

# Global Ripples of a Shifting Middle East

Beyond the Numbers: Navigating through Geopolitics

23 June 2026

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# The Philippines kicked 2026 off to a cautious but positive start, but the outbreak of conflict in the Middle East upended macroeconomic assumptions

## Pre-Conflict Philippine Economic Conditions

### Manageable Inflation Outlook

- ▶ The BSP delivered a rate cut of 25 bps in February, citing manageable inflation outlook (assuming ~\$65/barrel of Dubai crude for 2025/6) and the need to support growth.

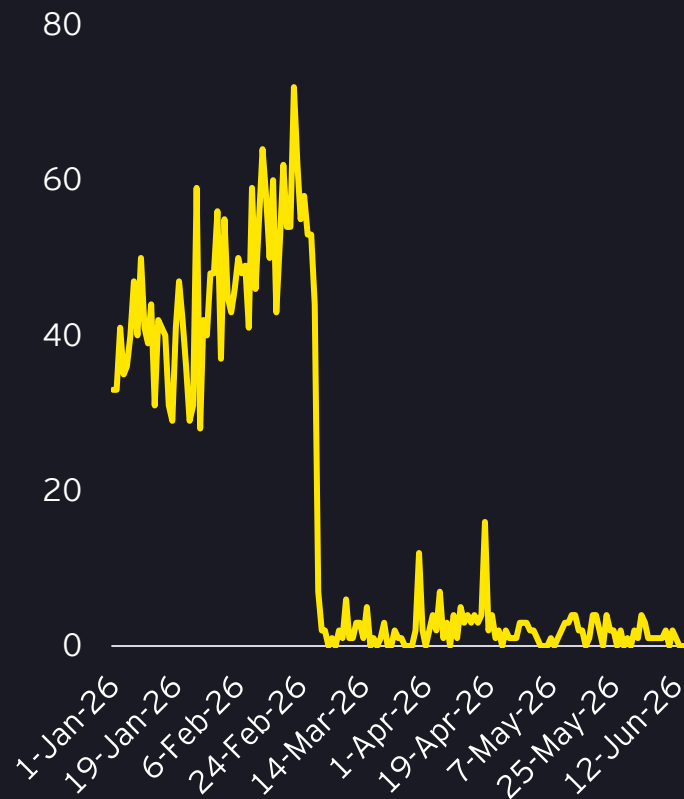
### Stabilizing Exchange Rate

- ▶ The exchange rate closed PHP57.7/\$1 in February, appreciating by 2.1% from January's close, suggesting continued stabilization in the exchange rate.

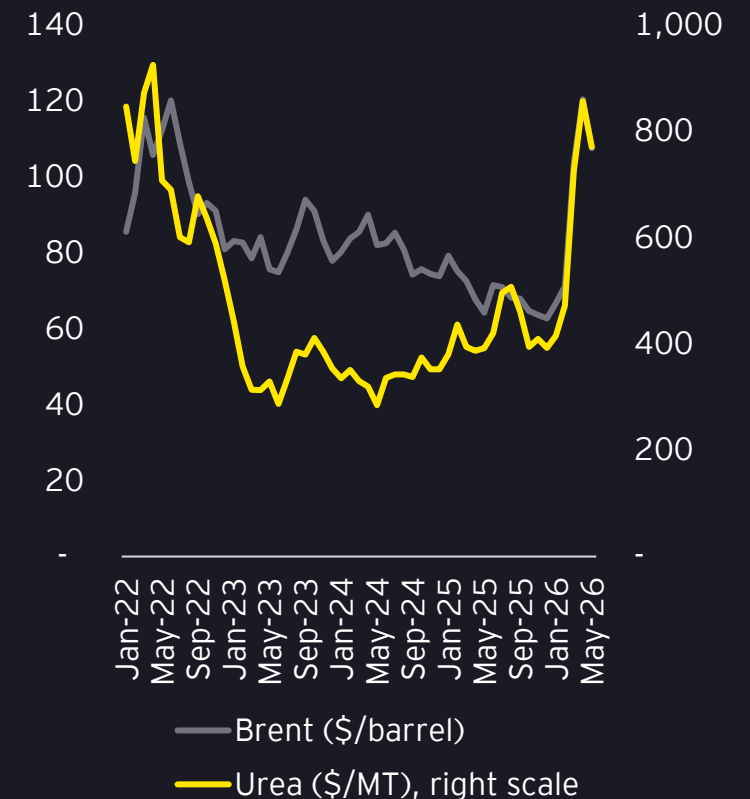
### Improving Growth Prospects

- ▶ The manufacturing purchasing managers' index (PMI), an indicator of growth, reached a multi-year high of 54.6 in February.

## Daily Tanker Traffic\* at the Strait of Hormuz



## Prices of Crude Oil and Fertilizer



Notes: \* - Due to the conflict, there are reports of GPS jamming, spoofing of Automatic Identification System (AIS), and vessels going dark.

Sources: BAP, BSP, World Bank, IMF PortWatch, S&P Global

# How disruptions/shocks impact the economy, industries, and businesses



## Direct Impact

- ▶ Shortages
- ▶ Logistics costs
- ▶ Commodity prices (energy, food)
- ▶ Headline inflation
- ▶ Exchange Rates
- ▶ Terms-of-trade
- ▶ Cyber threats
- ▶ Elevated risks



## Second-Round Effects

- ▶ Core inflation
- ▶ Interest rates
- ▶ Public spending and debt
- ▶ Consumer and investor confidence
- ▶ Balance-of-payments
- ▶ Growth

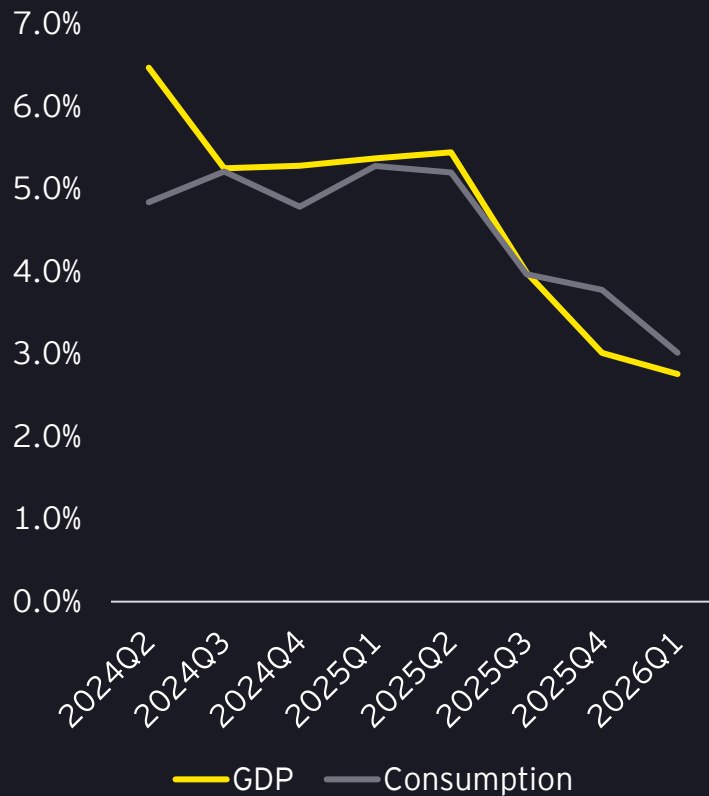


## Long-Term Impact

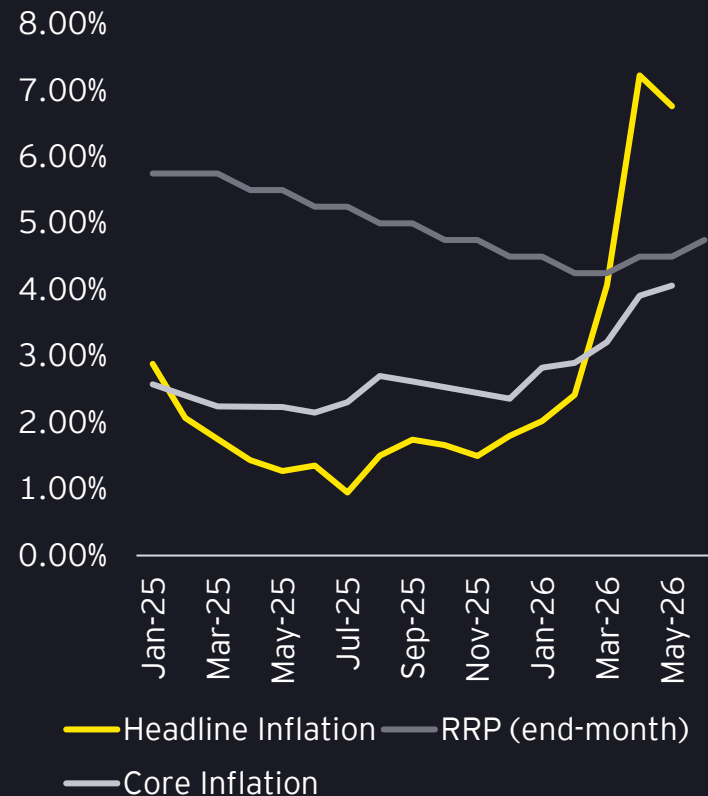
- ▶ Policy: economic security – national security nexus
- ▶ Reconfiguration of supply chains (e.g., friendshoring)
- ▶ Digital sovereignty
- ▶ Structural shifts in the operating environment
- ▶ Significant reshaping of consumer behavior and preferences

# The conflict contributed to slower growth in 2026Q1, spiked inflation which called for rate hikes and could lead to more rate hikes, and weakened the peso as US long-term rates rose over inflationary concerns

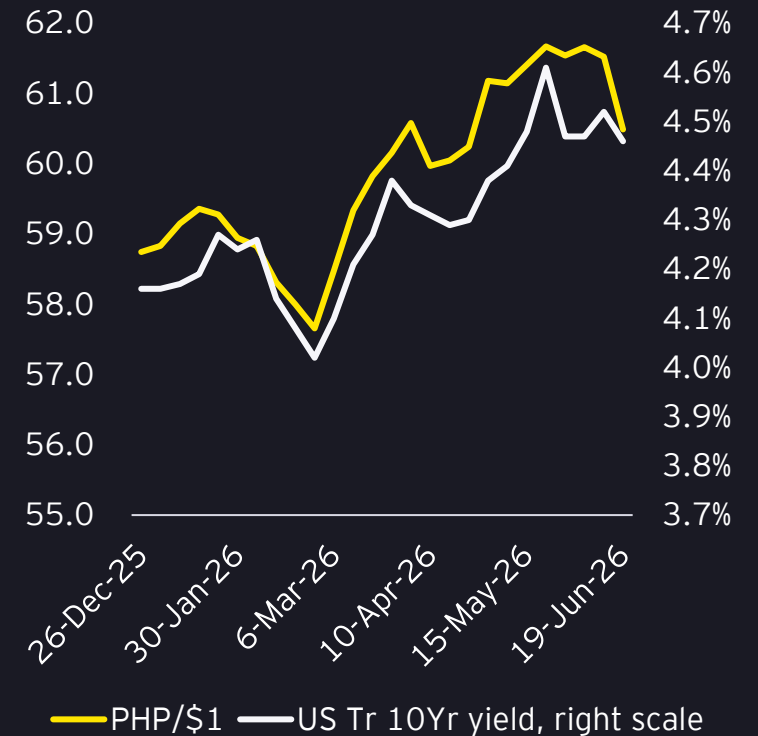
### Philippine Economic Growth, past 8 quarters



### Inflation and BSP's Policy Rate



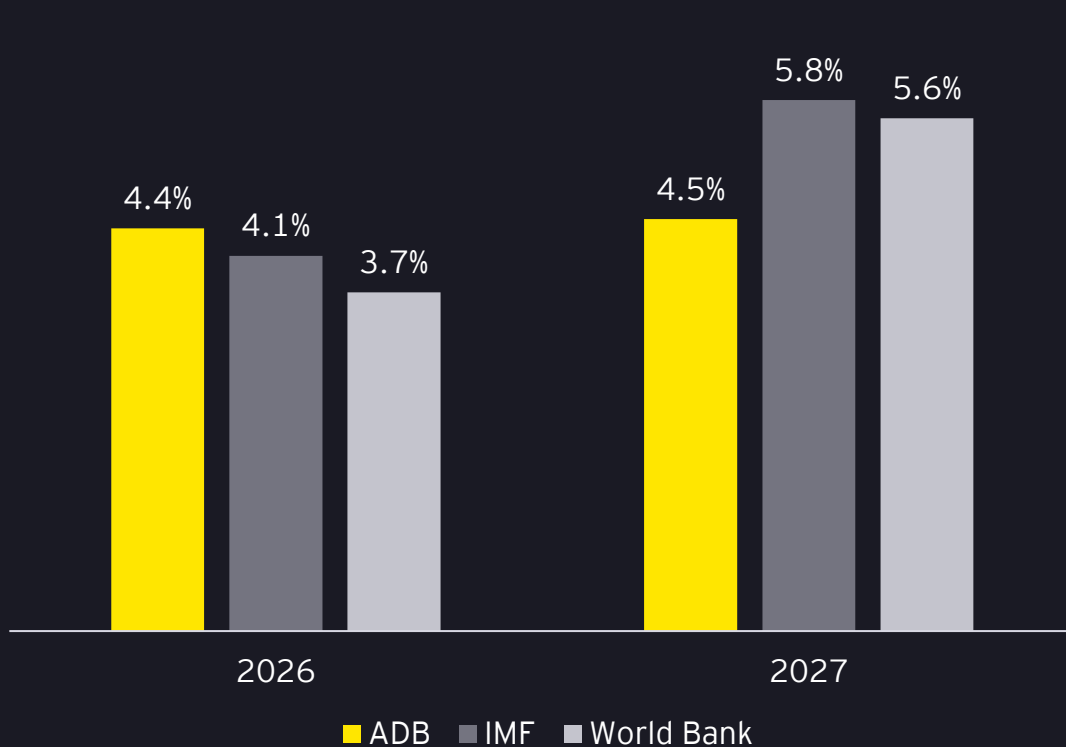
### Exchange Rates and Long-Term US Interest Rates (Weekly Average)



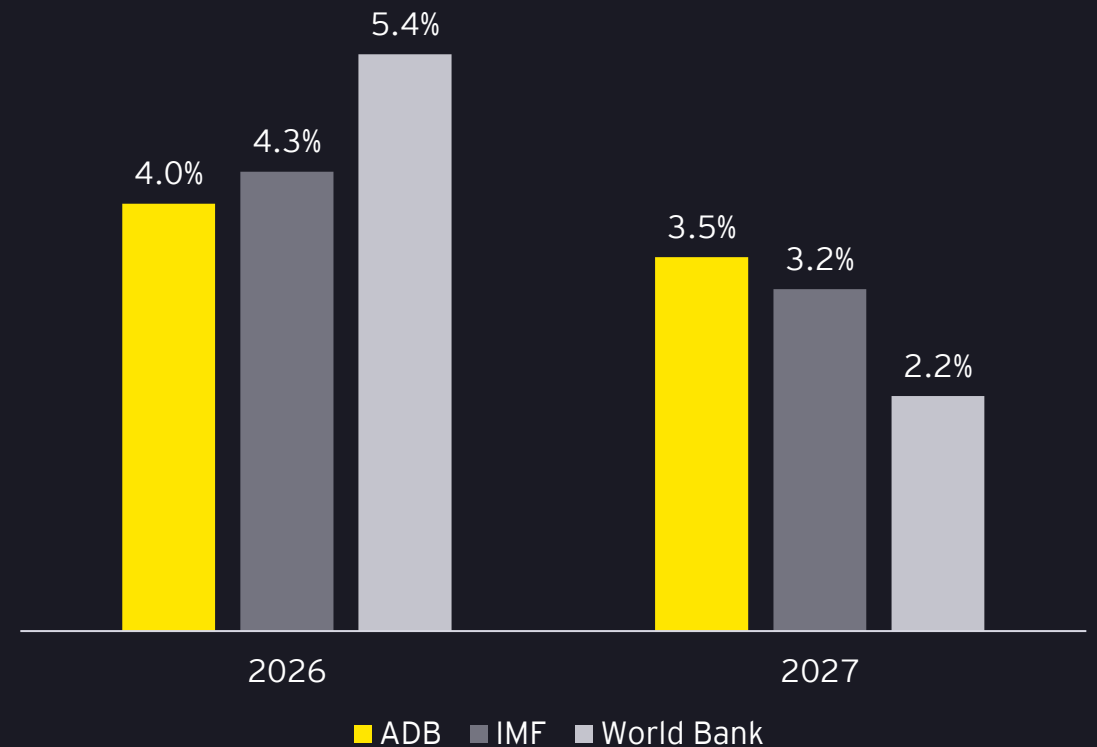
Sources: BSP, US St. Louis Fed, PSA

# Philippine growth outlook dialed down, and inflation projections revised upward by multilateral financial institutions

## Growth Outlook



## Inflation Outlook

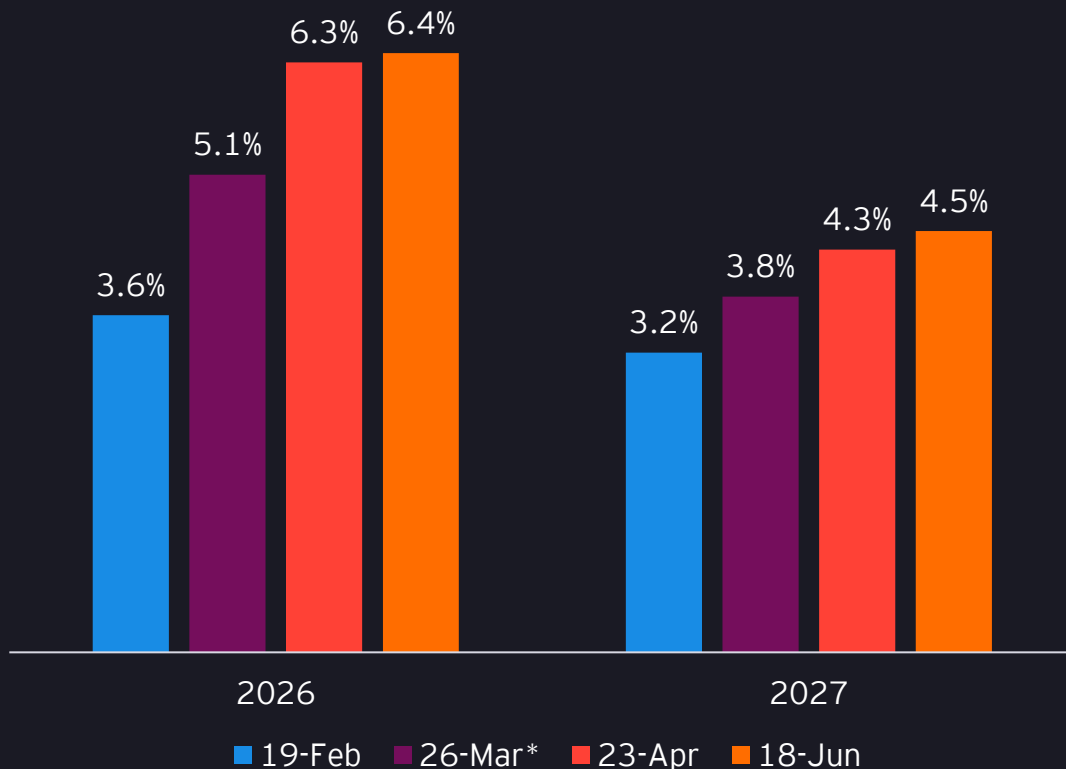


Notes: The projections were generated for the April edition of the respective MFIs' publications before 2026Q1 GDP growth numbers came out. The ADB assumes that the conflict lasts for a month, with disruptions fading thereafter; Brent crude assumed to average \$72 per barrel in 2026 and \$63 in 2027. The IMF assumes "limited duration" of the conflict, with disruptions fading by mid-2026; crude oil prices of Brent, Dubai, and WTI to average \$82.2 per barrel in 2026 and \$73 in 2027. The World Bank assumes that severe disruptions to shipping thru the Strait of Hormuz will last for 3 months; Brent crude to average \$84-96 per barrel in 2026.

Sources: ADB, IMF, World Bank

# Monetary policy tightened further to contain second-round effects; BSP sees inflation breaching the 4% tolerance ceiling for 2026 and 2027

BSP's inflation outlook by Monetary Policy meeting date



“ Inflationary pressures remain strong... Today’s policy action will help keep inflation expectations anchored and mitigate the risk of second-round effects. The measured monetary policy action will also complement fiscal measures in supporting steady consumption and strengthening business sentiment.

*Bangko Sentral ng Pilipinas*

Statement following the policy meeting of the Monetary Board

18 June 2026

Note: \* - Off-cycle meeting held in the light of the Middle East conflict. The BSP revised upward its Dubai crude oil price assumptions to \$85/barrel this year and \$76/barrel next year.  
Source: BSP

# Government declared national energy emergency and rolled out measures to manage energy supply and protect vulnerable sectors

EO 110: Unified Package for Livelihoods, Industry, and Transport (UPLIFT)

Energy supply management

Social Protection programs

Memorandum Circular (MC) No. 114



Adoption of energy conservation protocol



Adoption of flexible work arrangements



Energy consumption reduction by 10-20%

Republic Act (RA) No. 12316

- RA 12316 grants the president the authority, upon the recommendation of the Development Budget Coordination Committee (DBCC), to temporarily suspend or reduce excise taxes on petroleum products if Dubai crude oil price reaches \$80/bbl for one month.
- Only excise taxes on LPG and kerosene were suspended.

The social protection measures already have funding in the 2026 GAA. Implementation of MC 114 is expected to free more financial resources. Further, forgone revenue from the targeted suspension of LPG and kerosene excise taxes appears manageable. With these, no drastic changes are seen in fiscal policy, leaving infrastructure funding largely intact.

Sources: Official Gazette, PCO

# Geopolitics continues to be a significant force reshaping the global operating environment

## Top 10 Geopolitical Developments in 2026

### New Rules and norms

- 1 State interventionism
- 2 Trade under pressure
- 3 Sovereign AI and cyber conflicts

### Geopolitics of Scarcity

- 4 Water scarcity
- 5 Critical minerals rush
- 6 Debt, capital, and currencies

### Spheres of Engagement

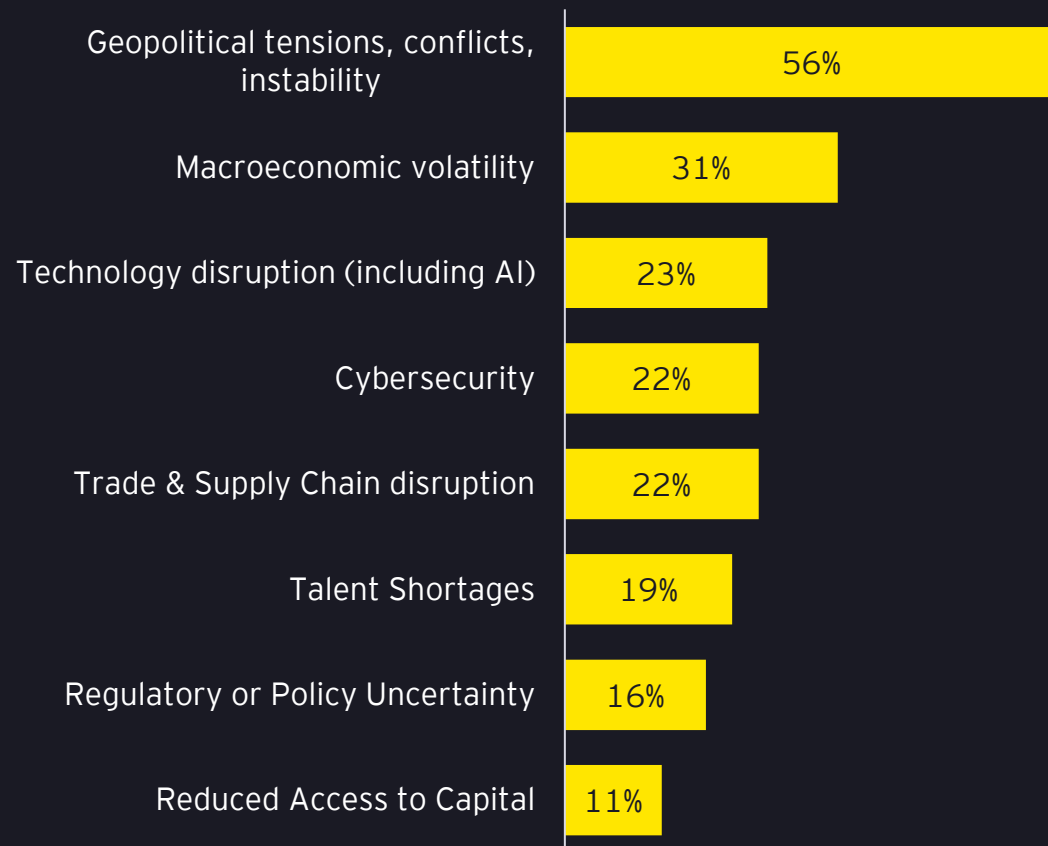
- 7 North America: policy volatility
- 8 Asia-Pacific: economic security
- 9 Europe: at a crossroads
- 10 Middle East: recalibration



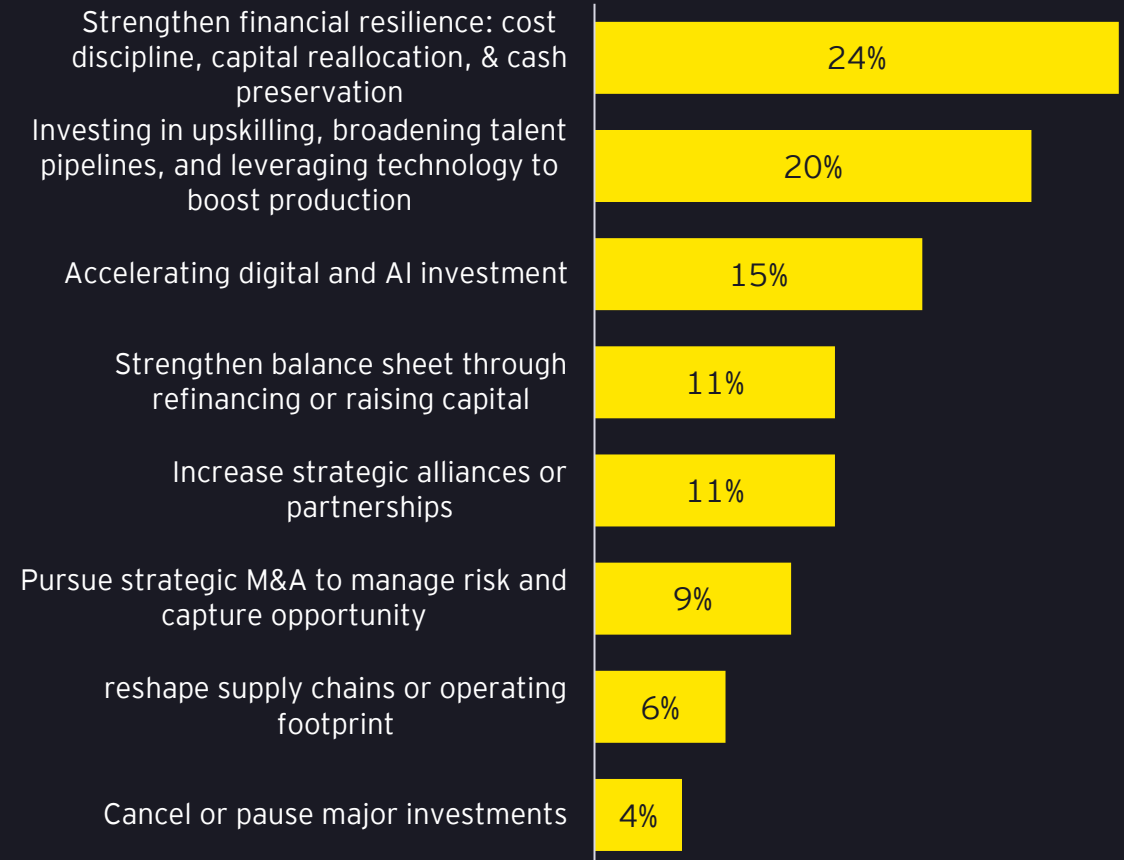
Source: EY-Parthenon Geostrategic Business Group

# Geopolitical tensions top of CEO's near-term risks, but respond to volatility by tightening execution, not pausing investment

**Question:** What do you consider the most significant risks to your business over the next 12 months?\*

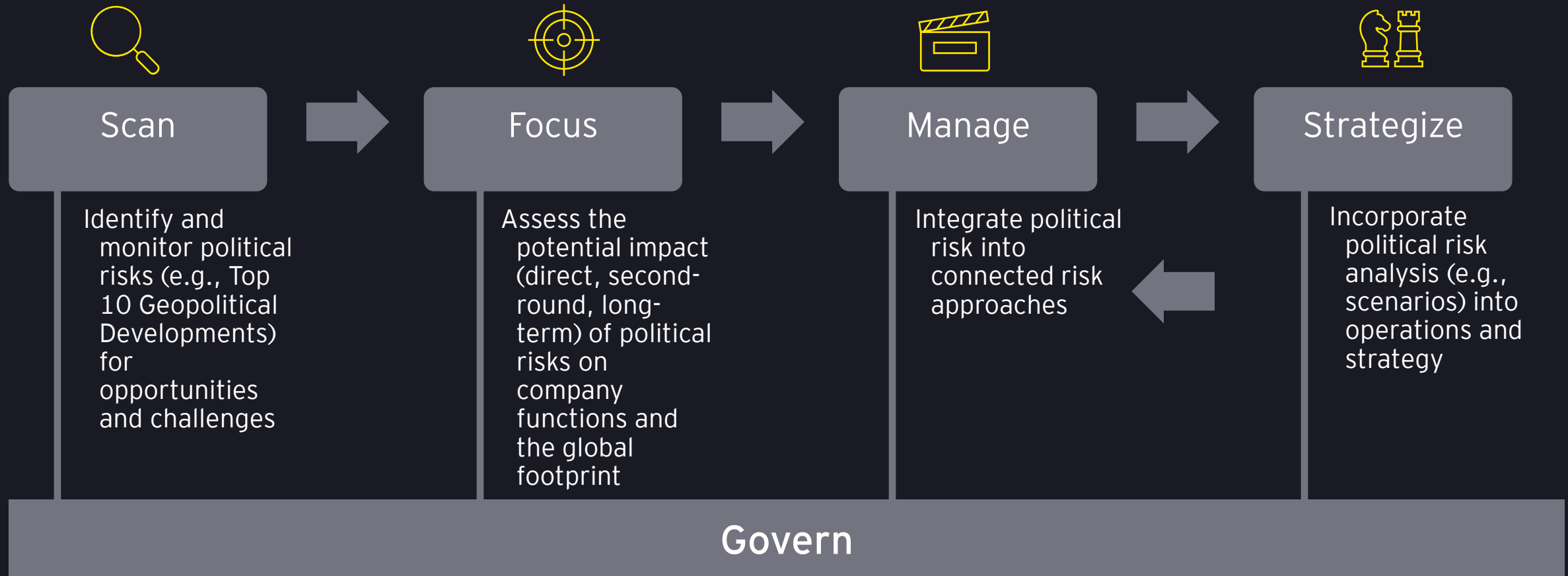


**Question:** How is your organization adapting its strategy in response to current risks and uncertainties? \*\*



Notes: \* - The respondents were allowed to select up to two responses.. \*\* - The respondents were asked to select one option only. The survey was anonymously conducted online between March and April 2026 on 1,200 CEOs of large companies around the world  
Source: EY-Parthenon

# Strategizing for Geopolitical Developments



Source: EY-Parthenon Geostrategic Business Group

# Concluding thoughts

- The Philippines kicked off 2026 on a positive albeit cautious note. Indicators in the first two months of the year show fledgling green shoots: stabilizing foreign exchange, relatively more accommodative monetary policy that was hinged on a stable inflation outlook, and improving economic conditions.
- The outbreak of armed conflict upended previously held assumptions about commodity prices underpinning economic outlook. Already, the economic fallout from the conflict is showing in the economic data - the peso weakening against the dollar, first-round effects manifesting in inflation, and growth threading below expectations. With risks tilted to the downside, outlook on growth was dialled down and inflation forecast revised upward, which could breach the BSP's 4% tolerance ceiling for 2026 and 2027.
- The government declared a national energy emergency and unveiled a whole-of-government approach to respond to the crisis, dubbed UPLIFT, which proceeds on two prongs: energy supply management and targeted social protection interventions. Funding for the latter was already made available in the 2026 national budget, requiring no drastic changes to fiscal policy thereby leaving intact the allocations for continuing and shovel-ready infrastructure projects which are expected to provide support for future recovery.
- The country has long-term growth potential (owing to its infrastructure program, structural reforms, and trade deals). Geopolitics continues to shape the operating environment. The country's going back to its growth trajectory depends on, among others, enterprises adapting their strategy and operating model, enhancing resiliency, and getting geopolitical governance right.

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