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Abstract

This paper describes and analyzes the impact of the COVID pandemic and the subsequent hard and mild lockdowns on the Philippine economy at various stages from March, 2020 to early September, 2020. The COVID pandemic and resulting hard lockdown (Enhanced Community Quarantine) from March 17, 2020 to May 31, 2020 had resulted in historically the highest unemployment and biggest fall in Philippine GDP ever. This was experienced in the second quarter of 2020. The paper shows 90% of the labor force was affected by this hard lockdown. Bayanihan Acts 1 and 2 are the biggest Social Amelioration Program (SAP) ever legislated and implemented by the Philippine government. The paper discusses the need for a bill to prevent the danger of massive loan defaults, bankruptcies and potential financial crisis resulting from the deep recession. The paper goes on to discuss the debate between more conservative economic managers, on one hand, and legislators and NGOs who want a stronger and more encompassing fiscal stimulus to the distressed economy, on the other. It ends with a discussion on the crux of the debate, which is financing the fiscal deficits that will arise due to the pandemic and the economic stimuli.

Keywords: Philippines, recession, COVID pandemic, fiscal stimulus

JEL Classifications: E60, E62

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1: INTRODUCTION

In late July and early August up to the present, the Philippines has been perceived as the worst performer in COVID prevention and economic recovery in East Asia and the Pacific, with the largest number of cases, largest percentage of active cases, lowest percentage of recovery rates, the highest COVID deaths per million population, and one of the countries in ASEAN experiencing negative growth in the first quarter and strong economic collapse in the second quarter of 2020. Thus, the expectation is that the Philippine economy will be the hardest hit in East Asia and the Pacific.

2: THE FIRST QUARTER OF 2020 ALREADY SAW NEGATIVE GROWTH

The first quarter 2020 saw a decline in GDP of -0.7%. January 2020 was affected by the eruption of Taal Volcano which threw ashes as far out as Metro Manila, and affected transportation, agriculture and livestock in the surrounding areas. The author, however, thinks that the small decline in GDP in the first quarter is more due to the strong lockdown (Enhanced Community Quarantine) imposed on Mar. 17 to May 31. Though this involves less than half a month in the first quarter, the economy had already been hit hard starting Mar. 7 when the first local transmission of the COVID-19 virus at Greenhills, San Juan City was confirmed. Since then, people panicked and avoided malls and crowded areas. Many remained at home. This affected retail sales of manufactures, transportation, and services. Also, all over the world, there was a sharp contraction in air travel for tourists and businessmen due to lockdowns abroad or voluntary cancellation of individuals afraid of contracting COVID-19 in other countries. Our tourism fell.

Table 1 shows us the decline in GDP growth in the first quarter of 2020. From the supply or production the results are;

- Industry fell by 3.4% for the whole first Q
- Manufacturing fell by 3.8% for the whole 1st Q
- Construction fell by 2.9% for the whole 1st Q
- Agriculture fell by 0.3% for the whole 1st Q
- Services, which in 2018 and 2019, grew at around 7%, grew only 0.6% for the whole 1st Q
- Transportation, storage, communication fell by 11.4%
- Accommodation and food service (hotels & restaurants) fell by 16.4%
- Other services (incl entertainment, cultural, personal services) fell by 10.6%
- Net primary income (the biggest component is OFW remittances) fell by 5.9% for the whole 1st Q because the pandemic had already affected other countries and OFW remittances fell.

Table 1b shows that on the demand and expenditure side,

- Household consumption expenditure which usually grew at around 6%, grew only 0.2% for the whole 1^{st} Q
- Construction fell by 4.4% for the whole 1^{st} Q
- Durable equipment fell by 5.9% for the whole 1^{st} Q
- Gross fixed capital formation (gross investments) fell by 4.4% for the whole 1^{st} Q
- Exports fell by 4.4% for the whole 1^{st} Q
- Imports fell by 8.7% for the whole 1^{st} Q

It is clear that, in the first quarter, the biggest victims were industry and manufacturing, investments (construction and durable equipment) and the trade sector. But, a very significant victim too was the big decline in the growth of consumption from the demand side. All these indicate a big loss in confidence and spending from the consumers and business sectors. All of these were also very strong warnings of an impending deep recession or economic collapse to come.

Table 1a: Growth Rate of GDP by Economic Sectors

Growth Rate of (in constant 2018 prices)	2017 – 2018	2018 – 2019	2019 – 2020
Economic Sector	Q1	Q1	Q1
Agriculture, forestry, and fishing	2.6	0.5	-0.3
Industry	7.0	4.9	-3.4
01. Mining and quarrying	5.5	3.4	-21.0
02. Manufacturing	6.4	5.2	-3.8
03. Electricity, steam, water and waste management	7.7	3.4	4.9
04. Construction	8.7	5.0	-2.9
Services	6.9	7.1	0.6
01. Wholesale and retail trade; repair of motor vehicles and motorcycles	5.3	7.0	1.9
02. Transportation and storage	8.8	6.8	-11.4
03. Accommodation and food service activities	11.6	6.0	-16.4
04. Information and communication	8.1	9.9	5.1
05. Financial and insurance activities	8.7	12.1	9.1
06. Real estate and ownership of dwellings	6.2	5.1	-2.3
07. Professional and business services	5.3	1.1	0.2
08. Public administration and defense; compulsory social activities	13.2	11.7	5.5
09. Education	5.4	5.1	1.1
10. Human health and social work activities	2.1	3.0	4.7
11. Other services	5.0	6.7	-10.6
Gross Domestic Product	6.5	5.7	-0.7
Net primary income from the rest of the world	2.3	-1.6	-5.9
Gross National Income	6.0	5.0	-1.2

Source: Philippine Statistical Authority

Table 1b: Growth Rate of GDP by Expenditure Components

	2017 - 2018	2018 – 2019	2019 - 2020
Expenditure	Q1	Q1	Q1
01. Household final consumption expenditure	5.8	6.2	0.2
02. Government final consumption expenditure	13.9	6.4	7.0
03. Gross capital formation	3.5	9.8	-17.4
A. Gross fixed capital formation	9.7	7.8	-4.4
1. Construction	14.5	9.6	-4.4
2. Durable equipment	2.1	5.5	-5.9
3. Breeding stocks and orchard development	9.2	2.1	-1.1
4. Intellectual property products	11.2	15.2	4.2
B. Changes in inventories			
C. Valuables	*	-76.9	-24.8
04. Exports of goods and services	13.0	4.2	-4.4
A. Exports of goods	8.0	5.5	-3.9
B. Exports of services	18.4	2.8	-5.0
05. Less : Imports of goods and services	9.9	8.9	-8.7
A. Imports of goods	10.5	9.0	-10.5
B. Imports of services	7.5	8.5	-1.2
Gross Domestic Product	6.5	5.7	-0.7
Net primary income from the rest of the world	2.3	-1.6	-5.9
Gross National Income	6.0	5.0	-1.2

3: ECONOMIC COLLAPSE DURING THE HARD LOCKDOWN (ENHANCED COMMUNITY QUARANTINE) PERIOD

3.1 Evidences from NEDA Firms' Survey in April

First, we look at the firm survey the National Economic Development Authority (NEDA) did in April 2020, a period of the most severe lockdown (Enhanced Community Quaratine). The results show clearly that a big majority of firms say that:

- There were no sales and no operations during the Enhanced hard lockdown period of the Enhanced Community Quarantine (ECQ) in April, 2020
- Minority answers were – decrease sales, work hours reduced, temporary layoffs, work at home

The above are the first set of omens on how big the second quarter economic collapse will be.

3.2 Strong Evidences of Economic Collapse During Hard Lockdown Period: Labor Force Survey April 2020

An even stronger and more effective evidence is from the Labor Force Survey of April 2020, again a month completely under the Enhanced Community Quarantine (ECQ). This is more effective since it involves information on both industries and the workers. The LFS Survey results in April 2020 are summarized in Tables 2a and 2b.

It must be mentioned without a table that unemployment rates in April 2020 increased in all regions of the Philippines, compared to April 2019.

Table 2a says that from 5.1% unemployment rate in April 2019, the April 2020 skyrocketed to 17.7% unemployment rate for April 2020, affecting around 7.25 million workers, compared to 2.267 million for April 2019. (Table 2a). This is more than tripling the numbers of unemployed and also more than tripling the unemployment rate.

Even with the much lower number of employed workers in April 2020 (because more became unemployed), the share of employed workers who say they are underemployed (need another job because pay is not enough) increased from 5.607 million in April 2019 to 6.388 million in April 2020. Even with lower employment of workers, 18.9% of the employed workers in April 2020 say they are looking for a second or third job in April 2020, compared to 13.4% in April 2019.

The picture is actually worse than the above. First the unemployment rate is higher than what the LFS says above.

LFS estimated that the April 2020 labor force fell by 3.004 million workers compared to April 2019. The labor force is defined as people who want to work – made up of those already working and employed, plus those looking for work, the unemployed. That means that the 3 million workers did not look for a job anymore because of the lockdown. They know out there, there were no jobs for them. In the US they call them 'discouraged workers'. These 3 million 'discouraged workers' must be added to the number of unemployed. Thus the unemployed in April 2020 should really be 7.254 million unemployed workers, plus 3.004 million discouraged workers. This adds up to 10.258 million unemployed workers, which in the author's estimate would yield around 22.5% unemployment rate. So, the official unemployment rate should not be 17.7% but somewhere between 22% to 23%.

Furthermore, Table 2b shows that In April 2019, only 447,000 workers reported they had a job but did not work. This ballooned to almost 13 million worker respondents in April 2020. They were considered employed by LFS. They make up around 12.5 million people, which would comprise around 28% of the labor force (based on the author's estimate). Whether they were paid or not we cannot tell (since they had a job but did not work at all, whether they were given salaries would depend on the kindness of their employers). But at least we can say that at least 50% of the labor force DID NOT WORK during the lockdown in April 2020. This makes up around 23.3 million to 23.4 million workers who did not work during ECQ.

There is more. Out of those employed who actually worked, the full-time workers (working 40 hours a week or more) fell from 28.4 million workers to just 9.9 million. Thus, more than 18 million workers went from full-time workers to part time workers. This makes up around 39% to 40% of the labor force.

The result is 50% of the labor force did not work in April 2020, and 39% to 40% went from full-time workers to part-time workers. This affects more than 41 million workers not working or demoted from full-time worker to part-time worker in April 2020. This is around 93% of the labor force in 2019. Let us even reduce the number to say that at least 90% of the labor force were affected. They either did not work or were demoted from full-time to part-time work in April 2020. There is no reason not to believe that this is the case for the entire ECQ period from Mar. 17 to May 31.

Imagine the effect, not just on workers, but on firms' operations and sales. This should explain the supposedly surprising extent of economic collapse in the second quarter of 2020.

This is important also because the NCR plus 4 CALABORZON provinces were placed under Modified Enhanced Community Quarantine (MECQ) in Aug. 4 – 18, due to the health workers' plea for time-out and recalibration of the COVID response strategy of the government as COVID cases began to shoot up and up even before May 31 (the last day of ECQ), going up continuously to the present. (Sept. 5, 2020).

TABLE 2a- Key Employment Indicators, Philippines
April 2020 and April 2019

(In Thousands Except Rates)

INDICATOR	April 2020^p	April 2019	Increment	Growth Rate
Total Population 15 Years Old and Over	73,722	71,776	1,946	2.7
Labor Force	41,018	44,022	(3,004)	(6.8)
New Entrants to the Labor Force	616	1,085	(469)	(43.2)
Employed	33,764	41,755	(7,991)	(19.1)
Underemployed	6,388	5,607	781	13.9
• Visible Underemployment[1]	5,479	3,460	2,019	58.4
• Invisible Underemployment	909	2,147	(1,238)	(57.7)
Unemployed	7,254	2,267	4,987	220.0
Not in the Labor Force	32,704	27,754	4,950	17.8
Total Population 15 Years Old and Over				
Labor Force Participation Rate (%)	55.6	61.3		
Proportion of New Entrants (%)	1.5	2.5		
Employment Rate(%)	82.3	94.9		
Underemployment Rate (%)	18.9	13.4		
Visible Underemployment Rate (%)	16.2	8.3		
Invisible Underemployment Rate (%)	2.7	5.1		
Unemployment Rate (%)	17.7	5.1		
Mean Hours of Work	35.0	41.8		

Source: Philippine Statistics Authority, Labor Force Survey

Table 2b: Part-time and Full-time Employment, With Job Working or Not

MAJOR INDUSTRY GROUP	Total			Part-Time Employment (Worked Less than 40 Hours)			Full-Time Employment (Worked 40 Hours or More)			With a Job, Not at Work		
	April 2020p	April 2019	Growth rate(%)	April 2020p	April 2019	Growth rate(%)	April 2020p	April 2019	Growth rate(%)	April 2020p	April 2019	Growth rate(%)
PHILIPPINES ('000)	**33,764**	**41,755**	**(19.1)**	**10,942**	**12,878**	**(15.0)**	**9,853**	**28,429**	**(65.3)**	**12,970**	**447**	**2,799.5**
Agriculture ('000)	**8,743**	**9,059**	**(3.5)**	**5,914**	**5,713**	**3.5**	**1,940**	**3,217**	**(39.7)**	**889**	**130**	**586.2**
Agriculture and Forestry	7,646.7	7,890.1	**(3.1)**	5,211.1	5,106.8	**2.0**	1,672.5	2,668.4	**(37.3)**	763.1	115.0	**563.8**
Fishing and aquaculture	1,096.4	1,169.1	**(6.2)**	703.3	606.2	**16.0**	267.3	548.3	**(51.2)**	125.8	14.6	**763.2**
Industry ('000)	**5,745**	**8,082**	**(28.9)**	**981**	**1,450**	**(32.3)**	**1,130**	**6,566**	**(82.8)**	**3,634**	**65**	**5,470.7**
Mining and quarrying (%)	154.0	160.9	**(4.3)**	62.3	39.8	**56.4**	59.9	119.3	**(49.7)**	31.7	1.8	**1,619.3**
Manufacturing (%)	2,702.0	3,547.9	**(23.8)**	552.5	725.8	**(23.9)**	608.0	2,793.7	**(78.2)**	1,541.4	28.4	**5,320.2**
Electricity, gas, steam and air conditioning supply (%)	61.4	107.9	**(43.1)**	8.4	5.1	**65.0**	28.3	102.8	**(72.5)**	24.7	0.0	
Water supply; sewerage, waste management and remediation activities (%)	48.3	67.3	**(28.3)**	13.2	7.0	**88.2**	19.0	60.3	**(68.5)**	16.1	0.0	
Construction (%)	2,779.3	4,197.6	**(33.8)**	344.8	672.2	**(48.7)**	414.3	3,490.4	**(88.1)**	2,020.1	34.9	**5,680.0**
Services ('000)	**19,276**	**24,614**	**(21.7)**	**4,046**	**5,715**	**(29.2)**	**6,784**	**18,646**	**(63.6)**	**8,447**	**253**	**3,244.6**
Wholesale and retail trade; repair of motor vehicles and motorcycles (%)	6,452.0	8,481.8	**(23.9)**	1,574.2	2,104.1	**(25.2)**	2,541.7	6,324.5	**(59.8)**	2,336.1	53.3	**4,286.7**
Transportation and storage	2,583.0	3,538.5	**(27.0)**	432.7	769.3	**(43.8)**	298.5	2,745.9	**(89.1)**	1,851.9	23.4	**7,808.4**
Accommodation and food service activities (%)	1,224.3	1,906.1	**(35.8)**	141.0	433.4	**(67.5)**	170.0	1,464.1	**(88.4)**	913.4	8.5	**10,609.0**
Information and communication (%)	267.5	450.0	**(40.6)**	24.3	49.8	**(51.1)**	105.8	397.3	**(73.4)**	137.3	3.0	**4,517.5**
Financial and insurance activities (%)	436.8	552.9	**(21.0)**	65.9	56.6	**16.5**	137.8	494.2	**(72.1)**	233.1	2.2	**10,673.4**
Real estate activities (%)	162.8	187.8	**(13.3)**	26.2	83.6	**(68.7)**	31.9	103.5	**(69.2)**	104.7	0.7	**13,958.0**
Professional, scientific and technical activities (%)	232.5	302.5	**(23.1)**	30.2	38.8	**(22.2)**	63.9	262.8	**(75.7)**	138.4	0.8	**16,244.0**
Administrative and support service activities (%)	1,501.3	1,751.5	**(14.3)**	138.6	86.6	**60.2**	750.1	1,644.5	**(54.4)**	612.6	20.4	**2,900.0**

Public administration and defense; compulsory social security (%)	2,498.7	2,751.5	**(9.2)**	690.8	688.8	**0.3**	1,494.0	2,027.2	**(26.3)**	313.9	35.6	**781.6**
Education (%)	1,121.9	1,153.5	**(2.7)**	227.8	224.6	**1.4**	179.2	857.2	**(79.1)**	714.8	71.7	**897.6**
Human health and social work activities (%)	459.9	564.4	**(18.5)**	86.2	67.0	**28.7**	275.0	495.4	**(44.5)**	98.8	2.0	**4,782.1**
Arts, entertainment and recreation (%)	200.3	435.9	**(54.0)**	8.2	174.7	**(95.3)**	12.1	260.2	**(95.4)**	180.0	1.0	**18,080.5**
Other service activities (%)	2,135.1	2,537.2	**(15.8)**	599.8	938.3	**(36.1)**	723.5	1,568.9	**(53.9)**	811.7	29.9	**2,612.4**
Activities of extraterritorial organizations and bodies (%)	0.2	0.4	**(57.4)**	0.0	0.0	**0.0**	0.2	0.4	**(57.4)**	0.0	0.0	
PHILIPPINES ('000)	**33,764**	**41,755**	**(19.1)**	**10,942**	**12,878**	**(15.0)**	**9,853**	**28,429**	**(65.3)**	**12,970**	**447**	**2,799.5**
Increase in the Number from Apr 2019 to Apr 2020	(7,991)			(1,937)			(18,576)			12,522		

Source: Philippine Statistics Authority, Labor Force Survey

Industries Shedding Much Employment in terms of percent decline, in industry, services and agriculture and in the whole of the Philippines.

- Arts, entertainment and cultural activities (-54%)
- Electricity, gas, steam, air-con (-43.1%)
- Information and communications ITC (-40.6%)
- Accommodation and food services (-35.8%)
- Construction (-33.8%)
- Water supply, sewerage (-28.3%)
- Transportation and storage (-27%)
- Wholesale and retail trade, repairs of vehicles (-23.9%)
- Manufacturing (-23.8%)
- Professional, scientific and technical activities (-23.1%)
- Finance and Insurance activities (-21%)
- INDUSTRY (-28.9%)
- SERVICES (-21%)
- AGRICULTURE (-3.5%)
- PHILIPPINES (-19.1%)

The shedding of workers from the economic sectors would just be the beginning. Despite the 2 ½ months of hard lockdown, many firms held on to their employees for compassion's sake and/ or because they felt this was just temporary. More permanent layoffs might occur from June onwards when firms decide to close shop and exit the market permanently due to the clear prolongation of the crisis and rising COVID cases and deaths.

Two of the biggest declines in employment were in the entertainment/ cultural and tourism/ hotel sectors since it was clear that with the pandemic, it would take a longer time for these sectors to return to normalcy. Surprising were large declines in the employment of utilities– electricity, gas, water, ITC (Information and Communications). It seems these large firms are also being hit hard and they are keeping a skeletal or leaner staff.

Wholesale and retail trade, manufacturing (consumer goods and durables plus their intermediate materials), professional, scientific and technical activities also shed a lot of labor – this is quite logical.

3.3 The Second Quarter 2020 GDP: 16.5% Decline

With the dire results we saw in the NEDA and LFS surveys, most experts correctly predicted a sharp decline in the second quarter GDP, in late July and early August, right before the release of the second quarter GDP data. The most optimistic was credit rating agency Moody with a 8% predicted decline. The most pessimistic was London-based Capital Economics with a 18% predicted decline in the second quarter (not too bad a prediction).

Tables 3a and 3b give us summaries of the economic collapse in the second quarter of 2020. We entered a technical recession with two consecutive negative growth in GDP. But the second quarter decline is so severe, a fall of 16.5%, it is really an economic collapse.

One can see from the supply or production side (Table 3a), the largest economic sector to collapse in the second quarter of industrial sector – with a decline in construction of 33.5% and a decline in manufacturing of 21.3%. Like in the first quarter, the industrial sector bore the brunt of the economic decline. This is because construction cannot proceed under lockdown since it will break the rules of physical distancing among workers. Manufacturing fell because many products were (and still are) no longer bought or were (and still are) bought less because of the lockdown and need for physical distancing (therefore much more people just stay at home).

Dr. Cielito Habito (2020a) shows finer breakdowns of the fall of manufacturing products in the first semester. The ones that fell most were led by textiles, tobacco and leather products. But practically all manufactured products – whether final consumption manufactures or intermediate products – all fell. The only exception would be pharmaceutical products which actually increased by 16.1% in the first semester. This is the case, first, because all sick people will still have to take medicines and continue their maintenance drugs. Second, many vitamins and supplemental medicines are being bought by the public either to boost up immunity against COVID, or to help them soothe their anxieties, depression, and insomnia problems during the pandemic and lockdown period.

This time, in the second quarter, services fell sharply (it had very low positive growth in the first quarter) because of the hard lockdown. The decline in services in the second quarter was a strong 15.8% (Table 3a). The largest declines are in accommodation and food services/ hotels and restaurants (-68.0%); other services (-63.0%) -- which include arts, entertainment, live shows, films, theater, personal services like massage, domestic help, chauffeuring and all informal services; and transportation and storage (-59.2%) -- air, water, and land transports. Tourism was practically nil during the second quarter of 2020 aggravating the declines in the transportation and hotels/ restaurants sectors. Other service sectors that fell significantly are real estate and ownership of dwellings (-20.1%), professional and business services (-18.4%), human health and social work (-15.4%), wholesale and retail trade (-13.1%) and education (-12.2%).

Using more refined categorization, Dr. Cielito Habito (2020) showed that the economic sectors that declined the most were: air transport (-98.3%), leather products incl shoes (-90%), wholesale / retail trade repair of motor vehicles (-78.5%), construction by households (-75.0%), accommodation services / hotels (-73.4%), water transport (-72.8%), land transport (-65.6%), restaurants/ food stalls/ bars (-64.9%) and arts/ entertainment/ recreation (-63.2%). Except for leather products and shoes and construction by households, all of the above were in the services sector.

One can see in Table 3a that in the second quarter of 2020, net primary income – which is dominated by OFW (overseas Filipino workers) remittances -- saw a sharp decline of 22%, indicating a very strong decline in these remittances, as many OFW's are returning to the Philippines after losing their jobs.

Table 3b shows the economic collapse in the second quarter from the demand side. This time, in the second quarter of 2020, even household consumption fell by a large -15.5% as people stayed indoors and spent less during the lockdown. The fall in income arising from the massive unemployment and the decline OFW's remittances further aggravate the fall in household consumption. Household consumption is the biggest component comprising more than 70% of GDP. Thus a decline of 15.5% is a huge amount and explains much of the decline in manufactured and service products in Table 3a because of the lack of demand.

The gross fixed formation fell by a whopping 37.8%, made up mainly by a 62.1% fall in durable equipment and a 32.9% fall in construction. The fall in investments is the result of inability to proceed with infrastructure and other constructions due to the pandemic and lockdown as well as a stoppage in planned investments in new businesses leading to a steep fall in purchases of durable equipment. The fall in investments also signify a strong loss of confidence in the economy due to the pandemic and lockdown with strong uncertainties as to how long this crisis will last and when customers will return to spending.

Exports fell by 37% in the second quarter of 2020. Our main exports are electronics and automobile parts, as well as some agricultural products such as coconut, sugar, bananas, pineapple. Obviously, all of the demand for these products abroad have declined, and the transport system for such goods have also been more restricted. Our main export of services are tourism and business process outsourcing (BPOs). Obviously, tourism has become nil starting March. Though, many businesses have gone online, our BPOs are mainly call centers whose mother firms abroad have either temporarily or permanently shut down because of the lockdowns, physical distancing policies and economic decline abroad.

Imports fell even more, by 40%. This directly reflects our economic collapse and our economy's import dependence. Because most machines and equipment are imported, the investment collapse has reduced the need for imported machines and equipment. Since many of our products depend on imported materials and parts (oil and gasoline, metals, steel, cement, feeds, chemicals, textile, more sophisticated chips and integrated circuits, even rice, corn and livestock, etc) the collapse in manufactured products will naturally lead to a greater fall in imports.

The bigger fall in imports compared to exports paradoxically results in a trade surplus, and thus saves foreign exchange, explaining partly the rising strength of the peso.

Table 3a: Gross National Income and Gross Domestic Product, by Industry
Q1 2019 to Q2 2020
Growth Rates, at Constant 2018 Prices

	2018 – 2019				2019 - 2020		2018 – 2019		2019 - 2020
Industry	Q1	Q2	Q3	Q4	Q1	Q2	Sem I	Sem II	Sem I
Agriculture, forestry, and fishing	0.5	0.7	3.0	0.8	-0.3	1.6	0.6	1.7	0.6
Industry	4.9	2.5	5.4	6.0	-3.4	-22.9	3.7	5.7	-13.5
01. Mining and quarrying	3.4	14.2	-3.5	-4.0	-21.0	-24.5	9.1	-3.8	-22.9
02. Manufacturing	5.2	2.0	0.9	4.3	-3.8	-21.3	3.6	2.8	-12.5
03. Electricity, water and waste	3.4	8.1	7.3	7.3	4.9	-5.8	5.9	7.3	-0.9
04. Construction	5.0	-0.1	15.3	10.7	-2.9	-33.5	2.1	12.8	-20.3
Services	7.1	7.5	7.3	8.1	0.6	-15.8	7.3	7.7	-8.2
01. Wholesale and retail trade; repair of motor vehicles and motorcycles	7.0	8.6	8.3	8.5	1.9	-13.1	7.8	8.4	-6.3
02. Transportation and storage	6.8	6.1	7.9	4.7	-11.4	-59.2	6.4	6.3	-36.6
03. Accommodation and food service activities	6.0	4.9	6.0	7.8	-16.4	-68.0	5.5	6.9	-41.2
04. Information and communication	9.9	5.6	5.5	5.3	5.1	6.6	7.6	5.4	5.9
05. Financial and insurance activities	12.1	10.7	12.8	12.1	9.1	6.8	11.4	12.4	7.9
06. Real estate and ownership of dwellings	5.1	4.9	6.2	4.5	-2.3	-20.1	5.0	5.4	-11.5
07. Professional and business serv	1.1	3.0	2.7	2.2	0.2	-18.4	2.2	2.4	-10.4
08. Public administration	11.7	11.4	8.7	21.3	5.5	8.3	11.5	15.3	7.1
09. Education	5.1	12.0	2.1	4.5	1.1	-12.2	8.8	3.3	-6.3
10. Human health and social work	3.0	-0.6	5.8	9.2	4.7	-15.4	1.1	7.5	-5.9
11. Other services	6.7	6.6	5.2	7.3	-10.6	-63.0	6.7	6.4	-37.0
Gross Domestic Product	5.7	5.4	6.3	6.7	-0.7	-16.5	5.6	6.5	-9.0
Net primary income from the rest of the world	-1.6	0.3	-4.6	-2.8	-5.9	-22.0	-0.7	-3.7	-13.7
Gross National Income	5.0	4.9	5.2	5.8	-1.2	-17.0	4.9	5.5	-9.5

Source: Philippine Statistics Authority, National Income Accounts

Table 3b Gross National Income and Gross Domestic Product, by Expenditure, Q1 2019 to Q2 2020, Growth Rates, at Constant 2018 Prices

	2018-2019				2019-2020		2018-2019		2019-20
Expenditure	Q1	Q2	Q3	Q4	Q1	Q2	Sem I	Sem II	Sem I
01. Household final consumption expenditure	6.2	5.6	6.0	5.7	0.2	-15.5	5.9	5.8	-7.8
02. Government final consumption expenditure	6.4	6.8	8.8	17.0	7.0	22.1	6.7	12.8	15.6
03. Gross capital formation	9.8	-0.8	-0.1	2.5	-17.4	-53.5	3.9	1.3	-36.6
A. Gross fixed capital formation	7.8	-2.9	5.9	5.8	-4.4	-37.8	1.8	5.8	-22.3
1. Construction	9.6	1.3	14.3	11.4	-4.4	-32.9	4.8	12.7	-20.4
2. Durable equipment	5.5	-15.1	-9.7	-6.5	-5.9	-62.1	-5.7	-8.1	-33.5
3. Breeding stocks and orchard	2.1	3.0	-0.5	1.4	-1.1	2.2	2.5	0.6	0.6
4. Intellectual property products	15.2	30.4	33.5	25.4	4.2	-27.7	22.8	29.6	-12.8
04. Exports of goods and services	4.2	3.1	1.8	0.3	-4.4	-37.0	3.6	1.1	-21.4
A. Exports of goods	5.5	2.9	-1.9	-1.6	-3.9	-31.1	4.1	-1.7	-18.1
B. Exports of services	2.8	3.3	7.8	3.2	-5.0	-43.4	3.1	5.6	-24.7
05. Less : Imports of goods and services	8.9	0.1	-0.1	-0.7	-8.7	-40.0	4.2	-0.4	-24.7
A. Imports of goods	9.0	-0.5	-0.9	-1.7	-10.5	-42.3	3.8	-1.3	-27.3
B. Imports of services	8.5	3.1	3.4	3.1	-1.2	-27.6	6.1	3.2	-12.9
Gross Domestic Product	5.7	5.4	6.3	6.7	-0.7	-16.5	5.6	6.5	-9.0

Source: Philippine Statistics Authority, National Income Accounts

The pictures for the first semester in Tables 3a and 3b are also pictures of economic decline. GDP fell by 9% for the first semester of 2020. Industry fell by 13.5% during this semester with manufacturing falling by 12.5% and construction by 20.3%. Services fell by 8.2%.

Note that the only broad sector that did not decline is agriculture, forestry and livestock. This is because the pandemic was more concentrated on the urban sectors and less on the more rural areas. But the growth in agriculture was quite small for the quarters and the first semester of 2020, all less than 1%. It was only 0.6% for the first semester of 2020, indicating both the lower demand for food as part of household expenditures (because of income decline), and the low productivity of Philippine agriculture.

4: MESSY OPENING UP AND RELAXATION OF ECQ TO GENERAL COMMUNITY QUARANTINE (GCQ); ANOTHER 2-WEEK LOCKDOWN IN AUGUST

The Philippines had the longest lockdown in the world – from March 17, 2020 to May 31, 2020, atotal of 76 days. It was called Enhanced Community Quarantine (ECQ) where only essential businesses and services were allowed, and only one family member was permitted to go out for essential purchases and transactions. Unfortunately, there was no hint of any curve flattening of COVID-19 spread, with the government unable to do mass testing until well into May, and very little contact tracing, leading to underutilization of quarantine facilities. This, despite Secretary of Health Francisco Duque's desperate attempt to convince people there was a curve flattening using the doubling-time calculations. In fact, a few days before the relaxation of the lockdown, in late May, the COVID cases started to shoot up fast.

June 1 was the day when the relaxation of ECQ led to General Community Quarantine (GCQ). It was a very messy first week of opening. Only the local trains were running for the public, and the local trains are only limited to three main highways and roads in Metro Manila. The lack of jeepneys and buses (only point-to-point buses were allowed with no stops in between end points) stranded thousands of workers going to and back from work, increasing the lack of physical distancing among the stranded crowd of people. People going back to the provinces, including many overseas Filipino workers (OFWs) were also stranded when provincial buses were not running. Many OFWs were stranded near the airport for days, again without much physical distancing from one another. It was clear the COVID cases were going to shoot up and the opening of the economy happened without much confidence and assurance of better public health.

As expected, COVID cases kept going up from more than daily new cases of 1.000 to 2,000 reaching 3,000 to 7,000 daily at this time of writing (Sept. 5, 2020). The Philippines cases surpassed that of Indonesia in early August, making the Philippines the worst performer in COVID reduction in the whole East Asia and the Pacific. The low economic confidence of firms and lack of assurance that the public health situation will improve further convinced many firms to shut down or scale back operations thereby laying off workers. Many government agencies and firms found their workers infected with COVID and had to close shop for several days or weeks. It was clear that the COVID and economic situation faced serious obstacles and problems. Because of fast rising cases, the health and medical sector and workers pleaded for a two-week lockdown in NCR and surrounding provinces (Aug. 4-18) – called Modified Enhanced Community Quarantine (MECQ) for them to take a breather and help the government recalibrate its anti-COVID strategies. Unfortunately, the COVID cases still kept rising during MECQ because of the government's inability to do adequate contact tracing and isolating mild and asymptomatic cases in isolation facilities. When the economy opened up again under GCQ in Aug. 19, the daily new cases were still very high, ranging from 2,000 to 7,000 per day.

5: ECONOMIC POLICIES OF THE GOVERNMENT

5.1 Lax Monetary Policies and Increased Loan Availability

The Bangko Sentral ng Pilipinas (BSP) throughout the pandemic and lockdowns up to now has been correctly following a lax monetary policy:

- BSP reduced policy (interest) rates, by 150 points between March to June. Current policy rate is at 2.25%.

During the lockdown between March to May:

- BSP reduced reserve requirement ratio to 12% for commercial banks, and to 3% and 2% to thrift banks and rural banks, respectively

- BSP entered into repurchase agreement of (or funded) P300 billion w/ national gov't for COVID 19 gov't response. This effectively financed part of the government deficits and increased the money supply.

Although easy and lax monetary policy will not solve the economic collapse brought about by COVID, it is necessary for an environment so that troubled firms with debts will not collapse due to high interest rates and tighter credit. Many firms, especially medium, small and micro enterprises (MSME), turn to temporary credits as their cash income collapse and liquidity decline due to the pandemic and lockdowns. This is a crucial channel for them to pay their workers and to meet their bills from previous purchases of supplies and materials.

During the ECQ and the much milder General Community Quarantine (GCQ) periods in NCR and other hard-hit areas, the government planned these guaranteed loans for MSMEs:

▶ P120 billion guaranteed credit allotted to 12,000 hard-hit MSMEs. The loans will be guaranteed by PhilGuarantee (Philippine Guarantee Corporation), which will assist, advise and partly guarantee the credit of troubled firms. (MSME Credit Guarantee Program MCGP)

▶ As of June 30, PhilGuarantee has approved a total pf P37.5 billion in credit guarantee facilities for 22 accredited banks. 50-50 risk-sharing bet bank and PhilGuarantee.

▶ In June and July, Trade Secretary Ramon M. Lopez said that loan applications filed with the Small Business Corp. (SB Corp.) of DTI have breached P3 billion. SB Corp. has approved P253.5 million worth of loans for 3,711 applicants. He expects that almost P1 billion of loans will be approved by early August. CARES (Covid-19 Assistance to Restart Enterprises). SB

Corp. stopped the applications when they reached way beyond the allotted P3 billion for the program. (Business World (2020))

6: BAYANIHAN HEAL AS ONE ACTS: THE FIRST SOCIAL AMELIORATION PROGRAMS (SAP)

6.1 Bayanihan Heal as One Act 1

The first ECQ lockdown between Mar. 17 – May 31 (the last two weeks was MECQ), were accompanied by the Bayanihan Heal As One Act enacted by Congress signed to law by the President on March 25, 2020 (Limos 2020). This act allowed the executive branch to implement to a large extent a Social Amelioration Program (SAP) for the poor and people who will lose their jobs and income during the 71-day lockdown in Mar. 17 – May 31. A budget of P275 billion was allotted for this law from the P438 billion national budget approved for 2020.

The law includes most importantly a subsidy amounting to P5,000 – P8,000 (based on the regional minimum wage) for 18 million low-million households. During the messy implementation of this subsidy by the local government units (LGUs) and Department of Social Welfare and Development (DSWD), many households and individuals were not in the list of beneficiaries, and there were various complaints of corruption and diversion of funds by local officials. Thus, another 5 million low-income households were added to the list. The distribution of the subsidies was delayed with most of the distribution done during late April up to July. The subsidy was given in two tranches (not double the amount). The second tranche was only given in July, almost two months after the lockdown.

The law also involved hastening the accreditation of effective testing kits for patients under investigation (PUIs). It also provides financing for other medical supplies and equipment, personal protective equipment (PPEs) needed for arming the hospitals and health workers for the anti-COVID struggle. Although the law provided for the mandatory isolation and treatment of the patients with full financing for the indigents and senior citizens by the Philippine Health Insurance Corporation[i], many COVID patients remained at home due to the failure of government to undertake effective contact tracing and isolating moderate, mild and asymptomatic patients in quarantine and isolation facilities. This despite the urging of the Chinese Wuhan experts sent by the Chinese government to help.

The law also directed PhilHealth to shoulder all medical costs of workers exposed to the coronavirus for the duration of the emergency.[i] Health workers who contract the virus will receive P100,000 and the families of health workers who die from COVID under line of duty will be compensated P1 million. Public health workers will also be given a hazard pay –"COVID-19 special risk allowance".

The President was given special powers to fight the pandemic and to save the economy. Specifically, the Office of the President can discontinue already appropriated programs of agencies in the executive branch and use these and other unutilized funds for the anti-COVID fight.

This is the first time in history that the Philippines will be giving subsidies to 23 million low-income families, so it is bound to be difficult and messy. Even if the delays and corruption are more than to be desired, it is a milestone in what is called the Philippines' Social Amelioration Program (SAP). Although the amount of the cash subsidy and rationed food was too little for the income losses of the families, it was the first time for the Philippines to be temporarily a welfare state. But the cash amount distributed to the families and the food given was to cover only the lockdown period from Mar 17 – May 31. The amount is of course too little, leading to much poverty and hunger, but it still cost several billions of pesos.

6.2 Bayanihan Heal as One Act 2

The Bayanihan Heal as One Act 1 expired on June 5, 2020, although implementation of its SAP did not wrap up until late July, 2020. It was clear that the help required to the low-income groups and floundering businesses needed a continuation of the Bayanihan Heal as One Act 1 in terms of amount and time covered. The bicameral Congress approved Bayanihan Heal as One Act 2 on Aug. 20, 2020 (Ramos 2020). This is P165.5 billion package (more than P100 billion lower than Bayanihan Act 1) which includes:

- P3 billion: Procurement of face masks, personal protective equipment (PPE) sets, shoe covers, and face shields
- P4.5 billion: Construction of temporary medical isolation and quarantine facilities, field hospitals, dormitories, and for the expansion of gov't hospital capacity
- P4.5 billion: For setting up of isolation facilities and other requirements including billing of hotels, food and transportation used by COVID-19 patients
- P13.5 billion: Hiring of emergency Human Resources for Health (HRH)
- P820 million Assistance to overseas Filipinos under the Department of Foreign Affairs
- P13 billion: For the government's cash-for-work program and other support programs for impacted sectors
- P600 million: For subsidies and allowances for students severely impacted by the pandemic
- P300 million: As subsidies and allowances to teaching and non-teaching personnel, and part-time faculty in state universities and colleges
- P180 million: Allowance for national athletes and coaches
- P39.472 billion: Capital infusion to government banks
- P24 billion: Assistance to the Agricultural Sector and the Plant, Plant, Plant initiative under the Department of Agriculture
- P9.5 billion: Assistance to the transportation sector
- P4.1 billion: Assistance to the tourism industry (P4 billion) and subsidies and training for tourist guides (P100 million)
- P3 billion: Development of smart campuses across the country
- P1 billion: Technical Education and Skills Development Authority scholarships
- P6 billion: Department of Social Welfare and Development assistance to individuals in crisis situations
- P4 billion: Department of Education's implementation of digital education
- P1.5 billion: Assistance to local government units (LGUs)
- P2 billion: Subsidy for the payment of interest on loans secured by LGUs from government banks

- P5 billion: Hiring of more contact tracers by the Department of Interior and Local Government
- P2.5 million: For the computer-based licensure of the Philippine Red Cross
- P10 million: Research fund of the Health Technology Assessment Council, which was created under the Universal Health Care law.
- P15 million: For UP Diliman's computational research laboratory
- Under the reconciled version, the President is also authorized to grant P15,000 in cash aid to healthcare workers who contract a mild infection of COVID-19 in the line of duty.
- A special risk allowance of P10,000 to public and private health workers catering to COVID-19 patients is also mandated under the bill.
- Moreover, the bill provides that healthcare workers who will become severely-ill from COVID-19 in the line of duty are entitled to P100,000 while cash assistance of P1 million should be given to the family of medical workers who died of COVID-19.
- P25.5 Standby fund to be made available once additional funds are generated from savings: will be used for COVID-19 testing and the procurement of medication and vaccines (P10 billion) and additional capital infusion to government banks (P15.5 billion).

The law also decrees:

- A 60-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020

- A minimum 30-day grace period on residential and commercial rents of lessees not permitted to work during the pandemic.

- A minimum 30-day grace period for the payment of utility bills (electricity, water, etc) falling due within the period of enhanced community quarantine (ECQ) or modified ECQ

- Suspension of permits to build telecommunication towers, except for the building permit, for 3 years

- Condonation of pending payments of interest, penalties, and surcharges for agrarian reform loans, with the restructuring of the remaining original principal without interest

As of the time of writing (Sept. 5, 2020), the President has not yet signed Bayanihan 2 into law. Many businessmen, NGOs and legislators find P165.5 billion too trifle in comparison to the earlier act passed only by the lower house Accelerated Recovery and Investments Stimulus for the Economy -- ARISE (sponsored by Stella Quimbo and Joey Salcedo) which allotted P1.3 trillion for (a three-year) fiscal stimulus including a large amount of much-needed infrastructure building (over and beyond Build Build Build) – to be discussed in the next paragraph. The infrastructure building will use millions of currently unemployed workers. The fact that the COVID situation will last at least one more year and will most likely take two years or more had sacrificed the long-term view for the economy, and reduced the multiplier effects of infrastructure investments especially outside NCR and nearby provinces. The current Bayanihan 2 Act will be more focused on NCR and nearby provinces – the biggest hotspots of COVID infections -- except for the P24 billion allotted for agriculture and the funds for OFW's living in other regions. Fiscal Stimulus has been turned into more of a Social Amelioration Program (SAP) for those hard-hit by the COVID pandemic.

6.3 The Economic Managers Win Over Progressive Legislators?

When the Lower House passed ARISE (De la Cruz 2020), there was a lot of optimism from the business sector that a strong fiscal stimulus would be finally enacted to revive a collapsing economy. The elements of the act included, over three years:

- P650 billion infrastructure --- using the many unemployed
- P150 billion – economic relief for MSMEs
- P110 billion – wage subsidies
- P 70 billion – assistance to transportation industry
- P 66 billion – assistance to agri-fishery sector
- P 58 billion – assistance to tourism industry
- P 50 billion – loans for agrarian reform beneficiaries
- P 44 billion – assistance to industry and services sectors
- P 42 billion – subsidy for students
- P 25 billion – assistance to displaced, vocational workers
- P 15 billion – P10 billion covid-19, P5 billion TESDA

The economic managers, Department of Finance Secretary Carlos Dominguez and National Economic Development Authority (NEDA) Director General Karl Chua said that there are just not enough revenues to back up the P1.3 three-year program of ARISE. They instead said that they just can afford P300 billion (including Build Build Build projects) or P165 billion without the Build Build Build projects. This is coincidentally the total amount allotted to the Bayanihan 2 Act. They said this would result in a fiscal deficit which would already reach 9% of GDP, which will weaken our 'macroeconomic fundamentals' and is the ceiling which they feel will make the international credit agencies comfortable.

Instead they recommended a fiscal stimulus of P300 billion (mentioned in previous paragraph), and MSME lending of P200 billion (total for the whole year) via Land Bank with guarantee from PhilGuarantee.

But their most important recommendation is a tax-cut stimulus called CREATE – which they wanted to substitute for ARISE. CREATE is Corporate Recovery and Tax Incentives for Enterprises Act (ASEAN Briefing 2020). Its elements are:

- Corporate Income Tax Cut --- from 30% to 25% starting this year to 2022, 1% reduction from 2023 to 2027 to reach 20% in 2017. The economic managers claim this will help many MSMEs.

- Fiscal Incentives Review Board (FIRB) will give fiscal and non-fiscal incentives to what gov't sees are priority and beneficial industries.

- NOLCO increased to five years – Net operating loss carryover where losses by companies this year can be used as tax deduction for the next five years, instead of the currently allowed three years by the Bureau of Internal Revenue.

The first two items above were part of TRAIN 2, the Tax Reform Acceleration and Inclusion part 2 plan of the Duterte government before the pandemic. The second item was supposed to include the stoppage of income tax holidays and other tax incentives for firms who have enjoyed it for the last decade or so. Many multinational corporations objected to this negative list, so it was removed in CREATE and these fiscal incentives were given a stay of nine more years.

The best part of CREATE is the increase of NOLCO from three years to five years. NOLCO is net operating loss cover, allowing tax deductions of corporate income losses to for this year to continue up to three years. This is part of the regulations of the Bureau of Internal Revenue (BIR). Given the extent of income losses across the firms in the entire economy because of the world-wide calamity of COVID and lockdowns, the CREATE bill extends it from three years to five years. This is but fair given the extent of income and economic collapse we have been experiencing.

But the most objectionable part of CREATE is its main focus, which is the cut in the corporate income tax. The reasons for my objections are:

1) It is more reasonable to stimulate the economy by fiscal spending and employment of the unemployed. Tax cuts will just be saved instead of either spent or invested if firms and households believe that the pandemic will last a long time (which it most likely will) and the COVID cases do not decrease (which is the current case), and firms' employees are being infected.
2) Tax cuts will mean more revenue losses which is really needed to finance spending in health, SAP and employing the unemployed.
3) Most companies will have reduced and negative incomes this year, and very likely the next year, so tax cuts in the early years will not benefit them and will not lead to a stimulus.
4) Despite having the highest nominal corporate income tax in ASEAN, the actual collected income tax collection (using the *effective* tax rate) is actually much lower (we have a lower tax revenue capacity than Vietnam and Cambodia – both poorer than us). This is due to under-declaration of receipts and over-declaration of expenses, and abuse of exemptions, oftentimes with the connivance of BIR officials. This certainly must be corrected in this bill simultaneous with the cut in the nominal tax rate, but it is not.

As previously mentioned, many businessmen and NGOs are afraid that the fiscal stimuli as a response to the collapsing economy would simply be the two Bayanihan Acts, plus perhaps the CREATE bill, whose only (important) positive contribution is the extension of NOLCO from three years to five years.

Obviously the loss of jobs and closure and much reduced activities of firms in the tourism industry, arts/ entertainment/ live show industry, massage and wellness centers, gyms, hotels and restaurants, public vehicles (especially jeepneys, and non-point-to-point buses), construction, manufacturing (because of the sharp slowdown in consumption of all kinds except medicines), -- decline in practically in the entire economy except agriculture and pharmaceuticals – cannot be resuscitated with Bayanihan 2. (Bayanihan 1 funds have all been spent). Although Bayanihan 2 includes assistance to the health, tourism and transportation sectors, they are deemed too little by the sectors themselves. Specifically the transportation sector, and many public vehicle owners (especially the jeepney drivers) have expressed their dismay in the slash in the original funding allotted to them in the Bayanihan 2 Act. So, many businessmen and some legislators want ARISE to be resuscitated to bring about a bigger stimulus package to save the economy. Otherwise we will have one of the smallest fiscal stimulus, as percentage to GDP, in the world (at most only 10% of GDP). But this is outside the mindset of the key economic managers DOF Secretary Dominguez and NEDA Director-General Karl Chua.

Again, their main arguments are:

- They are concerned about the effect on macro fundamentals -- the fiscal deficits.

- They are afraid S&P, Moody's or Fitch might downgrade our recently upgraded ratings.

7: THE NEED TO PREVENT BANKRUPTCIES, LOAN DEFAULTS AND SYSTEMIC RISKS

The two main economic managers also surprisingly seem to be aloof to the special dangers of widespread bankruptcies, and loan defaults. Sure, more loans can help temporarily. But if the economy doesn't improve – which seems more likely, given the ever increasing number of COVID cases – the losses of income, and the inability to recoup large fixed and variable costs of business will just lead to loan default and bankruptcies. This will be disastrous for the workers and the financial system. A banking crisis will occur. This will be the worst scenario – an uncontrolled epidemic, a collapsed economy with bankrupt firms laying off all their workers, unemployment going to 50% or more, and a financial collapse with banks unable to collect their loans and interest rates, leading to a crisis that will make the US subprime crisis in 2008-9 look like a practice drill.

The government seems to believe lax monetary policies and loans, as well as rescue funds for such sectors as tourism and transportation sectors will stave off this catastrophe. They may be too complacent. BSP Governor Benjamin Diokno at least is aware of the possibility of this nightmare.

Dr. Alvin Ang (2020) shows the non-performing loan ratio and non-performing loans increasing since November 2019, originally because of high incurrence of loans during the good old days. The increase in non-performing loans (NPL) and ratio increased more rapidly in 2020 with the COVID pandemic and lockdown. It reached 2% NPL ratio from below 2 in April 2020, a strict lockdown month. Ang also showed that the NPLs are now growing faster than loan loss provisions of the banks. The banks are not in a very healthy state.

On July 10, S&P had predicted that the non-performing loans (NPLs) could double from the 2-2.5% level to the 4-5% level, a rise of P368 billion NPLs. When data for June came out just this August, the NPL ratio has risen to 2.53%, the highest since 2014. (Agcaoili 2020a)

DTI Sec Lopez last week said 25.9% of businesses in the Philippines have closed, 52% in partial operation and only 22.1% in full operation in a survey they did this month (Cahiles-Magkilat 2020).

DTI Usec Rafaelita Aldaba tearfully pleaded with Congress to help the many distressed firms. (ABS-CBN 2020)

Philippine Chamber of Commerce and Industry President Benedicto V. Yujuico said recently that more than half of the chamber's members he consulted have stopped operations (Crismundo 2020). Those that have resumed operations are at lower capacity, with employment down to 30% of pre-pandemic levels.

Some big firms had saved themselves temporarily by large capital infusions from the owners. Philippine Air Lines, hard-hit by the pandemic and stoppage of travels, saw its main investor Lucio Tan pump in P300 million capital to save itself from bankruptcy (Camus 2020). The government should be ready for such capital in case a too-big-to-fail big business entity will need rescuing if its owners have run out of capital to save the enterprise.

State-run Credit Information Corp (CIC) is asking the banks to practice forbearance and not to tag unpaid loans during the ECQ as non-performing loans. (giving a cure period, like a grace period). Creditors are urged to practice forbearance and reschedule or restructure debts of firms that cannot operate because of the pandemic.

Bayanihan 2 tries to deal with this with the provision for "a 60-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020". Experts advised the Congress lawmakers that beyond Dec. 31, 2020, it will mean major liquidity and solvency problems for the banks.

But forbearance and the 60-day grace period are just temporary measures now. Bankruptcies and financial crisis might start as early 2021. Therefore, the following bill is important.

On June 2, the Lower House passed Financial Institutions Strategic Transfer Act – FIST sponsored by Rep. Joey Salceda (Agcaoili 2020b). It would

- assist banks and other financial institutions with offloading their debts and managing their non-performing assets (NPAs) affected by the pandemic.

- provide incentives to banks and financial institutions to sell their NPAs to asset management companies that specialize in the resolution of distressed assets.

- will authorize DOF to extend entitlement periods for the participating banks to avail of tax exemptions and fee privileges for a period of two to five years as fiscal incentive.

This bill is important but only has the strong backing of the BSP Governor Benjamin Diokno, but the other important economic managers, DOF Sec. Dominguez (especially close to President Duterte) and NEDA head Karl Chua, have remained quiet on this.

8: FINANCING THE DEFICIT

As mentioned previously the biggest difference between the two powerful economic managers, on one hand, and progressive legislators, businessmen and NGOs, on the other, is the size and nature of the fiscal stimulus. The economic managers are more conservative and does not want the fiscal deficit to go beyond 9% of GDP. But many countries, including the US, has crossed way beyond the 10% line in terms of fiscal stimuli. Below is a little summary discussion on this matter.

- Much of the lending to MSMEs will not lead to fiscal deficits. BSP just provides the reserves or the funds for the banks (Land Bank or SB) to lend to MSMEs.[ii]
- The resulting increase in money supply is no problem since there is no inflationary pressure, in fact more of deflationary tendency is expected from the lack of demand.
- The bigger problem in giving so much loans is that they may lead to defaults and financial crisis. So loans to MSMEs and big firms alike have to be very carefully planned, monitored and supervised by the banks and BSP.
- Some of the deficits can be funded by long-term debts, eg. 5-year or 10-yr treasury bonds which will not immediately need payment this year. This, however, will still be announced as part of this year's deficit, which the economic managers dread.
- The foreign debt from multilateral institutions amounting to at least $10 billion (ADB, AIIB, JICA, AFD) are also very long-term --due in 2023-2049. But again, they are declared as this year's deficit, which the economic managers dread.
- The ARISE bill allows the government to shuffle funds from non-priority, delayed projects (say of BBB) and shift to the fiscal stimulus fund.
- The BSP can always monetize the deficit by continually purchasing national government bonds as they did in the first half of the year. This is NOT included in the deficit. It will increase money supply, but as I said earlier, this most likely will not lead to a major inflation.[iii]

Because of the above, it is the author's recommendation that the economic managers rethink their very conservative strategy, especially as the economic impact and downturn will be much more than expected, given the two-week MECQ in August and the inability to bring down the COVID cases and flatten the curve.

9: TRADE, INTERNATIONAL RESERVES AND THE EXCHANGE RATE

Before the COVID pandemic erupted and caused many OFWs to lose their jobs or cuts in income, we had a minor diminution of our international reserves from 2017-2019 when our trade deficits became so large because of the average 6% growth years that it surpassed the OFW remittances. This was because of low growth of exports and high rise of imports to support the relatively high GDP growth. International reserves started to dwindle then, aggravated at times when there were pullout from the equities and bond markets. But the remaining international reserves were still good at around 7 to 8 months of imports (falling from 10 and above) due to accumulating reserves from more than a decade of high OFW inflows.

The COVID pandemic and ensuing lockdown leading to a collapsing economy, as well as return of many OFWs who had lost jobs and incomes, reversed the situation completely. Even if OFW remittances fell significantly, imports collapsed with the economic collapse, much stronger than the export decline. Thus, there arose a trade surplus instead of trade deficits. Furthermore, the large inflows of foreign debt, including around $10 billion worth of foreign multilateral debts for the pandemic, flowed in. The combined rise of a significant trade surplus and inflow of foreign debts overwhelmed the decline in OFW remittances, increasing the international reserves substantially. Thus, the peso strengthened a lot from March, 2020 till now. It is sad that some analysts, including Sec. Dominguez, claims that the strong peso is sign of the confidence in our economy. In fact, it is the reverse, a sign of a collapsing economy with drastic import declines and large inflows of debt money to address the COVID pandemic.

10: SUMMARY AND CONCLUSION

The Philippines is in grave crisis over the inability to stem the COVID pandemic and the need for lockdowns and strong physical distancing policies, which in effect reduces much economic activities especially in travel, tourism, arts and entertainment, hotels and restaurants, and most manufacturing and many services products due to decreased demand as most people stay indoors most of the time.

The Philippine government needs to shape up in both fighting COVID and addressing the economy by establishing a stronger fiscal stimulus to a collapsing economy. It has one of the weakest economic stimuli in the world. The Philippines should be forward-looking. Most likely, in three years, the COVID problem will be solved. The infrastructure that will be needed most will be: 1) agri-rural infrastructure to improve productivity in agriculture and rural economies (partly but inadequately funded in the Bayanihan 2 law); 2) infrastructure and investments in clean energy that is not being thought of at all by any of the government people; 3) land and water transportation infrastructure such as railways linking the provinces, better 'ROROs'and ships, and land bridges connecting islands; 4) investments in infrastructure and economic activities in poor provinces to erase the large regional disparities in the country.

It is recommended that the economic managers rethink their overly conservative positions, allow more fiscal deficits and monetization of the fiscal deficit, and support the ARISE and FIST bills in Congress, plus continue with their plan to extend NOLCO to five years.

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[i] It was later revealed that there was alleged massive corruption in the PhilHealth reimbursements and policies.

[ii] A heterodox theory called Modern Monetary Theory believes that fiat money creation can replace fiscal deficits, especially when inflation is low

[iii] Again this is a strong outcome of the modern monetary theory described above.