Economic Report

SENATE ECONOMIC PLANNING OFFICE

February 2021 | **ER-2021-01**

2020 Socio-Economic Report

Battling a Crisis Like No Other

The year 2020 brought enormous challenges to the Philippines as it faced a volcanic eruption, a succession of typhoons and a catastrophic Coronavirus Disease 2019 (COVID-19) health crisis. The global and domestic disruption caused by COVID-19 was so widespread that it has turned into an economic pandemic, precipitating a historic recession far worse than any downturn experienced by the Philippines after World War II. The pandemic has resulted in the tragic loss of lives and livelihoods aggravated by the government's underspending and slow implementation of relief measures. As the health risks and uncertainty linger, recovery will likely be gradual and will depend largely on the timely and efficient rollout of the COVID-19 vaccination program, the willingness of the government to pursue targeted fiscal expansion, and its commitment to push through with long overdue reforms.

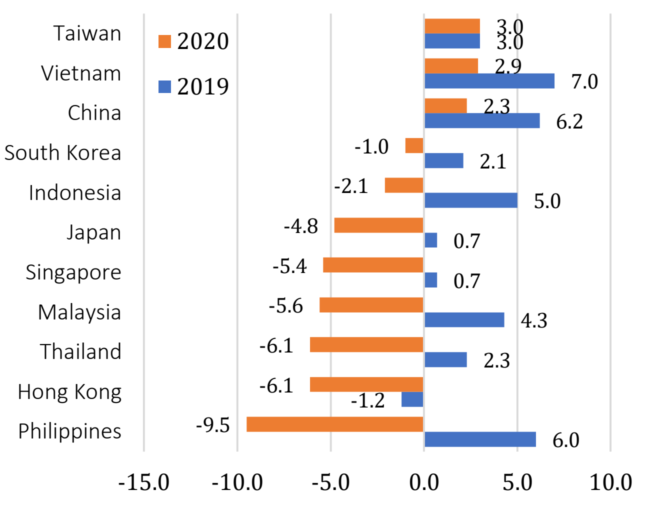
The domestic economy contracted by 9.5 percent in 2020, its worst performance in the post-war era. The actual gross domestic product (GDP) growth rate was much worse than earlier predicted but was within the higher end of the forecast range adopted by the Development Budget Coordination Committee (DBCC) in December 2020. Prior to the onset of the pandemic, the GDP growth target for the year was 6.5 to 7.5 percent but the DBCC had to scale it down three times.

Table 1. DBCC Projections for 2020 GDP Growth Rate

	Adopted on	Real GDP (%)
177th DBCC Meeting	Dec. 11, 2019	6.5 to 7.5
DBCC Ad Referendum	May 27, 2020	-3.4 to -2.0
DBCC Ad Referendum	July 16, 2020	-4.5 to -6.6
178th DBCC Meeting	Dec. 3, 2020	-9.5 to -8.5

Source: DBCC Macroeconomic Assumptions and Fiscal Targets

Figure 1. 2019 and 2020 Growth Rates of Selected Asian Countries (in %)



Source: www.tradingeconomics.com

The economy took a hit as early as the first quarter with the disruption from the Taal volcano eruption in January and the subsequent two-week lockdown in March. From thereon, it continued to lose steam until the last quarter of the year. Compared to 2019, the economy shrank by PhP1.5 trillion in nominal terms, a stark reminder of how much can be lost in such a short time. From being the second fastest growing economy in Southeast Asia in 2019, the Philippines is now the worst performer. Vietnam, which is recognized as having demonstrated one of the world's most successful responses to the COVID-19 crisis, retained its top rank among the Association of Southeast Asian Nations (ASEAN) economies by posting a positive GDP growth of 2.9 percent.

Real Sector

The agriculture sector contracted by 0.2 percent. All of the country's major production sectors registered negative growth, including agriculture which expanded in the first three quarters of the year but was dragged down by unfavorable weather conditions in the fourth quarter. Crop production, which accounts for almost 60 percent of the sector's gross value added (GVA) was severely affected by the typhoon season which resulted in an estimated loss of PhP16.6 billion. However, robust growth rates were recorded in the production of crops such as sugarcane (21.3 percent) and cacao (9.9 percent) while modest growth rates were registered for palay (3.1 percent) and corn (2.4 percent). Livestock production decelerated by 6.9 percent, pulled down by hog raising as the effects of the African swine fever (ASF) lingered. Weak consumer demand also resulted in a 2.4 percent reduction in poultry production.

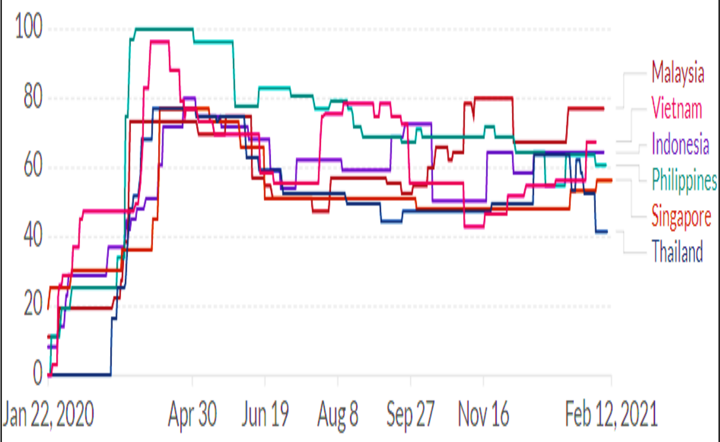
Table 2. Growth Rates, 2019 and 2020 (at Constant Prices)

	FY 2019	FY 2020
Gross Domestic Product	**6.0**	**-9.5**
Net primary income from rest of the world	-2.2	-27.3
Gross National Income	**5.2**	**-11.1**
Production		
Agriculture, forestry, and fishing	**1.2**	**-0.2**
Industry	**4.7**	**-13.1**
Mining and quarrying	3.6	-19.9
Manufacturing	3.2	-9.5
Electricity, steam, water and waste management	6.6	-0.7
Construction	7.8	-26.0
Services	**7.5**	**-9.1**
Wholesale and retail trade; repair of motor vehicles and motorcycles	8.1	-5.7
Transportation and storage	6.3	-31.2
Accommodation and food service	6.2	-44.7
Information and communication	6.5	5.1
Financial and insurance activities	11.9	5.8
Real estate and ownership of dwellings	5.2	-17.0
Professional and business services	2.3	-9.3
Public administration and defense; compulsory social activities	13.4	4.4
Education	6.1	-11.9
Human health and social work	4.1	-4.3
Other services	6.5	-41.8
Expenditure		
Household final consumption	**5.9**	**-7.9**
Government final consumption	**9.6**	**10.4**
Gross capital formation	**2.5**	**-35.8**
Gross fixed capital formation	3.9	-27.5
Construction	8.9	-29.7
Durable equipment	-7.0	-31.3
Breeding stocks and orchard development	1.5	-2.9
Intellectual property products	26.7	-9.6
Exports of goods and services	**2.4**	**-16.7**
Exports of goods	1.0	-9.6
Exports of services	4.2	-25.5
Less: Imports of goods and services	**1.8**	**-21.9**
Imports of goods	1.2	-21.4
Imports of services	4.5	-23.8

Source: PSA

The industry sector was severely battered. Industry contracted by 13.1 percent and all of its sub-sectors posted negative growth rates**.** Construction was the most affected, posting a 26.0 percent decline after infrastructure projects were temporarily suspended. Likewise, manufacturing growth fell by 9.5 percent as enterprises were either forced to close or operate at less than full capacity due to supply chain disruptions. On a positive note, results of the latest Monthly Integrated Survey of Selected Industries (MISSI) of the Philippine Statistics Authority (PSA) show a slower rate of decline, indicating a turnaround in manufacturing activity. Year-on-year value of production index (VaPI) and the volume of production index (VoPI) posted an annual reduction of -5.1 percent and -2.8 percent, respectively in December 2020. The manufacturing purchasing managers' index (PMI) has also improved to 49.2 percent in December compared to the 31.6 percent score in April. While it is still below the threshold 50 percent, which indicates contractions in output and new orders, the continuous improvement in the PMI score bodes well for the recovery of the manufacturing sector.

Figure 2. Government Response Stringency Index



Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker - Last updated 14 February, 09:20 (London time)
Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.

Services sector took a heavy blow but some bright spots emerged. From a 7.5 percent growth in 2019, services contracted by 9.1 percent in 2020. The three sub-sectors that recorded the biggest drops were transport, other services[1] and accommodation and food service, which contracted by 31.2 percent, 41.8 percent, and 44.7 percent, respectively. This is attributed mainly to the government's implementation of COVID-19 containment measures which were considered to be the most stringent among the ASEAN-6 economies for the period mid-March to mid-August 2020.[2] The mobility restrictions had staggering effects particularly on the tourism industry. Both tourist arrivals and receipts plunged by more than 80 percent in 2020, forcing many hotels and other lodging businesses to shut down, and the aviation and maritime industries to massively scale down their manpower. While travel restrictions have been relaxed towards the latter part of the year and various localities have already reopened tourist destinations, the health protocols and lingering fear of infection constrains the full potential of domestic tourism. In contrast, the information and communications sub-sector registered a positive growth of 5.1 percent as telecommunications and broadband services became essential for both businesses and households, while increased demand led to the 5.8 percent expansion of financial and insurance activities. Public administration and defense services likewise contributed positively to the performance of the services sector.

On the expenditure side, only government spending registered positive growth, boosted by budgetary support for health and social welfare programs. However, the 10.4 percent growth in public spending was not enough to rally the economy since all other expenditure components of the GDP declined.

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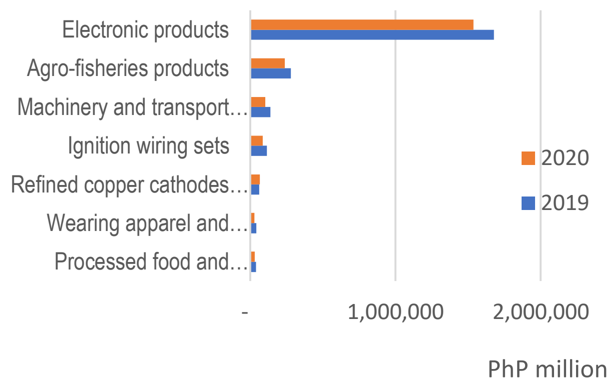
[1] Other services includes arts, entertainment and recreation and other service activities such as repair of computer and personal household goods, personal grooming and care, laundry and funeral services.

[2] This is a composite measure based on nine response indicators including school closures, workplace closures, cancellation of public events, restrictions on gatherings, closure of public transport, public information campaigns, stay at home orders, restrictions on internal movement, and international travel controls, rescaled to a value from 0 to 100 (100=strictest).

Consumption of households dipped considerably. Spending of households which accounts for about 75 percent of GDP contracted by 7.9 percent. Even after restrictions were loosened, consumer sentiment remained weak with the third and fourth quarter consumer expectation surveys showing a -54.5 and -47.9 percent confidence index, respectively. Only four consumption items registered modest positive growth rates and they are mostly essential goods: communication (6.2 percent); housing, gas and utilities (5.8 percent); food and non-alcoholic beverages (5.0 percent); and miscellaneous goods/services (1.5 percent). Significant drops were recorded in the consumption spending for recreation and culture (44.2 percent), restaurants and hotels (42.9 percent), transport (33.3 percent), alcoholic beverages and tobacco (25.9 percent), and clothing and footwear (15.6 percent).

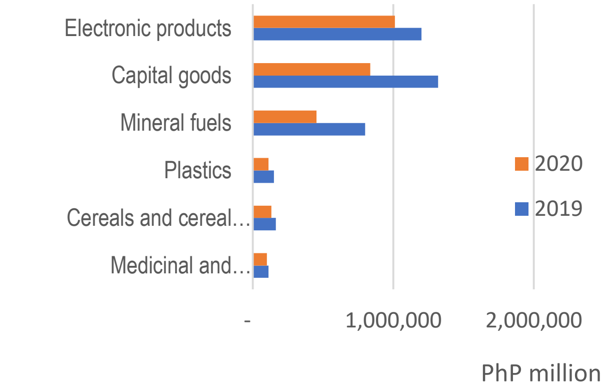
Investment spending and trade plummeted. Due to subdued business sentiment and disrupted rollout of infrastructure projects, capital formation contracted by 35.8 percent.[3] Big declines were recorded in durable equipment (31.3 percent) and construction (29.7 percent). The slump in global and domestic demands likewise weighed down both total export and import which contracted by 16.7 percent and 21.9 percent, respectively. The actual figures were close to the figures earlier projected by the DBCC (i.e., -16.0 percent for export and -20.0 percent for imports). Export of goods plunged by 9.6 percent with the biggest drops seen in wearing apparels and clothing accessories (-27.9 percent), machinery and transport equipment (-22.8 percent), ignition wiring sets (-21.4 percent) and agricultural products (-21.1 percent). Electronic products which account for more than 60 percent of the country's total merchandise exports contracted by 3.4 percent. Export of services fell harder, by 25.5 percent with all groups posting negative growth, to wit: transport travel (-66.4 percent), telecoms (-50.6 percent), and computer and information services (-18.4 percent).

Figure 3. Philippines Export of Goods, 2019 vs 2020



Source: PSA

Figure 4. Philippines Import of Goods, 2019 vs 2020



Source: PSA

Similarly, the annual import values of goods and services posted a double-digit contraction of 21.9 percent. Among the commodities, the steepest fall was seen in importation of power generating and specialized machinery (-43.5 percent), transport equipment (-43.0 percent), professional scientific apparatus (-33.1 percent), and industrial machinery and equipment (-30.7 percent). This considerable drop in imports of capital goods does not bode well for the country's production capacity in the near future. Likewise, services imports contracted by 23.8 percent because of

[3] The government has revised the list of infrastructure flagship projects in August 2020. Although 13 new projects were added, eight projects were scrapped off the revised list, to wit: 1) Bataan-Cavite Link Bridge; 2) Dalton Pass East Alignment; 3) New Zamboanga International Airport; 4) New Dumaguete Airport; 5) Panay River Basin Integrated Development Project; 6) Kabulnan Multipurpose Irrigation and Power Project; 7) Kanan Dam Project; and 8) Guimaras-to-Negros portion of the Panay-Guimaras-Negros Bridge.

decimated demand for travel (-36.6 percent), transport (-22.0 percent) and insurance and pension services (-21.9 percent). There is however a notable increase in importation of telecoms, computer and information services (18.0 percent) and government goods and services (6.3 percent).

Monetary and Financial Sector

Tepid demand kept inflation stable but supply issues towards the latter part of the year put upward pressure on prices. Headline inflation rate averaged 2.6 percent in 2020, slightly higher than the 2.5 percent recorded in 2019 but is within the lower half of the target band of 2.0 to 4.0 percent. Prices generally remained stable and manageable throughout the year, reflecting the economic slowdown, lower global oil prices, and the appreciation of the peso against the US dollar. However, inflation started to pick up in the last two months of the year and continued to rise until January 2021 with an above target inflation rate of 4.2 percent. While the price of rice remained stable, the successive typhoons (Quinta, Rolly and Ulysses) which inundated farmlands, combined with the persistence of the African swine fever (ASF), prompted the acceleration of meat and vegetable prices. According to the Bangko Sentral ng Pilipinas (BSP), the uptick will likely be transitory and will moderate once the supply constraints are addressed.

Table 3. Prevailing Retail Prices of Selected Commodities in PhP/kilo

Commodity	Prevailing Retail Price as of Jan. 28, 2020	Prevailing Retail Price as of Jan. 28, 2021	Growth rate (in %)
COMMERCIAL RICE			
Regular milled	35	38	8.6
Well milled	40	42	5
MEAT			
Pork ham/kasim	200	360	80
Pork liempo	240	400	66.7
VEGETABLES			
Cabbage	50	120	140
Tomato	60	80	33.3
Eggplant	70	80	14.3
FISH			
Galunggong	240	260	8.3

Source: PSA

Proactive monetary policy response was implemented but impact was weighed down by the drop in bank lending. Benign inflation conditions allowed the BSP to proactively cut the policy rate by a total of 200 basis points during the year, lending some policy cushion as the economy contracted. The BSP likewise resorted to debt monetization in March, enabling the government to raise additional funds for crisis response. Moreover, it allowed loans to micro, small, and medium enterprises (MSMEs) to be counted as banks' compliance to reserve requirements. These monetary measures gave rise to excess liquidity and resulted in flatter and lower yield curves.

However, despite efforts to incentivize and boost credit growth, bank lending fell by 0.7 percent in 2020, the first time in more than 14 years. Banks became more risk averse, prompting them to adopt more stringent lending standards to control for the expected rise in non-performing loans. Due to heightened uncertainty, businesses and consumers are also reining in spending, cutting the demand for credit. It is expected that loan growth will remain subdued this year as banks will likely focus their resources on more profitable activities. Meanwhile, "bad debts" increased, with the ratio of non-performing loans to total loan portfolio rising to 3.2 percent, higher than the average ratio of 1.4 percent in the previous five years. Nonetheless, capital adequacy ratios remain manageable, and monetary policy is expected to remain accommodative in 2021 in light of the continuing need to bolster market sentiment and nourish economic recovery.

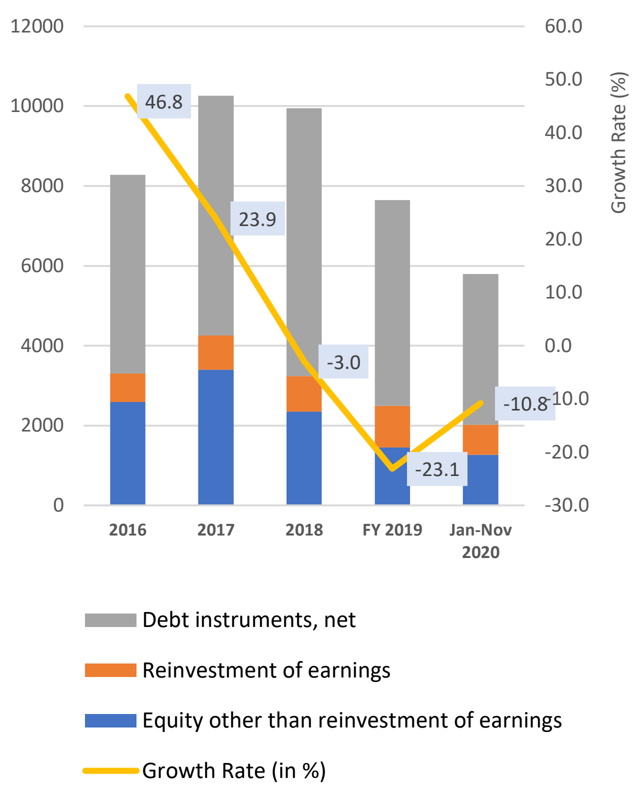
External Accounts

The country's trade deficit narrowed with larger fall in imports than exports. The country's trade deficit declined by 26.4 percent year-on-year from USD40.7 billion in 2019 to USD21.8 billion in 2020. Weak external demand for Philippine goods due to the imposition and reimposition of lockdowns in major trading partners saw export earnings fall by 10.1 percent year-on-year to USD63.8 billion. Imports likewise stumbled to USD85.6 billion, or at a sharper rate of 23.3 percent, as demand fell because of the disruption in domestic construction and manufacturing activities.

Inflows of foreign direct investments (FDI) continued its decline. Net FDI inflows to the Philippines have been falling since 2017 which was attributed partly to the uncertainty on the corporate tax and incentives system that kept investors at bay. As the pandemic raged on, FDIs continued its decline and amounted to USD5.3 billion in the first 11 months of 2020, 10.8 percent lower than the USD6.5 billion net inflows registered in the comparable period in 2019.[4]

Debt instruments or intercompany borrowings which account for 65 percent of total FDI, dropped by 19.3 percent from its level in 2019 while reinvestment of earnings contracted by 21.9 percent. On the other hand, non-residents' net investment in equity capital somewhat eased the decline in the cumulative FDI net inflows as it rose by 48.6 percent. During the said period, equity capital was largely funneled into manufacturing, real estate, and financial and insurance industries and emanated mainly from Japan, Netherlands, United States and Singapore.

Figure 5 . Foreign Direct Investments, 2016 to 2020 (in million USD)



Source: BSP

Remittances from overseas, a lifeline for many Filipino families, contracted but at a slower pace than initially estimated. Personal remittances and cash remittances that were coursed thru banks from overseas amounted to USD33.194 billion and USD29.903 billion, respectively in 2020, posting a cumulative negative growth of 0.8 percent. The decline is much less than the -5.0 percent growth earlier projected by the BSP and lower than its latest revised target of -2.0 percent.

The drop in remittances can be partly explained by the slowdown in the deployment of overseas Filipino workers (OFWs), resulting from the lockdown and the lower demand from destination countries. Total deployment of OFWs fell by 74.5 percent in 2020 with only over a thousand new hires and 232,000 rehired workers going out of the country compared to 486,000 and 1.1 million, respectively in 2019. Meanwhile, the Department of Foreign Affairs (DFA) reports that around 327,511 Filipino workers were repatriated home.[5] Of this number, 70.7 percent were land-based

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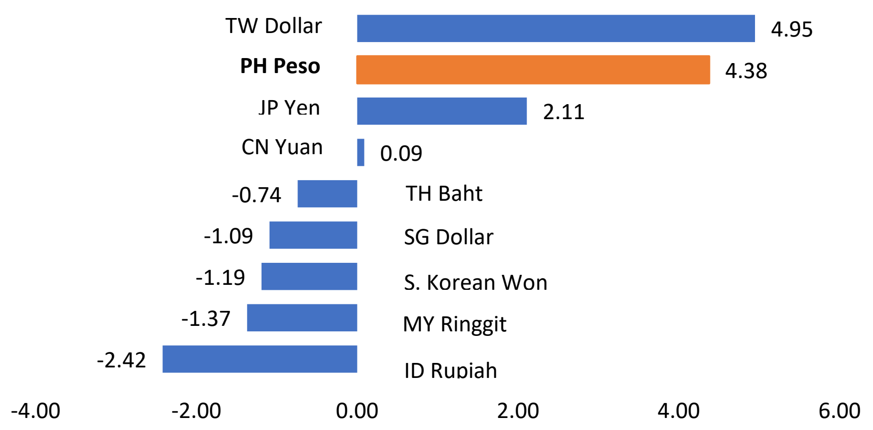
[4] FDI includes (a) investment by a non-resident direct investor in a resident enterprise, whose equity capital in the latter is at least 10 percent, and (b) investment made by a non-resident subsidiary/associate in its resident direct investor.
[5] https://dfa.gov.ph/dfa-news/dfa-releasesupdate/28480-dfa-repatriates-327-511-overseas-filipinos-in-2020.

workers, while the remaining were sea-based workers. Most of the Filipino repatriates were traveling or transiting through the Middle East (69.89 percent), while others were from Asia and the Pacific (11.26 percent), Americas (9.46 percent), Europe (8.83 percent), and Africa (0.57 percent).

Falling imports which weakened the demand for US dollars resulted in a strong peso. The Philippine peso emerged as one of the strongest currencies in Asia in 2020, appreciating by 4.38 percent on the average vis-à-vis the US dollar. As both the global and domestic economies weakened, demand for both the country's exports and imports faltered but the fall in import demand was bigger, thus narrowing the trade deficit and dampening the demand for the US dollar. Travel restrictions and investors' aversion to investing in dollar-denominated assets likewise diminished the demand for the greenback. In addition, the influx of dollar-denominated loans as well as the sale of dollar-denominated bonds contributed to the increase in the supply of the said currency and thus reduced its value vis-à-vis the Philippine peso.

While the strong currency is a boon for some sectors such as importers and consumers, it makes the Philippine exports and outsourcing industry less competitive. It also reduces the value of remittances, a key driver of household consumption. This has prompted some quarters to call for the BSP to intervene more aggressively to rein in the peso's strength. However, faced with a higher-than-usual inflation in the coming months and imports demand that seemed to have bottomed out, the BSP is likely to allow the exchange rate to just reflect the actual conditions of the market.

Figure 6. Appreciation/(Depreciation) of Selected Asian Currencies vis-à-vis US Dollar, 2020 Period Average (%)



Source: BSP

Driven by lower merchandise trade deficit and higher net foreign borrowings by the national government, the country's balance of payments (BOP) position posted a higher surplus. In 2020, the BOP surplus stood at USD16.02 billion, more than two times higher than the surplus of USD7.84 billion recorded in 2019. The BOP surplus reflects the spike in the country's foreign reserves. As of end-December 2020, the gross international reserves (GIR) level amounted to USD109.8 billion, equivalent to 11.7 months' worth of imports and is about 9.6 times the country's short-term external debt based on original maturity, and 5.5 times based on residual maturity. This represents an ample liquidity buffer that cushion against external shocks. Conventionally, the GIR is considered adequate if it can cover at least 3 months' worth of imports or if it can cover 100 percent of the country's short-term external liabilities (i.e., falling due within the immediate 12-month period).

Fiscal Account

Fiscal shortfall soared to a record high. With the significant decline in government income and increase in expenditure, the Philippine fiscal deficit ballooned to PhP1.37 trillion in 2020, or to 7.6 percent of the GDP. It is by far the largest annual shortfall ever recorded and is more than double the 3.4 percent budget gap posted in 2019. However, it did not meet the earlier projected deficit-to-GDP target. The government was actually prepared to see the budget gap widen to 9.6 percent of the GDP to boost spending for the fight against the COVID-19 crisis.

Revenue collection fell but not as worse as expected. Revenue collection was set at PhP3.5 trillion prior to the pandemic but the target was slashed to PhP2.52 trillion or by 28.6 percent in July 2020. Actual revenue take for the year amounted to PhP2.86 trillion, exceeding the revised goal by 13.6 percent. Revenue growth was propelled by the robust collection of non-tax revenues which rose by 13.5 percent. This was driven mainly by the income of the Bureau of the Treasury (BTr) which surged to PhP219.7 billion, 50 percent higher than that in 2019. The BTr largely benefited from the dividends from the government-owned and -controlled corporations (GOCCs) which are required to remit at least half of their net earnings to the Treasury, as mandated by Republic Act No. 7656 or the GOCC Dividends Law. A preliminary report from the Department of Finance (DoF) shows that GOCCs have contributed a total of PhP157 billion in cash dividends for the whole of 2020, more than double the PhP69.2 billion remittance in 2019, and the highest since the Dividend Law was passed in 1993.[6] The BSP and the Philippine Deposit Insurance Corporation (PDIC) were the top two dividend contributors with remittances amounting to PhP40.53 billion and PhP17.98 billion, respectively.

Table 4. 2020 National Government Revenue Performance vs Program (in billion PhP)

Particulars	2019	2020	Change (in %)	Revenue Program		2020 Actual vs Program (in %)	
				Pre-pandemic/1	Revised/2	Pre-pandemic/1	Revised/2
Revenues	**3,137.50**	**2,855.96**	-8.97	**3,492.00**	**2,519.80**	81.79	**113.34**
Tax Revenues	2,827.80	2,504.42	-11.44	3,286.40	2,205.20	76.21	**113.57**
BIR	2,175.50	1,951.02	-10.32	2,530.70	1,685.70	77.09	115.74
BoC	630.30	537.69	-14.69	731.80	506.20	73.47	106.22
Other offices	22.00	15.71	-28.59	23.90	-	65.74	-
Non-Tax Revenues	**309.40**	**351.30**	13.54	**205.50**	**314.60**	170.95	**111.66**
BTr income	146.50	219.68	49.95	82.30	213.20	266.92	103.04
Fees and charges	55.40	23.11	-58.29	57.00	38.10	40.54	60.65
Income from Malampaya	26.60	19.08	-28.28	-	-	-	-
Other non-tax	80.00	88.96	11.20	65.80	62.80	135.20	141.66
Privatization	0.90	0.48	-47.22	0.50	0.50	95.00	95.00
Grants	0.30	0.20	-0.33	-	-	-	-

Source: BTr

/1 Based on the approved DBCC Ad Referendum dated December 11, 2019.

/2 As reported in the Fiscal Year (FY) 2021 Budget of Expenditures and Sources of Financing (BESF) and adopted in the DBCC Ad Referendum dated July 28, 2020.

Tax collection which accounts for 87.7 percent of total revenues unsurprisingly fell by 11.4 percent compared to that in 2019 due to the subdued economic activity. However, it exceeded the revised tax revenue target with both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) overshooting their lowered revenue programs by PhP265.3 billion and PhP31.49 billion, respectively. According to the DoF, revenue offices nationwide have been able to sustain their

[6] https://www.dof.gov.ph/bulk-of-gocc-remittances-spent-on-cash-aid-for-pandemic-hit-vulnerable-sectors-in-2020/.

performance even during the quarantine period because of the digitalization initiatives that were put in place. Last year, 85 percent of total tax payments was reportedly coursed through electronic channels, while almost 100 percent of tax returns was filed online.[7] It should also be noted that corporate income taxes did not fall as much as expected partly because of the non-passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill in 2020 wherein a revenue loss of PhP44.6 billion was projected. The said bill has been passed by Congress and is already for enrolment to the Office of the President for signing. Another positive contributor to the tax revenue performance is the excise tax collection from tobacco, alcohol and mineral products which likewise surpassed the revised targets[8].

Government spending increased but fell short of the program. Before the crisis, government spending was set at PhP4.16 trillion, equivalent to 19.9 percent of the GDP. To strengthen the fight against COVID-19 and minimize its economic impact, the DBCC increased the expenditure program to PhP4.34 trillion. However, actual disbursements for the whole of 2020 amounted to only PhP4.23 trillion, or a shortfall of PhP107.8 billion. While higher spending for allotment to local government units (LGUs) and tax expenditures were registered, expenditure growth was pulled down by lower-than-programmed disbursements for equity and subsidy due to the delayed release and usage of funds meant for financial relief programs under RA No. 11494 or Bayanihan II. National government agencies likewise spent less than what was originally intended. Meanwhile, expenditure for interest payments was up by 5.4 percent or PhP19.5 billion compared to that in 2019 due to higher domestic borrowings but was lower compared to the full year plan.

It should be highlighted that while the level of spending is higher by 11.3 percent in 2020 compared to 2019, the rate at which spending grew is actually even slower than the expenditure growth registered during non-crisis years. On the average, actual disbursements increased by 14.5 percent from 2016-2019. Hence, the moderate growth in spending does not seem to match the unprecedented need for bigger expenditure because of the pandemic.

Table 5. 2020 National Government Disbursements Performance vs Program (in billion PhP)

Particulars	Actual FY 2019	Actual FY 2020	Growth Rate (in %)	Full year Program		Actual vs Program (in %)	
				Pre-pandemic/1	Revised/2	Pre-pandemic/1	Revised/2
Expenditures	**3,797.70**	**4,227.40**	**11.3**	**4,163.20**	**4,335.20**	101.5	97.5
Allotment to LGUs	618	804.5	30.2	777	793.9	103.5	101.3
Interest Payments	360.9	380.4	5.4	451	421.3	84.3	90.3
Tax Expenditures	27.3	33.1	21.1	14.5	14.7	228.1	225
Subsidy	201.5	230.4	14.4	211.9	244.1	108.7	94.4
Equity	3.3	12.8	288.2	2.3	51.2	557	25
Net Lending	17.1	22.1	29.3	28.7	26.9	77.1	82.2
NG Disbursements	2,569.60	2,744.00	6.8	2,677.90	2,783.20	102.5	98.6

Source: Bureau of Treasury
/1 Based on the approved DBCC Ad Referendum dated December 11, 2019.
/2 As reported in the FY 2021 BESF and adopted in the DBCC Ad Referendum dated July 28, 2020.

Implementation of COVID-19 relief packages were hounded by delays. Two economic relief measures, known as Bayanihan I (RA No. 11469) and Bayanihan II (RA No. 11494) were urgently passed by Congress to respond to the COVID-19 crisis. However, the slow implementation of the

[7] https://www.dof.gov.ph/dominguez-sees-bir-surpassing-2021-collection-target-of-p2-08-t/.
[8] https://www.dof.gov.ph/bir-boc-overshoot-dbcc-revenue-targets-in-2020/

Table 6. Utilization of Notices of Cash Allocations (NCAs) for National Government Agencies and Budgetary Support to GOCCs and LGUs as of December 31, 2020 (in billion PhP)

	NCAs Releases/1	NCAs Utilized/2	Unused NCAs	Utilization Rate (in %)/3
TOTAL	**3,852.74**	**3,647.96**	**204.79**	**95**
DEPARTMENTS	**2,781.37**	**2,579.77**	**201.60**	**93**
Department of Social Welfare and Development	455.20	352.82	102.38	78
Department of Education	529.38	511.86	17.53	97
Department of Health	177.32	164.27	13.05	93
Department of Public Works and Highways	480.47	470.28	10.19	98
Department of Foreign Affairs	21.15	12.83	8.32	61
Department of Agriculture	63.11	57.34	5.77	91
Congress of the Philippines	25.95	21.04	4.91	81
Other Executive Offices	65.66	60.89	4.76	93
Department of Labor and Employment	42.46	37.80	4.66	89
State Universities and Colleges	66.20	62.21	3.99	94
National Economic and Development Authority	15.55	11.79	3.76	76
Department of Finance	18.24	14.54	3.70	80
Department of the Interior and Local Government	291.41	289.01	2.40	99
Department of Justice	24.16	22.21	1.95	92
Department of Trade and Industry	17.98	16.15	1.84	90
Department of Budget and Management	44.23	42.52	1.70	96
Department of Science and Technology	19.93	18.24	1.69	92
Department of Environment and Natural Resources	20.91	19.37	1.54	93
Department of National Defense	249.83	248.42	1.41	99
Department of Transportation	61.98	60.83	1.15	98
Office of the President	8.04	7.01	1.03	87
Department of Information and Communications Technology	3.53	2.59	0.95	73
Department of Energy	2.03	1.26	0.77	62
Department of Tourism	2.69	2.05	0.64	76
Department of Agrarian Reform	7.50	7.08	0.42	94
Office of the Ombudsman	3.98	3.70	0.27	93
Presidential Communications Operations Office	1.55	1.31	0.24	84
Commission on Elections	3.89	3.66	0.23	94
Department of Human Settlements and Urban Development	0.70	0.59	0.11	84
Commission on Audit	12.34	12.26	0.08	99
The Judiciary	40.65	40.58	0.08	100
Civil Service Commission	1.84	1.80	0.04	98
Office of the Vice-President	0.69	0.66	0.03	96
Commission on Human Rights	0.82	0.81	0.01	99
Joint Legislative-Executive Councils	0.00	0.00	0.00	81
OTHERS	**1,071.37**	**1,068.18**	**3.19**	**100**
Budgetary Support to GOCCs	252.56	251.08	1.48	99
Allotment to Local Government Units	818.82	817.10	1.71	100
o.w. Metro Manila Development Authority (Fund 101)	3.46	3.45	0.01	100

Source: DBM

/1 NCAs credited by Modified Disbursement System (MDS)-Government Servicing Banks inclusive of Lapsed NCA, but net of NCAs for Trust and Working Fund.

/2 Refers to checks issued/Advice to Debit Account (ADA) chargeable against NCAs.

/3 Percent of NCAs utilized over NCA releases.

various programs mandated under the said measures hampered the delivery of much needed relief assistance to the intended recipients. For instance, under the Social Amelioration Program-Emergency Subsidy Program (SAP-ESP) of Bayanihan I, a subsidy ranging from PhP5,000-PhP8,000 was supposed to be given to a total of 18 million low-income households for the months of April and May 2020 to help them survive the early stages of the government-imposed lockdown. It took the Department of Social Welfare and Development (DSWD) three months to achieve a 98 percent coverage of the first tranche target beneficiaries while the distribution of the second tranche which was meant for the month of May was still ongoing until December 2020. Similarly, Bayanihan II authorized PhP140 billion with a standby fund of PhP25.5 billion to prop up the healthcare system and provide relief to vulnerable households, distressed businesses and hard hit sectors but as of December 19, 2020, the law's expiry date, only PhP107.96 billion or 77.1 percent of the authorized appropriations has been released by the Department of Budget Management (DBM).[9] This warranted Congress to extend the validity of the said law until June 30, 2021.

Despite the urgent need to deliver government assistance, some national government agencies failed to timely disburse the cash provided to them. Cash utilization rates by national government agencies fell to an average of 95 percent in 2020 from 97 percent in 2019 (Table 6). This includes the notices of cash allocations (NCAs)[10] released for budgetary support to GOCCs and for allotment to LGUs. For departments alone, the utilization rate was 93 percent, down from 96 percent in 2019. Of the PhP3.85 trillion worth of NCAs released by the DBM during the year, PhP204.8 billion was left unused.

The Judiciary registered a 100 percent fund utilization rate while the Department of National Defense, Commission on Audit, Commission on Human Rights and Department of the Interior and Local Government were able to disburse 99 percent of their cash releases. The lowest utilization rates were posted by the Department of Foreign Affairs (60.7 percent), Department of Energy (61.9 percent), Department of Information and Communications Technology (73.2 percent), National Economic and Development Authority (75.8 percent), and Department of Tourism (76.2 percent).

Meanwhile, agencies with the biggest unused NCAs in peso terms were the DSWD (PhP102.38 billion), Department of Education (PhP17.5 billion), Department of Health (PhP13.1 billion), Department of Public Works and Highways (PhP10.2 billion), and Department of Foreign Affairs (PhP8.3 billion).

Total outstanding debt hit all-time high. Total national government debt stood at PhP9.8 trillion as of end-2020, increasing by more than two trillion pesos or by 26.7 percent over the 2019 level as government saw the need to raise more funds. Of this amount, 68 percent was accounted for by domestic debt which increased by 31 percent due to the national government's mass issuance of debt securities. Likewise, external debt increased by 19.1 percent as foreign loans contracted by the government grew considerably from PhP979.5 billion in 2019 to PhP1.3 trillion in 2020. The government was able to secure foreign loans amounting to some PhP640.3 billion (USD13.34 billion) in 2020. Data show that much of this amount, (73.5 percent) is devoted to budgetary support (particularly infrastructure, Pantawid Pamilyang Pilipino Program or 4Ps, disaster risk management, and agriculture) while more than a quarter are for specifically-identified COVID-19 response/measures. The large jump in financing requirement consequently pushed up the debt-to-

[9] This is based on the 4th Quarter Report of the DBM from https://www.dbm.gov.ph/wp-content/uploads/DBM%20Publications/Quarterly%20Report/2020/DBM-2020-Q4-Quarterly-Report.pdf.
[10] NCAs refer to the disbursement authority issued by the DBM through government servicing banks, to cover the cash requirements of the agencies' programs, activities and projects.

GDP ratio to 54.5 percent in 2020, a far cry from the 39.6 percent ratio recorded in 2019. It is estimated that out of the country's total outstanding debt of PhP9.8 trillion, about 39.8 percent or PhP3.9 trillion was contracted by the current administration.

Table 7. National Government Outstanding Debt, 2020 (in PhP billion)

	2019	2020	Variance	% Growth	% Share to Total
Domestic Debt	**5,127.60**	**6,694.69**	**1,567.09**	**30.6%**	**68.3%**
Loans	0.948	0.948	0.00	0.0%	0.0%
Debt Securities	5126.652	6,693.74	1,567.09	30.6%	68.3%
External Debt	**2,603.69**	**3,100.32**	**496.63**	**19.1%**	**31.7%**
Loans	979.53	1,311.89	332.36	33.9%	13.4%
Debt Securities	1,624.16	1,788.43	164.27	10.1%	18.3%
T O T A L	**7,731.29**	**9,795.01**	**2,063.72**	**26.7%**	**100.0%**

Source: BTr

Table 8. Total Contracted Foreign Loans, 2020

Particulars	Amount (In Million USD)	Amount (In Billion PhP)	Share to Total (%)
Budgetary Support Financing	12,723.6	610.7	95.4%
COVID-related loans	3,309.0	158.8	24.8%
Other loans	9,414.7	451.9	70.6%
Project Loan Financing	615.0	29.5	4.6%
COVID-related loans	225.0	10.8	1.7%
Other loans	390.0	18.7	2.9%
TOTAL	**13,338.6**	**640.3**	**100.0%**

Source of basic data: DoF website'

Employment and Poverty

Unemployment rate doubled. As businesses were forced to reduce operations or shut down, an additional 2.2 million people were added to the ranks of the unemployed, bringing the total to 4.5 million Filipinos without jobs in 2020**.** The country's unemployment rate soared to 10.4 percent, more than double the jobless rate in 2019 and the highest recorded since 2005 when the country's definition of unemployment rate was revised. The unemployment rate is highest in Central Luzon (13.5 percent), Ilocos region (13.4 percent), and Metro Manila (11.7 percent). Perhaps discouraged by bleak employment prospects, many opted not to look for work or join the labor force, and as a result, the labor force participation rate declined to 59.5 percent from 61.3 percent.

The quality of employment likewise deteriorated. The underemployment rate increased to 16.4 percent from 13.8 percent in 2019. About 2.5 million worked as unpaid family workers, up from 2.4 million in the previous year. Curtailed by the quarantine measures and the protracted travel curbs, the services sector lost the most number of jobs, particularly its transport, accommodation and food service, and wholesale and retail trade sub-sectors. Jobs in manufacturing and construction fell by nearly half a million each. In contrast, agriculture was able to produce 427,000 jobs. Aside from additional agricultural workers, the country's Armed Forces also saw an increase in employment while those in managerial occupation seem to have taken the hardest hit with 1.2 million managers displaced. Other occupations which registered the biggest losses were craft and related-trade workers (500,000), elementary occupation (375,000) and technicians and associate professionals (281,000).

To comply with social distancing regulations, most businesses resorted to telecommuting or work from home arrangements for their employees. However, a recent Asian Institute of Management (AIM) study (Gaduena et al., 2020) shows that only 12 percent of the labor force in the Philippines are currently in teleworkable jobs, and only about 26 percent of jobs are teleworkable. Workers in non-teleworkable sectors face the highest risk of losing employment.

Self-rated hunger and poverty worsened. Social Weather Stations (SWS) surveys show that the average hunger incidence in the country was at a record high 21.1 percent in 2020, more than twice the average pre-pandemic rate of 9.4 percent in 2019. This is equivalent to around 5.2 million families experiencing hunger at least once a day. Moderate hunger was at 16.1 percent while 5 percent experienced severe hunger, much higher than the 7.9 percent and 1.5 percent recorded in 2019, respectively. Mindanao obtained the highest hunger rate at 25.5 percent, followed by Visayas at 24.2 percent, and Metro Manila at 22.2 percent.

Similarly, the proportion of families which considered themselves "poor" increased to 48 percent from the average proportion of 45 percent in 2019. Meanwhile, families which classified themselves as "not poor" declined to 16 percent from 24 percent in 2019, while those which consider themselves as borderline poor increased from 31 to 36 percent.

The government has earlier set out to bring down the country's official poverty rate to 14 percent by the year 2022 and it

Table 9. Key Employment Indicators, 2019-2020 (in %)

Particulars	2019	2020
Labor Force Participation Rate	61.3	59.5
Proportion of New Entrants	2.6	1.9
Employment Rate	94.9	89.6
Underemployment Rate	13.8	16.4
Visible Underemployment Rate	8.1	11.7
Invisible Underemployment Rate	5.7	4.7
Unemployment Rate	5.1	10.4
Mean Hours of Work (number of hours)	42.2	38.8

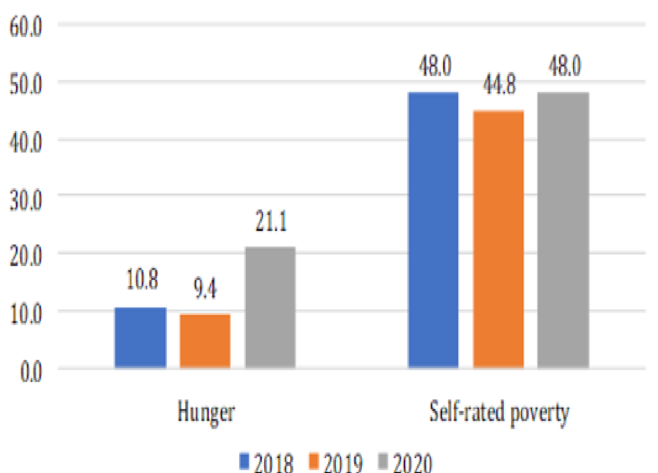
Source: PSA

Table 10. Employed Persons by Industry and Occupation, 2019 and 2020 (in thousands)

Particulars	2019	2020	Variance (in%)
Employed Persons	41,938	39,379	-6.1
by Sector			
Agriculture	9,327	9,754	4.6
Industry	8,103	7,207	-11.1
Services	24,508	22,418	-8.5
by Occupation			
Managers	4,775	3,555	-25.5
Craft and related trades workers	3,357	2,831	-15.7
Elementary occupations	11,104	10,729	-3.4
Technicians and associate professionals	1,768	1,487	-15.9
Plant and machine operators & assemblers	3,294	3,124	-5.2
Service and sales workers	7,760	7,595	-2.1
Clerical support workers	2,616	2,466	-5.7
Professionals	2,362	2,229	-5.6
Armed forces occupations	86	100	16.7
Skilled agricultural, forestry,& fishery workers	4,815	5,261	9.3

Source: PSA

Figure 7. Average Hunger and Self-Rated Poverty, 2018 to 2020 (in %)



Source: Social Weather Station

seemed that the target could be achieved on time when poverty incidence reached a low of 16.7 percent in 2018. However, with the pandemic continuing to affect household incomes, the 2022 poverty goal is now unlikely to be met. Simulations recently conducted by the Philippine Institute for Development Studies or PIDS (Reyes et al,, 2020) show that notwithstanding the government's assistance efforts through the Social Amelioration Program, the national poverty headcount ratio could have risen from the baseline 16.7 percent in 2018 to 19.4 percent in 2020. Had there been no financial aid from the government, the poverty incidence would have increased to as high as 23.8 percent or a 7.1 percentage point increase.

Table 11. Simulation of the Impact of COVID-19 on the Magnitude and Incidence of Poverty, Different Scenarios, Philippines (in '000)

Scenarios	Estimates		Variance (% point)	
	Magnitude	Incidence (%)	Magnitude	Incidence (%)
Poverty incidence among population				
Before COVID-19	17,670.2	16.7	…	…
During COVID-19 (without SAP)	25,204.9	23.8	7,534.7	7.1
During COVID-19 (with SAP)	20,485.9	19.4	2,815.7	2.7
Poverty incidence among families				
Before COVID-19	3,004.6	12.1	…	…
During COVID-19 (without SAP)	4,447.4	18.0	1,442.8	5.8
During COVID-19 (with SAP)	3,405.0	13.7	400.4	1.6

Source: PIDS

Prospects and Policy Implications

The Philippine government is optimistic that the economy will grow by 6.5 to 7.5 percent in 2021 and 8.0 to 10.0 percent in 2022**.** These projections are broadly aligned with the projections of multilateral agencies and other financial institutions. The government's forecast is hinged on the assumptions that: (1) private consumption will pick up; (2) more and more industries will be allowed to resume operation and thus, revive jobs; and (3) improvements in bringing down the virus transmission rates will continue.

Table 12. Philippine GDP Growth Forecasts for 2021(in %)

Institution	GDP Growth	Date of Release
DBCC	**6.5 to 7.5**	**Dec 2020**
Asian Development Bank	6.5	Dec 2020
World Bank	5.9	Dec 2020
ANZ Research	8.1	Dec 2020
RCBC	6.0 to 7.0	Dec 2020
Nomura	6.8	Dec 2020
S&P Global Ratings	9.6	Dec 2020
Fitch Ratings	6.9 to 8.0	Jan 2021
International Monetary Fund	6.6	Jan 2021
Moody's Investors	4.0 to 5.0	Feb 2021
GlobalSource	5.5	Feb 2021

Source: As indicated

However, some caution must be taken when interpreting the growth projections for 2021 as they will largely be a result of *base effect.* The growth rate would appear to be high mainly because of abnormally low figures of 2020. Even if the 6.5 percent to 7.5 percent growth target becomes an actuality, it does not mean that the economy is performing as well as it did during the pre-pandemic period. In fact, the economy would have to grow by 9.3 percent to 10.5 percent in 2021 just to get back to the 2019 GDP level. Also, while economic conditions look set to be better this year, downside risks abound.

Consumption demand is expected to improve but will likely remain weak. The outlook of consumers, as monitored by the BSP, seemed to have slightly picked up with the Consumer

Confidence Index reverting to positive territory for the first quarter of 2021. However, since the country will still be in some form of community quarantine albeit less restrictive, household demand will likely remain stifled. Despite the lifting of travel restrictions late last year, tourism continues to be sluggish and prospects for the sector's recovery remain muted for as long as health risks are present. Another challenge is the La Niña weather condition (i.e., above-normal rainfall conditions) which is forecasted to persist until May 2021 as well as the natural calamities that threaten agricultural food production and bring an upside risk to the already higher-than-usual food inflation. In addition to this, Dubai crude oil prices, which averaged at USD42.43/barrel in 2020, are expected to slightly increase in 2021. The World Bank forecasts benchmark crude prices to average USD44.0/barrel in 2021 while the International Monetary Fund (IMF) predicts a range from USD40 to USD50/barrel for the year.

Remittances from overseas, a main driver of consumption, is expected to post a turnaround growth of 4 percent this year. However, a study by the ASEAN+3 Macroeconomic Research Office (AMRO) cautions that the recent rebound seen in remittances might hide ongoing weaknesses. For instance, increasing reliance on digital means and formal banking as opposed to informal remittance channels could have buoyed official inflow figures, making it appear that remittances were actually higher than they really are. The study also notes that there is a high degree of certainty that countries which had started inoculating their population may impose strong restrictions or outright bans on arrivals of people who have not yet been vaccinated, thus OFWs run the risk of being replaced by other foreign workers who have received the vaccine.[11]

Government could take up the slack from weaker private consumption but this year's budget of PhP4.5 trillion is only 10 percent higher than last year's and such moderate increase may not be enough to substantially prop up the economy. Nonetheless, Congress' approval of the extension of the validity of the Bayanihan II Act (until June 2021) and the 2020 General Appropriations Act (until December 2021) would augment and add some PhP148 billion to the national budget for 2021.

Slow pick-up in trade and stalled investment momentum will drag recovery. New and recurrent outbreaks across the globe as well as the trade restrictions put in place during the height of the US-China trade war could negatively impact the outlook on trade and domestic production. The slowdown in capital imports as well as lending for production activities, for example, are likely to drag firms' potential outputs this year and thus, cautious optimism regarding the pick-up in exports and imports is warranted.

Outlook for global FDI flows (with the exception of FDIs associated with technology and healthcare/pharmaceuticals) also remains weak due to the evolution of the pandemic. Investors are likely to remain cautious in committing capital to new overseas productive assets. The decline in international project finance may be particularly worrisome for developing countries like the Philippines. These types of investments are crucial for productive capacity and infrastructure development and thus, for sustainable recovery prospects. So far, S&P Global Ratings and Fitch Ratings have both retained the country's investment-grade rating and stable outlook. The country, however, runs the risk of a credit rating downgrade should a sharper- and longer-than-expected economic downturn lead to big deterioration in the country's fiscal and debt positions.

[11] https://www.manilatimes.net/2020/12/30/opinion/editorial/ph-should-temper-expectations-for-a-recovery-of-remittances/819617/.

The biggest risk factor is the prolonged imposition of mobility restrictions as COVID-19 outbreaks emerge. Thus, priority must be given to the rollout of COVID-19 vaccines as this offers a positive development towards managing such risk. Despite having the second highest number of COVID-19 infections in Southeast Asia, the Philippines is the last ASEAN member country to roll out its vaccination drive due to delayed vaccine procurement. To fast-track the purchase and administration of the vaccines, the COVID-19 Vaccination Program Act of 2021 under RA No. 11525, which indemnifies vaccine manufacturers against potential lawsuits and establishes a PhP500 million compensation fund to cover claims arising from severe adverse effects of the COVID-19 vaccine, was recently enacted. The fund is on top of the PhP82.5 billion budget that has been devoted for the COVID-19 Vaccination Program.[12]

The government is aiming to achieve herd immunity from COVID-19 by inoculating 70 million adult Filipinos by the end of 2021. To date, the Philippine Food and Drug Administration (FDA) has granted emergency use authorization (EUA) to 3 COVID-19 vaccine brands (Pfizer, AstraZeneca and Sinovac). Based on the indicative timeline presented by the government, roughly 140 to 142 million doses of COVID-19 vaccines will be delivered to the Philippines this year. An initial shipment of 600,000 doses of Sinovac vaccines was already received by the country on February 28, 2021 as a grant from the Chinese government and vaccination has started on March 1, 2021. For the first quarter of the year, a total of 5 million doses is expected to arrive which will be given to priority sectors (i.e., frontline health workers, senior citizens, indigent population, and uniformed personnel). Bulk of the expected number of doses (about 28 percent) will come from the Covax facility[13], followed by Novavax (24.9 percent) and Sinovac (18.8 percent) vaccines.

Table 13. Indicative Timeline for Vaccine Delivery

Vaccine Brand	Expected Number of Doses (in millions)/Timeline				Status as of February 2021
	Q1	Q2	Q3	Q4	
Sinovac (Chinese)	1.5	5	10	10	EUA granted
AstraZeneca (British-Swedish)		2.6	7	10	EUA granted
Pfizer (American)			10	10	EUA granted
Novovax (Indian)		5	15	15	
Covax Facility (shared facility/GAVI)	3.5	6	15	15	
Total	5	18 - 20	57	60	
Sputnik V by Gamaleya (Russian)					application for EUA being reviewed
Johnson & Johnson (American)					approved conduct of clinical trials in PH
Clover Biopharmaceuticals AUS					approved conduct of clinical trials in PH

Source: Status update of vaccine procurement as reported by vaccine czar, Secretary Carlito Galvez Jr. during the hybrid plenary session of the Senate on February 22, 2021.

[12] Of the PhP82.5 billion vaccination budget, PhP2.5 billion will be sourced from the budget of the Department of Health (DOH) under the 2021 General Appropriations Act (GAA), while PhP10 billion will come from the funds allocated for the COVID-19 Vaccination Program under the Bayanihan II Act. The remaining PhP70 billion will be sourced from unprogrammed funds, (i.e., loans provided by multilateral lenders, bilateral partners and/or the domestic market).

[13] The Covax facility is a global risk-sharing mechanism for pooled procurement and equitable distribution of COVID-19 vaccines. It is guided by an allocation framework being developed by the World Health Organization (WHO) which aims to help protect the most at-risk groups in all participating countries.

Any delay that will slow down the rollout of the vaccination program and keep authorities from relaxing the quarantine measures may compromise the growth outlook. Apart from the challenge of securing the vaccines amidst limited global supply, the Philippines is also facing logistical difficulties in distribution as well as the hesitancy of target beneficiaries. A Pulse Asia Inc. survey conducted late last year showed that only 32 percent of Filipinos aged 18 years old and above are willing to be vaccinated, 21 percent were ambivalent while 47 percent were not inclined to get the shots. The strong reservations are primarily fueled by the Dengvaxia vaccine controversy in 2017 and also by the lack of awareness or misinformation regarding the efficacy and safety of the COVID-19 vaccines. To avoid wastage and ensure a successful vaccination program, a unified communications strategy led by public health experts and epidemiologists for the general public must be in effect. Coordination protocols between the national government, LGUs, private sector, and vaccine-makers must likewise be in place in order to maximize resources.

Moreover, as it will likely take time before herd immunity is achieved, government must ensure that health protocols will still be followed even after vaccination. It must continue to enhance the country's COVID-19 testing, tracing and treatment capabilities. The emergence of the more aggressive variants and the recent surge in infections in some barangays which prompted localized lockdowns underscore the need to keep the epidemic under control as increased transmissibility has the potential to wreak havoc in a very short time.

Strong policy support must be continued as premature withdrawal of stimulus or curtailment of spending on social safety nets may be counterproductive. While the limited fiscal space is an important consideration, supporting distressed businesses, especially the MSMEs, as well as those who have lost their sources of income is necessary to prevent economic scarring. While the recession could be a short term event, the consequences arising from joblessness or from depressed entrepreneurial activity could lead to more costly and lasting effects. As such, full implementation of the relief programs under the Bayanihan II Act should be urgently carried out, after which, discussions on the need for another stimulus package should commence. There is currently a proposal for a Bayanihan III Act by Senator Ralph Recto under Senate Bill No. 1953 which aims to allocate some PhP100 billion for worker subsidies, PhP100 billion for capacity-building of selected sectors, and PhP70 to PhP90 billion for social amelioration for affected households. Policymakers may also begin looking into SBN 1502 (Amendments to the Social Security Act) by Senator Grace Poe and SBN 1847 (PhilJobs Act) by Senator Manuel "Lito" Lapid, both of which seek to institutionalize an unemployment insurance system in the country. In addition, the government must hasten the implementation of the national identification (ID) system under RA No. 11055 or the PhilSys Act as a way of ensuring that government assistance is directly channeled to low-income households.

Financial sector policies that would enhance financial stability and to complement accommodative monetary measures are likewise crucial. Apart from the recently-enacted Financial Institutions Strategic Transfer (FIST) Act, there is a call for the passage of the proposed Government Financial Institutions Unified Initiatives to Distressed Enterprises (GUIDE) Act under SBNs 2003, 1646 and 2048 filed respectively by Senate President Vicente Sotto III and Senators Imee Marcos and Christopher Lawrence Go, which would allow government financial institutions (GFIs) to form holding companies that will infuse equity to strategically important enterprises subject to strict conditions. These legislative measures are expected to give banks more leeway to lend more to businesses and spur investment activities.

Moreover, the government must remain resolute in carrying out measures aimed at making the economy more inclusive and resilient. The passage of the proposed amendments to the Public Service Act, Retail Trade Liberalization Act, and Foreign Investments Act was sidelined last year as Congress prioritized COVID-19 legislative measures and the 2021 national budget. The amendments to the above-mentioned laws seek to lift restrictions on foreign investments and are expected to be instrumental in accelerating economic recovery by generating more jobs which are badly needed. Tax policies that seek to address the sources of structural inequalities and entail improvements in tax administration (i.e., professionalize the bureaucracy and invest and fully implement computerized systems) should also be deliberated on. These include the proposed Real Property Valuation and Assessment Reform Act (RPVARA) and the Passive Income and Financial Intermediary Taxation Act (PIFITA) which are the remaining Packages 3 and 4 for enactment under the Duterte administration's Comprehensive Tax Reform Program (CTRP).

As vibrant agriculture is also key to faster economic recovery, there is a need to prioritize legislative measures that will allow the agriculture and fisheries sector to transition to the new normal. These include proposals that will amend the Agri-Agra Law, institutionalize a national land use policy and strengthen government support for agricultural insurance. Likewise, more investments should be poured in to strengthen the sector's post-harvest and processing, research and development (R&D), logistics, market information system, and biosecurity systems.

Reforms that will bridge the digital divide which has become more evident during the pandemic are likewise crucial. More people were forced to embrace remote working/learning arrangements and people without access to information and communications technologies (ICT) became more disadvantaged than before. According to the Department of Education (DepEd), some 1.9 million learners were affected by school closures last year. Unfortunately, shifting to virtual classrooms cannot be done overnight, especially when the needed infrastructure (stable electricity and internet services on top of computers/gadgets) are lacking. In this light, consideration of the proposed Microgrid Systems Act under SBN 1928 by Senator Sherwin Gatchalian, which seeks to promote the use of microgrids (system for decentralized power generation) to supply electricity in unserved and underserved areas, should be fast-tracked. Due consideration must also be given to the proposed Open Access in Data Transmission Act under SBNs 45 and 911 by Senators Ralph Recto and Ramon Bong Revilla Jr., which seek to lower the barriers to entry for data-only service providers, as well as the proposed amendments to RA No. 7925 or the Public Telecommunications Policy Act, which aims to strengthen the National Telecommunications Commission (NTC) as a regulator especially with respect to spectrum management and tariff setting.

Lastly, it is acknowledged that the government has placed infrastructure at the heart of its economic recovery plan and given the consequent decline in revenues and the need to ramp up spending, it has become more imperative to optimize the use of public resources. Therefore, reforms that seek to improve public procurement and public-private partnerships (PPPs) must be pushed for institutionalization. SBNs 15, 1080, 1159 and 1231 (filed respectively by Senators Franklin Drilon, Ralph Recto, Juan Edgardo Angara and Imee Marcos) seek to update and/or strengthen the legal framework governing PPPs. Also, while a legal framework for public procurement exists under RA No. 9184, there is room for greater competition and transparency. To this end, a review of the Government Procurement Reform Act as proposed in SBNs 94 and 980 (filed by Senators Aquilino "Koko" Pimentel III and Ralph Recto) may be added to the list of priority legislative measures.

This Economic Report was principally prepared by the Macroeconomics Sector with inputs from its Sector Head, under the supervision of SEPO's Directors and the overall guidance of its Director General.