PHILIPPINES

Table 1	2021
Population, million	111.0
GDP, current US$ billion	392.5
GDP per capita, current US$	3534.3
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]	99.1
Life expectancy at birth, years[b]	71.2
Total GHG Emissions (mtCO2e)	214.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

Following a deep contraction in 2020, the economy rebounded in 2021 supported by strong manufacturing and public investment. Economic policies have been supportive of the recovery, but policy space is narrowing. Poverty has likely improved between 2020 and 2021, but remains above pre-pandemic levels. The economy is projected to grow by about 5.6 percent per year over the medium term, anchored on more robust domestic activities. However, the outlook is subject to downside risks from external and domestic sources.

Key conditions and challenges

The Philippines swiftly contained its largest COVID-19 outbreak in early 2022. Metro Manila and other key regions were placed under Alert Level 1 since March 1, allowing for unimpeded cross-border travel and a return to full-capacity in workspaces, establishments, and public transportation. Progress in mass vaccination, amid declining vaccine hesitancy, continues to help drive domestic activity as nearly 60 percent of the population are fully vaccinated, with about 13.0 percent having received boosters. Current macroeconomic policies remain supportive of growth, although policy space continues to narrow given rising public debt and increasing inflationary expectation.

Risks remain tilted to the downside with significant implications on the macroeconomic policy setting. Foremost is the possibility of new COVID-19 variants which could lead to a resurgence in infections, possible re-introduction of containment measures, and additional burden on fiscal support. In addition, the upcoming national election raises uncertainty on policy continuity and priorities of the next administration. On the external front, the Russia-Ukraine war heightens the inflationary pressure already experienced in global markets, which could accelerate the tightening of the monetary policy in advanced economies and in the Philippines.

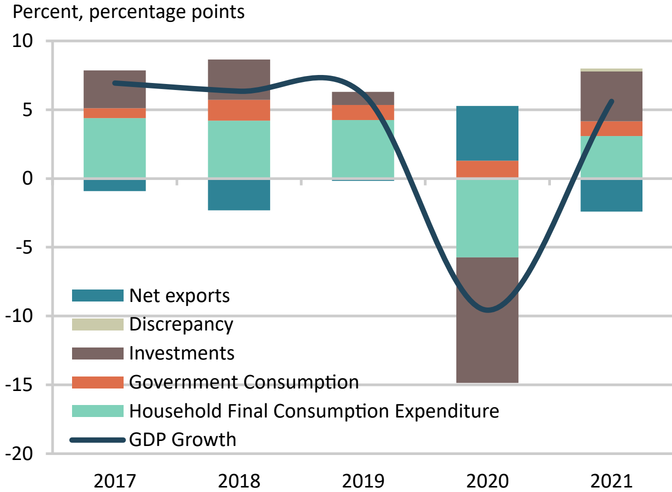
The new administration to take office in June 2022 would have to carefully manage rising vulnerabilities on the macroeconomic policy front, accelerate physical and human capital investments, and pursue structural reforms to strengthen long-term recovery. Rebuilding a narrowing fiscal space can be achieved by carefully pursuing fiscal consolidation. Ensuring inclusive and quality growth matters as the country pursues its Ambisyon Natin objective of reaching middle class society by 2040.

Recent developments

The economy expanded by 5.6 percent year-on-year in 2021, fueled by a faster-than-expected recovery in the second half of the year. However, output remained below pre-pandemic level by around 5.0 percent, whereas many regional peers have closed the gap. Strong external demand buoyed manufacturing exports, while public investment drove growth in construction. The relaxation of containment measures, especially towards the end of the year, drove a rebound in services. However, agriculture struggled with a contraction in livestock production due to the African Swine Fever. On the expenditure side, private consumption was a key growth engine. Public investment accelerated, but uncertainty and weak confidence dampened private investment. Goods exports benefitted from a supportive external environment.

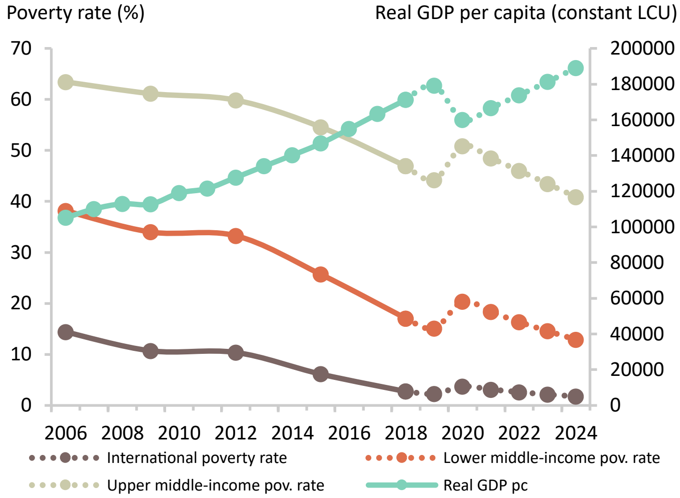
The fiscal deficit rose to 8.6 percent of GDP in 2021 fueled by an acceleration in public spending and a sharp decline in non-tax

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



Source: Philippines Statistics Authority.

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



Source: World Bank staff calculations.

revenues. Public spending increased by 2.3 percent of GDP, anchored on public investment growth, and fiscal support measures. The central government debt increased from 54.6 percent of GDP in 2020 to 60.5 percent of GDP in 2021.

The central bank kept the key policy rate at 2.0 percent despite headline inflation breaching the 2-4 percent target in 2021. The uptick in headline inflation was due to rising global oil prices and a surge in food inflation as a result of food production challenges from the African Swine Fever and weather-related disturbances.

Labor force participation is 60.5 percent in January 2022, the same rate in January 2021. Female participation notably increased by 1.2 percentage points, while unemployment decreased to 6.4 percent from 8.8 percent in the same period. The labor market improvement may have helped lower poverty between 2020 and 2021, but it remains above pre-pandemic levels. There are danger signs of the low quality of jobs generated with workers moving to self-employment and low-skilled wage occupation, which can jeopardize future poverty reductions. The labor shift and human capital deterioration have increased inequality. The Gini coefficient is estimated to increase from 42.3 percent in 2018 to 45.0 percent in 2021, and would have been higher without the social assistance given at the height of the pandemic.

Outlook

The economy is projected to grow at 5.7 percent in 2022 and 5.6 percent on average in 2023-24. Growth will draw strength from the domestic environment with declining COVID-19 cases, looser restrictions, and wider reopening. The strong domestic condition will help compensate for the weak external environment, reeling from a global growth deceleration, rising inflation, and geopolitical turmoil.

The reopening will benefit the contact-intensive services sector, while public investment will support construction and industry. Agriculture is expected to grow modestly as structural weaknesses persist. On the expenditure side, private consumption will expand with recovering employment and remittances, boosted by election-related spending. Consumption growth could have been higher if not for the Russia-Ukraine war driving inflationary pressure on fuel and food. Public consumption is expected to grow in line with the bigger national budget, while public infrastructure investments will contribute to capital formation growth. Net exports will be weaker amid a subdued external environment. In 2023-2024, private consumption will be supported by sustained remittances and domestic activities, while public consumption slows in view of fiscal consolidation. Capital growth may be tempered by rising interest rates and lingering uncertainty from the external environment.

Poverty incidence is estimated at 18.3 percent in 2021, based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP. Following current growth projections, poverty incidence will decrease to 16.2 percent in 2022, and continue to decline through 2024. The Russia-Ukraine war may induce inflation spikes that may slowdown the decline in poverty, mainly through the knock-on effect of fuel price increases on food prices that disproportionately hurt the poor and economically vulnerable.

Significant risks emanate from the external environment. Central banks in advanced economies have signaled imminent interest rate hikes, which could lead to financial volatility in emerging markets. Rising global commodity and energy prices will intensify inflationary pressure. Domestically, the political transition risks policy discontinuity that may undermine market confidence. While the country has entered a benign phase of the pandemic, threat of a new variant-driven surge hangs over the outlook. Nevertheless, the country has adopted systems that allow more public mobility and localized responses to outbreaks, reducing adverse economic impacts.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.1	-9.6	5.6	5.7	5.6	5.6
Private Consumption	5.9	-7.9	4.2	5.5	5.6	5.6
Government Consumption	9.1	10.5	7.0	9.2	7.8	6.5
Gross Fixed Capital Investment	3.9	-27.5	9.6	12.3	10.1	9.4
Exports, Goods and Services	2.6	-16.3	7.8	7.6	7.3	7.0
Imports, Goods and Services	2.3	-21.6	12.9	12.3	10.3	9.0
Real GDP growth, at constant factor prices	6.1	-9.6	5.6	5.7	5.6	5.6
Agriculture	1.2	-0.2	-0.3	1.0	1.1	1.1
Industry	5.5	-13.2	8.2	6.5	6.2	5.9
Services	7.2	-9.2	5.3	6.0	6.1	6.1
Inflation (Consumer Price Index)	2.4	2.4	3.9	4.2	3.5	3.3
Current Account Balance (% of GDP)	-0.8	3.2	-1.8	-4.0	-3.5	-3.3
Net Foreign Direct Investment (% of GDP)	2.3	1.9	2.7	2.8	3.0	3.0
Fiscal Balance (% of GDP)	-3.4	-7.6	-8.6	-7.1	-6.0	-5.1
General Government Debt (% of GDP)	34.1	48.1	54.6	56.2	56.9	57.0
Primary Balance (% of GDP)	-1.5	-5.5	-6.4	-4.6	-3.5	-2.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.2	3.7	3.1	2.6	2.1	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.0	20.4	18.3	16.3	14.6	12.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	44.2	50.8	48.5	46.0	43.4	40.9
GHG emissions growth (mtCO2e)	3.3	-12.2	0.6	2.3	2.1	2.0
Energy related GHG emissions (% of total)	58.8	54.8	55.1	54.8	54.4	54.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2018-FIES.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.