DLSU REPORT ON THE PHILIPPINE ECONOMY
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"Today is an ever-moving break between the irrevocable past and the unknown future"
Joan Robinson

An economy that has run out of gasoline

Given the very high uncertainty derived from the war on Iran, we have decided to maintain our previous forecast (see March report) until the situation settles, with an expected growth rate for 2026 at 4.19%. In a matter of days, we have gone from the rhetoric of destroying a civilization to agreeing an unclear two-week ceasefire and the opening of the Hormuz Strait. Let's see how these two coming weeks pass by and what happens afterwards.

This deserves two comments. First, even in case the war ends soon (and we would have to see what this means in practice), Philippine growth would not be much higher than that attained in recent quarters and years during this administration. Hence, our cautious standby at 4.2% one more month. We have argued since 2022 that the Philippine economy is not built to grow above 6% (its potential). The data have proven us correct. Now, the corruption scandal (is it history?) and the Middle East war *cum* energy shock, will linger for some time and will make achieving higher growth (significantly above 6%) a chimera. In our view, the Philippine economy has "run out of gasoline" to achieve the promised growth rates of 6.5% and above (adjusted downward several times). It is a weak and vulnerable economy that catches a cold easily and has problems recovering. Moreover, we just read that the government congratulated itself for reducing the fiscal deficit in February. This continues showing poor understanding that a fiscal deficit is, peso for peso, a surplus of the private sector, and that an economy with a current account deficit needs a fiscal deficit for the private sector to be able to run a surplus. Otherwise, the latter will run a deficit and this is what will cause a financial crisis. A government deficit is an injection into the economy, not a sin of a sign of inefficiency.

We do certainly acknowledge the dilemma caused by the corruption scandals, and agree that unprogrammed appropriations in recent national budgets pose serious risks to fiscal discipline, transparency, and development goals. Yes, that this problem needs to be tackled does not undermine the importance of understanding that government spending needs to increase and that the Philippine economy needs to run a fiscal deficit.

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The War Scenario

The second comment is that if the war continues in some form for a prolonged period of time (e.g., as in the case of Ukraine-Russia) and it is "internalized" (i.e., we learn to live with it), with the consequent global political and economic uncertainty and its succeeding effects on oil supply and prices, our model indicates that 2026 growth could drop to 3.79%. This scenario maintains the lingering effects of the corruption scandal, the discussions of which seem to have taken a backseat since the US-Iran war started.

This projection is shown in Table 1. If it materializes, it would represent a significant deceleration with respect to the already low growth rate of 2025 (4.4%), and with respect to the no-war forecast (4.19%). We insist that if the war continues, the Philippine economy (already beset by corruption-induced pessimism and weak capital formation) will remain sluggish—even with Iran guaranteeing safe passage for Philippine vessels along the Strait of Hormuz.

Medium-term growth is predicted to improve slightly. We forecast growth to hit 4.23% in 2027 and 4.17% in 2028. Both figures remain substantially below the government's growth targets of 5.5-6.5%. This estimate seems to point to a prolonged period of subdued capital formation that constrains potential growth well beyond the immediate crisis.

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

	2025[a]	2026				2026	2027	2028
		Q1	Q2	Q3	Q4			
GDP	4.4	**2.69**	**3.47**	**4.06**	**4.93**	**3.79**	**4.23**	**4.17**
Private Consumption	4.6	4.59	4.57	5.57	7.40	**5.54**	**6.02**	**5.41**
Government Expenditure	9.1	5.79	9.23	11.44	13.72	**10.02**	**13.30**	**12.17**
Gross Fixed Capital	0.5	-8.19	-6.94	-6.49	-6.60	**-7.07**	**-8.08**	**-7.31**
Exports	8.1	13.18	16.33	16.56	13.18	**14.79**	**9.97**	**11.99**
Imports	5.1	7.16	11.73	13.72	13.48	**11.45**	**9.33**	**10.77**
Agriculture	3.1	0.10	(0.26)	0.03	0.48	**0.08**	**0.82**	**0.40**
Industry	1.5	(0.52)	0.70	2.38	3.36	**1.47**	**1.55**	**0.82**
Service	5.9	4.48	5.18	5.29	6.14	**5.28**	**5.78**	**5.97**

Source: Philippine Statistics Authority (actual), DLSU High-Frequency Model of the Philippine Economy (forecasts)
Notes:

(i) a — Actual values (Philippine Statistics Authority)
(ii) The forecasts generated by the DLSU High-Frequency Model of the Philippine Economy are based on the Seasonally-Adjusted National Accounts.

The Philippine High Frequency Model of De La Salle University (DLSU) generates monthly and quarterly forecasts of the Quarterly National Accounts, reported by the Philippine Statistics Authority. The model uses Quarterly National Accounts and over 50 monthly indicators. The process involves pooling the indicators into factors used for predicting both the National Accounts and the indicators themselves. The predicted values of the National Accounts undergo disaggregation and benchmarking to obtain the forecasts. This report presents the actual and forecast year-on-year (y-o-y) and quarter-on-quarter (q-o-q) percentage changes of the National Accounts, and y-o-y growth rates of the indicators, based on the latest available information.

To justify this grey scenario, we note that several headwinds remain:

i. Unemployment climbed to 5.8% in January 2026, the highest since June 2022.
ii. Pump prices have jumped up by PHP 43.50 a liter for gasoline, PHP 67.35 per liter for diesel and PHP 70.90 per liter for kerosene, imposing a severe cost-of-living squeeze on transport-dependent households. Higher fuel costs will erode household purchasing power and weigh on growth, while government measures to curb energy consumption — including a four-day workweek for public sector workers — will add further to this drag.
iii. The Meralco electricity rate increased to PHP 13.8161/kWh. Elevated energy prices amid the war will likely weaken consumers' purchasing power. This has already fed through to higher domestic energy prices, with diesel and gasoline prices rising by around 80% and 50% respectively, compared with pre-conflict levels.
iv. Wholesale rice prices also rose by 4.2% nationally. All these factors contribute to the erosion of households' purchasing power.
v. Subdued government capex (capital expenditures).
vi. Government spending fell year-on-year for a sixth straight month in January.
vii. The Philippines, a net importer of oil, sources most of its supply from the Middle East, making the country vulnerable to swings in global oil prices
viii. President Ferdinand R. Marcos, Jr. placed the Philippines under a state of national energy emergency for a year amid concerns over the country's energy supply. Mr. Marcos also signed into law a measure temporarily authorizing the Executive department to suspend or reduce the excise tax on petroleum products. On this positive side, the Department of Foreign Affairs said recently that it has secured a deal with Iran, allowing Philippine-flagged vessels shipments and seafarers safe passage through the Strait of Hormuz.
ix. Banana and pineapple export routes to the Middle East are currently threatened by the war. The diesel supply constraints could eventually disrupt export logistics, particularly port operations and freight transport. And while the continued depreciation of the Philippine peso to a historic low of PHP60 provides some boost on export competitiveness, such gains may be partially offset by higher costs of imported intermediate inputs used in export production (especially in electronics).
x. The Bangko Sentral ng Pilipinas (BSP) stood pat in an off-cycle meeting last month as it noted that inflation may breach its 2%-4% target. The central bank's benchmark rate currently stands at an over three-year low of 4.25%, following 225 basis points (bps) in total cuts since August 2024. The BSP's easing cycle may have possibly hit a dead end, with no room for any further reductions at least until yearend. The possibility of a rate increase is high. Yet, our bet is that there will be no additional easing in 2026.

Recent data shows inflation surging to 4.1% in March 2026, crossing the upper bound for the first time since July 2024. Our forecasts under this scenario suggest the inflation rate will hover near or above the upper bound of the target band through the end of the year, pushed by a set of risks that are unlikely to disappear any time soon. Any further disruptions to the supply of oil would push global energy prices higher and domestic prices would likely follow suit. In other words, even if global conditions calm down, inflation could remain elevated well into the second half of the year. The Philippine economy may start showing symptoms of stagflation.

We emphasize that gross fixed capital formation would remain the most troubled component of demand, projected in this scenario to contract 7.07% in 2026 after growing just 0.5% in 2025. While the pace of decline is expected to moderate in the first three quarters (Q1 at -8.19%, Q2 at -6.94%, and Q3 at -6.49%), the contraction in Q4 ticks slightly worse again at -6.60%, suggesting no sustained recovery in investment appetite within the forecast horizon.

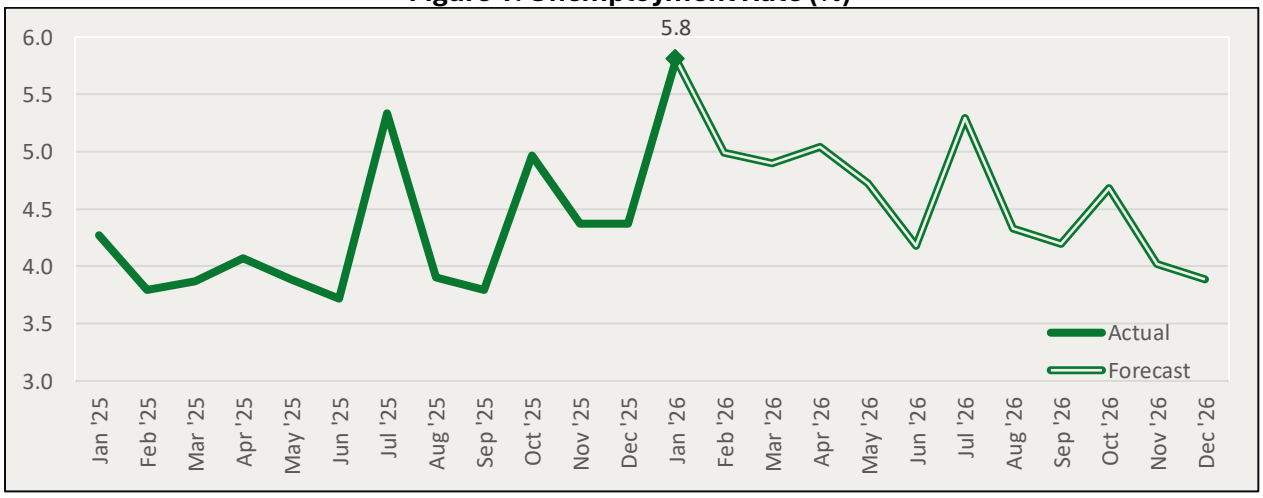
Some high-weight negative signals would continue to bear directly on investment. Though approved building permits rose by 0.5% in January 2026, their total value (PHP 37.05 billion) is much lower than that in the same month of 2025 (PHP 51.63 billion). The uptick was only attributed to smaller construction projects such as streets and billboards. Commercial building permits even contracted 7.2% year-on-year. Moreover, bank loan growth also slowed to a 23-month low of 9.3%, indicating that the credit channel into investment is weakening despite substantial monetary easing. FDI net inflows also fell to a five-year low of USD 7.791 billion (down 17.1% year-on-year. The 10-year Treasury bond yield surged to 6.786%, further raising the cost of long-term capital. Lastly, average capacity utilisation of industrial and construction firms fell from 68.6% in January 2026 to 67.2% in February 2026, increasing disincentives to invest in new capacity when existing capacity is currently underutilized.

The medium-term outlook also shows a sharper deterioration in the next two years: -8.08% in 2027 and -7.31% in 2028. Overall, existing impediments to capital formation (e.g., high borrowing costs, policy uncertainty, and weak private sector confidence) are expected to persist longer than previously assessed.

Unemployment

Unemployment jumped to 5.8% in January 2026 (see Figure 1), a high that has not been reached since 2022. Our forecasts, however, show that it will slowly decline over the year, with a forecast average rate of 4.7% for 2026. This average is slightly higher than 2025's 4.2%. Notably, even without incorporating the February unemployment rate data, the model projected a February unemployment rate of 5%, closely matching the actual rate of 5.1%.

Figure 1. Unemployment Rate (%)



Source: Actual: Philippine Statistics Authority, Forecasts: High-Frequency Model of the Philippines

Trade and Exchange Rate

Under the war scenario, we forecast merchandise imports to increase to USD 151.34 billion and to USD 167.57 billion in 2026 and 2027 respectively (Figure 2). For merchandise exports, our forecasts predict that it will be USD90.42 billion in both 2026 and 2027 (Figure 4).

Figure 2. Total Annual Merchandise Imports (in billions USD)

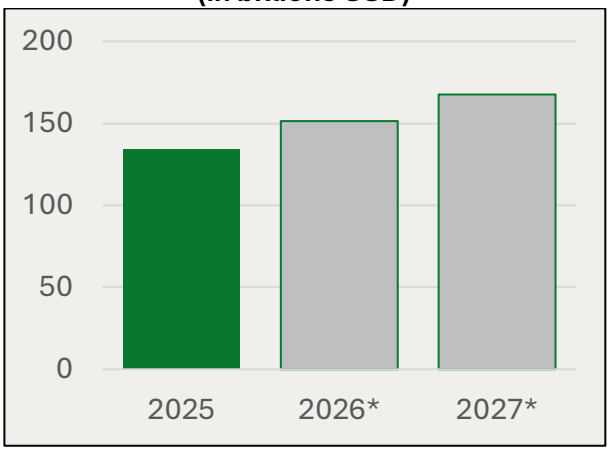
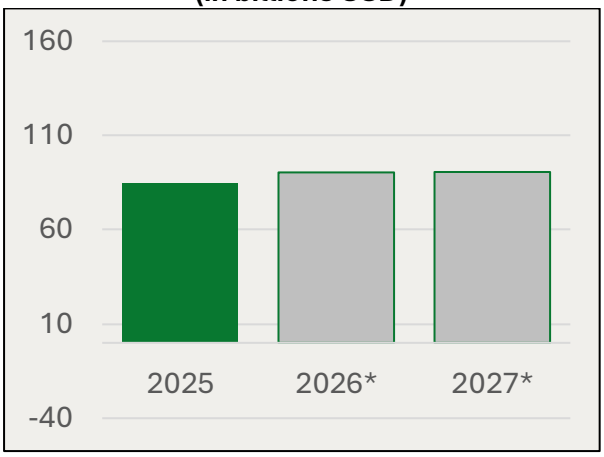


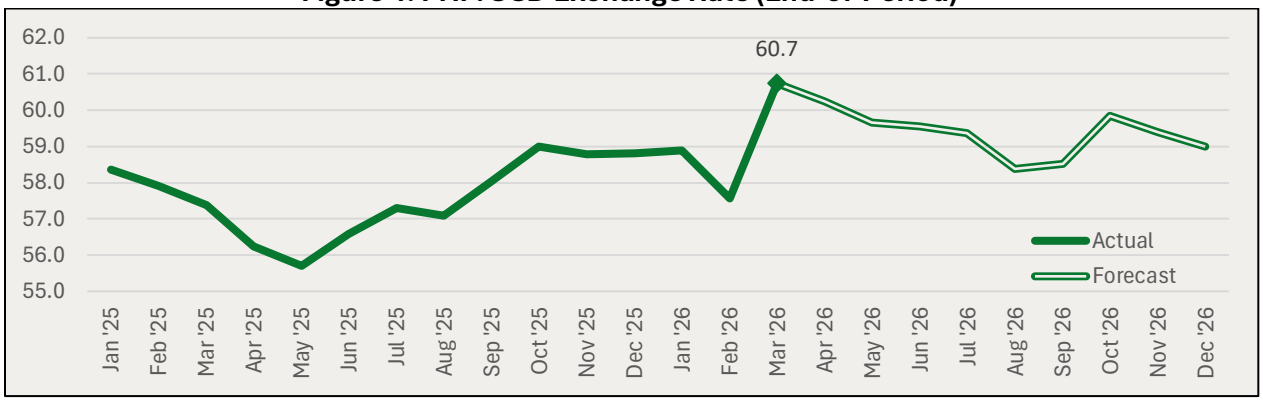
Figure 3. Total Annual Merchandise Exports (in billions USD)



Source: Actual: Philippine Statistics Authority, Forecasts: High-Frequency Model of the Philippines
Note: *2026 and 2027 are forecast values

The PHP/USD exchange rate spiked in March 2026, closing at 60.7 from 57.6 in February (see Figure 4). Our forecast shows that the Philippine peso will slightly appreciate between now and the end of the year, with the average exchange rate for 2026 increasing to 59.4 from our previous forecast of 58.3.

Figure 4. PHP/USD Exchange Rate (End-of-Period)



Source: Actual: Bangko Sentral ng Pilipinas, Forecasts: High-Frequency Model of the Philippines

Trump's Tariffs and the Reordering of Global Trade: One Year Later

The events of 2025 and early 2026 will leave a lasting mark. A series of economic and political shocks has placed the global economy under significant strain, pushing risk and uncertainty to levels not seen in years.

On April 2 2025, U.S. President Donald Trump upended the global trading system by imposing tariffs of 10% across the board, rising to as much as 50% for countries with which the United States ran larger trade deficits. The Philippines was assigned a 19% tariff rate, while U.S. exports to the country faced no tariffs—though it remains unclear whether this was fully implemented. In practice, the

impact on Philippine trade has been limited, not least because key exports such as electronics were exempt.

What Mr. Trump termed “Liberation Day” marked a decisive break with decades of trade policy, lifting tariffs to their highest level since 1939. Many in the U.S. expected swift gains—narrower trade deficits, a revival of domestic manufacturing, and stronger inflows of foreign investment. A year on, those expectations have not been met.

The U.S. Supreme Court has since ruled the so-called reciprocal tariffs unlawful. While Washington collected roughly USD 264 billion in tariff revenues, the policy has failed to deliver its intended outcomes. Imports from China have declined, but Chinese exports have not, as trade has been redirected elsewhere. Meanwhile, Europe has drifted further from Washington. The European Union has concluded a long-delayed agreement with Mercosur, deepened ties with China, and signed preferential trade deals with India, Australia and others.

The U.S. economy itself has lost momentum. Growth slowed to 2.1% last year, from 2.8% in 2024. Employment has stagnated (though the March figure is positive, 178,000 new jobs created), and an affordability crisis continues to weigh on households.

The world has indeed changed—but not in the way Mr. Trump intended. His trade policy has been marked by inconsistency and improvisation, producing both winners and losers. Yet fears of a global economic collapse have not materialized. Despite the scale of the tariff increases, their macroeconomic impact appears modest—between 0.1% and -0.13% of GDP—largely because tariff revenues and gains for domestic producers have offset the costs borne by importers.

Markets reacted sharply at first. Equity prices fell worldwide, and investors demanded higher yields on U.S. government debt. Mr. Trump responded by announcing a 90-day pause to allow for renegotiation. What followed was a prolonged and uneven process of bilateral bargaining. Some countries faced threats of extreme tariffs—at one point, as high as 145% on China—while others secured exemptions or preferential treatment.

Effective tariff rates surged from 2.4% at the start of 2025 to 28% after Liberation Day, before easing to 14.3% in September following a series of trade agreements.

The distributional effects have been uneven. Latin American countries and Australia benefited from relatively lower tariffs. Others with higher nominal rates—Vietnam (46%), Thailand (36%) and Taiwan (34%)—also gained, as trade shifted away from China and exemptions were granted for electronics and computer components. By contrast, Canada, Brazil and Switzerland were among the hardest hit.

Tariffs were used not only as trade policy tools but also as instruments of political pressure. Canada faced threats after promoting a speech by Ronald Reagan opposing tariffs, while Brazil was targeted following the imprisonment of Bolsonaro. Later in the year, as inflation began to erode political support, tariff reductions were introduced on food imports from Latin America. Over time, the system evolved into a dense and opaque web of exemptions and special arrangements.

Two points help place the policy in context. First, nearly half of U.S. imports avoided tariffs altogether, reflecting numerous loopholes. Second, foreign direct investment into the United States fell to USD 288.4 billion last year, down from the previous year.

In February, the Supreme Court dismantled the core of the policy, ruling the Liberation Day tariffs illegal. Mr. Trump had relied on a 1977 emergency powers law designed for wartime use, but the Court held that such measures required congressional approval.

The administration responded by introducing a new global tariff of 10%, with the threat of raising it to 15%, although this has not yet been implemented. These measures remain temporary and subject to congressional approval. The ruling has also opened the door for U.S. firms and consumers to seek refunds of roughly USD 170 billion. At the same time, the administration has launched trade investigations into around 100 countries in search of alternative legal pathways.

Mr. Trump had argued that tariffs would make the United States wealthier. Instead, he now faces the prospect of returning much of the revenue collected. The impact on small businesses has been particularly severe: many report no growth, no hiring and no innovation, having instead drawn down savings, taken on debt and cut costs simply to stay afloat.

Recent evidence suggests that the burden of tariffs has fallen largely on U.S. consumers and firms, who bear most of the increase in import costs. The next phase will determine whether these shifts prove temporary or mark a more durable reordering of global trade.

We end by adding that the Mr. Trump has misjudged Iran badly: he now faces a choice between escalation and a full retreat from the Middle East—and the domestic fallout will be felt through weaker purchasing power. So far, it is far from clear that it will emerge victorious, neither militarily nor economically. The risk of the American economy entering into recession remains high if the disruption in Hormuz drags on, despite the US being an energy exporter. It comes at a time of mounting fragilities—stretched private credit, elevated equity valuations, an AI bubble and unsustainable public finances. One way or another, the economic shock is likely to have lasting consequences.

A Supply Shock or the Return of Stagflation?

The specter of stagflation—a term long confined to economic textbooks—has returned to the policy debate in advanced economies. Half a century after the oil shocks of the 1970s, the combination of high inflation and weak growth is once again being discussed as a plausible risk. Such episodes are rare in developed economies and typically require a significant external shock. Under normal conditions, weak consumption and investment dampen wages and costs. But when prices are driven persistently higher by forces outside the usual supply–demand framework—such as war—economic activity can stall without easing inflation.

Whether advanced economies are facing a temporary supply shock or the early stages of stagflation will depend less on the initial disruption than on how long it lasts—and how households, firms and policymakers respond. This is crucial for the Philippines, where the energy shock could reinforce weaker growth prospects since 2025, following the corruption scandal, placing further downward pressure on the peso and increasing the cost of food and energy imports. If advanced economies falter, the Philippine economy will follow. As already noted above, under the war scenario, Philippine

growth will decelerate to below 4% and inflation would go above the central bank's upper band target of 4%.

The US-Israel war on Iran has revived these concerns. It is known how and why it started but the economic fallout remains unclear. Much will hinge on how long the conflict endures, whether the Strait of Hormuz is disrupted, the extent of damage to Gulf energy infrastructure—and, ultimately, on the decisions of Messrs. Trump and Netanyahu, who, alongside Putin in Ukraine, are driving the global economy in an increasingly somber geopolitical direction.

In recent weeks, warnings have multiplied, particularly in Europe, as the crisis enters its second month. The outlook is unusually uncertain and volatile. Early in the week, Mr. Trump suggested that the war could end "within two or three weeks", a statement that briefly buoyed equity markets and helped stabilize oil prices around USD 100 per barrel. Yet hours later, in a late-night address, the U.S. president reiterated that claim while signaling an intensification of military action against Iran.

Policymakers across the world are wary of underestimating inflation risks again. The experience of 2021–2022—when supply-chain disruptions and the energy shock following Russia's invasion of Ukraine were initially dismissed as temporary—has left a mark. A prolonged disruption could bring weaker growth, further monetary tightening, and rising financial stress. But a true episode of stagflation requires more than an energy shock. It also depends on second-round effects—most importantly, whether wage demands adjust upward in response to higher prices, embedding inflation into the system.

That dynamic was central to the stagflation of the 1970s, which followed a period of already elevated inflation. It has not yet materialized in recent shocks. The energy crisis triggered by the war in Ukraine was sharp but ultimately contained, in part because wage responses remained relatively subdued. For inflation to become self-sustaining, the initial shock must persist long enough to reshape expectations and behavior.

The comparison with earlier crises is instructive. The 1973 oil embargo led to a fourfold increase in crude prices. By contrast, oil prices today have risen by less than 50% since the start of the current conflict. More recently, the disruption of Russian energy supplies following the invasion of Ukraine caused prices to triple relative to late 2020 levels. At that time, inflation was already running close to 5%, leaving economies more exposed than they are today.

Even so, a prolonged increase in energy prices would weigh heavily on growth. Higher oil and gas costs feed rapidly into the real economy, raising production and transport costs, eroding household purchasing power, and compressing corporate margins. As consumption weakens, firms may slow hiring or cut jobs, reinforcing the downturn. We insist that this has not materialized yet. In fact, the March report by the US Department of Labor indicates that the number of new jobs had increased by 178,000 during that month. This follows the loss of 133,000 jobs in February.

Without going as far back as the 1970s, few economists predicted the last great crash in 2008-09 (different in nature from this one). Table 2 summarizes what they think today. They all see a dark future.

Table 2. What economists predict now

Economists who predicted the 2008 crash	What the argue now
Nouriel Roubini	Warns that the conflict in the Gulf will escalate, bringing weaker growth, higher inflation and, as a by-product, significant financial risk
Raghuram Rajan	Sees oil heading toward USD 150 a barrel—possibly even USD 200—and warns that the shock from disrupted energy flows will spread through supply chains, ultimately tipping the economy into a severe recession."
Ann Petiffor	Warns that financial markets could amplify the shock and knock the real economy off course
Steve Keen	Sees the risk of the most severe crisis in the modern economy, arguing that the war has acted as a catalyst exposing deep global vulnerabilities—ranging from a sharp dollar correction and an AI bubble to strains across currency, debt, private credit and equity markets
Andy Xie	As oil inventories fall, energy prices will rise further; once prices climb high enough, equity markets could slide, tipping the world into recession. The US economy's reliance on buoyant equity markets—particularly to sustain heavy investment in artificial intelligence—leaves it exposed: a market downturn could puncture the AI boom. In that scenario, rising energy costs would ultimately force an end to the war, but at the cost of severe damage to the real economy.

Source: Authors

Today, there is an additional source of concern. The latest shock comes after a succession of crises and amid a renewed wave of tariffs—policies that are themselves inflationary. The interaction of these forces increases the risk that what begins as a supply shock could, over time, evolve into something more persistent.

For now, the balance of risks remains uncertain. At best, if the war ends soon (supply shock) and the damage is contained, the effects will show up in slightly higher inflation, a modest drag on growth, a prolonged dislocation in the energy sector, and wider risk premia across markets. The worst-case scenario is far darker: a severe global recession if the Strait of Hormuz does not reopen quickly, with significant destabilizing potential should markets turn decisively negative. Table 3 provides a summary of how we see the impact.

Table 3. With our crystal ball

Impact on	What / How?
Losers… and a few winners	The shock will fall unevenly. Energy importers are most exposed; exporters—from the US to Russia and parts of the Gulf—stand to gain if flows continue. Asia and Europe look particularly vulnerable. Poorer economies, and low-income households everywhere, will be hit hardest as higher fertilizer costs feed into food prices. Food takes roughly 40% of spending in the poorest countries, about 20% in emerging markets and under 10% in advanced ones. A further group at risk are countries with little domestic energy and heavy reliance on Gulf supplies. Those with buffers—ample reserves, like China, or strong renewables—are better placed.
Energy	The closure of the Strait of Hormuz—through which about a fifth of global energy flows—and damage to Gulf infrastructure have already triggered what the International Energy Agency calls the largest disruption in oil market history, surpassing both the Ukraine war and the shocks of the 1970s. The IMF is urging governments to brace for extreme scenarios. We already have a significant shortfall of oil in the market, raising the risk of outright shortages and even rationing. Energy-importing economies in Asia, Africa, the Middle East and Latin America are already under strain. Asia's industrial economies face rising pressure on their balance of payments, currencies and public finances. Europe, too, will feel the impact. The post-Ukraine push for energy independence largely replaced cheap Russian supplies with costlier US gas. The result is a global supply shock with stagflationary consequences—lower growth and higher prices.
Supply Chains and Food	The last tankers to clear Hormuz before the conflict are now reaching port. With vessels

	rerouted and freight and insurance costs rising, shipping is becoming slower and more expensive, threatening fresh disruption to global supply chains. About a third of the world's fertilizer flows through the strait, and pressure is already building on harvests and food prices. The knock-on effects will be felt across advanced economies. Higher energy costs, combined with supply constraints, raise the risk of factory shutdowns. Bottlenecks are also emerging in critical inputs such as helium—vital for semiconductors—and sulphur, used in nickel processing in Indonesia and in electric vehicle batteries.
Inflation	The hit from higher energy prices goes beyond inflation and growth. Over time, rising transport costs feed into industrial prices, triggering second-round effects as workers seek higher wages to protect purchasing power, adding to inflationary pressure. For central banks, the dilemma is acute. Recessions that follow energy shocks are typically driven less by inflation itself than by the tightening used to contain it. Rate hikes do little to resolve supply shocks and risk deepening the slowdown.
Financial Markets	Markets have wobbled but remain relatively calm, still betting on a quick end to the conflict—a call that has so far proved optimistic. Borrowing costs are rising across both advanced and emerging economies, while energy importers face growing pressure on trade balances and currencies. If the conflict drags on, the shock is likely to spread from energy markets to financial markets and then to the real economy. With a global supply gap, temporary policy measures will struggle to contain rising fuel costs. Ultimately, adjustment may come through

	lower demand—something the global economy appears ill-prepared for.

Source: Authors

National Energy Emergency and Public Transport: An Analysis of the Philippine Government's Crisis Response

The U.S.-Israel war in the Middle East, which began on 28 February 2026, has sent energy prices soaring, with the Philippines becoming the first country to declare a state of national energy emergency. The day following President Ferdinand Marcos Jr.'s declaration on 25 March 2026, a two-day strike by transport workers, unions, and concerned individuals took place in protest of the steep increase in fuel prices and the perceived inadequacy of the government's response.

The new emergency declaration, which lasts for one year, gives the government a mandate to supply fuel products and to clamp down on activities that unduly profit from the crisis. Additional measures include the introduction of a four-day workweek for government employees. Given the highly deregulated nature of the Philippine energy sector, these efforts were quickly criticized as inefficient and superficial. That said, proposed remedies such as taxing the ultra-wealthy or suspending excise, value-added, and fuel taxes fail to address the root causes of the transport sector's vulnerability, even with the government's attempt to provide subsidies to commuters and transport workers.

The first source of the problem lies in the Oil Deregulation Law of 1998, which fully liberalized the downstream oil industry, including imports, exports, and pricing. Private fuel companies have full control over pricing, and the government cannot legally impose price caps or influence prices beyond issuing non-binding appeals. As a result, the Philippines now has the highest fuel prices in Southeast Asia. As of early April, diesel prices stand at PHP134.30 per liter and gasoline at PHP91.60, compared with PHP76.97 and PHP70.38 in Vietnam, where prices are regulated. Unable to control oil prices, the government has instead turned to reducing consumption by requiring agencies to cut energy use. As with earlier measures, this remains a superficial response that addresses symptoms rather than underlying causes.

The second source of the problem lies in the privatization of public transport. Given the deregulation of the Philippine downstream petroleum industry, it is unsurprising that these measures have coincided with some of the steepest increases in domestic fuel prices globally. This is particularly significant in the context of a "public" transportation system characterized by its reliance on small-scale operators, each holding a franchise to provide a privatized but regulated fare-based service.

The widespread presence of jeepneys in urban centers traces back to the civilian repurposing of military vehicles left behind by American forces after the Second World War. Originally intended as a temporary solution to address the shortage of public transport during postwar reconstruction, jeepneys have persisted and remain the country's primary mode of public transportation. Typically organized as single proprietorships, cooperatives, or corporations, operators hold franchises issued by the Land Transportation Franchising Board (LTFRB) under the Department of Transportation (DOTr), authorizing them to operate routes they can reasonably demonstrate to be profitable. Because routes are supply-driven, they are generally neither centrally planned nor coordinated.

Combined with direct, on-street competition for passengers along shared routes, jeepney operations exhibit a high degree of fragmentation and individualization. Operators usually lease vehicles to drivers for a fixed daily fee—commonly referred to as the "boundary"—with drivers retaining the difference between fares collected and operating costs, including fuel. In this sense, jeepney services function more as commercial enterprises than as public services. This market-oriented approach has resulted in several adverse outcomes, including poorly maintained and polluting vehicles, oversupply and intense competition during peak hours, and discretionary service interruptions. It also reflects minimal state involvement and, consequently, limited fiscal support over the decades.

The commercial nature of jeepney operations, together with the imperative to maintain a privatized system, suggests that recent government efforts to modernize the sector largely amount to a search for viable financing solutions for private operators. Given the weak credit profiles of small-scale operators within a fare-regulated environment—further complicated by their reorganization into collectives without established track records—and the limited support expected from government financial institutions, commercial bank financing is unlikely without explicit state guarantees and credit enhancements. Beyond this, transport researchers have proposed that the government assume a more direct role, for example through service contracting arrangements that ensure stable cash flows for operators. Such measures would require direct budgetary commitments to strengthen operator creditworthiness and may imply moving away from a fully privatized model toward one involving greater government financial and operational participation.

As part of its initial response, the government's selective relief measures prioritized jeepney drivers and other transport workers whose livelihoods depend on directly bearing fuel costs. However, the wave of strikes and protest actions by organized transport groups suggests that these interventions have so far failed to convince workers of their effectiveness in offsetting rising fuel costs. The deregulated nature of the industry means that drivers absorb these cost increases immediately and directly. When combined with the likelihood that regulated fares are not adjusted promptly, drivers face significant declines in take-home income. If fuel prices continue to rise, many may be forced to cease operations as commercial conditions push them toward personal and household insolvency. The persistence of this service model has historically depended on minimal fiscal intervention. Born out of austerity, the Philippine jeepney system now faces the possibility that the very conditions that enabled its emergence may, under current fuel price pressures, accelerate its decline.

A Comparative Analysis: How is Vietnam dealing with the energy crisis

Responses to the oil shock in March have varied across Asia. Some countries initially addressed it by securing their supply chains through a combination of fiscal absorption, price mediation, and tax cuts, aiming to cushion and delay what would otherwise have been a sharp increase in prices affecting household budgets. The Philippine government, by contrast, adopted a more conventional approach, providing selective relief through targeted cash transfers. Despite repeated criticism of persistent operational issues—including long queues and unreliable beneficiary lists that leave many claimants without assistance—these measures remain the government's principal fiscal response to crises of this nature. As noted above, and despite continued concern over the fiscal deficit, authorities have been urged to temporarily suspend excise and value-added taxes, while even moderate political voices have called for the imposition of wealth taxes on exceptionally rich individuals to finance further social amelioration.

A comparative analysis with Vietnam helps reveal current weaknesses and potential solutions. In response to the crisis, Prime Minister Pham Minh Chinh announced on 6 March 2026 the creation of a joint task force composed of government agencies and state-owned enterprises to oversee energy security. Its responsibilities include stabilizing energy supplies and diversifying sources. Additional measures include promoting electric vehicles, building supporting infrastructure, and electrifying public transport. PetroVietnam has begun diversifying gas imports and implementing cost-stabilizing policies for domestic clients. Vietnam has also intensified diplomatic efforts with countries such as the UAE, Qatar, Angola, and Russia to secure energy supplies. During a visit to Russia, Chinh signed an agreement to construct a nuclear power plant and discussed expanding oil and gas cooperation, including storage facilities.

These measures should be viewed within a broader strategy to support Vietnam's growing industrial sector. In 2021, the Ministry of Transport announced a master plan to expand infrastructure, including expressways, railways, ports, and international airports, with investments estimated between USD 43 billion and USD 65 billion. This expansion aims to increase cargo capacity in support of manufacturing and exports.

This comparison highlights two contrasting economic models: Vietnam's state-coordinated approach and the Philippines' more deregulated and privatized system. While crises are experienced collectively, responses—and their outcomes—are not. Although it would be unrealistic for the Philippines to shift overnight to a state-led model, the current crisis is a reminder of the need to reconsider the role of government in safeguarding economic stability and the well-being of its citizens in an increasingly uncertain global environment.

What to do?

As the full impact of the crisis continues to unfold, fiscal and monetary authorities face a set of critical decisions. First, the Bangko Sentral ng Pilipinas (BSP) is confronting increasingly complex policy trade-offs. Repeated supply shocks are complicating interest rate decisions, while elevated financial vulnerabilities are making policy transmission less predictable. Clear communication, effective macroprudential measures, and stronger coordination with fiscal policy are essential to anchor expectations and safeguard growth and stability.

Second, fiscal policy must balance targeted protection with macroeconomic stability. Consistent with the principles of sound finance, the government's initial response reflects two main objectives: providing targeted relief to economically vulnerable groups and maintaining fiscal discipline to safeguard the state's financial position. While critics have voiced concerns, these have largely focused on technical issues—often framed in terms of inefficiency or poor implementation—rather than on the underlying objectives themselves. Well-designed, temporary, and targeted measures can shield vulnerable groups and sustain social cohesion, while credible fiscal trajectories and coherent coordination with monetary policy are essential to contain inflationary risks. A sound fiscal policy should not treat the fiscal deficit as an objective in itself, but should instead preserve the sectoral balance of the domestic private sector—that is, ensure that its financial balance is in surplus, which requires a fiscal deficit in a country that runs a current account deficit.

Third, industrial policy is crucial for reducing supply-side vulnerabilities. By addressing structural bottlenecks in food, energy, transport, and logistics, coherent industrial strategies can strengthen productive capacity, mitigate volatility, and ease medium-term price pressures, complementing

monetary and fiscal efforts. This will require adopting a more structural perspective—one that allows for a substantial reorientation of fiscal policy. Such an approach would move beyond selective relief and fiscal preservation toward actively supporting the productive sectors of the economy, sustaining employment, and building the material capacity needed for a more effective collective response to future crises.

Forecast Graphs of Selected Indicators

Figure 7. Employment by Sector (in millions of people)

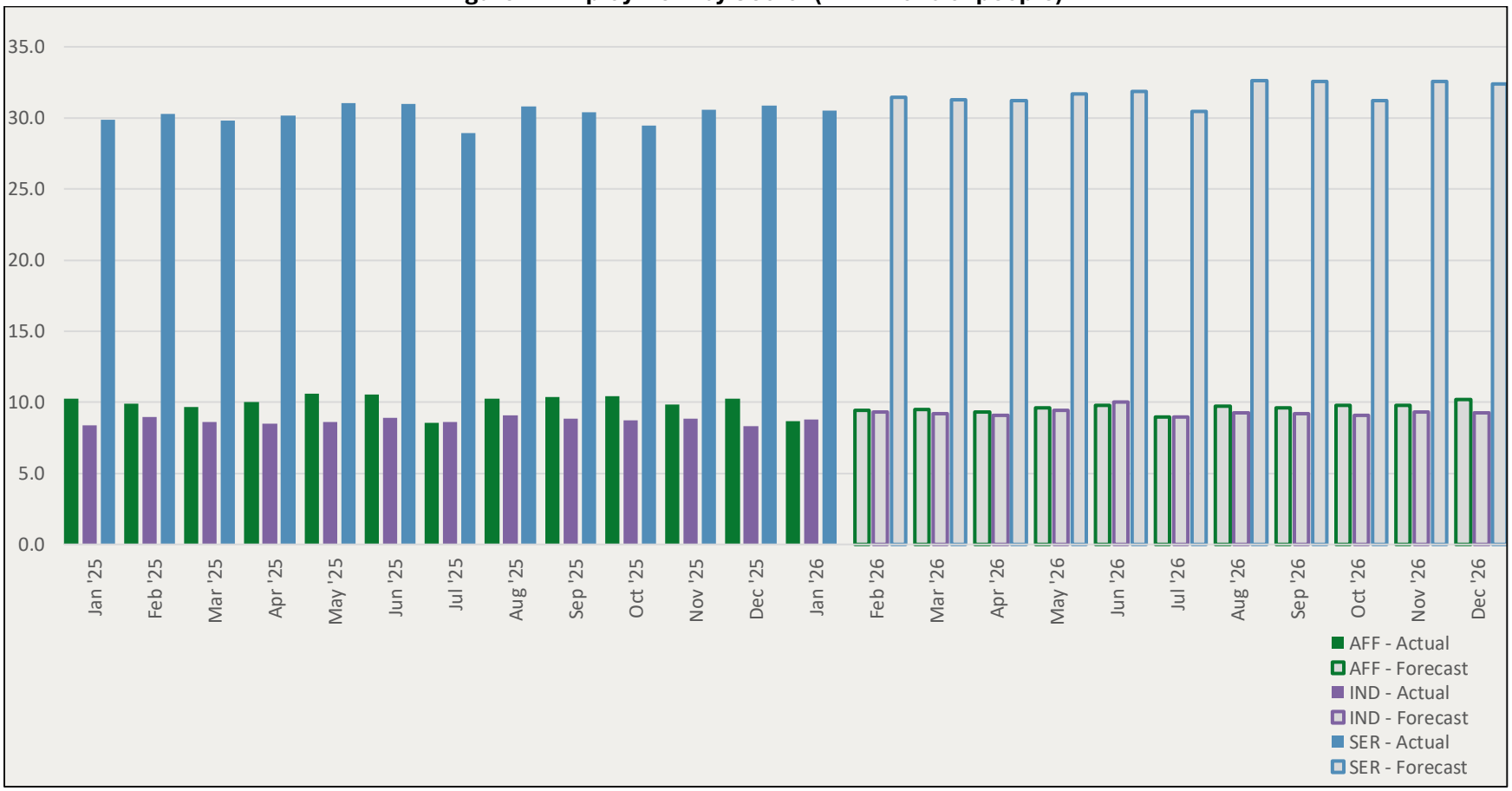


Figure 8. Tourist Visitor Arrivals (in thousands)

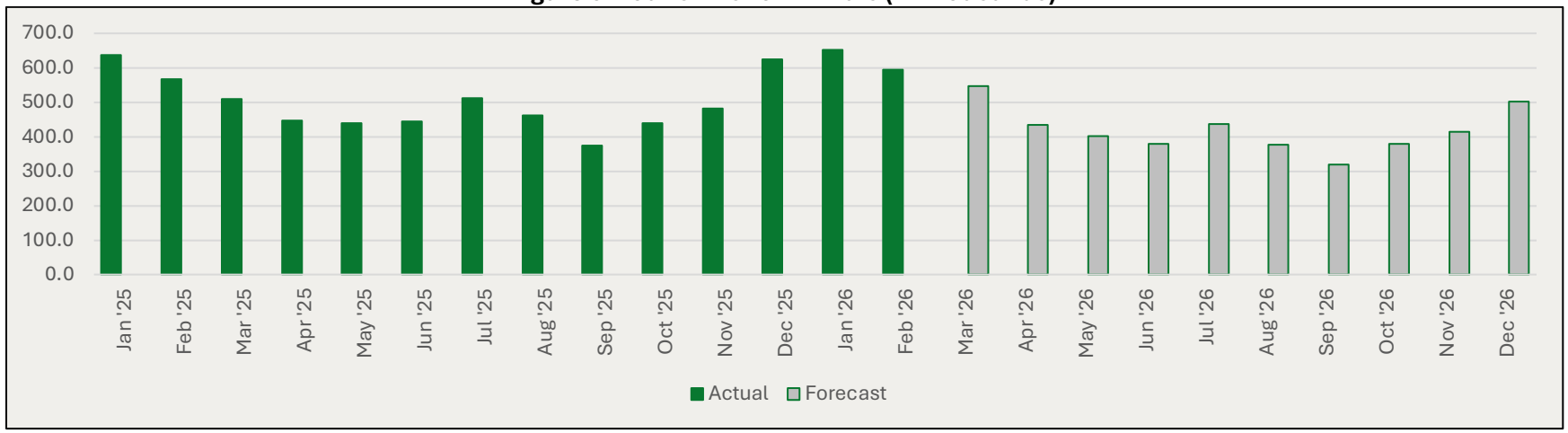


Figure 9. Total Building Permits

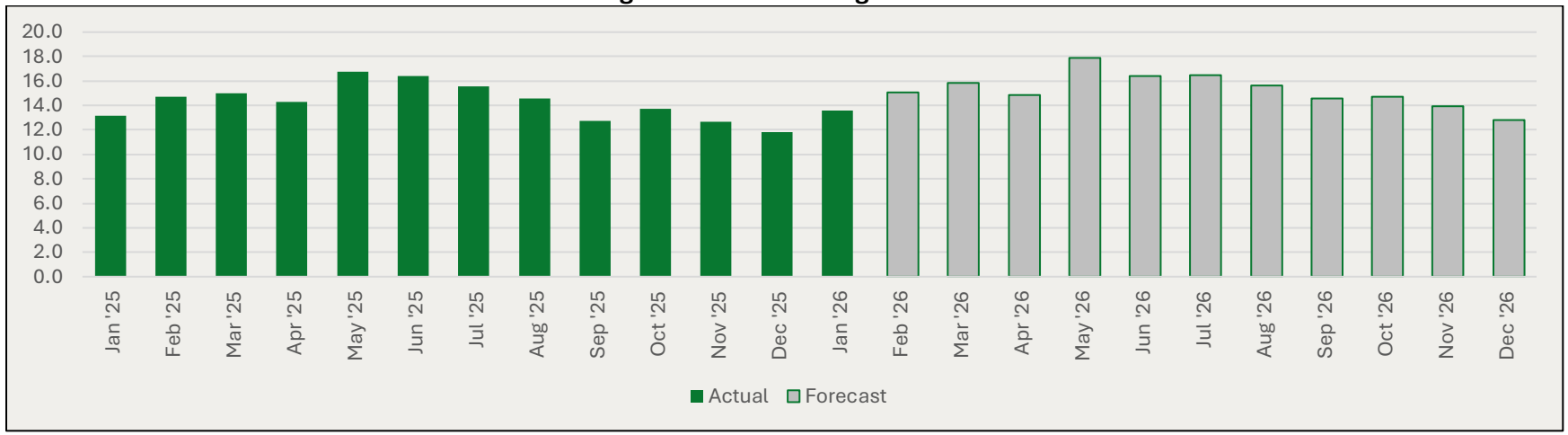


Figure 10. Average Capacity Utilization Rate (%)