



NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

NEDA sa Pasig, 12 Saint Josemaría Escrivá Drive, Ortigas Center, Pasig City 1605
P.O. Box 419, Greenhills • Tel: +632 631 0945 to 68
<http://www.neda.gov.ph>

PRESENTATION

The Philippine Economy: Prospects and Outlook for 2015-2016

SECRETARY ARSENIO M. BALISACAN

Economic Planning Secretary and NEDA Director-General

FOCAP Prospects for the Philippines Forum

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To the Honorable Ombudsman Conchita Carpio-Morales, the Honorable Senator Ferdinand “Bongbong” Marcos Jr., National Treasurer Roberto Tan, former PNP General Rodolfo Mendoza, FOCAP President Manny Mogato, our friends from the media, ladies and gentlemen, good morning.

On behalf of the National Economic and Development Authority, I would like to thank our friends from the Foreign Correspondents Association of the Philippines (FOCAP) for inviting me to speak on the Philippine economy and the prospects and outlook for 2015 to 2016.

To provide the proper context for our discussion on the near-term prospects of the economy, let me first give an overview of the key changes in the character of our economic development in recent years.

Amid the challenges faced by the country last year, the economy was able to achieve a full-year growth of 6.1 percent — high by the standard of major developing Asian countries. In fact, average growth in 2010-

2014 is the highest five-year average growth since the mid-1970s. Supported by sound economic fundamentals, a robust “structural break” to a higher growth trajectory is apparent since the beginning of the current decade. We expect to see this trajectory to continue its path for 2015 and 2016.

What explains this exemplary growth performance seen by the country in recent years? Historically, the main drivers of economic growth have been private consumption on the demand side and services on the supply side. Private consumption, representing over two-thirds of GDP, is fuelled partly by OFW remittances, and in part because of this, services also enjoys a very large part of national output, accounting for over half of GDP.

However, in order to generate more and high-quality jobs and reduce the country’s vulnerability to regional or global shocks, there needs to be a “rebalancing” of the economy’s composition, where less prominent components of GDP must grow even more. On the demand side, investments and net exports (exports less imports) must take on larger shares of GDP and grow more robustly than ever before. On the supply side, there needs to be a resurgence of industry, especially manufacturing, and a revival of agribusiness where small farmers become more integrated in global high-value supply chains. Without this rebalancing, the generation of remunerative, high-quality jobs for the fast-growing labor force and winning the war against poverty will be far harder, if not impossible, to achieve.

In line with these key points in the recent performance of our economy, here are the government’s targets for the remaining years of the Aquino administration:

First, we aim to sustain our economy’s growth over the medium term. To this end, the economy is targeted to grow by 7.0 to 8.0 percent in 2015 and 2016. Industry sector is projected to grow the fastest, while services is expected to remain robust during the period.

Second, we target a substantial improvement in the labor and

employment situation in the country. Our goal is to reduce the unemployment rate from 7.1 percent in 2013 to 6.6 percent in 2016. Also, we are aiming for a reduction of underemployment rate from the current 19.3 percent to about 17 percent in 2016. The strategy is to sustain the structural transformation of the economy, particularly toward high income and employment growth drivers in industry, agribusiness, and services.

Third, we target to reduce income poverty to 19 percent by 2016, which, admittedly, will fall short of the Millennium Development Goals target of 16.6 by 2015 (or one-half of the poverty incidence of about 33 percent in 1991). This new target takes into consideration the slow progress in poverty reduction during the past decade and the setback in recent years due to wide-scale destruction resulting from natural and man-made disasters.

The private sector as well as international organizations' outlook for the country is similarly optimistic. Although not as high as our expected growth, it is encouraging to note that their forecasts for the Philippines are still among the highest in emerging and developing Asia. Moreover, as majority of you may already know, the economy's performance exceeded the private sector's expectations for the full-year growth of 2013 and 2014. Hopefully, we can say the same for 2015 and 2016, after all the figures arrive in due time.

But you may ask, what is needed to continue the growth momentum in 2015 and beyond?

First, we must support the continuity of the "rebalancing" process that the country has started experiencing. As I have said, key components of this process are the needed surge of investments and the revival of the manufacturing and agribusiness sectors. Second, especially for the government's part, we need to continue removing key infrastructure bottlenecks that have limited the potential of various sectors of the economy, especially in the areas of industry and agriculture. Third, we have to keep our strong focus on improving our services for health, education, and disaster-risk reduction. These will enable us to address

the huge backlog in infrastructure and human capital development. Also, we hope that the list of vital legislation that we have been pushing to be enacted will come into fruition in the medium term. These will definitely unlock all the possibilities for productivity and income growth, especially in lagging areas of our economy.

Also, there are good prospects this year for infrastructure development. As the table in the slide shows, a total of 93 projects amounting to PhP1.08 trillion or USD 24.31 billion have been approved by the NEDA Board under the Aquino Administration, seven (7) of which are completed projects, 58 are ongoing or under implementation, and 28 are for implementation.

By source of financing, 23 projects are funded through Public-Private Partnership (PPP), 53 projects are financed through Official Development Assistance (ODA), and 17 projects are for local financing. Notably, many PPP projects are already in their roll-out stage. The government has already awarded contracts for nine (9) NEDA Board-approved PPP projects. We can say that we can expect the other 14 projects to eventually reach this stage, barring any major problems in the process.

This slide shows key priority legislative measures that we are hoping Congress will soon pass. As I have said earlier, we need these measures to sustain growth and to make the growth more inclusive, especially the measures to rationalize fiscal incentives, the removal of investment restrictions in specific law cited in the Foreign Investment Negative List, and the amendment of the Build-Operate-Transfer or BOT Law. Moreover, and what has been a prominent issue today, is the Bangsamoro Basic Law, which we still deem as the most important target to achieve to facilitate the peace process.

However, the government remains on guard to provide the necessary measures to mitigate if not prevent the effects of certain risks. On the external front, we are cautious of the normalization of U.S. monetary policy, slowdown in large emerging economies, particularly China, weakness in the Euro area, recession in Japan, and geopolitical tension

in the Middle East.

On the domestic side, we are wary of the disruptions in the peace process; disasters arising from natural hazards, such as typhoons, prolonged monsoon rains, and dry spells; delays in infrastructure and reconstruction projects; and the thin power reserves in the second quarter of 2015.

Our goal up to 2016 is to sustain, if not surpass, our growth performance in the past four years and achieve inclusive growth. We are positive that we can take advantage of several opportunities such as the US economic recovery, hosting of this year's APEC, the ASEAN economic Integration, the decline in the world market prices of oil and other commodities, our recent credit rating upgrades, and hopefully, the passage of the Bangsamoro Basic Law.

In sum, we need to commit ourselves to further our governance and economic reforms. Our tasks are far from complete, as we need to address the remaining critical constraints to fully realize our goal of inclusive growth. But seeing what the economy has become now, there's no denying that the groundwork has already been laid out. Amid distractions and political noise, we hope more and more will join us in protecting our gains, avoiding reversals and sustaining reform efforts beyond the current administration.

Thank you.