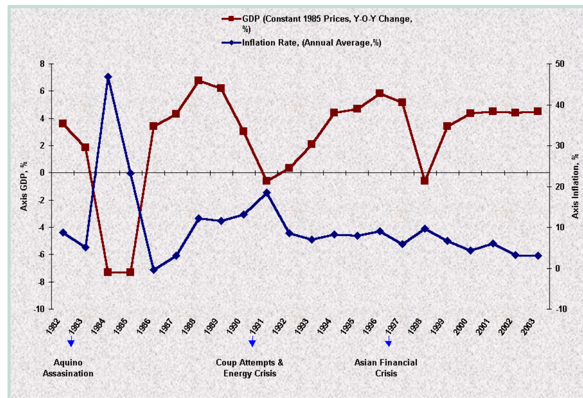
RESEARCH TEAM REPORT [1]

I. Overview of the Economic Environment

A. Macro-Economy



Graph 1. Real GDP Growth Rates and Inflation Rates. *Sources NSCB/BSP/PIDS*

GDP Growth. The years 1992-1997 may be considered as the boom years of the economy in recent memory. From a –0.58% growth in real GDP in 1991, the economy gained momentum in 1992 with a 0.34% growth performance that steadily increased year after year until it peaked at 5.85% in 1996.[2] Despite the onset of Asian Currency Crisis, growth was firm at 5.19% in 1997.

Bank lending and movements in asset prices show responses to political stability (or its absence)

The economy succumbed to the crisis in 1998 when GDP growth dropped to –0.59%. But it recovered quickly, growing by 3.41% in 1999 and by 4.38% the following year. From 2001 to 2003, growth rates ranged from 4.38% to 4.52%, averaging 4.49%.

Graph 1 above shows that this peak and trough behavior describes GDP over the last twenty or so years. The Philippines has still not gotten out of its boom-bust cycle, with a slowdown or an economic contraction once every six years.[3]

Inflation Rate. An abrupt rise in inflation rates is observed after major events, leading to, if not exacerbating economic-political uncertainties. It peaked in 1984 (post-Aquino Assassination) at 46.8% and fell to -0.4% in 1986. Successive coup attempts in the late 1980s, followed by the energy crisis led the inflation rate to rise again to 18.5% in 1991.

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[1] This Study represents the analyses views and forecasts of the HGC Research Team and not necessarily that of the Corporation nor of the HUDCC.

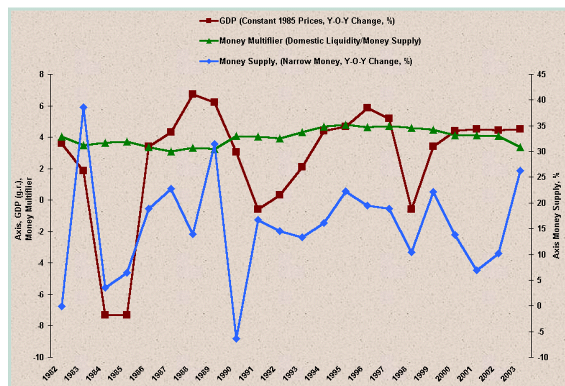
[2] Henceforth and unless otherwise stated, the National Income Accounts figures, e.g. GDP, GVA in Ownership of Dwellings and Real Estate and the like cited are `real' or based on 1985 prices.

[3] Until the 80s, the observed frequency of economic crises was once every 10 years, more or less. Before 1983 was the crisis the precipitated that declaration of Martial Law in the early 70s. Before that was the `decontrol' of 1962.

From 1992 to present, inflation was kept at single digit rates. Inflation during this period peaked in 1996 at 9.1% and again in 1998 at 9.8%. A string of local and international events, such as the rice shortage of the mid-1990s, the threat of another Mexican default on international borrowings, a devaluation of the Chinese yuan, among others, kept inflation relatively high during the decade.

The trend went downhill after 1998, possibly abetted by the conduct of National and Local Elections during the year. The years 2002 and 2003 recorded the lowest inflation rates at 3.2% and 3.1%, respectively.

Money Supply and Domestic Liquidity. The growth in money supply is seen to follow a counter-cyclical pattern. The graph below shows that growth is fastest during politically unstable situations. It can be surmised that infusion of money into the system was critical to avert or ease an economic downturn.



Graph 2. Real GDP, Money Supply Growth Rates and Money Multiplier.
Sources NSCB/PIDS/BSP

Relatively fast growth in money supply is also seen accompanying and or sustaining an economic recovery. It grew 38.63% in 1983 (from an average of 2.13% from 1980-82) following the Aquino assassination. Growth in money supply slowed down from 1984 to 1988 with year-on-year average change of 13.12%. In 1989, a year into the energy crisis, growth again accelerated at 31.5%.

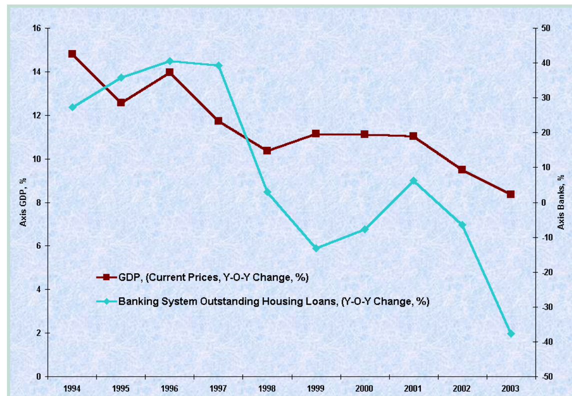
The impact of monetary policy is magnified or diminished by public sentiment

In 1995 and 1996, money supply grew 22.31% and 19.54%, respectively, to promote investments-led growth after the power crisis was resolved. The next spike came in 1999 at a 22.21% increase to woo the business sector and to pull-up demand after the Asian crisis. In 2003, it registered a rise of 26.25% to sustain the growth of prior years.

On the other hand, growth in domestic liquidity was highest from 1988-95. It exceeded growth in money supply in 1984-85, 1988, 1999,1993-95 and 1997. During these periods, the money multiplier was relatively high, i.e. the public held less money in proportion to deposits.[4] The corollary is that, the financial system had more to lend. The money multiplier was highest from 1993-97 during the Ramos incumbency. Peaks in HGC new guaranty enrollments were achieved during these periods (1994, and recently, 2001).[5]

B. Housing and Finance

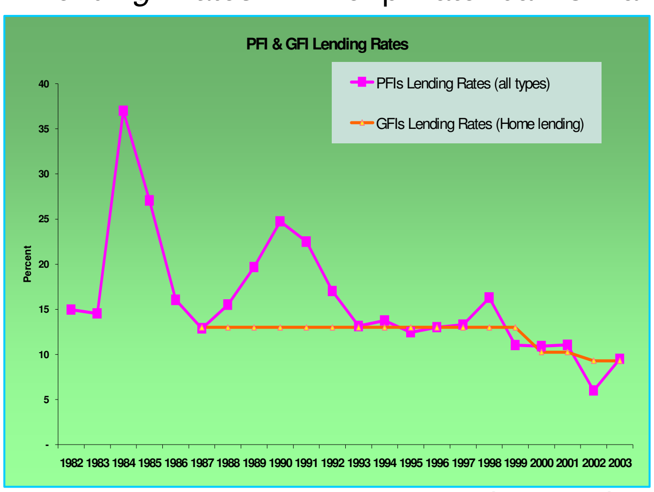
Home Lending by Banks. Generally, banks' housing loans follow the movements in GDP growth. Starting in 1998, however, banks' housing loans have been growing at a much slower rate compared to GDP.



Graph 3. Nominal GDP Growth and Banking System Outstanding Housing Loans Growth Rates. *Sources BSP/NSCB/PIDS*

From 1993 to 1997, the average growth of outstanding housing loans of banks was 36%. This trend was reversed starting in 1998 when it dipped to a low of 3.03%. The growth rate dropped further to –13.2% in 1999 and remained at a negative growth level until 2003 except in 2001 when it rose to 6.32%. As of June 2003, outstanding housing loans of banks amount to P61.5 billion.

Lending Rates. While private banks have generally allowed their lending rate to float with market rates, Government Financial Institutions (GFIs) have, on the other hand, promoted a fixed interest rate policy, particularly from 1987 to 1999. GFIs offered interest rates of as low as 9% to 16%, depending on the housing package. They focused on housing for the low-income bracket and offered repayment periods of as long as 25



Graph 4. PFIs and GFIs Lending Rates. *Sources*

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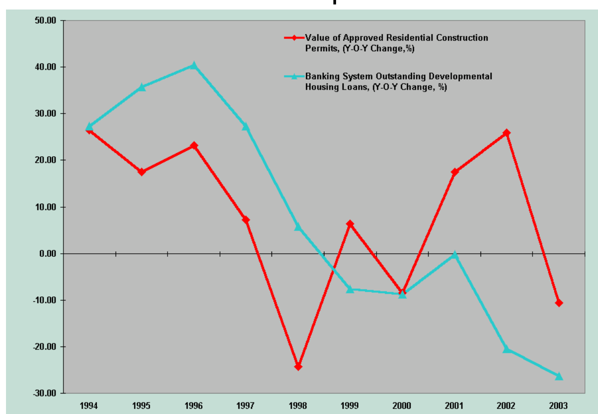
[4] The money multiplier is used to describe either the effect of incremental money infusion on GDP or on domestic liquidity. The second definition, which is sometimes referred to as credit or bank intermediation multiplier, is what is used here.

[5] If the public held less money, that it implies that it spent (consumed and/or invested) more, relatively. This jibes with the common observation that Philippine savings rates (savings as a percent of GDP) is historically low.

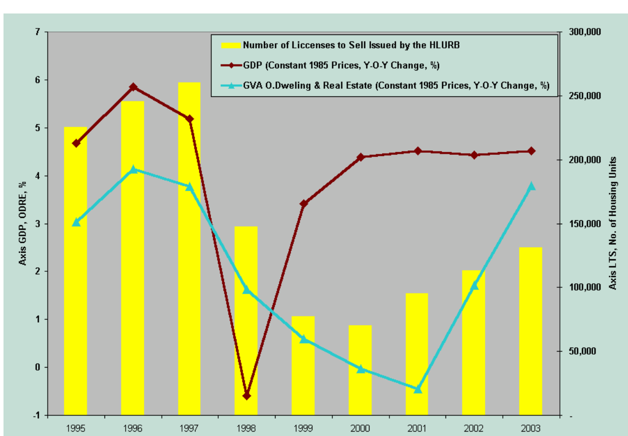
years. Lending rates of government and private financial institutions (PFIs) for housing have, of late, converged, after many years of divergence. The low-interest rate regime, which began in the 1990s, moved PFI rates closer to those of GFIs. Recent government intervention to liberalize lending terms to promote homebuilding and home acquisition through affordable money credits, along with a determined effort by government to keep rates down, have caused PFI interest rates to even undershoot those of GFIs.

Banks Loans and Construction Permits. From 1994 to 1998, the growth rate of approved residential construction permits and banks' outstanding housing development loans generally moved in the same direction, as shown in Graph 5. Residential construction activities picked-up when development loans were readily available (1994-1996), and fell accordingly when credit dried up. When bank lending slowed down in 1997 and 1998, issuance of residential construction permits likewise slowed down.



Graph 5. Value of Approved Residential Construction Permits and Banks O/S Housing Developmental Loans Growth Rates. *Sources NSCB/PIDS/ BSP*

This observed correlation, however, is no longer evident beginning in 1999. At this point, issuance of residential permits started to pick-up but banks' outstanding residential developmental loans continued to decline. Because of the "cautious" stance and highly selective lending policy adopted by banks as an aftermath of the financial crisis, the builders shifted to other sources of funds or forms of funding for house construction.



Graph 6. Number of Issued Licenses to Sell by HLURB and Annual Growth Rates, Real GDP and Real GVA in O. Dwelling and Real Estate

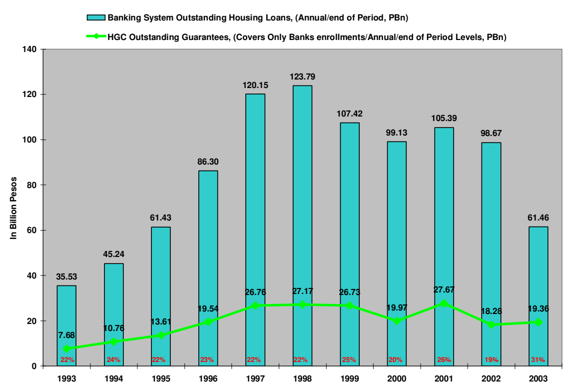
The growth in Gross Value Added (GVA) on Ownership of Dwellings and Real Estate (ODRE) followed the pattern of GDP from 1982 up to 1998. Starting 1999, however, it can be observed that while GDP growth began to pick-up, that of ODRE continued to decline until it registered a negative growth rate in 2000-01. It started to pick-up in 2002 and by 2003, it had begun to catch up with GDP growth. This confirms what has long been noted that the real estate/construction sector follows or lags GDP. In other words, an instantaneous recovery for the real estate and housing sectors cannot just be expected when GDP grows.[6]

There is direct correlation between licenses to sell (LTS) issued by the Housing and Land Use Regulatory Board (HLURB), GDP growth as well as GVA on ODRE. This is particularly true during the years up to 1998. The volume of LTS issued reached its peak in 1998 but this was followed by a continuous decline for three years. Along with the decline was an obvious shift in the type of housing packages covered by the LTS. From 1999-2000, the bulk of the approved LTS issued covered the low-cost packages. During the past three years, from 2001 to 2003, most of the LTS issued cover open housing packages.

HGC Guaranty Operations

The correlation between money supply and domestic liquidity also impacts on HGC Guaranty operations

Consistent with the country's overall economic performance, the years 1993-1998 may be also regarded as the "boom" years for HGC guaranty operations. Sustained growth in outstanding guarantees was realized. It reached its peak in 1996 (after growing at 43.6%) and slowed down in 1997 and 1998. For the first time in 10 years, HGC experienced a negative growth rate in outstanding guarantees in 2000. There was a dramatic comeback in 2001 with a 38.6% growth, with enrollments at par with pre-Asian crisis levels, but this was short-lived as again in 2002, a negative growth rate was registered (-33.9%). Bank enrollment improved slightly in 2003 with a 6.0% growth registered in outstanding guaranty.



Graph 7. Annual Levels, Banks Outstanding Housing Loans Portfolio and HGC Outstanding Guarantees. *Sources BSP/HGC*

Over the past 10 years, HGC guarantees on the average 23% of the housing loan portfolio of banks. From P7.68 billion (22% of Banks' Outstanding Housing Loans Portfolio) worth of banks' exposure guaranteed by HGC in 1993, HGC's cover steadily increased until it peaked at P27.17 billion in 1998 (22 % of the total housing portfolio of

[6] From the graph, it appears that real estate and housing recover only after four years of continued GDP growth. This represents a shortening from journalistic accounts on the Philippine economy in the last decade that it took seven years.

banks that year). In 2002, HGC's total outstanding guaranty dropped 19% but rose by 31% in 2003, after the HDMF enrolled its outstanding portfolio.

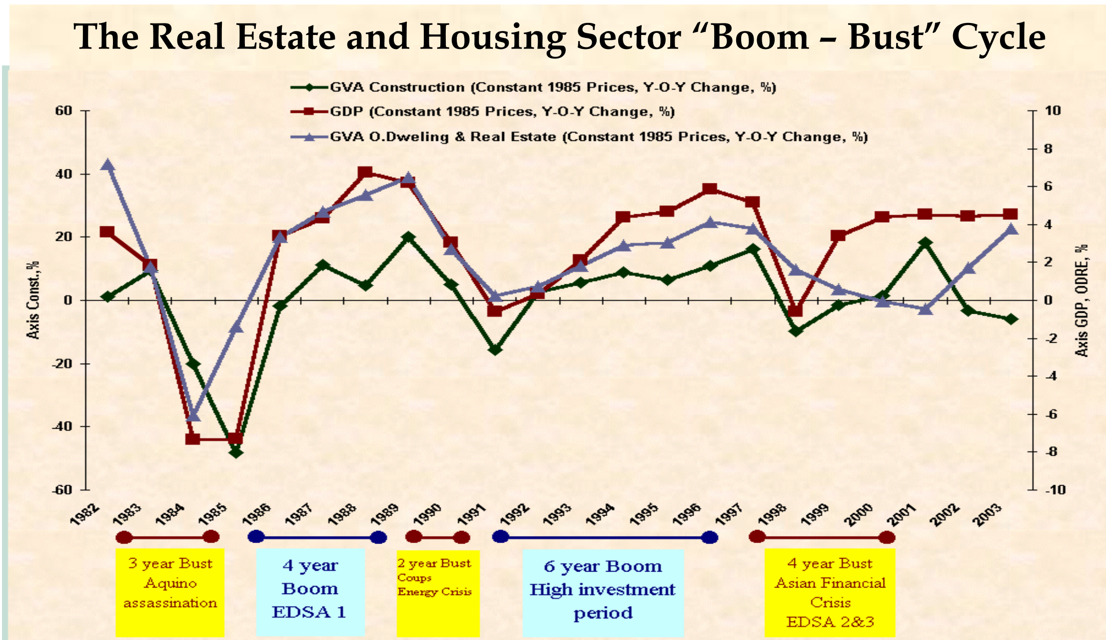
The year 2001 may be considered a special year during the 10-year period in review. Aside from posting a high growth rate in new guaranty enrollments, it also registered the highest coverage rate of the banks' outstanding portfolio (26% against 22% average).

HGC outstanding guaranty growth rate, whether it be for developmental or retail accounts follows the trend of the housing portfolio of banks. From 1992-2002, HGC guaranteed 45.5% of the banks' retail loans and 2.64% of its developmental loans.

As mentioned above, compared with the trend in domestic liquidity, the peaks in new HGC guaranty enrollments in 1994 and 2001 coincide with high domestic liquidity periods.

II. Analysis

Timelines in the boom and bust cycle of the real state and housing sectors show how vulnerable these sectors are to socio- political and economic developments. The correlations between GDP, GVA on ODRE and GVA on Construction are evident from 1982 to 1998.[7]



Graph 8. Annual Growth Rates: Real GDP, Real O. Dwelling and Real Estate and Real Construction under prevailing Socio-Political Environment. *Sources NSCB/PIDS*

Again, a change in trends was observed starting in 1999. While there was marked improvement in GDP growth, the real estate and housing sectors continued to decline, with negative growth rates registered for the most part of the 6-year period from 1998 to 2003.

Boom years of the industry were 1986 to 1989 and 1992 to 1997, while 1982 to 1985, 1990 to 1991 and 1998 to present are the bust /slump periods.

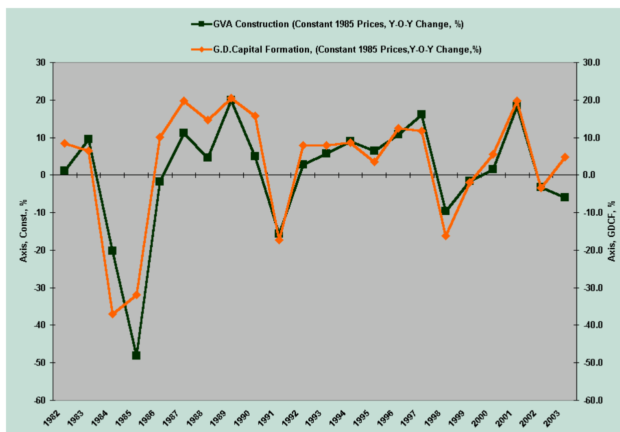
The Political Environment. Political stability as well as public perception of the incumbent President and his/her leadership/governance appear to influence the sector's performance. The "bust years" of the sector occurred when there were political uncertainties and the popular belief was that the incumbent President was not capable of running the country such that public confidence in the national leadership was very low. While the opposite conditions – political stability, good governance and favorable pubic perception – conditions favorable to broad-based economic growth, leading to the "boom years"**.**

[7] In stock market lingo, the sector is not a `defensive' one, unlike food and telecoms.

The 1986 to 1989 boom may be attributed to the euphoria from a restored democracy and change in the political leadership, which projected the country positively in the international community. The next boom period, 1992 to 1997, was a result of the government's implementation of policy and structural reforms in the economy and financial system and hands-on governance attributed to the Ramos Administration. The perception was that major problems (e.g. the energy crisis, threats of coup-de-etat, threats from insurgents) were addressed.

The slump from 1990 to 1991 was due to the attempted coupes-de-etat and the inability of the government to solve the energy crisis. The recent "bust period" starting in 1998, was triggered by the Asian Financial Crisis and aggravated by the public's growing dissatisfaction with government. The middle class lost confidence in the ability of President Estrada to govern effectively. Understandably, a political crisis emerged starting with the impeachment proceedings to the ouster of President Estrada. Gloria Macapagal-Arroyo's assumption of the Presidency gave new hope. Growth in GDP was sustained, but the slump of the real estate and housing sector persisted. While there was a sharp increase in Construction Growth in 2001, this was not sustained as it again registered a negative growth the following year.

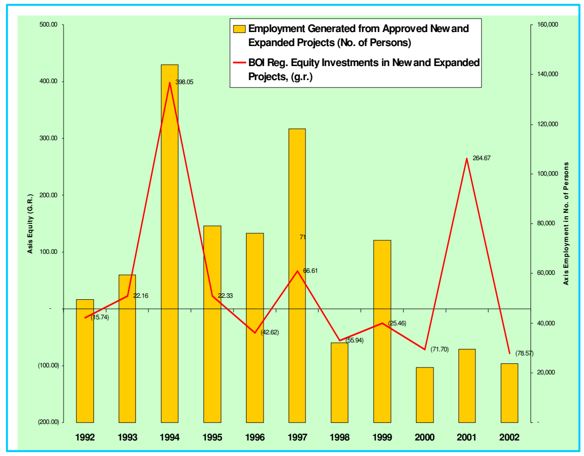
Investor Confidence. Real estate and housing are capital-intensive ventures. From actual construction to buyer's financing, substantial investments are required. Logically, boom years were when investors' confidence was high. Both the 1986 to 1989 and the 1992 to 1997 boom periods were robust investment years. Gross Domestic Capital Formation was growing at an average rate of 16.2% from 1986 to 1989 and 8.7% from 1992 to 1997. BOI registered investments in new and expanded projects were growing at an average annual increase of 97% from 1992 to 1997.



Graph 9. Annual Growth rates: Real GD Capital Formation and Real GVA O. Dwelling and Real Estate *Sources. NSCB/PIDS*

High levels of investments are crucial in sustaining a boom in the sector as such periods are generally characterized by robust construction and housing development activities. From 1995 to 1997, the number of HLURB-issued Licenses to Sell (LTS) was at its peak, averaging 243,753 units per year. Likewise, the value of approved residential building permits increased at an average annual rate of 18.6% from 1994-1997.

High inflow of investments does not only influences housing supply but housing demand as well. Job creation and security are the end-results when investments are upbeat. The BOI registered equity investments alone, from 1992-1997, generated an average of 87,861 new jobs annually. As a result, consumer confidence was greatly enhanced resulting in higher demand for housing.



Graph 10. Annual Growth Rate in BOI Registered Equity Investments in New and Expanded Projects and the Annual Number of Jobs/Employment Formed From It. *Sources BOI/PIDS*

Low levels of investments coupled by high withdrawal of previous placements are observed during the bust/slump periods. Starting 1998, growth in BOI-registered investments has been the negative, -55.94% (1998), -25.46 (1999) and –71.70% (2000). Except for a brief respite in 2001 where it posted a 264% rise, the growth was not sustained as 2002 figures again fell by 78.57%.

The real estate and housing sector's performance followed this trend. Starting 1998, the number of licenses to sell issued by the HLURB continued to drop until 2000. Starting in 2001, LTS issuance started to post positive growth. However, sustaining this growth trend remains to be a challenge.

Political uncertainties, starting 1998 - an election year, produced an unfavorable climate for housing. As mentioned above, growth in housing loans outstanding of banks dropped considerably to 3.03% in 1998 from an average of 36% per annum in the period 1993-97. It bottomed to –13.2% in 1999. EDSA 2 provided a flicker of hope when banks outstanding housing loans portfolio increased by 6.32%. This was not sustained, however, and in 2002, banks once again shied away from real estate lending with outstanding housing loans shrinking by 6.38%. Although inflation was kept relatively low from 1992 onwards, this did not translate to a sustained increase in housing loans. Starting 1997 up to 2002, the ratio of non-performing loans to outstanding loans held by banks was historically high.

The outstanding housing developmental loans portfolio of banks continued to drop and has been on a negative growth path since 1999. Financing requirements of private builders may have been sourced from either the Home Development Mutual Fund (HDMF), which has increased its allocation/releases for housing development, self-financing or other non-bank forms of funding.[8]

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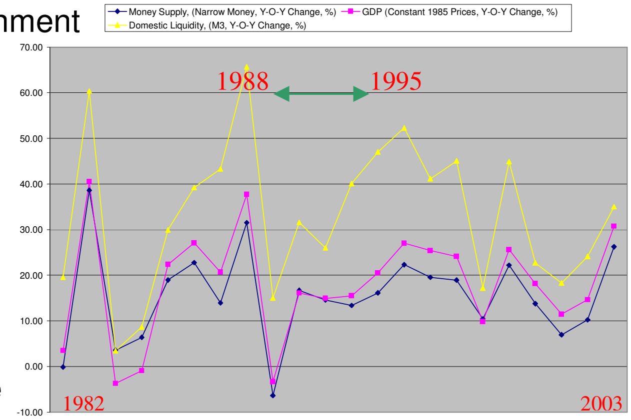
[8] While this paper reports on findings relating investments and bank lending growth to real estate and housing, it does not necessarily argue for a high-investment and high-lending environment per se. The important consideration remains to be that capital, whether public or private, goes to where its returns are maximized and realized. Excessive investments and lending, especially when unsound and pursued only through behest and made attractive because of HGC or Government guaranty, caused severe difficulties for HGC when these projects eventually failed.

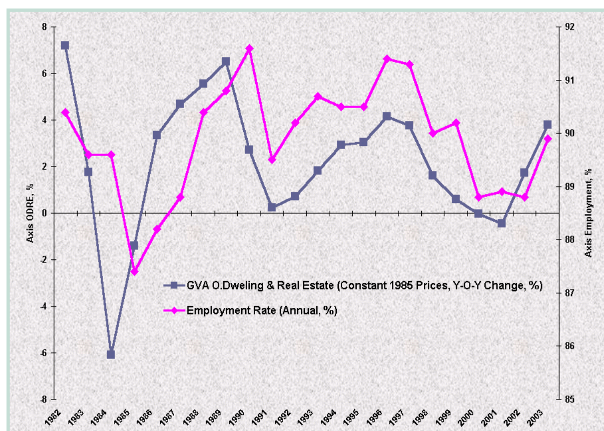
The Money Multiplier. Government policies and the macro-environment induce certain responses from the public, particularly their spending and investment behavior. This action-reaction determines domestic liquidity. As mentioned, domestic liquidity was highest in the period 1988-1995. Spending and lending behavior was most favorable during the Ramos administration, the same period when HGC guaranty business was soaring.



Graph 11. Annual Growth Rates: GDP, Money Supply and Domestic Liquidity.

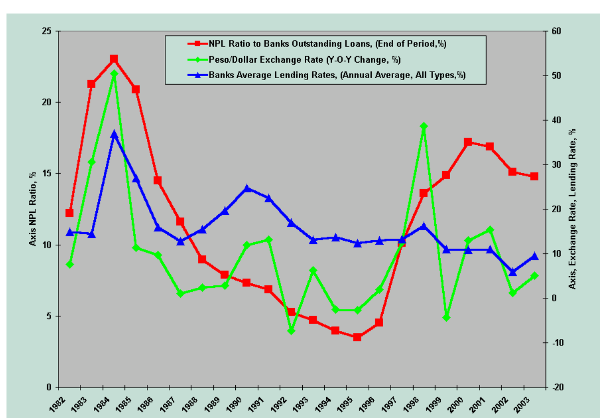
A liquid environment where the public spends willingly is a condition to sustain a boom trend, particularly for a highly capital-intensive industry such as housing. First, funds must be immediately replenished for it to sustain year-on-year growth. Second, prudent lending leading to realization of returns means additional monetary gains, which produce a trickle down effect to consumers, thereby building confidence and more importantly, effective housing demand.

Employment Security. Job security is another key factor that influences demand for housing. Unemployment or job instability retards the growth in housing. It hampers home buying and increases defaults in loan repayment. The correlation between the two indicators is evident during the two boom periods identified. The positive effects are evident as GVA in ODRE grows in years when the employment rate is on the up trend. On the other hand, a downward movement in the employment rate depresses buyers' sentiments as evident during industry bust/slump periods.



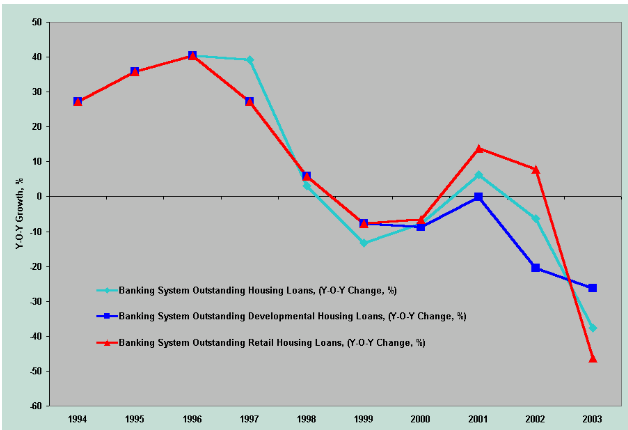
Graph 12. Annual Growth Rates: Real GVA in O. Dwelling and Real Estate and Employment Rate . *Sources NSCB/PIDS*

Financial System. The health of the financial system is another factor that impacts on the industry's performance. The bust/slump that started in 1998 is a good example. The abrupt changes/ increases in interest rates, rapid devaluation of the Peso and the lackluster performance of the stock market



Graph 13. Annual Rate of Peso Devaluation Against $ US, Ratio of Banks NPL to O/S Loans and Annual Average Lending Rates of Banks. *Sources BSP/PIDS*

created jitters both among the financial institutions and the borrowing consumers. Abrupt changes in financial charges disrupted the repayment schedule of most borrowers, resulting in high default rate. From 4.5% of total outstanding loans in 1997, banks' NPLs increased significantly starting 1998, until it reached a high of 17.21% in 2001. The defaults occurred not only in wholesale housing developmental loans, but in retail loans for individual home acquisition as well. Since most of the borrowers are fixed income earners, even a slight increase in the monthly amortization will undermine paying capabilities.

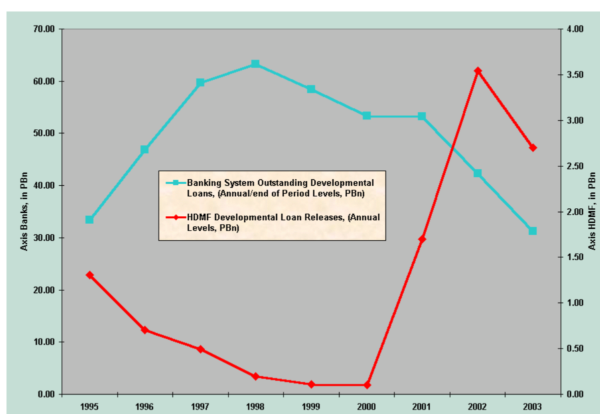


Graph 14. Annual Changes of Banks Outstanding Housing Loans: Total, Retail/Individual and Developmental

Among the financial institutions, the negative effect is likewise severe. Most of the banks, in the move to protect their portfolios, started to shy away from lending to real estate and housing. Outstanding housing loans of banks declined starting in 1998 at an average rate of -3.59% per year from 1998 to 2002, compared to a 36% average from 1993 to 1997. Banks have started imposing additional security measures like higher income requirement for borrowers, issuance of post dated checks, and the like, which further add up to the already depressed sentiments of the home buying public.

Government Policies and Reforms. The Government has undertaken several reforms and policy initiatives to revive the industry and reverse the slump. For one, the Monetary Board eased restrictions on loan valuations, such that the loan amount against the value of the real estate security or collateral was adjusted from 70% to 80%. It likewise allowed housing loans of up to P2.0 million as eligible under the Re-discounting Facility of the Bangko Sentral ng Pilipinas. Through the Bureau of Treasury, government was able to bring down interest rates and maintain them at low levels.

Similar policy and structural reforms were initiated by the housing sector to complement these. Processing time for the issuance of housing-related permits was reduced to 30-45 days. The Housing and Urban Development Coordinating Council, in December 2003, approved the adjustment in the ceiling of housing packages for consistency between government and the private sector. Likewise, Government Financial



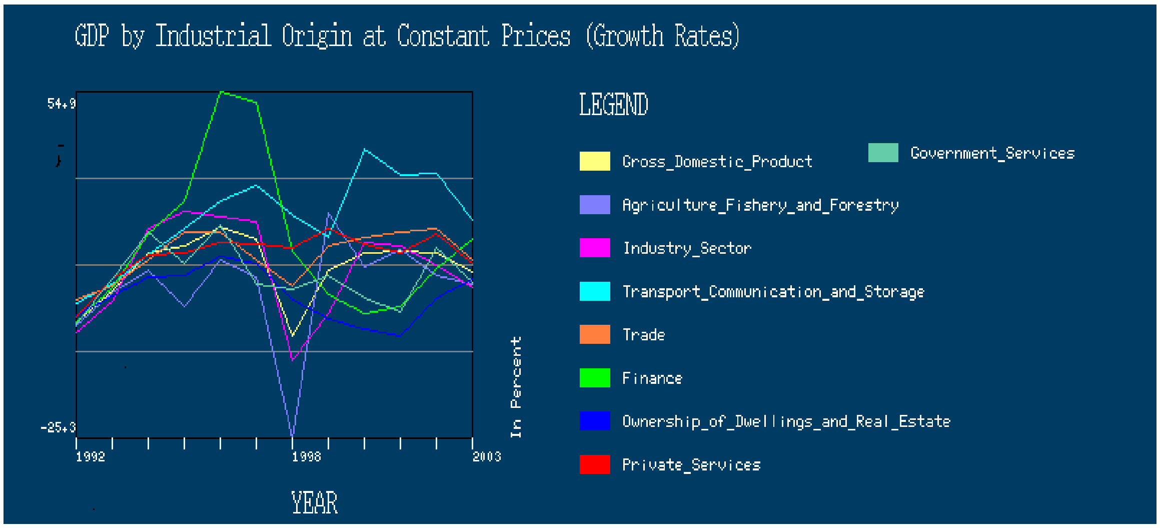
Graph 15. Annual Levels Banks Outstanding Developmental Loans and Pag-ibig Fund Annual Developmental Loan Releases
Sources BSP/HDMF

Institutions (GFIs) – Pag-Ibig Fund, Social Security System (SSS), and the Government Service and Insurance System – reduced their interest rates. To boost further private initiatives in homebuilding, the Pagibig Fund re-opened its Developmental Loan Facility and reduced documentary requirements and processing time of individual housing loans.

The housing sector is optimistic that the full implementation of the Special Purpose Asset Vehicle Law and the passage of the Securitization Bill will finally pave the way for a “boom” period in the near future.

III. Prospects for Housing, 2004-2005

The preceding review of the factors in the economic and political environment that impact on the real estate and housing industries enables the mapping-out of the possible scenario the next two (2) years: 2004 and 2005, an election year and post-election year.



Graph 19. Real Growth Rates: Selected Industrial Origin . *Source PIDS*

The years 2001-2003 in Review. During this period, the economy was slowly recovering from the Asian Financial Crisis and the Estrada impeachment. The three-year average GDP growth rate stood at 4.4%. Inflation was kept under control.

From the industrial origin side, the agricultural, trade, private services and government sectors kept the economy afloat in the latest bust years (1998 onwards). The transportation and communication sector contributed substantially to the economy starting in the year 2000.

The housing industry, however, remained in a slump despite positive developments in the other sectors and in the economy as a whole. Since 1998, GVA on ODRE continued to decline and even posted negative growth rates in 2000 and 2001. The slow recovery of the housing sector is parallel to that of the financial sector. As a matter of fact, the correlation coefficient on the annual growth rates of the two sectors from 1998-2003 is high at 0.98.

Category	Particular Years	Real GDP Growth Rates (%)			Election Years	Direction of Change		Major Events Affecting Economic Conditions
		Election Year	1 Year Before Election	2 Years Before Election		*Elec. Year VS 1 Year Before*	*Average Per Category*	
A). Major Crisis Occurs the Year Prior to Election	1982,1983 & 1984	-7.32	1.87	3.62	1984	–	–	Ninoy Assasination (Aug. 1983)
	1996, 1997 & 1998	-0.59	5.19	5.85	1998	–		Asian Financial Crisis (July 1987)
B.) No Major Crisis Immediately Before Election	1984, 1985 & 1986	3.42	-7.31	-7.32	1986	+	+	Political Uncertainty (Call for Snap Election)
	1990, 1991 & 1992	0.34	-0.58	3.04	1992	+		Energy Crisis, Coup-de-etat threats
	2002, 2003 & 2004	*4.90*	*4.52*	*4.43*	*2004 f*	+		*Global Economic Slowdow (I.e. USA, Japan), SARS, Iraq War*
Average Growth Rate		**0.15**	**0.74**	**1.92**				

Table 1. Real GDP Growth Behavior, Election Year, 1 Year Before Election and 2 Year Before Election

Real GDP at Pre-election and Election Years. The table above shows the GDP growth rates two years and one year before elections and during the election year itself.

It is quite evident that the Real GDP slows down during the year immediately preceding an election year – this is seen in 1983,1991 and 1997. This is probably explained by the political uncertainty fostering a “wait and see” attitude and deferment of long-term capital expenditure.

GDP behavior during election year, likewise, shows a distinctive pattern. Of the four (4) election years starting 1984, two years (2) posted negative growth rates (in 1984 and 1988) and the other two (2) years (1986 and 1992) showed improvement in the GDP. In 1984 and 1988, when GDP growth declined to –7.32 and –0.59, respectively, a major crisis occurred in the year immediately preceding said election years. The GDP behavior during the election year, in this case, is not the direct result of the political exercise but more of a result of the preceding crisis: in 1983, the Aquino assassination and in 1997, the Asian Financial Crisis.

The GDP pattern for election years under Category B, when no major crisis occurred the year before, shows that GDP growth rate picked-up, growing to 3.42% in 1986 from –7.31% a year before and to 0.34% in 1992 from –0.58% in 1991. The 2002 to 2004 period is more comparable to Category B inasmuch as no crippling crisis occurred in 2003 that could negatively influence economic growth. The slowdown of the American and Japanese economies, the SARS scare and the US-Iraq War took place before 2003.

GDP growth rate in 2003, reported at 4.52% did not follow the general trend in a pre-election year where a marked slowdown in GDP growth is usually observed.

In comparison to the two (2) other election years under Category B, 1986 and 1992, the growth in 2003 is relatively high. Negative growth rates were reported in 1985 and 1991 of –7.31% and –0.58%, respectively. Despite this, however, the growth in 2004 is not expected to accelerate much from that of 2003. There are no indicators or anticipated changes in the economy that can propel GDP growth rate beyond a modest rate of 4.6% to 4.9%.

	1984	1985	1986	1987	1992	1993	1998	1999
Real GDP Growth (%)	-7.3	-7.3	3.42	4.31	0.34	2.12	-0.59	3.41
G. D. Capital Formation (%)	-36.99	-31.85	10.06	19.69	7.83	7.87	-16.28	-1.98
Employment rate	-	-	87.4	88.2	89.5	90.2	90	90.2
Growth Rate on GVA on dwelling and real estate (%)	-6.1	-1.4	3.34	4.68	.73	0.73	1.62	0.59
Money Multiplier (Domestic Liquidity/Money Supply)	3.63	3.74	3.38	3.09	3.92	4.31	4.6	4.49

Table 2. Macro Economic Indicators Growth Behavior, Election Year and Post Election Year

All years following a national election in the past two decades posted higher GDP growth rates than the election year. Next year, 2005, is expected to follow this trend. Inasmuch as the negative impact of the Asian Crisis, the slow-down of the world economy and the various destabilization attempts on the Government are slowly waning, GDP growth could be higher than the preceding year. We forecast GDP growth in 2005 to be within 5.0%-5.2%.

3.1. Macro Economic Indicators

Money Supply and Domestic Liquidity. Money supply does not increase abruptly during election years, but expenditures on consumer goods and campaign-related activities certainly increase. Growth in money supply will stay within the 21%-22% levels. Since these monies will not be put to investments, domestic liquidity will have a slight increase of 10%-10.5%.

Inflation Rate. Historical data show that increased spending during election years did not necessarily result in higher prices of goods and commodities, -0.4% in 1986 from 23.2% in 1985 and 8.6% in 1992 from

18.5% in 1991. Given the current low inflation regime, 3.0% in 2003, it is expected that inflation rate will most likely to remain within the 3.0-4.0%.

Gross Domestic Capital Formation. Gross Domestic Capital Formation is higher in post election years. This has been the trend no matter who the elected President is. After bottoming out in 2002 (3.48%), Real Gross Domestic Capital Formation managed to grow by 4.76% in 2003 and is expected to go up and peak at 13.6% on 2005.

Employment Rate. The employment rate increases during a post election year. In 2004, the employment rate will bottom out at 85%, this is expected to reach the 88% mark in 2005. This would spark reversal in the generally decreasing trend in employment.

3.2. Housing Forecasts

Given an improved economic scenario with positive growth forecasts for the GDP, domestic liquidity, G.D. Capital Formation, and others, will the housing sector finally recover from its slump?

The road ahead for the sector remains fairly bright. Positive developments in the economy are expected to trickle down to the housing sector and rouse it from the slump.

Housing will remain shy this election year. Following the trend of the construction industry over the past six (6) years, starting in 1997, we notice a direct correlation between the growth of the construction industry and the GVA on ODRE. With the decline in Construction growth starting in 2001 (Graph 8), GVA on ODRE is expected to slowdown to a 1.2% to 1.5% growth rate. The slight increase shall come from individual housing construction and repairs.

Uncertainties in the results of the National Elections may hamper investments during the first half of the year. Major housing projects could be temporarily shelved. Trends show that HLURB-issued Licenses to Sell may decrease by as much as 43%. The Developmental Financing facility of the Home Development Mutual Fund (HDMF) or Pag-ibig Fund may provide the impetus that can temper the projected 43% decrease. Permits for residential construction and repairs will have a lower growth rate of 17% to 18%.

While a positive GDP growth rate maybe a good indication for banks to lend more for housing, the continued depreciation of the Peso vis-à-vis the US Dollar could cause banks to shift their investments. Further, they will - maintain their conservative posture and distance from perceived high-risk lending until the election results are in and the performance of the new elected President is gauged. At best, they will maintain their present lending level in housing. Outstanding developmental loans will stay on single digit negative growth rate while retail loans will just grow within the range of 2% to 4%. Developers will further decrease their dependence on banks and financial institutions and rely more on non-bank sources and self-financing.

In general, 2005 will be a better year for housing – with better opportunities for recovery.

GVA on Ownership of Dwelling and Real Estate exhibits modest improvement during post election years. This is the general trend, except in 1999 when it improved but to a slower rate than 1998 due to the crisis that crippled the industry. A better employment picture will give the working class a sense of economic stability and thus, the probability of investing in houses is higher. As such, the upward trend on Real GVA in Ownership of Dwelling and Real Estate growth will be sustained. In 2005, it is seen to post a 4.68% increase.

This is a good sign for real estate developers to start rolling their investments and improving on their raw inventories. The window for developmental loan of the HDMF will further boost developers to start investing again. Growth in the issuance of Licenses to Sell may start to pick up back to its 2001 level of 26.1%.

In terms of developmental financing by banks, we may see a positive growth in 2005, of about 2.0%. Banks retail loans will maintain a 2.0% to 4.0% increase over 2004 figures. Substantial growth could be realized on the following year.

HGC Guaranty. Since enrollments under the HGC Developmental Guaranty Facility improved in 2002 with a 9% growth, a modest increase may continue in 2005. Though enrollments under the Retail Guaranty may have bottomed out at –35% in 2002, it increased by 6.44% in 2003 and outstanding guaranty on retail loans could breach the positive mark up to 10%, following the forecast on bank lending.

HGC was able to pay 39% of all call obligations as of last recording. This includes recent call approvals. For old call obligations, payment rate is 47%. HGC's resolve to meet its obligations shall send a positive signal to the market. HGC may start winning back the old confidence level of the market in 2005. However, the market must be convinced that HGC has put in place the necessary risk mitigating mechanisms to complement the fiscal incentives attached to the HGC guaranty.

Real improvements, however, may be felt later. The money multiplier usually slows down in post election year, a cooling-off from the hot atmosphere of the elections. When everything goes back to normal and the incoming Administration is in place, recovery should follow. Velocity of money is higher two years after election: 1988, 13.38; 1994, 11.14; 2000, 8.55.

The performance of the economy and the housing sector will be greatly influenced by the performance of the new President. An advent of a boom period could be forthcoming and apparent in 2006. Experts say that the “Boom-Bust” period comes in a four-year cycle. The boom years may just be around the corner.

Table. Key Macro-economic Indicators, Actual 1997-2003 and Forecasts 2004-2005

Macro Economic Indicators	1997	1998	1999	2000	2001	2002	2003	2004f	2005f
Real GDP (g.r)	5.19	-0.59	3.41	4.38	4.52	4.43	4.52	4.6-4.9	5.0-5.2
Real GVA O. Dwelling and Real Estate (g.r.)	3.78	1.62	0.59	-0.02	-0.45	1.72	3.79	1.2-1.5	4.68
Real G.D. Capital Formation (g.r.)	11.70	-16.28	-1.98	5.54	19.86	-3.48	4.76	-	13.6
Domestic Liquidity (g.r.)	20.95	7.37	19.27	4.56	6.84	9.48	4.26	10.0-10.5	-
Money Supply (g.r.)	16.38	8.98	40.00	-1.81	0.26	21.15	26.25	21.0-22.0	-
Inflation Rate (%)	5.90	9.70	6.70	4.40	6.10	3.20	3.10	3.0	-
Employment Rate (%)	91.30	90.00	90.20	88.80	88.90	88.80	89.9 (Q3)	85	88
Number of LTS Issued (g.r.)	5.97	-43.26	-47.69	-8.77	35.31	19.00	16	-	26.1
Value of Approved Res'l Permits (g.r.)	7.18	-24.32	6.34	-8.49	17.42	25.95	-10.65 (Q2)	17-18	-
Banks' O/S Housing Dev. Loans (g.r.)	27.32	5.82	-7.61	-8.70	-0.15	-20.44	-20.44 (Q2)	-	2.0
Banks' O/S Housing Retail Loans (g.r.)	27.32	5.82	-7.62	-6.54	13.84	7.97	-44.32 (Q2)	2-4	2-4

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