

## 1<sup>st</sup> QUARTER GDP GROWTH HIGHEST IN 17 YEARS

The Philippine economy as measured by the gross domestic product (GDP) surged by 6.9 percent in the first quarter of the year, the highest growth rate in 17 years. This growth surpassed the National Economic and Development Authority's (NEDA) forecast of 5.3-6.1 percent as well as the Bloomberg survey's median 5.7 percent forecast, according to Socioeconomic Planning Secretary and NEDA Director-General (DG) Romulo L. Neri, during a press conference on the economy held recently.

The services sector continues to be the biggest contributor to growth (9.1%) followed by industry (5.3%) and agriculture (4.2%). This growth was accompanied by the government's determined reforms to increase revenues as well as manage expenditures effectively to contain the deficit and tame the country's inflation. Also helping were pressure on interest rates, overseas remittances, and robust export earnings.



lower than China's 11.1 percent and Vietnam's 7.7 percent, it was higher than that in other countries. Singapore and Indonesia both grew by 6.0 percent, Hong Kong by 5.6 percent, Malaysia by 5.3 percent, Taiwan by 4.1 percent and South Korea by 4.0 percent, he said.

### SECTORAL GROWTH

The services sector grew by 9.1 percent, the highest since 1983. Accounting for almost half (49.0%) of the total GDP and contributing 4.4 percent to total growth, the services sector remains the pillar of the economy, according to DG Neri.

Economic Performance (Growth rates, in percent)			
	2006		2007
	Q1	Q4	Q1
<b>GDP</b>	5.7	5.5	<b>6.9</b>
<b>GNP</b>	6.3	6.1	<b>6.6</b>
<b>NFIA</b>	13.4	12.4	<b>3.8</b>

DG Neri said that with the better-than-expected performance of the GDP, the country is on its way to meet the government's economic growth target of 6.1-6.7 percent this year. The gross national product (GNP) or the GDP plus remittances from overseas Filipino workers and the earnings of Filipino companies abroad, on the other hand, grew 6.6 percent in the same period.

NEDA Director for National Policy and Planning Staff Dennis M. Arroyo, said the GDP growth in the first quarter placed the country on competitive footing with neighboring countries. He noted that while the 6.9 percent GDP growth was still

Major Industries (Growth rates, in percent)			
	2006		2007
	Q1	Q4	Q1
<b>AFF</b>	4.1	1.7	<b>4.2</b>
<b>Industry</b>	5.3	3.6	<b>5.3</b>
<b>Services</b>	6.7	8.4	<b>9.1</b>

Data from the National Statistical Coordination Board (NSCB) revealed that financial services remained strong at 13.4 percent because of the easing inflation and strong peso as well as the

downward trend in interest rates. Transportation, communication and storage (TCS) managed to grow by 9.6 percent from 6.9 percent in the previous year. Land transport grew by 10.0 percent from a 0.8 percent decline last year because of the Filipinos' increased patronage of the light rail and mass transits. Air transport on the other hand, grew by 7.3 percent owing to stable oil prices and lower fares offered by domestic airlines and tourism-related promotion activities. Trade grew by 9.1 percent from 5.3 percent last year propelled by the performance of the retail industry that grew by 12.1 percent.

Ownership of dwellings and real estate (ODRE) rose by 5.4 percent. Private services grew by 8.9 due to the current boom in call centers and business process outsourcing (BPO). The hiring of additional teachers and policemen as well as the filling up of newly created positions boosted government services to 7.1 percent.

**Agriculture, fishery and forestry (AFF) bounces back.** Still recovering from the impact of typhoons last year, AFF grew moderately by 4.2 percent. This sector accounted for 19.7 percent of total GDP. DG Neri said that the government's continued policy interventions as well as the private sector's initiatives to make the sector more stable, are paying off. The corn cluster program, for example, helped farmers cultivate more corn resulting in a hefty growth of 11.4 percent. Increased harvest in the Autonomous Region of Muslim Mindanao (ARMM), Central Luzon, Cagayan Valley, Eastern Visayas and SOCCSKSARGEN helped palay production grow by 1.7 percent.

Agriculture, Fishery & Forestry (Growth rates, in percent)			
	2006		2007
	Q1	Q4	Q1
AFF	4.1	1.7	4.2
Palay	6.9	-2.0	1.7
Corn	22.1	16.0	11.4
Coconut / copra	2.5	-0.4	-4.6
Sugarcane	1.5	18.3	-0.4
Banana	12.9	3.1	5.4
Other crops	2.2	0.6	3.0
Livestock	2.2	1.9	2.2
Poultry	-3.8	-0.5	2.3
Fishery	4.9	3.3	8.7
Forestry	-9.2	8.6	25.6

Favorable weather condition bolstered the fishery sector's performance at 8.7 percent. Forestry, on the other hand, rose from a -9.2 percent slump the previous year to 25.6 percent as a result of increased production of industrial tree plantations in CARAGA.

**Industry remains stable.** This sector posted 5.3 percent growth in the first quarter. Its main source of growth was manufacturing rising by 4.6 percent from 5.0 percent in 2006. Top contributors to growth include food manufacturers, furniture and fixtures, and chemical production. DG Neri said that also worth noting are growth in construction (8.6%) and mining (11.0%). Construction was spurred by government spending on infrastructure and mining by increased demand of crude oil, natural gas and condensate.

Construction continues to recover growing by 8.6 percent due to government spending on infrastructure. Electricity and water, on the other hand, posted a 4.1 percent growth because of the increased energy sales to commercial and industrial users.

**Other factors that contributed to the country's performance were:**

- The continued increase in remittances of overseas Filipino workers that boosted consumption as consumer spending increased by 5.9 percent;
- Government expenditure which registered a 13.1 percent growth from 7.6 percent in the previous year; and
- Total exports (PhP695.1 billion) which exceeded total imports (PhP640.3 billion) resulting in a surplus of PhP54.8 billion, higher than the trade surplus of PhP22.6 billion registered in the same period last year.

**ACHIEVING THE '07 TARGET**

With the GDP rising to 6.9 percent in the first quarter, the Philippines is on its way to meet the government's economic growth target of 6.1-6.7 percent this year, DG Neri said.

To ensure that this target will be met, the government will continue to provide for a more enabling environment climate to transform the agriculture sector into agribusiness as well as to fuel vitality in the industry sector.

DG Neri added that macroeconomic reforms such as improving tax collection and increasing government spending on social services that are currently being implemented must be complemented with microeconomic reforms to improve industry competitiveness. Among these microeconomic reforms are the provision of more credit to small entrepreneurs and reducing the cost of doing business. "The creation of a Credit Information Bureau must be pushed to assist entrepreneurs availing of bank loans," he added.

Infrastructure modernization will also be continued through the Comprehensive Integrated Infrastructure Program. Projects that are underway. These include the Light Rail Transit (LRT) 1 North Extension, LRT Line 6, the Northrail-Southrail Linkage, Palawan South Road, Panguil Bay Bridge, Agno River Integrated Irrigation, and North Luzon Expressway project.

However, DG Neri warned, that within-target GDP growth might not be sustained if political risks remain unresolved. "Our businessmen are able to put a firewall between economics and politics at the moment, but in the long run, the effects of political risks on the economy could be worrisome," he said. "We need to have social trust to achieve a higher economic growth in the future. Social trust and economic growth has a correlation in the long run."

While the economy posted robust growth in the first quarter, more effort is needed to reduce poverty. Economic growth should be largely based on investments, rather than consumption, for its benefits to trickle down to the poor, DG Neri said.