



STATEMENT OF THE DEVELOPMENT BUDGET COORDINATION COMMITTEE (DBCC)

On the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2020 to 2022

December 3, 2020

We, the members of the Development Budget Coordination Committee (DBCC), met this afternoon to review the government's medium-term macroeconomic assumptions, fiscal program, and growth targets. We have revised macroeconomic assumptions and targets to take into account recent positive developments that will help propel the Philippine economy to a strong recovery starting 2021.

These developments include our gradual recovery, the better-than-expected performance of the main revenue collection agencies, improvements in the employment situation compared to the peak of community quarantine restrictions, and the likely passage of key economic recovery bills.

The Philippines has endured the worst economic impacts of the COVID-19 pandemic through prudent fiscal management and evidence-based and decisive actions to address the global health emergency. As the economy gradually moves towards full reopening, we expect significantly better economic outcomes next year.

Real Growth Projections

The emerging Gross Domestic Product (GDP) growth rate assumption for 2020 has been adjusted to -8.5 to -9.5 percent, following the prolonged imposition of community quarantines in various regions of the country.

Despite a lower projection than what was initially adopted back in July 2020, further relaxation of restrictions, as we have improved our healthcare system capacity, will keep our economy on the right track towards full recovery. Thus, GDP growth is projected to bounce back to reach 6.5 to 7.5 percent in 2021 and 8 to 10 percent in 2022.

As shown by the third quarter GDP, our economy gradually bounced back and experienced a smaller contraction of 11.5 percent in the third quarter from 16.9 percent

in the second quarter. On a quarter-to-quarter, seasonally adjusted basis, the economy grew by 8 percent in the third quarter.

We are also expecting further improvement in our fourth quarter GDP numbers. As we carefully and proactively manage the risks, a strong economic recovery and solid growth remains within our reach.

Macroeconomic Assumptions

The DBCC also approved the following revisions to the macroeconomic assumptions and medium-term fiscal program based on the latest emerging data.

The average inflation rate for this year is projected to range from 2.4 to 2.6 percent, while the inflation assumption for 2021 and 2022 is retained at 2.0 to 4.0 percent.

Meanwhile, the assumption for the price of Dubai crude oil per barrel for 2020 was adjusted from USD 35 to 45 per barrel to USD 40 to 42 per barrel. For 2021 and 2022, it is maintained at USD 35 to 50 per barrel.

The peso (PhP)-US dollar (USD) exchange rate assumption was revised to PhP 48 to 50 against the USD for 2020 and PhP 48 to 53 against the USD from 2021 to 2022.

The 364-day Treasury bill rate assumption was narrowed down to 2.5 to 2.6 percent in 2020 and lowered to 2.0 to 3.5 percent for 2021 and 2.5 to 4.0 percent for 2022, mainly due to a low domestic interest rate environment following liquidity easing measures deployed by the BSP. The 6-month LIBOR assumption was likewise adjusted downward to 0.7 to 0.8 percent for 2020 and to 0.2 to 1.2 percent and 0.3 to 1.3 percent for 2021 and 2022, respectively.

In line with recent trends in global trade, the growth assumption for goods exports is maintained at -16 percent for 2020, while growth of goods imports for 2020 was further adjusted to -20.0 percent. These are expected to pick up by 2021 and 2022 with the growth of goods exports maintained at 5.0 percent and growth of goods imports pegged at 8.0 percent.

Services exports and imports growth assumptions in 2020 are expected to contract further by 21.4 percent and 19.0 percent, respectively. However, these are assumed to rebound by 2021 with projected growth reaching 6.0 percent for services exports and 7.0 percent for services imports. This accounts for the gradual opening up of the domestic economy and increase in travel-related activities.

Medium-Term Fiscal Program

Following the above-target performance of the Bureau of Internal Revenue and Bureau of Customs since July 2020, estimated revenue collections for this year have been increased from PhP2.52 trillion to PhP2.85 trillion, equivalent to 15.7 percent of GDP.

Revenue projections for 2021 and 2022 have also inched up to PhP2.88 trillion and PhP3.31 trillion, respectively. The adjustments already factor in the expected impact from the implementation of the CREATE bill, as passed by the Senate.

On the other hand, estimated disbursements for 2020 are expected to show a catch-up to PhP4.23 trillion, equivalent to 23.3 percent of GDP and 11.5% more than 2019. The narrower gap in spending compared to that registered in September is primarily attributed to the implementation of Bayanihan II and the effort of government programs and projects to reach their targets despite the COVID-19 pandemic. Disbursements for infrastructure for instance for the third quarter exceeded the program, and by yearend is expected to amount to P824.9 billion or 4.5% of GDP compared to the 4.2% forecasted in July. Meanwhile, the total disbursement program is pegged at P4.66 trillion (23.4 percent of GDP) for 2021 and P4.95 trillion (21.9 percent of GDP) for 2022.

Given the revised revenue and disbursement program, the deficit program for 2020 is narrowed down from 9.6 percent of GDP to 7.6 percent of GDP in 2020. This is adjusted to an estimated 8.9 percent of GDP in 2021 and 7.3 percent of GDP in 2022.

Our deficit program is designed to balance the requirement of supporting economic recovery while keeping our debt-to-GDP ratio beneath a sustainable threshold. We will not abandon the prudent fiscal management set by President Duterte when he assumed office in 2016 and put us in a good fiscal position ahead of the pandemic.

FY 2022 National Expenditure Program

Consistent with the macroeconomic assumptions and foregoing fiscal targets, the proposed FY 2022 cash budget is pegged at P5.024 trillion. This is higher by 11.5 percent than the Fiscal Year 2021 National Expenditure Program and is equivalent to 22.2 percent of GDP.

The proposed 2022 national budget will continue to prioritize funding for health-related responses and measures that will help accelerate economic growth.

Labor Force Survey

Earlier today, the Philippine Statistics Authority reported the results of the fourth quarter Labor Force Survey.

In October 2020, the unemployment rate decreased to 8.7 percent from 10 percent in July and 17.6 percent in April. It was 4.6 percent in October 2019. The decline was driven by the further reopening of the economy, and we believe the unemployment rate could have been lower if the economy had been opened earlier, if more adequate public transport had been made available, and if the country had not been hit by a succession of typhoons: Nika, Ofel, Pepito, Quinta, Rolly and Ulysses.

Between July and October 2020, the underemployment rate fell from 17.3 to 14.4 percent, closer to the underemployment rate of 12.8 percent in October 2019. Decreasing underemployment means that the quality of jobs is improving. This reduction in underemployment also means that the informal sector is performing and the impact on poverty may be less severe than initially estimated.

In contrast, the high unemployment rate, which is largely urban and affects higher income or more educated workers, suggests that further opening of the formal economy is necessary.

The recent Labor Force Survey results support the need to manage risks more and further open the economy safely to restore jobs and further economic activity.

Reforms to accelerate economic recovery

The Labor Force Survey indicates some positive results from our efforts to bring the economy back on track towards inclusive growth. Bayanihan I and II gave us the flexibility to support low-income families, strengthen our public health system, and protect livelihoods.

The recent approval of the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) by the Senate will support our efforts to restore and create hundreds of thousands of jobs and help businesses continue operating. CREATE is the largest stimulus package ever for private enterprises. It will reduce the corporate income tax rate for a large majority of firms, mostly the small businesses, that employ over 60 percent of Filipino workers.

The passage of the Financial Institutions Strategic Transfer Act (FIST) will let banks offload souring loans and assets. This will allow them to extend more credit to COVID-hit sectors in need of assistance. The availability of financing for businesses and the continued strength of our banks will be critical in protecting jobs.

The 2021 National Budget, meanwhile, will be the heftiest stimulus package for our economy, enabling public spending to stimulate recovery.

Closing

Our country has faced immense but surmountable challenges this year, from the emergence of the COVID-19 pandemic in the first quarter to the onslaught of several powerful and destructive typhoons in the last quarter.

What is clear from this experience is that the improvement in our GDP and the recovery of jobs hinge on how much we can open our economy while we continue to manage the risks that come with it.

These policies place us in a better position than before, but more work needs to be done to hasten our economic recovery. We must continue to progressively reopen businesses

and mass transportation as safely as possible to allow more Filipinos to return to work and for our people to once more enjoy life as they all justly deserve.

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