

The World Economic Crisis: Its Impact on the Philippine Economy



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Nature of the Problem

- “The current recession is likely to be unusually long and severe and the recovery sluggish” –The IMF
- “Migrants and remittances could be an added complication for the Philippines... The longer the global recession lasts, the more the risks of large scale return of migrants.” –Bert Hoffman, WB country director
- “The global economic crisis will be with us for a **generation**, not just a year or two, because it is really a transition to sustainability.” – Jeffrey D. Sachs, professor of economics and director of the Earth Institute of Columbia University

Synchronized fall

- By any measure, this downturn represents by far the deepest global recession since the Great Depression -- IMF's WEO April 2009
- Only 17 of the 182 countries followed by the IMF are expected to grow faster this year than they did last year. Some 71 – including 30 of the world's 34 advanced economies – are expected to shrink. -- U.S. Treasury Secretary Geithner

The Great Recession Deepens

Source: IMF, World Economic Outlook, April 2009

	2007	2008	Projections		Difference from Jan 09	
			2009	2010	2009	2010
World output	5.2	3.2	-1.3	1.9	-1.8	-1.1
Advanced economies	2.7	0.9	-3.8	0.0	-1.2	-1.6
United States	2.0	1.1	-2.8	0.0	-1.2	-1.6
Euro area	2.7	0.9	-4.2	-0.4	-2.2	-0.6
Japan	2.4	-0.6	-6.2	0.5	-3.6	-0.1
Emerging market	8.3	6.1	1.6	4.0	-1.7	-1.0
China	13.0	9.0	6.5	7.5	-0.2	-0.5
India	9.3	7.3	4.5	5.6	-0.6	-0.9
ASEAN-5	6.3	4.9	0.0	2.3	-2.7	-1.8

Grim Prognosis

- The world economy is expected to contract 1.3% this year before it will grow to just 1.9% in 2010. This year's new growth projection is much lower than the IMF's January estimate of 0.5% growth for 2009.
- The U.S. economy – the epicenter of the crisis – is expected to contract 2.8% this year, with no growth in 2010. But next year's recovery depends on the success of the government's plan to remove bad debts from bank balance sheets.

Recovery: How Soon and How Strong?

Source: IMF, WEO, April 2009, Chapter 3

- It is important to make a distinction between recessions associated with financial shocks and other recessions. It is also important to distinguish recessions that were highly synchronized across countries and those that were country or regionally specific.
- Recessions associated with financial crisis are longer and more severe. Recoveries to pre-crisis output levels from such recessions are typically slower.

Recovery: How Soon and How Strong?

Source: IMF, WEO, April 2009, Chapter 3

- Financial crisis-associated recessions last one and a half years longer than other recessions. It takes almost three years to get back to pre-recession output levels, which is more than one and a half years longer than in the case of other recessions.
- Globally synchronized recessions are also longer and deeper than other recessions and recoveries are more sluggish.

Rare combination: implication

- But what we have is a rare combination of financial sector driven and globally synchronized recessions. Past experience suggests that such recessions last almost two years and it takes three and a half years for economies to return to pre-crisis output levels.

Do expansionary macroeconomic policies work?

- The IMF team finds that expansionary macroeconomic policies have been associated with shorter recessions and stronger recoveries.
- But evidence suggests that the impact of fiscal policy (use of expenditure and tax measures) on the strength of the economic recovery is smaller for economies that have high public debt levels. In other words, fiscal space matters.

Green shoots or yellow weeds?

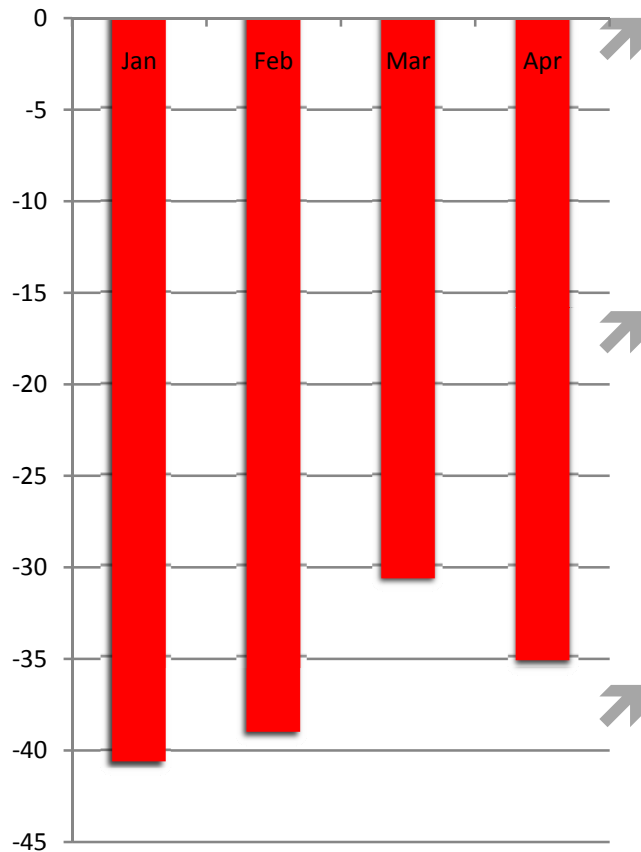
- Recent data suggest that the rate of decline in the global economy may be slowing. But hopes that 'green shoots' may be springing up may be a bit premature; they may have been shattered by lots of yellow weeds.
- “There are signs of stabilization in our economies, but the situation remains uncertain and significant risks remain to economic and financial stability,” –Statement of G-8 finance ministers, June 12th 2009
- “I don't think we're at the point where we can say we have a recovery in place. It's too early to shift towards policy restraint.” –U.S. treasury secretary Timothy Geithner, June 12th 2009

Impact of global economic crisis on the Philippine economy

Transmission Mechanisms

- ➔ **Slower exports**, factory closures and layoffs
- ➔ **Overseas remittances slowing**. Remittances account for 10-12% of GNP. Fall in remittances means lower consumer demand.
- ➔ **Lower foreign direct investment (FDIs)** which means lower long-term growth and thus, lower employment opportunities and higher unemployment and underemployment.

Exports Falling



Exports earnings in 2008 contracted by 2.9% -- a sharp departure from the original growth target of 11%

The downward trajectory is alarming: 40.6 % contraction in January 2009, 39.0% fall in Feb, and 30.6% decline in March and 35.2% drop in April

A 30% contraction of export earnings is likely for 2009

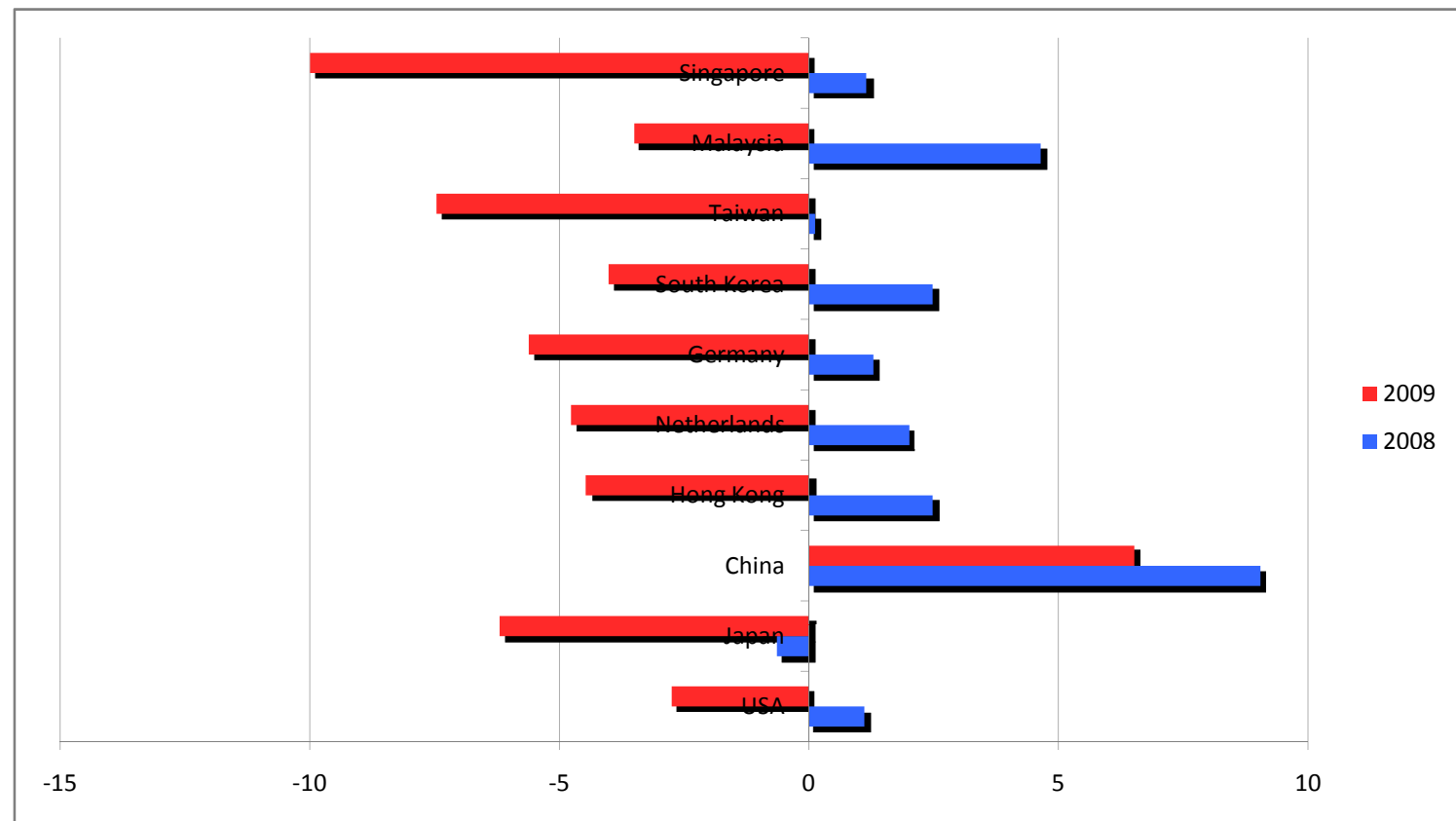
Slower exports

- Exports performance is expected to worsen in 2009. The economies of the top 10 destinations of Philippine exports, which account for about 84% of total exports, are all projected to deteriorate in 2009.
- Under the most optimistic scenario, these 10 economies are expected to recover in 2010 with a few exceptions –U.S., Netherlands, Germany and Singapore. But the economic recovery is expected to be weak.

Export Performance

Country	Jan-Apr 09\$m	Percent share	Annual growth
Total	10,727	100.0	-36.41
Top 10 countries total	8,999	83.89	-37.43
1. U.S.A.	1,874	17.47	-32.62
2. Japan	1,671	15.58	-37.18
3. China	1,041	9.71	-47.44
4. Hong Kong	942	8.79	-44.97
5. Netherlands	964	8.99	-24.95
6. Singapore	529	4.93	-41.04
7. Germany	690	6.44	-19.69
8. South Korea	498	4.64	-44.38
9. Malaysia	371	3.46	-47.87
10. Taiwan	416	3.88	-30.14
11. Others	1,728	16.11	-30.54

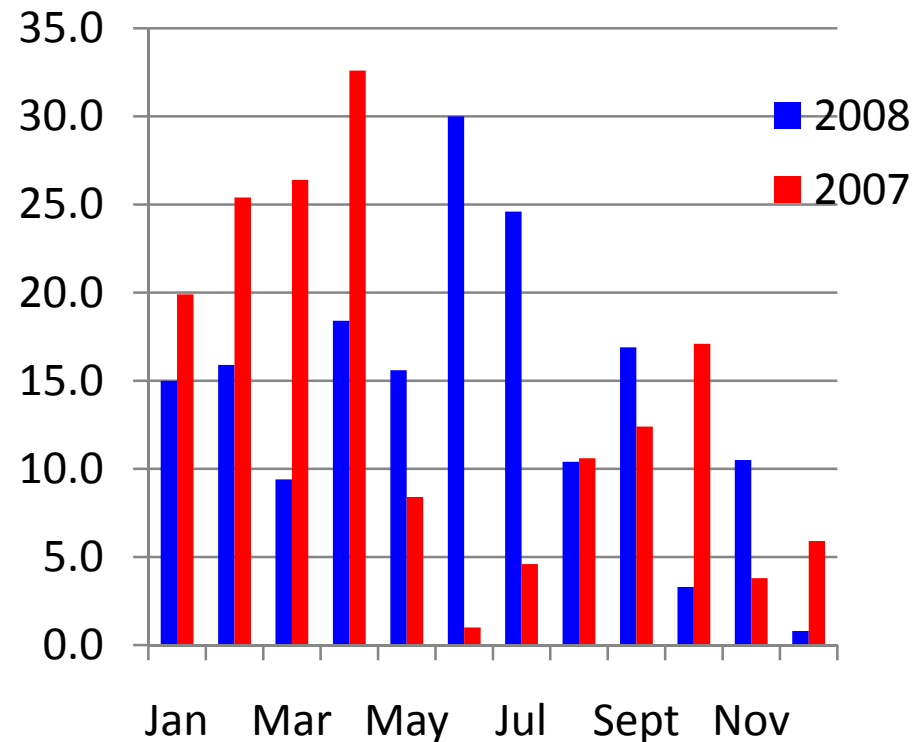
The worst is yet to come



Remittances: positive but slowing

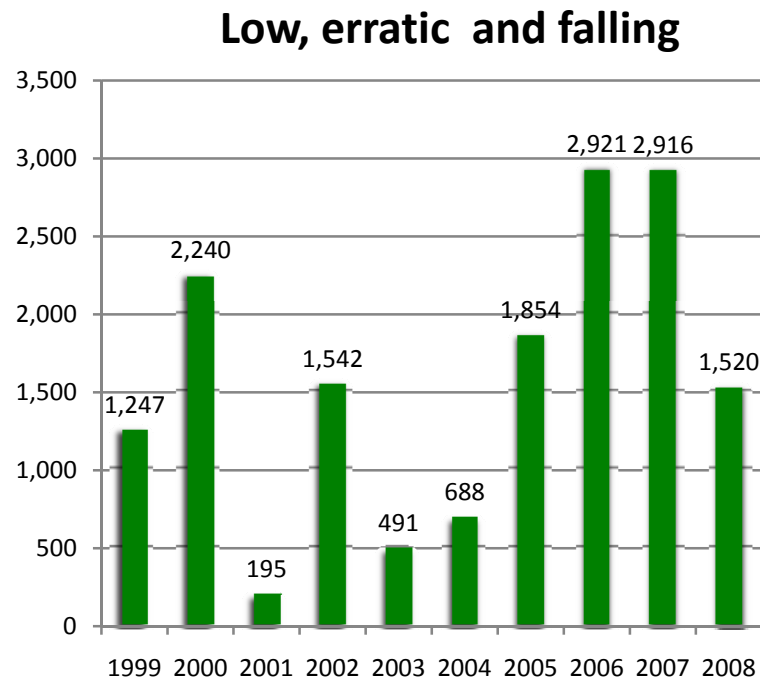
➤ BSP expects remittances to grow by 6-9% in 2009 to about \$18 billion. This is unlikely. BSP has revised forecast to zero growth. But a 7- 10% decline in remittances is likely in 2009.

➤ Inflows for the first 4 months of the year rose 2.6 percent from the same period of 2008. Note: inflows have been growing at double-digit rates in the past.



Foreign direct investments down sharply

FDIs inflows were low by international standard; hit rock-bottom in 2001

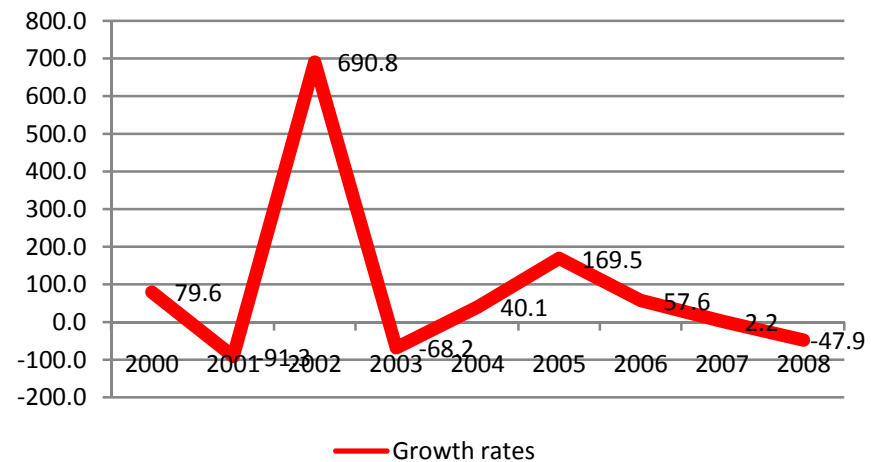


FDIs reached \$1.5b, 47.9% lower than the \$2.9b level in 2007.

Forecast for 2009: less than \$500m
Lower FDIs means lower long-term growth and lower employment.

■ FDIs

Slowdown started in 2006

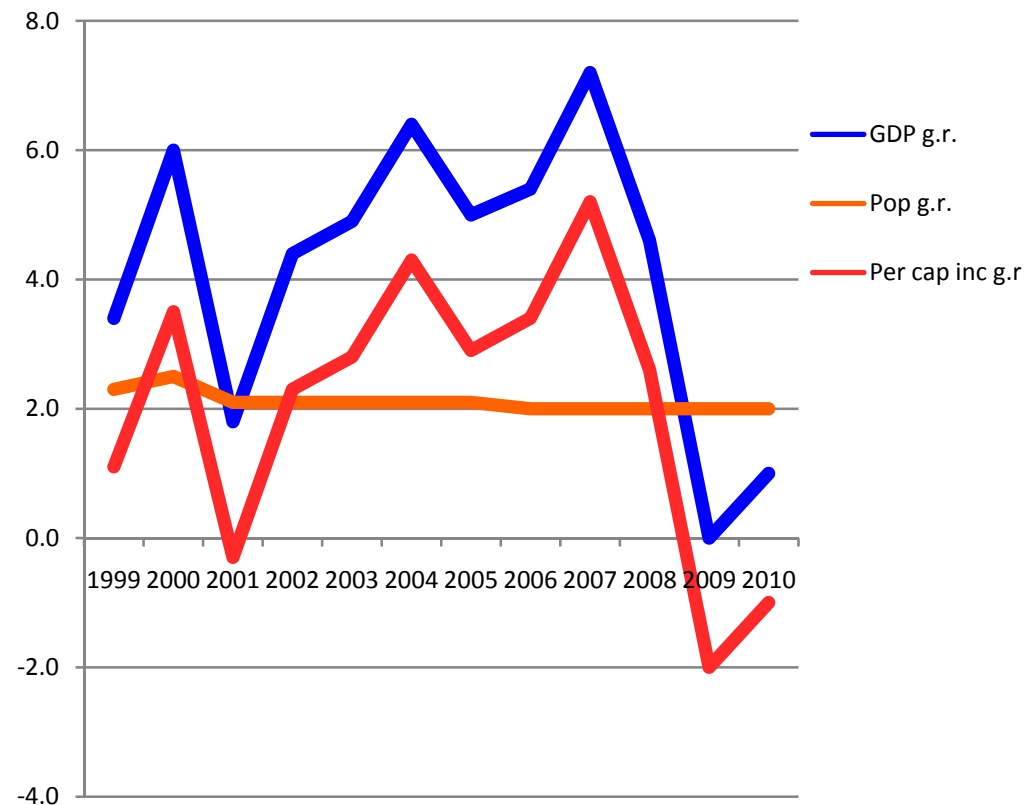


Prospects for the Philippines

- ➔ The U.S. economy will probably recover during the second half of 2010 depending on the government's ability to clean the bad debt from bank balance sheets. But the recovery is likely to be weak.
- ➔ The long-term, sustainable solution for the U.S. is to export more and import less. At the same time, the U.S. government has to tax more and spend less. This means countries should not look at the U.S. as a major source of demand for their exports. **The voracious U.S. consumer won't be back soon.** U.S. will go through a long period of below pre-crisis growth levels.

2009 and 2010 will be recession years

- Using new IMF measure of global recession, the Philippines will be in recession this year and next
- New definition: a decline in real per- capita GDP, backed up by a look at indicators such as industrial output, trade, capital flows, oil consumption and unemployment.



Economic recovery and 2010 elections

- ‘Worst-case’ scenario: slow recovery due to low tax effort (Q109 level: 11.5%), high levels of public debt (P4.2 trillion, national government), and exacerbated by poorly run 2010 elections which again raises the issue of legitimacy.
- ‘Muddling through’ scenario: a new set of leaders is elected in 2010 in a relatively honest, open, and peaceful elections. But the new administration remains ‘captured’ by vested interests and no real reforms are undertaken.

Economic recovery and 2010 elections

- ‘Best-case’ scenario: a new set of leaders is elected in 2010 in a relatively honest, open, and peaceful elections. But in contrast to the ‘muddling through’ scenario, the new administration has a strong, forward-looking, reform agenda that includes tax and spending reforms to ensure fiscal sustainability, and has the political will to implement the same.
- The question is: how can we make the ‘best-case’ scenario happen?

Thank you!

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