Philippines: High and Inclusive Growth Can Eradicate Poverty and Boost Shared Prosperity within a Generation - World Bank

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The World Bank expects the Philippine economy to grow at 6.5 percent in 2015 and 2016 despite a weak global economy. Sustaining this level of high growth and making it inclusive over the long term will enable the country to eradicate poverty and boost shared prosperity within a generation.
This is the main message of the World Banks latest Philippine Economic Update (PEU), released today with the theme "Making Growth Work for the Poor."
"The Philippines has what it takes to sustain this high level of growth for many years," said World Bank Country Director Motoo Konishi. "The country is benefiting from low and stable inflation, its finances are healthy, and debt levels are declining. It has a dynamic private sector that is seizing global opportunities. Now is the time to move the economy decisively onto a path that reduces poverty and creates more and better jobs."
The World Bank revised its forecast for 2014 to 6.0 percent from 6.4 percent, owing to slower government spending and lower farm production, but expects growth to bounce back in 2015 and 2016. The country can even grow beyond 6.5 percent if the government can fully utilize its budget as planned and accelerate reforms, the report says.
It also says that sustained growth in recent years has started to translate into gains in job creation and improvement in the lives of the poor.
More than a million jobs were created in October from the same month the previous year. Unemployment fell from 6.4 percent a year ago to 6 percent, the lowest figure in 10 years. Government data also shows that the real wage income of the poorest 20 percent of the population grew by almost 10 percent compared to only 2.4 percent for the upper 80 percent, while underemployment among the poor declined significantly in 2013, coinciding with the improvement in poverty incidence.
"If growth is sustained at 6 percent per year and the current rate at which growth reduces poverty is maintained, poverty could be eradicated within a single generation," said World Bank Lead Economist Rogier van den Brink.
Achieving this goal will require sustaining and speeding up structural reforms, the report says. Key reform areas are:
- Increasing investments in infrastructure, health, and education;
- Enhancing competition to level the playing field;
- Making regulations simpler to promote job creation, especially for micro and small enterprises; and,
- Protecting property rights.
Over the medium-term, putting more money in infrastructure as well as in peoples education and health will require tax reforms to generate adequate resources. The report highly recommends rationalizing tax incentives by making them more targeted, transparent, performance-based and temporary, as well as adjusting tax rates and valuations to keep pace with inflation so that the tax system becomes more equitable.
Karl Kendrick Chua, World Bank Senior Country Economist, said both tax administration and tax policy reforms are needed to generate the revenues required to finance the decades-old investment deficit in infrastructure, health and education. Only when revenues improve should policy makers consider further reforms, such as lowering the top marginal income tax rate to 25 percent, reducing the gap between regular and special corporate income tax rates, and simplifying the tax system for micro and small enterprises, he said.
"For these reforms to succeed, strengthening tax administration and improving transparency and accountability of government spending are essential," Chua said. "These would allow the Filipino people to see a better link between taxes and services and convince them that the taxes they are paying are being spent wisely. "
According to the report, needed governance reforms include institutionalizing Open Data, particularly passage of the Freedom of Information Bill; enhancing budget reporting to allow the public to track spending; and simplifying tax procedures to improve compliance.
The report also recommends further reforms to enhance competition, including enacting and implementing a clear competition policy; liberalizing key sectors of the economy that directly impact poor Filipinos; further opening up the economy to more foreign competition; and strengthening regulatory capacity.
"These reforms can provide firms of all sizes and origins the incentives to invest and massively create good jobs for all Filipinos," Chua said.

Media Contacts
In Manila
Dave Llorito
Tel : +63-2-465-2512
dllorito@worldbank.org
In Washington
Carl Hanlon
Tel : +1 (202) 473-8087
 chanlon@worldbank.org
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Pressekontakt

The World Bank

DC 20433 Washington

Firmenkontakt

The World Bank

DC 20433 Washington

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