

Philippine International Banking Convention

Benjamin E. Diokno

Philippine National Bank Professor of Economics
U.P. School of Economics

World Economic Outlook

September 2011

	Year-on-year				Difference from 2011 WEO	
	2009	2010	2011	2012	2011	2012
World	-0.5	5.1	4.0	4.0	-0.3	-0.5
U.S.	-3.5	3.0	1.5	1.8	-1.0	-0.9
Euro	-4.3	1.8	1.6	1.1	-0.4	-0.6
Japan	-6.3	4.0	-0.5	2.3	0.2	0.6
China	9.2	10.3	9.5	9.0	-0.1	-0.5
India	6.8	10.1	7.8	7.5	-0.4	-0.3
ASEAN-5	1.7	6.9	5.3	5.6	-0.1	-0.1

ASEAN-5 ECONOMIC PROJECTIONS

Philippines -- from third best to poorest performing economy

- In 2009, the Philippines was a distant third best performing country among ASEAN-5 countries, after Vietnam and Indonesia
- In 2010, the Philippines was the second best performing economy (after Thailand) among ASEAN-5 countries

	2009	2010	2011	2012	2016
ASEAN-5					
Indonesia	4.6	6.1	6.4	6.3	7.0
Malaysia	-1.6	7.2	5.2	5.1	5.0
Philippines	1.1	7.6	4.7	4.9	5.0
Thailand	-2.4	7.8	3.5	4.8	5.0
Vietnam	5.3	6.8	5.8	6.3	7.5

ASEAN-5 ECONOMIC PROJECTIONS

Philippines -- from third best to poorest performing economy

➤ But in 2011, according to IMF revised projections, the Philippines will be the second worst performing economy among ASEAN-5 countries

➤ In 2012, the projection is that the Philippines will still be the second worst economy among ASEAN-5 nations, edging only Thailand by 0.1.

	2009	2010	2011	2012	2016
ASEAN-5					
Indonesia	4.6	6.1	6.4	6.3	7.0
Malaysia	-1.6	7.2	5.2	5.1	5.0
Philippines	1.1	7.6	4.7	4.9	5.0
Thailand	-2.4	7.8	3.5	4.8	5.0
Vietnam	5.3	6.8	5.8	6.3	7.5

The world crisis isn't over yet

- There has been a “barrage of shocks”: European countries (Portugal, Italy, Ireland, Greece, Spain) are in deep financial crisis; the U.S. has yet to fix its budget and trade deficits, and its credit rating has recently been downgraded from AAA to AA+; Japan has suffered a major setback as a result of its triple-tragedy (earthquake, tsunami, and nuclear catastrophe); and unrest in oil-producing countries.

How can a weak world economy affect the Philippine economy?

- ↗ It will dampen growth of the domestic economy because of lower trade, slower OFW remittances, and more limited foreign direct investments (FDIs)
- ↗ It will worsen unemployment as exports growth (especially electronics which account for two-thirds of Philippine exports) slows

How can a weak world economy affect the Philippine economy?

- ↗ It will have a negative effect on the real property sector as housing market in the US continues to falter and incomes and wealth of US-based Filipinos decline.
- ↗ Bad news from abroad: unemployment continues to be stubbornly high in the US. Saudinization is in effect.

Prognosis: Policy Paralysis

- The Euro debt crisis will not go away soon. Policymakers will continue to refuse to make hard decisions. But hard decisions are hard to make in the face of mounting protests.
- The budget crisis in the US will not be resolved this November. It will most likely be resolved next year -- after the presidential elections. There's hope in an Obama reelection and a Democratic Congress. But a conservative Republican win could be disastrous.

Occupy Wall Street

- This movement has gained a life of its own. It is a legitimate grievance against a flawed economic policy -- save banks and financial institutions without paying attention to citizens' welfare (high unemployment, housing losses).
- This could further put pressure on policymakers to rethink any future bailouts

Wanted:strong fiscal policy response

- ↗ Monetary and fiscal policy can be formidable tools if used in tandem. But using one, without the other, is like Manny Pacquiao fighting Floyd Mayweather, Jr. in a championship match with his right hand tied behind his back.
- ↗ Overall, monetary authorities have done an exceptional job to address the crisis, the Executive Department has done a miserable job.

Fiscal stimulus

An act of desperation

		2011 Fiscal Performance			
	2010	Program	Emerging	Deviation	Percent
Revenues	1,208	1,411	1,354	-57	-4.0
ow BIR	823	940	920	-20	-2.1
BOC	259	320	273	-47	-14.7
Expenditures	1,522	1,711	1,517	-194	-11.3
Current	1,230	1,369	1,268	-101	-7.4
Capital	283	320	228	-92	-28.8
ow Infra & other CO	223	242	155	-87	-36.0
Net Lending	9	23	21	-2	-8.7
Deficit	-314	-300	-163	137	-45.7
Interest Payment	294	322	304	-18	-5.6
Expenditures - IPs	1,228	1,389	1213	-176	-12.7

‘Fiscal stimulus’ won’t work

- ↗ **It's too late** (last 10 weeks of fiscal year, with Christmas in the air)
- ↗ **It's too little** (less than one percent of GDP, with the likelihood that one of ten pesos will enter the income stream)
- ↗ **It lacks focus** (it won't create a lot a jobs, some expenses will leak abroad, others will improve the finances of some government corporations)