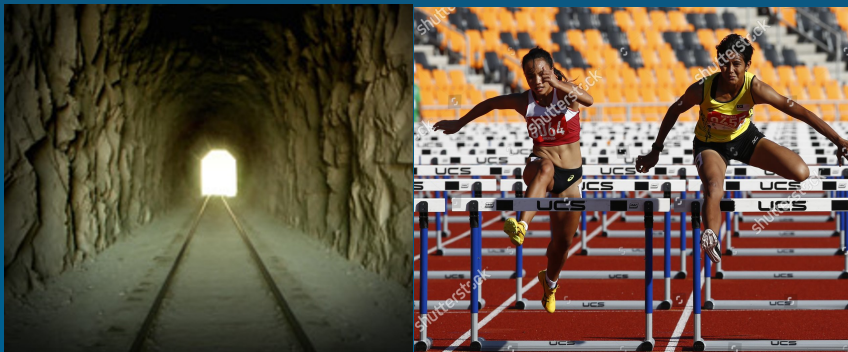


Healing Deep Scars: The Way Forward for the Philippine Economy



Cielito F. Habito

Ateneo de Manila University



Overview

1. Where Have We Been?

- End of a deep recession
- Long term threats: Human costs

2. Where Are We Headed?

- Hopeful signs, persistent hurdles
- Recovery on two wheels
- Outlook for 2021 and beyond



1. Where Have We Been?

A Painful Recession

‘PiTiK’ Performance: As of Q3-2021

Persisting Woes



- **Presyo:** Price increases picking up again
Oct – 4.6%; YTD 2021: 4.5% (FY2020: 2.6%)



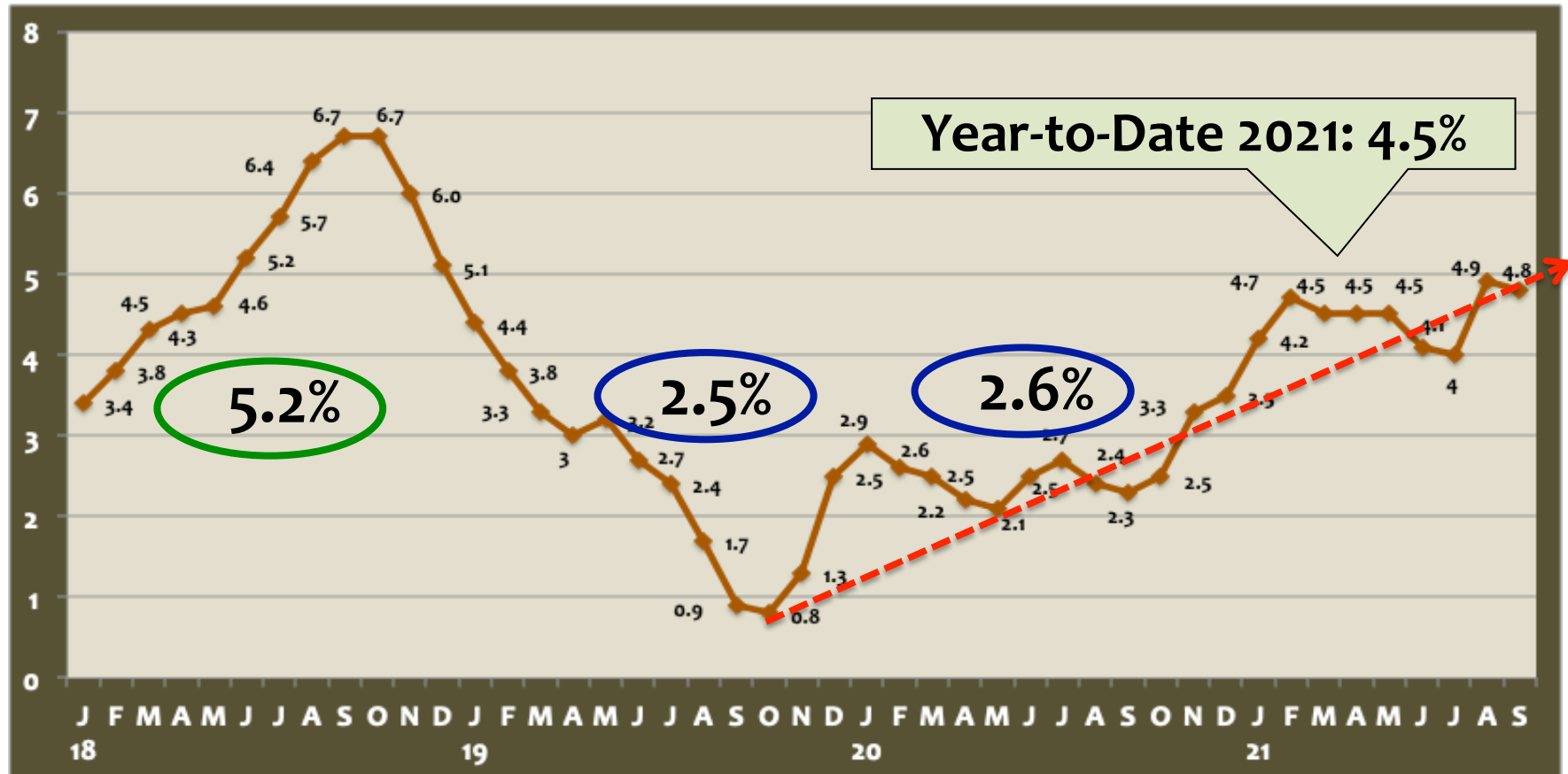
- **Trabaho:** Unemployment remains elevated and unstable: FY2020 - 10.7%; now hovering around 7-8% (vs. 5% pre-pandemic)



- **Kita:** Out of recession: 7.1% Q3, 4.9% YTD Y-o-Y growth; surprising strong Q-o-Q growth

2021
Jan – 8.7%
March – 7.1%
April – 8.7%
June – 7.7%
July – 6.9%
Aug – 8.1%

Prices: Still Elevated



Jobs:

Unemployment High and Volatile

Labor Force Survey Data	2021								Average
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	2021
Unemployment (%)	8.7	8.8	7.1	8.7	7.7	7.7	6.9	8.1	7.9
Jobs Generated ('000)	-1295*	1,905	2,178	-2,062	1,447	360	-3,408	2,567	427
Agriculture	419*	259	827	-570	66	312	-1,750	1,909	150
Industry	-388*	46	1,155	-917	338	-52	170	33	110
Services	-1327*	1,601	197	-575	1,042	99	-1,828	626	166
Underemployment (%)	16.0	18.2	16.2	17.2	12.3	14.2	20.9	14.7	16.2

*Year-on-Year; Rest of figures are Month-on-Month

- Jobs remain unstable; recovery still tentative

Second Quarter 2021 Social Weather Report | June 23–26, 2021 National Survey

JOBLESSNESS RISES TO 27.6%



Output & Incomes Back to Positive Zone

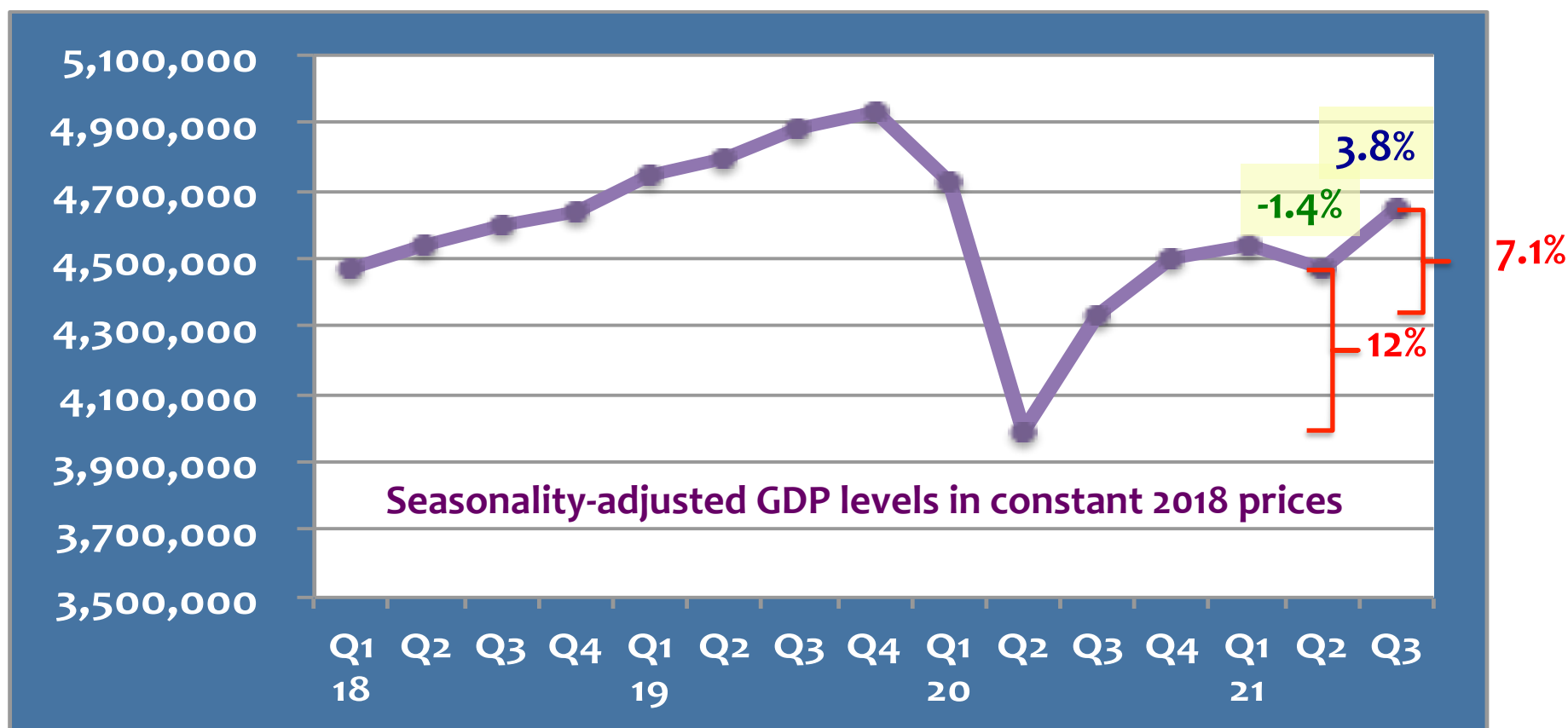
Indicator	2020					2021		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
GNI Growth (%)	-1.6	-17.6	-13.5	-12.1	-11.4	-10.6	6.8	2.8
Net Primary Inc fr Abr	-9.3	-24.4	-32.6	-55.9	-30.1	-75.6	-54.4	-52.3
GDP Growth (%)	-0.7	-17.0	-11.6	-8.3	-9.6	-3.9	12.0	7.1
Agri, Fish & Forestry	-0.3	1.6	1.2	-2.5	-0.2	-1.3	0.0	-1.7
Industry	-2.1	-21.8	-17.6	-10.6	-13.1	-4.4	21.0	7.9
Services	0.1	-7.1	-8.0	-8.0	-9.1	-4.1	9.8	8.2

Natural calamities
dampened Q1 & Q4

Effect of ASF

- Agriculture showed a sharp decline in growth due to natural calamities and pandemic
- Industry, services back in positive growth mode

Quarterly GDP Levels: Base Effects



Agriculture: Mostly Grow

In spite of doom-sayers on RTA

Sector	2020					2021		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
AGRI/FISH/FORES	-0.3	1.6	1.2	-2.5	-0.2	-1.3	0.0	-1.7
Palay	-1.9	7.2	15.4	-1.1	3.1	8.6	1.2	5.6
Corn	-4.4	15.6	4.1	0.4	2.4	6.4	6.3	-18.2
Coconut incl Copra	-5.1	-2.4	-2.3	-0.9	-2.8	-0.8	0.5	1.8
Sugarcane	8.9	72.6	8.6	8.0	21.3	-4.5	32.2	100.9
Banana	-1.3	1.2	1.8	0.3	-1.3	1.2	1.8	0.3
Mango	-0.1	4.1	-0.5	0.8	-0.1	4.1	-0.5	0.8
Pineapple	-0.1	5.3	3.6	12.3	-0.1	5.3	3.6	12.3
Cashew	0.8	12.3	-0.4	-4.4	0.8	12.3	-0.4	-4.4
Cassava	-0.1	-3.5	0.5	-1.0	-1.0	-7.3	-4.1	0.0
Rubber	0.0	5.9	1.2	3.1	3.1	1.8	2.7	0.9
Cacao	14.5	5.7	12.1	9.9	9.9	11.8	9.9	-3.2
Abaca	-5.7	-2.6	0.6	1.3	-14.6	-0.5	-21.0	
Tobacco	-0.5	3.6	-30.1	11.8				
Other Crops	-0.6	-1.4	0.0	-2.8				
Livestock	1.5	-8.2	-7.7	-13.0				
Poultry & Egg	3.5	-4.8	-3.6	-4.9				
Other Animal Prod	2.4	-6.3	-4.9	-3.9				
Forestry & Logging	1.2	-25.0	9.2	2.4				
Fishery & Aquaculture	-2.8	1.0	2.1	-4.3				
Support Svcs to AFF	5.9	7.8	2.7	4.1	5.0	7.9	5.5	5.2

If not for pig pandemic, agri growth was positive

Not counting livestock, fishery and forestry, Agriculture actually grew 2.2% in Q1-Q3

Industry: Manufacturing Has Recovered

Sector	2020					2021		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
INDUSTRY SECTOR	-2.5	-21.8	-17.6	-10.6	-13.2	-4.4	21.0	7.9
Mining/Quarrying	-21.3	-21.7	-13.0	-16.4	-18.9	1.0	0.0	0.6
Manufacturing	-3.3	-21.2	-10.4	-4.9	-9.8	0.5	22.2	6.3
Utilities	4.9	-6.4	0.2	0.6	-0.4	1.1	9.5	2.9
Construction	-0.3	-29.4	-39.7	-26.8	-25.7	-22.6	27.1	16.8
Government	-0.7	2.4	-27.1	-17.7	-10.1	25.3	44.5	55.3
Corporations	-2.9	-25.4	-44.1	-50.7	-29.5	-44.4	-24.1	-12.2
Households	-1.2	-79.7	-59.1	-31.2	-46.1	-24.0	318.3	62.6

Services Sector: Weakness & Resilience

Industry	2020					2021		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
SERVICES SECTOR	0.1	-17.1	-10.6	-8.0	-9.2	-4.1	9.8	8.2
Wholesale & retail trade	1.4	-14.1	-6.3	-4.0	-6.0	-3.4	5.4	6.4
Transportation & storage	-11.4	-58.5	-29.5	-20.1	-30.9	-19.6	24.7	14.8
Accom & food serv activities	-15.9	-67.1	-54.6	-45.6	-45.4	-22.5	56.7	11.5
Information & communication	4.7	10.7	3.0	1.9	5.0	6.5	12.3	8.5
Financial & insurance activities	8.8	4.8	4.2	4.3	5.5	4.3	5.2	6.4
Real estate & own. of dwellings	-2.9	-29.9	-19.2	-14.9	-17.0	-11.7	16.7	4.7
Professional & bus services	-2.5	-15.7	-11.1	-8.9	-10.0	-4.4	9.6	11.5
Government services	5.5	7.1	4.7	1.3	4.6	7.5	5.1	5.2
Education	1.3	-14.5	-16.7	-12.3	-10.8	0.2	12.6	13.8
Human health & social work	3.0	-15.4	-3.3	1.5	-3.8	13.2	13.5	17.7
Other services	-9.8	-63.7	-48.7	-43.4	-41.1	-38.7	37.6	20.3

Demand Side: Spending on the Rebound

Expenditure Type	2020					2021		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Household Consn Exp	0.2	-15.0	-22.0	-17.0	-16.0	-4.7	7.3	7.1
Govt Consumption	7.0	-15.0	-22.0	-17.0	-16.0	16.1	-4.2	13.6
Fixed Capital Formation	-2.0	-31.2	-45.4	-36.0	-30.3	-18.0	39.8	16.0
Of which:								
Construction	-2.0	-31.2	-45.4	-36.0	-30.3	25.3	35.1	23.8
Government	-0.7	2.4	-27.1	-17.7	-10.1	25.3	44.5	55.3
Corporations	-2.9	-25.4	-44.1	-50.7	-29.5	-44.4	-24.1	-12.2
Households	-1.2	-79.7	-59.1	-31.2	-46.1	-24.0	318.3	62.6
Durable Eqpt	-2.3	-59.4	-33.8	-24.5	-29.7	-10.3	95.7	23.8
Br Stck & Orch Dev	-1.7	2.2	-1.6	-9.5	-3.1	-3.1	-2.7	-2.2
Intellectual Prop Prods	2.4	-22.6	-11.4	-4.2	-9.3	2.6	13.5	21.1
Exports	-4.4	-33.5	-15.1	-10.2	-16.3	-8.8	27.8	9.0
Imports	-7.4	-37.3	-20.7	-20.2	-21.6	-7.0	39.8	13.2

Except for
corporate & farm
investments



Most Worrying: Human Cost of Economic Decline

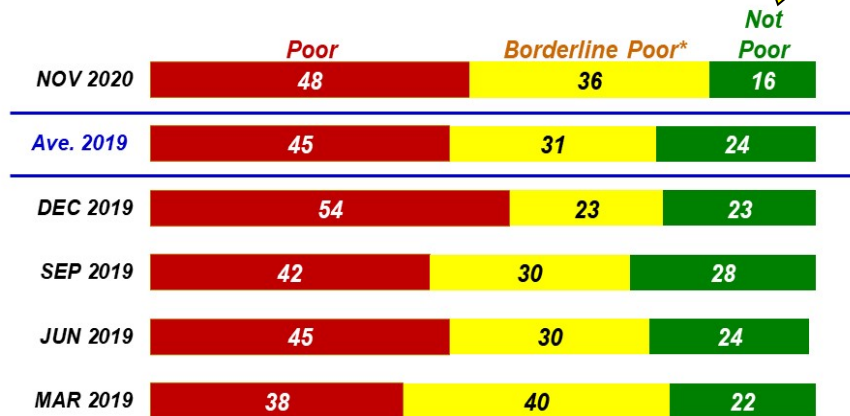
- Worsened by natural calamities early & late last year
- **Poverty, hunger** escalated in 2020
 - Hunger doubled from 2019 levels

Most Worrying: Human Cost of Economic Decline

June 2021: 23%

June 2021: 13.6%

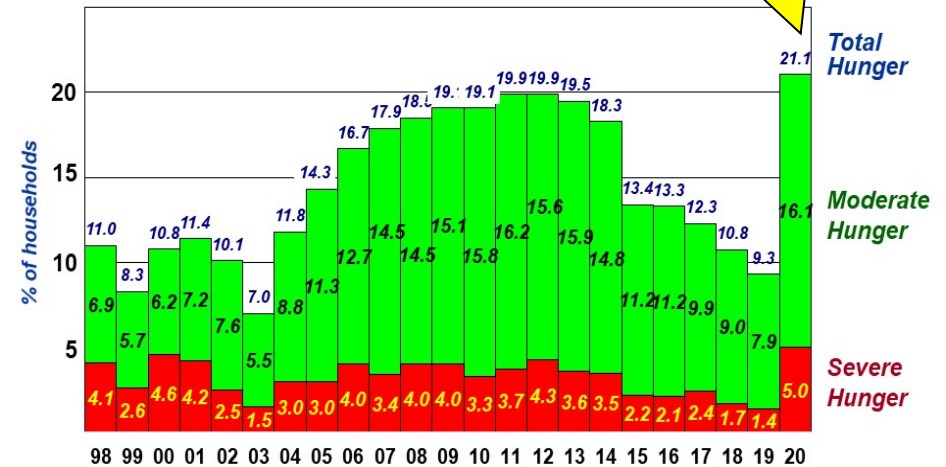
SELF-RATED POVERTY: FAMILIES WHO ARE "MAHIRAP"
PHILIPPINES, MAR 2019 TO NOV 2020



Self-Rated Poverty Question: Where would you place your family in this card? (Not poor, On the line, Poor)

*Those who pointed to the horizontal line separating the options MAHIRAP (poor) and HINDI MAHIRAP (not poor) are classified as 'Borderline Poor.'

PHILIPPINES, ANNUAL AVERAGES



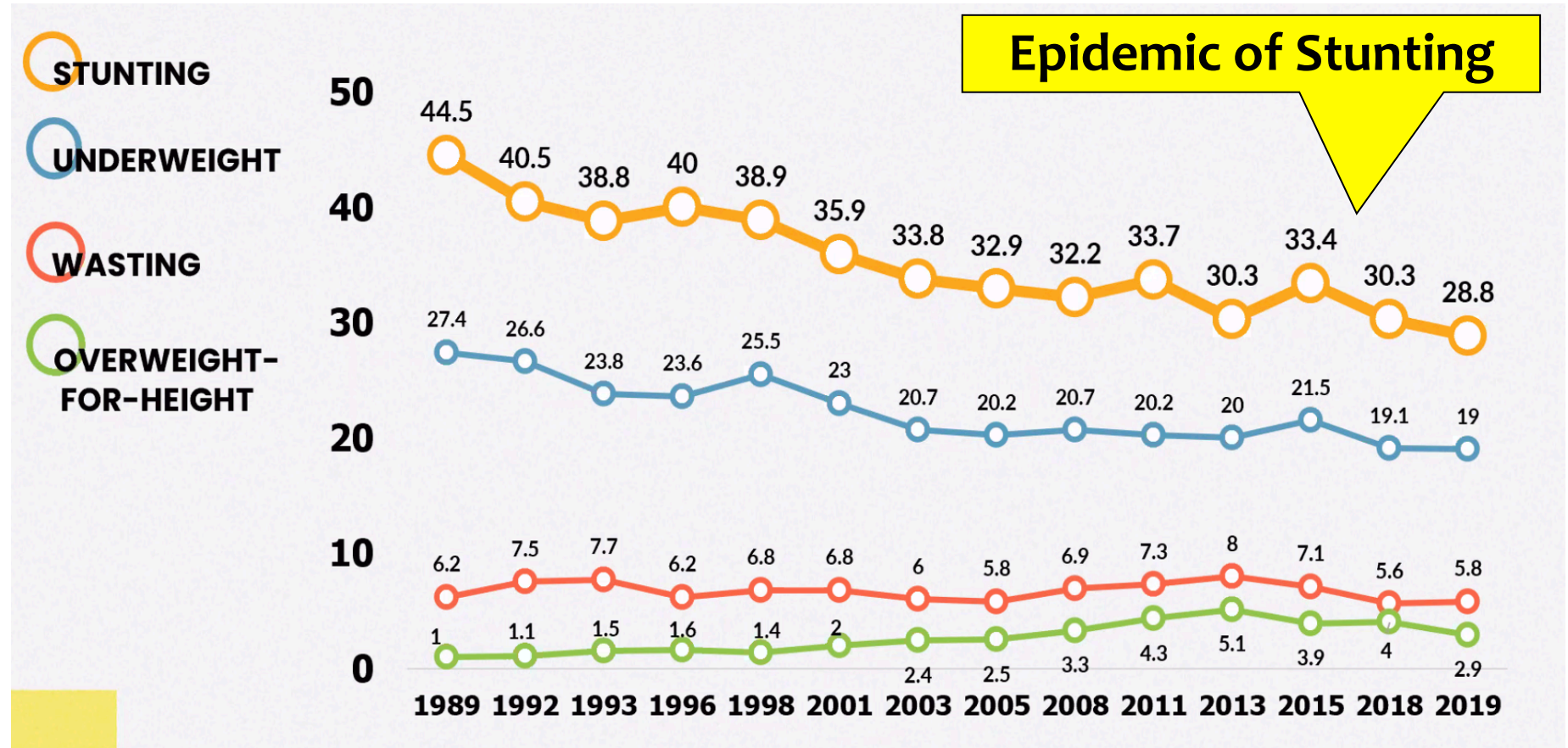
Note: Don't Know and Refused responses are not shown.

Q: Nitong nakaraang 3 buwan, nangyari po ba kahit minsan na ang inyong pamilya ay nakaranas ng gutom at wala kayong makain? **KUNG OO:** Nangyari po ba 'yan ng MINSAN LAMANG, MGA ILANG BESES, MADALAS, o PALAGI?

Most Worrying: Human Cost of Economic Decline

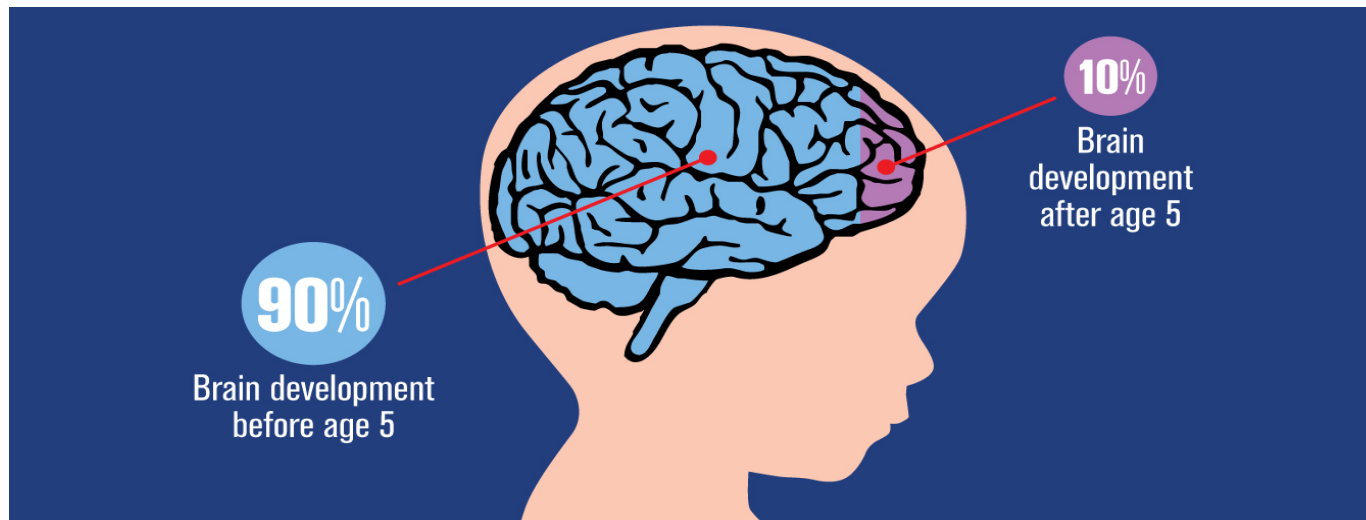
- Worsened by natural calamities early & late last year
- **Poverty, hunger** have escalated
 - Hunger doubled from 2019 levels
 - Elevates already high rates of severe malnutrition & stunting in young children

Malnutrition in the Philippines, 1989-2019



Our Silent Crisis

Fact: 90% of brain development happens before age 5



Fact: A stunted child is damaged for life.

Most Worrying: Human Cost of Economic Decline

- Worsened by natural calamities early & late last year
- **Poverty, hunger** have escalated
 - Hunger doubled from 2019 levels
 - Elevates already high rates of severe malnutrition & stunting in young children (another lost generation?)
- **Education** takes severe blow
 - Remote learning leaves behind children of the poor and from far-flung communities who have limited or no connectivity



Most Worrying: Human Cost of Economic Decline

- Worsened by natural calamities early & late last year
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 - Elevates already high rates of severe malnutrition & stunting in young children (another lost generation?)
 - **Education** takes severe blow
 - Remote learning leaves behind children of the poor and from far-flung communities who have limited or no connectivity
- **Both pose long-term threats to the country's future**



2. **Where Are We Headed?**

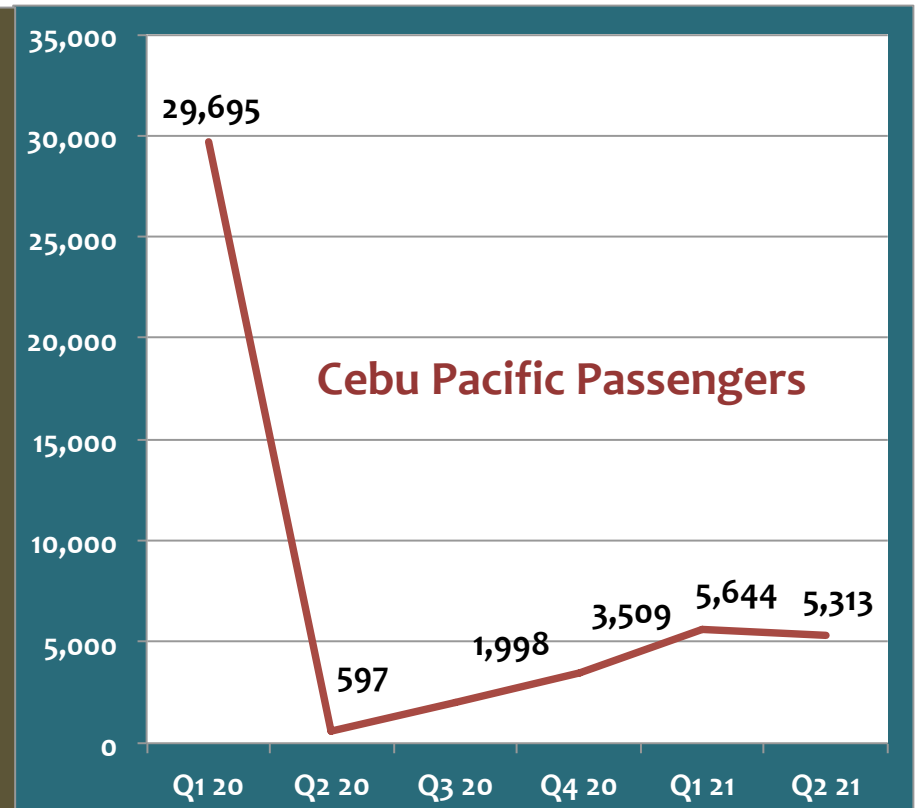
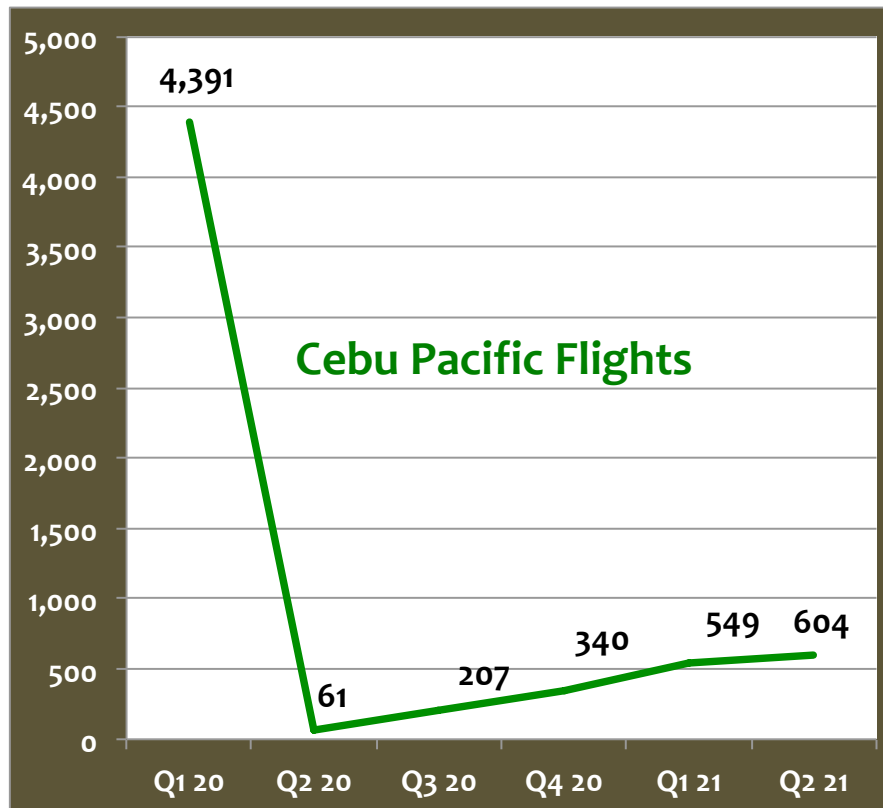
Hopeful signs, persistent hurdles

Hopeful Signs

- Manufacturing growth has turned positive (535% YoY growth in August)
- Level of manufacturing output & incomes in Q2-2021 already exceeds pre-pandemic levels in Q1-2020 (now fully restored)
- Led by computer, electronic & optical products; paper & paper products; printing & media recordings; chemical products; non-metallic mineral products; and electrical equipment.

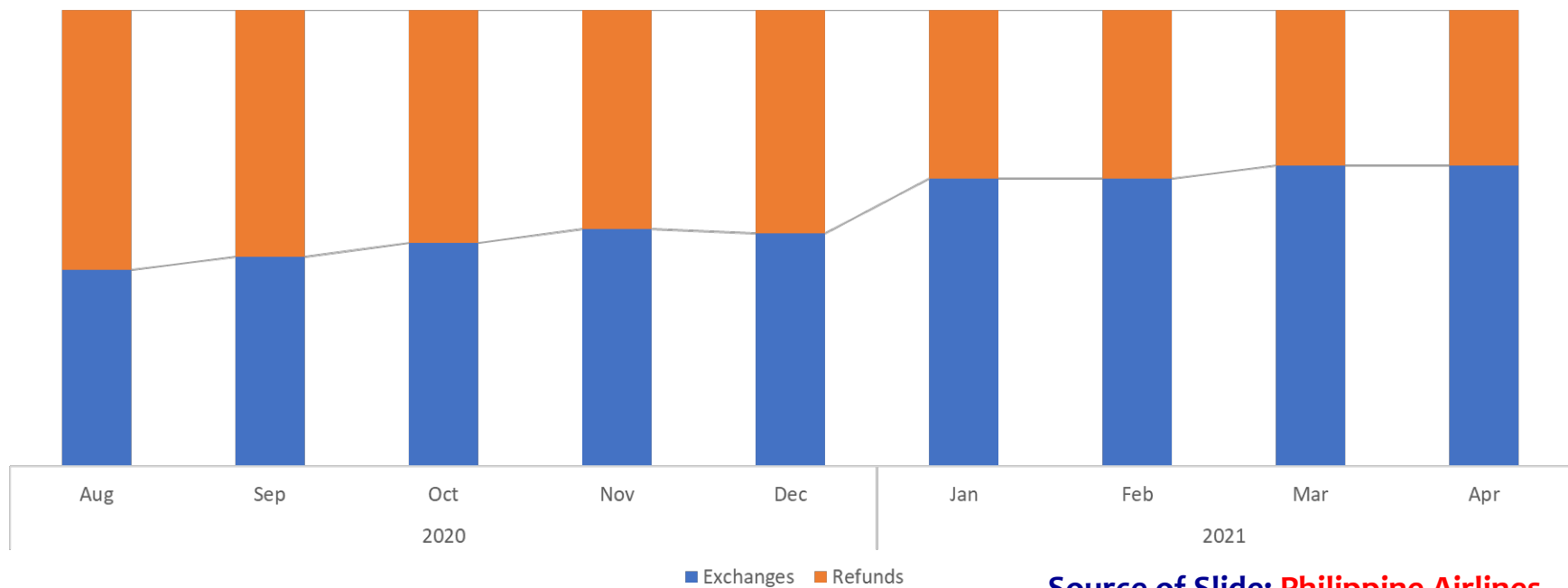


Airlines: Slow Gains



Passenger Optimism Up: Rising rebookings vs. refunds

PAL Refunds & Exchanges Distribution by Travel Month



Source of Slide: **Philippine Airlines**

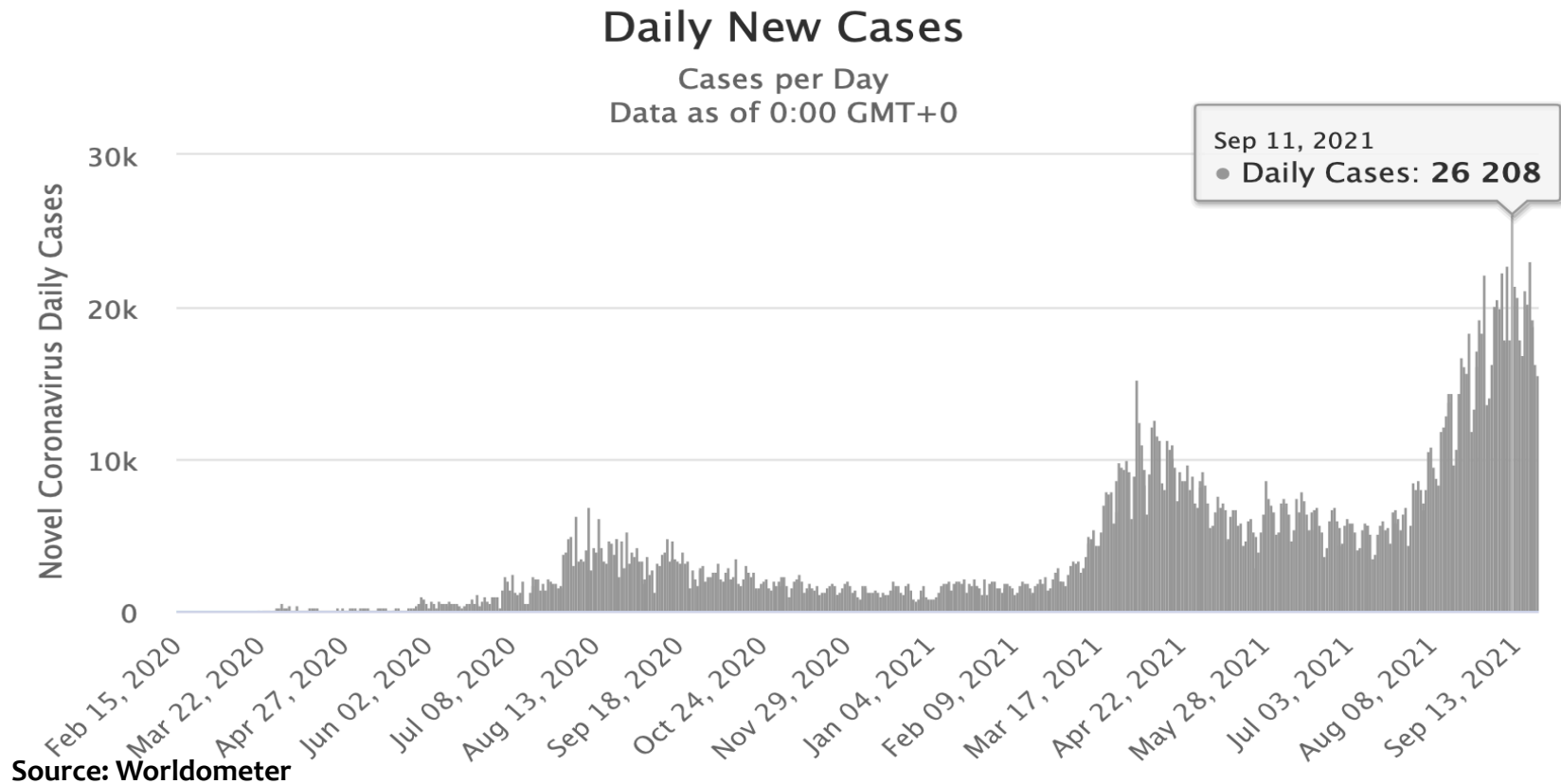
Other Hopeful Signs



- Agriculture sector is mostly growing positively (including rice, corn, coconut, sugarcane, banana, etc.)
- OFW remittances are back on a sustained growth trend (5.8% YTD growth as of July)
- Exports, imports post hefty double-digit growth; the latter signals impending rise in production

Hurdle #1:

Resurgence of pandemic, slow vaccination

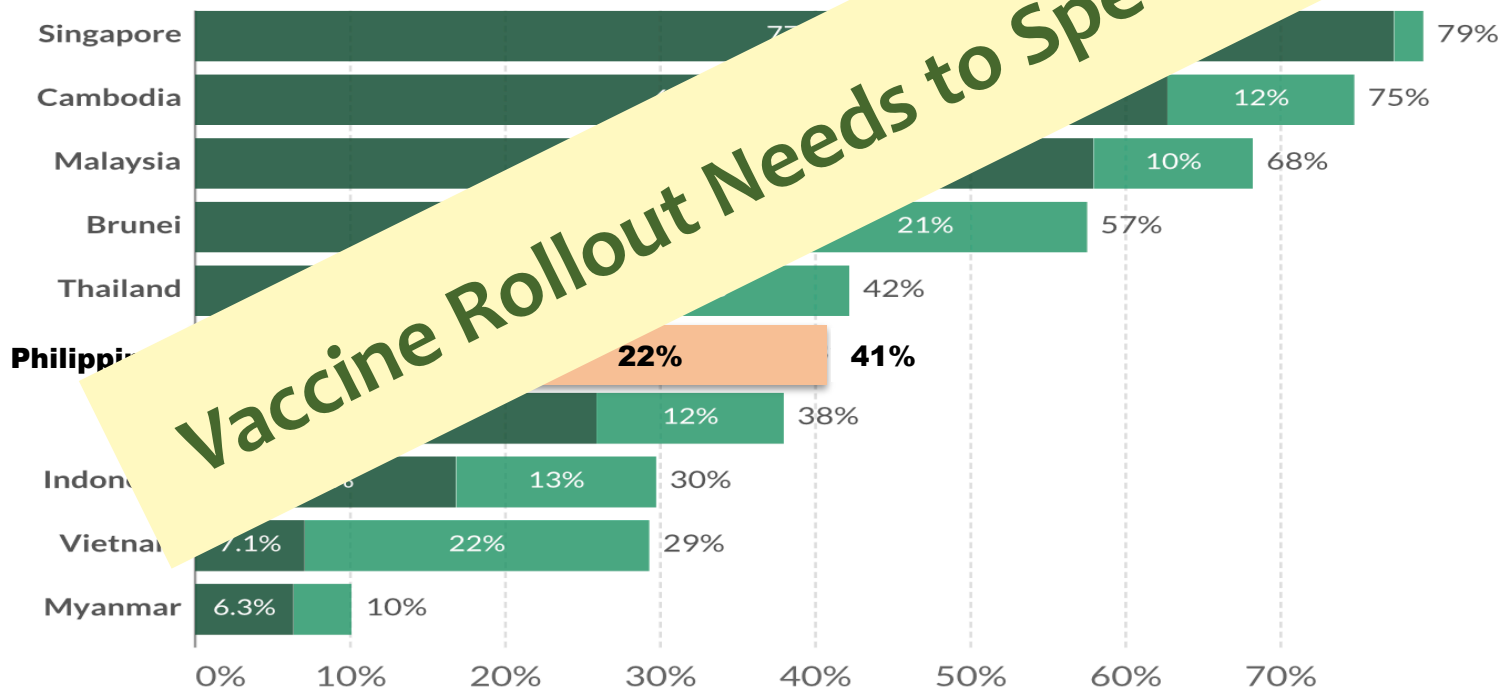


Share of people vaccinated against COVID-19, Sep 22, 2021

Our World
in Data

Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2, are ignored to maximize comparability across countries. Having 1 dose of a 2-dose protocol, are ignored to maximize comparability across countries.

- Share of people fully vaccinated against COVID-19
- Share of people only partly vaccinated against COVID-19



ECONOMIC
DEVELOPMENT

Hurdle #2: Confidence remains low

Third Quarter 2021 Social Weather Survey: Worry of catching Covid-19 rises to record-high 91%

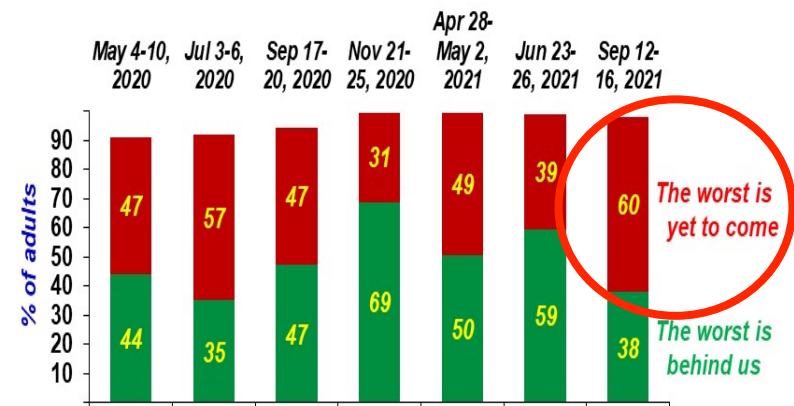
by Social Weather Stations | Oct 12, 2021 08:59:13 AM

[Tweet](#)



Source: Worldometer

OPINION ON WHETHER THE WORST IS BEHIND US
OR THE WORST IS YET TO COME REGARDING
THE COVID-19 CRISIS: PHILIPPINES, MAY 2020 TO SEP 2021



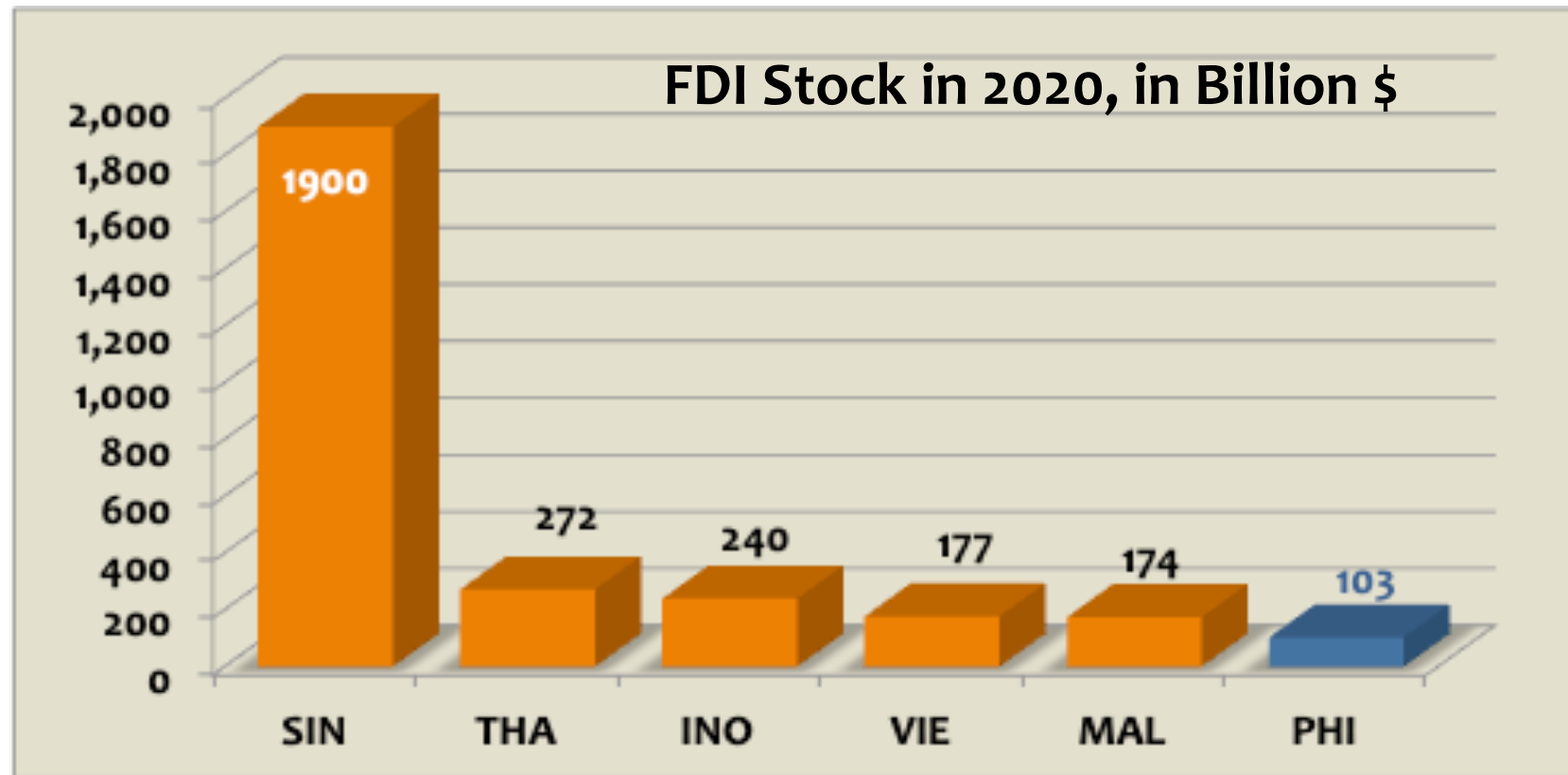
**Filipinos are more afraid of
COVID-19 than ever.**

SOCIAL
WEATHER
STATIONS Founded 1985
Statistics for Advocacy

Third Quarter 2021 Social Weather Report
September 12-16, 2021 National Survey

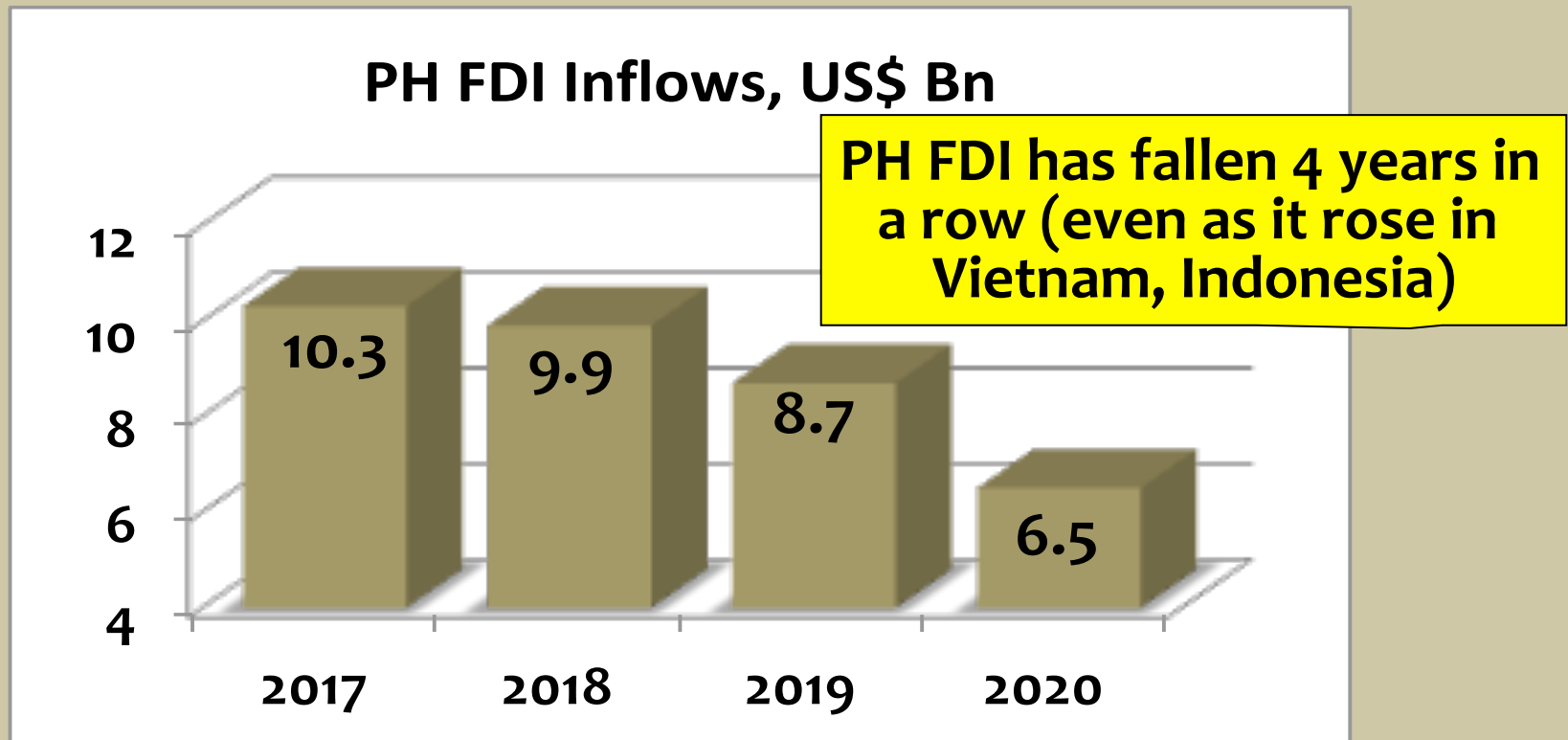
Hurdle #3:

PH Foreign Direct Investments Lowest in ASEAN-6



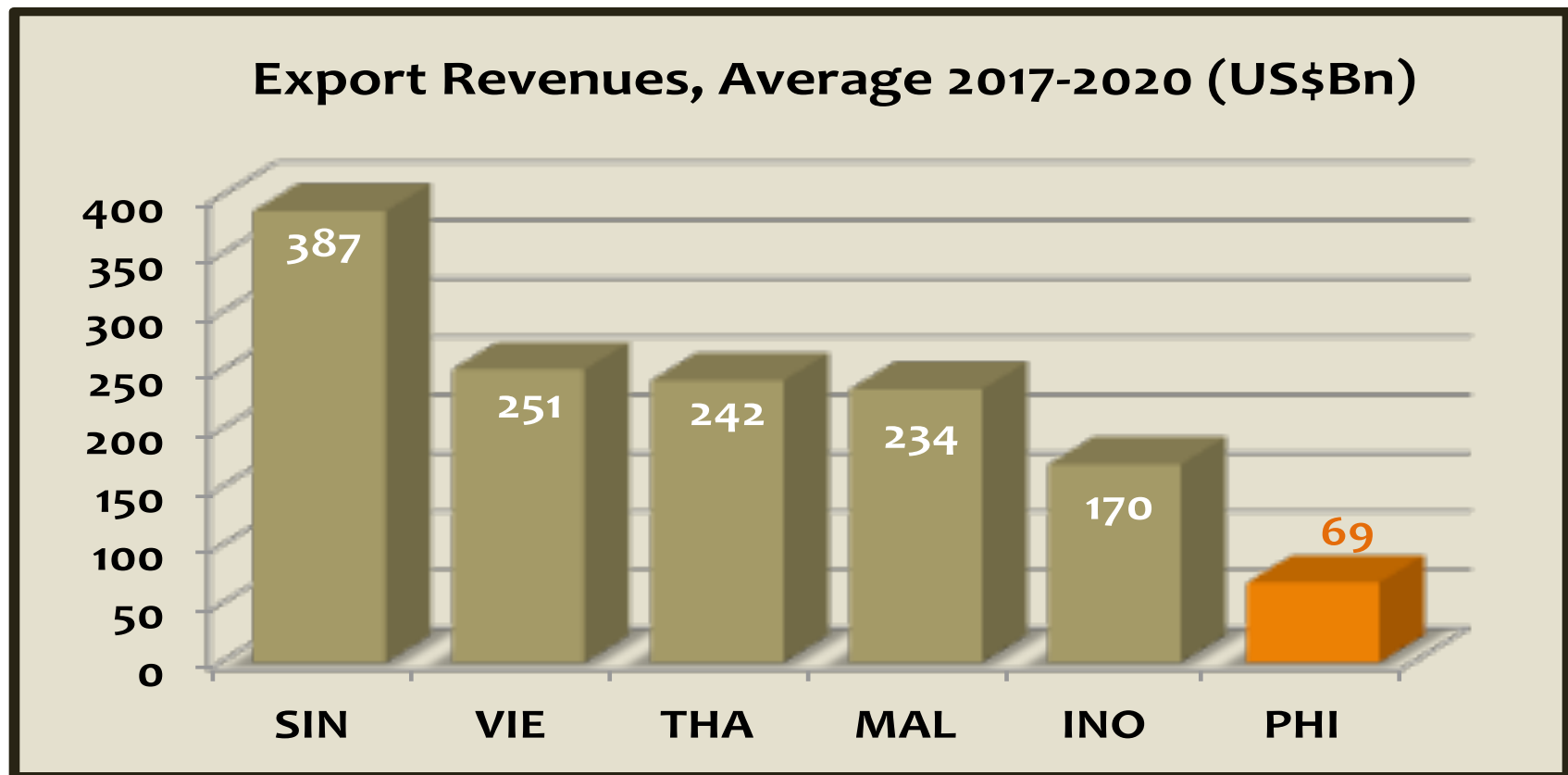
Source: Santandertrade.com

Falling Foreign Direct Investment Inflows Since 2017



Source: BSP

... and persistent lag in export performance



Hurdle #4: Large & small business closures

Retired business licenses at Parañaque City Hall

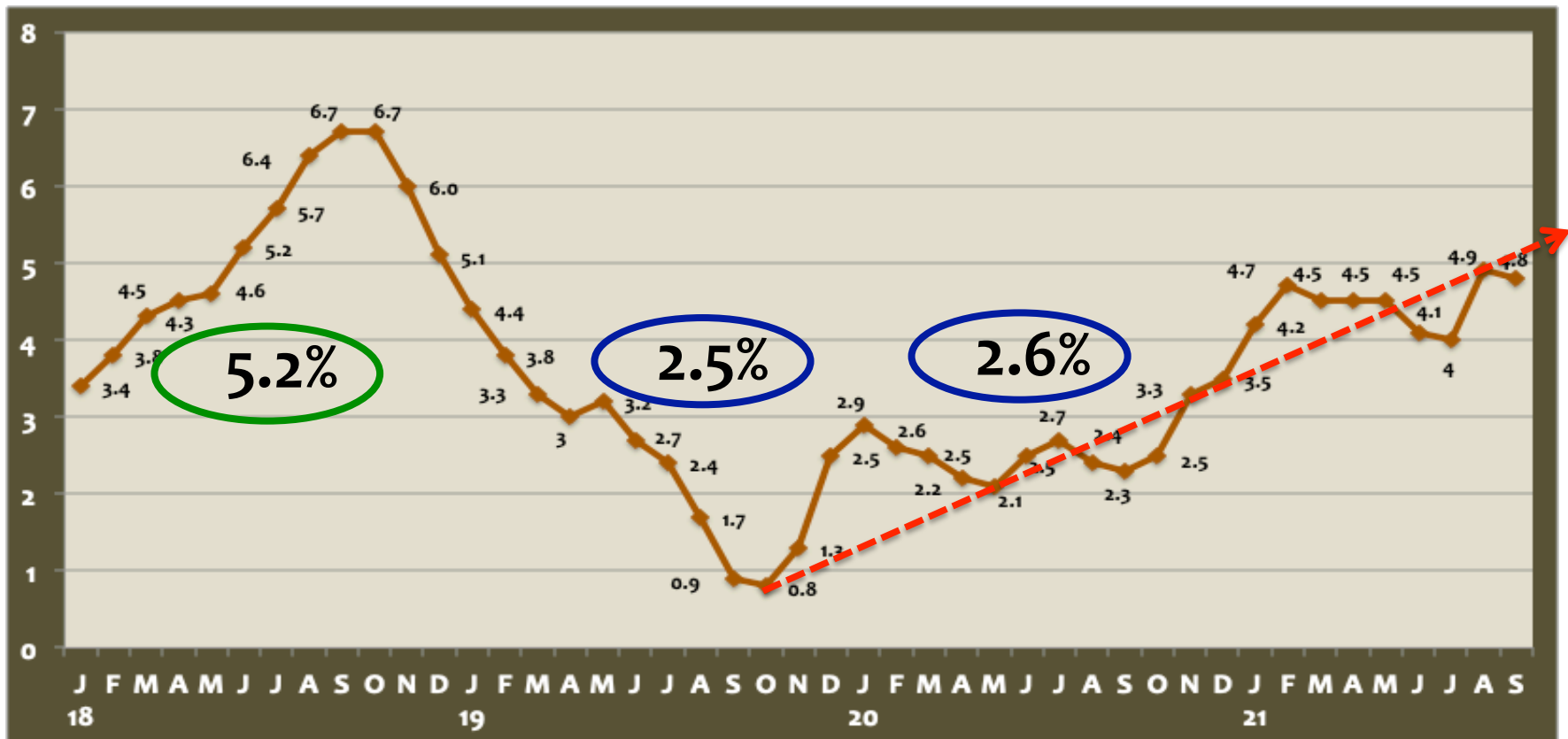


- Anecdotal evidence points to unprecedented business closures
- Reports of small businesses having to pay even higher taxes in 2020 in spite of pandemic
- Even the cost of closing a business can be formidable (up to P10,000 in fees and taxes paid by a colleague)



Hurdle #5:

Accelerated Inflation (& pressure on monetary policy)



Driving the Recovery: Two Wheels

Two most durable sectors amid pandemic



The Digital Economy

Agriculture/Agribusiness

Front Wheel for *Inclusive* Recovery



AGRICULTURE/AGRIBUSINESS

- Proven resilience thru the pandemic-induced recession
- Agricultural production is prevalent across all regions of the country (vs. industry)
- Strong inter-linkages with rest of the economy
 - Highly labor intensive
 - Strong forward and backward linkages
- Agricultural and regional economies are key to recovery from the recession

Agriculture: Proven Resilience

Sector	2020					2021		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
AGRI/FISH/FORES	-0.3	1.6	1.2	-2.5	-0.2	-1.3	0.0	-1.7
Palay	-1.9	7.2	15.4	-1.1	2.1	8.6	1.2	5.6
Corn	-4.4	15.6	4.1	0.4				
Coconut incl Copra	-5.1	-2.4	-2.3	-0.9				
Sugarcane	8.9	72.6	8.6	8.0				
Banana								
Mango								
Pineapple								
Cashew								
Cassava	-0.1	-3.5		0.5	-1.0	-7.3	-4.1	0.0
Rubber	0.0	5.9		2.9	3.1	1.8	2.7	0.9
Cacao	14.5	5.7	12.1		9.9	11.8	9.9	-3.2
Abaca	-5.7	-2.6	0.6	1.3		-14.6	-0.5	-21.0
Tobacco	-0.5	3.6	-30.1	11.8	-1.6	-4.2	-2.2	3.5
Other Crops	-0.6	-1.4	0.0	-2.8	-1.3	-4.1	4.7	-2.0
Livestock	1.5	-8.2	-7.7	-13.0	-6.9	-23.4	-19.5	-15.6
Poultry & Egg	3.5	-4.8	-3.6	-4.9	-2.4	-7.5	2.6	1.5
Other Animal Prod	2.4	-6.3	-4.9	-3.9	-3.2	3.6	4.3	1.1
Forestry & Logging	1.2	-25.0	9.2	2.4	-4.3	-3.2	38.1	0.8
Fishery & Aquaculture	-2.8	1.0	2.1	-4.3	-1.3	0.2	-1.0	-0.6
Support Svcs to AFF	5.9	7.8	2.7	4.1	5.0	7.9	5.5	5.2

If not for pig pandemic, agri growth was positive

Not counting livestock, fishery and forestry, Agriculture actually grew 2.2% in Q1-Q3



WHY AGRICULTURE?

Proven Resilience

Sector	2020					2021	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
AGRI/FISH/FORES	-0.3	1.6	1.2	-2.5	-0.2	-1.3	-0.1
Palay	-1.9	7.2	15.4	-1.1	3.1	8.6	1.2
Corn	-4.4	15.6	4.1	0.4	2.4	6.4	6.3
Coconut incl Copra	-5.1	-2.4	-2.3	-0.9	-2.8	-0.8	0.5
Sugarcane	8.9	72.6	8.6	8.0	21.3	-4.5	32.2
Banana	-3.5	-1.6	-1.4	1.2	-1.3	1.2	1.8
Mango	-1.2	0.3	2.4	-0.9	-0.1	4.1	-0.5
Pineapple	-2.2	5.3	-5.4	1.5	-0.1	5.3	3.6
Coffee	0.2	-2.7	0.1	2.4	0.8	12.3	-0.4
Cassava	-0.1	-3.9	0.2	0.5	-1.0	-7.3	-4.4
Rubber	0.0	5.9	-3.9	6.2	3.1	1.8	2.7
Cacao	14.5	5.7	12.1	7.8	9.9	11.8	9.9
Abaca	-5.7	-2.6	0.6	1.3	-1.7	-14.6	-1.2
Tobacco				11.8	-1.6	-6.2	-2.2
Other C				-2.8	-1.3	-4.1	4.7
Livestock				-4.9	-4.9	-23.4	-19.5
Poultry & Eggs				-4.9	-2.4	-7.5	2.6
Other Animal Prod	2.4	-6.3	-4.9	-3.9	-3.2	3.6	4.3
Forestry & Logging	1.2	-25.0	9.2	2.4	-4.3	-3.2	51.2
Fishery & Aquaculture	-2.8	1.0	2.1	-4.3	-1.3	0.2	-1.0
Support Svcs to AFF	5.9	7.8	2.7	4.1	5.0	7.9	4.7

If not for pig pandemic,
agri growth was positive

Front Wheel for *Inclusive* Recovery

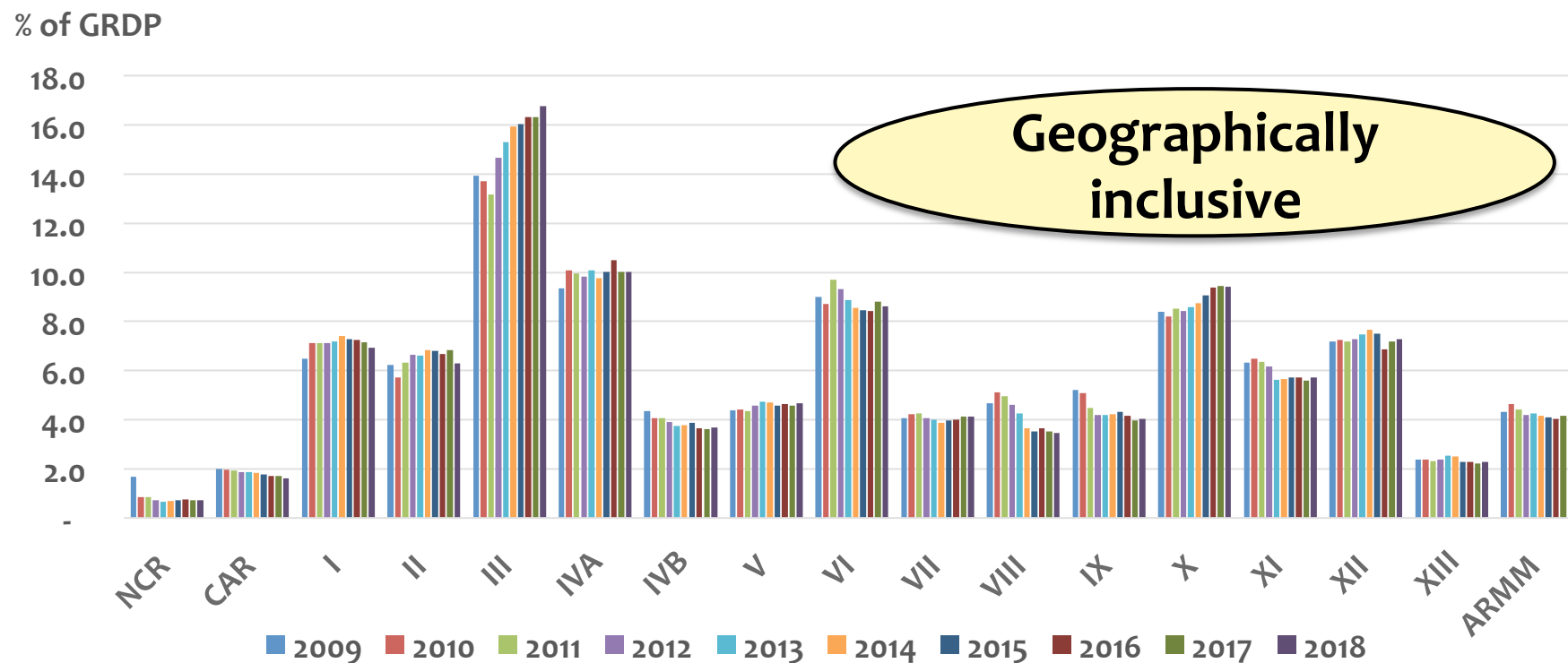


AGRICULTURE/AGRIBUSINESS

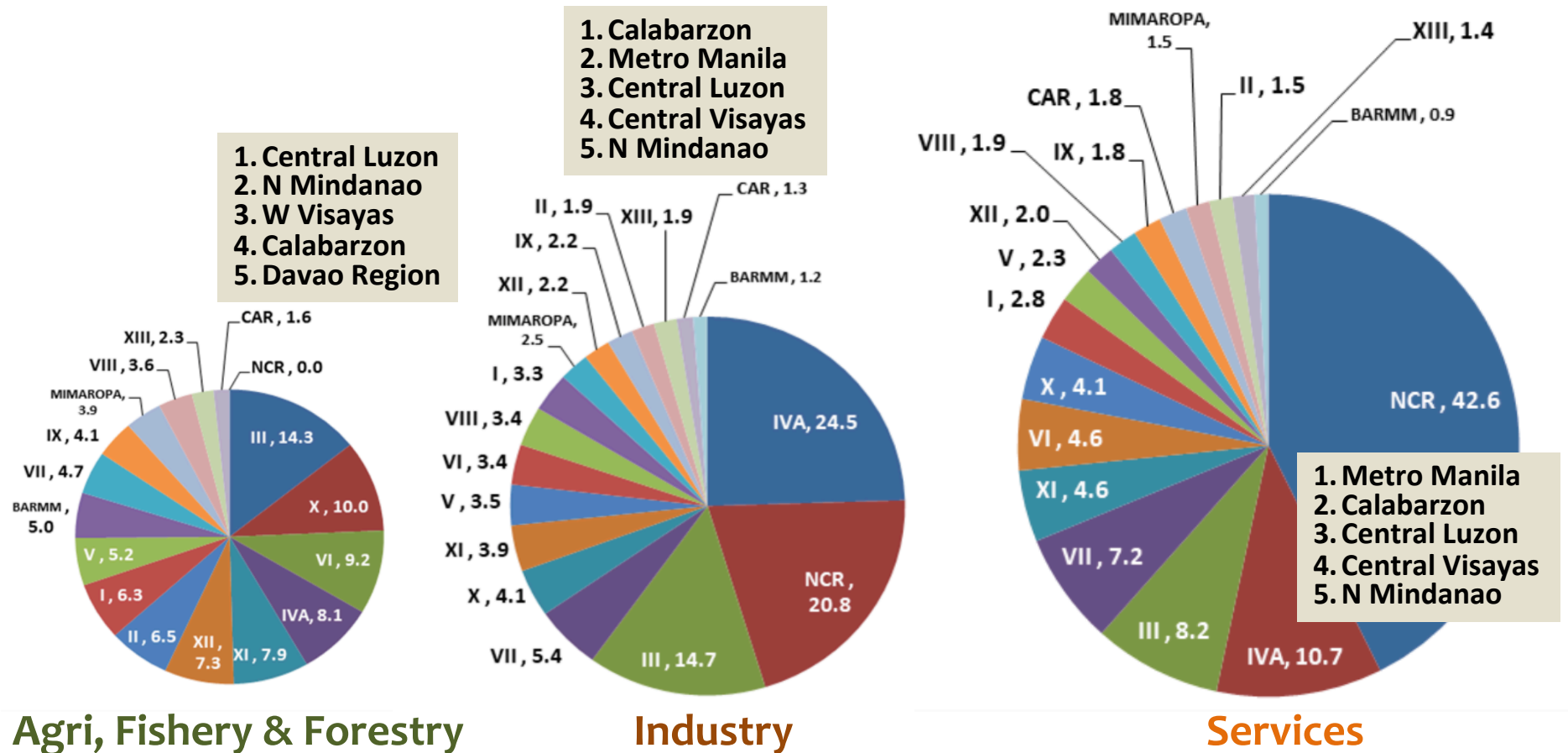
- Proven resilience thru the pandemic-induced recession
- Agricultural production is prevalent across all regions of the country (vs. industry)
- Strong inter-linkages with rest of the economy
 - Highly labor intensive
 - Strong forward and backward linkages
- Agricultural and regional economies are key to recovery from the recession

WHY AGRICULTURE?

Agriculture is prevalent across all regions.



Regional GDP Shares in Major Sectors, 2020 (%)



Front Wheel for *Inclusive* Recovery



AGRICULTURE/AGRIBUSINESS

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 - Strong forward and backward linkages
- Agricultural and regional economies are key to recovery from the recession

Agriculture is highly labor-intensive.

Industries accounting for the most jobs



Sector/Industry	Percent of Jobs	Total Jobs (Million)
Wholesale & retail trade	20.2	8.62
Agric, hunting & forestry	20.0	8.53
Construction	9.4	4.01
Manufacturing	8.6	3.67
Transport & Storage	8.0	3.41
Govt service incl. military	6.6	2.82
Other services	6.3	2.69
Accomm & food services	4.7	2.00

Source: PSA Labor Force Survey, Jan 2020

Agriculture is highly labor-intensive.

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Accommodation & food services		2.00

Agriculture can help drive recovery in other key industries closely linked to it

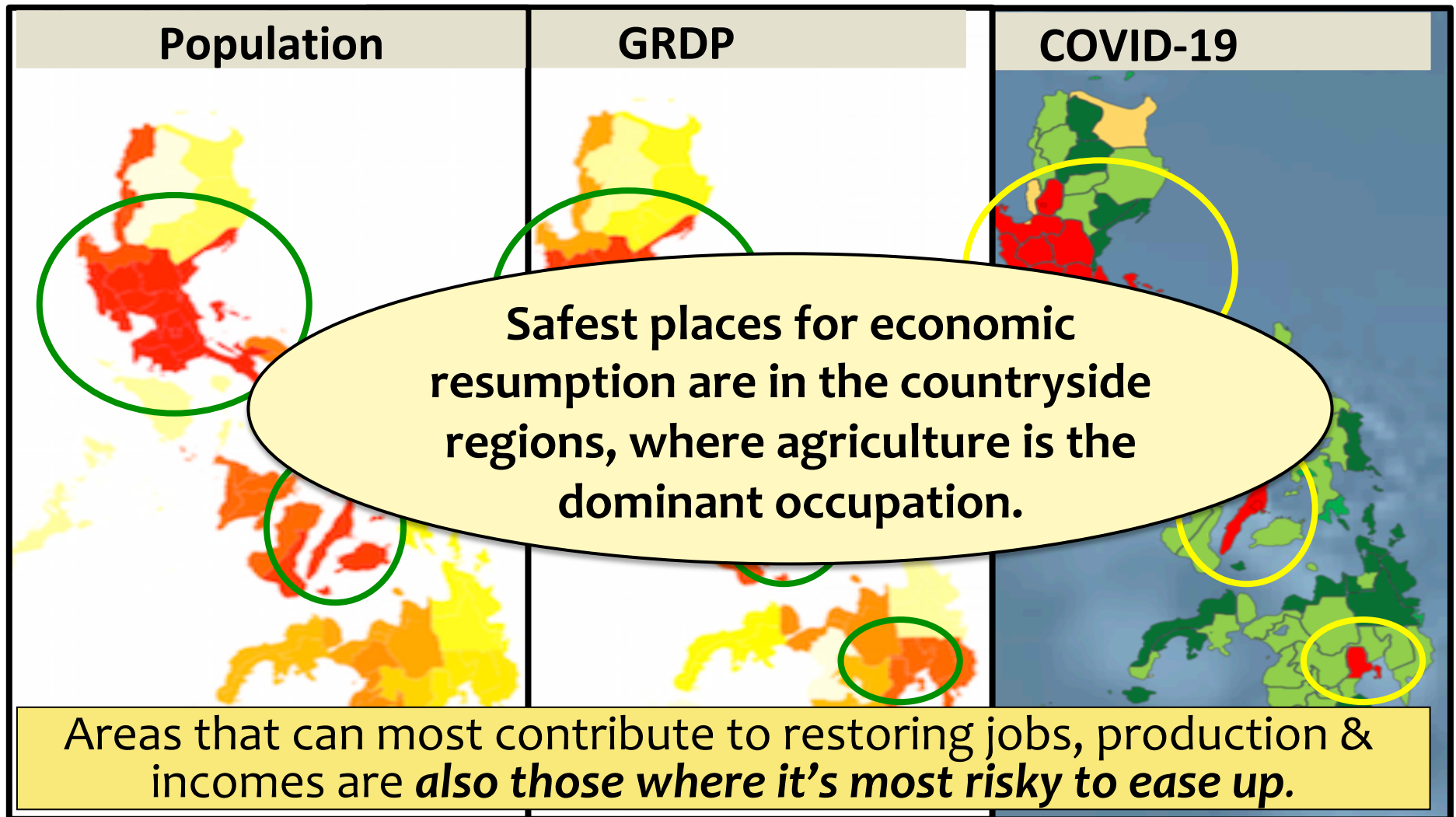
Source: Labor Force Survey, Jan 2020

Front Wheel for *Inclusive* Recovery



AGRICULTURE/AGRIBUSINESS

- Proven resilience thru the pandemic-induced recession
- Agricultural production is prevalent across all regions of the country (vs. industry)
- Strong inter-linkages with rest of the economy
 - Highly labor intensive
 - Strong forward and backward linkages
- Agricultural and regional economies are key to recovery from the recession



Rear Wheel for *Accelerated* Recovery

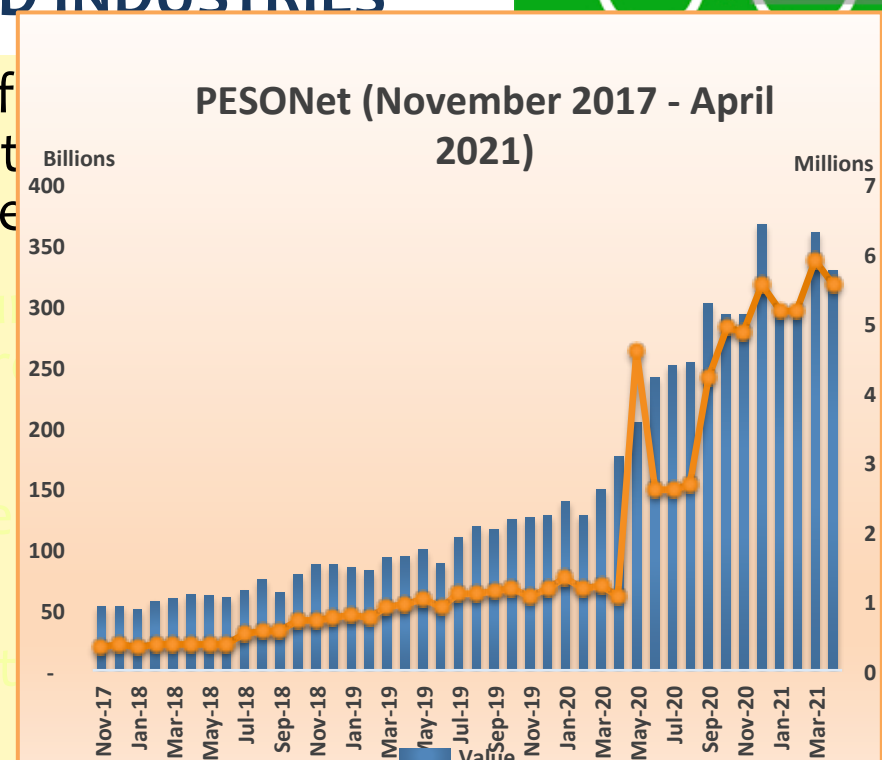
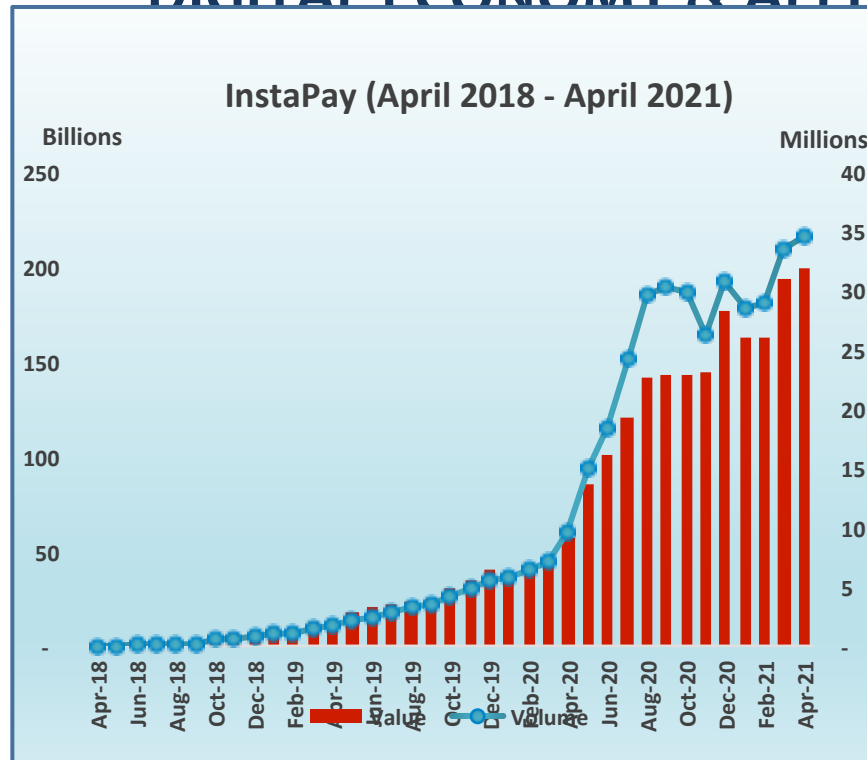
DIGITAL ECONOMY & ALLIED INDUSTRIES



- Fostered by “new normal” way of doing things: Retail sales, meetings & events, education, entertainment, payments and B2B transactions, manufacturing processes (Industry 4.0), and more
- Helps foster accelerated agriculture and agribusiness growth via application of digital tools to improve finance-to-field-to-fork value chains
 - Substantial public & private investments needed in upgraded and widened connectivity
 - Also requires an upgraded logistics system with much wider reach into the countryside

Rear Wheel for *Accelerated* Recovery

DIGITAL ECONOMY & ALLIED INDUSTRIES



Rear Wheel for *Accelerated* Recovery

DIGITAL ECONOMY & ALLIED INDUSTRIES



- Fostered by “new normal” way of doing things: Retail sales, meetings & events, education, entertainment, payments and B2B transactions, manufacturing processes (Industry 4.0), and more
- Also helps foster accelerated agriculture and agribusiness growth via application of digital tools to improve finance-to-field-to-fork value chains; attracts more youth back to the farms
- Substantial public & private investments needed in upgraded and widened connectivity
- Also requires an upgraded logistics system with much wider reach into the countryside

PiTiK Outlook, 2021



- **Inflation Rate:** Higher at **4-5%** (from both supply & demand side pressures)

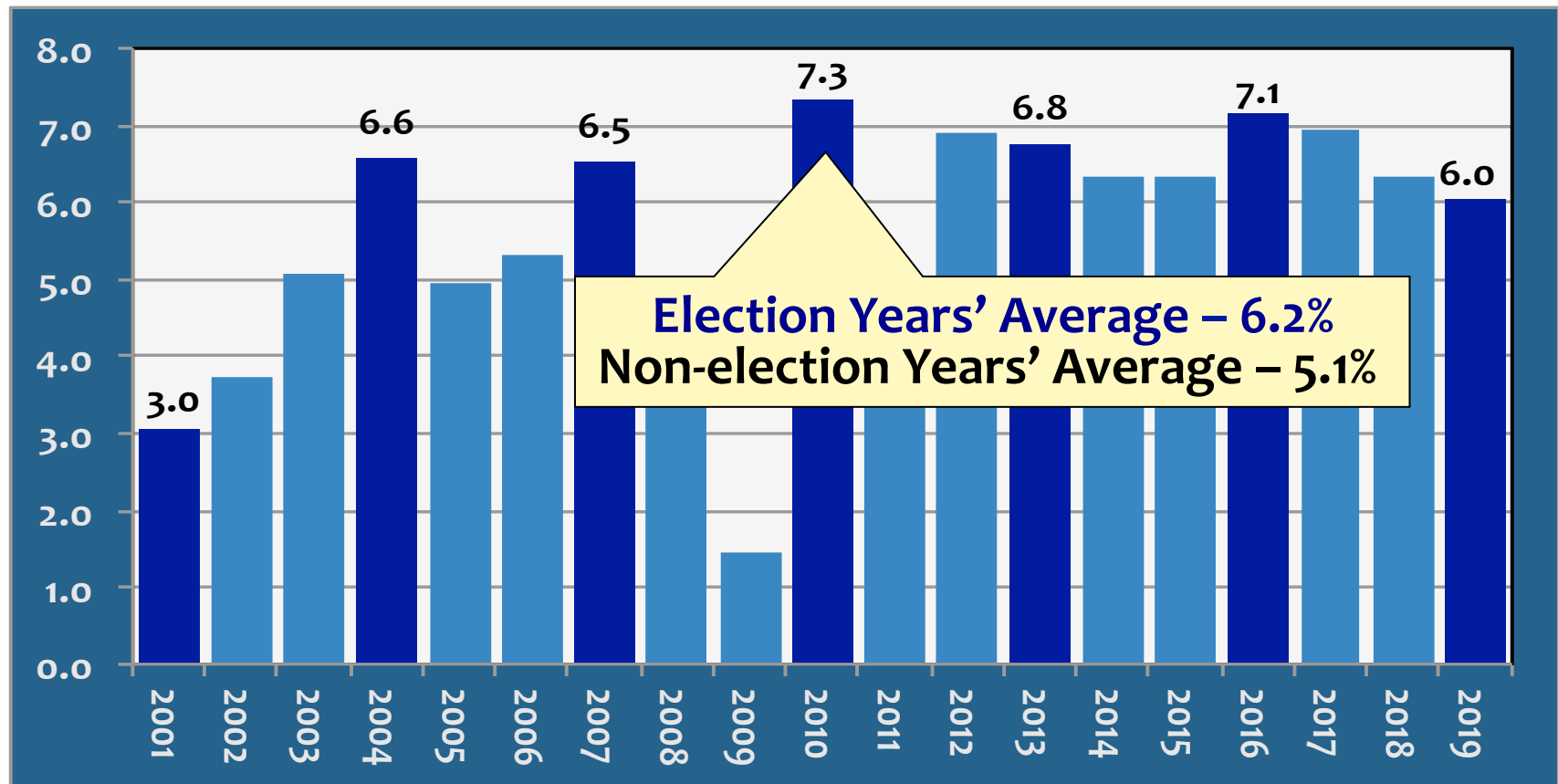


- **Jobs:** Employment Rate of **92-93%** (Unemployment Rate of 7-8%) – as recovery remains constrained



- **GDP Growth:** Government's revised **4-5%** target now achievable – after Q3 surprise

Elections and the Economy

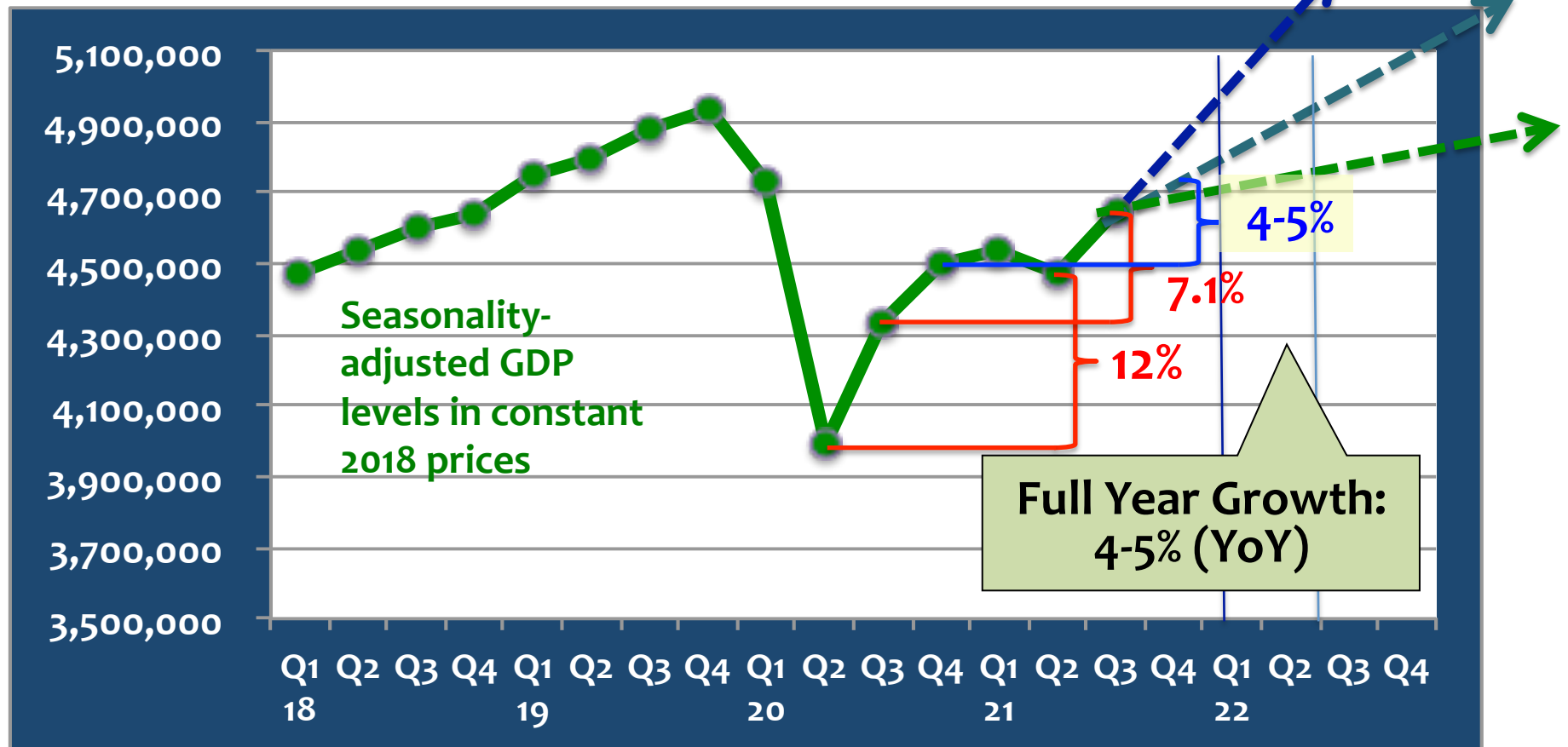


Elections and the Economy

- Over the last 20 years, average GDP growth in election years was 6.2%, vs. non election years of 5.1% (> **one percentage point uptick**):
 - Hiked infrastructure spending to woo voters
 - Campaign expenditures for posters/tarps/streamers; radio, TV and newspaper ads; transport services, hotel & other lodging for candidates and campaign workers; food & meals consumed and given away during the campaign; campaign collaterals; show business personalities' talent fees; +++
- This time, broadcast and social media campaigns will use up the bulk of campaign money, including for “troll armies” and hackers
- Benefits likely to be narrower this time

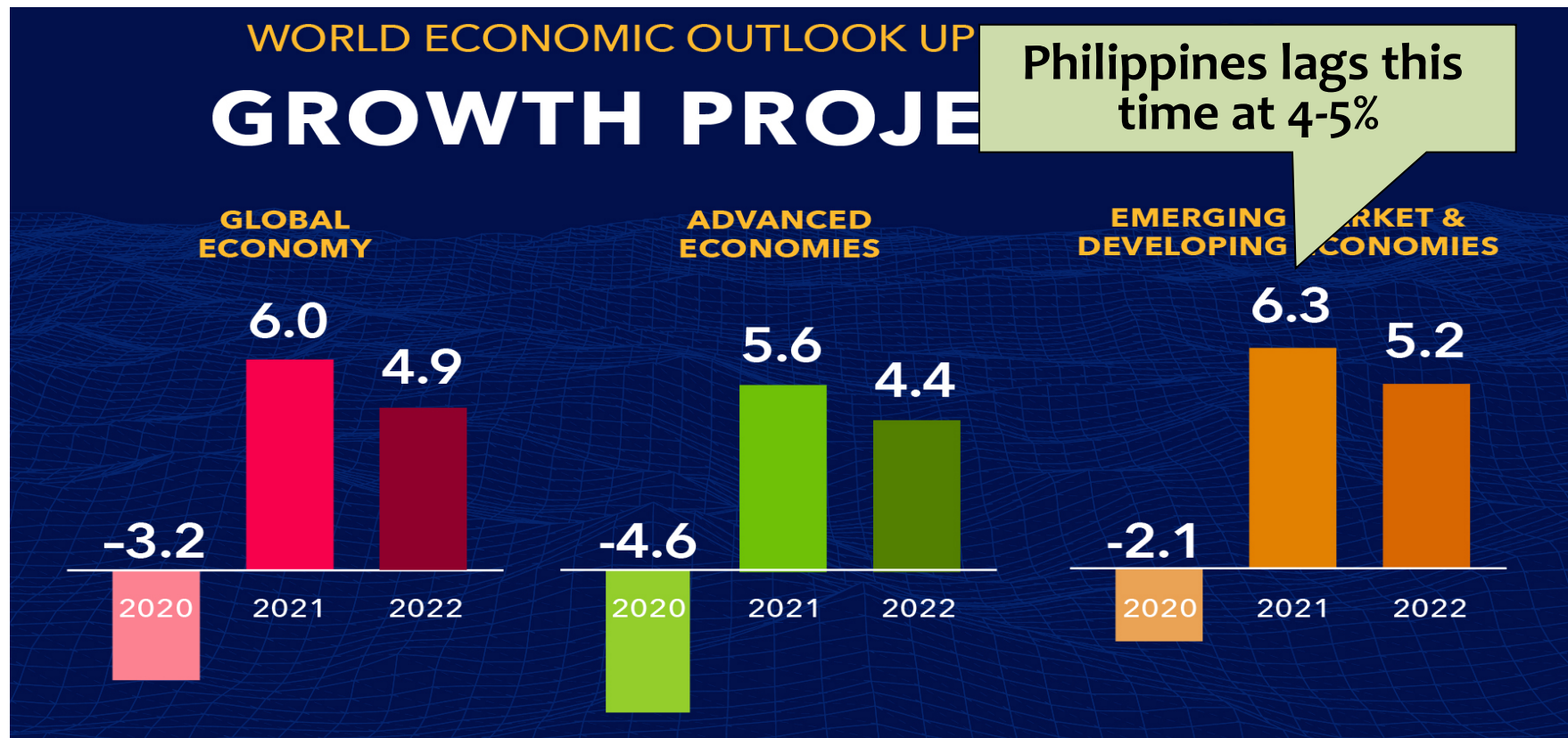


What's the Recovery Outlook Like?



IMF World Economic Outlook

Philippines now a laggard



Wanted: **Commitment to True and Sustained Reform**

For sustained growth:

- Speed up infrastructure build-up
- Ease investment restrictions
- Reduce regulatory burden
- Eradicate corruption

For inclusive development:

- Concerted MSME support
- Stamp out hunger and malnutrition
- Hike investments in Health and Education



*All told, economic recovery appears to be underway.
How fast or how slowly it would unfold hinges on
how we bring our COVID-19 numbers down.
For now, health recovery remains top priority.*



NO FREE LUNCH

Philippine Daily Inquirer, June 15, 2021