PHILIPPINES ECONOMIC OUTLOOK FOR 1999

Bernardo M. Villegas

The GDP of the Philippines is expected to grow by 2.5 to 3.0 percent in 1999. Inflation will be at 7 percent while the exchange rate will stabilize at about P40 to the U.S. dollar.

The engines of growth for the Philippine economic recovery that will lead the East Asian countries are agriculture and exports. Improved weather conditions will enable agriculture to grow at 4 to 5 percent (after a decline of about 7 percent in 1998). Philippine exports will continue to be the fastest growing in East Asia at about 15 percent per year.

Interest rates are being managed downward by easier monetary policy. Banks are gradually shedding the very conservative stance that they took in 1998 and early 1999. Some leading banks are already aggressively pushing housing and automotive loans, an indication that creditors' confidence is returning.

Banks in the Philippines are generally more stable than their counterparts elsewhere in East Asia. Non-performing loans constitute less tan 15 percent of their portfolios. The Philippines has benefited from the better surveillance and supervising systems it instituted after the financial crisis of the early 1980s. Standards of public accounting and auditing have benefited from decades of exposure to American accounting practice. Philippine banks and corporations are generally more transparent than their counterparts in other East Asian economies.

The Philippines is becoming the hub of semi-conductor exports in East Asia, taking over from Malaysia, which is suffering from a shortage of educated manpower. The Philippines competitive edge is its large pool of educated workers. Foreign direct investment in 1999 is estimated to be close to US$2 billion, mostly in medium-tech industries, such as component manufactures, software services, and publishing and media services.

The government is expected to focus its efforts on development of the countryside by building farm-to-market roads, irrigation systems, and post-harvest facilities. Market-oriented policies are expected to improve the attractiveness of private investments in agriculture. In a recent meeting in Tokyo, the international donor community pledged US$4.5 billion in loans to support the governments infrastructure program.

Real estate will continue to in a slump with recovery expected towards the second half of 1999. Mass housing, industrial estates, and tourism-related real estate will lead the recovery.

The downside risks are a return of some form of crony capitalism and the Muslim-led revolt in one area of the island of Mindanao. Delays in the completion of major infrastructure projects are also causing some concern among the investing public. Red tape, corruption, and litigiousness have been creating bottlenecks in the investment process. Fortunately, a very active and free press is putting pressure on the government to address these problems.