

REPORT ON NATIONAL INCOME ACCOUNTS (Q3 2020)

Table 1. Q3 2020 Economic Performance
 (percent growth rate year-on-year, at constant 2018 prices)

PARTICULARS	2020		2019
	Q3	Q2 ¹	Q3
GROSS DOMESTIC PRODUCT	-11.5	-16.9	6.3
GROSS NATIONAL INCOME	-13.0	-17.3	5.2
Net Primary Income	-28.2	-21.7	-4.6
<u>By Industrial Origin</u>			
Agriculture, Fishery and Forestry	1.2	1.6	3.0
Industry	-17.2	-21.8	5.4
<i>of which: Manufacturing</i>	-9.7	-20.7	0.9
Services	-10.6	-17.0	7.3
<u>By Expenditure</u>			
Household Final Consumption Expenditure	-9.3	-15.3	6.0
Gov't Final Consumption Expenditure	5.8	21.8	8.8
Capital Formation	-41.6	-53.7	-0.1
<i>of which: Fixed Capital Formation</i>	-37.1	-36.5	5.9
Exports	-14.7	-35.8	1.8
Imports	-21.7	-37.9	-0.1

Source: Philippine Statistics Authority (PSA)

¹ Revised estimates as of 9 November 2020.

A. GDP and GNI

1. Amid the global COVID-19 pandemic, the Philippine economy improved in Q3 2020 with real gross domestic product (GDP) growth registering a softer decline at 11.5 percent from the revised 16.9 percent contraction in the previous quarter. Coming from a strict lockdown in Q2, community quarantine (CQ) restrictions were gradually eased in Q3 except for a two-week modified enhanced community quarantine (MECQ) from 4 to 18 August for Metro Manila and nearby provinces. The latest growth outturn is lower than the -9.2 percent median forecast of private-sector analysts for the period. In the first nine months of 2020, the economy declined by 10.0 percent.
2. Nonetheless, the economy has begun to recover. On a seasonally adjusted quarter-on-quarter basis, the economy grew by 8 percent in the third quarter, reflecting the return of economic activities as the quarantine was eased.
3. Among major emerging market economies in the region that have already released their Q3 2020 real GDP growth, only China (4.9 percent) and Vietnam (2.6 percent) recorded expansions. Indonesia recorded a 3.5 percent contraction, while Malaysia and Thailand are expected to contract as well by around 4.3 percent and 8.9 percent², respectively
4. Similarly, the decline in gross national income (GNI) moderated to -13.0 percent in Q3 2020 from -17.3 percent in Q2 2020. Net primary income growth worsened to -28.2 percent in Q3 2020 from -21.7 percent in the previous quarter, mainly due to the significant decline in inflow of compensation (-33.9 percent), outweighing the increase in property income (1.5 percent).
5. On the demand side, the re-opening of more establishments and resumption of some public transportation in Q3 resulted in improved growth figures of household consumption (-9.3 percent in Q3 2020 from -15.3 percent in Q2 2020) and investments (-41.6 percent from -53.7 percent), albeit still negative. This outweighed the slowdown in government consumption (5.8 percent from 21.8 percent). These resulted in domestic demand declining by 15.4 percent, better than the -19.7 percent contraction in Q2. Total exports also declined at a slower pace (-14.7 percent from -35.8 percent), although this was offset by the weaker reduction in imports (-21.7

² Based on Bloomberg contributor composite forecasts as of 9 November 2020.

percent from -37.9 percent), resulting in a marginal slowdown in the growth of net exports (43.5 percent from 44.3 percent).

6. On the supply side, several industries recorded softer reduction in growth as the relaxation of CQ measures allowed more businesses to resume partial to full operations. In particular, the improvement in Q3 GDP growth was largely driven by the softer decline in manufacturing (-9.7 percent in Q3 from -20.7 percent in Q2), which contributed to the industry sector's improved performance (-17.2 percent from -21.8 percent). For services (-10.6 percent from -17.0 percent), transportation & storage (-28.1 percent from -58.5 percent) and trade (-5.4 percent from -13.9 percent), contributed most to the slowdown in decline. Among major industries, only the agriculture sector continued to expand to 1.2 percent, although at a slower pace from the 1.6 percent growth in the previous quarter.

B. Expenditure (Demand side)

7. **Household final consumption expenditure.** The improvement in growth in household spending (-9.3 percent in Q3 2020 from -15.3 percent in Q2 2020) can be attributed to the imposition of less stringent community quarantine measures in Q3. Based on Google Mobility Trends report³, the movement of people in the Philippines was more upbeat in Q3 than in the previous quarter, with higher visits in retail and recreation, grocery and pharmacy, parks, transit stations, and workplaces. A stable inflation environment and increased employment opportunities also supported household spending during the period.

Majority of household commodities recorded softer declines in Q3 2020 except education (-20.8 percent in Q3 2020 from -15.7 percent in Q2 2020), such as transport (-33.4 percent from -60.1 percent) and restaurants & hotels (-49.9 percent from -65.8 percent). However, growth in housing and utilities (6.7 percent from 7.6 percent), and communication (5.7 percent from 8.0 percent) decelerated during the period while food and non-alcoholic beverages registered the same 4.6 percent growth in the previous quarter.

8. **Government final consumption expenditure.** With the expiration of Bayanihan 1 in June and Bayanihan 2 still in Congress for most of the third quarter, government consumption growth slowed to 5.8 percent in Q3 2020. This was slower than the 21.8 percent expansion in Q2 2020 when the country ramped up public expenditures

³ <https://ourworldindata.org/covid-mobility-trends>

under Bayanihan 1 to address the impact of COVID-19 in the country. Growth in maintenance and other operating expenses (MOOE) remained high at 56.1 percent (from 120.8 percent in Q2)⁴, mainly on account of the continuing implementation of various COVID-19 emergency measures pursuant to the *Bayanihan to Heal as One Act* (R.A. 11469). The hiring of job order health care workers (HCWs), release of compensation for the infected and deceased HCWs due to COVID-19, and delivery of learning modules and other materials in view of the opening of classes last October 2020 also contributed to the double-digit growth in MOOE.⁵

Personnel services (PS) also decelerated to 3.0 percent in Q3 2020 from 12.8 percent in Q2 2020⁶ due to some base effects resulting from the one-off payment for the military and uniformed personnel's pension differential⁷ under the Department of National Defense (DND) in July 2019. Despite the slight deceleration, growth in PS spending continues to be supported by the continuous implementation of the second tranche of the *Salary Standardization Law of 2019* (R.A. 11466), payment for the retirement gratuity and terminal leave benefits claims, and creation or filling of positions in the Philippine National Police (PNP).⁸

9. **Capital formation.** The contraction in capital formation moderated to -41.6 percent in Q3 2020 from -53.7 percent in Q2 2020. This was largely due to the decrease in inventory drawdown in Q3 2020, compared to the substantial drawdown recorded in Q2 2020, when production halted due to lockdown restrictions.

On the other hand, total fixed capital investments fell further by 37.1 percent in Q3 2020 (from -36.5 percent in Q2 2020) due to the sustained decline in private construction (-47.9 percent in Q3 from -46.6 percent in Q2) and the significant drop in government construction (-28.0 percent from 3.6 percent). The temporary suspension of construction activities following the re-imposition of a two-week MECQ in August as well as limited construction activities amid the implementation of health and safety protocols contributed to the lackluster performance of the construction sector (see Construction section below for more details).

However, the overall decline in fixed capital formation was partly tempered by the slower reduction in durable equipment (-34.4 percent from -61.1 percent). In

⁴ Less accounts payables, figures are based on PSA Key Economic Indicator for Q3 and Q2 2020 (confidential)

⁵ https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_September_2020_for_posting.pdf

⁶ Less accounts payable, figures are based on PSA Key Economic Indicator for Q3 and Q2 2020 (confidential)

⁷ https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_July-2020_for-posting.pdf

⁸ https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_September_2020_for_posting.pdf

particular, investments in road transport (-35.6 percent from -75.7 percent), telecommunications & sound equipment (-14.7 percent from -59.0 percent), and miscellaneous equipment (-32.6 percent from -44.0 percent) improved during in Q3.

10. **Net Exports.** Growth in net exports slightly decelerated to 43.5 percent in Q3 2020 from 44.3 percent in Q2 2020. Both exports and imports contracted at a slower pace.

a. **Exports.** Total exports fell by 14.7 percent in Q3 2020, slower than the 35.8 percent drop in Q2 2020. This was driven by the significant improvement in merchandise exports (-2.2 percent from -30.8 percent) fueled by the recovery in semiconductors (3.5 percent from -20.0 percent) and other exports of goods (0.9 percent from -46.5 percent). The economic recovery in the country's top export destinations such as the USA, China, and Japan and to a lesser extent, Germany, Singapore, Malaysia, and Netherlands⁹ likely contributed to the smaller contraction in merchandise exports.

Meanwhile, exports of services (-32.8 percent in Q3 2020 from -41.2 percent in Q2 2020) also declined at a softer pace during the reference quarter as most of the subgroups registered improvements such as business services (-6.5 percent from -18.4 percent) and manufacturing services (-8.0 percent from -34.3 percent).

b. **Imports.** The contraction in total imports moderated to -21.7 percent in Q3 2020 from -37.9 percent in Q2 2020. This was on account of merchandise imports' better performance (-19.7 percent from -39.8 percent), particularly mineral fuels, lubricants, and related materials (-25.7 percent from -48.7 percent), electronic products (-4.3 percent from -38.1 percent), transport equipment (-58.6 percent from -74.3 percent), and base metal (-19.4 percent from -48.0 percent). In contrast, services imports fell further to -30.4 percent in Q3 from -27.4 percent in Q2 due to the significant drop in travel (-37.9 percent from -28.2 percent).

⁹ Bureau of Economic Analysis, Gross Domestic Product, Third Quarter 2020 (Advance Estimate), <https://www.bea.gov/news/2020/gross-domestic-product-third-quarter-2020-advance-estimate>; National Bureau of Statistics, Preliminary Accounting Results of GDP for the Third Quarter of 2020, http://www.stats.gov.cn/english/PressRelease/202010/t20201021_1795384.html; Japan Center for Economic Research, Real GDP Growth Outlook for 2020Q3 at 14.15%, <https://www.jcer.or.jp/english/esp-forecast>; Eurostat, Preliminary flash estimate for the third quarter of 2020, <https://ec.europa.eu/eurostat/documents/2995521/10663774/2-30102020-BP-EN.pdf/94d48ceb-de52-fcf0-aa3d-313361b761c5>; Ministry of Trade and Industry, Singapore's GDP Contracted by 7.0 Per Cent in the Third Quarter of 2020, <https://www.singstat.gov.sg/-/media/files/news/advgrp3q2020.pdf> (accessed on 4 November 2020)

C. Production (Supply side)

11. **Agriculture, fishery and forestry.** Growth in the agriculture sector weakened to 1.2 percent in Q3 2020 from 1.6 percent in Q2 2020. The slower growth in agriculture was largely attributed to the deceleration in the production of sugarcane (4.9 percent in Q3 2020 from 72.6 percent in Q2 2020), support activities to agriculture, forestry and fishing (2.7 percent from 7.8 percent), and corn (4.1 percent from 15.6 percent), as well as, the decline in pineapple production (-5.4 percent from 5.3 percent).

In contrast, *palay* (15.4 percent from 7.2 percent) and fishing and aquaculture (2.1 percent from 1.0 percent) posted faster growth rates during the third quarter. The double-digit increase in *palay* production can be attributed to the slightly higher projected yield per hectare of 4.12 metric tons (MT) in Q3 2020 from 4.11 MT in Q2 2020¹⁰ as well as the implementation of Plant, Plant, Plant Program and the Rice Competitiveness Enhancement Fund (RCEF)¹¹ of the Department of Agriculture (DA). Meanwhile, the improvement in fishing and aquaculture can be partly ascribed to the notable output increases in bigeye tuna (39.9 percent), *Bali sardinella* (31.5 percent) and blue crab (25.5 percent).¹²

12. **Industry.** The industry sector fell at a slower pace to -17.2 percent in Q3 2020 from -21.8 percent in Q2 2020. This was mainly driven by the moderate decline in manufacturing (-9.7 percent in Q3 2020 from -20.7 percent in Q2 2020) and mining & quarrying (-15.6 percent from -22.8 percent). Electricity, steam, water & waste management grew by 0.2 percent, reversing its 6.4 contraction in the previous quarter. Growth in construction (-39.8 percent from -30.4 percent), however, continued to worsen.

a. **Manufacturing.** Growth in the manufacturing sector registered a softer decline at -9.7 percent in Q3 2020 from -20.7 percent in Q2 2020.

Most of the subsectors posted moderate declines in Q3 2020 compared with the previous quarter. These include export-oriented manufactures like computer, electronic & optical products (-1.8 percent from -26.4 percent) and essential items such as food (-4.7 percent from -7.9 percent). Only the

¹⁰PSA Updates on July – September 2020 Palay and Corn Estimates, 01 September 2020:

<https://psa.gov.ph/content/updates-palay-and-corn-estimates-0>

¹¹ <https://www.da.gov.ph/rcef-see-recipients-attain-higher-rice-yield-more-income/>

¹² *3Q 2020 Performance of Philippine Agriculture*, <https://psa.gov.ph/sites/default/files/Q3%202020%20PAR.pdf>

manufacture of coke and refined petroleum products (-47.2 percent from -24.1 percent) recorded a steeper decline during the period.

The manufacturing Purchasing Managers' Index (PMI) of the Philippines marginally improved to 50.1 in September 2020, indicating expansion, from 48.4 in July and 47.3 in August.¹³ Based on the Monthly Integrated Survey of Selected Industries (MISSI), volume of production index for the entire manufacturing sector also fell by 10.3 percent in the third quarter, but this was an improvement from the 26.6 percent decline in the preceding quarter.

In particular, San Miguel Food and Beverage, Inc. (SMFB) reported improved performance in Q3 compared with the preceding quarters although overall net sales as of end-September remain negative.¹⁴ SMFB cited that the gradual easing of lockdown restrictions starting in June helped improve mobility and consumer confidence, which in turn translated to better sales performance.

- b. **Mining and quarrying.** Mining and quarrying output continued to decline for the fifth consecutive quarter, albeit at a softer rate of -15.6 percent in Q3 2020 from -22.8 percent in Q2 2020. This was mainly driven by lower reduction in the output of the following subsectors: crude petroleum and natural gas (-13.2 percent in Q3 2020 from -20.5 percent in Q2 2020), stone quarrying and other mining & quarrying (-25.2 percent from -46.6 percent), nickel ores (-0.9 percent from -17.9 percent), and gold and other precious metal ores (-21.3 percent from -28.2 percent). The better performance of crude petroleum and natural gas can be attributed to the softer reduction in natural gas (-5.4 percent from -15.4 percent) and Malampaya condensate production (-11.1 percent from -17.9 percent)¹⁵.
- c. **Electricity, steam, water and waste management.** The sector's growth rebounded to positive territory, 0.2 percent in Q3 2020 from -6.4 percent in Q2 2020. This could be attributed to the softer decline in electricity growth during the period (-0.2 percent from -9.3 percent), as well as the slower but still positive growth in water supply (1.7 percent from 7.9 percent), waste

¹³ Based on IHS Markit Philippines Manufacturing PMI

¹⁴ <https://www.sanmiguel.com.ph/article/smf-b-recovering-faster-from-the-pandemic-beer-liquor-volumes-bounce-back-in-q3>

¹⁵ PSA Key Economic Indicators

management (6.2 percent from 6.9 percent) and steam (2.8 percent from 4.5 percent).

The National Grid Corporation of the Philippines (NGCP) reported a slower decline in transmission energy sales to -2.2 percent in Q3 from -12.9 percent in Q2.¹⁶ Meralco, the largest distribution utility in the country, recorded an uptick in energy sales for the residential segment as online classes started and work-from-home arrangements continued. Energy sales in commercial and industrial segments also edged up compared to August as restrictions in business operations were gradually eased.¹⁷

- d. **Construction**. Construction output declined further to -39.8 percent in Q3 2020 from -30.4 percent in Q2 2020. This was largely pulled down by the steeper drop in private construction projects from firms (-38.7 percent in Q3 2020 from -23.6 percent in Q2 2020). Government construction also fell by 28.0 percent (from 3.6 percent expansion in Q2) as some capital outlay projects unlikely to be completed or implemented this year were discontinued.¹⁸

According to the Department of Budget and Management (DBM), actual infrastructure disbursement in the third quarter exceeded programmed levels by 12.1 percent, although this was lower than third quarter 2019 levels by 28 percent in real terms. This is not surprising given the catch-up spending carried out in the second half of last year after the late passage of the 2019 budget.

Approved building permits based on floor area also sustained its double-digit decline in Q3, both for residential (-66.2%) and non-residential (-68.1%) permits. CEMEX Holdings Philippines Inc. (CEMEX), which produces and markets cement and cement products, reported a decline in net sales in Q3 2020 due to lockdown measures and reduced activities due to uncertainties brought by the pandemic.¹⁹

13. **Services**. Growth in the services sector reported a softer reduction in the third quarter to -10.6 percent from -17.0 percent in Q2 2020. The improvement in the

¹⁶ PSA Key Economic Indicators

¹⁷ https://meralcomain.s3.ap-southeast-1.amazonaws.com/2020-10/9m_2020_results_briefing_reports.pdf?null

¹⁸ https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_September_2020_for_posting.pdf

¹⁹ Cemex Holdings Philippines 3Q 2020 Results (October 29, 2020)

sector's performance was largely driven by the slower decline in nearly all subsectors such as transportation and storage (-28.1 percent from -58.5 percent), and wholesale and retail trade (-5.4 percent from -13.9 percent). Stronger growth was also recorded for financial & insurance activities (6.2 percent from 5.4 percent). On the other hand, growth decelerated for public administration (4.5 percent from 7.1 percent), and information and communication (0.8 percent from 9.4 percent). Meanwhile, education saw a larger decline (-21.4 percent from -15.0 percent) during the period.

- a. **Trade and repair of motor vehicles, motorcycles, personal and household goods.** The sector continued to contract in the third quarter, albeit at a slower pace, to -5.4 percent in Q3 2020 from -13.9 percent in Q2 2020. All subsectors showed improvements compared with the previous quarter, led by retail trade (-3.3 percent from -10.6 percent), sale and repair of motor vehicles (-30.5 percent from -80.3 percent), and wholesale trade (-10.3 percent from -16.7 percent). Except during the two-week MECQ in August, non-leisure wholesale and retail business establishments were allowed to operate at 50 percent capacity in GCQ areas and 100 percent capacity in MGCQ areas in Q3.²⁰
- b. **Transport and storage.** The transport sector growth remained in negative territory at -28.1 percent in Q3 2020 although this was an improvement from -58.5 percent in Q2 2020. Only postal and courier activities rebounded with 13.6 percent growth (from -26.7 percent in Q2). The rest of the subsectors, land transport (-21.0 percent from -64.2 percent), air transport (-82.6 percent from -98.3 percent), water transport (-37.0 percent from -67.1 percent), and warehousing & storage (-12.0 percent from -17.0 percent), still contracted, albeit at a slower pace compared with Q2.

The imposition of CQs still affected the transport sector significantly in the reporting period. Under GCQ, public transportation such as road, rail, maritime, and aviation were still required to operate at a reduced operational and vehicle capacity in accordance with guidelines issued by the Department of Transportation (DOTr).²¹ In addition, August saw a two-week reversion to MECQ, which meant that public transportation was suspended again during the

²⁰ Based on DTI-MC 20-33

²¹ <https://www.officialgazette.gov.ph/downloads/2020/07jul/20200716-omnibus-guidelines-on-the-implementation-of-community-quarantine-in-the-philippines.pdf>

period.²² Gross revenue in rail transport still saw a double-digit decline at 74.3 percent in Q3 2020.²³

With respect to the air transport sector, the decline in the number of international and domestic passengers persisted in Q3, reflecting the sluggish growth in the sector despite easing quarantine restrictions. The Philippine Airlines (PAL) recently announced its plans to lay off 35 percent or 2,700 of its employees as part of its recovery plan, noting that PAL is operating at less than 15 percent of its normal number of daily flights.²⁴ Revenue per kilometer passenger in international and domestic segments of PAL contracted by 89.3 percent and 94.8 percent in Q3 2020, respectively.²⁵

- c. **Accommodation and food service activities.** The sector sustained its double-digit decline in Q3 2020 at -52.7 percent, although this is an improvement from the 67.2 percent contraction in the preceding quarter. The slower decline in the sector was largely buoyed by better performance of food and beverage service activities (-42.6 percent in Q3 2020 from -63.2 percent in Q2 2020) as extended operating hours and resumption of dine-in services in GCQ and MGCQ areas partly cushioned the brunt of the pandemic on food establishments.

Meanwhile, accommodation registered a contraction of 70.0 percent in Q3 2020 from -74.1 percent in Q2 2020. This can be attributed to the limited services provided by hotels and other accommodation establishments, which only catered to service frontliners, stranded Filipinos and foreign nationals, returning overseas Filipino workers (OFWs), non-OFWs, and locally stranded individuals under mandated quarantine.²⁶

- d. **Information and communication.** Growth of the information and communication sector decelerated but remained positive in Q3 2020 at 0.8 percent from 9.4 percent in Q2 2020. This was largely due to the slowdown in communication (4.2 percent from 13.3 percent) followed by the double-digit contraction in information & publishing (-30.7 percent from -25.3 percent).

²² <https://www.officialgazette.gov.ph/downloads/2020/07jul/20200716-omnibus-guidelines-on-the-implementation-of-community-quarantine-in-the-philippines.pdf>

²³ PSA Key Economic Indicators

²⁴ <https://mb.com.ph/2020/10/06/pal-lays-off-7000-workers/>

²⁵ PSA Key Economic Indicators

²⁶ <https://www.officialgazette.gov.ph/downloads/2020/07jul/20200716-omnibus-guidelines-on-the-implementation-of-community-quarantine-in-the-philippines.pdf>

Globe Telecom, Inc. reported that although the home broadband segment saw double-digit growth in Q3 2020, this was tempered by the drop in mobile service revenues which could be attributed to the decline in traditional voice and mobile SMS. Mobile service revenues account for 71 percent of Globe's consolidated service revenues.²⁷

- e. **Financial and insurance activities.** Growth of financial & insurance activities picked up to 6.2 percent in Q3 2020 from 5.4 percent in Q2 2020. The reversal to positive territory of non-bank financial intermediation (2.8 percent from -0.1 percent) and softer decline in insurance (-11.8 percent from -12.9 percent) offset the deceleration in banking institutions (13.7 percent from 15.7 percent) and activities auxiliary to financial intermediation (2.3 percent from 5.5 percent). The performance of the banking sector was likely dampened by tighter credit standards imposed by banks in Q3 2020 as well as the decline in loan demand from households during the period.²⁸
- f. **Real estate and ownership of dwellings.** Sustained but slower contraction was recorded for real estate and ownership of dwellings in Q3 2020, down to -22.5 percent from -29.7 percent in Q2 2020. Ownership of dwellings (1.4 percent in Q3 2020 from 1.8 percent in Q2 2020) slowed down during the period while real estate continued its decline, albeit at a slower pace (-40.0 percent from -54.5 percent).

As of end-September 2020, SM Prime Holdings, Inc. (SM Prime) reported a decline of 45 percent in its consolidated revenues from rent. This was due to the temporary closure of its malls and other businesses 'not deemed essential to daily life' during the quarantine period.²⁹ SM Prime also waived a total of PHP 17.3 billion in rentals and other charges throughout the quarantine.³⁰ Similarly, Ayala Land, Inc. (ALI) reported a drop of 48 percent in its revenues for the first nine months of the year compared to the same period in the preceding year.³¹ In particular, shopping center revenues fell by 51 percent due to mall closures, rent concessions, and lower foot traffic even after malls were reopened.³² Property

²⁷ <https://www.globe.com.ph/content/dam/globe/brie/About-us/investor-relations/documents/SEC-PSE-Disclosures/2020/Quarterly/Quarterly-Report/GLO-3Q20-17Q.pdf>

²⁸ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5588>

²⁹ SM Prime Holdings, Inc. and Subsidiaries Quarterly Report (Q3 2020)

³⁰ Ibid.

³¹ Ayala Land, Inc. Quarterly Report (Q3 2020)

³² Ibid.

development revenues were also down by 57 percent due to limited selling activities and restricted construction activities.³³

- g. **Professional and business service activities.** The professional and business service activities sector recorded better growth figures at -9.4 percent in Q3 2020 from -15.9 percent in Q2 2020 owing to the easing of quarantine measures in most areas of the country during the period. The shift from ECQ to less stringent CQs (i.e. MECQ, GCQ, MGCQ) in most areas during the third quarter allowed most subsectors to operate from 50 to 100 percent capacity, except for travel agencies, tour operators, reservation service and related activities^{34,35}.
- h. **Public administration and defense.** Growth in public administration and defense, and compulsory social activities moderated to 4.5 percent in Q3 2020 from 7.1 percent in Q2 2020. Spending on personnel services decelerated to 3.0 percent in Q3 2020 from 12.8 percent in the previous quarter, due to the release of mid-year bonus of government personnel in Q2. In addition, PS expenditures were lower than target in Q3 largely due to the program balances in the Miscellaneous Personnel Benefits Fund (MPBF) and Pension and Gratuity Fund (PGF), as well as outstanding checks in PS-heavy departments or agencies such as the Department of Education (DepEd) and the PNP.³⁶
- i. **Education.** Growth in the education sector dipped further to -21.4 percent in Q3 2020 from -15.0 percent in Q2 2020. The subdued performance of the sector can be attributed to the larger contraction in public education (-9.1 percent in Q3 2020 from -0.6 percent in Q2 2020). Similarly, private education (-42.5 percent from -41.6 percent) registered a marginally higher decline in Q3 2020, as 865 out of the 14,435 private schools in the country have decided to put off operations this year largely due to lack of enrollees.³⁷

The postponement of class openings to October 2020³⁸, mainly due to the imposition of MECQ in Metro Manila and in the provinces of Cavite, Bulacan, Laguna and Rizal during the first two weeks of August 2020, coupled with the

³³ Ibid.

³⁴ https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/COVID19Resources/COVID-19+Advisories/090620_MC2033.pdf

³⁵ Not allowed to operate under MECQ and GCQ; Allowed to operate at 50 percent capacity under MGCQ

³⁶ https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_September_2020_for_posting.pdf

³⁷ As stated by Secretary Briones during the DepEd online press conference, 14 September 2020: <https://www.facebook.com/depedtayo/videos/643710136257437>

³⁸ Official Statement on the Opening of Classes, <https://www.deped.gov.ph/2020/08/14/official-statement-on-the-opening-of-classes/>

low private school enrollment, partly dragged down the growth in education during the reference period. Moreover, loss of livelihood and concerns over safety amid the ongoing pandemic were cited as the main reasons behind parents' decision to delay enrollment.³⁹

- j. **Human health and social work activities.** The contraction in health and social work sector eased to -4.0 percent in Q3 2020 from -15.1 percent in Q2 2020. This was mainly driven by a softer reduction in private health (-14.8 percent in Q3 2020 from -36.4 percent in Q2 2020), compensating for the slowdown in public health (30.0 percent from 67.2 percent) and social work (10.2 percent from 38.6 percent).
- k. **Other services.** Other services recorded double-digit contractions for three consecutive quarters, albeit at a lesser degree in Q3 2020 at -53.4 percent from -63.0 percent in Q2 2020. This was driven mainly by the softer, yet significant, contraction in arts, entertainment and recreation (-68.0 percent in Q3 2020 from -73.4 percent in Q2 2020) and other service activities (-29.5 percent from -41.9 percent). Lower CQ restrictions in most areas during the third quarter allowed some establishments to operate from 50 to 100, while mass gatherings remain restricted.

D. Prospects and policy directions

14. **In the October 2020 World Economic Outlook⁴⁰, the International Monetary Fund (IMF) slightly raised its global growth projections to -4.4 percent in 2020,** from an earlier estimate of 4.9 percent contraction, on the back of strong government measures to stimulate the economy. This will be followed by a partial recovery of 5.2 percent in 2021. The report noted, however, that uncertainties caused by the COVID-19 pandemic continue to pose downside risk to growth especially with the resurgence of cases and imposition of lockdown measures in various countries.
15. **For the Philippines, the Development Budget Coordination Committee's (DBCC) growth assumptions remain at -4.5 percent to -6.6 percent (mid-point of -5.5 percent) for 2020 and 6.5 to 7.5 percent for 2021 and 2022.** This implies that the economy needs to grow by at least 2.5 percent in Q4 2020 to achieve the low-

³⁹ In a statement by Usec. Revsee Escobedo during the "Laging Handa" online briefing, 15 July 2020.

⁴⁰ IMF World Economic Outlook, "A Long and Difficult Ascent", October 2020

end target of the government. Meanwhile, latest projections from private and international financial institutions have a median estimate of -7.8 percent for full year 2020 (see table 2). The imposition of less stringent CQ measures across the country and the resumption of more public transport operations are expected to spur economic growth in the near term. The DBCC will meet this month to reassess the country's macroeconomic assumptions.

Table 2: Consensus GDP Growth Forecasts⁴¹

Institution	As of	2020	2021
Asian Development Bank	15-Sept	-7.3	6.5
Standard & Poor's	25-Sept	-9.5	9.6
AMRO	27-Sept	-7.6	6.6
World Bank	29-Sept	-6.9	5.3
Goldman Sachs Group	6-Oct	-7.5	9.4
Moody's Analytics	7-Oct	-9.2	7.8
ING Group	12-Oct	-9.9	2.3
Fitch Solutions	12-Oct	-9.1	6.2
BDO Unibank	12-Oct	-8.3	6.6
International Monetary Fund	13-Oct	-8.3	7.4
Nomura Securities	13-Oct	-6.6	8.1
Citigroup	30-Oct	-7.9	7.0
Bank of America Merrill Lynch	30-Oct	-7.5	4.5
Fitch Ratings	4-Nov	-8.0	9.0
UBS	5-Nov	-10.1	8.0
Standard Chartered	6-Nov	-7.6	8.8
JPMorgan Chase	6-Nov	-8.0	9.5
Barclays	6-Nov	-9.0	7.5
<i>Mean (All private sector forecasts)</i>		-7.2	7.2
<i>Median (All private sector forecasts)</i>		-7.8	7.4

16. **Recent developments show that the Philippines' economic fundamentals remain strong and managing risks going forward will allow us to open up even more of the economy safely to accelerate the recovery.** The Cabinet has recently approved measures to further open up the economy in the fourth quarter, subject to enforcing the minimum health standards and enhancing the PDITR (Prevent, Detect, Isolate, Treat, Reintegrate) strategy. Starting October, new guidelines by the Department of Trade and Industry (DTI) allow more sectors to expand capacity to between 75

⁴¹ Various sources.

and 100 percent. The Department of Transportation (DOTR), on the other hand, has also issued guidelines to increase public transport capacity using a combination of faster turnaround, service contracting, and adequate social distancing, such as the “one seat apart” rule while following the “seven commandments.”

17. **The National Task Force against COVID19 has created two inter-agency clusters: Response and Recovery to formulate and oversee the risk management strategies.**

18. **The Response Cluster, headed by the Department of Health (DOH), will ensure that health systems capacity will continue to expand, complemented by increased accessibility to health systems.** As of 8 November 2020⁴², the country has 162 licensed RT-PCR and GeneXpert laboratories that can conduct 111,605 testing per day. There are also 253,442 trained contact tracers comprising more than 28,000 contact-tracing teams and 11,000 COVID temporary treatment and monitoring facilities spread across the country.⁴³ To ensure that these facilities are optimized, increased access should be facilitated, especially in provinces far off from city centers such as those in geographically isolated and disadvantaged areas (GIDAs) or in areas where confirmed cases are on uptrend. This can help protect vulnerable members of the community and promptly target emerging outbreaks in local areas. Additionally, there is a need to continuously monitor and improve hospital care capacity to retain critical care below 70 percent and to keep hospitals and health facilities from being overwhelmed.

19. **The Recovery Cluster, headed by the National Economic and Development Authority (NEDA), engages with the business sector, workforce, civil society and the public, in general, on how to safely restart social and economic activities even with the COVID19 pandemic.** *ReCharge PH*, the framework being used by the Recovery Cluster, has identified four broad categories of intervention: (a) whole-of-society contribution to PDI strategies; (b) financial assistance and psychosocial services to mitigate losses experienced during the pandemic; (c) business and service continuity with focus on social and economic activities that promote health and build resilience; while observing (d) good governance principles.

⁴²http://ndrrmc.gov.ph/attachments/article/4036/SitRep_no_221_re_NTF_COVID19_as_of_08NOV2020.pdf

⁴³ As of 3 November 2020, there are total of 28,214 contact tracing teams with 253,465 members have been organized while COVID Temporary Treatment and Monitoring Facilities (TTMFs) have increased to 11,085; of which, 81 is in NCR, 2,098 in Luzon, 4,159 in Visayas, and 4,747 in Mindanao.

http://ndrrmc.gov.ph/attachments/article/4036/Sitrep_no_216_re_NTF_COVID19_as_of_03NOV2020.pdf

20. **Constant compliance to minimum health standards (MHS) by everyone, at any time, and wherever they are, is the key to safely reopening the economy.** The DOH has launched the *BIDA solusyon* campaign to always remind everyone about the MHS: *Bawal walang mask; I-sanitize lagi ang mga kamay; Dumistansya ng isang metro; Alamin ang tamang impormasyon.* Maintaining proper ventilation is also critical. Hence, the preference for outdoor rather than indoor venues.
21. **Government is implementing Bayanihan II to provide assistance to sectors badly affected by COVID-19, but its full release and utilization is crucial to improving 2020 GDP prospects.** As of November 3, 80 billion pesos or some 58 percent of the 140 billion pesos in regular appropriations for Bayanihan II have been released including much needed assistance that are being provided for displaced workers.
22. **Ensuring that inflation remains low and stable will help preserve the purchasing power of consumers, especially the poor.** The government needs to ensure stable supply of key agricultural products particularly in areas severely hit by typhoons and where outbreaks of African Swine Fever (ASF) persist.
23. **The challenge of continuing education during this pandemic highlights the importance of digital transformation in the education sector.** The government needs to provide continuous support to the education sector as it implements blended learning especially for “Last Mile Schools”⁴⁴. The DepEd may consider tapping and utilizing the e-learning tools and equipment offered by the private sector. In the interim, schools in GIDAs, where there are no active COVID-19 transmission cases, may consider allowing in-person classes once protocols and other safeguard measures have been put in place.
24. **Upgrading the digital and information and communication technologies (ICT) infrastructure and framework to support the accelerated pace of digitalization in the country is crucial.** However, the government may ensure that availability of ICT infrastructure also goes hand in hand with increased affordability and accessibility to all. This is vital especially with the greater use of digital platforms for payments, online learning, and work-from-home arrangements, among others. The passage of Public Service Act (PSA) could ease restrictions in the telecommunications sector, promote competition, and reduce prices for consumers. The implementation of the country’s National ID System would also reduce identification requirements and

⁴⁴ Include those that have “no electricity” and “have a travel distance of more than one hour from town center, or with difficulty of terrain. Source: https://www.deped.gov.ph/wp-content/uploads/2019/05/DM_s2019_059.pdf

potentially encourage wider adoption of digital payments. Meanwhile, the passage of a Financial Consumer Protection Law would help reduce perceived risks in electronic transactions and protect interests of stakeholders. Additionally, we suggest revisiting the policy on liberalizing access to satellite services to help address digital infrastructure gaps, particularly in areas that have low or no access to internet.

25. **Ensuring ecological integrity through proper waste management and policies on urban decongestion is crucial in building resilience.** Hazardous waste, including disposable masks, personal protective equipment (PPE) and other hospital wastes, need to be properly disposed to ensure that viruses and bacteria do not spread. Meanwhile, The *Balik Probinsya, Bagong Pag-asa* (BP2) program is being implemented to decongest the cities, especially those in tight living spaces and communities.
26. **Allowing more public transport operations will support the reopening of the economy.** Based on a survey conducted by the World Bank (WB), the NEDA, and the Department of Finance (DOF), the lack of public transportation was cited as the number one reason for decreased demand for products and services. To address this mobility issue, the government recently approved the one-seat apart policy for public transport, as well as the expansion of rail capacity from 30 to 50 percent, increase in the number of provincial buses, motorcycle taxis, shuttles, and transport network vehicle services, and acceleration in the use of service contracting to expand bus and jeepney services.⁴⁵ However, in view of the implementation of reduced load capacity in public mass transport, concerned government authorities are advised to guard against unwarranted fare hikes and ensure that prevailing rates are fair both for commuters and operators. There is also a need for a unified cashless payment system across modes of transportation to encourage contactless payments.

⁴⁵ <https://www.pna.gov.ph/articles/1118348>

27. **In the midst of the country's battle against COVID-19, the government may address the adverse impact of weather disturbances as well.** To date, seven typhoons have hit the country in Q4, with Quinta and Rolly bringing significant damages to agriculture and properties. The La Niña, which started in October 2020, is expected to last until April 2021. Hence, we underscore the need for increased investment in climate-resilient technologies and infrastructure. While the DA's Plant, Plant, Plant program and RCEF aim to boost productivity, disaster resilience may need to be integrated in these measures to improve the agriculture sector's adaptability to changing weather conditions. Construction of cold storage facilities and warehouses in strategic areas will also be helpful in extending the shelf life of agricultural products and enhancing efficiency in the value chain.
28. **The disaster management systems of both the national and local governments should be strengthened.** In the medium term, the creation of the Department of Disaster Resilience, which is part of the legislative agenda under the Philippine Development Plan (PDP) 2017-2022, and a presidential priority, may be considered. The proposed legislation will provide a clear operational framework to address the fragmented institutional functions and actions among concerned agencies for all possible calamities in the future, including public health emergencies such as pandemics. This will also improve coordination, monitoring, oversight, and implementation of disaster risk reduction and management efforts.
29. **Tighter lending standards and decline in household loans amid easing interest rates suggest that more needs to be done to reduce uncertainty in the medium-term.** Based on the *Bangko Sentral ng Pilipinas'* (BSP) Q3 2020 Senior Bank Loan Officers' Survey, close to 50 percent of respondent banks reported tighter credit standards during the reporting period.⁴⁶ This was on the back of uncertain economic outlook and reduced tolerance for risk, among others. To assuage uncertainties in the medium term, effective communication on households' financing options is important for risk management.
30. **A solid crisis communication strategy is crucial in building back market confidence and reducing uncertainty.** As consumers and businesses turn to government for short- and medium-term plans to address the pandemic, how effectively these plans are communicated becomes even more important. As CQ restrictions are eased and with more businesses allowed to operate, policies, including requirements and procedures, from the national government down to local

⁴⁶<https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5588>

government units (LGUs) may be streamlined and communicated well to the public to encourage them to participate in the gradual reopening of the economy. For instance, promoting domestic tourism will be more effective if procedures are streamlined, requirements in different local tourist destinations are consistent, and tourists feel secure that minimum health protocols are followed.

31. **The timely passage of the 2021 national budget is crucial.** This will strengthen the country's capacity to address the COVID-19 pandemic, fuel economic recovery, help communities adjust to the new normal, and hasten the rehabilitation of disaster-stricken regions. In addition, the swift implementation of measures under Bayanihan II will help facilitate the recovery of affected businesses. Implementing agencies and LGUs are advised to strengthen their absorptive capacity to ensure timely and effective delivery of public goods and services.
32. **Investment in shovel-ready projects under the Build Build Build (BBB) program, health-related facilities, and digital infrastructure will be some of the country's main growth drivers in the near term.** The continuous resumption of the BBB Program is envisioned as a key element in bringing the much-needed impetus to help the country bounce back to recovery. This can also create employment opportunities and drive productive activities across industries and sectors. In 2021, the government's infrastructure program is estimated to generate 1.7 million jobs.
33. **As the government pursues efforts to avoid virus surges while easing restrictions on businesses and transportation, the economic team is hopeful that Congress will do its part to help the economy bounce back faster by passing the pending recovery bills within the year.** NEDA recommends the swift passage of the following economic reform agenda: the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill will ensure a performance-based, targeted, timebound, and transparent grant of tax incentives to reduce uncertainties on incentives regime for prospective investors, the Government Financial Institutions Unified Initiative to Distressed Enterprises for Economic Recovery (GUIDE) Act, the Financial Institutions Strategic Transfer (FIST) Act, as well as amendments to the Public Service Act (PSA), Foreign Investment Act (FIA), and Retail Trade Liberalization Act (RTLTA). These will help accelerate the country's economic recovery and support its macroeconomic fundamentals.