Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Philippines

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Key messages

- The Philippine economy is estimated to contract up to -0.6% in 2020 as a result of the COVID-19 impact, potentially the first contraction recorded since the 1998 Asian financial crisis. The main channels of impact are through losses in the tourism sector, remittances, exports and decline in consumption.
- Government measures focus on financing health sector requirements and providing cash relief to poor households, small farmers and displaced workers during the pandemic.
- The government response is being funded through reallocation of the existing budget. Hence, the budget deficit is expected to widen significantly and the government will increase its debt to finance programmed expenditures after the outbreak.

Introduction

As of 8 April 2020, the Philippines has recorded 3,870 confirmed COVID-19 cases, 182 deaths and 96 recoveries. On 16 March, the government declared a nationwide state of calamity for six months and put in place an enhanced community quarantine (ECQ) from 17 March to 13 April, extended until 30 April. The ECQ covers Luzon, home to more than half the population (57 million) and accounting for 73% of 2018 GDP. The ECQ limits household mobility and suspends school, mass gatherings, public transport and travel. Business operations are limited to providing basic necessities (food, health, banking), business process outsourcing and export-oriented industries.

Economic and social impacts

Since 2010, the Philippine economy has been growing at an average of 6.3% y-o-y on the back of strong consumption, a growing middle class and robust remittances. Because of COVID-19, the government estimates that GDP could contract by 0.6% in 2020, the first contraction that would be recorded since 1998. Figure 1 shows multiple GDP growth downgrades by international institutions.

The economic slowdown is projected to be driven by lower tourism activity, external trade, consumption and remittances. Almost half of tourist arrivals are from China (22%) and South Korea (24%) alone, contributing $4.5 billion or 47% of total international tourism receipts in 2018. Lay-offs of 300 personnel from the country’s major airline were reported as early as February. IATA estimates a $3.75 billion impact and 419,800 job losses in air transport and tourism.

Philippine exports were 32% of GDP in 2018. China and Hong Kong alone account for 27% of this. Partial customs data as of February show that total exports to China have declined by 55%. Bangko Sentral ng Pilipinas (BSP) has cut 2020 remittance growth projection from 3% to 2%, posing a downside risk to growth since remittances amount to 10% of GDP. Since the outbreak, the government has facilitated repatriation of 6,835* overseas Filipinos.

Household spending is likely to decelerate. This is concerning, as the Philippines is a consumption-led economy. As of 25 March, 212,718 workers have been displaced nationwide and the government expects up to a 1.8 million employment loss (4% of the total labour force). However, NEDA expects the impact of COVID-19 on poverty to be transitory, given the government’s assistance to poor households. A 5–10% decline in consumption of non-essential commodities following the ECQ is estimated to cut up to 0.5% of GDP growth. Owing to lower oil prices and ECQ price control, inflation slowed down to 2.5% in March.

*No date for this reference.
After the two-day Philippine stock exchange (PSE) suspension following announcement of the ECQ, the PSE Index fell by 13.3% on 19 March, reaching an eight-year low. The peso has been relatively stable, marginally strengthening against the US dollar by 1% since the ECQ. Confidence in the peso may be attributed to the country benefiting from declining global oil prices, low inflation and ample reserves. As of February, the country’s reserves amount to $87.6 billion, equivalent to 7.7 months of imports.

Monetary and financial policy

After the outbreak, the BSP cut its policy interest rate by 25 bps to 3.75% in February and by another 50 bps to 3.25% in March. In support of government efforts to address the outbreak, the BSP also announced that it would purchase P300 billion ($5.9 billion) worth of government securities and remit P20 billion ($394 million) as advance dividend to the government. To boost liquidity and facilitate credit to households and businesses, the BSP cut its reserve requirement ratio for banks by 200 bps to 12%. It also introduced a temporary relaxation on reporting by banks, penalties on required reserves and single borrower limits and KYC (know your customer) requirements.

Fiscal policy

The Bayanihan to Heal as One Act took effect on 26 March and grants a three-month special authority to President Duterte to reallocate government funds during the national emergency. A government report suggests agencies (health, labour, social welfare, public works, local governments) use their released budget allocation amounting to P5 trillion ($102 billion) for their COVID-19 response. Unreleased budget amounting to P154 billion ($3 billion) will also be utilised. Other agencies are remitting unutilised funds and advance dividends to the government, such that the total funding is expected to change in the coming weeks. The following are the major fiscal measures taken so far.

Health

P53 million ($1 million) is being utilised for production and delivery test kits, test administration training and genome sequencing validation. The government has accredited eight testing laboratories with 100,000 test kits. As of 3 April, 19,315 people have been tested, with 900 to 1,200 tests conducted daily. As of 2 April, there have been 55 designated COVID-19 referral hospitals and P2.5 billion ($49 million) has been released to 65 hospitals for the COVID-19 response. P30 million ($591 million) has been allocated for the ongoing conversion of convention centres into quarantine facilities that can accommodate 912 patients under investigation and monitoring. The government has been providing assistance to health workers through free meals and transport services and a special risk allowance.

Social

The Act mandates provision of a cash or non-cash subsidy of P5,000–8,000 ($99–158) per month for two months for 18 million low-income families. P442 million ($8.7 million) has been disbursed to 88,288 workers, P174 million ($3.4 million) to 55,934 disadvantaged or displaced workers and P16 billion ($315 million) to more than 3.7 million beneficiaries of the government conditional cash transfer. P3 billion ($59 million) has been allocated for cash transfers to 591,246 rice farmers. The government has also implemented a moratorium on payment of loan amortisation and price control, and ensured water supply to households and hospitals. A unilateral ceasefire against communist rebels has been declared until 15 April.

Assistance to productive sectors

A moratorium on loan payments will benefit 127,000 micro enterprises and 15,000 MSMEs. There will also be financial assistance to qualified MSMEs. Airport concessionnaires are to be given a one-month rental holiday. The government has also provided incentives for manufactures and importers of medical equipment and supplies. The deadline for filing income tax returns have been extended for up to one month. After the ECQ, a P1 billion ($20 million) enterprise rehabilitation financing will be rolled out to help businesses restart.

Fiscal impacts and implications

The government estimates the budget deficit will widen from 3.6% in 2019 up to 5.4% this year. It has secured a $100 million loan from the World Bank to finance the procurement of essential medical equipment and is planning to tap the Asian Infrastructure Investment Bank’s COVID-19 recovery facility for long-term strengthening of the health care system. Since the government will fund its COVID-19 response through utilisation and reallocation of existing budget, it is expected that the government will increase its debt to finance its programmed expenditures (e.g. infrastructure projects, debt service) after this public health emergency.

Donor support

ADB has committed $1.6 billion financial assistance and the US has pledged $2.7 million in support of the government’s effort on COVID-19. China, Singapore and South Korea have donated medical supplies and equipment, totalling 168,000 test kits, 400,000 surgical masks, 40,000 N95 masks 15,000 personal protective equipment, 5,000 face shields, 30 ventilators and 1 polymerase chain reaction. China has also sent 10 medical experts to provide technical advice on COVID-19 prevention and control.

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