INVESTOR RELATIONS OFFICE

The Philippines: Paving the Road to Recovery

Newsletter Q1 2021

Table of Contents

CREATE, Philippines' biggest stimulus for businesses, now a law

Cut in corporate tax, rationalization of incentives to help boost investments, economic recovery

By Joanna Paula C. Cobarrubias

The Philippines has enacted a landmark law that cuts corporate income tax by as much as 10 percent and rationalizes fiscal incentives, thereby serving as the biggest stimulus for businesses in the country's history.

Last March 26, President Rodrigo R. Duterte signed the bill "Corporate Recovery and Tax Incentives for Enterprises", or CREATE, into law after a joint Philippine Congressional panel ratified it in February.

With the new law, the Philippine government is providing about P1 trillion (about USD 20.9 billion) worth of tax relief to businesses over the next 10 years.

Finance Secretary Carlos Dominguez III said in a statement that that the enactment of CREATE into law "signals to the rest of the world that the Philippines is back in the game to attract investments, create jobs, and achieve inclusive growth."

Congressman Joey Salceda, chair of the Ways and Means Committee, House of Representatives, and a proponent of CREATE, earlier said the legislative measure "would open the country's floodgates for investments." He estimated that the law will generate P12 trillion (about USD 250 billion) in domestic and foreign investments over the next decade.

Besides attracting job-generating investments, CREATE is also meant to speed up the recovery of businesses and the Philippine economy at large following the onset of the COVID-19 pandemic.

Carlos Dominguez III
Secretary, Department of Finance

Joey S. Salceda
Chair, Ways and Means Committee, House of Representatives

Tax cuts and incentives

CREATE slashes the corporate income tax (CIT) from 30 percent to 20 percent for small enterprises with net taxable income of P5 million and below, and with total assets of not more than P100 million, excluding land. It will also reduce CIT for large firms to 25 percent, which is within the range in other ASEAN countries.

CREATE also rationalizes the country's fiscal incentives system in a manner that will enable the government to provide competitive and well-targeted incentives to investors in priority industries and locations.

Source: Philippine News Agency

In particular, enterprises whose investments qualify under the government's Strategic Investment Priority Plan (SIPP) may avail of income tax holiday (ITH) of 4 to 7 years. Once the ITH lapses, other tax perks may still be applied for.

For exporters, either one of two options for tax incentive is available following the expiration of the ITH. One is a preferential tax of 5 percent on gross income earned (GIE) for 10 years. The other is the "enhanced deductions" scheme, which allows a more generous list of allowable deductions from taxable income for a period of 10 years.

For non-exporters, they may avail of the "enhanced deductions" scheme for a period of five years after their ITH expires.

Moreover, enterprises that will locate in areas outside the National Capital Region (NCR) will enjoy additional ITH for three years, while those that will locate in areas recovering from disaster or conflict will enjoy ITH for two years.

Source: Philippine News Agency

COVID-19 and health incentives

With the fight against COVID-19 a top priority, CREATE likewise grants value-added tax (VAT) exemption to the following activities: (i) importation of capital equipment and raw materials for the production of personal protective equipment (PPE); (ii) sale and importation of all prescription drugs, medical supplies, devices, and equipment for COVID-19; and (iii) sale and importation of anti-COVID 19 vaccines.

The law likewise grants VAT exemption to sale and importation of prescription drugs for cancer, mental illness, tuberculosis, and kidney-related diseases.

Business groups welcome CREATE law

Various business groups have lauded the signing of CREATE into law, citing its favorable effects on the country's business climate.

"We consider this a landmark economic stimulus program that will significantly accelerate the country's economic recovery and make the Philippines a more competitive and attractive investment destination," Amb. Benedicto V. Yujuico, president of the Philippine Chamber of Commerce and Industry, was quoted in the news as saying.

"CREATE will attract more and the right kind of investments particularly in underdeveloped regions in the country," Philippine Exporters Confederation President Sergio Ortiz Luis Jr. was also quoted as saying.

Philippines poised for firm rebound

Vaccine program starts, reform momentum continues

By Michelle V. Remo

THE PHILIPPINE economy is poised for a firm rebound starting this year, with the rollout of a vaccine program, reopening of more businesses, and additional structural reforms seen to fuel growth in consumption and investments.

Government projections set during the meeting of the interagency Development Budget Coordination Committee (DBCC) in December 2020 show that the economy, measured in terms of gross domestic product (GDP), will grow anywhere between 6.5 and 7.5 percent this year, and further to 8.0 to 10.0 percent next year. The projections will be reviewed in May, after the release of data on the first quarter GDP growth.

“With the continuous calibrated reopening of businesses, mass transportation, and the relaxation of age group restrictions [following lockdowns last year], we will see the return of more economic activity in the months ahead,” then Acting Socioeconomic Planning Secretary Karl Kendrick T. Chua said during a press conference on the Philippine economy’s 2020 performance held on January 28. *(NOTE: President Duterte officially appointed Chua as Socioeconomic Planning Secretary last April 22.)*

“This will lead to recovery before the end of the year, when the government will have rolled out enough vaccines against COVID-19 for a majority of our people,” Chua added.

In 2020, the Philippine economy, together with many other economies, succumbed to recession as the COVID-19 pandemic necessitated the implementation of quarantine measures that dragged economic activity.

Following two decades of uninterrupted economic growth, the Philippines’ GDP contracted year-on-year by 9.6 percent in 2020.

Karl Chua
Secretary for Socioeconomic Planning, National Economic and Development Authority

Nevertheless, the economy has started registering green shoots.

On a quarter-on-quarter basis, the economy grew by 8 percent in the third quarter versus the second quarter. Furthermore, it expanded by 5.6 percent in the fourth quarter versus the third quarter of last year.

The unemployment rate dropped from a record high of 17.6 percent in April last year to 7.1 percent in March this year, as various business sectors gradually reopened from stringent lockdowns.

Also, the Philippines’ purchasing manager’s index (PMI) hit 52.5 in January and February and 52.2 in March, well above the threshold of 50, according to information and analytics firm IHS Markit. Any figure above the threshold signifies expansion, while any figure below indicates contraction.

COVID-19 RELATED INFRASTRUCTURE

653 QUARANTINE FACILITIES AND OFF-SITE DORMITORIES

24,117 TOTAL BED CAPACITY

(as of April 2021)

Source: Department of Public Works and Highways

Source: Department of Public Works and Highways

Source: Department of Public Works and Highways

Vaccine rollout

A key factor for the Philippine economy's recovery is the rollout of a vaccine program, which has started last March.

The government aims to vaccinate its entire adult population of 70 million this year (anti-COVID vaccine is not yet recommended for individuals below 18 years old).

Philippines' Finance Secretary Carlos Dominguez III said vaccinating the country's entire adult population will require PhP82.5 billion in funding.

The bulk of the amount will be shouldered by the National Government, with support from multilateral lending institutions including the Asian Development Bank, World Bank, and Asian Infrastructure Investment Bank (AIIB).

The rest will be shouldered by local government units (LGUs). The private sector is also expected to purchase vaccines.

Source: Department of Health

Source: Bases Conversion and Development Authority (BCDA)

Reform-led recovery

According to the National Economic and Development Authority (NEDA), recovery on the demand side will be driven by household consumption, government spending, investments, and exports.

On the supply side, NEDA said, recovery will be driven by increased activities in the manufacturing, construction, digital products and services, public transportation, and domestic tourism sectors. The rollout of the vaccine program is seen spurring activities in these areas.

The Philippines' economic recovery, however, will not solely rely on the rollout of the vaccination program.

Legislative reforms, digitalization, and infrastructure development will also drive the Philippines' economic development.

Legislative measures that are expected to have a significant and positive impact on the economy include:

- The Financial Institutions Strategic Transfer (FIST) Act;
- The Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill; and
- The Government Financial Institutions Unified Initiative to Distressed Enterprises for Economic Recovery (GUIDE) bill.

The President signed the FIST bill into law on 16 February 2021. It helps banks easily dispose bad assets—such as loans obtained by customers that have become overdue because of the pandemic—via asset management companies. The measure is expected to help the banking system remain a catalyst of economic growth despite the effects of the COVID-19 crisis.

The President signed the CREATE bill into law on 26 March 2021. It cuts corporate income tax from 30 percent to 20 percent for small enterprises and 25 percent for large corporations, and rationalizes the fiscal incentives system. This serves as the biggest stimulus for business in the country's history and is expected to attract more investments into the Philippines.

The GUIDE bill is in the advanced stages of Congressional deliberations. GUIDE seeks to create, via joint venture between government banks, a special holding company that will invest in the rehabilitation of strategically important companies.

Economic agencies are also pushing for pieces of legislation that will further open the gates to foreign investment. These include (i) amendments to the Foreign Investment Act, which will allow foreigners to practice more professions in the Philippines and reduce the minimum number of local hires by foreign investors; (ii) amendments to the Retail Trade Liberalization law, which will lower the required paid-up capital for foreign retailers; and (iii) amendments to the Public Service Act, which lifts limits on foreign equity for certain sectors that are currently considered "public utility."

Financial digitalization

Meantime, the Bangko Sentral ng Pilipinas (BSP) has leveled up its promotion of financial technology (FinTech) and efforts to enhance cybersecurity regulations, as a means to accelerate economic growth and financial inclusion.

In October 2020, the BSP launched the Digital Payments Transformation Roadmap, which states the country's goal to become a cash-lite society by 2023.

In particular, the goal is for at least half of financial transactions to be done digitally and for at least 70 percent of Filipino adults to have financial accounts (including digital ones).

The BSP recognizes that with FinTech, payments and other financial transactions become faster, thereby speeding up the velocity of capital turnaround and income growth. Fintech also helps make financial products and services—such as savings, investments, and credit—accessible even in remote areas and for people who are not served by physical banks.

As such, financial digitalization is expected to boost incomes and overall economic growth. The volume of financial transactions carried out via PesoNET— which is same-day large / commercial transactions —grew by 293 percent year-on-year in January this year.

Volume of transactions via Instapay—which is for smaller transactions worth less than P50,000 and which allows real-time settlement—grew by 396 percent over the same period.

Infrastructure development

The government continues to ramp up infrastructure spending under the "Build, Build, Build" program, which is the most ambitious public infrastructure agenda to date.

Close to PhP1.2 trillion annually will be spent on public infrastructure this year and next year, the highest allocation on record. This is expected to help generate employment and boost investment.

"Despite the pandemic, the government is committed to pursuing its infrastructure program," Chua said, noting that this year's infrastructure program will create 1.7 million direct and indirect jobs.

"This highlights the infrastructure program's pivotal role in reviving the economy given its high multiplier effect," Chua added.

Source: Department of Public Works and Highways (DPWH)

Philippines adopts ‘whole-of-government’ pandemic response

By Sherelle C. Perez

With the COVID-19 pandemic, 2020 brought unprecedented challenges to the whole world. However, whether the crisis will have transitory or structural impact on economies depends on the manner by which response measures were implemented on a per country basis.

Benjamin E. Diokno
Governor, Bangko Sentral ng Pilipinas

In the case of the Philippines, a “whole-of-government” approach is apparent in the country’s crisis response.

Soon after COVID-19 was declared a pandemic by the World Health Organization in March 2020, the National Government unveiled its four-pillar socioeconomic strategy against COVID-19.

The four pillars are the following: (i) emergency support for vulnerable groups; (ii) marshalling resources to fight COVID-19; (iii) monetary actions and other financing support; and (iv) economic recovery program to create jobs and support growth.

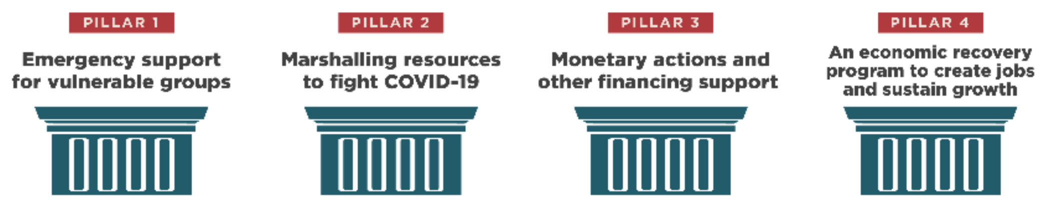
The first pillar entails provision of emergency support—such as wage subsidies and other assistance—to the most vulnerable sectors, including low-income households and healthcare workers.

The second pillar entails funding of hazard pay of frontline health workers, purchase of personal protective equipment (PPE) and other materials needed to boost testing capacity, and health insurance coverage of COVID-19 patients.

The third pillar is about the National Government’s efforts to raise funds, as well as the response measures from the Bangko Sentral ng Pilipinas (BSP) to help ensure sufficient liquidity in the financial system amid a critical time.

The fourth pillar is the government’s recovery plan.

THE DUTERTE ADMINISTRATION’S 4-PILLAR SOCIOECONOMIC STRATEGY AGAINST COVID-19



Source: Department of Finance

Swift response by Congress

To realize the objectives under the four pillars, the Philippines needed enabling laws for emergency response and recovery.

In line with the whole-of-government approach to the pandemic, Congress was quick to pass legislative measures meant for the Philippines to squarely deal with the impact of the pandemic on lives and livelihoods.

Congress ratified Bayanihan 1 and 2 bills, which came into law in March and September 2020, respectively. Both laws had a three-month validity, but Congress also swiftly enacted a law to extend the validity of Bayanihan 2 up to June this year.

The Bayanihan laws granted President Duterte special powers to allow relevant government instrumentalities to implement COVID-response measures quickly and decisively. The laws mandated the extension of support to vulnerable sectors, including small businesses and healthcare workers. Bayanihan 2, on top of requiring the extension of support to vulnerable groups, also mandated the speedy enhancement of the country's healthcare capacity.

Congress also ratified on time the Financial Institutions Strategic Transfer (FIST) bill, which the President signed into law on February 16. The law allows banks to dispose of bad assets via asset management companies, thereby enabling banks to free up funds to extend credit for productive activities and to consumers.

As such, banks are expected to remain stable with this additional support, even if loan defaults increase as a result of the pandemic. The Bangko Sentral ng Pilipinas (BSP) estimates that the FIST law will allow banks to trim their non-performing loans (NPL) ratio anywhere between 0.63 and 0.71 percentage points.

Another legislative measure meant to fast-tract recovery is the much-anticipated Government Financial Institutions Unified Initiative to Distressed Enterprises for Economic Recovery (GUIDE) bill. Once enacted into law, this will create, via joint ventures between government banks, a special holding company that will invest in the rehabilitation of strategically important companies. This bill is now in the advanced stages of deliberations in Congress.

Source: Bases Conversion and Development Authority

Source: Philippine News Agency

Rollout of Bayanihan programs by line agencies

Responding to the "Bayanihan" laws, government agencies rolled out their respective support programs.

As of 29 December 2020, a total of P505.17 billion has been disbursed to various agencies to fund the National Government's COVID response measures.

Under Bayanihan II alone, which has P140 billion in appropriation, disbursements include the following:

Source: Department of Social Welfare and Development (DSWD)

Source: Department of Labor and Employment

Source: Department of Labor and Employment

Source: Department of Labor and Employment

- The Department of Health (DOH) received around P20.57 billion for COVID-19 information dissemination, case detection, expanded testing, establishment of temporary treatment and monitoring facilities, contact tracing measures, additional human resources for health, healthcare resources, supplies, and equipment, and immunization program.

- The Department of Social Welfare and Development (DSWD) has distributed around P1.2 billion to an estimated 189,000 beneficiaries under its Emergency Subsidy Program.

  The Department of Labor and Employment (DOLE) rolled out social amelioration programs for the labor sector. As of February 2021, financial and employment assistance worth P12 billion was granted to 2,080,855 beneficiaries under these three programs:

  - The COVID-19 Adjustment Measures Program (CAMP), under which financial assistance was granted to displaced workers in the private, tourism, and education sectors.

  - The CAMP-AKAP (Abot Kamay sa Pagtulong) program, under which transportation and accommodation assistance was provided to repatriated OFWs.

SMALL BUSINESS WAGE SUBSIDY (SBWS) PROGRAM

Source: Department of Finance

  - The TUPAD (Tulong Panghanapbuhay Para sa Ating Disadvantaged/Displaced Workers) program, under which temporary employment was given to disadvantaged and displaced workers.

- The Department of Finance reported that under its Small Business Wage Subsidy Program (SBWS), it has distributed a total of P46 billion to 3.1 million employees affected by work stoppages due to the Luzon-wide enhanced community quarantine (ECQ) and other similar containment measures related to COVID-19.

- Government financial institutions were provided with capital infusions amounting to P39.5 billion to enable them to extend loan assistance to affected businesses, including those under the Department of Industry's COVID-19 Assistance to Restart Enterprise (CARES) program.

- The Department of Agriculture disbursed P24 billion worth of assistance to famers and fishers to ensure sustained productivity of the agriculture and fisheries sectors. DA programs included:

  - Expanded SURE-Aid and Recovery project (SURE COVID-19), under which zero-interest loans were provided to small farmers and fishers, as well as micro and small entrepreneurs;

  - Cash and Food Subsidy for Marginal Farmers and Fishers (CFSMFF), under which P5,000 worth of assistance per beneficiary was distributed, of which P3,000 was in the form of cash assistance and P2,000 in kind (such as rice, chicken, egg, etc.).

- The Department of Trade and Industry (DTI), through its COVID-19 Assistance to Restart Enterprises (CARES) Program, provided cash assistance to micro, small, and medium enterprises (MSMEs). As of 16 March 2021, the Small Business (SB) Corp., which is under the DTI's wing, has released P2.5 billion worth of loans under the CARES program. This comes on top of other types of MSME assistance, such as webinars on digitalization and business matchings, such as those meant to support exporters.

- To help the tourism industry recover, P4 billion was disbursed for road tourism infrastructure programs and assist critically impacted tourism-related individuals and businesses.
- The Department of Transportation (DOTr) has provided assistance to affected members of the transport industry, and the Department of Tourism (DOT) to affected members of the tourism industry.

  The full list of assistance to those affected is extensive and the Philippines is doing all it can to support its citizens at this difficult time.

Improving the health care system's capacity, response to pandemic

Under Bayanihan 2, the government earmarked P13.5 billion for expanding the country's healthcare capacity.

As of 17 December, 2020, there were 196 COVID-19 licensed laboratories nationwide.

The Department of Health (DOH) partnered with the Department of Interior and Local Government (DILG) to increase the capacity of Temporary Treatment and Monitoring Facilities (TTMFs) and COVID-19 bed capacity in hospitals, and improve LGU capacity for contact tracing.

Moreover, the DOH also hired more health workers. As of December 2020, the number of hired health workers to help combat the pandemic stood at 12,733.

In addition, state health insurer Philippine Health Insurance Corp. (Philhealth) shouldered over P1.46 billion worth of in-patient services and over P2.9 billion worth of RT-PCR testing last year.

Response from BSP

Pillar 3 of the Philippines' Four-pillar Socioeconomic Strategy against COVID-19 includes monetary response.

As such, the Bangko Sentral ng Pilipinas (BSP), as allowed by its mandate, implemented a long list of COVID-response measures that complement the government's initiatives.

It slashed the key policy rate by a total of 200 basis points last year, a move meant to influence banks to reduce commercial interest rates as well. Lower interest rates make it cheaper for people and businesses to borrow money from banks and other formal channels.

The BSP also cut the reserve requirement (this is the proportion of deposits that banks are required to keep as reserves), intending for banks to use more of their funds for lending in order to fuel economic activities.

In an unorthodox move to support MSMEs, the central bank also issued a timebound regulation that counted loans to MSMEs as part of banks' compliance to the BSP's reserve requirement.

The BSP likewise extended provisional advances to the National Government to ensure timely funding of the latter's COVID response measures.

Source: Department of Finance

It also implemented measures that helped banks manage the impact of the pandemic on their balance sheets.

With its long list of response initiatives, the BSP has so far injected around PhP2 trillion in liquidity into the financial system.

BSP Governor Benjamin E. Diokno in a recent virtual conference for investors said, “The whole-of-government response to the crisis mainly targeted the hardest hit groups: The micro, small, and medium enterprises, their employees and other low-income earners, repatriated overseas Filipino workers, and members of the health sector.”

“The BSP did the heavy lifting in terms of ensuring ample liquidity in the financial system and providing regulatory relief to banks. In turn, we expect banks to help their hard-hit customers cope with the crisis as well.”

Economic recovery prospects

The Philippines has rolled out its vaccine program last March, with the government targeting to inoculate all of its 70 million adult population this year (vaccines are not yet recommended for minors).

According to the Department of Interior and Local Government (DILG), P82.5 billion has been earmarked for the operationalization of the vaccine program.

With this, together with the continued reopening of more business sectors from last year’s more stringent lockdowns, the Philippines’ prospects for economic recovery shine bright.

Quick Stats

Indicator	2019	2020
Credit Ratings		
Fitch Ratings	BBB/Stable	BBB/Stable
Moody's Investors Service	Baa2/Stable	Baa2/Stable
Standard & Poor's	BBB+/Stable	BBB+/Stable
Japan Credit Rating Agency	BBB+/Positive	A-/Stable
R&I Information Inc.	BBB/Stable	BBB+/Stable
RAM Ratings	gBBB2(pi)/Stable	gBBB2(pi)/Stable
Real Gross Domestic Product Growth (year-on-year, %)	6.1	-9.6
Per Capita GDP (current prices, USD)	3,512	3,323
Per Capita GDP, PPP concept (at current prices, USD)	9,357	8,434
Unemployment Rate (%)	5.1	10.3
Population (mn)	107.3	108.8
Balance of Payments (USD, mn)	7,843	16,022
(as % of GDP)	2.1	4.4
Current Account (USD, mn)	-3,047	12,979
(as % of GDP)	-0.8	3.6
Goods Exports (USD mn)	70,927	65,214
(year-on-year growth, %)	2.3	-8.1

Quick Stats (Continued)

Indicator	2019	2020
Goods Imports (USD mn)	111,593	89,811
(year-on-year growth, %)	-1.1	-19.5
Cash Remittances (USD, mn)	30,133	29,903
Gross International Reserves (USD, mn; end of period)	87,840	110,117
(months' worth of imports)	7.6	12.6
External Debt (as % of GDP; end of period)	22.2	27.2
Inflation Rate (%) (2012=100)	2.5	2.6
National Government Balance/GDP (%)	-3.4	-7.6
National Government Revenue/GDP (%)	16.1	15.9
Interest Payments/Revenue (%)	11.5	13.3
General Government Debt/GDP (%)	34.1	42.1 (as of end-June)
National Government Debt/GDP (%)	39.6	54.6

[1] Starting 1 January 2020, universal and commercial banks are required to submit the amended reporting templates on banks' lending and deposit rates or Interest Rates on Loans and Deposits (IRLD) in accordance with Circular Nos. 1029 and 1037, series of 2019. In view of the gradual lifting of the suspension of submission of bank reports amid the New Economy Arrangement (NEA), banks' submission of IRLD reports is not yet complete.

Quick Stats (Continued)

Indicator	2019	2020
Average Bank Lending Rate (all maturities)[1] (%) (weighted averages in percent per annum)	7.087 (vs. 6.139 in 2018)	---
BSP Rates (weighted average in %, per annum):		
Overnight Lending	4.996	4.063
Overnight Repurchase	4.408	2.733
Overnight Deposit	3.798	2.054
Term Deposit Facility		
7-Day Deposit	4.528	2.123
14-Day Deposit	4.572	2.042
28-Day Deposit[2]	4.521	2.705
28-Day BSP Securities	---	1.844
91-Day T-bill Rate (%) (weighted averages in percent per annum)	4.674	2.018
Peso[3] (end of period)	50.635	48.023
PSEi Close (on last trading day)	7,815.26	7,139.71
ROP 10-year Bond Spread over US Treasuries (end of period, in bps; source: Bloomberg)	0.792	0.913
ROP 5-year Bond Spread over US Treasuries (end of period, in bps; source: Bloomberg)	0.510	0.406

[2] In September 2020, the BSP started issuing securities with the same tenor as 28-day Term Deposit Facility (TDF). Term Deposit Facility has been discontinued.
[3] Peso close data from Bankers Association of the Philippines

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