Senate Economic Planning Office

Economic Report

September 2005 ER-04-05

Slower 2nd Quarter Growth:

Full year 5.3-percent growth might prove harder to hit

Q2 GDP at 4.8%: Down but not out

The economy grew amid the unabated hike in oil prices and its resulting inflationary impact; sluggish external trade, and the lackluster performance in agriculture. In the second quarter of the year, the country's economy as measured by the gross domestic product (GDP) grew by 4.8 percent, well within the government's target of 4.7 percent to 5.1 percent for the quarter. It is, however, lower than the 6.5-percent GDP growth posted during the same period last year.

Table 1. Q2 2005 National Accounts Growth Breakdown, (at constant prices, in %)

Particulars	2nd Quarter		1st Semester	
	2004	2005	2004	2005
GDP	6.5	4.8	6.4	4.7
GNP	7.4	4.7	6.9	4.7
NFIA	18.7	3.5	13.2	5.3
By production				
AFF	4.2	1.8	6.2	0.7
Industry	5.3	4.6	5.0	4.4
Services	8.1	6.1	7.4	6.5
By expenditure				
Personal consumption	6.3	4.9	6.0	4.9
Government consumption	-1.2	13.2	1.3	7.1
Capital formation	3.6	-3.2	5.7	-5.5
Exports	16.1	1.1	13.9	2.2
Imports	6.8	1.5	5.7	-0.9

Source: NSCB

The modest 4.8 percent GDP growth was accounted for by the growth in agriculture by 1.8 percent, industry by 4.6 percent and services by 6.1 percent. On the expenditure side, government consumption led the growth, with a growth rate of 7.1 percent followed by personal consumption which posted a growth of 4.9 percent.

With the slowing down of net factor income from abroad (NFIA) which only grew by 3.5 percent from a hefty 18.7 percent last year, the gross national product (GNP) declined by 4.7 percent, from 7.4 percent in the same period a year ago.

For the first six months, both GDP and GNP grew by 4.7 percent, from 6.4 percent and 6.9 percent, respectively, in the same period last year. The figures indicate a general slowdown in the economy, translating into a lower growth in per capita GDP of 2.7 percent from 4.3 percent last year.

Performance in the Production Side

Agriculture slowed down to 1.8 percent. Agriculture, fishery and forestry (AFF) only grew 1.8 percent from 4.2 percent a year ago and contributed to the slower pace of the economy. El Niño has caused palay production to slow

Table 2. Performance of Agriculture, Fishery and Forestry, (at constant prices, in %)

Particulars	Q2 Growth Rates	
	2004	2005
Agriculture	3.3	1.0
Palay	*11.0*	*1.8*
Corn	*15.5*	*-10.1*
Coconut including copra	*-1.3*	*2.6*
Sugarcane	*34.9*	*-21.6*
Banana	*3.0*	*11.3*
Other crops	*-4.1*	*2.5*
Livestock	*0.7*	*1.8*
Poultry	*0.9*	*2.5*
Agricultural activities & services	*7.6*	*1.8*
Fishery	6.0	4.7
Forestry	62.3	-18.3

Source: NSCB

down from 11.0 percent in second quarter 2004 to 1.8 percent this year. Meanwhile, sugarcane, corn and forestry slipped to negative growth rates.

Industry held on. Industry expanded by 4.6 percent, from 5.3 percent in the second quarter of 2004 and contributed 1.6 percentage points to GDP growth. Mining and quarrying, manufacturing, and construction directed the sector's growth.

Table 3. Sources of Industry Growth (at constant prices, in %)

Particulars	Q2 Growth Rates	
	2004	2005
Manufacturing	4.8	4.5
Mining & quarrying	2.7	13.9
Construction	10.6	3.2
Electricity & water	3.2	3.1

Source: NSCB

§ *Impressive mining sector*. Mining and quarrying expanded by 13.9 percent compared with its modest growth of 2.7 percent the previous year. It was driven by crude oil, gold and nickel mining. As of June 2005, the 23 new and expanded mining projects generated US$339.7 million in investments, and created over 5,000 jobs. (Mines and Geosciences Bureau)

The Mines and Geosciences Bureau (MGB) of the Department of Environment and Natural Resources (DENR) said investments came from projects that have started operations namely: the Palawan Nickel Project of Coral Bay Mining Corporation with investment reaching US$175.8 million since the start of operation; the Rapu-rapu Project of Lafayette Philippines Inc. with US$39-million investment; the Canatuan Gold Project of TVI Resources Development Phils. Inc. with US$17-million investment; and the Teresa Gold Project of Lepanto Consolidated Mining Company, which pumped in US$6.1 million in investment.

§ *Continually growing manufacturing sector*. Manufacturing, despite being heavily affected by the spiraling oil prices, managed to grow by 4.5 percent in the second quarter of 2005, from 4.8 percent in the second quarter of the previous year. Transport equipment, furniture and fixtures, textile manufactures, miscellaneous manufactures and products of petroleum led the manufacturing sector's growth.

Table 4. Contributors to Growth of Manufacturing Sector, (at constant prices, in %)

Particulars	Q2 Growth Rates	
	2004	2005
Food manufactures	13.4	8.1
Beverage industries	10.7	3.4
Tobacco manufactures	-11.8	9.1
Textile manufactures	4.9	14.9
Footwear wearing apparel	-11.6	-6.6
Wood& cork products	-12.4	-38.2
Furniture & fixtures	8.0	30.7
Paper & paper products	-11.2	0.7
Publishing & printing	9.3	-3.8
Leather & leather products	-93.8	-40.5
Rubber products	31.3	3.1
Chemical & chemical prod.	13.1	8.5
Products of petroleum & coal	-21.6	10.2
Non-metallic mineral prod.	5.9	7.0
Basic metal industries	-4.2	6.4
Metal industries	16.8	-8.1
Machinery except electrical	6.6	-48.5
Electrical machinery	21.0	-3.0
Transport equipment	9.5	37.6
Miscellaneous	-5.1	14.7

Source: NSCB

Services remained strong. Services, which grew by 6.1 percent, continued to propel the economy contributing 2.9 percentage points to GDP growth. Transportation, communication and storage (TCS), trade, and private services grew, though at a lesser pace compared with the second quarter of 2004. Only finance surpassed its 2004 growth, posting a double-digit growth.

Table 5. Sources of Services Growth (at constant prices, in %)

Particulars	Q2 Growth Rates	
	2004	2005
Trade	6.7	5.6
Trans., comm. & storage	14.6	9.7
Finance	9.6	10.5
Private services	6.9	5.3
Government	4.1	-1.4
O. Dwellings & real estate	6.4	4.6

Source: NSCB

§ *Finance strengthened*. Finance is the only services subsector which did not slow down, increasing from 9.6 percent in the second quarter of 2004 to10.5 percent in the second quarter of the year. Non-banks led the accelerated growth of finance posting 10.4 percent growth from 7.4 percent in the same period last year.

Table 6. Breakdown of Finance Growth (at constant prices, in %)

Particulars	Q2 Growth Rates	
	2004	2005
Banks	10.5	11.3
Non-banks	7.4	10.4
Insurance	7.6	7.4

Source: NSCB

Non-bank financial institutions, composed of investment companies, investment houses, lending companies and pawnshops, among others, also expanded impressively. During the first semester, investment companies' sales almost doubled reaching P3.1 billion, compared to last year's first semester sales of P1.6 billion.

The growth of banks in the second quarter of 2005 was due to the increase in both interest and non-interest income. Universal and commercial banks exhibited an increase in interest earned from both loans and investments with net interest income amounting to P63 billion in the first semester, 23 percent higher than the interest income registered during the same period last year. Income of banks from fees, commissions and charges and from trading, likewise surged up to P31 billion, or 29 percent higher than the P24 billion non-interest income as of last year's second quarter.

§ *Communication sector slowed down*. Economic performance of the communication sector decelerated in the second quarter of 2005, at 15.9 percent compared to 16.6 percent for the same period in 2004. Nonetheless, for the whole semester of 2005, the sector posted a higher growth rate of 17.1 percent. Mobile telephone providers were the main source of growth, with cellular subscribers' base increasing by 31 percent in the first half of the year compared to the same period last year, as they benefited from aggressive marketing.

§ *Slower domestic trade*. Domestic trade also went through a slowdown, with a growth of 5.6 percent compared to 6.7 percent for the same period in 2004. Both retail and wholesale trades registered lower growths of 5.8 percent and 5.1 percent, respectively.

§ *Private services decelerated*. As with other subsectors, growth of private services also underwent deceleration, to 5.3 percent in the second quarter of 2005 from 6.9 percent in 2004. Medical and health supported the growth of the sector posting a 10.5 percent growth in the second quarter versus a 7.4 percent growth for the same period last year.

Performance in the Expenditure Side

***Reduced consumer spending*.** Even with the bigger inflows of Overseas Filipino Worker (OFW) remittances, the incessant escalation in the prices of goods and services resulting from continued increases in oil prices have cut back consumer spending in the second quarter of 2005. The growth of personal consumption expenditures has, thus, fallen to 4.9 percent from 6.3 percent during the same period a year ago. The growth of all of the consumption items slowed down.

Table 7. Breakdown of Personal Consumption Items (at constant prices, in%)

Items	Q2 Growth Rates	
	2004	2005
Food	6.0	4.9
Beverage	4.7	-2.5
Tobacco	5.8	1.4
Clothing	5.2	-0.9
Fuel, light & water	5.3	0.2
Household furnishings	5.0	3.3
Household operations	2.9	2.8
Transportation & communication	15.5	14.5
Miscellaneous	6.3	5.9

Source: NSCB

Lower investments. With decreased public and private investments coupled with political uncertainty, capital formation shrank in the second quarter of the year by 1.4 percent from the previous year's 3.9 percent growth. This is attributed to construction's slower growth of 1.1 percent and durable equipment's negative growth rate of 4.4 percent.

Weaker external trade. Latest trade data showed that export earnings grew 1.1 percent in the second quarter compared with the hefty 16.1 percent recorded in the same period last year. The slowdown in exports is the result of the meager 1.4 percent growth in merchandise exports, particularly electronics, which accounts for 59 percent of total merchandise exports earnings, and the decline in exports of non-factor services from 38.4 percent in 2004 to -0.8 percent this year. The decline in non-factor services was due to the deceleration of all its subsectors most especially the -9.3 percent growth rate of exports of other transportation and communication.

Imports, likewise, slowed down from a growth of 6.8 percent in the second quarter of 2004 to 1.5 percent during the same period this year because of the diminished growth of merchandise imports, which was weighed down by imports on electrical machinery, apparatus and appliances, and mineral fuels, lubricants and related materials, which fell by 6.3 percent and 3.4 percent, respectively. The decline in imports of non-factor services also contributed to the weakening of total imports mainly due to the negative growth rates of government imports and imports of other transportation and communication which declined by 33.9 percent and 14.9 percent, respectively.

Assessment of the First Half of 2005

Higher Oil Prices

The impact of the continuing rise in oil prices on the economy is becoming evident. For the year 2005 alone, fuel prices have risen by 21.5 percent for unleaded gasoline and 35.1 percent for diesel. This translated into higher inflation averaging 8 percent for the first eight months of the year. Filipino families are feeling the pinch of higher prices causing personal consumption to decline despite higher overseas workers remittances. Latest inflation data reveal that prices of basic goods have risen in the last eight months.

Table 8. Average Inflation Rate, January to August

Items	2004	2005
ALL ITEMS	5.0	8.0
Food, Bev. & Tobacco	5.4	6.8
Clothing	2.6	3.6
Housing & Repairs	3.8	4.6
Fuel, Light and Water	4.3	19.2
Services	7.1	12.6
Miscellaneous	1.9	3.2

Source: NSCB

According to the Bangko Sentral ng Pilipinas (BSP), consumer optimism declined in the third quarter of 2005 to an average diffusion index[1] of -54.1 percent from -49.9 percent in the previous quarter. Likewise, overall consumer outlook for the fourth quarter of 2005 was also down at -27.0 percent from -24.3 percent in the previous survey. Respondents were less optimistic citing reasons such as: (1) high prices of food, utilities, oil and transportation, (2) insufficient income, and (3) higher household expenditures.

The weaker demand and higher cost of production have in turn slowed down the industry and service sectors. Among the industry subsectors, only mining showed impressive results; however, its contribution to the economy is small at only 1.8 percent.

With no apparent easing of oil prices and the uncertainty in the behavior of its price, the country's economic performance will continue

[1] The diffusion index (DI) is computed as the percentage share of respondents that answered in the affirmative less the percentage share of respondents that answered negative in a given indicator. A positive DI indicates a favorable view, except for unemployment and interest rate for borrowing money, where a positive DI indicates the opposite. Please note that all index figures are diffusion indices except for buying conditions and intentions.

to be weighed down. The country is more vulnerable to the high oil prices since we import 96% of our oil requirements and the economy uses 2.4 times as much oil per unit of GDP than the average of OECD countries. The high oil imports endanger our current account surplus given the weak export performance. Our high oil intensity use means that increases in the price of oil products will "flow strongly through the economy, raising inflation and dampening consumer demand (which accounts for about 80% of the economy), thus eroding economic growth."(Asian Development Outlook 2005 Update)

Table 9. Oil and Energy Use, Developing Asia, 2003

Country	Oil self-sufficiency	Intensity of oil use in energy consumption	Energy intensity of GDP	
			Nominal	PPP
China, People's Rep. of	-0.361	0.250	3.188	0.907
Southeast Asia	***-0.277***	***0.546***	***2.684***	***0.821***
Indonesia	0.074	0.507	2.624	0.801
Malaysia	0.648	0.455	2.959	1.205
Philippines	-0.957	0.550	2.125	0.446
Singapore	-0.988	0.888	2.523	2.143
Thailand	-0.685	0.529	2.898	0.840
Viet Nam	0.632	0.460	3.304	0.648
G7	***-0.591***	***0.403***	***1.000***	***1.000***
Japan	-0.978	0.505	0.692	0.796
United States	-0.561	0.395	1.192	1.153

Source: Asian Development Outlook, 2005 Update
a) Oil self-sufficiency is oil production less consumption, divided by consumption. The more negative the index, the more oil-import dependent and vice-versa. b) Intensity of oil use in energy consumption is petroleum consumption divided by energy consumption. The closer to 1, the lesser oil-dependent the energy source. c) Energy intensity refers energy consumed per unit production of GDP expressed relative to G7 average which is normalized to 1.

NEDA admits that the 5.3-percent GDP growth estimate for the year rests on uneasy ground given the rising oil price. The 5.3 growth rate target rests on an average oil price of US$48.95 per barrel for the year. Last September 1, following the attack of hurricane Katrina in the US, Dubai crude oil price hit a record high of $59.18 per barrel. NEDA estimates that a rise in the price of oil to an average of US$60 per barrel starting August 2005 until the yearend will cause a slowdown in economic growth to around 5.2 percent. The Asian Development Bank estimates that if the price of oil hits US$70 per barrel starting third quarter of 2005 and sustained at this price till the end of 2006, there will be a reduction of 1.4 percentage points in GDP growth. This will cause the GDP to rise by only 4.3 percent in 2006.

Table 10. Projected Impact of Oil Price Increases on GDP Growth

	2005	2006
Dubai Crude, DBCC assumption	$48.95/barrel	$53.64/barrel
GDP growth rate, DBCC forecast	5.3%	6.3% (5.7% revised target)
NEDA Estimates		
If Dubai Crude oil hits $60/barrel, starting in August, averaging $50.59 in 2005	5.2%	5.7%
If Dubai Crude oil hits $70/barrel, starting in August, averaging $53.92 in 2005	5.1%	5.4%
ADB Estimates		
IF Dubai Crude oil hits $70/barrel, starting in 3rd quarter of 2005 and sustained till the end of 2006	No estimate	4.3%

Sources: NEDA and Asian Development Outlook 2005 Update

Inflationary effects of the high oil prices will require the necessary responses from government. Apart from the energy conservation measures and keeping prices of basic goods stable, monetary authorities will have to tighten monetary policy. Inflation is higher than the BSP's estimate of 6.6-7.1 percent, monetary targets are being breached; hence, the BSP may raise interest rates.

Waning External Trade

Exports were very much lower in the first half of 2005 compared to the same period in 2004, brought about by the slowdown in the economies of our major trading partners.

Table 11. GDP Growth Rates of Major Export Markets of the Philippines

Country	Q2 2005	Q2 2004
Japan	1.4	4.2
United States of America	3.6	4.7
Netherlands	1.3	1.0
Hongkong	6.8	12.1
China	9.5	9.6
Singapore	5.2	12.5
Malaysia	4.1	8.0
Taiwan	3.0	7.7
Germany	0.6	2.0
South Korea	3.3	5.5
Thailand	4.4	6.3
Indonesia	5.5	4.3
Britain	1.7	3.7

Source: The Economist

The country's exports of electronic products, which account for 59.1 percent of total merchandise exports, have slowed down as demand in the global market has been weak. Exports of electronic data processing, office equipment and consumer electronics have declined by 21.5, 13.9 and 1.4 percent, respectively, in the first semester of the year. This is expected to continue for the rest of the year. According to the Semiconductor and Electronics Industry of the Philippines, Inc., exports for the second half of the 2005 may hit only US$13 billion. Our computations show that this will result to -4.2percent growth for electronic exports for the whole year of 2005 compared to 2004. Therefore, even a 5 percent growth in total exports for the year will be very optimistic.

The decline in exports has also affected merchandise imports which declined by 1.5 percent in the first half of 2005. There was a fall in importation of intermediate inputs for electronic products of 13.6 percent for the same period.

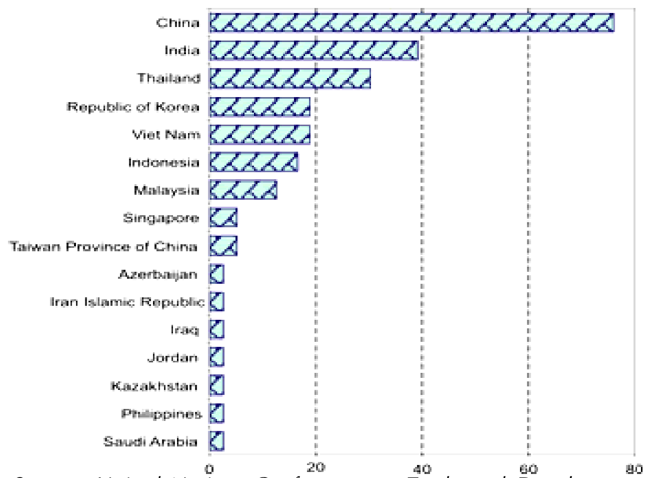
The health of the electronics industry in the country very much determines our export performance. The slowdown in exports is also partly due to the declining competitiveness of the country to attract additional investments in the industry. The country is losing new investment in the sector due to higher power costs and poor infrastructure support. Toshiba has already moved its laptop production to China and Intel has not made significant new investments in the country but instead expanded in China and Malaysia (Intel position paper, August 22, 2005 and *Business World,* Sept. 20, 2005).

Weak Investments

Capital formation declined in the first half of 2005 by 2.9 percent, mainly caused by the 7.2 percent fall in durable equipment. Import data also show that acquisition of new equipment has generally declined in the first half of the year. Local business is not investing on new capacity.

Foreign investments, though improved as net equity investments rose by 35 percent in the first half of 2005. According to the BSP, new placements were poured into the manufacturing, real estate, financial and services sectors. Nonetheless, attractiveness of the country to foreign investments remains dismal compared to other emerging markets.

Graph 1. Attractiveness of Countries to FDI, 2004-2005



Source: United Nations Conference on Trade and Development (UNCTAD)
Note: This is based on survey done by UNCTAD.

Investors are wary about sinking additional capital in the country because of the numerous uncertainties that hound the market. Investors do not see clear indications on the part of government to resolve its fiscal problems. The delays in the implementation of the expanded value-added tax and efforts to postpone its collection on power and fuel give the wrong signal to investors. Second, reversals in policy such as the Supreme Court decision to revoke EO 80 that authorizes the giving of incentives to investors in Clark and other bases converted to economic zones and now compels them to pay taxes, increases the risk of investing in the country. The unstable political situation in the country has certainly added to the apprehension of investors.

All these factors plus the decline in the country's competitiveness and the high oil and electricity prices subject the economy to higher risks discouraging investments and lowering economic growth.

Agriculture Production Falls

Agricultural production is expected to improve in the second half of the year as the effects of El Niño mellow. Rice production is projected to expand by 2.9 percent in the second semester with slight increases in yield and area planted. The prospects for growth in corn production are rosier with a projected growth of 14.2 percent in the second semester (Bureau of Agriculture Statistics).

However, this expansion in the second half of the year will not be enough to significantly raise growth in these major crops for the entire year, thereby, slowing down growth in the agriculture sector as a whole. Rice and corn, the top two crops in the sector accounting for 17.6 percent of agricultural output, are projected to grow by only 1.7 and 1.4 percent, respectively, for the entire year. To make up for the slow growth in these crops, livestock, poultry and fisheries, which account for 49.2 percent of agricultural output, will have to grow significantly.

A major challenge facing our farmers is the increasing costs of fertilizers which prices have jumped between 30 to 40 percent from last year. Both areas harvested for sugar and hybrid rice are expected to decrease as farmers are seen to cut down on production due to the increasing costs of fertilizers. The immediate rehabilitation of damaged irrigation facilities as that of the Upper Pampanga River Irrigation System will have significant positive effect.

Prospects for the Full Year 2005

The present administration continues to be confident that the 5.3 percent economic growth rate for 2005 will be attained. This seems unlikely since the economy will need to grow by 5.9 percent in the second half - agriculture will have to grow by 5.1 percent, industry by 4.7 percent, and services by 6.5 percent.

The bases for government's optimism are the bright spots in the economy such as the mining sector, tourism, major infrastructure projects and the flourishing OFW remittances.(NEDA, August 29, 2005).

More mining ventures

The impressive growth of mining in the second quarter supports earlier claims that this sector will be a critical factor in this year's economic growth. Investments in the sector have started pouring in. The MGB of DENR expects bigger income for the rest of the year as the US$19-million Adlay-Cagdianao-Tandawa (ACT) Project of Surigao Integrated Resources Company has started operations this September. Also seen to support mining growth are the pre-mining activities of the St. Thomas II Copper Expansion Project of Philex Mining Corporation due to operate in the first quarter of next year. Likewise, Atlas Consolidated Mining and Development Corp., through its Carmen Copper Corporation (CCC), is finalizing various financial arrangements for the proposed reopening of the US$171-million Toledo Copper Project, Asia's former biggest copper mine located in Toledo City, Cebu. Plans are for the resumption of operations at 42,000 tons per day, with rehabilitation works scheduled to start within this year.

Tourism

As of June 2005, tourist arrivals have increased by 12.7 percent to 1.29 million from 1.14 million in the first half of 2004. During this period, travel receipts totaled P65.2 billion or around 5.5 percent of total exports and 2.6 percent of GDP.

The Department of Tourism targets tourist arrivals for the whole year at 2.67 million which implies a 17 percent increase from last year's. This is however, slightly lower than the 20 percent growth in tourist arrivals in 2004 and lower than the 36 percent increase in travel exports following a slowdown in 2003 arising from the SARS outbreak. Aggressive promotions of the country's tourist destinations will remain critical in attaining this year's targets for tourism.

Continued growth of OFW remittances

Compensation inflow picked up by 9.7 percent in the second quarter of the year, from the previous year's growth of 3.2 percent. This is accounted for mainly by OFW remittances which grew 26.1 percent during the quarter. As of July 2005, Bangko Sentral reported a year-on-year growth of 25.7 percent to US$885 million, bringing the year-to-date level to US$5.8 billion. The seven-month cumulative level of remittances was 22.1 percent higher compared with the US$4.7 billion posted during the same period in 2004. This resulted from higher earnings and deployment of OFWs, and improved access to banking channels. Deployment of OFWs grew by 9.6 percent in the first half of 2005 (NSCB).

Table 12. OFW Remittances (in thousand US$)*

Period		Level		Growth Rate (yr.-on-yr.)	
		Monthly	Cumulative	Monthly	Cumulative
2004/r	Jan	624,267	-	0.04	-
	Feb	609,116	1,233,383	12.06	5.64
	Mar	724,460	1,957,843	16.71	9.48
	Apr	663,517	2,621,360	12.32	10.18
	May	693,340	3,314,700	3.55	8.73
	Jun	708,019	4,022,719	12.98	9.45
	Jul	703,915	4,726,634	6.45	9.00
2005/p	Jan	723,160	-	15.84	-
	Feb	719,930	1,443,090	18.19	17.00
	Mar	839,734	2,282,824	15.91	16.60
	Apr	789,945	3,072,769	19.05	17.22
	May	878,869	3,951,638	26.76	19.22
	Jun	935,277	4,886,915	32.10	21.48
	Jul	884,635	5,771,550	25.67	22.11

Source: BSP
**/ Remittances coursed through banks*
r/ Revised
p/ Preliminary

In a survey done by the National Statistics Office (NSO) in 2000, about 7.25 percent of Filipino households or approximately 1.1 million derived their main source of income from remittances abroad. Such cash transfers have been fueling consumption.

Major infrastructure projects. Major infrastructure projects are in the pipelines such as the South Luzon Expressway viaduct and Calamba-Sto. Tomas Phase, McArthur Highway widening, and Southern Tagalog Arterial Road-Lipa-Batangas Connection. These will boost the construction sector and provide business opportunities in nearby areas.

Conclusion

The prospects for hitting the 5.3 percent GDP growth target will be difficult to achieve considering how negative factors have been pulling the economy down. The high oil prices, the greater risks caused by uncertainties in government policies, the weakening external trade and dwindling competitiveness of the country will likely have greater impact on the economy. This is supported by the gloomy outlooks of various financial institutions.

Just recently, the Asian Development Bank revised down its 2005 GDP growth outlook for the Philippines, from 5 percent to 4.7 percent. The main reasons are: (a) exports that have been hit harder than foreseen by the global electronics downturn; (b) agriculture set back by bad weather early in the year; (c) sustained rise in oil prices internationally; and (d) higher food prices.

Morgan and Stanley, one of the world's leading diversified financial services company, also sees a lower growth for the economy of 4 percent this year. This outlook was due to the hazy political and fiscal climate hampering investors' confidence and the forthcoming adverse impact of rising oil prices.

References:

Asian Development Bank, 2005. *ADO Update 2005,* Manila.

Bangko Sentral ng Pilipinas, August 18, 2005. *Business Expectations Survey Report*.

Bureau of Agricultural Statistics, 2005, "Rice and Corn Situation Outlook", July 2005.

————, September 12, 2005, *Consumer Expectations Survey Report.*

————, September 15, 2005, "OFW Remittances Post Double-Digit Growth Anew."Available: www.bsp.gov.ph/news/2005-09/news-09152005b.htm.

Gatdula, Donnabelle, 2005, Morgan Stanley sees RP economy expanding by only 4% this year; *Philippine Star*, September 15, 2005.

Mines and Geosciences Bureau, July 18, 2005. **"Investment Gains under the Revitalization Program in Mining,"** Available: www.mgb.gov.ph/news/071805_revitalizationgains.htm.

National Economic and Development Authority (NEDA), 2004. *Medium-Term Philippine Development Plan 2004-2010*, Manila.

————. August 29, 2005, *Secretary's Statement on the Q2 2005 National Income Accounts*.

National Statistical Coordination Board (NSCB), August 29, 2005. *NationalAccounts of the Philippines,* Makati City

National Statistics Office, June 2005. *External Trade Performance*.

————. July 2005, *Merchandise Export Performance*.

Data Sources:

Bangko Sentral ng Pilipinas
Department of Energy
The Economist, September 18-24, 2004.
The Economist, September 17-23, 2005.
Mines and Geosciences Bureau
National Economic and Development Authority
National Statistical Coordination Board
National Statistics Office
United Nations Conference on Trade and Development

This paper was prepared by the Macroeconomic Section in collaboration with the Microenomic Section under the supervision of the SEPO Director General.