THE PHILIPPINES

Salvador P. Catelo, Dean, College of Economics and Management
University of the Philippines, Los Banos

The economic recovery that began in 1999 was sustained in 2000 despite the domestic problems and external shocks that befell the Philippines in 2000. Barely recovering in 1999 from the aftermath of the Asian financial crisis, the country posted a growth rate of 3.9 percent in 2000. Actually, the economy showed robust growth in the second and third quarters of 2000 but a series of unfavorable domestic events, including as the uncertainties brought by the impeachment trial of former President Estrada and the stock market scandal, shook business confidence and paved the way for a deep plunge in the performance of all economic sectors toward the fourth quarter. The slow growth was also the offshoot of the rising world crude oil prices, the unexpected economic slowdown in the United States and Japan—which are the main export markets of the Philippines—and the volatile exchange rate between the peso and the US dollar.

However, the 3.9 percent growth in GDP in 2000 is already a slight improvement over the 3.3 percent mark achieved in 1999. GDP is expected to grow at the rate of about 3.3 percent to 3.8 percent for the year 2001. The Philippines is facing a lower growth outlook this year due to the global economic slowdown, which is expected to adversely affect the country's export performance. Compounding this is the Abu Sayyaf hostage crisis and the spate of kidnappings that slowed down the flow of portfolio and direct investments into the country. However, this outlook could be perked up by renewed investor confidence brought about by the historical change of leadership in January. As of July 2001, the country is experiencing continuous growth in the services, particularly in telecommunications, retailing, and wholesaling. Moreover, construction has shown signs of recovery and some slight gains in manufacturing were noticeable.

The peaceful transfer of power to the Arroyo administration in January 2001 has significantly improved economic prospects and at the same time has invigorated optimism about the economy. As in the past, economic growth in the medium term would depend on several factors, the majority of which include: (1) world economic growth, especially a slowdown in the US and Japanese economies; (2) petroleum price movements; (3) restoration of investor confidence; (4) the occurrence of drought beginning in the fourth quarter of 2001; (5) recovery in investments and bank lending, given the impact on debt service of higher rates and the weaker peso; and, (6) fiscal tightening in 2001.

The Philippine economy will continue its moderate recovery in 2001. The Government of the Philippines reaffirmed its commitment to attain social development through providing unwavering support to the modernization of the various sectors of the economy and implementation of poverty eradication, employment expansion, and social integration programs.

Macroeconomic Situation and Outlook

In 2000, a series of unfavorable events, both internal and external, served to destabilize what would otherwise have been a steadily progressing economy. The hike in US interest rates and the global economic slowdown, combined with domestic problems, depressed investment in the local bourse in the early part of 2000. Exacerbated by the crisis of governance, which eventually led to the impeachment trial of former President Estrada, the economy managed nevertheless to grow at a modest rate of 3.9 percent in 2000, up from the 3.3 percent GDP growth in 1999.

The inflation rate for 2000 remained single-digit, with an average of 4.4 percent. The inflation rate in 2001 is likely to stay at 6.7 percent. At worst, it could hit 7 percent, reflecting the impact of higher interest rates and a weak peso. Unemployment in 2000 reached a double-digit figure of 11.2 percent. This is 1.4 percentage points higher than the 1999 rate and 1.1 percentage points higher than in 1998, when the economy suffered the brunt of the financial crisis and El Niño. Labor productivity, on the other hand, has improved in all sectors, with agriculture notching the highest productivity gain at 9.5 percent. The service sector, which had the highest employment absorption rate (46.7 percent) in 2000, notched the lowest productivity improvement rate at 1.5 percent.

The last two quarters of 2000 were plagued by the depreciation of the peso, soaring interest rates to control the depreciation, phenomenal hikes in local pump prices of oil that reflected rising world crude oil prices, and a higher budget deficit. The stock market had deteriorated by as much as 39.9 percent toward the last quarter of 2000 and would remain volatile to uncertainties regarding the country's foreign exchange as well as its political and business environment. The peso-dollar rate closed at PHP49.9/US$ in 2000, up from only PHP40.3/US$ the previous year. As of June 2001, the peso closed at PHP52.37 to a US$. It is, however, projected that the peso will depreciate to an average of about PHP51 to PHP52 per US$ in 2001. With the weakening peso, imports of raw materials and intermediate goods can be expected to slow down.

The main sources of growth in 2000 were the industry and service sectors, which compensated for the slowdown in agriculture. While agriculture grew by only 3.4 percent in 2000 compared to its 6 percent growth in 1999, the industry sector expanded by 3.6 percent in 2000 from a mere 0.9 percent growth a year before. Services, which had remained resilient throughout the crisis, grew by 4.4 percent in 2000, owing primarily to transport, communication and storage, and trade growths.

GDP is expected to grow at the rate of about 3.3 percent to 3.8 percent for the year 2001. The bulk of this projected growth is likely to come from the services sector, which is expected to maintain its momentum, expanding by 4.5 percent to 4.9 percent. Expansion in the services sector will be led by the transportation, communication, and storage subsectors. Industry is forecast to intensify between 3.5

percent and 4 percent. The mild drought will boost the utilities sector, some manufacturing sectors, and mining and quarrying. Growth in the construction industry will remain flat after contracting for three consecutive years. Agriculture is expected to grow at only 2.5 percent to 3.3 percent in 2001.

Sustained growth of the economy in 2001 hinges on strict adherence of the government to implementing a better fiscal management scheme—one that can provide government resources in the short term to fund priority investments but will not result in higher deficits. This will require improvement in tax collections and increased prudence in public spending without sacrificing vital social services such as programs in population, education and manpower development, health, nutrition, housing, and poverty alleviation. Side by side, the use of monetary instruments that will strengthen the financial system and create an environment conducive to stability of interest rates, exchange rates, and general price levels is imperative. There is also the need to rationalize and fast-track structural reforms that are most critical to the restoration of investor confidence and that will thereby enhance the country's attractiveness for investment.

Food Prices and Consumption

The inflation rate has remained single-digit, with an average of 4.4 percent for 2000 and 6.7 percent for 2001. Food inflation averaged 1.9 percent in 2000, giving cushion to the 6.9 percent surge in nonfood inflation. Most sectoral indices posted rates lower than those in 1999 except for the services index and fuel, light, and water. The reduction in the inflation rate reflects modest domestic demand that was met by a strong supply of products and a relatively stable exchange rate in 2000.

On the other hand, higher world crude oil prices led to increases in domestic fuel prices and this put pressure on inflation. Fuel prices are expected to continue to rise given the volatility of world crude prices and the adoption of the standards of the Clean Air Act. Wage adjustments as well as depreciation of the peso also exerted pressure on prices. By the end of 2001, inflation is expected to settle at anywhere between 6 and 7 percent. This will be a big improvement over the double-digit inflation of the past. Single-digit inflation has been maintained by prudent monetary policy so far, and is expected to be carried on throughout the intermediate term.

Personal consumption expenditure, which accounted for almost three-fourths of the GNP, posted an annual growth rate of 3.5 percent in 2000, a marked increase over the 2.6 percent growth a year before, despite the political turmoil in the last quarter of 2000. All items registered gains in expenditures in 2000 except for beverage and household operations, which kept their 1999 growth levels. Food consumption remains the major household expense, as it accounts for 54 percent of the total. It has increased by 2.6 percent in 2000 as families increased their spending on imported food items as well as local crops, livestock, poultry, and fishery products. The sudden increase of 9.6 percent in transportation and communication expenditures in 2000 is explained by the increased purchases of passenger cars and increased subscriptions to mobile phones networks, Internet, and landline phone services.

Private consumption in 2001 may expand by around 3.2 percent to 3.7 percent. The relatively low expansion in consumption may be attributed to a conservative approach to consumption, triggered by economic and political uncertainties. Furthermore, the higher inflation rate that has been forecast at 6 to 7 percent will also temper consumption, with households spending more on basic necessities. However, consumption may get a big boost from election spending in the first half of the year. On the other hand, the onslaught of the dry spell in the otherwise cold months may slightly increase energy demand in the latter part of the year. Government consumption will remain relatively flat, growing by 0.5 percent to 1 percent, as the government is bent on meeting its 2001 fiscal targets.

Food Processing and Marketing

Generally, the adverse market conditions in both the local and international arenas and the raw material supply problems offset the increased demand for manufactured goods, particularly exports, in 2000 and apparently in the immediate term. Growth in gross value added in food manufacturing has been sluggish, as it notched only a 1.9-percent increase in 2000 compared to the 5.5 percent growth a year before. This stands in sharp contrast with paper and paper products manufacturing and electrical machinery manufacturing, which exhibited gains of 29.2 percent and 24.2 percent, respectively. Food manufacturing constitutes about 36 percent of total manufacturing output, but this share is expected to decline gradually as the economy shifts slightly to imported manufactured food items. The manufacturing industry continues to be characterized by higher costs and restrictive credit, increased prices of imported raw materials, and a general slowdown in consumer demand. While some firms have scaled down production, a number have temporarily shut down operations.

Agricultural Production and Trade

Total agricultural output for 2000 was entirely on target, largely because of generally favorable weather conditions and increased productivity. Government commitment to boosting productivity, increasing farmers' and fisherfolks' competitiveness, and making the agricultural sector one of its top priorities was responsible for the implementation in 2000 of several programs that were drawn from the framework of the Agriculture and Fisheries Modernization Act (AFMA). Such programs included, among others, the Asian Development Bank Assisted Grains Sector Development Program, the Agrikulturang Makamasa Program for livestock and fisheries, and the Multi-Livestock Development Loan Project.

The agriculture, fishery, and forestry sector is expected to grow modestly in 2001, between 2.5 percent and 3.3 percent. This growth target takes into consideration the recurrence of El Niño, which is expected to hit the country in the fourth quarter of the year. However, the effects are forecast to be milder than those of the 1997-1998 period, since timely investments in rural infrastructure (i.e., rehabilitation of irrigation systems) and agricultural research and development have been put in place. Moreover, basic foodstuffs have been imported and improvements in their distribution will help in cushioning the negative effects of El Niño. Growth in agriculture is predicted to come mainly from drought-resistant products such as corn, coconut, livestock, and poultry since the onset of the El Niño season is expected to coincide with the harvest season of paddy rice in the fourth quarter of 2001.

As a result of producers' compliance with ethical and environmental standards of manufacturing as well as the abundance of highly skilled workers, the Philippines continues to enjoy a reputation as a socially responsible manufacturer. Thus, it is expected that the export sector will continue to be instrumental to the country's economy. However, prospects for expansion will depend on the direction and magnitude of the world economy, especially the economies of the country's trading partners like the United States and Japan.

Exports are expected to grow by roughly 2.5 to 3 percent in 2001. The garments and electronics sectors will continue to lead exports in 2001, despite the anticipated phase-out of the quota system in the garments industry by the year 2004 and the anticipated decline in the demand for electronics due to the slowdown in the US economy. While signs of a global slowdown in the demand for personal computers and cell phones are evident, semiconductors are expected to remain resilient in the near-to-medium term since most chipmakers in the country have shifted production to the latest high-technology consumer products.

It is anticipated that export winners will comprise of a narrow range of products—electronics, transport equipment, machinery, garments, and textiles. Any attempts to diversify under the principle of comparative advantage will shield the current export market from the sensitivities of price volatility and market shifts.

Food and Agricultural Policy

In conjunction with the development efforts of the agriculture and fisheries sector and the objectives of the Agricultural and Fishery Modernization Act, the government continues to push for programs that enhance productivity and improve efficiency in national food security and the alleviation of poverty. The strategies include: streamlining of the bureaucracy to enhance efficiency and effectiveness in implementing food security policies and programs; strengthening of research and development (R&D) with a focus on technology development and transfer; intensification of quarantine operations at major ports; support of foot and mouth disease (FMD) control programs; and promotion of appropriate smallholder-based projects within the framework of cooperativism, among others. Other areas of government focus include: rehabilitation of coral reefs; management of coastal resources; public investments in irrigation; implementation of agrarian reform, and gradual trade liberalization in agriculture to force greater competitiveness in highly protected sectors such as sugarcane, poultry, and maize. Programs complementary to agricultural development, such as those in communications, water, and transport, are anchored in principles of private sector participation, a proactive approach to planning, region-focused investments, and promotion of labor-based technology. Together, these are expected to solidify the foundation of the agricultural sector and prepare it to meet the challenges of globalization.

Water Resources Issues

Irrigation is a critical infrastructure for agricultural development in the Philippines. Not only does it harness the potential of high-yielding varieties, it also increases cropping intensity and induces technical change which, in turn, creates more employment, higher income, and multiplier effects that benefit not only the agricultural sector but the other sectors of the economy as well. Historically, there has been a close association between advances in irrigation infrastructure and advances in annual output per unit land area. A substantial body of literature reveals how diffusion and adoption of recommended farm practices have been facilitated by irrigation facilities, which catalyzed significant economic gains.

The policy of continuing massive investment in the development and rehabilitation of irrigation systems has been appealed for reconsideration in the Philippines. There was a clamor to rationalize the existing irrigation development strategy because of recent factors that had changed the irrigation investment environment. Among other things, controversies over the previous irrigation program concerned the issues of cost-effectiveness, affordability, sustainability, efficiency in water distribution and use, productivity, and income. Enactment of the Agriculture and Fisheries Modernization Act of 1997 and the emphasis on agricultural development under the Medium-Term Philippine Development Plan: 1999-2004 significantly improved the environment for irrigation development and management.

As of the end of 1997, the total area equipped with irrigation facilities reached about 1.34 million hectares, or 42.7 percent of the total potential irrigable area. By the end of 2004, the Government is targeting 1.64 million hectares, or 52.6 percent.

Amid a more restrictive fiscal scenario, water resource management in the Philippines is beset by a number of issues that, if not attended to, will keep the agricultural sector sub-optimal. Among them [according to the National Economic Development Authority (NEDA) and Irrigation Development Program: 1999-2004]:

- Rehabilitation and improvement of national and communal irrigation systems, including canal lining and provision of silt excludes;
- Development of cost-effective, appropriate, and efficient irrigation and water management technologies;
- Irrigation pricing policies geared toward efficiency and sustainability in the development and allocation of water resources;
- Participation of local government units in the development of communal irrigation systems;
- Construction of irrigation facilities through other viable schemes such as build-operate-transfer;
- Appropriate use and conservation of water; and
- Promotion of economies of scale in water use.

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	Units	1997	1998	1999	2000	2001E	2002F
FOOD CONSUMPTION PATTERNS							
Per capita caloric intake	Cal/day	1,956	1,977	1,999	2,020	2,135	na
From animal products	Cal/day	246	248	257	262	272	na
From vegetable products	Cal/day	1,710	1,729	1,741	1,758	1,863	na
INCOME AND FOOD PRICES							
Per capita income	US$/capita	1,216	908	1,046 *a*	1,035	1,049	1,061
% of disposable income spent on food	%	51.1	50.1	49.2	40.3	na	na
% spent eating out	%	4.7	4.8	4.9	5.2	na	na
Food price index	1994=100	124.5	135.5	142.6	144.6	148.8 *a*	na
General price index (CPI)	1994=100	124.8	136.9	146.0	152.3	159.8 *a*	169.5–172.7 *d*
POPULATION							
Total population	Million	71.5	73.1	74.7	76.3	77.8	79.4
Urban	Million	35.6	36.4	37.2	28.4	na	na
Nonurban	Million	35.9	36.7	37.5	47.8	na	na
Share of population in the following age groups							
0–4 years	%	13.3	13.1	12.8	12.6	12.3	12.1
5–14 years	%	24.1	23.9	23.7	23.6	23.3	23.1
15–19 years	%	10.5	10.4	10.4	10.4	10.4	10.3
20–44 years	%	36.2	36.4	36.5	36.7	36.9	36.9
45–64 years	%	12.3	12.5	12.7	12.1	13.1	13.4
65–79 years	%	3.2	3.3	3.3	3.4	3.3	3.5
80–over years	%	0.6	0.6	0.6	0.6	0.6	0.6
Median age of population	Years	21.5	22.0	23.0	24.0	25.0	na
Female labor force participation	%	36.3	37.0	37.0	48.5	49.0 *b*	na
LIFE EXPECTANCY							
Males	Years	65.4	65.7	66.0	66.3	66.6	66.9
Females	Years	70.7	71.0	71.3	71.6	71.9	72.2
FOOD INFRASTRUCTURE							
Trade capacity							
Grain imports	1,000 Tons	865	2,170	836	600	na	na
Total food and agricultural trade	Million US$	5,440	5,119	4,638	1,910	na	na
Total food and agricultural exports	Million US$	2,338	2,224	1,760	2,060	na	na
Perishable products	Million US$	693	593	699	700	na	na
Fishery exports	Million US$	291	313	372	380	na	na
Total food and agricultural imports	Million US$	3,102	2,895	2,878	2,875	na	na
Perishable products	Million US$	333	246	440	450	na	na
Fishery imports	Million US$	70	57	74	75	na	na
Port capacity	Number	1,454	1,483	1,512	1,519	na	na
Road access	1,000 Kms	28	29	30	30	na	na
Telecommunications	Million Telephones	4.36	5.45	6.54	6.60	na	na
Power generation	Gigawatts	39,880	41,870	43,960	46,153	na	na
Percent of population with refrigerators	%	33.10	33.90	na	na	na	na
FOREIGN INVESTMENT IN THE FOOD SECTOR							
Inward FDI in the food sector, total	Million US$	11.42	11.00	25.71	26.15 *b*	na	na
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY							
Agriculture as a share of GDP	%	19.8	18.5	19.1	19.9	19.0–21.0 *e*	19.0–21.0 *e*
Self sufficiency in grains	%	90.0	72.0	89.0	89.7	na	na
Self sufficiency in horticultural products	%	80.0	80.0	80.0	80.0	na	na
MACROECONOMICS INDICATORS							
GDP growth	%	5.2	–0.5	3.2	3.9	3.3–3.8 *d*	4.3–4.8 *d*
Interest rate	%	12.8	12.7	9.0	9.9	11.0–12.0 *d*	10.0–11.0 *d*
Exchange rate	Peso/US$	29.44	40.86	39.08	49.90	52.37 *e*	50.00–51.00 *d*

E = estimate *F = forecast*

Sources:
a. As of April 2001.
b. January–April 2001 only.
c. 91-day treasury bill rate.
d. Target.
e. End-of-period.

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