

PHILIPPINE DEVELOPMENT REPORT, 1977



Republic of the Philippines
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
Manila, 1978

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15 February 1978

His Excellency
President Ferdinand E. Marcos
Republic of the Philippines
Malacañang, Manila

Dear Mr. President,

Pursuant to the provisions of Presidential Decree No. 1 and in compliance with PD No. 1200 which is the legislative basis of the new Five-Year Plan, I have the honor to submit this *Philippine Development Report, 1977* (formerly *Report on the Economy*) covering the following areas: General Economy (production, public finance, monetary developments, balance of payments and external debt, and foreign trade); Economic Sectors (agricultural production and agrarian reform, natural resources, industry, tourism, and infrastructure); and Social Sectors (education and manpower; health, nutrition and family planning; housing; and social services and community development).

Very truly yours,

GERARDO P. SICAT
Secretary of Economic Planning
and
Director-General of the Authority



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NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

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Overview

The economy sustained its growth momentum in 1977 despite a slowdown in investment activities and unfavorable world economic and trade conditions. Real GNP increased by 6.1 per cent, slightly below 6.7 per cent which was achieved last year and the targeted level this year. Despite full government support, the growth process was particularly hampered by a slight resurgence in inflation, relatively high interest rates, a continued slump in the prices of major traditional exports, and the continuance of worldwide trade protectionism.

Per capita GNP in real terms expanded by 3.1 per cent, from ₱1,672 in 1976 to ₱1,724 in 1977. In current prices, this means that the more than 45 million Filipinos enjoyed an average per capita GNP of ₱3,404, which is 12.8 per cent higher than the 1976 figure of ₱3,018. An across-the-board increase of ₱60 in the monthly cost of living allowance and a 10 per cent wage hike for private and government workers was granted during the year. This, together with past legislated adjustments, further increased the salary of employed workers.

The labor force was estimated to reach 16.0 million in 1977 from 15.5 million reported in 1976.¹ Employment grew by 4.7 per cent from 14.6 million in 1976 to 15.4 million in 1977. The increase was mainly absorbed by the service sector posting a 35.5 per cent share in 1977 compared to 1976's 33.2 per cent. Although agriculture still accounted for the bulk of the employed (50.1 per cent), it exhibited a declining share from 1976's 51.4 per cent. Manufacturing followed a similar trend, dropping slightly from 11.2 per cent in 1976 to 10.4 per cent in 1977. Mining and quarrying, construction and utilities, however, registered slight increases. Meanwhile, preliminary figures for 1977 showed an open unemployment rate of 4.1 per cent and an underemployment rate of 5.2 per cent.

Development also took place on a wider regional scale through the design and implementation of integrated area development programs and various sectoral projects in the countryside, improved price terms of trade

1. Based on the Five-Year Development Plan (1978-1982) estimates.

for agriculture and greater acceptance of new manufactured export products, especially from small and medium industries. The rural sector was a major recipient of these positive developments.

On the production aspect, manufacturing, mining and the services sectors were the growth pacesetters. Manufacturing exhibited a 7.5 per cent gain and an increase in output share. Mining recovered from last year's slump with a high 11.3 per cent growth rate. Services increased by 6.6 per cent, up from the 4.1 per cent recorded in 1976. In contrast, agriculture exhibited a decelerated growth performance reflecting the effect of deteriorating export prices of major traditional products. Nonetheless, for the first time in many years, the country exported rice as rice harvest expanded significantly. Construction, which has been the growth pacesetter for the last three years, decelerated in pace, registering a 6.0 per cent growth rate.

Total investments minimally increased. Gross domestic capital formation increased by 3.6 per cent as against last year's expansion of 6.6 per cent. This slowdown is reflective of the minimal rise in the demand for durable equipment and the diminished pace of both public and private construction activities. Increased utilization of excess production capacity arising from past capital spending partly accounted for the slowdown in expenditures for new durable equipment. The transitory impact of the restructuring of incentives and external loan ceilings also scaled down investment activities. Thus, a new set of measures designed to stimulate domestic investments such as the lowering of effective interest rates will be implemented in 1978.

There was a slowdown in the implementation of several infrastructure projects principally due to higher budgetary claims of other development activities and a levelling off of capital and raw material imports. However, expenditures for infrastructure still accounted for a sizable 4.9 per cent share of GNP due to the funding and construction of critical projects such as the nuclear power plant.

Domestic liquidity and credit expanded by 22 per cent and 18 per cent respectively due to sustained support for priority activities and to the appreciable surplus in the balance of payments. However, these expansionary developments were not matched by proportionate increments in production leading to a deteriorating price situation. The inflation rate rose by 9.4² per cent as a result of a moderate oil price hike, upward adjustments in the price ceiling of controlled commodities, and the delisting of some controlled items. The Consumer Price Index (CPI) for the Philippines rose by 9.9 per cent while CPI Manila grew by 7.9 per cent.

2. Based on the growth of the GNP implicit price index.

In view of improved prices for some export products and the positive results of export oriented policies, a foreign exchange surplus was attained. The country experienced an overall balance of payments (BOP) surplus of \$170 million, which was in sharp contrast to the \$161 million deficit in 1976. Primarily responsible for the positive external balance was the substantial improvement in current account transactions, particularly exports, which registered a considerable increase in value. The major non-traditional exports continued to exhibit an impressive performance, pushing up earnings from these goods by as much as 45 per cent. Long and short-term capital inflows, likewise, contributed to the foreign exchange surplus.

The development in the export sector was enhanced by the identification of about 500 products subject to ASEAN preferential trading arrangement, the forging of a trade agreement with the German Democratic Republic, the accession of the Philippines to a new International Sugar Agreement implementable next year, and the extension of the Multifiber Agreement. These are expected to improve the trade performance next year.

Export shipments performed remarkably well, advancing to about \$3,091 million, a significant increase of 20.1 per cent over 1976. In contrast, imports registered a mere 7.3 per cent growth, reaching \$3,900 million. As a consequence, last year's deficit of \$1,060 million was reduced substantially to \$809 million in 1977.

In the monetary front, regulations which aimed to strengthen further the domestic financial system were instituted. Credit resources were allocated to priority activities both at the national and regional levels. Efforts to expand domestic savings culminated in a substantive increase of 35.8 in savings and time deposits. Money supply grew by 23.7 per cent during the year, reaching ₱14.9 billion.

The overall revenue effort reached 15.9 per cent of GNP or a level of ₱24.3 billion, 80 per cent of which was collected by the national government. The increase in revenue collections was principally due to the new measures passed midway in the year.

Government support to social equity objectives was strongly expressed in the improved provision of various social services. Expenditures for social development grew by 48.7 per cent. Likewise, its share to total expenditures increased from 21.5 per cent in 1976 to 27.7 per cent in 1977.

Continuing progressive reorientation towards national development thrusts, further qualitative improvements particularly in basic education and greater accessibility of education and manpower opportunities highlight the accomplishments in education and manpower development in 1977. More active involvement of the youth and improvement in national values towards greater development orientation was also evident during the year.

The government rallied its efforts in improving the health and nutritional well-being of the population. Significant measures were undertaken to augment health facilities and manpower in the rural areas, to reduce hospital expenses and to control communicable diseases. The family planning outreach program and the multidisciplinary approach of the nutrition program complemented the above measures.

The housing sector exhibited a modest performance, carrying on the thrust to provide housing for low-income families. Government took the lead in the following housing activities: construction of new units, relocation, resettlement, and upgrading of sites and services. Moreover, efforts have been initiated to harness private sector participation and more financial resources for low-cost housing development.

Comprehensive social services, community-oriented assistance and self-help schemes rather than the traditional remedial services, institution-oriented assistances and "dole-outs" continued to be the main emphasis of the Social Services and Community Development Program for 1977.

Developments in 1977 were close to those assumed in the new Five-Year Philippine Development Plan for 1978-1982. Together with the institutional and other development reforms implemented over the past five years, a suitable and favorable climate for a sustained and better-distributed growth exists. Thus, the dual strategy of the new Plan for a balanced development among productive sectors and the advancement and upliftment of human resources stands on a sound policy framework and solid achievements.

Within the immediate year, the macro and sectoral development targets of the new Plan are expected to be achieved, particularly with the implementation of responsive and flexible measures. A stable although slow world economic recovery, vigorous support to new investments, and the maintenance of a stable and healthy economic climate are envisioned to contribute to the attainment of better development prospects for 1978.

GENERAL ECONOMY

Production

Overall Performance

Real Gross National Product (GNP) in 1977 posted a 6.1 per cent gain, reaching a level of ₱77,628 million as compared to last year's level of ₱73,172 million (Table 1 and Figure 1). This growth is however below the 6.7 per cent growth registered last year. Responsible for this increase in the nation's output of goods and services were the creditable performance of mining and quarrying, the continued expansion of manufacturing, and the notable growth in the service sector. These, however, did not quite offset the sharp decline in construction activities and the slowdown in the electricity, gas and water sector.

Current GNP stood at ₱153,253 million, a 15.2 per cent increase from the 1976 level of ₱133,062 million and reflective of the higher prices prevailing this year. In fact, the inflation rate rose to 9.4 per cent in 1977 from 8.0 per cent in 1976.

Sectoral Performance

Agriculture, Fishery and Forestry

The combined agriculture-fishery-forestry sector registered a low 4.9 per cent growth, 3.0 percentage points lower than the 7.9 per cent increase attained last year (Table 1). Contributing largely to this lower growth were the marked decrease in the growth of sugarcane and coconut including copra resulting from the slackening in world demand for these two commodities, and the deceleration in forestry output due to the government policy of forest conservation. Pacesetting the sector's growth were the high 22.5 per cent growth of banana, 9.1 per cent growth of corn, and 7.8 per cent growth of palay.

Industry

The industrial sector, composed of mining and quarrying, manufacturing, construction, and electricity, gas and water exhibited a satisfactory performance, registering a 7.3 per cent growth, just 2.4 percentage

points below last year's growth of 9.7 per cent.

Mining and quarrying posted a very high 11.3 per cent growth, more than 3 times the 3.2 per cent growth it experienced the previous year. Responsible for this remarkable growth were substantial contributions made by copper, gold and nickel, and the recovery of chromite and other metals, which more than made up for the decline in iron ore.

Manufacturing likewise continued to expand at an accelerated pace. Its share to total GDP rose from 23.8 per cent in 1976 to 24.2 per cent in 1977, posting a 7.5 per cent growth rate, up by about 2 percentage points from last year's 5.7 per cent growth. Wood and cork products came in with a very strong performance followed closely by beverages, chemical and metal products.

Construction which used to be the growth leader of the industrial sector, experienced a reversal in its role as construction activities decelerated, from a high 28.1 per cent growth in 1976 to only 6.0 per cent this year. This deceleration was brought about by the sudden slowdown in the feverish construction work done in the past four years. The growth of private construction was reduced to a minimal 1.1 per cent.

Like construction, the slow growth of the utilities sector — electricity, gas and water — somehow helped in dampening the performance of industry. Gross value added in 1977 amounted to ₱687 million, an increase from last year's level of ₱654 million. This 5.0 per cent growth performance is approximately one-half the 10.5 per cent growth of the previous year.

Service Sector

The service sector, composed of transport, communication and storage, commerce and services accounted for 39.1 per cent of GNP in 1977, nearly maintaining its 39.3 per cent share in 1976 (Table 1). Total real gross value added in the service sector amounted to ₱30,389 million for 1977, up by 5.2 per cent from last year's ₱28,885 million (Table 1 and Figure 1). The improvement was largely due to the continued expansion of government services and sustained activities in the tourism sector.

Transport, communication and storage, which grew by 8.6 per cent in 1976, expanded by only 6.2 per cent this year. Land and water transport grew slowly. Air transport, however, bettered its 1976 performance with a considerable 6.3 per cent growth as the Philippines continued to be a tourist attraction and convention center. Communication and storage registered growth rates of 7.9 per cent and 5.1 per cent respectively.

Commerce, likewise, slowed down from a 4.8 per cent growth in 1976 to 4.1 per cent increase in 1977. The slackened pace was due to declines suffered by banks and nonbank financial institutions and the less than 1 per cent growth of ownership of dwellings. Gross value added in

Table 1
GROSS NATIONAL PRODUCT AND GROSS DOMESTIC PRODUCT
BY INDUSTRIAL ORIGIN, 1976 AND 1977
(At 1972 prices)

	Value in Million Pesos		Per Cent Increase (Decrease)	Per Cent Distribution	
	1976 ¹	1977 ²		1976	1977
1. AGRICULTURE, FISHERY & FORESTRY	19,651	20,612	4.9	26.8	26.5
2. INDUSTRIAL SECTOR	24,880	26,708	7.3	33.9	34.3
a. Mining & quarrying	1,491	1,660	11.3	2.0	2.1
b. Manufacturing	17,481	18,793	7.5	23.8	24.2
c. Construction	5,254	5,568	6.0	7.2	7.2
d. Electricity, gas & water	654	687	5.0	0.9	0.9
3. SERVICE SECTOR	28,885	30,389	5.2	39.3	39.1
a. Transport, communication & storage	3,559	3,779	6.2	4.8	4.9
b. Commerce	15,831	16,485	4.1	21.6	21.2
c. Services	9,495	10,125	6.6	12.9	13.0
GROSS DOMESTIC PRODUCT AT MARKET PRICES	73,416	77,709	5.8	100.0	100.0
Net Factor Income from Abroad	(244)	(81)			
GROSS NATIONAL PRODUCT AT MARKET PRICES	73,172	77,627	6.1		

Source: National Accounts Staff, NEDA.

1. Preliminary.
2. Advance estimates as of December 26, 1977.