

# REPORT ON NATIONAL INCOME ACCOUNTS (Q2 2021)

**Table 1. Q2 2021 Economic Performance**  
 (percent growth rate year-on-year, at constant 2018 prices)

PARTICULARS	2020			2021		
	Q1	Q2	S1	Q1	Q2	S1
<b>GROSS DOMESTIC PRODUCT</b>	-0.7	-17.0	-9.3	-3.9	11.8	3.7
<b>GROSS NATIONAL INCOME</b>	-1.6	-17.6	-10.0	-10.6	6.6	-2.4
Net Primary Income	-9.3	-24.4	-16.6	-75.6	-53.8	-66.1
<b><u>By Industrial Origin</u></b>						
Agriculture, Fishery and Forestry	-0.3	1.6	0.6	-1.3	-0.1	-0.7
Industry	-2.5	-21.8	-12.6	-4.4	20.8	7.4
<i>of which: Manufacturing</i>	-3.3	-21.2	-12.3	0.5	22.3	10.4
Services	0.1	-17.1	-9.1	-4.1	9.6	2.6
<b><u>By Expenditure</u></b>						
Household Final Consumption Expenditure	0.2	-15.3	-7.7	-4.7	7.2	0.9
Gov't Final Consumption Expenditure	7.0	21.8	15.5	16.1	-4.9	3.5
Capital Formation	-12.1	-51.5	-33.1	-14.8	75.5	20.2
<i>of which: Fixed Capital Formation</i>	-2.0	-35.8	-20.2	-18.0	37.4	6.1
Exports	-4.4	-33.5	-19.5	-8.8	27.0	6.6
Imports	-7.4	-37.3	-22.7	-7.0	37.8	11.6

Source: Philippine Statistics Authority (PSA)

## A. GDP and GNI

1. After five consecutive quarters of contraction, the Philippine economy grew by 11.8 percent in Q2 2021 from -3.9 percent in Q1 2021. While this may partly be attributed to base effects coming from a -17.0 percent decline in Q2 2020, it is the result of a better balance between addressing COVID-19 and the need to restore jobs and incomes of the people. The community quarantine (CQ) restrictions imposed this year have taken a more risk-based approach compared to last year when more sectors were allowed to operate, including public transportation. The latest growth outturn is better than the 10.6 percent median forecast of private-sector analysts for the period.<sup>1</sup> On a seasonally adjusted quarter-on-quarter basis, the economy declined by 1.3 percent. For the first semester (S1) of 2021, real gross domestic product (GDP) growth accelerated to 3.7 percent.
2. Among major emerging economies in the region that have already released their Q2 2021 real GDP growth, the Philippines ranked second next to Singapore (14.3%), and is faster than China (7.9%), Indonesia (7.1%), and Vietnam (6.6%). Private sector analysts also expect a strong rebound for India (25.0%), Malaysia (16.4%), and Thailand (6.9%).<sup>2</sup> The positive trend in Q2 growth can be attributed to the reopening of economies and base effects from the peak of quarantine restrictions in 2020.
3. Similarly, the country's gross national income expanded to 6.6 percent in Q2 2021 from -10.6 percent in Q1 2021. Net primary income growth improved to -53.8 percent in Q2 from -75.6 percent in the previous quarter, mainly due to the slower contraction in the inflow of compensation (-54.5%) and positive growth in the inflow of property income (18.3%).
4. On the expenditure side, the rebound in Q2 GDP growth was mainly driven by the uptick in investments and private consumption. Investments in fixed capital (37.4% in Q2 2021 from -18.0% in Q1 2021) reverted to positive territory fueled

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<sup>1</sup> <https://www.bworldonline.com/phl-likely-exited-recession-in-q2/>. Accessed on August 9, 2021

<sup>2</sup> Bloomberg consensus forecast for Q2 GDP. Accessed on August 9, 2021.

by the significant expansion in construction (33.4% from -25.3%) and durable equipment (89.2% from -10.3%). With improving consumer confidence, household spending also picked up (7.2% from -4.7%), offsetting the decline in government spending (-4.9% from 16.1%). Overall, domestic demand growth accelerated to 14.7 percent in Q2 from -4.4 percent in Q1. Meanwhile, total exports posted a double-digit expansion (27.0% from -8.8%), although this was offset by the stronger growth in imports (37.8% from -7.0%), resulting in a decline in the growth of net exports (-81.4% from 1.4%).

5. On the production side, almost all sectors bounced back despite the imposition of the ECQ and MECQ last April and May 2021. This is a clear indication that managing risks, instead of shutting down large segments of the economy, stands a far better chance of improving both economic and health outcomes. Significant improvements were observed in the industry and services sectors as we managed the COVID-19 risks better and eased quarantine restrictions. For instance, the strong rebound in manufacturing (22.3% in Q2 from 0.5% in Q1) and construction (25.7% from -22.6%) subsectors mainly drove the industry sector's expansion (20.8% from -4.4%). For services (9.6% from -4.1%), real estate (16.7% from -11.7%), trade (5.4% from -3.4%), other services (39.4% from -38.7%), and transportation and storage (23.4% from -19.6%) contributed most to the improvement. Only the agriculture sector posted a slight contraction (-0.1%) because of the decline in livestock production.

## B. Expenditure (Demand-side)

6. **Household final consumption expenditure.** Growth in household spending reverted to positive territory in Q2 2021 at 7.2 percent from -4.7 percent in Q1 2021 and -15.3 percent in Q2 2020. This brings S1 2021 growth to 0.9 percent. Consumer sentiment slightly improved in Q2 relative to Q1, albeit still negative, which can be attributed to the easing of CQ restrictions compared to the same period last year. This is also complemented with the availability of vaccines and

provision of financial assistance during the period.<sup>3</sup> Based on the monthly Labor Force Survey (LFS) conducted by the Philippine Statistics Authority (PSA), net employment creation from April 2021, when the first round of ECQ this year ended in National Capital Region (NCR), to June 2021 reached 1.8 million. In particular, the recent LFS results for June 2021 showed that the economy generated an additional 2.5 million jobs compared to the pre-pandemic level, and the quality of employment has improved given the much lower underemployment rate.

Most commodities recorded positive growth in Q2 2021, except alcoholic beverages and tobacco (-3.4% in Q2 2021 from -11.8% in Q1 2021) which can be ascribed to the liquor ban imposed during the ECQ in early April 2021. Meanwhile, spending on transport (20.4% from -28.0%), restaurants and hotels (24.5% from -18.2%), and recreation and culture (15.7% from -33.5%) registered a double-digit expansion in Q2 2021. Based on the latest Google Mobility Trend Report,<sup>4</sup> visits to parks, retail and recreational establishments, and transit stations increased in Q2 2021 relative to the previous quarter. In fact, essential travels to groceries and pharmacies are higher than pre-pandemic period.

7. **Government final consumption expenditure.** After 16 quarters of continued expansion, government expenditure declined to 4.9 percent in Q2 2021 from 16.1 percent in Q1 2021. The decline can be attributed to base effects from the rollout of the largest-ever emergency subsidies in Q2 2020. For S1 2021, growth in government spending slowed down to 3.5 percent.

In detail, maintenance and other operating expenses (MOOE) recorded a double-digit decline of 29.1 percent in Q2 2021 from 39.8 percent increase in Q1.<sup>5</sup> While spending on social protection measures being implemented under the FY 2021 budget and the *Bayanihan* II are substantial, these are not comparable to the high expenditures under *Bayanihan* I and other COVID-19 responses last year, which included one-time measures completed in June 2020 such as the Social

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<sup>3</sup> [https://www.bsp.gov.ph/Lists/Consumer percent20Expectation percent20Report/Attachments/20/CES\\_2qtr2021.pdf](https://www.bsp.gov.ph/Lists/Consumer%20Expectation%20Report/Attachments/20/CES_2qtr2021.pdf). Accessed on August 9, 2021.

<sup>4</sup> <https://ourworldindata.org/covid-mobility-trends>. Accessed on August 9, 2021

<sup>5</sup> Less accounts payables, figures are based on PSA Key Economic Indicators for Q2 2021 and Q1 2021

Amelioration Program (SAP) and the Small Business Wage Subsidy (SBWS) Program.<sup>6</sup> In addition, disbursements for personnel services (PS) decelerated to 4.9 percent in Q2 from 7.8 percent in Q1.

8. **Capital formation.** The country's gross capital formation recorded a significant growth of 75.5 percent in Q2 2021 from -14.8 percent in Q1 2021 and -51.5 percent in Q2 2020. This brings S1 2021 growth to 20.2 percent. The uptick in total investments was primarily driven by the double-digit increase in fixed capital investments (37.4% in Q2 2021 from -18.0% in Q1 2021).

Construction growth accelerated to 33.4 percent in Q2 from -25.3 percent in Q1, fueled by the increase in construction activities by households (286.3% from -24.0%) and general government (49.7% from 25.3%). Likewise, investments in durable equipment (89.2% from -10.3%) soared in Q2, owing to the three-digit growth in road transport (180.0% from -21.4%), likely due to the continued implementation of the public utility vehicle modernization program (PUVMP).

In addition, investments in valuables (28.6% from -19.2%) and intellectual property products (9.2% from 2.6%) also increased, while breeding stock and orchard development (-2.8% from -3.1%) posted a milder contraction.

9. **Net Exports.** Growth in net exports significantly dropped to -81.4 percent in Q2 2021 from an expansion of 1.4 percent in Q1, pulling down S1 2021 growth to -28.7 percent. This may be attributed to total imports, which recorded a substantial recovery outweighing the increase in total exports.

**Exports.** Total exports growth rebounded to 27.0 percent in Q2 2021 from -8.8 percent in Q1 2021 and -33.5 percent in Q2 2020, resulting in a 6.6 percent expansion in S1 2021. The faster growth in total exports was mainly driven by the accelerated growth in the export of services (17.3% in Q2 2021 from -21.1% in Q1 2021), particularly travel (209.9% from -98.0%) and business services (13.5% from -3.8%). Based on the data from the Department of Tourism

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<sup>6</sup> [https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG\\_Disbursements\\_June percent202021\\_for\\_posting.pdf](https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG_Disbursements_June%20percent202021_for_posting.pdf). Accessed on August 9, 2021.

(DOT), growth in visitor arrivals substantially increased to 211.2 percent year-on-year between April and May 2021, mainly due to base effects of stringent travel restrictions in Q2 2020.

Merchandise exports accelerated to 35.4 percent in Q2 2021 from 2.8 percent in Q1 2021, driven largely by the faster growth in exports of electronic products (41.8% from 11.6%), particularly semiconductors (30.4% from 13.0%) and electronic data processing (87.5% from 16.1%). The double-digit increase in semiconductors largely stemmed from the rising demand for medical electronics, computers, and other digital devices in response to the COVID-19 pandemic. This was evident in the improved sales in top markets such as Hong Kong (12.6%) and China (22.1%).<sup>7</sup>

***Imports.*** Total imports grew by 37.8 percent in Q2 2021, a sharp reversal from the -7.0 percent contraction in Q1 2021 and -37.3 percent decline in Q2 2020. This brings S1 2021 growth to 11.6 percent. The uptick in merchandise imports (46.4% in Q2 from -0.5% in Q1) was largely due to the significant increase in mineral fuels, lubricants, and related materials (56.0% in Q2 2021 from -23.4% in Q1 2021), electronic products (56.6% from 16.7%), and transport equipment (152.0% from -7.2%). Meanwhile, imports of services (-4.4% from -31.3%) posted a softer decline on the back of milder contraction in travel (-51.4% from -67.4%) and the rebound in transport (52.4% from -16.2%).

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<sup>7</sup> Data from PSA

## C. Production (Supply-side)

10. ***Agriculture, fishery and forestry.*** Growth in the agriculture sector remained on the decline for the second consecutive quarter at -0.1 percent in Q2 2021. This is a slight improvement from the 1.3 percent contraction in Q1 2021, although lower than the 1.6 percent expansion recorded in Q2 2020. The second quarter outturn brings the S1 2021 growth to -0.7 percent.

The weaker contraction in Q2 can be attributed to the improvement in the production of poultry and egg (2.6% in Q2 2021 from -7.5% in Q1 2021) and sugarcane including muscovado (32.2% from -4.5%) and the slower decline in livestock (-19.5% from -23.4%).

The beginning of Q2 2021 saw the implementation of the Integrated National Swine Production Initiatives for Recovery and Expansion (INSPIRE), the government's PHP600-million swine repopulation program. INSPIRE was implemented through the 'sentinel' approach, which refers to monitoring the rate of African Swine Fever (ASF) occurrence in a number of pigs for a test area.<sup>8</sup> Aside from this, on May 10, 2021, the President declared a state of calamity<sup>9</sup> throughout the country due to the ASF outbreak. This enabled local government units (LGU) to access resources and implement measures for ASF control and prevention, such as the establishment and maintenance of ASF biosecurity checkpoints; procurement of test kits, biologics, and other needed equipment and materials; and strengthening of diagnostic capability to support early warning system, surveillance, and monitoring, among others.<sup>10</sup>

11. ***Industry.*** Growth in the industry sector posted a double-digit rebound at 20.8 percent in Q2 2021 from -4.4 percent in the preceding quarter and -21.8 percent in

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<sup>8</sup> Department of Agriculture. "DA rolls out P600-M swine repopulation program in ASF "pink" and "yellow" zones." <https://www.da.gov.ph/da-rolls-out-p600-m-swine-repopulation-program-in-asf-pink-and-yellow-zones> (Accessed August 9, 2021).

<sup>9</sup> Official Gazette. Proclamation No. 1134. <https://www.officialgazette.gov.ph/downloads/2021/05may/20210510-PROC-1143-RRD.pdf> (Accessed August 9, 2021)

<sup>10</sup> Department of Agriculture. "PRRD's declaration of state of calamity due to ASF will boost biosecurity efforts." <https://www.da.gov.ph/prrd-declaration-of-state-of-calamity-due-to-asf-will-boost-biosecurity-efforts>. (Accessed August 9, 2021)



Q2 2020. This brings S1 2021 growth to 7.4 percent. Most of the sectors grew faster relative to Q1, led by manufacturing (22.3% in Q2 2021 from 0.5% in Q1 2021), construction (25.7% from -22.6%), and electricity, steam, water and waste management (9.8% from 1.1%). In contrast, growth in mining and quarrying (0.8% from 1.0%) softened but remained positive during the period.

- a. **Manufacturing.** The manufacturing sector showed a significant improvement in Q2 2021, growing by 22.3 percent from 0.5 percent in Q1 2021 and -21.2 percent in Q2 2020. This brings the sector's S1 2021 performance to 10.4 percent.

All manufacturing subsectors posted a better growth performance in Q2 compared to the previous quarter such as food products (6.7% from -1.4%), coke and refined petroleum products (25.3% from -79.6%), chemical and chemical products (42.3% from 7.4%), computer, electronic and optical products (47.5% from 17.2%), and other non-metallic mineral products (87.2% from 8.7%).

The Monthly Integrated Survey of Selected Industries (MISSI) recorded an average capacity utilization of 66.1 percent in Q2 2021, up from 63.5 percent in Q1 2021 and 55.1 percent in Q2 2020.<sup>11</sup> Similarly, the country's Purchasing Managers' Index (PMI) recovered to 50.8 in June 2021 on the back of softer declines in output, new orders, employment, and expansion in pre-production inventories. This signals an expansion after two consecutive months of posting figures slightly below the 50.0 neutral threshold.<sup>12</sup>

- b. **Mining and quarrying.** The mining and quarrying sector recorded a 0.8 percent expansion in Q2 2021, marginally slower than the 1.0 percent growth in Q1 2021 but a recovery from the 21.7 percent contraction in Q2

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<sup>11</sup> <https://psa.gov.ph/manufacturing/missi-id/164919>. Accessed on August 9, 2021.

<sup>12</sup> PMI for April and May 2021 at 49.0 and 49.9, respectively. Data from IHS Markit Philippines Manufacturing PMI: <https://www.markiteconomics.com/Public/Home/PressRelease/8132d50dabaf4df5b3dc9ecad48be699>. Accessed on August 9, 2021.



2020. This brings S1 2021 growth to 0.9 percent. While the mining sector was allowed to operate regardless of CQ classification during the reference quarter,<sup>13</sup> the slowdown in Q2 can be attributed to the decline in coal production (-3.2% in Q2 2021 from 41.5% in Q1 2021) and the slower growth in gold and other precious metal ores (1.7% from 7.9%), and nickel ores (20.8% from 48.0%). Nonetheless, higher output in stone quarrying and other mining and quarrying (23.3% from -8.1%) and the slower decline in production of copper ore (-23.5% from -33.7%) and crude petroleum and natural gas (-14.3% from -19.1%) kept the sector's growth in the positive territory.

- c. **Electricity, steam, water, and waste management.** Growth in the sector continued to accelerate for the fourth consecutive quarter, posting a 9.8 percent expansion in Q2 2021 from 1.1 percent in Q1 2021 and -6.4 percent in Q2 2020. This brings S1 2021 growth to 5.6 percent. The uptick in Q2 was driven by the faster growth in electricity (11.4% in Q2 from 1.0% in Q1) and water supply (5.0% from 1.1%). This outweighed the slowdown in waste management (2.7% from 7.1%) and decline in steam (-7.0% from 3.0%).

MERALCO recorded higher revenue growth in Q2 driven by energy sales in its industrial segment, which has returned to its pre-pandemic levels.<sup>14</sup> Similarly, transmission revenue by the National Grid Corporation of the Philippines increased by 6.3 percent in Q2 2021 from a nil growth in Q1 2021 and -23.1 percent contraction in Q2 2020.<sup>15</sup>

- d. **Construction.** The construction sector recorded a 25.7 percent growth in Q2 2021, a reversal from the 22.6 percent contraction in Q1 2021 and 29.4 percent decline in Q2 2020. The Q2 outturn brings the sector's S1 2021 growth to 0.8 percent.

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<sup>13</sup> IATF Resolution No. 106-B. <https://www.officialgazette.gov.ph/downloads/2021/03mar/20210328-IATF-RESO-106B-RRD.pdf>. (Accessed on August 8, 2021)

<sup>14</sup> [https://meralcomain.s3.ap-southeast-1.amazonaws.com/2021-07/1h\\_2021\\_results\\_briefing\\_reports\\_0.pdf?null](https://meralcomain.s3.ap-southeast-1.amazonaws.com/2021-07/1h_2021_results_briefing_reports_0.pdf?null). Accessed on August 9, 2021.

<sup>15</sup> PSA Key Economic Indicators (Q2 2021)

The Inter-Agency Task Force (IATF) on Emerging Infectious Diseases guidelines stipulate that essential and priority construction projects, whether public or private, are allowed even in ECQ as long as they are in accordance with the guidelines issued by the Department of Public Works and Highways (DPWH).<sup>16</sup> On May 14, 2021, DPWH issued Department Order No. 33 s. 2021 clarifying that this includes all small-scale projects such as those for housing and residences, even in ECQ and MECQ areas.<sup>17</sup>

12. **Services**. Growth in the services sector accelerated to 9.6 percent in Q2 2021 from -4.1 percent in Q1 2021 and -17.1 percent in Q2 2020. This brings S1 2021 growth to 2.6 percent. The rebound was mainly supported by the strong growth in real estate and ownership of dwellings (16.7% in Q2 2021 from -11.7% in Q1 2021), wholesale and retail trade (5.4% from -3.4%), other services (39.4% from -38.7%), and transportation and storage (23.4% from -19.6%). Other sectors that posted faster growth in Q2 are professional and business services (11.7% from -4.4%), accommodation and food service activities (53.4% from -22.5%), education (10.0% from 0.2%), and information and communication (14.2% from 6.5%). However, these were partly tempered by the deceleration in financial and insurance activities (4.2% from 4.3%), human health and social work (12.1% from 13.2%), and public administration and defense (4.0% from 7.5%).

a. **Trade and repair of motor vehicles, motorcycles, personal and household goods**. The sector posted a 5.4 percent expansion in Q2 2021 from -3.4 percent in Q1 2021 and -14.1 percent in Q2 2020. Higher growth in retail trade (8.9% in Q2 2021 from -2.5% in Q1 2021) and sale and repair of motor vehicles and motorcycles (81.2% from 4.5%) outweighed the decline in wholesale trade (-12.6% from -8.9%).

Meanwhile, sales for both residential (235.5%) and commercial cars (191.5%) significantly increased during the reference quarter.

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<sup>16</sup> <https://www.officialgazette.gov.ph/downloads/2021/03mar/20210328-IATF-RESO-106B-RRD.pdf>. Accessed on August 9, 2021.

<sup>17</sup> [https://www.dpwh.gov.ph/dpwh/sites/default/files/issuances/DO\\_033\\_s2021.pdf](https://www.dpwh.gov.ph/dpwh/sites/default/files/issuances/DO_033_s2021.pdf). Accessed on August 8, 2021.

- b. **Transport and storage**. The growth of the sector accelerated to 23.4 percent in Q2 2021 from -19.6 percent in Q1 2021 and -58.5 percent in Q2 2020. This brings S1 2021 growth to -4.8 percent. The uptick in transport and storage was mainly driven by the increase in land transport (28.8 in Q2 2021 from -13.9% in Q1 2021) and air transport (534.7% from -73.7%) on the back of less stringent transport restrictions relative to the previous year. In general, public transportation was allowed to operate, subject to limited capacity and other travel restrictions. Meanwhile, warehousing and storage and support activities (8.8% from 2.7) and postal and courier activities (52.3% from 11.5%) also posted faster growth during the reference quarter.

In June 2021, the DOT allowed leisure travel from NCR Plus areas to other domestic tourist destinations under MGCQ, subject to travel protocols and other requirements, which supported the increase in land, water, and air transport.<sup>18</sup> Philippine Airlines (PAL), for instance, serviced a total of 5,338 domestic flights and ferried around 330,000 passengers in Q2 2021 compared to only 411 flights and 32,000 passengers in the same period last year.<sup>19</sup>

- c. **Accommodation and food service activities**. The sector posted a significant expansion in Q2 2021 at 53.4 percent, a turnaround from the 22.5 percent contraction in the preceding quarter and 67.1 percent decline in Q2 2020. This brings S1 2021 growth to -2.3 percent. Both food and beverage service activities (69.4% in Q2 2021 from -11.0% in Q1 2021) and accommodation (14.7% from -45.4%), recorded a double-digit expansion during the quarter. This was mainly on account of less stringent CQ restrictions where food establishments under MECQ and below were allowed to resume dine-in services subject to limited capacity. In addition, hotels and accommodations with valid DOT Accreditation were allowed to operate subject to guidelines issued by the DOT and the IATF.<sup>20</sup>

<sup>18</sup>Leisure travel from NCR plus to MGCQ areas now allowed: DOT. Philippine News Agency. Retrieved from: <https://www.pna.gov.ph/articles/1142168>. Accessed on August 9, 2021.

<sup>19</sup> PSA Key Economic Indicators for Q2 2021

<sup>20</sup> Official Gazette. IATF Resolution No. 106-B. <https://www.officialgazette.gov.ph/downloads/2021/03mar/20210328-IATF-RESO-106B-RRD.pdf>. (Accessed August 9, 2021).

As part of efforts to safely reopen the economy, the Department of Labor and Employment (DOLE), Department of the Interior and Local Government (DILG), DOT, and the Department of Trade and Industry (DTI) released a joint memorandum circular dated April 23, 2021 on the rollout of the Safety Seal Certification Program.<sup>21</sup> Under this program, business establishments with the certification were allowed to operate at an additional 10 percentage points more than the prescribed on-site capacity or seating capacity.<sup>22</sup>

- d. **Information and communication.** The information and communication sector's growth accelerated to 14.2 percent in Q2 2021 from 6.5 percent in Q1 2021, bringing S1 2021 growth to 10.6 percent. Both communication (14.1% in Q2 2021 from 6.6% in Q1 2021) and information and publishing (15.3% from 5.7%) subsectors posted a double-digit expansion during the reference quarter.

Driven by its data and home broadband segments, PLDT, Inc. and Globe Telecom, Inc. reported a 10.1 percent and 5.9 percent increase in total service revenue in Q2 2021, respectively.<sup>23</sup> This could be attributed to the increased demand for data connectivity in response to flexible work arrangements, online learning, and other e-commerce activities. Moreover, Dito Telecommunity Corporation, the country's third telco player, expanded its mobile services in the country after its commercial launch on March 8, 2021.<sup>24</sup>

- e. **Financial and insurance activities.** Growth in the sector slightly moderated to 4.2 percent in Q2 2021 from 4.3 percent in Q1 2021 and 4.8 percent in Q2 2020. This brings S1 2021 growth to 4.3 percent. This was mainly due to the slowdown in banking institutions (3.1% in Q2 2021 from 5.1% in Q1 2021) and activities auxiliary to financial services activities (1.7% from 2.2%). Bankers

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<sup>21</sup> JMC 21-01 Implementing Rules and Regulation of the Safety Seal Certification Program: [https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/COVID19Resources/COVID-19+Advisories/04232021\\_Joint+Memorandum+Circular+No.+21-01.pdf](https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/COVID19Resources/COVID-19+Advisories/04232021_Joint+Memorandum+Circular+No.+21-01.pdf). Accessed on August 9, 2021.

<sup>22</sup> <https://www.officialgazette.gov.ph/downloads/2021/05may/20210531-IATF-RESO-118-A-RRD.pdf>

<sup>23</sup> PLDT, Inc. and Globe Telecom Inc. Quarterly Reports and PSA Key Economic Indicators for Q2 2021.

<sup>24</sup> Retrieved from: <https://www.dito.ph/blog-dito-expands-to-more-areas.html>. Accessed on August 9, 2021.

have remained cautious and continued to tighten overall credit standards for both enterprises and households.<sup>25</sup> Some of the cited reasons for this tightening were the deterioration in borrowers' profile and profitability in bank's portfolio, lower tolerance for risk, and uncertain economic outlook.<sup>26</sup> On the upside, non-banks (6.3% from 3.6%) and insurance and pension funding except compulsory social security (3.8% from 3.3%) posted stronger growth during the period.

- f. **Real estate and ownership of dwellings.** Growth in real estate and ownership of dwellings rebounded to positive territory at 16.7 percent in Q2 2021 from -11.7 percent in Q1 2021 and -29.9 percent in Q2 2020. This brings S1 2021 growth to 0.7 percent. The improved performance of the sector was primarily driven by the double-digit growth in the real estate sub-sector (44.2% in Q2 2021 from -23.8% in Q1 2021), which offset the slight slowdown in the growth of ownership of dwellings (1.0% from 1.1%).

Outsourcing and traditional firms drove demand during the quarter and are expected to lead office space absorption in the next six to 12 months as the rollout of the vaccination program continues.<sup>27</sup> However, net take-up remained negative as Philippine Offshore Gaming Operator (POGO) firms vacated office spaces along with subdued demand for new office spaces.<sup>28</sup>

- g. **Professional and business service activities.** Growth in the sector rebounded to positive territory at 11.7 percent in Q2 2021 from -4.4 percent in Q1 2021 and -15.7 percent in Q2 2020. This brings S1 2021 growth to 4.2 percent. Business processing outsourcing (BPO) establishments were allowed to operate at full capacity despite the lockdowns. In addition, while other on-site professional activities were only allowed to operate at 50 percent capacity for

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<sup>25</sup> Bangko Sentral ng Pilipinas. "Banks' Cautious Lending Stance Continue In Q2 2021." <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5862> (Accessed August 8, 2021).

<sup>26</sup> Ibid.

<sup>27</sup> <https://www.colliers.com/en-ph/research/colliers-quarterly-property-market-report-q2-2021-philippines>. Accessed on August 9, 2021.

<sup>28</sup> <https://www.colliers.com/en-ph/research/colliers-quarterly-property-market-report-q2-2021-philippines>. Accessed on August 9, 2021.

the duration of the MECQ between April to mid-May,<sup>29</sup> the delivery of professional services continued as the sector adopted hybrid work arrangements and the use of online video conferencing applications.

- h. **Public administration and defense.** The growth in public administration and defense, and compulsory social activities moderated to 4.0 percent in Q2 2021 from 7.5 percent in Q1 2021 and 7.1 percent in Q2 2020. This brings S1 2021 growth to 5.5 percent. Actual disbursements for personal services weakened to 4.9 percent in Q2 2021 partly due to base effects arising from the pay-out of COVID-19 hazard pay for uniformed personnel in Q2 2020.
- i. **Education.** The education sector recorded a double-digit growth at 10.0 percent in Q2 2021, higher than the figure of 0.2 percent in the preceding quarter and a strong rebound from the 14.5 percent contraction in Q2 2020. This brings S1 2021 growth to 5.2 percent. Both private (13.0% in Q2 2021 from -10.8% in Q1 2021) and public education (9.1% from 6.0%) accelerated during the period.

On April 29, 2021, during the *EduAksyon sa Norte* virtual visit, the Department of Education (DepEd) turned over e-learning gadgets, such as smartphones and laptops, to selected students and teachers from Regions I, II, III, and CAR.<sup>30</sup> This was part of the DepEd's Public Education Network (PEN), which is intended to increase digital connectivity of public schools and DepEd offices nationwide, thus allowing greater access to DepEd learning platforms.<sup>31</sup>

The DepEd and the Department of Budget and Management (DBM) also issued Joint Circular (JC) No. 2 dated June 10, 2021<sup>32</sup> wherein teachers will receive a PHP5,000 cash allowance intended for the purchase of teaching supplies and materials, internet and other communication expenses, and annual medical

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<sup>29</sup> DTI Memorandum Circular No. 21-14, s. 2021 dated 23 April 2021. Retrieved from: [https://www.dti.gov.ph/sdm\\_downloads/memorandum-circular-21-14/](https://www.dti.gov.ph/sdm_downloads/memorandum-circular-21-14/). Accessed on August 9, 2021.

<sup>30</sup> <https://www.deped.gov.ph/2021/05/10/deped-continues-public-education-network-build-up-after-turning-over-e-learning-gadgets-to-north-luzon-regions>. Accessed on August 8, 2021.

<sup>31</sup> Ibid.

<sup>32</sup> <https://www.deped.gov.ph/2021/06/14/deped-to-release-public-school-teachers-cash-allowance-for-sv-2021-2022>. Accessed on August 8, 2021.



examination expenses.<sup>33</sup> The release of the cash allowance began on June 15, 2021.<sup>34</sup>

- j. **Human health and social work activities.** The health and social work sector grew by 12.1 percent in Q2 2021, slightly lower than the 13.2 percent figure in the previous quarter but a significant improvement from -15.4 percent in Q2 2020. This brings S1 2021 growth to 12.7 percent. The slowdown in the health sector was primarily driven by the contraction in public human health (-34.8% from 48.0%) and social work activities (-43.2% from 36.5%). These were partly offset by the double-digit expansion in private health (48.3% from -2.0 %).
- k. **Other services.** Growth in other services accelerated to 39.4 percent in Q2 2021, a substantial increase from -38.7 percent in the preceding quarter and -63.7 percent in Q2 2020. This brings S1 2021 growth to -16.1 percent. Both arts, entertainment and recreation (62.6% in Q2 2021 from -45.5% in Q1 2021) and other service activities (19.1% from -28.7%) recorded a higher growth during the reference period. In fact, some personal care services were allowed at least a 30 percent operational capacity even under MECQ.<sup>35</sup>

## D. Prospects and policy directions

13. ***The International Monetary Fund (IMF)<sup>36</sup> maintained its 2021 growth projections for the global economy at 6.0 percent, while it raised its 2022 forecast to 4.9 percent from an earlier estimate of 4.4 percent.*** For 2021, the better outlook for advanced economies was offset by less favorable prospects for

<sup>33</sup> <https://www.dbm.gov.ph/wp-content/uploads/Issuances/2021/Joint-Circular/Certified-True-Copy-JC-on-Cash-Allowance.pdf>. Accessed August 8, 2021.

<sup>34</sup> <https://www.pna.gov.ph/articles/1144431>. Accessed on August 9, 2021

<sup>35</sup> Official Gazette. IATF Resolution No. 115-A. <https://iatf.doh.gov.ph/wp-content/uploads/2021/05/20210513-IATF-Resolution-115-A-RRD.pdf>. (Accessed August 9, 2021)

<sup>36</sup> International Monetary Fund, World Economic Outlook, July 2021.



emerging and developing economies, especially for emerging Asia. These mainly reflect pandemic developments and changes in policy support across countries. For 2022, the anticipated legislation of additional fiscal support, particularly in the United States, and improved health metrics resulted in the upward revision of the forecast. Downside risks remain, such as slower-than-anticipated vaccine rollout and tight financial and external conditions, which may drag down global economic growth.

14. ***For the Philippines, the Development Budget Coordination Committee (DBCC) will review the recent economic data and the risks associated with the Delta variant to fine-tune our growth targets and adjust our recovery strategies.*** As of July 2021, the DBCC-approved growth targets are 6.0 percent to 7.0 percent for 2021 and 7.0 percent to 9.0 percent for 2022. The private sector forecasts show signs of recovery, with an average growth estimate of 5.0 percent in 2021 (see Table 2).

**Table 2: Consensus GDP Growth Forecasts<sup>37</sup>**

Institution	As of	2021	2022
National Australia Bank/ Bank of New Zealand	August 9	4.5	6.4
Bank of America Merrill Lynch	August 6	4.0	7.1
JPMorgan Chase	August 6	5.3	6.5
Standard Chartered	August 6	4.6	6.6
ING Group	August 3	4.3	4.3
Barclays	July 30	5.0	7.0
IMF	July 27	5.4	7.0
Nomura Securities	July 27	5.4	8.7
Fitch Solutions	July 26	5.3	6.5
Capital Economics	July 23	6.0	12.0
Moody's Investor Service	July 22	5.8	6.5
ADB	July 20	4.5	5.5
Fitch Ratings	July 12	5.0	6.6
World Bank	June 10	4.7	5.9
<i>Mean</i>		<b>5.0</b>	<b>6.9</b>
<i>Median</i>		<b>5.0</b>	<b>6.6</b>

15. ***The significant improvement in almost all economic indicators highlights the gains from our risk-based approach to quarantines and our strong economic potential.*** The government will continue to accelerate the implementation of our three-pillar strategy to achieve our growth and job targets. First is the acceleration of the vaccination program; second is the safe reopening of the economy, while strictly adhering to public health protocols; and third is the full implementation of the recovery package.

<sup>37</sup> Various sources.

16. ***The government is taking proactive measures to reduce the spread of COVID-19 and accelerate the country's vaccination program.*** The re-imposition of ECQ in high-risk areas, including NCR, from August 6 to 20, 2021, is the proactive response to address the spread of the more contagious Delta variant and preclude the return of more lockdowns down the road. During this period, the government will further accelerate the vaccination program. Everyone is encouraged to use this ECQ period to get vaccinated, so we can safely reopen the economy once we have contained the spread of the Delta variant.
17. ***The government has activated a crisis action plan focusing on the enhanced implementation of the Prevent, Detect, Isolate, Treat, Reintegrate, plus Vaccinate (PDITR+V) strategy.***<sup>38</sup> This includes the four-door strategy of stricter border control, heightened surveillance, quick response, and focused and expanded mass vaccination. Measures to expand the hospital capacity are already in place, such as the availability of more intensive care unit (ICU) and isolation beds, and procurement of oxygen tanks, medications, and other needed logistics. Travel ban imposed on countries experiencing a surge of COVID-19 Delta variant cases, checkpoints, and other border control measures are also being strictly enforced. Nonetheless, there is still a need to ramp up COVID-19 genome sequencing by operationalizing more laboratories for the faster detection of Delta variant cases and stem its transmission.
18. ***The country's vaccine deployment program will be further accelerated and expanded.*** The government's vaccination program is on track. The country has been receiving a steady supply of vaccines from multiple sources. As of August 10, 2021, a total of 38.6 million doses have arrived in the country between February 28 to August 8, 2021.

Our LGUs and partners in the private sector have shown a remarkable ability to administer the vaccines on a wide scale. Last August 5, the country recorded an all-time high of 710,482 jabs in a day. As of August 8, a total of 24.5 million doses

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<sup>38</sup> <https://www.pna.gov.ph/articles/1149681>. Accessed on August 7, 2021.

have been administered, consisting of 13.1 million for the first dose and 11.4 million for the second dose.

For the remainder of the year, more than 148 million doses of vaccine are expected to arrive. With this, the government is optimistic in inoculating 70 million Filipinos or the entire adult population by the end of 2021. This is a step closer to achieving herd immunity in the country. Moreover, it will help build consumer and business confidence and help facilitate the resumption of business operations in the country.

19. ***The economy's recovery will also get a boost from the 2021 budget, the Build, Build, Build program, and the implementation of the Corporate Recovery and Tax Incentives for Enterprises or CREATE law.*** The economic team also looks forward to the passage of the amendments to the Public Service Act, the Retail Trade Liberalization Act, and the Foreign Investment Act. All these will help attract investments, push up our growth potential, and create more and better jobs.
20. ***Guidelines on allowed operational capacities of firms will be regularly reviewed as more Filipinos get vaccinated.*** Existing CQ guidelines will be revisited as more Filipinos get vaccinated and as firms apply for the DTI's Safety Seal Certification, a system which affirms an establishment's compliance with the minimum public health standards (MPHS).<sup>39</sup> Allowing higher operational capacities to account for vaccination rate and adherence to MPHS can reduce the cost of lockdown on businesses and allow more workers to return to work. Establishments are likewise encouraged to innovate and adopt digital solutions to ensure business and service continuity while enabling people to work and earn income.

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<sup>39</sup> Department of Trade and Industry. 'Safety Seal'. <https://www.dti.gov.ph/safetyseal/> (accessed August 5, 2021).

21. ***Financial assistance will be provided to those affected by the current lockdown.*** The DBM released PHP10.9 billion to cover the financial assistance for the bottom 80 percent of the population in NCR affected by the imposition of ECQ.<sup>40</sup> Low-income individuals and families are expected to receive PHP1,000 per person with a maximum amount of PHP4,000 per household, to ensure that food and non-food requirements are met during the two-week lockdown.
22. ***The timely passage of the FY 2022 budget will support economic recovery.*** The proposed FY 2022 Budget amounting to PHP5.0 trillion will sustain the government's COVID-19 response efforts through the procurement of COVID-19 testing kits, continuous hiring of human resources for health, establishment of the Virology Institute of the Philippines, and the continuous implementation of health programs in accordance with the Universal Health Care Act.<sup>41</sup>
23. ***The government needs to address planning and coordination weaknesses to ease the transition of devolved functions to LGUs in light of the Mandanas Ruling.*** With the signing of Executive Order No. 138,<sup>42</sup> concerned National Government agencies (NGA) and LGUs are mandated to prepare devolution transition plans for the latter's smooth delivery of devolved functions and public services starting next year. A Growth Equity Fund will also be proposed to Congress to assist the poorest LGUs in the implementation of the devolved services. To strengthen their implementation capacity and public service delivery, LGUs will be provided capacity-building interventions based on their respective Capacity Development Agenda.

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<sup>40</sup> <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1915-dbm-releases-p10-894-billion-for-financial-assistance-to-ncr>. Accessed on August 7, 2021.

<sup>41</sup> <https://dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1910-dbm-assures-timely-submission-of-the-fy-2022-nep-to-congress>. Accessed on August 6, 2021.

<sup>42</sup> Executive Order No. 138, series 2021. Full Devolution of Certain Functions of the Executive Branch to Local Governments, Creation of a Committee on Devolution, and for Other Purposes. Retrieved from: <https://www.officialgazette.gov.ph/downloads/2021/06jun/20210601-EO-138-RRD.pdf>

24. ***Food inflation can be further reduced, especially amid the implementation of stricter CQs throughout the country, by ensuring adequate supply of basic commodities.*** While border controls are in place due to quarantine restrictions in several areas, the Department of Agriculture (DA) assured the public that the delivery of agricultural goods and other food products will remain unhampered.<sup>43</sup>

In addition, the President signed Executive Order Nos. 133 and 134 to address the spike in pork prices due to the ASF through a higher minimum access volume and lower tariffs. Since then, pork inflation has decreased from 58.4 percent in May to 38.4 percent in July.

Meanwhile, rice prices continued to fall with inflation of -1 percent in July. The Rice Tariffication Law has achieved its dual goal of bringing down retail prices while helping farmers improve productivity through the Rice Competitive Enhancement Fund or RCEF. Executive Order 135, which reduced the most-favored nation tariff rate of rice outside ASEAN, also contributed to ensuring adequate rice supply at affordable prices.

The government will also proactively ensure that fish prices do not rise further as supply narrows in the upcoming close fishing season starting October. The DA is preparing to issue certificates of necessity to import (CNI) to cover the supply gap.

25. ***Calibrated hog repopulation efforts need to be implemented in areas cleared of the ASF to augment supply.***<sup>44</sup> Based on the latest projections from the DA, a pork supply deficit of around 199,344 metric tons (equivalent to 45 days' worth of stocks) is expected by the end of the year.<sup>45</sup> While the supply deficit may be eased by the arrival of imports allowed under Executive Order Nos. 133 and 134,<sup>46</sup>

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<sup>43</sup> <https://pia.gov.ph/press-releases/2021/08/02/da-transport-of-goods-remain-unhampered-amid-reimposition-of-ecq-in-metro-manila>. Accessed on August 7, 2021.

<sup>44</sup> Five municipalities (Rosario, Malvar, San Jose, Nasugbu, Taysan), and the City of Lipa in the province of Batangas have been declared ASF-free as of June 18, 2021. ASF Control Taskforce Facebook Page. Retrieved from: <https://fb.watch/6ug--8UvSZ/>

<sup>45</sup> DA Presentation in the 28<sup>th</sup> TGFS meeting on July 15, 2021.

<sup>46</sup> Increasing the MAV for pork meat (EO No. 133) and modifying the rates of import duty on fresh, chilled, or frozen meat (EO No. 134).

calibrated repopulation (*i.e.*, sentinelling) and rehabilitation efforts through the INSPIRE program need to be accelerated to ramp up local production. Both initiatives will help address pork supply concerns in the second half of the year. Moreover, the government may need to further strengthen its biosecurity, phytosanitary, and border control measures in the transport of imported and local produce within localities as more ASF cases are detected in other countries. Meanwhile, the DA-Bureau of Animal Industry (DA-BAI) is currently testing two prototype ASF vaccines in 10 private companies. Should the experiment yield positive results, the ASF vaccine will be publicly available by the end of August 2021.<sup>47</sup>

26. ***Disaster management response needs to be strengthened amid torrential rains and possible re-emergence of La Niña in the second half of the year.*** Based on the latest climate outlook of the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA), around nine to 12 tropical cyclones may enter the Philippines from August 2021 to January 2022. Moreover, La Niña is likely to re-emerge (55% chance) in September-November 2021 and may persist until the first quarter of 2022.<sup>48</sup> As more typhoons enter the country in the second half of the year and the risk of COVID-19 transmission remains, evacuating residents will be a challenge. LGUs and Local Disaster Risk Reduction and Management Councils (LDRRMC) are enjoined to revisit existing protocols and ensure the safety of evacuees from both calamities and possible COVID-19 infections.

27. ***The timely implementation of the National ID system will facilitate digitalization in the country and support the new normal.*** The National ID can support digitalization by streamlining day-to-day processes, such as transactions with the government and the private sector. Amid the COVID-19 pandemic, the government adopted a three-step registration process to register applicants to Philippine Identification System (PhilSys) in a safe and efficient manner. As of August 6, a total of 39.7 million individuals were registered for Step 1 or the

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<sup>47</sup> Retrieved from: <https://www.pna.gov.ph/articles/1148131> (accessed on August 7, 2021)

<sup>48</sup> Retrieved from <https://pubfiles.pagasa.dost.gov.ph/climpro/climateforum/climateoutlook.pdf> (accessed on August 8, 2021)



collection of demographic data. Of these, 23.7 million individuals registered to Step 2 or the capture of biometrics at designated registration centers. Over 891,000 successful registrants to Step 3 have received their PhilSys Number (PSN) and PhilID card.

28. ***Human capital development is necessary to remain competitive and reverse the impact of the pandemic.*** In terms of learning outcomes, studies found that remote education may worsen inequality<sup>49</sup> as some households have limited access to reliable internet and necessary devices. The Asian Development Bank (ADB) also estimated that each year of school closure incurs PHP1.9 trillion worth of losses to the economy. NEDA's preliminary estimates show that this could be even higher. Therefore, the protracted duration of remote learning will have a significant effect on the learning outcomes of children and the economy as a whole. To alleviate these effects, the DepEd's *Sulong EduKalidad* program may be pursued, including (a) the review and update of the K to 12 curriculum; (b) improvement of learning environment, particularly in geographically isolated and disadvantaged areas (GIDAs); (c) upskilling and reskilling of teachers; and (d) engagement of stakeholders for support and collaboration to deliver quality education. The development of human capital will enable individuals to realize their full potential and facilitate the country's transition to high-value economic activities.
29. ***On the external front, mechanisms that will enable faster response to supply constraints need to be instituted.*** The government continues to improve its trade facilitation processes as four more Trade Regulatory Government Agencies (TRGAs) will start onboarding in the TradeNet System on August 2021.<sup>50</sup> The Maritime Industry Authority (MARINA) also granted consent for bareboat chartering<sup>51</sup> to two domestic shipping companies to augment the shipping capacity and address the current shortage in vessel space, thereby allowing exporters to

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<sup>49</sup> UNICEF-UNDP. 'The Impact of the COVID-19 Crisis on Households in the National Capital Region of the Philippines'. <https://www.unicef.org/philippines/reports/impact-covid-19-crisis-households-national-capital-region-philippines> (accessed August 6, 2021)

<sup>50</sup> <https://customs.gov.ph/customs-welcomes-four-regulatory-agencies-in-the-new-nsw-system/> Accessed on August 7, 2021.

<sup>51</sup> Bareboat chartering refers to hiring a boat or ship with the people renting the boat assuming the responsibility for appointing the crew, including making other arrangements.

capitalize on improving global demand. Amendments to the Customs Modernization and Tariff Act (CMTA) that will streamline the process of modifying applied tariff rates during national emergency may likewise be considered. In addition, the government may lay the groundwork to maximize the preferential access provided by the Regional Comprehensive Economic Partnership (RCEP) in 2022.

30. ***The passage of key economic reforms remains a big part of the country's recovery.*** The Legislative-Executive Development Advisory Council (LEDAC) Executive Committee (ExCom) agreed to prioritize the passage of the various legislative measures by December 2021, including bills relating to the business sector such as:

- a. Amendments to the Retail Trade Liberalization Act
- b. Amendments to the Foreign Investments Act
- c. Amendments to the Public Service Act
- d. Establishing the Tax Regime of Philippine Offshore Gaming Operators
- e. Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Act
- f. Department of Migrant Workers and Overseas Filipinos Act
- g. Passive Income and Financial Intermediary Taxation Act
- h. Virology Science and Technology Institute of the Philippines
- i. Rural Agricultural and Fisheries Development Financing System Act (Agri-Agra Law)
- j. Real Property Valuation Reform Act