PHILIPPINES

Table 1	2020
Population, million	109.6
GDP, current US$ billion	362.4
GDP per capita, current US$	3307.4
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]	71.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

The economy contracted by 9.5 percent in 2020, due to the impact of the pandemic, strict containment measures, and natural disasters. The authorities responded by increasing public spending including on social transfers and by pursuing an accommodative monetary policy. However, the loss of income has reversed some of the gains in poverty reduction. Economic growth is expected to recover in the medium term, alongside the improvement in the external environment and the return of domestic activity.

Key conditions and challenges

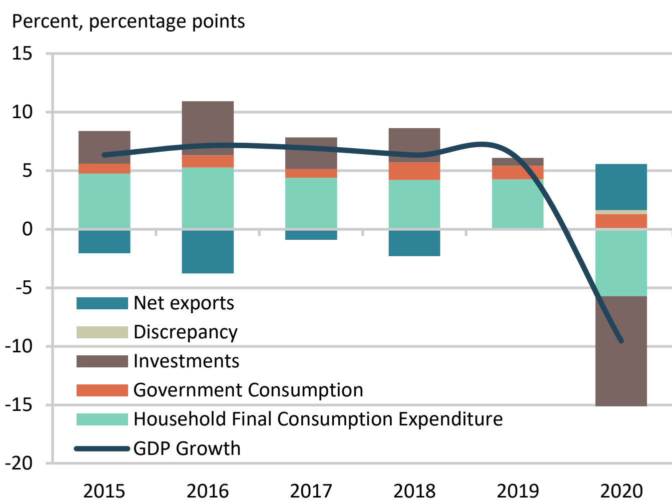
Prior to the pandemic, strong domestic demand and a commitment to structural reforms led to an acceleration of inclusive growth. Growth rose to an annual average of 6.4 percent in 2010-2019 from 4.5 percent in 2000-2009, anchored on sound macroeconomic fundamentals and a supportive policy environment. In recent years, the government increased spending on human and physical capital to 9.1 percent of GDP in 2019 from 5.7 percent in 2010 and pursued a medium-term structural reform agenda to increase competition and foster competitiveness. This period of sustained growth led to significant job creation that reduced unemployment and underemployment to their lowest levels in over a decade. Rising real wages, social protection programs, and increased wage employment boosted household incomes. As a result, the national poverty rate declined from 23.5 percent in 2015 to 16.7 percent in 2018.

The COVID-19 pandemic and natural disasters halted the growth momentum in 2020, setting back gains in poverty reduction. The country's main challenge now is to jumpstart economic recovery, balancing policy priorities between short-term stability and medium-term reform program. While the Philippines has managed to reduce the average daily cases over the past six months, strong containment measures led to depressed economic activity, amplifying existing economic and social vulnerabilities. A recent surge in cases in early-March threatens to delay a further reopening of the economy. In January, food supply challenges pushed inflation to its highest level in two years, further exacerbating the loss of incomes caused by COVID. The government is faced with the challenge of supporting economic recovery under limited fiscal space. To maximize gains from fiscal support, the government has to improve spending efficiency and ensure well-targeted and timely policy interventions, while remaining committed to its ongoing structural reform agenda.

Recent developments

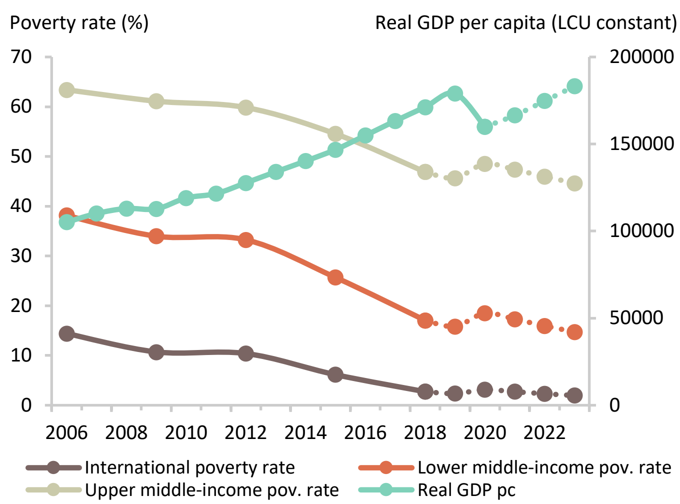
The Philippines recorded its worst recession in post-war history as the economy contracted by 9.5 percent in 2020. The quadruple shock of a health crisis, containment measures, a global recession, and natural disasters resulted in a steep drop in activity. These natural disasters involved a volcanic eruption in early 2020, and damaging typhoons in the fourth quarter. Private investment fell sharply amid uncertainty and an erosion in business confidence. Private consumption posted its worst contraction on record due to the fall in employment and incomes. Meanwhile, trade disruptions, border closures, and a weak external environment resulted in the contraction in external trade. Government consumption was the main growth driver, as public

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



Sources: Philippine Statistics Authority.

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



Sources: World Bank. Notes: see Table 2.

spending ramped up to mitigate the impact of the pandemic.

The fiscal deficit rose to 7.6 percent of GDP in 2020, driven by a sharp decline in tax revenues amid the recession. Public spending increased by 11.3 percent fueled by efforts to contain the impacts of the crisis, including the expansion of social protection programs. As a result, national government debt increased to 54.5 percent of GDP in 2020, the highest since 2006.

The monetary authority pursued an accommodative stance, reducing the key policy rate from 3.75 percent to 2.0 percent in 2020. It maintained the key rate at 2.0 percent in early 2021 despite headline inflation breaching the inflation target range in January.

Around 25 percent of household heads who were working before the pandemic lost their jobs by August 2020 according to the High Frequency Household Survey (HFS). Construction and accommodation services saw the highest job losses. Among those who continued working, about half experienced reduced income. As restrictions were eased by December, unemployment dropped to nearly half of the level at the nadir of the crisis. The second round of the HFS shows that household heads are returning to work, but incomes are recovering at a slower pace. Households still report significant concerns with food insecurity.

Outlook

The economy is projected to grow over the three-year forecast horizon. The growth trajectory hinges on the return of domestic activities conditional on the loosening of movement restrictions and the delivery of mass vaccination. Growth will also be supported by an improving external environment. In 2021, public investment is expected to ramp up, while private investment remains tepid due to subdued lending and elevated uncertainty. Private consumption will gradually recover as remittances return and employment slowly improves, although it may face weakness in the first quarter amid higher inflation. External demand is expected to improve with the recovery of trading partners. Finally, base effect will prop growth up in 2021. Growth is expected to accelerate into 2022-23 as mass vaccination progresses, the election fuels activities, and global conditions further improve.

Despite the government's efforts to mitigate the negative effects of the pandemic on poor and vulnerable households, the poverty incidence is estimated to increase by around 1.4 percentage points between 2018 and 2020 (based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP). If wage and nonfarm employment increase with GDP growth and inflation is stable, the poverty rate will likely decline back to its 2018 level by 2021 and maintain a downward trend through 2022.

The most significant downside risk is the resurgence of COVID-19 infections, which may lead to stricter containment measures. Without an effective mass vaccination program, consumer confidence will return sluggishly and prolong the weak domestic activities. This, in turn, may suppress public revenues and limit the fiscal space to support growth. Financial risks could increase as borrowers in the most affected sectors face repayment challenges. Institutional changes in 2022 including the administration change and the implementation of the Mandanas ruling, which increases unconditional block grant transfers to local government units, raise risks associated with the transition. Still, a key upside risk is the U.S. fiscal stimulus which can have positive spillover effect on the domestic economy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.0	-9.5	5.5	6.3	6.2
Private Consumption	5.8	5.9	-7.9	6.0	6.2	5.9
Government Consumption[a]	13.4	9.6	10.4	7.5	10.5	10.1
Gross Fixed Capital Investment	12.9	3.9	-27.5	27.9	16.7	12.8
Exports, Goods and Services	11.8	2.4	-16.7	13.9	12.7	10.6
Imports, Goods and Services	14.6	1.8	-21.9	28.2	18.7	14.1
Real GDP growth, at constant factor prices	6.3	6.0	-9.5	5.5	6.3	6.2
Agriculture	1.1	1.2	-0.2	1.8	1.6	1.6
Industry	7.3	4.7	-13.1	7.2	6.5	6.6
Services	6.7	7.5	-9.1	5.3	7.0	6.8
Inflation (Consumer Price Index)	5.2	2.5	2.6	3.9	3.2	3.0
Current Account Balance (% of GDP)	-2.6	-0.9	3.2	1.2	-0.8	-1.4
Net Foreign Direct Investment (% of GDP)	2.9	2.0	1.7	1.9	2.2	2.5
Fiscal Balance (% of GDP)	-3.1	-3.4	-7.6	-7.2	-5.9	-5.2
General Government Debt (% of GDP)	34.4	34.1	49.0	53.4	54.6	54.5
Primary Balance (% of GDP)	-1.1	-1.6	-5.5	-4.5	-3.0	-2.3
International poverty rate ($1.9 in 2011 PPP)[b,c]	2.7	2.3	3.1	2.7	2.3	2.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	17.0	15.8	18.5	17.3	15.9	14.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	46.9	45.6	48.5	47.4	46.0	44.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) The implementation of the salary standardization law and the expected increase in public wages and operating costs due to the upcoming national election deviated the government consumption growth from its expected downward trajectory in 2022-2023.

(b) Calculations based on EAPPOV harmonization, using 2006-FIES and 2018-FIES.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(c) Projection using annualized elasticity (2006-2018).