World Bank sees 4.6% GDP growth in 2012

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Given the strong performance of the Philippine economy at the start 2012, the World Bank in its Philippines Quarterly Update (PQU) had revised its growth forecast for the country this year.
Released on Thursday, the report revealed that Philippine gross domestic product (GDP) growth will expand to 4.6 percent, higher than its earlier 4.2 percent projection, but still at the low end of the government’s 5-percent to 6-percent growth target.
It said that growth will be driven by higher government spending, expected continued growth of remittances and stable services supported by additional employment from the business process outsourcing industry.

“A highly educated, healthier and skilled workforce will enhance productivity, enable firms to diversify, and shift to higher value-added activities, and drive growth,” said World Bank Economist Soonhwa Yi, the main author of the report.

Furthermore, PQU added that the Philippines will be able to maintain a decent growth that benefits the poor if it would be more conducive for big and small investments that would eventually ramp up its spending in infrastructure, education and health.

However, the report noted that the said reforms will even be more crucial should Europe’s debt crisis escalate, adding that the Philippines’ economic momentum is facing strong headwinds from the global economy.

It stated that with the eurozone debt problem and China’s slower economy, growth rates of the Philippines’ major export markets are forecasted to remain slow, adding that the global slump may intensify, affecting some sectors in the country’s manufacturing industry such as electronics, causing job losses.

Eurozone effect
In case the eurozone crisis worsens, the Philippine economy is estimated to expand slower by 3.1 percent to 2.5 percent in 2012, PQU said.

“Our low case scenario assumes a relatively orderly crisis in Europe characterized by a credit squeeze in one or two European economies; and the worst-case scenario refers to a disorderly crisis characterized by a full-blown freezing up of credit spreading across two larger European economies, causing possible second-round impacts through China,” the report said.

PQU explained that the country is vulnerable to the eurozone crisis through trade and remittance linkages. In the worst case, global trade is projected to fall by 10 percent and remittances to developing countries to contract by 6 percent.

“Given the worsening global scenario, investments by the private sector and government spending on key infrastructure as well as education and health will need to rise substantially to cushion the impact of the global crisis, sustain growth as well as create more and better jobs in the Philippines,” said World Bank Country Director Motoo Konishi.

Meanwhile, given the global uncertainties, the report said that what favors the Philippines is its strong macroeconomic fundamentals: low inflation, a flexible exchange rate, a current account surplus, manageable government finances, high international reserves equivalent to almost a year’s worth of imports, and steady remittances.

PQU added that the country also has a positive current account balance and a flexible foreign exchange policy, a first line of defense against a global downturn.