

---

## Country Profile 2008

# Philippines

This Country Profile provides an overview of the country's politics, resources and economy. It is revised and updated annually.

Economist Intelligence Unit  
26 Red Lion Square  
London WC1R 4HQ  
United Kingdom

---

### **Economist Intelligence Unit**

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

#### **London**

The Economist Intelligence Unit  
26 Red Lion Square  
London  
WC1R 4HQ  
United Kingdom  
Tel: (44.20) 7576 8000  
Fax: (44.20) 7576 8500  
E-mail: london@eiu.com

#### **New York**

The Economist Intelligence Unit  
The Economist Building  
111 West 57th Street  
New York  
NY 10019, US  
Tel: (1.212) 554 0600  
Fax: (1.212) 586 0248  
E-mail: newyork@eiu.com

#### **Hong Kong**

The Economist Intelligence Unit  
60/F, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2585 3888  
Fax: (852) 2802 7638  
E-mail: hongkong@eiu.com

Website: [www.eiu.com](http://www.eiu.com)

### **Electronic delivery**

This publication can be viewed by subscribing online at [www.store.eiu.com](http://www.store.eiu.com).

Reports are also available in various other electronic formats, such as CD-ROM, Lotus Notes, online databases and as direct feeds to corporate intranets. For further information, please contact your nearest Economist Intelligence Unit office.

### **Copyright**

© 2008 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 0269-5979

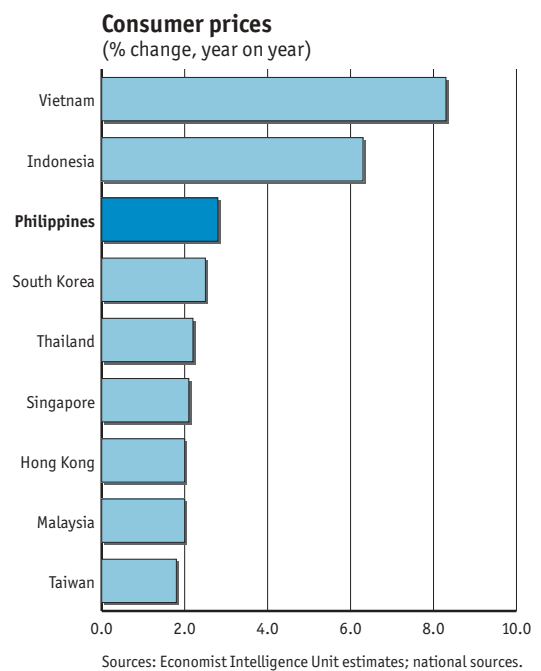
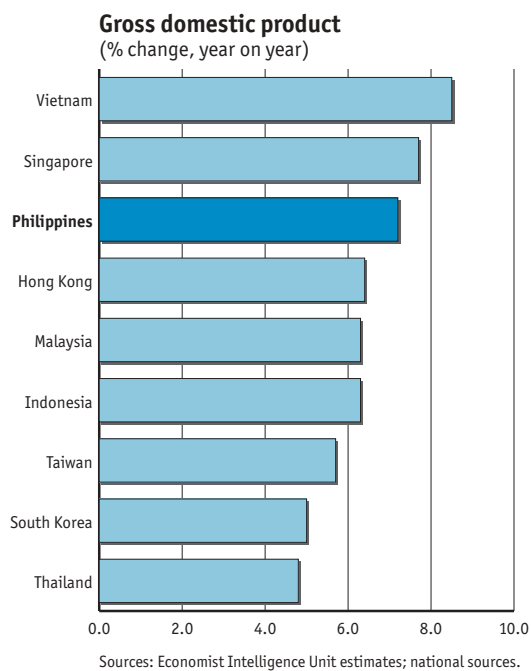
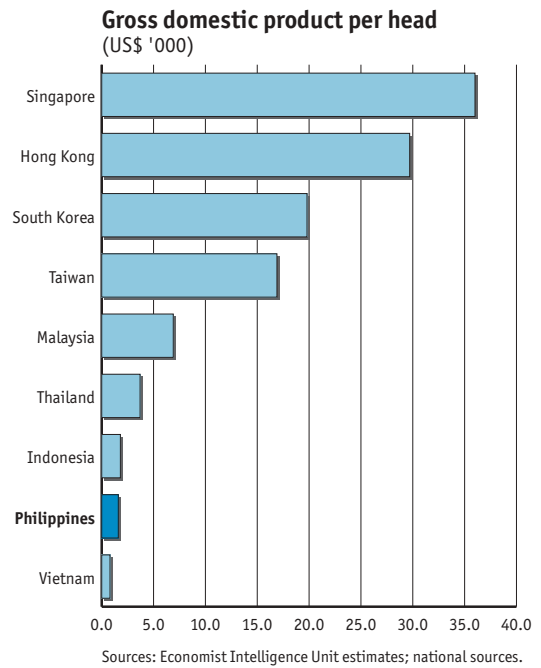
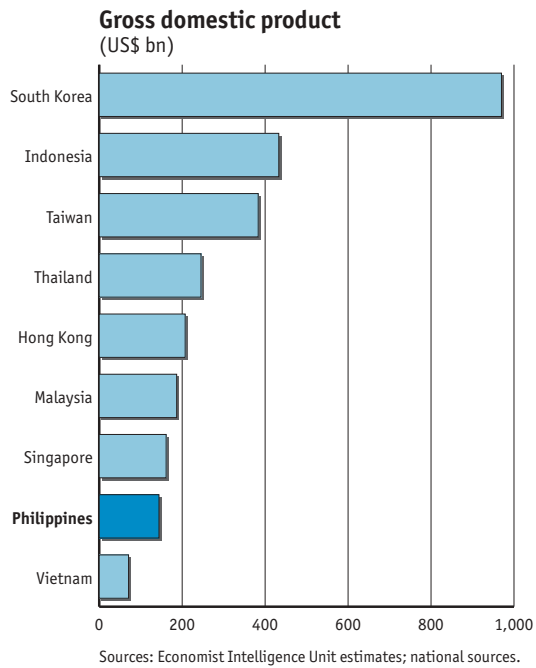
### **Symbols for tables**

"n/a" means not available; "-" means not applicable

Printed and distributed by Patersons Dartford, Questor Trade Park, 151 Avery Way, Dartford, Kent DA1 1JS, UK.



## Comparative economic indicators, 2007



---

# Contents

## Philippines

2	<b>Basic data</b>
3	<b>Highlights</b>
4	<b>Politics</b>
4	Political background
5	Political forces and institutions
8	Recent political developments
10	International relations and defence
10	<b>Demographics and resources</b>
10	Population
11	Education
11	Natural resources
12	Infrastructure
14	<b>The economy</b>
14	Economic structure
15	Economic policy
17	Economic performance
22	Regional trends
22	The external sector
25	<b>References</b>
26	<b>Appendix</b>

# Philippines

## Basic data

<b>Land area</b>	300,179 sq km			
<b>Population</b>	88.57m (August 2007 census)			
<b>Main towns</b>	Population in '000 (2007)			
	Metropolitan Manila (National Capital Region)	11,553	Davao Cebu	1,363 799
	Manila (capital)	1,661	Zamboanga	774
	Quezon City	2,679	Cagayan de Oro	554
	Kalookan	1,379	General Santos City	530
	Pasig	617	Bacolod	499
	Taguig City	613	Iloilo	419
	Valenzuela	569		
	Paranaque	553		
	Las Pinas	532		
<b>Climate</b>	Tropical			
<b>Weather in Manila (altitude 14 metres)</b>	Hottest month, May, 24-34°C; coldest month, January, 21-30°C (average daily minimum and maximum); driest month, February, 13 mm average rainfall; wettest month, July, 432 mm average rainfall			
<b>Languages</b>	Filipino (Tagalog), English and Spanish; many local dialects			
<b>Weights and measures</b>	Metric system; also some local units			
<b>Currency</b>	Peso (P)=100 centavos. Average exchange rate in 2007: P46.1:US\$1. Exchange rate on August 16th 2008: P46.2:US\$1			
<b>Time</b>	Eight hours ahead of GMT			
<b>Fiscal year</b>	January-December			
<b>Public holidays in 2008</b>	January 1st; March 20th (Maundy Thursday); March 21st (Good Friday); April 9th; May 1st (Labour Day); June 12th (Independence Day); August 31st (National Heroes' Day); November 1st (All Saints' Day); November 30th (Bonifacio Day); December 25th (Christmas Day); December 30th (Rizal Day)			

## Highlights

- Politics**
- Gloria Macapagal Arroyo has been president since 2001. However, her period in office has been clouded by controversy, amid allegations that she fixed the result of the 2004 presidential election. The regime is unpopular with the majority of the population and has faced a number of coup attempts. Ms Macapagal Arroyo has only been able to remain in power owing to the strong support of the military.
  - The May 2007 mid-term elections resulted in a mixed outcome for the president. Parties loyal to the government retained their majority in the House of Representatives, so that the opposition will find it difficult to remove Ms Macapagal Arroyo by constitutional means before the end of her term in mid-2010. However, pro-government candidates lost their majority in the Senate, which has made it more difficult for the government to get key legislation through Congress.

**Demographics and resources**

- The Philippines had a population of 88.57m, according to the 2007 census. The rate of population growth has, however, been slowing in recent years. There has also been substantial migration out of the Philippines, which has held down both the size of the population and the rate of unemployment.
- The transport infrastructure is inadequate, having suffered from decades of underinvestment. Since the 1990s some of the most serious shortcomings have begun to be tackled, and a number of infrastructure projects are currently under way, but development has been concentrated in economic hubs.
- The Philippines is thought to be one of the most mineralised countries in the world. However, its resources are widely scattered throughout the islands, and around one-quarter of the land area has not been surveyed.

**The economy**

- Real GDP growth averaged 5.8% in 2003-07, an impressive rate by historical standards. However, the rate is still below the rate achieved in other fast-growing Asian economies, most notably China.
- One of the main reasons for the relatively disappointing economic performance is the low rate of investment. The ratio of fixed investment to GDP in the Philippines was just 14.8% in 2007. In contrast, many Asian economies achieved investment to GDP ratios of 25-30% during their periods of strong growth, while in China the ratio exceeded 40% in 2007.
- Inflows of private remittances from Filipinos living overseas play a crucial role in the economy. Their remittances are the main factor supporting private consumption, which has been the most important driver of economic growth over the past few years. Remittances also provide valuable support to the current-account surplus.
- The US and Japan are the Philippines' two most important export markets. However, exports to China (which is now the country's third-largest export market) have been growing very quickly in the past few years.

## Politics

The Philippines is a pluralist democracy modelled on the US, with an executive presidency, a bicameral Congress and a Supreme Court that can rule on the constitutionality of government actions. In January 2001 Gloria Macapagal Arroyo, then vice-president, replaced the incumbent president, Joseph Estrada, in a civilian coup backed by the military. She served out the remainder of his six-year term before winning re-election in her own right in the next presidential election, held in May 2004. The congressional elections held at the same time produced a large pro-administration majority, headed by Ms Macapagal Arroyo's party, Lakas ng EDSA-National Union of Christian Muslim Democrats (Lakas), in the House of Representatives (the lower house) and gave the president a narrow majority in the Senate (the upper house). The legality of Ms Macapagal Arroyo's rule was called into question in 2005, amid allegations of electoral fraud in the 2004 presidential election. She is likely to remain in office until the end of her term in 2010, after pro-administration parties won an overwhelming majority in the House of Representatives in mid-term elections in May 2007. However, the administration lost its majority in the Senate.

## Political background

The Philippines was inaugurated as an independent republic, winning independence from the US, on schedule on July 4th 1946. The Philippines continued to maintain preferential economic relations with the US. The constitution was modelled on that of the US, and as in US politics, power tended to alternate between two parties, the Nationalists and the Liberals. This fairly peaceful rotation of power was interrupted in September 1972, as the president, Ferdinand Marcos, neared the end of his second and final term. Citing the threat from "subversive forces", Mr Marcos imposed martial law.

For the next 13 years, until 1986, the Philippines experienced "constitutional authoritarianism". The most effective opposition came from the communist New People's Army (NPA), which was active in rural areas, and from the southern areas, where a secessionist Muslim movement had been active since before the introduction of martial law. The situation changed radically in August 1983, when Benigno Aquino, the opposition leader regarded as the most credible alternative to Mr Marcos, was assassinated minutes after his return from exile and while under military escort. A series of massive demonstrations followed. To reassert his own supremacy, Mr Marcos called an early presidential election for February 1986. In a close-run contest he was narrowly defeated by Corazon Aquino, Mr Aquino's widow and the candidate of a temporarily united opposition. The attempt by Mr Marcos to hold on to power set off a coup attempt by the military, backed by the army chief of staff, Fidel Ramos, and the minister of defence. Under pressure from the US, Mr Marcos went into voluntary exile in Hawaii, where he died in 1989.

Under the new regime civil liberties were restored, political prisoners were released and an attempt was made to negotiate with the NPA. A new constitution, drawn up by a convention appointed by Ms Aquino, largely



restored the set-up that existed before 1972, but with new controls on the presidency. From July 1986 there was a series of attempted coups, and rumours of coups, in which elements of the military were involved. In all cases the loyalty of the army chief of staff, Mr Ramos, was critical. Meanwhile, the reform hopes of the early days faded. The much-vaunted land reform stalled in the face of bureaucratic delay and landlord opposition, widespread corruption continued, and the government was perceived as ineffectual.

Mr Ramos won the mid-1992 presidential election. Within months of coming to power he had built up a large pro-government majority in Congress and began the process of peace negotiations with both the communist and the Muslim secessionist rebels. There were no further attempts at a military coup. A peace agreement was signed with the leading Muslim secessionist movement in 1996, and the communist insurgency began to weaken. However, deep-rooted economic and social problems remained largely unresolved.

At the presidential election of May 1998 the candidate of the pro-administration party, Lakas, was beaten by a wide margin by the popular vice-president and former film star, Joseph Estrada. Although the Estrada administration maintained the macroeconomic targets and liberalising stance of its predecessor, the quality of policy formulation and implementation deteriorated under a president who lacked the diligence and drive of Mr Ramos. Cronyism and corruption had never been absent from the scene, but in the course of 2000 the president himself was implicated, first in a stockmarket scandal and then in pay-offs from the proceeds of illegal gambling. In November 2000 the House of Representatives voted through articles of impeachment on four counts: bribery, graft and corruption, betrayal of public trust and culpable violation of the constitution. However, Mr Estrada's supporters in the Senate won a vote in January 2001 to reject the consideration of evidence that could have led to his impeachment. This *de facto* acquittal prompted mass street demonstrations, and as in February 1986, civilians and the military came together. The heads of all the armed services and of the national police joined the calls for the president to resign. Besieged in the presidential palace, Mr Estrada agreed to leave the premises—although he refused to resign formally. He was deemed by the Supreme Court to have abandoned the office of president, and Ms Macapagal Arroyo was sworn in as president in January 2001.

## Political forces and institutions

### Parties are based around personalities

Political parties in the Philippines are based on personalities rather than ideologies. All those directly elected to Congress support the existing political and social structures, espouse a market economy (until it threatens sectoral interests), and are nationalistic, to varying degrees. There are thus continual shifts in allegiance. The president tends to attract a greater following in Congress than the election results would indicate, at least in the early years of a presidential term. In the final years of a presidential term of office the parties tend to splinter, as presidential hopefuls emerge and the president has only limited patronage to offer.

**Lakas and Kampi** Following the May 2007 congressional election the pro-government Lakas, which was formed in 1992 to support the presidential candidacy of Mr Ramos, remained the largest party in Congress. The party's strength in Congress was eroded after the May 1998 election, which brought Mr Estrada to power, but surged once more in the 2001 mid-term election, following the assumption of the presidency by the vice-president, Ms Macapagal Arroyo, also of Lakas. Lakas won 91 of the 218 directly elected seats in the House of Representatives in the 2007 election. Kampi, the party which was created to support Ms Macapagal Arroyo in the 1998 elections, has grown significantly in importance, increasing its seats in the lower house as members desert other parties, from only three in May 2004 to 56 in early 2008.

**The Catholic church** Another important political force is the Roman Catholic church. It played an active part in the civilian opposition to the Marcos regime and helped the military rebellion that brought Ms Aquino to power by bringing the population out on to the streets of the capital, Manila, in its support. The church also took the lead in demands for Mr Estrada's resignation in the wake of the corruption allegations in late 2000. The church hierarchy initially gave its blessing to Ms Macapagal Arroyo's disputed victory in the May 2004 presidential election, but subsequently called for an investigation into allegations of electoral fraud. In December 2006 it joined attempt by the opposition to the government to change the constitution from a presidential to a parliamentary system before the 2007 elections. Its stance prompted an immediate surrender by the administration. The church hierarchy has also taken an increasingly strong line against human rights abuses and is critical of some aspects of economic policy, notably the encouragement of mining developments.

#### **Election result for House of Representatives, May 2007**

(no. of seats)

<b>Pro-government parties</b>	
Lakas	91
Kampi	43
Nationalist People's Coalition	28
Liberal Party	23
Partido Demokratiko Sosyalista ng Pilipinas	1
Others	32
<b>Total directly elected</b>	<b>218</b>
Indirectly elected (party list)	21
<b>Total membership</b>	<b>239</b>

Source: [www.congress.gov.ph](http://www.congress.gov.ph)

## **Main political figures**

### **Gloria Macapagal Arroyo**

The president, who was brought to power in January 2001 in a civilian coup that had the backing of the military. She completed the presidential term of the ousted president, Joseph Estrada, and won re-election in her own right in May 2004. Ms Macapagal Arroyo's first term was disappointing as far as economic reform was concerned, but since her re-election she has greatly improved the state of the public finances. Her poll ratings, which were initially high, plummeted after the allegations of fraud relating to the presidential election, and she has become increasingly dependent on the support of the military high command.

**Fidel Ramos**

A former president and retired general, Mr Ramos has played a critical role during the Arroyo presidency through his influence with the military high command. He provided vital support to the president during the political crisis in July 2005, when many prominent politicians turned against her.

**Alexander Yano**

Chief of staff of the armed forces, appointed in May 2008. His loyalty, along with that of the rest of the military high command, is essential for the regime to counter strong civil opposition.

**Joseph Estrada**

The former president, elected in May 1998 for a six-year term with strong popular backing. Deposed in January 2001 after the collapse of his impeachment trial in the Senate (the upper house), he was kept in detention under increasingly lenient conditions on charges of perjury and economic plunder. He was found guilty on the latter charge in 2007, but released and given a full pardon in October of that year. Still able to call on the support of the urban poor, he remains a key rallying point for the opposition and brought together the opposition team for the Senate election in May 2007. He has not ruled out standing for the presidency in 2010.

**Panfilo Lacson**

A former police chief in the Estrada administration, Mr Lacson mounted a separate presidential bid to that of Fernando Poe in the 2004 election, thus splitting the opposition vote and handing victory to Ms Macapagal Arroyo. Re-elected to the Senate in 2007, when he came third in the national vote, Mr Lacson remains a leading opponent of the administration.

**Gaudencio Morales**

Archbishop of Manila, who in 2003 succeeded Cardinal Jaime Sin. As head of the Roman Catholic church in the Philippines he carries great political weight. However, he has adopted a lower profile in politics than his predecessor, who was prominent in the overthrow of both Ferdinand Marcos and Mr Estrada. Instead, it has been left to the Catholic Bishops Conference of the Philippines to take a more critical stance on some of the actions and policies of the Arroyo regime.

**The judiciary** The judiciary, which is independent of the executive, rules on the constitutionality of presidential decrees. A permanent, independent commission oversees compliance with a bill of rights contained in the constitution. Ms Macapagal Arroyo is in favour of switching to a parliamentary, unicameral system. However, rapid progress on the issue is unlikely.

**The legislature** The constitution introduced in 1987 provides for a single six-year presidential term. The president is chief executive, head of state and commander in chief. The legislature is bicameral, with a Senate of 24 members elected "at large" (on a nationwide ballot) and a House of Representatives composed of 239 members (for the 2007-10 legislative term). Senators have six-year terms and representatives three-year terms. The president may not abolish Congress, and the presidential veto can be overridden by a two-thirds majority in the legislature.

**Media services** There is a multiplicity of newspapers—475 in 2000—and the Philippine press is a byword for freewheeling comment and speculation. There were 957 radio stations in 2004, both commercial and non-commercial, of which 369 broadcast on AM wavebands and 583 on FM, and five on shortwave. There were 97 television stations in 2003.

### Democracy index (for methodology, see Appendix)

The Economist Intelligence Unit's 2008 democracy index ranks the Philippines 77th out of 167 countries, putting it among the 50 countries considered "flawed democracies". This designation includes neighbouring states such as Sri Lanka, Thailand, India, Indonesia and Malaysia. However, the Philippines is poorly placed within this categorisation, ranking behind all of these nations. With an overall score of 6.1, it is just shy of the score needed to be categorised as a hybrid regime. Its relatively weak position owes much to its extremely low score in the *political culture* category. The main reason for the low score in this category is the lack of faith most Filipinos have in the democratic process. This stems from the country's recent history of attempted military coups, corruption and alleged vote-rigging in the 2004 presidential election.

In the *electoral process* and *pluralism and civil liberties* categories, however, the Philippines scores much better. The high score in the *civil liberties* category stems from the country's free press—the Philippines is a highly tolerant society and has one of the freest medias in the region, with no restrictions on the Internet. The high score in the *electoral process and pluralism* category is attributable to the generally free nature in which general elections are carried out in the Philippines. The score also benefits from the relatively secure mechanism for the orderly transfer of power from one government to another. The score of this category is, however, held back by lingering concerns over corruption and government accountability.

### Democracy index

	Overall score	Overall rank	Electoral process	Government functioning	Political participation	Political culture	Civil liberties	Regime type
Philippines	6.12	77	8.33	5.00	5.00	3.13	9.12	Flawed democracy

Overall and component scores are on a scale of 0 to 10; overall rank is out of 167 countries.

### Recent political developments

- **Arroyo's presidency has become increasingly unpopular.** The ouster of Mr Estrada was welcomed by the political and business elite. Despite initial high hopes, Ms Macapagal Arroyo's presidency has been a disappointment, and she has never regained the popularity of her first months in office. Although her administration has achieved some useful structural economic reforms, such as enhancing the tax base and privatising the electricity industry, it stands accused of corruption, electoral fraud and human rights abuse. An opinion poll in the second quarter of 2008 (when Philippine households were hard hit by rising food and energy prices) gave her the lowest rating of any post-Marcos president.
- **Military dissent remains a threat to political stability.** Discontent within the junior ranks of the military, spurred on by alleged corruption within the high command, has been a constant danger, and there have been two recorded coup attempts, in July 2003 and February 2006. Both hoped to spark off mass popular support for the removal of the president. However, both failed and were rapidly quelled, as the military high command came to the rescue of the regime.
- **Ms Macapagal Arroyo's re-election is challenged.** Ms Macapagal Arroyo was re-elected president in May 2004, but only after the opposition vote was split between the candidate endorsed by Mr Estrada, Fernando Poe, and the

police chief in the Estrada administration, Panfilo Lacson. Ms Macapagal Arroyo's margin of victory was, however, only 1m votes (out of 32m). Moreover, after allegations emerged in 2005 that the result had been manipulated (an audio tape was revealed in June 2005, in which Ms Macapagal Arroyo discussed the vote count with election officials), in July 2005 one-third of the cabinet resigned, and it seemed likely that Ms Macapagal Arroyo might be forced to stand down. However, demonstrations against the president failed to build sufficient momentum, and the influential Catholic church declined to join the clamour for Ms Macapagal Arroyo's departure. Three attempts to impeach the president on charges of electoral fraud and corruption have so far come to nothing, after the opposition failed to muster the necessary support (one-third of the membership) in the House of Representatives.

- **The mid-term elections brought a mixed result for the Macapagal Arroyo administration.** The mid-term elections that took place in May 2007 delivered a mixed result for the administration. It retained its massive majority in the House of Representatives, meaning that—in the absence of a major political shock—Ms Macapagal Arroyo will not be removed by constitutional means before mid-2010. However, candidates on the administration's slate won only three of the 12 senatorial seats being contested, reducing the pro-administration bloc to a minority. Given the volatility of political loyalties in the upper house, the administration can still hope to engineer majority support on specific legislative proposals.

### Important recent events

#### February 2006

The president, Gloria Macapagal Arroyo, declares a week-long state of emergency, after the army claims to have foiled a coup.

#### May 2007

In the mid-term congressional elections pro-Arroyo parties win another comfortable majority in the House of Representatives, but the administration loses its majority in the Senate.

#### July 2007

After over five years of discussion an anti-terrorism bill—named the Human Security Act—becomes law, with implementation in mid-July.

#### October 2007

A third attempt to impeach the president fails, leaving her immune to another charge for the next 12 months.

#### August 2008

A memorandum of agreement holding out the hope of a peace settlement with the leading Muslim secessionist movement by late 2009 is halted by a restraining order from the Supreme Court.

For an analysis of the latest political developments, see the Economist Intelligence Unit's most recent **Philippines Country Report**.

## International relations and defence

- **Relations with Asia are improving.** A continuing foreign policy priority has been the strengthening of relations with fellow members of the Association of South-East Asian Nations (ASEAN). Membership of ASEAN gives the Philippines a regional identity independent of relations with the US. A recent and very significant evolution in regional relations has been the growth in economic links with China. This has been accompanied by an easing in tensions from the ongoing dispute over sovereignty of the Spratly Islands in the South China Sea.
- **The Philippines has a special relationship with the US.** The US has maintained a special relationship, both political and economic, with the Philippines since the latter's independence in 1946. The US administration has on a number of occasions played a pivotal role in domestic political affairs, inducing Mr Marcos to leave the country in February 1986 and backing the Aquino administration against coup attempts (on one occasion with military aircraft). The Philippines was once home to two of the most important US military bases outside US territory, the naval facility at Subic Bay and the nearby air base at Clark Field. The non-renewal of the lease on the military bases when it expired in 1991 was the most open sign of the Philippines' emerging "Asian" identity. However, the US's so-called war on terror and the Philippines' own problems with Muslim insurgents have led to a closer military relationship between the US and the Philippines over the past few years. The US has awarded the Philippines Major Non-NATO Ally status, and since 2002 US troops, hardware and intelligence have been supporting the campaign against the Abu Sayyaf guerrilla group.

## Demographics and resources

### Population

Population	2003	2004	2005	2006	2007
Population (m)	84.6	86.2	87.9	89.5	91.1
Population (% change)	2.0	1.9	1.9	1.8	1.8

Source: US Census Bureau.

- **Population growth is slowing.** The Philippines had a population of 88.57m, according to the August 2007 census. According to data from the US Census Bureau, which differ slightly from the 2007 census data, the rate of population growth has been slowing in recent decades, from an average of 3% per year in the 1960s to 1.9% in the period 2000-07. This reflects two trends: a fall in the birth rate and a fall in the death rate, as infant mortality rates have declined. Thus the crude birth rate fell from 46 per 1,000 in 1960 to 30 per 1,000 in 2000 (when the previous census was held), as family planning became more widely accepted. The comparatively high rate of population growth means that the Philippines has a young population, with an estimated 35% of the population under the age of 15 in 2006.

- **The population is becoming more urban.** Population density is high in metropolitan Manila (the capital) and in neighbouring areas of central Luzon, whereas Mindanao, Negros and the other southern islands are sparsely populated. There have been two significant trends in population movement in the last 40-50 years. First, the proportion of the population living in rural areas has decreased, from 70% in 1960 to 48% in 2000. The second trend is migration to the agricultural frontier areas in Mindanao, despite the unrest in that region. Competition from migrants for land has significantly contributed to the conflict in the region.
- **Many workers leave to work overseas.** There has also been substantial migration out of the Philippines, permanent as well as temporary (in the form of overseas employment under contract), which has held down both the number of people resident in the Philippines and the rate of unemployment. This migration has been facilitated by the population's familiarity with the English language and its comparatively high standard of education. There are currently more than 11m Filipinos living and working overseas, either permanently or temporarily. Overseas employment represents an important outlet for excess labour and is a major source of income for Philippine households. The number of workers living and working overseas fluctuates in line with conditions in their host countries, but has been rising in the past decade.

## Education

Education standards are fairly high. In the 2006/07 school year 83.2% of children of the relevant age were enrolled in primary schools, and 58.6% in secondary schools. Tertiary education is also developing rapidly: in the 2004/05 academic year 2.4m students were enrolled in higher education institutions, up from 1.9m ten years earlier. However, the situation is not as good as these figures indicate. Although the government claimed that 93.4% of the population was basically literate in 2003, 5.1% lacked numerical skills. This is because one-third of all pupils do not complete their primary-level education, even though there has been near-universal enrolment at primary-school level for more than two decades. The drop-out rate for secondary-school students is slightly higher. Overall education standards have come under pressure from underinvestment, as the sector has fallen victim to the squeeze on government spending. The situation in primary education has been compounded by the fall in the state's proportional contribution to primary education costs, whereas the state's contribution to tertiary education has risen.

## Natural resources

The Philippines is thought to be one of the most mineralised countries in the world. The country's resources are widely scattered throughout the islands, but around one-quarter of the land area has not been surveyed. At end-1996 (the latest available data) there were estimated reserves of 4.8m tonnes of copper, 1.1m tonnes of nickel, 36,667 tonnes of chromite, 226,852 tonnes of gold and 484,696 tonnes of iron. The picture is mixed for energy resources. There are large deposits of coal and lignite, with proven reserves of 369m tonnes, of

which close to 40% are on Semirara Island, and potential reserves are estimated at 1.6bn tonnes. Commercial deposits of oil off Palawan Island are small and technically difficult to exploit and operate. Gas reserves in the Malampaya field in the same region are substantial; they are estimated at 2.8trn-3.5trn cu ft and are now being exploited (other gas reserves are estimated at 1.8trn cu ft). Geothermal resources are large and as yet not fully developed.

## Infrastructure

**Transport** The transport infrastructure is inadequate, having suffered from decades of underinvestment. Since the 1990s some of the most serious shortcomings have begun to be tackled, and a number of infrastructure projects are currently under way, but development has been concentrated in economic hubs. The system is essentially bimodal, with roads carrying 60% of freight and 80% of passenger traffic, and water 40% of freight and 10% of passenger traffic. Air transport is oriented towards carrying passengers on journeys between islands. The rail network is minimal.

### Transport statistics

	2002	2003	2004	2005	2006
<b>Vehicles</b>					
Motor vehicles registered ('000)	4,188	4,292	4,761	5,060	5,060
Cars ('000)	749	743	798	788	792
<b>Rail</b>					
Passengers ('000)	265	240	242	64	n/a
Express freight ( tonnes)	1,700	1,931	2,000	8,000	n/a
Metro Manila Light Rail Transit passengers (m)	107	107	97	105	111
Metro Rail Transit passengers (m)	102	113	123	128	135
<b>Ports</b>					
Total cargo handled (m tonnes)	149.5	146.7	157.4	155.3	154.3
Total passenger traffic (m)	49.1	51.7	53	48.6	42.6
<b>Air</b>					
Total passenger traffic ('000)	20,207	18,312	23,696	24,671	26,123

Source: National Statistical Coordination Board.

**Railways** The previously dilapidated railway network (confined to Luzon) is being rehabilitated and is due to be extended. The reconstruction of North Rail began in mid-2006 with work on the existing 32 km of track from Caloocan, in Metropolitan Manila, to Malolos, Bulacan. The next stage will be a 48-km extension from Malolos to the Clark Special Economic Zone, in Pampanga; the whole 80 km should come into operation by 2010. A branch line will also be built to Subic Freeport. China has promised concessional funding for the first phase of the rehabilitation of 77 km of the 400-km South Rail line. In addition, the modern, elevated rail system in Manila is currently being expanded within the metropolitan area.

**Roads** The road network covered 201,834 km at end-2000, of which two-thirds were feeder and village roads. Around one-half of the network is all-weather, an important consideration in view of the climate, and only 21% of all roads are paved with concrete or asphalt. In 2006 some 28,980 km of roads were classed



as "national roads", of which 71% were paved with concrete or asphalt. The condition of the feeder roads is generally poor, the result of substandard construction, inadequate maintenance and use by overloaded vehicles. Bridges are often weak, if not altogether absent, and some remote areas have few access roads. Recent investment in road development has been heavily concentrated on the National Capital Region (NCR) and neighbouring provinces. The North Luzon highway has been upgraded, and work is going ahead on linking it to the South Luzon highway, where upgrading is also scheduled.

**Ports** Given the geography of the Philippines, shipping services and port facilities are of critical importance. In all, there are close to 1,500 ports in operation, but six—Manila, Cebu, Iloilo, Cagayan de Oro, Zamboanga and Davao—handle over 80% of public port traffic. The inter-island fleet is old, safety regulations are poor and maritime navigational aids, in particular lighthouses, are inadequate.

**Air transport** There are 85 national airports (with paved runways), of which eight—Manila, Cebu, Davao, Subic, Clark, Laoag, Zamboanga and General Santos—are international. The provision of domestic services has been improving, as the aviation sector has been liberalised and new airlines have entered operation. Development of the air transport system has had a patchy record in recent years.

**Energy supply and usage** The Philippines depends to a fairly high degree on foreign energy sources. The contribution of domestic energy sources has been rising, reflecting investment in geothermal and hydroelectric capacity and the availability of a wider range of non-conventional sources. This trend was reinforced with the start-up of gas production from the Malampaya reserves, off Palawan, in 2001. Although there are hopes of extracting 41m barrels of oil lying beneath these gas reserves, domestic oil is not expected to make a major contribution to supply, and domestic coal production will continue to be supplemented by imports. The greatest long-term potential for expansion in power-generation capacity lies in geothermal energy. Geothermal power generation on a commercial scale began in 1979, and capacity in 2006, at 1,978 MW, was second only to that of the US.

#### Energy consumption by source

(m barrels oil equivalent)

	2002	2003	2004	2005	2006
Indigenous	127.6	146.0	146.0	153.0	152.3
Oil	1.3	4.7	3.3	0.2	0.2
Coal	3.8	6.8	9.1	10.5	8.6
Gas	11.2	15.3	14.1	18.7	17.5
Hydroelectricity	13.6	14.9	14.8	14.5	17.1
Geothermal	17.7	58.5	61.2	59.0	62.3
Non-conventional (bagasse, etc)	79.0	42.7	46.3	46.2	42.9
Imported	129.9	139.2	138.7	121.0	120.5
Oil	103.8	115.7	113.2	95.3	92.3
Coal	26.1	23.5	25.5	25.7	28.2
<b>Total</b>	<b>257.5</b>	<b>285.2</b>	<b>290.8</b>	<b>273.9</b>	<b>272.9</b>

Source: National Statistical Coordination Board.

For more information on the energy sector, see the Economist Intelligence Unit's most recent **Energy Industry Briefing** for the Philippines.

**Telecommunications** The telecommunications system used to be inadequate and unreliable, and telephone density stood at only one per 100 people in the mid-1980s. The deregulation of the sector in 1993 transformed the situation. Presidential decrees mandated interconnections between networks and required that international gateway operators and mobile telephone companies installed telephone systems in urban and rural areas. The changes ended the monopoly enjoyed by the Philippine Long Distance Telephone Company (PLDT). As PLDT installed new lines and other operators entered the field, telephone density rose, reaching 9.1 per 100 people in 2000, according to the National Telecommunications Commission. However, fixed-line density has since fallen, as mobile-phone use has expanded. At end-2007 mobile phone subscribers reached 53.3m, up from 6.5m at end-2000.

#### Telecoms statistics

	2003	2004	2005	2006	2007
Telephone main lines (no.)	3,301	3,355	3,367	3,153	3,035
Telephone main lines (per 100 population)	3.9	3.9	3.8	3.5	3.3
Mobile subscribers (no.)	22,540	32,922	34,393	41,921	53,282
Mobile subscribers (per 100 population)	26.6	38.2	39.1	46.9	58.5

Source: Pyramid Research.

For more information on the telecommunications sector, see the Economist Intelligence Unit's most recent *Telecoms and Technology Industry Briefing* for the Philippines.

## The economy

### Economic structure

#### Real gross domestic product by sector

(% share of GDP)

	2003	2004	2005	2006	2007
Agriculture	14.6	15.1	14.3	14.1	13.8
Industry	31.9	31.7	31.9	31.7	31.7
Services	53.4	53.2	53.8	54.2	54.5

Source: Economist Intelligence Unit.

The economy is diversified, reflecting its varied resource endowment, both physical and human. In 2007 the agricultural sector accounted for 13.8% of GDP, the industry sector for 31.7%, and the services sector for 54.5%. The informal sector is large, particularly in the towns, where over one-half of the population now lives. The best-performing sectors in recent years have been services, and in particular the financial sector, which has been boosted by strong inflows of remittances through the banking sector, and trade, which has been buoyed by strong growth in household spending. The performance of the agricultural sector has tended to be volatile, because of its high dependence on weather conditions.

**Nominal gross domestic product by expenditure**

(% share of GDP)

	2003	2004	2005	2006	2007
Private consumption	69.2	68.7	69.3	70.1	69.4
Government consumption	11.1	10.1	9.7	9.8	9.7
Gross fixed investment	16.8	16.1	14.4	14.0	14.8
Stockbuilding	0.0	0.7	0.2	0.5	0.4
Exports of goods & services	49.6	50.9	47.6	47.3	42.6
Imports of goods & services	55.6	54.6	51.7	48.0	42.2

Source: National Statistical Coordination Board.

The main driver of growth over the past few years has been strong private consumption growth, which has been fuelled by remittances from overseas Filipino workers. Private consumption accounted for 69.4% of GDP in 2007. In 2004 and 2006 the economy was also supported by strong export growth—especially of electronic goods, which account for around two-thirds of the total exports. The improvement in the government's fiscal position has allowed strong growth in government spending in recent years, but government consumption spending only accounted for 9.7% of GDP in 2007—a very low ratio.

Both the pace of economic growth and its potential have been held down over recent decades by the low level of investment. One of the main drivers of growth in rapidly expanding Asian economies since the second world war has been a high level of investment: most of these economies have achieved investment to GDP ratios of 25-30% during their periods of strongest growth, while in China the ratio exceeded 40% in 2007. By contrast, the ratio in the Philippines was just 14.8% of GDP in 2007.

**Economic policy****Budget targets and results**

(P bn)

	2007		2008
	Target	Actual	Target
Revenue	1,118.8	1,136.6	1,236.2
Expenditure	1,181.8	1,149.0	1,236.2
<b>Balance</b>	<b>-63.0</b>	<b>-12.4</b>	<b>0.0</b>

Source: Department of Finance.

The major economic policy requirement in the Philippines is to raise the level of budget revenue on a sustainable basis. The low ratio of tax revenue to GDP—around 13% in the current decade—has meant that the government has never invested adequately in physical and social infrastructure, which has resulted in serious bottlenecks in mobilising the Philippines' considerable resources. The situation has been exacerbated by the primacy accorded to achieving fiscal equilibrium, with development spending, in particular, suffering as a result of the revenue shortfalls.

The government began reining in the deficit in 2003, and the budget deficit has fallen in every year since, reaching a low of 0.2% of GDP in 2007. The particularly marked reduction in the deficit in 2006, from P146.5bn (US\$2.7bn)

in 2005 to P62.2bn, was a result of a package of tax increases introduced in 2005 and 2006: an increase in the excise levy on alcohol and tobacco, the elimination of a number of exemptions from value-added tax (VAT), a two-point rise in the rate of VAT (to 12%) and a three-point rise in the rate of corporate income tax (due to be reversed in 2009). These increases contributed to a 21.8% rise in tax revenue in 2006, lifting its ratio to GDP to 14.3%—the highest level since 1999. This ratio weakened marginally in 2007, to 14%, and it was the surge in asset sales (to P90.6bn, from P5.8bn in 2006) that was responsible for the near-elimination of the budget deficit.

#### Money supply

	2003	2004	2005	2006	2007
Stock of domestic credit (P bn)	2,402	2,615	2,505	2,625	2,714
Domestic credit growth (%)	6.9	8.9	-4.2	4.8	3.4
M1 (% change, year on year)	8.6	9.2	9.2	24.5	14.0
M2 (% change, year on year)	3.6	9.9	6.4	19.6	5.4

Source: IMF, *International Financial Statistics*.

A key policy change on the monetary side has been the switch to inflation-targeting by Bangko Sentral ng Pilipinas (BSP, the central bank) at the start of 2001. It had traditionally set interest rates to meet monetary targets monitored by the IMF, and with an eye to countering sharp fluctuations in the peso's value and providing some degree of support when it was depreciating rapidly.

The central bank has over the past few years been fairly active on the monetary policy front in the face of volatile inflation. After a series of interest rate increases in 2005 the BSP began cutting rates in July 2007, in response to a significant fall in inflation. The loosening lasted until January 2008, after which the central bank left rates unchanged for four months, despite rising inflation, which had first begun increasing in November 2007. The central bank was slow to begin raising interest rates because the pressure came mostly from the supply side, in the form of higher imported oil and food costs, and there was a recognition that higher interest rates would do little to bring down the cost of imported food. However, the situation became more serious in May 2008, as inflation approached double digits. In response, the central bank raised its key rates by 25 basis points in June and, after inflation hit a 14-year high of 11.4% year on year in the same month, by 50 basis points in July.

#### Interest rates

(%)

	2003	2004	2005	2006	2007
Lending interest rate	9.5	10.1	10.2	9.8	8.7
Deposit interest rate	5.2	6.2	5.6	5.3	3.7
Money-market interest rate	5.9	7.3	6.2	5.3	3.4

Sources: IMF, *International Financial Statistics*.

For an analysis of the latest economic policy developments, see the Economist Intelligence Unit's most recent **Philippines Country Report**.

## Economic performance

### Main economic indicators

	2003	2004	2005	2006	2007
Real GDP growth (%)	4.9	6.4	5.0	5.4	7.2
Consumer price inflation (av; %)	3.5	6.0	7.7	6.2	2.8
Current-account balance (US\$ m)	288	1,628	1,984	5,347	6,351
Exchange rate (av; P:US\$)	54.2	56.0	55.1	51.3	46.1
Population (m)	84.6	86.2	87.9	89.5	91.1
External debt (year-end; US\$ m)	62,589	61,095	61,718	60,324	61,782

Source: Economist Intelligence Unit, CountryData.

After the setback of the Asian economic and financial crisis of 1997-98, which hit the two pillars of Philippine economic growth—exports and investment—and a particularly severe El Niño weather phenomenon in the same period, GDP growth has returned to the rates of the early 1990s, at an average of 5.8% in 2003-07. The main drivers of growth have changed, however. While the contribution of exports has varied from year to year, largely reflecting trends in demand for Philippine electronics, and investment has been very sluggish, buoyant private consumption, which accounts for some 70% of GDP, has underpinned economic expansion.

After two years (2001-02) of slower global demand held down economic growth, real GDP growth picked up momentum in 2003 and 2004, as a strong recovery in external demand was accompanied by a continuing acceleration in private consumption growth. In 2004 exports of goods and services rose by 15% in real terms—more than three times the 2003 rate—while the rise in imports nearly halved (to 5.8%). This meant that the foreign balance made a substantial contribution to the 6.4% rate of real GDP growth in 2004—a 15-year high.

GDP growth eased off in 2005, to 5%, as agriculture was hard hit by a recurrence of El Niño and exports slowed sharply owing to stagnant demand for electronics. The following year saw a rebound in agriculture, a pick-up in consumption and a return to double-digit export growth, which together pushed up GDP growth to 5.4%. The growth momentum was maintained through the first half of 2007, when GDP rose by 7.6% year on year, but the pace slowed in the following six months, during which robust private consumption could not fully offset the deterioration in the external balance, as export growth weakened. That said, GDP growth for the full was still an impressive 7.2%. A steep fall in exports in the first quarter of 2008 and a slowdown in private consumption growth, as households were hit by higher energy and food prices, reduced year-on-year GDP growth to 5.2% in January-March.

**Agriculture** Although agriculture ranks higher than manufacturing in terms of employment, its share of GDP has been diminishing for decades because of its slow rate of output growth. Agricultural exports, which once constituted virtually the whole of the country's exports, now account for around 3% of foreign earnings. Although there has been some diversification in agricultural crops in the past half-century, the sector remains dominated by two traditional crops, rice (wholly for domestic consumption) and coconuts (the Philippines accounts for nearly one-half of the world's crop). Trends in their output have a significant

impact on inflation (in the case of rice) and on rural incomes (particularly in the case of coconuts).

Rice is mainly grown in typhoon-prone central Luzon. In 2007 it was cultivated on an area of 4.27m ha, of which 68% was irrigated. Coconuts are grown on an area of 3.36m ha, more than one-half of which is in Mindanao. In both cases production is predominantly small-scale. In contrast to rice output, which has generally been rising, mainly owing to the use of higher-yield strains, output of coconuts was on a downward trend until 1995. This reflected the rapid ageing of trees and felling for construction purposes, as logging of conventional forest was restricted. The government then implemented a major replanting and rehabilitation programme with World Bank support, which began to pay off from the mid-1990s.

**Mining** Mining output has risen in recent years, but still accounted for only 1.6% of GDP in 2007. The prospects for the sector became considerably brighter in December 2004, after the Supreme Court reversed an earlier ruling by affirming the constitutionality of full foreign ownership of local mining ventures under service contracts with the government. Against a background of rising prices for minerals—driven largely by strong demand from China—foreign investment in the mining sector has risen strongly since 2005. A total of some US\$1.3bn was invested in mining in 2005-07, including the development of gold and copper deposits in Didipio (Nueva Vizcaya), nickel operations at Coral Bay (Palawan) and a copper and zinc mine in Rapu Rapu (Albay). This surge of funds into a sector that had for decades failed to attract significant investment began to bear fruit in 2006, when US dollar earnings from minerals exports rose by 151%, pushing up their share of total exports from 2% in 2005 to 5.5%. The pace of growth slackened in 2007, but remained strong at 21%.

Although more investments in the sector are scheduled for the next few years, the development of the mining industry faces domestic opposition because of the potential cost to the environment and the welfare of local communities. Some major projects have encountered other problems. The Rapu Rapu mine had to close down four months after its opening in 2005 after the spillage of cyanide into local waterways. Production resumed in February 2007, but was then suspended again 12 months later over debt repayment problems. The development at Didipio hit financing problems in mid-2008, and the owners of the mine are currently in dispute with the local authorities over quarrying permits. Facilities at a massive copper mining project in Tampakan, in South Cotabato, were attacked by communist rebels in January 2008 and again in July.

**Industry** The manufacturing sector is the single most important production sector in the economy, accounting for 22% of GDP in 2007. The sector developed rapidly during the 1950s and 1960s—essentially for import substitution, a process aided by high levels of protection for domestic industry. There was also marked growth in industries assembling consumer goods, which were initially heavily dependent on imported components. The government launched a programme in the early 1980s to develop the intermediate and heavy industrial base. A copper smelter, a chemicals complex, a phosphate fertiliser plant and a low-range diesel engine factory were set up by groups with government participation, and the

cement industry was expanded. Nevertheless, the structure of manufacturing is still heavily weighted towards the production of consumer goods. It also remains oriented towards the domestic market, despite the development since the 1970s of labour-intensive export manufacturing, in particular of electronics and automotive parts.

The expansion of the export manufacturing sector was stimulated by the creation of export-processing zones (EPZs), where companies were granted incentives in addition to the tax and duty exemptions more widely offered to manufacturing. The first such zone was set up at Mariveles, in Bataan. Other zones have been developed on Mactan Island near Cebu city, at Baguio, north-east of the capital, Manila, and at Cavite, south of Manila. Two newcomers were the Subic Special Economic and Freeport Zone, at the former US naval base along Subic Bay on the main island of Luzon, and Clark, at the former air force base in the central Luzon province of Pampanga. Many other industrial parks and zones exist all over the country. Around 545,000 workers were directly employed by zone enterprises in 2006, with another 700,000 indirectly employed. Exports through EPZs reached US\$36.1bn in that year. In the long term, the prospects for the sector remain uncertain. The Philippines will continue to attract investment geared to crossborder production within the Association of South-East Asian Nations (ASEAN), but it faces strong, and growing, competition from lower-cost producers, notably mainland China, and there is a concern that the Philippines will lose out as labour-intensive manufacturing capacity moves to the mainland.

**Construction** The construction sector recorded dynamic growth in the mid-1990s, but suffered a sharp decline in 1997-98 as a result of the regional financial crisis. Its recovery since has been fitful because of constraints on government capital spending and generally sluggish private demand. After a fall of 5.9% in 2005, value added in the construction sector grew by 9.6% in 2006, underpinned by the strong upturn in government spending. Growth jumped to an impressive 23.1% in 2007, as the private sector joined the recovery.

**Services** The financial sector is underdeveloped compared with that of other countries in the region, and the inadequacy of the local capital market is a major reason for the country's low propensity to invest. The ratio of total assets of the banking system to GNP is low, and individual commercial banks are small compared with those in other countries. Since the mid-1990s the government has attempted to promote the development of financial services by liberalising the sector: the 44-year ban preventing foreign banks (other than the four already present) from operating in the Philippines was lifted in 1995; full operating licences are now being granted to foreign insurance companies in line with World Trade Organisation (WTO) membership commitments; and legislation passed in 1997 eased restrictions on foreign investment in finance companies and investment houses.

The Philippines Stock Exchange (PSE) received a double boost in the early and mid-1990s from the general international interest in emerging markets and the programme of investment liberalisation and privatisation. The market capitalisation of the stockmarket rose from only P353bn at end-1992 to P2.12trn

(US\$80.9bn) by the end of 1996. However, the stockmarket has remained small—market capitalisation stood at US\$145bn at end-June 2008. Moreover, it is highly vulnerable to trends in world equity markets—it fell by one-fifth between end-2007 and end-June 2008—and to nervousness about the domestic political situation.

The retail sector was until 1999 closed to foreign participation. This was nominally to protect small corner shops from foreign competition, but the ban acted to keep the bulk of retail trade small-scale, much of it in the informal sector. In 2005 there were 291,004 retail outlets (excluding retail trade in motor vehicles), of which 287,662 employed fewer than 20 people. Total retail employment numbered 1.32m. However, a trend was established in the late 1980s and 1990s for the development of large shopping complexes, many of them in the vicinity of Manila and geared towards the higher incomes in that region.

Tourism is an important sector, the potential of which is largely untapped. The major constraints are the concentration of first-class hotel accommodation in the capital, while capacity in areas offering a more varied tourist experience is limited; inadequate domestic transport links; and the Philippines' poor image in terms of security, which has been greatly exacerbated by the targeting of tourists by the Abu Sayyaf guerrilla group.

The fastest-growing service sector in recent years has been business process outsourcing (BPO). This definition covers call centres, medical and legal transcription, animation, software development and other service activities based on information technology (IT). Since English-language skills (together with cultural affinity with the US) is the Philippines' competitive strong point, the government has tried to turn back the deterioration in English-language proficiency in recent decades, with the reinstatement of English as the primary medium of instruction in secondary schools as from August 2006.

### Employment trends

The already high level of unemployment (at 8% in April 2008, on a very narrow definition) and underemployment (19.8% in the same month) would be even higher were it not for the outlet of overseas employment. There are currently more than 11m Filipinos living and working overseas, and close to 1m leave the Philippines each year to work abroad, either permanently or temporarily. The most popular destination is the US (where 4m Filipinos live), followed by Saudi Arabia (2m). The continued migration of Filipinos overseas will to some extent reduce the country's unemployment problem. However, there will continue to be concerns about the long-term brain-drain effect of the departure abroad of so many people each year.

#### Employment

	2003	2004	2005	2006	2007
Labour force (m)	34.6	35.9	36.5	35.7	36.2
Unemployment rate (%)	11.4	11.8	11.4	7.9	7.3

Source: United Nations, *FAO Yearbook*; World Bank, *World Development Indicators*; Financial & Economic Research International.

Trade unions are weak, and unionisation is low. In this environment there is little pressure to extend the limited employment protection that exists. The minimum wage, which is set by region and thus responds to local conditions,



does not apply in some important sectors (notably government employment, export-oriented and labour-intensive manufacturing and "companies in distress"). Moreover, it is imperfectly implemented where it does apply. One in five firms inspected in 2006 did not implement the provision.

### Prices and earnings

#### Prices and earnings

(% change, year on year)

	2003	2004	2005	2006	2007
Consumer prices (av)	3.5	6.0	7.7	6.2	2.8
Average nominal wages	0.0	7.1	8.3	7.7	6.3
Average real wages	-3.4	1.1	0.6	1.4	3.5
Unit labour costs	-7.6	0.5	7.4	11.6	12.6

Source: Economist Intelligence Unit.

The average annual rate of consumer price inflation has fluctuated markedly in the present decade, with inflation averaging 5% in 2000-07, reaching a peak on an annual basis of 7.7% in 2005 and falling to 2.8% in 2007. Food accounts for just over 50% of the consumer price basket in the Philippines, and so the price of food (in particular rice) has a large impact on the overall direction of consumer prices.

After peaking at 8.6% in December 2004, the average inflation rate eased down to 7.7% in 2005 and 6.2% in 2006, owing to an easing of food price inflation and a strengthening of the peso. The fall in inflation became much more pronounced in 2007, with the year-on-year rate hitting a 20-year low of 2.2% in March and an average of only 2.8% over the full year. The peso's sustained rise against the US dollar—18% by the end of the year—was a major deflationary factor. However, since November 2007 the year-on-year rate of inflation has accelerated significantly, reaching a 17-year high of 12.2% in July, driven by much higher rice prices, the surge in world oil prices and a weakening of the peso.

Wage increases have in most years tended to lag behind the rise in prices. The average legislated minimum wage rate for non-agricultural workers in the National Capital Region (NCR) fell by 0.8% in 2006, but rose by 2.8% in 2007; for non-agricultural workers outside the NCR the real minimum wage rose by 1.3% in 2006 and by 0.9% in 2007.

### Comparative economic indicators, 2007

	Philippines <sup>a</sup>	Malaysia <sup>b</sup>	Indonesia <sup>a</sup>	US <sup>a</sup>	Japan <sup>a</sup>
GDP (US\$ bn)	144.1	186.7 <sup>a</sup>	432.9	13,841.4	4,376.2
GDP per head (US\$)	1,582	6,872 <sup>a</sup>	1,845	45,963	34,331
GDP per head (US\$ at PPP)	3,287	13,210	3,569 <sup>b</sup>	45,963	33,602
Consumer price inflation (av; %)	2.8	2.0 <sup>a</sup>	6.4	2.9	0.1
Current-account balance (US\$ bn)	6.4	30.0	11.0	-731.2	210.5
Current-account balance (% of GDP)	4.4	16.1	2.5	-5.3	4.8
Exports of goods fob (US\$ bn)	49.3	182.3	118.0	1,148.5	678.1
Imports of goods fob (US\$ bn)	-57.6	-146.5	-84.9	-1,967.9	-573.3
External debt (US\$ bn)	61.8 <sup>b</sup>	53.5	140.0 <sup>b</sup>	—	—
Debt-service ratio, paid (%)	12.7 <sup>b</sup>	4.6	11.9 <sup>b</sup>	—	—

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates.

Source: Economist Intelligence Unit, CountryData.

## Regional trends

There is a wide disparity in wealth between different regions. The NCR, which includes Manila, accounts for close to two-fifths of the economy's output, and its GDP per head in 2006 was three times the national average of P69,362 (US\$1,352). Only one other region—the Cordillera Administrative Region—recorded a level of income per head above the national average in that year. The figure for the Autonomous Region of Muslim Mindanao (ARMM) was less than one-quarter of the national average. This disparity reflects the concentration of manufacturing activity in the Manila area and the adjoining areas of Luzon, including Calabarzon, where industrial parks have been the focus for investment, both domestic and foreign, in recent years.

## The external sector

### Main composition of trade

(US\$ m; fob-cif)

	2002	2003	2004	2005	2006
<b>Exports fob</b>					
Electronic products	24,322	24,168	26,644	27,304	29,590
Garments	2,391	2,265	2,171	2,150	2,626
Coconut oil	353	505	578	657	579
Petroleum products	353	536	380	586	846
<b>Total exports incl others</b>	<b>35,133</b>	<b>36,036</b>	<b>39,598</b>	<b>40,957</b>	<b>47,134</b>
<b>Imports cif</b>					
Capital goods	13,529	15,014	15,372	15,829	16,866
Mineral fuels	3,273	3,761	4,715	6,276	8,121
Manufactured goods	3,118	3,241	3,490	3,757	3,916
Chemicals	2,555	2,878	3,182	3,277	3,631
<b>Total imports incl others</b>	<b>36,211</b>	<b>39,502</b>	<b>42,345</b>	<b>46,964</b>	<b>53,750</b>

Source: National Statistics Office.

### Main trading partners

(% of total)

	2003	2004	2005	2006	2007
<b>Exports fob to:</b>					
China	6.0	6.7	10.0	9.8	11.4
US	20.2	18.2	18.1	18.3	17.7
Japan	16.0	20.2	17.6	16.4	15.6
Singapore	6.7	6.6	6.6	7.3	10.5
<b>Imports cif from:</b>					
Japan	19.3	18.1	17.2	13.0	17.1
US	18.8	19.5	19.4	15.6	14.7
China	4.6	6.3	6.3	6.8	13.5
Singapore	6.4	8.1	7.9	8.1	11.7

Source: IMF, *Direction of Trade*.

## The current account

The Philippines has traditionally run a merchandise trade deficit (on a customs basis), reflecting the country's heavy dependence on the foreign supply of both capital goods and intermediates, including oil. Exports and imports have risen in every year since 2002, driven by strong foreign demand for Philippine

manufactures, while import spending was pushed up by rising consumption, fuelled by booming remittances from overseas workers, rising world oil prices and demand for foreign inputs for the electronics export sector. In recent years electronics have accounted for around two-thirds of total merchandise exports, while materials and accessories for their manufacture account for around one-sixth of import spending. Demand for electronics, however, is volatile, and has been the main cause of the fluctuation in the trade balance in recent years.

Whereas the deficit on merchandise trade has risen in recent years, the current-account balance has consistently strengthened, moving from a moderate deficit of US\$2.2bn in 2000 (equivalent to 2.9% of GDP), to a comfortable surplus of US\$6.4bn in 2007 (4.4% of GDP). This improvement reflects the rise in remittances from overseas Filipino workers, from US\$5.9bn in 2000 to US\$14.4bn in 2007. In the latter year they accounted for 19% of all inflows on the current account (the figure in 2000 was 12%) and were equivalent to 29% of merchandise exports (compared with 15% in 2000). Tourism makes a much smaller contribution, but one that grew strongly in 2004-07, reaching US\$4.9bn in 2007. By far the most important outflow on invisibles is interest (US\$3.9bn in 2006), arising from the Philippines' substantial stock of external borrowing.

### **The capital account**

The capital and financial-account balance has fluctuated widely from year to year, and in 2007 registered a US\$3.9bn surplus, up from only US\$20m in 2006. The volatility is in part attributable to trends in portfolio investment, which are inherently volatile, reflecting international and regional economic developments, the interest differential on peso assets and perceptions of political risk. Another category showing significant volatility is "other investment", which includes transfers within companies. Foreign direct investment (FDI) inflows have been relatively low in relation to the size of the economy, averaging US\$1.4bn a year in 2000-07. They have also been susceptible to bouts of political instability and concerns about the fiscal balance. But as the fiscal situation has improved, inflows have risen strongly, from a low of US\$195m in 2001 to US\$2.9bn in both 2006 and 2007.

The Philippines' large financing requirement in the past has traditionally been met mainly by borrowing, from both official and private sources, and by aid. Foreign borrowing continues to be used to finance the budget deficit and as a mechanism to improve the maturity and reduce the cost of foreign debt. According to World Bank statistics, foreign debt rose from US\$24.4bn at end-1984 to US\$61.8bn at end-2007. For most of this period the maturity profile of the debt was shifting away from short-term debt; as a proportion of total debt, short-term debt fell from an average of 37.6% in 1983-85 to 8.3% in 2006.

Foreign-exchange reserves remained steady at around US\$13bn in 1999-2004, following their sharp fall during the regional financial crisis in 1997-98. They have since risen strongly in response to the improvement in the balance of payments, owing largely to the rising surplus on the current account. At end-2006 foreign-exchange reserves stood at US\$20bn (IMF figures, which exclude gold); by end-2007 they had increased to US\$30.2bn. As of June 2008 the figure was US\$32.7bn, equivalent to nearly seven months of import cover at the 2007 rate.

For an analysis of the latest external-sector data, see the Economist Intelligence Unit's most recent *Philippines Country Report*.

### Balance of payments

(US\$ m)

	2003	2004	2005	2006	2007
Goods: exports fob	35,339	38,794	40,263	46,526	49,321
Goods: imports fob	-41,190	-44,478	-48,036	-53,258	-57,557
<b>Trade balance</b>	<b>-5,851</b>	<b>-5,684</b>	<b>-7,773</b>	<b>-6,732</b>	<b>-8,236</b>
Services: credit	3,389	4,043	4,439	6,444	8,448
Services: debit	-5,352	-5,820	-5,858	-6,307	-7,371
Income: credit	3,330.0	3,725.0	3,937.0	4,388	5,488
Income: debit	-3,614.0	-3,796.0	-4,181.0	-5,643	-5,955
Current transfers: credit	8,626.0	9,420.0	11,711.0	13,511	14,397
Current transfers: debit	-240.0	-260.0	-320.0	-314	-420
<b>Current-account balance</b>	<b>288.0</b>	<b>1,628.0</b>	<b>1,955.0</b>	<b>5,347</b>	<b>6,351</b>
Direct investment in Philippines	491.0	688.0	1,132.0	2,921	2,928
Direct investment abroad	-303.0	-579.0	-162.0	-103	-3,442
Inward portfolio investment (incl bonds)	5,303.1	1,820.7	3,350.5	4,610	3,569
Outward portfolio investment	-603.0	-812.0	-57.0	-1,567	-481
Financial derivatives & other investment assets	-1,051.0	2,455.0	761.0	-2,626	4,307
Financial derivatives & other investment liabilities	476.0	-826.0	-755.0	-3,353	-2,977
<b>Financial balance</b>	<b>4,313.1</b>	<b>2,746.7</b>	<b>4,269.5</b>	<b>-118</b>	<b>3,904</b>
Capital account nie credit	270.0	168.0	86.0	181	108
Capital account nie debit	-107.0	-30.0	-24.0	-43	-84
<b>Capital account nie balance</b>	<b>163.0</b>	<b>138.0</b>	<b>62.0</b>	<b>138</b>	<b>24</b>
Net errors & omissions	2,268.0	-1,624.0	628.0	1,598	1,703
<b>Overall balance</b>	<b>3,766.0</b>	<b>-476.0</b>	<b>-688.0</b>	<b>3,769</b>	<b>8,576</b>
<b>Financing (- indicates inflow)</b>					
Movement of reserves	-4,223.0	-11.0	-629.0	-2,934	-8,569
Use of IMF credit & loans	346.3	313.4	0.0	-402	0

Source: Bangko Sentral ng Pilipinas.

## References

- National statistical sources**
- Bangko Sentral ng Pilipinas (BSP, the central bank), *Selected Philippine Economic Indicators*, Manila
- National Statistical Co-ordination Board (NSCB), *Philippines Statistical Yearbook*, Manila
- National Statistics Office (NSO), *Monthly Bulletin of Statistics*, Manila
- International statistical sources**
- Bank for International Settlements, *International Banking and Financial Market Developments* (quarterly)
- Food and Agriculture Organisation, *Quarterly Bulletin of Statistics*, Rome
- IMF, *International Financial Statistics* (monthly)
- International Finance Corporation, *Emerging Stockmarkets Factbook* (annual)
- International Institute for Strategic Studies, *The Military Balance* (annual), London
- OECD, *Geographical Distribution of Financial Flows to Aid Recipients* (annual)
- World Bank, *Global Development Finance* (annual)
- World Bank, *World Development Report* (annual)
- World Bureau of Metal Statistics, *World Metal Statistics Yearbook*
- Select bibliography and websites**
- Arsenio M Balisacan and Hal Hill (eds), *The Philippine Economy: Development, Policies and Challenges*, Oxford University Press, New York, 2003
- Eva Lotta Hedman and John T Sidel (eds), *Philippines Politics and Society in the Twentieth Century, Colonial Legacies and Post-colonial Trajectories*, Routledge, London, 2000
- Peter Krinks, *The Economy of the Philippines: Elites, Inequalities and Economic Restructuring*, RoutledgeCurzon, London, 2002
- National Economic Development Agency, *Medium-term Philippine Development Plan 2004-2010*, Manila, 2004
- World Bank, *Philippines: From Crisis to Opportunity*, World Bank, Washington DC, 1999
- Bangko Sentral ng Pilipinas: [www.bsp.gov.ph](http://www.bsp.gov.ph)
- Department of Finance: [www.dof.gov.ph](http://www.dof.gov.ph)
- National Statistical Co-ordination Board: [www.nscb.gov.ph](http://www.nscb.gov.ph)
- National Economic Development Authority: [www.neda.gov.ph](http://www.neda.gov.ph)
- National Statistics Office: [www.census.gov.ph](http://www.census.gov.ph)

## Appendix

### Index methodology

#### Measuring democracy

There is no consensus on how to measure democracy. A key difference in measures is between "thin" or minimalist, and "thick" or wider concepts of democracy. The Economist Intelligence Unit's democracy index is a thick measure. In addition to measuring political freedoms and civil liberties (the essential components of any definition), other features also need to be assessed in order to determine how substantive democracy is. Our index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. The index provides a snapshot of the current state of democracy worldwide for 167 independent states and two territories (this covers almost the entire population of the world and the vast majority of the world's independent states).

The overall index of democracy, on a 0 to 10 scale, is based on the ratings for 60 indicators grouped in the five categories. The overall index is the simple average of the five category indexes.

We use a three-point scoring system for the 60 indicators. A dichotomous 1-0 scoring system (1 for a yes and 0 for a no answer) is used for most indicators. For some indicators, a 0.5 score is possible, where a simple yes (1) or no (0) is problematic. The category indexes are based on the sum of the indicator scores in the category, converted to a 0 to 10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

The index values are used to place countries within one of four types of regimes:

1. Full democracies—scores of 8 to 10.
2. Flawed democracies—scores of 6 to 7.9.
3. Hybrid regimes—scores of 4 to 5.9.
4. Authoritarian regimes—scores below 4.

A differentiating aspect of the index is that in addition to experts' assessments we use, where available, public opinion surveys. Indicators based on the surveys predominate heavily in the political participation and political culture categories, and a few are used in the civil liberties and functioning of government categories.

To view the full methodology and the complete questionnaire, visit [eiu.com](http://eiu.com).

**Editors:** Gareth Leather (editor); Gerard Walsh (consulting editor)  
**Editorial closing date:** August 20th 2008  
**All queries:** Tel: (44.20) 7576 8000 E-mail: [london@eiu.com](mailto:london@eiu.com)

©2008 The Economist Intelligence Unit Ltd. All rights reserved. Copyright of Philippines Country Profile is the property of EIU: Economist Intelligence Unit and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use. "Whilst every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd cannot accept any responsibility or liability for reliance by any person on this information"