



Philippine Economic Briefing

30 September 2015



Macroeconomic Developments and the Role of Infrastructure and Human Capital Development

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30 September 2015



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Good morning to everyone.

I am pleased to conduct this briefing on the economy. The prospects for the Philippines look very promising, and for the remainder of my presentation, I will elaborate on my reasons for saying so. Briefly, it has to do with our investments in human capital and infrastructure, but more importantly, it is built on our commitment to practice good governance and good economics.

Domestic demand remains buoyant

Growth of GDP by Component

	Q1 2015	Q2 2015	1H 2014	1H 2015
	Growth rate (%)			
Supply side				
Agriculture	1.1	-0.5	1.9	0.3
Industry	5.5	6.1	7.3	5.8
o.w. Manufacturing	6.0	4.6	9.0	5.3
Services	5.4	6.2	6.3	5.8
Demand side				
Private consumption	6.0	6.2	5.9	6.1
Government consumption	1.7	3.9	0.9	2.9
Capital Formation	11.6	17.4	10.6	14.3
o.w. Fixed capital formation	10.0	8.9	4.2	9.5
Exports	6.4	3.7	10.2	5.0
Imports	8.7	12.7	10.4	10.6
GROSS DOMESTIC PRODUCT	5.0	5.6	6.2	5.3

Source: Philippine Statistics Authority (PSA)

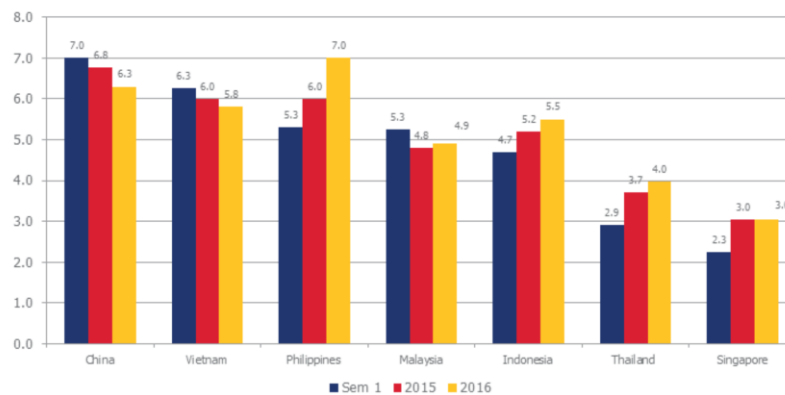


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For the first half of 2015, the economy grew by 5.3 percent. Admittedly, this falls short of the original target set by the DBCC for this year. We at NEDA believe however that the economy can still reach at least 6.0 percent real GDP growth in 2015.

The Philippines remains one of the fastest growing economies in Asia

GDP Growth of Selected Asian Economies
(Sem I 2015 and FY 2015 & 2016)



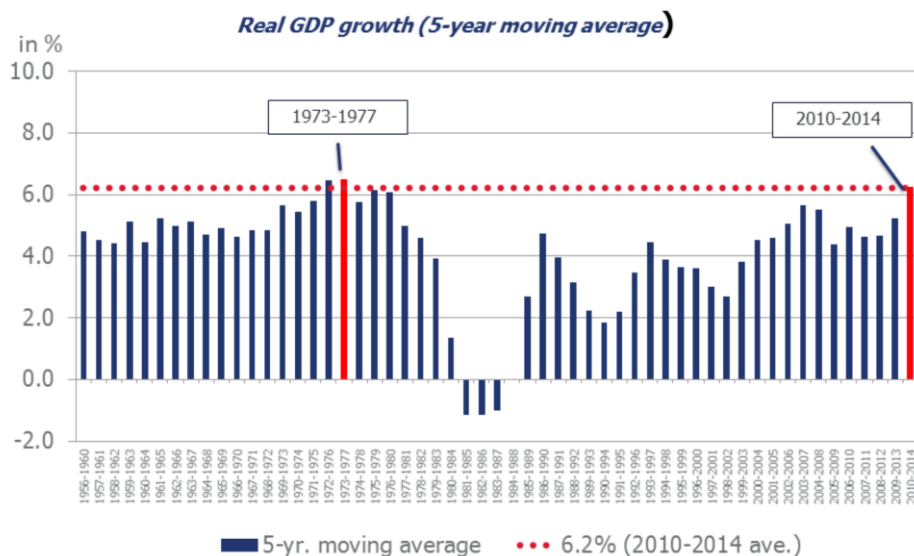
Source: NEDA Estimates and IMF-WEO

This performance will still make us as one of the best performers among the emerging economies, especially when one considers the general weakness of the global economy. As advanced economies are expected to recover next year, growth can accelerate towards 7 percent next year.

The next administration will inherit an economy with stronger fundamentals.

We expect to turn over to the next Administration an economy that has much stronger fundamentals than what we inherited in 2010.

Average growth in 2010-2014 is the highest 5-year average growth since the mid-1970s.



Source: NEDA Staff calculations

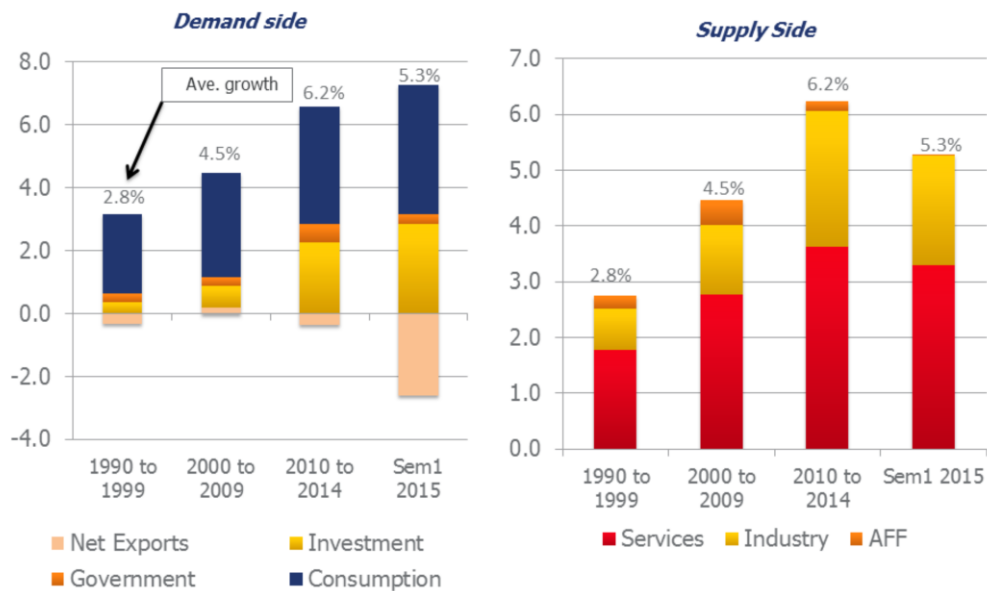
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We have grown by an average of 6.2 over the last 5 years – the strongest since the mid-1970s.

The economy has started to transform towards being more investment- and industry-driven.



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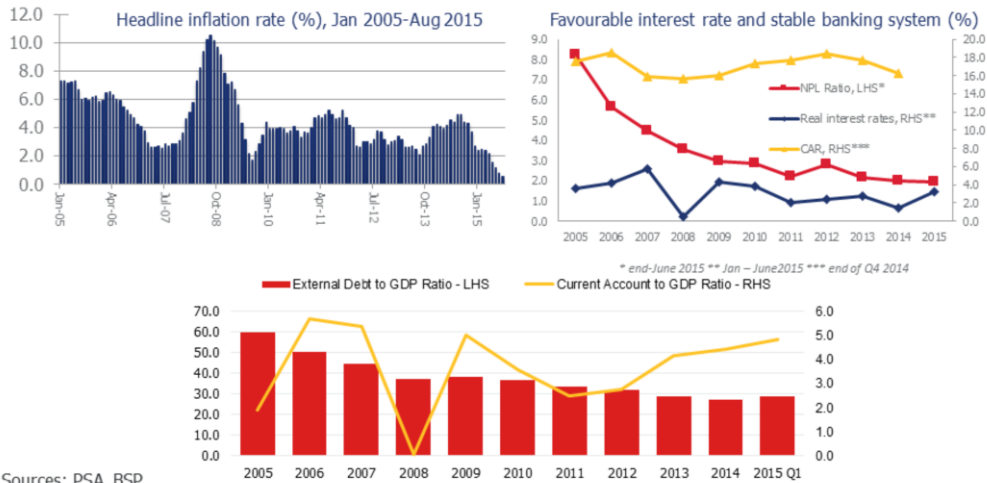


We are also confident of the robustness of the growth as we observe the increasing contribution to growth of capital formation on the demand side. In fact, we are happy to note that as of 2014, the ratio of fixed capital formation to GDP has reached 21.5%, from only 18.7% in 2009. On the supply side, there is the growing significance of industry, especially local manufacturing, and within the Services sector, business process management and tourism-related subsectors. In other words, we are in the process of structural transformation, which is crucial for sustaining growth and generating quality jobs.

Our external position is robust and the financial system stable.

Monetary and External side:

- Robust external position
- Low and stable inflation
- Favorable interest rate & sound banking system
- **Result: healthy financial and external system**



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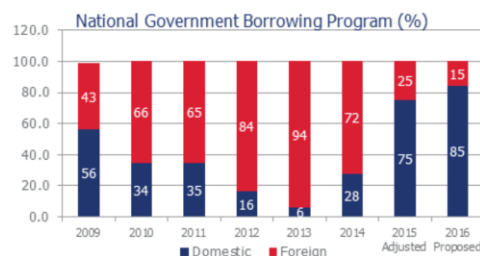
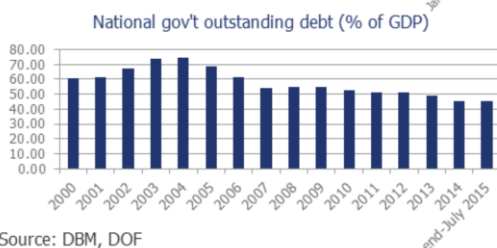
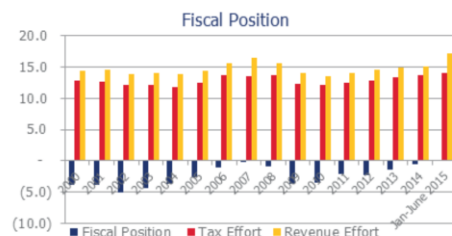


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Our financial system is healthy. Inflation is low and stable, staying within the target. Interest rates are favorable for business, and the whole banking system is generally sound. Moreover, our external position is robust. The current account surplus has been accompanied by resilient remittances from Filipinos overseas, strong business process outsourcing or BPO earnings, and rising tourism receipts.

Our stronger fiscal position has been recognized, garnering an investment-grade sovereign credit rating for the first time in our history.

- Fiscal side:**
- Modest fiscal deficit; declining public debt & interest payments;
 - Increasing reliance on domestic financing
 - **Result: resilient fiscal position**



Source: DBM, DOF

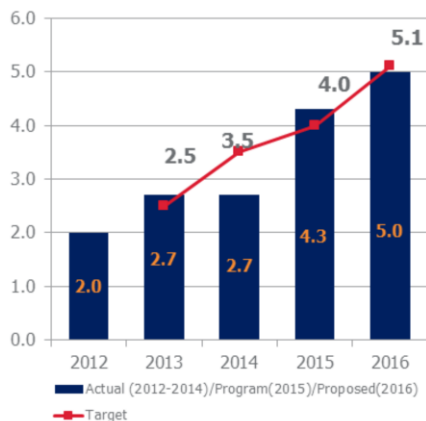
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Good governance has resulted in a resilient fiscal position, owing to a modest fiscal deficit, and declining public debt and interest payments.

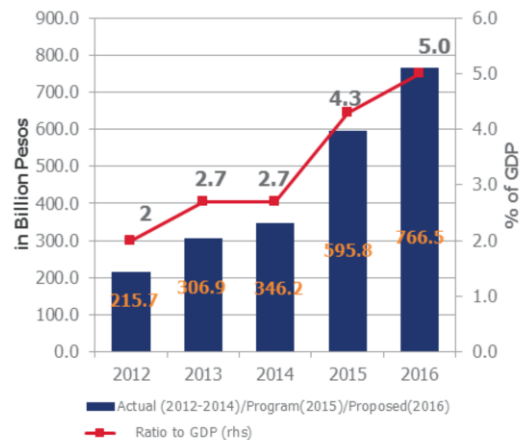
Growth-enhanced fiscal space has allowed major investments in infrastructure, with spending more than tripling...

Public infrastructure spending as % of GDP



Source: Department of Budget and Management
 Note: 2012 to 2014 - Based on actual GDP and infra spending
 2015 - Based on 2016 BESF Program spending
 2016 - Based on 2016 BESF Proposed spending

Public infrastructure spending, Billion Php and % of GDP



Source: Department of Budget and Management Note:
 2012 to 2014 - Based on actual GDP and infra spending
 2015 - Based on 2016 BESF Program spending 2016 -
 Based on 2016 BESF Proposed spending

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The growing economy has allowed the government to channel more resources to address one of the major long-term binding constraints to our growth – the public infrastructure gap. Our aim is to increase investments in public infrastructure from 2.0 percent of GDP in 2012 to at least 5.0 percent by 2016. As you can imagine, this is quite a challenging task as it is equivalent to raising the value of infrastructure spending more than 3 times over a span of 5 years – from P215.7 billion in 2012 to P766.5 billion in 2016.

...complemented by private investments in public infrastructure

Status of PPP Projects (as of 21 September 2015)

Projects by Status	No. of Projects	Amount (PHP bn)
Projects Under Implementation	12	284.96
Contract Awarded	10	189.00
Other projects under Implementation	2	95.96
PPP Pipeline	41	850.48
Projects for awarding	1	4.0
Projects under Procurement	14	515.87
Projects for Roll-out	2	107.98
For Approval of Relevant Government Bodies	6	165.18
Projects with Ongoing Studies	4	57.45
For Procurement of Consultants to Conduct Pre-investment Studies	7	TBD
Projects Under Conceptualization/Development	7	TBD
Total	53	1,135.44

Source: PPP Center

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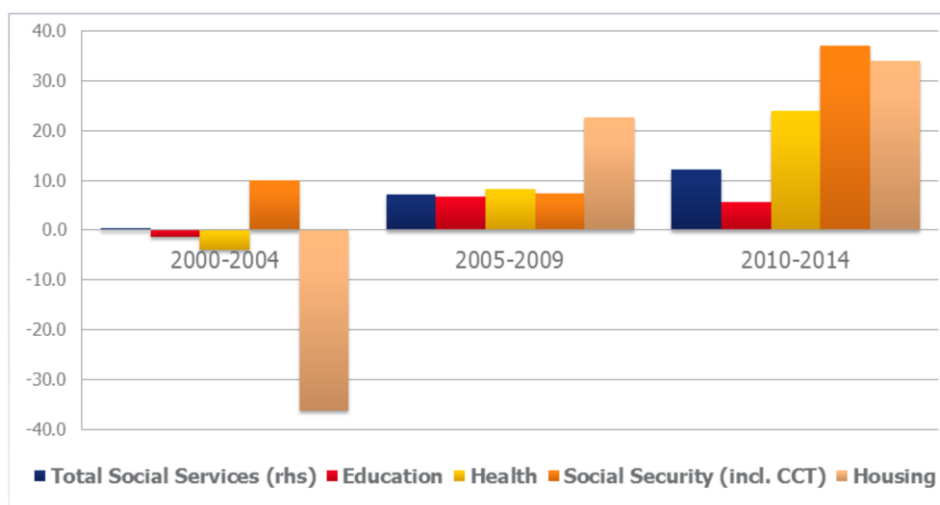


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Complementing the public spending on infrastructure is the modality of public-private partnership, which has also been gaining traction. As of September 21, 2015, a total of 12 projects worth P285 billion (or around 2% of GDP) were already under implementation. Another 41 projects are in the pipeline, including 15 projects worth P520 billion (or around 4.0% of GDP) that are already undergoing various stages of procurement.

Increased fiscal resources have also allowed greater public investments in social services...

Average Annual Growth Rate (%) of Spending on Social Services, Constant Prices



Source: DBM, BSP

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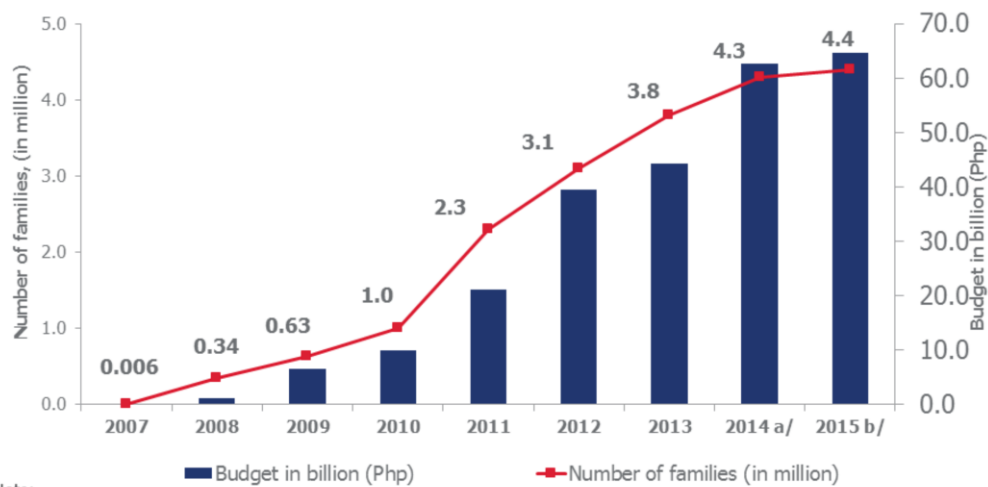


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The wider fiscal space, coupled with budget reforms, provided government with flexibility to increase spending on social services as well. This has greatly increased investments in human capital development, particularly through better education and health services, as well as social protection and housing in particular. This is important as it is well-established that the most enabling instrument to lift people from poverty is human capital development. In fact, the observed inability of the poor to benefit from recent growth can be traced to our underinvestment in human capital development in the past.

As you can see from this slide, social services expenditures, even when adjusted for inflation, increased by 12% on average yearly during the period 2010-2014. This is against the 7.1% growth in the preceding 5 year period and the almost negligible growth during the period 2000-2004. On the average, during the past four years, expenditures on education rose by 5.7%, on health by 24%, social security that includes CCT by 37%, and housing by 34%.

With the country's CCT program (4Ps) being rapidly scaled up...



Note:

a/ As of September 30, 2014, the 4Ps cover a total of 4.3 million households

b/ As of June 2015, there are 4,436,732 registered household-beneficiaries

Source: DSWD, BESF, DBMS, NEDA-SDS

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In particular, there has been a rapid scaling up of the CCT program to cover more beneficiaries, including those in high school, and beneficiary families. The CCT program itself is intended to break the cycle of intergenerational poverty - regardless of what the parents do or do not do, can or cannot do, we are assured that the children of poor families get educated and proper health care.

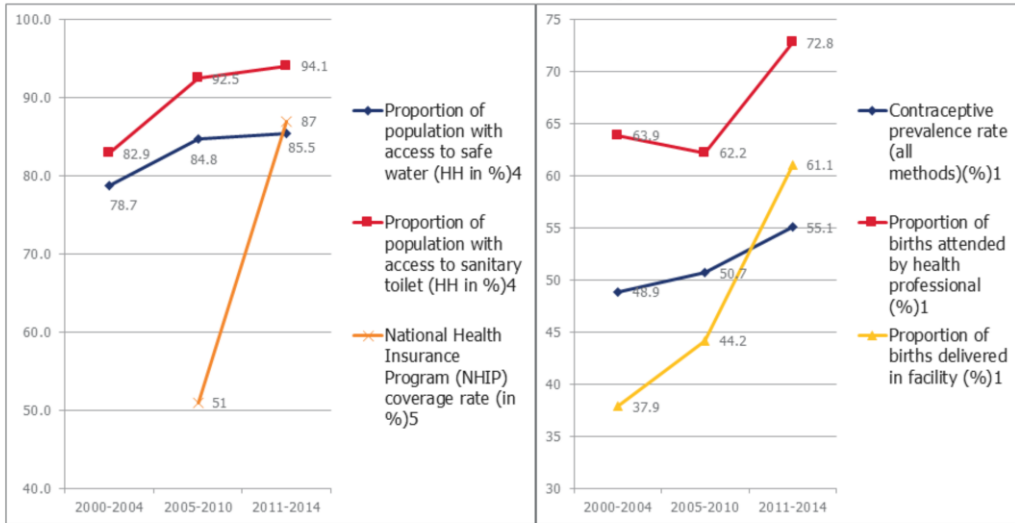
Introduced landmark legislation that will have lasting impacts on the economy.

- **Reproductive Health law**
- **Sin Tax reforms**
- **Competition Law**
- **Reform of the Cabotage law**
- **Full liberalization of foreign banking**

We have also introduced several landmark legislations that we believe will have lasting impacts on the economy: Reproductive Health law, Sin Tax reforms, Competition Law, reform of the Cabotage law, full liberalization of foreign banking, among others.

Human capital: health outcomes are improving...

Selected Health Indicators: various years, 2000-2014



Source: 1/ For 2003, 2008, and 2013 data is from National Demographic and Health Survey (NDHS) and for 2001, 2006 and 2011, data is from the Family Health Survey (FHS). Please note that NDHS and FHS for the year identified covers period of 5 years prior to survey release | 2/National Nutrition Survey | 3/DOH | 4/APIS | 5/ PhilHealth | 6/Global TB Report WHO

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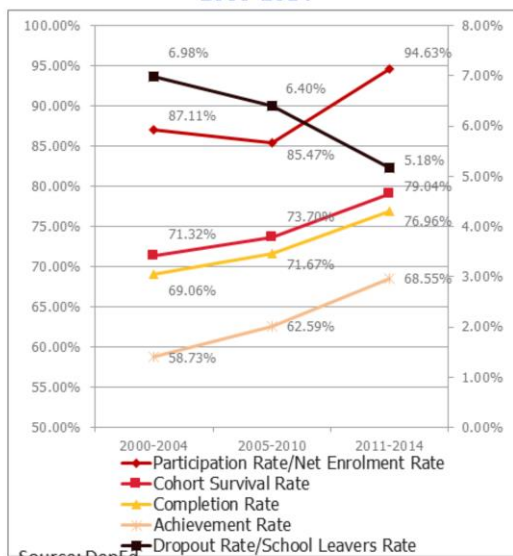
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Allow me now to present the accomplishment of these various programs, as shown in the next couple of slides.

- National Health Insurance Program (NHIP) coverage rate increased from 51% (2010, PhilHealth) to 87% (2014, PhilHealth);
- Contraceptive prevalence rate increased from 50.7 % (2008, NDHS) to 55.1% (2013, NDHS);
- Proportion of births attended by health professionals increased from 62.2% (2008, NDHS) to 72.8% (2013, NDHS); and
- Proportion of births delivered in facility improved from 44.2% (2008, NDHS) to 61.1% (2013, NDHS).

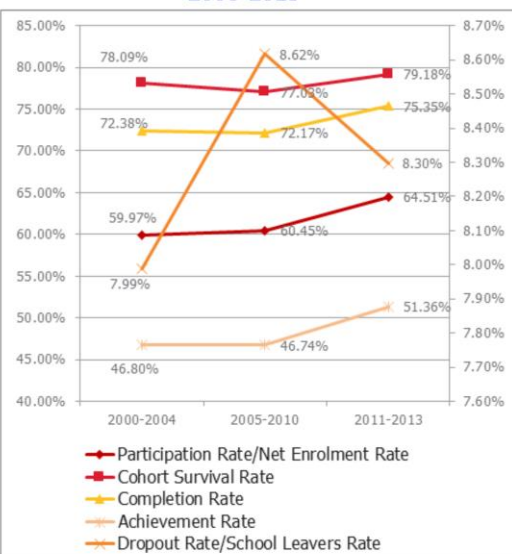
Human capital: as well as education outcomes...

**Basic Education: various years,
2000-2014**



Source: DepEd

**Secondary Education: various years,
2000-2013**



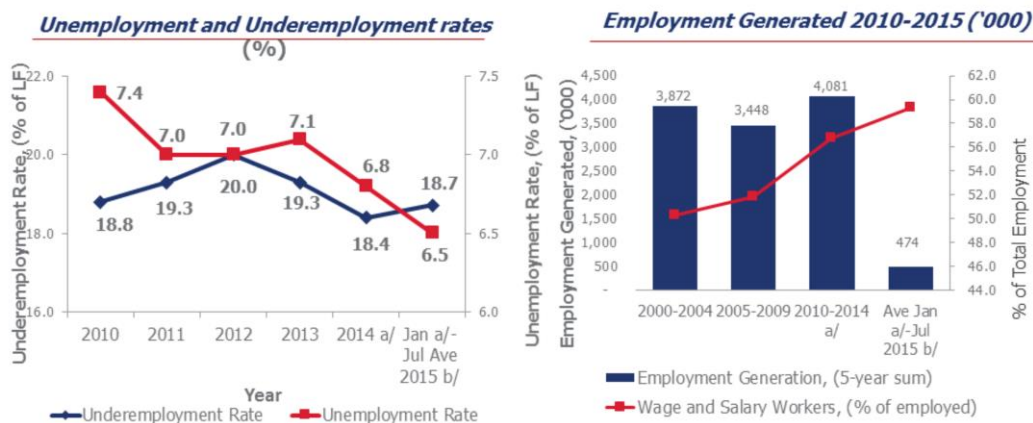
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- For both basic and secondary education, participation, survival, completion and achievement rates have improved, while drop-out rates have declined.

Our vibrant economy is producing more and better jobs...



Notes:

a/ The FY 2014 and Jan 2015 LFS estimates exclude Region 8

b/ The April and July 2015 LFS estimates exclude Leyte

*1997-2005: Adoption of population projection benchmark is based on the results of the 1995 Census

**2006-current: Adoption of population projection benchmark based on the results of the 2000 Census

Source: Philippine Statistics Authority

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The strong economic growth, supported by a pro-active government, has also resulted in favorable employment prospects for our people.

- The country's unemployment rate of 6.8 percent and underemployment rate of 18.4 percent in 2014 are the lowest in ten years since 2005.
- Notably, over 4 million jobs have been generated over the last 5 years. The share of wage and salaried employment, which is universally used as an indicator of the quality of employment available in an economy, has been on an upward trend, averaging 56.8% in 2010-2014 from 51.8% in 2005-2009 and 50.2% in 2000-2004.
- Also, the latest Labor Force Survey indicates these gains are being sustained in 2015. For the first three quarters, the unemployment rate declined further to 6.5%.

How do we keep the momentum in 2015 and beyond?

- **Close the infrastructure gap**
- **Maintain high levels of public investments in human capital, particularly in health and education**
- **Invest in disaster resiliency**
- **Promote more sustainable production and consumption patterns**
- **Strengthen institutions**
- **Promote healthy competition**
- **Foster innovation culture**
- **Encourage entrepreneurship**

These investments in infrastructure and human capital will support growth in the short to medium term. The country is also in a demographic transition, which, together with quality education and the programs designed to reduce poverty in a sustainable manner will provide the enabling factors for long-term growth. Needless to say, these should be accompanied by catalysts that encourage innovation, entrepreneurship and private investments. My suggestions, you will find, still fit under the banners of “good economics” and “good governance.”

INFRASTRUCTURE DEVELOPMENT PROGRESS

Infrastructure Roadmaps and Masterplans



Source: Philippine Infrastructure Development – Ayala Corporation Meeting Presentation

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First, we need to improve the macroeconomic competitiveness by closing the infrastructure gap. Various Masterplans have been formulated to guide the development and implementation of infrastructure projects and other development interventions. To be sure, each administration will want its imprint on the country's development landscape. In fact, infrastructure capacity needs to be continuously upgraded to support current and future growth. However, let us commit to maintaining the coherence of these Plans, making sure to build on previous gains. And as we facilitate structural transformation, the type of infrastructure will also need to keep up.

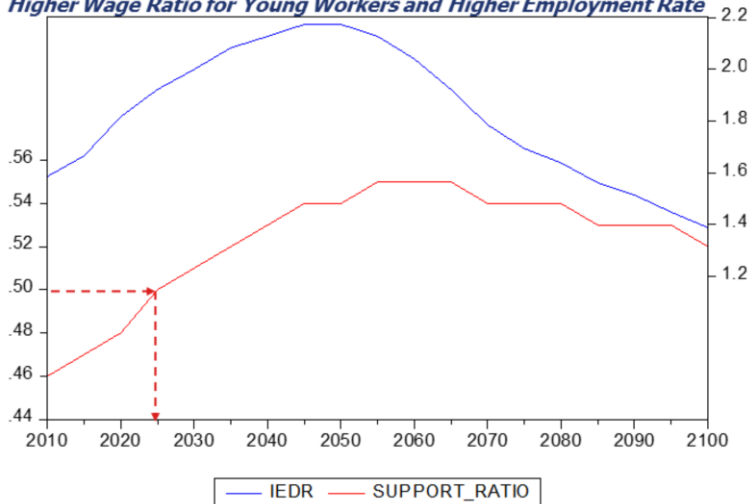
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Second, we need to maintain high levels of public investments in human capital, particularly in health and education. We need to ensure the availability of a healthy, highly trainable and skilled labor force and we need to produce more innovators and entrepreneurs.

Demographic Dividend: implementation of the reproductive health law, human capital investments, and job-creating reforms need to be sustained

Support and (Inverse) Dependency Ratios under Low Population Growth, Higher Wage Ratio for Young Workers and Higher Employment Rate



Source: "Demographic Sweet Spot and Dividend in the Philippines: The Window of Opportunity is Closing Fast" by Dr. Dennis S. Mapa, Dean, UP School of Statistics

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The country faces a demographic window of opportunity where demographic dividends can be reaped. Studies estimate that demographic transition was responsible for about 1/3 of the economic growth experienced by East Asia's economic "tigers" during the period 1965 to 1995. Our own studies, however, show that we may not be able to realize as much demographic dividend as our neighbors did.

The red line on this chart plots the support ratio over time. The support ratio is the number of effective workers to the number of effective consumers, where each worker or consumer is weighted according to age-specific income or consumption. An increasing trend of the ratio means that more income can be saved or spent for higher consumption. The chart, however, shows that the shape of the arc is a bit flat. This is primarily because of the slow decline in fertility rate. There is still a high unmet demand for reproductive health care, which results in unplanned births, and this usually implies that the family was not able to prepare for the child's care and education. This situation must be remedied by fully implementing the Reproductive Health Law.

How do we keep the momentum in 2015 and beyond?

- **Close the infrastructure gap**
- **Maintain high levels of public investments in human capital, particularly in health and education**
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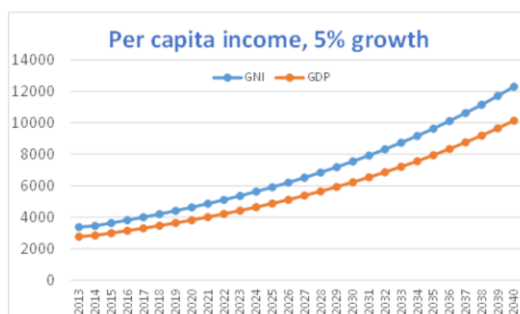
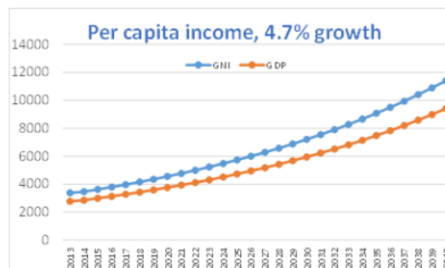
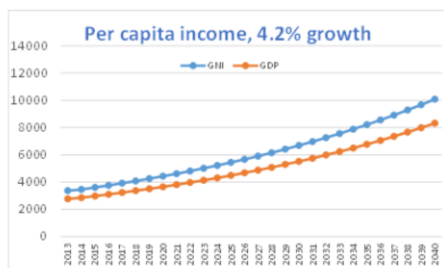
We have earlier reported that structural transformation is now happening, from low value added to higher value added activities. This must be further facilitated and there must also be a deliberate strategy to prepare the workforce for structural transformation, so that growth would be inclusive.

Third, we must continue investing in socioeconomic resiliency, while at the same time promoting more sustainable production and consumption patterns. This includes disaster preparedness, income diversification, social protection and insurance.

Lastly, it is important that we continue to strengthen and improve the nation's institutions, including political ones, as these play a critical role in the development process. A peaceful and credible transfer of power in 2016 to a new Administration which can sustain the reform initiatives of the present government is particularly important. Achievement of lasting peace in Mindanao will likewise be critical in reaping the growth potential of that region and lifting millions of our countrymen out of poverty.

Relatedly, we need to develop and implement a structural reform agenda that will result in an environment that promotes healthy competition, fosters and rewards innovation and encourages entrepreneurship.

The stakes are high, so let's get it right



If we get it right this time, sustained GDP growth of about 7% yearly could bring us to higher middle-income economy status (GNI per capita of \$4,125) by the end of the next Administration. Thereafter, sustained growth for 3 more Administrations, could bring us at or near high-income economy status (GNI per capita of \$12,746) by 2040.

I think we owe it to ourselves and the next generation of Filipinos to get it right.



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Thank you for your attention, and again, a pleasant morning to all.



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This ends my presentation. Thank you and have a pleasant morning.