

Neda DG Santos and Staff Directors meet with members of the Press to discuss the country's future goals and challenges.



THE PHILIPPINE ECONOMY Prospects for 2008

Acting Socioeconomic Planning Secretary and National Economic and Development Authority (Neda) Director General Augusto B. Santos is optimistic that the Philippines will experience further economic and social growth in 2008.

During the recent Neda 2007 Yearend Briefing at the Neda sa Pasig boardroom, Secretary Santos said that as the government continues to implement its infrastructure development projects and fiscal reforms, among others, the country's production and expenditure are expected to expand.

The country's economic expansion, however, is expected to be tempered by continued pressures from international trade. Despite the strengthening of the peso against the dollar and the sustained high costs of oil, the country can still be more economically competitive, Secretary Santos said.

Production Side

The Agriculture, Fishery and Forestry (AFF) sector is expected to grow with the "continued government support on infrastructure, technology and extension services, post-harvest and storage facilities, accessibility of rural credit, market expansion for agricultural products, area expansion and distribution of high-yielding variety seeds."

Similarly, the industry sector is seen to expand with higher expected outputs from mining and quarrying. These activities are expected to benefit from the

various ongoing government-initiated infrastructure support projects.

Secretary Santos also said that the 10 percent growth of private construction during the first three quarters of 2007 is expected to be carried forward. He pointed out that the conducive business climate together with upbeat demand from the housing, tourism and business services continues to entice investments from the private sector.

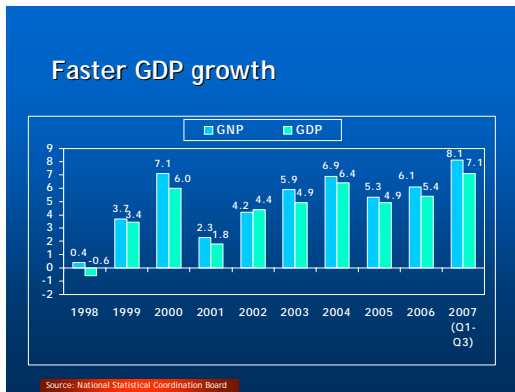
The basic metal industries, metal and metal industry, nonmetallic mineral, semiconductors, and machinery and transport equipment production should also contribute to the expansion of the manufacturing sector.

Supply Side: Agriculture

Y-o-Y Growth Rate (in %)	FY	3rd Quarter		Q1-Q3	
	2006	2006	2007	2006	2007
Agriculture Industry	3.9	3.7	5.7	4.8	4.6
Agriculture	3.3	3.5	4.5	4.2	3.6
Fishery	5.9	4.2	9.7	6.9	8.0
Forestry	- 4.0	-0.8	-3.3	-6.9	12.4
Total Gross Value Added	3.8	3.6	5.6	4.7	4.7

Source: National Statistical Coordination Board

AFF, one of the country's biggest economic contributors, will become more productive in 2008.



Gross Domestic Product growth is expected to continue in 2008.

Expenditure Side

Private consumption will be the main driver for expenditure growth supported by Overseas Filipino Workers (OFW) remittance inflows.

Also, the country will expect improved capital formation from construction and durable equipment. During the first three quarters of 2007, positive growth was seen on agricultural, mining, construction, textile, and pulp and paper machineries and on telecommunications, aircon and refrigeration, road, railway, and water transport equipments.

In addition, infrastructure investments in the super regions as identified in the Comprehensive Infrastructure Investment Program (CIIP) should complement expenditure growth.

Facing the Challenges

Secretary Santos also presented the possible issues the country may face in 2008. These include the rising world oil prices, decelerating merchandise exports, and pressures on the country's continuing efforts towards fiscal consolidation.

"The growing integration of economies worldwide has been a boon to us," he said. However, he stressed that "globalization also has its downsides as we have witnessed the effects of the cooling US economy on our exports."

Thus, the Neda chief emphasized the need for the country to be more aggressive. "We need to continue to work hard to ensure that growth outcomes become more solid, broad-based, productivity driven and sustained," he said. To sustain and accelerate this growth momentum, there is a need to implement measures and structural reforms aimed at increasing competitiveness and

raising productivity, as well as initiatives to enhance entrepreneurship opportunities, he added.

In this regard, Secretary Santos said the government is "committed to implementing fiscal reforms to improve the government's fiscal position." The government aims to have a balanced budget by 2008.

He pointed out, furthermore, that "the country's infrastructure network is already being upgraded to boost productivity, lower transportation cost and raise the country's competitiveness."

Since many of these projects require Official Development Assistance (ODA) loans and many ODA loans are US dollar denominated, Secretary Santos stated that government needs to be "careful." Accepting US dollar cash loans, he said, may further strengthen the peso against the dollar which has been hurting the Overseas Filipino Workers (OFWs) and the Filipino exporters.

"Hardly do we need cash now," the Neda chief said, noting the country has some US\$32 billion reserves. He adds that in case the government may need to acquire foreign goods and services, it may "use peso to buy dollars in the market."

Thus, in 2008, the government will prioritize ODA loan proposals which would directly provide specialized foreign goods and services over US dollar cash assistance to protect the welfare of the OFWs and exporters. Moreover, the country intends to prepay more foreign loans to create downward pressure on the peso.

In addition, the government would also borrow more domestically. Borrowing mix will become 70 percent domestic and 30 percent foreign from 64 percent domestic and 36 percent foreign in 2007.

Secretary Santos also revealed that the government is realigning the national budget to invest more on social services, especially on the education and health of the Filipino. He also gave weight to the importance of achieving political stability to speed up the pace of implementing key reforms and ensure increasing growth over the medium term.

Finally, Secretary Santos called for a vigilant monitoring of inflationary pressures arising from the volatility in the oil market as this may be carried forward and impend future growth prospects.

Source: Acting Socioeconomic Planning Secretary and Neda Director General Augusto B. Santos, 2007 Yearend Briefing, December 17, 2007, Neda Boardroom