

OPENING REMARKS

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The Presidents of the Foreign Chambers of Commerce of the Philippines: Mr. Nabil Francis for Europe, Mr. Peter Hayden for America, Mr. Julian Payne for Canada, and Mr. Ho Ik Lee for Korea; distinguished guests: good morning.

Thank you for this opportunity to meet with you today.

The Philippines, like every other country now, is grappling with the COVID-19 pandemic. Although no one anticipated this global health emergency or was fully prepared for its calamitous impact, the Duterte administration did not shirk from its responsibility to protect citizens. We quickly took stock of the situation and responded with everything we had.

We were the first country in the ASEAN to impose a lockdown in March to save lives and protect our communities. Based on Oxford University's Government Response Stringency Index, the Philippines has imposed one of the most extensive lockdowns in the world. That decisive move helped us avert an estimated 1.3 to 3.5 million infections according to researchers from our universities.

The lockdown enabled us to reinforce our health system and build up our capacity to do widespread testing in our communities. From just around 1,282 actual PCR tests per day conducted in the last week of March, our capacity has grown to about 32,000 average daily tests this month.

The lockdown also provided us time to significantly expand our capacity to isolate the infected. From around 33,000 beds in our quarantine facilities in mid-April, we were able to expand capacity to 159,000 beds as of August 15. To date, sixty-seven percent of these isolation beds are vacant and available for use.

Without the lockdown, the rate of infections and deaths could have been much worse. The latest data suggest that a little over one percent of all COVID-19 cases in the country are severe or critical. Our mortality ratio, on the other hand, is at 2.5 people per a hundred thousand. We are deeply concerned about the mortality ratios we are seeing in some countries. Based on recent data, the EU member states average 31 deaths per hundred thousand, the UK is at 70, Spain at 61, Sweden at 57, and the US at 52 people per hundred thousand.

Every death is still one too many, which is why we will sustain our efforts to expand access to testing, hire more contact tracers, and beef up our treatment capacity to save as many lives as possible.

The strong containment measures, however, was costly for our economy. But despite not having the biggest stimulus package and even with the strictest lockdown, the Philippines performed better than some economies, owing to its strengths.

This is not the usual economic crisis, where a larger stimulus package translates into a milder recession. For instance, we have seen that there doesn't seem to be a direct correlation between the size of one's stimulus package and the drop in GDP. At least for the three countries that we looked at, their economies retreated significantly despite massive stimulus packages, which shouldn't be the case.

For instance, Malaysia's economy contracted by 17.1 percent in the second quarter of this year in spite of their bigger stimulus package, which is equivalent to 18.2 percent of their GDP.

The United Kingdom, on the other hand, had a total stimulus of 23.4 percent of GDP but their economy went down by 21.7 percent.

Sweden's economy decelerated by 8.2 percent, despite having a bigger stimulus package of between 10.8 to 16.6 percent of GDP.

Only Thailand and the Philippines had stimulus packages lower than the drop in their GDPs. In particular, the Philippines' stimulus package is between 4.2 to 6.4 percent of GDP, and yet our GDP drop is 16.5 percent.

It appears that no matter how much money countries pump into their economies, their GDP would have shrunk massively, anyway. It is not the sheer size of the stimulus package that matters now but also whether it is actually saving the productive parts of the economy. This is because the problem is not a systemic contraction or a cyclical bust. Simply, necessary mobility restrictions hamper aggregate demand.

If we can keep the pandemic at bay so that tough restrictions are not necessary, the economy should recover. In the meantime, we have to make sure we can adequately finance the country's needs during a protracted struggle with this virus.

In terms of the first semester numbers, our GDP contracted by 9 percent. Among our credit rating peers, first semester numbers show estimated contractions of 11.4 percent in Italy; 10.6 percent in Mexico; and 9.4 percent in Portugal.

We continue to recalibrate our response to this health emergency as we learn more about the virus. Until a safe and effective vaccine is developed and made broadly available, we will have to learn to coexist with COVID-19 while implementing a recovery strategy for our economy. That strategy will build on the strengths of our domestic economy: our strong fiscal position and the resiliency of our financial system.

Given all that has happened in the past months, we expect to collect significantly less revenue than projected at the start of the year. As a consequence, we expect our deficit-to-GDP ratio to more than double this year as we spend more to build a stronger health care system and provide direct support to our most vulnerable citizens. We aim to keep our deficit within the median range of our ASEAN neighbors and credit rating peers. We will bridge the budget gap with additional borrowings.

The effects of this pandemic would have been much worse had it caught us in a weak fiscal position. Fortunately, when it hit us, we had sufficient means to fight the battle and ramp up public spending due to President Duterte's prudent approach to fiscal and economic management.

Last year, we brought down our debt-to-GDP ratio to a historic low at 39.6 percent. With bold tax reform measures and improved tax administration, our revenue effort rose to 16.1 percent of GDP—the highest in two decades.

Our gross international reserves were at an unprecedented amount of 98 billion US dollars in July of this year, sufficient for 8.9 months' worth of imports. In fact, our foreign reserves are more than our outstanding external debt, which stood at 81.4 billion US dollars as of end-March of this year.

Our country's hefty foreign currency reserves as well as the continued international confidence in our strong macroeconomic fundamentals are supporting the Philippine peso, keeping its hold as one of the best-performing currencies in the region amidst the pandemic. Year-to-date, the Philippine peso has appreciated by 3.9 percent against the US dollar, matched only by the Japanese yen.

Our high investment grade credit ratings have been affirmed by Fitch, Moody's, and S&P despite present economic challenges. This has allowed us to access financing from our development partners and the commercial markets at lower interest rates and longer repayment periods. As a result, we were able to expand government expenditures in the first semester by 27 percent, compared to the same period last year.

Without continued and increased public-sector spending, especially on infrastructure, public health, and social protection, our economy would have performed much worse. 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.

We pursued a comprehensive program to support struggling families and enterprises. A 4-billion US dollar emergency cash subsidy program was quickly rolled out for 18 million low-income families for two months. This was complemented by a 1-billion-US dollar wage subsidy program for 3 million workers of small businesses also for two months.

The government is also implementing a wide range of initiatives to help businesses and families get back on their feet. These include credit facilities and services from government financial institutions; unemployment insurance benefits for laid off workers; a study now, pay later program for students; online training programs for our displaced workers; a credit guarantee program for small enterprises; and measures to help businesses equip themselves to operate in the new normal.

As we continue to balance the reopening of our economy with health and safety interventions, the government is doing its utmost to protect lives and help Filipinos return to their means of livelihood.

Unemployment and reduced incomes due to the lockdowns have negative health consequences. Restarting the economy will contribute to public health.

Fortunately, we see signs of recovery emerging. Improvements are seen in the manufacturing sector as the economy gradually reopens. For instance, 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.

In addition, the overall manufacturing capacity reached 73 percent in June, up from 72.4 percent in May and 70.5 percent in April.

The country's 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. This slower decline in the country's trade performance signals the resumption of economic activities.

These improvements are reflected in increases in tax collections by our main revenue-generating agencies. The Bureau of Customs was able to surpass its July collection target by 5 percent due to higher import volumes, indicating some recovery in trade.

The Bureau of Internal Revenue, for its part, exceeded its July collection target by 2 percent. The major tax gains last month were seen in both excise and value-added taxes, signs that consumer spending is starting to pick up.

We know that our economy's revival will not happen in a sprint. We are prepared for a long and difficult recovery that requires fiscal stamina. We will continue to deploy our resources prudently until we are sure we are on the right side of the curve.

Pragmatism guides us as we put together an effective recovery plan that we can afford and can fully execute.

The plan includes legislative imperatives that will bring our country's growth back to its robust position.

First, we support a fiscally-responsible Bayanihan to Recover as One Act, which will provide another round of fiscal measures to stimulate consumer demand and support businesses and individuals critically impacted by COVID-19.

Second, we are seeking Congressional approval for infusing 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 businesses affected by the pandemic.

Our government banks will also set up a company to deal with problems involving solvency issues as opposed to liquidity issues. We will be inviting other multilateral agencies and foreign investment companies to participate in this venture.

Third, we seek to allow banks to dispose of non-performing loans and assets through asset management companies similar to special purpose vehicles created in the early 2000s to deal with the effects of the Asian crisis.

Fourth, we are working with the Senate for the swift passage of the CREATE bill or the Corporate Recovery and Tax Incentives for Enterprises Act. This reform measure will reduce corporate income taxes for the majority of small- and medium-sized businesses by 5 percentage points immediately. The tax rate will be reduced further by one percentage point every year from 2023 to 2027.

This is the first-ever revenue-eroding tax reform package proposed by the Philippine Department of Finance, and the largest fiscal stimulus program for enterprises in the country's history.

The accelerated reduction in the corporate income tax rate boosts the country's bid to attract multinational firms seeking to diversify their production chains, especially those interested in accessing what no doubt will once again be a very attractive domestic market.

The larger reduction also brings the country closer to the ASEAN corporate income tax rate average of 22 percent and will boost cost competitiveness in doing business. A lower corporate income tax rate, combined with the country's strong demographic and financial fundamentals, will strengthen the Philippines' attractiveness for more and better investments.

The outright corporate income tax cut is complemented by an enhanced NOLCO or net operating loss carryover. This will extend the carry-over period of net losses in 2020 by two more years, from three to five years.

In response to the concerns of some of your members, we have also extended by 2 years the proposed transition period to a new, highly-targeted, performance-based, transparent, and time-bound incentive system. This is to account for the unanticipated challenges brought about by COVID-19. After the transition period, registered businesses are still allowed to apply for incentives under the new regime.

We are confident that the new regime satisfies the basic premise of this reform: that those who do good for the country will do well in our country.

The CREATE bill will modernize our incentives system. On top of a standard menu of more modern incentives, it will allow us to offer tailor-fitted fiscal and non-fiscal incentives for investments that we want to invite. To be clear, the customized incentives are in addition to the standard menu available for eligible enterprises.

Finally, the fifth legislative measure seeks to provide greater support to the agriculture sector by giving the banking system the ability to support the whole value chain of agri-enterprises.

Even as we navigate through very difficult circumstances, we intend to maintain fiscal discipline, make our financial sector more inclusive, and introduce more reforms that will help us consolidate a pro-business environment.

We are maintaining focus on the Build, Build, Build program. Infrastructure projects will contribute to reviving the economy because of their high multiplier effect. They will stimulate demand and create much-needed jobs.

We are fast tracking the implementation of our national ID system to rapidly deliver government services and allow more Filipinos to open bank accounts. We are also accelerating the establishment of an electronic-invoicing system to provide better and faster services to taxpayers.

We are committed to pursue bold fiscal and economic reform measures, such as the remaining packages of our tax reform program.

We will also push for the passage of complementary bills that will open up 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. These measures will provide more opportunities for our countries to engage in mutually beneficial investments.

We hope to accomplish all of these as soon as possible to signal to the world that the Philippines is open for business. Meanwhile, I must thank all of you for the confidence you keep and the trust you hold for our country. The whole world is going through a rough patch at the moment. I assure you that we intend to be among the first to emerge from the other end of the tunnel.

Thank you.

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