

**STATEMENT OF NEDA ACTING SECRETARY
ON THE 2020 Q2 PERFORMANCE OF THE PHILIPPINE ECONOMY**

August 6, 2020

Introduction

Colleagues in government, friends from the media, fellow Filipinos, good morning.

Our country is facing the biggest crisis in nearly eight decades. How we respond to the COVID-19 pandemic and how united we are in facing this common threat will determine the course of our nation.

Saving lives

As local transmission of the virus surged in March 2020, we made the very difficult decision of placing a large part of the economy in enhanced community quarantine (ECQ) because the priority was clearly to save lives from COVID-19.

This decision is worth the lives saved. It prevented an estimated 1.3 to 3.5 million cases, of which an estimated 68,000 severe and critical cases at the peak day would have overwhelmed our healthcare system. More importantly, some 59,000 to 171,000 lives were saved. However, this has come at a great cost to the economy as the ECQ shut down around 75 percent of the economy.

GDP performance

As reported by the Philippine Statistics Authority (PSA) this morning, the Philippine economy contracted by 16.5 percent in the second quarter of 2020, bringing first semester contraction to 9 percent. Household consumption and private sector investment, which drove growth in the past, have significantly declined given the closure of businesses and the loss of income during the ECQ.

Fully aware of the impact of the ECQ on businesses and livelihoods, the government

ramped up spending to protect, among others, some 18 million low income households and 3.1 million workers of small businesses, or a total of around 85 percent of households, by providing them the biggest ever income support and wage subsidy program.

This record support is evident in much higher government consumption spending, which grew by 22 percent in the second quarter. All in all, some 655 billion pesos were allocated to support the people and the healthcare system under Pillar 1 and 2 of our COVID-19 response strategy, of which almost 400 billion pesos have been disbursed.

The administration also quickly resumed the infrastructure program when it was safe to do so. From a total ban during the start of the ECQ, public construction turned around quickly by June, and contracted by only 0.9 percent. Around 264 projects implemented by DPWH, DOTr, and BCDA have resumed starting June 2020 at an accelerated pace.

On the supply side, agriculture grew by 1.6 percent, roughly in line with population growth. In particular, rice production grew by 7.2 percent as implementation of the Rice Competitiveness Enhancement Fund under the Rice Tariffication Law is accelerated. However, industry, notably manufacturing, and services in general saw their largest contraction in decades.

While the decline in GDP is huge, we are beginning to see signs of recovery. Manufacturing production, exports, and imports have taken a U-turn as the pace of decline slows.

The volume of production index was -39 percent in April but improved to -19 percent by June. The second quarter contraction averaged -29 percent, and we expect it to gradually recover in the coming months.

Similarly, exports and imports are beginning to recover. Exports improved from -50 percent in April 2020 to -13 percent in June 2020 and averaged -30 percent in the second quarter. Exports to China, one of our largest trading partners, improved from -55 percent in April to a 2.8 percent expansion in June. As China's economy

improves in the second semester, we can expect export growth to follow.

Imports, which support both household consumption and business investment, also recovered gradually from a large contraction of -65 percent in April to a slower contraction of -25 percent in June, or an average decline of -44 percent in the second quarter.

Strong foundations

Without doubt, the pandemic and its adverse economic impact are testing the economy like never before. But unlike past crises, the Philippines is now in a much stronger position to address the crisis.

Our strengths come from successfully enacting important, game-changing economic, social, and institutional reforms that have better prepared us for the unique challenges we face today.

These reforms have also strengthened our ability to take decisive actions to help the economy survive this crisis and steer its path towards inclusive and sustainable growth.

For instance, without tax reform and rice tariffication, the government would not have the resources to provide emergency subsidies to the people and worse, their diminished income would have been eaten by much higher rice prices.

Living with the virus

Our initial response to the pandemic assumes a six-month infection period similar to SARS in 2003, and thus, like the rest of the world, we took stringent measures to contain the virus.

Today, we know more about the virus, how it spreads, and how to avoid it. We now know that the virus is not going to go away easily, and we will have to live with it for a longer period of time.

Around the world, COVID-19 infections are rising again. Nikkei reported that 126

out of 188 countries or around 70 percent are reporting growing cases again as of the end of July 2020. These include countries that appeared to have been initially successful in containing the spread of the virus but are now experiencing second and even third waves of transmission such as Australia, Japan, Hong Kong, and several European countries.

Clearly, this will be a drawn-out struggle. We are in a marathon rather than a sprint. As we learn that we cannot deliver a finishing blow to this pandemic or to the economic crisis until a vaccine is developed, we will need to ensure that our response addresses the present needs of our people without exhausting our resources for future needs.

Rebalancing

Our response also calls for rebalancing our priorities from saving lives from just COVID-19 to saving lives from both COVID-19 and other factors, such as hunger and other diseases. It also calls for us to respond to the virus as the situation evolves. As Secretary Dominguez said, “The whole world is learning how to dance with this virus, two steps forward and one step back.”

Reverting back to MECQ may be one step back for the country’s economic recovery, but the government remains committed to addressing immediate challenges without losing sight of our medium-and long-term goals.

The return to MECQ is an opportunity to address new challenges brought about by the virus. If we use this time well, we can improve our healthcare system and pave a stronger foundation for the resumption of the economy. For the time being, the economic team will be providing the necessary fiscal support, as far as available resources can afford.

Bayanihan 2

Last night, the House of Representatives passed on second reading Bayanihan 2. Similar to the recently passed Senate version, the House bill provides fiscal resources to i) support the healthcare system, ii) enhance testing, tracing, isolation,

and treatment, which are crucial to boost confidence, get people back to work, and restore consumer demand, iii) support public transport, notably through service contracting and bicycle lanes, that will allow the public to safely get back to work, iv) support critically affected sectors and workers in ECQ areas, and v) provide capital infusion to government financial institutions (GFIs) to allow them to lend to more to small businesses and help smaller banks.

The House version also incorporates two important provisions that will provide equity support to strategically distressed firms and allow banks to dispose of bad loans and assets so that they can serve more businesses.

The total support from both fiscal and financial resources amounts to some 995 billion pesos, as the GFIs, aided by regulatory relief, can leverage the initial capital infusion several times to provide more credit guarantees, more wholesale banking services to help smaller banks and microfinance lenders help their clients, and more lending to small businesses.

Bayanihan 2 is one instrument in our recovery. The acceleration of our Build Build Build program, now expanded to cover health and digital infrastructure, and the 2021 Budget are two complementary measures that will improve our recovery prospects, as will be discussed later.

In the coming weeks, we will present to you the Updated Philippine Development Plan (PDP) 2017-2022, which will incorporate our strategies for a healthier and resilient Philippines. The updated PDP will be our guide in ensuring the responsiveness, continuity, and adaptability of our strategies and reforms to the new normal.

Conclusion

These are extraordinary times and the road ahead of us continues to be challenging and uncertain. At this critical juncture in our history, working together to address this unprecedented crisis is our best recourse.

On our part, rest assured that the economic team will work hard to proactively help

steer the country's recovery and restore its growth potential. Our shared aspirations of *matatag, maginhawa at panatag na buhay para sa lahat* have become even more pronounced during this pandemic.

In our personal capacity, everything that we do or choose not to do will spell the difference between health and sickness, between life and death, and between economic recovery and decline. We all, therefore, need to cooperate by knowing and practicing health standards, such as physical distancing, properly wearing face masks and shields, frequent washing of hands with soap, and disinfecting.

We are aware of the many sacrifices we all had to make during this pandemic. We are very thankful to those who have tirelessly worked with us in finding solutions, to social workers and volunteers in bringing relief goods and subsidies to the people, to employers who have provided support to their workers and have kept them safe, and even to those who just stayed at home to keep the virus from spreading.

More importantly, the gratitude of every Filipino household, itself a battlefield in the fight against this pandemic and its adverse economic consequences, goes to healthcare workers and front liners who make many sacrifices to restore the health of those infected and keep the rest of us safe from COVID-19. As we expect Congress to approve the Bayanihan 2, which contains provisions to support healthcare workers, we give the full assurance that more help is on the way.

Thank you and please take care always.