PHILIPPINES

Table 1	2023
Population, million	117.3
GDP, current US$ billion	442.8
GDP per capita, current US$	3773.9
International poverty rate ($2.15)[a]	3.0
Lower middle-income poverty rate ($3.65)[a]	17.8
Upper middle-income poverty rate ($6.85)[a]	55.3
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	91.9
Life expectancy at birth, years[b]	69.3
Total GHG emissions (mtCO2e)	267.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Economic growth remained robust, at 5.6 percent in 2023, anchored on strong domestic demand and the recovery of services. Growth is projected to rise to an average of 5.9 percent between 2024-2026, fueled by strengthening domestic demand due to a healthy labor market, declining inflation, and firming investment activity. Poverty will gradually decline due to improvements in the labor market, and declining inflation which will likely boost growth in household incomes.

Key conditions and challenges

Elevated inflation, tighter monetary and fiscal policies, and softer global growth continued to weigh on domestic demand. Inflation has declined, but significant upside risks merit sustained efforts to manage price pressures. Timely and efficient imports can help stabilize domestic food supplies in the near term. However, higher international prices, costlier inputs for key food commodities, and risks of disruptions to global supply chains highlight the need for longer-term improvements in agricultural productivity and resilience. The government remains committed to public investment despite fiscal consolidation, but maximizing the impact on economic activity depends on better budget execution and use of public-private partnerships.

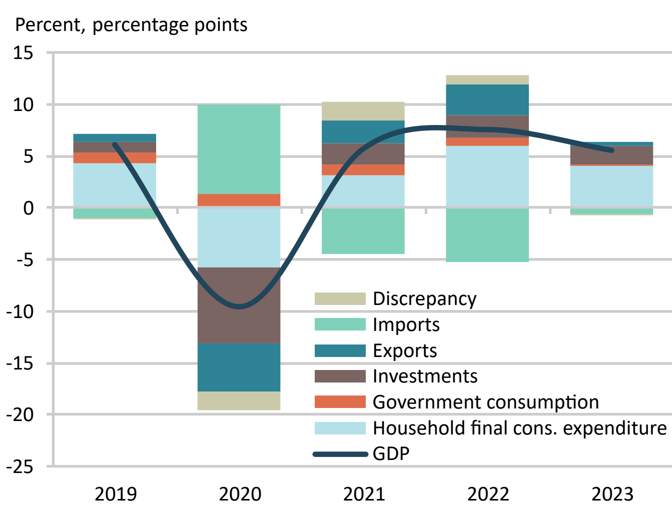
A modest acceleration in medium-term growth depends partly on successfully containing inflation and transitioning towards more accommodative monetary policy, which will support private consumption and investment spending. Ensuring that the budget continues to support inclusive growth will require both prudent spending and urgent implementation of revenue-enhancing reforms. These will be critical to continued and more effective investments in human and physical capital. Subdued global growth, geopolitical risks, and trade fragmentation could weigh on investment inflows and exports. Implementation of reforms and streamlining processes are needed to improve the investment environment and facilitate private sector participation in key sectors to attract investments and boost exports.

Recent developments

The economy grew by 5.6 percent in 2023, supported by robust consumer spending despite elevated inflation. Steady remittances, a strong labor market, and credit growth buoyed private consumption. Services drove growth on the supply side due to the tourism recovery, strong financial services activities, and steady wholesale and retail growth. Soft external demand weighed on manufacturing and exports while the ongoing fiscal consolidation weighed on government consumption. As public investment remained supportive of growth, private investment was constrained by high-interest rates and low export demand.

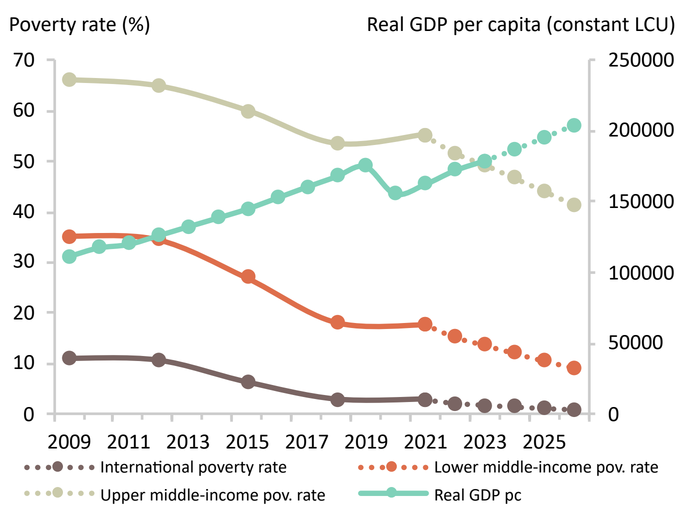
Inflation reached 6.0 percent in 2023, above the 2-4 percent central bank target, due to rising food prices. Core inflation also rose to 6.6 percent in 2023. Both headline and core inflation have settled within target in January 2024, suggesting waning price pressures. In 2023, the Bangko Sentral ng Pilipinas raised the key policy rate by 100 basis points to firmly anchor inflationary expectations. To reduce price levels, the government lowered import tariffs for key commodities and provided support to vulnerable sectors.

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.

Ongoing fiscal consolidation and lower allotments to local government units lowered public spending. As a result, the fiscal deficit narrowed to 6.2 percent of GDP in 2023 (7.3 percent in 2022). The national government debt declined to 60.2 percent of GDP in 2023 from 60.9 percent in 2022.

The current account deficit narrowed to 2.6 percent of GDP in 2023 (4.5 percent in 2022), supported by sustained remittance inflows from overseas workers and robust service exports. Meanwhile, higher foreign borrowing of the government and resident banks and residents' currency deposit withdrawals from abroad more than offset lower FDI net inflows.

The labor market continues to show steady improvement and bodes well for household income growth and poverty reduction. Robust domestic activity led to the creation of 1.5 million additional jobs in December 2023 from 49 million in December 2022, propelled by the recovery of construction, hospitality industry, and agriculture and forestry. The unemployment rate was 3.1 percent in December 2023 and underemployment continues a downtrend and was recorded at 11.9 percent in the same period. The recently released first-semester national poverty estimates show that poverty incidence declined to 22.4 percent in 2023 (23.7 percent in 2021).

Outlook

The growth outlook remains positive, averaging 5.9 percent in 2024-26, anchored on robust domestic demand. The medium-term outlook will be driven by robust private consumption activity, supported by declining inflation, a healthy labor market, and steady remittance inflows. Medium-term growth will be supported by improving investment activity as public investment remains supportive of growth despite fiscal consolidation. The normalization of monetary policy and implementation of several investment liberalization laws will buoy private investment growth. Meanwhile, export demand will strengthen over the forecast horizon, led by robust services export demand and a pick-up in goods trade as global growth rebounds gradually.

The fiscal deficit is expected to narrow to 3.8 percent of GDP by 2026. Fiscal consolidation will be led by the reduction in public spending, as the government trims recurrent spending. In addition, the passage of several priority tax laws by 2025 is expected to strengthen revenues through the introduction of several new tax policy and administration reforms.

The continuous improvement in the labor market and the easing of inflation will likely boost growth in household incomes. Poverty is expected to continue to decline but extreme climatic events continue to pose risks. Poverty incidence using the World Bank's poverty line for lower-middle income countries of $3.65/day, 2017 PPP is projected to decrease from 17.8 percent in 2021 to 12.2 percent in 2024 and further decrease to 9.3 percent in 2026.

Risks to the outlook remain tilted to the downside. On the domestic front, persistently high inflation would dampen economic activity by keeping the policy rate higher for longer, erode purchasing power, and threaten to deepen poverty and worsen economic vulnerability. Upside risks to inflation include the possibility of supply disruptions due to ongoing geopolitical tensions, further trade restrictions, weakness in agriculture output due to El Niño and extreme weather events, and wage pressures from tightness in labor market conditions. The possibility of higher-than-expected global inflation, still tight global financing conditions, a further slowdown in growth of China, and escalating geopolitical tensions could cause a sharper-than-expected growth slowdown which would further dampen external demand.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.7	7.6	5.6	5.8	5.9	5.9
Private consumption	4.2	8.3	5.6	5.9	6.2	6.0
Government consumption	7.2	4.9	0.4	2.2	3.1	5.0
Gross fixed capital investment	9.8	9.7	8.1	9.1	9.6	10.3
Exports, goods and services	8.0	10.9	1.3	3.8	4.7	4.9
Imports, goods and services	12.8	13.9	1.6	5.3	6.9	7.9
Real GDP growth, at constant factor prices	5.7	7.6	5.6	5.8	5.9	5.9
Agriculture	-0.3	0.5	1.2	0.9	1.0	1.1
Industry	8.5	6.5	3.6	4.2	4.4	4.5
Services	5.4	9.2	7.2	7.2	7.3	7.1
Inflation (consumer price index)	3.9	5.8	6.0	3.6	3.0	3.0
Current account balance (% of GDP)	-1.5	-4.5	-2.6	-2.2	-2.0	-1.8
Net foreign direct investment inflow (% of GDP)	3.0	2.3	2.0	2.0	1.9	1.8
Fiscal balance (% of GDP)	-8.6	-7.3	-6.2	-5.1	-4.1	-3.8
Revenues (% of GDP)	15.5	16.1	15.7	15.9	16.1	16.3
National Government Debt (% of GDP)	60.4	60.9	60.2	59.8	59.5	58.7
Primary balance (% of GDP)	-6.4	-5.0	-3.6	-2.5	-1.2	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.0	2.3	1.9	1.6	1.3	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	17.8	15.3	13.7	12.2	10.7	9.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	55.3	51.8	49.4	46.8	44.2	41.5
GHG emissions growth (mtCO2e)	5.9	5.2	5.4	5.6	5.7	5.7
Energy related GHG emissions (% of total)	57.1	57.8	56.9	57.8	57.9	59.1

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 2021-FIES. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.