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Global economic crisis and the Philippine economy

By Erwin Corong and Angelo Taningco

Despite its limited exposure to financial assets in the United States, the global economic and financial turmoil that started in 2008 has adversely affected the Philippine economy, largely from a contraction in international trade. In early 2009, the Philippine government responded by launching a fiscal stimulus program to help mitigate the negative impacts of the economic crisis.

As part of a PEP multi-country initiative to “assess the impact of the global financial crisis and appropriate policy responses in developing countries”, a team of Filipino researchers were granted support to analyze the channels through which the crisis would affect the national economy as well as income and poverty at the household level in their home country.

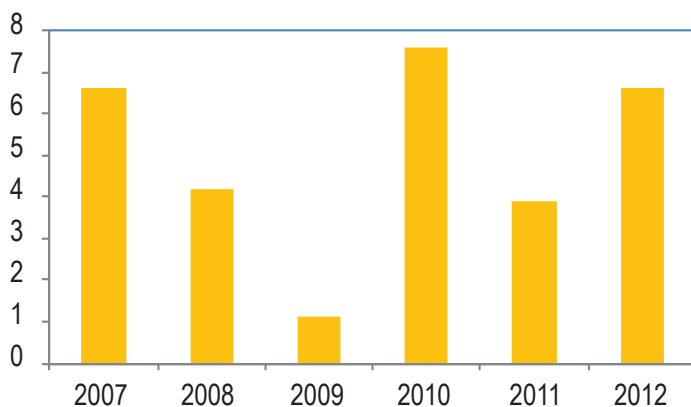
The researchers used a combination of macro-micro modeling and simulation techniques to determine the extent to which a contraction in international trade can affect the Philippines’ domestic economy in such circumstances, and to assess how a 10 percent increase in government expenditures - that mimics the fiscal stimulus program implemented in 2009 - has in fact contributed to mitigate the crisis impact.



Key findings and conclusions

Overall, the results indicate that a global economic crisis leads to a contraction in Philippine trade in goods, which in turn results in:

- A contraction in the growth rate of real GDP by about a quarter, with the effects of the stimulus program not fully offsetting this negative impact;
- A decline in sectoral output levels and labor demand, with the outward-oriented manufacturing sector experiencing a larger output contraction, and falling demand for skilled and unskilled labor;
- An increase in labor demand and output of services sector, driven by the fiscal stimulus program that positively affects public services;
- A reduction in real income of households, particularly those in the lower deciles; and
- An increase in poverty headcount, gap, and severity, with poverty worsening in urban areas - where the export-oriented industries are located.



Philippine Real GDP Growth, 2007-2012 (percent)

Policy recommendations

The Philippine government has to improve its social protection program, to improve its bottlenecks - such as inadequate benefits, low coverage, and poor targeting - as well as expand the delivery of social protection. It also has to spend more in improving the physical infrastructure in the domestic economy to help create job opportunities, improve productivity, and complement its social protection measures.

Finally, the government has to promote intra-regional trade with other Asian economies, in order to moderate its export dependence to Western economies like the United States and Europe.