



2006 GDP Growth Falls Short of Target Outlook for 2007, Promising

The domestic economy expanded by 5.4 percent in 2006, a percentage point below the government's 5.5 percent GDP growth target for the year. Typhoons *Milenyo*, *Paeng* and *Reming* which ravaged the country in the latter part of the year pulled down the 4th quarter growth to only 4.8 percent. Nevertheless, the agricultural sector still fared better in 2006 registering a growth rate of 4.1 percent compared to 1.8 percent in 2005. Industry, in contrast, grew at a slower pace mainly due to the slump in mining and quarrying. The services sector's growth likewise weakened, from 6.4 percent to 6.3 percent, with the trade, communications and finance sectors experiencing slight slowdown compared to 2005. In 2006, the Philippines remained at the tailend of other Asian economies, outperforming only Thailand in terms of GDP growth.

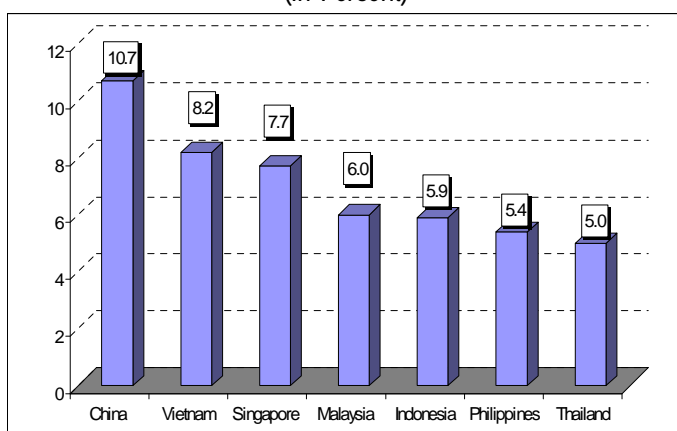
2006 Growth Drivers

Agriculture rebounded in 2006. The agricultural sector grew robustly, by 5.4 percent, in the first half of 2006. However, because of the super typhoons in the second semester, agriculture's growth declined to 4.5 percent in the third quarter and 1.9 percent in the fourth quarter, reducing the 2006 growth of the agriculture sector to 4.1 percent. Nevertheless, the sector was able to surpass its target growth rate of 3.3-3.9 percent.

The surge in agriculture, particularly in palay and corn production, is brought about by yield improvement, area expansion, and sustained usage of hybrid and high quality in-bred seeds. Banana and sugarcane also contributed to the sector's growth. Adequate rains and the increased number of bearing hills, impelled by higher demands in the local and foreign market, bolstered the banana industry's growth rate of 8.0 percent. Meanwhile, sugarcane delivered a turnaround performance, from -7.6 percent in 2005 to 7.8 percent in 2006. Higher demand and prices, as well as the passage of the Biofuels Law induced sugarcane growers to expand production.

Livestock registered a tempered growth of 2.6 percent in 2006, with increased number of fatteners for hog, higher inventory and improved milk production from carabao and cattle in commercial and cooperative farms. In contrast, poultry contracted (-0.3%) because of the avian flu scare that hindered broiler production from commercial farms.

Figure 1. 2006 GDP Growth Rate, Asian Countries
(in Percent)



Source: National Economic Development Authority (NEDA)

Note: Except for Philippines, Vietnam, China and Singapore, growth rates for other countries are Q1-Q3 average.

Table 1. Economy, Supply Side
(at constant prices, growth rates in %)

Industry	Full Year		Q4	
	2005	2006	2005	2006
Agriculture, fishery & forestry	1.8	4.1	3.7	1.9
Palay	0.7	5.0	5.6	-2.0
Corn	-3.0	15.8	-5.4	16.0
Coconut/copra	3.2	0.9	1.0	-0.4
Sugarcane	-7.6	7.8	0.2	18.3
Banana	11.8	8.0	15.5	3.5
Other crops	1.1	-0.8	2.5	0.6
Livestock	2.4	2.6	3.8	2.6
Poultry	0.2	-0.3	-3.2	-0.5
Agricultural activities & services	1.6	6.1	1.7	2.0
Fishery	6.0	5.9	7.8	3.4
Forestry	-31.3	59.8	100.1	24.4
Industry	4.9	4.8	4.9	3.3
Mining & quarrying	9.3	-6.0	26.5	-24.7
Manufacturing	5.6	5.4	5.9	4.4
Construction	0.9	4.6	-6.5	4.7
Electricity, gas & water	2.5	6.4	2.8	8.3
Service	6.4	6.3	6.4	7.0
Transportation Communication and Storage	7.2	6.7	7.3	8.0
Trade	5.6	5.5	5.9	6.1
Finance	13.6	9.5	11.5	8.3
Ownership of dwellings and real estate	5.4	5.8	6.9	6.7
Private services	5.5	6.8	5.7	8.3
Government services	1.9	3.9	1.2	5.2
Gross domestic product	5.0	5.4	5.3	4.8
Gross national product	5.6	6.2	6.9	5.9
Net factor income from abroad	13.5	15.4	26.9	18.3

Source: National Statistical Coordination Board (NSCB)

Aquaculture, which grew by 10.4 percent on the back of high seaweed production due to good weather conditions and healthy foreign demand, led the fishery sector's expansion. Forestry also rebounded by 59.8 percent in 2006 from a contraction of 31.3 in 2005.

Industry, still sluggish. Industry started the year with a promising performance of 5.7 percent growth in the first quarter of 2006, up from 2005's 3.4 percent. But the last three quarters told a different story as the sector's growth rate decelerated to 5.6 percent in the second quarter, then to 4.8 percent in the third quarter and 3.3 percent in the fourth quarter. Hence, industry's overall performance for the year was below the expected growth rate of 5.8 percent. It only registered a 4.8 percent growth on account of the huge slump of the mining and quarrying sector. Mining's overall growth in 2006

stood at a negative 6.0 percent compared to 9.3 percent a year ago. The persisting problems in Diwalwal and Lepanto mines, the drop in the production of small-scale mining of gold and the decreased output of crude oil from the Malampaya oil fields, among others, took a toll on mining's growth. Likewise, there were declines in the production of copper, stone quarrying, clay and sandpits, and other non-metallic minerals.

Meanwhile, construction grew by 4.6 percent in 2006 from 0.9 percent in 2005. The expansion was largely due to the 13.3 percent growth in public construction. In contrast, private construction contracted by 2.9 percent in 2006 compared to 1.2 percent growth the previous year.

Manufacturing slightly slowed down with 5.4 percent growth due to the contraction in the production of wood and cork products, machinery except electrical, and tobacco manufactures. Food manufactures remain the biggest contributor to manufacturing's growth, though it decelerated from 7.6 percent to 6.7 percent in 2006 because of the presence of cheap food imports in the market. Products of petroleum and coal grew by only 6.7 percent in 2006, plummeting from the previous year's 24.8 percent.

It is observable that production of paper and paper products has started to increase, by 12 percent in the fourth quarter, in anticipation of higher demand for campaign materials during the election season.

Table 2. Top Losers and Contributors of the Manufacturing Sector, 2005-2006

Particulars	Growth Rate		Contribution to Growth	
	2005	2006	2005	2006
Top contributors				
Food manufactures	7.6	6.7	3.1	2.7
Product of petroleum & coal	24.8	6.7	3.5	0.9
Basic metal	-6.8	33.5	-0.2	0.8
Top losers				
Machinery, except electrical	-40.1	-23.9	-0.1	-0.3
Wood & cork products	-41.1	-14.9	-0.2	-0.1
Tobacco manufactures	-8.3	-7.3	-0.4	-0.1

Source: NSCB

The growth of electricity, gas and water subsector also picked up by 6.4 percent in 2006 from 2.5 percent in 2005. The surge in electricity and gas at 6.2 percent was because of the higher demand from the commercial sector, the opening of new malls, in particular. Water accelerated by 8.5 percent in 2006 compared to 1.5 percent in 2005, as water sales improved, non-revenue water declined and the customer base continued to expand.

Services remained resilient. The services sector remained resilient in the four quarters of the year, but settled a notch lower, with a growth rate of 6.3 percent from 6.4 percent in 2005. Finance managed to grow by 9.5 percent in 2006, but lower than the double-digit growth it has posted in the previous years. Non-banks and insurance, which grew by 22.1 percent and 2.6 percent, respectively, led the growth of the finance sector.

The transportation, communication and storage (TCS) sector growth slowed down to 6.7 percent in 2006. The biggest contributor to this was the communications sector with a growth rate of 9.1 percent in 2006, but this was a significant reduction from its 14.8 percent growth in the previous year.

In the transportation sector, land transport rebounded with a 5.6 percent growth in 2006 from -4.1 percent in 2005 while air transport consistently grew by 5.1 percent compared to 2005. Water transport however, continued to contract by 2.8 percent in 2006 though at a slower rate than the previous year's contraction of 5.7 percent.

Table 3. Gross Value Added in Transportation, Communication and Storage, (at constant prices, growth rates in %)

Particulars	Full Year		Q4	
	2005	2006	2005	2006
Transportation, Communication & Storage	7.2	6.7	7.3	8.0
1. Transport and Storage	-0.7	3.9	-2.4	9.9
a. Land	-4.1	5.6	-5.8	13.7
b. Water	-5.7	-2.8	-1.6	-5.5
c. Air	5.1	5.1	8.6	6.2
d. Storage and Services	18.4	0.8	11.5	4.8
2. Communication	14.8	9.1	15.2	6.7

Source: NSCB

Meanwhile, private services' growth was boosted by business process outsourcing (BPO), personal

services, and hotel and restaurants that grew by 14.2 percent, 8.0 percent and 6.1 percent, respectively in 2006.

Consumption picked up. Consumer spending got a push from the easing inflation and from the strong inflows of OFW remittances, growing by 5.5 percent in 2006 compared to 4.9 percent the previous year. Inflation averaged 6.2 percent in 2006 as against the 6.9 percent target, while OFW remittances stood at US\$11.4 billion as of November 2006, significantly up from US\$9.7 billion in November 2005.

Table 4. Economy, Demand Side
(at constant prices, growth rates in %)

Industry	Full Year		Q4	
	2005	2006	2005	2006
Personal Consumption Expenditure	4.9	5.5	5.0	5.6
Government Consumption	4.0	5.7	1.1	9.3
Capital Formation	-6.0	2.1	-9.1	3.4
A. Fixed Capital	-3.9	0.6	-4.6	2.0
1. Construction	-0.9	2.8	-7.6	3.3
2. Durable Equipment	-7.1	-1.4	-2.9	1.1
3. Breeding Stock and Orchard and Development	0.8	0.0	1.1	1.0
Exports	4.2	12.1	6.3	7.2
A. Merchandise Exports	4.2	12.9	5.1	8.7
B. Non-factor Services	4.2	7.7	12.9	-1.0
Less: Imports	2.4	2.6	1.4	4.0
A. Merchandise Exports	2.1	2.1	1.3	3.1
B. Non-factor Services	8.3	10.9	3.8	19.4

Source: NSCB

Food consumption, which accounts for the bulk of consumers' spending, grew by 6.3 percent. There was also an increase in the consumption of beverages, tobacco, clothing and footwear, but consumers reduced their expenses on household furnishings and utilities.

Public spending likewise picked up, rising to 5.7 percent, an improvement from 2005's 4.0 percent growth rate. The passage of the supplemental budget boosted government consumption growth to 9.3 percent in the fourth quarter.

Investment slightly recovered. Capital formation slightly recovered and grew by 2.1 percent compared to 2005's contraction of 6.0

Table 5. Personal Consumption Expenditure by Purpose
(at constant prices, growth rates in %)

Particulars	Full Year		Q4	
	2005	2006	2005	2006
Food	5.4	6.3	5.8	6.5
Beverages	-0.9	2.8	-1.8	3.4
Tobacco	1.6	2.2	-1.6	1.2
Clothing and Footwear	-0.5	0.3	0.9	4.1
Fuel, Light and Water	-1.4	-0.5	-2.8	1.4
Household furnishing	-0.2	-2.0	-2.9	-2.4
Household Operations	2.9	2.6	3.1	1.9
Transport and Communication	14.3	12.9	13.6	9.1
Miscellaneous	4.9	4.8	4.9	6.0

Source: NSCB

percent, bolstered by the growth in public construction. Durable equipment slightly improved, albeit still negative at 1.4 percent in 2006. A significant growth from the previous year was registered in investments in sugarmill machineries (878 percent), pulp and paper (2.9 percent), other special industrial machineries (7.3 percent), railway transport (974.5 percent), water transport (152 percent) and other miscellaneous equipment (8.4 percent).

External sector was upbeat. On the external front, the strong peso was not a hindrance to the export sector's growth. Exports grew by 12.9 percent in 2006, an acceleration from 4.2 percent in 2005, and surpassed the official growth target of 10.0 percent. The growth was attributed to strong global demand for electronics, the country's major export product. Surging intra-regional trade with China and the rest of Asia, including Japan, as well as higher exports to the Netherlands and Germany, contributed to the strong export growth. The United States (US) remains as the Philippines' top export destination. Exports to the US grew by 19.1 percent in 2006 from one percent in the same period in 2005. Likewise, exports of services delivered well with a growth rate of 7.7 percent in 2006, from 4.2 percent in 2005, driven by insurance services and the continued influx of IT-enabled services like call centers, medical transcription and software development.

Merchandise imports remain unchanged with a growth rate of 2.1 percent in the last two years. Electrical machinery, transport equipment, fertilizers

Table 6. Philippines Export Performance by Country,
January to November 2005-2006
(F.O.B. Value in U.S. Dollars)

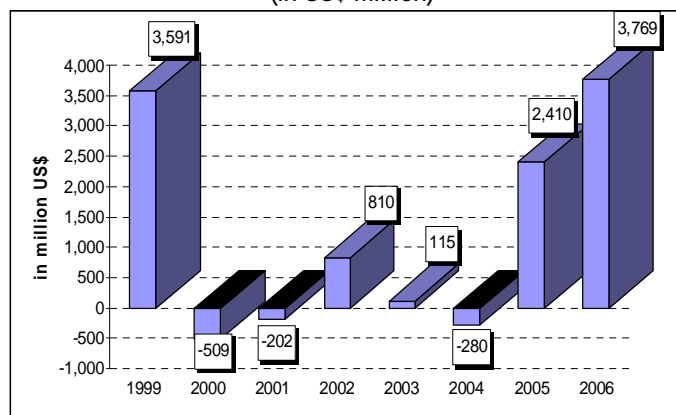
Country	Jan-Nov 2005		Jan-Nov 2006		% change	
	Level	Share	Level	Share	2005	2006
Total	37,427.5	100	43,347.8	100.0	2.7	15.8
<i>Total Top 10 Countries</i>	32,519.5	86.89	37,557.8	86.6	3.6	15.5
1 United States	6,661.0	17.8	7,931.8	18.3	1.0	19.1
2 Japan 2/	6,559.5	17.53	7,231.4	16.7	-10.8	10.2
3 China	3,691.4	9.86	4,160.6	9.6	55.4	12.7
4 Netherlands	3,669.7	9.8	4,439.3	10.2	13.6	21.0
5 Hong Kong	3,034.4	8.11	3,404.2	7.9	5.1	12.2
6 Singapore	2,455.1	6.56	3,203.9	7.4	1.7	30.5
7 Malaysia 3/	2,216.2	5.92	2,396.9	5.5	15.9	8.2
8 Germany	1,213.7	3.24	1,630.2	3.8	-10.4	34.3
9 Taiwan	1,732.3	4.63	1,850.9	4.3	-16.8	6.9
10 Korea, Republic	1,286.3	3.44	1,308.8	3.0	-	1.7

Source: National Statistic Office (NSO)

manufacturing, manufactures of metal, and textile yarns were among the top merchandise imports. Imports of non-factor services increased by 10.9 percent in 2006 from 8.3 percent in 2005.

Despite the slower-than-expected GDP growth, other economic indicators for the year finished on a high note. The stronger exports brought the overall balance of payments position for 2006 to a surplus of \$3.8 billion, 56 percent higher than the surplus in 2005 and the highest in at least seven years. Other than stronger exports, the improvement in the BOP also resulted from higher inflows in current transfers, particularly from remittances of overseas Filipino workers (OFWs), and foreign direct and portfolio investment inflows. Foreign direct investments as of October 2006 reached US\$35.8 million from US\$13.2 million in October 2005 while portfolio

Figure 2. Balance of Payments, 1999-2006,
(in US\$ million)

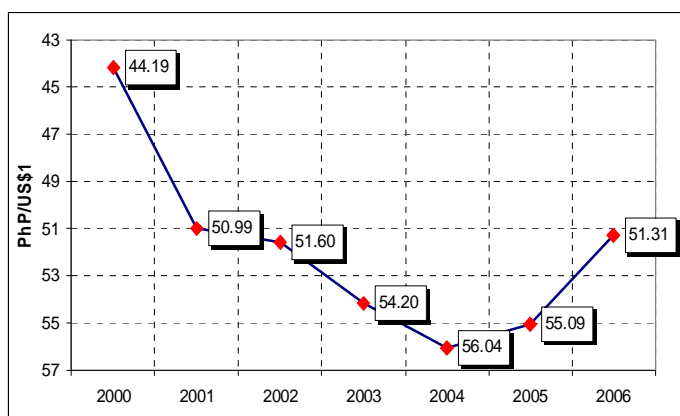


Source: Bangko Sentral ng Pilipinas (BSP)

investments amounted to US\$2615.0 million in 2006, higher than 2005's US\$2108.3 million.

The peso also finished stronger in 2006 at an average of P51.3 to the dollar, the stock market was near 10-year highs, and the national government's budget deficit stood at P62.2 billion, 50% lower than the full year target of P125 billion.

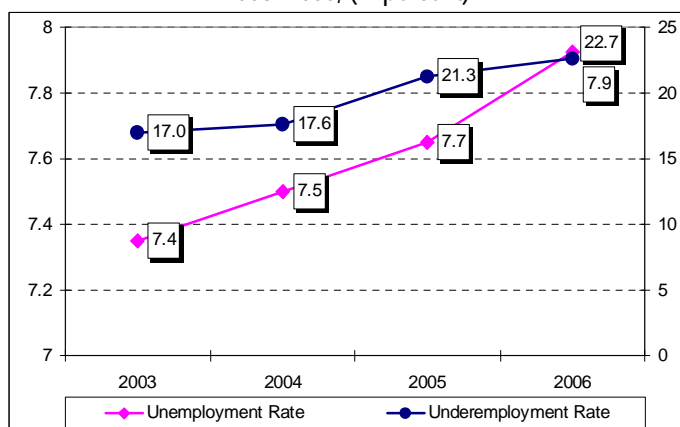
Figure 3. Peso-Dollar Exchange Rate, 2000-2006



Source: BSP

Employment, however, proved to be the weakest link in 2006, with jobs created numbering only 650,000 as opposed to the 1.2 to 1.6 million jobs yearly target. This brought up the unemployment rate to 7.9 percent.

Figure 4. Unemployment and Underemployment Rates, 2003-2006, (in percent)



Source: NSO

Note: Unemployment rates follow the new definition of unemployment.

Economic Outlook for 2007

For 2007, the government expects a more upbeat economy. Latest estimates from the Development Budget Coordinating Council (DBCC)

show this year's GDP growing between 6.1 percent to 6.7 percent and the GNP between 6.2 to 7.1 percent. Most multilateral organizations as well as private institutions similarly predict that the economy will grow at a slightly faster pace this year, although their growth forecasts are less optimistic than the government's. Among the 17 private institutions regularly surveyed by the Bangko Sentral ng Pilipinas (BSP), the average GDP growth forecast was 5.5 percent.

Table 7. GDP Growth Forecast for 2007, Selected institutions

Institution	2007 GDP Growth Forecast (%)
National Economic Development Authority	6.1-6.7
World Bank	5.7
Asian Development Bank (ADB)	5.3
International Monetary Fund (IMF)	5.8
Institute of International Finance Inc. (IIF)	5.7
Private institutions surveyed by the BSP*	
ABN-AMRO	5.7
Action Economics	5
ATR Kim Eng Securities	6
Bank of America	5.5
Development Bank of Singapore	5.5
Economist Intelligence Unit	5.5
HSBC	5
IDEA	5.5
ING Bank	5.5
Lehman Brothers	5.8
Metro Bank	5.0-5.7
Multinational Investment Bank	5.2-5.5
Nomura Securities	5.2
Philippine Equity Partner	5
RCBC	5.6
UBS Warburg	5.8
Wallace Business Forum	6.1

*From BSP's 4th Quarter 2006 Inflation Report

Most of the analysts' predictions are predicated on the same theme: Domestic demand will be the main engine of growth in 2007. Robust consumer spending spurred by strong remittance inflows as well as higher state spending will cushion any slowdown in exports.

Sectoral Outlook

Agriculture. Barring any major adverse weather conditions, the DBCC estimates the agriculture,

Table 8. Macroeconomic Assumptions of the DBCC
(as of Jan. 12, 2007)

Particulars	DBCC estimates as of Jan. 12, 2007
GNP Real Growth Rate (%)	6.2-7.1
GDP Real Growth Rate (%)	6.1-6.7
Agri., Fishery & Forestry	3.4
Industry	5.8
Services	6.6
Inflation, CPI (% 2000=100), average	4.0-5.0
91-Day Treasury Bill (%)	4.0-4.5
Foreign Exchange Rate (P:\$), low	48.0 - 50.0
Dubai-Oil Price (US\$/Barrel)	61-64
Exports Growth Rate (%)	11.0
Imports Growth Rate (%)	12.0

fisheries and forestry sector to grow by 3.4 percent in 2007. The Department of Agriculture's (DA) projection, however, is much higher at 4.0 to 5.0 percent. Its forecast is anchored on government plans to raise public spending on rural infrastructure. The government intends to pump P3 billion into irrigation projects and post-harvest facilities in an effort to further boost farm yields and minimize crop wastage arising from inadequate storage facilities.¹ The DA is also banking on investment deals and pledges which formed a substantial portion of the 17 memorandums of agreement with China. The said MOAs cover a million hectares of croplands for agribusiness development.²

Moreover, the agriculture sector is expected to be propped up by the anticipated growth of 8.0 to 10.0 percent of the fisheries sector this year, on account of higher production in the aquaculture industry. The lifting of the ban on the culture and importation of the controversial Pacific white shrimp is expected to further boost aquaculture growth. It can be recalled that the Philippines was among the top three producers of shrimp in the world before disease brought the industry down in 1996.³

What could pull down agricultural growth in 2007 is the recurrent El Nino phenomenon which is expected to continue until the first half of the year.

¹ "Yap: P3-B for irrigation to help propel agri growth to 5% in 2007, 8% in 2008", DA Press Release January 22, 2007, http://www.da.gov.ph/News_events/news5.html

² "R.P. participation in China expo yields P200-M sales for mangoes, bananas", DA Press Release January 26, 2007, http://www.da.gov.ph/News_events/news3.html

³ (*Business Mirror*, Jan 24 page A2).

Industry. The government projects industry to expand faster by 5.8 percent in 2007. This growth projection is based mainly on the expected rebound in mining and construction activities, modest manufacturing production and higher consumption of utilities that usually come with the election season.

Mining and quarrying, which suffered a huge slump in 2006 is expected to pick up this year. According to the Department of Environment and Natural Resources (DENR), the presence of mining giants Anglo-American and Xstrata Copper, which have both staked millions of dollars in mining projects in the country is indicative of the growing confidence of global mining investors in the Philippines.⁴ The government, however, should ensure that ticklish mining issues are addressed accordingly. Just recently, a fact-finding team from the United Kingdom criticized the Philippine government for allegedly looking the other way when mining firms fail to comply with national and international safety and environmental standards.

Construction, on the other hand, will largely be fuelled by strong public infrastructure spending. The newly approved 2007 national budget provides for an infrastructure outlay of P83.8 billion, up by 16.4 percent from 2006. Roads, railways and airports will constitute most of the government's priority infrastructure projects for a higher 2007 growth.

**Box 1. Priority Infrastructure Projects for
Faster 2007 Economic Growth**

- Ø LRT-MRT connections (DOTC)
- Ø LRT 1 extension to Cavite (DOTC)
- Ø C-5 connection NLEX/SLEX (DPWH)
- Ø Skyway Stages 2 and 3 (DTI-NDC)
- Ø Tarlac to La Union Road (DPWH)
- Ø Laguindingan Airport (DOTC)
- Ø Panglao Airport (DOTC)
- Ø Mass Housing (HUDCC)

Source: NEDA

Manufacturing, which has grown by an average of 5.2 percent annually in the last three years, may see a slightly restrained growth this year. The

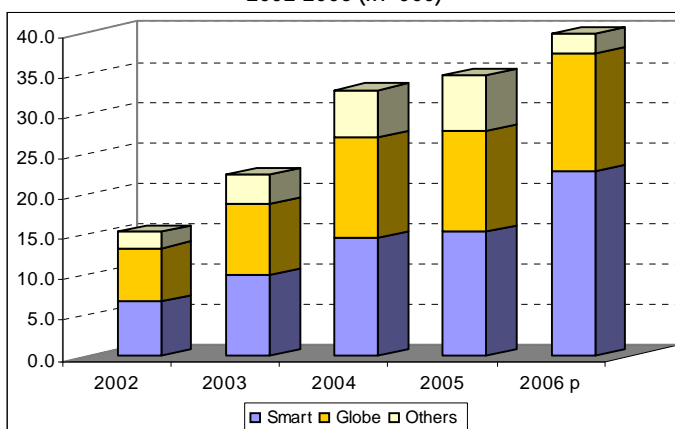
⁴ "Boom in mining industry seen", Press Release, Mines and GeoSciences Bureau, January 25, 2007, <http://www.mgb.gov.ph/news/2007-0125miningboom.htm>

production of export-oriented manufactures such as electronics, electrical machinery, textiles, and leather and related products is likely to register a slowdown with the projected softening of global economic growth. Election-related spending which may increase the production of manufactured goods may, however, serve as a compensating factor.

Services. The services sector is projected to continue its upward trajectory with a 2007 growth forecast of 6.6 percent, up from 6.3 percent last year. The transport sector, which grew 3.9 percent in 2006, will likely benefit from the easing of oil prices this year. Air transport is likely to continue its growth with the more frequent offerings of promotional rates by airlines.

Communications, meanwhile, may continue its slowdown from its double digit growths with expectations of lower mobile phone subscriptions in 2007. According to the National Telecommunications Commission (NTC), the number of cellular phone subscribers in 2006 has already reached 40 million, up from 34.8 million recorded in 2005,⁵ indicating that the market is becoming increasingly saturated. Broadband application and services though are seen to further rise in the coming years.

Figure 5. Number of Cellular Subscribers, 2002-2006 (in '000)



Source: National Telecommunications Company

The expectation of higher consumer spending, meanwhile, is expected to hold up the trade sector.

⁵ "Mobile phone users seen hitting 40M; growth eases", <http://www.gmanews.tv/story/26242/Mobile-phone-users-seen-hitting-40M-growth-eases>

Retail and food businesses, in particular, will likely profit from election-related spending.

The finance sector will remain vibrant, with the stock market poised to soar even higher in 2007. Equities analysts predict that, barring any economic or political upheavals, new record highs will be registered within the year. The Philippine Stock Exchange composite index is projected to rise to within 3,500 points, beating its 2,982.5 point-closing value for 2006.⁶

The finance sector is also expected to benefit from the present low interest rate regime. According to US-based investment bank Morgan Stanley, local commercial bank lending could expand by 15 to 18 percent over the next 12 months as declining interest rates create higher demand for loans.

The outlook for the property sector remains bullish for this year, with the burgeoning office space demand from BPO and information technology companies. The strong demand for residential houses, buoyed by overseas Filipino worker (OFW) remittances, also bode well for the property sector.

Private services growth is similarly poised to strengthen this year on the back of strong BPO growth. An independent study conducted among 747 contact centers in Asia shows that in 2007, the Philippines will likely post the highest increase in call center seats in Asia. The Philippines, currently with 105,000 seats, is projected to grow to 140,000 seats, or a 33 percent increase from its 2005 level.

Consumption. On the expenditure side, strong consumer spending is likely to stay as the main driver of growth. Private consumption is expected to grow on the back of continuous flow of money from overseas Filipino workers, and a more benign inflation environment. OFW remittances are estimated to have reached \$13.5 billion in 2006 and would probably grow to \$14 billion this year.

Latest forecasts of the Bangko Sentral ng Pilipinas indicate a generally declining path for inflation, with

⁶ "The stock market: Soaring, soaring still", <http://www.gmanews.tv/story/25150/The-stock-market-Soaring-soaring-still>

average inflation for 2007 expected to fall within the 4.0-5.0 percent target. The continued softening of fuel prices and the strengthening of the peso will support the deceleration in inflation. Oil prices are likely to ease compared to last year and continue to fluctuate throughout the year. According to *The Economist*, prices of commodities such as oil and metals, will be driven down, mainly because of adequate supply.⁸ The US Energy Information Administration is predicting that modest increase in OPEC production capacity and as well as the supply growth in non-OPEC sources will fairly match the growth in global oil demand this year. Overall demand for oil is, likewise, anticipated to slow down with the tempering of the growth rate of major economies such as China and the US.

Investments. Encouraged by the robust foreign direct investment growth last year, the government has raised the target growth rate for investments for 2007 to 12.0 percent. In 2006, approved PEZA and BOI investments reached P273.8 billion which grew by 18.5 percent from 2005. The more favorable investment picture stems from the favorable fiscal position of the government and the passage of the national budget which are expected to renew investors' confidence in the country. The Department of Trade and Industry (DTI) cites four fields which will drive investment growth this year, namely infrastructure, mining, information and communications technology, as well as medical tourism. These investments are expected to generate the jobs which the economy badly needs.

Exports. Domestic and external developments similarly pose both upside and downside risks for Philippine exports. On the one hand, the US economy, the country's largest trading partner, is seen to weaken in 2007. This softening is expected to trim down the demand for electronics, the country's chief export. Industry players, however, are more optimistic, projecting that the strong wave of consumer demand for electronic products will continue in 2007. The World Semiconductor Trade Statistics (WSTS), for instance, predicts that the worldwide semiconductor market will moderately

increase to 8.6 percent in 2007 from 8.5 percent in 2006 while the US' Semiconductor Industry Association (SIA) projects that sales will increase by 10.0 percent from 9.4 percent in the previous year. The Philippines's own Semiconductors and Electronics Industries Association of the Philippines' Inc. (SEIPI) has similarly set a 10-percent growth projection for 2007.

The appreciating peso continues to be a major concern for local exporters this year. However, if the currencies of our major competitors particularly Asian neighbors, likewise appreciate in step, the injury to the relative competitiveness of Philippine exports will not be significant.

On the upside, the current upturn in Europe and Japan's economies, might bring Philippine export growth in an upward path. Japan is the country's second biggest trading partner while exports to EU, particularly, Germany and Netherlands account for about 14.0 percent of the country's total exports. For 2007, the DBCC assumes a 12.0 percent export growth.

Conclusion

In summary, the government as well as private institutions seem to agree that a more sanguine growth outlook for the Philippines is in store for 2007. Domestic demand is expected to remain robust and the government's commitment to accelerate investment spending should provide enough stimulus and help lift investor confidence in the country. This is expected to bring in the necessary investments which will eventually translate to the much needed employment opportunities.

Still, there remain the risks to growth. The global downturn may result to subdued export growth. Fuel prices also continue to be volatile. On the domestic front, the El Nino might pull down the agricultural expansion. Political uncertainties that will come with the forthcoming elections might also cloud the near term outlook.

⁸The Economist. January 11, 2007. Oil's not well.

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The views and opinions expressed herein are those of the SEPO and do not necessarily reflect those of the Senate, of its leadership, or of its individual members.