



**Republic of the Philippines**  
**House of Representatives**  
**Congressional Planning and Budget Department**  
**Quezon City, Metro Manila**

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**F R O M** : **Macroeconomics and Industry Studies Group**  
Congressional Planning and Budget Department

**S U B J E C T** : **2007 ECONOMIC OUTLOOK**

**D A T E** : 1 February 2007

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1. The National Economic and Development Authority reported on January 31, 2007 the actual performance of the economy in 2006. The economy sustained its growth momentum in 2006 with a 5.4% growth in gross domestic product (GDP), or the total goods and services produced within the Philippines, from 5% in 2005. This growth is consistent with the high-end of the Congressional Planning and Budget Department (CPBD) forecast. However, this is marginally below the low-end of the government target of 5.5%-6.1%. Gross national product (GNP) or the total income of all Filipino nationals grew by 6.2% in 2006.
2. Recovery of agriculture and the sustained growth of services propelled the growth on the supply side. On the other hand, sustained growth of personal consumption expenditure, boosted by robust remittances, supported growth on the demand side. Please see attached table for the details of the growth performance.
3. For 2007, the CPBD is forecasting GDP to grow by 4.9%-5.5%. This forecast is low compared with the official target (6.1%-6.7%) and the projections of the International Monetary Fund (5.8%) and the World Bank (5.7%).
4. The difference between the CPBD forecast and the official target is accounted by the following factors:
  - The economy would continue to be vulnerable to global downside risks such as the slowdown in the US economy which would adversely affect export performance. The US remains the country's major export destination. The continued appreciation of the peso against the US dollar tends to make exports more expensive and put downward pressure on exports.
  - The escalating price of oil in the past year which seems to have abated remains volatile. OPEC may resort to production cuts and the Iran issue hangs in the air.

- The inflow of private investments could be sluggish in the first half of the year as investors remain cautious of the election results. The CPBD believes that the proposed wage hike which could discourage investors is no longer a risk given the pronouncement of the Executive to veto the law.
1. The CPBD recognizes several factors that will contribute to growth. Robust consumer spending supported by the sustained inflow of remittances and the moderation in the prices of goods and services would somehow compensate for the slowdown in the demand for exports. Thus, growth prospects for the industry sector could remain almost the same as the 2006 growth of around 5%.
  2. The services sector will continue to be the major source of growth this year and is expected to grow by 5.7%-6.3%. Growth of the telecommunications subsector which has been driving the services sector is already moderating owing to stiff competition among service providers in a saturated market. On the other hand, the agriculture sector could sustain its typical growth path and expect to grow by 3.4%-4.2% barring any major catastrophic typhoons. However, an expected El Niño this year could cut down agricultural production.
  3. The government's commitment to increase infrastructure spending will possibly make up for the shortfall in private investment leading to the elections. Sustaining this commitment remains crucial. The improving fiscal position creates an opportunity for the government to set aside a sizeable amount for infrastructure spending as many investors cite the poor state of the country's infrastructure as a major impediment to the entry of investments. Increasing expenditures for social services, particularly those incorporated in the budget, is commendable.

For your reference.



**Gross Domestic Product and Gross National Product  
Growth Rates**

	Actual	2006 CPBD Forecast <sup>1</sup>	2007 CPBD Forecast <sup>2</sup>
<b>By Industrial Origin</b>			
Agriculture, fishery & Forestry	4.1	4.2-5.0	3.4-4.2
Industry	4.8	4.7-5.4	4.7-5.2
Services	6.3	5.8-6.2	5.7-6.3
<b>By Expenditure Share</b>			
Personal Consumption Expenditure	5.5	5.2-5.3	
Government Consumption	5.7	3.0-5.8	
Capital Formation	2.1	1.2-1.8	
Exports	12.1	10.9-14.2	
Imports	2.6	3.1-6.5	
<b>Gross Domestic Product</b>	5.4	5.1-5.4	4.9-5.5
Net Factor income from abroad	15.4	11.9-15.2	9.1-15.4
<b>Gross National Product</b>	6.2	5.7-6.5	5.3-6.4

Source: National Statistical Coordination Board for actual figures.

1/ As of September 2006

2/ As of January 2006

Note: The CPBD updates its forecast after every release of the quarterly national income accounts.