Macroeconomic Developments and the Role of Human Capital Development and Infrastructure

September 2015

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National Economic and Development Authority

September 2015

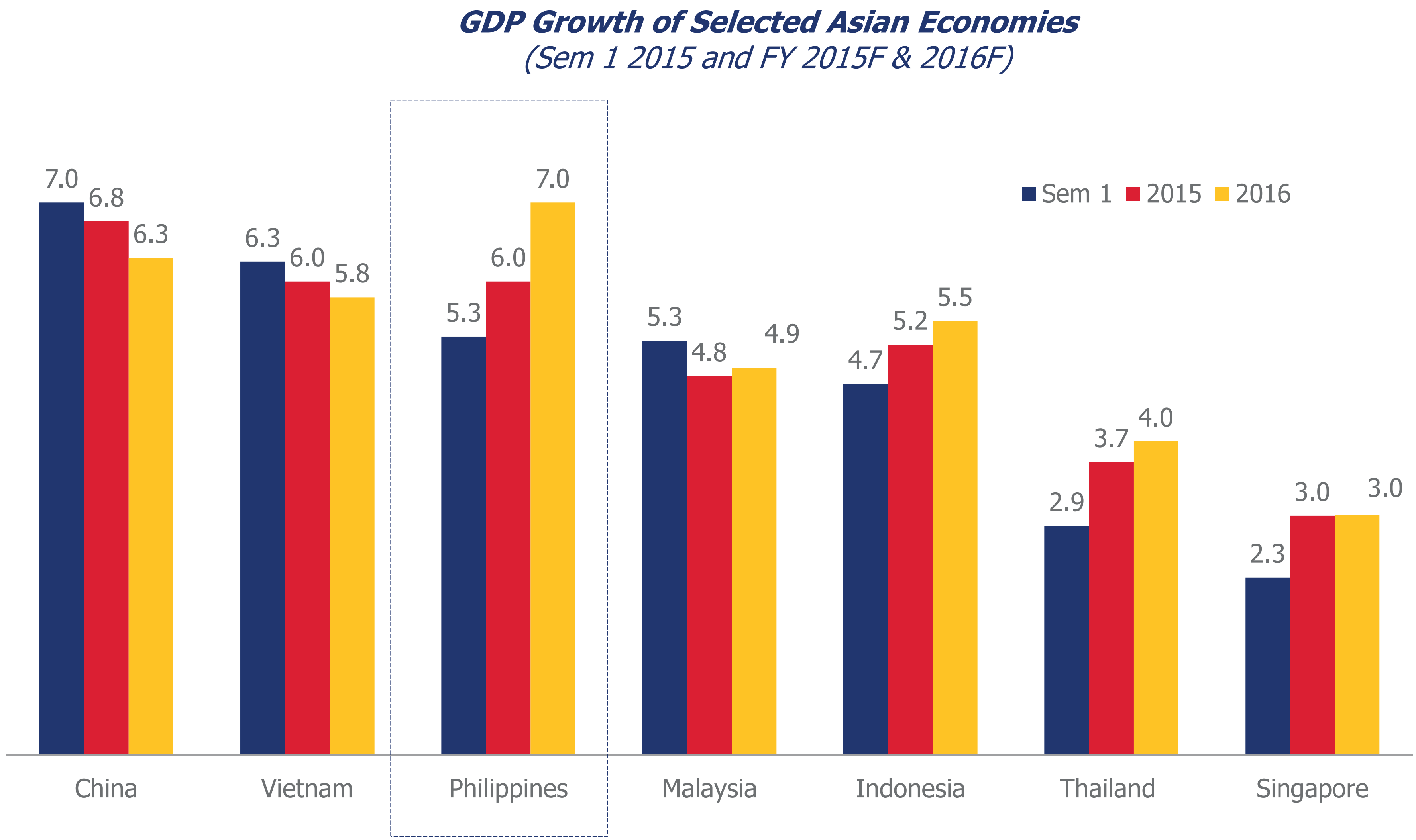
Domestic demand remains buoyant

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)

The Philippines remains one of the fastest growing economies in Asia

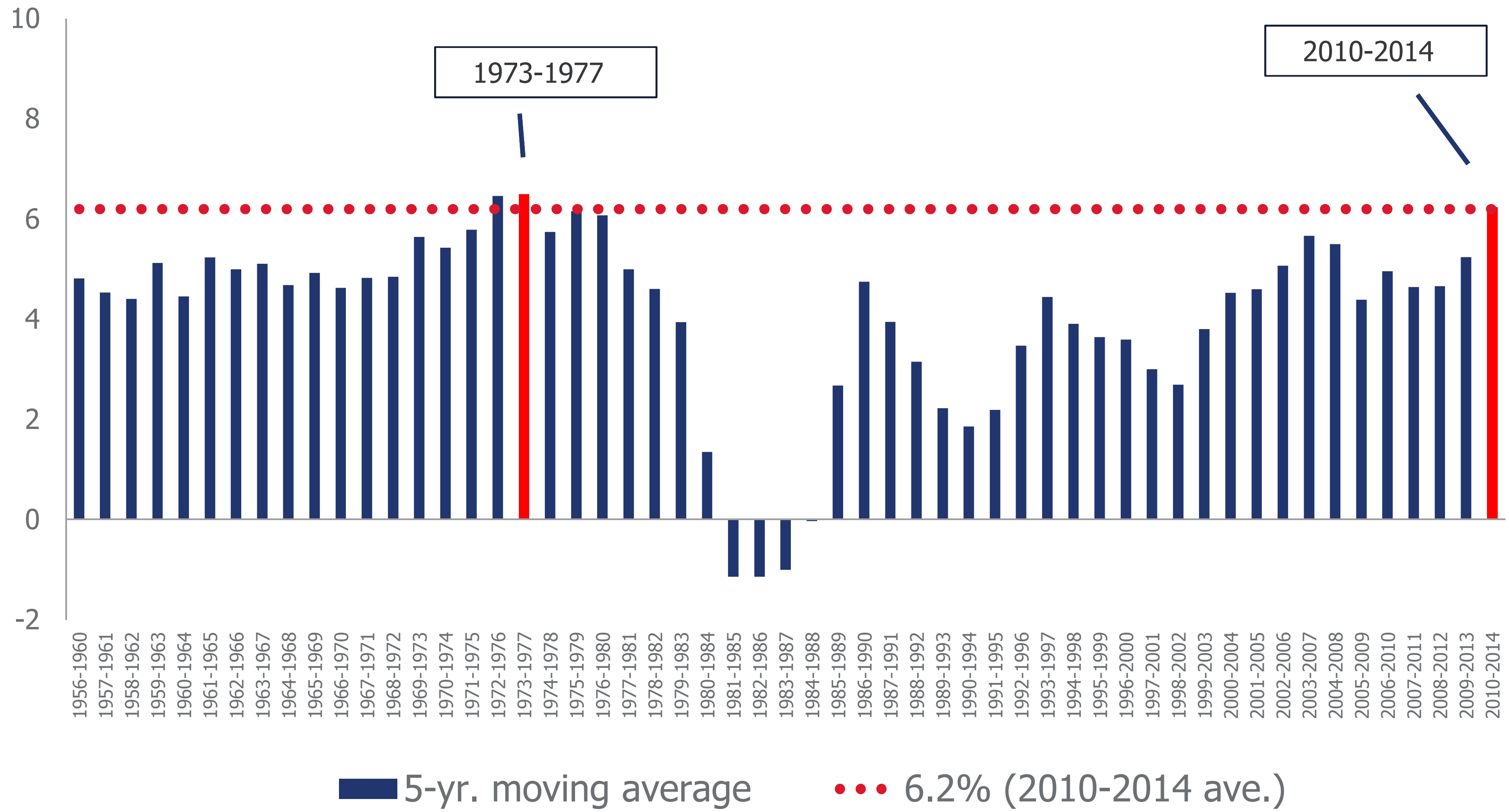


Source: NEDA Estimates and IMF-WEO July 2015

Next Administration will inherit an economy with stronger fundamentals

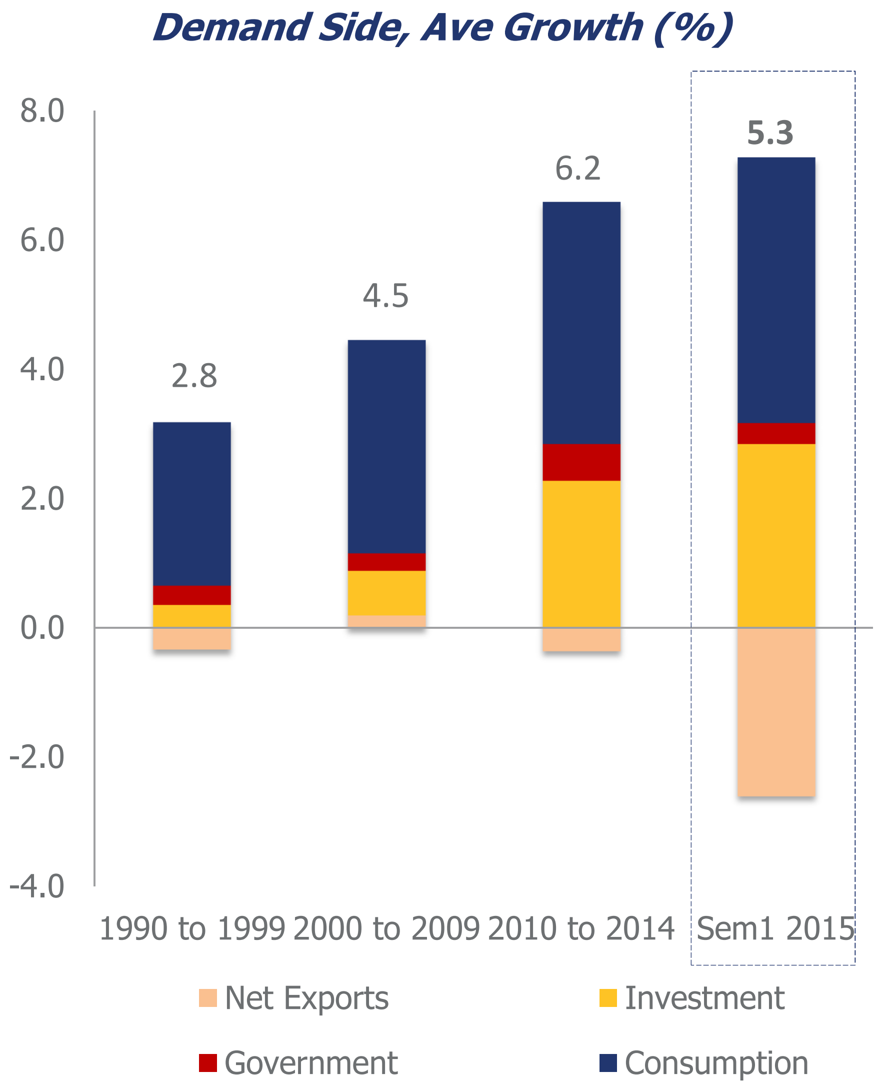
Average growth in 2010-2014 is the highest 5-year average growth since the mid-1970s

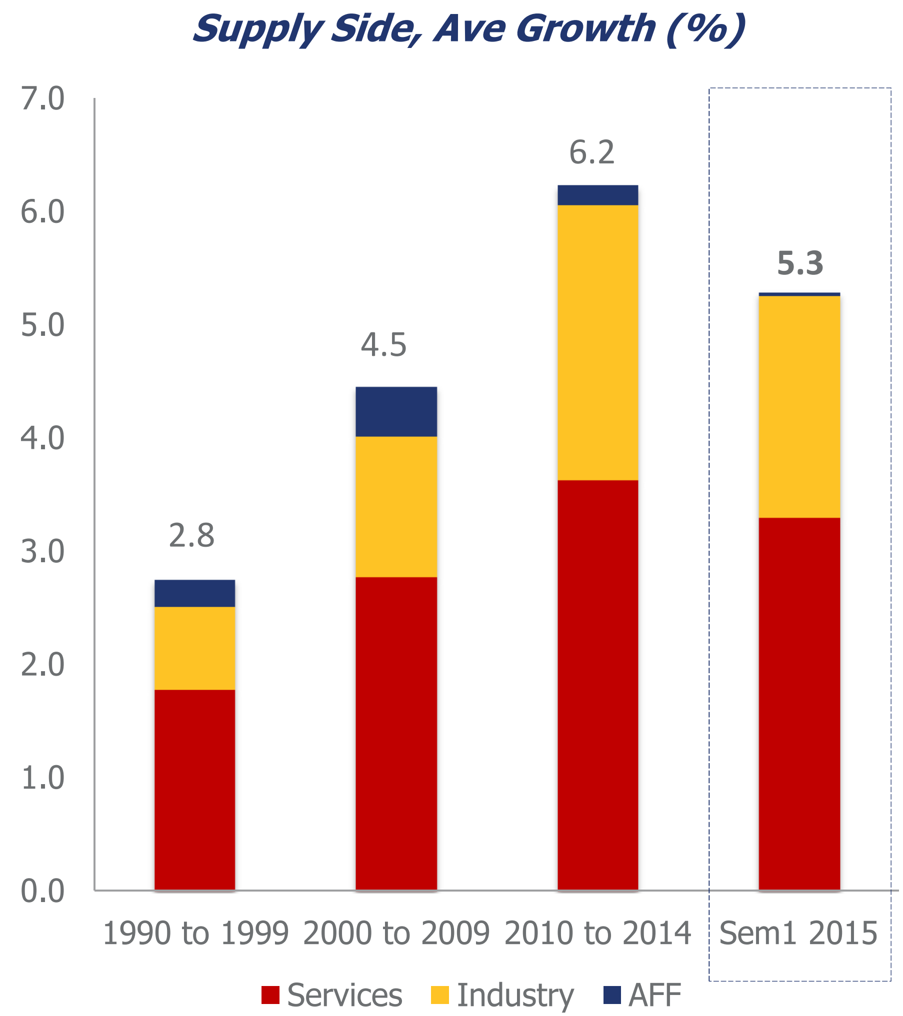
Real GDP growth (5-year moving average, %)



Source: NEDA Staff calculations

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



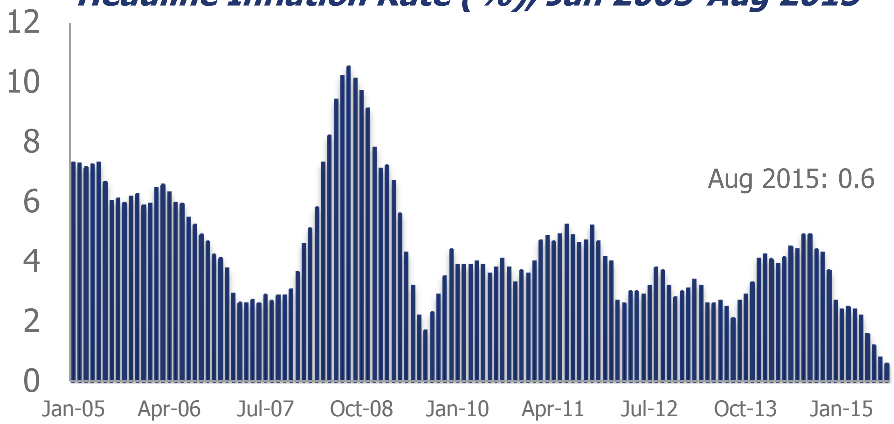


Our external position is robust and the financial system stable

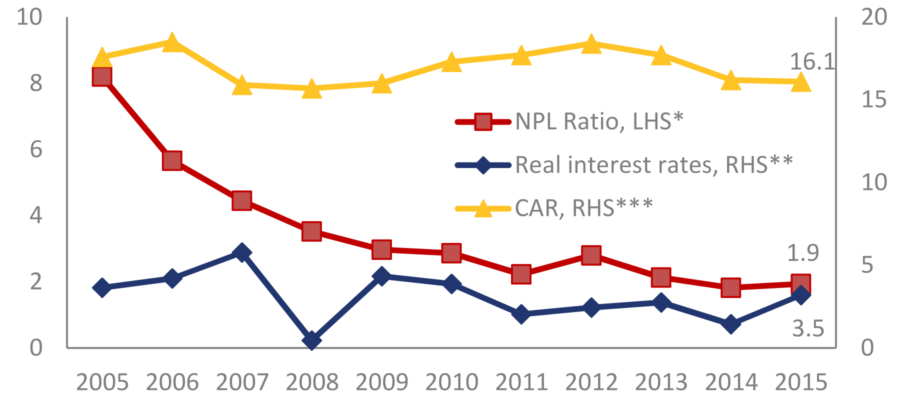
Monetary and External side:

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

Headline Inflation Rate (%), Jan 2005-Aug 2015

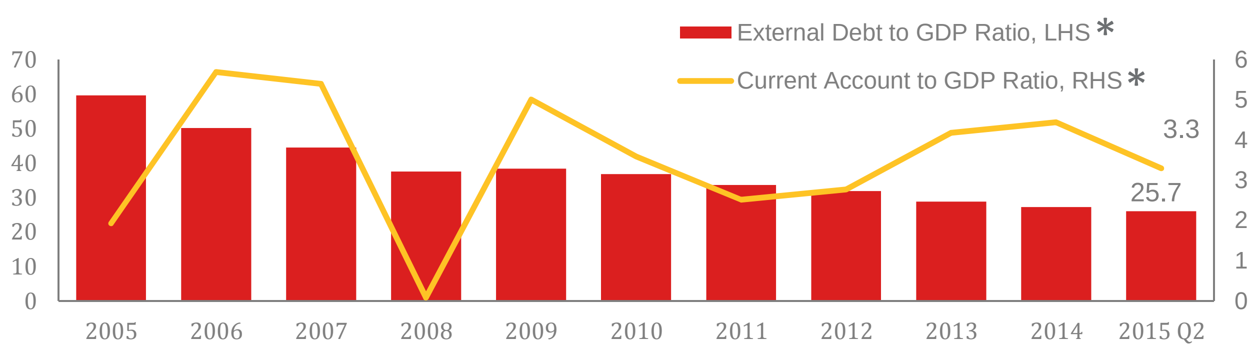


Favorable Interest Rate and Sound Banking System (%)



** end-Jul 2015 ** Jan – Jun 2015 *** end -Mar 2015*

Robust External Position (% of GDP)



* end-Q2 2015

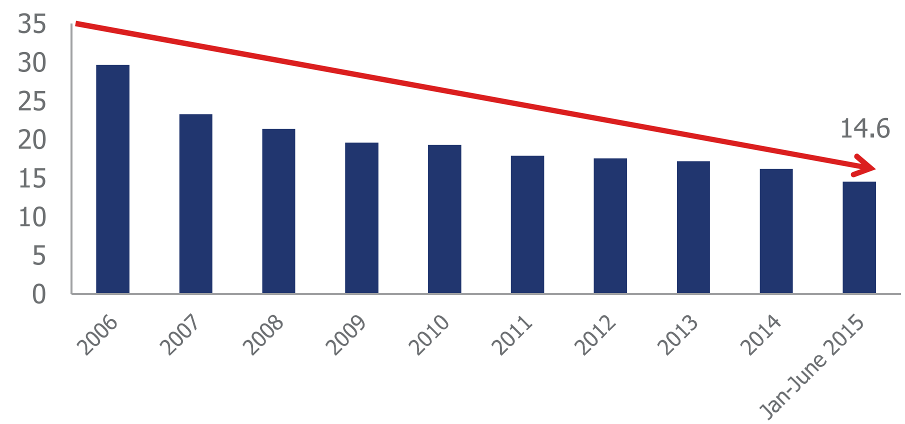
Sources: PSA, BSP

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

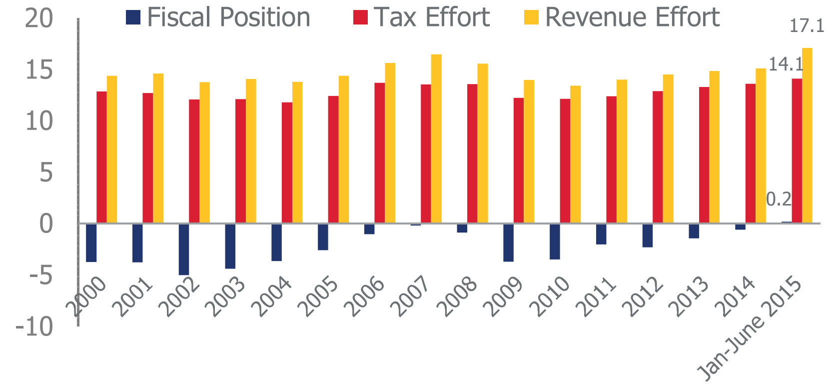
Fiscal side:

- *Modest fiscal deficit; Declining Public debt & interest payments; Increasing reliance on domestic financing*
- ***Result: resilient fiscal position***

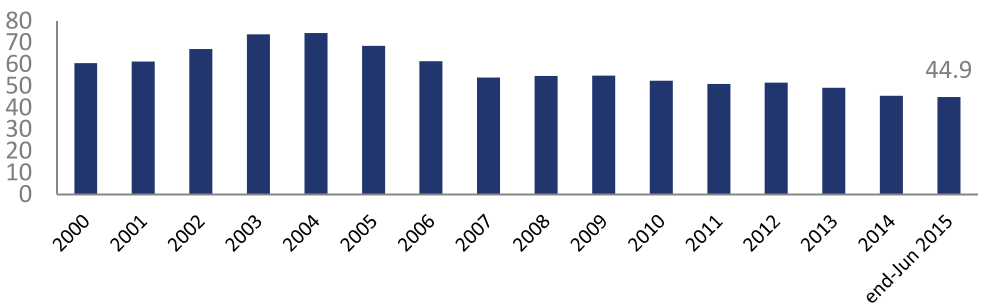
Share of Expenditures Allocated to Interest Payments (%)



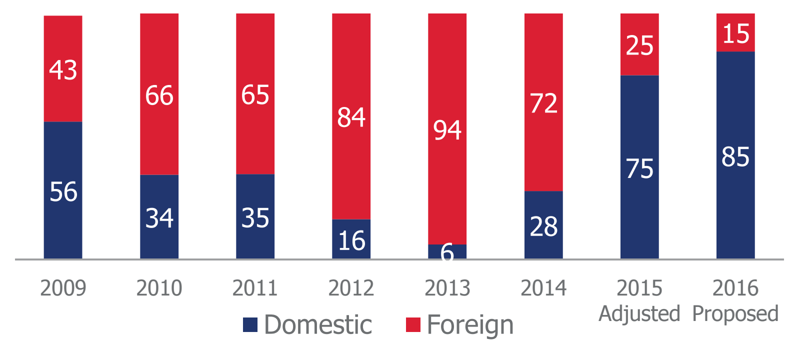
Fiscal Position (% of GDP)



National Government Outstanding Debt (% of GDP)



National Government Borrowing Program (%)

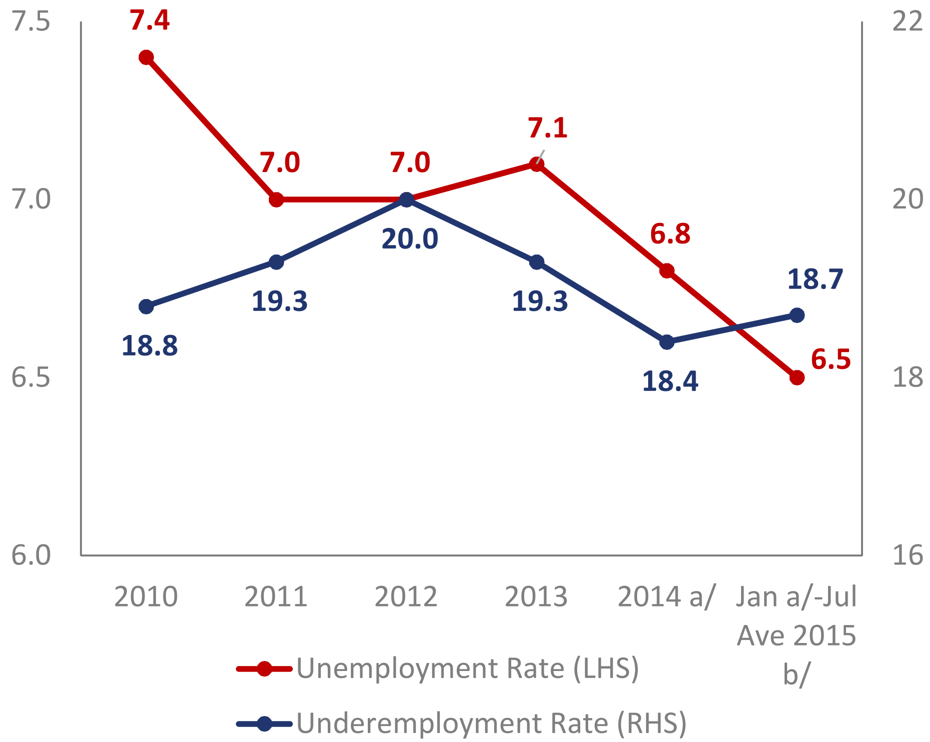


Note: National Government Outstanding Debt for end-July 2015 is against BESF Program

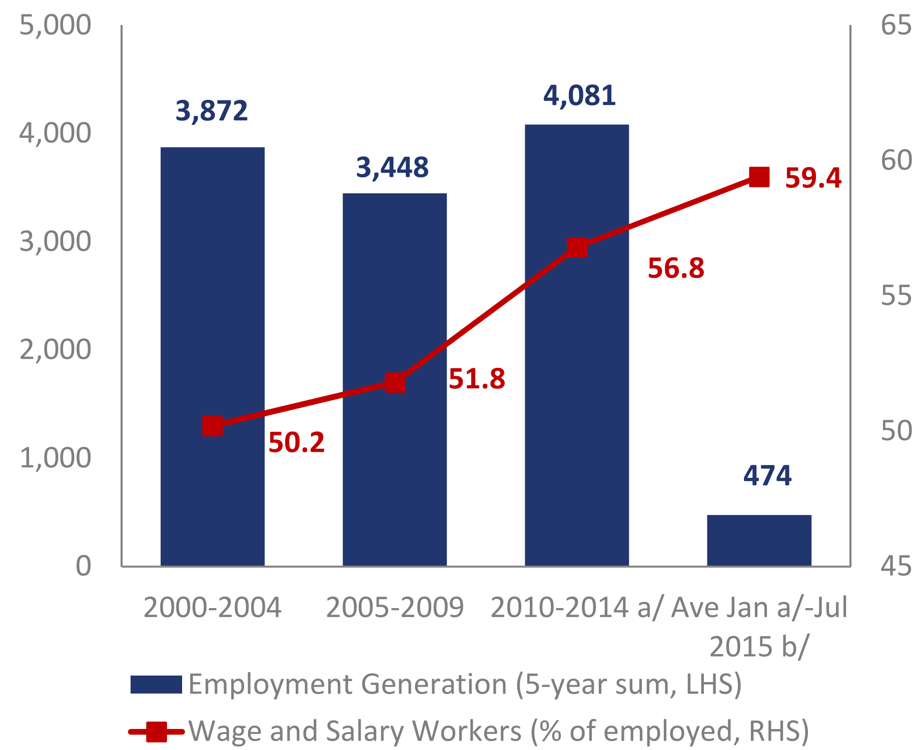
Sources: DBM, DOF

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

Unemployment and Underemployment Rates (%)

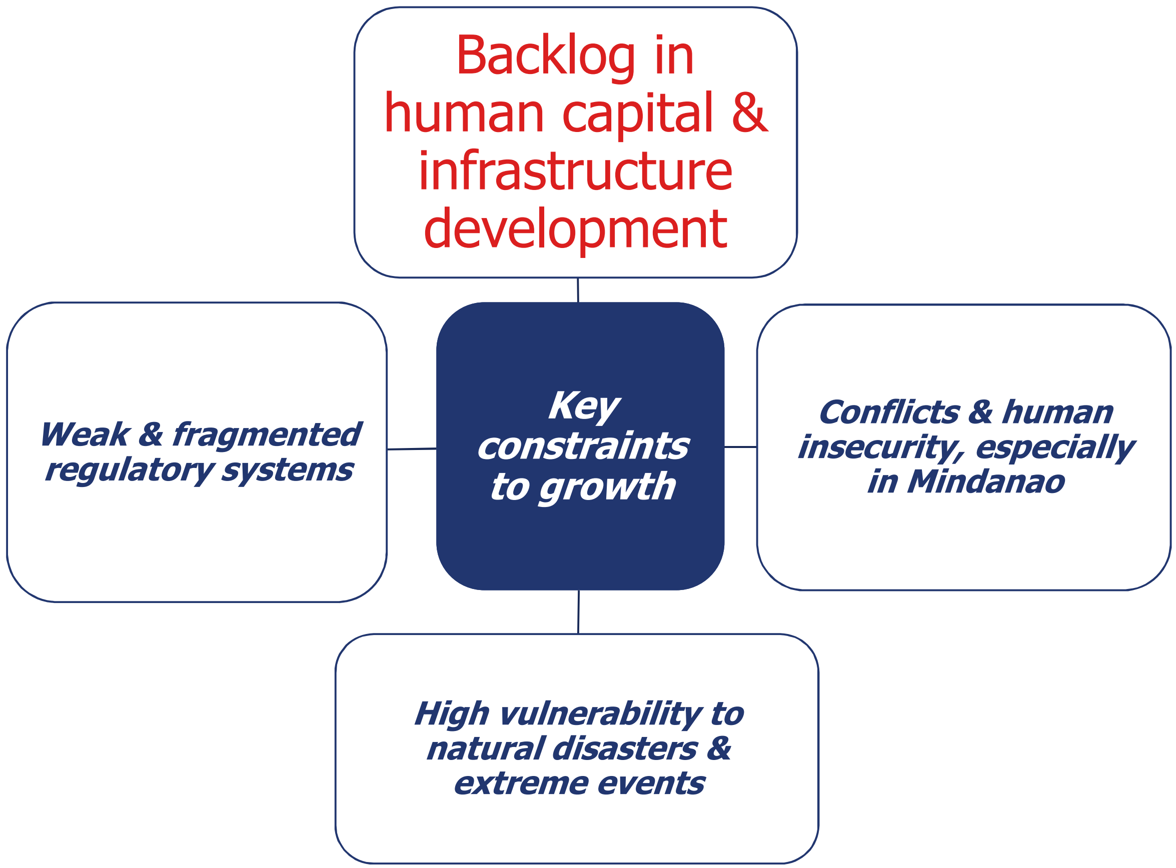


Employment Generated 2010-2015 ('000)



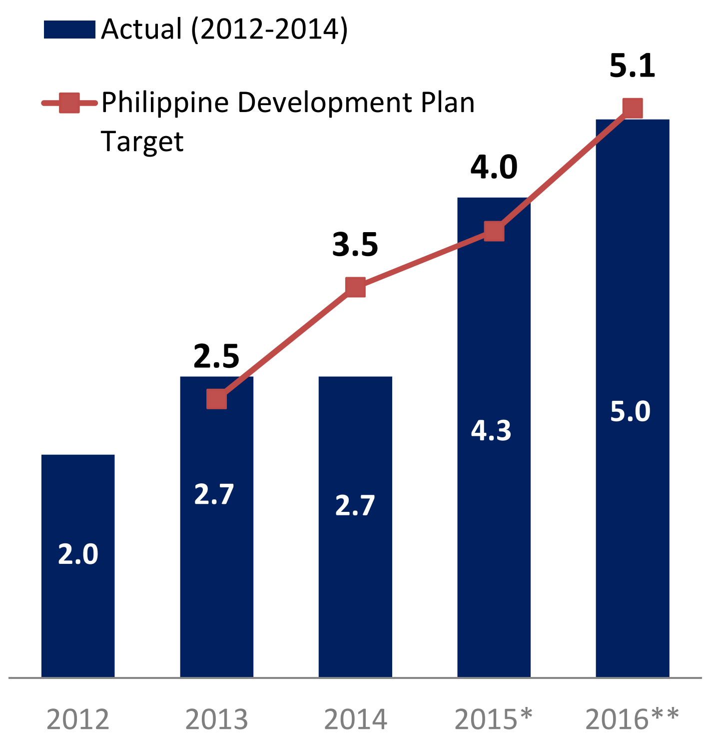
Notes:
a/ The FY 2014 and Jan 2015 LFS estimates exclude Region 8
b/ The April and July 2015 LFS estimates exclude Leyte
*1997-2005: Adoption of population projection benchmark is based on the results of the 1995 Census
**2006-current: Adoption of population projection benchmark based on the results of the 2000 Census
Source: PSA

Reforms are being intensified to address key constraints to long-term growth: human capital and infrastructure development

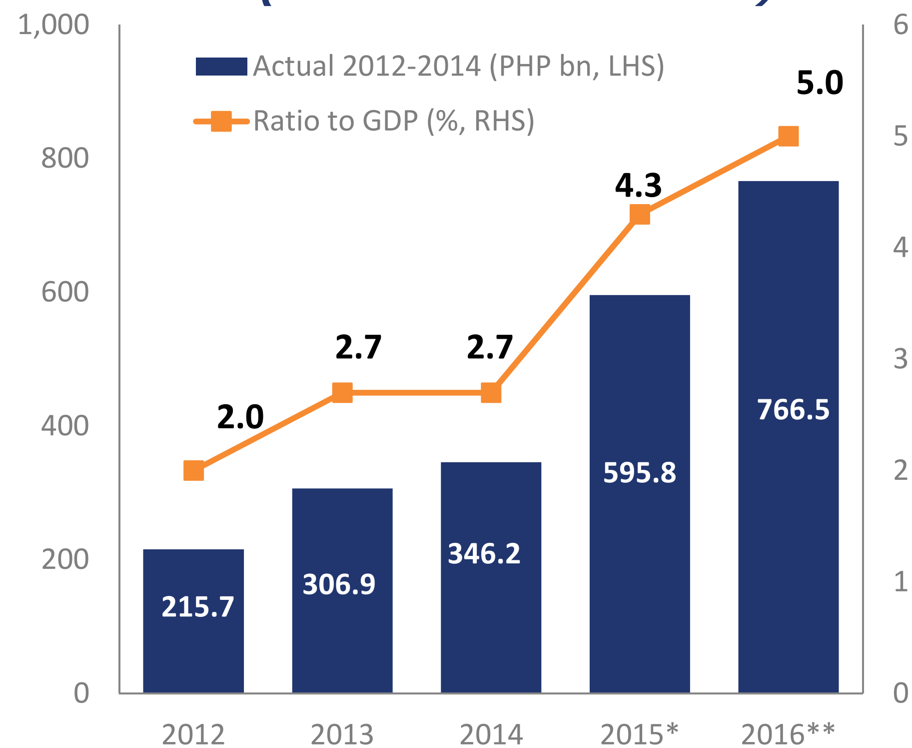


Growth-enhanced fiscal space has allowed major investments in infrastructure, with spending more than tripling...

Public Infrastructure Spending (% of GDP)



Public Infrastructure Spending (PHP billion and % of GDP)



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
Source: DBM

Infrastructure development progress

Infrastructure Roadmaps and Masterplans

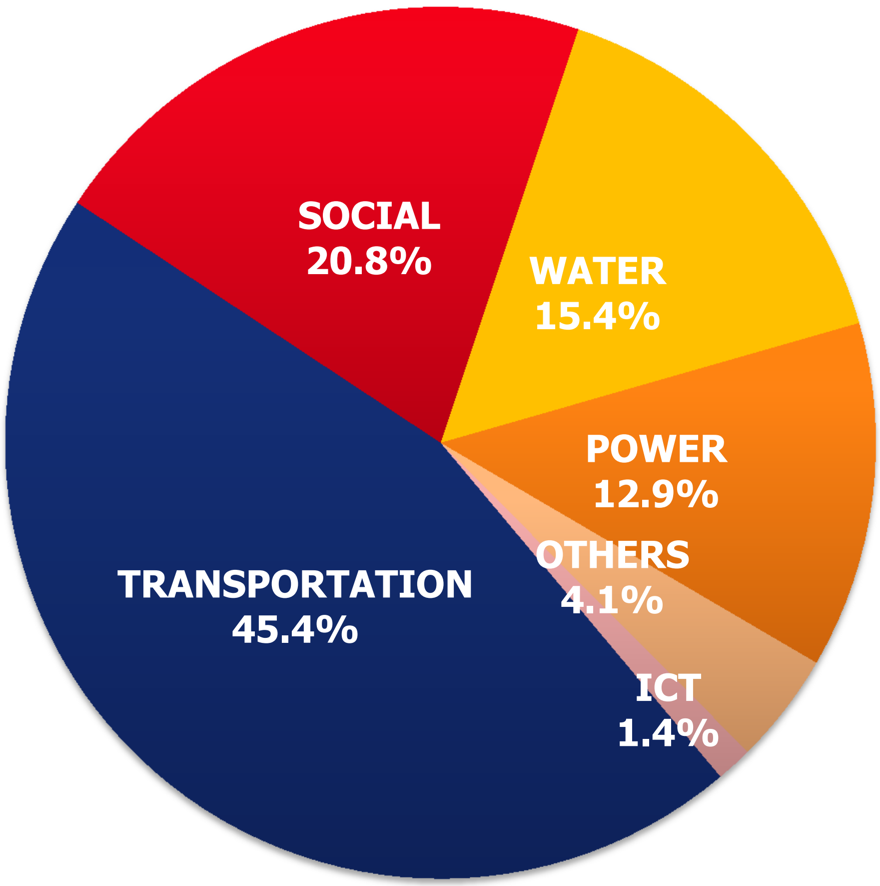
- Transport Infrastructure Development Roadmap for Metro Manila and its Surrounding Areas (Region III and IV-A)
- High Standard Highway Masterplan
- Masterplan on the Strategy for the Improvement of National Airports
- Airport Strategy for the Greater Capital Region (GCR)
- Study to Decongest Manila and Divert Container Traffic to Subic and Batangas Ports
- Flood Management Master Plan for Metro Manila and Surrounding Areas
- MWSS Water Security Legacy Plan
- National Sewerage and Septage Management Program
- DOH Health Facilities Enhancement Program
- DOE Philippine Energy Plan (PEP)

Source: Philippine Infrastructure Development – Ayala Corporation Meeting Presentation

Comprehensive and Integrated Infrastructure Program (CIIP)

Total Infrastructure Investment of PHP6tn; 2013-2106 and Beyond

PHP bn	
Transportation	2,988.0
Social	1,372.0
Water	1,016.0
Energy	846.0
Others	271.0
ICT	89.0



Source: Philippine Infrastructure Development – Ayala Corporation Meeting Presentation

…and complemented by private investments in public infrastructure

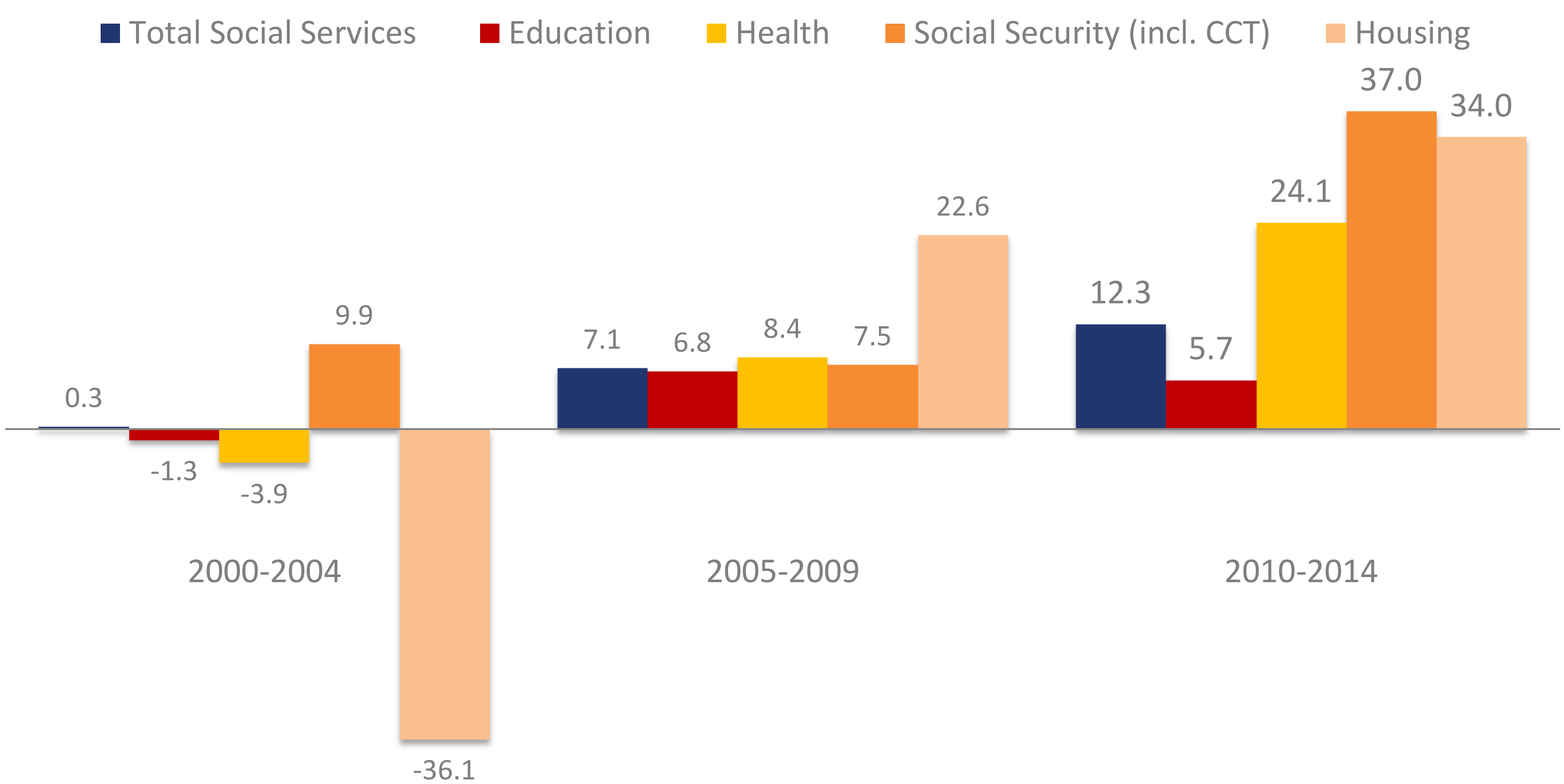
Status of PPP Projects (as of 21 September 2015)

Projects by Status	No. of Projects	Amount (PHP bn)
Projects Under Implementation	**12**	**285.0**
Contract Awarded	10	189.0
Other projects under Implementation	2	96.0
PPP Pipeline	**41**	**850.5**
Projects for awarding	1	4.0
Projects under Procurement	14	515.9
Projects for Roll-out	2	108.0
For Approval of Relevant Government Bodies	6	165.2
Projects with Ongoing Studies	4	57.5
For Procurement of Consultants to Conduct Pre-investment Studies	7	TBD
Projects Under Conceptualization/Development	7	TBD
Total	**53**	**1,135.4**

Source: PPP Center

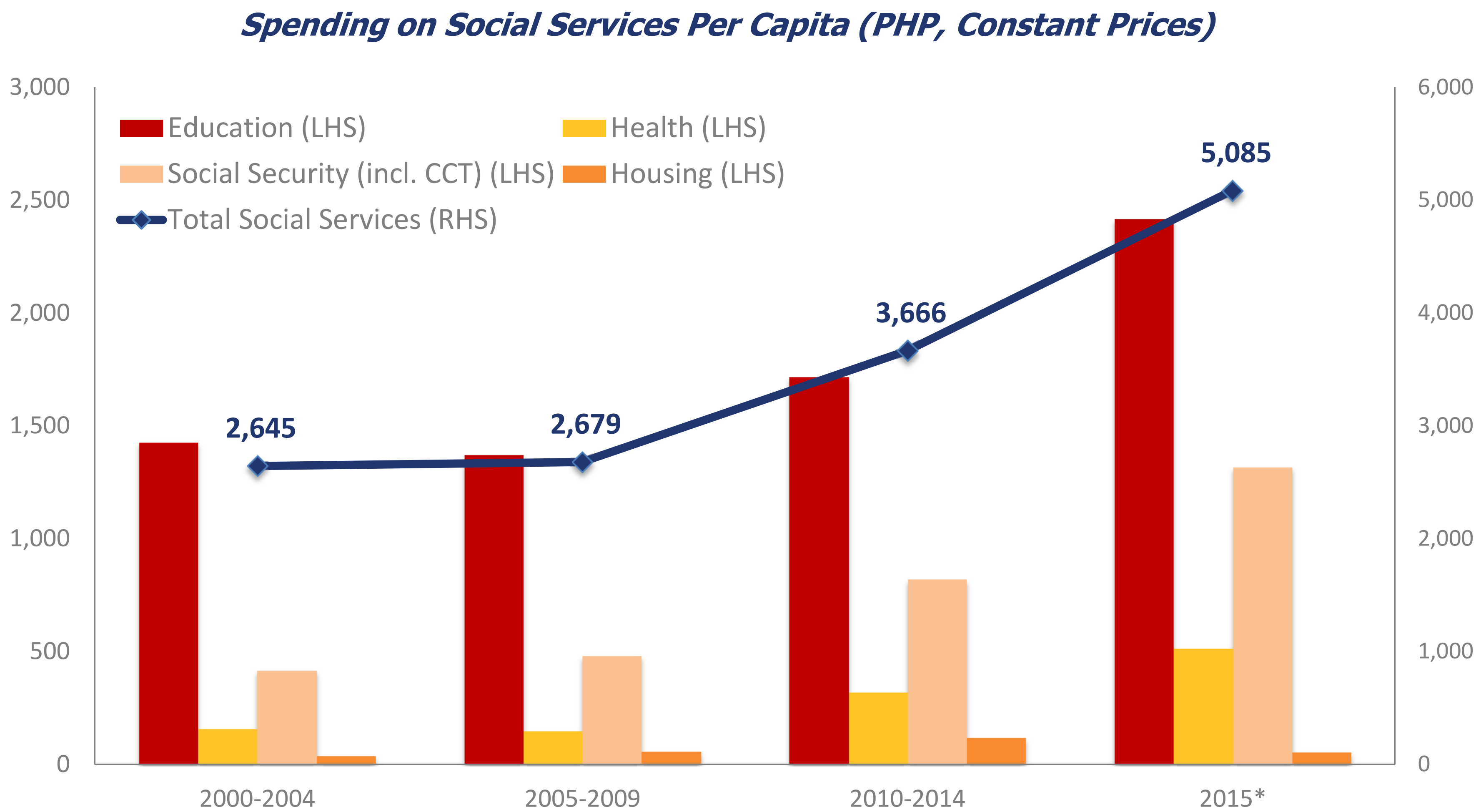
Increased fiscal resources have also allowed greater public investments in social services…

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



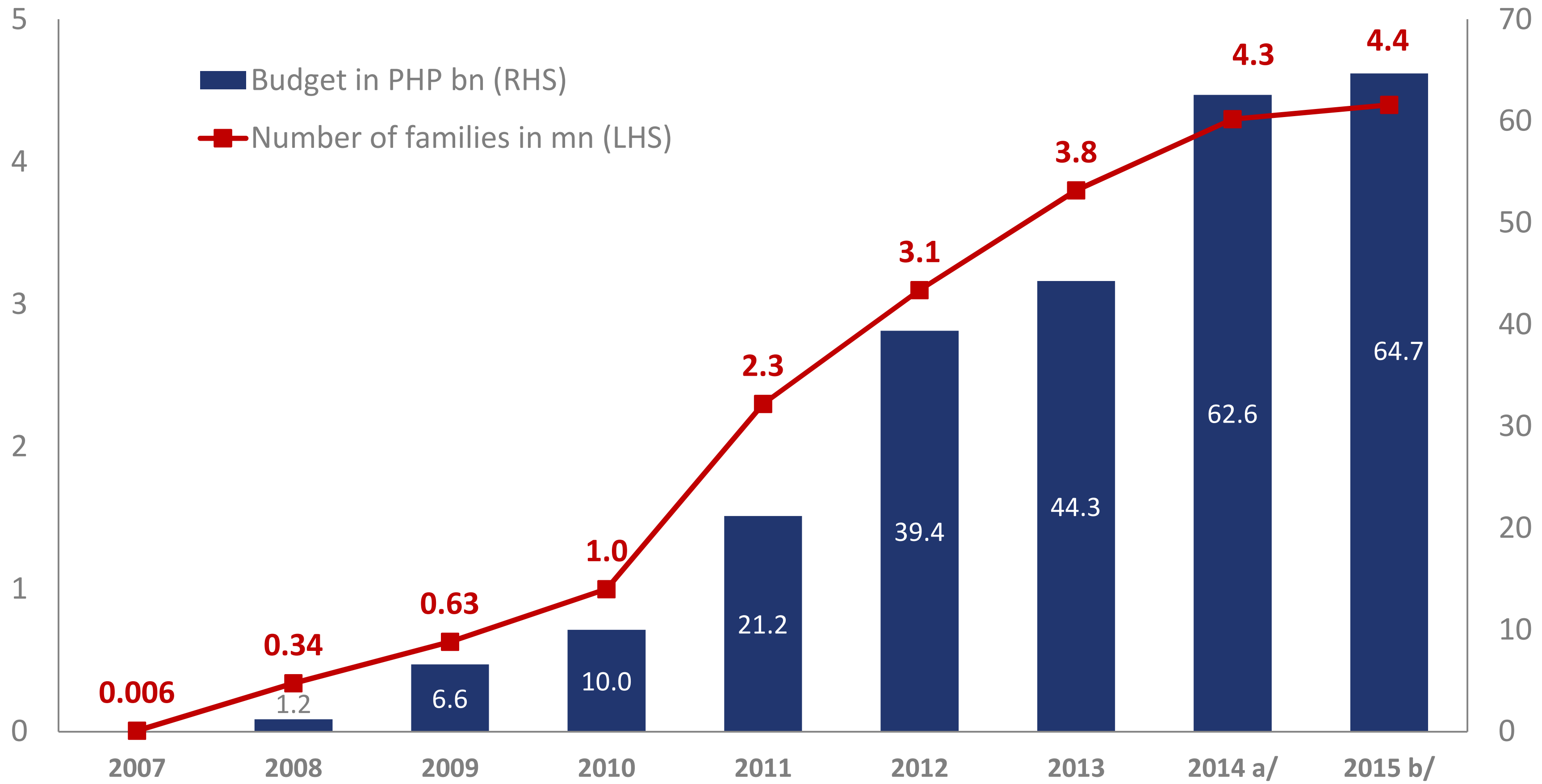
Sources: DBM

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



*General Appropriations Act 2015
Sources: DBM, PSA-NSCB

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

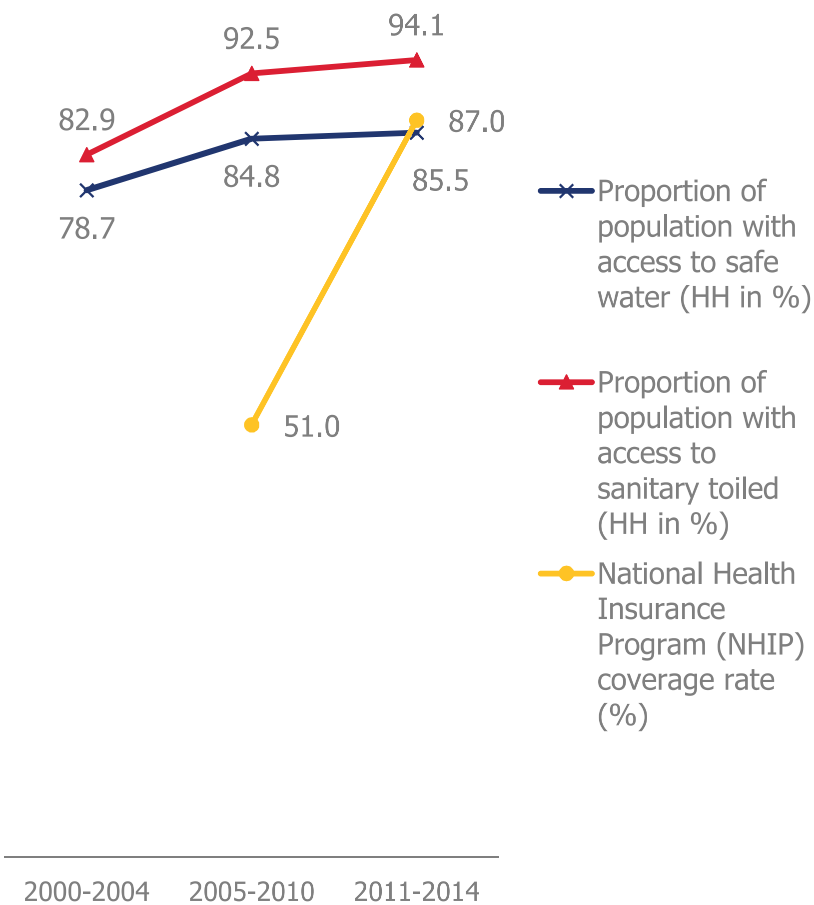


Note:
a/ As of September 30, 2014, the 4Ps cover a total of 4.3mn households
b/ As of June 2015, there are 4,436,732 registered household-beneficiaries

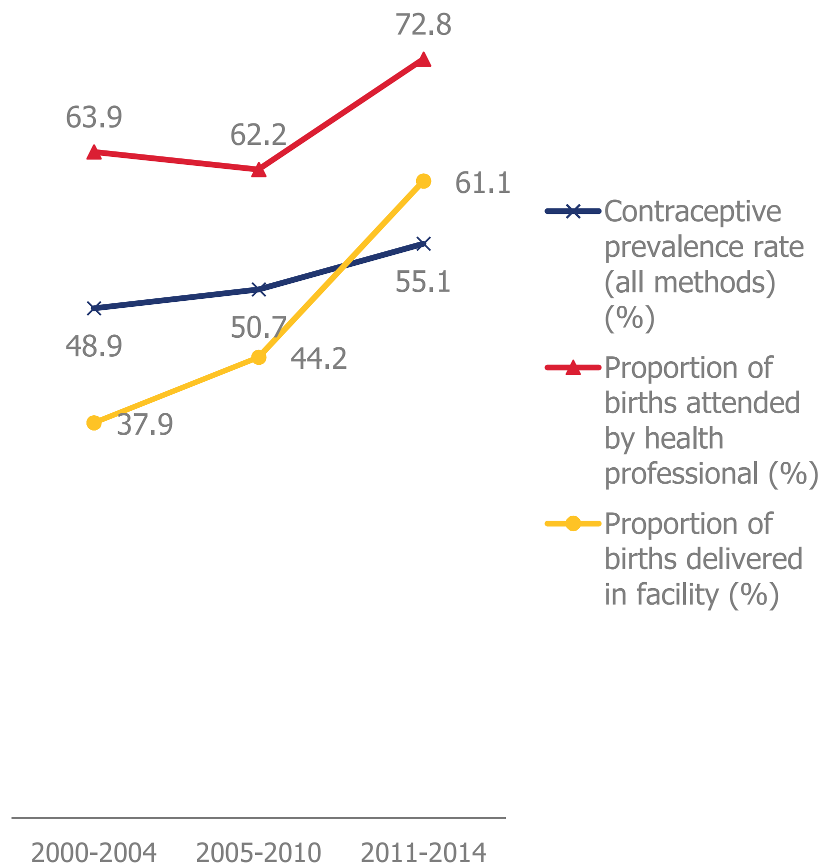
Sources: DSWD, BESF, DBMS, NEDA-Social Development Staff

Human capital: health outcomes are improving...

Selected Health Indicators: 2000-2014 (%)

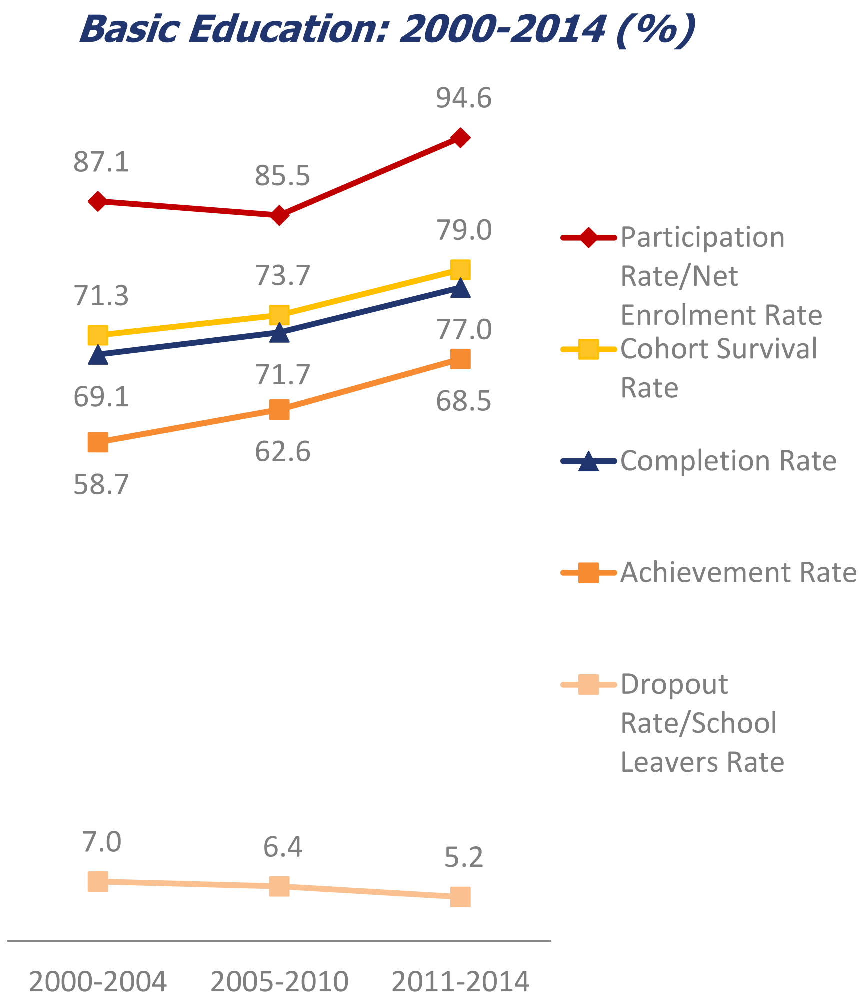


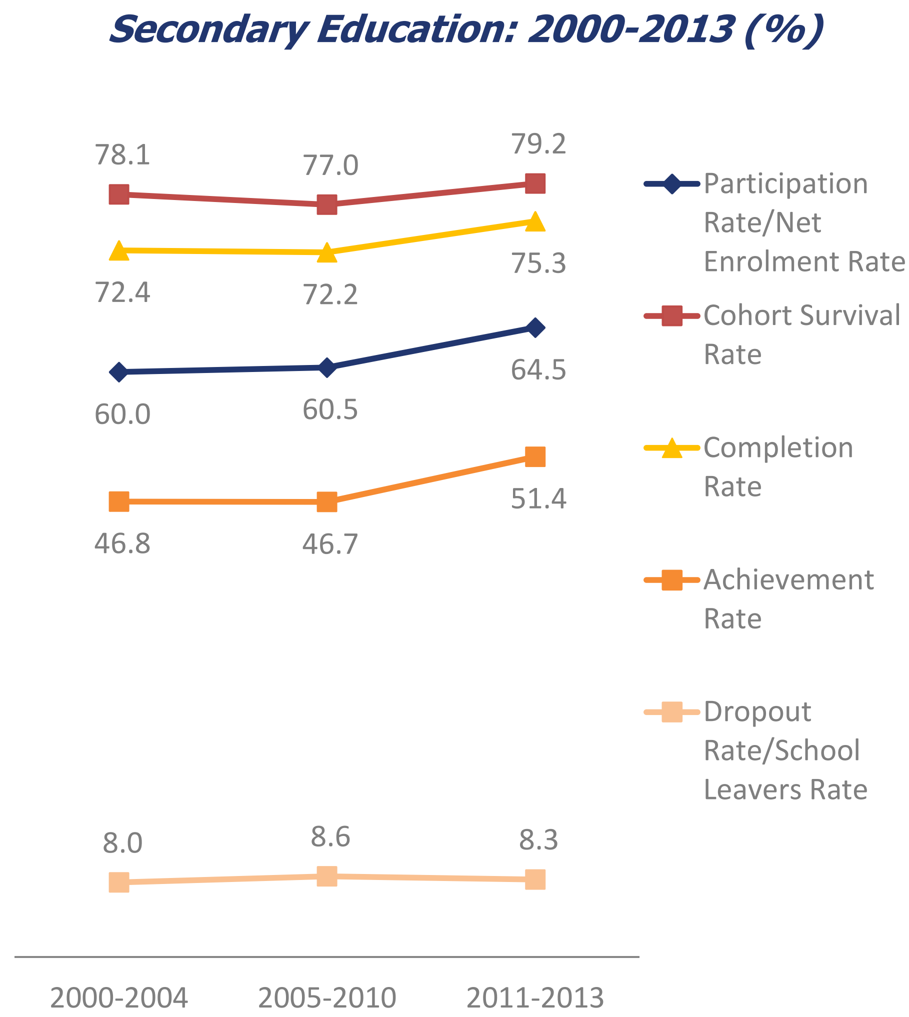
Sources: Annual Poverty Indicators Survey (APIS) and PhilHealth



Sources: 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)

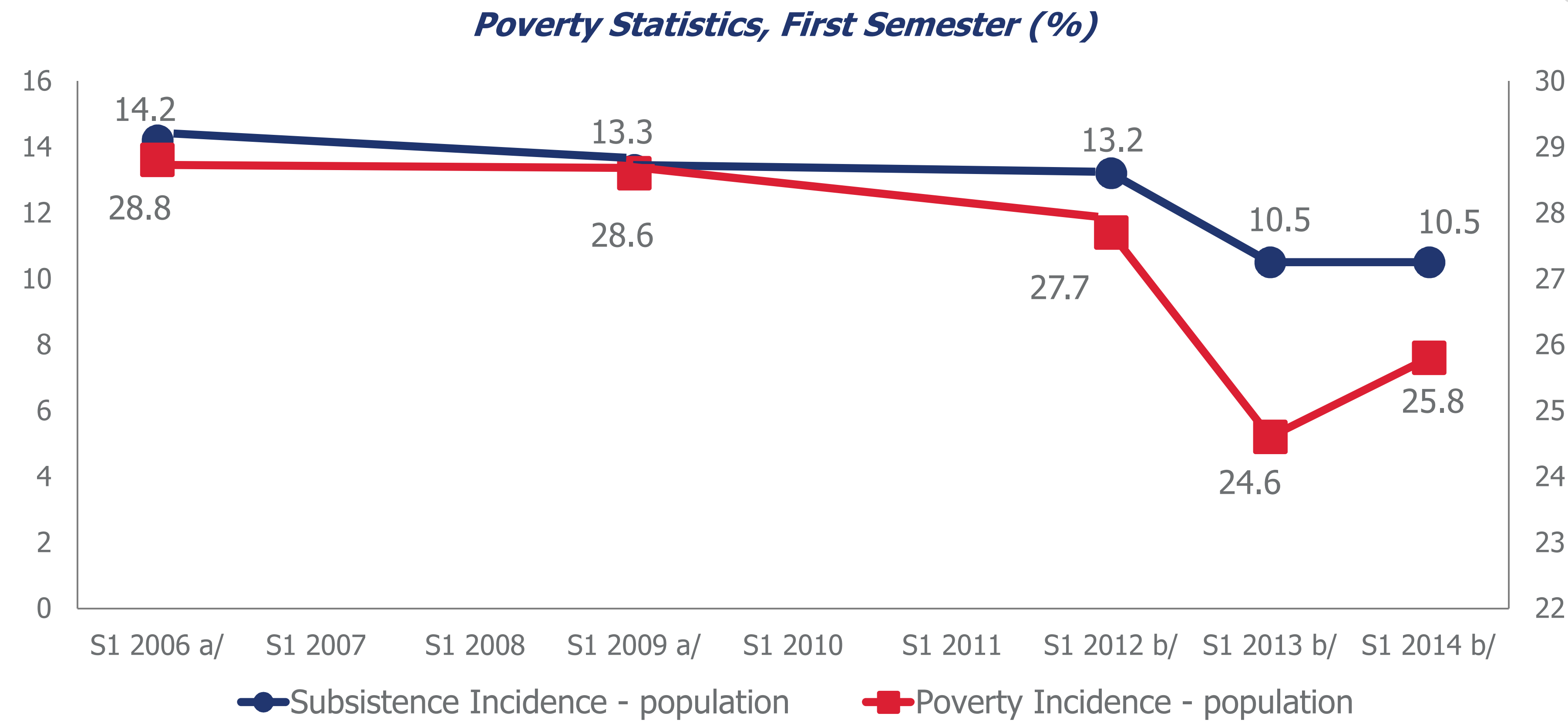
Human capital: as well as education outcomes...





Source: Department of Education

We are finally seeing greater inroads against poverty



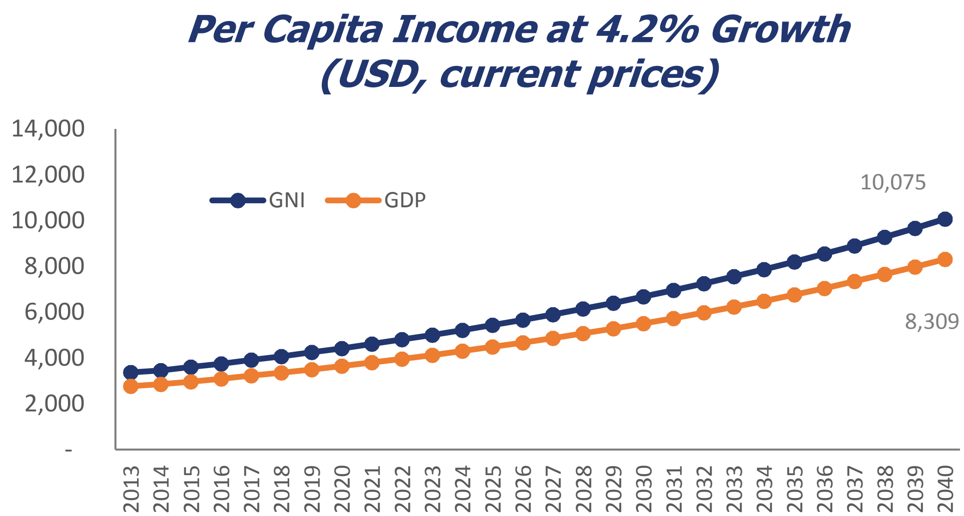
Note:
a/ Estimates are based on the first visit of the Family Income and Expenditure Survey (FIES), which used four replicates of the 2003 Master Sample or approximately 51,000 samples.
b/ Estimates for 2014 were generated from the 2014 APIS, which does not include sample households from Batanes and Leyte. For consistency, the 2012 (based on the 1sem FIES visit) and 2013 (based on the 2013 APIS) poverty estimates were also revised (excluding the Batanes and Leyte provinces). Thus, the 2012-2014 S1 estimates in this sample is not directly comparable with the S1 2006-2009 estimates in this graph.

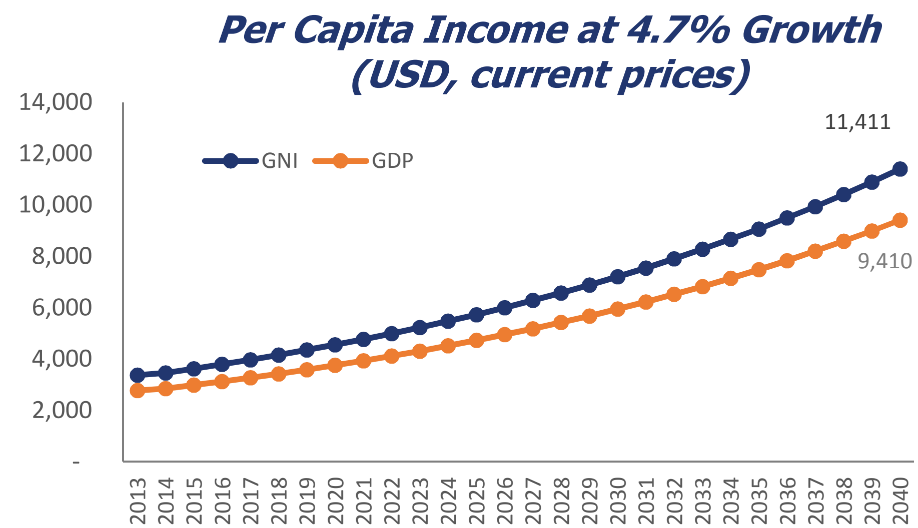
Source: PSA

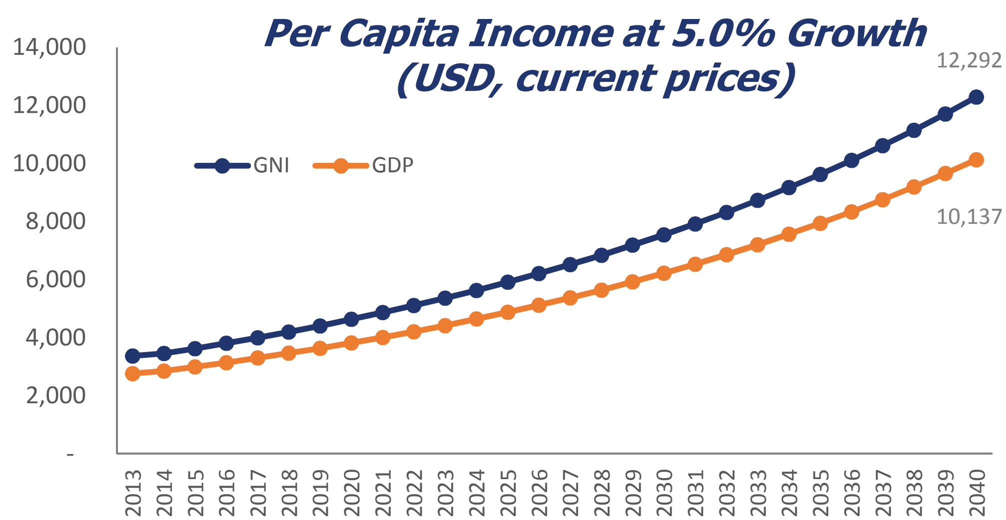
Introduced landmark legislation that will have lasting impacts on the economy

- Reproductive Health Law
- Sin Tax Reforms
- Competition Law
- Reform of the Cabotage Law
- Full Liberalization of Entry of Foreign Banks

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







How do we keep the momentum in 2015 and beyond?

- Strengthen institutions
- Keep strong focus on improving the provision of services for health, education, and disaster-risk reduction
- Continue addressing key infrastructure constraints
- Foster innovation culture
- Invest in disaster resiliency
- Promote more sustainable production and consumption patterns

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