



PHILIPPINES	
Population	90.3 million
Population growth	1.8 percent
Surface area	300,000 sq. km.
Capital	Manila

Source: World Development Indicators.

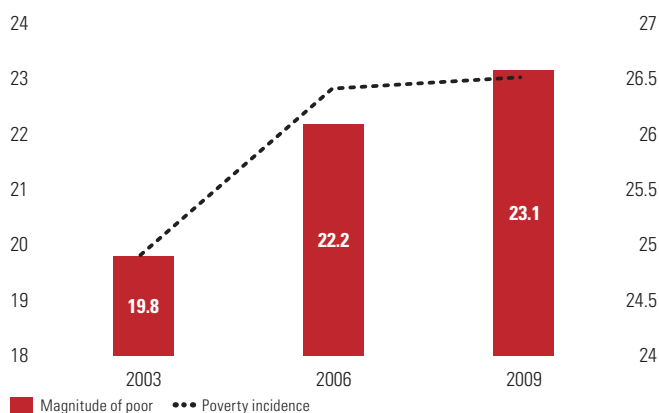
The Philippine economy re-ignited in the last quarter of 2010, pushing annual GDP growth to rates not seen in over 30 years. After a brief softening of activity in the third quarter of 2010, real GDP growth rose 3 percent quarter in the fourth quarter in seasonally adjusted terms. For 2010 as a whole, growth amounted to 7.3 percent, the highest since 1976, and in sharp contrast with the 1.1 percent expansion in 2009. Growth was broad-based with private consumption, investment, and net exports all contributing. On the supply side, the economy was propelled by two relatively balanced engines: industry

and services. Following four quarters of decline—due to weather-related factors—agriculture also expanded and contributed 1.1 percentage points to overall GDP growth in Q4. Growth is expected to normalize to 5 percent in 2011 and improve to 5.4 percent in 2012, with downside risks arising from rising global food and fuel prices and upside risk from better investment prospects.

In spite of the remarkable rebound, the unemployment rate remains structurally high and growth continues to bypass many of the poor. The unemployment rate is above 7 percent while underemployment continues to affect one-fifth of the labor force. Moreover, the latest official poverty data showed that an additional 3.3 million citizens became poor in the Philippines (net basis) between 2003 and 2009, pushing the poverty headcount to 23 million from 20 million in 2003 (Figure left). Even with real growth in GDP per capita reaching 2.7 percent between 2003 to 2009, the distribution of the gains from growth have eluded the bottom fourth of the Filipino population. A bright spot amidst these generally depressing poverty numbers is that they point to some distributional improvement within the rank of the poor: measures of the depth of poverty as well as the income distribution of the poor improved between 2006 and 2009 (Figure right).

### The ranks of the poor and poverty incidence rose again

poverty incidence, 2003–09

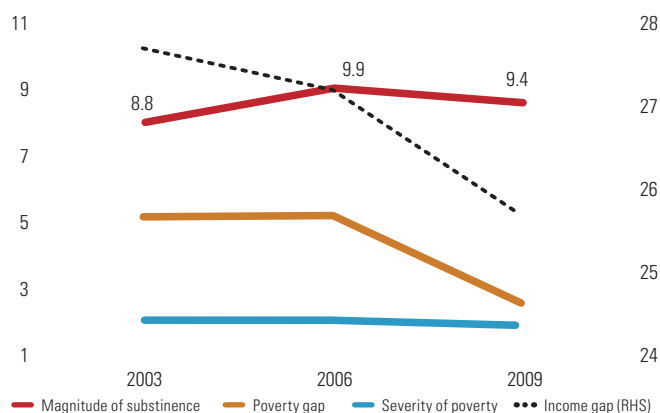


Source: National Statistical Coordination Board (NSCB).

Note: 1/ Income gap (IG): the average income shortfall (expressed in proportion to the poverty line) of families with income below the poverty threshold. Poverty gap (PG): total income shortfall (expressed in proportion to the poverty line) of families with income below the poverty threshold, divided by the total number of families. Both IG and PG are measures of the depth of poverty. Severity of poverty: the total of the squared income shortfall (expressed in proportion to the poverty line) of families with income below the poverty threshold, divided by the total number of families. It is a poverty measure which is sensitive to the income distribution among the poor—the worse this distribution is, the more severe poverty is (NSCB).

### ...though distributional poverty measures improved 1/

other poverty measures, 2003–09



Consumer price inflation was 3.8 percent in 2010, well within the central bank's target of 3.5–5.5 percent. Domestic price pressures from the fuel and electricity price hikes last year were offset by the strong peso. More recently, there was an upside inflation surprise as transportation and food price inflation became visible again in January 2011. Inflation is expected to rise to 4.8 percent in 2011, within the top of the Bangko Sentral ng Pilipinas' (BSP) target band of 3 to 5 percent in 2011 percent. The distribution of risks on inflation is tilted upwards, as global food and fuel supply shocks could return and would push headline inflation outside of the target band and possibly spill over into core inflation. Monetary policy is projected to tighten gradually in the second half of 2011 as demand pressures are limited and inflation expectations remain within the BSP target band.

The country's external position continued to strengthen thanks to a consistently strong current account and, lately, by improvements in the capital and financial account. The third quarter 2010 overall balance of payments surplus grew to 7.2 percent of GDP, pushing the year-to-date surplus to 4.9 percent of GDP (one percentage point higher than in the same period in 2009). The strong third quarter performance mainly stemmed from a continued steady performance on the current account (5.9 percent of GDP) and a boost in the capital and financial account (2.7 percent of GDP). The latter's performance was due to the large repayments of loans by non-residents, net loan availments by local banks and private corporations and, to a lesser extent, net placements by non-residents of their currency and deposits in local banks. Direct and portfolio investment to the Philippines remained relatively muted compared to bank lending. With improving economic fundamentals, Philippine debt papers have been priced competitively and were oversubscribed in recent issues. Moreover, Standard and Poor's upgraded its rating of Philippine debt paper by one notch to BB, while Moody's revised its outlook from stable to positive.

The national government deficit fell below target as the national government significantly tightened second half spending amid lower than expected revenue

growth. After a weak tax buoyancy and a significant fiscal stimulus undertaken in the first-half of the year threatened to push the annual fiscal deficit significantly beyond the budgeted target, the new government decisively controlled expenditures in the second half of 2010 thanks to measures taken to improve expenditure efficiency and effectiveness. As a result, the 2010 fiscal deficit which reached 3.6 percent<sup>50</sup> of GDP was tighter than the budgeted 4.1 percent. The new administration plans not to impose new tax laws in its first 18 months and is relying on the improvement of tax and customs administration to beef up tax collection.<sup>51</sup>

For the first time in 11 years, the 2011 Budget was enacted prior to the start of the budget year. Timely passage of the budget will allow the government to front-load a significant amount of the expenditure program, especially infrastructure spending, in the first three quarters of the year. As expected, key provisions of the president's proposed budget were left untouched by Congress despite earlier opposition. These include the more than two-fold increase in the budget for the Conditional Cash Transfer Program (to cover about half of the poor households) and the 19 percent increase in the budget for basic education; these programs are expected to help curb the rising poverty incidence in the country. In addition, several inefficient programs such as the Food for School Program were retired. To ensure that future budgets will be passed on time, the Executive has advanced the budget calendar by three months. To improve budget efficiency and transparency, the Executive has begun the groundwork in establishing a program evaluation system and has scaled-up the number of programs to be evaluated in preparation for the 2012 Budget. Budgetary support to government corporations is also being evaluated via

<sup>50</sup> Preliminary government estimate.

<sup>51</sup> Notable measures include strengthening the large taxpayer office, institutionalizing a performance management system, improving the VAT refund system, establishing a multi-lane system in customs, and stricter enforcement of tax laws. Alongside administrative reforms, the Executive is pursuing the passage of the fiscal incentives rationalization and fiscal responsibility bills to plug future leakages in the tax system.

a program to improve performance monitoring in key state owned enterprises.

To sustain early achievements, the Aquino Administration needs to secure its revenue base to expand socially relevant expenditures, and strengthen the investment climate. To markedly raise revenues, tax policy measures are needed to supplement ongoing administrative efforts. Key tax policy measures that would quickly raise revenues and improve social outcomes are increases in the excise tax rates of alcohol, tobacco, and petroleum. Additional measures could include—after fixing the deficient VAT refund process—increasing the VAT rate and further broadening its base, possibly coupled with some reduction in the income tax rates. To expand investment in a sustainable fashion and improve the prospects of public-private partnerships, the government needs to address long standing infrastructure bottlenecks (especially power supply), strengthen governance, and improve the business environment.

## Philippines Key Economic Indicators

	2008	2009	2010	2011f	2012f	2010				2010			2011
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Oct	Nov	Dec	Jan
<b>Output, Employment and Prices</b>													
Real GDP (% change y-y) 1/	3.7	1.1	7.3	5.0	5.4	7.8	8.2	6.3	7.1	..	..	..	..
Industrial production index (1994 = 100)	84.8	74.7	..	..	..	81.0	90.9	94.5	..	98.8	101.6	..	..
(% change y-y)	0.3	-11.9	..	..	..	31.1	27.4	21.3	..	14.9	16.8	..	..
Unemployment (%) 2/	7.4	7.5	7.3	..	..	7.3	8.0	6.9	7.1	..	..	..	..
Nominal wages (% change y-y) 3/	5.3	2.2	2.9	..	..	0.0	0.0	5.8	5.8	5.8	5.8	5.8	5.8
Real wages (% change y-y) 3/	-1.6	0.6	-1.1	..	..	-4.0	-4.4	1.7	2.7	3.5	2.0	2.2	1.8
Consumer price index (% change y-y)	9.3	3.2	3.8	4.8	4.5	4.2	4.2	3.8	2.9	2.8	3.0	3.0	3.5
<b>Public Sector</b>													
Government balance (% GDP) 4/	-1.5	-4.1	-3.7	-3.5	-2.9	-7.0	-3.1	-3.2	..	..	..	..	..
Domestic public sector debt (% GDP) 5/	31.5	35.1	..	..	..	..	..	..	..	..	..	..	..
<b>Foreign Trade, BOP and External Debt</b>													
Trade balance (billions US\$) 6/	-12.9	-8.9	..	..	..	-2.3	-2.4	-1.5	..	-0.1	-0.8	-0.7	..
Exports of goods (billions US\$) 6/	48.3	37.6	..	..	..	11.1	12.2	14.4	..	4.8	4.1	4.2	..
(% change y-y)	-2.5	-22.1	..	..	..	43.5	34.3	41.3	..	27.4	11.5	26.5	..
Key export (% change y-y) 7/	-7.2	-21.2	..	..	..	51.3	37.9	46.7	..	35.0	7.1	17.5	..
Imports of goods (billions US\$) 6/	61.1	46.5	..	..	..	13.4	14.6	15.9	..	4.9	4.9	4.9	..
(% change y-y)	5.6	-24.0	..	..	..	34.0	26.0	30.1	..	28.4	35.3	25.2	..
Current account balance (billions US\$) 8/	3.6	8.8	9.9	9.4	8.0	1.8	2.5	2.7	..	..	..	..	..
(% GDP)	2.2	5.5	5.2	4.2	3.2	4.3	5.5	5.9	..	..	..	..	..
Foreign direct investment (billions US\$)	1.3	1.6	0.9	2.0	3.0	0.3	0.1	0.3	..	..	..	..	..
External debt (billions US\$) 9/	53.9	53.3	..	..	..	57.0	57.3	59.8	..	..	..	..	..
(% GDP)	34.5	32.1	..	..	..	30.1	31.0	30.7	..	..	..	..	..
Short-term debt (billions US\$) 9/	7.0	4.0	..	..	..	5.2	5.5	5.7	..	..	..	..	..
Debt service ratio (% exports of g&s)	9.7	10.3	..	..	..	10.3	9.0	9.6	..	..	..	..	..
Foreign exchange reserves, gross (billions US\$) 9/	37.6	44.2	62.4	72.1	83.1	45.6	48.7	53.8	62.4	57.2	60.6	62.4	63.6
(months of imports of g&s) 10/	9.0	8.7	10.3	10.2	10.7	8.5	9.0	8.9	10.3	9.4	10.0	10.3	10.5
<b>Financial Markets</b>													
Domestic credit (% change y-y) 11/	16.8	7.4	8.7	..	..	8.6	8.5	9.4	8.7	9.0	8.0	8.7	..
Short-term interest rate (% p.a.) 12/	5.5	4.5	4.2	..	..	4.2	4.2	4.2	4.2	4.2	4.3	4.3	..
Exchange rate (Peso/US\$, ave)	44.5	47.7	45.1	..	..	46.0	45.5	45.3	43.6	43.4	43.5	44.0	44.2
Real effective exchange rate (2000=100)	128.6	125.2	..	..	..	129.4	133.1	..	..	..	..	..	..
(% change y-y) 13/	5.7	-2.6	..	..	..	1.6	5.6	..	..	..	..	..	..
Stock market index (Jan. 2, 1985=100) 14/	2,631	2,468	3,524	..	..	3,031	3,265	3,627	4,180	4,215	4,187	4,139	4,062
Memo: Nominal GDP (billions US\$)	166.6	161.1	188.6	223.1	251.6	42.2	46.0	45.1	55.7	..	..	..	..

Source: National data sources.

f = forecast

1/ The GDP series has a break in 2000.

2/ New methodology. Figures are based on the 2000 census.

3/ Non-agriculture minimum wage, National Capital Region

4/ IMF Government Financial Statistics (GFS) basis

5/ Total public sector domestic debt

6/ Central bank data, Balance-of-payments basis

7/ Electronics and other electronics

8/ Estimates

9/ Central bank data, % of annual GDP for quarterly figures

10/ Based on end-of-period gross international reserves

11/ Based on Depository Corporations Survey

12/ Interbank call rate

13/ World Bank staff estimates

14/ PSEi Composite, period average for annual figures