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Angelo King Institute  
for Economic and Business Studies

## Monitoring the Philippine Economy Year-End Report for 2011

### Project of Angelo King Institute

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*Pressure on exports from the global economic slowdown coupled with sluggish domestic demand create lower-than-expected growth of 3.6% for the Philippine economy in 2011. Growth may slow further in 2012 if the global economy continues to display weak recovery.*

#### 1. Economic performance

- **Philippine economy slows down in 2011 due to weaker global economy.** Gross domestic product (GDP) in 2011 expanded by only 3.6% year-on-year (y-o-y), as opposed to the 7.6% y-o-y GDP growth last year; dire outlook of the country's key trading partners and sluggish domestic growth mainly caused the slowdown.
- Growth was lowest for the second and third quarter at only 3.1% and 3.2% y-o-y respectively, a consequence of the debt crisis in the eurozone and poor local government spending. Government spending contracted 0.2% y-o-y by the end of year, much lower than the previous year's 4% y-o-y growth. Gross capital formation also slowed down to 10.4% y-o-y from 31.6% y-o-y for the previous year. Conversely, consumer spending grew 6.1% y-o-y compared to the previous year's 3.4% y-o-y growth, reflecting a positive outlook from the demand side.
- The World Bank was forced to trim down its growth forecast from 4.5% to 3.7% because of the country's unimpressive performance this year. The Development Budget Coordination Committee followed, through its decision to revise its growth forecast from 5%-6% to 4.4%-5.5% for 2011. Based on the Economic Intelligence Unit, growth forecast for 2012 is at 3.4%.
- **Consumer price inflation averages higher in 2011 than previous year.** The average annual inflation (based on 2006 prices) ended higher at 4.8% compared to 3.8% in 2010 due to higher global commodity prices, especially oil. Consumer prices peaked during the months of June and October, reaching 5.2%, the highest in two years. The increase came from price hikes in food and non-alcoholic beverages, resulting from poor domestic harvest after several typhoons hit the country. Inflation, however, slowed down towards the end of the year at 4.2% as prices of food and non-alcoholic beverages tapered. The production of rice also recovered in 2011, following poor domestic harvest the previous year because of the El Niño phenomenon.
- **Global economic slowdown puts pressure on Philippine exports.** By the end of 2011, the country posted a trade deficit of USD1,005.6 million larger than the USD255.1 million trade deficit posted in 2010. Exports were hardest hit in September; it dropped by 26.8% y-o-y. The electronics

sector registered its biggest loss due to weak demand from Europe, Japan, and the United States. Shipments of electronic products, which account for more than 51.2% of the total exports revenue in August, fell by 30.6% from a year earlier.

- The decline was steeper than July's 21.3% fall. In September, exports in the electronics sector declined by 47.9% y-o-y. The slump in exports drove the country's trade balance down to negative USD1,647.8 million in November, the lowest in 2011. On the other hand, imports slowed down toward the last quarter posting a negative growth of 6.1% y-o-y in December. Overall, imports grew only at an average of 10.8% y-o-y; low demand for machinery, mechanical appliances, and electrical machinery contributed to the slump.
- **Industrial production slumps to negative figures at year end.** Total volume of production for the manufacturing sector followed a downhill trend throughout 2011, with negative growth reaching a high at 12.6% y-o-y in October. Top losers were basic metals, machinery except electrical, and food manufacturing. The year ended with negative growth in December. The following sectors were the top losers: machinery except electrical, food manufacturing, and paper and paper products. The ongoing financial crisis of the country's major trading partners, as well as the series of typhoons that hit the country in the third quarter, contributed to the sluggish performance of the sector.
- **Unemployment rate drops significantly in the last quarter despite lackluster economic growth.** The National Statistics Office estimated unemployment rate at 6.4% in October, lower than the 7.1% estimate last month. The number of employed persons increased in the services sector from 51.7% in October last year to 52.1% in October this year, particularly in wholesale and retail trade, finance and real estate. The National Capital Region recorded the highest unemployment rate at 10.4% while the Autonomous Region in Muslim Mindanao posted the lowest at 2.3 percent. Despite low unemployment rate, underemployment remained above the single digit level at 19.3% for 2011.
- **Stronger surplus remains for the Philippines' external payments position.** The first quarter balance of payment (BOP) was at PhP3.5 billion, a 175.7% y-o-y increase compared to the 2010 fourth quarter growth at 289.6% y-o-y.
- The overall BOP surplus allowed the country to accumulate foreign exchange reserves. A smaller current account surplus and a smaller financial account surplus, however, contributed to the decline in the BOP surplus in the second quarter. Lower exports caused the country's current account to drop at only 1.9% of GDP in the first quarter compared to the 3.7% of GDP recorded in the fourth quarter of the previous year. Financial account also dropped from USD5.3 billion in the fourth quarter of the previous year to only USD3.1 billion in the first quarter due to fewer direct and portfolio investments. The second quarter BOP surplus slowed down to PhP1.5 billion.
- Last, the third quarter overall balance of payment position was recorded at USD4.7 billion, higher than the 2010 USD3.3 billion registered amount, mostly due to a higher surplus in the capital and financial account. Capital and financial account stood at USD2.2 billion, with a positive net inflow of USD0.7 billion for portfolio investments; net outflow of foreign direct investments registered at

USD0.09 billion. Meanwhile, current account remained at 3.7% of GDP due to weak trade-related activities.

- **Gross international reserves continue to improve.** Total reserves (less gold) remained strong by the end of the year with an average of USD63.3 billion. Peso appreciation and income from investments abroad of the Bangko Sentral ng Pilipinas caused the surge in reserves. Total reserves grew by 21.5% y-o-y in December, slightly lower than the previous month's 27.0% y-o-y growth.

## 2. Policy responses

- **BSP raises policy rates twice in 2011 to oppose rising inflationary pressures.** The Bangko Sentral ng Pilipinas (BSP) started tightening its monetary policy last March 24, 2011 after raising its key policy rate by 25 basis points (from 4% to 4.25% per annum). This was followed by another increase by 25 basis points in May. The year ended with the same policy rate of 4.5% per annum, still within BSP's inflation target of 4.0% with a tolerance interval of +1.0%. The BSP's implementation of a contractionary policy twice this year was done in response mainly to the volatility of commodity and global oil prices. Political unrest in the Middle East contributed to the volatility of global oil prices.

## 3. Other economic news

- **Philippine stock price index grows in December despite pressure from lingering concerns about the European debt crisis.** The Philippine stock index, as measured by PSEi, grew 3.7% on 21 December, on a year to date basis. The latest closing stock index was recorded at 4,368.88 last 21 December, gaining 0.6% from the previous day. The performance of the country's stock market bested other Asian countries because of the Philippines' sound fiscal and monetary policies and higher investor appetite for less risky bonds.
- **Overseas Filipino remittances hit new peak December.** Based on the Bangko Sentral ng Pilipinas records on remittances from overseas Filipinos, remittances for 2011 increased to USD20.1 billion, climbing 7.2% from 2010. Land-based worker remittances accounted for 78.4% of total remittances and 21.6% came from sea-based workers. The strong demand for Filipino workers, especially skilled workers, continued despite global economic challenges. Higher remittances by the end of the year could be attributed to higher cash transfers to family members affected by typhoons in September and December, and the growth of financial institutions offering more money transfer services.

## 4. Future challenges

- **Pressure on the current administration to strengthen public finances lingers.** Based on the Economist Intelligence Unit's outlook for the Philippines, the Aquino administration's main policy challenge is to reinforce government finances. The September fiscal balance ended with a USD18.5

billion budget deficit, down from a surplus of USD9.2 billion in August. Public debt to GDP ratio stood at 52.4% in 2010, one of the highest in Southeast Asia. Conservative government spending seems to be doing not much since economic activity has slowed down due to fewer investments on infrastructure and other income generating endeavors. The private-public partnership program remains implemented though. At least ten projects were expected to start before 2011 ended.

- **Eurozone and US recessions threaten the Asian region.** The region remains vulnerable to eurozone and United States economy contractions. In the Asia Economic Monitor December 2011 publication, the impact on emerging East Asia is said to be serious yet manageable. policymakers should be prepared with sound fiscal and monetary policies. It was noted that the region's financial systems remain vulnerable and sensitive; risk aversion may lead to a drop in investments in Asian financial assets. The warning does not exclude the Philippines. Thus, efforts have to be concentrated in making the economy resilient (i.e. providing safety nets) to external shocks.
- **Sustainability of Filipino overseas worker redeployment.** Social unrest in the Middle East and North Africa caused the government to redeploy displaced workers in affected countries. Social and political turmoil, however, is not coming to an end anytime soon.

Moreover, there are countries such as Saudi Arabia and some European countries that are expected to implement policies that promote hiring local workers, hence reducing job opportunities abroad for Filipinos. The government must sustain its redeployment initiative; it should also create job opportunities locally.



## Philippines Economic Data

Monthly Leading Indicators	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Industrial Production (y-o-y, %)	14.5	11.2	10.2	3.1	2.7	-0.2	4.6	1.2	0.4	-12.6	-6.4	-7.9
Consumer Price Index (y-o-y, %)	4.1	4.7	4.8	4.7	5.1	5.2	5.1	4.7	4.8	5.2	4.8	4.2
Broad Money (y-o-y, %)	9.9	10.1	10.6	7.5	8.6	11.9	8.8	9.9	7.6	6.9	7.2 ...	
Exports (y-o-y, %)	11.8	8.3	4.1	19.7	-3.1	-9.4	-1.7	-13.4	-26.8	-14.4	-19.4	-18.9
Imports (y-o-y, %)	24.7	20.1	21.6	23.8	2.8	8.1	6.9	11.6	12.3	2.7	0.9	-6.1
Trade Balance, US\$ million	-1,312.3	-823.3	-1,169.7	-1,195.0	-780.1	-375.9	-570.0	-803.5	-1,237.5	-931.6	-1,647.8	-1,220.8
Total Reserves (less gold), US\$ billion	57.0	56.9	58.9	60.9	61.3	61.4	64.2	68.4	67.7	67.9	68.1	67.3
Policy Rate	4	4	4.25	4.25	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Fiscal Balance (million pesos)	13,424.0	-21,490.0	-18,131.0	26,258.0	-9,601.0	-7,691.0	-26,482.0	9,220.0	-18,501.0	-21,257.0	-22,003.0 ...	
Quarterly/Annual Economic Indicators	2008	2009	2010	2011 1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011	
Real GDP (y-o-y, %)	4.2	1.1	7.6	3.6	8.4	8.9	7.3	6.1	4.6	3.1	3.2	3.7
- Private Consumption	3.7	2.3	3.4	6.1	4.0	1.9	2.4	4.9	5.3	5.5	7.1	6.7
- Government Consumption	0.3	10.9	4.0	-0.2	21.4	7.4	-6.5	-6.6	-17.2	4.3	9.4	5.8
- Gross Capital Formation	23.4	-8.7	31.6	10.4	31.9	38.0	34.5	25.7	42.3	-7.7	24.5	-4.3
Current Account (% of GDP)	2.1	5.6	4.2 ...		3.6	3.6	7.1	3.8	1.9	3.7	3.7 ...	
Financial Account ( US\$ million)	-1,702.0	-1,731.0	7,850.0 ...		518.0	-260.0	1,685.0	5,303.0	3,064.0	-293.0	2,203.0 ...	
- Net Direct Investments, US\$ million	1,285.0	1,604.0	1,226.0 ...		314.0	18.0	281.0	613.0	354.0	439.0	-94.0 ...	
- Net Portfolio Investments, US\$ million	-3,627.0	-625.0	4,018.0 ...		-72.0	-590.0	1,085.0	3,677.0	2,705.0	2,202.0	715.0 ...	
Overall BOP position (US\$, million)	89.0	6,421.0	14,308.0 ...		1,267.0	1,870.0	3,306.0	7,865.0	3,493.0	1,523.0	4,705.0 ...	
Unemployment rate	7.4	7.7	7.3	7.0	7.3	8.0	7.0	7.1	7.4	7.2	7.1	6.4
Others	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Overseas Filipinos' Remittances (US\$, million)	1,476.9	1,500.9	1,616.5	1,615.9	1,688.2	1,737.3	1,715.3	1,670.1	1,735.6	1,777.2	1,783.3	1,799.7

... = not available

Source: Bangko Sentral ng Pilipinas, National Statistics Office, *International Financial Statistics*, IMF, Asian Development Bank.

