



OPENING REMARKS

CARLOS G. DOMINGUEZ
Secretary of Finance

Security Bank Forum
August 6, 2020

Clearly, **this is a global challenge to save as many lives as possible with as little damage to the economy,** before a vaccine can bring a definitive end to this crisis.



But for now, as long as we do not yet have the vaccine,

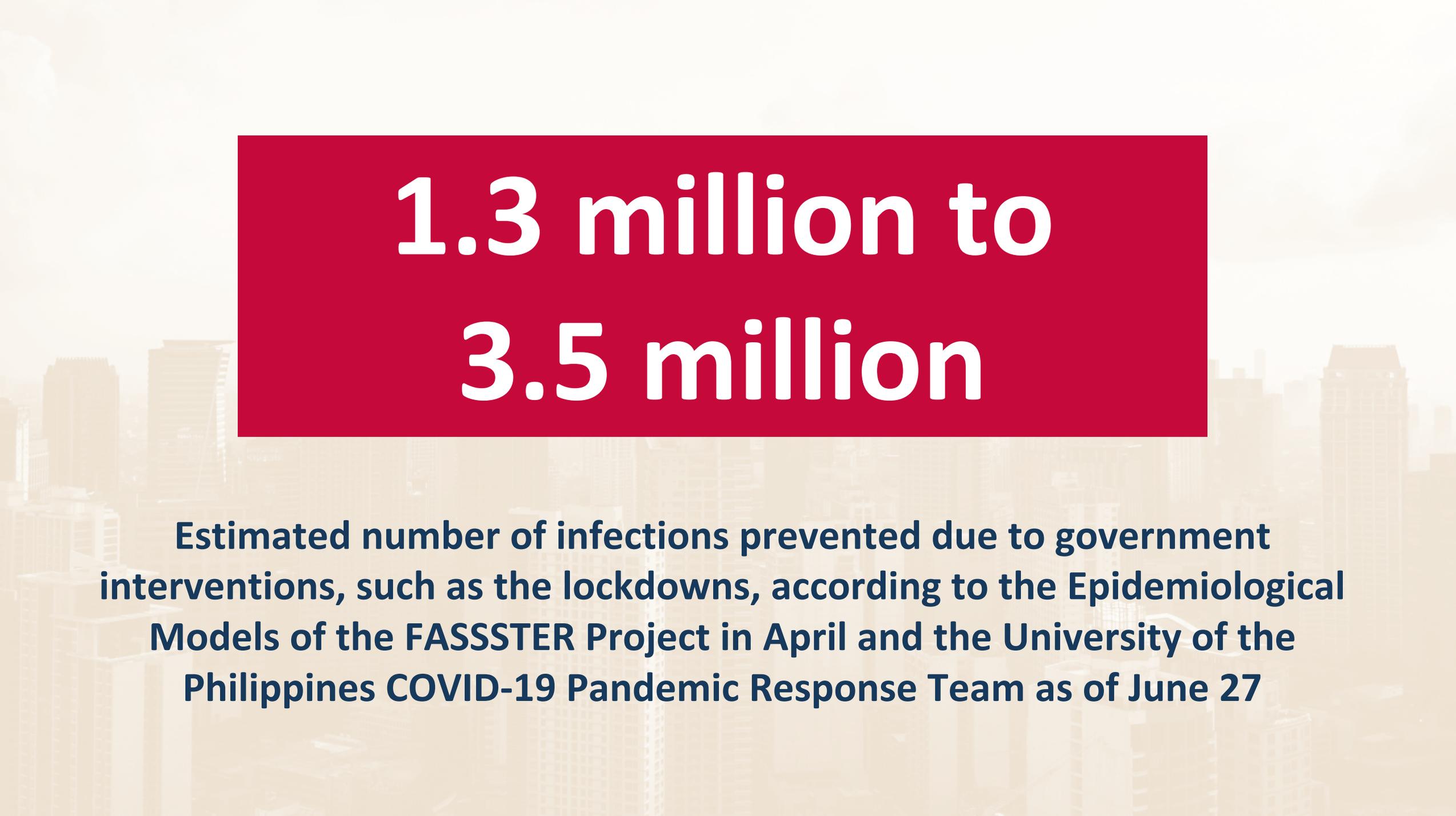
we will continue to manage and treat infections as we find ways to coexist with the virus.





The Duterte administration did not fold in the face of this global health emergency. We quickly took stock of the situation and responded with everything we had.





**1.3 million to
3.5 million**

Estimated number of infections prevented due to government interventions, such as the lockdowns, according to the Epidemiological Models of the FASSSTER Project in April and the University of the Philippines COVID-19 Pandemic Response Team as of June 27

The lockdown gave us time to expand our capacity to deal with this contagion.

NUMBER OF ACTUAL COVID-19 PCR TESTS CONDUCTED PER DAY

1,282

end March 2020

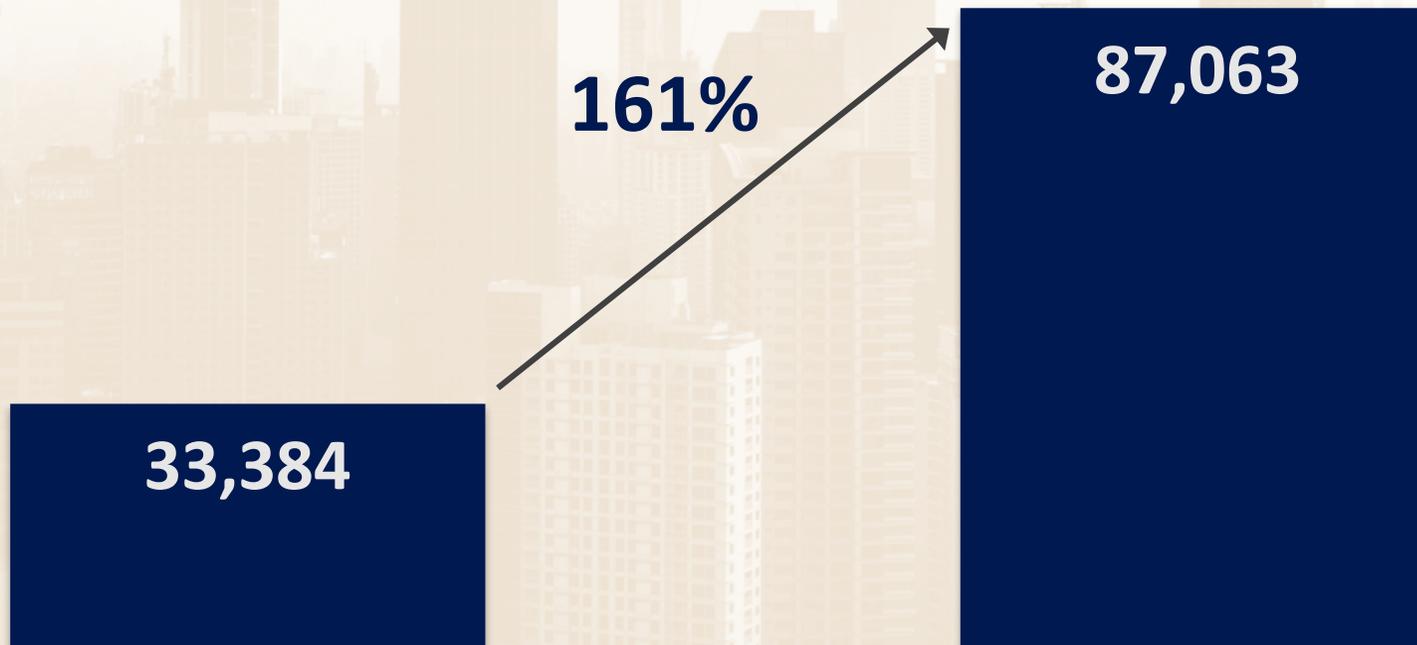
29,147
(average)

Start of August 2020

On July 25, we achieved our all-time high daily testing output of 35,111 tests.

The lockdown gave us time to expand our capacity to isolate the infected.

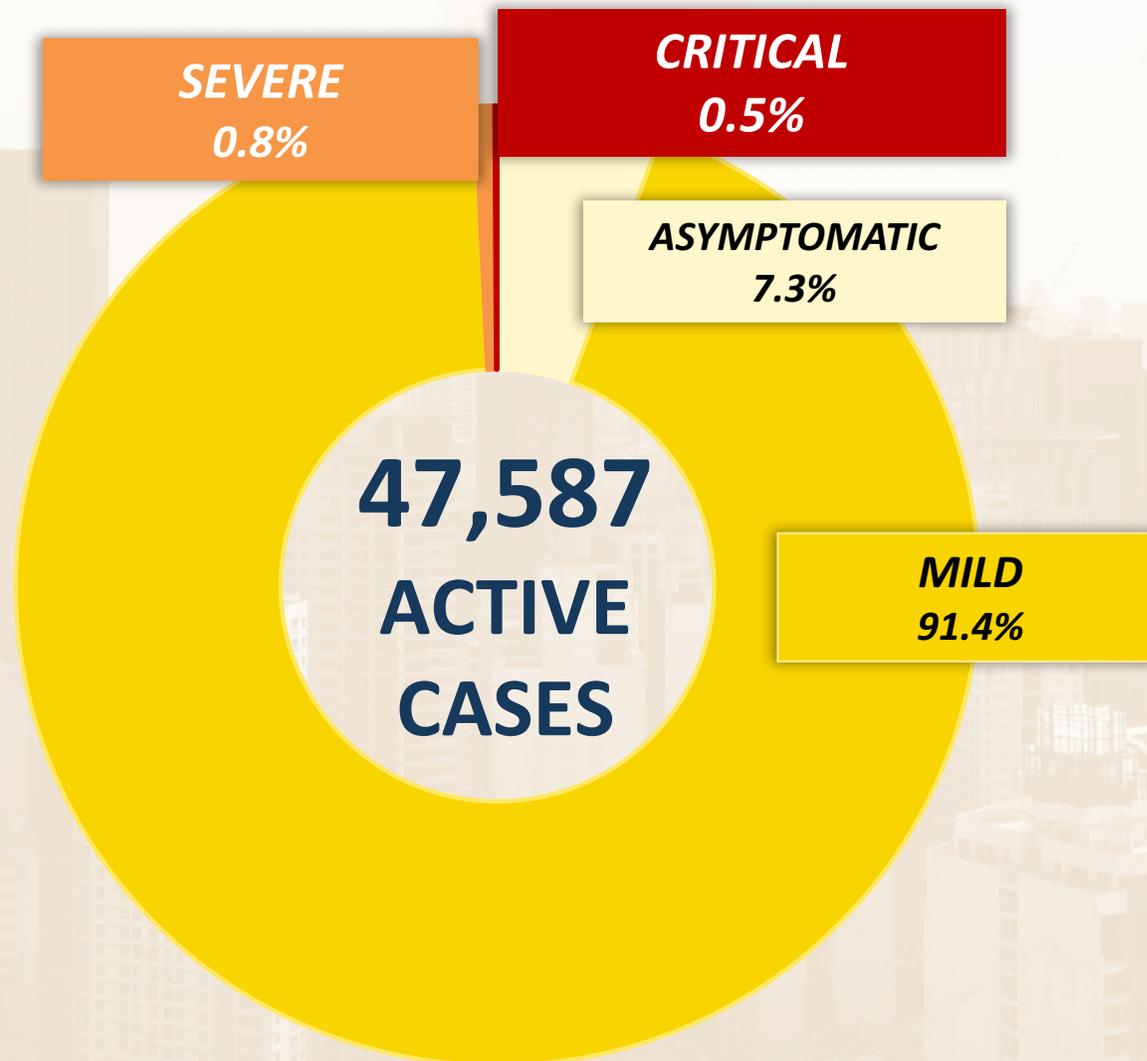
NUMBER OF BEDS IN QUARANTINE FACILITIES



71% of these isolation beds are available as of August 4

Only less than one percent of all COVID-19 cases in the Philippines are severe or critical.

Disposition of Active Cases
As of August 5, 2020



In the first half of this year, our economy shrank by 9.0 percent.

GDP GROWTH RATES



Source: NEDA

Our economic performance for the first half of the year falls within the mid-range of our credit-rating peer group.

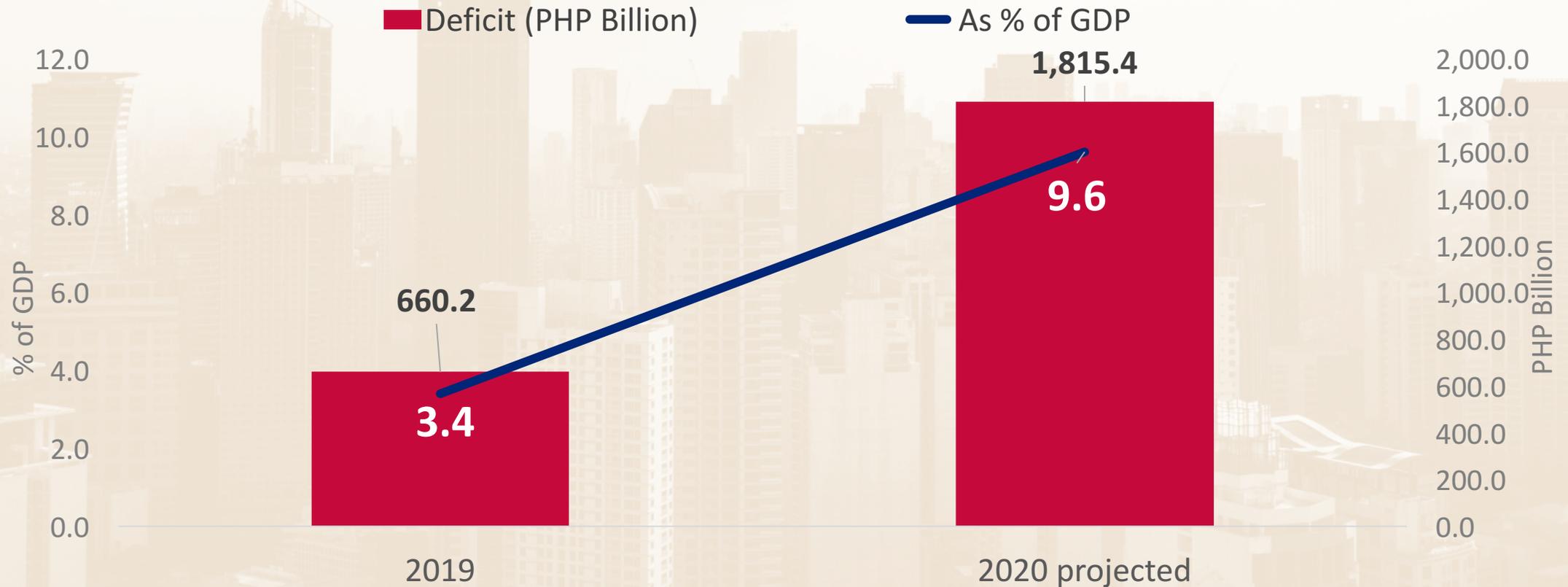
Real GDP growth rates of selected countries (in percent)

Country	Q1 2020	Q2 2020	H1 2020
<i>Credit rating peers</i>			
Indonesia	3.0	-5.3	-1.2
Thailand	-1.8	-11.1*	-6.5*
Philippines	-0.7	-16.5	-9.0
Mexico	-1.4	-18.9	-10.2
Italy	-5.6	-17.6*	-11.6*
<i>Other countries</i>			
Vietnam	3.8	0.4	2.1
China	-6.8	3.2	-1.8
Malaysia	0.7	-8.4*	-3.9*
United States	0.6	-9.6	-4.5
Singapore	-0.3	-12.6	-6.5
France	-5.7	-19.0	-12.4
Spain	-3.7	-22.1	-12.9

*estimates based on Bloomberg consensus data; Sources: Bloomberg, BSP, CEIC

Our deficit-to-GDP ratio will more than double as tax collections are down and as we spend more for our people.

DEFICIT-TO-GDP RATIO



The Duterte administration's prudent approach to fiscal and economic management made us one of the

strongest, most resilient, and most credit-worthy economies in the region.

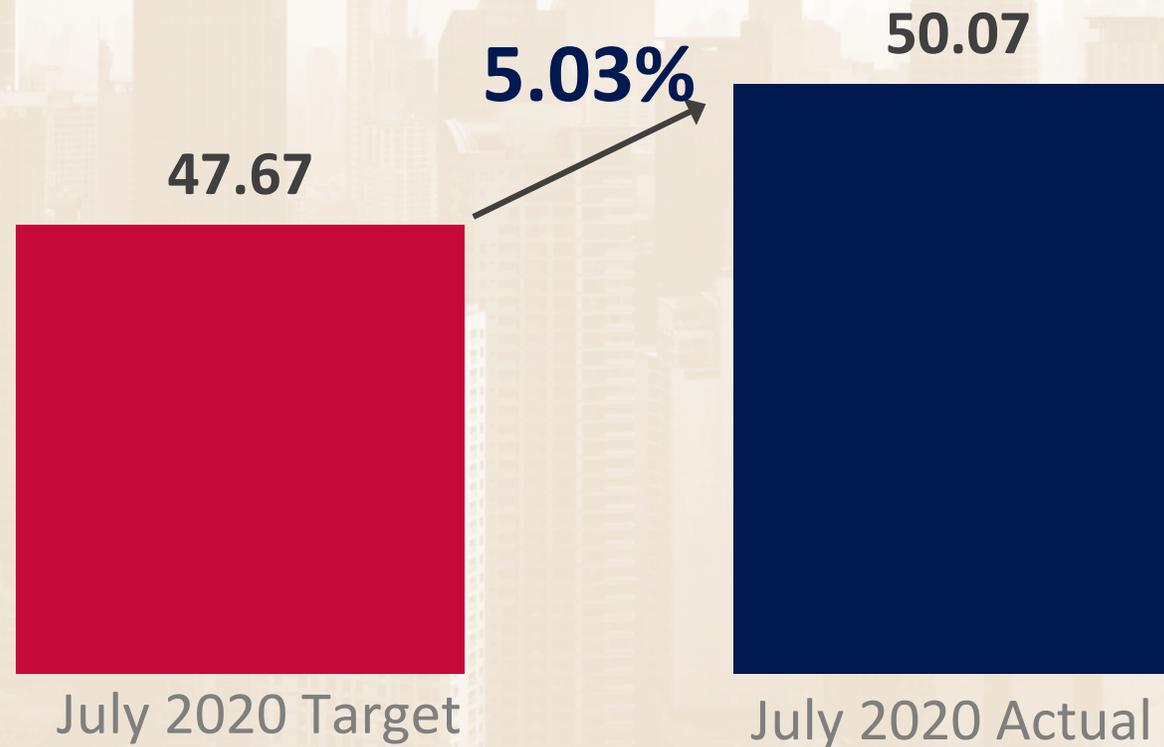


Improvements are seen as the economy gradually reopens

- The value of the production index for the month of June showed a slower annual decline of 22.5 percent compared to the 31.2 percent decrease in May and 41.2 percent in April.
- While the volume of production index in June shrank by 19.3 percent year-on-year, the decline was slower compared to May's drop of 28.5 percent and 38.8 percent in April.
- The overall manufacturing capacity reached 73 percent in June, up from 72.4 percent in May and 70.5 percent in April.
- The Philippines' total merchandise trade further eased its negative trajectory in June with a slower decline of 19.9 percent, after a steep 35.3 percent contraction in May and 59.5 percent in April.

Despite the effects of COVID-19 to the overall trading environment, the BOC was able to surpass its July 2020 collection target by 5 percent.

BOC COLLECTIONS FOR THE MONTH OF JULY 2020
ACTUAL VS. TARGET
(in PHP Billion)

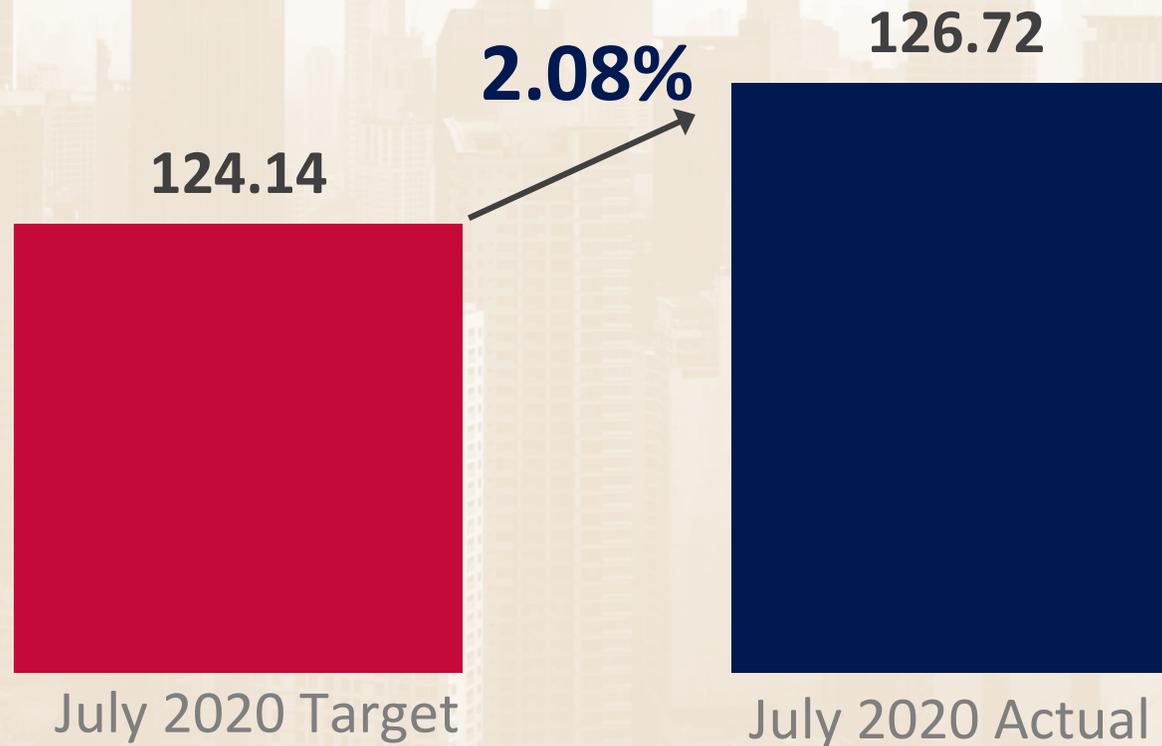


Source: DOF ROG

Note: Preliminary Figures Only

The Bureau of Internal Revenue, for its part, exceeded its July 2020 collection target by 2 percent.

**BIR COLLECTIONS FOR THE MONTH OF JULY 2020
ACTUAL VS. TARGET
(in PHP Billion)**

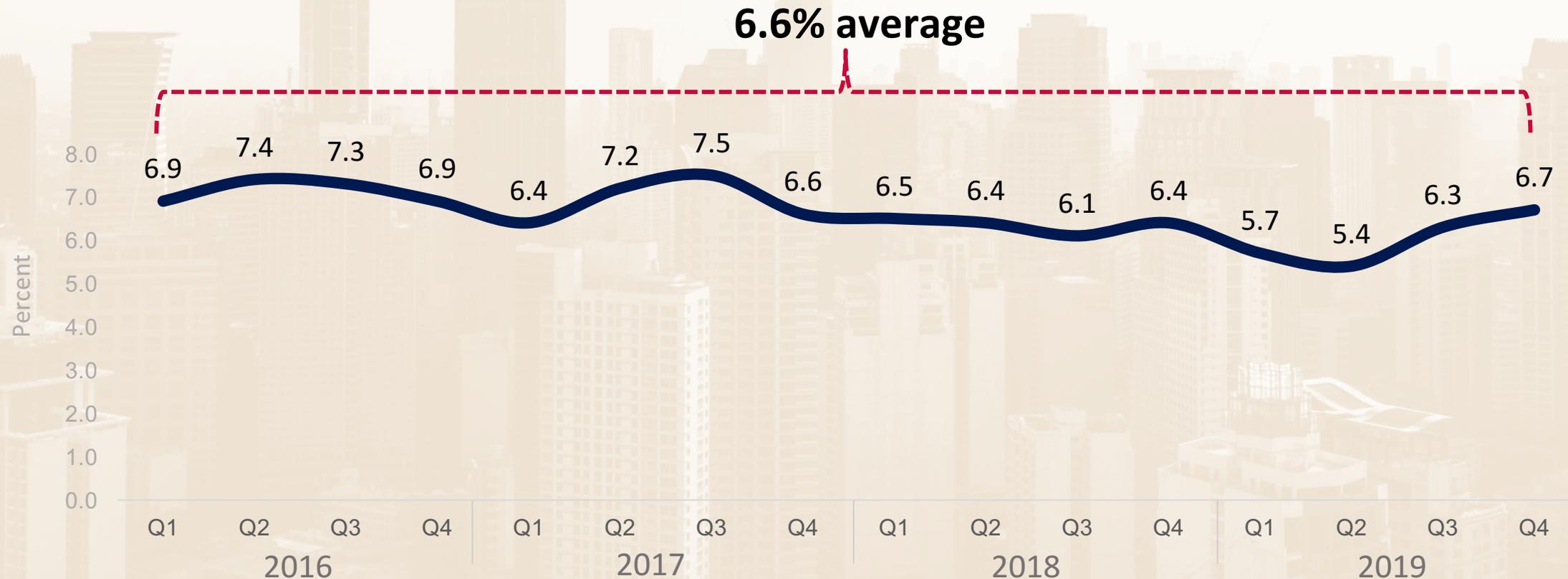


Source: DOF ROG

Note: Preliminary Figures Only

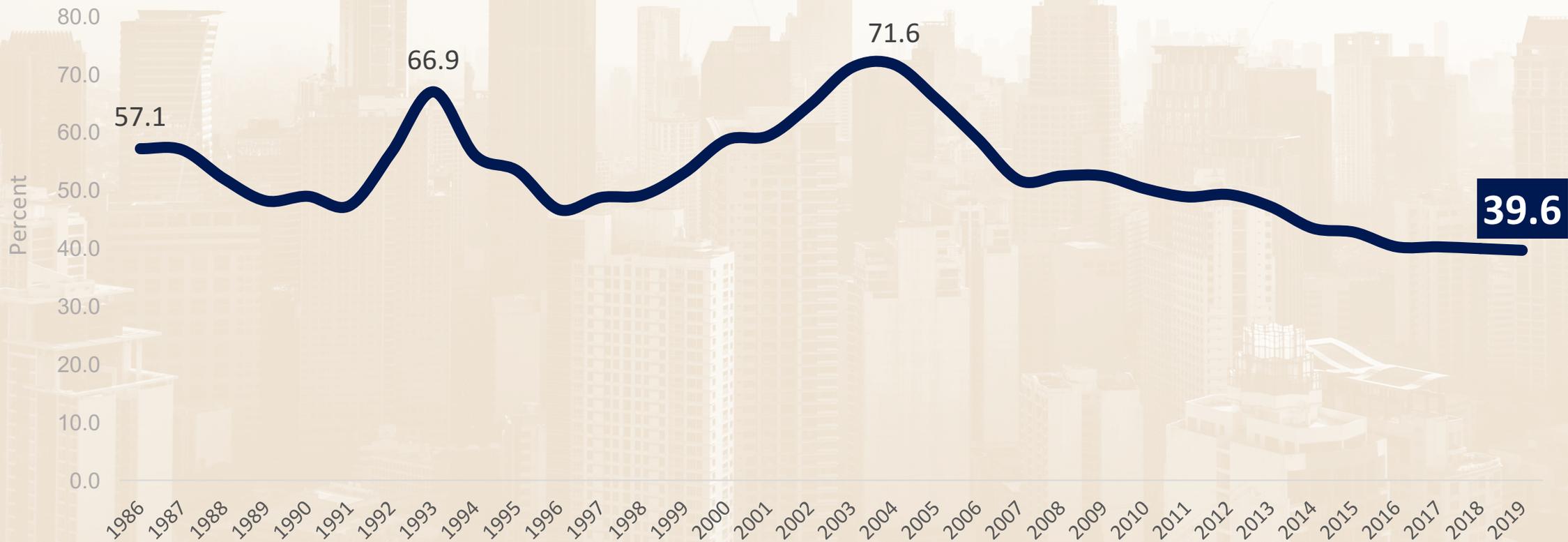
The Philippines was among the fastest growing economies in Asia, with an average GDP growth of 6.6 percent from 2016 to 2019.

GDP GROWTH RATES



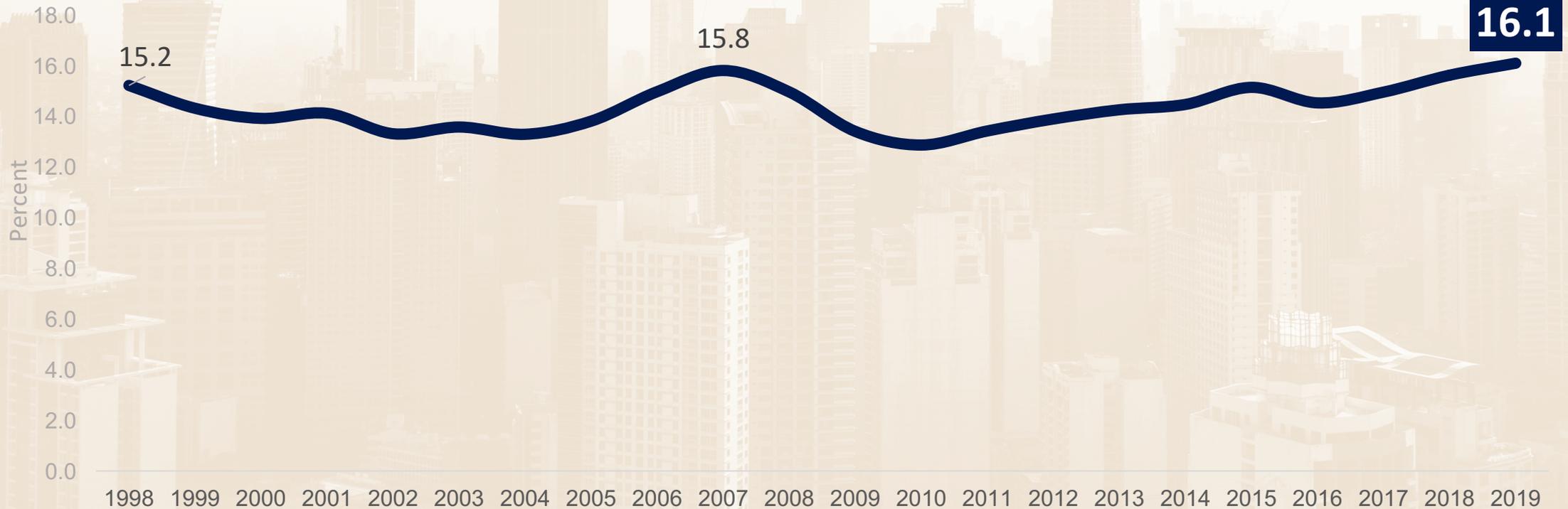
2019 debt-to-GDP ratio of 39.6 percent is the lowest it has been since the country started recording this metric in 1986.

NATIONAL GOVERNMENT DEBT-TO-GDP RATIO



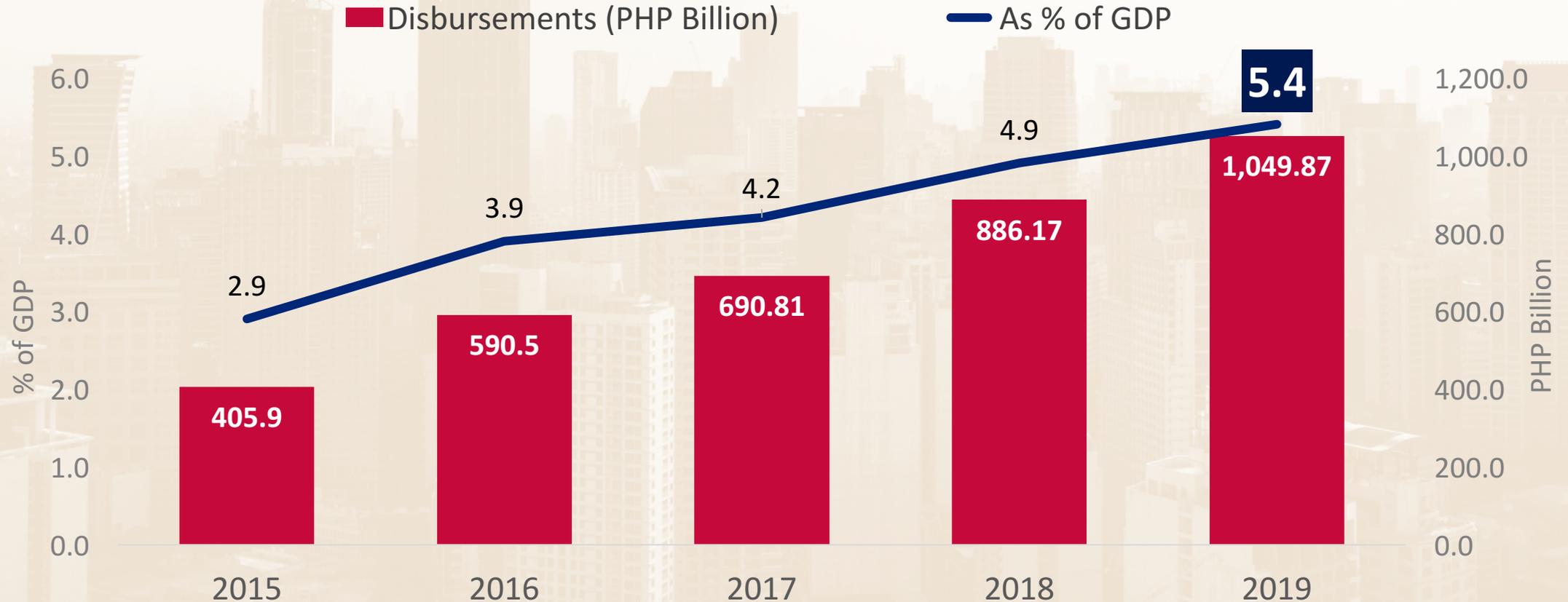
Revenues were at 16.1 percent of GDP in 2019,
the best performance since 1998.

REVENUES AS PERCENTAGE OF GDP



We were able to catch up and accelerate our spending on infrastructure investments to 5.4 percent of GDP in 2019.

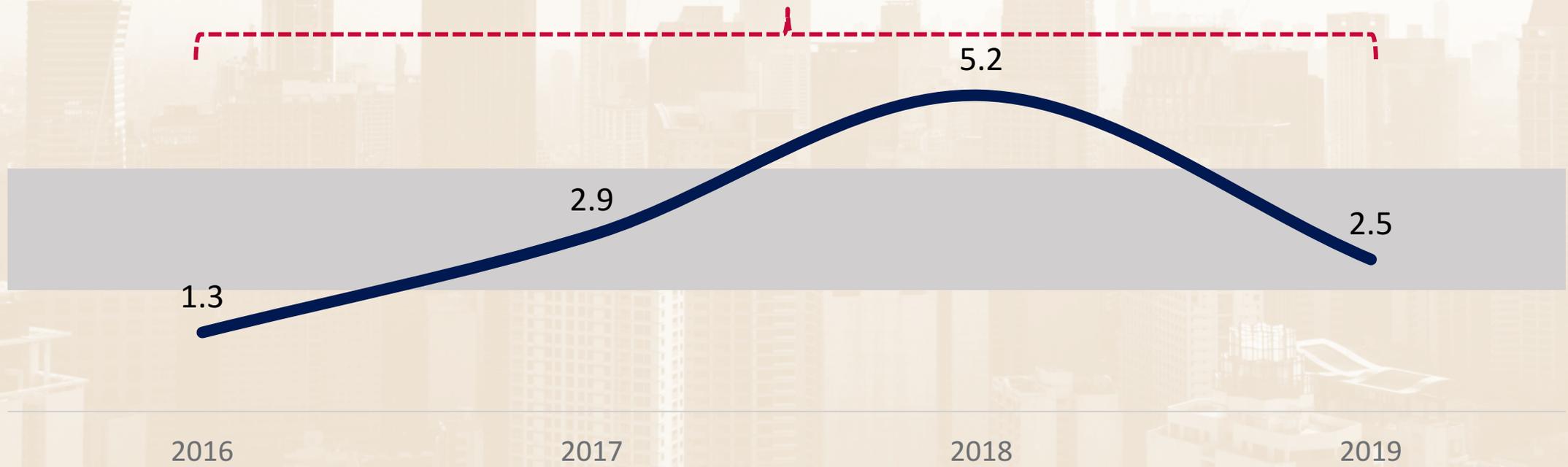
INFRASTRUCTURE SPENDING-TO-GDP



**We continue to enjoy low and stable inflation.
From 2016 to 2019, our inflation rate averaged at 3 percent.**

INFLATION RATE

3.0% average



■ Inflation target band

— Headline CPI

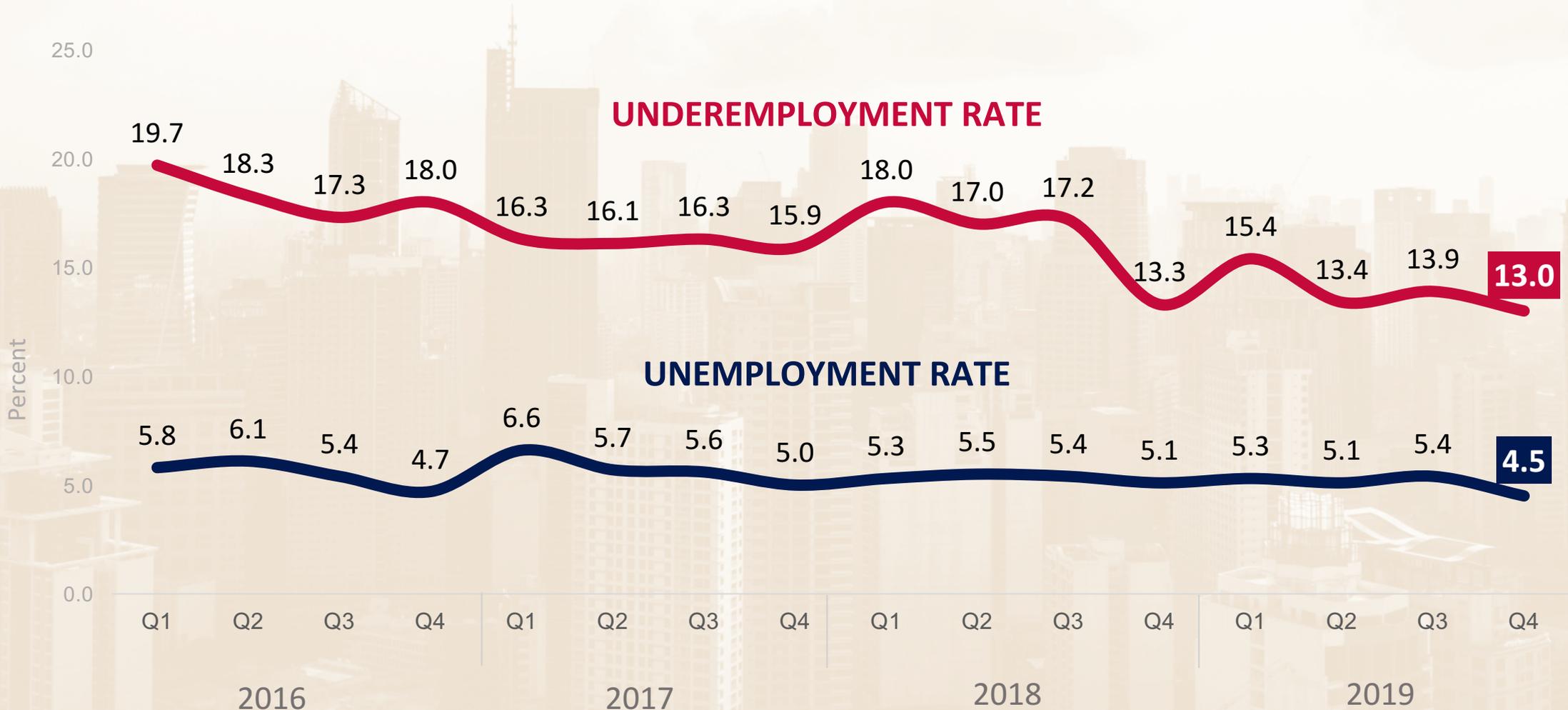
In July 2020, the inflation rate stayed low at 2.7 percent.

2020 YEAR ON YEAR INFLATION RATES



Source: PSA

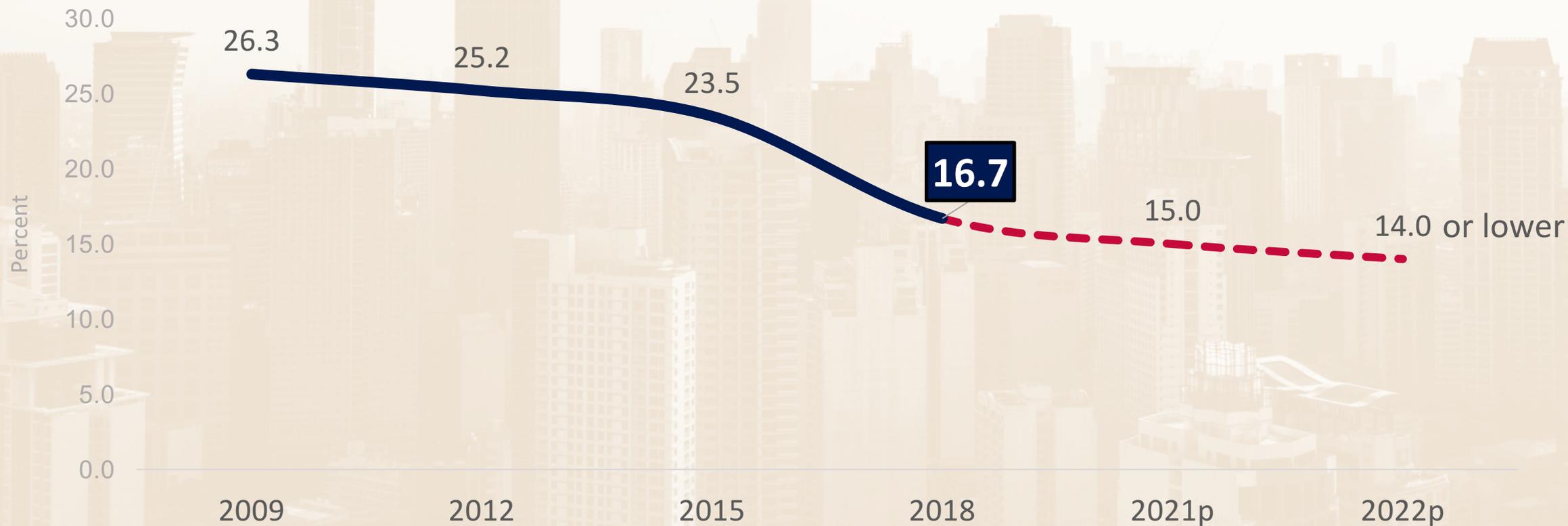
At the end of 2019, we have achieved the lowest recorded rates of unemployment at 4.5 percent and underemployment at 13.0 percent.



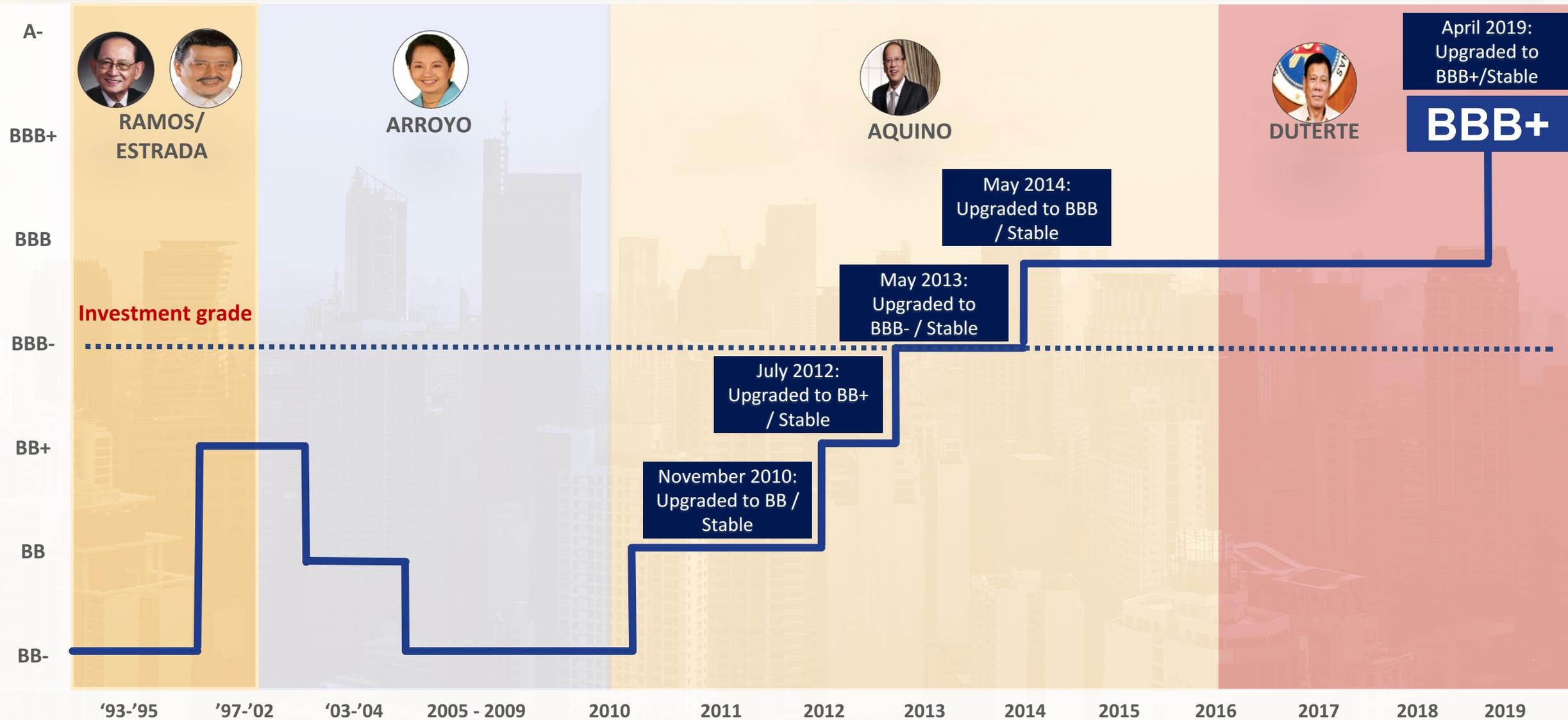
Source: NEDA

The President's promise of lifting 6 million Filipinos from poverty by 2022 was achieved ahead of schedule in 2018.

POVERTY INCIDENCE AMONG THE POPULATION



Last year, S&P raised our sovereign risk rating to BBB plus—the highest in our country's history



Recent Credit Rating Actions on the Philippines in 2020

S&P Global Ratings

On May 29, **S&P affirmed the Philippines 'BBB+' rating, 'stable' outlook** in recognition of the country's sound macroeconomic fundamentals going into the COVID-19 pandemic and its perceived ability to bounce back from the crisis.

Fitch Ratings

On May 7, **Fitch ratings affirmed the Philippines' rating at "BBB"** and updated the outlook to stable. The affirmation reflects the country's fiscal and external buffers and its still-strong medium term growth prospects.

Recent Credit Rating Actions on the Philippines in 2020



On June 11, **Japan Credit Rating Agency upgraded the Philippines' credit rating by a notch from "BBB+" to "A-",** citing the country's resilience amid a pandemic. JCR assigned a "stable" outlook on the new rating.



On July 16, **Moody's Investors Service has affirmed the Philippines' credit rating of "Baa2" with a "stable" outlook.** The latest rating action reflect Moody's view that the fortification of the government's fiscal position in recent years provides a buffer against a rise in public indebtedness due to shocks such as the ongoing global coronavirus outbreak.

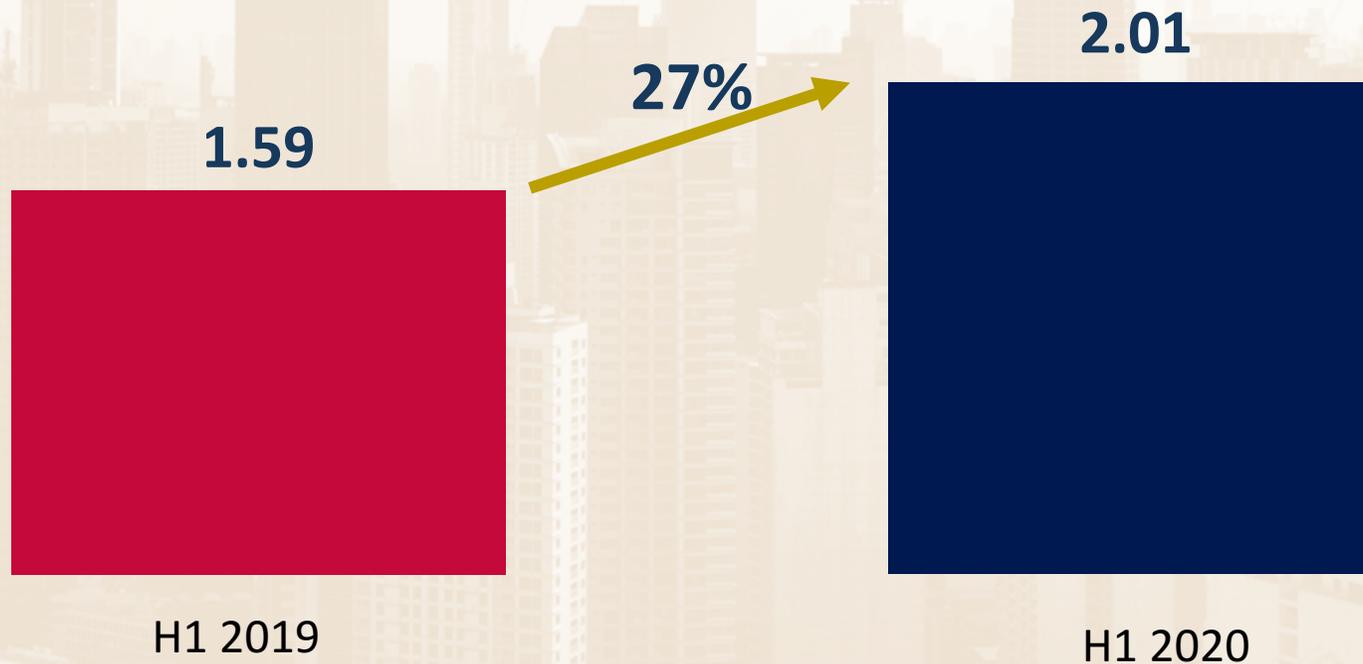
With our strong credit-worthiness, the commercial markets and our development partners continue to

provide us financing at lower interest rates and longer repayment periods.



**We expanded government expenditures
in the first semester by 27%.**

GOVERNMENT EXPENDITURES
(in PHP trillion)



Without continued and increased public-sector spending, especially on infrastructure, public health, and social protection, our economy would have performed much worse, and **the first semester GDP would have shrunk by 2.5 percentage points more than it did, or a total of 11.5 percent versus the actual 9 percent.**



The government has implemented a four-pillar strategy to manage the adverse impact of COVID-19.

Total value of P1.74 Trillion, equivalent to 9.1% of GDP

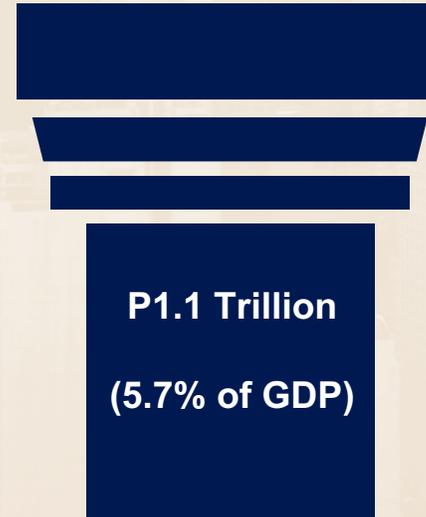
PILLAR 1
Emergency support for vulnerable groups and individuals



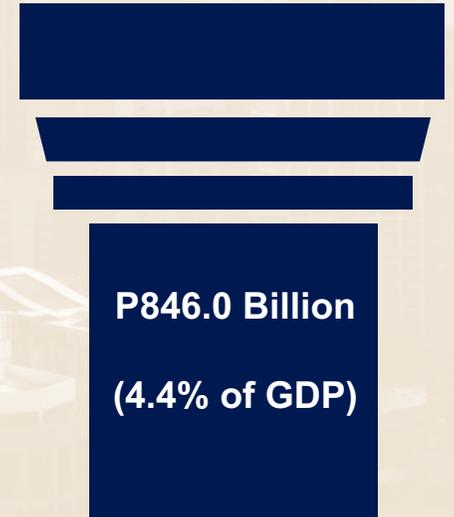
PILLAR 2
Marshalling resources to fight COVID-19



PILLAR 3
Fiscal and monetary actions to finance emergency initiatives and keep the economy afloat



PILLAR 4*
An economic recovery program focused on getting businesses back on their feet to sustain and create jobs



**Note: Pillar 4 will be funded in large part by Pillar 3; the total amount of Pillar 4 is not included in the grand total.*

Immediate Relief Measures for the Filipino People



P51 billion Small Business Wage Subsidy Program to 3.0 million workers



P205 billion Emergency Subsidy Program to more than 18 million families

The government is implementing a wide range of initiatives to help struggling families and enterprises.

- Credit facilities and services by our state-owned financial institutions (e.g. calamity loans, computer loan program, and educational loan program, among others);
- Unemployment benefits for laid off workers;
- “Study now, pay later” lending program for students;
- Online livelihood training programs for our displaced workers to upskill and retool them;
- Credit guarantee program for small enterprises;
- Measures to help businesses equip themselves to operate in the new normal; and among other initiatives

**We restarted the Build, Build Build program
subject to compliance with health and safety protocols.**



NLEX Harbor Link Project Resumption of Construction.



Opening of the final segment of Tarlac-Pangasinan-La Union Expressway on July 15, 2020.

Both the Department of Finance and the Central Bank are **in sync in ensuring that fiscal and monetary tools in our arsenal are kept sharp and ready to be used when needed.**



As we continue to balance the reopening of our economy with health and safety interventions,

the government is doing its utmost to protect lives in ways that do not prevent us from earning a living.



Every effort is also being exerted
to ensure that **we restore
consumer and business
confidence.**



When the famous boxer and Senator Manny Pacquiao trains for a fight, he prepares for 12 grueling rounds. As there can be no knock-out punch that cuts our fight short before a vaccine is developed, the government's ability to sustain the fight depends on our fiscal stamina.

Due to the passage of bold tax reform measures and improved tax administration, we have the resources necessary to endure this challenge. But, we must also conserve our resources for succeeding rounds of this fight.



Four Legislative Imperatives to Revive the Economy

1. **Infuse additional capital to our government financial institutions** for them to be able to act as wholesale banks and fund substantial portions of loans that other commercial banks will provide to micro, small and medium enterprises.

Our government banks will also **setup a company to deal with problems involving solvency issues** and we will be inviting other multilateral agencies and foreign investment companies to participate.

2. **Allow banks to dispose of non-performing loans and assets** through asset management companies that are similar to special purpose vehicles created in early 2000s to deal with the effects of the Asian crisis.

Four Legislative Imperatives to Revive the Economy

3. **Immediate passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act** that will provide targeted incentives and bring down our country's current corporate income tax rate of 30 percent to 25 percent as soon as possible. This will be reduced further by one percentage point every year from 2023 to 2027.
 - Extend the applicability of the net operating loss carryover (NOLCO) for losses incurred by small businesses in 2020 from the current 3 years to 5 years.
 - Maintain for up to 9 years the status quo for registered business activities enjoying the 5 percent tax on gross income earned incentive.
 - Allow the President to grant longer tax and non-tax incentives for investments with exceptional benefits to the public interest.
4. **Provide greater support to the agriculture sector** by giving the banking system the ability to support the whole value chain of agri-enterprises.

Other Priorities

1. **Maintain the Build, Build, Build program** to generate new jobs and businesses.
2. **Continue the commitment to bold fiscal and economic reform measures**, such as the remaining packages of the comprehensive tax reform program. These are improvements in our property valuation system and taxation on passive income and financial intermediaries.
3. **Support complementary bills to open the country to more foreign direct investments**, such as amendments to the Foreign Investments Act, the Retail Trade Liberalization Act, and the Public Service Act.



6.5% to 7.5%

GDP growth projections for 2021

The Duterte administration is doing its utmost to **protect our economic gains, support our recovery, strengthen our resilience, and solidify our return to the path of inclusive and shared prosperity.**



**We will beat this pandemic
and come out even stronger
than ever.**





OPENING REMARKS

CARLOS G. DOMINGUEZ
Secretary of Finance

Security Bank Forum
August 6, 2020