

# BANTAW

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# BUCKLING THE CRISIS

## THE PHILIPPINES IN 1998

### The Crisis in Perspective

**I**t could have been its glutted real estate industry. Or maybe the overexposure of its banks in businesses that were starting to belly up. Or perhaps "hot" money fleeing the economy. Whatever it was, an apprehensive Thailand could not be certain then. But one thing *was* certain: that summer of 1997, the Thai baht rapidly slipped in the Asian stock market, sending a chill across the Asian region. The Thai government applied all the brakes it could think of, but the baht was already on a tailspin. In July the baht finally crashed, dragging with it the Philippine peso, the Indonesian rupiah, the Malaysian ringgit, and the Korean won. The Chinese yuan reeled. So did the mighty yen. The chill turned madding fever.

Overheating. Domino Effect. Currency Free Fall. Asian Economic Fall-Out. Meltdown. *Tom Yum*. Contagion. They often got mixed up. But for all their sensationalism, the new and not-so-new economic metaphors were accurate: Asia was in crisis. Bankers and economists, including self-styled analysts who sprouted overnight like the proverbial mushrooms after a thunderstorm,<sup>1</sup> scrambled to explain the regional economic upheaval and to propose all sorts of treatment. Even the prescriptions of antiquated Keynesian economics made it to the hodgepodge of populist nostrums.



It has been 18 months since. Although the crisis continues to rage, there is no consensus yet on what caused it.

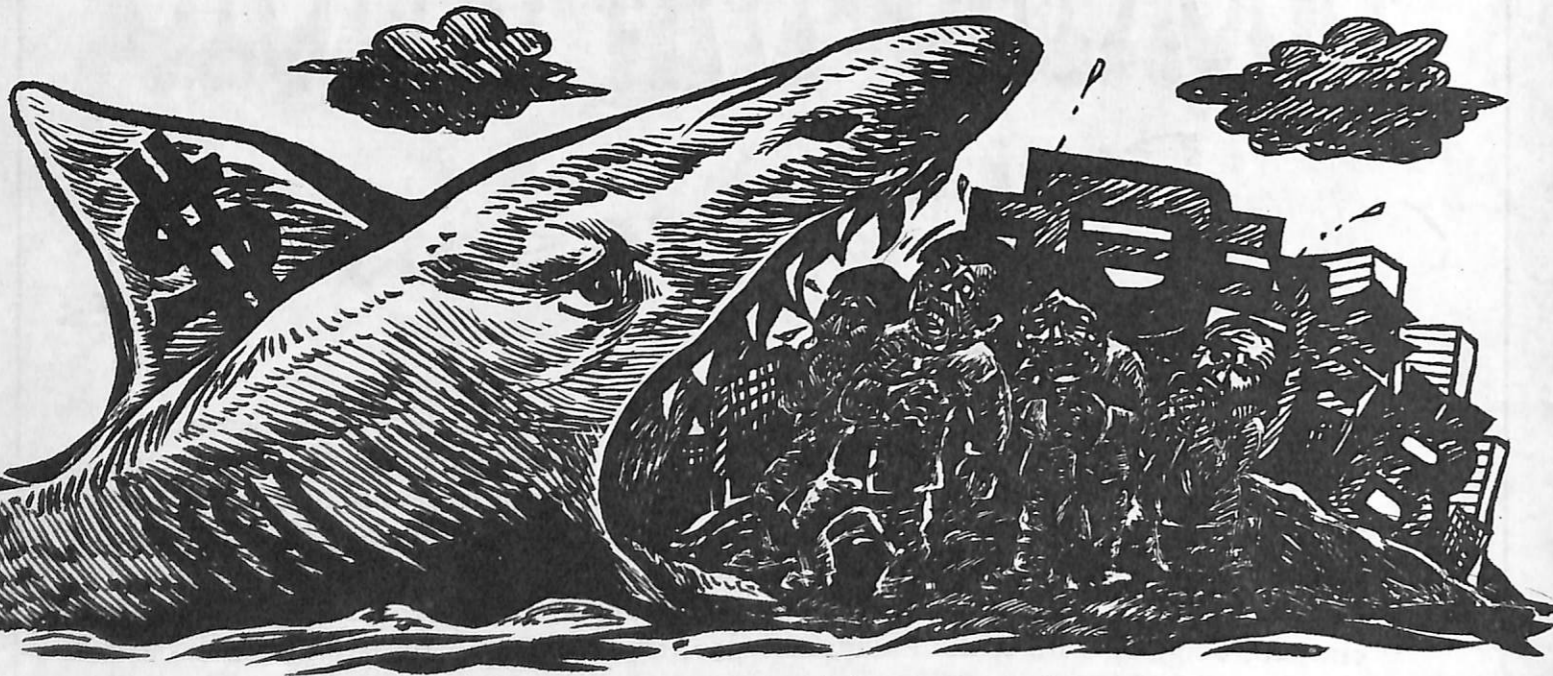
Some quarters support earlier theorizing that nervous investors started it all. These investors had quickly pulled out of stock markets on backroom whispers that Thailand was fast accumulating unsold real estate and building space. The rumors fed a speculative frenzy. It was only a matter of time before the panic spread to neighboring economies, these quarters say. Others, like Malaysia, have been more scathing. They allege that the crisis is the handiwork of currency sharks that left Europe to prey on a booming Asian region. Not one to mince words, Malaysia's Prime

domestic banks and firms."<sup>2</sup> The UNDP claims that such liberalization resulted in the surge in private capital inflows to Indonesia, the Philippines, Malaysia, the Republic of Korea, and Thailand. It estimates that between 1994 and 1996 alone, such inflows more than doubled from \$41 billion to \$93 billion.<sup>3</sup> But, according to the UNDP, the 1997 crisis caused a "net flow reversal of \$105 billion" as investors took flight.<sup>4</sup> The UNDP says that the recent crisis "highlights the problems inherent in free capital mobility — permitting investors to move funds in and out of a country, at any time, in any amount."<sup>5</sup>

The UNDP admits, however, that the crisis has other causes. Partly responsi-

tagious? The Philippines and Thailand share several similarities. But the Philippines had, prior to the crisis, a comparatively "lower current account deficit to GNP ratio, lower maturing foreign debt, lower financial sector exposure to a glutted real estate sector, lower bank credit expansion, and lower bad debt ratio." So the culprit must have been the Thailand contagion, the argument goes.

But on the other hand, aren't the country's weak economic fundamentals the very cause of its own currency crisis? Proponents of the view contend that such weak fundamentals are precisely what prompted the speculative attack on the peso in the third quarter of 1997. They maintain that



Minister Mahathir boldly accused American vested interests of leading the school of currency predators. Still others argue that reckless financial liberalization policies in the early 1990s explain much of the crisis. The United Nations Development Programme (UNDP), for instance, cites Asian governments that a few years back "liberalized their capital accounts and removed restrictions on the foreign borrowing of

ble, the UNDP points out in its report, was the slowdown in the export growth of Asian countries (e.g., Thailand, Malaysia, and the Republic of Korea) just before the baht's collapse.<sup>6</sup>

At home, there are discussions that frame the issue as a question of either contagion or fundamentals.<sup>7</sup> Did the Philippines get caught up in the Asian turmoil because the baht's "virus" was far too con-

the peso had been overvalued for years. This, they say, led to unsustainable trade deficits that "finally caught up with the exchange rate necessitating an abrupt adjustment." The proponents refer to July 1997 when soon after the baht was devalued, the peso followed suit. They conclude that it is "this pattern of currency overvaluation-trade deficits-devaluation [which] is characteristic of the county's

[which] is characteristic of the county's boom-bust growth history." And shrewd speculators had known it all along.

But what was it really like in 1998?

#### Rough and Tumble, Despite

In July last year, the World Bank reported that, "Unlike [in] Thailand, Korea or Indonesia, the impacts of the financial crisis in the Philippines have not been sudden and dramatic"<sup>8</sup> Several factors offered the Philippines some kind of "protection," the World Bank said. One of these, according to the World Bank, was the delay of the social impacts of the financial crisis.<sup>9</sup> Another was the El Niño. A third factor

reason to believe that while the "initial outlook" for 1998 was not at all bright, things "could get better."<sup>11</sup> It went so far as to indicate its willingness "to assist in the preparation of a detailed program of action" to address the effects of the crisis.<sup>12</sup> How the Estrada government took to the report is not known. What is known is that in 1998, government had its hands full trying to keep the economy going.

#### Recession or Not? The GNP-GDP Story

A country is technically in a recession if it registers negative growth for two consecutive quarters. But which is the "correct" indicator of a recession, gross

(GDP) would slide an average of 2 percent in 1998. He estimated that Indonesia's GDP would decline by 16 percent and that of Thailand, South Korea, and Malaysia by six to seven percent. While Hong Kong's GDP would slip by five percent, that of the Philippines and Singapore would be flat, Rana said. And that, Rana added, "could still be too optimistic for countries hit by the crisis." The International Monetary Fund (IMF) similarly predicted zero growth for the Philippines in 1998.<sup>15</sup>

At home, there had been a debate of sorts.

The National Economic Development Authority (NEDA) reported in November that the GNP managed to grow by



was the "imminence of elections" which influenced policy decisions beginning the last quarter of 1997.<sup>10</sup>

These were some of the results of a two-week World Bank mission that began in February 1998. The World Bank was quick to point out that it intended only a preliminary assessment of the socioeconomic impact of the crisis. Interestingly enough, the World Bank *already* found

national product (GNP) or gross domestic product (GDP)?<sup>13</sup> And was the country really in recession last year?

During a conference in Bombay, India in October, the Asian Development Bank (ADB) drew a scenario quite different from what the Philippine government was painting then.<sup>14</sup> ADB's chief economist Pradumna Rana predicted that the growth in Asian gross domestic product

0.8 percent during the 3<sup>rd</sup> quarter. The NEDA said that this arrested the 0.3 percent GNP decline in the second quarter. Halting the skid was the 16.3 percent increase in net factor income from abroad (NFIA) during the second half of the year. The P20.78 billion NFIA consisted largely of remittances by Filipino overseas workers. With the NFIA expected to grow by 18.6 percent in the third quarter, the NEDA

said that a positive 1998 GNP growth was virtually assured. The Philippines would escape recession, no matter if barely, the NEDA predicted blithely.

But other economists argued that the GDP is the more accurate indicator of a recession. The GDP dropped 1.2 percent in the second quarter, they said, and NEDA itself forecast a minus 0.4 percent GDP growth in the 3<sup>rd</sup> quarter. The NEDA even said that such negative growth would qualify the Philippines as the 8<sup>th</sup> recession casualty in Asia.<sup>16</sup> It would join Japan, Indonesia, South Korea, Thailand, Malaysia, Hong Kong, and Singapore.<sup>17</sup>

In the middle of the last quarter last year, government grudgingly scaled down its yearend economic growth target for 1998. From an ambitious 1.0 to 1.5 percent that government knew was propped up only by its bravado, the new target was 0.5 percent to 1.0 percent. Quite predictably, government blamed the raging Asian crisis. It also

cited natural calamities for wreaking havoc on crops and weak demand that forced industry to cut down production.

According to the Department of Agriculture, farm output, which contributes roughly 20 percent to the GDP, dropped by 5.79 percent during the first nine months of 1998. Despite positive growth in the livestock sub-sector, output was low owing to the El Niño. By end-1998, aggregate agricultural production had fallen by a

record 6.7 percent. (Parenthetically, records from the NEDA<sup>18</sup> show that the crisis and El Niño slowed GNP growth to 2.5 percent in the first quarter of 1998. By the second quarter, the economy hit a minus 1.6 percent GNP growth. The NEDA alleged that compared to the Asian crisis, the El Niño had the more adverse effect on the economy. Palay and corn harvests during the first half of 1998 contracted by 30 percent and 40 percent, respectively. Overall, the prolonged drought withered

the first half output of the agriculture, fishery, and forestry sector by 11.5 percent, "the worst in 30 years," the NEDA said. What was perhaps even worse was that for the first time in memory, hunger and starvation blighted Mindanao.<sup>19</sup>

In late October, President Estrada approved the importation of 300,000 metric tons of rice to avert a shortage. This brought rice imports to 650,000 tons since July and total rice imports since the start of the year to a record 2.165 million metric tons. As for corn, the country needed to import an additional 528,000 MT for it to maintain a 20-day inventory. Re-

portedly, this was on top of the 1.9 million MT that government contracted up to October. Much of this volume were ordered during the Ramos administration).

The NEDA also reported that the August output of key manufacturing firms further decreased by 17 percent after falling by 11.6 percent in July. The manufacturing industry contracted by 8.7 percent on average in the second quarter and by 14.3 percent in the third, the NEDA said.

The NEDA likewise said that with the peso depreciation, industries staggered from the high cost of imported raw materials and intermediate goods. In September, the output of the manufacturing sector fell by 16 percent. According to the National Statistics Office (NSO), this was the ninth consecutive month of decline.

Additionally, the dollar value of imports shrank 18 percent in the second quarter and further down by 21 percent in the third. In October, imports of capital

goods fell 27 percent to \$1 billion, while that of intermediate goods dropped 30.6 percent to \$914.4 million.<sup>20</sup> This, according to analysts, confirmed a serious production slowdown in the manufacturing sector. The same analysts said that 39.4 percent of companies operated below 70 percent capacity due to soft demand and the credit squeeze by banks. In addition to charging high interest rates, banks limited their loans to preferred clients, analysts added.<sup>21</sup>

What was the

real score?

Quarterly figures were wanting at this writing. But in late January 1999, official word was out: on a full-year basis, the 1998 gross national product (GNP) actually grew by a measly 0.1 percent compared to 5.8 percent in 1997.<sup>22</sup> The gross domestic product (GDP), on the other hand, went down 0.5 percent in 1998 after a 5.1 percent growth in 1997.<sup>23</sup> Socioeconomic Planning Secretary and NEDA Director



General Felipe Medalla finally admitted that the Philippines did slump into a recession that started during the third quarter of 1998 and lasted all the way to year's end.<sup>24</sup>

But then again, it was not all that bleak in 1998. At least that's what the Bangko Sentral ng Pilipinas (BSP) said.

#### Positive BOP, BOT, and GIR; Stronger Peso

In December, the BSP reported that the country posted a \$935 million balance-of-payments (BOP) surplus from January to August.<sup>25</sup> This contrasted sharply with the \$1.76 billion deficit that the country incurred for the same period in 1997. According to the BSP, the surplus came even if capital and financial accounts (referring to the flow of investments and foreign loans) dropped by 80.8 percent to only \$1.237 billion as of August 1998. The CFA was \$6.444 billion for the same period in 1997.

The BSP further said that the country likewise recorded a surplus in its current account (referring to the trade of goods and services and net transfer payments). From a year-ago deficit of \$3.447 billion, the 1998 current account showed a surplus of \$38 million.

The country's balance of trade (BOT) likewise seemed to have improved markedly. According to the National Statistics Office, a trade surplus in October narrowed the trade gap in the first 10 months of 1998.<sup>26</sup> From \$9.5 billion for the same period in 1997, the BOT gap up to October was worth only \$837 million. The NSO said that the lower BOT imbalance was due to imports which weakened by 16.5 percent to \$25.2 billion from January to October last year.

Exports refused to buckle under the crisis and in fact grew between 18 percent and 19 percent during the first 10 months

of 1998.<sup>27</sup> As before, electronics and components led all export earners with sales of \$1.429 billion, a 31.2 percent increase over 1997's \$1.085 billion.<sup>28</sup> Garments followed with earnings of \$165 million, lower by 1.4 percent from the previous year. Computer components, at third, earned \$127.14 million, down 7.9 percent from 1997. Major export markets in October 1998 were the United States, Japan, and The Netherlands. For the entire 1998, however, economists had predicted exports to grow by only 16 percent against 1997's 22 percent.

With regard to its capacity to pay for imports and its foreign debt, the country maintained gross international reserves (GIR) totaling \$10.7 billion as of November 6 last year.<sup>29</sup> The GIR increased after the government drew \$280 million from the \$1.37 billion standby facility of the IMF. The Philippine government and the IMF had agreed on the standby facility shortly after the peso devaluation in mid-1997.

In the meantime, the peso displayed great resiliency when it bucked continuing uncertainty in the stock market. True, it

lost 41 percent of its value since the July 1997 crisis. It had sunk to its lowest exchange rate on January 7, 1998 at P46.50:US \$1. But the peso rallied and recovered to P36.80 to the dollar on March 30. Since then, the peso managed to stay within the P36:US \$1 and P43:US \$1 range, although not without a public outcry leveled against "opportunistic" banks. Allegedly, banks themselves were speculating on the peso by either over-buying or under-buying dollars, sending the peso into "unpredictable" value swings. In any case, many for a while predicted that the peso would breach the P40:US \$1-P42:US \$1 "comfort zone," to the silent delight of exporters. Others, most of them importers, continued to insist on government intervention to bring the exchange rate to somewhere between P34:US \$1 and P36:US \$1. Exporters crossed their fingers, importers waited with bated breaths. On January 13, 1999 the peso finally settled at a weighted P38.207 to the dollar. The peso had found a "compromise" level.

But despite the "good news" about the balance-of payments, the balance of trade, the gross international reserves, and



the peso-dollar rate, more "bad news" hounded 1998.

### Higher Budget Deficit and Foreign Debt<sup>30</sup>

For much of 1998, government spent more than it earned. By November, government was in the red with a P40.232 billion deficit. The Bureau of Treasury reported that during the period, the national government overshot its budget by P10.269 billion, bringing total expenditures to P46.244 billion. The deficit was still within the P49-billion ceiling that the IMF had set under the precautionary arrangement it had forged with the Philippines following the peso devaluation in 1997.

But at the end of 1998, the budget deficit reached P52.7 billion, nearly P13

billion more than the deficit in November and 7.55 percent over the IMF ceiling. Finance Secretary Edgardo Espiritu said that the deficit was because of government's efforts to pump-prime the economy<sup>31</sup> on the one hand and, on the other, poor revenue collections. Espiritu brushed aside concerns over the bloated budget deficit, saying the IMF had already agreed to adjust the 1999 deficit ceiling to P67 billion. This meant more foreign debt.

The Bangko Sentral ng Pilipinas had figured that the country's outstanding external debt by December 31 would reach \$49.09 billion.<sup>32</sup> (The year-end report of Business World estimated the country's debt stock as of end-September 1998 at P1.49 trillion). Accordingly, the BSP planned to approve new foreign borrowings worth from \$8.39 billion to \$8.5 billion for 1999 in light of government's

move to finance budget deficits with external loans.<sup>33</sup>

But the BSP's own preliminary estimates indicate that the initial foreign loans by both the government and the private sector in 1999 will push the country's outstanding external debt to \$53.2 billion. Official figures show that this debt "... will be [equivalent to] 68.8 percent of [the country's] GNP, or 94.5 percent of receipts from the export of goods and services."<sup>34</sup> To service this debt, the country will need \$5.9 billion; interest payments alone will reach \$3.3 billion.<sup>35</sup>

The BSP estimates of 1999 foreign borrowings were an adjustment of previous figures.

In October, government announced plans to borrow at least \$1.7 billion before the year 2000 to cover the projected budget deficit over the next two years. The government said it would source \$1.475 billion from the ADB, the WB, and the Japan Eximbank. Government likewise said that it hoped to secure another \$225 million from the program loans of the ADB and the WB. Additionally, the government said it would negotiate for a \$6-billion share of the Miyazawa fund. As early as November, government said it would use the fund mainly for economic capitalization and debt restructuring.

For 1999, the borrowings of the Estrada administration will reportedly include the following:

- \$500 million to \$1 billion worth of Samurai bonds 50 percent of which will be bought by Japan under the Miyazawa package, a Japanese financial rescue facility for crisis-hit Asian economies
- \$975 million worth of program loans, and
- \$546 million worth of project loans.<sup>36</sup>

### Foreign and Domestic Investments: Up or down?

Up if one considers specific reporting periods in 1998. Down if one compares 1997 and 1998. And then, it all depends on which information to believe: data from the Bangko Sentral ng Pilipinas or that from the Securities and Exchange Commission (SEC) and the Board of Investments (BOI). But first, an outsider's view.

In November last year, the United Nations Conference on Trade and Development (UNCTAD) reported that compared to its Southeast Asian neighbors, the Philippines will attract less foreign direct investments (FDIs).<sup>37</sup> The UNCTAD said the Philippines would manage to get only a 6.4 percent share of the approximately \$17.2 billion inflow into the region. The \$1.1 billion worth of foreign capital that the UNCTAD believed would be invested in the Philippines in 1998 was 15 percent lower than the \$1.3 billion in 1997. Thailand would receive the largest share of the \$17.2-billion FDI with \$5.9 billion. South Korea would be next with \$4.7 billion. Politically-troubled Malaysia and Indonesia stood to receive \$4.7 billion and \$1.9 billion, respectively.<sup>38</sup>

The UNCTAD prediction for the Philippines failed to dampen the spirits of the Bangko Sentral ng Pilipinas. In November, the BSP reported<sup>39</sup> that FDI in the Philippines for the first nine months stood at \$635 million, an increase of 25.6 percent from 1997. The BSP added that 10,628 new companies registered with the SEC from January to September. Their total paid-up capital: P24.3 billion. The BSP also cited SEC figures that showed the capitalization of 83 firms increasing to a combined total of P80.8 billion.

The SEC confirmed that between the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 1998, the volume of local and foreign investments improved.

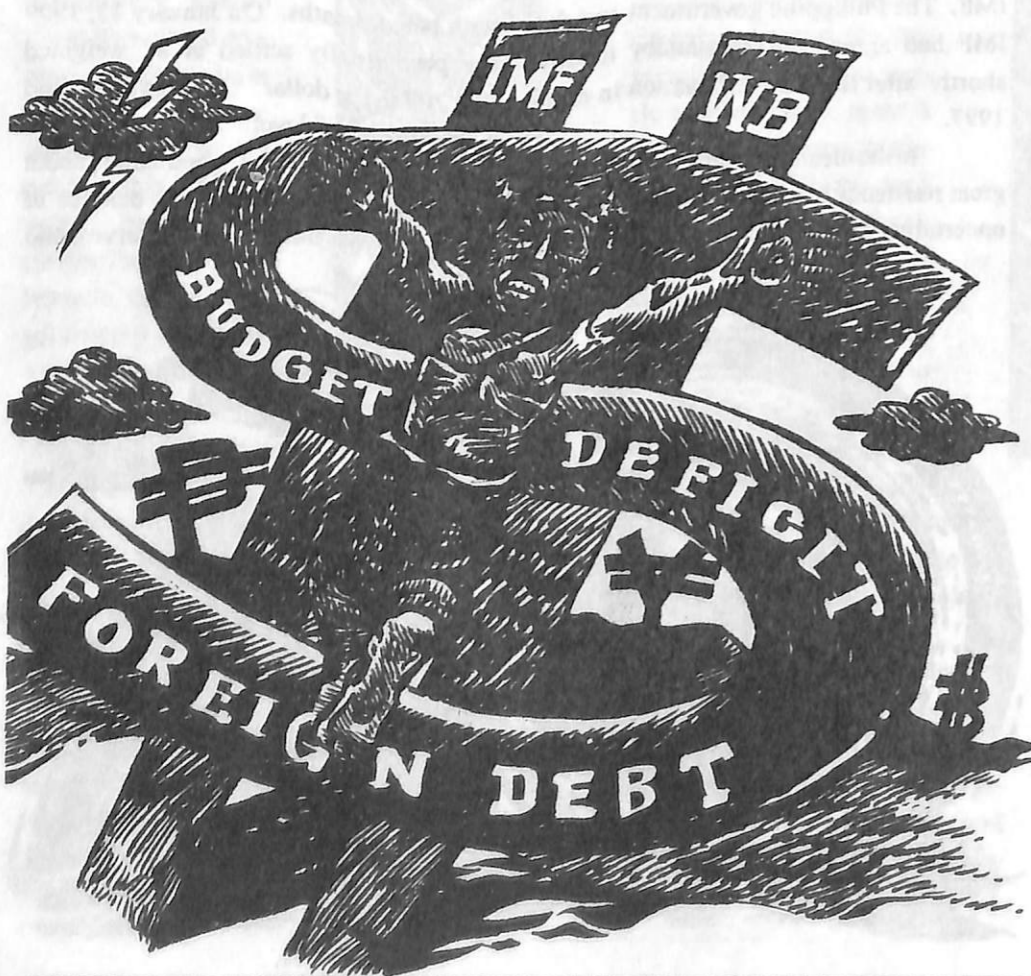
It also reported that total foreign investment in new and existing firms amounted to P11.74 in the third quarter, up 83.6 percent from the second quarter's P6.39.<sup>40</sup>

According to the SEC, however, the volume of fresh investments for the first nine months of 1998 dropped by 44.2 percent to only P24.92 billion from 1997's P44.67 billion for the same period.<sup>41</sup> The SEC also said that investments of new domestic firms worth P24.3 billion were 45 percent lower than the P44.15 billion in 1997.<sup>42</sup> The SEC added that the 10,646 new local firms that registered with it during the first nine months of 1998 were 23.5 percent lower than the 13,916 firms in 1997. As for investments by existing firms, the SEC noted that these amounted to only P80.39 billion compared to 1997's P83.6 billion.

The BOI, on the other hand, reported that as of November 1998, fresh investments dropped 68.6 percent to P169.386 billion from P539.67 billion in 1997.<sup>43</sup> This reinforced earlier predictions that government would not meet its 1998 investment target. According to the BOI, business registrations from October to November failed to match the historical rise in investments during the last quarter of the year. In November alone, new registrations brought in only P4.2 billion, an 88.18 percent decrease from P35.78 billion for the same month in 1997, the BOI said.

### A Shaken Banking Sector

It was not only in the peso-dollar exchange rate controversy that the banking prominently figured. Like in Thailand,



Philippine banks hogged the headlines and prime time TV when they admitted that they were saddled with mounting unpaid loans. Following the admission, queues of worried clients formed in many banks. When news broke out that Orient Bank could not meet deposit withdrawals and that the Mindanao Development Bank was up for takeover, rumors of an impending bank run spread. Government succeeded in squelching such talks. But official records were revealing.

BSP data show that the non-performing assets (NPAs) of banks "quadrupled" from P60.7 billion in June 1997 to P201.68 billion August 1998.<sup>44</sup> Of these NPAs, P168.8 billion or 84.2 percent were non-performing loans (NPLs). The remaining P31.84 billion were in the form of real estate assets.<sup>45</sup> The BSP also said that the NPL ratio of commercial banks rose from 8.95 percent in June to 10.5 percent in August. The ratios, the BSP said, were more than double pre-crisis levels. As of September 1998, NPLs accounted for 11.04 percent of the total loan portfolio of the country's banking system. According to Land Bank president Florido Casuela, the proportion of NPLs to total loan portfolio could reach 14 percent or 15 percent as banks were likely to declare more losses because of the country's weak economic performance.

The mood was simply downbeat. Philippine bankers found little comfort in the fact that in 1998, Indonesia had the highest NPL in the region at 75 percent. Thailand's NPL was second highest at 50 percent. Korea's and Malaysia's NPLs were 45 percent and 35 percent, respectively.

**Inflation and Purchasing Power<sup>46</sup>**

At the start of 1998, economists predicted that the average year-round inflation rate would double 1997's 5.1 percent.<sup>47</sup> For once, they were close. So was the national government who vowed to contain the inflation rate to a single digit, which meant up to 9.99 percent.

From January to April, the inflation rate averaged 7.8 percent nationwide. This was relatively low considering that the May elections were drawing near. In Mindanao, the inflation rate averaged 7.53 percent in April.



In May the national inflation rate climbed to 10.3 percent and stayed at 10.7 percent from June through July. It slid to 10.5 percent in August and to 10.0 percent in September before inching to 10.2 percent in October. The inflation rate increased to 11.2 percent in November (largely because of anticipation of the holiday season), but finished December at 10.4 percent. The year-round inflation rate average: 9.6 percent.

In Mindanao the average inflation rate in May was 10.33 percent and moved higher to 11.23 percent in June. From 11.57 percent in July, the average inflation rate slowly dropped to 10.53 percent in August, to 10.33 percent in September, and to a flat 10 percent in October. It increased slightly to 10.3 percent in November then finished the year at 9.87 percent. Among Mindanao's regions, the ARMM and Caraga ended 1998 with inflation rates of 12.1 percent and 10.6 percent, both higher than the national average. For the March-December period, Mindanao's inflation rate averaged 10.014 percent.<sup>48</sup>

In the meantime, from March to December 1998, the purchasing power of the peso nationwide averaged P0.724 (based on 1994 prices). The PPP was highest in March and April at P0.75 and lowest in November and December at P0.70.

In Mindanao, the PPP averaged P0.7225 for the same period. Among the regions, Region XII had the highest yearend PPP with P0.745. Caraga followed with P0.732. Third was Region XI with P0.729. The ARMM recorded the lowest PPP of P0.694 as of December 1998.

If the peso's purchasing power looks high, one has the National Statistical Coordination Board (NSCB) to thank for. Sometime shortly after the May

elections, the NSCB made public Resolution No. 6 series of 1994 which directed the revision of all statistical series to the year 1994. The revision includes computations of the consumer price index (CPI) which is the usual basis for estimating the peso's purchasing power. Allegedly, the revision was in order because "since the last rebasing exercise, economic, social, and technological changes have influenced people's tastes and preferences, in effect changing the consumption patterns of the population." The NSCB claimed that a CPI using 1988 as the base year "has become less reflective of existing conditions" and that "it [is] necessary to shift the reference period to a more recent base year." The immediate effect of the shift to 1994 as the base year of the CPI is a dramatic rise in the purchasing power of the peso.

For instance, the purchasing power of the peso in Mindanao in March 1998 averaged P0.4152 with 1988 as the base year. In April last year, the PPP averaged only P0.419. But with 1994 as the base year in accordance with NSCB's directive, the purchasing power of the peso in March 1998 suddenly averaged P0.745 and in April 1998, P0.743. In both cases, the purchasing power of the peso increased by 79.43 percent and 77.33 percent, respectively.

**Worsening Unemployment and Underemployment<sup>49</sup>**

In December 1998, the National Statistics Office (NSO) reported that the country's unemployment rate as of October had increased by 9.6 percent compared to 7.9 percent in 1997. Unemployed Filipinos numbered 3.02 million, roughly 639,000 more than 1997's 2.4 million jobless people. The National Capital Region had the highest unemployment rate of 15.1 percent,

Cagayan Valley the lowest at 4.1 percent. On the other hand, the NSO said that the number of underemployed workers increased by 13.4 percent to 6.7 million from 1997's 5.8 million. The underemployment rate meanwhile was higher at 23.7 percent compared to 20.8 percent the previous year.

According to the NSO, the country's labor force as of October stood at 31.278 million, 3.3 percent higher than the previous year. About 19.51 million or 62.4 percent of the labor force were males, 11.767 million or 37.6 percent females. There were 28.261 million (90.35 percent of the labor force) who were actually em-



ployed and 17.653 million (62.46 percent) of these were males, the remaining 10.608 million (37.54 percent) females. Of the 3.016 million unemployed members of the labor force, males numbered 1.857 million (61.57 percent) while the females totaled 1.159 million (38.43 percent).

In Mindanao, the labor force of October 1998 was 7.275 million. Approximately 4.64 million (63.79 percent) were males, the other 2.634 million (36.21 percent) females. Actually employed were 6.724 million or 92.43 percent of the total labor force. Of these, 4.336 million (64.48 percent) were males while 2.388 million (35.51 percent) were females. Of the 551,000 unemployed (7.57 percent of the total labor force), about 305,000 (55.35 percent) were males while 246,000 (44.65 percent) were females.

From January to August, 229 firms in Mindanao closed down because of the financial crisis. Some 8,691 workers lost their jobs. Region XI recorded the most number of closures and displaced/retrrenched workers with 137 and 3,346, respectively. Region 12, on the other hand, reported 10 closures affecting 67 workers, the lowest among Mindanao's regions.

As of November 30 last year, the number of workers who were displaced because of company closure or else retrrenched on account of company downsizing totaled 10,379.<sup>50</sup> Most of these workers were in Region XI and Region X.

At this writing, no year-round data on the employment and unemployment situation in the countryside was available. The NSCB reported, however, that in April last year, the share of the agricultural sector in total employment decreased to 37.5 percent, lower by 41 percent from 1997. The NSCB said that jobs generated by the agricultural sector

likewise contracted by 10.5 percent --- from 11.6 million jobs in April 1997 to only 10.4 million last year. The NSCB estimated the number of unemployed in rural areas at 900,000 nationwide.

**Less Poverty?**

While this was being written, there was still no official word on the poverty

poor families had actually increased.<sup>51</sup> The PIDS estimated that, given the country's annual population growth rate of at least 2 percent, the number of poor families in 1997 would have increased to 4.55 million. This would be roughly 20,000 more than the number of poor families in 1994.

Second, the National Anti-Poverty Commission itself recently remarked that, "Nowhere else is the income distribu-

percent of the population.<sup>52</sup>

And third, official statistics may not be out yet, but it should stand to reason that the poverty picture in 1998 could only have become grimmer precisely because of the crisis.

**Forecasts from 1998**

Sometime in September 1998, Reuters, an international media organization, conducted a poll of more than 100 economists in the Asia-Pacific region. The consensus was that the Asian economic outlook for 1999 could worsen, but several economies would be better off than others.<sup>53</sup> Analysts predicted that, based on GDP estimates, 1999 would be another year of contraction for Hong Kong, Malaysia, and Indonesia. On the other hand, it would be slower growth for China, Taiwan, New Zealand, and India. But the outlook is "much better" for Australia, Singapore, and especially South Korea. So it is with the Philippines, analysts added.

The Reuters poll also indicated that from a 0.4 percent slide in 1998, analysts forecast a 0.5 percent full-year growth in 1999 (see table no. 1). They also said that the Philippines will recover, if slowly, "as the farm sector shakes off the effects of El Niño and La Niña." But poor economic conditions abroad could weaken the country's exports, analysts said.

The Bank of America had its own forecasts.<sup>54</sup> It said that the country's GDP would grow from one percent in 1998 to 2.5 percent in 1999 and further improve to 4 percent in the year 2000. (According to reports, the bank's forecast was similar to that of the Philippine government which projected GDP to grow anywhere from one percent to three percent in 1999. The government's earlier target was from 3.4 percent to 3.8 percent). The Bank of America also predicted that the 1999 infla-

tion rate would average eight percent in 1999 from 1998's 9.5 percent

In the meantime, government expressed optimism that more than \$5 billion dollars will "flood" the country in 1999.<sup>55</sup> The breakdown:

- 1. OFW remittances \$ 2billion
- 2. Miyazawa Plan to help finance Asia's recovery 1billion
- 3. Sale of San Miguel's 45% stake in Nestle 591.5 million
- 4. Foreign direct investments in cement firms 450.0
- 5. Sale of PLDT and PAL equities 385.0
- 6. Tranche from IMF's \$1.44-b standby loan 280.0
- 7. Other sources of funding (WB/other lenders) 220.0
- 8. Another tranche from IMF's \$1.44-b standby loan 130.0 million

And the country's financial condition in 1999 and onwards?<sup>56</sup> Higher deficit and debt.

Based on simulations by the Department of Finance (DoF), the national government will continue to incur budget deficits which will reach P17.5 billion in the year 2000. Against the target expenditures of P618.982 billion, government projects revenues to total only P601.482 billion before the start of the 21<sup>st</sup> century.

The DoF likewise forecasts domestic loans to hit P59.239 billion in 1999 and P82.689 billion by the year 2000. Gross external borrowings, on the other hand, are likely to increase to P79.728 billion in 1999, up 18.95 percent from the 1998 forecast of P67.027 billion.

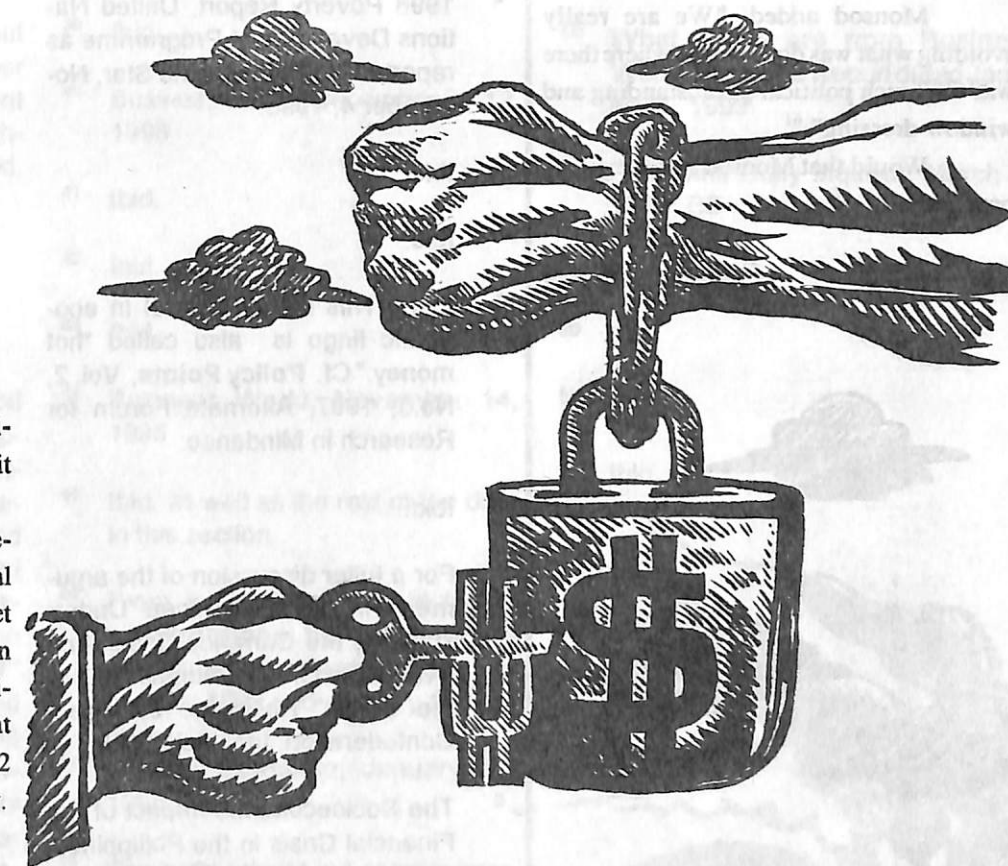
**Is Recovery In Sight?**

That is what government says. Even before 1988 had closed, government declared that the crisis was bottoming out,

and the Philippines would be none the worse for it. Reuters poll in September 1988 said so. The International Monetary Fund said so. Government only needed to repeat what others had made it to believe. As if to prove it wasn't another empty boasting, BSP Governor Gabriel Singson recently announced that investor confidence in the economy was returning. In a news briefing late February, Singson

report more intriguing is that it did not include investments in productive assets - a more reliable indicator of investor confidence. Singson is retiring in July this year.

Then again, government has reiterated its earlier forecast that the GDP would grow between 3 percent to 4 percent, this following the agricultural sector's recovery from the El Niño and La Niña phenomena, government says.



**Table 1. Economists' average forecast for 1998 and 1999 GDP growth, compared with September forecasts in parentheses (%change on previous full year)**

| COUNTRY     | 1998  |         | 1999 |        |
|-------------|-------|---------|------|--------|
| Australia*  | 3.4   | (2.5)   | 2.5  | (2.9)  |
| China       | 7.6   | (7.2)   | 7.8  | (8.2)  |
| Hong Kong   | -5.2  | (-4.7)  | -2.2 | (-1.7) |
| India*      | 4.8   | (5.0)   | 5.1  | (5.6)  |
| Indonesia   | -14.8 | (-14.8) | -5.8 | (-3.3) |
| Malaysia    | -6.3  | (-5.1)  | -0.4 | (0.7)  |
| New Zealand | -0.7  | (0.2)   | 2.1  | (2.6)  |
| Philippines | 0.0   | (-0.4)  | 1.2  | (0.5)  |
| Singapore   | 0.9   | (0.2)   | 0.5  | (0.1)  |
| South Korea | -6.5  | (-6.9)  | -0.6 | (-1.8) |
| Sri Lanka   | 5.0   | (5.1)   | 5.1  | (5.3)  |
| Taiwan      | 5.0   | (4.9)   | 5.0  | (5.2)  |
| Thailand    | -8.3  | (-7.9)  | 0.4  | (0.2)  |

\* For Australia and India, the figures refer to fiscal years 1998-1999 and 1999-2000 --- Reuters.

situation in the country, particularly in the aftermath of the Asian crisis. The 1997 Family Income and Expenditures survey was not yet available and, even if it were, it would be unlikely to contain information on poverty in 1998. However, the following could be indicative.

First, the Philippine Institute of Development Studies (PIDS) reported that despite the decline of poverty incidence between 1985 and 1994, the number of

tion more skewed than here in the Philippines." According to the commission's secretary general Orlando Sacay, poverty incidence in the country may have fallen to 32.1 percent in 1997 from 35.5 percent three years back. But Sacay said that the income gap had widened. The richest 10 percent of the population are now 24 times richer compared with the poorest 10 percent. In 1994, the richest 10 percent had incomes 19 times larger than the poorest 10

said that portfolio investments between the first two months of 1999 amounted to \$304.8 million, "three times the level recorded during the same period last year".<sup>57</sup> This, according to Singson, "indicates more money coming from the outside and more confidence in the economy."<sup>58</sup>

Apparently, he does not believe that portfolio investments, "hot money", has had anything to do with the Asian financial crisis. But what makes Singson's

Just how many more similarly optimistic pronouncements will emanate from this government in the coming days, only its propagandists will know. But the question is simple enough: how different would this government's pronouncements be from those of its predecessor's? To borrow from government technocratese, how *doably different*?

Going on at this writing are consultations on this government's own

version of a medium term Philippine development plan (MTPDP). Last heard, the NEDA has created "main functioning committees responsible for drafting the new MTPDP"<sup>59</sup>. Former Socioeconomic Planning Secretary Solita Monsod, a member of the MTPDP technical committee, has this to say: "The Problem with the MTPDP during the Ramos term was the overly ambitious targets."<sup>60</sup>

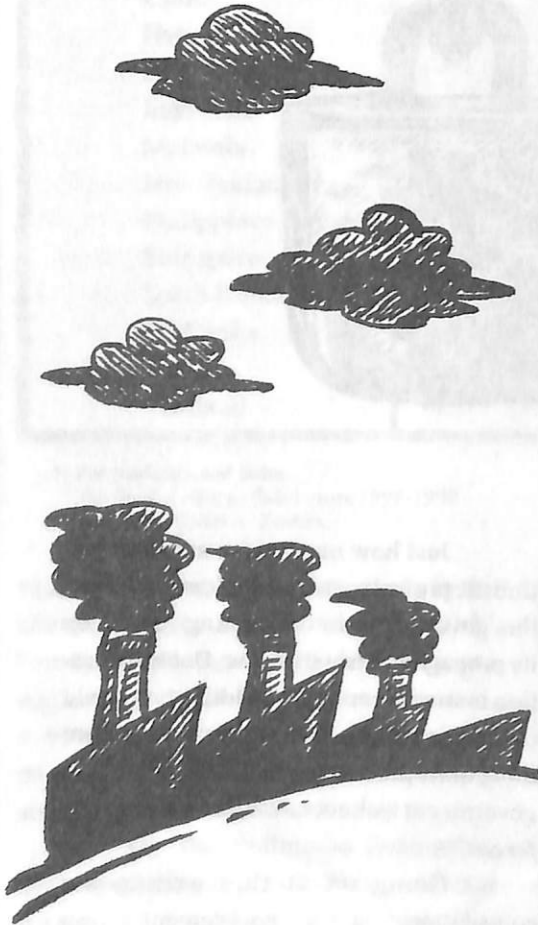
Monsod added, "We are really avoiding what was done before where there was too much political grandstanding and window dressing".<sup>61</sup>

Would that Monsod has the gift of prophecy.

-Rommel Ab. Hipolito

ENDNOTES

- 1 Or, as a wag would have it, "No single event in Asia has been more credited with turning ordinary people into economists than the Asian financial crisis," Business World, January 4, 1998.
- 2 1998 Poverty Report, United Nations Development Programme as reported in the Philippine Star, November 4, 1998.
- 3 Ibid.
- 4 Ibid.
- 5 Ibid. This mobile capital in economic lingo is also called "hot money." Cf. Policy Points, Vol. 2, No.3, 1997, Alternate Forum for Research in Mindanao.
- 6 Ibid.
- 7 For a fuller discussion of the arguments in this section, see "Understanding the Currency Crisis" and "A Bias For Growth: Stepping out of the Crisis," Philippine Exporters Confederation, Inc., July 1998.
- 8 The Socioeconomic Impact of the Financial Crisis in the Philippines, Report of a [World Bank] Mission to the Philippines, July 29, 1998.
- 9 Economists agree that there is a "time lag" between the onset of a phenomenon and its effects.
- 10 Another "smokescreen" which distracted the nation away from the Asian crisis was the crash of Cebu Pacific's Flight 387 on Mt. Sumagaya in Northern Mindanao on February 2. The tragedy claimed the lives of all 104 persons aboard.
- 11 World Bank Mission Report, Ibid.
- 12 World Bank Mission Report, op.cit.
- 13 GNP, or "gross national product," is a measure of the value of goods and services produced by the economy during a given accounting period, usually a year. It includes factor income from abroad (i.e., remittances of overseas Filipino workers and earnings from investments outside the country). On the other hand, GDP or "gross domestic product" is simply GNP minus factor income from abroad. The Freedom from Debt Coalition (FDC) has practical and easy-to-remember definitions of both. GNP is "Gawa ng Pinoy," while GDP is "Gawa dito sa Pilipinas."
- 14 Philippine Daily Inquire, Editorial, October 31, 1998.
- 15 Business World January 4, 1998
- 16 Philippine Star, November 21, 1998.
- 17 Ibid.
- 18 Business World, ibid.
- 19 See "Hunger in the Land of Plenty," Bantaaw, Volume 11, No. 1-2, 1998, Alternate Forum for Research in Mindanao
- 20 Business World December 16, 1998.
- 21 Ibid.
- 22 Philippine Daily Inquirer, January 30, 1994.
- 23 Ibid.



- 24 Philippine Daily Inquirer, op cit.
- 25 Business World, December 1, 1998
- 26 Business World, December 16, 1998.
- 27 From various sources combined
- 28 An ING Barings analyst pointed out that electronics exports in October were actually down 13 percent against 1997's 66 percent, the highest historically. Business World, December 1-12, 1998
- 29 From various sources combined
- 30 From various sources combined
- 31 A senior economist who requested anonymity had this to say: "Pump-priming has been an overused excuse for bigger deficits. Pump-priming should be a strategy and therefore ... should be planned and specific programs which will generate the most employment and the most income should be identified." Reportedly, government ended 1998 with a budget surplus of P1.653 billion. But President Estrada's economic advisers themselves said this was because of unsettled obligations of the previous administration. Once government pays off billions of pesos of arrears on several projects, it will have to go on deficit spending. Business World, January 4, 1999.
- 32 Business World, December 14, 1998
- 33 Business World, December 7, 1998
- 34 Business World, December 14, 1998.
- 35 Ibid.
- 36 Ibid.
- 37 from various sources combined, Nov-ember 11, 1998
- 38 Ibid.
- 39 Ibid.
- 40 Business World, December 11-12, 1998
- 41 Ibid.
- 42 Ibid.
- 43 Ibid.
- 44 Business World, November 14, 1998
- 45 Ibid. as well as the rest of the data in this section.
- 46 From various sources, including computations by Afrim in its Mindanao Databoard issues of November 1998 and January 1999.
- 47 Inquirer Mindanao, January 31, 1998
- 48 The author could not secure January and February inflation figures for Caraga Region
- 49 From a combination of various sources, but principally Business World and Afrim's Mindanao Databoard for January 1999.
- 50 No data available for the ARMM
- 51 Business World, January 4, 1999.
- 52 Ibid.
- 53 Business World, December 11-12, 1998
- 54 Business World, December 17, 1998
- 55 Business World, November 14, 1998
- 56 What follow are from Business World's Yearend Report dated January 4, 1999.
- 57 Philippine Daily Inquirer, March 1, 1999, B6
- 58 Ibid.
- 59 Ibid
- 60 Ibid
- 61 Ibid



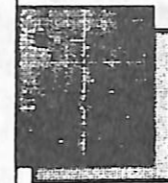
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## Why Bantaaw?

**MINDANAO** - despite its being a place where natural resources abound, the land of Promise as the cliché goes - has focalized people's struggles, vigilanteism, structural poverty, among others, for long a time now.

From the looks of it, something is indeed wrong somewhere and a scrutiny is sought why these realities exist and what their undertones are. Hence, treating the issues by locating their roots is an imperative.

**BANTA AW** means "a clear view" in Cebuano.

As such, **BANTA AW** analysis endeavors to explain in terms of implications the reports being presented by both the government and private agencies regarding social and economic activities and priorities, particularly for Mindanao. It aims to ascertain the quality of life of the Mindanao people and chart the actual performance of the different Mindanao regions as compared to the official government reports generalized on macro level.

It is therefore hoped that as we try to exhaustively cover as many points as possible in Mindanao's social and economic arena, **BANTA AW** could open up angles for further study and discussion - to objectively draw up development efforts fit for the varied conditions of the Mindanao regions.

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