PHILIPPINES

Table 1	2020
Population, million	109.6
GDP, current US$ billion	361.7
GDP per capita, current US$	3300.2
International poverty rate ($1.9)[a]	2.7
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.9
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	71.2
Total GHG Emissions (mtCO2e)	221.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

The economy expanded in the second quarter of 2021 albeit from a low base. Growth was supported by an acceleration in public investment. The authorities have been supportive of the economic recovery, but policy space is narrowing. Household incomes remain depressed, despite improvements in employment conditions. The economy is projected to grow over the medium term, anchored on the global economic rebound and recovery in domestic activities. However, the prospects are subject to downside risks from the ongoing pandemic.

Key conditions and challenges

COVID-19 continues to weigh heavily on medium-term inclusive growth prospects. It has led to a deterioration in macroeconomic buffers amid the worst recession in the country's post-war history, dampening the prospect of additional policy support. The crisis has eroded human capital, causing potential long-term economic scarring through loss of lives, disruption in education, and hunger and malnutrition, especially among the poor. The primary challenge remains to manage the impact of the COVID-19 pandemic as infection surges may overwhelm the healthcare system and weaken the economic recovery. To reduce the spread of infections, public health protocol measures must remain in place alongside scaled-up efforts to test, trace, treat and isolate, and measures to address vaccine hesitancy. While vaccination effort has gained pace, the number of fully vaccinated remained at 16 percent of the population in mid-September.

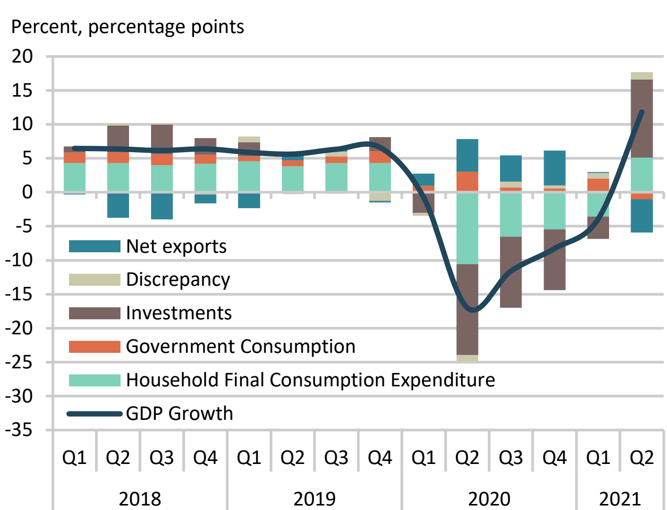
The government must pursue a well-timed and structured fiscal consolidation to support and safeguard the country's inclusive growth agenda. A strategy for consolidation may consider measures to improve tax policy and administration, and spending efficiencies. Preserving long-term economic recovery requires continued commitment to structural reforms that enhance market competition, encourage investments, and boost productivity and competitiveness. Sustained investments in human capital development, especially in health and education, and in sectors that create quality employment are needed to support inclusive growth and mitigate the economic scarring due to the pandemic.

Recent developments

The Philippines posted its first expansion in six quarters at 11.8 percent year-on-year in Q2 2021, albeit from a low base. Growth was buoyed by investments as the government ramped up infrastructure spending. Private consumption remained below pre-pandemic levels due to income losses, elevated inflation and unemployment, and repeated reversions to strict containment measures. Public consumption fell in the second quarter, due to base effects from the disbursement of fiscal support last year. Goods exports benefitted from a supportive external environment. On the supply side, strong external demand and public investment acceleration drove robust growth in manufacturing and construction. Meanwhile, more relaxed containment measures supported services sector growth, while agriculture contracted due to the slump in livestock and fisheries output.

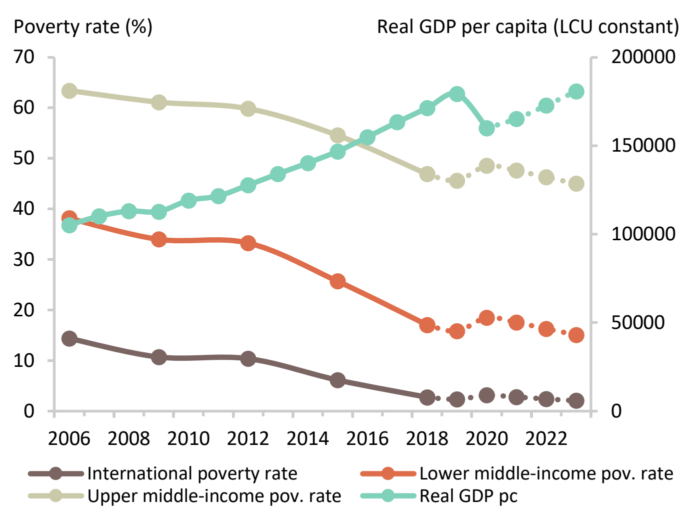
The fiscal deficit increased to 7.9 percent of GDP in H1 2021 fueled by an acceleration in public spending amid tepid revenue generation. Public spending increased

FIGURE 1 Philippines / Real GDP growth and contributions to real GDP growth



Source: Philippines Statistics Authority.

FIGURE 2 Philippines / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

by 2.1 percent of GDP, anchored on robust public investments, and additional fiscal stimulus. Central government debt increased to 60.4 percent of GDP in H1 2021, the highest since 2005.

The central bank maintained its key policy rate at 2 percent despite above-target headline inflation throughout 2021. Elevated inflation was driven by rising global oil prices and food supply challenges, which have disproportionately hurt the poor. The authorities are addressing food inflation through non-monetary measures including easing of importation.

Unemployment inched down from 8.7 percent in January to 6.9 percent in July. Though employment levels recovered, more precarious jobs at lower earnings have emerged while underemployment remained high at 20.9 percent in July. Based on the May High Frequency Household Survey, households continued to report lower incomes compared to pre-pandemic incomes. Unlike the wider coverage of the Social Amelioration Program in 2020, fewer households reported receiving assistance from the government in the first half of 2021 as assistance was limited to households affected by containment measures in selected areas.

Outlook

The economy is projected to grow over the medium term, anchored on a global rebound that will contribute to higher exports and manufacturing growth. Domestic activities have gained pace but faced repeated weaknesses with community lockdowns. Private consumption will be tempered due to quarantine measures and elevated inflation, while supported by remittances and recovering confidence as mass vaccination progresses. Vaccination is expected to accelerate towards the end of 2021 along with the arrival of more vaccine supplies. Investments will be driven by the rollout of public infrastructure projects. The global recovery will benefit manufacturing and some services sectors, but agriculture is expected to grow modestly as structural weaknesses persist. Base effects will prop up growth in 2021, while election-related spending will support domestic activities towards 2022. The prolonged pandemic is giving rise to scarring effects on long-term growth prospects.

With the economy starting to recover, poverty incidence is projected to decline to 18.9 percent this year (based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP). If growth forecasts hold and household incomes recover with stable inflation, the poverty rate will likely continue a downward trend through 2023. However, the reimposition of stricter community quarantines over extended periods risks slowing down the pace of poverty reduction.

The balance of risks is tilted to the downside. Failure to contain surges in infections will result in recurring episodes of lockdowns, which could lead to jobs and incomes losses. This, in turn, may suppress public revenue generation and further limit fiscal space. The country's mass vaccination program faces the risk of delay due to limited global vaccine supply, further complicated by the decision of some developed economies to implement booster shots. Other risks include a slower-than-expected global recovery, disruptions in international logistics, and trade protectionism. Institutional changes such as the national election may result in policy discontinuity. Moreover, a significant increase in unconditional block grant transfers to subnational governments could lead to disruptions in program delivery during the transition to re-devolution.

TABLE 2 Philippines / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.1	-9.6	4.3	5.8	5.5
Private Consumption	5.8	5.9	-7.9	3.4	5.6	5.2
Government Consumption	13.4	9.1	10.5	7.0	9.0	7.0
Gross Fixed Capital Investment	12.9	3.9	-27.5	18.6	14.3	11.1
Exports, Goods and Services	11.8	2.6	-16.3	13.8	10.6	9.2
Imports, Goods and Services	14.6	2.3	-21.6	19.8	15.6	11.7
Real GDP growth, at constant factor prices	6.3	6.1	-9.6	4.3	5.8	5.5
Agriculture	1.1	1.2	-0.2	1.1	1.4	1.3
Industry	7.3	5.5	-13.2	6.2	6.5	6.3
Services	6.7	7.2	-9.2	3.9	6.2	5.8
Inflation (Consumer Price Index)	5.2	2.5	2.6	4.3	3.4	3.2
Current Account Balance (% of GDP)	-2.6	-0.8	3.6	1.3	-0.9	-1.4
Net Foreign Direct Investment (% of GDP)	2.9	2.3	1.8	2.0	2.1	2.6
Fiscal Balance (% of GDP)	-3.1	-3.4	-7.6	-7.6	-7.2	-6.5
General Government Debt (% of GDP)	34.4	34.1	49.1	53.4	55.2	56.8
Primary Balance (% of GDP)	-1.1	-1.6	-5.5	-4.8	-4.2	-3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.7	2.2	3.7	3.3	2.7	2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	17.0	15.0	20.4	18.9	16.9	15.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	46.9	44.2	50.8	49.2	46.7	44.2
GHG emissions growth (mtCO2e)	2.8	2.9	-8.1	1.9	2.4	2.4
Energy related GHG emissions (% of total)	58.8	58.9	57.1	59.5	59.7	59.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2018-FIES.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2018) with pass-through =1based on GDP per capita in constant LCU.