DLSU REPORT ON THE PHILIPPINE ECONOMY
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Authors: Jesus Felipe, Susan Kurdli, Mariel Monica Sauler,
Gerome Vedeja, Seth Paolo Paden

Deceleration confirmed

We struggled during the first months of the year to publish what our models and indicators of the Philippine economy were pointing out since late last year: a massive growth deceleration as a result of both domestic and international factors, a combination of uncertainty caused by the US tariffs and the corruption scandals, and later compounded by the increase in energy prices. We were holding it, though we advanced last month a war scenario with a growth rate of 3.79%. The economic deterioration is now an open secret. Yes, fuel prices have increased but Q1 growth rate at just 2.81% denotes that our economy is not set for a marathon.

We now project the Philippine economy to grow by 3.11% in 2026 (Table 1), a significant slowdown from the already low 4.4% growth rate of 2025.[1] This is also lower than our April 2026 forecast of 3.79%, revised downward to reflect three converging pressures on the economy: the conflict in the Middle East disrupting the oil supply and pushing energy costs higher, a potential shift toward monetary tightening if inflation persists, and an emerging second-round pass-through from fertilizer costs to food prices. The combination of all three explains why the growth outlook has deteriorated more sharply than previously expected.

The quarterly trajectory tells a sobering story. Growth in the first quarter at 2.81%, was the last reading to reflect pre-shock normalcy: pump prices had not yet reached their peak, the Bangko Sentral ng Pilipinas (BSP) had not yet hiked rates, and fertiliser supplies had not yet begun to tighten. That floor is now behind us. We expect growth to edge slightly lower in the second quarter (2.80%) and dip further in the third quarter (2.30%), when the full effects of the shocks become more pronounced.

Jesus Felipe is Distinguished Professor in the Department of Economics, De La Salle University
Susan Kurdli is Assistant Professor in the Department of Political Science and Development Studies, De La Salle University
Mariel Monica Sauler is Associate Professor in the Department of Economics, De La Salle University
Gerome Vedeja is Lecturer in the Department of Economics, De La Salle University
Seth Paolo Paden is Research Assistant in the Department of Economics, De La Salle University

[1] Forecasts in this monthly report are based on a combination of our High-Frequency Model of the Philippine Economy, and Artificial Intelligence (AI)-driven analyses integrating observable data, news reports, and published analyst assessments. This is our first attempt as part of a transition into implementing machine-learning (ML) based methodologies. Machine learning is the subset of AI focused on algorithms that can "learn" the patterns of training data and, subsequently, make accurate inferences about new data. This pattern recognition ability enables machine learning models to make decisions or predictions without explicit, hard-coded instructions. The central premise of ML is that if the researcher optimizes a model's performance on a dataset of tasks that adequately resembles the real-world problems, it will be used for—through a process called model training —the model can make accurate predictions on the new data it sees in its ultimate use case. Our estimates at this stage are approximations and subject to judgment. Like ML... we are also learning.

Table 1: Year-on-Year Growth Rates (%)
Actual (2025) and Forecasts (Q1-Q4 2026, 2027-2028)

	2025[a]	2026				2026	2027	2028
		Q1[a]	Q2	Q3	Q4			
GDP	4.4	2.8	2.80	2.30	4.53	**3.11**	3.93	5.71
Private Consumption	4.6	3.0	5.50	5.18	5.96	**4.93**	3.61	4.66
Government Expenditure	9.1	4.8	5.00	4.50	6.50	**4.89**	4.88	6.60
Gross Fixed Capital	0.5	-2.7	-1.50	-2.50	2.00	**-1.99**	2.88	7.62
Exports	8.1	7.8	3.00	1.80	3.50	**4.51**	5.62	6.47
Imports	5.1	6.1	6.00	5.00	5.50	**5.62**	4.33	5.85
Agriculture	3.1	-0.2	0.50	-0.50	1.20	**0.20**	1.52	2.70
Industry	1.5	-0.1	1.00	0.30	4.00	**1.24**	3.50	5.62
Service	5.9	4.5	3.98	3.64	5.26	**4.38**	4.48	6.19

Source: Philippine Statistics Authority (actual) DLSU High-Frequency Model of the Philippine Economy (forecasts), and Artificial Intelligence models. See Footnote 1.

Notes:

(i) a — Actual values (Philippine Statistics Authority)

(ii) Forecasts generated by the DLSU High-Frequency Model of the Philippine Economy are based on the Seasonally-Adjusted National Accounts.

The fourth quarter (4.53%) shows a meaningful recovery, anchored by government catch-up spending, the seasonal surge in OFW remittances, and the early stirrings of investment recovery (if geopolitical pressures eventually ease).

With no end to the war in sight, we expect the Philippine economy to grow well below its potential for the remainder of 2026, even with the government's modest toolkit of fuel excise suspensions and targeted subsidies. The conflict has exposed the Philippines' structural vulnerabilities: an economy that has very few levers with which to respond to a near-total dependence on imported petroleum, to a food supply that is acutely sensitive to fertilizer costs and changing weather conditions, and to an investment base that was already fragile (due to economic pessimism induced by domestic political issues) before the external shock arrived. These are not new problems. The war simply made them impossible to ignore. We have claimed for years that the structure of our economy does not allow us to grow faster and that it is vulnerable to shocks. Our forthcoming book elaborates on this.[2]

Medium-term growth is expected to recover. We forecast growth to improve to **3.93%** in **2027** and **5.71%** in **2028**. The 2027 figure reflects a gradual normalization as energy prices ease, agricultural supply chains restore, and BSP begins pivoting toward accommodation. The 2028 forecast is considerably stronger, powered by the expected frontloading of election-year fiscal expenditures, the ramp-up of the Pax Silica semiconductor industrial hub, and the fuller transmission of monetary easing into investment and consumption. Nevertheless, both years remain below the government's targets (5.5-6.5% for 2027 and 6.0-7.0% for 2028).

[2] The Philippine Economy Toward 2050: Economic Structure and Monetary Reality. 2026 (Felipe, J., Sauler, M.M., Cabuay, C., Sobreviñas, A. Perez, J., Aragones, M., Largoza, G.). Taylor and Francis. Forthcoming.

Private consumption

Household final consumption is projected to grow **4.93%** in full-year 2026, a slight improvement over the 4.6% recorded in 2025. The quarterly trajectory, however, reveals a more nuanced picture. Growth accelerates from 3.08% in Q1 to 5.50% in Q2, before moderating to 5.18% in Q3 and reaching 5.96% in Q4.

Remittances may be providing an important buffer. Cash remittances rose 3.5% year-on-year to $3.02 billion in January 2026, with the January–February cumulative total at $5.81 billion, potentially providing a steady stream of income for the most vulnerable households to the effects of rising food and fuel prices. The BSP Consumer Expectations Survey, however, tells a cautionary tale: 56–57% of households reported being in saving mode as of the survey period. With this reading lying above pre-pandemic levels, this is the clearest behavioural signal that consumption is contracting in real terms, even if nominal spending remains elevated.

On the negative side, fuel prices have more than doubled since the onset of the crisis, imposing a severe cost-of-living squeeze on transport-dependent households. The government's fuel excise suspension under Republic Act No. 12316 targeted liquefied petroleum gas and kerosene. This measure provided meaningful relief for the poorest households, but did little to offset the broader erosion of purchasing power from diesel and gasoline prices. The four-day government workweek, introduced as an energy conservation measure, suppressed demand for commuting, food service, and retail services. Wholesale rice prices rose 4.2% nationally, adding to the mounting pressure on food expenditure.

We expect growth in private consumption to slow to **3.61%** in **2027** as the expected BSP rate hikes tighten consumer credit. Recovery is expected to follow in 2028, with growth rebounding to **4.66%** as eventual monetary easing restores credit conditions and election-year cash transfer programmes lift disposable incomes.

Government expenditure

Government spending is forecast to grow **4.89%** in 2026, with a quarterly profile that is notably backloaded: 3.56% in Q1, 5.00% in Q2, 4.50% in Q3, and 6.50% in Q4.

Primary government spending collapsed by 40% in January-February 2026, a result of the flood-control corruption scandal that disrupted public procurement processes. The Department of Budget and Management also subsequently ordered a 20% reduction in non-essential expenditures, expected to generate savings of between ₱12.8 billion and ₱25.6 billion. The budget allotment release pace slowed to 63.5% of authorised allotments as of end-February (against 67% in the same period of 2025).

It is important to note that government spending is shielded from rising oil prices and higher interest rates, making the resumption of stalled infrastructure projects a reliable avenue to keep growth on track in the second half of 2026. The current bias toward fiscal caution is simply counterproductive. The DBM's cut in non-essential government spending and the slow release of allotments may appear prudent on paper but, in practice, it is withdrawing demand from an economy that is already under heavy external pressure. In an economic environment facing a war-driven supply shock, the government should not tighten spending and instead direct support toward energy assistance, food subsidies, public transport support, and accelerated infrastructure projects that puts money

directly into the hands of workers and households that need it the most. Now is not the right time for "fiscal consolidation."

The medium-term path shows a deceleration to **4.88%** in **2027** before recovering to **6.60%** in **2028**. The 2028 acceleration is consistent with the expectation that election-year fiscal pressures will translate into disbursement acceleration ahead of the May 2028 midterm elections.

Gross fixed capital formation

Gross fixed capital formation is undeniably the most troubled component of the 2026 outlook—and arguably the most consequential signal for the medium-term growth trajectory. The PSA confirms that capital formation contracted (–5.97%) in Q1. The year-on-year contraction moderates in Q2 (−1.50%) and Q3 (−2.50%), before turning marginally positive in Q4 (2.00%). The full-year average of **−1.99%** represents the first annual contraction in fixed capital formation since the pandemic. The signals driving this outcome are mutually reinforcing and unlikely to resolve quickly. Government disbursements remained steady, though some project delays from the flood-control scandal weighed on the pipeline. Private investment, however, contracted sharply. Weak FDI, tightening credit conditions, the anticipated shift in BSP policy, and elevated risk aversion all drove a pause in private sector construction, equipment purchases, and foreign capital commitments. FDI net inflows fell to a five-year low of $7.791 billion in 2025, down 17.1% from 2024, leaving the investment pipeline entering the shock period in an already depleted state. Bank loan growth slowed to a 23-month low of 9.3%, and the BSP credit access index stood at −4.0% in February 2026 even before the rate hike cycle began. The April 24 hike to 4.50% (and the prospect of further hikes to 5.00% by August) raises the effective cost of long-term project finance at a time when business confidence is most fragile.

We project growth increasing to **2.88%** in **2027** as the BSP pivots toward accommodation, Pax Silica construction commitments begin to materialize, and private sector confidence improves. The **2028** figure of **7.62%** reflects a more substantial acceleration as the semiconductor industrial hub reaches full construction phase, election-year infrastructure spending provides a tailwind to private capital expenditure, and FDI inflows begin to normalize. The sustainability of this recovery will depend critically on how the BSP manages its policy rate in response to inflation, and whether geopolitical conditions permit the Pax Silica commitments to proceed to full implementation.

Exports

Export growth for full-year 2026 is projected at **4.51%**, a notable deceleration from the 8.1% recorded in 2025. The actual Q1 reading (7.80%) reflects a frontloading of semiconductor and electronics orders ahead of the enforcement of the United States' 15% tariff on Philippine goods following the US Supreme Court ruling. The quarterly path that follows tells the rest of the story: Q2 decelerates sharply to 3.00%, Q3 slides further to 1.80%, and Q4 recovers moderately to 3.50%.

The structural anchor for Philippine exports is well-established and remains intact. Electronic products exports grew 21.6% year-on-year in January 2026 and accounted for 56.5% of total merchandise exports. BPO and IT-BPM service exports, at approximately $35 billion annually, are largely insulated from the tariffs (which apply to goods).

Several risks, however, persist in the near term. Diesel supply constraints threaten port operations and freight logistics. And while the peso's depreciation to a historic low of ₱61.30 provides some price competitiveness, the gains are partially offset by the higher cost of imported intermediate inputs, particularly in electronics assembly (see below).

Medium-term export growth is forecast to recover to **5.62%** in **2027** and **6.47%** in **2028**, as global AI-related semiconductor demand remains strong, and the Pax Silica hub begins adding production capacity.

Imports

Full-year import growth for 2026 is projected at **5.62%**, modestly above the 5.1% recorded in 2025. The quarterly path accelerates from 5.96% in Q1 to 6.00% in Q2, before moderating to 5.00% in Q3 and 5.50% in Q4.

Underlying these figures is the Philippines' most acute vulnerability: the country imports over 90% of its petroleum requirements and lacks a large-scale strategic oil reserve. As a result, global oil price increases directly raise the nominal value of energy imports, transmitting broadly across the economy and affecting transport and manufacturing costs, logistics, and agricultural production.

Medium-term import growth is expected to moderate as oil prices normalise, falling to **4.33%** in **2027** and recovering to **5.85%** in **2028** as the investment boom pulls in capital goods.

Agriculture, forestry, and fishing

Agriculture is forecast to grow a modest **0.20%** in full-year 2026, a pronounced retreat from the 3.1% recorded in 2025. The quarterly profile is sharply non-linear: −0.41% in Q1 (PSA actual), recovering to 0.50% in Q2, contracting again to −0.50% in Q3, and recovering modestly to 1.20% in Q4. The Q3 contraction is not incidental. It is the agricultural manifestation of the Hormuz fertiliser shock, the most consequential lagged effect currently not yet visible in the data.

Medium-term recovery is projected at **1.52%** in **2027** and **2.70%** in **2028**, contingent on fertilizer supply restoration and the government's willingness to legislate rice tariff reductions to buffer food prices.

Industry

Industry is forecast to grow **1.24%** in full-year 2026, essentially flat against the 1.5% recorded in 2025. The quarterly path moves from contraction in Q1 (−0.33%) to marginal growth in Q2 (1.00%) before compressing again to 0.30% in Q3 and recovering sharply to 4.00% in Q4.

This pattern within the year reflects the interaction of three forces: the oil cost shock on energy-intensive manufacturing, the credit tightening cycle's impact on construction, and the delayed recovery of public infrastructure expenditure in Q4.

Medium-term recovery is projected at **3.50%** in **2027** and **5.62%** in **2028** as construction activity accelerates, energy costs normalise, and semiconductor manufacturing capacity expands under the Pax Silica framework.

Services

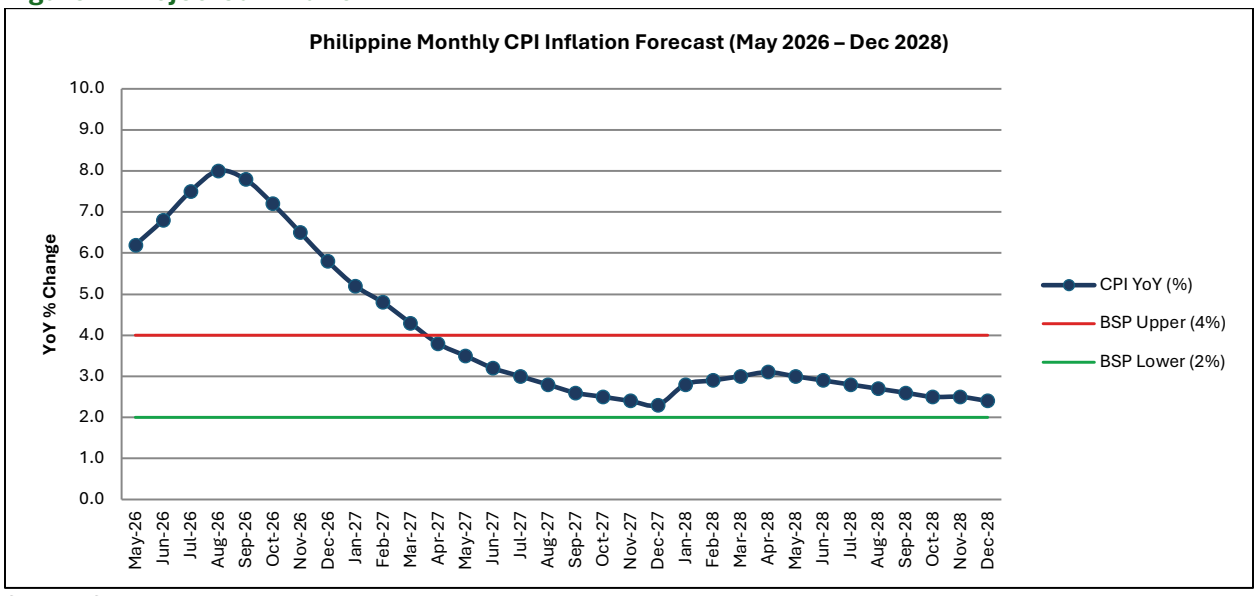
The services sector remains the economy's principal growth engine on the supply side, projected to expand **4.38%** in full-year 2026. However, this figure is below the 5.9% recorded in 2025. The Q1 PSA actual of 4.5% confirmed that BPO/IT-BPM services, financial intermediation, and public administration were holding the economy together while agriculture and industry contracted. The quarterly path that follows shows a mid-year deceleration: Q2 at 3.98%, Q3 at 3.64%, before recovering to 5.26% in Q4.

Medium-term services growth is projected at **4.48%** in **2027** and **6.19%** in **2028**, as BPO revenues approach $40 billion, real estate pre-selling normalises, and the broader consumer recovery eventually translates into sustained retail and transport demand.

Inflation

The increase in the consumer price index is being driven first and foremost by fuel, as fuel costs feed into transport, logistics, and production. Fuel costs have more than doubled since the war began, pushing inflation sharply higher from May through August 2026. We expect inflation to peak at around 8.0% in August. Even as oil prices begin to ease, the Hormuz disruption has cut off roughly a third of global fertilizer supply. This will keep inflation elevated through the end of 2026. By early 2027, both pressures will begin to fade and we expect inflation to be within the BSP's 2-4% band by April 2027, and to settle to around 2.8% for 2028 – low enough to support the expected economic growth of around 5.7%. See Figure 1.

Figure 1. Projected Inflation



Source: See Footnote 1.

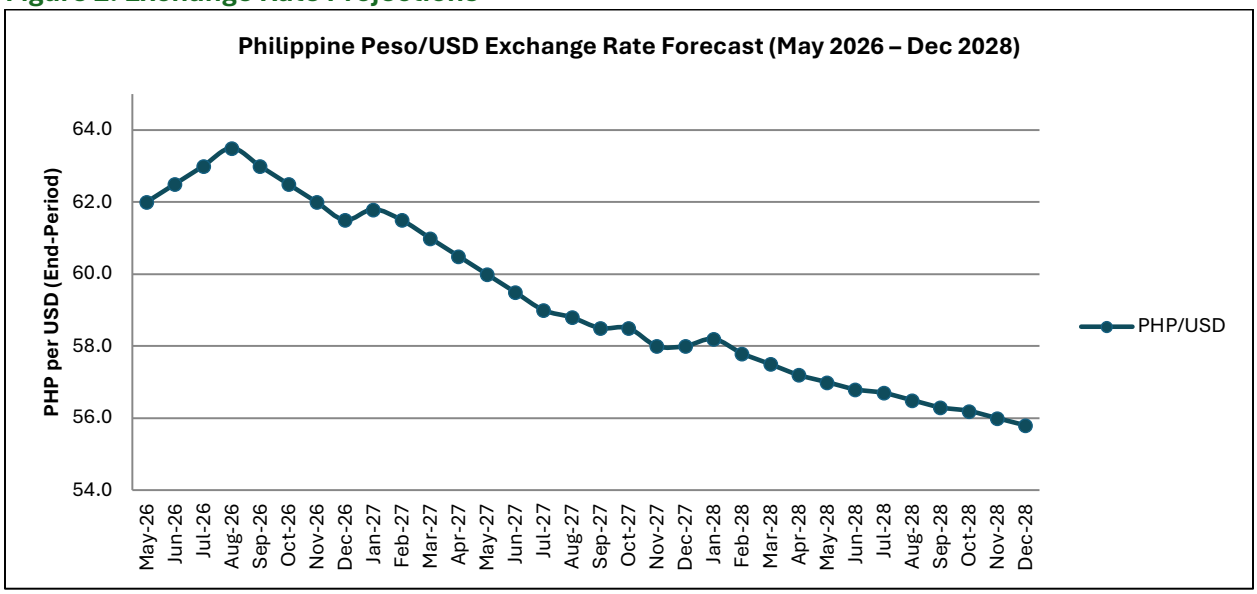
There is an important caveat. The current increase in prices is not being caused by an overheating economy. It is a supply shock, driven by a war that has disrupted global energy and food markets. Raising interest rates may be the standard tool for demand-driven inflation, but it is an imperfect instrument in the current situation. Higher interest rates will neither bring oil prices down nor reopen the Strait of Hormuz. What they will do is make borrowing more expensive, slow investment, and

constrict household spending. Perhaps the government should look into supply-side interventions instead of demand-side contraction. How inflation is managed, how aggressively the BSP tightens, and whether the government steps in with fiscal tools to manage the inflationary effects of the rising fuel and food costs, may matter just as much as the inflation numbers themselves.

Exchange Rate

We expect the peso to depreciate further in 2026, driven by rising oil import costs and negative real interest rates, reaching its weakest point of around PHP 63.5 to the dollar in August. As inflation eases and the BSP shifts to monetary easing in 2027, positive real rates return and portfolio inflows will recover. In 2028, the peso is expected to return to PHP 55.8 by year-end. See Figure 2.

Figure 2. Exchange Rate Projections

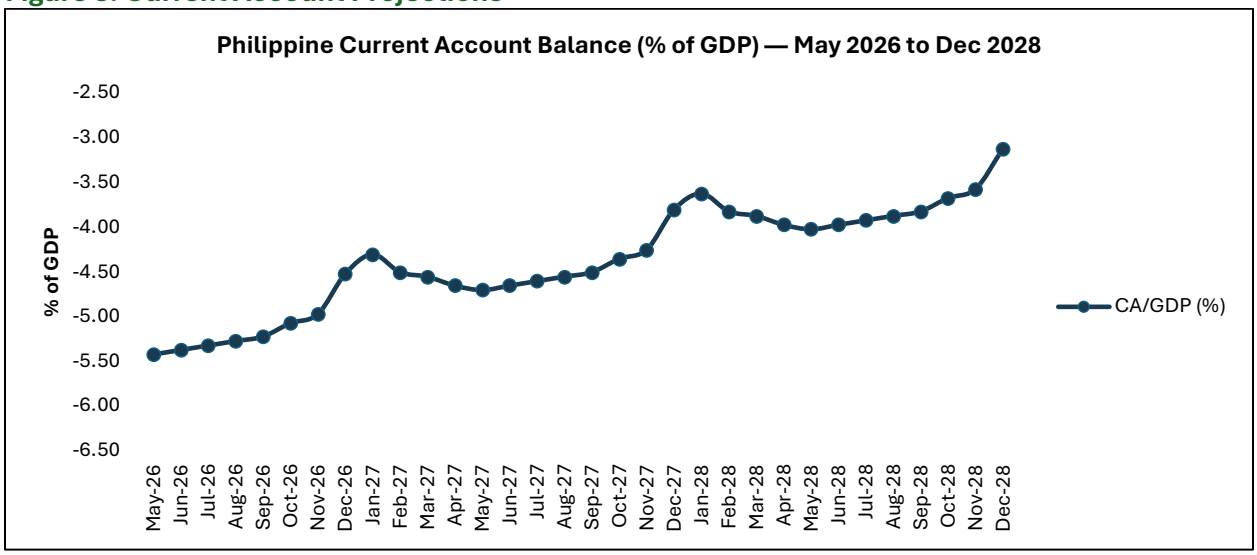


Source: See Footnote 1.

Current Account Deficit-to-GDP Ratio

The current account deficit widens sharply to -5.17% of GDP in 2026, driven primarily by the oil shock — with the Philippines importing virtually all of its petroleum and Brent crude above $110 per barrel, the trade deficit surges. A weakening peso compounds the problem by shrinking the dollar value of the economy, worsening the ratio further. By 2027, the deficit narrows to -4.45% as growth recovers, the peso stabilises, and BPO receipts grow. By 2028, it narrows further to -3.77% as strong real growth of 5.71%, an appreciating peso, and BPO revenues approaching $40 billion absorb the still-widening trade deficit in absolute terms. The trajectory is one of acute external stress in 2026, followed by a gradual but steady recovery in the Philippines' external position through 2027 and 2028. See Figure 3.

Figure 3. Current Account Projections



Source: See Footnote 1.

Will the peso depreciation benefit the Philippine economy?

Summary: In recent months, the PHP/USD exchange rate breached the psychological barrier of 60. A slow depreciation started with the corruption cases last year. This accelerated as a result of the increase in energy prices prompted by the US-Israel war against Iran. This note clarifies the possible effect of the depreciation on the trade balance. Under Dominant Currency Pricing (international trade set in USD), the possible impact of a peso depreciation on the Philippine trade balance will be negative in the short run. This is because the quantity of exports will not change and prices are set in USD, while the depreciation is passed on immediately to the price of imports in peso. The depreciation may have a positive effect in the medium and long term, depending on exporters and importers reactions, on whether contracts may be renegotiated, and on shifts in the sourcing patterns. In general, depreciations only work as a mechanism to improve the trade balance if these are continuous in successive periods. Moreover, we have always advocated upgrading and diversifying our export basket, and moving in the direction of exporting products with a higher income elasticity of demand for exports and more complex (i.e., higher quality, more attractive in foreign markets, more knowledge intensive). This is what all successful economies have done.

Let's start by clarifying that Philippine exports and imports are priced in US dollars. This is known as Dominant Currency Pricing (DCP). However, even if they are priced in USD, the USD/PHP exchange rate still matters through several channels.

In the case of exports, a peso depreciation has the following effects on a firm:
(i) Peso revenues. If the peso depreciates (weakens): (i) Each USD of export revenue converts into more pesos; and (ii) Profitability increases.

(ii) Competitiveness (even with dollar pricing): Even if prices are sticky in USD, a depreciation allows firms to: (i) cut USD prices and this way gain market share; or (ii) keep USD prices constant and earn higher margins. Either way, competitiveness is affected.

(iii) Import content of exports: Philippine exports (electronics, GVCs) use imported inputs. If the peso depreciates, imported inputs become more expensive in pesos, and this can offset the gain from higher export revenues. The net effect depends on import intensity. We elaborate on this below.

At the macroeconomic level, the exchange rate affects: (i) inflation (import prices); (ii) interest rates; and (iii) aggregate demand. These feed back into export performance indirectly.

The bottom line is that while Philippine exports are largely invoiced in USD, the exchange rate is relevant. As summarized above, the exchange rate matters especially for: (i) profitability (very strong effect); (ii) competitiveness (medium effect); and (iii) volumes (depends on pricing behavior and time horizon)

What happens with imports? If imports are priced in USD and the Peso depreciates (weakens), then imports become more expensive in pesos. This is a direct, mechanical effect—no behavioral assumptions needed. But the exchange rate matters more in the case of imports through three channels:

(i) Direct pass-through to domestic prices. Import prices in pesos move almost one-for-one with the exchange rate (at least initially): (i) oil, machinery, intermediate goods: all become more expensive with depreciation; (ii) this feeds into inflation (very relevant for the Philippines).

(ii) Demand for imports. Higher peso prices imply lower demand (a depreciation reduces import volumes). This is the classic expenditure-switching effect.

(iii) Production costs (critical for the Philippines). Many imports are inputs, not final goods: (a) a depreciation raises cost of production; (b) this can: -reduce output -offset export gains (as noted earlier).

Summing up:

	Exports (USD pricing)	**Imports (USD pricing)**
Price in Pesos	Indirect (via conversion of revenue)	Direct (immediate increase)
Effect on Firms	Profitability channel	Cost channel
Pass-Through	Often incomplete (sticky US prices)	Often high/fast

The overall effect under Dominant Currency Pricing

There is a well-known result in international economics, known as the Marshall-Lerner (ML) condition that states that a depreciation will have a positive impact on the nation's trade balance provided the sum (in absolute terms) of the exchange rate elasticities of exports and imports is greater than 1, i.e., trade volumes (exports and imports) must respond strongly enough to relative price changes.

In the standard story, a depreciation makes exports cheaper in foreign currency, and makes imports more expensive in domestic currency. So, export volumes rise, import volumes fall, and the trade

balance improves, provided demand elasticities are large enough. This is the spirit of the ML condition.

Under dominant currency pricing, the result is slightly different. If prices are fully fixed in USD, and firms do not adjust quantities, then exchange rate effects on export volumes can be muted in the short run.[3]

Indeed, if Philippine exports are invoiced in USD, a peso depreciation does not immediately reduce the foreign-currency price faced by foreign buyers. Why? Because the export price is already fixed in dollars. This means that in the short run:

- the foreign buyer still sees roughly the same dollar price
- export demand may therefore respond little or not at all
- Philippine exporters receive more pesos per dollar, so margins rise
- but export quantities may not increase much right away

For imports, things are different. In this case:

- if imports are also priced in USD, then a peso depreciation immediately raises their peso price
- domestic buyers face higher import prices at once
- import compression may therefore be stronger than export expansion, at least initially

Under dominant currency pricing, the exchange rate has an overall smaller expenditure-switching effect than that in the textbook model. This is because there is no expenditure switching abroad (in the short run). This happens only at home: import prices in dollars may not change but the depreciation raises import prices in pesos so domestic consumers and firms face higher prices for foreign goods Therefore, they substitute away from imports toward domestic goods (imperfectly). Even at home, switching may be partial (due to lack of substitutes, GVCs, contracts) and slow (adjustment costs, inventories, input rigidities). So, even the "home" channel is often weak in practice.

On the other hand, foreign buyers pay in USD and see no change in export prices. Therefore, no substitution toward Philippine goods and export demand is unchanged (short run).

So, the short-run effect of depreciation tends to be:

- stronger on import prices
- weaker on export volumes
- more inflationary
- less expansionary for net exports than the textbook case

This discussion is especially relevant for the Philippines because its exports have substantial imported-input content, especially in electronics and other GVC-related activities. So, when the peso depreciates, exporters earn more pesos per dollar of sales, but imported components, energy, machinery, and other inputs also become more expensive in pesos. Hence the gain in competitiveness can be partly or even largely offset by higher imported input costs. That means depreciation may:

[3] Gopinath, G., Boz, E., Casas, C., Díez, F. J., Gourinchas, P.-O., & Plagborg-Møller, M. (2020). *American Economic Review*, 110(3): 677–719).

- improve exporters' peso revenues
- worsen production costs
- raise domestic inflation
- have only a modest effect on export volumes

The horizon matters:
(i) Short run with prices sticky in dollars:
- export quantities respond little
- import prices in pesos rise quickly
- trade balance improvement is uncertain and may be small
- inflationary effects can dominate

(ii) Long run: over time, firms may adjust:
- exporters may cut dollar prices to gain market share
- buyers may substitute away from imports
- contracts may be renegotiated
- sourcing patterns may shift
- exporters and importers may become more productive

This means that the exchange rate can matter more in the medium run than in the very short run.

Summing up: Under dominant-currency pricing, depreciation changes the prices relevant for trade demand immediately. Under dominant currency pricing, depreciation mostly changes:
- firms' peso revenues
- firms' peso costs
- domestic inflation

For a long time, we have argued that this (currency depreciation) is not a sensible development strategy. Development entails changing what countries produce and export in the direction of products with a higher income elasticity of demand and more complex, i.e., more attractive in foreign markets —quality, uniqueness, reliability.

The effect of the high import content
Start by noting that:

$$Value\ of\ Exports = Imported\ inputs + Domestic\ value\ added$$

Philippine exports (especially electronics, GVCs) have high import content. This means that when the peso depreciates, export revenue (in pesos) increases but imported inputs also become more expensive (in pesos). These two effects work in opposite directions.
Let the export value X^N be:

$$X^N = P_x X$$

where P_x is the export price and X is the quantity of exports. Suppose production uses imported inputs M^I. Then profits in pesos are roughly:

$$\Pi = E \cdot X^N - E \cdot M^I - \text{domestic costs}$$

E is the exchange rate. What is the effect of depreciation (i.e., E increases)?

(i) Positive effect
- $E \cdot X^N$ increases: export revenue rises in pesos

(ii) Negative effect
- $E \cdot M^I$ increases: imported inputs become more expensive

The crucial parameter is the import intensity θ:

$$\theta = \frac{\text{imported inputs}}{\text{export value}}$$

If:
- θ is low: depreciation helps exporters
- θ is high: depreciation can hurt

As we have already mentioned, under Dominant Currency Pricing, export quantities do not increase much (and may even fall), so no strong demand-side boost. With a high import content, costs rise significantly. So, we get:
- little increase in export volumes
- higher input costs
- possible reduction in production

Think of semiconductor assembly, with components imported in USD and final goods exported in USD. A peso depreciation has the following effects:
- imported chips: more expensive in pesos
- export price (USD): unchanged
- foreign demand: unchanged

The firm's margin may improve slightly or stay unchanged, or even worsen if the import content is very high. Moreover, production may not expand.

The aggregate implication is that instead of exports increasing and imports decreasing, we may get exports approximately flat and a decrease in imports due to domestic contraction. And any trade balance improvement (if any) would come from compression of imports, not export expansion. Moreover, an extremer result if that if imported inputs are essential, higher costs will lower output and a lower output will lower exports. So, depreciation can be contractionary for exports.

Summing up: In an economy like the Philippines, where international trade operates in USD and where key sectors have a significant import content, a depreciation does not strongly boost exports, it raises production costs (import content), and may reduce output. Also, the depreciation is most likely inflationary and contractionary, not expansionary: (i) Export prices in dollars don't change, hence no volume response; (ii) Import prices in pesos jump immediately, which leads to a higher import bill.

The key lessons with dominant currency pricing:
- depreciation has a strong effect on peso revenues and peso costs

- but a weaker short-run effect on export volumes
- so, the usual textbook boost to net exports is smaller than many people expect
- there could be an adjustment in the medium term with the quantity exports increasing and that of imports decreasing

To the above, we must add that that a once-and-for-all depreciation will not improve the trade balance permanently. After the initial depreciation, if the exchange rate remains, the trade balance would revert to its former level. To improve the trade balance permanently would require continuous depreciations in successive periods.

Ripples of War: Food Insecurity in the Philippines in the Aftermath of the US-Israel War in the Middle East

Food security can be understood as physical and financial access to the quality and quantity of food required for a healthy life. The significance of food security is acknowledged by a number of Asian countries, such as Thailand and Indonesia, which treat food security as a critical component of national security. The Philippines, however, remains particularly vulnerable to food insecurity due to a number of reasons, including geography, climate change, and dependency on imports, among other factors. As a result, any disruptions on global supply chains directly impact accessibility and availability of food.

It was estimated that in 2024 about 51 million Filipinos, equal to 44% of the population, could not afford a nutritious diet. As mentioned above, this is exacerbated by geopolitical instability. Francisco P. Tiu Laurel Jr., Secretary of Agriculture, recently stated that the war in the Middle East has added pressure on food security causing a rise in food prices because of disruptions in oil, gas and fertilizer supplies.

The Philippines is a net food importer with agricultural imports estimated at USD 20.37 billion in 2025 (in comparison to agricultural exports of USD 9.25 billion in the same year), making up 15.2% of total imports. Top imported products include food staples such as cereals. Other food staples that the country imports include rice and virtually all of its dairy.

Imports mainly come from the US, China, Indonesia, Thailand and Singapore. Rise in oil prices, and subsequent transportation costs, in addition to vulnerability of shipping routes result in delays and higher prices of food.

It is estimated that for 2026, disruptions in global supply chains, in addition to extreme weather conditions, could result in rice imports reaching a high of 5.5-6 million metric tons, assuming domestic production reaches 17-18 million metric tons. Lack of buffer stock systems means that any disruption to supply chains directly impacts the supply and price of this food staple in the Philippines. Rice makes up about 40% of caloric intake in the Philippines. The country is particularly vulnerable should Vietnam, from which it imports about 80-90% of the rice, be also hit by an expected Super El Niño this year (Mendoza, 2026).[4] While the National Food Authority maintains

[4] Mendoza, T. 2026. Super El Niño, global shocks and PH's rising rice import risk. https://newsinfo.inquirer.net/2217692/super-el-nino-global-shocks-and-the-philippines-rice-import-outlook

buffer stocks of rice sufficient for 7-15 days of consumption, it is significantly lower than the suggested 30-day stock.

Food security, however, cannot be addressed through the supply side alone. If prices continue rising, the necessary amount and quality of food become inaccessible to many households, especially for those on the threshold of food insecurity. In an April report, the Philippine Statistics Authority (PSA) reported that inflation jumped to 4.1% in March 2026, almost twice the rate of 2.4% in February 2026. The rise in inflation is driven by the rise of transport prices by 9.9% and food and beverage prices by 3%. Food is particularly hit by the rise in prices, with an increase in March estimated at 2.8% from 1.6% in February 2026. This is primarily driven by the rise in the rice index by 3.6%. Many Filipinos are already feeling the pinch as a recent survey conducted in March 2026 indicated that increasing prices was a top national concern shared by all socioeconomic groups, followed closely by concerns over income levels. Accessibility of food was also one of the top national and personal concerns. About 46% of the respondents answered that having sufficient food on a daily basis is a top personal concern.

The Department of Agriculture (DA) has acknowledged the inflationary pressures and stated that it was monitoring prices. However, increased geopolitical instability and the ensuing disruption to global supply chains requires a more proactive government that goes beyond monitoring and assessing, including increasing the buffer stocks of rice and elevating food security to the level of other types of national security threats.