



Economic Report

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Riding Through the Crisis in 2008 Bumpier Road Ahead in 2009

For the Philippines and the rest of the world, 2008 has been a very difficult year. Soaring commodity and fuel prices and the worst financial crisis since the Great Depression has left world markets reeling. Prospects for 2009 remain bleak, with the country's overseas employment sector and export industries seen as the most vulnerable. Whether the Philippines will remain resilient or not depends critically on strong policy actions and how well the government executes its fiscal stimulus plan.



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HIGHLIGHTS OF PHILIPPINE ECONOMIC PERFORMANCE

Production and Expenditure

2008 proved to be tough for the Philippine economy as a number of shocks undermined growth in the real sector. Philippine economic growth slowed markedly to 4.6 percent in 2008, a far cry from its 7.3 percent expansion rate in 2007. The economy was buffeted mainly by the historic spikes in energy and commodity prices and the heightened risk aversion in the global financial markets.

Industry overtook services' growth for the first time since 1997. Spurred by the higher-than-average expansion in both private and public construction, the growth of the industry sector overtook that of services. The decelerated growth of services was brought on, in part, by the sluggish performance of its transportation, communication and service (TCS), and financial subsectors. In contrast, the robust growth in ownership of dwellings and real estate from 5.9 percent in 2007 to 7.0 percent was due to continued strong demand from retail and mid-level markets as well as from outsourcing firms. Meanwhile, despite unfavorable weather and high input costs, the agriculture sector managed to grow by 3.2 percent on the back of a 14.8-percent increase in agricultural commodity prices, particularly palay, and the early onset of rainfall and release of irrigation water.

Private and public spending dropped as prices of food and fuel soared. As rising prices pinched household incomes, consumer spending remained subdued in 2008. Similarly, government spending was anemic early on but increased significantly during the third quarter as government speeded up implementation of infrastructure projects to mitigate economic contraction. Investments in durable equipment, breeding stock, and orchard development continuously deteriorated throughout 2008.

Real GDP and GNP Growth Rates, 2007 and 2008 (in percent)

Indicators	2007				2008				2007	2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
GNP	7.0	8.3	7.1	6.4	5.8	5.5	6.6	6.4	8.0	6.1
Net Factor Income from Abroad	11.3	25.3	31.9	0.6	18.3	14.7	22.6	27.9	16.5	20.8
GDP	7.3	9.8	9.1	6.0	4.7	4.4	5.0	4.5	7.2	4.6
AGRICULTURE, FISHERY AND FORESTRY	4.0	4.2	5.7	5.7	2.7	5.0	2.5	2.8	4.9	3.2
Agriculture and Fisheries	4.1	4.3	5.9	5.7	2.7	5.0	2.4	2.8	5.0	3.2
Forestry	-6.3	-8.4	-17.7	-5.3	2.4	(3.8)	6.8	5.3	(10.5)	2.2
INDUSTRY	6.6	10.3	6.6	4.9	3.0	4.5	7.4	5.0	7.1	5.0
Mining & Quarrying	14.7	38.9	24.0	21.5	14.1	(12.4)	(4.3)	12.1	25.9	0.6
Manufacturing	4.1	3.4	3.7	2.6	2.4	6.3	5.5	3.2	3.4	4.3
Construction	21.7	37.0	17.8	13.4	(3.4)	3.7	20.0	13.1	23.1	8.2
Electricity, Gas and Water	4.4	5.4	8.4	8.3	9.5	6.7	9.3	5.5	6.7	7.7
SERVICES	8.4	8.4	8.0	7.8	6.5	4.2	4.2	4.9	8.1	4.9
Transport., Communication and Storage	10.5	9.6	5.8	7.4	5.6	3.9	2.9	2.6	8.3	3.7
Trade	7.2	7.6	9.1	8.8	5.8	4.2	4.1	4.9	8.2	4.7
Finance	16.3	14.2	11.4	10.7	12.2	1.0	1.8	4.6	13.1	4.9
Ownership of Dwellings & Real Estate	5.5	6.0	6.8	5.0	7.3	7.6	6.7	6.5	5.9	7.0
Private Services	8.4	9.1	8.7	7.6	5.7	6.0	5.5	5.4	8.4	5.7
Government Services	1.7	2.4	3.4	2.9	4.0	2.5	4.8	7.7	2.6	4.7
PERSONAL CONSUMPTION EXPENDITURE	5.9	5.6	5.7	6.2	5.2	4.1	4.4	4.5	5.8	4.5
GOVERNMENT CONSUMPTION	9.5	11.9	6.4	4.6	1.9	(1.5)	13.4	4.7	8.3	4.3
CAPITAL FORMATION	8.7	17.6	7.6	11.0	4.0	15.3	7.6	(9.0)	11.2	4.2
Fixed Capital	10.3	20.9	8.8	6.7	2.9	3.0	7.0	1.9	11.8	3.7
Construction	20.4	34.4	16.8	11.7	(3.1)	3.4	14.0	11.6	21.3	6.3
Durable Equipment	4.3	8.8	2.3	2.6	8.6	3.8	0.9	(7.4)	4.5	1.7
Breeding Stock & Orchard Dev't	2.0	7.1	3.6	5.1	(2.0)	(5.0)	(0.9)	1.0	4.5	(1.6)
EXPORTS	10.8	4.9	3.7	3.9	(6.1)	7.6	4.1	(7.5)	5.6	0.0
Merchandise Exports	8.2	6.3	-0.2	2.7	11.0	5.6	4.8	(9.2)	4.0	(1.7)
Non-Factor Services	23.1	-1.4	29.0	8.7	14.8	17.1	0.7	(1.0)	13.7	7.7
LESS : IMPORTS	-1.8	-10.5	-5.0	0.2	(5.8)	(0.7)	2.9	(1.2)	(4.5)	(1.1)
Merchandise Imports	-3.0	-11.6	-6.4	-0.8	(7.3)	(2.7)	1.1	(0.5)	(5.6)	(2.2)
Non-Factor Services	14.5	12.0	22.0	12.9	12.3	30.3	30.2	(9.9)	15.0	13.8

Selected Macroeconomic Indicators

Indicators	2007				2008				2007	2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
FISCAL										
Fiscal balance (% of GDP)	(3.4)	0.7	0.1	1.5	(3.1)	(0.5)	1.0	.....	(3.4)	0.7
Government debt (% of GDP)	63.7	59.7	59.2	55.8	57.1	56.6	56.5	.....	63.7	59.7
MONEY AND BANKING										
Domestic credit (percent change)	5.3	6.0	6.7	7.5	12.5	16.2	21.8	.....	5.3	6.0
Capital adequacy (in percent of assets)	11.5	11.4	11.6	11.7	11.9	10.7	.....	.....	11.5	11.4
Non-performing loans (percent of total)	7.0	7.0	6.8	5.8	5.8	5.2	.....	.....	7.0	7.0
EXTERNAL										
Current account balance (% of GDP)	6.1	4.8	2.9	3.9	2.2	1.9	(1.3)	.....	6.1	4.8
Foreign exchange reserves (in US\$ million)	738.1	298.7	232.3	356.2	370.6	369.9	409.4	981.4	738.1	298.7
In months of imports	4.4	4.6	5.2	5.6	5.9	5.8	5.6	5.5	5.7	5.9
External debt (% of GDP)	42.5	38.7	38.8	34.5	33.2	34.6	34.4	.....	34.5	.....
Of which: Short-term external debt	9.5	11.2	12.7	12.9	12.2	16.1	15.5	.....	12.9	.....

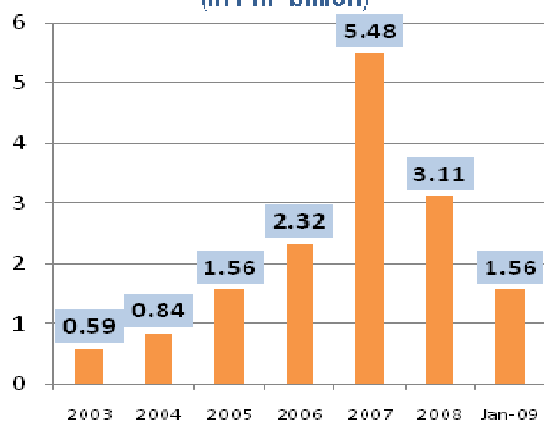
Source: BSP and Bureau of Treasury

Figure 1. Average Inflation Rate, January to December 2008 (in %)



Source: National Statistics Office

Figure 2. Average Daily Value Turnover (in PHP billion)



Source: Philippine Stock Exchange

Table 3. GDP Growth Rates, Selected Asian Economies, 2007-2008 (in %)

Country	2008	2007
Singapore	1.2*	9.3
South Korea	2.5	5.0
China	9.0	13
Philippines	4.6	7.2
Thailand	3.6*	5.9
Malaysia	5.0-5.5*	6.4
Indonesia	6.2*	6.4
Vietnam	6.2*	8.5

*Preliminary estimates/forecasts by national statistics offices and central banks.

Neighboring countries in Asia have also experienced the economic downturn. Singapore, the financial hub in the region, was the most affected, with its 2008 GDP estimated at 1.2 percent from 9.3 percent in 2007. Preliminary data shows that the Philippines fared better than Thailand, but was worse than Vietnam, Indonesia and Malaysia.

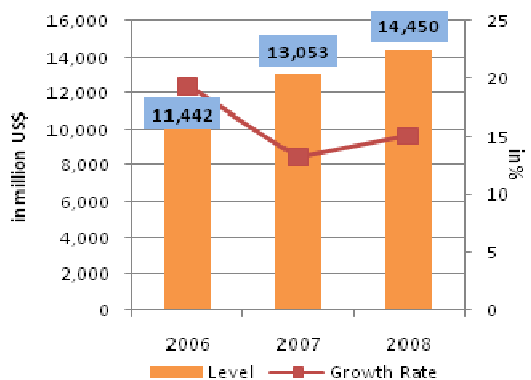
Monetary and Financial

Annual inflation hit 9.3 percent, its highest level in a decade. Headline inflation rose for most of 2008, and peaked at 12.5 percent in August. This prompted the Bangko Sentral ng Pilipinas (BSP) to hike up its key policy rates by 25 basis points (bps) in June, 50 bps in July, and then again by 25 bps in August. Continuing supply shocks resulted in second round effects as reflected by the increase in core inflation to 7.9 percent in November. It eventually eased to 7.3 percent in December, which was correspondingly met with a rate cut of 50 bps by the BSP.

A number of rural banks had to deal with the issue of capital inadequacy, but all in all, the domestic banking system remained buoyant in the face of the global financial turmoil. As of December 2008, 13 rural banks were placed by the BSP under receivership for failure to service withdrawals and for engaging in unsafe and unsound banking practices. These banks, however, represent a small fraction of the Philippine banking system, which remained adequately capitalized and continued to post a wide margin over the BSP's minimum required capital adequacy ratio (CAR) of 10.0 percent and the internationally (Basel) prescribed ratio of 8.0 percent. As of June 2008, the banking system's CAR (consolidated basis) stood at 15.3 percent while the share of non-performing loans to total loan portfolio went down from 5.02 percent in March to 4.51 percent in June. Moreover, the banking sector's exposure to toxic financial instruments has been marginal and is officially estimated to be 2.0 percent of the sector's total assets. Despite fears of credit tightening, lending trends indicated sufficient domestic liquidity. As of November 2008, bank lending, specifically of commercial banks, rose by 22.9 percent year-on-year.

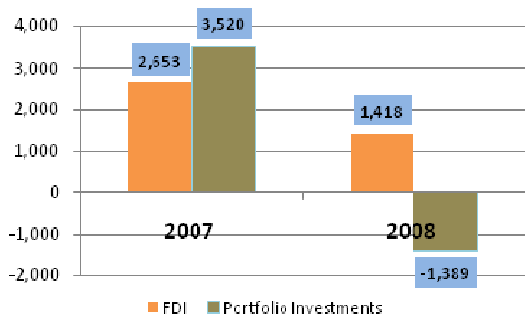
The critical combination of abrupt increases in risk premiums, expatriation of capital, and concerns about liquidity and corporate profit, resulted in the sharp fall in equity prices. A complete reversal from its robust growth in 2007, the Philippine Stock Exchange Index (PSEi) registered a 48.0-percent decline in 2008. Average daily turnover went down from Php5.5 billion in 2007 to Php3.1 billion in 2008, while capital raised by companies diminished from Php90.1 billion to Php31.6 billion. For the first time in the 81-year existence of stock trading in the country, the Philippine Stock Exchange (PSE) resorted to a circuit

Figure 3. OFW Remittances, Jan- Nov 2006-2008



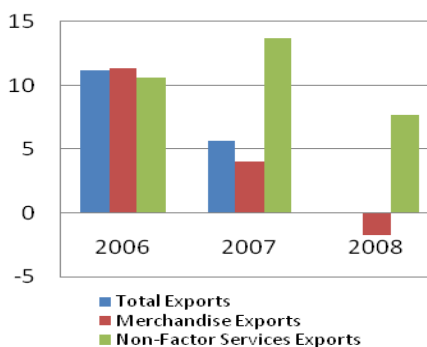
Source: Bangko Sentral ng Pilipinas

Figure 4. FDI & Portfolio Investments, 2007-2008, (in million US\$)



Source: Bangko Sentral ng Pilipinas
*Portfolio investments data is for the period January to October 2007-2008

Figure 5. Growth Rate of Exports 2006-2008 (in %)



Source: National Statistical Coordination Board

breaker rule after the main stock index dropped to 10.0 percent in October. Trading was halted to avoid panic sell-offs in the market.¹

External

The inflow of remittances from overseas workers was insufficient to offset the significant outflow of capital investments. Remittance inflows appear to have been unaffected by the crisis in 2008. OFW remittances coursed through banks totaled US\$15.0 billion from January to November, 15.0 percent higher than the same period in 2007.² The sustained increase was attributed to the dramatic increase in OFW deployments by 28.0 percent from just 7.5 percent in 2006 and 1.4 percent in 2007. Risk aversion, however, has prompted massive capital outflow. Foreign direct investments fell to negative 46.6 percent during the first ten months of 2008 while foreign portfolio investments posted a net outflow of US\$1.4 billion for the whole of 2008, a sharp reversal from the US\$3.5 billion net inflow in 2007.

The depreciation of the Philippine peso and the weak external demand for the country's exports adversely affected the current account balance.

The outflow of soft capital has led to the depreciation of the domestic currency by 14.7 percent in 2008 while the severe drop in foreign demand resulted in a negative 1.7 percent growth in merchandise exports. Exports of garments, electronics and other manufactured products registered sharp contraction of 6.5 percent, 24.3 percent, and 32.9 percent, respectively. Export of non-factor services, which includes business process outsourcing (BPO), also slowed down. The drop in export growth and the rise in import bill on account of the peso depreciation and the import surge of rice and oil manifested in a wider trade deficit of PhP4.9 billion pesos. This is a remarkable turnaround from the trade surplus of PhP30.1 billion pesos registered in 2007. The balance of payments (BOP) position, however, remained in a surplus at US\$1.5 billion for the first nine months of 2008, albeit considerably lower than the US\$6.5 billion a year ago. Gross international reserves (GIR) are still adequate to cover 5.8 months' worth of imports of goods and payment of services and income.

¹ The circuit breaker rule automatically triggers a 15-minute trading halt in the event that the main index (PSEi) decreases by at least 10 percent based on the previous day's closing index value. The trading halt will be implemented only once in a trading day and will not be resorted to if the decrease in the PSEi by at least 10 percent occurs 30 minutes prior to market close. Other exchanges that have also adopted a similar rule include the New York Stock Exchange, Nasdaq Composite, and Asian bourses such as Malaysia and Thailand, and developed stock markets in South Korea and Taiwan.

² This seems to support economic literature claiming that remittances, at least in the case of the Philippines, tend to be countercyclical. Yang and Choi (2007) find that 60 percent of household income contractions are replaced by remittance inflows

Table 4. National Government Revenue Collections, Jan-Nov. 2007-2008
(in billion pesos)

Particulars	Jan-Nov 2007	Jan-Nov 2008	
	Actual	Program	Actual
REVENUES	1,044.3	1,112.7	1,081.6
Tax Revenues	849.1	1,003.9	972.8
BIR	647.7	762.3	721.6
BOC	192.1	232.7	241.5
Other Offices	9.3	8.9	9.8
Non-Tax Revenues	195.2	108.8	108.8
BTr Income	64.3	54.2	57.4
Fees & Charges	40.2	38.3	43.3
Privatization	90.6	16.4	7.9
Grants	0.1	0.0	0.1
EXPENDITURES	1,031.7	1,137.5	1,148.3
Interest Payments	255.1	266.9	264.5
SURPLUS/(DEFICIT)	12.6	-24.8	-66.7

Source: Department of Finance

Table 5. Selected Employment Indicators, 2007-2008 (in '000)

Indicators	2007	2008
Labor Force Level	36,217	36,821
Labor Force Participation Rate(%)	64.0	63.7
Employment Level	33,560	34,090
Employment Rate (%)	92.7	92.6
Unemployment Level	2,653	2,724
Unemployment Rate (%)	7.3	7.4
Underemployment Level	6,757	6,574
Underemployment Rate (%)	20.1	19.3
Employment by Class of Workers		
Wage and Salary Workers	17,511	17,955
Own-account Workers	12,000	12,068
Unpaid family Workers	4,045	4,175
Jobs Generated		
Agriculture	-29	243
Industry	116	-75
Services	1,322	361

Source: Department of Labor and Employment

Fiscal

Fiscal easing was implemented to cushion the harmful effects of price hikes and the fall in export earnings. The earlier goal to balance the budget in 2008 was postponed to make room for increased spending on pump-priming measures. The government initially introduced an automatic adjustment system for the reduction of oil import duties and provided for conditional cash transfers (CCT)³ to mitigate the effect of surging inflation. In addition, the enactment of R.A. 9504 in June exempted minimum wage earners from paying income tax and granted additional tax exemptions for other workers. Moreover, the implementation of infrastructure projects was expedited during the third quarter to help generate domestic income and spending.

The increase in expenditure mounted more pressure on government finances. In accordance with its pump-priming objectives, the national government exceeded its programmed expenditures by 10.0 percent. This, along with the PhP40.7 billion revenue shortfall of the Bureau of Internal Revenue (BIR), resulted in a fiscal deficit of Php 66.7 billion as of November 2008, representing a negative growth of 629.0 percent from that posted for the same period in 2007.⁴ The full year deficit is expected to hit Php75 billion. Similarly, the consolidated public sector surplus as of September 2008 decreased by 60.0 percent to Php23.5 billion.

Labor, Employment and Hunger

The economic slowdown inevitably led to the undesirable outcome of rising unemployment and hunger levels. The continuous growth of the labor force even as employment opportunities dwindled brought the unemployment rate to 7.4 percent in 2008 from 7.3 percent in 2007. This is equivalent to 2.7 million unemployed people. Lethargic growth in 2008 generated a net of 530,000 jobs, significantly less than the 924,000 generated in 2007. It is worthy to note that despite the marked slowdown in its output growth, employment gains were recorded highest in the services sector. This could imply diminishing labor productivity or an increase in informal employment. Job losses in industry totaled to 75,000. The manufacturing, and the electricity, gas and water (EGW) sub-sectors were the hardest hit as their employment growth rates contracted by 4.4 percent and 3.7 percent, respectively. Underemployment remained high at 19.3 percent and the number of unpaid family workers increased by 3.2 percent. Meanwhile, the proportion of families experiencing involuntary hunger at least once in the past three months reached a new record-high of 23.7 percent (equivalent to 4.3 million households) according to the latest Social Weather Survey for 2008.

³ CCT is a poverty reduction strategy that provides money to extremely poor households upon satisfaction of certain conditions

⁴ Preliminary estimates of the BIR put its full year revenue collection at PhP785 billion against a revenue goal of PhP845 bn, or a shortfall of P60 billion. In contrast, the BOC is said to have collected P6.2 billion more than its programmed collection of PhP254.4 billion for 2008. (Philippine Star, January 20,2009)

Box 1. HIGHLIGHTS OF SELECTED ECONOMIES IN 2008 AND PROSPECTS FOR 2009

The collapse of the global financial system led to the sharp contraction of world output in 2008. Prospects for global growth in 2009 remain dismal at 0.5 percent, its lowest rate since World War II. Advanced economies are projected to post negative growth rates on a full-year basis, with output contraction seen at 2.0 percent. Emerging economies are also set for a noticeable slowdown, and will likely grow by 3.25 percent, on the average. Nearly all forecasts predict a slow recovery for most, but not all countries in 2010.

United States. The world's largest economy wobbled precariously in 2008, posting a negative 0.5 percent output growth in the third quarter following the downfall of its financial sector. Advance estimates show that the US GDP decreased at an annual rate of 3.8 percent in the fourth quarter. While inflation eased further by 0.1 percent in December, reflecting the weakened domestic demand and the sharp decline in commodity prices since mid 2008, unemployment inched higher to 7.2 percent in December from 6.7 percent in November. The US economy is expected to suffer a negative 1.6 percent growth in 2009, as households respond to depreciating real and financial assets and tightening financial conditions.

Japan. The Japanese economy slid into a painful recession last year when it contracted both in the second and third quarters. GDP dropped by 0.5 percent on a quarter-on-quarter basis, or an annualized 1.8 percent decline. Exports fell by 35 percent in the 12 months to December with their biggest markets in the US, EU and China all in the doldrums. With plunging exports, companies scaled down on production, resulting in a rise in unemployment rate from 3.7 percent in October to 3.9 percent in November. The deepening recession led to a decline in inflation to 0.4 percent in December from 1.0 percent in November. For 2009, net exports' contribution to growth is expected to further decline while GDP is anticipated to contract by 2.6 percent.

China. China's economy cooled to its slowest pace in seven years in 2008, expanding by only 9 percent, the lowest since 2001. It was also the first time China's GDP growth fell into the single-digit range since 2003. Weak foreign demand saw inventories piled up and industrial output reduced sharply. With growing reports of factory closures and worker unrest as a result of the sharp decline in exports, China's urban unemployment rate rose to 4.2 percent at the end of 2008, up 0.2 percentage point year-on-year. Reports show that about 5 percent of 130 million migrant workers had returned to their rural homes since late 2008 because their employers closed down or suspended production. Forecasts point to a further weakening of the Chinese economy to 8.0 percent-8.5 percent in 2009, with the GDP growth hitting a trough in the first or second quarter. Recovery is expected later this year, depending on the performance in the first quarter of 2009.

Euro Area. Output growth in the Euro area decreased at an annual rate of 0.8 percent growth in the third quarter, while fourth quarter growth is projected to fall by 0.7 percent. Inflation is still on the European Central Bank's (ECB) target of just under 2 percent but unemployment rate has steadily increased to 3.18 million in December, the first time the number of jobless people went up in almost three years. In 2009, growth in the euro area is likely to be hard hit by the tightening financial conditions and falling investor confidence. The euro area is estimated to contract by 0.5 percent in 2009, with Germany and France declining by 0.8 percent and 0.5 percent, respectively.

Sources: *World Economic Outlook 2009*
The Economist

Table 6. 2009 Growth Forecasts for the Philippines (in %)

Asian Development Bank	3.5
Development Bank of Singapore	3.8
Economist Intelligence Unit	2.3
Fitch Ratings	2.3
International Monetary Fund	3.8
Standard & Poor's (S&P)	2.2
Union Bank of Switzerland (UBS)	1.8
World Bank	3.0

Table 7. Top 10 Philippine Export Destinations, 2008
(FOB Value in million US\$)

Country	2008	
	Jan-Nov ^P	% share
Total Exports	46,332.0	100.0
Top 10 Countries	39,195.0	84.6
United States	7,630.3	16.5
Japan	7,216.1	15.6
Hong Kong	4,742.4	10.2
China	5,250.2	11.3
Netherlands	3,542.1	7.7
Germany	2,277.1	4.9
Taiwan	1,776.2	3.8
Singapore	2,481.3	5.4
South Korea	2,401.6	5.2
Malaysia	1,877.9	4.1

Source: National Statistics Office

OUTLOOK AND CHALLENGES: THE WORSE IS FAR FROM OVER

With its respectable 4.6 percent GDP, the Philippine economy appears to have ridden out the macroeconomic shocks brought on by the worldwide economic slowdown in 2008. However, as the global crisis deepens, market condition this year is seen to be tougher, and accordingly, its impact to the economy is expected to be more pronounced.

While the national government is looking at a 3.7 percent-4.7 percent GDP growth rate in 2009, most multilateral agencies and private firms predict that the Philippines will grow at a much slower pace. The World Bank, for instance, sees the GDP expanding by only 3.0 percent.

Undoubtedly, the crippling effect of the global financial crisis is the biggest challenge for this year as it will likely result in the further weakening of consumption spending largely due to a slowdown in overseas remittances growth, drop in exports due to weaker external demand, capital flows and exchange rate volatility, sharp drop in equity prices, and a rise in the risk premium. Another downside risk is the likelihood that the Organization of the Petroleum Exporting Countries (OPEC) will cut oil production in an attempt to keep prices at high levels.

Two major sectors of the economy -- the export industries and the overseas employment sector -- are expected to be the hardest hit. The contraction of demand in the Philippines' biggest trading partners is a major cause for concern as the country's top 10 export destinations already account for about 85.0 percent of total exports. Latest indicators show that eight of these top 10 destinations will be in recession while the remaining two countries (China and Malaysia) will experience significant downturns. The Philippines' overdependence on electronics and semiconductor products and these products' small value-added do not give much comfort either. While its share to total exports have declined over the years, electronics and semiconductor products still account for about two-thirds of Philippine exports.

The Export Development Council (EDC) expects a negative 3.0-percent export growth in 2009. However, recent developments such as the early announcements of closures of export-oriented companies and the sharp contraction in imports⁵ suggest that the outlook for exports might be bleaker than originally thought.

⁵ Imports in November nosedived 31.5 percent from a year earlier, according to the latest data from the National Statistics Office (NSO). Imports of electronics parts, assembled into finish products for exports, plummeted 41.9 percent in November from a year earlier, following a 30 percent annual decline in October 2008. Imports are leading indicators of exports.

As the global crisis deepens this year, market condition is seen to be tougher. Accordingly, its impact to the economy is expected to be more pronounced.

Table 8. Vulnerable Sectors and Estimated Number of Jobs at Risk

Most Vulnerable Sectors	Employment
OVERSEAS EMPLOYMENT	573,000
• OFWs who work in the US under temporary working	129,000
• Seafarers in cruise ships	130,000
• Factory workers in S. Korea, Taiwan, and Macau	266,000
• Household service workers in Singapore, Macau & Hongkong	48,000
EXPORT SECTOR	362,700
• Electronics	166,900
• Garments	146,600
• Woodcrafts and Furniture	17,800
• Ignition Wiring	12,600
• Metal Components	11,700
• Petroleum products	2,500
• Coconut Oil	1,600
• Cathodes of Refined	N.A.
• Other products manufactured from materials imported on consignment basis	N.A.

Source: Bureau of Labor and Employment Statistics, 2008 BLES Sampling Frame

The overseas employment sector is also seen as vulnerable. Latest stock estimate of OFWs by the Commission on Filipinos Overseas (CFO) shows that there are now roughly 8.8 million OFWS, consisting of 3.7 million permanent migrants, 4.1 million migrant workers and 900,000 irregular migrant workers all in 194 countries as of end of year 2007. About 1.0 million OFWs are deployed every year. OFW remittances account for more than 10 percent of the GDP.

The global slowdown is expected to have a significant impact on employment. The daunting challenge is the preservation of existing jobs. Early estimates peg the total number of high risk workers to be 935,700, of which 362,700 would come from the domestic export subsector and 573,000 OFWs from abroad. From October 2008 to January 2009, 5,404 OFWs were already reported to have been displaced. However, the Department of Labor and Employment (DOLE) anticipates that OFW displacements would not exceed 100,000 even in a worst case scenario. Job orders that have been approved as of January 13, 2009, totalled 449,303, most of which come from Middle Eastern countries that are in the process of pump-priming their economies through infrastructure spending. Opportunities for employment are also said to abound in other markets such as Canada, Australia, New Zealand, Guam, among others.

In the domestic labor market, DOLE estimates job losses at 44,000 from October 2008 to end of January 2009. Workers in the commodity export sector,⁶ particularly those in the electronics, garments, furniture and wiring and harnesses subsectors are at the highest risk of displacement. For instance, Intel, the world's biggest maker of microprocessors, has already announced the closure of its assembly plant outside of Manila. Listed Panasonic Manufacturing Philippines, Corp. also plans to shut down its nearly four-decade-old battery unit in the country, while Apex Mining Co., Inc. has made it known that it will be shedding 150 rank-and-file workers from its southern Mindanao gold project to cut costs amidst declining metal prices. Tuna canners, rubber plantations, and wood producers⁷ are also reporting difficulties.

Meanwhile, the outlook for the service export sector is mixed. In 2006, the sector has 379 BPO establishments, employing about 400,000 workers. Although there have been reports of lay-offs, these are compensated by new BPO establishments relocating or expanding their operations in the Philippines to take advantage of lower costs.

⁶ The commodity export sector employs a total of 605,000 workers in 2,380 establishments. A majority of this sector's output goes to the US market.

⁷ There are reports that about a fourth of the plywood mills in the country have now closed while others are operating below capacity.

Box 2.

THE ECONOMIC RESILIENCY PLAN

The government has unveiled a PhP330-billion 'economic resiliency plan' that would pump prime the domestic economy. The stimulus program is built on two major components, one of which is the PhP160 billion from the 2009 national budget. Details of the remaining PhP170 billion is yet to be presented. The National Economic Development Authority (NEDA), however, provided a rough outline and broke it down as follows:

- PhP20 billion to corporations due to the reduction of corporate income tax from 35% to 30% for which the government hopes that corporations will not lay-off workers and instead invest on machineries and infrastructure, among others;
- PhP20 billion gain to private households as a result of RA 9504 which provided tax exemption to minimum wage earners;
- PhP100 billion infrastructure package, half of which will be raised by government financial institutions and the other half by private corporations; and
- PhP30 billion worth of increased social security benefits (e.g. wider loan coverage, etc.) from PhilHealth, Social Security System(SSS) and the Government Service and Insurance System(GSIS)

NEDA has also identified the following infrastructure projects which the social security institutions will bankroll:

- LRT Line 1 extension
- MRT3 capacity expansion
- LRT Line 2 East Extension to Masinag
- LRT Line 1 South Extension Project

The rise in job losses will likely lead to more firms employing flexible working arrangements and will slow wage growth. As of January 30, 33,000 workers are already affected by cost cutting measures such as reduced working hours and forced leaves. A number of export firms have also called for a moratorium on new wage increase orders.

Weathering the Storm: the Government's Stimulus Package

To counter the crippling effects of the global financial crisis, the government has introduced a stimulus package worth PhP330 billion. PhP160 billion of the so-called Economic Resiliency Plan is embedded in the proposed 2009 national budget while the remaining PhP170 billion is represented by the "savings" of private households and firms as a result of the fiscal measures previously passed as well as from proposed public-private partnerships to boost infrastructure spending.

The government expects to create three million jobs this year from the stimulus package, a highly ambitious goal as it barely meets its annual one million jobs target. In the last 10 years, jobs generated only average 778,000 every year.

Moreover, there are some doubts as to whether the government could really pool together the sources of fund for its stimulus plan. In particular, getting the private sector to contribute to the PhP100 billion infrastructure package will likely be a big challenge as investors often stay on the sidelines, and take a wait-and-see strategy in times of uncertainty. The Philippine Chamber of Commerce and Industry (PCCI) which has earlier agreed to commit PhP50 billion eventually expressed fears that it may abandon the effort if they and the government cannot settle which agency will handle the funds. The PCCI also wants the projects to begin within the first semester and asks that the government guarantee the funds to be put up by local banks. The National Development Corporation (NDC), which has been tagged as the disbursing agency, is reported to have refused the provision of guarantees for fears of exposing itself to such huge liability.

The PhP50 billion contribution from the government financial institutions-P12.5 billion each from GSIS, SSS, Development Bank of the Philippines, and Land Bank of the Philippines is also being questioned. Opposition lawmakers point out that SSS and GSIS funds, in particular, should be used directly for the benefits of its members who are already complaining of difficulties in securing loans. The SSS, however, is quick to allay fears that investments of their funds are allowed under its charter and go through scrutiny by the Social Security Commission.

The effectivity of the stimulus package is also contingent on the government's efforts to improve its absorptive capacity. The low utilization capacity of the government's line agencies has been identified as one of the factors that hinder them in carrying out the economic and social agenda. Judicious monitoring of how these funds are actually spent is also warranted given the Philippines' corruption record.

In addition, the government would have to walk a tightrope between the necessity of stimulating the economy and the macroeconomic requisite of fiscal discipline. It should be noted though that while the tax effort, as measured by tax collections as percent of GDP, has started to improve, it is still far from the 17 percent tax effort posted in 1997. In fact, in 2007, when the domestic economy expanded by 7.3 percent, its highest growth in the last 31 years, tax effort even declined to 14 percent. Despite the high growth, major revenue collection agencies, BIR and BOC, have severely underperformed. BIR, in particular, has been missing its revenue goals in the last four years. Without the hefty contribution of non-tax revenues, particularly receipts from privatization, revenue collection would have been worse. Privatization, however, should not be relied on in the medium-term as the government's pool of assets thins out as more and more of them are sold. Exacting performance from revenue collecting agencies is of great importance as the government's ability to finance its stimulus plan largely relies on them.

Moreover, the budget deficit will likely widen further in 2009 as revenue collection drops as a result of lower economic growth and corporate tax cuts. Election-related spending is also expected to increase as the 2010 national election nears. For 2009, the government expects a budget shortfall of PhP102 billion (1.2 percent of GDP) from PhP75 billion or 1.0 percent of GDP in 2008.

Fiscal authorities must, hence, ensure that the stimulus package is placed within the framework of fiscal sustainability. Additional tax measures and an increase in the efficiency of tax administration must be aggressively pushed as they are crucial in reversing the decline in the tax effort. In particular, the government must step up efforts to pursue the indexation of sin taxes, the rationalization of fiscal incentives as well bringing an end to smuggling.

Nonetheless, there are some bright spots ahead. Sluggish demand and falling food and oil prices have eased inflationary pressures in the country which should allow the BSP greater latitude to relax policy rates and take a more proactive stance in supporting the flagging economy. The easing of interest rates around the globe has also started to unfreeze credit markets and will augur well for the bond market. Falling yields will raise bond values and this presents an opportunity for the government to tap the bond market in order to raise funds needed to finance its plan of stimulating the economy. It is likely that the government would consider adjusting its borrowing mix in favor of foreign creditors to take advantage of falling lending rates abroad. In addition, institutional reforms must be introduced to lay the groundwork for putting up a well functioning corporate bond market. This will serve to deepen and strengthen the domestic financial market.

Meanwhile, as the harmful effects of the global economic storm bears down on the Philippines in 2009, Filipinos will likely do what they do best --- grit their teeth and face the challenge with tenacity.

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