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# PHILIPPINE ECONOMIC UPDATE

# PURSUING INCLUSIVE GROWTH THROUGH SUSTAINABLE RECONSTRUCTION AND JOB CREATION

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## TABLE OF CONTENTS

PREFACE .....

#### Recent economic and policy developments

Despite Typhoon Yolanda and a string of natural disasters throughout 2013, Philippine economic growth accelerated to 7.2 percent in 2013.

Higher growth was underpinned by the robust performance of consumption and services, and supported by the expansion of investments and manufacturing.

## Prospects, risks, and policies

Amid the challenging global environment and the impact of Typhoon Yolanda, the Philippines is likely to sustain high growth in the medium-term.

#### Medium-term agenda: Working together to address the jobs challenge

Notwithstanding higher growth in recent years, poverty incidence, according to official statistics, declined only moderately between 2009 and 2012.

Underlying the slow progress in poverty reduction is the lack of good jobs, which could have reduced the vulnerability of millions of Filipinos who are the likely victims of calamities.

To increase the chances of success, broad reform coalitions that is, multi-sectoral group

## Output and demand

Despite Typhoon Yolanda and a string of natural disasters throughout 2013, the Philippine economy managed to grow at a remarkable 7.2 percent.

## Poverty and employment

Notwithstanding higher growth, poverty hardly declined between 2009 and 2012.

Figure 5. Poverty reduction was very slow despite higher growth in recent years.	Figure 6. Regional disparities of poverty are huge.
Forum 7 Fredering and an entited and signal	
Figure 7. Employment generation remained relatively weak in October 2012 and October 2013,	Figure 8. While improving in recent months, the rates of unemployment and underemployment
leading to slow progress in poverty reduction.	remained structurally high.

## Typhoon Yolanda

Impact of Typhoon Yolanda

The typhoon severely affected the local economies, which is likely to have long-lasting consequences.

Box 1. Value-added of Philippine exports

In the May 2013 release of the Trade in Value-

The TiVA statistics also show that half of all imported inputs are directed to export production.

### Financial markets

Like other emerging markets, Philippine financial markets experienced large volatilities as investors respond to the planned tapering of the US stimulus program.

Given low inflation, monetary policy remained accommodating, with policy rates maintained at record lows.

## Fiscal policy

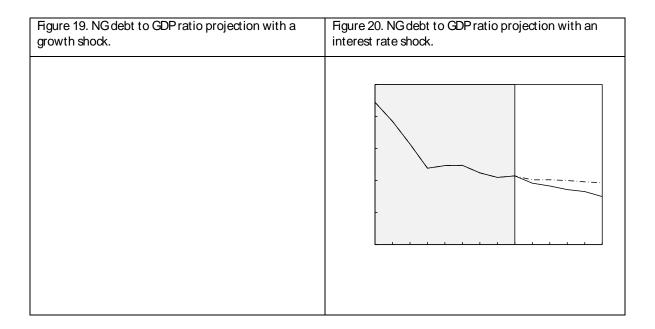
National Government (NG) spending was supported by strong growth in infrastructure spending despite slowdowns in other spending categories.

On the revenue side, overall tax collection continued to improve.

Improvement in tax administration measures remained the main vehicle for generating higher revenues.

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Rampant smuggling and weak customs revenue collection have led to a revamp in the BOC.



Over the medium-term, growth of above six percent can be sustained through an acceleration of infrastructure spending.

Aside from higher infrastructure spending from the budget, the Government

Table 1. Impact of infrastructure spending on 2014 GDP growth

Infrastructure spending Percent of GDP Growth

Other downside risks to growth could come from a slower global recovery, the

industry.

The scaling back of quantitative easing in the US and problems in other emerging markets would result in highe@02i4(Is58 645.94 117.74 14.4 re4 Tf1 0 0 1 72.024 430.27 T209.I79s(

Prices and monetary policy

CPI inflation is expected to accelerate to around 4.5 to five percent, at the high end of

On tax policy, enacting a fiscal incentives rationalization law should be the top priority. $^{37}$ 

On tax administration, current efforts to improve tax compliance need to be sustained while the overhaul of customs administration needs to be accelerated.

In the medium-term, a comprehensive tax reform to lower tax rates, broaden the tax base, and simplify procedures is needed.

37

#### Reconstruction Assistance on Yolanda (RAY)

Recognizing the importance of a quick start to the recovery process, the Government prepared in December 2013 the Reconstruction Assistance on Yolanda (RAY), a strategic plan to guide recovery and reconstruction in the affected areas.

RAY estimates the value of damaged physical assets both public and private at PHP 424 billion (3.7 percent of GDP).

The Government estimates preliminary recovery and reconstruction costs, both public and private expenditure, at PHP 361 billion (3.1 percent of GDP).

RAY proposes a PHP 125 billion budget (1.1 percent of GDP) in 2013 and 2014 to fund the reconstruction effort.

The cost of the reconstruction program in 2014 is likely to increase as the needs assessment is refined and policy decisions are reached.

The RAY proposes that the reconstruction needs will be financed by a combination of government funding and a multi-donor trust fund currently under development.

## Sustainable reconstruction after Typhoon Yolanda

To significantly boost resiliency to natural disasters, the recovery and reconstruction phase needs to be guided by a number of core principles and good practices.

Core principles

The fundamental principle for sustainable reconstruction is that the strate5

To facilitate relief operation and reconstruction, reliable information on roads and bridges is needed immediately in the event of a disaster.

The Government is committed to an open and accountable process for post-Yolanda reconstruction.

# Disaster risk financing and insurance framework

Typhoon Yolanda has underscored the extreme vulnerability of the Philippines to weather-related disasters amplified by dimate change.

Development challenge	Response of the government

-

The central policy challenge facing the Philippines is how to accelerate inclusive growth the type that creates more and better jobs and reduces poverty

The jobs challenge

The Philippines faces an enormous jobs challenge.

Every year in the last decade, only about a fourth of the potential entrants to the labor force get good jobs.

Higher growth can provide more Filipino workers with good jobs.

This section tells the Philippine story as seen through the jobs lens.

### The Philippine development story

The Philippines enjoys a wide range of assets to draw upon for its development.

In spite of its strengths, the country has so far not lived up to its potential.

growth, when compared with other countries in the region, is its historically weak economic growth record.

With limited domestic job opportunities, about 10 million Filipinos and their

The Aquino Government has demonstrated that it is not afraid to tackle vested interests in areas that had previously been too sensitive to reform.

Working together towards a jobs agenda

**Business** 

As a community, businesses of all sizes need to embrace the principle of a level playing field for all, in the interest of accelerating inclusive growth.

In addition, businesses need to extend their corporate social responsibility to their own employees, especially with regard to core labor standards.

When firms make big sacrifices and reach out to their employees, workers

Labor

As food prices fall and job opportunities increase, labor groups can respond by

Agriculture and rural development

The development of the rural sector is a crucial first step for the country to provide more and better jobs for the poor.

Investment and productivity can be improved by securing long-term individual property rights.

Priority should be given to enhancing competition in key sectors of the economy where there is huge potential for reducing poverty and creating jobs for the poor and vulnerable (directly or indirectly). These are ports, shipping, water utility, power, and air transport

In addition to promoting domestic competition, more foreign participation would facilitate technology transfer and innovation, create more jobs, and raise productivity of workers.

In tandem with liberalization, regulatory capacity needs to be strengthened.

#### **Business regulations**

Simplifying rules and regulations in business registration and licensing, entry and exit, paying taxes, and access to finance are needed to encourage rapid growth of businesses of all sizes and encourage movement of small firms to the formal sector and in the process increase their productivity and market access.

Starting a business can be simplified by harmonizing and streamlining procedures.

Moving toward a simplified tax regime for micro and small businesses is warranted to reduce compliance costs and encourage movement of firms to the formal sector.

# Labor regulations

There is scope for making labor market regulations more responsive to job creation, especially for small and labor-intensive firms.

Procedural barriers that hinder freedom of association and collective bargaining need to be reduced, and alternative forms of organization for informal workers need to be promoted.

To enhance income protection for the poor, the government could make public works a regular social protection program.

Moving toward universal social insurance and health care coverage for all

On infrastructure, investments would need to focus on projects that have strong employment, income, and poverty impacts.

On basic education, priority would have to be given to achieving universal primary education and expanding secondary net enrollment by increasing

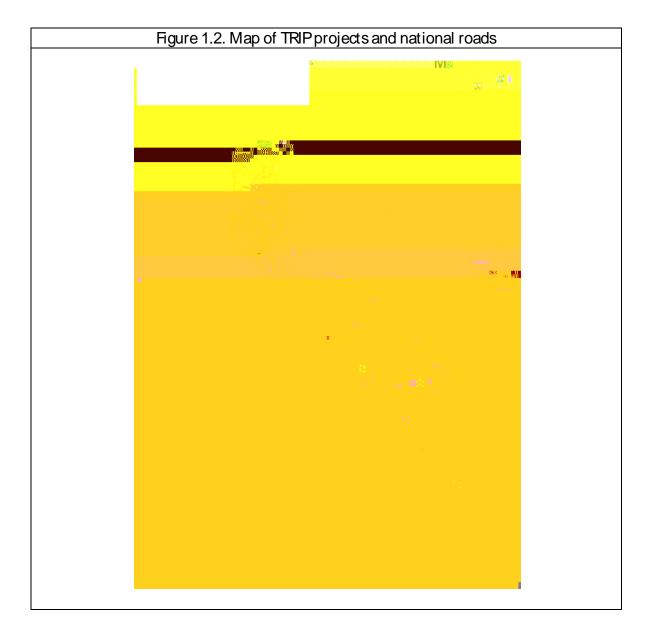
### Philippine tourism industry challenge

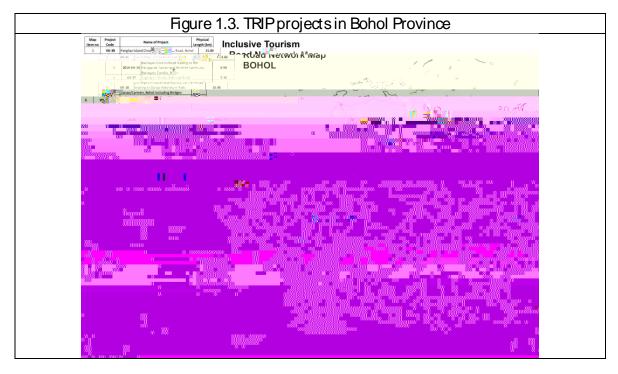
Despite a range of natural endowments and a highly service-oriented culture, the number of international tourists to the Philippines has been lower than potential

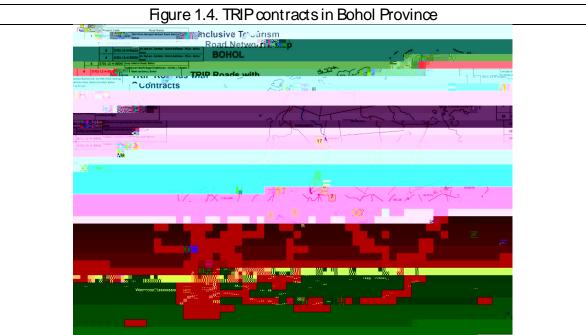
Philippines is taking a number of concerted actions to improve its tourism infrastructure.

at least five

While the TRIP network will be important to enhance tourism flows to promising destinations, wider potential poverty reduction impacts of the program will depend on exploiting demand linkages notably to rural producers.







Selected references

## Impact evaluation of the KALAHI-CIDSS

The KALAHI-CIDSS (Kapit-Bisig Laban sa Kahirapan

The KALAHI-CIDSS was designed to minimize the risk of elite capture and it appears to have been successful in doing so.

## Table 2.1. KALAHI-CIDSS impact evaluation report card

Key indicators	Sign	Sze*	Comments/ explanation
Household welfare			
Per capita consumption (log) Overall			
Per capita consumption (log) poor households			

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Table A.1. Key economic indicators (2011 to 2016)