Economic Report

SENATE ECONOMIC PLANNING OFFICE

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2021 Full-year Economic Report

Regaining Lost Ground

The Philippine Gross Domestic Product (GDP) recorded a growth of 5.6 percent in 2021, signaling the start of an economic recovery. Despite two COVID-19 surges in April and in September, the less stringent mobility restrictions and the accelerated pace of the vaccination program helped boost economic activity, particularly in the manufacturing and trade sectors. Inflows of foreign direct investments have bounced back, even exceeding expectations. Likewise, the labor market situation has improved with more people participating in the labor force and getting employed. However, the quality of jobs remains a pressing challenge with the rising number of unpaid family workers and part-time workers. Moreover, an additional 3.9 million Filipinos fell into poverty in 2021 compared to the pre-pandemic period. The year also ended with soaring fiscal deficit and public debt levels.

With higher vaccine coverage and rising consumer and business confidence, the outlook for 2022 is broadly optimistic, although headwinds persist. The threat of Covid-19 variants and the growing inflation appear to be the top risk concerns. Increasing global demand and the geopolitical tension in eastern Europe have been driving up global and domestic oil prices. However, the government's smaller fiscal space may limit its capacity to provide significant relief to the public. Monetary authorities are anticipated to wind down stimulus measures and increase the policy rates to rein in inflation but this could weigh in on the growth momentum. Meanwhile, while national elections could boost spending, the political uncertainty associated with it also poses some risks to growth.

Real Sector

The Philippine economy grew by 5.6 percent in 2021. Actual growth slightly beat the adjusted target range of 5.0 to 5.5 percent. The full-year growth target was originally pegged at 6.5 to 7.5 percent at the beginning of 2021 but several downward revisions to the projection were made throughout the year. Growth was particularly more robust in the fourth quarter, when GDP grew by 7.7 percent amidst falling COVID-19 daily infections coupled with looser pandemic-related restrictions ahead of the Christmas holidays. Among the ASEAN-5 economies,[1] Philippine economic growth ranked as the second fastest in 2021 next to Singapore and the government expects it to accelerate further in 2022.

[1] ASEAN-5: Indonesia, Malaysia, Philippines, Singapore, and Thailand

Table 1. Growth Rates of Selected Asian Economies, 2020-2021
(in %)

	2020	2021
Indonesia	-2.1	3.7
Malaysia	-5.6	3.1
Philippines	-9.6	5.6
Singapore	-5.4	7.2
Thailand	-6.1	1.6
China	2.2	8.8
Vietnam	2.9	2.6

Source: Trading Economics; BSP

Production was driven by the strong rebound of both industry and services sectors. Industry and services posted annual growth rates of 8.2 percent and 5.3 percent, respectively**.** All subsectors of industry registered growth rates in 2021. The industry sector was buoyed particularly by the strong performance of construction (9.8 percent) and manufacturing (8.6 percent), with these two sub sectors accounting for around 40 percent of GDP growth. The growth of manufacturing was also reflected in the Philippine's purchasing manager's index (PMI), which crossed the threshold index of 50.0 beginning September. The services sector also rebounded from a contraction and was bolstered by the growth of the wholesale and retail trade sub-sector (4.3 percent), which contributed around 14 percent to GDP growth. Transportation and storage, as well as accommodation and food services likewise made U-turns after posting double-digit contractions in 2020. In contrast, agriculture continued to contract in 2021, largely on account of the challenges that the sector continues to face such as the African Swine Flu as well as weather disturbances.

On the expenditure side, growth was propelled by consumer spending. From -7.9 percent growth in 2020, household consumption expanded by 4.2 percent in 2021, and contributed 55.3 percent to GDP growth. Likewise, capital formation seemed to have regained its footing during the course of the year as it grew at double-digit growth rates in the last three quarters. Capital formation in construction (10.6 percent), durable equipment (11.9 percent), and intellectual property products (14.1 percent) all posted positive gains, consistent with the rebound in the manufacturing and construction sectors and driven by increasing domestic household and global demand. However, investments in breeding stocks and orchard development contracted by 3.6 percent, reflecting the negative conditions besetting the agriculture sector. Government spending continued to enhance economic growth, albeit at a slower rate of 7.0 percent. Meanwhile, import spending on goods as well as the expansion of goods exports reflected the continuing recovery of global demand amidst supply chain disruptions.

Table 2. Philippine Growth Rates, 2020 - 2021 (At Constant Prices)

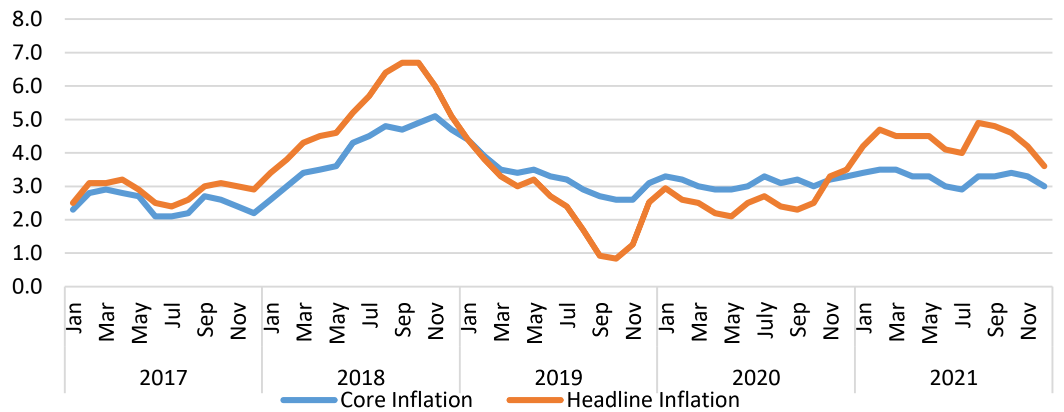
Industry	2020				2021				Average	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021
Gross Domestic Product	**-0.7**	**-17.0**	**-11.6**	**-8.3**	**-3.9**	**12.0**	**6.9**	**7.7**	**-9.6**	**5.6**
Net primary income from the rest of the world	-9.3	-24.4	-32.6	-55.9	-75.6	-54.4	-50.6	15	-30.1	-50.2
Gross National Income	**-1.6**	**-17.6**	**-13.5**	**-12.1**	**-10.6**	**6.8**	**2.7**	**8.0**	**-11.4**	**1.6**
Production										
Agriculture, forestry, and fishing	**-0.3**	**1.6**	**1.2**	**-2.5**	**-1.3**	**0.00**	**-1.7**	**1.4**	**-0.2**	**-0.3**
Industry	**-2.5**	**-21.8**	**-17.6**	**-10.6**	**-4.4**	**21.0**	**8.1**	**9.5**	**-13.2**	**8.2**
Mining and quarrying	-21.3	-21.7	-13.0	-16.4	1.0	0.00	3.0	7.9	-18.9	2.6
Manufacturing	-3.3	-21.2	-10.4	-4.9	0.5	22.2	6.4	7.2	-9.8	8.6
Electricity, steam, water and waste management	4.9	-6.4	0.2	0.6	1.1	9.5	3.0	4.4	-0.4	4.5
Construction	-0.3	-29.4	-39.7	-26.8	-22.6	27.1	17.4	18.5	-25.7	9.8
Services	**0.1**	**-17.1**	**-10.6**	**-8.0**	**-4.1**	**9.8**	**7.7**	**7.9**	**-9.2**	**5.3**
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.4	-14.1	-6.3	-4.0	-3.4	5.4	6.5	7.4	-6.0	4.3
Transportation and storage	-11.4	-58.5	-29.5	-20.1	-19.6	24.7	15.4	18.2	-30.9	6.3
Accommodation and food service activities	-15.9	-67.1	-54.6	-45.6	-22.5	56.7	11.8	22.8	-45.4	7.8
Information and communication	4.7	10.7	3.0	1.9	6.5	12.3	8.6	8.5	5.0	9.1
Financial and insurance activities	8.8	4.8	4.2	4.3	4.3	5.2	3.9	4.6	5.5	4.5
Real estate and ownership of dwellings	-2.9	-29.9	-19.2	-14.9	-11.7	16.7	3.8	3.4	-17.0	2.2
Professional and business services	-2.5	-15.7	-11.1	-8.9	-4.4	9.6	10.6	7.6	-10.0	6.2
Public administration, defense; compulsory social activities	5.5	7.1	4.7	1.3	7.5	5.1	5.4	3.3	4.6	5.2
Education	1.3	-14.5	-16.7	-12.3	0.2	12.6	13.6	5.9	-10.8	8.0
Human health and social work activities	3.0	-15.4	-3.3	1.5	13.2	13.5	17.5	15.9	-3.8	15.0
Other services	-9.8	-63.7	-48.7	-43.4	-38.7	37.6	19.6	30.1	-41.1	2.1
Expenditure										
Household final consumption expenditure	**0.2**	**-15.3**	**-9.2**	**-7.3**	**-4.7**	**7.3**	**7.1**	**7.5**	**-7.9**	**4.2**
Government final consumption expenditure	**7.0**	**21.8**	**5.8**	**5.1**	**16.1**	**-4.2**	**13.8**	**7.4**	**10.5**	**7.0**
Gross capital formation	**-12.1**	**-51.5**	**-39.5**	**-32.2**	**-14.8**	**80.3**	**20.8**	**12.6**	**-34.4**	**19.0**
Exports of goods and services	**-4.4**	**-33.5**	**-15.1**	**-10.2**	**-8.8**	**27.8**	**9.1**	**8.3**	**-16.3**	**7.8**
A. Exports of goods	-2.6	-30.6	-1.3	-0.1	2.8	35.9	9.0	5.3	-8.6	11.6
B. Exports of services	-6.2	-36.6	-35.4	-24.9	-21.1	18.4	9.2	14.1	-25.6	2.1
Imports of goods and services	**-7.4**	**-37.3**	**-20.7**	**-20.2**	**-7.0**	**39.8**	**13.0**	**13.7**	**-21.6**	**12.9**
A. Imports of goods	-8.5	-38.5	-18.9	-13.3	-0.5	48.3	16.4	14.5	-20.3	17.9
B. Imports of services	-3.0	-30.6	-28.7	-42.4	-31.3	-1.7	-3.9	9.8	-26.8	-9.3

Source: Philippine Statistics Authority

Monetary and Financial Sector

Headline inflation surpassed the government target range. Headline inflation hit an average of 4.5 percent in 2021, higher than the target range of 2–4 percent. Much of the increase was largely due to the uptick in food and fuel prices as evidenced by the relatively stable core inflation. Annual averages of the following commodity groups were higher compared to their annual average in 2020: transport (9.7 percent); food and non-alcoholic beverages (5.2 percent); restaurant and miscellaneous goods/services (3.6 percent); health (3.0 percent); and housing, water, gas, and electricity (2.6 percent). The year-to-date inflation of meat prices in particular has gone up by 16.8 percent largely on account of the impact of the African Swine Flu on domestic supply. This has prompted the government to decrease tariffs on meat products to ramp up imports and help temper the increase in meat prices. Incidentally, the government also decreased rice tariffs in 2021. Nonetheless, monthly CPI has shown some deceleration in the last four months of 2021 as supply-side interventions took effect.

Figure 1. Core Inflation vs. Headline Inflation



Source: PSA

Monetary authorities kept policy rates steady throughout 2021 despite high inflation. Since its last cut in November 2020, the Bangko Sentral ng Pilipinas (BSP) has kept steady the rate on the overnight reverse repurchase facility at 2.0 percent as well as the overnight deposit and lending facilities at 1.5 percent and 2.5 percent, respectively. The BSP likewise extended direct advances to the national government in the amount of PhP540 billion in January and in July. The BSP has earlier reiterated that it would keep its accommodative stance until such time that it deems economic recovery to be sustainable[2].

Bank lending increased but so did non-performing loans. The gradual reopening of the economy coupled with the low interest rate environment contributed to diminish risk aversion and increased demand for credit. Outstanding loans of universal and commercial banks (U/KBs) net of reverse repurchase (RRP) placements with the BSP, grew by 4.8 percent to PhP9.6 trillion, a turnaround from the 0.7 percent contraction recorded in 2020. Outstanding loans for production activities went up by 6.0 percent and were directed towards information and communication (28.1 percent), financial and insurance activities (10.2 percent), manufacturing (9.6 percent), real estate activities (9.2 percent),

[2] That is, four to six quarters of steady economic growth and unemployment of around 5 percent.

and transportation and storage (9.2 percent). However, the ratio of gross non-performing loans to total loan portfolio continued to increase from 3.1 percent in 2020 to 3.6 percent in 2021. Monthly data however shows a deceleration from a peak of 4.0 percent in September. The deceleration came after the passage of the Financial Institutions Strategic Transfer (FIST) Act, which allowed the creation of corporate entities towards which bad loans may be offloaded.

External Accounts

Foreign direct investments sustained inflows and hit a record high by end-2021. Net FDI inflows hit a record high of US$10.5 billion in 2021, 54.2 percent higher than the USD6.8 billion seen in 2020 and even surpassed the previous high of US$10.3 billion in 2017. The 2021 total was also higher than the US$8 billion that was projected by the BSP. The strong influx can be attributed to the rebound in investor sentiment especially in the fourth quarter. The increase in inflows largely came on the back of the 80.4 percent rise in debt instruments which amounted to US$7.5 billion. Investments in equity grew by 12.8 percent to US$3.0 billion, with reinvestment of earnings amounting to US$1.3 billion. Meanwhile, placements in equity (other than reinvestments) and withdrawals totaled US$2.1 billion and US$400 million, respectively. Capital placements came mostly from Singapore, Japan, the United States, and the Netherlands and were channeled primarily to the 1) manufacturing; 2) electricity, gas, steam, and air-conditioning; 3) financial and insurance; and 4) real estate industries.

Remittance flows grew, aided by reopening of economies. Cumulative personal remittance inflow summed up to US$34.9 billion by end-December 2021, up by 5.1 percent year-on-year. Meanwhile, cash remittance coursed through banks also expanded to US$31.4 billion, which is close to what the BSP projected for 2021 (i.e., US$31.7 billion or 6.0 percent growth from 2020 level of US$29.9 billion). While remittances posted strong growth rates in the first three quarters of the year, there was some deceleration in the last quarter as base effects wore out. Nonetheless, the steady inflow of remittances provided a continuous support to household consumption, which is likely to get a boost in purchasing power as the peso depreciates.

The country's trade deficit widened as global demand recovered. As of end-2021, cumulative trade (in goods) deficit expanded to US$43.1 billion. This is 75.4 percent wider than what it was during the same period in 2020. Imports summed up to US$117.8 billion, increasing by 31.1 percent year-on-year. While all major import commodity groups posted gains, most noteworthy is the 91.3 percent increase in the cumulative value of fuel imports which came as a result of increase in demand (as the economy gradually reopened) as well as higher global oil prices. The 19.2 percent rise in imports of capital goods seemed modest in comparison but nonetheless bodes well for overall productivity. It might also be worthy to note that cumulative import values from the top 10 import (country) sources registered double-digit growth. Meanwhile, goods exports increased by 14.5 percent to US$74.6 billion, driven in large part by the 11.9 percent growth of electronics exports, which make up almost 60 percent of total exports. The total value of the country's top export products also grew by 14.3 percent. The growth in goods exports is significant given that it has contracted by 9.8 percent in 2020 (to US$48.2 billion). Meanwhile, trade (in services) expanded by 2.1 percent in 2021. Only the export of travel and transport services registered a 52.6 percent and 5.4 percent contraction, respectively, in 2021. These two export services account for 7.5 percent of the total export of services in 2021.

The country's balance of payments (BOP) posted a full-year surplus that is tempered by a wider trade deficit. As of end-2021, the country's BOP position was equal to US$1.3 billion, significantly lower than the US$16.0 billion surplus posted in 2020 and fell short of the US$1.6 billion target set by the BSP. The smaller surplus in 2021 was mainly caused by the wider trade deficit. The BOP may move towards negative territory as domestic demand continues to recover. Aside from foreign interest rate differentials, it is expected to exert downward pressure on the peso. Net international reserves amounted to US$108.8 billion as of end-2021, which was sufficient to cover 10.3 months' worth of imports. It also provided ample liquidity buffer as it was 8.7 times the country's short-term external debt based on original maturity and 5.8 times based on residual maturity.

The Philippine peso appreciated against the US dollar although it closed the year on a depreciating trend. The peso-dollar exchange rate averaged at PhP49.25 in 2021, equivalent to a 0.75 percent appreciation over the average of PhP49.62 per US dollar in 2020 and was well within the Development Budget Coordination Committee's (DBCC) target for 2021. The domestic currency started to depreciate starting July just as import demand posted a strong recovery and hit PhP50.77 by end-December.

Fiscal

Fiscal deficit widened to record high level. The national government posted a fiscal deficit amounting to PhP1.8 trillion in 2021, equivalent to 8.6 percent of GDP. It was the highest fiscal deficit recorded since 1986. The actual deficit was PhP95.5 billion less than the revised programmed amount of PhP1.9 trillion set in May 2021[3] but was closer to the assumed fiscal deficit upon which the 2021 General Appropriations Act (GAA) was anchored to. While revenues generated surpassed the revised target, the government missed its spending target by PhP61.6 billion.

Table 3. NG Fiscal Performance 2021 (in PhP billion)

Particulars	Actual		2021 Program	
	2020	2021	2021 BESF	Revised (18 May 2021)
Revenues	2,856.00	3,005.5	2,717.4	2,881.5
Expenditures	4,227.40	4,675.6	4,467.0	4,737.1
Deficit	-1,371.40	-1,760.1	-1,749.6	-1,855.6
ratio to GDP	*-7.6*	*8.6*	*8.5*	*9.3*

Source: Bureau of Treasury, Budget of Expenditure and Sources of Financing 2021 and 2022, Department of Budget and Management

Total revenue collection expanded with both tax and non-tax revenues exceeding the targets. Total NG revenue summed up to PhP3.0 trillion in 2021, 5.2 percent higher than that collected in 2020. The combined tax collection of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BoC) was 9.4 percent higher year-on-year, surpassing their combined target by PhP23.8 billion. The increase in tax collection may be attributed to the pick-up in economic activity during the year as well as the

[3] On 18 May 2021, the DBCC revised the fiscal program, taking into consideration the downward revision to the projected nominal output.

digitalization initiatives launched by both tax agencies.[4] Note however, that tax effort (tax-to-GDP ratio) in 2021 was 14.1 percent, still lower than the 14.5 percent ratio in pre-pandemic 2019.[5] Non-tax revenue collection likewise exceeded the programmed amount by PhP90.9 billion, although it was lower than the collection in the previous year. The Bureau of Treasury and other offices beat their full-year targets by PhP45.9 billion and PhP45 billion, respectively.

Table 4. NG Revenue Performance, 2020 and 2021 (in PhP billion)

Particulars	2020	2021	Growth (%)	Program as of May 18, 2021	Variance Actual vs. Program
Revenues	**2,856.00**	**3,005.50**	**5.2**	**2,881.50**	**124.00**
Tax Revenues	2,504.00	2,742.70	9.5	2,714.80	27.90
BIR	1,951.00	2,078.10	6.5	2,081.20	-3.10
BOC	537.7	643.6	19.7	616.7	26.90
Other Offices	15.7	21	33.8	16.9	4.10
Non-Tax Revenues	351.3	262.5	-25.3	166.7	95.80
BTr Income	219.7	125.3	-43.0	74.69	50.61
Fees and Charges	23.1	31.7	37.2	31.2	0.50
Privatization	0.5	0.3	-40.0	0.5	-0.20
Income from Malampaya	19.1	19.8	3.7	15.7	4.10
Other Non-Tax	89	85.4	-4.0	44.6	40.80
Grants	0.2	0.4	100.0	0	0.40

Source: Bureau of Treasury, 2021 Budget of Expenditure and Sources of Financing

Total expenditure increased but missed the full year target. The total expenditure of the government in 2021 amounted to PhP4.7 trillion, 10.6 percent higher than what it was in 2020, but PhP61.6 billion short of the full year expenditure program. Data shows that disbursements of national government agencies exceeded the revised program by PhP58.9 billion and the growth in expenditures appears to have been driven mainly by infrastructure spending[6]. The government paid PhP102.1 million less than the programmed amount for interest payment, likely on account of the low interest rate environment. Actual subsidy was also PhP46.6 million less than the programmed amount due to lower releases pending the submission of requests and documentary requirements by the concerned GOCCs.[7]

[4] The BIR launched the Internal Revenue Integrated System (IRIS), and the Enhanced Internal Revenue Stamps Integrated System (IRSIS). The BoC on the other hand, fast tracked the digitization initiatives that are included in the Customs Modernization Program.

[5] In 2019, NG total revenue and tax revenue amounted to PhP3.1 billion and PhP2.8 trillion, respectively.

[6] Latest data available as of November shows that infrastructure and other capital outlay increased by 38.9 percent

[7] As explained by the DBM as a response to SEPO's inquiries.

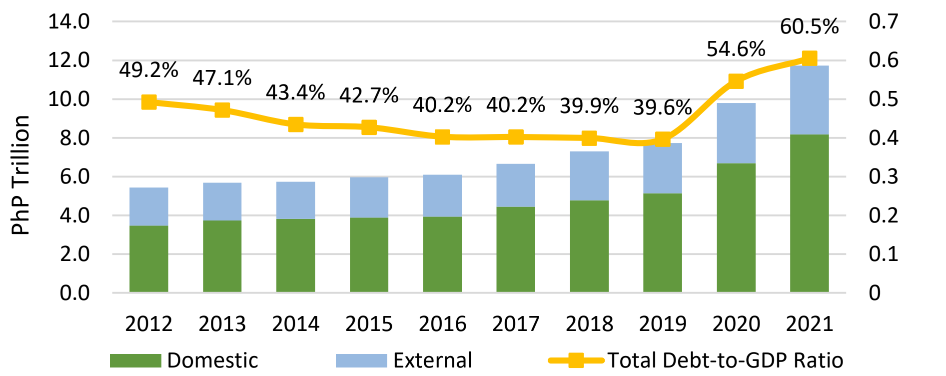
Table 5. NG Expenditure Performance, 2020 and 2021 (in PhP billion)

Particulars	2020	2021	Growth (%)	Program as of May 18, 2021	Actual vs. Program
Expenditures	**4,227.40**	**4,675.60**	**10.6**	**4,737.20**	**-61.60**
NG Disbursements	2,745.40	3,066.60	11.7	3,007.70	58.90
Allotment to LGUs	804.5	892.7	11.0	866.6	26.10
Interest payments	380.4	429.4	12.9	531.5	-102.10
Tax expenditures	33.1	36.7	10.9	14.5	22.20
Subsidy	229	184.8	-19.3	231.4	-46.60
Equity	12.8	47.5	271.1	56.8	-9.30
Net lending	22.1	17.9	-19.0	28.7	-10.80

Source: Bureau of Treasury, 2021 Budget of Expenditures and Sources of Financing

National government debt continued to post double digit growth. As of end-2021, outstanding debt of the national government amounted to PhP11.7 trillion, 19.7 percent higher than the PhP9.8 trillion recorded in 2020. Domestic debt rose by 22.0 percent to PhP8.2 trillion, while external debt increased by 14.8 percent to PhP3.6 trillion. Such increases are considerably large compared to the 5-year average annual growth rate of 6.2 percent during the pre-pandemic period.[8] A total of US$22.55 billion was borrowed from various multilateral agencies[9] and through the sale of foreign currency denominated global bonds. Meanwhile, the country has secured a total of US$3.25 billion in grants. Much of what was borrowed served as budgetary support towards the government's various efforts for COVID-19 response. Prior to the pandemic (2019), debt-to-GDP ratio stood at 39.6 percent. Since the debt levels grew faster than the economy in the last two years, the ratio has settled at 60.5 percent, slightly above what is generally considered as "manageable" (i.e.,60 percent) for emerging economies. Nonetheless, the debt profile remains heavily biased towards domestic debt and long-term maturities to minimize foreign exchange and roll over risks.

Figure 2. National Government Debt



Source: Bureau of Treasury

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[8] The World Bank's annual report for the fiscal year ending June 2021 showed that the Philippines borrowed US$3.07 billion, the highest among all country borrowers.

[9] Asian Development Bank (ADB), World Bank (WB), Asia Infrastructure Investment Bank (AIIB), Agence Francaise de Developpement (AFD), Japan International Cooperation Agency (JICA), Export-Import Bank of Korea-Economic Development Cooperation Fund (KEXIM-EDCF)

Employment and Poverty

Employment rate improved, although job quality remains a concern. The gradual lifting of mobility restrictions made it possible for more individuals to participate in the labor market in 2021. The average labor force participation rate in 2021 reached 63.4 percent, equivalent to some 47.7 million individuals in the labor force. Out of this number, 92.2 percent (around 44 million individuals) were employed. The unemployment rate likewise improved from an average of 10.4 percent in 2020 to 7.8 percent in 2021 (equivalent to some 3.7 million individuals) and is well within the revised unemployment target of 7.0 to 9.0 percent. However, it still remains significantly high compared to the 5.1 percent recorded prior to the pandemic.

Table 6. Selected Labor and Employment Indicators (in thousand, except rates)

Particulars	2019a	2020a	2021b
Total Population 15 Years Old and Over	72,177.7	73,732.6	75,237.3
Labor Force	44,218.9	43,879.6	47,685.2
Employed	41,934.2	39,378.9	43,988.7
Underemployed	5,792.3	6,395.4	6,996.5
Unemployed	2,259.1	4,500.7	3,696.5
Labor Force Participation Rate (%)	61.3	59.5	63.4
Employment Rate (%)	94.9	89.6	92.2
Underemployment Rate (%)	13.8	16.4	15.9
Unemployment Rate (%)	5.1	10.4	7.8
Employed by Occupation (% Share)			
Managers	11.4	9.0	7.8
Clerical support workers	6.2	6.3	6.5
Service and sales workers	18.5	19.2	20.3
Elementary occupations	26.5	27.3	28.9
Employed by Class of Workers (% Share)			
Wage and salary workers	64.7	62.8	62.2
Self-employed	26.8	28.4	28.1
Unpaid family worker	5.7	6.3	7.3
Worked Less than 40 Hours (% Share)	29.8	34.4	36.8

Source: Philippine Statistics Authority, Labor Force Survey

a. Average of the January, April, July, and October quarterly Labor Force Survey (LFS)

b. Average of the January to December monthly LFS. For 2021, the Philippine Statistics Authority started to conduct a monthly Labor Force Survey (LFS) in between the regular quarterly LFS amidst the call for higher frequency statistical information that will enable better monitoring and understanding of the current labor market situation.

Note too that the quality of job remains a concern as evidenced by the increase in the proportion of the employed who worked less than 40 hours a week to 36.8 percent in 2021 from 34.4 percent in 2020. It is likely that some enterprises have shortened work hours and added more shifts when they re-opened in 2021. Contractual arrangements may have likewise gone up. Also, the share of wage workers declined while the share of unpaid family workers and self-employed have increased. In terms of occupation, the share of skilled workers such as managers continued its downward trend since 2020 while the share of those in clerical support, sales service, as well as elementary occupations, continued to rise.

Poverty incidence worsened in 2021. The Duterte administration initially aimed to reduce poverty rate to 15.5 – 17.5 percent by 2021. However, because of the COVID-19 pandemic, which continue to adversely affect household incomes, this target was not achieved. An additional 3.9 million Filipinos fell into poverty in a span of three years as poverty incidence rose from 21.1 percent in 2018 to 23.7 percent in 2021. This brings the total number of poor Filipinos (i.e., those to whose per capita income is insufficient to meet their basic food and non-food needs) to 26.1 million.

At the household level, poverty incidence increased to 18 percent from 16.2 percent three years ago, or to about 4.7 million poor families. In 2018, a family of five needed at least PhP10,532 per month to meet the most basic food and non-food needs and this has increased to PhP12,082 per month in 2021. Subsistence incidence[10] among families or the proportion of those in extreme poverty has likewise worsened from 6.2 percent in 2018 to 7.1 percent in 2021. Across regions, Metro Manila posted the lowest poverty rate at 7.8 percent, followed by CALABARZON at 14.8 percent, then by Cordillera Administrative Region at 16.2. The Bangsamoro Autonomous Region posted the highest rate at 45.8 percent although the region has exhibited the largest poverty reduction of 17.4 percent, which the NEDA attributes to the progress made on the peace process.[11]

Table 7. Poverty Incidence, by Region
First Semester 2018 and 2021

Region/Province	Poverty Incidence		Magnitude of Poor Population (in '000)		Variance	Growth rates
	2018u	2021	2018u	2021		
PHILIPPINES	21.1	23.7	22,262.4	26,136.8	3,874.4	17.4
National Capital Region (NCR)	6.6	7.8	885.6	1,091.4	205.8	23.2
Cordillera Administrative Region (CAR)	17.9	16.2	317.5	295.5	- 22.1	- 7.0
Region I (Ilocos Region)	11.7	20.2	607.5	1,073.7	466.2	76.7
Region II (Cagayan Valley)	19.3	20.9	691.0	771.8	80.9	11.7
Region III (Central Luzon)	10.4	18.2	1,234.3	2,275.6	1,041.2	84.4
Region IV-A (CALABARZON)	10.5	14.8	1,615.1	2,416.7	801.6	49.6
MIMAROPA Region	20.5	25.7	635.1	826.2	191.1	30.1
Region V (Bicol Region)	28.1	33.5	1,685.2	2,077.0	391.8	23.3
Region VI (Western Visayas)	20.9	25.3	1,624.4	2,015.7	391.3	24.1
Region VII (Central Visayas)	24.3	33.0	1,880.7	2,661.4	780.6	41.5
Region VIII (Eastern Visayas)	37.3	36.0	1,722.8	1,728.3	5.5	0.3
Region IX (Zamboanga Peninsula)	39.9	37.4	1,486.3	1,425.5	- 60.8	- 4.1
Region X (Northern Mindanao)	32.0	33.8	1,564.1	1,715.6	151.4	9.7
Region XI (Davao Region)	23.8	19.4	1,220.1	1,039.6	- 180.5	- 14.8
Region XII (SOCCSKSARGEN)	33.6	34.1	1,606.3	1,702.6	96.3	6.0
Region XIII (Caraga)	35.2	38.3	948.9	1,065.9	117.0	12.3
ARMM/BARMM	63.2	45.8	2,537.4	1,954.4	- 583.0	- 23.0

Source: Philippine Statistics Authority

[10] Those whose income is not enough to meet even the basic food needs.
[11] https://neda.gov.ph/statement-on-the-2021-first-semester-official-poverty-statistics/#:~:text=2021%20first%20semester%20poverty%20statistics,more%20Filipinos%20living%20in%20poverty.

Risks and Outlook

The Philippine economy managed to post economic gains for three consecutive quarters in 2021. Supported by the gradual easing of mobility restrictions, full-year GDP growth settled at 5.6 percent, just slightly beating the target of 5.0 to 5.5 percent. In December 2021, the Asian Development Bank and the World Bank raised their growth projections to 6.0 percent and 5.9 percent, respectively. Indeed, the emerging growth dynamics seem to point to an economic recovery in 2022 with the government setting an ambitious growth target of 7.0 to 9.0 percent. Such optimism is anchored on the acceleration of the COVID-19 vaccination program, the continued decrease in the number of active COVID-19 cases, public spending on infrastructure, as well as the economic boost associated with election-related spending.

While economic recovery is well in sight, the government's optimism for 2022 may be weighed down by some risk factors. First, upward risks to inflation seem to be amplifying. Rising demand coupled with production constraints and waning inventories have resulted in the steep rise in world oil prices since mid-2020. The geopolitical tension in eastern Europe is pushing up global oil prices, with Russia being the third largest oil producer in the world. Indeed, the Brent crude oil price already breached the US$100/barrel threshold in February 2022, the first time since 2014. Retail pump prices hiked up every week since the beginning of 2022 with a total net increase of PhP13.25 for gasoline and PhP17.50 for diesel (as of 14 March). There is a proposal to suspend the imposition of excise tax on petroleum products to provide some relief. However, the Department of Finance (DOF) estimate that the revenue loss resulting from the proposal could reach PhP131.4 billion in 2022,[12] which would make it difficult for the government to sustain growth-supportive measures (e.g., public expenditure on infrastructure and health). The African Swine Flu has likewise not been fully contained and continues to adversely affect domestic hog production. While the government started a repopulation program to mitigate the impact on food inflation, it might take a while for domestic supply to adequately expand to reduce meat prices.[13] The prevalence of adverse weather conditions in the country also remains an upside risk to inflation. These conditions warrant strict monitoring as they are likely to trigger price hikes in transportation, utilities, and in the heavily weighted food index. Note that the BSP made an upward revision to its 2022 baseline inflation projection from 3.4 percent in December 2021 to 3.7 percent in February 2022. Just when household consumption started to rebound in 2021, high prices could dampen it once again in 2022.

Second, with inflation being a key risk factor in other countries as well, policy rate hikes will likely be more common[14]. This may put the BSP in a conundrum as it tries to strike a balance between the need to keep rates low to support economic recovery and the need to raise rates to rein in inflation. Interest rate differentials could likewise push the peso to depreciate further, which in turn, could further feed into inflation expectations. While the monetary authority has insisted that it still has some policy legroom to maneuver, some analysts see a rate hike coming towards the end of the first half of

[12] Forgone revenue from the Bureau of Customs could total PhP24.7 billion. Incremental excise tax revenues under the Tax Reform for Acceleration and Inclusion (TRAIN) Law would account for PhP106.7 billion.

[13] Suffice it to say that in the meantime, supply is being augmented by an increase in imports, which raises some other concern regarding our capacity to inspect (and quarantine, if needed) all the meat products to be consumed by the populace.

[14] For the first time since 2018, the US Federal Reserve has lifted its interest rates last March 16 and more increases are expected ahead to slow down inflation.

the year. This would effectively restrict bank lending for production activities, which only began to rebound in the second semester of 2021.

Third, COVID-19 virus remains a big threat. The World Health Organization recently pointed out that even with the progress in vaccination and end to the surge brought on by the Omicron variant, the COVID-19 pandemic is not yet over. It added that conditions are ideal for more transmissible, more dangerous variants to emerge. In the Philippines, the surge brought on by the Omicron variant in January has led the government to reinstate mobility curbs and while hospitalization rates remain “manageable”, data suggests that the surge has filtered through to the manufacturing sector. The purchasing managers index reading in January went down to a 50 from the 51.8 reading in December 2021, implying that despite the progress in vaccination, the growth momentum may still be hampered by resurgences in the coming months. Moreover, data from the ADB shows that the Philippines has the biggest pandemic-induced output gap[15] amongst the ASEAN-5 countries and that the projected growth rates for 2022 were sensitive to COVID-19 behavior (i.e., magnitude of resurgence and/or containment) and health policy interventions.

Fourth, the COVID-19 pandemic has resulted in the rise of the debt-to-GDP ratio coupled with dwindling fiscal resources. Recently in fact, Fitch Ratings maintained the Philippines’s investment-grade status but gave a negative outlook for the country, citing uncertainties about its medium-term growth prospects. Also, the policy rate hike by the US Fed could translate to higher repayment burdens for US dollar-denominated debt. This implies that the country’s credit ratings in 2022 will likely be influenced by the pace, extent, and challenges of unwinding growth-supportive policy measures. Considering the upcoming change in leadership, the country’s credit ratings will also depend on the continuity of a sound policy framework.

Fortunately, there were notable reforms that were passed in 2021 that are expected to positively impact the growth prospects, these include the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which reduces the corporate income tax rate for micro, small, or medium-sized enterprises from 30 to 20 percent, and to 25 percent for all other businesses, and enhances fiscal incentives to investors to make them time-bound and performance-based, the Financial Institutions Strategic Transfer (FIST) Act permits banks to offload bad debts and non-performing assets towards asset management companies (AMCs) to free up liquidity for lending as well as the Amendment to the Retail Trade Liberalization Act, which lowered the paid-up capital requirement for foreign retail enterprises. In March 2022, the amendment to the Public Services Act which allows up to 100% foreign ownership of public services in the country and the Foreign Investments Act that ease restrictions on foreign participation in some investment areas were also enacted into law and these are expected to further shore up capital flow into the country.

It is hoped that even with a change in leadership this year, there will be a sustained momentum for policy reforms, especially those that are geared towards enhancing productivity and efficient use of resources. These would include the proposed Open Access in Data Transmission, National Land Use and Management Act, as well as the last two packages of the Comprehensive Tax Reform Program – the Real Property Valuation and Assessment Reform Act and the Passive Income and Financial Intermediary Taxation Act. Furthermore, the ratification of the Regional Comprehensive Economic

[15] The deviation of actual growth from pre-pandemic growth potential.

Partnership (RCEP) is urged as it provides the Philippines with access to the biggest regional trading bloc to date. It is an opportunity for the Philippines to cement our place in regional production networks, whose members are tied to common standards on rules of origin, customs procedures, e-commerce, and competition policy. This is critical as the Philippines aspires to become a manufacturing and services hub in the region, creating jobs that will put Philippine products in higher global value chains.

This Economic Report was principally prepared by the Macroeconomics Sector, with inputs from its sector head, Ms. Maria Kathreena D. Tan, under the supervision of SEPO's Directors and the overall guidance of its Director General.