



HOME GUARANTY CORPORATION

MACRO ECONOMIC REPORT

2008 Annual



EXECUTIVE SUMMARY

The global crisis has had economists and non-economists grasping for a new economic nomenclature to describe and demonstrate the severity of the on-going crisis. The current financial meltdown is characterized as follows:

1. Generalized crisis of confidence
2. Fear that the end is still far away
3. Waiting game for the next country, sector, industry, big company to fail
4. Bursting of asset bubbles leading to pessimistic valuations
5. De-leveraging leading to liquidity crunch and halt in investing
6. Slowdown has spread to the real economy

The ripples of the global economic crisis, precipitated by the financial meltdown after the disintegration of the housing bubble in the U.S., have reached the Philippines but to a milder extent. In fact, some key economic indicators of the previous year point to a relatively less pessimistic outlook for the Philippine economy, to wit:

1. Inflation has decelerated
2. Real sector growth has slowed down, not contracted
3. Weak financial market sentiments
4. Domestic liquidity continued to expand
5. Business confidence remained bearish
6. Consumer confidence index slid further year-on-year
7. Employment remained struggling but resilient
8. Y-O-Y OFW remittances climbed

The Philippine economy remained resilient, posting a 4.6 percent Gross Domestic Product (GDP) growth rate in 2008. Meanwhile, the 20.8 growth in Net Factor Income from Abroad (NFIA) pushed the Gross National Product (GNP) 6.1 percent from 8.0 percent of last year's.

On the expenditure side, Government and Consumer Spending, Investments in Fixed Capital Formation, and Total Exports decelerated. While Stocks, and Total Imports were up and Trade Balance posted a surplus.

On the production side, growth in Agriculture, Fishery and Forestry, Industry and the Services sectors decelerated.

While there was a general down trend in the country's economy in 2008, national and domestic output has kept pace with population growth, but at a slower rate.

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Considering all the national income accounts and other socio-economic indicators, the impact going forward include the following:

1. Global economic slowdown for 2009 to 2010
2. Different forms/components of stimuli
3. Positive price effects
4. Monetary, financial and valuation uncertainties
5. Continuation of slow economic growth, counter-cyclical government spending, and sluggishness in financial and capital markets

Government planners confirmed changes in some of their forecasts for some key economic indicators for 2009. Among the noticeable changes include:

1. Lower inflation forecast of 3 to 5 percent (from 6 to 8 percent range)
2. Zero Overseas Filipino Remittance growth in 2009 (from previous 6 to 9 percent growth)
3. Exports growth scaled back to -6 to -8 percent (from 1 percent to 3 percent growth)
4. Imports growth to decline -8 to -10 percent (from 4 percent to 6 percent)
5. GDP growth scaled somewhat to 3.7 to 4.4 percent range (slightly decreased from 3.7 to 4.7 percent range)
6. Budget deficit at P177Bn or 2.2 percent of GDP (worse than P102Bn initially)
7. Peso average (unchanged at P45 to P48)
8. Dubai oil average down to \$45 to \$60/ barrel (down from \$75 to \$90)
9. BOP at \$700Mn this year (scaled back from \$2.3Bn)

Further, a more conservative outlook should be taken in a positive sense as it lowers expectations and lessens pressure to achieve improbable targets.

- On the negative side, the downgrades in targets stressed the fact that the global contagion will not spare any country given the rising inter-dependence of the world economy.
- Overall, we would not be surprised if these government targets are scaled down anew (particularly on remittances, GDP growth, BOP balance) as we believe these forecasts continue to be on the aggressive side.

In the short-term, Bangko Sentral ng Pilipinas is considering further easing of monetary policy to help stimulate growth and in order for inflation to continue to decelerate and fall within target in 2009 and 2010. The BSP has cut a total of 100 basis points from the benchmark rates in its last two meetings. BSP expects foreign exchange reserves to fall between \$37.5Bn and \$38.5Bn by the end of 2009.

While the path going forward may seem less obscure due to the Philippines' long experience of economic downturns, challenges and pervasive questions remain. The bandwagon of stimulus packages waiting for the green light of governments in the U.S., Europe, Asia, and the rest of the world present uncertainties.

Economists and non-economists alike theorize about the moral hazard involved when providing financial bail-out packages to beleaguered financial institutions. If approved, taxpayers are wary on where the funding for the proposed stimulus packages will be drawn from. Above all these, the idea of a new form of international coordination comes into fore. New regulations and institutions might need to be established. A new financial architecture akin to but parallel the International Monetary Fund, World Bank, or the Asian Development Bank is being explored.

For the Philippine housing sector, opportunities and threats are recognized as follows:

Opportunities:

1. Foreseen disinflation/deflation and reduction in interest rates
2. Cut-back in spending on non-essentials
3. Developers seeking liquidity and funding
4. Bargains for homebuyers
5. Land banking in anticipation of infra projects
6. Continued demand for commercial real estate projects, especially by off-shoring BPOs
7. Return of structured finance

Threats:

1. Possible rise in defaults due to lay-offs and retrenchments
2. Risk-aversion by banks and other lenders
3. Possible reduction of liquidity and housing demand from OFWs and their remittances
4. Securitization given a bad name
5. Increase in inventory of housing units foreclosed, unoccupied, and for sale
6. Difficulty in selling high-rise and high-end segment

THE MELTDOWN

The global crisis has had economists and non-economists alike grasping for a new economic nomenclature to demonstrate and describe the severity of the ongoing crisis. Various form of such newly-coined phrases include “financial meltdown,” “economic turmoil,” economic pearl harbor¹,” “crisis of confidence,” “economic paranoia,” “financial tsunami” and others. Yet, no matter how one calls it, the impact in the near-term is serious and imminent to the global community. The current financial meltdown can be characterized as follows:

Generalized crisis of confidence

There is a generalized crisis of confidence. Nobody wants to invest, lend, or move. Confidence in the system has dramatically plummeted and pessimism spread like wild fire from the financial sector to the rest of the industry.

At the onset, the financial or the monetary economy was the epicenter of the crisis where money in circulation and prices were the only culprits blamed. Now, the ripples have reached the real economy where Gross National Product (GNP), Gross Domestic Product (GDP), production and employment are showing signs of tremors. In fact, the three biggest automakers in the U.S., General Motors, Ford, and Chrysler, have sought a bail out assistance from the U.S. Congress (**Box 1**).

Fear that the end is still far away

People differ on their opinions as to when these will be all over, and whether we will be able to recover at all. Many would say that it will be a V-shaped resurgence characterized initially by a downturn in economic output, then followed by an abrupt recovery. Meanwhile, others believe that it will be “U-shaped” upturn where there is a lengthy standstill, after which there will be an upswing. Still, there are some who say that it will be an “L-shaped” recovery where there is an abrupt downslide, then followed by uncertainty when it will go up, if at all.

¹ Billionaire investor Warren Buffet described the U.S. financial crisis as an “economic pearl harbor” in the wake of President Bush’s national address to urge the passage of the Wall Street bailout bill on September 24, 2008.

Box 1. Big Three U.S. Automakers: Bailout or Bankruptcy? (November 10, 2008)

Q&A: Will Congress Bail Out Detroit Automakers?

by Frank Langfitt

General Motors, Ford and Chrysler have asked for \$25 billion in government loans to survive the economic crisis – that's in addition to the \$25 billion Congress approved in September to foster fuel-efficient technology.

Congressional Democrats are urging the Treasury Department to provide the loans, but Treasury has balked so far and, overall, Congress doesn't seem to have much enthusiasm for another bailout.

Here, a look at the politics and economics behind the request by Detroit's Big Three.

The auto manufacturers have been hunting for money in Washington. Where do things stand?

In the past several days, the bailout request has looked like a hot potato. Late last week, the heads of GM, Chrysler and Ford met with Democratic House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid. Both said they wanted to help the car companies but made no promises.

Over the weekend, the two Democratic leaders asked the Treasury Department to see whether it could use some of the \$700 billion bailout fund to help automakers. On Monday, White House Press Secretary Dana Perino essentially said, "No, thanks," and tossed the request back to Congress.

Are there specific reasons political leaders are reluctant to back loans right now?

Yes. GM officials say Treasury told them the bailout money was designed for financial companies, not for industrial ones. And, politically, the request comes at a bad time. The country is between presidential administrations and waiting on a new Congress, so there is a natural reluctance to take on something that is certain to be controversial.

Democrats have expressed support for helping the car companies. President-elect Barack Obama called the auto business "the backbone of American manufacturing," but he doesn't take office until Jan. 20.

Ford and GM are each spending more than \$2 billion in cash every month; GM says it could run out of money soon. Can the companies wait for a new administration?

It depends on whom you talk to. One GM official said, "No, we can't wait until February." But GM CEO Rick Wagoner has also said that the company isn't burning cash as quickly as it was. John Casesa, a New York-based auto analyst, said GM could raise money by selling assets, such as Saturn or Saab. He says waiting for a new Congress is "a crapshoot" but thinks GM might be able to stay afloat until spring.

Even if the Detroit companies get federal loans, what is the outlook for workers?

Grim. The best-case scenario is more big layoffs. The Detroit auto business is getting hit from all sides. High gas prices destroyed a business strategy that relied on high-profit SUVs. Then the credit crunch and the recession wiped out consumer demand.

Last year, about 16 million vehicles were sold in the U.S. Next year, that number is expected to fall to 12 million. Simply put, there are too many workers making too many cars for too few customers.

Michelle Hill of Oliver Wyman, a management consulting firm, estimates that an additional 30,000 autoworkers will probably have to lose their jobs and 10 more plants will have to close. She says the job losses at dealerships and parts suppliers will be considerably bigger.

Source: <http://www.npr.org/templates/story/story.php?storyId=97093793&live=1#commentBlock>, accessed 05 March 2009.

Waiting game for the next country, sector, industry, big company to fail

The global financial crisis, which can be traced back in the U.S., has resulted in a waiting game as to whether who is the next country, industry, or company to take its turn under the guillotine.

Before, there is a presumption that such financial downturns are only confined to particular regions such as Africa and Latin America. Today, even once-rich European countries such as Iceland are grappling to achieve a certain degree of liquidity to meet its obligations (**Box 2**).

Box 2. Icelandic Commerce Minister falls on his sword (January 26, 2009)

Times Online

The Icelandic Commerce Minister handed in his resignation yesterday as fallout from the country's abrupt economic collapse continued unabated.

Bjorgvin Sigurdsson said that in addition to falling on his own sword, he had also dismissed the head of Iceland's financial supervisory authority.

Mr Sigurdsson's resignation came hard on the heels of the decision by Geir Haarde, the Prime Minister, to call early national elections as he announced that he would not stand for re-election.

The call for a May election follows daily protests against his coalition Government's handling of an economic crisis triggered by the collapse of the country's banks under the weight of huge debts amassed during years of rapid expansion.

Inflation and unemployment have soared, and the krona currency has plummeted. The biggest demonstration yet took place on Saturday as 6,000 to 7,000 people gathered in front of the parliament building and called for the Government to step down.

Mr Haarde's Government has nationalised banks and negotiated about \$10 billion (£7.2 billion) in loans from the International Monetary Fund and individual countries.

However, the country faces a bill likely to run to billions of dollars to repay thousands of European investors who held accounts with subsidiaries of collapsed Icelandic banks.

The Prime Minister announced on Friday that he would not be leading the Independence Party into the new elections because doctors had found a malignant tumor in his throat.

Mr Haarde is to travel to The Netherlands for treatment, and Thorgerdur Katrin Gunnarsdottir, the Education Minister, will lead the Government in his absence.

Source: <http://business.timesonline.co.uk/tol/business/economics/article5589249.ece>, accessed 05 March 2009.

Further, countries are also at the edge of their seats on who will be the next industry or sector to topple. The banking industry has had its turn. The airline industry is on the brink of a fallout. With industries on the verge of this present purging, companies, despite how big, are inevitably in for the ride. In 2008, we saw a financial mammoth, Lehman Brothers, with all its hundred so years of banking tradition, suddenly collapse. It seems nothing is sacred anymore in this crisis. Even the American International Group (AIG) was not spared.

Box 3. Lehman Brothers and AIG Downfall (September 16, 2008)

HK shares hit 23-mth low on Lehman downfall, AIG worries

By Joseph Chaney

Hong Kong's shares tumbled 5.4 percent to a near two-year low on Tuesday after Lehman Brothers sought bankruptcy protection and fears about the U.S. financial system knocked equity markets down across the world.

Financial plays tumbled after Lehman failed to find a rescuer, insurer AIG ([AIG.N](#)) struggled for survival and Merrill Lynch [MER.N](#) was snapped up by Bank of America ([BAC.N](#)), all of which unleashed a wave of global stock selling on Monday, when Hong Kong markets were closed for a holiday.

Analysts said fears over the U.S. financial system would carry on plaguing the market and drag it yet lower as long as investors remain unsure whether U.S. markets have hit bottom.

"There's a lot of issues investors need to deal with over the next few weeks-- first of all, what's going to happen to AIG?" said Alex Tang, research director at Core Pacific-Yamaichi International.

AIG, thrown a \$20 billion life-line by New York state, came under renewed pressure as ratings agencies downgraded its debt.

"We are not expecting a major comeback. But major players and fund managers might start accumulating shares on any major dips because the valuations are good," Tang said.

Tang added that investors are keenly waiting for more decisions from the U.S. Federal Reserve, which will hold a one day interest rate meeting on Tuesday amid speculation of a rate cut.

The benchmark Hang Seng Index.HSI ended down 1,052.29 points at 18,300.61, dragged down by steep losses in finance, energy, and telecom plays. It was the largest single-day percentage drop since January.

Source: <http://www.reuters.com/article/hongkongMktRpt/idUSHKG2513620080916>, accessed 05 March 2009.

Bursting of asset bubbles leading to pessimistic valuations

Part of the crisis of confidence is the bursting of asset bubbles. Investors were led to believe that assets they held will continue to grow in value, especially with the guaranty coverage of those assets. However, as these asset bubbles burst, pessimistic valuations resulted. The bottom is still unclear.

De-leveraging leading to liquidity crunch and halt in investing

The whole global system over-borrowed with the assumptions that (1) the assets used as collaterals for these borrowings will continue to rise in values; and (2) the ventures funded by these borrowings will not fail. These scenarios resulted in over leveraging where assets backing up these debts turned out to be under valued.

Financial institutions resorted to various credit derivatives such as credit default swaps (CDS), CDS-squared, collateralized debt obligations (CDOs), and others, which were mainly backed by assets such as car and housing loans. When these asset bubbles burst, businesses in the U.S. called on the government to pay for their obligations just to stay afloat.

In effect, these companies over-borrowed, prompting them to pursue de-leveraging to lower their exposure in the aftermath of the meltdown. However, this de-leveraging, which brings down exposures, tend to lower bank lending and liquidity.

Slowdown has spread to the real economy

There is a dramatic slowdown spreading across the real economy. Before, it was just the stock markets falling down, now jobs and careers are on the line. There is a recessionary pressure on employment across the globe.

Further, trading and investment losses are growing, both in the developed and emerging economies. The pessimism among investors has dampened the world market in light of the pending approval of the U.S. US\$789Bn stimulus package.

Worst, the people are doubting government actions, especially on the issue of bailing out companies on the verge of bankruptcy. Funding for the stimulus package, which will primarily be drawn from taxpayers' money, is being questioned. Inevitably, some sectors of the tax-paying public are wary of bailing out companies when they should be held liable for overly-generous perks in the past.

2008 PHILIPPINE MACRO ECONOMY

The ripples of the global economic crisis, precipitated by the financial meltdown after the disintegration of the housing bubble in the U.S., have reached the Philippines but at a milder extent. In fact, some key economic indicators of the previous year point to a relatively optimistic outlook for the Philippine economy.

Inflation decelerated²

The Bangko Sentral ng Pilipinas (BSP) reported that headline inflation continued to slide in the 4th quarter of 2008 from a quarterly peak of 12.2 percent to 9.7 percent. Still, this 4th quarter figure is significantly higher than the 3.3 percent rate posted a year ago. This occurred with the weakening of global economic activity and the improvement of the supply conditions in both domestic and international markets.

On the other hand, the long-term trend indicator of core inflation posted 7.7 percent in the 4th quarter of 2008. This figure is higher than the 6.9 percent of the previous quarter and the 2.4 percent recorded a year ago.

Real sector slowed down due to rising cost of fuel and other commodities, and the U.S. economic slump and its spillovers to other countries

For the most part of 2008, the Philippines' real economy slowed down due to the rising cost of fuel and commodities. However, the latter part of the year exhibited signs of easing in world oil prices that translated to a similar effect in the domestic economy. In the same manner, prices of commodities stabilized with the reduction in transport fares.

Weak financial market sentiments due to worsening global financial developments

Investor confidence remained weak toward the Philippine equities market. The growing pessimism in the global macroeconomic outlook has precipitated a risk-averse sentiment in the financial markets in the country. This cautious stance among investors towards growth prospects was accompanied by a depreciation of the peso, along with most of the regional currencies.

² Inflation Report Fourth Quarter 2008. Bangko Sentral ng Pilipinas.

Domestic liquidity continued to expand

Growth in net domestic assets (NDA) and net foreign assets (NFA) have fueled the strong demand for money in the fourth quarter of 2008. In the same manner, bank lending activities strengthened across all major production activities. The expansion of domestic liquidity translates to more funds available for investment and other productive activities.

Primarily, the 16.8 percent increase in credit extended to the private sector has expanded NDA by 13.1 percent. Meanwhile, NFA grew by 16.4 percent, due mainly to the continued growth in the Bangko Sentral ng Pilipinas' (BSP) NFA by 28.0 percent.

Business confidence remained bearish

Business confidence remained generally bearish. Yet, with the easing of oil prices and a stronger demand posted during the Christmas holidays, businesses became less pessimistic. The moderate uptick in business confidence was consistent with the global sentiment following the global financial meltdown.

Consumer confidence index slid further year-on-year

Nationwide consumer sentiment turned more bearish year-on-year, though less negative compared to the third quarter of 2008. Consumers cite their low incomes and the high cost of basic commodities for their negative view. Meanwhile, consumer confidence was buoyed up by the easing of gasoline and rice prices.

Employment remained struggling but resilient

The Department of Labor and Employment has noted the resiliency of the country's labor market in 2008. Average employment expanded by 1.6 percent or a net addition of half a million (530,000) employed persons in the labor force. Employment growth in the services sector was 2.2 percent, and in the combined agriculture, fishery and forestry sector posted an employment growth of 2.1 percent. Employment in the industry sector contracted by 1.5 percent as a result of the economic slowdown.

The quality of employment improved as reflected by the 0.8 percentage point decline in the underemployment rate to 19.3 percent. A 3.9 percent rise in full-time employment and a 1.9 percent growth in salary employment were also registered. Unemployment rate of 7.4% slightly increased by 0.1 percentage

point from last year despite the decline in labor force participation rate (LFPR) to 63.6 percent from 64.0 percent in 2007.

Y-O-Y OFW remittances climbed

The BSP revealed that remittances from overseas Filipino workers reached US\$16.4 billion in 2008, which is 13.7 percent higher than the level recorded in 2007. BSP Governor Amando Tetangco, Jr. noted that despite the global financial market strains and the economic downturn experienced by host economies, remittances from overseas Filipinos continues to be a dependable source of foreign exchange for the economy.

2008 NATIONAL INCOME ACCOUNTS

Philippine Economy Posted 4.6 Percent GDP Growth in 2008

The Philippine economy posted a 4.6 percent Gross Domestic Product (GDP) growth rate in 2008. Meanwhile, the 20.8 growth in Net Factor Income from Abroad (NFIA) pushed the growth Gross National Product (GNP) to 6.1 percent from 8.0 percent of last year's (*Table 1.*).

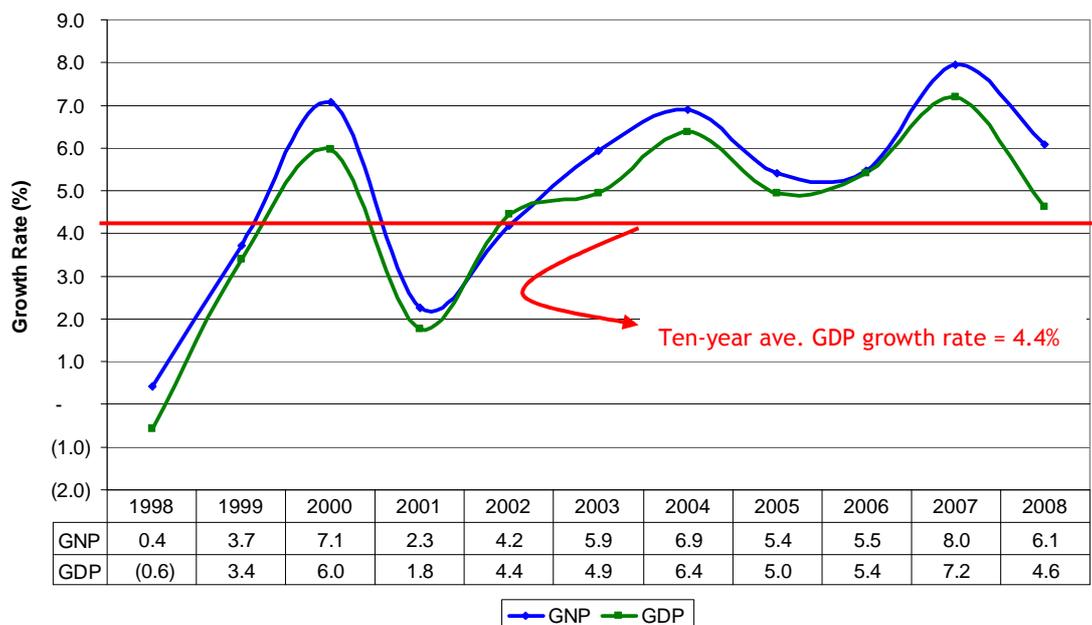
Table 1. Economic Performance, Philippines (Growth Rates, in Percent).

National Account	Fourth Quarter		Annual	
	2007	2008	2007	2008
GNP	6.0	↑ 6.4	8.0	↓ 6.1
GDP	6.4	↓ 4.5	7.2	↓ 4.6
NFIA	0.6	↑ 27.9	16.5	↑ 20.8

Source: National Statistical Coordination Board (NSCB)

Figure 1 shows that on the average, the 2008 GDP growth rate of 4.6 percent is still above GDP growth figures in the past ten years.

Figure 1. Annual Growth Rates of Real GDP and Real GNP, Philippines: 2005-2008.



Expenditure Side

Government and Consumer Spending Weakened

On the expenditure side, growth in Government Consumption Expenditure (GCE) slipped to 4.3 percent in 2008 from 8.3 percent growth posted in 2007.

Likewise, growth in consumer spending decelerated from 5.8 percent a year ago to 4.5 percent in 2008. Fortunately, the increases in compensation of OFWs kept consumer spending upbeat.

Expenditure items with higher growth include: Household Furnishings, which rebounded to 14.7 percent from negative 1.4 percent; and Household operations, which posted a 2.4 percent growth from 2.2 percent previously.

Growth in Food expenditures dramatically slid to 4.4 percent from 6.3 percent growth. Other sluggish PCE expenditure items include: Beverages, which grew by 3.3 percent from 3.7 percent; Clothing and footwear, which rose by 4.7 percent from 5.1 percent; Fuel, light and water, which dipped to 1.1 percent growth from 4.6 percent; Transportation/communication, which slowed down to 8.2 percent from 9.7 percent; and Miscellaneous, which fell to 3.9 percent from 6.4 percent. Growth in Tobacco expenses slid to negative 0.2 percent (**Table 2**).

Table 2. Growth Rates in Personal Consumption Expenditure by Purpose, Philippines (at constant 1985 prices).

Expenditure Group	2006 – 2007 (%)	2007 – 2008 (%)
Government Consumption Expenditure	8.3	↓ 4.3
Personal Consumption Expenditure	5.8	↓ 4.5
Food	6.3	↓ 4.4
Beverages	3.7	↓ 3.3
Tobacco	3.1	↓ (0.2)
Clothing and footwear	5.1	↓ 4.7
Fuel, light and water	4.6	↓ 1.1
Household furnishings	(1.4)	↑ 14.7
Household operations	2.2	↑ 2.4
Transportation / Communication	9.7	↓ 8.2
Miscellaneous	6.4	↓ 3.9

Source of basic data: NSCB

Investments in Fixed Capital Formation Decelerates

Growth in Investments in Fixed Capital Formation plummeted to 4.2 percent in 2008 from a robust growth of 11.2 percent for the same period in 2007 (**Table 3**).

Table 3. Growth Rates in Capital Formation, Philippines (at constant 1985 prices).

Expenditure Group	2006 – 2007 (%)	2007 – 2008 (%)
Capital Formation	11.2	↓ 4.2
Fixed Capital	11.8	↓ 3.7
1. Construction	21.3	↓ 6.3
2. Durable Equipment	4.5	↓ 1.7
3. Breeding Stock & Orchard Dev't	4.5	↓ (1.6)

Source of basic data: NSCB

Private investments sustained Construction despite slow down - Investments in Construction significantly slowed down to 6.3 percent in 2008 from a robust growth of 21.3 percent in 2007. Public Construction slackened to negative 0.7 percent from 29.6 percent growth the previous year while Private Construction slightly dipped to 11.4 percent growth from growth of 15.9 percent in 2007.

Investments in Durable Equipment slipped - Investments in Durable Equipment dipped to 1.7 percent in 2008 from 4.5 percent in 2007. Increased investments were registered in eleven (11) out of the twenty (20) types of equipment (**Table 4**).

Table 4. Growth Rates of Gross Domestic Capital Formation in Durable Equipment By Major Type: 2007- 2008 (at constant 1985 prices).

Type of Equipment	H1 2006 – 2007	H1 2007 – 2008
Durable Equipment	4.5	↓ 1.7
A. Machinery Specialized for Particular Industries	5.2	↓ (0.8)
1. Agricultural machineries	(9.0)	↑ 22.0
2. Tractor other than steam	0.1	↑ 23.7
3. Mining, construction machinery	44.4	↓ 29.8
4. Textile machineries	4.6	↑ 11.0
5. Saw mill & logging machineries	(11.1)	↑ (1.2)

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Table 4. Growth Rates of Gross Domestic Capital Formation in Durable Equipment By Major Type: 2007- 2008 (at constant 1985 prices).

Type of Equipment	H1 2006 – 2007	H1 2007 – 2008
6. Sugar mill machineries	(80.5)	↑ 1,966.7
7. Pulp and paper machinery	18.0	↓ 4.2
8. Metal working machineries	20.6	↓ (20.4)
9. Telecommunications & sound recording/reproducing equipment	1.1	↓ (5.6)
10. Other special industrial machineries	3.5	↓ 1.6
B. General Industrial Machinery and Equipment	8.9	↓ (4.3)
1. Aircon & refrigeration equipment	8.8	↑ 10.2
2. Pumps and compressors	9.3	↓ (3.0)
3. Other electrical machinery and apparatus	(3.5)	↑ (1.0)
4. Other general industrial machinery	18.2	↓ (14.2)
C. Transport Equipment	10.1	↑ 16.0
1. Road vehicles	22.2	↓ 13.7
2. Railway transport	1.9	↓ (61.3)
3. Air transport	35.2	↓ 25.9
4. Water transport	(69.7)	↑ 44.3
D. Miscellaneous Equipment	(6.6)	↑ (1.2)
1. Office machine & data processing	(5.8)	↓ (6.2)
2. Other miscellaneous durable equipment	(7.4)	↑ 3.9

Source of basic data: NSCB

Investments in Breeding Stocks, Orchard Development and Afforestation fell – Growth in capital formation for combined Breeding Stocks, Orchard Development and Afforestation in 2008 suffered a reversal with negative 1.6 percent growth from a 4.5 percent growth in 2007.

Stocks Increases

Total addition to stocks in 2008 amounted to P7,898 million compared to the P6,231 million withdrawals in the previous year. NSCB cites that increases in stocks of rice and sugar account for the additions to stocks for the period.

Total Exports dive

A very minimal growth in Total Exports was posted for 2008 from its 5.6 percent growth in 2007. Growth in Principal Merchandise Exports was down from a 4.0 percent growth performance in 2007 to negative 1.7 percent growth in 2008. Table 5 shows the top five exports for the period.

Table 5. Growth Rates of the Top 5 Merchandise Exports and Non-Factor Services: 2007- 2008 (at constant 1985 prices).

Items	H1 2006 – 2007	H1 2007 – 2008
EXPORTS	5.6	↓ 0.0
Total Merchandise Exports	4.0	↓ (1.7)
Principal Merchandise Exports	2.7	↑ 9.8
1. Semiconductors and electronic microcircuits	3.6	↓ (5.7)
2. Finished electrical machinery	20.6	↓ (24.3)
3. Garments	(11.5)	↑ (6.5)
4. Crude coconut oil	(9.7)	↑ (5.7)
5. Cathodes & Section of Cathodes, of Refined Copper	(7.2)	↑ 3.1
Non-Factor Services	13.7	↓ 7.7
1. Transportation	(17.6)	↑ (7.4)
2. Insurance	(30.7)	↑ 15.0
3. Travel	23.1	↓ (14.5)
4. Government	14.9	↑ 50.0
5. Miscellaneous Services	22.2	↑ 33.7

Source of basic data: NSCB

Exports of Non-Factor Services slowed down - Exports of Non-Factor Services posted a 7.7 percent growth in 2008 from 13.7 percent growth a year ago.

The downside of the sector was due to the negative 14.5 percent growth in Travel, which negated the increases in growth of the other Non-Factor Services.

Total Imports Up

2008 Total Imports improved from negative 4.5 percent growth in 2007 to a negative 1.1 percent growth. Merchandise Imports was up from negative 5.6 percent growth the previous year to negative 2.2 percent in 2008. Principal Merchandise Imports gained a negative 1.0 percent growth for the period from a negative 8.3 percent growth in 2007. Table 6 shows the top five growth contributors among the Principal Merchandise Imports.

Table 6. Growth Rates of the Top 5 Merchandise Imports and Non-Factor Services: 2007- 2008 (at constant 1985 prices).

Items	H1 2006 – 2007	H1 2007 – 2008
IMPORTS	(4.5)	↑ (1.1)
Total Merchandise Imports	(5.6)	↑ (2.2)
Principal Merchandise Imports	(8.3)	↑ (1.0)
1. Electrical machinery, apparatus & appliances	(17.8)	↑ (7.8)
2. Mineral fuels, lubricants and related materials	(3.3)	↑ 4.8
3. Machinery other than electrical machinery	(3.9)	↓ (5.7)
4. Cereals & cereal products	(14.7)	↑ 50.8
5. Transportation equipment	8.8	↑ 9.6
Non-Factor Services	15.0	↓ 13.8
1. Transportation	26.7	↓ 10.1
2. Insurance	(53.7)	↑ 172.8
3. Travel	14.1	↓ 3.3
4. Government	30.3	↑ 62.6
5. Miscellaneous Services	15.2	↑ 19.1

Source of basic data: NSCB

Imports of Non-Factor Services slid slightly – Growth in Imports of Non-Factor services slid to 13.8 percent from a 15.0 percent growth previously. Dramatic slowing down in Transportation, which fell to 10.1 percent growth from a robust 26.7 percent growth, and in Travel, which posted only a 3.3 percent growth from a 14.1 percent growth, pulled the Imports of Non-Factor Services.

Trade Balance Posts Deficit

In 2008, Total Exports (Merchandise and Non-factor Services), valued at P2,845 billion pesos at current prices was below the Total Imports (Merchandise and Non-factor Services), valued at P2,860 billion pesos. This resulted in a trade deficit of P15 billion pesos as against the trade surplus of P30 billion pesos registered in 2007.

Trade Index worsened - The 2008 terms of trade was down, with the trade index of 91.0 percent. This was lower than the trade index of 93.5 percent a year ago. GNP Implicit Price Index (IPIN) stood at 520.03 percent from 482.38 percent in the previous year.

Production Side

Agriculture, Fishery and Forestry (AFF)

In 2008, growth in Agriculture, Fishery and Forestry, Industry and the Services sectors decelerated (**Table 7**).

Table 7. Economic Performance, By Major Industries, Philippines (Growth Rates in Percent).

Major Industries	Fourth Quarter		Annual	
	2007	2008	2007	2008
AFF	5.7	↓ 2.8	4.9	↓ 3.2
Industry	4.9	↑ 5.0	7.1	↓ 5.0
Services	7.8	↓ 4.9	8.1	↓ 4.9

Source: NSCB

AFF growth decelerates – AFF, which accounted for 0.6 percentage points of GDP growth, grew slower by 3.2 percent compared to 4.9 percent recorded in 2007. AFF growth contributors were Sugarcane, Banana, Poultry, Coconut including copra, and Forestry (**Table 8**).

Table 8. Gross Value Added in AFF by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	2006 – 2007	2007 – 2008
1. AGRICULTURE	4.9	↓ 3.2
a) Agriculture	4.5	↓ 2.5
Palay	6.0	↓ 3.5
Corn	10.8	↓ 2.8
Coconut incl. copra	(0.6)	↑ 2.9
Sugarcane	(11.0)	↑ 18.1
Banana	10.1	↑ 16.1
Other crops	7.1	↓ (1.6)
Livestock	2.4	↓ (1.1)
Poultry	0.2	↑ 4.7
Agricultural activities & services	4.5	↓ 3.2
b) Fishery	6.9	↓ 5.5

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Table 8. Gross Value Added in AFF by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	2006 – 2007	2007 – 2008	
2. FORESTRY	(10.5)	↑	2.2
GROSS VALUE ADDED in AFF	4.9	↓	3.2

Source of basic data: NSCB

Industry

Industry, which accounted for 1.6 percentage points of 2008 GDP growth, posted a 5.0 percent growth in 2008 from 7.1 percent during the previous year. Industry growth contributors were Manufacturing and, Electricity, Gas & Water (**Table 9**) which posted growth rates of 4.3 percent and 7.7 percent, respectively.

Table 9. Growth Rates in the Industry Sector by Sub-Sectors, Philippines (at constant 1985 prices).

Industry / Sub-Sector	2006 – 2007	2007 – 2008	
INDUSTRY SECTOR	7.1	↓	5.0
a. Mining & Quarrying	25.9	↓	0.6
b. Manufacturing	3.4	↑	4.3
c. Construction	23.1	↓	8.2
d. Elec., Gas and Water	6.7	↑	7.7

Source of basic data: NSCB

Table 10 shows the top five manufactures for 2008.

Table 10. Top Five Growth Contributors in the Manufacturing Sector, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates			Percentage Point Contribution to Growth in Manufacturing
	2006 – 2007	2007 – 2008		
MANUFACTURING	3.4	↑	4.3	
Food manufactures	4.9	↑	8.9	3.7
Products of petroleum & coal	2.1	↑	2.4	0.3
Electrical machinery	(4.9)	↓	(9.2)	(1.1)
Chemical & chemical prod.	(2.7)	↑	5.1	0.3
Beverage industries	15.8	↓	15.0	0.5

Source of basic data: NSCB

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Mining & Quarrying slumped - From a high 25.9 percent growth last year, Mining and Quarrying dived to 10.2 percent as a result of the volatility of metals and mineral prices (**Table 11**).

Table 11. Gross Value Added in Mining & Quarrying by Industry Group, Philippines (at constant 1985 prices).

Industry / Industry Group	2006 – 2007	2007 – 2008
Copper mining	20.8	↓ 10.2
Gold mining	6.5	↓ (5.7)
Chromium mining	(35.0)	↓ (61.8)
Nickel mining	85.1	↓ (26.3)
Other metallic mining	212.4	↓ (81.9)
Crude oil	20.5	↓ 1.6
Stone quarrying, clay and sandpits	8.8	↓ 0.2
Other non-metallic	44.6	↓ 10.2
GVA in MINING AND QUARRYING	25.9	↓ 0.6

Source of basic data: NSCB

Construction decelerated - Construction sluggishly grew by 8.2 percent in 2008 from a 23.1 percent growth rate the previous year. Public and Private Construction posted growth rates of negative 0.7 percent and 11.4 percent, respectively. (**Table 12**).

Table 12. Gross Value Added in Construction, Philippines (at constant 1985 prices).

Industry / Industry Group	2006 – 2007	2007 – 2008
Public	29.6	↓ (0.7)
Private	15.9	↓ 11.4
GROSS VALUE IN CONSTRUCTION	21.3	↓ 6.3
GVA in CONSTRUCTION	23.1	↓ 8.2

Source of basic data: NSCB

EGW was strong - Electricity, Gas and Water (EGW) growth improved from 6.7 percent growth in 2007 to 7.7 percent in 2008. The 2008 overall performance of the sector was largely attributed to Electricity and Gas, which accounted for 93.6 percent of EGW. Electricity and Gas grew by 8.0 percent from 6.7 percent last

year. Water, on the other hand, slowed down to 3.7 percent from 6.0 percent the previous year (**Table 13**).

Table 13. Gross Value Added in Electricity, Gas and Water, Philippines (at constant 1985 prices).

Industry / Industry Group	2006 – 2007	2007 – 2008
Electricity and Gas	6.7	↑ 8.0
Water	6.0	↓ 3.7
GVA in ELEC., GAS & WATER	6.7	↑ 7.7

Source of basic data: NSCB

Services Slowed Down

Services, with a share of 2.4 percentage points contribution to GDP growth, dipped to 4.9 percent growth in 2008. Trade contributed the most to the sector's growth with a 1.64 percentage point contribution (**Table 14**). The sub-sectors of Ownership of Dwellings & Real Estate, and Government Services posted an upward growth rate of 7.0 percent and 4.7 percent, respectively.

Table 14. Growth Rates in the Services Sector, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Services
	2006 – 2007	2007 – 2008	
SERVICES	8.1	↓ 4.9	
Transport, Comm., Storage	8.3	↓ 3.7	0.7
Trade	8.2	↓ 4.7	1.6
Finance	13.1	↓ 4.9	0.6
O. Dwellings & R. Estate	5.9	↑ 7.0	0.7
Private Services	8.4	↓ 5.7	1.0
Government Services	2.6	↑ 4.7	0.4

Source of basic data: NSCB

Communication propped TCS growth - Transport, Communication & Storage (TCS) growth decelerated to 3.7 percent in 2008 from a growth of 8.3 percent in the previous year. Communication, despite a slow down of 4.5 percent growth in

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2008 from a robust performance of 10.1 percent growth in 2007, contributed 2.6 percentage points to the sector's 2008 growth.

Transport and Storage sluggishly grew by 2.6 percent in 2008 from a 6.1 percent growth previously. Water Transport growth accelerated to 4.1 percent from a negative growth of 0.5 percent in 2007. Meanwhile, Land and Air Transport decelerated to 1.8 percent and 6.2 percent growth rates, respectively (**Table 15**).

In the same manner Storage & Services Incidental to Transport posted a growth rate of 4.6 percent, significantly below the 10.0 percent growth rate in 2007.

Table 15. Growth Rates in Transport, Communication & Storage, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Trans., Comm., & Stor.
	2006 – 2007	2007 – 2008	
TRANS., COMM., & STOR.	8.3	 3.7	
1. Transport and Storage	6.1	 2.6	1.1
a) Land	5.6	 1.8	0.5
b) Water	(0.5)	 4.1	0.2
c) Air	14.3	 6.2	0.1
d) Storage and services incidental to transport	10.0	 4.6	0.3
2. Communication	10.1	 4.5	2.6

Source of basic data: NSCB

Trade propped up by Wholesale - Trade, contributing the most to Services, grew at a slower pace of 4.7 percent in 2008 from 8.2 percent last year. The double-digit expansion in Wholesale Trade by 11.5 percent from 7.2 percent bolstered the growth in sub-sector. Retail trade, on the other hand, slowed down to an 2.6 percent growth from 8.6 percent, largely due to the high retail prices of commodities.

Table 16. Growth Rates in Trade, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Trade
	2006 – 2007	2007 – 2008	
TRADE	8.2	 4.7	
Wholesale	7.2	 11.5	2.7
Retail	8.6	 2.6	2.0

Source of basic data: NSCB

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Banks boost Finance's growth - Financial Services grew, albeit at a slower pace, by 4.9 percent in 2008 from a double-digit growth of 13.1 percent previously. The strong performance of Banks in 2008 fueled the growth in Finance. Contributing 7.0 percentage points in the sub-sector, Banks accelerated its growth by 10.0 percent from a 9.3 percent growth in 2007.

In contrast, Non-banks, which include financial services from investment companies, security dealers, brokers and pawnshops, suffered a negative 4.1 percent decline from 3.2 percent previously. Likewise, Insurance dramatically slowed down to negative 8.2 percent in 2008 from a strong performance of 35.5 percent previously.

Table 17. Growth Rates in Finance, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Finance
	2006 – 2007	2007 – 2008	
FINANCE	13.1	↓ 4.9	
Banks	9.3	↑ 10.0	7.0
Non-Banks	3.2	↓ (4.1)	(0.4)
Insurance	35.5	↓ (8.2)	(1.7)

Source of basic data: NSCB

ODRE remains upbeat - Ownership of Dwellings and Real Estate (ODRE) remained steadfast at 7.0 percent from 5.9 percent growth in 2007. Ownership of Dwellings experienced a faster growth of 2.5 percent from 2.0 percent previously. Likewise, Real Estate, with a 5.2 percentage point contribution to ODRE growth, accelerated with a 19.4 percent growth rate in 2008 from 18.1 percent growth in 2007 (**Table 18**).

Table 18. Growth Rates in Ownership of Dwellings & Real Estate, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in ODRE
	2006 – 2007	2007 – 2008	
ODRE	5.9	↑ 7.0	
Ownership of Dwellings	2.0	↑ 2.5	1.8
Real Estate	18.1	↑ 19.4	5.2

Source of basic data: NSCB

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Other Services decelerates - Other Services, which includes government and private services, decelerated in 2008 with a growth of 5.4 percent as compared to the 6.5 percent growth in 2007 (**Table 19**).

Table 19. Gross Value Added in Other Services by Industry Group, Philippines (at constant 1985 prices).

Industry / Sub-Sector	Growth Rates		Percentage Point Contribution to Growth in Other Services
	H1 2006 – 2007	H1 2007 – 2008	
GVA in Other Services	6.5	↓ 5.4	
1. Government Services	2.6	↑ 4.7	1.5
2. Private Services	8.4	↓ 5.7	3.8
a) Educational	2.6	↓ (2.5)	(0.1)
b) Medical and health	5.6	↓ 2.3	0.2
c) Business	12.8	↑ 13.2	2.0
d) Recreational	11.4	↓ 7.1	0.6
e) Personal	7.1	↓ 4.9	0.8
f) Hotel and restaurant	9.3	↓ 2.7	0.3
g) Others	2.6	↑ 3.1	0.1

Source of basic data: NSCB

Private Services, which accounted for 3.8 percentage points of the total growth in the sector, posted a slower growth rate of 5.7 percent from 8.4 percent in 2007. Business Services, which includes the Business Process Outsourcing industry, sustained the growth in Private Services.

On the other hand, Government Services, which contributed 1.5 percentage points to Other Services' growth, accelerated by 4.7 percent during the period from 2.6 percent. Largely, the NSCB attributes this acceleration to the provision of the additional P10,000 incentive for government employees.

Tables 21.a and 21.b present the breakdown of National Income Accounts by Expenditure Type and Industrial Origin, respectively.

Per Capita GNP, GDP & PCE

While there was a general down trend in the country's economy in 2008, national and domestic output has kept pace with population growth, but at a slower rate. Per capita GDP grew by 2.6 percent from 5.1 percent in 2007 while per capita GNP also increased at a slower rate of 4.0 percent from 5.9 percent. Per capita Personal Consumption Expenditure (PCE) posted a sluggish 2.5 percent growth rate from 3.8 percent in 2007 (**Table 20**).

**Table 20. Per Capita GDP, GNP and PCE, Philippines
(at constant 1985 prices).**

Per Capita	Fourth Quarter		January to December	
	2007	2008	2007	2008
GDP	4.4	↓ 2.5	5.1	↓ 2.6
GNP	3.9	↑ 4.3	5.9	↓ 4.0
PCE	4.1	↓ 2.5	3.8	↓ 2.5

Source: NSCB

NATIONAL INCOME ACCOUNTS

**Table 21.a. National Income Accounts, by Expenditure Type, Philippines:
First Half of 2008 (at constant 1985 prices).**

Expenditure Type	Growth Rates		Contribution to Growth (2008)
	2007	2008	
Personal Consumption	5.8	↓ 4.5	52.7
Government Consumption	8.3	↓ 4.3	4.4
Capital Formation	11.2	↓ 4.2	11.6
Construction	21.3	↓ 6.3	7.9
Durable Equipment	4.5	↓ 1.7	2.1
Breeding Stock & Orchard Dev't	3.6	↓ (1.6)	(0.3)
Exports	5.6	↓ 0.0	0.0
Total Merchandise Exports	4.0	↓ (1.7)	(10.4)
Non-Factor Services	13.7	↓ 7.7	10.4
Transportation ³	(17.6)	↑ (7.4)	(1.6)
Insurance	(30.7)	↑ 15.0	0.1
Travel	23.1	↓ (14.5)	(8.0)
Government	14.9	↑ 50.0	0.7
Miscellaneous Services ⁴	22.2	↑ 33.7	19.3
Imports	(4.5)	↑ (1.1)	(7.7)
Total Merchandise Imports	(5.6)	↑ (2.2)	(14.2)
Non-Factor Services	15.0	↓ 13.8	6.5
Transportation	26.7	↓ 10.1	0.7
Insurance	(53.7)	↑ 172.8	0.8
Travel	14.1	↓ 3.3	0.7
Government	30.3	↑ 62.6	0.9
Miscellaneous Services	15.2	↑ 19.1	3.4
Gross Domestic Product	7.2	↓ 4.6	69.5
Gross National Product	8.0	↓ 6.1	100

Source of basic data: NSCB

³ Includes passenger & other transportation services; e.g. cargo handling, storage & warehousing, packing services

⁴ Includes IT-enabled services e.g. contact centers, medical transcription, software development, etc.

NATIONAL INCOME ACCOUNTS

**Table 21.b. National Income Accounts, by Industry Origin, Philippines:
First Half of 2008 (at constant 1985 prices).**

Industry	Growth Rates		Contribution to Growth (H1 2008)
	H1 2007	H2 2008	
Agri., Fishery, Forestry	4.9	↓ 3.2	8.8
Industry	7.1	↓ 5.0	24.4
Mining & Quarrying	25.9	↓ 0.6	0.2
Manufacturing	3.4	↑ 4.3	15.1
Construction	16.8	↓ 8.2	5.6
<i>Public</i>	29.6	↓ (0.7)	(0.4)
<i>Private</i>	15.9	↓ 11.4	8.3
Elect., Gas and Water	6.7	↑ 7.7	3.6
Service	8.1	↓ 4.9	36.3
Transport, Comm., Storage	8.3	↓ 3.7	4.9
Trade	8.2	↓ 4.7	12.0
Finance	13.1	↓ 4.9	4.4
O. Dwellings & R. Estate	5.9	↑ 7.0	4.9
<i>Real estate</i>	21.3	↓ 19.4	3.6
<i>Ownership of dwellings</i>	1.9	↑ 2.5	1.3
Gross Domestic Product	7.2	↓ 4.6	69.5
Gross National Product	8.0	↓ 6.1	100.0

Source of basic data: NSCB

SELECTED SOCIO-ECONOMIC INDICATORS**Box 4. Selected Socio Economic Indicators, Philippines: 2007 and 2008.**

Indicators	2007	2008	Y-O-Y Growth (%)
CPI (2000=100)	141.8	155.0	9.31
Headline Inflation (%) (2000=100)	2.8	9.3	232.14
Purchasing Power (2000=100)	0.71	0.65	(8.45)
Exchange Rate (P/\$)	41.40	47.49	14.71
Lending Rates (High Values)	8.59	9.45	10.01
91 Day T-Bill Rates	3.41	5.39	58.06
OFW Remittances (in US\$ Bn)	14.5	16.4	13.68
Unemployment Rate	7.3	7.4	1.37

Source: Bangko Sentral ng Pilipinas (BSP) and Bureau of Labor and Employment Statistics (BLES)

WHAT IS THE IMPACT OF GOING FORWARD?

Global Economic Slowdown

The global financial crisis has so far stepped on HGC's growth. Primarily, the country's integration with the global financial system has produced a direct impact on our operations as a financial institution. But while the toxic assets of the U.S. all akin to HGC's, we are very much knowledgeable of the situation. For one, HGC has just come out of a crisis of its own amidst the 1997 Asian financial crisis. HGC has heard a lot from that episode.

The effects of the global economic slowdown in turn permeate to lay-offs and retrenchments, lower spending, lower demand for imported goods and lower portfolio investments in the country.

Different Forms/Components of Stimuli

To address the slowing down in economic activity, a number of stimuli are being considered to pump prime production and spending. Among the different forms of economic stimuli include increased government spending for housing, education and infrastructure, expansionary monetary policies, lower interest rates, and specialized assistance for select sectors in the form of bailouts and asset resolutions.

Price Effects

The global financial crisis would also have negative price effects (meaning positive for consumers) as a result of a weakening dollar, disinflation preceding a deflation, and a reversal of commodity price boom.

Looking back, the prior problem was the commodity price boom and not the financial crisis itself. World market prices of oil, metals, and food dramatically soared which translated to a rice crisis in the early part of 2008 in the country. In response, more resources were allotted for these products to effect a reversal in commodity prices.

Monetary, Financial and Valuation Effects

Companies are prompted to undergo balance sheet clean-up. Capital calls in view of de-leveraging is being pursued. As a result, asset values will become more realistic given the reduced liquidity. It is also important to note that there is

a downtrend in benchmark rates. But yields might remain high in order to reflect the risks involved.

Continuation of Slow Economic Growth, Counter-Cyclical Government Spending, and Sluggishness in Financial and Capital Markets

The impacts going forward include a continuation of slow economic growth, counter-cyclical government spending, and sluggishness in financial and capital markets.

Philippine planners adopt more conservative revisions in economic indicators

In a February 2009 Philippine economic briefing, government planners confirmed changes in some of their forecasts for some key economic indicators for the year. Among the noticeable changes include:

1. Lower inflation forecast of 3 to 5 percent (from 6 to 8 percent range)
2. Zero Overseas Filipino Remittance growth in 2009 (from previous 6 to 9 percent growth)
3. Exports growth scaled back to -6 to -8 percent (from 1 percent to 3 percent growth)
4. Imports growth to decline -8 to -10 percent (from 4 percent to 6 percent)
5. GDP growth scaled somewhat to 3.7 to 4.4 percent range (slightly from 3.7 to 4.7 percent range)
6. Budget deficit at P177Bn or 2.2 percent of GDP (worse than P102Bn initially)
7. Peso average (unchanged at P45 to P48)
8. Dubai oil average down to \$45 to \$60/ barrel (down from \$75 to \$90)
9. BOP at \$700Mn this year (scaled back from \$2.3Bn)

SB Equities, Inc. suggested that a more conservative outlook should be taken in a positive sense as it lowers expectations and lessens pressure to achieve improbable targets.

- On the negative side, the downgrades in targets stressed the fact that the global contagion will not spare any country given the rising inter-dependence of the world economy.

- Overall, market observers would not be surprised if these government targets are scaled down anew (particularly on remittances, GDP growth, BOP balance) as they believe these forecasts continue to be on the aggressive side.

Box 5. Forecast Figures of Selected Socio Economic Indicators, Philippines: 2009.

Indicators	New Forecast	Previous Forecast
Inflation	3% to 5%	6% to 8%
Remittance	0%	+6% to +9%
Exports	-6% to -8%	+1% to +3%
Imports	-8% to -10%	+4% to +6%
GDP	3.7% to 4.4%	+3.7% to +4.7%
Budget Deficit	P177Bn	P102Bn
Forex (vs. USD)	P45 to P48	P45 to P48
Oil	\$45 to P60	\$75 to \$90
BOP	\$700Mn	\$2.3Bn

Source: Bangko Sentral ng Pilipinas (BSP), Development Budget Coordinating Council and SB Equities, Inc. Research

SB Equities, Inc. further reported on the following:

Budget deficit at P68.1Bn in 2008

The government posted a budget deficit of P68.1Bn in 2008 according to Finance Secretary Margarito Teves. This is lower than the government's target of a P75Bn deficit for 2008. He also added that the government is targeting a budget deficit of P177.2Bn in 2009 having revenues at P1.302 trillion and expenditures at P1.479 trillion.

Imports and Exports plunged in December

The National Statistics Office (NSO) reported that Philippine imports plunged 34.2 percent in December and declined 5.5 percent month-on-month due to low volumes of imported electronic parts, the country's top import product.

Electronic products, which account for 34.5 percent of imports fell 46.1 percent but reached a two percent growth for the full year. NSO also cited that Exports dropped by more than 40 percent in December 2008. Trade deficit in December amounted to \$617Mn, resulting in a 2008 trade deficit of \$7.611Bn.

BSP to further ease monetary policy

Bangko Sentral ng Pilipinas is considering further easing monetary policy to help stimulate growth and in order for inflation to continue to decelerate and fall within target in 2009 and 2010. The BSP has cut a total of 100 basis points in its last two meetings. BSP Governor Amando Tetangco expects foreign exchange reserves to fall between \$37.5Bn and \$38.5Bn by the end of 2009.

CHALLENGES AND PERVASIVE QUESTIONS

Moral Hazard

Economists point to the moral hazard involved when banks and other financial institutions are bailed-out in times of economic failure. With governments all over the world poised to rescue beleaguered financial institutions, fears of riskier lending in the future are expected. There is a brewing sentiment that while profits are privatized, risks are socialized. Now, taxpayers, depositors, and other creditors will be forced to pay for the risky financial decisions of lending institutions.

Source of stimulus funding

In the Philippines, talks of stimulus funding and where to source that funding abound. Definitely, a stimulus package would need funding, the source of which remains on the debate table. Some sectors believe that government will be financing through deficit financing that will burden future generations.

International Coordination

Amidst the meltdown of financial behemoths, fear looms on the need for international coordination through a new financial architecture – a new International Monetary Fund, a new World Bank, or an Asean Monetary Fund. However, these proposals, if heeded, may require new rules, regulations and institutions in order to prevent another crisis of the same magnitude.

The question remains. What is the assurance that it won't happen again? What is the assurance that the banks will behave properly in terms of their investment and financial decisions?

OPPORTUNITIES FOR AND THREATS TO HOUSING FINANCE

Figure 2. Opportunities for and Threats to Housing Finance, Philippines.

OPPORTUNITIES	THREATS
1. Foreseen disinflation/deflation and reduction in interest rates	1. Possible rise in defaults due to lay-offs and retrenchments
2. Cut-back in spending on non-essentials	2. Risk-aversion by banks and other lenders
3. Developers seeking liquidity and funding	3. Possible reduction of liquidity and housing demand from OFWs and their remittances
4. Bargains for homebuyers	4. Securitization given a bad name
5. Land banking in anticipation of infra projects	5. Increase in inventory of housing units foreclosed, unoccupied, and for sale
6. Continued demand for commercial real estate projects, especially by off-shoring BPOs	6. Developer losses, especially in high-rise and high-end segment
7. Return of structured finance	