



The **Philippines Economic Update (PEU)** summarizes key economic and social developments, important policy changes, and

PREFACE

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Labor is transitioning from agriculture to more productive sectors.
Most firms are small in the manufacturing sector...
...as well as in the service sector.
Large firms are more productive than small and medium-sized firms in manufacturing...
...as well as in services.
Firms in the Philippines are growing at a healthy rate.
The share of firms with foreign ownership remains small.
Foreign ownership is correlated with higher productivity.
Firms with foreign ownership are on average more productive than fully domestically owned firms.
Foreign ownership is correlated with higher productivity.
The share of Philippine firms that export declined in 2010-14.
Firms that export are on average more productive than firms that focus on the domestic market.
The misallocation of resources has declined in Philippine manufacturing since 2009...
...and is in line with sem2e-4 (c)4 ion oa erctor.....

Foreign ownership is correlated with higher productivity. JETEMC /Span <</Lang (en-US)/MCID 256 >>BDC E

Heightened global market uncertainty and rising domestic inflation

PART 01 RECENT ECONOMIC AND POLICY DEVELOPMENTS

The Philippine economic growth moderated from 6.6 percent year-on-year in the first half of 2017 to 6.3 percent in the same period in 2018, driven by export growth moderation. Meanwhile, inflation increased from an average of 2.8 percent in the first eight months of 2017 to an average of 4.8 percent in the same period of 2018.

The country's economic growth moderated in the first half of 2018.

Figure 1.

Figure 2. ...while growth in the service sector fueled growth on the production side

SUPPLY SIDE: CONTRIBUTION TO GDP GROWTH (PERCENTAGE POINT)

— GDP Growth

The Philippine peso depreciated in the first eight months of 2018, weakening to a 12-year low. The peso depreciated, in nominal terms, by 7.0 percent year-to-date as of end-August 2018, from Bhp/U5 (t)S\$45 (t)(t)6rms,

Figure 9. Headline inflation breached the BSP's target range in the first eight months of 2018.

YEAR-ON-YEAR INFLATION RATE (2012=100)

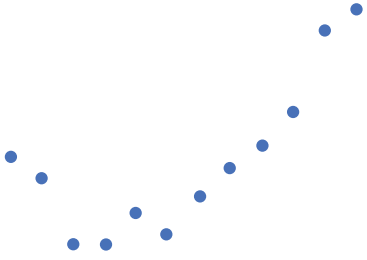


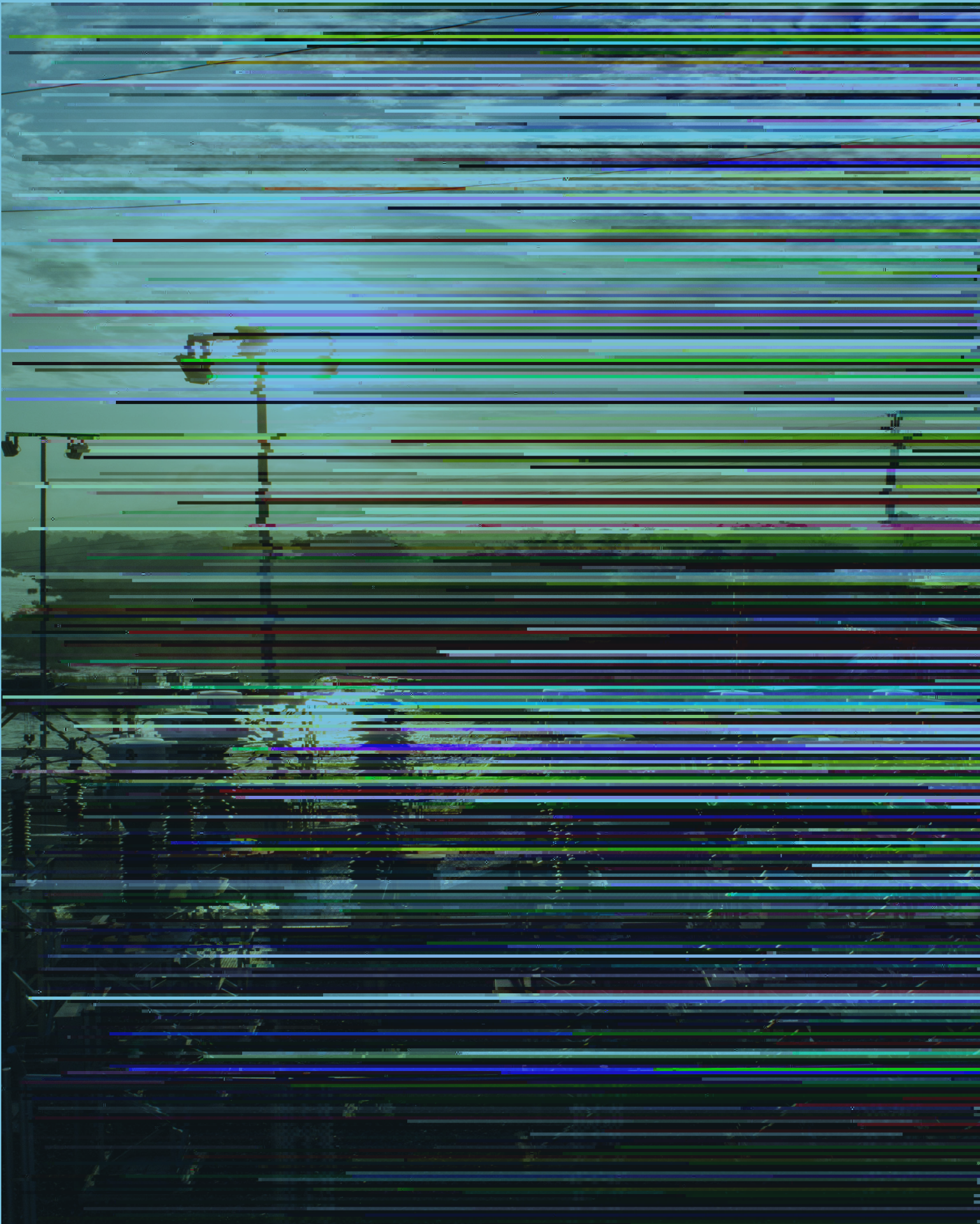
Expenditure growth accelerated in first six months of 2018, driven

While the underemployment rate remained relatively high at 17 percent, the quality of jobs showed signs of marginal improvement. The underemployment rate declined from 18.0 percent in January 2018 to 17.0 percent in April 2018, yet still higher than the average of 16.2 percent in 2017. Nevertheless, there were

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PART 01:



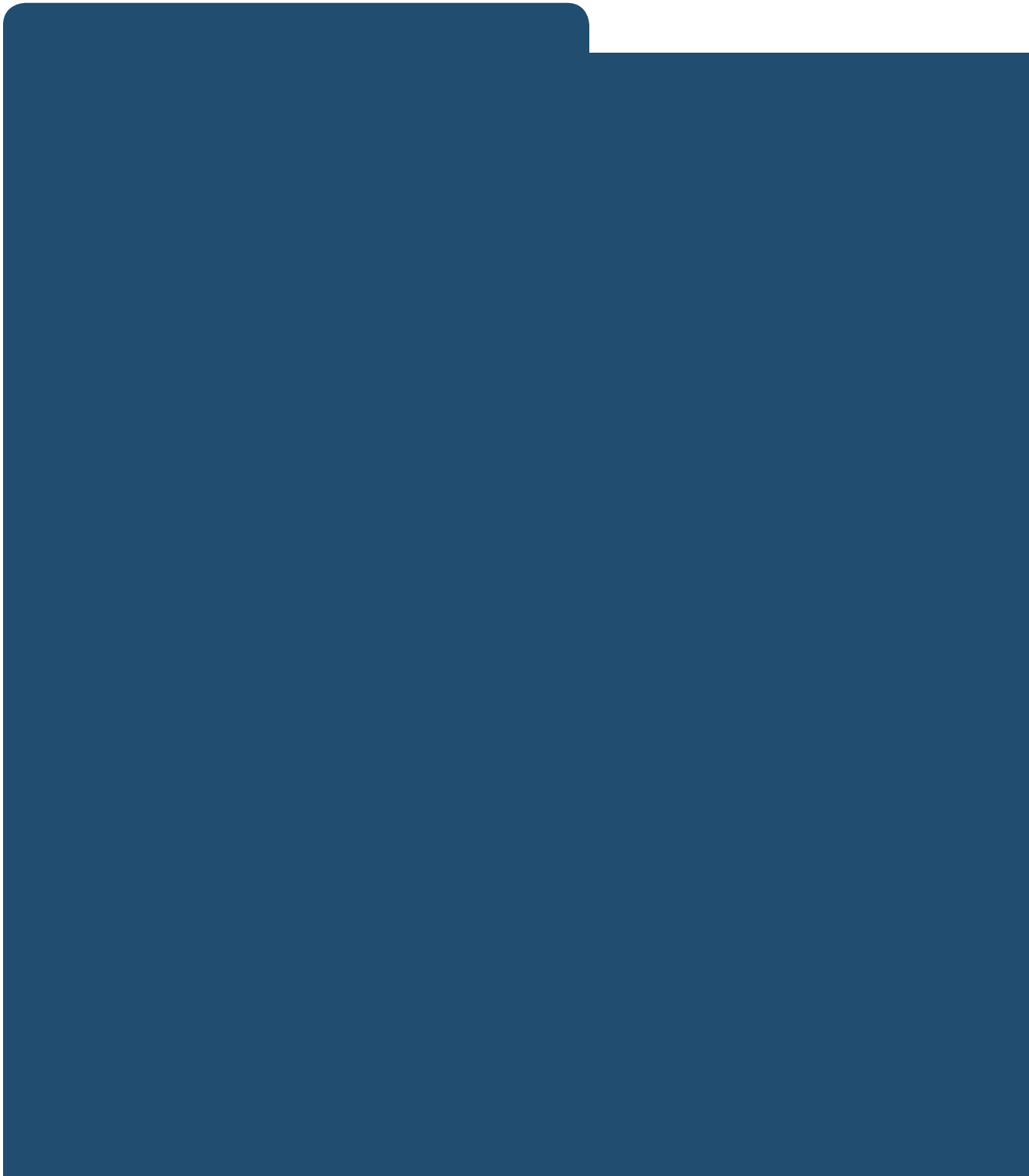




PART 02

⚠ DANGER
⚡ HIGH VOLTAGE
⚡ HIGH VOLTAGE

Box 4. The Global Economic Outlook



Box 6. The 2019 National Budget: Moving from Obligations to Annual Cash-based Budget Appropriations

The Philippines government will change the basis of public budget appropriations in 2019.

Inflation is expected to remain above the central bank's target

Figure 30. Prices of basic commodities are increasing

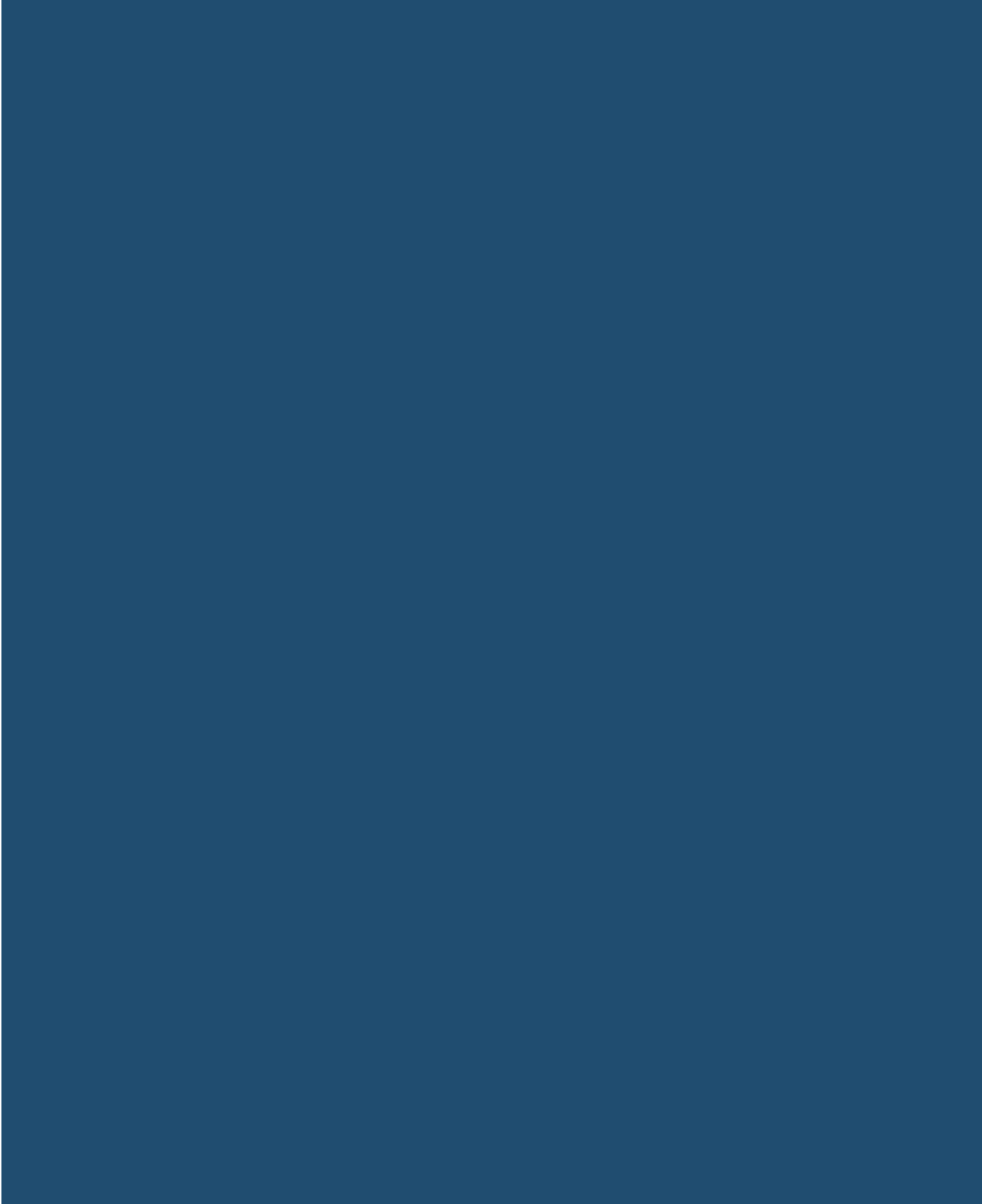
CONSUMER PRICE INDEX (2012=100)

RISKS AND POLICY CHALLENGES

Economic growth outlook is subject to several downward risks. External risks include a rapid slowdown in global trade and a tighter than expected financing conditions. Domestic risks include persistent high inflation and slower than expected implementation of the government investment program. Pace of current account deficit widening will need to be monitored closely to preserve macroeconomic fundamentals.

External risks have increased. Protectionist sentiments have intensified in some advanced economies recently, and a further escalation of the ongoing trade war remainn and s tr

Box 8.



INTRODUCTION

The Philippines has become a strong growth performer since

Figure 34. Capital accumulation in the Philippines, as a share of GDP, is the lowest among peers...

GROSS CAPITAL FORMATION: THE PHILIPPINES AND REGIONAL PEERS
(% OF GDP, 1998-2016 AVERAGE)

Nevertheless, capital accumulation has been the main driver of economic growth in the Philippines since the 1980s. A decomposition of real GDP growth shows that capital accumulation has consistently been the main driver of economic growth in the

Figure 44. Most sectors in the Philippines experienced labor productivity growth in 2010-16

ANNUALIZED LABOR PRODUCTIVITY GROWTH BY SECTOR (PERCENT)

PATTERNS AND DRIVERS OF PRODUCTIVITY AT THE INDUSTRY AND FIRM LEVEL

Firms contribute to aggregate productivity growth through the capacity of markets to efficiently allocate resources across firms (i.e., allocative efficiency) and the evolution of firm productivity (i.e., technical efficiency). Allocative efficiency involves the allocation of resources to the most productive activities and firms, while technical efficiency occurs when firms generate more output from the same level of input. To improve overall productivity through

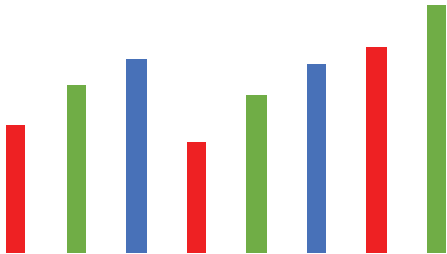


Figure 65.

Figure 69. Net inflow of FDI into the Philippines has been increasing...

NET FDI INFLOW: THE PHILIPPINES VS. STRUCTURAL PEERS (PERCENT OF GDP)

Figure 70. ...but it is still low relative to regional peers.

NET FDI INFLOW: THE PHILIPPINES VS. REGIONAL PEERS (PERCENT OF GDP)

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Create an enabling environment for innovation

The country's innovation infrastructure is of poor quality2n 2012

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Figure 75. The Philippines lags behind regional peers in the availability of information technology..

- Innovation costs too high
- Lack of funds within establishment or enterprise
- Lack of finance from sources outside enterprise
- Market dominated by established enterprises

Reduce labor market rigidities and costs

Employers find labor regulations in the Philippines more restrictive than in peer countries. On the Global Competitiveness Index, the Philippines ranked 77th out of 137 countries on the ease of hiring and firing, more restrictive than in peers (Figure 78). Specifically, the country suffers from long administrative processes for regular employment. In addition, the Philippines ranked 86th out of 137

Figure 80. Informal employment is high in the Philippines.

INFORMAL EMPLOYMENT (SHARE OF NON-AGRICULTURAL EMPLOYMENT, IN PERCENT)

Box 9.



Higher productivity growth would help to accelerate poverty reduction by creating more well-paying jobs. The reduction in poverty that occurred between 2006 and 2016 in the Philippines was driven by an increase in wage income, a movement of labor

Box 10. Stagnant Real Wage with Rising Labor Productivity

The disconnect between real wages and labor productivity is consistent across sectors.

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