below the 5.0% level to 4.7%, slightly lower than the Q3 2024 and Q4 2023 prints.
- Government final consumption expenditure, including public construction, came in second with a 1.4 ppt contribution to growth. Quarter-on-quarter (QoQ), government spending saw a pick-up in Q4 2024 after contraction in the third quarter due to front-loaded government spending in the first half of the year.
- Investment, excluding public construction, grew by a modest 3.9% YoY, a significant slowdown from the Q3 2024 and Q4 2023. It contributed 0.7 ppt to last quarter's growth.
- External trade continues to be in a deficit, contributing -0.3 ppts to the Q4 growth as imports, which account for around 60% of the country's total trade, grew at the same pace as exports.

GDP Growth Contribution by Expenditure

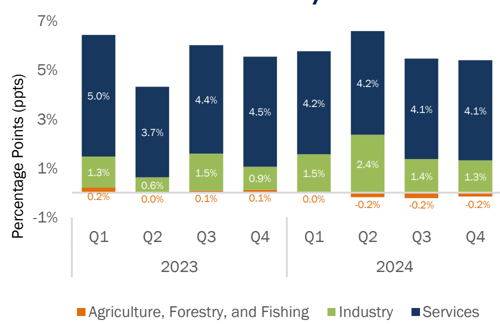


Source: Philippine Statistics Authority (PSA)

Sectoral Share: Agriculture feels the heat from El Nino

- The services sector remains the largest sectoral contributor to growth, delivering 4.1 ppts out of the overall expansion in Q4. The sector grew 6.7% YoY in Q4, faster than the 6.3% in the preceding quarter. Wholesale and retail trade was a major contributor, growing faster at 5.5%. Meanwhile, accommodation and food services grew by 6.1%, the first time the sector registered a single-digit growth post pandemic.
- The industry sector growth continued to moderate to 4.4% YoY from 5.0% in Q3. The construction industry registered slower growth of 7.8%, but it remains the main driver to growth within the industry sector.
- The agriculture, forestry, and fishing sector contracted for a third consecutive quarter at -1.8% YoY from -2.8% in the preceding quarter, weighing down Q4 GDP growth.
- According to Agriculture Assistant Secretary Arnel de Mesa, the unprecedented series of typhoons has caused over PHP 10 billion in losses to the agricultural sector. This is a driver for the prolonged dampening of the sector.

GDP Growth Contribution by Sector



Source: Philippine Statistics Authority (PSA)

METRO RESEARCH'S TAKE

Positioned to meet target in 2025

- Metrobank Research maintains its forecast that annual GDP growth will quicken to 6.2% in the next two years, as the lagged impact of the Bangko Sentral ng Pilipinas (BSP)'s monetary easing surfaces to support capital formation.

Pressured to cut

- The BSP's Reverse Repurchase (RRP) rate is now 75 basis points (bps) below its peak of 6.50% following three consecutive cuts which began in August 2024. BSP opted to shift to easing mode to rekindle consumption and investment momentum, which has been curtailed by the overhang of restrictive monetary policy. This, together with the economic impact of the successive typhoons in 2024, hampered economic growth.
- The lower-than-target full year print adds pressure for the BSP to deliver a cut at the next Monetary Board (MB) meeting to aid economic recovery. With inflation forecast to settle within target this year and next, BSP could turn their focus to supporting growth.
- Metrobank Research forecasts that the BSP will reduce its target RRP rate by a cumulative 75 basis points (bps) this year. This would bring the BSP's policy rate to 5.00% by end-2025. This translates to a narrower interest rate differential with the Fed by year-end at 100 bps, which could add pressure to USD/PHP.

Related article: GDP Preview: Philippine economic growth quickens in Q4

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