

PHILIPPINES ECONOMIC UPDATE Bracing for Headwinds,

Advancing Food Security

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Key Messages



The Philippine economy has remained resilient despite a challenging global environment.



The deteriorating global environment is spilling into the domestic economy and tempering the country's growth prospects in 2023.



Addressing the immediate challenge of elevated inflation, staying the course on fiscal consolidation, sustaining investments in health and education, and reversing the low agriculture productivity will be key to safeguard growth and achieve long term development goals.

Recent Economic and Policy Developments

The Philippine economy has remained resilient despite a challenging global environment.

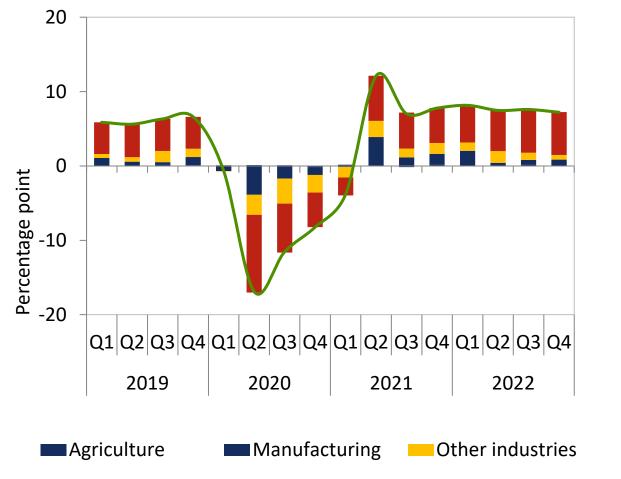




The post-pandemic recovery is underway, driven by strong domestic demand.



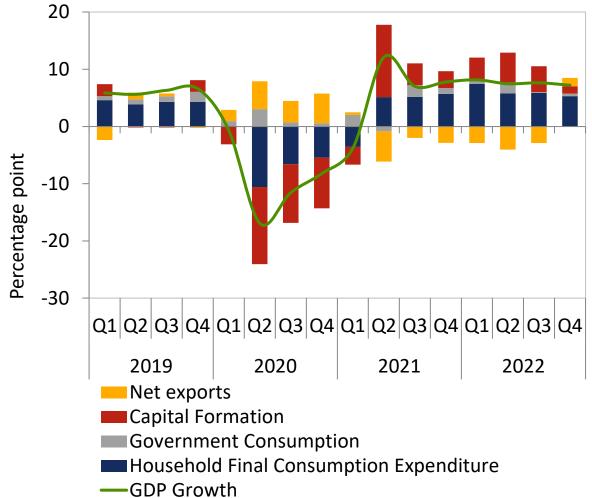
Supply Side: Contribution to GDP growth



-GDP Growth

Services

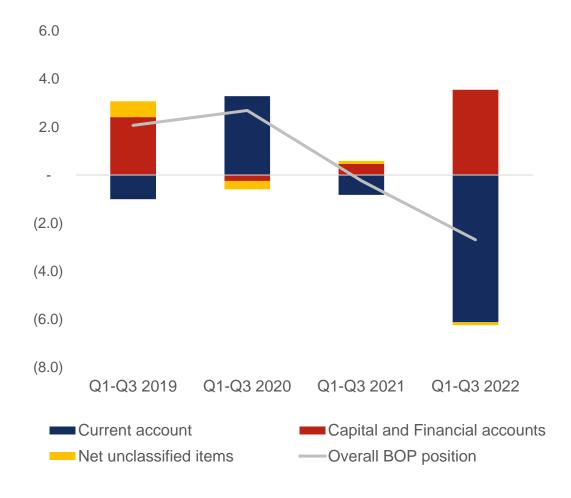
Demand Side: Contribution to GDP growth



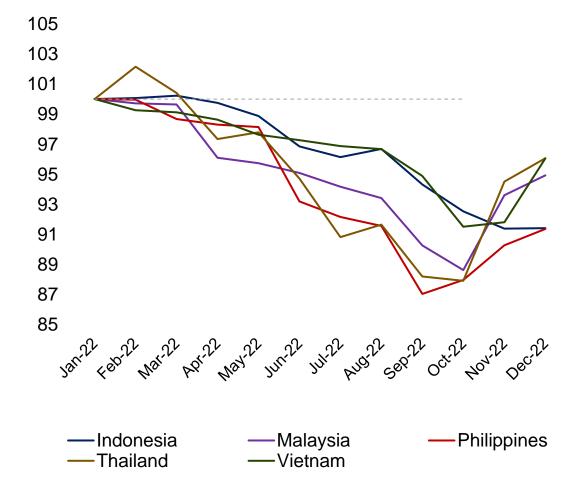
The Balance of Payments deficit widened, and the peso has depreciated.



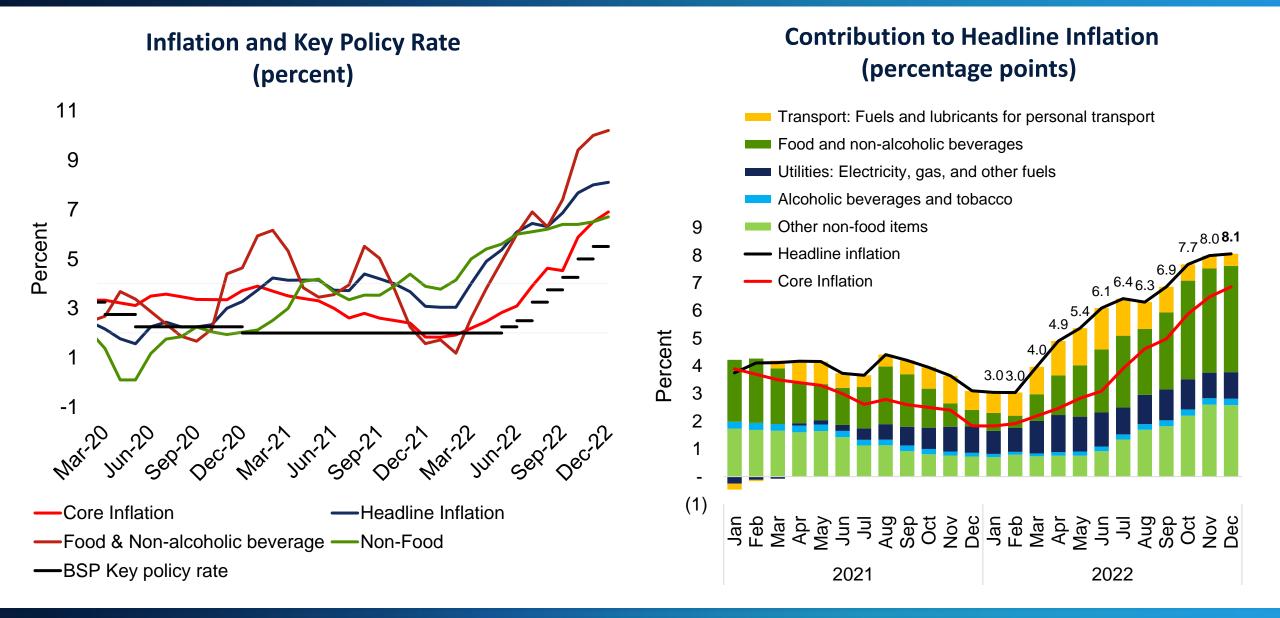
Balance of Payments Components (percent of GDP)



Regional Currency Movements (January 2022=100)



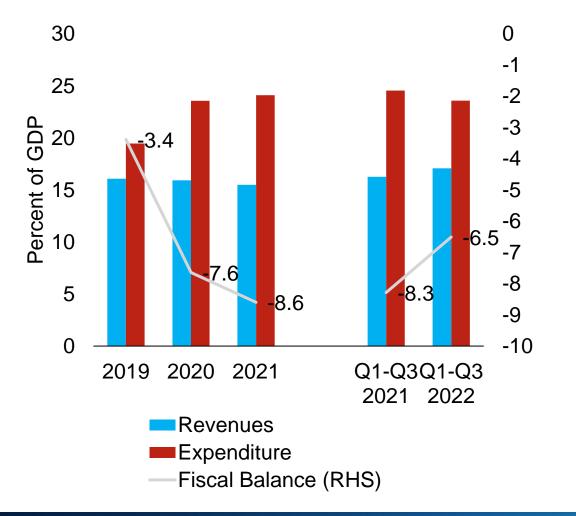




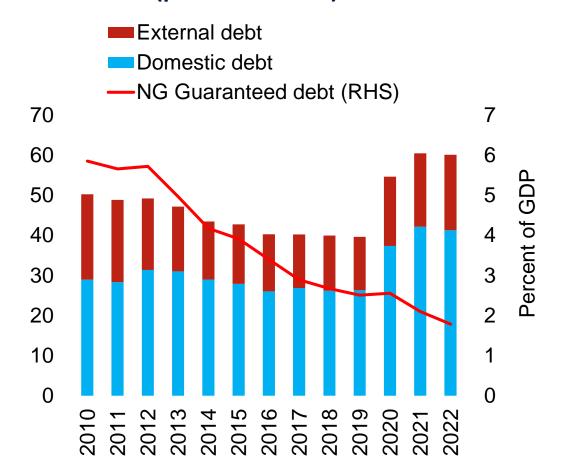
Higher revenue generation and lower-than-target public spending lowered the fiscal deficit in Q1-Q3 2022.



National Government Fiscal Balance (percent of GDP)



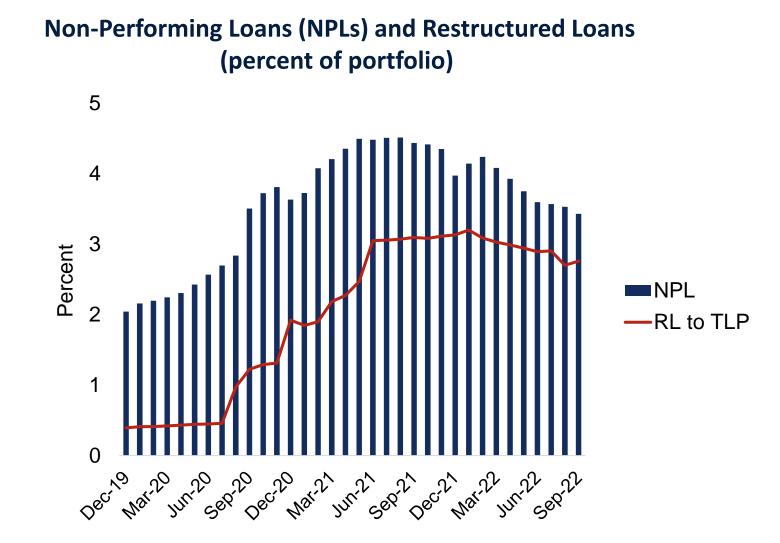
National Government Debt (percent of GDP)



Percent of GDP

The banking sector shows signs of improvements as the share of NPLs and restructured loans decline, while bank lending growth picked up.





Outlook and Risk

The deteriorating global environment is spilling into the domestic economy and tempering the country's growth prospects in 2023.

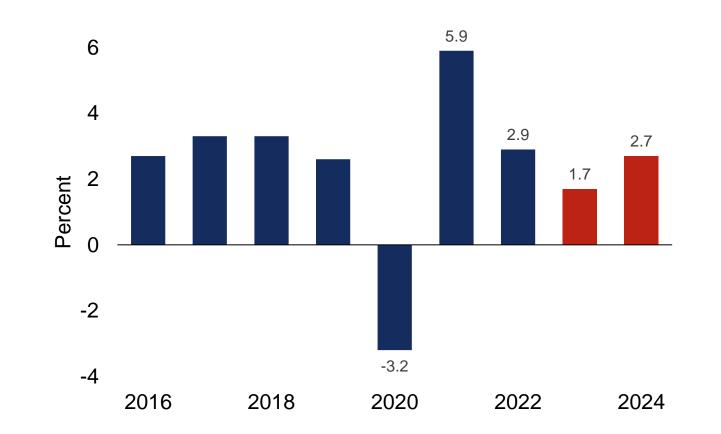




Global growth is expected to decelerate sharply to 1.7 percent in 2023.



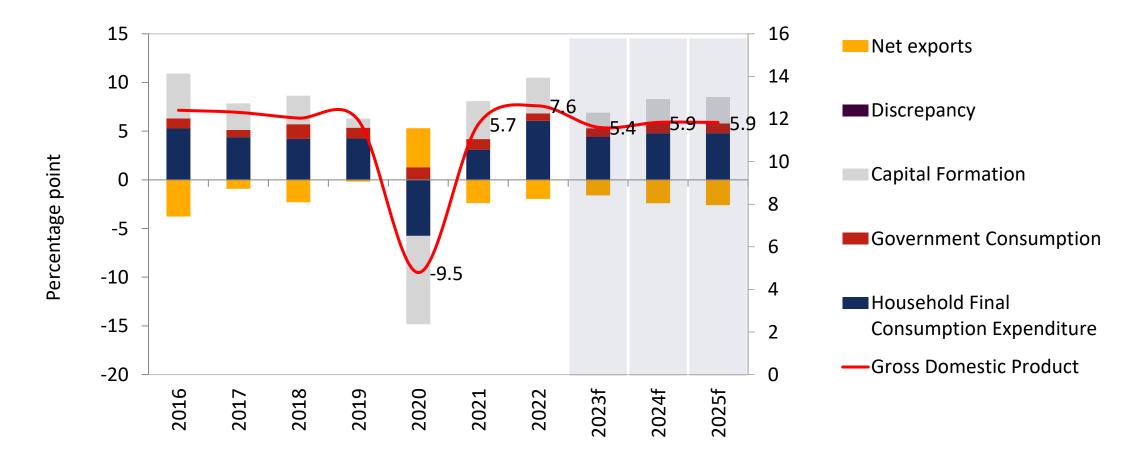
Global growth projection



The Philippines growth outlook is positive but faces risks.



Projected growth trajectory (percentage points contribution of components)



Downside risks come from external and domestic environment.



- The synchronous monetary tightening in many central banks could produce larger impacts than intended, both in tightening financial conditions and deepening the growth slowdown.
- An escalation of geopolitical tensions and supply chain bottlenecks could further disrupt commodity markets and international trade.
- Prolonged and elevated domestic inflation may dampen household consumption.
- As the pandemic has yet to be declared over, the risk of another COVID-19 wave hangs over the outlook.

The recovering labor market and improving incomes will contribute to the decline in the poverty rate.



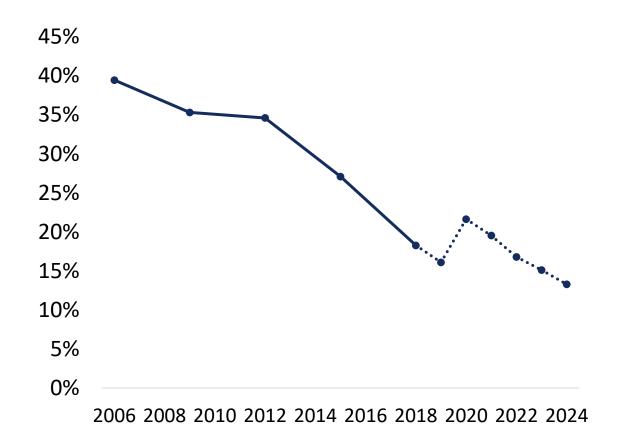


25 20 Percent 5 10 5 0 Jan July Jul Jul Jul Jul Sep Sep Nov Jan July 2019 2020 2021 2022

—Unemployment Rate

—Underemployment Rate

Poverty Rate (%, using US\$3.65/day PPP)



Policy Recommendations





Policy Recommendations

- Addressing the inflationary pressure means employing both monetary and non-monetary measures, including near-term monetary tightening to prevent the de-anchoring of inflation expectations.
- Staying the course on fiscal consolidation signals commitment to fiscal sustainability.
- Sustaining investments in health and education to reduce vulnerabilities from the scarring impact of the pandemic remains important.
- Over the medium term, improving the effectiveness of public spending on agriculture will help address low agriculture productivity and alleviate the challenge of food security in the country.

Key Messages



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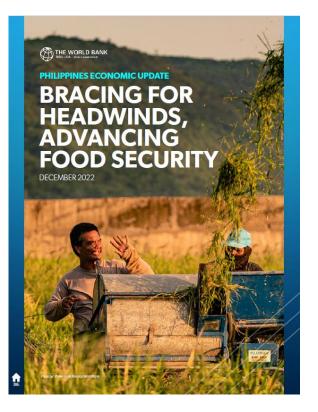
The deteriorating global environment is spilling into the domestic economy and tempering the country's growth prospects in 2023.



Addressing the immediate challenge of elevated inflation, staying the course on fiscal consolidation, sustaining investments in health and education, and reversing the low agriculture productivity will be key to safeguard growth and achieve long term development goals.

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PART 2

OUTLOOK AND RISKS

Robust domestic activity is driving growth in 2022, but the deteriorating global environment is spilling into the economy and tempering its growth prospect. Slowing global growth is expected to soften goods exports with repercussion on manufacturing, while elevated domestic inflation and higher interest rates are expected to slow private consumption and investment growth in 2023. The economy is projected to grow at an upward-revised 7.2 percent in 2022 before declining to 5.7 percent on average in 2023-25. The growth outlook is subject to external and domestic risks, where the authorities face the challenging task of supporting recovery while taming inflation amid a narrowing policy space. Sustained investments in health and education, and targeted social assistance will help protect the poor and vulnerable from the pandemic scarring and the adverse effects of high inflation.

Crowth Outlook

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ENSURING FOOD SECURITY FOR ALL: REPURPOSING PUBLIC INVESTMENTS³²

The Philippines has been among the most dynamic economies in the East Asia Pacific region over the past decade. The growth momentum has been driven by key structural reforms, leading to a significant reduction in poverty in recent years. Agricultural policy has spurred some growth in the sector but (fails short of sparking a structural transformation and dynamic development. Recently, the COVID-19 pandemic, the war in Ukraine, and a deverse dimatic and other event Styphons, floods, and African Swine Fever outbreak), have contributed to rising domestic food prices and heightened concerns about food security in the country, especially for the poor and vulnerable.

Ensuing food security and sustained agriculture growth have been hampered by underivestment in public goods in agriculture. The continued focus on supporting rice production has come at the expense of other agricultural products. As a result, Filipino consumers pay a very high price for food at approximately 40% then chained evolution existing to sustaining agriculture growth is further complicated by the nogoing devolution existing from the Mandanas Ruling of the Supreme Court, which transfers greater responsibilities for and financing of agriculture programs to local government units (IGUs).

To take full advantage of the opportunities ansing from the new strategic directions of the Department of Agriculture (DA) and the devolution of more responsibilities to IGLs, agricultura public expenditure policies must address three critical challenges: (i) changing strategic focus from an objective of selfsufficiency in specific commodities to align better with the administration's ambition of Improving sectoral competitiveness and resilience to ensure food security for all (ii) improving effectiveness of the current specific, and (iii) dealing effectively with the public expenditure issues related to devolution. This chapter reviews the status and effectiveness of public spending in agriculture and the impacts of financial and functional devolution resulting from the Mandanas Ruing, and outlines key priority actions to achieve the medium to long-term agenda of enhancing agriculture productivity and strengthening damestic food security.

¹ This dupus is prepared by Availa fair with the core team comprographenesk Schwarza, John Nait, and Kerl Borses Philippen Hottando Development Stades, if a subsystichting in the most Philippen Agriculture RAtic Ependitures Review (AgRE: Whita special Board on other mplications drifter Auditabas Milling' (World Bark 2022).