Plan of the Presentation

ASIA: DEVELOPMENTS AND OUTLOOK

PHILIPPINES: MEDIUM-TERM POLICY CHALLENGES

- Sustaining the growth takeoff
- Escaping the middle-income trap
- Achieving inclusive growth
Asia: Recent Developments and Outlook
Growth has stabilized or picked up in most Asian economies.

Selected Asia: Changes in Real GDP at Market Prices
(In percent)

Quarter over quarter (SAAR)  Year over year

Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.
1/ ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
...as external demand shows signs of recovery...

Asia: Exports of Goods to U.S. and EU
(January 2010=100; seasonally adjusted)

Asia: Exports by Economies
(Year-over-year percent change)

Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.
...and domestic demand remained robust

Selected Asia: Retail Sales Volumes
(3-month percent change of 3-month moving average, SAAR)

Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.
Strong portfolio flows have moderated of late, but remain solid.
...Domestic/regional risks need attention too.

**Output Gap vs. Credit Gap, Latest**
(In percent of potential level)

Sources: CEIC Data Co. Ltd; and IMF staff calculations.
Robust growth is expected in 2013, including for the Philippines

Projected Growth for 2013
(WEO January Update)
Philippines Growth: Can it be Sustained?
Favorable endowments for growth take-off

- Demographic dividend
- Large domestic market
- ASEAN economic community by 2015
- Mining and tourism potential
- English-speaking workforce

Growth of Working Age Population (population aged 15-64; in percent)

Source: U.N. Population Database; and IMF staff calculations.

1 Projections based on the medium fertility U.N. scenario.
Macroeconomic Stability Established—A Precondition for Growth

Improvement in Economic Fundamentals

Sources: CEIC Data Company; Philippines authorities; and IMF staff calculations.

1/ Nonfinancial public debt in 2001 (blue) and 2011.
Real GDP Per Capita, 1980=100

Source: IMF, World Economic Outlook.
But middle income economies at higher risk of a sustained slowdown

There Seems to be a Middle Income Trap

Source: IMF staff estimates.

1 The figure considers a low income threshold of US$ 1000, US$2000 for middle-income, and a high income threshold of US$ 15000 in PPP terms.

2 Frequencies are calculated as the ratio of slowdown episodes to the total number of observations per income class.
Escaping the middle-income trap: growth accounting approach

- Growth
  - Augmented labor (L)
  - Capital (K)
  - Technology (A)

- Social policies, labor market regulation
- Investment climate

Philippines
Investment rate is low—why?

Gross Fixed Capital Formation
(In percent of GDP, 2000–11 average)

Source: WEO database.
1/ Advanced economies excluding Asia.
2/ EME/CIS stands for Emerging Europe and Commonwealth of Independent States. Both groupings follow the World Economic Outlook country classifications.
Weak Investment Climate

Weak Investment Climate and Infrastructure Gaps

Ease of Doing Business Rankings, 2013

![Ease of Doing Business Rankings](chart)

Public Investment and Infrastructure

![Public Investment and Infrastructure](chart)

Source: World Bank, Ease of Doing Business

Sources: IMF, World Economic Outlook; and World Economic Forum.
Low fiscal revenue leads to low public investment

### Government Revenue
(In percent of GDP, average 2000-11)

- Philippines: 15
- China: 20
- Indonesia: 25
- Hong Kong SAR: 30
- India: 25
- Thailand: 20
- Singapore: 15
- Korea: 20
- Malaysia: 25
- Vietnam: 30

Source: WEO database.

### Link Between Government Revenue and Public Investment

Source: WEO database.
How to Raise Fiscal Revenue

Diagram showing the relationship between current administrative effectiveness and potential tax base, with shaded areas representing compliance gap (BIR and BOC) and policy gap (DOF).
Limited access to formal banking and restrictive foreign ownership

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**Foreign Direct Inward Investment**
(In percent of GDP, 2000-11 average)

- Korea
- Indonesia
- Taiwan Province of China
- Philippines
- India
- Malaysia
- Thailand
- China
- Vietnam
- Latin America
- Advanced 1/
- EME/CIS 2/

**Number of Commercial Bank Branches, 2011**
(Per 100,000 adults)

- Myanmar
- Vietnam
- Cambodia
- Nepal
- Bangladesh
- Philippines
- Indonesia
- Singapore
- Malaysia
- India
- Thailand
- Sri Lanka
- Korea
- Hong Kong SAR
- Japan
- EME/CIS 1/
- Latin America
- Advanced 2/

Source: WEO database.
1/ Advanced economies excluding Asia.
2/ EME/CIS stands for Emerging Europe and Commonwealth of Independent States. Both groupings follow the World Economic Outlook country classifications.

Sources: IMF, Financial Access Survey and World Economic Outlook.
1/ EME/CIS stands for Emerging Europe and Commonwealth of Independent States. Both groupings follow the World Economic Outlook country classifications.
2/ Advanced economies excluding Asia.
Room to Improve Labor Effectiveness

Education and Health

Sources: UNDP, Human Development Index and IMF staff calculations.
1/ Combined index of average years of total schooling, and adult literacy rate as calculated by the HDI.
How can labor resources be better used?

**Unemployment Rates 1/**

(In percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>12</td>
<td>8</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>2002</td>
<td>11</td>
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<tr>
<td>2012</td>
<td>1</td>
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</tr>
</tbody>
</table>

Sources: CEIC Data Company; and Haver Analytics.
1/ National definitions may vary.

**Labor Market Efficiency**

<table>
<thead>
<tr>
<th></th>
<th>Redundancy Costs (In weeks of salary)</th>
<th>Hiring and Firing Practices (Score) 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>58</td>
<td>4.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>24</td>
<td>4.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>27</td>
<td>3.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
<td>5.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>36</td>
<td>4.3</td>
</tr>
</tbody>
</table>

1/ On a scale from 1-7 (best).
## How Large is the Growth Payoff? (Growth contributions under a reform scenario)

<table>
<thead>
<tr>
<th>Contribution</th>
<th>2000–10 Average</th>
<th>2016 Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential growth (percent)</td>
<td>4.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Contribution of TFP (percent)</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Contribution of capital (percent)</td>
<td>1.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Contribution of labor (percent)</td>
<td>1.4</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Sources: Ide (2011); and IMF Staff calculation.
Making Growth More Inclusive
Rising income inequality in Asia, incl. Philippines

**GINI Index**
(Weighted by population)

- China
- South Asia
- Industrial Asia
- NIEs
- Philippines
- ASEAN
- Sub-Saharan Africa
- MENA
- Latin America and Caribbean
- Central and Eastern Europe

Sources: World Bank, World Development Indicators; PovCal database; IMF, World Economic Outlook; and staff calculations.
Inclusive Growth

Health, education spending support inclusiveness

Source: IMF staff estimates.
1/ Inclusiveness is measured as elasticity of income of the bottom quintile with respect to a 1 percent growth in average income per capita.
Moving from Growth Laggard to Strong, Inclusive Growth
Roadmap for strong, inclusive growth

- Favorable intrinsic conditions for growth take-off
- Per capita income gap and inequality are large
- Focus on:
  - Improving governance
  - Increasing competition by relaxing foreign ownership limits
  - Raising public revenue to develop human capital and infrastructure
  - Broadening access to formal banking and raising financial literacy
  - Ensuring a strong social safety nets
The End