



WORLD BANK GROUP

Making growth work for the poor

A window of opportunity to eradicate extreme poverty
and boost shared prosperity within one generation

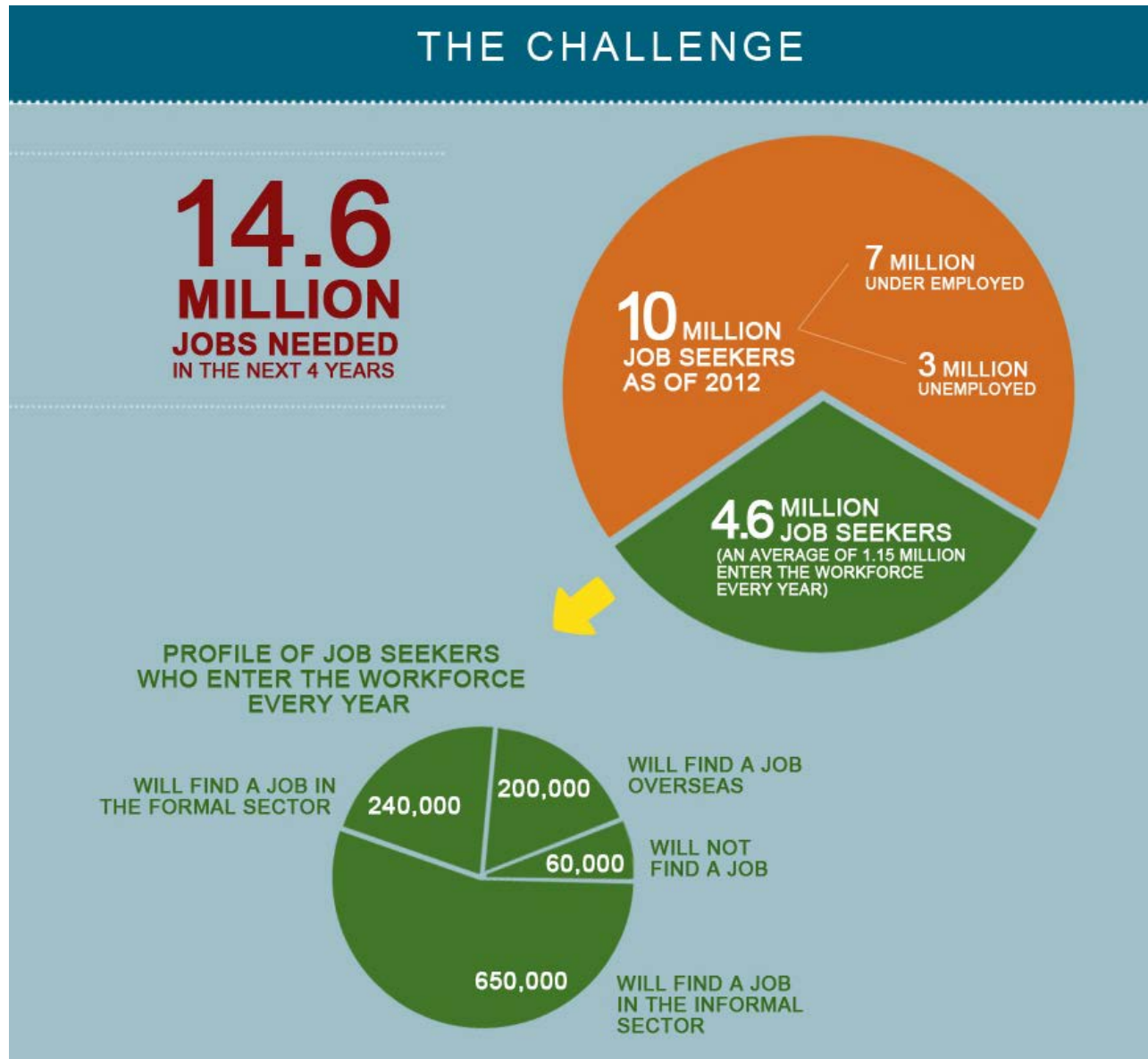
Karl Kendrick Chua, Senior Country Economist

**Macroeconomics and Fiscal
Management Global Practice
January 29, 2015**

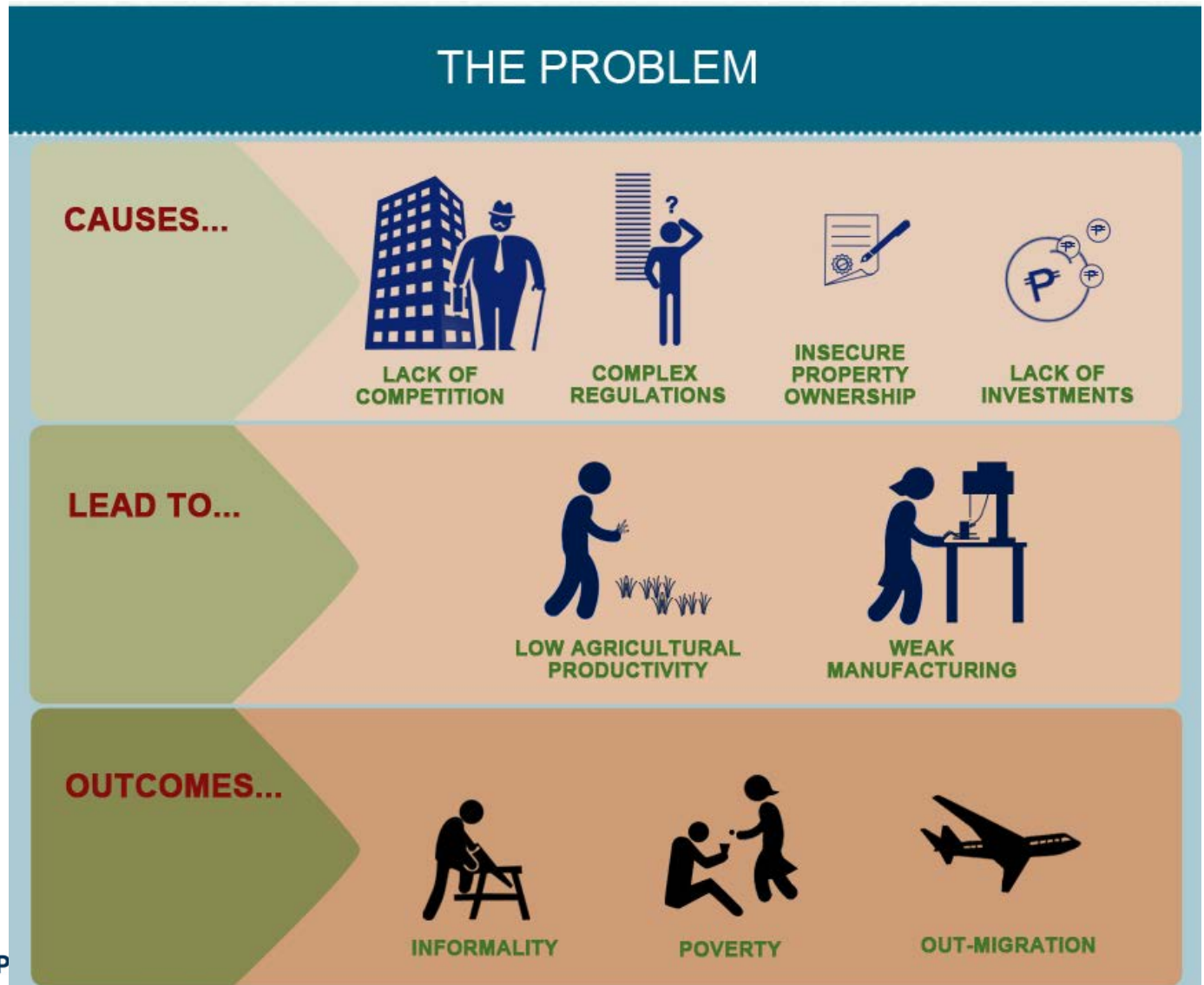
Key messages

1. Jobs challenge
2. Window of opportunity
3. Growth is becoming more inclusive
4. We can work it out

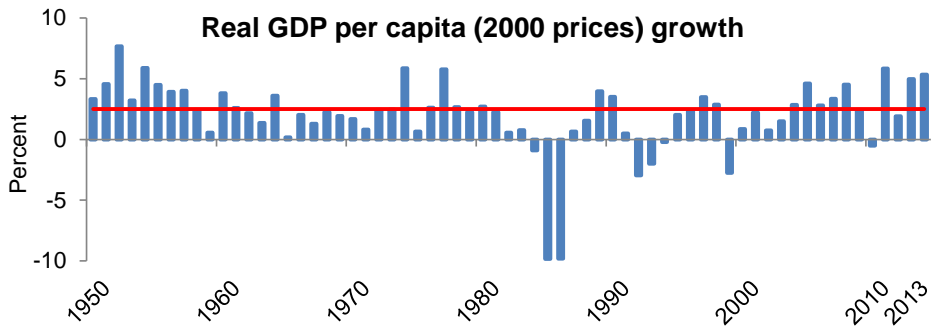
Although job creation has improved, it remains to be an enormous challenge



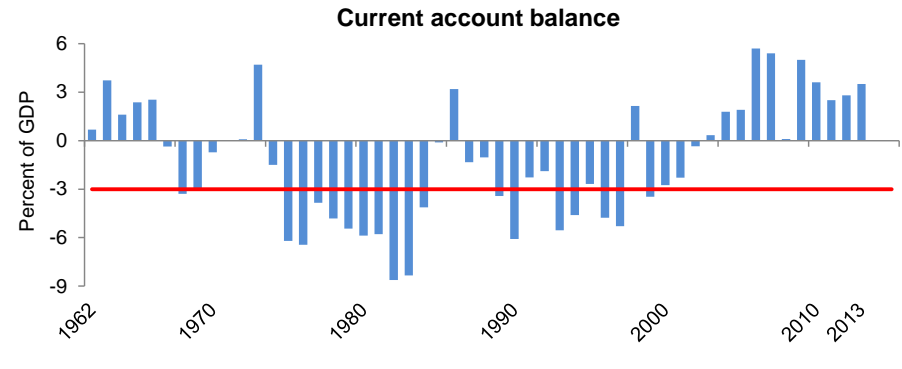
Caused by decades of bad policies, underpinned by centuries of extractive institutions



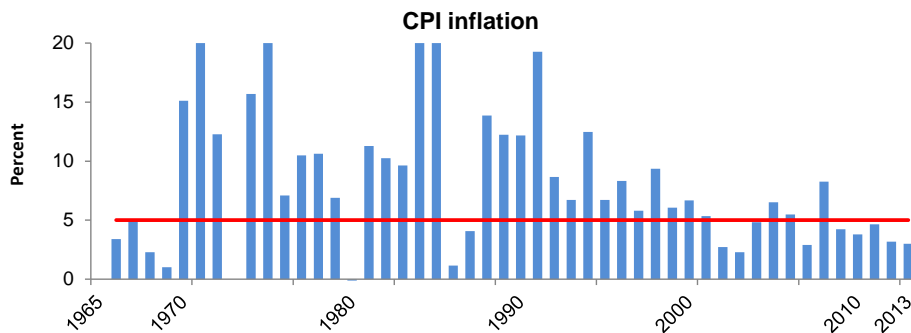
Strong macroeconomy: instead of short-term stabilization, we can now focus on the long-term



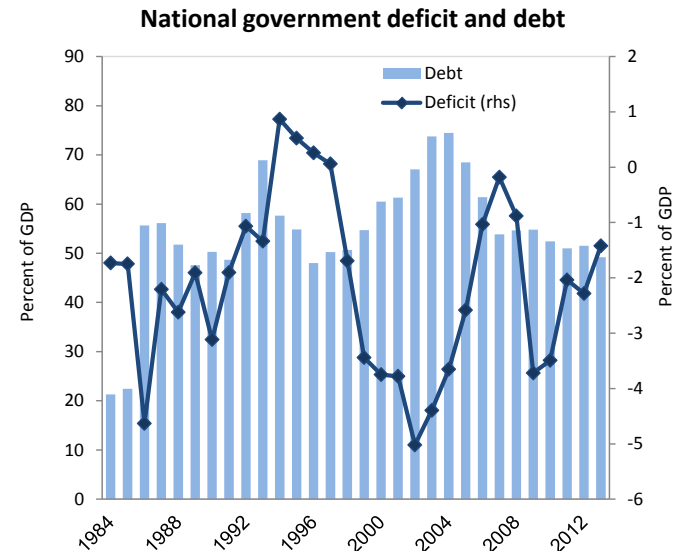
Sources: National Statistics Office (NSO), WDI, World Bank staff estimates
 Note: Red line at 2.5 percent (long run average)



Sources: WDI, Department of Budget and Management (DBM)
 Notes: The red line is at -3 percent. Current account balance has a series break in 1977 and in 2005.



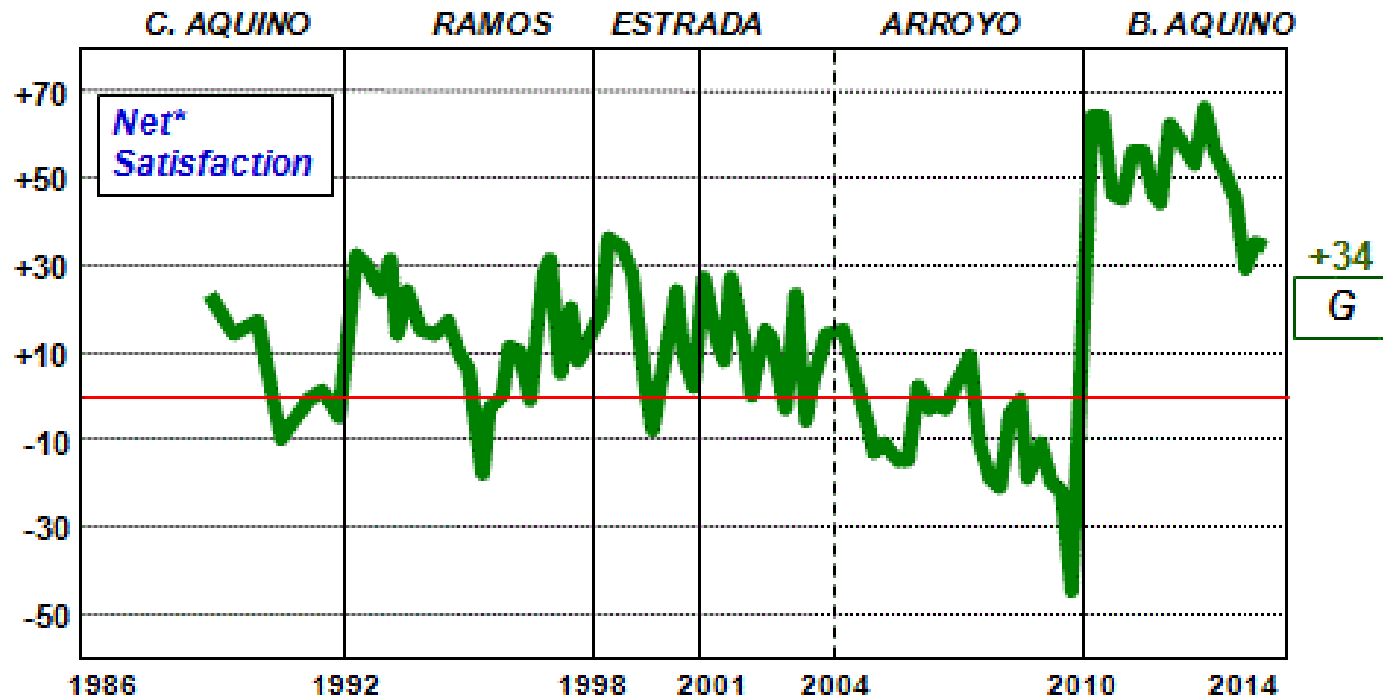
Sources: Philippine Statistics Authority, *Bangko Sentral ng Pilipinas*
 Notes: The red line is at 5 percent.



Source: WB staff estimates using NSCB, BTr, and DOF data

Still the most popular president

NET* SATISFACTION WITH GENERAL PERFORMANCE OF THE NATIONAL ADMINISTRATION, FEB 1989 – DEC 2014

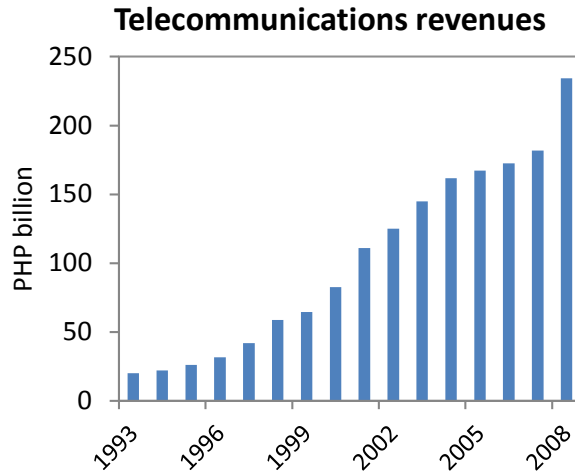


*Net figures (% Satisfied minus % Dissatisfied) correctly rounded.

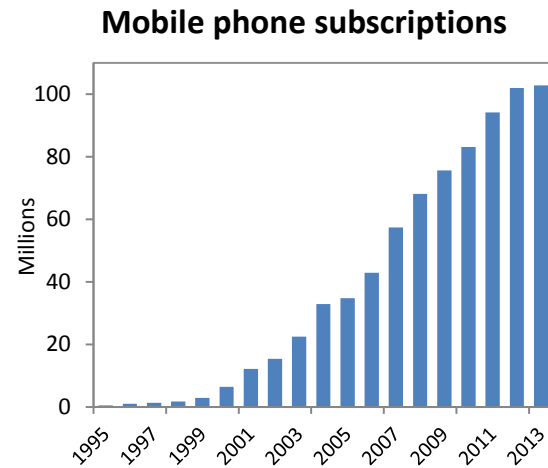
SOCIAL WEATHER STATIONS Founded 1985
Statistics for Advocacy

Fourth Quarter 2014 Social Weather Report
November 27-December 1, 2014 National Survey

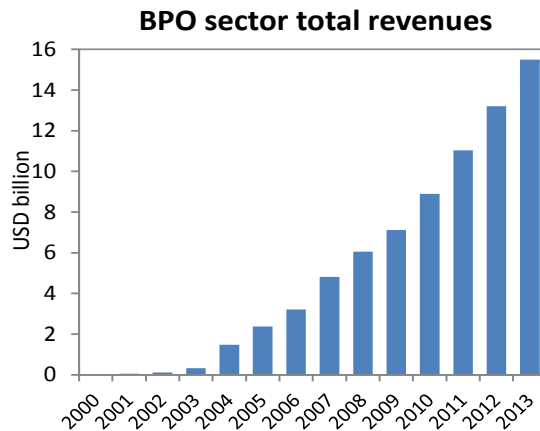
A history of successful reforms that made a big difference = 5 million direct jobs



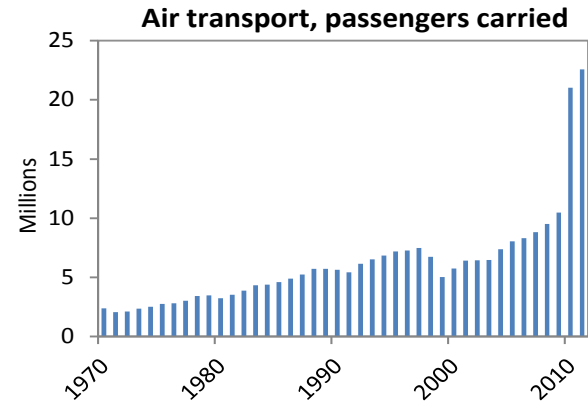
Sources: Securities and Exchange Commission (SEC)



Source: WDI



Source: Business Processing Association of the Philippines (BPAP)



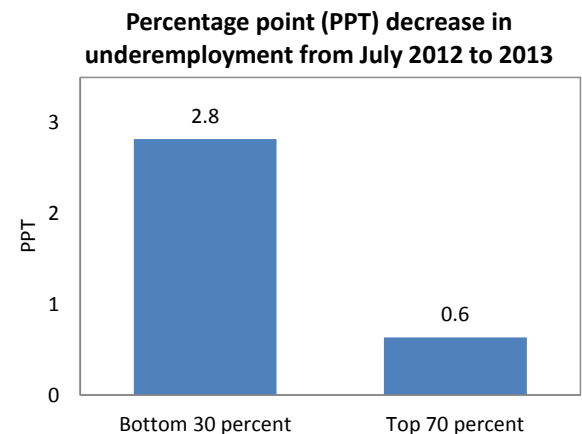
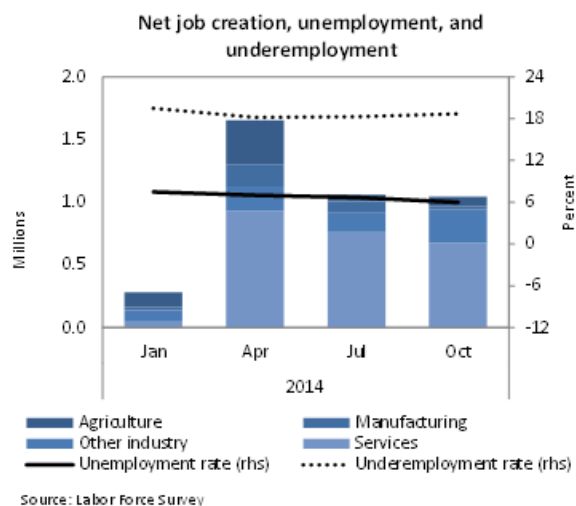
Source: WDI

Note: Data include passengers of both domestic and international flights.

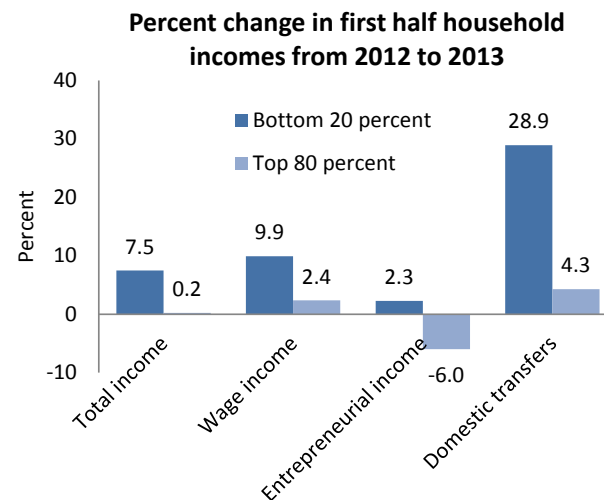
Growth is becoming more inclusive

Sustained economic growth has begun to translate into stronger job creation and faster poverty reduction.

- Over a million jobs were created between October 2013 and October 2014 (latest labor force survey).
- Unemployment declined to its lowest level in 10 years at 6 percent.
- The improvement in poverty incidence in 2013 is supported by **higher growth of real income and lower underemployment among poorer households** compared to the rest of the population.



Sources: PSA, World Bank staff computations
 Note: Data refer to July estimates from the linked 2012 FIES-LFS and the 2013 APIS-LFS.



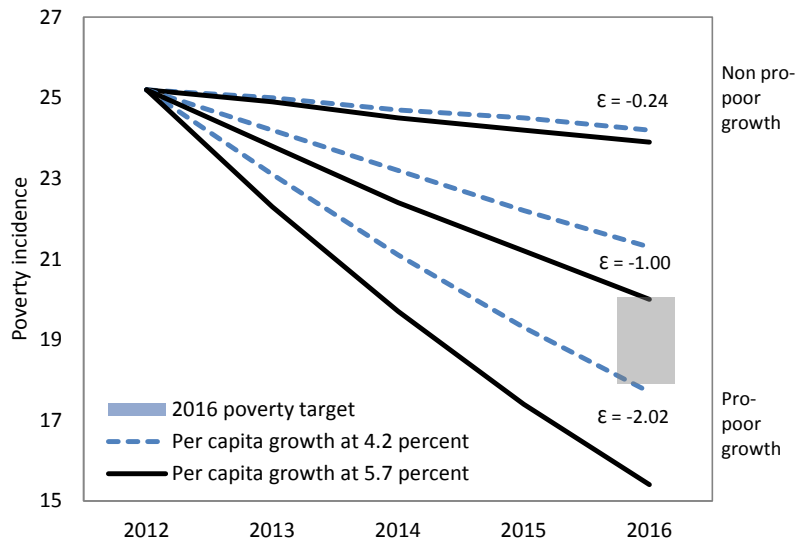
Sources: PSA, World Bank staff computations
 Note: Data refer to first semester estimates from the 2012 FIES and the 2013 APIS.

Meeting the poverty target is achievable

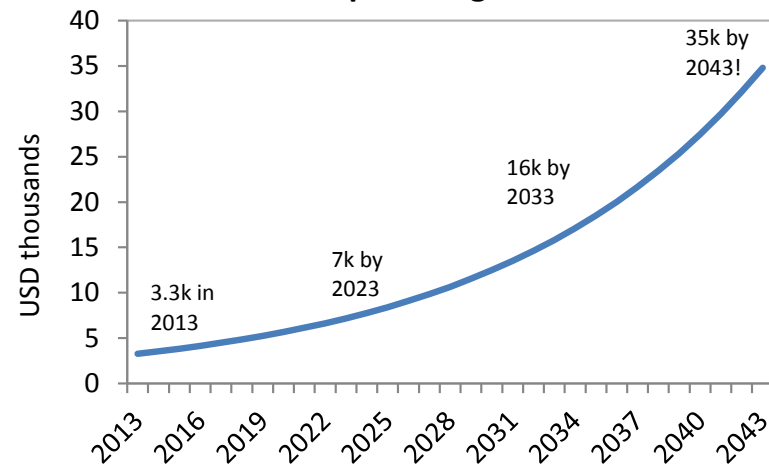
In 2013, growth elasticity of poverty improved significantly to -2.02 from -0.24 in the previous decade.

- If this trend is sustained, the government's 2016 poverty target of 18-20 percent is attainable.
- In the long-term, sustaining growth of 6 percent per year is enough to double per capita income within 1 decade, raise it by 5 times in 2 decades, and multiply it by 11 times in 3 decades, **but only if reforms are accelerated.**
- This means poverty can potentially be eradicated within one generation!

Poverty incidence estimates through 2016



Per capita income projection at 6 percent growth

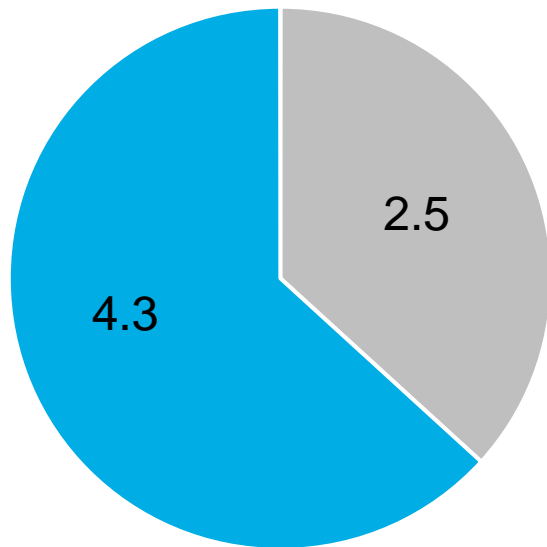


Sources: WDI, WB staff computations

Sources: PSA, WB staff estimates
Note: ϵ refers to the growth elasticity of poverty.

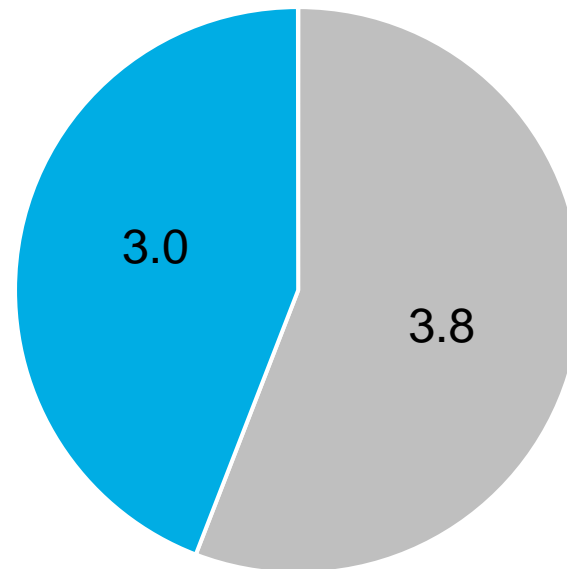
Low spending and investments are consequences of weak absorptive capacity and ultimately revenue collection

Investment deficit
(percent of GDP)



■ Infrastructure ■ Social services

Tax revenues needed to fund the
investment deficit (percent of GDP)



■ Tax administration reform ■ Tax policy reform

Therefore, increasing investment requires raising tax revenues efficiently and equitably, and improving spending efficiency

- Financing these investments would have to come from a combination of tax policy and administration reforms.
- Reforms should aim to broaden the tax base and reduce tax rates to make the tax system **simpler, more efficient, and more equitable.**
- Higher revenues do not necessarily mean higher tax rates as tax administration can be improved substantially.
- Improving transparency and accountability of public spending is crucial if people are to contribute more in taxes.

Fiscal reforms need to be complemented by economic reforms, particularly those that enhance competition

Essential reforms to lower prices, raise productivity, and create more jobs include:

- Continuing to liberalize the key sectors of the economy that directly impact poor Filipinos, such as rice and shipping
- Further opening up the economy to foreign competition
- Strengthening regulatory capacity
- Crafting and implementing a clear competition policy

But we have to work it out

THE WAY FORWARD

WE CAN WORK IT OUT



Why reform coalitions are needed: stronger demand-side governance

- **It increases the likelihood that reforms are sustained** since the presence of a broad coalition makes it difficult for vested interests to block the reforms. Without a broad coalition, reforms made under a strong president can be reversed.
- Because it must adopt a strategy that appeals to a wide segment of society, **a package of reforms can be formulated** instead of tackling reforms one by one, which can generate powerful opposition from vested interests and quickly drain the energy and capital for reform