

# **“PH-PROGRESO”**

## **Philippine Program for Recovery with Equity and Solidarity**

**Turning the crisis into an opportunity**  
***A proposed economic recovery program***

*Draft proposal for discussion purpose only as of 13 May 2020*

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- b. Fiscal position: revenue, expenditure, deficit
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- a. Bayanihan II (expenditure side)
- b. CREATE: Corporate Recovery and Tax Incentives for Enterprises Act (tax incentives side)

## **Two economic principles to memorize, dream about, and apply**

1. Nothing is free from heaven
2. Everything is a trade-off

# Phased and adaptive recovery approach

	 <b>EMERGENCY STAGE</b>	 <b>RECOVERY STAGE</b>	 <b>RESILIENCY STAGE</b>
<b>Period</b>	March to May 2020	June to Dec 2020	2021 onwards
<b>Analogy</b>	Intubation in ICU	Dextrose in regular room	Vitamins at home
<b>Law</b>	<b>Bayanihan I</b>	<b>Bayanihan II, CREATE</b>	<b>2021-22 GAA and other reform laws</b>
<b>Pillar</b>	Pillar I and II	Pillar III and IV	Pillar III and IV
<b>Key features</b>	<ul style="list-style-type: none"> <li>• Budget and procurement flexibility.</li> <li>• Subsidy to poor and low income.</li> <li>• Small business support (grace period, wage subsidy)</li> <li>• Support to key sectors (e.g. agri and OFW).</li> <li>• Health system, capacity, and insurance.</li> <li>• Support front-liners.</li> </ul>	<ul style="list-style-type: none"> <li>• Budget and procurement flexibility</li> <li>• Reprioritization of 2020 budget.</li> <li>• <b>Priority BBB resumption.</b></li> <li>• <b>Demand side to raise income and create jobs:</b> better targeted and implemented Bayanihan I programs.</li> <li>• <b>Supply side to support firms:</b> Liquidity and equity infusion, and guarantee thru the financial sector.</li> <li>• <b>Targeted tax incentives.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Reprioritization of the 2021 and 2022 budget.</li> <li>• Structural reforms to turn crisis into opportunity to prepare for the new normal.</li> <li>• Support Balik Probinsya, Bagong Pag-asa (BP<sup>2</sup>) Program.</li> </ul>

# Overview

# Key messages

## 1. The Philippines entered 2020 with strong growth prospects.

- a. **Building on past reforms and solid macroeconomic management** to deliver better.
- b. **Among the fastest growing economies** (average of 6.6% from 2016 to 2019).
- c. **Likely to become upper middle income country** in 2020 (USD 3,512 per capita).
- d. **Low and stable inflation** (average of 3.0% from 2016 to 2019).
- e. **Lowest ever rates of unemployment** (5.3%), **underemployment** (14.8%), and **poverty** (16.6%).
- f. **Strong fiscal position** (revenue of 16.1 percent of GDP, highest since 1997).
- g. **Falling debt to GDP ratio** (39.6 percent of GDP, lowest since 1986).
- h. **High gross international reserves** (USD 89 billion or 7.9 months of import).
- i. **BBB+ credit rating** (one notch below the A-rating)
  - i. Illustration: for every one trillion pesos in borrowing, a 1% lower interest rate due to good credit rating translates to a savings of 10 billion pesos per

# Key messages

## 2. This strong foundation is due to...

- a. Conservative and responsible fiscal management.
- b. Tax reform (4 tax laws, 3 more packages to go).
- c. Structural reforms (rice tariffication, ease of doing business, national ID, UHC, universal access to tertiary education, etc.).
- d. BBB program (infra spending exceeded 5% of GDP in 2018).

## 3. But we have faced totally unexpected shocks in 2020:

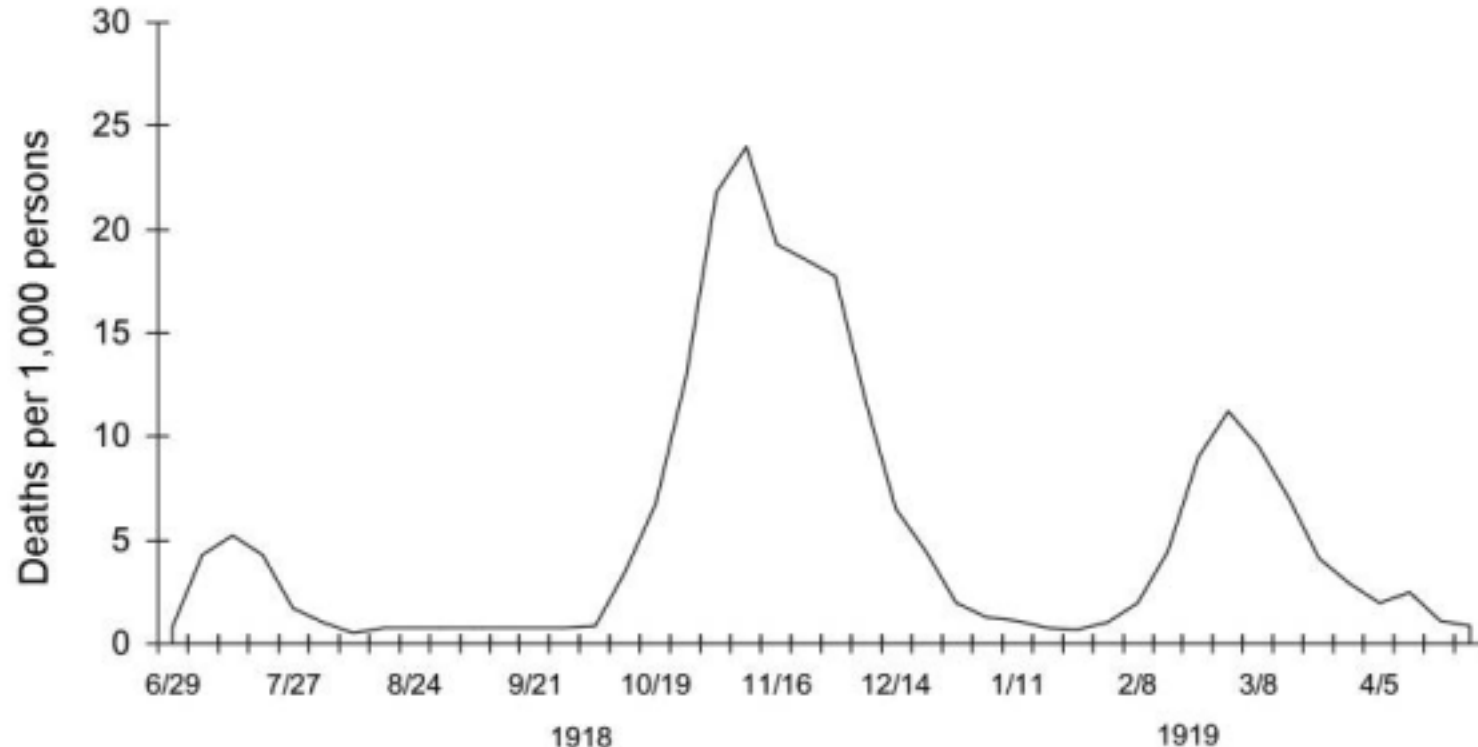
- a. Taal volcano eruption in January.
- b. Decline in tourism and trade due to global pandemic starting February.
- c. ECQ starting March to contain the virus.

# We can proactively determine our growth trajectory

1. **Three possible growth cases but hard to put an estimate.**
  - a. V-shape: quick recovery starting July 2020.
  - b. W-shape: quick recovery starting July 2020 followed by a second wave of infection.
  - c. Long U-shape (valley): long recovery spanning several quarters, with likely recovery in 2022 when vaccine is developed.
2. **But we can proactively use policies to achieve a V-shaped recovery.**
  - a. Virus containment policy (ECQ, GCM, minimum health standards).
  - b. Fiscal policy (social amelioration program, support to businesses, health capacity, BBB program).
  - c. Monetary policy and financial sector regulatory relief.
  - d. Built-in flexibility in the 2021 and 2022 budgets in case of a W or long U-shape recovery.
  - e. Structural reforms.

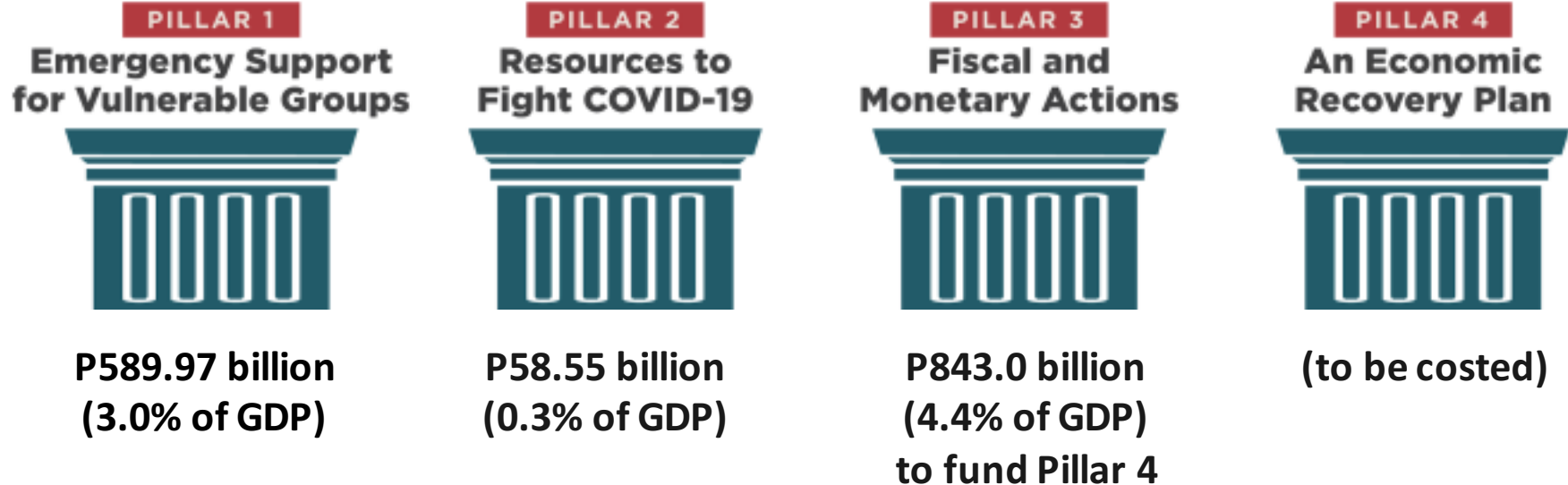


# We never know if the crisis is over, thus the need to be conservative: 1918 to 1920 flu pandemic curve (UK)



Source: Taubenberger, J. and D. Morens. 2006. "1918 Influenza: the Mother of All Pandemics." *Emerging Infectious Diseases*, Jan; 12(1): 15–22. Accessed 13 May 2013 <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3291398/>

# Four-pillar strategy to respond to the COVID-19 crisis

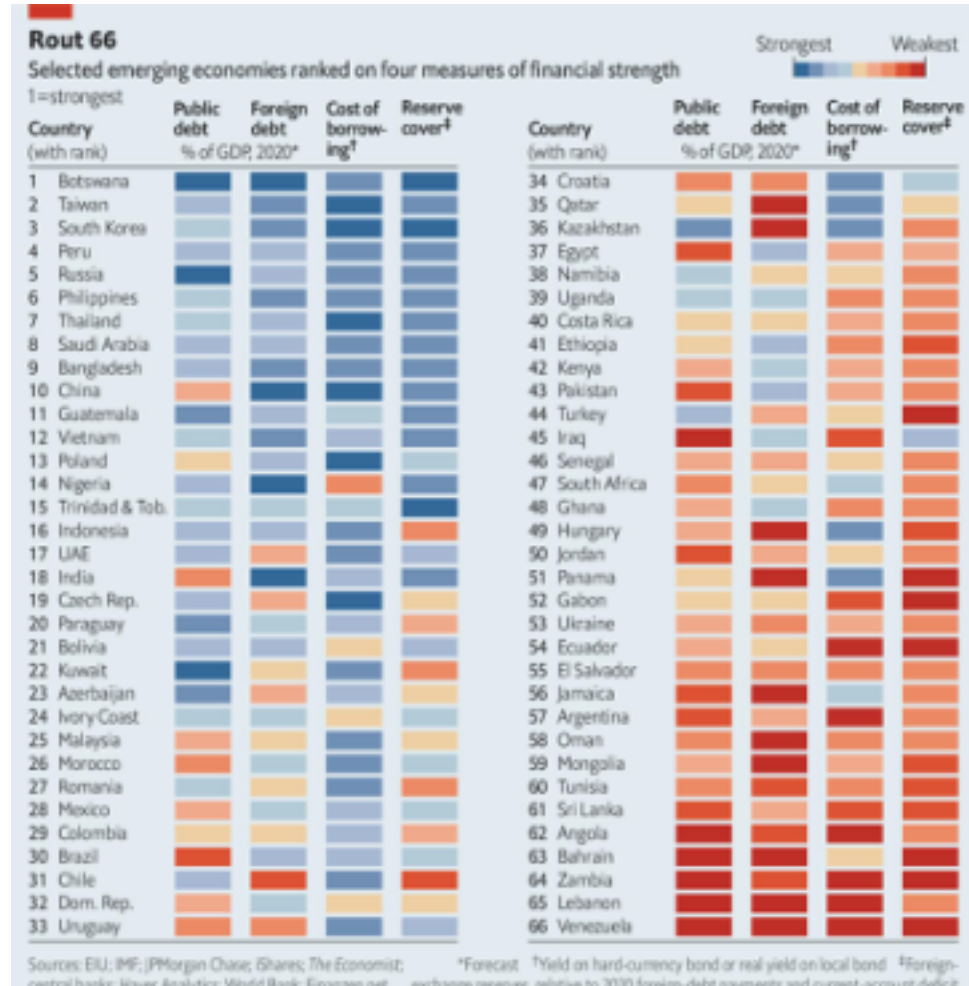


**Grand total: P1.49 trillion (7.7% of GDP) as of May 12, 2020**

## Strong fiscal and financial position to address the crisis.

The Economist ranks the Philippines 6th among selected emerging economies in the world, and the best among those ranked from Southeast Asia, in terms of economic, fiscal, and financial management.

Source: Economist, "Debt in developing countries: next in line," 2 May 2020.



# Where are we now

# Macro-fiscal framework has weakened, but fundamentals still strong

Key variables	2019	2020 (approved by DBCC as of March 26)	2020 (approved by DBCC as of May 12)
GDP real growth (%)	6.0	0 to -0.8	-2.0 to -3.4
Nominal GDP revised (trillion pesos)	19.5	19.8	19.3
Revenue (% GDP)	16.1	16.8	13.6
Expenditure (% GDP)	19.5	22.1	21.7
Deficit (% GDP)	-3.4	-5.3	-8.1
NG debt (% GDP)	39.6	44.4	49.8




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# Survey results corroborate the economic decline

Key variables	Consumer survey	MSME + large survey	Agriculture survey
Respondents	389,859	44,097	6,863
Period of survey	April 5 to 8, 2020	April 4 to 8, 2020	April 3 to 8, 2020
Estimated revenue/income impact	44% say income is not enough to meet basic needs	-87.2% in March vs February (extrapolated: 767 billion) (66% zero sales, 33% decreased sales)	65% were able to sell 35% were not able to sell (108.5 million in losses)
Estimated job loss	44% (of non-government worker respondents lost their job or source of income)	-10.5% in March vs February (extrapolated: 2,240,610 workers) (74.4% no lay-off, 25.4% with lay-off)	86% continued to farm
Estimated firm closures	N/A	33,041 firms (74.9%)	35% were not able to sell
Top 3 needs	Access to food supply and essentials  More efficient health system  Transportation	Payment deferment to government, banks, and utilities  Tax discounts or tax credits  Low interest loans from government and banks	Cash assistance  Production support (seeds, planting materials, fertilizers, etc.)  Machinery and equipment (tractors, cultivators, pumps, etc.)
Sources: NEDA and DOF			

# Recovery program

# Phased and adaptive recovery approach

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## Recovery phase: three instruments (three bills)

1. Spending and capital support (Bayanihan II)

2. Tax incentives (CREATE: Corporate Recovery and Tax Incentives for Enterprises Act )

3. 2021 GAA preparation

## Recovery phase: three instruments

### 1 Spending and capital support (Bayanihan II): restore income and jobs of consumers

**Demand side priority is to create jobs and restore income levels**

**We can use Bayanihan II to stimulate private consumption through:**

1. Health system capacity and infrastructure
2. Food value chain: agriculture, food manufacturing, logistics, and food trade
3. Restart the most impactful BBB projects.

# Recovery phase: three instruments

## 1 Spending and capital support (Bayanihan II): provide liquidity to firms

<b>Objective:</b>	<b>Provide liquidity and prevent insolvency:</b>
<b>Size of firm</b>	<b>Supply side intervention</b>
Micro firms	Borrowings from microfinance, cooperative, rural, and thrift bank lending, supported by <b>wholesale banking of LBP and DBP</b> (to buy loans to free up lending envelope)
Small and medium firms	Credit guarantee through PhilGuarantee and wage subsidy
Large firms	Targeted equity support to match bank lending, with conditions

## Recovery phase: three instruments

### 2. Tax incentives (CREATE: Corporate Recovery and Tax Incentives for Enterprises Act )

#### a. For all firms:

- i. Across-the-board immediate lowering of CIT rate from 30% to 25% starting July 2020.
- ii. Enhanced net operating loss carryover from 3 to 5 years. Losses in 2020 can be credited to future tax payment.

#### b. For new investors: Targeted, timebound, and tailor-fitted tax incentives to proactively attract the right types of investment (demand driven led by BOI, not supply driven, to attract investors leaving China, etc.).

#### c. For existing investor: No change in present incentives for the next 4 to 9 years.

#### d. For countryside investor: Targeted and timebound tax incentives to support the Balik Probinsya, Bagong Pag-asa (BP<sup>2</sup>) Program (geographic and sector targeting).

#### e. In all these, **FIRB** to manage and decide the grant of tax incentives to improve governance: performance-based, targeted, timebound, transparent.

## Recovery phase: three instruments

### 3. 2021 GAA preparation

- a. Agency budget submissions that prioritizes health, BBB, agriculture and food value chain, and other new normal priorities.
- b. This will ensure that the recovery stage is adequately supported should the Bayanihan II be insufficient, or if the recovery takes a longer time.

# Five lessons to memorize, dream about, or apply

## Economic

1. Nothing is free from heaven
2. Everything is a trade-off

## Life in general

3. Know the fact
4. Contribute solutions, focus on the “how”
5. Share also the good news

**Thank you.**