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PHILIPPINES ECONOMIC UPDATE  
**BEYOND THE NUMBERS:  
SUSTAINING POVERTY  
REDUCTION IN BARMM**

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# Preface

The Philippines Economic Update (PEU) summarizes key economic and social developments, important policy changes, and the evolution of external conditions over the past six months. It also presents findings from recent World Bank analyses, situating them in the context of the country's long-term development trends and assessing their implications for the country's medium-term economic outlook. The update covers issues ranging from macroeconomic management and financial-market dynamics to the complex challenges of poverty reduction and social development. It is intended to serve the needs of a wide audience, including policymakers, business leaders, private firms and investors, and analysts and professionals engaged in the social and economic development of the Philippines.

The PEU is a biannual publication of the World Bank's Macroeconomics, Trade and Investment (MTI) Global Practice (GP), prepared in partnership with the Finance, Competitiveness and Innovation (FCI); Poverty and Equity; Social Protection and Jobs (SPJ). Lars Christian Moller (Practice Manager for the MTI GP), Gonzalo Varela (Lead Economist and Program Leader), and Ralph van Doorn (Senior Economist) guided the preparation of this edition. The team consisted of Kevin Cruz (Economist and Task Team Leader), Remrick Patagan (Economist), Karen Lazaro (Research Analyst), Ludigil Garces and Patrizia Benedicto (Consultants) from the MTI GP; Ou Nie (Financial Sector Economist) from the FCI GP; Nadia Belghith (Senior Economist) and Sharon Piza (Economist) from the Poverty & Equity GP; and Ma. Laarni Revilla (Consultant) from the SPJ GP. A World Bank team from the Poverty GP, consisting of Nadia Belghith (Senior Economist) and Sharon Piza (Economist) led the Special Focus Note on Sustaining Poverty Reduction in BARMM, under the guidance of Rinku Murgai (Practice Manager) and Lars Moller. The report was edited by Oscar Parlback (Consultant), and the graphic designer was Pol Villanueva (Consultant). Peer reviewers were Shakira Binti Teh Sharifuddin (Senior Economist), Kevin Chua (Senior Economist) and Judy Yang (Senior Economist, EEAPV). Logistics and publication support were provided by Geraldine Asi (Team Assistant), Jamie Guerrero Javier (Team Assistant), and Adrienne Mendoza (Consultant). We are grateful to Norhana Andig Kamid Wakay (Operations Analyst, EACPF) for her excellent support and collaboration. The External Communications Team, consisting of David Llorito, Stephanie Margallo, and Moira Enerva (Consultant) prepared the media release, dissemination plan, and web-based multimedia presentation.

The team would like to thank Ndiame Diop (Country Director for Brunei, Malaysia, Philippines, and Thailand) for his advice and support. The report benefited from the recommendations and feedback of various stakeholders in the World Bank as well as from the government, the business community, labor associations, academic institutions, and civil society. The team is grateful for their contributions and perspectives. The findings, interpretations, and conclusions expressed in the PEU are those of the authors and do not necessarily reflect the views of the World Bank's executive board or any national government. If you wish to be included in the email distribution list for the PEU and related publications, please contact Geraldine Asi ([gasi@worldbank.org](mailto:gasi@worldbank.org)). For questions and comments regarding the content of this publication, please contact Kevin Cruz ([kcruz@worldbank.org](mailto:kcruz@worldbank.org)). Questions from the media should be addressed to David Llorito ([dllorito@worldbank.org](mailto:dllorito@worldbank.org)). For more information about the World Bank and its activities in the Philippines, please visit [www.worldbank.org/ph](http://www.worldbank.org/ph).



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# Abbreviations and acronyms

<b>AEs</b>	advanced economies	<b>IPs</b>	indigenous peoples
<b>BARMM</b>	Bangsamoro Autonomous Region in Muslim Mindanao	<b>IT-BPO</b>	Information technolog - business process outsourcing
<b>BIMP-EAGA</b>	Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area	<b>LFPR</b>	labor force participation rate
<b>BIR</b>	Bureau of Internal Revenue	<b>LFS</b>	Labor Force Survey
<b>BLGC</b>	Bangsamoro Local Governance Code	<b>LGUs</b>	local government units
<b>BOL</b>	Bangsamoro Organic Law	<b>MILF</b>	Moro Islamic Liberation Front
<b>BOP</b>	balance of payments	<b>MOOE</b>	Maintenance and Other Operating Expenditures
<b>BSP</b>	Bangko Sentral ng Pilipinas	<b>MTFF</b>	Medium-Term Fiscal Framework
<b>BTr</b>	Bureau of the Treasury	<b>NCR</b>	National Capital Region
<b>CA</b>	current account	<b>NPL</b>	non-performing loans
<b>CES</b>	Consumer Expectations Survey	<b>OFWs</b>	overseas Filipino workers
<b>CO</b>	Capital Outlays	<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>CPH</b>	Census of Population and Housing	<b>PDP</b>	Philippine Development Plan
<b>DBM</b>	Department of Budget and Management	<b>PMI</b>	Purchasing Managers' Index
<b>EMDEs</b>	emerging market and developing economies	<b>PPP</b>	purchasing power parity
<b>FIES</b>	Family Income and Expenditure Survey	<b>PPPs</b>	public-private partnerships
<b>GDP</b>	gross domestic product	<b>ppts</b>	percentage points
<b>GOCCs</b>	Government-owned and controlled corporation	<b>PS</b>	Personnel Services
<b>GPS</b>	General Public Services	<b>PSA</b>	Philippine Statistics Authority
		<b>US</b>	United States
		<b>VAT</b>	Value-added tax
		<b>yoy</b>	year-on-year



# Executive Summary

## Recent Economic Developments

### Global conditions improved in early 2024

**Global growth showed signs of stabilization in the first four months of 2024.** Economic activity in the United States remained resilient, driven by an expansion of industrial production. In March, the manufacturing PMI increased to above 50, signifying the first increase in manufacturing activity after 16 months in contractionary territory. Concurrently, growth in the euro area and China was buoyed by a modest improvement in services. Global manufacturing activity edged up, supported by growth in new orders. Meanwhile, services continued to expand driven by tourism flows, supporting growth in most developing East Asia and Pacific countries. In many emerging market and developing economies (EMDEs), elevated government indebtedness reduced availability of credit to the private sector, resulting in lower investment. Nevertheless, high-frequency indicators point to a pickup in economic activity in EMDEs, partly due to spillovers from resilient growth in the United States.

### The Philippines maintains its growth momentum, supported by a rebound in external demand

**The improvement in global economic conditions contributed to robust growth in the Philippines, as domestic demand moderated.** The economy expanded by 5.7 percent year-on-year in Q1 2024, matching growth in Viet Nam (5.7 percent) and surpassing that of China (5.3 percent), Indonesia (5.1 percent), Malaysia (3.9 percent), and Thailand (1.5 percent). However, growth has slowed compared to 6.4 percent in Q1 2023 and the pre-pandemic average of 6.5 percent. High food inflation, elevated interest rates, and the lagged impact of tight monetary policy led to slower growth of private domestic demand. Nevertheless, private domestic demand still drove growth, accounting for 70 percent of it in Q1 2024. The contribution of government consumption to growth decreased due to ongoing fiscal consolidation.

Meanwhile, exports recovered during the quarter, largely due to the recovery in global goods trade.

### Services were the main driver of economic activity on the supply side, while improving global trade fueled the rebound in manufacturing activity.

The services sector accounted for nearly three-fourths of growth in Q1 2024, although growth slowed to 6.9 percent in Q1 2024 (8.3 percent in Q1 2023). Slower growth in services mirrored the slowdown in private domestic demand, as consumption patterns normalized to their pre-pandemic levels. The sector's performance was driven by robust growth of financial and insurance activities, tourism, and wholesale and retail trade. Meanwhile, the growth contribution of industry benefited from the rebound in manufacturing activity due to strengthening external demand. Agriculture had a negligible growth contribution in Q1 2024 due to structural productivity challenges, coupled with the impact of El Niño, and persistent disease outbreaks in the livestock subsector.

### Robust growth leading to the creation of jobs

**Economic expansion led to strong job creation in the services and industry sectors but concerns about job quality remain.** The unemployment rate declined from 4.7 percent in March 2023 to 3.9 percent in March 2024. Between March 2023 and 2024, a total of 572,000 net jobs were created, led by the 1.9 million jobs created in the services and industry sectors. Meanwhile, the agriculture sector lost about 1.3 million jobs, as the typhoon season and onset of El Niño affected agricultural production. The share of elementary jobs, characterized by low and irregular pay, continued to dominate the labor market, at 27.2 percent of total employment in March 2024. However, the share of wage and salary workers increased, while the share of self-employed and unpaid workers decreased. This pattern suggests a movement away from informal and low-productivity jobs to more formal employment.





## Lower inflation, but pressures remain

### Both headline and core inflation returned to the central bank's 2-4 percent target range, but prices of key staple commodities continued to surge.

Following two consecutive years of nearly 6.0 percent inflation, inflation fell to 3.4 percent in the first four months of 2024. Still, consumer prices rose faster than in Indonesia (2.8 percent) and Thailand (-0.5 percent) but slower than in Viet Nam (3.9 percent). Food inflation eased due to a stable food supply and favorable base effects. However, rice price inflation surged to 23.6 percent in the same period in 2024. Meanwhile, utilities and transport inflation slowed due to lower energy prices and marginal uptick in fuel prices. Core inflation, settled within the target range at 3.5 percent, indicating waning underlying price pressures. The Bangko Sentral ng Pilipinas (BSP) maintained its tight monetary policy stance due to the persistence of upside risks to inflation.

## A stable banking system

**The banking sector remains resilient, with adequate capital and liquidity.** The system-wide non-performing loan (NPL) ratio remained steady at 3.4 percent in January 2024, despite substantial progress in phasing out pandemic-era regulatory forbearance measures. Available data suggest that the banking sector has adequate buffers to withstand potential adverse shocks, as the capital adequacy ratio stands at 15 percent and provisions for NPLs at over 100 percent. Funding liquidity of the banking sector remains ample. The loan-to-deposit ratio was 72 percent and liquid assets was 52 percent of deposits and short-term funding in January 2024.

## Steady progress in fiscal consolidation

**The government narrowed the fiscal deficit in Q1 2024 by increasing public revenue.** Public revenue increased from 14.6 percent of GDP in Q1 2023 to 15.3 percent of GDP in Q1 2024, owing to higher tax revenues. Meanwhile, public spending rose by 0.3 percentage points (ppts) of GDP, in Q1 2024, as the government ramped up investment spending. Expenditure consolidation was led by a reduction in personnel services and operations spending. As a result, the fiscal deficit narrowed by 0.3 ppt of GDP to

4.5 percent of GDP in the first quarter of 2024. Meanwhile, national government debt inched up marginally to 60.2 percent of GDP by the end of March 2024. Debt metrics remain sustainable, and is mostly long-term, peso-denominated, and from domestic sources.

## Outlook and Risks

### An improving growth outlook

**Economic growth is projected to average 5.9 percent in 2024–2026, supported by robust domestic demand, strong services growth, and improved trade.** This projection remains unchanged from the April 2024 forecast published in the East Asia and Pacific Economic Update.<sup>1</sup> The positive outlook hinges on successfully containing inflation and transitioning toward a more accommodative monetary policy, which will support private domestic demand. Despite ongoing fiscal consolidation, public investment will likely be above 5.0 percent of GDP and remain supportive of growth. Meanwhile, export demand is projected to strengthen over the forecast horizon, led by robust services exports. Goods trade activity will rebound between 2024–26, supported by the improvement in global growth over the forecast horizon.

### Downside risks remain

**The risks to the growth outlook remain tilted to the downside.** Externally, risks stem from heightened geopolitical tensions, further fragmentation in global trade policy, and weaker-than-expected growth in China. An intensification of geopolitical tensions could lead to higher energy prices, which would reduce households' disposable incomes. Further fragmentation of trade policies and increased trade protectionism would weigh on trade and could lead to an increase in commodity prices globally. Domestically, a prolonged episode of El Niño and a stronger than expected La Niña could lead to damages to farm output which could place upward pressure on food prices. The threat of persistently high inflation could lead to a reduction in private consumption growth. In addition, it could lead to further delays in monetary policy normalization, dampening growth prospects. Lastly, delays in passing

<sup>1</sup> World Bank. 2024. Firm Foundations of Growth: East Asia Pacific Economic Update. Washington, D.C.



key reforms for fiscal consolidation could dampen the medium-term outlook.

## Sustained poverty reduction

**Robust growth and continued labor market improvements will likely boost growth in household incomes.** The positive economic outlook, coupled with quality job generation, is expected to further improve household welfare. Progress in poverty reduction will depend on sustaining the inclusive growth momentum of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM).

## Policy Challenges

### Managing inflation

**Managing inflation remains the main domestic policy challenge.** While the baseline forecast assumes that inflation will return to within the central bank's target range in 2024–26, short-term risks remain tilted to the upside. An unexpected increase in commodity prices due to the intensification of geopolitical tensions and trade restrictions represents the main upside risk. In addition, a prolonged episode of climate events such as El Niño and La Niña could weigh on the domestic food supply and lead to an upswing in inflation. Managing inflation will require the continued use of non-monetary measures, including efforts to ensure better supply and demand management and timely and adequate food imports, to complement sound monetary policy. In addition, the government must continue to provide social assistance to vulnerable groups that are disproportionately affected by high food inflation.

### Strengthening resilience

**Mobilizing domestic revenues remains essential for successful fiscal consolidation and to sustainably finance the country's inclusive development agenda.** Reaching fiscal targets and sustainably financing the government's inclusive growth agenda rely on a permanent increase in tax revenues. Despite tax reforms in previous years, tax revenue growth is expected to remain modest. The passage of the

government's five priority tax measures is projected to increase tax revenues by 0.2 ppts of GDP by 2025. However, this is insufficient to meet the government's

medium-term targets. Additional revenue efforts could focus on broadening the tax base for consumption and personal income taxes, rationalizing tax incentives, and strengthening tax administration. An inability to generate additional revenues could lead to further reductions in public expenditure, or an increase in borrowing which could lead to higher debt.

**Climate events like El Niño, the persistent threat of natural disasters, and climate change, call for strengthening preparedness in disaster mitigation, response, and rehabilitation.** The current episode of El Niño highlights the importance of short- and long-term policy responses to climate change. Severe heat and drought have impacted agricultural production while creating disruptions to school activities and putting pressure on the country's water and power supply. Over the short term, proactive policy preparation will be important to mitigate the impact of extreme weather events while providing support to the poor and vulnerable. This includes both national and local government plans to enhance the resilience of communities. Over the long term, the government needs to strengthen the efficiency, transparency, and inclusive use of public resources in climate adaptation, mitigation, response, and rehabilitation.

**Sustaining the inclusive growth momentum in BARMM is crucial for the entire country to achieve rapid, sustained, and inclusive growth.** While the BARMM region accounts for 4 percent of the population, it makes up around 8 percent of the country's poor population. Known for its persistent and high poverty, the region registered a 24.6-percentage point decline in poverty at the height of the COVID-19 pandemic. Despite this decline, the region still has the highest poverty incidence in the Philippines, while 36 percent of its population is considered near-poor. Part III of the PEU provides a poverty assessment of the BARMM region, focusing on the drivers of poverty reduction between 2018 and 2021. It also offers policy recommendations that are crucial in sustaining poverty reduction in the region.



## *Beyond the Numbers: Sustaining Poverty Reduction in BARMM*

### Poverty reduction in BARMM bucked the national trend in 2021

**The Bangsamoro Autonomous Region in Muslim Mindanao has made significant strides in reducing poverty during a period of peace and economic growth.** After a prolonged period of conflict and slow socioeconomic progress, BARMM experienced a notable shift in its development path in 2017. Economic growth surpassed the national average, even during the COVID-19 pandemic. This period of growth saw a significant poverty reduction in BARMM, breaking a three-decade trend of persistently high poverty. The decline in poverty is linked to the peace brought by the Bangsamoro Organic Law (BOL) and an infusion of fiscal resources. Still, BARMM remains the poorest region in the country.

### Poverty reduction was driven by a broad-based increase in income sources

**Households in BARMM experienced considerable improvements in their income from almost all sources, leading to a significant reduction in poverty.** The growth in labor income accounted for nearly 40 percent of poverty reduction in BARMM. This growth was driven by a shift in employment patterns from agriculture to low-end services, and to a lesser extent industry. This, in turn, resulted in an increase in wage employment in the region. However, agricultural and non-wage employment in BARMM remains twice as high as in the rest of the country.

**Private and government transfers also played an important role in poverty reduction.** In addition to increases in labor income, transfers from government (social assistance) and private sources contributed to about half of the poverty reduction in BARMM, at 22 percent and 29 percent, respectively. While economic growth and its consequential increase in household earnings play an important role in poverty reduction, transfers remain crucial in supporting the economically vulnerable. However, the overall coverage and transfer amounts have remained relatively low, which points to further efforts needed to expand assistance to the poor and vulnerable and to have a significant impact on poverty.

## Significant challenges remain

**Despite this recent progress, high poverty and vulnerability persist, threatening regional stability**

**and hindering broader poverty reduction in the country.** Despite the process of economic convergence, the poverty rate in BARMM remains twice the national average. In addition, many within the region are still vulnerable to falling back into poverty. In addition, a reversal of the poverty trends in BARMM would jeopardize the country's ability to meet its national poverty targets. The region accounts for 8 percent of the poor population despite accounting for only 4 percent of the total population.

### Lack of access to basic services presents challenges for sustaining economic growth and reducing poverty.

Access to basic services is crucial for human capital development, especially for children. Although the gap in access to improved water sources between BARMM and the rest of the Philippines has slightly narrowed, large disparities remain across provinces within BARMM. In addition, the gap in access to electricity between BARMM and the rest of the country has grown in recent years. Furthermore, limited access to electricity constrains the development of the private sector. Altogether, this could derail progress in economic growth that BARMM experienced in recent years.

### Limited access to markets poses significant economic challenges for BARMM, particularly for its agriculture-dependent households and fishing communities.

Access to markets is limited nationwide and especially in BARMM, where only 34 percent of barangays have accessible markets nearby. The scarcity of markets in many barangays in BARMM is of significance to households in the region that rely on agriculture and self-employment for their livelihoods. The BARMM limited physical and digital infrastructure connectivity also contribute to its limited market potential. Connecting BARMM to markets within the region, throughout the country, and in the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA) region can significantly enhance its economic growth and development.



**Lastly, the BARMM continues to have limited progress in human capital development.** There are significant disparities in enrollment between BARMM and the rest of the country. In 2021, only 64 percent of the population aged 5–24 in BARMM were attending school, compared to 77 percent in the rest of the country. Moreover, school dropout rates are considerably higher in BARMM. Notably among 16 to 17-year-old boys of whom nearly 30 percent are out of school, compared to just 10 percent in the rest of the country. As the youth is increasingly moving into waged-employment in the region, increasing educational attainment will matter for the quality of the wage-jobs obtained. In addition, low child health indicators in BARMM can hinder human development prospects in the region. These constraints to human capital development limit employment and income opportunities, presenting an additional barrier to economic mobility.

### Securing a sustainable path for poverty reduction in BARMM

**Achieving sustainable and resilient development in BARMM requires addressing these important socioeconomic gaps and challenges facing the region.** For policymakers, understanding and addressing the needs of the economically vulnerable in BARMM can enhance their resilience. Thus, targeted policies and interventions tailored to the needs of the vulnerable are crucial to sustain poverty reduction and promote long-term development. Key actions include enhancing agricultural productivity and exploring opportunities to diversify and expand income sources, investing in human capital, improving access to basic services and infrastructure, and upholding the peace process.

**Given BARMM's heavy reliance on agriculture, boosting agriculture profitability and productivity is crucial to reducing poverty and ensuring economic security.** BARMM has untapped potential in crop production, aquaculture, and cross-border trade and it could significantly boost national agricultural output and food security. Strategies should prioritize sustainable poverty reduction by enhancing agricultural practices, improving resource access, promoting technology adoption, and expanding market access while

facilitating access to credit and insurance against weather shocks. Strengthening agriculture can lift farmers out of poverty and drive economic growth and stability in the region.

**Policies to expand job opportunities and diversify income sources can help accelerate the process of structural transformation.** Improving the business climate and partnering with the private sector to stimulate job creation may foster entrepreneurship in BARMM. Self-employment, comprising 58 percent of total employment, particularly among women (35 percent) and men (16 percent), presents a significant avenue for job growth. Supporting entrepreneurship through streamlined business procedures, business development programs, and improved access to credit can enhance self-employment opportunities, diversify employment, and increase youth and female labor force participation while narrowing gender disparities in the job market.

**Improving human capital development will further strengthen income diversification, enhance economic mobility, and create a more versatile and resilient workforce.** Investments in education infrastructure, teacher training, and curriculum development can help increase access and quality of education. Promoting up- and re-skilling would enable people to transition into new and better jobs. Ensuring access to health care services and nutrition programs is also crucial for promoting inclusive human capital development. Improving human capital development will enhance the economic stability of BARMM and strengthen their resilience to shocks.

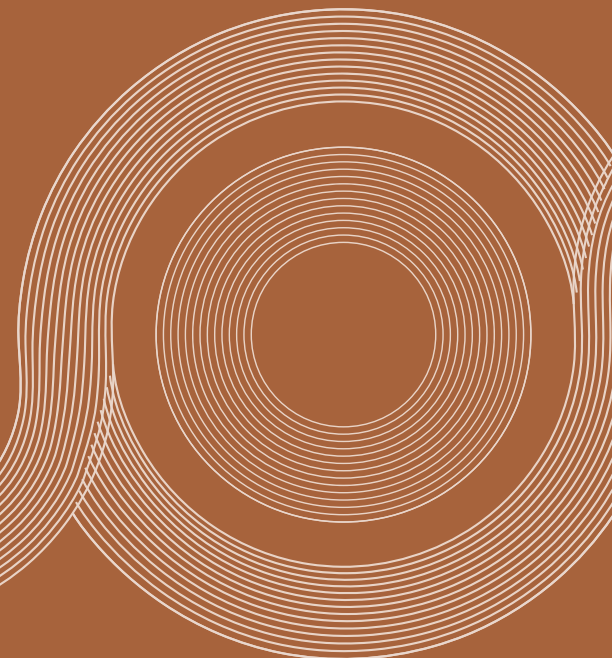
**Timely service delivery by both BARMM's regional government and LGUs is critical to sustain poverty reduction.** Sustaining the decline in poverty relies on the government's ability to improve the quality of service delivery and the timely execution of its budget. Strengthening the institutional capacity of the regional government and its constituent LGUs in terms of investment and financial management is critical to ensure a more efficient use of resources and better delivery of public services. In addition, improving the targeting and increasing the level of social assistance can play a key role in achieving sustained poverty reduction in BARMM.



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# PART 1

## Recent Economic and Policy Developments





# 1.1 Recent Global Developments: Recovering Global Economic Activity

*The global economy showed signs of recovery in early 2024 on the back of resilient economic activity in advanced economies (AEs) and a rebound in goods trade and tourism. Commodity prices have edged up, leading to a slowdown in global disinflation. Core inflation has inched up. As a result, advanced economy central banks signaled caution about the pace of monetary easing in 2024.*

## **Global economic activity picked up in early 2024 on the back of a recovering manufacturing and improving services (Figure 1).**

After another deceleration in 2023, global growth showed signs of stabilization in the first four months of 2024. Economic activity in the United States (US) remained resilient, driven by an expansion of industrial production. Concurrently, growth in the euro area and China was buoyed by a modest improvement in services. The global Purchasing Managers Index (PMI) was 50.3 over the same period, buoyed by growth in new orders and efforts to complete backlogs owing to robust private consumption. Meanwhile, services continued to expand, driven by tourism flows. In many emerging market and developing economies (EMDEs), elevated government indebtedness increased already-high borrowing costs, resulting in lower investment. Nevertheless, high-frequency indicators point to a pickup in economic activity in EMDEs, partly due to spillovers from resilient growth in the US.

## **Global goods trade rebounded while global services trade continued to expand in early 2024.**

Goods exports improved despite shipping disruptions on the Red Sea and an increase in protectionist policies in advanced economies (AEs) that dampened the exports of many EMDEs.<sup>2</sup> As a result, global trade in goods expanded by 1.2 percent, year-on-year (yoy), in February 2024 after ten consecutive months of contraction (Figure 2). Subsequently, global industrial production expanded by 0.2 percent in the same period, bringing the average growth to 0.4 percent in 2024.

Meanwhile, global trade in services increased by 9.1 percent, yoy, in 2023, marking the third consecutive year of growth after a sharp contraction of 17.0 percent in 2020.<sup>3</sup> International tourism improved in 2023Q4, reaching about 90 percent of its pre-pandemic level in 2019.<sup>4</sup> In addition, other sectors such as information and communications technologies and finance also experienced relatively strong growth, further benefitting services exports of several EMDEs, including the Philippines.

## **Commodity prices have edged up in early 2024, and the decline in core inflation in AEs has slowed down.**

The post-pandemic global disinflation has slowed in early 2024 buoyed by rising prices of several key commodities (Figure 3). After declining in 2024Q1, natural gas prices in the US and Europe rebounded in April 2024 amid supply risks from weather-related disruptions and ongoing conflicts.<sup>5</sup> Similarly, the price of Brent crude oil reached US\$90 by the end of the first week of April amid supply pressures from ongoing Organization of the Petroleum Exporting Countries (OPEC) cuts, and recent geopolitical concerns weighing on net oil importers such as the Philippines.<sup>6</sup> Meanwhile, core inflation in AEs has inched up amid tight labor markets in the US and subdued productivity in the euro area. As a result, optimism has waned, with most AE central banks signaling caution in the pace of monetary easing. Consequently, conditions became less accommodative in EMDEs as debt and equity outflows and a stronger demand for the US dollar limit financing access especially to EMDEs with weak credit ratings.

<sup>2</sup> World Bank East Asia and Pacific Economic Update April 2024.

<sup>3</sup> United Nations Conference on Trade and Development (UNCTAD).

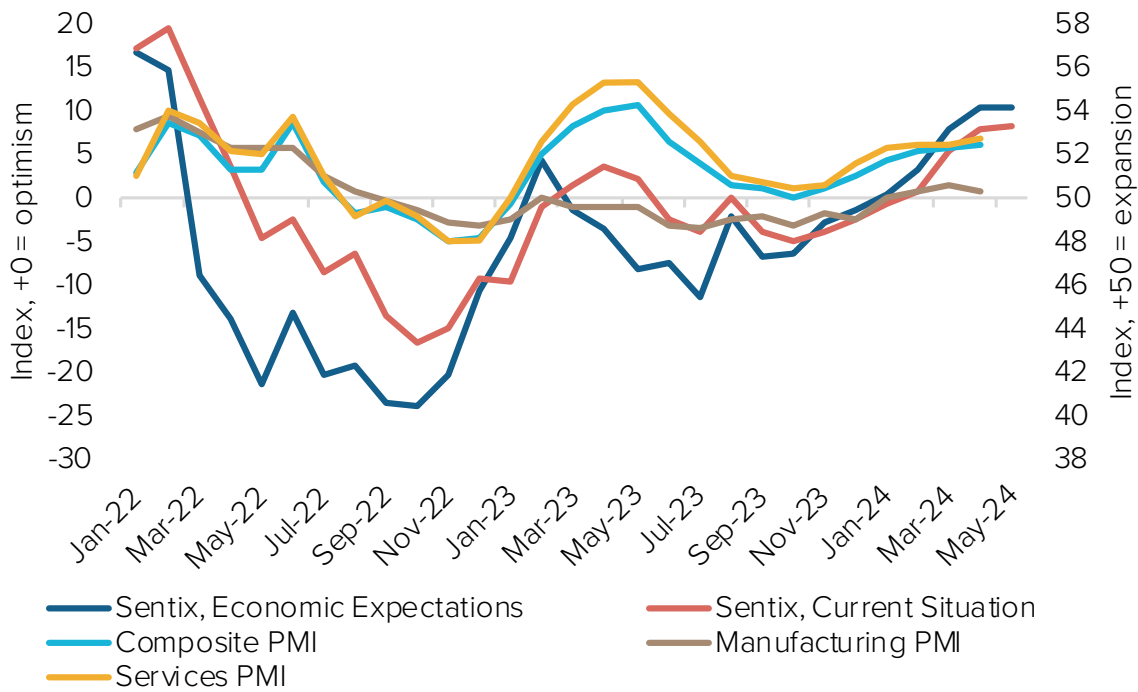
<sup>4</sup> United Nations Tourism Data Dashboard; Global Monthly February 2024.

<sup>5</sup> World Bank Global Monthly April 2024.

<sup>6</sup> World Bank Global Monthly March 2024.

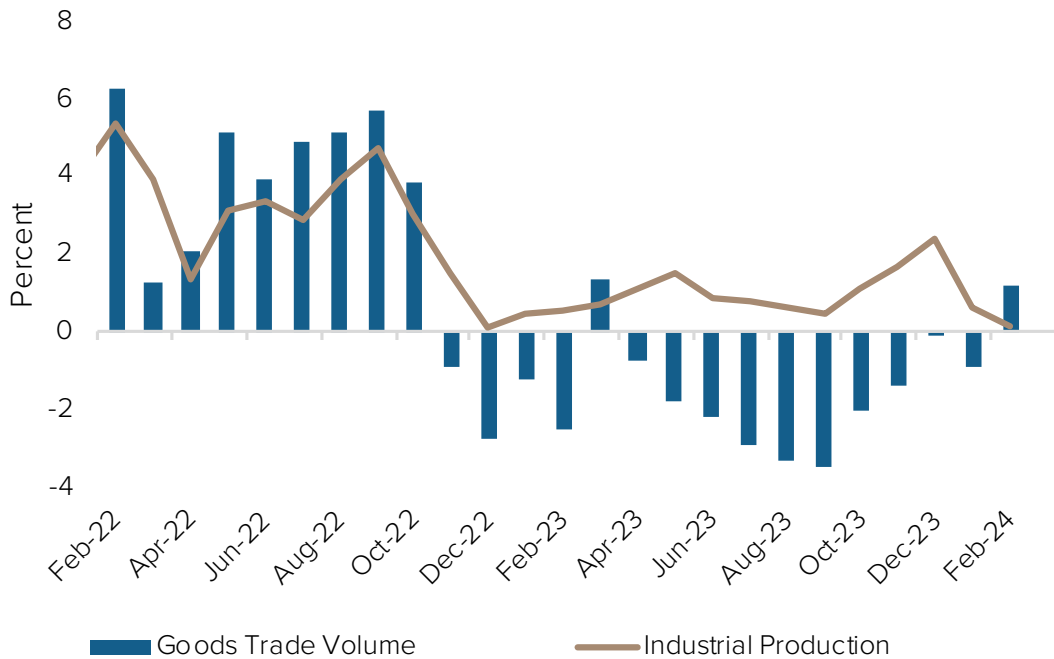


**Figure 1. Global composite PMI rose in March due to an expansion of output in both manufacturing and services.**



Source: Haver Analytics.

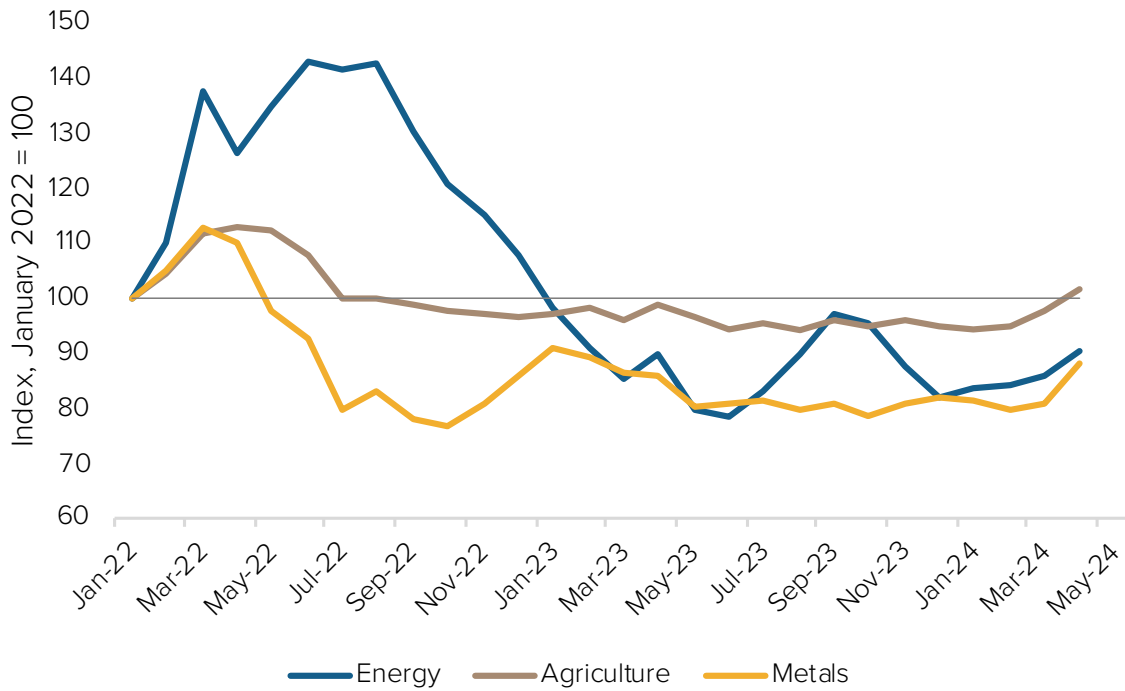
**Figure 2. Global goods trade improved in early 2024.**



Source: Haver Analytics.



Figure 3. Global disinflation has slowed in early 2024 buoyed by rising prices of several key commodities



Source: Haver Analytics.



Photo: Shutterstock/ambient\_pix





## 1.2 Output and Demand in the Philippines: A Rebound in External Demand

*The economy sustained its growth momentum in the first quarter of 2024. Household consumption growth remained robust but has moderated due to still elevated inflation, especially for key staple commodities. A rebound in exports picked up the slack with the continued recovery of tourism and business services and increased external demand for goods, boosting industrial activity.*

### **Domestic demand drove growth in the first quarter (Q1) of 2024 despite persisting economic challenges.**

The economy expanded by 5.7 percent year-on-year in Q1 2024, matching growth in Viet Nam (5.7 percent) and surpassing that of China (5.3 percent), Indonesia (5.1 percent), Malaysia (3.9 percent), and Thailand (1.5 percent). However, growth has moderated compared to the 6.4 percent increase recorded in Q1 2023 and the pre-pandemic average of 6.5 percent.<sup>7</sup> Resurgent inflation adversely affected private consumption and prompted the Bangko Sentral ng Pilipinas (BSP) to maintain high interest rates, dampening private investment. In line with post-pandemic fiscal consolidation, a reduction in recurrent public spending has limited the contribution of government consumption to overall growth. Meanwhile, exports recovered during the quarter, largely due to a cyclical upturn in electronics and sustained recovery in business services and tourism.

### **Despite high inflation, private consumption underpinned growth in domestic demand.**

A robust labor market, rapid credit growth, and steady remittances supported a 4.6-percent expansion in private consumption. However, this is the slowest growth rate since 2021 and is lower than the pre-pandemic average of 5.9 percent, due in part to exhaustion of pent-up demand and elevated inflation. High food prices, notably rice, have strained consumer budgets. Investment spending slowed as private investment was dampened by concerns over the global economy, geopolitical tensions, and high interest rates.<sup>8</sup> These factors also weighed on private construction and resulted in a contraction in spending on durable equipment. As a result, the growth

contribution of investment spending in Q1 2024 (0.3 ppt) was still well below its pre-pandemic average (2.2 ppts). Meanwhile, the growth contribution of government consumption in Q1 2024 (0.2 ppt) was a fifth of its pre-pandemic average due to ongoing fiscal consolidation.

### **A modest uptick in external demand for goods brought back export growth.**

A nascent upturn in the electronics industry boosted goods exports alongside a recovery in chemicals and food products. The upturn in the global semiconductor industry led to an increase in external demand for semiconductors from the Philippines. As a result, goods exports had a positive growth contribution in Q1 2024, a reversal from its level in 2023. Meanwhile, services exports were fueled by robust information technology and business process outsourcing and the sustained recovery of tourism. However, softer private domestic demand led to a decline in goods imports, which weighed on the overall growth of imports. In particular, the slowdown in investment contributed to lower imports of transport and industrial machinery.

### **Services remained as the main growth engine.**

Services growth slackened relative to Q1 2023 as demand normalizes to its pre-pandemic level. The services sector contributed 4.2 percentage points (ppts) to GDP growth in Q1 2024, down from 6.4 ppts in Q1 2023, but matching its pre-pandemic average.<sup>9</sup> The sector's performance was anchored on resilient private consumption, which fueled the growth of wholesale and retail trade, financial services, and professional and business services. The continued recovery of tourism

<sup>7</sup> Annual average from 2017 to 2019.

<sup>8</sup> Lending to production activities slowed to an average of 7.1 percent year-on-year in Q1 2024 (9.0 percent in Q1 2023). Meanwhile, lending for manufacturing activities slowed to an average of 4.3 percent year-on-year in Q1 2024 (9.5 percent in Q1 2023).

<sup>9</sup> 4.2 ppts from 2017 to 2019.



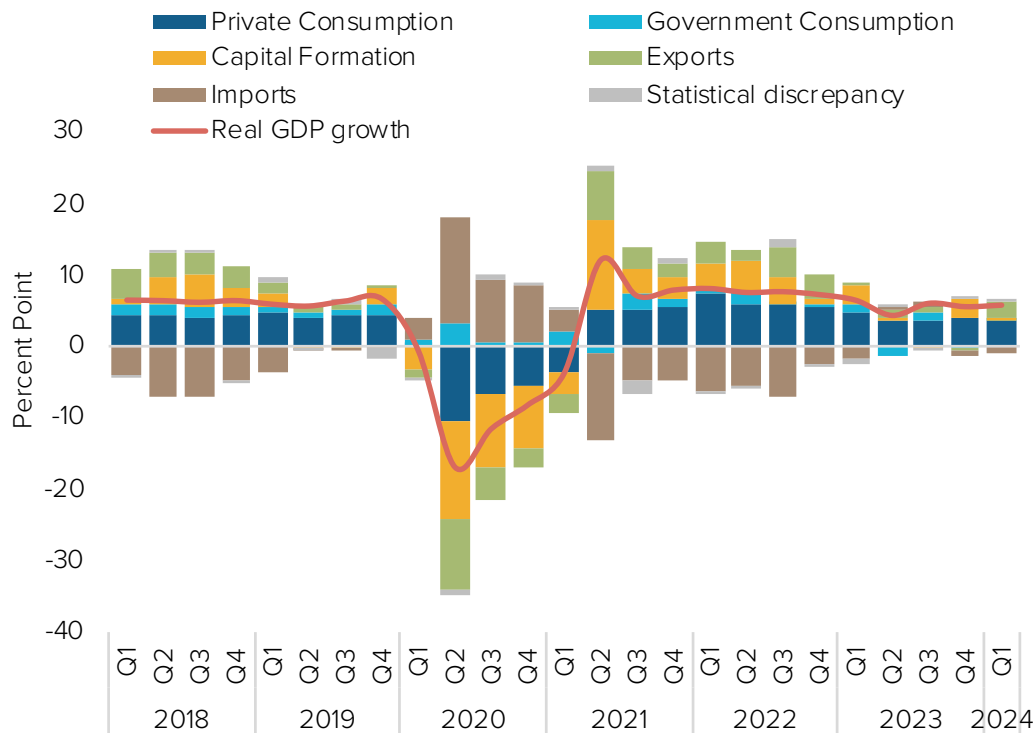
also supported rapid growth in accommodations and food services.

**The growth contribution of industry increased to 1.5 ppts (from 1.3 ppts in Q1 2023) while agriculture stagnated.**

The uptick in industry's growth contribution can be attributed to rebound in manufacturing activity, as its growth contribution approached the pre-pandemic level. Manufacturing benefited from a recovery in exports, particularly in the electronics sector, the country's main export

commodity. Industry growth was supported by robust public construction activity due to the government's commitment to keep infrastructure spending above 5.0 percent of GDP. Agriculture continued to have a negligible contribution to growth during the quarter due to the impact of El Niño<sup>10</sup> (Box 1) on crops and persistent disease outbreaks in the livestock subsector. The sector's performance continues to be dampened by its low productivity due to structural issues which include a lack of investment, innovation, and access to credit.

**Figure 4. The economic expansion was driven by resilient domestic demand.**

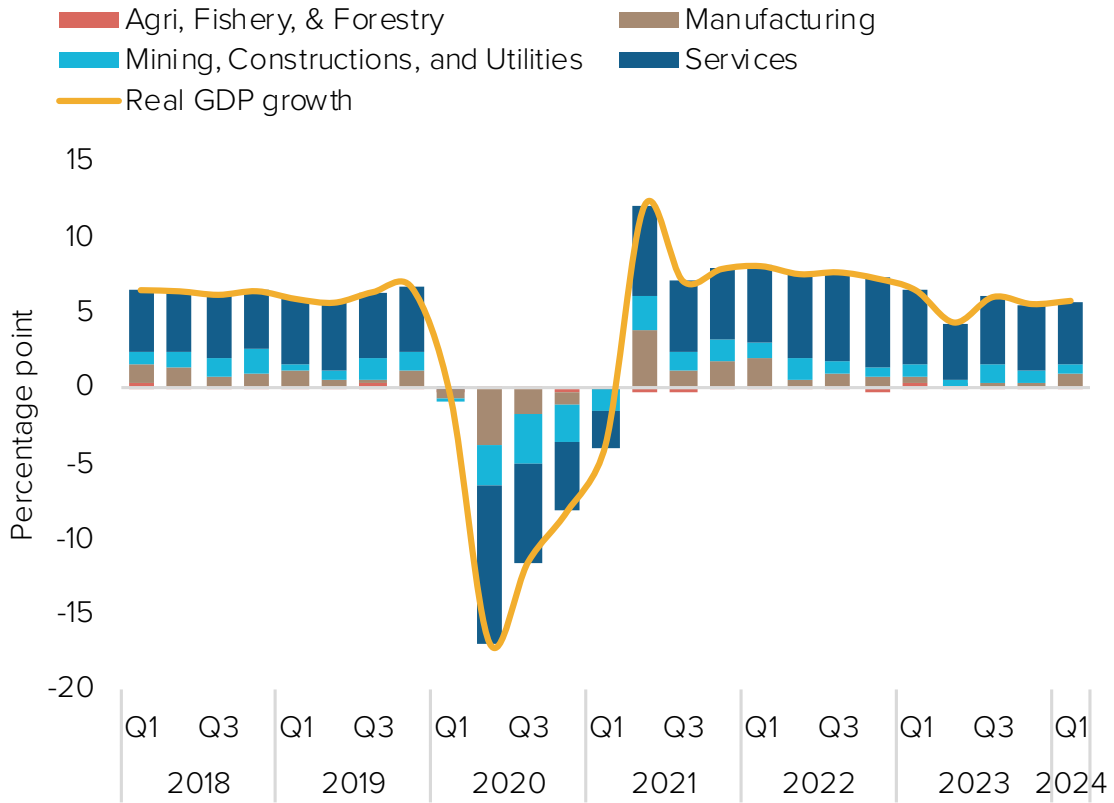


Source: Philippine Statistics Authority (PSA).

<sup>10</sup> The El Niño Southern Oscillation is a recurring climate pattern resulting from changes in water temperatures in the central and eastern tropical Pacific Ocean. During the El Niño phase, surface waters warm and easterly winds weaken. Thus, warm waters stay in the central and eastern side of the Pacific instead of being blown westward. The resulting cooler-than-normal surface waters in the western Pacific reduces evaporation and precipitation, causing hotter and drier conditions in Southeast Asia. The reverse happens during the La Niña phase, which brings increased rainfall.



Figure 5. The services sector remains the main contributor to output growth.



Source: PSA.



Photo: Shutterstock/Light Independent



## Box 1. The Impact of the El Niño phenomenon

**The Philippines experienced record-high temperatures due to climate change exacerbated by El Niño.** Mean temperatures in the country increased by 0.68°C between 1951–2015 because of climate change, which is also causing more frequent and extreme episodes of El Niño. In July 2023, the Philippine Atmospheric, Geophysical and Astronomical Services Administration declared the onset of El Niño which was felt most acutely during the 2024 hot dry season (March–May). Extreme heat prompted public health warnings, suspensions of in-person classes, and a surge in demand for electricity. By end-April, Metro Manila had recorded a new all-time high temperature of 38.8°C. By May, out of 84 provinces 61 experienced drought conditions while 17 faced dry spells (Panel 2 of Figure 6).

**Extreme heat can hamper economic activities, reduce productivity, and alter consumption patterns.**

The BSP estimates that a 1.0°C-increase in mean annual temperature reduces output growth by 0.37 percentage point (ppt) and increases inflation by a cumulative 0.46 ppt. Hotter and drier conditions have severely affected water supply and agricultural production. As of end-April 2024, agricultural losses from El Niño have amounted to US\$ 163 million with rice accounting for 48.5 percent of the total. Rice production in Q1 2024 fell by 2 percent and rice inflation exceeded 20 percent partly due to reduced local supply. Moreover, health risks from heat-related morbidity and mortality could reduce worker productivity and incomes particularly in climate-sensitive sectors such as agriculture, construction, and informal services. Increased El Niño/La Niña episodes exacerbated by climate change could have long-term implications for food security and redistribution of economic activities and incomes.

**The El Niño National Action Plan encapsulates government efforts to enhance resilience.** Short-term measures to address El Niño include close monitoring of water and energy supplies, timely repair and maintenance of infrastructure, and contingency and continuity plans across various government bodies. Meanwhile, demand management is centered on short-term efficiency and conservation measures through reduced water and energy consumption. In the medium- to long-term, the government recognizes the need to adopt climate-resilient crops and agricultural practices. Another focus is the development of new power generation and transmission facilities and bulk water sources and irrigation facilities. This is to be complemented by the upgrading of existing infrastructure and their operations and maintenance to reduce waste, while further promoting energy efficiency and conservation.

**The effects of El Niño and subsequent La Niña will continue to pose risks until 2025.** The lingering effects of El Niño along with below-normal rainfall associated with pre-developing La Niña are expected to delay the start of the rainy season. Dry conditions in June–July, the peak planting period for the second semester rice crop, could adversely affect supply and prices for the rest of the year. Above-normal rainfall by October could damage crops during the rice harvest season for the second semester and hinder the planting season (November–December) for the first semester crop. Such impacts could reduce supply and raise prices until the first half of 2025. With warmer waters during La Niña, typhoons are expected to become more intense and to develop more rapidly closer to land. Higher intensity and shorter lead times could increase damages to both crops and other assets, as well as heighten risk to human security and welfare.

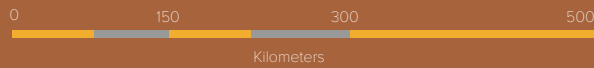
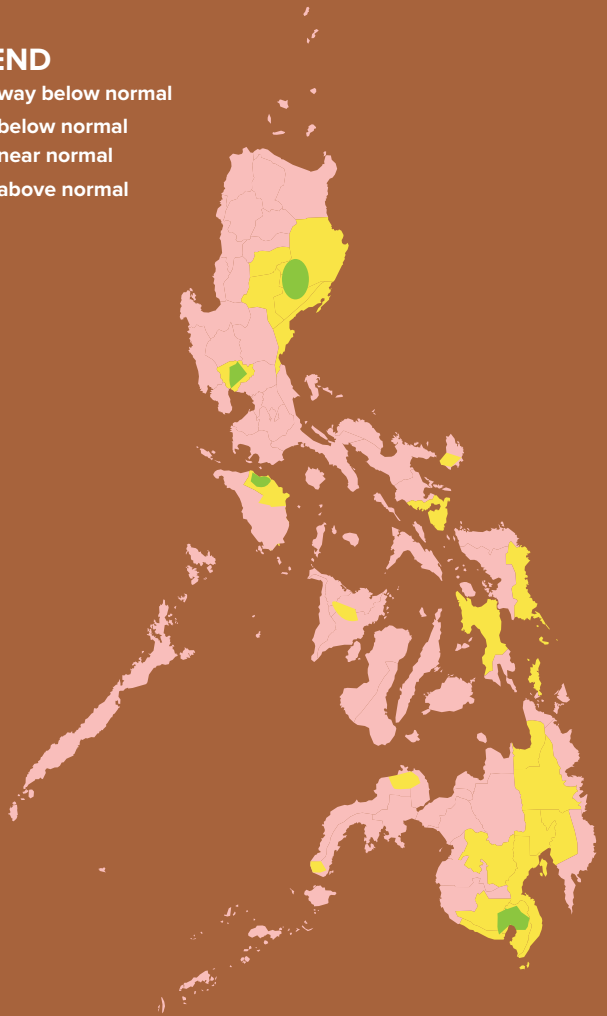


Figure 6. The latest El Niño episode has brought record-high temperatures and wide-spread drought across the country.

Percent of Normal (%N)  
APRIL 2024

LEGEND

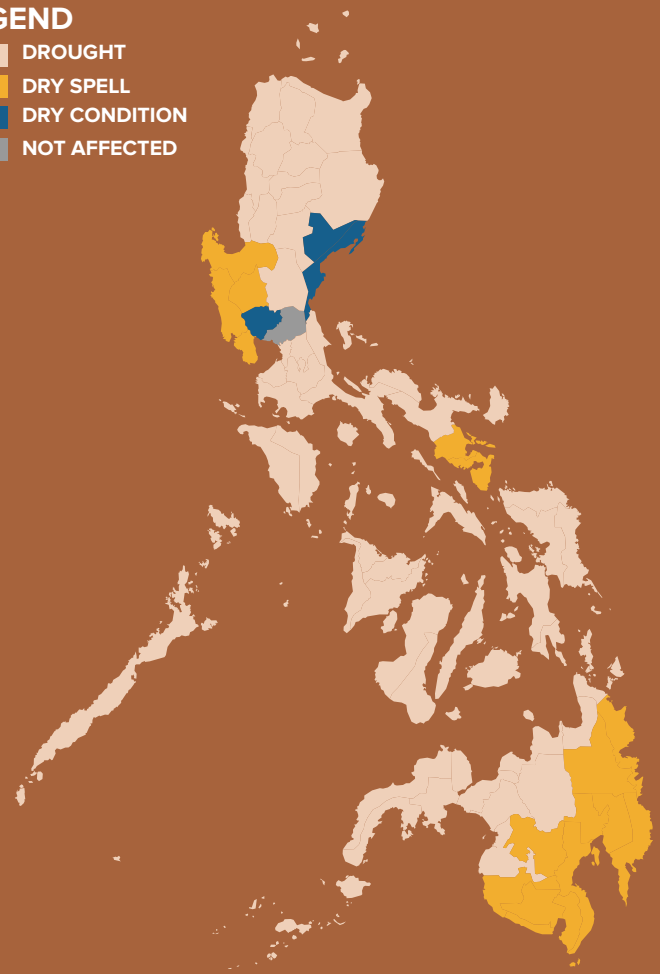
- 0-40% way below normal
- 41-80 below normal
- 81-120 near normal
- >120 above normal



DRY CONDITION/ DRY SPELL/  
DROUGHT ASSESSMENT  
as of May 19, 2024

LEGEND

- DROUGHT
- DRY SPELL
- DRY CONDITION
- NOT AFFECTED



NOTE: Based on Jan- May 2024 Actual Rainfall

Source: Lifted from PAGASA Climate Outlook Forum (May 2024).



## 1.3 Inflation and Monetary Policy: Persistent Upside Risks

*Inflation returned to within the target range as food and energy price increases softened. However, prices of staple commodities, such as rice, remain elevated and disproportionately impact poor households. Monetary policy remained tight in early 2024 to firmly anchor inflationary expectations as the government implements non-monetary measures to manage supply-side risks.*

### **Headline and core inflation returned to within the BSP's target range in the first four months of 2024.**

Inflation returned to within the central bank's target range, averaging 3.4 percent in the first four months of 2024 (7.9 percent over the same period in 2023). Consumer prices rose faster than in Indonesia (2.8 percent) and Thailand (-0.5 percent) but more slowly than in Viet Nam (3.9 percent). Food inflation eased due to a stable food supply and favorable base effects. The price of vegetables declined while meat, fruits, and fish recorded smaller price upticks. Similarly, utilities inflation slowed, driven partly by lower increases in rental prices,<sup>11</sup> a decline in electricity rates, and lower upticks in fuel prices. Transport inflation decreased due to gasoline and diesel price rollbacks and smaller increases in road and air fares. Core inflation, settled within the target range at 3.5 percent, on average, in the first four months of 2024 (7.8 percent during the same period in 2023). The decline in core inflation indicates waning underlying price pressures.

**However, a surge in rice prices continued to put pressure on headline inflation, while disproportionately impacting poor households.** Rice price inflation soared from 2.6 percent, on average, during the first four months of 2023 to 23.6 percent in the same period in 2024. As the Philippines is net importer of rice, local rice prices continued to soar due to high global prices,<sup>12</sup> but the impact of the ongoing El Niño and base effects also increased price pressures. Poor households are especially vulnerable to soaring rice prices, as rice

constitutes 17.9 percent of the consumption basket of households in the bottom 30 percent of the income distribution, much higher than an average of 8.9 percent for all households.

**In early 2024, the Bangko Sentral ng Pilipinas (BSP) maintained its tight monetary policy stance while the government implemented non-monetary measures to dampen price pressures.** After raising the key policy rate by 100 basis points in 2023, the BSP kept it steady at 6.5 percent through 2024 to firmly anchor inflationary expectations. The decision to maintain the policy rate was driven by the persistence of upside risks to inflation which include higher transport charges, elevated food prices, and second-round price effects. Meanwhile, the government continued to implement non-monetary interventions to combat upside risks to inflation. These include extending the reduced import tariffs on rice, corn, and meat, and providing support to vulnerable sectors. The government will also undertake measures to further streamline administrative procedures and address non-tariff constraints to importation of agricultural commodities. The government also secured a trade deal with Viet Nam to increase its rice supply.<sup>13</sup>

**The banking sector remains resilient, with adequate capital and liquidity, although exposure to non-financial corporates, especially in the commercial real estate sector, warrants close monitoring.** The system-wide non-performing loan (NPL) ratio

<sup>11</sup> A cap was imposed on rental rate increases to protect low-income tenants. Source: DHSUD. "National Human Settlements Board Resolution No. 2023-93." [https://dhsud.gov.ph/wp-content/uploads/Laws\\_Issuances/07\\_NHSB/NHSB%20Resolution%202023-03%20\(Rent%20Control\).pdf](https://dhsud.gov.ph/wp-content/uploads/Laws_Issuances/07_NHSB/NHSB%20Resolution%202023-03%20(Rent%20Control).pdf).

<sup>12</sup> Global rice prices increased in Q1 2024, particularly the Vietnamese 5% variety, which comprises most of the country's rice imports. The price of this variety climbed by 36.9 percent during this period (up from 13.8 percent in Q1 2023) to US\$608.40/mt. Likewise, other rice varieties from Thailand increased by more than 20 percent.

<sup>13</sup> The deal includes a guarantee of 1.5 to 2.0 million metric tons of rice per year for the next five years.

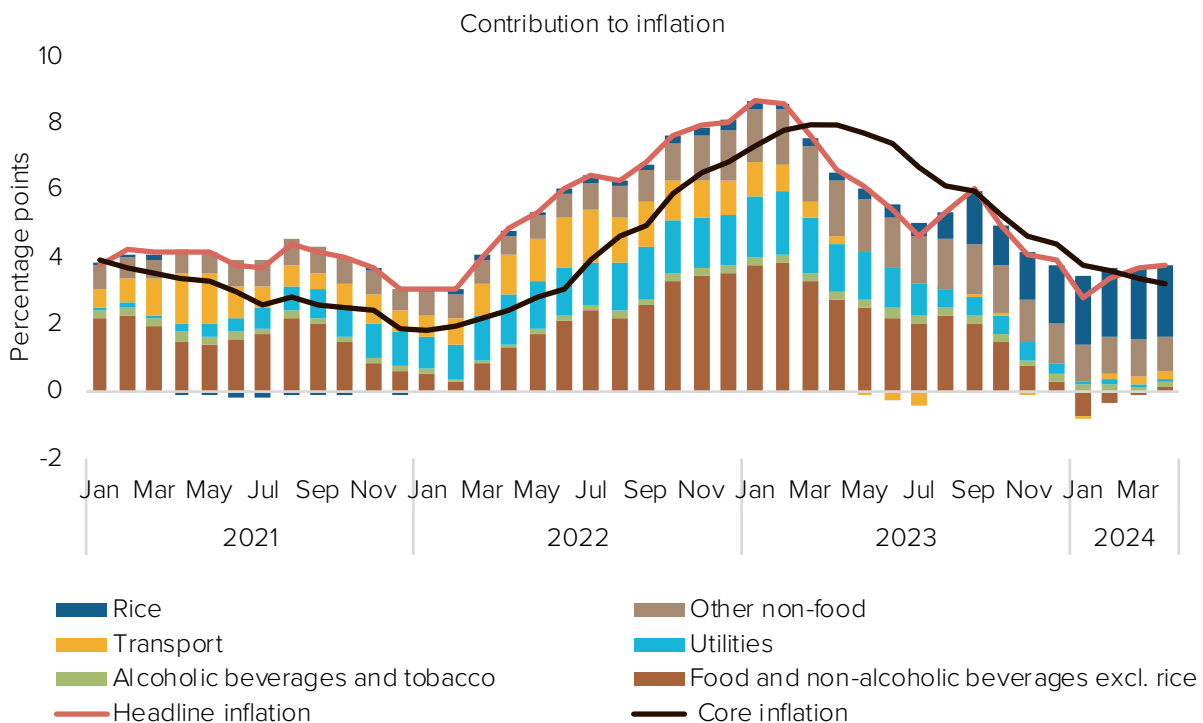


remained steady at 3.4 percent in January 2024, and NPLs are currently a more accurate measure of bank asset quality due to substantial progress in phasing out pandemic-era regulatory forbearance measures. Available data suggest that the banking sector has adequate buffers to withstand potential adverse shocks, as the capital adequacy ratio stands at 15 percent and provisions for NPLs at over 100 percent. Funding liquidity of the banking sector, the ability to repay deposits and other short-term liabilities, remains ample, as the loan-to-deposit ratio was 72 percent and liquid assets was 52 percent of deposits and short-term funding in January 2024. Given limited information on financial conglomerates and vulnerabilities in the real estate sector, linkages between the financial sector and non-financial corporates, especially in real estate, warrants close monitoring. For instance, about half of consumer NPLs are concentrated in the residential real estate sector.

**Credit growth increased in Q1 2023, driven by stronger demand for loans, more attractive financing offerings, and lower real interest rates.**

The overall demand for credit increased in Q1 2023, driven by a lower real interest rate and improving global business sentiment. Credit growth increased to 10 percent in end-March 2024, from 8.2 percent in end-December 2023. This was mainly driven by the broad-based increase in credit to production activities to 7.9 percent in end-March 2024 (5.8 percent in end-December 2023). Most sectors posted higher credit growth led by the real estate sector, electricity, and wholesale and retail trade. A BSP survey among bank officers reported a net increase in enterprises loan demand due to improved clients' expectations.<sup>14</sup> The growth of credit to households remained at above 20 percent for the 16th consecutive month in March 2024 to support increased household consumption and partly due to banks' favorable financing terms.<sup>15</sup>

**Figure 7. Inflation stayed within the target range but increased in the first four months of 2024.**



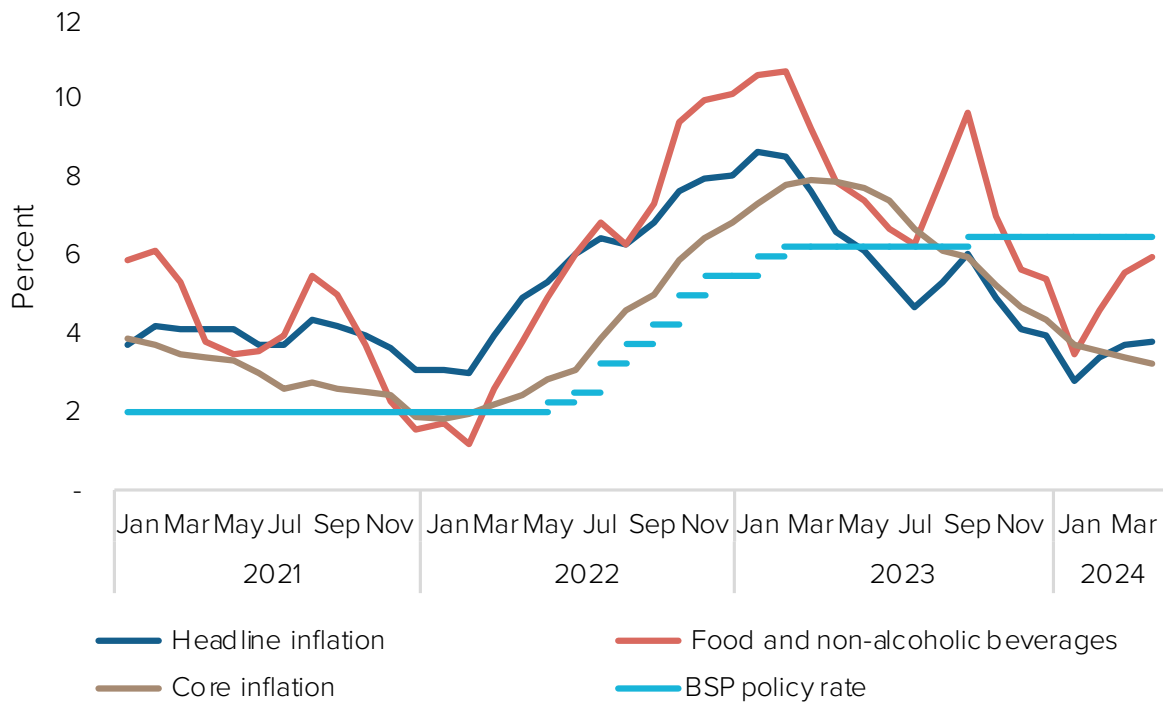
Source: PSA.

<sup>14</sup> Source: BSP's Q12024 Senior Bank Loan Officers' Survey (SLOS)

<sup>15</sup> Source: BSP's Q12024 Senior Bank Loan Officers' Survey (SLOS)



Figure 8. Monetary policy remained tight in the first four months of 2024, as upside risks to inflation persist.



Sources: BSP and PSA.



Photo: Shutterstock/Wara1982





## 1.4 External Sector: Weaker Imports and Continued Recovery in Tourism

*The current account (CA) deficit declined in 2023 due to a narrower merchandise trade deficit and twofold increase in tourism receipts. Meanwhile, net financial inflows rose amid higher borrowings from abroad. The smaller CA deficit and higher net financial inflows led to a balance of payments (BOP) surplus in 2023.*

### **The CA deficit declined from 4.5 percent of GDP in 2022 to 2.6 percent of GDP in 2023 amid weaker imports and continued recovery of tourism.**

The merchandise trade deficit narrowed by 2.1 ppt of GDP in 2023 as imports declined at a faster pace than exports (Figure 9). Merchandise exports shrank due to tepid global demand for electronic products, the country's main export product. However, merchandise imports contracted at a faster pace due to lower global oil prices, lower demand for materials used in manufacturing electrical products, and slower investment growth. Meanwhile, the services trade surplus grew from 3.9 percent of GDP in 2022 to 4.4 percent 2023, driven by the doubling of tourism receipts and robust growth in the information technology-business process outsourcing (IT-BPO) sector. Personal remittances from overseas Filipino workers (OFWs) reached a record high of US\$37.2 billion (8.5 percent of GDP) in 2023, driven by an all-time high deployment of OFWs.

### **Higher borrowings from abroad fueled growth in net financial inflows from 3.4 percent of GDP in 2022 to 3.5 percent in 2023.**

Net inflows of other investments rose by 72.7 percent, yoy, in 2023 amid increased external borrowing by local banks (US\$2.1 billion), non-financial corporations (US\$2.7 billion), and the national government (US\$4.8 billion). Foreign direct investment (FDI) declined from 2.3 percent of GDP in 2022 to 2.0 percent of GDP in 2023 as investors remained risk averse amid slower global growth and

tight global financial conditions. FDI inflows continue to be mainly consisted of investments in manufacturing, wholesale and retail trade, and real estate industries. Meanwhile, portfolio investments recorded a reversal from net inflows to net outflows in 2023, driven by higher investments of non-financial corporations in foreign equities. The narrower CA deficit and higher net financial inflows led to a BOP surplus of 0.8 percent of GDP in 2023, a reversal from a deficit of 1.8 percent of GDP in 2022 (Figure 10).

### **The Philippine peso weakened between March 2023 and March 2024, depreciating against the US dollar by 1.9 percent.**

The weaker peso was driven by fears of delays in rate cuts by the US Federal Reserve due to persistent US inflation, rising global oil prices, and concerns related to the country's trade deficit. The peso generally tracked the movements of its peers in the region (Figure 11). In real effective terms, the Philippine peso appreciated by 2.9 percent against a basket of currencies of its major trading partners due to higher domestic inflation.<sup>16</sup> Meanwhile, gross international reserves reached US\$104 billion in March 2024 (7.7 months of imports). In January 2024, the BSP announced its plans to develop a foreign exchange intervention framework that would limit its response during times of stress and extreme volatility to ensure a market-based approach. It also plans to ease foreign exchange rules and regulations covering foreign currency loans, inward investment, and other transactions to promote investments in the country.<sup>17</sup>

<sup>16</sup> The real effective exchange rate index measures the external price competitiveness of domestic goods against major trading partners. The basket used includes the currencies of the following trading partners: Australia, European Union (euro area), U.S., Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and the U.A.E.

<sup>17</sup> Planned measures include implementing a waiver of charges on registration, relaxing the requirement of BSP approval of non-trade current-account transactions, and streamlining documentary requirements.

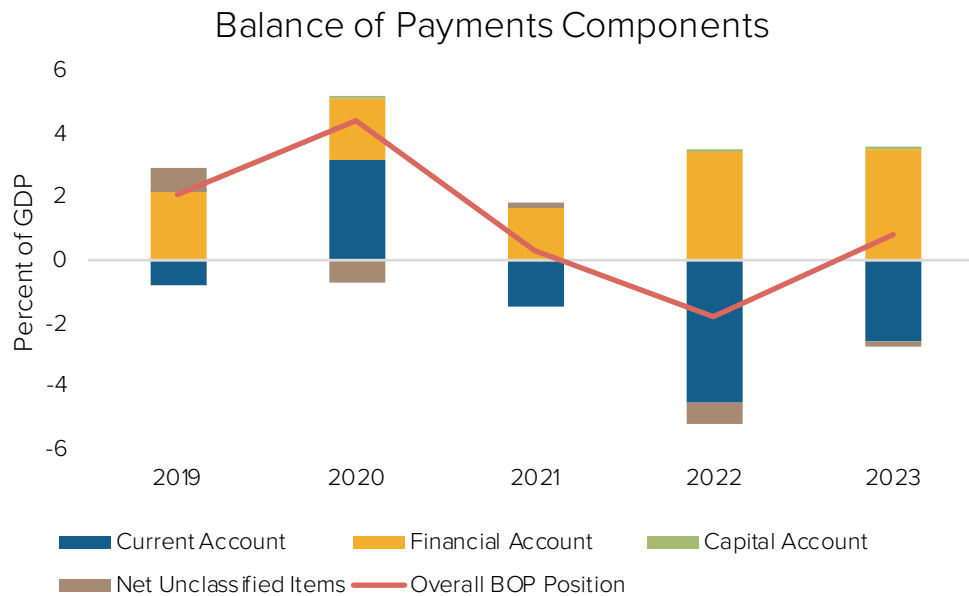


**Figure 9. Merchandise imports declined in 2023 amid lower oil prices and weaker demand for materials used in manufacturing of electrical products.**



Source: BSP.

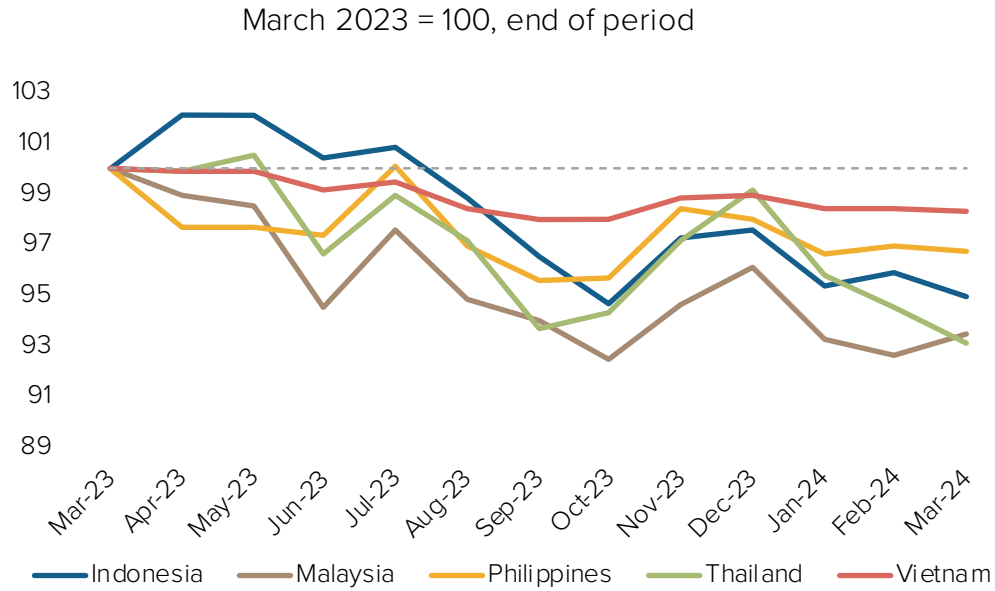
**Figure 10. A narrower CA deficit and higher financial inflows led to a BOP surplus in 2023.**



Source: BSP.



Figure 11. The Philippine peso, along with the currencies of regional peers, has depreciated since March 2023.



Sources: Haver Analytics; various central banks.



Photo: Shutterstock/joshimerbin



## 1.5 Fiscal Sector: Steady Progress

*The fiscal deficit narrowed in Q1 2024 led by the increase in public revenues. Public spending inched up slightly, owing to strong growth in public investment spending. As a result, national government debt remained steady at 60.2 percent of GDP by the end of March 2024.*

**The fiscal deficit narrowed in Q1 2024 due to a larger increase in public revenues relative to the increase in public spending (Figure 12).** Public revenues increased from 14.6 percent of GDP in the first quarter of 2023 to 15.3 percent of GDP in the same period in 2024, owing to higher tax revenues (Table 1). Meanwhile, spending rose by 0.3 ppts of GDP in the first quarter of 2024, mainly due to higher capital outlays and an increase in interest payments.<sup>18</sup> As a result, the fiscal deficit narrowed to 4.5 percent of GDP in the first quarter of 2024 (4.8 percent of GDP in Q1 2023). Meanwhile, national government debt marginally increased from 60.1 percent of GDP by end-2023 to 60.2 percent of GDP by the end of March 2024 (Figure 13) amid an increase in the public borrowing requirement. The country's debt metrics remain sustainable, as total debt is mostly long-term (79.4 percent), peso-denominated (68.1 percent), and from domestic sources (68.9 percent).

**Public revenue increased in Q1 2024, led by robust growth in tax revenues and supported by an increase in dividend remittances from government owned and controlled corporations (GOCCs).** Revenue collections rose by 0.7 ppt of GDP from Q1 2023 to Q1 2024, of which over 70 percent was due to an increase in tax revenue. Collections by the Bureau of Internal Revenue (BIR) increased due to healthy private consumption

and benefitted from a temporary adjustment in the schedule of Value-added tax (VAT) collections from monthly to quarterly payments.<sup>19,20</sup> As a result, delayed VAT collections for Q4 2023 were reflected in January 2024. However, tax revenues from the Bureau of Customs shrunk by 0.2 ppt of GDP, owing to softer import growth during the quarter. In addition, public revenues received a substantial boost from dividend remittances from GOCCs, boosting non-tax revenues by 0.2 ppt of GDP.

**Public spending inched up in Q1 2024 mainly due to an increase in capital outlays.** Disbursements increased from 19.4 percent of GDP in Q1 2023 to 19.7 percent of GDP in Q1 2024. Current expenditures rose slightly by 0.1 ppt of GDP as the increase in interest payments more than offset the reduction in personnel services and maintenance spending in Q1 2024. The reduction in personnel services and maintenance spending was driven by ongoing fiscal consolidation. Meanwhile, capital outlays increased by 0.2 ppt of GDP in Q1 2024, driving the increase in disbursements. The increase in capital outlays was buoyed by higher capital transfers to local government units (LGUs), which led to the expansion of total fiscal transfers to LGUs. While LGUs continue to receive an increase in fiscal transfers, their ability to utilize their budget remains a concern (Box 2).

<sup>18</sup> Following Section 284 of the Local Government Code of 1991 and the Mandanas Ruling of 2019, LGUs are entitled to a 40 percent share in national taxes based on the collection of the third fiscal year preceding the current fiscal year. Therefore, the 2023 national tax allotment to LGUs was determined using tax collections in 2020, which saw revenues plummet due to the adverse impact of the COVID-19 pandemic on the economy.

<sup>19</sup> The schedule of VAT collection payments was shifted from monthly to quarterly. The deadline for Q4 2023 VAT payments to the BIR is January 2024.

<sup>20</sup> The adjustment in the schedule of VAT collection payments has been mandated by the 2019 TRAIN Law.

**Table 1. Fiscal Performance, January-March 2023 and 2024<sup>21</sup>**

Particulars	January to March			
	2023	2024	Change (ppts)	Change (%)
<i>In percent of GDP, unless otherwise stated.</i>				
REVENUES	14.6	15.3	0.7	4.8
Tax Revenue	12.9	13.4	0.5	3.7
Non-Tax Revenue	1.6	1.9	0.2	13.8
EXPENDITURES	19.4	19.7	0.3	1.8
Current Operating Expenditures	14.9	15.0	0.1	0.7
Personnel Services	5.3	5.1	(0.2)	-3.9
Maintenance and Other Operating Exp.	3.5	3.2	(0.2)	-6.4
Subsidy	0.4	0.3	(0.1)	-15.4
Allotment to LGUs	3.2	3.1	(0.1)	-2.0
Interest Payments	2.5	3.2	0.6	24.9
Tax Expenditure	0.1	0.1	0.0	36.8
Capital Outlays	4.5	4.7	0.2	5.7
Infrastructure / Other Capital Outlays	3.5	3.5	0.0	1.3
Equity	0.0	0.0	0.0	83.8
Capital Transfers to LGUs	1.0	1.2	0.2	21.6
Net Lending	0.0	(0.0)	(0.0)	-176.6
SURPLUS / (DEFICIT)	(4.8)	(4.5)	0.4	-7.5

Sources: Bureau of the Treasury (BTr); Department of Budget and Management (DBM).

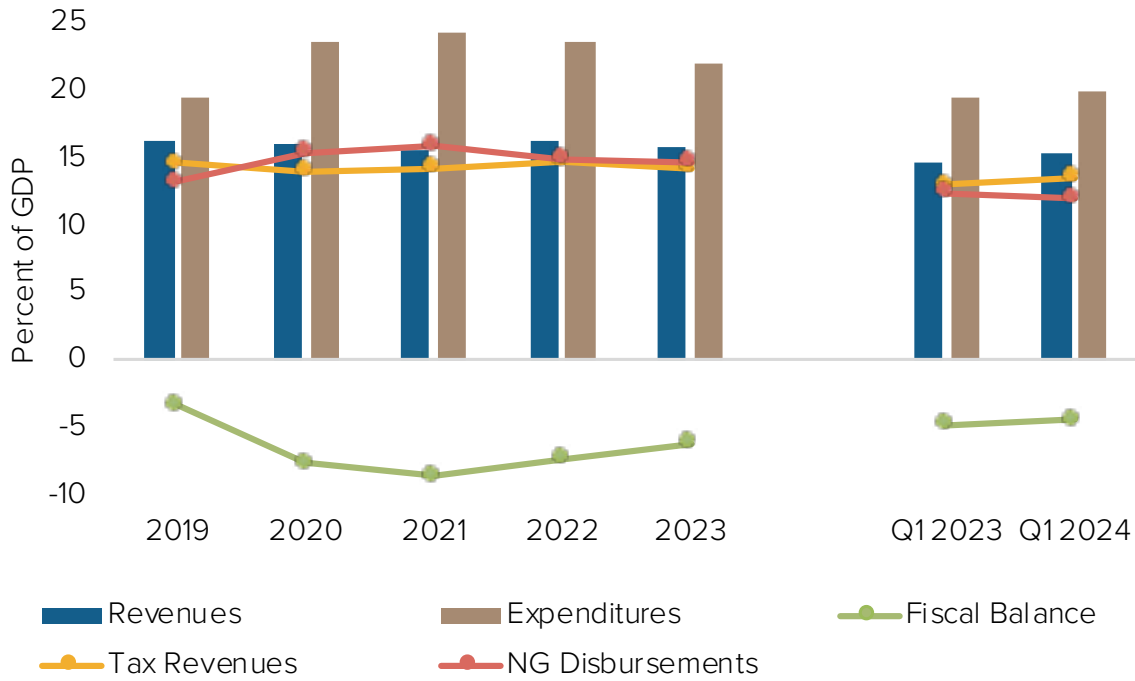


Photo: Shutterstock/at.rma

<sup>21</sup>The mid-year program is based on the approved Quarterly Fiscal Program by the Development Budget Coordination Committee (DBCC) during their 184th meeting held on April 24, 2023.

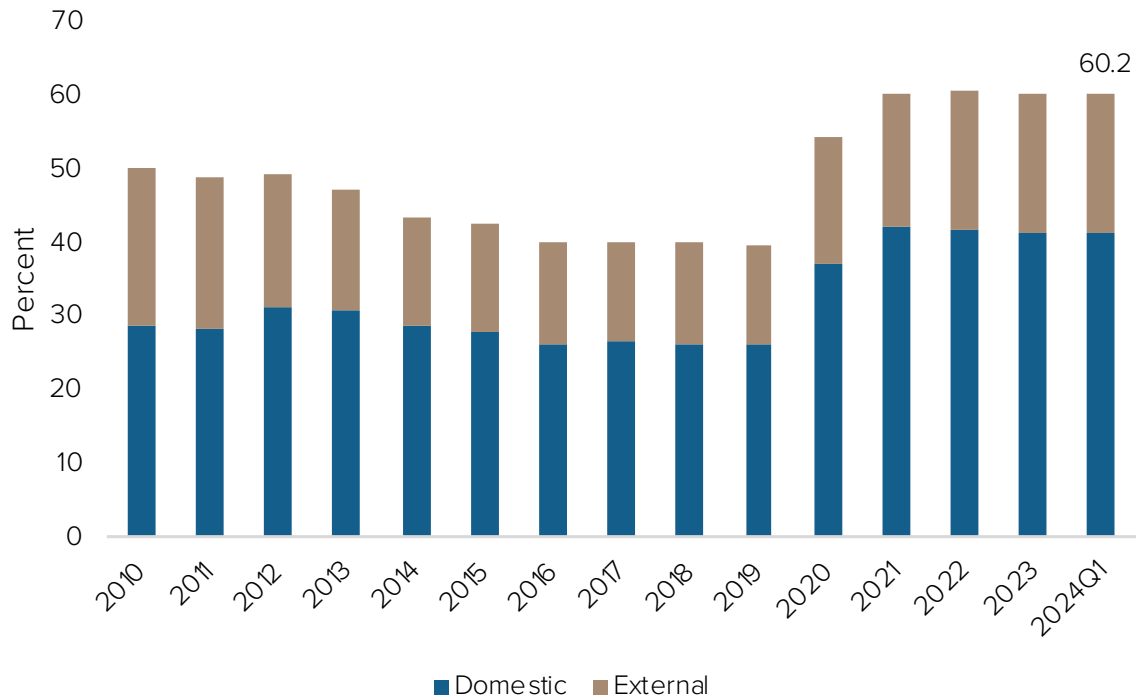


**Figure 12. The increase in public revenue narrowed the fiscal deficit.**



Source: BTr.

**Figure 13. Public debt marginally increased while the fiscal deficit narrowed.**



Source: BTr.



## Box 2. The Mandanas Ruling: An Update Of Fiscal Outcomes for LGUs

**The expansion of LGU budgets due to an increase in fiscal transfers in 2022 led to a significant increase in underspending.** National Tax Allotments (NTAs) increased by around 0.8 percent of GDP in 2022, as a result of the Mandanas-Garcia Ruling.<sup>22</sup> The increase in fiscal transfers led to an increase in LGU budgets by 1.8 ppts of GDP (Table 2). However, spending remained steady at 4.5 percent of GDP as underspending rose significantly by Php447 billion (1.8 percent of GDP). The inability of LGUs to fully utilize its budget can be attributed to the lack the manpower and technical capacity to properly plan, prepare, implement, and monitor projects and services. This limitation is reflected in underspent budgets as measured by the execution rate, which declined by 14.4 ppts from 67.8 percent in 2021 to 53.4 percent in 2022.

**The increase in LGU budgets was directed towards recurrent spending, while the budget for capital outlays shrunk.** Local government budgets for Personnel Services (PS) and Maintenance and Other Operating Expenditures (MOOE) increased by around 1 ppt of GDP each in 2022. However, budget utilization by LGUs fell, as LGUs did not have the absorptive capacity to implement the large influx of resources (Figure 14). For instance, expenditures in PS and MOOE increased by only 0.1 ppt of GDP each, despite a 1 ppt of GDP increase in their budgets. As a result, these saw significant

drops in execution rates, which may be attributed to the manpower shortages and bottlenecks in PFM processes such as procurement. Meanwhile, the allocation for Capital Outlays (CO) marginally decreased (0.1 ppt of GDP from 2021 to 2022), but its budget execution still worsened. This reflects LGUs' weak planning and implementation capacity, especially in long-term projects that are complex, capital-intensive, and require the involvement of several authorities.

**Most of the additional resources went to General Public Services (GPS), and spending performance varied across sectors.** Of the 1.8 ppt of GDP in additional budget, 1.5 ppt of GDP was allocated to GPS, mostly for MOOE (Figure 15). As a result, 0.3 ppt of GDP in additional budget was allocated between sectors such as economic services, health, and social welfare services.<sup>23</sup> The residual budget mostly went to the education sector for school infrastructure support and social services including livelihood projects and relief operations.<sup>24</sup> The budget execution rate for GPS plummeted by 29.6 percentage points, resulting in the sector experiencing the lowest budget utilization (Table 3). In contrast, the education sector had a 0.1 ppt of GDP-increase in budget, but it saw an improvement in budget execution rate. Meanwhile, health and economic services each registered a 0.1 ppt of GDP-decrease in budgets, but their execution rates worsened.

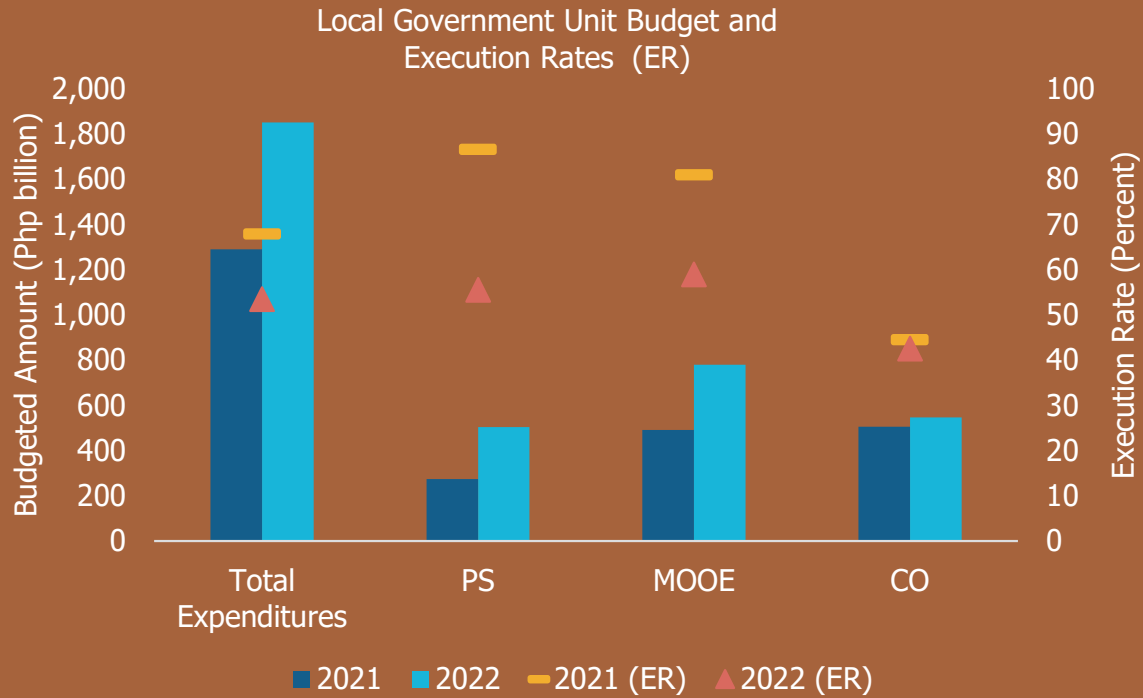
<sup>22</sup> In April 2019, the Supreme Court (the Mandanas Ruling) confirmed its decision to increase the share of national government tax revenue transferred to LGUs to strengthen decentralization. The programmed increase in transfers was implemented in 2022. <sup>23</sup>

<sup>23</sup> The health sector, which had the highest number of devolved services listed in the Devolution Transition Plans, recorded a decline in budget allocation by 0.1 percent of GDP from 2021 to 2022. In addition, economic services, which include agricultural extension and on-site research as well as water resources development and flood control, also registered a similar budget cut.

<sup>24</sup> Section 17 of the Local Government Code.

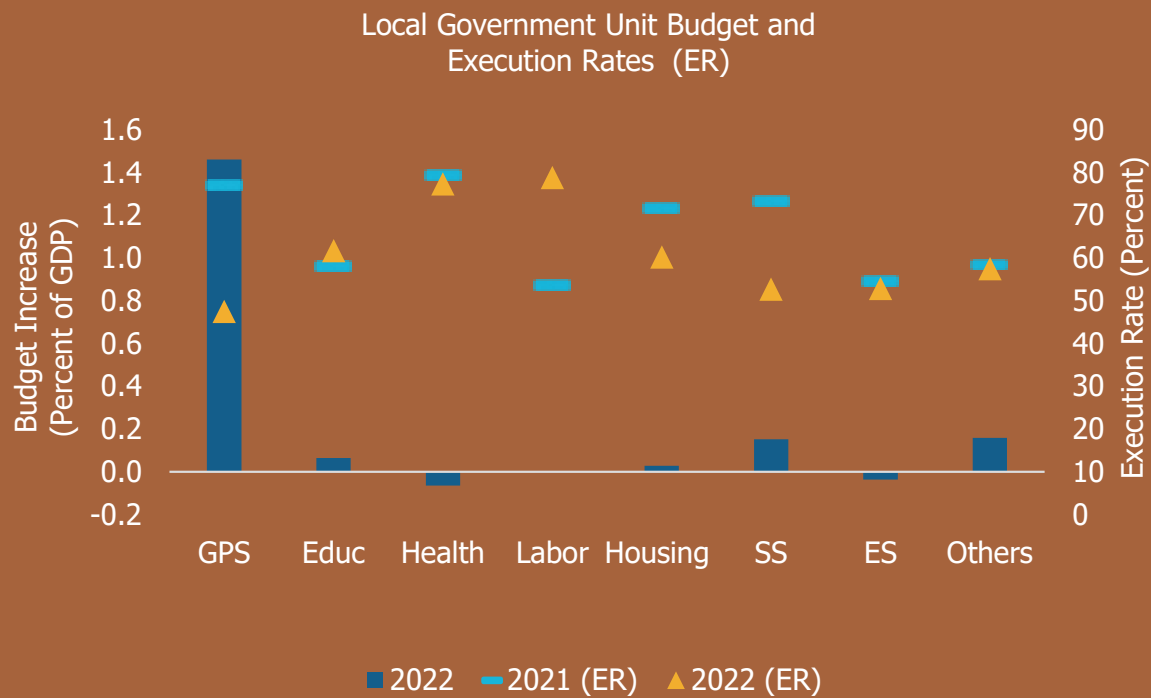


**Figure 14. Underspending rose despite larger budgets.**



Source: DBM.

**Figure 15. Local government budgets increased mostly for GPS**



Source: DBM.



**Table 2. Current operating income of LGUs increased as a result of higher intergovernmental fiscal transfers.**

Particulars (as percent of GDP unless otherwise stated)	Budgeted Amounts		Actual Amounts		Budget execution rate	
	2021	2022	2021	2022	2021	2022
TOTAL APPROPRIATIONS	6.6	8.4	4.5	4.5	67.8	53.4
Personal Services	1.4	2.3	1.2	1.3	86.6	55.5
Maintenance and Other Operating Expenses	2.5	3.5	2.0	2.1	80.9	58.9
Capital Outlay	2.6	2.5	1.2	1.1	44.5	42.5
Others	0.1	0.1	0.1	0.1	83.0	84.1

Source: DBM.

**Table 3. The budget execution of devolved sectors recorded significant declines.**

Particulars (as percent of GDP unless otherwise stated)	Budgeted Amounts		Actual Amounts		Budget execution rate	
	2021	2022	2021	2022	2021	2022
EXPENDITURES	6.6	8.4	4.5	4.5	67.8	53.4
General Public Services	2.5	4.0	1.9	1.9	77.1	47.5
Education	0.3	0.4	0.2	0.3	58.1	61.8
Health, Nutrition and Population Control	0.6	0.5	0.5	0.4	79.4	77.4
Labor and Employment	0.0	0.0	0.0	0.0	53.6	78.8
Housing and Community Development	0.1	0.1	0.1	0.1	71.6	60.3
Social Services and Social Welfare	0.4	0.5	0.3	0.3	73.4	52.7
Economic Services	1.1	1.0	0.6	0.5	54.6	52.9
Other Purposes	1.6	1.8	0.9	1.0	58.4	57.5

Source: DBM.



## 1.6 Employment and Poverty: More Filipinos Find Work amid Efforts to Improve the Quality of Jobs

*In recent months, the labor market showed signs of improvement—the unemployment rate declined, women’s labor force participation remained within target, employment increased, and indications of a shift from informal to formal jobs were evident.*

**Unemployment continued to decline, while labor force participation remained fairly stable.** The national unemployment rate declined from 4.7 percent in March 2023 to 3.9 percent in March 2024 (Figure 17), reflective of the country’s progress in job creation. The youth unemployment rate decreased from 10.2 percent to 8.7 percent during the same period, suggesting a continued recovery from the lingering effects of the pandemic and natural disasters. Meanwhile, labor force participation rate (LFPR) steadied between March 2023 and 2024, as the country sustained its efforts to increase LFP of vulnerable sectors, including young people and women.<sup>25</sup> Women’s LFPR continued on its upward trend to 55.1 percent in March 2024 (Figure 16), exceeding the 52-54 percent target range set in the Philippine Development Plan (PDP) 2023-2028. The PDP aims to implement strategies to support women’s labor force participation, including mainstreaming gender competencies, promoting entrepreneurship, and digital skills training.

**There were net job losses in the agriculture sector, while there was net job creation in the industry and services sectors.** Between February 2023 and February 2024, net job creation reached about 572,000, mirroring the economic expansion in Q1 2024. Job creation was led by the services and industry sectors, which contributed 1.4 million net jobs. The industry sector, particularly construction and

manufacturing, significantly contributed to the increase in jobs, fueled by robust domestic activity. However, the agriculture sector lost about 1.3 million jobs, as the typhoon season and onset of El Niño affected agricultural production.<sup>26,27</sup>

**A higher share of low-quality jobs persists, but there are indications of a shift from informal to formal jobs.** The share of elementary jobs, characterized by low and irregular pay, continued to dominate the labor market at 27.2 percent of total employment in March 2024, although the share fell from 29.8 percent in March 2023. The share of technical occupations, including managers, professionals, technicians, and associate professionals, remained steady at 13.5 percent. Meanwhile, the underemployment rate remained almost unchanged (11.2 percent in February 2024 compared to 11.0 percent in March 2024). The underemployment rate is an indication of workers’ desire to work more amid the continued dominance of low quality jobs and challenges of a skills mismatch.<sup>28</sup> However, the share of wage and salary workers among the employed increased (from 61.6 to 64.2 percent in the same period), while the share of self-employed (own account) and unpaid workers decreased (from 37 percent to 35 percent). This pattern suggests a movement away from informal and low-productivity jobs to more formal employment.

<sup>25</sup> NEDA, 2024, As Labor Market Improves, Neda Continues Pushing for Enabling Policies Toward Robust Quality Jobs, Available online: <https://neda.gov.ph/as-labor-market-improves-neda-continues-pushing-for-enabling-policies-toward-robust-quality-jobs/>

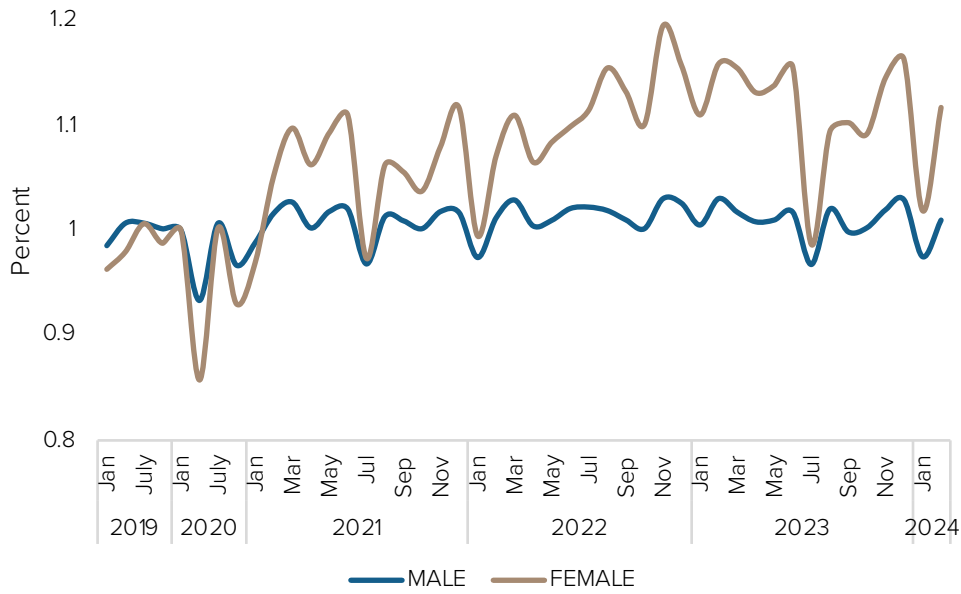
<sup>26</sup> GMA Integrated News, 2023, Super typhoons among 11 tropical cyclones that hit PH in 2023, December 26, Available online: <https://www.gmanetwork.com/news/scitech/weather/892391/super-typhoons-among-11-tropical-cyclones-that-hit-ph-in-2023/story/>

<sup>27</sup> UN Office for the Coordination of Humanitarian Affairs, 2024, Philippines: 2023 Significant Natural Hazards and Conflicts Snapshot, 12 January, Available online: <https://reliefweb.int/report/philippines/philippines-2023-significant-natural-hazards-and-conflicts-snapshot-12-january-202422>

<sup>28</sup> R. Gita-Carlos, 2023, PBBM backs proposed body to solve jobs, skills mismatch problems, May 19, Available online: <https://www.pna.gov.ph/articles/1201799>



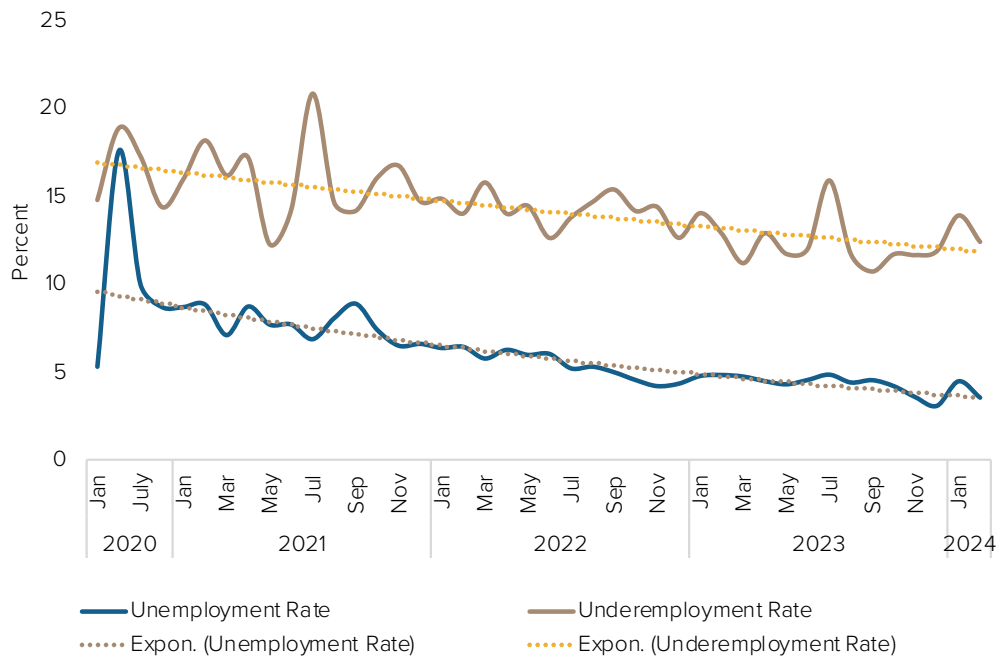
**Figure 16. Changes in women’s labor force participation show an upward trend...**



Sources: PSA, Labor Force Survey (LFS) (various rounds).

Note: Starting in February 2021, the LFS is conducted monthly to produce more timely data. Data show a normalized LFPR (January 2020=1).

**Figure 17. ... while the unemployment rate has gradually decreased.**



Sources: PSA, Labor Force Survey (LFS) (various rounds).

Note: Starting in February 2021, the LFS is conducted monthly to produce more timely data. Data show a normalized LFPR (January 2020=1).



Photo: World Bank

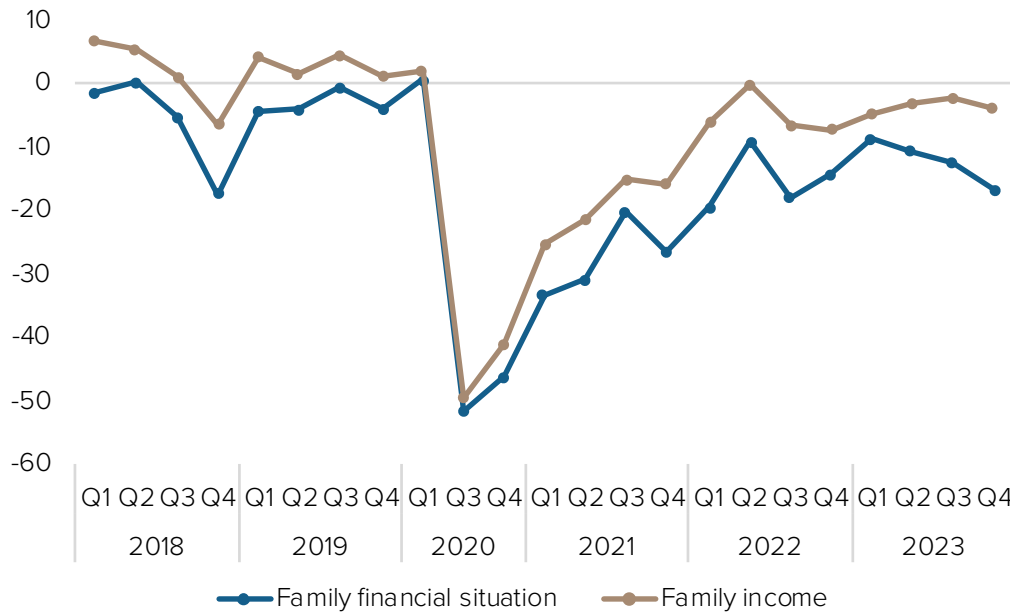
**Households remain optimistic about their incomes but continue to face financial pressures.** Results from 2023 Fourth Quarter Consumer Expectations Survey (CES)<sup>29</sup> show that households' perception of their current welfare status continues to improve (Figure 18). The index of family income inched up from -7.4 in 2022 to -4.1 in 2023, supported by improving labor and employment conditions as the economy continued to recover and more household members were contributing to the family income. However, households that conveyed pessimism about their current financial situation were more than those that felt they were better off, as

evidenced by the family situation index sliding from -16.9 in Q4 2023 to -8.7 in Q1 2023. This was likely due to lingering pressures from rising food and fuel prices. Details from the CES also show that households from higher income groups are recovering faster than the rest, as indices on both households' financial and income situation were far more optimistic at 7.4 and -2.7, respectively, in Q4 2023 (from -2.1 and -4.0, respectively, in the previous year). Estimates from recently released first-semester household survey data for 2023 mirror these perceptions, with poverty moderating but still higher than pre-pandemic levels (Figure 19).

<sup>29</sup> The CES is a quarterly BSP survey of a random sample of about 5,000 households in the Philippines. Results provide advance indication of consumer sentiments for the current and next quarters and for the next 12 selected economic indicators.

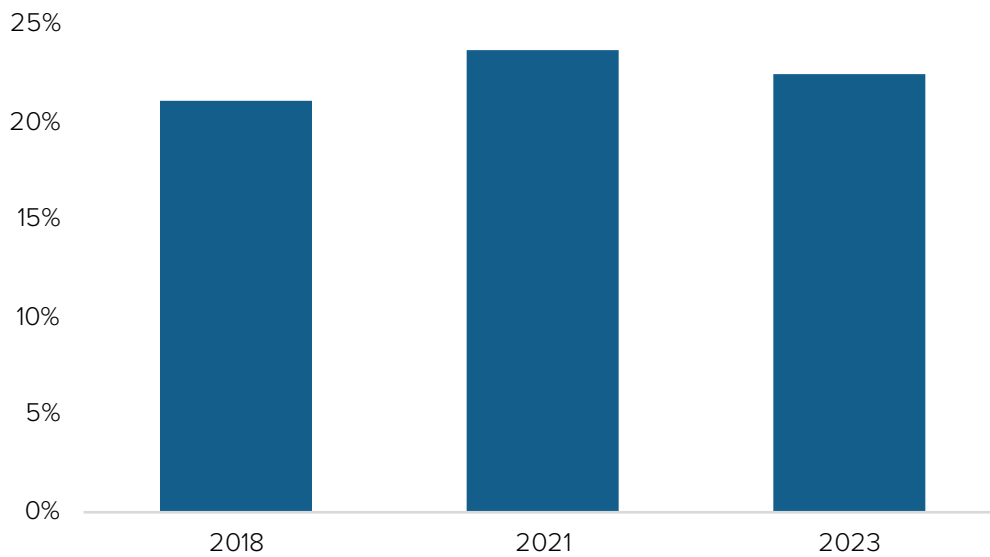


**Figure 18. Welfare perceptions have been improving.**



Source: Fourth Quarter 2023 Consumer Expectations Survey, BSP.

**Figure 19. The first semester poverty incidence fell between 2021 and 2023.**



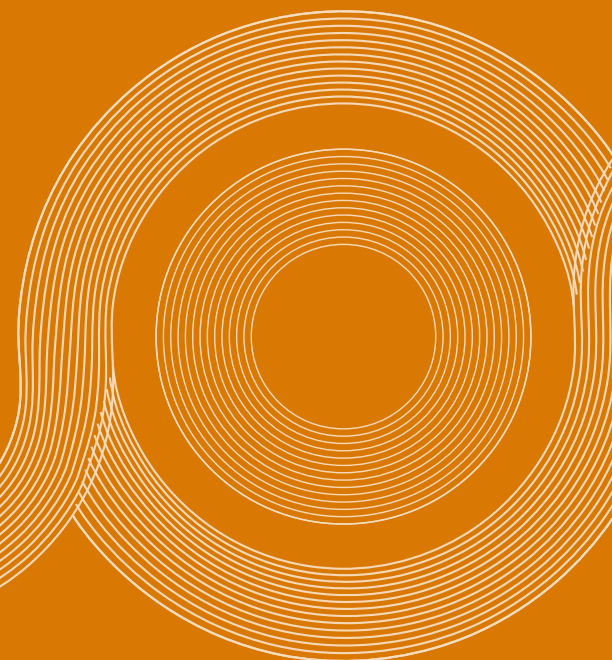
Sources: First Semester 2023 Family Income and Expenditure Survey, PSA.



Photo: World Bank

# PART 2

## Outlook and Risks





## 2.1 Growth Outlook

### *Global Growth*

**The global growth outlook remains subdued, driven by the impact of still cautious monetary easing, and weak global trade and investment.<sup>30</sup>** While global growth will remain broadly similar in 2024, it is expected to pick up in 2025 and 2026, anchored on improving trade and a measured normalization in monetary policy. Growth in advanced economies is expected to slow to below pre-pandemic levels as domestic demand softens in the euro area and Japan. Low growth will mainly be driven by restrictive credit conditions, the lagged effect of tight monetary policy, and trade and investment restrictions moderating these cross-border flows. Meanwhile, growth in EMDEs is expected to remain steady, although at a pace lower than pre-pandemic levels. Growth is projected to slow in China due to weaker consumption growth despite an expected improvement in trade and industrial activity. Excluding China, EMDE growth is expected to remain at nearly 4 percent yoy. EMDE growth is expected to increase in 2025-2026 due to the normalization of monetary policy, outweighing the impact of fiscal consolidation on growth prospects.

**Global trade growth is expected to remain weak but will pick up in 2024, tracking global output growth.**

Global trade growth is projected to recover, increasing to above 2.0 percent yoy in 2024 and averaging above 3.0 percent in 2025-2026. The rebound in global trade activity reflects an expected improvement in goods trade and the partial normalization of trade patterns following exceptional weakness in 2023. Meanwhile, services trade growth is projected to inch towards its pre-pandemic pace. Stable growth in services exports will continue to be supported by the recovery of international tourism to its pre-pandemic levels beginning in 2024. Despite the improvement, global trade growth will be well below its pre-pandemic levels – mirroring the subdued global growth prospects between 2024-2026.

**Globally, slowing inflation is expected to lead to a normalization in monetary policy, albeit at a more measured pace than previously anticipated.** Global inflation is expected to decline in 2024-2025 due to weak global demand and slightly lower commodity prices. Subdued demand reflects the effects of tight monetary and credit conditions as well as softening labor markets. Lower inflation is expected to lead to subsequent easing of policy rates in advanced economies and the continuation of monetary easing across EMDEs. However, policy easing is likely to proceed at a more measured pace as policy makers remain committed to price stability and as the decline in core inflation has slowed.

### *Country Outlook*

**Economic growth in the Philippines is projected to average 5.9 percent per year over the medium term anchored on robust domestic demand, strong services growth, and improved trade (Figure 20 and Table 4).** This projection remains unchanged from the April 2024 forecast published in the East Asia and Pacific Economic Update.<sup>31</sup> The positive outlook over the medium-term hinges on containing inflation and transitioning toward a more accommodative monetary policy, which will support private domestic demand. Despite ongoing fiscal consolidation, public investment will likely be above 5.0 percent of GDP and remain supportive of growth. Meanwhile, export demand is projected to strengthen over the forecast horizon, led by robust services exports (e.g., in tourism and IT-BPO). Goods trade activity will rebound over the forecast horizon, supported by the improvement in global growth over the forecast horizon and a pickup in global goods demand. Import growth is expected to increase and support growth in household consumption and investment.

<sup>30</sup> Projections are based on January 2024 Global Economic Prospects.

<sup>31</sup> World Bank. 2024. Firm Foundations of Growth: East Asia Pacific Economic Update, April, 2024.

**Table 4. Economic indicators for the baseline projections**

	2021	2022	2023	2024F	2025F	2026F
<b>GDP growth, at constant market prices</b>	<b>5.7</b>	<b>7.6</b>	<b>5.5</b>	<b>5.8</b>	<b>5.9</b>	<b>5.9</b>
Private consumption	3.1	6.0	4.1	4.1	4.3	4.4
Government consumption	1.1	0.8	0.1	0.7	0.7	0.8
Fixed capital formation	2.1	2.2	1.9	1.9	2.0	2.2
Exports, goods and services	2.2	3.0	0.4	1.8	1.9	2.0
Imports, goods and services	-4.5	-5.2	-0.4	-2.7	-3.1	-3.4
<b>GDP growth, at constant market prices</b>	<b>5.7</b>	<b>7.6</b>	<b>5.5</b>	<b>5.8</b>	<b>5.9</b>	<b>5.9</b>
Agriculture	0.0	0.0	0.1	0.1	0.1	0.1
Industry	2.5	2.0	1.1	1.5	1.6	1.6
Services	3.3	5.6	4.4	4.2	4.2	4.2
<b>Headline inflation</b>	<b>3.9</b>	<b>5.8</b>	<b>6.0</b>	<b>3.6</b>	<b>3.2</b>	<b>3.0</b>
<b>National government balance (% of GDP)</b>	<b>-8.6</b>	<b>-7.3</b>	<b>-6.2</b>	<b>-5.7</b>	<b>-5.3</b>	<b>-4.8</b>
<b>National government debt (% of GDP)</b>	<b>60.4</b>	<b>60.9</b>	<b>60.1</b>	<b>59.8</b>	<b>59.7</b>	<b>59.3</b>
<b>Current account balance (% of GDP)</b>	<b>-1.5</b>	<b>-4.5</b>	<b>-2.6</b>	<b>-2.2</b>	<b>-2.0</b>	<b>-1.8</b>

Sources: PSA, BTr, and World Bank staff projections.

Note: Components of growth are expressed in terms of their contribution to growth.

**On the expenditure side, growth will remain anchored on private consumption, which is projected to average 5.9 percent over the forecast horizon (Figure 21).** The expected rise in household consumption will be driven by lower inflation, a healthy job market and increasing wage incomes, and steady remittance inflows. In addition, household consumption will be supported by strong credit growth, as demand is expected to remain robust, alongside the normalization of monetary policy. Meanwhile, the projected decline in personnel services expenditure and maintenance and operations spending due to ongoing fiscal consolidation will lead to a modest contribution of government consumption over the forecast horizon.

**Investment growth is expected to pick up over the medium term, buoyed by an accommodative monetary policy and a commitment to public investment.** Investment growth is projected to remain steady in 2024, before increasing in 2025-2026. Investments will benefit from the government public investment pipeline. These include 124 new flagship infrastructure projects which aim to improve physical connectivity, strengthen water resources, and strategic investments in agriculture and health services. An

increase in public-private partnerships (PPPs) will also support investment spending. As of February 2024, the PPP center has a pipeline of 117 projects worth Php2.5 trillion, with 14 more to be submitted for approval later in the year. Private investment is expected to remain subdued initially, due to the ongoing effects of still tight monetary policy and subdued global trade and investment activity. Nevertheless, investment growth will gain steam as monetary policy loosens, global trade and investment improves, and the recent pro-investment reforms are implemented.<sup>32</sup>

**On the supply side, services will remain the main growth engine, fueled by robust private domestic demand and the continued recovery of tourism.**

Services will fuel growth in 2024–26. This will be driven by an improvement in household incomes, which will support growth in wholesale and retail trade and financial services. Services will also benefit from the full recovery of global tourism demand. The government expects tourist arrivals grow by over 40 percent in 2024, accelerating growth in the transportation sector, accommodation and food services, and retail trade services. In addition, the country's IT-BPO industry is expected to maintain its steady growth over the medium

<sup>32</sup> The implementation of key reforms, such as the adoption of amendments to the Public Services Act, implementation rules and regulations of the Renewable Energy Act, the Retail Trade Liberalization Act, and the Foreign Investment Act, is expected to encourage private investment in key sectors and strengthen the Philippines as an investment destination.





term, which in turn will drive growth in the real estate services and information and communication services sectors.

**Meanwhile, a rebound in global goods trade and public investment will support industry growth.**

Industry growth is expected to average 4.4 percent, year-on-year, in 2024–2026, as manufacturing activity is expected to increase gradually. The manufacturing sector will benefit from a pickup in global goods trade. However, growth in the agriculture sector is expected to remain sluggish, in part due to the El Niño and the likelihood of La Niña in 2024. The tepid agriculture growth outlook is dampened high production costs and structural issues affecting its productivity and vulnerability to climate-related events. These structural issues include a lack of investment in key infrastructure related to irrigation, roads, transportation, and logistics and in innovative technologies.

**Headline inflation is set to return to within the target range, allowing for a more accommodative monetary policy stance.**

Headline inflation is projected remain within the BSP's target range of 2–4 percent, averaging 3.3 percent between 2024 and 2026. Low and stable inflation over the forecast horizon will be supported by declining commodity prices, reflecting improving supply conditions. Lower inflation for a prolonged period will facilitate a reduction in the policy rate. However, a possible resurgence of high inflation and tight monetary policy in advanced economies will continue to weigh on the timing of the BSP's decision to reduce interest rates. Meanwhile, the BSP is expected to maintain its market-determined exchange rate policy, as it stands ready to intervene to maintain stability and manage extreme volatility, given its ample foreign reserves.

**The current-account deficit is expected to narrow due to a recovery in services exports, steady remittance inflows, and lower global commodity prices.**

External demand for merchandise exports is expected to strengthen over the medium term as global growth and trade improves over the forecast horizon. The continued

recovery in tourism demand and robust growth in the IT-BPO industry will lead to robust services exports growth. While import growth is expected to strengthen over the forecast horizon to support domestic demand, the decline in global commodity prices will contribute to a narrower trade deficit. As a result, the current-account deficit is projected to narrow from a projected 2.2 percent of GDP in 2024 to an average of 1.9 percent in 2025–2026 as external demand improves. The deficit is expected to be financed primarily by net FDI inflows as well as net portfolio inflows.

**The fiscal deficit is projected to narrow in line with the government's fiscal consolidation program.**

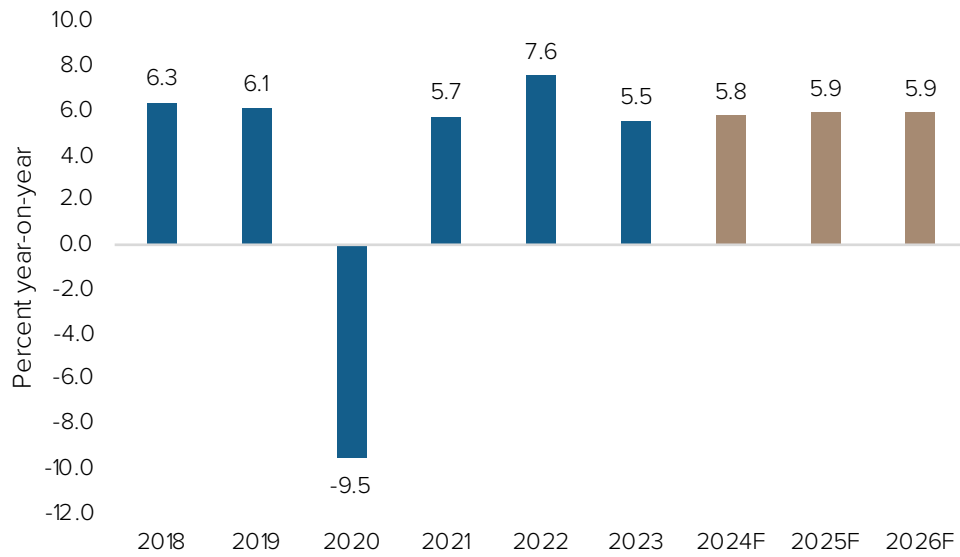
The fiscal deficit is projected to decline from 6.2 percent of GDP in 2023 to 4.8 percent of GDP by 2026, supported by the economic recovery and the implementation of the consolidation strategy outlined in the revised medium-term fiscal framework (Box 3). Since the government plans to maintain a robust public infrastructure program, efforts to reduce the deficit will be led by reductions in current spending. Meanwhile, the consolidation agenda is expected to be supported by a gradual increase in tax revenues, driven in part by strong domestic demand, tax policy reforms, and measures to improve tax collection efficiency. In addition, non-tax revenue will be boosted by mandated higher dividend remittances from GOCCs.

**Both fiscal consolidation and the growth recovery will likely keep debt levels sustainable over the medium term.**

The national government debt ratio is projected to decline over the forecast horizon, reaching around 60 percent of GDP by 2025, although financing needs are expected to remain elevated compared to pre-pandemic levels. Debt is set to remain sustainable, as the debt-to-GDP ratio is expected to continue its downward trajectory due to fiscal consolidation and robust growth. Moreover, the composition of debt is set to remain stable, with low shares of short-term debt and foreign currency-denominated debt, in line with the government's debt management strategy.

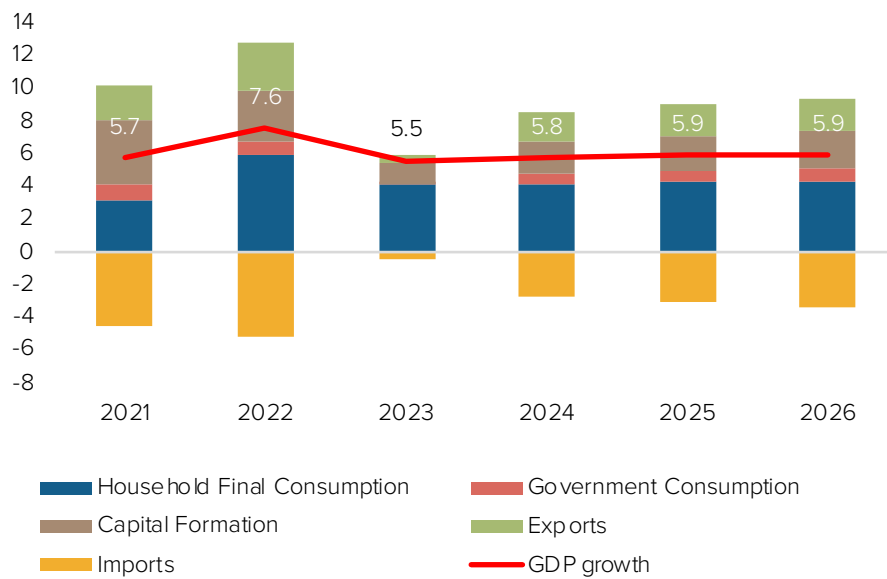


**Figure 20. GDP growth will increase to an average of 5.9 percent in 2024-2026...**



Sources: PSA and World Bank staff projections.

**Figure 21. ...anchored on robust domestic demand and an improvement in trade activity.**



Sources: PSA and World Bank staff projections.



## Box 3. The Government's Revised Medium-term Fiscal Framework

**The Philippine government revised its Medium-Term Fiscal Framework (MTFF) and macroeconomic assumptions.** The revisions to the MTFF reflect the challenging global economic landscape and adjustments to the medium-term fiscal program, which includes an increase in public investment. Growth targets were lowered from 6.5-7.5 percent to 6-7 percent in 2024 and from 6.5-8.0 percent to 6.5-7.5 percent in 2025. The government maintained its target of 6.5-8.0 percent for 2026-2028.

**The revised MTFF raised the medium-term deficit target in 2028 to 3.7 percent of GDP from 3.0 percent of GDP.** On revenues, the public revenue target was lowered to 16.4 percent of GDP by 2028 from 16.9 percent of GDP. The reduction in the target reflects an increased emphasis on enhanced tax administration and the upgrading of the efficiency of the country's tax system. Additional revenues through tax policy will be driven by the five priority tax measures currently in Congress.<sup>33</sup> The government has not committed to the introduction of additional tax measures beyond the existing legislative pipeline.

**The expenditure consolidation strategy will rely on current expenditure cuts, while preserving the public investment program.** Public expenditure decline at a more gradual pace compared to the earlier version of the MTFF. On average, public expenditures will be greater by 0.8 percent of GDP under the new MTFF. The change in expenditure trajectory is in large part due to higher target for infrastructure outlays. The government raised the annual average infrastructure program to 5.7 percent of GDP in 2024-27 (5.2 percent in the previous edition). Given the rigidity of the budget (e.g., interest spending, increasing fiscal transfers to LGUs) remaining expenditure reductions may fall on personnel services and maintenance. Expenditure consolidation could include efforts to streamline the bureaucracy, implement full devolution, and reform the Military and Uniformed Personnel pension system. As a result, public debt is now expected to decline at a more gradual pace. Under the revised MTFF, public debt is expected to fall to 55.9 percent of GDP by 2028 from 51.1 percent under the previous MTFF.



Photo: Shutterstock/ Richie Chan

<sup>33</sup> The five priority tax measures are expected to yield an additional 0.2 percentage points of GDP in tax revenue. These revenue measures include a proposed VAT on digital service providers, the imposition of an excise tax on single-use plastics, the rationalization of the mining fiscal regime, adjustments to the motor vehicle users charge, and reforms to passive income and financial intermediation taxation.

**Table 5. Comparison of the revised MTFF.**

	2024	2025	2026	2027	2028
<b>Revenue</b>					
December 2023 MTFF	15.5	15.7	16.1	16.5	16.9
April 2024 MTFF	16.1	15.8	15.8	16.1	16.4
<b>Expenditure</b>					
December 2023 MTFF	20.6	19.8	19.6	19.7	19.9
April 2024 MTFF	21.7	21.0	20.5	20.2	20.1
<b>Fiscal balance</b>					
December 2023 MTFF	-5.1	-4.1	-3.5	-3.2	-3.0
April 2024 MTFF	-5.6	-5.2	-4.7	-4.1	-3.7
<b>Infrastructure program</b>					
December 2023 MTFF	5.2	5.1	5.1	5.5	6.0
April 2024 MTFF	5.6	5.7	5.7	5.8	6.0

Source: DBM.



Photo: World Bank



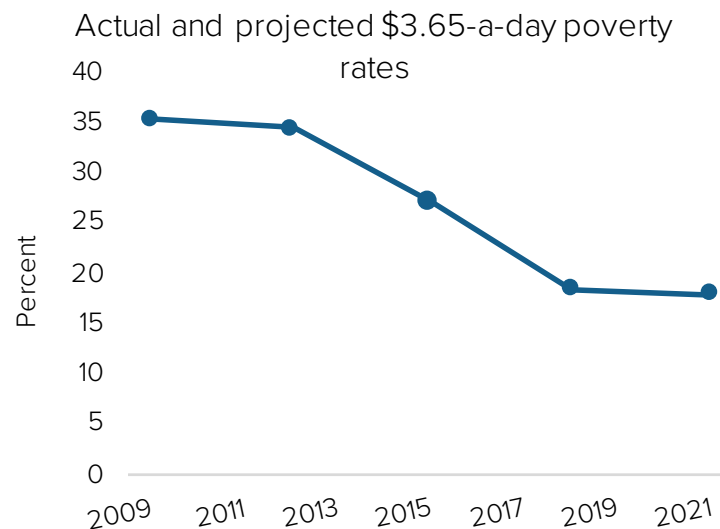
## 2.2 Poverty Outlook

**Continuous labor market improvements will likely boost growth in household incomes.** The positive economic outlook, coupled with quality job generation, is expected to further improve household welfare. Sustaining progress in poverty reduction will depend on sustaining the inclusive growth momentum of the BARMM region (Chapter 3). However, the improvement in household welfare could be tempered by elevated inflation and the escalation of perennial climate disturbances. Household income growth due to labor market gains could also be offset by these risk factors, with poor households more likely to be affected.

**The implementation of proactive government measures in response to climate events and elevated food inflation is crucial to protect poor and vulnerable households.** Given the incessant threat of inflation and extreme weather events, the authorities

need to continue adopting policies and interventions to mitigate shocks and ensure a sufficient energy and food supply. For example, the government has been implementing strategic measures to manage the effects of El Niño, including the approval of Php5,000 in financial assistance to rice farmers and Php3,000 in fuel subsidies to farmers and fishers. It has also allocated Php1.8 billion for insurance claims and Php500 million for credit assistance to affected farmers and fishers. In January 2024, the government rolled out the Lifeline Rate Program to ease the burden of high electricity prices, particularly for low-income households. Qualified low-income consumers with monthly electricity consumption of 100 kWh or less receive a 20 to 100 percent discount on their monthly electricity bill, with about 225,000 4Ps beneficiaries having registered for the program.

**Figure 22. Improvements in the labor market and household incomes will lead to a sustained reduction in poverty.**



Sources: PSA and World Bank staff calculations



## 2.3 Risks and Policy Challenges

**The risks to the global growth outlook remain tilted to the downside.** Risks stem from heightened geopolitical tensions, further fragmentation in global trade policy, and weaker-than-expected growth in China. An intensification of geopolitical tensions could lead to higher energy prices, which would reduce disposable incomes and slow consumption. If inflation remains persistently high, monetary policy normalization could be delayed, which could also dampen global growth prospects. In addition, further fragmentation of trade policies and an increase in trade protectionism would weigh on trade. It could also lead to an increase in commodity prices globally. Within the region, the risk of a prolonged downturn in the property sector could lead to slower-than-expected growth in China. Softer growth in China could weigh on trade within the region, resulting in negative spillovers to manufacturing and tourism. For example, a 1 ppt shock in China's GDP growth could lead to a reduction of around 0.3 ppts to the Philippines' GDP growth.<sup>34</sup>

**Managing inflation remains the main domestic policy challenge.** While the baseline forecast assumes that inflation will return to within the BSP's target range in 2024–26, short-term risks remain tilted to the upside. Should these risks materialize, growth of private consumption and investment could decline because of a reduction in disposable income and still tight credit conditions due to delays in monetary policy normalization. An unexpected increase in commodity prices due to the intensification of geopolitical tensions and trade restrictions represents the main upside risk. In addition, a prolonged episode of climate events such as EL Niño and La Niña could weigh on the domestic food supply and lead to an upswing in inflation. As a net commodity importer, a prolonged episode of sustained currency depreciation could lead to higher inflation.<sup>35</sup> Managing inflation will require the continued use of non-monetary measures, including efforts to ensure better supply and demand management and timely and adequate food imports (particularly of staple food items), to complement sound monetary and exchange rate policy. In addition, the government must continue to provide social assistance to vulnerable groups that are disproportionately affected by high food inflation.

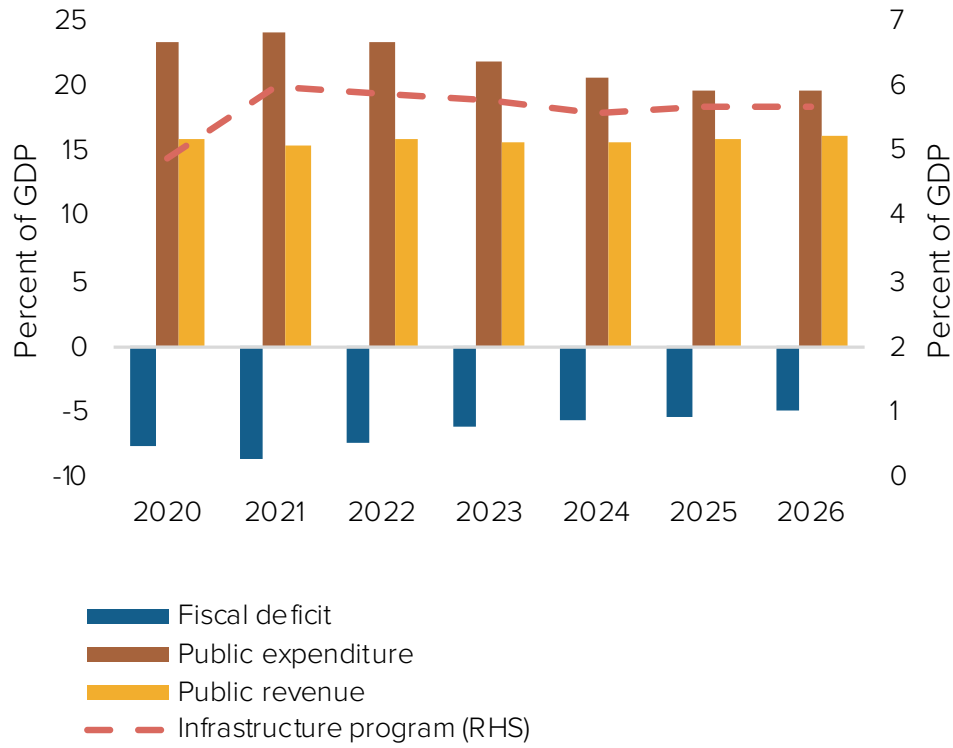
**To meet its fiscal consolidation targets the government would need to reduce public spending by 1.9 percent of GDP by 2028.** To meet the fiscal target by 2028, the deficit must decline by 2.5 percent of GDP. Three-fourths of the consolidation effort (1.9 percent of GDP) will be through reductions in public expenditure. Efforts to reduce spending will focus on optimizing the budget and improving spending efficiency through procurement, budgeting, and investment management reforms. These reforms include adopting key legislation such as the Government Procurement Reform Bill and the Progressive Budgeting for Better and Modernized Governance Bill, of which the latter aims to modernize the budgeting process. Optimizing the budget includes rationalizing spending items whose purpose is unclear or are discretionary in nature. In addition, the passage of the National Government Rightsizing Program bill could reduce personnel services expenditures by streamlining and creating a more efficient bureaucracy. Meanwhile, proposed reforms to enhance the fiscal sustainability of the pension system for military and uniformed personnel are crucial to reduce risks related to consolidating personnel services expenditures.

**Strengthening revenue generation remains essential for fiscal consolidation and to sustainably finance the country's inclusive development agenda.** Despite the adoption of tax reforms in previous years, tax revenue growth is expected to remain modest. Modest tax revenue growth is in part driven by the decline of collections in excise taxes in recent years, in part driven by illicit trade in goods such as tobacco and alcohol. Although the passage of the government's five priority tax measures is projected to increase tax revenues by 0.2 ppts of GDP by 2025, the government will need to generate revenues worth an additional 0.5 ppts of GDP by 2028 to meet its targets. Additional revenue efforts could focus on broadening the tax base for consumption and personal income taxes, rationalizing tax incentives, and strengthening the tax administration. An inability to generate additional revenues could lead to further reductions in public expenditure, or an increase in borrowing which could lead to higher debt.

<sup>34</sup> World Bank. 2023. East Asia Pacific Economic Update April 2023: Reviving Growth. Washington, D.C.

<sup>35</sup> Estimates from the central bank show a limited pass-through of currency depreciation to inflation, particularly during a lower inflation environment. The BSP estimates that a depreciation of Php1 will lead to an increase in the q-o-q inflation rate by around 0.08 ppt (BSP, 2022).

**Figure 23. Fiscal consolidation will be led by a reduction in public expenditures and a modest increase in revenues.**



Sources: BTr, DBM, World Bank staff calculations.



Photo: World Bank



**Episodes of extreme climate events like El Niño, the persistent threat of natural disasters, and climate change call for strengthening preparedness in disaster mitigation, response, and rehabilitation.**

The current episode of El Niño highlights the importance of short- and long-term policy responses to climate change. Extreme heat and drought have impacted agricultural production while putting pressure on the country's water and power supply. It has also caused school closures amid health concerns for students, resulting in negative spillovers that especially affect small businesses. Over the short term, proactive policy preparation will be important to mitigate the impact of extreme weather events while providing support to the poor and vulnerable. This includes both national and local government plans to enhance the resilience of communities and ensure an adequate supply of food, water, and electricity to minimize disruption to economic activity. Over the long term, the government needs to strengthen the efficiency, transparency, and inclusive use of public resources in climate adaptation, mitigation, response, and rehabilitation.

**Over the medium term, the government aims to accelerate inclusive growth and reduce poverty to single digits by 2028.**

The Philippine Development Plan targets a 9 percent poverty incidence by 2028, focusing on economic and social transformation for a prosperous, inclusive, and resilient society. However, the country still faces challenges to ensure that the gains from robust economic growth are distributed evenly. Ensuring that the gains from long-term growth is sustained and distributed more evenly requires addressing gaps in connectivity (both digital and

physical), access to basic services such as in health and education, and private sector participation. To overcome these challenges, the government has implemented several reforms aimed at boosting economic productivity, improving the quality of service delivery, and increasing human capital development. These initiatives include the passage of several investment liberalization laws, efforts to improve functional literacy at all educational levels, and the institutionalization of the Social Protection Floor.

**Sustaining the inclusive growth momentum in the BARMM is crucial for the entire country to achieve rapid, sustained, and inclusive growth.**

While the BARMM region accounts for 4 percent of the population, it makes up 8 percent of the country's poor population. Known for its persistent and high poverty, the region registered a 24.6-percentage point decline in poverty at the height of the COVID-19 pandemic. Despite this decline, the region still has the highest poverty incidence in the Philippines. Moreover, preliminary data for 2023 suggests a more modest decline in poverty in the region, despite a recovery in economic activity in 2022 and 2023 that led to a sharper decline in national poverty. Part III of the PEU provides a poverty assessment of the BARMM, focusing on the drivers of poverty reduction in 2021. It also offers policy recommendations that are crucial in sustaining poverty reduction in the region. It highlights the importance of expanding access to basic services, increasing investment in infrastructure that will boost physical and digital connectivity, and policies that boost farm productivity.



Photo: World Bank

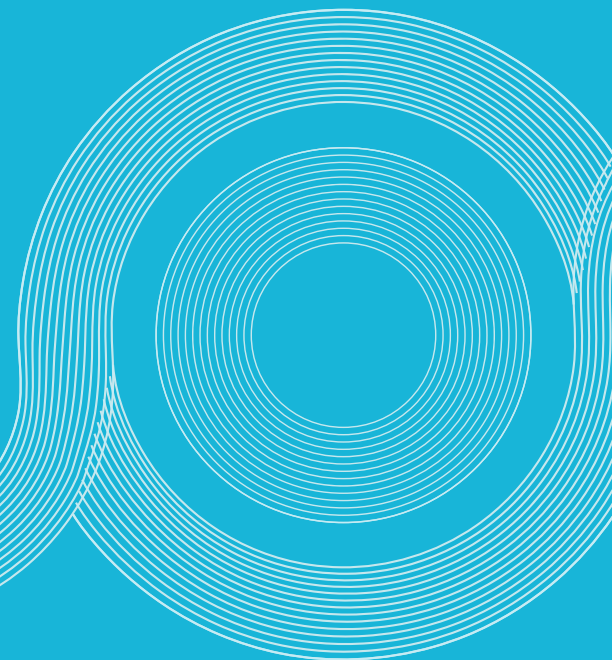




Photo: World Bank

# PART 3

## Beyond the Numbers: Sustaining Poverty Reduction in BARMM





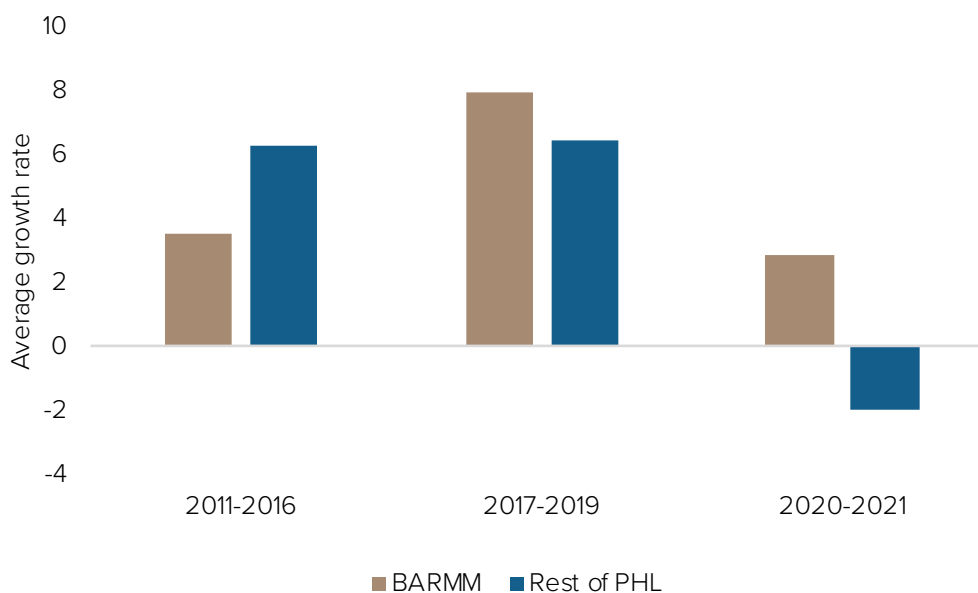
## 3.1 Context

**The Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) shows promising signs of reducing poverty amidst peace and economic growth.** While the region underwent a prolonged period of slow socioeconomic development and protracted conflicts, a significant shift began in 2017, characterized by a pronounced acceleration of economic growth exceeding the national average, a trend sustained throughout the COVID-19 pandemic. In 2021, the region witnessed a substantial reduction in poverty, marking a pivotal departure from three decades of persistent high poverty. This was also in sharp contrast to the aggravation of poverty in the rest of the country during the pandemic. The decline in poverty in BARMM coincides with a confluence of factors, including a period of relative peace following the adoption of the Bangsamoro Organic Law (BOL) and a significant infusion of fiscal resources. Despite this progress, the region remains the poorest in the country. This chapter examines the drivers of the region's significant poverty reduction, the remaining challenges for BARMM to sustain the positive income trends, and the potential policy priorities to accelerate

socioeconomic progress and ensure the convergence of the region with the living conditions of the rest of the country.

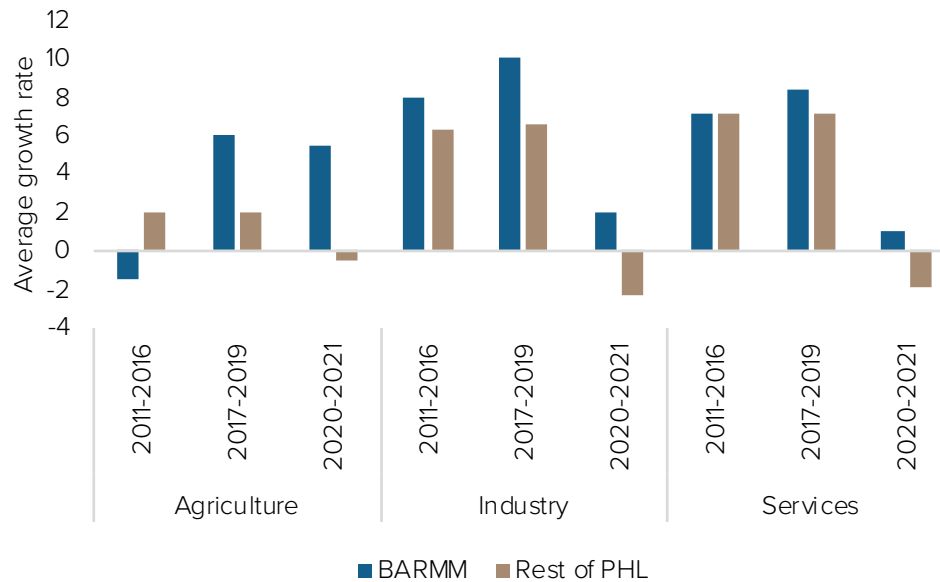
**BARMM's economy has experienced a shift in 2017 from decades of sluggish and erratic growth to a period of rapid expansion, surpassing the rest of the country.** With average annual real GDP growth of 7.9 percent between 2017 and 2019, BARMM outpaced the 6.4 percent growth rate observed in the rest of the Philippines before the pandemic. Despite the country facing an economic contraction during the 2020 COVID-19 crisis, the region maintained a positive pace, albeit slower than in the previous period (Figure 24). This resilience can be attributed in part to BARMM's heavy reliance on agriculture, which constitutes 36 percent of its GDP, compared to an average of 10 percent of GDP for the rest of the country, and that was less impacted by stringent lockdowns during the pandemic.<sup>36</sup> The industry and services sectors also showed higher resilience in BARMM than in the rest of the Philippines (Figure 25).

**Figure 24. Since 2016, BARMM's real GDP growth has surpassed the rest of the Philippines ....**



Sources: Regional Income Accounts, PSA.

<sup>36</sup> This chapter examines the drivers of the region's significant poverty reduction, the remaining challenges for BARMM to sustain the positive income trends, and the potential policy priorities to accelerate socioeconomic progress and ensure the convergence of the region with the living conditions of the rest of the country.

**Figure 25. ... and its sector growth has also outpaced the rest of the country.**

Sources: Regional Income Accounts, PSA.

**Economic growth in BARMM was more inclusive during 2018-2021 compared to previous years and relative to the rest of the country.** Despite the pandemic, average real annual per capita income increased by 7 percent in BARMM during this period,

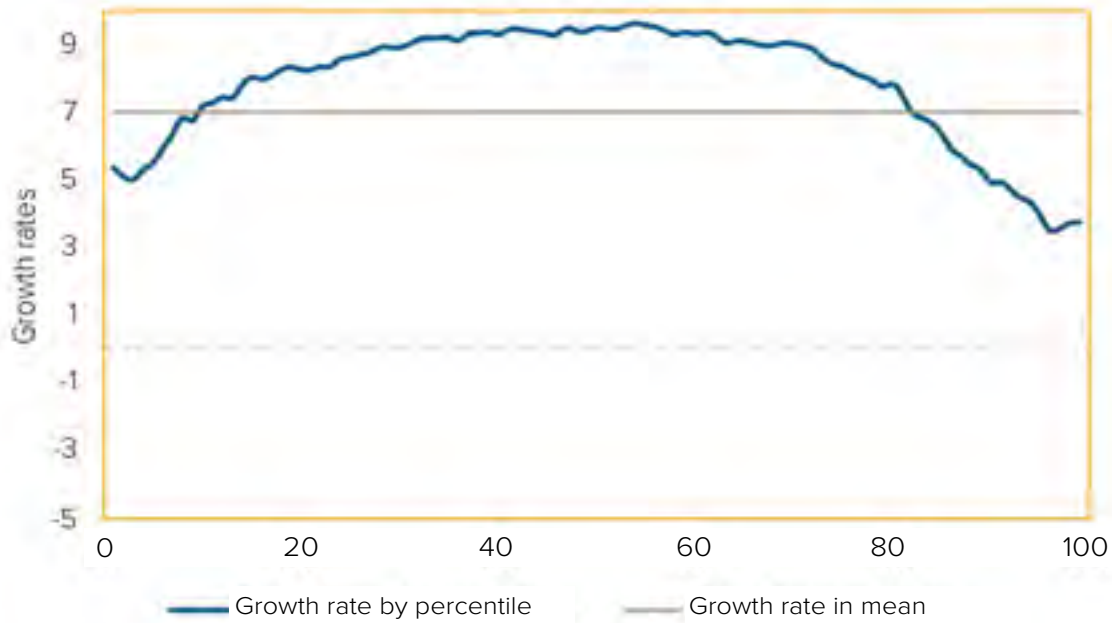
while it fell by 3.3 percent decline outside the region, primarily benefiting low-income households and the middle class (Figure 26 and Figure 27). This was a shift from previous years, when income growth was lower in BARMM and favored better-off households.



Photo: World Bank

**Figure 26. Growth Incidence Curves, BARMM, 2018-2021.**

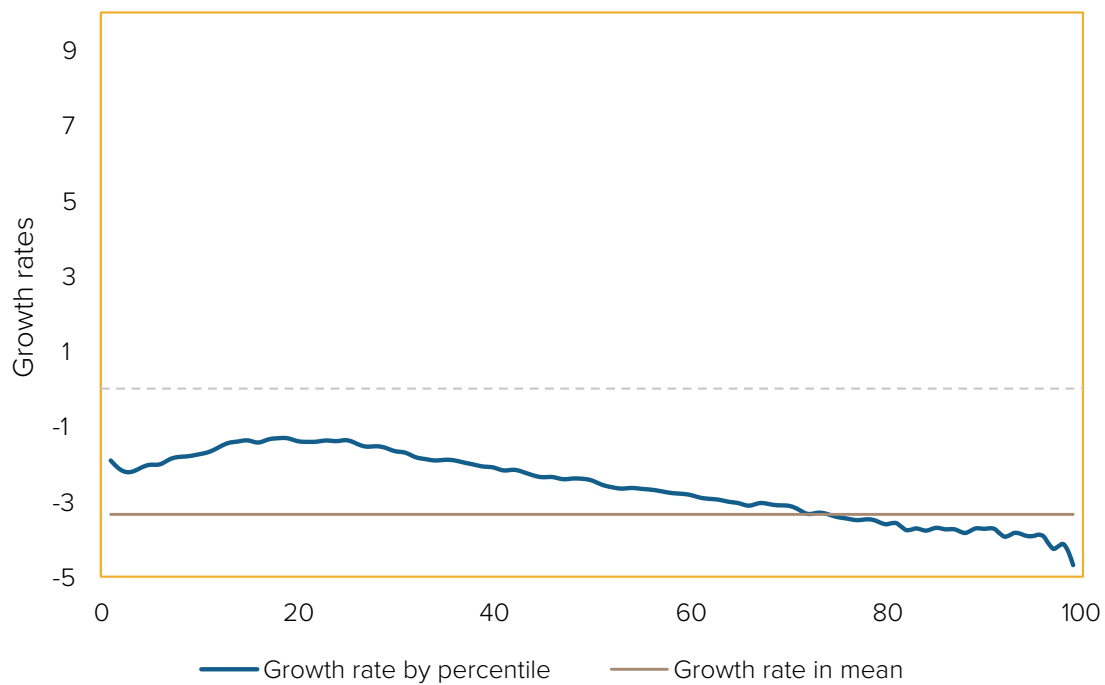
*Economic growth in BARMM was high and distributed among poor and middle percentiles.*



Sources: FIES 2018 and 2021.

**Figure 27. Growth Incidence Curves, Rest of Philippines, 2018-2021**

*The rest of the country saw a deterioration in incomes.*



Sources: FIES 2018 and 2021.



**Between 2018 and 2021, BARMM experienced a significant decrease in poverty for the first time in three decades, contrasting with an aggravation of poverty in the rest of the country amid the pandemic.** After enduring decades of persistent poverty exceeding 60 percent, poverty in the region dropped to 37.2 percent in 2021, equivalent to about 892,000 people lifted out of poverty between 2018 and 2021. Conversely, the rest of the country witnessed an increase in poverty from 14.9 percent to 17.4 percent over the same period (Figure 28). While historically low, inequality in BARMM decreased even further in 2021, with the income Gini coefficient declining from 30.9 percent to 27.5 percent. Despite this progress, the incidence of poverty in BARMM remains twice as high as the national average and over ten times higher than in the National Capital Region (NCR), the most developed region of the country.

**The significant recent progress in economic growth and poverty reduction in BARMM coincides with advancements in the peace process.** Over the past decades, BARMM has been plagued by protracted conflicts, hindering its socioeconomic development. The region is home to around five million people, predominantly Muslim ethnic groups, indigenous peoples (IPs), and other ethnic minorities. These communities have endured persistent conflicts, including clashes between military and revolutionary groups, political rivalries, clan violence and violent extremism. Efforts by the government and key stakeholders to achieve a lasting peace settlement in the region have been ongoing, and recent political

developments have brought renewed hope to the region. The enactment of BOL in 2018, followed by its ratification in early 2019, marked a pivotal moment in BARMM's history. BOL, stemming from the Comprehensive Agreement on the Bangsamoro signed in 2014 between the Philippine Government and the Moro Islamic Liberation Front (MILF), laid the foundation for the establishment of BARMM. The cessation of martial law in 2019, initially declared in response to the Marawi siege in 2017, further propelled the region toward peace.<sup>37</sup>

**With the restoration of peace and an increase in government assistance in the aftermath of the COVID-19 pandemic shock, BARMM has received a significant infusion of resources.** BOL mandates the national government to provide an annual block grant to BARMM equivalent to 5 percent of national internal revenue collections, alongside a special development fund of PHP 5 billion annually through 2029. These funds are on top of other sources of revenue such as the national tax allotment allocation and local taxes and fees collected by local government units in the region. Moreover, BARMM has benefitted from substantial assistance from the national government to mitigate the impacts of COVID-19 lockdowns and facilitate the rehabilitation of Marawi City (Figure 29). While this increase in resources coincided with a period of progress in income growth and poverty reduction, the extent to which it contributed to stimulating economic activity in the region and its potential to foster sustainable development and prosperity require further analysis.

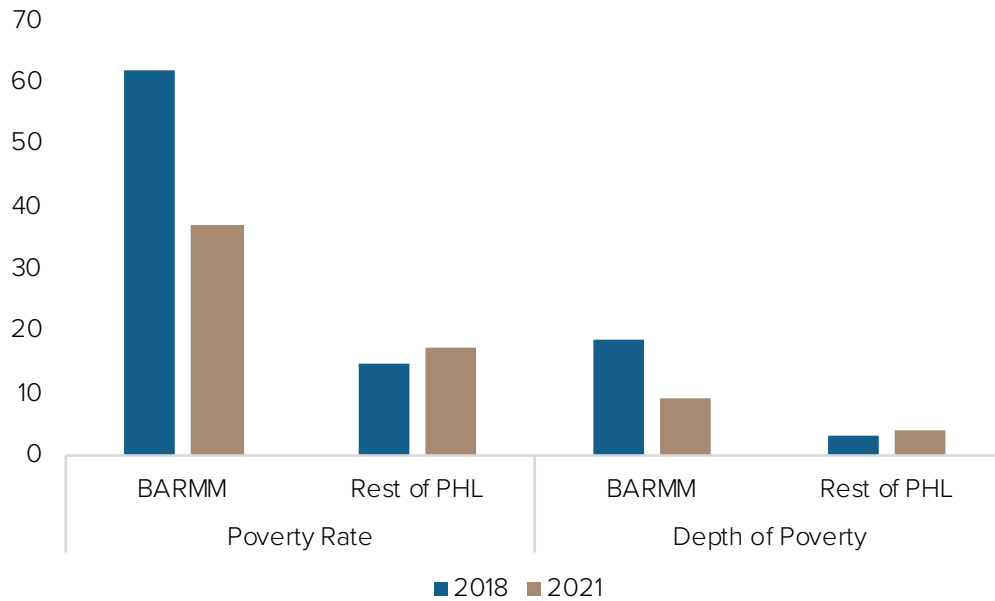


Photo: World Bank

<sup>37</sup> Conflict Alert data reveal a surge in conflict incidents during the early 2010s, peaking during the Marawi siege in 2016, before gradually decreasing thereafter (International Alert 2022).

**Figure 28. Incidence of poverty, BARMM and Rest of Philippines, 2018 –21, percent**

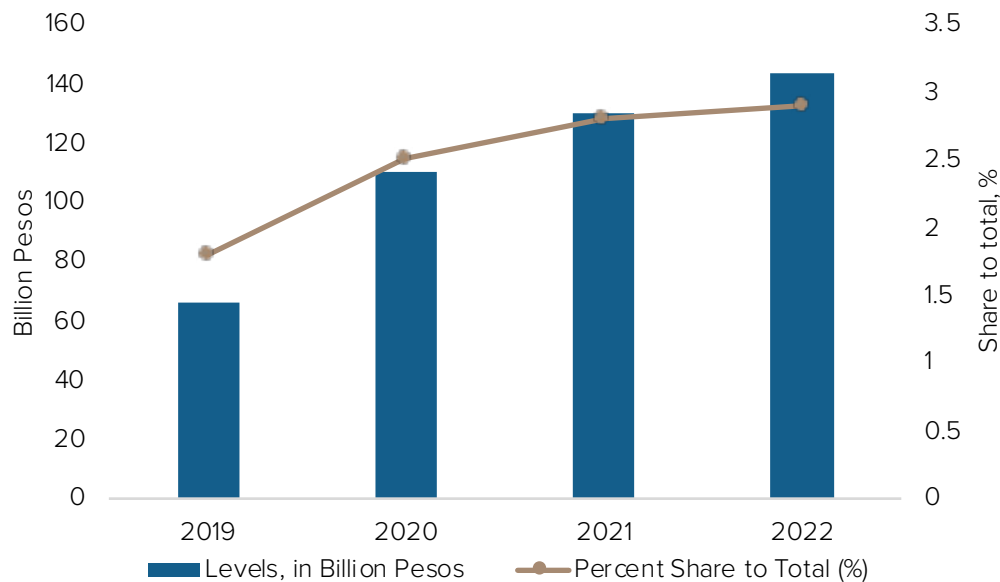
The incidence and depth of poverty has markedly declined in BARMM while increasing in the rest of the Philippines.



Sources: FIES 2018 and 2021.

**Figure 29. Budget Allocations, BARMM (Share of Total Government Budget)**

Budget allocations to BARMM increased significantly in 2021.



Sources: Budget of Expenditures and Sources of Financing, DBM.



## 3.2 Drivers of Income Growth and Poverty Reduction

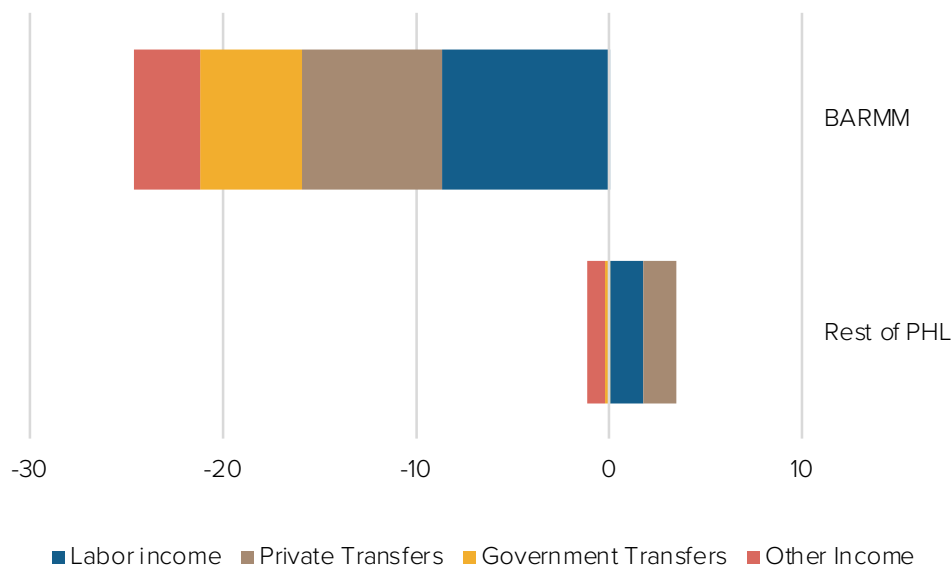
**Households in BARMM experienced considerable improvements in almost all income sources, leading to a significant reduction in poverty.** Between 2018 and 2021, the growth in labor income from wages, farming, and, to a lesser extent, nonfarm entrepreneurial incomes contributed 35 percent of the poverty reduction in BARMM, followed by private and government transfers at 29 percent and 22 percent, respectively (Figure 30 and Table 6). Conversely, households in the rest of the Philippines experienced a decline in their income from most sources, notably labor income, leading to an increase in poverty.

### *Expansion of labor income*

**Growth in household labor income in BARMM was**

**mainly driven by an increase in wage and farm income.** Between 2018 and 2021, average per capita household income increased by 23 percent, driven by higher regular wages (up 43 percent) and seasonal wages (up 63 percent). Farm income, while increasing by a modest 6 percent, had a significant impact on the increase of BARMM's total household earnings, as it accounts for more than one-third of total household income. However, income from nonfarm entrepreneurial activities, which accounts for about 20 percent of total household income, only rose by 2 percent in the same period. Income from gifts tripled, and government and private transfers rose by around 40 percent, although they constitute a minor share (less than 4 percent) of total household income.<sup>38</sup>

**Figure 30. Contribution of Income Sources to Poverty Change, BARMM and Rest of Philippines, 2018 –21, (Percentage Points)**



Source: FIES 2018-2021

Notes: The poverty decomposition method is based on Azevedo et al. (2013) and Inchauste et al. (2014) and uses deflators based on poverty line ratios.

<sup>38</sup> The significant impact of income from these sources on overall poverty, despite its small share of total household income, is because it is mostly received by households located near the poverty line. The substantial increase of this type of income has helped these households raise their income above the poverty line.

**Table 6. Household income composition in BARMM**

Income source	Share to total, 2021	Growth 2018-2021	Contribution to poverty change <sup>a</sup>
<b>Labor income</b>			
Farming	34%	6%	-2.4
Entrepreneurial	16%	2%	-1.9
Regular wage	18%	43%	-1.3
Seasonal wage	11%	63%	-3.2
<b>Private transfers</b>			
Remittances	4%	-1% <sup>b</sup>	-2.3
Gifts	4%	171%	-3.4
<b>Private transfers</b>	4%	41%	-1.6
<b>Government Transfers</b>			
Direct transfers	2%	38%	-2.8
Pension	1%	72%	-2.5
<b>Other income</b>	7%	50%	-3.4

Sources: FIES 2018 and 2021.

Notes: Farm income includes produced goods for own consumption and net share from crops and other farming activities by other households as well as entrepreneurial activities related to crop farming, livestock and poultry raising, fishing and forestry and hunting. Other income includes rentals, dividends and interest.

<sup>a</sup> Values in percentage points.

<sup>b</sup> The proportion of BARMM's households receiving remittances from abroad increased by 21 percent, with a more substantial rise of 58 percent among the poor, although there was a slight decrease in the average amounts received. This explains the beneficial effect of remittances on poverty alleviation, despite the slight decrease in average transfers.

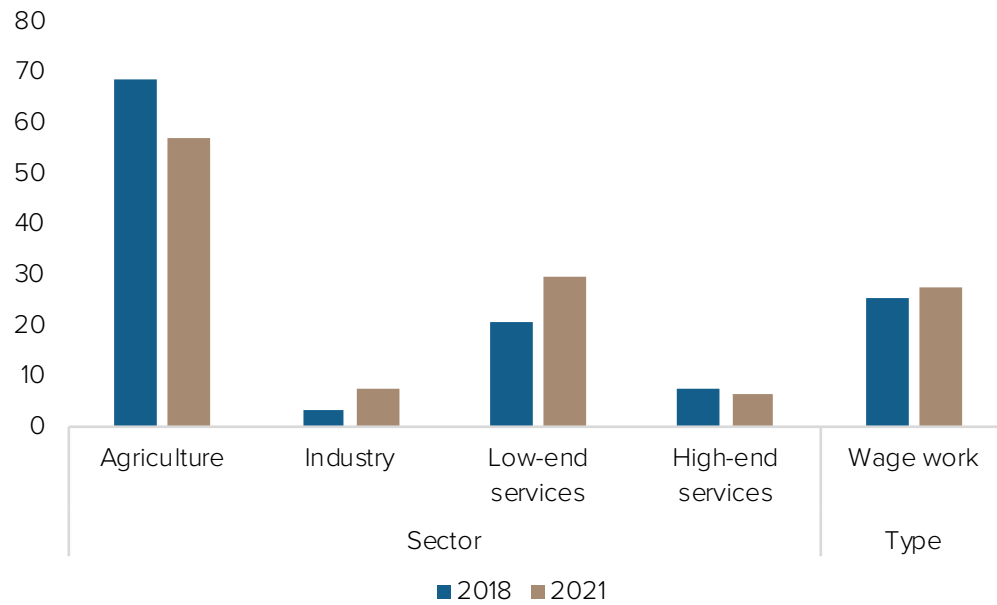
**Significant shifts in the employment structure in BARMM played a significant role in the increase of wage income.** Between 2018 and 2021, labor force participation (LFP) and employment among working-age individuals in BARMM increased by approximately 5 percentage points.<sup>39</sup> This was accompanied by a transition in employment from agriculture to low-end services and, to a lesser extent, industry, alongside a growth in wage employment (Figure 31). These changes have been gradually occurring over the past decade but accelerated between 2018 and 2021, particularly among the youth (Box 4). Concurrently, the real average daily wage grew by 3 percent, which, combined with the increase in the share of wage earners, contributed to a significant rise in BARMM's household wage income, especially in seasonal wages. Despite these changes, agricultural and non-wage employment in BARMM remains twice as high as in the rest of the country (Figure 32).



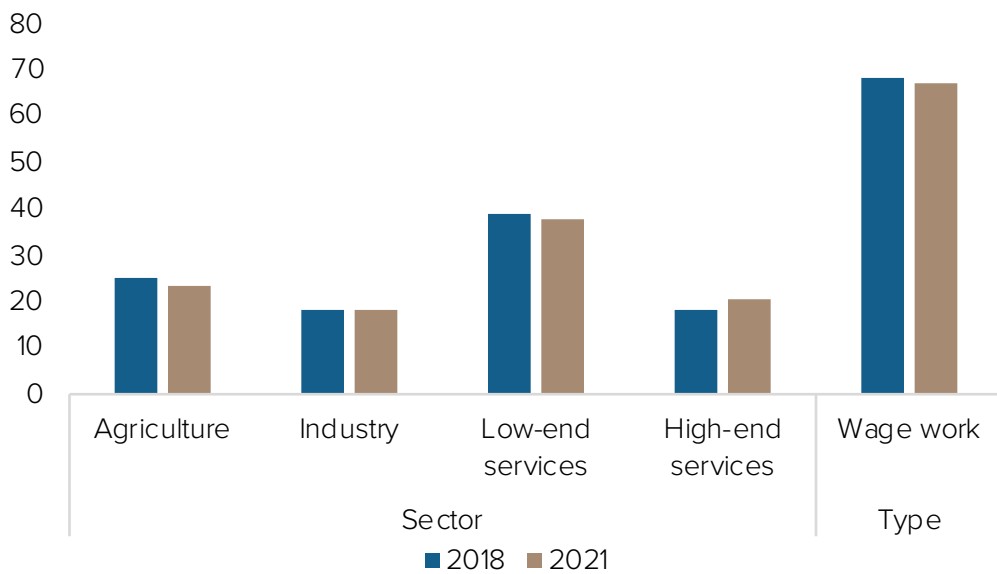
Photo: World Bank

<sup>39</sup> LFP increased from 49 percent in 2018 to 55 percent in 2021 while employment rose from 47 to 51 percent.



**Figure 31. Employment Sector and Type, BARMM, 2018 and 2021 (%)**

Sources: LFS 2018 and 2021.

**Figure 32. Employment Sector and Type, Rest of the Philippines, 2018 and 2021 (%)**

Sources: LFS 2018 and 2021.

Note: High-end services include information and communication as well as financial and insurance activities; real estate activities; professional, scientific, and technical activities; administrative and support service activities; public administration, education, human health, and arts and entertainment activities; and water supply and waste management, electricity, gas, and air conditioning supply. Low-end services include wholesale and retail trade; repair of motor vehicles; transportation and storage; accommodation and food services; activities of households as employers; and other service activities. Industry includes manufacturing, mining, and construction. Agriculture includes crop and animal production, hunting, forestry, and fishing.

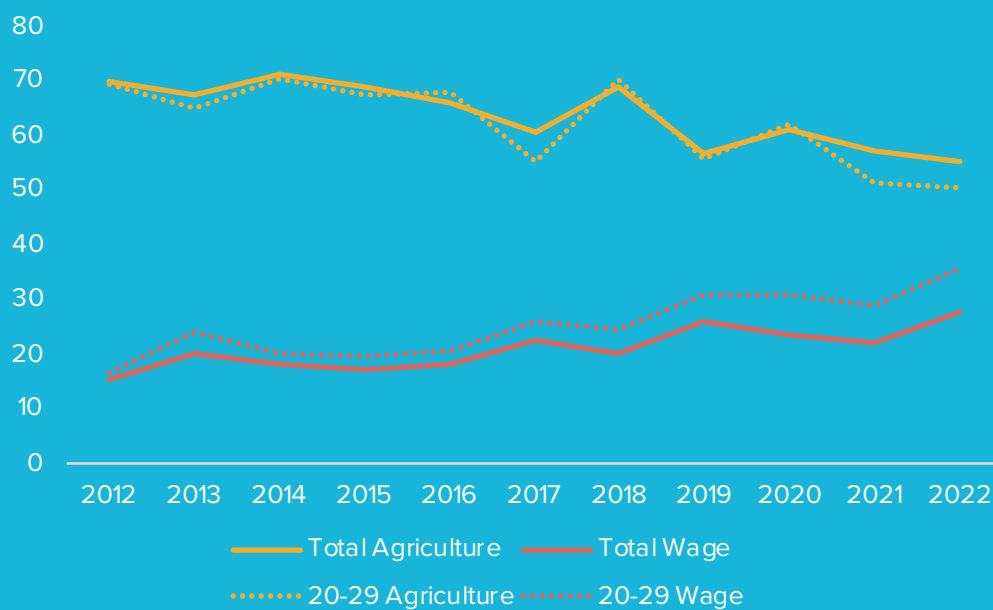


## Box 4. Accelerating Transition from Agriculture to Wage Employment Among the Youth in BARMM

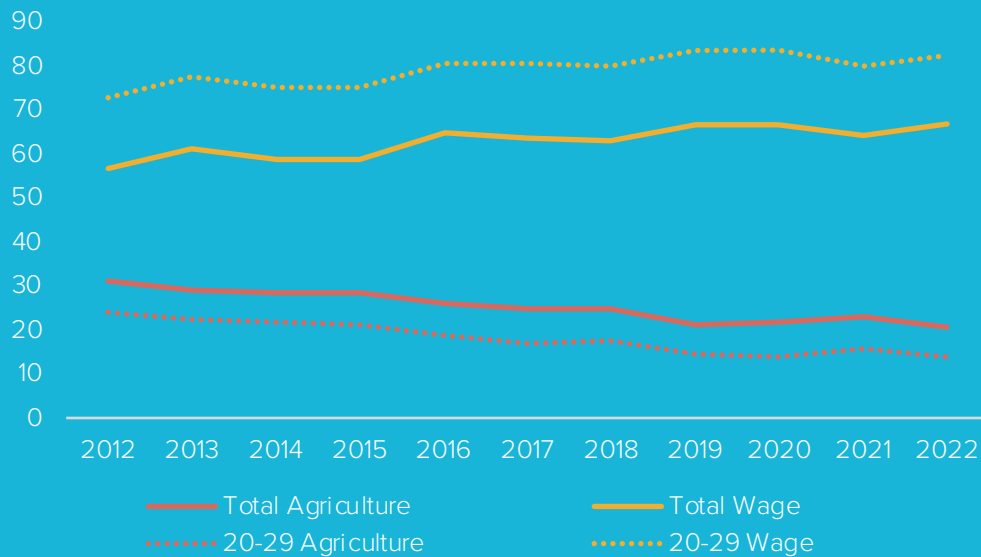
**Employment in BARMM have gradually shifted from agriculture towards wage employment, a trend that has gained momentum since 2018, although agriculture continues to dominate the employment sector.** Over the past decade, there has been a gradual shift in employment within BARMM, from agriculture to low-end services and, to a lesser extent, industry, alongside a rise in wage employment (Figure 33). These changes accelerated since 2018, particularly among the youth, and were more rapid than those observed in the rest of the country. Notably, between 2018 and 2022, the proportion of youth aged 20–29 employed in agriculture decreased by 20 percentage points (from 70 to 50 percent), while their participation in wage employment increased by 12 percentage

points (from 24 to 36 percent). In the rest of the Philippines, youth employment in agriculture declined by 4 percentage points during the same period while their participation in wage employment increased by 2 percentage points. Despite these changes, agricultural employment in BARMM remains significantly higher, accounting for 55 percent of the workforce by 2022, including 50 percent among the youth aged 20–29, compared to 21 percent and 14 percent respectively in the rest of the country. Although the proportion of youth engaged in wage employment has more than doubled in BARMM over the past decade, it still notably lags behind the rest of the Philippines, standing at 36 percent compared to 82 percent in 2022.

**Figure 33. Employment Sector and Type, BARMM, 2012-2022 (%)**



Source: LFS 2012-2022.

**Figure 34. Employment Sector and Type, Rest of Philippines, 2012-2022 (%)**

Source: LFS 2012-2022.

### The increase in farm income in BARMM was primarily driven by growth in income from entrepreneurial activities related to crop farming and gardening.

Real per capita income from family entrepreneurial activities in crop farming and gardening,<sup>40</sup> constituting around 65 percent of farm income among agricultural households in BARMM, grew by 10 percent between 2018 and 2021. While income from family entrepreneurial activities related to livestock raising and forestry, net shares in farming activities by other households, and family sustenance activities also recorded substantial increases of 60 percent or more, their impact on farm income remained less pronounced, as they collectively contribute to less than 10 percent of total farm income among agricultural households. However, income from fishing activities, which accounts for more than one-quarter of farm income, declined by 14 percent during this period, partially offsetting farming households' overall income gains.

### Significance of transfers

#### Transfers from government (social assistance) and private sources contributed to about half of the

### poverty reduction in BARMM, although the overall coverage and transfer amounts have remained relatively low.

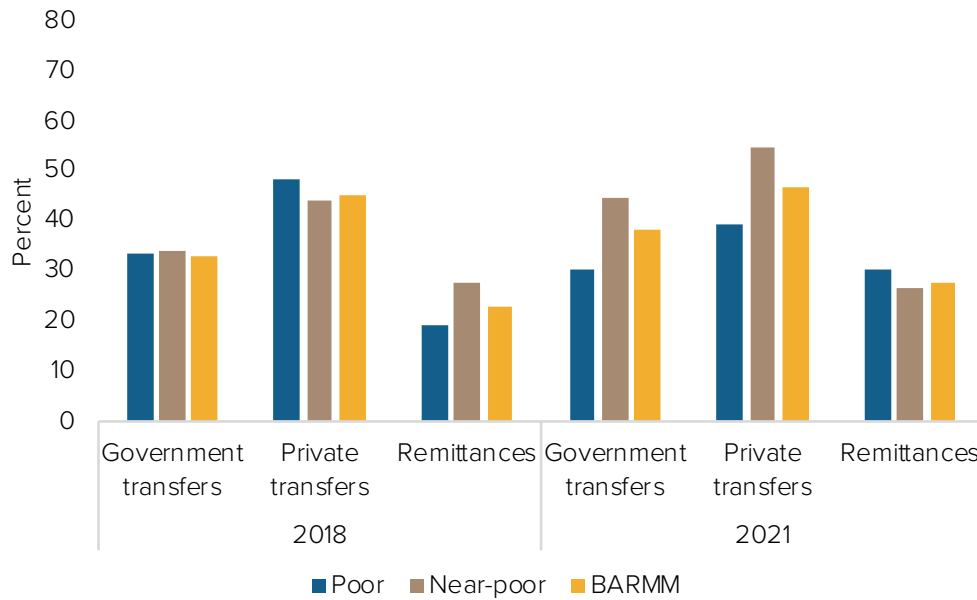
Between 2018 and 2021, with the implementation of COVID-19 emergency transfers under the Bayanihan Act, beneficiaries of government transfers in BARMM increased by 15 percent, which was accompanied by a 20 percent rise in level of real per capita transfers. This favored the near poor, especially low-end service and industry workers who bore the brunt of the pandemic's impacts (Figure 35).<sup>41</sup> Similarly, domestic private transfers saw a rise in recipients among the near poor, but average per capita transfer amounts increased more for the poor. The proportion of households receiving remittances from abroad also rose by 21 percent, with an even more significant increase of 58 percent among the poor, albeit with a slight decline in the average amount received. In the rest of the Philippines, the proportion of households benefiting from government assistance increased by 60 percent, with average per capita amounts for recipients rising by 10 percent (Figure 36). However, private transfers, both domestic and from abroad, declined. Despite the expansion of government transfers in BARMM, the overall coverage and benefits have remained relatively low, requiring further efforts to expand assistance to the neediest and make a significant impact on poverty.

<sup>40</sup> These activities include the cultivation of palay, corn, roots, tubers, vegetables, fruits, nuts, etc.

<sup>41</sup> About 40 percent of workers in these sectors are near-poor.

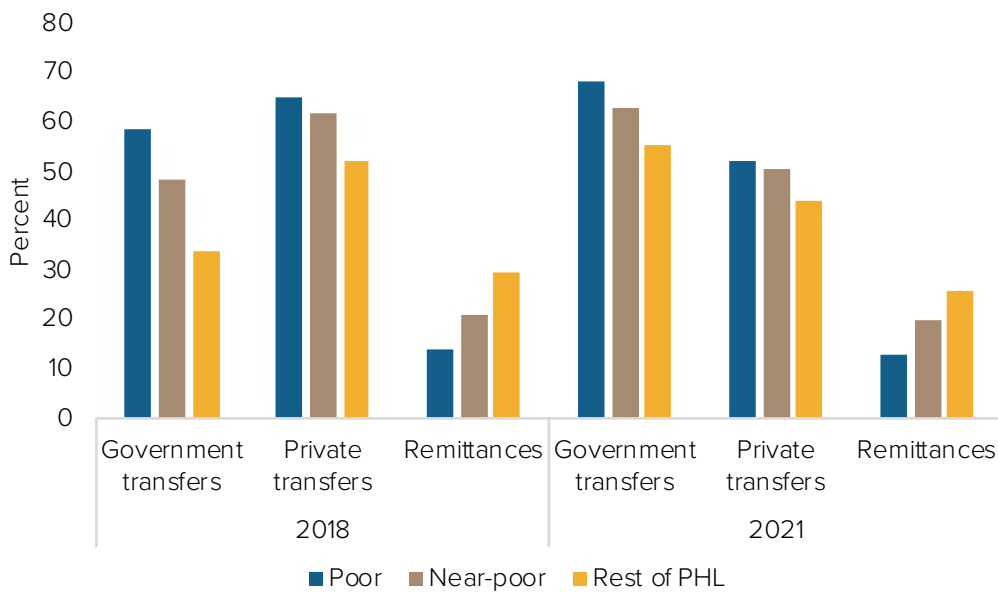


**Figure 35. Proportion of Beneficiaries from Government and Private Transfers, BARMM, 2018 and 2021 (%)**



Sources: FIES 2018 and 2021.

**Figure 36. Proportion of Beneficiaries from Government and Private Transfers, Rest of the Philippines, 2018 and 2021**



Sources: FIES 2018 and 2021.

Notes: The near poor are those whose income is between the poverty line and 1.5\*poverty line.<sup>42</sup> Government transfers in 2021 include regular social assistance and Covid transfers. Transfers are average real annual per capita values for recipient households

<sup>42</sup> The definition of near-poor is based on [https://psa.gov.ph/sites/default/files/2.2.3%20Estimates%20of%20Vulnerability%20to%20Poverty%20Trends%20from%202003%20to%202015\\_0.pdf](https://psa.gov.ph/sites/default/files/2.2.3%20Estimates%20of%20Vulnerability%20to%20Poverty%20Trends%20from%202003%20to%202015_0.pdf).



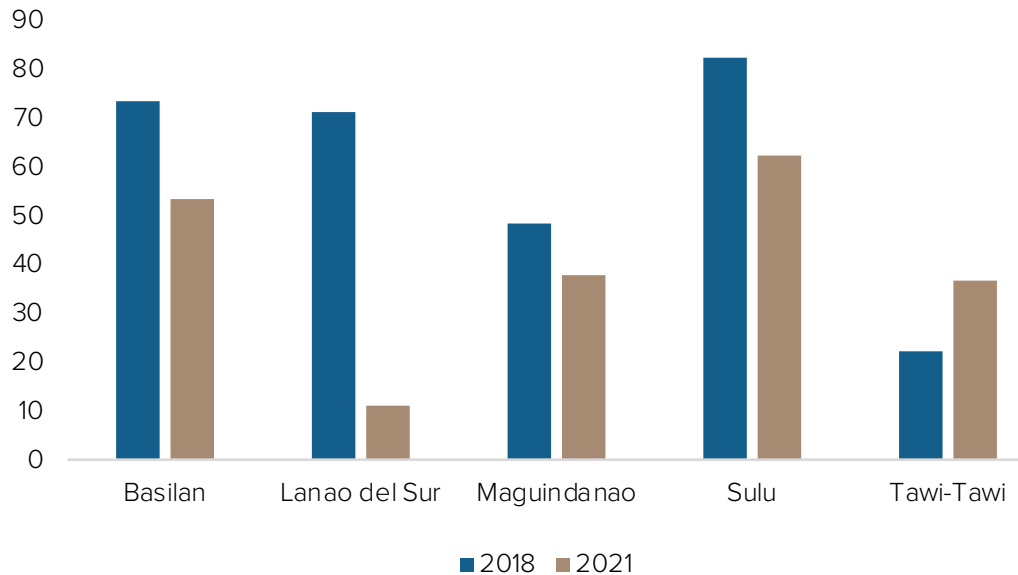
## There have been uneven changes in poverty across provinces

**Poverty reduction in BARMM has been uneven across provinces.** Between 2018 and 2021, Lanao del Sur saw the most substantial decline in poverty at 60.3 percentage points (Figure 37). Both Basilan and Sulu also made considerable progress, with poverty falling by 20

percentage points. Maguindanao had a more modest reduction in poverty at 10.6 percentage points, while poverty increased by 14.3 percentage points in Tawi-Tawi. In terms of magnitude, Sulu and Maguindanao still have the largest number of poor people in the region.

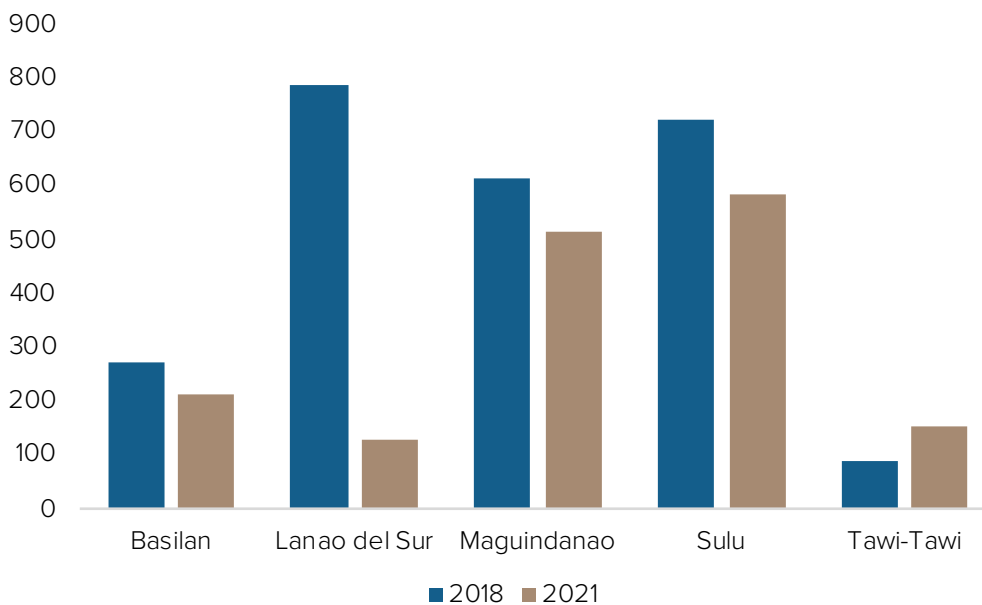
**Figure 37. Poverty Incidence in BARMM by Province, 2018–2021 (%)**

A. Proportion of poor people (%)



Sources: FIES 2018 and 2021

B. Number of poor people (thousand)



Sources: FIES 2018 and 2021

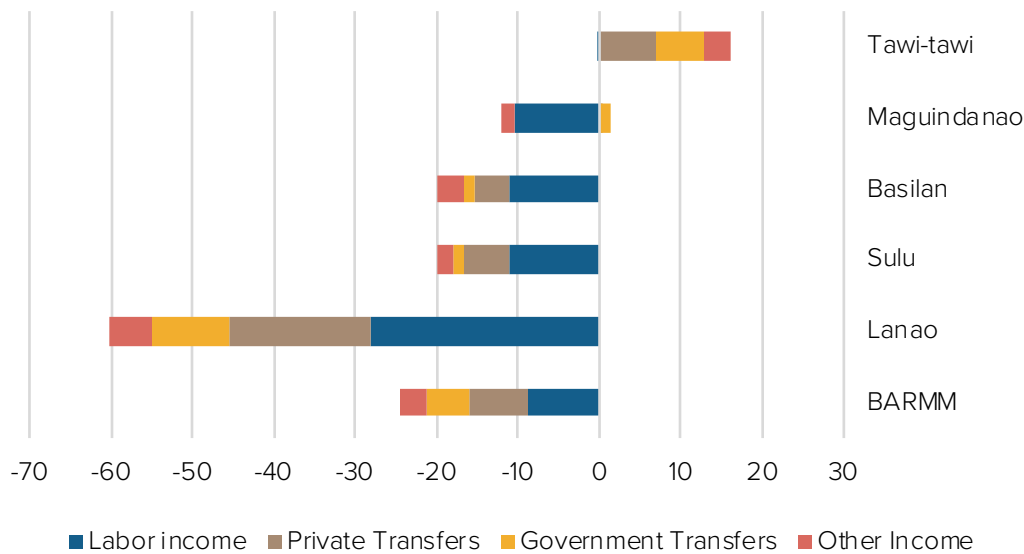


**Lanao del Sur and Sulu have experienced a significant shift in employment toward wage and nonfarm work, driving the important decline in poverty.**

Labor income played a significant role in poverty reduction across all of BARMM's provinces, except Tawi-Tawi, contributing around half or more of the fall in poverty (Figure 38). In Lanao del Sur and Sulu, there was a notable shift in employment toward nonfarm sectors, particularly low-end services and industry, alongside wage employment.<sup>43</sup> This shift not only boosted household incomes through more productive jobs but also increased the share of wage earners contributing to household wage income. As a result, real per capita household wage income surged by about 54 percent in Lanao del Sur and 458 percent in Sulu, with a notable increase in seasonal wage income,

albeit from a low basis. Furthermore, Lanao del Sur witnessed growth in income from farm and nonfarm entrepreneurial activities, further enhancing poverty reduction. However, farm income declined in Sulu, partially offsetting the overall progress in income growth and poverty reduction. Conversely, Basilan and Maguindanao saw an increase in farm employment and a rise in farm income. In Tawi-Tawi, except for seasonal wage income, most income sources deteriorated, exacerbating poverty. Sulu and Tawi-Tawi are island provinces where fishing, particularly seaweed farming, constitutes a significant portion of farmers' incomes, with products mainly sold in Cebu and Sabah, Malaysia. The decline in farm income in these provinces can be attributed to restricted market access due to border closures during the pandemic.

**Figure 38. Contribution of Income Sources to Poverty Change, BARMM Provinces, 2018 –21, Percentage Points**



Sources: FIES 2018 and 2021.

<sup>43</sup> Between 2018 and 2021, employment in agriculture declined from 65 percent to 45 percent in Lanao de Sur and from 80 percent to 62 percent in Sulu, while wage employment increased from 22 percent to 30 percent in Lanao del Sur, and from 5 percent to 17 percent in Sulu.



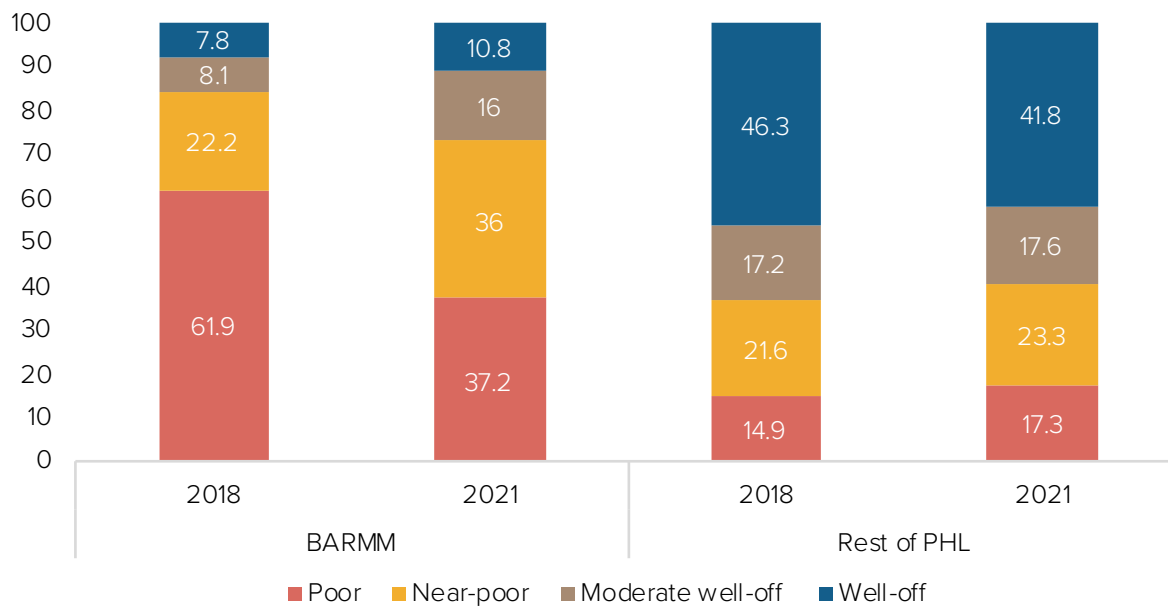
## 3.3 Remaining Challenges Undermining the Sustainability of Progress

*Households remain vulnerable to fall back into poverty*

**Many households in BARMM that escaped poverty in 2021 are still vulnerable to falling back into poverty.** Despite the overall reduction in poverty within BARMM and an increase in the share of well-off people, there has been a significant rise in the proportion of the near-poor population, from 22 percent in 2018 to 36 percent in 2021 (Figure 39). This indicates that many households that transitioned out of poverty in

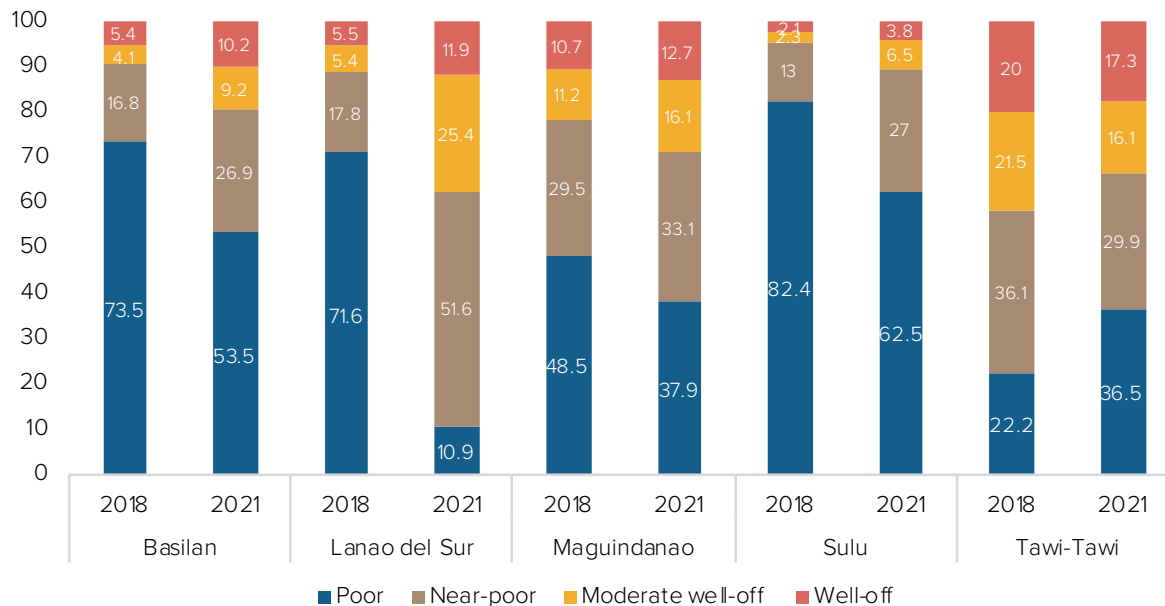
2021 still live in precarious financial situations and remain vulnerable to slipping back into poverty in the face of shocks. This increased vulnerability to poverty is particularly pronounced in Lanao del Sur, where poverty reduction was most substantial, yet the proportion of the near-poor population more than doubled (Figure 40). Nevertheless, a significant segment of the population in the province appears to have permanently escaped poverty and vulnerability, as the proportion of moderately well-off and well-off households increased from 11 percent in 2018 to 38 percent in 2021.

**Figure 39. Economic Classes, BARMM and Rest of the Philippines, 2018-2021 (%)**



Source: FIES 2018 and 2021.

Note: The moderate well-off population has per capita incomes between 1.5 and 2 times the poverty line, while the well-off population has per capita incomes higher than 2 times the poverty line.

**Figure 40. Economic Classes, BARMM Provinces, 2018-2021 (%)**

Sources: FIES 2018 and 2021.

Note: The moderate well-off population has per capita incomes between 1.5 and 2 times the poverty line, while the well-off population has per capita incomes higher than 2 times the poverty line.

## *Challenges in BARMM's labor market contribute to increased vulnerability*

### **Educational gaps and limited employment opportunities compound poverty and vulnerability challenges in BARMM.**

The region has seen little progress in its workforce education compared to the rest of the country. In 2022, nearly half of BARMM's working-age population had not progressed beyond primary education, with only 18 percent attaining education beyond high school, significantly lower than the national average (Figure 41 and Figure 42). While younger workers have higher educational attainment, they still fall behind the national average. Only one-third of highly educated youth in BARMM are employed, and their unemployment rate is more than three times higher than those with only primary education and over twice as high as their counterparts in the rest of the country, highlighting the limited job opportunities for educated youth in the region. Employment remains concentrated in agriculture,

where incomes are among the lowest nationwide. This reliance on agriculture is particularly pronounced among those with lower education levels, but it remains common across the population. The proportion of individuals with post-secondary education or above employed in agriculture is three times higher in BARMM than in the rest of the country, and more than four times higher among highly educated youth, indicating limited job prospects outside agriculture. Despite some improvements in farm incomes, farmers in BARMM remain among the poorest in the country, even compared to their counterparts outside the region. Approximately 86 percent of farming households in BARMM are either poor (58 percent) or near poor (28 percent), highlighting the need to enhance agricultural productivity while diversifying economic activities to increase economic security in the region.

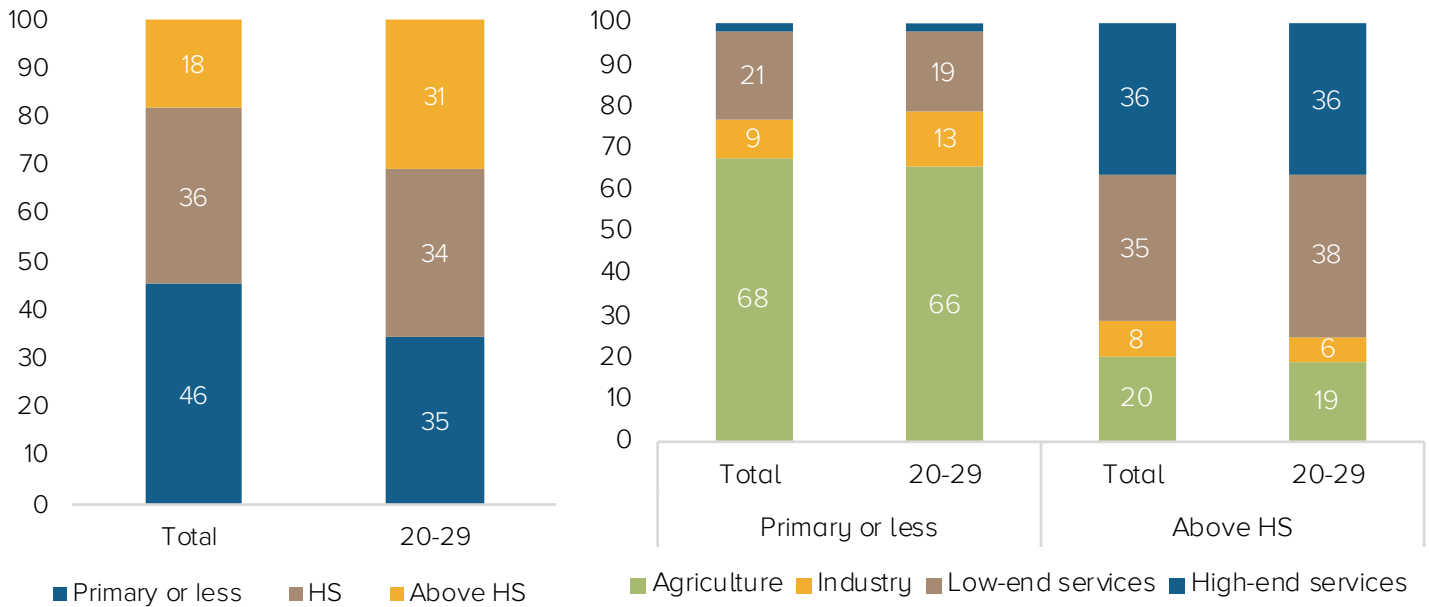




**Figure 41. Educational Attainment and Employment Sector, BARMM, 2022 (%)**

A. Educational Attainment

B. Employment Sector by Education Level



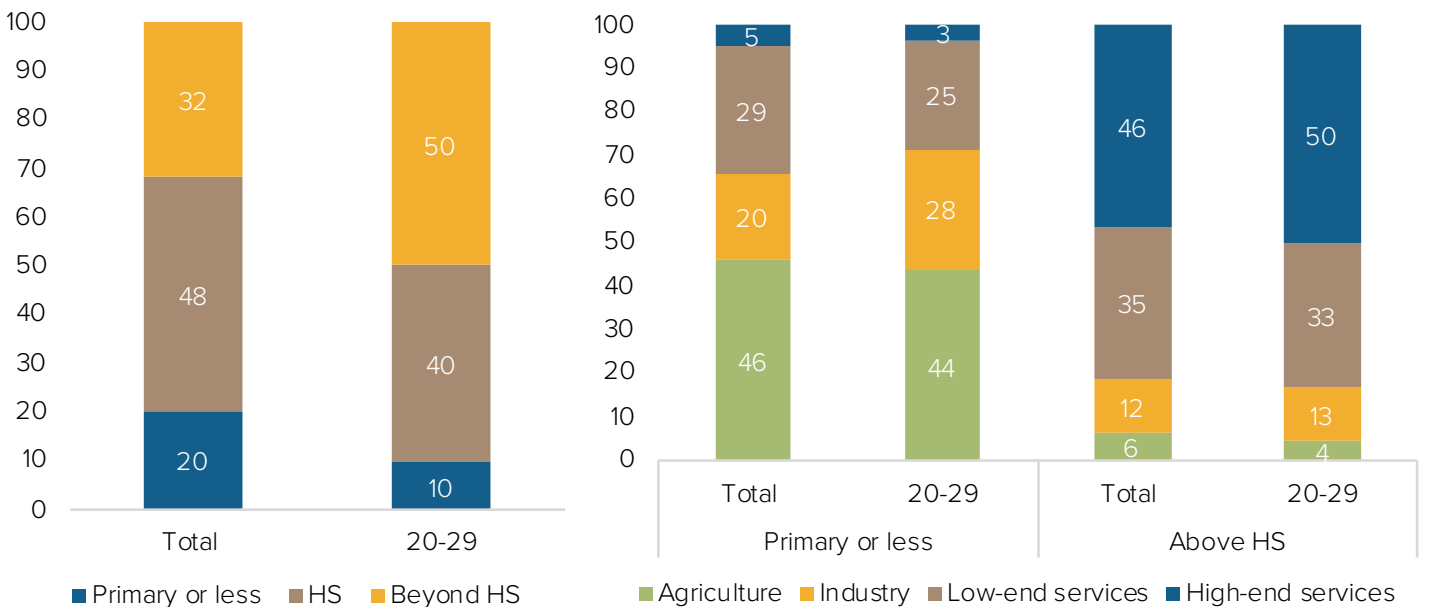
Source: LFS 2022.

Note: Data are for total workforce and youth aged 20-29 years.

**Figure 42. Educational Attainment and Employment Sector, Rest of the Philippines, 2022 (%)**

A. Educational Attainment

B. Employment Sector by Education Level



Source: LFS 2022.

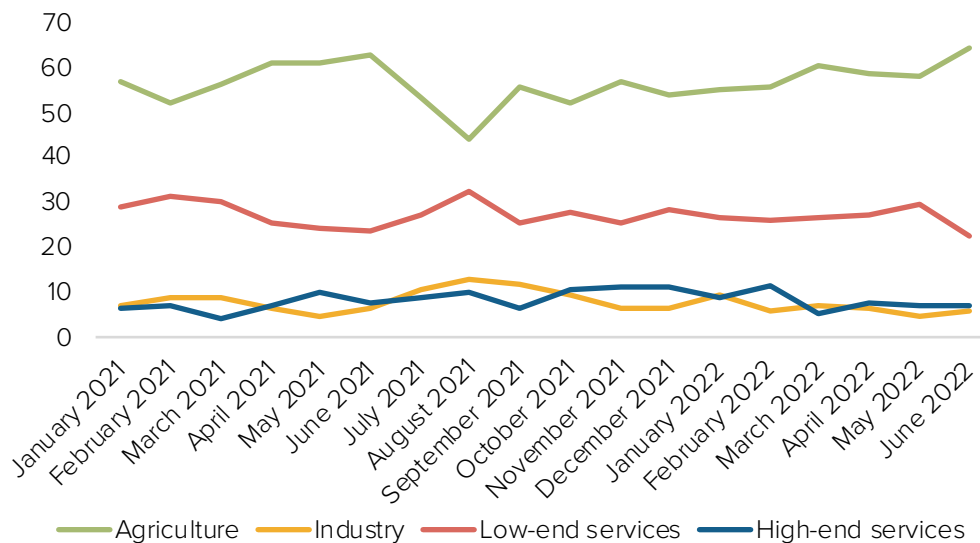
Note: Data are for total workforce and youth aged 20-29 years.



**Agricultural employment in BARMM shows significant volatility, likely due to seasonal farming activities, which makes employment in the region less stable than in the rest of the Philippines.** An examination of recent monthly employment trends from January 2021 to June 2022 reveals significant fluctuations in agricultural employment in BARMM. Variability is much less pronounced in the rest of the country. Throughout this period, agricultural employment in BARMM ranged from a low of 44 percent in August 2021 to a high of 65 percent in June 2022, reflecting fluctuations likely associated with the

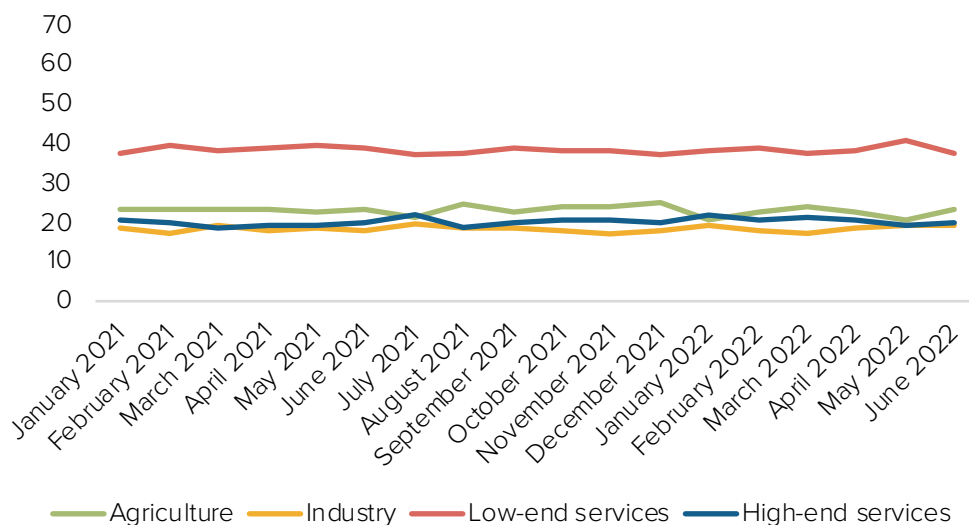
seasonality of farming activities. This volatility is accompanied by shifts toward and away from low-end services and, to a lesser extent, industry (Figure 43 and Figure 44). Conversely, in the rest of the Philippines, employment in agriculture fluctuated by only 4 percentage points during the same period, ranging from a low of 21 percent to a high of 25 percent, with rural areas fluctuating by 6 percentage points (from 28 to 34 percent). This suggests that farmers in BARMM are more exposed to seasonal and changing employment conditions than their counterparts in other parts of the country.

**Figure 43. Employment in BARMM by Sector, January 2021–June 2022 (%)**



Sources: LFS 2021 and 2022.

**Figure 44. Employment in rest of the Philippines by Sector, January 2021 – June 2022 (%)**



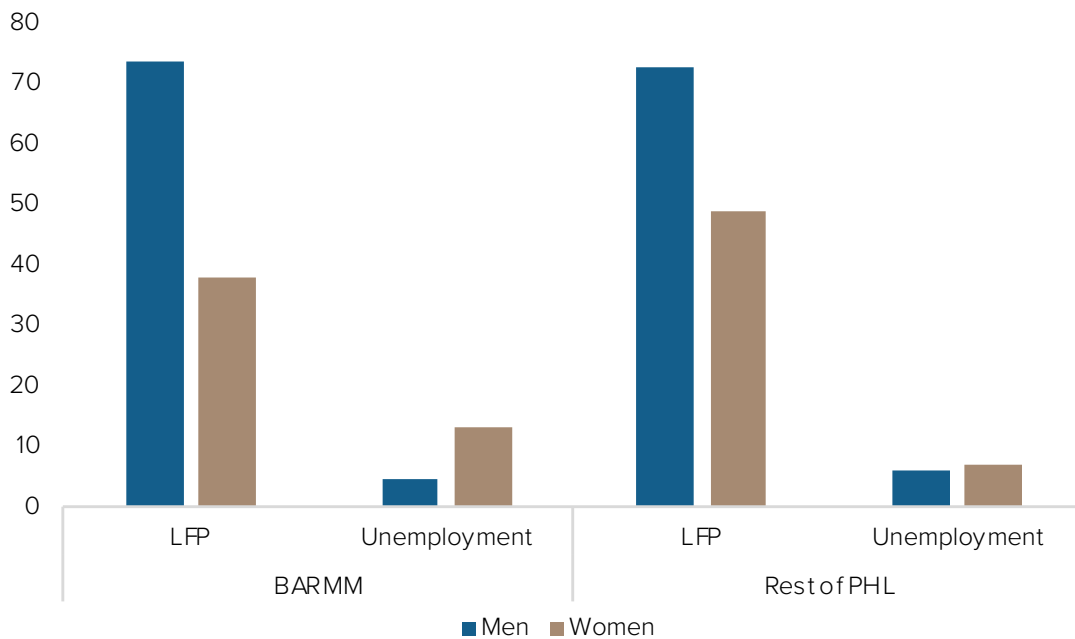
Sources: LFS 2021 and 2022.



**Despite being more educated than men, women in BARMM continue to be underrepresented in both the labor market and higher-paying jobs.** Over the past decade, the educational advantage of women over men has grown in line with national trends. In 2022, 41 percent of working-age women in BARMM had a primary education or less, while 11 percent held a college degree. By contrast, 50 percent of men had a primary education or less, with only 7 percent having a college degree. Although there have been some improvements, women's LFPR (38 percent in 2022) remains significantly lower than that of men (74 percent) and women suffer from higher unemployment (Figure 45). Moreover, women in BARMM exhibit lower

educational attainment and labor force participation, as well as higher unemployment rates compared to women in the rest of the country. They are also more likely than men to be engaged in low- and high-end services, nonfarm self-employment, and unpaid family businesses, with lower participation in wage employment. In 2022, 21 percent of working women in the region were involved in unpaid family businesses, a rate three times higher than that of men in BARMM and women outside the region (Figure 46). A majority of women working in low-end services were self-employed, while almost all engaged in unpaid family businesses worked in agriculture.

**Figure 45. Labor force participation and unemployment by Gender, 2022 (%)**



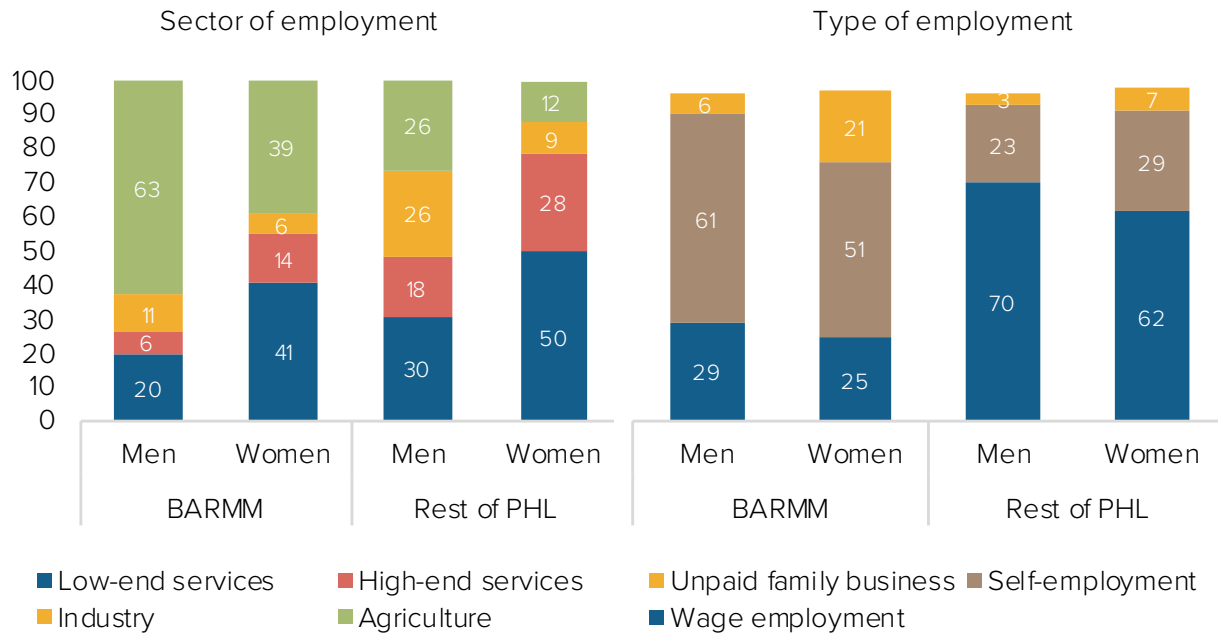
Source: LFS 2022.



Photo: World Bank



**Figure 46. Employment Sector and Type by Gender, 2022 (%)**



Source: LFS 2022.



Photo: World Bank



## Limited Provision of Basic Services

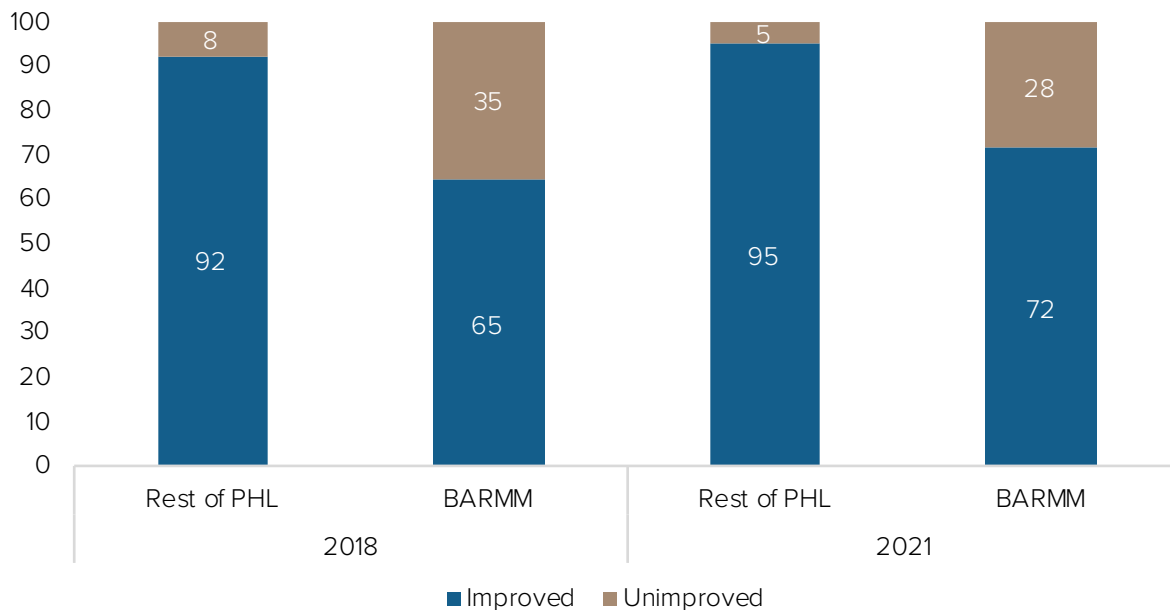
### Lack of access to basic services presents challenges for sustaining economic growth and reducing poverty.

Access to basic services is crucial for human capital development, especially for children. Diarrhea, often resulting from unsafe water, poor sanitation and inadequate handwashing, not only raises the risk of morbidity and mortality but also contributes to malnutrition, negatively impacting the health and educational outcomes of children. Limited access to basic services hampers the development of children's human capital, thereby affecting their future earning potentials and prospects for upward mobility. These challenges contribute to perpetuating a cycle of disadvantage across generations, leading to the persistence of poverty and inequality.

### The gap in access to improved water sources between BARMM and the rest of the Philippines

#### Figure 47. Access to Improved Water

A. BARMM and Rest of the Philippines, 2018 and 2021 (%)

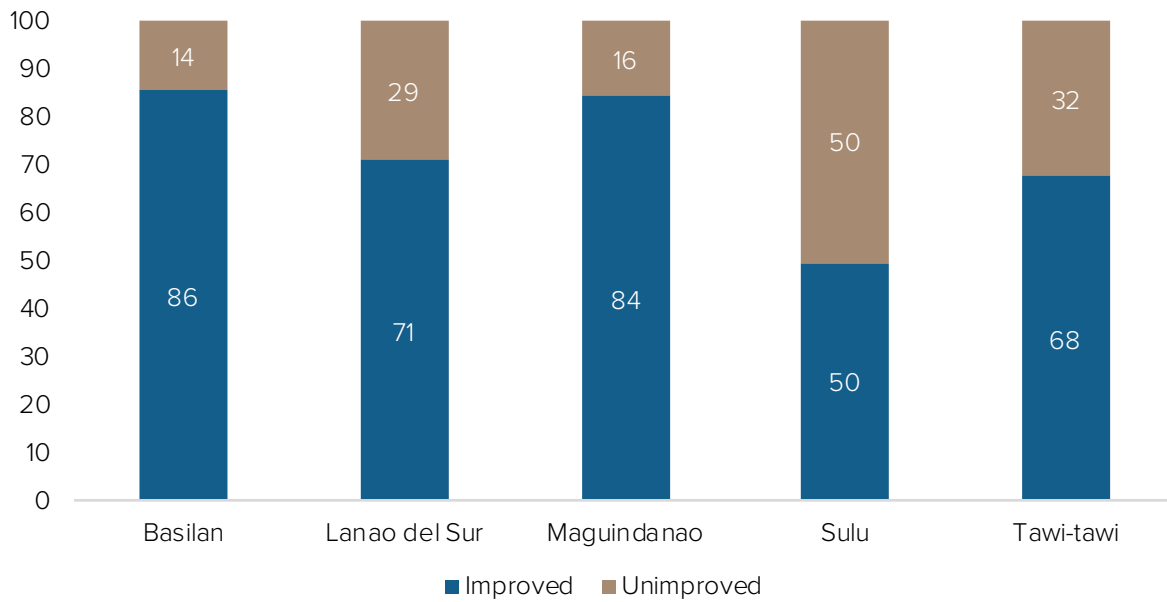


### has slightly narrowed, but large disparities remain between the region's provinces.

In 2021, 72 percent of BARMM's population had access to improved water sources, a notable increase from 65 percent in 2018, although still lagging 95 percent for the rest of the country (Figure 47). However, significant disparities persist between BARMM's provinces, with about 50 percent of Sulu's population and around 30 percent of the population of Lanao del Sur and Tawi-tawi relying on unsafe water sources in 2021. Half of the population in roughly 20 municipalities in the Philippines relies on unimproved drinking water sources, and 15 of these municipalities are located in BARMM, particularly in Sulu and Lanao del Sur (Figure 48). Additionally, access to piped water into dwellings remains out of reach for most of BARMM's population: less than 15 percent of people in the region have access to this improved water source, much lower than more than 55 percent for the rest of the country.



B. BARMM Provinces, 2021



Sources: FIES 2018 and 2021.

**Figure 48. Access to Improved Drinking Water**  
(% of Households in the Municipality)



Source: CPH 2020.

Note: Improved water sources include having water piped into a dwelling, yard, or plot or neighbor as well as obtaining water from other improved sources, as defined by the World Health Organization (WHO).

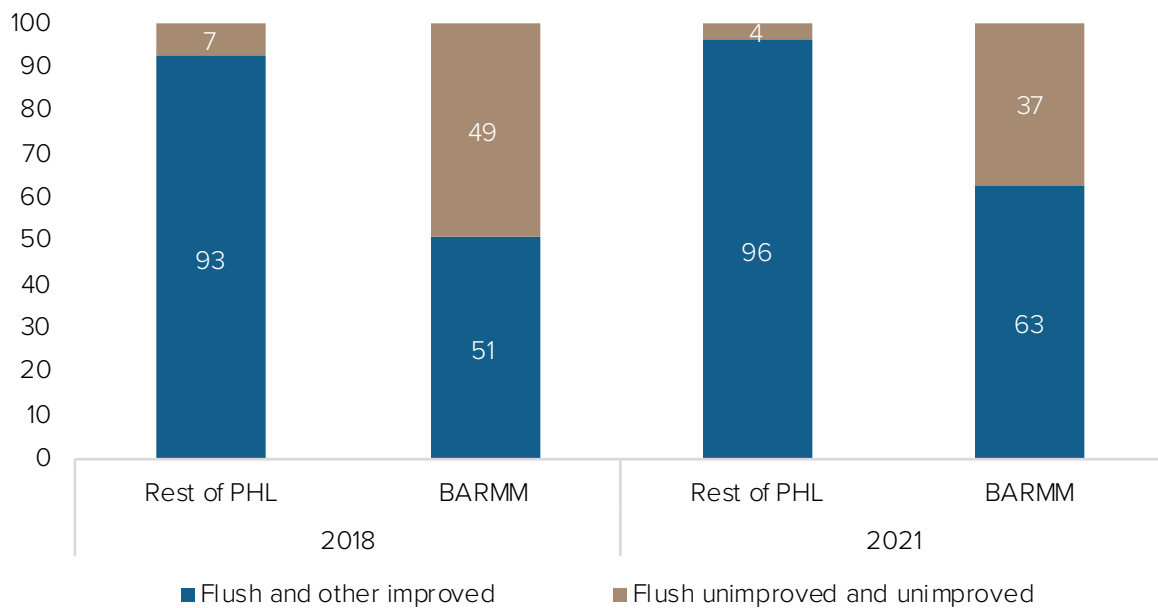


**Despite progress, access to improved sanitation remains severely limited in BARMM.** In 2021, only 63 percent of the BARMM population had access to improved sanitation, representing a notable increase from 51 percent in 2018, but still significantly lower than the 96 percent access rate in the rest of the Philippines (Figure 49). Within BARMM provinces, access to safe sanitation

remains strikingly low in Tawi-Tawi and Sulu, where over 60 percent of the population relies on unimproved sanitation systems (Figure 50). More than half of the population uses unsafe sanitation systems in about 45 municipalities in the Philippines, with 40 of these municipalities in BARMM, mostly in Sulu and Tawi-Tawi.

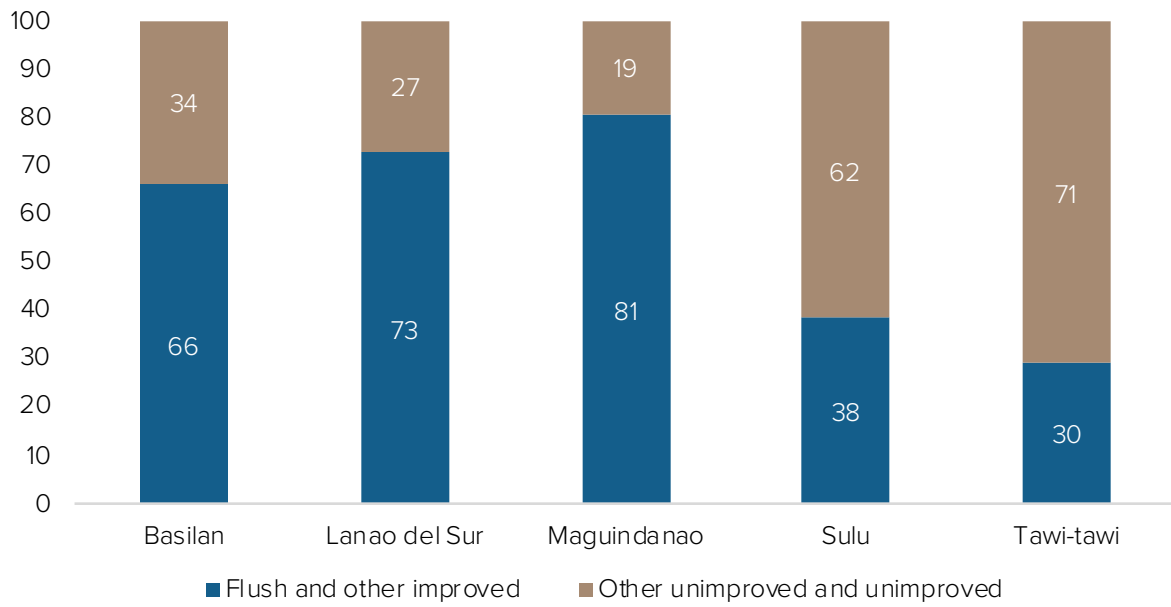
### Figure 49. Access to Sanitation

A. BARMM and the Rest of the Philippines, 2018 and 2021 (%)





B. BARMM by Province, 2021



Sources: FIES 2018 and 2021.

Figure 50. Access to Improved Sanitation (% of households in the municipality)



Source: CPH 2020.

Note: Improved sanitation is defined based on the WHO's definition and includes improved flush or other improved sanitation systems.





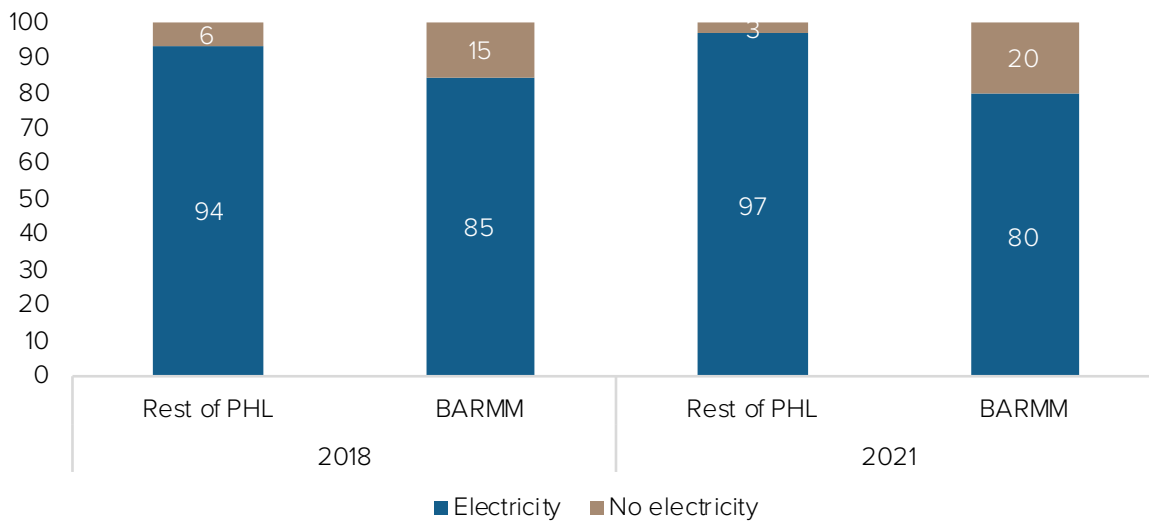
**The gap in access to electricity between BARMM and the rest of the country has grown in recent years, although households in the region appear to rely heavily on solar energy for lighting.**

Between 2018 and 2021, the gap widened from 9 to 17 percentage points, with 20 percent of BARMM's population lacking access to electricity in 2021, compared to only 3 percent for the rest of the Philippines (Figure 51). Within BARMM, access to electricity is particularly low in Sulu, where 60 percent of the population lacks access, followed by Basilan at 30 percent. Households in BARMM seem to compensate for these shortages by relying more

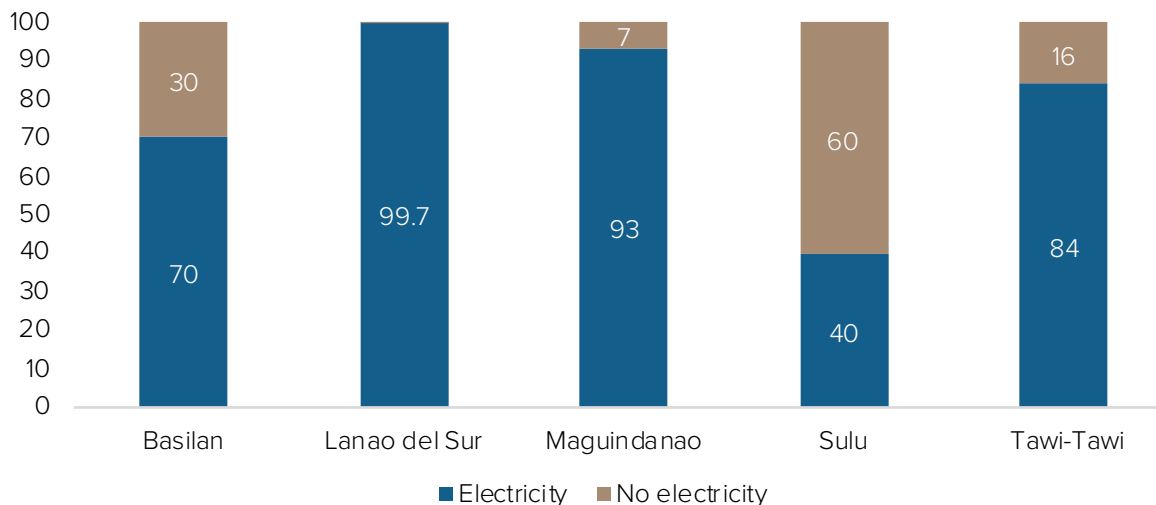
heavily on solar power. According to the 2020 Census of Population and Housing (CPH), 27 percent of BARMM's population uses solar energy for lighting, much higher than a mere 2 percent for the rest of the country. Solar energy usage is highest in Sulu at 51 percent, followed by Tawi-Tawi (43 percent) and Basilan (33 percent), while it drops to 8 percent in Lanao del Sur, where access to electricity is near universal (Figure 52). Over 50 percent of the population uses solar energy for lighting in approximately 48 municipal LGUs in the Philippines, with 33 of these LGUs located in BARMM, primarily in Sulu and Tawi-Tawi.

**Figure 51. Access to Electricity**

A. BARMM and Rest of Philippines, 2018 and 2021 (%)



B. BARMM by province, 2021



Sources: FIES 2018 and 2021.



**Figure 52. Solar power usage, percent of households in the municipality**  
(% of Households in the Municipality)



Source: CPH 2020.



Photo: World Bank



### Many barangays in BARMM remain underserved in terms of access to education and health facilities.

Access to basic education facilities, especially elementary schools, is nearly universal in a majority of barangays across the country. However, a significant number of areas still face a severe shortage of high school and college establishments. The shortage of high schools is especially acute in BARMM. Nationally, approximately 300 municipal LGUs only have 30 percent or less of their barangays with access to high schools within 2 kilometers or less, with about 60 of these municipalities located in BARMM, primarily in Lanao del Sur, Sulu, and Maguindanao (Figure 53). The scarcity of college and university facilities is even more pronounced, with just 18 percent of barangays

nationwide and a mere 11 percent in BARMM having access to a college or university within a 2 kilometer radius or less. Basic health care services, including child immunization, medical check-ups, and treatments, are typically provided in barangay health centers. However, most barangays in BARMM lack health centers, in stark contrast to the majority of barangays in the rest of the country (Figure 54). In approximately 130 municipal LGUs across the country, only half of barangays or less have access to health facilities, and more than a quarter of these municipalities are in BARMM, specifically in Lanao del Sur and Sulu. Access to hospitals remains extremely limited in the Philippines: only 19 percent and 11 percent of barangays nationwide and in BARMM, respectively, have hospitals.

**Figure 53. Access to High School**



Source: CPH 2020.

Note: Figure represents the proportion of barangays in the municipality with access within a distance of 2 km or less.

**Figure 54. Access to Health Facilities**

Source: CPH 2020.

Note: Figure represents the proportion of barangays in the municipality with access within a distance of 2 km or less.

**Limited access to markets poses significant economic challenges for BARMM, particularly for its agriculture-dependent households and fishing communities.**

Access to markets is limited both nationwide, with only 37 percent of barangays having a marketplace within a 2-kilometer radius, and in BARMM, where 34 percent of barangays have accessible markets nearby (Figure 55). The scarcity of markets in many barangays in BARMM, especially in Lanao del Sur, is of particular significance to households in the region that rely on agriculture and self-employment for their livelihoods. In the island provinces of Sulu and Tawi-Tawi, fishing is a major

income source, with seaweed as their primary product, mainly sold in Cebu and Sabah, Malaysia. The substantial decline in fishing income during the pandemic was attributed to restricted access to these markets due to border closures. Additionally, Tawi-Tawi heavily relies on Sabah, Malaysia, for basic commodities like rice, sugar, cooking oil, and fuel, and the pandemic-induced border closures resulted in significant price increases as supplies had to be sourced from more distant markets, such as Sulu or Basilan.



Photo: World Bank

**Figure 55. Access To Markets**

Source: CPH 2020.

Note: Figure represents the proportion of barangays in the municipality with access within a distance of 2 km or less.

**Many barangays in BARMM also remain underserved in terms of connectivity infrastructure.** Over 60 percent and 45 percent of BARMM's barangays do not have street patterns and access to a national highway, respectively, much lower than 35 percent and 10 percent, respectively, in the rest of the country. Access to cellular networks is relatively high in BARMM, with about 84 percent of barangays having access, although it is much lower than 95 percent in the rest of the country. However, access to internet is very low, with over 70 percent of the population lacking access in BARMM, compared to less than 40 percent in the rest of the country.

### *Limited Progress in Human Capital Development*

**There are significant disparities in school enrollment between BARMM and the rest of the Philippines,**

**particularly among young children and adolescents.**

In 2021, only 64 percent of children and young adults aged 5–24 in BARMM were attending school, compared to 77 percent in the rest of the country. These disparities are most pronounced when considering preschool enrollment, where a mere 38 percent of 5-year-olds in BARMM were enrolled, much lower than 75 percent outside the region (Figure 56 and Figure 57).<sup>44</sup> Delayed school enrollment places children in BARMM at a disadvantage, hindering the development of early childhood cognitive skills and motivation for learning, which are essential for sustained educational progress.

**School dropout rates are considerably higher in BARMM, notably among 16 to 17-year-old boys.**

Nearly 30 percent of boys in that age range are out of school, compared to just 10 percent of their peers in the rest of the Philippines.<sup>45</sup> This trend persists among those aged 18 and above, particularly among boys, with

<sup>44</sup> Among 3 to 5-year-olds, enrollment in BARMM was only 17 percent in 2021, much lower than 40 percent in the rest of the country.

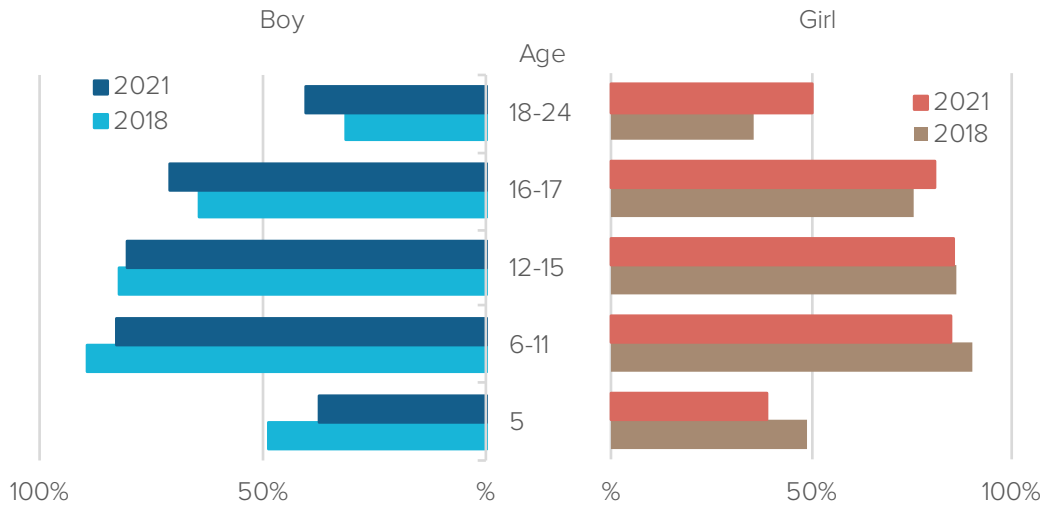
<sup>45</sup> Reasons behind school dropout are not collected in the LFS but in the Annual Poverty Indicators Survey (APIS). In 2020, about half of 16 and 17-year-old boys in BARMM report high cost of education as the reason for dropping out, and 40 percent of girls in the same age group reported marriage as the reason for leaving school.



60 percent of them being out of school in BARMM, compared to 53 percent in the rest of the country. From 2018 to 2021, school enrollment in BARMM declined among children aged 15 and below but increased for older students. By contrast, in the rest of the

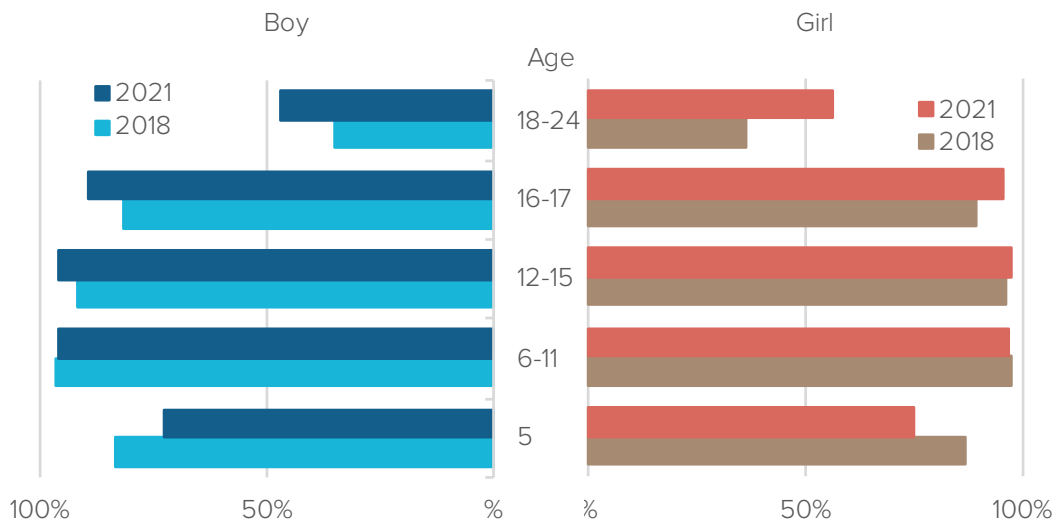
Philippines, enrollment only decreased for preschool-aged children, while it rose at a faster rate for those aged 16 and older.<sup>46</sup> This disparity in enrollment trends exacerbated gaps in educational attainment between BARMM and the rest of the Philippines.

**Figure 56. School Enrollment by Age Group and Gender, Rest of the Philippines, 2018 and 2021 (%)**



Sources: LFS 2018 and 2021.

**Figure 57. School Enrollment by Age Group and Gender, BARMM, 2018 and 2021 (%)**



Sources: LFS 2018 and 2021.

<sup>46</sup> The decline was essentially due to the pandemic.



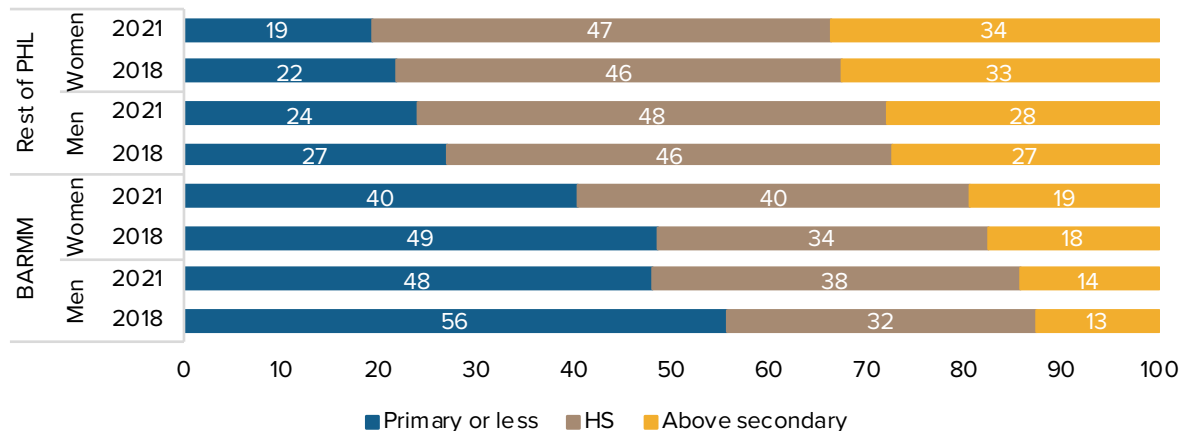
### Disparities in school enrollment contribute to ongoing educational attainment gaps in BARMM.

With merely 50 percent of the girls and 40 percent of the boys pursuing education beyond the age of 17, the region struggles to close the educational gap of its workforce when compared to the rest of the country. In 2012, only 17 percent of the BARMM workforce had attained education beyond high school, compared to 30 percent in the rest of the Philippines. A decade later, these figures had only marginally improved to 18 percent for BARMM and 32 percent for the rest of the country. Despite girls in BARMM achieving higher educational levels than boys, their attainment still falls short when compared to their female peers elsewhere in the country (Figure 58). This trend persists among the youth (Figure 59).

**Low child health indicators in BARMM can hinder human development prospects in the region.** The early childhood development index, which assesses

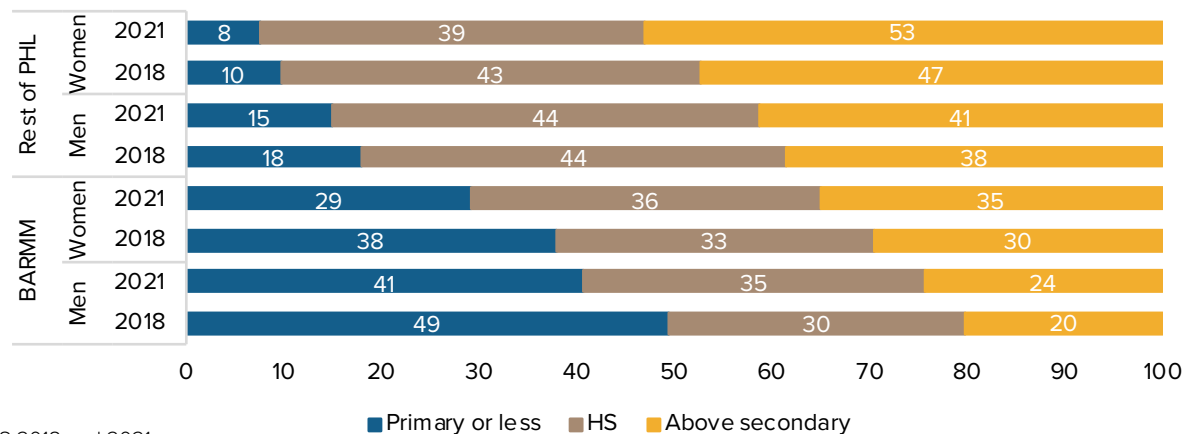
the developmental status of children aged 24–59 months in terms of health, learning, and psychosocial well-being, stands at a mere 47 percent in BARMM, significantly lower than 72 percent and above in other regions. Additionally, only 15 percent of children aged 12–23 months in BARMM are fully vaccinated, much lower than 43 percent or more in the rest of the country. Malnutrition is another pressing issue in BARMM, with child stunting rates ranging from 30 percent in Sulu to nearly 40 percent in Maguindanao and Basilan. These rates exceed and, in some BARMM provinces, remain nearly 10 percentage points higher than the national average. Furthermore, the under-5 mortality rate in BARMM, at 28 per 1,000 births, remains one of the highest in the Philippines' regions, surpassing the national average of 26. BARMM's low performance on health indicators underscores the critical need for targeted interventions and investment in child health and development programs across the region to improve human development prospects.

**Figure 58. Education level of total workforce for men and women, 2018 and 2021 (%)**



Sources: LFS 2018 and 2021.

**Figure 59. Education level of youth workforce for men and women, 2018 and 2021 (%)**



Sources: LFS 2018 and 2021.



## 3.4 Policy Options to Sustaining Poverty Reduction

**Despite great strides in income growth, high levels of poverty and vulnerability persist in BARMM, posing a challenge to the region's stability and holding back prospects for broader poverty reduction.**

As of 2021, average per capita household income in BARMM, adjusted for regional price differences, was only 40 percent higher than the region's poverty line and about half the national per capita income average. While it has decreased, BARMM's poverty rate remains twice the national average, with the region, home to 4 percent of the country's population, hosting 8 percent of its poor. Moreover, BARMM trails the rest of the country in key human capital and living condition indicators. Enhancing living conditions in BARMM holds the potential to accelerate poverty reduction, sustain peace and promote inclusive development throughout the Philippines.

**Achieving sustainable and resilient development in BARMM while upholding the gains made in the peace process requires policy measures to address important socioeconomic gaps and challenges facing the region.** Key actions include enhancing agricultural productivity and exploring opportunities to diversify and expand income sources, investing in human capital development, and improving access to basic services and infrastructure.

### *Agriculture Productivity and Income Diversification*

**Given the significant reliance on agriculture in BARMM, it is important to boost the profitability and productivity of farming activities to mitigate poverty and foster economic security.** BARMM holds significant untapped potential for enhancing agricultural productivity and ensuring food security. The region boasts strengths in crop production, aquaculture, and cross-border trade. Covering approximately 4 percent of the Philippines' land area, with vast potential for irrigable land, BARMM could substantially increase its contribution to national agricultural production and food security. However, despite recent income improvements, farmers in the

region still belong to the poorest segments of the country, facing high vulnerability to climate-related and income shocks, including employment seasonality and income fluctuations. Given that agriculture remains the primary economic activity in the region, strategies for sustainable poverty reduction should prioritize increasing the profitability and productivity of farming activities while promoting job diversification outside agriculture. This may involve implementing targeted policies and interventions to enhance agricultural practices, improve access to resources, promote technology adoption, and enhance market access while providing support to farmers. Strengthening the agriculture sector has the potential to not only lift farmers out of poverty but also foster overall economic growth and stability in the region.

**Efforts to increase agricultural productivity can be paired with policies aimed at expanding job opportunities and diversifying income sources.**

Alongside initiatives to improve the business climate and collaborate with the private sector to stimulate job creation, there is a tangible opportunity to foster entrepreneurship in BARMM specifically in auxiliary industries supporting the expansion of agriculture (e.g. agro-processing, manufacturing). Self-employment constitutes 58 percent of total employment in BARMM, with 22 percent in nonfarm sectors, and more women (35 percent) than men (16 percent) rely on self-employment activities. A more supportive environment for entrepreneurship could drive job creation in more productive sectors and promote the expansion of income sources. Therefore, policies that encourage entrepreneurship, such as streamlining the procedures for establishing and operating a business, implementing business development programs, and facilitating access to credit, can significantly bolster self-employment opportunities and diversify employment. These measures can also enhance youth and female labor force participation and narrow the gender gap in the job market.

**The low employment rate of women in BARMM highlights the need for targeted measures to enhance their economic participation and**





**empowerment.** While gender disparities in employment exist across the Philippines, they are particularly pronounced in BARMM. Despite educational advancements in the region, women's participation in the labor force was nearly half that of men in 2022. Around half of women who are not in the labor force have a high school education or higher, representing an untapped potential to boost income growth, productivity, and overall economic development in both BARMM and the rest of the country. Promoting women's labor force participation and economic empowerment requires policy interventions such as supporting flexible work arrangements, encouraging firms to expand opportunities for women who want to reenter the job market, scaling up efforts to reskill and upskill these women, and addressing traditional gender norms and childcare challenges.

### *Investing in Human Capital*

**Improving human capital in BARMM requires a multifaceted approach involving various policy interventions.** Enhancing access to quality education necessitates investments in education infrastructure, teacher training, and curriculum development to ensure that educational institutions can effectively equip students with the necessary skills and knowledge. Promoting lifelong learning and investing in developing and delivering industry-based education and training programs would enable people to acquire appropriate skills and knowledge and gain better access to quality jobs. Ensuring access to health care services and nutrition programs is also crucial for improving human capital outcomes and promoting inclusive human capital development.

### *Expanding Access to Basic Services and Infrastructure*

**Timely service delivery by both BARMM's regional government and LGUs is critical to sustain poverty reduction.** The regional government and LGUs play a critical role in addressing the challenge of accelerating growth, building human capital, and strengthening resilience. Sustaining the decline in poverty relies on the government's ability to improve the quality of service delivery and the timely execution of its budget. While the BARMM regional government's total budget utilization rate was 56.5 percent in 2022, its budget

utilization rate for capital outlays was significantly lower at 16.7 percent in the same year.<sup>47</sup> In addition, 11 out of the 27 BARMM regional government ministries had budget execution rates below 60 percent in 2022—significantly lower than the 86 percent execution rate by the national government over the same period. On average, more than half of LGUs' budgets in the region are allocated to general public services, and over 80 percent of them are allocated to operations and personnel spending. These shares are higher than the average LGU outside of the BARMM region, resulting in a lower allocation of health, education, and infrastructure spending by BARMM LGUs.

**Strengthening the institutional capacity of the regional government and its constituent LGUs in terms of investment and financial management is critical to ensure a more efficient use of resources and better delivery of public services.** Policy and capacity building interventions should be developed within the context of the Bangsamoro Local Governance Code (BLGC), which directs devolution of administrative responsibilities and authority from the central and regional governments to LGUs. The consequences of the code on LGU service and administrative functions are yet to be understood, with direct implications for responsibility of administration and provision of basic services, with particular emphasis on health services, agriculture services and social services. The adoption of the Code can bring more clarity and predictability to the intergovernmental relations, the process of devolution of services and distribution of tax revenue in BARMM.

**Improving the targeting and increasing the level of social assistance can play a key role in achieving sustained poverty reduction in BARMM.** Although social assistance coverage and transfer amounts are relatively limited, a 15 percent increase in government transfer beneficiaries, along with a 20 percent rise in the value of real per capita transfers, contributed significantly to the reduction of poverty during 2018–2021. In 2021, about 32 percent of the poor and near poor in BARMM received social assistance of around PHP 1,500 per capita (or 5.5 percent of the poverty threshold). Given the high levels of vulnerability, improving the targeting and raising benefit levels hold the potential for substantial and lasting poverty reduction in the region.

<sup>47</sup> Computed using the Statement of Comparison between Budget and Actual Amounts from the Commission on Audit.



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