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Crisis country case study

Philippines

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Summary

To mitigate the effects of the global economic crisis on the Philippines, the national government launched the Philippine Economic Resiliency Plan (ERP). This was a fiscal stimulus package of US dollar (USD)7.3 billion that consisted of programmes and projects to generate employment and boost domestic investment. The Philippine social security institutions played an important role in the ERP especially in supporting the government's pump-priming efforts. Because of prudential measures taken prior to the onset of the crisis in 2008, the Philippine social security institutions remained strong and were able to respond to the needs of their members. Mindful of the risks that can affect the country's economic recovery, the national government clustered the programmes of the Department of Social Welfare and Development, the Department of Health, the social security institutions and other agencies dealing with social welfare into the National Social Welfare Programme (NSWP). This improved the coordination of the various agencies involved in social protection and social welfare, and greatly facilitated government efforts to address the impact of the adverse global economic environment.

Social security institutions covered

The Social Security System (SSS); the Government Service Insurance System (GSIS); the Home Development Mutual Fund; the Philippine Health Insurance Corporation (PHIC).

Overview of the social security system

There are seven institutions that are primarily involved in providing social security and social assistance in the country, four of which are covered in this study. The Social Security System (SSS) covers private sector employees, household workers and all self-employed persons. There is voluntary coverage for Filipinos working abroad, insured persons who are no longer eligible for compulsory coverage and non-working spouses of insured persons. The Government Service Insurance System (GSIS) administers social security benefits for all employees of the Philippine government. The Home Development Mutual Fund (HDMF) is primarily a savings and housing agency, but has various loan programmes to service its members' needs. The Philippine Health Insurance Corporation (PHIC) has the mandate to provide universal health coverage.

Impact of the crisis

The tepid performance of the Philippine economy in 2009 partly reflects the effects of the global economic crisis on the country. GDP grew at 0.9 per cent in 2009 compared to 3.8 per cent in 2008. GNP grew at a faster rate of 3.0 per cent in 2009 buoyed by the incomes of Filipinos earned overseas, but slower than the 6.2 per cent growth in 2008. There are more than 810,000 Filipinos who work as land-based overseas contract workers in different parts of the world. The level of unemployment in the country reached 7.1 per cent in October 2009

compared to the previous year's figure of 6.8 per cent. Underemployment rose to 19.4 per cent from 17.5 per cent during the same comparative period.

The Philippine population is over 88 million, with a population growth rate of 2.04 per cent. In 2009, per capita GDP declined by 1.0 per cent compared to a 1.8 per cent growth in 2008. Per capita GNP grew by 1.0 per cent in 2009 compared to a growth of 4.1 per cent in the previous year.

Impact on the SSS

As of end-2008, SSS operations showed no adverse effects arising from the crisis. Collected contributions in 2008 were 11.43 per cent higher than in 2007. A major block of stocks was sold in 2008 for USD384 million. This helped push the 2008 investment income to exceed the year's target of USD578 million, and to post an increase of 38.8 per cent over 2007 investment earnings. Benefit payments were within the 2008 target while operating expenses decreased by 10.8 per cent from the previous year.

The SSS is, however, preparing itself for a possible drop in gross revenues. Contribution collection may slow down because of retrenchments and company closures. Investment returns may decline due to lower returns from equities, bonds and government securities. It also anticipates a clamour for additional benefits should the crisis persist.

Impact on the GSIS

The GSIS embarked on its Global Investment Programme (GIP) in April 2008 by investing in foreign-denominated investments through fund managers ING and *Crédit Agricole*. Each fund manager was given a mandate to invest USD300 million abroad, with an absolute requirement of an 8 per cent floor on annual return on investments, a ceiling of 7 per cent on portfolio volatility, and full diversification geographically and across asset classes. The GSIS reports that its GIP investments in 2008 faired better than its local stock investments, noting that the Philippine Stock Exchange index (PSEi) dropped 49 per cent of its market capitalization to USD90.2 billion in 2008 from USD177 billion at end-December 2007, and ended 48.3 per cent lower in 2008 at 1,872.86 compared with its close of 3,621.6 in 2007.

The 2008 unaudited financial results of the GSIS showed its net income outperforming the 2007 level by 27 per cent, on the back of improved contributions collection and a block sale of stocks. The GSIS also improved its income from loans and investments by 24.4 per cent in 2008 to USD952 million compared to USD765 million in the previous year. GSIS net assets grew by 9.46 per cent to USD9.9 billion in 2008 from USD9 billion in 2007.

Responses to the crisis

The Philippine Economic Resiliency Plan of the national government

To mitigate the effects of the crisis, the national government launched the Philippine Economic Resiliency Plan (ERP) which is a fiscal stimulus package of USD7.3 billion that consists of programmes and projects based on continuing national government reforms and multisectoral partnership efforts. While there is as yet no available official assessment, it is perceived that the ERP has helped mitigate the impact of the crisis, particularly on employment, business, working conditions and labour management.

The ERP provides for an expansion of the following social assistance programmes:

- The 4Ps or Pantawid Pamilyang Pilipino Programme. The programme provides grants to extremely poor households to improve their health, nutrition and education, especially for children aged from 0 to 14. Latest figures show that 70 per cent of the 1 million target households were reached as of November 2009.

- The Self-Employment Assistance Programme or SEA-K. The Department of Social Welfare and Development (DSWD) administers this programme. It provides the poor and disadvantaged sectors with access to credit and development opportunities. From January to August 2009, a total of 20,942 families (148 per cent of the target) benefited from the programme.

- The Food for School Programme. This programme helps fight hunger and improve the school attendance of children. By November 2009, the Department of Education implemented 103.2 per cent of its target, while the DSWD exceeded its target of 467,707 children as of June 2009.

- The Microfinance Lending Programme of government financial institutions and government-owned or controlled corporations. A total of 556,844 new clients were served as of July 2009, which generated 312,648 new jobs or 78 per cent of the target.

Social security and economic recovery

Social security institutions in the Philippines have an important role in national economic recovery efforts, as described below:

- HDMF USD1.9 billion economic stimulus package. The HDMF is frontloading its lending programme to support low-cost and other affordable government housing programmes. As of end-November 2009, total releases reached USD1.9 billion, exceeding the full-year allocation for housing and multipurpose loans.

- PHIC expansion of coverage and benefit increases. The government allotted an additional USD22.2 million to expand the coverage of the PHIC to 4.7 million families from the poorest 25 per cent of the population. Local government units and the PHIC would share in the annual premium of USD26 per indigent household. By March 2009, 3.39 million of the targeted families were already covered.

  To ensure the financial protection of its members, the PHIC declared across-the-board increases in varying degrees in the benefit entitlements under the programme. Effective from 5 April 2009, inpatient care benefit ceilings have been raised such that the aggregate effect on annual benefit payments is expected to increase by 35 per cent. This is the first time in seven years that programme benefits have been increased, and is the most expansive increase since the start of social health insurance almost forty years ago.

- The SSS response. The SSS provided an additional USD11 to each SSS pensioner as a one-time subsidy in September 2008. In March 2009, the SSS opened a USD11 million emergency loan window for displaced workers. Qualified SSS members may borrow up to USD333 from the fund and are given a 12-month grace period before the first amortization is due. To provide temporary relief for financially distressed members, SSS has an ongoing amnesty programme for "delinquent" short-term and housing loan borrowers.

> The government is exploring the possibility of offering unemployment insurance to retrenched workers, which would be funded by the government's conditional cash transfer programme. The proposal is for the SSS to provide affected workers with a monthly allowance of USD111–222 for six months. Prospective beneficiaries should have paid at least 24 monthly contributions to be eligible for this benefit.

The SSS Investment Reserve Fund (IRF) is being eyed as one of the principal sources to fund the government's pump-priming efforts. The SSS is considering investing USD277.8 million of its IRF in government bonds to fund infrastructure projects. The SSS anchors its participation in the infrastructure component of the ERP on the conditions that there would be full government guarantee, that the SSS would be given priority over the revenues of the project, and that the amount invested would not exceed 30 per cent of the SSS Investment Reserve Fund. In addition, the SSS would look into securing a return higher than the 8 per cent indicative yield of a ten-year government bond.

Lessons learned

The SSS credits its financial strength to measures that were taken prior to the onset of the crisis in 2008. The contribution rate was increased from 8.4 per cent to 9.4 per cent in 2003 and to 10.4 per cent in 2007; the ceiling on covered salary was raised from USD267 to USD333; investment policies and guidelines were rationalized; and eligibility requirements for salary loans were tightened, with their interest rates adjusted to reflect market rates. Coverage and collection campaigns were intensified, payment schedules were liberalized, and alternative payment channels were adopted to allow easy payments.

The financial crisis pulled world markets down, adversely affecting the Philippine stock market in terms of lower returns and greater volatility. The SSS and GSIS were able to mitigate the higher risks by diversification, by big block sales – selling at a premium to market prices – prior to the collapse of global markets, and/or by shifting to safer assets such as government securities, corporate bonds and other low-risk investments. Both institutions are strengthening their activities in risk analysis and evaluation. The general strategy with respect to stock holdings is to hold these until market conditions improve or an opportunity arises to sell at the right price. Adherence to the investment principles of safety, good yield and liquidity are validated by the experience of the SSS and GSIS, as shown by the limited effects of the crisis on the institutions' investments portfolios.

Conclusion

The Philippine government is optimistic that the country will improve in 2010 as part of the global recovery. The 2010 growth targets for GDP and GNP are being maintained at 2.6-3.6 per cent and 4.7–5.6 per cent, respectively. The dry spell brought by the El Niño phenomenon is expected to reduce agricultural output but a rebound in exports and gains in other sectors are also anticipated. Among the expected key growth drivers are the continued growth of the outsourcing industry of the country, finance, mining and quarrying, public construction, government services and medical tourism.

However, the government continues to be mindful of the risks that can affect the country's economic recovery. These include uncertainties arising from global economic conditions, crude oil prices, exchange rates, natural calamities and narrowing sources of investment. Inflation has been moderate but rising crude oil prices in the world market and increases in utility rates may put some pressure on consumer prices.

The clustering in 2008 of the existing programmes of the Department of Social Welfare and Development, the Department of Health, the GSIS, the SSS and other agencies dealing with social welfare into the National Social Welfare Programme is proving to be a prescient move. The NSWP has improved the coordination of the various agencies involved in social protection and social welfare and has greatly facilitated government efforts to address the impact of the adverse global environment. The basic approach is to harmonize and coordinate poverty reduction with social protection, especially in designing the interventions and strategies. Family and community-based diagnostics are being considered to determine a family's or a community's distinct poverty-risk situation. To effectively track the progress in the implementation of projects and to set standards for programme administration, the establishment of a unified monitoring and evaluation system has also been recommended.

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