



Structural Reform and Growth - the case of the Philippines

Growth Dialogue – G-24 High Level Seminar

September 25, 2013

Washington, DC



I. POST-WAR PERFORMANCE: SUBPAR COMPARED TO PEERS



Post-War and Recent Growth vs Developing East Asia

1960 – 2012

Philippines

Developing
East Asia

Ave. Growth

4.1%

6.5%

Ave. Growth Per Capita

1.5%

5.6%

- Sustained Ave. Annual Growth Rates Over 5% Hardly Achieved Between 1950 and 2000
- Mid 1980s – External Debt and BOP Crisis Caused Deep Recession
 - **Per Capita Income Shrunk by 23% and Took 20 Years to Regain Pre-Crisis Level**
- In Last Decade, Ave. Annual Growth of 4.9% Attained During 2003-2007
- High Growth in 2011 – 6.8% and 2012H1 – 7.6%



Post-War and Recent Growth vs Developing East Asia

Table 1.1 GDP per capita growth rates (decade average)

Country	1960s	1970s	1980s	1990s	2000s	2010 - 2011	Average
Philippines	1.8	2.8	-0.7	0.4	2.5	4.0	1.5
Indonesia	1.2	5.2	4.2	3.3	3.8	5.2	3.6
South Korea	5.6	6.3	6.4	5.2	3.9	4.4	5.5
Malaysia	3.5	5.2	3.0	4.5	2.7	4.5	3.8
Thailand	4.6	4.8	5.3	4.2	3.1	3.3	4.3
Vietnam	NA	NA	2.1	5.6	6.0	5.2	5.1
China	0.9	5.3	8.2	8.8	9.6	9.3	6.8
East Asia & Pacific (developing only)	1.6	5.0	5.9	6.8	8.0	8.2	5.6
East Asia & Pacific (all income levels)	6.9	3.0	2.8	1.9	2.7	4.3	3.4
World	3.6	2.1	1.2	1.2	1.3	2.3	1.9

Sources: World Development Indicators (WDI)

Note: Data series in 1960s starts in 1961. Data for Vietnam starts in 1985.



II. CAUSES OF ECONOMIC UNDERPERFORMANCE VS DEVELOPING EAST ASIA



CAUSES OF ECONOMIC UNDERPERFORMANCE VS DEVELOPING EAST ASIA

- **Low Levels of Investment in Human and Physical Capital As Well as Technological Change**
 - **Total Factor Productivity Contributed Negatively to Growth**
- **Investment Trend Stagnant or Falling**
 - **Investments fell from 30% of GDP in the 1970s to roughly 20% in Recent Years**
- **In the Public Sector, Low Tax Revenue Effort and Weak Public Investment Management Prevented Healthy Levels of Investment in Infrastructure**
 - **National Government Spending for Infrastructure Averaged Less than 2% Annually**
 - **Underinvestment In Education and Health (Philippine Spending 7%, 5% and 1% Lower than Thailand, Malaysia and Indonesia)**
- **Weak Performance of Agriculture and Manufacturing Sector**
 - **Lack of Market Competition (Import Substitution in 1960s, Monopoly or Oligopoly in agriculture, manufacturing, utility and transport sectors until mid-1970s)**
 - **Agriculture Failed to Modernize and Diversify**
 - **Manufacturing Stagnated or Declined**



III. ECONOMIC STRUCTURE AND TRANSFORMATION



Economic Structure and Transformation

A Service-Driven Economy

Sector (% to GDP)	<u>1981</u>	<u>2012</u>
Agriculture	21	11
Industry	43	32
o/w Mftg.	26	20
Services	36	57

Source: NSCB



Structural Transformation

Unorthodox Transformation

- **Common Transformation - Agricultural > Manufacturing > High Skill Services**
- **Other Transformation Stories**
 - **Growth in Agriculture (China from collective farming to household farming)**
 - **Large Scale Labor Migration from One Sector to Another, Rural to Urban**
 - **Rapid Transformation through development of labor-intensive and productive agriculture and export growth of manufacturing**
- **Philippines took a Uncommon Path: Short Cut to Services Sector**
 - **Abundant Low-Skilled Labor from Weak Agriculture Sector Moved to Services Sector Which Became the Catch Basin for Large and Rapidly Growing Excess Labor**
 - **Majority Are in Low-Income, Low-Skill and Informal Occupations**
 - **Services Sector Not Dynamic Enough to Provide Good Jobs (Secure, Higher Skill Levels, Better Incomes)**



Economic Structure and Transformation

Development Challenge: Poverty Alleviation and More Jobs

- Greater Investment Particularly in Agriculture and Manufacturing
- In Agriculture and Rural Sector – Complete Land Reform, Strengthen Household Ownership Protection and Envigorate Extension and Non-Farm Business
- Enhance Policy Environment to Liberalize and Promote Competition
- Embark on Massive Education and Health Services to Improve Skills and Productivity
- Intensify Physical Infrastructure Development - particularly for Land and Water Transport and More Efficient Power



IV. RECENT DECADE

- **Increase in Economic Growth**
- **Key Sectoral Reforms**
- **Macroeconomic and Financial Strengthening**

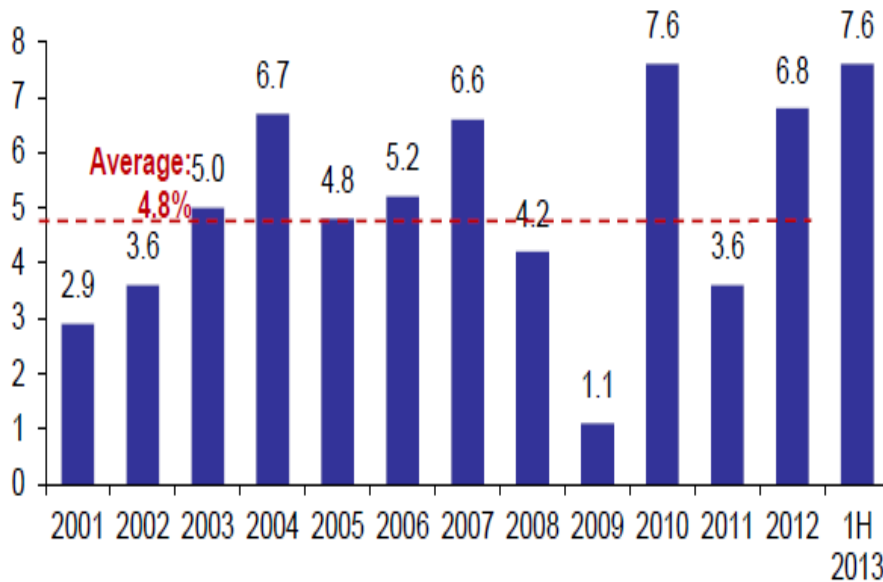


Increase in Economic Growth

Broad-based growth

Decade of Healthy and Sustained Growth

Real GDP Growth (% yoy)



- 2Q2013 growth of 7.5% yoy outperformed market consensus of 7.2% yoy. This brought 1H2013 GDP growth to 7.6%. The growth trend demonstrates the nation's ability to grow in spite of external pressures, a testament to ROP's strong domestic consumption
- The IMF expects the Philippines to grow 7% and 6% in 2013 and 2014, respectively and maintain growth at 5.5% in the medium term
- Philippines growth is increasingly broad based with particular strength coming from the services and the resurgence of the industry sector led by construction and manufacturing. The government's focus on promoting investment and infrastructure coupled with the nation's favorable demographics will help sustain economic performance in the long term

Strong performance across all components of GDP underscore overall strength and resilience of the economy

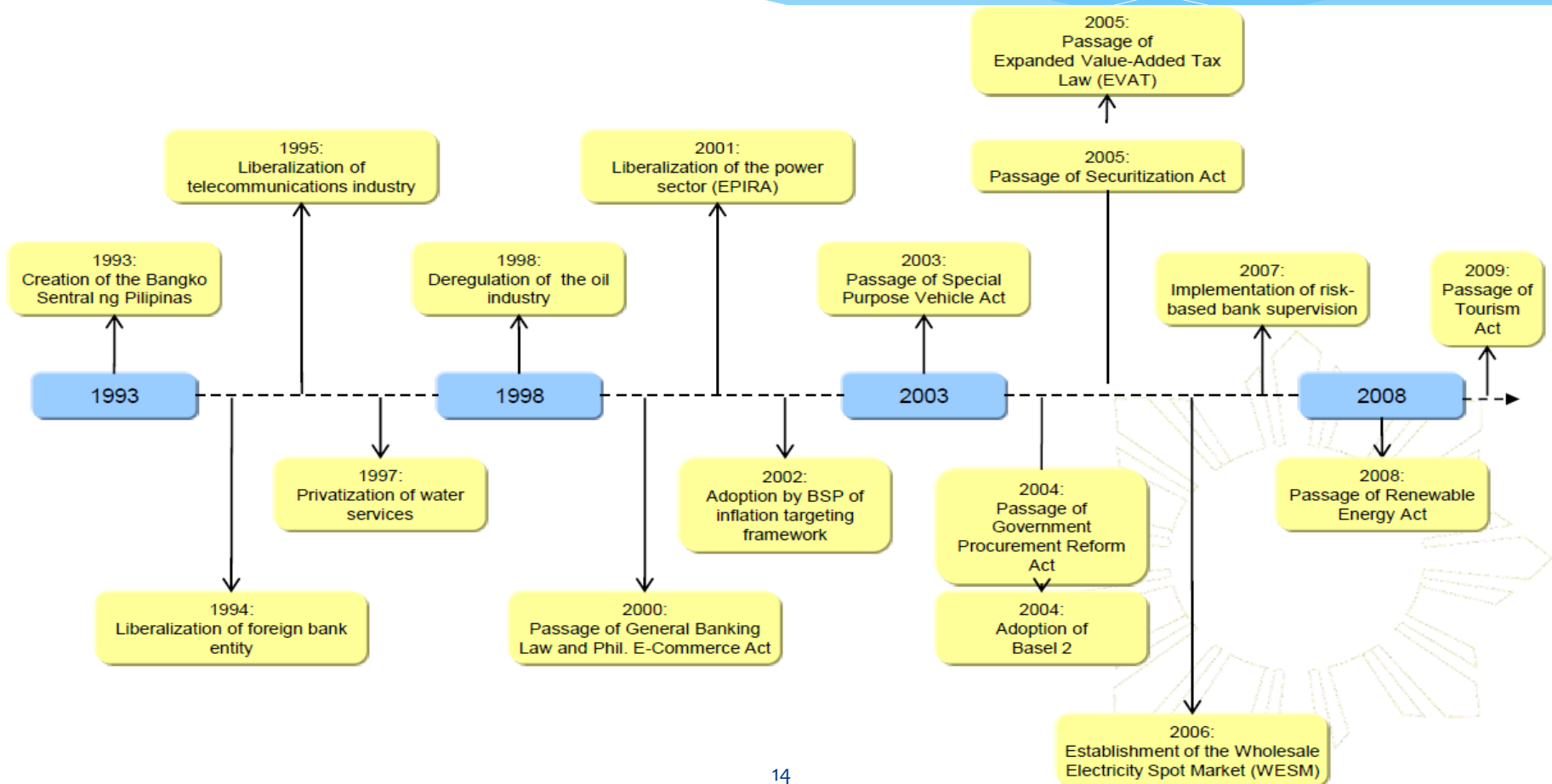


KEY SECTORAL REFORMS



Structural and Other Developmental Reforms and Programs

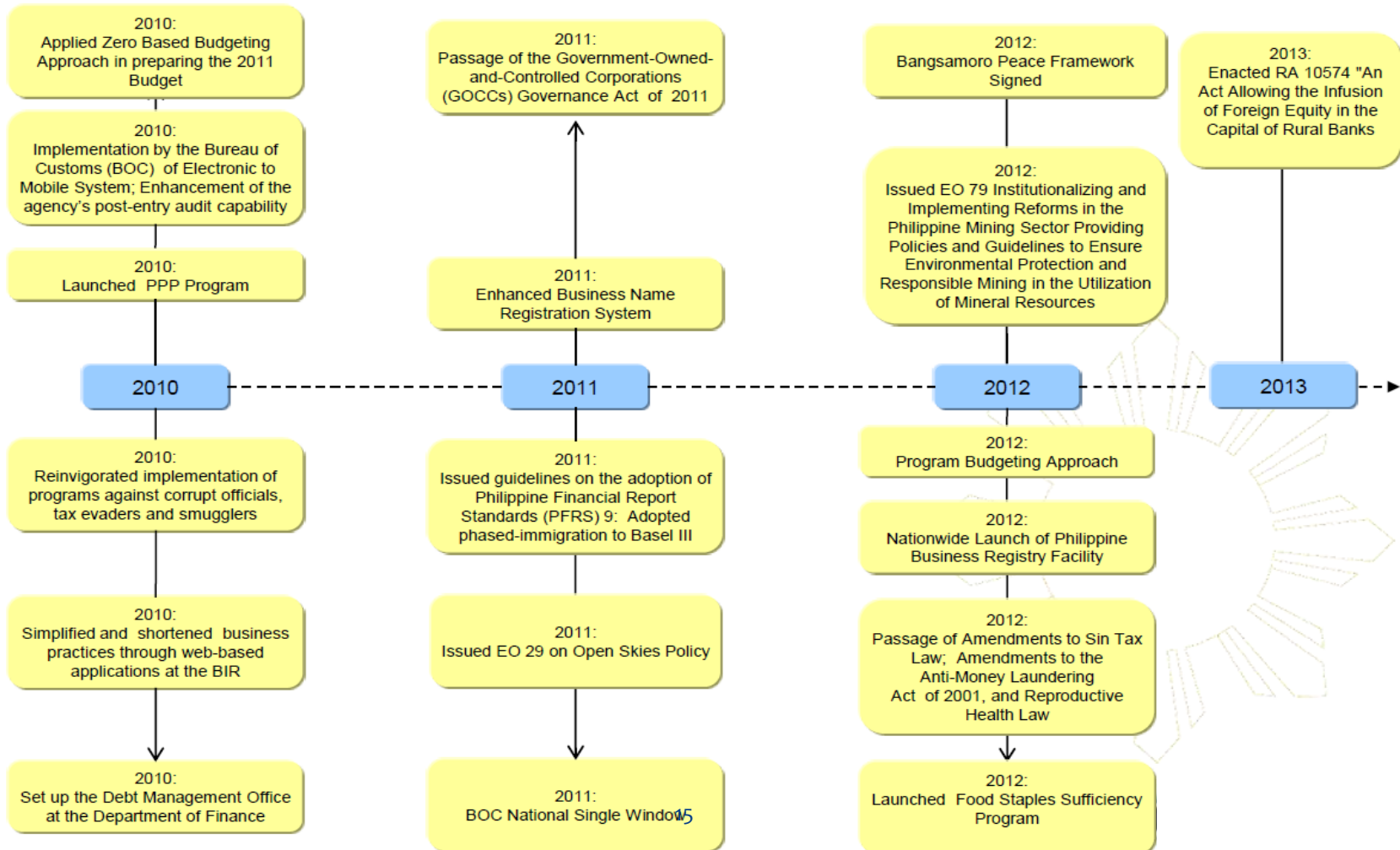
Accelerating reforms to achieve sustainable and inclusive growth





Structural and Other Developmental Reforms and Programs

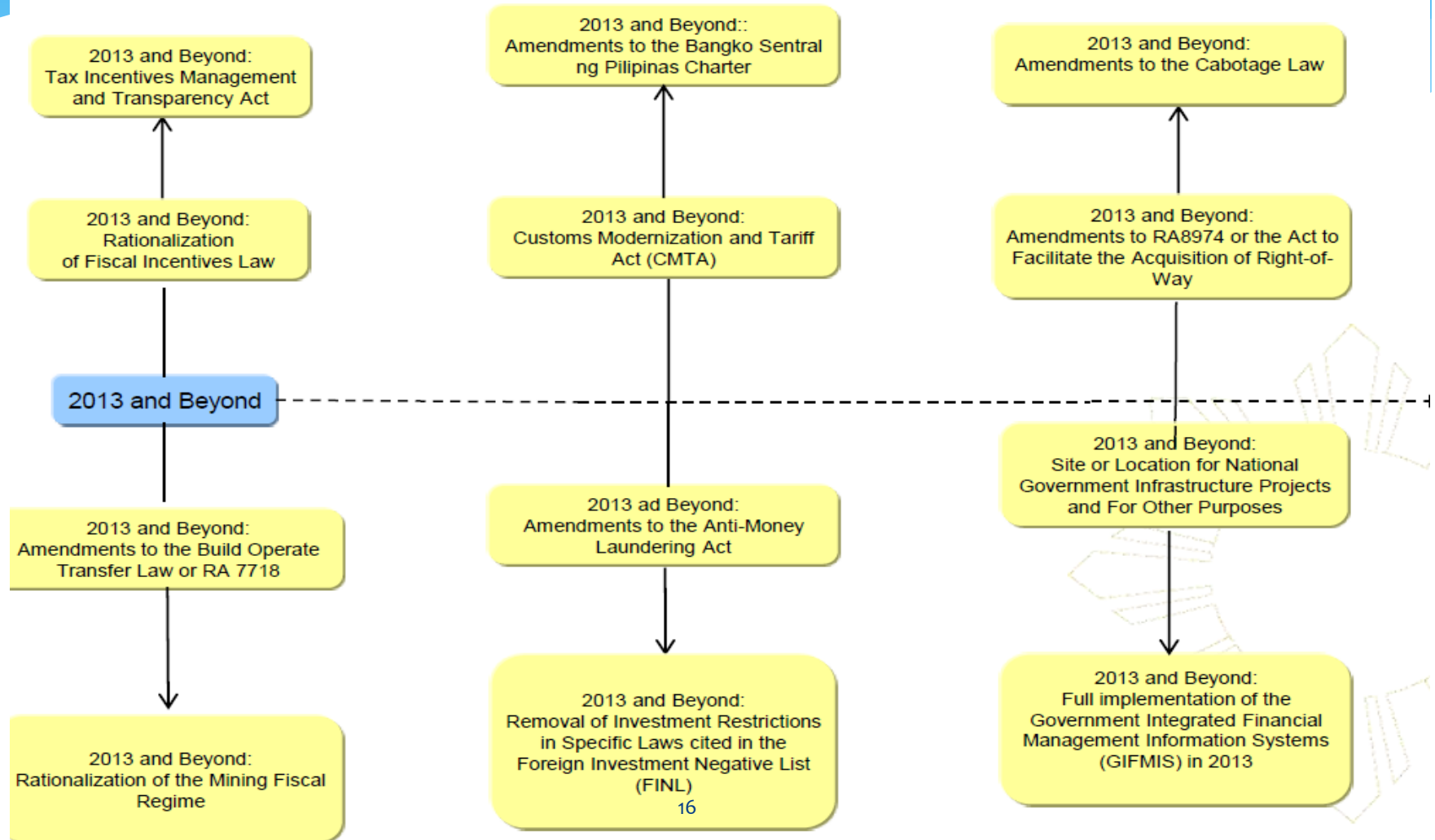
Accelerating reforms to achieve sustainable and inclusive growth





Structural and Other Developmental Reforms and Programs

Accelerating reforms to achieve sustainable and inclusive growth





Structural and Other Developmental Reforms and Programs

Landmark Policy and Regulatory Reforms Undertaken in Key Sectors For Economic Competitiveness and Sound Macroeconomic Management

1990s

- Liberalization of the Telecommunications Industry
- Privatization of Water Services
- Deregulation of the Oil Industry

2000s

- Liberalization of the Power Sector
- More Effective Monetary and Banking Management by Bangko Sentral
 - Inflation Targetting Framework
 - Basle 2
 - Risk-Based Bank Supervision
- Passage of Expanded Value Added Tax Law



Structural and Other Developmental Reforms and Programs

Landmark Policy and Regulatory Reforms Undertaken in Key Sectors For Economic Competitiveness and Sound Macroeconomic Management

2010-2013YTD

- Improvements in Doing Business
- Open Skies Policy (Outside Metro Manila)
- Passage of Amendments to Sin Tax Law (Alcohol and Tobacco)
- Foreign Ownership of Rural Banks (Up to 60%)

2013 and Beyond

- Rationalization of Fiscal Incentives
- Rationalization of Mining Fiscal Regime
- Amendment to the Cabotage Law
- Various Public Infrastructure Development Reforms Including Improved PPP Framework



Attracting Investment in Mining

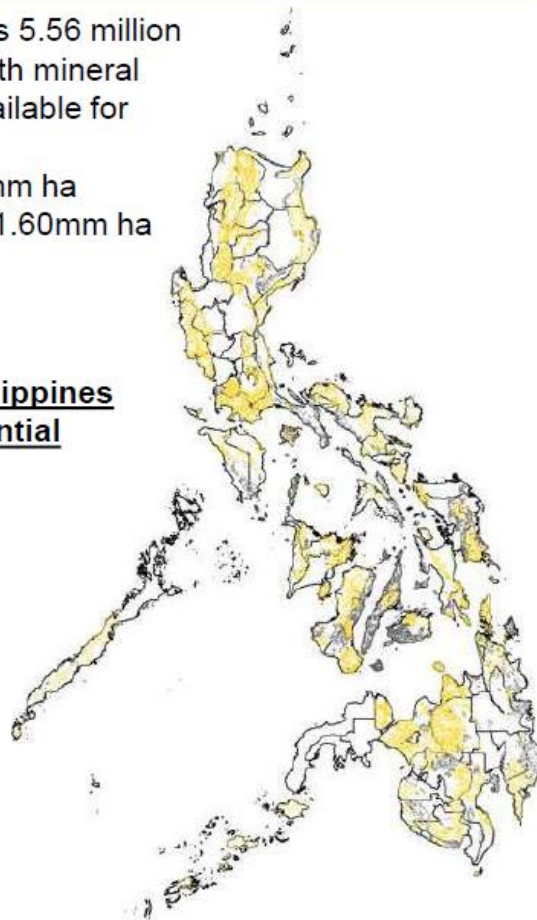
Investment in the Mining Sector will Support Revenue in the Medium Term

The Philippines has substantial mineral capacity

The Philippines has 5.56 million hectares of land with mineral potential that is available for applications

- **Metallic:** 3.96mm ha
- **Non-metallic:** 1.60mm ha

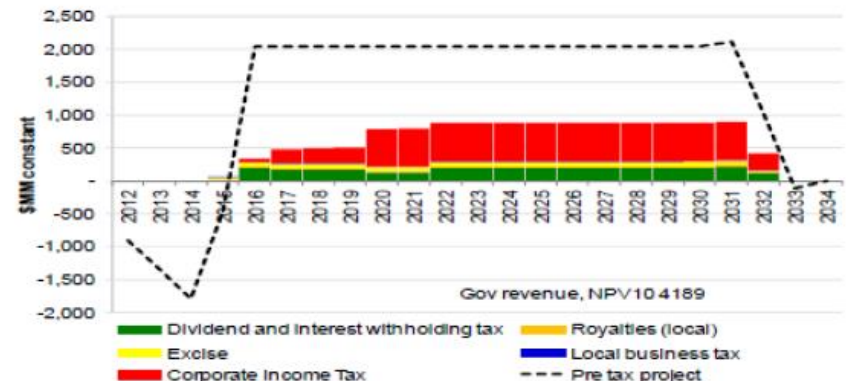
Heat Map of Philippines Mineral Potential



- Metallic
- Non-metallic

Mining will bring in significant revenue for the government

- A June 2012 IMF study noted that the mining sector will provide ~\$1bn revenue per year under the current largely employed MPSA tax regime



- **Action to Date:** EO 79 passed in July 2012 demonstrates the government's commitment to action within the mining sector and paves the way for further action
- **Planned Legislation:** Rationalization of the Mining Fiscal Regime is one of the nine key initiatives the government will prioritize once the 16th Congress begins in late July. At a cabinet meeting on July 15 Secretary Purisima stated the government's intention to prioritize this legislation

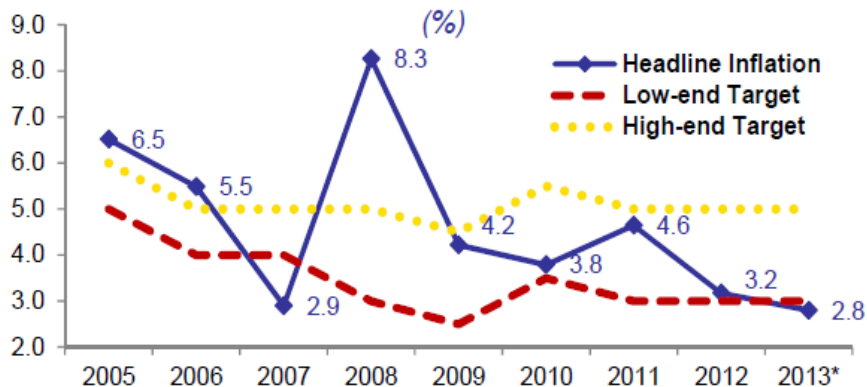


V. MACROECONOMIC AND FINANCIAL STRENGTHENING



Sound Macroeconomic Fundamentals Supported this Good Performance

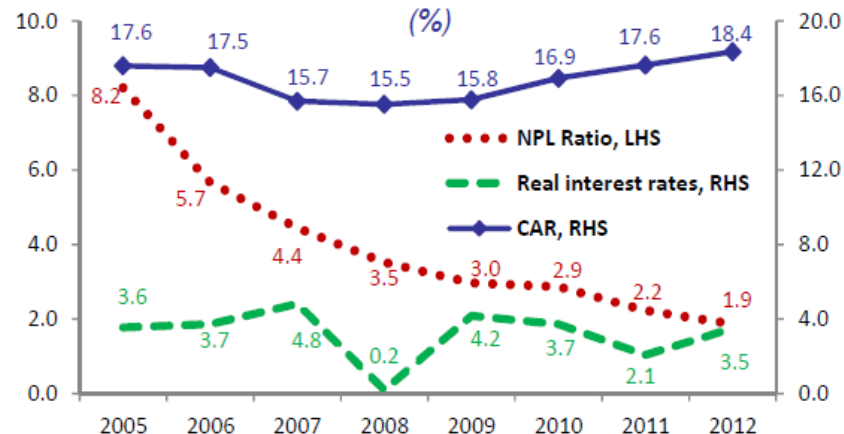
Low and Stable Inflation



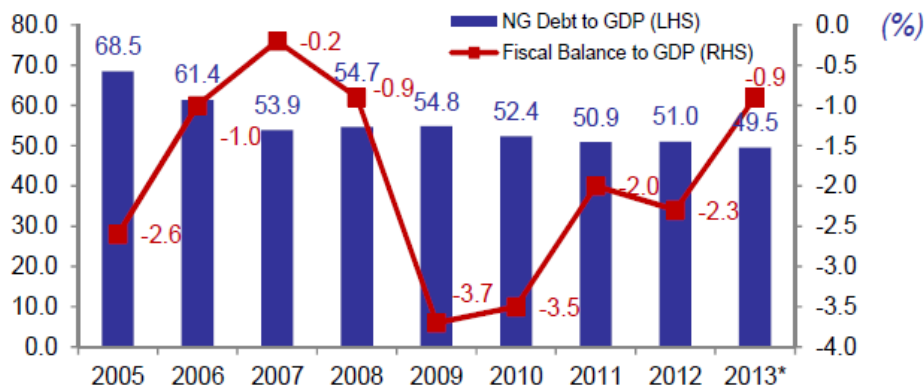
*Jan - Aug 2013

Note: High and low-end targets are based on the BSP publication on Inflation Targeting dated March 2013; Actual inflation figures are based on the 2006 CPI series.

Favorable Interest Rate and Sound Banking System



Sustainable Fiscal and External Position



* As of June 2013



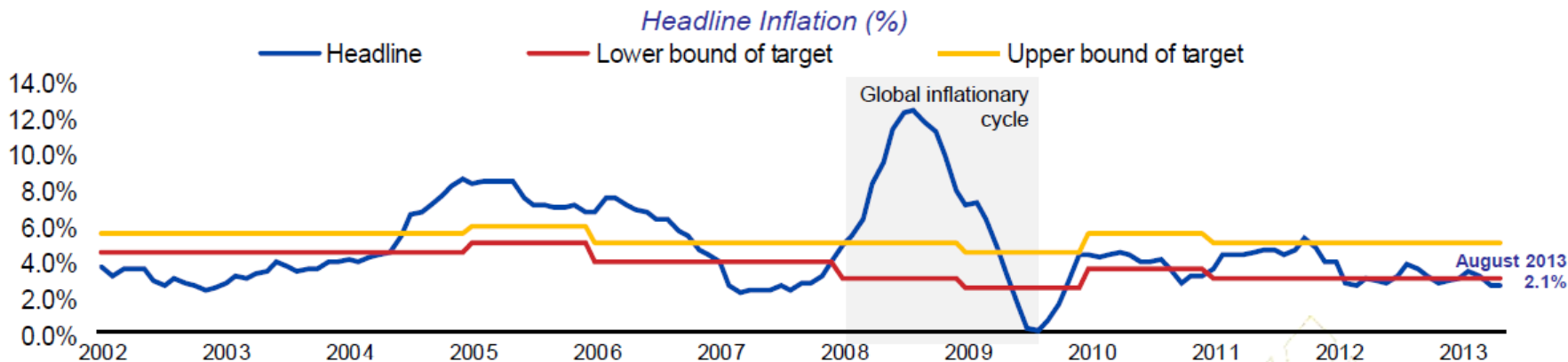
* As of Q1 2013



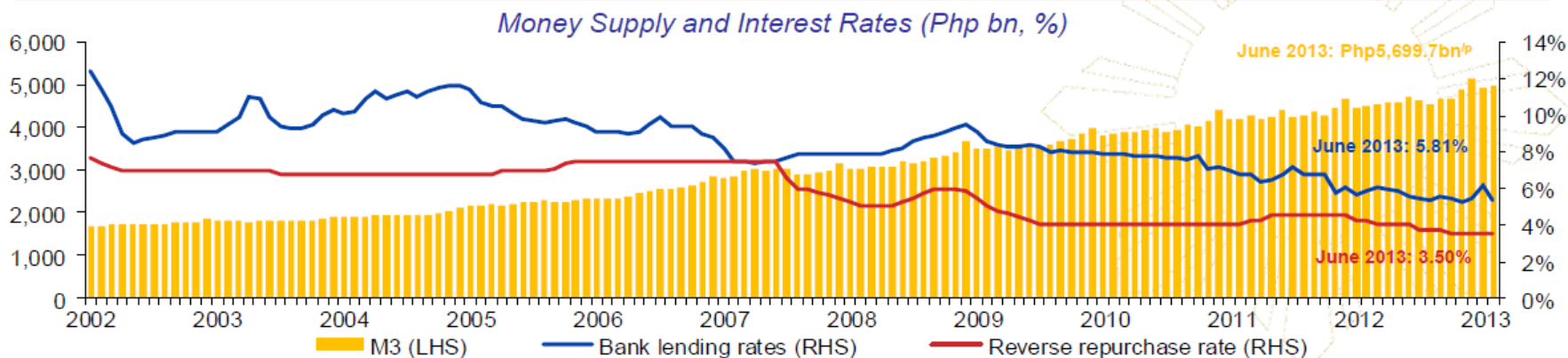
Sound and Stable Inflation Environment

Refinements in inflation targeting mechanism have allowed BSP to tame inflation and meet the target for four consecutive years

Firm control over inflation has proven the effectiveness and credibility of monetary policy



Monetary policy remains supportive of healthy economic growth



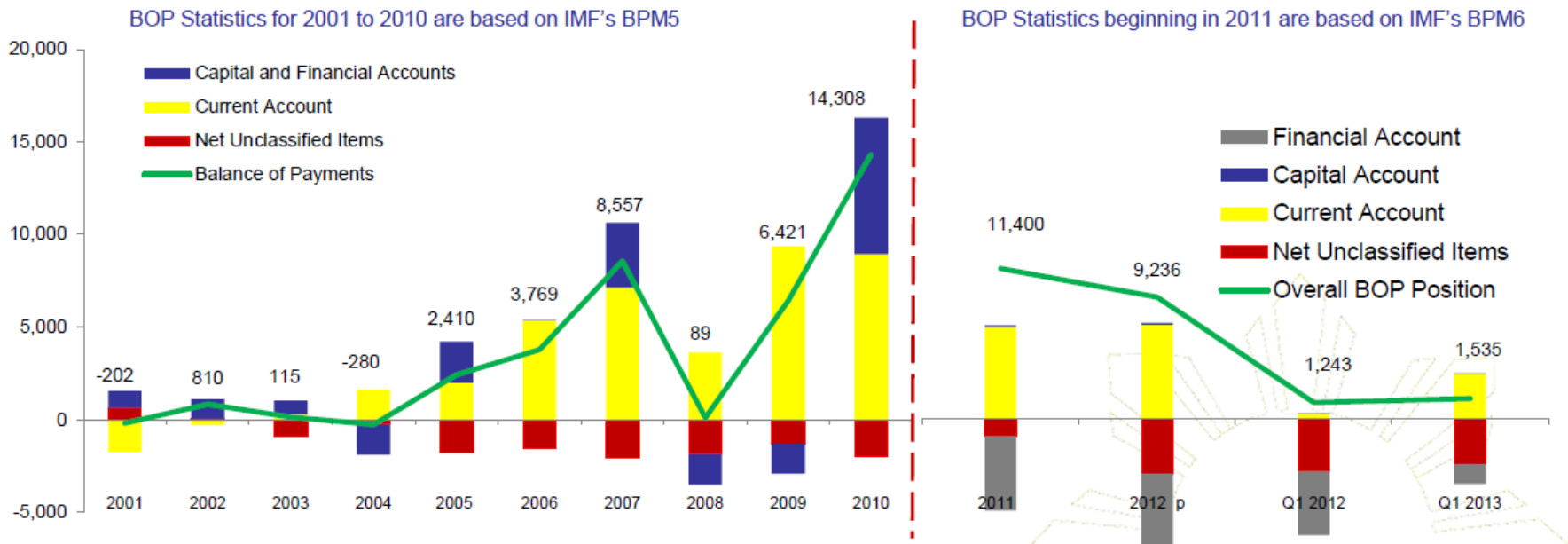


Robust External Profile – A Key Sovereign Strength

Structurally strong balance of payments bolsters external finances

The Philippines enjoys a structurally positive BOP

Balance of Payments (Components, USD mn)



- ROP's current account continues to be in surplus supported by robust remittances from overseas Filipino workers ("OFWs"), substantial BPO revenues and increasing tourism receipts
- BOP surplus sustained at US\$3.7 bn as of end-July 2013
- While exports remain relatively subdued due to the global economic environment, the Philippines nonetheless posted a 7.6% yoy growth of total exports in 2012, highlighting relative resiliency of exports despite the global uncertainty
- In 2012, FDIs grew 54% to US\$2.8 bn from US\$1.8 bn in 2011, the sharpest rise among ASEAN countries

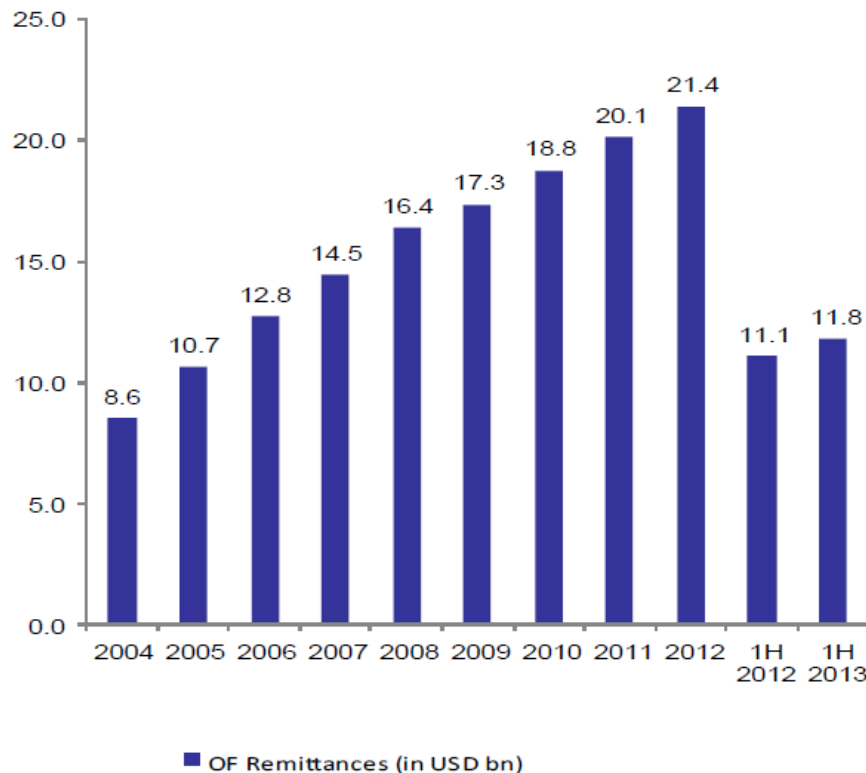


Current Account in Surplus Despite External Challenges

Strong structural support provided by remittances, tourism, and BPO

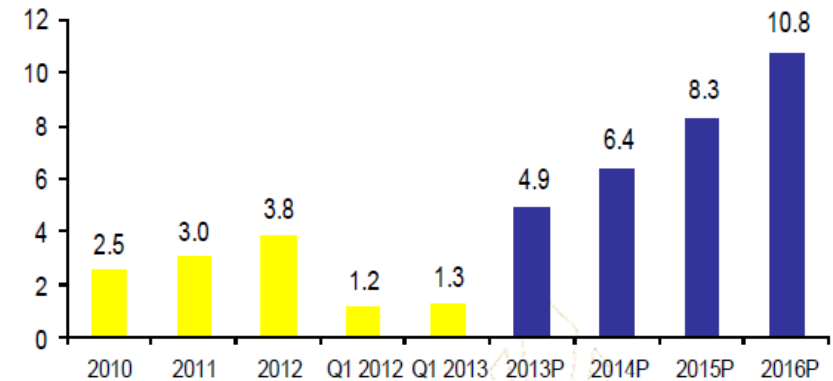
Strong and stable rise in remittances over the years

Overseas Filipinos' Cash Remittances (USD bn)



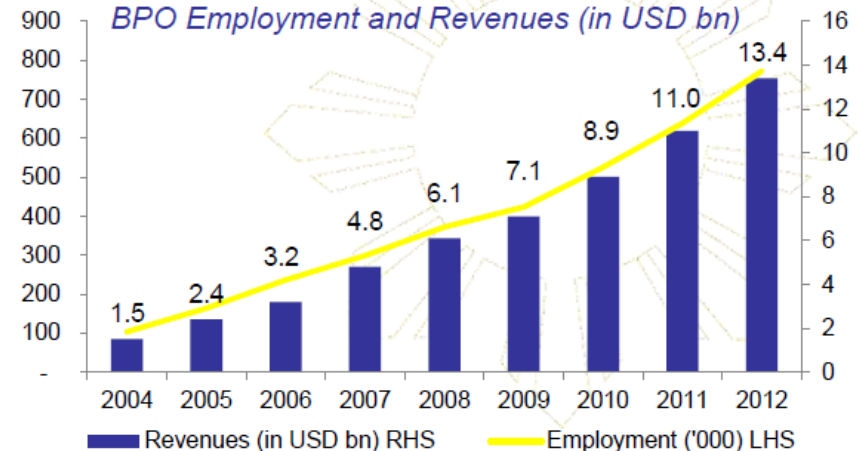
Tourism is a key area of national growth

International Visitor Receipts (USD bn)



BPO – a strong driver of employment and revenues

BPO Employment and Revenues (in USD bn)



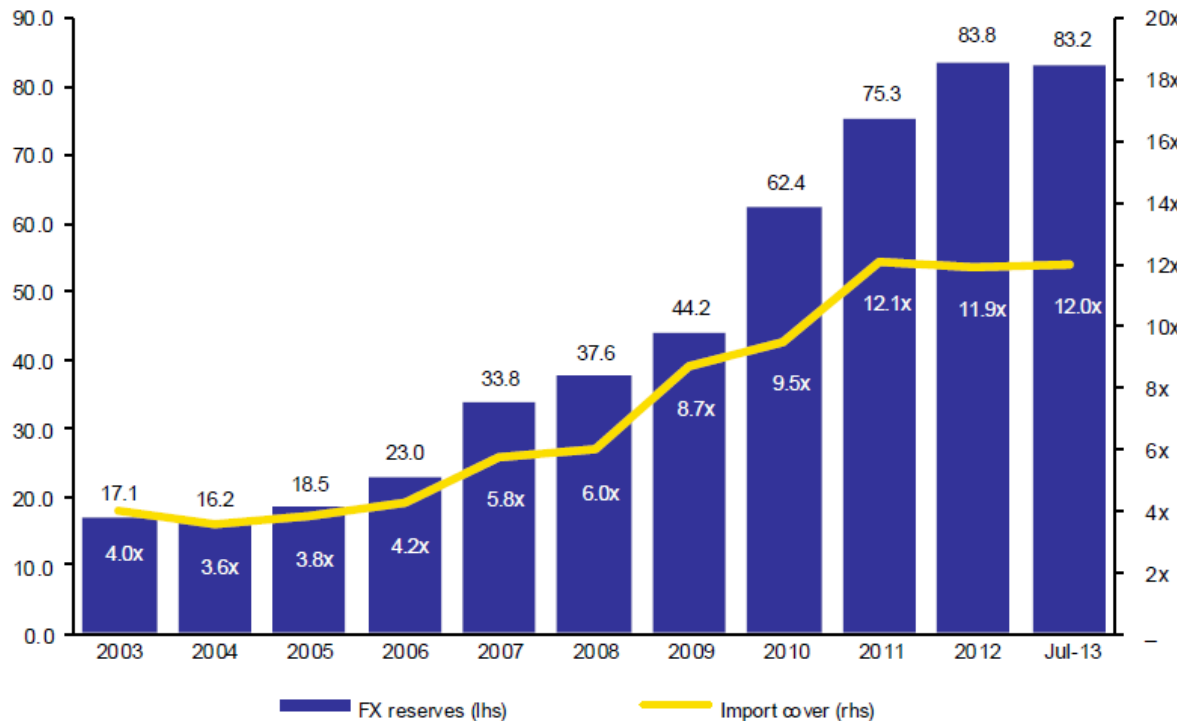


Robust External Profile – A Key Sovereign Strength

International reserves provide strong buffers to any BOP problems

ROP is effectively protected against any balance of payment shocks through adequate international reserves

FX Reserves (USD bn) and Months of Import Cover



- The Republic currently enjoys a healthy level of international reserves of USD 83.2 billion as of end-July 2013, enough to cover 12 months of total imports
- Since 2010, ROP's FX reserves have exceeded its gross external debt
- Strong reserve buildup is a prudent measure to guard against external shocks and underscores the ability of ROP to pay back any foreign currency denominated debt





Improved Fiscal Metrics Across the ROP

Creating a sustainable fiscal revenue and spending path

Better governance bearing fruit as fiscal finances continue to strengthen

(in Billion Pesos)	Jan-Jun 2013 Actual	Jan-Jun 2012 Actual	% Growth 2012 v. 2013	FY 2013 Adjusted Program	2012 Actual
Total Revenues	839.5	760.9	10.3	1,745.9	1,534.9
% of GDP	15.3	15.1		14.7	14.5
Tax Revenues	746.3	671.5	11.1	1,607.9	1,361.1
% of GDP	13.6	13.3		13.5	12.9
BIR	593.7	521.2	13.9	1,253.7	1,057.9
BOC	145.1	143.4	1.2	340.0	289.9
Other Offices	7.5	6.9	8.6	14.2	13.3
Non-Tax Revenues	93.1	89.4	(4.1)	136.0	165.5
% of GDP	1.7	1.8		1.1	1.6
o.w. BTr Income	49.5	50.2	(1.4)	57.7	84.1
Fees & Charges	43.3	39.2	10.5	78.3	81.3
Privatization	0.3	0	0	2.0	8.3
Expenditure	890.8	795.3	12.0	1,983.9	1,777.8
% of GDP	16.2	15.8		16.7	16.8
Surplus/(Deficit)	(51.3)	(34.4)	49.2	(238.0)	(242.8)
% of GDP	(0.9)	(0.7)		(2.0)	(2.3)

- Firm administrative measures (i.e. RATE, RATS and RIPS) have resulted in higher tax revenues and manageable deficits
- Tax elasticity of BIR collection increased to 1.7 in 2012 from 0.8 in 2004, indicating effective tax administrative measures
- 1H 2013 revenue and tax effort of 15.3% and 13.6%, respectively exceeded the program for the year on stronger tax compliance
- June 2013 fiscal deficit of Php8.5bn is 27.4% lower than the Php11.6 bn deficit in June 2012, reflecting the Republic's ability to raise revenues along with a more focused, faster and higher spending of 9.9% from last year
 - June 2013 revenue of Php131.1bn is 13.7% higher than June 2012 with BIR and BTr revenue growth of 9.1% (Php88.8 bn) and 167.7% (Php8.9bn), respectively

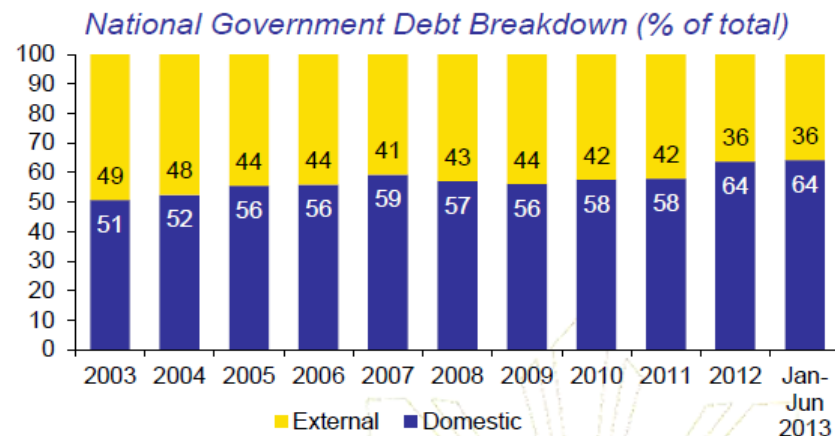


ROP Funding Becoming Increasingly Domestic

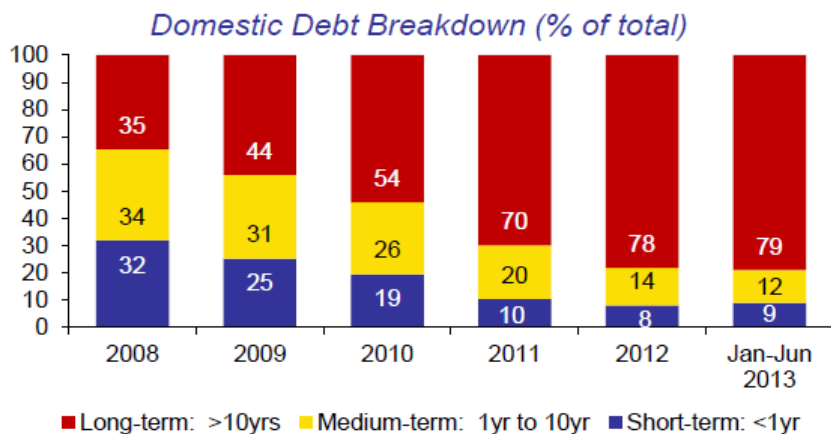
Increasing reliance on domestic financing sources

	Actual 2012	Program 2012	Revised 2013	Actual Jan-Jun 2013
Total Net Financing (PHP mn)	242,827	279,106	238,028	87,828
Gross External Borrowings	156,621	181,435	104,340	8,844
Gross Domestic Borrowings	798,527	535,074	630,691	238,231
Budgetary Change in Cash	295,345	54,234	61,817	36,538
Financing Mix (%)				
Foreign	16	25	14	4
Domestic	84	75	86	96

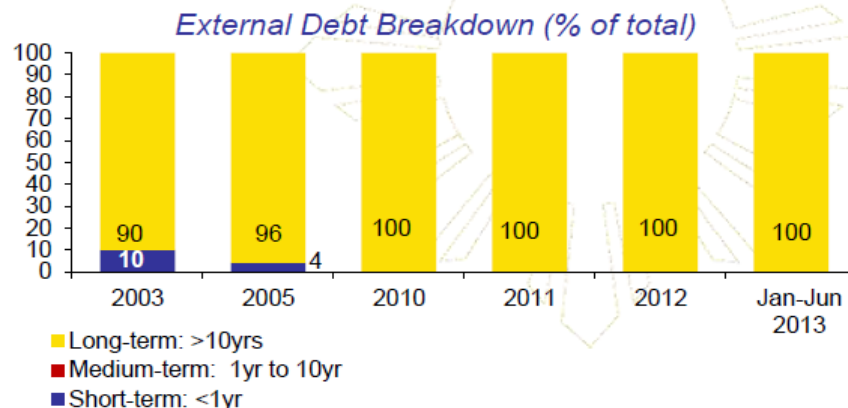
Share of external debt to national government debt has been gradually declining over the years



Domestic debt mix has become longer dated



External debt is all long-dated with maturity profiles exceeding 10 years



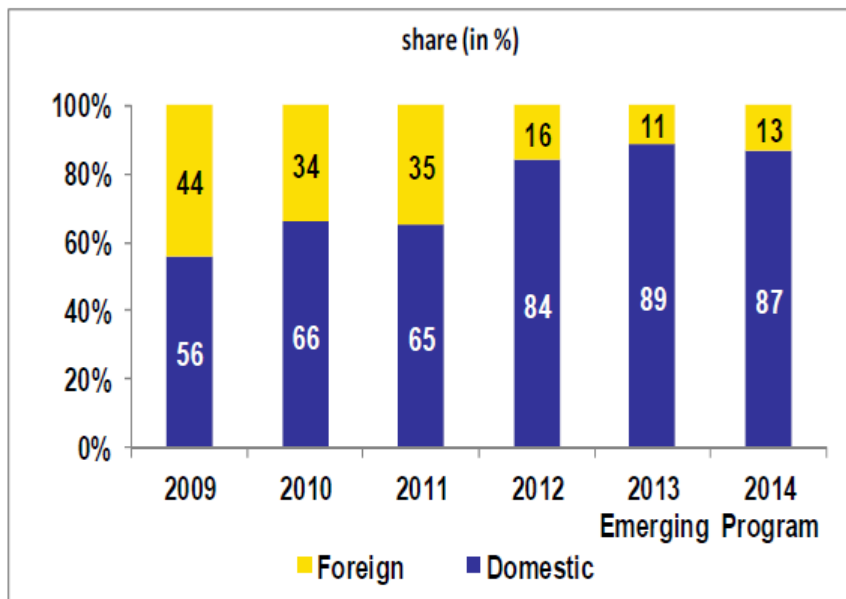


Prudent Liability Management

Increasing reliance on domestic financing sources and improved debt sustainability

NG Financing Program

...focused on increasing domestic source of funds

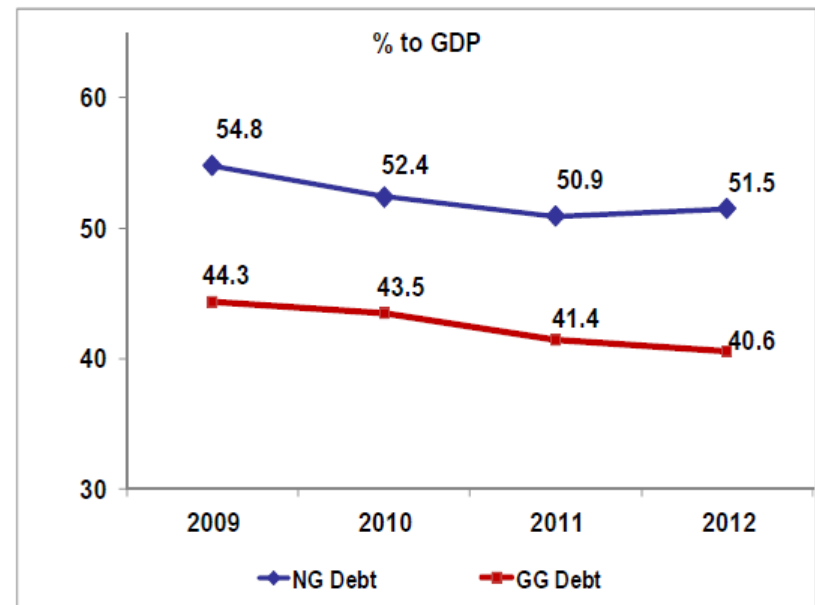


- For 2014, we are planning a Php1.0Bn issuance offshore to re-price ROP credit after investment grade rating.

Source: Bureau of the Treasury, Department of Finance

GG Debt/GDP

...lower than NG Debt/GDP ratio



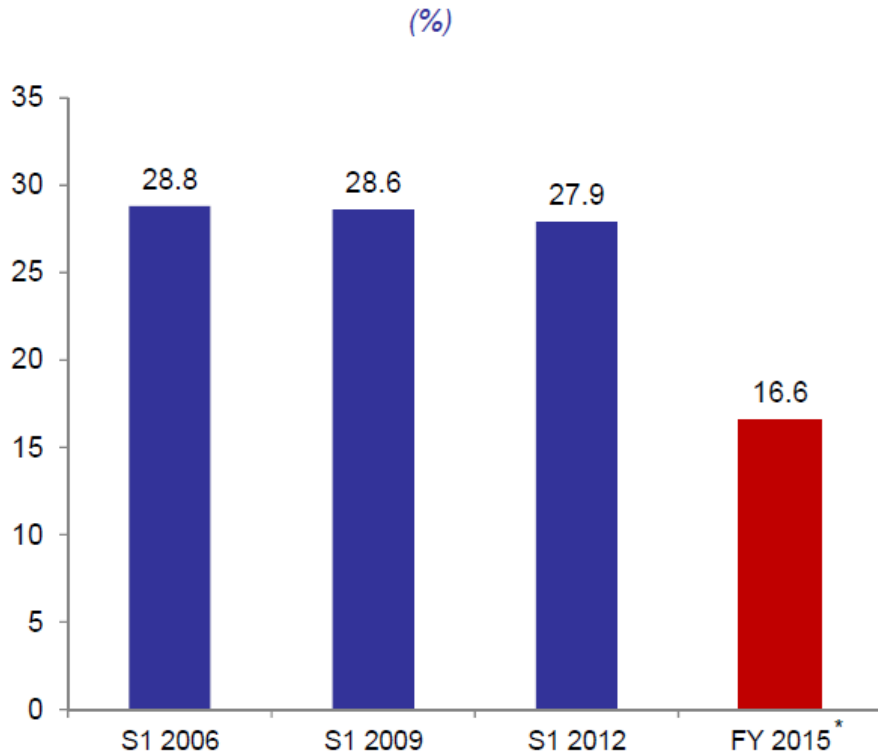
- The country's improving debt profile is even more pronounced using the international debt indicator of general government (GG) debt/GDP ratio.

Source: Bureau of the Treasury, Department of Finance

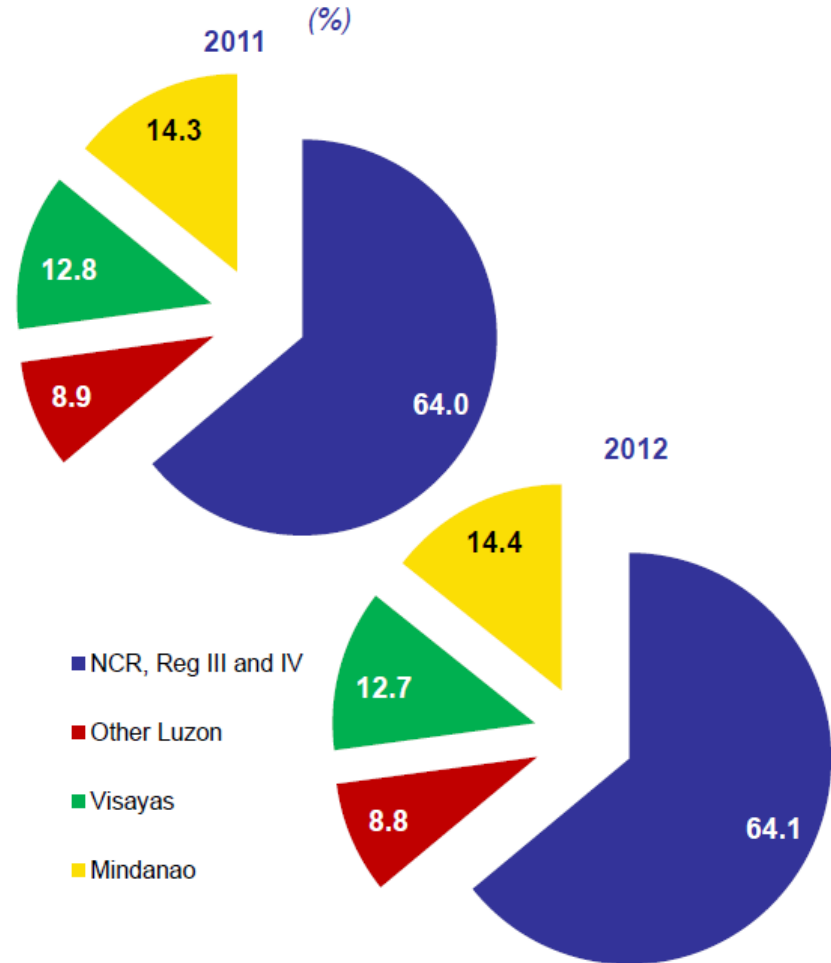


And Poverty Reduction to Achieve Inclusive Growth

First Semester Poverty Incidence Among Population



Poverty Incidence Among Population by Region



*Philippine Development Plan Target
Source: National Statistical Coordination Board



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