PHILIPPINES ECONOMIC UPDATE
Bracing for Headwinds, Advancing Food Security

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

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

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

The Philippine economy has remained resilient despite a challenging global environment.
The post-pandemic recovery is underway, driven by strong domestic demand.

### Supply Side: Contribution to GDP growth

- Agriculture
- Manufacturing
- Other industries
- Services
- GDP growth

### Demand Side: Contribution to GDP growth

- Net exports
- Investments
- Government Consumption
- Household Final Consumption Expenditure
- GDP Growth
The Balance of Payments deficit widened, and the peso has depreciated.

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

- **Current account**: Including remittances
  - Secondary Income
  - Primary Income
  - Net services exports (green)
  - Net goods exports (yellow)
  - Net CA Balance (red)

- **Financial account**
  - Positive = inflow
  - Net inflows (diamond)

**Regional Currency Movements (January 2022=100)**

- Indonesia
- Malaysia
- Philippines
- Thailand
- Vietnam

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Inflationary pressure has intensified, and monetary policy has tightened.
Higher revenue generation and lower-than-target public spending lowered the fiscal deficit in Q1-Q3 2022.

**National Government Fiscal Balance (percent of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1-Q3 2019</th>
<th>Q1-Q3 2020</th>
<th>Q1-Q3 2021</th>
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</thead>
<tbody>
<tr>
<td>2019</td>
<td>8.6</td>
<td>8.3</td>
<td>6.5</td>
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</table>

**National Government Debt (percent of GDP)**

- **External debt**
- **Domestic debt**
- **NG Guaranteed debt (RHS)**
The banking sector shows signs of improvements as the share of NPLs and restructured loans decline, while bank lending growth picked up.

Non-Performing Loans (NPLs) and Restructured Loans (% of portfolio)
Outlook and Risk

The deteriorating global environment is spilling into the domestic economy and tempering the country’s growth prospects in 2023.
The growth outlook is positive but faces risks.

Projected growth trajectory (percentage points contribution of components)

- Net exports
- Capital Formation
- Government Consumption
- Household Final Consumption Expenditure
- Gross Domestic Product
Downside risks come from external and domestic environment.

• The synchronous monetary tightening in many central banks could produce larger impacts than intended, both in tightening financial conditions and deepening the growth slowdown.

• An escalation of geopolitical tensions and supply chain bottlenecks could further disrupt commodity markets and international trade.

• Prolonged and elevated domestic inflation may dampen household consumption.

• As the pandemic has yet to be declared over, the risk of another COVID-19 wave hangs over the outlook.
The recovering labor market and improving incomes will contribute to the decline in the poverty rate.
Policy Recommendations

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

• Addressing the inflationary pressure means employing both monetary and non-monetary measures, including near-term monetary tightening to prevent the de-anchoring of inflation expectations.

• Staying the course on fiscal consolidation signals commitment to fiscal sustainability.

• Sustaining investments in health (including nutrition, see Box 5 in the report) and education to reduce vulnerabilities from the scarring impact of the pandemic remains important.

• Over the medium term, improving the effectiveness of public spending on agriculture will help address low agriculture productivity and alleviate the challenge of food security in the country.
The Philippine economy has remained resilient despite a challenging global environment.

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

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

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Ensuring Food Security for All: Repurposing Public Investments in the Philippines

Anuja Kar, Senior Agriculture Economist, The World Bank Group

December 7, 2022
Transforming the Philippine Agriculture Sector: Opportunities and Challenges
Agriculture remains critically important in the Philippines for:

- Food Security
- Livelihoods and Incomes
- Jobs

Source: The Jobs Group Jobs Structure Tool
High incidence of Poverty and Food Security Remains a Challenge

Incidence of poverty among population groups, 2006 – 18 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Farmers</th>
<th>Fisherfolk</th>
<th>Population</th>
</tr>
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<tbody>
<tr>
<td>2006</td>
<td>38.5</td>
<td>41.2</td>
<td>41.2</td>
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<tr>
<td>2009</td>
<td>38.3</td>
<td>41.3</td>
<td>38.5</td>
</tr>
<tr>
<td>2012</td>
<td>39.2</td>
<td>40.84</td>
<td>38.3</td>
</tr>
<tr>
<td>2015</td>
<td>36.85</td>
<td>31.6</td>
<td>25.2</td>
</tr>
<tr>
<td>2018</td>
<td>31.6</td>
<td>26.2</td>
<td>16.6</td>
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Prevalence of moderate or severe food insecurity in (%) (3-year average)

Source: Briones (2021), FAO
Russia – Ukraine war has been a shock to international food markets with continuing repercussions

A major breadbasket for the World:
Large exporters of key food commodities and fertilizers

Share of Ukraine and Russia in World Exports (in value terms, average 2018-2020)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Ukraine</th>
<th>Russia</th>
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<tr>
<td>Wheat and meslin</td>
<td>25.2</td>
<td>22.6</td>
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<tr>
<td>Maize/Corn</td>
<td>14.5</td>
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<tr>
<td>Sunflower seed/oil</td>
<td>55.8</td>
<td></td>
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<tr>
<td>Other edible oils</td>
<td>20.5</td>
<td></td>
</tr>
<tr>
<td>Fertilizers</td>
<td>14.1</td>
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Immediate risks:
- Wheat and vegetable oil prices spiked with the outbreak of the war; have moderated a bit but remain high and volatile
- Countries with high outstanding share of imports from these countries need to source from other exporters/suppliers

Medium-longer term risks:
- Global fertilizer prices have risen steeply and would likely remain expensive
- Energy and food markets are tightly linked through input and output markets
Enhancing the efficiency of public spending in agriculture
• **Department of Agriculture (DA) budget** as share of total government budget declined from 2.6% in 2015 to 1.3 percent in 2019.

• **Commodity-based banner programs** account for major share of DA budget (38%)

• **National Rice Program** dominates banner commodity programs, in 2022
Despite Public Spending: Philippine Agriculture Falling Behind Other Countries

Agriculture TFP Growth: Philippines vs Neighboring Countries % (1990-2020)

- Total factor productivity (TFP) growth in agriculture increased 23% over two decades; but has been below that of regional neighbors such as Indonesia, China, and Vietnam.
- Slower growth in rice yields, a major reason why domestic rice production cannot compete with imports.

Source: USDA

Source: FAO stats
Effectiveness of Spending on Agriculture: Regional Dynamics

Agriculture Public Spending by Region, PhP Billion, 2022

Region Ranking by GVA and Poverty, 2018

- Heterogeneity in spending allocation across regions
- Allocation of public spending not fully reflective of regional poverty and gross value added (GVA)
- DA allocation can be better aligned to the size of the regional agricultural economy and poverty incidence in most regions.

Source: DA
Implications for Financial and Functional Devolution Resulting from the Mandanas Ruling
LGU Spending in Agriculture Remains Limited

- LGU’s spending allocation for agriculture is small relative to the DA.
- Agriculture spending by LGUs needs to be prioritized.
- Devolution Transition Plan (DTP): a powerful instrument to improve prioritization, efficiency, accountability, and impact of LGU’s spending on agriculture.
Way Forward for DA
Agricultural public expenditure policies must address three critical challenges:

- Improving sectoral competitiveness and resilience to ensure food security for all.
- Improving the effectiveness of the current spending.
- Dealing effectively with public expenditure issues related to devolution.
Key Actions to Achieve Food Security for All

- Greater balance in sectoral priority-setting and budget allocation to support agriculture diversification

- Scaling up Climate Smart Agriculture (CSA) policies and programs to foster increased resilience of the agri-food system

- Promote affordability of nutritious foods by adjusting fiscal and other policies that subsidize “calorie production” (e.g., rice, grains, sugar) rather than the production of more nutritious foods.
Key Actions to Improve the Effectiveness of the Current Spending

• Shifting from protecting a specific product (e.g., rice) to improving the overall resilience, competitiveness, and sustainability of the sector.

• Focusing on programs that fund public goods that are currently underfunded (e.g., agricultural research and extension, Farm-to-Market Roads).

• Improve budget priority to programs that overcome barriers to farm consolidation and achievement of economies of scale.
Key Actions for Achieving Efficient Devolution

• Ensuring procedural improvements on government budgeting institutions

• Improving evidence- and results-based monitoring and evaluation through enhanced and targeted capacity development for LGUs.

• Investing on extension services ensuring greater thrust on capacity development for LGUs
Key Actions to Promote Climate Resilience and Green Agriculture

• **Promote climate-smart rice cultivation**
  • Adopting a package of improved irrigation methods (e.g., “alternative wetting and drying”), improved seeds and cultivation practices - to lower GHG emissions, reduce irrigation water use and fertilizer costs, to increase yields and incomes for rice farmers.

• **Foster sustainable livestock production**: increase productivity and reduce agricultural emissions through improved breeding and nutrition and animal health services, pasture management and husbandry practices

• **Support development of green agriculture value chains**, through sustainable sourcing, traceability, and certification of agricultural products and establishment of necessary infrastructure and regulatory standards
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