

PHILIPPINES

In the past decade, the Philippines has weathered the worst of times and seen the best of times. Despite all the setbacks on local and international fronts, the Philippines economy managed to hold strong.

The country's commitment to trade and competitiveness has resulted in the development of key industries and a stable economy. Relative to other Asian countries, the economy emerged strongly and well-positioned from the global slowdown because the Philippines had a very strong local market and increasingly diversified trading partners, ameliorating the influence of poor economic growth in the Western economies.

The Philippines' government expects the economic stability of 2002 to remain in 2003. Gross domestic product (GDP) growth forecasts are between 4.2–5.2 per cent, while inflation and interest rates are seen to be relatively low at 4.5–5.5 per cent and 8.0–9.0 per cent respectively. We anticipate GDP growth to be 3.6–4.2 per cent. The Philippines is on track to keep up with its neighbours.

Politically, conditions have been uncertain since the Estrada presidency, but things are starting to improve. The recent announcement by President Gloria Arroyo that she will not seek a second term in office electrified the bureaucracy into getting down to work. Less political pressure has paved the way for the president to seek major policy reforms. The government's fight against corruption and bureaucratic inefficiency has grown stronger.

2003: GROWING IMPORTANCE OF INTRA-REGIONAL TRADE

The volatile international scene is certainly bad news for the Philippines economy, but other avenues for an improved outlook in 2003 do exist. The growing power of intra-Asian trade has so far kept the region afloat. Increased openness has played a large part in keeping inflation rates in the region to a minimum, and this trend seems likely to continue for the next few years.

The slow shift of the Philippines to higher-value exports has enabled it to avoid a head-on clash with China. This shift has helped the Philippines weather the storm of the global economic slowdown relatively well. It is vital that the Philippines stay one step ahead of its Chinese competitors in terms of value-added and innovation.

The Philippines has proved a viable player in the supply of exportable services. Over the past few years, there has been rapid growth in the number of companies involved in such industries as call centres, customer service, transcription, encoding and software development. The Philippine Department of Trade and Industry (DTI) anticipates that, with new IT technoparks being created, the growth in this sector will remain robust in 2003.

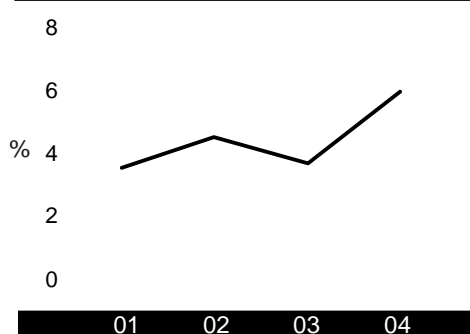
SUPPLY: INDUSTRY AND SERVICES HOLD STRONG

Industry and services continue to perform well, despite fundamental weaknesses. Most firms were unable to capitalise on the low interest rate regime in 2002, a fact that may have

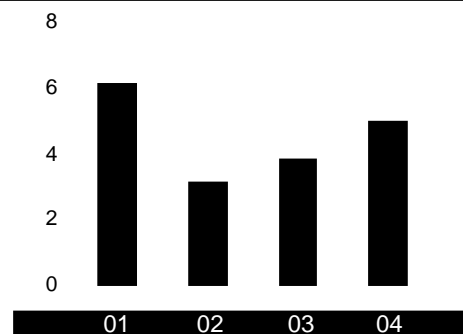
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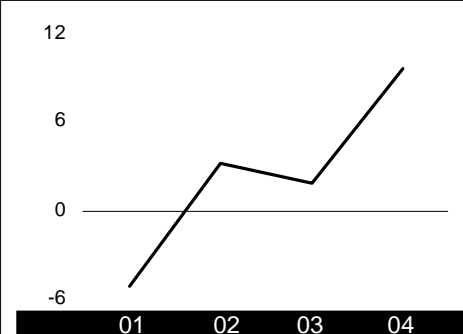
GDP growth



CPI inflation



Export growth



limited output from attaining its potential. In industry, the manufacturing sector continued its stable growth path with food manufactures, electrical machinery and apparel leading. Substantial losses in the manufacture of petroleum products and other machinery dragged overall growth down. Mining and quarrying, on the other hand, experienced phenomenal growth owing to the newly operational Malampaya natural gas field.

Under services, the transportation, communication and storage sector continued its rapid expansion as the dynamism of the wireless technology industry pushed growth. As of third-quarter 2002, the subscriber base of telecommunications firms stood at 14 million, with robust growth projected to continue for the next few years. The rest of the services sector remains strong and stable and is expected to remain so in 2003.

DEMAND: HOLDING GROUND

Consumption and continuing export growth still underpin the strength of the Philippines economy. Population growth and a slightly increasing per capita income helped keep consumption growth strong. Food expenditures increased by 3.1 per cent while transportation and communication expenditure grew by 13.6 per cent. This scenario is expected to remain the same in 2003.

With the determined drive of President Arroyo to improve government efficiency, less political disruption is expected in 2003. With reduced uncertainty and the easing of political tensions leading to the 2004

national elections, investments are expected to start trickling into the country. The bulk of this investment is still expected to come in after the elections because some companies may adopt a cautious attitude towards the incoming government. Tangible effects, however, are now evident in the upswing in business confidence indices since the end of 2002.

WOBBLES ON THE FISCAL FRONT

One of the major economic issues confronting the government in early 2003 is the budget deficit. At issue is not the size of the deficit—in fact the shortfall is bearable by international standards. The real issue is the government's inability to meet its deficit targets. Tax revenues as a proportion of GDP are falling, and tax collection targets are not being achieved. In 2002, the government was unable to meet its original budget deficit ceiling of P113 billion (the 2002 deficit ended up being P212.7 B, 88 per cent above the original target), and this dampened the international community's confidence in the Philippines. As a result, the government has become very tentative in spending on infrastructure and social services. That being the case, it is vital that the bureaucracy holds to its target budget deficit in the coming year, more because it needs to demonstrate its control over the economy than anything else.

WAR UNCERTAINTIES

The war in Iraq only seems to have had minor effects on the Philippines economy in terms of higher oil prices and slight uncertainties. Now that

international oil prices have stabilised, the Philippines industrial growth can get back on track. Consumer prices have remained stable over the past few months, despite temporarily high pump prices. Higher transportation costs did not seem to find their way into the prices of basic commodities.

The backlash from Al-Qaeda and Iraq sympathisers has so far been less severe than anticipated. It seems that the military action against rebel groups may have diminished the capabilities for massive attacks.

SARS SCARE

The outbreak of the Severe Acute Respiratory Syndrome (SARS) in Asia is not likely to affect the Philippines to a large degree. So far, the two cases of SARS in the country seem to have been contained. International tourism will be negatively affected, but domestic tourists seem to have taken up the slack. In the holiday season in April, domestic tourism boomed (official figures have yet to be released) as Filipinos who were originally scheduled to vacation abroad decided to remain in the country.

Although awareness of the virus is high, the paranoia has not reached the same levels as in Hong Kong, China or Singapore. As a result, economic activity remains stable. The Philippines has increased trade with mainland China over the years, but this trade has not reached such a significant level that major disruptions will occur because of the SARS outbreak in China. Presently, the United States and Japan remain the Philippines' major export markets.

The potential threat is still in the medium to long run as weakness in countries that house a large number of overseas Filipino workers may lead to a drop in remittances and consequently lead to a drop in Net Factor Income. The purchasing power of millions of Filipino families will definitely be affected if that happens.

Current account surplus

The current account surplus declined slightly in 2002 compared to 2001 but is forecast to be much lower in 2003 and 2004.

