REPORT ON NATIONAL INCOME ACCOUNTS (Q4 2020)

Table 1. Q4 and FY 2020 Economic Performance **(percent growth rate year-on-year, at constant 2018 prices)**

PARTICULARS	2020			2019	
	Q3	Q4	FY	Q4	FY
GROSS DOMESTIC PRODUCT	-11.4	-8.3	-9.5	6.7	6.0
GROSS NATIONAL INCOME	-13.0	-12.0	-11.1	5.8	5.2
Net Primary Income	-29.0	-53.2	-27.3	-2.8	-2.2
By Industrial Origin					
Agriculture, Fishery and Forestry	1.2	-2.5	-0.2	0.8	1.2
Industry	-17.3	-9.9	-13.1	6.0	4.7
of which: Manufacturing	-9.9	-4.3	-9.5	4.3	3.2
Services	-10.5	-8.4	-9.1	8.1	7.5
By Expenditure					
Household Final Consumption Expenditure	-9.2	-7.2	-7.9	5.7	5.9
Gov't Final Consumption Expenditure	5.8	4.4	10.4	17.0	9.6
Capital Formation	-41.6	-29.0	-35.8	2.5	2.5
of which: Fixed Capital Formation	-37.1	-28.6	-27.5	5.8	3.9
Exports	-14.4	-10.5	-16.7	0.3	2.4
Imports	-21.5	-18.8	-21.9	-0.7	1.8

Source: Philippine Statistics Authority (PSA)

A. GDP and GNI

1. The improvements in the country's health system capacity, which allowed the government to further ease community quarantine (CQ) restrictions in Q4, coupled with some holiday spending, led to more economic gains as real gross domestic product (GDP) growth improved to -8.3 percent from the revised -11.4 percent in the previous quarter. The deseasonalized quarterly growth is estimated at 5.6 percent, indicating expansion even after taking out the effect of the holiday season.

2. In Q4, most parts of the country were already under modified general community quarantine (MGCQ) except for Metro Manila and Batangas Province, as well as some provinces and cities in Visayas and Mindanao. The latest growth outturn is better than the -8.5 percent median forecast of private-sector analysts for the period.[1] For full-year 2020, the economy declined by -9.5 percent, which is the lower-end of the revised government target for the year. This is the largest annual decline ever recorded since the National Accounts of the Philippines series started in 1946.

3. The Philippine economy's performance continues to lag behind its neighbors. Among major emerging market economies in the region that have already released their Q4 2020 real GDP growth, China (6.5 percent) and Vietnam (4.5 percent) both recorded expansions. In contrast, private sector analysts expect Thailand to contract by -6.1 percent, Malaysia by -3.9 percent, and Indonesia by -1.2 percent.[2]

4. The contraction in gross national income slightly moderated to -12.0 percent in Q4 2020 from -13.0 percent in Q3 2020, bringing FY 2020 growth to -11.1 percent. Net primary income growth significantly worsened to -53.2 percent in Q4 2020 from -29.0 percent in the previous quarter, as both inflows of compensation (-56.7 percent) and property income (-8.1 percent) weakened.

5. On the demand side, the improvement in Q4 GDP growth was mainly driven by improvements in investments and private consumption. As Filipinos slowly adapt to the new normal and regain some confidence, investments in fixed capital (-28.6 percent from -37.1 percent) improved particularly on construction (-34.0 percent from -43.4 percent) and purchases of durable equipment (-24.7 percent from -34.5 percent). The holiday season also induced household spending which registered a weaker contraction (-7.2 percent from -9.2 percent) during the reference quarter. Overall, domestic demand growth improved to -11.1 percent in Q4 from -15.3 percent in Q3. Meanwhile, total exports declined at a slower pace (-10.5 percent from -14.4 percent), although this was offset by the softer reduction in imports (-18.8 percent from -21.5 percent), resulting in a slowdown in the growth of net exports (34.8 percent from 43.4 percent).

6. On the supply side, the further relaxation of CQ measures allowed more businesses to resume partial to full operations. These are reflected in the softer

[1] https://www.bworldonline.com/gdp-likely-contracted-by-8-5-in-q4/

[2] Based on Bloomberg contributor composite forecasts as of 27 January 2021.

decline in construction (-25.3 percent from -39.7 percent) and manufacturing (-4.3 percent from -9.9 percent), which mainly contributed to the industry sector's improved performance (-9.9 percent from -17.3 percent). For services (-8.4 percent from -10.5 percent), real estate & ownership of dwellings (-15.4 percent from -19.4 percent), trade (-4.1 percent from -5.7 percent), and transportation & storage (-21.3 percent from -29.5 percent) contributed most to the improvement. On the other hand, the agriculture sector posted a contraction of 2.5 percent in Q4, from a 1.2 percent increase in the previous quarter, due to the damage caused by typhoons and flooding.

B. Expenditure (Demand-side)

7. **Household final consumption expenditure**. The contraction in household consumption moderated to -7.2 percent in Q4 from -9.2 percent in Q3. This brings full-year 2020 private consumption growth to -7.9 percent. The improvement in private spending is on account of less pessimistic consumer sentiment[3] during the period amid more relaxed community quarantine restrictions, further reopening of businesses, and better labor market conditions. Based on the latest Google Mobility Trend report[4], visits to grocery and pharmacy, retail and recreation, transit stations, workplaces, and parks increased in Q4 relative to the previous quarter. The uptick in demand during the holiday season and reopening of domestic tourism also contributed to higher household expenditures in the last quarter of 2020. However, while improving, these numbers are still far from normal.

   Relatedly, expenditures on transport (-30.6 percent from -35.4 percent) and restaurants & hotels (-42.4 percent from -51.6 percent) posted softer contractions while food & non-alcoholic beverages (5.3 percent from 5.1 percent) went up. On the other hand, household utilities (6.3 percent from 6.8 percent) and communication (5.5 percent from 6.3 percent) slowed down during the reference quarter while miscellaneous goods & services (-1.7 percent from 1.7 percent) and health (-3.3 percent from -1.5 percent) declined.

8. **Government final consumption expenditure**. Growth in government spending decelerated to 4.4 percent in Q4 2020 from 5.8 percent in Q3 2020, significantly slower than the 17.0 percent increase in Q4 2019 when the

[3] https://www.bsp.gov.ph/Lists/Consumer%20Expectation%20Report/Attachments/17/CES_4qtr2020.pdf

[4] https://ourworldindata.org/covid-mobility-trends

government implemented the 2019 catch-up plan after the delay in the congressional approval of the 2019 budget. For full-year 2020, public spending grew by 10.4 percent, higher than the 9.6 percent recorded in 2019, propped up mainly by the national government's fiscal stimulus in response to the COVID-19 pandemic.

In detail, growth of maintenance and other operating expenses (MOOE) slowed down to 31.5 percent in Q4 from 56.1 percent in the preceding quarter.[5] This may be due to some delays in the implementation of various COVID-19 recovery programs under the *Bayanihan II* which include the social protection programs by the Department of Social Welfare and Development (DSWD), recovery initiatives for the transport industry, health-related responses and augmentation for operation of Department of Health (DOH) hospitals, and employment assistance programs by the Department of Labor and Employment (DOLE).[6,7] The extension of Bayanihan II to mid-year will allow more spending in 2021.

On the other hand, releases for personnel services slightly dropped by 0.8 percent in Q4 from 3.0 percent in Q3[8], owing to the base effect of the payments made last year for the pension differential[9] of retired military and uniformed personnel.

9. **Capital formation.** Supported by stronger business confidence[10], the country's total investments growth improved to -29.0 percent in Q4 from -41.6 percent in Q3. Gross capital formation for full-year 2020 contracted by -35.8 percent, a reversal of the 2.5 percent growth in 2019.

   Fixed capital investments fell at a slower pace of -28.6 percent in Q4 from -37.1 in Q3, mainly driven by the improvement in construction (-34.0 percent from -43.4 percent) and spending for durable equipment (-24.7 percent from -34.5 percent). In particular, construction activities of households and non-profit institutions (-32.2 percent from -58.4 percent) and government (-15.2 percent from -28.3 percent) improved during the reference quarter, following the relaxation of CQ restrictions and resumption of various public infrastructure projects (see construction section below for more details).

[5] Less accounts payables, figures are based on PSA Key Economic Indicator for Q4 and Q3 2020 (confidential)

[6] https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG-Disbursements_October-2020_for-posting.pdf

[7] https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG-Disbursements_November-2020_for-posting.pdf

[8] Less accounts payable, figures are based on PSA Key Economic Indicator for Q4 and Q3 2020 (confidential)

[9] Pension differential for the period April to May 2019 pursuant to Joint Resolution No. 1, s.2018 dated January 1, 2018

[10] https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/1/BES_4qtr2020.pdf

Higher investments in road transport (-25.3 percent from -35.5 percent) and professional machinery equipment (-25.2 percent from -46.0 percent) were also recorded amid increasing demand under the new normal.

Meanwhile, growth in the country's inventory (16.5 percent from -40.6 percent) and intellectual property products (1.3 percent from -16.6 percent) have returned to the positive territory after posting contractions in the past quarters. This can be attributed to the resumption of business operations as restrictions on economic activities were further relaxed. Moreover, investments in valuables (-26.9 percent from -51.1 percent) fell at a softer pace. In contrast, breeding stock and orchard development (-9.5 percent from -1.6 percent) further declined in Q4, partly due to the damage caused by typhoons.

10. **Net Exports.** Growth in net exports further decelerated to 34.8 percent in Q4 2020 from 43.4 percent in Q3 2020, albeit an improvement from the 2.6 percent growth recorded in Q4 2019. This could be attributed to the larger decline in total imports relative to total exports. For the full-year, net exports growth significantly improved to 35.4 percent in 2020 from the 0.5 percent drop in 2019.

Exports Total exports contracted by 10.5 percent in Q4, slightly better than the 14.4 percent reduction in Q3. This brings full-year 2020 total exports growth to -16.7 percent, a reversal from the 2.4 percent growth in 2019.

The improved exports performance in Q4 2020 could be mainly attributed to the softer decline in exports of services (-22.7 percent from -32.4 percent), specifically in telecommunications, computer, & information (-1.5 percent from -26.7 percent) and business services (-0.6 percent from -5.0 percent). On the other hand, travel services (-82.9 percent from -80.2 percent) sustained its downturn in Q4 as inbound tourism continued to drop amid the COVID-19 pandemic. According to the Department of Tourism (DOT), foreign visitor arrivals drastically fell by 84.0 percent in FY 2020, down to 1.3 million from 8.2 million in 2019.[11]

On the other hand, merchandise exports slightly fell further (-2.1 percent from -2.0 percent) largely driven by the slowdown in exports of semiconductors (0.8 percent from 3.5 percent). In addition, export of

[11] Cited figures were provided by the DOT Secretary Bernadette Romulo-Puyat in a press briefing last 12 January 2020. *https://www.philstar.com/business/2021/01/13/2069975/international-tourism-receipts-plunge-83-2020*

agricultural products (-32.5 percent from -21.8 percent), especially fresh bananas, declined following the onslaught of numerous typhoons and flooding in the country during the quarter. Tempering this decline is the three-digit growth in control and instrumentation exports (101.1 percent from 81.4 percent) which increased due to the demand for engineering support on automation and supply chain management in preparation for the new normal.[12] This was also evident in the spike in sales of the said export commodity to the country's top markets such as Taiwan (662.6 percent) and United States (319.5 percent).[13]

Imports Total imports recorded a weaker reduction at -18.8 percent in Q4 2020 from -21.5 percent in the preceding quarter. For full-year 2020, total imports declined by 21.9 percent, significantly lower than the 1.8 percent uptick in 2019. Merchandise imports (-13.6 percent from -19.8 percent) fell at a slower pace mainly due to softer contraction in transport equipment (-35.7 percent from -58.5 percent) and a recovery of electronic products (9.3 percent from -5.1 percent). In contrast, growth in imports of services (-36.4 percent from -29.1 percent) further decreased owing to the sharp decline in travel (-58.0 percent from -37.9 percent).

C. Production (Supply-side)

11. **Agriculture, fishery and forestry.** After two consecutive quarters of expansion, the agriculture sector growth fell by -2.5 percent in Q4, bringing full-year 2020 growth to -0.2 percent. The decline in agriculture output for the period was mainly driven by the lower production of *palay* (-1.1 percent from 15.4 percent), fishing & aquaculture (-4.3 percent from 2.1 percent), and livestock (-13.0 percent from -7.7 percent).

A series of typhoons and floods of varying intensities amid the prevailing La Niña phenomenon brought losses to the agriculture sector amounting to Php 16.6 billion.[14] Rice recorded the largest production loss (Php 6.5 billion), followed by high-value crops (Php 4.9 billion).[15] Meanwhile, the decline in fish production can be partly attributed to the onset of the Visayan Sea fishing ban[16] and the damage caused by typhoons.[17] In addition, the spread of the

[12] *https://www.controleng.com/articles/engineering-impact-on-covid-19/*

[13] Data from PSA

[14] Notable typhoons in Q4 2020: Typhoons *Ofel, Nika, Pepito, Quinta, Rolly, Siony, Ulysses, and Vicky.* Onset of La Niña, 2 October 2020: http://bagong.pagasa.dost.gov.ph/press-release/76

[15] Various reports from the Department of Agriculture.

[16] The fishing ban started on 15 November 2020 and will last until 15 February 2021.

[17] *https://www.pna.gov.ph/articles/1085926*

African Swine Fever (ASF) in the country continued to affect local hog production. To date, 25 provinces are already affected by the ASF and almost 432,000 hogs have been culled since the outbreak started in September 2019.

12. **Industry**. The decline in industry sector growth eased to -9.9 percent in Q4 from -17.3 percent in Q3. This brings full-year 2020 growth to -13.1 percent, the steepest decline since the 15.6 percent contraction recorded in 1985. The improvement in Q4 was driven primarily by the smaller drop in construction (-25.3 percent from -39.7 percent) and manufacturing (-4.3 percent from -9.9 percent). However, electricity, steam, water, & waste management (-0.9 percent from 0.2 percent), as well as mining & quarrying (-18.8 percent from -14.2 percent) continued to worsen.

    a. ***Manufacturing***. Growth in the manufacturing sector fell at a slower pace to -4.3 percent in Q4 from -9.9 percent in Q3. This brings the full-year 2020 growth to -9.5 percent, the first contraction in 11 years, since the -4.3 percent decline in 2009 due to the global financial crisis.

    Some subsectors already rebounded to positive territory in Q4, such as chemical & chemical products (9.0 percent from -6.6 percent) and export-oriented manufactures like computer, electronic, & optical products (6.0 percent from -2.4 percent) and basic metals (35.7 percent from 6.8 percent). Most of the remaining subsectors also posted moderate declines compared to the preceding quarter, including food manufactures (-0.2 percent from -3.3 percent), beverages (-17.1 percent from -20.2 percent), transport equipment (-10.2 percent from -18.7 percent), textiles (-15.7 percent from -29.3 percent), and rubber & plastic products (-11.4 percent from -16.2 percent).

    The improved performance in the manufacturing sector reflected the more optimistic sentiment during the reporting period. The business confidence index in Q4 reverted to positive territory at 10.6 percent from -5.3 percent in the preceding period.[18] This was attributed to various factors, such as reopening of business and adapting to the new normal, easing of community quarantines nationwide, seasonal factors such as an uptick in demand during the holiday season and start of milling season, and increase in the volume of sales and orders.[19]

[18] https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/1/BES_4qtr2 020.pdf

[19] Ibid.

b. ***Mining and quarrying.*** The mining and quarrying sector recorded a deeper reduction in output by -18.8 percent in Q4 from -14.2 percent in Q3. The recent outturn brings full-year 2020 growth to -19.9 percent. The steeper decline in mining growth in Q4 was largely driven by lower output of coal (-29.0 percent from -5.3 percent) and crude petroleum & natural gas (-16.2 percent from -13.2 percent). In particular, the production of run-of-mine coal shrank (-29.1 percent from -5.5 percent), along with crude oil (-6.7 percent from -6.2 percent), natural gas (-7.1 percent from -5.4 percent), and the Malampaya condensate (-13.1 percent from -11.1 percent).[20]

c. ***Electricity, steam, water and waste management***. The sector contracted by 0.9 percent in Q4, after a slight 0.2 percent expansion in Q3. This brings full-year 2020 growth to -0.7 percent, a significant drop from the 6.6 percent increase in 2019. This could be attributed to worse performance of electricity (-1.7 percent from -0.2 percent) and steam (-1.1 percent from 2.8 percent), which outweighed the improvements in water supply (2.9 percent from 1.9 percent) and waste management (5.3 percent from 4.6 percent). The National Grid Corporation of the Philippines (NGCP) reported a higher decline in transmission energy sales by -5.0 percent in Q4 from -2.2 percent in Q3.[21]

d. ***Construction***. Construction growth picked up to -25.3 percent in Q4 from -39.7 percent in Q3. This brings full-year 2020 growth to -26.0 percent, versus the 7.8 percent growth recorded in 2019.

   The improvement in construction performance in Q4 could be attributed to the transition to MGCQ in nearly all parts of the country during the reference period. Under MGCQ, all private and public construction projects are allowed subject to the construction safety guidelines issued by the Department of Public Works and Highways (DPWH).[22]

13. ***Services***. Growth in the services sector recorded a softer reduction to -8.4 percent in Q4 from -10.5 percent in Q3, bringing full-year 2020 growth to -9.1 percent. Nearly all sub-sectors posted better performance, except public administration & defense (0.6 percent from 4.7 percent). In particular, the improvement in the services sector's performance was largely driven by the

[20] PSA Key Economic Indicators

[21] PSA Key Economic Indicators

[22] *https://www.officialgazette.gov.ph/downloads/2020/12dec/OMNIBUS-Guidelines-with-Amendments-as-of-December-14-2020.pdf*

slower decline in real estate & ownership of dwellings (-15.4 percent from -19.4 percent), wholesale & retail trade (-4.1 percent from -5.7 percent), and transport & storage (-21.3 percent from -29.5 percent). Notably, information & communication (3.6 percent from 2.1 percent) and financial & insurance activities (4.4 percent from 4.3 percent) continued to record higher positive growth in the last quarter of the year.

a. ***Trade and repair of motor vehicles, motorcycles, personal and household goods*.** Sectoral growth remained negative for the third consecutive quarter at -4.1 percent in Q4, albeit an improvement from -5.7 percent in Q3. This brings full-year 2020 growth to -5.7 percent. All subsectors improved marginally in Q4 from the preceding quarter, led by retail trade (-2.2 percent from -3.8 percent), wholesale trade (-6.8 percent from -9.1 percent) and sale and repair of motor vehicles (-31.8 percent from -36.2 percent).

   Reflecting the improved sector performance was the higher volume of car sales during the period, albeit still posting negative growth at -19.6 percent for passenger cars (from -24.9 percent) and -32.5 percent for commercial vehicles (from -35.2 percent). Meanwhile, Robinsons Retail Holdings, Inc. (RRHI) reported a decline in consolidated net sales in the first nine months of the year mostly due to the temporary closures due to community quarantine restrictions. Nonetheless, the company's supermarket segment continued to expand during the period, with the share of online sales increasing with the rise of online platforms and merchants.[23]

b. ***Transport and storage*.** The contraction in the transport and storage sector eased to -21.3 percent in Q4, from -29.5 percent in Q3. This brings full-year 2020 growth to -31.2 percent, versus the 6.3 percent growth in 2019. Almost all subsectors experienced a slower decline, led by land transport (-15.6 percent from -24.8 percent), air transport (-76.5 percent from -85.7 percent), warehousing & storage (-6.0 percent from -9.6 percent), and water transport (-25.9 percent from -36.4 percent). In contrast, growth in postal and courier activities moderated but remained positive at 7.1 percent in Q4 (from 21.6 percent in Q3).

   The relaxation of CQ restrictions supported the uptick in the transport sector performance. During the reference quarter, most of the country was placed under MGCQ, under which public transportation such as road, rail, maritime, and aviation were allowed to operate, although still at a reduced operational and vehicle capacity in accordance with guidelines issued by

[23] Robinsons Retail Holdings, Inc. and Subsidiaries Quarterly Report

the Department of Transportation (DOTr).[24] Ridership in LRT Line 1 improved marginally despite remaining in the negative territory at -75.7 percent (from -84.3 percent in the preceding quarter). Rail gross revenue followed the same direction, reporting a slower decline at 70.0 percent (from -74.3 percent).

In the air transport sector, PAL Holdings, Inc. reported lower consolidated revenues for the first three quarters of 2020 largely stemming from the drop in passenger and ancillary revenues resulting from flight cancellations since March 2020 due to the pandemic.[25] Revenue per kilometer passenger in international and domestic segments of PAL contracted by 86.0 percent and 89.9 percent, respectively, in Q4.[26] Similarly, Cebu Air, Inc. (Cebu Pacific) reported a 69.6 percent drop in revenues for the same period, noting that while there were sporadic arrangements for sweeper flights to assist stranded tourists, operations remained practically nil.[27]

c. ***Accommodation and food service activities***. The sector continued to post a double-digit decline in Q4 at 42.7 percent, marginally improving from -54.4 percent in the preceding quarter. This brings full-year 2020 growth to -44.7 percent.

   Both subsectors, accommodation (-54.7 percent from -72.1 percent) and food & beverage service activities (-35.7 percent from -44.1 percent) fell at a slower pace during the reference quarter. The better sector performance could be attributed to the transition to MGCQ of most regions. For food establishments, this meant allowing dine-in services at 50 percent or higher capacity subject to physical distancing protocols, as well as extended operating hours.[28] Meanwhile, accommodation establishments in areas under GCQ or MGCQ were also allowed to operate at full capacity subject to hotel management's decision and compliance with safety guidelines.[29]

d. ***Information and communication.*** Growth of the information and communication sector accelerated to 3.6 percent in Q4 from 2.1 percent in the previous quarter. This brings full-year 2020 growth to 5.1 percent,

[24] *https://www.officialgazette.gov.ph/downloads/2020/12dec/OMNIBUS-Guidelines-with-Amendments-as-of-December-14-2020.pdf*

[25] PAL Holdings Inc. Quarterly Report

[26] PSA Key Economic Indicators

[27] JG Summit Holdings, Inc. Quarterly Report

[28] *https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/COVID19Resources/COVID-19+Advisories/311020_MC2057.pdf*

[29] *http://www.tourism.gov.ph/news_features/Puyat_HotelsInGCQ_MGCQ.aspx*

slightly lower than the 6.5 percent growth in 2019. The improved performance in Q4 was largely driven by the acceleration in communication (5.3 percent from 4.4 percent) and the slower decline in information & publishing (-13.7 percent from -18.6 percent).

e. ***Financial and insurance activities.*** Growth of financial and insurance activities edged up slightly to 4.4 percent in Q4 from 4.3 in Q3, bringing full-year growth to 5.8 percent. Insurance & pension funding (-7.6 percent from -11.5 percent), non-bank financial intermediation (3.5 percent from 1.6 percent), and activities auxiliary to financial intermediation (3.4 percent from 1.3 percent) improved during the reference quarter, partially outweighing the moderation in banking institutions (9.2 percent from 10.7 percent). The slower growth performance of the banking sector could be attributed to the continued net tightening of overall credit standards by banks for both loans to enterprises and households.[30]

f. ***Real estate and ownership of dwellings***. The sector recorded a slower contraction at -15.4 percent in Q4, an improvement from -19.4 percent decline in Q3. This brings full-year 2020 growth to -17.0 percent. Real estate growth remained negative but showed a softer decline at -29.0 percent in Q4 (from -34.6 percent in Q3) as restrictions on real estate activities were lifted in MGCQ areas.[31] On the other hand, ownership of dwellings (1.0 percent from 1.4 percent) decelerated but remained positive in the fourth quarter.[32]

g. ***Professional and business service activities.*** The sector continued to record less negative growth figures at -8.8 percent in Q4 from -10.5 percent in Q3. This brings full-year 2020 growth to -9.3 percent. With continued government support, as well as the quick adaptation of the sector, the operating capacity of the IT-BPM industry now stands at 95 percent, from its lowest of 50 percent in March 2020. Specifically, health care, telecommunications, financial services, and e-commerce saw an increase in demand.[33]

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[30] *https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5669*

[31] *https://www.officialgazette.gov.ph/downloads/2020/12dec/OMNIBUS-Guidelines-with-Amendments-as-of-December-14-2020.pdf*

[32] *https://www.lobiengroup.com/news/office-and-residential-property-markets-ph-set-recover-2021*

33 Department of Trade and Industry, *IT-BPM sector delivers service to global clients amid contagion*, J *https://www.dti.gov.ph/negosyo/exports/emb-news/it-bpm-sector-delivers-service-to-global-clients-amid-contagion/.* Accessed January 12 2021

h. ***Public administration and defense.*** The growth in public administration and defense, and compulsory social activities decelerated to 0.6 percent in Q4 2020 from 4.7 percent in Q3 2020 and 21.3 percent in Q4 2019. This brings the sector's full-year 2020 performance to 4.4 percent, weaker than the 13.4 percent growth in 2019.

   Actual disbursements for personnel services (PS) slightly dropped by 0.8 percent in Q4 from 3.0 percent in Q3. [34] This is likely due to some base effects from the pension differential of retired military and uniformed personnel (MUP) paid in October and November 2019, as well as for the salary and allowances of newly filled positions in the Philippine National Police (PNP) last year.[35,36]

i. ***Education.*** The education sector posted a less negative growth of -15.0 percent in Q4 from -17.8 percent in Q3, which brings full-year 2020 growth to -11.9 percent. The slight improvement can be traced to the slower contraction in both public education (-6.2 percent from -9.1 percent) and private education (-29.0 percent from -32.7 percent). It can be noted that the Department of Education (DepEd) moved the opening of classes to 5 October 2020 and extended the deadline of enrollment until 21 November 2020.[37]

j. ***Human health and social work activities.*** The health and social work sector posted a slower decline of 2.5 percent in Q4 from -3.1 percent in Q3, bringing full-year growth to -4.3 percent. This was driven largely by the acceleration in public human health (36.7 percent from 30.0 percent) and social work activities (21.9 percent from 10.2 percent). Despite the significant expansion in these sub-sectors, the overall sector growth was pulled down by the double-digit decline in private health (-19.8 percent from -13.6 percent).

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[34] Less accounts payable, figures are based on PSA Key Economic Indicator for Q4 and Q3 2020 (confidential)

[35] *https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG-Disbursements_October-2020_for-posting.pdf*

[36] *https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG-Disbursements_November-2020_for-posting.pdf*

[37] *https://www.deped.gov.ph/2020/08/14/official-statement-on-the-opening-of-classes/*

Based on the latest DBM report, both the DOH and DSWD recorded year-on-year growth in the amount of notice of cash allocations (NCA) utilized in Q4 at 36.8 percent and 38.5 percent, respectively. Meanwhile, the DSWD improved its NCA utilization rate to 98 percent in Q4 from 92 percent in Q3.[38]

k. ***Other services.*** The contraction in other services continued for the 4th consecutive quarter, albeit softer than the previous quarter at -45.2 percent in Q4 from -49.9 percent in Q3, bringing full-year 2020 growth to -41.8 percent. This can be attributed to the weaker contraction in other service activities (-28.0 percent from -30.7 percent) and arts, entertainment and recreation (-55.2 percent from -61.7percent).

Mass gatherings, while still restricted to 50 percent of venue capacity, for religious activities (30 percent capacity in GCQ areas), sporting events, and other entertainment activities have gradually resumed in areas under MGCQ. Meanwhile, the IATF also lowered the minimum age allowed outside of the residence to 15 years old from 21 years old.[39]

D. Prospects and policy directions

14. **The International Monetary Fund (IMF)[40] raised its global economic growth projections to -3.5 percent in 2020 and a recovery of 5.5 percent in 2021** (from its earlier estimate of -4.4 percent and 5.2 percent, respectively). This is mainly on account of additional policy support and the roll-out of COVID-19 vaccinations in advanced economies. However, downside risks to growth persist coming from uncertainties brought by the pandemic, especially with the emergence of new coronavirus variants and the resurgence of cases in select countries.

15. **For the Philippines, the Development Budget Coordination Committee (DBCC) expects the economy to gradually recover by 6.5 to 7.5 percent in 2021 and by 8.0 to 10.0 percent in 2022.[41]** These growth projections hinge on two important assumptions: first, that a sustained improvement in

[38] Report on Utilization of Notices of Cash Allocations (NCA) for National Government Agencies (NGAs) and Budgetary Support to GOCCs and LGUs, as of December 2020 and 2019. This includes NGA's spending on personal services and maintenance and other operating expenses. *https://www.dbm.gov.ph/index.php/programs-projects/status-of-nca-utilization*

[39] Omnibus Guidelines on the Implementation of Community Quarantine in the Philippines with Amendments as of November 19, 2020: https://www.officialgazette.gov.ph/downloads/2020/11nov/OMNIBUS-Guidelines-with-Amendments-as-of-November-19-2020.pdf

[40] International Monetary Fund, World Economic Outlook, January 2021 Update.

[41] DBCC- approved growth assumptions as of 3 December 2020.

health system capacity and the roll-out of the vaccination program will allow further reopening of the economy, and second, that investment and consumer sentiment will improve this year. The Philippine economy is expected to return to its pre-pandemic level by mid-2022. For this year, the growth outlook is also broadly aligned with private sector forecasts, with a median estimate of 7.5 percent for 2021 (Table 2).

Table 2. Consensus GDP Growth Forecasts[42]

Institution	As of	2021	2022
International Monetary Fund (IMF)	27-Jan	6.6	6.5
Deutsche Bank	25-Jan	8.0	6.0
Barclays	22-Jan	7.0	7.0
JPMorgan Chase	22-Jan	8.4	5.7
Standard Chartered	22-Jan	6.1	6.5
Bank of America Merrill Lynch	15-Jan	4.8	6.8
Nomura Securities	15-Jan	6.8	7.9
UBS	15-Jan	9.1	9.6
Fitch Solutions	12-Jan	7.6	6.2
ING Group	08-Jan	4.6	4.2
World Bank	07-Jan	5.9	6.0
Fitch Ratings	04-Jan	9.2	5.7
Citigroup	31-Dec	7.0	6.3
Asian Development Bank (ADB)	10-Dec	6.5	-
Mean (All private sector forecasts)		**7.6**	**6.6**
Median (All private sector forecasts)		**7.5**	**6.4**

16. **The priority for 2021 is to further improve the management of the health crisis and expedite economic recovery.** The government will further strengthen the health system's capacity and ensure that Filipinos will have access to safe, effective, and affordable COVID-19 vaccines as soon as possible. At present, the country's COVID-19 testing capacity averages 30,000 to 40,000 tests per day while dedicated beds for COVID-19 patients have also increased over time, with the occupancy rate recorded at 33.2 percent.[43]

[42] Various sources.

[43] DOH Covid-19 Case Tracker. Retrieved from https://doh.gov.ph/2019-nCoV

17. **Enhance compliance with public health measures to avoid another surge of cases and prevent stricter lockdown measures.** The prevent, detect, isolate, treat, and recover (PDITR) framework will be vigorously implemented, especially in regions where new cases have been increasing such as the Cordillera Administrative Region, and Davao Region[44]. In addition, given the new and more infectious coronavirus variant, the government may enforce stricter measures to screen incoming passengers and ramp up its contact tracing capacities to prevent community transmission in the country. These will help minimize the need to revert to strict lockdown measures which may hamper the country's economic recovery.

18. **Build vaccine confidence through a credible, science-based, and equitable vaccination program.** The Philippine government's participation in the COVAX Facility – Advance Market Commitment (AMC), a global procurement mechanism and financing instrument for promising vaccine candidates, has been confirmed last 20 January 2021. In this regard, the country can expect to receive vaccines in the first quarter of 2021, while the health department has already partnered with private cold chain facilities to support its roll-out.[45] In the meantime, information and education campaigns may be intensified, especially for the selection, procurement and distribution plans to encourage Filipinos to get vaccinated.

19. **Restore consumer and investor confidence to boost domestic demand.** From January to November 2020, there were a total of 2,354 establishments in the Philippines that permanently closed resulting in 37,624 displaced workers. This is in addition to the more than 2 million workers that were affected by temporary closures of establishments.[46] To minimize its long-term scarring effects on the economy and to restore jobs, regaining market confidence is critical. A solid communication strategy is needed to allay fears on COVID-19 and encourage Filipinos to safely participate in the re-opening of the economy. These will be supported by the availability of more public transport operations along with the easing of community quarantine restrictions. In addition, demand-inducing interventions such as the DOT's subsidy on COVID-19 tests for local travelers could also prop up demand.

20. **Rising food prices need to be addressed, to prevent wage-price spiral.** Prices of food, as well as other basic goods and services, should remain affordable especially now that both households and firms are experiencing

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[44] Based on DOH's New Cases in the last 14 Days by Date of Onset of Illness. Retrieved from *https://doh.gov.ph/2019-nCoV*

[45] *https://doh.gov.ph/doh-press-release/PH-RECEIVES-CONFIRMATION-OF-COVAX-PARTICIPATION-SOH-VACCINE-CZAR-INSPECT-3-COLD-CHAIN-FACILITIES-IN-PREPARATION-FOR-ROLLOUT*

[46] Based on data from DOLE as of 29 November 2020.

financial difficulties. This will temper demand for minimum wage hikes which may not be viable for businesses grappling with the impact of COVID-19.

The Department of Agriculture (DA) is working to improve supply chain efficiency and expedite the augmentation of supply in areas where there is a shortage of key agricultural commodities. The issuance of certificates of necessities to allow and hasten the importation of key food items may also be considered. For instance, the DA is already planning to increase the minimum access volume (MAV) allocation for pork imports to boost domestic supply and stabilize retail prices.[47] Needless to say, the DA continues to strictly enforce meat inspection and food safety protocols to prevent the entry of smuggled and potential ASF-contaminated pork products.

21. **Transport bottlenecks will be managed better to ensure allowed activities can operate.** In view of the implementation of reduced load capacity in public mass transport, the Land Transportation Franchising and Regulatory Board (LTFRB) is expected to accelerate its implementation of the service contracting program under Bayanihan 2 to improve the quality of transport services and ensure continuous service for commuters. The LTFRB is also advised to regularly assess the supply-demand situation for transport services across the country and reopen more routes as needed. Moreover, concerned government authorities are advised to guard against unwarranted fare hikes and ensure that prevailing rates are fair both for commuters and operators.

22. **The government may also ramp up its programs and projects that would reintegrate displaced workers and allow new entrants into the labor market, as this will sustain private spending in the medium term.** Upskilling and retooling of displaced workers are being undertaken to develop in-demand skills in the new normal such as digital adeptness and technological skills. Other training and vocational programs may also be supported by the government to facilitate the sectoral reallocation of the workforce from the industries severely affected by the crisis into labor-intensive and priority sectors such as agriculture, manufacturing, and the government's Build, Build, Build (BBB) program. In the interim, the government may provide temporary and targeted training allowances, wage subsidies, or subsistence grants during this transition.

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[47] https://www.da.gov.ph/wp-content/uploads/2021/01/so76_s2021.pdf

23. **Ensure swift implementation of government's priority measures under the Php 4.506 trillion 2021 budget.** The relevant programs and projects stipulated in the budget will aid recovery by addressing the COVID-19 pandemic through health-related response programs, accelerating infrastructure development and generating job opportunities, and helping communities adjust to the new normal, particularly in the following sectors: education, agriculture and fisheries, local businesses and micro, small and medium enterprises (MSMEs) and vulnerable groups[48]. In addition, the validity extension of funds under the 2020 GAA and the *Bayanihan 2* this year will also provide an additional boost to government spending.[49] Hence, implementing agencies and local government units (LGUs) are advised to improve their absorptive capacities to effectively carry out these programs and projects.

24. **Strengthen development of information and communication technology (ICT) infrastructure and ramp up digitalization in government.** As demand for contactless, digital transactions rise together with growing e-commerce and alternate work arrangements and homeschooling set up, the technologies that support them may also keep up so these activities remain seamless and uninterrupted. Likewise, government processes may be ready to meet evolving needs of households and businesses, and ensure the continuous delivery of public services. These can begin by digitizing basic services, such as the submission of documentary requirements through digital portals and wider acceptance of electronic signatures, particularly amid the pandemic. On the legal front, the passage of the Public Service Act (PSA) can potentially lower transaction costs and open opportunities for innovation as it eases restrictions in the telecommunications sector. The passage of the Financial Consumer Protection Law can also encourage citizen participation in digital transactions and help address associated security risks, such as privacy and safety concerns.

25. **Ensure timely implementation of the National ID system to streamline government transactions and support digitalization.** The second stage of registration (i.e. validation of supporting documents and capturing of biometric information at registration centers) started in January 2021,[50] mainly targeting low-income household heads. The registration of the general

[48] *https://dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1778-prrd-signs-the-p4-506-trillion-national-budget-for-fy-2021*

[49] *https://www.officialgazette.gov.ph/downloads/2020/12dec/20201229-RA-11520-RRD.pdf*

[50] *https://www.manilatimes.net/2021/01/08/business/business-top/national-id-registration-step-2-starts-this-month/824631/*

public is also targeted to start within the year.[51] While the challenges of the pandemic persist, ensuring this timeline is followed remains crucial, particularly as it can help expand access to finance (e.g., banks) and facilitate the distribution of government assistance such as cash subsidies to target households. Over the longer-term, this can accelerate the country's transition to a digital economy, ensuring smoother private and public transactions and easing access to other social services by the government.

26. **Boost connectivity and use of digital technology to address gaps in the education sector, while exploring the possibility of piloting face to face classes.** Schools and the educational system need to undergo extensive digital transformation to be able to address not just the ongoing health crisis but also to prepare students for a digitalized future. In the interim, utilizing e-learning tools such as DepEd TV can help digitalize educational content for expanded access.

    Moreover, the population in the Philippines is young with a median age of 25 and 40 percent of the population is below 20 years old. With the ongoing shift to online learning, there have been significant productivity losses from students, teachers, and parents. Based on a cost-benefit analysis done by the ADB, it costs the economy Php 1.93 trillion for each year of school closures. In reality, a very small portion of the world's diagnosed COVID-19 cases are those below 20 years old. As such, we recommend to closely study and reexamine the possibility of gradually piloting face-to-face classes especially in low-risk areas. This may be done by exploring shorter recess hours and extracurricular activities to reduce interaction between students. In addition, schools may also explore staggered schedules where students report to school physically once or twice each week. It may also be necessary to put in place tools and facilities to ensure minimum public health standards are met (i.e. provision of face masks, temperature checks upon entry, and hand-washing facilities).

27. **The Philippines needs to strengthen its ties with its current trading partners to improve external trade**. Comprehensive support measures targeting product development and marketing assistance to increase value-added and respond to a long-term shift in product demand are essential. To mitigate supply chain bottlenecks, there is a need to integrate digital solutions to improve efficiency of trade transactions and business activities in the country. This will include the full implementation of the country's National Single Window (NSW) platform and the rationalization of the freight system

[51] *https://psa.gov.ph/philsys*

coupled with real-time tracker information on cargo release, supply production, and inventory. Forging linkages with other trading partners may also be explored to diversify markets and minimize risks in the long term.

28. **The swift passage of key policy reforms will play a big part to support the economy's quick recovery.** These include the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill, which will lower the corporate income tax and provide relief to SMEs along with ensuring performance-based, targeted, timebound, and transparent grant of tax incentives; the Government Financial Institutions Unified Initiative to Distressed Enterprises for Economic Recovery (GUIDE) Act, which can help support strategically important firms facing insolvency; and the Financial Institutions Strategic Transfer (FIST) Act, which will strengthen the financial sector and enable them to continue lending to productive sectors of the economy.

    Finally, the importance of amending the restrictive economic provisions in the Constitution and transferring the power to restrict or expand foreign ownership to Congress is recognized, as this will allow the country to have the flexibility to attract more investments and create jobs. This process, however, may take time, given the extensive consultations and process needed. Therefore, the urgent passage of pending amendments to the Public Service Act (PSA), Foreign Investment Act (FIA), and Retail Trade Liberalization Act (RTLA) is strongly encouraged. These reform measures will hasten economic recovery by increasing investments in strategic sectors, which will improve overall efficiency of the economy.