PHILIPPINES

Growth eased in 2023, though still strong, supported by domestic demand. The outlook is for growth to pick up in 2024 and 2025 amid moderating inflation and monetary easing. The current account deficit will narrow, supported in part by strengthening services exports. Promoting higher levels of private sector participation in the economy will be vital to further raise growth and productivity. Building on structural reforms and further measures to enhance the investment climate will support this agenda.

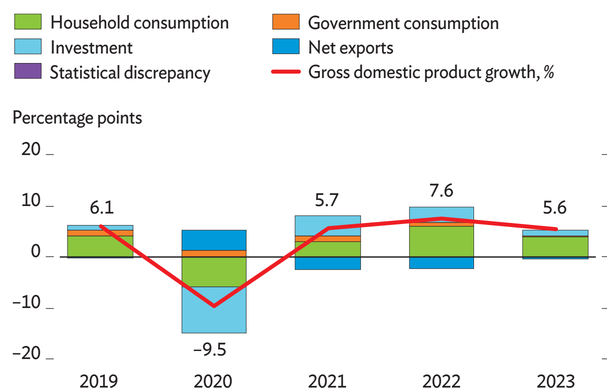
Economic Performance

The economy showed solid growth in 2023 although it eased from 2022 as high inflation and interest rates tempered demand. GDP rose 5.6% in 2023, down from 7.6% in 2022, supported by household consumption and investment (Figure 2.28.1). Household consumption, which comprises three-fourths of GDP, rose by 5.6% after an 8.3% increase in 2022. Overall, however, household consumption remained robust amid low unemployment and steady remittances from overseas workers. The unemployment rate slid to 3.1% in December 2023 from 4.3% in December 2022, with 1.5 million new jobs created. Worker remittances expanded by 3.0% in 2023, equivalent to 8.5% of GDP. Government consumption rose only 0.4% in 2023 after a 4.9% increase in 2022 during national elections. Difficulties in procurement were among the factors that led to the slowdown in government consumption.

Fixed investment remained strong on higher outlays for industrial machinery and brisk construction. Fixed investment rose 8.1% after 9.7% growth in 2022 (Figure 2.28.2). Public construction grew by 9.7% with large public infrastructure projects underway. Higher private investment was driven by industrial machinery and equipment purchases and

Figure 2.28.1 Demand-Side Contributions to Growth

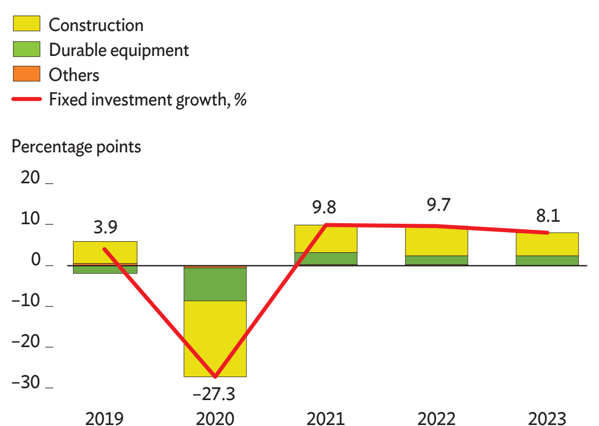
Domestic demand continued to drive growth.



Sources: Philippine Statistics Authority; CEIC Data Company.

Figure 2.28.2 Contributions to Fixed Investment Growth

Brisk public and private construction spurred investment.



Sources: Philippine Statistics Authority; CEIC Data Company.

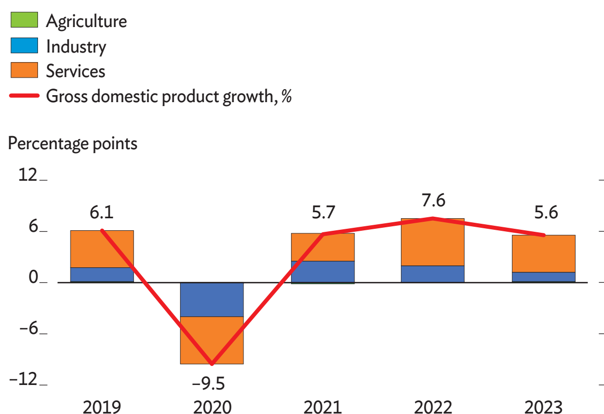
This chapter was written by Cristina Lozano and Teresa Mendoza of the Philippines Country Office, ADB, Manila.

an 8.6% rise in private construction. Net exports held back GDP growth. Merchandise exports fell on weak external demand. These were partly cushioned by sustained growth in services exports driven by tourism and business process outsourcing.

Services largely drove GDP growth, led by retail trade and tourism. On the production side, services, providing over half of GDP and employment, expanded by 7.2% and contributed nearly 80% of the GDP expansion (Figure 2.28.3). Transport, accommodation and food services grew in the double digits on buoyant tourism. Growth in retail trade, which comprises one-fourth of services, remained strong at 6%, along with finance (8.9%) and professional and business services (6.7%).

Figure 2.28.3 Supply-Side Contributions to Growth

Broad-based expansion in services largely fueled growth.



Sources: Philippine Statistics Authority; CEIC Data Company.

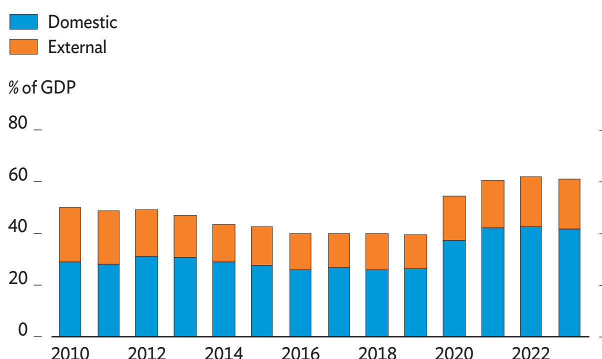
Industry's growth slowed on subdued manufacturing. Industry grew by 3.6% in 2023, down from 6.5% in 2022, contributing nearly a fifth to GDP growth. Construction generated nearly 60% of this growth. Manufacturing, while nearly two-thirds of industrial output, contributed less as its growth slowed to 1.3% from 4.9% in 2022. Food manufacturing, about half of total manufacturing, rose along with increased production of electrical and transport equipment. These were partially offset by a decline in electronic products due to sluggish external demand. Agriculture rose modestly by 1.2% as weather-related disturbances affected output. Structural impediments such as underinvestment in irrigation have limited productivity growth.

Inflation slowed in the fourth quarter of 2023 as food prices moderated. Headline inflation moderated to 3.9% in December (6.0% 2023 average) and core inflation to 4.4% (6.6% 2023 average). Lower prices of vegetables and other food items contained overall food inflation, though rice inflation remained elevated at 19.6% from 15.8% in November.

The fiscal deficit narrowed as revenue grew faster than expenditure. The fiscal deficit equaled 6.2% of GDP in 2023, down from 7.3% in 2022, in line with fiscal consolidation goals. Revenue grew by 7.9%, outpacing the 3.4% growth in expenditure. Expenditure included increases in funding for infrastructure, health and education programs, and social assistance. Revenue was supported by increased tax collection (6.5% growth year on year) and higher remittances from government-owned and controlled corporations. The national government debt stood at 60.2% of GDP as of the end of December 2023 from 60.9% a year earlier (Figure 2.28.4). It remains on track with the government goal of reducing debt to below 60% of GDP by 2025. Domestic debt is 68.5% of total debt, with long-term debt about three-fourths of the total. The higher share of domestic borrowing helps reduce vulnerability to foreign exchange shocks. The country's investment-grade sovereign credit ratings were affirmed in 2023.

Figure 2.28.4 National Government Debt

The higher share of domestic debt reduces vulnerability to external shocks.

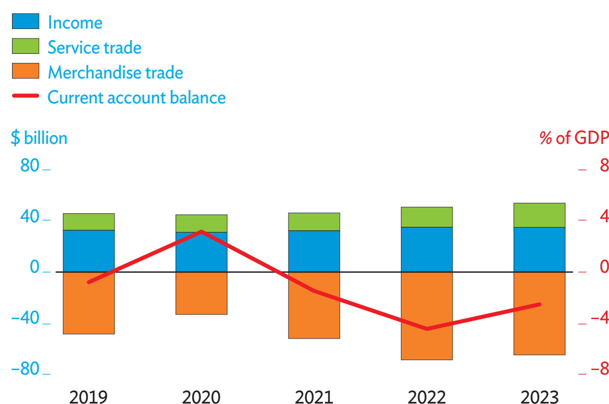


GDP = gross domestic product.
Source: CEIC Data Company.

The balance of payments shifted into surplus as the current account deficit narrowed. The current account deficit slid to 2.6% of GDP in 2023 from a 4.5% deficit in 2022 (Figure 2.28.5). Merchandise exports declined, but imports slid even more. Lower imports

Figure 2.28.5 Current Account Components

Higher services exports and remittances support the current account.



GDP = gross domestic product.
Source: CEIC Data Company.

Table 2.28.1 Selected Economic Indicators, %

Growth will remain solid, supported by investment and private consumption.

	2022	2023	2024	2025
GDP growth	7.6	5.6	6.0	6.2
Inflation	5.8	6.0	3.8	3.4

GDP = gross domestic product.
Source: Asian Development Bank estimates.

were due to moderating domestic demand, lower imports of raw materials and manufacturing inputs, and the decline in prices of imported commodities. The merchandise trade deficit fell to 15.1% of GDP from 17.2%. Rising remittances and services exports partly cushioned the merchandise trade deficit. In the financial account, higher net inflows came from increased foreign borrowing by resident banks, other sectors and the national government. These offset lower foreign direct investment and portfolio investment net outflows. The overall balance of payments shifted into surplus, equal to 0.8% of GDP, after a 1.7% deficit in 2022. The external debt-to-GDP ratio was 28.7% at the end of December 2023 from 27.5% at end-2022. The Philippine peso appreciated marginally through the end of 2023. Official reserves were $102 billion at the end of February 2024, covering 7.5 months of imports along with service and income payments.

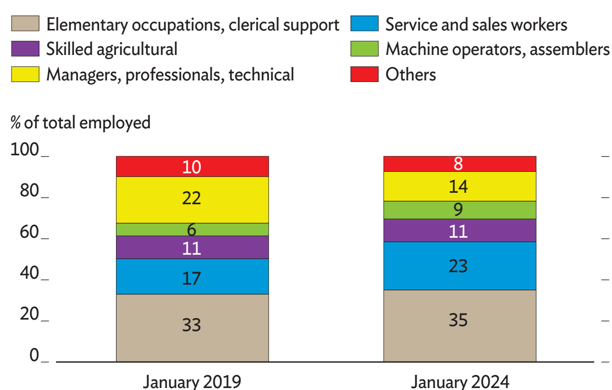
Economic Prospects

Broad-based domestic demand will lift economic growth. The economy is projected to grow by 6.0% in 2024 and 6.2% in 2025 as domestic demand picks up (Table 2.28.1). Moderating inflation and monetary easing bode well for investment and household consumption. Government consumption will rebound as ongoing measures improve budget execution and tackle procurement delays.

The unemployment rate has stayed low, supporting household consumption. The unemployment rate was 4.5% in January 2024, down from 4.8% in January 2023, below the pre-pandemic average. Meanwhile, the labor force participation rate was at 61.1%, lower than 64.5% in January 2023, with the drop mostly due to women workers. The return to onsite work has been cited as among the factors which reduced women's labor force participation rate to 49.3% from 53.7%. Wage and salaried jobs in private firms increased by 1.5 million over the year. While vulnerable jobs (own-account and unpaid family workers) have declined, they still account for a third of total employment. Other challenges include the increase in share of elementary and low-skill jobs from the pre-pandemic level (Figure 2.28.6). In 2023, the government approved the "Trabaho para sa Bayan" Act (National Employment Master Plan), a comprehensive plan supporting workers and business. It covers industry-relevant upskilling and reskilling programs, active labor market programs including employment facilitation, and support to micro, small and medium enterprises (MSMEs) such as increasing their access to finance, among others.

Figure 2.28.6 Employment by Type

Training is essential for workers to move into technical and higher skilled positions.



Sources: Philippine Statistics Authority; CEIC Data Company.

Large public infrastructure projects will continue to boost investment. Under the government's infrastructure program, there are 67 flagship projects underway, with 30 more projects approved as of March 2024. The infrastructure program includes projects such as bridges, expressways, ports, and railways. Other projects involve agriculture, power, health, digital connectivity, and water management.

Robust expansion in services will continue to drive growth. Retail trade, food services and accommodation, and travel will benefit from strong household consumption and growing tourism. The government targets 7.7 million international visitor arrivals this year from 5.4 million in 2023. Tourism provided 11.4% of total employment in 2022, with its share to GDP rising to 6.2% from 5.2% in 2021. Industry's prospects are also good. The manufacturing purchasing managers' index (PMI) rose from 50.9 in January to 51.0 in February, the sixth consecutive month of expansion (Figure 2.28.7). The upturn came from a rise in new factory orders, partly on a rebound in export sales. Manufacturers increased hiring in line with improved demand. Construction will continue to benefit from public infrastructure projects and buoyant private construction for residential, commercial, and office buildings. Bank lending to businesses expanded by 5.9% in January 2024 from 5.6% in December 2023.

The 2024 budget raises expenditure by 9.5%, with a third allocated to social services. This includes funding for conditional cash transfers to about 4.4 million poor families, national health insurance, food stamp and livelihood programs, and free tertiary education tuition in state universities and colleges. Infrastructure spending is planned to equal 5.0%–6.0% of GDP this year and over the medium term, after 5.8% of GDP in 2023.

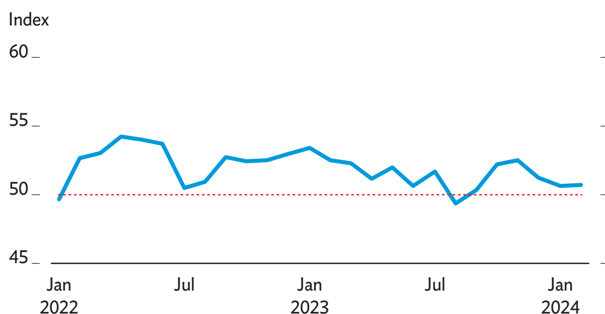
New revenue measures will support higher investment while pursuing fiscal consolidation. Under the government's medium-term fiscal framework, the fiscal deficit is programmed to narrow further to 5.6% of GDP in 2024 and reach 3.7% by 2028. Additional revenue measures proposed include new taxes on digital service providers and single-use plastics, and reforms to existing motor vehicle user charges. Carbon-pricing instruments through a carbon tax are being studied. Digitalization is improving tax administration and taxpayer compliance, including electronic filing of returns and invoicing.

Programs aim to make spending more efficient. Bills pending in Congress seek to right-size the government bureaucracy to enhance public service delivery by streamlining, restructuring, and further digitalizing government operations and systems. Additional public financial management reform is being institutionalized to ensure timely program implementation.

Inflation is expected to moderate to 3.8% in 2024 and 3.4% in 2025. Inflation averaged 3.1% in the first 2 months of 2024 as easing global oil prices curbed transport costs (Figure 2.28.8). Food inflation has slowed from last year though it remains high for some

Figure 2.28.7 Manufacturing Purchasing Managers' Index

The PMI continues to indicate that manufacturing will expand.



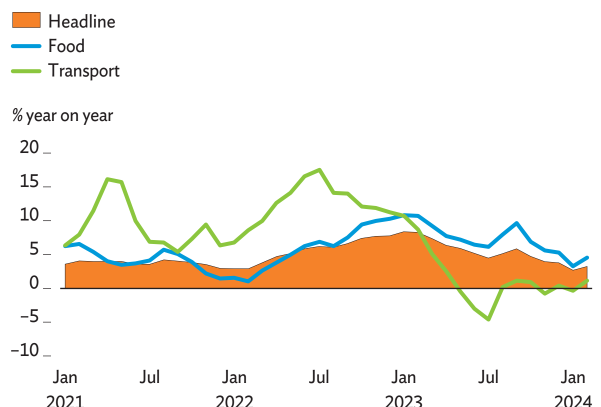
PMI = purchasing managers' index.

Note: A purchasing managers' index reading <50 signals deterioration, >50 improvement.

Source: CEIC Data Company.

Figure 2.28.8 Monthly Inflation

Inflationary pressures stemmed mainly from food prices.

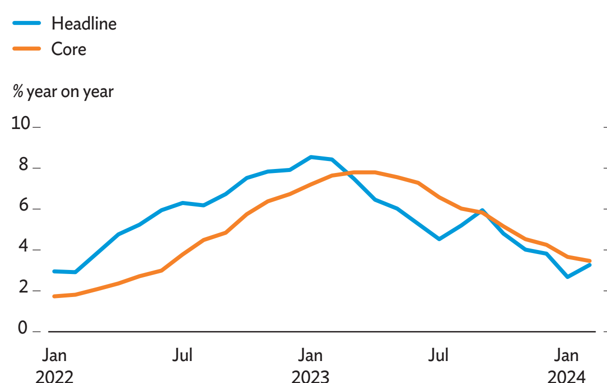


Sources: Philippine Statistics Authority; CEIC Data Company.

commodities, particularly rice. Reduced tariffs on some food items, including rice, corn, and pork were extended to December 2024 to help contain food inflation. This will help reduce inflationary pressures due to El Niño and cases of African swine fever. Core inflation, which excludes volatile food and energy prices, has declined since April last year to 3.6% in February 2024, suggesting easing underlying pressures (Figure 2.28.9). Should inflation continue to stay within the central bank's 2% to 4% target for the year, monetary authorities may cut policy rates in the second half of 2024. The central bank has kept policy rates steady after a cumulative 450 basis points hike from May 2022 to October 2023. The higher policy rate reined in growth in broad money (M3) to 6.0% year on year in January 2024, lowest pace in a year.

Figure 2.28.9 Inflation

Inflation has moved within the central bank's 2% to 4% target.



Source: CEIC Data Company.

The current account deficit will narrow in 2024 and 2025, supported by services exports. Tourism and business process outsourcing should remain buoyant, while merchandise exports will improve moderately in 2025. The steady increase in remittances from overseas workers will continue to help lift the current account. Lower global oil prices will also ease import costs.

The growth outlook is subject to downside risks. Severe weather events could increase inflationary pressure. Other risks include a sharper slowdown in major advanced economies, heightened geopolitical tensions, and higher global commodity prices than expected.

Policy Challenge—Promoting Greater Private Sector Participation

The private sector is an important engine of growth and productivity. It generates jobs, contributes to government revenues, drives innovation and improves efficiency through technology adoption. The Philippine Development Plan 2023–2028 underscores the need for greater private sector participation through stronger public–private collaboration along with the structural and regulatory reforms needed to enhance the policy environment.

Despite relatively strong GDP growth, investment in the Philippines lags behind its neighbors. While fixed investment has been over 20% of GDP since 2013, it remains lower than the 30% of GDP in neighbors such as Indonesia and Viet Nam. Similarly, foreign direct investment inflows remain lower than its neighbors, partly reflecting the country's low global ranking as an investment destination. The Philippines ranked 52 out of 64 countries in the 2023 World Competitiveness Report by the International Institute for Management Development. It ranked 13 out of 14 countries included from the Asia and Pacific region. Infrastructure gaps remain among its key challenges, including in energy, transportation, and logistics. Poor connectivity limits access to factor and product markets, raises costs, and undermines the competitiveness of private firms.

A proactive reform agenda is making the country more attractive as an investment destination. Recent reforms have opened the country to more foreign investment and trade. Restrictions on foreign participation were eased in 2022, allowing full foreign ownership in sectors such as renewable energy, telecommunications, airports, shipping, railways, and expressways. Capitalization requirements for foreign investors in retail trade have also been lowered. The Corporate Recovery and Tax Incentives for Enterprises (CREATE) law, which reduced the corporate income tax rate from 30% to 25% (20% for MSMEs), is being refined to match incentives with investors and encourage investment in strategically important sectors. These reforms complement the country's 2023 ratification of the Regional Comprehensive Economic Partnership.

The enhanced public–private partnership (PPP) regulatory framework will help further mobilize private investment for infrastructure development. The PPP Code of the Philippines enacted in 2023 consolidates all legal frameworks and creates a unified system for investors involved in PPPs. Private sector participation in infrastructure helps reduce pressure on public finances and encourages greater expertise in designing and managing infrastructure projects, particularly complex projects such as long-span bridges and subways. The government's infrastructure flagship program featured 185 big-ticket projects as of March 2024 worth ₱9.1 trillion (about $163 billion), 45 to be financed through PPPs. In February 2024, the rehabilitation, operation and maintenance of the Ninoy Aquino International Airport, the country's main gateway, was awarded to the private sector—the largest solicited PPP project in nearly 25 years.

Further measures can enhance the investment climate. The private sector is dominated by a few large conglomerates. MSMEs constitute 99.5% of all enterprises and 63% of total employment. Yet they continue to face challenges in accessing finance and navigating red tape. High administrative burdens on startups, such as numerous permits and licenses, prevent ease of entry of small players. High trade costs also restrict competition and reduce opportunities for domestic firms to access larger markets. It is critical to strengthen market competition, including efforts across government to implement competition policy and deter anti-competitive practices. The Anti-Red Tape Authority has spearheaded efforts to streamline and automate government-related procedures to reduce the regulatory burden at both national and local government levels. Continuing capacity-building measures for local government units (LGUs) to make their localities more investor-friendly are vital. While LGUs are mandated to implement electronic one-stop shops for business, some face capacity constraints. About 40% of LGUs as of February 2024 have adopted the system.

Accelerating private investment in key sectors, including green and resilient energy, is critical for a better business environment. Coal and oil continue to dominate the energy mix, and the Philippines remains a net importer of fossil fuels. High energy costs are often cited as a key barrier to economic competitiveness. If current trends continue, energy self-sufficiency is expected to worsen as natural gas supplies from the Malampaya gas field dwindle. The government has sought to mobilize investment in renewable power generation to meet its 50% target share in the mix by 2040 (from a 22% share in 2022). The clean energy transition will require planning to replace and decommission fossil fuel-based power plants, and explore opportunities to develop geothermal, offshore wind, and floating solar capabilities. This also requires investment in energy storage, transmission, and grid resilience to accommodate the planned increase in renewable supply. The government has established the Energy Virtual One-Stop Shop System to streamline permits for new energy investments and assisting LGUs to adopt the system.

The private sector can also play a greater role in expanding digital infrastructure. Telecommunications face critical infrastructure gaps. In 2020, only 56.1% of households had internet access at home, with access largely concentrated in the capital, Metro Manila, nearby provinces, and in central Luzon. Most regions in the Visayas and Mindanao reported less than 50% access. Structural challenges of the local telecommunication industry and the archipelagic nature of the country have left poor tower coverage, the lowest among Association of Southeast Asian Nations members. Growing domestic demand cannot be met due to an industry dominated by only a few major players. To help attract private investment, the government issued a common telecommunications tower policy in 2020, with the initial wave of operator licensing and construction already underway. There is an accompanying need for more backhaul capacity and universal coverage which the National Broadband Plan seeks to address, with significant scope for private sector participation. The Open Access in Data Transmission Bill pending in Congress removes the legislative franchise requirement for telecommunications service providers and simplifies the licensing process to promote more competition.

A more inclusive and robust financial system is also vital. Relative to its peers, the Philippines must further deepen its capital markets, strengthen competition and technology adoption in banking, increase insurance penetration, and grow its mutual and pension fund ecosystem. These changes can potentially improve access to capital and the productivity of MSMEs. It will also facilitate more investment in productivity-enhancing innovation and entrepreneurship, disaster resilience projects including in agriculture, and enhance social protection.