



EAGLE WATCH

# Philippine Economy in 2014 and Beyond: Prospects for High growth and Inclusivity

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# Outline

- Philippine Economic Performance in 2013 and first quarter 2014
- Long-term Prospects and Forecasts
- Growth, Unemployment and Poverty



What were the factors that led to previous growth?

# **ANALYSIS OF ECONOMIC GROWTH**



# Philippine Economic Performance in 2013

## Milestone in Economic Performance

- Philippine GDP growth rates vis-a-vis the ASEAN
- Demand-side Factors: consumption and investments
- Supply-side Factors: Services and Industry



# Philippines seen as a major player in the region especially in ASEAN 5

Impressive growth but needs to be further scaled up and maintained

GDP growth rates in the ASEAN 5, 2010–2013

	2010	2011	2012	2013
Indonesia	6.1	6.5	6.2	5.8
Malaysia	7.2	5.1	5.6	5.1
Philippines	7.6	3.6	6.8	7.2
Thailand	7.8	3.1	4.8	5.9
Viet Nam	6.8	5.9	6.3	5.2



# Improvement in terms of competitiveness— Indication of structural/institutional reforms



## GLOBAL COMPETITIVENESS REPORT CARD

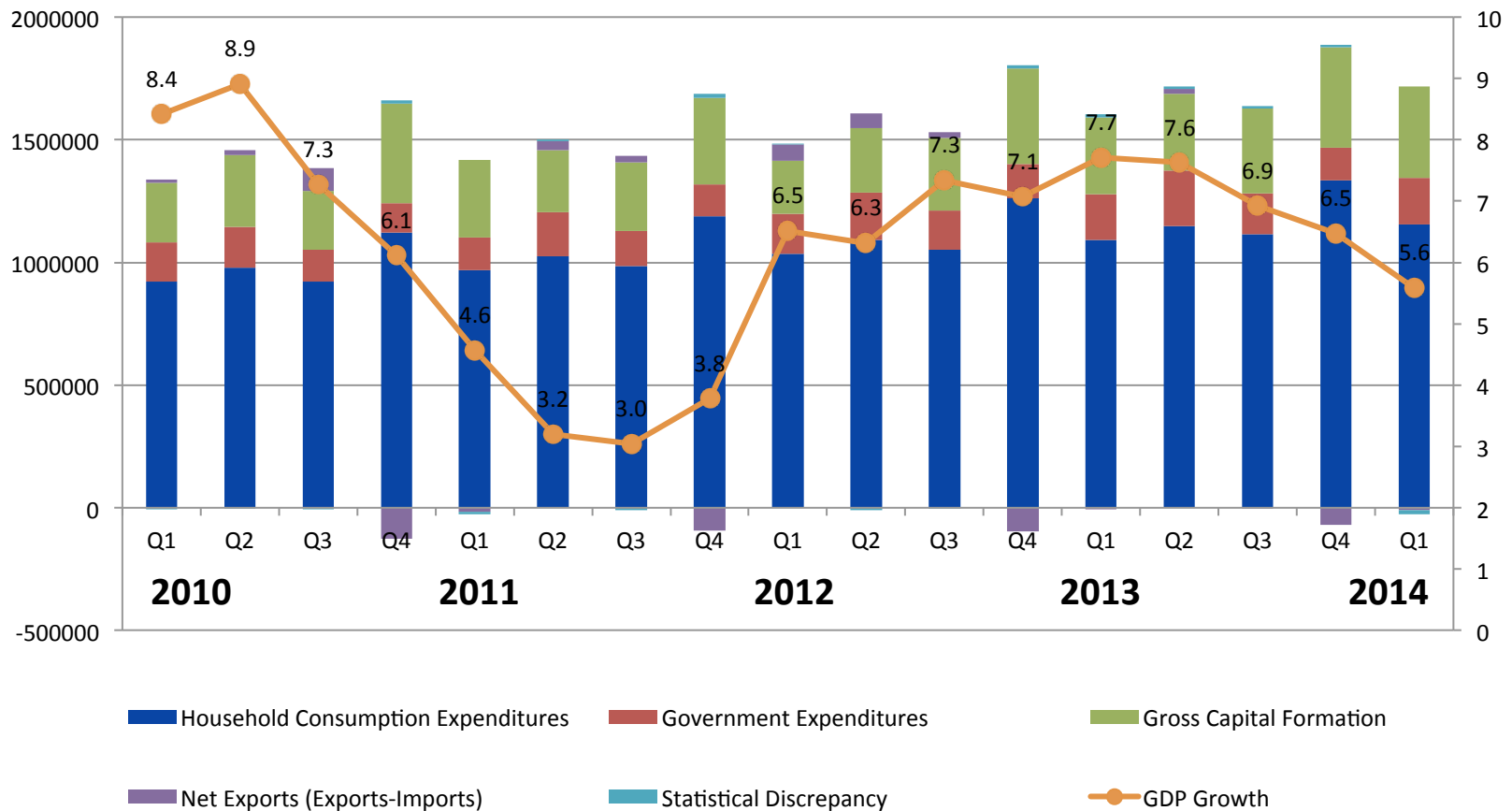
REPORT	2014 RANK	2013 RANK	2012 RANK	2011 RANK	CHANGE	ASEAN RANK	NEXT RELEASE	SOURCE	TARGET
1. WEF Global Competitiveness Index		59/148	65/144	75/142	↑ 6	6 of 10	Sep-14	World Economic Forum	49
2. IFC Ease of Doing Business		108/189	138/185	136/183	↑ 30	6 of 10	Oct-14	International Finance Corp	63
3. IMD World Competitiveness Report		38/60	43/59	41/59	↑ 5	4 of 5	May-14	Int'l Institute for Mgt Dev't	20
4. TI Corruption Perception Index		94/177	105/176	129/183	↑ 11	4 of 10	Dec-14	Transparency International	60
5. Economic Freedom Index	89/178	97/177	107/179	115/179	↑ 8	5 of 9	Jan-15	Heritage Foundation	59
6. Global Information Technology Report	78/148	86/144	86/142	86/138	↑ 8	6 of 10	Apr 15	WEF	49
7. Travel and Tourism Report		82/140	n/a	94/139	↑ 12	7 of 8	Mar-15	WEF	46
8. Global Innovation Index		90/142	95/141	91/125	↑ 5	7 of 8	Jul-14	World Intellectual Property Org	47
9. Logistics Performance Index	57/160	n/a	52/155	n/a	↓ 5	6 of 9	Mar-16	World Bank	53
10. Failed States Index		59/178	56/177	50/177	↑ 3	7 of 10	Jun-14	Fund for Peace	118
11. Global Enabling Trade Index	64/138	n/a	72/132	n/a	↑ 8	6 of 10	Mar-15	WEF	46
12. Global Gender Gap Report		5/136	8/135	8/135	↑ 3	1 of 9	Oct-14	WEF	--

\*\*\*As of April 2014



# Demand-side Factors: Continued quarterly increases but alarming decline in growth in the 1<sup>st</sup> Quarter in 2014

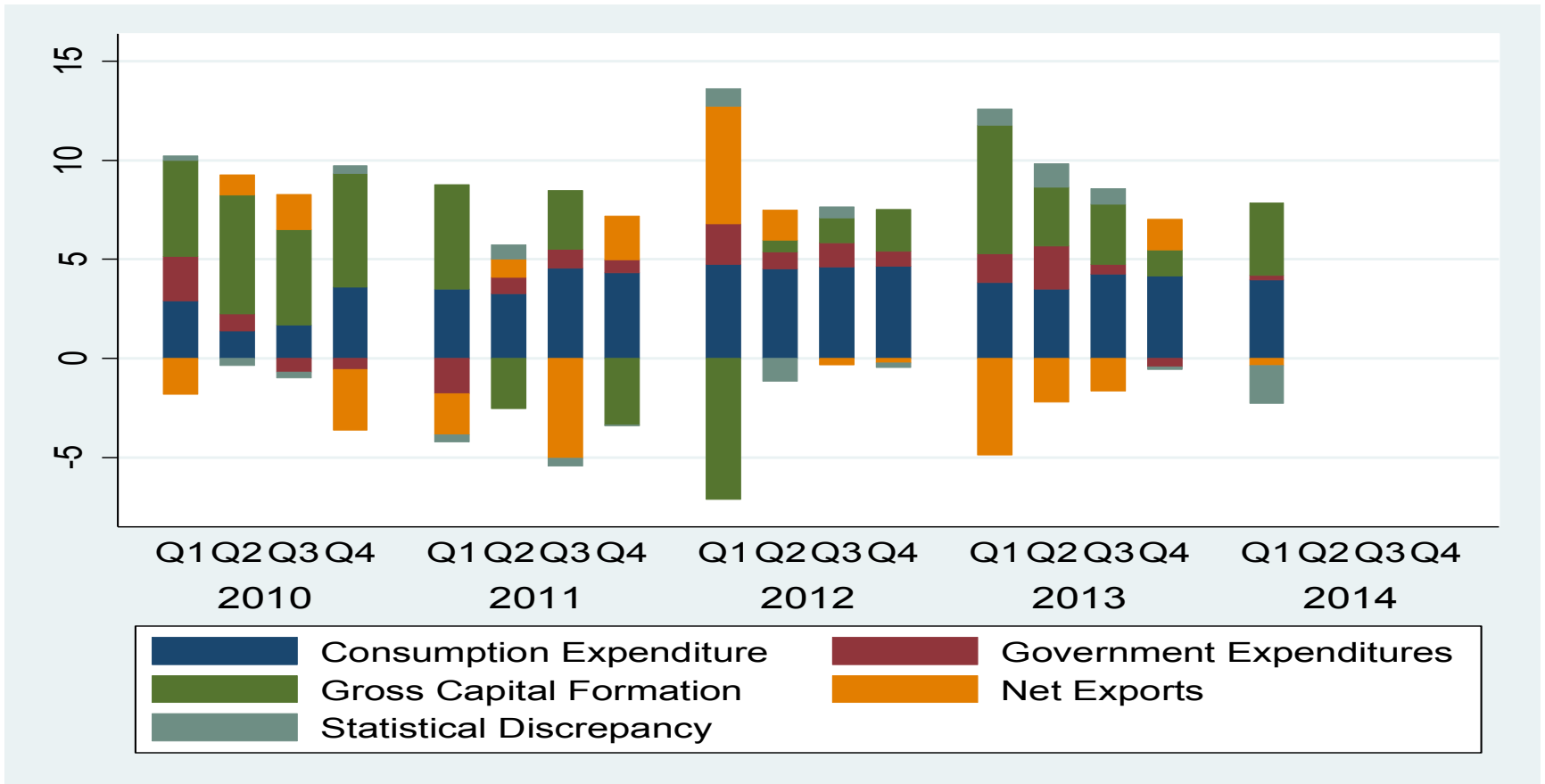
Consumption and Investment provide a larger share of the country's demand. Consumption driven mainly by remittances





# Demand-side Contributions to Economic Growth (year on year)

Despite the slowdown in 2014, investments remain as key contributor since 2012, as government expenditures has been kept to a minimum. Net exports are seen to decline



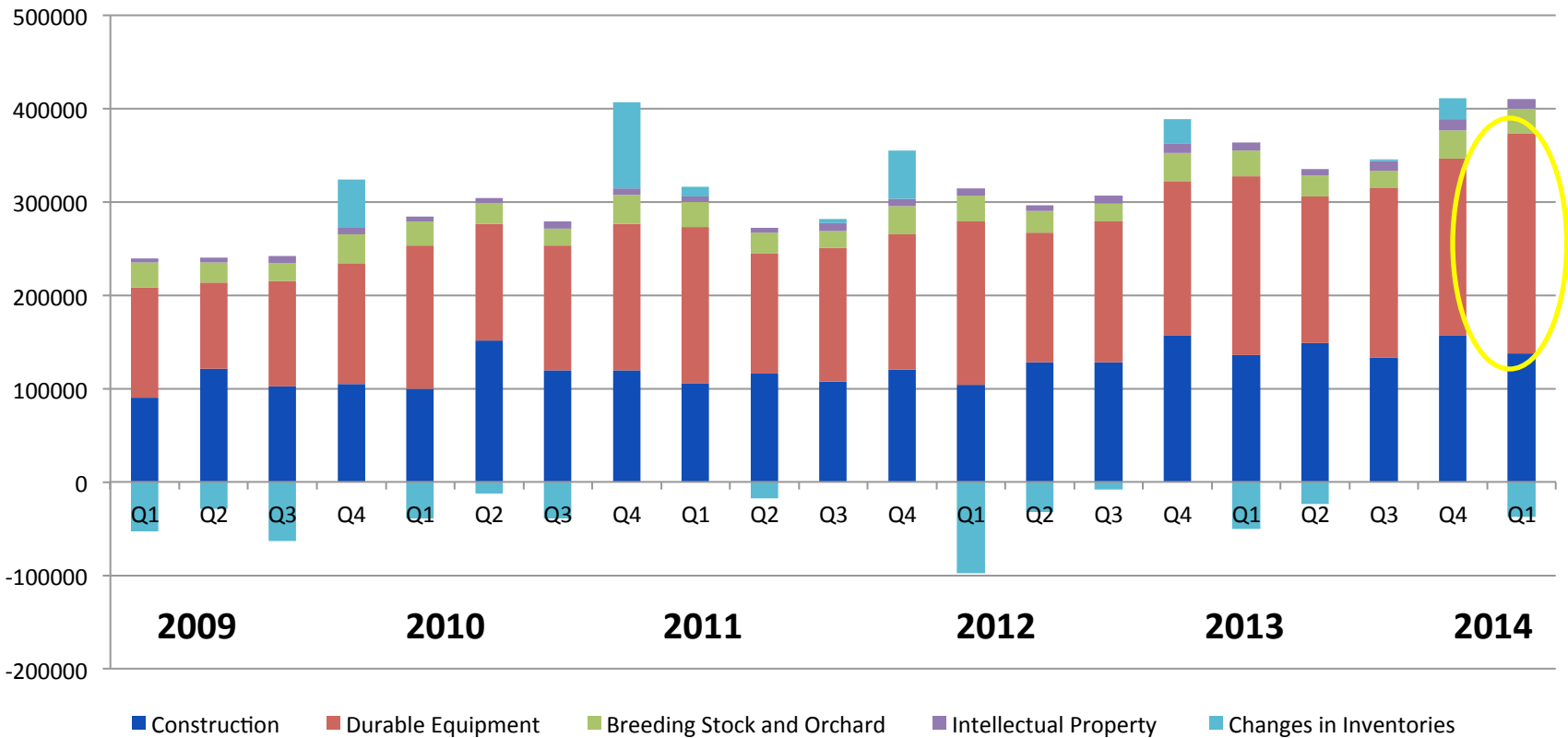




# Investment-driven Growth?

Dominated by Construction and Durable equipment which increased by 22 % even during the 1<sup>st</sup> quarter 2014.

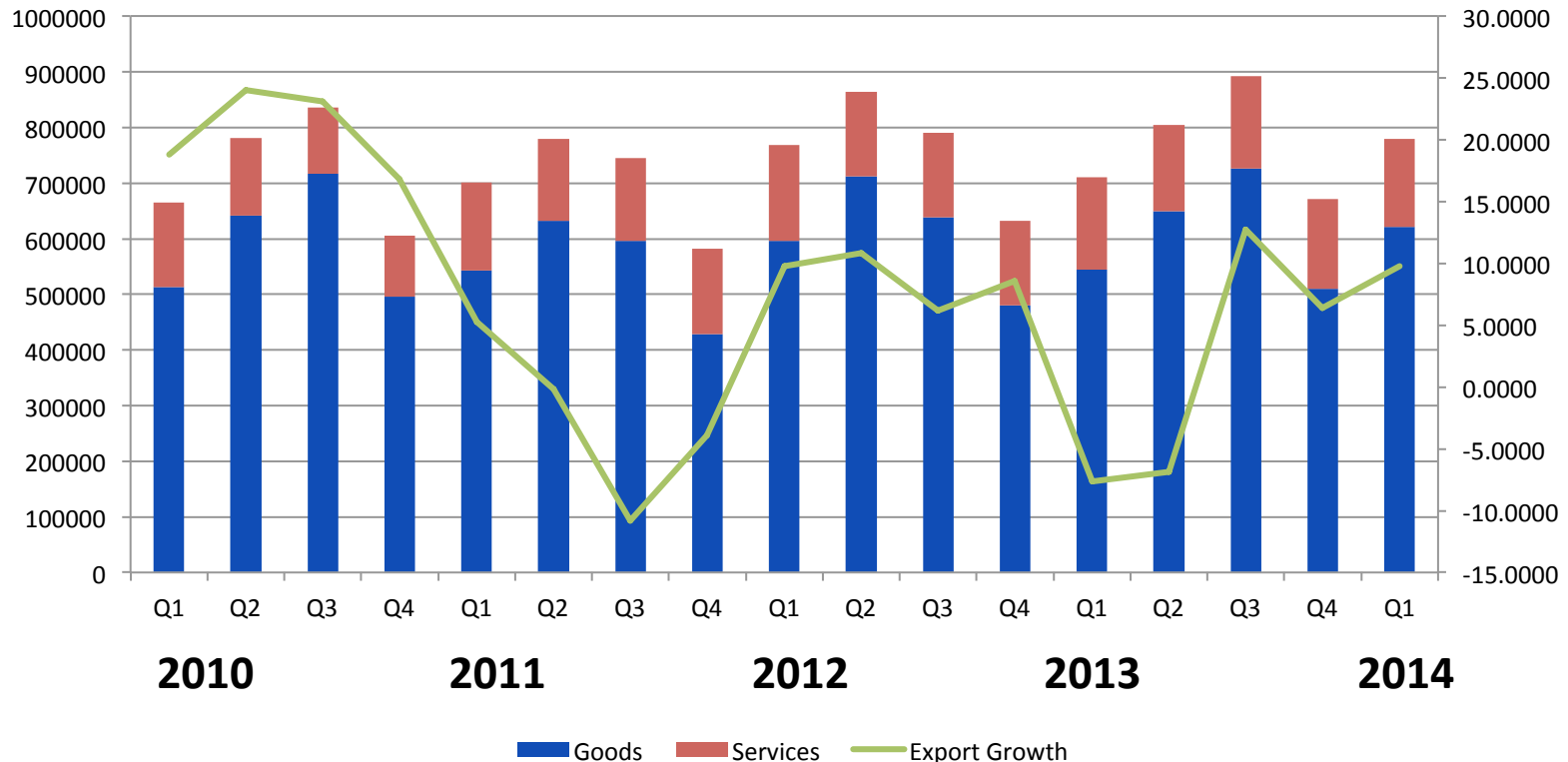
Optimism is high.





# Potential for Exports?

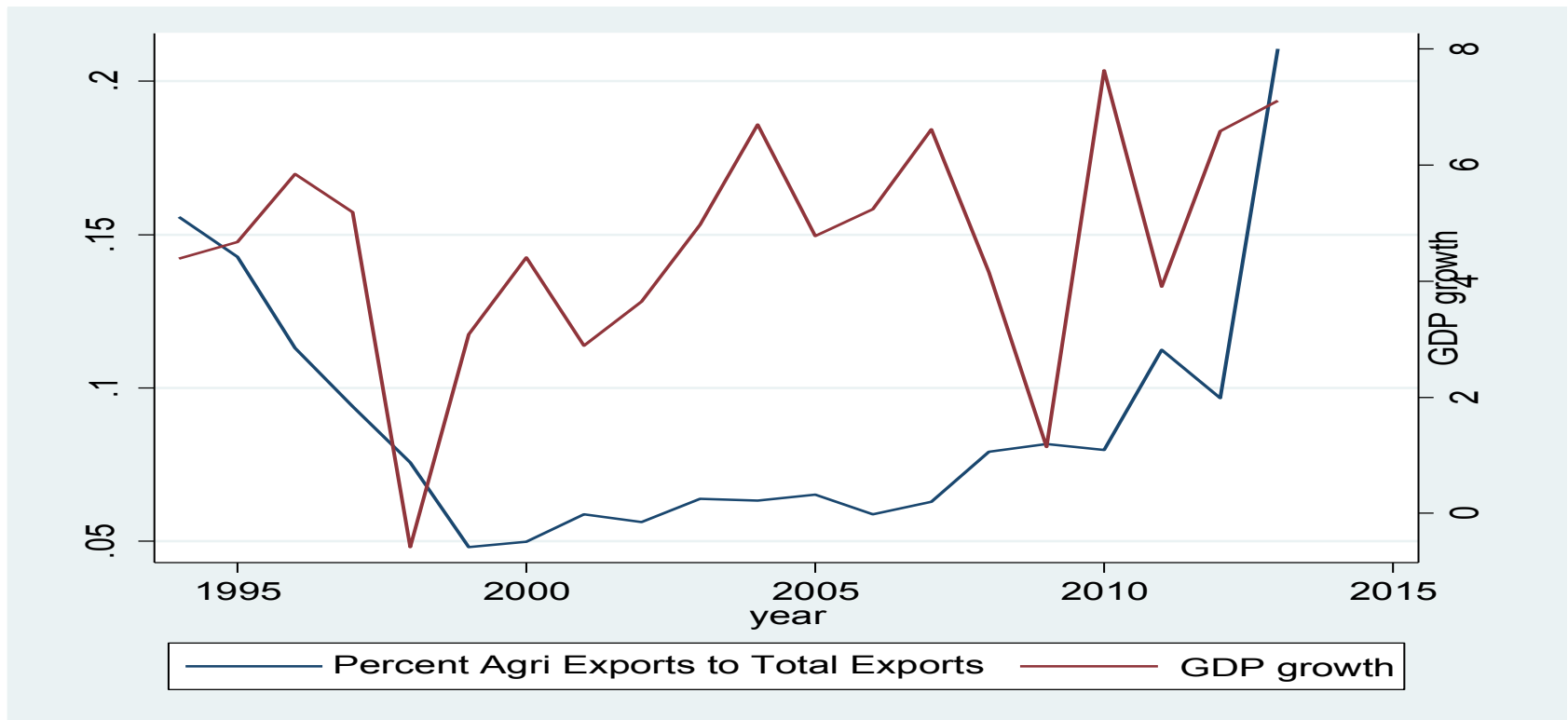
While net exports continue to be low and despite the depressed world market, exports have increased in the last few quarters even during the 1<sup>st</sup> Quarter of 2014.





# Agricultural Exports as a Potential Source of Growth

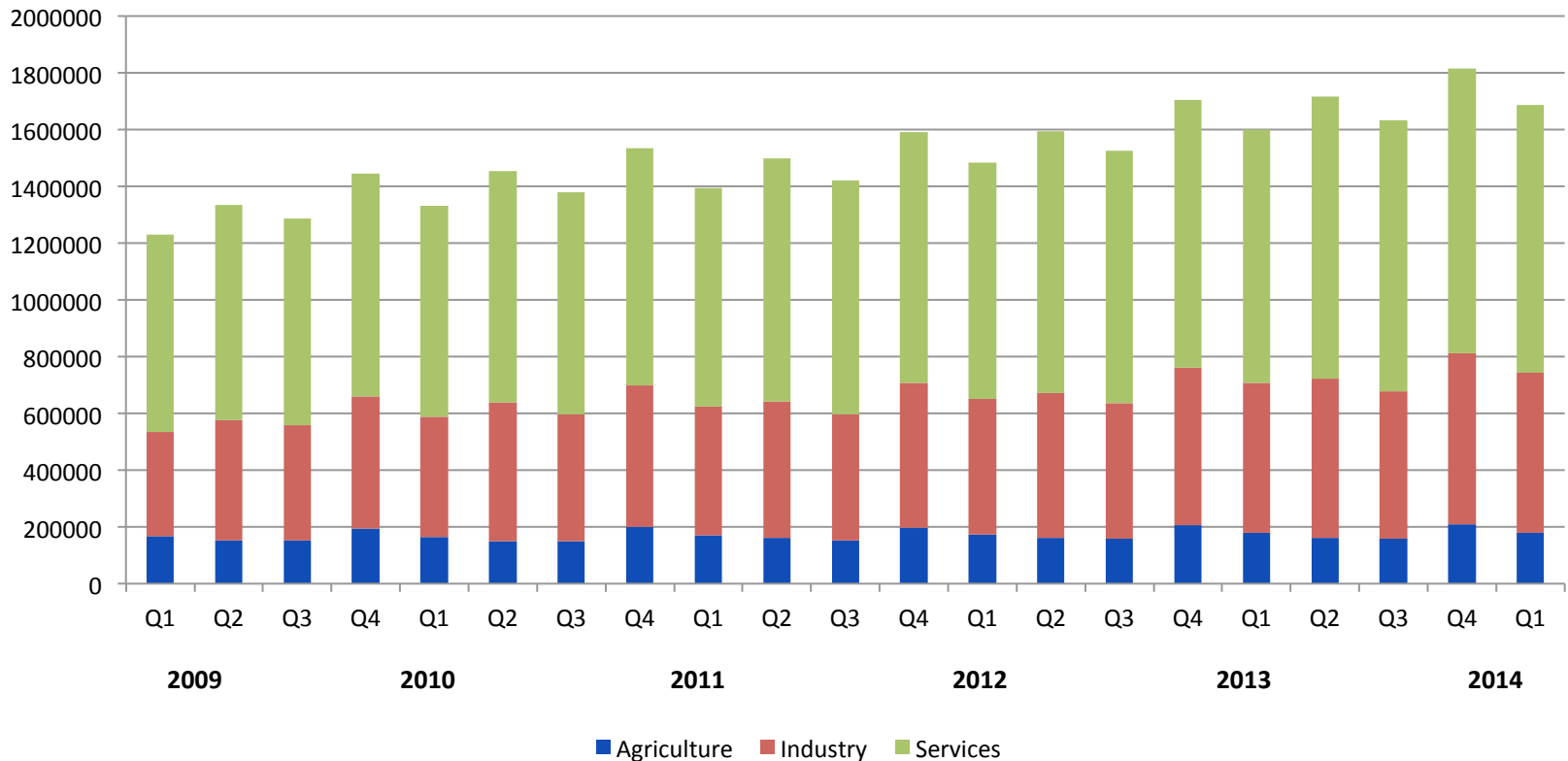
Percentage of Agricultural Exports to Total Exports reached 21 % in 2013





# Supply-Side Factors: Diminishing Overall value of Agriculture

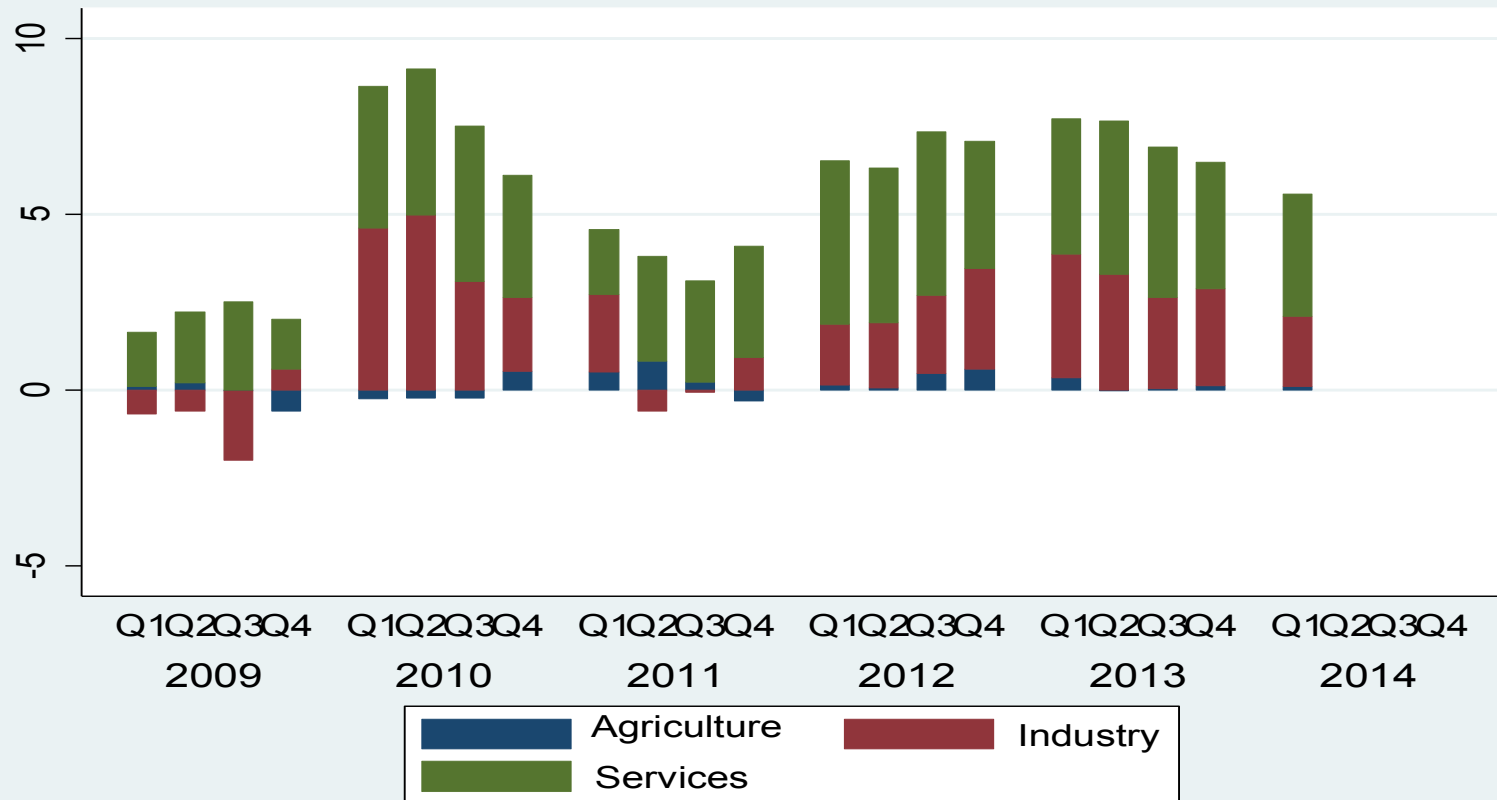
Services and Manufacturing had been dominating. Agriculture share is declining.





# Supply-Side Contributions to GDP Growth

Revival of the Industry Sector as seen in the increasing contribution to GDP growth. Agriculture sector not growing as a whole. Decline of industry in 1<sup>st</sup> quarter of 2014 along with the agriculture.

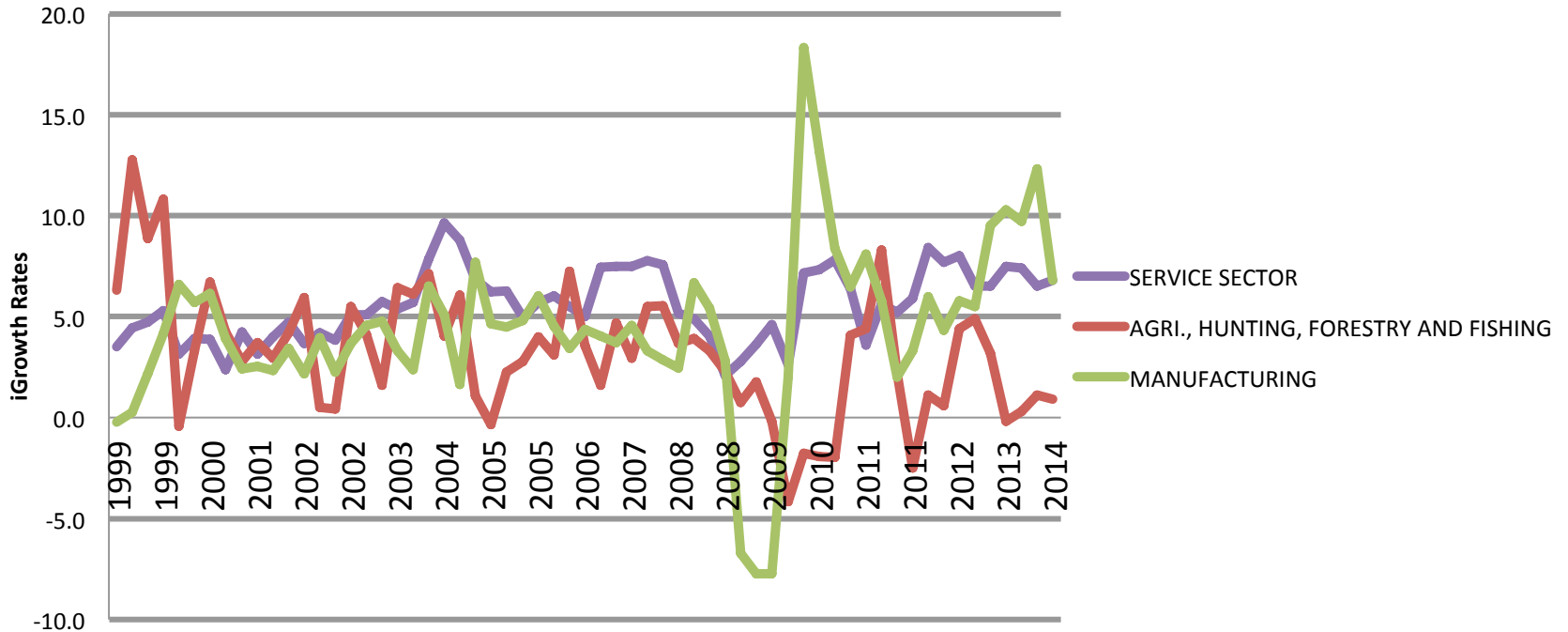




# Long-term Perspective

In recent years, Manufacturing has significantly overtaken services as the engine of growth

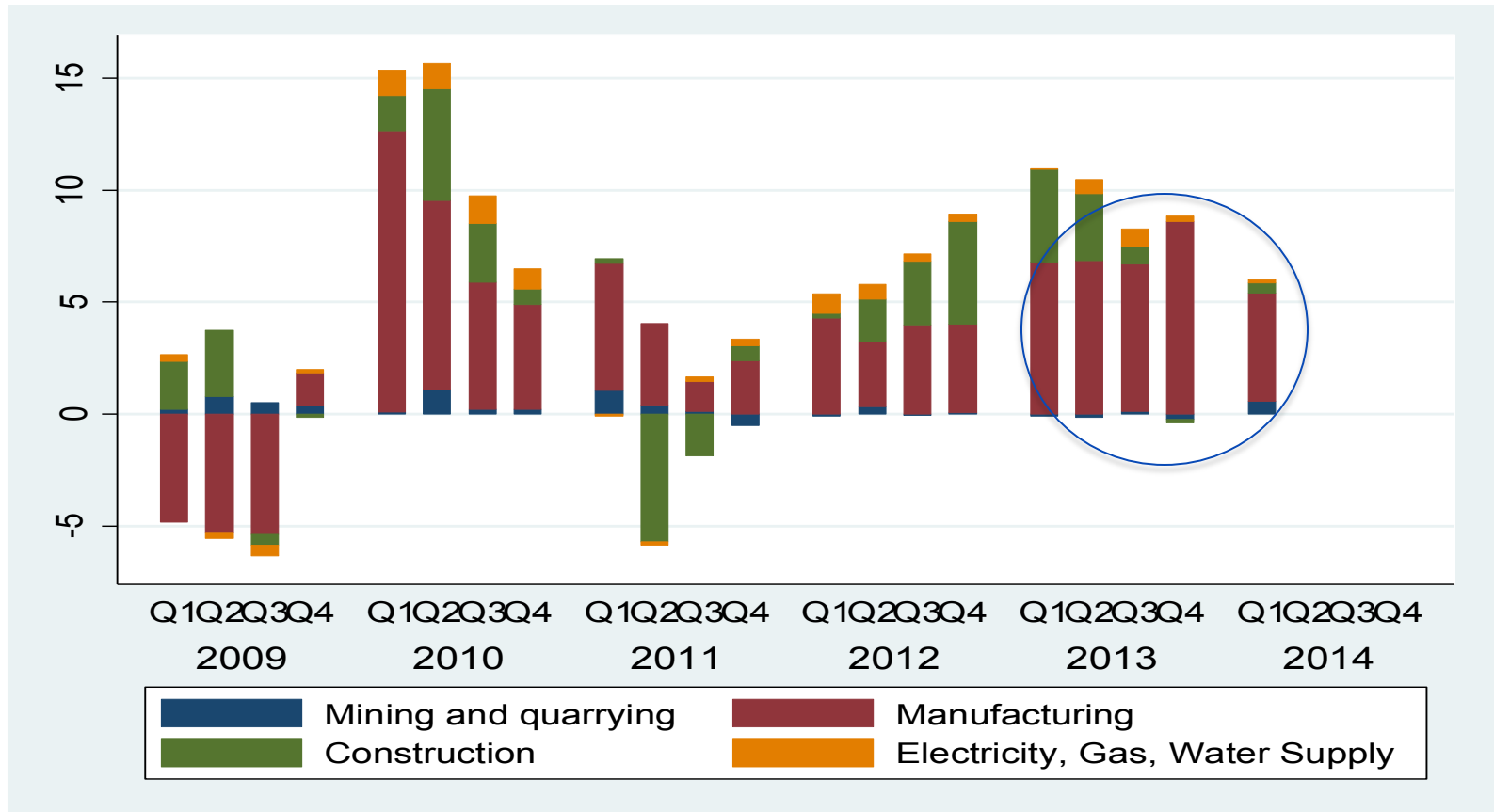
### Quarterly Growth Rate by Sector





# Contributions of Sub-sectors to Industry Sector Growth

Manufacturing contribution has increased since 2012 and been more stable in contrast to previous years





# Key Manufacturing Sub-sectors

Food Manufactures and Electronics dominate. Heavy demand for Agricultural products. Impressive growth in chemical and chemical products

Top contributors to GDP (Manufacturing) in constant prices

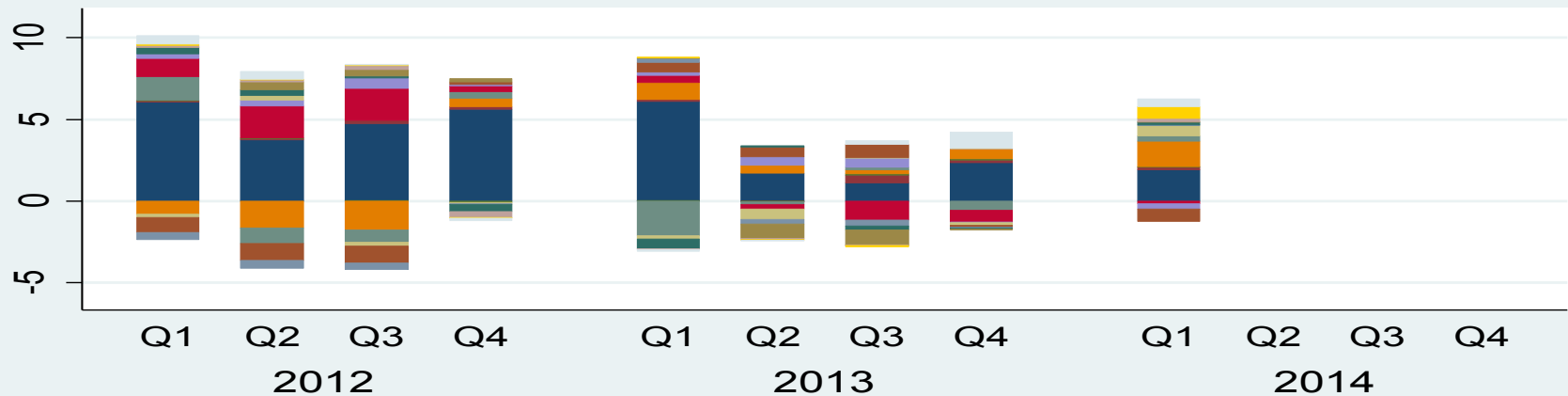
Sub-sector	Value Added in mill pesos	Growth Rate	Growth Rate	Share to Total Manufacturing
		2011-12	2012-13	
Food Manufactures	555,093	11.8	6.3	36.0
Radio, TV and communication equipment (Electronics)	262,775	-5.9	4.7	17.0
Chemical and chemical products	118,396	2.3	93.4	7.7
Furniture and Fixtures	75,661	20.2	26.2	4.9
Beverage Industries	60,136	3.4	7.2	3.9
Petroleum and other fuel products	42,770	1	-11.6	2.8
Non-metallic mineral products	41,847	11.9	11.4	2.7
Total	1,542,405	6	8.3	100.0





# Contributions of Top 15 Manufacturing Subsectors to Manufacturing Sector Growth

Continued dominance of food manufactures. Resurgence of electronics after the world crisis. Wearing apparel decreasing. Decline in 1<sup>st</sup> quarter can be attributed to the decreased growth in these manufacturing subsectors, not to agriculture.

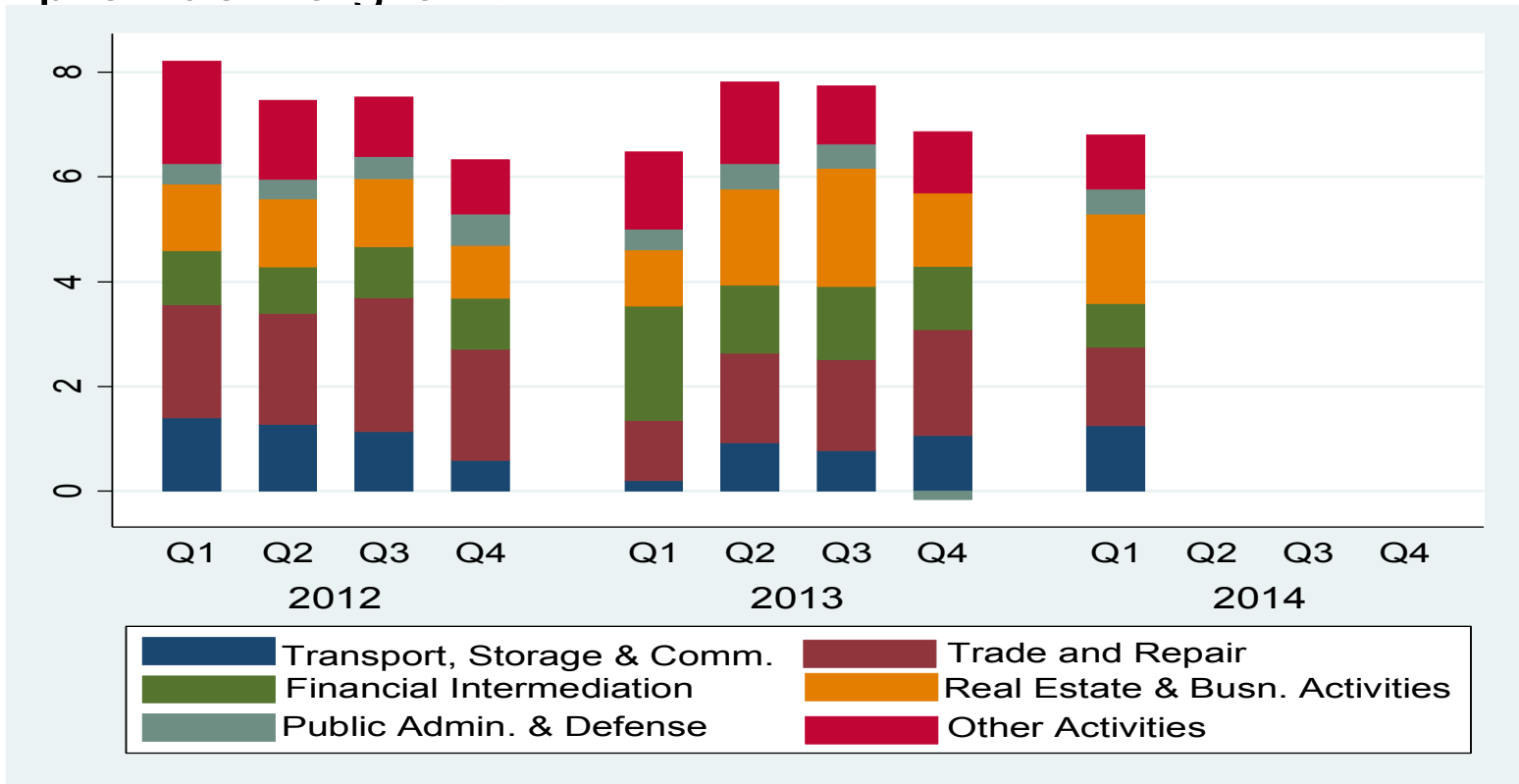






# Contributions Service Subsectors to Service Growth

- Real Estate Business Activities, which includes the BPO industry, and Financial Services remain as a major provider to growth



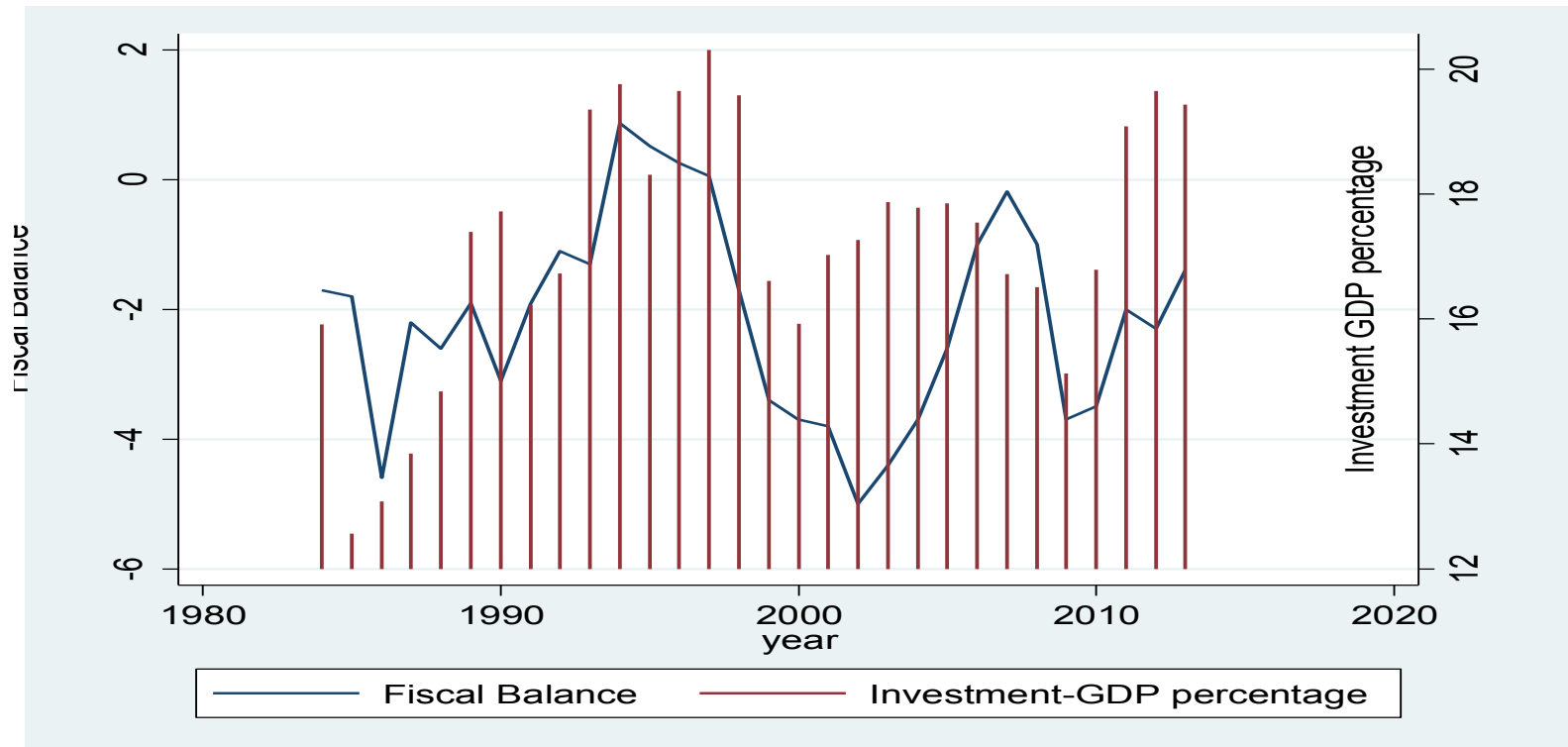


What are the key factors to look out for?

# PROSPECTS FOR GROWTH

# Area of Contention: Will Budget Surplus Increase?

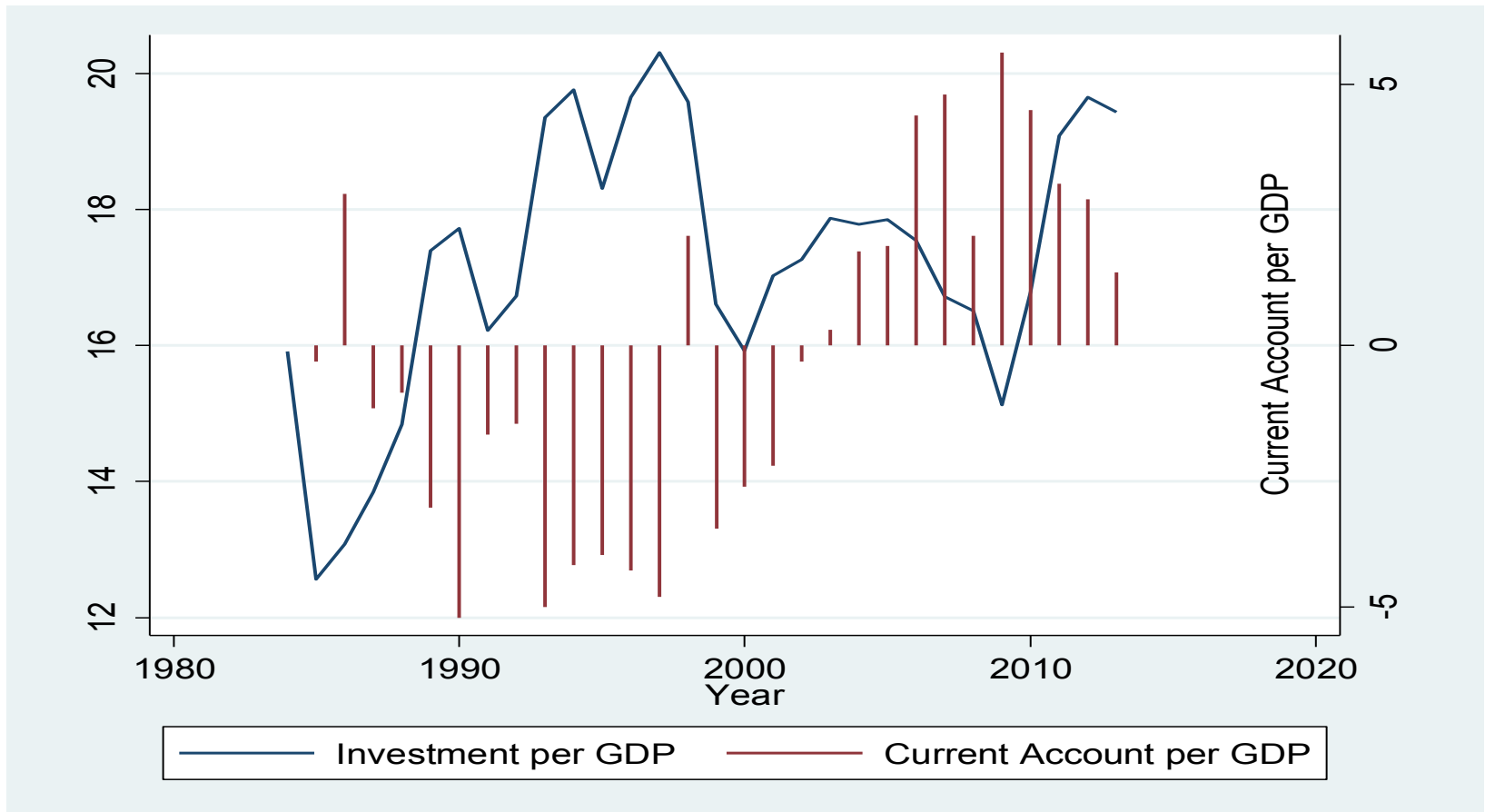
- Fiscal Balance: highly correlated with investments growth. Need to balance revenues with expenditures.





# Earnings in Foreign Exchange expected to continue

- Current Account Balance: Positive correlation with Investment growth, with a one-year lag.



# Despite the increase, inflation is expected to be controlled.

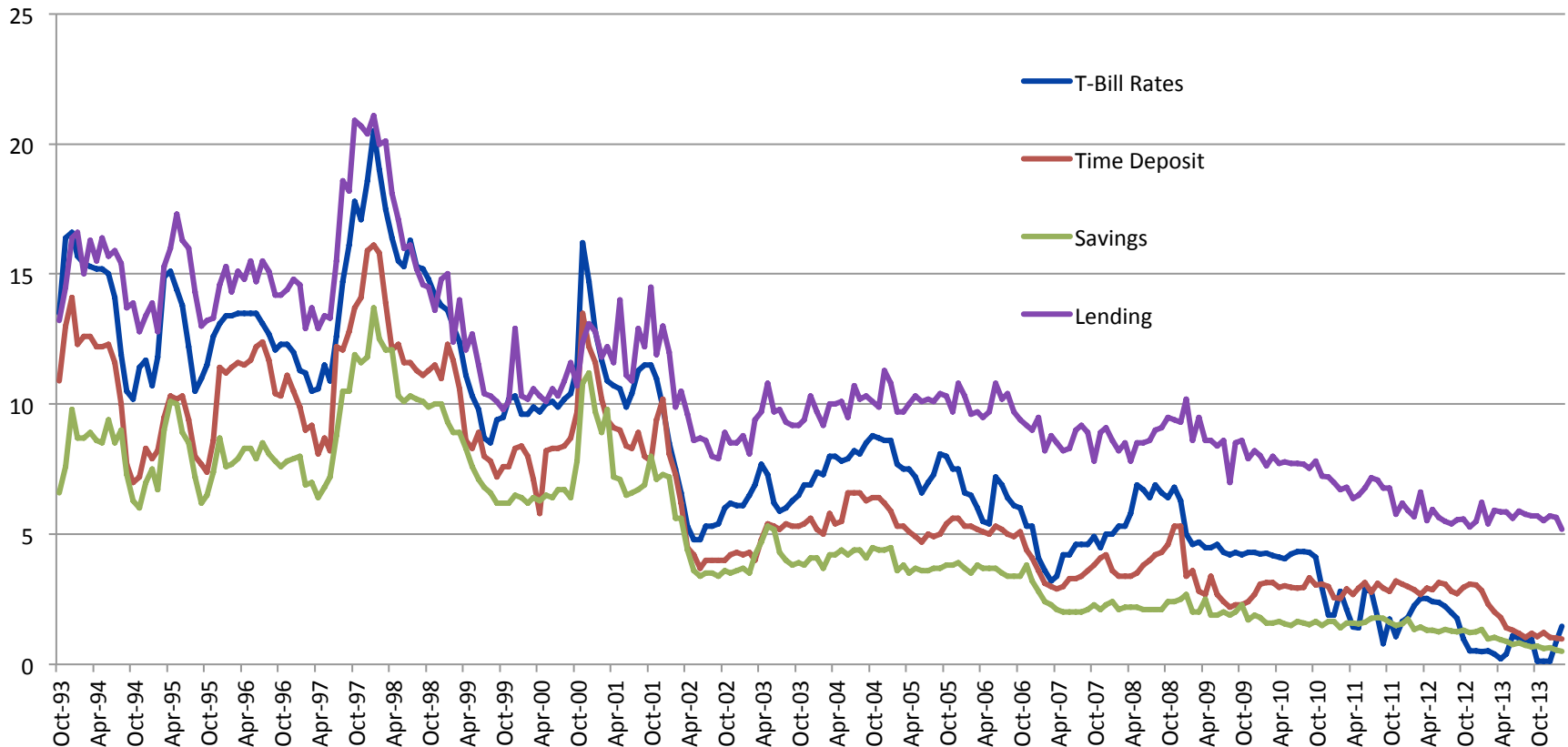
- Inflation: Remarkably low in previous quarters but has been increasing in the last few months. Expected to be stabilized





# Interest Rates continues to be favorable

- Interest rates: Low and Steadily Declining







# World Trade seen to improve mildly

- World Economic Outlook: Mild Recovery is foreseen in more developed countries such as US and Euro Area but not in Asia, particularly Japan and China, where a slowdown is indicated..

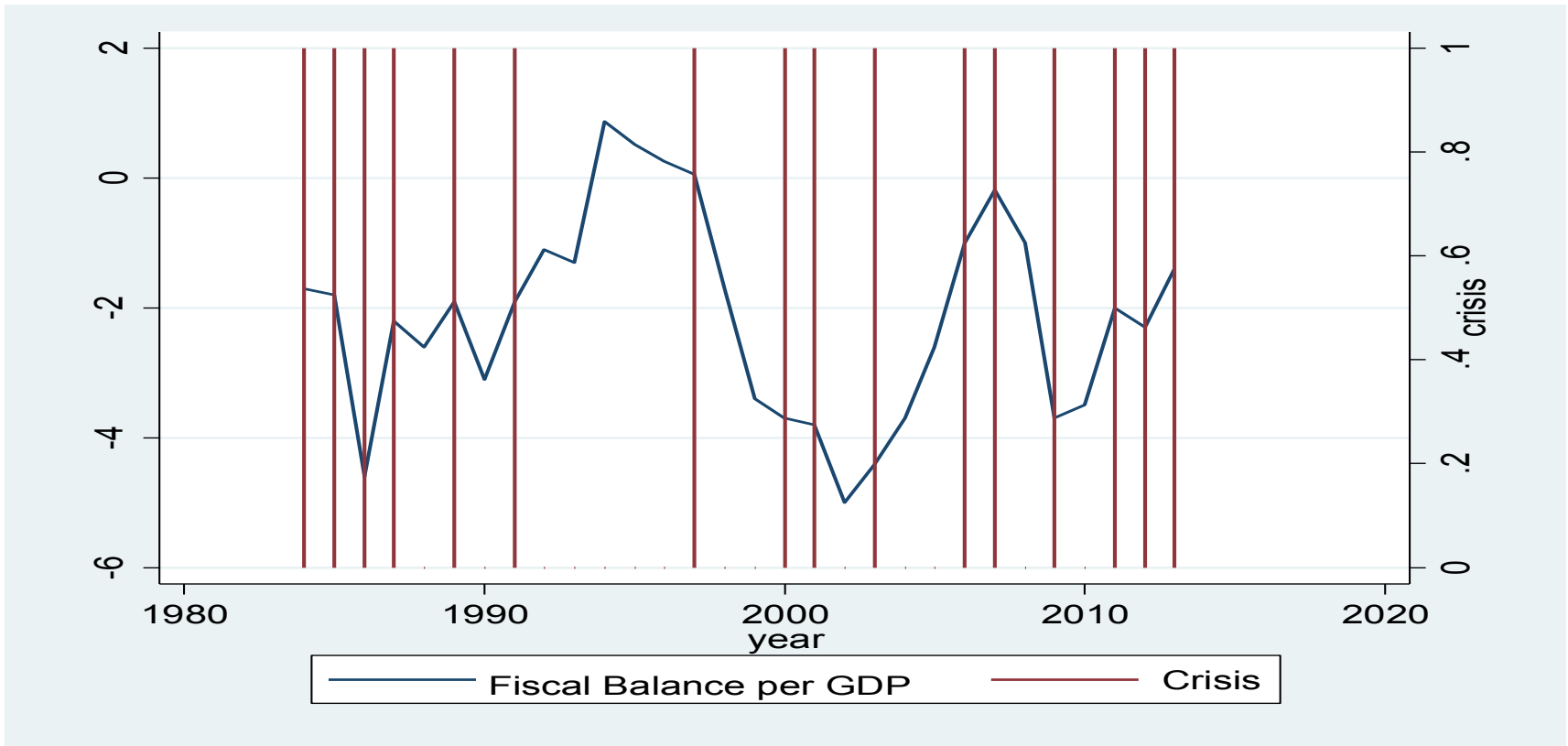
	Actual		Projections	
	2012	2013	2014	2015
World Output	3.2	3	3.6	3.9
Advanced Economies	1.4	1.3	2.2	2.3
United States	2.8	1.9	2.8	3
Euro Area	-0.7	-0.5	1.2	1.5
Japan	1.4	1.5	1.4	1
Emerging and Developing Asia	6.7	6.5	6.7	6.8
China	7.7	7.7	7.5	7.3
ASEAN-5	6.2	5.2	4.9	5.4

Source: IMF, April 2014



# Resiliency in the Face of Crisis

- Impact of a crisis: Fiscal deficits often increase in the year during or following a natural or political crisis; however, the next period is often accompanied by surplus, often seen as signs of full recovery.





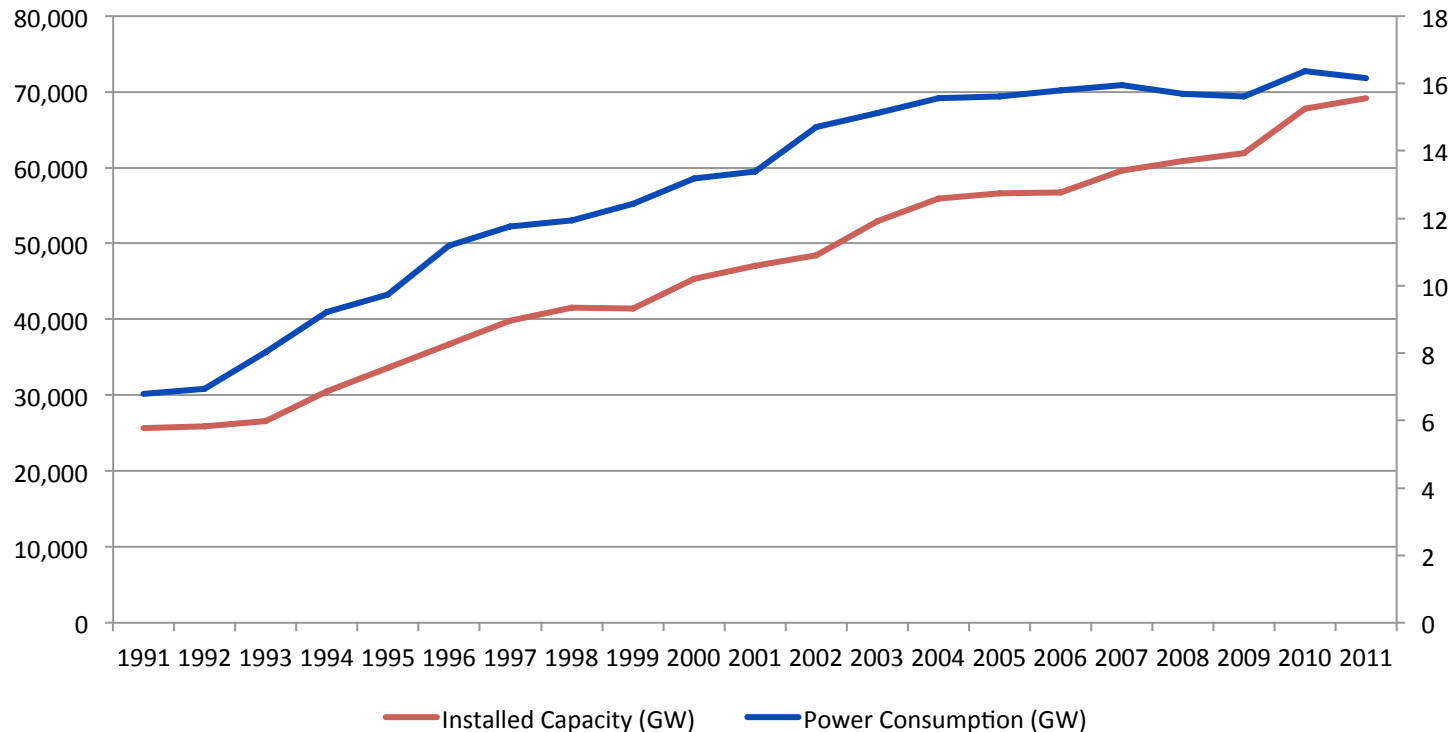
# Prospects for Growth: Transport and Port Systems- Below Target performance (as of 2011)

INDICATOR	BASELINE DATA 2010	LATEST DATA 2011	TARGET 2016	AVERAGE PER YEAR
<b><i>WATER TRANSPORT</i></b>				
Number of cargo throughput (in million m tons)				
Subic Bay Port	2	3	11	2
Philippine Ports Authority	166	178	217	8
Number of water transport passengers (in millions)	52	50	75	5
Number of water vessels (in thousands)	346	341	412	14
<b><i>LAND TRANSPORT</i></b>				
Total length of arterial roads with roughness index of 3.0 (in kilometers)	0	1,400	6,600	1,040
Length of paved roads (in kilometers)	25,281	25,916	31,242	1,065
Travel time in Metro Manila (minute/km)	2.17	2.13	1.57	0
Travel speed in Metro Manila (km/hr)	27.79	28.1	38.2	2
Number of vehicular accidents in Metro Manila per day	211	211	148	-13



# Power: Dwindling Reserves

Consumption is increasing at a constant rate but the installed capacity is increasing at a decreasing rate. As country develops, more capacity will be required.





# GDP Forecast Based on the AMFM

Year	Quarter/Year	Forecast
2014	1 <sup>st</sup>	5.7 (Actual)
	2 <sup>nd</sup>	6.1-6.3
	3 <sup>rd</sup>	6.3-6.5
	4 <sup>th</sup>	6.6-6.8
	Year Average	6.2-6.4
2015	Year Average	7.0
2016	Year Average	7.5



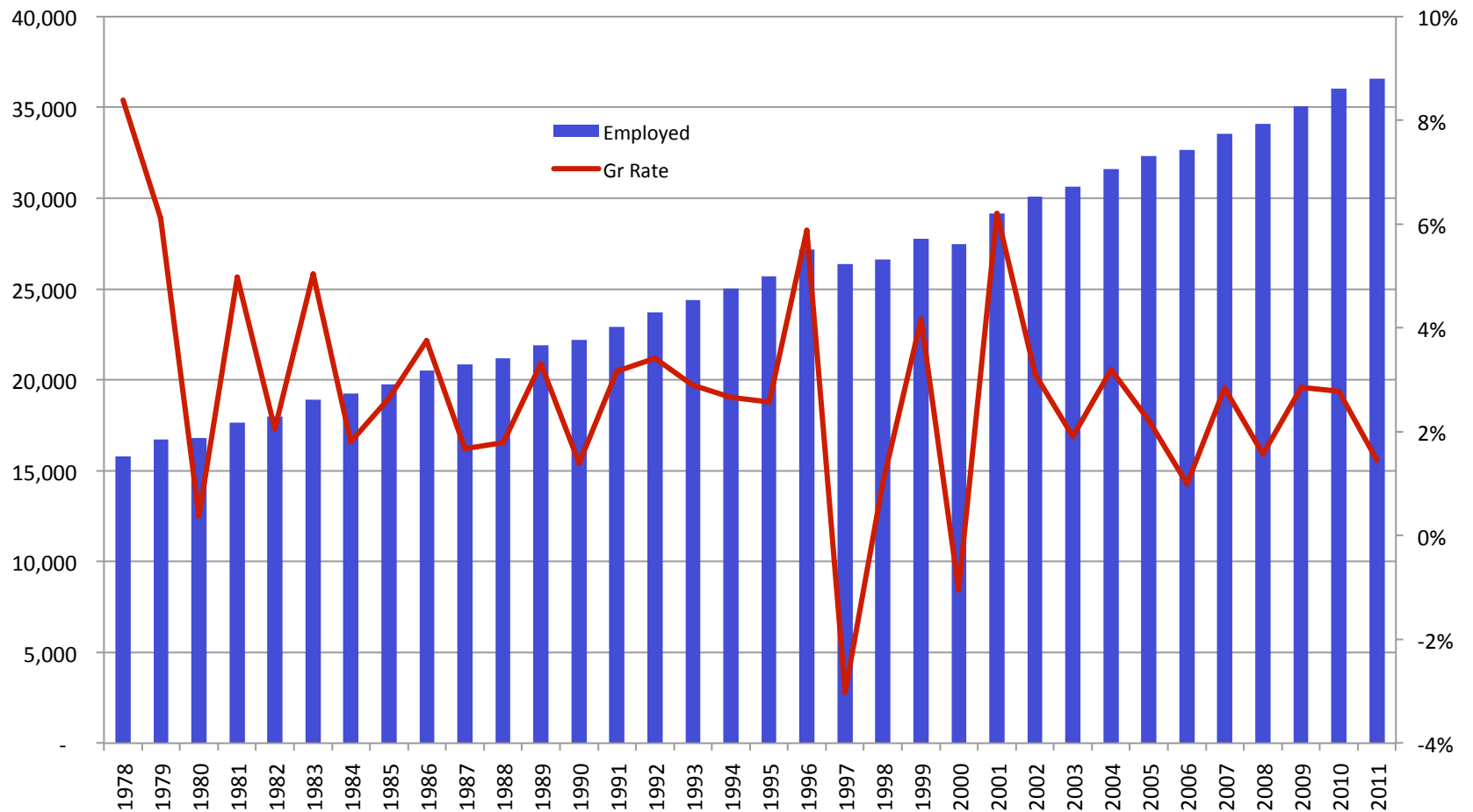
Employment and Poverty

# **SOCIAL DIMENSION**



# Limited Employment

- Slow employment rate: Ave 33 yrs – 2.77% or 640,000/year





# Job Creation (Destruction)

- Significant decline in January 2014 for all sectors, but recovery in April, 2014. Agriculture remains weak.

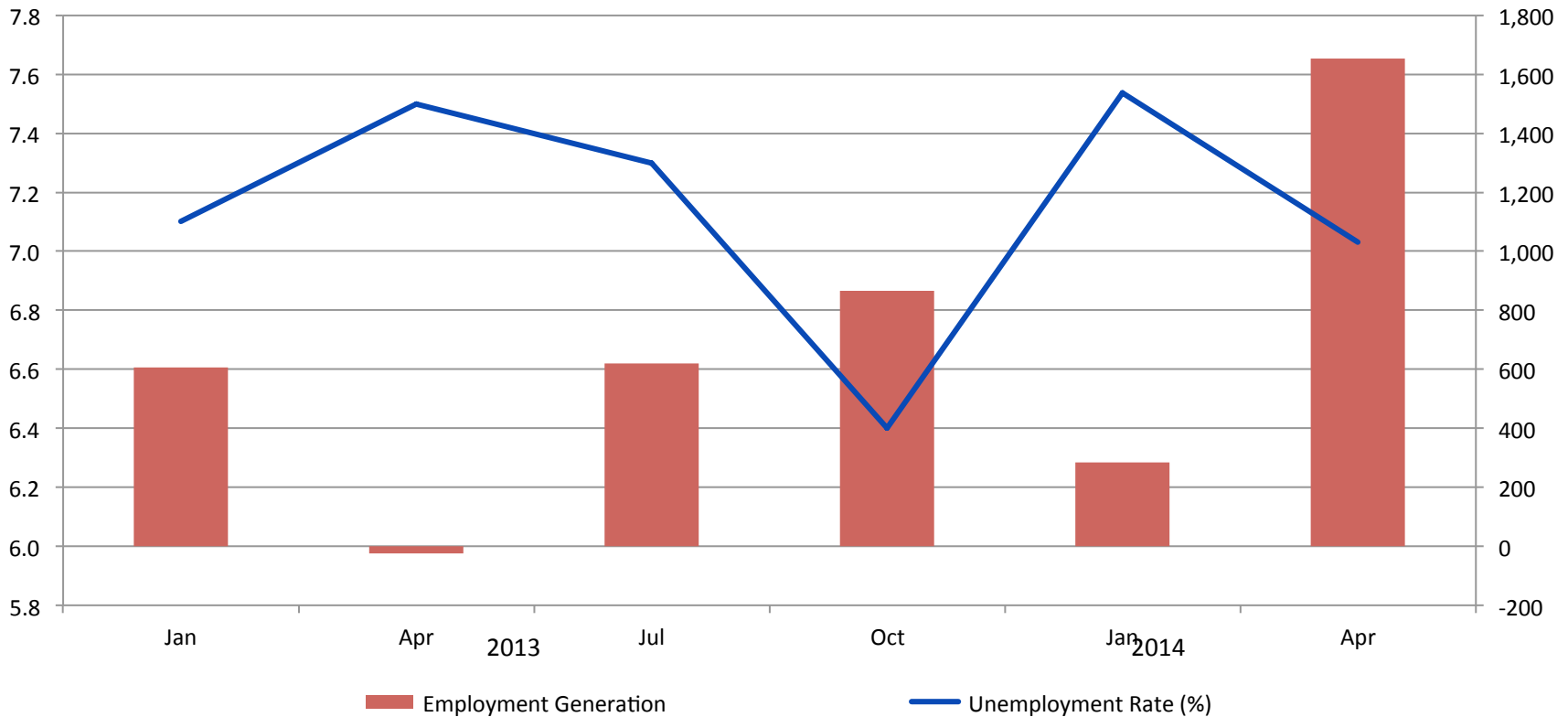
Changes in Employment (in thousands)			
	2012-2013	JAN 2013- JAN 2014	APR 2013- APR 2014
AGRICULTURE	(258)	(593)	41
INDUSTRY	194	(88)	268
SERVICES	581	(840)	539





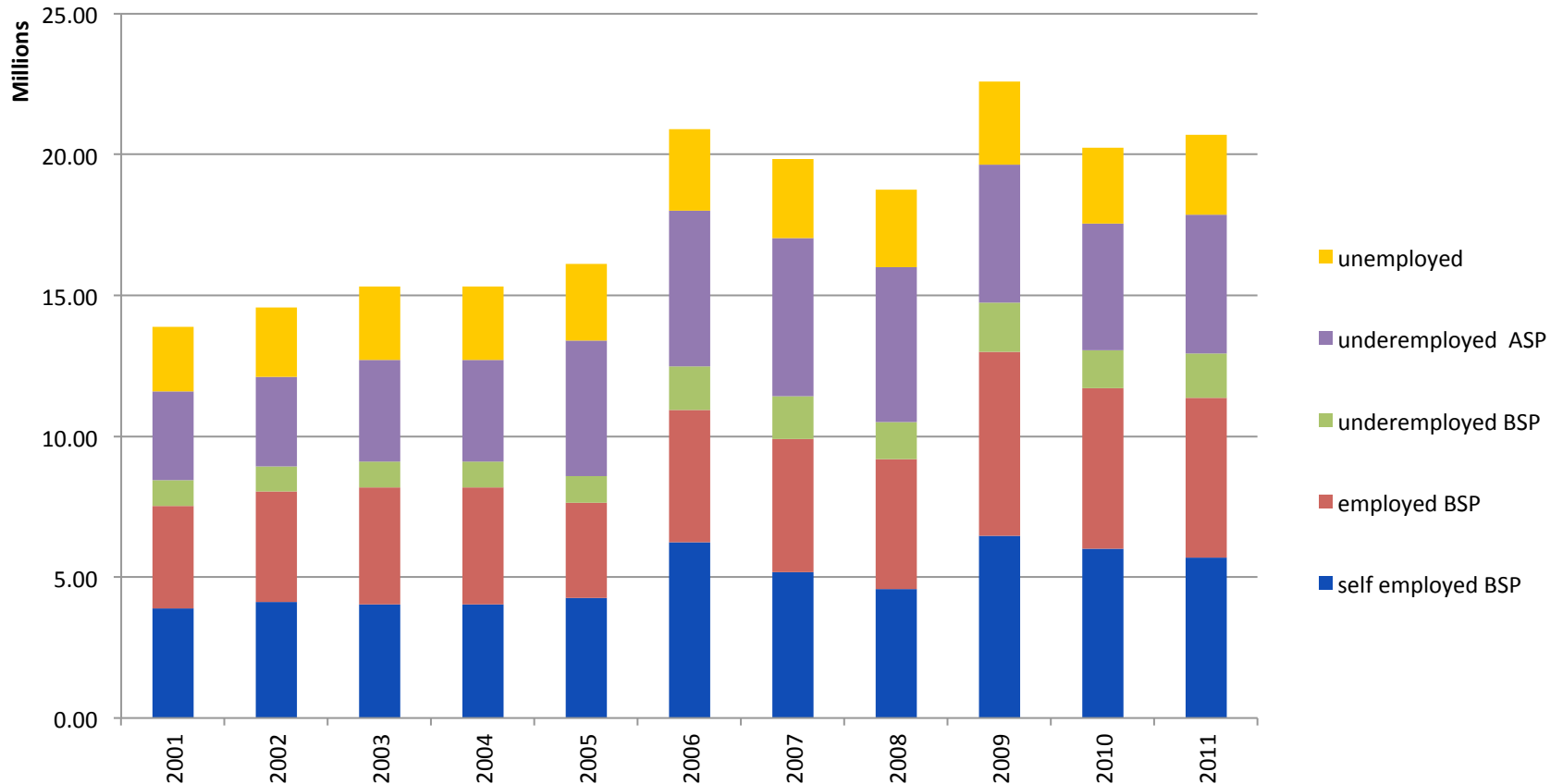
# Job Generation remains a challenge

Negative relationship between unemployment rates and job generation. The Philippines needs to generate around 14.6 million jobs over the next four years.





# Expanding Jobless and Unproductive Workers



*BSP – Below Subsistence Productivity*

*ASP – Above Subsistence Productivity*

Source: Paqueo, Orbeta, Lanzona and Dulay (2014)



# Poverty Incidence

- Decreasing but disappointingly slow

Sector	2006	2009	2012	Change	
				2006-2009	2009-2012
<b><i>Philippines</i></b>	<b>26.6</b>	<b>26.3</b>	<b>25.2</b>	<b>-0.3</b>	<b>-1.1</b>
Fishermen	41.2	41.3	39.2	-0.1	-2.1
Farmers	38.5	38	38.3	-0.5	0.3
Children	35.2	35.3	35.2	0.1	-0.1
Self-employed and Unpaid Family Workers	30.6	29.9	29	-0.7	-0.9
Women	25.9	25.7	25.6	-0.2	-0.1
Youth	21.1	21.6	22.3	0.5	0.7
Migrant and Formal Sector	16	16.8	16.6	0.8	-0.2
Senior Citizens	16.9	16.1	16.2	-0.8	0.1
Individuals residing in urban areas	12.6	12.6	13	0	0.4



# Poverty and Employment

- The employed are more poor than the unemployed

Sector	2006	2009	2012	Increase/ Decrease	
				2006-2009	2009-2012
Philippines	26.6	26.3	25.2	-0.3	-1.1
Employed	22.9	22.8	21.9	-0.1	-0.9
Unemployed	16.5	16.8	18.7	0.3	1.9



# Final Thoughts

- Growth while somewhat decreased this year is still above average in recent years
- Structural reform is seen in terms of manufacturing-led and investment-driven growth
- Coordinated growth and investment: environment that enhances specialization and one that benefits all key sectors. Need to improve agriculture
- Institutions need to be more inclusive. Growth is not distributed adequately enough to the poor.
- Jetzt! Our time!



- **Salamat nac gador sa inrong tanan!**