

THE GLOBAL **ECONOMIC** CRISIS

A Private Sector Perspective

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Genesis

Not too long ago



A decade of robust economic growth producing
huge surpluses of capital

plus easy credit that produced liquidity
exceeding the demands of the real economy

.....created tremendous wealth that insanely
chased assets, producing asset bubbles in
the process

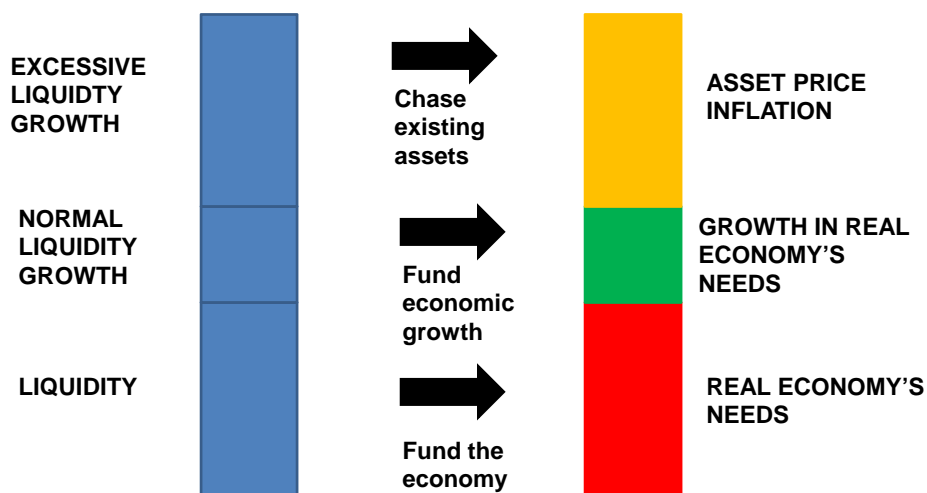
..... Housing, financial assets, commodities
the bubbles were all over the place

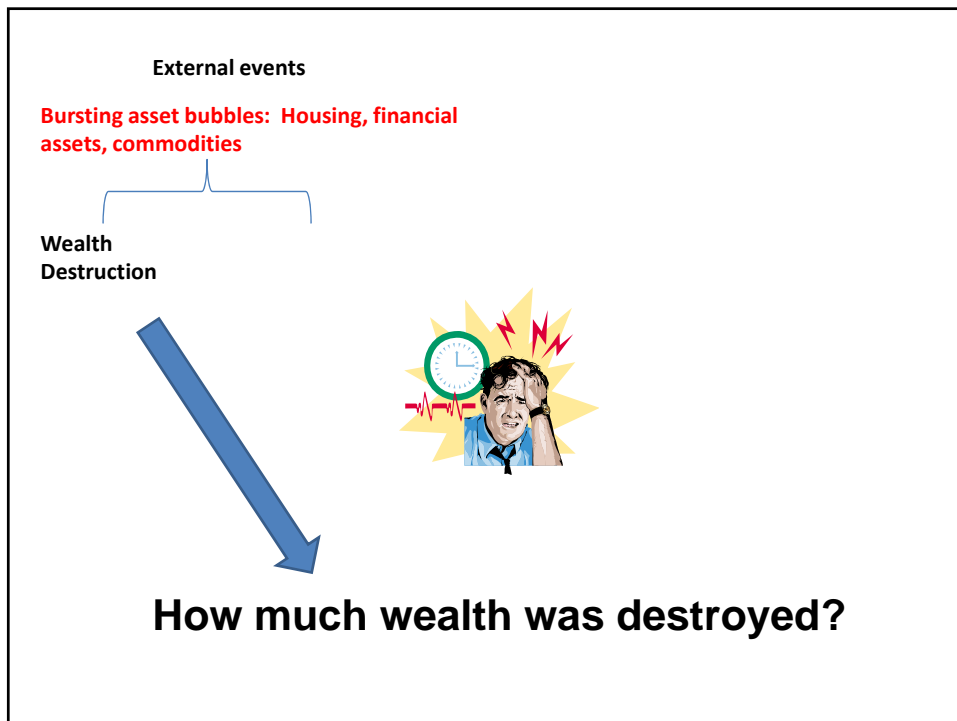
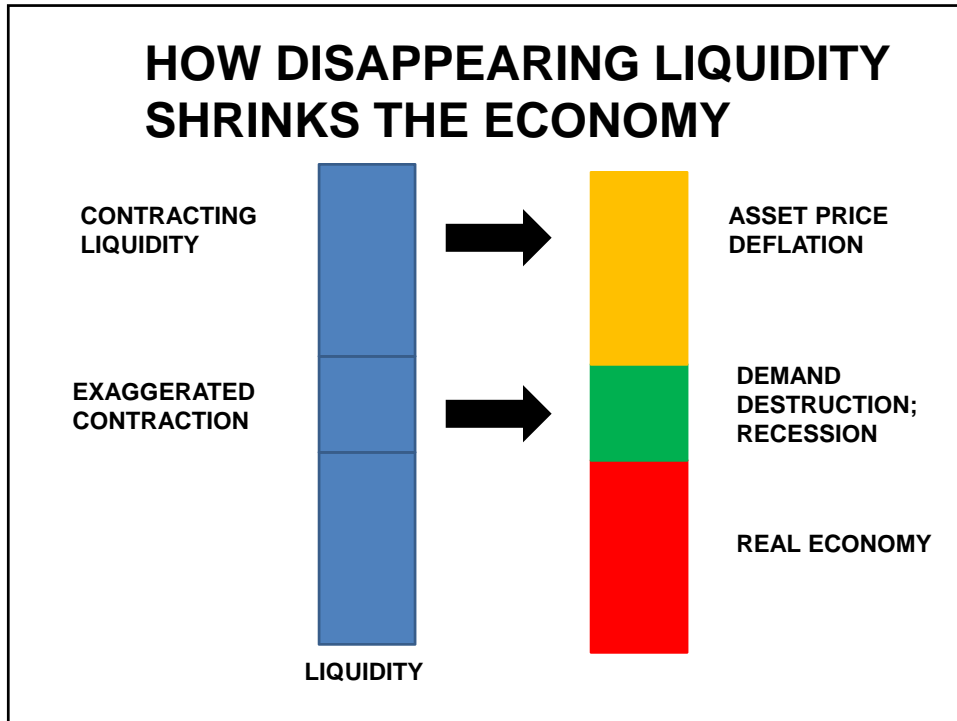
..... Then the housing
bubble burst



..... and all hell broke
loose!

HOW EXCESSIVE LIQUIDITY CREATES ASSET BUBBLES





Big Numbers, Big Names



- **\$30 trillion reduction in stock market capitalization worldwide**
- **\$10 trillion in expected housing wealth losses**
- **\$40 trillion in Credit Default Swaps outstanding**
- **Fanny Mae, Freddy Mac, Bear Sterns, AIG, Lehman brothers, Citi,....**

Source: Presentation to the Management Association of the Philippines by Bert Hofman, World Bank Country Representative to the Philippines in November, 2008

External events

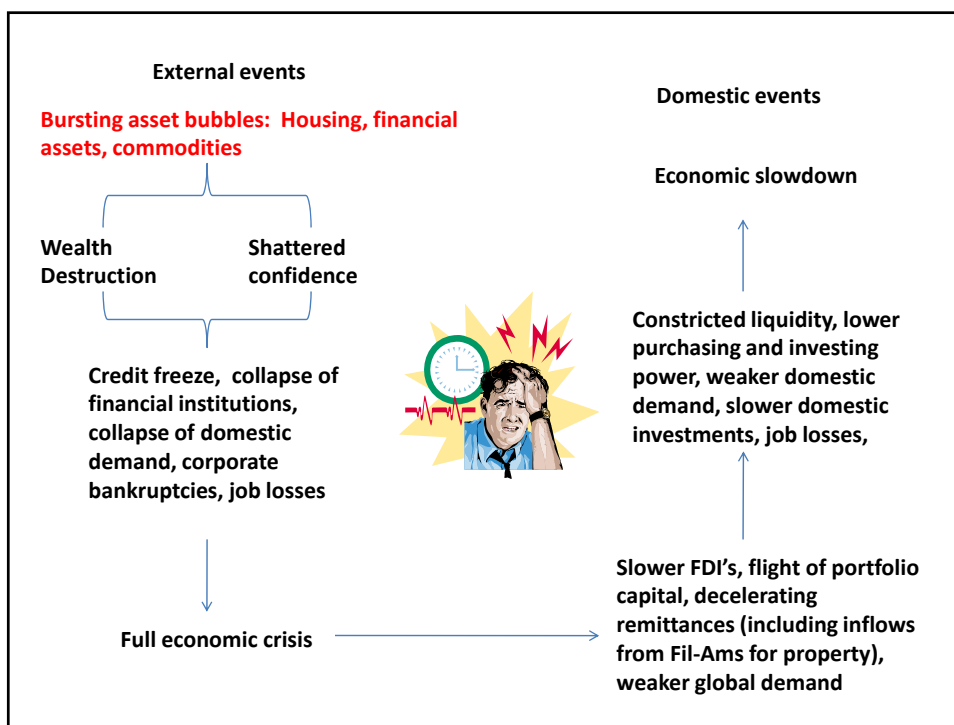
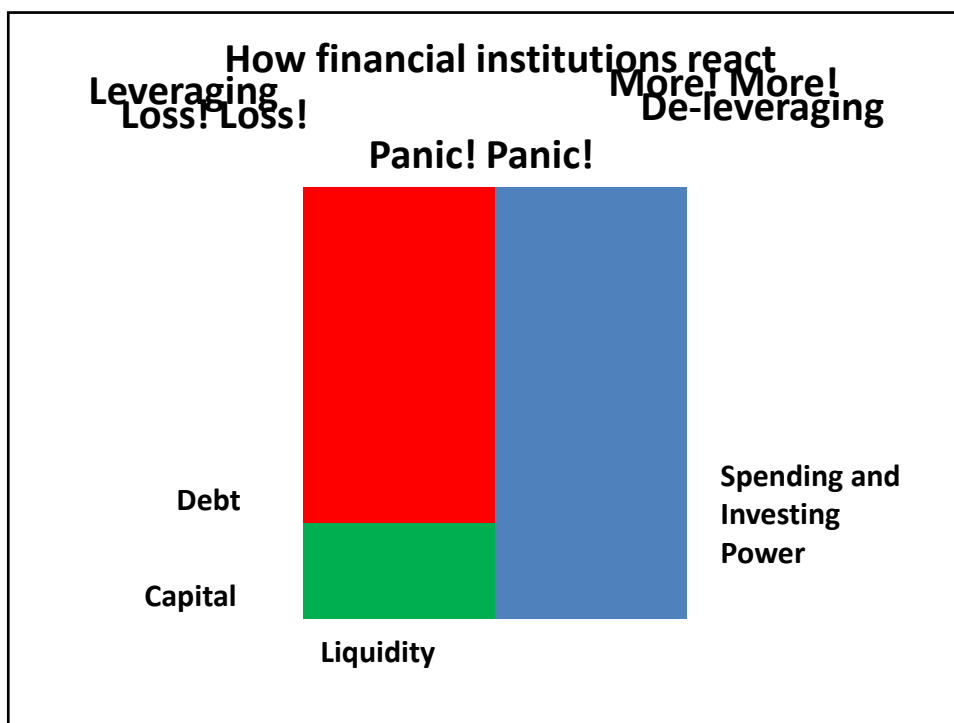
Bursting asset bubbles: Housing, financial assets, commodities

Wealth
Destruction

Shattered
confidence



So what?



Fortunately for the Philippines

- **Asset bubbles outside the equity market were far smaller.**
- Corporate balance sheets were not as over-leveraged as in 1997.
- **The banking system had just been through several rounds of consolidation and balance sheet strengthening**
- The fiscal position had just benefitted from hefty privatization proceeds and EVAT



Unfortunately for the Philippines

- **The globally induced crisis is aggravated by local issues that antedate the crisis**
 - The shaky state of the pre-need industry and some small rural banks
 - **The relatively low level of private and public investments**
 - Bottlenecks in some industries where the country supposedly enjoys comparative advantage

Some insights

- **No need to mimic stimulus of the First World**
 - “Electric shock” fit only for a badly-damaged economy; the Philippines does not have a sub-prime crisis, its major financial institutions are not in the brink of collapse, its corporate sector is not in need of a rescue
 - **Stimulus, whether properly used or not, comes at a great cost; the cost sometimes obliterates the short-term benefit**

What might be appropriate

- **Promote investments, not in incremental productive capacity, but in upgrading of sectors/industries where the country is distinctly competitive**
- **Take proactive steps to prepare the financial system from shocks, i.e., elevated default risks**
- **Attack bottlenecks that hamper the growth of competitive industries/sectors**

What might be appropriate

- **Revolutionize the environment for job-creating entrepreneurship, especially at the SME and micro-enterprise level**
- **To partly address the social costs of job losses, consider publicly funded education, especially (but not necessarily limited to) customers of collapsed pre-need companies**
- **Bring financially sound LGUs into the banking mainstream to enable them to raise private capital for fund their own investments**

THANK YOU FOR LISTENING.

For any clarifications, email us at

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