Prospects and challenges in a global crisis

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Good day to all. It's an understatement to say we are living in very challenging times. Yesterday, the Dow Jones plunged to its lowest level in almost 12 years, and as one CEO put it, "We don't know where the bottom of this thing is." Last week, Taiwan's economy contracted by 8 percent. Mainland China has shed 20 million jobs. The Japanese Prime Minister has called this crisis a "once in a hundred years recession." More than two-thirds of the globe is in recession.

Amid the global crisis, the Philippines posted a GDP growth rate of 4.6 percent for 2008. Although lower than the 7.2 percent growth of 2007, this was respectable, considering the spike in rice and oil prices in the first half of the year and the global financial turmoil in the second half. The contraction in exports has resulted in 39,000 lay-offs.

This year, the global crisis continues to weigh heavily on the economy. The recession in our trading partners has hit our exports sector hard. On the other hand, the good news is, the inflation rate is also dropping steeply. Inflation was at 9.3 percent in 2008, and it will fall to an estimated 3.9% in 2009. Easing inflation in turn boosts private consumption, which account for 70 percent of GDP. Hence, the growth forecast for 2009 will be between 3.7 to 4.4 percent.

Aside from contraction in exports, other factors threaten to depress GDP growth. These include returning laid-off OFWs which may increase unemployment, a slowdown in remittances, lower revenue collection, a weaker exchange rate and tighter credit markets. Changing weather patterns are shifting cropping seasons, and this may also impact on our farmers.

Even with these risks, the country remains secure due to various reforms in place. Our EVAT law, for example, has yielded vital revenues contributing to a fall in the national government deficit: from P 187 billion in 2004 to only P 68 billion in 2008. We have been posting surpluses in the public sector accounts. The debt burden has been easing, as seen in falling debt-to-GDP ratios --- a 120 percent in 2004 down to roughly 56 percent in 2008. And as far as external debt is concerned, 70 percent in 2004, now it is down to about 32 percent.

The added revenues have helped us support infrastructure spending. The Bangko Sentral ng Pilipinas, has already discussed our strengths in the monetary side.

Our economy's growth drivers continue to remain steady. The BPO industry, for one, remains optimistic this year as cost-cutting firms in the West will want to outsource their business processes where services are much cheaper. The Philippines, in this regard, is a top preferred import destination of BPOs. While OFW inflows from the US may slow down, we see a steady labor demand in the Middle East, Australia and elesewhere which are responding to the crisis by embarking on infrastructure projects with their own stimulus packages. That will provide jobs for OFWs displaced. OFW inflows, BPO revenues, and low housing rates are supporting a dynamic real estate sector which should benefit from that government's pump-priming efforts and the pick-up in private construction.

In confronting the crisis, the global common response is fourfold --- monetary, fiscal, regulatory and governance. In the Philippines, our first and perhaps the most potent response is monetary. With declining inflation, Bangko Sentral has greater latitude to ease policy rates. Money supply is growing by roughly 15 percent. Unlike in the West, we have a huge savings rate. And that's why we have many companies coming up with bond floats, including San Miguel, PLDT, Ayala, Globe, Aboitiz and so on. They remain to be confident and optimistic in the Philippine government.

We also have a responsible and prudent fiscal policy. And that is what the ERP is all about. We do not want public spending to swell our national debt or to worsen inflation or to crowd out private initiative. Hence, we seek to allow an increase in our deficit within prudent limits…our spending is targeted at creating and saving jobs and protecting the poor by spending wisely and smart.

We must continue to strengthen our regulatory environment. This includes, among other things, giving more teeth to Bangko Sentral ng Pilipinas, the Insurance Commission, the PDIC and the Securities and Exchange Commission.

I shall talk about transparency with regard to infrastructure projects later on.

We have thus prepared the Economic Resiliency Plan or ERP, which aims to attain the following: ensure sustainable growth; save and create as many jobs as possible; protect the most vulnerable sectors: ensure low prices to support consumer spending; and enhance competitiveness in preparation for the global economic rebound.

Speeding up infrastructure is central to the plan. In 2009 we will stress small infrastructure projects to quickly generate employment. We shall award contracts early to get construction going before the rainy season. For the larger projects, we are realigning infrastructure budgets from the slow-moving items to the fast moving ones. This means that those programs entangled in right-of-way problems, and have no detailed engineering designs will all have to give way to projects already in transit.

Quick-disbursing high-impact projects include small, labor-intensive, community-scale infrastructure projects with high local value-added such as repair of irrigation systems, the construction of farm-to-market roads, adding on asphalt overlays, etc. Local governments will play a larger role in implementing as well as monitoring such projects. As agreed in

Cabinet meetings, the implementing agencies are frontloading their infrastructure budgets; they will spend 60 to 80 percent in the critical first semester. I am confident that the Departments concerned will deliver their commitments.

Since the global crisis poses a major threat to employment, we are responding with a comprehensive livelihood and emergency employment program or CLEEP. Here, the livelihood and public works projects have been aligned with the respective priorities of the Super Regions and the needs of the 12 poorest provinces, and the most food-poor areas.

With CLEEP, green-collar jobs will be created for upland workers, more jobs in building farm to market roads, and irrigation projects. Work will be available in projects like fertilizer production, goat raising, and other productive home-based activities. All in all, this effort will create more than 800,000 jobs. We now have an employment odometer in the various departments. This does not include the programs of the Department of Labor and Employment for displaced OFWs and for laid-off export workers.

Our social security institutions have…additional benefits for its members. You now have a 35 percent increase in benefits…this is part of the general thrust to expand the net social protection. The plan also emphasizes conditional cash transfers and hunger mitigation programs. It deploys nurses to underserved areas via the NARS program and provides more loans for students and grants for LGUs. These social safety nets also serve as a stimulus for more spending and increases demand for private services particularly in education and health

Large infrastructure projects will continue to be a priority, such as additional highways and MRT tracks. Imagine the traffic in EDSA if the MRT and LRT did not exist. Let me emphasize the need to strengthen our domestic economy That involves more investment for transport, tourism, power, water, and housing. The NEDA Board members, meaning the President and the Cabinet together with the private sector, are selecting the projects for the short list.

Because these projects will take longer gestation periods, there is more time for the public to scrutinize them, to shield them from anomalies. Here is a window to open up contract details in public works. Governance is a public concern, so let us turn this crisis into an opportunity for greater transparency.

Yes, the Philippines is feeling the impact of the global crisis. But our economy has remained strong as acknowledged by many rating agencies, thanks to OFW inflows, outsourcing, a vibrant real estate sector, the big push for infrastructure, and new-found strength in food manufactures, tourism and biofuels. We must thus position ourselves for the post-crisis years to see the Philippines take her rightful place in a rising, confident Asia.

Thank you very much for your time.