EABER East Asian Bureau of Economic Research
SABER South Asian Bureau of Economic Research

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Newsletter

Welcome to the East Asian Bureau of Economic Research (EABER) and South Asia Bureau Research (SABER) Newsletter.

EABER and SABER strive to be the premier economics research forums and to provide a single point of reference for the economics, finance and governance research community throughout the region and beyond. Through building research capacity and partnering initiatives, EABER and SABER facilitate high-level analysis and forward thinking on issues of importance to the East and South Asian economies.

Analysis

The Philippines: signs of economic improvement

Cesar Virata

The Philippines began 2011 with high expectations and optimism after the Aquino administration announced various reform-minded plans and programs. These included a vigorous anti-corruption campaign, plans for greater government transparency and accountability, a number of public-private partnerships (PPPs) for major infrastructure projects, social programs addressing poverty alleviation, and improved education and health programs.

Still, the national economy slowed down in 2011 as compared with 2010, which was a year of high election spending. In 2011 there was no compensatory infrastructure spending because many (10 or so) PPP projects were not yet ready. This under-spending in public construction resulted in a lower budget deficit (around 2.5 per cent of GDP) — and with the lowering of the budget deficit and the build up of reserves, rating agencies improved their outlook on the Philippines.

Remittances from overseas workers increased, and business processing services grew vigorously by about 20 per cent. Consumption demand, which has a high import component, was maintained largely due to remittances. Private-sector construction also remained strong. But excessive rains and flooding; supply chain disruptions caused by calamities in Japan and Thailand; and the economic slowdown in the US, Europe and Japan greatly reduced electronic exports. Thus the growth rate for 2011 will probably be about 3.7 per cent, as compared with government targets and estimates of 4.5 per cent.

Interruptions in the supply of essentials brought about by typhoons and flooding, and the increase in fuel prices upped headline inflation to slightly over 5 per cent, but core inflation remained at 4.5 per cent on average.

In the political domain, the House of Representatives passed a resolution impeaching the Chief Justice in December, and thus 2012 will start with the Senate conducting a trial into his alleged violations of the constitution and betrayal of public trust. The trial will attract plenty of public attention and time, and probably cause a lot of distraction. Speculation of the outcome will also have consequences in both the public and private sectors. For example, if the Chief Justice is impeached, who will be next? Or if the Chief Justice is acquitted what will the President do? Will there be a constitutional crisis? Despite this trial, I remain hopeful that the first half of 2012 will see the much-awaited start of a public infrastructure program to boost economic growth over the medium term.

Philippine population growth remains high in comparison with other Asian countries, but unemployment and underemployment also remain high, and around 26 per cent of the population remains in poverty — the poor being mostly in the country's rural areas where agriculture has not kept up with demand. In fact, the Philippines has become a large net food importer since

Paper of the Month

The most downloaded paper for the month of December 2011 was Australia and the future of the Trans-Pacific Partnership Agreement by Shiro Armstrong.

Latest News

Philippa Dee's book Institutions for Reform in Asia is now available for download from Routledge here

The latest East Asia Forum Quarterly has been published, entitled: 'Where is Thailand headed?'

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1990. The comprehensive agrarian reform program instituted in 1988 did not raise productivity because of the lack of support services, although the government made large outlays for compensation to former landowners and credit support for former farmer beneficiaries. The Comprehensive Agrarian Reform Law expires in August 2014. I hope that corporate farming will then improve food production and reduce poverty in the countryside. More-flexible labor laws would also enhance employment for qualified individuals and could increase family incomes.

Globally, the situation is not encouraging; Europe, Japan and the US still face very challenging economic, financial and political problems. The Philippines is not immune to the effects of these global problems; the question is the degree of its vulnerability. The Philippines' exposure to European credit is quite low and a credit squeeze there will likely have little effect. On the other hand European exposure in the Philippines — in both the private and public sectors — could be sold in the market and be picked up by other international or Philippine institutions.

The performance of the Philippine banking system has improved, with low levels of non-performing loans, and a high capital-to-asset ratio of about 16 per cent.

The banking system is therefore geared to support working capital requirements and the further expansion of facilities and infrastructure — particularly power projects to meet capacity requirements by 2014.

The Central Bank of the Philippines is even contemplating implementing Basel III ahead of time in order to remove further uncertainties.

The Philippine balance of payments has improved over the past years such that gross international reserves now exceed external debt, making the Philippines a net creditor nation. As a result, the country has enjoyed improved ratings, a capital inflow of portfolio investments, a slight strengthening of the peso, low interest rates and the enhancement of the longer-term peso bond market. Each of these improvements has made it possible for financial institutions to lend longer for housing and infrastructure financing.

While Asian growth will decelerate, it will still remain positive — slightly above 7 per cent. Thus it is anticipated that the Philippines can continue exporting to neighboring countries — especially China.

All these things considered, the Philippines seems likely to have a positive growth rate of about 4.5–5 per cent in 2012 as the government begins to implement projects and facilitate investment.

Cesar Virata is Principal of C. Virata & Associates and is a former Prime Minister of the Philippines.

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