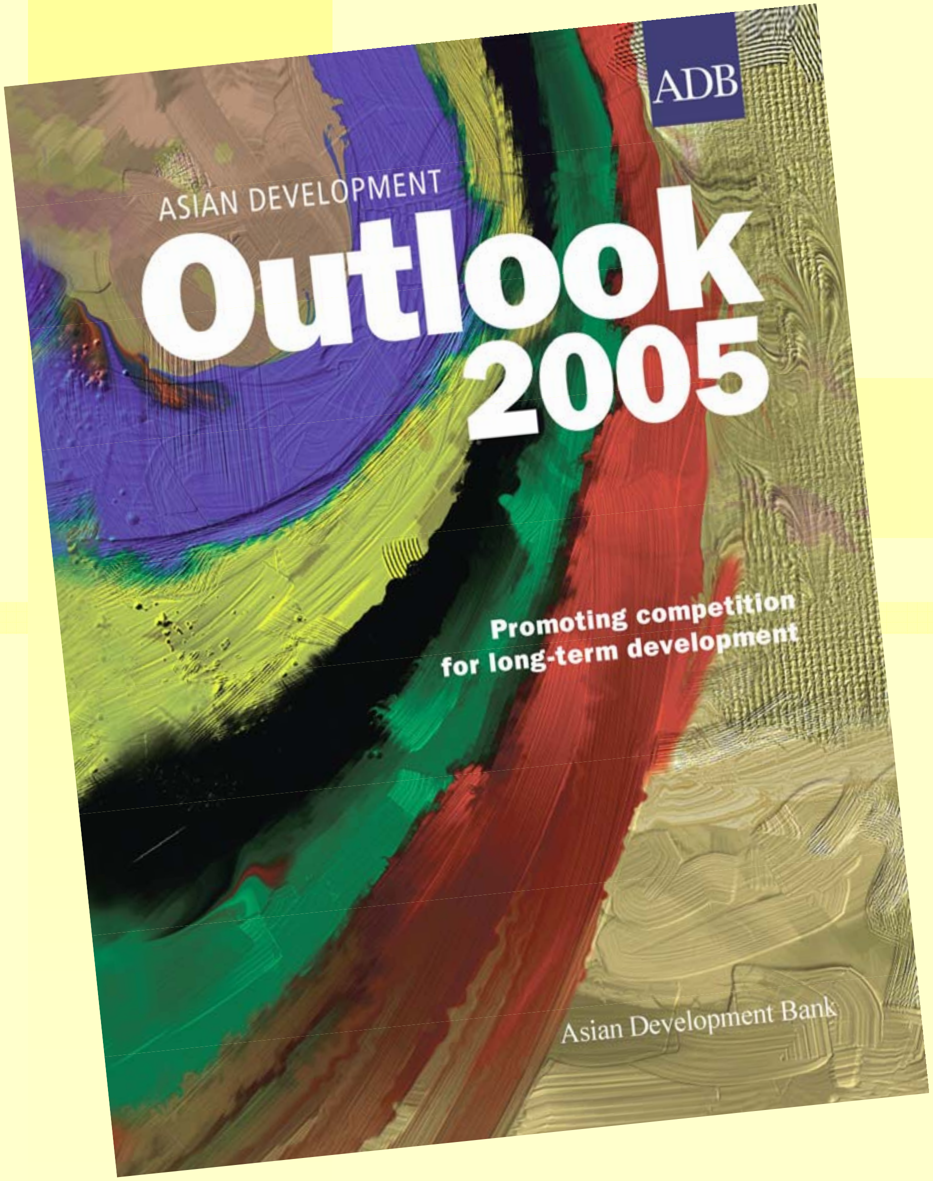


Philippines

Asian Development Bank

Preview:

- "*I recognize that 2005 is a year of urgent change, but it is also a year of fervent hope.*" President Arroyo, 8 March 2005
- The Philippines has established a good platform for future performance
- Growth during 2005-2007 is expected to be steady
- Progress on fiscal consolidation will define prospects for the Philippines

ADB

The development context:

- Political—reduced uncertainty after the May 2004 elections, although the political-economy remains complex and challenging

- Economic—the problems have been adequately diagnosed; the debate on alternative courses of action is vigorous and of high quality; an enhanced planning process improves development impact; delayed action will be costly

ADB

Recent economic performance indicators - strengths:

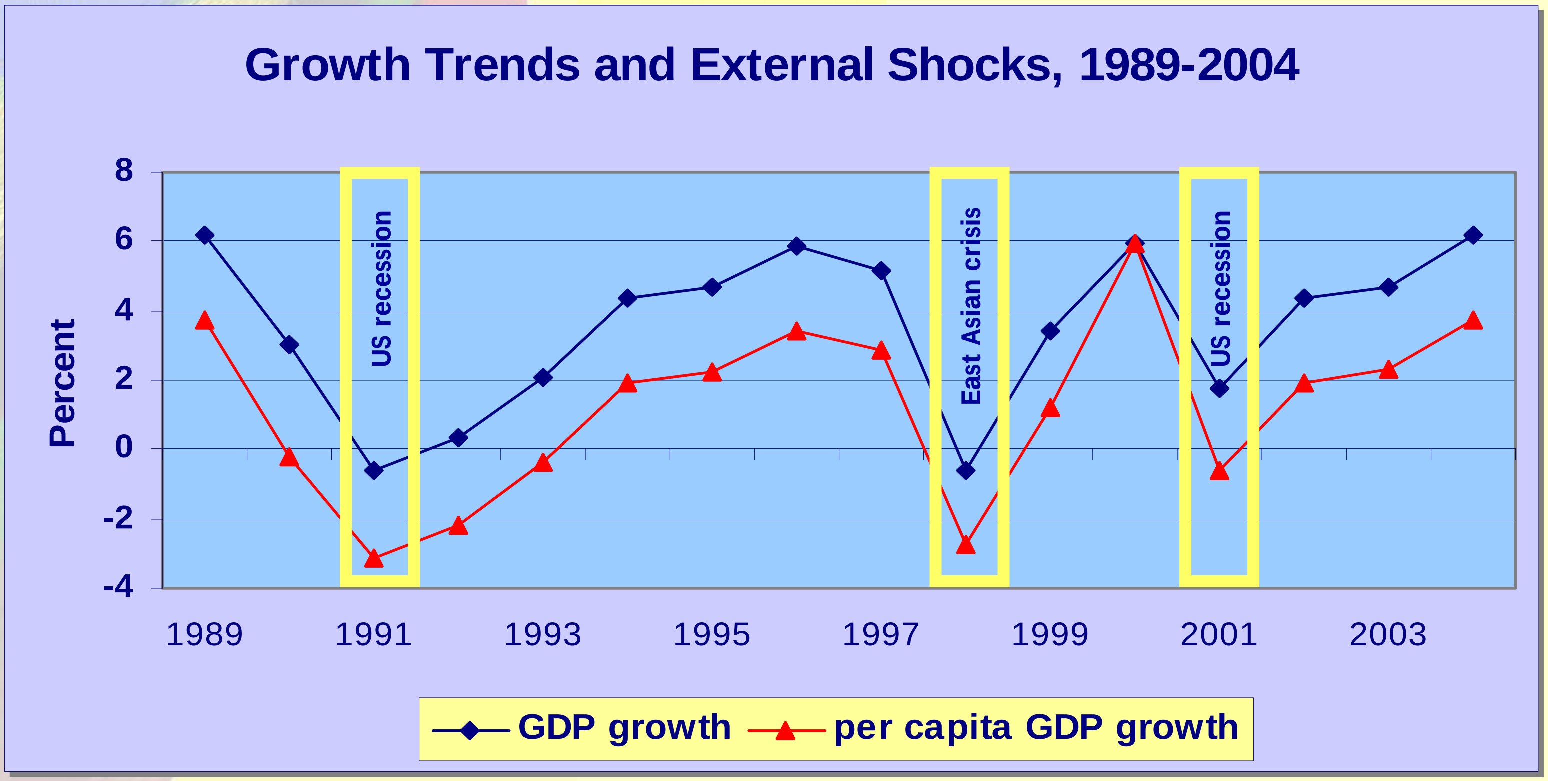
- GDP growth in 2004 of 6.1%
- strong growth in exports, OFW remittances, agriculture
- accelerated growth of gross fixed capital formation
- reduction in fiscal imbalance
- stock market and peso rallies
- buoyant intraregional trade

ADB

Recent economic performance indicators - vulnerabilities:

- slower import growth
- stubbornly high unemployment
- stronger inflationary pressures
- growing government debt

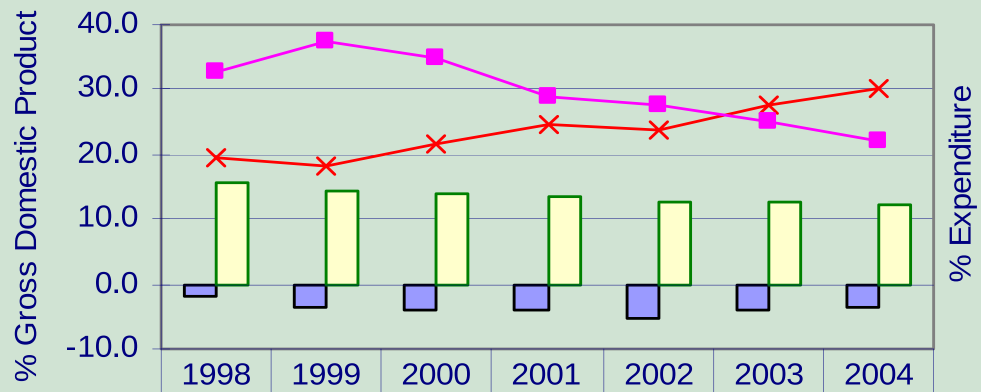
REAL GROWTH



Growth Trends and External Shocks, 1989-2004
Percent
8
6
4
2
0
-2
-4
1989
1991
1993
1995
1997
1999
2001
2003
US recession
East Asian crisis
US recession
GDP growth
per capita GDP growth

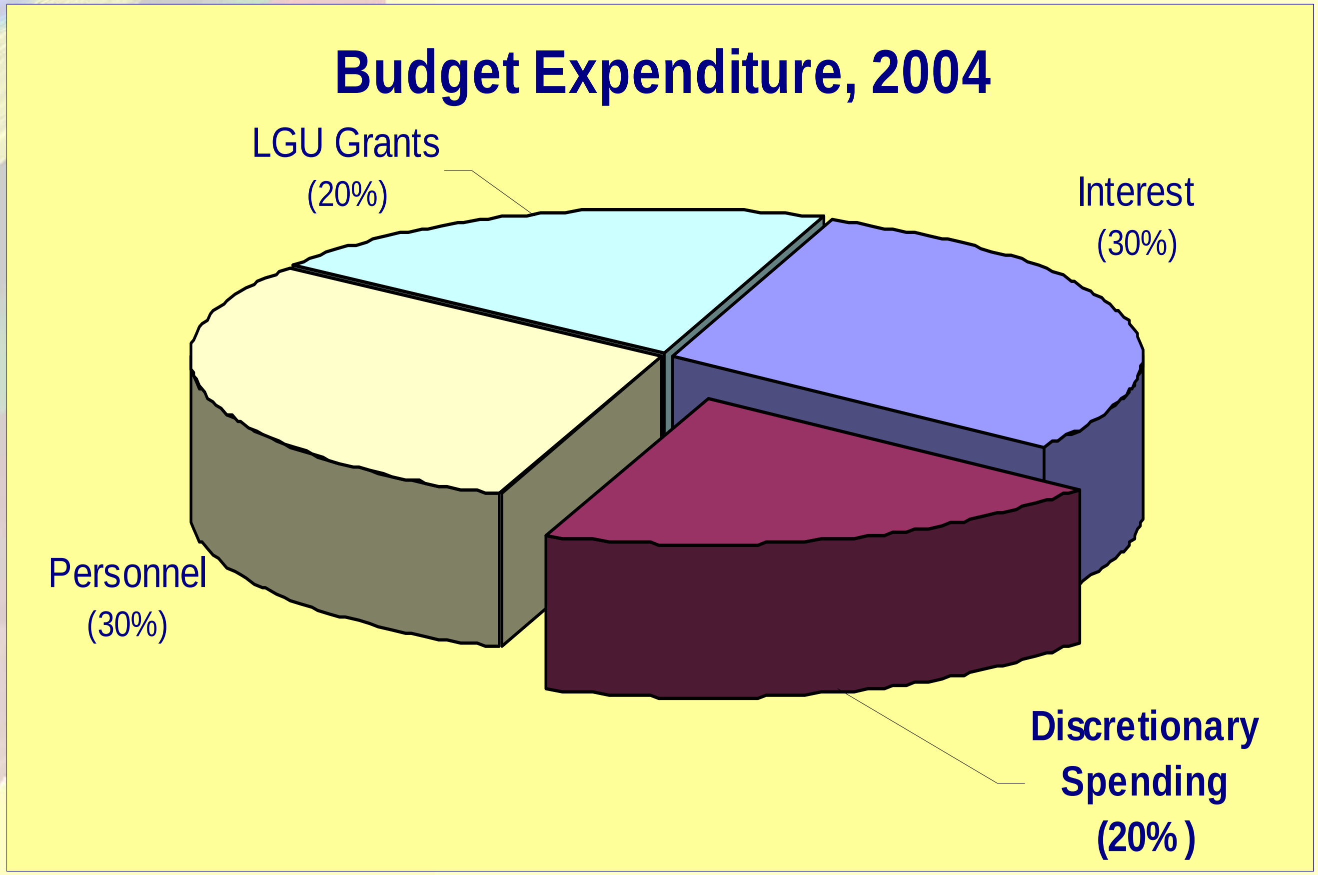
FISCAL PERFORMANCE

National Government Fiscal Performance, 1998-2004

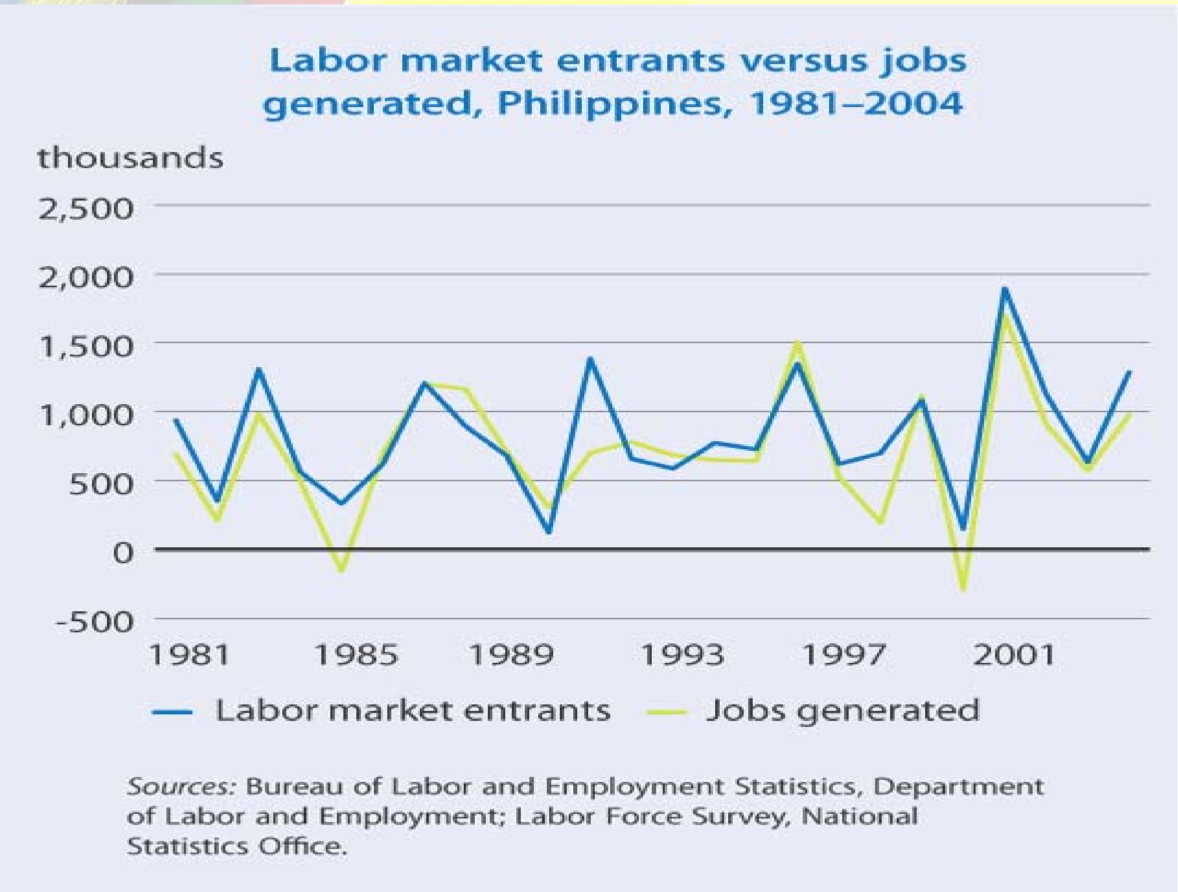


	1998	1999	2000	2001	2002	2003	2004
Deficit/GDP	-1.9	-3.8	-4.1	-4.0	-5.2	-4.1	-3.8
Tax/GDP	15.6	14.5	13.9	13.5	12.5	12.5	12.3
Interest/Total Exp'd	19.5	18.0	21.7	24.6	23.9	27.4	30.0
Discretionary/ Total Exp'd	32.7	37.4	34.8	28.8	27.8	25.2	22.0

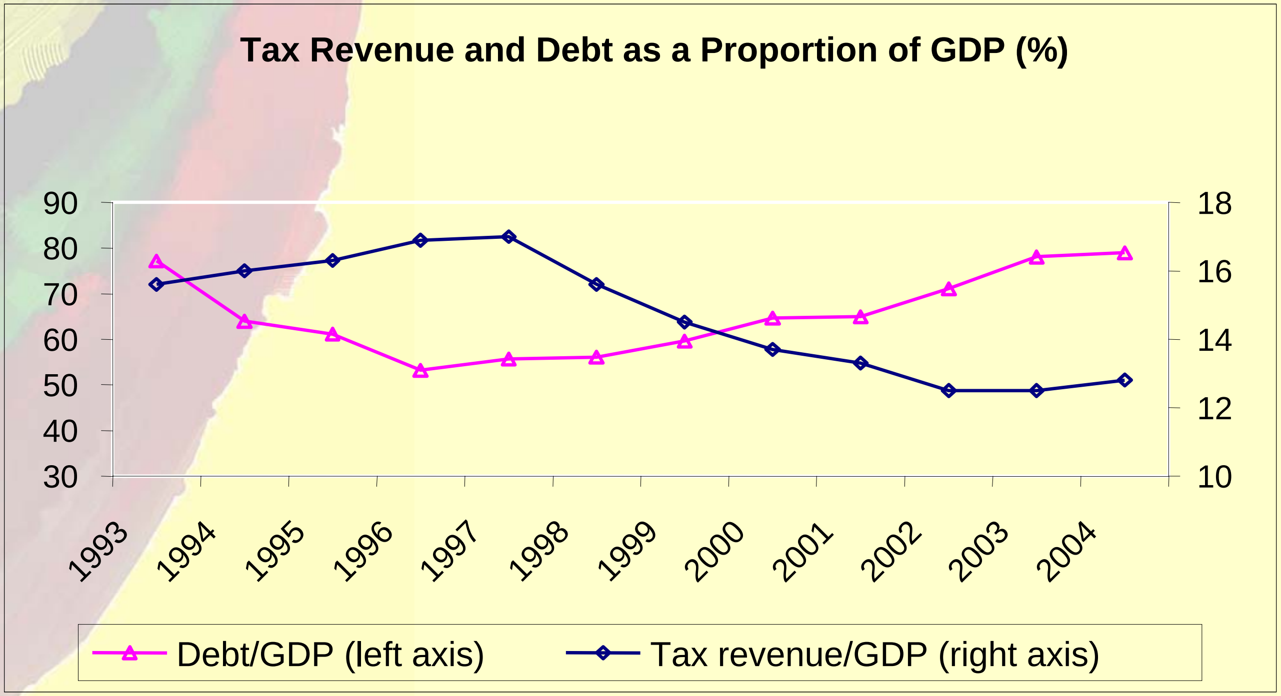
COMPRESSED DISCRETIONARY SPENDING



LABOR MARKET: NEW JOBS VS NEW ENTRANTS



DECLINING TAX REVENUE, INCREASING DEBT



ADB

The platform for progress:

- Enhanced planning framework for resource management
- 2005 General Appropriations Act
- Fiscal consolidation
  - revenues
  - power sector restructuring and financial performance
- The Mining Act (1995)
- Financial Action Task Force decision on the Philippines
- Governance and anti-corruption
- Development partnerships - harmonization

ADB

Outlook for 2005-2007:

- GDP and GNP to grow at about 5% per year
- Fiscal consolidation to progress
- Performance will depend on
  - no unforeseen increase in external event risks
  - no unforeseen natural disasters
  - incentives (macro management), institutions (business climate), infrastructure

ADB

Economic prospects:

Item (%)	2004	2005	2006	2007
GDP Growth	6.1	5.0	5.0	5.0
GDI/GDP	17.0	18.5	19.0	19.5
Inflation (CPI)	5.5	6.5	6.0	5.5
Fiscal balance/GDP	-3.8	-3.6	-3.2	-2.8
Merchandise export growth	9.6	8.0	8.0	7.0
Merchandise import growth	10.6	5.5	6.0	6.5
Current account/GDP	2.4	3.0	2.2	2.0

Baseline assumptions: Benign external conditions

	2004	2005	2006	2007
GDP growth (%)				
Industrial countries	3.5	2.5	2.5	2.4
United States	4.4	3.7	3.4	3.1
Euro zone	2.0	1.6	1.8	2.1
Japan	2.7	1.1	1.3	1.3
Memo Items				
US Federal Funds Rate (%)	1.4	3.1	4.2	4.4
Brent crude oil spot prices ($/bbl)	38.3	41.0	39.0	37.0
World trade volume (% change)	10.2	7.4	6.0	6.0

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