2 Recent Economic Developments in the Philippines

The implementation of a wide range of structural reforms has enabled the Philippine economy to stage a strong recovery from the economic and financial crisis it experienced in the period 1984 to 1986. GDP growth began to recover in 1986, posting an increase of 1.8 per cent. The economy grew far more rapidly in subsequent years, reaching 5.9 per cent in 1987 and 6.7 per cent in 1988. This recovery was sustained in 1989, albeit at a slower pace (5.7 per cent). Output growth was broadly based. Agricultural output, which declined in 1987 because of drought and typhoon damage, recovered in 1988 and expanded modestly in 1989 (4.7 per cent). Agriculture, forestry and fishing are the largest contributors to GDP in the Philippines and account for approximately 50 per cent of total employment in the country. The industrial sector continued to expand rapidly, averaging 8 per cent growth since 1987. The manufacturing sector accounts for about one quarter of the GDP.

The recent economic recovery has been fuelled by strong growth in both domestic demand and investment. In turn, the adoption of expansionary fiscal and monetary policies designed to accommodate investment requirements and several rounds of wage increases, particularly in 1989, have contributed to an inflationary spiral. The annual rate of inflation, which had remained below 9 per cent until mid-1989, currently stands at approximately 13 per cent. Growing investor interest is obvious from the rapid increase in the investment/GDP ratio which stood at around 13 per cent in 1986, compared to just under 19 per cent in 1990. Investment was mainly directed toward the construction sector and to an expansion in industrial capacity to meet export growth.

Recent economic growth also stems in large part from the major economic policy reforms implemented by the Aquino government since it came to power in 1986. These include the dismantling of monopolies in the agricultural sector, privatization, more liberal trade policies, financial sector reform and encouragement to exporters. These reforms were set in motion as the Philippine government concluded debt rescheduling agreements with both official and private creditors. In early 1990, the Philippines became the first country after Mexico to negotiate a debt reduction agreement with its creditors under the Brady Plan. The Philippines debt stood at $32.7 billion in 1989.

Merchandise trade has almost doubled since 1985, with imports, however, outstripping the growth in exports. The current account balance, which registered an exceptional surplus in 1986, returned to a deficit position in 1987. A 27 per cent growth in imports in 1989 dragged the current account deficit to almost four times its 1988 level at $2 billion. Gross official reserves, which stood at a level equivalent to 3.6 months of imports of goods and services at the end of 1986, declined to the equivalent of 1.9 months of imports in 1989. Since the Central Bank is committed to keeping reserves equivalent to at least three months of imports, it was constrained in supporting the peso, which steadily moved downwards against other major currencies.

Growth prospects for 1990 are likely to be hindered by uncertainty about long-term political stability in the Philippines; a forecast increase in the government's budget deficit; high interest rates (25 per cent); rising inflation; and the increasing trade deficit. In addition to these factors, economic setbacks as a result of the July 1990 earthquake and the Middle East oil crisis will impact heavily on the Philippines. GDP growth is forecast at 3.5 per cent. Further improvements to the macro-economic policy environment and increased political stability represent important challenges for the government as it attempts to meet the broad objectives and strategies for economic and social development set out in the Updated Medium-Term Philippines Development Plan (1990-92) currently being implemented.