The Philippines - CAS Progress Report

I commend the Staff for preparing this CAS Progress Report which contains a timely review of the impact of the East Asian financial crisis on the Philippine economy. We are pleased to note the overall satisfactory progress to date with regard to the implementation of the 1996 CAS.

The Philippine authorities have demonstrated their strong commitment and ability to implement the reform program. Obviously the reform efforts undertaken over several years preceding the crisis have made the country less vulnerable to the sudden collapse of investor confidence as compared to several other countries in the region. Quick and competent reaction of the Government to the regional turmoil deserves special commendation.

We concur with the proposed modifications in the 1996 CAS. In our view they appropriately take into account recent economic and political developments. We particularly welcome the readiness of the Bank to provide without delay substantial technical assistance and adjustment lending in response to the Government’s request. At this crucial period the resumption of adjustment lending to the Philippines is vitally important, taking into consideration the capital account uncertainties and the need to maintain the reform momentum. This would also be in line with the recommendation of OED’s Country Assistance Review presented to CODE earlier this month.

It was very interesting to learn from the report that the proposed expansion of the Bank lending program includes lines of credit for agriculture and industry as a measure to alleviate the current liquidity crunch. I would appreciate it if the Staff could comment more specifically on the design of these operations.

I appreciate the discussion in paragraph 4 which explains why the Philippines have been affected by the negative impact of the regional crisis far less than Indonesia, South Korea and Thailand. Yet, the explanation allows for two different practical conclusions. At the risk of oversimplification, one could put them in the following way: (i) the emerging market economies should be more self-restrictive in their reliance on the inflow of short-term capital; or (ii) they
should be fully open to short-term capital inflow and concentrate their attention on improving domestic financial systems. I believe that further careful analysis of the Philippine case could feed into a clearer lesson to be learned from the East Asian financial crisis by the Bank and many of its clients.

Of course, both internal factors (policy mistakes and financial system weakness) and external ones (strength and volatility of international capital flows) contributed to the regional crisis. But a better understanding of the correlation between them would help to respond more effectively to the crisis management needs of the affected countries and reduce the likelihood of such a crisis occurring in other countries.

We believe that the human dimension of the East Asian financial crisis presents the prime challenge for the Bank given its poverty alleviation mandate. In the Philippines the likelihood of the intensification in the near term of the adverse social impact of the crisis necessitates speedy actions to protect the poor, newly unemployed and other vulnerable groups. As regards the longer-term prospects, a strong emphasis on social reforms and human resource development is essential for a complete and sustainable recovery from the economic slowdown. The paper provides some information about the Bank undertakings in response to the above-mentioned challenge in the Philippine context. However, I wonder whether we could learn more about the planned interventions aimed to cushion the blow of the crisis on the poor or help absorb the displaced workers.