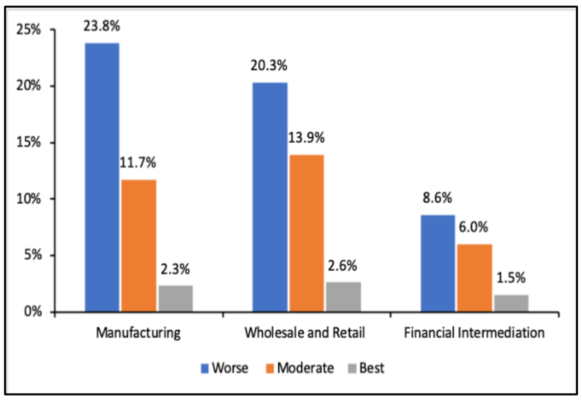
5 June 2020

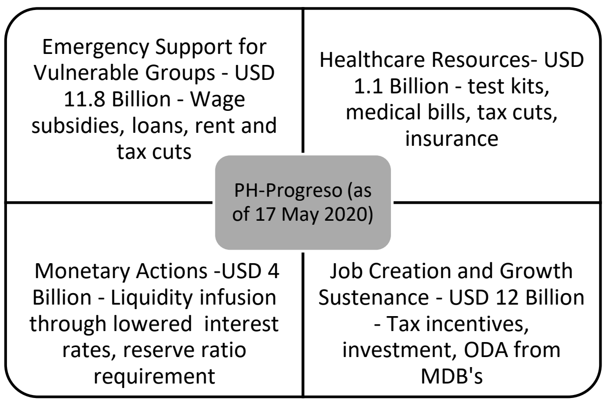
Country Insights – Covid 19 in Philippines

Fig 1: Projected losses in sectoral gross value added as % share of 2019 GVA



Source: *Philippine Institute for Development Studies*

Fig 2: Breakdown of PH-Progresa Stimulus Package



Source: *Philippines Department of Finance*

"The economic recovery would follow a U-shaped path in 2021, following a slowdown in the first quarter and contractions in the next two quarters of this year. The strong recovery is based on the assumption that the pandemic is contained in the second half of 2020."

Philippine Central Bank Governor Benjamin Diokno. April 25, 2020

Philippines enjoyed its position as one of the more booming ASEAN economies, with a growth rate estimate of 7% in 2020, that outpaced other regional high performers such as China and Indonesia. However, the high level of localised transmissions after its first case in January caused a turnaround of the nation's prospects. After one of the most severe and lengthy lockdowns (during which, the nation lost around US$ 21.8 Billion), Philippines' cases tallies up to 18,638 as of June 1st, with 960 deaths. This makes the nation third highest in terms of cases and second highest in terms of deaths within ASEAN. Currently, Philippines is in the third phase of its lockdown titled the 'general community quarantine' in place till mid-June, wherein some work places and public transport has been reinstated, though not a complete overhaul.

On the economic front, Philippines had been enjoying a twenty year growth trajectory, until the pandemic, which is estimated to cause a contraction of 0.2% this year, according to the Central Bank. Other GDP growth revisions are from 7% to 0.6% by the IMF, and 2% by ADB and the World Bank. S&P increased the unemployment estimate from 5% to 6.8, and the Labour Secretary stated that an additional 10 million people could lose their jobs, in addition to the 2.6 million who are already displaced.

Protecting Foreign Workers

As in other countries, the pandemic has patterned itself along existing social fissures, placing a heavier burden on the vulnerable. In Philippines, this comprises of the diaspora of 10 million Filipinos engaged in construction, cleaning and care duties across the world, who make up 10% of the country's population. Currently, about 100,000 of them are stranded abroad as flights come to a standstill, facing layoffs and in need of urgent repatriation. They are also unable to send remittances back, which comprise 10% of GDP, and help sustain their families (as lockdowns prevent them from accessing remittance services and they don't have bank accounts in their countries of employment). The Ateneo Centre for Economic Research and Development estimated Philippines' steepest remittance inflow drop ever, of US$ 6 billion, and warned of the spill over effect on consumption, which accounted for 70% of GDP in 2019. . Another group facing risks of falling through the cracks are 4.5 million slum-dwellers, who are turned away from food provision centres and unable to avail of cash handouts as they do not have registered addresses or bank accounts. A step in the right direction is the National Economic and Development Authority's plan to fast-track the national identification system in this phase of the lockdown, and bring in 5 million people into the national database this year, and 40 million each in the next two years.

PH-Progresa and Recovery Prospects

The Philippine Peso has been one of the most resilient currencies in the wake of the pandemic, and foreign reserves reached a record $89 billion in March, at a time when the capital flight was sending emerging currencies tumbling worldwide. As an oil importer, Philippines stands to benefit from the drop in prices, which could improve the goods account balance by about 1.4% of GDP, according to JP Morgan Chase. Central bank measures to support the national government's efforts include buying $5.8 billion worth of debt from the Bureau of Treasury under a three-month repurchase agreement, and selling $2.35 billion worth of bonds. However, this has worsened the deficit ratio, at its lowest in 20 years and amounting to 5.3% of GDP (up from 3.6% in 2019).ING estimates an overall trade deficit of $3.3 billion, as Philippines' top export of semiconductors and electronics fell due to supply chain disruptions stemming from China.

The Duterte administration has put forth a US$23 billion socioeconomic strategy, comprising 9% of GDP (Figure 2). As with other ASEAN nations, the plan includes several provisions for SME's, which make up 99.6% of all registered businesses and employ over 70% of the working population. Key aspects of the plan include a US$ 2 billion credit guarantee program for small businesses as well as a US$ 1 billion wage subsidy scheme. Adopting a policy stance similar to Malaysia and Indonesia, Philippines has also planned to stimulate recovery through accelerating the 'Build Build Build' program which aims to increase infrastructure investment in roads, communications and public works. This is to be financed through increased PPP, in addition to a $500 million loan from the World Bank, and $760 million loan from the Asia Infrastructure Investment Bank. Lastly, in order to prevent a current account deficit (estimated to be -2.6% of GDP), and to ensure availability of supplies to build the infrastructure, intra-ASEAN trade needs to be prioritized, as Duterte emphasized in the ASEAN Covid-19 Special Meeting in April .