

# Building Inclusive Growth in the Philippines



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**\*The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy**

# Why focus on inclusive growth?

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- Poverty in the Philippines has fallen in recent decades
- However, the reduction has been relatively slow owing both to relatively low growth and to a low elasticity of poverty with respect to growth.
- The low elasticity in turn may owe in part to high and rising inequality.

# Philippine Development Plan and Inclusiveness

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The PDP 2011 suggests that **growth in the Philippines has not been inclusive** for three reasons :

- 1. *Growth has been slow*** when measured against other countries' performance in the region;
- 2. *The benefit of economic and social progress have not been broadly shared;***
- 3. *Issues of corruption and political legitimacy have undermined the people's sense of ownership and control over public policy.***

# Outline

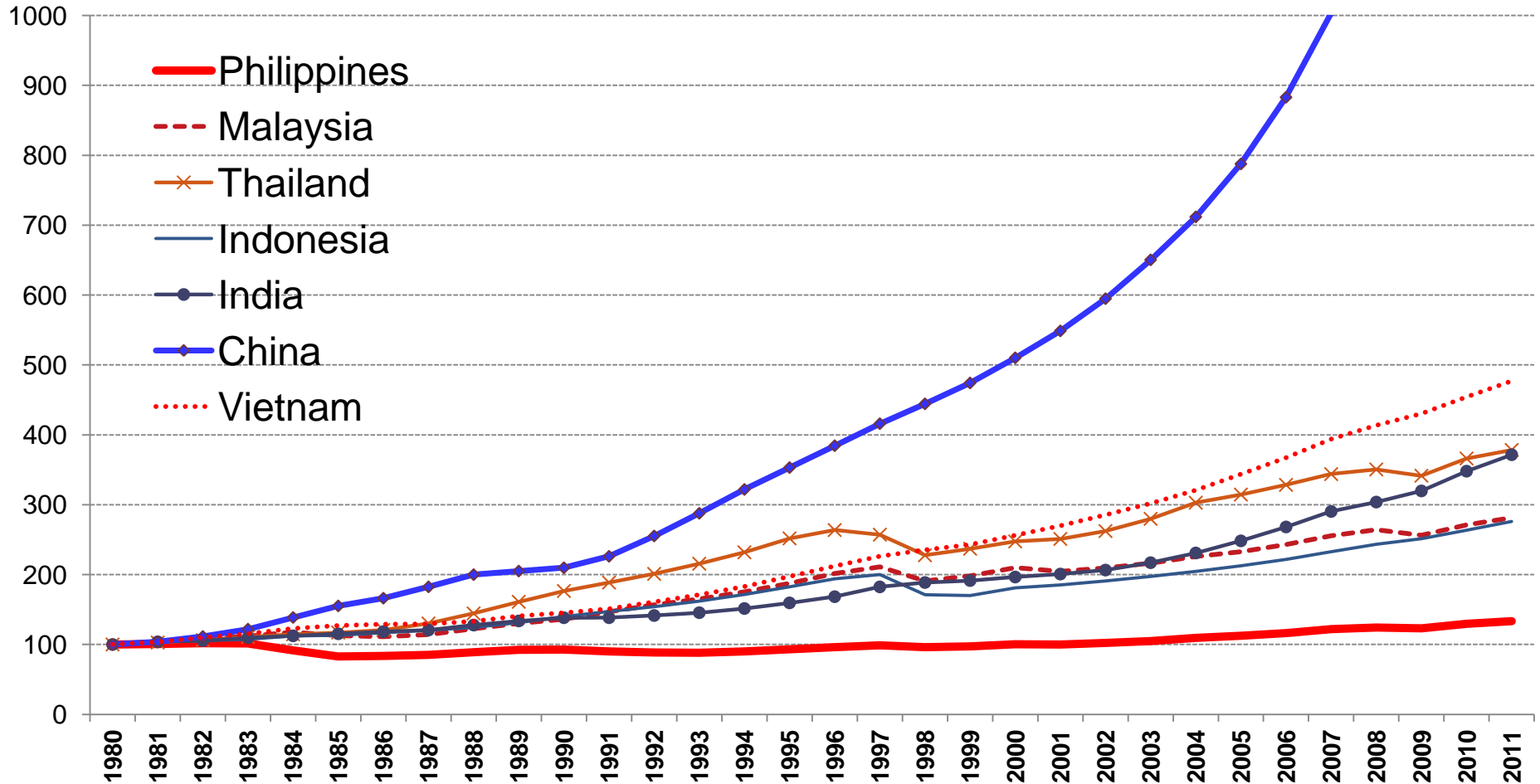
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- 1. How does Philippines compare to other countries?***
- 2. Building Inclusive Growth***
- 3. Policies for Inclusive Growth***

# Philippines' growth has been relatively slow...

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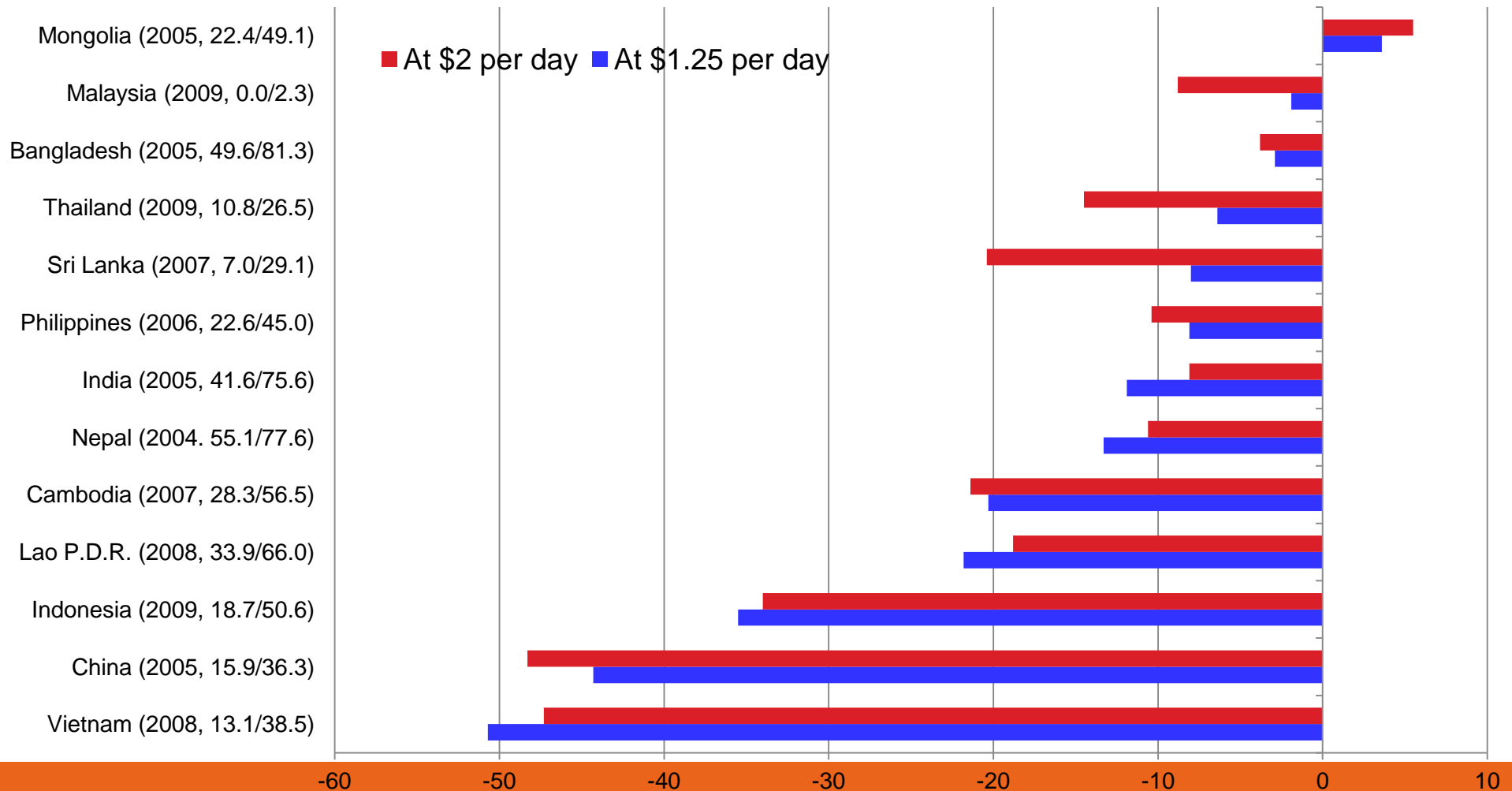
## Real GDP per Capita, 1980=100



# Limiting the reduction in poverty

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## Change in Poverty Headcount Ratio

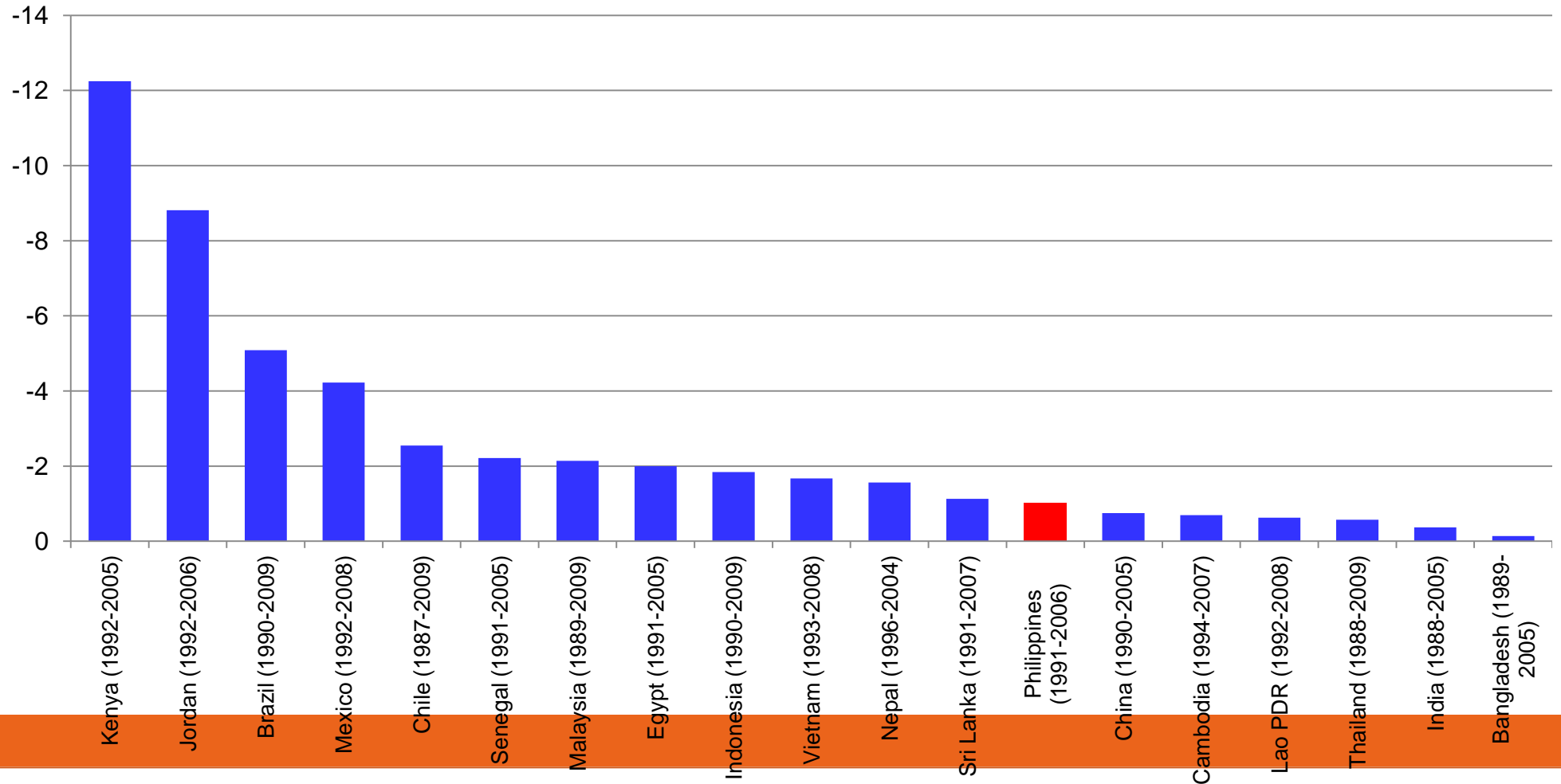


# Particularly because the growth elasticity with respect to poverty reduction has been low...

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## Emerging Markets: Partial Growth Elasticity of Poverty Reduction, Last Two Decades

(percent reduction in \$1.25/day poverty associated with 1 percent GDP growth)

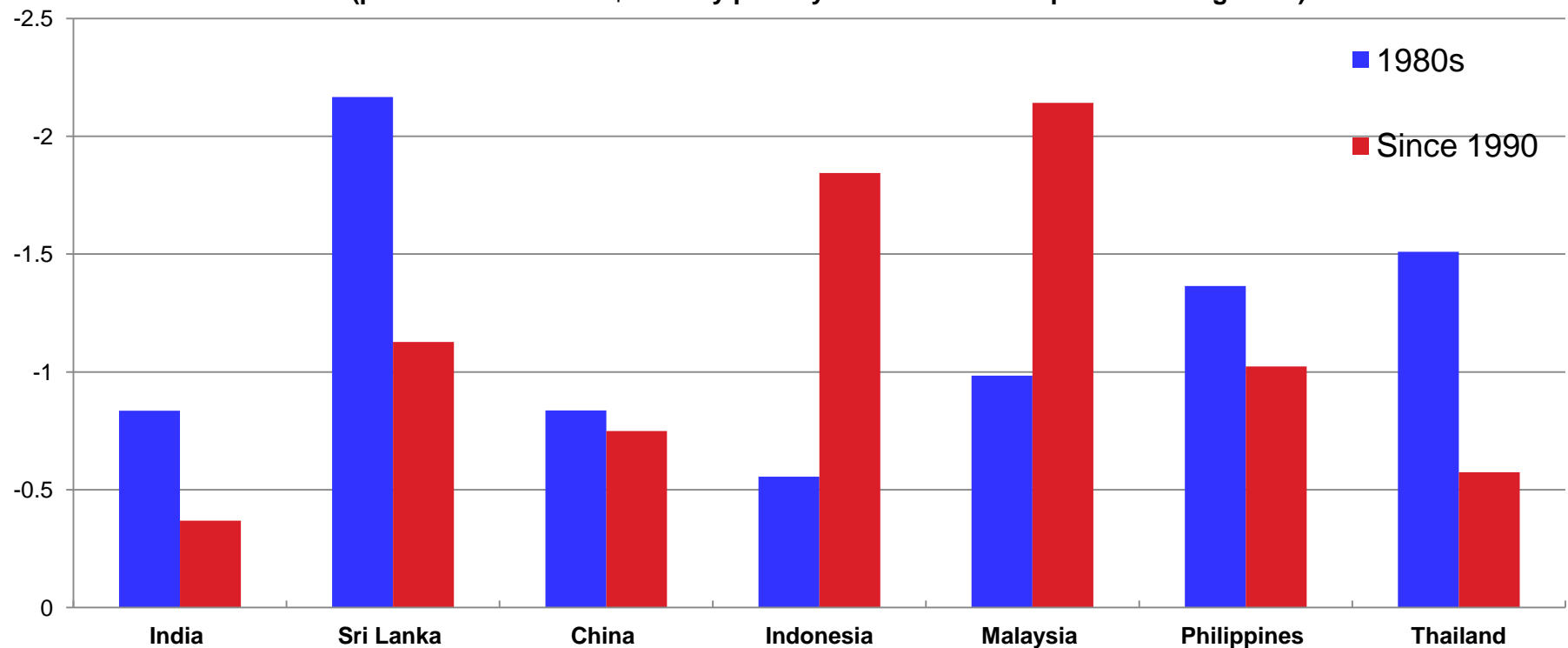


# and has decreased over time ...

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## Selected Asia: Partial Growth Elasticities of Poverty Reduction

(percent reduction in \$1.25/day poverty associated with 1 percent GDP growth)



Sources: World Bank Pov Cal Database; IMF WEO database and staff calculations.



# Partly owing to high and rising inequality...

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## Gini Index



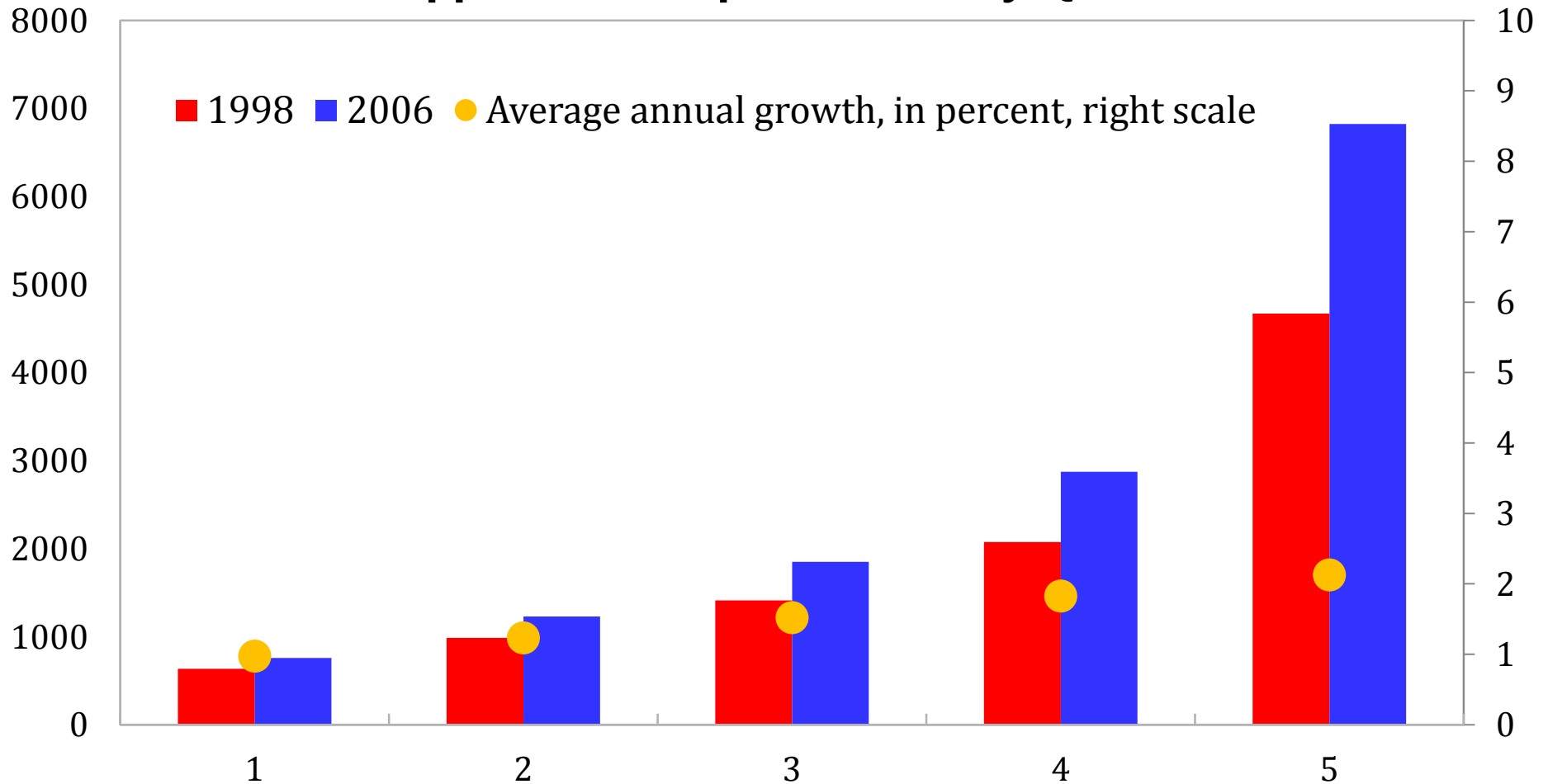
Source: PovcalNet, World Bank, REO - IMF (Oct 2011)

In parentheses is the latest available year.

# Resulting in the gap between rich and poor widening.

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## Philippines: Per Capita Income by Quantile

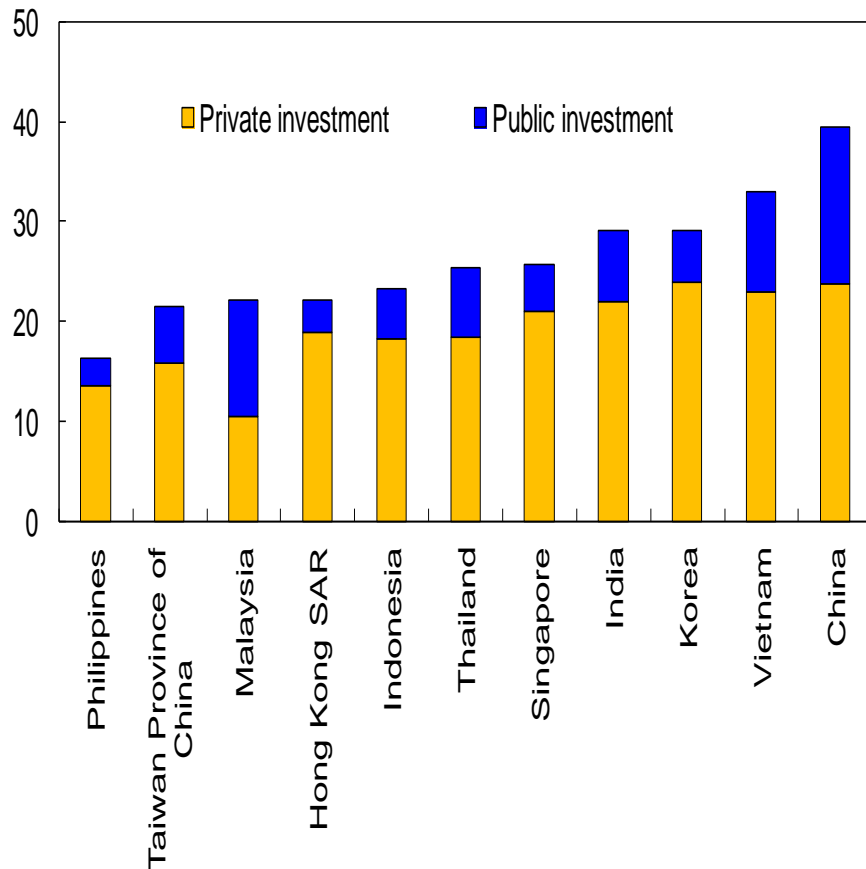


- 1. *How does Philippines compare to other countries?***
- 2. *Building Inclusive Growth***
- 3. *Policies for Inclusive Growth***

# Low investment and unemployment has long been a constraint to higher growth in the Philippines

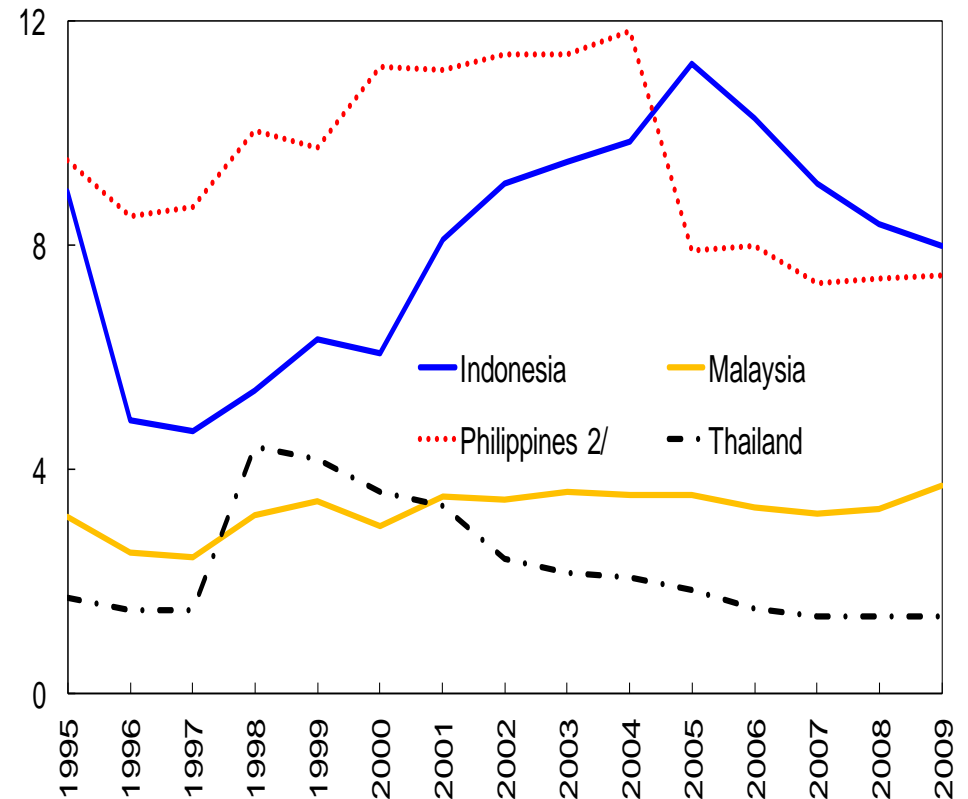
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Investment  
(In percent of GDP, 2000-09 average)



Source: WEO database.

Unemployment Rate 1/  
(In percent)



Source: WEO database.

1/ National definitions may vary. 2/ The definition was revised in 2005.

# ***Growth has been pro-poor in emerging markets, but rising inequality retards reductions in poverty reduction***

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## **Estimation of the Model, Full Sample**

*(Dependent variable:  
Headcount Ratio)*

<b>Variable</b>	<b>Estimates</b>
Constant	1.79 (1.3)
Income	-0.480*** (-6.65)
Gini Coefficient	1.23*** (3.63)
Observations	279
Adjusted R-squared	0.92

**Source:** IMF staff calculations

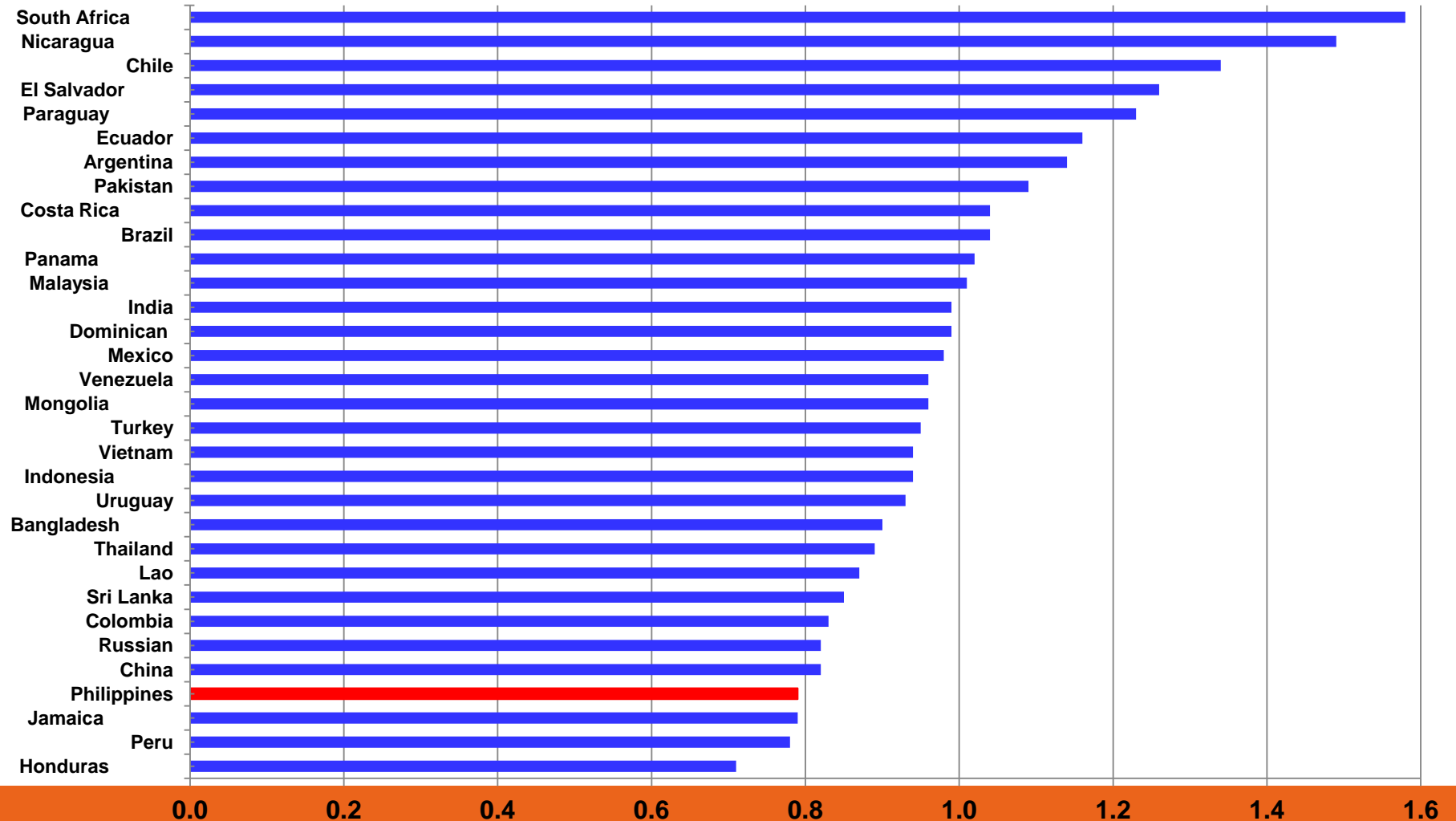
**Note:** t statistics are in parentheses; \*\*\* denotes significant at the 1 percent level.

*In order for growth to be sustainable and effective in reducing poverty, it needs to be inclusive. Growth is inclusive if the incomes of poor people grow faster than those of the population as a whole (i.e., inequality declines or the ratio of incomes of the poor to mean income rises).*

# The degree of inclusiveness is relatively low in the Philippines...

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## Degree of Inclusiveness



***In addition to growth, the multiple factors behind rising inequality suggest that a set of mutually reinforcing policies will also likely be needed to increase inclusiveness.***



**Estimation of the Model Using Beta, Full Sample**

*(Dependent variable: Ratio of the bottom quantile to mean per capita income (beta))*

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Constant	26.4*** (43.3)	21.7*** (45.1)	22.4*** (17.3)	20.1*** (8.81)	20.4*** (24.4)	26.5*** (30.9)	25.1*** (41.9)	100.3*** (28.3)	30.4*** (10.55)	26.2*** (45.9)	24.4*** (18.8)	21.8*** (10.6)	25.1*** (77.3)	17.3*** (5.88)	19.97*** (4.77)
Consumer Price Index	-0.40** (-2.58)													-0.39* (-1.67)	
Health expenditure per capita (US\$)		0.009*** (4.29)													0.009*** (3.19)
Mortality Rate under 5 year (per 1000)			0.05 (1.32)												
School enrollment secondary (% net)				0.03 (0.06)											
Total population								-4.44*** (-2.67)							
Population ages 65 and above (% of total)									-3.49** (-2.00)						-0.95 (-1.56)
Roads' paved (% of total roads)							-0.000039 (-0.94)								
Export to GDP (% of GDP)						-0.05** (-1.98)									0.07** (2.02)
Agriculture's value added (% of GDP)					0.30*** (5.43)									0.29*** (3.81)	0.20** (2.41)
Manufacturing's value added (% of GDP)											0.03 (0.41)				
FDI (% of GDP)													-0.13 (-1.34)		
Credit to GDP (%)										-0.04*** (-2.91)					
Employment in Services (% of total)												0.05 (1.16)		0.12** (2.37)	0.09* (1.89)
Observations	279	206	108	91	291	298	141	308	308	306	294	216	301	185	141
Adjusted R-squared	0.92	0.92	0.85	0.96	0.91	0.91	0.92	0.90	0.90	0.90	0.90	0.94	0.91	0.95	0.98

Source: IMF staff calculations

Note: t statistics are in parentheses; \* denotes significant at the 10 percent level; \*\* denotes significant at the 5 percent level; \*\*\* denotes significant at the 1 percent level;

# Drivers of inclusiveness

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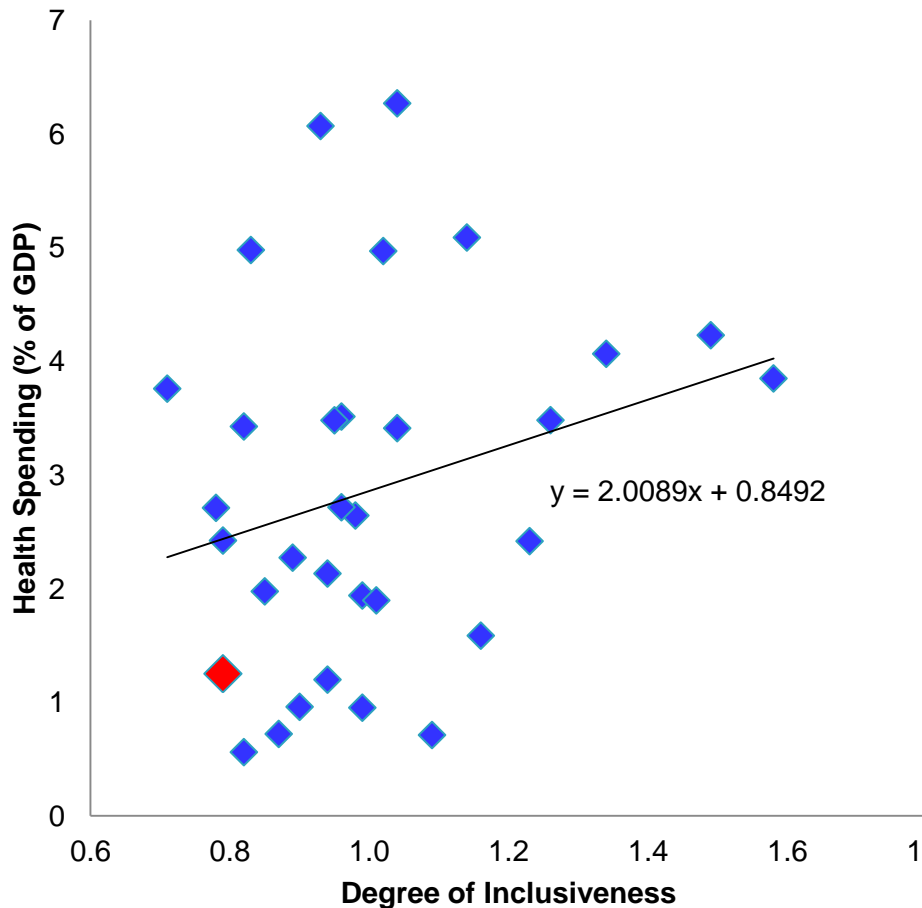
- Higher inflation is detrimental to inclusiveness
- Health spending per capita is associated with greater inclusiveness by augmenting human capital.
- Greater productivity in agriculture raises inclusiveness.
- A higher population growth and a larger elderly population tends to reduce inclusiveness.
- A greater share of employment in services raises inclusiveness.
- Trade openness and credit access can dent inclusiveness.



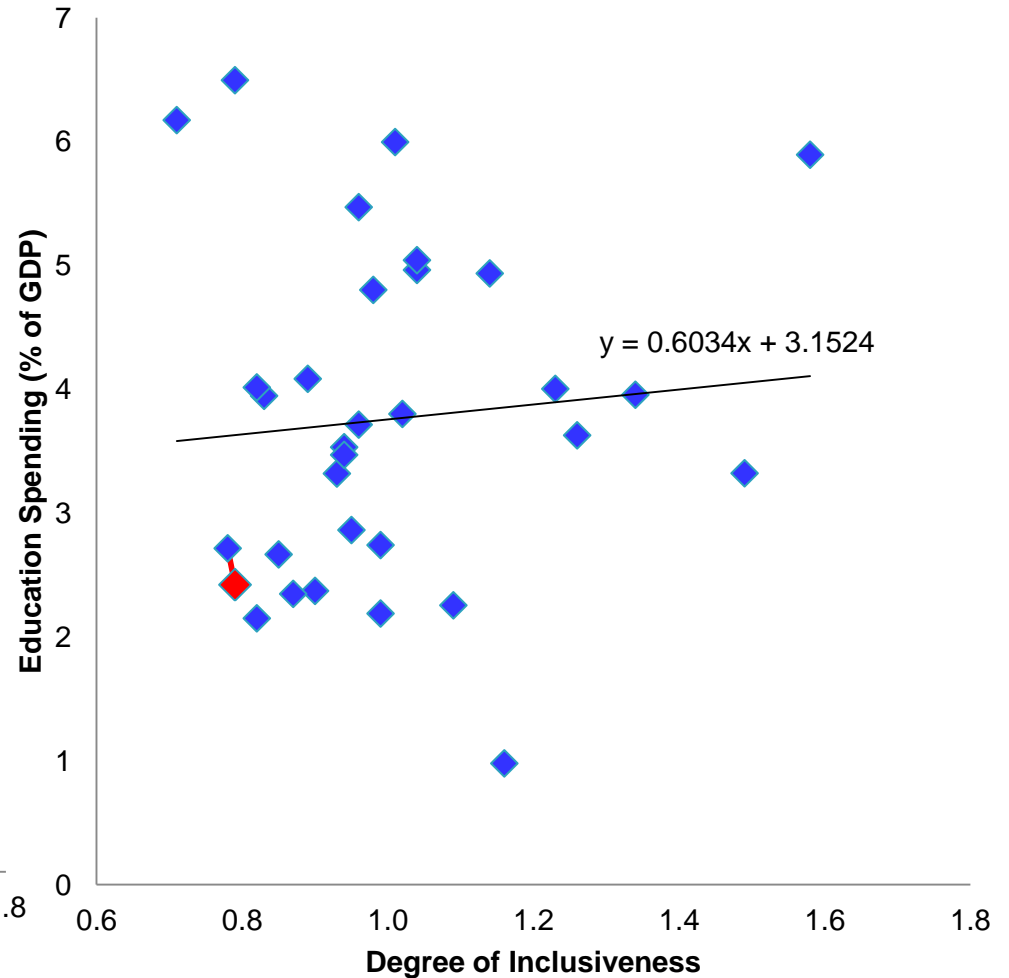
# Social spending has a role to play in building inclusiveness...

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### Degree of Inclusiveness vs Health Spending



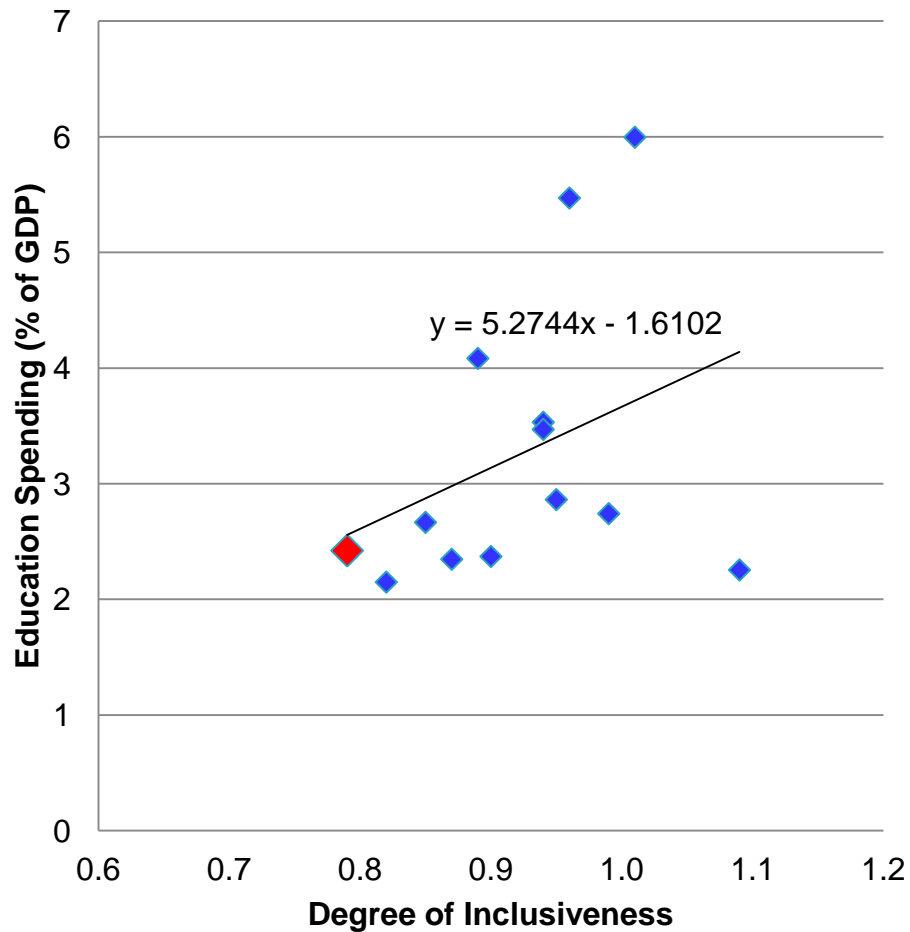
### Degree of Inclusiveness vs Education Spending



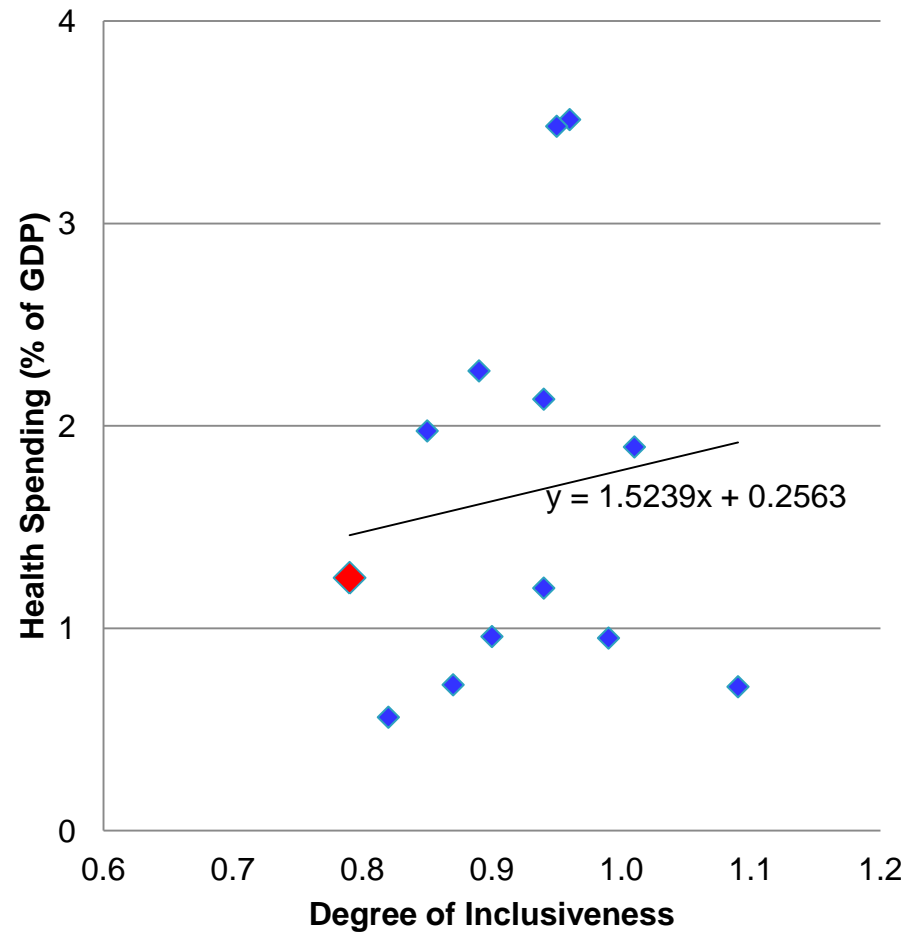
# Particularly in Asia.

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### Degree of Inclusiveness vs Education Spending (ASIA)



### Degree of Inclusiveness vs Health Spending (ASIA)

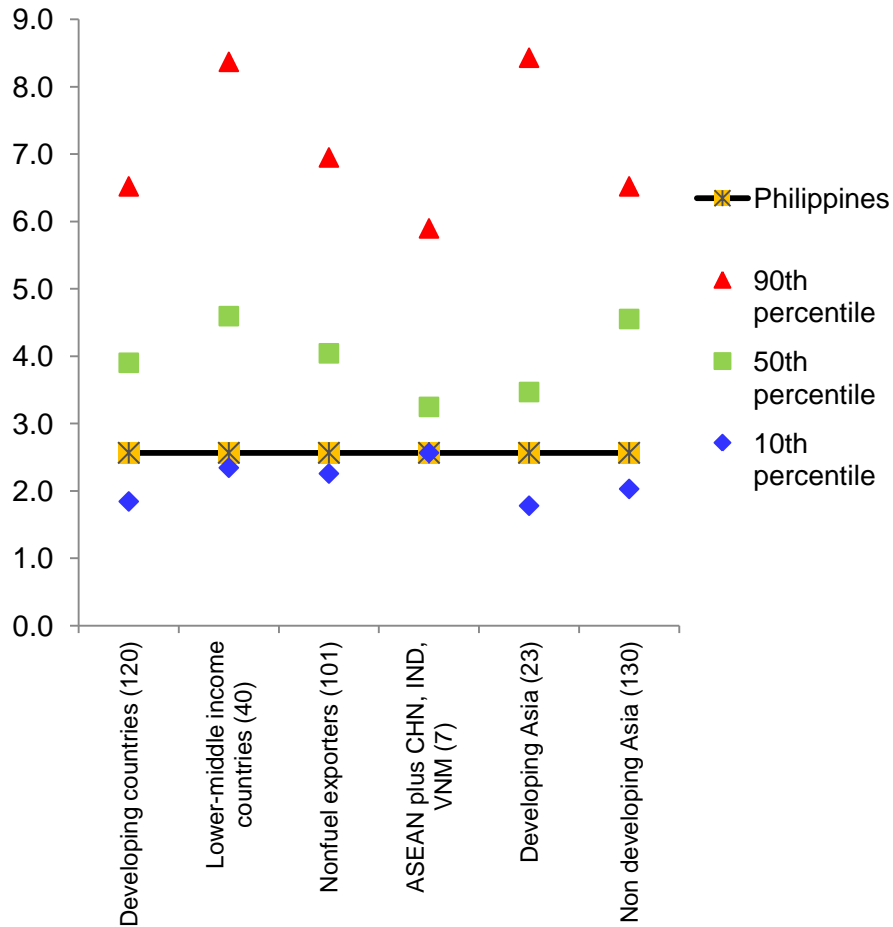


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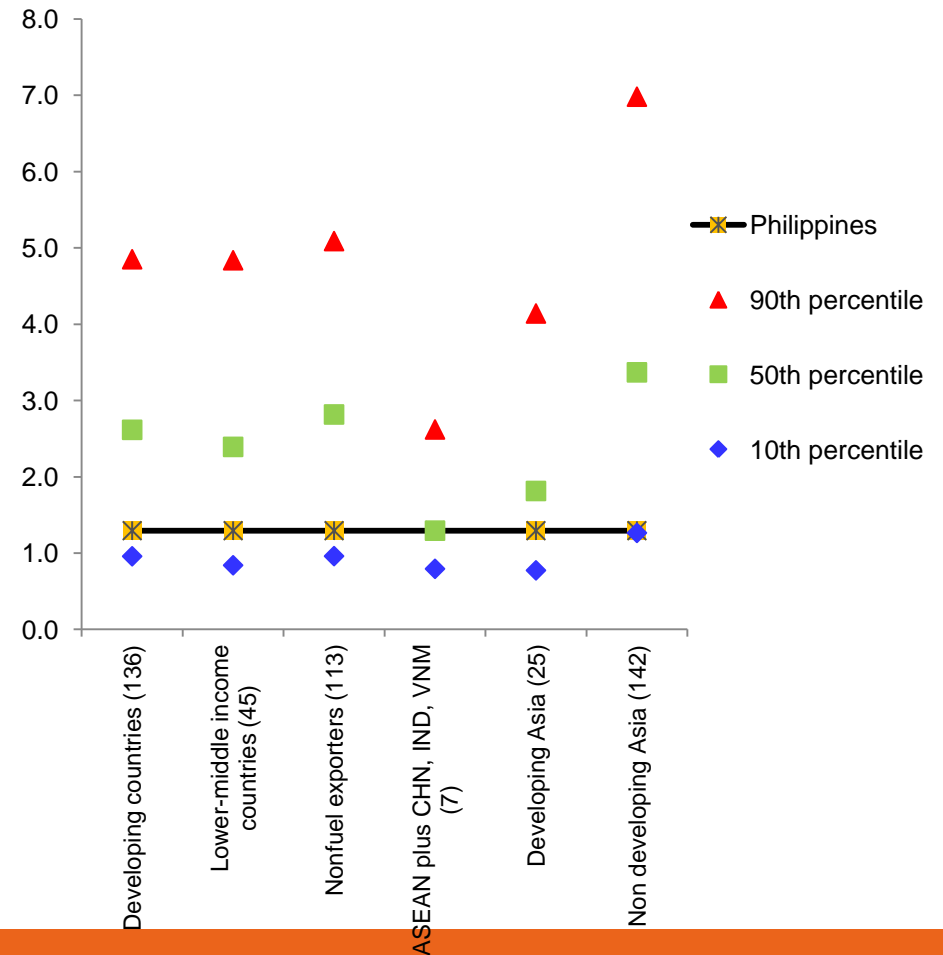
# Philippine' social spending is relatively low

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**Public education spending**  
(in percent of GDP, 2005-9 average)



**Public health spending**  
(in percent of GDP, 2005-9 average)



# Policy Implications

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- Low and stable inflation is critical for inclusiveness.
- The relatively low share of education and health spending in GDP in the Philippines points to an important role for fiscal policy in strengthening inclusiveness.
- High productivity in agriculture (possibly through better infrastructure and extension services) and a shift in labor towards services (BPO) could be expected to improve the distribution of income.