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Philippines Economic Update
DECEMBER 2021 EDITION
**Regaining Lost Ground,
Revitalizing the
Filipino Workforce**



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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); and Governance Global Practices. Lars Christian Moller (Practice Manager for the MTI GP), Souleymane Coulibaly (Lead Economist and Program Leader), and Rong Qian (Senior Economist) guided the preparation of this edition. The team consisted of Kevin Chua (Senior Economist), Kevin Cruz (Economist), Karen Lazaro (Research Analyst), Eduard Santos and Ludigil Garces (Consultants) from the MTI GP; Isaku Endo (Senior Financial Sector Specialist), Uzma Khalil (Senior Financial Sector Specialist) and Ou Nie (Financial Sector Specialist) from the FCI GP; Nadia Belghith (Senior Economist) and Sharon Piza (Economist) from the Poverty & Equity GP; Yoonyoung Cho (Senior Economist) and Ma. Laarni Revilla (Consultant) from the SPJ GP; Junu Shrestha (Senior Environmental Specialist) and Agnes Balota (Environmental Specialist) from the Environment and Natural Resources GP; and Ekaterina Vashakmadze (Senior Economist). Yoonyoung Cho, Ruth Rodriguez, Dung Doan, and Ma. Laarni Revilla prepared the Special Focus Note on Jobs for Filipinos, Jobs for the Future, under the guidance of Yasser El-Gammal (Practice Manager). The report was edited by Oscar Parlbäck (Consultant), and the graphic designer was Pol Villanueva (Consultant). Peer reviewers were Ilyas Sarsenov (Senior Economist), Derek Hung Chiat Chen (Senior Economist), Achim Schmillen (Program Leader), Indhira Santos (Senior Economist), Ergys Islamaj (Senior Economist), Daisuke Fukuzawa (Junior Professional Officer), and Duong Le (Research Analyst). Logistics and publication support were provided by Kristiana Rosario (Team Assistant). The Manila External Communications Team, consisting of Clarissa David (Senior Communications Officer) and David Llorito (Communications Officer), prepared the media release, and Stephanie Margallo (Program Assistant) and Moira Enerva (Consultant) prepared the web and social media package.

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If you wish to be included in the email distribution list for the PEU and related publications, please contact Kristiana Rosario (krosario@worldbank.org). For questions and comments regarding the content of this publication, please contact Kevin Chua (kchua1@worldbank.org). Questions from the media should be addressed to David Llorito (dllorito@worldbank.org).

For more information about the World Bank and its activities in the Philippines, please visit www.worldbank.org/ph.

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Abbreviations and acronyms

| | | | |
|--------------------|---|---------------|--|
| 4Ps | Pantawid Pamilyang Pilipino Program | G2G | Government to government |
| ADB | Asian Development Bank | GDP | Gross Domestic Product |
| ALMP | Active labor market programs | GVCs | Global value chains |
| APEC | Asia-Pacific Economic Cooperation | HOPE | Household Panel and Economic (Survey) |
| APIS | Annual Poverty Indicators Survey | ICT | Information, Communication, and Technology |
| ASEAN | Association of Southeast Asian Nations | IT-BPM | Information Technology and Business Process Management |
| Bayanihan 1 | Bayanihan to Heal as One Act | IOM | International Organization for Migration |
| Bayanihan 2 | Bayanihan to Recover as One Act | KDQ | Korean Digital Competency Quotient |
| BIR | Bureau of Internal Revenue | LBP | Land Bank of the Philippines |
| BOI | Board of Investments | LFPR | Labor force participation rate |
| BOP | Balance of payments | LFS | Labor Force Survey |
| BOSS | Business One Stop Shop | LGU | Local Government Unit |
| BPO | Business process outsourcing | LICs | Low-income countries |
| BPS | Business Pulse Survey | MFMOD | Macro-Fiscal Model |
| BSP | Bangko Sentral ng Pilipinas | MSMEs | Micro, small, and medium enterprises |
| BTr | Bureau of the Treasury | NCR | National Capital Region |
| CAMP | COVID-19 Adjustment Measures Program | NERs | National Economic Recovery Strategy |
| CHED | Commission on Higher Education | NPL | Non-performing loan |
| CREATE | Corporate Recovery and Tax Incentives for Enterprises | OFWs | Overseas Filipino workers |
| COVID-19 | Coronavirus Disease 2019 | PMI | Purchasing Managers' Index |
| DA | Department of Agriculture | PSA | Philippine Statistics Authority |
| DBM | Department of Budget and Management | PPP | Purchasing Power Parity |
| DBP | Development Bank of the Philippines | PQF | Philippine Qualification Framework |
| DepEd | Department of Education | SAP | Social Amelioration Program |
| DICT | Department of Information and Communications Technology | SBCorp | Small Business Corporation |
| DOF | Department of Finance | SBWS | Small Business Wage Subsidy |
| DOH | Department of Health | SSS | Social Security System |
| DOLE | Department of Labor and Employment | TESDA | Technical Education and Skills Development Authority |
| DTI | Department of Trade and Industry | TUPAD | Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers |
| EAP | East Asia and Pacific | TVET | Technical and Vocational Education and Training |
| EMDEs | Emerging market and developing economies | U.S. | United States |
| EODB | Ease of Doing Business | UNESCO | United Nations Educational, Scientific and Cultural Organization |
| FDI | Foreign direct investment | UNICEF | United Nations Children's Fund |
| FIES | Family Income and Expenditure Survey | UNWTO | World Tourism Organization |
| FIST | Financial Institutions Strategic Transfer | | |

Executive Summary

Recent Developments

The economic rebound gained momentum in the third quarter of 2021 despite another COVID-19 wave. The Philippines has, so far, faced its worst infection wave in September when the 7-day daily average reached about 21,000 cases due to the Delta variant. In response, the authorities reimposed stringent mobility restrictions in Metro Manila and other key metropolitan areas. Nonetheless, compared with previous waves, domestic activity has been less sensitive to infections. Public containment measures constrained overall mobility less, while households and firms have learned to cope with infections and diminished mobility. As a result, the growth momentum was not severely hampered, and the third quarter growth surprised on the upside, exceeding market expectations.

The economy expanded by 4.9 percent in the first three quarters of 2021, rebounding from a 10.1 percent contraction over the same period in 2020. Although partially driven by base effects, the growth expansion also reflected an increase in economic activity despite the implementation of several lockdowns. Growth was supported by the industry sector, driven by double-digit growth in manufacturing and robust public construction activity. The services sector posted a more moderate expansion as some key services were subdued by mobility restriction measures. The agriculture sector contracted as farm and livestock outputs were impacted by typhoons and ongoing outbreak of African Swine Fever. Meanwhile, domestic demand improved, supported by a resurgence in public construction spending. Private consumption picked up but still tempered by elevated inflation and unemployment, mobility restrictions, and low consumer confidence. Public consumption growth eased, in part due to the base effects from the swift disbursement of fiscal support a year ago. The global economic recovery strengthened exports, although services trade remained weak.

The fiscal stance remains supportive of economic recovery, but the policy space is narrowing. Public spending accelerated from 23.6 percent of GDP in the first three quarters of 2020 to 24.6 percent of GDP in the same period in 2021, in line with the recovery in public investment and ongoing fiscal support. Infrastructure outlays increased from 3.5 percent of GDP to 4.7 percent of GDP in the first three quarters of 2021, a result of the government's push on investment spending as part of its recovery program. Meanwhile, public revenues fell from 16.8 percent of GDP in the first three quarters of 2020 to 16.3 percent of GDP over

the same period in 2021. Tax revenues rebounded due to strong tax and customs collections, but non-tax revenue contracted following the significant dividend remittances to the Bureau of the Treasury (BTr) in the beginning of the pandemic. The fiscal deficit widened from 6.9 percent of GDP in Q1-Q3 2020 to 8.3 percent of GDP in Q1-Q3 2021. The wider fiscal deficit has resulted in higher financing needs, which have been met by increased public borrowing. Public debt increased from 54.6 percent of GDP at end-2020 to 63.1 percent of GDP at end-September 2021.

The monetary authority maintained a low interest rate to support the economic recovery. This is in spite of headline inflation averaging 4.5 percent in the first 10 months of 2021, and breaching the upper bound of the 2-4 percent inflation target range. Supply constraints drove the inflation uptick with food adversely affected by weather disturbances and the African Swine Fever outbreaks, alongside rising global food and oil prices. The authorities are addressing the food supply constraints with non-monetary measures, such as allowing greater volume of private sector pork importation, and assistance to farmers. Excluding volatile food and energy items, core inflation remained stable, averaging 3.3 percent in the first 10 months of 2021, from 3.1 percent in the same period last year. This is indicative of weak underlying price pressure especially as aggregate demand remained generally tempered by the pandemic and mobility restrictions. The Bangko Sentral ng Pilipinas (BSP) maintained ample domestic liquidity, extended loans to the national government, and implemented regulatory measures to minimize the economic fallout of the pandemic.

The labor market has shown improvements with increased labor force participation and accelerated job creation, but challenges on the quality of jobs persist. The labor force participation rate has been on the rise since Q4 2020, and peaked at 65.0 percent in June 2021. It declined to 59.8 in July and levelled off around 63.3 percent in August and September. The high labor force participation, which has been far more prominent for women, continued despite the reimposition of enhanced quarantine measures. The unemployment rate reached 8.9 percent in September, significantly higher than that of pre-pandemic levels. Net increases in elementary occupations continued whereas managerial and professional jobs were lost between April and September, raising the jobs quality concern. Underemployment spiked at 20.9 percent in July 2021, up from 16–18 percent in the first quarter of 2021. The pandemic has reduced the number of hours worked, as the share of part-time workers remains higher than before the pandemic.

It also continues to put pressure on household incomes, which will likely cause poverty to increase in the short term.

Outlook and Risks

Progress in vaccination has emerged as the critical condition to a firmer economic recovery. The medium-term growth prospect hinges on an economic reopening and containment strategy that depends on the successful rollout of mass vaccination. The strategic focus to scale up vaccination in the National Capital Region (NCR), which contributes to nearly 40 percent of GDP, is now paying dividend. About 92 percent of the adult population in the capital has been vaccinated as of mid-November, leading to a decline in new COVID-19 cases and prompting the phased implementation of looser mobility restrictions. Nevertheless, vaccination continues to significantly lag in regions outside the capital as implementation faces challenges in remote areas. At the current pace of 700,000 inoculations per day, the country will reach 70 percent coverage of the country's almost 110 million population by Q1 2022. The country's vaccination is lagging behind some ASEAN peers due to distribution bottlenecks in the provinces and far-flung areas, as well as on relatively high vaccine hesitancy among Filipinos.

With further economic reopening, the economy is projected to grow faster over the medium term. The economy is projected to grow at 5.3 percent in 2021, and 5.8 percent in 2022-23. Alongside the progress in vaccination, the phased economic reopening will support a return of market confidence and domestic dynamism. The reopening is expected to benefit the services sector especially transportation, domestic tourism, and wholesale and retail trade. Sustained public investment and external demand will support construction and manufacturing activities. Prospect for the agriculture sector, however, remain weak due to a combination of chronic underinvestment and vulnerability to weather-related shocks. On the demand side, public investment is expected to be a key growth driver as the government pursues its infrastructure investment agenda. Private investment growth may remain tepid due to subdued lending and market uncertainty from the pandemic and the upcoming government transition. Household consumption is projected to recover as remittances pick up and employment improves, barring the resurgence of new COVID-19 cases. Nonetheless, the nearly two-year long pandemic has already resulted in the closures of firms and losses of jobs and incomes, alongside health insecurities and education disruptions. These economic scarring may harm the country's long-term growth potential.

The growth outlook is subject to downside risks. The COVID-19 pandemic remains a key downside risk. Even in

countries with high vaccination rates, infections have continued to spread, albeit with greatly reduced severity of illness, hospitalization, and mortality. Variants of concerns, breakthrough cases, and waning vaccine efficacy have highlighted the complexity of economic reopening. Beyond the health aspect, uncertainty around the pandemic still weighs heavily on market sentiments and investment decisions, prompting businesses to hold off on productive investments. Firm closures are directly contributing to permanent job and income losses. Moreover, firm insolvencies are posing a risk to the financial system as nonperforming loans and loans at risk increased and profitability ratios worsened. Nonetheless, the banking system remain well-capitalized with capital adequacy ratio above the regulatory threshold.

The government is encouraged to pursue a progressive fiscal consolidation plan that protects the poor to ensure long-term fiscal sustainability. It must, however, carefully manage the risks and trade-offs associated with consolidation. Increased taxation or public spending reduction will hold back economic activity in the short to medium-term due to the reduction in aggregate demand. However, the improved macro management will help safeguard growth in the long-term. Employing new tax administration measures may prove to be the preferable intervention until the new administration takes over with a fresh mandate. Eliminating spending inefficiency and increasing value for money in public procurements will be instrumental to an expenditure strategy. Moreover, the timing of reforms requires careful consideration of the political cycle. The incoming administration has a window of opportunity to implement painful yet necessary reforms right after the election when it still has political capital. Consolidating too early to protect fiscal health may quell recovery but waiting too long may close the window of opportunity. The 2022-23 period would be critical for a successful implementation. As the national budget is estimated to expand by about 11.0 percent next year, the fiscal consolidation is likely to start in 2023.

With narrowing fiscal space, the authorities could improve public investment management and leverage private sector participation, where viable, to address the infrastructure gap. Public financing needs will remain elevated as public revenues slowly recover while the government continues to address the pandemic. The limited fiscal space should compel the authorities to improve the efficiency of public expenditure and explore different sources of financing. The government could consider increasing the participation of the private sector through public-private partnerships, in which the country has extensive experience. The private sector is a source of not only finance but also expertise, innovation, and solutions to

the country's development objectives. Leveraging the private sector can help fill the financing gap, consistent with the country's overall fiscal sustainability.

To strengthen private sector development, the authorities should prioritize structural reforms that reduce regulatory restrictiveness and encourage market competition.

Removing the restrictiveness of regulations can have positive effects on value added, productivity, and export growth. Reducing regulatory restrictiveness can be done by: (i) eliminating restrictions on foreign investment; (ii) reducing the scope of controlled prices to create the right incentives; and (iii) streamlining administrative procedures to facilitate easy market entry. The approval of key reforms such as amending the Public Sector Act and Foreign Investment Act could attract investments in key sectors and boost medium-term growth and job creation.

Social protection programs should be timely and targeted, reaching the individuals who need them the most.

They are important to mitigate the adverse impact of the pandemic on livelihoods, health, and education, especially among the poor. Moving swiftly to provide transfers and support to poor households necessitates an improvement in the government's delivery and implementation capacity. To this end, the successful rollout of the Philippine National ID system and use of the foundational ID for social protection delivery is a step towards the right direction by enabling the digital identification of recipients and digital transformation of the delivery system. More specifically, the Philippines must leverage the National ID system for strengthening the country's targeting system, consolidating and systemizing beneficiaries' information in a unified database, harmonizing various social protection programs, and facilitating financial inclusion and digital distribution of transfers.

Harnessing the digitalization momentum will drive growth and productivity, and help reverse the declining potential growth.

The pace of digitalization has accelerated in the Philippines, evidenced by the increased volume of digital transactions, use of online platforms, and expansion of e-commerce. Even so, the use of digital technologies in the country has been uneven, with larger firms being more adept than smaller ones to use technology to improve their inventory management and operations. Equipping all firms with the skills and know-how to adopt new technology must be pursued and complemented with openness and competition policies to increase the incentives for firms to exploit such technologies. While digital infrastructure for basic technologies is often available, broadband access needs to be expanded to facilitate the use of more advanced technologies.

Special Focus: Jobs for Filipinos, Jobs for the Future

The pandemic massively disrupted the labor market with large-scale job losses and diminished job quality.

One in five jobs were destroyed in Q2 2020 during the peak of lockdown measures, from which point many jobs have returned over time. The number of jobs in July 2021 (41.7 million) was close to that pre-pandemic number in January 2020 (42.5 million), but short of what it would have been without the pandemic (46.0 million) by over 4 million. Outmigration fell by 75 percent from 2.2 million in 2019 to 550,000 in 2020, adding pressure in the domestic market. The structural transformation of the labor market stalled as labor shifts to less productive sectors and jobs growth in productive industries slowed down. Labor demand remains low as firms operate below capacity, while workers fell back on agriculture and low productivity service sector for earning opportunities. The quality of jobs is of concern with an increasing share of workers being absorbed by elementary occupations and own-account work. The labor market shock disproportionately affected the youth and female workers, and the economic scarring may cause long lasting productivity and earning losses for workers transitioning into the labor market.

The government responded with a combination of demand and supply side support, but the needs remain daunting.

On the supply side, large scale social protection measures were implemented for displaced workers, along with other active labor market programs. On the demand side, support for access to credits as well as much needed reforms to improve the business environment were introduced. However, due to the sheer magnitude and prolonged duration of the pandemic, government support could not fully mitigate the labor market impact of the pandemic. To strengthen labor market programs and promote job creation, the government has institutionalized the National Employment Recovery Strategy, a masterplan that focuses on wage subsidies, reskilling and upskilling of workers, implementation of youth employability program, support for existing and emerging businesses, and social protection for vulnerable groups.

Going forward, the government should prioritize making the business environment conducive for job creation, and building capabilities for workers and linking them to jobs

In the short-term, priority should be on recovering from the pandemic shock and resuming economic activities for job creation towards the endemic scenario. Strengthening wage subsidies and implementing workfare for targeted workers can achieve greater impact within the limited fiscal space. In the medium term, policies should address structural challenges in enhancing firms' productivity and competitiveness, and workers' skills and protection.

New sources of jobs and growth especially in uncharted areas such as green jobs, new global value chain, or strategic international migration, should be explored. Operationalizing the Green Jobs Act, for instance, will help the government to provide targeted support for green sectors and occupations. At the same time, workers in

various forms of employment could benefit from enhanced social programs including social insurance for better resilience. Finally, urgent actions are required for human capital to avoid the long-term consequences of health and learning loss on the future of the country.

Government should prioritize making a business environment conducive for job creation, and building capacities of workers and linking them to jobs.



| Demand side: | Supply side: |
|--|---|
| Ensuring an enabling environment for job creation and helping businesses to be connected to the markets | Building capabilities of workers, connecting workers to jobs, and providing workers protection |
| Short-term | |
| <ul style="list-style-type: none"> Recovery Supporting firms to gain confidence and resume operations, maintain or hire workers; promote entrepreneurship and business start; create temporary opportunities at scale | <ul style="list-style-type: none"> Activation Supporting workers to gain access to targeted active labor market programs |
| Medium-term | |
| <ul style="list-style-type: none"> Transformation Promoting innovations and digital transformation of firms; providing incentives to engage in activities with positive externalities such as green jobs; supporting the explorations and identifications of the new markets especially in global value chains and international migration | <ul style="list-style-type: none"> Resilience Enhancing workers skills (technical, cognitive, and non-cognitive) for the evolving market environment; revisiting labor regulations; and strengthening social protection |
| Long-term | |
| <ul style="list-style-type: none"> Sustainability Promoting a strong early start (early childhood health and nutrition), restoring the lost learning due to the pandemic, and ensuring inclusion of the vulnerable populations in human capital investment opportunities | |



Part I

Recent Economic and Policy Developments

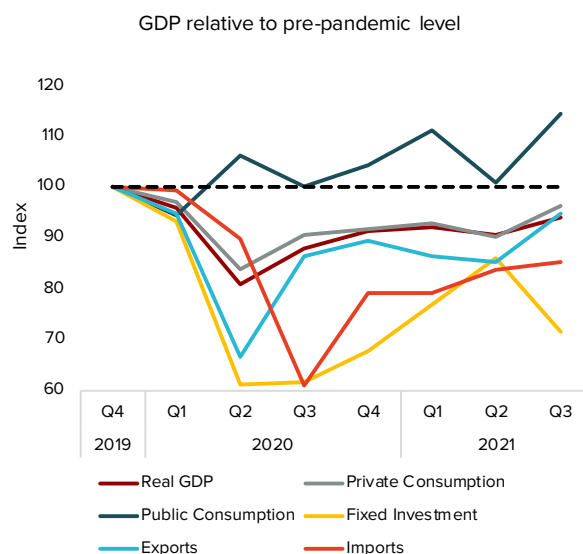
The economy expanded in the first three quarters of 2021, following a deep contraction in 2020. The rebound was driven in large part by base effects, an improved external environment, and more relaxed lockdown measures, despite several COVID-19 waves. Fiscal policy remains supportive of growth, aided by a substantial increase in infrastructure spending and stimulus measures for households and firms. Monetary policy remains accommodative despite a sustained uptick in inflation, driven by higher food and energy prices. The relaxation of containment measures and the gradual resumption of economic activity have led to improvements in labor force participation and job creation in recent months. Despite improvements in the labor market, the quality of jobs is a concern as workers remain vulnerable to frequent changes in containment measures.

1.1 Economic Growth: Gaining Steam

The economy rebounded in the second and third quarters of 2021, aided by a supportive external environment, a robust public investment program, and more relaxed containment measures. The Philippines is poised to carry its recovery momentum into the fourth quarter as the country recovered from the August-September COVID-19 wave.

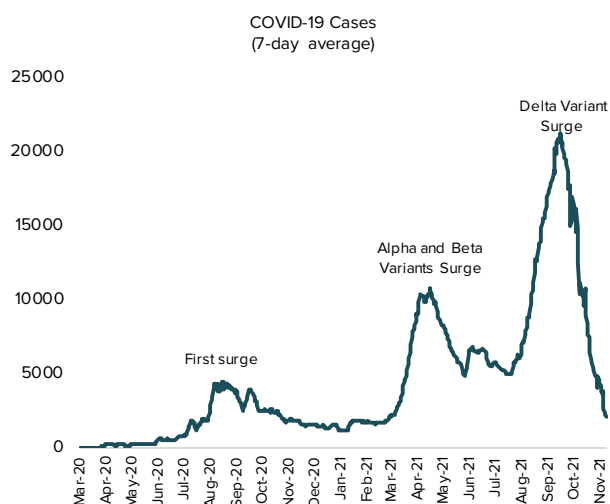
The economic rebound gained momentum in the third quarter of 2021. Although partially driven by base effects, the growth expansion in the second and third quarters also reflected an increase in economic activity despite the implementation of several lockdowns. On a seasonally adjusted basis, output in the Philippines is inching towards its pre-pandemic level (Figure 1), although at a slower rate compared to regional peers.¹ Similar with other countries, economic activity is now less sensitive to infections and containment measures compared to previous lockdowns.² Public health measures restrict overall mobility less, while households and firms have learned to cope with infections and diminished mobility. Since the third wave in September, COVID-19 case metrics have substantially improved with the 7-day daily average dropping from about 21,000 cases in mid-September to 2,000 in mid-November (Figure 2). The drop in cases coincided with the acceleration in vaccination effort, which nonetheless, lagged behind ASEAN peers (Figure 3). The authorities have accelerated the pace of the economic reopening, particularly in low-risk areas and areas with high vaccination rates, paving the way for the continued economic rebound.

Figure 1. The economic rebound gained steam in Q3 2021.



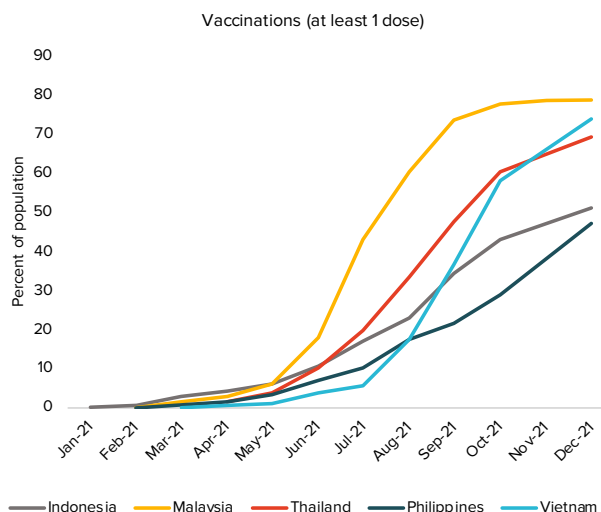
Source: Haver Analytics
Note: Figure 1 shows seasonally adjusted real GDP indexed to 2019:Q4 (100).

Figure 2. COVID-19 cases have declined from its September 2021 peak.



Source: Department of Health (DOH)

Figure 3. Vaccinations continued to lag behind ASEAN peers.



Source: Our World in Data

¹ On a seasonally-adjusted basis, the Philippines' GDP is around 6 percent lower than pre-pandemic levels, compared with regional peers such as Thailand (5.0 percent lower than pre-pandemic), Vietnam (3.8 percent), and Indonesia (1.2 percent).

² On average, 10 additional infected cases per 1 million are associated with less than one-half of a percent reduction in mobility now compared to over a two percent reduction in the first half of 2020. Similarly, countries imposing a stricter degree of domestic lockdown experienced over a 10 percent reduction in mobility in all months prior to December 2020, but the impact was one-half that much in the first half of 2021. Source: World Bank. 2021e. East Asia Pacific Economic Update October 2021: Long COVID.

The economy expanded by 4.9 percent³ in the first three quarters of 2021, rebounding from a contraction of 10.1 percent over the same period in 2020 (Figure 4). Growth was supported by the rebound of the industry sector, driven by double-digit growth in manufacturing amid a supportive external environment, and robust public construction activity. The services sector posted a more moderate expansion as some key services were subdued by mobility restriction measures. The agriculture sector contracted as farm and livestock outputs were impacted by typhoons and ongoing outbreak of African Swine Fever. Domestic demand improved, supported by a resurgence in public construction spending. Meanwhile, public consumption growth eased as additional fiscal support measures declined, and in part due to the base effects from the swift disbursement of fiscal support a year ago. Private consumption growth picked up but still tempered by elevated inflation and unemployment, mobility restrictions, and low consumer confidence. The global economic recovery strengthened exports, although services trade remained weak.

Private domestic demand, albeit improving, remained generally weak. Investment activity was lifted by the sharp increase in durable equipment investments in Q1-Q3 2021 (15.8 percent), which in turn was mostly driven by base effects from a collapse over the same period in 2020 (-31.5 percent). Still, investment spending fell below pre-pandemic levels amid elevated uncertainty, depressed business confidence, and limited access to finance. Private construction activity declined in the first three quarters of 2021, as firms held off on construction activities. Meanwhile, private consumption showed signs of recovery as mobility has been less sensitive to lockdown measures and infections. The gap in private consumption from its pre-pandemic levels narrowed to four percent in the third quarter of 2021 after remaining in double digits since the start of the pandemic. Private consumption grew by 2.9 percent in the first three quarters of 2021, well below pre-pandemic growth rates, impacted by elevated

inflation and the multiple cycles of lockdowns that led to poor employment outcomes and incomes losses.

External demand benefitted from robust global activity in merchandise trade. Exports increased by 7.7 percent in the first three quarters of 2021, fueled by a 13.9 percent expansion in merchandise exports, which benefitted from robust global trade activity (Box 1). The Philippines continued to benefit from increased demand for electronics, its largest export commodity. However, travel restrictions weighed heavily on travel and transport export services, which contracted by 60.3 percent and 13.5 percent, respectively, in the first three quarters of 2021. Meanwhile, imports increased by 12.7 percent in the same period, driven by a broad-based recovery in the importation of consumption goods, raw materials, and capital goods. The strong recovery of imports reflects increased domestic activity, particularly public investment, and the strong rebound in the manufacturing industry, leading to robust imports of raw materials and inputs.

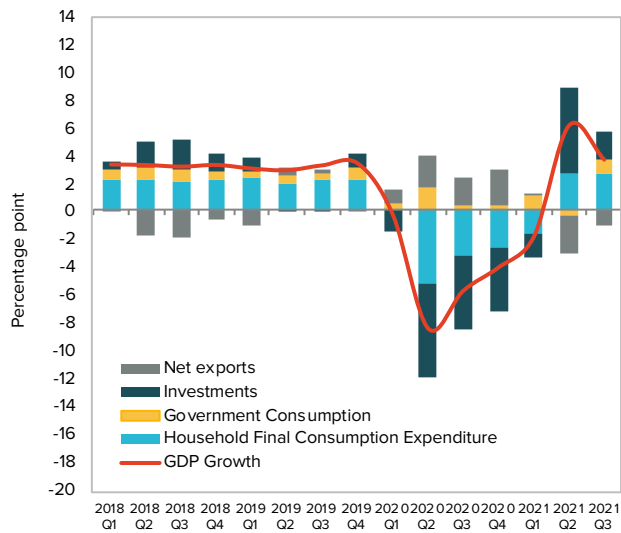
On the supply side, economic activity was supported by growth in the industry and services sectors (Figure 5). The industry sector rebounded from -14.2 percent in Q1-Q3 2020 to 7.6 percent in the same period in 2021. Its strong performance was driven by double-digit growth in manufacturing amid a more supportive external environment, and robust public construction activity. In addition, the services sector posted a more moderate expansion of 4.6 percent, as key services such as wholesale and retail trade, transportation, and accommodation and food services continue to struggle amid the pandemic. However, sectors such as health, information, communication, and finance fueled growth, benefitting from increased reliance on their services. Agriculture contracted by 1.0 percent due to the continued slump in livestock and fisheries output. In particular, the sharp decline in livestock output was driven by the ongoing outbreak of African Swine Fever, which has affected around one-third of the country's hog population.



Photo: Jed Regala

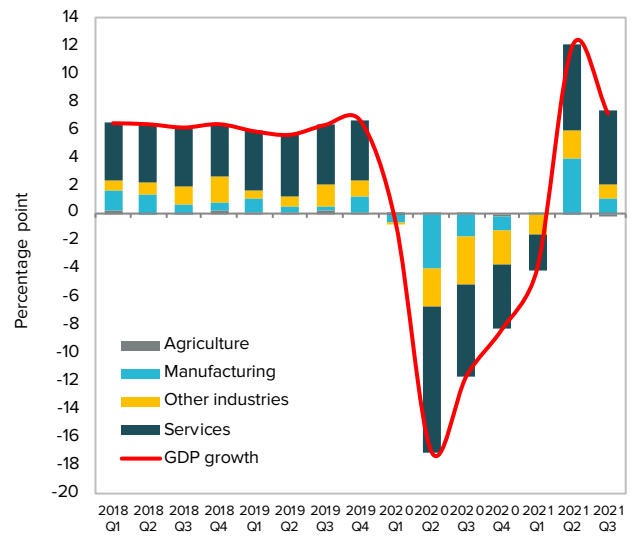
3 All growth numbers are year-on-year unless otherwise stated.

Figure 4. Improvements in domestic activity contributed to the recent growth.



Source: Philippine Statistics Authority (PSA).

Figure 5. Industry and services drove growth on the production side.



Source: PSA.

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



Photo: Jed Regala

Box 1. Recent Global Developments

The continued resurgence of COVID-19, along with supply chain disruptions, has slowed the momentum of the global recovery. The ongoing pandemic continues to exact a heavy toll on economic activity in Asia, the Americas, and Europe. The global composite output purchasing managers' index (PMI) fell from 55.8 in July to 52.6 in August—a seven-month low. The decline was broad-based across the manufacturing and services sectors, with the latter falling to its lowest level since February 2021. Furthermore, supply bottlenecks and strained global value chains (GVCs) exacerbated input price inflation and lengthened delivery times, although there are signs that both are moderating. Global consumer confidence remains above pre-pandemic levels, although it conceals enormous regional and income disparities, with consumer confidence in emerging market and developing economies (EMDEs) remaining below pre-pandemic levels. Notably, consumer outlook in the Philippines remain below its 2019 level, although it has improved by large strides since Q3 2020.

The global economic recovery remains uneven. Advanced economies are generally experiencing a faster recovery than EMDEs. The rapid rollout of vaccines, along with resilient consumption, drove growth in the euro area, as countries relaxed pandemic-related measures. Second quarter growth in the United States (U.S.) fell below market expectations but allowed output to return to its pre-pandemic level. Private consumption proved resilient, with retail sales increasing month-on-month in August against expectations of a decline. Among EMDEs, activity in China moderated as retail sales and the composite output index dipped in August, mainly due to a resurgence of COVID-19 infections. In Southeast Asia, pandemic-related restrictions have eased, resulting in the rebound of the PMI (50.0 in September), except for

Vietnam (40.2). However, the region is still suffering from disruptions in GVCs.

Global trade activity has rebounded but slowed recently, while tourism services remain far below their pre-pandemic levels. The volume of global goods trade increased by 0.5 percent, month-on-month, in June, following a contraction in May. PMIs point to a softening in the third quarter, with new export orders easing to a seven-month low of 51.0 in August. Nonetheless, goods trade has already surpassed its pre-pandemic level, in sharp contrast with the slower recovery in services trade. Travel and tourism remained around 60 percent below their pre-pandemic levels. Global supply chains remain under significant strain because of factory and port shutdowns as well as logistic bottlenecks due to weather disruptions and container shortages. Inventory levels have plummeted and the backlog of orders for traded goods has surged.

While global financing conditions remain generally favorable, a growing number of EMDEs have started to tighten their policy stance. The US Federal Reserve, in its September meeting, signaled its intention to reduce asset purchases, raising 10-year US Treasury yields slightly to 1.4 percent. In advanced economies, corporate yield spreads have remained near record lows. Some EMDEs have started to increase interest rates, although bond spreads still hovered near post-pandemic lows in August. Portfolio inflows to EMDEs remain muted due to rising inflationary pressures and uncertain growth prospects. Finally, stock markets came under pressure in September due to concerns regarding the financial health of Evergrande, a major real estate player in China, but concerns have since retreated.

Sources: *Global Economic Prospects, June 2021; Global Monthly, September 2021.*



Photo: Ezra Acayan

1.2 External Sector: Reversal to a Balance-of-Payments Deficit

Recovering goods imports and net capital outflows resulted in a current account deficit in H1 2021. The Philippine peso has started to depreciate against the US dollar in nominal terms since July 2021. In real terms, it gained strength, which may weigh on the country's exports competitiveness.

The current account reversed from a surplus of 2.8 percent of GDP in H1 2020 to a deficit of 0.7 percent of GDP in H1 2021, driven by a wider trade deficit.

Mirroring regional peers, both the merchandise import and export activities accelerated in H1 2021, approaching their pre-pandemic levels (Figure 6). Merchandise imports expanded faster than exports, resulting in a wider goods trade deficit of 0.7 percent of GDP in H1 2021. Imports recovered on the back of looser domestic restrictions on mobility and business operations, as well as higher global commodity prices. Meanwhile, exports improved amid increased global demand for electronics and semiconductors, which composed a lion's share of the country's exports, and a dynamic external environment. The widening trade deficit outweighed the steady influx of remittances from overseas Filipino workers (OFWs), which expanded by 5.7 percent in the first nine months of 2021 from the 1.4 percent contraction in the same period in 2020, and net receipts from a resilient business process outsourcing (BPO) industry.

Net capital outflows, coupled with the current account deficit, have resulted in a BOP deficit (Figure 7 and Table 1).

The capital and financial accounts continued to record net outflows in H1 2021, albeit lower than in H1 2020. This was driven by portfolio investment outflows (3.7 percent of GDP), mainly in the form of the BSP investments in debt securities abroad and domestic corporations' foreign debt repayments. While foreign portfolio investment⁴ outflows continued as of September (US\$458.5 million year-to-date), the level was notably smaller compared to the same period in 2020. Portfolio investment outflows outweighed the rise in foreign direct investment (FDI) in H1 2021 (Figure 8), which continued to expand by 39.7 percent in the first 8 months of 2021. The combined effects of capital outflows and the current account deficit shifted the BOP from a surplus of US\$4.1 billion (2.4 percent of GDP) in H1 2020 to a deficit of US\$1.9 billion (1.0 percent of GDP) in H1 2021. The cumulative BOP deficit narrowed to US\$665 million as of September 2021.

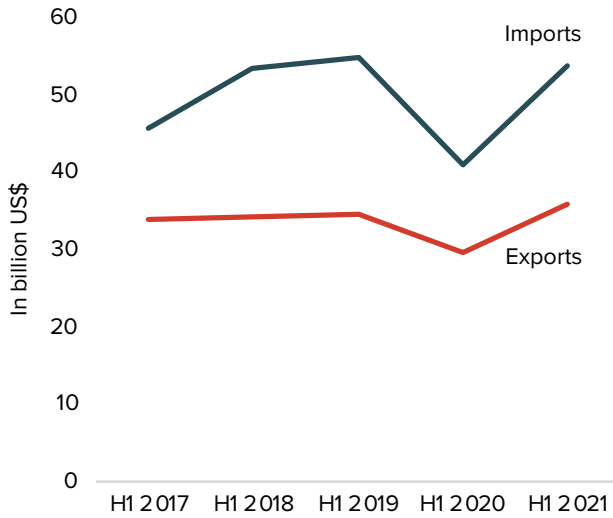
The Philippine peso strengthened in real terms in the first 10 months of 2021.

In nominal terms, the peso depreciated by 2.3 percent against the US dollar in the third quarter of 2021, amid recovering imports and capital outflows as well as the prospect of US monetary policy normalization. Nevertheless, on a year-to-date basis, the peso appreciated by 1.8 percent in the first 10 months of the year, slower than the 4.2 percent appreciation in the same period in 2020. The peso remained among the strongest performing currencies in the region (Figure 9). In real effective terms, the peso appreciated by 1.6 percent during the first 10 months of 2021, slower than 6.1 percent during the same period in 2020. The real appreciation may weigh on the country's trade competitiveness as its exports become relatively more expensive. Gross international reserves reached US\$107.9 billion as of October 2021, 4.0 percent higher than recorded as of October 2020, representing 10.8 months of imports.



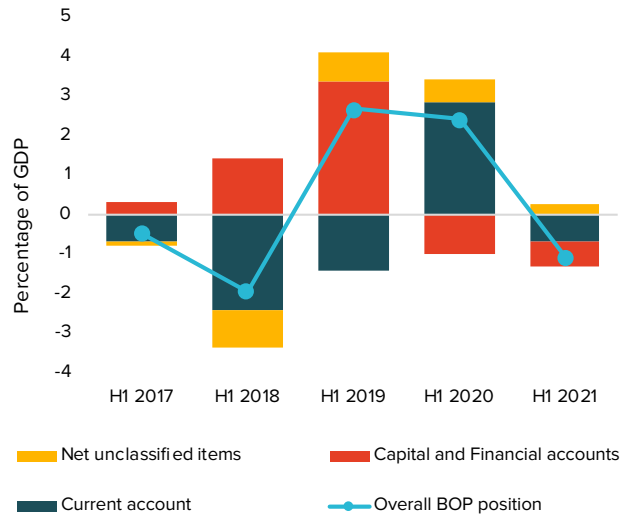
Photo: aldarinho

Figure 6. Goods trade began to return to pre-pandemic levels.



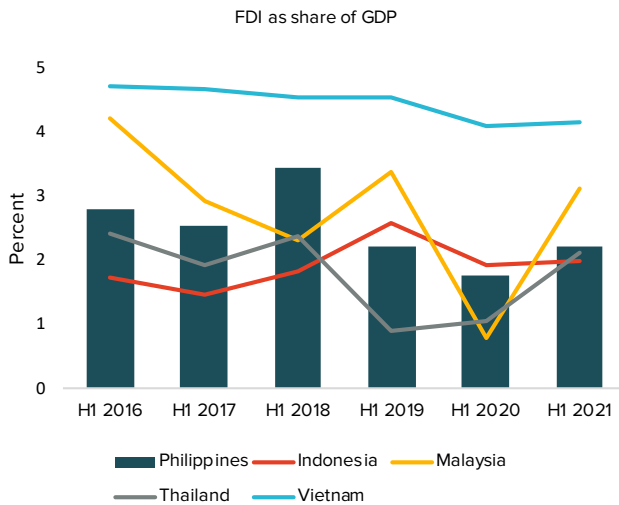
Source: PSA.

Figure 7. The recovery of imports swung the current account and overall BOP back into deficits in H1 2021.



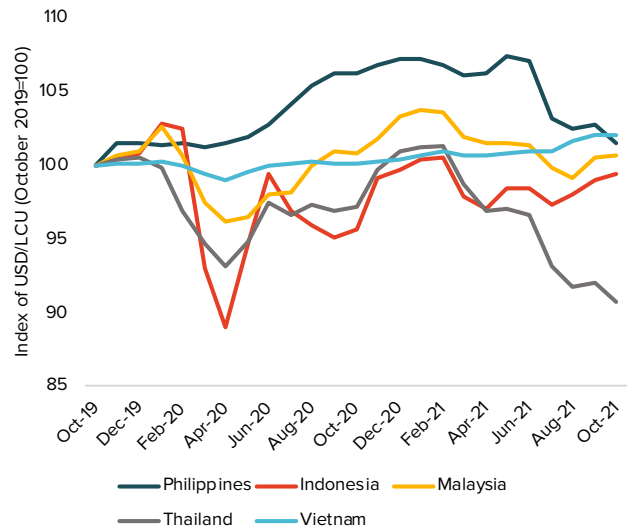
Source: BSP.

Figure 8. Following most regional peers, the country's FDI surged in H1 2021.



Source: CEIC and Haver Analytics.

Figure 9. The Philippine peso remained among the strongest currencies in the region.



Source: Haver Analytics.

Note: Decrease denotes depreciation.

Table 1. The BOP reverted to a deficit in H1 2021.

| | H1 2017 | H1 2018 | H1 2019 | H1 2020 | H1 2021 |
|---|-------------|-------------|-------------|-------------|-------------|
| In percent of GDP, unless otherwise indicated. | | | | | |
| Current account | -0.7 | -2.4 | -1.4 | -2.8 | 0.7 |
| Goods | -11.6 | -14.0 | -13.7 | -9.1 | -11.9 |
| Exports | 16.3 | 15.6 | 14.6 | 13.0 | 14.2 |
| Imports | 27.8 | 29.6 | 28.3 | 22.1 | 26.1 |
| Services | 1.7 | 2.8 | 3.4 | 3.2 | 3.0 |
| Primary Income | 1.0 | 0.8 | 1.4 | 1.2 | 0.9 |
| Secondary Income | 8.1 | 7.9 | 7.6 | 7.5 | 7.3 |
| Capital and Financial accounts | 0.3 | 1.4 | 3.4 | -1.0 | -0.6 |
| Capital account | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account | -0.3 | -1.4 | -3.4 | 1.0 | 0.6 |
| Direct investment | -2.0 | -2.1 | -1.2 | -1.1 | -1.8 |
| Net acquisition of financial assets | 0.6 | 1.4 | 1.1 | 0.7 | 0.5 |
| Net incurrence of liabilities ^{1/} | 2.6 | 3.5 | 2.3 | 1.8 | 2.3 |
| Portfolio investment | 1.8 | 1.6 | -2.6 | -0.2 | 3.7 |
| Financial derivatives | -0.1 | -0.0 | -0.0 | 0.0 | -0.1 |
| Other investments | -0.1 | -0.8 | 0.5 | 1.9 | -1.1 |
| Net unclassified items^{2/} | -0.1 | -1.0 | 0.7 | 0.6 | 0.3 |
| Overall BOP position | -0.4 | -2.0 | 2.7 | 2.4 | -1.0 |
| <i>Memo:</i> | | | | | |
| Basic Balance | 1.3 | -0.3 | -0.2 | 3.9 | 1.1 |
| Gross International Reserves (in billions US\$) | 81.3 | 77.5 | 84.9 | 93.5 | 105.8 |
| Import Coverage (in months) | 8.4 | 7.1 | 7.3 | 9.2 | 10.6 |

^{1/} Net incurrence of liabilities refers to net foreign direct investment to the Philippines.

^{2/} The term "Net unclassified items" is a balancing figure. There are two methods of computing the BOP position: the first approach uses the change in net international reserves due to transactions, while the second approach computes the sum balances of the current account, capital account less financial account. The two measures do not necessarily tally. The BSP uses the first approach to determine the overall BOP position.

Note: Following the BSP presentation, the BOP balance = Current Account Balance + Capital Account Balance - Financial Account Balance + Net Unclassified Items.

Source: BSP.



Photo: MDV Edwards

1.3 Inflation and Monetary Policy: Accommodative Policy Despite Inflationary Pressures

High food and energy prices pushed inflation above the BSP target range in the first 10 months of 2021. Viewing the high inflation as transitory, the BSP kept the key policy rate unchanged to support the economic recovery. The financial system remains well capitalized, although the quality of bank assets has deteriorated.

Inflation remained above the upper bound of the BSP target due to high food and energy prices. Headline inflation in the first 10 months of 2021 averaged 4.5 percent, higher than 2.5 percent during the same period in 2020 and above the 2-4 percent target range (Figure 10). The rise in global food prices, coupled with local agricultural production woes due to weather disturbances and African Swine Fever outbreaks, was the primary cause of the inflation uptick.⁵ The authorities are addressing the food supply constraints with non-monetary measures, including intensified importation and assistance to farmers. Moreover, a global energy supply crunch fueled the high price of coal, natural gas, and oil, resulting in higher transport and electricity inflation. Excluding volatile food and energy items, the core inflation rate averaged 3.3 percent in the first 10 months of 2021, higher than 3.1 percent in the same period last year. In the first 9 months of 2021, average domestic inflation was higher in the Philippines than in regional peers such as Indonesia (1.5 percent), Malaysia (2.3 percent), Thailand (0.8 percent), and Vietnam (1.8 percent).

The BSP continued to support the economic recovery by keeping the key policy rate at historic lows. In their September 2021 meeting, the Monetary Board kept the key policy rate at 2.0 percent. The stable core inflation rate and well-anchored inflation expectations supported the BSP's accommodative stance. In 2021, the BSP has engaged in open market operations, continued to extend loans to the national government, and implemented regulatory measures to minimize the economic fallout of the COVID-19 pandemic. To further support the economic recovery, the BSP has implemented new measures that focus on consumer protection and digital finance, including the imposition of ceiling rates for credit card charges and the issuance of digital bank licenses.

Domestic liquidity remains high at Php14.6 trillion, with 8.2 percent year-on-year growth in September 2021. The central bank's loans and purchases of government securities⁶ grew 24.3 percent in September, and has been

a main contributor to the growth of liquidity in the financial system. During the pandemic, the main source of domestic liquidity shifted to government financing as private sector credit slowed down significantly with negative growth in the first two quarters in 2021 (Figure 11). The BSP has been playing an important role in supporting adequate public finances by purchasing government securities and ensuring the provision of liquidity in the financial system. The Philippine financial system remains resilient as banks stay well capitalized despite deterioration of asset quality. The authorities have implemented various policy measures to mitigate the adverse impact of the pandemic, aiming at the banking sector, non-bank financial institutions, liquidity and funding issues, and payment systems (Box 2).

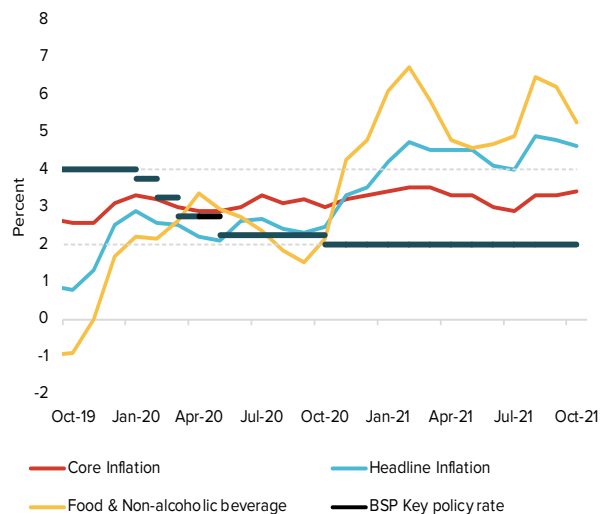


Photo: Danial Abdurrah

⁵ Food inflation averaged 5.6 percent in the first 9 months of 2021. Globally, the FAO Food Price Index rose to its highest level in 10 years so far this year. The high food prices are driven by the tight supply of cereals and vegetable oils.

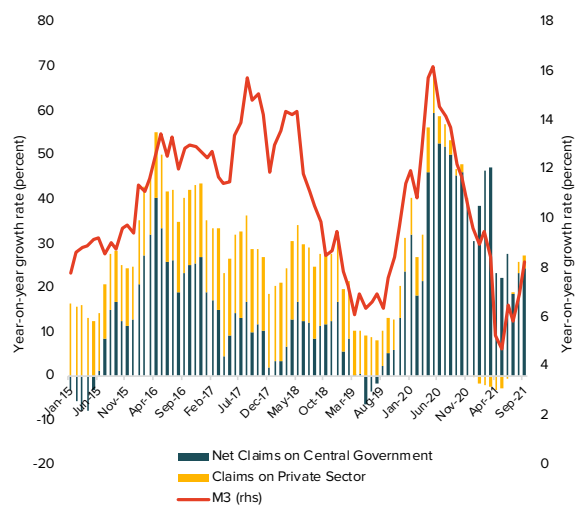
⁶ Net Claims on Central Government (Debt securities, loans and other claims less government deposits and other liabilities) in the financial system.

Figure 10. Inflation remained above the BSP's target range throughout the first 10 months of 2021.



Source: PSA and BSP.

Figure 11. BSP loans and purchases of national government debt securities contributed to domestic liquidity.



Source: BSP.



Photo: junpinzon

Box 2. Financial Sector Resilience Despite Asset Quality Deterioration

The financial system has remained broadly resilient so far. The banking sector's overall capital adequacy ratio remains stable at 17.2 percent as of Q2 2021, well above the BSP's regulatory threshold of 10 percent. The sector's overall liquidity is sufficient to absorb funding shocks with a liquid asset to deposit ratio of 54.3 percent. Asset quality has deteriorated over the last year, as gross non-performing loans (NPL) ratio rose to about 4.5 percent in end-August 2021 from about 2.0 percent in end-2019. However, extended forbearance measures may continue to mask the true extent of vulnerabilities in asset quality and warrant close monitoring. Forward-looking indicators such as restructured loans have seen significant increase, while profitability measures have seen declines. At the same time, private credit growth registered a sharp contraction of 3.5 percent in Q1 2021, following a trend decline in its pace of growth since the beginning of 2020. However, signs of pickup in credit were evident in August 2021 as bank credit growth turned positive, 1.3 percent, for the first time in 8 months (Figure 12).

Against a backdrop of elevated corporate debt and reluctance of bank to extend credit, the risks of cash flow stresses morphing into insolvencies is significant for firms, especially, micro small, and medium enterprises (MSMEs). The World Bank COVID-19 firm survey, conducted in May 2021, revealed that although the share of firms with acute liquidity problems (featuring less than 1 month of cash reserves) has slightly decreased, firms were more likely to have availed of adjusted loan terms (89 percent) and fallen behind in payments (51 percent). Risk of future payment delays remained high, with about 28 percent of firms expecting to file for bankruptcy. Micro businesses and businesses in the NCR were the most cash constrained. A significant share of firms reported having difficulty in accessing formal financial sources, such as banks and government institutions, and relied on informal access to finance (Figure 13). The tight linkages between

banks and non-financial corporates remain the main source of financial stability risk in this context, as capital market is underdeveloped and firms rely heavily on bank loans.

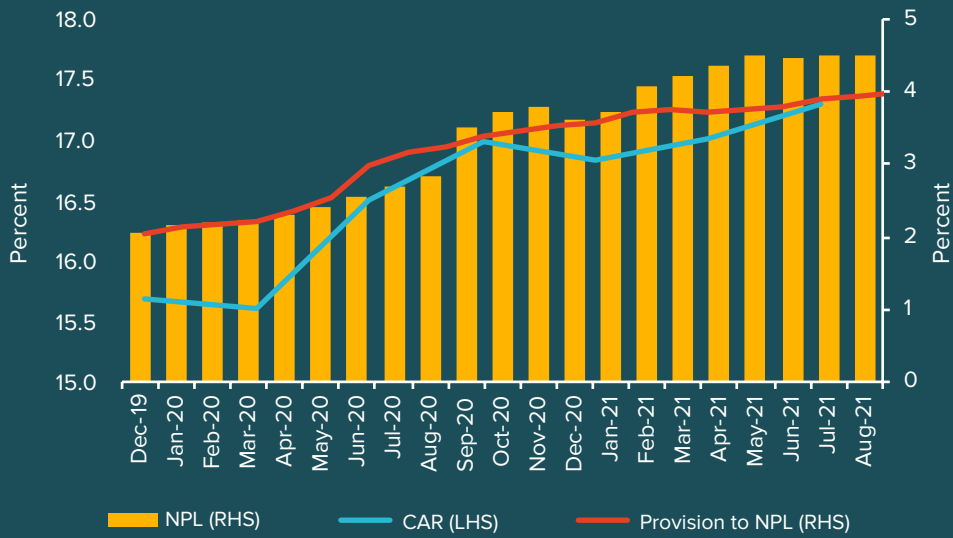
Digitalization has accelerated during the pandemic, but new adoption or increased use of digital platforms appeared to have stalled. Digital payments grew 26.8 percent year-on-year in 2020 according to the BSP. Overall, the increase in the use of digital technologies in response to COVID-19 was driven by increased intensity, but with relatively fewer new adopters. Increases in intensity was motivated by customer-facing functions implemented by medium and large firms. Lack of financial means was perceived to be the main challenge, based on 54 percent of surveyed firms, to incremental adoption of digital solutions.

The authorities have implemented various policy measures to mitigate the adverse impact of the pandemic on the financial sector. These measures were aimed at the banking sector, non-bank financial institutions, liquidity and funding issues, and payment systems. Within the banking sector, most were prudential policy measures to reduce non-essential regulatory reporting requirements for banks, temporarily ease liquidity requirements, and ease credit exposure limits. In March 2021, the government approved the Financial Institutions Strategic Transfer (FIST) Act which allows banks and other financial institutions to dispose or outsource the management of their non-performing assets to special-purpose vehicles. Many regulatory forbearance measures are still in place and some have been extended (i.e. extension of exclusion of eligible loans from past due and NPL classification until end 2021), potentially masking underlying vulnerabilities in the financial sector. To strike a delicate balance between supporting the recovery in the near-term and avoiding the buildup of financial stability risks in the longer-run, forbearance measures need to be better-targeted and more transparent.



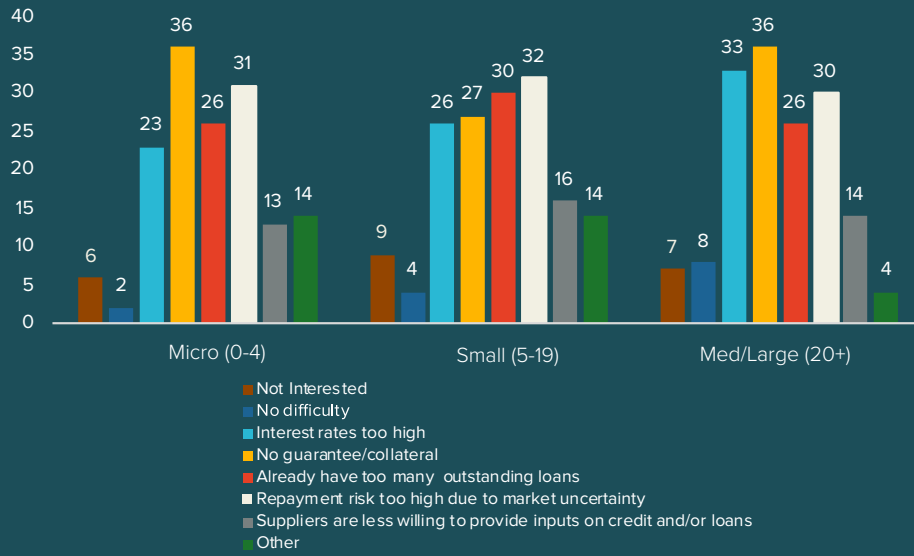
Photo: Lekhawattana

Figure 12. Asset quality, capital adequacy and provisioning



Source: BSP

Figure 13: Reason for firm financial constraint



Source: World Bank Business Pulse Survey round 3, May 2021



Photo: MDV Edwards

1.4 Fiscal Policy: Mounting Fiscal Pressure

Public debt continues to rise amid an increase in financing needs. Revenue collection remains low while public spending continues to be elevated as the government pursues its infrastructure investment agenda to support economic growth.

The fiscal deficit widened from 6.9 percent of GDP in Q1-Q3 2020 to 8.3 percent of GDP in Q1-Q3 2021 (Figure 14), further increasing public debt (Figure 15).

Public spending remains elevated and revenue collection low amid the government's response to COVID-19 and lower dividend remittances to the BTr. As a result, public debt increased from 54.6 percent of GDP at end-2020 to 63.1 percent of GDP at end-September 2021. This is among the highest in the region, second only to Malaysia (64.7 percent), though above Indonesia (45.4 percent) and Thailand (50.4 percent). Nonetheless, debt metrics remain favorable toward maintaining long-term fiscal sustainability, as the country's debt portfolio is composed largely of long-term peso-denominated debt.

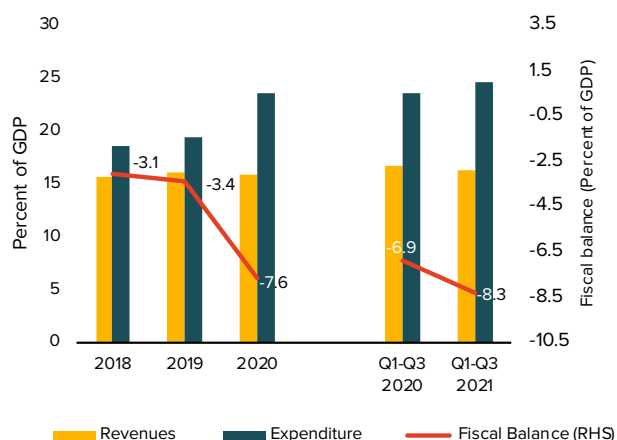
Tax revenues have rebounded due to better tax and customs collection, but non-tax revenues fell following the high dividend remittance last year.

National government revenues fell from 16.8 percent of GDP in the first three quarters of 2020 to 16.3 percent of GDP over the same period in 2021. The revenue decline was driven by the fall in non-tax revenues from 2.3 percent of GDP in Q1-Q3 2020 to 1.5 percent of GDP in Q1-Q3 2021, following a high level of dividend remittances to the BTr in the beginning of the pandemic.⁷ Meanwhile, tax revenues increased from 14.5 percent to 14.8 percent of GDP in the same period. The rebound in tax collection

was in large part due to an increase in collection by the Bureau of Customs (18.0 percent growth in Q1-Q3 2021) as merchandise trade recovered. Tax collections by the Bureau of Internal Revenue (BIR) also rebounded, albeit at a softer pace (6.9 percent growth in Q1-Q3 2021), benefitting from base effects and increased domestic activity due to more relaxed containment measures in 2021.

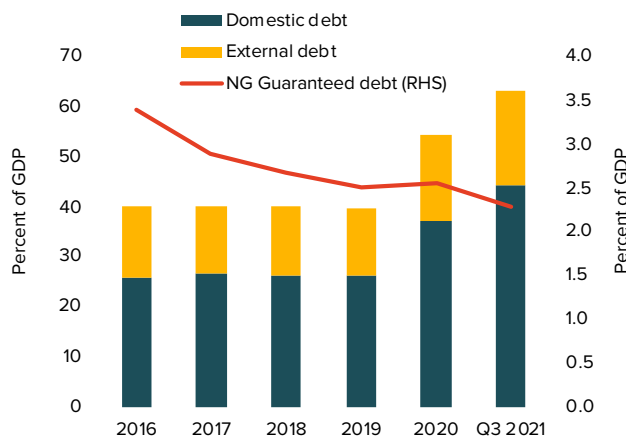
Public spending accelerated further, supported by ongoing fiscal support and a resurgence in public investment. National government spending increased to 24.6 percent of GDP in the first three quarters of 2021 from 23.6 percent in the same period in 2020, driven by the resurgence of infrastructure spending and implementation of stimulus measures. Infrastructure outlays increased from 3.5 percent of GDP in the first three quarters of 2020 to an estimated 4.7 percent of GDP in Q1-Q3 2021. Its rebound was a result of the national government's focus on investment spending as part of the recovery program. Infrastructure expenditure declined in 2020 as the government prioritized immediate COVID-19 response measures. Public spending also benefitted from additional fiscal measures as part of the government's COVID-19 response. In particular, public spending was buoyed by the continued implementation of the Bayanihan to Recover as One Act (*Bayanihan 2*) and the disbursement of social assistance during the April 2021 Enhanced Community Quarantine.

Figure 14. The fiscal deficit widened in Q1-Q3 2021 amid elevated spending.



Source: Department of Budget and Management (DBM), PSA.

Figure 15. The debt-to-GDP ratio reached its highest level since 2006.



Source: DBM, PSA.

⁷ Non-tax revenues nearly doubled in the first quarter of 2020 due to early dividend remittances from the BSP and government-owned and controlled corporations to the BTr to help finance COVID-19 response measures early in the pandemic amid an anticipated shortfall in tax revenues.

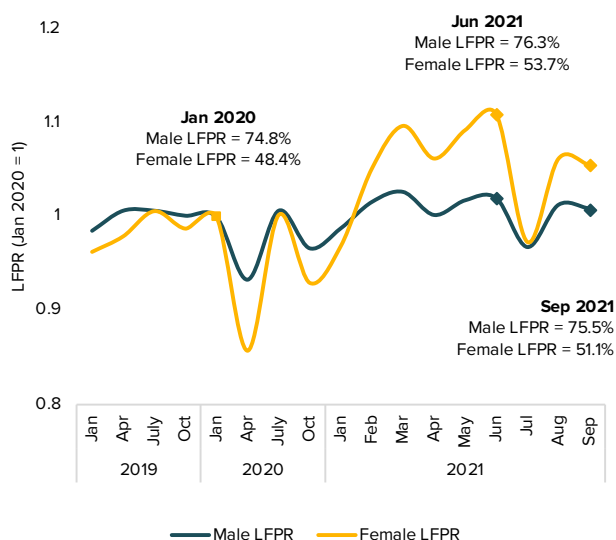
1.5 Employment and Poverty: Fragile Recovery

While the labor market has shown improvements with increased labor force participation and accelerated job creation, challenges related to repeated quarantine measures persist. Reduced working hours, a rise in non-wage employment, and lower household earnings underline the vulnerabilities facing the labor force.

More workers are entering the labor market and looking for earnings opportunities as economic activity slowly resumes.

The labor force participation rate (LFPR) peaked at its highest level since January 2019 at 65.0 percent in June 2021. It remained high at 63.3 percent in September 2021 despite a temporary dip in July. The increasing trend in labor force participation, which has been far more prominent for women (Figure 16), slowed down since July, with the reimposition of enhanced quarantine measures. The unemployment rates reached 8.9 percent in September and appeared to remain relatively steady around the new equilibrium of 8.4 percent, significantly higher than that of pre-pandemic level. Meanwhile, the underemployment rates, reflecting the share of individuals working less than 40 hours a week and willing to work more, fluctuate widely depending on lockdown measures as firms rely more on the adjustments of their operations than employment decisions (Figure 17).

Figure 16. Normalized Labor Force Participation Rates, January 2019–September 2021 (Jan 2020=1)

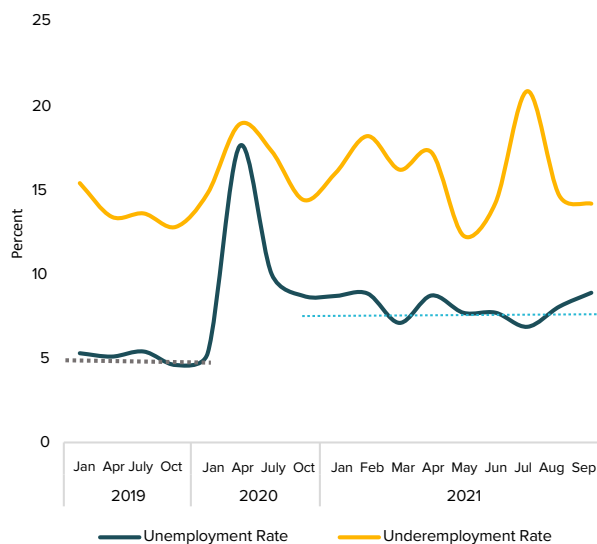


Source: PSA-LFS Labor Force Survey (LFS) (various rounds).
Note: Starting February 2021, the LFS is conducted monthly to produce more timely data.



Photo: Louise Infante

Figure 17. Unemployment and Underemployment, January 2019–September 2021



Source: PSA-LFS (various rounds).
Note: Starting February 2021, the LFS is conducted monthly to produce more timely data.

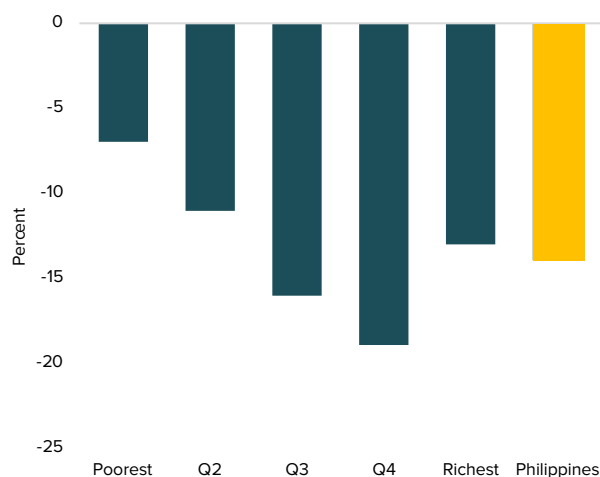
While job creation has continued, improvements in the labor market have varied widely across sectors. Between January and September 2021, there was a net increase of nearly 2.3 million jobs, despite many job losses due to community quarantines in April and July. The service sector accounts for the largest portion – nearly two thirds - of this growth. Moreover, the wholesale and retail trade sector added a significant number of jobs (net increase by 1.2 million). It is notable that construction and manufacturing also added a significant number of jobs (0.3 million and 0.2 million, respectively) as these sectors have been driving economic recovery. By contrast, employment rates fell in other sectors such as education. The decline in education jobs happened despite increased enrollment for the 2021-22 academic year, as school operations remain limited.⁸

Despite overall improvements in the labor market, the quality of jobs remains a concern. Labor market indicators, particularly the underemployment rate, have fluctuated widely with the quarantine measures. Underemployment spiked at 20.9 percent in July 2021, up from 16–18 percent in the first quarter of 2021. The pandemic has reduced the number of hours worked, as the share of part-time workers—those working less than 40 hours a week (34.9 percent in September 2021)—remains higher than before the pandemic (31.6 percent in January 2020). This is consistent with the findings of the World Bank’s Business Pulse Survey (BPS) in May 2021, which showed that fewer firms had laid off workers but about 60 percent

of firms operated at below capacity. The share of wage and salary workers and employers in the total labor force remained nearly 3 percentage points lower than before the pandemic at 65 percent in September 2021. By occupation, the share of elementary jobs associated with lower pay remained high, registering at nearly one-third of total jobs in September 2021, in line with the large number of jobs added in the wholesale and retail trade sectors.

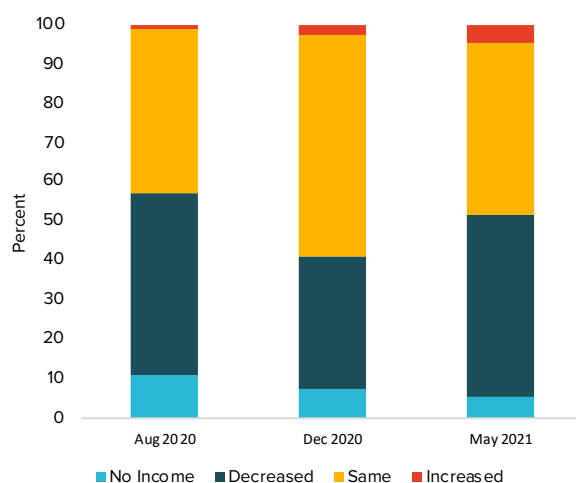
Increased vulnerabilities in the labor market have reduced earnings and household incomes. The most recent Annual Poverty Indicators Survey (APIS) shows that average monthly real per capita household incomes declined by about 14 percent between 2019 and 2020 (Figure 18). While all population groups were affected, urban households and those headed by women experienced the largest income declines. Due to their concentration in areas and sectors that were hardest hit by the crisis, households in the third and fourth deciles suffered higher declines in their incomes than other groups.⁹ Similarly, results from a nationwide high frequency monitoring household survey conducted in May and June 2021 show that about half of surveyed households reported reduced incomes relative to pre-pandemic levels (Figure 19). Compared with the results of the survey conducted in December 2020, the share of households that report a loss in income has increased, indicating continued financial difficulties for households, especially due to imposed community quarantines in April 2021.

Figure 18. Change in Household Monthly Income by Income Quintile, 2019-20



Source: PSA-APIS.

Figure 19. Change in Household Head’s Income Compared to Pre-Pandemic Levels



Source: World Bank’s High Frequency Monitoring Household Survey.

⁸ The Department of Education announced that enrollments for the 2021-22 school year were 100.3 percent of the previous academic year, with enrollments in 11 out of 17 regions exceeding 100 percent—indicating a return of students who did not enroll in the previous year.

⁹ Households in the poorest quintiles tend to work in agriculture and those in the richest quintile tend to work in modern services (e.g., ICT, real estate and public administration) while households in the 3rd and 4th quintiles tend to concentrate more in traditional services (e.g., accommodation and food services, transportation) and construction and these sectors were significantly more affected by the crisis than agriculture and modern services.



Part II

Outlook and Risks

The economy is projected to expand by 5.3 percent in 2021 and reach 5.8 percent in 2022-23, in line with its new lower long-term potential rate. Effective pandemic containment, mass vaccination, and a phased economic reopening will contribute to more robust domestic activity. The global economy continues to recover, despite recently slowing, which will support exports and remittance growth. There are, however, potential downside risks, with a prolonged pandemic due to new variants and slow global vaccination resulting in intermittent disruptions in economic activity and affecting long-term potential growth. In the medium term, the authorities will have to manage a credible plan for fiscal consolidation, promote private sector development, harness the digitalization momentum, and address the socioeconomic impact of the pandemic.

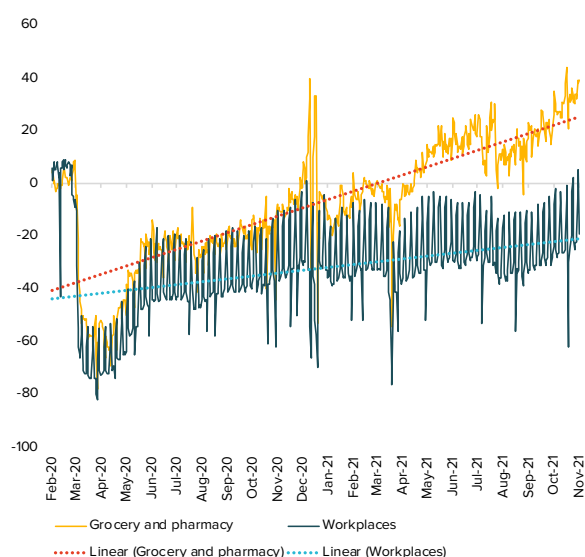
Photo: Ezra Acayan

2.1 Growth Outlook

The economy is expected to grow over the medium term, supported by the global economic rebound and recovery in domestic activity. Economic policy is expected to remain supportive of the recovery, but policy space is narrowing.

Progress in vaccination has emerged as a necessary condition to a firmer economic recovery. The medium-term growth prospect hinges on an economic reopening and a virus containment strategy that depends on the successful rollout of mass vaccination. Vaccines have proven key to contain the pandemic over the struggling testing, tracing, and isolating strategy in the Philippines. The strategic focus to scale up vaccination in the NCR, which contributes to nearly 40 percent of GDP, is now paying dividend. About 92 percent of its adult population has been vaccinated as of mid-November 2021, leading to a decline in new COVID-19 cases and prompting the phased implementation of looser mobility restrictions. Nevertheless, vaccination continues to significantly lag in regions outside the capital as implementation faces challenges in remote areas. At the current pace of 700,000 inoculations per day, the country will reach 70 percent coverage of the country's almost 110 million population by Q1 2022. The country's vaccination efforts lag behind some ASEAN peers, due to distribution bottlenecks in the provinces and far-flung areas, as well as on relatively high vaccine hesitancy among Filipinos.

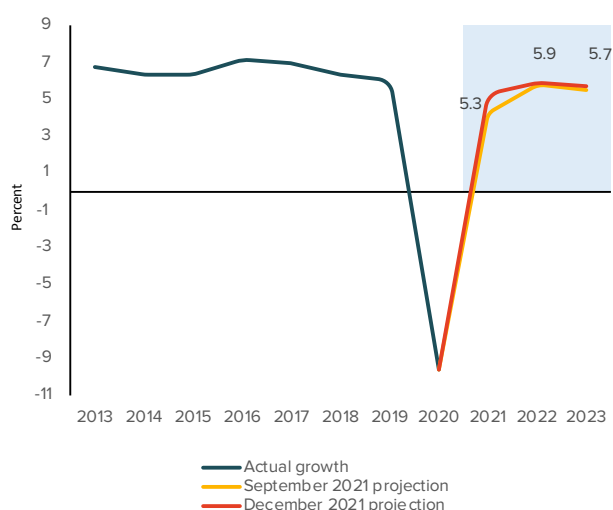
Figure 20. Mobility was not fully restricted by lockdown measures in August and September 2021.



Source: Google Mobility.

The growth projection for 2021 has improved in light of better-than-expected Q3 numbers. The economy is now projected to grow at 5.3 percent year-on-year in 2021, substantially higher than the projection of 4.3 percent published in the East Asia and Pacific Economic Update, September 2021. This upward revision follows the official growth rate of 7.1 percent for Q3 2021, which exceeded the Bank's projection of 4.8 percent.¹⁰ The more infectious Delta variant propelled new infections to its highest 7-day average in September, leading to the reimposition of mobility restriction in key metropolitan areas. Unlike in previous episodes, however, domestic activity appeared to have been less sensitive to infections. Public containment measures constrained overall mobility less, while households and firms have learned to cope with infections and diminished mobility (Figure 20). Moving forward, the economic impact of the pandemic is expected to be less severe especially as the government implements its policy of phased economic reopening.¹¹

Figure 21. Economic growth is expected to recover in the medium term.



Source: PSA, World Bank staff estimates.

¹⁰ The PSA officially revised the Q2 2021 growth upward from 11.8 percent to 12.0 percent.

¹¹ Lockdown measures in the Philippines have evolved to be more granular, targeted, and less intrusive to economic activities. Essential services have continued and select industries such as manufacturing, information technology and business process management, export-oriented and agriculture-related industries, among others were allowed full operation provided the minimum public health and safety protocols are implemented. Depending on the tiered level of quarantine, other sectors were allowed operations but at lower capacity.

With the prospect of further economic reopening, the economy is projected to grow faster in 2022-23.

The economy is projected to grow at an average of 5.8 percent in 2022-23 (Figure 21). Alongside the progress in vaccination, the domestic economy will further reopen, allowing for a return of market confidence, and more dynamic economic activity. Public investment is expected to be a key growth driver in the medium term as the government is expected to pursue its infrastructure investment agenda, while private investment remains tepid due to subdued lending and market uncertainty. Household consumption is projected to recover as remittances pick up and employment slowly improves, barring new episodes of case resurgence and sudden hikes in inflation. The global economy continues to recover, despite recently slowing, which will support exports and manufacturing activities. Nonetheless, the nearly two-year long pandemic has already resulted in the closures of firms and losses of jobs and incomes, alongside health insecurities and education disruptions. These will scar the country's potential growth.

Without mitigation measures, the country faces weaker long-term growth potential through lower capital investment and loss of human and intangible capital.

Nearly 10 percent of firms in the Philippines have closed and do not expect to reopen in short-term, while a further 15 percent have closed but expect to reopen at some capacity.¹² Firm closures are directly contributing to permanent jobs and income losses and the erosion of valuable intangible assets, such as management and technical know-how, employee competencies, and value network and relationships. Some surviving firms face impaired balance sheets and are deferring productive investments. Unemployment, disruption in education, and a higher incidence of malnutrition among the poor are eroding human capital and hurting peoples' future earning potential. The pandemic will have an adverse impact on the economy, lowering the long-term growth potential to a projected 5.7 percent, on average, in 2020–29, below the pre-pandemic estimate of more than 6.0 percent. The challenge is to limit the scarring by capitalizing on growth opportunities such as the acceleration of digitalization, and implementing a catch-up plan to mitigate the adverse socio-economic impacts of the pandemic.

The fiscal deficit is expected to remain elevated but gradually decline over the medium-term. The fiscal deficit is projected to reach 7.6 percent of GDP in 2021, before moderating in succeeding years. The declining trajectory is predicated on the expected economic recovery and consolidation measures on recurrent spending. The domestic recovery and better external environment are

expected to lead to higher public revenue collection from taxes on consumption and trade. The government has explored new revenue sources including the taxation on Philippine Offshore Gaming Operators, lifting of the ban on new mining permits, and efforts to digitalize tax and custom administration. However, corporate income tax revenue is expected to fall with the implementation of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) law. Meanwhile, the pace of public spending is expected to decelerate over the medium term, driven by an anticipated decline in recurrent operating expenditure as the authorities wind down their pandemic response. Still, capital outlays are expected to remain elevated as the government pursues infrastructure investments to accelerate the recovery and close long-standing infrastructure gaps.

Monetary policy is expected to remain accommodative to growth, as inflation is anticipated to retreat to within the BSP's target range next year.

Headline inflation is expected to reach an average of 4.3 percent in 2021, before declining to within the 2–4 percent target range in succeeding years. Inflation is likely to remain elevated this year, reflecting the impact of supply-side constraints on key food commodities, the rise in global oil prices, and weather disturbances. As the authority addresses the constraints with non-monetary measures, the inflationary pressure is expected to decline next year. Monetary policy is expected to remain accommodative to support liquidity and the recovery while managing inflation within the target range.

Growth recovery of advanced economies are expected to support demand for Philippine exports.

The global economy is expected to grow in 2021, before declining in succeeding years, mainly driven by the recovery in advanced economies and China (Box 3). Growth in advanced economies will help prop up demand for Philippine exports, as roughly 70 percent of the country's goods exports are destined for high-income economies. International logistics disruptions and rising shipping costs, however, are hampering the movement of goods. Net services exports will also benefit from the BPO sector capitalizing on sustained demand. International tourism will take longer to recover in the face of delayed travel reopening plans due to new COVID-19 variant. Meanwhile, import growth will accelerate as the government implements infrastructure projects, with renewed demand for capital goods and construction materials. As a result, the current account surplus is expected to narrow to 1.3 percent this year, before turning to deficits in 2022 onwards (Table 2).

¹² Impacts of COVID-19 on firms in the Philippines: May 2021: <https://www.worldbank.org/en/country/philippines/brief/monitoring-covid-19-impacts-on-firms-and-families-in-the-philippines>

Table 2. Economic Indicators for the Baseline Projections

| | 2018 | 2019 | 2020 | 2021F | 2022F | 2023F |
|---|------|------|------|-------|-------|-------|
| Real GDP growth, at constant market prices | 6.3 | 6.1 | -9.6 | 5.3 | 5.9 | 5.7 |
| Private Consumption | 4.2 | 4.3 | -5.7 | 2.9 | 4.0 | 3.9 |
| Government Consumption | 1.5 | 1.1 | 1.3 | 1.2 | 1.4 | 1.1 |
| Capital Formation | 2.9 | 0.9 | -9.1 | 3.5 | 2.5 | 2.4 |
| Exports, Goods and Services | 3.4 | 0.8 | -4.7 | 2.1 | 2.2 | 2.4 |
| Imports, Goods and Services | 5.7 | 1.0 | -8.7 | 4.4 | 4.2 | 4.1 |
| Real GDP growth, at constat factor prices | 6.3 | 6.1 | -9.6 | 5.3 | 5.9 | 5.7 |
| Agriculture | 0.1 | 0.1 | 0.0 | -0.1 | 0.1 | 0.1 |
| Industry | 2.2 | 1.7 | -4.0 | 2.2 | 2.0 | 1.9 |
| Services | 4.0 | 4.3 | -5.6 | 3.3 | 3.9 | 3.7 |
| Inflation (period average) | 5.2 | 2.5 | 2.6 | 4.3 | 3.4 | 3.2 |
| National government balance (% of GDP) | -3.1 | -3.4 | -7.6 | -7.6 | -7.2 | -6.5 |
| National government debt (% of GDP) | 39.9 | 39.6 | 54.6 | 58.3 | 60.3 | 61.9 |
| Current account balance | -2.6 | -0.8 | 3.1 | 1.3 | -0.9 | -1.4 |

Source: PSA, BTr, and World Bank staff estimates.

Note: Growth subcomponents show contributions to growth.

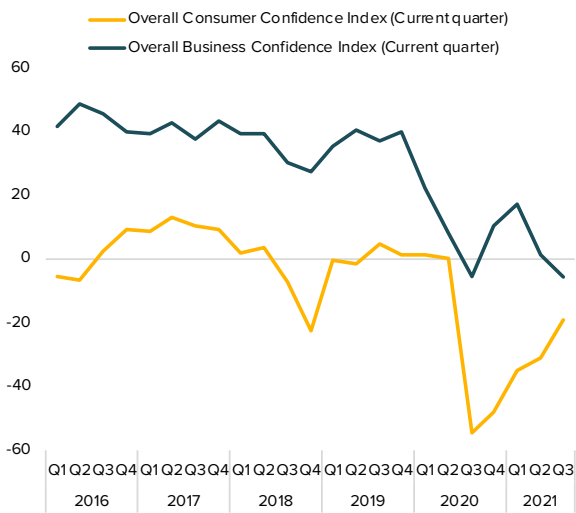
Public investment is expected to be a key growth driver in the medium term as the government pursues its infrastructure investment agenda. Public infrastructure disbursements are programmed to rise from 5.1 percent of GDP in 2021 to 5.8 percent of GDP in 2022. The government remains committed to pursuing its infrastructure investment agenda, as ramping up capital spending will help to restore business confidence and accelerate the economic recovery. Meanwhile, private investment growth may remain tepid due to subdued lending and market uncertainty from the pandemic and the upcoming government transition. Some large corporations have seen their balance sheets deteriorate, which may put their investment decisions on hold. Nonetheless, as economic conditions improve and business sentiment strengthens, private investment is expected to contribute more strongly to capital formation in succeeding years. It will be important to attract private sector investment, including FDI, as the government's fiscal space dwindles because of pandemic-related expenditures.

Private consumption is expected to rebound in 2022-23 as economic conditions improve. Household consumption is projected to recover as remittances pick up and employment slowly improves. In 2021, intermittent quarantine restrictions and higher inflation have weakened consumption growth, with consumer confidence levels remaining in negative territory in the first three quarters (Figure 22). Nonetheless, the uptrend trajectory hints of better prospects, barring an uncontrolled virus resurgence. The loosening of restrictions is expected to revitalize business activities, which

could lead to job creation and improve household income, while a recovery in foreign markets is likely to increase the demand for OFWs. Private consumption is anticipated to expand by 3.9 percent in 2021, before accelerating to 5.5 percent in 2022, boosted by election-related activities.

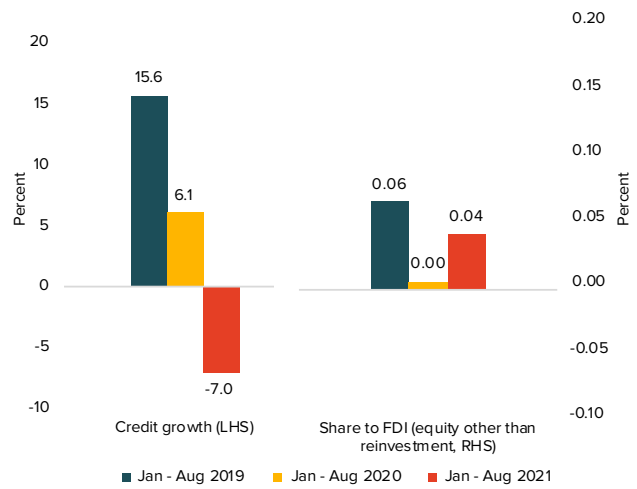
The phased economic reopening will support growth in the industry and services sectors. The industry sector is expected to recover over the forecast horizon, propelled by manufacturing and construction activities that benefit from recovering external demand and sustained public investment. Average capacity utilization in the manufacturing sector has recovered from a trough of 55.1 percent in Q2 2020 to 65.7 percent in Q2 2021, but has yet to reach pre-pandemic levels of more than 70 percent. Meanwhile, services sector growth will benefit from the phased reopening of the economy, specially the transportation, restaurant and food services, and wholesale and retail trade sectors. Unlike international tourism, the domestic tourism industry holds better prospects following the reopening of tourist attractions, bigger capacity for venues, and relaxed travel requirements for local travelers. The growth prospects for the agriculture sector remain weak due to a combination of chronic underinvestment and vulnerability to weather-related shocks (Figure 23). Increasing agricultural productivity will be crucial for ensuring more inclusive growth as the sector employs a disproportionate share of the labor force, while consumer price inflation is significantly influenced by food production.

Figure 22. Consumer confidence is steadily improving since mid-2020.



Source: BSP.

Figure 23. The agriculture sector has suffered from underinvestment.



Source: BSP.



Photo: Suriya99

Box 3. Global Economic Outlook

The global economy is set to expand significantly in 2021, but the recovery is uneven across countries.

The global economy is expected to grow by 5.6 percent in 2021, the fastest post-recession pace in 80 years (Figure 24). Global growth will be driven by growth in advanced economies, supported by strong vaccination efforts and substantial fiscal support. Growth in EMDEs is projected to reach 6 percent, due to the waning effects of previous pandemic restrictions, higher commodity prices, and stronger external demand (Table 3). However, growth in EMDEs, excluding China, is expected to be more subdued at 4.4 percent. In low-income countries (LICs), which already suffered from weak economic fundamentals even before the pandemic, growth is expected to average 3.8 percent in 2021-22. Despite the positive spillovers of the recovery in advanced economies, weak vaccination efforts, elevated COVID-19 caseloads, and the partial withdrawal of macroeconomic support drag growth in many EMDEs and LICs.

Global economic growth is projected to moderate in 2022, and downside risks continue to threaten growth prospects.

Global growth is expected to moderate in 2022 as advanced economies and EMDEs wind down their fiscal support while investment prospects in EMDEs remain subdued. The level of global GDP is expected to remain 1.8 percent below pre-pandemic projections in 2022. The COVID-19 pandemic remains the biggest risk to global growth. The slow vaccination rollout in developing countries, which has been due to highly unequal vaccine access and vaccine hesitancy, and the emergence of new COVID-19 variants, which could be more infectious, lethal, and vaccine resistant, will continue to make it challenging to contain the pandemic. In addition, the exhaustion of pent-up demand, sustained inflationary pressures, and a sharp tightening of

global financial conditions will adversely affect global output.

Global manufacturing trade has surpassed pre-pandemic levels, but services trade will continue to be subdued.

Global trade is projected to grow by 8.3 percent this year and 6.3 percent in 2022. The shift in consumer demand to durables during the pandemic benefited trade and the manufacturing sector, but the continued threat of COVID-19 continues to depress services trade, including tourism and international travel (Figure 25). While strong growth in global trade will be instrumental to ensure economic recovery, there are significant challenges to global trade. In the short run, GVCs are struggling due to COVID-19-related shutdowns, logistics bottlenecks, and container shortages. In the long run, high trade costs due to policy barriers, costly logistics, cumbersome trade procedures, and corruption should be addressed to promote trade.

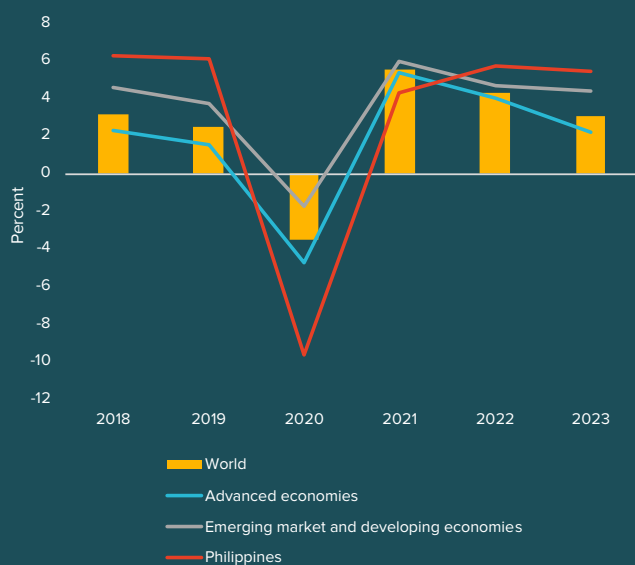
Emerging inflation and high debt levels pose downside risks to the global financial system.

Elevated agriculture and energy prices, caused by weather disturbances and global supply chain issues, are increasing inflation in many countries. In EMDEs and LICs, recent price pressures are complicating the accommodative stance of monetary authorities, prompting some central banks to tighten monetary policy despite the weak economic environment. Sustained inflationary pressure can lead to de-anchoring of inflation expectations, increasing the risk of a financial crisis in EMDEs and LICs. In addition, high debt levels are continuing to make financial markets vulnerable to sudden loss of investor confidence. Beyond the risks to the financial system, elevated prices will also exacerbate food insecurity, poverty, and unrest, especially in LICs.



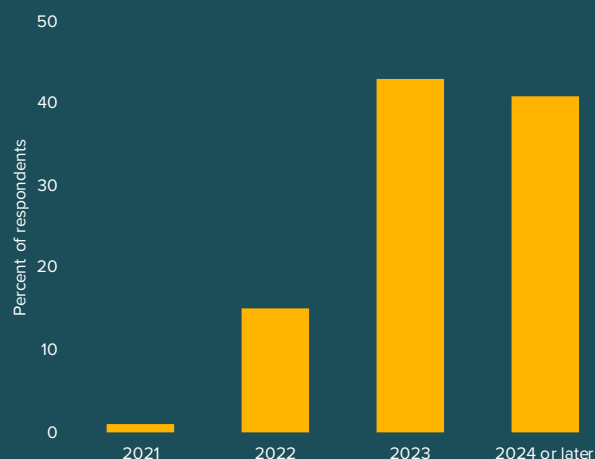
Photo: Bangtalay

Figure 24. The global economy is expected to grow significantly in 2021



Source: Source: Global Economic Prospects June 2021.

Figure 25. Global tourism is expected to rebound slowly.



Source: World Tourism Organization (UNWTO)

Note: Figure shows the expectations for international tourism to return to 2019 levels, according to a global survey among a panel of tourism experts conducted by the UNWTO in January 2021.

Table 3. Real Growth Projections.

| | 2019 | 2020 | 2021e | 2022f | 2023f |
|--|------|------|-------|-------|-------|
| World | 2.5 | -3.5 | 5.6 | 4.3 | 3.1 |
| Advanced economies | 1.6 | -4.7 | 5.4 | 4.0 | 2.2 |
| Emerging market and developing economies | 3.8 | -1.7 | 6.0 | 4.7 | 4.4 |
| East Asia and Pacific | 5.8 | 1.3 | 7.5 | 5.4 | 5.2 |
| Philippines | 6.1 | -9.6 | 5.3 | 5.9 | 5.7 |

Notes:

1. Developing East Asia & Pacific includes Cambodia, China, Fiji, Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar, Papua New Guinea, Philippines, Solomon Islands, Thailand, Timor-Leste, and Vietnam.

2. Global growth projections may be updated in the upcoming Global Economic Prospects January 2022.

Source: Global Monthly September 2021; Global Economic Prospects June 2021; East Asia and Pacific Economic Update October 2021.



Photo: CaveDweller99

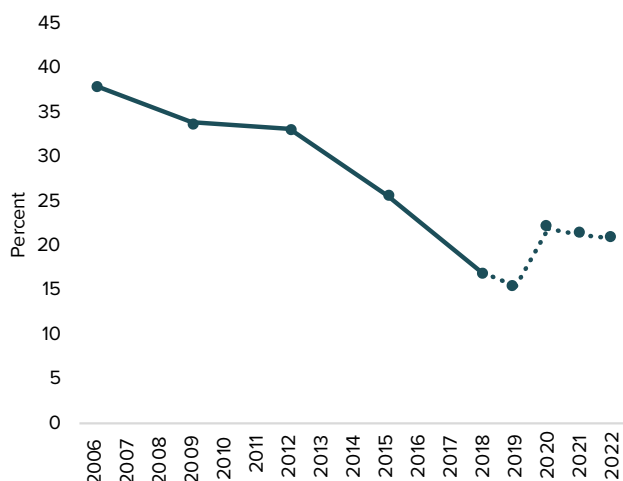
2.2 Poverty and Shared Prosperity

The pandemic continues to put pressure on household incomes, which will likely cause poverty to increase in the short-term. The poverty rate, based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP, is estimated to increase between 2018 and 2020, before slowly declining in succeeding years.

Despite large social assistance from the government, the economic recession caused by the pandemic is expected to have increased the incidence of poverty. The COVID-19 pandemic halted the growth momentum in 2020, setting back the gains in poverty reduction. After a remarkable decline from 25.7 percent in 2015 to 17.0 percent in 2018, the poverty rate, based on the lower middle-income poverty line of US\$3.20 a day in 2011 purchasing power parity (PPP), is projected to have increased to 22.0 percent in 2020.¹³ While the social assistance under Bayanihan to Heal as One Act (*Bayanihan 1*) helped to reduce the impact of the crisis on vulnerable households, it could not fully prevent an increase in poverty. Most of the increase in poverty in 2020 is expected to have happened in Luzon and urban areas, where employment was severely affected by the quarantine and restrictive mobility measures. The increase in poverty has likely been less in rural areas, Visayas and Mindanao due to a combination of factors, which include less restrictive mobility measures and thus businesses shutdown, predominance of agriculture which was less affected by the crisis, and emergency cash transfers under the Bayanihan Act.

Poverty is expected to slowly decline in 2021 but will remain higher than the pre-pandemic level. With the resumption of economic growth, the poverty rate would reach 21.3 percent in 2021—declining slowly from 2020 but higher than the pre-pandemic level (Figure 26). If growth forecasts hold and household incomes recover, the poverty rate will likely continue a slow downward trend through 2022. However, rising inflation and reimpositions of stricter quarantines over extended periods risk slowing down the pace of poverty reduction. Poverty will likely decline faster in urban areas and Luzon than in the rest of the country starting in 2021. This is due to the reduction of emergency transfers from the Bayanihan programs in 2021 (especially outside Luzon and in rural zones), the concentration of rural employment in sectors that are likely to recover at a slow pace (e.g., agriculture, traditional services), and the heavy reliance of households in poorer regions on private transfers which declined substantially during the crisis. This foreshadows that the crisis will have long-lasting effects on Filipinos' well-being.

Figure 26. Actual and projected US\$3.20-a-day poverty rates



Source: PSA and World Bank staff estimates.



¹³ The poverty estimates used in this report differ from the estimates derived from the World Bank Macro-Fiscal Model (MFMOD) that appear in the Macro Poverty Outlook. The MFMOD model projects poverty based on the overall GDP growth and the income elasticity of poverty. The projections in this report are based on a macro-microsimulation model, which combines population and macroeconomic projections over 2020-2022 with pre-crisis data from the 2018 Family Income and Expenditure Survey (FIES) to predict income at the individual and household levels. The model uses labor markets as the main transmission mechanism and allows for two types of shocks: (1) shocks to labor income, including employment shocks and earnings shocks from the pandemic, and (2) shocks to non-labor income, including changes in private transfers and changes in social protection mechanisms (transfers from Bayanihan to Heal as One Act).

2.3 Risks and Policy Challenges

A prolonged pandemic that disrupts economic activity remains a key downside risk. Firm closures, job and income losses, health insecurities, and education disruptions are likely to lead to long-term economic scarring. Moving forward, the government will need to leverage the private sector to fully implement its infrastructure agenda. Pursuing a solid fiscal consolidation plan will temper elevated financing needs and debt levels, and ultimately preserve strong macro fiscal framework. Easing regulatory restrictiveness, promoting market competition, and addressing socioeconomic and employment challenges must remain priorities as the Philippines prepares for a change in the administration in 2022.

A protracted pandemic remains a downside risk. Even in countries with high vaccination rates, infections have continued to spread, albeit with greatly reduced severity of illness, hospitalization, and mortality. Variants of concerns, breakthrough cases, and waning vaccine efficacy have heightened uncertainties around the pandemic, highlighting the complexity of economic reopening. The authorities need to continue to accelerate their vaccination program, focusing on improving the vaccine distribution system and addressing vaccine hesitancy, in which, more than a third of the population remains vaccine hesitant. The Philippines is among the three countries with relatively high vaccine hesitancy in the region, alongside Myanmar and Indonesia. Barriers to vaccine acceptance pointed to concerns on side effects, safety, and vaccine ineffectiveness, highlighting the importance of vaccine literacy and better health communication strategy. The country also needs to strengthen the public healthcare capacity and keep in place public health protocols such as mask-wearing and social distancing measures as precautions to the pandemic.

Slower growth risks widening the fiscal deficit, resulting in the need for more vigorous fiscal consolidation. The government is encouraged to pursue a progressive fiscal consolidation plan that protects the poor to ensure long-term fiscal sustainability. It must, however, carefully manage the risks and trade-offs associated with consolidation.¹⁴ Employing new tax administration measures may prove to be the preferable intervention to raise revenues until the new administration takes over with a fresh mandate. Eliminating spending inefficiency and increasing value for money in public procurements will be instrumental to an expenditure strategy. Moreover, the timing of reforms requires consideration of the political cycle. The incoming administration has a window of opportunity to implement

painful yet necessary reforms right after the election when it still has political capital. In the Philippines and in many other democracies, this window is typically open for 1-2 years only.¹⁷ Consolidating too early to protect fiscal health may quell recovery but waiting too long may close the window of opportunity. This suggests that the 2022-23 period would be critical for a successful implementation. As the national budget is estimated to expand by about 11.0 percent next year, the fiscal consolidation is likely to start in 2023.

While public debt levels have been rising, the debt profile remains favorable. Public debt levels have risen to support the pandemic response amid lower revenues. Nonetheless, the country's public debt is mostly domestic (70.4 percent), long-term (65.1 percent), and peso-denominated (70.9 percent). Financing risks are curtailed by a comfortable access to domestic and international capital markets, and engagement with multilateral institutions. The market borrowing costs of the country also remain relatively low with the EMBIG spreads at 98 basis points (bps), below the average of 150 bps for investment-grade sovereign borrowers as of November 18. The Philippines continues to enjoy investment-grade credit rating from the three major ratings agencies, although Fitch revised its outlook from stable to negative in July. Moving forward, the growth recovery and fiscal consolidation efforts will help temper the elevated financing needs and rein in the debt.

Firm insolvency poses a risk to the financial system. Distressed firms are reporting acute liquidity constraints, including having insufficient cash and falling behind on payments. This low level of solvency poses significant risks to the financial system, especially as nonperforming loans and loans at risk increased and profitability ratios worsened between H1 2020 and H1 2021. To aid the banking system,

¹⁴ Social Weather Stations, 2021. SWS September 27-30, 2021 National Survey: Willingness for vaccination rises to 64% - 35% already received at least one dose, 23% will surely, and 6% will probably, get vaccinated. Available Online: <https://www.sws.org.ph/swsmain/articldisplaypage/?artcsyscode=ART-20211105021650>, November 5.

¹⁵ UNDP, 2021. Trend in COVID-19 Vaccine Acceptance in the Philippines and their Implication on Health Communication, August.

¹⁶ Increased taxation or public spending reduction will hold back economic activity in the short to medium-term due to the reduction in aggregate demand. However, the improved macro management will help safeguard growth in the long-term.

¹⁷ Reforms implemented at the beginning of an electoral term are likely to prove less politically costly. See G. Ciminelli et al., 2019. The Political Costs of Reforms: Fear or Reality?, IMF Staff Discussion Note SDN/19/08. Washington DC: IMF, October.

the Philippines passed the FIST law, which allows special asset management firms to help dispose of nonperforming assets and loans of banks and financial institutions. Banks themselves have proactively raised their capital adequacy above the regulatory threshold to buffer against the risks and vulnerabilities. Still, the authorities also need to help firms by facilitating firm restructuring, exit, and debt resolution. Simplified liquidation and small business restructuring frameworks would facilitate low-cost restructuring and liquidation of micro, small, and medium-sized enterprises.

The prospect of interest rate hikes in advanced economies can lead to capital market volatility in emerging markets.

The rapid recovery among advanced economies is causing demand pressure on consumer goods, which, along with global supply-chain bottlenecks, is leading to inflationary pressure. The US Federal Reserve has signaled its intention to keep interest rates low, despite rising prices, to allow the job market to fully recover. However, strong and persistent inflation may force central banks to recalibrate their assessments and resort to interest rate hikes. This could lead to capital outflows from emerging markets and the depreciation of their local currencies, reminiscent of the 2013 ‘taper tantrum’. The capital market in the Philippines may turn volatile, weakening business sentiment, and putting investment decisions on hold. Moreover, currency depreciations would place undue burden on firms with large foreign currency-denominated loans. Monetary tightening in advanced economies can also contribute to slowing of the global economy, which can temper the country’s exports growth.

Harnessing the digitalization momentum will drive growth and productivity.

The pace of digitalization has accelerated in the Philippines, evidenced by the increased volume of digital transactions, use of online platforms, and expansion of e-commerce. Between 2020 and 2021, the Philippines was the fastest growing digital market in Southeast Asia with estimated growth of 93 percent from US\$9 billion to US\$17 billion (average regional growth of 50 percent).¹⁸ Even so, the use of digital technologies in the country has been uneven, with larger firms being more adept than smaller ones to use technology to improve their sales, marketing, inventory management and operations.¹⁹ Equipping all firms with the skills and know-how to adopt new technology must be pursued and complemented with openness and competition policies to increase the incentives for firms to exploit such technologies. While digital infrastructure for basic technologies is often available, broadband access needs to be expanded to facilitate the use of more advanced technologies.

To strengthen private sector development, the authorities should prioritize structural reforms that aim to reduce regulatory restrictiveness and encourage market competition.

Removing the restrictiveness of regulations can have positive effects on value added, productivity, and export growth. Reducing regulatory restrictiveness can be done by: (i) eliminating restrictions on foreign investment; (ii) reducing the scope of controlled prices to create the right incentives; and (iii) streamlining administrative procedures to facilitate easy market entry. The approval of key reforms such as amending the Public Sector Act and Foreign Investment Act could attract investments in key sectors and boost medium-term growth and job creation.

To further narrow the infrastructure gap in the country, the authorities could improve public investment management and leverage private sector participation where viable.

Public financing needs will remain elevated as public revenues slowly recover while the government continues to address the pandemic. The limited fiscal space will compel the authorities to improve the efficiency of public expenditure and explore different sources of financing. The government should consider increasing the participation of the private sector through public-private partnerships, in which the country has extensive experience. The private sector is a source of not only finance but also expertise, innovation, and solutions to the country’s development objectives. Leveraging the private sector can help fill the financing gap, consistent with the country’s overall fiscal sustainability.

Social protection programs should be timely and targeted, reaching the individuals who need them the most.

They are important to mitigate the adverse impact of the pandemic on livelihoods, health, and education, especially among the poor. Moving swiftly to provide transfers and support to poor and vulnerable households in the face of shocks necessitates an improvement in the government’s delivery and implementation capacity. To this end, the successful rollout of the Philippine National ID system and use of the foundational ID for social protection delivery is a step towards the right direction by enabling the digital identification of recipients and digital transformation of the delivery system. More specifically, the Philippines must leverage the National ID system for strengthening the country’s targeting system, consolidating and systemizing beneficiaries’ information in a unified database, harmonizing various social protection programs, and facilitating financial inclusion and digital distribution of transfers.

The recovery of the labor market will be critical to protect households from the long-term scarring effects of the pandemic.

In June 2021, the authorities institutionalized the

¹⁸ Google, Temasek, and Bain, 2021. “e-Conomy SEA 2021 - Roaring 20s: The SEA Digital Decade,” Available Online: <https://economysea.withgoogle.com/>.
¹⁹ World Bank Business Pulse Survey Round 3, May 2021.

National Employment Recovery Strategy, a master plan for the accelerated adoption of new technologies and the restoration of the labor market in response to the pandemic. The plan will foster quality employment through a whole-of-government approach, with a focus on implementing livelihood and training programs, retooling and upskilling workers, supporting existing and emerging businesses, and providing social protection to vulnerable groups. The jobs recovery agenda has become more critical amid the pandemic, which has led to household indebtedness, the sale of productive assets, and lost human capital. Part III of the Philippines Economic Update focuses on **Jobs for Filipinos, Jobs for the Future**, and provides an exposition of labor challenges and opportunities in pursuing a resilient, sustainable, and inclusive development strategy.

The authorities need to prudently manage institutional

changes in 2022. Two key upcoming institutional changes next year are: (i) the change in administration, following the presidential elections; and (ii) the implementation of the Mandanas ruling. On the one hand, the national elections in 2022 will usher in a new administration, which will normally raise uncertainty regarding policy continuity. Swiftly and decisively establishing policy direction will help to reassure the domestic and foreign business community. A new Administration would have a unique opportunity to implement difficult reforms with a fresh mandate. On the other hand, the Mandanas ruling will raise Internal Revenue Allotment allocations to LGUs by around 1 percent of GDP, beginning in 2022. Several national government agencies plan to re-devolve the funding and execution of programs, projects, and activities to LGUs. The transition toward re-devolution, however, comes with risks related to budget execution and the quality of service delivery.





Part III

Jobs for Filipinos, Jobs for the Future

The COVID-19 pandemic disrupted the jobs market in the Philippines. A large number of jobs have returned as the economy rebounded, but most tend to be concentrated in the low skilled service sector. Wage employment has greatly declined, indicating weak recovery among firms and subdued confidence in hiring workers. Increases in the share of self-employment, subsistence business and agriculture could reverse progress in structural transformation and further expand informality. The impact of the pandemic on jobs is uneven, varying by sectors, occupations and tasks, and worker characteristics.

This chapter reviews the impact of COVID-19 on jobs, and discusses policy measures that can help bring more and better jobs back. Amid the uncertain future of this pandemic, one area of certainty is that restoring Filipinos' livelihoods and welfare should be a high priority. To this end, combinations of support are needed for both the demand and supply sides of the labor market. Beyond short-term recovery, policy measures should address more structural barriers to private sector-driven job creation and workers' employability and protection. Finally, the importance of foundational human capital is highlighted for the long-term sustainability of the jobs market and the country's competitiveness.

The structure of Chapter 3 is as follows. Section 3.1 provides a brief context of the Philippine jobs market and dives into the COVID-19 impact on the economy, firms, and workers. Section 3.2 summarizes government's pandemic response, initiatives for jobs, and programs for workers. Section 3.3 provides policy recommendations in priority areas.

Photo: Jed Regala

3.1 Jobs Market and COVID-19

The Philippines has seen overall progress in the quantity and quality of jobs prior to the pandemic. Up until early 2020, the country was one of the fastest-growing economies in the East Asia and Pacific (EAP) region. With accelerating growth, the economy has enjoyed strong job growth and low unemployment. Much of the growth and job performance was associated with a steady structural transformation. Economic activities moved from lower to higher productivity sectors, with an increasing share of non-agricultural activities in both GDP and employment. Similarly, labor has moved from non-wage to wage employment.²⁰ Along with structural transformation, increases in labor productivity (measured as total value added per worker) have accelerated over time driven by growth in service sector productivity. Non-agricultural wage earnings explained about 60 percent of the poverty reduction between 2006 to 2018 (World Bank, 2020a), suggesting the importance of jobs and livelihoods for Filipinos' welfare. An upward trend in outmigration was also noticeable,

contributing to steady streams of remittances to the country.

The unprecedented shock of the pandemic has had significant impacts on the Philippine jobs market. During the initial period of the pandemic, strict quarantine measures resulted in the shedding of nearly 8.8 million (equivalent to 20 percent of total jobs in the economy) between January and April 2020. As lockdown measures were gradually relaxed, the jobs market appeared to be rebounding and the levels of employment and LFPR approached their pre-pandemic levels. However, other labor market indicators showed the fragility with high under-employment of workers and under-capacity operations of firms. Between April and October 2021, the Philippines has oscillated between episodes of harsh mobility restrictions to curb infection surges and easing of restrictions to enable economic activities. In November, the country may be entering a new phase of pandemic as it witnesses declining COVID-19 cases and increasing vaccination, which will help bring jobs back.



Photo: Jed Regala

²⁰ Labor achieved a steady transition out of agriculture, with the agricultural sector's share of employment declining from 37% in 2000 to 23% in 2019. See World Bank (2018), World Bank (2020a), and ADB (2021).

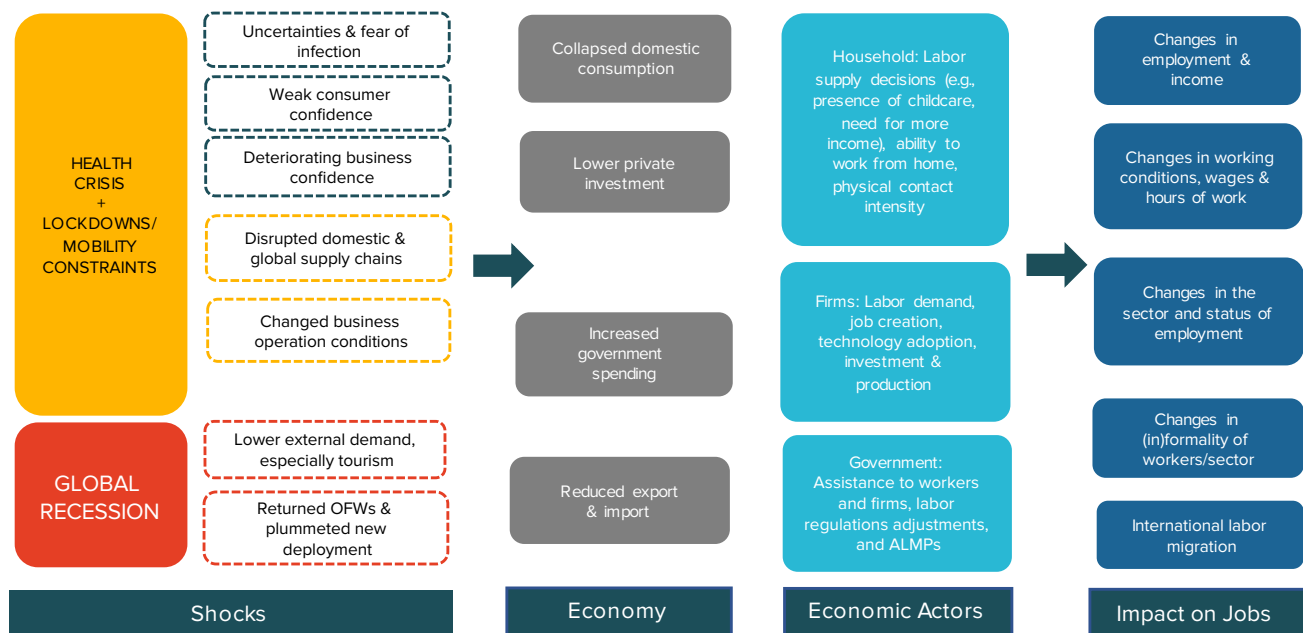
Main channels of impact along phases of the pandemic

COVID-19 and mobility constraints affect labor market outcomes through multiple channels (Figure 27). First, the incomplete knowledge and understanding of the virus and the fear of infection initially dampened consumer and business confidence, significantly reducing private consumption and investments. Second, mobility restrictions limited workplace activities, the transport of goods along the value chains, and retail and leisure travel, significantly reducing economic activities. Third, the shocks to trade partners and other countries severely affected trade, overseas workers deployment, and the tourism and travel industry.

Economic actors – firms, households and workers, and the government – react to these shocks, with implications on job market outcomes. While households experience income losses, more workers, especially secondary earners,

may seek earnings opportunities (i.e., added worker effect) despite the limited availability of jobs. Those who lost jobs may leave the labor force (i.e., discouraged worker effect) without engaging in further job searches. The ability of workers to maintain jobs is highly related to the varying levels of exposure of employment sectors to shocks, the type of occupations, and the tasks which determine the intensity of physical contact and work-from-home abilities. Firms' decisions to hire or fire workers and adjust hours, work arrangements, and benefits, also affect jobs outcomes. These are in turn affected by overall business confidence and investment, as well as their ability to access capital and navigate government regulations. As seen in some developed countries, heavy penalty in workplaces for unvaccinated workers may also affect labor market attachment and employer-employee dynamics. Finally, government's actions directly affect jobs outcomes through active labor market programs (ALMPs) such as wage subsidies and skills trainings.

Figure 27. The COVID-19 pandemic has affected the labor market through multiple-interlinked channels



Source: Authors' elaboration

These interconnected factors have interacted along the three broad phases of COVID-19 that correspond to the varying severity of quarantine measures, different levels of compliance, and government responses (Table 4). Phase 1 of the pandemic covered Q1 and Q2 of 2020, when the lockdown was most stringent and mobility was significantly limited.²¹ Little was known about the disease worldwide and compliance with lockdown measures was high as such measures were considered the only option to “flatten the curve” and avoid the collapse of the healthcare systems. During this time, many jobs were lost, the unemployment rate skyrocketed, and the impact on the labor market was broad-based. Given the huge impact of the quarantines on economic activities, the Philippine government introduced a large social protection program, the Social Amelioration Program (SAP), through the

Bayanihan 1 aiming to support pandemic-hit populations including displaced workers. Phase 2 was between Q3 of 2020 and Q1 of 2021, when the economy was slowly rebounding and jobs were coming back, in part, with the help of the end-of-year seasonal effect. Better knowledge about the disease and active vaccine development and deployment²² provided cautious optimism and helped improve business and consumer confidence. Small-scale labor market support, through the *Bayanihan 2*, was initiated. Phase 3 began with another round of strict lockdown measures in the NCR and the surrounding regions, with the surge of COVID-19 cases in Q2 2021.²³ Since then, localized lockdowns depending on the number of new cases were imposed, and lockdown fatigue, uncertainties and inconsistencies related to community quarantines prevailed.

Table 4. The job market has evolved over time in three broad phases depending on lockdown measures, policy environment, and government programs

| Characteristics | Phase 1 <i>Beginning – Q2 2020</i> | Phase 2 <i>Q3 2020 – Q1 2021</i> | Phase 3 <i>Q2 2021 – Q3 2021</i> |
|--|---|---|---|
| Lockdown measures | Stringent community quarantines, high compliance | Relaxed community quarantines | Mixed community quarantines, lockdown fatigue |
| Health policy environment | Huge uncertainty; heavy reliance on lockdowns | Modest confidence; need for tracing, isolating, and treating, in addition to lockdowns, highlighted | Growing confidence; need for large vaccine procurement and distribution highlighted |
| Social assistance programs including for displaced workers | SAP 1 st tranche (cash, large scale, nationwide) | SAP 2 nd tranche (cash, large scale, focusing on NCR and neighboring regions) | Local assistance [ayuda] (cash and in-kind per LGU discretion) |
| Labor market programs | Limited wage subsidies and cash for work, increased demand for repatriation support of OFWs | Expanded cash for work, continuous repatriation and reintegration of OFWs; training and livelihood assistance | Continued programs, renewed commitment through NERS (National Economic Recovery Strategy) |
| External environment | Global recession/uncertainty | Economic rebounding/ vaccine optimism | Vaccine optimism mixed with caution against variants' surge |

Source: Authors' elaboration



Photo: Jed Regala

21 This was when the growth rate plummeted (e.g., a -16.9 percent contraction from Q2 2019 to Q2 2020).

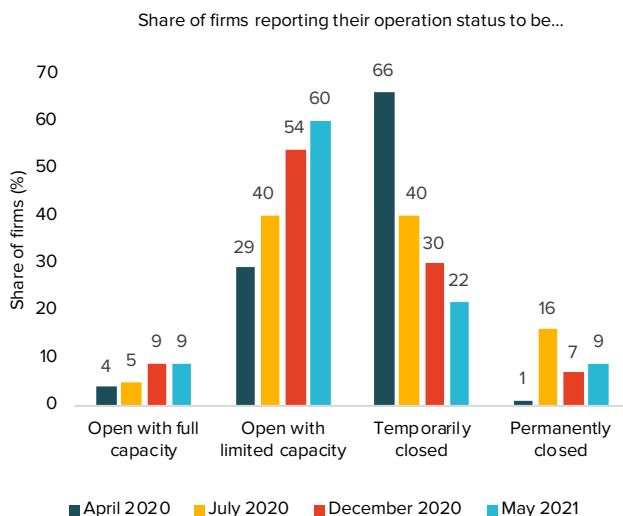
22 A global vaccine facility for COVID-19 vaccine development and deployment, COVAX, was launched in July 2020.

23 The aggregated labor market data for Phase 3 released by PSA are available up to September 2021, as of November 2021.

COVID-19 impact on firms and labor demand

The pandemic has significantly impacted firms' operations and sales, initially due to stringent lockdowns and later due to accumulated challenges, leading to massive employment disruptions. A nationwide firm survey showed less than 5 percent of firms reportedly stayed open at full capacity whereas over 66 percent of firms were temporarily closed in April 2020 (Figure 28).²⁴ An increasing share of firms resumed operations over time, albeit at below full capacity. Employment fell sharply as firms' common coping mechanisms include laying off employees, reducing working hours, changing work arrangements (e.g., allowing workers to work from home), and lowering wages and benefits. The employment shock was significantly larger among micro and small firms compared with larger firms (Figure 29). Micro and small firms were also more likely to report inputs and liquidity shortages and heightened competition during the crisis, thereby affecting their ability to maintain and create jobs. Given the dominance of micro

Figure 28. Firms' operation has been rebounding but the majority is operational at below full capacity

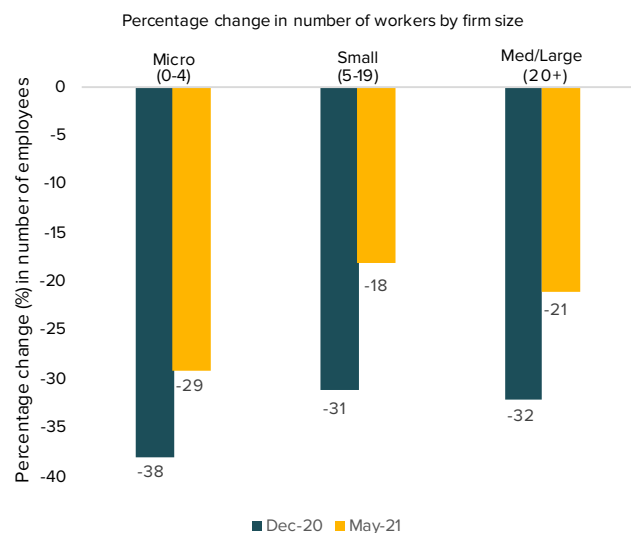


Source: DOF-ADB firms survey for April 2020 and WB Business Pulse Survey for the remaining three periods.

and small firms in the business and employment landscapes in the country,²⁵ the greater shock to smaller firms likely increased the vulnerabilities of workers significantly.

The impacts of the crisis on firms and their pace of recovery have been far from uniform across sectors (Figure 30). By May 2021, the operation rate (i.e., the share of firms operating in full or less than full capacity) in most industries bounced back to an average of 71 percent from 29 percent in April 2020. The Construction and Tourism sectors were hit the hardest with less than 20 percent firms staying open in April 2020, followed by Arts, Entertainment, and Recreation and Education. As of May 2021, Arts, Entertainment, and Recreation and Tourism still continue to struggle. Across regions, business disruptions were more prevalent in areas where more stringent lockdown measures were imposed such as NCR, Region 4A, and surrounding regions, and in areas that were more reliant on hard-hit industries (e.g., tourism and accommodation in Cebu).

Figure 29. The percentage change in number of workers relative to pre-pandemic level is the largest among micro firms



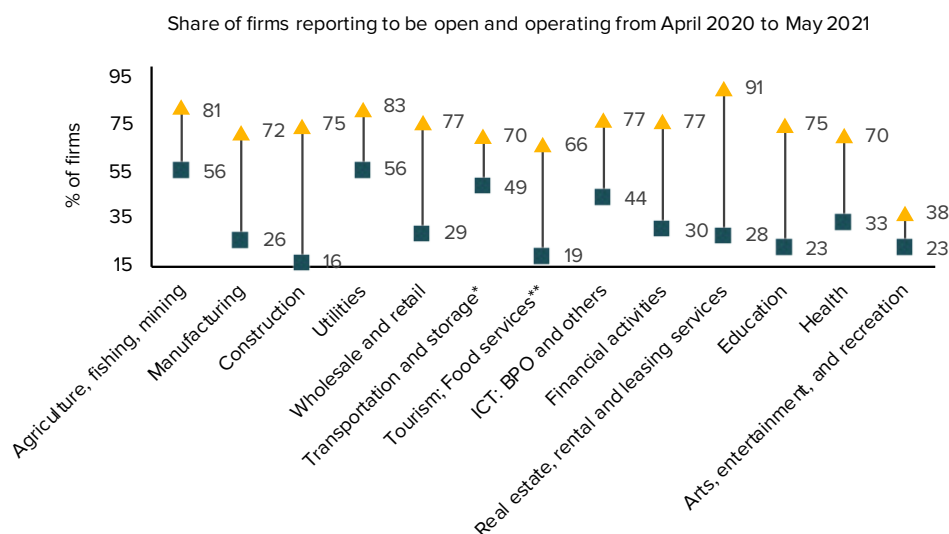
Source: World Bank (2021) and WB Business Pulse Survey.



²⁴ According to a nationwide survey conducted by the Department of Finance, (DOF), in collaboration with Asian Development Bank (ADB).

²⁵ The 2020 List of Establishments of PSA reports that out of nearly one million enterprises operating in the Philippines, micro, small, and medium enterprises (MSMEs) accounted for 99%, with microenterprises (those having fewer than 10 employees) accounting for 89% and small businesses (10-99 employees) accounting for approximately 10%. Micro and small enterprises account for approximately 55% of the employed whereas medium and large enterprises employ approximately 45% of workers.

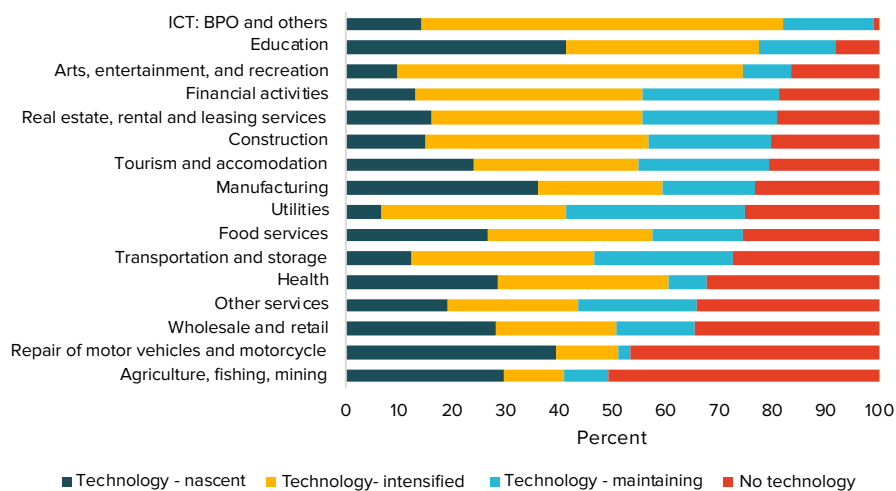
Figure 30. Share of firms (%) reporting to be open and operating increased from April 2020 to May 2021, but the pace of operational recovery varies largely by sector



Source: DOF-ADB firms survey for April 2020 and WB Business Pulse Survey for May 2021.

Note: *Transportation includes transportation and storage and repair of motor-vehicles and motor-cycles; ** Tourism includes tourism and accommodation and food services

Figure 31. While level of technology use varies by sector, a significant share of firms reported intensifying their technology use, highlighting the increasing demand for digital skills



Source: World Bank staff's calculation based on WB Business Pulse Survey, May 2021.

Amid the overall shocks and labor adjustments, a significant share of firms has adopted or intensified the use of digital technologies.²⁶ As of May 2021, over 70 percent of firms report using digital technology although the patterns of technology adoption and use vary greatly by sector (Figure 31). Information, Communication, and Technology (ICT) is by far the largest user of technology with the majority already using and intensifying digital

technology. The education sector, which was already using quite a bit of technology, had to expand even further given the switch to distant learning and online education during the pandemic. Even sectors that have been traditionally weak in technology adoption and heavy on labor use, such as agriculture, retail, or repair, report having started to use the technology. This suggests that the demand for digital skills among the work force will be broad-based.

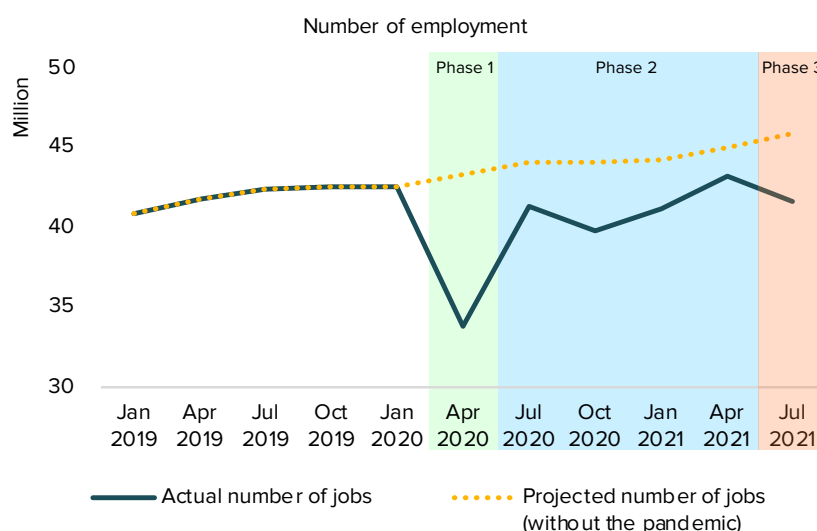
²⁶ Widely used digital technologies include customer-facing digital transactions, such as online sales or payment solutions; social media and data analytics for marketing; software for enterprise customer relationship management (CRM) or supplier relationship management (SRM); software for Enterprise Resource Planning (ERP); and more advanced digital tools such as A/B testing (World Bank 2021b). In addition to these, cloud technology adoption for storage of data and virtual collaboration, and sales force automation, has been increasingly utilized. For instance, according to BSP data, transactions through PesoNet for digital payments between businesses and partners or customers have increased over four times from Q1 2020 to Q1 2021.

COVID-19 impact on workers and labor supply

The primary impact of the pandemic on labor is job loss at large scale (Figure 32). The number of jobs in the labor market was about 41.7 million in July 2021, which recovered from 33.8 million in April 2020 and was close to that of January 2020 (42.5 million). The cumulative count of actual number of jobs, however, underestimates the total foregone employment. Without the pandemic, if the Philippine economy were able add jobs at a 4 percent growth rate - the rate it had over the period of January 2019 to January 2020, about 46 million individuals would have been employed in the labor market by July 2021. This indicates that the total number of forgone jobs lost due to the pandemic is estimated at around 4.3 million as of July 2021, equivalent to almost 10 percent of the total employed. Despite positive growth outlooks, recovering the number of jobs to the level predicted by the pre-pandemic trend would be challenging in the short term.²⁷

The COVID-19 crisis has likely reversed labor market progress made over time, with respect to structural transformation. While all employment types suffered from shocks, wage employment was particularly hard-hit, shedding over six million jobs – almost 20 percent of total employment – during Phase 1 (Figure 33). This is in line with many firms’ report of suspension of operations and downsizing. As the economy rebounds, many jobs have returned, but wage employment has not fully recovered. Instead, an increase in the self-employed without any paid employees—likely subsistence business activities—was observed. Similarly, the services sector bore the brunt of the shock during the initial phase, losing 5.6 million jobs and explaining 64 percent of the total job loss, far surpassing the sector’s share of employment in January 2020 at 59 percent (Figure 34). Job loss in industry was also large at over 2.2 million.²⁴ For the rest of the phases, most lost jobs were recovered and agriculture added even more than what was lost, indicating an increase in the agriculture share in employment.

Figure 32. The number of actual jobs falls short of what the market could have created without the pandemic



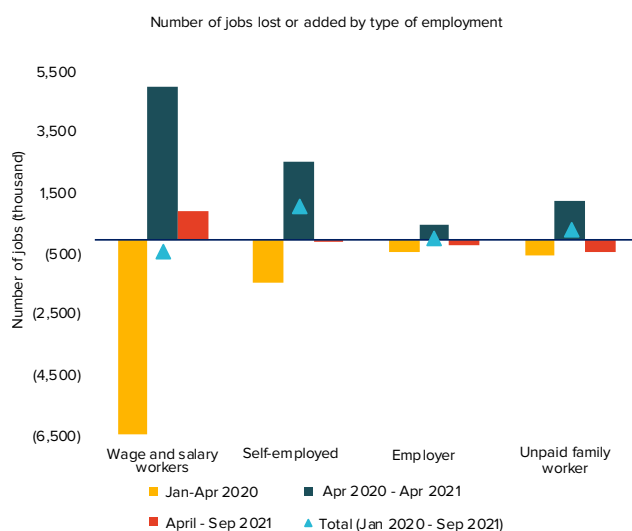
Source: World Bank staff’s calculation based on LFS various years.



²⁷ If the economy maintains the current jobs elasticity with respect to growth, the number of jobs in 2022 would still be below what was projected without the pandemic despite improving growth prospects.

²⁸ The sector includes activities of live performances, operation of museums sites, sports, gambling and recreation. With closure of museums, sports events, theaters, amusement parks, and others that are not deemed essential, the sector was hit hard by the pandemic.

Figure 33. Wage employment experienced a massive job loss in the initial phase and the subsequent rebound fell short

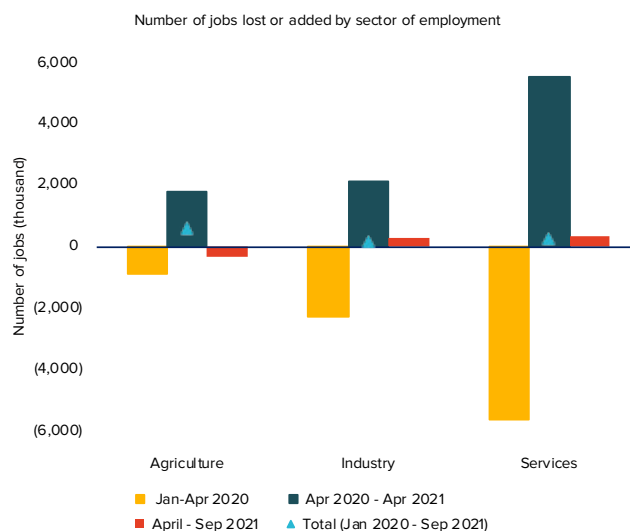


Source: LFS aggregate data from Jan 2020 to Sep 2021

Employment shock was felt differently by economic activities (Figure 35).

The Arts, Recreation and Entertainment sector²⁹ lost almost half of its jobs by April 2020, followed by Accommodation and Food Services, which lost 40 percent of its jobs. The struggles of these two sectors continued while all other sectors showed a rebound in July 2020, and their employment still remain far below pre-pandemic levels. Likewise, Transportation and Storage’s employment has remained at far below pre-pandemic level. Meanwhile, employment in the primary sectors, such as Agriculture and Mining, spiked in July 2020, indicating that they absorbed displaced workers. The ICT sector experienced a large employment loss initially, but demonstrated a strong return during the period between October 2020 and January 2021, far surpassing the pre-pandemic level of employment. This is likely due to the gradual recovery of the global economy and strong IT-BPM as well as increased demand for information technology services with firms’ increased adoption of digital technologies. The large labor absorbing construction sector experienced a steady recovery and by July 2021, the

Figure 34. Services also suffered a large scale job loss, and share of agriculture in employment increased



Source: LFS aggregate data from Jan 2020 to Sep 2021

number of workers in the sector exceeded that of the pre-pandemic level by 11 percent.

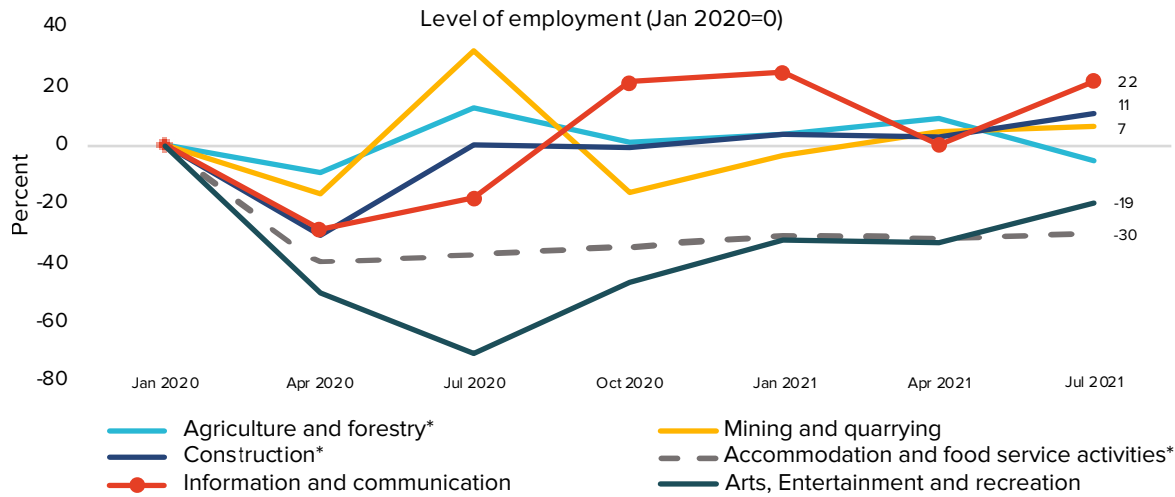
Low-skilled occupations and workers in low productivity sectors increased, indicating an overall deterioration of job quality.

Number of skilled professions, including managers and professionals, declined whereas number of elementary occupations increased (Figure 36). Managerial and professional jobs were not added much during economic rebounding of Phase 2, and were further lost in Phase 3. Displaced workers were primarily absorbed by the Agriculture and Wholesale and Retail Trade sectors, both of which are characterized by lower labor productivity and a large share of employment (Figure 37). Meanwhile, employment in high productivity sectors including real estate, finance, and information and communication remained flat. The reallocation of labor to less productive sectors and the lack of jobs growth in more productive industries also point to a slowdown in the structural transformation of the labor market.



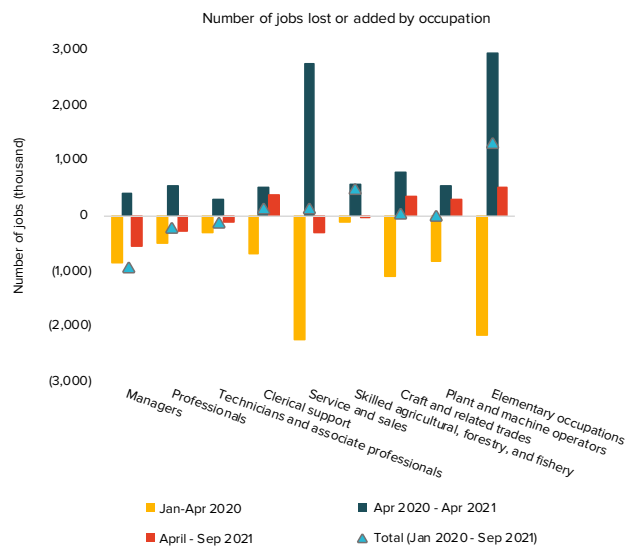
29 The sector includes activities of live performances, operation of museums sites, sports, gambling and recreation. With closure of museums, sports events, theaters, amusement parks, and others that are not deemed essential, the sector was hit hard by the pandemic.

Figure 35. Employment levels of a few sectors experience more dramatic changes during the pandemic compared with the level in January 2020.



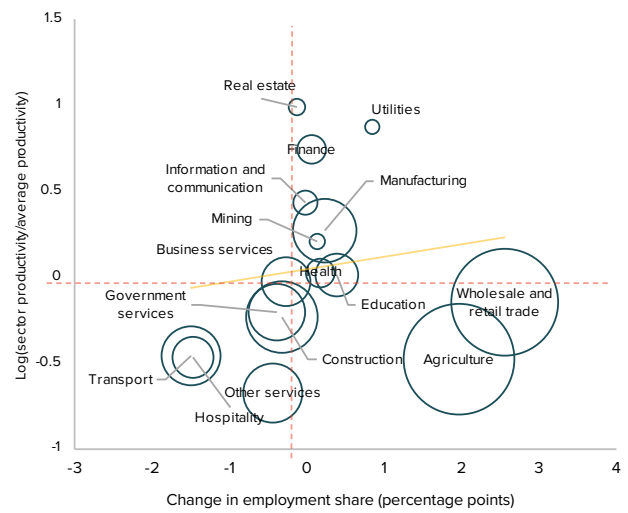
Source: LFS quarterly aggregate data from January 2020 to July 2021.
 Note: * indicates large sectors with more than 2 million workers.

Figure 36. Elementary jobs have increased while managers and professionals lost employment



Source: LFS aggregate data from Jan 2020 to Sep 2021

Figure 37. Employment share of labor-absorbing, low-productivity sectors further increased



Source: LFS aggregate data from 2019 – H1 2021
 Note: The size of the bubble indicates the sector's employment share.



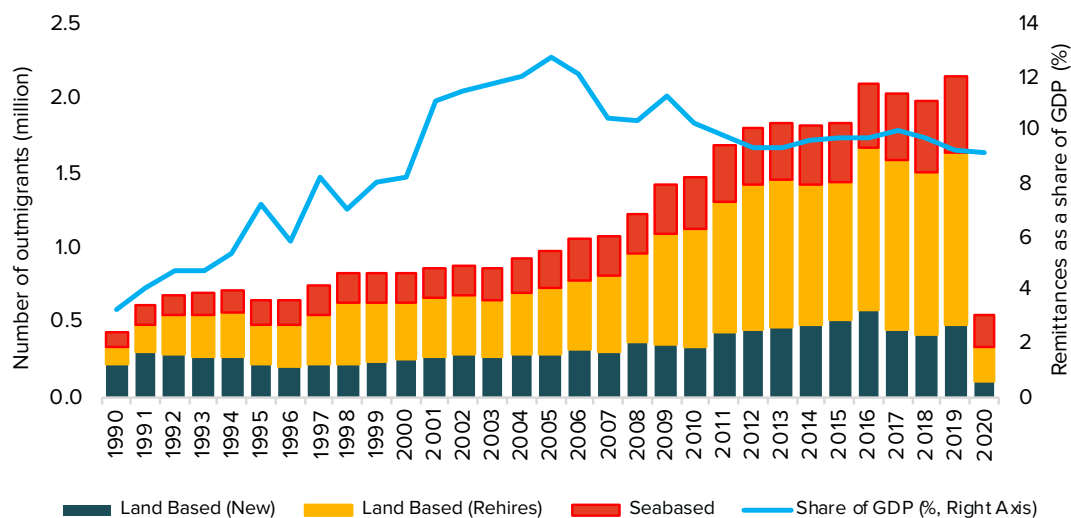
Photo: Jed Regala

The crisis also created additional pressure on the domestic job market through the disruptions on international labor migration. Large-scale overseas employment has provided important work opportunities for considerable share of the labor force,³⁰ providing substantial flows of remittances to the economy. Yet due to the impact of the pandemic, the outflow of OFWs plummeted to about half a million workers, a 75 percent drop from 2.2 million in the preceding year and the lowest level since 1991 (Figure 38).³¹ Over 0.6 million OFWs have been repatriated by March 2021 due to international border closure, health concerns, and employment disruption in host countries. A survey by the International Organization of Migration reports that the majority of OFWs (83 percent) were unemployed three months after returning to the Philippines (IOM, 2021). The smaller number of Filipinos finding job overseas, combined with the weak reintegration of returned migrant workers, has put upward pressure on unemployment, with female workers more severely

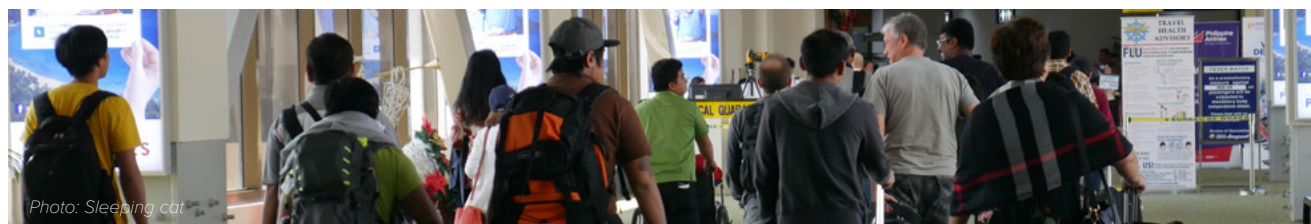
affected due to the high shares of women among OFWs.³²

The COVID-19 impact on workers has been heterogeneous by worker characteristics.³³ Women, urban, and young workers tend to be affected more by the pandemic (Figure 39). After the initial shock, some workers recovered relatively well while others experienced lingering negative impacts. In particular, young workers seem to be suffering the larger effects and their struggle continues. The rebound of employment in July 2020 was driven mostly by rural and unskilled workers, likely due to significant increases in Agriculture and Mining in this period, but their employment displayed a sharper decline than their urban and skilled counterparts in October 2020. Workers were further affected by the regional variations of the pandemic's labor market impact: NCR, Region 1 (Ilocos), and Region 4A (CALABARZON) all showed double-digit unemployment rates in October 2020.

Figure 38. Annual outflow of OFWs plummeted due to the pandemic across all types of migration, and this is likely further pressuring the domestic labor market.



Source: The Philippine Overseas Employment Authority (POEA).



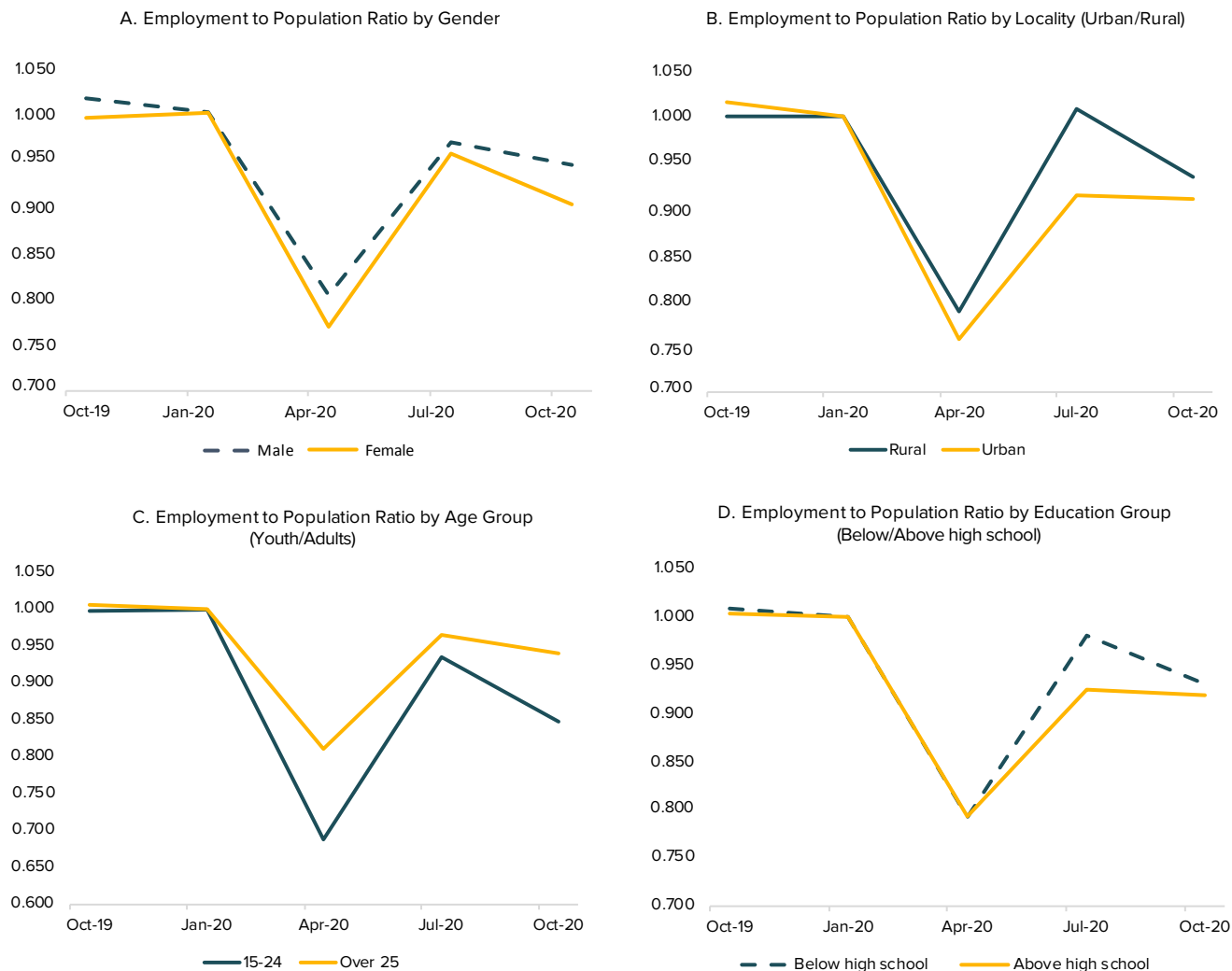
³⁰ About 12 percent of households in the Philippines reported to have at least one member who was or has been an Overseas Filipino Worker in 2018. The stock of OFWs abroad has been estimated at around 2.2 million since 2011, with some fluctuations and a peak of 2.5 million in 2015. Source: PSA, National Migration Survey, 2018.

³¹ Contrary to predictions of a steep fall and negative implication on consumption and foreign exchange earnings, disruptions to labor mobility, however, did not translate into the same extent of decrease in remittances, at least in the short term. Aggregate remittances fell by only 0.8 percent y-o-y from US\$ 33.5 billion to US\$ 33.2 billion (BSP, 2021c).

³² The share of female OFWs among new hires has been between 67 to 76 percent of total workers. This is largely a reflection of the high demand for Filipinos in the care sector (e.g., household service workers) as well as in entertainment and in the nursing sector.

³³ LFS microdata for the analysis is available up to October 2020.

Figure 39. Employment to population ratios by different groups, normalized to 1 in January 2020, show greater shocks for women, urban, and young workers.



Source: LFS microdata January to October 2020

The ability to work from home (i.e., flexibility of a job) matters in maintaining jobs in the context of COVID-19.

International evidence shows that flexible jobs that can be done at home were resistant during the pandemic, but that inflexible jobs that require physical presence or contact were hit hard. This has led to varying labor market performance across different groups of workers, depending partly on their access to flexible jobs. For instance, Albanesi and Kim (2021) showed that the disproportionately negative impact of the pandemic on female workers in the United States (U.S.) was explained in large part by their low presence in flexible jobs. In the Philippines, our analysis suggests that about 30 percent of jobs in January 2020 was classified as flexible jobs that could be carried out from home.³⁴

Similar to the findings in the U.S., flexible jobs showed greater survival rates relative to inflexible jobs. Yet the gap between flexible and inflexible jobs in the Philippine labor market was not as prominent as in the U.S., in part due to agricultural employment in rural areas, which are mostly inflexible jobs and served as an additional cushion for Filipino workers by allowing them to keep working.

The analysis of flexible jobs also revealed a few additional dimensions of labor market vulnerability.

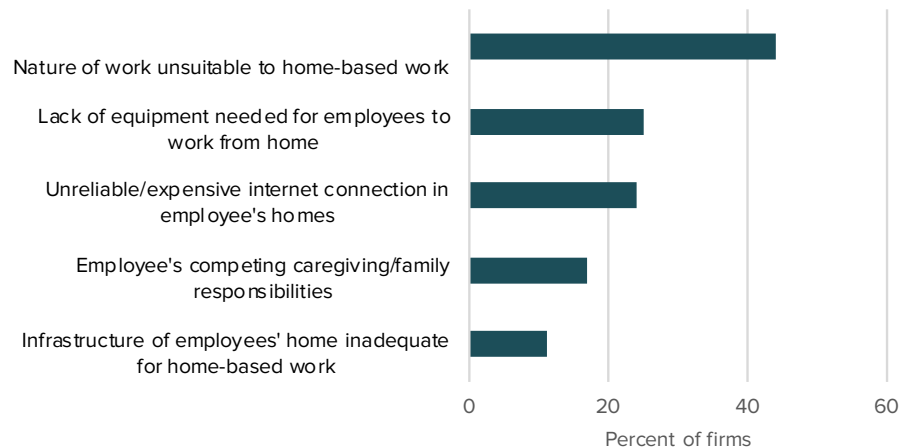
First, having flexible jobs may not necessarily mean that workers can work from home in the Philippines. In December 2020, only about 7 percent of firms reported the capacity to have the majority of their employees work remotely without

³⁴ A job is assumed to be inflexible and should be carried out in person if it involves any of the following: repairing/maintaining electronic equipment, operating heavy machinery or industrial equipment, reporting that the job is physically demanding, reporting that contact with customers is very important, or not using e-mail at work.

major issues (WB BPS).³⁵ Apart from the nature of jobs not suitable to home-based work, lack of equipment and reliable internet access at home are major barriers for workers to perform their jobs remotely, indicating the digital divide has an implication on labor market resilience (Figure 40). Despite the increasing digital technology adoption and use for business, only a small share of firms reported using the technology to facilitate flexible work arrangements (World

Bank, 2021c). Second, the youth group was far less likely to work in flexible jobs, which contributed to increases in the youth-adult employment gap during the pandemic. Third, women were relatively better shielded with their high presence in flexible jobs, but childcare responsibilities, especially in the context of extended school closures, appeared to offset the ability to work even in flexible jobs.

Figure 40 . Firms report that many workers were unable to work from home for various reasons.



Source: World Bank Business Pulse Survey, December 2020



Photo: Junpinzon

35 The share was highest in ICT (23 percent), Tourism and Accommodation (14.6 percent), Utilities (15.6 percent) and Education (12.9 percent).

Implications on structural challenges

Given the magnitude of the shock, firms may have focused on surviving rather investing in innovations and enhancing productivity. For instance, the adoption of digital technologies has been focused on customer facing activities to sustain the demand for products and services, rather than bringing in digital transformation of firms' internal operations for better productivity and efficiency (e.g., business process within the firm, market analysis). Firms' technology adoption and productivity growth may not necessarily help create jobs in the short run as automation and efficiency likely dampens labor demand initially. However, when firms' productivity gain leads to greater competitiveness, larger market shares and more active operations, it can create more jobs.

The pandemic also highlighted the disproportionate share of employment among low productivity sectors.

Businesses in the Agriculture and Wholesale and Retail Trade sectors were able to add jobs easily, many of which are likely informal and low costs to employers. Unskilled workers without safety nets and in urgent needs for additional incomes, sought immediate work opportunities in these sectors. Workers likely have moved between the two depending on relative lockdown measures in rural and urban areas, using these sectors as safety nets in times of crisis.

Disruptions in employment will likely have long-term impacts on labor productivity, earnings, and other labor market outcomes.

Previous crises such as the Asian financial crisis in 1997 or the Great Recession in 2008 suggest that the youth transitioning from school to the labor market during crisis periods suffer long-term scarring and lower lifetime earnings.³⁶ The pandemic has been particularly acute for young people much more than previous crises. Not only have many young people experienced prolonged distance learning without in-person classes, those looking for jobs also face bleak employment prospects and high unemployment rates. Young workers are far more likely to be in inflexible jobs than their older counterparts, significantly exposed to the pandemic shock. Many young people who became unemployed may have accepted low-paying jobs, driven by the search for earnings opportunities, that they would not have otherwise accepted under normal circumstances or for which they are over-qualified. Such scarring begins with labor market outcomes, but has a wide range of implications on overall wellbeing such as on earnings, marriage, fertility, and asset-building (Choi et al: 2020).

Labor productivity is already showing stagnation in the Philippines, deviating from the pre-pandemic trend of robust growth. The Philippines has achieved accelerated progress in productivity gains. When measured as value added per worker, the annual productivity growth rate increased from 2.15 percent (2000-2009) to 5.71 percent (2010-2019). About half of this growth is explained by productivity growth in the service sector, followed by productivity growth in industry and labor shifts out of agriculture. In contrast, over the year between Q1 2020 and Q1 2021, productivity growth was close to zero with none of the three broad sectors experiencing productivity growth.

The country's future productivity is also of concern due to the loss of children's health and nutrition and education. Early childhood development and education, and subsequent schooling, have a determining impact on an individual's productivity and earnings in the labor market and the country's competitiveness. Even without the pandemic, a large share of children was already suffering from undernutrition (Capanzano: 2019),³⁷ and the country's rate of stunting was considered high for its level of income.³⁸ Given the prevalence of food insecurity aggravated by the pandemic, unless immediate action is taken, millions of Filipino children will face the increased risk of undernutrition and likely suffer the consequences of poor school performance and low adult productivity even if they survive these deficits. Further, the learning losses due to school closures and distance learning will have significant consequences unless urgently addressed. Prior to the pandemic, despite progress in school attendance and increased years of schooling, particularly through the K-12 reform,³⁹ as well as the initiation of alternative learning programs for dropouts, the quality of education was a serious concern.⁴⁰ With several months of school closures and no face-to-face classes throughout the 2020-21 school year to date, the overall learning outcomes likely worsened while disparities among students widened. A series of nationwide surveys consistently show uneven access to internet and gadgets as well as divergences in the ability of parents and caretakers to assist children with learning and offline study, the ability of students to focus on distance learning, and local schools and teachers' delivery of modules, teaching, and information (Cho, et al.: 2021a).

³⁶ See Cockx and Ghirelli (2016); Genda, Kondo, and Ohta (2010); Hoynes, Miller, and Schaller (2012); Kahn (2010); and Oreopoulos, von Wachter, and Heisz (2012).

³⁷ Stunting reflects chronic undernutrition, a consequence of a cumulative process that starts in pregnancy and continues in infancy and early childhood as repeated experiences of illness (such as diarrhea, malaria, or acute respiratory infection), combined with insufficient dietary intake, cause a child's growth to falter. It is measured by height-for-age. Children whose height-for-age is more than two standard deviations below the median of the reference population are considered short for their age and are classified as moderately or severely stunted. About 30 percent of children under five years of age were estimated to be stunted in the Philippines.

³⁸ The average under five stunting rate is about 20 percent for countries at similar levels of income. The Philippines ranks the fifth among countries in the East Asia and Pacific region with the highest stunting prevalence and among the 10 countries globally with the highest number of stunted children.

³⁹ See World Bank (2021c).

⁴⁰ Multiple standardized tests, such as Program for International Student's Assessment (PISA), have shown that Filipino students were unable to manifest grade-appropriate level of competency in key subjects. See OECD country note for PISA: https://www.oecd.org/pisa/publications/PISA2018_CN_PHL.pdf

3.2 Government's Labor Market Response to COVID-19

The government took various measures starting from large scale social protection intended to help displaced workers. Under *Bayanihan 1*, the eligibility criteria of the large-scale cash assistance through SAP include unemployed and informal sector workers.⁴¹ In addition, to prevent mass layoffs of workers in the early months of the COVID-19 outbreak, the government launched two major wage subsidy programs i.e., COVID-19 Adjustment Measures Program (CAMP) and the Small Business Wage Subsidy (SBWS).⁴² For CAMP, the Department of Labor and Employment (DOLE) provided a one-time financial assistance of Php 5,000 (US\$100) to about 1.5 million workers in the formal sector. On the other hand, the SBWS provided Php 5,000 - 8,000 (US\$100 to 160) twice for workers in small businesses affected by lockdown measures. The amount of subsidies for these programs were all set at the similar level based on an average household subsistence level income and level of regional minimum wages per month. For repatriated OFWs, another one-off cash assistance of Php 10,000 (US\$200) was provided.

Despite these interventions, the daunting needs for earnings opportunities remain, given the sheer magnitude of the shock and the prolonged period of the pandemic. Records suggest that about 23 million household (or family) representatives received either first or second tranches of

SAP transfers, of which about 10 million received both.⁴³ Nationwide surveys consistently show that a large share of household heads from low income households returned to labor market activities rapidly and were able to receive government assistance.⁴⁴ Nonetheless, their incomes were not fully recovered, and they report being concerned about food security and their financial situation. This is in part because they turn to low pay jobs with reduced working hours in the labor market.

The *Bayanihan 2* introduced more specific labor market measures addressing challenges in both demand and supply sides, but the budget allocation was not as extensive as the first one.⁴⁵ The DOLE expanded its cash for work program, coined as TUPAD,⁴⁶ that has helped more than 1.27 million informal sector workers. Initially limited to 10 days of work involving disinfection and sanitation of houses and the community, the program recruited beneficiaries, and trained and contracted them as contact tracers for a longer work period i.e., three months or 90 days. Given that many firms suffer from credit constraints, *Bayanihan 2* included measures to provide capital with concessional rates, especially to MSMEs, through Small Business Corporation (SBCorp), the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and PhilGuarantee.



Photo: Jed Regala

⁴¹ SAP is the largest social protection measure in the country's history, with a target of covering 18 million households through two tranches of transfers ranging from Php 5,000-8,000 (US\$100 to 160), with a budget equivalent to 2 percent of GDP.

⁴² Under the guidelines for the SBWS measure, small businesses are sole proprietorships, corporations, or partnerships not under the jurisdiction of the Bureau of Internal Revenue (BIR) Large Taxpayers Service. The SBWS a joint undertaking of the Department of Finance (DOF), Social Security System (SSS), and the BIR.

⁴³ With the confusion between households (PSA's unit of measuring poverty) and families (conventional unit for the public), and the lack of an updated social registry, SAP was split into two tranches with an adjustment of the pool of eligible beneficiaries. See Cho et al. (2021b) for more detailed discussion.

⁴⁴ These include the World Bank's High Frequency Monitoring Household Survey conducted in August and December 2020, and May 2021 and Household Panel and Economic Survey conducted in April, June, August, and October 2020, and PSA's Annual Poverty Indicator Survey in 2020.

⁴⁵ Based on the Department of Budget and Management (DBM) data on COVID-19 releases as of September 30, 2021, *Bayanihan 1* had more than Php 387 billion total budget allocation to implement the law while for *Bayanihan 2* about Php 214 billion was allocated.

⁴⁶ Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers (TUPAD).

In an effort to promote private sector led economic recovery, reforms through new legislation or implementation of existing initiatives were expedited, the impact of which has yet to be seen. For instance, the CREATE law (Republic Act No. 11534) was enacted on March 26, 2021. It includes provisions for reduced corporate taxes and larger deductions for labor and other expenses of firms. Also, efforts to improve the business environment were evident. Mandated under the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (herein EODB law), all LGUs were required to have a Business One Stop Shop (BOSS) window in their office, beginning in April 2021. The BOSS window is designed to simplify processes for various permits and licenses, and facilitate the use of standardized forms across different departments.

To strengthen labor market programs and promote job creation, the government has institutionalized the National Employment Recovery Strategy (NERS). With the issuance of Executive Order 140 on June 25, 2021, a 20-member agency NERS Task Force led by the Department of Trade and Industry (DTI), the DOLE, and the Technical Education and Skills Development Authority (TESDA), was tasked to implement an employment recovery strategy from 2021 to 2022. The NERS aims to serve as a master plan to restore the country's labor market from the impact of the pandemic and to accelerate the adoption of new technologies. Pursuing a whole-of-government approach, the NERS focuses on livelihood and training programs, reskilling and upskilling of workers, support for existing and emerging businesses, and social protection for vulnerable groups.



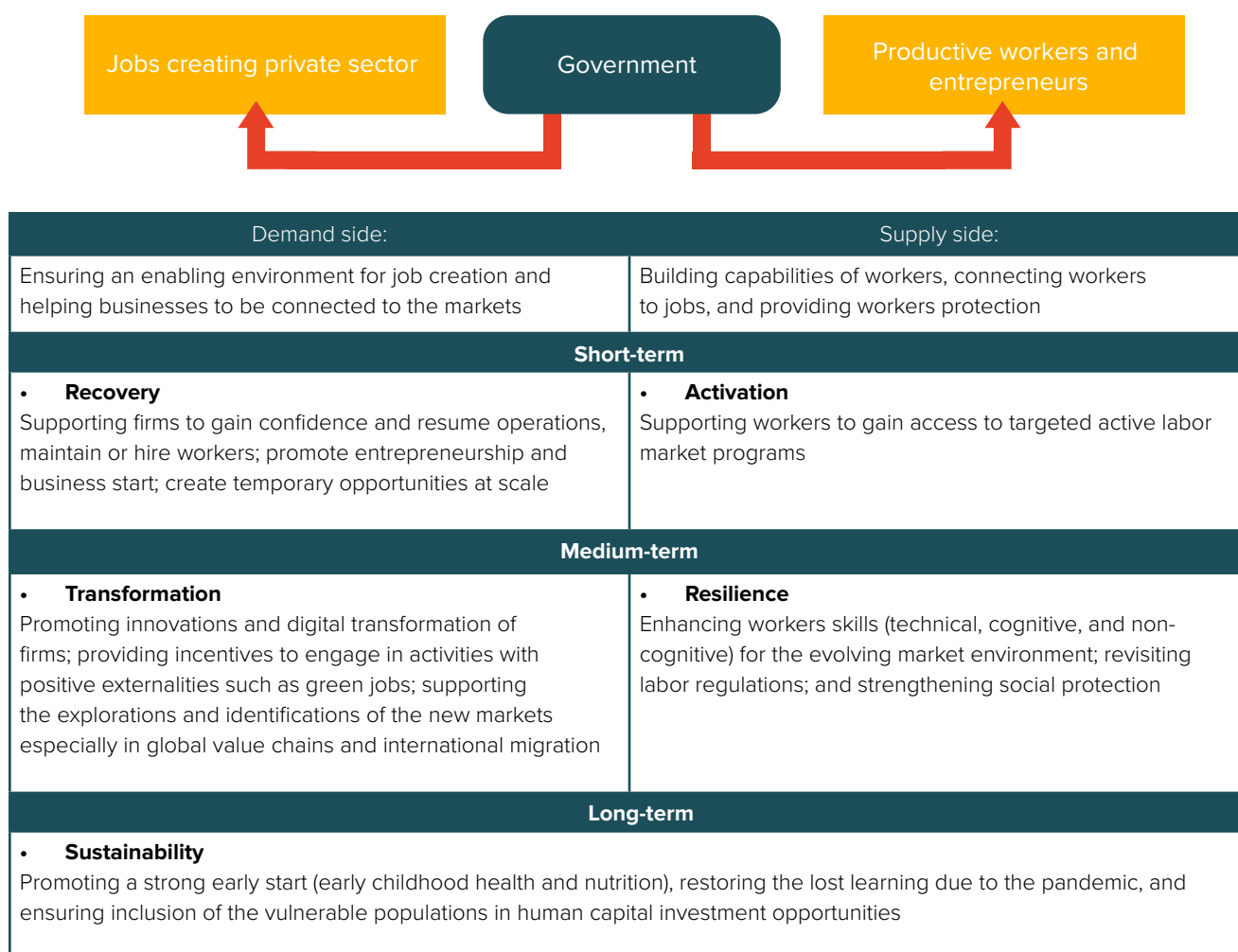
Photo by: Jed Regala

3.3 Jobs Policy Priorities in the Philippines

This section summarizes the key policy agenda on both the labor demand and supply sides (Figure 41). The immediate policy areas for jobs are “recovery” from the pandemic and “activation” of workers to bringing economic activities and workers back. Government’s interventions should aim at achieving greater impacts within the limited fiscal space by strengthening the design and better targeting, and by leveraging digital tools and promoting economy-wide digitalization. Social protection policies can strengthen the workfare beyond cash transfers, and a bold

scale-up for skills enhancement and support for workers is needed. In the medium term, the Philippines will need to identify and foster strategic and “transformative” sources of competitiveness for growth and quality jobs creation. At the same time, worker protection measures should be strengthened for “resilience” in the changing world of work. Finally, the country’s human capital needs urgent intervention to ensure a healthy and competent future workforce for the country’s future and for the “sustainability” of development.

Figure 41. Government should prioritize making a business environment conducive for job creation, and building capacities of workers and linking them to jobs.



RECOVERY: Economic and jobs policies for the “Live and work with COVID” era

Shift policy narratives and focus from the pandemic response to smart reopening

Despite many uncertainties, an increasing number of countries are preparing for the COVID endemic scenario after achieving a certain level of inoculation—mainly to bring the economy and jobs back. No consensus exists if and when the world will see the end of COVID-19, with the emergence of new variants and varying vaccination rates by population groups and across countries. Previous pandemics, however, suggest that as herd immunity is building up through large-scale inoculation or infection, the virus’ threat would become less serious. In such a case, even if the number of cases increases, reduced hospitalization or death rates can encourage a cautious shift to a period of living with the virus as an endemic.

In the Philippines, a more active diversification of policies and narratives for the “Live and work with COVID” era is needed, which can help job creation. Shifting policy priorities or mindsets regarding COVID will not be easy. However, as the vaccination rate increases, policy options should be considered to bring back normal activities notwithstanding increases in cases. This does not mean abandoning precautionary efforts, but implementing policies and taking calculated risks for the transition to reopening – reopening of schools, economic activities, and borders. This should be of course accompanied by vaccination efforts including through booster shots and fight against vaccine hesitancy.

Clear and consistent guidelines to enable the return to operations can also help businesses resume their activities at full capacity. Cash-strapped firms would not be able to hire or bring back their workers in the face of risks of potential future closures or lockdowns. In order to give confidence and assurance, standardized reopening protocols should be in place, such as workplace safety measures, firms’ testing and tracing responsibilities and provision of flexible work arrangements, employees’ vaccination and testing rules, and contingency plans (in case of surges), especially for labor intensive sectors.

Boost labor demand through more targeted support for firms

Wage subsidies should be strengthened and can be targeted at young workers. Currently, wage subsidies (e.g., CAMP or SBWS) are designed in a way that one or two lump sum, fixed amount subsidies are paid to firms regardless of worker characteristics. In contrast, many other countries use wage subsidies to increase labor demand for disadvantaged workers (e.g., youth, minimum wage earners) by providing a share of wages for a longer period. The existing wage subsidies can enhance the design by incorporating clear eligibility criteria of workers and firms, cost sharing

and matching rules between firms and government, duration of the program, and payment mechanisms, among others. In addition, by providing extra incentives for firms paying wages through digital channels, wage subsidies can also encourage firms’ digitalization efforts.

Starting a business and entrepreneurial activity should be made easier by leveraging digital tools. The launch of business one stop shops (supported by the EODB law) is encouraging. Such one stop shops started with a consolidated window at the local office, but can greatly benefit from an accelerated shift to digital platforms. They can further enable customized regulations, procedures, and support according to firms’ needs and characteristics. For instance, business registration processes for individuals for entrepreneurial activities, online firms, and micro and small businesses are certainly different from those for larger bricks-and-mortar firms internationally trading firms likely have different requirements from domestic firms; and types of licenses and permits also vary by business sector and activity. Moreover, such a digital platform can also lead to better awareness and information of relevant programs, such as credit guarantees, wage subsidies, and skills development opportunities.

Support for taxes and subsidies, and access to credits, especially for MSMEs, should continue with active outreach efforts and customized information services.

Government initiatives such as rationalized taxes, subsidies, and various deductions (supported by the CREATE) and access to credit programs (supported by *Bayanihan 2*) have the potential to promote business activities and labor demand. Unfortunately, not many firms were aware of these opportunities. The WB BPS in May 2021 suggests that over 35 percent of responding firms reported being unable to access government support, mainly due to lack of knowledge of such programs, and the barriers were greater for MSMEs. The public entities implementing these initiatives (e.g., BIR, SBcorp, LBP, DBP, PhilGuarantee) should develop consolidated guidelines for available support and referral systems, and engage business associations for better dissemination of information. Further, active support for MSMEs such as digital skills extension services (as in agriculture extension services) can be designed and customized for their productivity gain and adoption of more sophisticated digital technologies.

Design public works (public services) to create short term employment opportunities

Public works is a widely used policy instrument especially during the crisis to provide temporary work opportunities.

Due to the mobility constraints during the pandemic, however, efforts for public works in traditional projects (e.g., road repair) have been limited. As the economic activities and workers return, large scale public works (or public services) can be designed, building on the current cash-for-work initiatives. For instance, TUPAD can target unemployed youth for public digital services such as encoding for vaccine

standardizing travel passes, and digitizing testing and contact tracing records. Such public services can be combined with short-term training on basic digital skills. Public works' menu of projects should also be expanded to include activities to manage the pandemic situation such as sanitization of public spaces and safely disposing health sector wastes.

ACTIVATION: Skills and employability of workers

Scale up skills development targeted for youth

Targeted support for digital and ICT education and training, particularly for young workers, should be further strengthened. The importance of digital skills through higher education and Technical and Vocational Education and Training (TVET) has been well recognized even prior to the pandemic.⁴⁷ Both Commission on Higher Education (CHED) and TESDA strengthened their ICT education and training even before the pandemic given the changing nature of work driven by the industrial revolution 4.0.⁴⁸ Now the pandemic is catalyzing the digitalization of economic activities and there is an opportunity to scale up digital skills training (World Bank, 2020c). This could provide a great solution to young workers who are experiencing an increasing gap in the labor market. During the pandemic, TESDA's online program offering 60 courses including digital skills training catered to around 1.5 million enrollees.⁴⁹ Given the flexibility in such training, TESDA can further expand its reach and scale up its operations and provide more tasks specific training while closely monitoring and tracing the labor market performance of graduates.

Beyond traditional education and training institutions and courses, the involvement of the private sector in the development of digital competency should be promoted. The private sector's co-development (of the curriculum), co-delivery (of training), and co-assessment (of competency) has long been recognized as an important area for demand-driven skills development. For instance, leading industries and firms in some countries are already offering IT apprenticeships. An IT apprenticeship can follow a structured apprenticeship model to have a learning plan with combinations of skills training and on-the-job practice, supervisors (or mentors), and duration and terms (including pay), all of which should be included in an apprenticeship

agreement. In this context, TESDA's enterprise-based program (e.g., apprenticeship, learnership, and dual training systems) can be expanded to the ICT sector, and further enhanced and strengthened in both quantity and quality.

Establishing clear guidelines for overall qualifications and accreditation for digital skills would be important.

The Republic of Korea, for instance, which recognizes digital skills and jobs as a critical engine of job creation and growth, has a series of frameworks, policies, and guidelines dedicated to digital competency and skills development. It recognizes that digital competency is not just about technology, but also about digital knowledge, skills, and attitudes. The Korean Digital Competency Quotient (KDQ), an index that measures digital competency, encompasses three dimensions: skills, usage, and mindset.⁵⁰ The focus of digital skills training has evolved from basic computer use to software training, and now to a variety of advanced technologies.⁵¹ Different levels of digital skills are clearly mapped by the National Competency Standards, and major IT platforms and companies offer assistance either to designing or directly providing digital skills training for various occupations. The inaugural review of the Philippine Qualification Framework (PQF)⁵² suggests that digital competency has to be further strengthened in the framework and accreditation for labor mobility within and beyond borders.

TRANSFORMATION: Support longer term job creation policies

Incentivize the creation of green jobs

Identifying new sources of productive job creation in the long-term and policy interventions in those areas is needed, and the green jobs agenda is a promising area with positive externalities. The implementation of the Green Jobs Act⁵³ can create jobs in a range of industries that produce goods and render services that would be good for the environment (Box 5), and eventually make economic growth more sustainable. Traditionally strong sectors such as tourism and construction can become more eco-friendly and greener, creating new earnings opportunities. Completion and approval of the green jobs assessment and certification system and guidelines will pave the way for the recognition of enterprises as green job providers and be eligible for tax incentives.

⁴⁷ The Philippine Development Plan 2017-2022 highlighted the need to develop new programs in digital areas to meet the country's post-pandemic labor needs, including programs in data science, machine learning, and nanotechnology, among others (NEDA 2021). The development plan also emphasized the need for continuous updating of higher education curricula in line with the fourth industrial revolution.

⁴⁸ In the 2019-2020 academic year, higher education institutions saw enrollments of over 760,000 students in engineering and technology and IT disciplines (22 percent of total enrollments) and nearly 170,000 graduates from such programs (21 percent of total graduates) (CHED 2021). TESDA has also launched multiple initiatives to foster digital skills development, along with its Roadmap on the PH Workforce for Future Production.

⁴⁹ Philippine News Agency, "1.5M enrolled in TESDA online courses" July 26, 2021, <https://www.pna.gov.ph/articles/1148364>.

⁵⁰ Skills requirements measure the technical level of use of computers in terms of hardware and software and networks as digital citizens; usage requirements measure the level of utilization of information and communication technology that help social, economic, and cultural activities, such as information collection, internet shopping, and digital content; and mindset requirements measure behavior, ethics, and norms, as well as individual perception of informatization, including awareness of utilization and side-effects of digitalization and privacy protection.

⁵¹ Advanced technologies such as artificial intelligence, blockchain, big data, cloud, autonomous vehicles, and drones, have been receiving attention for further investment.

⁵² See World Bank (2021d).

⁵³ Republic Act 10771.

Box 4. Demand and Supply for Digital Skills in the Philippines

Continued progress in technological advancement and the growing digitization of firms and economies spurred by the COVID-19 pandemic is highlighting the need for digital skills development at scale. APEC (2020) found that 70 percent of the postings in the economies analyzed were for digital occupations. Analysis of the employment rates of individuals possessing digital skills showed a 2.6 times increase in hiring from 2016 to 2019. The report further noted that while the pandemic led to a hiring slowdown in the first quarter of 2020, the strong demand for digital skills persisted alongside the pandemic—with the average hiring rate of digital skills in March 2020 being 1.4 times greater than the corresponding figure a year earlier. In their *Future of Skills* report, LinkedIn (2019) found that the skills seeing demand three times greater than the rest of the talent base were tech-dominated, including front-end web development, blockchain, and artificial intelligence, among others, although the sample is skewed to high skilled occupations and markets.

Similarly, in the Philippines, the pandemic has further fueled the need for digital skills and proficiencies in order to successfully navigate the labor market. Digital occupations figured heavily in the list of most in-demand jobs in the country, with application and game developer (4th most in-demand occupation, 2020-2022), cyber security expert (17th), data development engineer (18th), and database

manager (20th) among the most sought out jobs (DOLE 2021). Demand for system developers, software developers and programmers, and web developers was likewise strong. Among the emerging roles the Philippine DTI (2019) identified to meet future workforce needs were data analysts and scientists, artificial intelligence and machine learning specialists, and specialists in big data, digital transformation, new technology, among others. However, some of these may under-estimate the newly emerging and rapidly changing digital skills as labor statistics use the 2012 Philippine Standard Occupational Classification.

Supply of digital skills and literacy has been mostly provided by higher education and TVET in the Philippines. However, given broad based digitalization trend in the country, the digital skills framework (an example in Table 5) should be incorporated in the Philippine Qualification Framework and digital skills should be fostered at all education levels accordingly. More occupation-specific skills development and training can be provided for the existing workforce. Regardless of the modality of training, workers should be able to receive credentials (including micro-credentials) following qualifications and standards. Given the flourishing online gig market (e.g., freelancing and microtasks) in the Philippines, such credentials should be able to help workers access opportunities through online platforms.

Table 5. Digital Skills Framework for General Workforce and Population

| Domains | Proficiency Levels |
|---|---|
| <ol style="list-style-type: none"> 1. Devices and software operation 2. Information and data literacy 3. Communication and collaboration 4. Digital content creation 5. Safety 6. Problem solving 7. Career related competencies | Foundational (levels 1-2): with guidance, deal with simple tasks that involve remembering contents and instructions |
| | Intermediate (levels 3-4): independently deal with well-defined routine and nonroutine problems that involve understanding contents |
| | Advanced (levels 5-6): independently deal with and provide guidance to others on different tasks and problems that involve applying and evaluating content in complex situations |
| | Highly specialized (levels 7-8): resolve complex problems with moving pieces, guide others, contribute to professional practices and propose new ideas to the field |

Source: World Bank (2020a: 9; 2021a: 42), adapted from European Commission (2017) and UNESCO Institute for Statistics (2018).

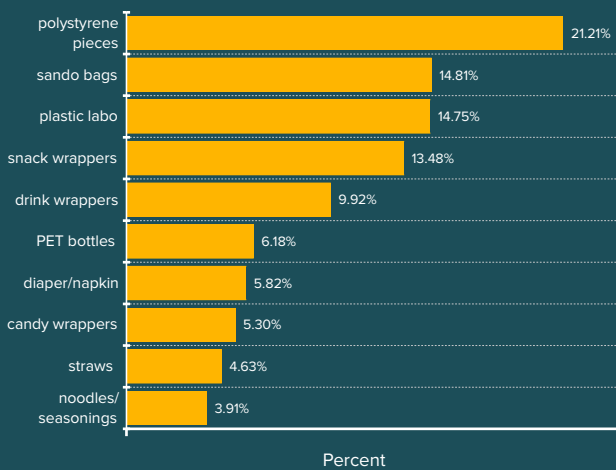


Box 5. Boosting New Green Jobs to Combat Marine Plastics Pollution

Growing plastic pollution on land, in river systems and along coastlines is negatively impacting key economic sectors in the Philippines. It is estimated that the Philippines is the third largest contributor to mismanaged plastic waste globally, generating 1.88 million tons of plastic waste per year.⁵⁴ With rapid urbanization and its high concentration of population, Manila has become a specific hotspot of plastics waste –further exacerbated during the ongoing COVID-19 pandemic. Rivers across the country serve as conduits for plastic waste; in Manila, the Pasig River is estimated to discharge ~ 63,000 tons of plastic waste per year into the ocean.⁵⁵

Surveys performed on the Pasig River (Figure 42) highlight the throwaway culture around Manila, with packaging and take-away items (plastic bags, polystyrene containers, wrappers, sachets and PET bottles) dominating plastic pollution leaking into the river. Interestingly, recyclable plastic resins make up more than half of these leaked plastics products, similar to observations at the national level. However, plastic recycling remains low

Figure 42. Percentage of plastic waste products along Pasig River



Source: World Bank Group 2021

⁵⁴ Jambeck, J.R., Geyer, R., Wilcox, C., Siegler, T.R., Perryman, M., Andrady, A., Narayan, R. and Law, K.L. (2015). Plastic waste inputs from land into the ocean. *Science*, 347(6223), 768-771; Meijer, L. J. J., van Emmerik, T., van der Ent, R., Schmidt, C., and Lebreton, L. 2021. More than 1000 rivers account for 80% of global riverine plastic emissions into the ocean. *Science Advances*;

⁵⁵ Meijer, L. J. J., van Emmerik, T., van der Ent, R., Schmidt, C., and Lebreton, L. 2021. More than 1000 rivers account for 80% of global riverine plastic emissions into the ocean. *Science Advances*;

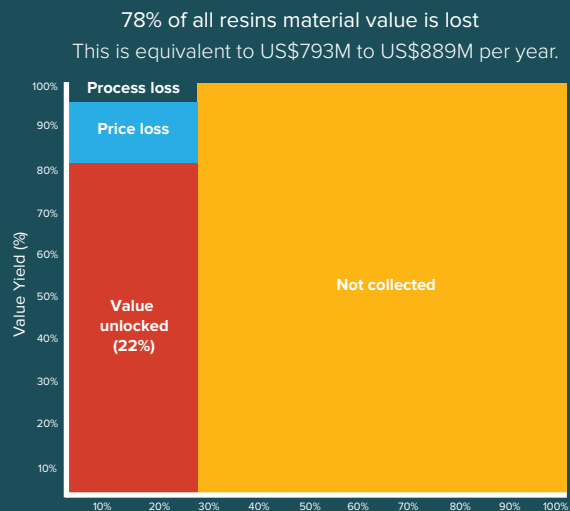
⁵⁶ World Bank Group 2021. Market Study for the Philippines: Plastics Circularity Opportunities and Barriers. Marine Plastics Series, East Asia and Pacific Region. Washington DC.

⁵⁷ Board of Investments- Department of Trade and Industry (BOI-DTI) and Japan International Cooperation Agency (JICA). Study on Recycling Industry Development in the Philippines, 2008

across the country – highlighting a lost opportunity. A recent study revealed that the Philippines only recycled 28 percent of key plastic resins in 2019, resulting in lost material value of nearly US\$890 million per year.⁵⁶

Appropriate policies, incentives and investments are needed to help unlock the economic potential in plastics recycling (and alternative materials) and encourage private sector financing in this area. Improved segregation and collection would help avert recyclable plastics from co-mingling with other waste. In Metro Manila street collectors, collection workers and disposal site scavengers collected 1.63, 9.79 and 20.32 kg of recyclable plastics/person/day respectively,⁵⁷ indicating that a large amount of recyclables are brought to landfills and there is room to increase formal jobs in collection and segregation of waste, before it reaches disposal sites, to improve the quantity and quality of recyclables recovered. The informal sector can be formalized through establishment of co-operatives and MSMEs, so that its workers can work under safer and more sanitary conditions.

Figure 43. Material value loss analysis for all key resins (data based on 2019 volumes)



Source: World Bank Group 2021

Furthermore, the Philippines recycling industry is dominated by MSMEs which are largely unable to capitalize on the growing demand for recycled resins (Figure 43). Building technical capacity and increasing investments in these enterprises can drastically increase recycling capacity while adding green jobs in the country. An estimated 1,418 MSMEs (97.46 percent) and 37 large enterprises⁵⁸ (2.54 percent) were involved in water supply, sewerage, waste management and remediation activities. This corresponded to total employment of estimated 28,112 (65.49 percent) for MSMEs and 14,813 (34.51 percent) for large enterprises. The waste management related activities had the highest year-on-year employment growth rate (23.2 percent) among the employment sub-sectors based on the October 2020 LFS.

There is increasing innovation at the community-level to improve plastics collection, reduce leakage and increase recycling in LGUs across the Philippines. LGUs like Las Piñas, Makati, Malabon, Mandaluyong, and Marikina have programs that shred hard to recycle plastics like sachets, styrofoam and plastic bags, which are then mixed with gravel and sand to produce ecobricks. Some, like Manila and Muntinlupa are piloting innovative collection programs trading cash or groceries for plastic waste; plastics with value are then sold to junkshops for aggregation and onward sale to recyclers. In Manila, the women-owned *sari-sari* stores serve as redemption centers for plastic sachets, wrappers

and other single use plastics for such trading programs. Also, downstream, in rivers where leaked plastics waste end up, there are opportunities for jobs in clean-up such as “river warriors” who routinely remove plastic waste from different areas along the Pasig River. Investments in new, efficient technologies like river interceptors, accompanied by training, would add to new skilled jobs in plastics waste management.

The Philippines is currently working to develop a Roadmap to Phase out Single-use plastics, with attention also to relevant policies (such as Extended Producer Responsibility), targets and standards (such as recycled content target, labelling, design for recycling) and economic instruments (such as like taxes and fees). Increased collaboration and engagement of the private sector – including through consortia such as the Philippine Alliance for Recycling and Materials Sustainability – is helping build momentum and markets for recycled plastic and alternatives. As the country emerges from the COVID-19 pandemic, such momentum can attract workers and create better jobs with increased pay in waste collection, segregation, and plastics recycling to meet the increasing demand for recycled plastics products and alternatives alike. The World Bank is working closely with the Philippines government on key plastics diagnostics, related economic analyses, and policy assessments to support the country achieve objectives and targets under its National Plan of Action for the Prevention, Reduction and Management of Marine Litter.



Photo by: junpinzon

Explore strategic directions for international labor migration

A key focus would be to help migrant workers move up the occupational ladder and explore more developed economies for destinations. For instance, many female migrants going to the Middle East as domestic workers can be upskilled to become social and health care workers. Aging countries in the region such as Japan, Korea, and Hong Kong, provide a promising market for social and care services. More proactive Government to Government (G2G) arrangements should be considered for the increased share of Filipinos, strong worker compensation and protection terms, and clear duration of services.⁵⁹ Also, building on the market dominance of seafarers, a clear career development path from general crews to more specialized mates and operators can be provided to workers.

Tap into global markets and strategize GVC integration

With the worldwide disruptions in GVCs due to the pandemic, opportunities arise for the Philippines to actively expand its share in the global labor markets. The IT-BPM sector that has been successful in the global market and providing earnings opportunities to a large number of workers, can be further supported. The sector faces great competition from South Asian countries equipped with IT and English skills. Building on existing initiatives (e.g., Board of Investments [BOI], Department of Information and Communications Technology [DICT]), the sector can further diversify its services towards higher skilled sectors, expand destination countries, and build the relevant work force with the right skills. In addition, labor intensive manufacturing, such as food processing, is promising for the creation of good jobs at scale. The food processing industry, with enhanced skills and infrastructure, can upgrade the

productivity of a large number of agricultural workers in the country, aim for agro-food GVCs inclusion, and potentially create large number of jobs (World Bank, forthcoming).

RESILIENCE: Reinforce worker protection for job retention and equity

Diversify policy instruments for worker protection and strengthen the design of social insurance

Key instruments that would provide worker protection and resilience to labor market risks include labor regulations, social insurance, and linkages to social assistance and ALMPs. In particular, expanding coverage of such support to informal workers has been recognized as an important policy objective worldwide. For a long time, the Philippines has engaged in perennial discussions on informality often focusing on “endo” issues.⁶⁰ However, with the advent of globalization and digital labor platforms, the Philippines has seen growth in contractual and temporary OFW work, freelancing/gig jobs, and IT-BPM outsourcing. In a more digital era post COVID-19, flexible work arrangements and the online gig economy are likely to further grow, requiring a balanced approach to ensure both labor market flexibility and worker protection. There are no ready-made solutions as many of policies, though having good intentions, may bring unintended consequences (e.g., dampening the incentives for job creation or encouraging informality).⁶¹ Key principles include: social assistance and ALMPs can be better targeted for both productivity and inclusion; the coverage of social insurance should be expanded regardless of work arrangements for a wide base for risk pooling; and a moderate level of labor regulations should be maintained with enhanced compliance monitoring capacity.



⁵⁹ G2G arrangements for international migration provide an institutional mechanism to address destination countries' labor shortages while strengthening migrant workers' protection. See Cho et al. (2018).

⁶⁰ “Endo” means end-of-contract or the termination of a worker's fixed short-term employment. It is also known as 5-5-5 where a worker's employment facilitated through job contracting or direct hiring, ends after five months of work.

⁶¹ For instance, Levy (2008) shows that Mexico's social policy intended to provide protection for vulnerable workers had the unintended consequence of growth in the informal sector and distortions in the labor market.

To balance worker protection and job creation and flexibility, the government needs to utilize all key policy instruments. With the changing nature of work and as employment-based social protection falls short, the World Bank (2019) underscores a multi-layered policy package. It starts from a core non-contributory defined benefit for a small segment of the population and expands to contributory systems for the wider population. Contributory systems can be combinations of mandated or voluntary, and subsidized or market-based mechanisms depending on the likelihood of shocks and the magnitude of their consequences. In the Philippine context, strengthening social insurance and ALMPs and ensuring their linkages with safety nets is needed in the increasingly fluid labor market, compounded by an aging population. Options to design a contributory system and incentivize voluntary participation including through matching contributions should be considered. Such a system can build on the current social security system (SSS) and should be strengthened to be financially sustainable, delinked from worker's employment type, and subsidized for vulnerable populations.

SUSTAINABILITY: Prevent a silent job crisis for the future workforce

Address the country's looming human capital crises and scale up safe reopening of schools

Policies for the safe return to face-to-face school opening should be prioritized. In mid-2021, the global community (and bodies such as UNICEF, UNESCO, and the World Bank) has urged governments to take three actions to: i) bring all children back to school; ii) ensure remedial learning to help students catch up on lost learning; and iii) support teachers in addressing learning losses and incorporating digital technology for teaching. These three areas are all desperately needed for the Philippines, as it is one of very few countries in the world that remained closed for in-person classes during the entire period since the pandemic began. Surveys confirm that parents, especially those from low-income households, strongly support the return to in-person classes.⁶² This can certainly help women's labor market activities as well. The Philippines finally announced a small-scale pilot for face-to-face class from mid-November 2021, which should inform "how to" manage a safe return to effective learning through combinations of face-to-face, at home, and hybrid learning.



Photo: Jed Regala

62 The World Bank's Household Surveys in December 2020 and May 2021 consistently show greater support for the resumption of in-person classes among lower income households. This is likely due to the digital divide, where higher income households have better access to online schooling using the internet and gadgets whereas lower income households rely on paper-based modules and offline study.

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PHILIPPINES

26th Floor, One Global Place 5th Ave. corner
25th St. Bonifacio Global City, Taguig City Philippines 1634

T: +63 2-465-2500

F: +63 2-465-2505

W: www.worldbank.org/en/country/philippines



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