QUARTERLY ECONOMIC GROWTH RELEASE

Stronger case for a BSP cut in August

5.5%
Q2 2025 GDP

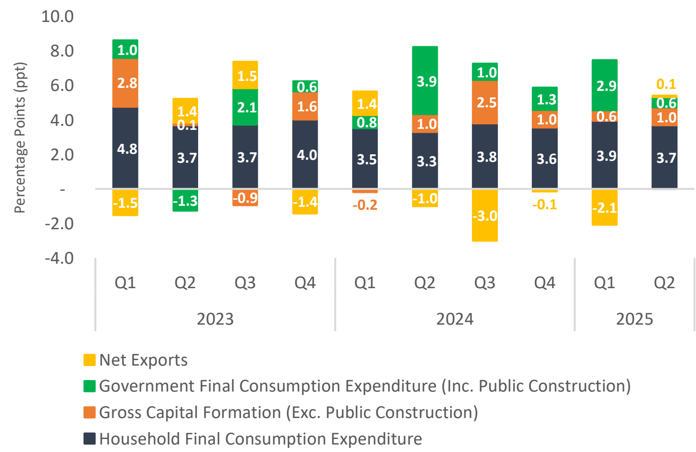
Agri boon fuels slightly quicker GDP in Q2

The Philippines' gross domestic product (GDP) grew 5.5% year-on-year (YoY) in the second quarter (Q2) of 2025, slightly faster than the 5.4% growth in Q1. The recent data is slightly lower than Bloomberg consensus estimate of 5.6% forecast.
Year-to-date GDP growth settled at 5.4%. Department of Economy, Planning, and Development Secretary Arsenio Balisacan said that growth should accelerate by at least 5.6% in the second half of the year to reach the government's full year target band of 5.5-6.5%.
GDP growth was slightly tempered by final government expenditure, which decelerated to 8.7% YoY from 18.7% in the previous quarter. Meanwhile, the contribution of net exports to growth moved to positive territory, as a lower volume of imports allowed the trade balance to narrow slightly in Q2.

Expenditure Share: BSP easing supports economy

- In Q2 2025, household consumption remained the largest contributor to economic growth, delivering 3.7 percentage points (ppts) out of the total 5.5% YoY. Expansion in household consumption continued to accelerate above the 5.0% level to 5.5%, faster than the 5.3% growth logged in the first quarter of 2025.
- Government final consumption expenditure, including public construction, logged a 0.6 ppt contribution to growth. Government spending, including public construction, expanded at a slower pace of 2.2% YoY from 16.8% YoY in the previous quarter.
- Investment, excluding public construction, grew at 6.1% YoY, faster than the 3.3% growth seen in the previous quarter. This resulted in a larger contribution of 1.0 ppt from 0.6 ppt.
- Although external trade continues to be in a deficit, the contribution of net exports improved slightly as contributing 0.1 ppt to Q2 growth from -2.1 ppts in the previous quarter. Exports of goods and services expanded by 4.4% YoY, outpacing imports of goods and services growth of 2.9% YoY.

GDP Growth Contribution by Expenditure 2018=100

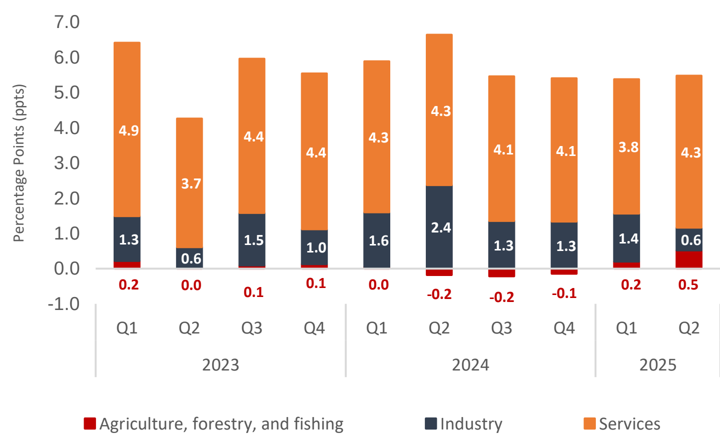


Source: Philippine Statistics Authority (PSA)

Sectoral Share: Agriculture on a roll

- By sector, services remained the largest contributor to growth, delivering 4.3 ppts out of the overall growth in second quarter. The sector expanded by 6.9% YoY, faster than the 6.2% growth in the preceding quarter. Growth in the sector was driven by the wholesale and retail trade, public administration and defense, and financial and insurance activities.
- The industry sector also remained the second largest contributor, although dropping to only 0.6 ppts after growth slowed to 2.1% YoY in the second quarter from 4.6% YoY in Q1. Growth in the sector was driven by manufacturing and construction.
- The agriculture, forestry, and fishing sector contributed 0.5 ppts to overall growth in Q2, after a 7.0% YoY growth, significantly faster than the 2.2% YoY growth in the preceding quarter. According to Balisacan, the faster growth within the sector was largely driven by improved harvest of palay and corn amid favorable weather conditions post-El Nino.

GDP Growth Contribution by Sector 2018=100



Source: Philippine Statistics Authority (PSA)

QUARTERLY ECONOMIC GROWTH RELEASE

Stronger case for a BSP cut in August

METROBANK'S TAKE

Philippine exports to remain resilient

- Although the new US tariffs implemented this month will dampen demand for imported products in the US, the adjusted 19% tariff from the originally announced 17% removes initially anticipated competitive advantage of the country relative to regional peers. The blanket tariff, along with a potential 100% tariff on semi-conductors, will weigh on the country's trade deficit.
- However, Secretary Balisacan projects that the economic impact of a potential 100% tariff on semiconductors and other electronics will not be too adverse, as it constitutes only a small portion of the Philippines' total exports. He noted that other exports, especially other manufactured goods, have a larger value-added and that the Philippines has a diverse set of export destinations.

Within-target GDP growth still achievable this year

- According to Balisacan, the impact of a more accommodative policy rate environment and slow inflation is starting to materialize and is projected to support the momentum of private consumption in the second half of the year.
- He noted an expected recovery in the real estate sector and a continuous momentum in the construction sector. Moreover, as more favorable weather conditions are anticipated this year compared to last year, sustained recovery in the agricultural sector is expected.
- Despite uncertainties in the global space, Metrobank maintains its forecast that the full-year average GDP growth this year will settle at 5.5%, at the lower bound of the government's 5.5-6.5% target for the year.

More urgent cuts

- Following the release of the July inflation print, Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona signaled a more dovish monetary policy stance, opening the possibility of a rate cut in August.
- Muted inflation builds a stronger case for the BSP to continue reducing its policy rate as early the August 28 meeting to help boost GDP growth toward the government's target. Lowering the policy rate will provide support to domestic demand, providing cushion against global headwinds.
- Metrobank Research forecasts that the BSP will reduce its policy rate by 25 bps at the next Monetary Board meeting (August 28), to be followed by another 25-bp cut toward the end of the year. This would bring the BSP's reverse repurchase rate (RRP) to 4.75% by end-2025.

Related article: GDP Preview: Growth to pick up pace amid challenges