



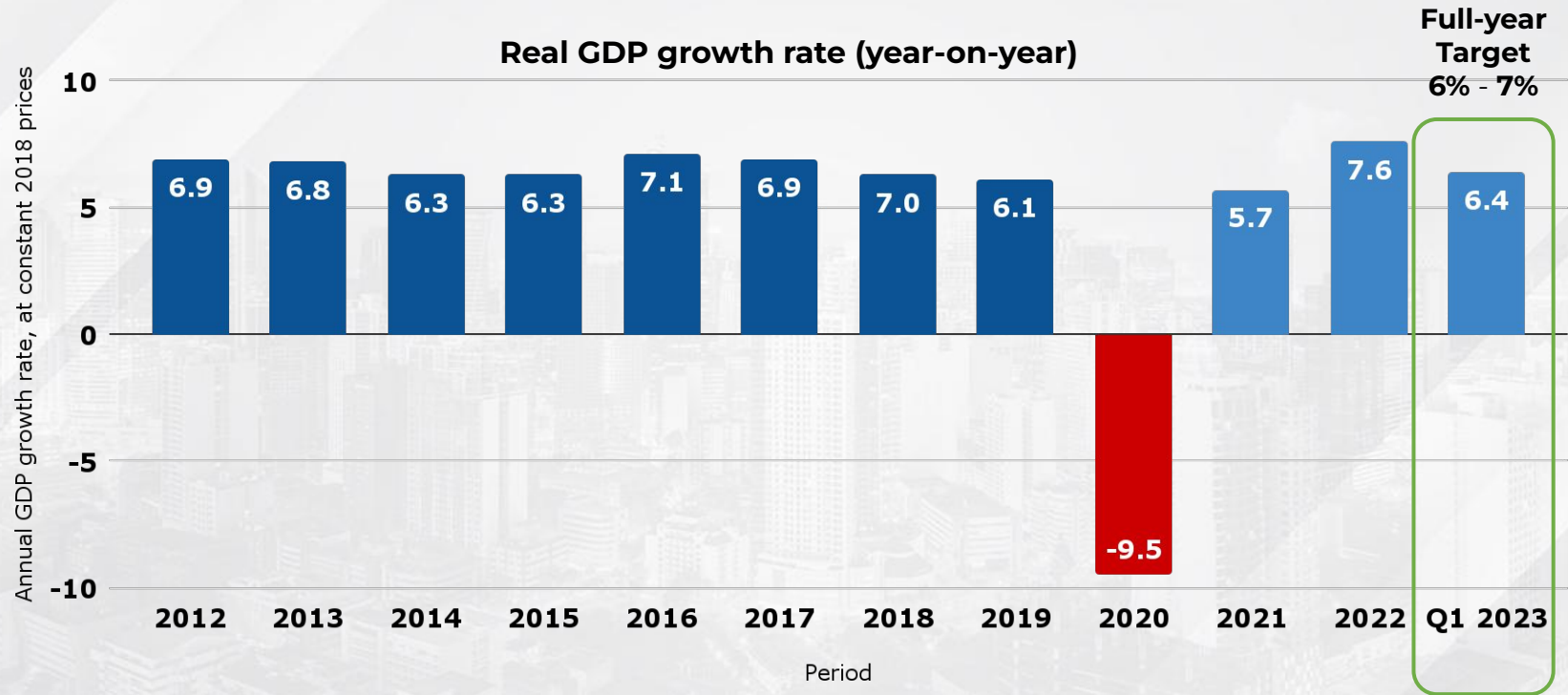
# **PHILIPPINE ECONOMY: Continuing a Strong Recovery amid Economic Headwinds**

**DEPARTMENT OF FINANCE**

**Post-SONA Philippine Economic Briefing**

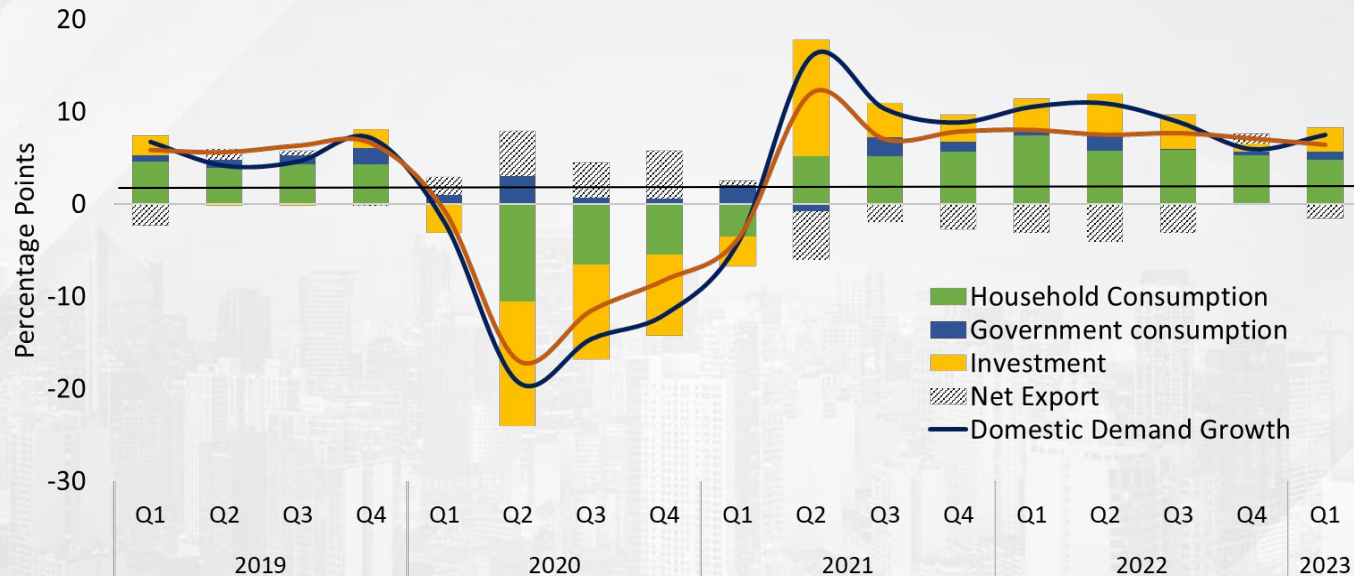
July 25, 2023

# The Philippine economy grew its fastest in 46 years



# Domestic demand supports robust growth

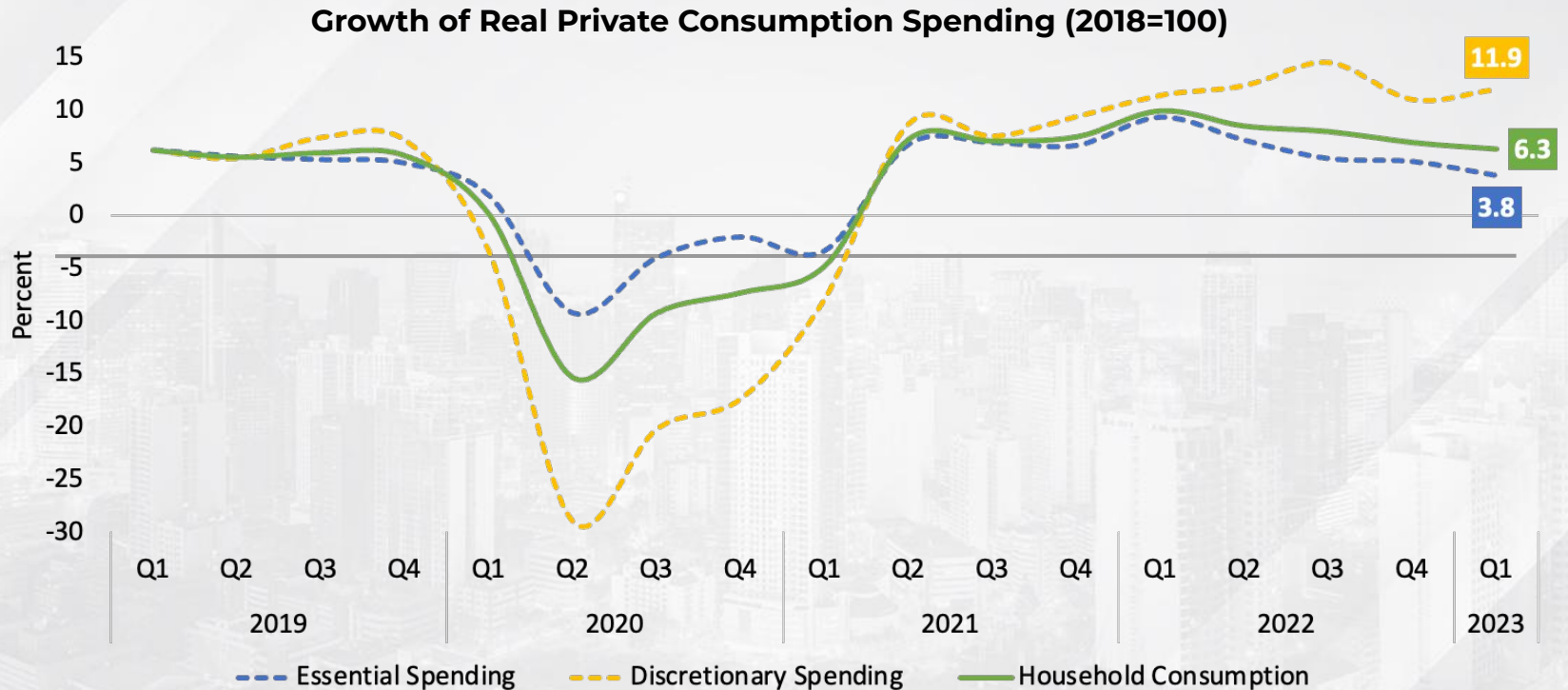
Contribution to Real GDP Growth by Expenditure Item (2018=100)



|                       | 2021Q1      | 2021Q2      | 2021Q3     | 2021Q4     | 2022Q1     | 2022Q2     | 2022Q3     | 2022Q4     | 2023Q1     |
|-----------------------|-------------|-------------|------------|------------|------------|------------|------------|------------|------------|
| Domestic Demand (ppt) | -4.7        | 16.9        | 10.9       | 9.6        | 11.5       | 11.9       | 9.7        | 6.5        | 8.3        |
| Net Exports (ppt)     | 0.5         | -5.3        | -1.9       | -2.7       | -3.1       | -4.1       | -3.1       | 1.1        | -1.6       |
| <b>GDP Growth (%)</b> | <b>-3.8</b> | <b>12.0</b> | <b>7.0</b> | <b>7.9</b> | <b>8.0</b> | <b>7.5</b> | <b>7.7</b> | <b>7.1</b> | <b>6.4</b> |

Data sources: PSA and DOF staff calculations.

# Private consumption sustains economy's growth momentum

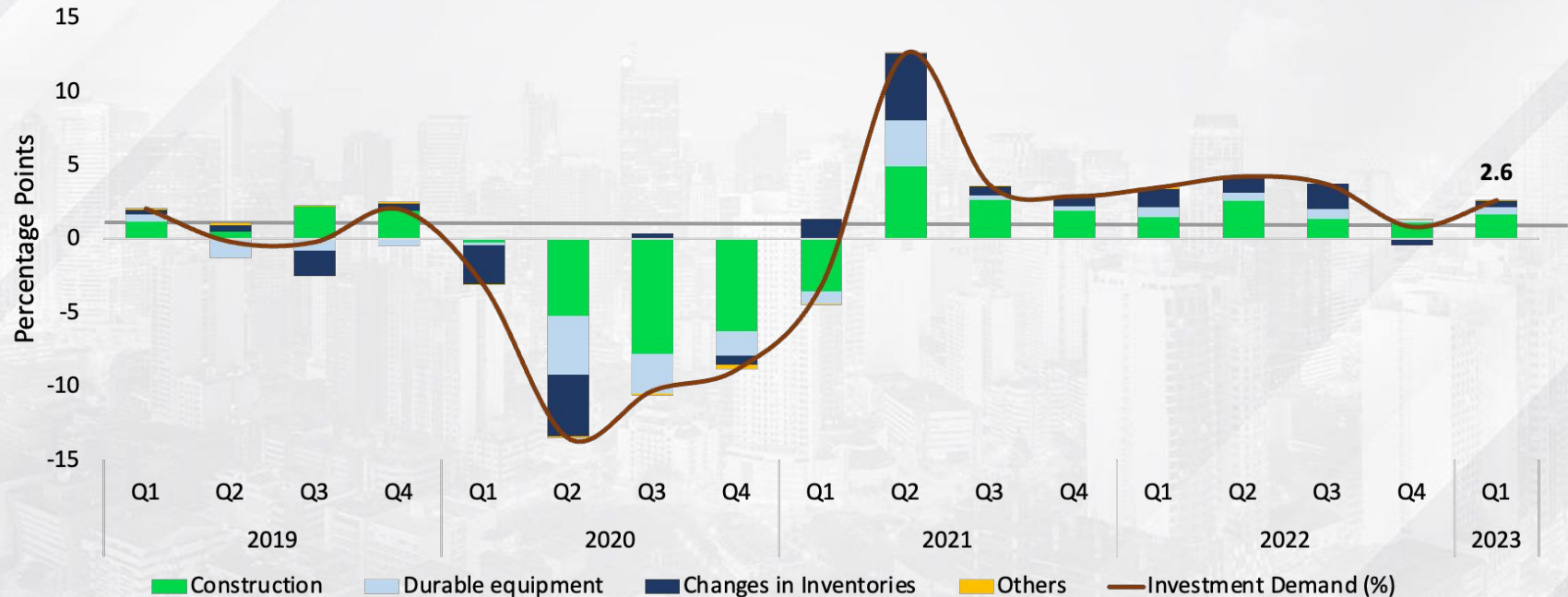


Data sources: PSA and DOF staff calculations.

Note: Essential spending includes expenditure on food, clothing, housing and utilities, health, transport, and education. Meanwhile, discretionary spending refers to expenditure on alcohol, beverages, and tobacco, furnishings, recreation, communication, restaurants, and hotels, and other miscellaneous goods and services.

# As the country builds better and builds more, investment demand has supported country's expansion

Contribution to Growth of Investment Expenditure (2018=100)



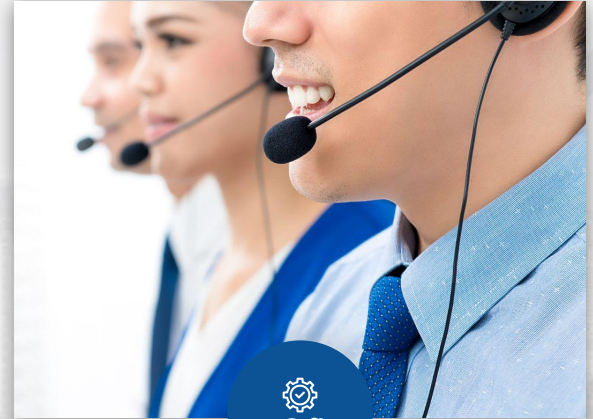
# Economic growth remains broad-based as all sectors posted positive growth



**2.2%**  
AGRICULTURE



**3.9%**  
INDUSTRY



**8.4%**  
SERVICES

# Services sub-sectors have mainly contributed to Q1 2023 growth

Sub-sectors with highest contributions to growth

**Wholesale and retail trade**  
(1.1 percentage point contribution to Q1 2023 GDP)



**Financial Services**  
(1.0 percentage point contribution to Q1 2023 GDP)



**Construction**  
(0.6 percentage point contribution to Q1 2023 GDP)



**Transportation Services**  
(0.5 percentage point contribution to Q1 2023 GDP)



**Accommodation and Restaurant Services**  
(0.5 percentage point contribution to Q1 2023 GDP)



# The country's robust growth will be supported by several factors

## Sectoral Drivers



### Agriculture

The government will focus on **modernizing agriculture and agribusiness** through farm mechanization, product diversification, and enhanced inter-industry linkages



### Industry

**Manufacturing and construction** will drive the growth in industry sector, supported by the Industry 4.0 strategy and the infrastructure development program of the government



### Services

Increased **foreign and local tourists** with simplified protocols and reopening of international borders. Promotion and expansion of the **IT-BPM sector**, and acceleration of **e-commerce** adoption by MSMEs



## Factors that would support expenditure



### Household Consumption

Better employment conditions; targeted intervention to preserve purchasing power; direct measures to stabilize price pressure; lower income tax rate due to TRAIN, stable growth in remittances.



### Government Spending

Timely implementation of the 2023 National budget; NGAs and LGUs formulation of work plans aligned with the Philippine Development Plan 2023-2028



### Investment

Infrastructure programs supported through public-private partnership (PPP) modalities; implementation of investment inducing reforms such as amendments to the Public Service Act (PSA), Foreign Investments Act (FIA), Retail Trade Liberalization Act (RTLA), and the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act; wider financial inclusion; greater adoption of e-commerce; more investments into modernization and agri-business.

# Labor market regains employment losses from the pandemic

May 2023 Employment Situation (year-on-year)

**4.3%** ↓  
Unemployment rate



**65.3%** ↑  
Labor force participation rate



**95.7%** ↑  
Employment rate



**11.7%** ↓  
Underemployment rate



# Manufacturing sector continues to expand amid increased customer demand

Purchasing Managers' Index (PMI)  
January 2019 to June 2023



Data sources: S&P Global



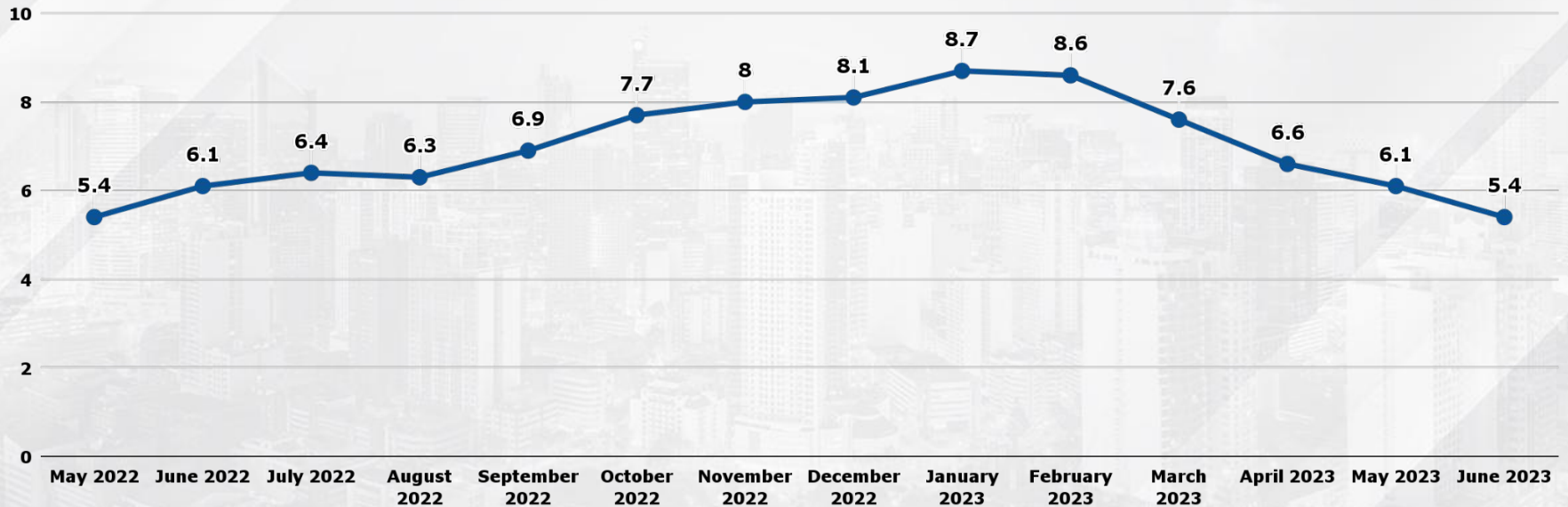
## **Manufacturing sector continues to expand amid increased customer demand**

● Vehicle sales in the country continued to post double-digit growth in the first half of the year.

● Volume of Production Index (VoPI) registered faster growth rate in May 2023.

● Loans to manufacturing sector grew by 0.9 percent in May 2023.

# Headline inflation eased further to 5.4 percent in June 2023



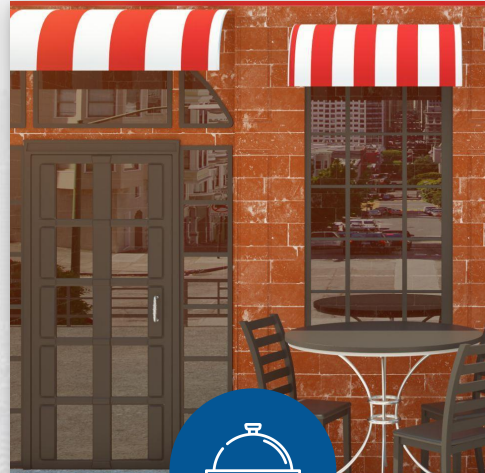
# Headline inflation eased further to **5.4 percent** in June 2023

## Main drivers of inflation





**Food**





**Food and beverage  
serving services**



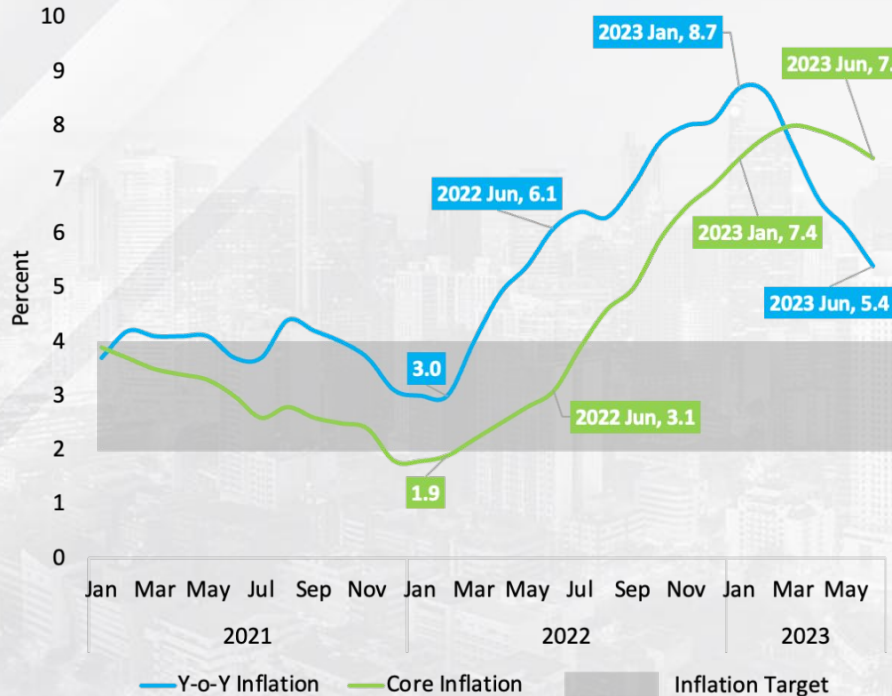


**Rentals**

# Inflationary pressures continue to ease

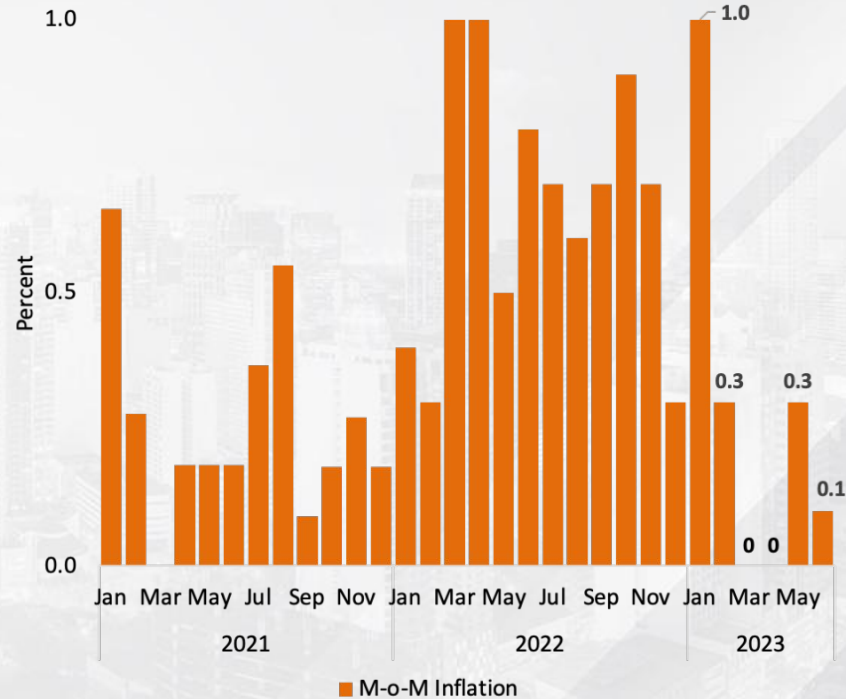
**Year-on-Year and Core Inflation (2018=100)**

January 2021- June 2023



**Month-on-Month Inflation (2018=100)**

January 2021- June 2023

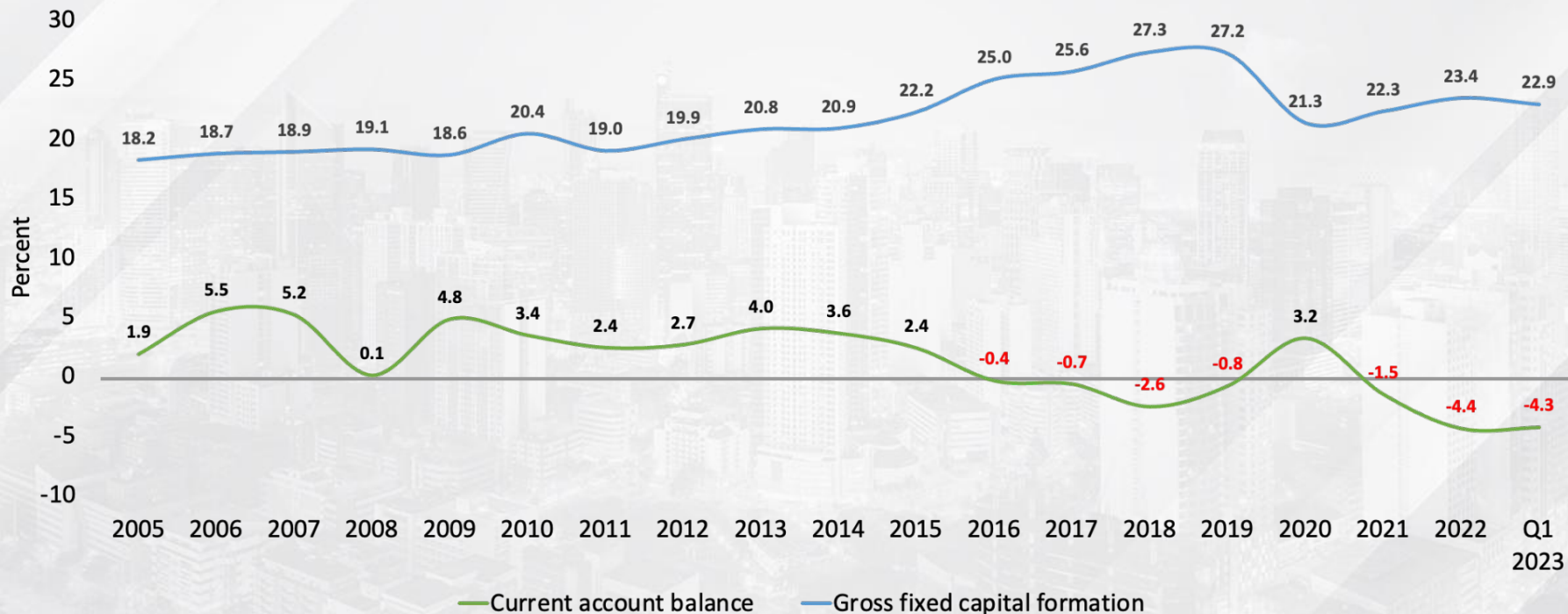


Data Source: PSA

Note: M-o-M inflation was computed using seasonally-adjusted CPI.

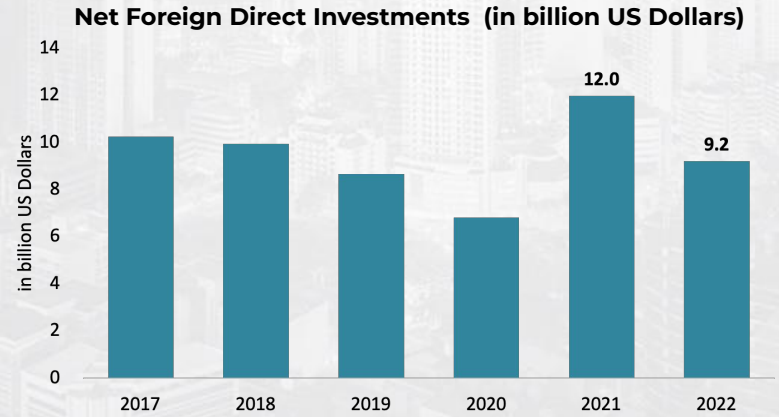
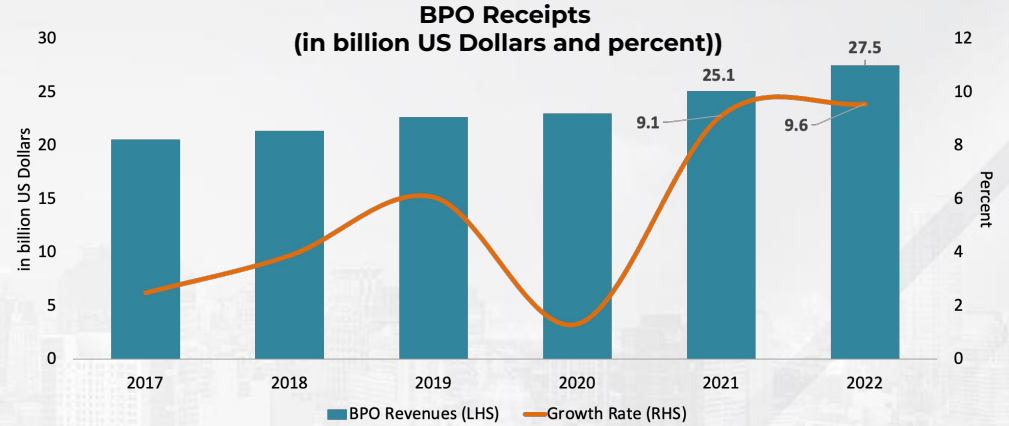
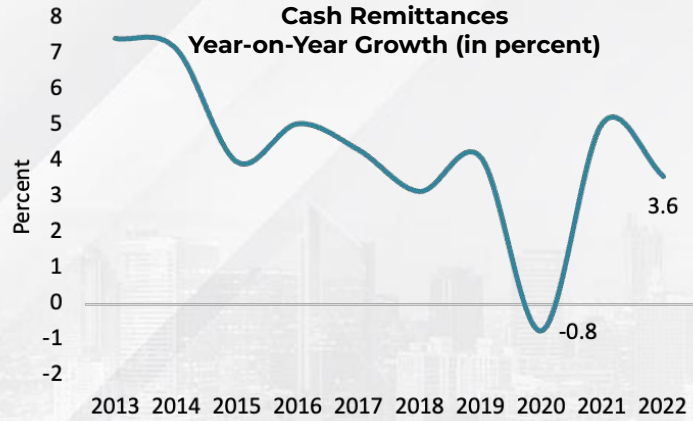
# Current account deficit remains financeable

## Current Account Balance and Gross Fixed Capital Formation (as percent of GDP)





# Remittances, Net FDIs and BPO receipts will support CA deficit financing



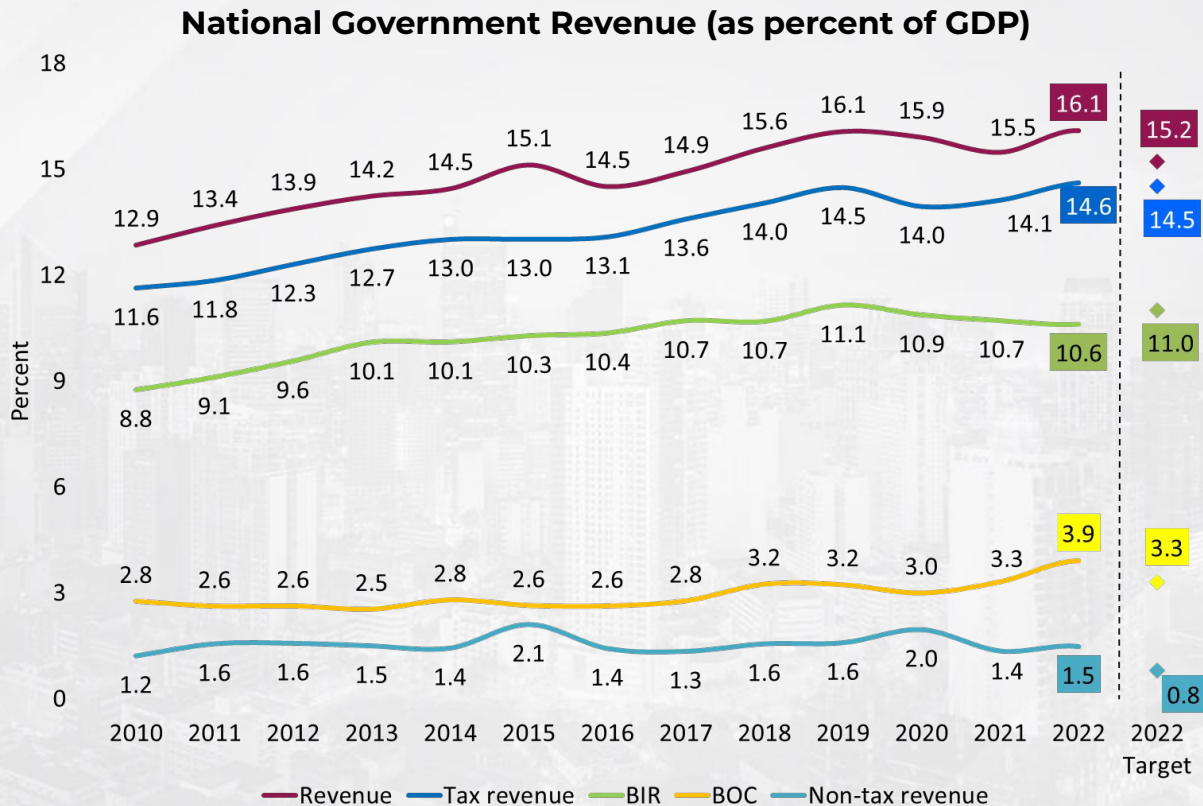
# Gross international reserves as of end-June 2023 reached 99.4 billion US dollars – more than adequate liquidity buffer



# Sound fiscal performance provides support to growth



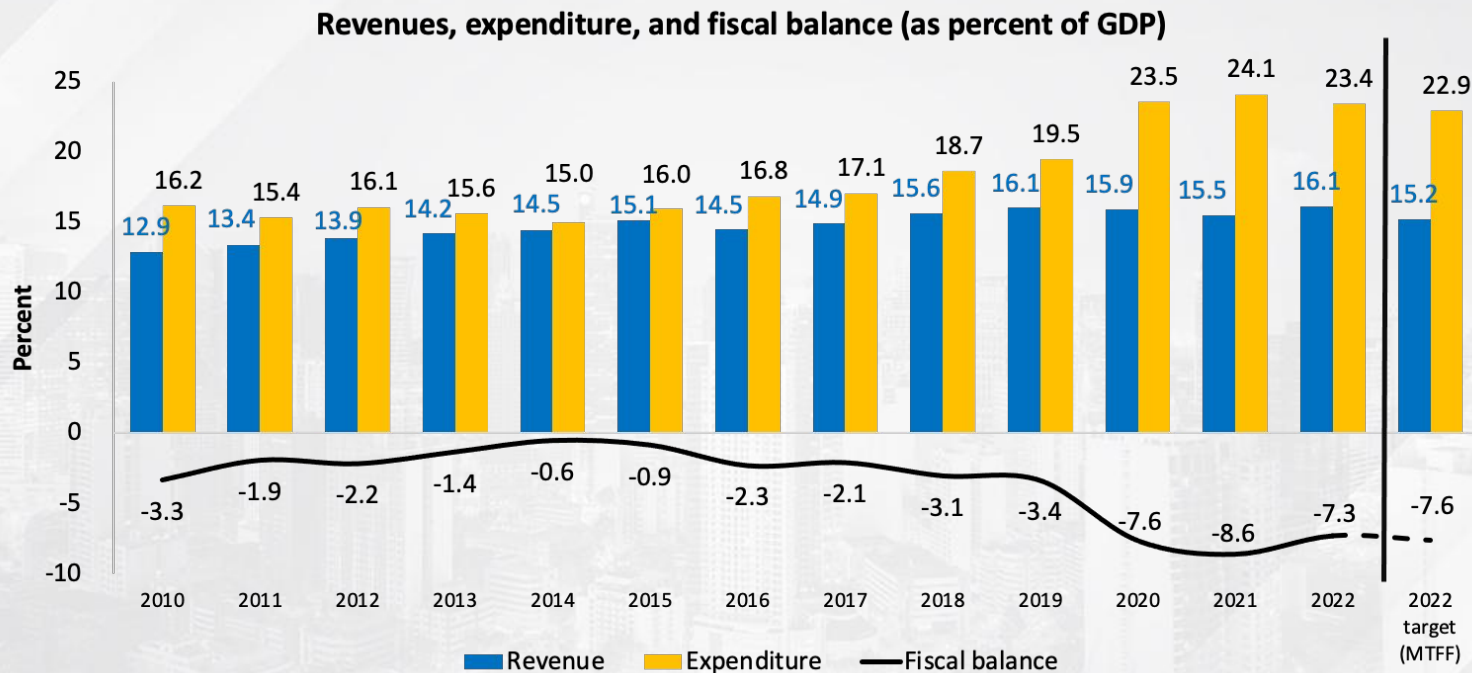
# Revenue performance surpassed targets in 2022



Data sources: BTr, PSA, and MTFP

Note: Revenue and tax effort are computed using tax revenues and GDP at current prices.

# Fiscal performance in 2022 outperformed MTFF targets



- As of May 2023, the country's fiscal deficit stood at PHP 326.3 billion, a 28.9 percent decline compared to the same period in 2022.

Note: Revenue and tax effort are computed using tax revenues and GDP at current prices.

Sources: BTr and PSA

## January to June 2023 revenues increased by **7.7 percent** compared to the same period in 2022

| Particulars<br>(in PHP billion) | January to June (Actual) |                |              |              |
|---------------------------------|--------------------------|----------------|--------------|--------------|
|                                 | 2022                     | 2023           | Difference   | Growth rate  |
| <b>Revenues</b>                 | <b>1,727.5</b>           | <b>1,860.1</b> | <b>132.6</b> | <b>7.68%</b> |
| <i>Tax revenues</i>             | <b>1,541.3</b>           | <b>1,657.0</b> | <b>115.7</b> | <b>7.50%</b> |
| BIR                             | 1,132.5                  | 1,219.2        | 86.7         | 7.65%        |
| BOC                             | 396.7                    | 433.4          | 36.7         | 9.26%        |
| Other offices                   | 12.1                     | 4.4            | (7.7)        | -63.89%      |
| <i>Non-tax revenues</i>         | <b>186.2</b>             | <b>203.1</b>   | <b>17.0</b>  | <b>9.13%</b> |
| BTr income                      | 104.1                    | 93.0           | (11.1)       | -10.68%      |
| Other non-tax                   | 82.0                     | 110.2          | 28.1         | 34.26%       |

Note: Totals may not add up due to rounding.  
Sources: BTr-COR for June 2023 (for release)

# Sound fiscal management through the Medium-Term Fiscal Program

|                        | Program/MTFF Targets |              |              |              |              |              |
|------------------------|----------------------|--------------|--------------|--------------|--------------|--------------|
| Indicators<br>In % GDP | 2023                 | 2024         | 2025         | 2026         | 2027         | 2028         |
| <b>Revenues</b>        | <b>15.2</b>          | <b>15.9</b>  | <b>16.2</b>  | <b>16.6</b>  | <b>16.9</b>  | <b>17.3</b>  |
| <i>MTFF target</i>     | 15.3                 | 15.6         | 16.0         | 16.5         | 17.0         | 17.6         |
| <b>Disbursements</b>   | <b>21.3</b>          | <b>21.0</b>  | <b>20.3</b>  | <b>20.1</b>  | <b>20.2</b>  | <b>20.4</b>  |
| <i>MTFF target</i>     | 21.4                 | 20.7         | 20.2         | 20.0         | 20.2         | 20.6         |
| <b>Fiscal Balance</b>  | <b>(6.1)</b>         | <b>(5.1)</b> | <b>(4.1)</b> | <b>(3.5)</b> | <b>(3.2)</b> | <b>(3.0)</b> |
| <i>MTFF target</i>     | (6.1)                | (5.1)        | (4.1)        | (3.5)        | (3.2)        | (3.0)        |

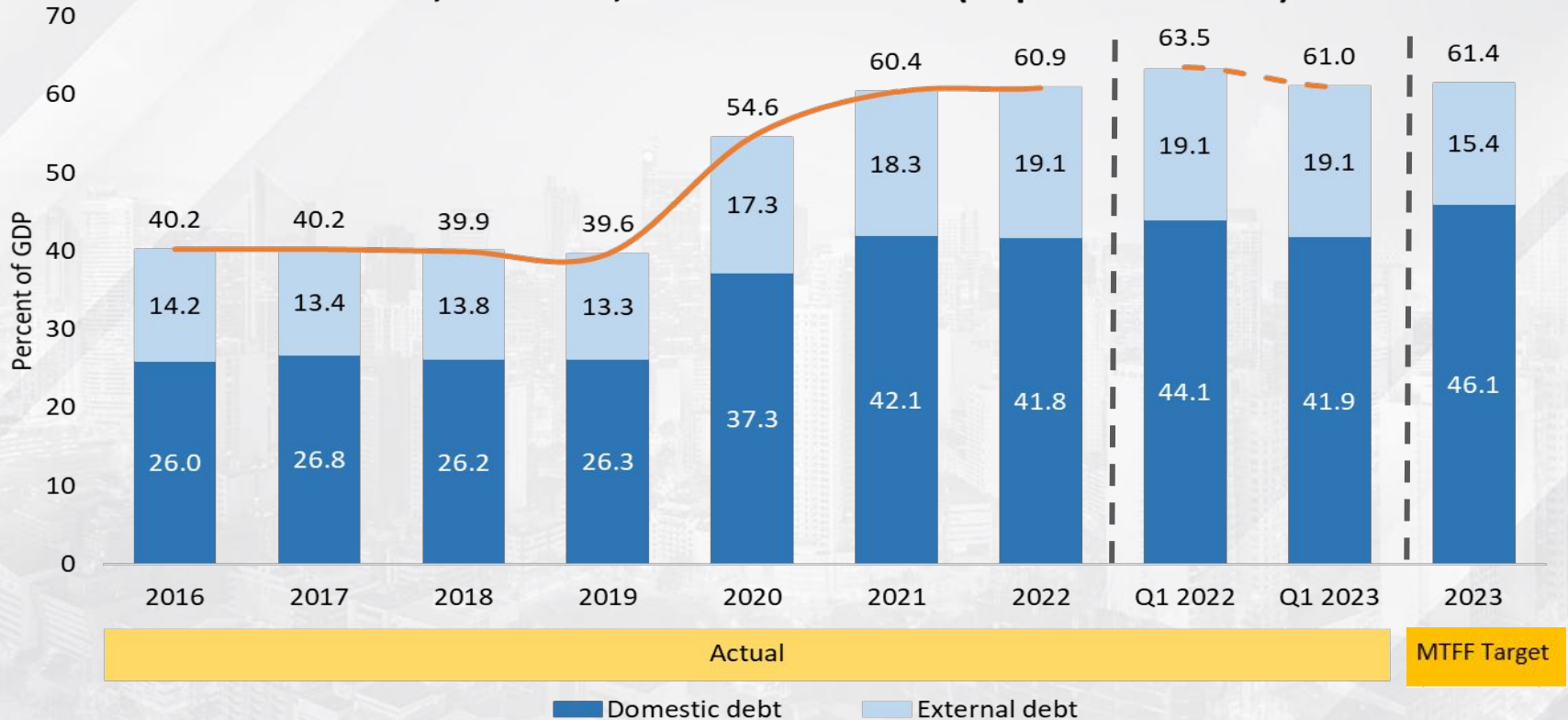
Notes: a) Totals may not add up due to rounding. b) Figures in parentheses represent negative values.

Sources: Program: 185th Development Budget Coordination Committee (DBCC) meeting held last June 09, 2023.

Targets: Medium-Term Fiscal Framework

# NG debt remains manageable as it remains domestically-sourced and dominated with longer tenors

External, domestic, and total NG debt (as percent of GDP)



Data source: BTr

Note: 2022-2028 debt trajectory is based on the BTr submission as of August 24, 2022





# **Risks and challenges**

# The government recognizes the following:



## Downside risks

1. Gloomy world economic outlook
2. Elevated domestic inflation
3. Tighter global financial conditions
4. Heightened geopolitical tensions
5. Trade protectionism
6. Natural disasters



## Upside risks

1. End to Russia-Ukraine war
2. Taming of inflation both domestically and globally

# Addressing high inflation is the top priority of the economic team



The BSP hiked its policy rate by a cumulative total of 425 basis points since 2022 to help maintain price stability.



Inter-agency Committee on Inflation and Market Outlook (IAC-IMO): The government will intensify the timely implementation of direct policy measures to curb inflationary pressures.



The government will continue to implement interventions to cushion the impact to vulnerable sectors such as targeted cash transfers and the KADIWA Program

# The IAC-IMO is implementing the following measures to mitigate food inflation



Fill the domestic supply gap through timely and adequate importation based on ex-ante supply-demand analysis



Close monitoring of data



Strengthen the implementation of biosecurity and hog repopulation programs



Implement measures to address the impact of El Niño

# Short-term interventions to mitigate non-food inflation

## Demand Management

- Pursuit of energy conservation and efficiency programs and campaigns
- Implementation of flexible work arrangement in government offices
- Maintaining controlled temperature in government offices
- Continued promotion of responsible water consumption

## Protecting Vulnerable Sector

- Coordination with oil players for the provision of discount programs
- Implementation of the third tranche of the targeted cash transfers
- Improvement in the process of distribution of cash grants

## Supply Management

- Promotion of LandBank's Anti Bill Shock Program
- Use of liquefied natural gas to augment power supply
- Tapping of solar energy for government agencies, GOCCs, SUCs, and LGUs

## Careful Management of Petitions

- Careful consideration and timing of wage and transport fare hike petitions
- Consideration of exemption of key services to increase in fee hikes

## Timely and Continued Monitoring

- Coordination with private sector in monitoring prices
- Development of the IAC-IMO Dashboard

# The Medium-Term Fiscal Framework serves as our blueprint to achieve the following fiscal objectives



## Reduce the fiscal deficit.

Bring down the deficit-to-GDP ratio to 3.0 percent by 2028.



## Promote fiscal sustainability.

Debt-to-GDP ratio will be reduced from the current 63.7 percent to less than 60 percent by 2025

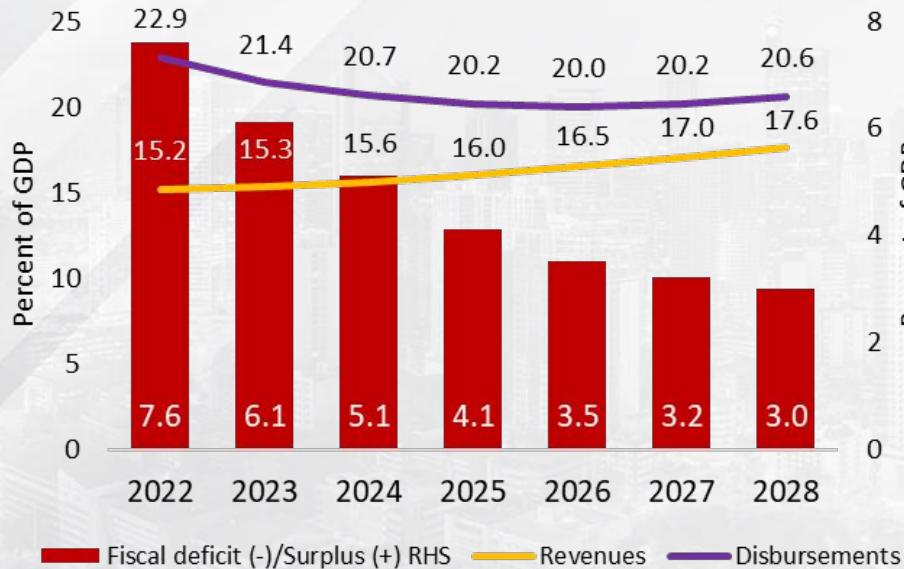


## Enable robust economic growth.

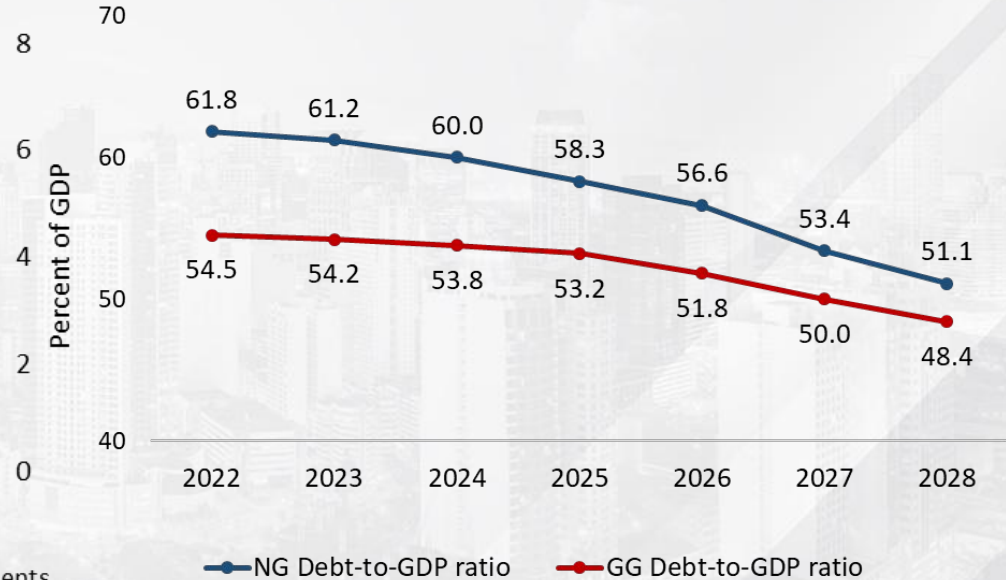
With its high multiplier effects, we will sustain high infrastructure spending at 5 to 6 percent of GDP annually.

# First-ever 6-year Medium-Term Fiscal Framework

**Fiscal position (as % of GDP)**  
2022 to 2028



**Debt-to-GDP ratio**  
2022-2028



# We are rolling out 194 Infrastructure Flagship Projects worth Php 8.3 trillion





# These IFPs are distributed across different sectors



## Physical Connectivity

119 projects  
PHP 6,899.5 billion



## Water Resources

44 projects  
PHP 679.42 billion



## Agriculture

14 projects  
PHP 355.6 billion



## Health

6 projects  
PHP 198.1 billion



## Digital Connectivity

5 projects  
PHP 115.1 billion



## Other Infrastructure

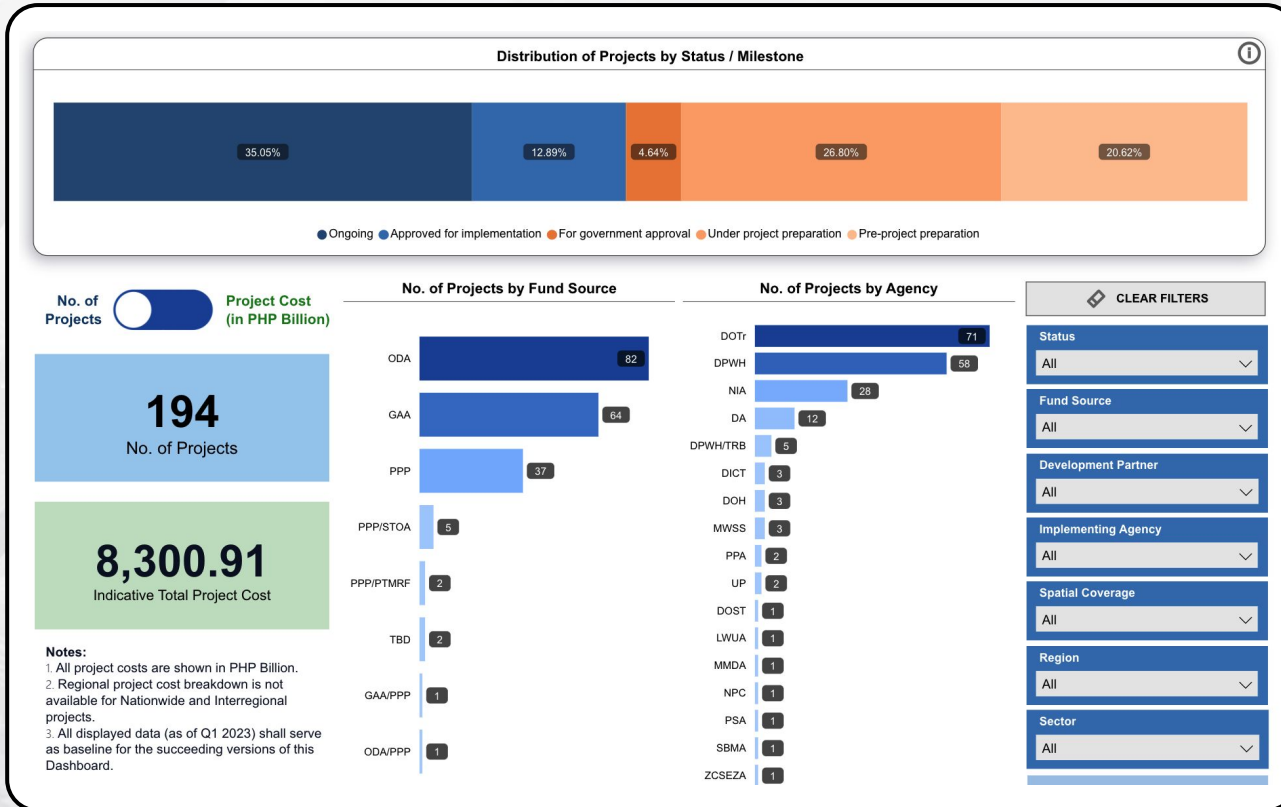
5 projects  
PHP 43.0 billion



## Power and Energy

1 project  
PHP 10.2 billion

# NEDA launched the Infrastructure Flagship Projects Dashboard



**Access here:**

[neda.gov.ph/infrastructure-flagship-projects/](https://neda.gov.ph/infrastructure-flagship-projects/)



**Legislative priorities  
to sustain the growth  
momentum**

# The Philippines' robust growth outlook is supported by the positive impact of game-changing structural reforms

**Corporate Recovery and Tax Incentives for Enterprises Act**



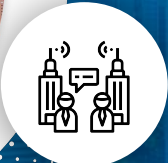
**Amendments to the Foreign Investments Act**



**Amendments to the Retail Trade Liberalization Act**



**Amendments to the Public Service Act**



**Revised Renewable Energy Act IRR**



# The Marcos Administration is building a fertile environment for public-private partnerships

Revised IRR of  
Build-Operate-  
Transfer Law



Revised ICC  
Guidelines



Public-Private  
Partnership Act



Revised NEDA  
Joint Venture  
Guidelines



# We will continue to work with Congress in pushing for key reforms crucial to accelerating economic development

## TAX REFORMS

### Measures identified in the MTFF



PACKAGE 4  
OF CTRP



VAT ON DIGITAL  
TRANSACTIONS

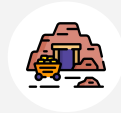


TAX ON PRE-MIXED  
ALCOHOL AND VAPE



EXCISE TAX ON  
SINGLE-USE  
PLASTIC BAGS

### Additional measures in support of the MTFF



RATIONALIZATION OF THE  
MINING FISCAL REGIME



TAX ON SWEETENED  
BEVERAGES



MOTOR VEHICLES  
ROAD USERS TAX

### Measures in the pipeline



JUNK FOOD  
TAX



CARBON  
TAXATION

## OTHER PRIORITY MEASURES



REAL PROPERTY  
VALUATION REFORM



AMENDMENTS TO  
PCIC CHARTER



LIVESTOCK DEVELOPMENT  
AND COMPETITIVENESS  
BILL



AMENDMENTS TO  
LANDBANK OF THE  
PHILIPPINES CHARTER



CAPITAL MARKET  
DEVELOPMENT BILL



MILITARY AND UNIFORMED  
PERSONNEL (MUP) PENSION  
REFORM BILL

# The Maharlika Investment Fund is Philippines' first-ever sovereign investment fund

The MIF is designed to **optimize returns on investments**. It will also **catalyze economic development** by mobilizing financial assets



The MIF is supported by **several safeguards**

It will be initially be capitalized by **investible funds from government financial institutions (GFIs)**



The MIF will be **aligned with the Marcos Administration's development plan**



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