

**Inquiring  
Photographer**

# How will the United States financial crisis affect the Philippines?

by Joan J. Teotico



## JASPER JIMENEZ

*Filipino*  
Assistant Vice President  
BDO Securities Corporation

The intertwining links among the US financial system and those of other countries, developed and emerging alike, make the US financial crisis a concern. The recent fold-up of Lehman Brothers, a giant investment company, triggered panic to an already jittery market and exacerbated massive raising of liquidity among institutional and retail investors. As a result, equities markets across the world including that of the Philippines, succumbed to heavy selling pressure. Despite having negligible exposure in Lehman, the Philippine stock market's financial sector together with the rest of the local stock market, was sold-off by foreign investors to raise cash. The immediate effect of this turmoil is consistent foreign capital flight out of the stock market of emerging economies like the Philippines. Having foreign investors as a major component, the Philippine stock market will have limited rallies this year until the US stock market recovers and foreign funds come in again. In spite of the sound fundamentals of major listed companies, investors will focus more on risk aversion and raising cash. As the saying goes, "Cash is king."



## SUNNY SEVILLA

*Filipino*  
Investment Analyst

It is likely to hurt our exporters and make it more challenging for business process outsourcing (BPO) companies to get new business ventures. But I don't expect a major disaster. Thanks to our Overseas Filipino Workers, call centers and other BPO companies, our economy is nowhere near as vulnerable as it was in 1997 when the Asian financial crisis hit us.



## CARL OTTERSEN

*Norwegian*  
Director of Current Technology  
CEO of Inseco SRL

Unless the situation improves this week, the problem for the Philippines is the seize up in payments to suppliers. Most US companies work on rotating credit. With the downturn in consumption of non-essentials, banks either are not lending or the cost of lending is becoming too high for the buyers. As a result, payments to Philippine suppliers of goods and services will be delayed. I am told this is already happening to suppliers in Hong Kong. Since the capital base of most Philippine companies is low and since on top of that the financial sector does not work in favor of mid and small companies here, they will in turn be squeezed as they wait for payment. Hopefully the market will become liquid quickly so that no jobs are lost and no companies fail. That's the danger.



## RICHARD MILLS

*Canadian*  
Chairman  
Chairé Associates

It seems that there will be an impact certainly in industries such as manufacturing, semi conductors and mining. The mining industry is supposed to be a big opportunity but with dramatic decline in metal prices, it seems it will be more difficult. So the one, big, undisputed success to me is business process outsourcing (BPO). Global companies see that their revenues will decrease therefore they have to reduce their cost and these companies find Filipinos as very high quality to work with. Not only is the work moving here but also because the quality of work increases tremendously. You come here to save on cost but you stay because you can dramatically increase the quality of work being done. So it seems to me that in some industries, the financial crisis may affect them very badly. But in other industries especially in BPO, it will have a positive impact.



## REZA BAQIR

*Pakistani*  
Resident Representative  
International Monetary Fund

First of all, I'd like to say that the Philippines, because of having done certain fiscal reforms in 2005 and 2006, particularly the reform to the Value Added Tax, is in a better shape today to face the global financial crisis. Had these reforms not been in place, the repercussions of these externally-induced challenges would have likely been greater. At the same time, the fiscal reform agenda is not yet completed and implementing some of the pending legislative and administrative items such as the reform of excises and the reform of investment incentives will help secure the benefit that these reforms have to offer and will further raise the Philippines' resilience to deal with global economic headwinds.



## JOHN HARVEY

*Irish*  
Regional Manager  
Novus International

I think the US financial crisis could affect remittances at a time most needed coming up to the holiday season, due to the credit crunch and job uncertainty. This could have a direct impact on consumer spending here and possibly the housing market. On the positive side, we might see more on inward investment especially in the BPO sector.