

As it Prepares for the Worse

Philippine Economy Grows by 4.6% in 2008

Despite the global economic turmoil, the Philippine economy as measured by the gross domestic product (GDP) managed to grow by 4.6 percent in 2008. This is near the high end of the 4.1-4.8 percent revised growth forecast of the Development Budget Coordination Committee (DBCC) for the year according to the National Economic and Development Authority (NEDA). The government expects the economy to grow by 3.7 to 4.7 percent in 2009.

“Our economy is expected to remain resilient and prepared for the eventual economic rebound,” according to Socioeconomic Planning Secretary and NEDA Director General Ralph G. Recto during the press conference on the Philippine Economy held recently. He said that the growth target of between 3.7 and 4.7 percent this year is a welcome challenge. “I don’t expect recession. There will still be growth,” he added.

Secretary Recto said that he expects the economy to grow steadily this year due to increased spending on infrastructure projects and social safety nets, and that the easing of monetary policy is likely to cushion the impact of the global slowdown.

The full-year economic growth generated net employment by roughly 530,000 in 2008 based on the National Statistics Office (NSO) Labor Force Survey. Secretary Recto said the employment created came mostly from the services sector that served as the country’s primary growth driver.

“Our neighboring countries also experienced a dramatic slowdown due to high inflation, high oil prices, and the deepening global economic crisis in the fourth quarter based on available preliminary data. For instance, China’s economic



Secretary Ralph Recto flanked by Dennis Arroyo, NEDA-NPPS Director; Raymundo Talento, Director ESO-NSCB; and Romulo Virola, NSCB Secretary General.

growth decelerated to 6.8 percent while Singapore contracted by 3.7 percent,” Secretary Recto said.

Meanwhile, the robust increase in inflows from overseas-based Filipinos pushed the gross national product (GNP) to 6.1 percent in 2008. For the fourth quarter, data from the National Statistical Coordination Board (NSCB) revealed that the GDP grew by 4.5 percent while GNP by 6.4 percent.

LOOKING BACK

The industry sector grew fastest with a 5 percent growth in 2008 compared to 7.1 percent in 2007. The services sector - the linchpin of the economy - decelerated to 4.9 percent from 8.1 percent the previous year. Agriculture, which employs almost 4 in every 10 Filipinos, grew by 3.2 percent compared with 4.9 percent in 2007.

NSCB data reveal the following sectoral performances in the fourth quarter last year:

Agriculture, Fishery and Forestry (AFF) slows down. This sector accounted for 19.7 percent of total GDP. It contributed 0.6 percentage point to the total GDP in the fourth quarter. According to Secretary Recto, favorable weather and appropriate government interventions helped mitigate the impact of higher input costs, thus delivering a modest 2.8 percent growth in the fourth quarter.

Fishery (11.1 %) and poultry (4.5%) were the top contributors to the sector’s growth. However, due to the damage caused by typhoons and high fertilizer costs, which

	Fourth Quarter		Annual	
	2007	2008	2007	2008
GDP	6.4	4.5	7.2	4.6
GNP	6.0	6.4	8.0	6.1
NFIA	0.6	27.9	16.5	20.8

Source: National Statistical Coordination Board

did not drop despite declining petroleum prices, palay and corn production contracted by 2.2 and 4.6 percent in the fourth quarter, respectively. Fisheries rebounded strongly by 11.1 percent growth mainly because of high demand for freshwater species and the continuous technical support and the Fingerling Dispersal Program of the Bureau of Fisheries and Aquatic Resources (BFAR). While livestock production decelerated to 1.4 percent, this was counterbalanced by the expansion in poultry production to 4.5 percent in the fourth quarter, Secretary Recto said.

Industry improves. This sector accounted for 31.2 percent of GDP and contributed 1.6 percentage points to total GDP growth in the fourth quarter. Despite the global economic slowdown afflicting major trading partners, relatively high prices, and sagging business sentiments, the industry sector managed a 5.0 percent growth in the fourth quarter. This was comparable with the 4.9 percent growth in the same period of 2007, Secretary Recto said.

Key industries exhibited resilience according to Secretary Recto. Manufacturing grew by 3.2 percent, with food manufactures (7.1%) and beverages (14%) as major contributors to growth. Mining and quarrying grew by 12.1 percent due to a surge in crude oil production. An aggressive push in public construction and the sustained demand for real estate by overseas Filipinos and the business process outsourcing (BPO) industry, helped total construction post 13.1 percent growth, Secretary Recto added.

Services still the lead contributor to GDP. Services contributed the most to GDP growth with 2.4 percentage points. This sector, which comprised almost half of GDP, grew by 4.9 percent in the fourth quarter. This was slower than the 7.8 percent growth for the same period in 2007 as effects of high oil prices and the global economic slowdown lingered.

Nevertheless, robust growth was observed in ownership of dwellings and real estate or ODRE (6.5%) due to continued strong demand from retail and midlevel markets as well as from outsourcing firms, Secretary Recto said. Government services, on the other hand, grew by 7.7 percent partly due to the PhP10,000 additional incentive given to each government personnel, according to NSCB.

Trade, finance and transportation, communication and storage (TCS) and private services slowed down in the fourth quarter. Trade decelerated to 4.9 percent in the fourth quarter from 8.8 percent in the previous year as prices of retail commodities rose. Finance grew by 4.6 percent from 10.7 percent in the previous year due to a slowdown in nonbank financial services such as investment companies, brokers and pawnshops, security dealers as well as insurance

companies. TCS, on the other hand, grew by only 2.6 percent as communications, the leading contributor to TCS growth, registered a slower growth of 5.1 percent from 8.0 percent in the previous year because of lesser consumer demand for communication services.

Other Contributors To Growth. On the demand side, private consumption grew by 4.5 percent in the fourth quarter mainly because of stronger spending in the latter part of the period due to the holiday season, according to Secretary Recto. Spending was stronger on food (4.6%), transportation and communication (7.9%), and miscellaneous expenses (3%). Government consumption grew by 4.7 percent.

The global financial crisis also affected the country's trade as merchandise exports contracted by 9.2 percent due to the decline in exports of finished electrical machinery (-28.5%), semiconductors and electronic microcircuits, and garments (-13.2%). The NEDA head said the merchandise imports also went down mainly because of the cancellation of import orders of domestic firms due to slower demand on their products.

PROSPECTS FOR 2009

With GDP growth at 4.6 percent for the full year 2008, the DBCC-approved target of 3.7 to 4.7 percent is a welcome challenge for our economy to achieve growth in 2009, according to Secretary Recto.

“The government would boost spending to pump-prime the economy and cushion the country from the negative impact of the global financial meltdown,” he said. The government will spend as much as PhP330 billion worth of a stimulus package which includes infrastructure projects, tax breaks and joint ventures with the private sector. The government is partnering with the private sector for a PhP100 billion fund for infrastructure projects this year.

Secretary Recto said construction is seen to be a key growth driver for 2009, as the government realigns the budget to implement fast moving infrastructure projects. Ownership of dwellings and real estate or ODRE is expected to sustain its robust growth given the continued strong demand from the outsourcing firms and the OFW sector. BPO is seen to benefit from the global economic slowdown, and this will fuel the growth of private services as well. Positive prospects can also come from agriculture, healthcare/medical tourism, and tourism in general.

Meanwhile, jobless youth should be sent back to school or be retrained to acquire some skills so the country could prepare early for the eventual global economic rebound, Secretary Recto said. With the current job crunch, the Philippine economy could only create 530,000 this year, provided that it grows at the same rate as last year and the government spends efficiently. “Our break-even point in employment is about 900,000, or the same number as those entering the job market this year. But that is possible only if the economy will grow by 7 to 9 percent, like China,” he said.

Sources: Statement of Socioeconomic Planning Secretary and NEDA Director-General Ralph G. Recto during the 4th Qtr. Report on the Economy, and the National Accounts of the Philippines Fourth Quarter 2008, NSCB.

	Fourth Quarter		Annual	
	2007	2008	2007	2008
AFF	5.7	2.8	4.9	3.2
Industry	4.9	5.0	7.1	5.0
Services	7.8	4.9	8.1	4.9

Source: National Statistical Coordination Board