

# **WELL PREPARED FOR THE GLOBAL ECONOMIC CRISIS**

## **Address to the Joint Business Meeting arranged by the Philippine Chamber of Commerce and Industry**

Sec. Ralph G. Recto  
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### **INTRODUCTION**

Good afternoon, distinguished officers and members of the PCCI, PHILEXPORT, ECOP, the FFCCCII, MAP, FINEX, BAP, MBC, and the FPI. Thank you for inviting me to address this grand assembly of business. Few topics today are as hot as the economic crisis. Many questions swirl in our minds. How bad will it get? How will our own economy be damaged? What are we doing about the problem?

I will first update you on how the global crisis impacts on the Philippine economy. Then I will take stock of buffers that help shield our economy from the fallout. Finally, I will discuss measures that we have undertaken to protect the economy during these challenging times. I refer in particular to the Economic Resiliency Plan.

### **FALLOUT FROM THE GLOBAL STORM**

In the United States, 2 million workers have lost their jobs, thus pushing up the unemployment rate to a 15-year high. China for its part has shed 10 million jobs. Both the IMF and the World Bank are presenting grim outlooks for 2009. The IMF forecasts that the US will post growth this year of negative 0.7 percent. The IMF's growth rate for the European Union is seen at negative 0.2 percent.

Given that the Philippines is integrated globally via trade and labor flows, we see the impact of the global recession in the real sector.

First to feel the blow of the global downturn was the stock market. The Philippine Stock Exchange has joined bourses around the world in significant declines. Next was foreign exchange, as global investors fled from emerging markets like the Philippines, causing some peso depreciation.

A stagnant US and world economy has lowered foreign demand, hitting Philippine merchandise exports. In November, exports contracted by 11.9 percent. Electronics exports have posted 4 consecutive months of contraction.

As the current situation negatively affects consumer confidence, this weakens consumer demand, which was already dampened by rapid inflation and high oil prices. This translated to a slowdown in financial services, retail trading, transportation and communication. The dampening effect on investor confidence also delayed some expansion plans and postponed investment decisions. Capital flight is drying up funds available for investment. Our workers are vulnerable, particularly those in exports, and overseas Filipinos in the US with temporary working visas.

## **STRONG FUNDAMENTALS**

Nevertheless, our fundamentals remain strong, and they help explain why the impact of the crisis on the Philippines has been softened.

Let's begin with the financial sector. The Asian Crisis of 1997 was a blessing of sorts, for it led to reforms that have made our financial system resilient. The banking system has remained adequately capitalized: its capital adequacy ratio of 15 percent is well over the BSP's minimum of 10 percent and the Basel Accord's prescribed ratio of 8 percent.

Our banks have not bitten into the temptation of fancy but shady instruments that were the rotten core of the Wall Street meltdown. For example, our banks' exposure to Lehman Brothers was not even 1% of their total assets. Asset reforms have led to a continuing drop of the ratio of non-performing loans. The NPL ratio, once at 18%, is now down to 4%, or at pre-Asian crisis levels.

Amid the global credit crunch, healthy lending continues. Bank lending net of banks' reverse repurchase (RRP) placements with the BSP, grew by 21.3 percent, and outstanding loans of commercial banks including RRP, increased in November by 22.9 percent. Loans for production activities continued to rise by 18.4 percent. Lending to almost all sectors increased.

Remittances of overseas Filipinos coursed through banks reached US\$1.3 billion in November, for cumulative remittances of US\$15.0 billion for the first eleven months of 2008. This is 15.1 percent higher than the level recorded during the same period a year ago. This is above the original 10 percent growth target. Note that Filipinos in the US hardly work in the hardest hit financial sector. They are often found in sectors that are least sensitive to recession. They work as teachers, caregivers, nurses, doctors – professions that are last to be fired because of the shortages there. In the Middle East there is a big demand for construction workers because of the building boom. And there is new demand from emerging labor markets like South Australia, New Zealand, and Guam.

An ace up our sleeves is the outsourcing industry, which is seen to post 35% growth this year. In a recession it makes sense for American and European firms to outsource their work to the Philippines, where labor costs are much cheaper. We can actually benefit from the crisis.

Despite the global flight from emerging markets, we still have a balance of payments surplus. The BOP surplus was US\$364 million for the first eleven months of 2008.

We have a sizeable war chest to defend the peso, if needed. The country's gross international reserves (GIR) rose to US\$37 billion as of December, and it can cover almost 6 months of imports and payments of services and income.

Headline inflation decelerated for the fourth straight month, moving down to 8 percent in December. This lowered average inflation for 2008 to 9.3 percent, well within BSP's forecast of 9.0 to 11.0 percent.

To date, the National Government or NG deficit for January to November 2008 stood at P66.7 billion, still below the 2008 emerging target of P75 billion. The primary balance in the first 11 months of the year remained in surplus.

Total external debt fell to \$53.5 billion as of September 2008, down by US\$1.3 billion from the end-June level. Likewise, the external debt to GDP ratio posted a significant drop from 41.2 percent in end-June 2008 to 33.8 percent in end-August 2008.

The country remained robust as it grew by 4.6 percent in the first three quarters of 2008. For the third quarter (the time when global economic crisis deepened), we registered 4.6 percent GDP growth, faster than the growth of our neighbors: South Korea (3.9%), Thailand (4.0%), Hong Kong (1.7%), Singapore (-0.3%), and Taiwan (-1.0%).

Standard and Poor's has described the Philippines as an "Island of Calm" because of these strengths and reforms. Others share that view:

"The Philippines is inherently strong, a potential beneficiary of these financial woes,"

said the Bank of New York Mellon's chairman for Asia Pacific, Christopher Sturdy,

“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,” said JP Morgan.

## **ECONOMIC RESILIENCY PLAN**

We are an island of calm not only because of our strong macroeconomic fundamentals. We are inherently strong also because we have done our homework for the crisis period.

We drew up the Philippine Economic Resiliency Plan which pursues the following objectives:

1. To ensure sustainable growth and attain the higher end of the growth targets;
2. To save and create as many jobs as possible;
3. To protect the most vulnerable sectors: the poorest of the poor, returning OFWs, and workers in export industries;
4. To ensure low and stable prices to support consumer spending; and
5. To enhance competitiveness in preparation for the global economic rebound.

Even before the Economic Resiliency Plan, our monetary authorities have worked to secure our financial institutions.

To ensure the proper functioning of the interbank market and to guard against credit tightness, the Monetary Board cut the regular reserve requirement on bank deposits by two percentage points effective November 14.

The Monetary Board slashed BSP’s key policy interest rates to 5.5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.5 percent for the overnight lending or repurchase (RP) facility on

December 18. Bangko Sentral believes that with decelerating inflation, there is greater latitude to ease policy rates.

On the fiscal front, we have postponed balancing the budget. The 2008 deadline was moved to 2011. That will give us greater freedom to pump-prime the economy.

We accelerated the implementation of infrastructure projects in the latter half of 2008.

We granted additional tax exemptions under RA 9504, exempting minimum wage earners from paying income tax and increasing personal exemptions for all employees.

Under the EVAT law, the corporate income tax falls to 30% in 2009, from the previous 35%.

We are improving revenue collection through better tax administration.

Let's talk about the Economic Resiliency Plan. I will discuss fiscal principles, the push for infrastructure, and protecting the vulnerable.

We are maximizing the Personal Services (PS) Budget, spending specifically to respond to the crisis. The lack of manpower and misallocation of personnel will be addressed. We are hiring more teachers, policemen, and soldiers. We are deploying doctors and nurses to underserved areas.

We are maximizing the Maintenance and Other Operating Expenses or MOOE Budget by stepping-up the repair and rehabilitation of government buildings. We are fast-tracking the purchase of supplies and equipment, like ambulances and patrol cars.

In general we are now ensuring that agencies fully utilize their PS and MOOE allocations.

I have said before that our mantra during the crisis is "Infra, Infra, Infra." We are investing much in infrastructure to create jobs, to boost

growth, and to upgrade our capital stock. Speed in hatching new jobs is critical. We are improving the absorptive capacity of government infrastructure agencies by ensuring that these agencies hit the ground running. The program of works and procurement plans must be prepared under tight deadlines. Contracts will be awarded in the first quarter of 2009.

Funds are being moved away from the slow-moving projects to the fast-moving. Projects with right-of-way problems will have to wait. We may also defer the implementation of new projects that do not have ICC and NEDA Board approval, or those that are difficult to implement immediately.

We are stressing quick-disbursing high-impact infrastructure projects that are labor intensive. Examples of such rapid projects include the construction, repair, and rehabilitation of irrigation systems. During this critical time we will closely monitor project implementation.

While upgrading infrastructure and creating jobs, we will also enhance social protection.

We are intensifying our social protection services such as the Pantawid Pamilyang Pilipino Program (4Ps), which involves conditional cash transfers. Same too for the hunger mitigation programs.

On the conditional cash transfers, we are pumping in another PhP 5.00 billion so as to cover an additional 321,000 poor households, double the original 2009 target, giving them maximum cash grants of P 9,000 per year.

We are adding P 1 billion for PhilHealth to ensure full national government contributions to the National Health Insurance Program.

We are increasing TESDA's allocation by PhP 5.66 billion to cover around 566,000 additional beneficiaries.

As regards off-budget interventions, we will work so that our social service institutions (PhilHealth, GSIS and SSS) will provide additional benefits to their members. The intervention will be time-bound (say 18 months) and targeted (e.g., for senior citizens) and aimed at increasing purchasing power. The resources will be taken from the difference between the contributions and claims and benefits. This would entail about P10 billion each for the Social Security Institutions (SSIs).

We will also create the P 100 billion fund with the private sector to lower borrowing/financing costs for CAPEX spending. We are tapping the resources of Government Financial Institutions (GFIs) and Social Security Institutions (SSIs) for infrastructure projects.

The government has formulated programs to assist OFWs and vulnerable domestic workers. For displaced OFWs, the DOLE is redeploying them to other foreign labor markets. Those that choose to come home are given repatriation assistance and are helped to set up their own businesses here. They are given business counseling and livelihood support.

We have set up a P250-million livelihood support fund for these returning overseas workers. The loan fund shall be used as startup capital for workers who decide to stay in the Philippines and set up their own business.

Domestic workers who get laid off, like those from the vulnerable export commodity sectors, are assisted via emergency employment programs.

The Department of Labor is engaging its tripartite partners – business and the workers – to implement coping mechanisms, like shortened work shifts and work week; maximized vacation leaves; and adopted rotating forced leaves, among others.

This is a long list of running projects, and it will keep getting longer as we get other minds into the loop.

Yes, the Philippines is feeling the impact of the global crisis. But our economy is tough, and this has been acknowledged by the rating agencies. The economy will be even more resilient as pesos are poured into kilometers of concrete.

As we take on the challenge, let us also look at the crisis as providing us with opportunities to realize further growth after a period of hardships. Let us take advantage of the situation and begin even at this early to prepare ourselves to gain from the eventual global economic rebounds and help each other uplift the country provide a better tomorrow.

Maraming salamat po.