

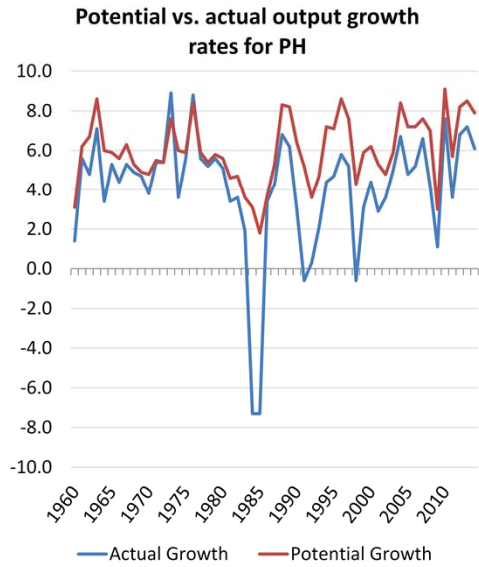
The Philippine Economy in Recent Years

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Contrary to the post-GFC slowdown of potential growth in developing Asia, the Philippines' potential growth did not decline.

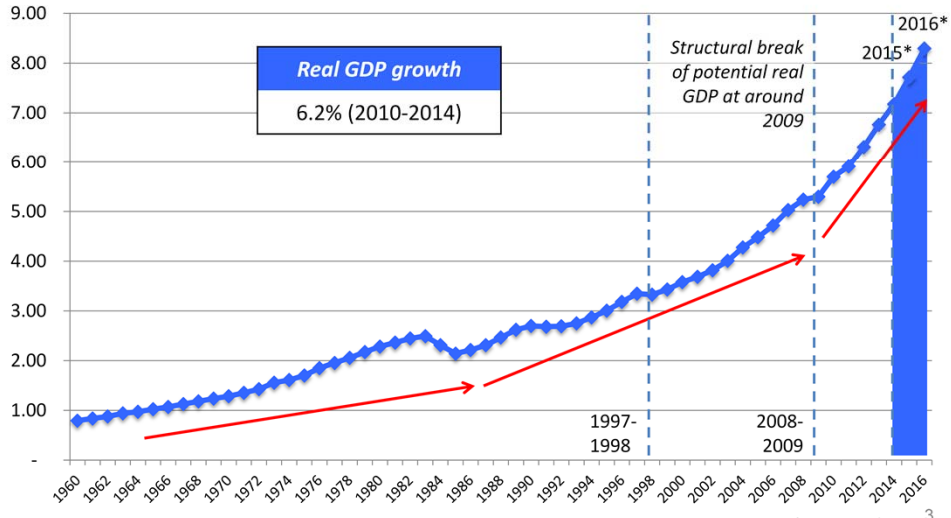


	Philippines
Average before crisis, 2000-07 (%)	4.90 / 6.57
Actual/Potential	
Output Gap (Actual-Potential)	-0.67
Average during crisis, 2008-14 (%)	5.23 / 7.05
Actual/Potential	
Output Gap (Actual-Potential)	-1.82
Percentage point change in Actual and Potential growth rates, During-Before	+0.33 / +0.48
Potential before crisis	Increasing
Potential during/post crisis	Increasing (7.9% in 2014)

Source: Jesus Felipe, "Is developing Asia's growth decelerating?", 7th Meeting of IPAG, 3 August 2014, ADB, Manila.

The Philippine economy is on a higher growth trajectory since the beginning of the current decade.

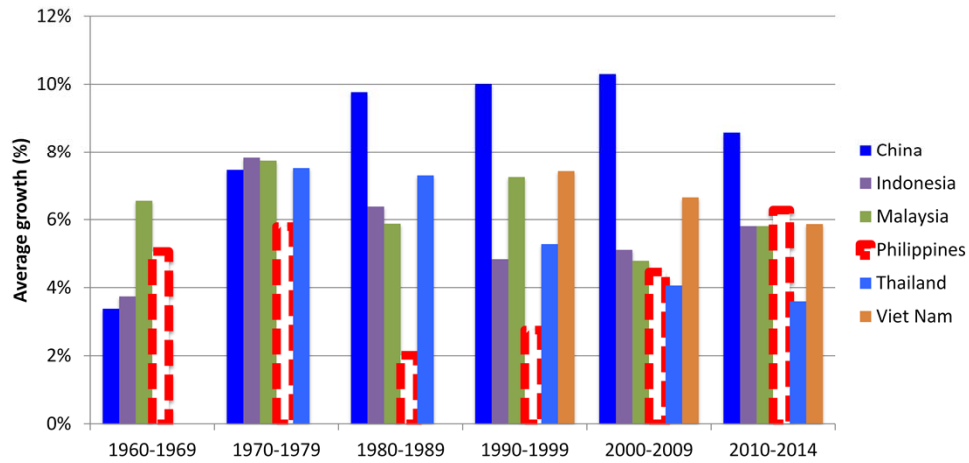
GDP in 2000 billion Php, 1960-2016*



Source: PSA. *Projected

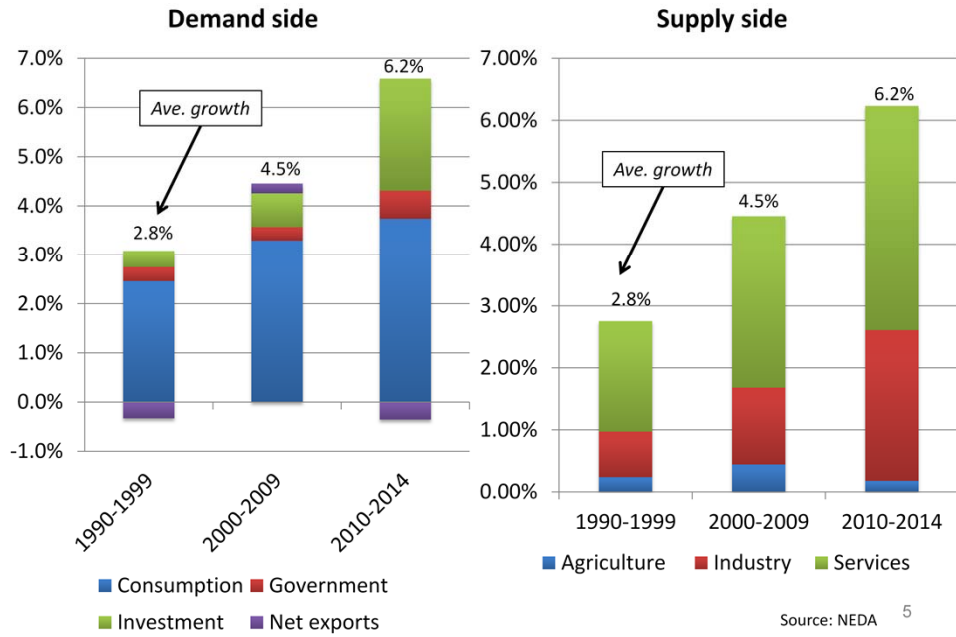
Philippine growth from 2010-2014 is the second-highest among major emerging economies in Asia, next only to China.

Average growth of GDP per decade (in constant 2005 prices)



Source: WDI.

**Recent gains in “rebalancing the economy”:
Investment and industry are becoming larger
drivers of Philippine GDP growth.**



Share of Investment:

1990-1999: 12%

2000-2009: 15%

2010-2014: 37%

Share of Industry:

1990-1999: 27%

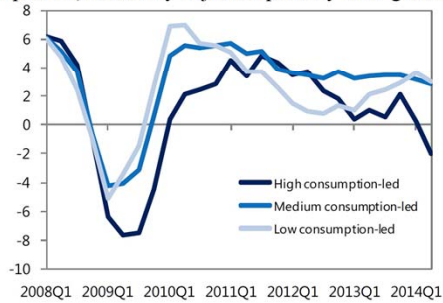
2000-2009: 28%

2010-2014: 39%

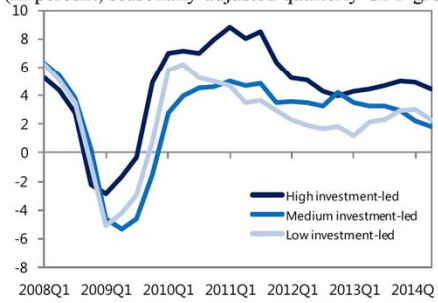
Why is this important?

Evidence shows that economies whose growth is investment-led tend to recover more quickly from external shocks than those whose growth is consumption-led.

13c. By Consumption-led degree
 (In percent, seasonally-adjusted quarterly GDP growth)



13d. By Investment-led degree
 (In percent, seasonally-adjusted quarterly GDP growth)

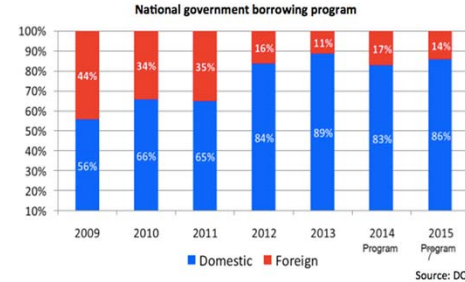
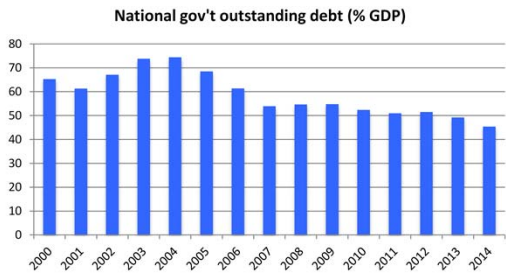
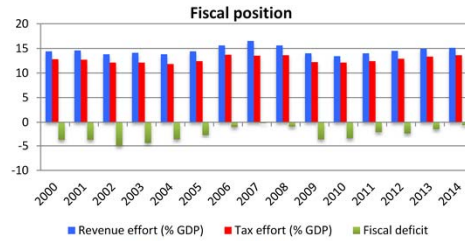
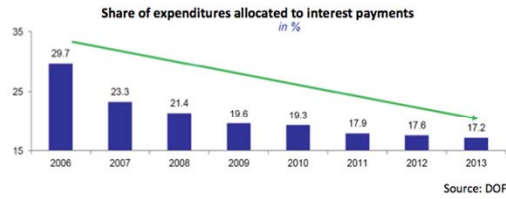


Source: Zhang and Gao [2015] "Emerging market heterogeneity: insights from cluster and taxonomy analysis", IMF Working Paper.

Supporting the PH's remarkable performance are sound macroeconomic fundamentals.

Fiscal side

- Declining external debt & interest payments
- Modest fiscal deficit
- Increasing reliance on domestic financing
- **Result: wider fiscal space**

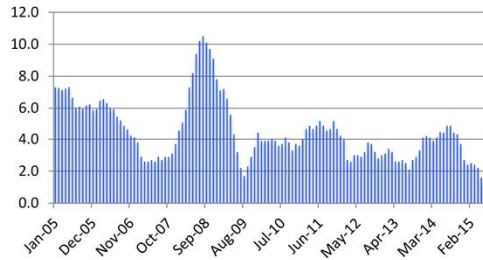


**Supporting the PH's remarkable performance
are sound macroeconomic fundamentals.**

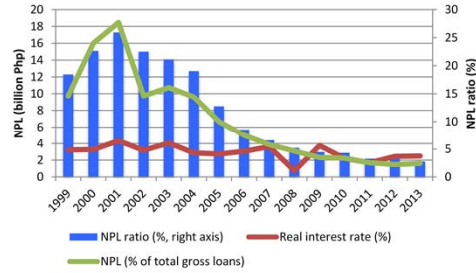
Monetary side

- Robust external position
- Low and stable inflation
- Favorable interest rate & sound banking system

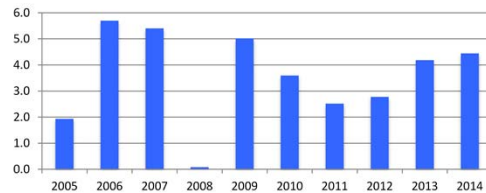
Headline inflation rate (%), Jan 2005 to June 2015



NPL and interest rates (% , rhs)



Current account balance (% GDP)

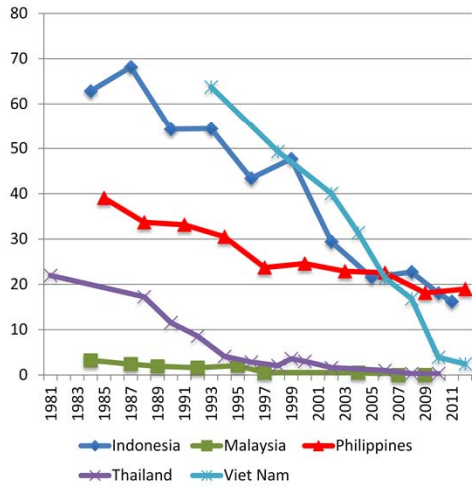


Sources: PSA, BSP.

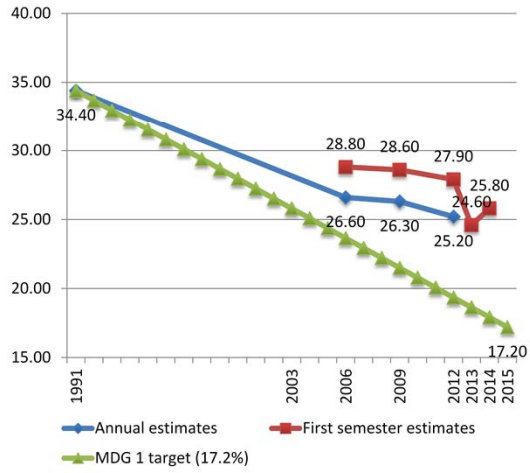
Challenge: making growth more inclusive.

- Weak performance in *poverty reduction* relative to the country's neighbors.

Poverty incidence (%) based on \$1.25 threshold



PH poverty incidence (%) based on official thresholds, 1991-2013



Sources: WDI, PSA.

Challenge: making growth more inclusive.

- The unemployment rate has been decreasing, and the quality of jobs has been improving (i.e., rising share of wage and salaried workers in total employment).
- Underemployment remains stubbornly high.

<i>Indicator</i>	<i>Ave 2010</i>	<i>Ave 2011</i>	<i>Ave 2012</i>	<i>Ave 2013</i>	<i>Ave 2014*</i>
Labor force ('000)	38,893	40,006	40,426	41,022	40,051
Employed ('000)	36,035	37,192	37,600	38,118	37,309
Wage and salary workers (% share to total employment)	54.5	55.2	57.2	58.4	57.9
Unemployment rate (%)	7.3	7.0	7.0	7.1	6.8
Underemployment rate (%)	18.8	19.3	20.0	19.3	18.4

Source: Labor Force Survey, PSA.

*The average estimates for 2014 exclude Region 8. Moreover, average estimates for wage and salary workers are computed using the January 2014 data (which exclude Region 8) and April-October 2014 (which exclude Leyte).

Actual and potential growth in the PH could be aligned better through better allocation of resources at the micro level.

	Potential Output Growth	
	Low: <4% in 2008-14 and declining	Medium-High: >4% in 2008-14 (declining in most cases)
Actual Output Growth	Low	<p>Cyclical downturn (negative temporary shock) – Dislocations in the labor market (unemployment)</p> <p><u>Actual:</u> (i) Stimulus package; (ii) Diversify the economy</p> <p><u>Potential:</u> (i) Do not create excess capacity; (ii) Facilitate the reallocation of labor (especially out of agriculture) into sectors of higher productivity as actual growth increases; (iii) Tackle low organizational capabilities; (iv) Training</p> <p>Pakistan; Malaysia; Kazakhstan</p>
	Medium - High	<p>Do not do harm...monitor both rates to keep them high and at about the same rate</p> <p>Nevertheless:</p> <p>(i) Do not create excess capacity; (ii) Increase firm-level productivity, reduce factor misallocation and tackle low organizational capabilities; (iii) Facilitate the reallocation of labor (especially out of agriculture) into sectors of higher productivity; (iv) Training</p> <p>PRC; India; Indonesia; Philippines; Vietnam; Cambodia; Bangladesh; Singapore; Sri Lanka; Azerbaijan; Uzbekistan; Turkmenistan; Tajikistan</p>
	<p>Boost both rates in tandem</p> <p><u>Actual:</u> Stimulus package</p> <p><u>Potential:</u> (i) Increase firm-level productivity (service sector); (ii) implement policies to increase labor force growth (e.g., immigration)</p> <p>Japan; Korea Rep. of.; Taipei, China; Hong Kong, China; Thailand</p>	<p>Watch out if government pushes demand-side levers (inflation)</p> <p><u>Potential:</u> (i) Increase firm-level productivity (move into highly complex activities); (ii) Implement policies to increase labor force growth (e.g., fertility)</p>

Source: Jesus Felipe, "Is developing Asia's growth decelerating?", 7th meeting of IPAG, 3 August 2015.

Current efforts to addressing the key constraints to inclusive growth

Goal: Facilitate structural transformation from low to high productivity areas/sectors of the economy, & make growth more inclusive and environmentally sustainable

- Building efficient **infrastructure**: Transport, logistics, flood control
- Upgrading **skills** and capacity for **innovations**: Education, health, social protection
- Deepening reforms in **economic regulation**: Ease of doing business
- Investing in **disaster risk management** and community resilience
- Securing just and lasting **peace** in Mindanao

Thank you!