INCLUSIVE AND SUSTAINABLE GROWTH ASSESSMENT

A. Recent Growth, Poverty, Inequality, and Environmental Dynamics

1. Economic Performance

1. The gross domestic product (GDP) of the Philippines increased by 6.2% per year on average from 2011 to 2017, compared with average growth of 4.7% for the period 2000–2010. Such strong uninterrupted growth was achieved during a period of global economic stagnation and volatility. Structural reforms in support of monetary and fiscal stability and lessons learned from the painful boom-and-bust pattern of growth during the 1970s and 1980s helped lay the foundation for a more resilient economy. Domestic demand has been a key driver of this growth. Household spending benefitted from higher local employment, remittance inflows from overseas workers, and low inflation coupled with a low interest rate environment. Investments have overtaken household consumption as a main contributor to GDP growth in 2013, 2016 and during the first half of 2018. The investment to GDP ratio improved to 25.0% in 2017, the highest since 1983, though still behind those of Indonesia and Lao People's Democratic Republic.

2. The average share to GDP of the service sector from 2011 to 2017 is 58.0% (Figure 1), followed by industry at 31.1% (of which manufacturing contributed 20.3%). Agriculture's share at 11.0% is the lowest among the sectors, but still accounts for close to a third (29.8%) of total employment over the same period. Manufacturing's share has decreased slightly since the 1960s and comprises only an average share of 8.3% of total employment from 2011 to 2017. Development literature has shown that moving labor resources from low to high productivity activities can be a key driver of overall growth. This translates to an increasing share of industry in total employment, based on the assumption that manufacturing and other industrial subsectors are more productive and therefore offer greater potential for output expansion than agriculture or some service subsectors. The Philippines in the past decades has largely skipped the development of the manufacturing sector. The services sector has dominated since the 1960s except for a short period in the 1970s, but at lower per capita incomes than other service economies, while the agriculture sector continued to decline in share. This is in contrast with the structural transformation in economies such as the People's Republic of China (PRC), Malaysia, and Viet Nam,[1,2] but similar to the pattern in India and Pakistan, which missed out the industrialization stage.[3] This phenomenon raises the issue of labor productivity overall and the economy's capacity to boost growth and sustain it beyond the current average growth of 6%. Low labor productivity implies low real wages, which partly explains the slow pace of poverty reduction.

3. The monetary and external policy environment provided the macroeconomic stability to keep the economy resilient amid global financial volatility. Bangko Sentral ng Pilipinas (BSP) provided effective measures to keep inflation largely within the preferred band, while keeping a market-determined peso exchange rate as a matter of policy. BSP's participation in the foreign exchange market is limited to tempering sharp fluctuations in the exchange rate and closely monitoring its impact on domestic inflation. The current account provided a healthy surplus over the years, supported by transfers from remittances abroad and revenues from business process

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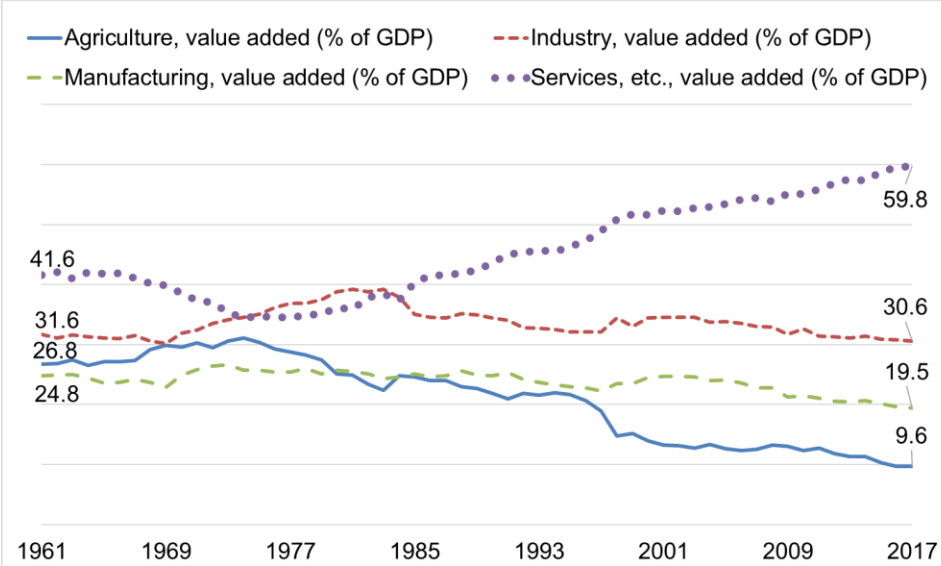
[1] R. Clarete. Economic Growth, Poverty Reduction and Inequality in the Philippines. Manila: Asian Development Bank (ADB) (working paper presented as input to the preparation of the *AmBisyon Natin 2040* study). Unpublished.

[2] Government of the Philippines, National Economic and Development Authority. 2016. *AmBisyon Natin 2040*. Pasig.

[3] ADB. 2013. Asia's Economic Transformation: Where To, How, and How Fast? Special Chapter of the *Key Indicators for Asia and the Pacific 2013*. Manila. This report also cited the different structural pattern in Indonesia and Thailand, which both transitioned from traditional agriculture-based economy toward agribusiness (pp. 7, 12–13, 73).

Figure 1: Sector Share to Gross Domestic Product



GDP = gross domestic product.
Sources: World Development Indicators, World Bank (https://data.worldbank.org/products/wdi), and Philippine Statistics Authority.

outsourcing (BPO). Remittances from overseas Filipinos, at an equivalent of about 9.6% of GDP during 2011–2017,[4] have been a consistent source of funds for household consumption and investments in housing, education, and health. Along with service exports (particularly from BPO), remittances have mitigated the merchandise trade deficit, as strong import demand—largely consumer and capital goods—has outpaced exports. The capital account provided some cushion, with steady increases in foreign direct investment and portfolio investments, although the latter has been subject to short-term volatilities. In addition, national government debt declined to 42.1% of GDP by the end of 2017, the lowest in over a decade, largely denominated in local currency.[5]

4. Despite these gains, improving market competitiveness to reduce the country's vulnerability to uncertainties in the global economy continues to be a challenge. The slowdown in global markets, including the Philippines' top trading partners (the European Union, Japan, the PRC, and the United States), affects the performance of industry and services, including trade. The country's exports are concentrated in a few products and markets; and domestic firms lag in technology and innovation processes. Most businesses are also exposed to natural hazards and are unable to manage the adverse effects proactively. The new administration is prepared to face these challenges and aims to increase spending on badly needed investments in infrastructure, health, and education; build the enabling environment for business, and efficient and sustainable agriculture; and support small and medium-sized enterprises.

2. Poverty

5. The national poverty incidence fell from 25.2% of the population in 2012 to 21.6% in 2015.[6] The reduction of 3.6% over 3 years is the fastest poverty decline over the period beginning starting

[4] Source: Bangko Sentral ng Pilipinas. http://www.bsp.gov.ph/statistics/efs_ext3.asp.
[5] Source: Bureau of the Treasury. http://www.treasury.gov.ph/?page_id=12407.
[6] Government of the Philippines, Philippine Statistics Authority (PSA). 2016. *2015 Official Poverty Statistics of the Philippines*. Quezon.

2006—much more rapid than the 1.1% decrease recorded from 2009 to 2012. The subsistence incidence, or the proportion of the population whose income falls below the food threshold (which measures extreme poverty), fell by 2.3% from 10.4% in 2012 to 8.1% in 2015.[7] Government poverty figures are corroborated by the Social Weather Stations (SWS) self-rated poverty survey results.[8] The SWS reported that 44% of households felt poverty in 2016, a record-low annual average, surpassing the previous record of 47% in 1987.[9]

6. Since 2009, 1.4 million poor people have been lifted above the poverty threshold, yet the current poverty rate translates to 21.9 million poor people. Challenges remain, especially since the country's total population grew by nearly 9 million in just 5 years, a rate higher than some Association of Southeast Asian Nations (ASEAN) neighbors (Table 1). The population dynamics remain an important factor for the country's persistently high absolute number of poor.

Table 1: Average Population Growth in Association of Southeast Asian Nations Countries and 2015 Population Statistics

	Population Growth (%)		
Country	**2000–2010 Average**	**2011–2015 Average**	**2016 Population** (million)
Indonesia	1.4	1.4	258.7
Malaysia	2.1	1.7	31.7
Philippines	1.9	1.7	103.2
Thailand	0.6	0.4	67.5
Viet Nam	1.2	1.1	92.7

Source: Asian Development Bank. 2017. Key Indicators for Asia and the Pacific 2017. Manila; except for Philippines data, which is taken from the Philippine Statistics Authority

7. High poverty continues to be recorded in some regions in the Visayas and Mindanao, with rates of more than 35%. Lack of and poor quality infrastructure have resulted in the inefficient delivery of services and have increased the costs of production and distribution of goods. This has also discouraged investments, which are needed for an economic area to compete. The vulnerability of these regions to disasters triggered by natural hazards, including extreme weather events and (in some areas) intermittent armed conflict, has negatively affected agricultural productivity, the predictability of rural incomes, and the stability of food prices.

3. Income Inequality

8. The income of the poor achieved the highest growth among all income groups. From 2012 to 2015, per capita income in the poorest 30% of the population grew by 24.3%. This growth exceeds the average for all income groups (15.8%) and is double the average for the richest 20% of the population (12%). The rise in the growth of nominal per capita income was accompanied by an easing of consumer price inflation, from 12.1% in 2009–2012 to 9.5% in 2012–2015, thus

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[7] In 2015, the national average poverty line was ₱9,064 (about $199) per month for a family of five, while the average food threshold was ₱6,329 (about $139). This translates to a poverty line of about ₱60 ($1.32) per person per day, and a food threshold of just under ₱42 ($0.92) per person per day. The average exchange rate was $1.00 = ₱45.52 in 2015. Food represents 70% of the total poverty threshold, with 30% allocated to non-food needs. Analysis of the spending pattern of the poorest 30% of the population shows that 60% of total expenditure goes to food, while the share of expenditure on food among the upper 70% of the population is just 39%.

[8] Self-rated poverty is a bottom–up indicator, while poverty measures based on the government-determined poverty line are a top–down indicator. The SWS was established in 1985 as a private non-stock, nonprofit social research institution.

[9] SWS. 2017. Fourth Quarter 2016 Social Weather Survey: Families rating themselves as Mahirap or Poor at 44%; Families Food-Poor at 34%. 18 January.