



COUNTRY CONTEXT

2.1. Economic Growth and Macroeconomy

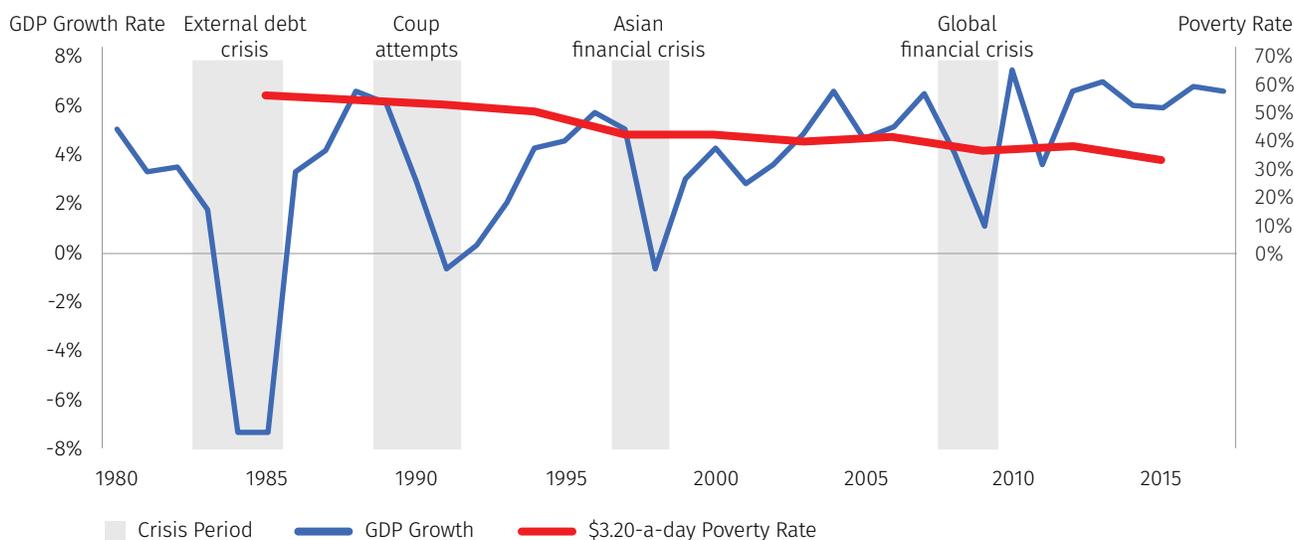
The Philippines has emerged as a sustained growth powerhouse. The country's unstable macroeconomic and political environment in the 1980s resulted in volatile growth rates that averaged just 2.5 percent per year over the period 1980-1997, far below the average of 4.6 percent of structural peers and 7.6 percent of regional peers.¹ Structural reforms and a commitment to macroeconomic stability helped the Philippines achieve relatively high economic growth after 1998 (Figure 2). Favorable domestic and external conditions supported growth to accelerate to an average rate of 6.4 percent in 2010-2017, surpassing the average of both structural and regional peers.

The country's recent success represents a substantial turnaround from its historical performance relative to neighbors. In 1960, the Philippines was one of the wealthiest countries in the region, not far behind Malaysia, and with a higher level of GDP per capita than China, Indonesia, Thailand, and the Republic of Korea (Figure 3). At the close of the 20th century, the Republic of Korea's GDP per capita exceeded that of the Philippines by tenfold.

Structural reforms played a key role in the growth recovery of the 1990s, establishing the underpinnings for strong growth in succeeding decades. During the late 1980s and into the 1990s, the Philippine government took steps to liberalize trade and broadened its privatization efforts. The government also liberalized foreign direct investment in select sectors and opened several industries—finance, air transport, oil, power, and telecommunications—to increased domestic competition.

The period of renewed growth has been accompanied by an acceleration of the long-run shift of the economy away from agriculture. The sector's contribution to GDP declined from 13.3 percent in 1998 to 8.5 percent in 2017 and employment fell more dramatically (Figure 4 and Figure 5). Labor productivity in the agriculture sector remains much lower than the average among regional peers. Investment and growth in the agriculture sector was stymied by the country's vulnerability to natural disasters, a policy focus on rice self-sufficiency, the weakness of institutions that support agriculture, and uncertainties generated by a lengthy agrarian reform.

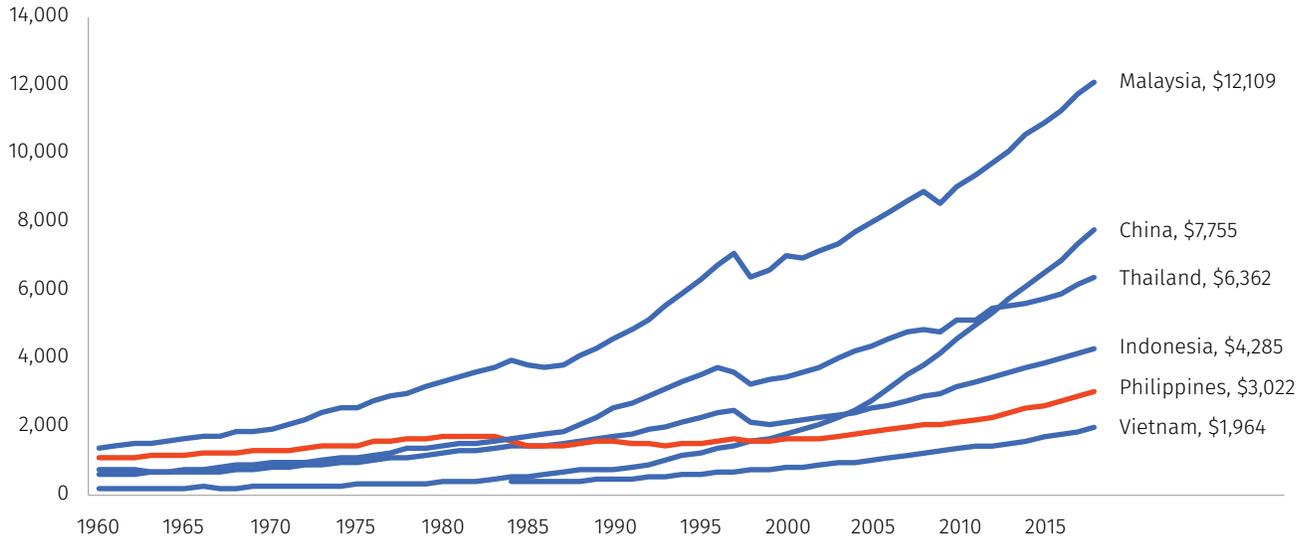
Figure 2: The Philippines Has Achieved High Rates of Growth Since the Early 2000s



Source: World Bank (2018b).

1 Structural peers for the Philippines are defined as Bangladesh, Kenya, Morocco, Pakistan, Sri Lanka, and Vietnam based on the following criteria: lower middle-income countries with natural resource exports comprising less than 20 percent of exports, an above average score on the Natural Disaster Risk Index, a population of more than 20 million, an oil importer, exports not concentrated according to the Herfindahl index, and not landlocked countries, small states, or fragile states. Regional peers are China, Indonesia, Malaysia, Thailand, and Vietnam. Regional peers are used as the principal point of comparison throughout most of this Diagnostic.

Figure 3: GDP per Capita 1960-2018 for Philippines and Regional Peers (constant 2010 USD)



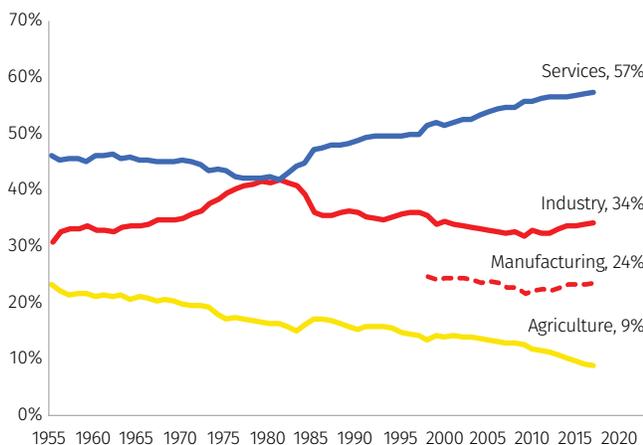
Source: World Development Indicators.

Both the services and manufacturing sectors have been expanding. The services sector's share of GDP increased from 51.4 percent in 1998 to 57.5 percent in 2017. Services grew annually at 5.8 percent in the same period. Meanwhile, growth in the manufacturing sector also accelerated in recent years, growing at an average annual rate of 7.6 percent in 2010-2017, compared with 3.0 percent in 2003-2009.

From the demand side view, the Philippine economy is a consumption-driven economy. During 2000-2017, private consumption represented 71.4 percent

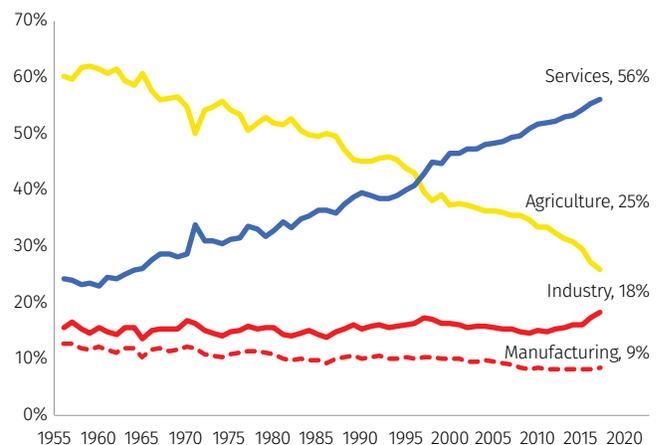
of the total economy, and contributed an average of 75.2 percent of economic growth. Economic growth is anchored on private consumption, owing to a large domestic market, robust remittances, and a pickup in investments in the services sector. Personal remittances sent to the Philippines averaged 11 percent of GDP in 2000-2016, compared to 4.4 percent in lower middle-income countries on average, and 0.4 percent in East Asia and the Pacific. The favorable domestic policy environment and global liquidity opportunity stimulated investments, which averaged 21.4 percent of GDP over 2000-2017.

Figure 4: Share of Sectors in GDP (%)



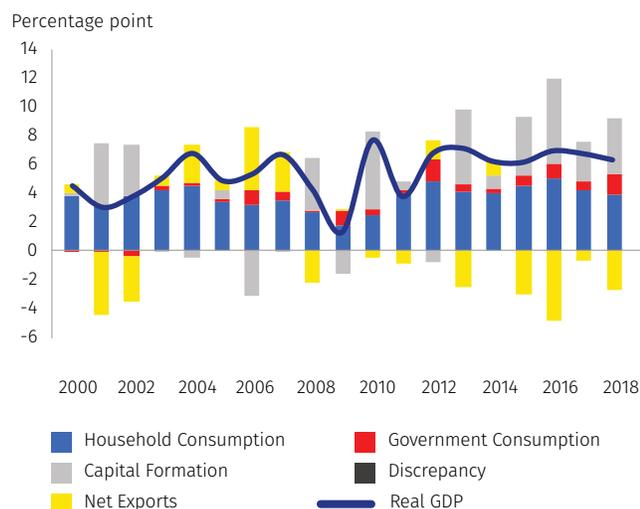
Source: National Income Accounts, Philippine Statistics Authority.
Note: Manufacturing is a sub-sector of the industry sector.

Figure 5: Share of Sectors in Employment (%)



Source: Labor Force Survey, Philippine Statistics Authority.
Note: Manufacturing is a sub-sector of the industry sector.

Figure 6: Contribution to GDP Growth from the Demand Side



Source: World Bank staff calculations based on National Income Accounts, Philippine Statistics Authority.

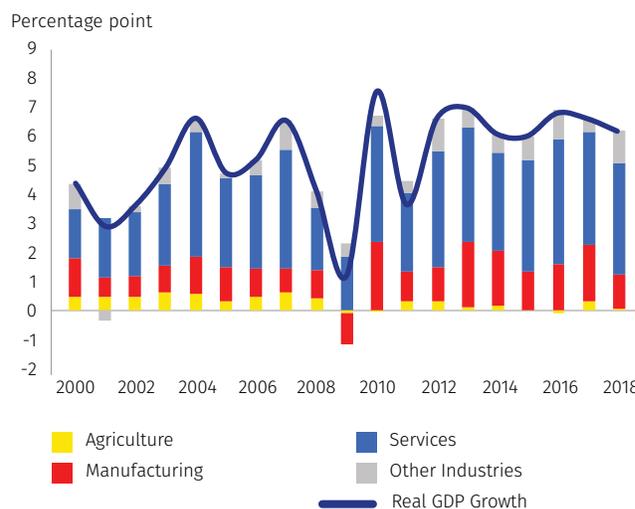
In a decomposition analysis, capital accumulation emerges as the main contributor to economic growth, accounting for three-fifths of growth between 1981 and 2017. By contrast, expansion of the labor force

accounted for less than one-third of growth, and its contribution to growth has steadily declined in the past three decades. The contribution of total factor productivity (TFP) to economic growth increased in 2000s, mirroring the path of overall economic growth. TFP accounted for a third of growth in 2001-17.

The contribution of TFP to growth was higher in the Philippines than in regional peers (except for China) and structural peers (except for Sri Lanka) between 1995 and 2010.

The macroeconomic framework has strengthened further in recent years. Strong macroeconomic fundamentals supported rapid economic growth and job creation. Indebtedness remains moderate with the public and publicly-guaranteed debt to GDP ratio at 34.9 percent in 2017. The fiscal balance improved significantly, after some adverse effects during the global recession. By 2015, fiscal balance turned into a surplus of 0.8 percent of GDP from a deficit of 2.7 percent of GDP in 2009.

Figure 7: Contribution to GDP Growth from the Supply Side



Source: World Bank staff calculations based on National Income Accounts, Philippine Statistics Authority.

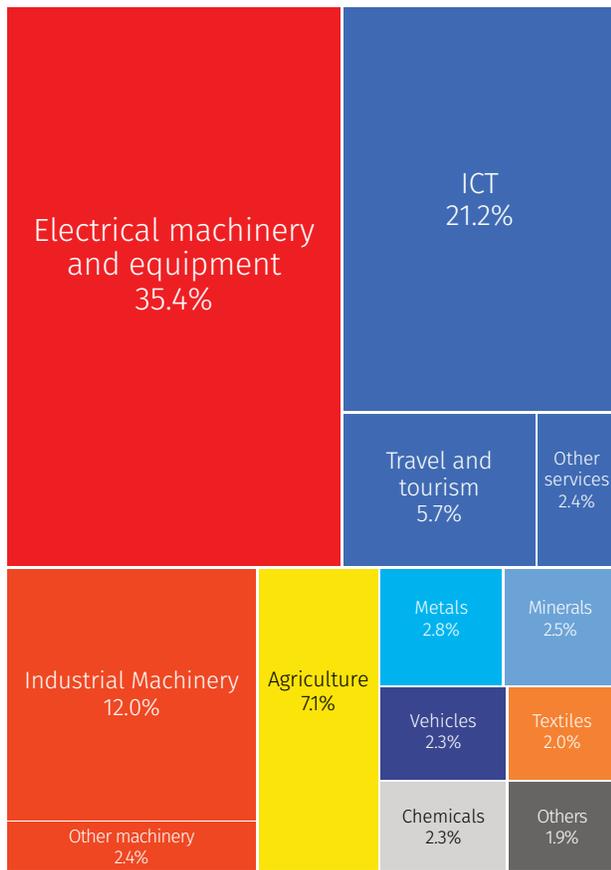
Note: Other industries are mining and quarrying, construction, and electricity, gas and water.

External performance has been satisfactory although deteriorating in recent years. The Philippines

maintained lower trade deficits over the past decade, owing to gradual export diversification and favorable terms of trade. However, the current account and trade balances deteriorated, mainly due to export growth slowing down while import growth accelerated. The deficit has been financed with remittances, transfers, and foreign direct investments.

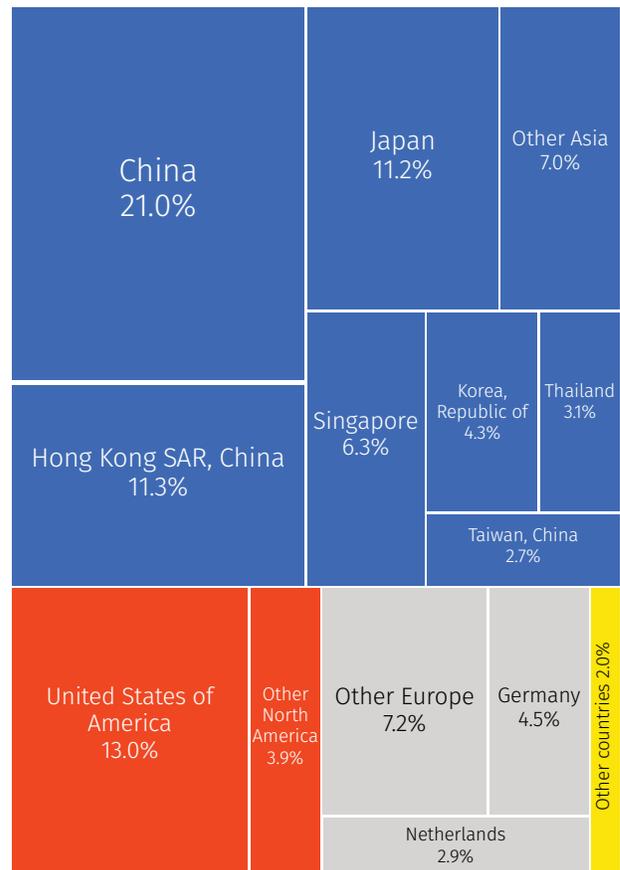
Philippines exports are concentrated in a few sectors and are principally directed towards East Asian neighbors. Total exports of goods and services were equivalent to 31.7 percent of GDP in 2018. Traditionally, goods exports have been largely of electrical machinery and equipment. ICT exports—principally business process outsourcing—have grown rapidly since 2005 and now comprise more than a fifth of total exports. The composition of Philippines' goods export basket has not substantially changed over the past decade. China and Hong Kong SAR, China together are the destination for 27 percent of Philippines goods exports. Other destinations in Asia account for an additional 40 percent of goods exports, 15 percent go to Europe, and 13 percent are to the United States. (Data on destinations for services exports are not available).

Figure 8: Composition of Gross Goods and Services Exports, 2017



Source: Atlas of Economic Complexity.

Figure 9: Destinations of Gross Goods Exports, 2017



Source: Atlas of Economic Complexity.

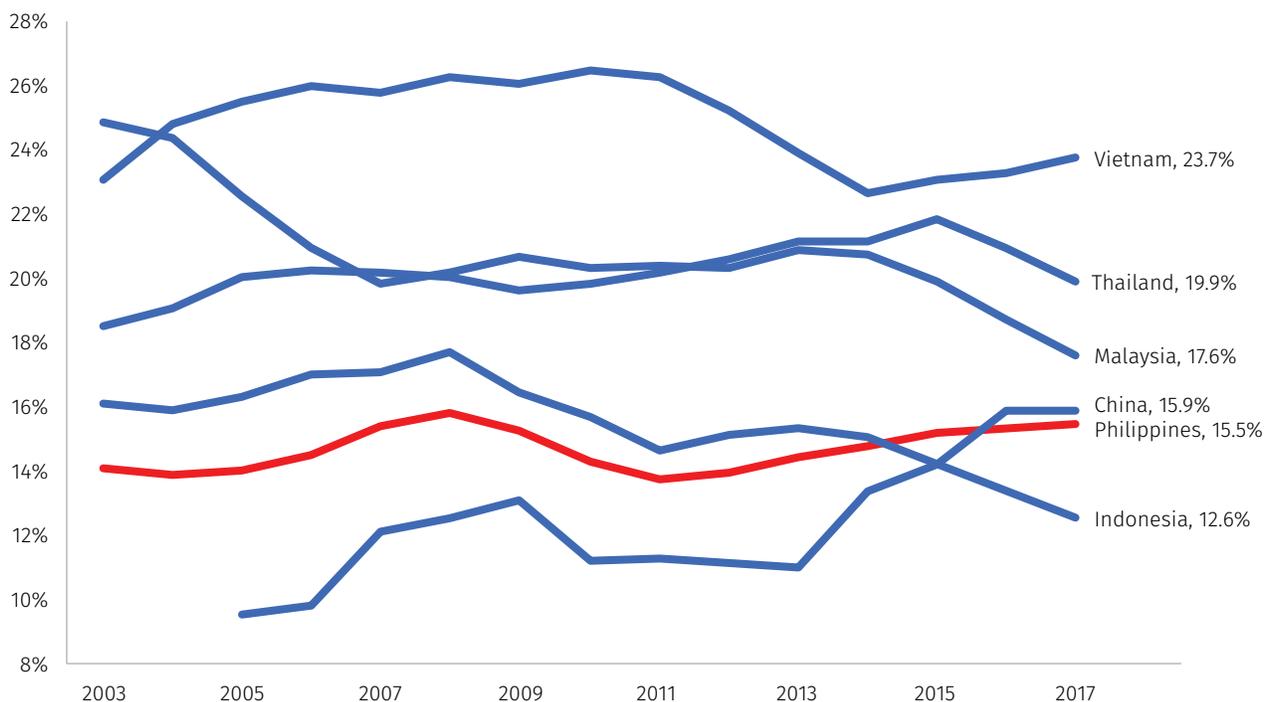
2.2 Fiscal Situation

Prudent fiscal management in the early 2010s was critical to ensure macroeconomic stability, leading to improved fiscal space for the government to expand its expenditures in recent years. The government pursued a path of expenditure consolidation between 2010 and 2015 to strengthen its macroeconomic fundamentals and achieve an investment grade credit rating which would lower borrowing costs significantly.² Lower borrowing costs freed up resources to increase expenditure on key sectors such as social services. The government shifted to an expansionary fiscal policy stance beginning 2016 as the government benefitted from improved fiscal space, with the goal of making growth more inclusive by addressing a large gap in both

its physical and human capital investment. However, expenditure levels are still lower in the Philippines compared to peers in the region, apart from Indonesia.

The government is increasing domestic revenue mobilization. In recent years, government revenue increased gradually as a result of both tax policy and administration reforms but is still considerably below the regional average. The government has initiated further reforms, and as a result, total revenues reached 16.4 percent of GDP in the first three quarters of 2018. Additional tax policy measures are currently undergoing review in the legislative branch of the government. Public expenditure is expected to increase to 20.3 percent of GDP by 2021.

² From 2011-2015, the national government deficit averaged 1.5 percent of GDP, well below the government's deficit target over the same period. By end-2014, the Philippines had received 15 positive credit rating action from multiple credit rating agencies.

Figure 10: Public Revenue as Percentage of GDP

Source: World Bank staff calculations based on World Development Indicators.
Note: Three-year moving average.

2.3. Monetary Policy and Financial System

Monetary management has been critical to macroeconomic stability. Since 2002, the primary objective of the Bangko Sentral ng Pilipinas' (BSP) monetary policy has been to promote price stability conducive to a balanced and sustainable growth in the economy. The BSP explicitly announces its inflation target over a given period, and uses various policy instruments, primarily the reverse repurchase facility, to achieve its target. Prior to the adoption of inflation targeting, inflation averaged 6.9 percent between 1995-2001, declining to 4.7 percent in 2002-2008 and 3.2 percent in 2009-2015. In 2018, the combined impact of rising global oil prices, excise tax on fuel, rice supply shocks, and peso depreciation put pressure in inflation, boosted the inflation rate briefly to 6.7 percent, but it has since declined and is expected to continue to fall.

The Philippines' financial system has been overall stable and resilient. The banks are well capitalized with average Basel III capital adequacy ratio at 15.3 percent as of March 2019, well above the 10 percent regulatory minimum. In addition, the banking sector's profitability is moderate but stable with its return on equity at an average of 9.6 percent and its return on assets at an average of 1.2 percent. As of December 2018, gross NPL ratio was at 1.8 percent and net NPL ratio was at 0.9 percent, better than pre-crisis levels (5.8 percent pre-2007). Financial system assets were 121 percent of GDP with banking sector accounting for 82 percent of financial system assets. Total banking sector assets were US\$321 billion as of December 31, 2018. Core loans (58.5 percent) and portfolio investments (20.3 percent) were main components of the banks' assets.

Capital markets are considered shallow, which restricts the financing of infrastructure investments.

The Philippine market is considered shallow in terms of financial depth of the primary market and available investment opportunities across asset classes. Issuances of private capital market products and government bonds each totaled 4 percent of GDP on average between 2013 and 2015. They are well under the 9 percent threshold associated with capital markets of developed economies but not far from the 5-plus percent level in China, Malaysia, and Thailand. Even so, the development of the Philippine capital market lags behind these three Asian neighbors (McKinsey and Company 2017).

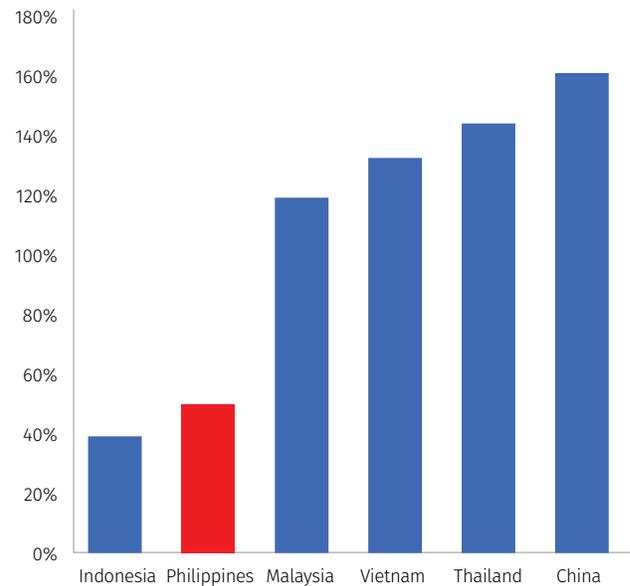
The level of domestic credit to the private sector is low compared with regional peers with firms relying heavily on internal funds.

At 50 percent of GDP, credit to the private sector in the Philippines is at the level predicted by its income level but substantially lower than the average 119 percent of regional peers (Figure 11). Less than 7 percent of working capital of firms is financed by banks, much lower than the 18 percent in regional peers. Even for the country's large firms, only 11.6 percent of funds used for investment originate from banks.

2.4. Poverty, Shared Prosperity, and Inclusion

Following many years of minimal improvements in the standards of living, the last decade has seen declines in poverty. The poverty rate using the national poverty line decreased from 26.6 to 21.6 percent 2006-2015, with the most rapid declines taking place since 2012, while the number of poor only started to decline in recent years (Figure 12).³ Measured by the international poverty line and lower middle-income class poverty lines, the trends are similar (Figure 13). Projections suggest that the poverty rate continued to decline through 2018. While this represents significant progress on poverty reduction, the rate of decline has

Figure 11: Domestic Credit as Percentage of GDP, 2018



Source: World Development Indicators.

been slower than that of other lower-middle income countries in the region. Despite progress in terms of the poverty rate, fairly rapid population growth has meant that the absolute number of poor has remained roughly constant over time.

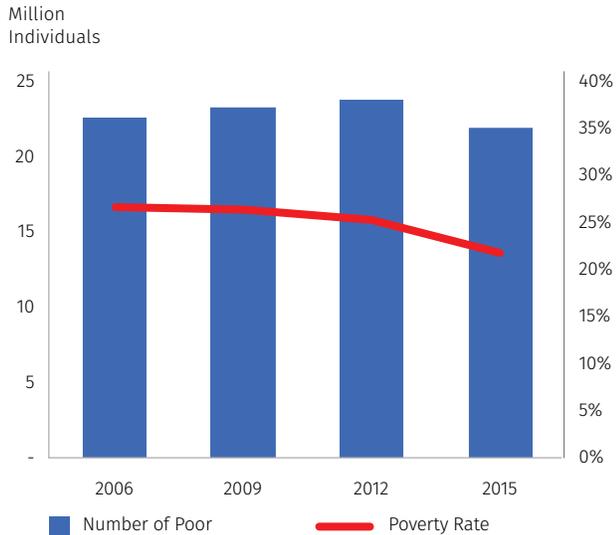
Although regional differences persist, growth and poverty reduction in recent years have reached all major regions of the country.

Growth rates during 2010-17 were similar for all three major island groups, including Mindanao, which historically falls behind other regions (Figure 14). The one major exception to the country's story of "spatially shared prosperity" is the conflict-affected Autonomous Region in Muslim Mindanao (ARMM), which experienced minimal growth and saw a rise in its already high poverty levels.⁴ Average GDP per capita in the region is one-fifth of the national level. One way to understand the size of that gap is to ask how rapidly the region would need to grow through 2040 merely to reach the 2018 level of GDP per capita for the Philippines as a whole. The region would have to sustain over two decades an annual GDP growth rate of 9.8 percent, which would far exceed historical growth.

³ The national poverty line is equivalent to \$2.88 PPP.

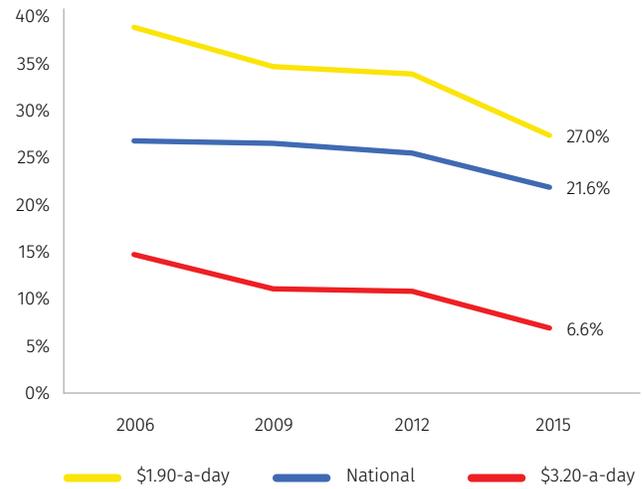
⁴ The ARMM was replaced by the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM) through a plebiscite in early 2019. The new region expands the previous ARMM to Cotabato City and 63 barangays in North Cotabato. The figures presented in this SCD are based on data collected before the formation of BARMM. Consequently, throughout the text discussions that involve data refer to ARMM rather than BARMM.

Figure 12: National Poverty Rates and Number of Poor



Source: World Bank (2018a).

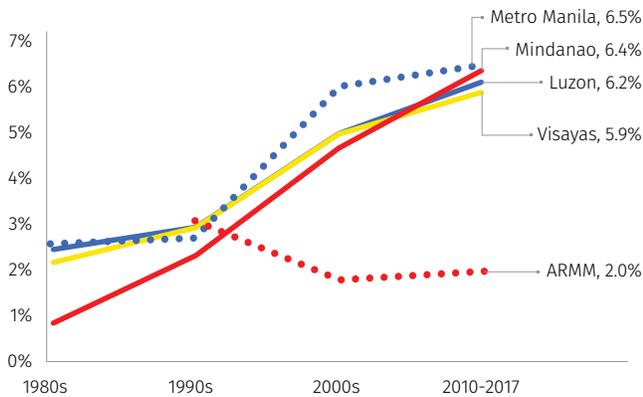
Figure 13: Poverty Trends Based on National and International Poverty Lines



Source: World Bank (2018a).

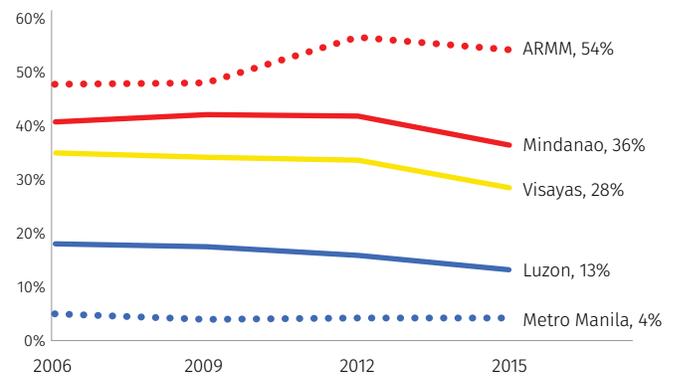
Figure 14: GDP Growth and Poverty Rates by Region

A. GDP Growth Rate



Source: Regional Income Accounts, Philippine Statistics Authority.

B. Poverty Rate

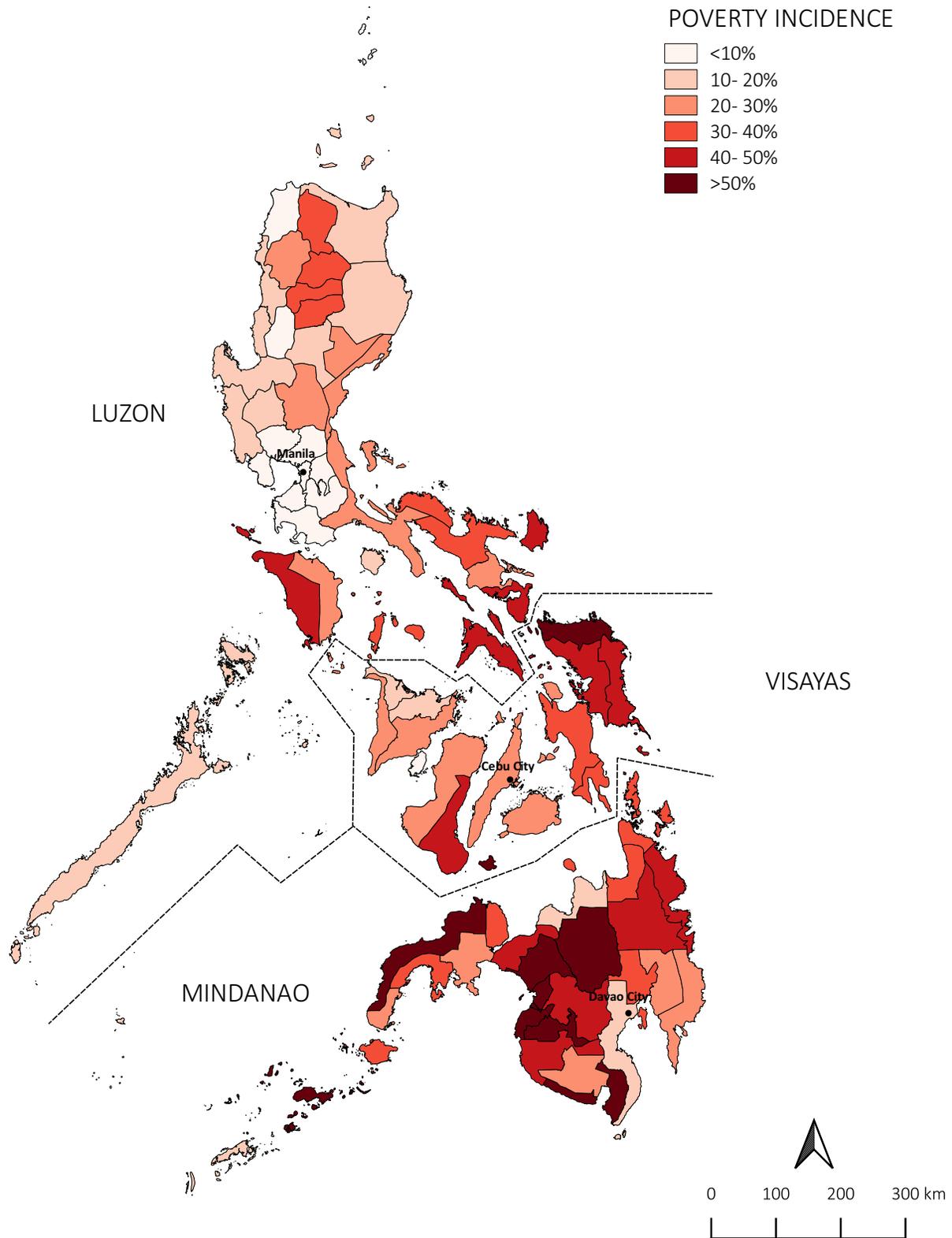


Source: World Bank (2018a).

Poverty rates increase with distance from Metro Manila. Less than 5 percent of the population falls below the poverty line in Metro Manila, and poverty rates are less than 20 percent throughout the south and central portions of Luzon where Metro Manila is located (Map 1). The poverty headcount exceeds 30 percent in eastern areas of the Visayas island grouping and most portions of Mindanao. The highest poverty rates—exceeding half the population—are found in two areas: (1) conflict-affected areas of western Mindanao and islands of the Autonomous Region in Muslim

Mindanao, and (2) provinces at the far eastern edge of the Visayas, which are most vulnerable to extreme weather arriving from the Pacific. A partial exception to the center-periphery pattern is the subregion around Davao City, which is quite distant from Manila but has experienced strong growth. Overall, three-quarters of the poor live in rural areas. At the regional level, the largest share of the poor lives in Mindanao, which is home to just a quarter of the country’s population but 39 percent of the poor.

Map 1: Poverty Incidence by Province, 2015



Source: Philippine Statistics Authority. Poverty Statistics.

One of the most striking trends is the lack of progress on eliminating poverty relative to regional comparators. While the poverty rate based on the international poverty line of \$1.90 per day declined by 2 to 2.5 percent per year in China, Indonesia, and Vietnam, it declined by only about 1 percentage point per year in the Philippines. In consequence, the share of the economically secure and that of the global middle class increased very little in the Philippines relative to other countries in the region (Figure 15).

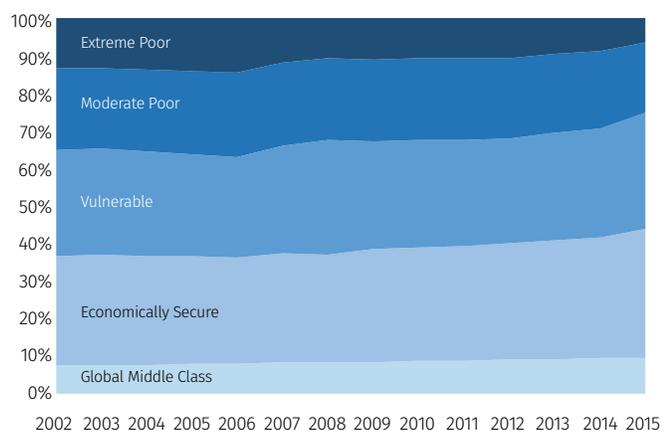
Inequality remains high in the Philippines. The Gini index, calculated from the survey-based consumption data, shows a value of over 40, which puts the Philippines in the top third of economies for which recent data is available and above others in East Asia apart from China. (Figure 16). Survey data, however, has well-known limitations in capturing top incomes. The highest earning households may be less accessible to enumerators, may be less likely to agree to respond, and may understate their incomes if they do respond. Various imperfect approaches have been adopted to assess inequality taking into account the high end of the distribution.

Available measures suggest that the gap between the rich and the bulk of the population in the Philippines is one of the largest in the world. The Credit Suisse Wealth Report from 2014 estimates that the top 1 percent owns more than half of the nation's wealth, the fourth highest after the Russian Federation, Turkey, and Hong Kong, SAR China. Another simple measure of wealth concentration is the ratio of the estimated wealth of the richest person in the country to the GDP per capita (based on estimates the 2018 Forbes Billionaires list and World Development Indicators GDP per capita data.). The Philippines ranks fourth by this measure, behind India, Mexico, and Nigeria: the wealth of the richest Filipino is 6.7 million times the country's GDP per capita.

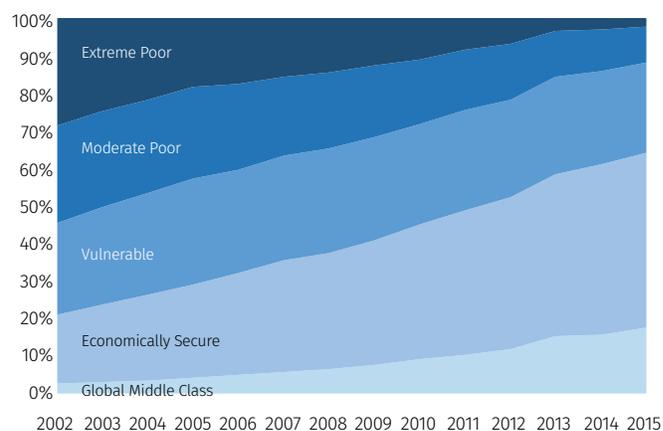
Economic growth also led to progress on shared prosperity. The bottom 40 percent of the population saw more rapid growth in income over 2006–15 than the average for the country as a whole (Figure 17). However, average income growth in the survey was far below the 3.6 percent growth of GDP per capita. This may be partly because incomes of very high-income households are not captured in the household survey. Average wages grew in real terms at a rate of just 0.4 percent over the same period.

Figure 15: Prosperity Over Time in the Philippines and East Asia and Pacific, 2002–15

A. Population distribution by economic class in the Philippines



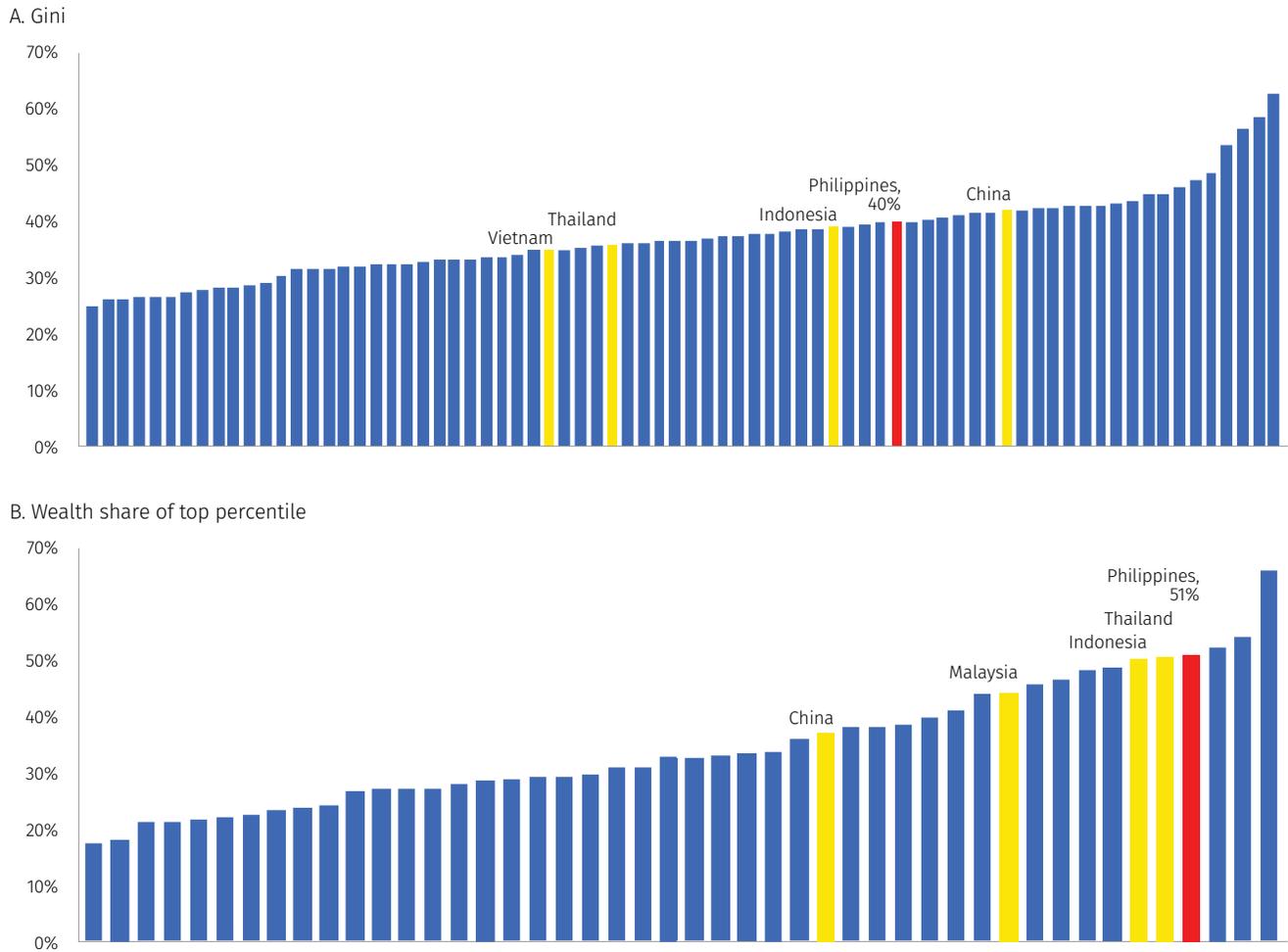
B. Population distribution by economic class in East Asia and Pacific



Source: World Bank (2018a).

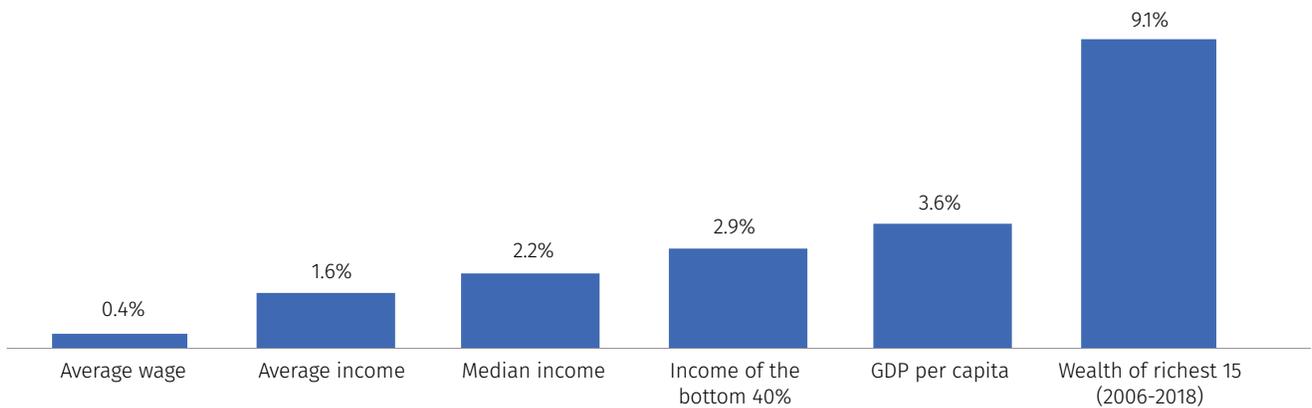
Note: Extreme Poor (less than PPP \$1.90 - a day); Moderate Poor (PPP \$1.90-\$3.10 - a day); Vulnerable (PPP \$3.10-\$5.50 - a day); Economically Secure (PPP \$5.50-\$15.00 - a day); Global Middle Class: PPP \$15.00 and higher - a day.

Figure 16: Inequality Measures



Source: PovcalNet for Gini (measured by household consumption per capita); Credit Suisse 2014 for wealth shares.
 Note: Regional peers are labeled and shaded yellow.

Figure 17: Average Growth Rates of Various Measures, 2006-15



Source: World Development Indicators, World Bank staff estimates using the Family Income and Expenditure Survey, the Labor Force Survey, and Forbes wealth estimates.

Rapid economic growth has yielded small poverty and wage gains in part because of the low and declining share of income that has gone to labor. The share is estimated to have declined from 44 percent in 1995 to 36 percent in 2015. The share in 2014 is the 15th lowest among the 137 countries for which estimates are available in the Penn World Tables. The combination of a high share of wealth concentration at the very top and an increasing share of income going to the owners of capital may have meant that much of the gains from the growth have been captured by the wealthy. Another piece of circumstantial evidence for this hypothesis comes from changes in the wealth of the richest Filipinos. A comparison of wealth estimates from 2006 and 2018 shows that the wealth of the richest 15 Filipinos increased at an average rate of 9.1 percent per year (adjusted for inflation), far exceeding the growth of average income, median income, and GDP per capita.⁵

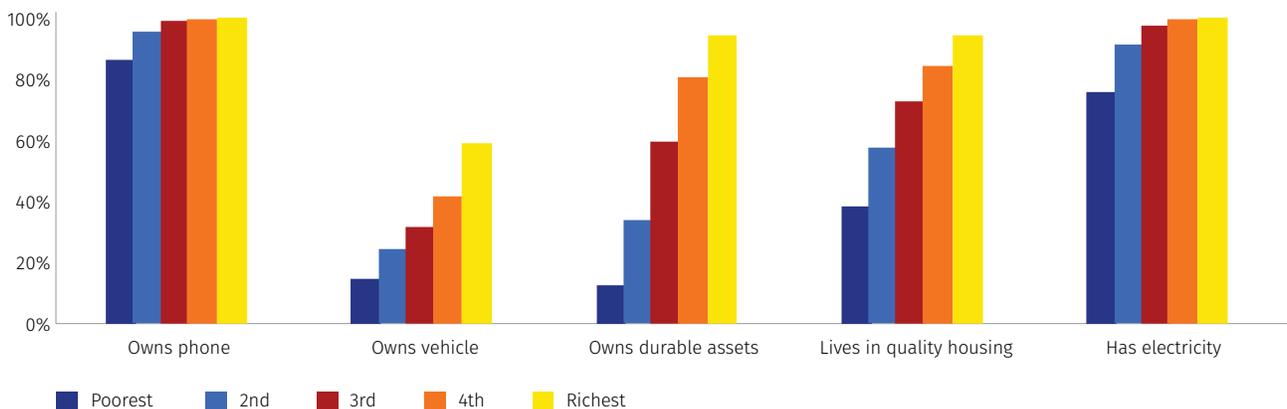
Access to basic services and ownership of communication and mobility assets significantly improved over the past decade, but the poor still fared worse than the nonpoor. Among the 40% poorest households, the proportion with access to many assets

remained significantly below that of the national average (Figure 18).

The Philippines has a substantial population of ethnic minorities, including Muslim ethnic groups and non-Muslim indigenous peoples.⁶ The Philippines has 182 ethnolinguistic groups, 110 of which are designated indigenous peoples. According to 2010 census data, members of Muslim groups make up 5.5 percent of the population and are highly concentrated in Mindanao, particularly the Autonomous Region of Muslim Mindanao (ARMM). Non-Muslim indigenous peoples are spread across many regions in all three major island groups (Reyes, Mina, and Asis 2017).

Indigenous peoples (IPs) are poorer and have less access to services than other Filipinos. IPs have been historically marginalized and often face exclusion, loss of ancestral lands, displacement, pressures to and destruction of traditional ways of life and practices, and loss of identity and culture. They have consistently fared worse than others on basic measures of well-being (Figure 20).

Figure 18: Access to Basic Services and Assets by Income Quintile, 2015

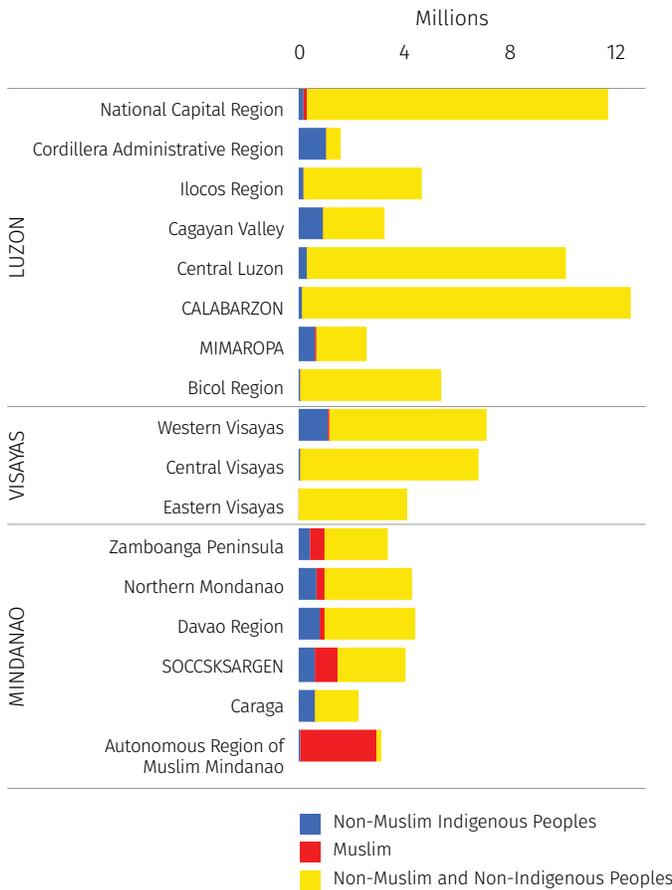


Source: World Bank calculations based on the 2015 Family Income and Expenditure Survey.

⁵ This analysis is based on comparing the estimated wealth of the richest 15 Filipinos in the Forbes 2006 list to the estimated wealth from the 2018 list of the same individuals (or their heirs in the case of those who died.) The Forbes estimates are based on a variety of information, and changes over time may reflect in part changes in the information available to Forbes and the methodology used to produce the estimates.”

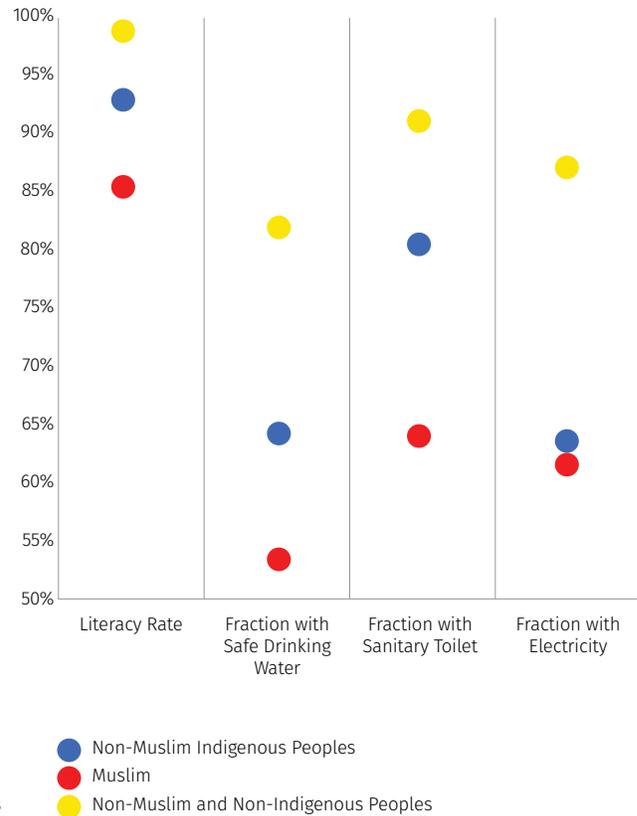
⁶ The National Commission on Indigenous Peoples designates 110 ethnic groups as indigenous groups. Some Muslim ethnic groups are designated indigenous groups and others are not. “Muslim” is defined in this analysis by membership in a predominantly Muslim ethnic group.

Figure 19: Distribution of Population by Region and Major Group



Source: Reyes, Mina, and Asis 2017, based on 2010 census data.

Figure 20: Literacy and Access to Basic Services by Major Groups



Source: Reyes, Mina, and Asis 2017, based on 2010 census data.

Persons with disabilities continue to face barriers to their full participation and inclusion in society.

A specialized survey conducted by the Philippine Institute of Development Studies in 2016 showed significantly lower school enrollment and labor force participation rates for people with disabilities (PWDs). Low enrollment rates, especially among older children, are due to environmental and financial barriers while low employment rates could be attributed to low education, lack of experience, and lack of employment opportunities (Agbon and Mina 2017). The Magna Carta for Persons with Disability and the Act Expanding the Benefits and Privileges of Persons with Disability seek to ensure that rights and privileges are given to PWDs. However, monitoring is weak.

Lesbian, gay, bisexual, transgender and intersex (LGBTI) people face challenges in education, employment, healthcare, access to justice and other government services, and are subject to violence.

Data on LGBTI people and their development outcomes is sparse. Although sexual minorities (lesbian, gay, bisexual) people are allowed to serve openly in the military and transgender people are allowed to change their legal gender, discrimination remains a challenge (UNDP and USAID 2014). Local ordinances against gender discrimination, promoting gender fairness, and protecting the rights of LGBTI people including in employment, have been passed by numerous local government units. However, the Philippine Congress has not passed national LGBTI employment anti-discrimination legislation. LGBTI Filipinos report

common experiences of sexual harassment in the workplace (UNDP and USAID 2014). In 2017 the first openly transgender woman was elected a member of Congress and successfully lobbied the House of Representatives to unanimously pass a gender identity protection bill. Implementation of this law will be key as case studies have shown that transgender Filipino women are denied the right to express their gender identity in the work place (UNDP and USAID 2014). While recent attitude surveys indicate that the majority of Filipinos are accepting of LGBTI people, in one survey almost 30% of survey respondents thought that people should be charged as criminals for being in same-sex relationships (International Lesbian, Gay, Bisexual, Trans and Intersex Association 2017). The Philippine Congress in 2013 passed an anti-bullying law and the Department of Education issued regulations prohibiting bullying in schools on the basis of sexual orientation and gender identity. The Department of Education also issued in 2017 a Gender-Responsive Basic Education Policy which expands the definition of gender to encompass relations between same-sex partners, gender awareness, gender-based violence, gender-based discrimination, gender expression and gender identity.

Another aspect of inclusion is access to financial services. Slow progress in financial inclusion has been observed in the Philippines according to Global

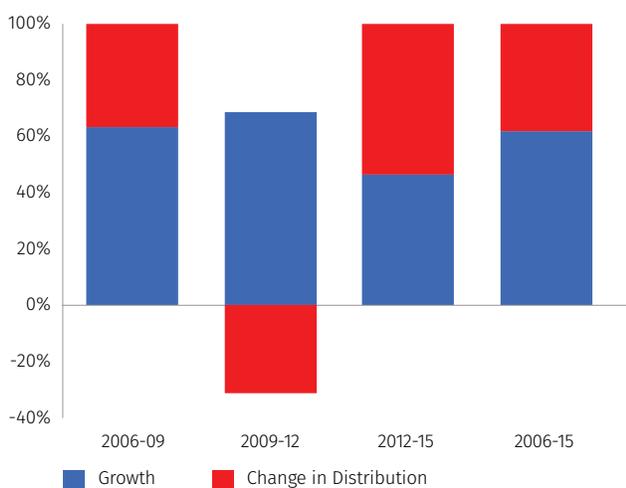
Index. In 2017, only 34.6 percent of adults had accounts, up from 26.6 percent in 2011. Account ownership in the Philippines is lagging behind regional comparators. Among adults in the richest 60 percent of households in the Philippines, 45 percent have an account, versus 18 percent of those in the poorest 40 percent of households. The unbanked in the Philippines cite various barriers to getting an account, including distance (41 percent), high costs (53 percent), and lack of documentation (45 percent). Limited and uneven access to financial services also hinders digital payments of the country's conditional cash transfer.

2.5. Key Drivers of Poverty Reduction

Over 2006-2015, growth in household income contributed 60 percent of poverty reduction, with the remainder from changes in income distribution.

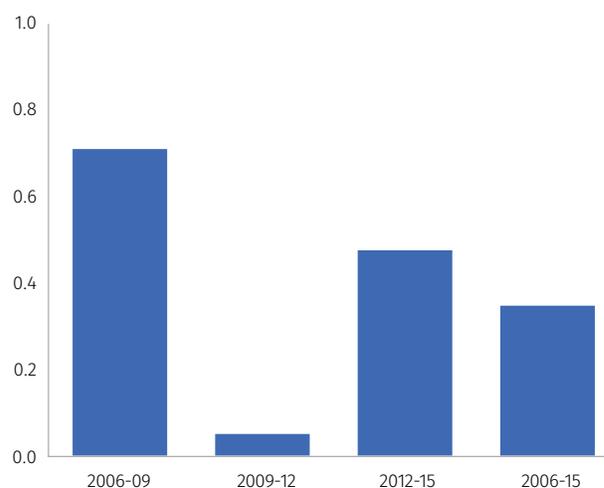
The relative contribution of the two factors varied over the period (Figure 21). During 2009-2012, poverty reduction was at a low ebb, due to slow growth under the influence of the global economic crisis but also to much higher distribution effects (Figure 22). The main drivers of poverty reduction over the period were an increase in wage income and movement of employment out of agriculture, government transfers, and foreign and domestic remittances (Figure 23).

Figure 21: Contributions of Household Income Growth and Change in Distribution to Poverty Reduction



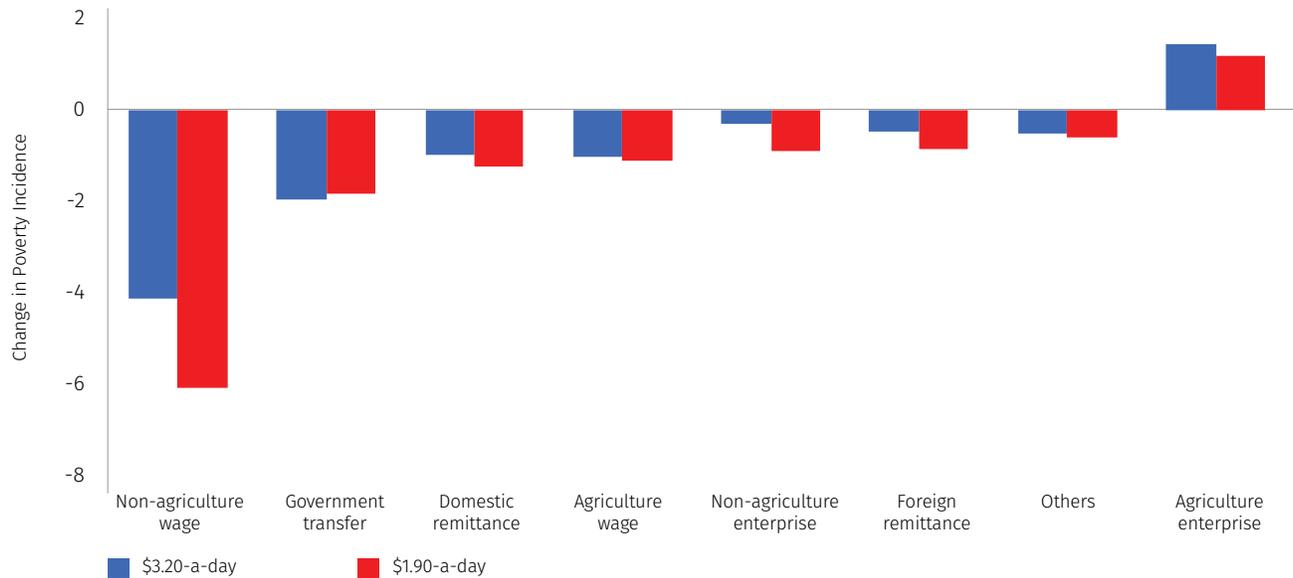
Source: World Bank (2018a).

Figure 22: Decline in Poverty Rate for Each 1 Percent Increase in GDP per Capita



Source: World Bank (2018a).

Figure 23: Contribution of Income Sources to Poverty Reduction, 2006–15



Source: World Bank (2018a).

The shift of employment from agriculture to services—and the resulting rise in non-agriculture wage income—was the largest factor in the decline of poverty over 2006–15. Those who transitioned to non-agricultural employment generally improved their incomes as lower-end industry and services jobs paid more than agriculture jobs. The movement out of agriculture is a continuation of a long-term trend. In the 1970s half of employment was in agriculture. The share of workers in agriculture declined from 36 percent in 2006 to 28 percent in 2015 and 25 percent of employment in 2017. The share of employment in services rose from 30 percent of total employment in 1970 to 56 percent in 2017.

New jobs in services were largely concentrated in lower-paying subsectors.⁷ A total of 7.5 million new jobs were created during 2006–17. The new jobs were concentrated in the services sector and for workers with at least a high school education. The subsectors in the services sector with the highest wages increased slowly compared with those with lower wages. A similar pattern holds for manufacturing and industry: 81 percent of the new jobs were in construction (1.63 million out of a total increase of 2 million), the second

lowest paid of the manufacturing and industry sector jobs, while employment in the higher-paying subsectors changed little. The manufacturing subsector created 0.33 million new jobs over this period.

Transfers from government social programs were responsible for a quarter of the overall reduction in poverty. The national conditional cash transfer program, *Pantawid Pamilya*, expanded rapidly during this period and now reaches about 1 in 5 Filipinos. It provides cash grants to 77 percent of poor households. The program reduced the national poverty rate by up to 1.5 percentage points, lifting 1.5 million people out of poverty.

Two-thirds of Filipinos (15 million households) receive domestic or foreign remittances. Although foreign remittances are of much higher value than domestic remittances, both have similar impacts on reducing the poverty rate. This is because domestic remittances are more prevalent among the poor, while foreign remittances are more common among the non-poor. The cost of sending international remittances to the Philippines is relatively high. Box 1 provides a discussion on the impact of migration and remittances.

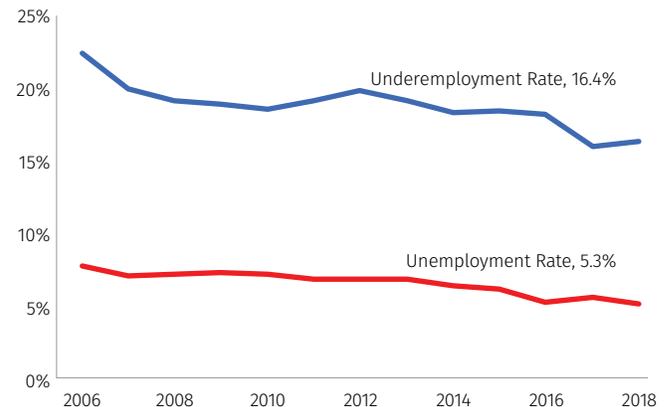
⁷ The subsectors refer to each of the 21 sections of agriculture, manufacturing and industry, and services of the 2009 Philippine Standard Industrial Classification (PSIC) by the Philippine Statistics Authority (PSA), which are mutually exclusive and exhaustive.

2.6. Composition and Future of Jobs

Both unemployment and underemployment have fallen over the last decade. The unemployment rate averaged 5.3 percent in 2018.⁸ Of those with jobs, 16.4 percent are underemployed, meaning that they would like to work additional hours (Figure 24).

Most working Filipinos are wage earners, but fewer than a quarter hold jobs working for private firms with benefits. Close to two-thirds (63 percent) of employed Filipinos, numbering 25.4 million in 2018, hold wage jobs. Half of all working Filipinos have wage jobs with private firms (Figure 25). Of those, less than half have jobs with benefits. In all, just 8.8 million or 22 percent of workers hold “modern” private-sector jobs that pay benefits. An additional two million are household workers, and 3.5 million work for government at various levels. Regular employees are entitled by law to social security and health insurance benefits. Those working wage jobs without benefits include those hired without contract and those hired on probationary contracts of less than six months (who are not entitled to benefits.) The widespread use of such “endo” contracts by employers has been a long-standing point of controversy.

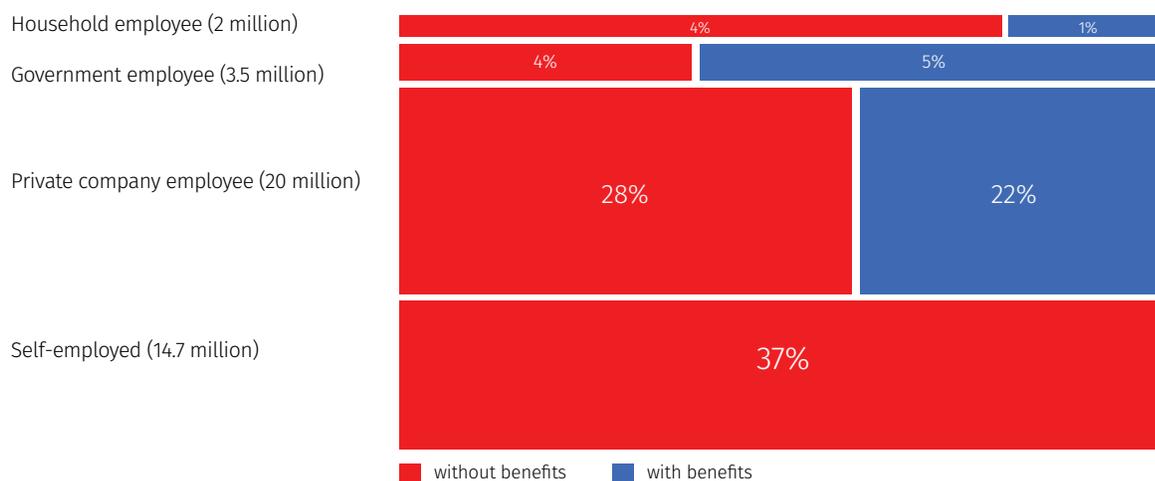
Figure 24: Unemployment and Underemployment Rates



Source: Labor Force Survey (various years), Philippines Statistics Authority.

What jobs will Filipinos have in 2040? While the future is inherently uncertain, it is very likely that Filipinos will continue to move out of agriculture looking for opportunity in services and industry. Where those opportunities emerge will depend first on the impacts of technology and second on policy choices. Breakthrough developments in information and communications technology are driving a global “Fourth Industrial Revolution.” These have already wrought huge changes in a portion of the Philippine economy, and many believe a new wave of innovations in artificial intelligence and robotics will drive further transformations.

Figure 25: Composition of Jobs



Source: World Bank staff calculations based on 2017 Annual Poverty Indicators Survey data.

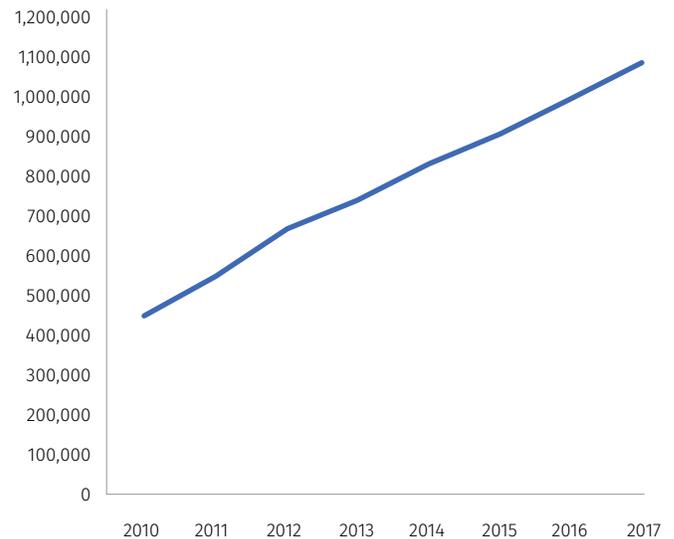
Note: “Benefits” here refers to enrollment in either the Social Security System or its equivalent for government workers. Data is incomplete for the self-employed. Some self-employed workers are enrolled in the Social Security System.

⁸ Average of the first three rounds of the 2018 Labor Force Survey.

Thus far, the Philippines has dramatically benefitted from the technology advances that have catalyzed the global services trade. The country's BPO industry has created roughly 90,000 new jobs each year since 2004 (Figure 26). More than one million Filipinos—about one in 15 of those working for a private firm—are directly employed by a BPO services provider and the sector has become the second largest contributor to the Philippines' foreign exchange earnings, after remittances. The Tholons Service Globalization Index, which identifies preferred destinations for outsourcing digital services, puts the Philippines as the No. 2 “Digital Nation” (after India) and five of its cities—Manila, Cebu, Davao, Bacolod, and Iloilo—among the top 100 globally (Tholons 2018). The country's success in the BPO industry is largely attributed to cultural ties to the United States and the English skills of its workers. Other factors include liberalization of the telecommunications sector, which drastically reduced costs in the 1990s, combined with tax incentives (Kleibert 2015).

Looking toward the future, views on the global implications of digital and information technology fall broadly into two camps. One view is that with advances in artificial intelligence and robotics, machines will be able to do many jobs previously done by humans, displacing large numbers of workers. In support of this view, two studies estimate that half of jobs in the Philippines could be automated (Chang and Huynh 2016; Manyika et al. 2017). An alternative view starts with the observation that fears about technology are nothing new. Periodic warnings have been voiced since at least the First Industrial Revolution in the 1750s that machines were going to wipe out workers' livelihoods. Waves of technology have indeed eliminated whole classes of jobs but have also generated new ones. Technological change has not produced mass unemployment as feared. Specific jobs and even sectors of the economy can shrink or disappear entirely, but what has been true for one job or sector has not been true for the economy overall (Autor 2015). In this light, historical experience suggests that today's fears of technology-driven dystopia may be misplaced. There are reasons to be skeptical of the eye-popping numbers from “jobs at risk” studies. They

Figure 26: Jobs in Business Process Outsourcing Services



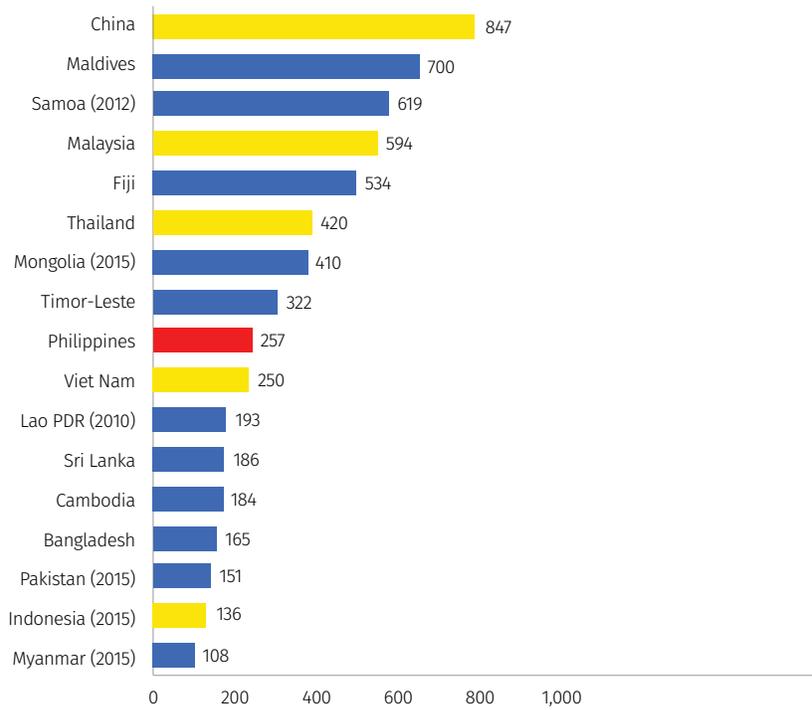
Source: Survey of IT-BPO Services, Bangko Sentral ng Pilipinas (various years).

are based only on technological feasibility of automation and disregard other factors, starting with the economics (Schlogl and Sumner 2018). A large number of jobs could ultimately be done by robots, but that future may remain on the horizon for the Philippines as long as wages remain low in comparison with competitor nations (Figure 27).

In developed countries, recent employment growth has followed a U-shaped pattern, with declining numbers of medium-skilled jobs, which typically involve routine tasks that are more easily automated (Autor 2019). In developing countries, the pattern is less marked and the Philippines only matches imperfectly to this pattern (Figure 28). The share of high-skilled jobs—including technician, professionals, and managers—increased during 2007–17, and the number of middle-skilled workers did decline. However, the decline chiefly reflected the drop in the “skilled agricultural, forestry, and fishery workers” category. The main occupational shift was from elementary occupations to service and sales workers.⁹ This analysis shows that the Philippines is not yet undergoing the polarization seen in the developed world. However, it is also not experiencing high growth in the middle-skilled jobs that would be expected to fuel the growth of the middle-class.

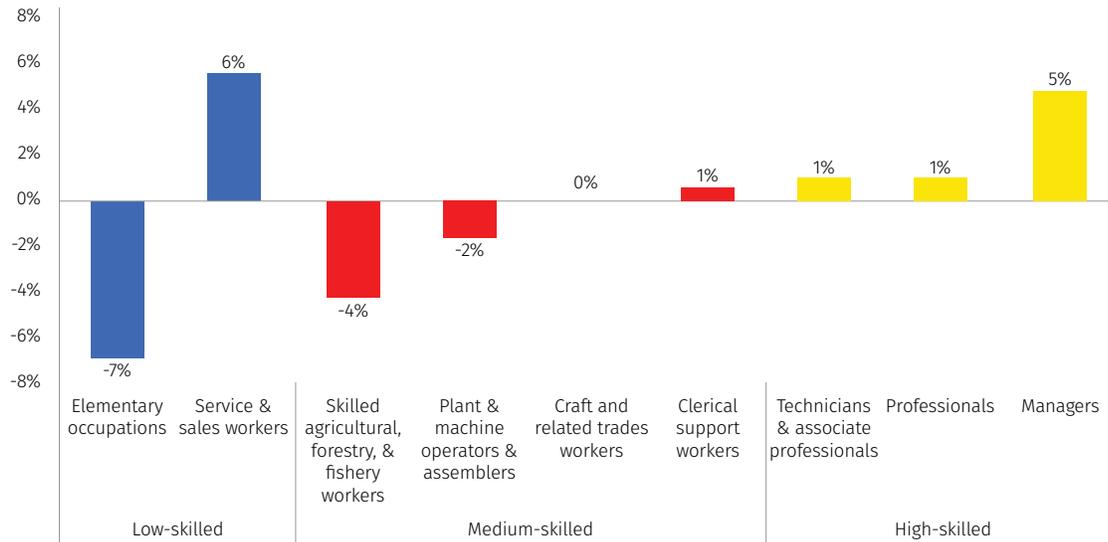
⁹ Elementary occupations include the following subcategories: cleaners and helpers; agricultural, forestry and fishery laborers; laborers in mining, construction, manufacturing, and transport; food preparation assistants; street and related sales and services workers; refuse workers, and other elementary workers.

Figure 27: Average Monthly Earnings of Employees in Asia-Pacific, 2016 (USD)



Source: ILOSTAT annual database.
 Note: Regional peers are shaded yellow.

Figure 28: Changes in Share of Jobs by Occupation and Skill Category, 2007–17



Source: World Bank staff calculations based on Labor Force Survey data (various years).

Box 1: Migration and Remittances

Migration is a principal thread of the Philippine social and economic fabric. Filipinos from all walks of life have been migrants themselves or have family and friends living abroad. The UN and World Bank estimate the number of Filipinos abroad at six million (United Nations, Department of Economic and Social Affairs, Population Division 2017).¹⁰ About one-third of them are in the United States and a quarter in the Middle East (Figure 29). The number of migrants has increased steadily, from 3 percent of the Philippine population in 1990 to 5 percent in 2018 (Figure 30). Philippines government programs that prepare migrants for work overseas and protect their welfare are considered worldwide models (Testaverde et al. 2017).

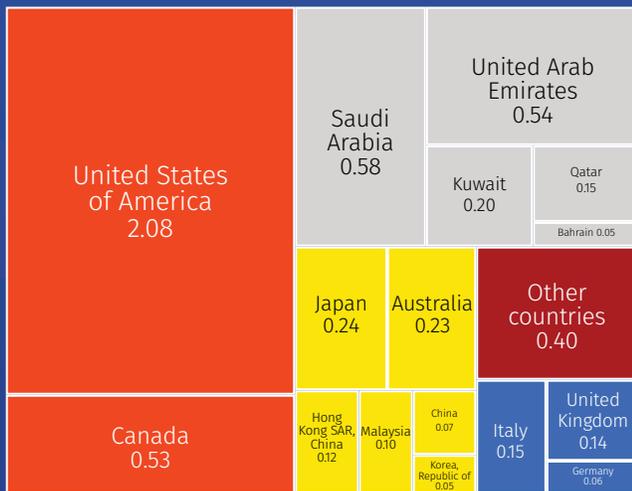
Emigration rates may decline as the Philippines reaches upper-middle income status. Emigration flows follow an inverted-U pattern, first rising as a country’s income increases and then falling. The Philippines is at the peak of the inverted-U observed historically

in other countries (Clemens 2014).¹¹ If it follows this pattern, the migration rate will begin to fall as domestic job opportunities improve.

Remittances emerged as a cornerstone of the Philippine economy during the 1990s, climbing from 3 percent of GDP in 1990 to over 13 percent in 2005. Remittances have continued to grow in absolute value but have fallen as a percentage of GDP as the overall economy has shown strong growth and become less dependent on remittances. In 2015, 42 percent of all households received remittances from abroad (World Bank 2018a).

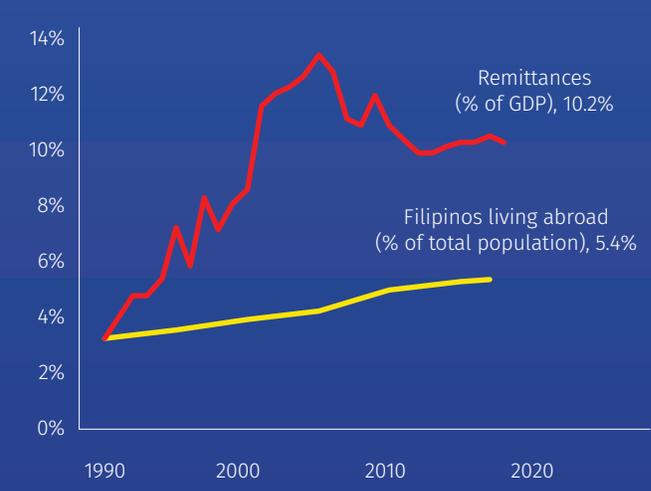
The impacts of overseas migration are complex. The effects can be considered in five categories: (1) consumption, investment, poverty, and labor force participation, (2) human capital, (3) social relations, (4) macroeconomy, and (5) political institutions.¹²

Figure 29: Locations of Filipino Migrants (in millions)



Source: World Bank Bilateral Migration Database.

Figure 30: Remittances and Filipinos Living Abroad



Source: World Development Indicators and World Bank Bilateral Migration Database.

10 The UN and World Bank estimate the total migrant stock for the Philippines in 2017 at 5.68 million and 5.97 million, respectively. Counts of overseas Filipino workers (OFWs) are subject to substantial uncertainty. The Philippine Overseas Employment Administration (POEA) puts the number of “land-based” OFWs in 2016 at 1,669,511 and “sea-based” workers at 442,820. These figures only count temporary workers who have registered with the Philippines government.

11 The peak is at \$7,000–8,000 GDP per capita in 2005 PPP terms. The Philippines GDP per capita was \$7,599 in 2005 PPP in 2017.

12 It is difficult to draw conclusions about the impact of migration from simple observational studies. For this reason, this review emphasizes studies that use experimental or quasi-experimental approaches to identify impacts.

The main impact of migration and remittances is the improved welfare of migrant-sending households.

Households that receive remittances are, on average, wealthier, but this is in part due to the remittances. Remittances have been found to reduce poverty among migrant-sending households and even in households without migrants in areas that send migrants (Yang and Martinez 2006). For example, the addition of remittances to household income reduced the poverty rate by 3.8 percent in 2015 (World Bank 2018a). An analysis based on a lottery of temporary positions in the Republic of Korea shows that migration had large positive impacts on income and consumption of sending households. Contrary to concerns that those receiving remittances may work less, the Republic of Korea study and an earlier analysis find no impact of migration or remittances, or both, on the total labor supply of sending households (Yang 2008). Remittances rise after shocks such as typhoons, providing an important insurance mechanism for recipient households (Yang and Choi 2007).

Remittances finance investments in human capital.

Concerns are often raised that migration depletes the country of its workforce. However, migration boosts human capital through multiple channels. Evidence from several studies demonstrates that migration and remittances generate large increases in spending on health and education in the Philippines (Clemens and Tiongson 2017; Theoharides and Yang 2018; and Yang 2008). Another study shows that each 1 percent increase in international migration from a province results in a 3.5 percent increase in secondary enrollment (Theoharides 2018).

A second channel by which migration affects human capital is by creating incentives to pursue education.

The possibility of migration and earning high incomes as a result creates a powerful draw to Filipinos to complete more education. The combined impact of emigration and this incentive effect is to slightly increase the overall skill level of the population (Beine, Docquier, and Rapoport 2018). Nursing is a good case in point. In the 1990s, the United States made it considerably easier for Filipino nurses to obtain work visas. As a result, enrollment in nursing studies in the Philippines increased dramatically. For each new nurse who moved abroad, two individuals graduated with

nursing degrees (Abarcar and Theoharides 2018). Consequently, while roughly 3,000 to 8,000 Filipino nurses move permanently abroad each year, the Philippines still has 33 nurses per capita, more than both China and Thailand and more than twice the number of a typical country at its level of income.

A third channel by which migration boosts human capital is via “skill flow”.

Millions of Filipinos have returned to their country with skills and know-how acquired abroad through formal education and on-the-job training. In 2017, 16,578 Filipinos were studying abroad, twice as many as a decade previous, according to data from the UNESCO Institute for Statistics. The job experience of returning migrants is a form of human capital. As the world shifts further toward an economy built on knowledge, migration is a vital channel to bring ideas to the Philippines (Clemens 2009).

Although the impacts of migration and remittances are largely positive, they have two notable downsides.

Migration has taken a toll on relationships between migrants and the children they leave behind. Qualitative studies document the hardship experienced by children who have one or both parents overseas. One study found that children with migrant mothers are worse off than those with migrant fathers (Cortes 2015). Another concern is that remittance inflows can cause a version of “Dutch disease”—an appreciation of the real exchange rate that makes exports relatively expensive and therefore less competitive. One simulation analysis shows that remittances have boosted the economy but also explain the slow growth of Philippine exports (Bayangos, Veronica, and Jansen 2013).

Emigration affects institutions through multiple channels.

It provides people with an option to exit, changing their incentives to exercise their voice. Remittances may also act as a “safety valve” to alleviate economic, social, and political pressure for reform. On the other hand, emigration exposes a country to values and experiences in other countries, which could raise expectations and create more pressure for reform. The migrants themselves may become empowered political agents from abroad. One recent study found a positive impact of migration on both political and economic institutions for most countries, including the Philippines (Docquier et al. 2016).

2.7. Future Trends

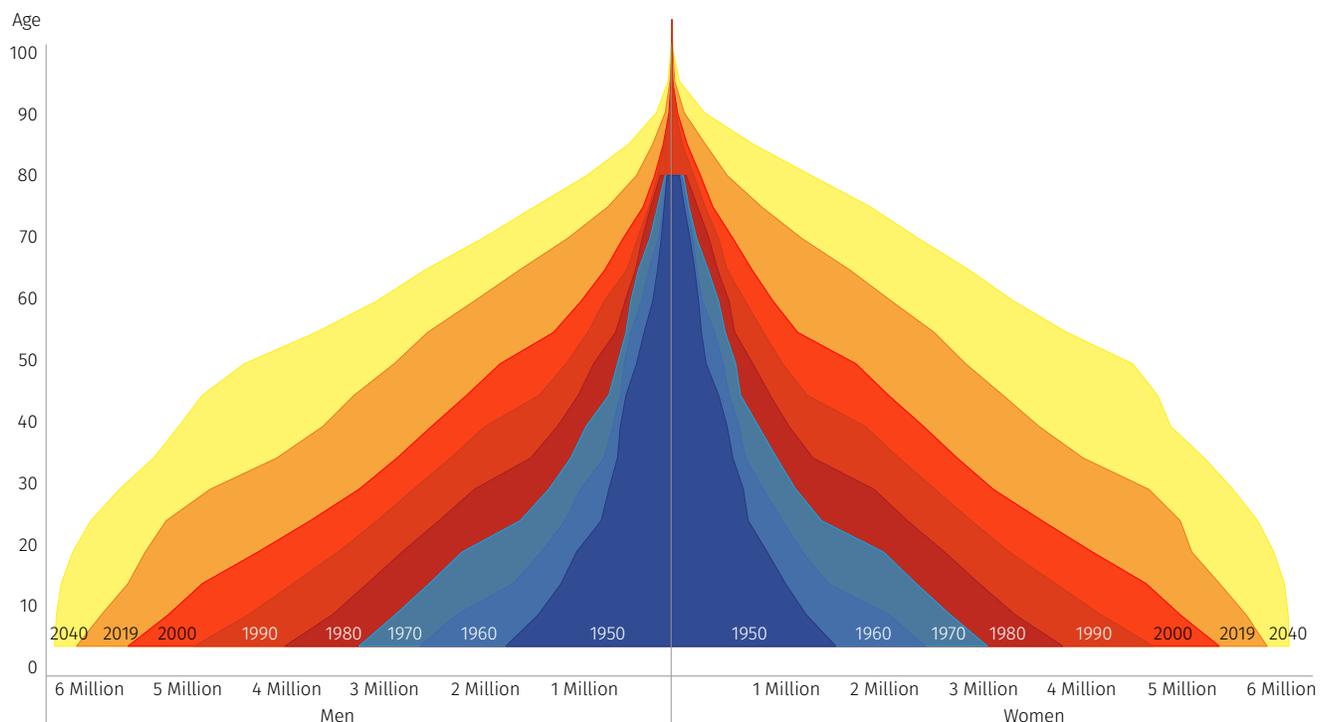
This section outlines trends in five areas—demography, urbanization, technology, climate, and the role of China—and discusses their impacts for the Philippines.

Demography: The Philippines population will remain fairly young through 2040. Although the total fertility rate continues to fall steadily, the current rate of 2.7 is higher than that of all regional peers. Given the large number of people currently of childbearing age, even with continued fertility declines, the population will continue to grow rapidly, reaching nearly 140 million by 2040 (Figure 31). By UN projections, the share of the population under age 15 will drop modestly, from 31 percent in 2020 to 26 percent in 2040. The share of working age (15-64) will climb slightly, from 64 to 66 percent, and the share over 65 will remain low but grow, from 5 to 8 percent. Unlike some other countries in East Asia which have experienced rapid declines in birthrates, the Philippines has had a long, slow drop in fertility. As a result, it has not experienced a sharp bulge in the share of people of working age and the resulting “demographic dividend.” On the other hand, compared

to its regional peers, the Philippines now has a demographic advantage: it still has a young population and does not yet have the challenges of rapidly aging population facing China, Vietnam, and Thailand.

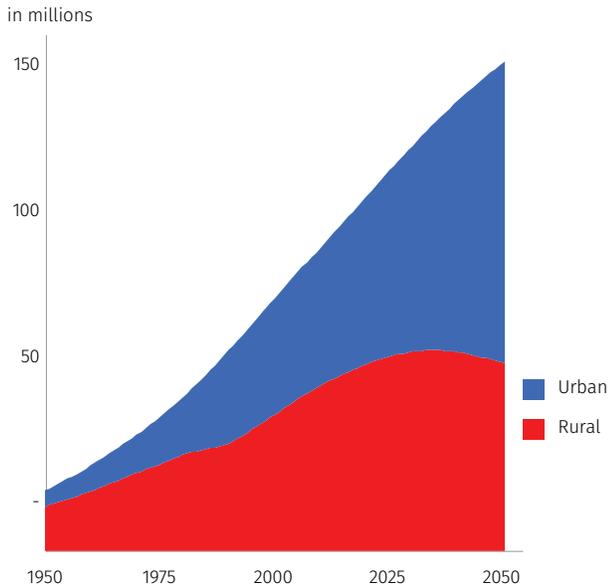
Urbanization: In 1950, the Philippine population was overwhelming rural. Today Filipinos are split roughly evenly between urban and rural areas. With continued migration, nearly all future population growth is projected to be in urban areas (Figure 32). Both Metro Manila and other cities of all sizes will expand. Today only Metro Manila and Davao City have populations over 1 million. By 2035, Metro Manila will be nearing 20 million, Davao City will count 2.5 million inhabitants, and five other cities will have populations exceeding 1 million population: Cebu City, Antipolo, Zamboanga City, Dasmariñas, and Cagayan de Oro (Figure 33). Around the world, productivity is much higher in cities than in rural areas, and urbanization is strongly correlated with economic growth (Glaeser and Xiong 2017). This suggests that the growing urban population can be a positive force for achieving *Ambisyon Natin 2040*. At the same time, it will amplify existing challenges for infrastructure and basic service delivery.

Figure 31: Population Pyramids, 1950–2040



Source: World Bank staff calculation based on United Nations (2019).

Figure 32: Past and Projected Urban and Rural Populations

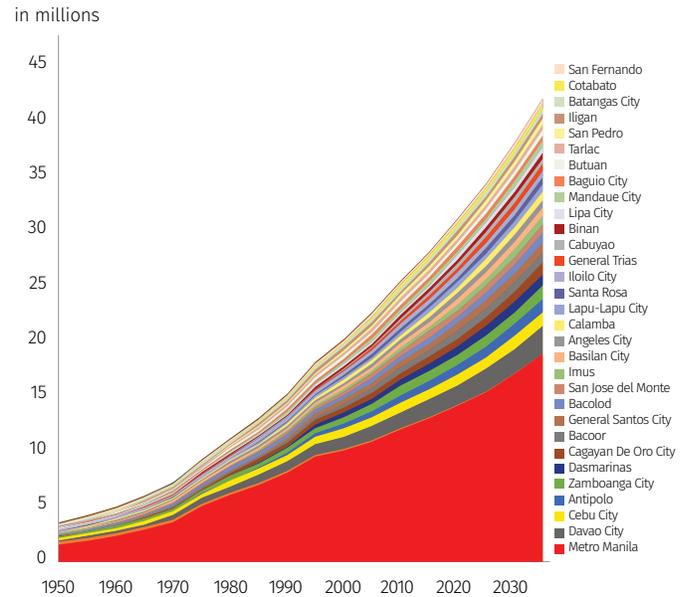


Source: United Nations, Department of Economic and Social Affairs, Population Division (2018).

Technology: Technology will continue to enable job growth but may also replace some jobs. Information and communications technology made possible the spectacular growth of the IT-BPO sector, which now employs more than 1 in 15 Filipinos working for a private company. As the previous section highlights, advances in robot technology and artificial intelligence have stoked global fears that many jobs may disappear, and two studies claim that half of jobs in the Philippines are at high risk for automation. However, the decline of “middle-skill” jobs seen in the developed world is not happening in the Philippines, and the country’s low wage level will slow the rate at which technology substitutes for labor. Policies to boost the country’s digital infrastructure and worker skills can make technology more job enabling than job replacing.

Climate: The Philippines is among the countries most vulnerable to climate change, in part due to its location in the path of Pacific typhoons and the sizable population living near sea level. Projections suggest the economic impact could be massive for the Philippines. Climate change is projected to increase the frequency and intensity of extreme weather events, depress agricultural and fishery yields, and kill off vital

Figure 33: Past and Projected Population of Cities with More than 300,000 Residents



Source: United Nations, Department of Economic and Social Affairs, Population Division (2018).

ecosystems. Climate adaptation—including restoring mangrove forests to protect coasts and switching to climate-resilient crops—can lessen the negative impacts. The country can also help mitigate climate change by meeting its target under the 2015 Paris Agreement to cut emissions by 70 percent below business-as-usual (BAU) by 2030. This would mean meeting growing energy needs with renewable sources instead of coal. In particular, the country has high potential to expand solar and wind power. These topics are discussed in greater detail in the Resilience section of the report and under the infrastructure heading of the Inclusive Growth and Jobs section.

The Role of China in the Global Economy: China’s changing relationship with the United States may present an opportunity for the Philippines. Strained trade ties between China and the United States may increase the costs of inputs and final outputs, dampening investor’s sentiments, and disrupting trade. The Philippines is integrated to the world economy via trade, financial, and investment linkages. In the near term, increased U.S. barriers to China goods could reduce demand for Philippine intermediate goods exports (mainly electronics) that are inputs for exports



to the United States. In the medium term, they could lead to the relocation of direct investment away from China to countries that could produce the affected products, including the Philippines.¹³ The Philippines has the capability to make many of the products targeted by the US tariffs on China. When deciding to relocate investment, investors consider other factors such as production cost including energy and logistic costs, FDI restrictions and incentives, and ease of doing business. Therefore, while the Philippines could potentially benefit from the US-China trade frictions, it would need to address structural constraints in infrastructure and the business environment to take full advantage of the opportunity.

2.8. Philippine Development Plan and *Ambisyon Natin 2040*

The government's policy goals are encapsulated in the long-term vision for the Philippines known as *Ambisyon Natin 2040*. Developed by the National Economic and Development Authority (NEDA), *Ambisyon Natin 2040* represents “the collective long-term vision and aspirations of the Filipino people for themselves and for the country in the next 25 years.” The long-term visioning exercise began in 2015 and involved focused group discussions with 300 citizens and a national survey with a sample of around 10,000. Technical studies were prepared to target strategic

options needed to realize the collective vision by 2040. An advisory committee composed of government officials, the private sector, academe, and civil society provided guidance throughout the visioning process.

***Ambisyon Natin 2040* describes the kind of life Filipinos aspire for themselves and for the country by 2040: a prosperous middle-class society free of poverty.** Achieving this vision of tripling GDP per capita by 2040 will require maintaining average growth of 6.5 percent over the next two decades. This central vision will be the basis for development planning, under the leadership of the NEDA, over the next four administrations of the Philippine government through each administration's Philippine Development Plan (PDP).

***Ambisyon Natin 2040* is supported by the current Philippine Development Plan.** The PDP outlines policy priorities for delivering inequality-reducing transformation; increased growth potential; an enabling and supportive economic environment; and foundations for sustainable development. Central to the development agenda is an ambitious spending plan that aims to significantly accelerate investment in both human and physical capital. This is integrated into the national spatial strategy, which seeks to address spatial and socioeconomic inequality and improve connectivity to expand access to opportunity.

¹³ This paragraph is based on a World Bank analysis summarized by Cali (2018).