

## The Philippine economic growth accelerates in 2016

The Philippine economy expanded 6.8 % year-on-year in 2016, the fastest in three years, despite several social and political events brought by the new administration, the serious climate change issues, the Britain withdrawal (Brexit) from the European Union, and the uneven global economic conditions. Although it was a bit overwhelming for a developing country like the Philippines, the country has somehow proven its resilience by keeping its positive growth in tune.

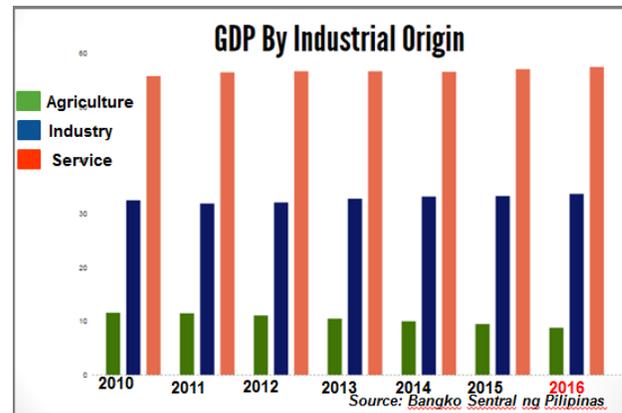
By Industrial Origin, the Services Sector remains the largest contributor in the economy with a total of 57.5 percent annual share to the Philippine GDP in 2016. The growth in the Services sector is mainly driven by the expansion of its two sub-sectors including Trade (7.3 percent increase) and the Finance and Real Estate (8.5 percent increase).

The second largest contributor to the GDP is the Industry Sector which expanded 8 percent for the year, the highest growth among the three primary sectors. Meanwhile, the Agriculture Sector total share fell to a -1.3 percent growth rate.

**Gross Domestic Product, Growth Rates in percent**

	FOURTH QUARTER						ANNUAL					
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
<b>GDP</b>	3.8	7.1	6.5	6.9	<b>6.3</b>	6.6	3.7	6.7	7.1	6.2	5.9	<b>6.8</b>

Source: [Bangko Sentral ng Pilipinas](#)



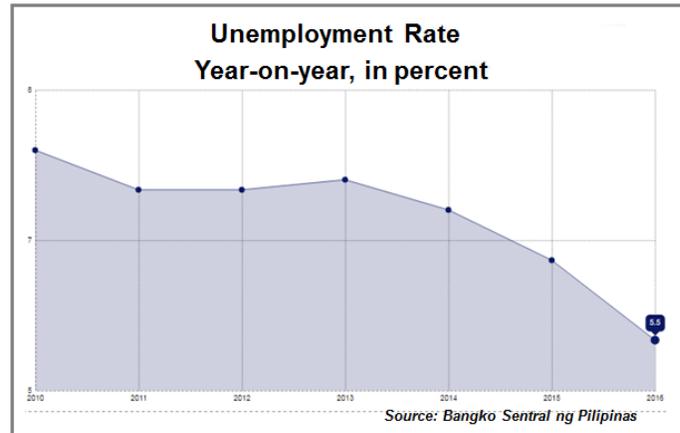
**Growth Rates of Major Industries Year-on-year, in percent**

	FOURTH QUARTER		ANNUAL	
	2015	2016	2015	2016
Agriculture*	-0.2	<b>-1.1</b>	0.1	<b>-1.3</b>
Industry	6.5	<b>7.6</b>	6.0	<b>8.0</b>
Services	7.8	<b>7.4</b>	6.8	<b>7.5</b>

Source: [Bangko Sentral ng Pilipinas](#)

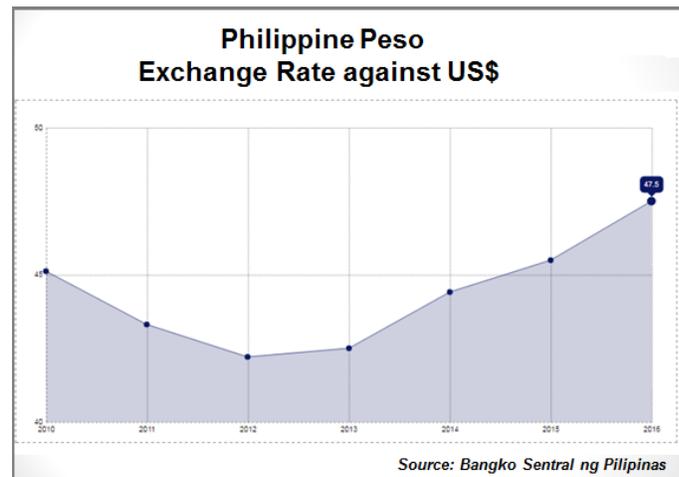
Out of the 68.1 million population (labor force), 2.4 million persons are unemployed which resulted to an annual unemployment rate of 5.5 percent, the lowest since 2010. This is according to the preliminary results of the Annual Labor and Employment Estimates for 2016 of the Philippine Statistics Authority.

The total employed persons was approximately 40.8 million with employment varying into three main sectors- Services (55.6%), Agriculture (26.9), and Industry (17.5%).



### Philippine Peso weakens against dollar

The Philippine peso, the country's local currency, slumped to its lowest in 2016 at an average exchange rate of PHP 47.5 per US\$1. The Bangko Sentral ng Pilipinas attributed the depreciation of the peso to the risk aversion of investors during the transition period (Arroyo to Duterte) as well as the hike in the US interest rate by the Trump Administration. However, the current Philippine Budget Secretary Benjamin Diokno said that the steady inflows of dollars in the country could counter the weakening of peso even if it falls to PHP50/US\$1.





The number of firms/corporations that showed confidence in the Philippine economy eased to 39.8 percent in fourth quarter 2016 from the 45.3 percent in the

previous quarter (Q2). However, in the first quarter of 2017, optimism from business steadies at 39.4 percent.

In a report released by the Bangko Sentral ng Pilipinas (BSP), the optimistic business outlook in the current quarter is affected by the following: (a) anticipated increase in demand during summer (due to the expected influx of a greater number of local and foreign tourists), enrollment and harvest periods, (b) sustained increase in orders and projects leading to higher volume of

**Business Confidence Index  
(in percent)**

2016				2017
Q1	Q2	Q3	Q4	Q1
41.9	48.7	45.3	39.8	39.4

*Source: Business Expectation Survey conducted by the Bangko Sentral ng Pilipinas*

production, (c) expansion of businesses and new product lines (d) introduction of new and enhanced business strategies and processes, (e) continued infrastructure projects and government spending, and (f) confidence in the administration.

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**IN FOCUS: The 2017-2022 Philippine Development Plan**

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In the first five months (August-Dec 2016) of the administration of President Rodrigo Duterte, government expenditures reached 18% of GDP, higher than the 16.9% at the start of the Arroyo administration in 2010. Despite his controversial aura that often stir comments from around the world, the new President has a strong grip on his goal to develop the Philippine economy.

Under the 2017-2022 Philippine Development Plan, the Duterte administration targets to bring down poverty incidence to 14 percent at the end of his term from 21.5 percent in 2015. Along with this, poverty incidence in rural areas will be cut from 30 percent

in 2015 to 20 percent in 2022. To do this, the government commits to reducing inequality by pursuing infrastructural developments in various provinces of the country.

Another national target in the next five years include the increase of merchandise export as much as US\$62 billion from US\$ 32.8 billion and the service exports from US\$24 billion to US\$68.6 billion.

As for the labor force, the unemployment rate is targeted to as low as 3-5 percent by 2022.

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**Economic Projections**

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Given the growth in 2016, the government may achieve the target of 6.5 percent to 7.5 percent annual growth for 2017.

- **BMI Research (a Fitch group of Company)** said the Philippines is among the “10 emerging markets of the future” including Bangladesh, Egypt, Ethiopia, Indonesia, Kenya, Myanmar, Nigeria, Pakistan, and Vietnam.
- According to the *East Asia and Pacific Economic Update* report released by the **World Bank**, the Philippines has the “strongest growth prospects” among the developing countries in the region.

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### Construction Industry performs better in Q4 2016

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- **Investments in Construction** (as measured by Gross Value in Construction) grew by 9.5 percent in the fourth quarter of 2016, faster compared with the 7.6 percent growth in the previous year.

Private Construction, which accounted for 76.8 percent of the total gross value in construction, grew by 6.0 percent, faster compared with 1.1 percent in the same period of 2015.

Meanwhile, Public Construction grew at a slower pace by 23 percent from previous year's 43.5 percent. Despite this, the Public Construction double-digit growth rates since the second quarter of 2015 is something to be distinguished.

- **Gross Value Added in Construction** or the total output of the industry minus the intermediate consumption, is estimated at US\$10.4 billion in the fourth quarter alone, resulting to an annual 2016 GVA of US\$ 39.4 billion against the US\$34 billion in 2015.

Private construction continued to propel the growth by sustaining a US\$6 billion to US\$ 8 billion quarterly GVA since the third quarter of 2016. While growth slightly slows down in the fourth quarter of 2016 at US\$ 7.8 billion, it is still considerably higher than the US\$ 7.1 billion in the same quarter last year. The third quarter of 2016 also posted the highest GVA of US\$ 8 billion over the last two years.

On the other hand, Public Construction's GVA achieved its highest over the last three years by posting a US\$ 4 billion construction output in the second quarter of 2016. (This growth is attributed to the ramped up PPP projects. )

- **Construction projects increase by 2 percent**



Construction projects grew by 2.0 percent in the fourth quarter of 2016 to reach 32,282 from the 31,638 projects during the same quarter of 2015.

*Residential Construction* projects have driven the growth with 24,752 projects worth US\$1 billion in the fourth quarter alone, up by 2 percent against the 24,274 reported units during the same period last year.

*Non-residential constructions* reached 3,981 units with an estimated value of US\$644 million, a 7.1 percent increase from projects during the same period a year ago. The increase in the number of agricultural (29.2%), industrial (21.3%), and commercial (7.9%) buildings contributed to the growth of non-residential constructions.

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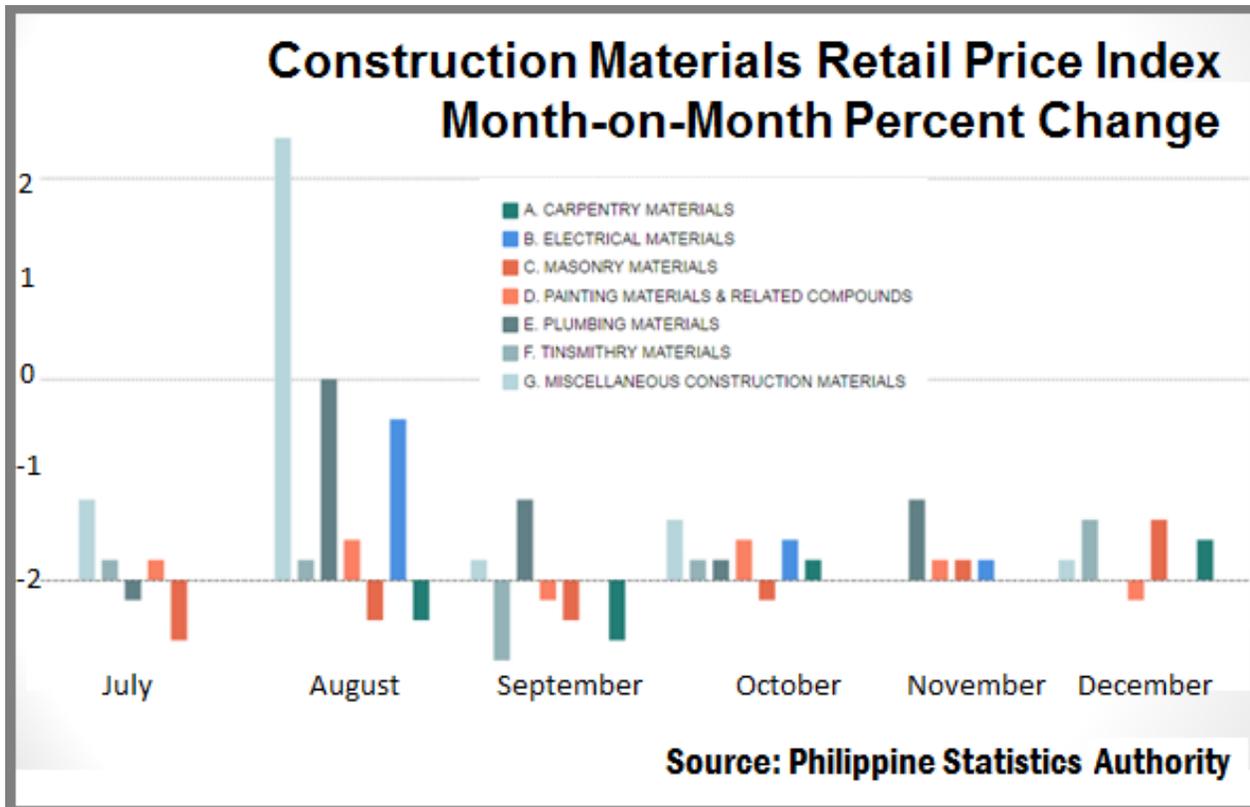
## Prices of Construction Materials

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The annual average growth of the Construction Materials Retail Price Index (CMRPI) for all items for the year 2016 picked up by 1.3 percent beating last year's -0.1 percent. According to the Philippine Statistics Authority, the indices on masonry materials and



plumbing materials at 2.0 percent and 1.5 percent, respectively, contributed to this



year's mark up.

By categories, the prices of Masonry Materials eased in three consecutive months (July-Sept.) recording a -0.1 to -0.3 percentage decrease. In August, the prices of Miscellaneous Construction Materials surged by 2.2 percent, the highest increment recorded among all categories for the year.

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## Closing the Gap in the Philippine Infrastructure

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The Philippine infrastructure budget is set to rise over the next five years backed by the Duterte Administration's pledge to usher the Golden Age of the Philippine Infrastructure.



According to Transport Secretary Arthur Tugade, the administration is targeting at least PHP 8 trillion (US\$177 billion) budget in the span of the President’s term.

### **53 Flagship Infrastructure Projects**

A total of 53 flagship Infrastructure projects will be rolled out and prioritized by the government before 2022. This includes the construction of long-span bridges across the country, the rehabilitation of airports, and the construction of big railways which will connect various provinces.

38 out of the 53 projects will be funded through Official Development Assistance (ODA) with Chinese ODA (70%), Japanese ODA (25%), and Korean ODA (1%) playing a key role. Meanwhile, the Public-Private Partnership (PPP) program will be handling 7 projects amounting to US\$2.3 billion.

The Chart below shows the flagship projects including their groundbreaking dates and project costs. So far, the biggest among the project in terms of indicative cost (TBD, not included) is the 653 kilometers Tutuban-Calamba to Bicol Railway System which will serve around 75,000 commuters daily.

<b>Flagship Projects in the Pipeline</b>	<b>Ground Breaking</b>	<b>Project Cost</b>
Clark-Subic Rail	Dec. 2017	US\$1.2 Billion
Clark Green City Government Center	Jan. 2018	TBD
Clark Green City Mixed-Income Housing	Jan. 2018	TBD
Clark Green City Commercial Center	Jan. 2018	TBD
Clark Airport to Clark Green City Rail	March 2018	TBD
Tutuban Clark Rail	Dec. 2017	TBD
Tutuban-Calamba to Bicol CR Line	Dec. 2017	US\$5.6 billion
Mindanao Railway (Phase 1)	Q1 2018	US\$671 million
Mindanao Railway Project (Phase 2)	TBD	TBD



Flagship Projects in the Pipeline	Ground Breaking	Project Cost
Mindanao Railway Project (Phase 3)	TBD	TBD
Mega Manila Subway (Phase 1)	Dec.2018	US\$5 billion
Clark International Airport New Terminal	June 2017	US\$ 362 million
New NAIA Airport	June 2018	TBD
Iloilo Airport	2017	US\$ 646 million
Bacolod Airport	2017	US\$ 431 million
Laguindingan Airport	2017	US\$ 311 million
Davao Airport	2017	US\$ 863 million
New Bohol Airport	2017	US\$ 97 million
Metro Manila BRT (Phase 1)	Q1 2018	US\$ 101 million
Metro Manila BRT (Phase 2)	Q1 2018	US\$ 803 million
Metro Manila BRT (Phase 3)	Nov. 2017	US\$ 851 million
Cebu International Port	December 2017	US\$ 195 million
MRT LRT Common Station	Dec. 2017	US\$ 63 million
Panguil Bay Bridge	Sept. 2017	US\$ 103 million
Sta Monica-Lawton Bridge	June 2017	US\$ 39 million
Binondo-Intramuros Bridge	Sept. 2017	US\$48 million



Estrella-Pantaleon Bridge	Sept. 2017	US\$ 25 million
Ayala Bridge	Jan. 2018	TBD
Pandacan-Sta. Ana Bridge	Jan. 2018	TBD
Blumentritt-Antipolo Bridge	Jan. 2018	TBD
Sheridan-JP Rizal Bridge	Jan. 2018	TBD
Kabayan-Katipunan Bridge	Jan. 2018	TBD
Reposo-Guatemala Bridge	Jan. 2018	TBD
<b>Flagship Projects in the Pipeline</b>	<b>Ground Breaking</b>	<b>Project Cost</b>
JP Rizal- Yale Bridge	Jan. 2018	TBD
G Gabriel Mercury Ave. Bridge	Jan. 2018	TBD
Robinson Bridge	Jan. 2018	TBD
East-west Bank Bridge 1	Jan. 2018	TBD
East-west Bank Bridge 2	Jan. 2018	TBD
Davao City Expressway	2018	US\$ 547 million
Quezon-Bicol Expressway	June 2018	TBD
Panay-Guimaras-Negros Bridge	Q4 2018	US\$ 577 million
Luzon-Samar Link Bridge	Q1 2019	US\$ 1.2 billion
Leyte-Bohol Bridge	Q1 2019	US\$ 1.5 billion



Cebu- Bohol Bridge	Q4 2018	US\$ 1.2 billion
Leyte-Surigao Bridge	Q1 2019	US\$ 1 billion
Cebu-Negros Bridge	Q1 2019	US\$ 306 million
North Luzon Expressway East Project	June 2018	US\$ 949 million
East Dalton Bypass Project	June 2018	US\$ 85 million
PB Tourism Coastal Dev't Program	March 2018	US\$ 100 million
Camarines Sur Expressway Project	March 2018	US\$ 47 million
Ambal-Sibuyan Sub-Basin of the Mindanao River	March 2018	US\$ 290 million
Kaliwa Dam	Sept. 17	US\$ 398 million
Chico River Pump Irrigation Project	Sept. 2017	US\$ 57 million

Source:  
*Department of Budget and  
Management (DBM)*