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# **The Global Economic Crisis and the Philippine Economy**

**National Economic and Development Authority**




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# Key Questions

- What caused the global economic storm?
- How long will it last?
- How will it impact on the economy?
- What sectors are the most vulnerable?
- What factors mitigate the damage?
- What is the government's response to the global storm?
- How can we position the economy for the global rebound?



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## **The root cause: US housing bubble of 2004-2006**

- Careless indulgence in housing loans  
NINJA loans: No Income, No Jobs, No Assets
- Speculation and overbuilding during the boom period
- Risky mortgage products
- High personal and corporate debt levels
- Financial innovation that distributed and concealed default risks
- *Wave of mortgage defaults in 2006; home prices plunged 18% since mid-2006*



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## The dominoes fall one by one

- Feb. 2007: *bankruptcies of US banks that specialized in high-risk housing loans*
- June 2007. Two hedge funds of Bear Stearns go bankrupt
- July 2007. Germany's IKB bank sinks into difficulty
- August 2007. Steep fall of world stock markets.  
3 investment funds at BNP Paribas, a French bank, are frozen. Central banks inject more than \$ 100 billion to stabilize global finance.
- Sept. 2007. Northern Rock, a British bank, gets emergency government funding
- Oct. 2007. Swiss bank UBS gets a \$ 37 billion asset write-down.



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## Dominoes 2008

- Jan. 2008. Federal Reserve cuts its policy rates.
- Feb. 2008. The British bank Northern Rock is nationalized.
- Mar. 2008. Central banks intervene again.  
With the help of the US Fed, JP Morgan Chase buys Bear Stearns.
- July and August 2008. Shares of Freddie Mac and Fannie Mae plunge.
- Sept. 7, 2008. The US Treasury takes over Fannie and Freddie. Combined holdings of \$ 5.3 trillion. Bailed out at \$ 100 billion each.
- Sept. 15, 2008. Lehman Brothers, goes bankrupt. Bank of America buys Merrill Lynch.



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# Storm duration

*...The typically considerable time lag in the transmission of the financial effects to the real economy would suggest that a large number of economies would inevitably fall into recession in the immediate period ahead, with no recovery in sight within the next 12 months or so, even if the bailout package succeeds....*

*- UN Project LINK Global Economic Outlook,  
October 2008*



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# Impact on the economy

	2007	2008		2009	
	Actual	Old*	New**	Old*	New**
Dubai oil, \$/bbl	68.5	115-125	95-105	115-125	75-90
Inflation (%)	2.8	9-11	9-11	6.0-8.0	6.0-8.0
Forex (P/\$)	46.2	42-45	42-45	42-45	45-48
GIR, \$Mn	33,751	35,696***		na	na
CAB, \$Mn	6,301	1,707***		na	na
Remittances**** (%, g.r.)	13.2	na	10-11	na	10
Goods Exports (% gr)	6.4	5	2-4	7	1-3
Goods Imports (% gr)	8.4	10	10-12	10	4-6

\*\*\* For GIR, latest actual as of October 2008; For CAB latest actual for January to June 2008.

\*\*\*\* Not explicitly a part of the DBCC macroassumptions, the figures are BSP projections as of October 2008

Source: DBCC; \*August 08 Emerging Estimates; \*\*DBCC approval on 11Nov08



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# Impact on the economy

	2007	2008		2009	
	Actual	Old*	New**	Old*	New**
Real GNP	8.0	5.9-6.7	4.7-5.4	6.9-7.8	4.3-5.2
Real GDP	7.2	5.5-6.4	4.1-4.8	6.1-7.1	3.7-4.7
Nominal GNP, (PhP, Bn)	7249	8400- 8470	8322- 8375	9563- 9737	9302- 9453
Nominal GDP, (Php, Bn)	6648	7682- 7742	7593- 7635	8692- 8833	8405- 8524

Source: DBCC; \*August Emerging Estimates; \*\*DBCC emerging estimates approved on 11Nov08



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## Philippine GDP growth estimates

	2008	2009
IMF	4.4	3.5
UN Project LINK	4.4	3.5
ADB	4.5	4.7



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# Vulnerable sectors

## **OFWs vulnerable to displacement due to the financial crisis:**

- OFWs who work in the US under temporary working visas (129,000);
- Seafarers in the cruise ships (130,000);
- Factory workers in South Korea, Taiwan and Macau (268,000);
- Household service workers in Singapore, Macau and Hong Kong (48,000)

## **Commodity exports vulnerable jobs**

- Garments (121,000);
- Electronics (111,000);
- Wiring and harness (2,000);
- Coconut oil (2,000)



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## Shock absorbers

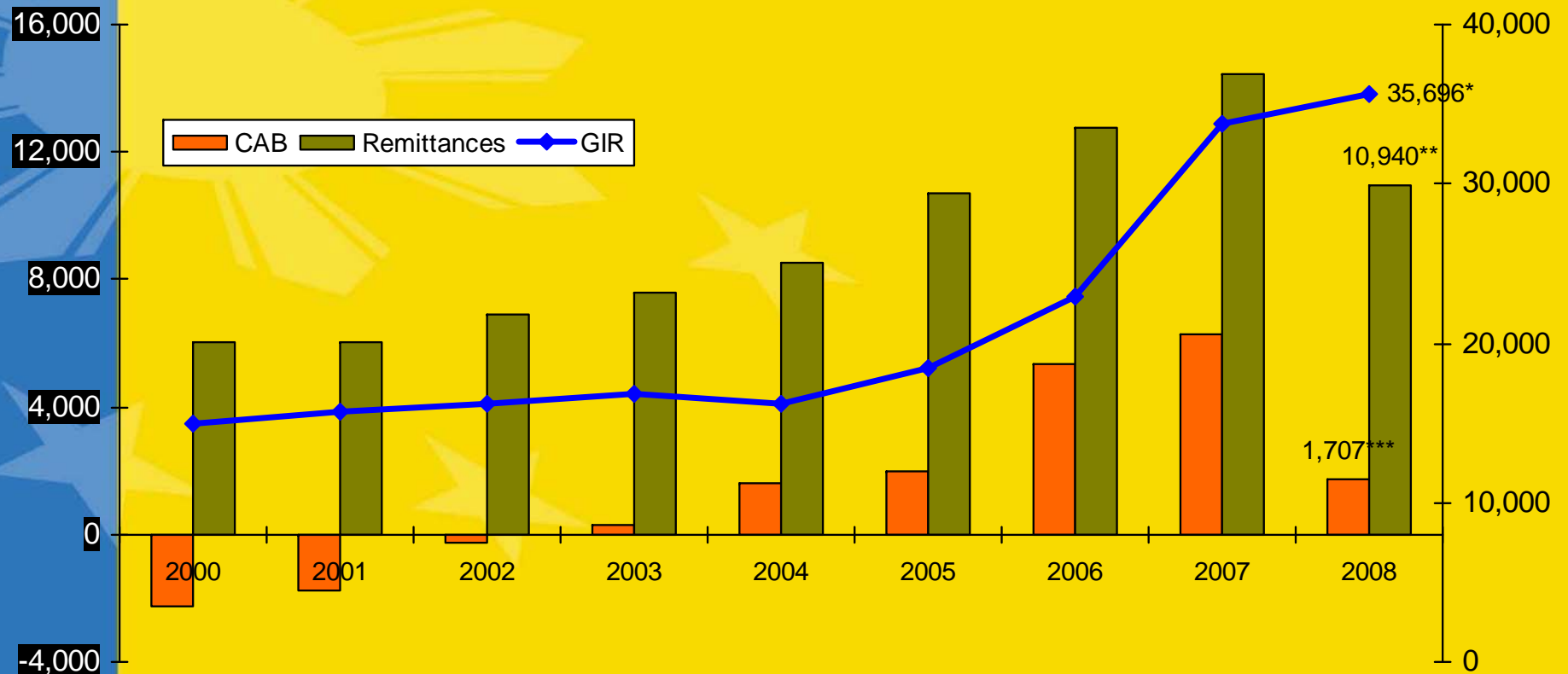
- Oil prices trending down
- Inflation is easing
- Share of US to total Philippine exports falling: from 34.2% in 1998 to 20.1% in 2001 to 16.0% in Jan-Aug 2008
- Ample supply of Gross International Reserves, at \$ 35.7 billion
- Positive balance of payments, \$ 1.934 B
- OFW inflows up 17.2% to \$ 10.94 B, way over 10% target
- Corporate income tax rate to fall from 35% in 2008 to 30% in 2009
- Minimum wage earners exempt from income tax



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# GIR, Current account balance, Remittances (\$Mn)



Source: BSP; \*As of Oct 2008, \*\*Jan-Aug2008, \*\*\*Jan-Jun2008



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## Strong banking sector

- Banks with exposure to Lehman Brothers and Merrill Lynch: Banco de Oro Unibank, DBP, Metrobank, RCBC, Standard Chartered, Bank of Commerce, UCPB, Security Bank
- Banks' exposure to Lehman Brothers: \$ 386 million, or only 0.3% of total banking assets
- Capital adequacy ratio (banks' capital in relation to their risks) is 15.49% as of end-March 2008.
- Non-performing loans (NPL) ratio, once 18% in 2001, down to just 3.88% in August 2008.



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## **Quote from Agost Bernard, Associate Director at Standard and Poor's**

“Yes, the Philippines is 'lucky' because they have made the necessary adjustments and reforms when times were still good. So they are facing the global market problems and economic slowdown from a considerably improved position, compared to what they were in 3-4 years ago...

“The Philippines is an 'island of calm' currently, while there is turmoil in the higher rated and previously stable countries...”



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**“The Philippines is inherently strong, a potential beneficiary of these financial woes,” Bank of New York Mellon’s chairman for Asia Pacific, Christopher Sturdy, said in an interview with the Philippine Daily Inquirer on Thursday.**

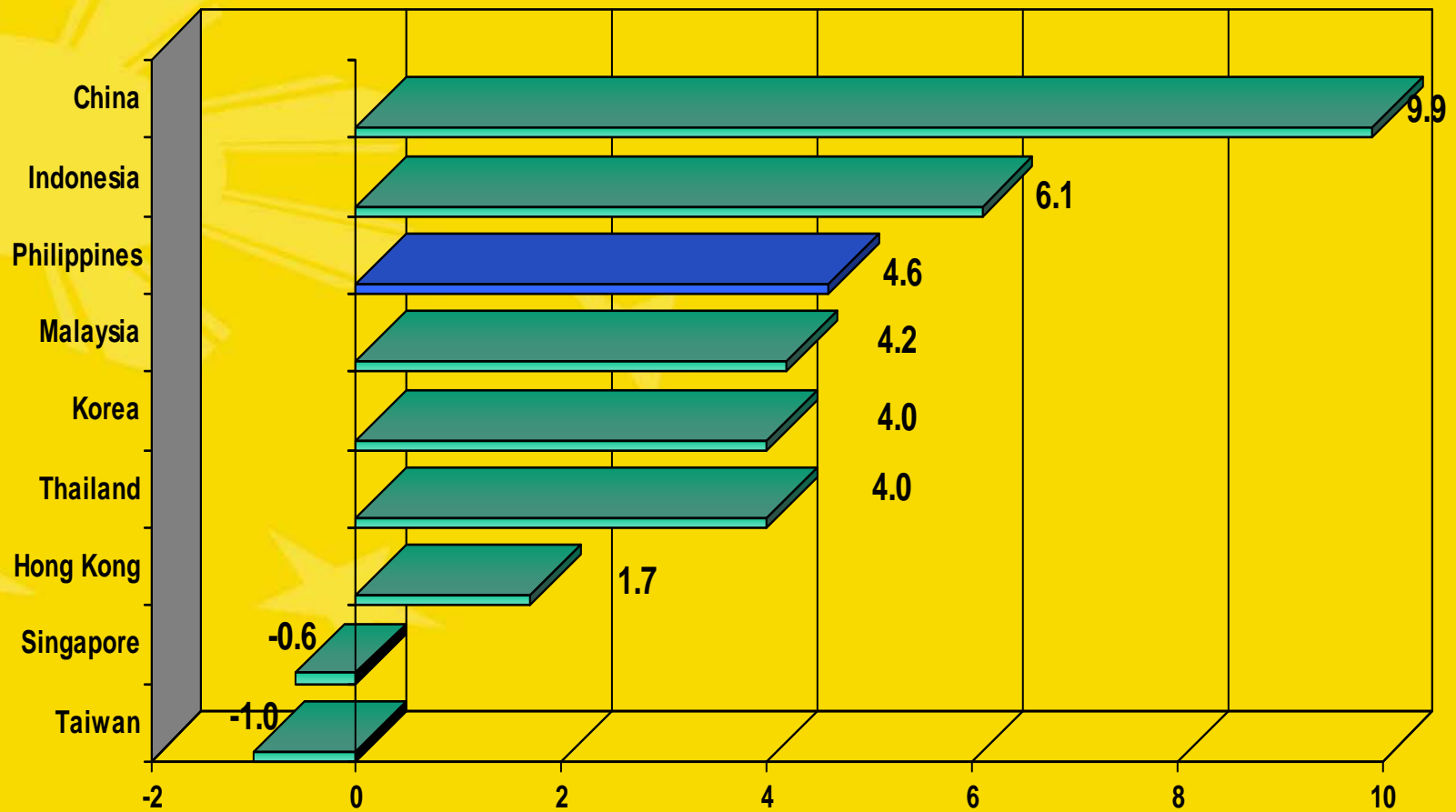
**“The Philippines is in a relatively strong position to weather the global downturn with the economy driven by private consumption and services, which are less vulnerable to external shocks,” JP Morgan said in a report titled “ASEAN Year Ahead 2009: Philippines Well-Positioned to Withstand the Downturn.”**



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# Performance of Asian Countries, Q3



Source: Country Statistical Websites



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# Contingency plans

## 1. Labor sector action agenda

### A. Intervention programs and services for OFWs

- Deployment to emerging and niche foreign labor markets;
- Repatriation assistance
- Reintegration and livelihood enhancement for returning OFWs

### B. Commodity and export services workers

- Job placement facilitation
- Livelihood formation
- Emergency employment



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## 2. Social protection services

Continue programs that protect the poorest of the poor

A. Conditional cash transfers

B. Accelerated Hunger-Mitigation Program (which also supports employment)

- Tindahan Natin Outlets
- Programang Gulayan
- Barangay Bagsakan
- Bigasan ng Parokya



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## 3. Strategies to boost growth

- A. **INFRASTRUCTURE:** Accelerate spending for fast, simple, small-scale and of-the-shelf infrastructure projects with no right-of-way problems (e.g. rural roads). Greater participation by GFIs, GOCCs, LGUs and the private sector.
- B. **AGRICULTURE:** Support AFMA programs for pro-poor growth;
- C. **FISCAL:** Improve revenue collection through better tax administration, passage of key legislation, rationalization of fiscal incentives, indexation of excise tax on sin products;
- D. **OUTSOURCING:** Intensify marketing Philippine BPOs as the cost-cutting solution for US firms



# Roads and Bridges

Magapit-Sta. Ana Road (Magapit-Mission Section), Cagayan

Tarlac-La Union Toll Expressway Phase 1 (TLUTE 1)

North Luzon Expressway (NLEX) Phase 2, C5 to MacArthur

Manila-Cavite Toll Expressway, R-1 Extension Project

South Luzon Expressway Extension Project

Daang-Hari SLEX Link Road

Pandan-Libertad-Antique/Aklan Boundary Road

Roxas-Taytay Road, Palawan

Palawan South Road

Central Mindanao Inter-Regional Circumferential Road, Cotabato (Jct. Awang)- Upi- Lebak- Kalamansig Road

NLAQ

LUB

Farm to Market Roads (entire NLAQ)

Halsema Highway  
Tarlac-Nueva Ecija-Aurora-Dingalan Road



Baler- Casiguran Road

Marikina-Infanta Road, Quezon

Circumferential Road 6

Southern Tagalog Arterial Road (STAR) Project, Stage 2

Metro Manila Skyway, Stage 2

Panay Island Package

Metro Iloilo Radial Road

Roxas City Circumferential Road

Bohol Circumferential Road Phase III

Iloilo-Sta. Barbara Road

Dinagat Island Road Network

Surigao-Davao Coastal Road (Bislig-Manay Section)

Gutalac-Siocon-Siraway-Sibuco-Baliguian Road

CP

Cebu North Coastal Road

Dakak-Dapitan Road

Panguil Bay Bridge

AM



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## 3. Strategies to boost growth

- E. HOUSING: accelerated direct and indirect provision;
- F. EXPORTS: Encourage exporting firms to diversify, innovate, and technologically upgrade their products;
- G. SMEs: accelerated lending in Sulong Program;
- H. INVESTMENT: Expand trade, investment, and tourism with China and attract investments from Middle East;
- I. Timely passage of the 2009 budget



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# POSITIONING FOR THE REBOUND OF 2010-2011



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## Investing in troubled times: the case of SM

- Martial Law declared in 1972: opened first SM department store in Quiapo
- Ninoy Aquino assassinated in 1983: built the first SM mall in North EDSA
- Coup attempts in 1987-1989: built SM Centrepoint and SM Megamall
- Asian Crisis: built 2-3 new malls every year
- 2005 political crisis: built the Mall of Asia
- 2008-2009 global recession: SM to join \$ 1 B casino project



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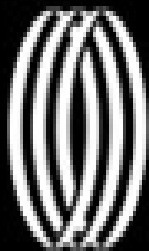


## Positioning for the rebound: Outsourcing

*“... firms will start coming in by around April next year.... It will take three months for them to restructure, reorganize and start offshoring because of pressure to cost-cut. The Philippines is top of mind...they want to build, expand, restructure in the Philippines as soon as possible.”*

*- David Leechiu,*

*Country Head, Jones Lang Lasalle Leechiu*



JONES LANG  
LASALLE LEECHIU



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## BUSINESS PROCESS OUTSOURCING EMPLOYMENT

Employees	2004	2005	2006	2007	2008	2009	2010
Contact Center	64,000	112,000	160,000	218,000	262,000	301,000	331,000
Back Office	15,000	22,500	36,000	61,000	110,000	187,000	299,000
Medical Transcription	4,000	5,500	7,000	17,000	34,000	68,000	122,000
Legal Transcription	300	450	675	1,013	1,519	2,126	2,764
Other Data Trans	2,000	3,000	4,000	6,000	8,000	10,000	13,000
Animation	3,000	4,500	6,500	10,000	17,000	27,000	41,000
Software Development	10,000	12,000	16,000	22,000	33,000	50,000	75,000
Engineering Design	2,000	2,800	4,400	6,000	10,000	15,000	21,000
Digital Content	200	500	1,000	2,000	4,000	8,000	16,000
<b>Workforce</b>	100,500	163,250	237,175	343,013	479,519	668,126	920,764



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## Edge in electronics

- 64% of exports are electronics
- 100% of Nokia's DSP chips, 80% of Siemens and Ericsson DSP chips
- Half of the world's 2.5" hard disk drives, 10% of 3.5" hard disk drives
- 4<sup>th</sup> largest exporter of laptops, notebooks
- 20% of the world's automotive wiring harnesses



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## Positioning for the rebound: Real estate

*“While it is true that some OFW buyers are having problems servicing their mortgage, they continue to prioritize payment of their residential property over luxury items. This is supported by the surge in dollar remittances in August amounting to \$1.3 billion to cover for any inflationary considerations related to their purchase of residential property.”*

**CBRE**  
CB RICHARD ELLIS



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## Emerging business districts (Metro Manila)

- Existing business districts: Makati, Ortigas, Cubao, Escolta, and Binondo
- 16 emerging business districts:
- North Triangle City, Eastwood City, Araneta Cyber Center, Greenhills Redevelopment, EDSA Central, Robinsons Gateway Center, Rockwell Center, Fort Bonifacio Global City, McKinley Hill, SM Central Business Park, Metropolitan Business Park, Newport City, Aseana IT Business Park, Asiaworld City, Madrigal Business Park and Filinvest Corporate City

*(Source: Leechiu and Associates)*



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## Positioning for the rebound: Strong long-term demand for OFWs

*“Aging populations in developed countries will generate labor shortages, particular in the health and care service sectors. These shortages will increase the economic incentives to allow inward migration.”*

*- David Canning*

*Harvard School of Public Health*



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## Positioning for the rebound: Tourism

*“Another bright spot for the property market is tourism with arrivals projected to rise to 3.4 million this year from 3.0 million in 2007.... Domestic travels have surged due to more affordable air fares and the emergence of popular tourist destinations like Boracay, Palawan, Mindoro, Bohol, Cebu and Davao....Hong Kong and Singapore are having a hard time (Singapore has gone into recession). I think people will focus on Southeast Asia.”*

*-Rick Santos, Chairman*

**CBRE**  
CB RICHARD ELLIS



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## **Positioning for the rebound: Retirement estates**

*... growth and demand from the retirement sector had...  
been steadily moving up....[as] a result of first and  
second generation Fil-Am professionals or active  
retirees coming home to the Philippines for good.*

*- Eric Soriano, Adviser*

*Philippine Retirement Industry*



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## **Positioning for the rebound: Mining**

\$ 840 billion in mineral reserves

In the next five years, gold production is seen to double, silver production will rise six-fold, while copper is expected to increase four times 2007 production levels.



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## Positioning for the rebound: Renewable Energy

“With its vast volcanic resources, this is an energy source that the country can readily exploit. The Philippines likewise has proven itself to be technologically competent in being a contender for global leadership...”

*- Ricardo G. Barcelona , Manager  
Barcino Capitas Limited*



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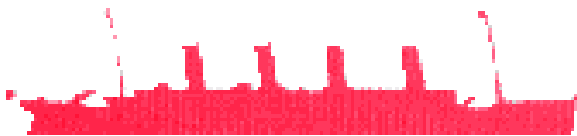


## Shipbuilding

- Cebu exports ships to the US, Mexico, Norway.
- \$ 1.7 billion investment of Hanjin of South Korea for Subic. Another Hanjin shipyard in Misamis Oriental
- Hanjin Subic will be 4<sup>th</sup> largest shipbuilding facility in the world.
- Already at least 33 orders for Subic
- By 2016, will manufacture the world's largest gas tankers and cargo ships
- Subic has begun construction of world's largest ship



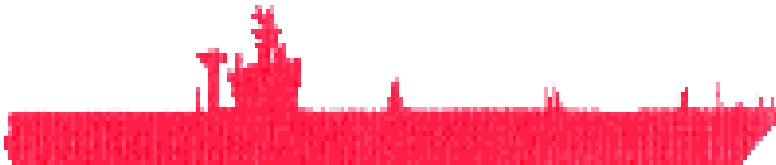
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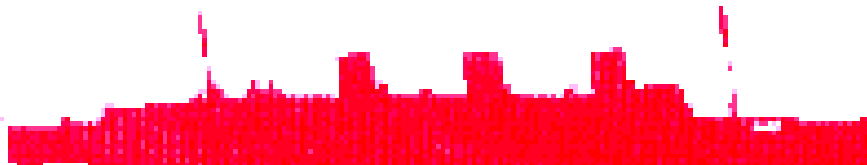
**Titanic: 882.75 feet long**



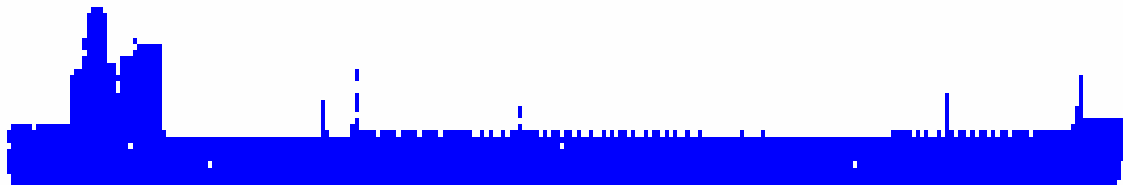
**Queen Elizabeth II: 963 feet**



**USS Nimitz: 1,092 feet**



**Queen Mary II: 1,132 feet**



**Subic-Hanjin: more  
than 1,604 feet**



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**Thank you**

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