



Philippines: Fostering Stronger and more Inclusive Growth

PIDS Presentation
Manila, Philippines



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March 12, 2013

Plan of the Presentation

ASIA: DEVELOPMENTS AND OUTLOOK

PHILIPPINES: MEDIUM-TERM POLICY CHALLENGES

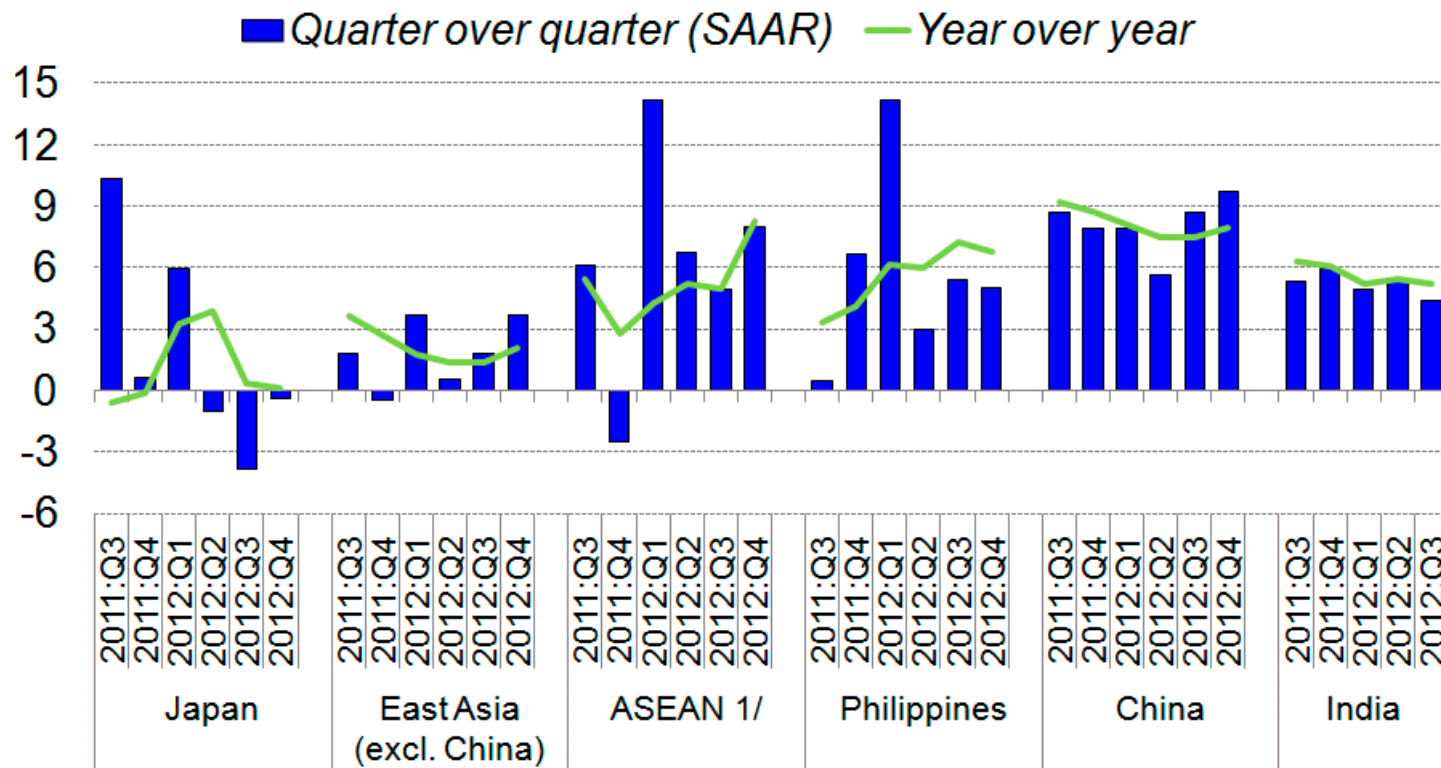
- Sustaining the growth takeoff
- Escaping the middle-income trap
- Achieving inclusive growth

Asia: Recent Developments and Outlook



Growth has stabilized or picked up in most Asian economies

Selected Asia: Changes in Real GDP at Market Prices (In percent)

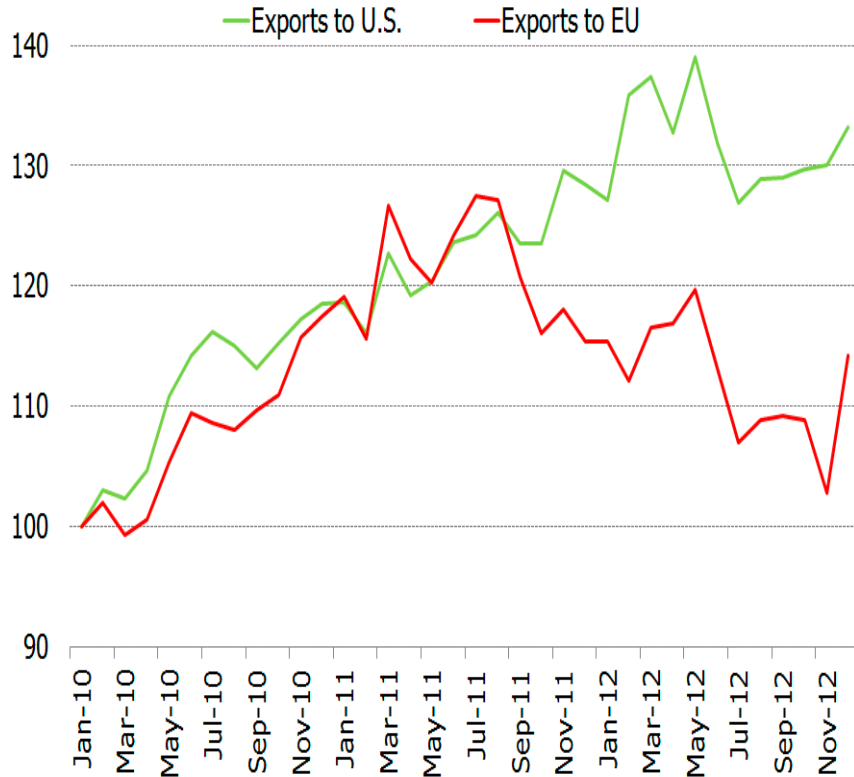


Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.
1/ ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

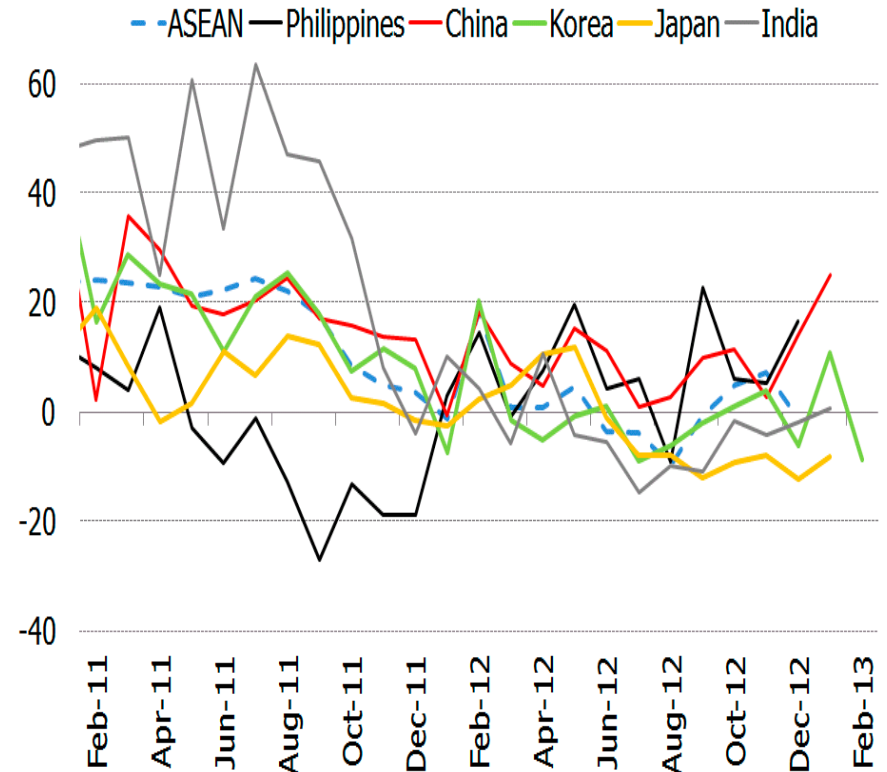


...as external demand shows signs of recovery...

Asia: Exports of Goods to U.S. and EU
(January 2010=100; seasonally adjusted)



Asia: Exports by Economies
(Year-over-year percent change)



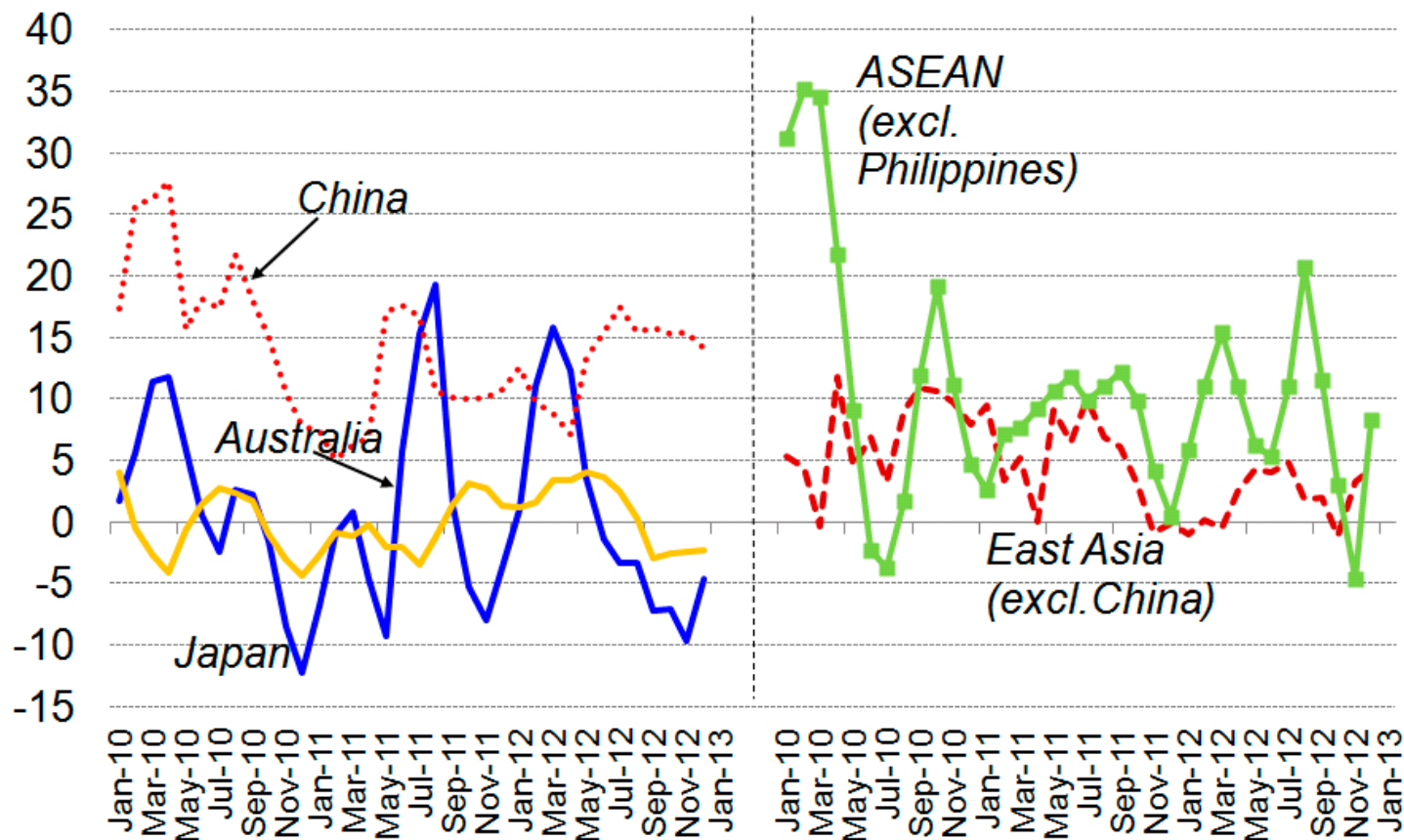
Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.



...and domestic demand remained robust

Selected Asia: Retail Sales Volumes

(3-month percent change of 3-month moving average, SAAR)



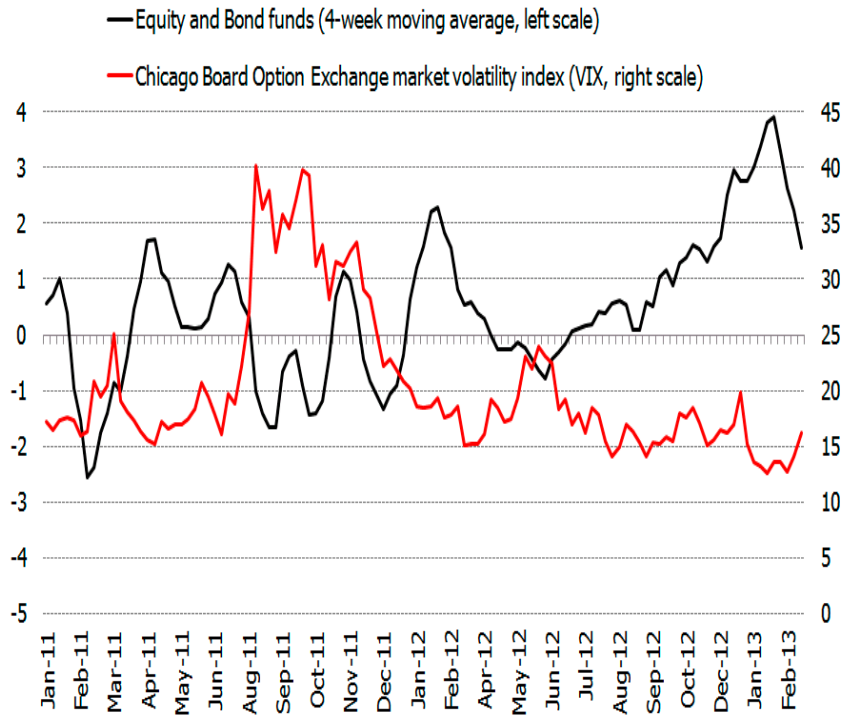
Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.



Strong portfolio flows have moderated of late, but remain solid

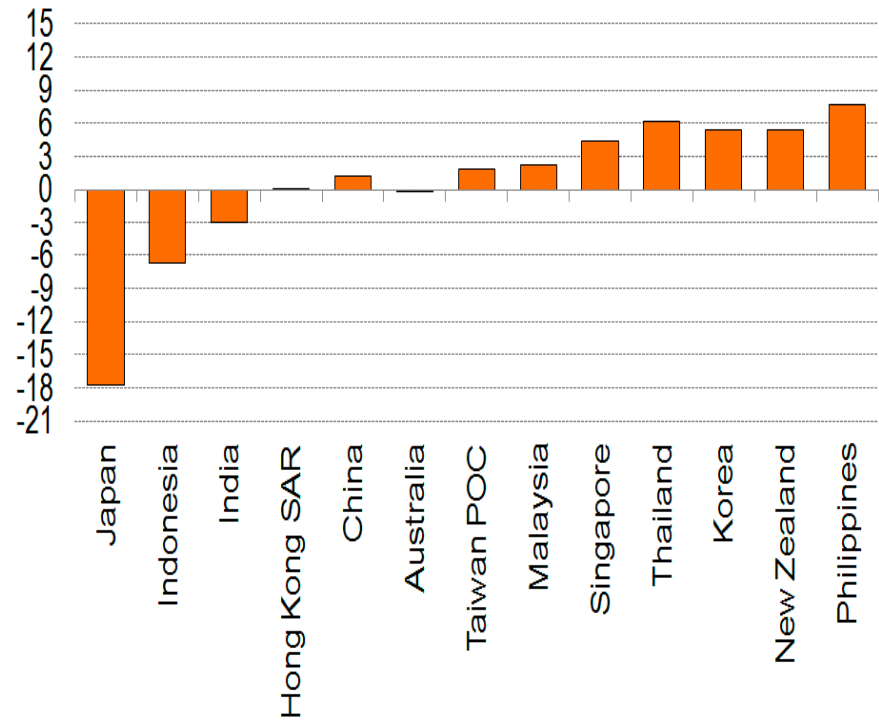
Emerging Asia: Equity and Bond Funds Net Flows

(In billions of U.S. dollars)



Sources: Haver Analytics; and IMF staff calculations.

Asia: Changes in Latest Bilateral Exchange Rates Since End-2011 (In percent, US\$ per national currency)



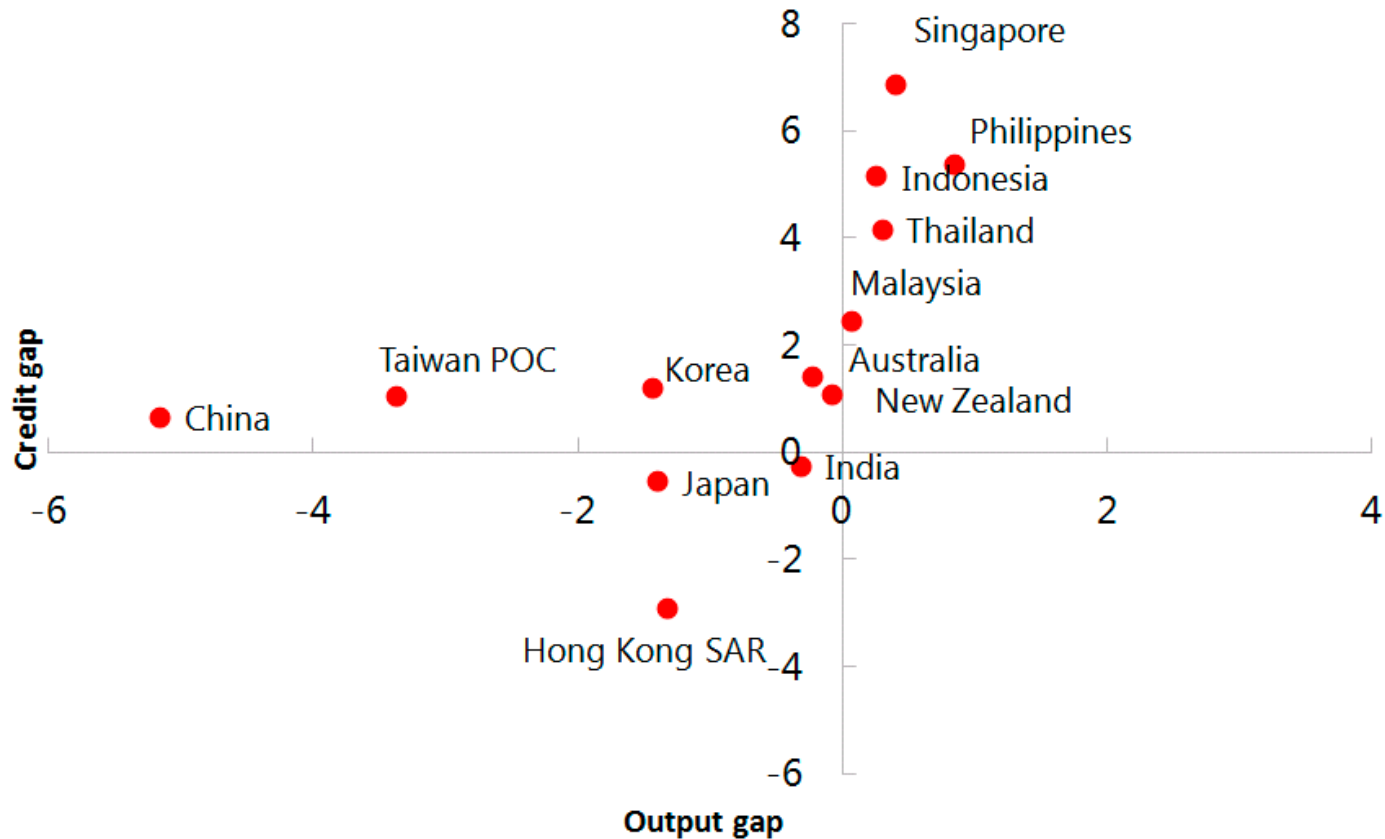
Source: Bloomberg LP.



...Domestic/regional risks need attention too.

Output Gap vs. Credit Gap, Latest

(In percent of potential level)



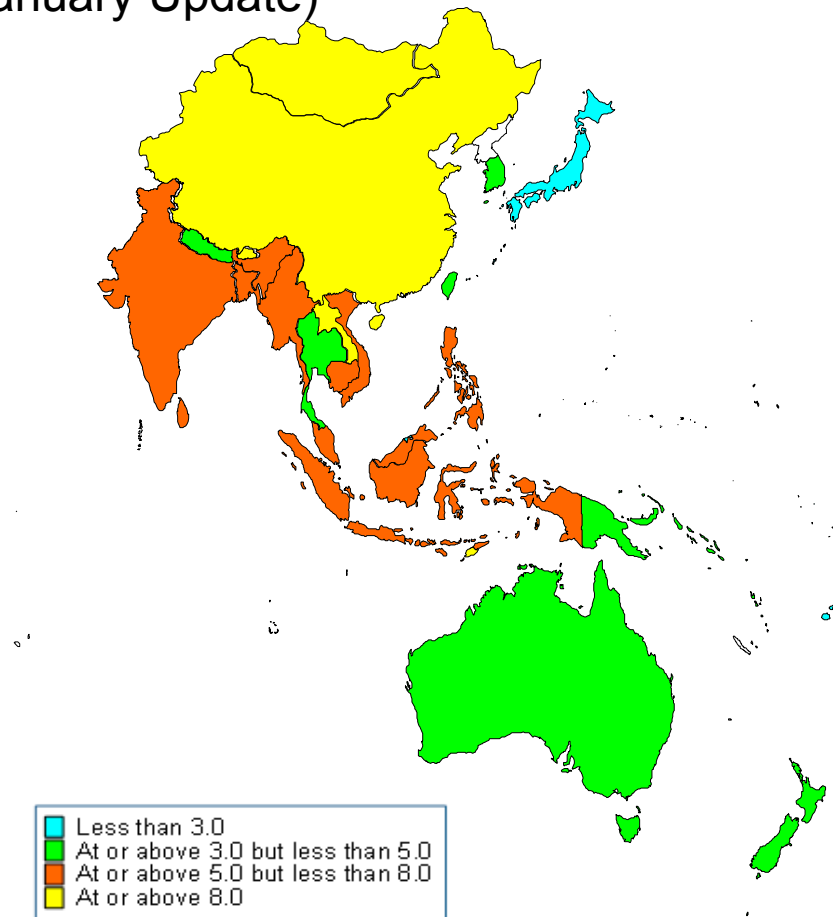
Sources: CEIC Data Co. Ltd; and IMF staff calculations.



Robust growth is expected in 2013, including for the Philippines

Projected Growth for 2013

(WEO January Update)

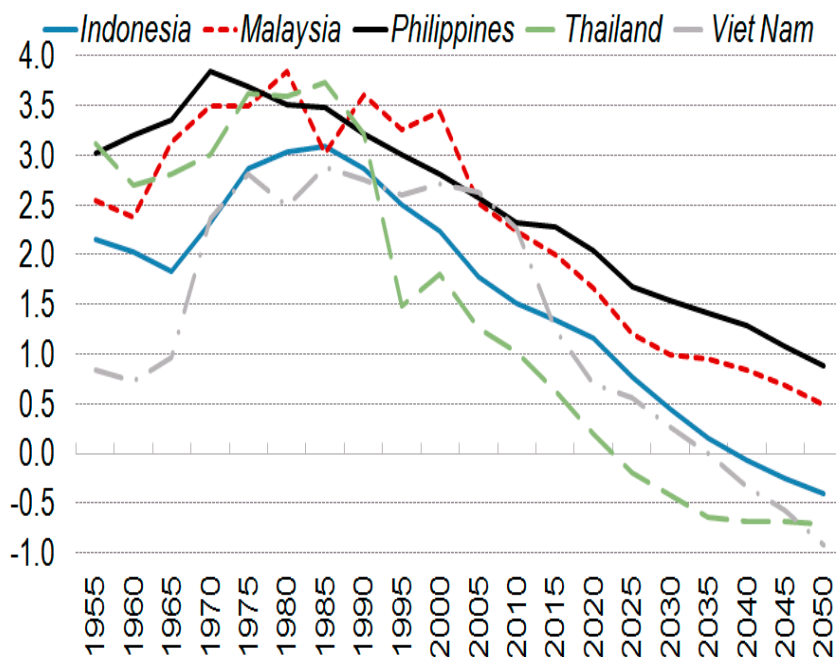


Philippines Growth: Can it be Sustained?



Favorable endowments for growth take-off

Growth of Working Age Population
(population aged 15-64; in percent)



Source: U.N. Population Database; and IMF staff calculations.

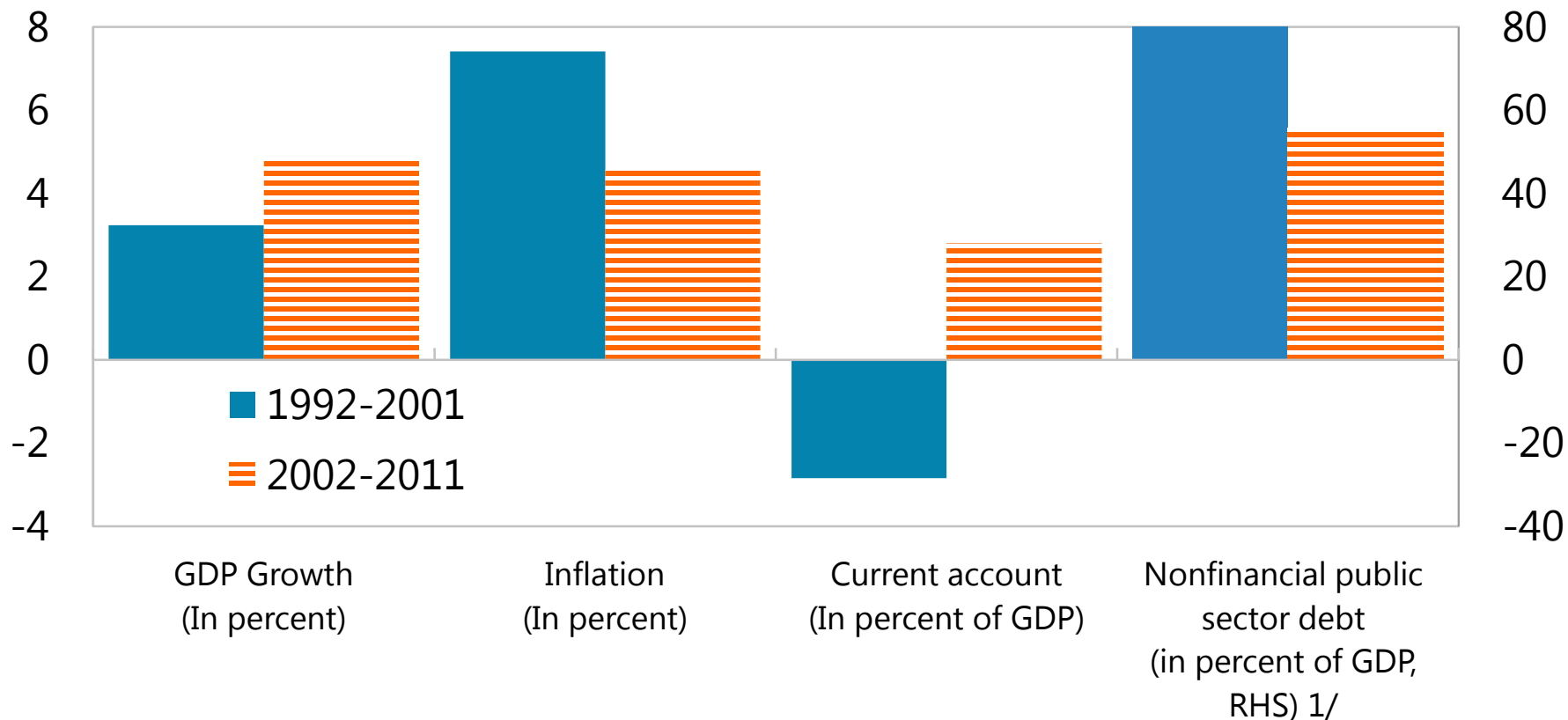
¹ Projections based on the medium fertility U.N. scenario.

- Demographic dividend
- Large domestic market
- ASEAN economic community by 2015
- Mining and tourism potential
- English-speaking workforce



Macroeconomic Stability Established— A Precondition for Growth

Improvement in Economic Fundamentals

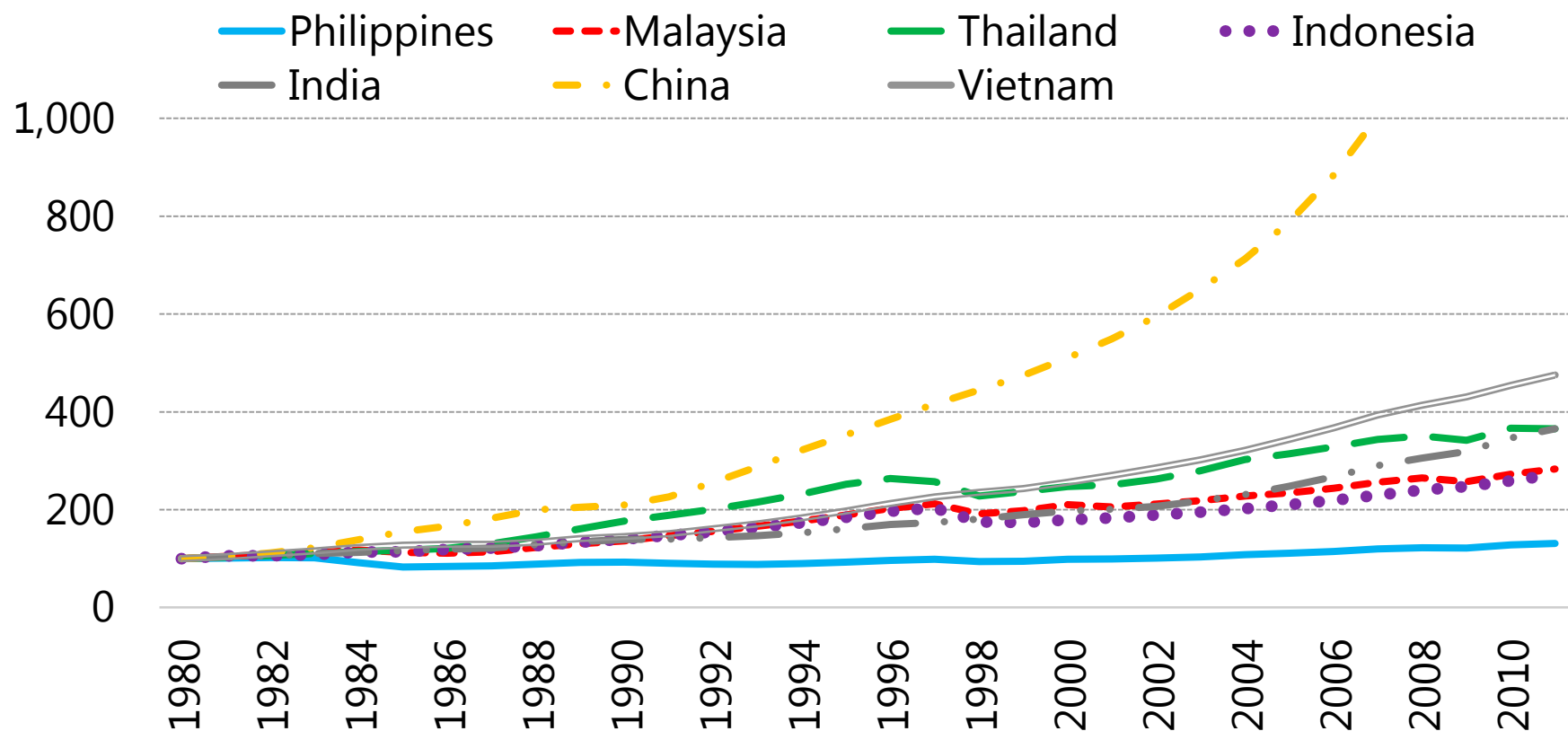


Sources: CEIC Data Company; Philippines authorities; and IMF staff calculations.
1/ Nonfinancial public debt in 2001 (blue) and 2011.



Philippines' Growth Challenge

Real GDP Per Capita, 1980=100



Source: IMF, World Economic Outlook.



But middle income economies at higher risk of a sustained slowdown

There Seems to be a Middle Income Trap ^{1 2}



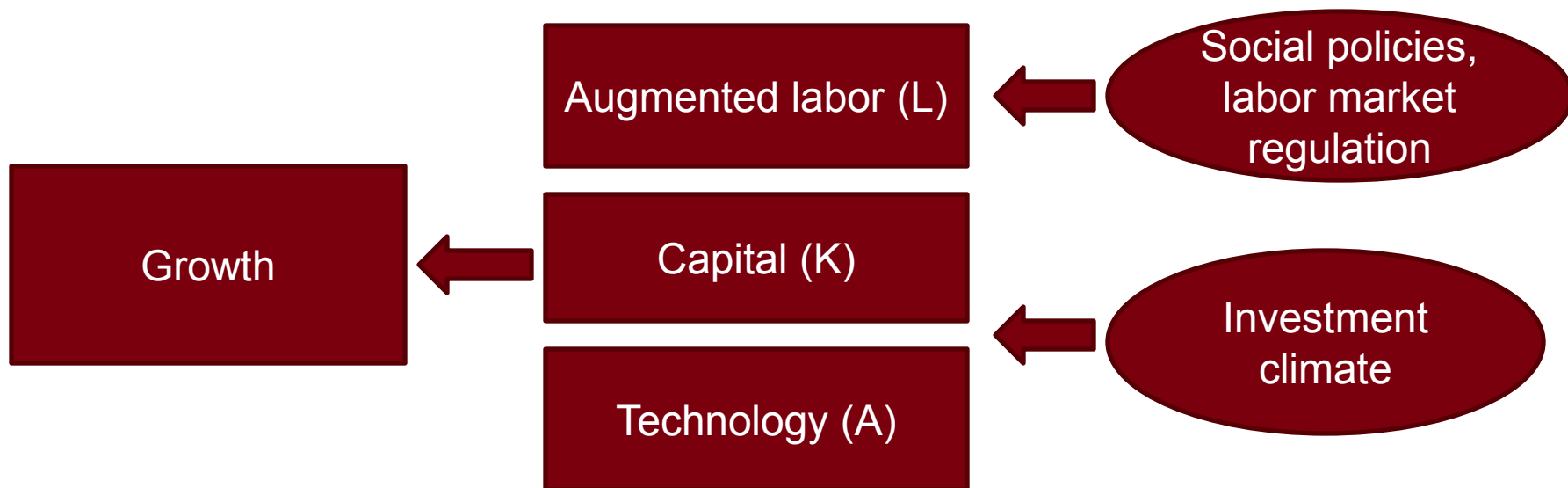
Source: IMF staff estimates.

¹ The figure considers a low income threshold of US\$ 1000, US\$2000 for middle-income, and a high income threshold of US\$ 15000 in PPP terms.

² frequencies are calculated as the ratio of slowdown episodes to the total number of observations per income class.



Escaping the middle-income trap: growth accounting approach

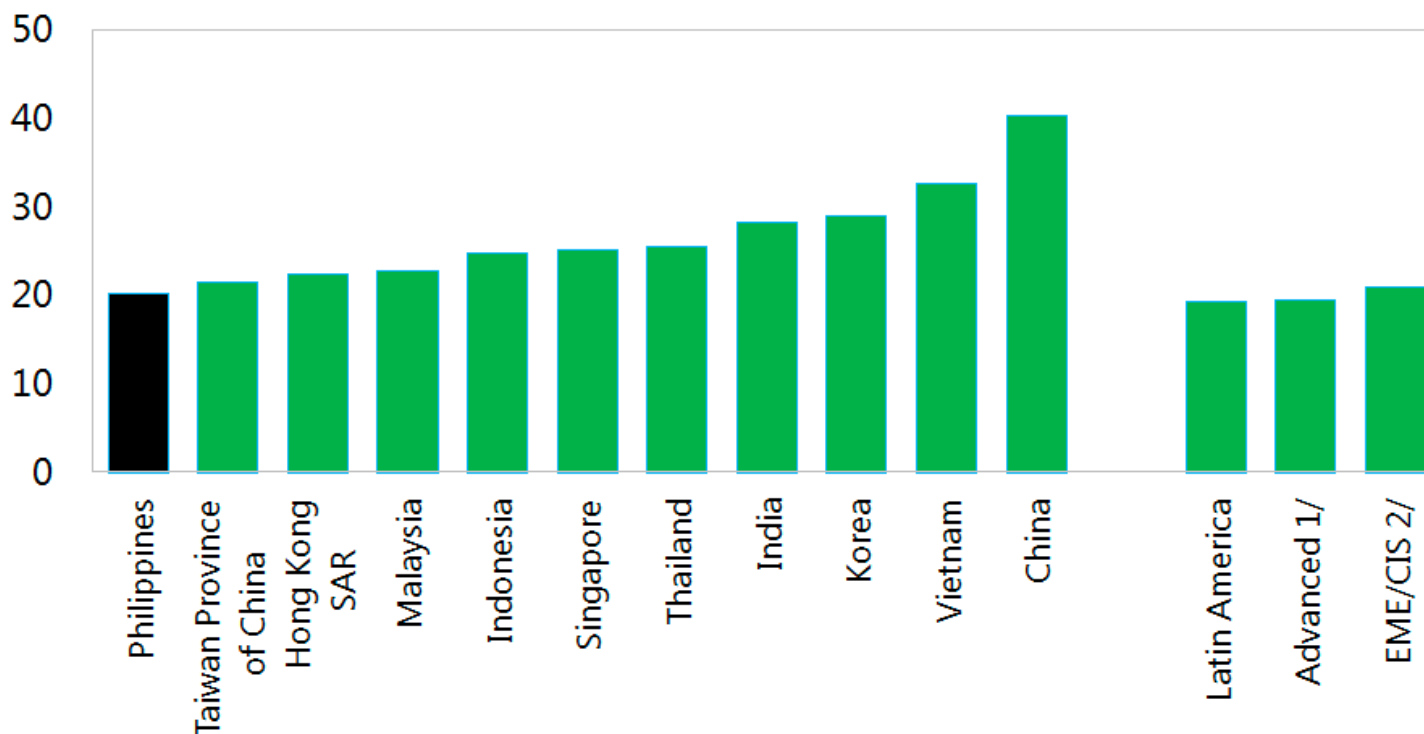




Investment rate is low—why?

Gross Fixed Capital Formation

(In percent of GDP, 2000–11 average)



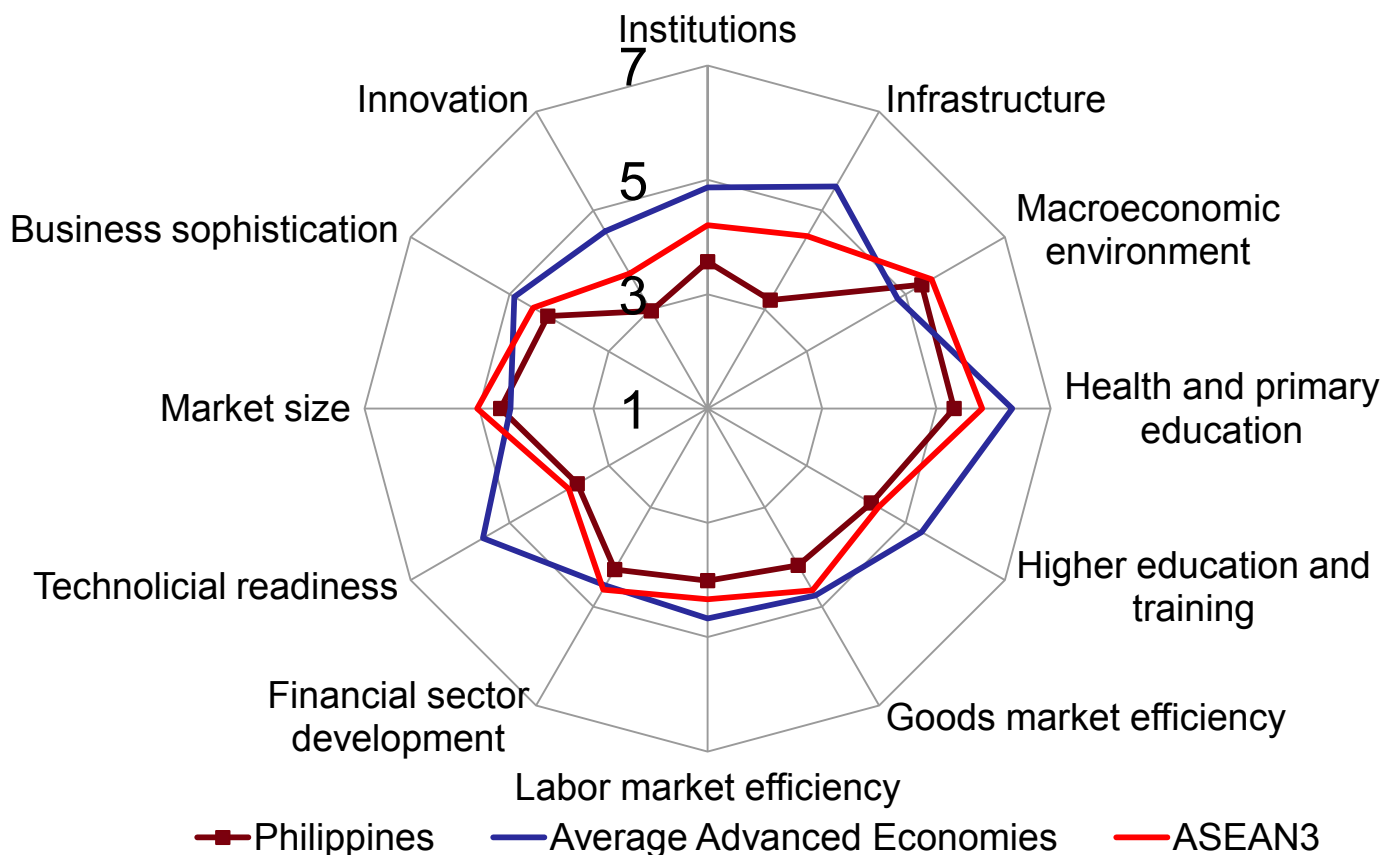
Source: WEO database.

1/ Advanced economies excluding Asia.

2/ EME/CIS stands for Emerging Europe and Commonwealth of Independent States. Both groupings follow the World Economic Outlook country classifications.



Weak Investment Climate

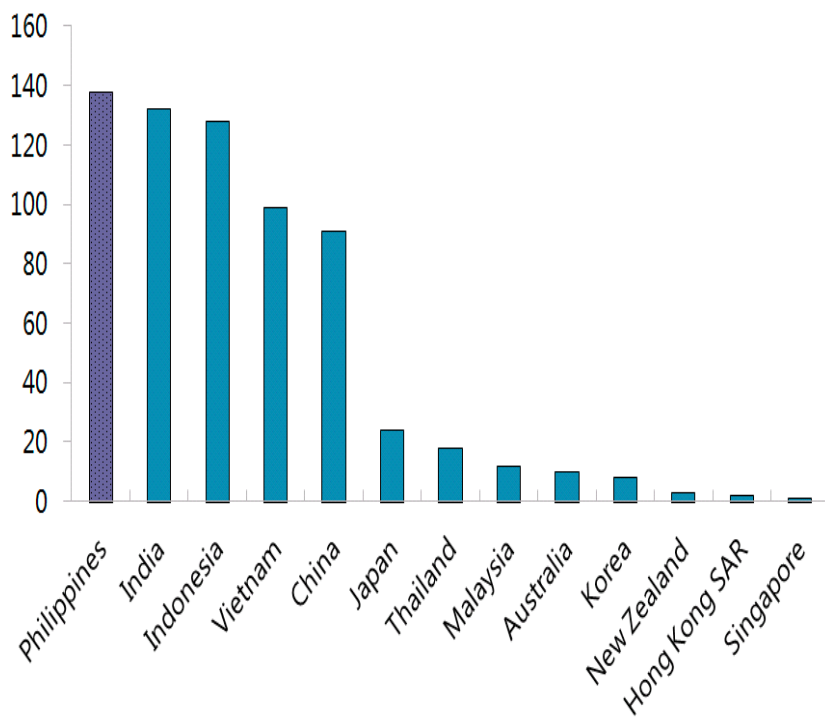


Source: World Economic Forum, Global Competitiveness Report, 2013



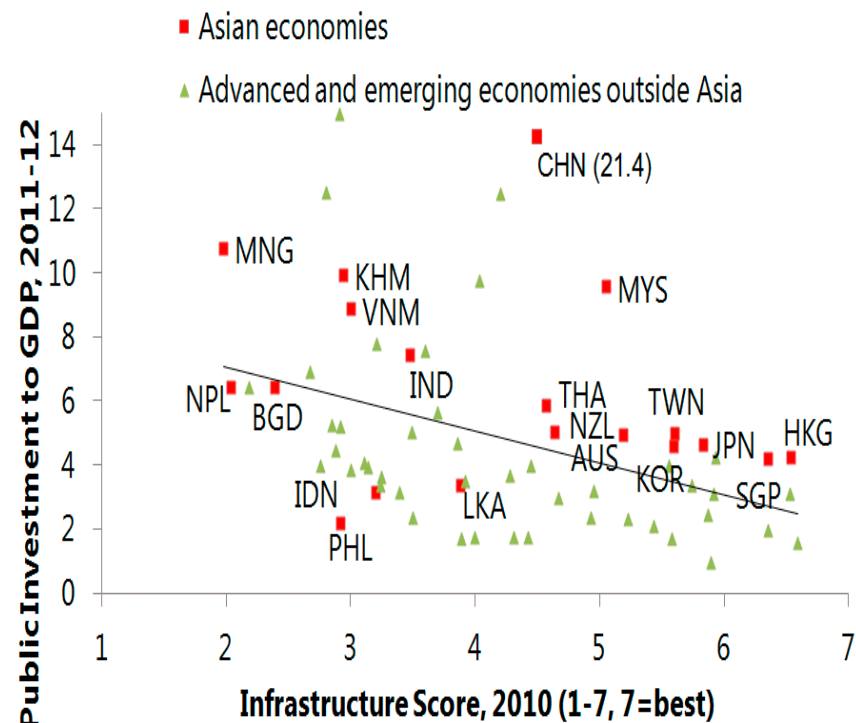
Weak Investment Climate and Infrastructure Gaps

Ease of Doing Business Rankings, 2013



Source: World Bank, Ease of Doing Business

Public Investment and Infrastructure



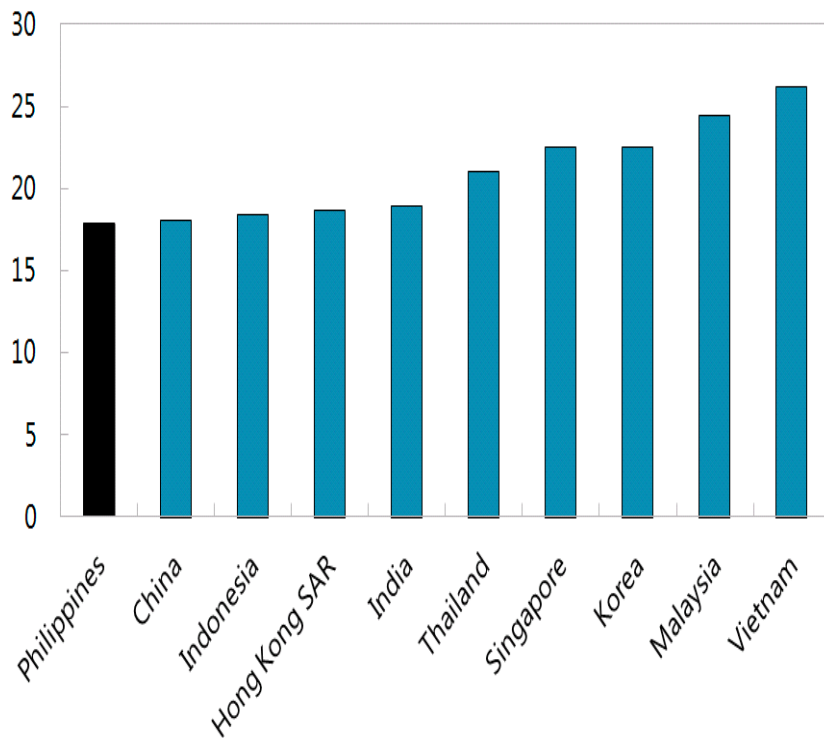
Sources: IMF, World Economic Outlook; and World Economic Forum.



Low fiscal revenue leads to low public investment

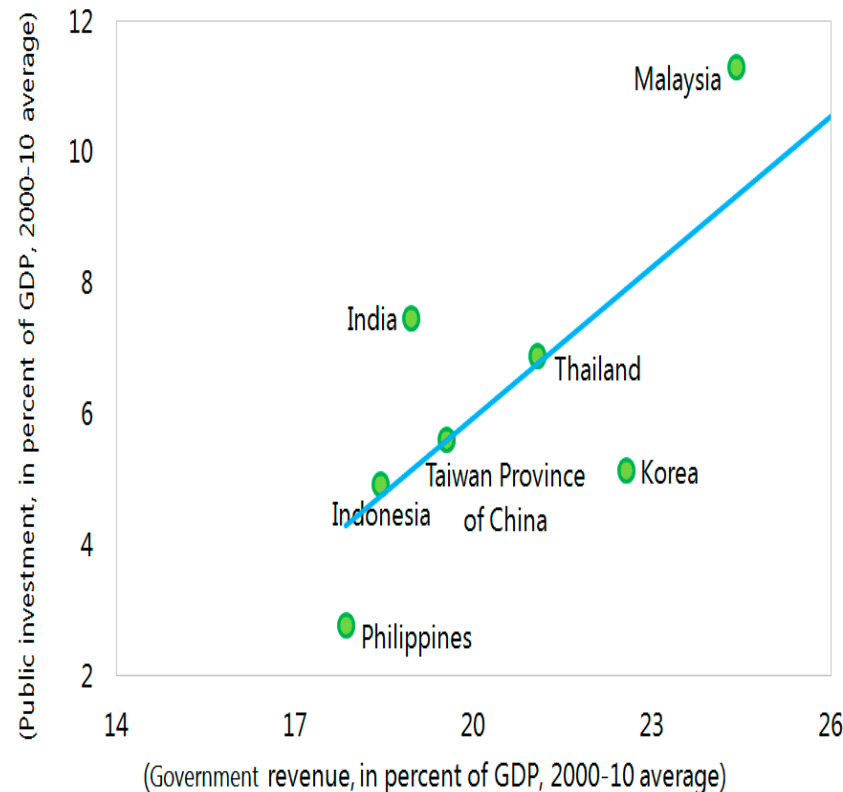
Government Revenue

(In percent of GDP, average 2000-11)



Source: WEO database.

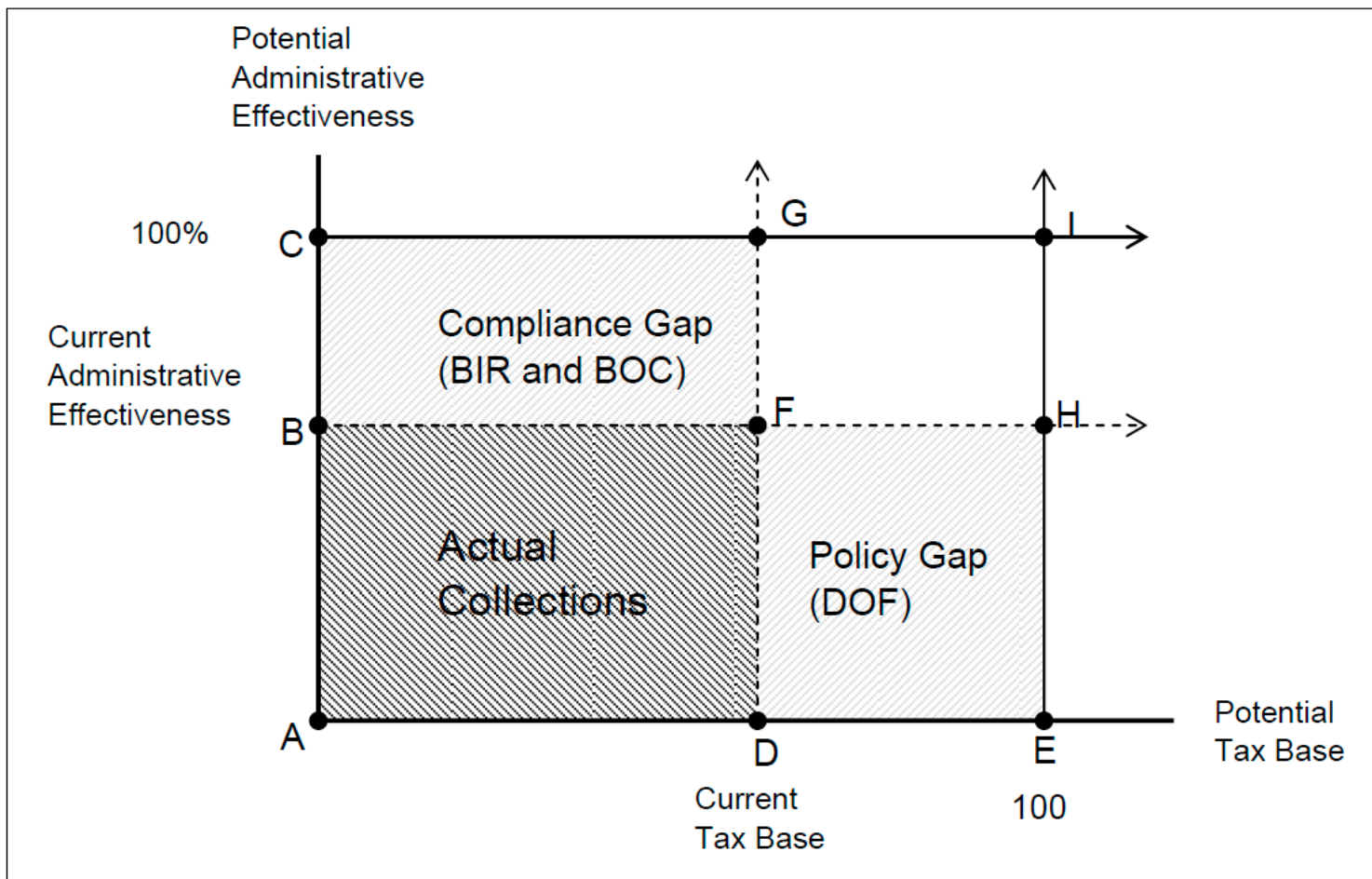
Link Between Government Revenue and Public Investment



Source: WEO database.



How to Raise Fiscal Revenue

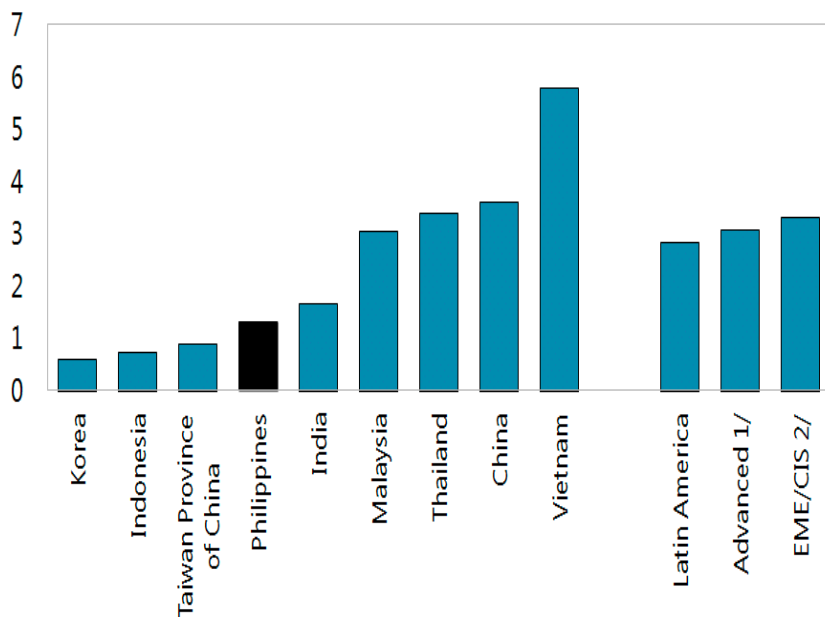




Limited access to formal banking and restrictive foreign ownership

Foreign Direct Inward Investment

(In percent of GDP, 2000-11 average)



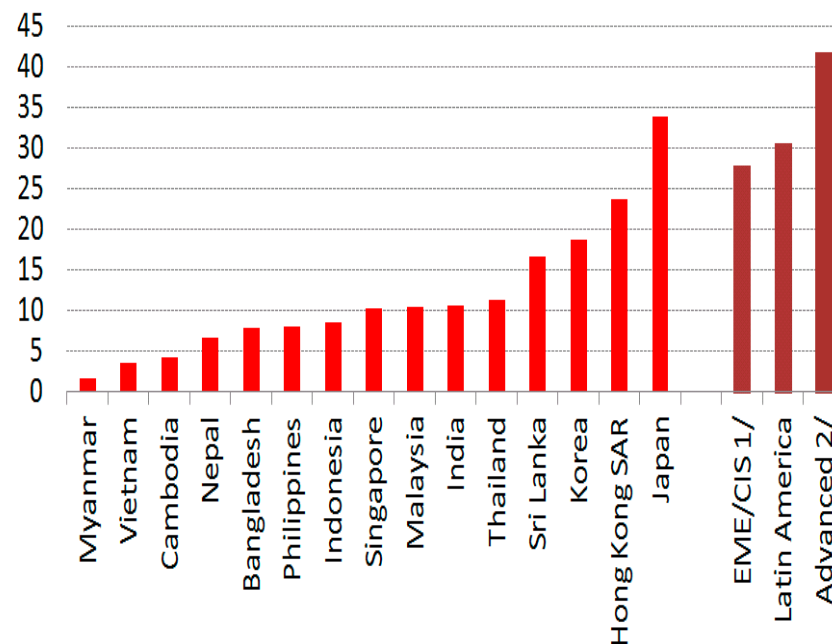
Source: WEO database.

1/ Advanced economies excluding Asia.

2/ EME/CIS stands for Emerging Europe and Commonwealth of Independent States. Both groupings follow the World Economic Outlook country classifications.

Number of Commercial Bank Branches, 2011

(Per 100,000 adults)



Sources: IMF, *Financial Access Survey and World Economic Outlook*.

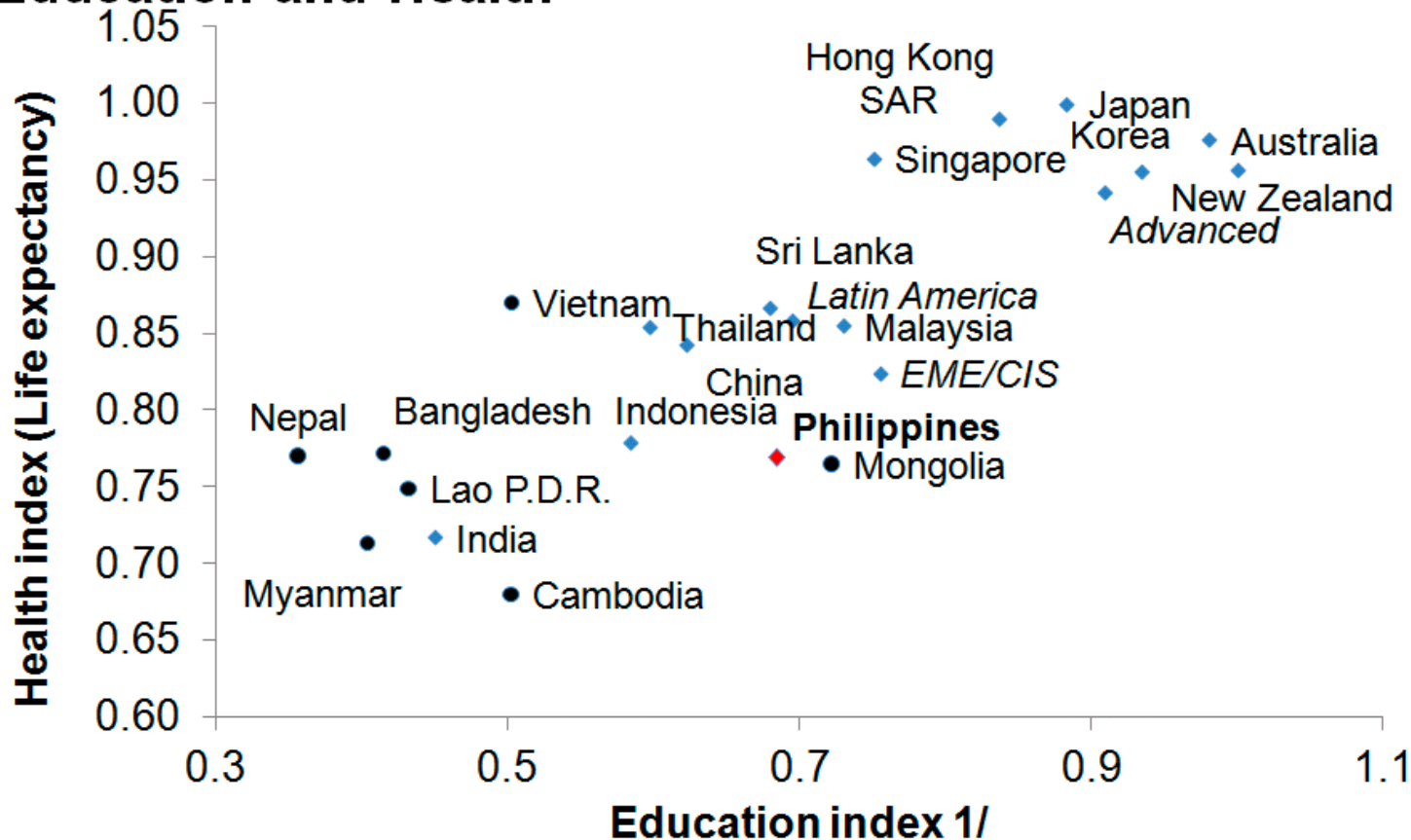
1/ EME/CIS stands for Emerging Europe and Commonwealth of Independent States. Both groupings follow the World Economic Outlook country classifications.

2/ Advanced economies excluding Asia.



Room to Improve Labor Effectiveness

Education and Health



Sources: UNDP, Human Development Index and IMF staff calculations.

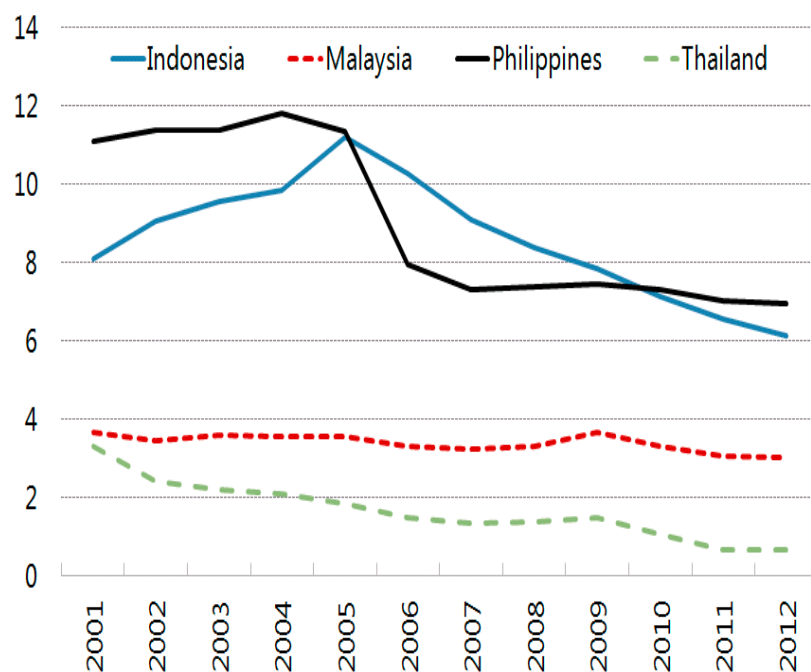
1/ Combined index of average years of total schooling, and adult literacy rate as calculated by the HDI.



How can labor resources be better used?

Unemployment Rates 1/

(In percent)



Sources: CEIC Data Company; and Haver Analytics.

1/ National definitions may vary.

Labor Market Efficiency

	Redundancy Costs (In weeks of salary)	Hiring and Firing Practices (Score) 1/
Indonesia	58	4.2
Malaysia	24	4.5
Philippines	27	3.4
Singapore	3	5.7
Thailand	36	4.3

1/ On a scale from 1-7 (best).

Source: World Economic Forum, Global Competitiveness Indicators, 2013



How Large is the Growth Payoff?

(Growth contributions under a reform scenario)

	2000–10 Average	2016 Reform
Potential growth (percent)	4.5	7.0
Contribution of TFP (percent)	1.9	3.0
Contribution of capital (percent)	1.2	2.0
Contribution of labor (percent)	1.4	2.0

Sources: Ide (2011); and IMF Staff calculation.

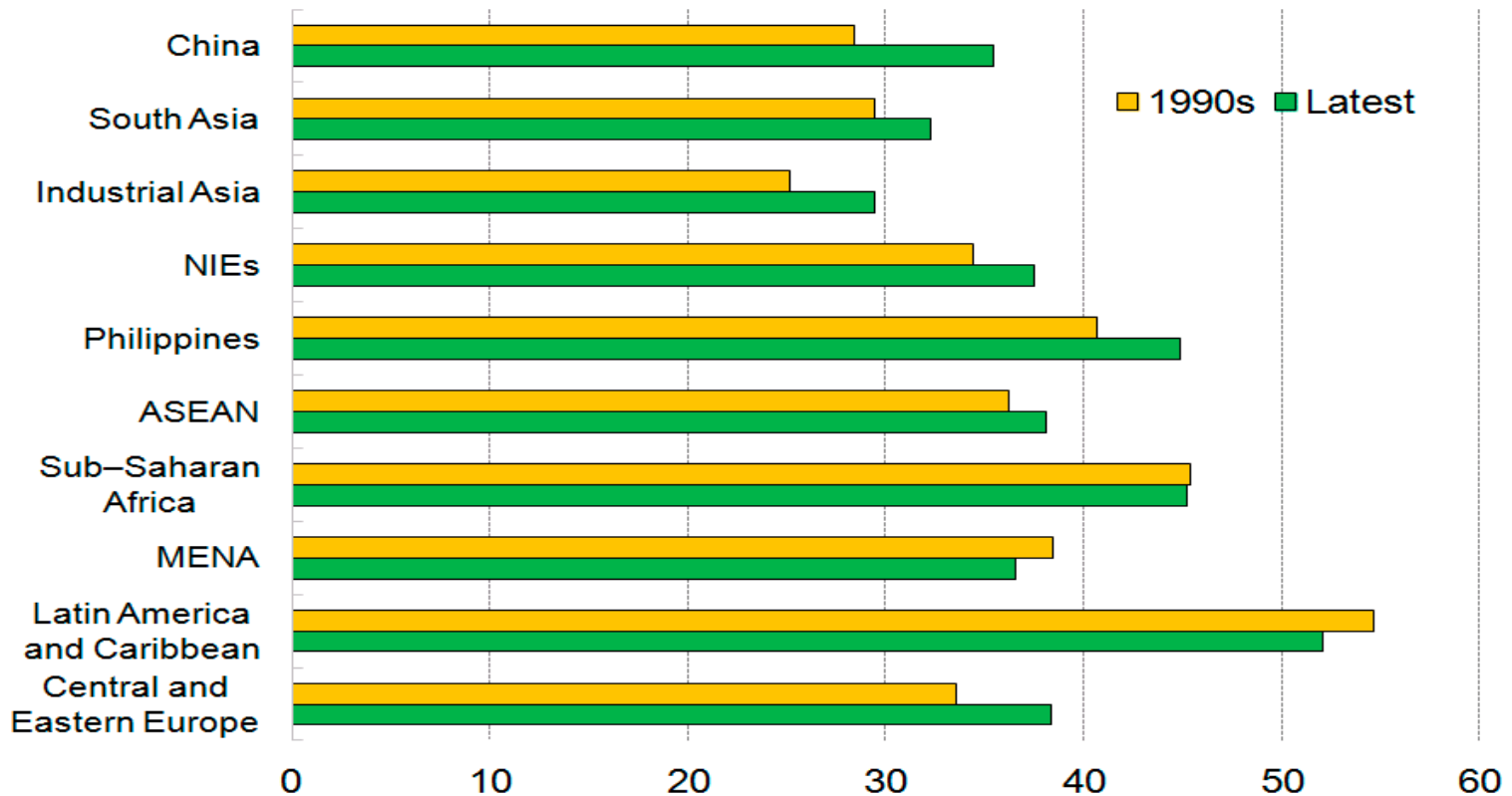
Making Growth More Inclusive



Rising income inequality in Asia, incl. Philippines

GINI Index

(Weighted by population)

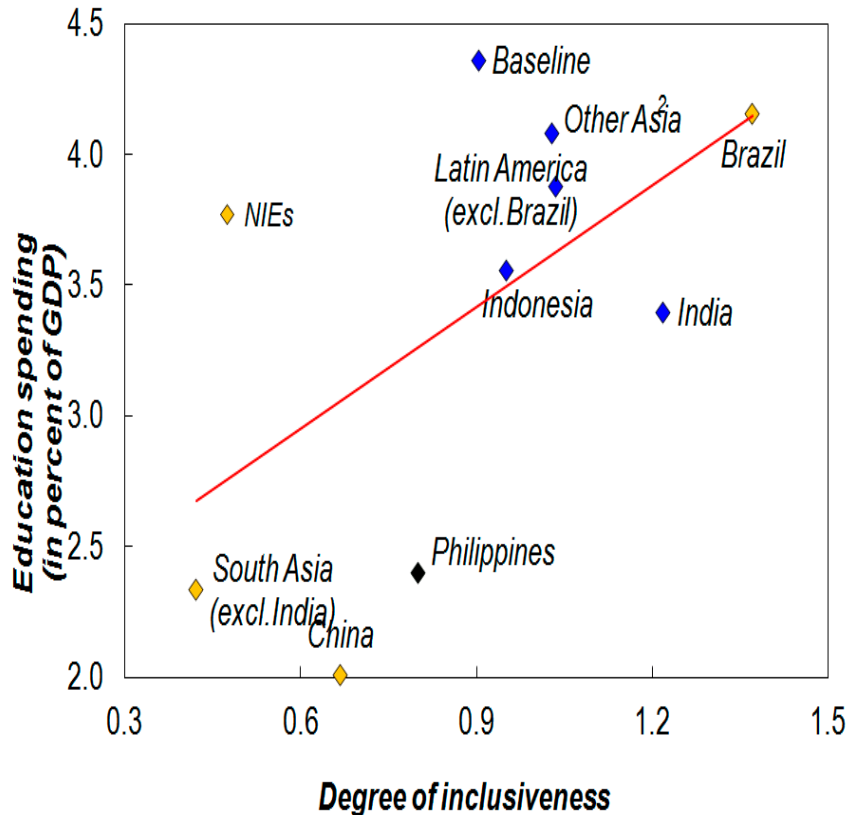


Sources: World Bank, World Development Indicators; PovCal database; IMF, World Economic Outlook; and staff calculations.

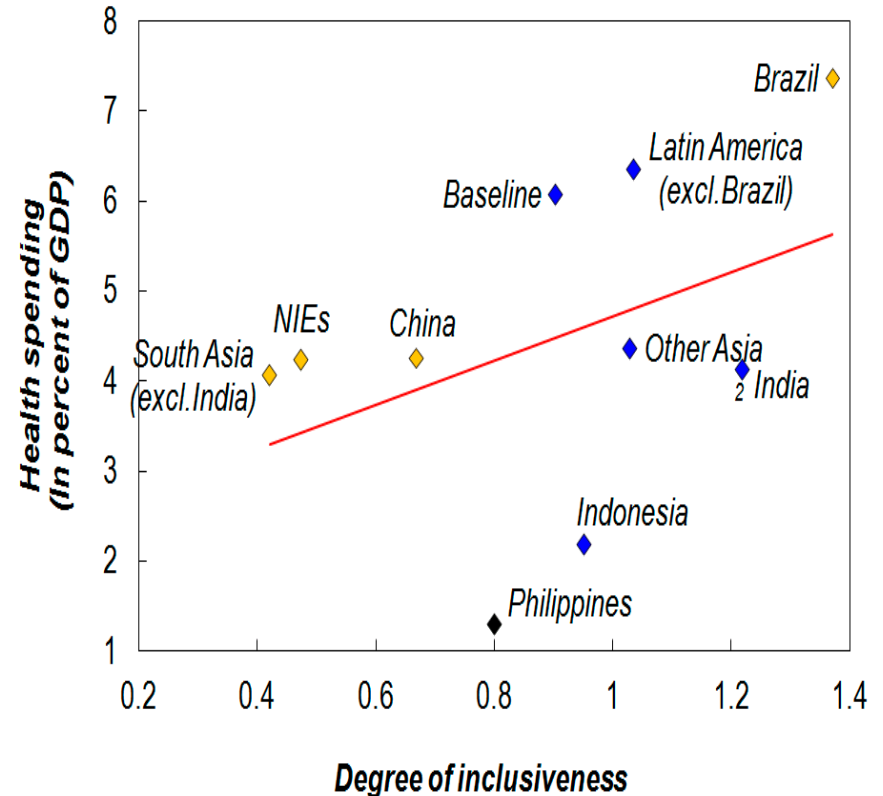


Health, education spending support inclusiveness

Education and Inclusiveness1/



Health and Inclusiveness1/



Source: IMF staff estimates.

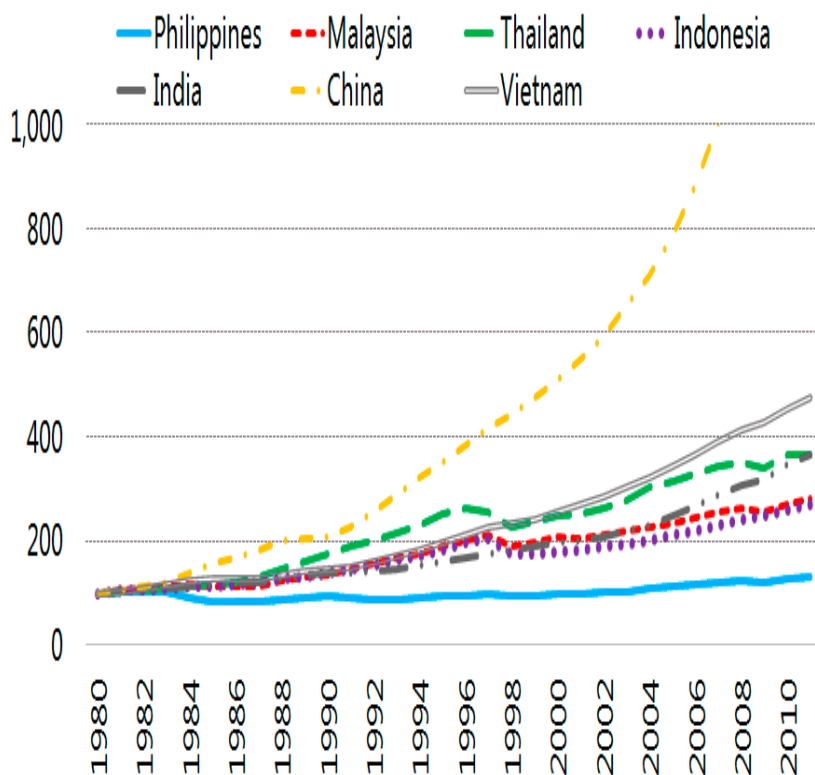
1/ Inclusiveness is measured as elasticity of income of the bottom quintile with respect to a 1 percent growth in average income per capita.

Moving from Growth Laggard to Strong, Inclusive Growth



Roadmap for strong, inclusive growth

Real GDP Per Capita, 1980=100



- ❑ Favorable intrinsic conditions for growth take-off
- ❑ Per capita income gap and inequality are large
- ❑ Focus on:
 - Improving governance
 - Increasing competition by relaxing foreign ownership limits
 - Raising public revenue to develop human capital and infrastructure
 - Broadening access to formal banking and raising financial literacy
 - Ensuring a strong social safety nets

Source: IMF, World Economic Outlook.

The End

