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Monitoring the Philippine Economy Fourth Quarter Report for 2022

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Project of Angelo King Institute

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The Philippine economy grew 7.2 percent, featuring robust growth despite facing domestic challenges.

Fourth quarter growth reflected a more optimistic consumer sentiment as the economy continued to open up. Economic growth in Q4 2022 was 7.2 percent year-on-year (y-o-y) and 17.1 percent quarter-on-quarter (q-o-q), showing the Philippines' consistent effort to create a positive growth outlook for the economy (see Table 1). Year-on-year growth exceeded the median analyst forecast of 6.8 percent despite accelerating inflation and growing food security issues. Revenge spending continues to drive consumption on the demand side while service sector growth remains headstrong on the supply side amid stunted growth in the industry and agriculture sectors. Meanwhile, an expected reversal to a balance-of-payments surplus at December-end was fueled by remittances and tourism receipts during the holiday season. The trade deficit narrowed as well in Q4-end, with prospects for trade looking bright with the Senate's eventual ratification of the Regional Comprehensive Economic Partnership in the next quarter. Looking ahead, the central bank and national government must continue to determine the effective mix of policies and straighten out its priorities to support the economy's recovery.

Table 1. GDP Level and Growth (y-o-y and q-o-q), Q42020 – Q42022

Year	Quarter	*GDP Level	Percent GDP Growth	
		(million 2018 pesos)	*Year-on-Year Same Quarter	Quarter-to-Quarter
2020	Q4	4,825,596	—	—
2021	Q1	4,265,322	—	-11.6
	Q2	4,645,533	—	8.9
	Q3	4,425,697	—	-4.7
	Q4	5,201,501	7.8	17.5
2022	Q1	4,613,155	8.2	-11.3
	Q2	4,992,671	7.5	8.2
	Q3	4,763,641	7.6	-4.6
	Q4	5,577,338	7.2	17.1

***Source:** Philippine Statistics Authority

- **Major components of aggregate demand**

[1] Report is based on latest available data as of January 30, 2023. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

- **Household consumption increased as the economy fully reopened.** Household Final Consumption Expenditure (HFCE), which comprised 75.3 percent of GDP on the demand side in fourth quarter 2022, rose 7.0 percent year-on-year (y-o-y) and 19.8 percent quarter-on-quarter (q-o-q) (Philippine Statistics Authority [PSA], 2022a). Revenge spending, which refers to a sudden increase in buying consumer goods after being restricted from shopping for a prolonged time, mainly drove consumption. Coupled with the return to face-to-face classes and the Christmas season boom, households were more empowered to spend on goods and services. Consistent with our previous reports, the HFCE components that grew the most y-o-y include those adversely affected by the pandemic, which include: Restaurants and hotels (24.7 percent); Recreation and culture (15.2 percent); and Education (11.6 percent), although these components combined merely comprise 14.0 percent of total HFCE in fourth quarter 2022. In terms of percentage share, HFCE still remains primarily driven by: Food and non-alcoholic beverages (39.7 percent); Miscellaneous goods and services (14.1 percent); and Housing, water, electricity, gas and other fuels (11.1 percent).

  Most HFCE components retained positive growth rates in fourth quarter 2022 compared to fourth quarter 2021, including: Food and non-alcoholic beverages (3.8 percent from 5.3 percent, y-o-y); Miscellaneous goods and services (7.1 percent from 6.8 percent, y-o-y); Housing, water, electricity, gas and other fuels (4.3 percent from 2.7 percent, y-o-y); Transport (8.1 percent from 14.8 percent, y-o-y); Health (5.6 percent from 16.8 percent, y-o-y); Communication (5.7 percent from 8.2 percent, y-o-y); and Clothing and footwear (9.8 percent from 8.6 percent, y-o-y). Two components in particular rebounded from negative growth in the same quarter, which are Furnishings, household equipment and routine household maintenance (9.8 percent from -1.0 percent, y-o-y) and Alcoholic beverages, tobacco (3.5 percent from -9.7 percent, y-o-y).

- **Gross domestic capital formation grew but lost double-digit growth momentum.** Gross Capital Formation (GCF) grew by 5.9 percent y-o-y, ending the trend of double-digit growth exhibited for the past six quarters since second quarter 2021. Compared to growth in fourth quarter 2021, slower growth can be attributed to Gross Fixed Capital Formation (GFCF) slowing down (6.3 percent from 10.8 percent, y-o-y), with growth for GFCF components also slowing in Construction (8.4 percent from 15.8 percent, y-o-y); Durable equipment (3.7 percent from 5.5 percent, y-o-y); and Intellectual property products (4.1 percent from 18.7 percent, y-o-y). For the Construction sector specifically, growth in investments made by General government (6.3 percent from 20.7 percent, y-o-y) as well as Households and Non-profit institutions serving households (7.0 percent from 21.7 percent, y-o-y) contributed to its deceleration.

- **Government spending expanded after the previous quarter's near-zero growth; budget deficit further narrowed due to strengthening revenue growth.** Government Final Consumption Expenditure (GFCE) grew by 3.3 percent y-o-y in fourth quarter 2022. Growth this quarter was larger compared to the previous quarter's y-o-y growth (0.8 percent), but slower than growth in this period last year (7.8 percent). The year-to-date fiscal deficit reached PHP 1.614 trillion in December 2022. This is a 3.35 percent improvement compared to the full-year budget deficit of

1.670 trillion as of December 2021. Year-to-date data for December 2022 showed that revenues grew 17.97 percent while spending grew 10.35 percent, narrowing the deficit for the year due to faster growth for revenue collections both from tax (17.41 percent) and non-tax (23.74 percent) revenues. As for overall debt, the national government's outstanding debt declined by 1.65 percent from PHP 13.6 trillion in November 2022 to PHP 13.4 trillion at 2022-end, bringing the country's debt-to-GDP ratio down to 60.9 percent from a historic 17-year high of 63.7 percent from third quarter 2022 end.

- **The trade deficit tapered as exports grew larger than imports; balance of payment accounts position reflected a surplus.** The fourth quarter 2022 trade deficit narrowed by 14.9 percent y-o-y as it lowered to PHP 11,617.82 million USD from PHP 13,650.35 million USD in the same period last year. The exports of goods and services grew 14.6 percent y-o-y and the imports of goods and services grew 5.9 percent in this quarter, with external trade heavily centered on Electronic products. The exports of goods grew 10.6 percent, with electronic products which comprise 71.3 percent of exported goods driving this growth with a 16.3 percent increase. Components/devices (semiconductors), which is 55.3 percent of exported goods, drove growth in Electronic products as it grew 24.0 percent. The export of services grew 21.9 percent, with Travel, which is 10.4 percent of exported services, growing a staggering 349.6 percent as global and local conditions for travelling improve. Business services (53.1 percent) and Telecommunications, computer and information services (13.4 percent), which comprise the largest shares in exported services, grew 5.2 percent and 14.3 percent y-o-y, respectively. Meanwhile, the country's imported goods shrank by 2.3 percent. Imports in Mineral fuels, lubricants and related materials, which due to price fluctuations increased its share in imported goods to 18.9 percent, grew slower at 8.1 percent from the 31.4 percent growth exhibited in the same quarter last year. Imports in Electronic products declined by 8.3 percent y-o-y largely due to slower growth in Components/devices (semiconductors) (9.4 percent from 12.0 percent, y-o-y). Lastly, the country's imported services, which grew 47.4 percent, were driven by Travel (78.7 percent); Business services (34.6 percent); and Transport (30.6 percent), the components that comprise the largest shares in imported services.

  The country's balance of payments (BOP) position reversed to a surplus of USD 612 million in December 2022, an improvement from November's BOP deficit of USD 756 million. The reversal was due to a strong increase in remittances, tourism receipts, and business process outsourcing receipts. The country's gross international reserves (GIR) also improved to USD 96.1 billion at 2022-end, exceeding the BSP's expectations.

- **Major components of aggregate supply**[2]

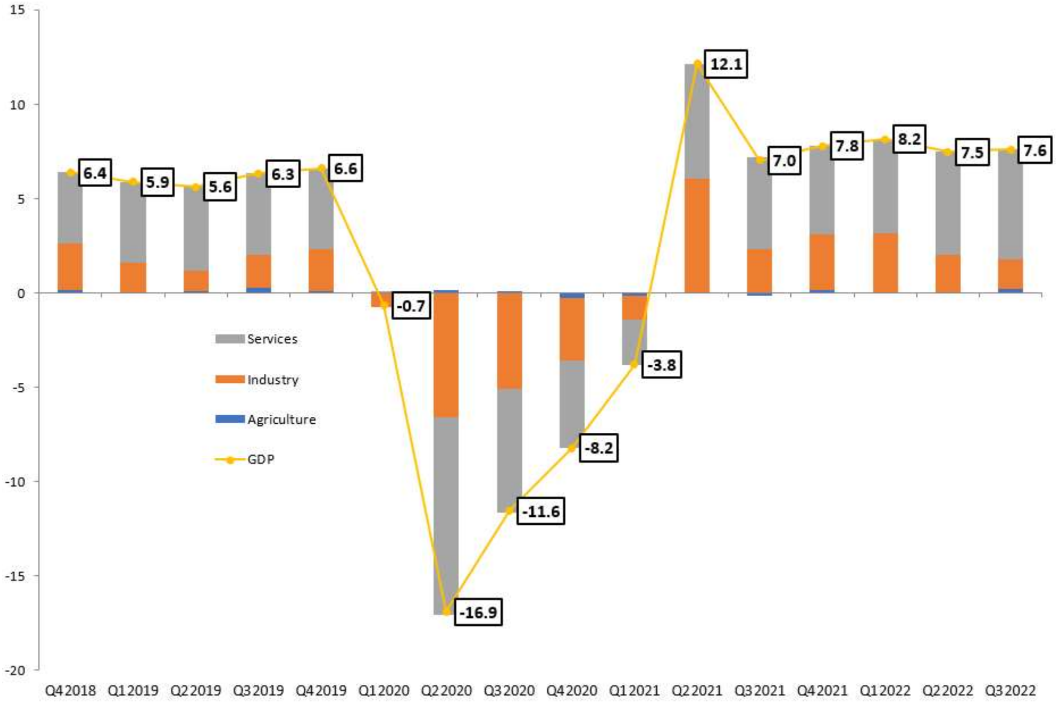
  - **Services sector growth accelerates even further.** The services sector grew 9.8 percent in fourth quarter 2022 with a net contribution to GDP of 5.28 percentage points. Its growth was larger to the previous quarter's y-o-y growth (9.2 percent) and faster than the y-o-y growth in the same period last year (8.0 percent). With its share to GDP being 59.6 percent, supply-side growth is still driven by the services sector. The subsectors that had the largest net contributions to GDP were Public administration and defense, compulsory social activities (0.82 percentage points, which grew 3.4 percent), Transportation and storage (0.78 percentage points, which grew 19.2 percent), Financial and insurance activities (0.73 percentage points, which grew 9.8 percent), and Education (0.63 percentage points, which grew 11.3 percent). The contribution to GDP of the subsector Wholesale and retail trade; repair of motor vehicles and motorcycles (0.59 percentage points), meanwhile, which comprised the plurality of the services sector (18.4 percent), was diminished by a large negative "real price" contribution (-1.09 percentage points).

  - **Industry sector growth remained stunted.** The industry sector grew 4.8 percent, which is slower than the 5.8 percent growth posted in third quarter 2022 and the 9.6 percent growth registered in fourth quarter 2021. The net contribution of the industry sector was 1.47 percentage points. Manufacturing contributed the most with 1.24 percentage points with a slower growth rate of 4.2 percent compared to the 7.3 percent rate exhibited in the same period last year. Relative to fourth quarter 2021, Construction grew the fastest (6.3 percent from 18.6 percent, y-o-y), followed by Electricity, steam, water and waste management (5.6 percent from 4.3 percent, y-o-y), Manufacturing, then Mining and quarrying (1.7 percent from 10.7 percent, y-o-y). Hence, growth in the industry sector was driven by manufacturing.

  - **Agriculture, forestry, and fishing (AFF) sector returned to near-zero growth.** The agriculture, forestry, and fishing (AFF) sector shrank by 0.3 percent y-o-y, following the trend of persistent near-zero growth registered in the previous quarters. This is also a deterioration from third quarter 2022 (2.1 percent) and fourth quarter 2021 (1.4 percent). Its net contribution to GDP this quarter is 0.47 percentage points, mainly driven by its "real price" contribution of 0.50 percentage points. This makes the AFF sector's net contribution larger than the industry sector this quarter due to their differences in "real price" contribution. Accounting for merely 9.9 percent of GDP in fourth quarter 2022, the AFF sector was more vulnerable to the country's monsoon season, frequency of typhoons, and disruptions across the sector's value chains.

[2] In this report, we present results from an alternative to the "traditional" (TRAD) method of decomposing growth of GDP in constant prices into sector contributions. This alternative method is a "generalized" (GEN) growth decomposition that applies to GDP in constant prices (e.g., in the Philippines) and to GDP in chained prices (e.g., in Canada and the US). While TRAD recognizes only "quantity" growth as the source of a sector's contribution to GDP growth, GEN posits that a sector's contribution comes from "quantity" growth and from "real price" growth where this price is, by definition, the ratio of a sector's deflator to the overall GDP deflator. The GDP deflator as the common denominator of the above ratio makes real GDP the numeraire and, thus, this ratio is the relative price or exchange value of the GDP of a sector in "GDP units," i.e., the "real price" of a sector's GDP. Therefore, a sector's positive "quantity" growth contribution will be diminished if accompanied by a negative "real price" growth of the same sector that may even result in a negative net contribution by the sector to GDP growth. On the other hand, a sector's positive "quantity" growth contribution will be enhanced if accompanied by a positive "real price" growth (see Table 4).[2]

Figure 1. Contributions to GDP growth (y-o-y, %) from Aggregate Supply



Source: Author's calculations based on data in Table 4 below.

Analysis and commentary on recent developments

- **Unemployment improved, one of the lowest in 17 years.** The year 2022 ended with an estimated 4.3 percent unemployment rate in December compared to 6.6 percent the previous year. Most of the unemployed were male (52 percent), college graduates (38 percent), and from the age group 25 to 34 years old (35 percent). Moreover, underemployment slid down to 12.6 percent from 14.7 percent the previous year. Majority of the underemployed came from the services sector (50 percent) (PSA, 2022b)[3]. The improvement in the labor market benefited from the increased economic activity under a fully opened economy.

- **Consumer and business sentiment dampened due to rising prices.** Consumer sentiment in the country during Q4 2022 was more negative, as evidenced by a decrease in the overall confidence index (CI) from -12.9 percent in Q3 2022 to -14.6 percent (Bangko Sentral ng Pilipinas [BSP], 2022b). The decline observed in the overall confidence index (CI) during Q4 2022 signifies a larger proportion of households embracing pessimistic perspectives, thereby outnumbering their optimistic counterparts. The cause of consumers' weakened outlook can largely be attributed to concerns over rising prices and household expenses, low income, and a lack of available jobs and employed family members. Meanwhile, consumer sentiment was less optimistic for Q1 2023 as the CI declined from 13.4 percent to 9.5 percent. Meanwhile, business sentiment experienced a second consecutive decline to 23.9 percent from 26.1 percent in Q3 2022 (BSP, 2022a). The decrease in the CI can be attributed to the increased percentage of respondents with pessimistic views, outweighing the number of those with optimistic views. The less optimistic sentiment expressed by respondents can be traced to several factors, including faster price increases for consumer goods and services, the depreciation of the peso, declines in sales and demand, rising costs of production inputs, such as raw materials and fuel, and higher interest rates. Furthermore, the business outlook for Q1 2023 also appears less positive, with the overall CI decreasing to 31.3 percent from 43.9 percent in the previous quarter.

- **China ended zero-Covid policy.** On January 8, 2023, China finally relaxed Covid restrictions and opened its borders after almost 3 years of strict implementation of the zero-Covid policy (Zhou & Tian, 2023). This was preceded by a historic protest in November against the policy that required frequent testing, quarantine requirements, mass lockdowns restricting the movement of people as well as growth of businesses. The opening of China's borders sends mixed concerns: first, since cases Covid remain elevated, other countries are wary of tourists travelling from China; second, increase in consumer and investment activity can bring benefits and/or harmful effects to the global economy. Many are concerned that the opening of the biggest consumer market can add to inflationary pressures.

- **The Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade agreement, will be ratified by the Philippine Senate come Q1 2023.** The Department of Trade and Industry (DTI) of the Philippines is optimistic about the country's potential signing of the Regional Comprehensive Economic Partnership (RCEP) trade agreement by Q1 2023 (Ochave, 2022). Trade Undersecretary Ceferino S. Rodolfo has informed the media that the DTI has been coordinating with senators regarding the RCEP and other free trade agreements (FTAs). The RCEP paperwork has been submitted to the Senate Committee on Foreign

[3] https://psa.gov.ph/content/unemployment-rate-december-2022-estimated-43-percent

Relations for review and approval. The Cabinet has approved and requested the concurrence of the Senate, and the President has already ratified the RCEP. The RCEP is the largest FTA in the world and involves 15 nations, with the Philippines and Myanmar being the only countries that have yet to finalize their participation in it. Concerns were previously raised about the lack of safeguards for the agriculture sector, which led to the previous Congress failing to give its concurrence.

The Philippine Senate ratified the Regional Comprehensive Economic Partnership (RCEP) on February 21, the largest free trade agreement that covers about 30% of the world's GDP, trade volume, and population. It aims to simplify and harmonize different FTAs between 15 countries in the Asia-Pacific region and create an integrated market. The RCEP gives member countries more power to make rules and set standards for trade, and aims to improve commitments for services, increase foreign investments, support the development of MSMEs, promote consumer welfare, and protect intellectual property rights. The Philippines made exceptions for some sectors based on established laws, mostly related to natural resources and agriculture. Studies suggest that the Philippines will benefit substantially from joining RCEP, with estimated growth in real GDP and improved export performance.

- **House of Representatives approved Maharlika Investment Fund**. The Maharlika Investment Fund (MIF) bill recently passed in the House of Representatives of the Philippines, which is the country's version of a sovereign wealth fund (SWF). Unlike typical SWFs, which are funded by a country's surplus or revenues, the MIF will be initially sourced from two government institutions and subsequent capital will come from dividends and gaming revenues. The MIF will be managed by an independent corporate body with 15 board members, including government officials and independent directors. However, there are concerns about the lack of transparency and accountability in the MIF's operations. The MIF's returns will be used for social welfare programs, rather than increasing the country's wealth. While SWFs have been successful in some countries, such as Norway, there are also examples of mismanagement, such as Malaysia's 1MDB. Overall, the current provisions of the MIF lack clarity and do not align with the typical definition of a SWF.

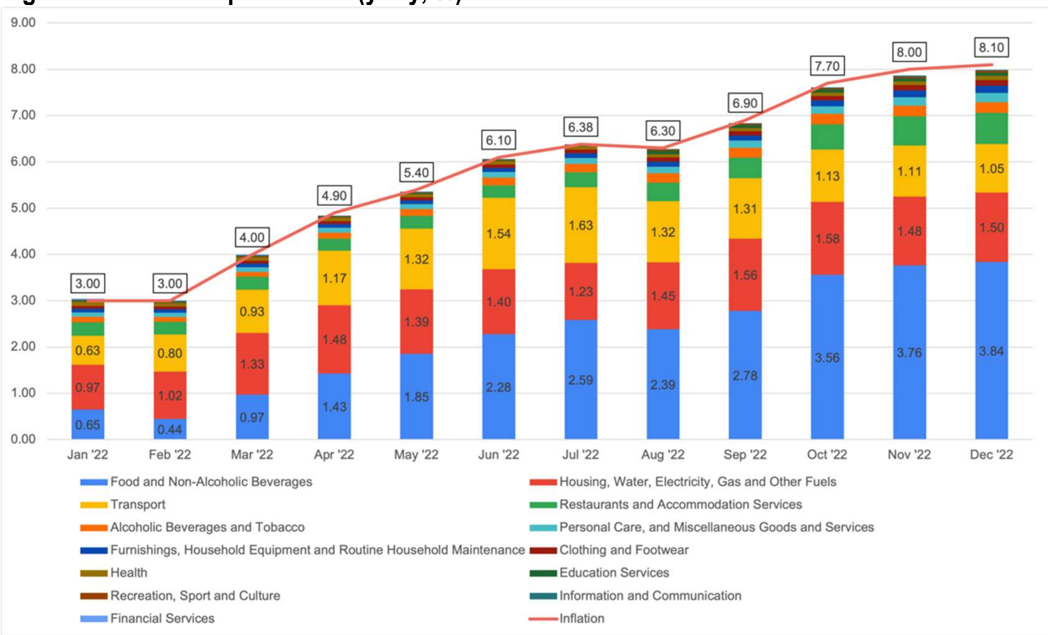
- **Inflation remained elevated, prompted tighter monetary policies.** Prices of goods and services continued to rise in the fourth quarter pushing inflation rate to an average of 7.9 percent from 6.5 percent the previous quarter. In particular, December inflation rate remained high at 8.1 percent compared to 3.2 percent the previous year. The main drivers were elevated prices of alcoholic beverages and tobacco (10.7 percent vs 6.2 percent in December 2021), followed by food and non-alcoholic beverages (10.2 percent vs 1.6 percent in December 2021), and utilities and gas: housing, water, electricity, gas and other fuels (7 percent vs 5.1 percent in December 2021) (PSA, 2023)[4]. The continuous spike in inflation prompted the Bangko Sentral ng Pilipinas to hike interest rates twice in the fourth quarter. The BSP Monetary Board raised policy rate by 0.25 basis points in November and another 0.50 basis points in December, bringing it to 5.50 percent (BSP, 2022c)[5]. This was the highest since February 2009.

  In 2022, the headline inflation rate averaged 5.8%, which is higher than the 3.9% inflation rate in 2021 and the highest figure reported since November 2008 (See Figure 2). In March, inflation started to move past the 3% recorded in January and February and has been

[4] https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2018100-january-2023
[5] https://www.bsp.gov.ph/SitePages/PriceStability/MonetaryPolicyDecision.aspx

consistently rising following the impacts of the Ukraine-Russia war. The main drivers to the rise in prices are Food and Non-Alcoholic Beverages, and Commodities and Housing. These were brought about by the depreciation of the peso relative to the US Dollar, which peaked in October with an average monthly average exchange rate of P58.82 per dollar, and the rise in global commodity prices like Natural Gas, Coal, and Fuel. However, in the fourth quarter of the year, the peso has since been appreciating and global commodity prices have been normalizing, reducing inflationary pressures from external factors. BSP responded by consistently raising interest rates from 2.5% in March and ending the year at 6%. Another main driver of the increase in food prices, accounting for more than a third of headline inflation, was the disruption of global and local supply chains due to the spread of the African Swine Flu and typhoons.

Figure 2. Consumer price index (y-o-y, %)



Source: Author's computations based on the Philippine Statistics Authority

Feature article

On the Administration's objective to reduce the fiscal deficit to 3% of GDP by 2028: why and how?

By Dr. Jesus Felipe, Distinguished Full Professor and Research Fellow, School of Economics

A FEW WEEKS AGO, I attended a presentation on the Philippine economy and prospects for 2023. A discussant from the Department of Finance indicated that the Administration aims at reducing the fiscal deficit from 8.6% of GDP in 2021 (the result of the COVID pandemic) to 3% by 2028. She referred to this reduction as "solid fiscal management" that "will promote long-term growth."

In this article, I will argue that this is a dubious target because the government cannot control the deficit. Moreover, claiming that this reduction will promote long-term growth is poor economics. So is the idea of "fiscal responsibility," based on the false premises that sovereign governments have limited financial resources (operate with financial constraints) or that risk "running out of money." A responsible government ought to focus its efforts on attaining desirable objectives such as full employment, price stability, poverty alleviation, income inequality, financial stability, environmental sustainability, and the overall standard of living. Certainly, some of these are in the Administration's agenda. However, setting a fiscal deficit target for 2028 obscures things and may end up affecting the achievement of the more meaningful targets.

Confusion about how government finances work is a result of three mistakes and fallacies. First, from the wrong analogy of equating government finances with those of a family or firm (the latter two do have a budget constraint). Second, from not recognizing that governments do not use your taxes to make payments but instead use fiat money. This is the national currency (Peso in the Philippines), not pegged to the price of a commodity such as gold or silver. The government issues it (foreign currency is a different matter). The value of fiat money is largely based on the public's faith in the currency's issuer, which is normally the country's government or Central Bank. It is true though that many governments sadly self-impose constraints on their ability to issue fiat money. Third, and more complex, from a poor understanding of the operational realities of how Central Bank and Treasury coordinate their actions.

Let's start by clarifying how governments make payments. Governments spend by crediting private bank accounts with Central Bank reserves. The payment of taxes leads to private bank accounts being debited. Then, if government spending is greater than taxes, there is a net crediting of reserve accounts at the Central Bank (an increase in the monetary base). Normally, the reserves created are greater than what banks need to hold, whether or not there are legal reserve requirements. Banks with excess reserves at the Central Bank will try to lend them on the interbank overnight lending market. However, when the overall banking system has excess reserves, there will be no demand for them. No individual bank can solve the problem of a system-wide excess of reserves. There must be a system-wide solution.

Before outlining the solution, it is important to appreciate the two pieces around which Central Banks and Treasuries organize their coordination. One is that the key policy tool of the former is the overnight interest rate. Once announced, the Central Bank needs to ensure that it stays within the set corridor (until there is a decision to change it). The other one is that government spending, tax revenues, and bond sales, all occur on the Central Bank's balance sheet because the government's account is a liability of the Central Bank.

What is the solution to the excess supply of reserves? This will cause the Central Bank's overnight rate to fall. Once it has fallen below the target rate, the Central Bank will respond by selling bonds. In normal times, the Central Bank will have a limited supply of government bonds, and hence it can only sell the bonds that it has previously bought. So, in the presence of a fiscal deficit, the Central Bank would need the Treasury to create and sell more bonds in the primary market. The two institutions coordinate their operations to ensure that fiscal operations have minimal undesired impacts on banking system reserves. Hence, bonds will be issued more or less in line with the fiscal deficit in order to drain from the banking system excess reserves that result from spending above taxes.

What is the result of the Central Bank and Treasury coordinating operations? At the end of the year, one would find that government spending less taxes will be exactly equal to the change in base money, that is, the change to banking system reserves, plus the change in private sector holdings of cash, and the change in non-government holding of government bonds. I must stress that tax revenues, bond sales, and issuance of base money are not alternative methods to finance the difference between government spending and taxes but different pieces of the process of conducting fiscal policy. Treasury cannot decide exante the fiscal outcome (balance, deficit, surplus) since this depends on tax revenue generated over the course of the year, plus unplanned spending as a result of unforeseen events.

If the fiscal outcome (government spending minus taxes) of a nation could be known in advance, it would be possible to decide how to accommodate (finance) the gap via three options: taxes, selling public debt (an interest-earning alternative to money), or creating additional monetary base. In reality, the fiscal outcome is not under the control of the government and it is not even a useful target for policymaking. Rather, the fiscal outcome is determined by a combination of factors.

The fiscal outcome of a nation is the result of a combination of the discretionary policy choices taken by the government and the spending and saving behavior of the nongovernment sector (outside the power of the government). In other words, the government can decide how much it can increase spending and, ex-post, we will observe some combination of increased tax revenue (the degree to which taxes rise will depend on the responsiveness of tax revenue to rising aggregate spending and income), increased bonds held by the private sector, and increased monetary base (money holdings, or reserves held by banks and cash held by the non-banking private sector). The latter two will be identical to the fiscal deficit, and the split between the two will depend on the preferences for interest earning assets, given the overnight interest rate set by the Central Bank policy.

For these reasons, targeting in 2023 a fiscal deficit of 3% of GDP by 2028 is adventurous. It may indeed materialize, or it may not. Moreover, note that pursuing a 3% fiscal deficit objective is tantamount to claiming that, at the end of 2028, the Philippine nongovernment sector (domestic private plus external sectors) will run a surplus (net save) of 3%, since the three sector balances (domestic private plus government plus external) add up to zero. Note that this fiscal deficit represents a smaller surplus for the domestic plus external sectors than that provided by the current larger fiscal deficit. This deficit might be what the other two sectors desire in 2028. However, imagine that in 2028 the Philippines runs a current account deficit (the external sector) of over 3% of GDP. To constrain the fiscal deficit to 3% of GDP, will imply that the domestic private sector will be forced to run a deficit. If this materializes, I predict trouble.

To end: will the fiscal deficit of 3% of GDP materialize in 2028? It is impossible to know today. As noted above, the fiscal outcome is not under the control of the government. The fiscal deficit is, from an accounting point of view and ex-post, the difference between government spending and tax revenues. Yet, behaviorally, it depends on the saving desire of the domestic private and external sectors. In fact, it makes no sense to speak of the government's balance without reference to the other two balances;

and the sector balances do not tell us the complex causalities that lie behind the resulting outcome (that they add up to zero). What we know is that the fiscal outcome for a currency-issuing government like the Philippines is largely residual, rising when private domestic and foreign demand shrink and falling when demand rises. In other words, the fiscal deficit finances the desire by the non-government (domestic and foreign) sector to save overall. This is achieved by maintaining sufficient demand to produce a level of income that will generate the desired level of net saving. Consequently, a responsible government would seek to meet the desirable national objectives, and whether these require a larger deficit, a smaller deficit, or even a surplus in some circumstances, should not be the concern because such a government understands how its own finances work.

Let's see what happens between now and 2028 and, in the meantime, dispel the idea that reducing the fiscal deficit is necessarily good for the Philippine economy.[6]

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[6] This article was published by Business World last March 8, 2023 https://www.bworldonline.com/opinion/2023/03/08/509443/the-administrations-objective-to-reducethe-fiscal-deficit-to-3-of-gdp-by-2028-why-and-how/

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Table 2. Philippine Economic Indicators

Philippines Economic Data

Monthly Leading Indicators	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Industrial Production (y-o-y, %)	10.8	69.7	345.7	-1.0	-0.6	0.0	4.0	5.0	3.9	5.3	5.9	…
Consumer Price Index (y-o-y, %)	3.0	4.0	4.9	5.4	6.1	6.4	6.3	6.9	7.7	8.0	8.0	8.7
Retail Sales (y-o-y, %)	20.6	22.1	19.7	11.2	14.2	14.8	18.2	15.7	20.9	…	…	…
Exports (y-o-y, %)	15.8	5.9	6.2	6.4	1.0	-4.1	-1.7	7.4	20.3	13.2	-9.7	…
Imports (y-o-y, %)	26.3	23.5	29.1	30.2	26.4	22.3	26.4	14.4	7.7	-1.6	-9.9	…
Trade Balance, US$ million	-3,985	-4,593	-5,321	-5,560	-5,878	-5,997	-6,025	-4,829	-3,312	-3,709	-4,596	…
Total Reserves (less gold), US$ billion	98	98	96	95	92	91	89	85	86	86	87	…
Policy Rate	2	2	2	2.25	2.5	3.25	3.75	4.25	4.25	5	5.5	…
Fiscal Balance (million pesos; Jan - Nov 2022)	…	…	…	…	…	…	…	…	…	…	-1,235,769	…
Quarterly/Annual Economic Indicators	**2017**	**2018**	**2019**	**2020**	**1Q2021**	**2Q2021**	**3Q2021**	**4Q2021**	**1Q2022**	**2Q2022**	**3Q2022**	**4Q2022**
Real GDP (y-o-y, %)	6.9	6.3	6.0	7.6	-3.8	12.1	7.0	7.8	8.2	7.5	7.6	7.2
- Private Consumption	6.0	5.8	5.9	8.3	-4.8	7.3	7.1	7.5	10.0	8.6	8.0	7.0
- Government Consumption	6.5	13.4	9.6	5.0	16.1	-4.2	13.8	7.8	3.6	11.1	0.8	3.3
- Gross Capital Fixed Formation	10.9	11.3	2.5	16.8	-13.9	83.7	20.8	14.2	20.4	21.1	21.8	5.9
Current Account (% of GDP)	-0.7	-2.6	-0.8	3.2	-0.7	-1.3	-1.0	-3.5	-4.3	-7.7	-6.2	…
Financial Account (US$ million)	-2,798	-9,332	-8,034	-6,906	4,089	-2,938	-1,133	-4,973	-4,336	-2,870	-2,756	…
- Net Direct Investments, US$ million	-6,952	-5,833	-5,320	-3,260	-1,691	-1,604	-2,177	-2,138	-1,363	-1,375	-843	…
- Net Portfolio Investments, US$ million	2,454	1,448	-2,474	-1,680	7,884	-749	954	161	435	29	1,435	…
Overall BOP position (US$, million)	-863	-2,306	7,843	16,022	-2,844	905	1,274	2,009	495	-3,596	-4,730	…
Unemployment rate	5.7	5.1	5.1	8.7	7.1	7.7	8.9	6.5	5.8	6	5.3	4.2
Others	**Jan-22**	**Feb-22**	**Mar-22**	**Apr-22**	**May-22**	**Jun-22**	**Jul-22**	**Aug-22**	**Sep-22**	**Oct-22**	**Nov-22**	**Dec-22**
Overseas Filipinos' Remittances (US$, million)	2,668	2,509	2,594	2,395	2,425	2,755	2,917	2,721	2,840	2,911	2,644	…

… = not available

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Asian Development Bank.

Table 3. Level of Philippine GDP, 2021Q4 – 2022Q4

	Nominal GDP (million current pesos)		Real GDP (million constant pesos*)	
	2021Q4	**2022Q4**	**2021Q4**	**2022Q4**
Agriculture	**580,203**	**638,368**	**527,113**	**525,393**
Industry	**1,760,803**	**1,966,707**	**1,622,734**	**1,700,272**
Mining and quarrying	46,886	56,837	34,506	35,083
Manufacturing	1,165,626	1,292,322	1,052,103	1,096,325
Electricity, steam, water and waste management	148,528	168,590	149,770	158,160
Construction	399,763	448,958	386,356	410,704
Services	**3,321,517**	**3,849,353**	**3,051,654**	**3,351,674**
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,026,244	1,190,263	997,780	1,085,001
Transportation and storage	174,540	238,204	165,251	196,947
Accommodation and food service activities	84,505	122,453	73,715	100,334
Information and communication	183,060	195,241	181,835	192,106
Financial and insurance activities	485,077	571,141	455,595	500,174
Real estate and ownership of dwellings	288,031	328,568	264,808	284,517
Professional and business services	339,299	376,731	299,424	329,352
Public administration and defense; compulsory social activities	330,563	354,786	263,985	272,863
Education	202,994	233,506	168,777	187,827
Human health and social work activities	112,318	123,398	91,341	97,140
Other services	94,885	115,061	89,141	105,413
Sum = GDP	**5,662,523**	**6,454,428**	**5,201,501**	**5,577,339**

Source: Philippine Statistics Authority
*Base year 2018

Table 4. Industry Contributions to Philippine GDP Growth, 2021Q4 – 2022Q4

	TRAD GDP Growth PGE* (percent)	GEAD PGE* (percent) (1)	GEAD PCE* (percent) (2)	GEAD GDP Growth PGE* + PCE* (percent) (1) + (2)
GDP Growth	**7.23**	**7.23**	**0.00**	**7.23**
Industry Growth Contribution				
Agriculture	**-0.03**	**-0.03**	**0.50**	**0.47**
Industry	**1.49**	**1.49**	**-0.02**	**1.47**
Mining and quarrying	0.01	0.01	0.27	0.28
Manufacturing	0.85	0.85	0.39	1.24
Electricity, steam, water and waste management	0.16	0.16	-0.24	-0.08
Construction	0.47	0.47	-0.44	0.03
Services	**5.77**	**5.77**	**-0.49**	**5.28**
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.68	1.68	-1.09	0.59
Transportation and storage	0.61	0.61	0.17	0.78
Accommodation and food service activities	0.51	0.51	0.11	0.62
Information and communication	0.20	0.20	-0.45	-0.25
Financial and insurance activities	0.86	0.86	-0.13	0.73
Real estate and ownership of dwellings	0.38	0.38	-0.01	0.37
Professional and business services	0.58	0.58	-0.07	0.50
Public administration and defense; compulsory social activities	0.17	0.17	0.65	0.82
Education	0.37	0.37	0.27	0.63
Human health and social work activities	0.11	0.11	0.18	0.29
Other services	0.31	0.31	-0.12	0.20

Source: DLSU-AKI Philippine Economic Monitor calculations by applying the data in Table 3 to a "generalized exactly additive decomposition" (GEAD) of GDP growth into pure growth effect (PGE*) and price change effect (PCE*) as an alternative to the "traditional" (TRAD) GDP growth decomposition that recognizes PGE* but not PCE*. PGE* is the result of real GDP or "quantity" growth holding relative price (real price) constant and PCE* is the result of "real price" growth holding quantity constant. PCE* measures the change in value of an industry's output when outputs of all industries are converted to the same unit of measure, in terms of the economy's "GDP basket." The GEAD formulas for PGE* and PCE* and the TRAD formula (which equals PGE*) are given, respectively, by equations (39), (40), and (46) in Dumagan, Jesus C. (2018), "Modifying the 'Generalized Exactly Additive Decomposition' of Growth of GDP and Aggregate Labor Productivity in Practice for Consistency with Theory," Working Paper Series No. 2018-07-053, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. The paper by Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," Review of Income and Wealth, 59 (Issue 1): 157-168 decomposed growth of aggregate labor productivity (ALP), which is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth becomes a decomposition of GDP growth into the modified PGE* and PCE* formulas which were implemented in this Table 4.