



Monitoring the Philippine Economy Fourth Quarter 2012 Report¹

Project of Angelo King Institute

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Broad-based domestic growth strengthens the country's economic performance for the third quarter, this despite sluggish growth among advanced economies.

1. Economic performance

- **Philippine growth accelerates beyond expectations.** Third quarter year-on-year (y-o-y) growth beat forecasts as it accelerated to 7.1 percent, the highest recorded in the past two years. The remarkable growth was attributed mainly to the sterling performance of the industry sector followed by the services sector with 8.1 percent and 7.0 percent y-o-y growth respectively. The construction subsector had the highest growth with 24.3 percent y-o-y, a signal that the real estate and other businesses are doing well. Demand side drivers, on the other hand, were government expenditure and household consumption with 12 percent and 6.2 percent y-o-y growth respectively. This quarter's performance led international organizations such as the World Bank to raise its outlook from 5.0 percent to 6.2 percent in 2013.
- **Inflation rate eases further in November despite fluctuating petroleum prices.** Prices have slowed down since September, dropping from 3.5 to 2.8 percent y-o-y in November due to cheaper price indices of food and non-alcoholic beverages, housing and other utilities, as well as transportation. The Philippine National Statistical and Coordination Board (NSCB) also reported that inflation the previous year was 4.7 percent, an indicator that prices have been more stable this year. Inflation in the National Capital Region eased to 2.6 percent while the rest of the country's inflation rate was recorded at 2.9 percent.
- **Demand for Philippine exports rebounds in September.** Despite the drop in exports the previous month, demand for exports posted a 22.8 percent y-o-y growth in September with a total export earnings of Php4.8 billion versus last year's Php3.9 billion earnings. Top three gainers for the month were exporters of tuna, metal components, and fresh banana. As expected, electronic products emerged as the largest contributor to total exports revenue with total receipts of Php1.8 billion or 38.3 percent. The Philippines emerged as one of the top exporters in

¹ Report is based on latest available data, as of December 23, 2012.

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September in the South East Asian region due to moderate improvements in the global economy and developments in the global industrial production.

- **October industrial production records the highest in two years.** The volume of industrial production displayed a double digit growth in October with a 22.2 percent y-o-y growth, the highest since August 2010. Top three sectors with the highest growth were footwear and wearing apparel, electrical machinery, and basic metals with growth rates of 128.9 percent, 75.2 percent, and 33.8 percent respectively. The sterling performance of the manufacturing sector was due mainly to improvements in exports in the region and a revival in the United States' demand for manufactured goods.
- **International reserves continue to build up.** Latest data show that international reserves (less gold) in October rose to USD71 billion, enough to cover more than 10 months worth of payment of services and import of goods. International reserves the previous year was only USD68 billion. The continuous increase in the international reserves is due to foreign exchange operations, income from overseas investments by BSP, foreign currency deposits by the Treasurer of the Philippines and revaluation of the gold holdings of the BSP.

2. Policy responses

- **Bangko Sentral ng Pilipinas reduces policy rate the fourth time this year.** In its meeting last October, the BSP decided to cut down its key policy rate by 25 basis points bringing interest rate down to 3.5 percent. The expansionary monetary policy aims to maintain the economy's robust growth and stable prices.
- **President Aquino signs Sin Tax Bill into law.** To curb consumption of tobacco and alcohol products and increase revenue, legislation ratified the Sin Tax Bill last November and was signed by the President into law last December 20. The new law is eyed to bring additional revenue to as much as Php34 billion and will be implemented next year. Moreover, the law's passage could improve the country's investment grade.

3. Other economic news

- **The Philippines receives higher investment grade in July.** The country's credit rating improved from BB to BB+, one notch below investment grade. This is due to the robust economic performance and promising fiscal revenue amidst global economic slowdown. Investors' confidence is seen to improve positively affecting appetite for foreign and local currency long-term bonds – a good signal especially to foreign investors and creditors.
- **The Private-Public-Partnership program of the government continues to raise its number of projects.** To date, the government has rolled out eight PPP projects. One of them is the partnership between Department of Education and Megawide Corporate which recently sealed a Php16.3 billion project to build 9,301 classrooms as part of the School Infrastructure Project. Moreover, the Department of Transportation and Communications has announced its plans to take over LRT1 Cavite Extension Operation and Maintenance.

- **Philippine remittance hits USD1.9 billion in October.** The Bangko Sentral ng Pilipinas announced that cash remittance amounted to USD1.9 billion on October alone, bringing the cumulative amount for the year to USD17.5 billion. Despite the tenuous economic conditions in advanced economies and geopolitical tensions in some Middle East countries, remittance flows remained strong. This could be attributed to the steady deployment of skilled and professional Filipino workers coupled with commercial banks' continued efforts to strengthen its network with remittance business partners.

4. Future challenges

- **US fiscal cliff raises concerns in the domestic and global economy.** Legislators in the United State must reach a deal before January 1, 2013, when the fiscal cliff is about to happen. The fiscal cliff pertains to the automatic increase in taxes and spending cuts which may be a dangerous combination for a recession that may have global consequences. A new tax bill should be enacted to avoid the fiscal cliff; however there is an ongoing debate on whether tax rates should increase or not for those in the top income bracket.



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Philippines Economic Data										
Monthly Leading Indicators	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12
Industrial Production (y-o-y, %)	2.6	7.8	11.7	4.8	-3.5	10.6	3.7	2.3	8.6	...
Consumer Price Index (y-o-y, %)	3.9	2.7	2.6	2.9	2.9	2.8	3.2	3.8	3.5	3.1
Retail Sales (y-o-y, %)	5.9	1.0	5.1	7.6	2.9	5.1
Broad Money (y-o-y, %)	7.2	7.2	5.8	9.0	7.8	7.1	8.6	7.1
Exports (y-o-y, %)	3.0	14.6	-0.8	7.6	20.1	4.5	6.7	-7.9	22.8	...
Imports (y-o-y, %)	-3.2	6.5	-3.3	-13.7	10.2	13.0	-0.7	2.7	2.6	...
Trade Balance, US\$ million	-1012.5	-562.6	-1048.0	-135.0	-454.0	-775.0	-58.6	56.7	-61.0	...
Total Reserves (less gold), US\$ billion	68.5	68.1	65.7	66.2	66.4	66.1	69.7	70.2	71.0	71.2
Policy Rate	4.3	4.3	4.0	4.0	4.0	4.0	3.75	3.75	3.75	3.5
Fiscal Balance (million pesos)	-15,943.0	10,655.0	-28,621.0	31,024.0	-19,901.0	-11,696.0	-39,249.0	2,523.0	-34,854.0	...
Quarterly/Annual Economic Indicators	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012
Real GDP (y-o-y, %)	8.9	7.3	6.1	4.9	3.6	3.2	4.0	6.3	6.0	7.1
- Private Consumption	1.9	2.4	4.9	5.9	5.6	7.4	6.4	5.1	5.9	6.2
- Government Consumption	7.4	-6.5	-6.6	-15.8	6.0	8.9	7.6	20.9	6.8	12.0
- Gross Capital Fixed Formation	38.0	34.5	25.7	36.1	-10.1	21.8	-3.8	-25.4	7.3	4.3
Current Account (% of GDP)	3.6	7.1	3.7	1.9	3.4	4.4	2.9	1.5	4.6	...
Financial Account (US\$ million)	-260.0	1,685.0	5,334.0	3,624.0	35.0	2,430.0	-1,032.0	921.0	-1,579.0	...
- Net Direct Investments, US\$ million	18.0	281.0	403.0	406.0	464.0	-78.0	461.0	696.0	-361.0	...
- Net Portfolio Investments, US\$ million	-590.0	1,085.0	3,501.0	2,674.0	2,199.0	722.0	-71.0	1,302.0	561.0	...
Overall BOP position (US\$, million)	1,870.0	3,306.0	7,865.0	3,493.0	1,523.0	4,705.0	458.0	1,243.0	73.0	...
Unemployment rate	8.0	7.0	7.1	7.4	7.2	7.1	6.4	7.2	6.9	7.0
Others	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Overseas Filipinos' Remittances (US\$, million)	1,799.7	1,557.1	1,587.4	1,697.7	1,701.0	1,773.5	1,810.9	1,808.6	1,796.5	1,838.0

Source: Bangko Sentral ng Pilipinas, National Statistics Office, *International Financial Statistics*, IMF, Asian Development Bank.

