

# REPORT ON NATIONAL INCOME ACCOUNTS (Q1 2021)

**Table 1. Q1 2021 Economic Performance  
(percent growth rate year-on-year, at constant 2018 prices)**

PARTICULARS	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter
	2020	2020	2021
<b>GROSS DOMESTIC PRODUCT</b>	<b>-0.7</b>	<b>-8.3</b>	<b>-4.2</b>
<b>GROSS NATIONAL INCOME</b>	<b>-1.6</b>	<b>-12.1</b>	<b>-10.9</b>
Net Primary Income	-9.3	-55.9	-75.8
<b><i>By Industrial Origin</i></b>			
Agriculture, Fishery and Forestry	-0.3	-2.5	-1.2
Industry	-2.5	-10.6	-4.7
<i>of which: Manufacturing</i>	-3.3	-4.9	0.5
Services	0.1	-8.0	-4.4
<b><i>By Expenditure</i></b>			
Household Final Consumption Expenditure	0.2	-7.3	-4.8
Gov't Final Consumption Expenditure	7.0	5.1	16.1
Capital Formation	-12.1	-32.2	-18.3
<i>of which: Fixed Capital Formation</i>	-2.0	-30.0	-20.2
Exports	-4.4	-10.2	-9.0
Imports	-7.4	-20.2	-8.3

Source: Philippine Statistics Authority (PSA)

## A. GDP and GNI

1. The Philippine economy showed further signs of improvement in Q1 2021 with a real gross domestic product (GDP) growth at -4.2 percent. This is an improvement from the 8.3 percent contraction in the previous quarter but lower than the 0.7 percent decline in Q1 2020. The economy has safely re-opened for most of Q1; however, the surge in COVID-19 cases which started in March prompted the government to impose stricter community quarantine restrictions in the National Capital Region (NCR) Plus areas (composed of Metro Manila and its adjacent provinces such as Bulacan, Cavite, Laguna, and Rizal). The latest growth outturn is lower than the -2.6 percent median forecast of private-sector analysts for the period.<sup>1</sup> On a seasonally adjusted quarter-on-quarter basis, the economy grew by 0.3 percent.
2. The Philippine economy's performance continues to lag behind its neighbors. Among major emerging market economies in the region that have already released their Q1 2021 real GDP growth, China (18.3%) and Vietnam (4.5%) both recorded expansions. Indonesia recorded a mild contraction (-0.7%) while private-sector analysts also expect the decline in Q1 real GDP growth in Malaysia (-2.6%) and Thailand (-3.5%) to be milder.<sup>2</sup>
3. The contraction in gross national income (GNI) moderated to -10.9 percent in Q1 2021 from -12.1 percent in Q4 2020. Net primary income growth significantly worsened to -75.8 percent in Q1 from -55.9 percent in the previous quarter, as both inflows of compensation (-69.7%) and property income (-46.1% weakened.
4. On the demand side, the slower contraction in Q1 GDP growth was mainly driven by improvements in investments and private consumption and strong growth in government spending. Business sentiment fared better in Q1 as more Filipinos adapt to the new normal along with the initial roll-out of the

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<sup>1</sup> <https://www.bworldonline.com/q1-2021-gdp-growth-forecast/> accessed on 10 May 2021

<sup>2</sup> Based on Bloomberg contributor composite forecasts. Accessed on 10 May 2021

government's vaccination program. Investments in fixed capital (-20.2% in Q1 2021 from -30.0% in Q4 2020) improved, particularly in construction (-27.2% from -36.0%) and durable equipment (-13.8% from -24.5%). Household spending also recorded a milder contraction (-4.8% from -7.3%) while government spending significantly increased during the period (16.1% from 5.1%). Overall, domestic demand growth improved to -5.2 percent in Q1 from -12.1 percent in Q4. Meanwhile, total exports declined at a slower pace (-9.0% from -10.2%), although this was offset by the softer reduction in imports (-8.3% from -20.2%), resulting in a slowdown in the growth of net exports (6.1% from 38.9%).

5. On the supply side, the resumption of more business operations in Q1 is reflected in the positive growth in manufacturing (0.5% in Q1 2021 from -4.9% in Q4 2020) and slower decline in construction (-24.2% from -26.8%), which mainly contributed to the industry sector's improved performance (-4.7% from -10.6%). For services (-4.4% from -8.0%), accommodation and food service activities (-20.6% from -45.6%), education (-1.0% from -12.3%), and public administration and defense (7.5% from 1.3%) contributed most to the improvement. The agriculture sector also registered moderate contraction (-1.2% from -2.5%) during the reference quarter. However, the livestock industry saw a -23.2 percent drop as the African Swine Fever (ASF) continues to hit the hog industry hard. To address this, the government has been decisive in lowering the tariff rates and increasing the minimum access volume for pork as a temporary measure to address the supply deficit and bring down soaring pork prices.

## B. Expenditure (Demand-side)

6. **Household final consumption expenditure.** Household spending improved in Q1 to -4.8 percent from -7.3 percent in the previous quarter. This can be attributed to the easing of community quarantine (CQ) restrictions in some areas as well as the re-opening of domestic tourism in low-risk areas. As a result, slower contractions were recorded for spending on restaurants and hotels (-16.1% in Q1 2021 from -42.7% in Q4 2020), recreation and culture (-32.5% from -49.6%), alcoholic beverages and tobacco (-11.9% from -18.9%), and miscellaneous goods and services (-0.6% from -1.6%). Based on the latest Google Mobility Trend report,<sup>3</sup> aside from essential travels to grocery, pharmacy, and workplaces, visits to retail and recreational establishments and parks also increased in Q1 relative to the previous quarter.

Meanwhile, household spending on education inched up by 0.3 percent in Q1 from -14.6 percent in Q4, following the enrolment of students for the second semester of academic year 2020-2021. Expenditures on essential services such as health (4.8% from -2.9%) and communication (6.2% from 4.5%) also improved during the reference quarter.

On the other hand, purchases of food and non-alcoholic beverages (2.2% from 5.3%) and housing, water, electricity, gas, and other fuels (0.3% from 6.3%) slowed down in Q1 2021. This may be partly due to the elevated inflation in Q1 2021 owing to the supply shock for meat products and slower decline in electricity rates during the period.

7. **Government final consumption expenditure.** Growth in government spending accelerated to 16.1 percent in Q1 2021 from 5.1 percent in Q4 2020 and 7.0 percent in Q1 2020. This could be attributed to the implementation of various COVID-19 response and recovery measures in line with the extended validity of the *Bayanihan* II until June 2021 and the 2020 General Appropriations Act (GAA) until year-end.

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<sup>3</sup> <https://ourworldindata.org/covid-mobility-trends> accessed on 10 May 2021

In detail, growth of maintenance and other operating expenses (MOOE) increased to 39.8 percent in Q1 from 31.5 percent in Q4,<sup>4</sup> owing to health-related responses and augmentation for the operations of the Department of Health (DOH), the World Health Organization (WHO) solitary vaccine trial of the Department of Science and Technology (DOST), and the payment for airfare expenses and hotel accommodations of returning Overseas Filipino Workers (OFWs).<sup>5</sup> Expenditures under the *Bayanihan* II such as the rice program and research and development, purchase of testing kits, freight costs and delivery of vaccines, emergency employment programs of the Department of Labor and Employment (DOLE), and welfare programs for OFWs also contributed to the higher MOOE.<sup>6</sup>

Likewise, disbursements for personnel services went up by 7.8 percent in Q1, after dropping by 0.8 percent in the preceding quarter, owing to releases of the service recognition incentive for the Department of Education (DepEd) employees, as well as the 2018 pension differential of retired military and uniformed personnel.<sup>7</sup>

8. ***Capital formation.*** Supported by more upbeat business sentiment,<sup>8</sup> the country's gross capital formation declined at a slower rate of 18.3 percent in Q1 2021 from -32.2 percent in Q4 2020. This was primarily driven by the weaker contraction in fixed capital investments (-20.2% in Q1 2021 from -30.0% in Q4 2020) and a substantial increase for changes in inventories (39.7% from -161.2%).

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<sup>4</sup> Less accounts payables, figures are based on PSA Key Economic Indicators for Q1 2021 and Q4 2020

<sup>5</sup> NG Disbursement Performance for the Period January to February 2021 from the DBM. Retrieved from [https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements\\_Jan-Feb-2021\\_for-posting.pdf](https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements_Jan-Feb-2021_for-posting.pdf) Accessed on 10 May 2021

<sup>6</sup> Based on the advance information from the Department of Budget and Management on March 2021 Disbursements (subject to change and official publication)

<sup>7</sup> NG Disbursement Performance for the Period January to February 2021 from the DBM. Retrieved from [https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements\\_Jan-Feb-2021\\_for-posting.pdf](https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements_Jan-Feb-2021_for-posting.pdf) Accessed on 10 May 2021

<sup>8</sup> [https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/19/BES\\_1qtr2021.pdf](https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/19/BES_1qtr2021.pdf) accessed on 10 May 2021

Construction growth improved to -27.2 percent in Q1 2021 from -36.0 percent in the previous quarter, buoyed by the expansion in public construction (26.2% from -17.7%) as construction activities were generally allowed given the more relaxed community quarantines for most of Q1 (see Construction section below for more details). Likewise, investments in durable equipment (-13.8% from -24.5%) improved, mainly due to the slower decline in transport equipment (-25.1% from -34.3%). The country's largest maritime company 2GO acquired a new roll-on or roll-off passenger ferry in March 2021<sup>9</sup> as it ventures into supply chain solutions,<sup>10</sup> while two other vessels arrived for FastCat in February 2021.<sup>11</sup>

In addition, investments in intellectual property products (1.2% from -4.2%), breeding stock and orchard development (-3.2% from -9.5%), and valuables (-14.0% from -43.9%) also performed better during the period.

9. **Net Exports.** Growth in net exports decelerated to 6.1 percent in Q1 2021 from 38.9 percent in Q4 2020 and 15.5 percent in Q1 2020. Total exports recorded a softer decline during the period but was offset by improvements in total imports.

**Exports.** The decline in total exports growth moderated to 9.0 percent in Q1 2021 from -10.2 percent in the preceding month. In particular, after six consecutive quarters of contraction, merchandise exports inched up by 2.4 percent in Q1 mainly driven by higher exports of semiconductors (12.9% from 2.9%). The double-digit increase in semiconductors can be attributed to the higher demand for electronics and subcomponents amid tight global supply.<sup>12</sup> According to the Semiconductor Industry Association (SIA), worldwide sales of semiconductors grew by 17.8 percent y-o-y during the

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<sup>9</sup> <https://www.shippax.com/en/news/stena-nova-sold-to-philippines-ferry-giant.aspx> accessed on 10 May 2021

<sup>10</sup> <https://www.bworldonline.com/2go-launches-supply-chain-solution/> accessed on 10 May 2021

<sup>11</sup> <https://www.manilatimes.net/2021/02/24/business/maritime-business/fastcat-welcomes-arrival-of-two-new-vessels/844633/> accessed on 10 May 2021

<sup>12</sup> <https://hbr.org/2021/02/why-were-in-the-midst-of-a-global-semiconductor-shortage#> accessed on 10 May 2021

reference quarter,<sup>13</sup> with improved sales recorded in the major markets of Hong Kong (13.9%) and China (51.2%).<sup>14</sup>

Growth of exports of services (-21.0% from -24.9%) improved slightly but remained negative as the sector's performance was pulled down by travel activities (-97.8% from -92.2%) and business services (-4.3% from -1.6%). Based on the data from the Department of Tourism (DOT), visitor arrivals plummeted by 97.9 percent y-o-y in Q1 2021 as travel restrictions are still being implemented globally.

**Imports.** The contraction in total imports moderated to -8.3 percent in Q1 2021 from -20.2 percent in Q4 2020. Merchandise imports (-1.6% from -13.3%) fell at a slower pace largely due to the uptick in electronic products (15.6% from 8.0%) and a smaller drop in transport equipment (-7.3% from -34.8%). Imports of services (-33.2% from -42.4%) likewise recorded a slower decrease as insurance and pension services (17.4% from -21.1%) and charges for the use of intellectual property (3.4% from -26.1%) rebounded to positive territory.

## C. Production (Supply-side)

10. **Agriculture, fishery, and forestry.** The agriculture sector posted better growth in Q1 2021, albeit still negative, at -1.2 percent from -2.5 percent in Q4 2020. This slight improvement in agriculture output is largely driven by higher *palay* production (8.6% in Q1 2021 from -1.1% in Q4 2020), fishing and aquaculture (0.6% from -4.3%), and corn (6.4% from 0.4%). Favorable weather conditions and the onset of the harvest season supported the higher production of crops (e.g., *palay*, corn, coffee, and cacao), while the lifting of the Visayan Sea fishing ban<sup>15</sup> allowed for higher fisheries production,

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<sup>13</sup> <https://www.semiconductors.org/q1-global-semiconductor-sales-increase-3-6-over-previous-quarter/#:~:text=WASHINGTON%E2%80%94April%2030%2C%202021%E2%80%94,the%20first%20quarter%20of%202020>, accessed on 10 May 2021

<sup>14</sup> Data from PSA

<sup>15</sup> <https://www.bfar.da.gov.ph/BFARnews?id=416> accessed on 10 May 2021

particularly from mudcrabs (20.2%), skipjack (19.0%), slipmouth (15.7%) and *bali sardinella* or *tamban* (8.1%).<sup>16</sup>

However, these gains were offset by the significant decline in livestock (-23.2% from -13.0%) as ASF continues to hit the hog industry hard. To address this, the government has been decisive in lowering the tariff rates and increasing the minimum access volume for pork as a temporary measure to address the supply deficit and bring down soaring pork prices. As of 23 April 2021, according to the Department of Agriculture-Bureau of Animal Industry (DA-BAI), the number of pigs publicly culled or depopulated already reached 471,416 or an equivalent of 2.3 percent of total hog production in 2020.<sup>17</sup>

11. **Industry.** The decline in the industry sector's growth eased to -4.7 percent in Q1 2021 from -10.6 percent in Q4 2020, albeit slower than the -2.5 percent recorded in Q1 2020. All sectors improved from the previous quarter with manufacturing (0.5% in Q1 2021 from -4.9% in Q4 2020) and electricity, steam, water and waste management (1.9% from 0.6%) posting positive growth, while construction (-24.2% from -26.8%) and mining and quarrying (-1.0% from -16.4%) reported a slower decline.

a. **Manufacturing.** Growth in the manufacturing sector rebounded to positive territory at 0.5 percent in Q1 2021 from -4.9 percent in Q4 2020 and -3.3 percent in Q1 2020. This is the first time the sector posted positive growth after four consecutive quarters of decline.

The majority of manufacturing subsectors posted better growth performance in Q1 compared to the previous quarter such as computer, electronic and optical products (17.5% in Q1 2021 from -0.2% in Q4 2020), other non-metallic products (7.5% from -14.6%), other manufacturing (11.5% from -11.7%), and printing and reproduction of

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<sup>16</sup> Q1 2021 Value of Production in the Philippine Agriculture and Fisheries Report, <https://psa.gov.ph/content/agricultural-production-dropped-33-percent-first-quarter-2021> accessed on 10 May 2021

<sup>17</sup> Bureau of Animal Industry (BAI) – ASF Updates as of April 23, 2021 and NEDA-ANRES estimates



recorded media (9.4% from -23.0%). On the other hand, manufactures of essential commodities such as food products (-0.6% from -1.6 %) and beverages (-1.3% from -7.3%) recorded a slower decline compared to the preceding quarter, benefitting largely from more relaxed quarantine measures during the period.

The sector's performance also reflects the improved sentiment of business owners during the quarter. The business confidence index increased to 17.4 percent in Q1 2021 from 10.6 percent in Q4 2020, mainly backed by easing quarantine restrictions, the observation that people are adapting to the "new normal", increase in the volume of sales and orders, timely rollout of the vaccine program, and the development of new businesses and marketing strategies.<sup>18</sup> Additionally, the country's Purchasing Managers' Index (PMI) averaged 52.4 in the first quarter, higher than the 50 neutral threshold, which signals improved operating conditions.

- b. ***Mining and quarrying.*** The mining and quarrying sector shrank by only 1.0 percent in Q1 2021 after a 16.4 percent decline in the previous quarter. This was largely driven by the significant increase in coal production (42.1% in Q1 2021 from -29.0% in Q4 2020) and gold and other precious metal ores (7.7% from -5.4%). The mining sector is allowed to operate between 50 percent to 100 percent capacity in general community quarantine (GCQ) and modified GCQ areas during the period.<sup>19</sup>
- c. ***Electricity, steam, water and waste management.*** The sector grew by 1.9 percent in Q1 2021, up from 0.6 percent in Q4 2020 although slower than the 4.9 percent recorded in Q1 2020. The faster growth in Q1 could be attributed to the accelerated growth of electricity (2.4% in Q1 2021 from 0.2% in Q4 2020) and steam (0.8% from -1.2%), which offset the decline

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<sup>18</sup> [https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/19/BES\\_1qtr2021.pdf](https://www.bsp.gov.ph/Lists/Business%20Expectations%20Report/Attachments/19/BES_1qtr2021.pdf) accessed on 10 May 2021

<sup>19</sup> <https://doh.gov.ph/sites/default/files/health-update/OMNIBUS-Guidelines-with-Amendments-as-of-February-18-2021.pdf> accessed on 10 May 2021

in water supply (-0.4% from 2.2%), and slower growth in waste management (5.3% from 9.0%).

Based on Meralco's latest financial and operating results,<sup>20</sup> gross revenues rose by 6.8 percent in Q1 2020, an improvement from -20.8 percent in Q4 2020.<sup>21</sup> The company observed stronger energy sales growth in residential and industrial segments during the period, while commercial segments continued to lag due to the impact of the pandemic.

- d. **Construction.** Construction growth slightly improved to -24.2 percent in Q1 2021 from -26.8 percent in Q4 2020, largely driven by the rebound in public construction (26.2% in Q1 2021 from -17.7% in Q4 2020). In Q1 2021, only major public construction projects were allowed to operate at 100 percent capacity in enhanced community quarantine (ECQ) while all public and private construction projects could operate under GCQ and MGCQ, subject to specific guidelines issued by the Department of Public Works and Highways (DPWH).<sup>22</sup>
12. **Services.** Growth in the services sector recorded a softer reduction of -4.4 percent in Q1 2021 from -8.0 percent in Q4 2020, albeit lower than the 0.1 percent expansion in Q1 2020. All subsectors posted better performance in Q1 led by the weaker contraction in accommodation and food service activities (-20.6% in Q1 2021 from -45.6% in Q4 2020) and education (-1.0% from -12.3%). Several subsectors also recorded faster growth in Q1 such as public administration and defense (7.5% from 1.3%), human health and social work (11.7% from 1.5%), financial and insurance activities (5.2% from 4.3%), and information and communication (6.3% from 1.9%). The rest of the subsectors posted slower declines such as professional and business services (-6.5% from -8.9%), other services (-38.0 %from -43.4%), wholesale and retail trade (-3.9% from -4.0%),

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<sup>20</sup> [https://meralcomain.s3.ap-southeast-1.amazonaws.com/2021-05/q1\\_2021\\_results\\_briefing\\_reports\\_1.pdf?null](https://meralcomain.s3.ap-southeast-1.amazonaws.com/2021-05/q1_2021_results_briefing_reports_1.pdf?null) accessed on 10 May 2021

<sup>21</sup> [https://meralcomain.s3.ap-southeast-1.amazonaws.com/2021-03/fy\\_2020\\_results\\_briefing\\_reports\\_1.pdf](https://meralcomain.s3.ap-southeast-1.amazonaws.com/2021-03/fy_2020_results_briefing_reports_1.pdf) accessed on 10 May 2021

<sup>22</sup> <https://doh.gov.ph/sites/default/files/health-update/OMNIBUS-Guidelines-with-Amendments-as-of-February-18-2021.pdf> accessed on 10 May 2021

real estate and ownership of dwellings (-13.2% from -14.9%), and transport and storage (-18.8% from -20.1 %).

- a. **Trade and repair of motor vehicles, motorcycles, personal and household goods.** The growth of the sector remained in the negative territory at -3.9 percent in Q1 2021, slightly better than the -4.0 percent in the previous quarter. Among its subsectors, only the sale and repair of motor vehicles and motorcycles improved during the quarter, expanding by 3.1 percent from -32.9 percent in the preceding period. Car sales during the quarter reverted to positive territory after recording negative growth for four consecutive quarters in 2020. Likewise, sales for passenger vehicles grew by 22.9 percent (from -19.6% in Q4 2020) while commercial vehicles grew by 3.6 percent (from -32.5%).

In contrast, both wholesale trade (-10.1% from -8.7%) and retail trade (-2.7% from -1.5%) continued to perform poorly, as operations remain affected by CQ restrictions. For instance, Robinsons Retail Holdings, Inc. (RRHI) reported nearly flat income growth in Q1 2021 at 0.3 percent.<sup>23</sup> Lower sales performance was partly due to the high base last year due to panic buying of essential goods in line with the imposition of the ECQ along with varying levels of CQs for the year. Both supermarket and department store sales were down by 13.5 percent and 30.3 percent, respectively. RRHI also reported that the closure of stores in NCR Plus starting March 29 came right before Easter when higher demand for summer merchandise was expected.

- b. **Transport and storage.** The growth of the sector showed marginal improvements at -18.8 percent in Q1 2021 relative to the -20.1 percent in Q4 2020, although slower than the -11.4 percent in Q1 2020. Growth in warehousing and storage and support activities for transportation rebounded to positive territory (3.1% in Q1 2021 from -5.3% in Q4 2020), while air transport (-66.9% from -76.5%) experienced a slower decline. Meanwhile, growth in postal and courier activities (5.0% from 7.8%) decelerated in Q1

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<sup>23</sup> Robinsons Retail Holdings, Inc. and Subsidiaries Quarterly Report

while land transport (-14.1% from -13.3%) and water transport (-35.4% from -28.5%) further declined.

Due to CQ restrictions, public transportation was allowed to operate only at a reduced operational and vehicle capacity in accordance with guidelines issued by the Department of Transportation (DOTr).

- c. **Accommodation and food service activities.** The sector's growth remained in negative territory but improved to -20.6 percent in Q1 2021 from -45.6 percent in Q4 2020. Both food and beverage service activities (-8.3% in Q1 2021 from -36.0% in Q4 2020) and accommodation (-45.0% from -62.5%) registered smaller contractions during the quarter.

Under GCQ, dining and restaurants were allowed to operate at 50 percent capacity or higher for dine-in services, subject to minimum public health standards. Hotel and other accommodation establishments were also allowed to operate subject to the accreditation of the DOT.

- d. **Information and communication.** The information and communication sector growth accelerated to 6.3 percent in Q1 2021 from 1.9 percent in Q4 2020 as both communication (6.7% from 3.6%) and publishing and information (2.2% from -15.9%) posted faster growth during the quarter.

Globe Telecom, Inc. reported a 3.0 percent growth in its consolidated revenues for the first three months of the year, owing largely to data revenue from the broadband segment.<sup>24</sup> This could be attributed to the increase in demand for data connectivity in response to flexible work arrangements, entertainment, e-commerce, and education. Similarly, PLDT, Inc. reported a 10 percent increase in its consolidated revenues, observing that the exemption of the telecommunications sector from lockdowns helped its installation and repair teams to remain mobile and ramp up their services.<sup>25</sup>

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<sup>24</sup> Globe Telecom, Inc. Quarterly Report

<sup>25</sup> PLDT, Inc. Quarterly Report

- e. **Financial and insurance activities.** Growth in the sector increased further to 5.2 percent in Q1 2021 from 4.3 percent in the previous quarter, but slightly lower than the 8.8 percent growth in Q1 2020. This was mainly driven by the accelerated growth in insurance and pension funding (3.3% from -5.0%), non-banks (4.1% from 3.3%), and activities auxiliary to financial services (2.2% from 1.8%). The availability, accessibility, and reach of digital banking and insurance service platforms (e.g. through online shopping apps)<sup>26</sup> coupled with the increased demand for insurance amid uncertainties brought by the pandemic<sup>27</sup> may have contributed to the expansion of the sector.

On the other hand, growth in banking institutions (6.3% in Q1 2021 from 8.5% in Q4 2020) decelerated during the period as bankers have remained cautious and continued to tighten overall credit standards for both enterprises and households.<sup>28</sup>

- f. **Real estate and ownership of dwellings.** The decline in the real estate sector growth eased slightly to -13.2 percent in Q1 2021 from -14.9 percent in Q4 2020, but still lower than the -2.9 percent in Q1 2020. This could be attributed to the slower contraction in real estate activities (-26.6% from -28.7%). Project completion of new residential and office spaces and the increase in demand from e-commerce, outsourcing, and data centers slightly tempered the vacancies as a result of weak demand from Philippine Offshore Gaming Operators (POGOs).<sup>29</sup>
- g. **Professional and business service activities.** The sector's performance improved to -6.5 percent in Q1 2021 from -8.9 percent in the preceding quarter. Business processing outsourcing (BPO) establishments were allowed to operate at full capacity despite the lockdowns. Health care, e-commerce

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<sup>26</sup> Philippine News Agency, <https://www.pna.gov.ph/articles/1131878> accessed on 10 May 2021

<sup>27</sup> <https://www.manulife.com.ph/en/individual/about-us/newsroom/latest-news/financial-planning-amid-COVID-19.html> accessed on 10 May 2021

<sup>28</sup> <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5753> accessed on 10 May 2021

<sup>29</sup> <https://www.colliers.com/en-ph/research/colliers-quarterly-property-market-report-q1-2021-philippines> accessed on 10 May 2021

and retail, banking, finance and administration, and insurance also supported the sector's revenue growth.

- h. **Public administration and defense.** The growth in public administration and defense and compulsory social activities picked up to 7.5 percent in Q1 2021 from 1.3 percent in Q4 2020 and 5.5 percent in Q1 2020. Actual disbursements for personnel services increased by 7.8 percent in Q1 after falling by 0.8 percent in the preceding quarter, as the service recognition incentive for the employees of DepEd were released, along with the 2018 pension differential of retired military and uniformed personnel.<sup>30</sup>
- i. **Education.** Growth in the education sector improved to -1.0 percent in Q1 2021 from -12.3 percent in the preceding period. Public education posted a 6.0 percent expansion in Q1, a reversal from the -6.2 percent drop in the previous quarter. In addition, private education also recorded a softer contraction (-14.4% from -21.7%) for the reference quarter. In March, DepEd scheduled a two-week remediation and In-Service Training (INSET) activities to bridge learning gaps among students.<sup>31</sup>

Moreover, while the pilot implementation of limited face-to-face classes of public schools has been postponed, face-to-face classes for health-related degree programs of both State Universities and Local Colleges (SUCs) and private Higher Education Institutions (HEIs) have been permitted by the Commission on Higher Education (CHED).<sup>32</sup>

- j. **Human health and social work activities.** The health and social work sector recorded a double-digit growth at 11.7 percent in Q1 2021 from 1.5 percent in Q4 2020. This can be attributed to the faster increase in public human

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<sup>30</sup> NG Disbursement Performance for the Period January to February 2021 from the DBM. Retrieved from [https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements\\_Jan-Feb-2021\\_for-posting.pdf](https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements_Jan-Feb-2021_for-posting.pdf) accessed on 10 May 2021

<sup>31</sup> <https://www.deped.gov.ph/2021/03/03/deped-amends-sy-2020-2021-calendar-to-provide-learning-interventions/> accessed on 10 May 2021

<sup>32</sup> CHED Joint Memorandum Circular No. 2021-001, <https://ched.gov.ph/wp-content/uploads/CHED-DOH-Joint-Memorandum-Circular-No.-2021-001-Guidelines-on-the-Gradual-Reopening-of-Campuses-of-Higher-Education-Institutions-for-Limited-Face-to-Face-Classes-during-the-COVID-19-Pandemic.pdf> accessed on 10 May 2021

health (48.0% in Q1 2021 from 36.7% in Q4 2020) and social work activities (36.5% from 21.9%), complemented by the lower contraction in private human health (-4.2% from -14.4 %).

Under the government's Prevent, Detect, Isolate, Treat, and Recover (PDITR) strategy, public health facilities have been scaled up to accommodate more COVID-19 patients. As of 30 March 2021, a total of 635 quarantine facilities with an equivalent capacity of 23,241 beds have been completed.<sup>33</sup>

- k. **Other services.** Growth in other services declined at a softer pace to -38.0 percent in Q1 2021 from -43.4 percent in Q4 2020, owing to the slight improvement in arts, entertainment and other services (-45.7% in Q1 2021 from -51.8% in Q4 2020) and other service activities (-26.5% from -28.6%).

Indoor and outdoor tourist attractions, personal care services, and limited social events, among others are only allowed to operate in GCQ and MGCQ areas, at 50 to 75 percent operational capacity.

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<sup>33</sup> Taken from the presentation of DPWH Secretary Mark A. Villar during the “*Briefing on the Covid-19 response of the government regarding mass testing, contact tracing, vaccination, isolation facilities, therapeutics, and the state of health human resource*” of the House Committee on Health last 30 March 2021.

## D. Prospects and policy directions

13. *The International Monetary Fund (IMF)<sup>34</sup> revised its global economic growth projections upwards to 6.0 percent in 2021 and 4.4 percent in 2022 from its previous estimates of 5.5 percent and 4.2 percent in 2021 and 2022, respectively. Stronger recovery is expected on the back of additional fiscal support and widespread vaccination in several major economies. Nevertheless, uncertainty remains high due to the pandemic, the effectiveness of policy support to bridge a vaccine-powered normalization, and the evolution of financial conditions.*
  
14. *For the Philippines, the Development Budget Coordination Committee (DBCC) affirmed a growth projection of 6.5 to 7.5 percent for 2021 in December 2020. They will revisit the country's macroeconomic assumptions in view of the recent economic performance and imposition of stricter community quarantines from March until May 2021. While the past seven weeks of ECQ and MECQ in the NCR Plus area will pose a downside risk to growth, actions in the next eight months can reverse these initial losses. The private sector forecasts show signs of recovery, with an average growth estimate of 5.9 percent in 2021 (See Table 2).*

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<sup>34</sup> International Monetary Fund, World Economic Outlook, April 2021.



**Table 2: Consensus GDP Growth Forecasts<sup>35</sup>**

Institution	As of	2021	2022
Fitch Ratings	4-May	6.3	8.3
Goldman Sachs Group	3-May	6.2	7.4
Bank of America Merrill Lynch	30-Apr	5.3	6.8
Barclays	30-Apr	7.5	8.0
Citigroup	30-Apr	4.9	6.8
JPMorgan Chase	30-Apr	6.8	5.7
Standard Chartered	30-Apr	6.1	6.5
UBS	30-Apr	6.7	9.4
Asian Development Bank	28-Apr	4.5	5.5
Nomura Securities	13-Apr	5.4	8.7
BDO Unibank	7-Apr	6.0	6.4
International Monetary Fund (IMF)	6-Apr	6.9	6.5
ING Group	1-Apr	5.0	4.2
World Bank	26-Mar	5.5	6.3
<i>Mean</i>		<b>5.9</b>	<b>6.9</b>
<i>Median</i>		<b>6.1</b>	<b>6.7</b>

15. *It is necessary to intensify the implementation of the PDITR strategies for the gradual and safe re-opening of the economy.* While daily cases have subsided in the past weeks following the imposition of stricter community quarantines, the government continues to intensify the implementation of the PDITR strategies and rollout of vaccines, particularly in high-risk areas such as the NCR Plus. Meanwhile, the positivity rate remains elevated despite the increase in the country's testing output of over 60,000 tests per day.<sup>36</sup>

<sup>35</sup> Various sources.

<sup>36</sup> <https://doh.gov.ph/covid19tracker> accessed on 10 May 2021

16. ***The Philippines will enhance the automated contact tracing system being implemented across local government units (LGUs).*** The government and the private sector are working together to improve contact tracing using automated means, such as the prompt sending of a text message or SMS to close contacts to inform them of the need to quarantine. With this, the government can bring down the gap between virus detection and isolation from 7 to 5.5 days. This could potentially reduce cases by around 51 percent, according to epidemiological models.
  
17. ***The construction of more isolation centers and modular hospitals is also being fast-tracked to decongest hospitals with severe and critical COVID-19 patients.*** The DPWH reported that there are 816 facilities with 27,280-bed capacity in the pipeline.<sup>37</sup> The LGUs in low-risk areas are also advised to keep their temporary treatment and monitoring facilities open and on standby. DOH data shows that between March 28 and May 10, 2021, intensive care unit (ICU) beds in the country increased from 2,334 to 3,084, while total hospital beds increased from 30,602 to 33,584. In NCR, where the spike is the highest, ICU beds increased from 781 to 1,262 and total beds increased from 8,847 to 9,779.
  
18. ***Accelerate the implementation of the government's Vaccine Deployment Program to regain market confidence.*** As of May 9, 2021, 7.6 million doses of COVID-19 vaccines have already arrived in the Philippines, 53 percent of which were already distributed across 3,623 vaccination sites in the country. A total of 2.4 million doses were administered, with a 7-day average of 65,861 individuals being vaccinated per day.<sup>38</sup> According to the National Task Force against COVID-19, some 27.7 million more doses from various sources are expected to arrive by July 2021.

The timely roll-out of the country's vaccination program, especially in high-risk and densely populated areas, is needed to improve market sentiment. The vaccination of the next priority A4 sectors, which consists mainly of economic

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<sup>37</sup> <https://www.pna.gov.ph/articles/1139048> accessed on 10 May 2021

<sup>38</sup> Vaccine Statistics as of May 4, 2021. Updates from the Department of Health and National Task Force

frontliners, will facilitate the safe resumption of businesses. The government will also intensify its information campaign to encourage more Filipinos to get vaccinated. Transportation and logistical preparations and pre-registration of vaccine recipients can also be prioritized by the local health units.

19. ***Fully implement the recovery program.*** The 2021 GAA is 9.9 percent higher than the previous year's 22.5 percent of GDP,<sup>39</sup> and will serve as the government's financial blueprint to recovery from the COVID-19 pandemic, alongside the extended validity of the 2020 GAA and *Bayanihan* II. Hence, implementing agencies and LGUs are advised to improve their absorptive capacities to effectively carry out these programs and projects. Meanwhile, the Financial Institutions Strategic Transfer Act (FIST) Law (RA 11523), signed on February 16, 2021, will let banks offload souring loans and assets and allow them to extend more credit to COVID-hit sectors in need of assistance. The enactment of the Corporate Recovery and Tax Incentives for Enterprises (CREATE), which lowers corporate income tax rates, will improve the country's capacity to attract foreign direct investments (FDI). At the same time, it will also ensure a more performance-based, targeted, time-bound, and transparent tax incentives system.
20. ***Fast-track the implementation of the National Employment Recovery Strategy (NERS) 2021-2022 to assist the labor sector.*** The upskilling and retooling programs listed in the NERS action plan will enhance and match the workers' capabilities for in-demand jobs under the 'new normal.' The government is also providing support for informal workers and other vulnerable sectors through the different livelihood programs of DOLE, Department of Social Welfare and Development (DSWD), and Department of Trade and Industry (DTI).
21. ***Rising food prices need to be addressed, to prevent a wage-price spiral.*** The government has been decisive in lowering the tariff rates and increasing the minimum access volume for pork as a temporary measure to address the supply deficit and bring down soaring pork prices.

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<sup>39</sup> <https://www.dbm.gov.ph/index.php/budget-documents/2021/2021-people-s-budget/2021-budget-at-a-glance-enacted-english> accessed on 10 May 2021

22. ***Strengthen the agriculture sector by boosting hog repopulation efforts in areas affected by the ASF and prepare for the nearing onset of the rainy season.*** The government's ASF mitigation measures complemented with sentinelling<sup>40</sup> and repopulation efforts under the Integrated National Swine Production Initiatives for Recovery and Expansion (INSPIRE) program are critical to rehabilitate and facilitate recovery in the swine industry. Moreover, the DA-BAI's participation in the ASF vaccine trials with Zoetis (a global health company)<sup>41</sup> and more funding towards research and development of similar vaccines are key steps to end the ASF outbreak and prevent other emerging animal diseases.

Meanwhile, with a growing demand for high-value crops (e.g., *adlai* or adlay millet,<sup>42</sup> cacao, and coffee beans) due to shifting consumer preferences to healthier and premium food and beverage alternatives, the government may need to provide additional support to the DA's High-Value Crops Development Program<sup>43</sup> and explore entry or expand presence in niche markets.

Based on the latest climate outlook of the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA), 8 to 11 tropical cyclones may enter the Philippines from May to October 2021.<sup>44</sup> With the onset of the rainy season (usually within the second half of May to the first half of June), the government can begin preparations for the needed agricultural support to mitigate losses and ensure an ample supply of agriculture products.

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<sup>40</sup> The said protocol is a science-based approach that determines the presence of a particular disease (in this case ASF) and if areas can be elevated to an ASF-free status and released from quarantine before proceeding with the DA's restocking and repopulation phase. (DA Administrative Order No. 06 s. 2021) Currently, the Department of Agriculture has commenced with its sentinelling protocol in Batangas, Benguet, and Camarines Sur, providing participating hog raisers with five 'sentinel' piglets, feeds, veterinary drugs, biologics, and anti-viral agents during the six-month fattening period. (<https://www.da.gov.ph/agri-dept-distributes-sentinel-pigs-as-prelude-to-repopulation/> accessed on 10 May 2021)

<sup>41</sup> <https://www.da.gov.ph/da-bai-starts-asf-vaccine-trials/> accessed on 10 May 2021

<sup>42</sup> <https://pia.gov.ph/news/articles/1063650> accessed on 10 May 2021

<sup>43</sup> Republic Act (RA) 7900 or the *High Value Crops Development Act of 1995*

<sup>44</sup> <https://pubfiles.pagasa.dost.gov.ph/climps/climateforum/climateoutlook.pdf> accessed on 10 May 2021

23. ***Support manufacturers by buying locally-made products.*** Government support to establish a personal protective equipment (PPE) ecosystem has increased local production to around 80 million face masks, 10.2 million pieces of medical-grade coveralls, and 65,700 face shields by 300 businesses with over 510,000 highly-skilled workforce.<sup>45</sup> However, the industry remains at risk partly because of the influx of foreign-made and low-cost PPEs. The government is open to alternatives to augment the PPE supply from local sources that are subject to quality standards to support frontline health workers.<sup>46</sup>
24. ***Ensure timely implementation of the National ID system to expedite digitalization in the government.*** The pandemic highlights the crucial role of the government to efficiently deliver public services both at the national and local levels. The timely implementation of the National ID or the Philippine Identification System (PhilSys) will expedite the country's digitalization process, improve financial inclusion, and assist in the delivery of social services, particularly in vaccination and distribution of financial assistance across the country. As of May 10, 2021, around 33.8 million and 7.8 million Filipinos have completed the house-to-house Step 1 and on-site Step 2 registration process, respectively.<sup>47</sup> Another 455,171 have completed Step 1 online registration, bringing the total count of Step 1 registrants to 34.2 million. Meanwhile, the delivery of PhilSys Number (PSN) and the Philippine Identification (PhilID) card or Step 3 completes the National ID registration process, for which a total of 68,092 personalized cards have already been printed, including 53,186 cards that were picked up by PHLPost for distribution.<sup>48</sup>

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<sup>45</sup> <https://www.dti.gov.ph/archives/news-archives/japanese-manufacturing-ppe-medical-supplies/> accessed on 10 May 2021

<sup>46</sup> <https://www.pna.gov.ph/articles/1139090> accessed on 10 May 2021

<sup>47</sup> <https://psa.gov.ph/content/psa-pushes-more-improvements-philsys-online-step-1-registration> accessed on 10 May 2021

<sup>48</sup> Ibid.

25. ***Address possible disruptions in the delivery of public programs with the implementation of the Mandanas ruling in 2022.*** In this regard, the national government needs to ramp up its preparation and implementation of devolution transition plans to ensure that LGUs will be able to smoothly deliver devolved functions and public services starting next year. Changes in the delivery of public services arising from the *Mandanas* ruling need to be clearly communicated to the public so that they can be guided accordingly.
  
26. ***On the external front, the government can take advantage of the increasingly positive prospects for world trade in 2021 amid expectations of global recovery.*** For instance, accelerating the onboarding of Trade Regulatory Government Agencies (TRGAs) in the TradeNet system is a critical step towards the full digitization of trading platforms which will reduce costs for the government and businesses. The government can also continue to review and rescind regulations that restrict supply, pose procedural constraints which increase the cost of businesses, artificially protect producers, perpetuate inefficiencies, and prevent competition.
  
27. ***The passage of the government's key economic reform agenda remains crucial to economic recovery.*** These include the Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Bill, which aims to address solvency issues by helping strategically important companies (SICs) recover from the impact of the COVID-19 pandemic. Moreover, it is necessary to pass the proposed amendments to the Public Service Act, Foreign Investment Act, and Retail Trade Liberalization Act, which aim to maximize the benefits of the CREATE law to establish a more business-conducive environment and attract more FDI in the country over the medium to long term.