

NEWS AT A GLANCE

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The financial system

US Bank Failures Pose Risk to Global Growth

Turmoil in the US banking sector poses a risk to global economic growth, which was already expected to slow down this year due to a pullback in spending and investment in the US and Europe, along with climbing interest rates. Although there were signs of economic recovery in Western economies and China, concerns are resurfacing due to the risks of a shaken banking sector and tightening credit. Economists predict that banks in the US could restrict lending, causing a lending squeeze that would affect global growth by pinching demand for other countries' goods and services. Additionally, global trade and the financial system rely on the US dollar, so tighter US financial conditions can quickly spread to other economies. Memories of the 2007-2009 financial crisis are still fresh in people's minds, and economists are considering the possibility of a crisis rerun due to bank failures. While banks today are in better shape and regulators have tools to prevent systemic failures, problems caused by bank failures are forcing economists to alter their forecasts.

Source: [U.S. Bank Failures Pose Risk to Global Growth](#) (March 26, 2023), Wall Street Journal

Global growth

Ukraine War and Inflation to Limit Global Trade Growth in 2023, WTO Says

Global merchandise trade is forecasted to grow by 1.7% in 2023. This is a 1% decrease from 2022's 2.7%. Global trade is expected to shrink as a result of the war in Ukraine and persistent global inflation. The Ukraine war shocked global supply chains and the reduction in supply caused inflation. Central banks raised interest rates to address this and in doing so have depressed global demand for goods. Global inflation has fallen below its peak since the Ukraine war started, yet still remains above pre-war levels; thereby depressing incomes and demand for goods. There is some expectation that China's rescinding of COVID-19 restrictions will alleviate these limits to global trade growth since western economies such as Germany's have seen increased exports and imports due to China's reopening. However, Asian export economies have also seen their sales fall. In China, the average monthly exports for the period of

December to February fell by 7%. Asian exports are expected to fall, too, since rising interest rates and inflation are depressing western spending.

Source: [Ukraine War and Inflation to Limit Global Trade Growth in 2023, WTO Says](#) (April 5, 2023), Wall Street Journal

Global Economy

World Bank Warns of Lost Decade for Global Economy

The World Bank projects a lost decade for economic growth due to an aging global workforce, falling investment, slowing productivity, new trade restriction policies such as raised tariffs and the reduction of global educational quality caused by pandemic school closures. The World Bank's current projection for global growth is 2.2% for 2022 to 2030. The World Bank recommends implementing policies to include previously discouraged workers and women so that they may participate in the labor force and mitigate the shrinking of the global working population.

Source: [World Bank Warns of Lost Decade for Global Economy](#) (April 2, 2023), Wall Street Journal

Inflation

Food Prices Are New Inflation Threat for Governments and Central Banks: Widening Profit Margins Might be To Blame

After a year of continuous increases as a result of the crisis in Ukraine, inflation rates for energy are declining—although the same cannot be said for global food prices. Food commodity prices are up 12.4% in Europe and 10.2% in the U.S., while inflation for energy is now at 0.9% and 5.2%, respectively. The dilemma around the rising food prices center around the fact that farmgate prices have actually been declining since April of 2022 – although there are expected time lags between the prices of farmers and the prices that households ultimately pay, the length of these lags and the gap between the prices have led some economists to blame higher markups set by businesses in the food-supply chain. True enough, profit margins across Europe seem to be rising. Although Central Banks are mainly concerned with core inflation, rising food prices may influence public expectations, which may lead to negotiations for higher wages, affecting prices of other commodities.

Source: [Food Prices Are New Inflation Threat for Governments and Central Banks](#) (April 9, 2023), Wall Street Journal

Banking crisis

America Risks Propping Up 'Zombie' Banks

America's banking crisis may appear to be over with no lenders failing since March 12th and banks' stock prices settling at about a quarter beneath their level at the end of February. However, small and midsize banks are still facing problems, including unrealised losses worth more than half of their core equity safety cushions. The government is helping these banks by lending them a lot of money and promising to protect people's deposits if their bank fails. However, this help could make these banks zombies. Zombie firms are companies that can't pay their debts and just exist without growing or improving. These are firms that keep capital tied up in unproductive legacy assets, or obsolete assets that run the risk of becoming liabilities. Policymakers need to make sure that banks recognize their losses and get new money so they don't become zombies. This will hurt the owners of the banks but it's important to make sure the banks don't become a problem for the economy.

Source: [America risks propping up zombie banks](#) (March 30, 2023), The Economist

Banking crisis

Will Bank Turmoil Tank the Economy?

The recent collapses of banks have raised concerns about the impact on the economy. Federal Reserve officials believe that the lending slowdown due to the turmoil may weigh on economic growth this year, but the magnitude is uncertain. If the banking problems continue or have knock-on effects in other parts of the financial system, it could result in a credit crunch, making it harder to borrow money and potentially push the US towards a recession. Risky companies are having trouble borrowing money, and although healthy companies can still borrow, their borrowing costs are unusually high. The Fed officials are hesitant to make any big decisions yet and have stated that it is too early to determine the extent of the impact on the economy. They have raised interest rates by a quarter-point in March to combat inflation but are unsure of what the future holds.

Source: [Will bank turmoil tank the economy?](#) (March 28, 2023), New York Times

Philippine news: Maharlika Investment Fund

Marcos Jr. Admin Approves LBP and DBP Merger

The Landbank (LBP) and Development Bank of the Philippines (DBP) merger effectively creates the largest banking entity in the Philippines. The merger was supposed to take effect in 2016. However, the Duterte administration decided to drop its implementation. Presently, the implementation of the merger has garnered contradicting opinions. Proponents of the merger argue that the financial turmoil in several U.S. banks is a sign that the Philippines needs to solidify the government bank. However, the opposition argues that the merger does not serve

the public's interest since LBP caters to the agricultural sector while DBP caters to the developmental sector. Additionally, LBP and DBP are also required to contribute to the initial funding of the Maharlika Investment Fund. Therefore, an essential question is how the merger would affect the plan for the Maharlika Investment Fund.

Source: [Marcos Jr. admin approved Landbank, DBP merger](#) (March 28, 2023), The Philippine Star

Philippine news: Wages

Workers Seek Hike in Minimum Wage Amid Inflation

The Philippines has been experiencing intense inflationary pressures since June 2022, with the inflation rate reaching a 14-year high at 8.7% in January 2023. Despite the strong economic growth in 2022, wages have remained flat, and many workers are struggling to make ends meet. Workers and various labor groups have been pressing the government to increase wages nationwide in order to keep up with the rising prices of goods. However, government officials have pushed back against calls for higher wages, arguing that increasing wages would harm the economy and contribute to inflation. The composition of the Philippine Congress is noted to reflect the stark inequality in the country, with a study by the World Bank finding that the top 1% of earners control 17% of the nation's wealth, while the poorest 50% subsist on just 14% of the national income.

Source: [Philippine workers seek hike in minimum wage amid inflation](#) (April 5, 2023), NikkeiAsia

Philippine news: Central banking

Philippines Central Bank Slows Pace of Rate Increases Amid Global Banking-Sector Turmoil

The Philippine central bank has raised its benchmark interest rate by 0.25%, reducing the pace of its rate increases from previous meetings. Despite inflation that remains stubbornly high, the bank's decision reflects uncertainty over the economic outlook due to the turmoil in the global banking sector. Seven of the eight economists surveyed by The Wall Street Journal expected a quarter percentage point increase, while one expected a 50-basis-point increase. The country's consumer price index in February rose 8.6% from a year earlier, well above the central bank's inflation target range of 2% to 4%. The Federal Reserve approved a quarter-percentage-point rate increase the day before, but signaled that banking-system turmoil might end its tightening campaign sooner than what seemed likely two weeks ago.

Source: [Philippines Central Bank Slows Pace of Rate Increases Amid Global Banking-Sector Turmoil](#) (March 23, 2023), Wall Street Journal

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