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Navigating the COVID-19 Storm: Impact of the Pandemic on the Philippine Economy and Macro Responses of Government

Margarita Debuque-Gonzales



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CONTACT US:

RESEARCH INFORMATION DEPARTMENT
Philippine Institute for Development Studies

18th Floor, Three Cyberpod Centris - North Tower
EDSA corner Quezon Avenue, Quezon City, Philippines

publications@pids.gov.ph
(+632) 8877-4000

<https://www.pids.gov.ph>

Navigating the COVID-19 Storm:
Impact of the Pandemic on the Philippine Economy
and Macro Responses of Government

Margarita Debuque-Gonzales

PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES

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Abstract

The Philippines entered its deepest recession in post-war history in 2020, with output declining by 9.6 percent. Coming up with a strategy on how to best manage the economy and deal with the fallout of the public health shock, especially on the weaker segments of society, became the biggest challenge of the country's economic policymakers. This chapter/paper looks more closely at that episode, dissecting the macroeconomic impact of the coronavirus, viewing it up close through its impact on households and firms, and then chronicling and reviewing the macroeconomic policy responses of government. It ends by summarizing the lessons to carry and the options on the path forward—for the near future, as the country continues to struggle with the pandemic, and for when it enters a more normalized (post-pandemic) world.

Keywords: COVID-19 pandemic, public health shock, macroeconomic impact, macroeconomic policy response, Philippine economy

Table of Contents

1.	Introduction	1
2.	Impact of the COVID-19 pandemic on the Philippine economy	2
2.1.	Policy stringency and community mobility	2
2.2.	The macroeconomic effects of the pandemic standstill	5
3.	COVID-19 crisis in perspective	26
3.1.	Economic and financial vulnerability across crisis episodes	26
3.2.	Pandemic crisis policy primer	30
4.	Government’s macroeconomic response to the COVID-19 crisis	34
4.1.	Monetary policy response	34
4.2.	Fiscal policy response	38
5.	Reviewing the monetary-fiscal policy combination	42
5.1.	Pushing on a string?	46
5.2.	A hard fiscal push	49
6.	The path forward	51
6.1.	Lessons from the literature	52
6.2.	The new fiscal consensus?	53
6.3.	Looking ahead	55
7.	Bibliography	58

List of Tables

Table 1. Change in household spending and consumer prices during the COVID-19 pandemic	12
Table 2a. Year-on-year change in employed workers (level* and percent), by industry	16
Table 2b. Year-on-year change in employed workers (level* and percent), by occupation	17
Table 2c. Year-on-year change in employed workers (level* and percent), by class of worker	18
Table 3. Economic and financial vulnerability of the Philippine economy in different crisis periods, 1988-2020	28
Table 4. Philippine credit ratings	45

Table 5. National Government Disbursement Performance (in billion pesos)	51
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List of Figures

Figure 1. COVID-19 timeline in the Philippines.....	2
Figure 2. Stringency index in ASEAN-5 countries.....	3
Figure 3. Community mobility and stringency indexes in the Philippines.....	4
Figure 4. Historical GDP performance	5
Figure 5. Historical GDP performance, production	6
Figure 6. Historical GDP performance, spending	7
Figure 7. Cash remittances of overseas Filipinos	7
Figure 8. Contribution of net exports to GDP growth	8
Figure 9. Headline inflation and official inflation target.....	10
Figure 10. CPI subindexes — rice, electricity, gas, and other fuel prices	10
Figure 11. Jobs picture in Asia.....	14
Figure 12. Philippine employment indicators	15
Figure 13. Job loss by sector, World Bank household survey (August 2020).....	20
Figure 14. Income loss by sector, World Bank household survey (August 2020).....	20
Figure 15. Percentage of households with savings, BSP Consumer Expectations Survey.....	21
Figure 16. Cash flow availability by sector, World Bank firm survey (July 2020).....	22
Figure 17. Funding access by sector, World Bank firm survey (July 2020)	23
Figure 18. Employment impact by sector, World Bank firm survey (July 2020).....	23
Figure 19. Business outlook of firms by size of employment	24
Figure 20. Employment of Philippine enterprises, ADB surveys.....	25
Figure 21. Financial condition of Philippine enterprises, ADB surveys	26
Figure 22. Monetary policy responses of the Bangko Sentral ng Pilipinas	37
Figure 23. Fiscal responses	41
Figure 24. Monetary policy responses of Asian economies.....	43
Figure 25. Fiscal policy responses of Asian economies	44
Figure 26. Production and consumer loans, Philippine banking system.....	47
Figure 27. Financial conditions index, Philippines	47
Figure 28. Senior Bank Loan Officers' Survey on credit standards	48
Figure 29. BSP's reverse repurchase and deposit facilities.....	48
Figure 30. Senior Bank Loan Officers' Survey on credit demand	49
Figure 31. Emerging fiscal picture in the COVID-19 period	50
Figure 32. Philippine debt ratio	54
Figure 33. Debt Sustainability Analysis by the DBCC.....	55
Figure 34. Non-performing loans ratio, universal and commercial banks	56

Navigating the COVID-19 Storm: Impact of the Pandemic on the Philippine Economy and Macro Responses of Government

Margarita Debuque-Gonzales*

1. Introduction

The Philippine economy had been growing steadily, at above 6 percent annually for eight solid years, when the COVID-19 pandemic shock hit the world and the world economy. In terms of macro fundamentals—still quite healthy growth, well-managed inflation, benign interest rates, and a strong fiscal position—the country seemed relatively invincible to economic surprises. But this crisis was a different one, as it involved a public health shock that necessitated strong public health measures, which in the case of the Philippines came in the form of stringent lockdowns and prolonged quarantines.

Unlike some of its Asian neighbors, which had bouts with SARS in 2003 and the avian and swine flu in the years after, the Philippines had little experience in handling epidemics. The public healthcare system was therefore much less prepared to deal with a highly contagious virus such as COVID-19. The Philippines was also particularly vulnerable to a pandemic shock, and the strict measures ultimately required to deal with the disease, because of the way the economy was structured—a large share of services in terms of output, a large share of household consumption in terms of demand, and a reliance on remittances. Remittances had served as steady engines to the economy these past years, remaining exceptionally strong through more recent crises. However, many overseas Filipino workers proved vulnerable to the effects of the pandemic on mobility and social interaction across the globe and the resulting economic weakness.

In 2020, as a result, the Philippines entered its deepest recession in post-war history, with output declining by 9.6 percent. Coming up with a strategy on how to best manage the economy and deal with the fallout of the public health shock, especially on the weaker segments of society, became the biggest challenge of the country's economic policymakers. This chapter looks more closely at that episode, dissecting the macroeconomic impact of the coronavirus, viewing it up close through its impact on households and firms, and then chronicling and reviewing the macroeconomic policy responses of government.

The next section (Section 2) discusses the impact of the COVID-19 crisis on the Philippine economy by first looking at the stringency of the country's public health measures and their relationship with community mobility, which are indicative of economic activity, then at the effect of the pandemic based on more traditional macroeconomic performance indicators. It additionally reviews the available surveys for a deeper understanding of how the public health crisis has affected Filipino households and businesses.

Section 3 puts the current recession in perspective by looking at economic and financial vulnerability indicators of the country across crisis episodes. A COVID-19 policy primer is put together based on the literature; this summarizes the best analyses of the pandemic crisis as well as the emerging consensus on the appropriate policies for a pandemic recession, particularly for a developing economy. Section 4 chronicles the monetary and fiscal responses

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of the country’s policymakers to the COVID-19 crisis, while Section 5 reviews the monetary-fiscal policy combination. Section 6 closes the chapter by looking at the path ahead, presenting options for a way out as the country continues to struggle with the pandemic and for when it enters a post-pandemic world.

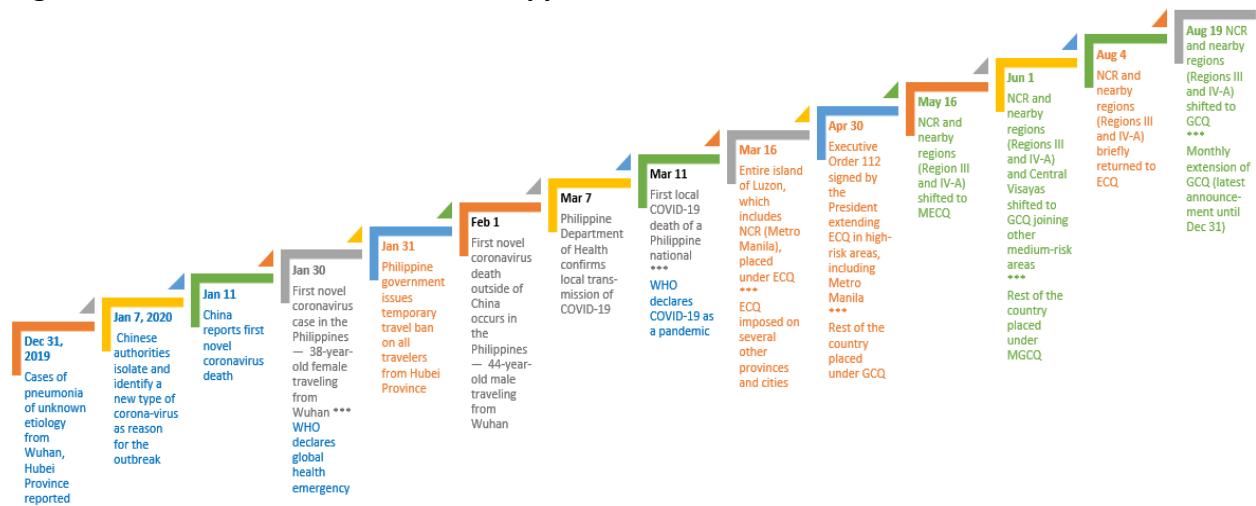
2. Impact of the COVID-19 pandemic on the Philippine economy

Since the COVID-19 crisis is an unprecedented one, the section first looks at the impact of stringent public health restrictions on people’s mobility, to better understand the depth, scope, and possibly long duration of the pandemic recession. The section then provides a comprehensive view of the effects of the COVID-19 shock on the Philippine economy, focusing on more traditional macroeconomic indicators. Finally, the discussion zooms in on the basic units of the economy—the country’s households and firms—for a deeper awareness of the adverse outcomes of the ongoing crisis.

2.1. Policy stringency and community mobility

As the pandemic timeline shows (Figure 1), a large part of the country had been in partial quarantine since the middle of March 2020. There were recurrent lockdowns, particularly in the country’s major economic zones—the national capital region (NCR) and neighboring areas (Regions III and IV-A). These three regions are crucial to the overall economy, as they account for nearly three-fifths of the country’s gross domestic product (GDP).

Figure 1. COVID-19 timeline in the Philippines



ECQ = enhanced community quarantine; GCQ = general community quarantine; MECQ = modified ECQ; MGCQ = modified GCQ; NCR = National Capital Region (Metro Manila).

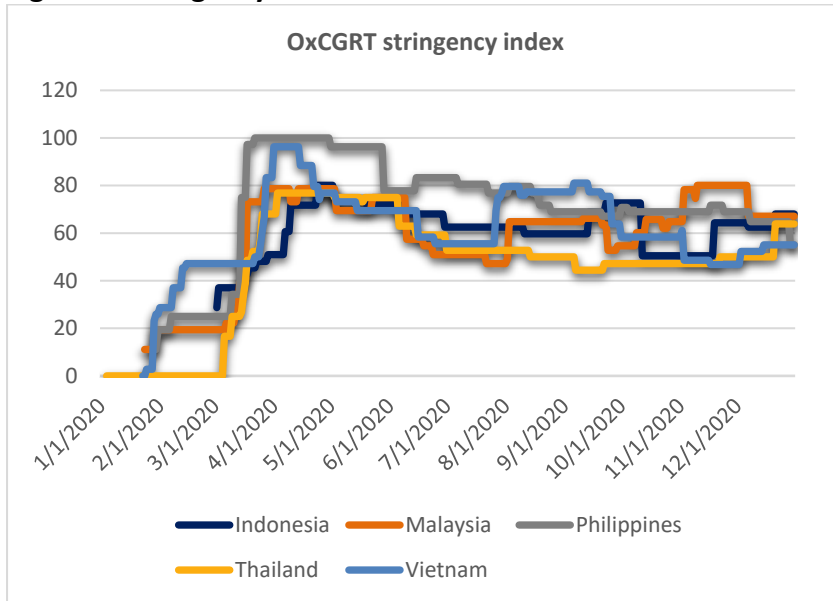
Sources: Congressional Research Service (2020); Chua (2020); Pajaron (2020)

NCR (or Metro Manila), Region III (Central Luzon), and Region IV-A (CALABARZON) were placed in a tightly enforced enhanced community quarantine (ECQ) in mid-March 2020, shifted to a more lenient modified ECQ (MECQ) in mid-May, and then moved to a looser general community quarantine (GCQ) by June. They were reverted to an ECQ on August 4 after medical workers asked for a reprieve from a rising number of cases, then immediately shifted back to a GCQ on August 19. As of time of writing, the three regions were slated to

remain under GCQ until January of 2021, for a total quarantine duration of greater than nine months.

While more lenient than an ECQ, which restricted movement of people and required temporary closure of non-essential businesses, the GCQ in its present form still meant some enterprises must stay shuttered or operate at less than full capacity.¹ Foreign travelers are still mostly banned, and an important segment of the population must remain at home (i.e., minors below 15 years of age), limiting a recovery of demand.

Figure 2. Stringency index in ASEAN-5 countries



OxCGRT = Oxford COVID-19 Government Response Tracker
 Source: Hale et al. (n.d.)

The Oxford COVID-19 Government Response Tracker (OxCGRT) stringency index reflects the severity of the public health measures that had to be put in place to contain the virus in the country (Figure 2). OxCGRT records the “strictness of ‘lockdown style’ policies” that constrain people’s behavior. It considers indicators such as school, workplace, and public transport closures; restrictions on the size of gatherings, domestic movement, and international travel; cancellation of public events; and shelter-in-place requirements (Hale et al. 2020).

Among the ASEAN-5 economies, the Philippines implemented the harshest set of measures at the height of the pandemic crisis in the region based on this index. It was followed closely by Vietnam, though with vastly different public health and economic outcomes.

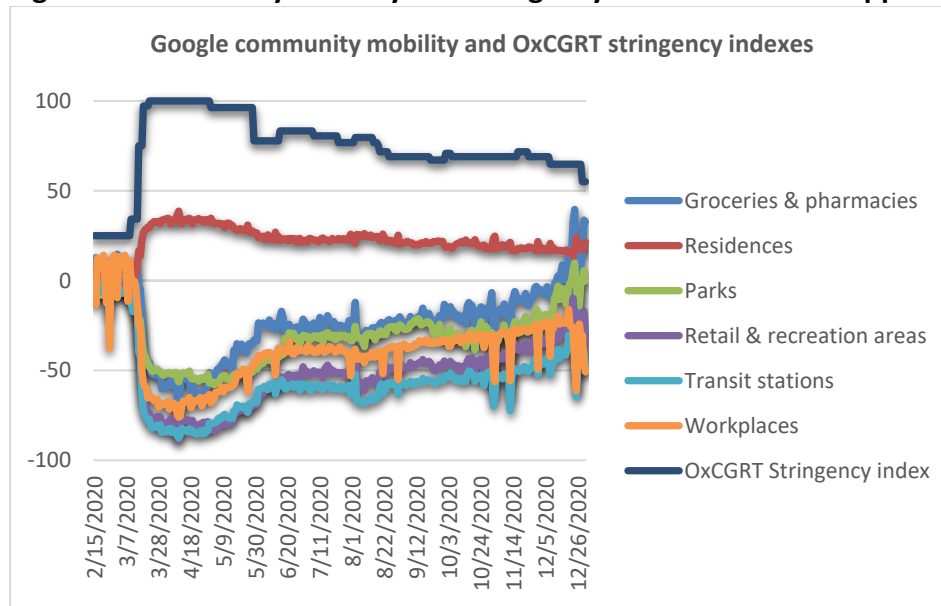
Google’s COVID-19 community mobility indicators based on the location of cell-phone users in the country mirror the effect of these stringent policies on the population (Figure 3). Community mobility indicators have been increasingly used as a proxy for economic activity,

¹ Restrictions on non-leisure business activities were increasingly relaxed under DTI Memorandum Circulars 20-52 and 20-57 in October and November, respectively, but capacity restrictions on a number of establishments and activities remain. For areas under GCQ, those allowed to operate at up to 75-percent capacity include barbershops and salons; businesses offering personal care and aesthetic services; gyms/fitness studios and sports facilities; testing, tutorial, and review centers; internet cafes; and pet grooming centers. Malls remain limited to non-leisure activities, while dining establishments can only operate up to 50-percent capacity (or higher, depending on physical distancing protocols) for their dine-in services. Category IV industries—such as language, driving and performance schools; cinemas and theaters; tourist destinations; and live events—are still not allowed under ECQ, MECQ, and GCQ, and permitted to operate only until half capacity under MGCQ.

albeit not a perfect one (Economist 2020). As expected, based on the graph, the OxCGRt stringency index is positively correlated with the mobility indicator corresponding to residences ($r=0.96$) and negatively correlated with transit stations (-0.96), retail and recreation (-0.95), workplaces (-0.92), parks (-0.88) and groceries and pharmacies (-0.82).

With many communities under ECQ beginning March 16, visits to (or time spent in) the usual spots for Filipino consumers and workers instantly fell relative to the pre-crisis baseline—by a range of 38 percent (for groceries and pharmacies) to 72 percent (for transit stations) by the third day of lockdown (March 18). Social distancing peaked in mid-April when the number of deaths appeared to ratchet up in the Philippines and worldwide.

Figure 3. Community mobility and stringency indexes in the Philippines



OxCGRt = Oxford COVID-19 Government Response Tracker

Source: Google (n.d.); Hale et al. (n.d.)

Note: The Google community mobility dataset shows how visits and length of stay at the above-specified places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period from January 3 to February 6, 2020. The series are seasonally adjusted by the author (for 7-day period).

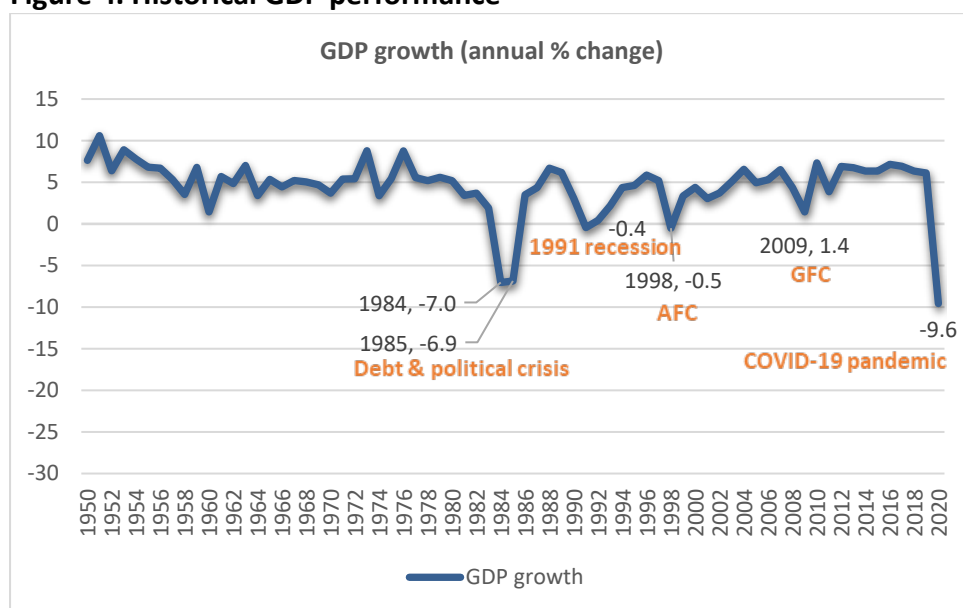
Failure to regain pre-crisis mobility even after a shift to GCQ in June likely traced to closure (full or partial and temporary or permanent) of malls and shopping centers, lack of public transportation, and extended stay-at-home orders for those below 21 years of age and 60 years and older, which was well over half of the relevant population. The country inched closer to pre-crisis mobility after restrictions were relaxed in mid-October for those between 15 and 65 years of age.

Movement however only normalized by December for certain locations such as groceries, pharmacies, and parks, but remained limited for workplaces, retail and recreation areas, and transit stations. This reflects continued stringency of containment measures but also suggests sustained social distancing of Filipinos, whether by choosing to work at home, switching to online-based shopping and dining, or staying at home and exercising stronger consumer restraint, because of lack of money or persistent fear.

2.2. The macroeconomic effects of the pandemic standstill

Protracted and strict lockdown policies, which centered on the country's key economic regions, coupled with a dip in remittances (as the pandemic also battered economies around the globe), inevitably took a heavy toll on economic activity. With the Philippine economy essentially frozen for several months, real GDP fell by 9.6 percent in 2020, pushing the country into its deepest recession so far in the post-war period (Figure 4).

Figure 4. Historical GDP performance



AFC = Asian financial crisis; GFC = global financial crisis.

Source: Philippine Statistics Authority (various years)

2.2.1. Rare collapse in services

The decline in services (by 9.2%) was an unusual event historically, with the last declines seen during the mid-1980s (-6.1% in 1984 and -1.9% in 1985), when a debt and political crisis simultaneously occurred (Figure 5). The sector then accounted for less than half of the economy. It has grown steadily through the years, to over 60 percent of GDP, providing a dependable buffer during the Asian financial crisis (AFC) and the global financial crisis (GFC) of 1997/1998 and 2008/2009.

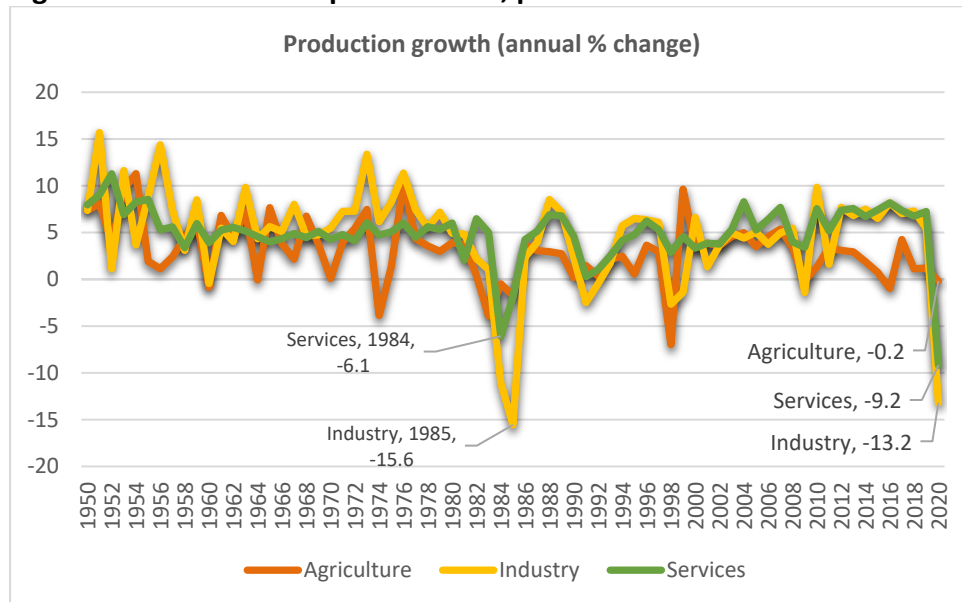
Having a large service sector, however, made the country particularly susceptible to a pandemic shock. The direct share of tourism and transport, the most hobbled by mobility restrictions, amounted to almost 9 percent of GDP, according to IMF estimates (2020b). In the national income accounts, the four subsectors that were conspicuously hit by the COVID-19 pandemic because of the quarantines and social distancing by consumers—accommodation and food services, entertainment and recreation services, transport and storage, and wholesale and retail trade—accounted for over a fourth of GDP. Gross value-added (GVA) of these subsectors declined by nearly 16 percent on aggregate.

Monetary easing, public spending, and some demand substitution held up growth in certain service subsectors during the pandemic. Financial services, despite a drop in insurance GVA (by 8.5 %), still strengthened by around 5.5 percent in 2020, owing to about a 12.3-percent

increase in activity among banks. The latter especially benefited from the expansionary measures of the Bangko ng Sentral ng Pilipinas (BSP), as declines in the short-term interest rate generated trading gains and widened interest margins. Government services and information and communication services both grew by 4.6 percent and 5 percent respectively during the period, with the latter likely sustained by a widespread shift to online and digital platforms.

Industrial output still fell the hardest in this pandemic recession (by 13.2%), like most other crisis episodes, mainly because of a decline in GVA in construction and manufacturing (by about a fourth and a tenth of the previous year's output, respectively).² Activity had been temporarily suspended in these subsectors during the initial ECQs. Only producers of essential items such as medicines, medical supplies and equipment, and basic food were allowed to operate under the lockdowns, though more industries were allowed to run at full capacity in the shift to GCQ in June and in succeeding months.

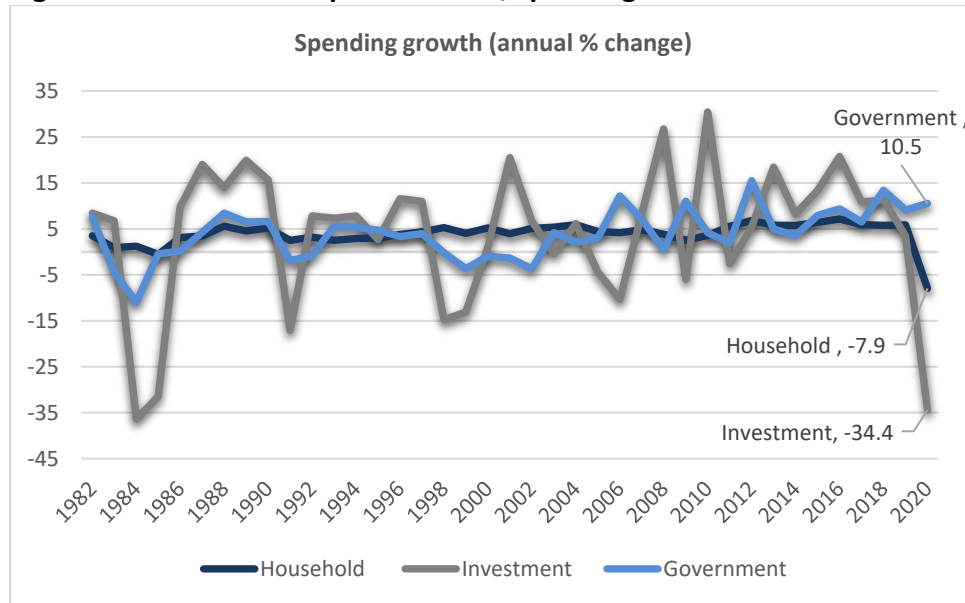
Figure 5. Historical GDP performance, production



Source Philippine Statistics Authority (various years)

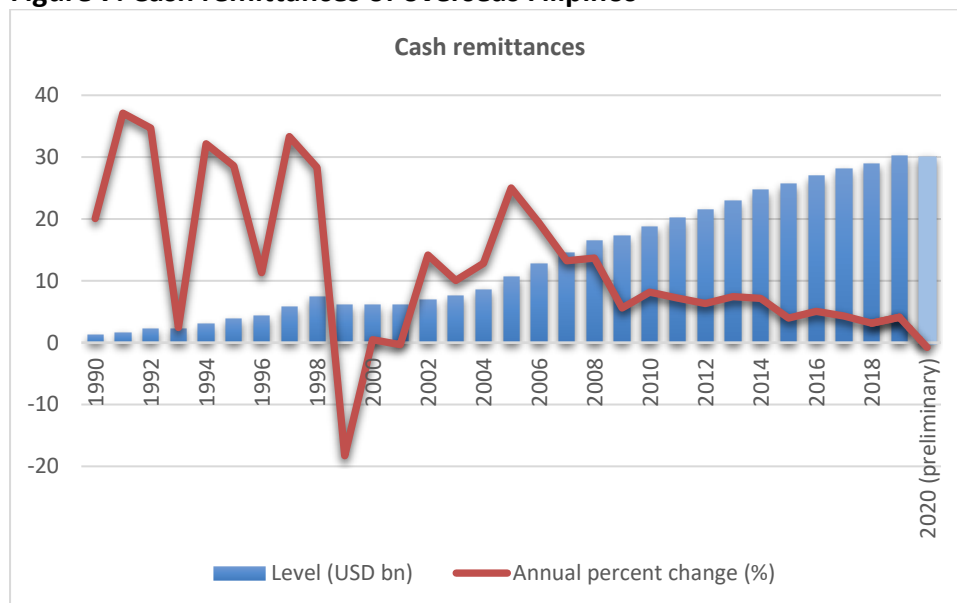
² Mining and quarrying output also fell by 18.9 percent.

Figure 6. Historical GDP performance, spending



Source: Philippine Statistics Authority (various years)

Figure 7. Cash remittances of overseas Filipinos



Note: Personal remittances are the sum of net compensation, personal transfers, and capital transfers between households. Cash remittances are remittances coursed through banks.

Source: Bangko Sentral ng Pilipinas (various years)

2.2.2. Breakdown in household spending

The environment created by the pandemic precipitated a broad decline in household spending (by 7.9%), which has again seldom happened in the country's history (Figure 6).³ Household consumption, which accounted for over 70 percent of aggregate demand, held steady through most crisis episodes, except for the mid-1980s (though dipping by just 0.5% in 1985). It had been supported by remittances from overseas Filipinos, who had provided substantial external

³ The only sectors that saw some growth were either necessities or substitutes: food and non-alcoholic beverages (5.0%); housing, water, electricity, gas, and other fuels (5.8%); communication (6.1%); and miscellaneous goods and services (1.4%).

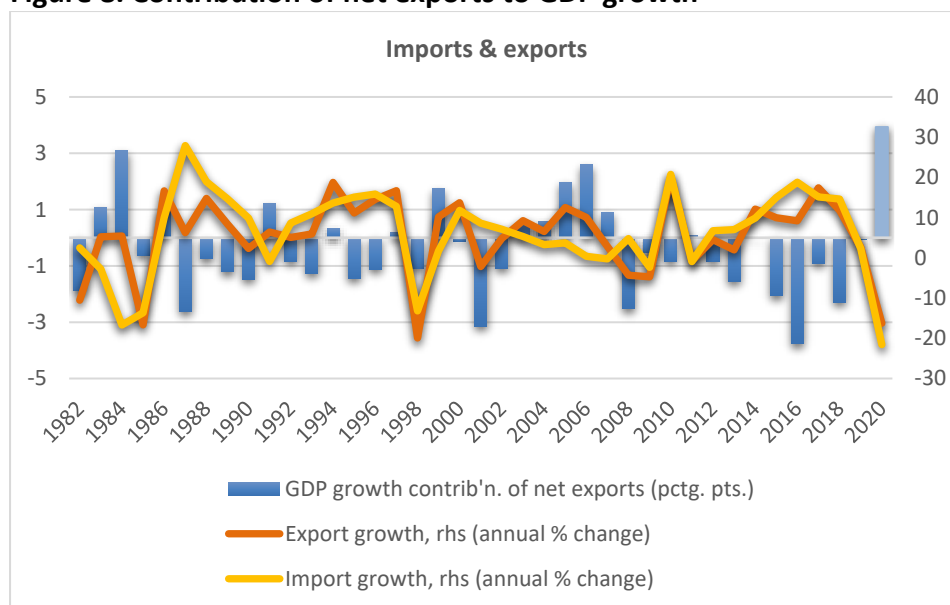
funding for many households since the 1990s. Cash remittances surged in the early 1990s, plummeted in 1999, but had been fairly stable since the 2000s, managing to rise through the turmoil of the GFC (Figure 7). They amounted to about 9 percent of GDP on average in the past decade.

Yet mobility restrictions and the corresponding loss of jobs and income at home and in foreign countries during the COVID-19 crisis unhappily coincided to narrow the opportunities for personal spending as well as bring down funding for such spending. Remittances fell by about 1 percent annually, squeezing household incomes.

The largest declines in household spending were seen in the case of items that stores were barred from selling during the lockdowns, such as alcohol (down by a fourth), or purchases in sectors with high social contact such as recreation and culture and in restaurants and hotels (down by over 40%). Transport spending also fell during the period (by a third), as transport services were suspended and households, facing an indeterminate future, held off on the purchase of vehicles. Some of these are of course the analogues of what we saw earlier in relation to output of the services sector. Altogether, these spending contractions took away 5 percentage points from GDP growth.

Heightened uncertainty over the nature and path of the COVID-19 pandemic naturally contributed to a sharp decline in investment (by 34.4%), which had already started to lose steam during the previous year. The sharpest drops were in durable equipment and construction (in both private and public projects). This fed into a decline in imports of industrial machinery and transport equipment and, combined with a fall in oil purchases due to mobility restrictions and business closures, to a narrower trade deficit. With imports of goods dropping faster than exports, overall trade has oddly contributed positively to GDP growth in 2020 (Figure 8).

Figure 8. Contribution of net exports to GDP growth



Source: Author's computations; Philippine Statistics Authority (various years)

A smaller goods trade shortfall, by offsetting the weakness in services trade (especially in tourism) and remittances, has allowed the country to record consistent current account

surpluses since April of 2020, after a string of deficits since 2016.⁴ This in turn has generated bigger balance-of-payments (BoP) surpluses, which already amounted to USD 16 billion in December. Dollar loan inflows from financing agreements inked by the national government to support the country's COVID response have also temporarily bolstered the BoP.⁵ Gross international reserves thus rose to a high of USD 110 billion by December, fueling an appreciation of the peso-dollar exchange rate. A rise in the value of the domestic currency in the middle of a recession has been a unique element of the COVID-19 crisis in the country, though the risk of reversal is high.

The Philippine government initially responded to the pandemic by realigning the national budget towards relief, as allowed by the Bayanihan to Heal as One Law (Republic Act [RA] 11469 or Bayanihan I) enacted on March 24. The intention was to lessen the harmful effects of the ECQs on low-income households, protect vulnerable and displaced workers, and intensify medical response measures. These outlays bumped up government spending by about 21.8 percent in the second quarter of 2020, but the momentum quickly weakened to 5.8 percent and 4.4 percent by the third and fourth quarters.⁶

2.2.3. Mixed impact on Inflation

Inflation remained stable and within target during the COVID-19 crisis, despite initial concerns about supply limitations during the lockdowns (Figure 9). Two distinct factors were responsible for low inflation during the year. The first was the impact of a new law that removed quantity restrictions on rice imports and replaced the quotas with tariffs (RA 11203 or the Rice Tariffication Law). By expanding rice supply, this change in policy led to a softening of rice prices immediately after it was implemented in March of 2019, an effect expected to be seen for at least a full year (Figure 10). The other was the collapse in world oil prices at the beginning of 2020, as global demand weakened due to the pandemic.⁷

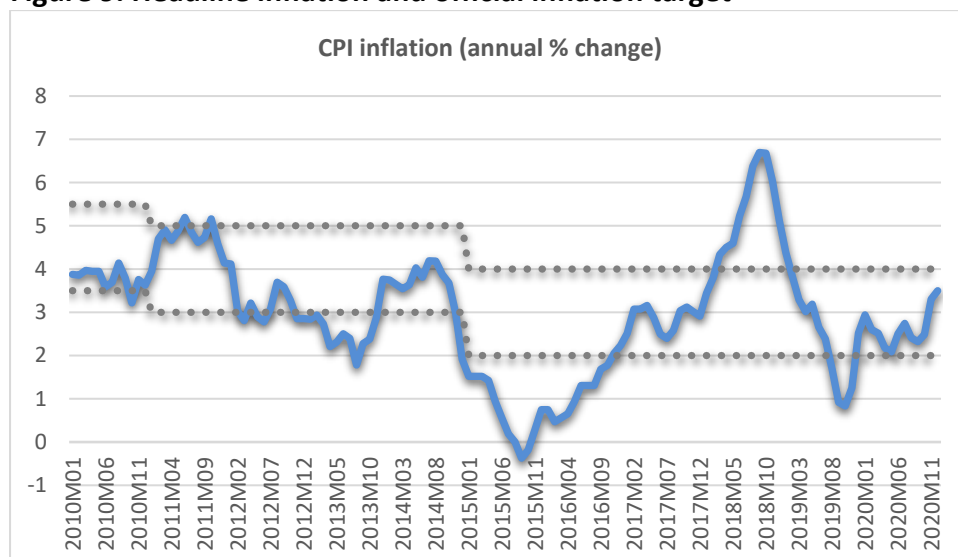
4 Oil imports, which account for over a tenth of the value of total imports, also halved during the year (down by 45.7% annually). A drop in oil prices due to a pandemic-induced collapse in global demand contributed to the observed shrinkage of the oil bill. The price of Dubai Fateh, the benchmark for Asia, fell from about USD 63.8 per barrel at the start of the year to below USD 39.7 per barrel by October (IndexMundi n.d.).

5 These official loan inflows offset outflows in the financial account from portfolio money and reversals of trade credit and short-term loans. The exit of funds mostly occurred in the first quarter as uncertainty heightened because of the pandemic. Financing agreements inked by the national government to support the country's COVID response have amounted to USD 13.4 billion as of writing.

6 The lower figure in the fourth quarter of 2020 was partly due to base effects, as government greatly accelerated spending during the same quarter last year. Catchup spending traced to delays in the approval of the 2019 national budget.

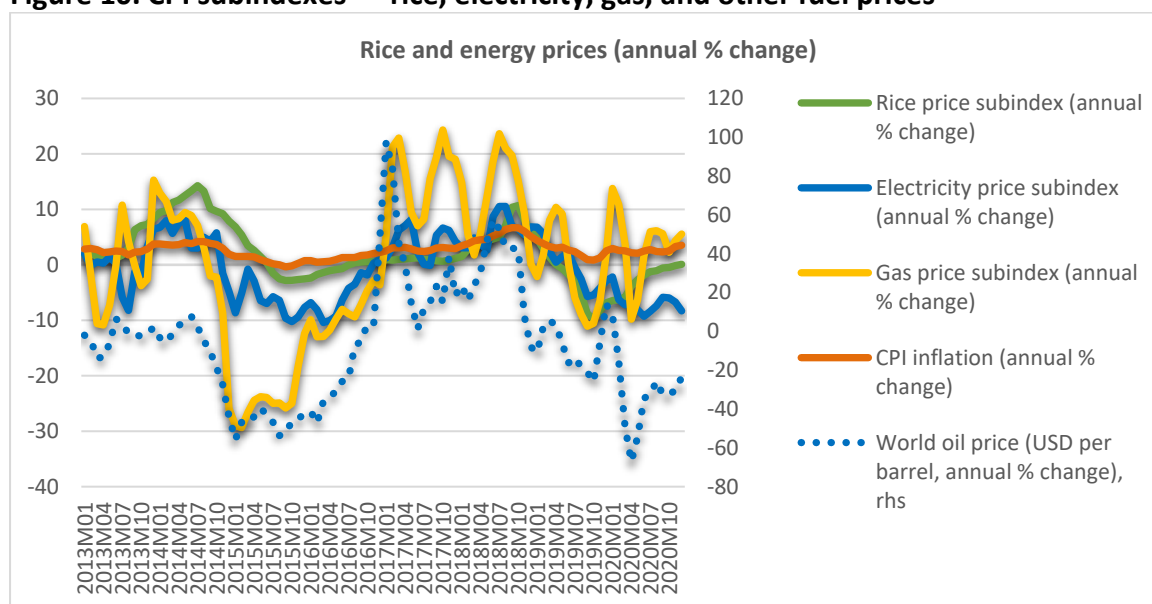
7 Rice accounts for 9.6 percent of the consumer basket in the Philippines, while electricity, gas, and other fuels account for 7.4 percent.

Figure 9. Headline inflation and official inflation target



Note: Dotted line refers to the official inflation target of 3% \pm 1 percentage point.
Sources: Philippine Statistics Authority (various years); Bangko Sentral ng Pilipinas (2020)

Figure 10. CPI subindexes — rice, electricity, gas, and other fuel prices



rhs = right-hand side

Note: World oil prices are represented by Dubai Fateh, the benchmark for Asia.

Sources: Philippine Statistics Authority (various years); IndexMundi n.d.

Table 1 shows that a decline in rice and electricity prices aided by peso appreciation and a slowdown in gas prices brought down headline inflation during the period from January to November, by nearly 0.8 of a percentage point (see Column 6). This more than offset price increases due to new excise taxes on petroleum and mineral products (including on coal), alcohol, and tobacco.⁸

Setting aside these two factors, the impact of COVID-19 on domestic inflation has been more diverse, reflecting the complexity of the pandemic-induced crisis, a mix of both supply and

⁸ Such were changes based on RA 10963 (TRAIN Law) and RA 11467, a sin tax law signed in January of 2020.

demand shocks. Without yet launching a full econometric investigation to determine the nature of shocks hitting the economy, one can roughly identify which type of shock predominates in different sectors by simply looking at how they have affected prices in those sectors. In industries that faced a collapse in household consumption simultaneous with a jump in prices, one can surmise that supply shocks have been dominant. In contrast, industries that experienced a synchronized drop in household spending and prices likely confronted mostly negative demand shocks.

Column 1 of Table 1 summarizes the changes in household consumption in the quarters during and immediately after the ECQs, while Columns 11 and 12 provide different ways of presenting the corresponding changes in the price environment. The decline in inflation in restaurants and hotels, recreation and culture, and clothing and footwear together with the free fall in spending in those industries clearly indicate demand has disproportionately plummeted. A similar trend has occurred in the education sector, where spending and inflation also dropped during the pandemic. This was prevalent at the pre-school and primary levels, with many learners needing to stop schooling because of a lack of income and access to online education or to shift to the public school system.

Meanwhile, the transport sector, where public health rules continued to limit operations and constrict capacity, has clearly been dominated by a supply shock. Inflation in transport services, particularly passenger transport by roads, which accounts for over 4 percent of GDP, accelerated after the ECQs were removed and workers increasingly allowed to report for work.⁹ In presenting third-quarter GDP statistics, economic managers noted how the public transport system had been able to accommodate only about a third of workers in the NCR because of social distancing rules and a paucity of public transport operators.¹⁰

Recessionary forces still appeared to hold sway in certain parts of the economy based on fourth-quarter CPI, but the risk of stagflation has seemingly increased. However, depressed demand cascading across sectors should help limit headline inflation, even as the downward pull of the rice tariffication law on headline inflation diminishes, world food prices rise, and supply constraints remain in some areas.¹¹ Meanwhile, COVID-19 persistence may help restrict the rise in world oil prices, and in turn domestic electricity and fuel prices, even as economic recoveries in areas that have been able to control the virus or launch a strong stimulus response (e.g., China and the US) exert upward demand pressure.

9 In the beginning, only tricycles, rail systems, and modern jeepneys with higher fares were allowed to operate in Metro Manila after the ECQ. Traditional jeepneys were allowed to resume services a month after, on July 3.

10 This is based on a Joint Statement of the Duterte Administration's Economic Managers issued on November 10, 2020, along with the release of the third-quarter national income accounts statistics. See <https://www.neda.gov.ph/29336-2/> (accessed on November 11, 2020).

11 There is still the risk of food prices escalating due to supply factors, with Asian swine flu for instance still having an impact on pork prices.

Table 1. Change in household spending and consumer prices during the COVID-19 pandemic

	(1) Ann. chg. in HH spending ^a (%)	(2) CPI weights	(3) 2018 inflation	(4) 2019 inflation	(5) 2020 M1 to 11 infl.	(6) Contrib. to 2020 M1 to M11 inflation (ppt)	(7) Q1 inflation	(8) Q2 inflation	(9) Q3 inflation	(10) Q4 inflation	(11) Q3 minus Q1 infl. (ppt)	(12) M9 minus M2 infl. (ppt)
Household consumption	-12.3	100.0	5.2	2.5	2.6	2.6	2.7	2.3	2.5	3.1	-0.2	-0.3
FOOD & NON-ALCOHOLIC BEVERAGES	4.6	38.3	6.8	2.1	2.5	1.0	2.3	3.0	1.9	3.7	-0.4	-0.6
Food		35.5	6.7	1.8	2.6	0.9	2.3	3.0	1.9	3.8	-0.4	-0.6
*bread & cereals		13.5	5.2	-1.5	-1.4	-0.2	-4.0	-1.4	-0.1	0.3	3.8	4.1
rice		9.6	5.7	-2.9	-2.8	-0.3	-6.2	-2.8	-1.0	-0.2	5.2	5.7
corn		0.6	9.9	-2.5	-1.0	0.0	-2.3	-0.2	-0.5	-0.8	1.8	1.7
Other cereals		3.3	2.8	3.3	2.5	0.1	2.6	2.6	2.4	2.1	-0.2	-0.4
*meat		6.2	6.2	3.5	3.8	0.2	3.0	2.7	4.0	7.6	1.0	0.0
*fish & seafood		5.7	12.1	4.2	6.4	0.4	9.3	8.0	3.0	4.1	-6.3	-6.0
*dairy & eggs		3.1	2.5	2.8	3.0	0.1	3.4	3.5	2.9	1.9	-0.4	-1.0
*oils & fats		0.8	4.0	2.4	1.9	0.0	1.0	2.0	2.4	2.6	1.4	1.4
*fruit		1.4	5.4	5.4	8.3	0.1	8.7	11.1	7.2	5.5	-1.5	-1.9
*vegetables		2.6	10.5	4.2	5.3	0.1	8.1	7.4	-0.9	11.3	-9.0	-10.5
*sugar, jam, honey, etc.		1.0	4.8	1.5	-0.6	0.0	-1.7	-0.8	0.1	0.3	1.8	1.9
*other food		1.1	3.7	5.8	6.0	0.1	6.8	6.6	5.3	4.2	-1.5	-1.4
Products												
Non-alcoholic beverages		2.9	9.7	5.6	2.4	0.1	2.8	2.6	2.1	1.9	-0.7	-0.7
*coffee, tea, etc.		1.5	3.8	4.0	2.0	0.0	2.5	2.1	1.6	1.5	-0.9	-1.0
*mineral water, Soft drinks, juices		1.4	15.9	7.2	2.8	0.0	3.1	3.0	2.7	2.3	-0.5	-0.5
ALC. BEVERAGES & TOBACCO	-34.3	1.6	19.9	12.8	16.7	0.3	18.5	18.2	16.6	11.9	-1.8	-5.3
Alcoholic beverages		0.7	5.9	3.8	7.9	0.1	5.4	7.6	9.4	9.8	3.9	4.3
Tobacco		0.9	27.0	16.6	20.1	0.2	23.7	22.3	19.4	12.7	-4.3	-9.2
NON-FOOD		60.1	3.5	2.4	1.9	1.1	2.2	1.0	2.2	2.2	0.1	0.2
Clothing & footwear	-27.1	2.9	2.3	2.6	2.3	0.1	2.7	2.5	2.0	1.7	-0.7	-0.9
Housing and utilities	7.1	22.0	4.0	2.4	1.0	0.2	1.8	0.2	0.9	0.7	-0.9	-0.6
Actual rent		12.9	2.7	3.1	2.8	0.4	3.1	2.9	2.6	2.5	-0.5	-0.6

	(1) Ann. chg. in HH spending ^a (%)	(2) CPI weights	(3) 2018 inflation	(4) 2019 inflation	(5) 2020 M1 to 11 infl.	(6) Contrib. to 2020 M1 to M11 inflation (ppt)	(7) Q1 inflation	(8) Q2 inflation	(9) Q3 inflation	(10) Q4 inflation	(11) Q3 minus Q1 infl. (ppt)	(12) M9 minus M2 infl. (ppt)
Water supply		1.2	2.6	4.2	0.7	0.0	0.9	0.6	0.8	0.5	-0.1	-0.2
Electricity, gas & other fuels		7.4	7.0	0.8	-2.8	-0.2	-0.7	-5.0	-2.7	-2.8	-2.0	-0.7
*electricity		4.8	6.1	-0.2	-6.7	-0.3	-5.2	-8.1	-7.2	-7.0	-2.0	0.4
*gas		1.3	12.3	-1.1	3.5	0.0	9.4	-4.8	5.9	4.1	-3.5	-5.3
*solid fuels		1.2	4.8	6.0	6.1	0.1	6.3	6.3	6.0	5.7	-0.2	-0.6
Household maintenance	-18.0	2.9	3.1	3.2	3.8	0.1	3.6	4.1	3.9	3.5	0.3	0.2
Health	-6.6	3.9	3.4	3.5	2.8	0.1	2.9	2.8	2.8	2.6	0.0	0.0
Transport	-47.5	8.1	6.5	1.1	2.8	0.2	1.0	-3.1	7.0	7.9	6.0	6.5
Purchase of vehicles		0.8	1.2	1.8	3.8	0.0	3.1	3.0	4.8	4.4	1.7	2.0
Operation of personal transport equipment		2.5	18.4	-0.4	-8.6	-0.2	0.8	-18.9	-6.9	-9.4	-7.7	-9.5
*fuel & lubricants		2.1	23.2	-0.9	-11.1	-0.2	0.7	-23.8	-9.0	-12.2	-9.6	-11.7
Transport services		4.8	2.7	1.8	7.9	0.4	0.9	3.4	13.5	16.5	12.6	14.3
*passenger transport by road		4.3	2.6	3.2	8.7	0.4	0.8	4.5	14.5	18.4	13.7	17.1
Communication	6.9	2.9	0.4	0.3	0.4	0.0	0.4	0.3	0.3	0.3	-0.1	0.0
Recreation & culture	-63.2	1.4	2.0	2.4	0.7	0.0	1.5	1.4	0.2	-0.6	-1.3	-2.0
Education	-18.4	3.3	-0.8	0.3	2.6	0.1	4.7	3.7	0.5	1.1	-4.2	-3.7
Restaurants & hotels	-57.5	8.1	4.3	3.6	2.4	0.2	2.6	2.2	2.2	2.0 ^b	-0.4	-0.6
Miscellaneous goods & services	0.7	4.5	2.4	2.7	2.7	0.1	2.7	2.7	2.7	2.9 ^b	0.0	0.0

CPI = consumer price index; GDP = gross domestic product; HH = household; M2 = February; M9 = September; ppt = percentage point; Q1 = 1st quarter; Q2 = 2nd quarter; Q3 = 3rd quarter; Q4 = 4th quarter

^a Refers to the year-on-year percentage change of the household financial consumption expenditure component of GDP (constant 2018 prices), and its subcomponents, during Q1-Q3 of 2020 versus the same period in 2019.

^b Covers only October and November 2020 inflation.

Source: Author's calculations; Bangko Sentral ng Pilipinas (various years); Philippine Statistics Authority (various years)

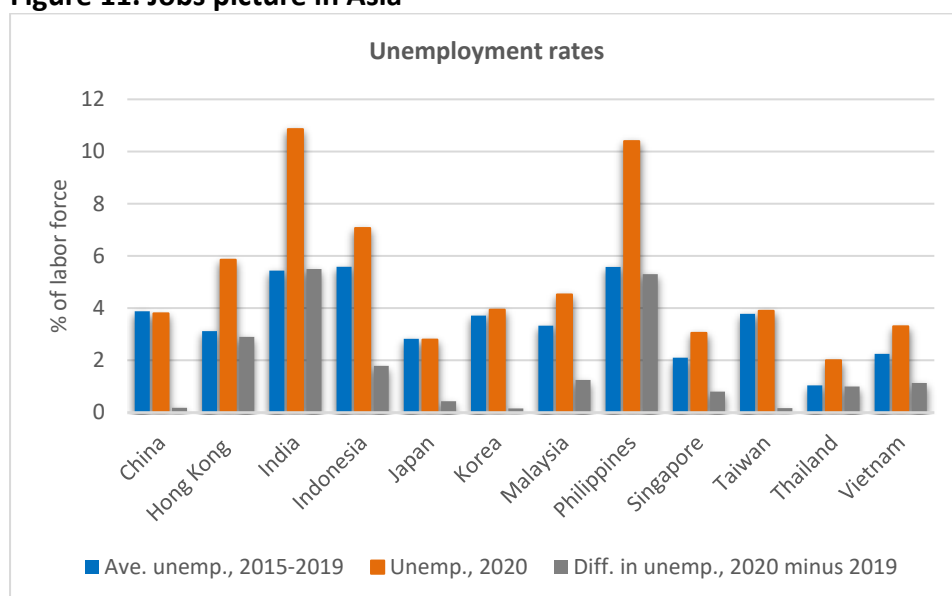
2.2.4. Unemployment after lockdown

The worst feature of the pandemic in many parts of the world has been the high unemployment it has created. Public health restrictions and resulting changes in the behavior of consumers have created a difficult environment, especially for countries dependent on tourism and other services needing high social interaction.

The impact of the COVID-19 crisis on jobs in the Philippines was dire compared to neighboring Asian economies which had taken better control of the virus (Figure 11). The closest in situation in the region was India, which possessed similar features. Both countries had large service sectors, relied heavily on remittances, and faced the tough challenge of controlling the contagion across large populations with public health care systems that were unprepared—and under-resourced—for such a scenario.

The unemployment rate in the Philippines rose to a high of 17.6 percent in April of 2020 (about 7.2 million workers out of 41 million), when key parts of the country were under lockdown, from 5.1 percent during the same month a year earlier (Figure 12). Conditions improved after ECQs were loosened near the end of May, when unemployment declined to 10 percent (4.6 million workers) by July, versus 5.4 percent last year, and further to 8.7 percent (3.8 million workers) in October, versus 4.5 percent a year ago. The same pattern held for the underemployed, made up of employed persons expressing a desire to work more hours, with the trend mainly driven by the “visibly underemployed.”¹² The latter comprised workers with jobs but not working during the pandemic, whose ranks had swelled during the lockdowns but partially subsided soon after.

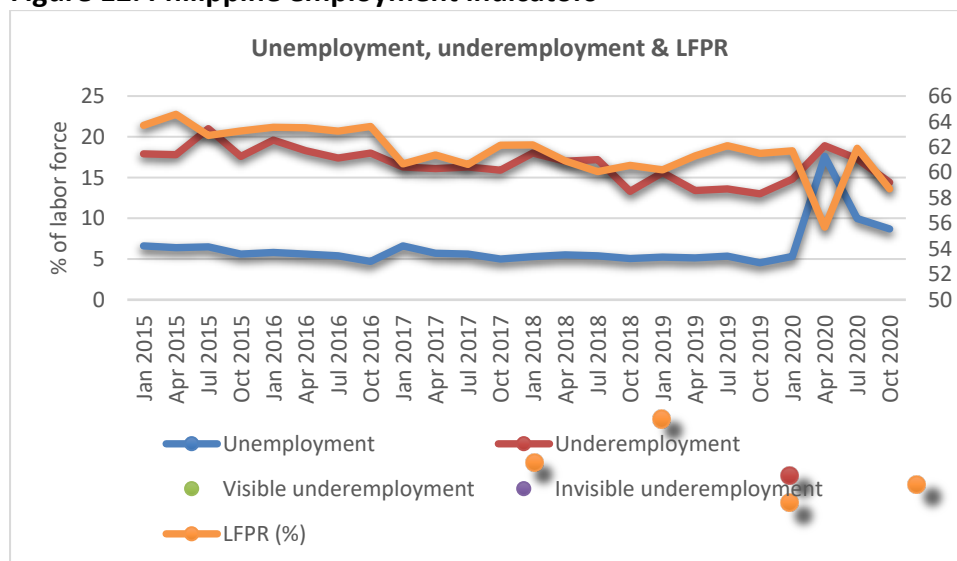
Figure 11. Jobs picture in Asia



Source: Centre for Monitoring Indian Economy (n.d.); World Economic Outlook Database (April 2021).

¹² The PSA (NSCB Resolution No. 14, s. 2007, p.5) defines visible (invisible) underemployment as the percentage of the labor force of “employed persons who worked for less than 40 hours (40 hours or more) during the basic survey reference period and still want additional hours of work in their present job or an additional job, or to have a new job with longer working hours.”

Figure 12. Philippine employment indicators



LFPR = labor force participation rate (in % of total household population 15 yrs and older); rhs = right-hand side

Note: The definition of unemployment was revised beginning April 2005 to include the availability to work criterion in conformance with international standards.

Source: Philippine Statistics Authority (various years)

Despite improvements, the employment figures suggest that prolonged unemployment, if not addressed, may still be in the cards. For instance, although the labor force participation rate seemingly returned to normal, from a low of 55.7 percent in April to 61.9 percent in July, it slipped back to 58.7 percent in October, dropping about 2.2 million workers. This suggests a rise in the number of discouraged workers in the country.

Labor force survey statistics also suggest that many workers were unable to return to their old jobs after the ECQs. Although the number of unemployed fell by 2.7 million from April to July, there were still 2.5 million less workers than there used to be in services and manufacturing; meanwhile, there were 1.2 million *more* in agriculture. This corresponded to a diminution in the number of salaried workers, with many joining the informal sector and becoming self-employed. While there had been some recovery in services in October, the industrial sector proceeded to shed nearly half a million jobs.

Tables 2a to 2c, which summarize the year-on-year changes in employment, confirm this emerging jobs picture in the Philippines.¹³ In each table, the last two columns indicate the evolution of employment numbers after the lockdowns.

From Tables 2a and 2b, it is evident that only agriculture has seen sizable growth in number of workers in 2020, with the count expanding at double-digit pace in July and October (by 16.2 and 13.1 percent annually, respectively). Farms likely absorbed workers from the construction and services sectors such as domestic trade and vehicle repair, transport and storage, and accommodation and food, which had been badly hit by the ECQs.

From Table 2c, one can observe sustained employment growth only for own-account workers, particularly those without a family farm or business or any paid employee. This is in stark

¹³ Annual changes are presented here to sidestep the confounding influence of job seasonality.

contrast to a continued yearly decline in the number of wage and salary workers, particularly those employed in private establishments. Around 5.5 million of these formal-sector workers lost their jobs at the height of the pandemic lockdowns as reflected in the April survey, with only partial recovery seen in July. This suggests a high level of income and job insecurity in the country.

Table 2a. Year-on-year change in employed workers (level* and percent), by industry

	Jan 2019	Apr 2019	Jul 2019	Oct 2019	Jan 2020	Apr 2020	Jul 2020	Oct 2020
Total employed	-379 -0.9%	1,346 3.3%	1,872 4.6%	1,212 2.9%	1,167 2.8%	-8,412 -19.9%	-1,215 -2.9%	-2,701 -6.3%
Agriculture	-1,703 -15.7%	-378 -3.9%	352 3.8%	-262 -2.6%	458 5.0%	-652 -6.9%	1,139 11.7	70 0.7%
Industry	606 8.0%	66 0.8%	163 2.1%	222 2.8%	-169 -2.1%	-2,351 -29.0%	-268 -3.3	-827 -10.2%
Manufacturing	108 3.0%	-104 -2.9%	67 1.8%	-22 -0.6%	-23 -0.6%	-842 -23.8%	-333 -9.0	-618 -17.0%
Construction	493 13.5%	207 5.2%	128 3.3%	266 6.8%	-132 -3.2%	-1,429 -33.9%	11 0.3	-205 -4.9%
Services	717 3.1%	1,658 7.2%	1,356 5.8%	1,252 5.3%	878 3.7%	-5,409 -21.9%	-2,086 -8.4	-1,943 -7.9%
Wholesale & retail trade, repair of motor vehicles & motorcycles	-200 -2.4%	654 8.3%	741 9.5%	456 5.7%	517 6.4%	-2,100 -24.5%	347 4.1	-63 -0.7%
Accommodation & food	84 4.9%	247 15.0%	311 18.4%	150 8.1%	212 11.8%	-656 -34.7%	-719 -36.0	-667 -33.2%
Transport & storage, info & communication	140 3.8%	398 11.0%	34 0.9%	350 9.8%	-50 -1.3%	-1,148 -28.6%	-455 -12.4%	-635 -16.2%
Finance & insurance	93 18.9%	-16 -2.8%	-17 -2.9%	113 21.3%	41 7.0%	-108 -19.8%	-2 -0.4%	-43 -6.7%
Real estate, professional, scientific & technical, admin. & support	105 5.2%	118 5.7%	216 10.3%	177 8.6%	13 0.6%	-289 -13.2%	-307 -13.3%	-39 -1.8%
Public admin. & defense, compulsory social security	241 10.0%	293 11.7%	192 7.3%	53 2.0%	131 4.9%	-323 -11.5%	-262 -9.3%	-312 -11.4%
Education	85 7.2%	56 5.1%	38 3.1%	132 10.5%	77 6.1%	-17 -1.5%	-86 -6.7%	72 5.2%
Human health & social work	41 8.5%	22 4.1%	-37 -7.0%	76 14.8%	41 7.8%	-105 -18.6%	54 11.0%	10 1.8%
Arts, entertainment & recreation	28 7.8%	36 9.1%	80 22.7%	3 0.9%	6 1.5%	-235 -54.4%	-316 -72.9%	-132 -38.2%
Other service activities	104 3.9%	-147 -5.4%	-200 -7.1%	-254 -9.6%	-115 -4.1%	-425 -16.6%	-343 -13.0%	-134 -5.6%

*Level in PHP thousands.

Source: Philippine Statistics Authority (various years)

Table 2b. Year-on-year change in employed workers (level* and percent), by occupation

	Jan 2019	Apr 2019	Jul 2019	Oct 2019	Jan 2020	Apr 2020	Jul 2020	Oct 2020
Total employed	-379 -0.9%	1,346 3.3%	1,872 4.6%	1,212 2.9%	1,167 2.8%	-8,412 -19.9%	-1,215 -2.9%	-2,701 -6.3%
Managers	-1,643 -24.2%	-1,896 -29.0%	-1,782 -27.7%	-1,799 -27.3%	-1,162 -22.6%	-1,509 -32.5%	-1,109 -23.9%	-1,230 -25.6%
Professionals	107 4.9%	73 3.3%	65 2.9%	250 10.7%	147 6.4%	-303 -13.4%	-210 -9.1%	-182 -7.1%
Technicians & associate professionals	264 17.2%	85 5.1%	10 0.6%	53 3.2%	-188 -10.5%	-449 -25.4%	-410 -22.8%	-67 -4.0%
Clerical support workers	181 7.7%	153 6.4%	189 8.1%	316 12.8%	317 12.5%	-391 -15.3%	-149 -5.9%	-306 -11.0%
Service & sales workers	1,031 16.7%	1,827 30.2%	1,963 32.1%	1,611 25.4%	1,278 17.8%	-1,648 -20.9%	-227 -2.8%	-140 -1.8%
Skilled agricultural, forestry & fishery workers	-839 -15.3%	-96 -1.9%	180 3.7%	-27 -0.5%	217 4.7%	-237 -4.7%	806 16.2%	655 13.1%
Craft & related trades workers	474 16.0%	-1 0.0%	-27 -0.8%	76 2.4%	-184 -5.3%	-1,239 -36.4%	-311 -9.4%	-387 -11.8%
Plant & machine operators & assemblers	489 18.4%	866 33.9%	499 18.9%	787 29.8%	303 9.6%	-803 -23.5%	161 5.1%	-297 -8.7%
Elementary occupations	-433 -3.8%	331 3.0%	785 7.2%	-40 -0.4%	420 3.8%	-1,822 -16.3%	202 1.7%	-764 -7.0%
Armed forces occupations	-10 -10.6%	5 6.3%	-9 -7.7%	-15 -17.4%	18 21.4%	-12 -13.7%	30 27.3%	19 26.7%

*Level in PHP thousands.

Source: Philippine Statistics Authority (various years)

Table 2c. Year-on-year change in employed workers (level* and percent), by class of worker

	Jan 2019	Apr 2019	Jul 2019	Oct 2019	Jan 2020	Apr 2020	Jul 2020	Oct 2020
Total employed	-379 -0.9%	1,346 3.3%	1,872 4.6%	1,212 2.9%	1,167 2.8%	-8,412 -19.9%	-1,215 -2.9%	-2,701 -6.3%
Wage and salary workers	1,434 5.6%	670 2.6%	608 2.3%	929 3.5%	547 2.0%	-5,383 -20.1%	-2,207 -8.1%	-2,627 -9.5%
Worked for private household	72 3.8%	-112 -5.8%	-188 -9.3%	-267 -13.9%	-137 -6.9%	-252 -13.9%	-215 -11.7%	-71 -4.3%
Worked for private establishment	975 4.8%	423 2.1%	644 3.1%	1,063 5.1%	592 2.8%	-4,770 -22.7%	-1,904 -8.9%	-2,423 -11.1%
Worked for government or government corporation	371 10.9%	399 11.6%	136 3.7%	112 3.0%	128 3.4%	-355 -9.2%	-44 -1.2%	-97 -2.5%
Worked with pay in own-family operated farm or business	15 10.9%	-41 -28.1%	16 12.7%	21 19.0%	-35 -23.0%	-6 -6.0%	-43 -31.2%	-36 -27.0%
Own account	-872 -6.7%	153 1.2%	521 4.3%	209 1.7%	-78 -0.6%	-2,471 -19.3%	441 3.5%	368 2.9%
Self-employed without any paid employee	-732 -6.3%	526 4.7%	878 8.2%	368 3.3%	286 2.6%	-1,942 -16.6%	563 4.9%	302 2.7%
Employer in own family-operated farm or business	-139 -9.2%	-372 -24.5%	-357 -23.1%	-159 -11.4%	-365 -26.7%	-530 -46.3%	-121 -10.2%	66 5.4%
Worked without pay in own family-operated farm or business (unpaid family worker)	-942 -32.6%	523 24.2%	742 39.3%	74 3.1%	698 35.8%	-557 -20.8%	550 20.9%	-441 -18.3%

*Level in PHP thousands.

Source: Philippine Statistics Authority (various years)

2.2.5. Outlook for Philippine households and businesses

The available surveys confirm the high job and income uncertainty during the pandemic implied by the macroeconomic statistics. These include household and business surveys conducted by the National Economic and Development Authority (NEDA) in early April of 2020 (NEDA 2020a and 2020b); surveys of households and firms conducted by the World Bank in August and July, respectively (World Bank 2020a and 2020b); enterprise surveys conducted by the Asian Development Bank (ADB) in March-April, April-May, and August-September (Shinozaki 2020); and the quarterly consumer and business expectations surveys of the BSP for the second half of the year (BSP 2020a and 2020b).

2.2.5.1. Impact on households

In NEDA's online survey for consumers conducted in April (NEDA 2020b), in the middle of the lockdowns, 44 percent of the respondents stated their income was not enough to meet basic needs such as food, drinking water, and medicine.¹⁴ Of the households reporting worse family incomes during the ECQ (about 38% of the total), many stated that they were laid off from work or had no salary (18%) or lost their source of income (17%). Many families dealt with the income shortfall by reducing food consumption (57%), resorting to borrowing (14%), and availing of government assistance (12%).

The World Bank's household survey a third of a year later (World Bank 2020b), after the lockdowns, still paints a bleak scenario.¹⁵ The survey found that roughly one-fourth of household heads had lost their work and that approximately half of those still working received lower income. Of the households that had benefitted from domestic and foreign remittances before COVID-19 (about 24% of the sample), 60 percent reported receiving less or no remittances after the pandemic.

Common coping mechanisms of families during the pandemic included reducing consumption (about 80%), delaying payment of debt (60%), drawing down savings (more than 50%), and borrowing from relatives and friends (about half). Three in four households reported they received income from government in the form of cash grants and/or food and non-food items.

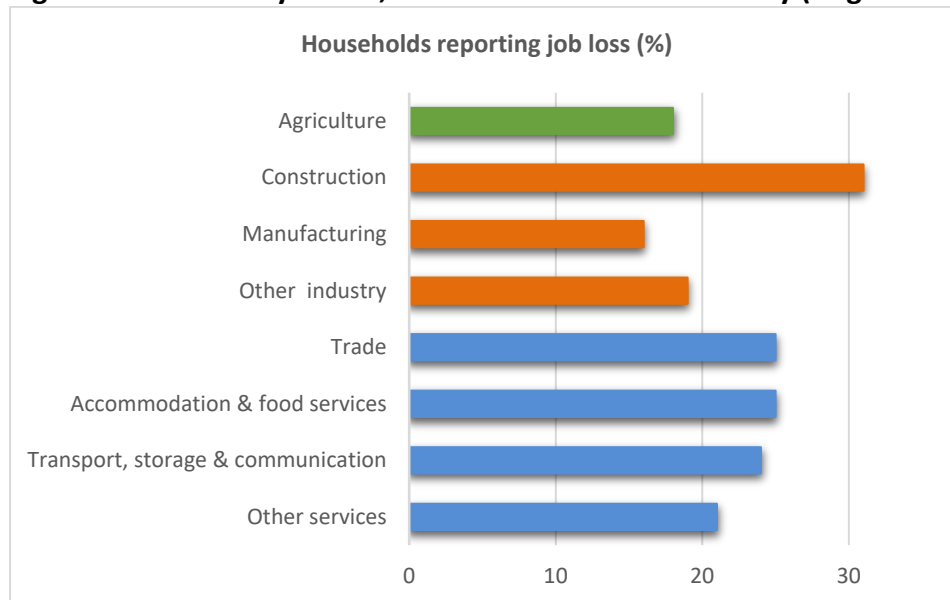
The World Bank's survey closely matches this section's narration so far of the impact of COVID-19 on the Philippine macroeconomy. Unsurprisingly, households in Metro Manila, Central Luzon, and CALABARZON, which endured stringent lockdowns, also suffered the worst job losses. Nearly a third (31%) of household heads in those regions who had been employed in February reported that they already lost their work. Industry, particularly construction, and services (i.e., trade, accommodation and food, and transport, storage, and communication) were similarly identified by household heads as the most affected sectors in terms of employment (Figure 13), complementing the previous subsection's discussion of the official labor force statistics during the recession.

14 NEDA's rapid online assessment for consumers was conducted on April 5-8, 2020 and had 389,859 respondents, of which 48 percent lived in NCR (Metro Manila), 18 percent in Region IV-A (CALABARZON), and 8 percent in Region III (Central Luzon). Of the total, 39 percent worked in government and 35 percent in the private sector. About 45 percent had a monthly income of between PHP 10,000 and PHP 30,000, while about 38 percent earned PHP 30,000 per month or greater.

15 The World Bank's household survey (first round) was conducted on August 1-14, 2020 with 9,448 respondents in the final sample. A mixed method that combined phone- and web-based surveys was used to ensure coverage of respondents with different socioeconomic backgrounds.

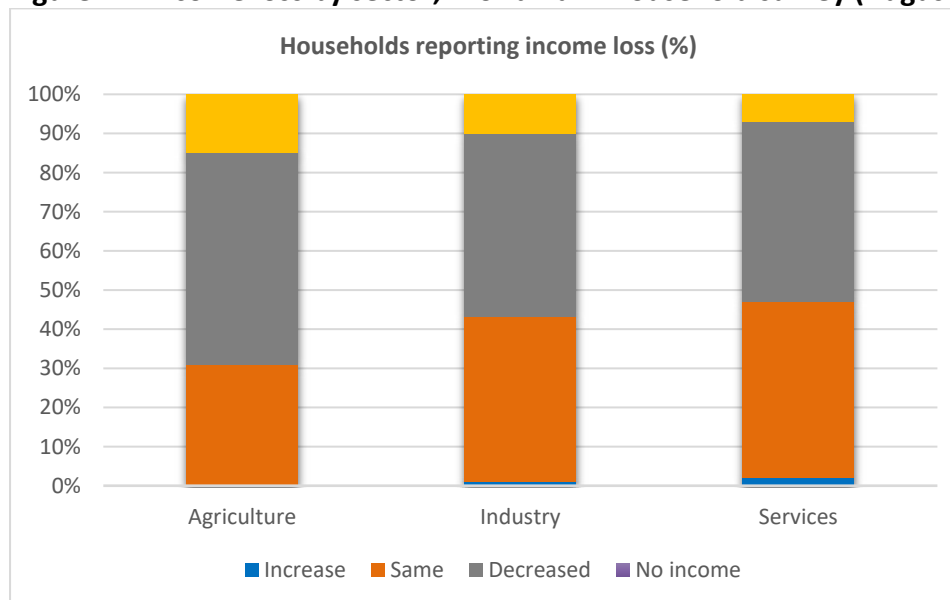
The household survey also reveals that income losses were most prevalent in agriculture during the pandemic, with close to 70 percent of those working in the sector suffering from a decline in income or no income at all (Figure 14). This trend, while more subtle, is nonetheless wholly compatible with the observation based on aggregate employment statistics of an influx of workers into agriculture, potentially expanding labor supply in the sector and helping push down wages.

Figure 13. Job loss by sector, World Bank household survey (August 2020)



Source: World Bank (2020b)

Figure 14. Income loss by sector, World Bank household survey (August 2020)



Source: World Bank (2020b)

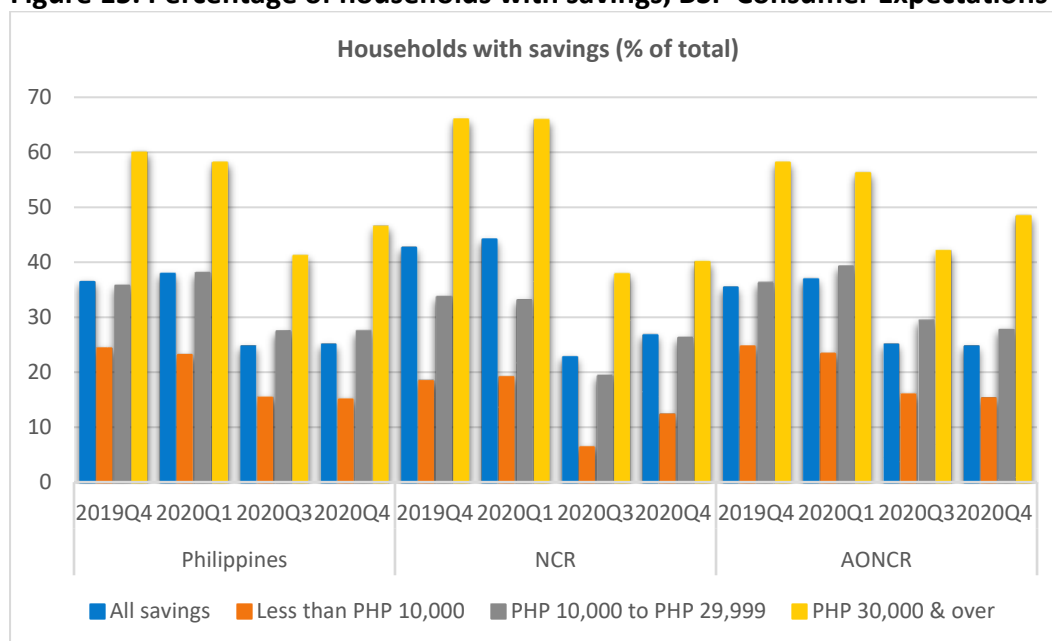
The Consumer Expectations Survey (CES), which is conducted quarterly by the BSP, indicates continued pessimism of Filipino families and low near-term spending confidence (BSP

2020b).¹⁶ More tellingly, it reveals a sharp drop in the percentage of households with savings, from 38 percent for the first quarter of 2020 to 25 percent for the second half (Figure 15). The effect is sharper for poorer households (those with savings of less than PHP 10,000), with the percentage falling from 23 percent to 15 percent during the same period. The trend holds true particularly for poorer households in Metro Manila, where the proportion of those with savings dropped from 19 percent for the first quarter to just 6 percent for the third quarter, after the ECQ,¹⁷ before recovering to 12 percent for the fourth quarter.

The CES also shows a grim picture in terms of remittances, with the percentage of families with members who are overseas Filipino workers (OFWs) falling from 10 percent for the first quarter of 2020 to less than 7 percent for the second half. Again, the trend is more pronounced in the country’s capital, where the proportion has fallen from 9 percent to less than 5 percent correspondingly.

Of the households with OFWs, the percentage receiving remittances rose from 96 percent for the first quarter to 99 percent for the third quarter, then dipped to 92 percent for the fourth quarter. In Metro Manila, only 87 percent of OFW families were receiving remittances based on the fourth-quarter survey, down from 96.2 percent in the first quarter and 100 percent in the third quarter.

Figure 15. Percentage of households with savings, BSP Consumer Expectations Survey



AONCR = areas outside of NCR; NCR = national capital region

Source: Bangko Sentral ng Pilipinas (2020b)

2.2.5.2. Impact on firms

Over 60 percent of firms in NEDA’s online business survey reported that they had temporarily closed in April, during the lockdown (NEDA 2020a). Ten percent more implied they would

¹⁶ The BSP however was unable to conduct the CES for the second quarter of 2020 on account of the ECQs. The CES had 5,421 respondents in the fourth quarter of 2019; 5,406 in the first quarter of 2020; 5,441 in the third quarter of 2020; and 5,437 in the fourth quarter. The corresponding figures for NCR were 2,730; 2,722; 2,780, and 2,775.

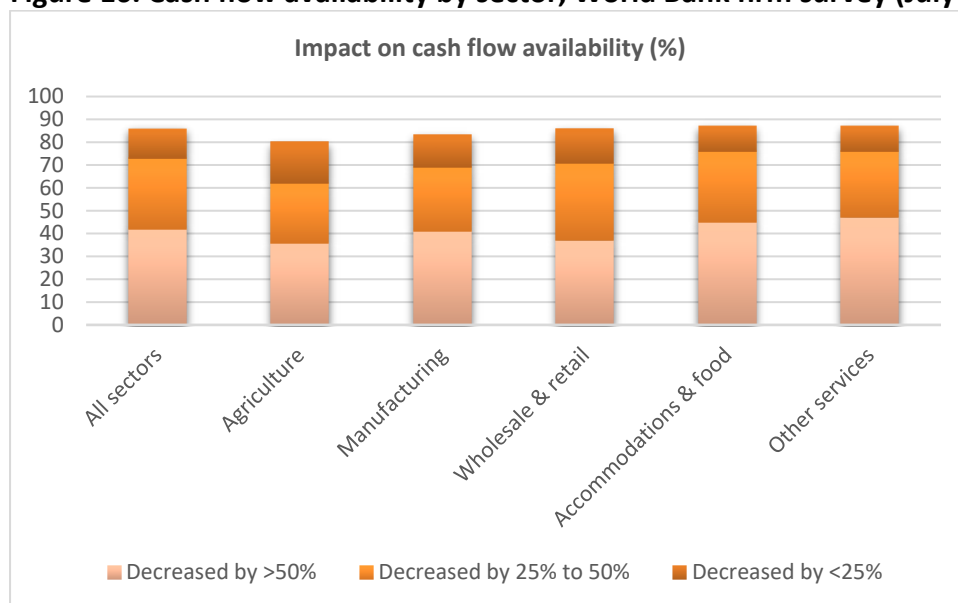
¹⁷ The CES for the third quarter of 2020 was conducted during the period July 1-14, 2020.

shut down if the ECQ was extended.¹⁸ One-fourth of the sampled firms, 95 percent of which were micro, small, and medium-sized enterprises (MSMEs), indicated that they had already laid off some of if not all their workers. Firms reported that they managed their finances during the lockdown mainly by deferring payments on taxes and debt (46%), delaying payments to suppliers (43%), and borrowing from family and friends (29%). Main concerns then included a lack of working capital to maintain or restart their businesses (64%); meeting tax payments, Social Security System (SSS), and similar obligations (45%); repayment of loans (44%); and disruption of supply chains and business networks.

The World Bank firm survey (2020a) noted that 15 percent of businesses were already permanently closed by July, while 40 percent were temporarily closed (of which, 20% by government order).¹⁹ Disruptions were noted in demand, supply, and financing channels of local firms. With mobility restrictions, a large majority of firms (> 70%) experienced sales declines and difficulty in sourcing inputs and raw materials. Many were severely weakened, as they faced a deterioration of cash flows (Figure 16) and narrowed access to funding (Figure 17). About a third of firms reported that they were able to finance their requirements mainly by borrowing from family and friends. Well over a fourth of the respondents needing funds said they were unable to avail of loans from government institutions.

Around 52 percent of businesses reduced payments to employees, while 48 percent laid off workers. The survey matches the labor force statistics discussed earlier, except for the disproportional decline in employment in education (Figure 18). Widespread manpower cuts however were similarly noted in food services, construction, and manufacturing.

Figure 16. Cash flow availability by sector, World Bank firm survey (July 2020)

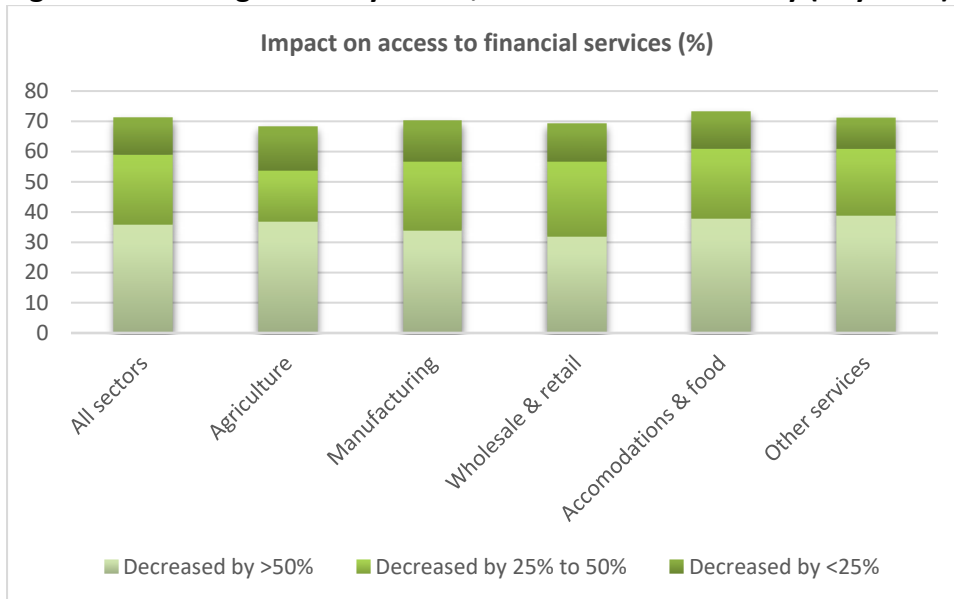


Source: World Bank (2020b)

18 NEDA's online business survey (NEDA 2020a) was conducted on April 4-8, 2020 and sampled 44,097 firms. Respondents were mainly located in NCR or Metro Manila (36%), Region IV-A or CALABARZON (18%), and Region III or Central Luzon (12%). Most of the firms had only 1 to 9 employees (60%) or 10 to 99 employees (32%). One-fourth were in wholesale and retail trade, while about half did not specify their type of businesses. Around 71 percent were micro firms in total asset size, 17 percent were small firms, and 7 percent were medium-sized firms.

19 The World Bank's online survey of firms was carried out on July 7-14, 2020. It included the responses of 74,031 firms, consisting of micro firms (59.3%), small firms (19.2%), medium-sized firms (12.8%), and large firms (8.7%). Coverage was national, with respondents from NCR or Metro Manila (22.7%), Region IV-A or CALABARZON (17.7%), Region III or Central Luzon (11.8%), Central Visayas (9.1%), Western Visayas (6.5%), and Davao (6.3%), among other regions.

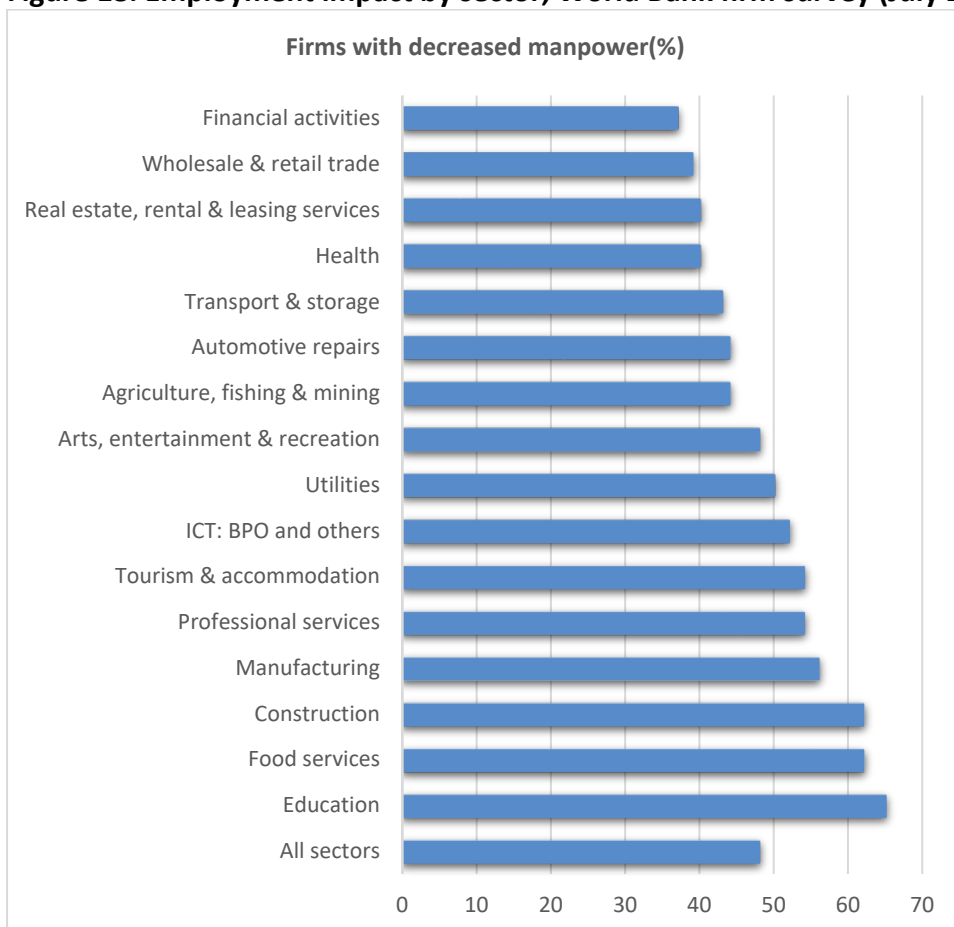
Figure 17. Funding access by sector, World Bank firm survey (July 2020)



Note: The figures pertain to firms with financing needs.

Source: World Bank (2020b)

Figure 18. Employment impact by sector, World Bank firm survey (July 2020)

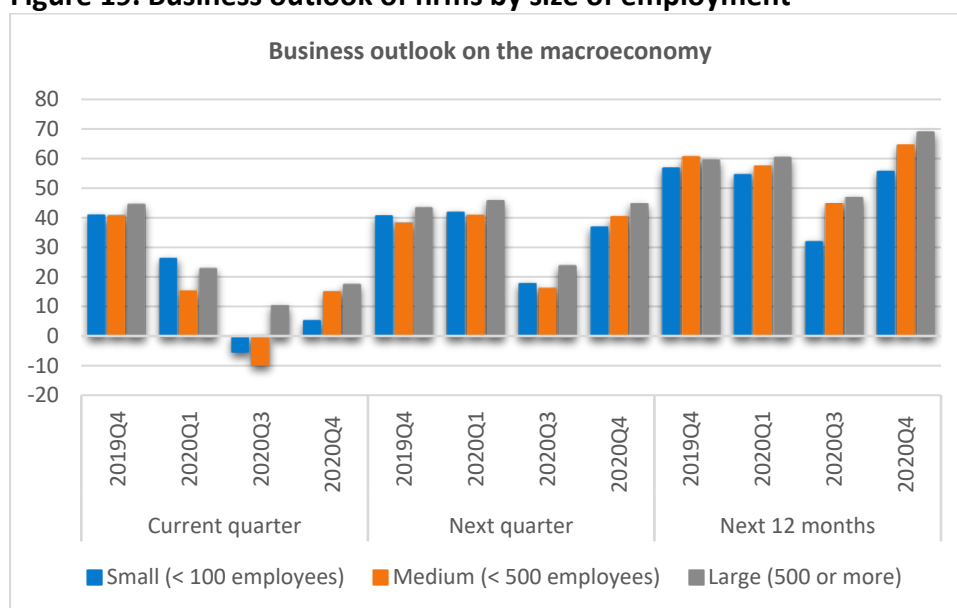


The pandemic predictably created a lot of uncertainty among businesses, as reflected in the survey, with about half stating they did not know what awaited them in the near term. At the

time, only one out of five reported receiving support from the national or local government. Those who did benefitted mostly from cash transfers (nearly half of the respondents), with many citing lack of awareness of the government programs, difficulty in applying to these programs, failure to receive the benefits of the programs, or ineligibility.

The lack of business confidence persists as measured by central bank surveys after the ECQs, notably among the smaller firms (BSP 2020a).²⁰ Current-quarter expectations of small businesses, those with employees of less than 100, collapsed based on the BSP’s third-quarter Business Expectations Survey (BES), which was conducted a month after the end of the lockdowns, and optimism remained low even by the fourth quarter (Figure 19).²¹ While similar patterns hold for all firms across longer horizons (next quarter and next 12 months), smaller firms have been consistently less optimistic. In contrast, large firms have seemingly experienced a revival of optimism for the coming year.

Figure 19. Business outlook of firms by size of employment



Note: A positive (negative) reading indicates that respondents with a positive (negative) outlook outnumbered those with a negative (positive) outlook.

Source: Bangko Sentral ng Pilipinas (2020)

The ADB had kept track of MSMEs in the country over a 6-month period through three survey rounds between March to September of 2020 (Shinozaki 2020).²² According to their latest survey, the percentage of micro and small firms that were temporarily closed had already gone down, from about 70 percent in March and April, during the ECQs, to between 9 to 10 percent by August and September.²³ The reduction is even bigger for medium-sized firms, where the

20 The BES for the second quarter of 2020 was cancelled due to the ECQs. The BES had 1,205 respondents in the fourth quarter of 2019; 1,111 in the first quarter of 2020; 982 in the third quarter of 2020; and 981 in the fourth quarter. There were more small firms (based on employment) in the sample in 2020, comprising about 40 percent of the total number versus about 30 percent in previous years. Medium-sized firms made up about a third of the sample, on average, while large firms made up around 12 to 14 percent.

21 The BES for the third quarter of 2020 was conducted during the period July 8–September 10 of 2020, while the fourth-quarter round was held from October 6 to November 24.

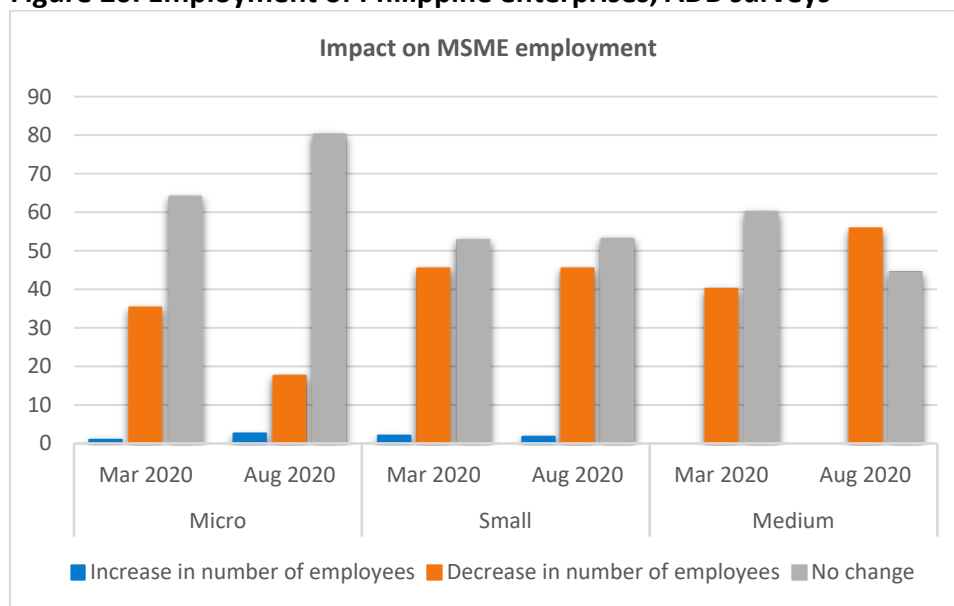
22 These were: (i) the Rapid MSME Survey in the Philippines (March–April 2020), with a sample size of 1,804; (ii) the Philippine Enterprise Survey (April–May), with 2,295; and the Follow-up MSME Survey in the Philippines (August–September) with 686 (Shinozaki 2020).

23 The ADB adopted the Philippine Statistics Authority’s (PSA’s) definition of enterprise size, which is based on number of employees. MSMEs are defined as follows: (i) micro (1–9 employees), (ii) small (10–99 employees); and (iii) medium (100–199 employees).

proportion fell from 76 percent to zero. This matches the survey of the government’s trade and industry department, which noted that 6 percent of the total number of registered businesses in the country remained closed as of August to September.²⁴

Even though they started to regain some economic activity several months after the lockdowns, MSMES continued to suffer from sharp revenue declines, according to the ADB surveys. Many firms continued to ask for a postponement of loan repayments and tax payments after the lockdowns to cope with the harsh effects of the pandemic on their finances. Employment somewhat stabilized for micro firms but decreases in manpower continued for medium-sized firms (Figure 20). By August and September, 44 percent of the medium-sized firms said they had cut their total wage payments by more than 30%, up from just over a fourth of the sample in March and April.

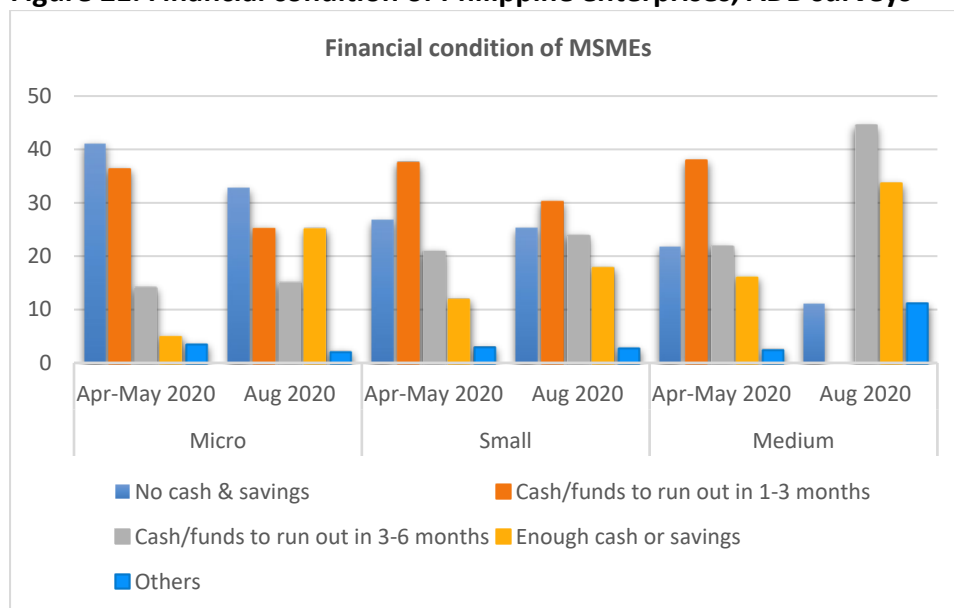
Figure 20. Employment of Philippine enterprises, ADB surveys



Source: Shinozaki (2020)

24 Ramos, C. 2020. DTI: 90,000 businesses remain closed amid pandemic. Philippine Daily Inquirer, September 28. <https://business.inquirer.net/308391/dti-90000-businesses-remain-closed-amid-pandemic> (accessed on December 28, 2020).

Figure 21. Financial condition of Philippine enterprises, ADB surveys



Source: Shinozaki (2020)

MSME's finances generally improved after the ECQs, but many firms remained in a precarious state. About a third of micro firms, a fourth of small firms, and a tenth of medium-sized firms had no cash or savings in August and September, and many still expected a working capital shortage within 6 months (Figure 21). Medium-sized firms saw the biggest improvement in financial condition with one-third stating that they had enough cash or savings for their operations. Like the smaller firms, they turned to family and friends for funding at the height of the lockdown but have increasingly shifted to internal sources. The proportion of firms applying for bank credit, while increasing, remains quite low among MSMEs, at just over 10 percent.

3. COVID-19 crisis in perspective

This section provides a quick assessment of the economic and financial vulnerability of the country as it enters the COVID-19 recession. It then presents a pandemic policy primer that is based on the latest research and emerging consensus to provide a more solid framework for assessing policy responses, especially under developing-country circumstances.

3.1. Economic and financial vulnerability across crisis episodes

Table 3 presents a detailed historical comparison of indicators of economic and financial vulnerability of the country across different crises.²⁵ As previously observed, the rare public health shock created a recession of extraordinary depth that came at a time of uninterrupted economic growth and generally good macroeconomic fundamentals.

The country had learned much from past crises. From the mid-1980s debt crisis, the takeaway was the need for a disciplined public sector. Philippine policymakers have thus imbibed the

²⁵ The mid-1980s crisis is not included in Table 3 because of lack of economic and financial data for the period. The table is an update of portions of Tables 1 and 2 in Debuque-Gonzales and Gochoco-Bautista (2007).

importance of maintaining fiscal health by keeping budget deficits and debt at sustainable levels. From the 1997/1998 AFC, the lesson had been the importance of having a disciplined financial sector, which was accomplished by a wave of regulatory reforms. The latter included reforms to maintain bank health and check financial excesses through asset clean-ups, better bank risk management, stronger macroprudential policies, bank capital base build-up, and more coordinated financial sector regulation. The country's monetary authorities moved towards greater exchange rate flexibility in response to the AFC, but also started to accumulate foreign exchange reserves to help insulate the country from another financial crisis, a tricky balancing act that they were able to pull off quite successfully.

The country thus entered this pandemic crisis with a healthy financial sector (low nonperforming loans or NPLs and ample provisions), large foreign reserves, controlled fiscal deficits, and low public and external debt.²⁶ A long period of macroeconomic stability meanwhile helped fuel continuous high GDP growth, which in turn helped to bring down the country's stubbornly high unemployment rate. This interestingly is the first crisis episode in which the country did not have to simultaneously deal with a domestic-currency freefall and high inflation.

Indeed, high external surpluses and peso appreciation had been the surprise of the pandemic recession. But as previously noted, these were simply artifacts of an unusually deep domestic and global recession—that is, due to a sharper collapse of imports than exports and large dollar inflows due to COVID-related financing agreements. Embedded in the current account and payments surpluses had been the much-feared weakening of remittances and business outsourcing flows, which had been resilient during the GFC.

While helpful in terms of external debt sustainability as the government scrapes together dollar loans to be able to provide pandemic-related spending, a strongly appreciating domestic currency runs counter to what is needed to fuel an economic recovery. It lowers the incomes of remittance-dependent households and the competitiveness of exporting firms. While not yet at an overvalued level, the direction of the exchange rate—which carries the risk of a sharp reversal—will be something the country's policymakers will eventually have to take note of as they chart the future course of the economy.

²⁶ Capital buffers of banks are also quite high today, with capital adequacy ratio of 16.6 percent on a solo basis and 17.1 percent on a consolidated basis as of end-December 2020, exceeding minimum standards set by the BSP and Basel (10% and 8%, respectively).

Table 3. Economic and financial vulnerability of the Philippine economy in different crisis periods, 1988-2020

	1988- 1990	1991	1992	1993	1994- 1996	1997	1998	1999	2005- 2007	2008	2009	2010	2016- 2018	2019	2020
Growth & external imbalances															
GDP growth (%)	5.3	(0.4)	0.4	2.2	5.0	5.2	(0.5)	3.3	5.6	4.3	1.4	7.3	6.8	6	(9.6)
HH cons. (% of GDP)	70.6	73.3	75.4	75.6	73.3	71.4	75.6	76.1	76.8	75.3	76.1	73.5	73.0	72.4	73.7
HH cons. (ann % chg)	5.1	2.5	3.2	2.5	3.2	4.3	5.3	4.0	4.5	3.9	2.5	3.6	6.3	5.9	(7.9)
Investment (% of GDP)	19.6	18.3	19.6	20.6	21.4	23.3	19.9	16.8	15.2	17.7	16.4	19.9	26.0	26.5	19.2
Investment (ann % chg)	16.5	(17.1)	7.8	7.3	7.4	11.0	(14.8)	(13.1)	(2.1)	26.8	(6.0)	30.5	14.3	3.5	(34.4)
Gov't. cons. (% of GDP)	13.3	13.4	13.3	13.7	13.7	13.4	13.4	12.5	10.3	10.2	11.1	10.8	11.6	12.4	15.1
Gov't. cons. (ann % chg)	7.2	(1.9)	(0.9)	5.6	4.4	4.0	(0.2)	(3.6)	7.4	0.5	11.0	4.2	9.8	9.6	10.5
Exports (% of GDP)	16.1	17.2	18.0	18.7	22.8	27.1	21.8	23.3	27.6	25.1	23.6	26.4	28.4	29.2	27.1
Exports (ann % chg)	8.5	6.4	5.1	5.9	14.8	16.7	(19.9)	10.2	8.5	(4.3)	(4.7)	20.3	12.8	2.4	(16.3)
Imports (% of GDP)	18.6	19.8	21.5	23.3	27.9	32.7	28.6	28.1	29.8	28.2	27.1	30.5	39.0	40.5	35.1
Imports (ann % chg)	14.5	(0.9)	8.7	10.9	14.8	12.8	(13.2)	1.7	1.3	4.8	(2.3)	20.7	16.2	1.8	(21.6)
Current acc't. (% of GNI)	(5.7) ^a	(1.9)	(1.6)	(5.4)	(4.5)	(5.1)	2.3	(4.8)	3.8	0.1	4.3	3.1	(1.1)	-0.8	3.3
BOP (% of GNP or GNI)	(0.2)	4.6	2.8	(0.3)	2.8	(3.9)	2.0	4.8	3.3	0.0	3.3	6.6	(0.4)	1.9	4.1
REER dev'n. from trend	1.0	(2.6)	3.0	(2.7)	0.6	4.7	(7.6)	2.9	0.4	1.3	(1.8)	0.6	(0.7)	-0.3	1.6
Unemployment rate (%)					8.6	8.7	10.3	9.8	7.7	7.4	7.5	7.4	5.5	5.1	8.7
Inflation rate (%)	12.7	19.3	8.7	6.7	8.5	5.7	9.3	6.2	5.0	8.2	4.3	3.8	3.1	2.5	2.6
91-day T-bill rate (%)	19.0	21.4	16.1	12.3	12.5	13.1	15.3	10.2	5.0	5.4	4.2	3.7	2.4	4.7	2.0
Foreign reserve adequacy															
GIR (billion US\$)	2.2	4.5	5.3	5.9	8.9	8.8	10.8	15.1	25.1	37.6	44.2	62.4	80.5	87.8	110.1
Import cover (no. of months, ann ave)	1.6	2.4	3.2	3.4	3.1	2.7	2.5	3.7	5.0	6.5	8.1	9.3	8.4	7.3	9.7
GIR-to-short-term external debt	0.5	0.8	0.9	0.8	1.2	1.0	1.1	1.9	1.9	2.6	3.9	4.0	4.0	4.0	4.9
GIR-to-debt service	0.7	1.6	1.8	1.8	1.9	1.6	2.1	2.3	3.4	5.3	6.4	8.4	10.7	10.1	15.6
Exchange rate flexibility															
Nom. ER depreciation (appreciation) (%)	5.8	13.0	(7.2)	6.3	(1.1)	12.4	38.8	(4.4)	(2.2)	(3.6)	7.1	(5.3)	5.0	(1.6)	(4.2)
ER volatility	2.2	7.2	9.3	11.4	5.0	12.6	46.6	12.1	3.1	8.0	6.4	4.6	3.1	2.7	2.0
GIR volatility	121.3	137.2	98.4	56.1	21.8	28.7	63.5	30.7	8.9	7.1	5.8	5.4	3.4	5.3	4.4
Bank stability															
NPL ratio (% of tot, eop)						4.7	10.4	12.3	6.1	3.5	3.0	2.9	1.3	1.6	3.1

	1988- 1990	1991	1992	1993	1994- 1996	1997	1998	1999	2005- 2007	2008	2009	2010	2016- 2018	2019	2020
Loan loss provision (% of tot, eop)						2.2	4.0	5.8	5.1	3.5	3.3	3.4	1.8	1.7	3.3
Indic. of crisis due to:															
<i>Fiscal deficits & debt</i>															
NG surplus (deficit) (% of GDP)	(2.5)	(1.9)	(1.1)	(1.3)	0.6	0.1	(1.7)	(3.4)	(1.2)	(0.8)	(3.6)	(3.3)	(2.5)	-3.4	(7.6)
NG debt (tr PHP)	0.53	0.67	0.87	1.13	1.13	1.35	1.50	1.78	3.82	4.22	4.40	4.72	6.68	7.73	9.8
% of GDP	51.1	48.7	58.2	68.9	53.5	50.2	50.7	54.7	58.7	52.4	52.4	50.2	40.1	39.6	54.6
Domestic	27.7	24.4	33.3	41.4	33.4	27.9	28.8	30.2	33.4	30.0	29.4	28.9	26.3	26.3	37.3
External	23.4	24.2	24.9	27.5	20.1	22.4	21.9	24.6	25.3	22.4	23.0	21.3	13.8	13.3	17.3
annual % change	10.8	12.1	29.4	29.3	1.0	16.9	10.8	18.7	(0.9)	13.7	4.2	7.3	7.0	6	26.7
External debt (bn USD)	28.8	30.1	30.9	34.8	38.5	43.1	46.3	51.2	63.1	65.2	64.7	73.6	75.6	83.6	98.5
% of GDP	61.2	58.1	51.2	56.2	46.1	45.8	62.2	59.7	49.3	36.0	36.8	35.3	22.8	22.2	27.2
public sector	50.1	47.7	41.5	47.0	35.3	28.5	40.4	40.3	29.3	22.4	24.5	22.2	11.5	11.4	16.1
private sector	11.1	10.4	9.7	9.2	10.8	17.3	21.8	19.4	20.1	13.6	12.2	13.1	11.3	10.8	11.2
Debt service (bn USD)	3.2	2.8	2.9	3.2	4.7	5.6	5.1	6.6	7.3	7.0	6.9	7.4	7.5	8.7	7.1
% of GDP	6.8	5.5	4.9	5.2	5.7	5.9	6.8	7.7	5.8	3.9	3.9	3.6	2.3	2.3	2.0
% of current account receipts	25.2	18.5	16.3	16.5	14.8	11.3	11.5	14.2	12.5	9.9	10.3	9.3	6.2	6.4	6.0
<i>Financial excesses</i>															
Dom. credit (% of GDP)	17.8	18.0	16.5	25.8	44.0	59.9	61.4	54.8	44.6	42.4	46.4	45.1	58.6	62.5	75.0
Central government	0.5	0.7	(2.3)	0.7	11.2	11.3	11.9	10.8	15.2	14.4	15.9	15.4	13.8	15.1	22.3
Private sector	14.2	14.2	15.8	19.0	28.1	43.2	42.8	36.4	26.3	25.6	27.2	26.7	41.7	45.3	51.9
Dom. cred. (ann % chg)	23.5	13.4	(0.7)	71.0	45.1	26.4	12.5	(1.9)	4.1	11.4	14.1	8.7	15.9	8.6	10.3
Central government	129.9	15.4	(463)	(134)	515.4	3.4	14.9	0.5	3.2	13.4	15.4	8.2	9.4	16.0	35.9
Private sector	24.0	12.6	20.3	31.0	41.0	34.8	8.9	(6.7)	4.3	15.0	10.9	9.7	16.9	9.1	5.3
PSEi (ann % chg)	10.6	31.7	30.6	43.3	23.0	(16.8)	(24.5)	22.5	29.5	(23.9)	2.8	43.5	1.9	3.0	-20.9

eop = end of period; ER = exchange rate; GDP = gross domestic product; GIR = gross international reserves; GNI = gross national income; GNP = gross national product; HH = household; NPL = nonperforming loan; PHP = Philippine peso; REER = real effective exchange rate; USD = US dollar; a = For 1990 only; p = preliminary

Note: Shaded areas refer to the 1991 recession, 1997/1998 Asian Financial Crisis, and the 2008/2009 Global Financial Crisis.

Source: Bangko Sentral ng Pilipinas, Bureau of the Treasury, Philippine Statistics Authority websites

3.2. *Pandemic crisis policy primer*

Unlike past crises, the current one did not begin in the financial sector. The underlying cause is not excessive risk-taking by banks or other financial institutions or players, but rather a highly contagious virus that has forced governments to impose stringent public health measures to save human lives. Contact-intensive industries such as those in the services sector have had to pause their activities, making a sharp drop in revenues at the firm level, a large loss of income at the household level, and a collapse of GDP at the aggregate level highly possible.

The simplest way to model the COVID-19 crisis is by viewing it as a combination of a severe supply shock, with businesses forced to close by regulation or necessity, lowering potential output, and a severe demand shock, where consumers are required to or choose to stay home (Mankiw 2020). To come up with a correct set of policies, such an interpretation requires paying careful attention to which among the two shocks predominate. Applying the same set of expansionary tools meant for largely demand-based recessions, such as from financial crises, may not be a solution if supply shocks prevail and may carry inflationary risk. Conversely, policies that try to boost supply such as a relaxation of restrictions or exemptions from liabilities (taxes or debt) may not be successful at reviving economic activity if there is generally weak demand (Baqae and Farhi 2020).

3.2.1. Rationale for macroeconomic stimulus

There are compelling reasons for injecting fiscal and monetary stimulus in a pandemic recession, even while the exact mix of shocks has not yet been fully determined. As experience has repeatedly shown, swift and strong policy action is critical in any economic crisis because of the inherent nonlinearities in behavior typically involved.

First, there is a strong argument at the outset for responding to COVID-19 as one would to a natural disaster, with ample amounts of relief spending, which naturally have fiscal stimulus elements (see Krugman 2020). This is also how the pandemic has often been viewed in recent conceptual and empirical research. Ludvigson (et al. 2020), for example, interprets it as a natural disaster that functions as “an exogenous shock with potentially grave economic consequences,” while Baqae and Farhi (2020) capture the phenomenon as being a natural disaster expressed as a combination of negative supply and demand shocks.²⁷ Such an interpretation implies support for businesses and individuals directly affected by the disaster, ideally designed to prevent business failures and unemployment (Congressional Research Service 2020).²⁸

Second, regardless of the type of shocks involved, negative spillovers to the financial system, and the possibility of the crisis turning into a financial one, remain as the biggest risk. The harsh impact of the pandemic has wiped out cash flows and diminished savings of firms and households, reducing their capacity to repay their loans, with adverse impacts on banks.

With heightened risk and uncertainty, from deteriorating loan portfolios and not knowing who remains creditworthy especially if the health shock persists, banks in turn become unwilling to lend, impairing the flow of credit to the real economy and starting an adverse macro-financial

²⁷ See also Bayer et al. (2020) and Gharehgozli et al. (2020).

²⁸ Since the crisis is not due to any excessive behavior or misbehavior (and moral hazard not an overriding issue), the emphasis this time is on protection, not punishment.

feedback loop. Providing liquidity support to the financial system and some regulatory relief therefore helps alleviate the credit tightening.

New analytical work has focused on how the pandemic may produce financial market spillovers that magnify the effect on aggregate demand, providing an alternative framework for viewing policy responses. Caballero and Simsek (2020), for example, generalize the impact of COVID-19 as a non-financial recessionary shock that nonetheless brings down risky asset prices (not only credit, but also equity, real estate, and the like), reducing the wealth of owners of these assets and reducing risk tolerance of investors. This generates downward pressure on asset prices and also on aggregate demand.

Standard monetary policy helps in this situation by offsetting the decline in market risk tolerance such as through an interest rate cut.²⁹ Moreover, non-standard policy responses such as large-scale asset purchases also help by transferring risk to the government's balance sheet, particularly when there are constraints to conventional policy.

Third, conceptual studies closely modelling the features of the COVID-19 recession argue that supply shocks can trigger demand shortages that are even bigger than the disturbances that created them (notably, Guerrieri et al. 2020).³⁰ This research notes that economic shocks associated with the pandemic, such as sector shutdowns, firm closures, and worker layoffs, all have this distinct feature—that is, the ability to generate negative changes in aggregate demand. This being so, the result of the complex combination of aggregate supply and demand shocks may still be a predominantly demand-deficient recession.

Much however depends on features of the economy. The bad result is stronger when consumers are cash-constrained, markets (e.g., credit and insurance) are incomplete, and goods and services are highly complementary on account of either preferences (e.g., shutdown of restaurants leading to decline in demand for nice clothes) or intersectoral linkages (e.g., corresponding drop in demand for accounting services) (Guerrieri et al. 2020). It is weaker, on the other hand, when there is high substitutability across goods and services (such as a strong shift to takeout food).

Whether the forces are strong enough to generate something closer to a demand-based recession needs to be determined empirically. So far, the evidence appears supportive of the analysis. Employment has contracted across different sectors in afflicted economies, while consumer price inflation has mostly weakened across subcomponents of the consumer price index. There are also signs of the initial supply shock propagating as demand shocks across a wide range of sectors, with household and firm spending and investment falling across a wide range of industries. Studies that have been able to econometrically disentangle supply and demand shocks find the latter to be important in all sectors (Brinca et al. 2020).

In this demand-deficient setting, however, the emerging consensus is that fiscal policy would have greater benefits if directed more towards social insurance and protection, in line with a disaster approach, rather than traditional stimulus, which aims to generally raise aggregate demand and restore full employment. This is the prescribed direction *for as long as parts of*

29 This is modeled through the Sharpe (reward-to-volatility) ratio, where a monetary cut boosts excess returns and raises the ratio. Large-scale asset purchases meanwhile lower the required Sharpe ratio by shifting the risk to government.

30 These are referred to as Keynesian supply shocks. To present their theory, Guerrieri et al. (2020) make use of a two-sector model where the high contact-intensive sector is closed. In this model, negative supply shocks can have negative demand spillovers if the intersectoral elasticity of substitution is less than the intertemporal elasticity of substitution. Keynesian supply shocks are more likely when markets are incomplete.

the economy are closed. Standard fiscal stimulus, while still desirable, is deemed less effective in a pandemic recession than in a typical recession, as a shutdown of sectors greatly reduces the fiscal spending multiplier.³¹

Guerrieri et al. (2020) highlights that optimal policy for a pandemic would combine monetary loosening with abundant social insurance for workers in contact-intensive sectors that have been closed or where operations have been limited, such as by social distancing, for public health reasons.³² Others have similarly placed less emphasis on traditional fiscal policies for the time being, to be used more widely when multipliers start to function again—when the relief stage is over and recovery starts (Loayza and Pennings 2020, World Bank 2020d, and to some extent, IMF 2020b).

3.2.2. Policies for developing economies

While the above discussion lays out the basic elements of a pandemic recession needed to inform policymaking, not all prescriptions may be feasible for developing countries, which have weak systems for providing healthcare and social protection services and constrained fiscal space. Observers point to an inevitable trade-off between addressing the health consequences of COVID-19 (“flattening the infection curve”) and reducing the severity of the economic outcomes through macroeconomic policy (“flattening the recession curve”) (Eichenbaum et al. 2020, Gourinchas 2020). Because of limited fiscal and institutional capacity and greater vulnerability to a pandemic shock (e.g., higher dependence on remittances and on services like tourism and a large proportion of informal workers), the trade-off is harsher for developing economies.

The ideal solution logically is to soften the trade-off early on through prompt containment efforts and widespread testing and tracing. Where the opportunity for this has already passed, and when infection risk is not at its peak, an alternative to blanket lockdowns, which cause deep recessions, is to undertake more targeted policies that differentiate across risk and/or age groups alongside optimal social distancing and increased testing and isolation of the infected to improve social outcomes, as outlined in Acemoglu et al. (2020). Alon et al. (2020) suggest a similar approach particularly for developing countries, which have younger populations and more hand-to-mouth households, apart from having weaker public health infrastructure, less fiscal capacity, and a larger informal sector.

Given scarce fiscal resources, it is even more important to delineate relief from recovery phases of the pandemic crisis, as each corresponds to a different set of macroeconomic policy measures. As discussed earlier, a reasonable set of responses would be provision of targeted relief in the first phase, and measures to jumpstart recovery in the second.

In a macroeconomic policy primer for developing countries prepared by Loayza and Pennings (2020), they similarly propose, based on the literature, the following measures for the relief phase: greater spending directed towards building public healthcare capacity; support for

31 Guerrieri et al. (2020) argue this to be so because public spending will not be able to stimulate activity in a (contact-intensive) sector that has been shut down, and money will instead flow to the open sector, where the marginal propensity to consume is presumed to be lower since finances of agents there are not as thinly stretched. The authors place the fiscal multiplier at just 1. Also using a multisector model but with multiple factors, Baqaee and Farhi (2020) attribute lower potency of stimulus policies (both fiscal and monetary) in a pandemic recession to possible labor tightness in some sectors, where an increase in aggregate demand is partly dissipated by an increase in wages.

32 Benefits of monetary policy are magnified in their model, as lower interest rates help prevent businesses from failing by reducing debt payments while providing firms an incentive to hold on to their workers (i.e., because of greater weight placed on future profits).

affected workers (in the form of unemployment and leave benefits for those in the formal sector), poor households (through targeted cash transfers), and affected businesses (through wage subsidies, temporary tax cuts, moratorium on debt payments, and credit lines); and liquidity support to relieve stress in the financial system (e.g., through policy rate cuts, reduction of reserve requirements, and longer maturities on the discount window).

For the recovery phase, they recommend a switch from crisis management to macroeconomic stimulus to help the economy regain its pre-crisis output growth path. However, they raise caveats on the efficacy of monetary and fiscal policies in developing countries, particularly low-income countries, on account of weak monetary transmission and low fiscal multipliers (range of zero to one), respectively. Alternative goals could be avoidance of procyclicality in the economy; continued provision of public goods and services, including healthcare; and macroeconomic stability.

So long as there is uncertainty about the path of the COVID-19 pandemic and unsettled issues regarding vaccine rollout and distribution, there will likely be no clear line between the relief and recovery stages of the economic crisis in the near or even medium term. This would mean a delicate balance for policymakers, as both sets of measures will probably have to be in play. A sensible goal of economic policy in the meantime would be to continue to alleviate the harsh effects of the pandemic on vulnerable populations while preventing an amplification of shocks across different sectors (Chang 2020).

Brunnermeier and Krishnamurthy (2020) note that, in contrast to the GFC, shock amplification in the COVID-19 crisis will most likely be through corporate sector balance sheets, triggered by sharp reductions in the cash flow of firms. Unlike in previous recessions, policy should therefore focus on survival of viable firms. They advocate a pause (rather than bankruptcy) for small and medium-sized enterprises (SMEs), which are less able than larger firms to weather a liquidity shortfall, through ample provision by the central bank of low-cost refinancing for rolled-over loans to stabilize existing businesses. In contrast to previous policy, the goal would be to “evergreen” the SME loans until the pandemic is over.

Didier et al. (2020) similarly talked about how government can work with the country’s financial sector to keep firms afloat, while the economy enters a period of “hibernation” in a pandemic. The aim would be to prevent inefficient bankruptcies, which could destroy established relationships of firms with their workers and supply chains and lower productivity in the longer run. This would require policy interventions to sustain financing mainly by adjusting the institutional framework (e.g., allowing forbearance for borrowers and avoiding unwarranted increases in borrowing costs) and providing credit to firms. The latter may be through standard monetary policies such as a lowering of interest rates and the extension of liquidity to banks with added incentives to lend to the real economy.

Such policies might have limited success though, given continued public health restrictions, high uncertainty, and heightened credit risk of firms. Some countries have thus adopted alternative approaches where government absorbs some of the risk in credit provision to ensure that firms have enough resources during hibernation. These include capitalization of state-owned banks, scale-up of credit guarantee programs, and large-scale purchases of portfolios of loans.

These measures have largely been directed towards SMEs, which have few funding sources apart from retained earnings and bank financing and which have less bargaining power with

creditors. Since they transfer credit risk to government, Didier et al. (2020) recommend designing them in such a way as to minimize the cost to public resources. This could be achieved, for instance, by allowing for sufficient risk diversification (across industries and firms) and setting up the right incentives for both lenders and borrowers.

4. Government's macroeconomic response to the COVID-19 crisis

This section summarizes the country's monetary and fiscal responses to the COVID-19 pandemic and the government's macro blueprint for economic recovery. Overall, reaction times of policymakers have been rather quick, while measures applied mostly adhered to the emerging consensus about the best policy approach to a pandemic recession.

4.1. Monetary policy response

The BSP had responded quickly to the coronavirus, mentioning its spread among the reasons it gave for cutting key policy rates (by 25 basis points or a quarter of a percentage point) as early as February.³³ The move was supposedly pre-emptive, designed to boost confidence in financial markets by preventing negative global spillovers (Diokno 2020). A series of policy rate cuts eventually followed, including three consecutive half-percentage point reductions (150 bps), from the start of the ECQs in the middle of March in 2020 until around end-June, after the lockdowns were already lifted (Figure 22).

The measures were purportedly to “cushion the country's growth momentum”, “uplift market confidence amid stronger headwinds”, and “mitigate the risk of financial sector volatility in light of unfolding global developments by ensuring adequate domestic liquidity and credit in the financial system as well as lowering borrowing costs for affected firms and households.”³⁴ Another downward policy rate adjustment was made in November (by 25 bps) on account of continued uncertainty because of a resurgence of COVID-19 cases globally and still muted business and household sentiment.

The country's monetary authority launched a variety of measures apart from the short-term interest rate cuts. These were grouped into actions that provide relief to borrowers and financial institutions, encourage lending, promote access to financial services, support continued delivery of these services, and offer further backstops for domestic liquidity and economic activity (BSP 2020c; see also, Glindro et al. 2020).

Figure 22 alternatively organizes some of the more salient measures based on the previous subsection's discussion of the conceptual underpinnings of a pandemic crisis and suitable policy responses to such a crisis. The first group (Column 1 of Figure 22) includes those that help raise liquidity and improve credit flow and market risk perception, including policy rate and reserve requirement ratio cuts and less traditional actions such as temporarily suspending auctions for the BSP's term deposit facility (TDF) for certain tenors, temporarily reducing the spread on peso rediscounting loans (i.e., the BSP's peso rediscount rate less the overnight lending rate) to zero, opening up a daily 1-hour window for purchasing liquid government

33 Other reasons cited were the continued uncertainty over trade and economic policies in major economies and geopolitical tensions, which served to weaken global demand. See BSP Media and Research – Press Release, dated February 6, 2020. <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5173> (accessed on January 8, 2021)

34 BSP Media and Research – Press Release, dated March 19, 2020. <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5214> (accessed on January 8, 2021)

securities in the secondary market (and widening the range of eligible securities that may be purchased), and scaling down BSP's daily overnight reverse repurchase (RRP) volume offering.

The second group (Column 2 of Figure 22) comprises measures that allow for some regulatory relief in a crisis, especially one that is due to an exogenous public health disturbance rather than excessive financial risk-taking. Granting of temporary relief for banks and quasi banks affected by calamities and to support recovery efforts had already been institutionalized by the BSP through a circular issued in 2018, which allowed coverage to be extended to public health disturbances.³⁵ Such relief was thus given in February of 2020, to financial intermediaries exposed to borrowers, industries, and sectors that were severely affected by the Asian Swine Flu and COVID-19.

The range of regulatory relief widened after the public health crisis worsened and mobility restrictions had to be imposed. Ultimately, however, the aim was still to sustain credit flow in the economy. Additional measures included temporary relaxation of documentary and reporting rules, prudential accounting relief, single borrower limits, and macroprudential limits on property loans.

The third group (Column 3 of Figure 22) meanwhile encompasses the measures designed to encourage lending to MSMEs, which are the least able to withstand a liquidity shock. As Section 2 above mentioned, finances of many of the smaller firms remained shaky, and very few had enough working capital. Most relied on internal financing, and only about a tenth considered applying for bank credit. Monetary policy responses in this group include a temporary reduction in credit risk weights attached to MSME loans to just 50% and a risk weighting of zero for MSME loans covered by credit guarantees provided by government (through the Philippine Guarantee Corp. as well as the Agricultural Guarantee Fund Pool and Agricultural Credit Policy Council).

The fourth group (Column 4 of Figure 22) lists the actions of the central bank to aid the national government (NG) and also the miscellaneous responses meant to increase access of individuals to basic government and financial services, especially digital services, and to lessen the financial burden of households. Initial NG support came in the form of a short-term (maximum of 6 months) PHP 300-billion lending arrangement between the BSP and the National Treasury “to further support the Filipino people during the COVID-19 pandemic”³⁶ and remittances of advance dividends worth PHP 20 billion meant to “further support the government in its fight against... COVID-19.”³⁷ After the former transaction was settled, the BSP committed PHP 540 billion worth of 3-month provisional advances to government in October of 2020, which was extended for another 3 months by the end of December, as allowed by its charter.

The Bayanihan to Heal as One Law (Republic Act [RA] 11469 or Bayanihan I) signed on March 24, 2020 and the Bayanihan to Recover as One Law (RA 11494 or Bayanihan II) signed on September 11, 2020 also included provisions that form part of the country's monetary

35 This was Circular No. 1071 on the Adoption of Policy Framework on the Grant of Regulatory Relief to Banks/Quasi-Banks Affected by Calamities dated 10 October 2018. Relief measures that may be granted temporarily include staggered booking of allowance for credit losses, non-imposition of penalties on legal reserve deficiencies, and non-recognition of certain defaulted accounts as past due.

36 BSP Media and Research – Press Release, dated March 23, 2020. “Monetary Board approves additional Php 300 billion support to the National Government to fight COVID-19.” <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5221> (accessed on January 8, 2021)

37 BSP Media and Research – Press Release, dated March 26, 2020. “BSP To Remit P20 Billion Dividends to Fight COVID-19.” <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5227> (accessed on January 8, 2021)

response to the pandemic. The government's forbearance policies were mostly embedded in these laws.

Bayanihan I, for example, provided for a 30-day mandatory grace period for the payment of loans (i.e., a moratorium on interest payments, penalties, fees, and other charges), including credit card payments, that fell due within the ECQ period.³⁸ Subsequently, Bayanihan II allowed for a 60-day mandatory grace period for all loans that fell due until the end of 2020.³⁹ The law also granted regulatory relief to banks and non-bank financial institutions opting to extend or restructure their loans.⁴⁰ It notably allowed exemption of these loans from NPL reports.

Bayanihan II likewise encouraged the BSP and the Securities and Exchange Commission (SEC) to temporarily relax regulatory and statutory restrictions and requirements to encourage banks and other financial institutions to lend or offer other forms of financial accommodation.⁴¹ This was intended to help businesses recover from the COVID-19 crisis and enable banks to better manage their risks.

Notably, Bayanihan II allowed the BSP to provide greater NG support through further provisional advances equivalent to 10 percent of the government's average income during fiscal years 2017 to 2019 (about PHP 280 billion). This source of funding could be tapped within 2 years from the effectivity of the law, had a longer term of 1 year (versus 3 months in the central bank's charter), and could be extended for another year. However, it could only finance authorized spending that addresses and responds to COVID-19.

Overall, the country has been able to put together an appropriate set of monetary responses to the pandemic, based on the conceptual framework provided. Ample liquidity has helped relieve market stress and avert financial instability, while regulatory relief has lessened the pressure on financial institutions facing radical uncertainty due to the public health shock. Policymakers have also correctly focused on MSMEs and households, which are the ones reeling from the adverse effects of the pandemic and may well be the largest amplifier of the crisis if no support is provided.

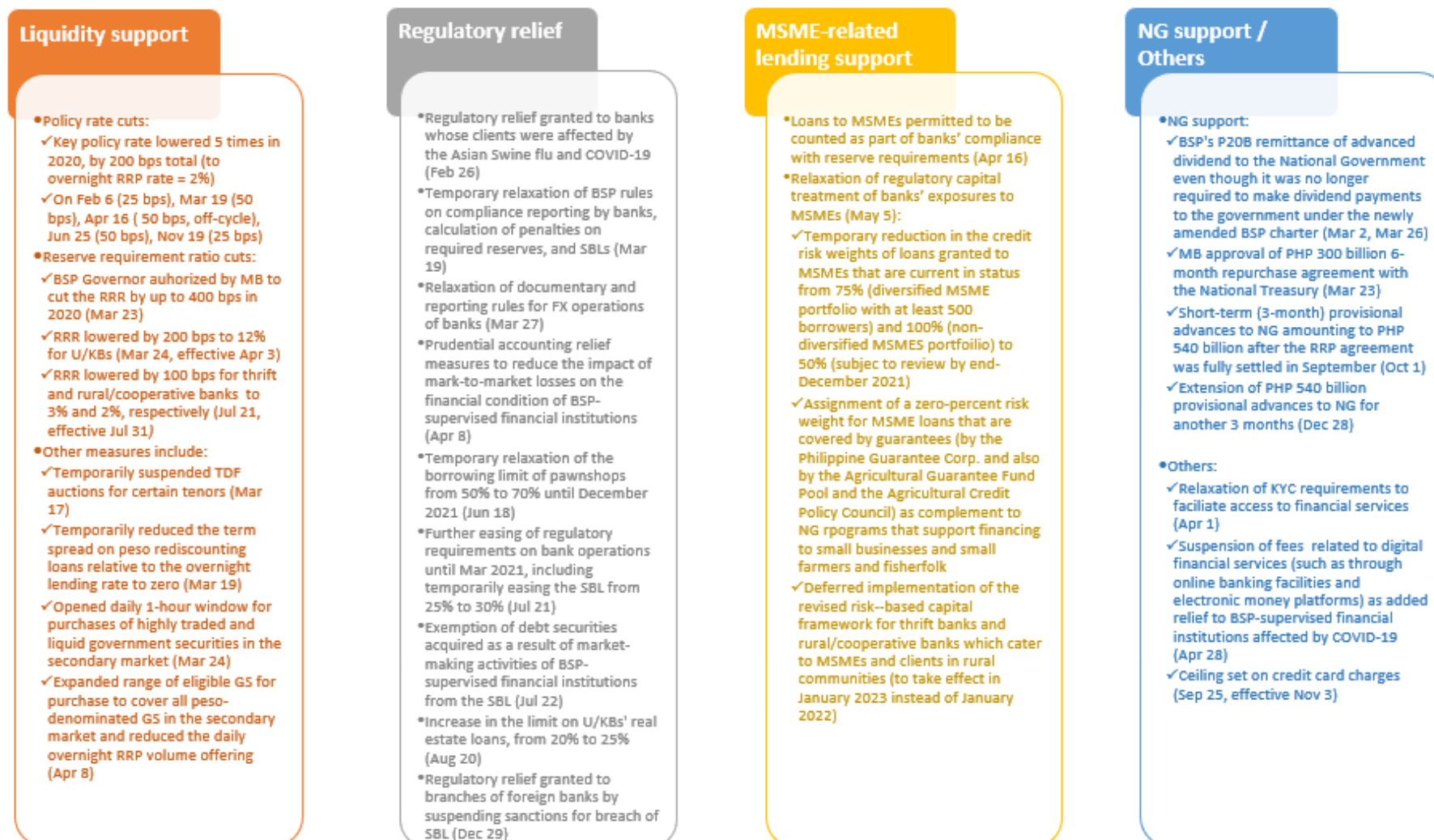
38 This provision cannot be waived and covers all loans—including but not limited to salary, personal, housing, and motor vehicle loans and credit card payments—by all banks, quasi-banks, financing companies, lending companies, and other financial institutions, public and private, including the Government Service Insurance System (GSIS), Social Security System (SSS), and the Home Development Mutual Funds (Pag-ibig Fund). The law expired on June 24, 2020.

39 This covered loans and payments included in Bayanihan I and additionally mentions commercial loans, amortizations, financial lease payments, and premium payments. The provision also additionally mentions real estate developers, insurance companies providing life insurance policies, pre-need companies, entities providing in-house financing for goods and properties purchased, and asset and liabilities management companies. Regulatory relief does not apply to interbank loans and bank borrowings.

40 This included staggered booking of allowance for credit losses, exemption from loan-loss provisioning, exemption from limits on real estate loans (when applicable), exemption from related party transaction restrictions, and non-inclusion in the bank's or non-bank financial institution's reporting on NPLs. The law has been extended until June 30, 2021.

41 Such relaxation was allowed for a period of not more than 1 year from the date of effectivity.

Figure 22. Monetary policy responses of the Bangko Sentral ng Pilipinas



bps = basis points; BSP = Bangko Sentral ng Pilipinas; KYC = know-your-customer; MB = Monetary Board; NG = national government; RRR = reserve requirement ratio; RRP = reverse repurchase; SBL = single borrower's limit; TDF = term deposit facility; U/KBs = universal and commercial banks

Source: Bangko Sentral ng Pilipinas (various years); International Monetary Fund (2020)

4.2. Fiscal policy response

Considering that changes in public spending had to be ratified by Congress, the fiscal response to the COVID-19 pandemic had also been quite swift. The Philippine Senate and House of Representatives were able to produce Bayanihan I immediately after Luzon was first placed under ECQ, with the bill signed into law after 8 days, on March 24, 2020. Bayanihan I gave the President of the Philippines temporary emergency powers to deal with the pandemic, including the power to alter the national budget.⁴²

The Philippine government dealt with the pandemic as one would a natural disaster, with the President declaring a state of calamity a week after it declared a public health emergency upon clear signs of local transmission of the virus.⁴³ The fiscal policy response correspondingly focused on addressing the public health crisis and providing relief to affected sectors in the initial stages (see Panel 1, Figure 23).

Apart from allowing a stronger health-related response to the pandemic, Bayanihan I notably provided for the government's Social Amelioration Program (SAP), which aimed to provide cash subsidies of between PHP 5,000 to PHP 8,000 a month, for two months, to low-income households.⁴⁴ About PHP 211.4 billion was allotted to the program in 2020, equivalent to around 1.1% of GDP.⁴⁵

The law also incorporated a wage subsidy for small businesses and support measures for workers, especially those disadvantaged and displaced by the pandemic, including overseas Filipino workers (nearly PHP 65 billion); greater spending for learning continuity in basic education (about PHP 11 billion); support for agriculture through diverse programs; and some regulatory relief (e.g., delay in statutory deadlines for payment of taxes and related fees and charges).⁴⁶ The government also offered off-budget support to MSMEs and agriculture in the form of credit guarantees worth a total of PHP 120 billion. All in all, the fiscal package amounted to PHP 506.1 billion during the emergency relief stage, or about 2.6% of GDP.

Bayanihan II, which included more fiscal stimulus measures to smoothen economic recovery, was signed into law on September 11 (Panel 2, Figure 23). It allowed the President to continue managing the national budget to address the public health emergency and maintain some of the social protection and regulatory relief features of Bayanihan I (e.g., cash subsidies and various payment moratoriums), alleviating some of the uncertainty. It provided for another fiscal package worth up to PHP 165.5 billion (0.9% of GDP), consisting of PHP 140 billion in supplemental spending for 2020 and a PHP 25.5-billion standby fund that can only be used if additional funds can be generated from savings or unused amounts.

42 Under Bayanihan I, funds for the government's COVID-19 response may be obtained from: (i) discontinuance of programs, projects, and activities of any agency of the executive department, including government-owned or controlled corporations (GOCCs)—released or not, the allotments for which remain unobligated—in the fiscal years (FYs) 2019 and 2020 General Appropriations Act (GAA); (ii) any unutilized or unreleased balances in a special purpose fund as of the date of declaration of a state of emergency; (iii) savings on other items of appropriations in the FY 2020 GAA in the executive department; and (iv) cash, funds, and investments—including unutilized or unreleased subsidies and transfers—held by any GOCC or national government agency.

43 Proclamation numbers 922 and 929 issued on March 8 and 16 of 2020, respectively.

44 Under Bayanihan I, the President is authorized to provide an emergency subsidy for 18 million low-income households in the Philippines. Given the current population count, this already covers about 80% of households in the country.

45 Department of Budget and Management (2020). <https://www.dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases> (accessed on 28 December 2020)

46 Bayanihan also granted a 30-day grace period on residential rents falling due within the ECQ period (i.e., no penalties, fees, or interest charges).

The bulk of the fiscal package comprised capital infusion into government financial institutions (GFIs): namely, the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), PhilGuarantee, and the Small Business Corporation (SBCorp). A total of PHP 24.5 billion in new equity has been earmarked to support wholesale lending of LBP and DBP—with an additional PHP 15.5 billion included in the standby fund—and to allow them to offer low-interest-rate loans to individuals and entities in COVID-stricken industries. Meanwhile, PHP 5 billion has been apportioned to the credit guarantee program of PhilGuarantee and PHP 10 billion to support the low-interest-rate lending program of SBCorp.⁴⁷

Bayanihan II also offered support to sectors severely affected by the pandemic such as transport (PHP 9.5 billion) and tourism (PHP 4.1 billion) and the disadvantaged in agriculture and fishery (PHP 24 billion), to also raise productivity and ensure food security.⁴⁸ It had more traditional job-creating stimulus features than Bayanihan I, such as in the form of cash-for-work programs (>PHP 13 billion) and the hiring of contract tracers to help contain the COVID-19 virus (PHP 5 billion).

Further, Bayanihan II sought to accelerate infrastructure growth by providing a 1-year period of fast-track development, during which permits and licences would be waived and processing time for requirements significantly shortened. Regulatory relief was to be similarly provided for private projects considered nationally significant, have high economic returns, or high employment potential. The law also offered more tax relief, particularly by allowing losses during 2020 and 2021 to be carried over as deduction from taxable income for the next 5 years (and not just 3 years as was originally allowed by law).

As of end-2020, only PHP 109.2 billion of the PHP 140-billion allocation had been released, but availability of these funds as well as the remainder of the 2020 national budget has been extended (until end-June and end-December of 2021, respectively).⁴⁹ The country's economic managers estimate the total of these funds to amount to PHP 195.3 billion (about 1% of GDP), providing further fiscal stimulus in the coming months apart from key elements of the PHP4.506-trillion 2021 national budget.⁵⁰ The latter had supposedly been designed so that the economy could “reset, rebound, and recover” (see Panel 3, Figure 28). Around PHP 1.1 trillion had reportedly been allocated to infrastructure projects in the 2021 budget, possibly creating around 1.7 million new jobs during the year.

Yet the country's economic managers place tax cuts under the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill at the center of their fiscal stimulus package, touting it as “the largest stimulus package for businesses in the country's history.”⁵¹ The CREATE bill

47 The PHP 10-billion fund has been used to expand SBCorp's credit programs, particularly the COVID-19 Assistance to Restart Enterprises (CARES) lending program, which caters to sectors heavily affected by the pandemic—MSMEs, cooperatives, hospitals, the tourism industry, and OFWs.

48 Support to the transport sector support comprised PHP 2.6 billion to assist critically impacted businesses, PHP 5.6 billion for temporary livelihood programs for displaced workers, and PHP 1.3 billion to develop sidewalks and bicycle lanes and procure bicycles and related equipment. Tourism sector support included PHP 3 billion for cash-for-work programs and PHP 1 billion for tourism road infrastructure programs of government. Agriculture and fishery sector support included cash and loan interest rate subsidies and other forms of assistance to qualified enterprises, farmers, fisher folk and cooperatives to ensure food security and raise productivity in the sector (including greater accessibility through farm-to-market roads).

49 Proclamation numbers 11519 and 11520 issued on December 29, 2020.

50 This is based on a Joint Statement of the Duterte Administration's Economic Managers issued on November 10, 2020, along with the release of the fourth-quarter national income accounts statistics. See <https://www.neda.gov.ph/joint-statement-of-the-duterte-administrations-economic-managers-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2020/> (accessed on January 28, 2020).

51 The finance department estimates foregone revenues from CREATE to amount to PHP 251 billion in the next 2 years (PHP 133.2 billion in 2021 and PHP 117.6 billion in 2022) if the bill is implemented retroactively to July 2020.

proposes to cut corporate income taxes from 30% to 25%, and further to 20% for smaller corporations with lower net taxable income (see Panel 4 for the details, Figure 28). It has already been finalized by the bicameral conference committee composed of members of each House of Congress and is now awaiting the President's signature. The country's economic leaders believe the change in tax structure will benefit MSMEs, which comprise majority of businesses in the country.

Like the monetary response, the fiscal response of the country, except for the permanent tax cuts, has pretty much followed the accepted playbook, with proper sequencing of measures based on the literature and prevailing wisdom. Fiscal authorities have focused on providing relief to workers, households, and businesses at the height of the pandemic in 2020 through Bayanihan I, with a more targeted approach under Bayanihan II later in the year, and more stimulus elements in the national budget geared towards recovery as the economy gradually reopens. There has also been a conscientious effort to be responsive to the needs of households and firms—mainly cash transfers or grants, payments relief (e.g., from taxes, loans, rents, and utilities), and tax exemptions or reductions—paying special attention to the surveys conducted, by multilateral lending institutions as well as the government's own.

Figure 23. Fiscal responses



bn = billion; CIT = corporate income tax; CREATE = Corporate Recovery and Tax Incentives for Enterprises; DBP = Development Bank of the Philippines; FIRB = Fiscal Incentives Review Board; FIST = Financial Institutions Strategic Transfer; FY = fiscal year; GDP = gross domestic product; GFIs = government financial institutions; GUIDE = Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery; IPO = initial public offering; LBP = Land Bank of the Philippines; LGUs = local government units; mn = million; NOLCO = net operating loss carryover; NPAs = nonperforming assets; OFWs = overseas Filipino workers; PHP = Philippine peso; SBC = Small Business Corp.; VAT = value-added tax

Source: DBM and DOF websites

5. Reviewing the monetary-fiscal policy combination

Before reviewing issues surrounding the current macro policy combination, important parameters of the discussion must be mentioned. First, it must be emphasized that the crisis, while spreading across the economy, is still essentially a public health crisis. This being so, there should be no debate about the need for a strong public health response for a robust economic recovery to take hold. It would naturally be easier to chart a path out of a recession if an end to the virus was clearly within view. Such underscores, at this stage, the need for a well-designed and well-communicated vaccination program for the country, one that has ample funding and clear timelines.

Second, there should also be little argument about the importance of macro fundamentals even if these had been powerless to prevent a recession in a pandemic when economic activity had to be put to a virtual halt to prevent contagion. Initially healthy balance sheets and high savings of private firms from years of continuous GDP growth, a healthy fiscal position of government, and managed inflation certainly go a long way in helping to weaken the amplification and propagation channels in an economic crisis.

Indeed, as mentioned earlier, in countries where monetary and fiscal policy transmission mechanisms may be weak, surrogate goals in a recovery include continued public goods delivery, particularly healthcare, and sustained macroeconomic stability. These go hand in hand with prevention of procyclical behavior within the economy to prevent a downward spiral, as pulling away from economic activity due to uncertainty further weakens aggregate demand.

Arriving at the best policy mix for the country moving forward in this pandemic crisis requires looking at how the current combination has worked so far. There are both strengths and weaknesses.

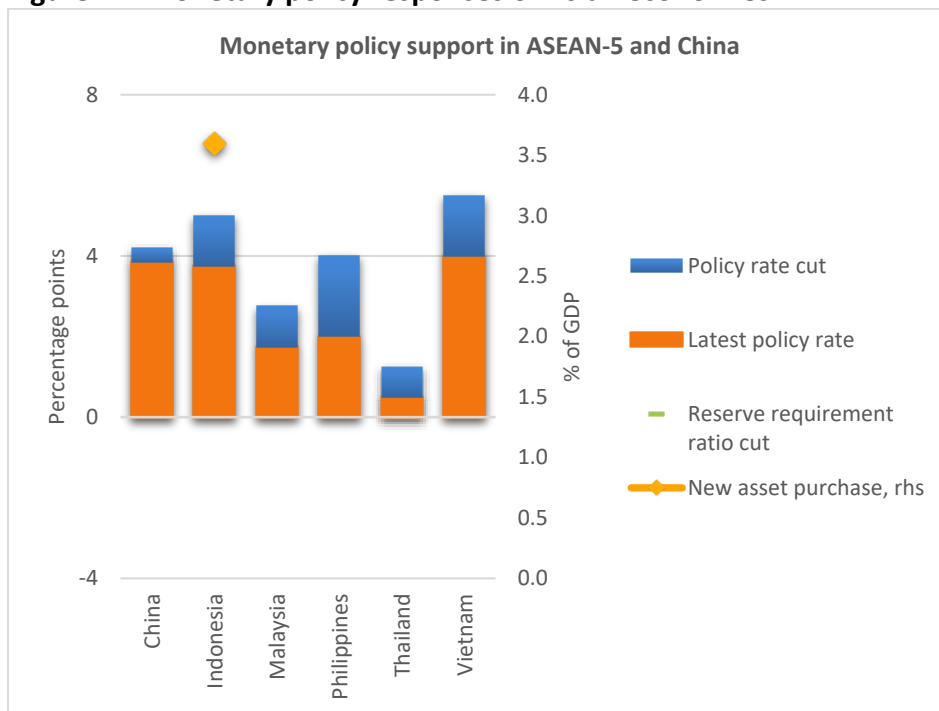
The previous section already narrated the monetary and fiscal policy responses of the Philippine government and how they have largely followed the recommended strategy and sequencing for developing economies based on the literature. Quick action to loosen financial conditions helped avert financial disruption, while earnest effort to provide relief to the most vulnerable in society helped lessen the pain caused by the pandemic.

Even the novel monetary-fiscal policy measure, originally through a PHP 300 billion repurchase agreement between the national government and the central bank, had been well received. Asset purchase programs of emerging market economies (EMEs) have since been considered “a game changer,” as they lowered financial-sector risk and gave country leaders enough breathing room to address the public health crisis (IMF 2020a). They have notably helped sustain bond prices—and keep down yields—without triggering excessive domestic currency depreciation as one would have expected in such economies.

There is wide agreement that policy responses of Philippine monetary authorities during the pandemic had been more than sufficient, and quite aggressive compared to policy moves of Asian neighbors (Figure 24). While the concurrent fiscal actions have not been as prominent as those of other developing Asian economies (Figure 25), the country’s fiscal authorities have been able, thus far, to meet their goal of maintaining a sturdy image of fiscal responsibility and fundamental economic strength. This has allowed the country to keep its sovereign credit ratings despite large output contractions during the pandemic (Table 4) and to continue benefiting from favorable interest rates on its debt.

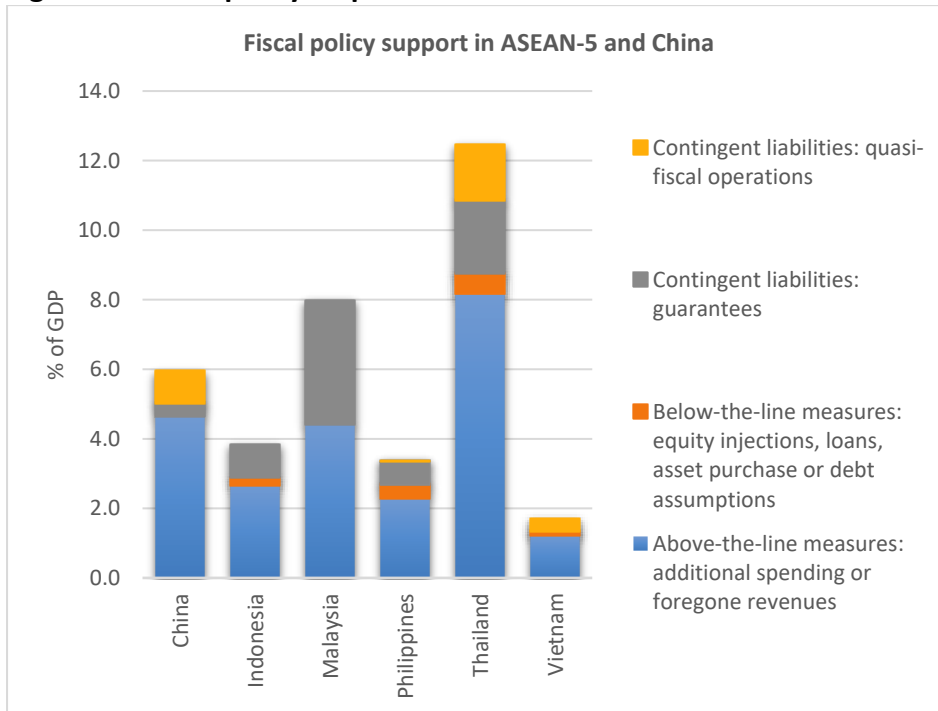
Yet the struggle to contain the COVID-19 virus and prolonged mobility restrictions have been making it increasingly hard for the country’s policymakers to continue the difficult balance of trying to protect the vulnerable and disadvantaged, fortify the economy, and conserve on fiscal resources, to ensure the country’s needs may be met even with a long-drawn-out pandemic. This becomes clear when one looks at the limitations for each set of policy responses.

Figure 24. Monetary policy responses of Asian economies



Source: World Bank (2020); GlobalEconomy database

Figure 25. Fiscal policy responses of Asian economies



Source: Fiscal Monitor (IMF 2020)

Table 4. Philippine credit ratings

	Rating	Action	Outlook		Rating	Action	Outlook		Rating	Action	Outlook
Fitch				Moody's				S&P			
2003M6	BB	↓	Stable	1995M5	Ba2	↑		1995M5	BB	↑	Positive
2011M6	BB+	↑	Stable	1997M5	Ba1	↑		1997M2	BB+	↑	Positive
2013M3	BBB-	↑	Stable	2004M1	Ba2	↓	Negative	2003M4	BB	↓	Stable
2017M12	BBB	↑	Stable	2005M2	B1	↓	Stable	2005M1	BB-	↓	Stable
2018-19	BBB		Stable	2009M7	Ba3	↑	Stable	2010M11	BB	↑	Stable
2020M1	BBB		DEV	2011M6	Ba2	↑	Stable	2012M7	BB+	↑	Stable
2020M1	BBB		Stable	2012M10	Ba1	↑	Stable	2013M5	BBB-	↑	Stable
2020M2	BBB		Positive	2013M10	Baa3	↑	Positive	2014M5	BBB	↑	Stable
2020M5	BBB		Stable	2014M12	Baa2	↑	Stable	2019M4	BBB+	↑	Stable
2021M1	BBB		Stable	2017-19	Baa2		Stable	2019M8	BBB+		DEV
				2020M1	Baa2		DEV	2020M1	BBB+		DEV
				2020M5	Baa2		DEV				
				2020M7	Baa2		Stable				
				2020M12	Baa2		Stable				

DEV = developing; ↑ = upgrade; ↓ = downgrade

Source: GlobalEconomy database (n.d.)

5.1. Pushing on a string?

The central bank's strong monetary response helped alleviate initial financial stress, but this has not been able to spur bank lending on a wide scale. Production loan growth slowed from 8.6 percent in the first quarter of 2020 to zero percent by December despite the liquidity support provided (Figure 26). Meanwhile, consumer loan growth slowed from 15.5 percent to 2.3 percent, as motor vehicle loans started to drop beginning September.⁵²

One important reason for generally slow credit growth is that, despite aggressive monetary loosening, financial conditions for some time remained tight. For instance, an index that summarizes a wide array of financial indicators (Figure 27) shows how, although the level of liquidity, stress, and risk in the financial system improved in April of 2020 after collapsing in March, it began to worsen again around August (Debuque-Gonzales 2020a and 2020b). The finding is supported by the BSP's survey of senior bank loan officers, who reported a tightening of credit standards for loans to enterprises (especially MSMEs) and households (especially for credit card loans) in the second quarter of 2020 (Figure 28). Although financial conditions normalized in the subsequent period, bank credit conditions still failed to ease.

The BSP estimates that a total of PHP 1.9 trillion (9.6 % of GDP)⁵³ was injected into the financial system by mid-October of 2020, but around PHP 1.5 trillion or greater has been lodged in its liquidity management facilities since June of 2020 (Figure 29). Although the BSP temporarily suspended TDF auctions and scaled down RRP volume offerings to support liquidity at the height of the pandemic, draining those facilities during that period, financial institutions still inundated the remaining (overnight) deposit facility of the central bank with their excess cash.

Banks worrying about their balance sheets and bottom lines in a pandemic recession would logically seek the safety of virtually zero-risk instruments. As noted earlier, banks have also been setting aside substantial amounts as loan loss provisions, to safeguard themselves from a rapidly worsening economy, which also serve to reduce funds that can be lent out for productive uses.

Experienced policy observers (e.g., Guinigundo 2020a to 2020c) see such procyclical behavior among banks, which are prevented by their risk management systems from taking on excessive risk, as a sign that aggressive monetary easing may already be "pushing on a string." The phrase refers to a situation where perception of risk is so high that banks are unwilling to lend, while uncertainty is so great that businesses and households would rather save than spend their money. This is not unlikely in a pandemic where some sectors have practically closed. Indeed, as Figure 30 illustrates, slow loan growth was as much a problem of deficient credit demand as it was of credit supply.

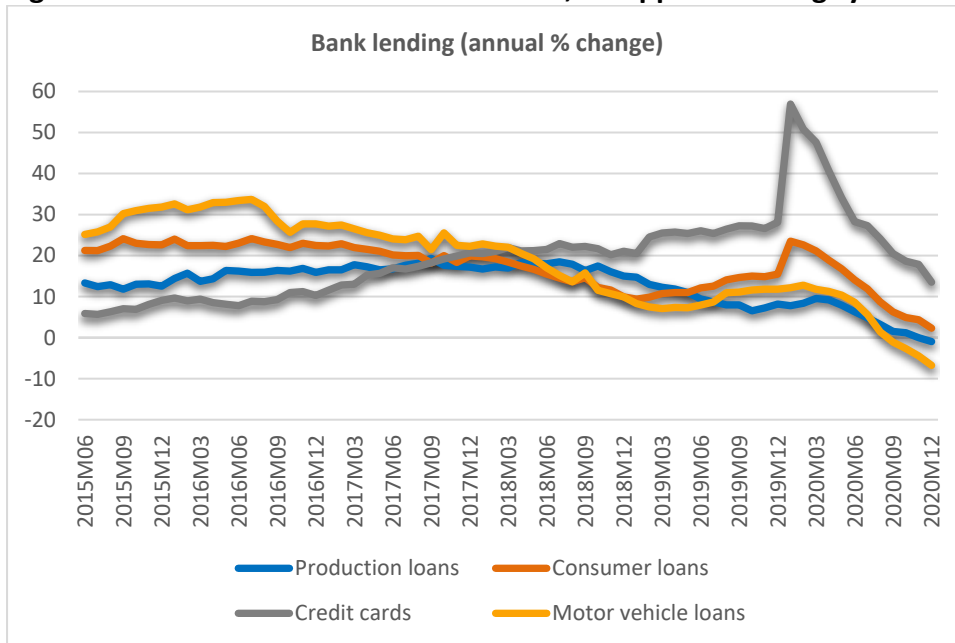
In such a scenario of weak monetary transmission, maintaining benign monetary conditions will remain important to help avoid unnecessary bankruptcies and incentivize firms to hold on

⁵² Growth in credit card debt followed the same trend but remained high, at 13.5 percent, making it a possible exception. There was also some indication that incentives given for lending to smaller businesses gained traction. Preliminary data from the BSP showed a significant increase in MSME loans, from PHP 8.7 billion in April of 2020 to PHP 162.8 billion by end-December, accounting for nearly 12 percent of total required reserves.

⁵³ According to the October 2020 issue of the Global Financial Stability Report, the asset purchase program amounting to 7.3 percent of GDP, consisting of secondary market purchases intended to stabilize the bond market and PHP 540 billion in advances to government (about 3% of GDP) to finance the budget deficit. The latter replaced the earlier PHP 300 billion repurchase agreement.

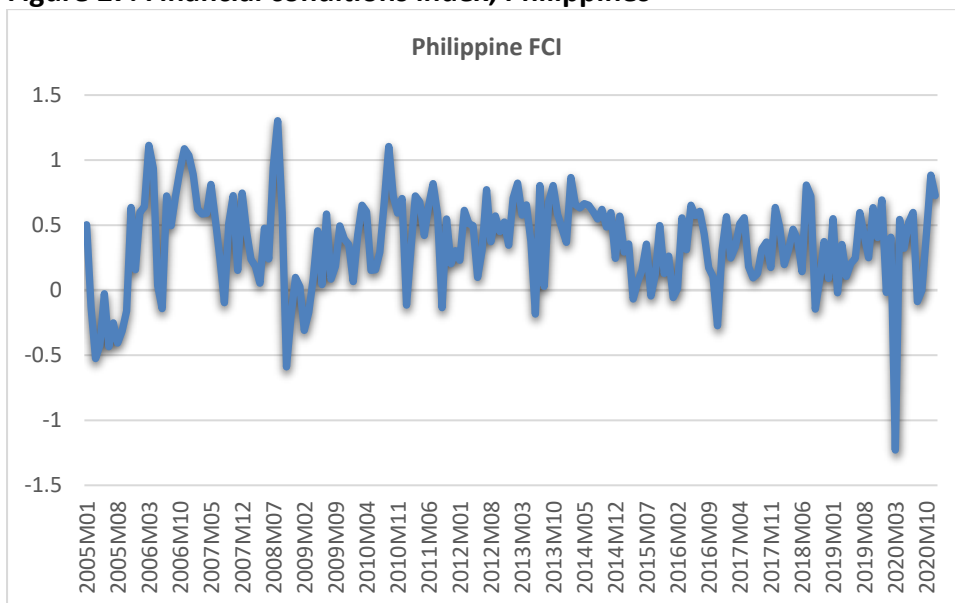
to their workers and prevent households from being overwhelmed by debt. However, a stronger fiscal response may be needed if aggregate demand continues to weaken.

Figure 26. Production and consumer loans, Philippine banking system



Source: Bangko Sentral ng Pilipinas (various years)

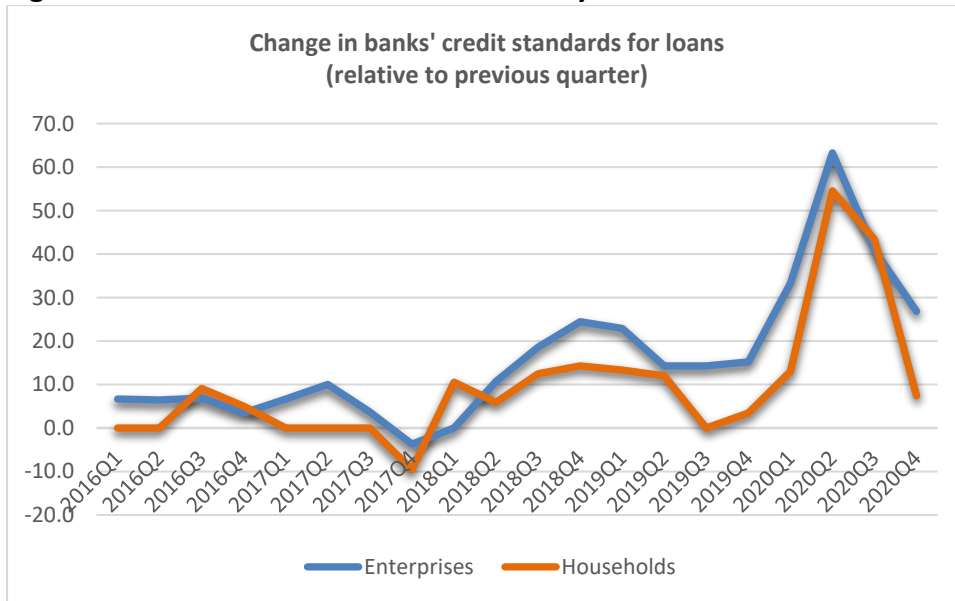
Figure 27. Financial conditions index, Philippines



Note: A value of 0 means financial conditions are at average levels of liquidity, stress, and risk, consistent with real activity and inflation levels. A value of -1 suggests worse financial conditions than the average historically by 1 standard deviation; the reverse holds for a value of 1.

Source: Debuque-Gonzales (2020)

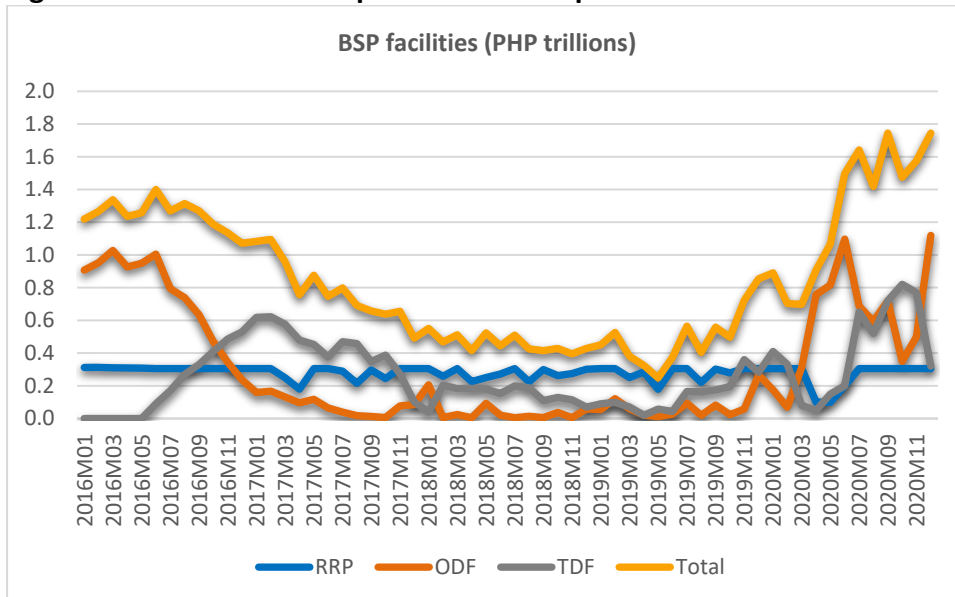
Figure 28. Senior Bank Loan Officers' Survey on credit standards



Note: A positive diffusion index indicates “net tightening” of credit standards (i.e., more banks tightening than easing), while a negative index indicates “net easing”.

Source: Bangko Sentral ng Pilipinas (various years)

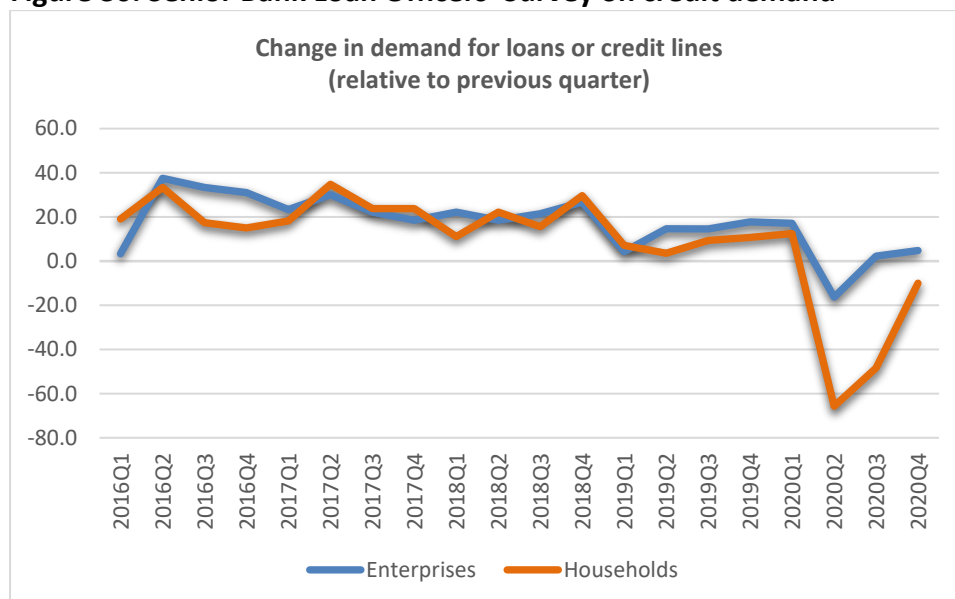
Figure 29. BSP's reverse repurchase and deposit facilities



ODF = overnight deposit facility; RRP = reverse repurchase; TDF = term deposit facility

Source: Bangko Sentral ng Pilipinas (various years)

Figure 30. Senior Bank Loan Officers' Survey on credit demand



Note: A positive reading indicates a net increase in loan demand (i.e., more banks reporting an increase than a decrease in demand), while a negative reading indicates a net decrease.

Source: Bangko Sentral ng Pilipinas (various years)

5.2. A hard fiscal push

Although the bannered amount for social protection had been unremarkable compared to those rolled out by some Asian neighbors during the pandemic, the Philippines in reality embarked on a rather ambitious relief program for households. In terms of the proportion of the population that was covered, the SAP counted among the largest cash transfers in the world (Cho 2021).

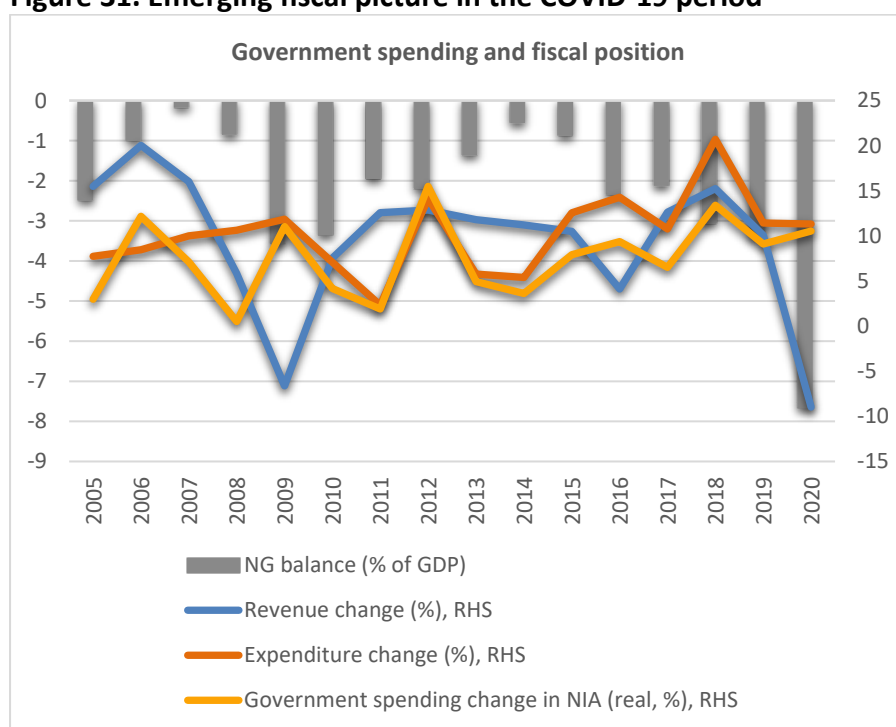
One might expect a few glitches from a project of that scale anywhere in the developing world. In the case of the Philippines, these stemmed from an incomplete list of beneficiaries, absence of a national identification system and unified database, and physical handling of cash, which made distribution not only unsafe (in terms of infection) but also prone to corruption and leakage.

However, families covered by the Pantawid Pamilyang Pilipino Program (4Ps), the country's flagship safety net program, were able to receive the cash subsidies sooner than those who were outside of the system (World Bank 2020c). This invites optimism that larger social protection efforts can be made more efficient when needed, with the development of the right, ideally digital, infrastructure for delivery.

Execution of more traditional forms of public spending such as construction proved to be even harder, and such spending eventually had to be cut during the pandemic. Following the Bayanihan I law, relevant agencies discontinued or postponed some public works, as they could no longer be implemented or completed because of the pandemic (DBM 2020). For the remaining projects, limited operating capacity of agencies due to community quarantine measures led to implementation delays.

The public infrastructure program for 2020 was eventually revised downward from PHP 1.1 trillion to PHP 785.5 billion, or about a 1.6 percentage-point cut in terms of proportion to GDP (World Bank 2020c). Infrastructure and other capital outlays thus fell sharply during the year (Table 5).⁵⁴ Total government spending correspondingly grew by just 10.5 percent (Figure 31), lower than the growth recorded two years earlier, in 2018 (13.4%), or during the years that fiscal packages were also pushed such as in 2012 (15.5%), when government tried to reverse the impact of underspending, and 2009 (11%), to avert a recessionary fallout from the GFC.

Figure 31. Emerging fiscal picture in the COVID-19 period



GDP = gross domestic product; NG = national government; NIA = national income accounts; RHS = right-hand side

Note: The 2020 figures for NG expenditure and revenue annual percentage change and NG balance are computed using figures from the Medium-term Fiscal Program for Fiscal Years 2020-2022 (178th DBCC meeting, December 3, 2020).

Source: DBCC; Bureau of Treasury; Philippine Statistics Authority.

For the credit-related components of the fiscal package, the main weakness so far has been the lack of readily available information on the uptake and performance of these programs. These include the PHP 120 billion credit guarantee program for MSMEs and agriculture implemented by PhilGuarantee and the PHP 39.5-billion worth of equity infusions into the various GFIs. Under the present circumstances, the greater interest is on how these measures are helping solve the problem of weak monetary transmission discussed in the previous subsection. With government absorbing some of the risk in credit provision and subsidizing some of the interest payments, the intention is to enable credit institutions to lend more freely to enterprises in still viable sectors and help provide these businesses with enough resources to survive the pandemic.

⁵⁴ An upsurge occurred mainly for maintenance and operating expenditures (MOOE), which included the country's cash transfer programs, and in the allotment and capital transfers to local government units (LGUs), bolstered by a one-time COVID-19 Bayanihan grant to provinces, cities, and municipalities (DBM 2020). Equity jumped due to the PHP 10 billion capital infusion to SBCorp and the subsidies for interest payments on new and existing loans of LGUs from both DBP and LBP, as mandated by the Bayanihan II law.

Finally, with respect to tax cuts in the fiscal package, there should be fair warning that such measures may not be a major source of fiscal stimulus in the near term, if faced with continued weakness in aggregate demand. Estimates of foregone revenues over the next couple of years, which supposedly proxies for the injection, may not be realized if firms fail to register profits in a prolonged downturn. Moreover, as noted by independent observers, tax cuts may be saved rather than spent in a period of still high uncertainty (Lim 2020) and are unlikely to create much-needed jobs with continued constraints to both supply and demand (Bernardo 2020).

The full benefits of the CREATE law, which brings corporate income tax rates closer to the ASEAN average to make investment in the country more attractive, are more likely to be felt in the longer term, when domestic and global economic conditions have sufficiently normalized. While passage of the law may have lessened business uncertainty, a surge of private investment, by either domestic or foreign firms, remains unlikely in the short horizon for as long as the economic environment remains weak.

Table 5. National Government Disbursement Performance (in billion pesos)

PARTICULARS	January to December 2020						
	2019	2020		Variance		Increase/(Decrease)	
	Actual	Program ^{1/}	Actual	Amount	%	Amount	%
CURRENT OPERATING EXPENDITURES	2,740.9	3,475.6	3,326.8	(148.7)	(4.3)	585.9	21.4
Personnel Services	1,115.0	1,117.8	1,178.0	0.2	0.0	62.9	5.6
Maintenance and Other Operating Exp.	572.9	996.1	885.0	(111.1)	(11.2)	312.1	54.5
Subsidy	201.5	244.1	230.4	(13.6)	(5.6)	28.9	14.3
Allotment to LGUs	463.2	621.6	620.0	(1.6)	(0.3)	156.7	33.8
Interest Payments	360.9	421.3	380.4	(40.9)	(9.7)	19.5	5.4
Tax Expenditure Fund	27.3	14.7	33.1	18.4	125.4	5.8	21.1
CAPITAL OUTLAYS	1,039.8	832.7	878.4	45.7	5.5	(161.3)	(15.5)
Infrastructure/Other Capital Outlays	881.7	609.3	681.1	71.8	11.8	(200.6)	(22.8)
Equity	3.3	51.2	12.8	(38.4)	(75.0)	9.5	285.7
Capital Transfers to LGUs	154.7	172.3	184.6	12.3	7.1	29.8	19.3
NET LENDING	17.1	26.9	22.1	(4.8)	(17.9)	5.1	29.6
GRAND TOTAL	3,797.7	4,335.2	4,227.4	(107.8)	(2.5)	429.7	11.3
<i>Memo Items:</i>							
<i>Infra Disbursements^{2/}</i>	1,049.9	785.5	869.5	84.0	10.7	(180.3)	(17.2)
<i>Revenues</i>	3,137.5	2,519.8	2,856.0	336.2	13.3	(281.5)	(9.0)
<i>Surplus/(Deficit)</i>	(660.2)	(1,815.4)	(1,371.4)	444.0	(24.5)	(711.2)	107.7

1/ Revised FY 2020 Quarterly Fiscal Program approved by the DBCC via Ad Referendum on July 28,

2020/ Include estimated NG infrastructure disbursements, and infrastructure components of subsidy and equity to GOCCs and transfers to LGUs

Source: Department of Budget and Management

6. The path forward

This chapter aimed to chronicle the impact of the COVID-19 pandemic on the Philippine economy. The effects of the virus and public health restrictions have no doubt been staggering.

The virtual shutdown due to the ECQs in the first half of the year, prolonged quarantines, and a decline in remittances from overseas workers pushed the country into its deepest recession in history. The services sector, which heretofore had been remarkably resilient, collapsed. Jobs were destroyed as firms across different sectors were shuttered, some permanently. The financially weak among households and firms, as could be expected, bore the brunt of the public health and economic crisis.

The country entered the COVID-19 crisis fundamentally strong, thanks to a string of economic reforms over the years. Monetary and fiscal policy responses to the pandemic were quick, and for the large part involved measures considered to be sensible, based on both rigorous analysis and prevailing wisdom about developing economies. Liquidity support and regulatory relief were provided, which calmed financial markets, and efforts exerted to alleviate conditions for poorer households and smaller businesses. But the struggle to contain the virus and mobility restrictions—and the highly uncertain environment these create—continue, stifling economic recovery.

6.1. Lessons from the literature

The literature offers policymakers ways to manage while the country remains mired in the pandemic. New empirical research based on data on modern pandemics finds that countries with larger first-year responses in government spending, especially on health care, exhibited faster GDP growth recovery and decline in unemployment after the crisis period (Ma et al. 2020). As the public health crisis remains unresolved, there is still an opportunity for the country to improve in this area.

New analytical work calls for providing social insurance/protection to affected workers in contact-intensive sectors that are ordered to close (or where social distancing is implemented) as the best way to prevent supply shocks from creating severe demand shortages (Guerrieri et al. 2020). Relatedly, there is a line of research arguing that a potent way to prevent amplification of the pandemic shock would be to target SMEs likely to remain viable in a post-pandemic economy and provide them the cash or credit they need to weather the crisis (e.g., Brunnermeier and Krishnamurthy 2020).

This growing body of literature suggests crucial areas where scarce fiscal resources can be further allocated for as long as the economy has not fully reopened and aggregate demand remains weak. It also supports what we already intuitively know about the quicker way out of a pandemic slump—through a build-up of consumer and investor confidence (e.g., by more effective virus containment measures and a comprehensive, reliable, and swift vaccine program) or direct injection of demand in the appropriate amounts (e.g., cash grants to protect poor families and cheap credit or grants to protect small firms in sustainable businesses).⁵⁵

There are convincing indicators that demand may remain depressed in the Philippine economy for some time. The latest national income accounts, for example, suggest weak spending across a wide range of sectors and not just the contact-intensive ones, while unemployment remains high even after the lockdowns. Consumers continue to social distance judging by mobility

⁵⁵ The reference is often the textbook Keynesian slump or “liquidity trap” where no amount of monetary expansion would spur private sector spending, and the solution would be government spending boosted by the corresponding Keynesian multiplier. However, multipliers will likely not work in a pandemic, as some sectors remain closed. The newer literature on pandemic recessions thus focuses more on social insurance and protection aside from health care, which is the acknowledged first-order response.

indicators. Production loans have declined, the first time it has done so in over a decade. BSP surveys reveal a weakening of credit demand as well as a tightening of credit standards. The latter finding underlies the observed weak transmission of the country's monetary responses during the pandemic, i.e., of monetary authorities "pushing on a string."

The dangers of a protracted slump cannot be overstated. One is the risk of the real output crisis morphing into a financial crisis, as bad economic outcomes weaken the portfolios of banks, pushing them to further cut their lending. Another is the much-feared threat of economic scarring such as through prolonged unemployment, widespread business closures, and disruptions in education and training and planned investment, which could impair a country's long-term growth potential (Boissay and Rungcharoenkitkul 2020; Eichengreen 2020; IMF 2020b; World Bank 2020e). The probability of imbalances forming or worsening may also rise the longer it takes for aggregate demand to recover.

It would therefore be a tricky situation for policymakers for as long as public-health-related issues and limitations persist. The country had already started to bend the COVID-19 curve for daily new cases by around October of 2020, but this went back up again more recently, after the Christmas holidays and as a new variant of the disease emerged. The good news is that the government's vaccination program, which has a target to vaccinate 60 to 75 percent of the population by the end of 2021, has already begun, though a lot of challenges remain in terms of supply, funding, delivery, storage, and logistics at the local government level, especially the drawing up of master lists (Tomacruz 2021).

6.2. *The new fiscal consensus?*

A good development for fiscal and monetary authorities is the current accepting environment for alternative forms of financing even in an emerging market economy, particularly in an emergency like the COVID-19 pandemic. Such includes the country's PHP 300-billion short-term lending arrangement entered by the central bank and the national treasury during the lockdown and the PHP 540-billion-worth of short-term provisional advances that followed it (with PHP 280 billion left that can be used). For the BSP, such acceptance of monetary financing rests on the credibility it has built over the years as an independent inflation-targeting monetary authority. For the fiscal authorities, it has similarly been due to the level of discipline exhibited over time. Such temporary financing arrangements could again help tide the government over in case they would need one more fiscal push to spark a robust recovery.

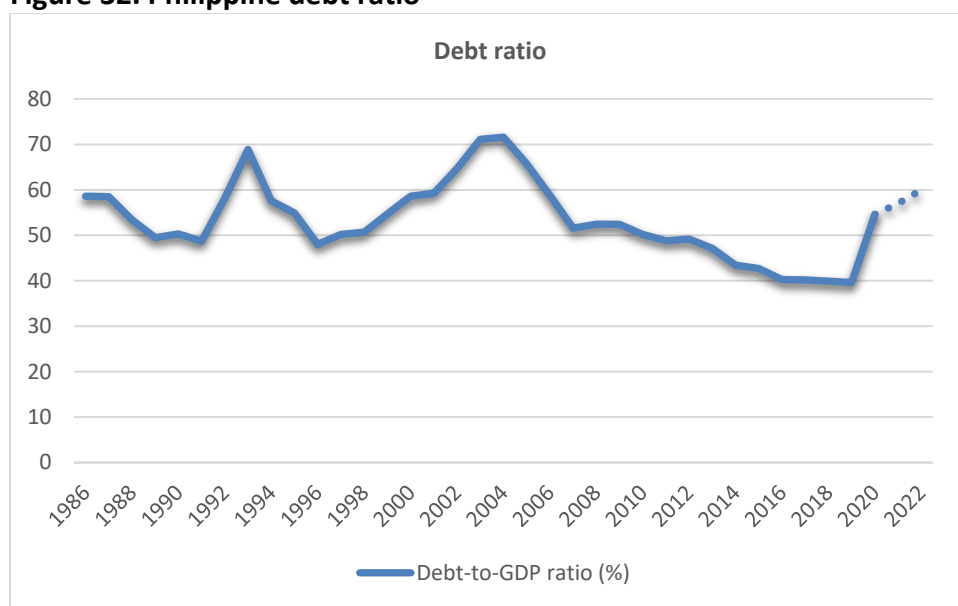
There is also an emerging fiscal consensus that is more tolerant of budget deficits and debt due to the low interest-rate environment globally, especially in the context of a pandemic, when governments need to spend more to protect firms and households (Blanchard 2020). This approach applies even to emerging market economies provided there is fiscal space. Lower interest rates than potential output growth means debt would remain at sustainable levels, where the debt-to-GDP ratio would eventually decline as the economy recovers and picks up speed.⁵⁶ Prudence of Philippine fiscal authorities have kept the country's risk premia low and

⁵⁶ The interest rates on emergency financing for country's COVID-19 spending averaged at 4.7 percent for domestic debt, according to the finance department, and at 3.2 percent for external debt.

contingent liabilities manageable, while interest payments in proportion to GDP and government revenues are now far below where they were a decade and a half ago.⁵⁷

The country’s economic managers expect the country’s debt ratio to rise to 57 percent in 2021, with the limit set at 60 percent by 2022 (Figure 32).⁵⁸ Stochastic simulation results generated by the Debt Sustainability Analysis of the Development Budget Coordination Committee (DBCC 2020) finds the national government’s debt trajectory to be stable (Figure 33). DBCC analysis reveals only moderate risk that the debt ratio will exceed 60 percent in 2021 and a high likelihood of a return to a downward debt path by 2023, once GDP growth and fiscal deficits return to their long-run averages.

Figure 32. Philippine debt ratio

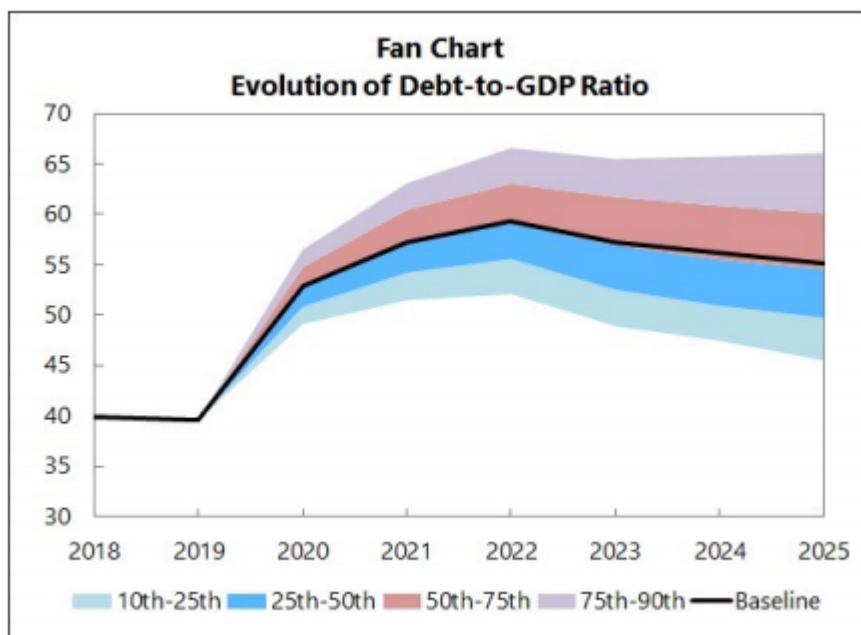


Note: Dashed lines are estimates of the Department of Finance.
 Source: Bureau of the Treasury; Dominguez (2021)

57 The national government’s guaranteed debt was 2.4% in 2020 (evenly split between domestic and external debt). According to the Fiscal Risks Statement 2021 (DBCC 2020), contingent liabilities from public-private partnerships (PPPs) amounted to PHP 311.8 billion in 2020, or about 1.7 percent of GDP. There are some risk areas however, such as in government pension and insurance schemes. Interest payments in proportion to GDP and total government revenues were at 2.1 percent and 13.3 percent, respectively, in 2020. These figures came from a high of 5.1 percent and 36.7 percent in 2005.

58 Government disbursements are targeted to accelerate by 10.1 percent, while revenues are estimated to grow by just 1 percent despite assumed GDP growth of between 6.5 to 7.5 percent, likely because of the tax cuts. As a result, the fiscal deficit is expected to widen from an estimated 7.6 percent in 2020 to 8.9 percent in 2021, narrowing only slightly to 7.3 percent in 2022. See also Department of Finance – News and Views, January 12, 2021. <https://www.dof.gov.ph/large-structural-liquidity-to-mitigate-forex-risks-in-fulfilling-2021-funding-requirements/> (accessed on January 18, 2021)

Figure 33. Debt Sustainability Analysis by the DBCC



Source: Development Budget Coordination Committee

6.3. Looking ahead

The framework for a fiscal push is already there if circumstances will require it, as we had seen in Bayanihan I and Bayanihan II. Any additional policy responses can simply follow the same strategy, with improvement in execution (which had already benefited from learning-by-doing for social protection), a finetuning of amounts, and greater focus on transfers rather than credit if the pandemic or recession worsens.

As the Philippines will likely remain within a grey area where both relief and recovery spending will be needed to shore up the economy, at least for the next year, important areas for public spending will still be infrastructure, which had suffered a cut during the pandemic, and education, aside from health and social protection. Such investments will help minimize the losses in both human and physical capital experienced at the height of the pandemic. They will not only bolster aggregate demand but also prevent economic scarring.

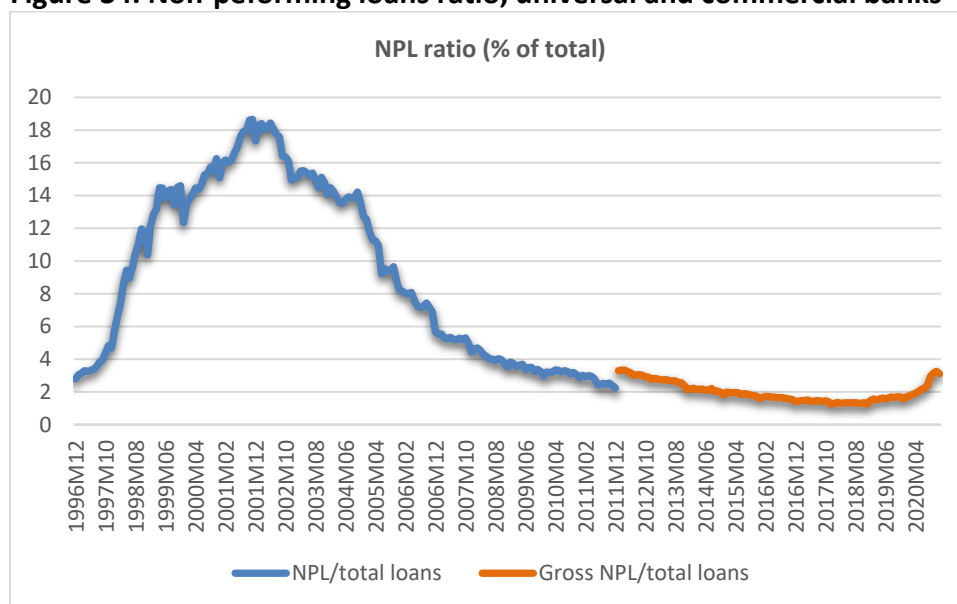
Timely passage of the PHP 4.506 trillion national budget for 2021 has been a good start. Education will still receive the biggest allocation (at 17% of the total), while health and social spending will grow, by 14.5 percent and 24.4%, respectively. The budget will again include a PHP 1.1 trillion for infrastructure investment (still from the Build, Build, Build program), which usually has the highest multipliers among the different types of spending.⁵⁹ The country's economic managers estimate this will create roughly 1.7 million new jobs. A total of

⁵⁹ There is surprisingly sparse literature on national fiscal multipliers of Asian economies, and the existing studies find only a limited impact (e.g., Tang et al. 2013, Jha et al. 2014). The Philippines, however, appears to be a marginally better candidate for countercyclical public spending policy among the countries in the region. Based on a simulation from a macro-econometric model, Ducanes et al. (2006) placed the Philippine short-term fiscal spending multiplier at 0.3, which rises to 0.7 for capital spending. The study also found government spending to be more useful than tax cuts. In a more recent paper, Debuque-Gonzales (2021) estimated the Philippines' subnational (regional) fiscal multipliers at 1.2, where a 1-peso increase in local government spending in regions stimulates about a 1.2-peso increase in regional output. Using financial data of LGUs, the regional fiscal multiplier was similarly found to be higher for capital investment. Moreover, spillovers of regional public spending to other regions were observed to be larger, at around 1.8 to 2.

PHP 82.5 billion has already been earmarked for vaccines, with PHP 72.5 billion coming from the national budget in programmed and unprogrammed funds, and perhaps more can be spared for a faster rollout.⁶⁰ The annual budget will not grow exceptionally fast this year but will hopefully be money well spent.⁶¹

The Financial Institutions Strategic Transfer Act (FIST) has also been passed by the bicameral conference committee of the House and Senate and will just need the President’s signature to officially become law. FIST allows banks and other financial institutions to offload their NPLs and other nonperforming assets to newly formed private asset management companies called FIST corporations. This helps pre-empt financial instability by decreasing the likelihood of financial sector weakness further bringing down the economy or keeping the country on a low growth trajectory. The NPL ratio has already doubled since the start of the pandemic crisis, from 1.6 percent in end-2019 to 3.1 percent in end-2020 (Figure 34).

Figure 34. Non-performing loans ratio, universal and commercial banks



Source: Bangko Sentral ng Pilipinas

The NPL ratio climbed after the AFC of 1997/1998 to a peak of nearly a fifth of total loans by 2001, sharply declining only after the passage of the Special Purpose Vehicle (SPV) Act of 2002 (RA 9182). The law granted tax exemptions and fee privileges to SPVs that acquire or invest in nonperforming assets; it was extended for another two years in early 2006. The advantage of the FIST this time around is that the country can promptly address any bad asset problems likely to develop during the pandemic. This will keep the financial sector fit and enable them to help in the economic recovery.

In a post-pandemic world, the country’s policymakers will need to lay down strategies on how to keep the economy stable after the once-in-a-lifetime shock. A proper exit must be staged,

60 On January 14, 2021, the Department of Financed announced that the government already secured PHP 75 billion of the required PHP 82.5 billion to vaccinate 55 percent of the population. The breakdown for the vaccination budget is as follows: PHP 2.5 billion in programmed funds in the national budget; PHP 70 billion in unprogrammed funds, to be sourced loans from multilateral lenders (Asian Development Bank, Asian Infrastructure Investment Bank, and World Bank); PHP 10 billion from Bayanihan II.

61 Government disbursements are targeted to accelerate by 10.1 percent, while revenues are estimated to grow by just 1 percent. The fiscal deficit is expected to widen from an estimated 7.6 percent in 2020 to 8.9 percent in 2021 as a result, narrowing only slightly to 7.3 percent in 2022. This underlies the government’s GDP growth target of between 6.5 to 7.5 percent.

especially in terms of unwinding the measures that, while needed for survival at the height of the public health and economic crisis, carried non-negligible risk.

For monetary authorities, the challenge would be determining the right timing for the reversal of liquidity and credit support measures in such a way that would not set back growth. While monetary-fiscal financing arrangements may be useful for emergencies, they must be put back into the policy toolkit when conditions normalize. Extending such arrangements would only raise the risk of perceived fiscal dominance and diminish both monetary and fiscal independence and credibility, and ultimately weaken inflation control.

Fiscal authorities meanwhile would have the enormous task of bringing down the country's budget deficits after much-needed pandemic spending, especially health spending, and the permanent tax cuts. While further public investment is needed to address the economic scars of the pandemic, the longer term goal would have to be to gently place the country on a downward debt trajectory—towards more sustainable levels, ideally through higher growth rather than through inflation and similarly inequitable measures.

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