

# **PRESIDENT GLORIA MACAPAGAL ARROYO'S SPEECH DURING THE MID-YEAR PHILIPPINE ECONOMIC BRIEFING**

*Rizal Ballroom, Shangri-La Hotel, Makati City  
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Thank you Secretary Teves for your introduction.

Excellencies of the Diplomatic Corps, Cabinet members, Economic managers, Business leaders, ladies and gentlemen.

I start off by reading you a quote from The Economist Intelligence Unit: "Where the Philippines differs from its neighbors and indeed from most crisis-hit economies is that the crisis has generated less pronounced economic ups and downs, the economy has not contracted at all in year on year terms during the current global crisis." How true this is indeed. And this is a story that many of you know but many outside don't even know. In fact, when I made a visit to one of the countryside I've been to, one of the leaders there said, "you know, the problem with the Philippines is that you always have a boom and bust cycle." And I said, not in the last eight years. We have had uninterrupted quarter growth every quarter and that is one of the important things we have achieved and which has enabled us to be resilient during the food global and now climate change crisis.

We have achieved much in the areas of infrastructure investment, job creation and macroeconomic stability that have helped us to the worst of these crisis. As I said earlier, first there was a global food crisis, then a global financial and economic crisis, and now we have a climate change crisis. But the result of our reforms is a Philippine economy that is stronger and more able to withstand shocks such as those that the global crisis, the three global crisis have been throwing at us. And our economic managers will be the ones to give the figures not me. But I can say in summary that we have sustained positive economic growth throughout the global recession and even exceeded expectations for the second quarter.

We have had important financial and fiscal reforms. The financial reforms have created solid fundamentals that underpin our banking sector today. They reinforce the conservative banking practices. These values have significantly sheltered our country's finances. In recognition of this stability, Moody's Investor Service upgraded the Philippine credit rating last July, and even the damage from the two recent typhoons that hit Manila and most of Luzon was "deemed manageable" so that rating and multilateral agencies maintained their outlook for positive economic growth this year. And let me give my appreciation to the banking sector. Aside from the fact that their innate conservatism together with our financial and Central Bank reforms have given us a sound banking system to the global financial crisis in the Economic Resiliency Program which we discussed in the Philippine Chamber of Commerce and Industry Conference last year.

Where we asked the private sector to contribute -- or not that we asked the private sector -- the private sector committed to contribute 50 billion pesos to a 100 billion-peso investment fund, per the report of Secretary Favila to me, the private sector has complied with its 50 billion pesos, especially in financing the power investments. Thank you very much for that.

Aside from the financial reforms you're of course familiar with the fiscal reforms, the bitter medicine of fiscal reform that we took years ago. Also you are familiar with the economic resilience that it has created so that as I said today, we have a stronger more robust nation. And therefore now, we are poised to ride the wave of the impending global economic rebound and to offer investors an opportunity to capture the growth prospects that come with that rebound.

For as we know there are already early signs or green sprouts that the long awaited global rebound is on the horizon. The Asian Development Bank has reported signs of return of investor risk appetite supported by such indicators as the Morgan Stanley Capital International Index showing a rise from its lowest level last November indicating that investor appetite for Asian equities is rebounding.

The Philippine Stock Exchange has risen by double digit is an understatement, and I'm glad to see that we are quite close now to the levels that we had before the financial crisis.

Meanwhile, foreign direct investment coming into the Philippines have also posted a double digit increase. The Business Expectation Survey carried out by our Central Bank shows that business sentiment continued to improve in

the third quarter. The overall confidence index is back to positive territory compared to the third quarter of last year.

We will continue to work aggressively to ensure that the growth that has been generating jobs and revenue to invest in new infrastructure and critical social programs will be sustained. We will continue with our Economic Resiliency Program and its key components not just that fund for infrastructure, public sector fund but also Conditional Cash Transfers, the Comprehensive Livelihood and Emergency Employment Program and the bigger faster absorption of the budget by our agencies. Through government support at all levels and the hard work of our people, we will not be deterred in our effort to maintain growth. We will intensify our investment in infrastructure, especially post-calamity reconstruction.

I think you have seen in the news that I have just created a Special National Public-Private Reconstruction Commission whose task shall be: 1. To undertake a study of the causes, costs and actions to be taken in the wake of typhoons "Ondoy," "Pepeng" but not only those two, also last year's typhoon "Frank" from which we have not fully recovered; 2. Undertake the rehabilitation plan for wrecked infrastructure and other priorities; 3. Raise funds, especially grants to fund reconstruction; 4. Prioritize programs; 5. Oversee implementation; 6. Serve as a clearing house for international assistance which the donors themselves implement using the cluster approach. This has been used, for instance, in the reconstruction of typhoon "Reming" and we can do the same template for these three typhoons, and; 7. Coordinate an international pledging session with the World Bank and the United Nations I'm sure you also read that the Commission shall be headed by a leading businessman with the Department of Finance and a leader of the church as cochairs. The government members of the Reconstruction Commission will be the user agencies, need agencies or implementing agencies. For instance, DSWD, HUDCC and the Office of Civil Defense.

But we will also be harnessing private sector, business leaders, NGO leaders both domestic and international. Harnessing domestic private initiatives into the governments overall reconstruction efforts -- including business groups, the institutional church and civil society organizations -- makes for good policy and better mobilization of external and incremental resources. It also allows us to be able to pick the brains or tap technical expertise and networks of the private sector and NGO leaders.

Depending on the recommendation of the special commission, we may issue reconstruction bonds. I've already discussed this with Peter Favila who supervises the NDC which seems to be the favorite recommendee of economic managers and business leaders as far as being an issuer of bonds is concerned whether peso or dollar, to which multilaterals such as the World Bank and the ADB may subscribe to.

Why the NDC? Why a government corporation? Because of the impact of the global crisis on the fiscal capacity of the national government of the Philippines. But even then, we'd rather that the primary response of our administration to the enormous calamities which climate change is bringing to our vulnerable country cannot just be another borrowing program. We don't want to let grant opportunities go to waste. Although lesser in size than loans, they remain substantial.

And even if we resort to bonds in bringing in exogenous resources, we will go beyond a mere borrowing program to provide the development framework that is required by ODA programs.

In sum, we will be pushing, first, for more grants or non-repayable inflows. The underlying doctrine is that: the Philippines is a victim of climate change, not a culprit. We are not a climate maker but we certainly are a climate taker. In fact, we can be proud of what we have been doing against climate change, to mitigate climate change. In our initiatives and legislation as well as in expenditure programs for environmental protection such as clean water, solid waste and clean air. We also can be proud of what we are doing on poverty reduction such as the Pantawid Pamilya conditional cash transfer program. And on disaster risk reduction such as the Climate Bill I am scheduled to sign on the 30th of this month and also the Disaster Risk Reduction Bill which has passed the Senate and which I hope the House will pass soon.

We will be having a LEDAC Meeting on Thursday so we can discuss legislative response to our calamities. As I said, we are a climate taker not a climate maker. We are not a culprit in climate change contributing only less than one percent to global warming. We are a victim. Victims are compensated, not penalized with high interest rates or conditionalities. And that is why we are very grateful to the United Nations for the flash appeal that they have launched to mobilize grants.

Second to grants, we will push for concessional loans. For instance, JICA's zero interest or 25 bases points yen loan package. But here, we do not forget that we can only spend from loans if there is a budget provided for loan proceeds,

and not just the local counterpart. If we have a trillion peso budget, for instance, and we have maybe 800 billion pesos in taxes, the 200 will have to come from loans but they have to be part of the budget. Not just the local counterpart including the loan proceeds.

For our local counterpart, we count on Congress for a joint resolution authorizing us to avail of the so-called unprogrammed provision. I believe it has passed the committee level, Nonoy? and is up for plenary discussion.

So after in importance or in priority after grants and then concessional loans. Third, commercial borrowings either through bonds -- the one that the business community and economic managers whom I'm expecting Peter to issue -- or other instruments should be the last financing option. As I said, because borrowing with high interest rates or whatever the markets will give is the less preferred to grants and concessional loans. !

I mentioned that one of the mandates of the new commission is to organize an international pledging session. And even before I organized the commission, actually, Gary Teves was already preparing for the annual World Bank led Philippine Development Forum coordinated by the Department of Finance. So many organizations that would be tapped or sounded off will be included. But I have asked Secretary Teves to work with the new reconstruction commission to make it a public-private sector partnership rather than DOF led and to coordinate a special exercise with a higher international profile.

This special pledging session would tap into the huge underlying global constituency for climate change adaptation. It would capitalize on the ongoing discussions and negotiations leading to Copenhagen. In fact, the Philippine case is being cited as proof for the need for adaptation financing. And that is why we should use the umbrella not only of the World Bank but also of the UN framework.

As we prepare to capture the opportunities presented by the cause of climate change adaptation, however, we must not lose sight of our longer-term economic reforms and the very real pain many of our poor have sustained not only from the typhoons but also as a result of the global downturn. While we may finally be emerging from the global economic crisis, much remains to be done not only to reconstruct but to ensure that the Philippines remains or sustains its path to long-term economic prosperity and that the Philippines builds a strong middle-class.

On the part of economic management, we want to reduce the debt-to-GDP ratio, which is why we would rather have grants than loans, and we would rather have a government agency issuing bonds than the national government itself. We want to reduce the debt-to-GDP ratio so we can stop wasting our resources on debt service, and so that we can maintain higher spending for infrastructure and human capital as we have done before and during the global food, economic and now climate change crisis.

Having the ability to invest, which we will be able to gain because our tax reforms, is a gift that we must not squander. Having money to provide a safety net for our poor, to invest in our children's future, and to lay the groundwork for long-term prosperity must be sustained in the years to come.

We must do this so that we will continue down the course we charted before the global crisis hit. That is the course that generated not only what I mentioned: uninterrupted economic growth for over 30 quarters but also the fastest growth in 30 years; growth that created 8 million jobs; and the highest level of revenues in decades. That is also the course that has enabled us to provide one of the world's most competitive locations for business process outsourcing, an industry that today employs 400,000 workers compared to only 4,000 in 2001. Many cite our BPO industry as a symbol that we have been able to move to a higher level in our economic development.

That is also the course that has enabled us to provide some of the most skilled and qualified workers in the world and one of the best values for investment among emerging markets. This Administration has delivered over the last eight years. And I am hopeful that our economic progress will be sustained, and that the Philippines will continue to be one of the havens of stability among the emerging markets of the world.

Thank you.