Metrobank
Research and Market Strategy Department
QUARTERLY ECONOMIC GROWTH RELEASE

08 MAY 2025

5.4% Q1 2025 GDP | Underwhelming growth to prompt more BSP rate cuts

The Philippines' gross domestic product (GDP) grew 5.4% year-on-year (YoY) in the first quarter (Q1) of 2025. Q1 2025 GDP growth is lower than Metrobank Research's 5.7% forecast and is below the government's target for the full year.

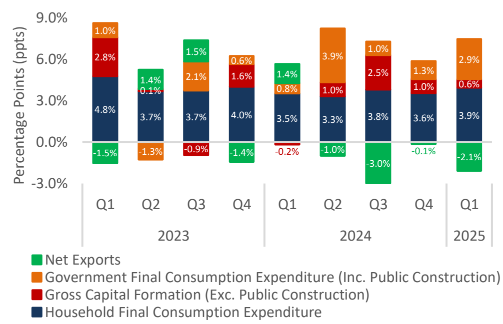
In Q1 2025, the country shows signs of economic expansion despite the sub-target figure. There was growth across industries including a reversal of the agriculture sector's contraction in the three preceding quarters. Moreover, there was an acceleration in household and government expenditures, but was slightly offset by the high volume of imports.

According to Department of Economy, Planning, and Development Undersecretary Rosemarie Edillon, the Philippine economy will have to grow by an average of 6.2% for the rest of the year to achieve the lower end of the government's full-year target. She also noted that domestic demand, which drives growth, remains strong, although global demand is "in a period of volatility."

Expenditure Share: Domestic demand spurs growth

- Household spending grew 5.3% YoY in the first quarter, remaining the main contributor to growth and contributing 3.9 percentage points (ppts) out of the total 5.4%.
- Government spending including public construction also provided a boost, contributing 2.9 ppts after a 16.8% YoY growth. This was mainly driven by frontloaded spending, led by the infrastructure agencies, ahead of the election ban.
- Private investments excluding public construction remained muted in the first quarter, contributing only 0.6 ppts after expanding by only 3.3% YoY. Investments in durable equipment, however, grew by 6.7% during the quarter. According to Usec. Edillon, this indicates a "measured start" and a positive business outlook amid strong domestic demand.
- Meanwhile, net exports remained a downside to growth with a -2.1 ppt contribution as the trade deficit expanded by 19.9%.

GDP Growth Contribution by Expenditure

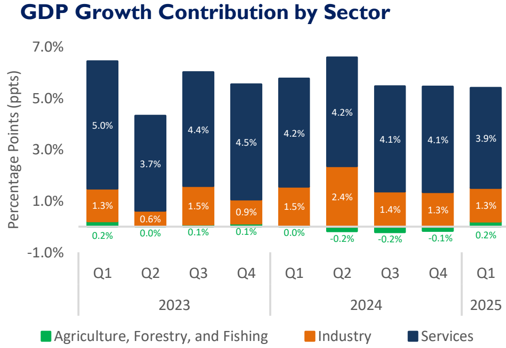


Source: Philippine Statistics Authority (PSA)

Sectoral Share: Agriculture makes a comeback

- The services sector remains the largest sectoral contributor to growth, delivering 3.9 ppts out of the overall expansion in Q1. The sector grew 6.3% YoY in Q1, slower than the 6.7% in the preceding quarter. Wholesale and retail trade was a major contributor, growing faster at 6.4%. Meanwhile, transportation and storage saw the fastest growth out of all other industries at 9.8% YoY.
- The industry sector remained steady at 4.5% from the preceding quarter on the back of the manufacturing industry which grew at 4.10% YoY and other industries logged modest growth.
- The agriculture, forestry, and fishing sector finally bounced back from its slump in 2024, growing at 2.2% YoY from -1.8% in the preceding quarter.
- Usec. Edillon highlighted developments in the Department of Agriculture such as African Swine Fever (ASF) vaccinations being expedited to sustain growth in the agricultural sector through a more stable supply of goods.

GDP Growth Contribution by Sector



Source: Philippine Statistics Authority (PSA)

METRO RESEARCH'S TAKE

Negative trade position provides cap for growth

Despite the growth across sectors and industries in the Philippines seen in Q1 including the reversal in the agricultural sector from its contraction in the three preceding quarters, we could see the momentum for imports continue. This will provide resistance for growth to accelerate toward the government's target this year. We still expect a high level of imports moving forward from the Filipinos travelling abroad and the inflow of capital goods as domestic demand strengthens. This, together with the anticipated weakness in exports as global demand softens, will increase the country's trade deficit.

Cooling inflation gives way to more growth-supportive cuts

The sustained downtrend in the headline inflation provides the Bangko Sentral ng Pilipinas (BSP) with more "degrees of freedom" in reducing its policy rate further this year. Metrobank forecasts a cumulative 100 bps worth of cuts this year, followed by another cumulative 50 bps in 2026. This will bring the target Reverse Repurchase (RRP) rate down to 4.75% by end-2025 and to 4.25% by end-2026.

Faster growth this year and next

Metrobank forecasts that the Philippine's gross domestic product (GDP) will expand by 5.8% in 2025 and by 6.2% in 2026, faster than the 5.7% in 2024. The projected faster expansion this year and next is due to the anticipated full impact of BSP's monetary easing, which started in August 2024. On the downside, dampened external demand amid the ongoing tariff war and the bleak global economic outlook pose risks to growth.

Related article: GDP Preview: Setting the tone for 2025