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Economy Posts 4.8% Growth in 3rd Quarter

The Philippine economy as measured by the gross domestic product (GDP) slowed by 4.8 percent in the third quarter this year from the 5.5 percent growth of the April-June quarter, according to the National Statistical Coordination Board (NSCB).

The country's gross national product (GNP), on the other hand, grew by 5.8 percent due to the continuing vigorous growth in the net factor income from abroad (NFIA), including remittances from overseas Filipino workers (OFWs) which grew by 17.1 percent.



Socioeconomic Planning Secretary and National Economic and Development Authority (NEDA) Director-General Romulo L. Neri said that healthy agricultural production, sustained exports performance and stable services sector supported the country's third quarter economic growth.

Higher oil prices and weaker-than-expected output in mining, however, contributed to its slower

Performance of the Economy

	Third Quarter		Q1-Q3	
	2005	2006	2005	2006
GNP	4.8	5.8	5.2	6.3
GDP	4.8	4.8	4.8	5.4
NFIA	4.9	17.1	9.0	16.2

growth. Secretary Neri also pointed out that manufacturing output did not pick up as expected in tandem with exports. Despite these factors, he said the economy remains on track to meet the full-year growth target of 5.5-6.1 percent.

The NEDA head is confident that the economy would rebound in the fourth quarter. "It helps that world oil prices continue to recede," he said. "The outlook will rely on how various global downside risks will play out in the remaining month of the year, notably, a weaker US economy.

Agriculture, Services and Industry Performances

In **agriculture**, Secretary Neri said that this sector continued to perform well at 4.1 percent from the 1.7 percent growth a year ago. This comprised 17.4 percent of total GDP, contributing 0.71 percent to the total GDP growth. He said that sugarcane (57.7%), palay (12.6%), banana (5.5%), and fishery subsectors (4.2%) as well as programs that took advantage of economies on scale, the increase in area harvested, better irrigation, and early milling led to this growth.

	Third Quarter		Q1-Q3	
	2005	2006	2005	2006
AFF	1.7	4.1	1.0	4.9
Industry	5.3	4.0	4.9	5.1
Services	5.6	5.6	6.3	5.9

Livestock grew by 2.4 percent because of improved dairy production from commercial carabao and cattle farms. Poultry grew by 2.2 percent because of increased broiler production from commercial farms and higher inventory of chicken layers. Increased log production from industrial tree plantations in CARAGA led to the forestry sector's growth of 93.4 percent.

Secretary Neri said that agriculture sector is expected to perform better in the fourth quarter, citing government's effective policy initiatives to transform the sector into agribusiness. The government needs to intervene in order to increase land area for cash crops, further diversify agriculture, and push for the development of agribusiness, he pointed out.

The **services sector** led the economy's overall growth at 5.6 percent. Neri said that ownership of dwellings and real estate (7.6%), trade (5.9%), transport and communications and storage (6.3%), and private services (5.1%) registered healthy performances. The services sector contributed the most to GDP growth with 2.72 percent.

Financial services remained positive at 5.1 percent. This was, however, a sharp drop from 19.0 percent last year. Bank's reported lower gains from interest and non-interest income.

The **industry sector**, on the other hand, slowed to 4.0 percent compared with the 5.3 percent growth the previous year as production in mining and quarrying such as gold, copper and other metallic mining decreased. This sector accounted for 34.0 percent of GDP and contributed 1.36 percent to total GDP growth.

Manufacturing continued to grow by 4.8 percent, lower than the 5.7 percent growth in 2005. Dennis Arroyo, Director of the NEDA National Planning and Policy Staff said the decline in manufacturing production was caused by a shift in consumer preference for imported goods in light of a strong peso.

Electricity grew by 3.9 percent from 1.8 percent a year ago. This is due to newly opened malls in several areas of the country. The water sector also performed well at 10.4 percent due to increased water connections and the continued expansion of the customer base of Manila Water Company, Inc. and the Maynilad Water Services, Inc.

Microeconomic Reforms Needed

Secretary Neri said that industry and services can play a bigger role in driving economic growth. He stressed that microeconomic reforms could help improve the business climate by generating more investments and jobs. "It is crucial that the gains from macroeconomic reforms, particularly on fiscal and monetary policies, must be followed through with microeconomic reforms," he said.

Sectors where microeconomic reforms are needed include airline, shipping, ports, telecommunications and power. Secretary Neri said reforms in these sectors should include programs to reduce the cost of doing business such as compelling telecommunications companies to interconnect in order to cut telecom costs, liberalizing airline policies to cut transport cost and, reducing electricity rates. He also pointed out the elimination of red tape in national and local government agencies, among others.

To create more jobs, Secretary Neri recommended the development of two million hectares of land for agribusiness to create about two million jobs. Moreover, government spending for infrastructure should be increased from 2.2 percent of GDP to 4.6 percent to create another one million jobs. Promoting tourism will also help generate jobs, he added.

Prospects for 2006

	2006	2007
GNP	5.9	6.0
GDP	5.5	5.7
Agriculture	3.4	3.4
Industry	5.4	5.8
Services	6.3	6.6
Assumptions: Inflation Rate	6.6	5.0