

2007 STATE OF THE NATION ADDRESS EXECUTIVE SUMMARY

BRINGING DEVELOPMENT BACK TO THE PEOPLE

EXECUTIVE SUMMARY

In her 2006 State of the Nation Address, President Gloria Macapagal-Arroyo unveiled the Super Regions, a development concept aimed at harnessing the natural competitive advantage/s of major areas of the country as well as that of knowledge and technology. Five (5) distinct sub-economic regions of the country were formed - - the North Luzon Agribusiness Quadrangle, the Luzon Urban Beltway, Central Philippines Super Region, Mindanao Super Region, and the Cyber Corridor. With these enlarged development areas, economic and market potentials are expected to be boosted beyond what each region can generate, with economies of scale, synergies and complementation serving as added attraction to investors, lenders and aid donors. Through the Super Regions, development is being brought back to the people at a faster rate in terms of physical infrastructure, development of human capital and peaceful communities. Billions of pesos are being invested in the Super Regions, a result of the country's much improved fiscal situation and macroeconomic condition.

At the same time, the government is making headway in the social payback of economic reforms. The social payback of economic reforms is manifested in the government's mantra to gain 8 blessings by the year 2008, or investing in people for 8 by '08. The eight blessings are: job creation; stable cost of living; strong peso; more investments; pro-poor education; pro-poor hunger mitigation; housing, and health; green Philippines; and strong anti-terror.

A. ACHIEVED SUSTAINED ECONOMIC GROWTH

We have strong macroeconomic fundamentals. Economic indicators show a resilient and robust economy.

- Gross domestic product (GDP) grew solidly at 6.9% in the first quarter of 2007, the highest growth achieved in 17 years, while Gross National Product (GNP) expanded by 6.6%.
- Interest rates, as of May 2007, are at an all time low at 2.996%, making credit more affordable.
- Increases in prices of goods and services have slowed down as inflation rate in the first semester of 2007 averaged at 2.6%, one of the lowest in recent years.
- Overseas remittances are at record high levels. In May 2007, OFW remittances reached US\$1.2 billion, the 13th straight month that remittances breached the

US\$1 billion mark. Strong inflows from abroad boosted the country's gross international reserves (GIR) to another all-time high of US \$26.4 billion.

- We have lowered the fiscal deficit.
 - The 2006 fiscal deficit of P62.2 billion (1% of GDP) was the lowest in eight (8) years. It is almost half the 2006 program deficit of P124.9 billion and 42% lower than the P146.8 billion deficit posted in 2005. Government revenues of P978.7 billion in 2006 is 0.5% higher than its target of P974.1 billion and 19.9% higher than the 2005 collections of P816.2 billion. Expenditures in 2006, meantime, amounted to P1.0 trillion, P58.1 billion or 5.3% less than the programmed expenditures of P1.1 trillion
- Revenue collections for the 1st semester of 2007 reached P510.3 billion, an increase of approximately 8.3% compared to the first semester 2006 revenues of P471 billion. BIR collections reached P334.7 billion (5.1% higher than the P318.4 billion collected during the same period last year) while BOC reached P92.2 billion (2.7% lower than last year's collection of P94.7 billion). However, BTr's income amounted to P34.2 billion, 6.3% lower than 1st semester 2006 P36.5 billion collection.
- The 1st semester 2007 fiscal deficit reached P41 billion, about 30.1% or P9.5 billion higher than the P31.5 billion deficit incurred during the same period last year. It exceeded the programmed ceiling of P31.3 billion by P9.7 billion or 31%. Nonetheless, the National Government shall vigorously implement the tax administration program to enhance collection efficiency, generate additional revenues from accelerated privatization efforts and sustain efforts to curb corruption leakages through the Run After Tax Evaders (RATE), Run After the Smugglers (RATS) and Revenue Integrity Protection Service (RIPS) program in order to plug a looming fiscal deficit.

To further enhance government revenues, we are pursuing the privatization of government-owned assets, particularly power assets.

- In 2006, the government earned P5.8 billion in privatization receipts. This is more than double its P2.4 billion receipts registered in 2005. Among the big ticket items sold were the Philippine Telecommunications Investment Corp. shares, the PNOC-EDC IPO shares, and the International School property located in Taguig City.
- We privatized 11% of GenCo with eight (8) hydroelectric plants bid out and turned over to private owners. Several medium and large plants are for bidding in 2007 including the 600-MW Masinloc coal-fired plant and the 600 MW Calaca coal-fired plant. The privatization targets are: 50% by 2007, 70% by 2008, and 100% by 2009.

- On TransCo, the next round of bidding for privatization is scheduled in November 2007. Meantime, we are reviewing the privatization process in terms of the generation and transmission asset disposal.

Government's efforts to promote fiscal consolidation helped improve business confidence in the country that sustained export performance

- The Philippine Stock Exchange Index (PSEi) surpassed the 3,800 mark, a 27% increase from the 2,980 level at the start of 2007.
- Investments have been steadily flowing into the country.
- Total BOI-PEZA approved investments for 2006 amounted to P271 billion, 17% higher compared to 2005. For the first four months of 2007, BOI-PEZA approved 234 projects worth P73.33 billion in investments, 194% higher compared to the P24.9 billion approved during the same period last year.
- Investments in infrastructure/industrial service facilities in 2006 reached P96.72 billion, accounting for 35.33% of total investments, and posting an increase of 1,685% compared to 2005. For the first four months of 2007, top investments came from the manufacturing sector accounting for 39% of total investments. January to April 2007 investments in the manufacturing sector posted a 68% increase or P15.73 billion from P9.37 billion over the same period last year. Electricity, gas and water supply sector came in second with P10.85 billion. Real estate, renting, and business activities sector posted an increase of 22% from P5.3 billion in the first four months of 2006 to P6.52 billion this year. Meanwhile, investments in the IT services sector posted an increase of 95% from P3.11 billion in January to April last year to P6.06 billion this year.
- Foreign direct investments (FDI) in 2006 recorded a net inflow of US \$2.35 billion, up by US\$491 million compared to the 2005 FDI net inflow of US\$1.85 billion, and exceeding the projected inflows of US\$2.00 billion for the year. FDI for the first three months of 2007 posted a net inflow of US \$710 million, an 18.5% growth from the same period last year.
- The 2007 Investment Priorities Program (IPP) was approved on 13 June 2007 providing incentive guidelines for 11 priority investment areas: Agriculture/Agribusiness and Fishery, Information and Communications Technology, Electronics, Motor Vehicle Products, Energy, Infrastructure, Tourism, Shipbuilding/Shipping, Iron and Steel, and Research and Development (R&D)/Training Institutions. Existing investors considered as global players or engaged in strategic industries are likewise encouraged to participate in the retention, expansion or diversification (RED) program for their operations in the country.

- In 2006, exports grew by 14% from US\$41.3 billion in 2005 to US\$47 billion, exceeding government's 10% growth target for last year. This is the highest growth rate achieved in eight years. Electronic products, which grew by 8.4%, topped the export market accounting for 62.9% of total exports. Semiconductors recorded a growth of 10.1%. Other electronic products, such as medical/industrial instrumentation, telecommunications, and office equipment registered remarkable growth of 171.2%.

For the first four months of 2007, export earnings grew by 8.1% from US\$15.1 billion during the same period last year to US\$16.3 billion due to substantial increases in the export of electronics (7.1%), forest products (100.4%), iron and steel (88.7%), mineral products (71.5%), cathodes and sections of cathodes (58.7%), metal components (31.7%), and processed foods and beverages (27.2%).

- On 18 January 2007, the Export Promotion Fund (EPF) was established by the Export Development Council (EDC) to provide supplemental financing for the promotion and development of Philippine exports. Projects to be funded are focused on sustainability, capacity building, product design, market research and publication, country image building and other export support services directed towards enhancing the competitiveness of Philippine exporters consistent with the Philippine Export Development Plan (PEDP) and the Medium-Term Philippine Development Plan (MTPDP). Initial funding was contributed by DTI (P100M), DBM (P100M), BSP (P50M), NEDA (P20M) and the Philippine Exporters Confederation (P10M).
- Executive Order No. 589 was also issued on 8 December 2006 exempting exporters participating in international trade fairs, exhibitions, selling missions and trade negotiations from paying travel taxes.
- To address our exporters concerns on power, particularly energy security and cost, we have implemented reforms in the power sector.
- The customers of distribution utilities and electric cooperatives under contract with National Power Corporation (NPC) will enjoy a per kilowatthour (kWh) reduction in their billings (to be reflected in the billing cycle of June 26-July 25, 2007) of P0.4733 in Luzon, P0.1836 in the Visayas, and P0.2758 in Mindanao. The effective rates after the reduction will now be P4.4911/kWh in Luzon, P2.9056/kWh in the Visayas, and P2.4820/kWh in Mindanao. Further reductions are expected because of the positive performance of NPC since 2005.
- The Wholesale Electricity Spot Market (WESM) in the Luzon Grid, which give consumers the power to choose the cheapest and most reliable electricity suppliers, started full commercial operations on 26 June 2006 with nine (9) generators and 12 distribution utilities (DUs) participating. As of 30 March 2007, it has increased to 20 generators and 15 DUs.

- To promote alternative fuels that will lessen our dependence on imported fuel, we are now implementing the 1% biodiesel-blend mandate under the newly passed Biofuels Act of 2006 (Republic Act No. 6357), which became effective on 6 May 2007. Selected gasoline stations have already offered 10% bioethanol or *E10* in Metro Manila and key cities in the country. It is available in 120 retail outlets of Seaoil and 31 retail outlets of Shell. Coconut methyl ester (CME) or coco biodiesel is now commercially available while ongoing initiatives and development for other possible biodiesel feedstocks (e.g. *jatropha*) are being pursued. We currently have a total of 22 auto-LPG conversion shops operating in the country and about 7,000 auto-LPG converted taxis operating nationwide. Fifty-two (52) auto-LPG retail outlets are also in place in Metro Manila while 35 garage-based are operating in major cities such as Cebu, Davao, Cagayan de Oro and Iloilo. Using Malampaya natural gas, we are pilot testing the Natural Gas Vehicle Program for Public Transport (NGVPPT) in the Batangas/Laguna-Manila routes. The commercial operation of the mother-daughter station will commence with the initial 22 CNG buses plying along the southern corridor of Metro Manila. Some 70 CNG buses are targeted to operate by the end of the year.

B. BRINGING BACK DEVELOPMENT TO THE PEOPLE

With improved economic conditions, an energized investment climate, a strong peso, and improved fiscal scenario, the government is now able to invest in programs and projects that will bring back the fruits of economic development to the people.

Specifically, the government is investing in three areas:

- Infrastructure, the backbone of a modern economy.
- Social programs to ensure that the people get their rightful share in development.
- Peace to ensure that development shall be long lasting and felt by all people.

These programs and projects shall be implemented under the Super Region Strategy.

In terms of project implementation, government can achieve more by investing in infrastructure projects that traverses provinces and regions as it spreads development across the country and to more people. Further, investing in the natural competitive advantage of the sub-economic regions will ensure that development shall be sustainable and fast because the basic ingredients for economic development, e.g., rich land, tourist attractions, and competitive and skilled human resource, are already present. The government need only invest in infrastructure projects that will further enhance the natural competitive advantages of each Super Region.

To formalize the formation of the Super Regions, the President issued on 19 August 2006 Executive Order Number 561, which restructured the Philippine economy into five Super Regions to bolster the natural advantages of the five distinct sub-economies of the country – North Luzon Agribusiness Quadrangle, whose development thrust shall be agribusiness; Luzon Urban Beltway, which shall be a globally competitive industrial and service center; Central Philippines, whose thrust will be tourism; Agribusiness Mindanao, which like NLAQ is naturally competitive in agribusiness; and the Cyber Corridor, whose development goal shall be information and communication technology and the knowledge economy.

Since its conception in 2006, the government has gone a long way in pursuing and realizing the development thrusts of each Super Region. Through social and physical infrastructures, government has brought development direct to the people.