PHILIPPINES ECONOMIC UPDATE
JUNE 2024 EDITION

BEYOND THE NUMBERS:
SUSTAINING POVERTY REDUCTION IN BARRMM

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World Bank Philippines

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Key Messages

1. The Philippines sustained its growth momentum in Q1 2024, supported by an improvement in global economic activity.

2. Growth will increase to an average of 5.9 percent between 2024-2026, anchored on strong domestic demand and a pickup in global growth.

3. Effectively managing inflation, boosting domestic resource mobilization, improving disaster preparedness, response, and recovery, and sustaining inclusive growth in the BARMM will be crucial for sustaining growth, enhancing resilience, and achieving long-term development goals.
Recent Economic and Policy Developments

Growth benefitted from a pickup in global activity despite a slowdown in private domestic demand.
Global conditions improved in early 2024

Index, +0 = optimism

Sentix, Economic Expectations

Composite PMI (RHS)
Increased trade activity boosted strong growth in Q1 2024, even as domestic demand slowed.
Services was the main growth engine, while increased trade fueled the rebound in manufacturing activity.

Supply Side: Contribution to GDP growth

<table>
<thead>
<tr>
<th>Percentage point</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Other industries</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2021</td>
<td>-5.2</td>
<td>0.5</td>
<td>7.5</td>
<td>0.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Q2 2021</td>
<td>4.5</td>
<td>0.0</td>
<td>6.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q3 2021</td>
<td>3.0</td>
<td>0.0</td>
<td>5.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q4 2021</td>
<td>2.0</td>
<td>0.0</td>
<td>4.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q1 2022</td>
<td>1.0</td>
<td>0.0</td>
<td>3.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q2 2022</td>
<td>0.0</td>
<td>0.0</td>
<td>2.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q3 2022</td>
<td>-1.0</td>
<td>0.0</td>
<td>1.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q4 2022</td>
<td>-2.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q1 2023</td>
<td>-3.0</td>
<td>0.0</td>
<td>-1.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q2 2023</td>
<td>-4.0</td>
<td>0.0</td>
<td>-2.0</td>
<td>0.0</td>
<td></td>
</tr>
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<td>Q3 2023</td>
<td>-5.0</td>
<td>0.0</td>
<td>-3.0</td>
<td>0.0</td>
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<tr>
<td>Q4 2023</td>
<td>-6.0</td>
<td>0.0</td>
<td>-4.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Q1 2024</td>
<td>-7.0</td>
<td>0.0</td>
<td>-5.0</td>
<td>0.0</td>
<td></td>
</tr>
</tbody>
</table>
Inflation is back within the target range, but monetary policy remains tight.

### Inflation and Key Policy Rate

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline inflation</strong></td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Food and non-alcoholic beverages</strong></td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Core inflation</strong></td>
<td>3.4</td>
</tr>
<tr>
<td><strong>BSP policy rate</strong></td>
<td>6.5</td>
</tr>
</tbody>
</table>

**Graph Details:**
- Headline inflation: 3.8%
- Food and non-alcoholic beverages: 5.6%
- Core inflation: 3.4%
- BSP policy rate: 6.5%

**Timeline:**
- January 2021
- December 2024

**Legend:**
- Green line: BSP policy rate
- Red line: Food and non-alcoholic beverages
- Blue line: Core inflation

**Note:**
- Inflation and Key Policy Rate (percent)
A surge in rice prices continued to put pressure on headline inflation.

**Contribution to Headline Inflation (percentage points)**

<table>
<thead>
<tr>
<th>Month</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>3.8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Food and non-alcoholic beverages excl. rice
- Alcoholic beverages and tobacco
- Utilities
- Transport: Fuel and lubricants for personal transport
- Other non-food
- Rice
- Headline inflation
- Core inflation
The current account deficit narrowed in 2023, fueled by the recovery of tourism and weaker imports.

**Balance of Payments Components (percent of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital and Financial accounts</th>
<th>Net Unclassified Items</th>
<th>Current Account</th>
<th>Overall BOP Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>(14.5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>-2.6</td>
<td></td>
<td></td>
<td>1.4</td>
</tr>
</tbody>
</table>

- Goods trade balance (US$B): Q1 2023 (11.2) vs. Q1 2024 (2.3)
- Tourist arrivals (millions): Q1 2023 (1.5) vs. Q1 2024 (1.7)
- Net FDI (US$B) (only Jan and Feb): Q1 2023 (1.4) vs. Q1 2024 (2.3)
The peso has depreciated, tracking the movement of its regional peers.
Higher tax revenues led to a narrower fiscal deficit in Q1 2024. 

**National Government Fiscal Balance**

(Percent of GDP)

- 2019: 17.2
- 2020: 17.2
- 2021: 17.2
- 2022: 17.2
- 2023: 17.2
- Q1 2023: -4.8
- Q1 2024: -4.5

**Source:** Bureau of the Treasury (BTr).
Public debt marginally increased amid an increase in programmed borrowing.

Source: BTr.
Financing conditions have slightly tightened but remain broadly accommodative despite multiple headwinds.
Outlook and Risks

The Philippines’ positive outlook is anchored on robust domestic demand and improving global growth.
The growth outlook is positive, anchored on robust domestic demand and supported by improved trade.
The balance of risks are tilted to the downside.

• An intensification of geopolitical tensions could lead to higher energy prices and disruptions in global trade and investment activity.

• Fragmentation in global trade policy and an increase in trade protectionism would weigh on trade.

• A prolonged downturn in the property sector could lead to slower-than-expected growth in China, causing negative spillovers in the region.

• An extended period of extreme climate events such as EL Niño and La Niña could weigh on the domestic food supply and could lead to an upswing in inflation.

•Persistently high inflation could lead to delays in monetary policy normalization which would dampen private domestic demand.
Improvements in the labor market and household incomes will lead to a sustained reduction in poverty.

Unemployment and Underemployment Rates (%)

- Unemployment Rate
- Underemployment Rate

![Graph showing unemployment and underemployment rates from 2020 to 2024.](chart.png)
Policy Recommendations
Policy Recommendations

• Managing inflation will require the continued use of non-monetary measures to complement sound monetary policy.

• Strengthening revenue mobilization is essential for fiscal consolidation and to sustainably finance the country’s inclusive development agenda.

• Episodes of extreme climate events like El Niño, the threat of natural disasters, and climate change, call for strengthening preparedness in disaster mitigation, response, and rehabilitation.

• Sustaining the inclusive growth momentum in BARMM is crucial for the entire country to achieve rapid, sustained, and inclusive growth.
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Maraming Salamat!

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