PH GDP

Q2 2026 GDP growth nears GFC lows

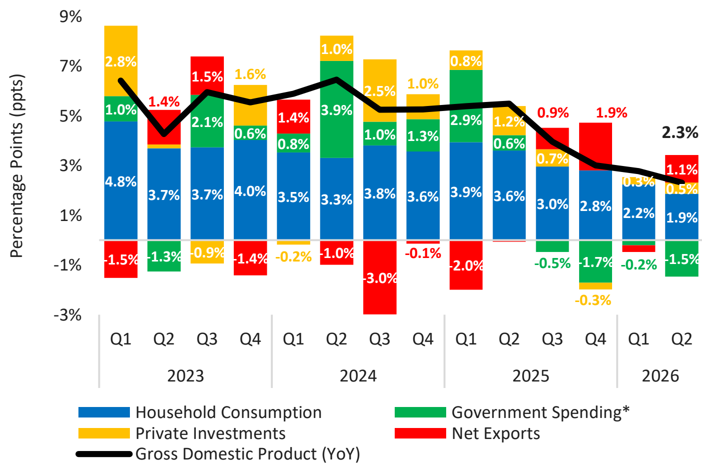
The Philippines' gross domestic product (GDP) growth weakened further to 2.3% year-on-year (YoY) in the second quarter of 2026, bringing the year-to-date growth to 2.6%, which remains below the government’s downwardly adjusted target of 3.5% to 4.5% for the full year. Excluding the COVID-19 pandemic period, Q2 2026 growth is the slowest since Q4 2009 during the Global Financial Crisis.

Growth in Q2 2026 was weighed down by the continued contraction in public construction, as unresolved domestic governance issues delayed implementation of public infrastructure projects. Growth in private consumption and investments also continue to moderate as external headwinds weakened further the already subdued domestic sentiment. On the other hand, net exports continued to support growth, with the global artificial intelligence (AI) supercycle sustaining demand for electronics exports.

Expenditure Share: Consumer Pains

- In Q2 2026, household consumption remained the largest contributor to overall growth, but its contribution narrowed to 1.9 percentage points (ppts). Excluding the COVID-19 pandemic, the 2.8% growth in consumption is the slowest pace since Q3 2010. The downtrend in consumption growth continues as Filipino consumers grapple with high inflation, elevated rates and accumulated debt, with recent global headwinds worsening domestic economic conditions.
- Total government expenditure, including public construction, remained weak, with public construction contracting by 32%. Delays in project awards stemming from governance issues further weighed on public construction implementation.
- Investment, excluding public construction, continued to grow modestly at 3.4%, sustaining a slow-paced recovery as sentiment remains weak.
- External trade remains a silver lining to the economy, contributing 1.1 ppts to overall growth as electronics exports remain robust despite shifting global trade dynamics.

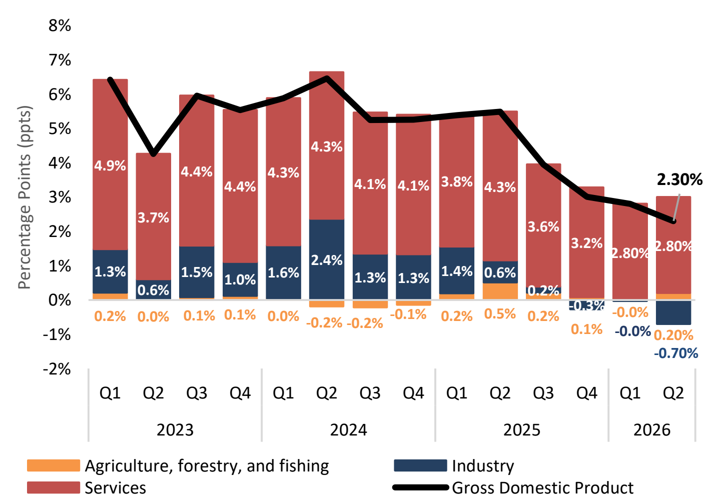
GDP Growth Contribution by Expenditure 2018=100



Sectoral Share: Construction Still a Sticking Point

- The services sector remained the largest sectoral contributor to growth, delivering 2.8 ppts out of the overall expansion in Q2. The sector grew 4.5% YoY in Q2, remaining steady from the preceding quarter. Wholesale and retail trade remained a bright spot as it continued to grow at the same pace as in the last quarter, at 4.6%. Meanwhile, growth of financial and insurance activities eased to 3.3%.
- The agriculture, forestry, and fishing sector rebounded, registering 2.7% YoY growth from -0.2% in the previous quarter, allowing its percentage-point contribution to improve.
- The industry sector’s growth slowed further with its contribution falling to -0.7 ppts due to a YoY contraction of 2.4% from 0.1% growth in the previous quarter. While the manufacturing industry continued to grow, construction remained a drag on the industry sector, registering a contraction of 32% YoY.
- Nonetheless, Department of Economy, Planning , and Development (DepDev) Secretary Arsenio Balisacan expressed optimism that public construction would recover in the second half of 2026.

GDP Growth Contribution by Sector 2018=100



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METROBANK'S TAKE

El Niño to weigh on agriculture recovery

The agricultural sector rebounded in the second quarter, contributing to overall growth. However, this recovery could lose momentum amid the ongoing El Niño and the risk of a stronger episode developing in the coming months as projected by the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA)'s models. This is expected to adversely affect both crop and livestock production, reversing some of the gains seen in the recent quarters and potentially exceeding the agricultural losses reported by the Department of Agriculture (DA) during the 2023-2024 strong El Niño episode. This poses a significant risk to the sector's recovery momentum and the broader economy.

AI story to support the fragile recovery

Sustained global demand for semiconductors kept the country's export industry well anchored, serving as the Philippine economy's silver lining. Philippine electronics exports stand to continuously benefit from the global artificial intelligence (AI) supercycle, which is projected to continue throughout the rest of the year. This could partially offset the increased value of imports because of a weak peso. Moreover, AI-driven investments could also spur overall economic activity, especially if political instability in the country settles down.

Projected recovery still short of target

Growth in the second half of the year is expected to outpace growth in the first half of the year as geopolitical tensions ease and sentiment gradually improves. Government infrastructure spending is likely to pick up for the rest of the year, with some projects potentially resuming in the third quarter after the Department of Public Works and Highways (DPWH) awarded contracts in June and July. In addition, low base effects should provide further support to year-on-year growth in the second half.

Metrobank Research maintains its full-year average GDP growth forecast at 2.9%, below the government's downwardly adjusted full-year target of 3.5%-4.5% this year.

Hiking nonetheless

While the BSP has already raised its Reverse Repurchase (RRP) rate by 25 basis points (bps) twice this year, inflation concerns have yet to be quelled as developments in the Middle East continue to drive global oil prices upward. Elevated oil prices and their second-round effects are likely to keep domestic inflation elevated for the rest of the year.

Slow economic growth amid elevated inflation creates a dilemma for the BSP. The lower-than-expected print for the second quarter adds pressure on the BSP to keep rates accommodative, especially given weak growth in household consumption and investment. However, price pressures are likely to remain a sticking point given that price stability is the BSP's mandate. Metrobank Research forecasts that the BSP will raise its target RRP rate by a cumulative 100 bps this year. This would bring the BSP's policy rate to 5.25% by end-2026. A wider interest rate differential with the Fed at 150 bps by year-end could provide some support for USD/PHP.

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