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The Philippine Review of Economics

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A macroeconomic perspective on economic resilience and inclusive growth in the Philippines

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There are at least two distinct but not equally important ways to understand what economic resilience means: one is focused on minimizing deviations of output about its trend and the quick return of output to trend following shocks, while another emphasizes the invariance of the underlying trend of output growth itself to shocks, including the ability to raise potential output despite shocks. The Philippine economy cannot be regarded as resilient using either definition.

Anemic growth and the lack of economic resilience in the Philippines are primarily due to the inability of the government to make sufficient and quality investments in critical public goods such as climate change adaptation, health, education, and IT connectivity. The main reason for the lack of public (as well as private) investment is the presence of weak institutions and poor governance, characterized by a political economy process which provides many opportunities for rent-seeking behavior that benefit a narrow set of interests, and where adherence and sensitivity to the rule of law is lacking.

Overcoming the problem of weak institutions and poor governance requires a change in the incentive structure faced by key institutions, with clear criteria and targets set and performance tied to tenure in office, so as to make government officials more accountable to the people. It requires a populace that demands accountability, transparency in motives and processes, and timely delivery of intended outcomes from the government, and an unwillingness to accept and trade off short-term token benefits for necessary investments to make growth robust, sustainable, and more inclusive. A well-informed and vigilant populace that demands adequate provision of quality public goods and services from the government is key.

JEL classification: O4, O5
Key words: economic resilience, inclusive growth, public goods, institutions, governance, rent-seeking

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1. Introduction

Economists clearly understand the concept of economic growth and have theories that explain how an economy's output can increase. Output grows when there is either an increase in the quantity of resources used to produce output, or improvements in technology that raise factor productivity and allow given resources to produce more output per unit than before, or both. If either or both of these occur, not only could an economy's actual output increase, but so would its so-called potential output.[1] Indeed, in a 2018 report entitled "Growth and productivity in the Philippines: winning the future", the World Bank states that "Sustaining high growth can only be achieved if the Philippines succeeds in sustaining high total factor productivity (TFP) growth while accelerating capital accumulation" [World Bank 2018:1].[2]

Inclusive growth is growth that aims to produce a more egalitarian society currently and across generations, and in which the creation of national wealth and the reduction of poverty are achieved by leveling the playing field without sacrificing economic freedoms [Agarwal 2024:8]. Inclusive growth is pro-poor growth. The focus is on both the process of growth, in which growth is more broad-based as more people are participants in the growth process, as well as on the outcomes of the growth process, in which the poor attain higher income levels and/or there is declining inequality in the income levels of the poor [Klasen 2010:1]. The inclusiveness of growth can also be assessed, for example, by measuring how many people move into formal employment from informal employment or unemployment, or are lifted out of poverty and live above a certain poverty threshold, or how the middle class, defined as those who reach a specific level of income, has grown. Good quality growth is expected to produce inclusive growth.

However, economists do not share a common understanding of economic resilience, as the concept encompasses a range of dimensions and interpretations.

Broadly, economic resilience refers to an economy's ability to withstand, recover quickly, and adapt to shocks while maintaining the economy's long-term growth potential. I propose at least two ways to understand what economic resilience means: one focused on stabilization of economic growth in the face of shocks, and another that emphasizes the invariance of the underlying trend of output growth itself to shocks, including the ability to raise potential output. I explain why the Philippine economy cannot be regarded as resilient using either definition. Furthermore, these distinct types of economic resilience are not equally important.

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[1] There is a difference between 'actual output' and 'potential output'. Potential output is what output would be if all available resources were employed. Actual output is simply what output is when available resources are used, noting that some of these could be unemployed.

[2] In economics, the term 'capital' refers to a produced good that is used as a factor of production to make other goods rather than being consumed immediately. As an example, if the grapes we have produced are not consumed today and are instead used as an input to make wine, grapes would be a capital good.

My thesis is that anemic economic growth and the lack of economic resilience in the Philippines are primarily due to the government's inability to make sufficient and quality investments in critical public goods such as climate change adaptation, health, education, and IT connectivity.

Moreover, there is a tendency to equate public investment in public goods solely or primarily with the building of physical infrastructure.

In his 2024 State of the Nation Address (SONA), for example, the President stated that:

> Aside from agriculture and disaster risk, our other vital sectors and pillars—such as education, health energy, low-cost housing, transport, information technology—they all stand to benefit from our aggressive infrastructure development, as befitting our upper middle-income economic target. With the results we have seen two years into this Administration, we can claim that despite challenges, we are progressing towards our targets in the medium-term. [Website of the President 2024]

Prioritizing the building of physical infrastructure appears to be the main understanding of what it means to invest in public goods. To improve health care access and delivery, especially for the poor, for example, the President highlighted building a UP PGH[3] Cancer Center and two specialty cancer hospitals, "Super Health Centers", a mobile clinic in every province, and first aid centers. Yet the main vehicle for making health care universal and affordable, and therefore accessible to the populace, especially the poor, PhilHealth,[4] seemed to be mentioned only in the context of expanding the list of generic medicines it would cover and raising the coverage caps for a few types of cancer treatment. This seems typical of an "ayuda" approach to health care access, rather than an investment-led one to address structural and institutional weaknesses in the health care delivery system. There was also no mention of the severe shortage of qualified health professionals in these hospitals and health facilities that are to be constructed. It is as if the supply of medical personnel will automatically increase if more hospitals are built.

As for meeting the challenges of natural and climate change-induced disasters, the President pointed to the need for the country to be prepared for these and then cited the almost one hundred evacuation centers built within the past two years. However, he made no similar reference to investments in technology for climate

[3] The University of the Philippines Philippine General Hospital, or UP PGH, is a state-owned tertiary hospital designated as the National University Hospital and national government referral center. It is administered and operated by the University of the Philippines Manila.

[4] Philhealth, or the Philippine Health Insurance Corporation, created in 1995, is a tax-exempt government-owned and controlled corporation that administers the National Health Insurance Program (NHIP) in the Philippines. The NHIP aims to provide universal, accessible, affordable, and quality health care coverage to Filipinos and protect them from financial risks related to medical expenses. It is attached to the Department of Health. Source: Philippine Health Insurance Corporation website.

adaptation in areas such as agriculture, where the lives and livelihoods of farmers and fisherfolk are at risk due to changing weather patterns in the cultivation of rice and other crops, the acidification and warming of oceans, and the loss of biodiversity. Instead, he proudly announced the completion of more than 5,500 flood control projects and the ongoing building of more flood control projects in the entire country. This statement was widely applauded by the congressional audience he was addressing.

The main reason for this lack of public (as well as private) investment is the presence of weak institutions and poor governance, characterized by a political economy process loaded with opportunities for rent-seeking behavior that benefit a narrow set of people or interests, and where adherence to the rule of law is severely lacking. There is also a certain degree of path dependence due to missed opportunities in the past, keeping the economy in an unending catch-up mode.

The preference for building physical infrastructure appears to be directly linked to the opportunities for rent-seeking and corruption in it. The political cycle emphasizes rent-seeking while a politician is incumbent. This is myopic in that it fails to lay the groundwork for sustainable economic growth and resilience, even if it may occasionally offer a temporary respite from the effects of shocks. This is also why I regard the type of economic resilience that emphasizes laying the groundwork for long-term and sustainable economic growth over purely short-term stabilization considerations as being the more important one.

I provide a few examples of cases of underinvestment in some of these critical public goods in which poor outcomes are related to weak institutions and poor governance. While the lack of public investment in critical public goods, weak institutions, and poor governance are decades-long problems in the Philippines, I provide some evidence to show that the current administration under Ferdinand Marcos, Jr. has, thus far, a mixed record in addressing these challenges.

In terms of the government's record of public investments, the rate of year-on-year percentage change in capital expenditures by government as of September 2024 increased relative to those in the previous two years and is now at about the same rate it was in 2021, but this is still slightly lower than it was in 2016 [AMRO 2024:7]. While this is somewhat of an improvement, the administration's inability to improve governance and strengthen institutional capacity is the more serious challenge, and where little or no progress has been made. Some of this is evidenced by experience since the passage of the law creating the Maharlika Sovereign Investment Fund and in the process that attended the passage of the 2025 General Appropriations Act (GAA), expenditure priorities, and amounts allocated therein.

An early initiative from the Marcos Jr. administration was the Maharlika Sovereign Investment Fund, formerly the Maharlika Sovereign Wealth Fund. To this day, its *raison d'etre* remains unclear. With initial capitalization coming from two government financial institutions and the central bank, its ability to

hasten the process of adding to the quantity of public investment remains largely untested, and its program of investments remains unknown beyond listing a menu of possible financial and real assets it can legally acquire. Thus far, the Maharlika Fund has not made any investment despite the Maharlika law having been passed in 2023. Hence, even the professed desire of the government to use Maharlika as the vehicle to speed up investment in critical infrastructure projects, by not being subject to the Government Procurement Act or being audited by the Commission on Audit for five years, for example, has not materialized.

Two years after the law's passage, Maharlika merely announced in January 2025 that it would acquire 20 percent of the 60 percent share of Filipino investors in the National Grid Corporation of the Philippines (NGCP).[5] This move, however, does not give the government control of the board of the NGCP. Hence, it is unclear how this move will allow the government to hasten or add to public investment in the energy sector and help reduce high electricity prices.

The process that attended the passage of the 2025 GAA, expenditure priorities, and the allocated amounts therein illustrate how rent-seeking has worsened under the present administration. The 2025 GAA is currently the subject of public commentary and disaffection, with several lawsuits filed before the Supreme Court questioning its constitutionality in not giving education the highest budgetary allocation and in expropriating a large amount of PhilHealth's funds to finance government budgetary requirements in areas other than health.

The bigger issue is the perception that Congress has not only inserted large amounts of pork into the national budget, especially that of the Department of Public Works and Highways, seen as the traditional source of corruption, but has done so by putting many priority programs, such as PhilHealth, the Basic Infrastructure Program, support to foreign-assisted projects, the Department of Agriculture's Rice Competitiveness Enhancement Fund, and others, under "Unprogrammed Appropriations," thereby effectively defunding them. "Unprogrammed Appropriations" itself is not a new concept. However, the humongous amounts ratified by Congress, ₱731.4 billion in 2024 and ₱531.665 billion in the 2025 national budget bills versus the Executive Department's limits of ₱281.9 billion and ₱158.7 billion in unprogrammed appropriations in its expenditure plans in 2024 and 2025, respectively, are. If anything, one is struck by the brazenness of Congress in shifting large chunks of the budget for many key

[5] In early February 2025, Maharlika announced the signing of a memorandum of understanding (MOU) with a Thai company, the CP Group, to put USD 100 million to establish a billion-dollar equity fund. The Maharlika President and CEO said that the proposed equity fund, "could be a potential source of future investments in the areas of agriculture, food production, digital innovation, and green energy. This fund will be a primary vehicle for deploying capital into these targeted sectors, driving growth and supporting innovative businesses that contribute to the Philippine economy" [Cigaral 2025]. Again, this underscores the fact that Maharlika is undercapitalized to undertake investments directly and has an unknown program of investments. Also, having only about a ten percent contribution to a billion-dollar equity fund means that Maharlika will not have control as to where the investments will be made. Importantly, only an MOU has been signed.

development projects of government to "Unprogrammed Appropriations" with seeming impunity, without seeing any need to explain or justify its actions.

The President sought to placate the public uproar by "studying" the proposed GAA for a week before signing the bill, eventually vetoing more than ₱195 billion in allocations, including ₱168 billion of unprogrammed appropriations, for a final amount of ₱363.665 billion in unprogrammed appropriations in the 2025 GAA [Bordey 2024]. Unfortunately, a presidential veto cannot restore funding to items that have not been given a budget allocation, such as PhilHealth, or defunded by Congress, such as climate adaptation projects of the Department of Environment and Natural Resources (DENR), and transport projects of the Department of Transportation (DOTr) such as the Metro Rail Transit and the subway system.

I conclude by highlighting the need to seriously address institutional weaknesses and poor governance to enable the government to invest in some particularly critical public goods. Overcoming the problem of weak institutions and poor governance requires a change in the incentive structure faced by key institutions, with clear criteria and targets set and performance tied to tenure in office, so as to make government officials more accountable to the people. It requires a populace that demands accountability, transparency in motives and processes, and timely delivery of intended outcomes from the government, and an unwillingness to accept and trade off short-term token benefits for necessary investments to make growth robust, sustainable, and more inclusive. A well-informed and vigilant populace that demands the adequate provision of quality public goods and services from the government is key.

The rest of the paper is as follows: Section 2 will discuss how the concept of economic resilience may be understood; Section 3 will discuss the possible constraints to producing sustainable and inclusive growth; Section 4 will cite some examples of institutional and governance weaknesses that give rise to the lack of government investment in health and climate change adaptation; and Section 5 will conclude.

2. Understanding economic resilience

Economic resilience refers to how an entity responds to a shock. There are many ways to describe what economic resilience means.[6] Here,

[6] See the various possible definitions and interpretations of "economic resilience." For instance, Rose [2007] discusses reducing losses from natural and man-made disasters in a static sense by using current resources more efficiently and in a dynamic sense by hastening recovery and rebuilding the capital stock. Martin and Sunley [2015] consider the spatial dimension—a regional level—of responses to and recovery from shocks. Briguglio et al. [2006] refer to the "nurtured" ability of an economy to withstand and recover from negative external shocks. The IMF [2021] similarly defines economic resilience as an economy's capacity to endure and recover from negative external shocks while quickly resuming normal operations, thereby minimizing the period of being unable to perform core functions. UNDP [2015] emphasizes the need for economies to withstand shocks like natural disasters through proactive risk assessment, addressing vulnerabilities, and building adaptive capacity. Caldera Sanchez et al. [2015] focus on preventing the build-

I present two ways to understand the concept of economic resilience drawn from a macroeconomic perspective.

One way is to imagine an economy using available resources and the current state of technology to produce output or GDP, smoothly moving along a particular GDP trend path over time. Of course, there are many reasons why an economy would not always be on its GDP trend path. Shocks could hit the economy and cause some resources to be temporarily unemployed (or overemployed) and output to fall below (or rise above) its trend path.

According to this definition, an economy is resilient if output remains relatively unaffected by any shocks that hit it by either staying on its trend or having only small output deviations from its trend and having output readily return to its trend.[7]

Another way to define economic resilience is when the underlying trend of output itself remains unaffected by economic shocks and/or when the output trend can increase endogenously through improved technology or a permanent rise in available resources. Suppose a substantial oil field is discovered, for example. Since oil is a resource used to produce output, the economy would have more resources available and could produce more. The so-called potential output would be higher than the original output trend indicated before the discovery of this resource.

Similarly, given a technological improvement or innovation that enables all existing laborers to produce more output, the trend path of output would be permanently higher relative to the original path.[8] It would be as if the economy were permanently endowed with more workers to produce more output in the original situation.

If the economy is resilient, the trend of output will be relatively unaffected by an adverse shock that hits the economy. But if the trend of output itself declines, or worse, experiences a structural break and is permanently shifted downward to a new lower trend path in response to an adverse shock, the economy would not be considered resilient by this definition.

In Figure 1, the dotted line shows the actual annual output level or GDP in the Philippines, measured in trillion pesos from 1981 to the third quarter of 2024.

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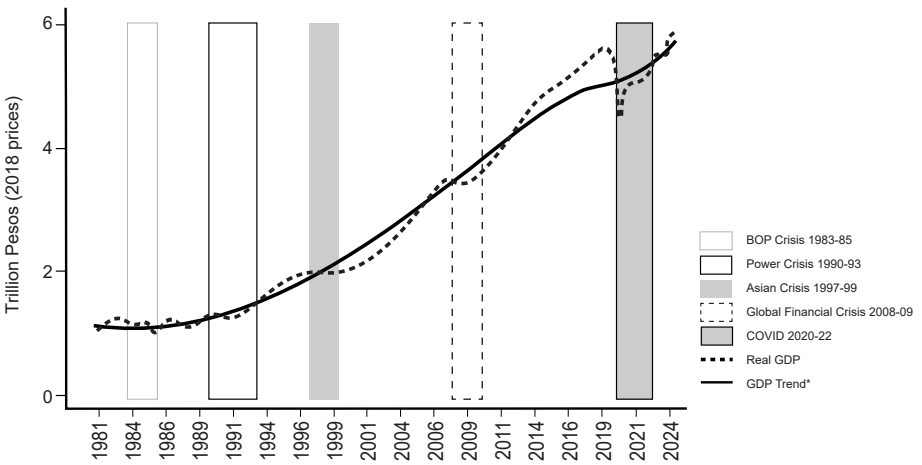
up of vulnerabilities, utilizing macro policies to mitigate the impact of shocks and accelerate recovery, and implementing structural policies that interact with macroeconomic policies to influence the speed of wage and price adjustments and the allocation of resources in response to shocks. De Bettencourt et al. [2013] advocate incorporating climate and disaster risk management into the development process, which contributes to the discussions on loss and damage under the UN Framework Convention on Climate Change.

[7] This first definition proposed in this chapter is similar to the IMF definition of economic resilience.

[8] New technology raises the amount of potential output. If it takes four laborers to make a cake per day without the use of an electric mixer, and I hire four laborers, using the current manual technology, one cake can be made in a day. However, if technology improves so that electric mixers are now available, and two laborers using one electric mixer can bake a cake in one day, then my original four laborers can potentially make two cakes using two electric mixers, or two cakes with one using two laborers and one electric mixer, even if the other two laborers were to make the cake manually, because of the improved technology available in both cases. 'Potential output' of four laborers—two cakes—is higher with better technology. It is as though we hired eight laborers in the situation with no electric mixers and using manual technology to bake cakes.

The solid line shows the underlying GDP trend. One can see that GDP or output falls whenever an adverse shock hits the economy, shown in the graph as bars, such as during the external debt crisis in 1983 to 1985, the power crisis in 1990 to 1993, the Asian Financial Crisis in 1997 to 1998, the Global Financial Crisis in 2008 to 2009, and the COVID-19 pandemic in 2020 to 2022. An output gap is created between the lines.

FIGURE 1. The Philippines' real GDP, Q1 of 1981 to Q3 of 2024



Source of data: Philippine Statistics Authority (PSA). Trend is calculated using the Hodrick-Prescott filter. GDP data are deseasonalized using the US Census Bureau's seasonal adjustment method (X13).

Figure 1 also indicates that the GDP level takes some time—approximately three years—to return to its pre-shock level following an adverse shock.

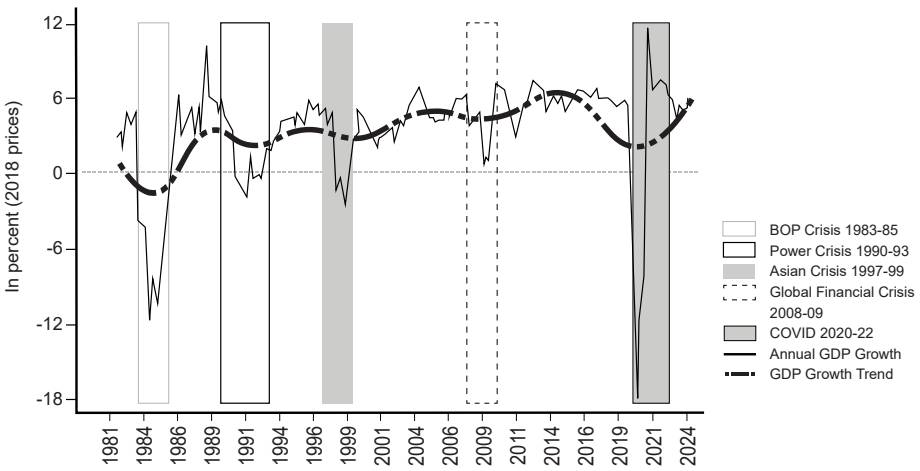
Thus, the economy cannot be regarded as resilient since adverse shocks lead to a fall in output and a deviation from trend, and it takes time to return to its trend.

When output deviates from its trend path, the government typically employs monetary and fiscal (government spending and tax) policies to bring the economy back to its trend path. The government responded to the COVID-19 pandemic shock by using expansionary fiscal and monetary policies. Net government spending and lending rose to 23.6 percent as a share of GDP in 2020 from 19.5 percent the year before. The government's debt-to-GDP ratio, which shows the amount of government borrowing to finance its expenditures relative to GDP, ballooned from 37 percent in 2019 to 51.9 percent in 2020. The monetary base grew by 5.1 percent in 2020 from a three percent contraction the year before [IMF 2021]. Despite these efforts, however, the economy's output registered a massive 9.6 percent contraction in 2020, the largest in the country's history.

Figure 1 shows that the trend in the level of GDP itself, the solid line, also exhibits a downward tilt beginning in 2020, with a flatter slope relative to its pre-pandemic slope.

Figure 2 shows the rate of GDP growth (in percent), or the rate at which the economy's level of output changes over time, shown as the solid line. As is evident, the GDP growth trend itself, shown as the broken line, fluctuates over time, with the bottom of large troughs during the BOP crisis in 1984 and the COVID pandemic crisis in 2020.

FIGURE 2. The Philippines' real GDP growth, Q1 of 1981 to Q3 of 2024



Note: Annual growth rates are calculated using quarterly data from Figure 1. See note in Figure 1.

Excluding the extreme 1984 to 1985 crisis years and the pandemic years of 2020 to 2022, one observes that the trend path of GDP growth is relatively flat, with an annual growth rate averaging around four to, at best, five percent, from the early 1990s up to the period right before the pandemic. Without these two extreme crises, this is the average GDP growth that had prevailed over the last three decades.

If these worst crisis periods are included, the annual average GDP growth rate would be much lower than four or five percent. The point is that over time, the economy has been unable to reach a high and rising growth trajectory nor sustain a high GDP growth rate.

Pre-pandemic, the World Bank estimated that the economy needed to grow at an annual average rate of 5.3 percent from 2000 onwards to triple its income over the next two decades and become a prosperous middle-class society free of poverty by 2040 [World Bank 2018:1].

Given COVID-19's hit on output growth, an even bigger catch-up is needed to make up lost ground. The possibility of a permanently lower GDP trend exists, either because of a decline in the slope of the original trend in GDP or because of a structural break in this trend that puts the economy on a permanently lower path.

Thus, it is evident that the Philippine economy is not truly resilient using either definition of economic resilience.

3. Possible constraints to producing sustainable and inclusive growth

The World Bank estimates that TFP needs to grow at an annual rate of 1.5 percent or higher until 2040 for growth to be sustainable and inclusive [World Bank 2018:8]. Similarly, to meet the capital accumulation requirement, a doubling of the growth rate in the physical investment-to-GDP ratio, through both private and public investment through to at least 2023 is needed and would require the implementation of important reforms [World Bank 2018:8].

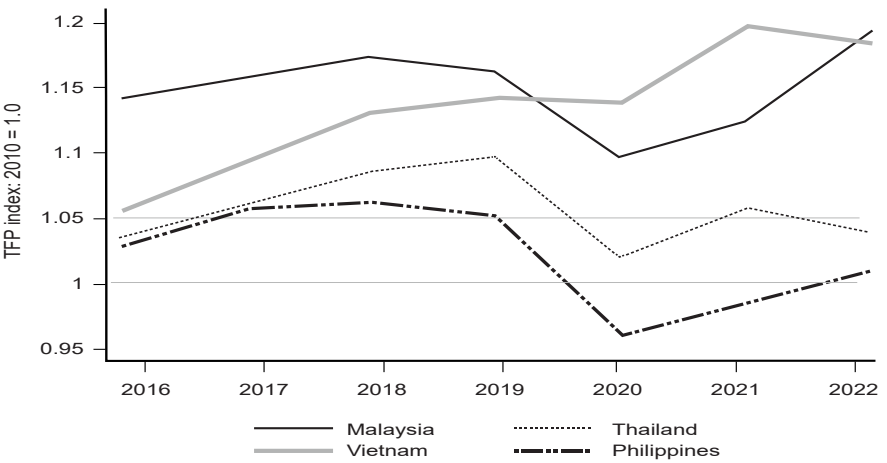
The same World Bank study [World Bank 2018:11] shows that TFP's contribution to growth has been variable since 2001, declining in 2006 to 2011 before rising in 2011-2016. TFP contributed about one-third of growth in the 2011 to 2016 period during the Aquino III administration as the economy registered robust growth.

However, the COVID-19 pandemic led to the largest decline in economic growth in the country's history of -9.6 percent in 2020. Factors of production became unemployed as output contracted. The unemployment rate doubled from 5.1 percent in 2019 to 10.4 percent in 2020.

The sharp decline in TFP during the COVID-19 years of 2020 and 2021 is illustrated in Figure 3, indicating that TFP in those years was lower compared to the base year of 2010. Although TFP recovered in 2022, it remains below pre-pandemic levels. The COVID-19 pandemic was not the sole reason for the low TFP; as displayed in Figure 3, since at least 2016, TFP in the Philippines has consistently been much lower than in Malaysia, Thailand, and Vietnam.

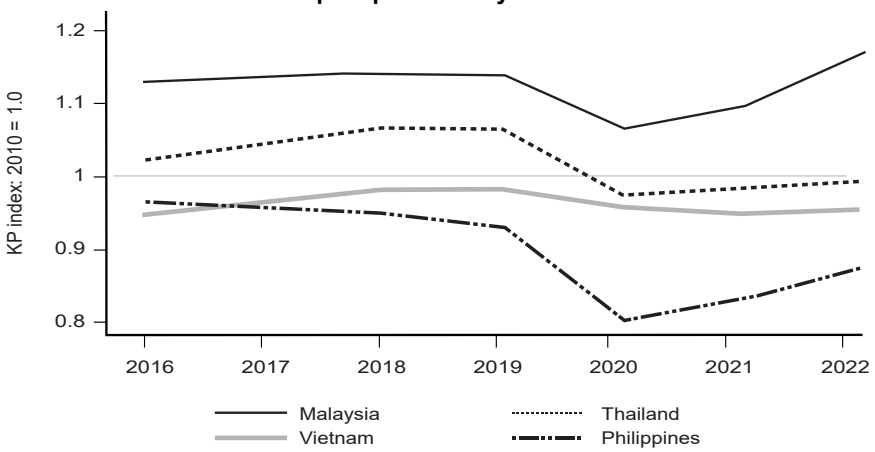
Capital productivity, shown in Figure 4, is extremely low and is the lowest compared with Malaysia, Thailand, and Vietnam. Again, this is not solely due to the pandemic, although the pandemic worsened capital productivity and brought it below the base year of 2010, recovering only to at least its 2010 level by 2022, but still at below pre-pandemic levels.

FIGURE 3. Total Factor Productivity, 2016 to 2022



Source of basic data: APO productivity database.

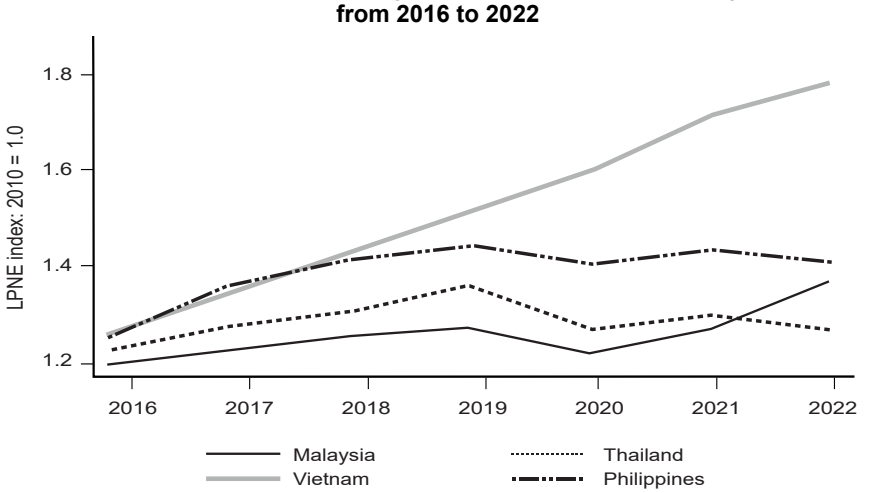
FIGURE 4. Capital productivity from 2016 to 2022



Source of basic data: APO productivity database.

Labor productivity since 2010, shown in Figure 5, was rising until the pandemic struck. The data show that labor productivity has remained fairly flat since 2020, unlike the rising trend displayed by Malaysia and the spectacular one by Vietnam. An article on labor productivity based on World Bank data in 2023 [Businessworld 2024], measured as GDP or output per person employed, in 2021 US dollars, shows that the Philippines has the fifth lowest level of labor productivity in the region at USD 23,519 in 2023 even though labor productivity grew by two percent year-on-year in 2023. This level of labor productivity is more than two times lower than the East Asia and Pacific regional average of USD 43,715 and the world average of USD 47,919 in 2023.

FIGURE 5. Labor productivity (based on number of employment) from 2016 to 2022



Source of basic data: APO productivity database.

Why is labor productivity in the Philippines so low? The World Bank [2018:11] states that "Low labor productivity is caused in part by *historic* (emphasis, mine) low levels of capital accumulation, resulting in low capital per worker, which limits labor productivity growth despite higher TFP growth." In other words, the Philippines has failed to invest sufficiently in the past so that it does not have a large capital stock. This problem did not arise only because of or during the COVID-19 pandemic, although gross fixed capital formation did collapse by 27.5 percent year-on-year in 2020 relative to what it was in the previous year [IMF 2021].

This low stock of capital, given historically low levels of capital accumulation or investment, adversely affects labor productivity. Consider this simple example. A sewing machine is a capital good, and if every worker were equipped with a sewing machine, more dresses could be made in a day compared with the case where workers make dresses using hand stitching alone. Capital per worker in the Philippines is less than half of what it is in Indonesia and Malaysia [World Bank 2018:10].

According to the World Bank study [2018:11], Indonesia and Malaysia display a greater contribution to output growth due to capital than the Philippines does. In Vietnam, which receives a large share of foreign direct investment (FDI), capital is the main contributor to output growth. Not surprisingly, Vietnam has very high labor productivity.

The World Bank advocates (i) the improvement of market competition through regulatory reforms to reduce the costs of doing business and discourage inefficient firms and (ii) improving trade and investment climate policies and regulations by liberalizing foreign equity restrictions and removing barriers to entry, to raise TFP and increase capital accumulation [World Bank 2018:8-9].

While not denying the importance of these, the World Bank policy reform agenda puts much of the onus on the market system and the private sector. The government is primarily regarded as taking on a more laissez-faire, hands-off role to ensure that the private market system works better and as it is supposed to. And we have made great strides over the years in enhancing competition in the economy by dismantling monopolies, decontrolling interest rates, enhancing bank competition by opening the banking sector to foreign bank entry, liberalizing trade, redefining the scope of public services to allow foreign entry, all of which have contributed to greater efficiency in the economy.

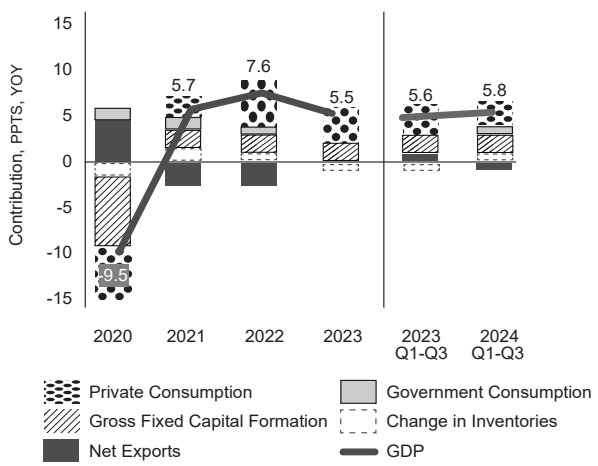
The fact is, however, that not all goods can be produced efficiently or in sufficient quantity by the private market. Market failures do exist.

In my view, the failure of government to provide sufficient amounts and quality of certain critical public goods is a more important binding constraint to sustainable and inclusive growth, rather than the failure of the government to enhance market competition and efficiency. This failure limits or hurts TFP growth and capital accumulation. These critical public goods are in the areas of climate change adaptation, health, education, and IT connectivity.

The Philippines has historically had a very low level of public investment average of 2.5 percent of GDP per year, versus 3.8 percent of GDP in the region, over the period 1998 to 2015 [World Bank 2018:36]. This low level of public investment has been a feature of the Philippine economy for at least 17 years.

Figure 6 shows that real GDP growth in the Philippines is driven primarily by private consumption, shown by the spotted bars. When private consumption contracts, as it did in 2020, GDP growth also declines significantly; conversely, when consumption rises—as in 2022—GDP growth increases accordingly. It is followed by government spending, shown by the light gray bars, and then to a smaller extent by gross fixed capital formation or investment (both public and private), shown by the diagonal line bars, and finally by net exports and changes in inventories, shown by the dark gray bars as in 2022.

FIGURE 6. Real GDP growth by expenditure from 2020-Q1 2024



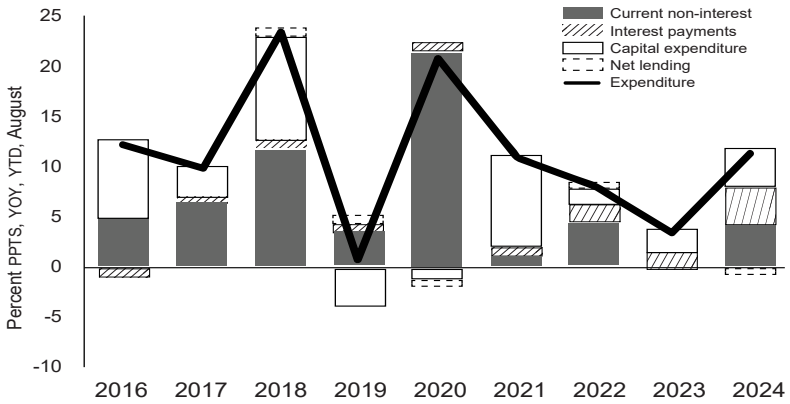
Source: PSA and AMRO Staff calculations in AMRO [2024:5]

Figure 7 shows the changes in types of government spending since 2016. Of particular interest are the capital expenditures of the government, shown by the light gray bars. Relative to 2021, capital expenditures of the government fell in 2022 and 2023, the first two years of the Marcos Jr. administration, before increasing in August 2024. However, even this growth in public expenditure on capital in August 2024 is lower than those in the pre-pandemic years of 2016, the end of the Aquino administration, and 2018, during the Duterte administration. Relative to the past two administrations, therefore, the present administration, thus far, has an inferior record in increasing public investments, only approximating the Duterte administration's record in 2021 post-pandemic.

The main reason the government has been unable to invest in certain critical public goods is due to weak institutions and poor governance. In large part, the political economy process involved in crafting laws and formulating and

implementing policies provides enormous opportunities for rent-seeking behavior to benefit favored individuals or groups. This is neither a new insight nor phenomenon but appears to have become more evidently acute today.

FIGURE 7. Changes in government expenditure from 2016 to August 2024



Source: DBM and AMRO Staff calculations AMRO [2024:7]

Infrastructure projects are a traditional source of budgetary allocation and corruption, with many such projects awarded to "spurious contractors often owned by the very politicians who allocate the funds for them" [Habito 2024]. There appears to be more than a whiff of potential conflicts of interest and disregard for the rule of law. For instance, many in Congress, including both the Speaker of the House and the former Chair of the House Appropriations Committee, are or were among the largest contractors in the country.[9]

[9] Martin Romualdez was first elected Speaker of the House of Representatives in 2022 and currently still serves in this capacity [Source: Wikipedia]. In 2023, and hence, already during his incumbency as Speaker, he bought a 20 percent stake in EEI, one of the largest construction firms in the country, for ₱1.25 billion through his RYM Business Management Corporation [Camus 2023]. In March 2025, it was reported that Romualdez had divested from EEI and that the President and CEO of EEI himself bought Romualdez' RYM Business Management Corporation's entire stake. Curiously, not only did this happen shortly after the controversy surrounding the 2025 national budget that Congress had passed had erupted, but also, it appears that the Speaker sold his shares at a loss since the acquisition price of RYM's 207.26 million EEI shares had a market value of only about ₱ 829 million, much lower than the ₱ 1.25 billion Romualdez had paid to acquire these shares in 2023 [Loyola 2025].

The Chair of the powerful House Appropriations Committee in the same 19th Congress and a very close ally of Speaker Romualdez, Elizaldy or Zaldy Co of the Ako Bicol Party List group, owns or owned Sunwest Construction and Development Corporation (SCDC), founded in 1997 and one of the biggest government contractors in the country. SCDC has undertaken many government infrastructure projects throughout the years, including building the Bicol International Airport. SCDC eventually became more diversified, with many affiliate companies and subsidiaries under the holding company, Sunwest Group Holdings Incorporated.

By 2009, before Zaldy Co himself became a member of Congress. SCDC was the DPWH's fifth largest contractor. In 2024, DPWH contracts in the Bicol region secured by SCDC amounted to more than

Congress has been able to carve out large chunks from the General Appropriations Act (GAA) for their pork barrel projects by pre-identifying and inserting these into departmental or line agency budgets.

Data show that of the infrastructure projects of the Department of Public Works and Highways (DPWH) in the past three budgets, 44 percent have been for "roads, bridges, and multi-purpose halls", and about 20 percent has gone to flood control projects [Punongbayan 2024;2022]. Of the ₱1.5 trillion of the DPWH in 2024, for example, more than half are taken up by only two infrastructure projects: ₱521.3 billion is for the road network while ₱352.8 billion is for flood control projects [DBM 2024].

Given these disproportionate allocations for infrastructure, and the potential conflicts of interest arising from some members of Congress who allocate funds for these having ties to or being government contractors themselves, the opportunities for rent seeking appear unconstrained and unbounded.

₱5.7 billion, behind only two other firms. Between 2016 and 2024, it is estimated that SCDC won government projects worth at least ₱38 billion, based on data available on the DPWH website. In 2019, for example, SCDC bagged 12.16 percent worth ₱3.792 billion of the total value of contracts in Bicol of ₱31.126 billion and by 2022, but this already large amount rose to ₱10.465 billion or 15.13 percent of the total value of contracts in Bicol of ₱69.152 billion [de Leon and Valmonte 2025].

Co was first elected to Congress in 2019, the same year he supposedly divested from SCDC, apparently to be compliant with the avoidance of conflict of interest prescribed in the Code of Conduct and Ethical standards for Public Officials and Employees. At least on paper, therefore, there was a period in the recent past when Co was already in Congress and SCDC was a large government contractor before he divested from SCDC. However, Co is allegedly still the "beneficial owner" of SCDC as he remains a shareholder in several Sunwest-linked firms doing business with SCDC [de Leon and Valmonte 2025]. Following the brouhaha over the 2025 national budget which he was instrumental in crafting, in January 2025, Co lost his post as chair of the powerful House Appropriations Committee, a position which essentially bestows on the holder power over the public purse, after the President's Congressman son made a motion in the House declaring the chairmanship of the Committee vacant which was approved. Co appears to have been the fall guy from the fallout in the aftermath of the controversial 2025 national budget, likely to protect higher ups [de Leon 2025].

SCDC is a scandal-plagued corporation, also allegedly involved in the Pharmally scandal--a small company called Pharmally, with a capitalization of less than ₱1 million, was able to secure billion-peso government contracts for the procurement of masks and other personal protective equipment during the COVID pandemic, and which equipment also turned out to be of poor quality; in 2023, SCDC's audited financial statement showed that its revenues from the sale of personal protective equipment had revenues of ₱11.694 billion in 2022, equivalent to almost 18 percent of its total revenues [de Leon and Valmonte 2025], and the DepEd laptop scandal, pertaining to the delivery of overpriced and outdated and therefore unusable laptops procured by the DepEd [de Leon and Valmonte 2025]. The alleged involvement of Co and Sunwest in these scandals came to light in a privilege speech delivered by then Senate Majority Leader Joel Villanueva [Bordey 2024].

It should also be noted that the Chair of the House Committee on Accounts in the 19th Congress, Yedda Romualdez of the Tingong Party List group, is the wife of Speaker Romualdez. The Committee on Accounts has jurisdiction over the internal budget of the House, including accounting, budget preparation, disbursements, financial operations, and submission and approval.

This triumvirate of the Speaker, the Chair of the House Appropriations Committee, and the Chair of the House Committee on Accounts wields almost absolute power over the disbursement and allocation of public funds, including congressional pork barrel projects.

Legislators also dole out financial and medical assistance for their projects through pork inserted into the DSWD's and DOH's budgets as people would need to approach them and get them to issue guarantee letters (GLs) to cover medical bills, for example. While giving PhilHealth a zero subsidy in the 2025 budget, cutting billions from the Department of Education's budget and not allotting the biggest share of the budget to education, as constitutionally mandated, Congress has instead allotted ₱26 billion to a cash assistance program for minimum wage earners and the near poor called *Ayuda sa Kapos ang Kita Program* (AKAP). Given the uproar that attended this allocation to AKAP, which many view as a means for politicians to bribe voters for the May 2025 mid-term election, the President placed AKAP under conditional implementation. The Budget Secretary stated that the AKAP budget will be released only once guidelines are in place and are met by the agencies—the Departments of Social Welfare and Development, Labor, and the NEDA [Esguerra 2024].

Congress can protect the budget for its pork barrel projects without increasing the approved budget in the GAA by simply designating large chunks of a department's budget as "unprogrammed appropriations." The latter means that departments cannot spend this portion of their allotted budgets unless the government has excess funds to fund them. In the face of a declared policy of "no new taxes," and the need to cover "unprogrammed appropriations," the need to find excess funds elsewhere in the government, including government-owned and controlled corporations (GOCCs), explains why the DOF took and continues to attempt to take back all ₱89.9 billion from PhilHealth to fund government spending in areas other than health.

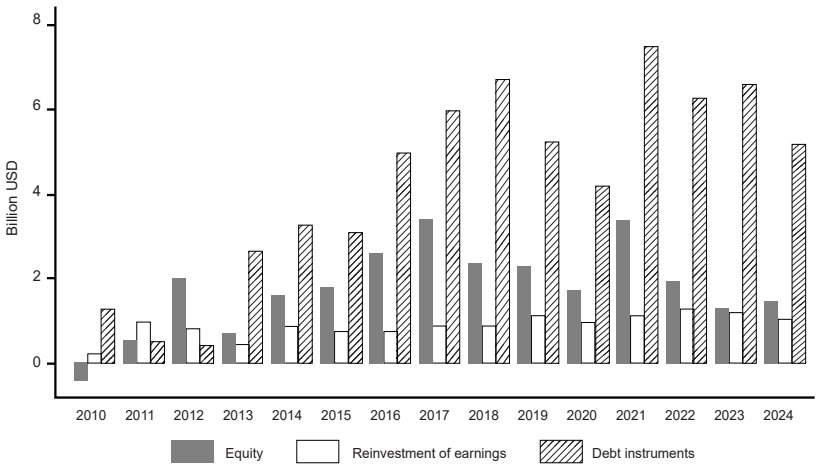
Adherence to the rule of law is weak and the judiciary, probably the most critical institution for a well-functioning democracy and economy, is also not regarded as fair nor free of corruption. This is especially damaging to the ability of the country to attract foreign investors, especially foreign equity investors.

When investor rights are not secure and the risk of expropriation is high, investors will be wary of investing here. A study by Ma and Wei [2020], for example, shows that the composition of foreign capital inflows is adversely affected by poor institutional quality, proxied by a high risk of expropriation. This is because the informational requirements in equity investment are far greater than those in debt-financed investment. A debt instrument requires less information since the interest rate, maturity period, face value, and rate of return are already known when an investor buys debt paper and holds the security to maturity. In contrast, the rate of return on an equity investment is unknown *a priori.*

Ma and Wei [2020] show that when institutional quality is poor, equity investment will be inefficiently low—because equity financing is more vulnerable to expropriation risk than is debt investment—and total capital inflows will consist of a high share of debt. Perhaps this poor quality of institutions is the

reason, as Figure 8 shows, that the composition of foreign capital flows to the Philippines consists mostly of debt, rather than equity flows.[10]

FIGURE 8. Composition of foreign capital flows to the Philippines from 2010 to October 2024



Source of basic data: Bangko Sentral ng Pilipinas (BSP).

One other thing that needs to be noted is the fact that many government agencies and departments lack the technical capacity to formulate and implement programs and projects to spend their budgetary appropriations properly. For years, there has been underspending by government agencies and departments. This has been and is also still being used to justify taking 'surplus' funds from these agencies and departments and reverting these to the National Government.

Another factor that contributes to institutional weakness and poor governance is the seeming inability of supposedly technically competent government officials to influence policymaking sufficiently or significantly, and/or devise ways to reduce or disincentivize rent-seeking behavior. Some are induced to remain quiet to be able to obtain or remain in what are oftentimes sinecure positions. The idea for the Maharlika Fund, for example, was apparently initially floated by a top government economic manager, and the bill to create Maharlika was subsequently sponsored by some of those who regard themselves as being the economists in Congress.

Being a deficit country means the country does not have surplus funds to set up a sovereign wealth fund or sovereign investment fund. The Congressional sponsors of the bill initially attempted to secure Maharlika's capital from the government's pension systems, GSIS and SSS. Due to the public backlash, this proposed action was not pursued. Government financial institutions (GFIs), the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP), were targeted next and were each required to cough up ₱50B and ₱75 billion,

[10] This hypothesis can be empirically tested.

respectively, while the central bank, the Bangko Sentral ng Pilipinas, or BSP, was to initially contribute ₱50 billion from its earnings. This demonstrates weak adherence to the rule of law—Congress can just pass laws to justify, *ex-post*, the confiscation of part of the capitalization of government financial institutions and the BSP, contravening the law that created an independent BSP and the charters of both DBP and LBP.

The decapitalization of DBP and LBP led these GFIs to request regulatory forbearance from the BSP to meet capital adequacy requirements. The independence of the BSP took a hit, and its operational independence could also be seen as being compromised by the requirement to generate profits to fund Maharlika, where its primary mandate is the control of inflation. As the regulator of banks, the BSP could not say or do anything to prevent Congress from requiring government financial institutions like LBP and DBP from being depleted of their capital, contrary to what a bank regulator would have any banking institution it supervises and regulates do.

4. Some examples of institutional and governance weaknesses associated with poor outcomes

Example no. 1: The country's experience during the COVID-19 pandemic

The Philippines was not expected to be the worst-performing country in the ASEAN +3 region post-pandemic.

This is because the Philippines had 'strong macroeconomic fundamentals' pre-pandemic. It enjoyed a decade of high growth, including a 6.7 percent growth rate of output in the fourth quarter of 2019. Inflation was low and stable at an average of 2.4 percent year-on-year in 2019. Its tax revenue-to-GDP of 16.1 percent pre-pandemic was the highest it had been since 1997. Its debt-to-GDP ratio of 39.6 percent was the lowest recorded since 1986, and it was enjoying its highest-ever sovereign credit rating of between BBB+ and A-.

In short, all the usual macroeconomic metrics pointed to a healthy and robust economy. Yet, as shown in Table 1, the IMF projected that the Philippines would have the largest reversal in GDP growth from 2019 to 2020 and the largest contraction in output growth in 2020 among countries in ASEAN +3.

This is puzzling since Table 1 also shows that, apart from the CMLV countries,[11] in 2019, the Philippines had the second highest annual GDP growth rate of six percent, second only to China's 6.1 percent.

[11] Cambodia, Myanmar, Laos, and Vietnam. These countries started out as being the less developed countries in ASEAN, especially compared to the original ASEAN 5 countries. They are starting from a lower base and therefore tend to have higher rates of growth as they transition to more market-based economies and become more developed. Of course, Vietnam has become a star performer in the region following its earlier Doi Moi economic reform program.

TABLE 1. 2020 GDP Growth Forecast, ASEAN +3

	Annual percent change in real GDP		
Country	**2019**	**2020 forecast**	**Drop**
Brunei	3.9	0.1	3.8
Cambodia	7.1	-2.8	9.9
China	6.1	1.9	4.2
Indonesia	5.0	-1.5	6.5
Japan	0.7	-5.3	6.0
Lao PDR	5.0	0.2	4.8
Malaysia	4.3	-6.0	10.3
Myanmar	6.8	2.0	4.8
Philippines	6.0	-8.3	14.3
Singapore	0.7	-6.0	6.7
South Korea	2.0	-1.9	3.9
Thailand	2.4	-7.1	9.5
Vietnam	7.0	1.6	5.4

Source: Tables A3 and A4 and IMF [2020] from Monsod and Gochoco-Bautista [2021].

Monsod and Gochoco-Bautista (MGB) [2021], hypothesized that the severe and long lockdown resorted to was due to its being regarded as the only instrument available to prevent the transmission of COVID-19. The reason behind the almost exclusive reliance on such a containment measure may have been the lack of health system capacity and preparedness to manage pandemics, rather than the lack of fiscal resources to deal with the pandemic's effects *per se*. This hypothesis is tested in this paper.

The World Health Organization's (WHO) International Health Indicators (IHR) "require states to maintain capacities to detect, assess, and respond to events that may constitute a public health emergency of international concern" [MGB 2021]. IHRs in 2019 for some countries in the region were compared to see the preparedness of a country's health institutions across different types of health capacities.

The 2019 score per capacity for six of 13 indicators associated with detection and response capacities in the Philippines and Vietnam, for example, relative to the global average and the WHO regional average, shows that the Philippines is further away from global and regional averages while Vietnam is much closer to them.

On one indicator in particular, laboratory, the Philippines significantly lags Vietnam. During a pandemic, the ability to detect COVID-19 cases and isolate and treat such cases relies on being able to test for it by having a laboratory capacity that can handle many cases at once, and obtaining lab results quickly.

Vietnam's demonstrated daily capacity at the end of April 2020, was 0.27 per 1,000 people, which was almost seven times greater than that of the Philippines of 0.04. The Philippines had only one lab capable of doing RT-PCR testing at the start

of the pandemic and only reached Vietnam's testing capacity in July 2020 [MGB 2021]. Not surprisingly, the daily new confirmed COVID-19 cases per million people in the Philippines was much higher than Vietnam's. COVID-19 transmission in the Philippines continued to be classified by the WHO as "community transmission" as of October 2020, whereas Vietnam's was described as "clusters of cases" [MGB 2021]. COVID-19 outcomes were dismal as well. The Philippines had the highest number of total confirmed COVID-19 cases in ASEAN +3 and by October 2020, the Philippines' death rate from COVID-19 per 1 million population was the highest in ASEAN +3. Thus, on both the economy and COVID-19 outcomes, the Philippines was the bottom dweller in ASEAN +3.

The government used expansionary policies, particularly fiscal policy, to support the economy. What explains the bleak outcomes in output growth from the pandemic response?

MGB [2021] formally test the factors that correlate with the projected decline in GDP growth in 2020 from 2019 in ASEAN +3 countries, developing East Asia, South Asia, Australia, and New Zealand. Such factors include a measure of a country's health capacity, a country's fiscal position, the susceptibility of a country to the disease, and a measure of the vulnerability of a country to external shocks such as COVID-19, using pre-COVID data.

They find that *ceteris paribus*, stronger national health capacities to detect and respond to disease outbreaks are associated with better economic outcomes in 2020. Specifically, improvements in certain institutional health capacities, such as laboratory capacity, may matter more than other correlates, including the amount of fiscal spending to respond to COVID-19.

In fact, they find that a strong fiscal position prior to 2020 is either not statistically significant in explaining the drop in GDP from 2019 to 2020 or is statistically significant in the wrong direction. This suggests that is not the amount of government spending that may matter for good COVID-19 health outcomes *per se*, but whether such spending is leveraged optimally. While necessary during the pandemic, income support, for example, did not help resolve long-standing institutional issues in the health preparedness and response system and thus, did not prevent the almost exclusive reliance on long and severe lockdowns to contain the pandemic and the subsequent large drop in GDP growth in 2020 as well as the poor COVID-19 outcomes.

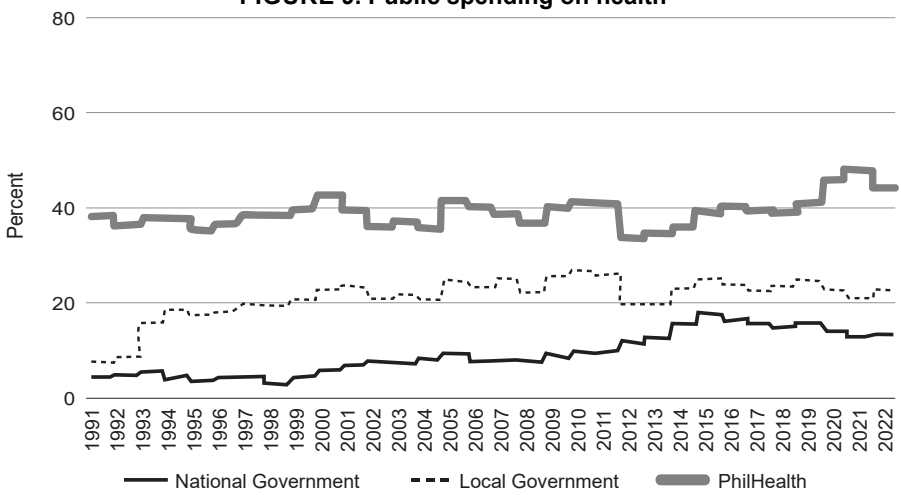
Example no. 2 The country's health system

In a review of the Philippine healthcare system, Panelo et al. [2017:3] assess the long-term impact of healthcare reforms on health outcomes over the past 25 years. They cite persistent fundamental structural weaknesses that have prevented these reforms from having the intended beneficial health outcomes. They also note that progress in health outcomes, relative to neighbors in the region and the attainment of Millennium Development Goals (MDGs), has been slow in the Philippines.

The health system has suffered and continues to suffer from a lack of public investment and expenditure on health.

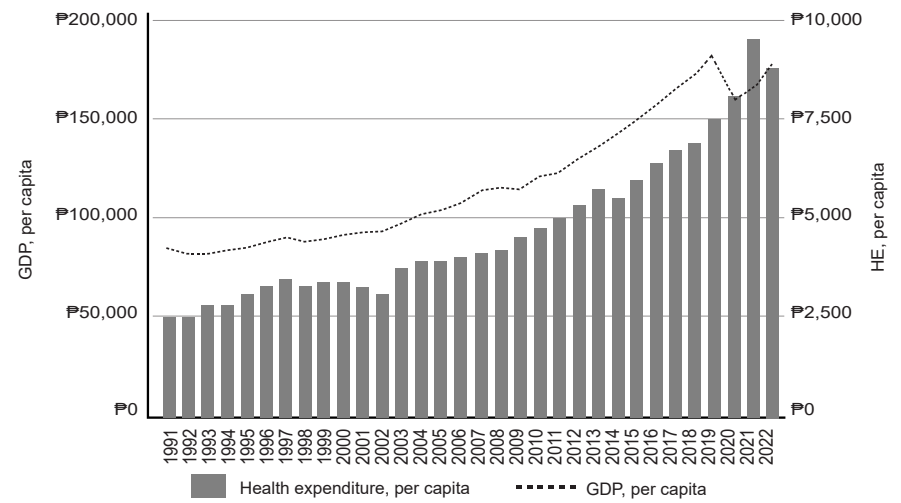
Figure 9 shows that total public spending on health, composed of the shares of the National Government, local governments, and Philhealth, the social insurance scheme, has remained the same at roughly 40 percent of total health expenditure since 1991, or for about three and a half decades. What is noteworthy about this is the fact that the 40 percent share of aggregate public spending in total health expenditures is still way below the 70 percent set in the DOH's Health Sector Reform Agenda (HSRA) target in 1999, or over twenty years ago.

FIGURE 9. Public spending on health



Source: Mo, Solon, and Herrin [2024].

FIGURE 10. Total health expenditure in real per capita terms



Source: Mo, Solon, and Herrin [2024].

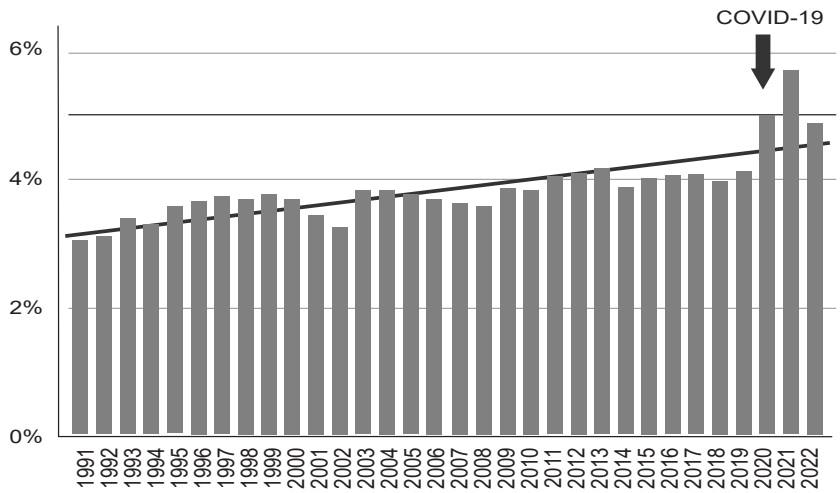
While the share of public spending in total health expenditures has remained relatively unchanged, the composition has changed, with Philhealth's share growing while the local governments' share declining.

Total spending (public and private) on healthcare has grown over a 30-year period by a factor of 30, from ₱40.3 billion in 1991 to ₱1.1 trillion in 2022, averaging 5.84 percent per annum.

However, real per capita health spending, shown in Figure 10, has only grown by a factor of 3.4 over the last 30 years, from ₱2,542 in 1991 to ₱8,658 in 2022, clearly very much less than growth in total nominal health expenditures, due to both about a doubling of the population between 1991 and 2022, and to inflation [Ma, Solon, and Herrin 2024].

Figure 11 shows that for three decades, since at least 1991, the WHO target of five percent of total health expenditures of GDP has been missed. Only in 2021, at the height of the pandemic, did this ratio exceed five percent.

FIGURE 11. Health expenditure, share of GDP

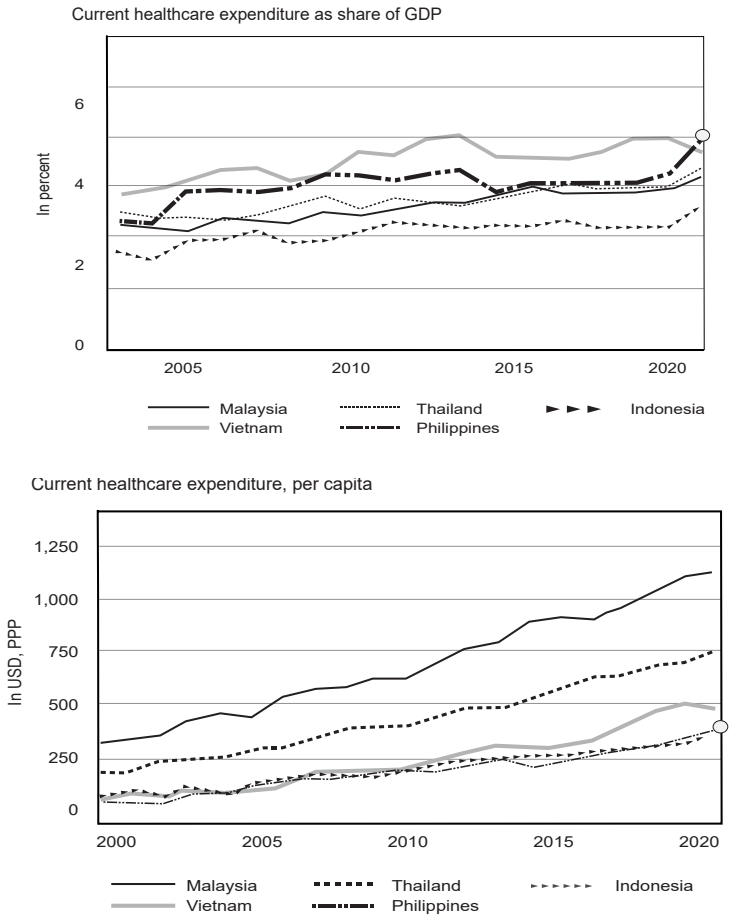


Source: Mo, Solon, and Herrin [2024].

Relative to regional peers, the upper graph in Figure 12 shows the while the Philippines compares favorably in terms of health expenditures as a share of GDP, because of anemic GDP growth over the last three decades, the Philippines lags behind its regional peers in current per capita healthcare spending in absolute terms, as shown in the lower graph.

The counterpart of the lack of government investment in the health system and in paying for health expenses is the large share of out-of-pocket (OOP) payments, amounting to 45 percent of total healthcare expenditure payments in 2022. Meanwhile, the National Government accounts for 21 percent, Social Health Insurance for 14 percent, and Local Government for ten percent of total healthcare expenditure payments [Ma, Solon, and Herrin 2024].

FIGURE 12. Healthcare expenditures as a share of GDP and current, per capita in comparison with regional peers



Source: Mo, Solon, and Herrin [2024].

If people pay for almost half of total health expenditures out of their own pockets, this is a barrier that tends to exclude people, especially the poor, from accessing medical care.

Large OOP costs and the unaffordability of better-quality healthcare by the poor can also be inferred from the utilization of different types of health facilities by wealth profile.

Data from 2013 in Table 2 show that the poor primarily use public health facilities. Nine out of ten (91.4 percent) of the poorest use public health facilities. More than half of the poorest, 55 percent, go to the barangay health services (BHS), which provide only very basic health services. Only 8.6 percent of the poorest people go to a private health facility. In contrast, 73.6 percent of the wealthiest people go to private health facilities while only 8.6 percent of the poorest people do so.

Except for public tertiary hospitals. primarily UP PGH and a few other large ones such as East Avenue Medical Center, National Kidney and Transplant Institute, private hospitals are generally regarded as being able to provide better quality health care.

TABLE 2. Utilization of health facilities by wealth quintile

	Public	DOH hospital	LGU hospital	RHU	BHS	Private	Private hospital	Private clinic
All	67.1	5.1	11.1	18.7	32.2	32.9	20.3	12.7
Poorest	91.4	3.8	9.3	23.3	55.0	8.6	4.6	4.0
Poor	84.2	4.1	13.0	25.2	41.9	15.8	9.0	6.8
Middle	71.7	6.1	12.7	22.3	30.4	28.3	15.8	12.5
Rich	50.5	6.5	12.0	13.4	18.6	49.5	31.6	17.9
Richest	26.4	5.2	8.0	6.0	7.3	73.6	47.6	25.9

Source: Panelo, Solon, Ramos, and Herrin [2017:20] based on data from UPecon-HPDP calculations and NDHS 2013.

Health outcomes are poor, as key metrics indicate. The maternal mortality ratio per one hundred thousand births has barely changed over 25 years, decreasing from 209 in 1990 to 204 in 2015, despite the target being set at 52 by 2015. Similarly, the prevalence of underweight children under five years old has also shown little change during this time, declining from 26.5 in 1992 to 21.5 in 2015, while the target was set at 13.1 by 2015 [Panelo et al., 2017:5].

According to the SDG Indicators of the Philippine Statistics Authority (PSA), only 56.9 percent of currently married women of reproductive age (15-29 years of age) have their need for family planning satisfied (provided) with modern methods, while the target is for 100 percent coverage by 2030 [PSA 2022]. The PSA SDG also shows that the percentage of public health facilities properly stocked with selected essential medicines is only 56 percent in 2020, a decline from 65.4 percent in 2016.

In rural areas, where the majority of the poor live, few doctors have undergone advanced training. Data for 2016, for example, show that an overwhelming majority of the surgeons who have completed fellowships mainly practice in large urban centers: 1,295, practice in the National Capital Region (NCR), followed by CALABARZON[12] with 193, and Central Luzon with 192. Only 17 practice in MIMAROPA,[13] 22 in Caraga, and one in the Autonomous Region of Muslim Mindanao (ARMM) [Panelo et al., 2017:24].

In short, key health outcomes are dismal and have not changed much in three decades. Targets set in terms of the share of public spending of total health expenditures have been missed over many decades. The lack of public spending on health goods and services and financing is reflected in very high OOP expenses,

[12] This is the region that comprises the provinces of Cavite, Laguna, Batangas, Rizal, and Quezon.
[13] This region includes the provinces of Mindoro, Marinduque, Romblon, and Palawan.

averaging 45 percent of total health expenditures, which prevents the poor from being able to access quality healthcare. The only memorable pronouncement made by the President during his latest SONA is the plan to have more specialty hospitals established in areas outside the National Capital Region to try and make quality healthcare accessible to far-flung areas.[14]

Despite all these, Congress has chosen to give a zero subsidy to PhilHealth in the 2025 budget and expropriated ₱60 billion of a planned ₱79.9 billion from PhilHealth's reserve fund to spend on other programs and projects of government that have been relegated to "Unappropriated Expenditures" of the GAA. The Solicitor General of the Philippines and Office of the Government Corporate Counsel (OGCC), representing the government, argued before the Supreme Court that the money taken from PhilHealth is not part of PhilHealth's reserve fund but is instead the excess of PhilHealth expenditures on indirect beneficiaries, such as senior citizens and persons with disabilities, relative to the government's PhilHealth subsidy for these.[15]

The government has chosen to justify the legal basis of its actions in expropriating PhilHealth's funds, but its argument misses the point: It is not the origin of the funds from PhilHealth that matters, but the fact that there are unused funds at PhilHealth. These unused funds represent an opportunity cost—to the extent that they exist, millions of people are being deprived of benefits in terms of additional health services and/or lower PhilHealth premiums.[16]

Punishing PhilHealth for managerial inefficiency by removing its subsidy and expropriating money from its reserve fund will not make PhilHealth do its job properly. It penalizes the general populace by further reducing the possibility of obtaining more benefits, instead of holding PhilHealth management accountable for inadequate benefits. What is needed instead is to establish an institutional structure that incentivizes efficiency at PhilHealth. Perhaps the PhilHealth charter should be amended to legally define measurable targets in terms of the fulfillment of its mandate of universal health coverage, specifying a cap on the backlog of unpaid hospitals and doctors' allowances at any time, and ensuring these be resolved by a certain date. Additionally, there should be an appropriation to create a professional and competent actuarial unit within PhilHealth, a clearer definition of "reserve fund", with the proviso that if the targets are not met by the specified dates, or if PhilHealth underperforms, the management and board will be replaced.[17]

[14] However, even if new hospitals are built there, this is an impossible task given the dearth of medical personnel to serve in areas outside the National Capital Region and major urban centers.

[15] This is based on the statements presented by Solicitor General Menardo Guevara and OGCC Head Solomon Hermosura at a preliminary hearing at the Supreme Court on February 4, 2025 of cases filed there on the legality of this expropriation of PhilHealth funds.

[16] At the same hearing, an economist serving as *amicus curiae* to the Supreme Court on this case, Dr. Orville Solon, noted that except for five years, PhilHealth in the last 30 years has always had unused funds in that the amount of contributions far exceeded the benefits paid out by PhilHealth.

[17] This is similar to the tenure of the central bank governor in New Zealand being tied to the attainment of inflation targets. A new PhilHealth President was recently appointed.

Currently, bonuses and perks of PhilHealth staff are drawn from the corporate budget, creating a perverse incentive structure that favors generating "surpluses" or excess funds for PhilHealth employees at the expense of member benefits.

Example no. 3 The Nationally Defined Contribution (NDC) to the Paris Agreement

While the Philippines is among the top five in the weather-related Long-term Climate Risk Index and in the top three in the World Risk Index, the country has an insignificant carbon footprint, emitting only 0.48 percent of global greenhouse gases (GHGs). Nonetheless, the Philippines committed to reduce and avoid GHG emissions by 75 percent for the period 2020-2030 relative to Business-as-Usual (BAU), and to try to peak emissions by 2030.

To begin with, the NDC does not seem to be well-aligned with the national climate change policy articulated in the 2009 National Climate Change Act (NCCA) and its instruments, the National Framework Strategy on Climate Change (NFCC) 2010-2022 and the National Climate Change Action Plan (NCCAP) 2011-2028 [Monsod et al. 2021:2]. The NCCAP has climate change adaptation as the anchor, with mitigation dependent on adaptation and is a by-product of it.

What has happened instead is that the NDC has prioritized mitigation over climate change adaptation and set a target for emissions reduction. This makes little sense in a country with a low carbon footprint, but which is highly vulnerable to climate change risk.

The item Forests and Land Use (FOLU), for example, was removed under Agriculture because forests are negative GHG emitters. But forests are more than just carbon sinks. Forests prevent flooding and soil erosion, and help preserve biodiversity. Because of the emission focus and neglect of the important role of forests in climate change adaptation and mitigation, spending priorities are misplaced, and the effects of climate change are not properly addressed.

Monsod [2022:2, 5-6] questions how the NDC was formulated as the numbers do not add up, the pathways are unknown, and the government is unconditionally committed to a puny 2.71 percentage point of the 75 percent commitment or about 4 percent of the commitment target as of April 2021. Monsod et al. [2021] earlier noted that estimates of potential emissions reduction discussed during a February 2021 consultation with stakeholders only produced an 11 percent reduction relative to the BAU scenario, shown in Table 3. There was no indication as to where the balance of the 64 percentage-point reduction would come from.

One criticism of the NDC is that it is not well-aligned with the National Climate Change Budget, known as CCET. Monsod et al. [2021:3] examine expenditures tagged by the National Climate Change Expenditure Tagging System (NCET) under the CCET, to determine whether they aligned with the country's NDC to the Paris Agreement.

TABLE 3. NDC estimates as of 31 January 2021

Sector	Cumulative GHG emissions (MTCO2e) 2020 to 2030				
	BAU**	Projected reduction/ avoidance		Unconditional	Conditional
		Total	Percent of sector BAU		
Agriculture	539.09	158.3	29.4	0.0	158.3
Waste	286.09	64.9	22.7	8.0	56.9
IPPU (+WHR)	279.84	53.9	19.3	13.9	40.0
Transport	689.19	44.5	6.5	44.5	0.0
FOLU	-113.42				
Energy	1,659.52	45.9	2.8	25.1	20.8
TOTAL	3,340.31	367.5		91.4	276.1
Percent of total BAU		11 percent		2.74 percent	8.27 percent

Source: Monsod [2022:13] based on a DENR presentation on February 3, 2021

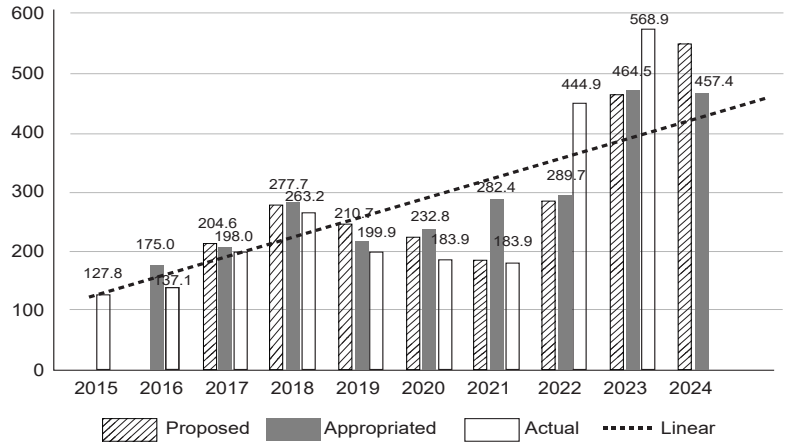
One important data point shown in Table 3 is the zero percent unconditional commitment to reduce emissions in agriculture, which is the second highest source of GHG emissions in the Philippines after the energy sector. Conditional commitment means that the government will delay addressing emissions in agriculture until it receives the technical and financial assistance to do so.

The amount of actual public spending on climate change-tagged expenditures between FY 2015 to 2024, shown in Figure 13, had always been less than the proposed amount and the appropriated amount prior to 2022. In fiscal years 2022 and 2023, actual expenditures for climate change exceeded proposed amounts. From ₱175 billion in 2016, the absolute level of appropriations increased by 161 percent to ₱457.4 billion in 2024, with a sharp increase between 2022 and 2023 of 60.3 percent, equivalent to ₱178.4 billion [Monsod 2024:6].

However, 98 percent of the increase in public spending on climate change between 2022 and 2023 was due to only two agencies, DPWH and DOTr, whose incremental climate change budgets rose by ₱146 billion and ₱24 billion, respectively [Monsod 2024:1]. Meanwhile, the climate change expenditures of key government agencies such as the DENR declined or were underutilized, such as at the Department of Agriculture (DA), in the period 2015 to 2024 [Monsod 2024:8].

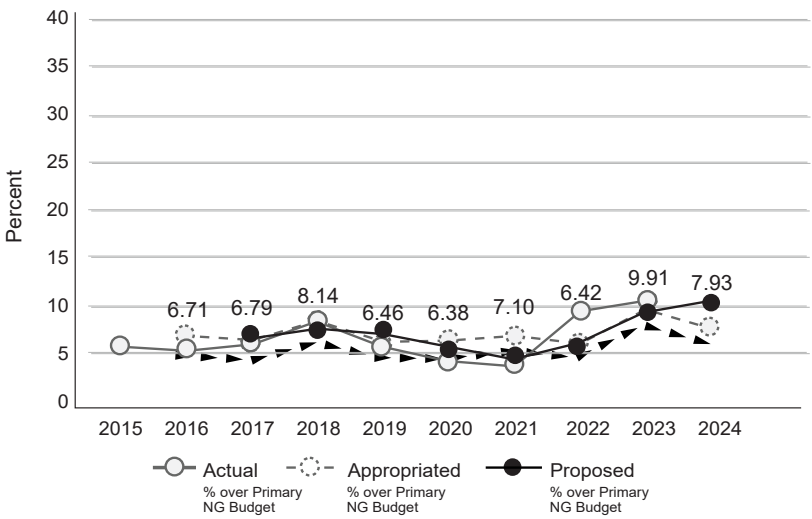
Moreover, these amounts are consistently low as a share of the national budget. Monsod [2024:7], for example, finds that over the period 2016 to 2024, the average share of climate change expenditures in the national budget was only 7.3 percent, shown in Figure 14, and has never exceeded ten percent.

FIGURE 13. Climate change expenditures FY 2015 to 2024 (in ₱ billions, nominal)



Source: Monsod [2024:6].

FIGURE 14. Climate change expenditures as a percentage of the proposed, appropriated, and obligated primary budget, FY 2016 to 2024



Source: Monsod [2024:7] based on the same data as that in Figure 13

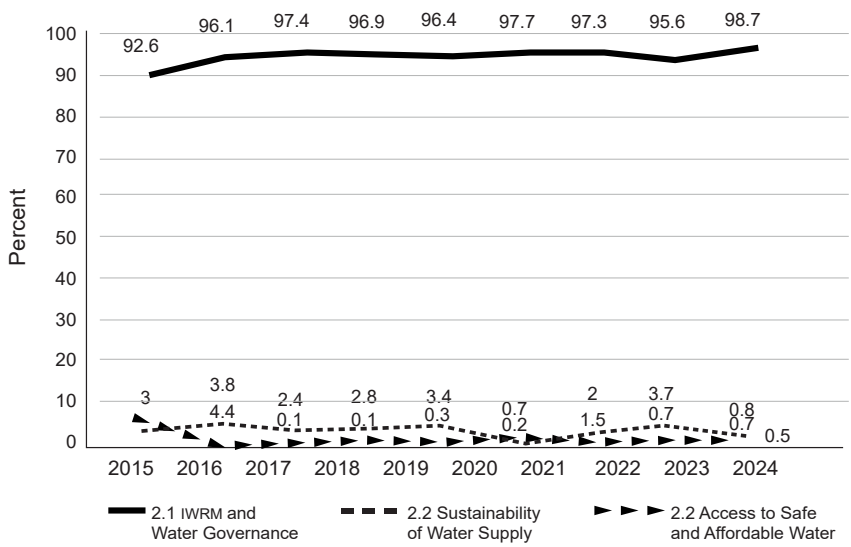
Of the seven Strategic Priority areas in the NCCAP, Water Sufficiency had the highest share of the National Climate Budget (NCB) since 2016, averaging 76.9 percent and 81.6 percent of the NCB in 2023 in 2024, respectively, or an average share of 63.9 percent from 2016 to 2024 [Monsod 2024:10]. Sustainable Energy is the priority with the next highest share of the NCB, but it pales in comparison with only a four percent share of the NCB in 2024 and an average share of 15.6 percent since 2016. Water Sufficiency and Sustainable Energy accounted for

almost 80 percent of the NCB from 2016 to 2024. Except for Food Security, which had an average share of 9.2 percent, the rest of the priority areas had an average share of four percent or less in the same period.

Government departments appear to lack the capacity to craft and implement the Programs and Plans (PAPs) required to address climate change in their budgets. A lead agency or several lead agencies are assigned to specific priority areas in the NCB. The lead agency or agencies then tag or identify climate change expenditures in their PAPs for their specific priority area(s) in the NCB.

But oftentimes, there is improper tagging of climate change expenditures in departmental budgets. In some cases, the lead agency for a specific priority area in the NCB is not the lead agency for it, while the non-lead agency tags the expenditure under its climate change PAP. Monsod [2021:5] for example, points out that the Department of Agriculture (DA) did not tag a PAP for Ecosystem and Environmental Stability Strategic (EES) Priority in the National Climate Budget (NCB) even as it is the lead agency for EES.

FIGURE 15. Breakdown of the water sufficiency climate budget by outcome area, FY 2016 to FY 2024 (in percent)



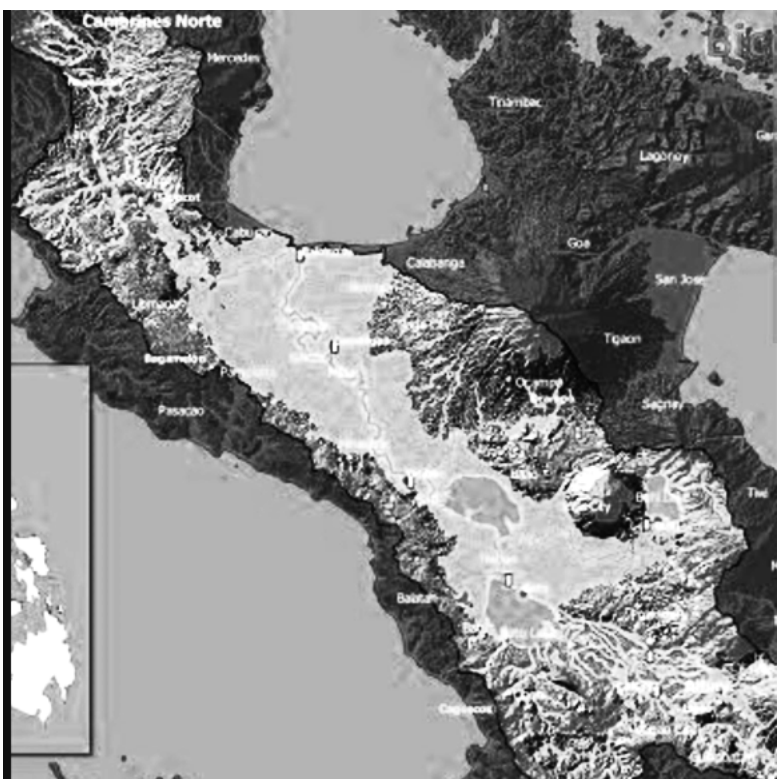
Source: Monsod [2024:12].

Instead, non-lead agencies tag significant amounts in priority areas not under them. For example, 88 percent of the Sustainable Energy (SE) budget went to the DPWH, which is not the lead agency for SE, for infrastructure projects such as the rehab, reconstruction, and upgrading of roads. The DOE, DPST, and DENR, the lead agencies for the SE priority, meanwhile, did not tag any PAPs to support energy infrastructure for climate resiliency. Again, this obvious preference for

infrastructure projects, particularly those under the DPWH, appears to be consistent with suspicions regarding rent-seeking opportunities available to members of Congress, especially those with ties to contractors or are contractors themselves.

Figure 15 shows that the large share of 98.7 percent of the Water Sufficiency climate budget in 2024 went to only one item, namely, Integrated Water Resource Management (IWRM) and Water Governance. These are primarily related to flood control infrastructure projects, a favorite infrastructure project of Congress. Meanwhile, access to safe and affordable water and sustainability of water supply—both very important goals, especially for the poor who cannot afford to pay high prices, and for the populace's health—had almost nil or puny shares of the Water Sufficiency Climate Budget.

FIGURE 16. Deforestation of basin and range geomorphology



Source: Private Filipino and Japanese Group of Geologists

In sum, actual expenditures for climate change increased under the Marcos Jr. administration beginning in 2022. However, the share of climate change expenditures in the GAA remains low at under ten percent. Moreover, most of the increase in climate change expenditures is accounted for by only two agencies, with the vast majority of spending allotted to the Water Sufficiency priority area,

specifically to flood control infrastructure, whose aggregate share of the budget for Water Sufficiency in 2024 is a staggering 98.7 percent.[18] Departments cannot correctly align PAPs with their budgets. Water Sufficiency and Sustainable Energy PAPs are tagged by departments like the DPWH, which is not even the lead agency for these areas. Outcome areas under the two priority areas, Water Sufficiency and Sustainable Energy, such as access to safe and affordable water, or renewable energy and energy efficiency to lower the cost of electricity, which are of critical importance to the poor, are still inadequately provided by the government.

It is notable that the overwhelming flooding in the Bicol River Basin area during Typhoon Kristine, for example, occurred despite over 98.7 percent of the budget for Water Security being spent on flood control projects of the DPWH. The root cause of unprecedented flooding appears to be the denudation of forests around the Basin rather than the lack of flood control infrastructure. This extensive deforestation area is indicated in black in Figure 16 surrounding the flooded area indicated by the light gray area at the center of the map.[19]

5. Conclusion

It is evident that the government needs to, but has been unable to, make sufficient investments in certain critical public goods for at least the last three decades. Even when there have been dramatic increases in the nominal amount of government spending in areas such as climate change readiness, the share of the national budget going to the provision of public goods, climate change adaptation, and healthcare, in particular, remains low at under ten percent. Aside from underinvestment, the government has prioritized spending on physical infrastructure, such as hospitals, roads, and flood control projects, rather than removing the institutional barriers that constrain the provision of quality healthcare and climate change adaptation. For example, instead of building hospitals to serve low-income individuals in remote areas, investing in technology to enhance operational systems at PhilHealth may be a better way to make quality healthcare accessible to the population, especially the poor. Regarding climate change adaptation, instead of constructing additional physical shelters and evacuation centers, reviewing the prioritization and funding allocation for the different items under the Priority Areas may lead to more beneficial outcomes. In particular, low agricultural productivity needs to be addressed to ensure food security and to protect livelihoods. In general, the government needs to invest in building a better scientific community in the country. Such an effort should start at the basic education level.

[18] According to an article using publicly available data from the DPWH website, a significant chunk of SCDC's (associated with Congressman Co) projects in Bicol went to flood control infrastructure. See de Leon and Valmonte [2025].

[19] Some of these flood control infrastructure projects have been alleged to be 'ghost' projects as well. In some cases, these projects were supposed to be put up in areas which are not known to be flood prone.

The bias in favor of physical infrastructure appears to be related to the incentives for rent-seeking activities created by such projects. This is a major hurdle that needs to be overcome if the Philippines is to accelerate and sustain high growth rates to not only make up for the missed opportunities in the past and the effects of shocks and crises that have held it back and put it on a level field vis-à-vis its neighbors, but more importantly, to realize the goal of becoming a prosperous country with sustainable growth and inclusivity.

Overcoming this hurdle requires a change in the incentive structure in key institutions. There should be a reduction in potential conflict of interest situations and opportunities for rent-seeking. There needs to be greater accountability and competence among public officials. One way to accomplish this would be to tie the tenure of appointed officials to meeting certain targets for their deliverables and to make government processes more transparent by requiring disclosure of the meeting of targets. Elected officials ought to be voted out of office if they are unable to deliver. In both cases, a well-informed and vigilant populace that demands efficient and quality public goods and services from the government and is unwilling to accept the banal tokens of generosity or good governance, is key.

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