

# The Philippine Economy: Recent and Future Trends

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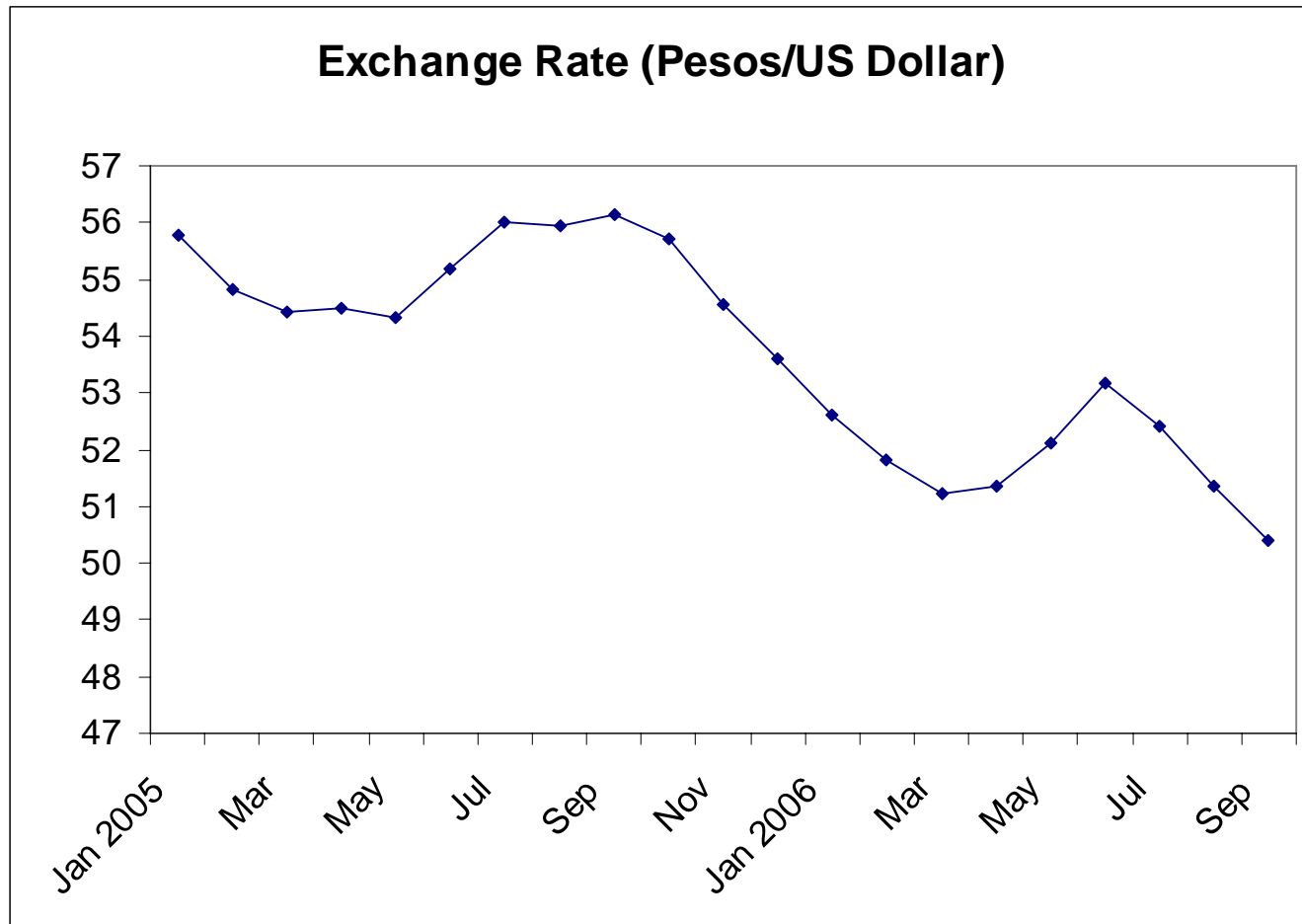
“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us...”

Opening sentence of Dickens' *A Tale of Two Cities*

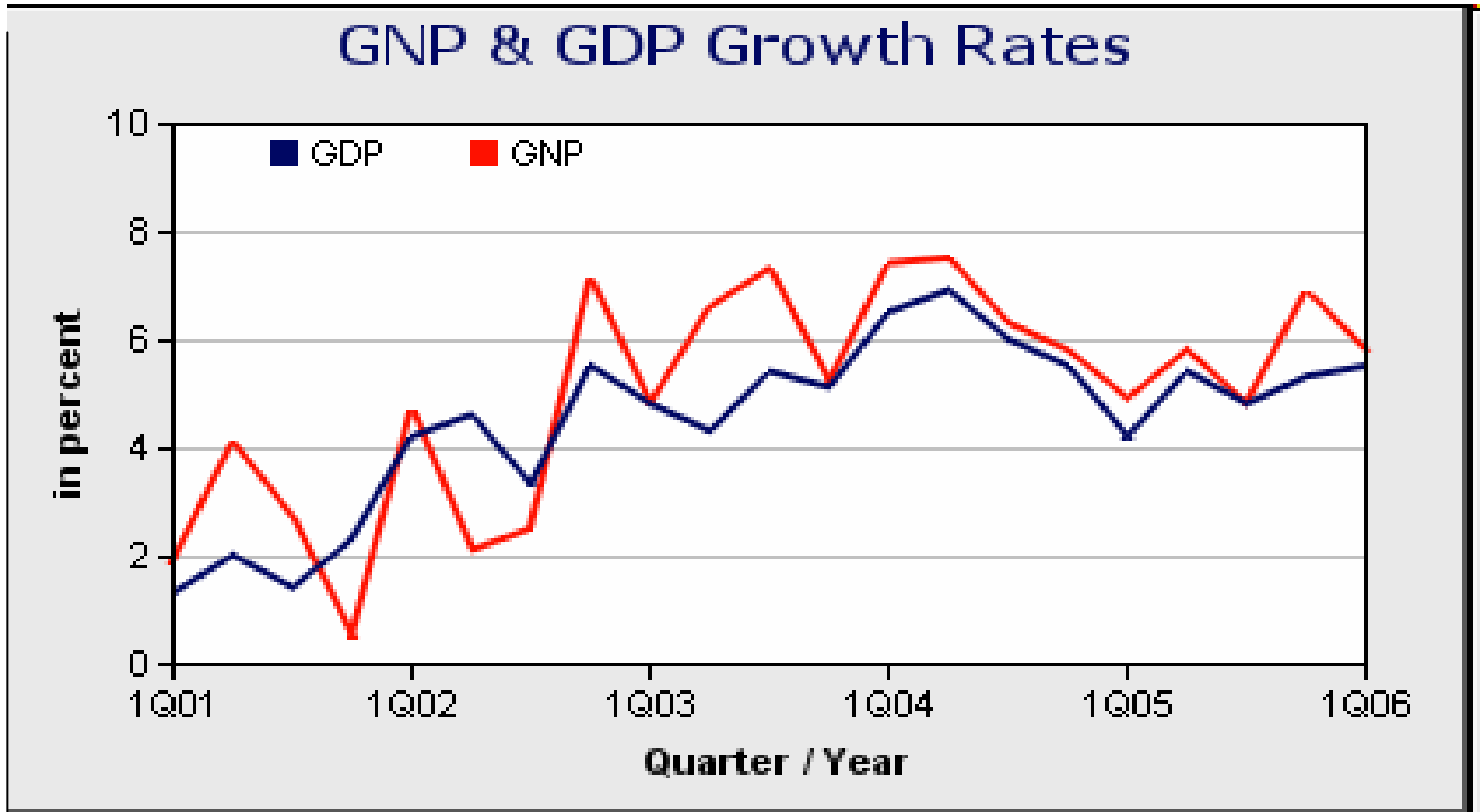
Appreciating Peso (since 2005, but strongest in last 8 to 10 months),  
 Rising Real Estate and Stock Markets (since 2004, accelerating in  
 2006) and Falling Interest Rates (long-term trend, disrupted briefly in  
 2004)

<b>YEAR</b>	<b>PRIME OFFICE RENTS (P/sm/mo)</b>	<b>PSE Daily Turnover (Peso m)</b>	<b>PSE Index Exchg. (Ave)</b>	<b>PESO/ US\$ (period ave)</b>	<b>91Day T-Bill Rate</b>
<b>2000</b>	<b>650</b>	<b>1,038</b>	<b>1495</b>	<b>44.19</b>	<b>9.90</b>
<b>2001</b>	<b>600</b>	<b>617</b>	<b>1168</b>	<b>50.99</b>	<b>9.86</b>
<b>2002</b>	<b>525</b>	<b>645</b>	<b>1018</b>	<b>51.60</b>	<b>5.43</b>
<b>2003</b>	<b>500</b>	<b>575</b>	<b>1442</b>	<b>54.20</b>	<b>6.03</b>
<b>2004</b>	<b>550</b>	<b>818</b>	<b>1823</b>	<b>56.04</b>	<b>7.34</b>
<b>2005</b>	<b>650</b>	<b>1,360</b>	<b>2096</b>	<b>55.08</b>	<b>6.36</b>
<b>2006</b>	<b>775</b>	<b>1,905</b>	<b>2650</b>	<b>51.00</b>	<b>5.50</b>

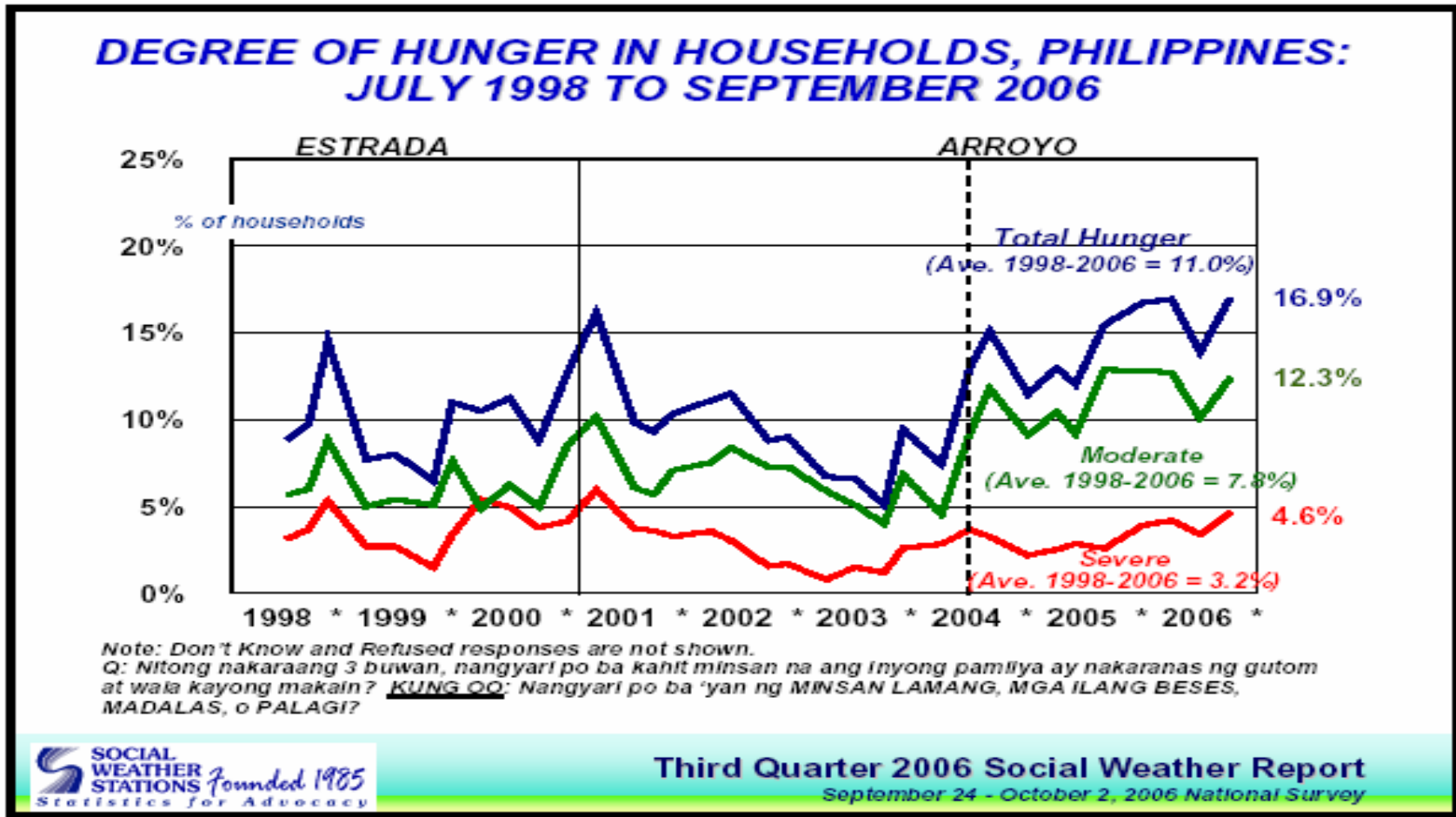
Strong current account and portfolio inflows have resulted in a large appreciation of the peso



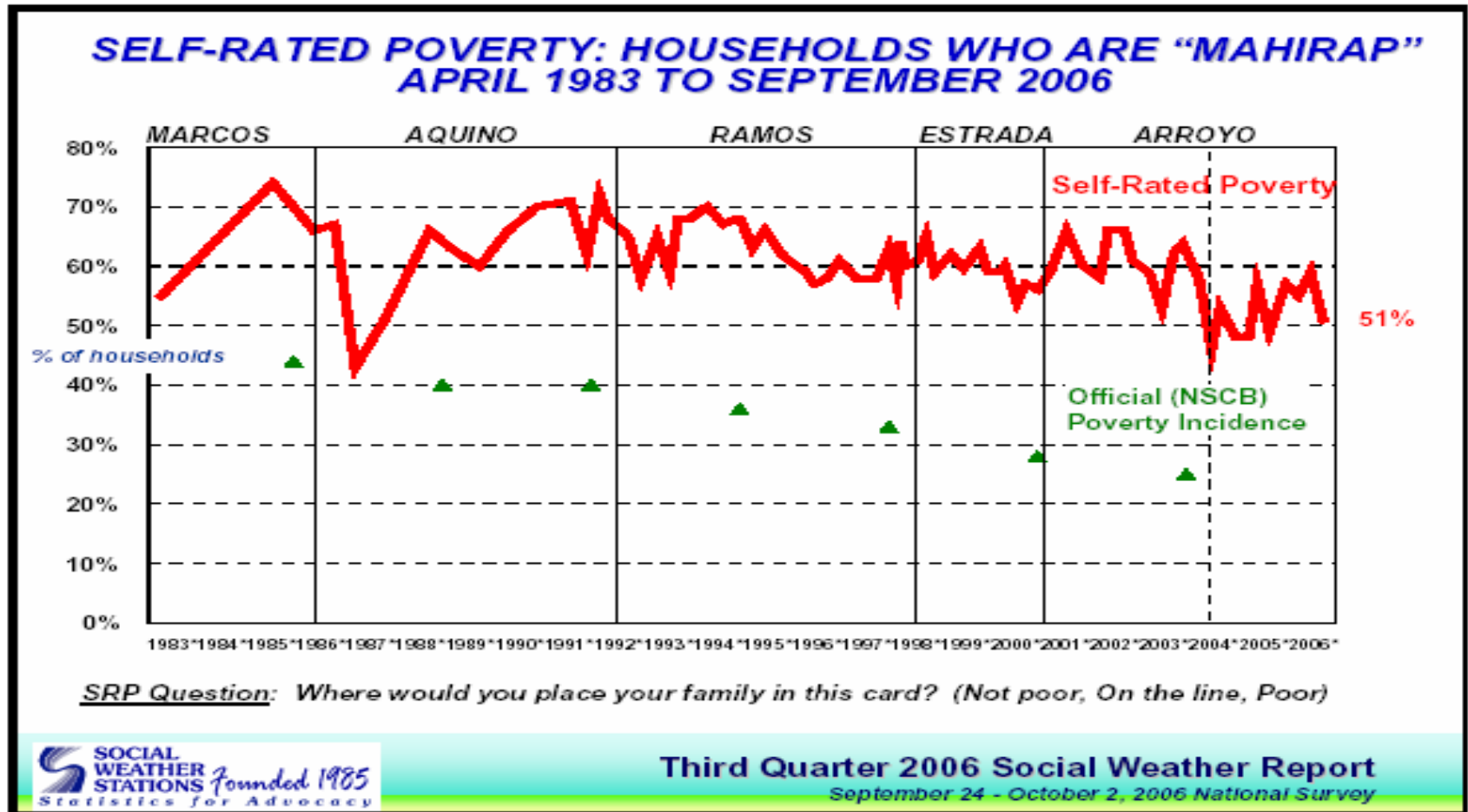
# GDP growth much higher since 2003



# Hunger (as measured in SWS surveys) started to rise in 2003



# Self-Rated Poverty has been declining in 2002 but started to rise again in the second half of 2005



Philippine external debt net of foreign assets of the banking system has fallen in absolute terms. The fall in net external debt is even bigger if related to OCW remittances, current external receipts and GNP.

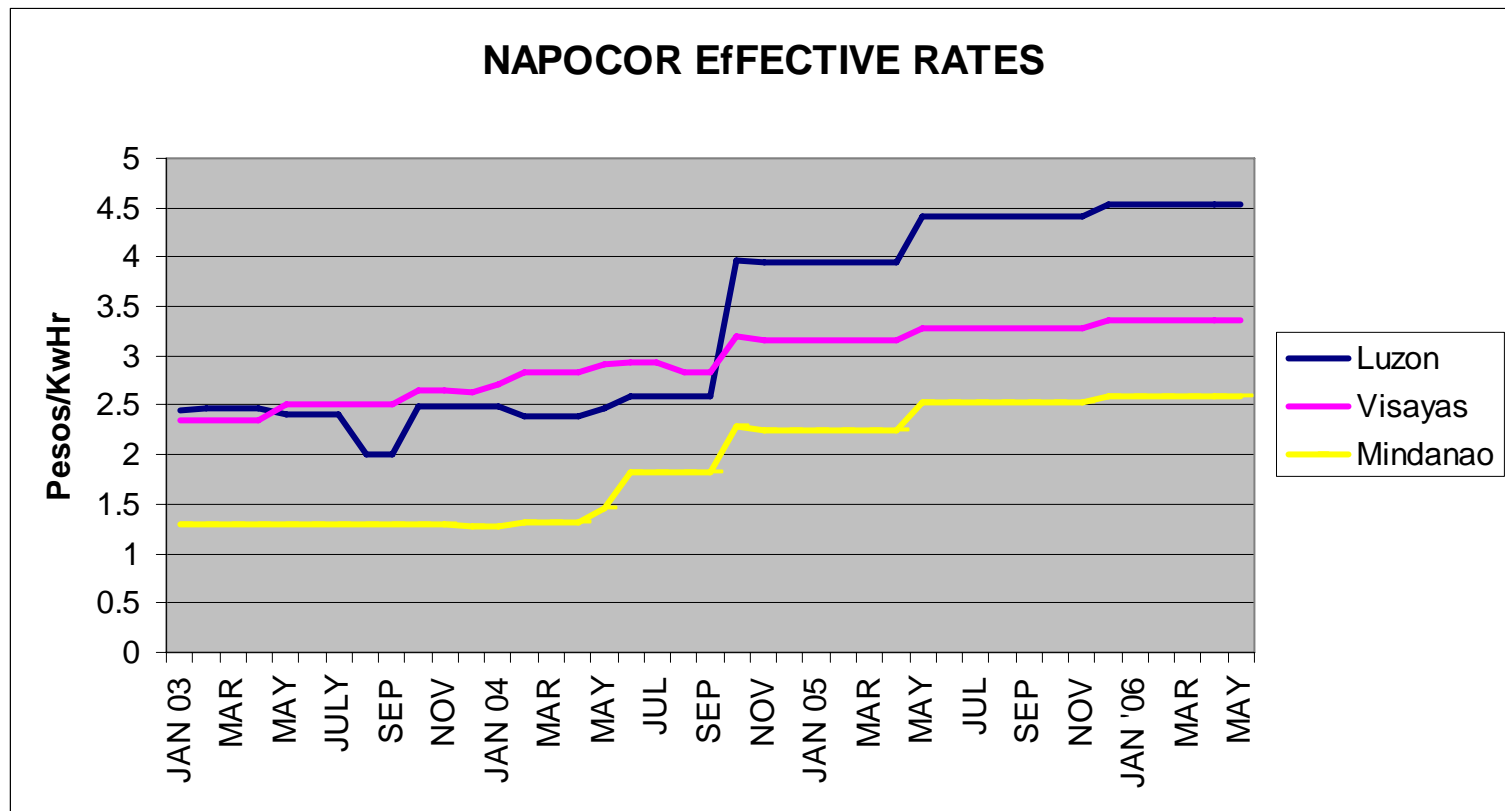
	<u>Dec. 2000</u>	<u>June 2006</u>
<b>Philippine External Debt</b>	<b>51,206</b>	<b>53,908</b>
<b>Less:</b>		
<b>BSP Int'l Reserves</b>	<b>15,063</b>	<b>21,123</b>
<b>Deposit Money Banks' Foreign Assets</b>	<b>10,069</b>	<b>14,386</b>
<b>Net External Debt</b>	<b>26,074</b>	<b>18,398</b>

\*(in million US dollars)

Even after adjusting for Non-Budgetary Accounts (NBA), the government had almost balanced its budget in 2005 if the erosion of the value of the public debt by inflation is factored in.

<b>2005 NG Fiscal</b>	<b>(million PHP)</b>	
<b>Expenditures</b>	<b>942,487</b>	
<b>Revenue</b>	<b>795,709</b>	
<b>Deficit</b>	<b>146,778</b>	
<b>NBA</b>	<b>11,038</b>	
	<b>157,816</b>	
<b>Fall in Real Debt</b>		
<b>Peso Inflation</b>	<b>-120,072</b>	6% of NG Domestic Debt
<b>Dollar inflation</b>	<b>-36,214</b>	2% of NG Forex Debt
<b>"Real" NG Deficit</b>	<b>1,530</b>	

Improvement in fiscal position is even more impressive when the impact of the power rate hikes is factored in.



# Fiscal Gains as of 2005 achieved largely through expenditure compression.

## Accounting for Change In Primary Surplus 2000 to 2005

NG non-interest expenditures in 2000	508,080
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### *Hypothetical Level in 2005*

(a) After Adjustment of 2000 values

for Inflation

609,543

(b) After adjustment for Inflation and

Population

712,105

(c) After Adjustment for inflation,  
Population, and Needs of Bigger  
Economy\*

790,083

Actual Level in 2005

642,680

Difference

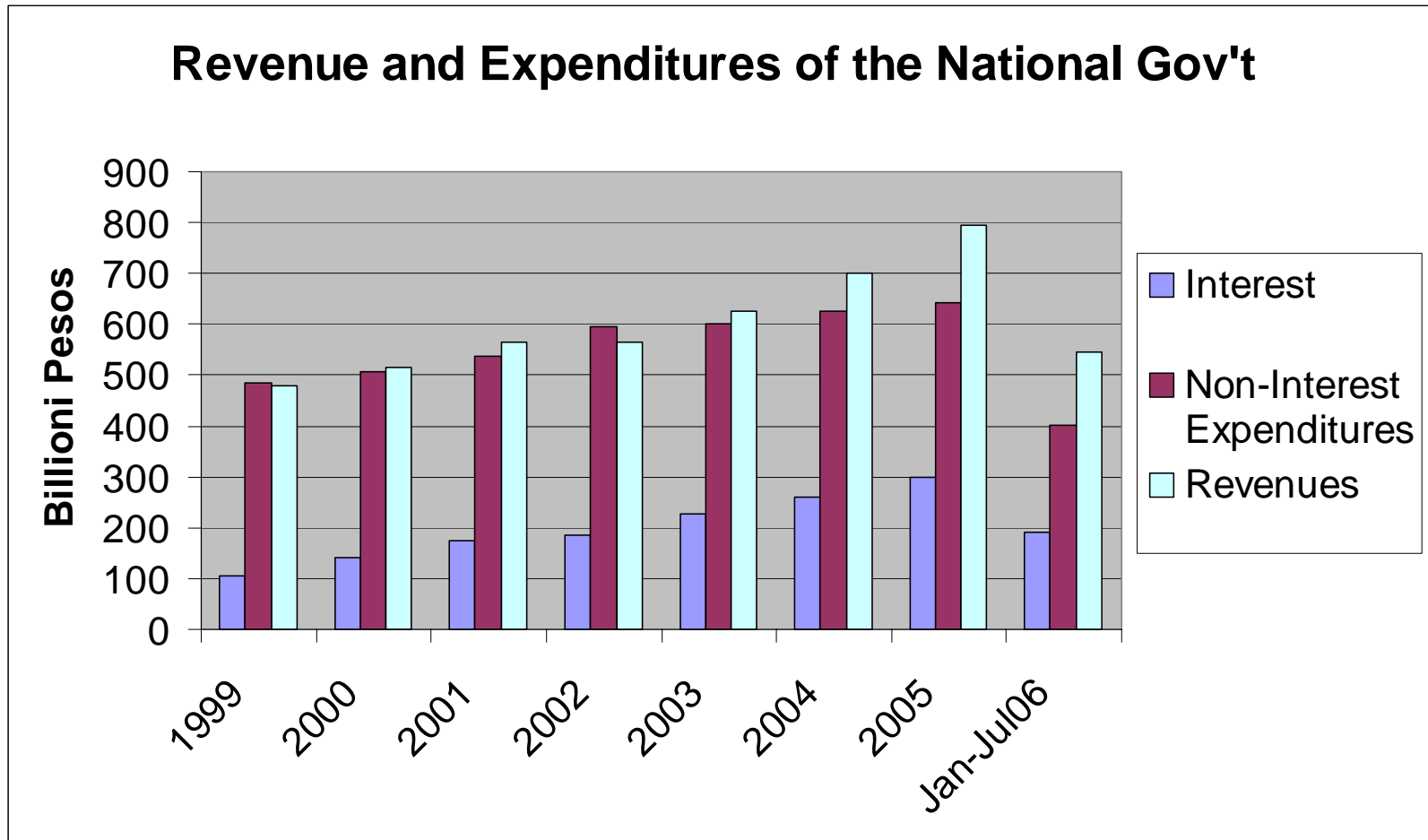
147,403

\*Assumes an elasticity of .6 with respect to per capita GNP

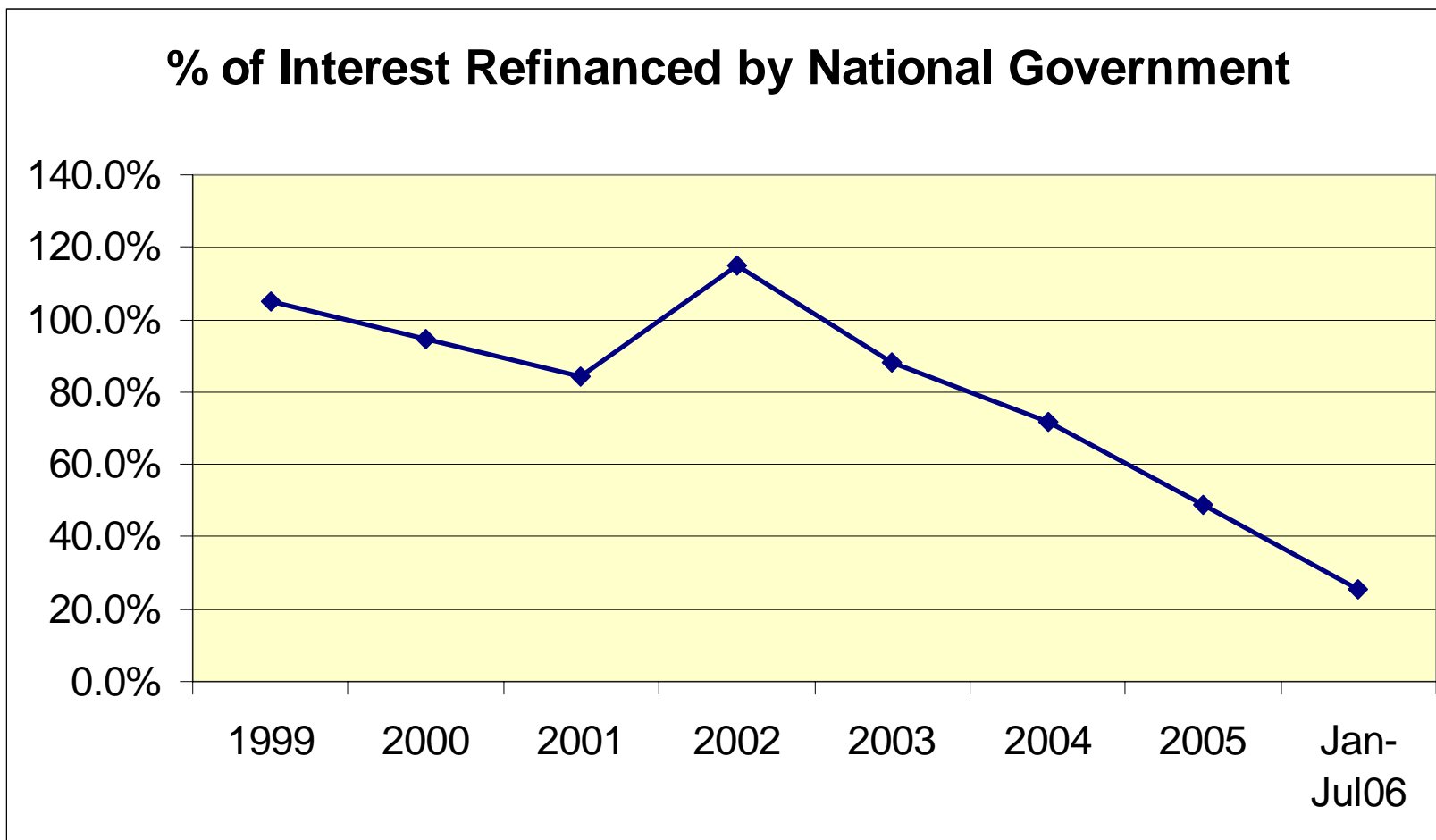
Re-enactment of national budget in 2006 and delayed approval of supplementary budget will compress expenditures further. This, together with the 75 billion additional revenue from RVAT, will result in a real adjusted NG surplus of 88.7 billion!

<b>2006 NG Fiscal</b>	<b>(million PHP)</b>	<b>Remarks:</b>
<b>Expenditures</b>	<b>995,487</b>	(including supplementary budget)
<b>Revenue</b>	<b>954,850</b>	(18% higher than 2005)
<b>Deficit</b>	<b>56,551</b>	
<b>NBA</b>	<b>11,038</b>	
<b>Deficit +NBA</b>	<b>67,589</b>	
<b>Fall in Real Debt</b>		
<b>Peso Inflation</b>	<b>-120,072</b>	6% of NG Domestic Debt
<b>Dollar inflation</b>	<b>-36,214</b>	2% of NG Forex Debt
<b>"Real" NG Surplus</b>	<b>88,697</b>	

Until 2003, the public debt did not affect primary (non-interest) expenditures of government because interest payments were largely refinanced. However, because of expenditure compression and the RVAT, government is now paying out of revenues a significant percentage of its interest expense.



The government, which used to refinance all of its interest payments, is now paying all but one-fourth of its interest expenditures using its revenues.

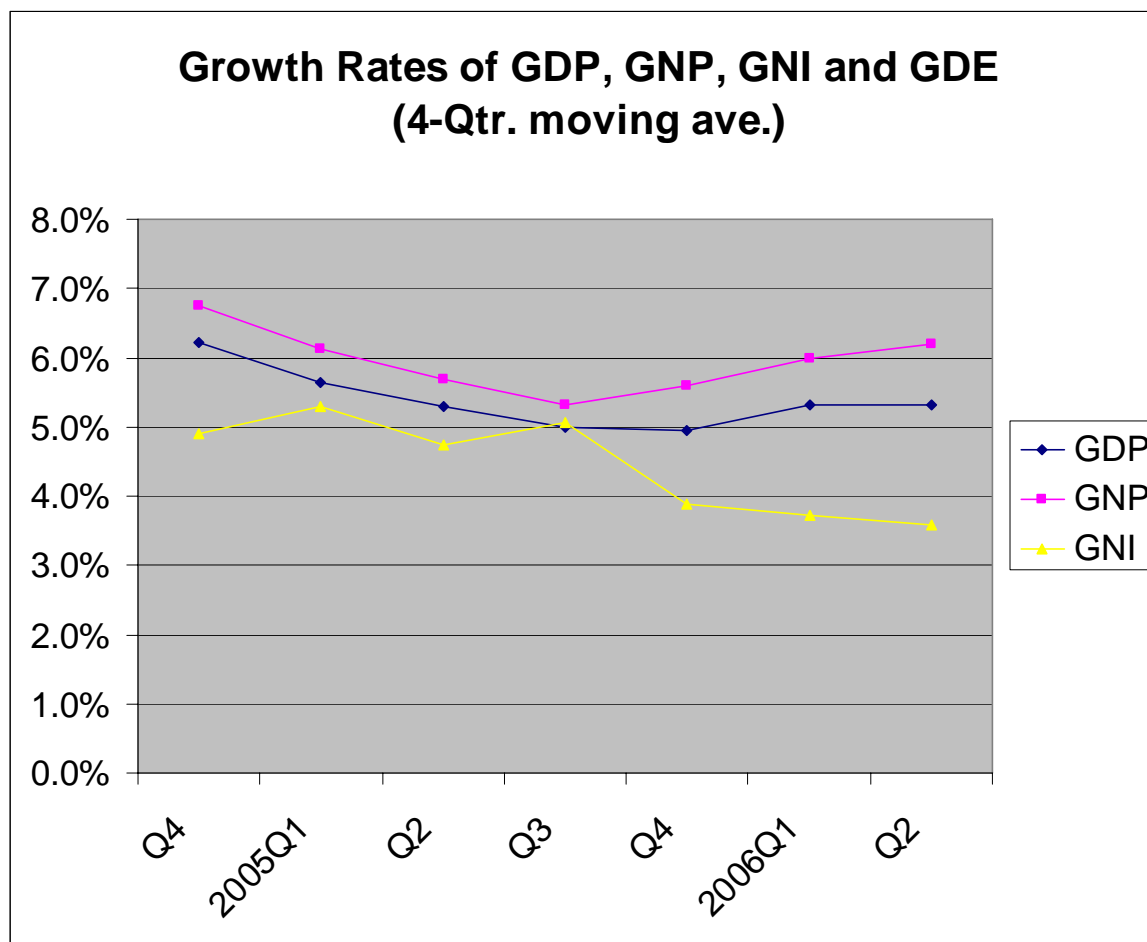


Given the huge fiscal turnaround (146B +35B + 35B = 216B) and the rise in crude oil prices, how come GDP growth has not slowed down? Or has it?

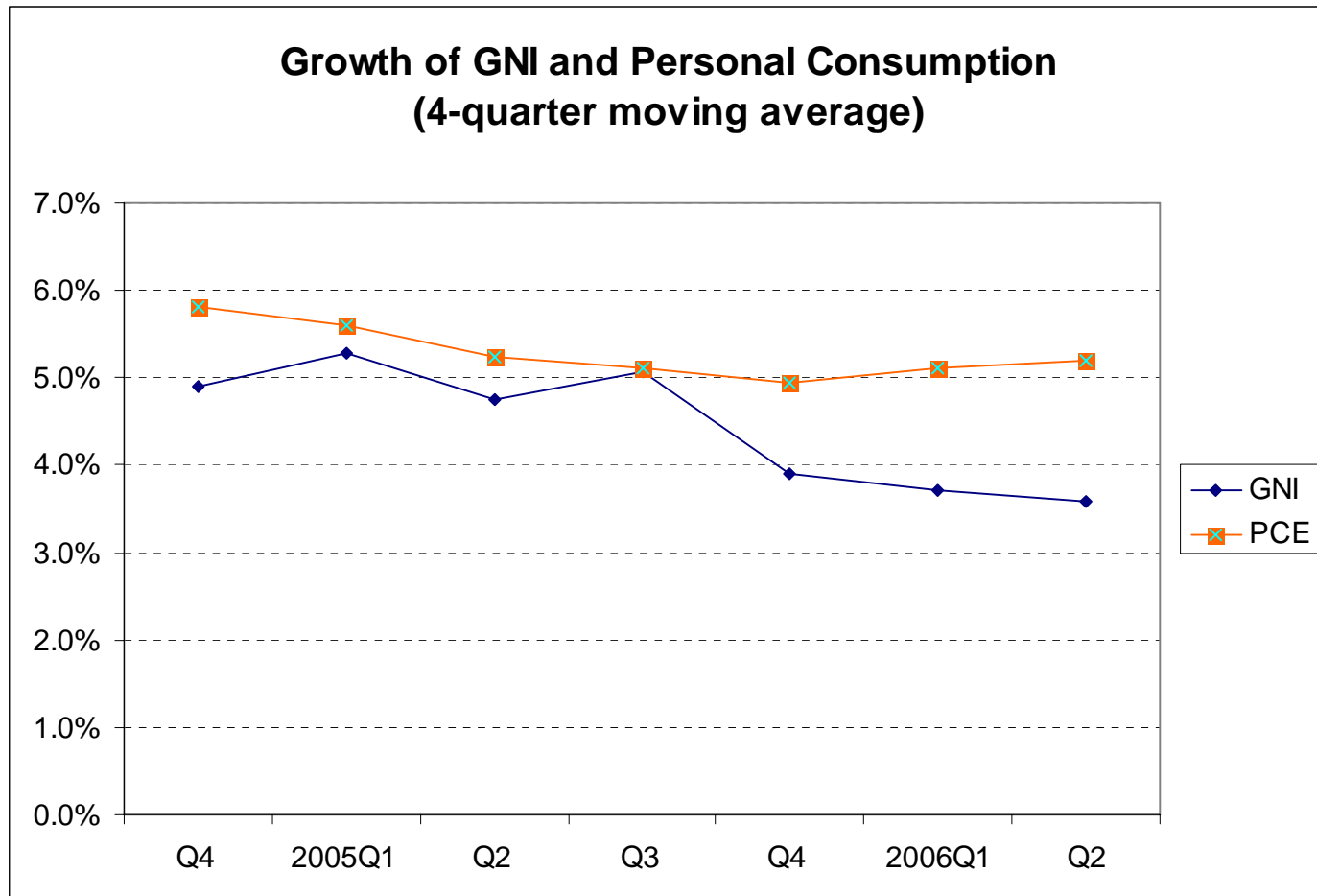
GDP Growth (in  
million 1985  
pesos)

	2,004	2,005	change	Growth Rate
PCE	903,131	947,800	44,669	4.9%
GCE	74,421	76,465	2,044	2.7%
GDCF	235,830	225,600	-10,230	-4.3%
Less				
Net Imports	89,492	88,199	-1,293	-1.4%
GDE	1,123,890	1,161,666	37,776	3.4%
<u>Discrepancy</u>	<u>21,910</u>	<u>42,867</u>	<u>20,957</u>	<u>95.7%</u>
GDP	1,145,800	1,204,533	58,733	5.1%

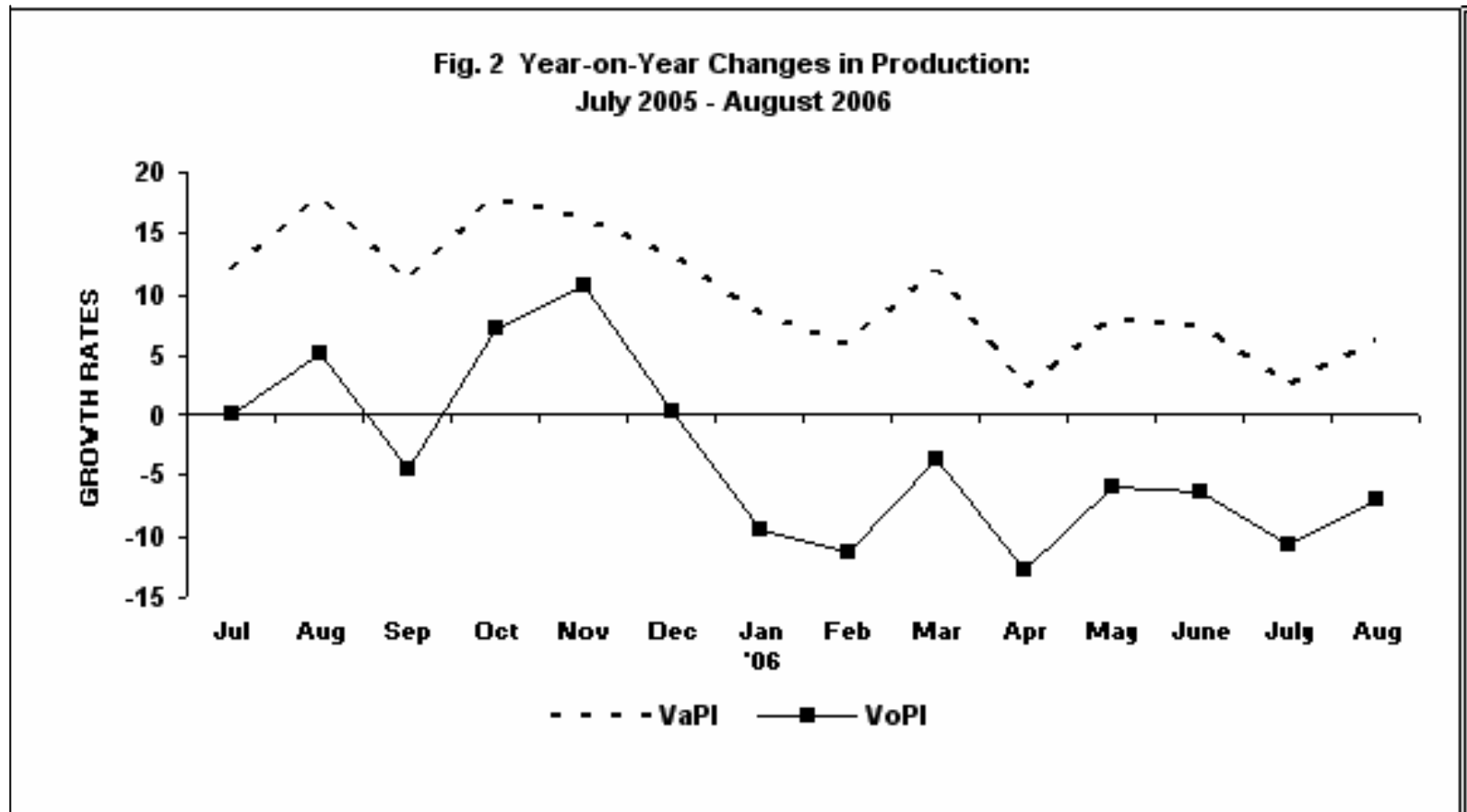
GNP and GDP are “constant price” measures of income and output and do not capture effects of worsening of terms of international trade (e.g., high crude prices). GNI does and gives a bleaker picture.



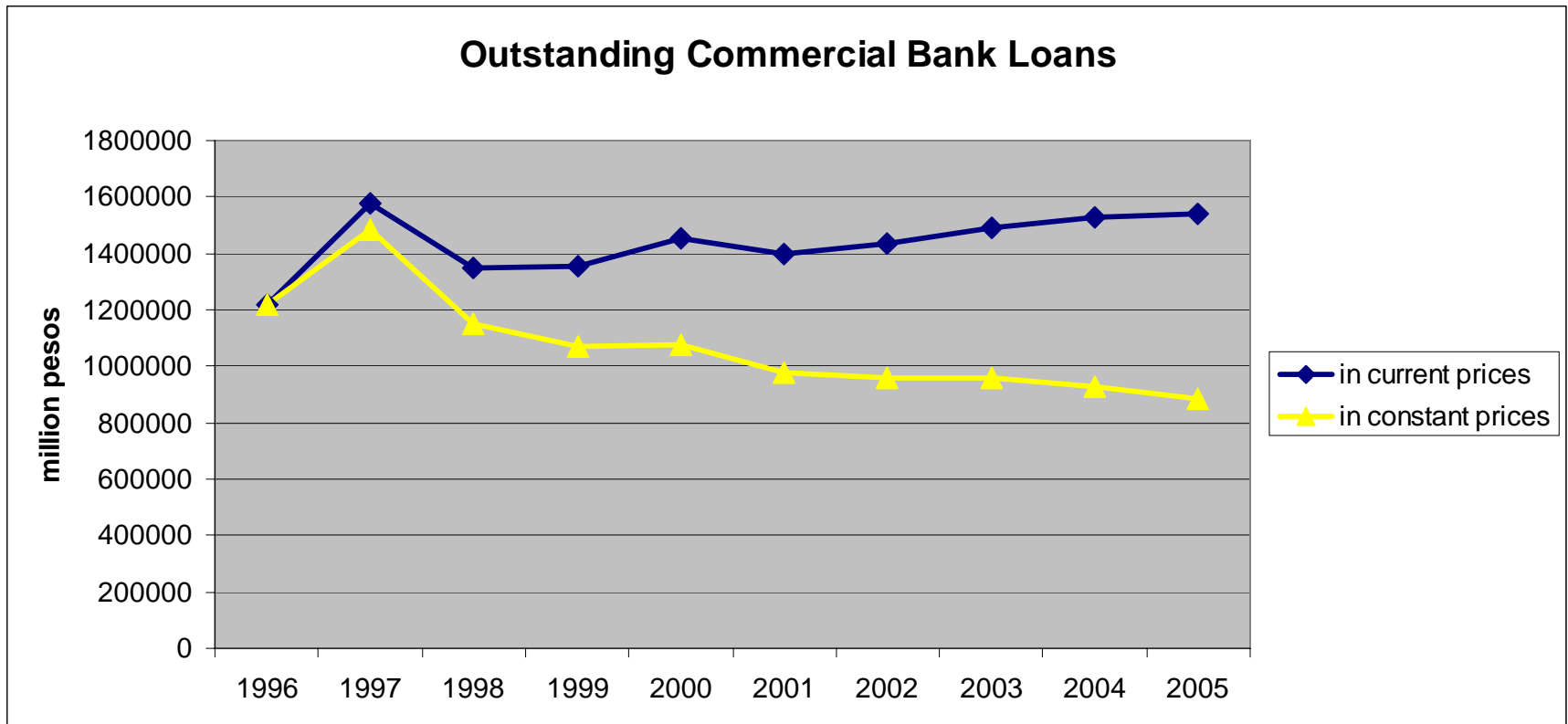
That Personal Consumption Expenditures (PCE) has been growing faster than Gross National Income (GNI) raises the possibility that growth rates of GNP and GDP are overstated.



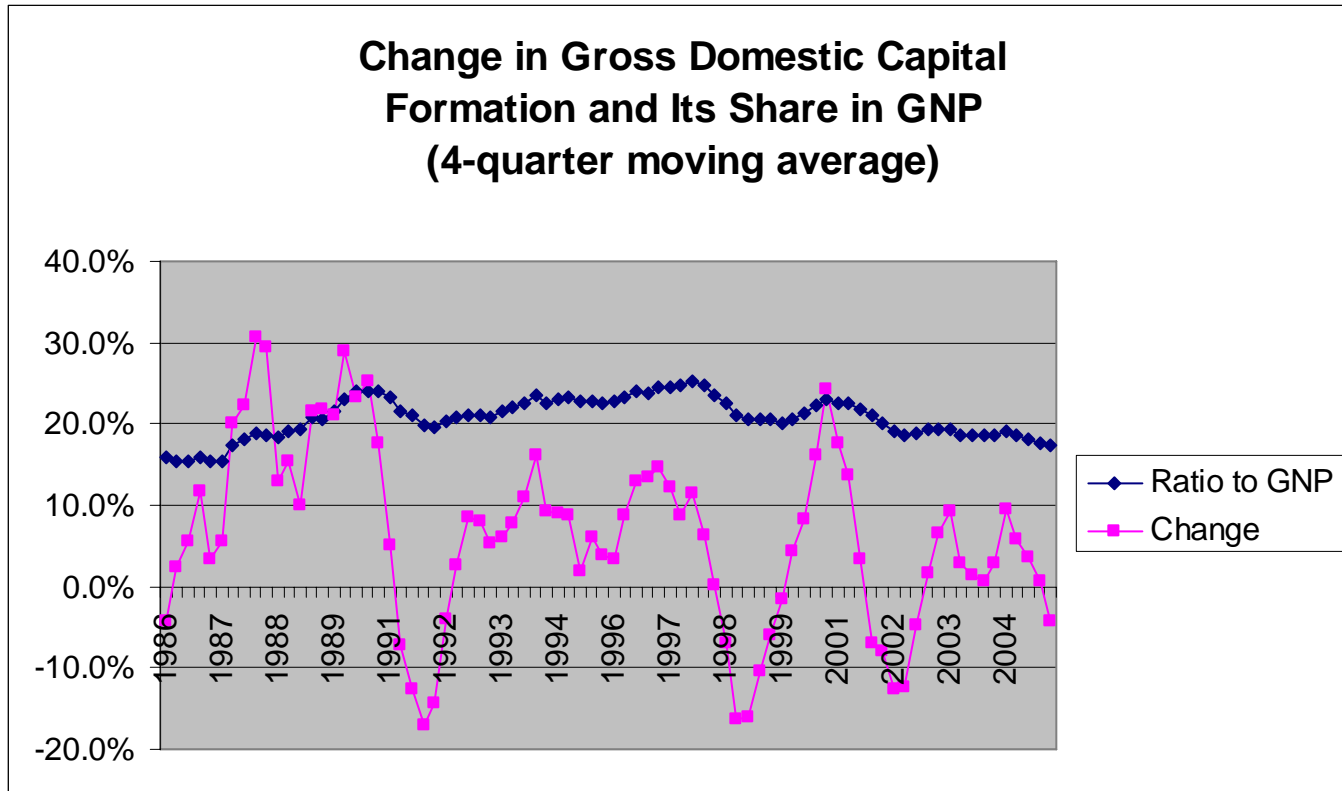
# Key Segments of the Manufacturing Sector (as captured by the Monthly Integrated Survey of Selected Industries) Have Been Doing Very Poorly



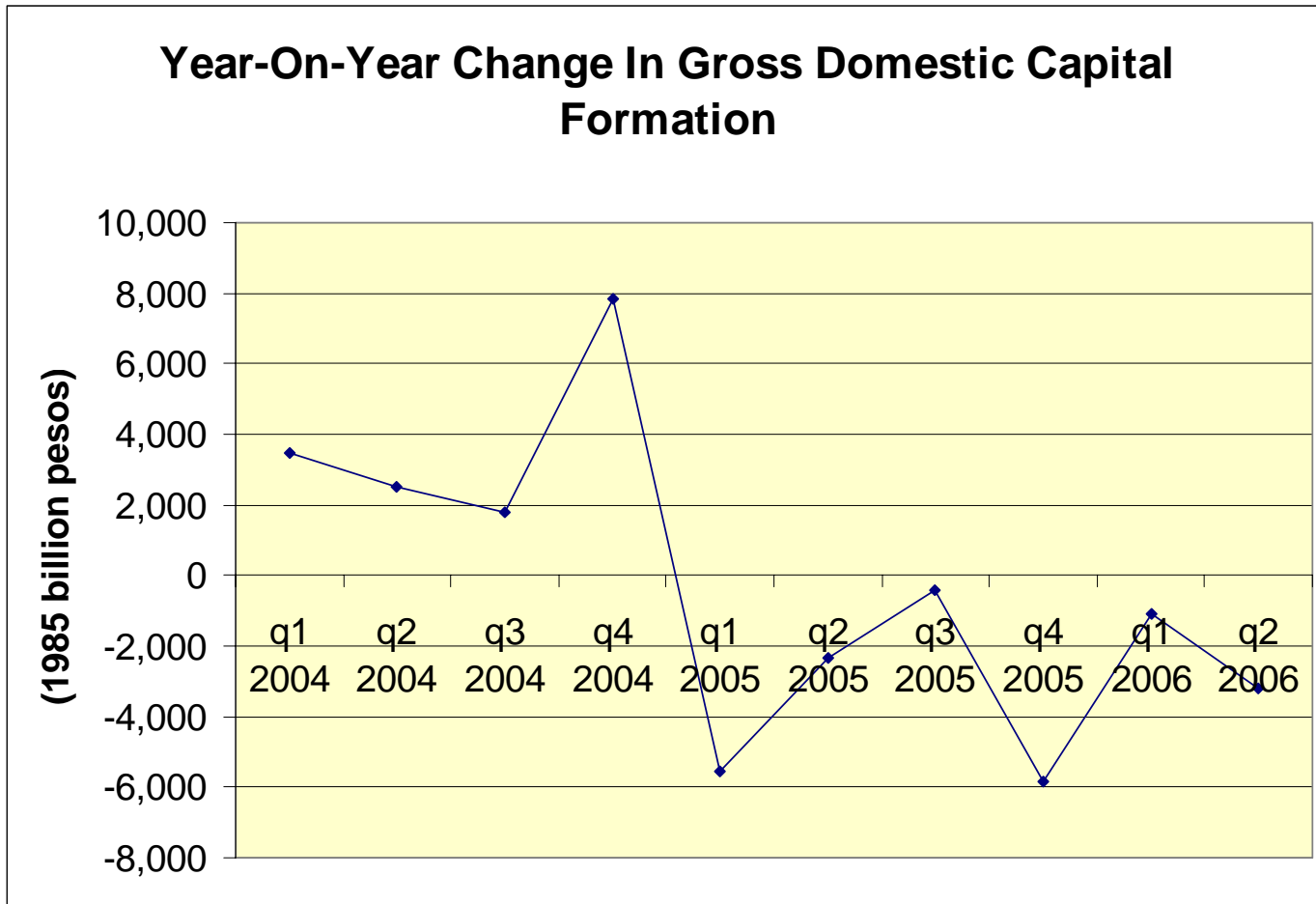
# Bank lending has not normalized since the Asian Financial Crisis



# Low rates of investment in new capital goods (both in terms of y-o-y growth and share in GNP)



# Gross domestic capital formation declined six quarters in row



# National Gov't Capital Expenditures is low, both in ASEAN 4 context and relative to 1995 level

## Central Gov't Capital Expenditures as % of GDP

	Indonesia	Malaysia	Philippines	Thailand
2004	14.1%	6.1%	N.A.	N.A.
2003	13.2%	9.7%	1.6%	2.8%
2002	9.9%	9.7%	1.7%	3.7%
2001	9.1%	10.2%	1.6%	3.7%
2000	3.1%	7.3%	1.8%	3.9%
1995	N.A.	5.6%	2.8%	5.0%

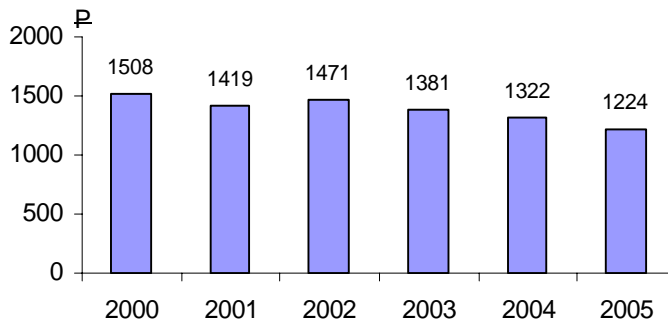
Philippine Gov't social expenditure lower than in Malaysia and Thailand and higher than Indonesia's (which is now in a position to increase social expenditures due to the rationalization of fuel subsidies)

Central Gov't Social Expenditure  
as % of GDP

	Indonesia	Philippines	Malaysia	Thailand
2004	N.A.	4.00%	9.50%	N.A.
2003	2.30%	4.20%	11.70%	7.80%
2002	2.10%	4.70%	11.80%	7.80%
2001	1.70%	5.30%	11.10%	7.90%
2000	4.20%	4.70%	8.70%	7.60%

# Real per capita spending on elementary education and enrollment ratios have been falling

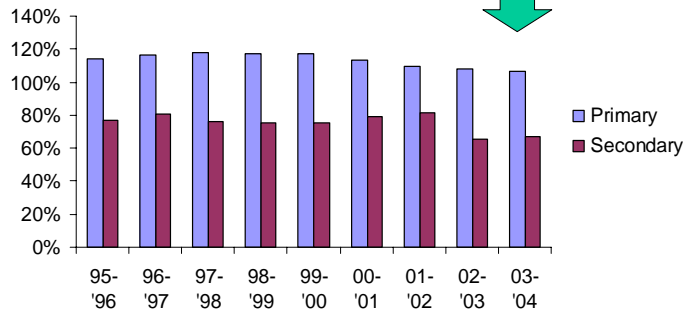
Real per capita government spending on education



Source of basic data: DBM for government spending; BSP SPEI for population and CPI

- Real Per Capita Spending on elementary education has been declining.

Gross Enrolment Ratios



Source: Department of Education

- Falling enrollment ratios

# Conclusion

- (a) Economic growth may have been lower than indicated by GDP stats
- (b) Fiscal Consolidation is significant and is due to RVAT, higher power rates and expenditure compression
- (c) Net External Debt of the Philippines has fallen and will continue to fall
- (d) Government expenditures will be partially decompressed in 2007 but interest rates will remain low and the peso will remain strong
- (e) Government deficit will be higher in 2007 than in 2006. However, the real value of the public debt stock and the NG debt-GDP ratio will continue to fall
- (e) Both actual and reported economic growth will be higher in 2007 than in 2005 and 2006.