

ECONOMIC PERFORMANCE IN 1998 AND POLICY MEASURES FOR RECOVERY IN 1999

Presented by
Director-General Felipe M. Medalla
National Economic and Development Authority

Economic Performance in 1998

- **GNP and GDP growth in 1998.** Gross national product (GNP) grew in 1998 by 0.1 percent which is out of the range we originally forecasted. Meanwhile, gross domestic product growth was negative (0.5 percent). The strong growth (12.9%) of net factor incomes from abroad, which accounts for the difference between GNP and GDP, enabled overall output to achieve positive growth.
- **Fourth quarter performance.** The preliminary estimates show a fourth quarter drop in GNP of 1.2 percent; GDP fell by 1.9 percent. The fall in the 4th quarter GDP is lower than forecasted by some private sector forecasters and is expected to be the lowest among Asian countries with negative GDP growth.
- **Sources of contraction.** The GDP contraction in 1998 was caused by the 6.6% drop in agricultural production, and the decline of construction and construction-related manufacturing by 9.5 percent. Had agriculture posted a zero growth, GDP would have risen by 1.1 percent. And had construction and construction-related manufacturing turned in a similar zero growth, GDP would have grown by 0.3 percent.
- **Agriculture.** The El Niño dry spell greatly devastated agriculture in the first three quarters. We initially estimated a slower decline in the fourth quarter but apparently the typhoons in October and pest infestations in some areas of the country did more damage. *Palay*, as well as other cash crops like coconut and sugarcane all posted double-digit declines in the fourth quarter. Note, however, that livestock remained strong, growing by 6.2 percent in the fourth quarter and 4.1 in the whole of 1998.
- **Industry.** Meanwhile, industry was weighed down by the drop in construction and manufacturing, which contributed 0.5 and 0.3 percentage points, respectively, to the fall in GDP. Both construction and manufacturing were disadvantaged by the market-unfriendly environment, i.e., high interest rates and volatile exchange rate during the early part of 1998.

Food manufacturing remained one of the few bright spots in industry as its growth in 1998 (3.1 %) is in fact higher than in 1997 (0.8%).

- **Services.** Growth of the services sector remained steadfast, led primarily by the transportation and communication sectors and domestic trade. The sector, in fact, accelerated in the fourth quarter vis-à-vis the third quarter. The telecommunications sub-sector was driven by firm-level programs to meet roll out commitments.
- **Consumption.** On the demand side, personal spending remained firm, growing by 3.5 percent, encouraged by the moderate movement in prices. Government consumption went up slightly by 0.8 percent, as the national government pursued a P50- billion deficit program.
- Despite the improvement in macroeconomic indicators towards the latter part of 1998, investors remained cautious. Durable equipment shrank by 18.4 percent as almost all type of

equipment, except those for telecommunications, registered declines. Public construction is the only source of investment growth. Nonetheless, construction declined by 3.8 percent, compared to its 14.6 percent growth in 1997.

Measures for Recovery

The weak performance of the economy highlights the need to immediately carry out the measures to ensure recovery in 1999. These policy imperatives include the following:

- ***Policy reforms to enhance competitiveness and access to foreign financing.*** The executive branch will have to work closely with Congress to speed up passage of laws on banking sector, power sector, and air quality reforms to hasten the release of the Miyazawa and other program loans;
- ***Support the recovery of agriculture*** through timely seed distribution by PhilRice; building up small irrigation/impounding facility by the NIA; and timely release and use of budget for rice and corn programs (P1.6 Bn);
- ***Support for manufacturing and other industries*** by speeding up the release of Miyazawa funds for the private sector (\$500m); allowing direct power sales to manufacturing firms, construction, transportation, telecommunications, power, tourism, other services (schools, medical services); and
- ***Pump-priming***, primarily by speeding up direct releases of accounts payables to private suppliers and contractors infrastructure program of NG (P76 Bn)
- ***Stronger export drive*** by implementing an action plan for more aggressive measures to promote product and market diversification in view of a possible US growth slowdown

Prospects for 1999

- ***Signs point to a recovery in 1999.*** *Agriculture* is expected to recover. In the first semester alone, the DA projects palay production to grow by 47.3 percent and corn by 102.3 percent. This will have multiplier effects on manufacturing and services.
- ***With regard to prospects for manufacturing,*** following declines for nine months in 1998, initial capital investments of newly registered domestic stock corporations and partnerships with the SEC turned a hefty 42.1 percent growth in October 1998 due to infusions in manufacturing, utilities and mining and quarrying.
- Finally, ***government pump-priming activities*** are also expected to boost aggregate demand. The national government has programmed a P68.4 deficit this year.

Concluding Remarks

- ***Overall prospects.*** If we succeed in implementing the recovery measures in 1999, GNP is targeted to grow by 3.0-3.7 percent while GDP expands by 2.6-3.2 percent. Agriculture is expected to rebound by 3.0-3.5 percent. This, in effect, will help in the recovery of industry, leading to a growth of 2.0-2.4 percent. Manufacturing is seen to grow by 1.7-2.1 percent. The expansion of services by 3.0-3.8 percent is likewise expected to continue as trade improves.
- ***Downside risk factors.*** There are possible downside factors in the global environment that we have to watch out for. Among these are the protracted recession in Japan and the lingering question on the yuan devaluation in view of the slowdown in China's export growth and Hong Kong's recession.
- ***Upside factors.*** Notwithstanding these risk factors, the consensus for Asia in general, is that this year will see the start of recovery. For instance, the IMF's projection for ASEAN-4 (-2.0 percent for Malaysia, -3.4 percent for Indonesia, 1.0 percent for Thailand, and 2.5 percent for the Philippines) indicates an improvement from -9.6 percent average GDP growth in 1998 to -1.4 percent in 1999. The continuing robust growth of the US, albeit at a slower rate than 1998's 3.9 percent, will boost this recovery process.