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Macroeconomic prospects of the Philippines in 2024-2025: Toward upper middle-income status

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DISCUSSION PAPER SERIES NO. 2024-18

Macroeconomic Prospects of the Philippines in 2024–2025: Toward Upper Middle-Income Status

*John Paolo R. Rivera, Mark Gerald C. Ruiz,
and Ramona Maria L. Miral*



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Macroeconomic Prospects of the Philippines in 2024–2025:
Toward Upper Middle-Income Status

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Ramona Maria L. Miral

PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES

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Abstract

This is the lead chapter of the 2023–2024 Philippine Institute for Development Studies (PIDS) Economic Policy Monitor (EPM). It examines the economic performance of the Philippines for 2023 and at most the third quarter of 2024. It presents conditions driving global, regional, and national outlooks, projections on growth, consumer prices, and prospects coming into 2025 – all of which are relevant to making informed household, enterprise, and policy decisions. As the economy moves towards a better normal, it is challenged by the persistence of headwinds from internal and external factors. As per the Philippine Statistics Authority (PSA), the economy grew by 5.6 percent in 2023 driven by growth in major sectors such as industry and services, while year-to-date headline inflation recorded at 6.0 percent. Like previous EPM publications, this report would likewise include projected growth, and inflation estimates for 2024 and 2025. Considered also are the flow of funds from abroad, employment, financial conditions, use of public funds, and expected consumer and business expectations on the economy's state of health. Taking off from the issues mentioned in previous macroeconomic prospects, this report underscores risks related to inflation, exchange rate movements, fiscal position, and the impact of external factors on national economic growth and development.

Keywords: development, economic prospects, growth, macroeconomic stability, resiliency, upper middle-income status

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List of Abbreviations

ACH	Automated clearing house
ADB	Asian Development Bank
AE	Advanced Economies
AI	Artificial Intelligence
AFP	Agence France-Presse
AMS	ASEAN Member States
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Flu
ATM	Automated Teller Machine
BI	Bureau of Immigration
BIR	Bureau of Internal Revenue
BMI	Business Monitor International
BOC	Bureau of Customs
BOP	Balance of Payments
BPO	Business Process Outsourcing
BPS	Basis Points
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of Treasury
CFI	Circular Flow of Income
CI	Confidence Index
CO	Capital Outlay
CPTPP	Comprehensive and Progressive Agreement for the Trans-Pacific Partnership
CREATE MORE	Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy
DA	Department of Agriculture
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DOH	Department of Health
DOT	Department of Tourism
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DTI	Department of Trade and Industry
EMDA	Emerging Markets and Developing Asia
EMDE	Emerging Markets and Developing Economies
EODB	Ease of Doing Business
EPM	Economic Policy Monitor
ESIA	European Semiconductor Industry Association
EU	European Union
FDI	Foreign Direct Investment
FSCC	Financial Stability Coordination Council
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GIR	Gross International Reserves
GNI	Gross National Income
IDR	Indonesian Rupiah
ILO	International Labour Organization
IMF	International Monetary Fund
IPEF	Indo-Pacific Economic Framework for Prosperity
IT-BPM	Information Technology and Business Process Management
ITF	International Transport Forum
JPY	Japanese Yen
KRW	Korean Won
LFPR	Labor Force Participation Rate

LGU	Local Government Unit
MB	Monetary Board
ML	Machine Learning
MMF	Money Market Fund
MTFF	Medium-Term Fiscal Framework
MOOE	Maintenance and Other Operating Expenditure
NEDA	National Economic Development Authority
NEER	Nominal Effective Exchange Rate
NG	National Government
NIA	National Income Accounting
NPL	Non-Performing Loan
NBQB	Non-Bank Financial Institutions with Quasi-Banking Functions
NTA	National Tax Allotment
ODA	Official Development Assistance
OFW	Overseas Filipino Worker
ORRP	Overnight Reverse Repurchase
PAGCOR	Philippine Amusement and Gaming Corporation
PAP	Programs, Activities, and Projects
PDP	Philippine Development Plan
PHEBA	Public Health Emergency and Benefits Allowance
PHP	Philippine Peso
PIDS	Philippine Institute for Development Studies
PRC	People's Republic of China
PS	Personnel Services
PSA	Philippine Statistics Authority
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange index
R&D	Research and development
RCB	Rural and Cooperative Banks
RCEP	Regional Comprehensive Economic Partnership
REER	Real Effective Exchange Rate
RFFA	Rice Farmers Financial Assistance
RHS	Right-Hand Side
RMB	Renminbi (Chinese Yuan)
ROK	Republic of Korea
RRP	Reverse Repurchase
SAR	Special Administrative Region
SSL	Salary Standardization Law
TB	Thrift Banks
UK	United Kingdom
UKB	Universal and Commercial Banks
UNCTAD	UN Trade & Development
USA	United States of America
USD	US Dollar
VUCAD	Volatile, Uncertain, Complex, Ambiguous, and Disruptive
WAIR	Weighted Average Interest Rate
WB	World Bank
WEO	World Economic Outlook
WTO	World Trade Organization
y-o-y	Year-on-Year

Macroeconomic prospects of the Philippines in 2024–2025: Toward upper middle-income status

John Paolo R. Rivera^{}, Mark Gerald C. Ruiz^{**}, and Ramona Maria L. Miral^{***}*

1. Introduction

As the Philippines continue to recover from the unprecedented socio-economic impacts of the pandemic, we have seen the economy's degree of responsiveness, from pre-pandemic to post-pandemic, to internal and external stimuli and shocks (Basilio et al. 2022; Reyes 2022; Mendoza 2021). In fact, according to the World Bank [WB] (2024c), the Philippine economy's recovery trajectory is on track as its growth remained robust at 5.6 percent in 2023, which is among the top growth performers in Southeast Asia, together with Viet Nam (6.7%), People's Republic of China [PRC] (5.2%), and Malaysia (3.4%) (Yu 2024). This growth is anchored on strong domestic demand fueled by remittances, business process outsourcing, and tourism growth; favorable employment environment; sustained public investments on infrastructure; and the growing private investments owing to the positive impacts of investment policy reforms (WB 2024c; Debuque-Gonzales et al. 2023). Sustaining this trajectory, accompanied by continued recovery, reform initiatives, minimization of disruptions, and larger investments in physical and human capital, the economy can be on track towards achieving upper middle-income status by 2025 and beyond with a per capita gross national income (GNI) of USD 4,466.00 to USD 13,845.00 from its 2023 figure of USD 4,230.00 (Cruz 2024b). In a volatile, uncertain, complex, ambiguous, and disruptive environment, both internal and external, managing headwinds remains to be a challenge.

Banking on the Philippines' strong domestic growth despite presence of internal and external headwinds and challenges that affect economic prospects, the Philippines there are efforts by the government to mitigate these. To facilitate a strong and robust economic growth, the government is implementing its 8-point socioeconomic agenda and the Philippine Development Plan (PDP¹) 2023-2028 to ensure inclusive, resilient, and sustainable growth for a prosperous society (WB 2024c).

1.1. Rationale

In the 2022-2023 PIDS EPM², the 2023 growth of Philippine Gross Domestic Product (GDP) was expected at 5.2 percent but because of the slower government spending due to fiscal consolidation³ (grew by 0.4% only) and the persistence low contribution of agriculture, forestry, and fishing (grew by 1.4% only), actual GDP growth was at 5.6 percent only, below the government target of six to seven percent (Yu 2024) and slower than the 7.6 percent growth in 2022 (Gonzales 2024). Growth has also been hampered by rising inflation due to soaring food prices that is driven by the persistence of local and international supply chain constraints, which has been exacerbated by the unintended consequence of price ceilings on rice and the high policy rates to combat inflation (Royandoyan 2024). For 2024, the Philippines is on its

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¹ This report can be accessed here: <https://pdp.neda.gov.ph/philippine-development-plan-2023-2028/>.

² This report can be accessed here: <https://www.pids.gov.ph/publication/economic-policy-monitor/green-and-digital-managing-the-twin-transition-toward-sustainable-development>.

³ Government actions at national and subnational levels to reduce deficits and debt accumulation, improving fiscal health through a decreased budget deficit.

way to meeting government target of six to seven percent sustained annual GDP growth (Gonzales 2024a, 2024b) towards meeting its goal of upper middle-income status.

With Philippine GDP posting a growth rate of 5.8 percent, 6.4 percent, and 5.2 percent in the first, second, and third quarters of 2024, respectively, it positions the economy again as one of the fastest-growing economies in Southeast Asia. As of the first half of 2024, the Philippine economy performs behind Viet Nam (6.9%), while ahead of Malaysia (5.8%), Indonesia (5.0%), and PRC (4.7%). Consistently, the Asian Development Bank [ADB] (2024) estimates that Philippine GDP will grow by 6.0 percent in 2024 and 6.2 percent in 2025. While this is the case, Canto et al. (2024) argued that the Philippine economy was deemed more resilient than expected in 2023, with 2024 first half actual figures and updated projections indicating that it could post healthy growth in 2024 demonstrating its resilience despite various global economic headwinds, challenges, and risks.

These growth figures, albeit lower than the upper target band, if realized, cannot cement the Philippines' status as an upper middle-income economy by 2025 (Cruz 2024b). However, it is still possible although at a much later period pegged at the latter part of 2025 or early 2026, which can happen if the economy can grow as much as eight percent with an exchange rate not depreciating much beyond the PHP/USD 58.00 mark (Cordero 2024; Desiderio 2024b; Ordoñez 2024). While the Philippines moves towards upper middle-income status, it remains careful in avoiding the middle-income trap – a situation in which an economy's growth slows down after its per capita GDP reaches middle-income levels, making the transition to high-income levels challenging (Huang et al. 2018).

The Philippines' GDP growth for 2023 and the first three quarters of 2024 has been heavily moderated by the lingering effects of the accelerating and slowing inflation in 2023, whose year-to-date figure was reported at 6.0 percent (Ta-asan 2024b; 2023; Oplas Jr. 2023). According to Canto et al. (2024), inflation rates are expected to temper between 3.2 percent and 3.6 percent in 2024, still above the 2 percent to 4 percent target range set by the government. However, this is being defied by inflation spikes during the first half of 2024 and deceleration in August 2024 and September 2024.

Moreover, Philippine GDP growth was also tempered by the prevailing high borrowing costs that constrained both household and government consumption (Cigaryl 2024b). From 5.5 percent in January 2023, to 6.25 percent from February 2023 to September 2023, to 6.5 percent since October 2023, the Bangko Sentral ng Pilipinas (BSP⁴) cut the overnight borrowing rate to 6.25 percent, becoming one of the first Asian central banks to cut rates apart from PRC (Carnell 2024). While inflation in the Philippines remain to be tilted towards the upside, this action by the BSP is seen to boost growth through consumption spending and potential investment uptick (Simeon 2024; Cruz 2024a; Venzon and Serapio Jr. 2024; Ta-asan 2024a).

While these figures paint a picture of macroeconomic performance, it poses implications on consumers and enterprises. For consumers, according to BSP (2024c), consumer sentiment in the Philippines was more pessimistic for the second quarter of 2024 and overall confidence index (CI) became more negative due to consumer concerns on steep increases in the price of goods and services driving higher household expenses, lower purchasing power of income, fewer available jobs, and the effectiveness of government policies and programs on inflation control, traffic and public transportation, provision of financial assistance, and labor and

⁴ BSP is the Philippines' monetary authority (central bank) responsible for maintaining price stability conducive to a balanced and sustainable growth of the economy and employment, ensuring monetary stability and the convertibility of the peso.

employment. For enterprises, according to BSP (2024b), the second quarter of 2024 business confidence turned less buoyant due to firms' concerns on the following: (1) reduced demand for goods and services such as personal effects items, consumer products, construction materials, hospitality services, and labor services; (2) persistence of geopolitical conflicts that disrupts trade routes particularly oil supply pushing its price upwards; (3) softened business activities brought about by the impacts of rapid climate change (e.g., El Niño, La Niña, extreme weather disturbances); volatility and uncertainty in inflationary pressures constraining consumer spending due to reduced purchasing power.

As such, following from the 2022-2023 PIDS EPM that underscored sources of policy uncertainty, the following aspects must be given attention: inflation-related risks, fiscal risks, and sovereign investment risks (Debuque-Gonzales et al. 2023). Addressing these policy uncertainties require interventions encompassing controlling inflation without undermining growth; managing exchange rate volatilities while maintaining flexibility; promoting fiscal sustainability and exercising fiscal prudence; pouring investments not only on infrastructure but also on education, training, health, and social protection; continuing economic reforms to attract investments (Debuque-Gonzales et al. 2023); and addressing political stability, peace, and order issues that generates economic risks and negatively influences an economy's risk-return profile (Banerjee and Dutta 2022; Kirikkaleli 2020).

1.2. Points of inquiry and objectives

Given the abovementioned backdrop, this 2023-2024 PIDS EPM poses the following points of inquiry that we intend to shed light at the end.

1. What has happened to the Philippine economy in 2023 and 2024?
2. What is happening to the Philippine economy in 2024?
3. What will happen to the Philippine economy in 2024 onwards? Is the Philippines back to its pre-pandemic growth path?
4. How can the Philippines achieve upper middle-income status in the succeeding years?

In addressing these points of inquiry, our overarching objective is *to present macroeconomic data depicting a picture of how the Philippine economy and its sectors performed in 2023 and in the first half of 2024 that will provide an estimated trajectory of where the economy will head by the end of 2024 and in 2025 onwards*. In addressing this, we pose the following specific objectives:

1. To present national, local, regional, and global economic updates to allow key stakeholders to harness economic opportunities and manage economic risks.
2. To create forecasts, based on data, on where the Philippine economy is heading amidst internal and external support and headwinds.
3. To construe opportunities for 2024 and beyond and create policy recommendations towards macroeconomic stability that will catapult the Philippines as an upper middle-income economy.

1.3. Scope and limitations

This report builds on previous PIDS EPM reports to continue the discourse and update the information available on the state of Philippine macroeconomic health. This report comprises historical data and scholarly literature to explain the trend and behavior of macroeconomic variables. Preparing this report subscribes to the descriptive and explanatory research design. With descriptive research, secondary time series data gathered aims to describe the trend and

behavior of selected macroeconomic variables. Meanwhile, with explanatory research, it aims to explain why a certain macroeconomic variable behaves in the way that they do for the period covered. The combination of such approaches leads to understanding of how the macroeconomy works and behaves amid internal and external factors. This will also point to potential opportunities available and potential risks that must be mitigated.

The choice of macroeconomic variables covered in this report follows the six classifications made by Debuque-Gonzales and Corpus (2022) – **(1) domestic demand block, (2) trade block, (3) employment block, (4) monetary block, (5) financial block, and (6) price block.**

After explicating the macroeconomic performance of the Philippines as can be gleaned from time series data for selected macroeconomic variables with data available as of report writing, we underscore macroeconomic outlook and projections for 2024-2025. We then conclude by answering our points of inquiries and assessing whether our objectives were achieved. We specifically emphasized on where the Philippine economy is heading while identifying headwinds to expect. For recommendations, we provide an updated discussion of policy uncertainties that economic agents (i.e., households, enterprises, and government) must consider and how to navigate them. Likewise, we discuss strategies for the Philippines to be on track in achieving upper middle-income status.

1.4. Significance of the report

This report aligns with the concept of National Income Accounting (NIA⁵) supported by the circular flow of income (CFI⁶) model. The behavior of the macroeconomic variables included in the NIA and the CFI is being monitored by this report to understand not only their trend but also their dynamics with other macroeconomic variables and their responses to internal and external headwinds. This allows for a better understanding of how the economy behaves so that all economic stakeholders, both private and public, can take advantage of opportunities the economy presents and mitigate the accompanying risks.

Overall, this report is beneficial to readers from the government (e.g. monetary and fiscal authorities, legislators, policymakers, and economic planners), the private sector (such as banks and other financial institutions), news outlets (newspapers, mainstream media, television and radio), other economic researchers (undergraduate and graduate students, faculty), those from the academe (teaching and research faculties), and the public. Statistics and trends are useful for the public sector to set or modify fiscal, monetary, trade, and other economic policies to drive the economy to growth and development. Similarly, the private sector also benefits from these as they can incorporate findings in their economic risk management strategies so they can harness opportunities and protect themselves from potential losses and disruptions.

2. Macroeconomic performance in 2023 and Q1-Q3 2024

In addressing points of inquiry 1 and 2, as stated in Section 1.2, we present the trend and behavior of selected macroeconomic behavior following the classifications of Debuque-Gonzales and Corpus (2022). Doing so also allows us to address our first specific objectives, also stated in Section 1.2.

⁵ A system used by governments to measure how well a country's economy is performing. Its approaches include the value-added approach, income approach, and expenditure approach (Blanchard 2002).

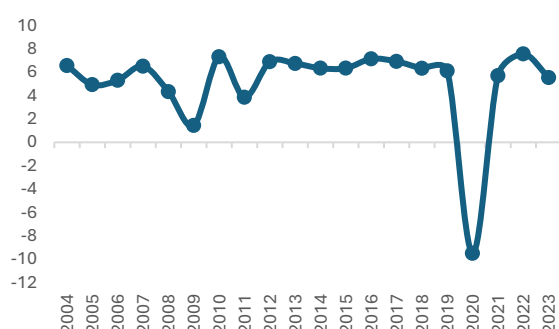
⁶ Represents the cyclical movement of funds between households and firms in an economy. It depicts the exchange of factor inputs (labor, capital, land, technology, and other resources) for income, and the subsequent spending of that income on goods and services produced by firms (Samuelson and Nordhaus 2021).

2.1. Domestic demand block (GDP)

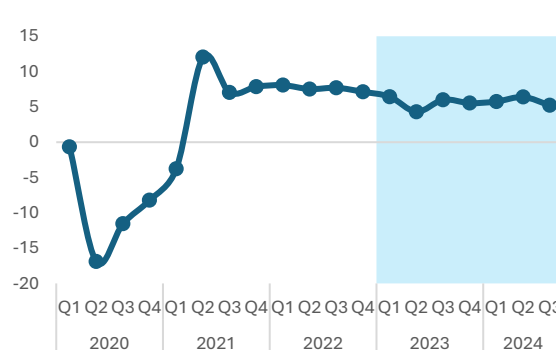
The Philippine economy moderated to 5.5 percent growth in 2023, below the government target of 6 to 7 percent, as seen in Figure 1a. The economy faced headwinds from tempered consumer spending, low budget spending on the part of the government, weaker PHP that made imports more expensive, a persisting high inflationary environment, and tight monetary policy capped by its lagged effects expected to materialize in the subsequent periods. Against this backdrop, the economy is still positioned to forge ahead onto upper middle-income status. In the first half of 2024, economic growth managed to bolster faster at 6 percent despite slower household consumption as the economy bore out higher investments, better government expenditure performance, and a smaller trade deficit.

Figure 1. GDP growth (in %)

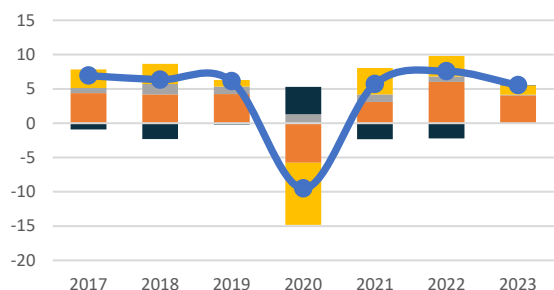
a. GDP, annual



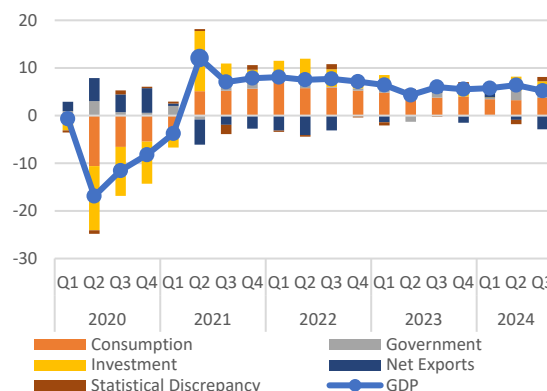
b. GDP, quarterly



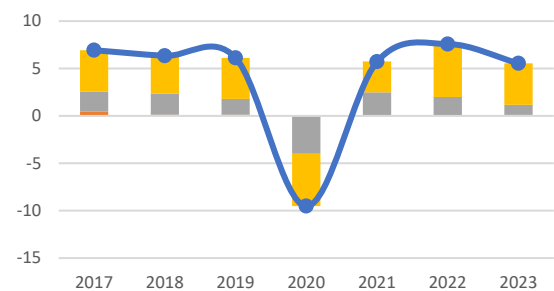
c. By expenditure contribution, annual



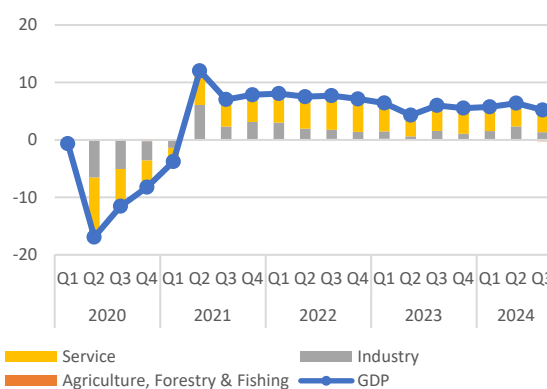
d. By expenditure contribution, quarterly



e. By production contribution, annual



f. By production contribution, quarterly



Source: PSA via CEIC

2.1.1. Private consumption

Household consumption grew 5.6 percent in 2023, as continued high inflationary environment eroded the purchasing power of consumers. This represents a significantly slower growth from 2022 at 8.3 percent as seen in Figure 1c. Consumer spending on food and non-alcoholic beverages grew meagerly at 0.5 percent (from 5.7%); housing, water, electricity, gas and other fuels at the same pace as last year at 4.7 percent; transport at 16.9 percent (from 16.7%); restaurants and hotels at 19.1 percent (from 28.2%); and miscellaneous goods and services at 8.4 percent (up from 7.4%). High interest rates also encouraged people to borrow less for spending. Moreover, the weakening of the PHP against the USD made imported goods more expensive, putting upward pressure on inflation. From January 2024 to June 2024, consumption growth tapered off to 4.6 percent (from 5.9%) as seen in Figure 1d. This came as inflation in this period remained elevated but still within the 2 percent to 4 percent target band. Key contributors to this were food and non-alcoholic beverages growing just 0.4 percent; housing, water, electricity, gas and other fuels growth at 6.6 percent; transport at 9.5 percent (from 21.1%); and restaurants and hotels at 11 percent (from 23.7%). The Business Monitor International [BMI] (2024) sees household spending to likely grow by 6.2 percent for the year on account of easing inflation, lower interest rates, and stable labor market.

Contributing to consumption's tempered growth was government final consumption expenditure which fell off to just 0.6 percent full-year growth in 2023. Government final consumption expenditure contracted by 1.4 percent in the first half of 2023. As such, the Department of Budget and Management (DBM⁷) urged government offices to actuate the respective catch-up plans in spending for the remaining half of 2023 wherein government expenditures grew 2.8 percent. For the first half of 2024, government spending grew 6.6 percent annually (in real terms, 14.6% nominally), a reversal from the same period in 2023. This reversal is driven by infrastructure projects, higher National Tax Allotment (NTA⁸), and election spending that widened budget deficit to PHP 614 billion (approximately USD 10.8 billion). Likewise, the expenditure-to-GDP ratio increased to 26.8 percent exceeding the 21.7 percent target. Also, interest payments rose by 33.6 percent due to rising domestic and foreign obligations, highlighting fiscal pressures despite a 15.6 percent revenue growth during the same period.

Export growth outpaced the growth in imports resulting in a narrower trade deficit. Due to weak global demand owed to high costs that subdued businesses and consumers, supply-chain disruptions, geopolitical tensions and trade fragmentation (Georgieva 2023; International Transport Forum [ITF] 2023; UN Trade & Development [UNCTAD] 2023), exports grew by 1.4 percent in 2023 (from 11% in 2022), while imports saw large deceleration to just 1 percent (from 14%). The deficit narrowed in the first half of 2024. Exports grew 6.3 percent as goods and service exports grew 3.9 and 8.6 percent respectively. Growth in service exports performed lower relative to the 15.6 percent in 2022. Imports grew 3.7 percent year-on-year (y-o-y⁹), with import of goods shrinking 0.3 percent. The Philippine government projects a narrower trade gap for 2024 and 2025, with the expectation of a lower merchandise trade gap and a slower growth in imports (BSP 2024a).

⁷ Government agency mandated to efficiently use of government resources towards national economic development

⁸ Equitable share of local government units (LGUs) in the national taxes, which is determined by law and released to them. The base for computing the NTA is the third preceding year.

⁹ Method of evaluating measurable events annually to evaluate growth. Expressed in percentage terms, it is calculated using current values and previous period's values. Growth rates in the Philippines are by default y-o-y, unless specified otherwise.

Service sector recorded the fastest growth at 7.1 percent in 2023 among major economic sectors as seen in Figure 1e. Demand for business process outsourcing (BPO) services and tourism backed with strong employment aided the continued competitiveness and gross value-added contribution of the services sector. This accounts for 4.4 percentage points of the 5.5 GDP growth, slower than its 2022 growth at 9.2 percent. Wholesale and retail trade increased by 5.5 percent (from 8.7%); professional and business services grew 6.7 percent (from 9.1%); and real estate and ownership of dwellings grew 4.0 percent (from 5.1%). Meanwhile, financial and insurance activities grew 8.8 percent (from 7.2%). The industry sector slackened to 3.6 percent (from 6.5%), due to manufacturing expanding by just 1.3 percent. Construction, as well as mining and quarrying also slowed down to 2.0 and 8.8 percent respectively, while electricity, steam, water and waste management ticked up to 5.8 percent. Agriculture grew 1.2 percent (from 0.5% in 2022). Supply-side woes hampered production exacerbated by continued global disruptions. In the first half of 2024, industry and service sectors grew 6.4 percent and 6.8 percent, respectively. From Figure 1f, agriculture contracted by 0.9 percent as its second quarter numbers dipped by 2.3 percent due to decline in un-milled rice and corn production.

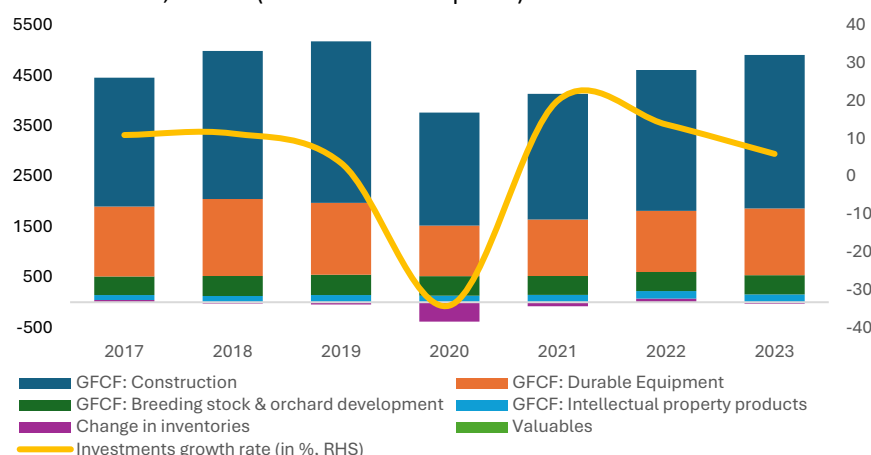
2.1.2. Investment

Investment¹⁰ expanded to 5.9 percent in 2023, lower than the 13.7 percent growth recorded in 2022 as seen in Figure 2a. High interest rates affecting costs and market uncertainties, delays in the implementation of public construction, and needed improvements with respect to ease of doing business dampened the potential of even more investments (Financial Stability Coordination Council [FSCC] 2023, Jocson 2023a, NEDA 2024b). Construction and durable equipment slowed down to 9.1 and 8.9 percent, respectively. From Figure 2b, in the first half of 2024, a 6.5 percent growth was seen (an uptick from the 5.9% recorded for the period in 2023). Growth in capital investments declined to 6.3 percent. Construction was up 12.4 percent (higher than 7.1% in previous year), with public construction seeing a significant acceleration by 19.5 percent. However, this was moderated by the 5.1 percent decline in durable equipment. Data from the April 2024 edition of the International Monetary Fund (IMF) World Economic Outlook (WEO) projected total investments to slightly slip by 0.09 percentage points from 23.449 percent of nominal GDP in 2023 to about 23.359 percent in 2024 (IMF 2024b).

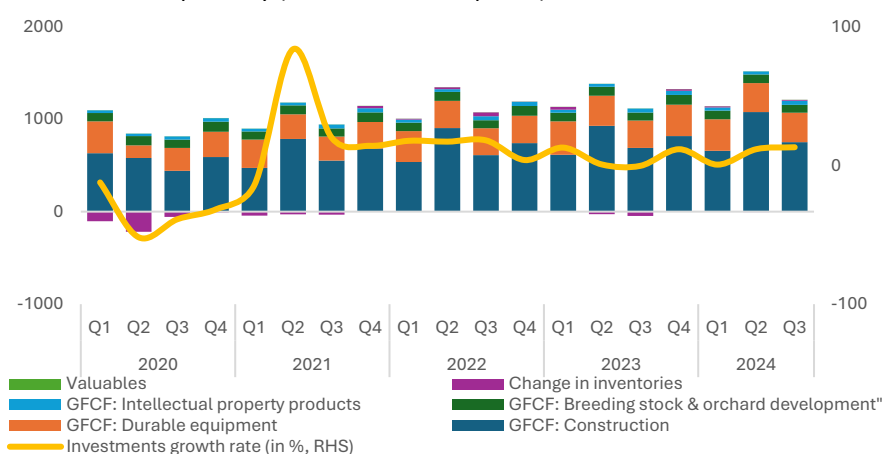
¹⁰ In determining GDP, the investment component does not refer to the purchase of stocks, bonds, or other financial assets. It refers to the purchase of new capital goods (i.e., business equipment, new commercial real estate, buildings, factories, stores, residential housing, and inventories).

Figure 2. Investments (in PHP billions)

a. Investments, annual (at constant 2018 prices)



b. Investments, quarterly (at constant 2018 prices)



Source: PSA via CEIC

2.1.3. Fiscal performance

Government spending decelerated to 3.4 percent growth in 2023 compared to the 10.4 percent growth in 2022. This amounted to PHP 5.3 trillion (21.9% of GDP), as the government continued with the fiscal consolidation program and efforts toward spending efficiency (Development Budget and Coordination Council [DBCC] 2023a, NEDA 2024b). Personnel services (PS) grew, albeit slower at 4.1 percent, as seen in Figure 3a. This recorded a lower-than-programmed PS¹¹ spending despite the implementation of the fourth tranche of the Salary Standardization Law (SSL) V¹² and increase in personnel following the creation of new positions. National budget authorities attributed this to balances in PS lumpsum funds, and positions in various agencies that were still unfilled. Allotment to LGUs declined by 14.1 percent, resulting from the lower NTA of LGUs for 2023. National government (NG) subsidies fell by 15 percent, short of its programmed spending by PHP 51 billion (approximately USD 917 million). Maintenance and other operating expenditure (MOOE) grew by 4.3 percent last year, following two years of a meager decline (-0.3% in 2021 and -0.4% in 2022). Higher MOOE accounted for releases for the Public Health Emergency and Benefits Allowance

¹¹ This records the slowest percentage change for PS since 2014 when it only went up by 3.7 percent.

¹² For more information, refer to Republic Act No. 11466 via <https://www.officialgazette.gov.ph/2020/01/08/republic-act-no-11466/>

(PHEBA¹³) on the part of the Department of Health (DOH¹⁴), the Rice Farmers Financial Assistance (RFFA¹⁵) Program of the Department of Agriculture (DA¹⁶), continued implementation of education sector-related programs and other social protection programs. Spending for capital outlays (CO) amounted to PHP 1.4 trillion (5.8% of GDP). Infrastructure and other capital outlays jumped 17.8 percent (covering 22.6% of total disbursements). Amped up construction activities and payments for completed projects of the Department of Public Works and Highways (DPWH¹⁷) as well as for foreign-assisted subway and railway projects of the Department of Transportation (DOTr¹⁸) contributed to infrastructure spending outturn higher than the 5.3 percent of GDP target (DBCC 2024).

Revenues amounted to PHP 3.8 trillion in 2023 (about USD 68.8 billion), just about PHP 278.6 billion higher, or just a 7.8 percent increase compared to the 18 percent total revenue growth recorded in 2022. Despite falling below target, the continued rise in tax revenues was attributed to enhancements in tax administration and digitalization efforts geared towards better transparency and ease of paying taxes (DBCC 2023b). From Figure 3b, tax effort declined from 14.6 percent of GDP in 2022 to 14.1 percent in 2023. This fell short of the 14.4 percent target. The Bureau of Internal Revenue (BIR¹⁹) slowed to 7.8 percent growth, posting just about 0.4 percentage points below the programmed 10.8 percent of GDP. Of which, taxes on net income and profits grew slower at 13.5 percent. Sales taxes and licenses saw a significant deceleration at 3.8 percent growth, while excise taxes declined by 6.2 percent. Meanwhile, the Bureau of Customs (BOC²⁰) collections posted 2.4 percent growth resulting to tax revenues growing by 6.5 percent in 2023. However, the increase in 2023 total revenues was primarily due to non-tax revenues that amounted to PHP 394.2 billion (about USD 7.1 billion), surpassing the PHP 191 billion target and up by about PHP 70 billion from 2022. This was traced to higher than programmed income from Treasury operations and from NG income collected by the Bureau of Treasury (BTr), particularly dividends on shares of stocks and share from the income of the Philippine Amusement and Gaming Corporation (PAGCOR) (BTr 2024, DBM 2024).

The fiscal position of the country improved to 6.2 percent of GDP in 2023. That is, spending grew just 3.4 percent while revenues managed to grow faster by 7.8 percent. From Figure 3c, expenditure declined to 21.9 percent of GDP (from 23.4% in 2022). Revenues also slipped to about 15.7 percent of GDP in 2023 (from 16.1% the year prior). The deficit for the period of January to June 2024 is at 4.9 percent of GDP (higher compared to 4.8% same period last year). Increased MOOE and interest payments, and lower than programmed tax revenues subdued partly by higher non-tax revenues led to spending and revenues respectively growing 14.6 and 15.6 percent year-on-year. Fiscal authorities remain determined to follow through with its fiscal consolidation plan, programming for a 5.6 percent of GDP deficit in 2024 and eventually narrow this to 3.7 percent in 2028. Disbursements are projected to be about 21.7 percent of GDP for full-year 2024, thereafter gradually sliding down to 20.7 percent by 2028. Revenues are projected to increase from 16.1 percent of GDP in 2024 to 17 percent by 2028.

¹³ For more information, refer to <https://www.dbm.gov.ph/index.php/management-2/2720-dbm-over-p91-billion-for-emergency-benefits-allowances-of-healthcare-workers-already-released>.

¹⁴ Government agency mandated to ensure access to basic public health services for all Filipinos by providing quality healthcare and regulating all health products and services.

¹⁵ For more information, refer to: <https://rcef.da.gov.ph/rcef-rice-farmers-financial-assistance-rcef-rffa/>.

¹⁶ Government agency mandated to promote agricultural and fisheries development and growth.

¹⁷ Government agency mandated to plan, design, construct, and maintain infrastructure facilities (e.g., national highways, flood control, water resources development system) as per national development objectives.

¹⁸ Government agency mandated to develop and provide efficient, effective, and secure infrastructure in the transportation and communications sectors.

¹⁹ Government agency mandated to collect all internal revenue taxes, fees and charges and to enforce all forfeitures, penalties, and fines connected with these including the execution of judgments for which it has police powers.

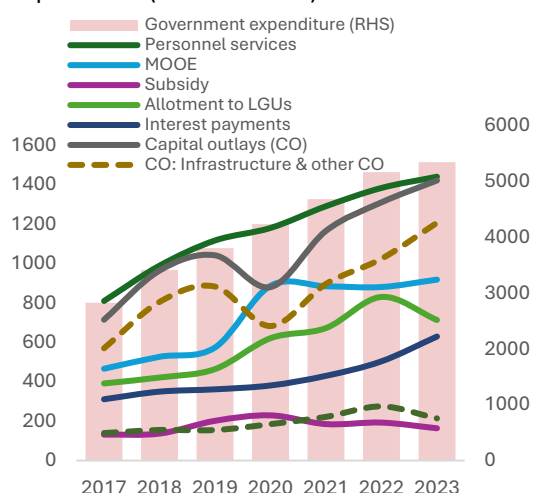
²⁰ Government agency mandated to implement an effective revenue collection by preventing and suppressing smuggling and the entry of prohibited imported goods.

The finance officials continue to push for tax reform measures including the Passive Income and Financial Intermediaries Taxation Act, Real Property and Assessment Reform Act, Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE), value added tax on digital service providers, reforms in the mining fiscal regime, and further excise taxes. Another fiscal policy that remains in consideration is reforming the military and uniformed personnel pension scheme, which has been tagged as a fiscal risk (DBCC 2023a; Debuque-Gonzales et al. 2023).

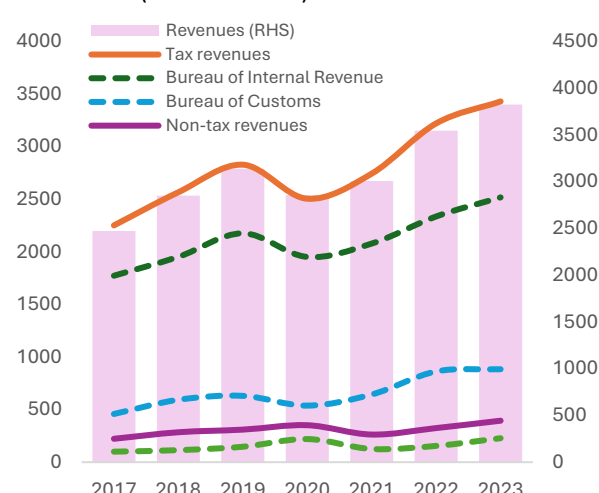
Outstanding debt of the NG declined to 60.1 percent of GDP by year-end 2023 as shown in Figure 3d. Economic growth (10.4%), at current prices²¹, outpaced debt (8.9%), yielding a lower debt ratio relative to 60.9 percent in 2022. Debt servicing in 2023 was also 24 percent higher, amounting to about PHP 1.6 trillion (about USD 28.9 billion). Of this PHP 14.6 trillion debt, 68.5 percent were domestic and 31.5 percent foreign borrowings, with 79.4 percent in long-term tenors. As of June 2024, NG debt is at 60.9 percent of GDP (higher compared to end-2023) following issuances of new debt and revaluation of foreign currency denominated debt due to weaker PHP.

Figure 3. National government fiscal performance

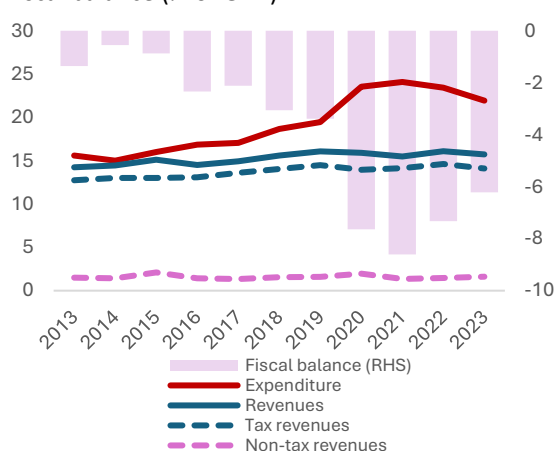
a. Expenditure (in PHP billions)



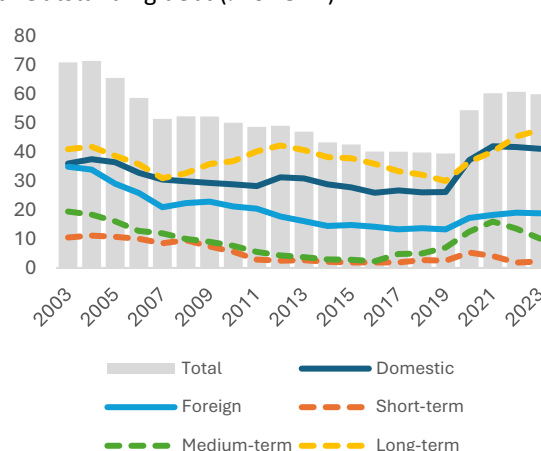
b. Revenue (in PHP billions)



c. Fiscal balance (% of GDP)



d. Outstanding debt (% of GDP)



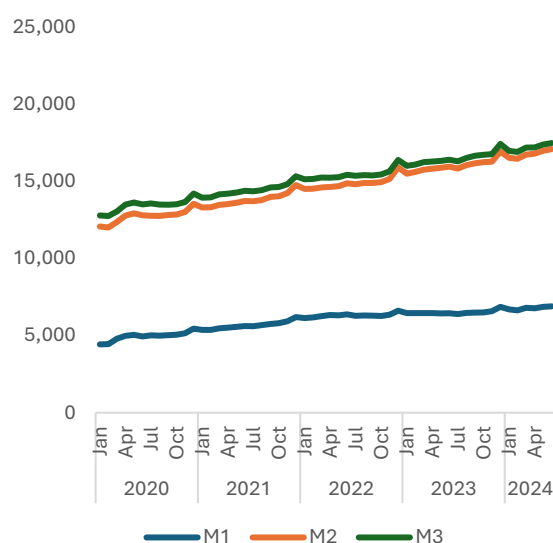
Source: Bureau of Treasury (BTr) via CEIC

²¹ Indicated at a given moment in time and in nominal value. As opposed to "at constant prices" expressed in real values (i.e., corrected for changes in prices in relation to a base year).

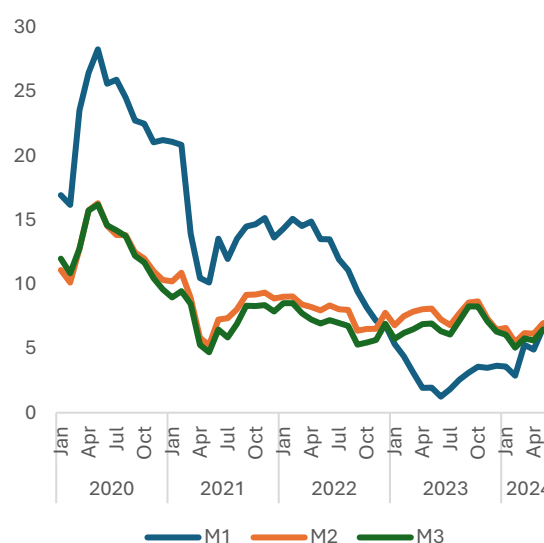
Domestic liquidity increased to PHP 17.441 trillion (approximately USD 313.878 billion) by end-December 2023 as seen in Figure 4a. This is equivalent to 71.7 percent of GDP (decline from 74.5% in 2022). The slowdown, as seen in Figure 4b, was in line with the efforts of tight monetary policy to manage inflation. Higher interest rates led to subdued borrowing which then slowed the money supply. In June 2023, the BSP decided to bring down the reserve requirements for banks, freeing up some excess reserves which may be used for productive activity. Broad money (or the sum of currency in circulation, overnight deposits, savings deposits, and time deposits) rose by 6.5 percent to PHP 16.9 trillion compared to PHP 15.9 trillion in December 2022. Domestic claims grew 9.3 percent with claims on private sector up by 9.1 percent. As of June 2024, money supply grew to PHP 17.498 trillion (6.6% higher compared to 2023). Domestic claims increased 10.5 percent y-o-y due to decline in NG deposits, continued NG borrowings, as well as lending to non-financial private firms and households. Meanwhile, net foreign assets grew by 8.3 percent from PHP 6.338 trillion in June 2023 to PHP 6.862 trillion in June 2024. This can be traced to the contraction of banks' net foreign assets brought by higher bills and bonds payable (BSP 2024d). Also, the BSP followed last year's cuts in reserve requirement ratios (RRR) with another reduction starting October 2024. This would lead to reduced interest rates, more lending, and higher money supply.

Figure 4. Liquidity of money

a. Domestic Liquidity (in PHP billions)



b. M1, M2, and M3 y-o-y growth rates (in %)



Note: M1 = narrow money (currency in circulation plus overnight deposits); M2 = broad money (M1 plus deposits with an agreed maturity up to two years plus deposits redeemable at a period of notice up to three months); M3 = domestic liquidity (M2 plus repurchase agreements plus money market fund (MMF) shares/units, plus debt securities up to two years).

Source: BSP via CEIC

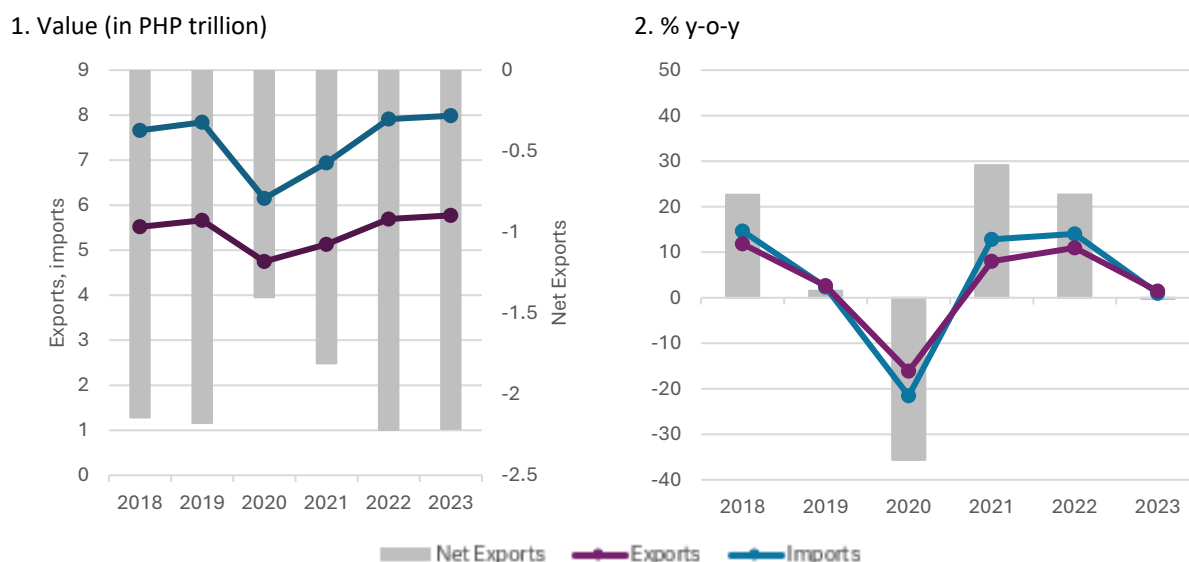
2.2. Trade block

2.2.1. Trade balance

Trade activity in the country slumped in 2023 from 2022 (Figure 5). Slowdowns were posted in exports (1.4% from 11.0%) and imports (1.0% from 14.0%), while a contraction of -0.3% was registered in net exports. These figures mirror the global drop in trade, which after experiencing a peak in 2022, fell by 3 percent to USD 31 trillion in 2023

(UNCTAD 2024b). Analysts considered such movement to be a systemic effect of COVID-19 as well as geopolitical issues, such as the United States of America (USA)-PRC and Russia-Ukraine conflicts, and risk-mitigating strategies (UNCTAD 2024c; Monzon 2024). Weaker inclination for regional trade agreements as well as more stringent trade restrictions have also been observed (Kose and Mulabdic 2024).

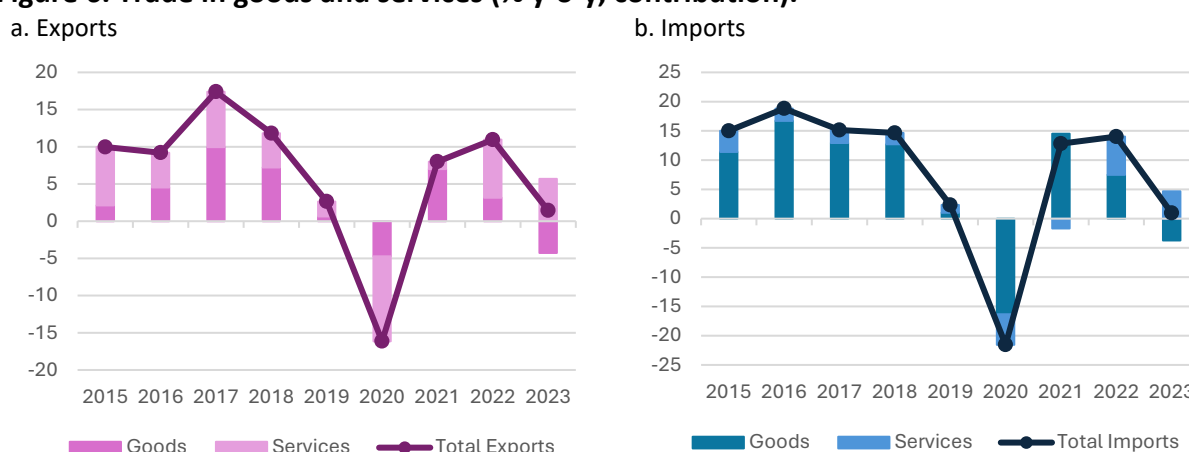
Figure 5. Trade statistics (value, growth)



Source: PSA via CEIC; authors' computations

Amidst these downtrends, the economy's persistent trade deficit marginally declined from 2022 to 2023 by PHP 6.7 billion. Services enabled activity, as seen in Figure 6, marking a 13.8 percent and a 25.2 percent growth in exports and imports, respectively. This was tempered by contraction in goods, which saw -7.3 percent and a -4.6 percent movement in exports and imports, respectively. These also reflect the global trend, wherein trade in services rose by eight percent while trade in goods fell by five percent (UNCTAD 2024b).

Figure 6. Trade in goods and services (% y-o-y, contribution).



Source: PSA via CEIC; authors' computations

Export activity was greatly fueled by travel, which grew by 103.6 percent. This was supported by the influx of about 5.5 million international visitors, around 10 percent of which

were returning Overseas Filipino Workers (OFWs)²². A surplus in tourism revenues was also registered for the first time in 15 years. Such turnouts were attributed to efforts of the Department of Tourism (DOT) in improving travel connectivity and marketing tourism destinations in the Philippines (DTI 2024). Additionally, the general uptrend reflects the global rebound in tourism, marked at 88 percent of pre-pandemic levels in 2023 (UN Tourism 2024). Other sectors to sustain export performance were telecommunications, computer and information (11.4%), as well as transportation (24.4%) and business services (2.5%). Notably, the Information Technology and Business Process Management (IT-BPM) industry drew USD 35.5 billion in 2023, up by nine percent from 2022 (Desiderio 2024a). Meanwhile, demand for electronics dampened by 9.7 percent with expected slowdowns in partner economies (Monzon 2023) and the electronics row between USA and PRC (Agence France-Presse [AFP] 2023). Agricultural exports also fell by 14.3 percent due to natural disasters and climate concerns.

Import activity was similarly driven by travel, which increased by 73.0 percent. The Bureau of Immigration [BI] (2024) reported processing 13.2 million departing passengers in 2023. The uptick was attributed to lifted mobility restrictions post-pandemic. Business also pulled up import figures, as it rose by 13.5 percent. On the other hand, electronics saw a contraction of 12.2 percent, brought about by more sluggish activity in semiconductors and electronic data processing. Fuel products also declined by 7.0 percent, reflecting the relative tempering of oil prices from the surges of 2022.

Slowdown in Philippine trade persisted into the first quarter of 2024, with net exports contracting by 12.1 percent year-on-year. Travel imports kept its momentum, growing by 44.9 percent. Electronic exports showed a strong recovery with 15.9 percent. This is partially brought about by the USA's rebound in electronics due to the interest in artificial intelligence (Campos 2023) and the global recovery in semiconductor exchange (European Semiconductor Industry Association [ESIA] 2024). Business kept the ball rolling with 9.3 percent uptick. **The second quarter meanwhile saw net export growth at 7.7 percent.** This was supported by travel (22.6) and business (4.2%) exports. Transport equipment (-25.5%) pulled down import figures.

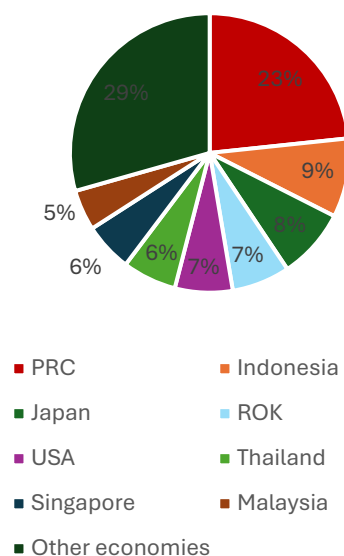
2.2.2. Trading partners' GDP and the world GDP

PRC remained to be the top importing partner of the country at USD 29.4 bn, equivalent to 23.3 percent of all imports (Figure 7). Indonesia, Japan, ROK, and USA trail by a large margin, but still hold a combined share of 31.0 percent. Additionally, among these countries, only PRC saw an increase in the value of imports in 2023. **The economy's top export partners, on the other hand, were the USA, PRC, Japan, and Hong Kong SAR.** Together, they held over half of total export value. Overall, imports with partner economies fell faster than exports, resulting in a narrowed trade deficit.

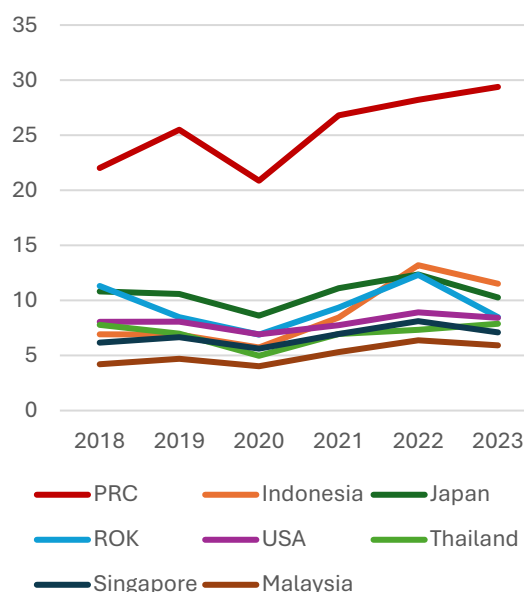
²² Per RA 8042, also known as the Migrant Workers and Overseas Filipinos Act of 1995, "migrant worker refers to a person who is to be engaged, is engaged or has been engaged in a remunerated activity in a state of which he or she is not a legal resident" (Sec. 3a).

Figure 7. Top trade partners

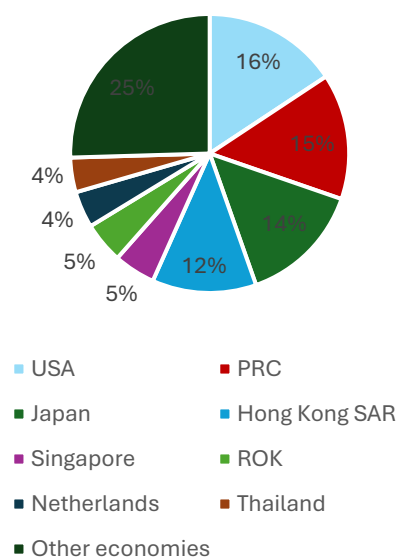
1. Import partners, share of total



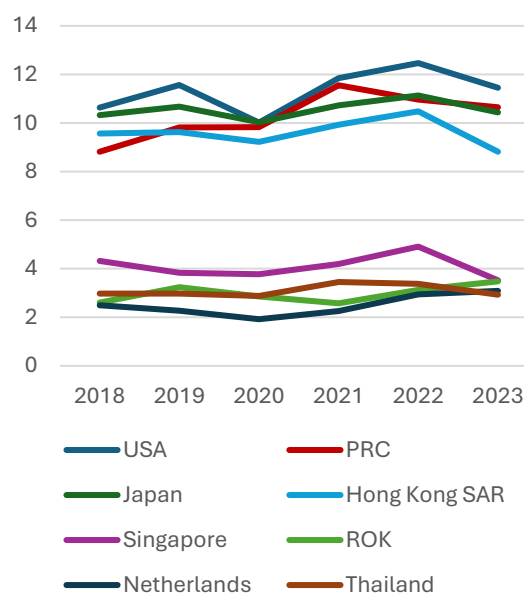
2. Value of imports (in billion USD)



2. Export partners, share of total



4. Value of exports (in USD bn)



Source: PSA via CEIC

World GDP reflected trade performance, as it retracted from 3.5 percent in 2022 to 3.2 percent in 2023 (Table 1). To recall, the Philippine economy similarly slowed down from 7.6 percent to 5.6 percent from. Positive trends were meanwhile observed among several trading partners. PRC, a primary import source, saw its economy speed up by 5.2 percent (from 3.0 percent). Japan and the USA – both import and export partners – also grew by 1.9 and 2.5 percent (from 1.0 percent and 1.9 percent), albeit with smaller margins. Notably, only Indonesia, another primary import source, decelerated at 5.1 percent from 5.3 percent.

Table 1. Growth in key economies (% y-o-y)

	2017-2019	2020	2021	2022	2023	2024f	2025f
World	3.43	-2.69	6.47	3.46	3.21	3.18	3.23
Emerging Market and Developing Economies (EMDEs)	4.36	-1.77	7.02	4.06	4.32	4.16	4.21
Emerging Markets and Developing Asia (EMDA)	6.10	-0.49	7.65	4.39	5.64	5.21	4.87
ASEAN5	4.81	-4.37	4.05	5.45	4.07	4.45	4.56
Advanced Economies (AEs)	2.22	-3.94	5.72	2.62	1.63	1.74	1.77
The Philippines	6.46	-9.52	5.72	7.57	5.57	6.16	6.18
PRC	6.55	2.24	8.45	2.99	5.24	4.64	4.09
Indonesia	5.09	-2.07	3.70	5.31	5.05	4.96	5.06
Malaysia	5.02	-5.46	3.30	8.65	3.68	4.42	4.40
Hong Kong SAR	1.66	-6.55	6.45	-3.68	3.22	2.88	2.73
USA	2.63	-2.21	5.80	1.94	2.53	2.73	1.88
Japan	0.64	-4.15	2.56	0.96	1.92	0.86	1.01
Thailand	3.51	-6.05	1.55	2.51	1.87	2.70	2.90
Chinese Taipei	3.05	3.39	6.62	2.59	1.40	3.07	2.73
ROK	2.77	-0.71	4.31	2.61	1.36	2.32	2.34
Singapore	3.13	-3.87	9.69	3.84	1.08	2.10	2.30

Note: Values in green signify acceleration from the previous period; values in red indicate deceleration.

Source: IMF 2024b

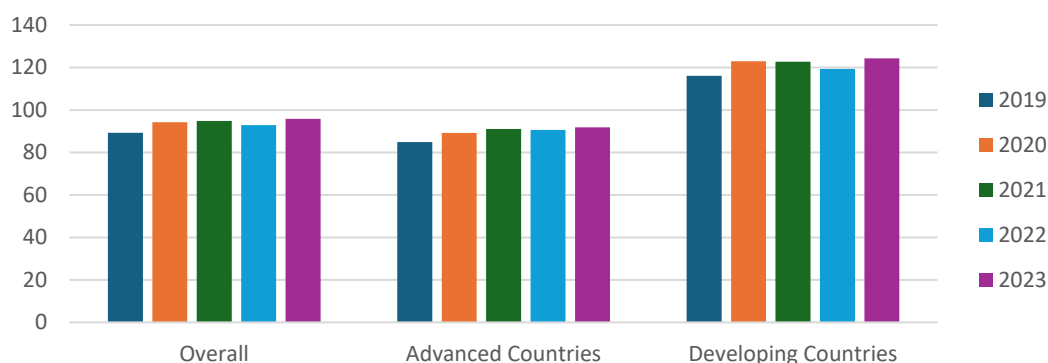
2.2.3. Exchange rate (real effective exchange rate)

The Philippines' REER also reflects the country's trade dynamics (Figure 8). **Scores on the overall index slowly ascending from previous years imply that the PHP had been strengthening.** In other words, prices of goods and services have become more expensive for buyers from other economies, discouraging export activity. On the flipside, prices and goods sold by other economies become relatively more affordable, encouraging import activities. Such scenario is seen to persist in the long run.

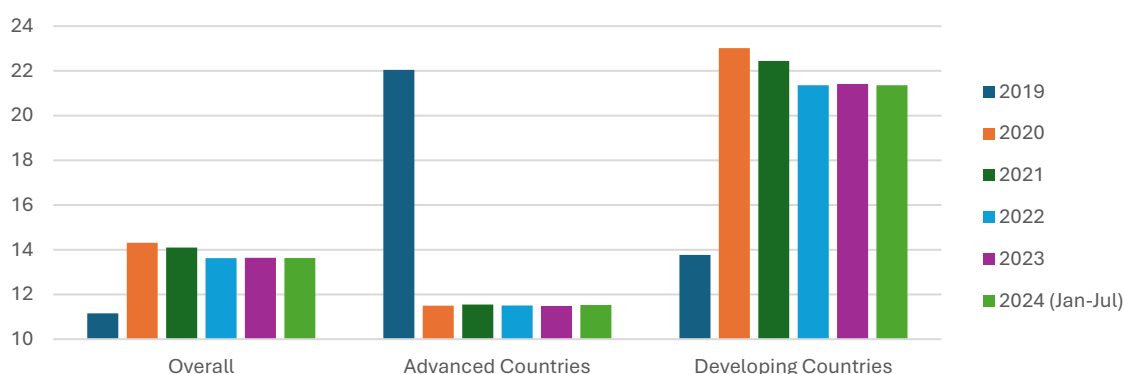
From the REER figures for the Philippines, the overall reading of 95.9 in 2023 is a slight increase from 92.9 in 2022. This is likely due to a combination of factors, including the slowing global economy and changes in monetary policies domestically and abroad.

Figure 8. Exchange rate indices (average of period)

a. Real effective exchange rate (REER)



b. Nominal effective exchange rate (NEER)



Source: PSA via CEIC; authors' computations

2.3. Employment block

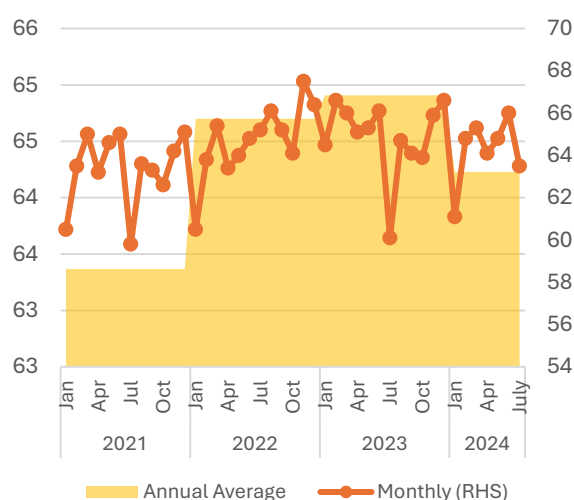
2.3.1. Employment, unemployment, and underemployment

The labor picture continued to show positive trends in 2023. The labor force participation rate (LFPR) registered an average of 64.9 percent in 2023 as seen in Figure 9 (an increase from 64.7% in 2022). By mid-2024, figures have rebounded (66.0%) from the common dip observed at the beginning of the year (61.1%). Overall, these suggest that more and more Filipinos sought jobs or participated in the workforce.

The unemployment rate also boded well with an annual average falling from 5.4 percent in 2022 to 4.4 percent in 2023 (Figure 10). This further averaged at 4.0 percent in the first seven months of 2024. A peak of 4.7 percent was however observed in July. Economists attributed this to the fewer job opportunities due to business expansion stifled by higher policy rates. Mismatches in skills, salaries, and wages were also cited as reasons (Catilogo 2024).

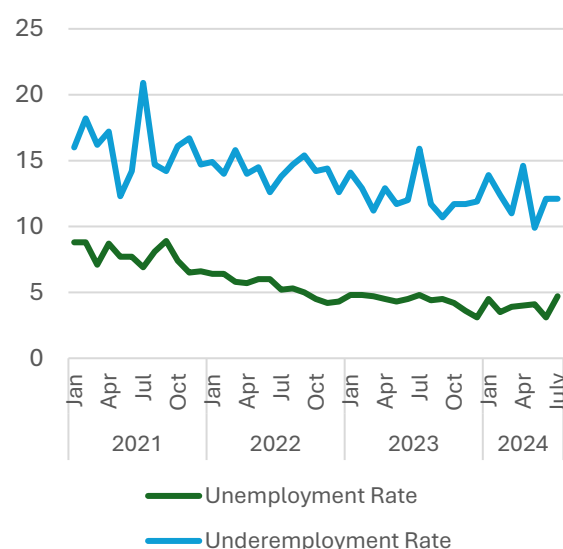
Underemployment similarly abated in 2023, down to 12.4 percent from 14.2 percent the previous year. Such movement represents a slower pace of decline compared to unemployment, suggesting that while people are finding jobs, there may still be challenges in the quality of employment. Aside from the limited absorption capacity of businesses, this may be a persistent offshoot of the pandemic, wherein workers adjusted working hours instead of losing jobs (Epetia et al 2023). This also covers the rise in informal employment, defined as working arrangements not covered by legislation, taxation, and social protection (ILO 2023).

Figure 9. Labor Force Participation Rate (in %)



Source: PSA via CEIC, authors' computations

Figure 10. Unemployment and Underemployment (in %)



Source: PSA via CEIC

2.3.2. Employment by sector

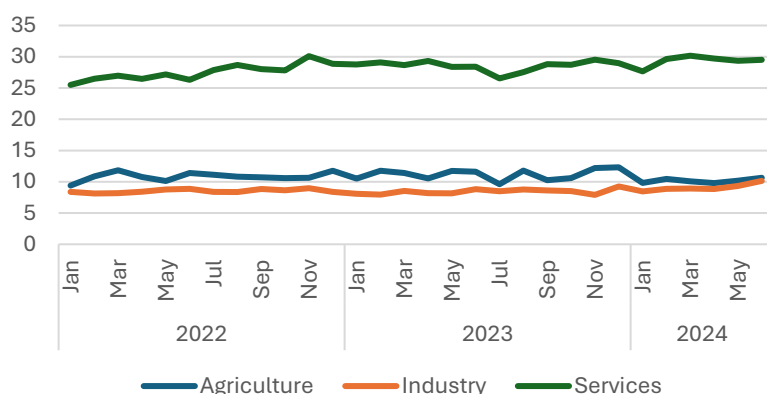
The services sector remained the dominant employer, accounting for approximately 28.6 million jobs on average in 2023, as seen in Figure 11. Agriculture and industry accounted for 11.2 and 8.4 million jobs, respectively, as seen in Figure 10.2. With the global slowdown in goods trade, jobs in industry may have shifted to agriculture (Rivera and Tullao Jr. 2023).

Aligned with historical trends, wholesale and retail trade held up services, contributing 35.6 percent of all jobs in the sector. This is despite a year-on-year contraction of -2.2 percent, which has been attributed to higher input and borrowing costs (NEDA 2023). Accommodation and food services, which can hold operations amidst the same factors, meanwhile held 7.9 percent of the sector and continued to grow at 24.2 percent.

Construction and manufacturing consistently controlled most of the jobs in industry. Year 2023 did not deviate from the norm as they jointly held over 90 percent of all the jobs in the sector. Manufacturing contracted by 6.4 percent, most affected as it was by the global slowdown in goods trade. Construction softened the overall outcome, growing by 3.7 percent and driven by government infrastructure projects (DBM 2024b) and real estate development (Remo 2023).

The first half of 2024 meanwhile saw all sectors recovering from a slump in January. By midyear, agriculture had risen by 8.2 percent, industry by 19.7 percent, and services by 6.7 percent. Notable growth was observed in the construction (27.2%) and accommodation and food service subsectors (22.9%).

Figure 11. Employment by sector (in person mn)



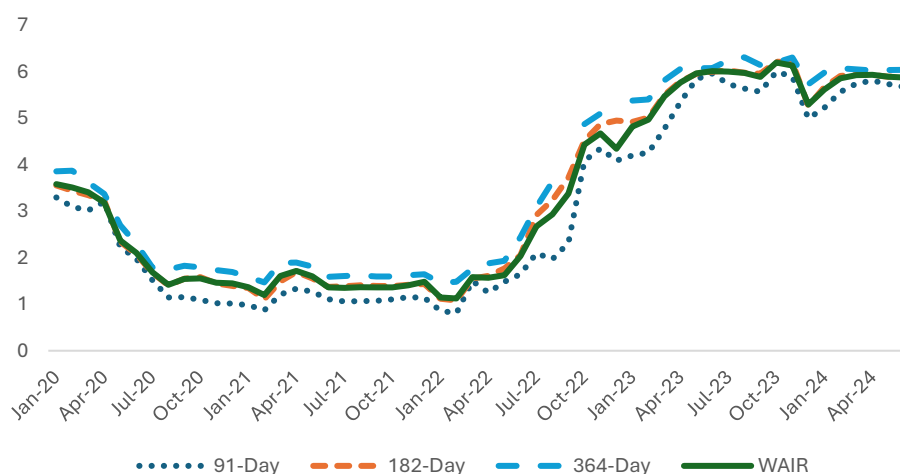
Source: PSA via CEIC, authors' computations

2.4. Monetary block

2.4.1. Treasury bill rate

Treasury bill (T-bill) rates continued to be at elevated levels, as policy rates remained tight amid high inflation. High rates reflected the need for these short-term securities to be appetizing to creditors, as these are issued for the government to raise cash to fund its spending. As seen in Figure 12, yields on T-bills saw significant upticks at the latter end of 2022 and trended upward in the succeeding periods. The monthly weighted average interest rate (WAIR) recorded as much as 6.198 percent in October 2023. Government securities raised over PHP 2.6 trillion (about USD 46.7 billion) for the full-year 2023, of which over PHP 1 trillion are T-bills. In the first half of 2024, monthly averages of yields on 91-day T-bills hovered around 5.225 percent to 5.809 percent; 5.670 percent to 5.939 percent for the 81-day; and 5.983 percent to 6.075 percent for the 364-day papers. Reports also showed that the Bureau of Treasury (BTr²³) issued T-bills amounting to PHP 648.4 billion (about USD 11 billion) in the first six months 2024 (BTr 2024b)

Figure 12. Treasury bill rates



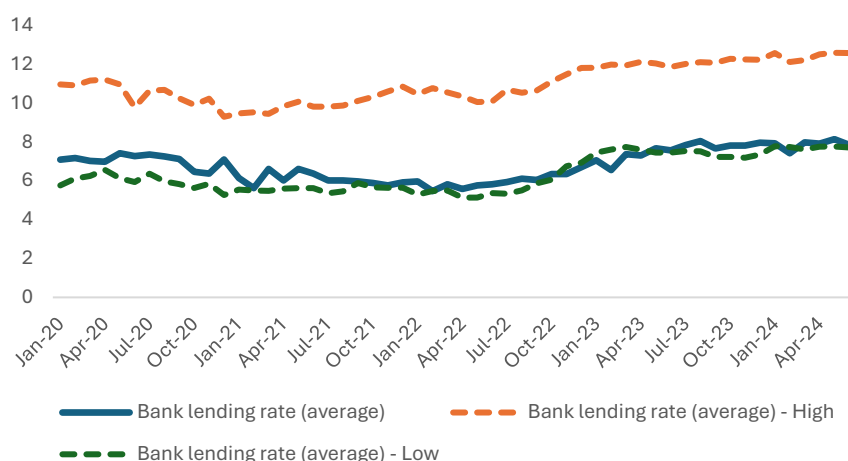
Source: BSP via CEIC

²³ Government agency mandated as the principal custodian of the NG's financial assets, and makes funds available for government programs, activities, and projects (PAPs).

2.4.2. Bank lending rate

Higher bank lending rates continued in 2023, and the first half of 2024 given the inflationary pressures and the prevailing tight monetary policy. As seen in Figure 13, lending rates of universal and commercial banks (UKBs) recorded a full-year 2023 average of about 7.5 percent, higher than the 5.9 average in 2022. It should be noted that high lending rates mean it is costlier to borrow money and induces less spending in the economy. In June 2024, the rate slightly dropped to about 7.8 percent, following the 8.1 percent uptick recorded in the previous month. Despite this, growth of total loans outstanding to residents' net of reverse repurchase (RRP) agreements had been rising in the first half of the 2024, seeing upticks from 7.8 percent y-o-y in January 2024 to 10.1 percent in June 2024. Loans outstanding for production grew 8.3 percent to PHP 10.346 trillion from PHP 9.551 trillion in June 2023. Meanwhile consumer loans rose by 25 percent to PHP 1.402 trillion, with credit cards growing 28.8 percent y-o-y. Recent monetary developments, particularly the 25-bps policy rate cut and the cut in RRR, may lead to lesser deposits of banks in the BSP and lower lending rates. Loans are expected to remain healthy, with faster growth seen for 2024 (Fitch Ratings 2024).

Figure 13. Banking lending rate



Note: High and low rates pertain to the average quoted high and low lending rates of UKBs.
Source: BSP via CEIC

2.4.3. Policy rate (interest rate)

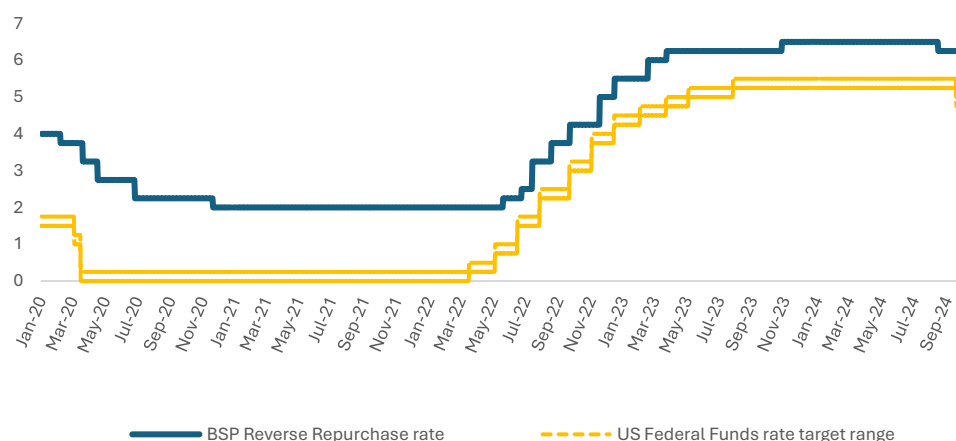
Key policy rates ease by 25 basis points to 6.25 percent in the third quarter of 2023, after monetary authorities retained the policy stance at 6.5 percent in the first half of 2024. Following the interest rate hikes in 2022 and the first quarter of 2023, the overnight reverse repurchase (ORRP) rate was held at 6.25 percent for the considerable part of 2023, until October 2023 when the BSP raised the target ORRP rate (as well as overnight deposit facility and overnight lending facility) by 25 basis points (bps) in an off-cycle meeting of the Monetary Board (MB). Policy rates remained tight amidst rising inflation until the monetary easing in August 2024 by 25 bps, as inflation ticked down to 3.3 percent (within the 2% to 4% target band). This signals outlook of lower inflation in the latter end of 2024 (BSP 2024f). Moreover, in September 2024, the USA's Federal Reserve (Fed) cuts rates by 50 bps which also hinted confidence of USA's inflation moving down toward the 2 percent objective. According to the BSP, another policy rate cut may be undertaken in the remaining months of 2024 (Fuentes and Balaoing 2024).

The interest rate differential continued to be kept within 92 to 117 bps in the first half of 2024. From Figure 14, a decline was seen in July 2023, as the Fed took a tighter policy stance and raised its target band to 5.25 percent to 5.5 percent. The differential went back up at 117 bps following the BSP's October 2023 rate hike to 6.5 percent and the Fed's effective rate staying at 5.33 percent. The rate cut in August 2024 saw a slightly narrower 75 bps to 100 bps differential against the Fed's upper and lower limit. Maintaining a comfortable differential between the BSP's rate and the US Fed's is anchored on price stability in the economy on account of the exchange rate depreciation. Too narrow of a difference may cause the PHP to further weaken against the USD.

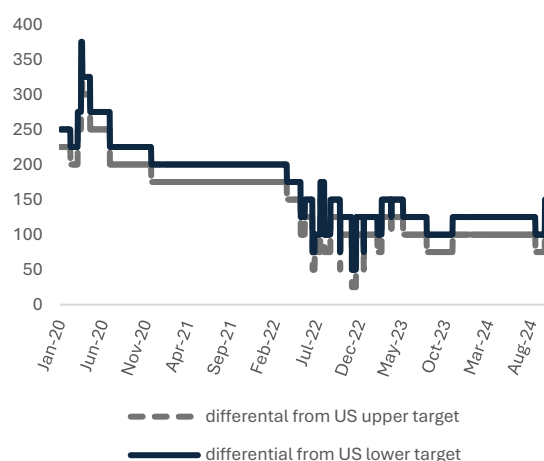
The BSP lowered RRR for banks against selected deposit and deposit substitute liabilities. The decision doled out a reduction of 250 bps to UKBs and non-bank financial institutions with quasi-banking functions (NBQBs), 200 bps for digital banks, and 100 bps for thrift banks (TBs) and for rural banks and cooperative banks (RCBs). This puts the RRR to 7.0 percent for UKBs and NBQBs, 4.0 percent for digital banks, 1.0 percent for TBs, and 0.0 percent for RCBs. This allows for these freed up reserves to be used by banks for lending activity. Added borrowing may be used productively for business and spending, which would help spur economic growth.

Figure 14. Philippine and US key policy rates

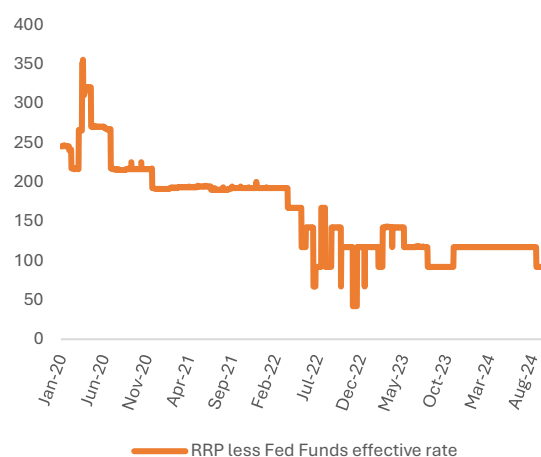
a. BSP target reverse repurchase (RRP) rate vis-à-vis Fed's rate



b. Differential of BSP RRP and Fed Funds target range (in bps)



c. Differential of BSP RRP and Fed Funds effective rate (in bps)

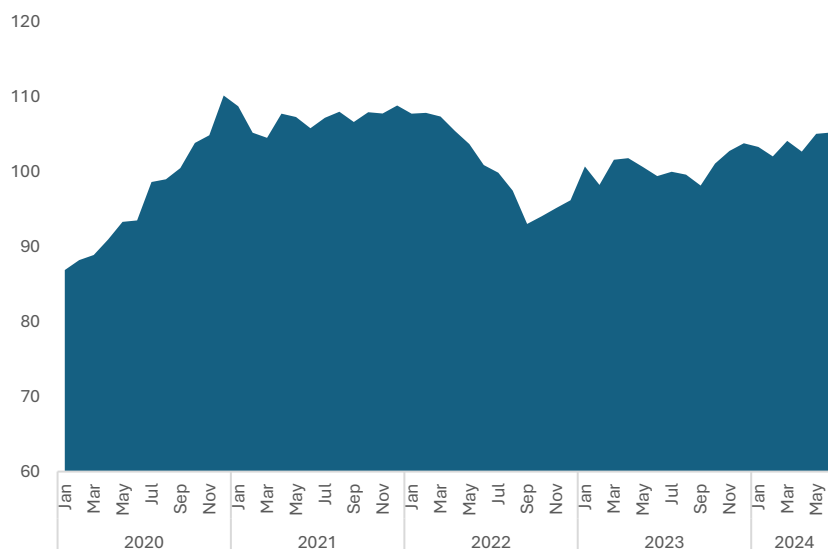


Source: BSP and Fed via CEIC; authors' computation

2.4.4. Reserves

The foreign reserves of the Philippines settled at **USD 103.8 billion by end of December 2023**. This is 7.8 percent higher than the recorded reserves in 2022. This also comes off a gradual rise in the last quarter of 2023 after the slight dip to USD 98.1 billion in September. International reserves, as of year-end 2023, cover about 7.7 months' worth of imports of goods and payment of services and primary income. It also covers about 6 times the short-term external debt based on original maturity, and about 3.8 times the short-term external debt based on residual maturity. Reserve adequacy measures ensure sufficiency of the current level of reserves for external liquidity buffer²⁴ as well as adequately covering foreign liabilities²⁵ of the country. By end-June 2024, the gross international reserves (GIR) remained generally higher at USD 105.2 billion in comparison to 2023 levels. This is also a 5.8 percent uptick compared to June 2023. Note that the PHP weakened against the USD, with the exchange rate rising sharply in the first half of 2024 from an average of PHP 55.97 in January 2024 to PHP 58.7 in June 2024.

Figure 15. Gross international reserves (in billion USD)



Source: BSP via CEIC

2.5. Financial block

2.5.1. Balance of Payment (BOP)

Current account deficit decreased to USD 11.2 billion in 2023 (from USD 18.3 billion in 2022) due in large part by the narrower trade balance, as seen in Figure 16a and Figure 16b. A decrease in imports (1.6%) and increase in exports (4.8%) reflected a slower global economy heightened by geopolitical conflicts, trade fragmentation, and supply chain disruptions (WB 2024a, World Trade Organization [WTO] 2024). Goods trade weakened, as exports went down by 4.1 percent and imports fell by 5.0 percent. Lesser capital imports were also attuned with the subdued pace of capital formation. On trade in services, exports grew

²⁴ At least 3 times' worth of imports of goods and payment of services and primary income

²⁵ External debt with original maturity of 1 year or less, and principal payments on medium- and long-term loans of the public and private sector due in the next 12 months.

faster than imports at 17.4 and 15.6 percent, respectively. The current account position carded a deficit of USD 7.08 billion in the first half of 2024. Primary income increased by 43.2 percent y-o-y due to the increase in foreign direct investment (FDI) receipts by 9.9 percent and receipts of interest of reserve assets by 35 percent. Exports of goods increased by 5.4 percent, while imports contracted by 0.5 percent. On the other hand, services trade saw exports growing 11.4 percent while imports rose 27.1 percent, especially travel services (up 95.3% to USD 6 billion), financial services (up 117.6% to USD 1.05 billion), and other business services (up 5.3% to USD 4.3 billion). Authorities expect narrower trade gap for 2024 with expectations of moderation in imports and steady exports, including effects of RCEP's ratification (BSP 2024a).

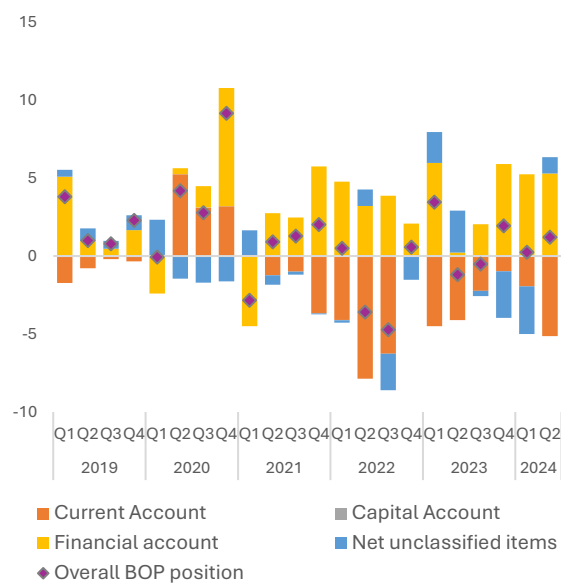
The overall external position of the country turned from a USD 7.3 billion deficit in 2022 to a USD 3.7 surplus in 2023. This is mostly due to the lower trade that eventually resulted in a lower deficit. From Figure 16c, net financial inflows from other investments amounted to USD 11.3 billion attributable to the 55 percent increase in the net incurrence of liabilities from USD 6.1 billion to about USD 9.5 billion. Moreover, portfolio investments recorded a net outflow of USD 925 million. For the period January to June 2024, the overall balance of payments registered a USD 1.4 billion surplus, down from the USD 2.3 billion surplus the same period last year. This is due to higher net inflows in the financial account at USD 10.5 billion. Direct investment net inflows declined to about USD 2 billion from USD 2.3 billion in 2023 as residents' net acquisition of financial assets increased by 34 percent. For portfolio investments, net acquisition of financial assets or residents' portfolio investments recorded a net withdrawal of USD 644 million, while net foreign portfolio investments saw USD 1.6 billion net placements in debt securities by banks. According to the BSP (2024a), the overall external position is projected to post a surplus on the back of lower current account deficit, and foreign investment inflows.

FDI amounted to USD 8.864 billion (down 6.6%) in 2023, as seen in Figure 16d. Investor concerns on global economic growth, regional competition, geopolitical risks, including tensions in the West Philippine Sea may have encumbered investment plans (BSP 2024e, Cigara 2024a). Equity placements declined by USD 367.947 million (down 16.7%) while withdrawals were up by USD 298.077 million (up 119.8%). Reinvestment of earnings amounted to USD 1.239 billion (down 3.6%) and debt instruments were at USD 6.334 billion (up 1.3%). While net flows in manufacturing grew 26.3 percent, other industries declined: financial and insurance (down 125.6%), real estate (down 74.6%), information and communication (down 53.4%), and construction (down 56.7%). In H1 2024, FDIs increased by 7.9 percent year-on-year to USD 4.4 billion as equity placements soared 57.9 percent to USD 1.457 billion.

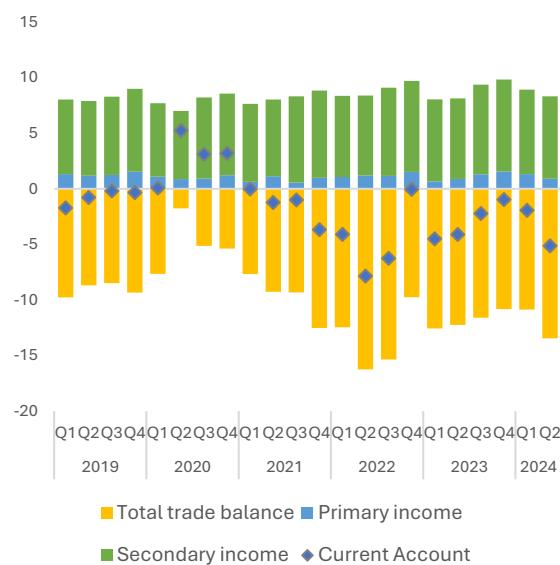
According to the National Economic Development Authority (NEDA), the total Overseas Development Assistance (ODA) portfolio commitments to the country amounted to be about USD 37.3 billion. Loans amounted to USD 35.1 billion while grants were at USD 2.2 billion. Of this total ODA commitments, 32.4 percent were from Japan, 30.7 percent were from the ADB, and 22 percent were from the World Bank (NEDA 2024a). Furthermore, official aid received in 2022 slightly declined by 1.3 percent, as seen in Figure 16e. ODAs, accounted to be about USD 1.612 billion, was below the net aid amount in 2022 at USD 1.633 billion.

Figure 16. Balance of payments and components (in billion USD)

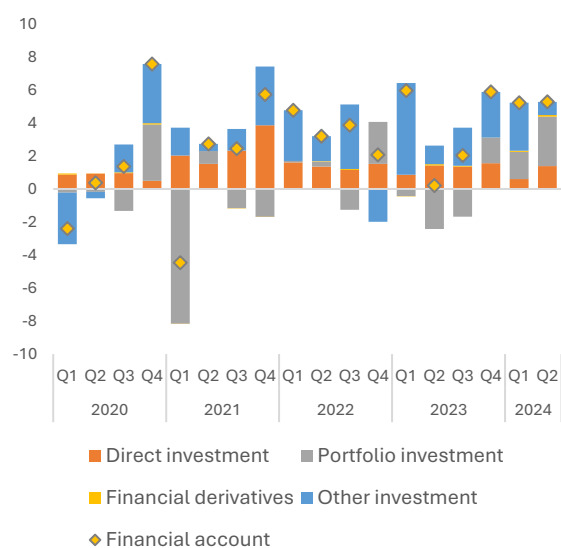
a. Balance of payments



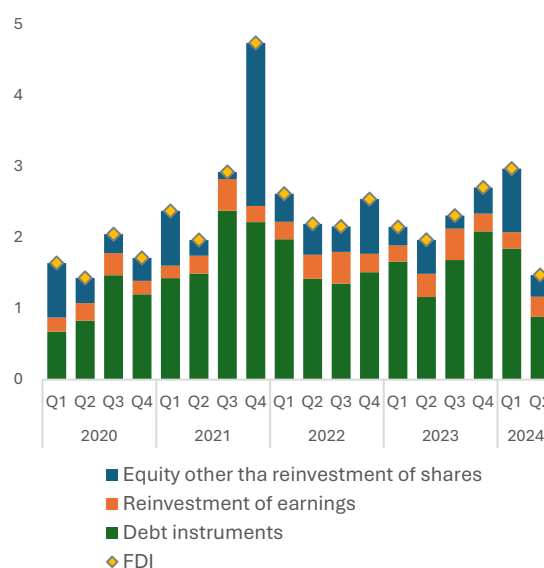
b. Current account



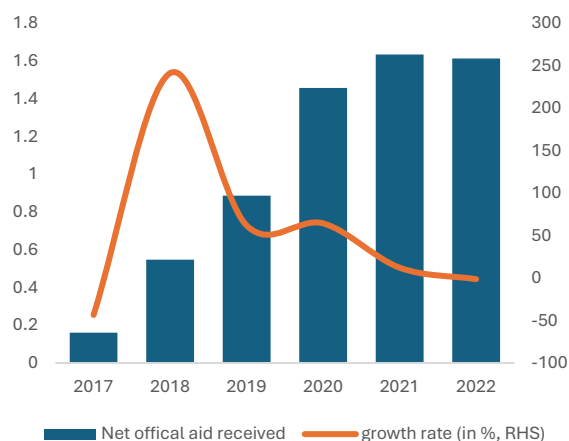
c. Financial account



d. Foreign direct investments



e. Official development assistance

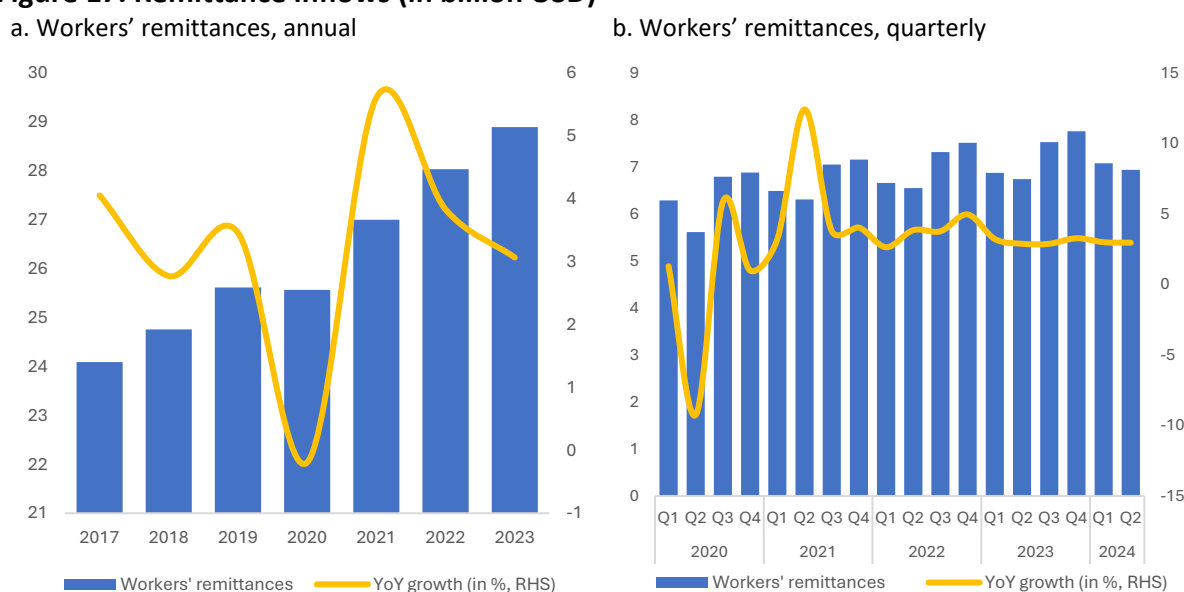


Source: BSP via CEIC

2.5.2. Remittances

OFWs' remittances grew at a slower pace at 3.1 percent in 2023. Continued demand for foreign workers in various countries led to the deployment of OFWs going up by about 9.8 percent (Philippine Statistics Authority [PSA] 2024a). This was supported by the effects of the Philippine government lifting the ban on deployments to Saudi Arabia in late 2022, and benefits brought by recent bilateral agreements. However, the revival of tourism in the country, slower global economic environment, as well as tensions in the Middle East may have slightly restrained the amount of money sent back home and the employment opportunities for some OFWs (Cruz 2024d; WB 2023b). The secondary income logged 1.5 percent growth slower than the previous year (3.7%). OFWs' remittance influx amounted to USD 28.889 billion, more than the recorded USD 28.03 billion remittances in 2022. This is also motivated by the need to augment the total income of families, and for improving the standard of living of their respective households given the elevated prices (Albert et al. 2024). Like in previous years, Figure 17b shows relatively lower numbers in the first two quarters of the year then seeing higher receipts in the latter half as remittances seasonally rise in the second half of the year to finance holiday-related spending. Furthermore, the link between remittances and school enrollment may explain the higher inflows (Tullao Jr. and Rivera 2009). In the first half of 2024, workers' remittances amounted to about USD 14.014 billion, growing almost the same pace as in the first half of 2023. The WB projects total remittance inflows to the Philippines to grow three percent annually in 2024, given the more positive outlook on growth and inflation, while being wary of the adverse effects of ongoing conflicts and disruptions (WB 2024b).

Figure 17. Remittance inflows (in billion USD)



Source: BSP via CEIC

2.5.3. Stock market

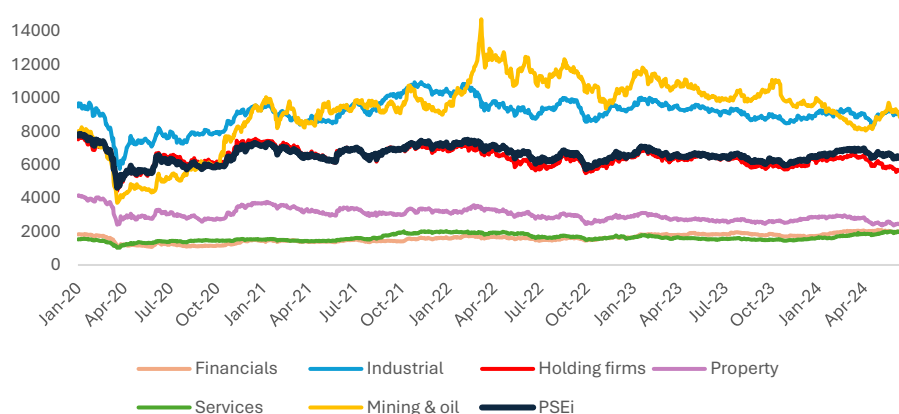
The stock market gained a bit of ground in the tail end of 2023, but eventually settled at 6,450.04 at year-end. As seen in Figure 18a, this was below from the beginning of the year at 6,586.01. A sluggish turnout continued especially in the third quarter of 2023, when it even slipped below 6,100 level. This was also the time when food inflation was an exceptional concern due to supply side woes and the impacts of the rice export ban of India. Speculations

and investor confidence on the economy, given slower growth, the state of the global economy, effects of ongoing conflicts, supply chain disruptions, and rise in oil prices further contributed to the market downturn. Springing from last year's tempered growth, elevated interest rates aimed at taming inflation, as well as slow global demand, the market edged higher in Q1 2024 as optimism in the helped catapult the Philippine Stock Exchange Index (PSEi) to the 6,900 level. This momentum slightly waned in the second quarter of 2024 due to outflows from foreign selling and less favorable sentiment on the weaker peso which contributed to downward pressures. Stocks rallied back as the BSP relaxed policy rate by 25 bps in August 2024, eventually closing above 7,200 in September 2024 while the Fed cut rates by 50 bps (Balaoing 2024; Loyola 2024).

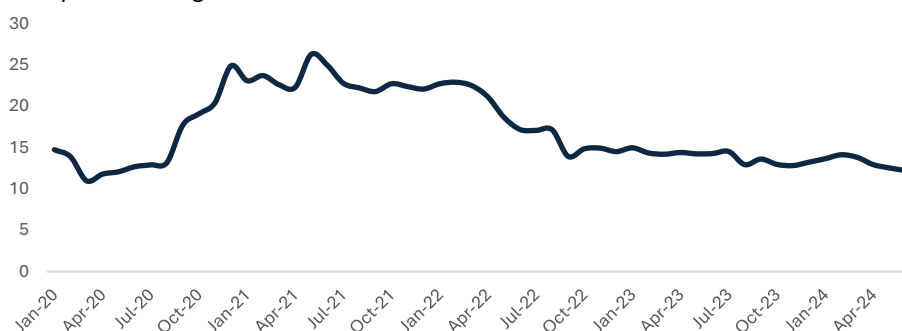
Low stock valuation pushed the price-earnings ratio to continue a downward trend. From Figure 18b, the price/earnings (P/E) ratio significantly fell in late-2022 and persisted to hover around these levels throughout 2023 when it recorded at about 13.2 times. A low P/E ratio means that prices of stocks in the market are low relative to its earnings per share. As of end-June 2024, the P/E ratio continued the low valuation at 12.220, with industrial sector at 13.385; holding firms at 9.443; services sector at 14.417; property sector at 10.138; financial sector at 8.034; and mining and oil sector at 12.039.

Figure 18. Stock market performance

a. Sector indices



b. PSEi price-earnings ratio



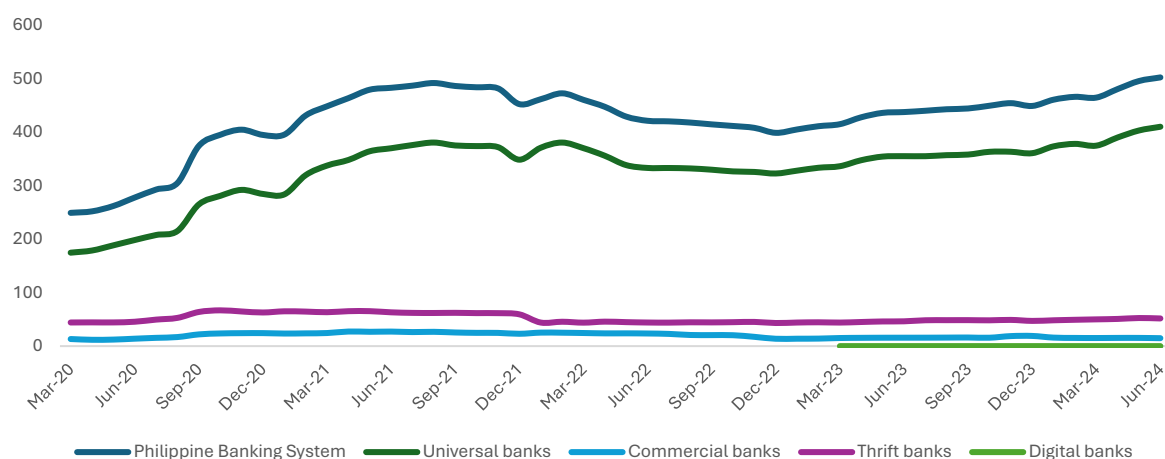
Source: Philippine Stock Exchange (PSE) via CEIC

2.5.4. Banking performance

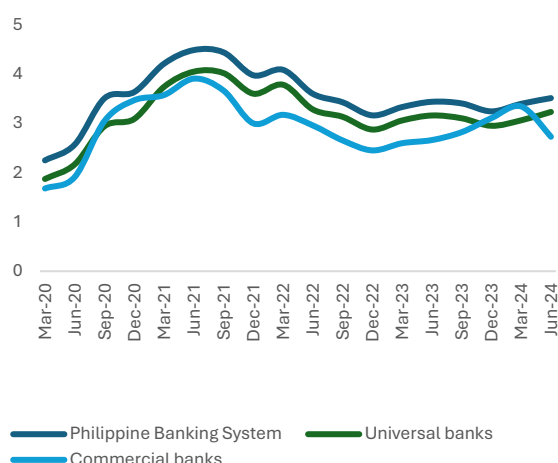
Non-performing loans (NPLs) inched up in 2023 as slowdown in economic activities and costly borrowing weighed down on paying off loans. Gross loans were recorded at about PHP 13.8 trillion (up 9.8%) in December 2023. However, non-performing loans as a ratio of total loans rose to 3.240 percent, slightly higher than the recorded 3.159 percent in the previous year. This warranted an increase in the allowance for credit losses to PHP 456.9 billion (about USD 8.2 billion) from PHP 426.7 billion in December 2022. This represented 101.74 percent NPL coverage ratio, but still comparatively less than the 107.00 percent from a year ago. At the end of June 2024, “bad loans” in the Philippine banking system settled at PHP 502.4 billion (about USD 8.5 billion), 14.8 percent higher than in the same period last year and 1.4 percent higher than May 2024. NPLs in universal banks climbed up to 3.271 percent of total loans in May 2024, its highest in two years, but ultimately ended the first half of 2024 at the ratio of 3.228 percent or PHP 410.2 billion (about USD 7 billion). Meanwhile, the total loan portfolio in digital banks had been on an upward trend, grossing at PHP 28.3 billion (about USD 480.7 million) by end of the first half of 2024. The NPL ratio had also gone relatively higher, as much as 25.33 percent in March 2024. As previously mentioned, credit activity saw an increase despite the high borrowing cost. Adding to this, persistent inflation, weaker peso adversely affecting dollar-denominated loans, and tempered economic and business activity stymied the capacity of borrowers to pay their debt (Gonzales 2024c). According to the BSP (2024g) loan quality remained satisfactory given sound credit risk management and precautionary measures to mitigate credit risk in the banking system. Credit rater Fitch Rating sees NPL ratios to start flattening this year and continue a declining trend in 2025 considering the improved economic environment and lower interest rates (Jocson 2024). Meanwhile, Moody’s, on an earlier report, sees the loan loss provision coverage of banks to remain sufficient (Sy 2024).

Figure 19. Non-performing loans

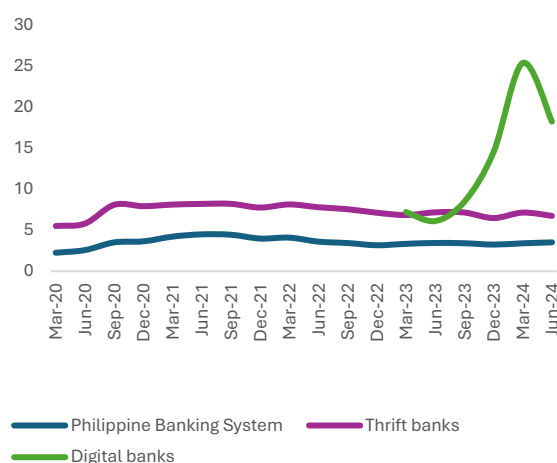
a. Non-performing loans (in billion PHP)



b. Philippine banking system and UKBs NPL to total loan portfolio ratio (in %)



c. Thrift and digital banks NPL to total loan portfolio ratio (in %)



Source: BSP via CEIC

Digital transactions continued to grow in 2023²⁶. According to the BSP (2024h), 52.8 percent of retail payments were through digital means (above 50% target set in the Digital Payments Transformation Roadmap 2020-2023²⁷). The pandemic played a role in digital finance emergence. Figure 20 showed that since 2019, the share of e-payments expanded significantly. The 55.3 percent share in the value of retail transactions accounted for USD 110.5 billion, compared to the USD 89.3 billion non-digital payments. The use of other electronic payment systems within the Philippine Payment and Settlement System (*PhilPass*²⁸) also increased. Transactions via *InstaPay*²⁹ surged by 53 percent, rising to PHP 1.4 trillion (about USD 26.1 billion) in 2023. On the other hand, transactions through *PesoNet*³⁰ also grew by 14.2 percent, totaling PHP 5.4 trillion (about USD 97.2 billion) for 2023. Figure 20 also shows the importance of check payments in the country, with it presenting sizeable payments while having relatively less volume. Transactions in automated clearing houses (ACHs) increased in the first half of 2024, growing by 11.4 and 41 percent in terms of volume and value, respectively.

²⁶ We distinguish ePayments with digital payments. *ePayments* traditionally refers to payments made using electronic systems (i.e., credit/debit card payments, electronic funds transfers (EFT), and online banking transfers). *Digital payments* are more modern and encompassing term that includes all forms of payments made via digital channels, including mobile apps, contactless payments, cryptocurrency transactions, and e-wallets. It can also refer to newer technologies like QR code payments, mobile banking apps, and peer-to-peer payment systems.

²⁷ For more information, see

https://www.bsp.gov.ph/Media_And_Research/Primers%20Faqs/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf.

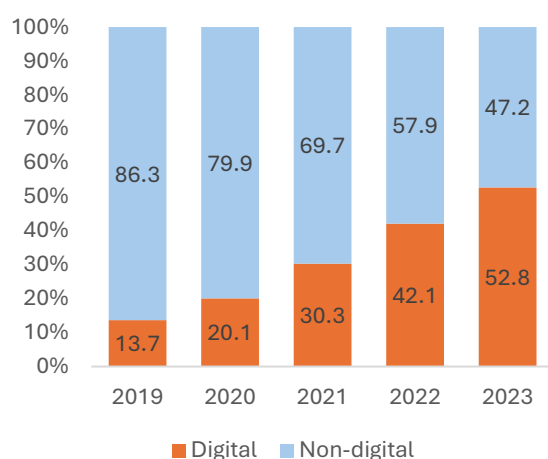
²⁸ For more information, see <https://www.bsp.gov.ph/PaymentAndSettlement/PhilPaSS.pdf>.

²⁹ An application allowing consumers' direct access to their bank accounts and transfer instantly using mobile device at any time.

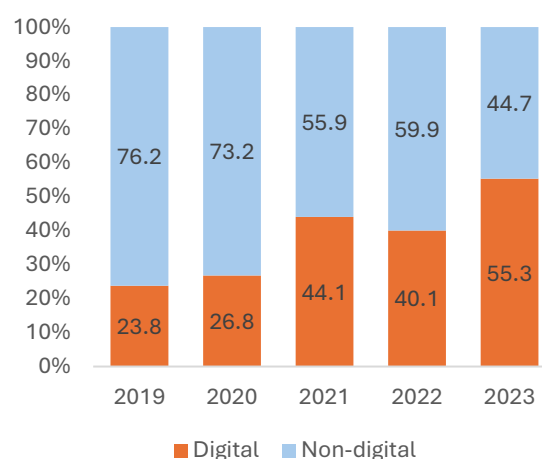
³⁰ An interbank funds transfer service under the BSP's National Retail Payment System (NRPS) allowing consumers to digitally transfer high-value funds across their bank accounts in participating banks and financial institutions in the Philippines.

Figure 20. Digital payments

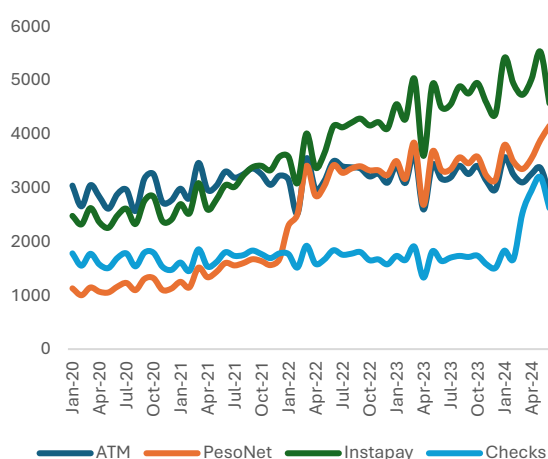
a. Share in the volume of e-payments (in %)



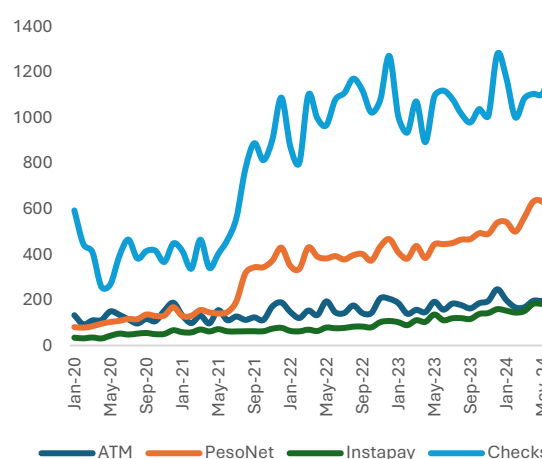
b. Share in the value of e-payments (in %)



c. Volume of payments through ATMs, ACHs, and checks



d. Value of payments through ATMs, ACHs, and checks (in billion PHP)



Source: BSP via CEIC.

2.6. Price block

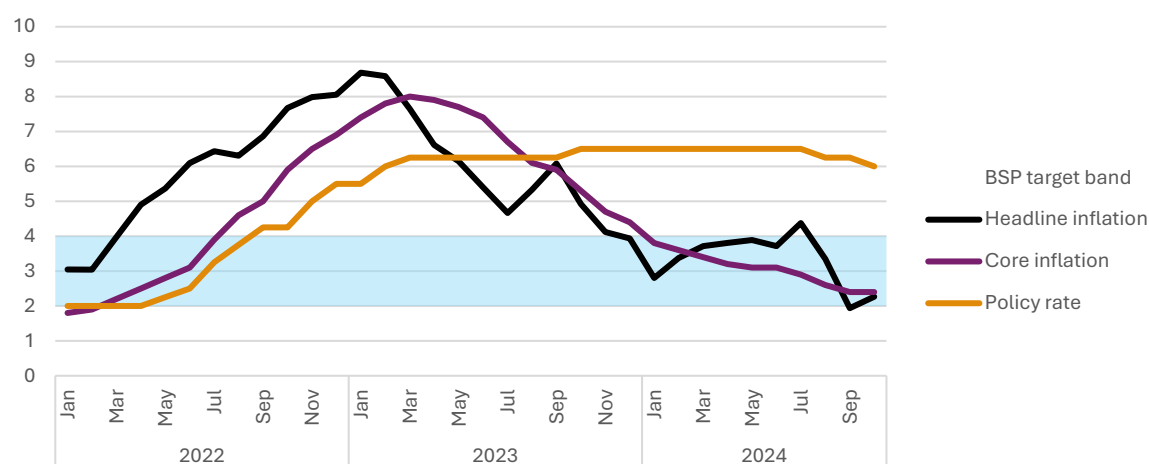
2.6.1. Headline and core Inflation rate

While headline inflation is still slightly higher in 2023 than in 2022, there has been an overall downtrend, as seen in Figure 21. Prices rose sharply in September (6.1%) but have generally softened from 8.7 percent in January to 3.9 percent in December, owing in part to decisive action with regards to the policy rate. Core inflation has similarly subsided, from a year-high of 8.0 percent in March to 4.4 percent by December. That this metric exceeded headline inflation for most of the year implies the broader coverage of price increases.

Moving to 2024, headline inflation climbed from 2.8 percent in January to 3.9 percent in May. Core inflation meanwhile dipped from 3.8 percent to 3.1 percent in the same period, suggesting that food and energy prices are accelerating faster than other commodities. By August 2024, headline inflation tamed to 3.3 percent. It further decelerated to 1.9 percent in September 2023 but increased to 2.3 percent in October 2024 putting the average inflation to 3.3 percent. Such changes can be attributed to changes in rice price movements (Gonzales 2024b). This trend

may be interrupted or reinforced by the increased consumption due to the Christmas holiday season and reaction to recent damages brought about by a series of typhoons that passed through the Philippines.

Figure 21. Headline and core inflation (% y-o-y)



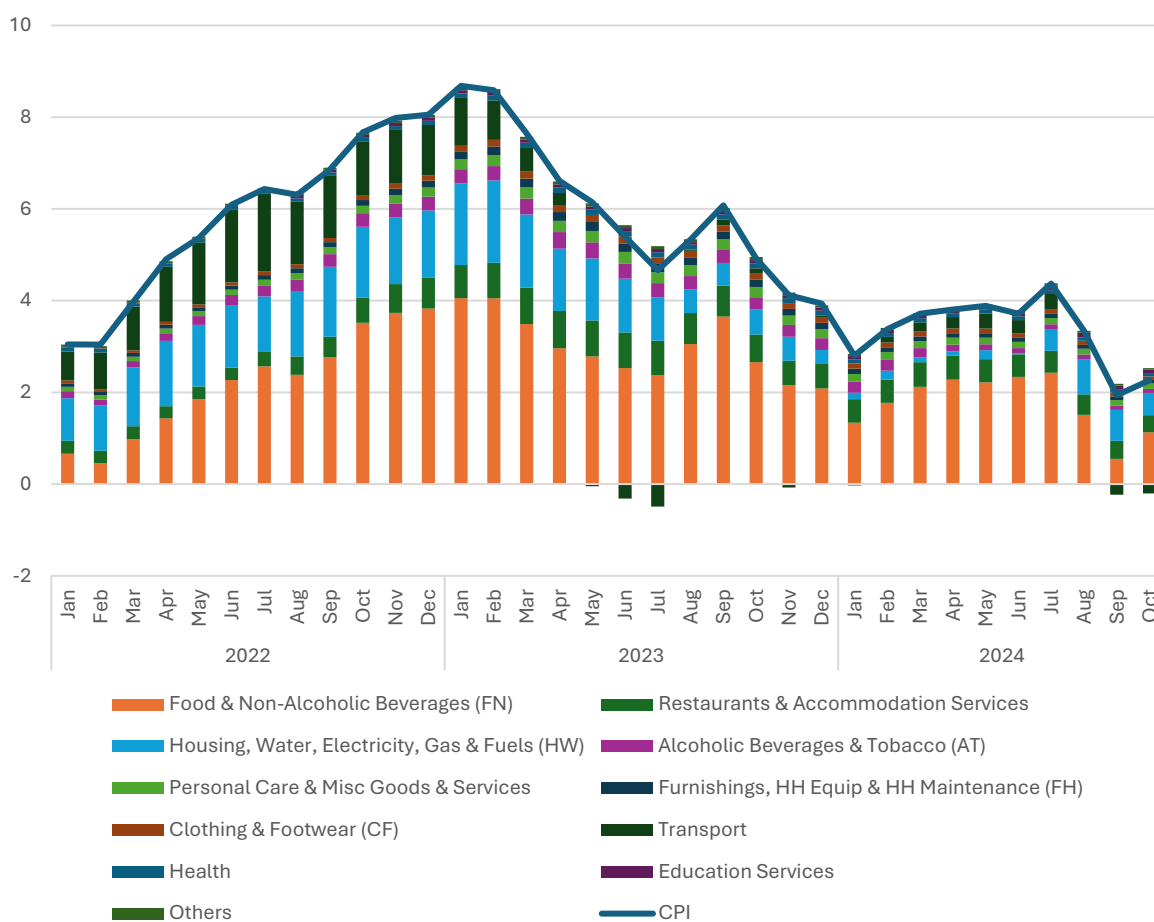
Source: BSP via CEIC

2.6.2. Price of commodities

The commodity group for food and non-alcoholic beverages (7.9%) accounted for about half of headline inflation on average in 2023 (Figure 22, 23). Cereal products accelerated by 8.2 percent as vegetable prices rose by 17.5 percent. Escalation in rice prices (8.1%) pulled up overall food inflation, as seen in Figure 22. Such movement has been attributed to global prices, supply side issues, the India ban on rice exports, elevated fertilizer prices, and weather disturbances (Ordinario 2023). Housing and utility fees grew by 4.9 percent, covering increases in actual rent (4.8%), electricity (6.9%), water (10.6%), as well as reduction in gas (-1.9%). Expectedly, these commodity groups also contributed the most to the September inflation peak. Transport costs (1.8%), which cover diesel (-12.2%) and gasoline (-7.7%), made a weaker contribution to headline inflation than in 2022.

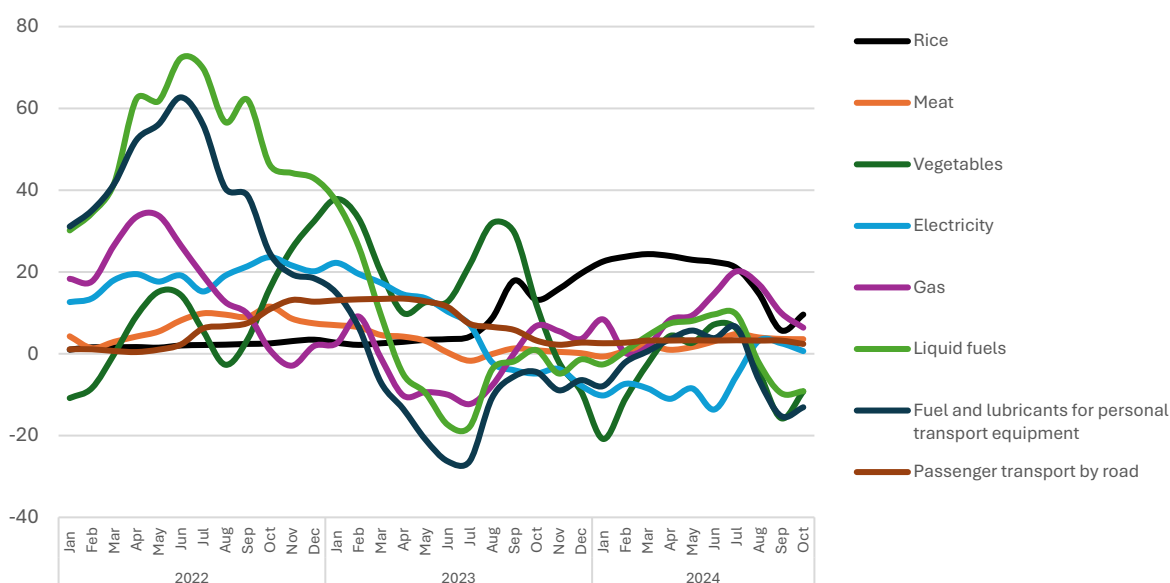
In the first two quarters of 2024, food and non-alcoholic beverages (4.5%, 6.0%) then restaurant and accommodation services (5.5%, 5.3%) drove headline inflation. Rice prices (23.6%, 23.1%; Figure 24) maintained a significant upward pull. The overall reduction in August was meanwhile brought about by taming in food and non-alcoholic beverages, which posted 3.9 percent (Gonzales 2024). Rice prices began to stabilize, owing to combined base effects and reduced tariff rates (Cordero 2024b).

Figure 22. Contribution to headline inflation by commodity group (% y-o-y)



Source: PSA via CEIC; authors' computations

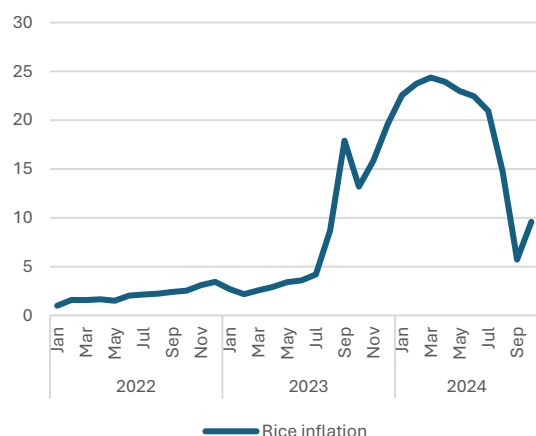
Figure 23. Key commodities (index score)



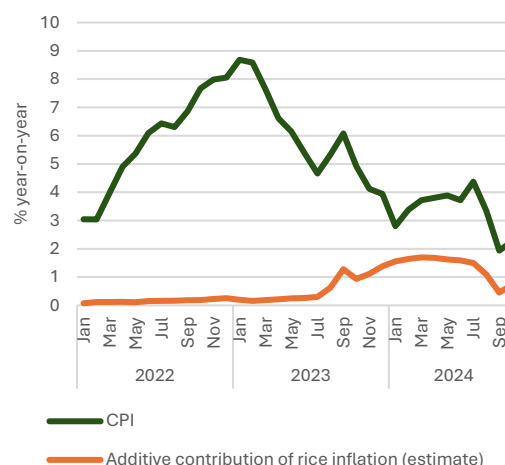
Source: PSA via CEIC

Figure 24. Rice inflation (% y-o-y)

a. Rice inflation



b. Contribution of rice to overall inflation



Source: PSA via CEIC

2.6.3. Nominal effective exchange rate

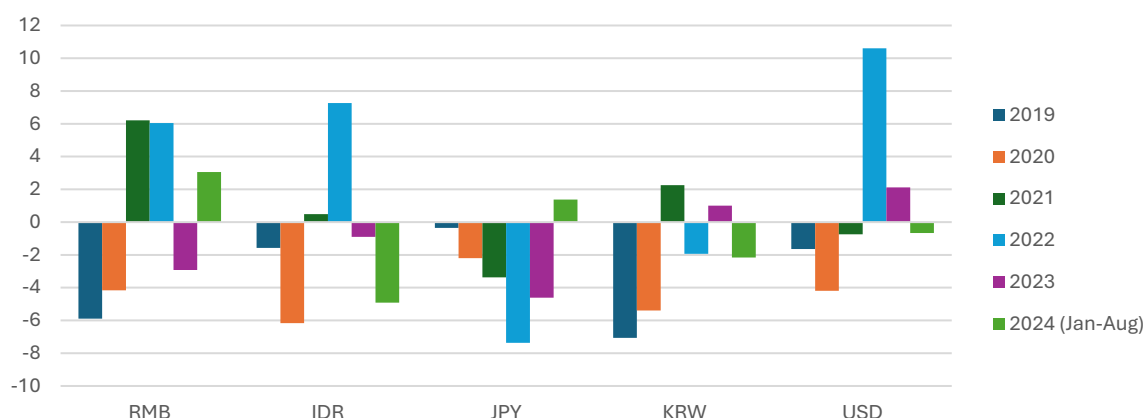
The nominal effective exchange rate (NEER) saw minimal changes between 2022 and 2023 (Figure 8). As the overall index increased by 0.01 percentage points, the sub-index for developing countries rose by a greater 0.05 points. Conversely, the sub-index for advanced countries went down by 0.02 points.

While the changes are marginal, the increasing overall rate suggests that the peso became stronger. Further, that the overall rate moves more closely to the sub-index for developing countries, which includes top import partners, PRC and Indonesia, implies a stronger inclination to buy more affordable goods and services from overseas. The declining rate of NEER for advanced countries, which includes export partners like the USA and Japan, meanwhile suggest rising prices of domestic products and weakening export performance.

Moving forward, readings for the first seven months of July slightly averaged lower than in 2023. The sub-index for developing countries similarly declined, while that for advance countries increased. These suggest minimal depreciation of the peso, which in turn may bode for lessened imports and greater exports in the short run.

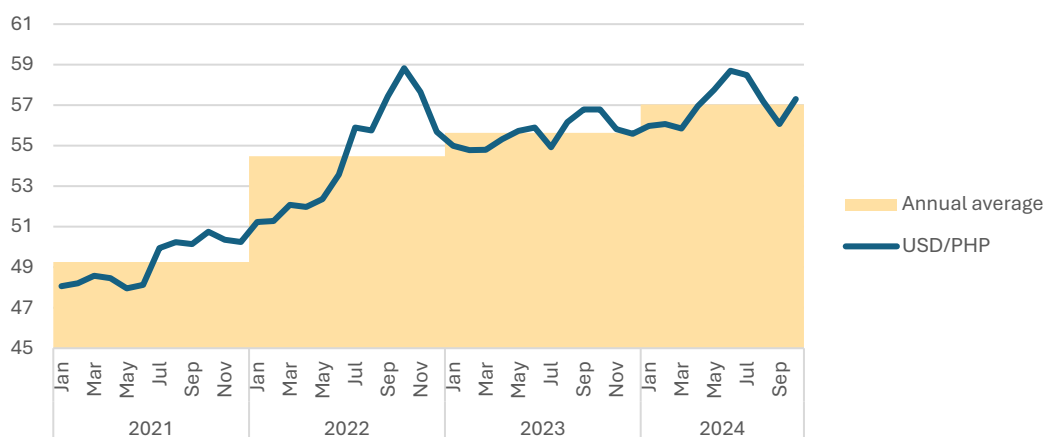
Individual exchange rates with top trade partners further support the minimal uptick observed in 2023 (Figure 25, 26). Currencies of export partners, such as the KRW and USD, appreciated by 1.0 percent and 2.1 percent, respectively. The dollar strengthened following federal rate hikes and recovery of the US economy. Investors have also turned to the dollar amidst geopolitical uncertainties. On the other hand, the RMB (-2.9%), IDR (-0.9%), and JPY (-4.6%) depreciated relative to the peso. Analysts identified net capital outflows, broad US dollar strength (WB 2023a), and post-pandemic recovery (Reuters 2023) as triggers for the devaluation of the RMB.

Figure 25. Exchange rate with top import partners (% y-o-y)



Source: BSP via CEIC

Figure 26. Philippine Peso to USD foreign exchange



Source: BSP via CEIC; authors' computations

2.6.4. World inflation

The global inflation crisis tapered down in many regions by 2023 (Table 2). The world rate softened to 6.8 percent from 8.7 percent in 2022. Economic strata and regions saw similar trends. The rate for emerging market and developing economies declined from 9.8 percent to 8.3 percent, while that for emerging and developing Asia sank from 3.9 percent to 2.4 percent. ASEAN-5 meanwhile registered 3.5 percent from 4.8 percent previously.

Albeit still higher on average in 2023 (6.0%), inflation in the Philippines has been gradually decreasing during the year. Japan and Hong Kong SAR show similar trends, peaking at 4.3 percent in January 2023 and 4.4 percent in October 2022, respectively. Both rates subside towards the end of 2023 despite remaining elevated relative to 2022. On the contrary, several other economies have followed a general downward trend. The rates for USA and Thailand have notably fallen by 3.9 and 4.9 percentage points, sequentially. While geopolitical conflict and post-pandemic uncertainty threatened supply chains and price stability, central banks were quick to adjust policy rates as needed (Figure 27).

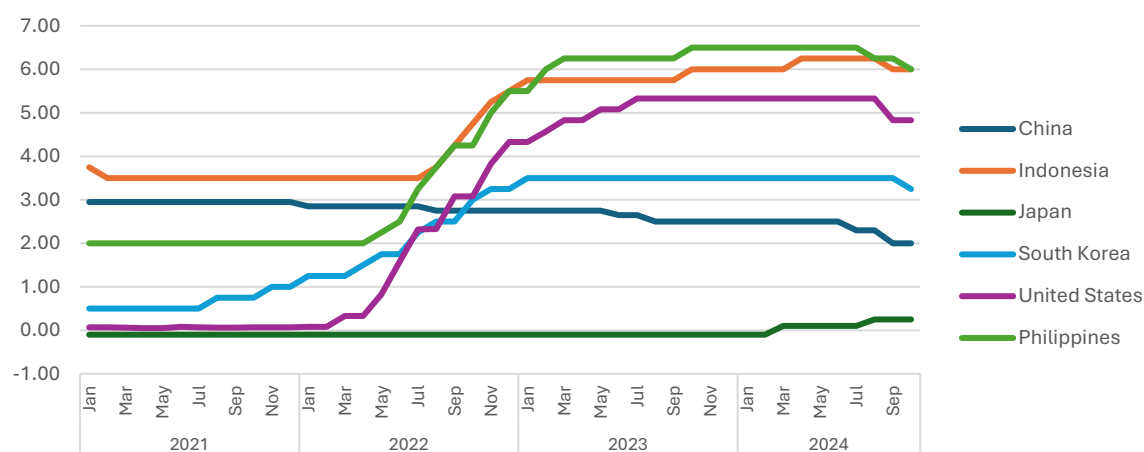
Table 2. Inflation in country groups and key economies (% y-o-y)

	2017-2019	2020	2021	2022	2023	2024f	2025f
World	3.47	3.24	4.71	8.73	6.78	5.94	4.51
EMDEs	4.85	5.17	5.90	9.80	8.34	8.29	6.19
EMDA	2.81	3.19	2.26	3.87	2.39	2.42	2.78
ASEAN5	2.44	0.96	2.00	4.77	3.54	2.46	2.40
AEs	1.69	0.69	3.11	7.28	4.60	2.62	2.05
The Philippines	3.52	2.39	3.93	5.82	5.98	3.58	2.95
Singapore	0.53	-0.18	2.31	6.12	4.82	2.98	2.50
USA	2.13	1.25	4.68	7.99	4.13	2.91	2.00
Indonesia	3.31	2.03	1.56	4.14	3.71	2.56	2.59
ROK	1.27	0.54	2.50	5.09	3.59	2.52	2.00
Japan	0.65	-0.03	-0.24	2.50	3.27	2.24	2.10
Chinese Taipei	0.84	-0.24	1.97	2.95	2.49	1.88	1.56
Malaysia	1.81	-1.14	2.48	3.38	2.49	2.79	2.51
Hong Kong SAR	2.26	0.25	1.57	1.88	2.10	2.30	2.25
Thailand	0.81	-0.85	1.23	6.08	1.23	0.70	1.21
PRC	2.19	2.49	0.92	1.98	0.23	0.97	1.99

Note: Values in blue signify acceleration from the previous period; values in red indicate deceleration.

Source: IMF WEO April 2024 Database

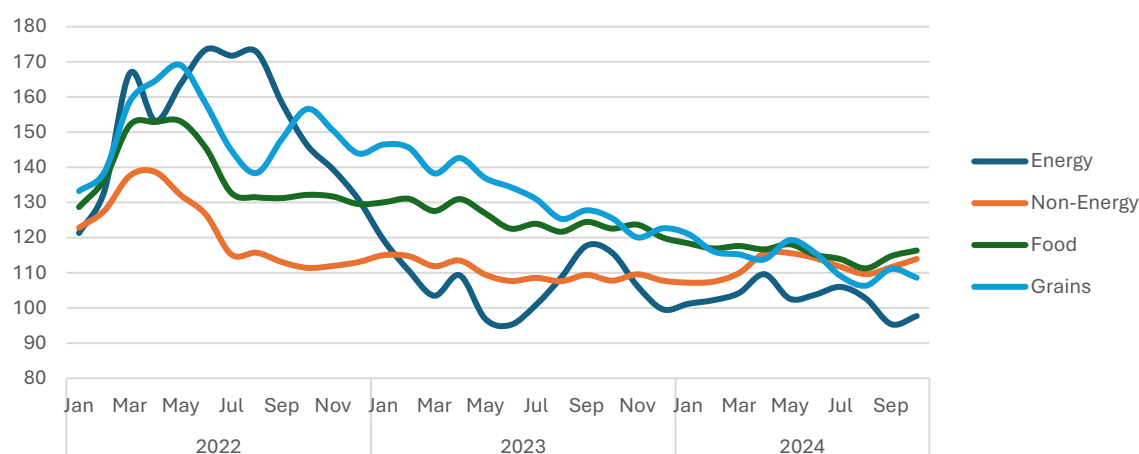
Figure 27. Word policy rates



Source: CEIC Data via CEIC

Inflation easing is also apparent in world prices of key commodities (Figure 28). On average, the index for energy and non-energy has moderated by 29.9 percent and 9.7 percent, respectively. Food prices fell by 9.2 percent. Grain prices, which rose following the onset of geopolitical conflicts, specifically dropped by 11.5 percent.

Figure 28. World price indices



Source: World Bank via CEIC

3. Macroeconomic outlook for 2024-2025

In addressing point of inquiry 3, as stated in Section 1.2, we present the macroeconomic conditions and projections for selected macroeconomic indicators on the basis of trends discussed in Section 2. Doing so also allows us to address our second specific objective, also stated in Section 1.2.

3.1. Macroeconomic conditions

Global economic recovery has been evident, yet unsteady, since pandemic restrictions have been relaxed. As revenge spending set in, consumption started to stimulate global economic growth. As reported by Lawder (2024), the International Monetary Fund [IMF] (2024b) forecast global real GDP growth at 3.2 percent and 3.3 percent for 2024 and 2025, respectively. The 2024 forecast was upgraded by 0.1 percentage point from the previous World Economic Outlook's estimate in January 2024 due to a significant upward revision in the outlook for USA (IMF 2024a). However, growth is suppressed by geopolitical tensions resulting to supply-chain constraints, trade fragmentation, higher-for-longer interest rates due to perverse inflation, and rapid climate change-related disasters.

For the USA, economic growth remains slow, at 2.8 percent quarterly annualized in the second quarter of 2024, facilitated by stronger domestic demand and surge in inventories. While this is expected to continue as consumption loses steam due to depleted savings, lower purchasing power due to inflation, and elevated interest rates, a recession is not likely (Gibson 2024). Faster growth is expected in 2025 as USD depreciation supports faster exports growth accompanied by the Federal Bank's 2-percent inflation target and imminent interest rate cuts (The Conference Board 2024). Meanwhile, in the European Union (EU), while real GDP growth saw a rebound in the first quarter of 2024, at 0.3 percent driven by strong domestic fundamentals (Verwey et al. 2024), this is expected to gradually increase in 2025 as interest rates continuously decrease, as real disposable income accelerates, and as inflation decelerates due to slow down in core inflation, alongside fiscal consolidation efforts.

In Asia, despite slow domestic demand, PRC's GDP grew by 5 percent in the first half of 2024 explained by strong performance in crucial sectors such as manufacturing and services, along with optimism in foreign trade (Interesse 2024). Despite this, it is marked as an economic

slowdown in PRC driven by extended challenges in the property sector, elevated employment security concerns, which tempered domestic demand (Lawder 2024). Consumer confidence remains constrained especially on discretionary spending on luxury items (e.g., jewelry, bags, watches, cars, gadgets). Nonetheless, it is still feasible for PRC to achieve its target of 5 percent full-year growth conditioned on appropriate monetary measures (i.e., short-term rate cuts) and a development trajectory focusing on pivotal sectors like the private sector, technology, and property. Meanwhile, Japan is anticipated to moderate its economic growth forecast of 1.3 percent in the fiscal year ending March 2025 due to slowdown in consumption brought about by increasing import costs as a consequence of a depreciating JPY (Takemoto 2024). Similarly, for 2024, Japan is seen to experience economic contraction highlighting uncertainties on the direction of its policy rate (Fujioka 2024).

Global inflation is expected to decelerate steadily from 6.9 percent in 2023 to a forecast of 5.9 percent and 4.5 percent in 2024 and 2025 respectively, but it is not fast enough for monetary authorities to meet their targets. Although headline inflation is decelerating, global core inflation is expected to be sticky at 3 percent in 2024. This is due to core services prices still elevated, demand growth accelerating, and labor markets remaining tight³¹ (JPMorgan Chase & Co. 2024). While most advanced economies are seen meeting inflation targets (IMF 2024a), services inflation needs to be hurdled for monetary authorities to relax their higher-for-longer stance. This is worsened by escalating trade tensions, geopolitical conflicts, and increased policy uncertainty (IMF 2024b). For instance, while inflation has slowed in the USA, persistently elevated in the United Kingdom (UK), and bumpy in the EU, inflation remains above target. Similarly, in Emerging Markets and Developing Economies (EMDEs), core inflation is still seen to exceed central bank targets by around 2 percentage points due to tight labor markets, loose fiscal policy, and unanchored inflation expectations (JP Morgan & Chase Co. 2024). Global inflation remains susceptible to volatilities in food, energy, and transport prices due to persistent geopolitical tensions in Eastern Europe and Middle East (Debuque-Gonzales et al. 2023), notwithstanding conflicts in East Asia and Southeast Asia.

Despite stalemates in global trade negotiations in the World Trade Organization (WTO) negotiations, the race for economic supremacy between USA and PRC, global trade resumed growth as of the first quarter of 2024 (Rivera and Tullao Jr. 2022; UNCTAD 2024a). This growth can be ascribed to two things. First is the ratification and commencement of economies' membership in mega Free Trade Agreements (FTAs) such as the ASEAN-PRC-led Regional Comprehensive Economic Partnership (RCEP) and/or the USA-Japan-initiated Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) and/or the USA-initiated Indo-Pacific Economic Framework for Prosperity (IPEF) covering beyond trade and investment in goods and services to include competition policy, government procurement, and intellectual property rights – all of which expands trade (Rivera and Tullao Jr. 2022; Smillie 2018). In fact, according to UNCTAD (2024a), growth was primarily driven by increased exports from PRC (at 9%), India (at 7%) and USA (at 3%). Like global economic growth, the short-term trade outlook is also cautiously optimistic. However, should growth be sustained, global trade in 2024 could reach USD 32 trillion, but still short of the 2022 level.

Second this growth can be traced to the positive trade dynamics for USA and EMDEs in sectors related to green energy and artificial intelligence. In fact, according to UNCTAD (2024a), while trade expansion differs ominously across sectors, renewable energy and artificial intelligence-related products posted noteworthy growth. The high-performance servers' trade

³¹ Occurs when there is an imbalance between demand for labor and supply of labor resulting in a surplus of job opportunities accompanied by a scarcity of workers available and willing to take jobs (Doornik et al. 2023).

value increased by 25 percent relative to the first quarter of 2023, while other computers and storage units posted an 8 percent growth. Similarly, electric vehicles' trade value also registered expansion by approximately 25 percent y-o-y from 2022 to 2023.

However, despite trade liberalization measures, trade continues to be heavily tempered by geopolitical tensions, political proximity of trade³², protectionist policies, domestic regulations, and industrial policies. Because of increased focus on domestic industries and trade barriers, it restricts growth of international trade as trade wars disrupt relationships between an among allied economies, supply chains get disrupted, shipping costs rise, sanctions are imposed, among others – all of which reshape global trade patterns.

With respect to the Association of Southeast Asian Nations (ASEAN) region, growth in the first quarter of 2024 has been promising as ASEAN Member States (AMS) sustained their growth momentum with GDPs expanding in all economies driven by strong domestic demand, tight employment markets, stable prices, strong performance of tourism, recovery in exports markets, growth shoots in some global markets. Leading the pack are Indonesia, Malaysia, the Philippines, and Singapore posting stronger growth in the first quarter of 2024 driven by strong tourism performance. In terms of trade, increased demand from ASEAN's major trading partners (i.e., PRC, Japan, USA) supported regional markets, with sectors including electronics seeing stronger demand. Meanwhile labor markets remained strong, evidenced by low unemployment rates and high labor force participation due to growth in tourism and industrial activities.

Inflation in ASEAN has seen deceleration but not yet enough to be within government targets sustainably. This is because it is continuously being threatened by geopolitical conflicts, global trade tensions, and climate-change risks. Intensified geopolitical conflicts between key economic powers over trade, technology, and hegemony have deepened. These interrupted supply chains, increased energy prices, placed an upward pressure on commodity prices, and caused currency movement volatility. These resulted to greater production and transportation costs reinforcing inflationary pressures. Moreover, economic sanctions and trade barriers constrain the unimpeded flow of goods, further aggravating inflation. Enlarged defense spending and market uncertainties also generate inflationary pressures warranting monetary authorities a higher-for-longer stance on interest rates.

As the Federal Bank is predicted to cut rates this 2024 and as inflation decelerates, monetary easing is seen in ASEAN but conditioned on stimulus clarity and performance of other macroeconomic indicators. As inflation shows receding signs, notwithstanding geopolitical tensions, global trade tensions, and climate-change risks, there is now space for AMS' monetary authorities in relaxing interest rates (Sato 2024). With taming inflation, albeit short of target, monetary easing is being signaled by USD depreciation that generates push to AMS' growth. According to ADB, as cited by Cruz (2024c), “moderating inflation and expected monetary easing in the second half of 2024 will support household consumption and investment.” However, this is not necessarily the case in the ASEAN region.

Depending on economic and financial conditions, and while assessing the impact of ongoing political instability on the economy, Thailand is highly likely to keep policy rates at 2.5 percent, it is still deemed neutral and relatively lower compared to regional and global rates (Sriring and Thaichareon 2024; Krishna 2024; Banchongduang 2024). Similarly, Malaysia posted

³² Also referred to as “friend-shoring” – an economy favors another economy with similar political stances (UNCTAD 2024).

inflation undershooting estimates but is threatened by increasing diesel prices prompting a rate pause through 2024 at 3 percent until inflation risks fade (Shukry 2024; Leng 2024). Likewise, Indonesia held interest rates steady at 6.25 percent, as expected, preferring to focus on stabilizing the IDR before possibly easing rates by late 2024. This is because a strong IDR is good for the Indonesian economy because it makes prices cheaper and mitigate imported inflation (Suroyo and Sulaiman 2024).

Meanwhile, Singapore is now bracing for lower interest rates (Sanglap and Lozano 2024) as its central bank expects core inflation to significantly slowdown in the final quarter of 2024 (Kok 2024). The Philippines also started to cut rates from 6.50 percent to 6.25 percent as the balance of risks to the inflation has shifted to the downside for 2024 and 2025 and with consumption being relatively weak (Fuentes and Balaoing 2024).

Inflationary, geopolitical, and climate-change risks continue to limit fiscal space in the ASEAN region. The fiscal deficits and debt burden incurred during the coronavirus (COVID-19) pandemic continue to plague many EMDEs constraining public investments coupled by limited private investments due to the persistence of relatively high interest rates. As fiscal space in ASEAN recovers, it is again impacted by inflationary pressures emanating from geopolitical tensions (e.g., Russia vs. Ukraine, Israel vs. Palestine, Hezbollah Attack) that impacts trade and disrupts supply chain, as well as the damages from the dry spell (e.g., El Niño phenomenon) and natural calamities (e.g., typhoons, earthquakes). Thus, fiscal deficits remained higher than pre-pandemic averages, due to persistence of elevated spending needs.

While fiscal positions of AMS have seen improvements in 2023, recovery in domestic demand and employment amidst a relatively higher inflation environment advanced revenue collection. However, resource-based revenue in commodity-exporting economies weakened due to lower commodity prices. Expenditure-wise, the AMS continued to eliminate the costly yet provisional pandemic-support social protection programs (Nam 2024). This trend is expected to continue in 2024 anchored on fiscal consolidation with the Philippines (Jocson 2023b) and Malaysia (Wong 2024) explicitly pursuing such.

Overall, since 2023, we have seen that the global economy has been showcasing phenomenal resilience characterized by steady growth and deceleration of inflation despite the various ongoing and upcoming challenges. Threats to global economic growth, that affect investor confidence, continue to emanate from geopolitical conflicts in the Middle East, Eastern Europe, and Southeast Asia. Historically, such conflicts raise inflation due to disruption in supply chain putting upward pressure on oil prices, food prices, and transport cost, which trigger monetary tightening (Lawder 2024). Moving forward, prospects continue to be cautiously optimistic, in an external environment that continues to deliver mixed outcomes and present significant challenges – PRC showing stronger performance than USA; ongoing geopolitical conflicts and tensions in the South China Sea, continued uncertainty and fragility in global markets (Bugrov et al. 2024).

3.2. Macroeconomic projections

Despite a challenging external environment, the Philippine economy closed 2023 at 5.6 percent growth, driven by wholesale and retail trade; repair of motor vehicles and motorcycles; financial and insurance activities; and construction. **As base effects subside and based on recent and foreseeable developments in the Philippine economy, we estimate a year-on-year GDP growth for 2024 to pick up between 5.8 percent to 6.0 percent (5.8 percent in**

Q1 2024; 6.4 percent in Q2 2024; 5.2 percent in Q3 2024; and estimated 6.0 percent in Q4 2024) driven by continued government spending on infrastructure development but hampered by the damages of recent natural calamities (e.g., typhoons, drought)³³. Likewise, GDP growth's trajectory for the fourth quarter of 2024 will be impacted by a series of scenarios following slower inflation expectation: relaxation of policy rates that will drive firms to borrow more to expand business operations contributing to the recovery of employment thereby increasing household purchasing power and consumption (Elnagar 2024).

While the BSP started to relax policy rates in August 2024 (Carnell 2024), the estimated lag of monetary policy in the Philippines has been estimated to be anywhere between 4 to 7 quarters (Tuaño-Amador 2003; Guinigundo 2005). Thus, **the full extent of the monetary easing may not be fully manifested in the GDP growth for 2024**; hence, a conservative estimate.

Nonetheless, **the nexus of slower inflation, employment gains, and renewed consumption can stimulate the last two quarters of GDP growth**. As holiday season kicks in, consumption regains momentum in bolstering economic growth (Zaldarriaga 2023) given increased liquidity of consumers to fund tourism activities, both inbound and domestic coupled by increased remittances inflows from Overseas Filipino Workers (OFWs) due to sustained deployment in recent months. Also, the election period is upcoming heightening the contribution of consumption spending on growth (Basilio 2024).

Given these developments, **y-o-y GDP growth for 2025 will likely grow to 6.1 percent**³⁴. This is anchored on the dynamics of various forces on the demand-side, particularly the expectations of easing inflation and policy rates that will reinforce both consumption and investment activities of the private and public sectors. Growth is also supported by enhanced household consumption driven by improving employment rates and steady inflow of remittances from abroad, and election spending in the first half of 2025. Likewise, should the appreciation bias³⁵ of the PHP against the USD continue, this could help in the further easing of inflation as imported raw materials, work-in-progress, and finished products are sourced cheaper. To be specific, government spending on infrastructure development will continue to fuel growth in the foreseeable future. This is strengthened by the recovery of merchandise exports particularly electronic products, and the resiliency of services exports particularly tourism and BPO.

Moreover, **the Medium-Term Fiscal Framework (MTFF) 2022-2028 (i.e., fiscal consolidation) being implemented by the government mobilizes resources to maximize multiplier effects and economic benefits that support growth**. By mobilizing revenues, enhancing the quality of spending, improving efficiency of public services, and implementing structural reforms, it would strengthen debt sustainability over the medium term and redirect the economy back to an inclusive, resilient, and high growth path. On the supply-side, aside

³³ This quarterly GDP forecast was estimated using a mixed methods approach quantitatively estimating a point forecast using ARIMA (p,d,q) and qualitatively consulting key informants. The identified ARMA (1,1) specification forecasts the GDP in Q4 2024 to be about 5.8 percent. However, the recent developments on trade, inflation, the global and domestic economic and financial conditions, expectations on investments, continued remittance inflows, the country's employment picture, as well as other considerations benchmarked on the outlook of multilateral observers compelled authors to deviate from the estimated forecast.

³⁴ This annual GDP forecast was estimated using a mixed methods approach quantitatively estimating a point forecast using ARIMA (p,d,q) and qualitatively consulting key informants. The identified ARMA (1,1) model forecasts full-year GDP growth to be 5.6 percent in 2024 and 5.8 in 2025. However, the recent developments on trade, inflation, the global and domestic economic and financial conditions, expectations on investments, continued remittance inflows, the country's employment picture, as well as other considerations benchmarked on the outlook of multilateral observers led to the authors for an upward revision to a range of 5.8 to 6.0 percent this year and still improve to 6.1 percent in 2025.

³⁵ The PHP-USD exchange rate will have a slight appreciation bias due to a relatively weaker USD driven by lower interest rates in the USA.

from the continued resilience of services, the sustained recovery in certain sectors (e.g., construction, real estate, travel and tourism, technology) as well as improving business expectations in other industries (e.g., agriculture, manufacturing, utilities) where firms have reported expansion plans for the entire 2024 (BSP 2024b).

Hence, macroeconomic conditions are expected to improve. However, the **optimism for 2024 and 2025 growth is impeded by downside risks** from the global economy such as geopolitical threats, deteriorating economic conditions of key partners, and the worsening of overall external conditions; as well as domestic headwinds such as unclear fiscal and monetary policies, lack of access to credit, domestic competition, labor problems, threats of natural calamities, volatilities in exchange rate, among others.

Meanwhile, **headline inflation will likely slow down to 3.6 percent on average in 2024³⁶, from the 6.0 percent average in 2023, then settle to within target range (3.5 percent +/- 0.5 percentage point) in 2025.** Food prices is the main driver of high inflation due to the impacts of supply-chain constraints and disruptions to agricultural production due to natural calamities that hit the economy in 2024 (i.e., El Niño phenomenon, African Swine Flu [ASF], typhoons and flooding, volcanic eruptions). This is coupled by recent hikes in oil prices³⁷, wages, transport fare, and power rate, as well as the depreciation of the PHP against the USD, causing upward pressure on inflation. However, as the agricultural and production sectors recover, imports arrive with lower tariffs on rice, supply-chain constraints alleviated, exchange rate improves, it will eventually slow down inflation. These may be hampered by the excessive increase in consumption spending due to holiday and election seasons, controlled exports of trading partners due to their internal constraints and deteriorating geopolitical threats along trade routes that disrupt the downtrend of inflation in the Philippines.

Outlook on Philippine GDP growth remains volatile, uncertain, complex, ambiguous, and disruptive (VUCAD) as indicators remain conditioned on economic policies to be implemented by global powers and how responsive the economy would be. While the Philippines continued above-expectation results in the first half of 2024 at 6.1 percent driven by construction; wholesale and retail trade; repair of motor vehicles and motorcycles; and financial and insurance activities, it remained to be short of the required growth for the Philippines to be escalated to an upper middle-income economy by 2025.

To do this, the economy must be able to increase per capita GNI. By sustaining at least a six to seven percent GDP growth, accompanied by continued growth in net factor income from abroad through remittances and overseas investment income, GNI can increase alongside the current decline in average annual population growth rate. According to PSA (2024b), the average annual population growth rate is estimated to decline from 0.84 percent for 2020-2025 to 0.35 percent for 2050-2055. Hence, **to increase per capita GNI towards upper middle-income status, the growth of GNI must be significantly faster than population.**

³⁶ In September 2024, inflation declined to 1.9 percent and then increased to 2.3% in October 2024. See <https://psa.gov.ph/price-indices/cpi-ir>.

³⁷ While we have seen that oil prices are elevated, this is deemed temporary and pronounced during exigent periods as PRC's demand for oil remains conservative as its economy is constrained by prolonged difficulties in the property sector, heightened job security concerns, and subdued domestic demand.

4. Conclusions and recommendations

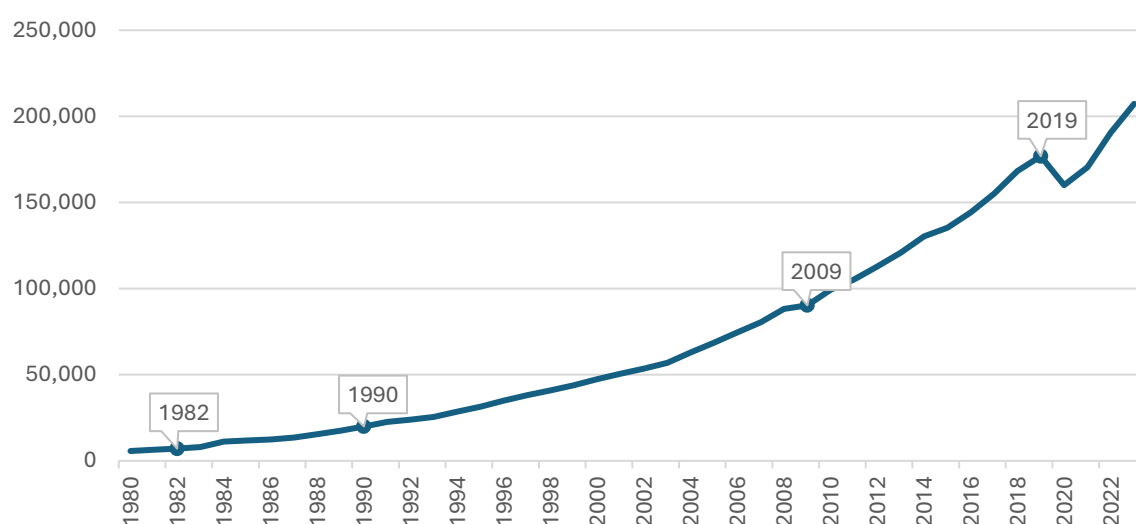
We have seen from historical data presented above the performance and trajectory of selected macroeconomic variables as well as the accompanying reasons why they behaved as such. Armed with data amid a VUCAD world, further extrapolation given current and forthcoming developments in the macroeconomy gives us an idea on how the landscape would change. In this section, we address our third and fourth points of inquiry, as stated in Section 1.2, as well as our second and third objectives.

In achieving upper middle-income status, our conclusions and recommendations are complementary to the recommendations provided by Albert et al. (2024) in creating new wealth for the expansion and transformation of the middle-class in the Philippines.

4.1. Where is the economy heading?

Given the abovementioned projections on growth, there is an important trajectory that needs to be highlighted. Figure 29 plots the Philippines' per capita real per capita GDP from 1960 to 2023 indicating a clear pattern of boom-and-bust cycles, with significant growth acceleration from 2010 to 2019. This can be attributed to macroeconomic stability, expansion of the manufacturing sector, substantial investment inflows, and improved governance (Llanto 2012; Yap and Majuca 2013; Yap et al. 2020). However, like other economies, the Philippines posted a sharp contraction in 2020 due to the COVID-19 pandemic. Despite this, a noteworthy development is the relatively rapid recovery of the Philippines' real per capita GDP, which returned to pre-pandemic levels within just four years (2020 to 2024). This is in stark contrast to the post-1982 period when it took the economy two decades to recover its 1982 per capita income. These observations, together with recent developments in macroeconomic indicators, lead us to probing whether the Philippines is back to its growth path before the pandemic.

Figure 29. GDP per capita (in PHP)



Source: World Banks via CEIC

To answer this question, we need to examine several critical factors. While historical data and these factors presented above support the idea that the Philippine economy is positioned for steady growth in 2024 and 2025, and has returned to its growth path, there are some caveats

that need to be considered. We provide an overview of the expected trajectory while being cognizant of several key economic factors:

1. **Economic growth prospects.** The Philippines managed to revert to its pre-pandemic real per capita GDP levels much faster than in previous economic crises, and is seen to maintain anchored GDP growth in 2024 and 2025, following its post-pandemic recovery and the impacts of fiscal and monetary policy responses during the pandemic, including stimulus measures and expansionary monetary policy, helped mitigate the worst effects of the downturn and supported economic recovery. Based on our data, key drivers of growth include:
 - a. Resilience of services and IT-BPO sector wherein the Philippines remains to be a global leader in outsourcing services, and this sector is expected to fuel economic expansion, generating both employment and foreign exchange.
 - b. Infrastructure development under the *Build, Better, More* program³⁸ wherein the government's heavy investment on infrastructure projects (i.e., large-scale public infrastructure spending on airports, railways, and urban developments) should boost both employment and productivity.
 - c. Consumer spending driven by a relatively young and growing population accompanied by an expanding middle class, increasing income generating opportunities, decelerating inflation, and sustained inflow of OFW remittances would continue to boost consumption spending.
2. **Inflation and monetary policy.** While tempering inflation has been a central challenge for authorities particularly in 2023 due to rising global commodity prices of food and fuel, inflation is expected to moderate in 2024 and 2025 but remains to be threatened by external price pressures and supply-side factors, including volatile oil prices and the impacts of rapid climate change on agricultural output. Hence, the BSP will continue to remain on a cautious monetary policy stance.
3. **External trade and currency movements.** Global trade uncertainties, especially the slowdown in major economies like USA, PRC, and EU can impact Philippine exports. Electronics, which takes a large portion of the economy's exports, may face slower demand. To address this, continued diversification into other regional markets such as ASEAN and RCEP is viable. Also, the PHP is likely to experience some volatility, influenced by global interest rate hikes, foreign exchange reserves, and capital flows. A weaker PHP is a double-edged sword – while beneficial for remittances and exports, it could also make imports more expensive putting an upward pressure on inflation.

Alongside these key economic factors, it is also important to compare the Philippines' current recovery to the post-1982 period. Credit must be given to the structural changes made in the economy that played a pivotal role. During the earlier recovery period in the 1980s, the economy faced numerous challenges, including political instability, fiscal mismanagement, and weak external trade. In contrast, the Philippines today benefits from: (a) macroeconomic stability, a more diversified economy, and improved governance that have helped accelerate recovery and resilience in the face of crises; and (b) increased integration into global trade and investment networks that provided the Philippines with a stronger external buffer, as seen in the growth of the export and services sectors.

Overall, for 2024 and 2025, the Philippine economy is expected to remain resilient, driven by strong domestic consumption, infrastructure development, and a growing service sector. However, it must manage external challenges like inflation, global uncertainties, and rapid

³⁸ For more information, see <https://neda.gov.ph/build-better-more-infra-program-to-further-propel-ph-economy-neda/>.

climate change risks. The government's ability to implement reforms, manage inflationary pressures, and boost investor confidence will determine whether it can sustain long-term growth and economic stability towards achieving upper middle-income status.

4.2. What headwinds to expect?

Given a generally optimistic growth outlook for the Philippine economy, significant headwinds persist in 2024 and 2025. These challenges could potentially derail the Philippines from maintaining its pre-pandemic growth trajectory and will require careful management by economic stakeholders. Key risks to expect are:

1. **Global economic slowdown.** Risks of recession in AEs (i.e., USA, PRC, EU) can have negative spillover effects. As the economy is heavily reliant on trade, investment, and remittances, the Philippines may see weaker external demand for its exports, particularly in electronics and semi-conductors, which are major contributors to its GDP but are heavily dependent on global supply chains. Likewise, uncertainties in global markets might reduce FDIs as international investors adopt a more risk-averse stance.
2. **Susceptibility to inflationary pressures resulting to monetary tightening.** While inflation is expected to moderate in 2024 and 2025, global factors like rising oil prices, supply chain disruptions, and the ongoing effects of rapid climate change on food production may keep inflation elevated. Inflation can erode domestic purchasing power, reduce household consumption, and drive up the cost of doing business. Likewise, the BSP may take a cautious monetary policy stance that can stifle business expansion and consumer spending, leading to slower economic growth.
3. **Volatility in currency movements.** The PHP is likely to face volatility, influenced by a combination of global interest rates, capital outflows, and domestic economic conditions. A weak PHP can generate imported inflation (i.e., it makes imports more expensive, particularly essential goods like fuel, raw materials, and food, which could drive inflation higher); and drive higher debt servicing costs (i.e., increase the burden of repaying foreign loans affecting fiscal stability).
4. **Impacts of rapid climate change.** The Philippines is one of the most disaster-prone economies in the globe, highly vulnerable to typhoons, floods, and earthquakes. Rapid climate change is expected to intensify the frequency and severity of these calamities posing a serious threat to agricultural productivity (i.e., disrupt food production, increase inflation, and reduce incomes for rural communities), infrastructure (i.e., damage critical infrastructure like roads, bridges, and power lines, affecting economic activity and requiring substantial government expenditure for rebuilding), and the overall economy.
5. **Political and governance risks.** As the 2025 midterm elections is fast approaching, electoral cycles in the Philippines often bring about periods of uncertainty, with businesses adopting a wait-and-see approach, delaying investments and expansion plans. At the post-election period, policy continuity and long-term economic reforms (e.g., tax modernization and infrastructure development) may be undermined, and the populist policies and governance instability negatively affects investor confidence. Likewise, persistent issues with corruption, red tape, and bureaucratic inefficiencies continue to deter both domestic and foreign investments. While the Philippines has been making strides to enhance its investment climate through the Ease of Doing Business Law, amendments in the Public Services Act, Retail Trade Liberalization Act, and Foreign Investment Act to create a conducive environment for foreign investors that

will pull them to invest in the Philippines, without significant improvements in implementation, it remains a barrier to sustainable growth.

6. **Mismatches in skills and in the labor market.** Although the Philippines has a large labor force, it faces issues related to skills mismatch, particularly in high-growth industries (e.g., information technology, healthcare, manufacturing). The quality of education and vocational training may not be keeping pace with the demands of these sectors. This results to unemployment and underemployment. We have seen from data that despite strong economic growth, unemployment and underemployment persist. Failure to empower the labor force with the skills required for the evolving job market, this could limit productivity and economic potential. Likewise, dependence on OFW's remittances made the Philippines vulnerable to shifts in global labor markets wherein any decline in overseas employment opportunities, due to global recession or policy changes in host economies, could affect deployment and remittance flows, disrupting household income and consumption.
7. **Geopolitical tensions.** Rising tensions in the West Philippine Sea, trade disputes between major powers and biggest trading partners (i.e., USA, PRC) may lead to economic uncertainties – affecting exports, imports, FDIs in infrastructure and technology. In managing this, continued diversification into other regional markets (i.e., ASEAN, RCEP) proves to be beneficial. Likewise, the Philippines' independent foreign policy – a friend to all and enemy of none – has also been advantageous. By forming strategic alliances with traditional and new partner economies, the economy has also diversified risks.

Overall, the Philippine economy continues to face multiple headwinds that could disrupt its growth trajectory in 2024 and 2025. While the economy is on track for steady growth, the abovementioned risks, ranging from global economic uncertainty and inflation to domestic challenges like political instability and natural disasters, must be carefully managed. Proactive policy measures, sound governance, and resilience-building efforts are vital for a sustain its upward economic momentum towards achieving upper middle-income status.

4.3. Risk management and recommendations

To effectively mitigate the abovementioned risks to the sustained economic growth of the Philippines, individuals and households, private enterprises, and government must take proactive, responsive, and adaptive approaches. Each stakeholder group has a critical role to play in ensuring economic resilience in the face of challenges like inflation, global uncertainties, rapid climate change, and political risks. We pose the following recommendations on how each sector of the economy can respond:

1. **Individuals and households must build financial resilience.**
 - a. Building emergency savings to cushion the effects of inflation, rising interest rates, or job losses. An emergency fund equivalent to one to two quarters of living expenses can help households survive financial challenges.
 - b. Taking advantage of secondary sources of income given the possibilities of economic slowdowns and inflation. Currently, this is the most viable evidenced by the emergence of bricolage and the gig economy (e.g., freelance work, online businesses, part-time gigs) that can supplement primary income especially during uncertain times.
 - c. Reducing and managing debt by avoiding high-interest loans, consolidating debts, and prioritizing repayment to avoid financial strain when interest rates rise.

- d. Investing in assets that hedge against inflation, such as real estate, gold, or certain equities, can help individuals protect their wealth and purchasing power. However, this requires expert financial advice to ensure a well-balanced investment portfolio that aligns with their risk appetite.
 - e. Investing in skills development, through vocational training, certifications, or online courses, to remain competitive in the job market and to ensure employability given rapid technological changes and industry disruptions
2. **Private enterprises must adapt to a VUCAD economy.**
- a. Advancing cost management and efficiency by focusing on improving efficiency and reducing expenses without compromising quality. This could include streamlining operations, renegotiating supplier contracts, and adopting energy-efficient technologies to manage costs better.
 - b. Diversifying revenue sources by not relying on a single market or product line but by exploring diversification into new markets, domestic or international, or by offering new and relevant goods and services.
 - c. Investing in technology can enhance productivity, streamline processes, and improve customer service. Adopting e-commerce platforms, cloud computing, artificial intelligence, machine learning, and data analytics allows businesses to reach new customers, operate more efficiently, and make informed decisions.
 - d. Developing comprehensive risk management strategies and contingency plans for supply chain disruptions, currency fluctuations, and natural disasters. Businesses may also create hedging strategies to protect against foreign exchange risks, interest rate risks, and fluctuating commodity prices.
 - e. Investing in employee training and development to ensure their workforce can meet evolving market demands. Upskilling employees in digital tools, data management, and customer service can help businesses remain competitive.
 - f. Investing in and integrating sustainability practices into business operations by adopting renewable energy, reducing waste, and incorporating climate-resilient infrastructure. Prioritizing sustainability may also attract more customers and investors, who increasingly value enterprise environmental responsibility.
3. **Government must work towards promoting economic stability and resilience through an effective policy direction.** In ensuring that the Philippines can sustain its growth momentum, achieve upper middle-income status by 2025, avoid the middle-income trap, achieve upper income status by 2050, it is imperative not to rely solely on the multiplier effects of consumption but also leveraging on the following through an appropriate policy intervention:
- a. **Investment rates.** Beyond consumption, higher levels of domestic and foreign investments in infrastructure, technology, and industries are necessary to sustain long-term growth to exceed pre-pandemic rates.
 - b. **Productivity growth.** The Philippines needs to enhance productivity in key sectors like agriculture, manufacturing, and services to boost overall economic output. This can be done by facilitating investments in these sectors.
 - c. **Structural reforms.** Continued reforms in taxation, ease of doing business, and public sector governance will be critical in maintaining investor confidence that will accelerate investment inflows that can effectively stimulate economic activity.
 - d. **Climate resilience:** Building resilience in agriculture, infrastructure, and urban planning will be critical to sustaining long-term growth and mitigate the economy from digressing to desired trajectory of real per capita income. The WB (2022) argued that rapid climate change is becoming a game changer and

an existential threat in driving economic growth. It is important to ensure that increased investments are also contributing to climate resilience. In fact, projections on how GDP will be impacted by climate change are also becoming part and parcel of the discourse. That is, rapid climate change do impact an economy's ability to meet its development goals and advance green, resilient, and inclusive development.

For the Philippines to not only return to but exceed its pre-pandemic growth rates, a multi-phase strategy that spans the short, medium, and long term is necessary. In the short term, stimulating investments through targeted fiscal measures, digitalization, and infrastructure projects will be key. In the medium term, regional development, workforce upskilling, and improved investment climate will help sustain momentum. Over the long term, transitioning to advanced industries, innovation-driven growth, and green development will ensure that the Philippines remains competitive on the global stage and achieves inclusive, sustainable growth for future generations.

Table 3. Policy directions for government

Timeframe	Policy direction	Policy intervention	Moving forward
Short-term (2024-2025)	Targeted fiscal stimulus and infrastructure spending	Accelerate public infrastructure projects	<ul style="list-style-type: none"> Government must prioritize fast-tracking key infrastructure projects especially those that improve connectivity, transportation, and energy access. Streamlining project approvals, cutting red tape, and improving procurement processes can help ensure efficient execution of these projects.
		Strengthen PPPs	<ul style="list-style-type: none"> Strengthen the PPP framework to attract private sector involvement in infrastructure projects (i.e., see RA No. 11966 and its implementing rules and regulation). Enhance transparency, simplify PPP rules, and offer clear incentives (e.g., tax breaks or guarantees) to attract both domestic and foreign investors to key infrastructure projects like roads, airports, railways, and digital infrastructure.
	Incentivize investments in technology and manufacturing	Provide tax incentives for technology and industrial sectors	<ul style="list-style-type: none"> Provide tax holidays or reductions for investments in sectors that are crucial to long-term growth, such as advanced manufacturing, IT-BPM, and renewable energy. Provide incentives for start-ups and MSMEs involved in innovation and tech-based industries (including promoting further and/or enhancing the benefits and incentives stipulated in the Innovative Startup Act).
		Simplify tax and regulatory systems	<ul style="list-style-type: none"> Streamline tax administration and simplify regulatory procedures to make it easier for businesses to operate and invest.

Medium-term (2026-2030)	Boost domestic investment through financial markets		<ul style="list-style-type: none"> Digitalize government services and tax filings to reduce costs for businesses and improve transparency.
		Enhance access to MSME financing	<ul style="list-style-type: none"> Expand financing options for MSMEs, by offering loan guarantees, encouraging venture capital, and supporting fintech solutions that can boost their access to capital enabling them to invest in technology and scale their operations.
		Leverage monetary policy support	<ul style="list-style-type: none"> The BSP can consider an accommodative monetary policy stance to support investments while ensuring inflation remains manageable. Stable interest rates and liquidity in the financial system can drive private investments.
	Expand infrastructure and connectivity	Develop regional growth hubs	<ul style="list-style-type: none"> Focus infrastructure development on regions outside Metro Manila to reduce congestion and promote balanced economic development. Invest in regional growth hubs and Special Economic Zones (SEZs) with good logistics and infrastructure can attract manufacturing, IT-BPM, and service industries to these areas.
		Expand digital infrastructure	<ul style="list-style-type: none"> Expand investments in digital infrastructure such as broadband and 5G networks, especially in rural areas. Improve digital connectivity and access to technology to boost productivity and attract technology companies to set up operations in the Philippines.
		Transition to green energy	<ul style="list-style-type: none"> Reduce dependence on fossil fuels to attract investment in the clean energy sector by encouraging investments in renewable energy sources (e.g., solar, wind, geothermal) through incentives and regulatory reforms.
	Strengthen human capital and workforce development	Promote skills training and education	<ul style="list-style-type: none"> Implement nationwide programs focused on improving basic and higher education, and technical-vocational training in high-growth sectors like information technology, advanced manufacturing, healthcare, and green industries. Align education curriculum with industry requirements.
		Attract high-value investments in research and development (R&D)	<ul style="list-style-type: none"> Provide targeted incentives for companies to setup R&D facilities in biotechnology, IT-BPM, and manufacturing. Investments in R&D can spur innovation and improve the economy's global competitiveness.
	Improve investment climate	Implement reforms on foreign investment entry	<ul style="list-style-type: none"> To attract more FDI, especially in infrastructure and technology sectors, strengthen implementation of the

Long-term (2030 onwards)			constitutional amendments on foreign ownership limitations.
		Implement the Ease of Doing Business (EODB)	<ul style="list-style-type: none"> • Implement the EODB Law of 2018. • Continuously digitalize government services and streamline business registration will be crucial to improving the investment climate.
		Move towards advanced manufacturing	<ul style="list-style-type: none"> • Aim to pivot from low-cost manufacturing to high-value, advanced manufacturing in sectors like electronics, automotive components, pharmaceuticals, and aerospace. • Require continuous investments in technology, skilled labor, and industrial R&D.
	Transform and innovate industries	Create innovation ecosystems and technology hubs	<ul style="list-style-type: none"> • Foster the development of innovation ecosystems by creating technology hubs that encourage collaboration between businesses, academe, and research think tanks. • Aim to be a center for innovation in the ASEAN region to attract talent and investments in cutting-edge industries like artificial intelligence (AI), machine learning (ML), biotechnology, and quantum computing.
	Pursue sustainable development and green economy	Transition to carbon-neutral economy	<ul style="list-style-type: none"> • Aim to be a leader in sustainable development by adopting and promoting green technologies across industries. • Provide incentives for industries to adopt carbon-neutral practices, investments in circular economy business models, and expanding renewable energy production to meet growing energy demands sustainably.
		Shift to climate-resilient infrastructure	<ul style="list-style-type: none"> • Invest in infrastructure that is resilient to climate change and natural disasters. • Focus on sustainable urban development, flood defenses, and disaster-prepared infrastructure, especially in coastal and vulnerable areas.
	Continued investments in human capital	Promote lifelong learning and technological adaptation	<ul style="list-style-type: none"> • Promote lifelong learning and continuous professional development, ensuring that the workforce can adapt to technological changes and shifts in the global economy. • Government must collaborate with businesses and educational institutions, to provide training programs to upskill workers in emerging fields such as automation, robotics, and digital services.
	Position the economy as a regional and global economic hub	Enhance participation in regional trade integration	<ul style="list-style-type: none"> • Capitalize membership in ASEAN and RCEP to position the Philippines as a major player in regional trade and as a regional hub for logistics, services, and manufacturing to attract greater levels of investment and trade.

Establish financial services and fintech leadership	<ul style="list-style-type: none"> Encourage growth in financial services and fintech (digital banking, blockchain, digital payment systems) by promoting regulatory frameworks that foster innovation while ensuring consumer protection and financial stability.
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Source: Compiled and tabulated by the authors.

We have seen that the Philippine economy is back on a growth trajectory, as evidenced by the rapid recovery in real per capita income and strong macroeconomic fundamentals. All economic sectors have an important role in managing the economic risks and headwinds seen to persist in 2024 and 2025. By building financial resilience, diversifying income and investments, and promoting innovation and efficiency, individuals and businesses can effectively mitigate the risks and navigate challenges. Meanwhile, the government must focus on sound fiscal and monetary policies, disaster preparedness, and long-term investment in infrastructure and human capital. With appropriate policy responses, continued investment in infrastructure, education, and climate resilience, the Philippines has the potential to not only return to but surpass its pre-pandemic growth trajectory. Likewise, a coordinated effort from all sectors is essential to ensuring the Philippines can sustain growth amid global and domestic uncertainties towards achieving upper-middle income status.

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6. Appendix

This section provides a broader context to the various indicators tackled in this chapter. The figures, tables and other graphical representations included in the body show forth a short-term overview of the recent trends, and the more recent period-to-period changes that explain the macroeconomic performance of the Philippine economy. The appended figures below then, posits how these recent trends relate to the economic performance of the Philippines over a longer historical horizon. The significance of these lies in the scale of the annual changes, and how well (or how underwhelming) the current economic environment is in relation to the previous years. As such, emphasis is on giving a fuller macro picture.

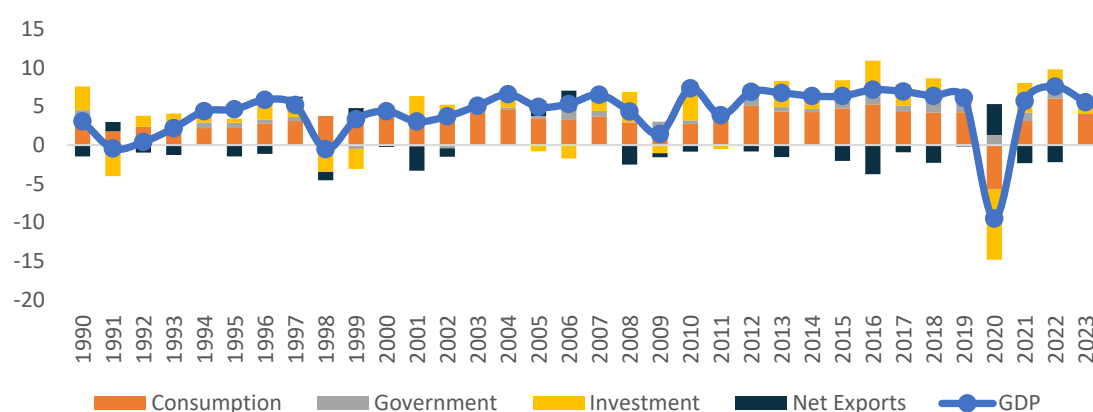
For example, the graph in subsection 6.1.1 shows that the contribution of agriculture in the economy from 1990 to 2023 has almost repeatedly been dwarfed by the output in the industry and service sector. Another is the level of interest rates (subsection 6.1.4) and of headline inflation (subsection 6.1.6) that appear much lower compared to the 1990s but are still much higher compared to the numbers from about 10 years ago. This is also not to downplay the changes in borrowing and lending rates over the years, as these may have hefty effects on financing costs and perception of investors, especially when magnified to the amount and subsequent yields.

Going back to the conceptual framework of this chapter, the dynamics of the macroeconomic indicators, even on a longer frame, give adherence that changes in some certain indicator may likely interact and affect other key indicators down the line.

6.1. Historical tables

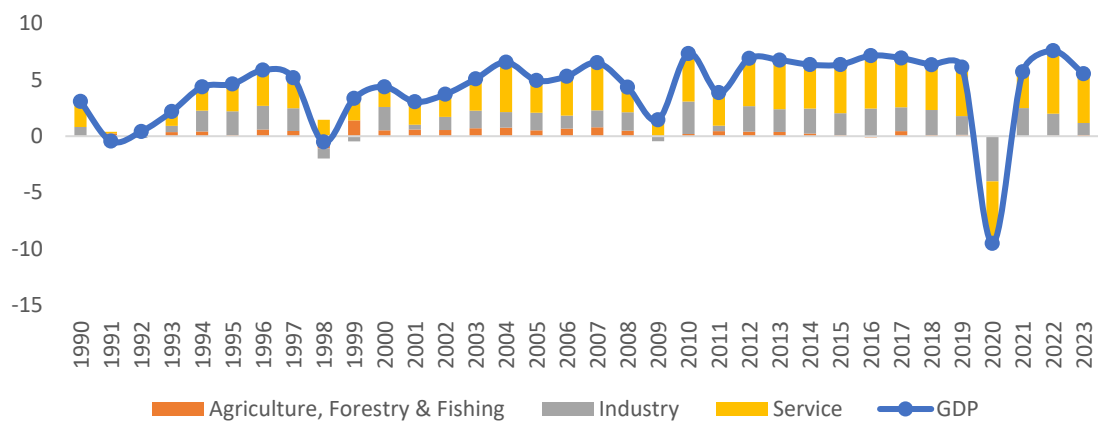
6.1.1. Domestic demand block

GDP growth, by expenditure contribution (in percent)



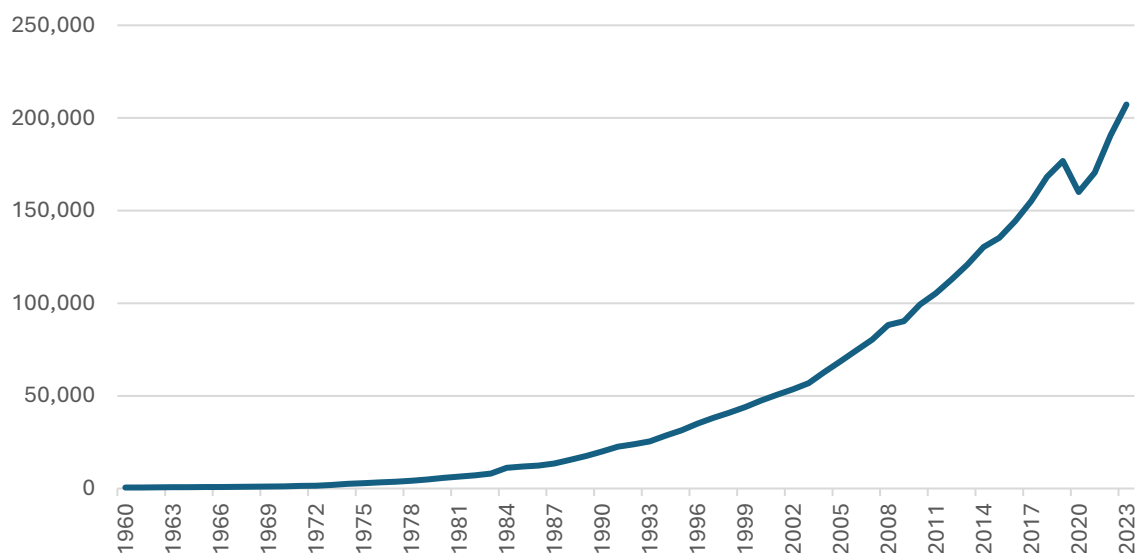
Source: Philippine Statistics Authority via CEIC (2024).

GDP growth by production contribution (in percent)



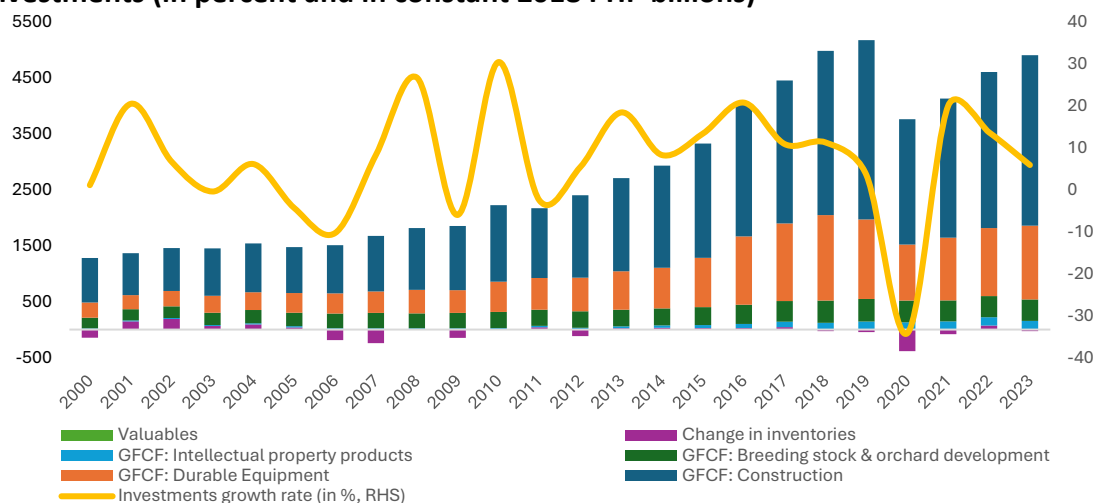
Source: Philippine Statistics Authority via CEIC (2024).

GDP per capita



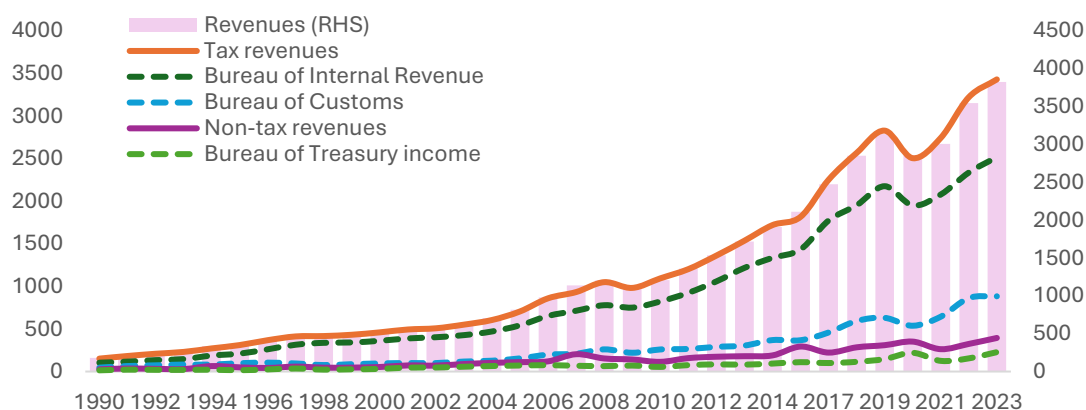
Source: World Bank via CEIC

Investments (in percent and in constant 2018 PHP billions)



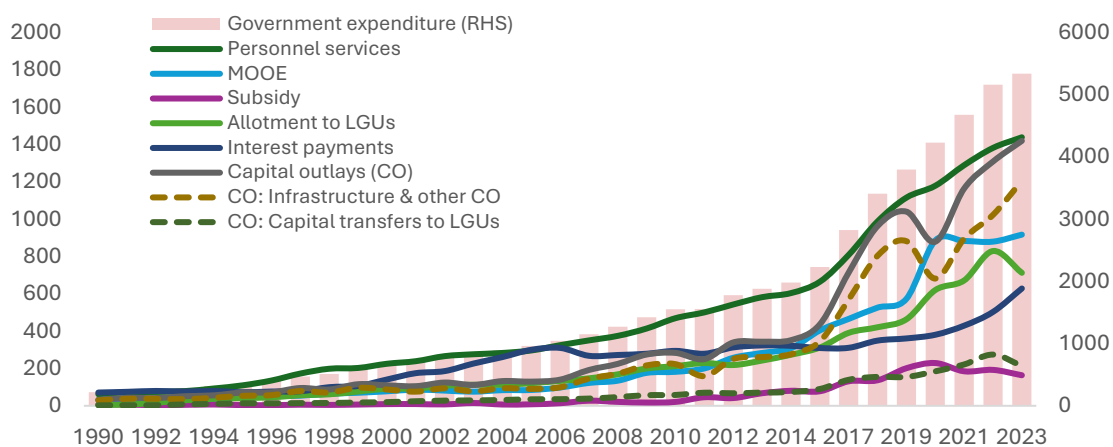
Source: Philippine Statistics Authority via CEIC (2024).

National government revenue



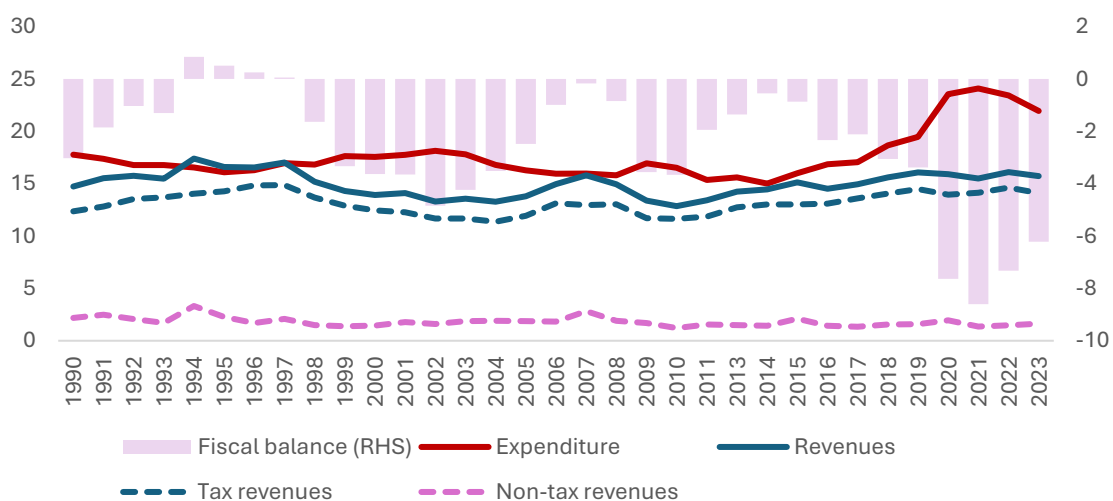
Source: Bureau of Treasury via CEIC (2024)

National government expenditure



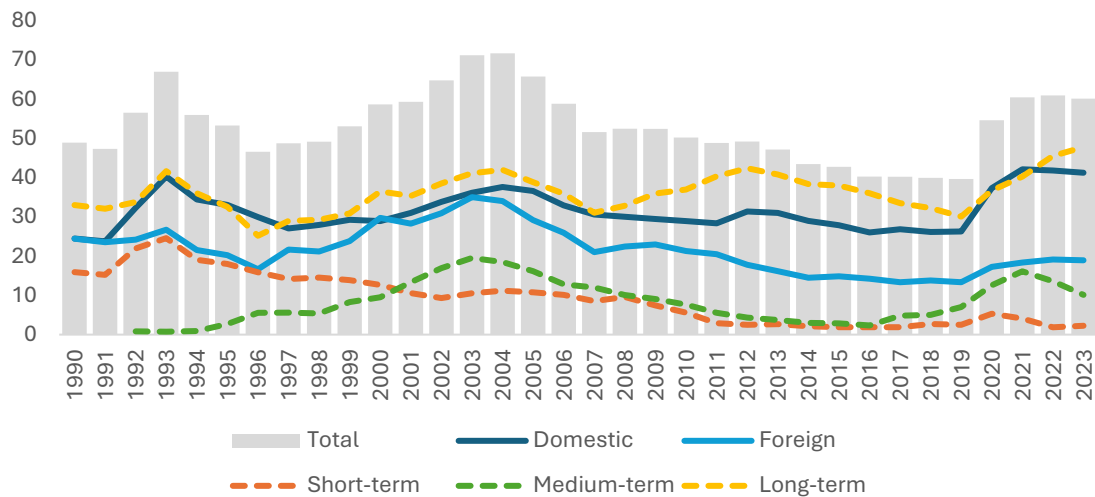
Source: Bureau of Treasury via CEIC (2024)

National government fiscal balance (in percent of GDP)



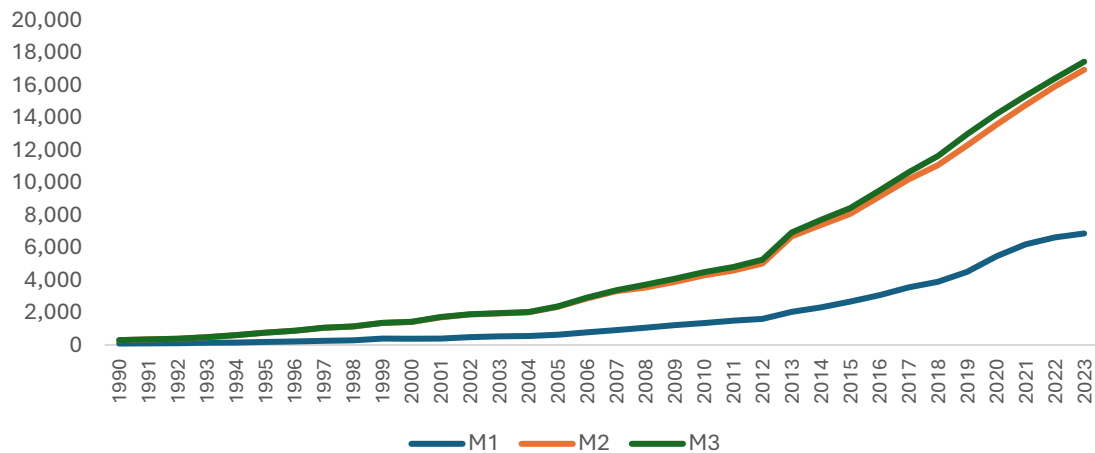
Bureau of Treasury via CEIC (2024)

National government outstanding debt



Bureau of Treasury via CEIC (2024)

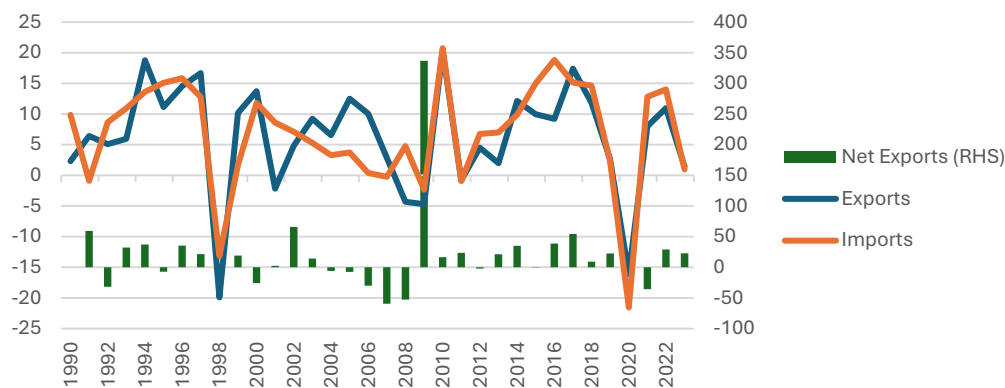
Domestic liquidity (in PHP billions)



Source: Bangko Sentral ng Pilipinas via CEIC (2024)

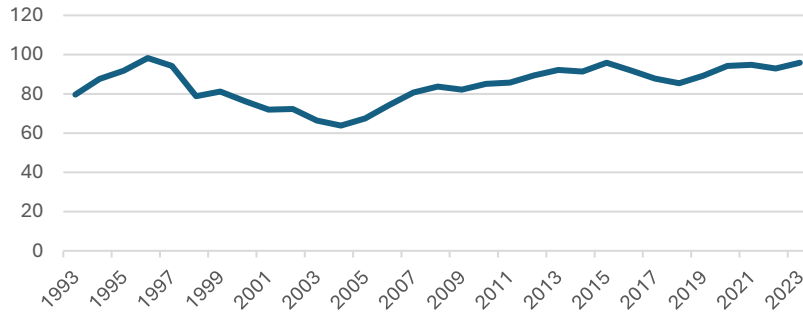
6.1.2. Trade block

Exports, imports, and net exports (% year-on-year)



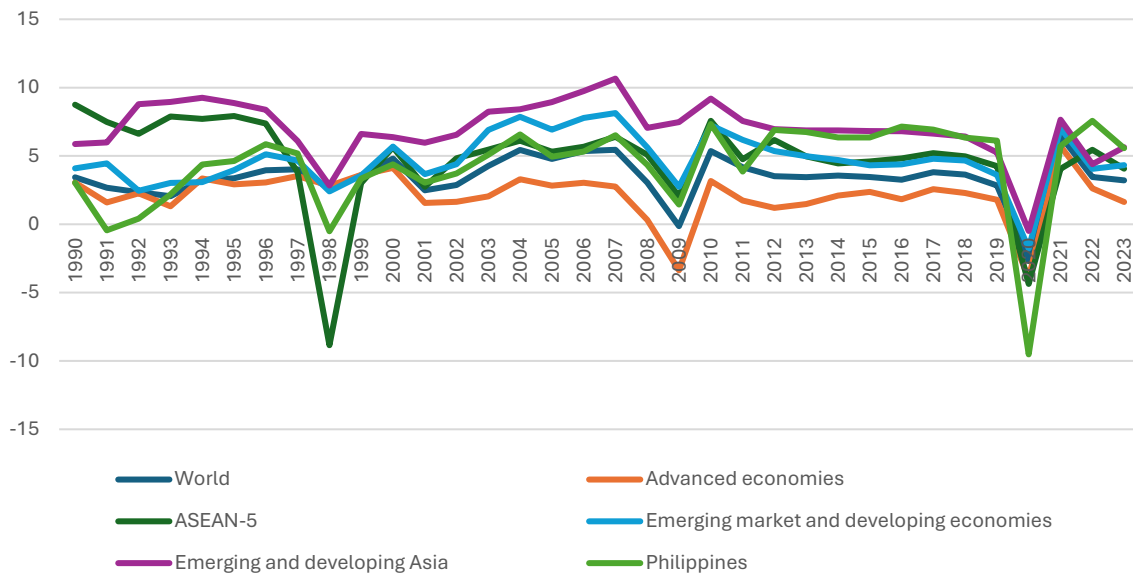
Source: PSA via CEIC

Real Effective Exchange Rate (REER) (aop)



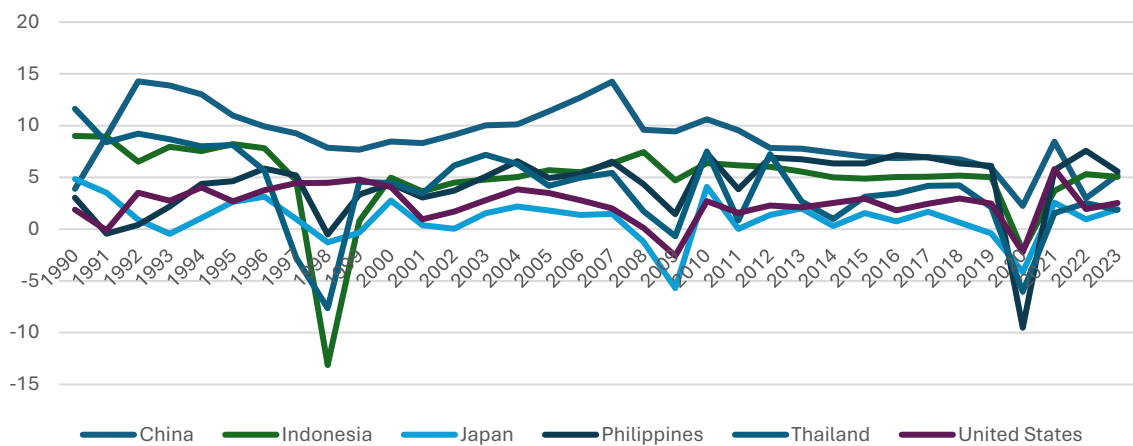
Source: PSA via CEIC

World growth (Country groups)



Source: IMF WEO April 2024

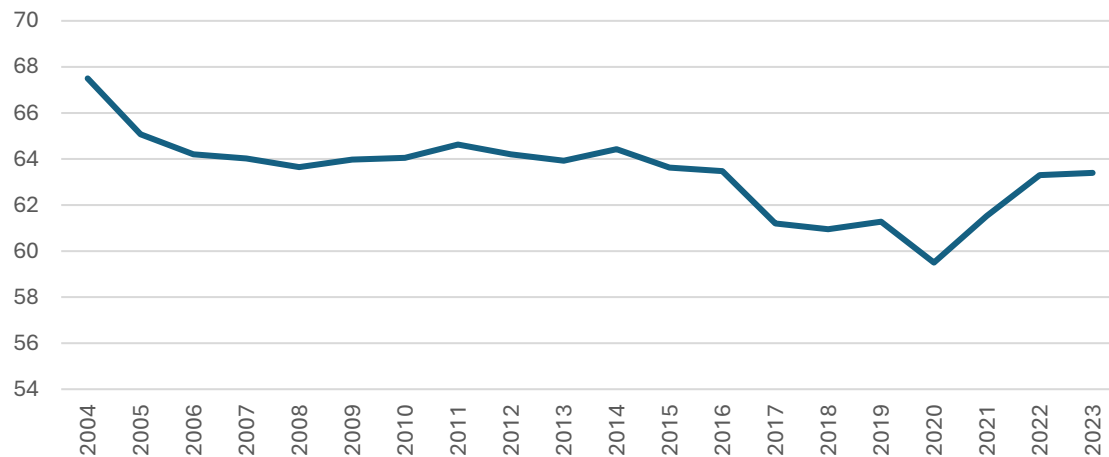
World growth (Select trading partners)



Source: IMF WEO April 2024

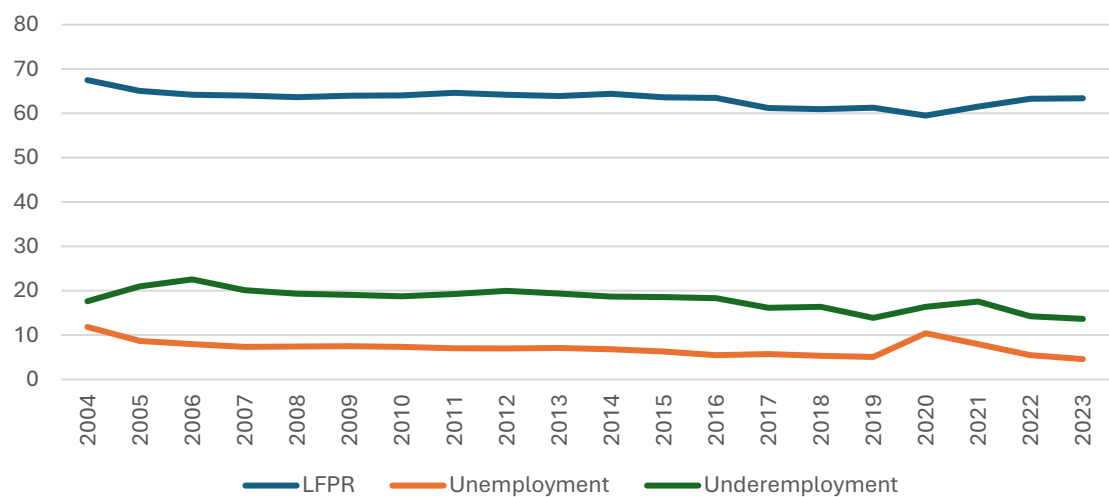
6.1.3. Employment block

Labor Force Participation Rate (LFPR)



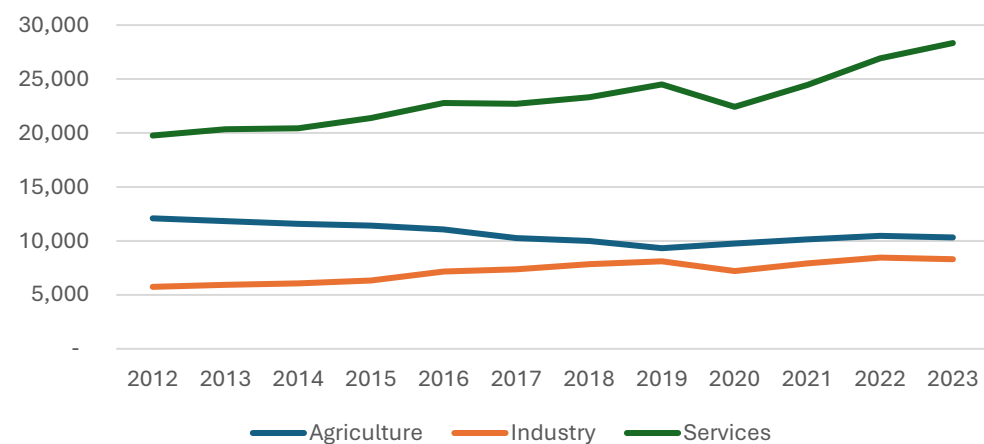
Source: PSA via CEIC

Unemployment and underemployment



Source: PSA via CEIC

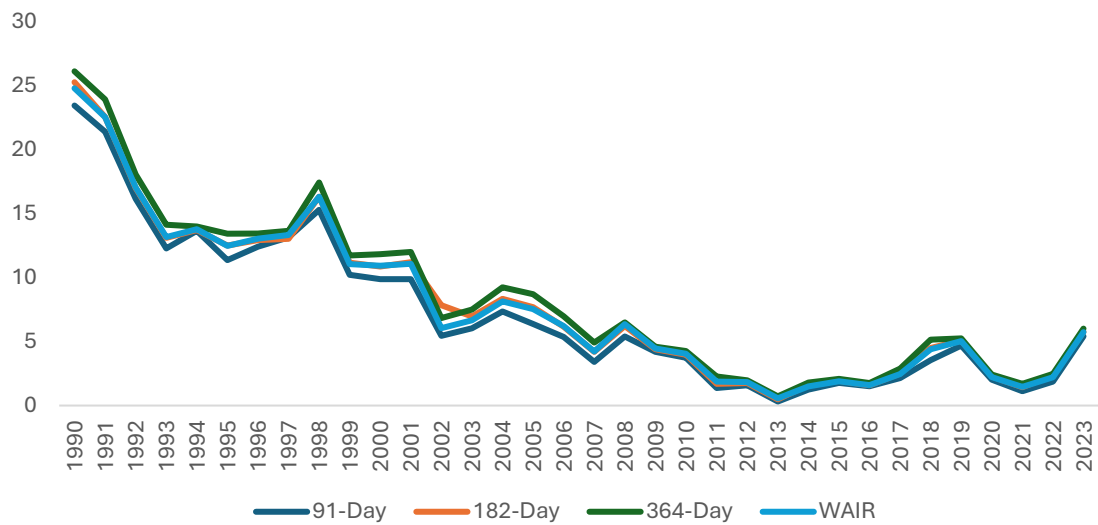
Employment by sector



Source: PSA via CEIC

6.1.4. Monetary block

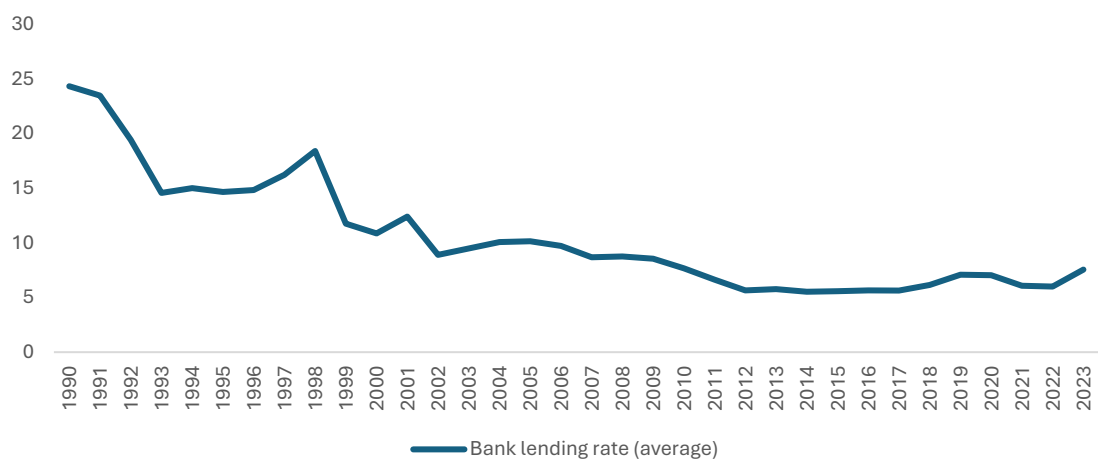
Treasury bill rate (in percent)



Note: WAIR = weighted average interest rate

Source: Bangko Sentral ng Pilipinas via CEIC (2024)

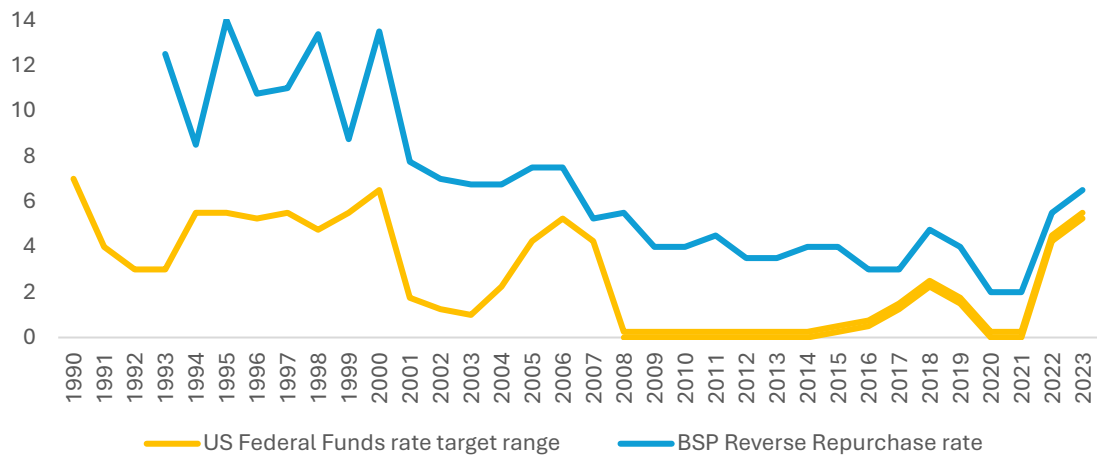
Bank lending rate (in percent)



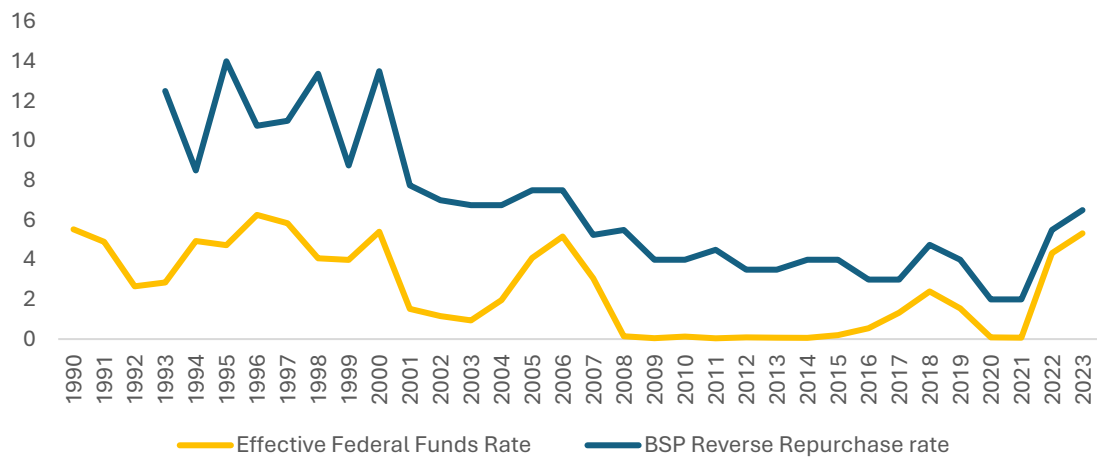
Source: Bangko Sentral ng Pilipinas via CEIC (2024)

Philippine and US key policy rates (in percent, as of end-period)

a. BSP reverse repurchase rate and US Federal funds target range

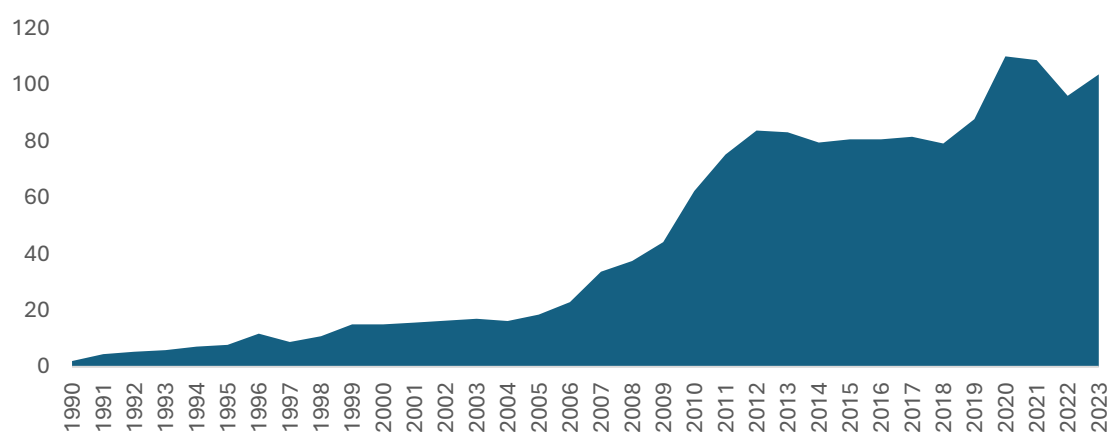


b. BSP reverse repurchase rate and US Federal funds effective rate



Source: BSP and United States Federal Reserve via CEIC (2024)

Gross international reserves (in USD billions)

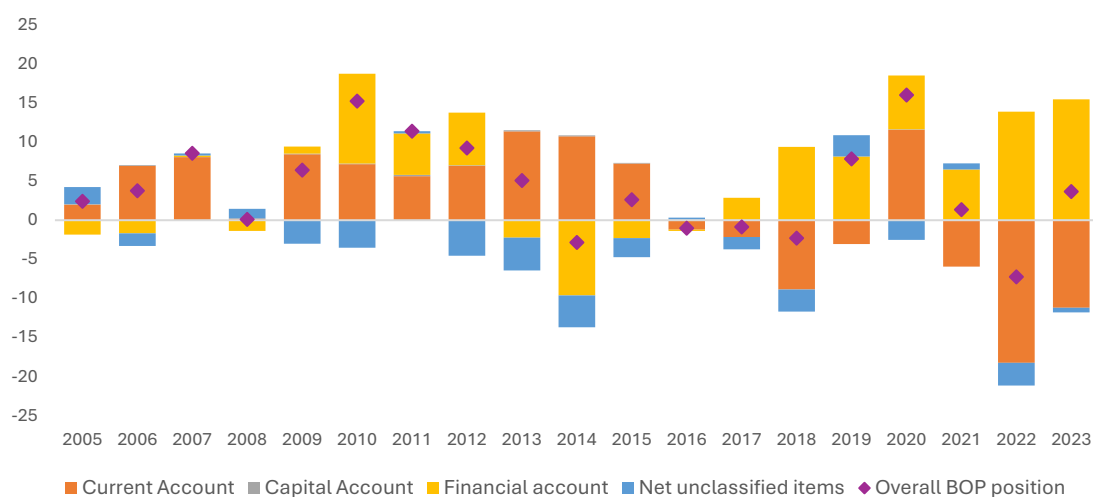


Source: BSP via CEIC (2024)

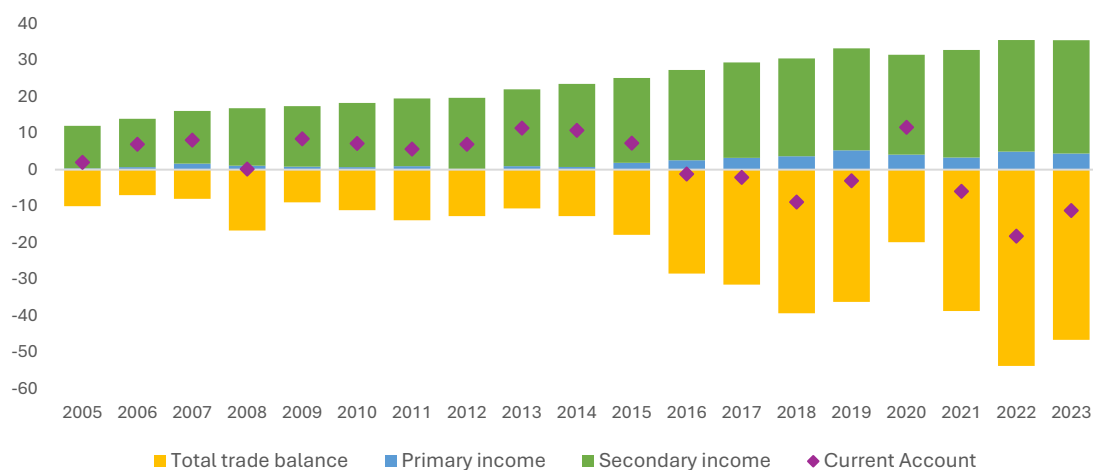
6.5. Financial block

Balance of payments and components (in USD billions)

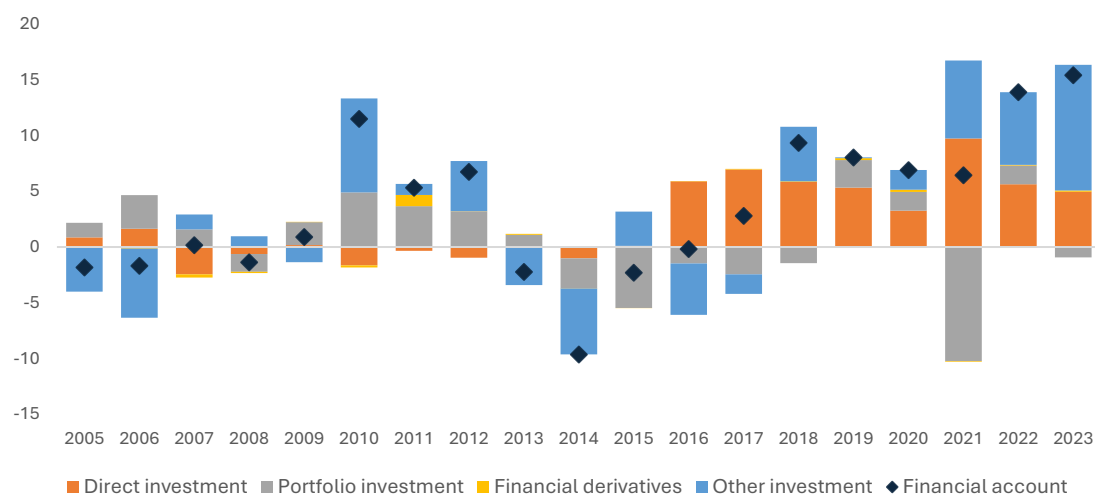
a. Balance of payments



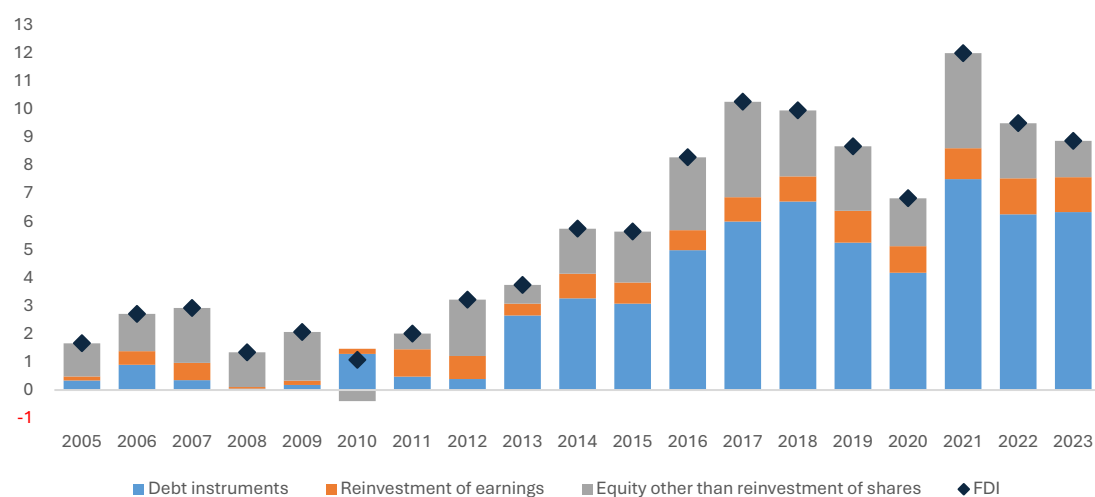
b. Current account



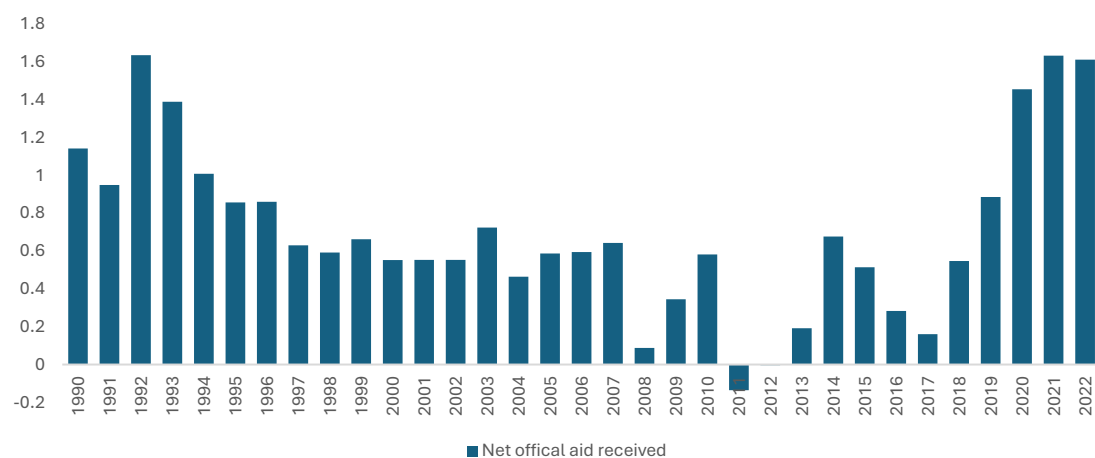
c. Financial account



d. Foreign direct investment (FDI)

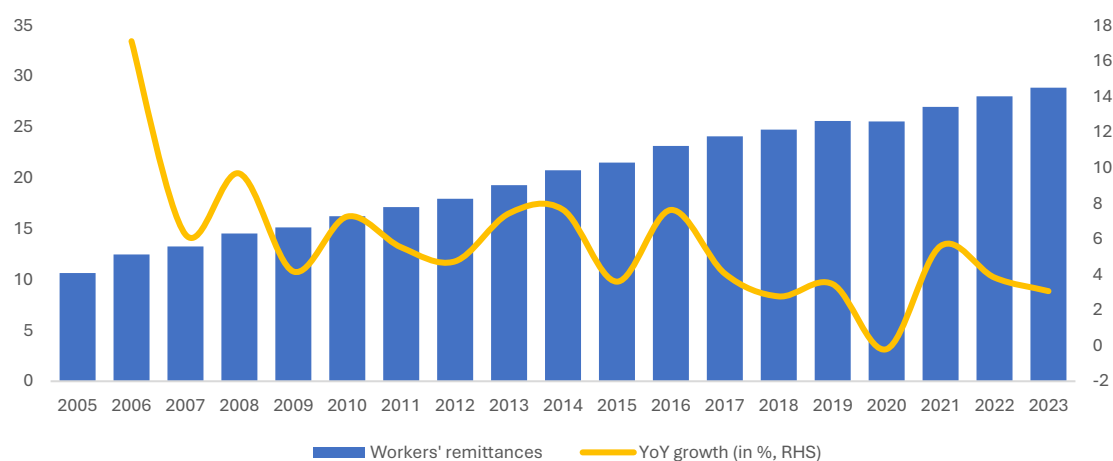


e. Official development assistance (ODA) net official aid received (in USD billions)



Source: BSP via CEIC (2024)

Workers' remittances (in USD billion and in percent)

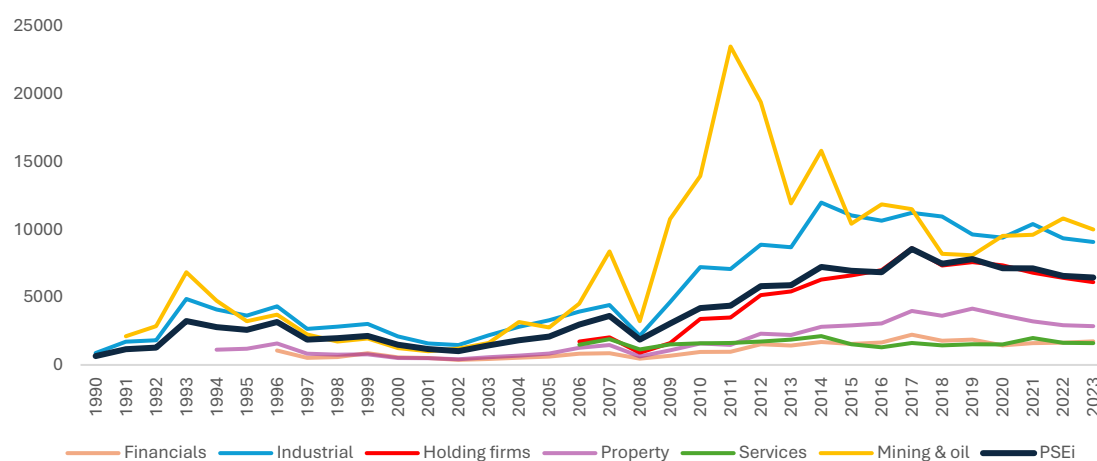


Source: Bangko Sentral ng Pilipinas via CEIC (2024)

6.1.5. Financial block

Stock market

a. PSE index (as of end-period)



b. PSE PE ratio (as of end-period)

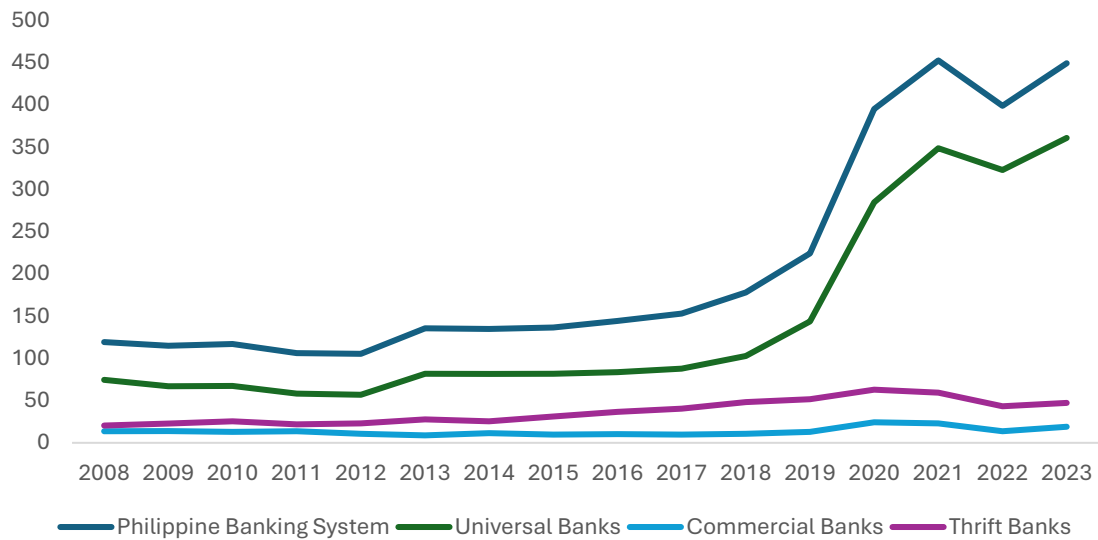


Source: Philippine Stock Exchange via CEIC (2024).

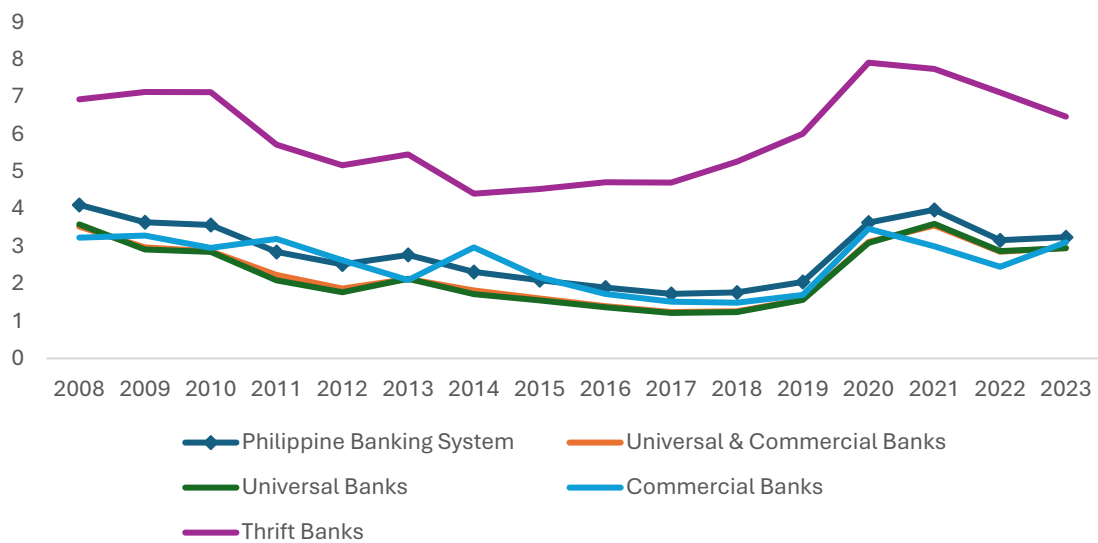
Banking performance

Non-performing loans

a. Non-performing loans (in PHP billions)



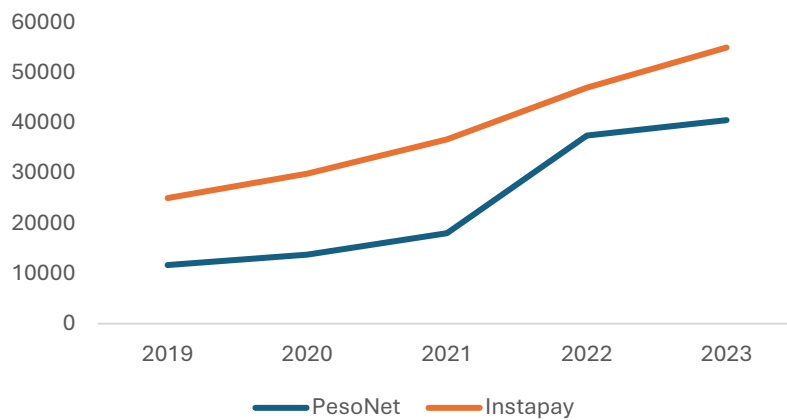
b. NPL to loan ratio



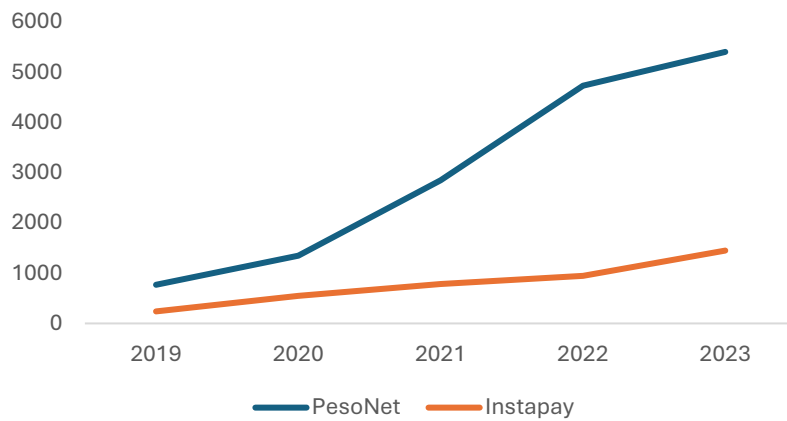
Source: Bangko Sentral ng Pilipinas via CEIC (2024)

Digital payments

a. Volume of payments through PesoNet and Instapay



b. Value of payments through PesoNet and Instapay (in PHP billions)



Source: Bangko Sentral ng Pilipinas via CEIC 2024).

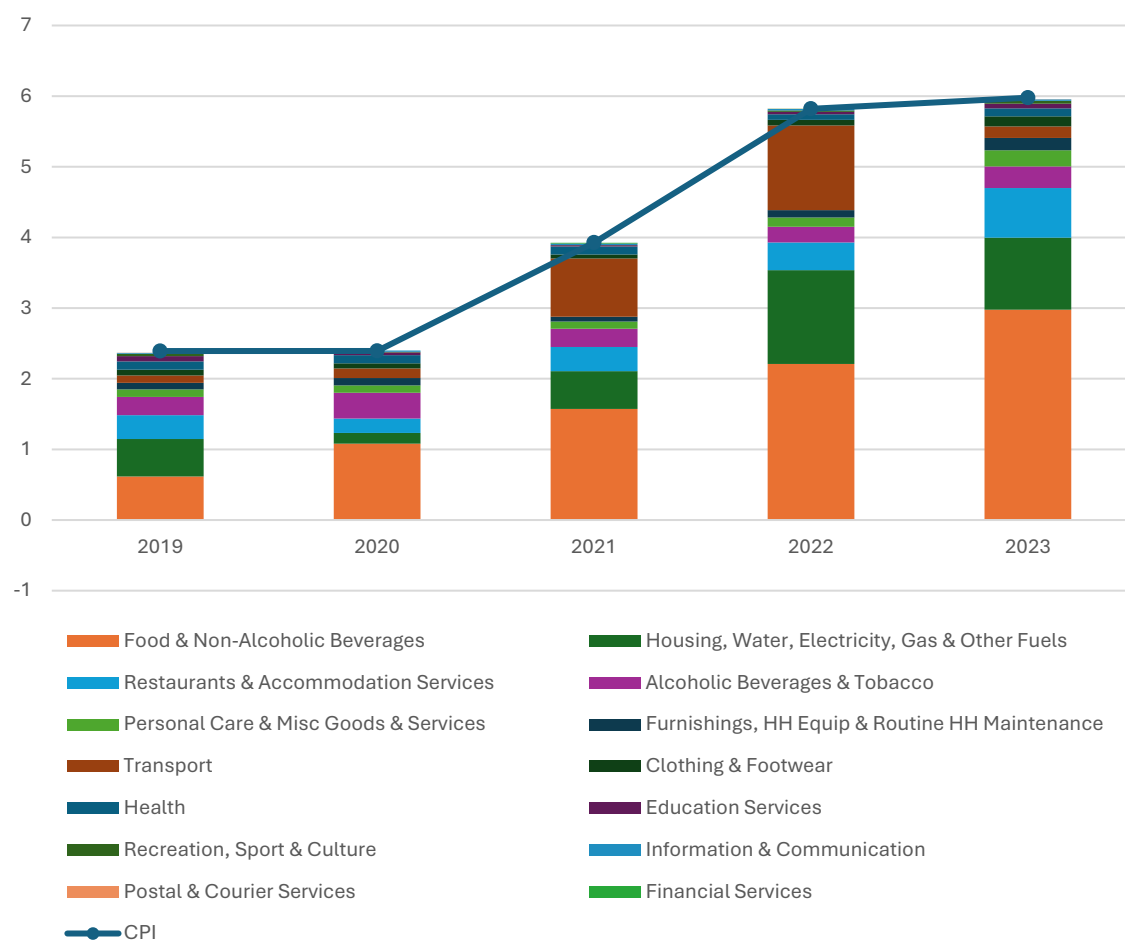
6.1.6. Price block

Headline and core inflation



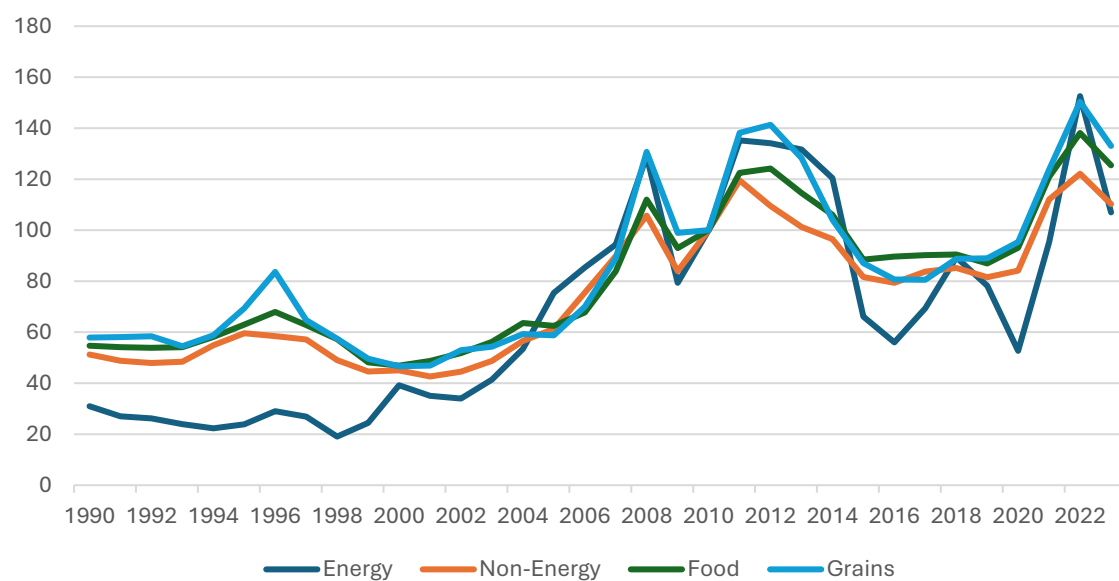
Source: PSA via CEIC

Inflation by commodity group



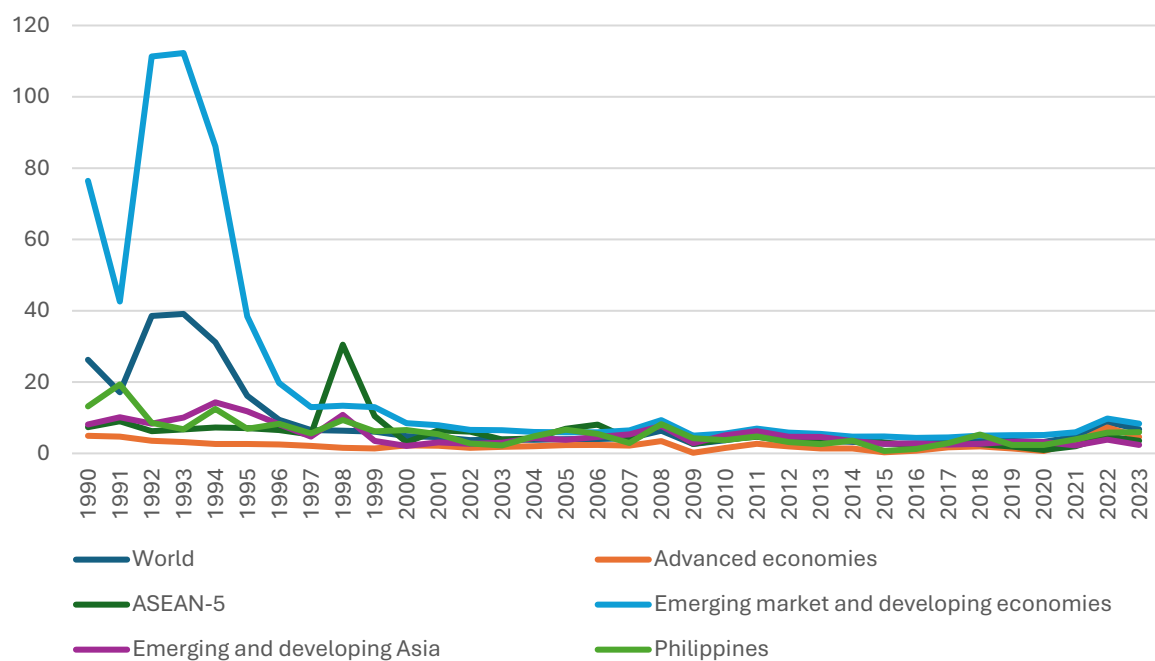
Source: PSA via CEIC

World price indices



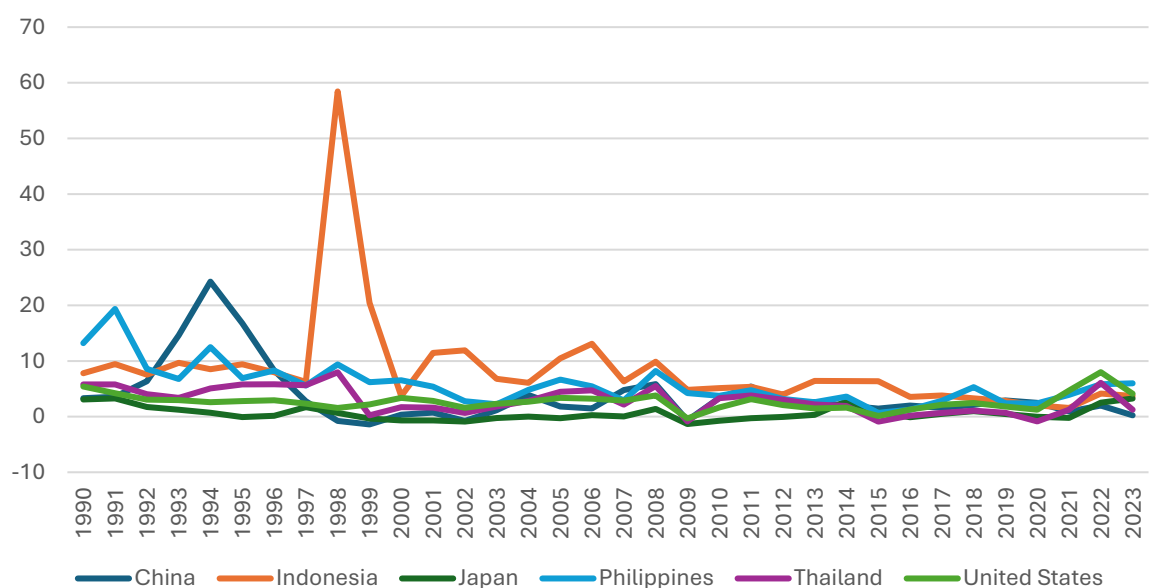
Source: World Bank via CEIC

World inflation (Country groups)



Source: IMF 2024b

World inflation (Select trading partners)



Source: IMF 2024b