



AKI
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Monitoring the Philippine Economy

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Renewed uncertainty over the prolonged global crisis and lackluster domestic demand result in a lower-than-expected growth for the Philippine economy.

1. Economic performance

- **Philippine economy posts weaker than expected growth; faces bleak forecasts.** Gross domestic product (GDP) growth in the third quarter of 2011 was a disappointing 3.2% year-on-year (y-o-y) instead of the forecasted 4.1%. This was mainly attributed to the decline in exports to European trade partners following the European debt crisis. Moreover, poor government spending, bad weather resulting to less fishing activities, and high cost of fuel contributed to the sluggish growth. Supply-side growth was driven mainly by the agriculture and service sector with a y-o-y growth 10.3% and 9.7% respectively. On the other hand, consumer spending of 7.1% y-o-y reinforced demand-side growth. Cumulatively, during the first three quarters of 2011, GDP growth leveled only at 3.6%, much lower than the full year's forecast of 4.5%. Because of this poor performance, the World Bank downgraded its growth forecast for the country from 4.5% to 3.7% this year. The Development Budget Coordination Committee also trimmed its GDP growth forecast from 5%-6% to 4.4%-5.5% for 2011. This was also partly due to the dire outlook for Philippine's key trading partners.
- **Inflationary pressure eases in November.** The 2006-based inflation rate decelerated from 5.2% in October to 4.8% in November due to slower annual increases in food and non-alcoholic beverages; utilities such as housing, water, gas and electricity; furnishing and household equipment; health; transport; and education costs. However, month-on-month (m-o-m) inflation in November slightly increased by 0.4% from 0.3% the previous month. According to the National Statistics Office, this was due to upward price adjustment in liquefied petroleum gas (LPG), diesel, and kerosene.
- **Trade balance worsens in third quarter.** Exports slumped further in September with a negative 27.0% y-o-y growth compared to the -13.7% y-o-y in August, the lowest for this year. The electronics sector registered the largest loss due to weak demand from Europe, Japan and the United States. Shipments of electronic products, which accounted for 51.2% of the total exports revenue in August, fell 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. Meanwhile, imports saw a double-digit figure in growth in August and September at 10.4% and 11.7% y-o-y respectively. The September growth was the fastest seen in five months. This is partly because the decline in the purchase of

electronic goods has decelerated. The slump in exports drove down the trade balance to negative USD1,237.54 million in September, the lowest since January 2011. In October, trade deficit fell to USD932 million as growth of exports and imports slowed down.

- **Industrial production slumps in October.** Total volume of production in the manufacturing sector displayed bleak results as well. Figures in October plunged 6.3% y-o-y growth to last September's 2.5%, attributed to a significant reduction in production output of basic metals. Top gainers in October were leather products, furniture and fixtures, and miscellaneous manufactures. On the other hand, top losers were basic metals, machinery except electrical, and food manufacturing. The on-going financial crisis in our 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 October despite lackluster economic growth.** The National Statistics Office estimated a 6.4% unemployment rate in October, lower than last year's 7.1% in the same month. The number of employed persons increased in the services sector from 51.7% in October last year to 52.1% in October 2011, particularly in the wholesale and retail trade, finance and real estate. The National Capital Region had the highest unemployment rate with 10.4% while the Autonomous Region in Muslim Mindanao posted the lowest at 2.3 percent.
- **Stronger surplus remains for the Philippines' external payments position.** The third quarter overall balance of payment position was recorded at USD4.7 billion, higher than USD3.3 billion registered in the same period a year ago. This was mostly due to the higher surplus in the capital and financial account. Capital and financial account stood at USD2.3 billion, with a positive net inflow of USD0.7 billion for portfolio investments but with net outflow of foreign direct investments of 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 at USD68.2 billion in November. This was attributed to the appreciation of the peso and income from investments abroad of the Bangko Sentral ng Pilipinas. Total reserves grew by 27.0% y-o-y in November, slightly lower compared to the previous month's 35.0% y-o-y growth.

2. Policy responses

- **Bangko Sentral ng Pilipinas keeps key interest rates unchanged.** The Monetary Board of the BSP decided to maintain its policy rate at 4.5% in its recent meeting in October. The decision was based on the assessment that current monetary policy settings are appropriate given latest inflation and firm domestic demand despite emerging global economic developments. The next monetary policy decision will be released on 29 December.

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 due to sound fiscal and monetary policies and higher investors' appetite for less risky bonds.
- **Overseas Filipino remittances soar in October.** Based on the Bangko Sentral ng Pilipinas' record on remittances from overseas Filipinos, remittances in October increased to USD1.8 billion, the highest for this year. This brought cumulative remittances from January to October to USD16.5 billion, with 78.6% from land-based workers and 21.4% from sea-based workers. The strong demand for Filipino workers, especially skilled workers, continued despite global economic challenges. Higher remittances in October could be attributed to higher cash transfers to family members who were affected by typhoons in September coupled with the growth in financial institutions offering a 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 main policy challenge for the Aquino administration is to reinforce the government's finances. The September fiscal balance was recorded at a budget deficit of USD18.5 billion, down from a budget surplus of USD9.2 billion in August. The 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 to be implemented though at least ten projects were expected to start this year.

Eurozone and US recessions threaten the Asian region. The region remains vulnerable to the contraction of the economies of the eurozone and the United States. In the Asia Economic Monitor December 2011 publication, the impact on emerging East Asia will be serious yet manageable thus policymakers should be prepare 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. This does not spare the Philippines, thus efforts have to be concentrated in making the economy resilient (i.e. providing safety nets) to external shocks.



Philippines Economic Data

Monthly Leading Indicators	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, %)	10.2	3.1	2.7	-0.2	4.3	3.4	2.5	-6.3	...	...
Consumer Price Index (y-o-y, %)	4.8	4.7	5.1	5.2	5.1	4.7	4.8	5.2	4.8	...
Broad Money (y-o-y, %)	10.6	7.5	8.6	11.9	8.8	...	...	...	...	...
Exports (y-o-y, %)	4.1	19.7	-3.1	-9.4	-1.7	-13.7	-27.0	-14.6	...	...
Imports (y-o-y, %)	21.6	23.8	2.8	6.6	6.6	10.4	10.4	2.3	...	...
Trade Balance, US\$ million	-1,169.7	-1,195.0	-780.1	-375.9	-570.0	-803.5	-1,179.1	-931.0	...	...
Total Reserves (less gold), US\$ billion	58.9	60.9	61.3	61.4	64.2	68.4	67.7	67.9	68.1	...
Policy Rate	4.3	4.25	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Fiscal Balance (million pesos)	-18,131	26,258	-9,601	-7,691	-26,482	9,220	-18,501	...	...	...
Quarterly/Annual Economic Indicators	2009	2010	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011
Real GDP (y-o-y, %)	1.1	7.6	8.4	8.9	7.3	6.1	4.6	3.1	3.2	...
- Private Consumption	2.3	3.4	4.0	1.9	2.4	4.9	5.3	5.5	7.1	...
- Government Consumption	10.9	4.0	21.4	7.4	-6.5	-6.6	-17.2	4.3	9.4	...
- Gross Capital Fixed Formation	-8.7	31.6	31.9	38.0	34.5	25.7	42.3	-7.7	24.5	...
Current Account (% of GDP)	5.6	4.2	3.6	3.6	7.1	3.8	1.9	3.7	3.7	...
Financial Account (US\$ million)	-1,731	7,850	518	-260	1,685	5,303	3,064	-293	2,203	...
- Net Direct Investments, US\$ million	1,604	1,226	314	18	281	613	354	439	-94	...
- Net Portfolio Investments, US\$ million	-625	4,018	-72	-590	1,085	3,677	2,705	2,202	715	...
Overall BOP position (US\$ million)	6,421	14,403	1,267	1,870	3,306	7,865	3,493	1,523	4,705	...
Unemployment rate	7.7	7.3	7.3	8	7	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
Overseas Filipinos' Remittances (US\$ million)	1,477	1,501	1,617	1,616	1,688	1,737	1,715	1,670	1,736	1,777

... = not available

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



