



## 2007 growth rate highest in 31 years, but threats persist

The Philippine economy grew 7.3 percent in 2007 as all sectors posted higher than usual growth rates, the National Economic and Development Authority said recently. Acting Socioeconomic Planning Secretary Augusto B. Santos noted that “the robust 7.4 percent GDP growth in the fourth quarter marked the fourth consecutive quarter of distinctly above-trend growth. This brings full year GDP growth to 7.3 percent, reaching the high-end of NEDA’s full year forecast of 6.9 to 7.3 percent and well above the official growth target of 6.1 to 6.7 percent.”

The growth rate exceeded market expectations and is the strongest since 1976, when the economy expanded 8.8 percent.

### Broad-based growth

Agriculture grew 5.1 percent, much better than the 3.8 percent it posted the previous year, after mother nature spared the country from super typhoons. The sector also benefited from quick response programs put in place to help mitigate adverse effects of weather disturbances. Local government initiatives in raising farm productivity likewise gave the once languishing sector a much-needed boost.

Industry, meanwhile, grew 6.6 percent as almost all subsectors posted noteworthy expansion. Mining

and quarrying posted the highest growth among all subsectors with 25 percent; manufacturing, in contrast, expanded a mere 3.3 percent in 2007 as a slowing US economy, coupled with increased competition from China, took its toll on local manufacturers.

The main driver for growth, however, remains to be the services sector, posting 8.7 percent growth and contributing 4.2 percentage points to GDP growth. Among the subsectors, finance grew the highest at 12.3 percent as government services, on the other hand, grew by 3.3 percent.

### Domestic demand posted strong uptick

Domestic demand offset the disappointing performance of external trade as private consumption and investment spending expanded 6.0 and 9.3 percent in real terms, respectively. Sec. Santos took note of the increase in spending on durable equipment, as well as the significant increases in public and private consumption. “Indicating future capacity increases, investment spending on durable equipment posted 4.9 percent growth in the fourth quarter, reflecting four consecutive quarters of positive growth following eight quarters of contraction spanning the period 2005-2006. Durable equipment posted a full year growth of 2.7 percent. This improvement comes in tandem with significant increases in both public and private construction expenditure, rising

by 30.8 percent and 10.2 percent, respectively,” he said. External trade performed poorly in 2007 as exports and imports posted 3.1 percent growth and 5.4 percent contraction, respectively, – well below their MTPDP targets.

### Inflation remained benign throughout the year

Easing inflation likewise helped push growth higher after averaging 2.8 percent in 2007, which is below the official 4.0-5.0 percent target. Core inflation also settled at 3.4 percent, a big improvement from the previous year’s 5.5 percent.

For 2008, Sec. Santos explained that the DBCC inflation target of 4.0 percent plus or minus one percentage point is due to rising prices of oil and non oil commodities in the international market; possible upward adjustments in transport fares, utilities and wages; the La Niña episode, which is expected to continue through early 2008; and growth in domestic liquidity caused by heavy foreign exchange inflows.

### Distributing the benefits of growth

Sec. Santos, who is also acting NEDA Director General, acknowledged that more needs to be done to make more people feel the benefits of growth. “To achieve the medium-term goal of responding to the basic needs of the poor, the national budget is being used to invest more on social services particularly those that significantly affect long-term human development such as health, nutrition, education, shelter, income and assets, and social protection,” he said.

The NEDA chief also cited the improving unemployment numbers as proof that growth is finally trickling down. “Under the old definition, unemployment rate slightly declined from 11.8 percent in 2004, to 11.3 percent in 2005, and 11.0 percent in 2006 compared to the Plan targets of 12.1 percent, 11.9 percent, and 11.6 percent in the respective periods. For 2007, unemployment rate further improved to 7.3 percent vis-à-vis the 7.9 percent registered in 2006 using the new definition,” he noted.

Notwithstanding these improvements, government has persistently missed its MTPDP target of 1.4 million jobs a year since 2004. The government, Sec. Santos said, will nonetheless continue to work to reduce unemployment by working with TESDA and the private sector in strengthening the capability of employment exchange

## 2007 at a glance:

**Economic Performance**  
(Growth rates, in percent)

	Annual		Fourth Quarter	
	2006	2007	2006	2007
GDP	5.4	7.3	5.5	7.4
GNP	6.1	7.8	6.1	6.5
NFIA	13.3	12.6	12.4	-3.0

Source: 1 NATIONAL STATISTICAL COORDINATION BOARD

**Seasonal Adjustment**  
(Growth rates, in percent)

	2007			
	Q1	Q2	Q3	Q4
GDP	2.5	1.8	1.0	1.8
GNP	1.8	2.4	0.9	1.4

Source: 2 NATIONAL STATISTICAL COORDINATION BOARD

facilities on job matching, livelihood and other forms of services. It will also provide a financial literacy campaign for OFWs to help channel remittances to development activities and promote the savings habit among OFWs and their beneficiaries.

### Storm clouds ahead

Despite all the optimism brought about by 2007’s above-average growth rate, threats continue to persist. Volatile oil prices, for instance, could pose downward risks to growth; a possible US recession is also a major threat to the economy, considering that the US remains as the country’s no.1 trading partner. Sec. Santos, however, posited that “while the uncertainties will remain in 2008, increasing public-private sector partnerships will prove to be potent in attaining the economic goals for this year as well as in making this growth felt by all sectors of the society.”

The Development Budget Coordination Committee target for 2008 is 6.3-7.0 percent for GDP and 7.2-8.0 percent for GNP.