



Understanding the Global Economic Crisis

Impact on the Philippines, Forecasts

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IDEA

Flow of the presentation

- **Development of the crisis**

Genesis & evolution

How it reached the Philippines

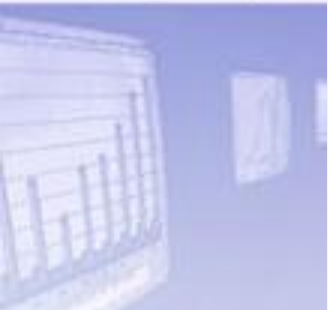
- **Consumer market trends**

Effect of the crisis on households

Consumers' spending behavior and micro-enterprises

- **IDEA Forecasts**

Economic forecasts for 2009 and 2010

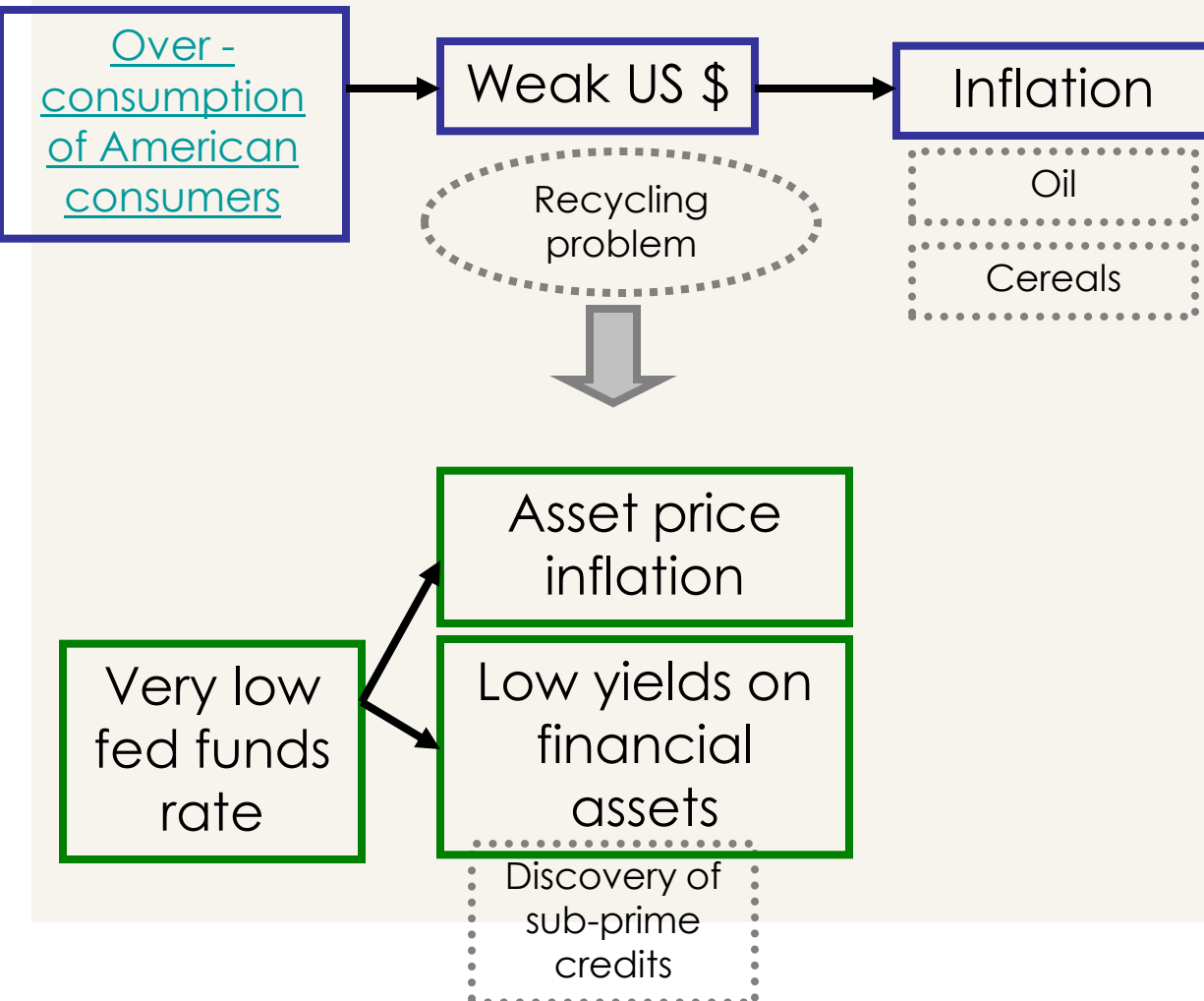


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Genesis & Evolution

Development of the crisis

Development of the crisis



Global economic slowdown
Development of the crisis

Original Mortgages



Securitization/CDOs

SIVs (e.g. REITs)/Banks

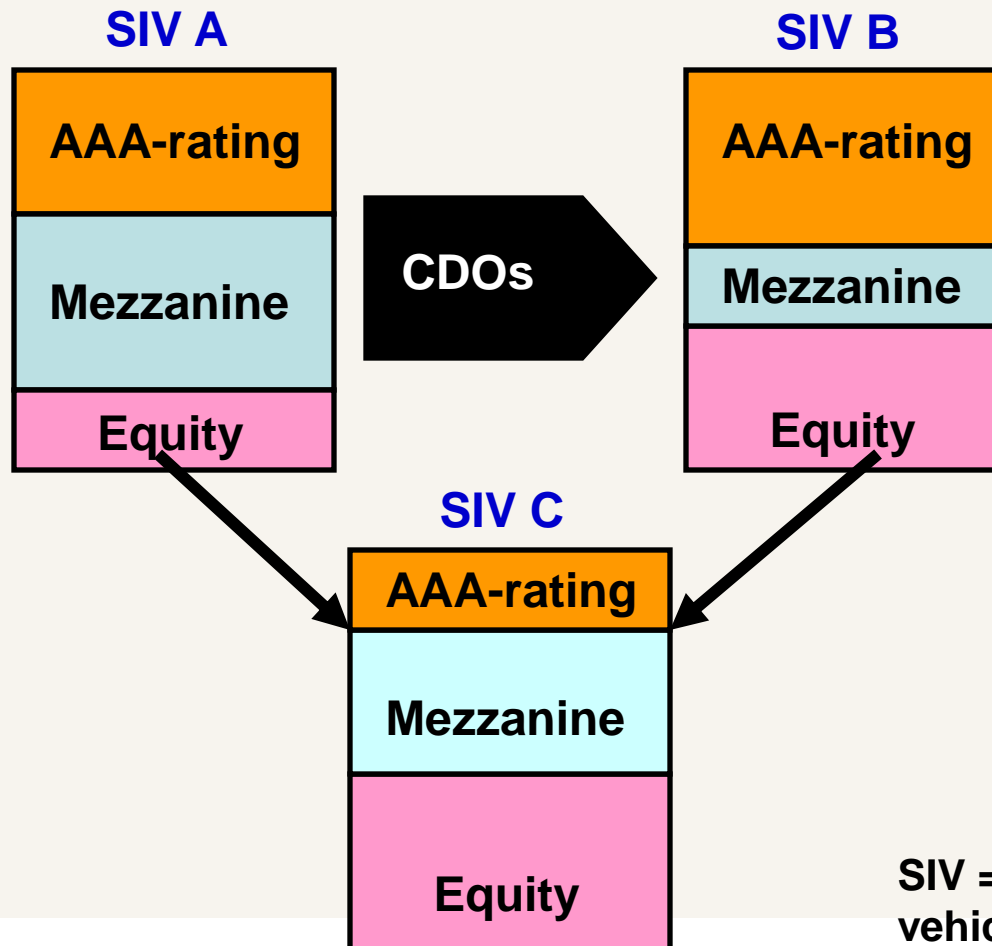


High credit ratings

Public

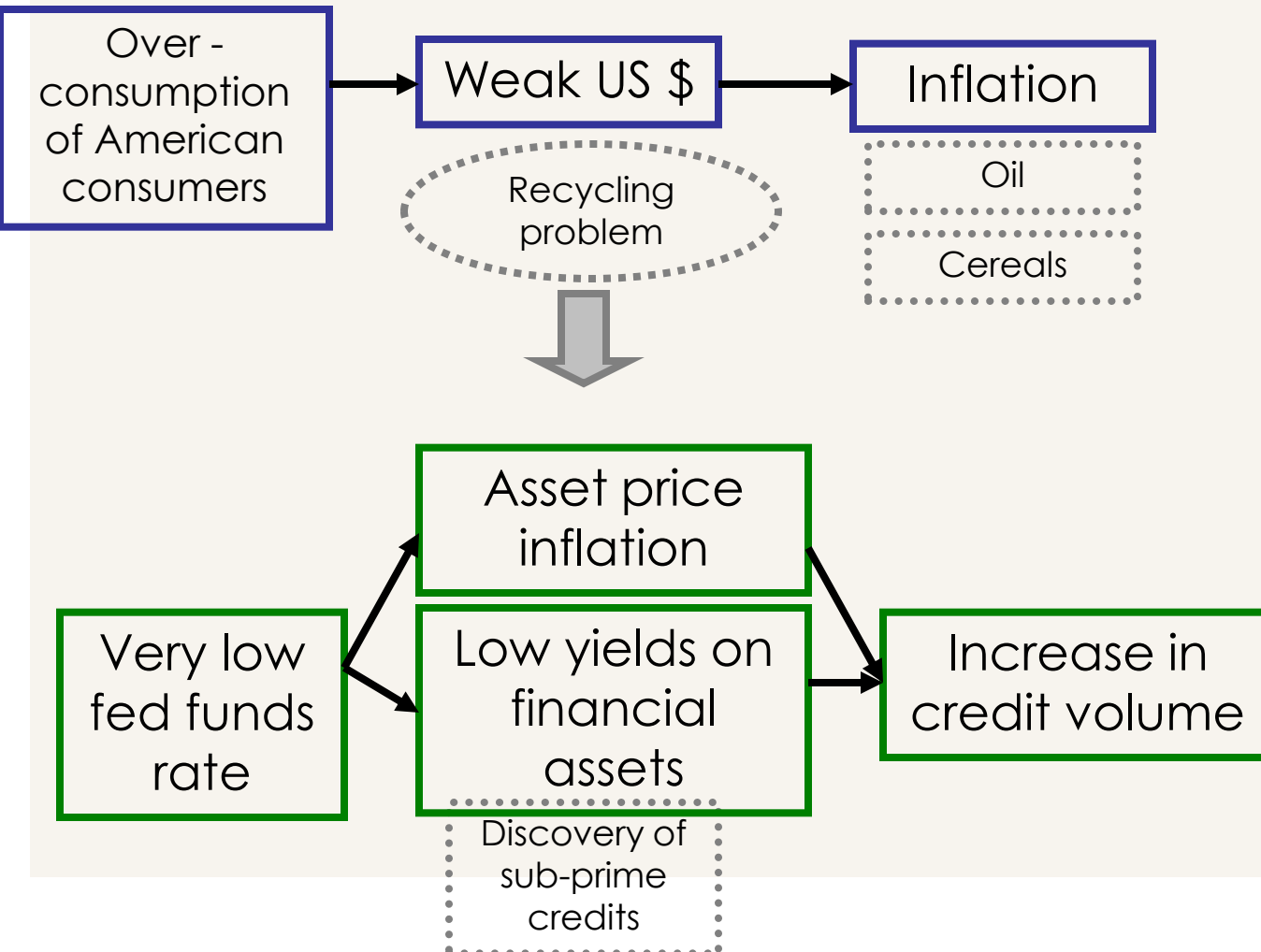
Global economic slowdown
Development of the crisis

- **Process of subordination (*tranche-ing*)**



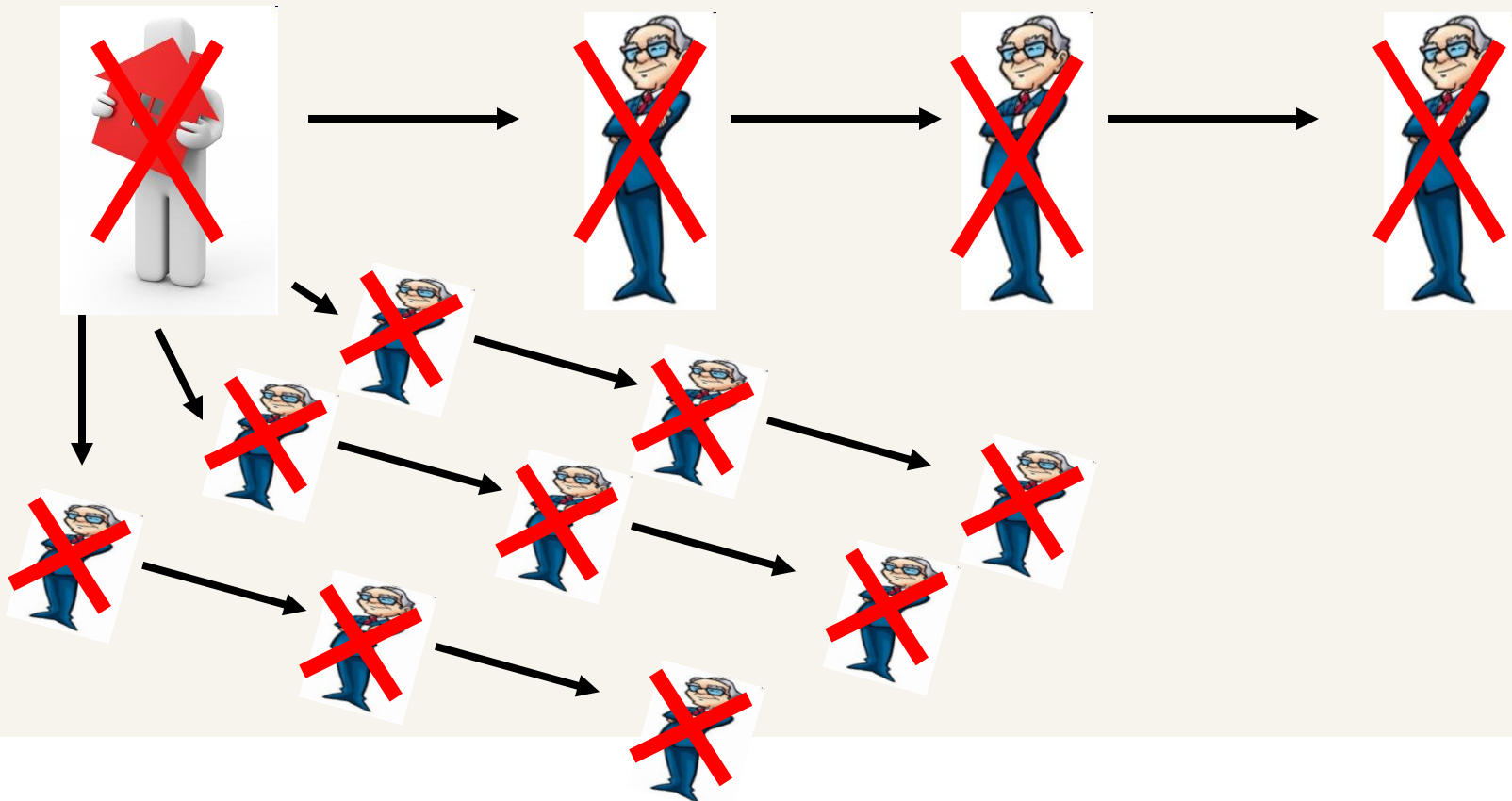
SIV = structured investment vehicles

Development of the crisis

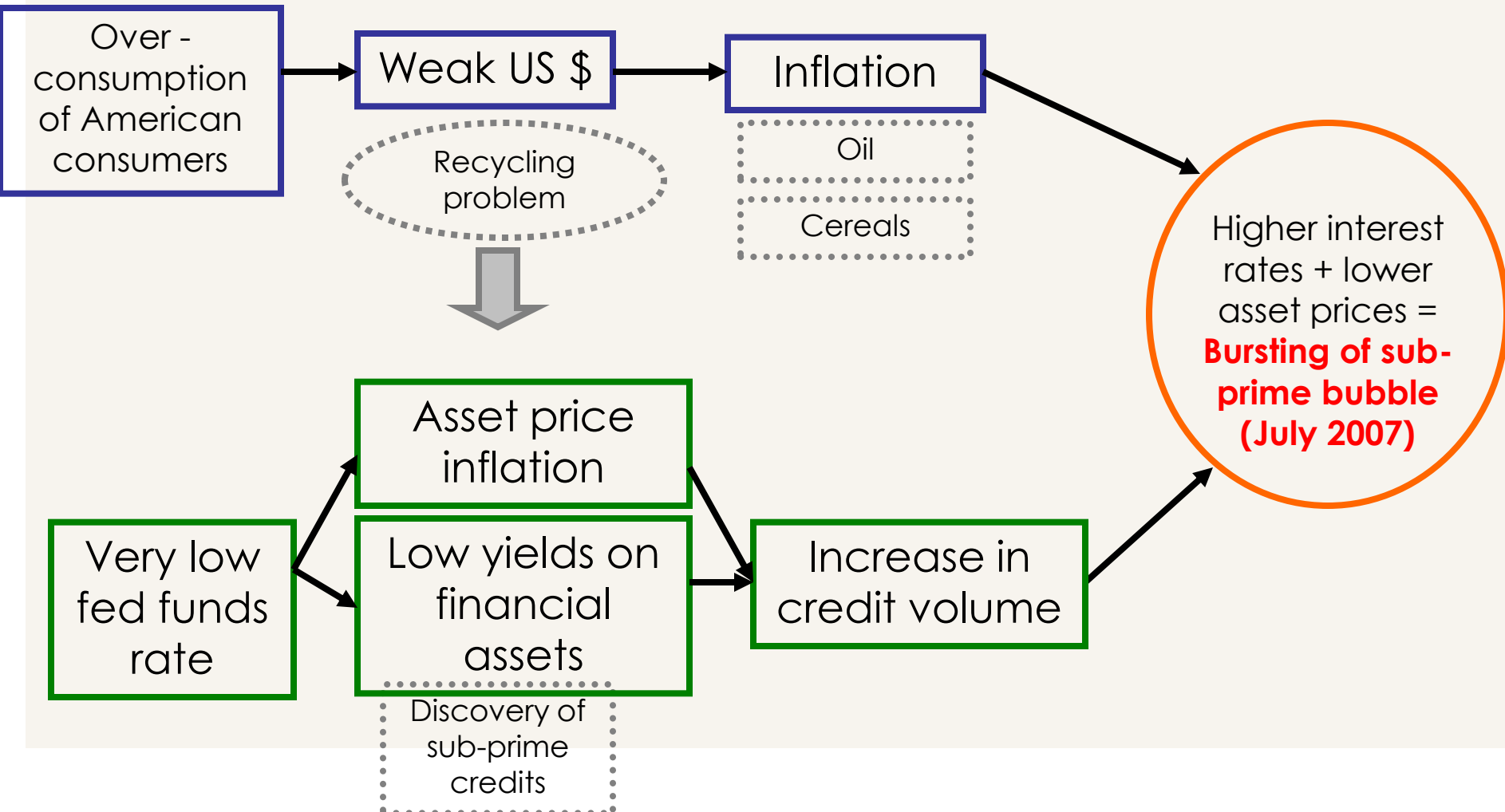


Global economic slowdown **Development of the crisis**

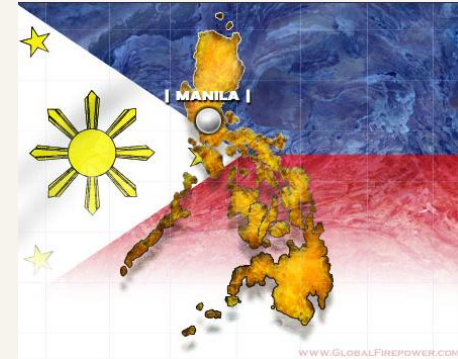
- ***What happens when the original mortgagor defaults?***



Development of the crisis



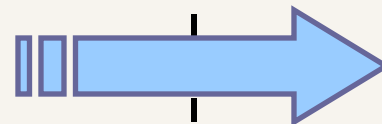
Global economic slowdown Effects on the Philippines



Credit slowdown

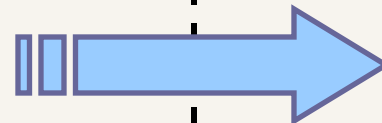


**Real economy
slowdown**



Risk aversion ($\uparrow r$)
Portfolio balancing

Financial sector
Portfolio investments
FDIs



Exports
OFW employment



The Households
Consumer Market Trends

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Population and income growth

- **Population growth**

Year	Population	Average annual rate of increase (%)
1980	48,098,460	2.71
1990	60,703,206	2.35
1995	68,616,536	2.32
2000	76,504,077	2.36
2007	88,574,614	2.04

Source: NSCB

- **Average family income**

- Current vs constant 2000 prices

At Current Prices: **31,000** in 1985 → **173,000** in 2006

At Constant 2000 prices : **104,000** in 1985 → **125,000** in 2006

The economy and the households

- Effects of the slowdown to vary across socio-economic status of HHs
- ❑ **Higher-income HHs**: lower savings
- ❑ **Middle-income HHs**: lower consumption, substitution in consumer goods, priority for certain goods and services
- ❑ **Lower-income HHs**: run down savings, cut down spending, borrow resources

Estimated SEC Distribution

SEC	Approx. Percentage
ABC	10
D	60
D1	36
D2	24
E	30

Coping strategies

- o Reduce consumption of non-food items
- o Reduce consumption of food
- o Look for other sources of income
 - **OFW remittances**
- o Borrow
- o Dip into Savings

Effects of the crisis

On Micro, Small & Medium Enterprises (MSMEs)

- Of the **780,469** MSMEs in the country (2006 CPBI)
 - ***50%** (wholesale & retail trade)
 - ***14%** (manufacturing)
 - ***12%** (hotel and restaurant)
- Under the manufacturing sub industries
 - ***47%** (food)
 - ***13%** (wearing apparel)
 - ***11%** (metal products)

Effects of the crisis
On MSMEs

- In short, MSMEs face *falling demand* for their goods and services
- The DTI estimates that around **60%** of exporters belong to MSMEs class
- Exposure due to **2 ways**
 - as *subcontractors* to large firms
 - as *suppliers* to exporting companies



Economic performance in 2009-2010

IDEA Forecasts

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IDEA Forecasts **Assumptions**

	2008
	Actual
Inflation Rate	9.3
Interest Rate	4.6
Peso - Dollar Exchange Rate	44.5
OFW Remittances (Growth)	15.0
NG Deficit (Million Php)	-75,249.0
US GDP growth	-0.2
Japan GDP growth	-0.8

	2009 /f			2010 /f		
	Pessimistic	Baseline	Optimistic	Pessimistic	Baseline	Optimistic
Inflation Rate	3.9	3.7	3.4	7.3	6.9	6.6
Interest Rate	5.36	4.91	4.70	6.06	5.81	5.57
Peso - Dollar Exchange Rate	47.135	48.411	49.688	46.570	48.272	49.974
OFW Remittances (Growth)	-10.00%	0.00%	7.50%	0.00%	10.00%	15.00%
NG Deficit (Million Php)	1% of GDP	P112 billion	2% of GDP	84	132	185
US GDP growth	-2.00%	-1.60%	-0.50%	0.60%	2.00%	2.10%
Japan GDP growth	-3.20%	-2.60%	-0.10%	-0.10%	0.80%	1.50%

Production side

Agriculture, Fishery and Forestry

	2008
	Actual
1. Agriculture, Fishery and Forestry	3.2

	2009 /f			2010 /f		
	Pessimistic	Baseline	Optimistic	Pessimistic	Baseline	Optimistic
1. Agriculture, Fishery and Forestry	2.8	3.0	3.6	2.9	3.1	3.3

- ❑ **AFF sector** seen to slow down further in 2009
- ❑ **Fishery:** has been **on a higher growth path**; new European market; could be hampered by unfavorable weather conditions and major oil price shocks

Production side
Industry sector

	2008
	Actual
2. Industry Sector	5.0
a. Mining & Quarrying	0.6
b. Manufacturing	4.3
c. Construction	8.2
d. Elect, Gas and Water	7.7

	2009 /f			2010 /f		
	Pessimistic	Baseline	Optimistic	Pessimistic	Baseline	Optimistic
2. Industry Sector	2.6	3.5	4.3	3.3	4.4	5.3
a. Mining & Quarrying	-0.3	0.0	2.3	1.5	2.4	3.8
b. Manufacturing	2.0	2.3	2.7	2.8	3.2	3.8
c. Construction	2.3	6.6	9.6	1.9	6.9	9.6
d. Elect, Gas and Water	8.8	8.8	8.8	9.4	9.4	9.5

- Industry sector** on a slowdown in 2009 and 2010
- Mining & Quarrying**: risks include **tightness in funding and credit** and **easing mineral prices worldwide**
- Power/Electricity**: apparent **slowdown in 2009 and 2010** due to lower overall econ activity

Production side **Service sector**

	2008
	Actual
3. Service Sector	4.9
a. Transport., Comm., Stor.	3.7
b. Trade	4.7
c. Finance	4.9
d. O. Dwellings & R. Estate	7.0
e. Private Services	5.7
f. Government Services	4.7

	2009 /f			2010 /f		
	Pessimistic	Baseline	Optimistic	Pessimistic	Baseline	Optimistic
3. Service Sector	4.0	4.2	4.3	3.6	3.8	4.1
a. Transport., Comm., Stor.	2.6	2.7	2.8	2.2	2.5	2.8
b. Trade	3.9	4.0	4.1	3.4	3.7	4.0
c. Finance	1.6	2.4	3.1	1.2	1.6	2.0
d. O. Dwellings & R. Estate	6.0	6.1	6.1	5.5	5.7	5.9
e. Private Services	5.2	5.2	5.3	5.4	5.6	5.8
f. Government Services	6.1	6.1	6.1	4.5	4.5	4.5

- ❑ **Services** account for **49%** of total GDP; all sub-sectors expected to feel the pinch due to global downturn & risk to OFW employment
- ❑ **Limited growth** in tourism-allied services (Air Transport, Hotels & Restaurants, etc.)
- ❑ Vulnerable sub-sectors: **Trade and Real Estate**

IDEA Forecasts Expenditure side

	2008
	Actual
1. Personal Consumption Expenditure	4.5
2. Government Consumption	4.3
3. Capital Formation	4.2
4. Exports	0.0
5. Imports	-1.1

	2009 /f			2010 /f		
	Pessimistic	Baseline	Optimistic	Pessimistic	Baseline	Optimistic
1. Personal Consumption Expenditure	3.7	3.9	4.1	3.3	3.7	4.1
2. Government Consumption	2.2	2.5	2.6	3.4	3.7	3.9
3. Capital Formation	-2.1	-1.5	-1.3	-1.0	0.4	1.2
4. Exports	-16.7	-16.4	-14.0	-5.2	-3.1	-2.0
5. Imports	-4.5	-4.4	-3.8	-2.5	-1.9	-1.6

- ❑ Demand side components will be **weak due to uncertainty**. Stimulus packages may take some time to affect expectations and, hence, confidence to spend.
- ❑ **Government Consumption** will be quite strong, as it takes into account **programmed spending plans** and the **elections in 2010**.
- ❑ **Exports** may remain bleak in 2009 but a rebound may be seen in 2010. **Imports** growth is significantly affected by exports due to raw inputs for export products.

Philippine economic growth

	2008
	Actual
GROSS NATIONAL PRODUCT	6.1
Net factor income from abroad	20.8
GROSS DOMESTIC PRODUCT	4.6

	2009 /f			2010 /f		
	Pessimistic	Baseline	Optimistic	Pessimistic	Baseline	Optimistic
GROSS NATIONAL PRODUCT	3.0	4.0	4.8	4.1	5.0	6.1
Net factor income from abroad	0.0	6.6	10.5	10.8	14.5	20.9
GROSS DOMESTIC PRODUCT	3.3	3.7	4.2	3.4	3.9	4.3

- ❑ On the whole, IDEA expects **slower growth** in 2009 than in 2008.
- ❑ Due to the elections, the economy may grow a bit more in 2010.
- ❑ **Net factor income** will be **lower** as the recession in OFWs' host countries takes a bite on the **remittances and deployment growth**.
- ❑ Despite this, **growths of 3.3%-4.2% in 2009 and 3.4%-4.3% in 2010** are still acceptable, especially within an anemic world economy.



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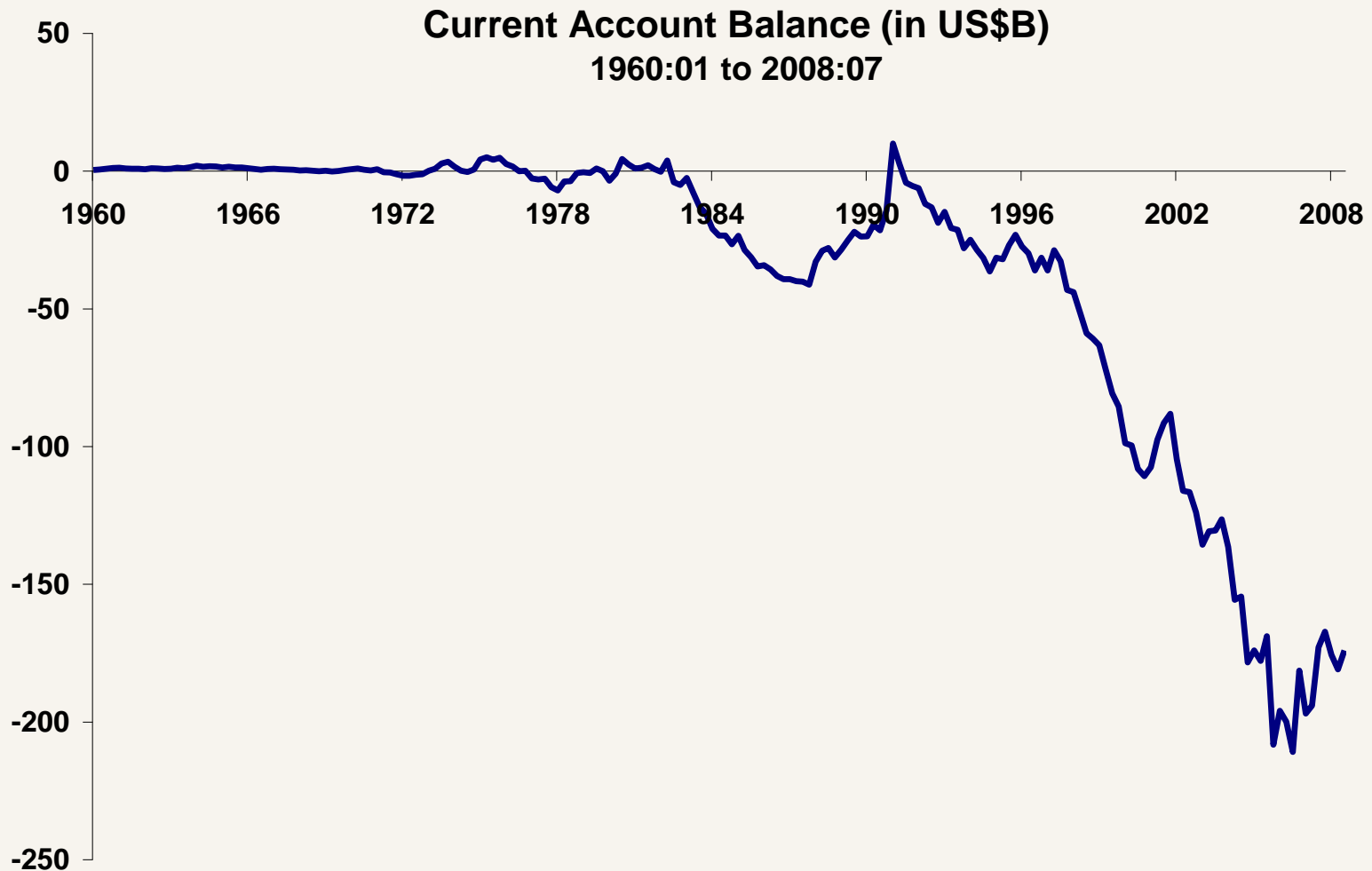
Thank you.

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US Current Account Balance



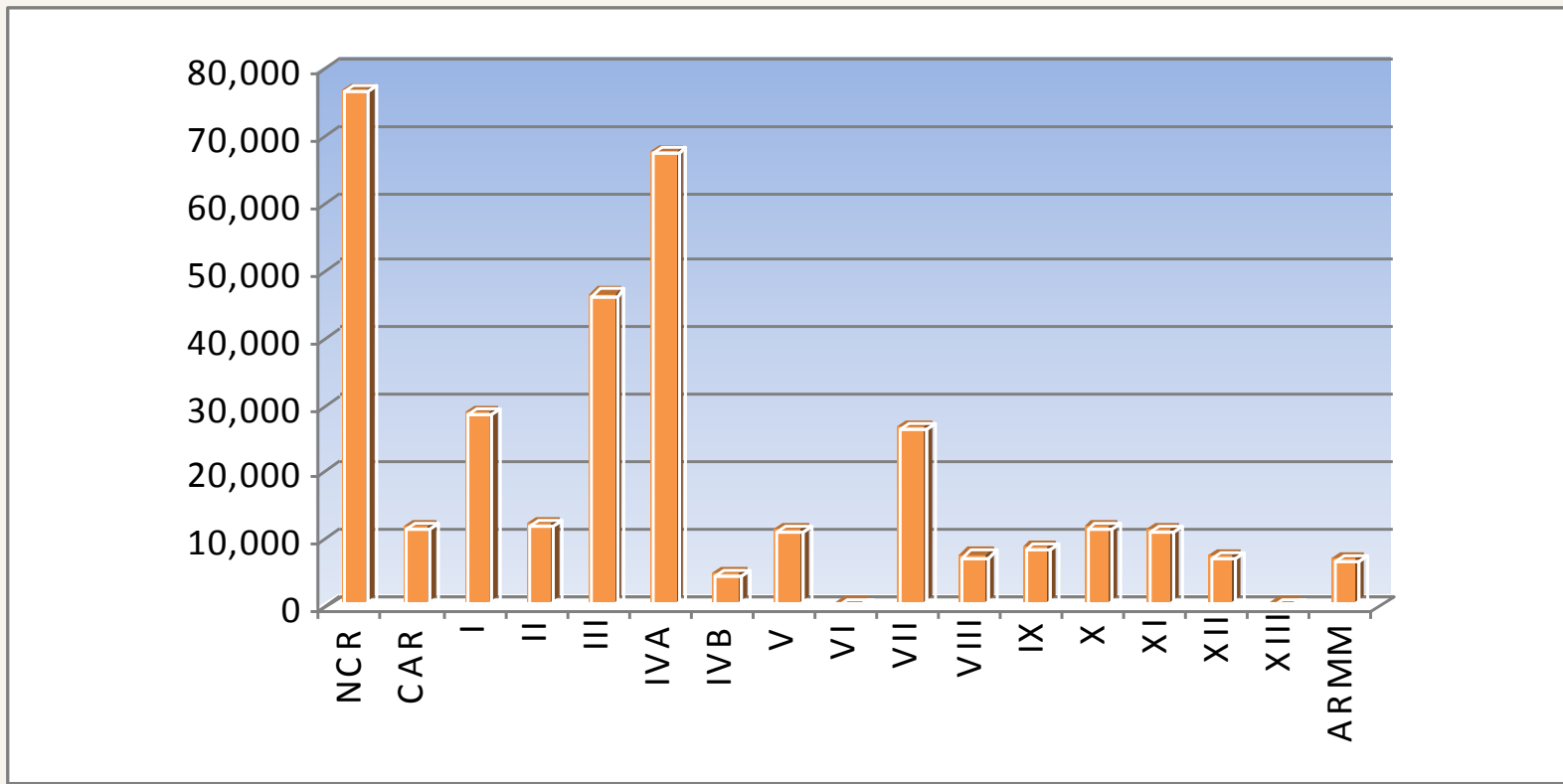
Source: US Federal Reserve Board



Profile of OFWs deployed

OFWs Deployed per Region of Origin (in 2007)

As of December 2007



Top 3: NCR, Region IV-A, Region III

Percent to Total

HH w/ Cash Receipts, Support from Abroad

		2000	2003	2006
PHILIPPINES		100	100	100
NCR	METRO MANILA	22.9	19.6	15.7
CAR	CORDILLERA	2.3	1.8	2.0
I	ILOCOS	9.8	8.8	10.0
II	CAGAYAN VALLEY	3.5	3.4	4.4
III	CENTRAL LUZON	13.4	17.0	15.4
IV	SOUTHERN TAGALOG	16.8	17.8	16.7
IVA	CALABARZON		15.9	14.7
IVB	MIMAROPA		1.9	1.9
V	BICOL	3.2	3.2	3.7
VI	WESTERN VISAYAS	8.1	6.8	7.3
VII	CENTRAL VISAYAS	5.5	6.4	6.6
VIII	EASTERN VISAYAS	2.8	2.9	3.6
IX	WESTERN MINDANAO	2.4	1.5	2.4
X	NORTHERN MINDANAO	1.6	2.3	3.0
XI	SOUTHERN MINDANAO	3.8	3.4	3.3
XII	CENTRAL MINDANAO	1.8	2.4	2.7
ARMM	MUSLIM MINDANAO	0.8	1.3	1.6
XIII	CARAGA	1.4	1.5	1.6