

## Strong Farm Output, OFW Remittances Help Economy Grow

Increased agricultural production, strong exports and dollar inflows from overseas Filipino workers (OFWs) helped the Philippine economy grow by 5.4 percent in 2006. The growth, measured in terms of the country's gross domestic product (GDP), was better than the 5.0 percent growth recorded in 2005. Last year's growth, however, was slightly lower than the government's target of at least 5.5 percent.

Socioeconomic Planning Secretary and National Economic and Development Authority (NEDA) Director-General Romulo L. Neri said that 2006 economy could have ended better had it not been for the series of typhoons that battered the country in the last quarter. The typhoons deducted about 0.4 percentage point off the GDP growth. Moreover, under-performance of the mining sector also contributed to the lower GDP.

### Economic Performance Growth rates in percent

	Annual		Fourth Quarter	
	2005	2006	2005	2006
GDP	5.0	<b>5.4</b>	5.3	<b>4.8</b>
GNP	5.6	<b>6.2</b>	6.9	<b>5.9</b>
NFA	13.5	<b>15.4</b>	26.9	<b>18.3</b>

The robust increase in inflows from abroad mostly from OFWs pushed the gross national product (GNP) to 6.2 percent in 2006, compared with 5.6 percent in 2005. GNP is GDP plus income earned abroad. In the fourth quarter, GDP grew 4.8 percent while GNP, by 5.9 percent.

### Major Industries Growth rates in percent

	Annual		Fourth Quarter	
	2005	2006	2005	2006
AFF	1.8	<b>4.1</b>	3.7	<b>1.9</b>
Industry	4.9	<b>4.8</b>	4.9	<b>3.3</b>
Services	6.4	<b>6.3</b>	6.4	<b>7.0</b>

### Agriculture, Fishery and Forestry

Performance of the **agriculture, fishery and forestry (AFF)** sector exceeded the official projection of 3.4 to 3.9 percent in 2006, growing by 4.1 percent, up from 1.8 percent in 2005. According to Secretary Neri, this only shows that government programs have been effective in making the sector more stable. The typhoons which devastated farmlands in the fourth quarter of 2006 resulted in an expansion of only 1.9 percent for the AFF sector from the same period the previous year.

Damages from the typhoons caused palay to slip to negative 2.0 percent in the fourth quarter of 2006 from the 5.6 percent growth in 2005. Corn recovered to a robust growth of 16.0 percent as it benefited from the Gloria Macapagal Arroyo or GMA-Corn program. Banana expanded by 3.5 percent due to increased area and number of banana bearing trees', bolstered by higher demand from local and export market according to the National Statistical and Coordination Board (NSCB).

Secretary Neri said that the **fishery** sector is still upbeat on account of high seaweeds production and high foreign demand. Good weather conditions for most of the year improved dispersal programs. This was supplemented by better technical and financial assistance. This sector grew by 5.9 in 2006 and by 3.4 in the fourth quarter. Log production from industrial tree plantations in CARAGA increased, thereby helping **forestry** grow by 24.4 percent

in the fourth quarter, sustaining its growth that started in the fourth quarter of 2005.

## Services

The **services** sector continue to boost the economy, growing by 6.3 percent in 2006. The fourth quarter output posted a 7.0 percent increase, supported by the marked acceleration in the finance sector. In financial services, higher utilization from investment companies, security dealers, pawnshops, and brokers led to the sector's growth of 7.8 percent from negative 4.0 percent in 2005.

Secretary Neri also cited the growth of trade (5.5%) and private services (6.8%). Growth of the sector can be largely attributed to the continued expansion of the business process outsourcing (BPO) industry which grew by 17.7 percent from 11.4 percent in 2005.

## Industry

The **industry sector** grew slightly lower by 4.8 percent in 2006 from the 4.9 percent growth in 2005. The mining and quarrying contracted 6.0 percent, pulling down the sector's output. Gold, copper, and crude oil displayed lower yields in the country's major mines, including various small scale mines, and the output from the Malampaya oil fields decreased, as well. In the fourth quarter it contracted 24.7 percent.

Construction, moreover, grew at a respectable pace of 4.6 percent in 2006. In the fourth quarter last year, it grew by 4.7 percent. This sector recovered due to construction projects of the national and local governments and government-owned and controlled corporations (GOCCs). Meanwhile, electricity and water grew by 6.4 percent from the 2.5 percent growth in 2005. For electricity, the growth is attributed to the several newly opened shopping malls in various areas in the country; and for water, improved water sales and continued expansion in customer base.

## EXPORTS

	Fourth Quarter		Full Year	
	2005	2006	2005	2006
<b>Exports</b>	<b>6.3</b>	<b>7.2</b>	<b>4.2</b>	<b>12.1</b>
<b>Total Merchandise Exports</b>	<b>5.1</b>	<b>8.7</b>	<b>4.2</b>	<b>12.9</b>
Monetization of Gold	-14.3	7.5	-10.2	17.5
Merchandise Exports	6.0	8.8	4.7	12.7
Principal Merchandise Exports				
Exports	8.7	3.0	14.8	12.5
Others	3.2	15.1	-3.3	12.9
<b>Non-Factor Services</b>	<b>12.9</b>	<b>-1.0</b>	<b>4.2</b>	<b>7.7</b>

Meanwhile, **exports** grew 12.9 percent in 2006, accelerating from 4.2 percent in 2005. Officials attributed this strong performance to strong global demand for electronics. This includes the surging intraregional trade with China and the rest of Asia including Japan. Exports to the European Union particularly the Netherlands and Germany also performed well. Exports to the United States (US) also grew by 19.1 percent in the January to November period.

**Exports of services** grew by 7.7 percent driven by the continued influx of information technology-enabled services, insurance services, call centers, medical transcription, among others. This trend led to the improvement in employment which went up by 2.0 percent for the full year 2006. Employment rates for agricultural and services workers increased by 1.6 and 3.1 percent, respectively, while declining by 0.4 percent in the industry sector.

## What's Up

For 2007, Secretary Neri said he is confident GDP could grow from 6.1 to 6.7 percent, citing the imminent passage of the government's PhP1.13-trillion budget, which will allow increased spending on infrastructure.

He warned, however, that growth in 2007 would depend largely on avoiding the downside risks in both the external and domestic fronts. The downside includes a possible slowdown in the US, the Philippines' largest export market, although an upturn in Europe and Japan could compensate for it, he said.

## PROSPECTS FOR 2007

	2007
<b>G N P</b>	<b>6 .2</b>
<b>G D P</b>	<b>6 .1</b>
<b>A g r i c u l t u r e</b>	<b>3 .9</b>
<b>I n d u s t r y</b>	<b>6 .4</b>
<b>S e r v i c e s</b>	<b>6 .7</b>
<b>A s s u m p t i o n s :</b>	
<b>I n f l a t i o n R a t e</b>	<b>3 .3 -3 .8</b>

*Note: Figures are low-end; DBCC approved as of January 2007*

*Sources: DBCC*

With the macro reforms already in place and given the government's commitment to sustain them, the expected 2007 budget is expected to generate some growth momentum and possibly investment interest in the economy. He said that it is essential that the government follow these through with microeconomic reforms to increase the industries' competitiveness. "Much will also depend on how the country is able to entice both local and foreign investors who, in turn, need to see consistent and investor-friendly policies," he added.

The government is keeping the 6.1-6.7 percent GDP growth target for 2007 on account of the slowdown in inflation, declining interest rate and improving fiscal position of the government. The slowdown in inflation is expected to encourage more consumer spending, thus, boosting growth. Inflation rate was at 4.3 percent last December, the slowest in almost three years.