



# **Global Recession Impact News (GRIN) -and Positioning for the Rebound**

**Secretary Ralph Recto  
National Economic and Development Authority**

**June 9, 2009**

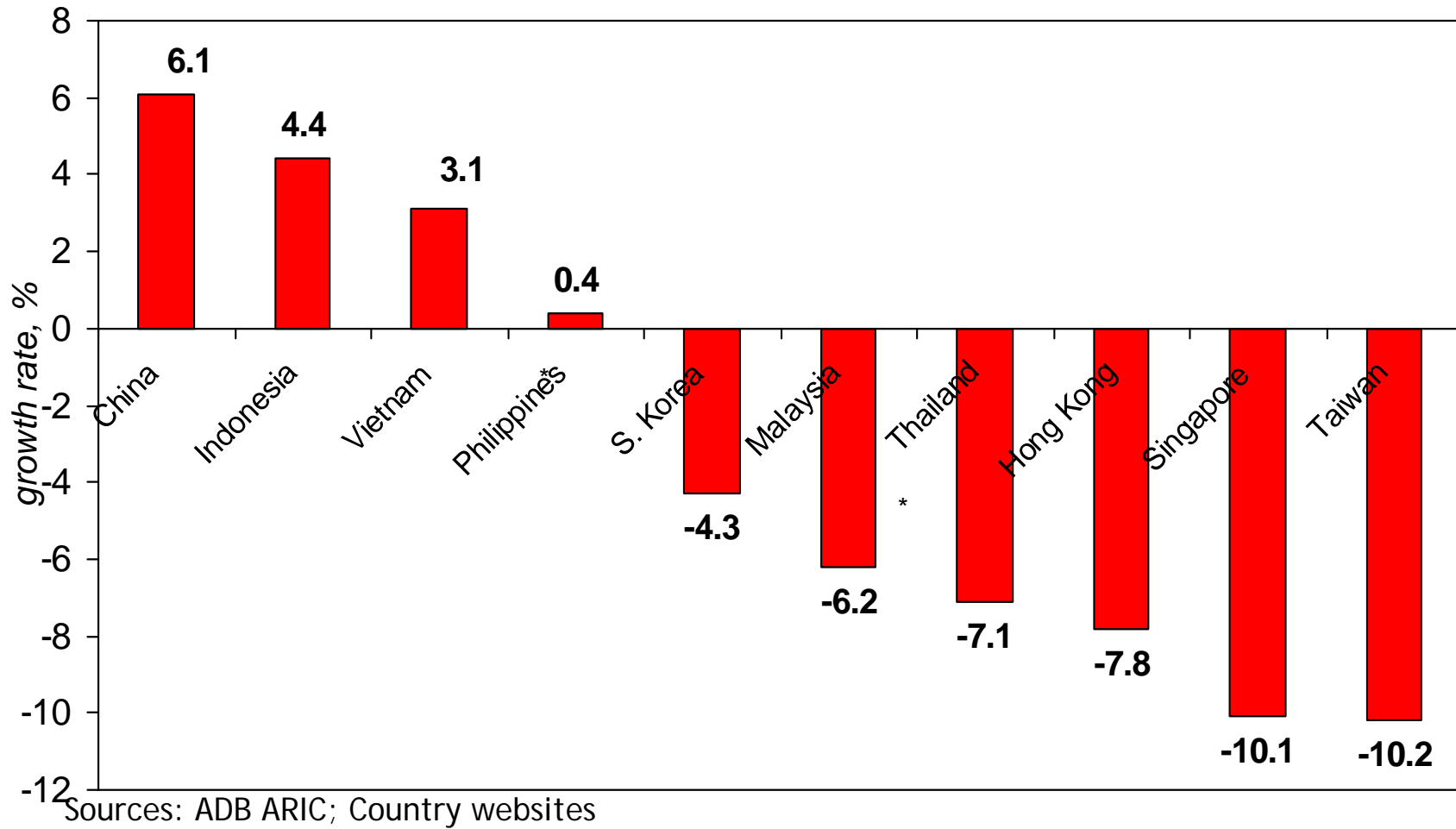
# Outline

- Why the weak growth in the first quarter (Q1)?
- What are the prospects for the rest of the year?
- How goes the implementation of the ERP?
- What's new in global developments?
- What is to be done?

# Dissecting the weak growth of the first quarter, 2009

*Still better than most*

## Q1 2009 GDP Growth of Select Asian Countries



*Growth lower than expectations of all*

## Forecasts on Q1 GDP Growth

<b>LOCAL</b>		<b>INTERNATIONAL</b>	
ATR Kim Eng	4.6 %	Action Economics	4.5 %
BDO	4.2	Moody's	2.9
UAP (Prof Abola)	3.8 to 4.1	Reuter's poll	2.5
RCBC	>3	Citigroup	2.0
UP Econ (Pernia)	3.5		
Diokno	2.0		
Fabella	1.5 to 2.0		
Monsod	1.8		
<b>NEDA</b>	<b>1.8 to 2.8</b>	<b>ACTUAL</b>	<b>0.4</b>

# What dragged down Q1 GDP growth?

- Private consumption grew by a mere 0.8% due to spooked consumer sentiment.
  - OFWs sent not only money but also news on economic disaster abroad. OFW families saved funds for now due to the fear factor.
- Big drop in investment on durable equipment (-17.9%)
- The contraction in manufacturing (-7.3% growth) because of the slump in exports and consumption.
- Public construction actually contracted (-4.4%)
  - Out of the P 48.3 B for infra and other capital outlays, P 23.5 B went to accounts payable.

# What sectors are doing well?

- Private construction grew by 17.3% due to the surge in middle and low-income housing
- Government consumption grew by 3.8%, compared to -0.3% in same period last year
- OFW remittances slowed down, but still defied expectations
- Mining grew by 16.1%
- Business process outsourcing (BPO) hardly dented; some firms have taken advantage of the crisis

## Supply Side Growth (in percent)

	Full Year 2008	1 <sup>st</sup> Quarter	
		2008	2009
<b>GNP</b>	<b>6.2</b>	<b>2.8</b>	<b>4.4</b>
<b>GDP</b>	<b>3.8</b>	<b>3.9</b>	<b>0.4</b>
AFF	3.2	2.8	2.1
Industry	5.0	2.7	-2.1
Services	3.3	5.2	1.4

Source: National Statistical Coordination Board

## Supply Side Growth (in percent)

	2008		2009
	Q1	Q4	Q1
AGRI.FISHERY,FORESTRY	2.8	2.9	2.1
INDUSTRY SECTOR	2.7	5.3	-2.1
a. Mining & Quarrying	12.3	18.2	16.1
b. Manufacturing	2.4	3.4	-7.3
c. Construction	-4.3	14.5	16.7
d. Elect, Gas and Water	9.5	3.8	1.0

Source: National Statistical Coordination Board

## Supply Side Growth (in percent)

	2008		2009
	Q1	Q4	Q1
<b>SERVICES</b>	5.2	1.3	1.4
a. Transport., Comm., Stor.	5.6	4.5	4.1
b. Trade	1.1	0.0	0.2
c. Finance	12.2	-4.6	0.2
d. O. Dwellings & R. Estate	7.2	1.7	1.8
e. Private Services	5.7	2.4	2.9
f. Government Services	5.2	6.2	0.0

Source: National Statistical Coordination Board

## Demand Side Growth (in percent)

	Full Year 2008	1 <sup>st</sup> Quarter	
		2008	2009
GNP	6.2	6.4	4.4
GDP	3.8	3.9	0.4
Personal Consumption	4.7	5.1	0.8
Government Consumption	3.2	-0.3	3.8
Capital Formation	1.7	-1.7	-16.5
Exports	-1.9	-7.7	-18.2
Imports	2.4	-2.6	-19.2

Source: National Statistical Coordination Board

**Prospects for the full year 2009**

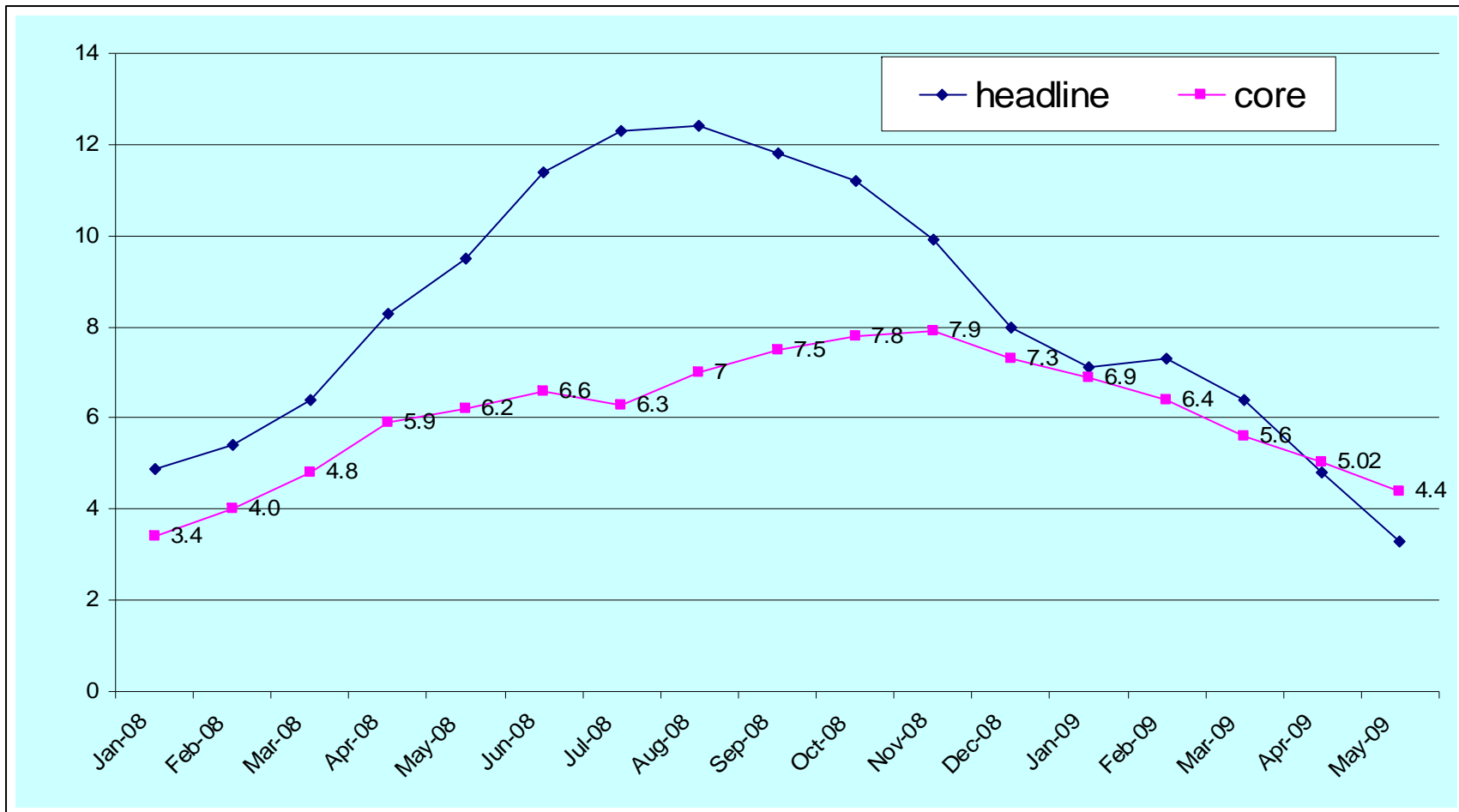
# Leading Economic Indicators (LEI) Index points to contraction in Q2

Q2 2008	0.434
Q3 2008	0.396
Q4 2008	0.250
Q1 2009	0.045
Q2 2009	-0.195

- But LEI not a very good predictor of GDP growth rate estimates
- Out of 32 quarters in Q1 2001 to Q1 2009, only in 14 quarters (or 44 percent) did LEI correctly predict the direction of real GDP growth.

# Inflation at 18-month low

Inflation (%), January 2008-May 2009



Source: National Statistics Office

# BSP indicators of stronger Q2 growth

Growth rates of ...	April	March
Bank lending (net of RRP placements with BSP)	19.0%	17.8%
Loans for production activities	18.1	16.8
Consumption loans	13.5	9.0
	Q2 2009	Q1 2009
Business sentiment overall confidence index (CI)	-2.6	-23.9

# Update: Stock Markets Continue to Pick Up

Market	Lowest	Previous GRIN	Latest	Latest/ Lowest (%)
DJIA	6,547.05 (9 March)	8,500.33 (29 May)	8,675.24 (3 June)	32.51
Nikkei 225	7,054.98 (10 March)	9,522.50 (29 May)	9,741.67 (3 June)	38.08
FTSE 100	3,512.10 (3 March)	4,417.94 (29 May)	4,383.40 (3 June)	24.81
PSEi	1,769.67 (16 March)	2,389.31 (29 May)	2,471.19 (3 June)	39.64

Source: PSE, Yahoo Finance

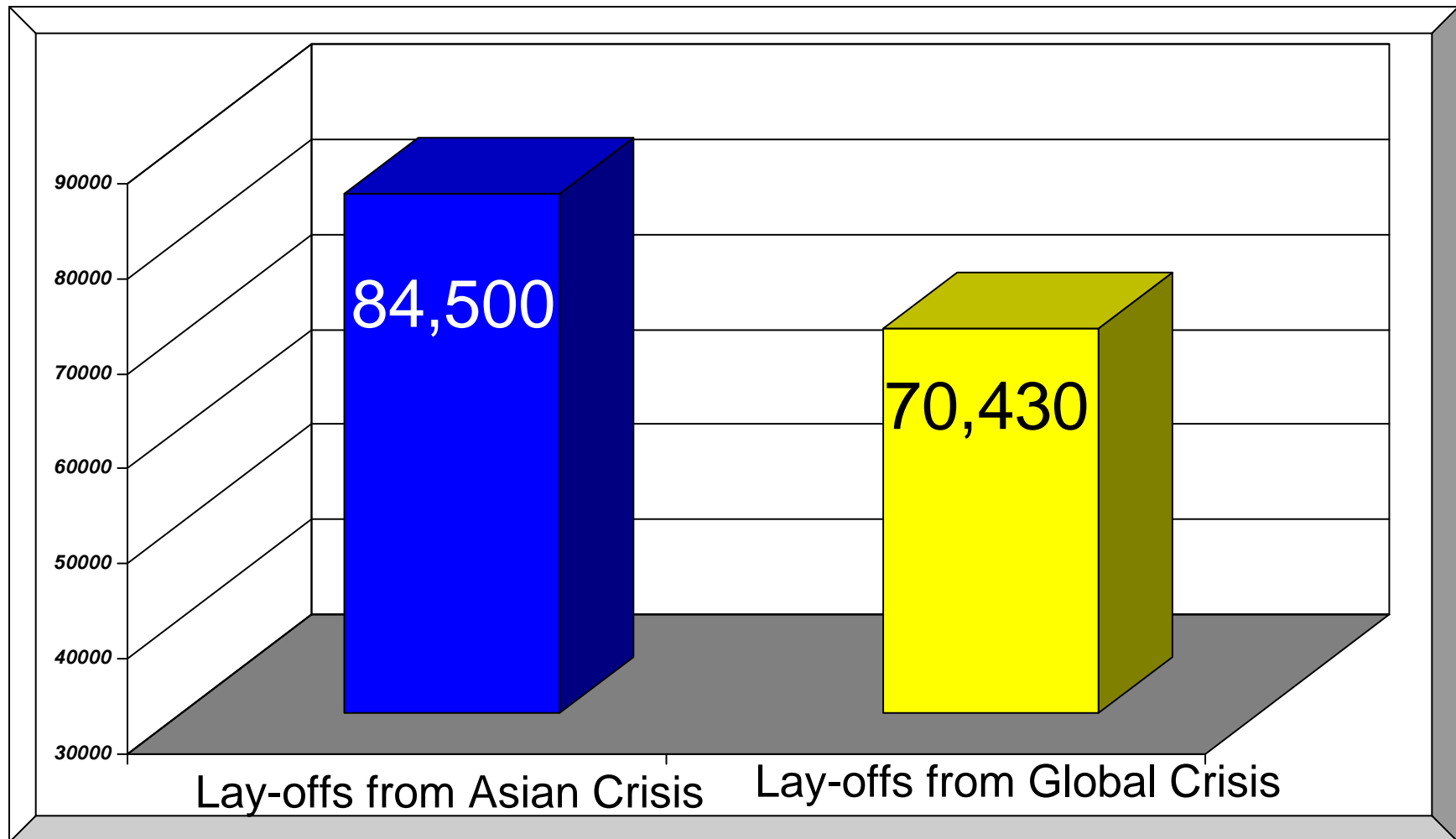
*Despite growth slowdown, economy increased employment*

## January 2009 LFS Result

INDICATORS	2008 Average	January 2009
Employment growth %	1.6%	1.7%
Employment Generated	530,000	565,000
Agriculture	242,000	49,000
Industry	(75,000)	(121,000)
Services	362,000	638,000

Source: National Statistics Office-Labor Force Surveys

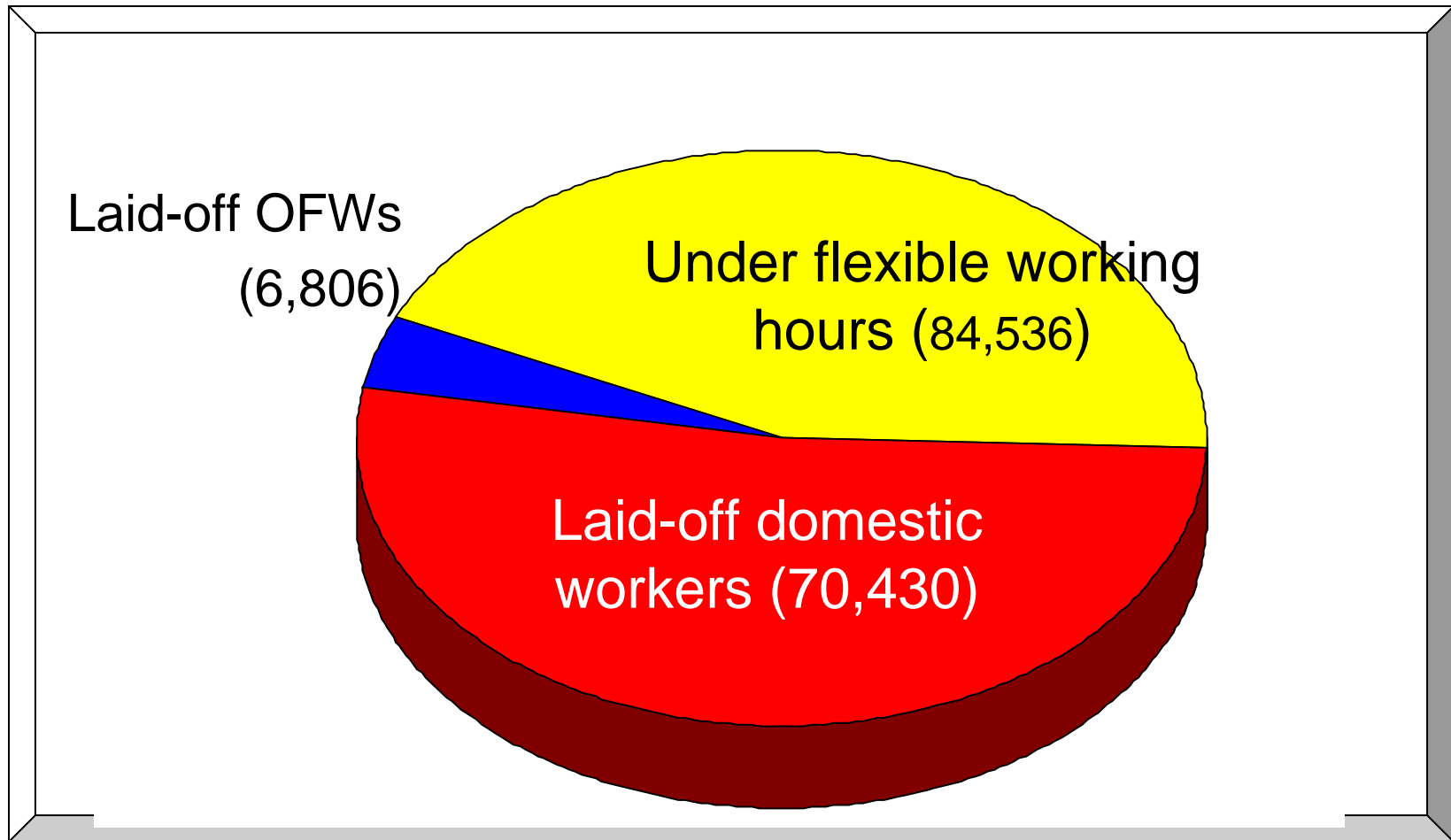
# Update: Asian Crisis Lay-offs vs. Global Crisis



As of April 30, 2009; Lay-offs meant the displaced workers: permanently laid-off and temporarily

Source: BLES-Establishment employment reports submitted by employers to DOLE regional offices

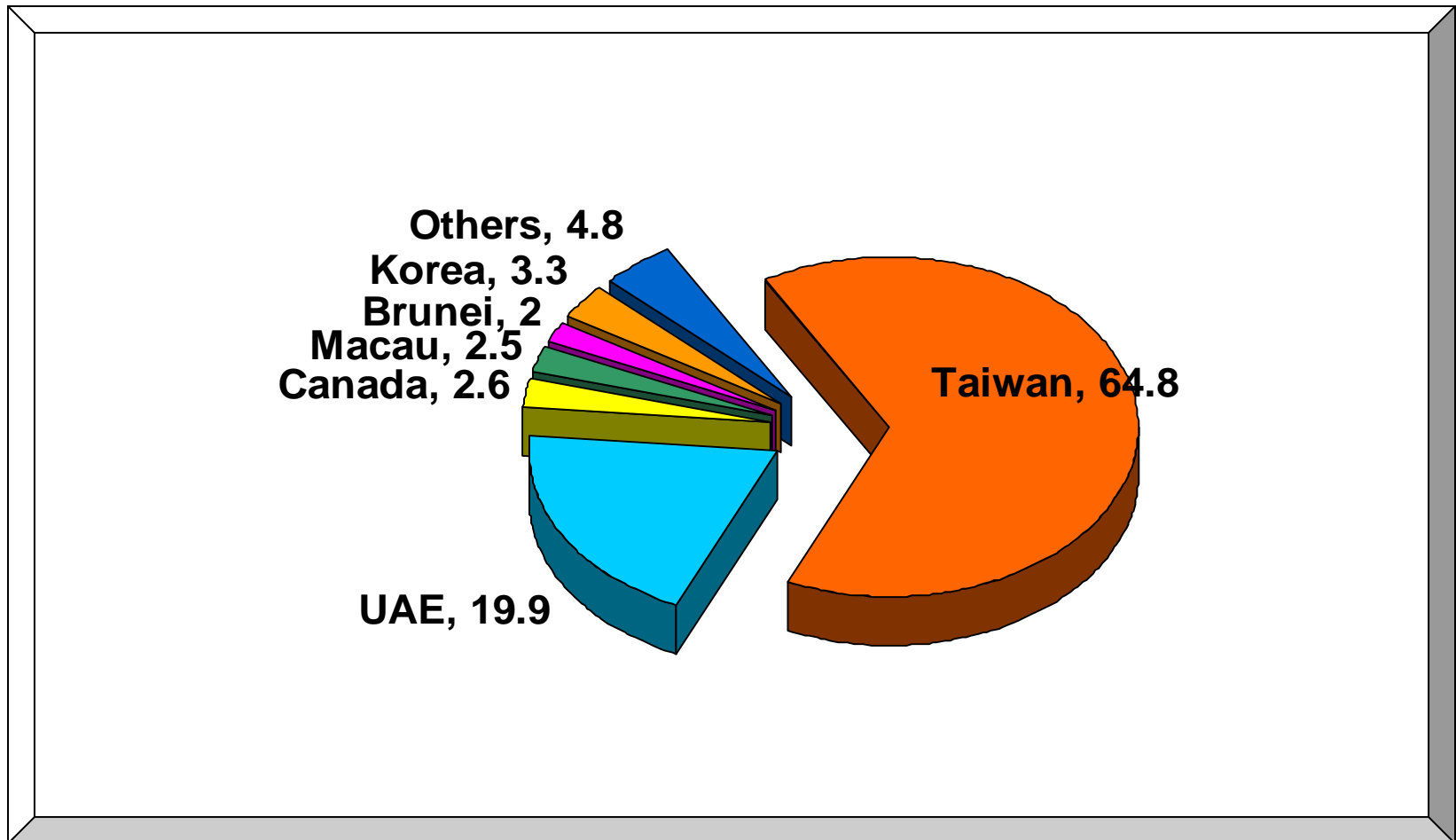
# Update: Labor Displacement as of April 30, 2009



As of April 30, 2009; Lay-offs meant the displaced workers: permanently laid-off and temporarily

Source: BLES-Establishment employment reports submitted by employers to DOLE regional offices

# Update on OFW Displacement



As of April 30, 2009; Displaced workers include permanent and temporary lay-offs

Source: BLES-Establishment employment reports submitted by employers to DOLE regional offices

# OFWs returning to Taiwan

- Some 1,500 of laid-off 4,400 called back to work. All expected back by August.

*“Our economic recovery is quite fast. That's the reason why OFWs who were laid off have gone back to Taiwan... We need more workers... Most of our electronics companies like to hire Filipinos than workers from other countries.”*

*– Donald Lee, Taiwan's Representative to Philippines, Taipei Economic and Cultural Office*

# Growth factors, Q2 to Q4, 2009

- Q1 Bidding, contracts, scope of works for ERP projects
  - Q2 Bulk of ERP infrastructure construction. Threat: rainy season began early.
  - Q3 Inflation at lowest, US recession starts to end
  - Q4 Campaign spending, Christmas spending, moderate pick-up in US economy
- Former Citigroup  
GDP growth  
forecast (before  
May 28, 2009)
- |    |       |
|----|-------|
| Q1 | 2.0 % |
| Q2 | 3.1   |
| Q3 | 3.3   |
| Q4 | 3.6   |

# Scenario of the return of fuel inflation: Principles for social protection

1. We avoid fuel subsidies. They subsidize the less poor, the middle class, and the rich. Politically difficult to remove. Very costly -- 8% of Egypt's GDP in 2004.
2. Social protection must focus on the bottom poor.
3. Protect bottom poor not only from direct fuel inflation but also from general inflation.
4. The most efficient way: ride on the 4Ps program.
5. Operational principle: Adjust the conditional cash transfers to the inflation rate following the months when inflation reaches double digits. Very cost effective.

# Illustration of conditional cash transfer inflation adjustments

	Hypothetical inflation rate	Cash transfer (P)
January 2010	8.5	500
February 2010	9.2	500
March 2010	11.1	555
April 2010	10.4	552
May 2010	9.5	500

# **Implementation of the Economic Resiliency Plan**

- Committing Implementing Agencies to obligate at least 60% of their total spending program on the 1<sup>st</sup> semester of 2009.

DPWH - P 62.785 B (1<sup>st</sup> Sem)

DOTC - P 12.975 B (1<sup>st</sup> Sem)

DA - P 16.150 B (1<sup>st</sup> Qtr)

DepEd - P 2.800 B (1<sup>st</sup> Qtr)

## DPWH *Status of commitment, April 30, 2009*

1<sup>st</sup> Sem Commitment: PhP 62.785 B

Released: PhP 60.120 B

Obligated: PhP 59.941 B

Compliance to Commitment Ratio: 95.5%

Status of bidding activities:

- Bid out 1,465 (PhP 62.28 B) of a total of 1,471 projects (PhP 62.78 B)

## DOTC *Status of commitment, April 30, 2009*

1 <sup>st</sup> Sem Commitment:	PhP 12.975 B
Released:	PhP 9.507 B
Obligated:	PhP 9.365 B

Compliance to Commitment Ratio: 72.2%

### Status of activities:

- Laguindingan Airport ahead of schedule with 33.51% project accomplishment.
- LRT Line1 North Ext. is 20.09% accomplished. Behind target of 27.50%. Delays in construction of terminal stations and awarding of contract for electro-mechanical works (Signalling System).

## DA *Status of commitment, May 11, 2009*

1<sup>st</sup> Qtr Commitment: PhP 16.150 B  
Released: PhP 9.540 B  
Obligated: PhP 7.582 B

Compliance to Commitment Ratio: 46.9%

Status of activities:

- Farm-to-Market Road projects are 10.3% physically accomplished covering a distance of 149 kms. only from a target of 1,440 kms.
- Irrigation projects are 11.6% physically accomplished covering an area of 24,248 hectares only from a target of 208, 263 hectares.

## DepEd *Status of commitment, April 30, 2009*

1<sup>st</sup> Qtr Commitment: PhP 2.800 B

Released: PhP 3.103 B

Obligated: PhP 2.862 B

Compliance to Commitment Ratio: 102.2%

Obligated amount corresponds to:

- The construction of 1,769 new classrooms and repair/rehab of 2,520 existing; 5,736 new toilet facilities and repair/rehab of 215 existing.
- To date, total jobs generated by DepEd's infrastructure projects estimated at Php 785 M.

## Comprehensive Livelihood and Emergency Employment Program

INDICATORS	PLAN	ACCOMPLISHMENT	
	(as of 5-8-09)	(as of 5-08-09)	% to Plan
Jobs Generated	492,279	99,967	20%
Individuals Employed	325,696	90,555	28%
Beneficiaries			
individuals	3,008,450	1,559,852	52%
household/families	12046	2,873	24%
MSMEs	353	26	7%
ARCs	9	-	-
barangays	1410	-	-
cooperatives	226	152	67%
Total Project Costs (in billion pesos)	10.076	1.374	14%

Source: National Anti-Poverty Commission

# Social Protection Programs

Program	2009 Target Beneficiaries	Status of Implementation
(as of April 2009)		
4Ps	700,000 households (HHs)	337,416 HHs served
SEA- K	14,105 HHs	36,564 HHs served; on-going
Tindahan Natin Project	1,161,250 families	1,813,750 families served; on-going
Food for School	448,043 children	470,019 served; ongoing
Microfinance Lending	New end clients - 250,000	New end clients - 7,837 (as of Feb 09)

Sources: DWSD

*GASTPE grantees now comprise about 44.3% of private high school enrolment*

## **GASTPE grantees, amount of grants and total enrolment**

Data	SY 2007-2008			SY 2008-2009		
	ESC	EVS	Total	ESC	EVS	Total
GASTPE Grantees	477,106	90,076	567,182	496,672	97,956	594,628
Total high school enrolment			6,459,305			6,721,052
Private school			1,332,846			1,342,296
Public school			5,126,459			5,378,756
Amount of Grants (in B PhP)	2.38553	0.45038	2.83591	2.50204	0.52598	3.02802
<b>Percent share of GASTPE grantees over total private school enrolment</b>			<b>42.6%</b>			<b>44.3%</b>

Source of basic data: DepEd

Notes: Education Service Contracting (ESC) and Education Voucher System (EVS)

# TESDA Training

Programs	2009 Target Beneficiaries	Status of Implementation
TESDA Assessment and Certification	215,000 students/workers assessed	43,220 assessed
Technical-Vocational Education and Training (TVET) Programs	1,250,000 out-of-school youths, employed/unemployed/underemployed adults, displaced workers, etc.	21,718 persons trained
Pangulong Gloria Scholarships Program (PGS)	809,800 out-of-school youths. Employed/unemployed/underemployed adults, displaced workers, etc. availed scholarships	159,375 persons trained
Training Program for Displaced Workers Affected by the Global Financial Crisis	All Filipino displaced workers (local/overseas)	2,137 displaced workers assisted/availed TESDA Services and Programs

Source: TESDA

# Global developments and opportunities

# US Survey: most economists see recession end in 2009

Survey of the National Association of Business  
Economics (May 27, 2009)

74% of forecasters see recession end in Q3 2009

19% see end in Q4 2009

7% see end in Q1 2010

But unemployment will average 9.1% in 2009,  
highest since 1983. Consumption to remain  
subdued. US economy to contract by 2.8% in  
2009, worst since 1946.

# Rebalancing growth in Asia

- Excess American consumption supported by excess Asian savings. Import appetite of America fed by export orientation of Asia.
- Rebalance growth: Asia must now rely more on domestic demand. ADB Institute's recommendation:
  - Short term: stimulus packages support agriculture and SMEs
  - Middle term: integrate ASEAN domestic market; draw capital from North Asia and the Middle East.
  - Long term: shift exports to middle class consumers in China and India

# Japan's proposal to double Asia's economy by 2020

“Asia is the center of growth in the 21<sup>st</sup> century.”

-- Prime Minister Taro Aso

- Japan's new growth strategy: don't rely on declining population; rely on Asia's market, boost Asia's middle class
- Precedent in 1960: Ikeda Cabinet's "Income Doubling Plan" pushed Japan into era of high growth.
- Projected infrastructure demand of 70 trillion yen in 5 years in ASEAN and India
- Build Delhi-Mumbai industrial corridor, Mekong industrial corridor, BIMP growth area

# Japanese ODA of up to 2 trillion yen

1. Budget support to developing countries
2. Assistance to the sectors and people vulnerable to the impacts of the current crisis
3. Infrastructure development
4. Assistance in capacity building in making and implementing fiscal and monetary policy
5. Assistance to SMEs, facilitation of trade and investment
6. Building a low carbon society
7. Human resource development, people to people exchanges

# Main messages

1. We did better than many of our neighbors in the first quarter.
2. Without monetary policy and the ERP, growth would have been negative.
3. People are saving due to fear. With greater confidence, those savings will be turned into more consumer spending and investment.
4. OFW inflows are defying expectations of contraction.
5. We don't have much fiscal space because of the debt burden. We have more monetary space, given declining inflation.

# Recommendations

1. Frontload the remaining 40% of the infrastructure budget to the 3<sup>rd</sup> quarter.
2. Stress (again) to Congress the need to have the budget passed before the end of the year.
3. Must accelerate
  - a. farm to market roads and irrigation projects
  - b. microfinance projects
  - c. technical and vocational training

# Recommendations

4. To counter the fear factor, communicate:  
(a) Global “green shoots” developments to the business community, (b) the healthy OFW employment trends to the general public.
5. If fuel inflation resurges in the future, implement the proposed social protection measure using the 4Ps.
6. Study the Japanese proposal to boost Asia’s economy and look for opportunities to benefit the Philippines.

**Stay the course.**