Economic Report

SENATE ECONOMIC PLANNING OFFICE

August 2020 ER-2020-01

2020 Midyear Economic Report

Transitioning to the New Normal

The Coronavirus Disease 2019 (COVID-19) pandemic has significantly changed the economic landscape. The world economy is now expected to experience one of the worst recessions in history, and Asian countries, such as the Philippines, are proving to be no exception. The Philippines has already fallen into a technical recession with two straight quarters of economic contraction, its first in almost three decades. With the continuous rise in the number of COVID-19 positive cases in the country, prospects for the rest of the year remain dim. One of the biggest challenges is the distributional impact as the pandemic has already resulted in massive unemployment and an exacerbation of existing inequalities. Government needs to immediately strengthen the capacity of the healthcare system and to protect the most vulnerable households in addition to ensuring the right set of fiscal, monetary and structural policy mix to support the recovery of the economy.

Real Sector

The COVID-19 pandemic has resulted in a significant contraction of the domestic output. In nominal terms, the economy lost about PhP630 billion in the first semester of 2020 compared to its output in the same period last year. The country's gross domestic product (GDP) contracted by 0.7 percent and 16.5 percent in the first and second quarter of 2020, respectively, considerably more than the government's earlier forecasts. Prior to the official release of the national income accounts (NIA), the National Economic and Development Authority (NEDA) was optimistic that the first quarter growth would still be positive, while the Bangko Sentral ng Pilipinas (BSP) saw the economy contracting by only 5.7 percent to 6.7 percent in the second quarter. From being the second fastest growing economy in the first half of 2019 next to Vietnam, the Philippines now appears to be the worst performer among the member countries of the Association of Southeast Asian Nations (ASEAN) in the first semester of 2020.

Table 1. First Semester GDP Growth, 2019-2020
Philippines vs ASEAN Countries* (in percent)

COUNTRY	2019			2020		
	Q1	Q2	Average	Q1	Q2	Average
Brunei Darussalam	-0.2	6.6	3.2	2.4	-	-
Indonesia	5.1	5.1	5.1	3.0	-5.3	-1.2
Malaysia	4.5	4.8	4.7	0.7	-17.1	-8.2
Philippines	5.7	5.4	5.6	-0.7	-16.5	-8.6
Singapore	1.0	0.2	0.6	-0.3	-12.6	-6.5
Thailand	2.9	2.4	2.7	-1.8	-12.2	-7.0
Vietnam	6.8	6.7	6.8	3.8	0.4	2.1

Source: Census and Economic Information Center (CEIC), Bloomberg
** Cambodia, Laos, Myanmar and Timor Leste's GDP are released annually.*

Among the major production sectors, only agriculture, forestry and fishing (AFF) was spared while services and industry suffered deep declines. Despite the disruptions in the supply chains and distribution channels, the AFF sector managed to expand by 0.7 percent in the first semester with marked increase in the production of crops such as sugarcane (26.4 percent), cocoa (10.2 percent), palay (2.3 percent) and corn (2.1 percent). Favorable weather conditions, fast-tracking of the socialized credit program, block farming, and construction of farm-to-mill roads helped to uplift the output of said crops.

Table 2. GDP Q1 2019 to Q2 2020
Growth Rates, at Constant 2018 Prices

Industry	2019			2020		
	Q1	Q2	1st Sem	Q1	Q2	1st Sem
GROSS DOMESTIC PRODUCT	**5.7**	**5.4**	**5.6**	**-0.7**	**-16.5**	**-8.6**
Net primary income from the rest of the world	**-1.6**	**0.3**	**-0.6**	**-5.9**	**-22.0**	**-13.9**
GROSS NATIONAL INCOME	**5.0**	**4.9**	**4.9**	**-1.2**	**-17.0**	**-9.1**
Production side						
Agriculture, forestry, and fishing	**0.5**	**0.7**	**0.6**	**-0.3**	**1.6**	**0.7**
Industry	**4.9**	**2.5**	**3.7**	**-3.4**	**-22.9**	**-13.1**
Mining and quarrying	3.4	14.2	8.8	-21.0	-24.5	-22.7
Manufacturing	5.2	2.0	3.6	-3.8	-21.3	-12.5
Electricity, steam, water and waste management	3.4	8.1	5.7	4.9	-5.8	-0.5
Construction	5.0	-0.1	2.5	-2.9	-33.5	-18.2
Services	**7.1**	**7.5**	**7.3**	**0.6**	**-15.8**	**-7.6**
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.0	8.6	7.8	1.9	-13.1	-5.6
Transportation and storage	6.8	6.1	6.4	-11.4	-59.2	-35.3
Accommodation and food service activities	6.0	4.9	5.5	-16.4	-68.0	-42.2
Information and communication	9.9	5.6	7.7	5.1	6.6	5.9
Financial and insurance activities	12.1	10.7	11.4	9.1	6.8	7.9
Real estate and ownership of dwellings	5.1	4.9	5.0	-2.3	-20.1	-11.2
Professional and business services	1.1	3.0	2.1	0.2	-18.4	-9.1
Public administration and defense; compulsory social activities	11.7	11.4	11.6	5.5	8.3	6.9
Education	5.1	12.0	8.6	1.1	-12.2	-5.6
Human health and social work activities	3.0	-0.6	1.2	4.7	-15.4	-5.4
Other services	6.7	6.6	6.7	-10.6	-63.0	-36.8
Expenditure side						
Household final consumption expenditure	6.2	5.6	5.9	0.2	-15.5	-7.6
Government final consumption expenditure	6.4	6.8	6.6	7.0	22.1	14.5
Gross capital formation	9.8	-0.8	4.5	-17.4	-53.5	-35.5
Gross fixed capital formation	7.8	-2.9	2.4	-4.4	-37.8	-21.1
Construction	9.6	1.3	5.4	-4.4	-32.9	-18.6
Durable equipment	5.5	-15.1	-4.8	-5.9	-62.1	-34.0
Breeding stocks and orchard development	2.1	3.0	2.5	-1.1	2.2	0.5
Intellectual property products	15.2	30.4	22.8	4.2	-27.7	-11.8
Changes in inventories						
Valuables	-76.9	-14.1	-45.5	-24.8	-56.9	-40.9
Exports of goods and services	4.2	3.1	3.6	-4.4	-37.0	-20.7
A. Exports of goods	5.5	2.9	4.2	-3.9	-31.1	-17.5
B. Exports of services	2.8	3.3	3.1	-5.0	-43.4	-24.2
Less : Imports of goods and services	8.9	0.1	4.5	-8.7	-40.0	-24.4
A. Imports of goods	9.0	-0.5	4.3	-10.5	-42.3	-26.4
B. Imports of services	8.5	3.1	5.8	-1.2	-27.6	-14.4

Source: PSA

Containment measures put a particularly heavy toll on industry, which contracted by 13.1 percent. All of its sub-sectors posted huge negative growth rates. Manufacturing fell by 21.3 percent at the height of the lockdown (Enhanced Community Quarantine or ECQ) in the second quarter as supply chains were disrupted and factories operated in limited capacity. A survey conducted by the Department of Trade and Industry (DTI) in June 2020 showed that one in four (25.9 percent) manufacturing establishments had closed shop as a result of the pandemic, more than half were operating partially, while only 22.1 percent of the companies were in full operation. Similarly, the suspension of infrastructure projects pulled down construction growth to -33.5 percent in the second quarter.

Services sector likewise took a heavy beating, particularly the accommodation and food services and the transport subsectors which contracted by 42.2 percent and 35.3 percent, respectively. The pandemic has crippled the Philippine tourism industry which reported a 68.1 percent drop in foreign visitor arrivals from January to June 2020 from the same period last year. More recent data show that arrivals plunged further to 73 percent in July and with it, tourism revenues also fell by 72 percent. It appears though that more Filipinos availed of financial and insurance services during the period which led to the subsector's robust growth. Another bright spot in the economy is the information and communication services which expanded by 5.7 percent as more Filipinos were forced to go online for their various needs. Public administration services similarly grew by 6.9 percent.

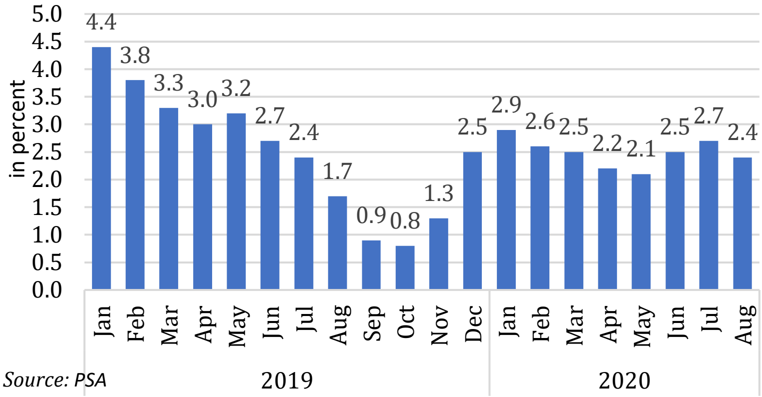
Except for government spending, all expenditure components of the country's GDP plummeted. Relief efforts through the Bayanihan to Heal As One Act (Republic Act No. 11469) boosted government expenditures which grew by 22.1 percent in the second quarter, however it was not enough to prop up the economy. Household spending, which accounts for more than three fourths of GDP contracted by 7.6 percent during the first half of the year, dragged by mobility restrictions and weak consumer sentiment. Investment spending or capital formation was also severely impacted as private businesses pulled back on construction and investments in durable equipment. The slump in global demand likewise weighed down both export and import growths.

A pick-up in economic activity in some sectors has been observed with the easing of the community quarantine restrictions but overall recovery will likely be slow. Manufacturing production fell to its lowest in the last 20 years in April 2020 but the results of the Monthly Integrated Survey of Selected Industries (MISSI) in the last three months showed a slower rate of decline, indicating a turnaround in economic activity. Year-on-year value of production index (VaPI) and the volume of production index (VoPI) declined by 14.8 percent and 11.9 percent, respectively in July 2020, compared to the 61.4 percent and 59.8 percent decline in April 2020. External trade data is also showing some signs of recovery, with smaller drops registered in June 2020 at -19.9 percent from a steep -59.5 percent in April and -35.3 percent in May. Whether the reimposition of a two-week Modified Enhanced Community Quarantine (MECQ) in the National Capital Region (NCR) and neighboring provinces in the first two weeks of August have significantly affected this momentum is yet to be seen.

Monetary and Financial Sector

Prices of basic goods and services remained stable but upside risks linger. Average inflation for the first eight months of the year eased to 2.5 percent from 3.1 percent a year ago. Overall, inflation will likely remain benign until the end of 2020 and stay within the BSP's target range of 2.0 percent to 4.0 percent. This forecast is hinged on expectations that global crude oil prices will continue to decline, the peso remains strong, and agricultural supplies are kept at adequate levels. Upside risks may emerge from supply disruptions due to lower factory output and slower global trade, lower oil production from the Organization of the Petroleum Exporting Countries (OPEC) member countries, adverse weather conditions, or an outbreak of transboundary animal diseases, among others. An increase in the prices of some food and non-food items may also occur if manufacturers as well as other service-related industries pass on to the consumers the added cost of compliance with government-imposed minimum health standards.

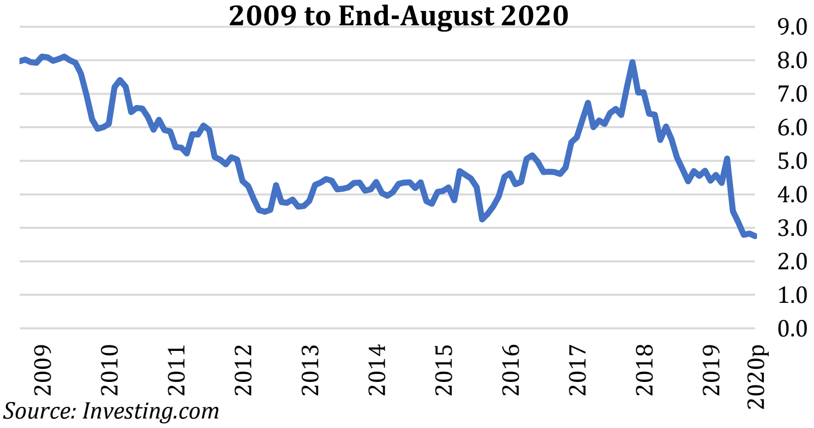
Figure 1. Inflation Rates, 2019-2020



Source: PSA

Monetary policy eased and regulatory relief measures were implemented*.* Based on its assessment that the inflation environment will remain benign, the Monetary Board (MB) during its August policy meeting maintained the interest rate on the overnight reverse repurchase (RRP) facility at 2.25 percent. Last June 26, 2020, the BSP reduced by 50 basis points (bps) the interest rate on the overnight RRP facility, which brought the policy rate reduction this year to a total of 175 basis points. In March, the BSP also cut by 200bps the reserve requirement ratio (RRR) of universal and commercial banks (U/KBs) to encourage lending to the private sector and lower the cost of borrowing. The BSP likewise allowed loans to micro, small and medium enterprises (MSMEs) to be counted as part of banks' compliance with the reserve requirements. Following a series of rate cuts by the BSP, the 364-day Treasury bill (T-bill) rate settled at a 2.75 percent average in the first eight months of the year. In a high-risk environment, investors are now looking for safe investment options such as government bonds, thereby resulting in higher bids and lower yields.

Figure 2. PH 10-Year Government Bond Yield 2009 to End-August 2020



Source: Investing.com

Demand for credit slowed while bad loans increased. Preliminary data show that bank lending increased but at slower pace in June 2020. Total outstanding loans (net of RRP placements with the BSP) of universal and commercial banks grew by 9.9 percent, slower than the 11.5 percent growth it recorded the previous month. This comes as a result of slower credit growth for both production activities and household consumption, given the weak economic prospects. Results of the latest Senior Bank Loan Officers' Survey (conducted by the BSP since 2009) likewise show that most of the respondent banks reported introducing tighter credit standards in the second quarter. Such tightening came in the form of reduced credit line size, stricter collateral requirements and loan covenants, and increased use of interest rate floors. Nevertheless, there was also some easing reported in the form of narrower loan margins and longer loan maturities (especially for MSMEs).

Meanwhile, BSP data show that the banking sector's gross non-performing loans (NPL) widened to PhP273.6 billion as of end of June from PhP215.9 billion a year ago or an increase of 26.7 percent. This brought the banking industry's NPL to total loan ratio to 2.53 percent from 2.10 percent last year. With the lifting of the grace period in loan repayments, further hike in loan defaults is expected, particularly from loans to private corporations. Based on the We Recover as One Report by the NEDA, top banks in the country estimated the amount of incremental NPLs to reach as much as PhP368 billion or an NPL ratio of 4.9 percent. While the BSP is confident that the banking system could absorb the expected rise in risky assets given the current level of capitalization, it is also asking Congress to pass the proposed Financial Institutions Strategic Transfer (FIST) Act that will allow banks to transfer distressed assets like bad loans to a separate corporate entity to prevent a broader, system-wide contagion.

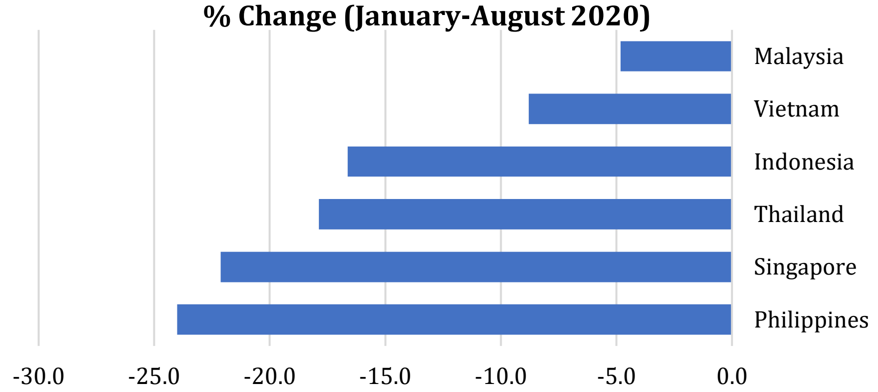
Table 3. Banking Statistics, June 2019-2020
(in billion PhP, except rates)

	June 2019	June 2020
Gross Non-Performing Loans (NPL)	215.9	273.6
Growth Rate (%)	23.5	26.7
Gross NPL Ratio (%)	2.1	2.5
Total Outstanding Loans of U/KBs net of BSP RRP Agreements	8,159.1	8,966.3
Growth Rate (%)	10.3	9.9

Source: BSP

Local bourse was severely impacted but has begun to bounce back. The Philippines was the first country to shut its financial markets due to the outbreak. The two-day shutdown saw the Philippine Stock Exchange Index (PSEI) plunging to 4,623 points or a 40-percent drop in March from its 7,742 level at the start of the year. The PSEI has started to recover with foreign funds flowing back to local equities. As of end-August 2020, the PSEI was back at 5,884.2 points, declining by 24 percent from January to August 2020. Compared to its ASEAN neighbors, it suffered the most contraction since the start of 2020.

Figure 3. ASEAN Stock Market Performance
% Change (January-August 2020)



Source: ASEAN Exchanges

External Accounts

Huge downturns in export and imports reflected weak global and domestic demands. Merchandise exports in the first semester of 2020 contracted by 17.8 percent year-on-year, from US$34.58 billion to US$28.43 billion. Electronics, which accounts for more than half (56.7 percent) of the country's total exports, went down by 14.9 percent while non-electronic exports declined by 21.3 percent. Among the country's major export markets, USA, China and Japan registered the biggest drops in terms of export value. Prior to the pandemic, the government targeted an export growth of 4.0 percent for 2020. It has since revised the projection to -16.0 percent even as it expects trade prospects to be better in the second semester.

During the same period, imports of goods fell faster than exports from US$55.0 billion to US$39.0 billion. Among electronic products, the reduction was biggest in imports of consumer electronics (59.1 percent) as well as in telecommunication products (44.4 percent). This could be a reflection of a slowdown in demand for such goods, or some supply bottlenecks in source countries. The decline in other import products such as mineral fuels, transport equipment, industrial machinery, and iron and steel all point to slower economic activity particularly in infrastructure. Importation of personal protective equipment (PPE) products such as surgical masks, face shields and protective clothing unsurprisingly shot up by 72.4 percent. For the whole of 2020, the government is expecting total imports to contract by 18 percent.

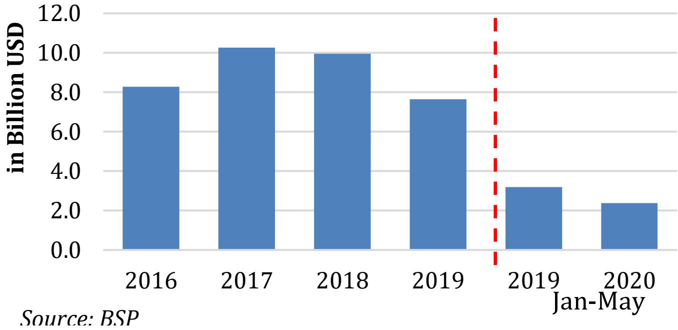
Table 4. Growth Rate of Top Export and Import Products (FOB Value), January to June 2020

	Top Exports	**in %**	**Top Imports**	**in %**
1	Electronic Products	-14.9	Electronic Products	-19.0
2	Other Manufactures	-17.2	Mineral Fuels, Lubricants and Related Materials	-46.8
3	Machinery and Transport Equipment	-25.7	Transport Equipment	-43.1
4	Bananas (Fresh)	-10.0	Industrial Machinery and Equipment	-34.3
5	Other Mineral Products	17.0	Iron and Steel	-28.5
6	Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships	-34.3	Other Food and Live Animals	-15.8
7	Cathodes and Sections of Cathodes, of Refined Copper	1.7	Cereals and Cereal Preparations	-27.5
8	Gold	-5.9	Miscellaneous Manufactured Articles	-32.0
9	Others	-1.7	Telecommunication Equipment and Electrical Machinery	-23.2
10	Chemicals	-35.9	Plastics in Primary and Non-Primary Forms	-27.7
	Total Exports	**-17.8**	**Total Imports**	**-29.0**

Source: PSA

Foreign investments plunged as uncertainty continued to unnerve investors. For the first five months of 2020, net inflows of foreign direct investments (FDIs) amounted to a total of US$2.4 billion, falling by 25.6 percent from US$3.2 billion in the same period last year. The decline was mainly due to the reduction in net investment in debt instruments and reinvestment of earnings, which fell by 46.4 percent and 22.2 percent, respectively. Inflows of FDIs to the Philippines have actually been slowing down since 2017. The country appears to have lost the opportunity to attract investments exiting China since the escalation of the US-China trade war. For instance, FDIs to Vietnam jumped 4.0 percent in 2019 while FDIs to the Philippines contracted by 23.1 percent. There are concerns that the Philippines will again miss out on the benefits of the ongoing diversification of the global supply chain in the wake of the COVID-19 pandemic.

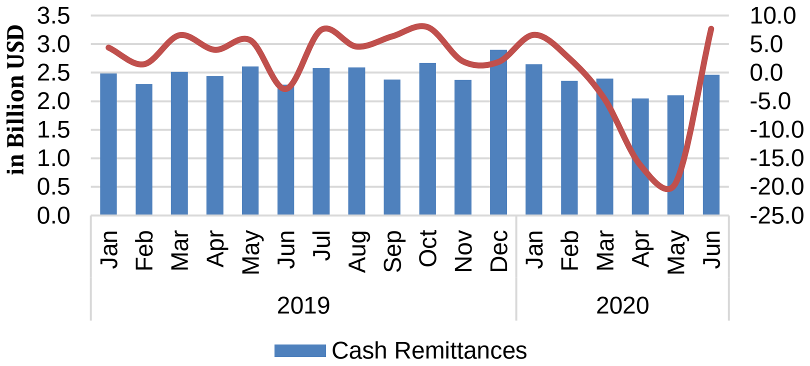
Figure 4. Net Foreign Direct Investments



Source: BSP

The usually robust growth of remittances from overseas has weakened. Total overseas Filipinos' (OF) cash remittances in the first six months of the year amounted to US$14 billion, falling by an average of 4.2 percent from that recorded a year ago. There is an encouraging sign though as remittances recovered in June 2020 with a growth of 7.7 percent after three months of consistent contraction. Overseas Filipinos in the USA remained the largest source of cash remittance amounting to US$5.6 billion, trailing behind is Singapore (US$989.5 million), Saudi Arabia (US$819.8 million), Japan (US$779.6 million), and the United Kingdom (US$688.8 million). Expectedly, as these countries face economic downturns, many overseas Filipino workers (OFWs) may find themselves out of work. Of the estimated 10 million Filipinos working abroad,[1] 600,000 are expected to lose jobs by the end of the year.[2] As of August 22, 2020, 144,795 overseas Filipinos have already been repatriated by the Department of Foreign Affairs (DFA) since February 2020, of which 61.9 percent (89,636) are land-based while 38.1 percent (55,159) are sea-based.

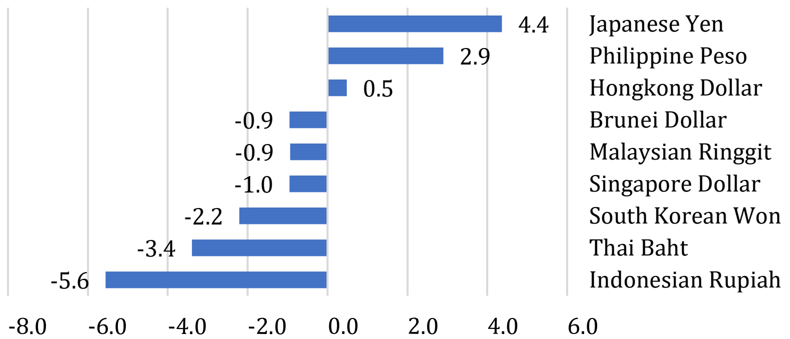
Figure 5. Cash Remittances, 2019-2020



Source: BSP

The Philippine peso remained strong amidst the crisis. The Philippine peso was at PhP48.62 to a US dollar as of end-August. Compared to other Asian currencies, the Philippine peso remains strong, appreciating by 6.57 percent, notwithstanding the decline in merchandise exports and remittances. The local currency's performance is mainly supported by the inflow of foreign denominated loans and could appreciate further as import demand continues to fall and fears of a deeper global recession continue to weigh in on the greenback.

Figure 6. Currency Performance, % Change January-August 2020

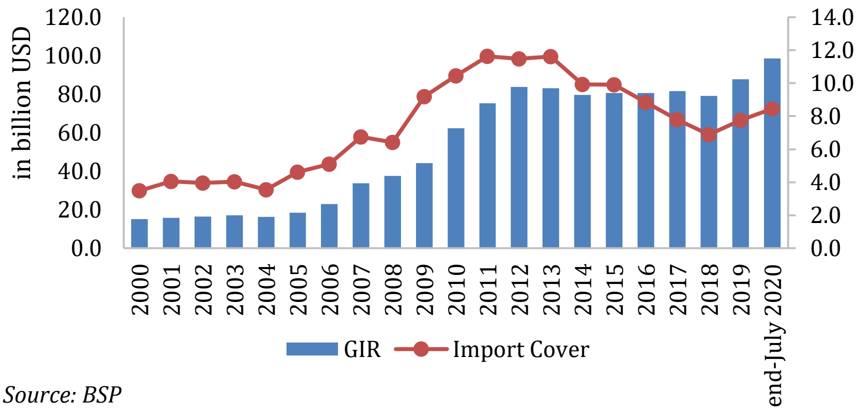


Source: BSP

[1] https://dfa.gov.ph/dfa-news/dfa-releasesupdate/26909-dfa-pays-tribute-to-ofws-on-migrant-workers-day.
[2] As reported by Department of Labor and Employment (DOLE) International Affairs Bureau Director Alice Visperas during the hearing of the House Committee on Overseas Workers' Affairs (May 29, 2020).

These developments have led to the country's balance of payment (BOP) to register a cumulative surplus of US$4.1 billion for the first semester. The BOP surplus was propped up mainly by the national government's foreign borrowings—the bulk of which was drawn during the second quarter—and the narrower trade in good deficit. The BOP position likewise reflects the record-high level of gross international reserves (GIR) amounting to US$98.6 billion as of end-July. This sufficiently covers 8.9 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 7.6 times the country's short-term external debt based on original maturity and 4.9 times based on residual maturity.

Figure 7. PH Gross International Reserves and Import Cover, 2000-2020



Source: BSP

With the worse-than-expected economic performance, the Development Budget Coordination Committee (DBCC) has adjusted its macroeconomic forecast. It now sees the economy contracting by 4.5 percent to 6.6 percent, a huge downward revision from its earlier projection of -3.4 percent to -2.0 percent contraction. However, the government is optimistic that a quick bounce back will happen and projects the GDP growth to hit 6.5 percent to 7.5 percent in 2021 and 2022.

Table 5. DBCC Macroeconomic Projections

Parameters	Projection as of May 12, 2020	Revised Projections (As of July 16, 2020)		
		2020	2021	2022
Real GDP Growth (%)2/3	(3.4) – (2.0)	(4.5) – (6.6)	6.5 – 7.5	6.5 – 7.5
Inflation (%)	2.0 – 4.0	1.75 – 2.75	2.0 – 4.0	2.0 – 4.0
Dubai Crude Oil (US$/bbl)	23 – 38	35 – 45	35 – 50	35 – 50
FOREX (P/US$)	50 – 54	50 – 52	50 – 54	50 – 54
Growth of Goods Export (%)4/	(4.0)	(16)	5.0	5.0
Growth of Goods Import (%)4/	(5.5)	(18)	8.0	8.0

Source: NEDA and BSP
1/ Revised projections were adopted by the DBCC on July 16, 2020.
2/ At Constant 2018 Prices.
3/ Revised GDP growth assumptions adopted by the DBCC on July 28, 2020 via Ad Referendum.
4/ Based on the International Monetary Fund's (IMF) Balance of Payments Manual 6 concept.

Fiscal Position

The slowdown in economic activity resulted in a significant adjustment in the government's revenue target. Prior to the COVID-19 pandemic, revenue collection was set at PhP3.5 trillion, equivalent to a 16.7 percent revenue effort for 2020. This was subsequently revised in May to PhP2.6 trillion and was further reduced to PhP2.5 trillion in July or an adjusted revenue effort target of 13.4 percent.

For the first semester of 2020, the revenue collection was set at PhP1.45 trillion. While actual revenue collection exceeded the target by PhP1.7 billion, it is 6.1 percent lower than that in the same period in 2019. Revenues from the Bureau of Internal Revenue (BIR) which account for 78.0 percent of total tax collections fell by 10.3 percent in the first semester compared to that of last year. Almost all types of taxes registered a decline except taxes from bank deposits and withholding taxes on wages. The Bureau of Customs (BOC) likewise reported a 16.5 percent drop in collections mainly due to the huge decline in imports. Revenues from other offices likewise plunged by 40.8 percent due to the decline in tax collections from immigration, Motor Vehicle User's Charge (MVUC), Commission on Higher Education (CHED) and the National Commission for Culture and the Arts (NCCA). Overall, tax revenues declined by 11.9 percent year-on-year.

Table 6. NG Revenue Performance, January-June 2020
in PhP billion

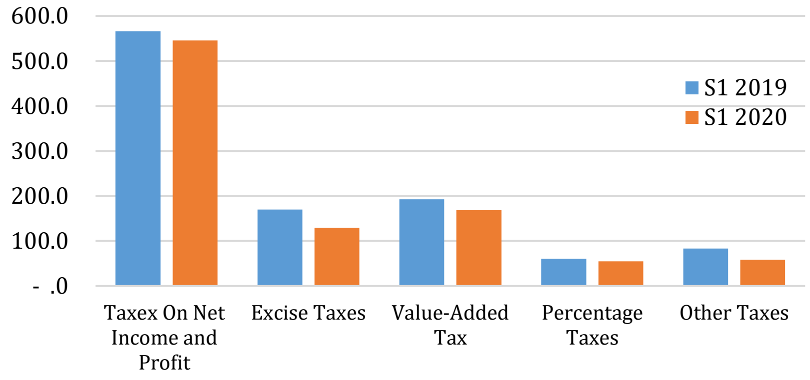
Particulars	January to June			Variance (Actual vs Program)	Growth Year-on-Year (%)
	Actual		Program		
	2019	2020	2020*		
Revenues	**1,547.5**	**1,453.3**	**1,451.6**	**1.7**	**-6.1**
Tax Revenues	**1,381.0**	**1,216.4**	**1,198.1**	**18.3**	**-11.9**
Bureau of Internal Revenue	1,066.3	956.4	933.5	22.9	-10.3
Bureau of Customs	303.0	253.1	254.2	-1.1	-16.5
Other Offices	11.6	6.9	10.4	-3.5	-40.8
Non-Tax Revenue	**166.6**	**236.9**	**253.5**	**-16.6**	**42.3**
Bureau of the Treasury Income	87.6	183.2	172.1	11.1	109.1
Other Offices	78.9	53.7	81.4	-27.7	-32.0
Privatization	0.262	0.328	na	na	25.2

Source: BTr
**Based on the program set in May 27, 2020.*

On the other hand, non-tax revenues registered an increase of 42.4 percent brought by higher income earnings of the Bureau of the Treasury (BTr) and an increase in proceeds from privatization.[3] Meanwhile, collections of other offices declined as operations of national government agencies (NGAs) were hampered by the health containment measures.

[3] Sale of government assets (Al-Amanah Islamic Investment Bank, Interland Chemicals, Inc., Luzon Aggregates, Northern Cement Corporation and Peninsula Development Bank) amounted to PhP44.7 million while PhP60.8 million was due to the withdrawal from the balance of the 5 percent contingency fund of the Marcos Swiss deposits.

Figure 8. BIR Collections by Tax Type
S1 2019 vs S1 2020, in Billion Pesos



Source: BIR

Actual spending of the national government (NG) was less than programmed. Despite speedy fund releases for the pandemic response, actual disbursements fell short of the programmed spending for the first semester of 2020 by PhP188.8 billion. This is mainly due to the lower spending on infrastructure and other capital outlays as projects were put on hold during the lockdown period. Expenditures for allotment to local government units (LGUs) were likewise lower than expected as LGUs delayed the implementation of their program, activity and projects (PAPs) and because of the slow liquidation of funds granted under the Bayanihan to Heal as One Act (Bayanihan I). Net lending or borrowing was also down as government-owned and controlled corporations (GOCCs) opted to convert NG advances into subsidy, the bulk of which was availed by the National Food Authority (NFA). The government, however, benefited from the peso appreciation and loan maturities as it resulted in lower expenditure on interest payments or a savings of PhP19.6 billion.

Table 7. NG Disbursement Performance, January to June 2020
(In Billion PhP)

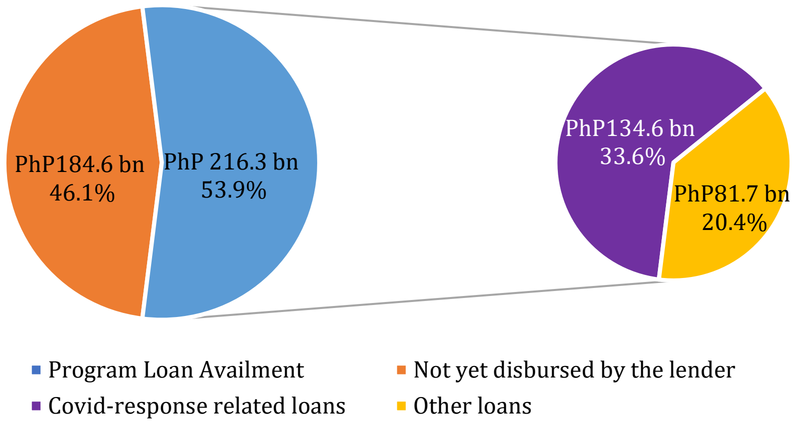
Expenditures	Program (Jan-June 2020)	Actual (Jan-June 2020)	Variance
Interest Payments	207.3	187.7	(19.6)
Allotment to LGUs	424.2	409.2	(15.0)
Tax Expenditure Fund	6.2	6.5	0.2
Net Lending	12.1	(29.9)	(42.0)
Equity	0.1	0.6	0.5
Subsidy	171.3	169.5	(1.8)
Other NG Exp. Accounts	1,381.4	1,270.2	(111.2)
TOTAL	**2,202.6**	**2,013.7**	**(188.9)**

Source of basic data: BTr and DBM

On March 24, 2020, the Bayanihan I Act was signed into law which granted the President the power to realign some of the items in the 2020 National Budget as well as the unobligated appropriations in the 2019 National Budget to combat the impact of the pandemic. As of June 30, 2020, the Department of Budget and Management (DBM) has already released PhP374.9 billion of the total pooled savings and realigned funds for Bayanihan I to the various implementing agencies. Seventy-one percent of the said fund came from discontinued PAPs under the 2019 and 2020 General Appropriations Acts (GAA). The rest are from unprogrammed appropriations and special purpose funds (26.35 percent) such as the calamity and contingency funds while 2.73 percent are from the regular budgets of agencies.

NG likewise undershot its revised deficit target. Actual fiscal deficit posted for the first semester was only PhP560.4 billion or 34 percent below the PhP751.1 billion adjusted fiscal deficit target for the said period. Prior to the pandemic, the full year deficit target was estimated at PhP671.2 billion or 3.2 percent of the GDP but in July 2020, the DBCC revised it to PhP1,815.4 billion or to 9.6 percent of the GDP given the continuously gloomy outlook for revenue collection and the anticipated higher spending in the second semester. The DBM expects the various line agencies to accomplish their programs and projects in the second half while health and social-related expenditures are anticipated to drive spending growth especially with the recent passage of the Bayanihan II Bill in Congress.

Figure 9. Total NG Financing, 1st Semester 2020
in Billion PhP



Source of basic data: DOF and BTr websites

Debt stock reached new record high. Total NG debt stood at PhP9.1 trillion as of end-June 2020, 15.1 percent higher than that in 2019. Of the said amount, 68 percent or PhP6.19 trillion are sourced domestically while 32 percent are from external lenders. Domestic debt grew by about PhP1 trillion year-on-year. Noteworthy is the huge jump in domestic loans from PhP948 million to PhP300.9 billion. This is due to the BSP's purchase of government securities from the BTr under a repurchase agreement so that NG can use the proceeds to finance expenditures for the COVID-19 crisis. Meanwhile, external debt rose to PhP2.9 trillion, or an increase of PhP290.2 billion year-on-year. This is mainly on account of the PhP190.0 billion in external loans contracted by NG and the PhP100.2 billion incurred from the sale of global bonds.

Latest data from the Department of Finance (DOF) showed that so far, US$8.1 billion or approximately PhP400.9 billion worth of foreign loans have been secured by the government in the first semester of 2020. However, only 33.6 percent or PhP134.6 billion of this amount has been identified as COVID-19 response-related. The rest will serve as budgetary support for the other programs and projects of NG. The country's main sources of financing are the following: Asian Development Bank (ADB), World Bank (WB), Asian Infrastructure Investment Bank (AIIB), Agence Française de Développement (AFD), Japan International Cooperation Agency (JICA), and US$-denominated global bonds (see Attachment 1). From the aforementioned total financing, PhP216.3 billion worth of program loans from ADB and WB are already available while the rest of the loans would still have to be released by the said sources.

The DBCC is projecting NG debt to reach PhP10.7 trillion this year which is equivalent to a debt-to-GDP ratio of 53.9 percent, the highest in 10 years.

Employment and Other Social Indicators

The pandemic has caused unprecedented levels of unemployment. With many businesses forced to shut down and let go of their employees during the community quarantine period, unemployment rate in April 2020 reached 17.7 percent, the highest unemployment rate ever recorded since 2005. It appears though that the labor market has begun to improve when the community quarantine restrictions were relaxed. The latest results of the Labor Force Survey (LFS) data of the Philippine Statistics Authority (PSA) show that the unemployment rate has gone down from 17 percent in April to 10 percent in July and the number of jobless people has declined from 7.3 million Filipinos to 4.6 million. In addition, the labor force participation rate markedly increased to 61.9 percent from 55.6 percent in April 2020, equivalent to around around 4.9 million workers rejoining the labor force. Nonetheless, the unemployment rate is still almost double the 5.4 percent (equivalent to 2.4 million individuals) registered in July 2019. Meanwhile, out of the 41.3 million employed, 7.1 million (17.3 percent) considered themselves as underemployed. This is 1.3 million more than that registered in July 2019.

Among the regions, NCR and Region IV-A (CALABARZON) had the highest unemployment rates of 15.8 percent and 12.4 percent, respectively. The top five major occupations with the largest year-on-year drop in employment are those in the arts, entertainment and recreation (72.9 percent), accommodation and food service activities (35.9 percent), information and communication (28.8 percent), fishing and aquaculture (21.2 percent), and professional, scientific and technical services (19.7 percent).

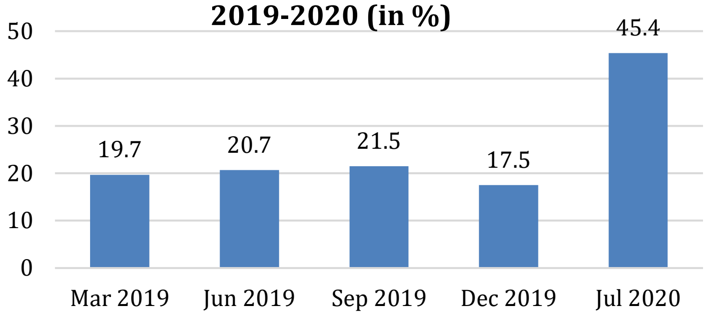
Table 8. Employment Statistics (in '000 except rates)

Indicators	2019				2020				
	January	April	July	Ave.	January	April	July	Ave.	Variance
Total Population 15 Years Old and Over	71,886	71,776	72,446	72,036	72,997	73,722	74,061	73,593	1,557
Employed	41,030	41,755	42,521	41,769	42,653	33,764	41,306	39,241	- 2,527
Agriculture	8,847	9,059	9,731	9,212	9,664	8,743	10,870	9,759	547
Industry	8,168	8,082	8,053	8,101	8,006	5,745	7,785	7,179	-922
Services	24,015	24,614	24,737	24,455	24,983	19,276	22,651	22,304	-2,152
Labor Force Participation Rate (%)	60.3	61.3	62.1	61.2	61.7	55.6	61.9	59.8	
Employment Rate (%)	94.7	94.9	94.6	94.7	94.7	82.3	90.0	89.0	
Underemployment Rate (%)	15.4	13.4	13.6	14.2	14.8	18.9	17.3	17.0	
Unemployment Rate (%)	5.3	5.1	5.4	5.3	5.3	17.7	10.0	11.0	

Source: PSA-LFS

A similarly high unemployment rate was noted in the survey conducted by the Social Weather Stations (SWS) last July 2020, where the jobless rate reached 45.5 percent, equivalent to around 27.3 million jobless individuals. The SWS noted that about half of the respondents lost their job/livelihood during the COVID-19 crisis, while the other half prior to the pandemic.

Figure 10. Adult Joblessness Rate 2019-2020 (in %)



Source: SWS

Hunger incidence increased. At least one out of every five Filipinos (20.9 percent), or about 5.2 million families have experienced involuntary hunger in the past three months, based on a survey conducted by the SWS in July 2020. This is a significant jump from 16.7 percent in May 2020 and 8.8 percent in December 2019 and is the highest recorded hunger rate since September 2014. The hunger rate was highest in the Visayas (27.2) followed by Mindanao (24.2 percent). It was also higher among households with low socio-economic status and educational attainment. The huge spike in hunger incidence follows another SWS survey showing that almost all respondent families (99 percent) admitted to having received food-help, with 88 percent of the aid coming from government.

Table 9. Self-Rated Hunger, 2019-2020

Period		Total	Moderate	Severe
2019	Mar	**9.5**	8.1	1.3
	Jun	**10**	8.7	1.3
	Sep	**9.1**	7.4	1.7
	Dec	**8.8**	7.3	1.5
2020	May	**16.7**	13.9	2.8
	Jul	**20.9**	15.8	5.1

Source: SWS

The pandemic will likely worsen poverty and inequality in the country. The country's poverty incidence has already dropped to 16.6 percent or 17.6 million poor Filipinos in 2018. The government's goal was to bring it down further to 14 percent by 2022, however, this target will likely be missed. In a recent study by the Philippine Institute for Development Studies (PIDS), it is estimated that the number of poor Filipinos can increase by 1.5 million to as high as 5.5 million because of the pandemic.[4]

The large scale job destruction could also worsen inequality as it usually disproportionately affects low-skilled labor and poorer households.[5] Unskilled workers not only have lower pay, but also fewer benefits such as health insurance and paid sick leaves. They are more likely to lose their jobs or experience pay cuts than skilled workers since the latter is more difficult to replace. Work-from-home arrangement is also not an option for low-skilled workers who are mostly on a no-work-no-pay basis. The latest PSA data in April 2020 showed that elementary occupations make up 27.8 percent of the total employed

[4] The PIDS assumes a (medium case) that in a scenario of an income decline of 10 percent across the entire income distribution, the number of poor Filipinos can increase by 5.5 million, but with the provision of emergency financial subsidies (i.e., the Social Amelioration Program and the Small Business Wage Subsidy Program) which target 90 percent of households, only 1.5 million would fall into poverty.

[5] Zhuang, J. (2020). Mind the gap in combating COVID-19. Retrieved from: https://www.adb.org/news/op-ed/mind-gap-combating-covid-19-juzhong-zhuang.

population.[6] Meanwhile, a recent online survey[7] showed that 80 percent of respondents from poor households reported that at least one household member was displaced while only 25 percent from rich households had reported job loss in their families.

Even in the imposition of public transportation restrictions, it is the poor who are worse off as they do not have their own vehicles necessary to commute to work or purchase essential goods. A mobile phone survey conducted by the SWS from May 4-10, 2020 found that 77 percent of the respondent households were adversely affected by the suspension of public transport and that such adverse effect was greater for 47 percent of the households that do not own any vehicle.

Likewise, as the country's educational system is forced to abruptly shift towards online and distance learning, the lack of access to digital learning resources could further widen the gap among the income classes. According to the Coordinating Council of Private Educational Associations of the Philippines (COCOPEA), 35 percent of the students in the country have no access to stable internet; 30 percent of the students have no access to both online and offline educational materials; and 50 percent are struggling to access online learning material due to weak connectivity. With education considered as the great equalizer of the conditions of people, the digital inequality stands to further deepen the divide between the poor and the well-off.

Moreover, pandemics tend to have more adverse impact on vulnerable groups such as women and the elderly. Unpaid care work has increased as women took on heightened care demands at home while the elderly had to contend with fragile economic security and higher risk of suffering from health complications associated with COVID-19.

Policy Implications: Transitioning the Economy Towards a Better Normal

In such a short time, the COVID-19 pandemic has upended the global and domestic economies. The Philippines' usual growth drivers such as consumption spending that is underpinned by the robust inflow of overseas Filipinos' remittances cannot be relied upon at this time to cushion the economy from the devastating impact of the pandemic. Moreover, the crisis appears to be amplifying and deepening pre-existing inequalities. Reviving the economy and steering it towards the new normal should hence include policies and programs that would prioritize the people, identify growth opportunities, and create an enabling environment for a more resilient and sustainable economy.

First, there should be a recognition that economic recovery depends largely on protecting public health. Even if the government relaxes the quarantine restrictions, both consumer and investor behaviors will likely remain precautionary if the risk of contracting the disease and the uncertainty about the course of the pandemic remain high. Thus, while waiting for the vaccine trials and approvals to be finished, the priority should be the continuous strengthening of the health system's capacity of the country. In the short run, this is through the continuous provision of adequate PPEs, medical equipment, and medicines to hospitals and health workers alongside more intensive efforts to stem the spread of the disease. While significant improvements have been noted particularly in terms of testing, contact tracing and suppression capacity remain weak. Decisions on quarantine transitions should also be data-driven and evidence-based.

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[6] Elementary occupations involve the performance of simple and routine tasks, which may require the use of handheld tools and considerable physical effort (PSA definition).

[7] Online survey conducted by PUBLiCUS Asia, Inc. and VOX Opinion Research, in partnership with Lightspeed Research/Kantar (Singapore) from May 5-8, 2020 with 1,000 Metro Manila residents aged 18 to 70 as respondents. Poor households are those with monthly income of PhP9,520 and below while richer households are those with monthly income more than PhP190,400.

Over the medium term, more resources would need to be directed towards implementing the Philippine Health Facilities Development Plan 2017-2022, which reveals a current gap[8] of 9,604 (23 percent) barangay health stations and 2,289 (44 percent) for rural health units and urban health centers. There are also several reform measures being proposed that will enable the country to improve its preparedness for similar crises in the future. For instance, a Senate bill that seeks to establish a Philippine Center for Disease Control and Prevention will strengthen the national response and preparedness for public health emergencies like pandemics. This would be a more fundamental and sustainable approach rather than creating an ad hoc inter-agency task force every time there is a public health emergency. A policy framework establishing a National eHealth System that will direct and regulate the practice of eHealth in the country, such as telemedicine, e-prescription, and other eHealth services, is also critical in providing an innovative alternative to in-person health care services.

Moreover, the government needs to have a long-term investment on research and development (R&D) to fund scientific research and training in the fields of public health and health science. This would enable the country to eventually develop its own effective and fit-for-purpose tools and technologies, such as vaccines, drugs, diagnostics, PPEs, and other medical supplies and devices. To address the shortage of healthcare workers, the government can look into establishing a Medical Reserve Corps that can be called into duty and automatically be given emoluments including hazard pay and special risk allowance. More concrete actions must also be taken to entice individuals into the health profession (e.g., medical scholarships, better working conditions, better pay, etc.). Furthermore, any corruption, particularly in the state health insurance firm Philippine Health Insurance Corporation (PhilHealth), should be dealt with strongly. The country's leaders will need to dissect what aspects of PhilHealth need to be reformed or strengthened to curtail corruption, enhance accountabilities and improve service delivery.

Second, stimulate the economy by significantly ramping up public spending especially on social services and infrastructure. The Senate and the House of Representatives recently ratified the Bayanihan to Recover As One Act (Bayanihan II) which allots PhP140 billion for COVID-19 response with a PhP25 billion standby fund. The said measure which is equivalent to roughly 0.7 percent of the GDP will provide support for the healthcare sector, MSMEs, low-income households, and employees, including OFWs who were displaced by the COVID-19 crisis. According to the DOF, Bayanihan II is the stimulus package that the government can afford. Other proposed legislative measures such as the Accelerated Recovery and Investments Stimulus for the Economy of the Philippines (ARISE) Bill which was passed by the House of Representatives would accordingly be unfundable and fiscally unsustainable.

Note that the economic managers are taking an optimistic stance and anticipating a quick, V-shaped recovery. However, some experts believe that given the extent and severity of economic damage, the resources devoted to COVID-19 response may not be enough. More fiscal power is needed not only to fight COVID-19 but to preserve jobs and mitigate the hardship of the people, particularly the vulnerable. Compared to the other 10 countries in the ASEAN, the Philippines' fiscal stimulus package is the fourth smallest at 5.7 percent of the GDP. Vietnam's stimulus package-to-GDP ratio is at 10.1 percent, Malaysia is at 22.1 percent, Indonesia is at 10.9 percent, and Thailand at 16.0 percent.[9]

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[8] Gaps are based on ideal ratio of 1 Rural Health Unit/Urban Health Center per 20,000 population; and 1 Barangay Health Station per barangay.
[9] Based on ADB data as of August 24, 2020. This does not yet include the Bayanihan II which is yet to be signed into law.

While it is understandable to be concerned about the impact of bigger spending to the deficit and the debt-to-GDP ratios, a premature turn towards fiscal austerity at this time may impede the recovery or cause a protracted downturn of the economy. An aggressive fiscal response during the crisis should also not be too alarming given the low interest rate environment which enables the government to service a higher level of public debt. A strategy proposed by Canlas (2020) is for the government to focus primarily on the appropriate structure of government securities and explore the feasibility of growing and exiting out of a large public debt using government financial instruments.[10] In this sense, the BSP can continue to finance the government for as long as it does not trigger an acceleration in inflation. That said, expenditures need to be managed more judiciously and with more transparency. Wasteful spending should be avoided and resources should be targeted to programs that would strengthen the healthcare and social protection systems.

The increasing incidence of hunger brought by the pandemic, especially among children, should be immediately addressed as it can result in the long-term and irreversible impact of stunting. Innovative measures to provide safety nets for the vulnerable workers should likewise be in place. In relation to this, there is a current legislative proposal to institutionalize the DOLE's Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers (TUPAD) or the emergency employment program as a social safety net. There is also the pressing need to make progress on the infrastructure program as most estimates of the output multiplier for public infrastructure are substantially higher than for any other fiscal intervention.

Third, continue to promote a modern, resilient and sustainable agriculture and push for the development of the rural sector. Agriculture proved to be COVID-19-proof in the first half of 2020 by posting a positive growth. However, while the pandemic has largely spared agricultural production, it has exposed the vulnerability of food supply chains that link the sector with consumers. This underscores the need to put greater emphasis on food availability, accessibility, affordability and sustainability as the country transitions to the new normal. Reshaping the agricultural system towards e-commerce and other agri-tech solutions will offer new opportunities particularly for smallholder farmers and fisherfolks. This would require investments to optimize the agricultural value chains, capacitate farmers and fisherfolks' digital skills and implement the government's programs on agricultural modernization, rural infrastructure, export promotion and promotion of clustering and cooperation. Food systems should also be made resilient and robust to withstand climate change and other emerging shocks. In terms of legislation, the most pressing issue would be to pass a National Land Use Act in order to protect prime agricultural lands from conversion. Passing a law to increase the capital stock of the Philippine Crop Insurance Corporation (PCIC) would better cater to the needs of small farmers and fisherfolks.

Fourth, accelerate the transformation to the digital economy. The current pandemic served as an impetus to accelerating the transition towards a digital economy as evidenced by the marked increase in the growth of information and communications technology (ICT) services in the first semester. Education, banking, retail and even governance are now shifting towards digital platforms in order to ramp up efficiency and productivity. However, in the latest World Competitive Yearbook of the Institute for Management Development (IMD), the Philippines ranked 40th (out of 63) in both the use of digital tools and digital transformation in firms and 52nd in digital skills. Moreover, even while the ownership of mobile phones is increasing, many owners are struggling with connectivity issues (weak/unreliable mobile signal), associated costs of ownership (e.g., data subscription), and security. Underinvestment in

[10] From the discussion paper by Dante B. Canlas entitled, What COVID-19 Hath Wrought and Debt Exit Options: A Note on Deficit Financing and Public Debt Management, University of the Philippines School of Economics (UPSE), June 2020.

internet network resulting from insufficient competition and an outdated policy and regulatory framework had led to the current state of internet in the country and addressing these concerns is important if digital adoption/transformation are to be pushed. The provision in the ratified version of the Bayanihan II which temporarily suspends certain permits for the installation and operation of telecommunications towers is a welcome development. The Senate could also look into other proposed legislative measures that would cultivate an enabling environment for private sector investments in ICT development such as the Open Access in Data Transmission Act which seeks to lower the barriers to entry for data-only service providers and the proposed amendments to Republic Act No. 7925 (Public Telecommunications Policy Act) which aims to strengthen the National Telecommunications Commission (NTC) as a regulator especially with respect to spectrum management and tariff setting.

Fifth and lastly, continue on the path of introducing structural reforms. Apart from monetary interventions and fiscal stimulus spending, consideration and enactment of policies that reduce the structural sources of inequalities (i.e., lack of competitiveness) must be pursued. In this light, the passage of the proposed amendments to the Foreign Investments Act and Public Service Act remains crucial.

The government is also pushing for the passage of the Corporate Recovery and Tax Incentives for Enterprise (CREATE) Act which immediately cuts the corporate income tax (CIT) rate from the current 30 percent to 25 percent and allows for the net operating loss incurred by small to medium enterprises to be carried over the next five years (instead of the current three-year period). However, some economists and fiscal experts have expressed their strong reservations to the proposal, and see it as ill-timed, inefficient and inequitable. It was argued that this proposed CREATE Law essentially subsidizes big businesses which will most likely use the savings from the tax cut to fix their balance sheets and not to expand operations or reinvest to contribute to a jobs-intensive recovery. In contrast, small unincorporated businesses get no tax relief even if they are hit harder by the pandemic, thereby increasing income inequality. It was also pointed out that this tax reform would lead to the loss of badly needed revenues to finance social amelioration programs that target the poor. The proposed imposition of indirect taxes that will accompany this CREATE Law is also viewed as more burdensome to low and middle-income families than to the more affluent classes. Perhaps a middle ground could be sought by providing some conditions (e.g., job preservation) upon which the cut on tax rates could be applied. It should be noted that not all incorporated businesses are large enterprises as defined by Republic Act No. 9501 (Magna Carta for MSMEs).

Attachment 1: List of Loans from Multilateral Agencies for 2020 NG Financing
(as of August 5, 2020)

Particulars	**Signing/Issuance Date**	**Amount (in US$ million)**
Budgetary Support Financing		
1. ADB COVID-19 Active Response and Expenditure Support (CARES) Program	April 23, 2020/ Effective: April 27, 2020	1,500.00
ADB Social Protection Support Project - Second Additional Financing	April 28, 2020/ Effective: May 5, 2020	200.00
2. WB Third Disaster Risk Management Development Policy Loan	April 10, 2020/ Effective: April 27, 2020	500.00
3. Republic of the Philippines (ROP) Bonds Due 2045 with 2.950 percent coupon	May 5, 2020	1,350.00
4. ROP Bonds Due 2030 with 2.457 percent coupon	May 5, 2020	1,000.00
5. WB Emergency COVID-19 Response Development Policy Loan	June 3, 2020/ Effective: June 19, 2020	500.00
6. ADB Support to Capital Market Generated Infrastructure Financing, Subprogram 1	June 4, 2020/ Effective: June 30, 2020	400.00
7. AIIB CARES Program	June 5, 2020/ Effective June 30, 2020	750.00
8. AFD Expanding Private Participation in Infrastructure Program, Subprogram 2	June 9, 2020	165.42
9. AFD Inclusive Finance Development Program, Subprogram 1	June 9, 2020	110.28
10. ADB Expanded Social Assistance Program	June 15, 2020/ Effective: July 21, 2020	500.00
11. JICA COVID-19 Crisis Response Emergency Support Loan	July 1, 2020	458.95
12. WB Social Welfare Development and Reform Project II-Additional Financing	November 28, 2019/ Effective: January 6, 2020	200.00
Project Loan Financing ● WB COVID-19 Emergency Response Project	April 28, 2020/ Effective: May 6, 2020	100.00
● WB Support to Parcelization of Lands for Individual Titling (SPLIT) Project	July 14, 2020	370.00
TOTAL		**8,104.65**

Source: DOF