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PHILIPPINES ECONOMIC UPDATE

BRAVING THE NEW NORMAL

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PREFACE

The *Philippines Economic Update* summarizes key economic and social developments, important policy changes, and the evolution of external conditions over the past six months. It also presents findings from recent World Bank analysis, situating them in the context of the country's long-term development trends and assessing their implications for the country's medium-term economic outlook. The update covers issues ranging from macroeconomic management and financial-market dynamics to the complex challenges of poverty reduction and social development. It is intended to serve the needs of a wide audience, including policymakers, business leaders, private firms and investors, and analysts and professionals engaged in the social and economic development of the Philippines.

The Philippines Economic Update is a biannual publication of the World Bank's Macroeconomics, Trade, and Investment Global Practice (MTI), prepared in partnership with the Finance, Competitiveness, & Innovation Global Practice, the Poverty & Equity, Finance, Competitiveness & Innovation, and Social Protection & Labor Global Practices (GPs). Ndiame Diop (Practice Manager for the MTI GP) and Souleymane Coulibaly (Lead Economist and Program Leader) guided the preparation of this edition. The team consisted of Rong Qian (Senior Economist), Kevin Chua (Economist), Kevin Cruz (Research Analyst), and Karen Lazaro (Consultant) from the MTI GP, Isaku Endo (Senior Financial Sector Specialist) from the Finance, Competitiveness and Innovation GP, Gabriel Demombynes (Program Leader), and Sharon Faye Alariao Piza (Economist) from the Poverty & Equity GP, and Yoonyoung Cho (Senior Economist), Ruth Rodriguez (Social Protection Specialist), and Arianna Zapanta (Consultant) from the Social Protection GP, Natasha Beschorner (Senior Digital Development Specialist) from the Digital Development Department prepared the Special Focus Note on the digital economy. The report was edited by Oscar Parlback (Consultant), and the graphic designer was Christopher Carlos (Consultant). Peer reviewers were Shakira Binti The Sharifuddin (Senior Economist) and Pedro Miguel Gaspar Martins (Senior Economist). Logistics and publication support were provided by Elysse Dominguez Miranda (Team Assistant) and Kristiana Gizelle Torres Rosario (Team Assistant). The Manila External Communications Team, consisting of Clarissa David (Senior Communications Officer) and David Llorito (Communications Officer) prepared the media release and web-based multimedia presentation, Stephanie Margallo provided team assistance. Moira Enerva (Consultant) prepared the dissemination plan for this edition of the PEU.

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For more information about the World Bank and its activities in the Philippines, please visit www.worldbank.org/ph.

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ABBREVIATIONS AND ACRONYMS

4Ps	Pantawid Pamilyang Pilipino Program
A4AI	Alliance for Affordable Internet
AFP	Armed Forces of the Philippines
ASEAN	Association of Southeast Asian Nations
BASS	Bandwidth and Signal Statistics
Bbl	Barrel
BCDA	Bases Conversion and Development Authority
BFAR	Bureau of Fisheries and Aquatic Resources
BI	Bank Indonesia
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
Bps	basis points
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
BWA	Broadband Wireless Access
CA	Commonwealth Act
CAB	Civil Aeronautics Board
CAMP	COVID-19 Adjustment Measures Program
CBOE	Chicago Board Options Exchange
CDN	Content delivery network
COVID-19	Coronavirus Disease 2019
CPCN	Certificate of public convenience and necessity
DA	Department of Agriculture
DAI	Digital Adoption Index
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DICT	Department of Information and Communications Technology
DILG	Department of the Interior and Local Government
DO	Department Order
DOH	Department of Health
DOLE	Department of Labor and Employment
DPWH	Department of Public Works and Highways
DROMIC	Disaster Response Operations Monitoring and Information Center
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
ECQ	Enhanced Community Quarantine
EIU	Economist Intelligence Unit
EMBI	Emerging markets bond index
EMDEs	Emerging market and developing economies
EO	Executive Order
ERC	Energy Regulatory Commission
FDI	Foreign direct investment
FPI	Foreign portfolio investments
FRAND	Fair, reasonable and non-discriminatory
GAA	General Appropriations Act
GDP	Gross domestic product
Ghz	Gigahertz
GNI	Gross national income
GOCC	Government-Owned and Controlled Corporations
GRM	Grievance Redressal Mechanism
GSIS	Government Service Insurance System
HEAL	Help via Emergency Loan Assistance to LGUs
HLURB	Housing and Land Use Regulatory Board
HTS	High through-put satellites
IATF-EID	Inter-Agency Task Force for the Management of Emerging Infectious Diseases
ICT	Information and communication technologies
IDN	Indonesia
IDR	Indonesian Rupiah
IMT	International Mobile Telecommunications
ISP	Internet service providers
IT-BPO	Information technology-business process outsourcing
ITC	Independent tower companies
ITU	International Telecommunication Union
IXP	Internet exchange point
JMC	Joint Memorandum Circular
KYC	Know-your-customer
LBP	Land Bank of the Philippines

ABBREVIATIONS AND ACRONYMS

LCU	Local currency unit
LFPR	Labor force participation rate
LFS	Labor force survey
LGU	Local Government Unit
LLDA	Laguna Lake Development Authority
Mbps	Megabits per second
MC	Memorandum Circular
Mhz	Megahertz
MO	Memorandum Order
MOOE	Maintenance and other operating expenses
MRT	Metro Rail Transit
MSME	Micro, small, and medium enterprise
MYS	Malaysia
NBP	National Broadband Plan
NBQB	Non-bank financial institutions with quasi-banking function
NCIP	National Commission on Indigenous Peoples
NCR	National Capital Region
NDRRMC	National Disaster Risk and Reduction and Management Council
NEA	National Electrification Authority
NEDA	National Economic and Development Authority
NGA	National government agency
NGCP	National Grid Corporation of the Philippines
NPL	Non-performing loans
NTC	National Telecommunications Commission
OFW	Overseas Filipino Worker
OPEC	Organization of the Petroleum Exporting Countries
PA	Provisional authority
PAP	Programs, activities, or projects
PCC	Philippine Competition Commission
PCSD	Philippine Council for Sustainable Development
PFOCN	Philippine Fiber Optic Cable Network Ltd Inc.
PGH	Philippine General Hospital
PhilHealth	Philippine Health Insurance Corporation
PHILRECA	Philippine Rural Electric Cooperatives Association, Inc.
PHIVOLCS	Philippine Institute of Volcanology and Seismology
Php	Philippine peso
PLCN	Pacific Light Cable Network
PMI	Purchasing Managers' Index
PNP	Philippine National Police
POEA	Philippine Overseas Employment Administration
PPE	Personal protective equipment
PSA	Philippine Statistics Authority
PSE	Philippine Stock Exchange
PTE	Public telecommunications entity
RA	Republic Act
RHS	Right-hand side
RRR	Reserve requirement ratio
SAC	Social Amelioration Card
SAP	Social Amelioration Program
SARS	Severe acute respiratory syndrome
SDG	Sustainable Development Goals
SME	Small and medium enterprise
SOTI	State of the Internet
SSS	Social Security System
SUF	Spectrum User Fee
Tbps	TeraBytes Per Second
THA	Thailand
U.S.	United States
UCT	Unconditional cash transfer
UP	University of the Philippines
USD	United States Dollar
VND	Vietnamese Dong
VNM	Vietnam
WB	World Bank
WBG	World Bank Group
WHO	World Health Organization
WSJ	Wall Street Journal

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EXECUTIVE SUMMARY

A series of unforeseen events caused an abrupt halt to the Philippines' strong growth momentum in early 2020. The Philippine economy carried its strong growth momentum from the second half of 2019 into early 2020 thanks to positive consumer confidence, robust macroeconomic fundamentals, and an improvement in the external sector. However, the eruption of Taal Volcano in early January, the spread of the Coronavirus Disease 2019 (COVID-19) outbreak in the region, and the rise of COVID-19 infection cases in the Philippines in March, forced the economy to a near halt in the latter part of March due to severe disruptions in manufacturing, agriculture, tourism and hospitality, construction, and trade. The economy contracted by 0.2 percent year-on-year in the first quarter of 2020, the first contraction in over two decades, and was a sharp reversal from the 5.7 percent growth over the same period in 2019. Leading indicators that track economic activity in real time suggest that the contraction would be even more severe in the second quarter as most regions of the country entered an enhanced community quarantine (ECQ) in mid-March.

The impact of COVID-19 on private consumption growth has been steep and swift resulting in its lowest growth rate since 1985 recession. In an effort to flatten the infection curve, the Philippine government imposed the ECQ on March 16 mandating the closure of all non-essential businesses which caused millions of workers to lose jobs and income. As a result of the lockdown and of a likely decline in remittances inflows, private consumption growth fell to 0.2 percent in the first quarter of 2020 from 6.2 percent last year. The slowdown in consumption growth was broad-based across all major categories of consumption except health products. As expected, the consumption of non-essential goods and services such as from the hotel and restaurant industry was impacted the most, contracting double digits, while consumption of food grew by 4.7 percent in the first quarter of 2020.

Export activities weakened substantially due to the disruptions in tourism and global value chains. Philippine export growth started to weaken in 2019 due to trade tensions and slower global growth. The COVID-19 outbreak further weakened merchandises exports amid disruptions in global value chains and as global trade slowed down affecting Philippine exports of agriculture, fisheries products and manufacturing goods. Similarly, service exports contracted by 4.3 percent year-on-year in the first quarter of 2020 reflecting travel restrictions imposed in the Philippines and globally that resulted in a 40 percent decline in international tourist arrivals. Meanwhile, imports also contracted given weaker growth in capital goods imports due to weaker domestic investment activities, and in raw and intermediate goods imports reflecting disruptions in global value chains.

While the government accelerated spending in March, partly in response to the COVID-19 pandemic, the overall fiscal deficit narrowed in the first quarter of 2020. The fiscal deficit shrunk to 1.7 percent of GDP in the first quarter, 80 percent lower than target, owing to government underspending. This underspending partly reflects delays in the implementation of public infrastructure projects caused by the Taal Volcano eruption, and the disruption of budget execution at onset of the COVID-19 pandemic. Subsequently, public spending accelerated in March with the passage of the "Bayanihan to Heal as One Act" to support the government's COVID-19 response, including the provision of cash assistance to affected households. Non-tax revenues increased more than three-fold in the first quarter thanks to the early dividend remittances of the *Bangko Sentral ng Pilipinas* (BSP) and Government Owned and/or Controlled Corporations (GOCCs) to compensate for the tax revenue shortfall, as tax collections contracted by around 10 percent in nominal terms in March alone. Overall, government underspending and higher non-tax revenue collections led to a smaller fiscal deficit in the first quarter of 2020.

The benign inflation environment has provided the monetary authority ample space to act quickly and thoroughly to mitigate the impact of the COVID-19 outbreak on the financial sector. Headline inflation averaged 2.6 percent in the first four months of 2020 due to easing price pressure from food, rice in particular, and energy consuming categories such as transport and utilities, as global commodity prices plunged. The stable inflation environment created room for the BSP to step up its accommodative monetary policies to help cushion the adverse impact of the COVID-19 outbreak and the ECQ.

The BSP reduced its key policy rates by a total of 125 basis points (bps) between February and April bringing the benchmark rate to 2.75 percent. In addition, the reserve requirement ratio was reduced by 200 basis points in April to further support domestic liquidity. Furthermore, the BSP has also adopted numerous regulatory measures to facilitate digitalization of its operations, encourage banks to lend to micro, small, and medium enterprises (MSMEs), and facilitate delivery of social assistance programs, among others.

Despite capital outflows caused by heightened global uncertainty, lower export growth, and likely lower remittances inflows, the Philippine peso has appreciated in the first quarter of 2020. Amid increased global uncertainty, net foreign direct investment (FDI) inflow is expected to be negative for developing countries including the Philippines. Similarly, portfolio inflows were volatile in the first quarter of 2020, with outflows peaking in March when community transmission of COVID-19 was confirmed in the country. Remittance inflows are expected to decline as many overseas Filipino workers (OFWs) returned to the country and are unable to go back to their hosting countries. Yet, given the relatively small size of the Philippines' reliance on FDI and portfolio inflows, the import contraction has resulted in peso appreciating 3.0 percent, year-on-year in the first three months of 2020, leading to foreign reserve reaching US$87.6 billion in February (7.7 months of imports and payment of services).

The Philippines faces a looming contraction in 2020 driven by the severity of COVID-19 pandemic and associated containment measures imposed globally. The Philippine economy is expected to contract by 1.9 percent in 2020, the first contraction since the Asian Financial Crisis, as COVID-19 continues to disrupt global and domestic economic activities. This projection assumes that the containment measures will be gradually relaxed in the second half of the year, and economic activities return in some sectors of the economy. Given income loss and heightened uncertainty, household consumption and private investment are expected to remain weak in 2020. However, economic growth prospects are expected to improve in succeeding years driven by a rebound in consumption, a stronger push in public investment, and the recovery of global growth. The Philippine growth is projected to return to above 6 percent in 2021 and above 7 percent in 2022, aided by the increased economic activity surrounding national elections.

Labor market conditions remained favorable in early 2020 but has worsened rapidly with the COVID-19 outbreak and imposition of the ECQ. Unemployment remained at 5.3 percent in January 2020 while the underemployment rate reached its lowest level in a decade at 14.8 percent. These were a result of job creation in the agriculture and services sectors while employment in industry contracted in January 2020, consistent with the slower growth in construction and manufacturing. The imposition of the ECQ in Luzon, which accounts for seventy percent of the country's economic activity, has led to loss of income and livelihood for millions of Filipinos. This is particularly the case for the 7.4 million daily wage workers who were employed in construction, manufacturing, retail, and hospitality sectors.

The expected broad-based economic contraction in 2020 is likely to cause an increase in poverty despite government effort to mitigate the impact of COVID-19 outbreak. Containment measures have cut off income streams from seasonal wage earners and entrepreneurial activities in non-agricultural and low-end service jobs, which were the driver of poverty reduction and shared prosperity in recent years. To mitigate the negative economic impact of COVID-19 and the ECQ, the government has launched a social protection program for 18 million informal and vulnerable families and 3.4 million formal workers of small businesses affected by ECQ. While the emergency subsidy program is expected to partially offset income losses, implementation challenges and delays to reach to vulnerable households in a timely manner could result in failure to prevent more households to fall into poverty. Based on simulated estimates, the poverty incidence could increase by at least 3.3 percentage points assuming a loss of two months' worth of income if there are no mitigation measures in place.

The full extent and duration of the COVID-19 outbreak is still uncertain and the adverse socioeconomic repercussions of a deeper and prolonged COVID-19 outbreak constitutes a significant downside risk to the outlook. With most of the countries in the world yet to succeed in flattening the infection curve, and the risks of a second wave of infections for those that appeared to have momentarily flattened it remain present, the likelihood of a deeper global recession in 2020 has escalated. Furthermore, travel restrictions and depressed global demand implies that demand for Philippine goods and services are likely to further contract. Domestically, while the government continues to take decisive actions to contain the spread of the virus, the risks of continued transmission that force return to strict lockdown in at least parts of the country could push the economy to a deeper contraction in 2020 with echo effects into 2021. For instance, a protracted ECQ could transform firms' temporary liquidity problems into solvency issues. Clearly, the overall economic damage of COVID-19 is still uncertain and will largely be dependent on how the pandemic will be contained locally and globally.

In the short term, the government effort needs to focus on strengthening the capacity of the healthcare system while protecting vulnerable households. Despite effort to ramp up testing capacity in the country, more resources and effort need to be placed in expanding health system capacity to rapidly flatten the infection curve and to prevent a second wave. Meanwhile, effective social protection measures are crucial to help households during periods of lockdown and social distancing, especially the most economically vulnerable households to provide for their basic needs. Similarly, financial support to affected firms to prevent massive job destruction and bankruptcy are critical to ensure temporary shocks do not turn into permanent damage in country's productive capacity and human capital.

In the medium term, supportive policies under the new normal will be crucial to accelerate the return to the strong growth momentum. As economic activities gradually resume, the lack of an effective vaccine implies that the economy will operate under a new normal with continuous social distancing, strengthened through rules; some sectors allowed to operate partially and demand for some good and services remain suppressed. In this context, fiscal and monetary policies will be critical to re-start the economy, build confidence, and help the country return to its high growth path pre-COVID. Given the rapidly changing environment and expected revenue shortfall in the short term, the economic policy mix needs to be strong but measured, adaptable and based on evidence to ensure policy effectiveness, and to attain the highest socioeconomic impact. Moreover, given the Philippines' high risk to natural disasters, fiscal stimulus, public investments in particular, need to support resilience to natural disasters and climate change to ensure the country's sustainable long term growth.

The COVID-19 context has underscored the importance of digitalization to support resilience. Indeed, firms and households with good digital connectivity have been able to maintain some activities online during the outbreak. Going forward, innovative solutions could support the re-opening of the economy while minimizing resurgence of the virus. Virtual meetings and remote working are expected to continue under the new normal for some sectors of the economy, therefore widely reliable and affordable access to internet will be critical to ensure business continuity. Furthermore, the shift to e-commerce, digital financial services, digital public service and social protection delivery started during ECQ is likely to continue even after the lockdown. Finally, digital solutions will remain useful for contact tracing, to effectively contain new cases spreading rapidly in the communities.

To successfully embrace the new normal, Philippine digital infrastructure needs to be urgently and substantially improved to ensure resilient and affordable internet service. Due to insufficient competition and an outdated legal, policy and regulatory framework, the Philippines suffers from under-investment in broadband internet network. As a result, the country's broadband (high-speed) internet penetration is below the level of countries with comparable per capita income. Limited infrastructure and weak competition led to poor quality and high cost. For instance, the country's internet speeds are among the slowest in the region and its price is higher than the ASEAN average. While the private sector should continue to lead investment efforts in the Philippines' digital infrastructure, the government plays an important role in creating an enabling policy environment. This can be achieved through (i) lowering barrier to market entry; (ii) streamlining permit requirements; (iii) enabling a fair and level playfield for operators; (iv) fast-tracking and lowering the cost of deploying broadband infrastructure; (v) encouraging more private sector infrastructure sharing; and (vi) making spectrum more available for internet connectivity. Moreover, digitalization of government itself lags behind and strong investments into the digitalization of public administration and public service functions can lead to significant efficient gains and boost the digitalization of the country.

PART 1 RECENT DEVELOPMENTS

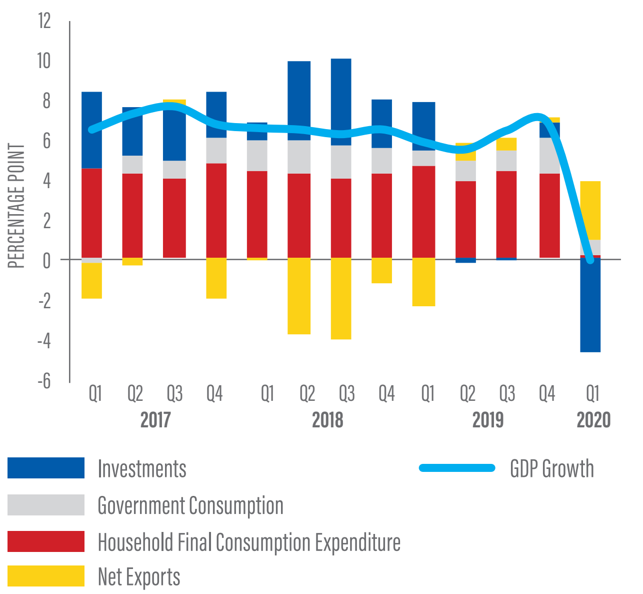
A series of unforeseen events caused an abrupt halt to the Philippines' strong growth momentum in early 2020. As a result, the Philippine economy contracted by 0.2 percent year-on-year in the first quarter of 2020, a sharp reversal from the 5.7 percent growth over the same period a year ago. The growth contraction – the first in over two decades – was driven by a series of unexpected events, beginning with the Taal volcano eruption in early January which caused severe disruptions in tourism, agriculture, construction, and manufacturing activities, the initial outbreak of COVID-19 in China and in the region which impacted the Philippine's tourism and trade; and the deepening of the outbreak into a global pandemic and local community transmission which led to the implementation of stringent containment measures globally and in the Philippines. These events have sharply reduced economic activity and induced losses of jobs and income. The cumulative impact of these events on the economy has been broad-based, steep, and deep, halting investment activity, and leading to the lowest consumption growth in three decades. In response, the Philippine government implemented a set of fiscal and monetary measures to contain the health, economic, and social impact of COVID-19. On the monetary side, the low and stable inflation rate provided room for the BSP to step up its accommodative monetary policies and provide ample liquidity to the banking sector. On the fiscal side, modest debt levels coupled with recent tax policy and tax administration reforms have provided the Philippines the fiscal space to implement a wide range of policy measures to help strengthen the country's health system and support affected households and firms. The outbreak clearly poses the risk of unraveling some of Philippines' gains in poverty reduction in recent years.

1.1 ECONOMIC GROWTH: COVID-19 HIT THE PHILIPPINE AND GLOBAL ECONOMY

Prior to the outbreak of the COVID-19 pandemic, leading indicators for early 2020 suggested a strong rebound for the Philippine economy as a result of positive consumer confidence, robust macroeconomic fundamentals, and an improvement in the external sector. However, the COVID-19 shock has put an abrupt stop to the Philippines' growth momentum, causing growth to contract for the first time in twenty-two years.

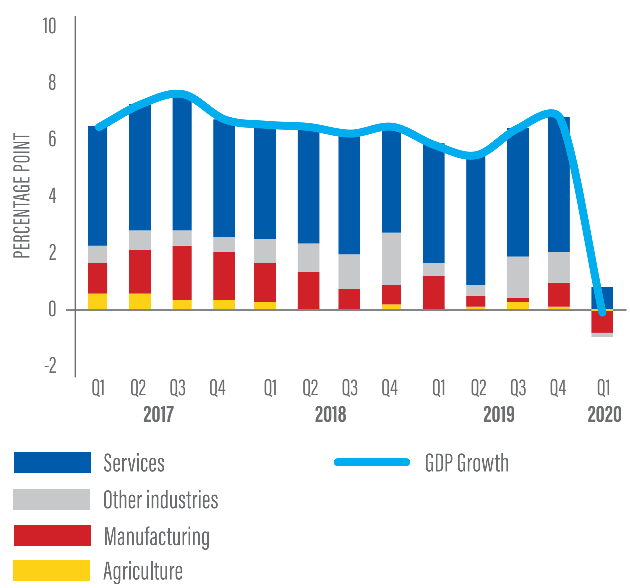
Prior to the outbreak of the COVID-19 pandemic, Philippine economic growth accelerated in the latter half of 2019. After a relatively sluggish start to 2019, economic growth rebounded strongly in the second half of the year, increasing by 6.5 percent, year-on-year, up from 5.6 percent in the first half of 2019, driven by increased public spending and robust consumption growth. Full year growth reached 6.0 percent, the lower end of the government's growth target in 2019, slightly down from 6.3 percent in 2018 (Figure 1). This represented an eight-year low for the Philippine economy, driven by (i) a significant deceleration in public investment activity in the first half of the year; and (ii) weakening private investment amid heightened policy uncertainty in the external environment and the uncertainty surrounding the corporate income tax and fiscal incentive reform program. In addition, increased trade tensions and protection and slower growth in advanced economies resulted in sluggish external demand, contributing to tepid export growth in 2019. Overall, private consumption remained the main growth driver in 2019, benefitting from low inflation, a high level of remittances, a recovery in consumer confidence, and an improving labor market.

Figure 1. GDP growth slowed to an eight-year low in 2019, as investment growth weakened...



Source: Philippine Statistics Authority (PSA).

Figure 2. ...while services continued to fuel growth on the production side.



Note: Other industries are mining and quarrying, construction, electricity, gas, and water.
Source: PSA.

However, a series of unexpected events in early 2020 caused an abrupt stop to economic activity, resulting in the Philippine economy's first contraction in over two decades. In early January 2020, the eruption of Taal Volcano caused severe disruptions in tourism, agriculture, and manufacturing activities. In early March, as COVID-19 cases increased rapidly in the Philippines, the government imposed an ECQ in Luzon[1] on March 16th in an effort to flatten the infection curve. The necessary containment measures led to losses in income for both firms and workers as temporary job losses mounted[2]. As a result, the Philippine economy contracted by 0.2 percent, year-on-year, in the first quarter of 2020, the lowest growth rate since the Asian Financial Crisis.[3] The economic impact was broad-based, driven mainly by a decline in investment while private consumption growth fell to its lowest level in thirty-five years.

Leading indicators that track economic activity in real time suggest that the Philippines has yet to experience the worst effects of COVID-19. An analysis of big data (Box 1) that provide a frequent and updated snapshot of the economy reveals that the abrupt decline in economic activity due to COVID-19 continued to deepen in the second quarter of 2020. For instance, it is expected that activities in the tourism sector, which accounted for 12.1 percent of GDP in 2018 and employs over 5 million Filipinos,[4] will come to a complete halt in the first half of 2020 and travel bans could result in a loss of up to 1.4 million international tourists.[5]

The impact of COVID-19 on private consumption growth has been steep and swift. Private consumption growth, which has been the country's main growth engine in recent years, fell from 6.2 percent, year-on-year, in the first quarter of 2019 to 0.2 percent in the same period in 2020. The growth deceleration was in large part driven by a combination of sluggish demand (due to the spread of COVID-19), a likely decline in remittances as the impact of COVID-19 deepens globally,[6] and the implementation of strict containment measures to flatten the COVID-19 infection curve. The slowdown in consumption growth was broad-based across all major categories of consumption, as traditional modes of consumption activity were disrupted.[7] The consumption of non-essential goods was impacted the most, with the hospitality and recreation industries among the hardest hit by the COVID-19 pandemic.[8] The consumption of health products was the only exception, which saw its growth rate double in the first quarter of 2020, as demand for health products soared amid the COVID-19 pandemic.[9]

Fixed investment growth contracted by 4.3 percent, year-on-year, in the first quarter of 2020, as lingering weakness from the prior year was exacerbated by the increased level of uncertainty brought by the global pandemic.[10] Private investment spending, which had weakened over the past year as firms delayed investments due to the uncertainty surrounding the corporate tax and fiscal incentive reform, persisted into 2020 as investments in durable equipment continued to contract in the first quarter of 2020. This drop in investment activity was driven by a sharp fall in business confidence, which fell to its lowest level since the 2007-08 global financial crisis.[11] Meanwhile, investments in construction declined for the first time since 2014, as the eruption of Taal Volcano in early January caused disruptions in construction activities in Calabarzon, and as construction activities stopped in line with the implementation of

1 Luzon is the country's main economic growth engine, accounting for around 70 percent of GDP and 56 percent of the population.

2 The Department of Labor and Employment estimated a total of 1.1 million unemployed Filipinos since mid-March, during the implementation of the ECQ. In addition, over 20,000 overseas Filipino workers have been repatriated to the Philippines as of April 25, 2020 according to the Department of Foreign Affairs.

3 The Asian Financial Crisis caused the Philippine economy to contract by 0.4 percent, year-on-year, in 1998.

4 2019 data for the Tourism Satellite Accounts, forthcoming.

5 Source: National Economic Development Authority (NEDA).

6 Thus far, over 20,000 overseas Filipino workers have been repatriated as a result of the COVID-19 pandemic (Department of Foreign Affairs).

7 Even the consumption of food and non-alcoholic beverages, which continue to benefit from relatively low and stable inflation, registered weaker growth in the first quarter of 2020, as growth decelerated to 4.7 percent, year-on-year, down from 5.9 percent a year ago.

8 The hotel and restaurant industry as well as alcoholic beverages and tobacco consumption experienced substantial double-digit contractions, as these are heavily linked to the tourism sector, which experienced a significant drop in activity in the first quarter of 2020. Moreover, the consumption of alcoholic beverages was also impacted by various local governments' liquor bans during the ECQ period.

9 Consumption growth related to health products accelerated to 11.5 percent, year-on-year, in the first quarter of 2020, up from 5.0 percent in the same period in 2019.

10 Fixed investment growth contracted in 2011, as government underspending, particularly on infrastructure projects, worsened throughout the year.

11 Business confidence fell to 22.3 percent in the first quarter of 2020, based on the BSP's business expectations survey, the lowest level since 2009. The decline in business confidence stemmed in large part from the uncertainty caused by the COVID-19 pandemic, in addition to existing concerns regarding the government's reforms of corporate income taxes and fiscal incentives.

the ECQ in Luzon. Moreover, the slump in construction investments was also driven by the slow start of the government's infrastructure program for 2020, prior to the implementation of the ECQ.[12]

External demand weakened substantially as the spread of COVID-19 crippled tourism and disrupted global value chains. Philippine export growth, which had already been weakening since 2019, further weakened as both merchandise and services export growth shrunk in the first quarter of 2020, with transport and travel export services hit the most as travel restrictions were implemented in the Philippines and globally.[13,14] However, exports of electronics products, which account for half of total merchandise exports, showed some resilience in the first quarter, growing at 5.7 percent, year-on-year, similar to the 6.0 percent in the same period in 2019 possibly suggesting that importers have turned to alternative sources to China. Yet, electronics product export growth was not enough to compensate for the 8.3 percent contraction of other exports, resulting in a 1.8 percent contraction in total merchandise exports. Meanwhile, imports contracted by 9.0 percent, year-on-year, in the first quarter of 2020, a reversal from 8.9 percent growth registered a year ago driven by weaker domestic demand. The fall in imports reflected weaker consumption activity during the quarter, the fall in capital-goods imports as investment activity shrunk, and a contraction in raw materials and imports of intermediate goods, reflecting disruptions in global value chains caused by the COVID-19 pandemic.

Mobility restrictions and personal avoidance behavior curbed not just demand, but also the production of goods and services, with, for instance, the services sector growing at its slowest pace in nearly three decades in the first quarter of 2020. Growth in the services sector slowed from 7.1 percent, year-on-year, in the first quarter of 2019 to 1.4 percent in the same period in 2020, despite the ECQ period only covering two weeks in March. The impact on services was broad-based, with the exception of areas related to human health and social work. In particular, the transport and accommodation and food services industries were impacted the most, contracting by 10.7 percent and 15.3 percent, year-on-year, respectively. Meanwhile, the agriculture sector posted a slight contraction in the first quarter of 2020, as output declined by 0.4 percent, year-on-year (compared to 0.5 percent growth in the same period in 2019),[15] due in large part to the eruption of Taal Volcano, which resulted in damages worth Php3 billion in the agriculture sector.[16]

The industry sector contracted for the first time in nearly a decade. The manufacturing sector contracted by 3.6 percent, year-on-year, in the first quarter of 2020. The weakness in manufacturing output was broad-based, impacted by the initial COVID-19 outbreak in China, which caused large disruptions in global value chains. Moreover, the eruption of Taal Volcano caused significant disruptions in manufacturing activity in the Calabarzon region, which accounts for nearly 40 percent of manufacturing output in the Philippines. The construction sector contracted by 1.8 percent, a reversal from the 5.0 percent growth recorded a year ago. This was partly due to the failure of the public infrastructure program to gain steam in the first quarter of the year, exacerbated by Taal Volcano eruption and the implementation of the ECQ in March. Overall, the industry sector contracted by 3.0 percent, year-on-year, in the first quarter of 2020, a reversal from the 4.9 percent growth recorded in the same period a year ago.

12 The government's public infrastructure spending contracted in the first two months of 2020.

13 Transport services exports contracted by 34.4 percent, year-on-year, in the first quarter of 2020, while travel-services exports contracted by 15.2 percent over the same period. Cumulatively, both sectors account for roughly one-fourth of the country's total services exports.

14 Revenue from international tourism fell by 35 percent year-on-year in the first quarter of 2020 due to imposed travel restrictions as a result of the COVID-19 pandemic.

15 The contraction was driven by reductions in output in both the crops sub-sector (-1.7 percent) and the fisheries sub-sector (-5.2 percent).

16 Source: National Disaster Risk Reduction and Management Council.

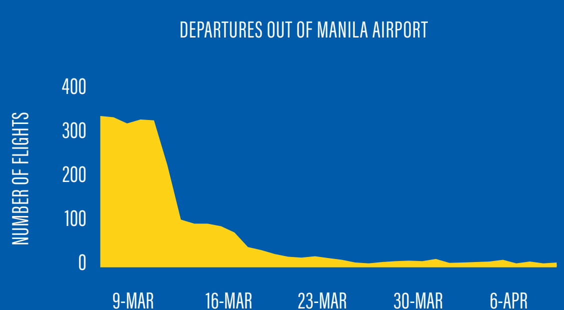
Box 1. Tracking the Impact of COVID-19 in Real Time

Tracking the impact of COVID-19 in real time is challenging given the significant lag of official data. As of mid-April, PSA has data on GDP and GNI from Q4 2019, the March inflation rate, the February trade balance, the January employment rate, and the February integrated survey of selected industries. None of these official data sources can capture the decline in economic activity after ECQ measures were implemented. Moreover, future data may become more challenging to obtain, as the PSA has already announced that preparations for surveys such as the Census are being postponed to ensure the safety of its employees.

The short-term impact of the ECQ on travel and retail can be measured using freely available big data. Flight data show that departures from Manila airport dropped by 95 percent between the week of March 9th and the week of April 6th (Figure 3). Similarly, visits to malls, restaurants, and movie theaters dropped by the 80 percent, year-on-year, in the same period dropped underscoring the hit taken by retail activity (Figure 4).

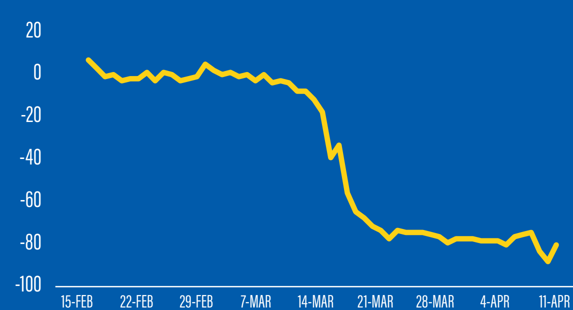
Big data can also help authorities monitor the impact of the lockdown on public mobility and sentiment. Using Apple's driving mobility data, traffic in Manila began to slowdown during the second week of March (Figure 5). During the ECQ, traffic in Manila was around 20 percent of the volume in mid-January. Moreover, Google Trends reveals that since the lockdown the desire to travel has dropped to a yearly low and the interest in movie streaming and food delivery is at an annual high (Figure 6).

Figure 3. Since the start of the enhanced community quarantine, air travel has dropped by 95 percent...



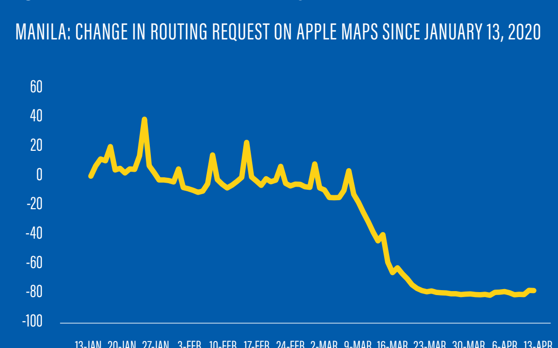
Source: FlightRadar24 (April 13, 2020)

Figure 4. ...visits to retail locations have dropped by over 80 percent...



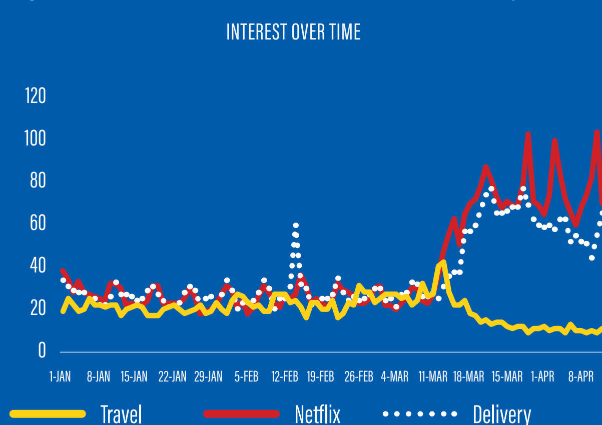
Source: Google Covid-19 Community Mobility (April 9, 2020)

Figure 5. ...Manila is experiencing 80 percent less traffic...



Source: Apple Maps Mobility Trends Reports (April 13, 2020)

Figure 6. ...and people's interests and desires have changed.



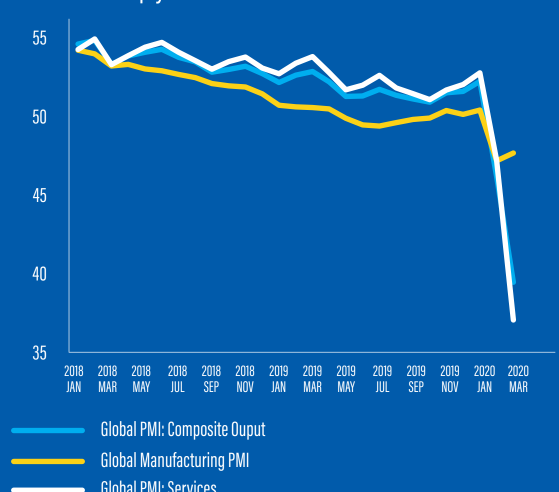
Source: Google Trends (April 15, 2020)

Box 2 . Recent Global Developments

The COVID-19 pandemic has caused massive disruptions in global economic activity. The global composite Purchasing Managers' Index (PMI) fell to 39.4 in March, as a bounce-back in the China composite PMI failed to offset a record plunge in that of the euro area, and it is fast approaching its 2009 low of 36.8 (Figure 7). Moreover, the Chicago Board Options Exchange (CBOE) volatility index—a measure of market risk and investor sentiment—increased sharply in the beginning of 2020 (Figure 8). Incoming data suggest that the sharp slowdown in global economic activity likely deepened in April 2020, as many governments, particularly in emerging market and developing economies (EMDEs), imposed new or broadened existing mitigation measures. Capital flows to emerging markets have retreated sharply, with 4-week average non-resident equity and debt flows to emerging markets falling to a level lower than that during the global financial crisis of 2007–08. Most commodity prices plunged further in March and into April as concerns about the impact of the pandemic on commodity demand intensified.[17]

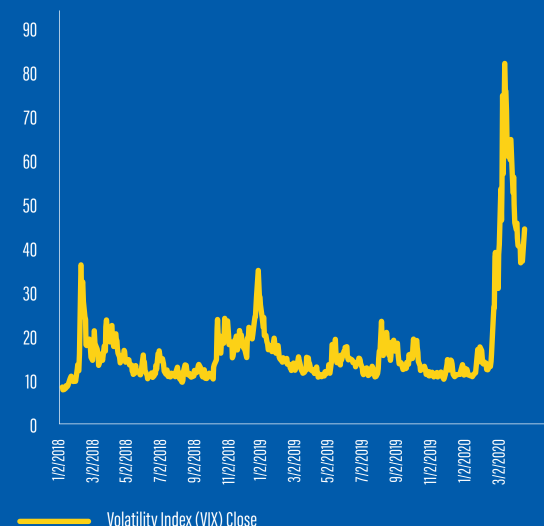
Advanced economies are faced with an unprecedented slump in economic activity as they grapple with the far-reaching consequences of the COVID-19 pandemic. As the number of COVID-19 cases soared in advanced economies, governments implemented mitigation measures, such as lockdowns and other restrictions, to slow the spread of the outbreak and ease the burden on healthcare systems. In the United States, high-frequency service-sector indicators point to an unprecedented economic collapse, especially for services and travel. Compared to the global financial crisis, weekly unemployment claims have risen much faster, while industrial production and retail sales have fallen much more sharply. In the euro area, many countries are heavily reliant on tourism, a sector virtually shut down by government policies and particularly prone to slow recoveries, which means that the pandemic has had a significant impact on economic activity. In contrast to the United States, the rise in unemployment has been modest so far in the European

Figure 7. As a result of the COVID-19 pandemic, economic activity has fallen sharply...



Note: An expansion is represented by 50+.
Source: Haver Analytics

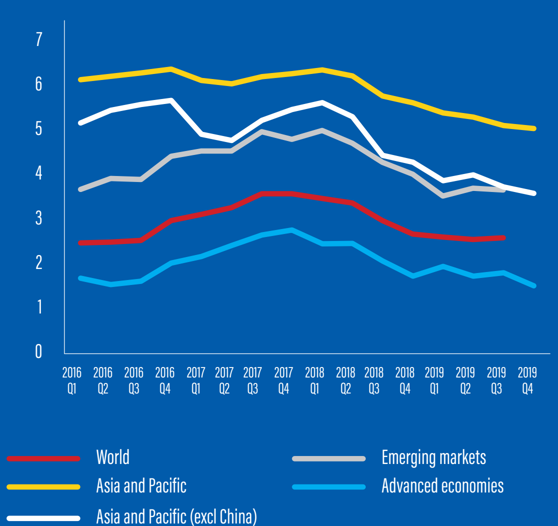
Figure 8. ...while volatility has increased dramatically.



Source: Chicago Board Options Exchange.

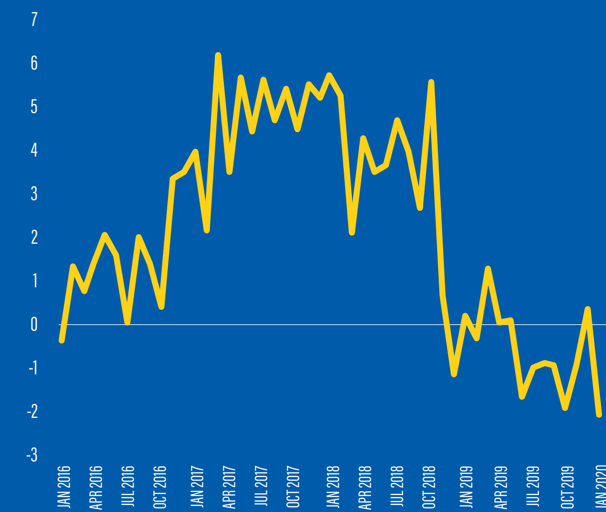
17 The International Energy Agency is expecting demand to decline by 23 percent in the second quarter of 2020, before gradually recovering through the rest of the year. While Brent crude oil prices fell 40 percent in March, with the fall in prices exacerbated by the breakdown of the production agreement by Organization of the Petroleum Exporting Countries (OPEC) and its partners, including Russia, in early March.

Figure 9. Real GDP Growth, 2016-19 (Regional Aggregates, %, Year-on-Year)



Source: Haver Analytics

Figure 10. Global Trade Growth, Jan 2016-Jan 2020 (%, Year-on-Year)



Source: Haver Analytics

Union, in large part due to the widespread use of shorter work-time policies. Policymakers have promptly provided an unprecedented degree of fiscal and monetary support to households, firms, and financial markets, but conditions in advanced economies remain at considerable risk.

The pandemic has also dealt a massive blow to EMDEs. Many have adopted mitigation measures, including economy-wide lockdowns, international border and school closures, and restrictions on domestic travel. In many EMDEs, efforts to avoid the virus have weighed heavily on private consumption, generated widespread unemployment, and led to a sharp decline in retail sales. Uncertainty over the spread of COVID-19 and the lifting of mitigation measures have coincided with the erosion of business confidence and a decline in investment. Businesses have also had to contend with delivery delays in intermediate inputs, severe drops in receipts, and limited access to financing. Moreover, domestic outbreaks are beginning to overwhelm healthcare systems in a rising number of EMDEs—including low-income countries and countries in Sub-Saharan Africa—because of the small size and limited capacity of their healthcare systems. EMDEs have also faced unprecedented external headwinds from much weaker activity in major economies, sharp declines in commodity prices, disruptions to global supply chains and tourism, markedly lower remittances, and financial market turmoil. Manufacturing activity and new export orders have sharply contracted, particularly in EMDEs with a large presence of manufacturing or export-oriented firms.

China has seen a precipitous decline in economic activity, but there are signs of a fragile recovery. In the first quarter of 2020, the Chinese economy shrank for the first time since 1976, as GDP growth contracted by 6.8 percent, year-on-year, due to the COVID-19 pandemic. The impact of the pandemic on China was broad-based, steep, and deep, as consumption, export, and investment growth, the three main engines of Chinese GDP growth, all experienced substantial double-digit contractions. But coal consumption, which is a widely followed indicator of electricity generation, and hence economic activity, is gradually increasing. Similarly, prices of manufactures of construction machinery increased in March 2020, as sales hit a

record high, potentially hinting at a recovery for China's construction sector. In addition, a majority of firms in China have started to resume operations, as 98 percent of industrial enterprises above designated size[18] and about 80 percent of small and medium-sized enterprises (SMEs) have reportedly resumed operations as of April 10th, according to the Ministry of Industry and Information Technology. Moreover, leading macroeconomic data suggest a continued recovery for China, as growth in total credit to the non-financial sector accelerated in April,[19] while export and import growth rebounded in March, despite continued contraction.[20]

Recent indicators suggest that global trade will suffer one of the worst contractions in post-war history in 2020, partly owing to the impact of the COVID-19 pandemic on international travel and global value chains. Trade is typically more volatile than output and tends to fall more sharply in times of crisis. The fall in trade activity has been concentrated in usually more stable services sectors. Travel restrictions and concerns about COVID-19 have led to a precipitous fall in tourism—a sector that in recent years has accounted for about 6.5 percent of global exports of goods and services—with sharp declines in economies with the most severe outbreaks. As the pandemic has spread, stringent border controls and production delays have weighed on trade. Measures to slow the outbreak have limited or delayed the supply of critical inputs, particularly in the automotive and electronics industries. The collapse of air transport has resulted in a steep rise in air freight costs, putting further strain on industries that rely on just-in-time delivery of foreign-sourced intermediate goods.

Source: World Bank. 2020. Global Economic Prospects June 2020. Washington, DC: World Bank; Haren, and Simchi-Levi 2020; and Baldwin and Tomiura 2020.

18 Refers to industrial enterprises with annual main business revenues of 20 million yuan or more.

19 Growth in total credit to the non-financial sector was 11.7 percent, year-on-year, in April, up from 10.9 percent in March.

20 Goods exports fell 6.6 percent year-on-year in March, following a decline of 17.2 percent year-on-year in January-February.

1.2 FISCAL POLICY: ACCELERATING SPENDING AMID AN EROSION OF FISCAL SPACE

The government's fiscal balances have showed signs of deterioration with the implementation of strict containment measures to prevent the spread of COVID-19 as its tax revenue base weakened amid both supply and demand shocks due to the COVID-19 pandemic. However, the fiscal deficit has remained well within target in the first quarter of 2020, as a result of government underspending and a substantial boost in non-tax revenues.

The government's fiscal deficit fell within its programmed target for the first quarter of 2020, primarily as a result of an early remittance of non-tax revenues and as spending fell short of the target (Figure 11). The fiscal deficit shrunk to 1.7 percent of GDP in the first quarter of 2020, nearly 80 percent lower than the programmed target. This was primarily a result of a combination of underspending by the government, while revenue collections exceeded the programmed target. The higher-than-programmed revenue collections were primarily driven by a three-fold increase in non-tax revenues as a result of early dividend remittances to the Bureau of the Treasury (BTr) from GOCCs given shortfall in tax revenues amid the impact of COVID-19 and the corresponding containment measures.

Public spending accelerated in March 2020 in response to the COVID-19 pandemic. After a slow start in the first two months of 2020, government spending accelerated in March[21]. In particular, the government released around Php350 billion to various national government agencies (NGAs) and local government units (LGUs) to support their respective COVID-19 response measures since the passage of the "Bayanihan to Heal as One Act" (Box 3). Government spending reached 19.0 percent of GDP (17.6 percent in Q1 2019) in Q1 2020 driven by the increase in personnel services expenditures, with the implementation of the first tranche of the Salary Standardization Law V, and maintenance spending by various line agencies (Figure 12). Yet, government spending fell short of its programmed target for the first quarter of 2020 as infrastructure spending contracted[22] and as the enforcement of the ECQ caused delays in program implementation.[23]

Tax revenue collections experienced a sharp contraction amid the implementation of the ECQ in March. The implementation of ECQ in Luzon and other affected regions resulted in a nearly flat growth in tax revenues generated by the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) in the first quarter of 2020. Tax collection in March by the BIR fell by 10.7 percent, year-on-year, in nominal terms, when ECQ started.[24] In addition, revenue from the BOC fell by 9.4 percent, year-on-year, in nominal terms in March as a result of lower import volumes due to the impact of COVID-19 related containment policies on global supply chains and business activity. To offset the anticipated shortfall in tax collections, non-tax revenues increased more than three-fold,[25] due to early dividend remittances of the BSP and GOCCs to the BTr. As a result,

21 Public spending growth decelerated in the first two months of 2020, as disbursements expanded by 5.2 percent year-on-year in nominal terms compared to 6.9 percent over the same period in 2019, driven by a significant contraction in public infrastructure spending by 20.7 percent year-on-year. However, national government disbursement growth accelerated to 16.0 percent year-on-year in March 2020, after growing by 5.2 percent in the first two months of 2020.

22 In the first two months of 2020, public infrastructure spending contracted by 20.7 percent year-on-year, mainly attributed to the base effect of high public infrastructure spending in the first quarter of 2019 due to the payment of prior years' accounts payable for completed projects under the DPWH. In addition, the implementation of the ECQ in March likely caused delays to the construction sector.

23 The national government fell short of its programmed target by Php143.8 billion in the first quarter of 2020.

24 Income tax return deadlines for individuals and corporations as well as for withholding tax have been extended by up to one and a half months under Revenue Regulation (RR) 10-2020 which was issued on April 14. Other taxes postponed by at least one month under the issuance include, value-added tax (VAT), excise tax, and documentary stamp tax, among others. Moreover, the Philippines' two state-run pension funds – the Government Service Insurance System (GSIS, for government employees) and the SSS (for private sector employees) have both deferred contribution payments to June 1. The extension of tax compliance deadlines is expected to cause a shortfall of Php470 million in tax revenue in the first half of 2020.

25 In the first quarter of 2020, non-tax revenues increased to Php154.4 billion from Php49.9 billion in the first quarter of 2019.

total public revenues increased by 17.4 percent, year-on-year, in nominal terms in the first quarter of 2020 to reach 17.3 percent of GDP (15.5 percent of GDP in Q1 2019).

Nevertheless, the country's overall fiscal health remains sound, providing the government enough fiscal space to respond to the ongoing COVID-19 pandemic (Figure 13 and Figure 14). Despite a larger than expected increase in the country's deficit in 2019, the national government's public debt ratio continued to improve, declining slightly to 39.6 percent of GDP in 2019 from 39.9 percent in 2018. Publicly guaranteed debt also remains small at 2.5 percent of GDP. These trends continued into the first quarter of 2020, as national government debt fell slightly to 41.8 percent of GDP in the first quarter from 42.0 percent over the same period a year ago. Moreover, debt metrics continue to remain favorable, composed largely of long-term debt (72.7 percent) while around two-thirds of the country's total debt is composed of peso-denominated debt.

Box 3. The Bayanihan to Heal as One Act

The President of the Philippines signed Republic Act No. 11469, known as the "Bayanihan to Heal as One Act", on March 25, 2020, providing the legal framework for the government's comprehensive response to the COVID-19 pandemic. The law, valid for three months should Congress not terminate or extend the coverage, issues a formal declaration of State of National Emergency[26] and provides the President with the authority to exercise additional powers to mitigate and contain the spread of COVID-19 while providing the government with the resources to address the impact of the pandemic on the Philippine economy. In particular, the law grants the president additional powers to adopt temporary emergency measures in the health, economic, and social-protection sectors. The President is also allowed to realign items in the 2019 and 2020 budgets to ensure that the proposed measures receive adequate funding. The law was passed against the backdrop of a continued acceleration in the number of COVID-19 cases,[27] and as disruptions in the economy caused losses of income, unemployment, interruptions in local supply chains, and sharp declines in both consumer and business confidence.

RA No. 11469 provides additional powers to the government to mobilize existing resources to fund its COVID-19 response. In particular, the law authorizes the discontinuance of appropriated programs, activities, or projects (PAP) of the Executive Department, including GOCCs, in both the 2019 and 2020 General Appropriations Act (GAA). The discontinued PAPs may be revived within the next two years after the national emergency has ended. In addition, all unutilized or unreleased balances in the special purpose fund would be considered abandoned and considered as savings, to be automatically appropriated for measures to support the COVID-19 emergency operations and response measures of priority budget items. In terms of local government financing, LGUs are allowed to exceed the mandatory 5 percent budget for their respective calamity funds, with additional support coming from the national government. In order to ensure transparency and effective use of public resources, the government is mandated to submit a report to Congress that includes the details of the realignment of the budget as well as the utilization of funds.

In the health sector, additional authorized powers are centered on mitigation and containment measures while improving the capacity of the country's healthcare system. Primarily, RA No. 11469 prioritizes the implementation of measures to prevent and

26 The declaration came after earlier presidential declarations of state of public health emergency (Proclamation No. 922, March 8, 2020) and state of national calamity (Proclamation No. 929, March 16, 2020) that placed the whole of Luzon in an ECQ. Other cities and provinces across the country have also enforced travel restrictions, strict home confinement, heightened presence of uniformed personnel to enforce isolation procedures, and suspension of transportation lines, as well as work in both public and private sectors, except for those engaged in frontline, basic and essential services.

27 By March 23, 2020, the total number of confirmed cases rose to 462, a sharp increase from 5 confirmed cases on March 5, 2020.

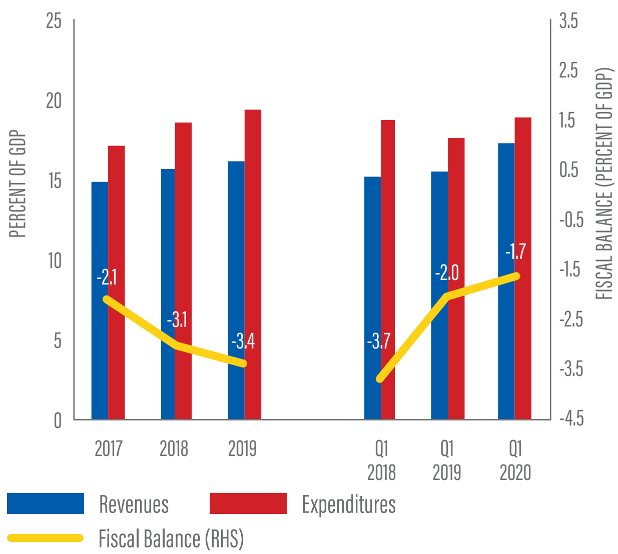
contain the spread of COVID-19 in the Philippines through effective education, detection, protection, and treatment. In terms of detection, the law mandates the reduction of bureaucratic red tape in the accreditation of testing kits to facilitate the prompt testing by both public and private medical institutions. The law reduces bureaucratic hurdles by ensuring clearance and no delays in the donation, acceptance, and distribution of health products and by expediting procurement of relevant goods and services[28] for health and social service delivery. In addition, the law takes additional steps to ensure that the country's front-line health workers are provided additional compensation and protection for their services while hiring additional temporary health workers to augment the existing health workforce. Moreover, the Department of Health (DOH) and the Philippine General Hospital (PGH) will receive priority budgetary support to improve the capacity of the health sector to respond to the pandemic.

RA No. 11469 includes a strong social-protection pillar, focusing largely on financial support to the poor and vulnerable, which anchors the government's broader social-protection response. The law includes emergency cash transfers worth Php5,000-Php8,000 per month for two months to around 18 million households who are either poor or in the informal sector. The cash-transfer program will cost a total of Php200 billion and will include the implementation of an expanded and enhanced conditional cash-transfer program that will cover workers in the informal sector and non-beneficiaries of the current program. In addition to cash and in-kind assistance, the law provides relief to all individuals affected by the ECQ by extending the deadlines for filing and submitting documents and paying taxes, fees, and other charges, as well as implementing a thirty-day grace period on loan payments and residential rents.

The law creates the necessary legal framework to ensure that the Philippine economy continues to function in the midst of the ECQ. Additional powers granted to the president include the implementation of measures to protect consumers from hoarding, product deception, and price manipulation in relation to essential goods. In addition, the law ensures the availability of credit to productive sectors by lowering effective lending rates and reserve requirement ratios for lending institutions. The law also authorizes the continued use of alternative work arrangements during the ECQ period for both the private and public sector. Moreover, the law authorizes the government to take the necessary steps to ensure the availability of essential goods through the facilitation of local supply chains and the conservation and distribution of power, fuel, energy, and water to ensure adequate supply for the public.

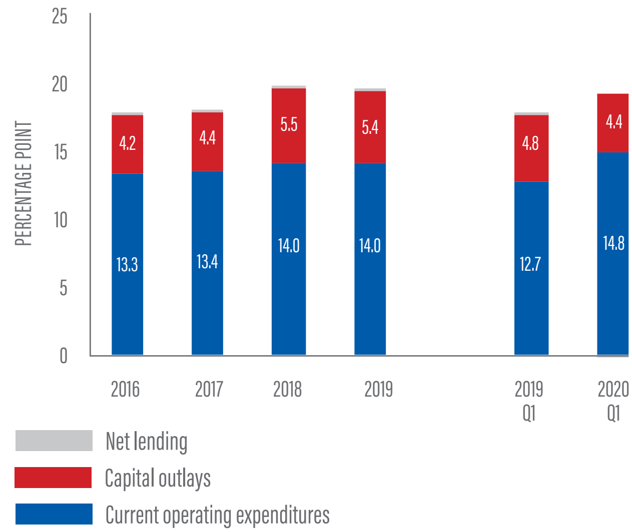
28 This includes personal protective equipment (PPE), medical equipment, and items purchased for social-service delivery and support, the lease of real property for health workers, and the construction and operation of temporary medical facilities (e.g., telecommunications facilities and utilities).

Figure 11. National Government Fiscal Balance (% of GDP)



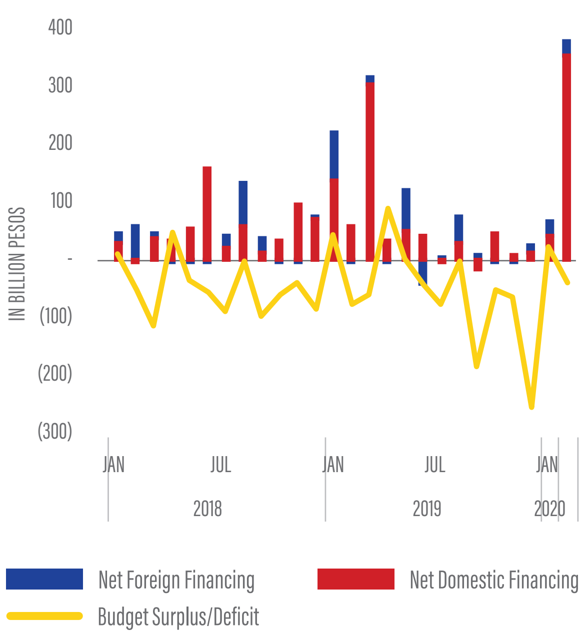
Source: DBM, PSA.

Figure 12. National Government Expenditure by Component (% of GDP)



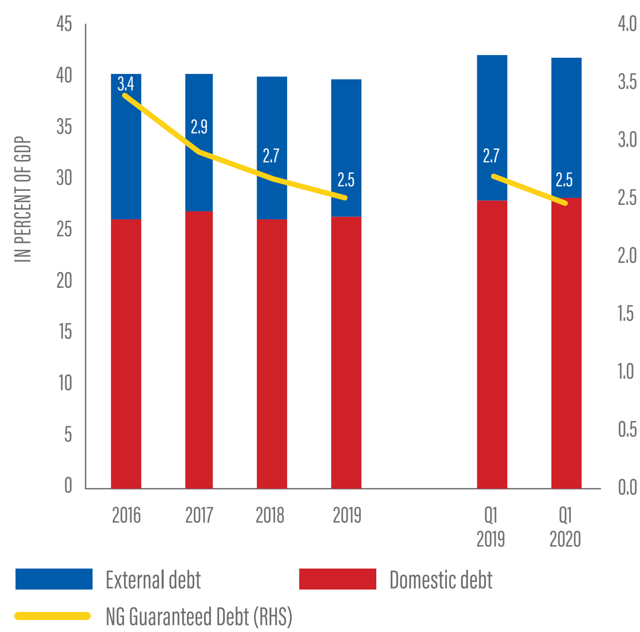
Source: DBM, PSA.

Figure 13. The government continues to finance its deficit mainly through domestic borrowing.



Source: BTr.

Figure 14. The overall debt-to-GDP ratio moderated slightly in 2019.



Source: BTr, PSA.

Box 4. ASEAN-5 Policy Response to COVID-19

The ASEAN-5 countries have taken extraordinary measures to address the impact of the COVID-19 pandemic.[29] Among these countries, the COVID-19 infection rate has varied, with Singapore recording the highest number of cases at over 30,000 cases as of the fourth week of May, followed by Indonesia, the Philippines, and Malaysia with over 20,000, 14,000, and 7,000 cases, respectively. Vietnam seemed to have managed the outbreak with only 327 cases. Despite different infection rates, all the ASEAN-5 countries have adopted strong policy responses to address the health, social, and economic impact of the pandemic. In their policy toolkit, the authorities have used monetary and financial, fiscal, and real-sector policy measures.

Monetary and financial policy measures have focused on maintaining domestic liquidity and providing support to the banking sector. The ASEAN-5 countries have all reduced their key policy rates, with countries like Indonesia, Malaysia, and the Philippines also reducing their reserve requirements. These measures were taken to maintain the level of domestic liquidity and cash in the economy at a time when business disruptions have resulted in extremely weak market activities. To support both businesses and households, central banks have mandated financial credit measures such as loan repayment moratoriums, payment deadline extensions, and loan restructuring. There have also been extraordinary measures, including the central bank of the Philippines' (BSP) reverse repurchase agreement with the BTr worth Php300 billion, and the creation of a liquidity stabilization fund to buy corporate and government bonds in Thailand.

Governments have also ramped up fiscal measures that include tax reliefs and public spending on health and social-protection programs. Fiscal packages have been prominent among the ASEAN-5 economies, and the they have generally included tax relief and deferments as well as tax breaks to both households and businesses. Indonesia has gone further than any of the ASEAN-5 economies by permanently reducing the corporate income tax rate from 25 percent to 22 percent in 2020–21 and to 20 percent starting in 2022. To mitigate the social impact, cash transfers and wage subsidies have been provided to targeted groups, including low-income households, unemployed and displaced workers, pensioners and retirees, and individuals in the informal sector. MSMEs are supported with tax cuts, deductions, and deferments (Indonesia, Thailand, and Vietnam), on top of mandates for commercial rent deferment and loan and grant programs (Philippines, Malaysia, and Thailand).

Besides monetary and fiscal measures, governments have also taken stringent health and travel measures to arrest the spread of the virus locally. Governments in Indonesia, the Philippines, Thailand, and Vietnam have all declared a state of national emergency in their respective countries. Authorities in the ASEAN-5 countries have implemented travel restrictions and lockdown, quarantine, and movement control orders to contain the spread of the virus, despite the disruptions in business operations and market activities. In the health sector, governments have provided incentives, set up contingency funds, and streamlined processes for the procurement of PPE, medical kits, and other health equipment. Some countries have also directly supported select sectors such as agriculture, tourism, and the airline industry, among others.

Source: For updates on the COVID-19 policy responses, visit the IMF Policy Responses to COVID-19, accessible at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

29 The ASEAN-5 countries are Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

1.3 MONETARY AND MACRO-PRUDENTIAL POLICIES: GEARED TOWARD MITIGATING THE IMPACT OF THE COVID-19 PANDEMIC

Thanks to muted inflationary pressures in the first four months of 2020, monetary policy focused on injecting liquidity into the financial market to help mitigate the impact of the COVID-19 pandemic on the economy.

Inflation remained comfortably within BSP's target range in the first four months of 2020. The headline inflation rate dropped significantly from an average of 5.2 percent in 2018 to 2.5 percent in 2019, before stabilizing at 2.6 percent in the first four months of 2020—within the BSP's 2-4 percent target range (Figure 15). In the first four months of 2020, both food and non-food inflation slowed (Figure 16), primarily driven by cheaper local rice and global crude oil[30], the latter of which led to slower or negative inflation for energy-related commodities (Figure 17). Rice prices remained lower in the first four months of 2020 than in the same period in 2019 due to the rice tariffication scheme adopted in 2019 (Figure 18). Excluding volatile food and energy items, the core inflation rate averaged 3.3 percent in 2019, down from 4.1 percent in 2018. A similar downtrend was observed in the first four months of 2020, as the core inflation rate averaged 3.1 percent, year-on-year, down from 3.8 percent in same period in 2019.

The benign inflation environment in the first four months of 2020 provided monetary policy space to mitigate the impact of the COVID-19 outbreak. The BSP reduced its key policy rate in February and March by a total of 75 bps to 3.25 percent, followed by a 50 bps off-cycle rate cut in April, bringing the benchmark rate to 2.75 percent. The reserve requirement ratio (RRR) faced by universal and commercial banks was reduced by 200 bps in April to further support domestic liquidity.[31] The BSP has also adopted other regulatory measures and taken preemptive actions to minimize the economic fallout of the COVID-19 pandemic.[32] The liquidity injection benefited households more than firms, since credit to households accelerated while credit to firms moderated.[33]

The Philippines' financial system remains resilient based on available data.[34] Philippine banks are well capitalized, with a total capital adequacy ratio of 15.6 percent in December 2019, an improvement compared to 15.0 percent in December 2018 and well above the 10.0 percent regulatory minimum. The share of non-performing loans (NPL) slightly increased to an average of 2.1 percent from January to December 2019, up from an average of 1.9 percent

30 In the first four months of 2020, the price of Brent crude oil averaged US$43.73/bbl, a 33 percent decline from an average of US$65.25/bbl in the same period in 2019, as the world oil market suffered from oversupply and weakening demand amid travel restrictions imposed by several countries.

31 The RRR for universal and commercial banks was reduced incrementally by a total of 400 bps, from 18 percent in 2018 to 14 percent in 2019. Likewise, the RRR imposed on thrift banks and non-bank financial institutions with quasi-banking functions (NBQBs) was reduced by a total of 400 bps, from 8 percent and 18 percent, respectively, in 2018 to 4 percent and 14 percent, respectively, by end-2019. Meanwhile, a cumulative total of 200 bps was deducted from rural banks' RRR, which stood at 3 percent by end-2019.

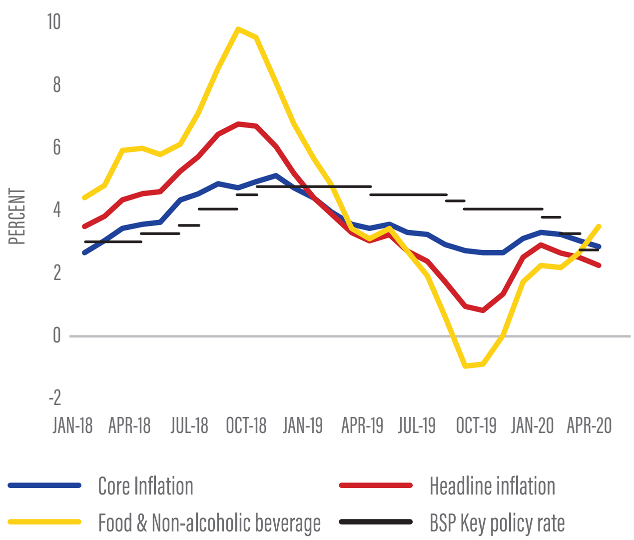
32 The BSP relaxed know-your-customer (KYC) requirements to facilitate the delivery of welfare funds to identified beneficiaries who have no available valid IDs or transactional account with any financial institution. The BSP also digitized some operations and waived some types of penalties and fees for foreign exchange transactions. Furthermore, the BSP purchased government securities from the BTr under a repurchase agreement in the amount of Php 300 billion, with a maximum repayment period of 6 months, and remitted Php20 billion in dividends to help boost government resources. To incentivize physical distancing and prevent the spread of COVID-19, charges on electronic payment and financial services filing, processing, and licensing/registration fees relative to applications have been suspended effective for a period of six months, starting on March 8, 2020. The BSP has also provided some relief measures to micro, small, and medium enterprises by (i) temporary reducing the credit risks assigned to their loans; and (ii) assigning a 0 percent risk weight for their guaranteed loans.

33 Credit to firms reached Php8.8 trillion and grew by 10.7 percent, year-on-year, in March 2020, lower than 12.3 percent in March 2019. By contrast, household loans grew by 12.5 percent, year-on-year, in March 2020, up from 10.8 percent in the same period in the previous year.

34 Based on data up to and including March 2020.

in the same period in 2018. Preliminary data for March 2020 shows a slight increase in NPLs to 2.2 percent. Nevertheless, the country's banking sector was highly profitable pre-COVID, with an average return on equity at 10.0 percent in 2019 (up from 9.6 percent in 2018) and an average return on assets at 1.3 percent in 2019 (up from 1.2 percent in 2018). The share of net interest income to total operating income increased from an average of 76.0 percent in 2018 to 76.8 percent in 2019.

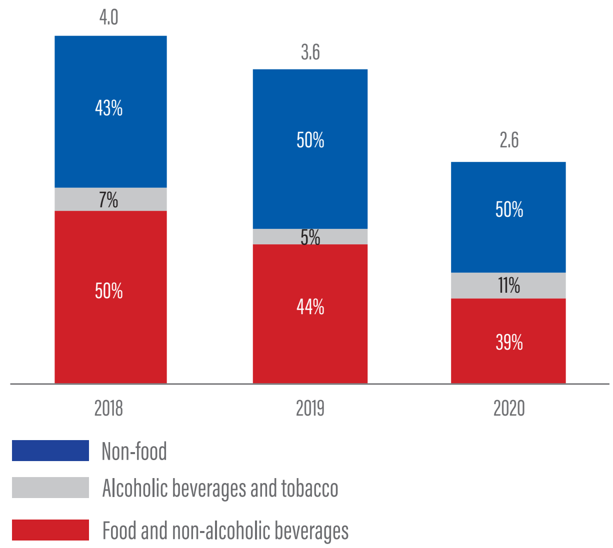
Figure 15. Inflation eased in 2019 and was within the BSP's target range in the first four months of 2020...



Source: PSA and BSP

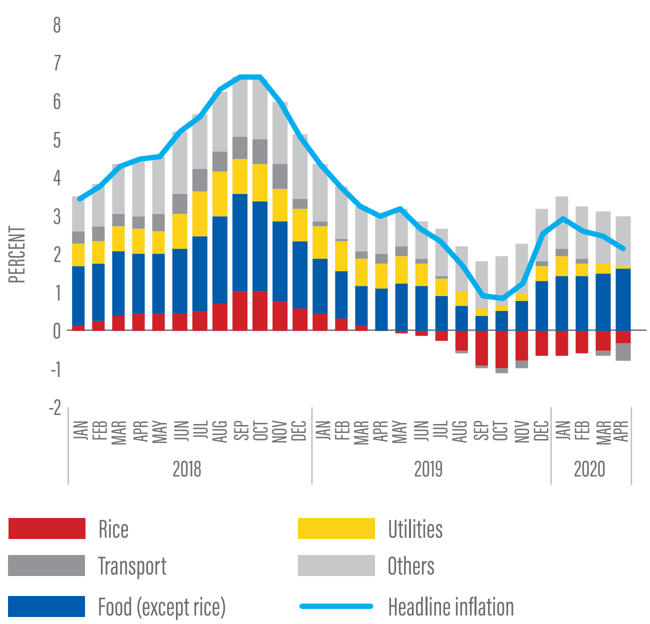
Figure 16. ...due to slower food and non-food inflation...

JANUARY-APRIL AVERAGE INFLATION AND COMMODITY GROUP CONTRIBUTIONS (PERCENT)



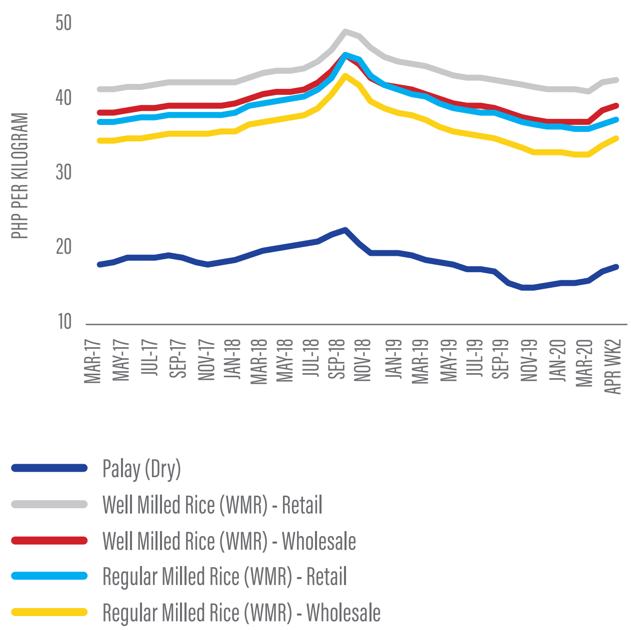
Source: PSA

Figure 17. ...as rice inflation remained negative, utilities prices rose only marginally, and transport prices deflated between January and April 2020.



Source: PSA

Figure 18. There was a sustained overall decline in rice prices in the beginning of 2020, except in the early weeks of April.



Source: PSA

1.4 THE EXCHANGE RATE AND THE EXTERNAL SECTOR: RESILIENCE DRIVEN BY STRONG INITIAL CONDITIONS

2019 was a strong year, capped with a balance of payments (BOP) surplus in the Philippines. This may explain the country's resilience in the external sector despite the COVID-19, with a peso that appreciated while regional currencies depreciated, and capital flows that were among the lowest in the region.

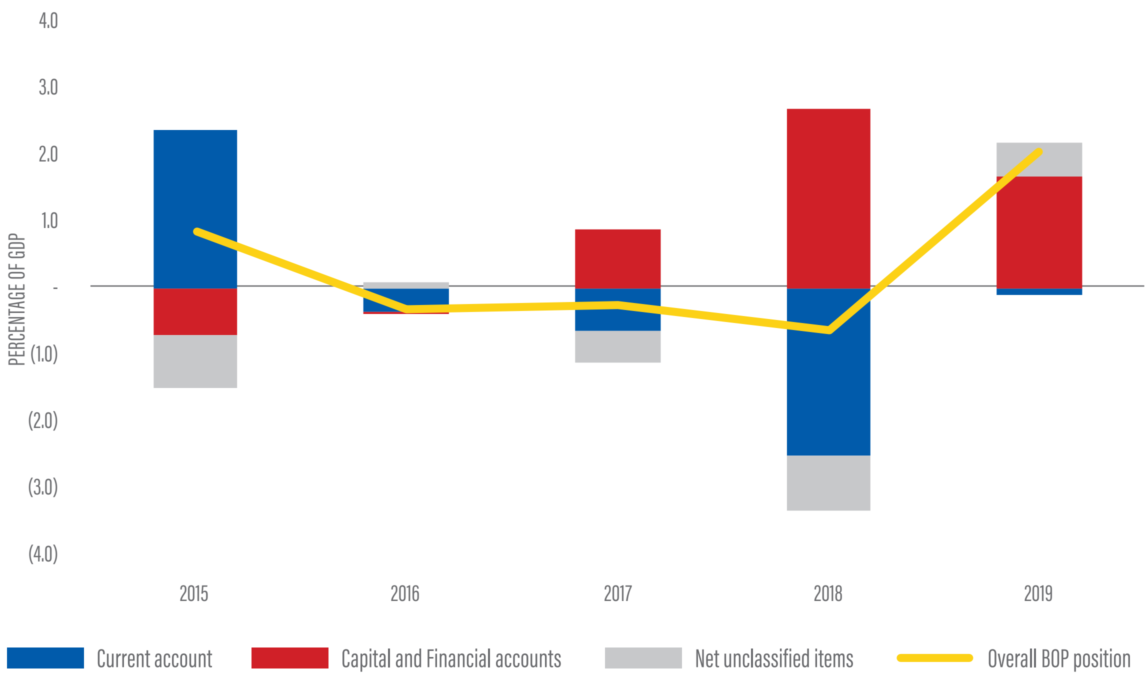
The Philippines entered 2020 with strong external balances, thanks to a narrower current account deficit and a BOP surplus in 2019. The current account deficit fell by nearly 95.0 percent in 2019, from US$8.8 billion (2.5 percent of GDP) in 2018 to US$0.5 billion (0.1 percent of GDP) (Figure 19). Goods imports contracted by 3.0 percent, while goods exports expanded by 2.7 percent, supported by exports of electronics, agro-based and mineral products. Net services exports grew double-digits with reports of higher tourist arrivals and better IT-BPO earnings receipts,[35] while foreign remittances increased due to higher inflows from the United States and Japan. Meanwhile the capital and financial accounts registered a lower surplus of US$6.3 billion (1.7 percent of GDP) in 2019 from US$9.4 billion (2.7 percent of GDP) in 2018. Long-term investments were impacted by uncertainties in the global environment and the proposed corporate tax reform package. With lower current-account deficit and net capital inflows, the balance of payments registered a US$7.8 billion (2.1 percent of GDP) surplus in 2019, an improvement from a US$2.3 billion (0.7 percent of GDP) deficit in 2018 (Table 1).

The strong initial conditions have likely contributed to tempering the capital outflows from the country. BSP-registered foreign portfolio investments (FPIs) recorded at least US$1.4 billion-worth of foreign portfolio investments flowing out of the country in the first quarter of 2020. This was mainly driven by net outflows in the Philippine Stock Exchange market which was battered in mid-March with the onset of the COVID-19 outbreak and the subsequent imposition of the ECQ in the country. Transactions in government securities have also contributed to the net outflows. Nonetheless, using comparable data, the Philippines has performed remarkably better than regional peers with portfolio capital outflows among the lowest in the region (Figure 20).

The Philippine peso appreciated in early 2020. The Philippine peso steadily appreciated in nominal terms against the U.S. dollar throughout most of 2019 due to slower import growth and capital inflows. In the first four months of 2020, the Philippine peso appreciated by an average of 3.0 percent, year-on-year, driven by the contraction in imports, resulting in weaker demand for U.S. dollars. In real terms, the peso has appreciated by as much as 5.4 percent in the first four months of 2020. The peso appreciation comes at a time when the currencies of regional peers have depreciated (Figure 21). The currency appreciation was accompanied by a re-accumulation of foreign reserves throughout 2019 and early 2020, reaching US$87.6 billion in February 2020, which represents 7.7 months' worth of imports and payment of services and primary income.

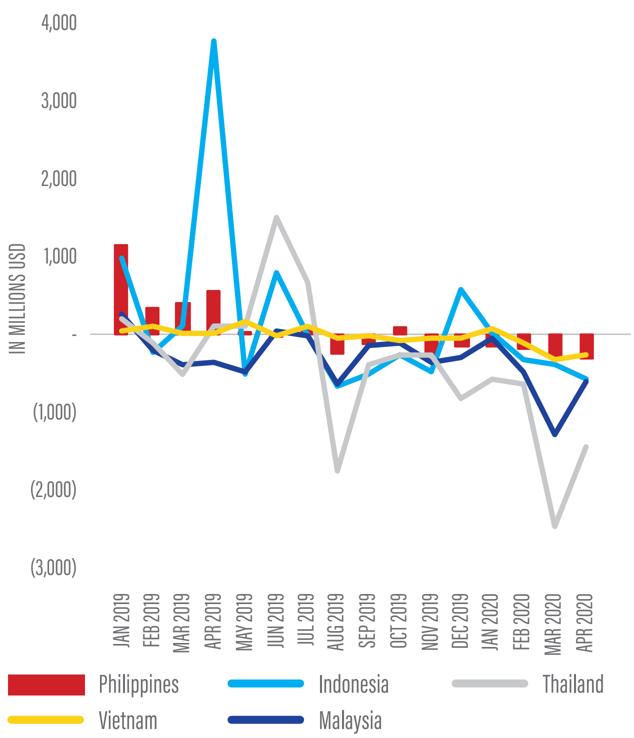
35 Based on its latest assessment, the BSP estimates 5.0 percent growth in BPO sector earnings in 2019, a rebound from the 2.9 percent growth in 2018. While data tourism receipts are not yet available, tourist arrivals rose by 15.2 percent year-on-year in 2019 from 8.3 percent in 2018. See https://www.philstar.com/business/2019/12/16/1977247/bpo-revenues-unlikely-overtake-remittances-soon-says-bsp.

Figure 19. Composition of the Overall Balance-of-Payments Position



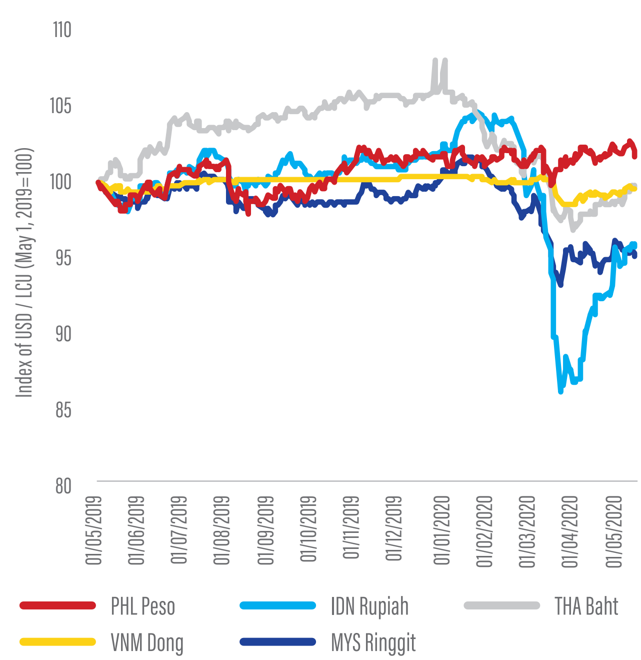
Source: BSP

Figure 20. Portfolio equity outflows from the Philippines have been the lowest among the region.



Source: Institute of International Finance

Figure 21. The Philippine peso appreciated at a time when many regional currencies depreciated



Note: Decrease denotes depreciation.
Source: BSP and Wall Street Journal (WSJ) Markets.

Table 1. Balance of payments, 2015 to 2019

In million US$ / In percentage of GDP	2015	2016	2017	2018	2019
Current account	**2.4**	**(0.4)**	**(0.7)**	**(2.5)**	**(0.1)**
Goods	(7.6)	(11.2)	(12.2)	(14.7)	(12.3)
Exports	14.1	13.4	15.8	15.0	14.2
Imports	21.7	24.6	28.0	29.7	26.5
Services	1.8	2.2	2.6	3.3	3.5
Primary Income	0.6	0.8	1.0	1.1	1.4
Secondary Income	7.6	7.8	8.0	7.7	7.3
Capital and Financial accounts	**(0.7)**	**(0.0)**	**0.9**	**2.7**	**1.7**
Capital account	0.0	0.0	0.0	0.0	0.0
Financial account	0.8	0.1	(0.9)	(2.7)	(1.7)
Net Direct Investment	(0.0)	(1.8)	(2.1)	(1.7)	(1.2)
Net acquisition of financial assets	1.8	0.8	1.0	1.2	0.9
Net incurrence of liabilities[1/]	1.8	2.6	3.1	2.9	2.0
Portfolio investment	1.8	0.5	0.7	0.4	(0.5)
Financial derivatives	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Other investments	(1.0)	1.4	0.5	(1.4)	(0.0)
Net unclassified items[2/]	**(0.8)**	**0.1**	**(0.5)**	**(0.8)**	**0.5**
Overall BOP position	**0.9**	**(0.3)**	**(0.3)**	**(0.7)**	**2.1**
Memo:					
Basic Balance	2.4	1.5	1.5	(0.8)	1.0
Gross International Reserves (in billions USD)	80.7	80.7	81.6	79.2	87.8
Import Coverage (in months)	9.9	8.8	7.8	6.9	7.7

1/ Net incurrence of liabilities refers to net foreign direct investment to the Philippines.

2/ The term "Net unclassified items" is a balancing figure. There are two methods of computing the BOP position: the first approach uses the change in net international reserves due to transactions, while the second approach computes the sum balances of the current account, capital account less financial account. The two measures do not necessarily tally. The BSP uses the first approach to determine the overall BOP position.

Note: Following the BSP presentation, BOP balance = Current Account balance + Capital Account balance - Financial Account balance + Net Unclassified Items

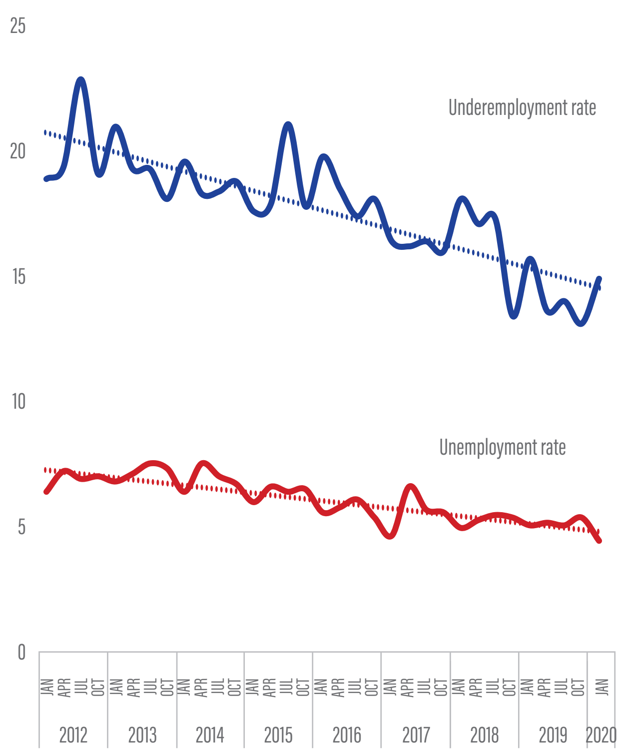
1.5 POVERTY AND EMPLOYMENT: PROTECTING GAINS AMID THE COVID-19 PANDEMIC

While the Philippines continued to make gains in poverty reduction prior to the outbreak of COVID-19, the outbreak has resulted in an unprecedented shock to the country's economy and health system, threatening to undo these gains.

While labor market conditions continued to improve in early 2020, recent measures taken to contain the COVID-19 pandemic will likely result in higher unemployment and underemployment. In January 2020, the country's unemployment rate remained at 5.3 percent and underemployment reached its lowest level in a decade at 14.8 percent (Figure 22). Most the jobs were created in the agriculture and services sectors. The imposed ECQ in Luzon in March led to disruption to economic activity that affects the 7.4 million daily wage earners in particular. These workers are concentrated in the construction and manufacturing sectors that were already shedding labor as early as January 2020. While all economic sectors are impacted by the crisis, the tourism and hospitality, aviation, automotive, and consumer products industries are likely to be affected especially hard by the pandemic.

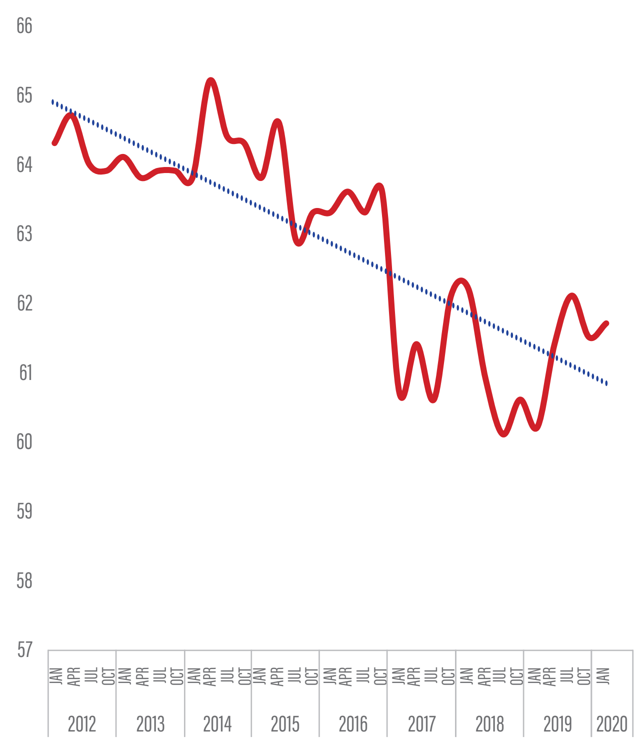
The disruption in household income due to the COVID-19 pandemic could lead to an increase in poverty if no social protection measures are in place. Based on simulated estimates from the Family Income and Expenditure Survey, the poverty incidence could have increased by at least 3.3 percentage points if there would have been no mitigation measures in place. This assumes the disruption of work due to ECQ lead to household incomes from seasonal wage and entrepreneurial activities to decline by 16.7 percent in 2020, which is equivalent to a loss of 2 months' worth of income.

Figure 22. Unemployment and Underemployment Rates (%)



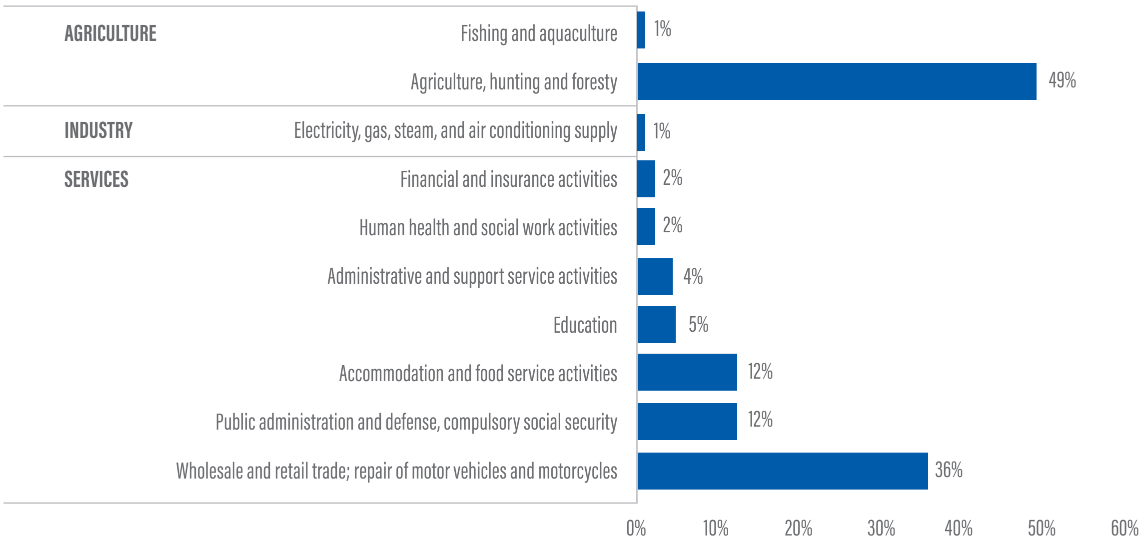
Source: PSA-Labor Force Survey (LFS) (various rounds).

Figure 23. Quarterly Labor Force Participation Rates



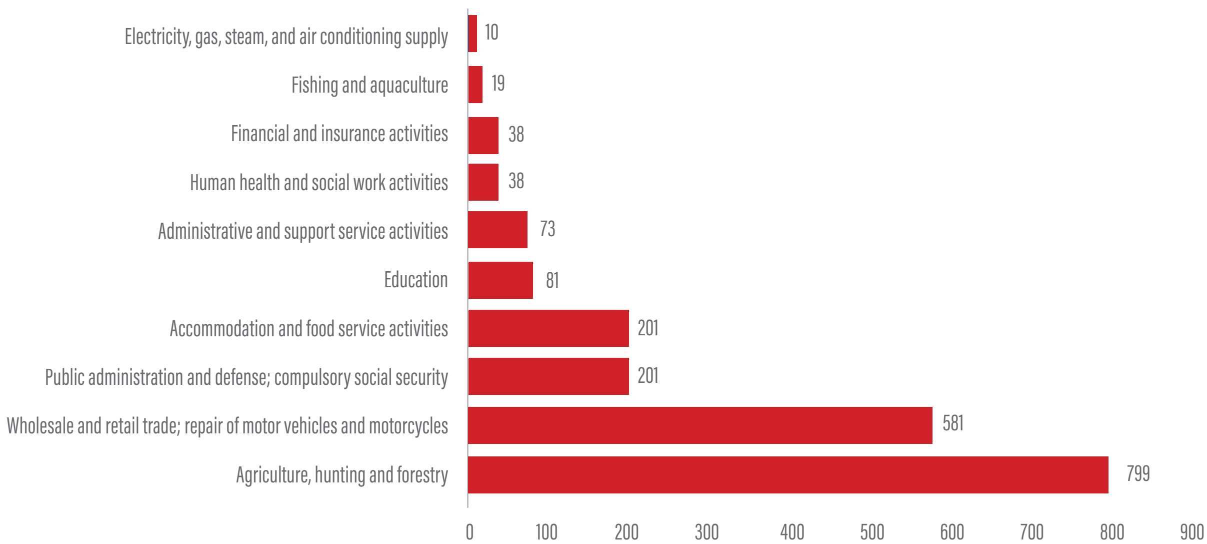
Source: PSA-LFS Labor Force Survey (various rounds).

Figure 24. Share of Job Creation by Subsector



Source: PSA-LFS January 2019 and January 2020 rounds.

Figure 25. Top 10 Subsectors with the Most New Jobs (100,000s)



Source: PSA-LFS January 2019 and January 2020 rounds.

The government has approved an extensive financial package worth over US$4 billion to protect households and firms from the impact of the COVID-19 pandemic, including the short-term mitigation measures (Box 5). The package focuses on supporting the health sector, safety nets for the poor and vulnerable groups, and micro, small, and MSMEs and jobs. About 18 million Filipino families are being supported[36] through the Social Amelioration Program (SAP) for ECQ-affected workers and businesses, including top-up assistance for the beneficiaries of the country's flagship safety net program (i.e., the Pantawid Pamilyang Pilipino Program or 4Ps), and unemployment benefits through the social security system. In addition, there is targeted financial support to MSMEs, the agriculture sector, and the tourism industry to protect vulnerable firms affected by the crisis. With the implementation of the SAP, the government hopes to temper the negative impact of COVID-19 on its poverty reduction efforts.

36 About 4.3 million households are assisted by the 4Ps, 2.9 million indigent senior citizens benefit from a social pension program, and 2.2 million other poor families are identified in the country's social registry—Listahanan— as beneficiaries of unconditional cash transfers. However, there are an estimated 8 million informal-sector workers and vulnerable individuals who are not a part of existing social-assistance programs.

Box 5 . Social Protection Measures to Support Poor and Vulnerable Households

The COVID-19 pandemic, along with the subsequent quarantine measures, has had a significant negative impact on the lives of many Filipinos, especially poor and vulnerable families. Poor and vulnerable families are less likely to be able to afford medical care and are more likely to resort to harmful coping mechanisms to deal with income loss and higher consumer prices. As the government is implementing measures to contain the infection (e.g., travel restrictions and quarantines), workers in the informal economy (in sectors such as tourism, transport, agriculture, etc.) are severely affected. Other vulnerable groups include those at greater risk of the disease (e.g., people with underlying health conditions and older people), health workers involved in disease prevention and control, and those at greater economic risk, including young people (who have higher rates of unemployment and underemployment) and migrant workers (who may be unable to return to their home countries or work).

The Philippine government's response has been strong, providing various types of assistance worth over Php200 billion (US$4 billion) through the enactment of the "Bayanihan to Heal as One Act" on March 24, 2020. To streamline and harmonize the social amelioration measures of different government agencies, the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF-EID) Technical Working Group on Social Amelioration issued the Joint Memorandum Circular (JMC) No.1 on March 29, 2020. The following are the social protection-related public measures that target groups and sectors affected by the pandemic in the Philippines:

Social Safety Net

- Affected families have been receiving food and non-food items from the Department of Social Welfare and Development (DSWD) and LGUs, complemented by support from non-government organizations and the private sector. The total cost of relief assistance amounts to more than Php4.2 billion to date.

- About 18 million low-income families, including Pantawid beneficiaries, will receive emergency subsidies from the DSWD amounting to Php10,000-Php16,000, depending on the prevailing minimum wage and rice subsidies and grants to Pantawid beneficiaries.

- Small rice farmers will also receive cash assistance (Php5,000) from the Department of Agriculture (DA).

- To support MSMEs during the crisis, the Department of Trade and Industry (DTI) will provide Php5,000-Php8,000 to qualified individuals and enterprises.

- Public and private health workers who contract the disease while on duty will be compensated with Php100,000. In case of death, their families will receive Php1 million. All frontline public health workers are entitled to a special risk allowance, equivalent to a maximum of 25 percent of their monthly salary, for the duration of the ECQ.

- Stranded overseas Filipino workers affected by the travel ban due to COVID-19, along with those who were repatriated, will receive US$200, or Php10,000, or its equivalent in local currency of the host country. Affected repatriates are also provided with temporary shelter, food, and transportation assistance.

Public Works

- Informal sector workers who have lost their livelihood can enroll in a temporary ten-day emergency employment program and disinfect/sanitize their houses and the immediate vicinity through Department of Labor and Employment's (DOLE's) Tulong Panghanapbuhay sa Ating Displaced/Disadvantaged Workers #Barangay Ko, Bahay Disinfection/Sanitation Project. Program beneficiaries can receive 100 percent of the highest prevailing minimum wage.

Fee Waivers and Subsidies

- Affected workers in the formal sector employed by private firms that have adopted flexible work arrangements or temporary closure are entitled to receive one-time financial assistance equivalent to Php5,000 under DOLE's COVID-19 Adjustment Measures Program (CAMP).
- Banks and other financial institutions are directed to implement a thirty-day grace period for the payment of all loans and credit card payments that are due within the ECQ period. Interests, penalties, fees, and other charges are waived. The thirty-day grace period is also extended to paying residential rents.
- LGUs can access loans with a 5 percent fixed interest rate per annum (with one-year grace period on principal payment and payable for up to 5 years) under the Php10 billion Help via Emergency Loan Assistance to LGUs (HEAL) program, which was launched by the Land Bank of the Philippines (LBP).

Social Insurance

- Workers who lost their jobs as a result of layoffs or closures of private companies can receive unemployment benefits from the Social Security System (SSS), subject to membership contributions and eligibility requirements.
- The SSS and Philippine Health Insurance Corporation (PhilHealth) have extended the period for payment contributions and filing for claims. PhilHealth will also cover the cost of treating COVID-19 patients.

Employment Retention and Promotion Policies

- All government workers who physically report to work during the Luzon-wide ECQ are entitled to hazard pay.

Source: Administrative Order No. 28 on the grant of special risk allowance to public health workers, dated 6 April 2020; DOLE. Department Orders 211 and 212 Dated 21 March and 8 April 2020; DSWD. Disaster Response Updates. Disaster Response Operations Monitoring and Information Center (DROMIC) Report No. 43 dated 10 April 2020; POEA. Governing Board Resolution No. 9 dated 10 April 2020; and Report to the Joint Congressional Oversight Committee Pursuant to Section 5 of RA 11469, dated 6 April 2020.

PART 2
OUTLOOK AND RISKS

The COVID-19 pandemic, alongside the enhanced community quarantine, have effectively disrupted activities and paralyzed the Philippine economy in the first half of 2020. The Philippines faces a looming recession in 2020 driven by contractions in household consumption and capital investment. In addition, prolonged weakness in global and domestic demand will likely result in negative exports and imports growth. The Philippine government is responding with unprecedented stimulus measures, both fiscal and monetary, to support the economy, businesses, vulnerable households, and the healthcare system. Meanwhile, downside growth risks remain high as the full extent of the pandemic remains uncertain. In the interim that a vaccine is not yet available, the government must take a balanced approach between policies that flatten the infection curve to save lives and those that flatten the recession curve to save livelihoods. It is important that the economic policies prevent temporary shocks from having permanent effects, which is very relevant considering that the foreseeable economic contraction in 2020 is likely to cause increase in poverty.

2.1 GROWTH OUTLOOK

The Philippine economy is expected to contract in 2020, as the COVID-19 pandemic continues to disrupt global and domestic economic activities. The government is responding with unprecedented fiscal and monetary measures to support the economy while targeting the healthcare system and vulnerable sectors. Downside risks and uncertainty remain high, with no clear view of when and how the pandemic ends.

The Philippine economy faces a recession in 2020 given a series of unexpected events. Amid domestic and external unexpected events and the severity of the global pandemic, the Philippine economy is projected to contract by 1.9 percent in 2020 (Figure 26). This is the first contraction since the Asian Financial Crisis, when the economy shrank by 0.5 percent in 1998. This projection assumes containment measures are gradually relaxed in the second half of the year, and economic activity returns in some sectors of the economy. Nonetheless, consumer and business confidence remain weak leading to negative growth in household consumption and capital investment. The growth prospect is expected to improve in the succeeding years, with growth projections of 6.2 percent in 2021 and 7.2 percent in 2022, as the economy gradually recovers from the impact of the COVID-19 pandemic. Future economic growth will be dependent on public investments and a rebound in consumption as incomes recover, and there will also be base effects, given the economic contraction expected in 2020.

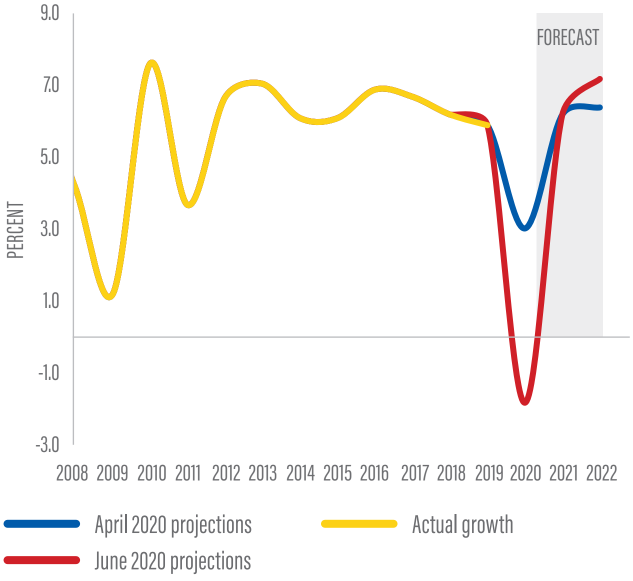
The growth projection faces a high degree of uncertainty. The full impact and duration of the COVID-19 pandemic on the Philippines remain highly uncertain with various models predicting different peaks of infection cases. The degree to which the Philippines can effectively manage the pandemic will impact its growth recovery trajectory. A return to normalcy seems to rest on the discovery of a vaccine, but in the meantime, social and economic activities have to operate under a new normal characterized with stringent social distancing measures, health and hygiene protocol, protection of the vulnerable such as the elderly, the young, and those individuals with co-morbidities, and continued monitoring of infection cases and contact tracing. All these uncertainties weigh heavily on the growth outlook and may lead to a lower than projected growth rates.

The country's growth trajectory follows a similar pattern to the global economy, which is expected to contract in 2020, before recovering in 2021. The global economic contraction is expected to be broad-based, with advanced economies and major EMDEs expected to experience a recession in 2020 (Box 6). Widespread social distancing measures, a sharp tightening of financial conditions, and a collapse in external demand are depressing economic activities across the globe. Global trade is anticipated to contract, given the disruptions to global value chains and international travel. The global economy is expected to shrink by 5.2 percent in 2020, which would be the deepest global recession since World War II, before rebounding to 4.2 percent growth in 2021, as the negative economic effects of the pandemic gradually fade. Nonetheless, the global contraction in the 2020 baseline forecast could prove optimistic, as there are substantial downside risks to the projection.

The government has abandoned its pre-COVID fiscal deficit target for 2020, given the expected revenue shortfall and increase in public expenditure to address the outbreak. Under the "Bayanihan to Heal as One Act", the government approved measures to provide financial and in-kind support to low-income households, overseas OFWs, farmers and fisherfolks, MSMEs, and workers in the informal sector, among others. In addition, new fiscal measures of unprecedented sizes and nature are currently being deliberated in the Congress of the Philippines, with proposals to support more sectors after the ECQ is lifted.[37] To finance the fiscal packages, the government is

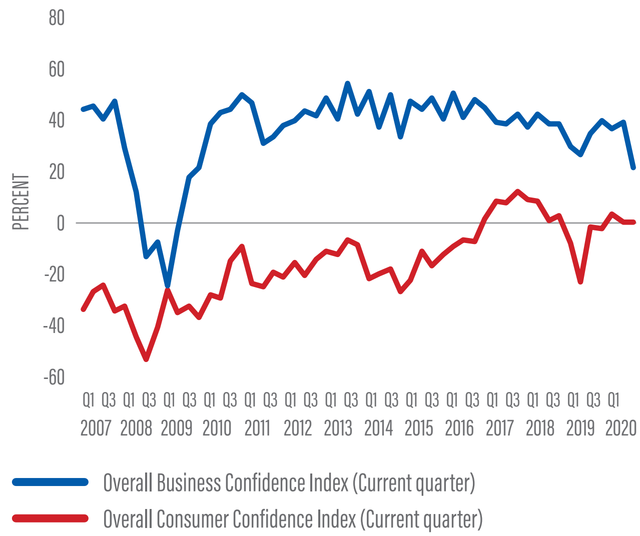
37 The Economy Moving Forward as One Act is a Php370 billion stimulus package that aims to protect businesses and labor employment by (i) compensating payroll costs during the extended ECQ; (ii) offering capacity-building programs; and (iii) providing zero-interest loans. The Philippine National Stimulus Strategy is another proposal that involves structural adjustment plans, including credit refinancing and mediation services, a negative interest loans plan, and a national emergency investment corporation.

Figure 26. The Philippine economy is projected to contract in 2020.



Source: PSA, World Bank staff calculation.

Figure 27. Business sentiment weakened during the first quarter of 2020.



Source: BSP.

ramping up its war chest through the realignment of budget items, advanced dividend payouts by GOCCs, a reverse repurchase agreement with the BSP, loan financing from various multilateral and bilateral sources, and tapping into domestic and international bond markets. Public revenues from income taxes, the value-added tax, customs tariffs, and other non-tax sources are projected to contract this year due to weak business and consumer activity. As a result, the World Bank projects the fiscal deficit to reach 7.0 percent in 2020, above the government's pre-COVID target of 3.2 percent.

Monetary authorities are anticipated to use all of their policy tools to proactively support the economy during this extraordinary time. The BSP has been utilizing an array of policy tools to support the distressed financial sector and the economy. Further reductions of key policy rate are possible given the ample policy space to lower the domestic rate, the low prevailing U.S. Federal funds rate (0.05 percent as of mid-April), and easing domestic inflation. Furthermore, the BSP has access to large foreign reserves, totaling US$89.0 billion at end-March, to manage potential currency fluctuations, and it has provided regulatory forbearance to the banking industry.

Private consumption is expected to contract due to strict containment measures, the associated income losses, and less remittances. Household consumption has been the primary driver of economic growth in the Philippines, with household expenditures representing more than two-thirds of GDP. However, the ECQ and social distancing measures have paralyzed local economies in all provinces of the country, resulting in business disruptions and income and wage losses in both the formal and informal sectors. For households that rely on foreign remittances, regular inflows are jeopardized as the U.S., Europe, Singapore, Hongkong, and the Middle East—key sources of remittances to the Philippines—are managing their own localized COVID-19 outbreaks. About 16,000 OFWs have returned to the country unemployed, contributing to the Philippines' rising unemployment rate.[38] These developments will effectively lower the rate of consumption, which is projected to contract by 2.6 percent in 2020, before rebounding in 2021 (5.7 percent) and 2022 (6.1 percent), if the pandemic is resolved and containment measures are effectively managed (Table 3).

38 Bettina Magsaysay, "All frontliners, PUIs, PUMs, in Metro Manila to undergo COVID-19 test," Available Online: https://news.abs-cbn.com/news/04/28/20/all-frontliners-puis-pums-in-metro-manila-to-undergo-covid-19-tests, May 9, 2020.

Box 6. Global Economic Outlook

economy into recession in 2020. The global economy is expected to shrink by 5.2 percent this year, with advanced economies contracting, China experiencing record-low growth, and EMDEs facing external and domestic headwinds (Table 2). This global recession would be the deepest since World War II and more than twice as steep as the 2009 global recession. Output is envisioned to rebound in 2021, as the negative economic effects of the pandemic gradually fade, but it is unlikely to return to its previously expected level. This forecast assumes that (i) the pandemic recedes in response to domestic mitigation measures, which can be lifted by mid-year; (ii) adverse global spillovers ease during the second half of the year; and (iii) dislocations in financial markets are temporary.

The global economic contraction is expected to be broad-based in 2020. Advanced economies are projected to shrink by 7.0 percent in 2020, as widespread social distancing measures, a sharp tightening of financial conditions, and a collapse in external demand depress activity. Due to the negative spillovers from weaknesses in major economies, alongside the disruptions derived from domestic outbreaks and associated containment measures, EMDEs are forecasted to contract by 2.3 percent in 2020. The projected fall in activity is broad-based, with more than 70 percent of EMDEs expected to register negative growth this year. The impact will likely be most pronounced for countries with large domestic outbreaks and limited healthcare capacity. Moreover, countries deeply integrated in global value chains, heavily dependent on foreign financing, and that rely extensively on international trade, commodity exports, and tourism are expected to suffer disproportionately from the impact of the pandemic. Nonetheless, growth is projected to rebound in 2021 to 3.9 percent in advanced economies and 4.6 percent in EMDEs, supported by the expected pickup in China and a recovery of trade flows and investment.

The global contraction in the baseline forecast could prove optimistic, as there are substantial downside risks to the projection. If COVID-19 outbreaks persist longer than expected, lockdowns and other restrictions on movement and interactions may have to be maintained or reintroduced, prolonging the disruptions to domestic activity and further lowering consumer and investor confidence. Economic disruptions are weakening businesses' ability to remain in operation and service their debt, while increased risk aversion globally has raised interest rates for higher-risk borrowers. In an environment in which debt levels were already at historic highs, this could lead to cascading defaults and financial crises across many economies. The recovery could also be delayed if the crisis causes lasting changes in consumer and investor behavior, or if pandemic-related shortages of inputs sourced through global value chains trigger a widespread retreat from globalization, as companies reassess their risk exposure and governments act to protect industries from foreign competition.

Global trade is suffering one of the worst contractions in post-war history in 2020. The COVID-19 pandemic has caused disruptions to international travel and global value chains. Trade is typically more volatile than production and tends to fall particularly sharply in times of crisis. Investment, which is more cyclical and more trade-intensive than other categories of expenditure, has declined worldwide, as firms face cash-flow problems and delay their expansion plans. Exporting firms tend to be particularly active in credit markets and more adversely affected when the cost of credit increases. Disruptions in credit markets played an important role in the contraction in global trade during the global financial crisis and the subsequent weakness of the recovery.

Countries need to act decisively with strong policy measures to cushion the impact of the pandemic. Per capita incomes in a large majority of EMDEs are expected to shrink this year, with many millions falling back into poverty. This crisis, therefore, highlights the urgent need for health and economic policy actions—including global cooperation—to mitigate the negative impact of the outbreak, protect poor households and vulnerable populations, and improve countries' capacity to prevent and cope with similar events in the future. As EMDEs are particularly vulnerable, it is critical to strengthen their public health care systems, address the challenges of limited safety nets, and undertake structural reforms that enable strong and sustainable growth.

Table 2. Real Growth Projections

	2017	2018	2019e	2020f	2021f
World	3.3	3.0	2.4	-5.2	4.2
Advanced economies	2.5	2.1	1.6	-7.0	3.9
Emerging market and developing economies	4.5	4.3	3.5	-2.3	4.6
Developing East Asia & Pacific	6.5	6.3	5.9	0.5	6.6
Philippines	6.9	6.3	6.0	-1.9	6.2

Note: Developing East Asia & Pacific includes Cambodia, China, Fiji, Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar, Papua New Guinea, Philippines, Solomon Islands, Thailand, Timor-Leste, and Vietnam.

Source: Global Economic Prospects June 2020.

Table 3. Economic Indicators for Baseline Projections

	2017	2018	2019	2020f	2021f	2022f
Real GDP growth, at constant market prices	**6.9**	**6.3**	**6.0**	**-1.9**	**6.2**	**7.2**
Private Consumption	6.0	5.8	5.9	-2.6	5.7	6.1
Government Consumption	6.5	13.4	9.6	10.6	10.0	10.5
Gross Fixed Capital Investment	10.6	12.9	3.9	-7.5	8.5	13.4
Exports, Goods and Services	17.4	11.8	2.4	-4.6	1.7	8.0
Imports, Goods and Services	15.1	14.6	1.8	-6.7	5.1	11.4
Inflation (period average)	**2.9**	**5.2**	**2.5**	**1.8**	**2.5**	3.0
National government balance (% of GDP)	**-2.1**	**-3.1**	**-3.4**	**-7.0**	**-4.2**	**-3.5**
National government debt (% of GDP)	40.2	39.9	39.6	46.9	46.6	46.1
Current account balance	**-0.7**	**-2.5**	**-0.1**	**-0.5**	**-1.4**	**-1.7**

Source: PSA and WB staff projections.

Economic disruptions, heightened uncertainty, and stress in financial markets discourage capital investments. An expected slowdown in private investment, on top of delays in the implementation of government infrastructure projects due to the ECQ, is expected to result in a 7.5 percent contraction in capital formation in 2020, a sharp reversal from the 3.9 percent expansion in 2019. The contraction is dependent on weak business sentiment, which can further deteriorate should there be a prolonged outbreak or a return to strict lockdown measures. The Business Confidence Index dipped from 40.2 in the fourth quarter of 2019 to 22.3 in the first quarter of 2020, the lowest rate since 2009 at the height of the global financial crisis.[39] Similarly, the country's stock exchange index plunged by 46.9 percent, quarter-on-quarter, to 5,321 in end-March, down from 7,815 in end-December, largely tracking developments in global markets. In early May, Fitch Ratings downgraded its outlook for the country from positive to stable, as the economy faces the prospect of a recession.

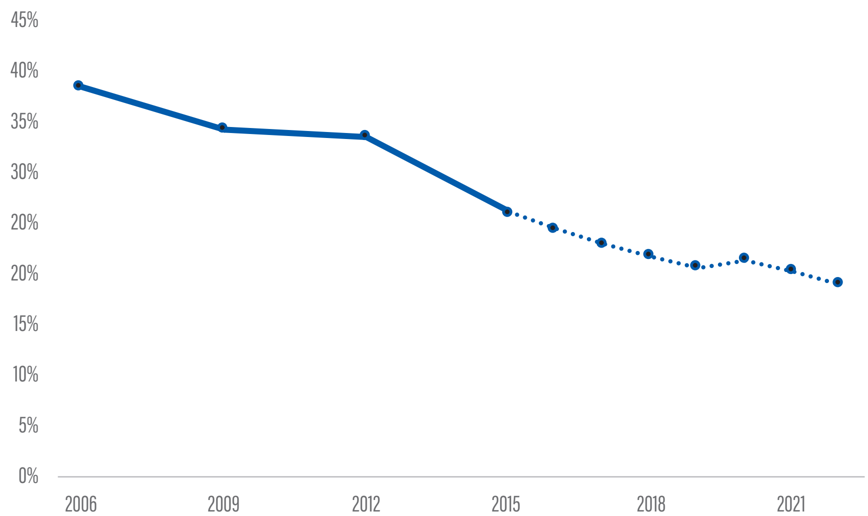
Weak international trade will soften both import and export growth in the Philippines. As countries across the world mitigate the impact of COVID-19 with strict containment measures, global trade will weaken, resulting in lower levels of goods exports and imports in the Philippines. Demand for tourism services, which accounted for 12.1 percent of GDP in 2018, and adjacent industries fell precipitously in the first quarter of 2020,[40] and it will remain low as long as countries continue to restrict travel. While receipts for the BPO industry will likely be maintained as the sector remains open for business, the industry's growth prospects are subdued. Likewise, growth in foreign remittances may decelerate as laid off workers repatriate and the economies of source countries are disrupted by the pandemic. The current-account deficit is projected to settle at 0.5 percent in 2020 due to weaker services exports and remittance inflows, before widening in 2021-22 as the economy normalizes and imports rise, including for domestic infrastructure projects.

39 The Business Confidence Index is computed as the percentage of respondents that answered in the affirmative less the percentage of respondents that answered in the negative with respect to their views on a given indicator.

40 International tourist arrivals declined by 40 percent in the first quarter of 2020.

2.2 POVERTY AND SHARED PROSPERITY

Figure 28. Actual and projected $3.2-a-day poverty rates.



Source: World Bank staff calculations.

The foreseeable broad-based economic contraction in 2020 is likely to cause increase in poverty. The imposed ECQ that began in mid-March has cut off income streams from seasonal wages and entrepreneurial activities. Workers relying on these income sources will likely see annual income losses of at least 16.7 percent. The growth of household incomes in recent years, particularly those from the lower income deciles, have been propelled by non-agricultural wages, mostly from low-end service jobs, which have been severely affected by COVID-19 and ECQ.

While the emergency subsidy under the Social Amelioration Program is expected to partially offset income losses, the initial cash distribution to intended beneficiaries have had multiple challenges. First, identifying the beneficiaries beyond those included in existing social programs such as the 4Ps and Unconditional Cash Transfer (UCT) have been difficult. Local governments have been tasked to distribute the paper application forms (Social Amelioration Card [SAC]), collect data submitted through SAC, and submit encoded information to DSWD. The large size of the program and number of potential beneficiaries as well as the observance of social distancing have made the transfer of the benefit cumbersome and slow. Second, cash distribution was done without proper data verification, indicating that there are potentially inclusion and exclusion errors as well as duplications. Among these, exclusion errors are of concern as these reduce the program's ability to mitigate the negative impacts of the COVID-19. Other operational issues include security and logistical challenges in reaching remote communities. If these implementation challenges and delays continue as the government moves on to the next tranche of cash assistance, vulnerable households excluded in the program or did not receive benefits in a timely manner are likely to fall to poverty.

The expected growth contraction in 2020 and associated income loss among poor and vulnerable families is likely to result in poverty increase in the short term. Poverty is projected to increase to 21.5 percent based on the middle-income poverty line of $3.20/day in 2020. This is equivalent to 1.2 million Filipinos more falling to poverty from the estimated poor in 2019. As the threat of COVID-19 pandemic dissipates and the business activities gradually return to operation, economic growth recovery is expected to contribute to poverty reduction, as the poverty rate will decline to 20.4 percent and further to 19.1 percent by 2022.

2.3 RISKS AND POLICY CHALLENGES

The full extent and duration of the COVID-19 pandemic remains uncertain. As businesses gradually return to operation, the new normal remains to be determined. It is essential that the government continues to protect the poor and vulnerable to protect recent gains in poverty reduction and shared prosperity. The government must take a measured and balanced approach between policies that flatten the infection curve to save lives and those that flatten the recession curve to save livelihoods.

The full extent and duration of the COVID-19 pandemic remain uncertain. Epidemiological models predict that COVID-19 infections in the Philippines may peak either in the second or third quarter of 2020.[41] This suggests that the risk of continued transmission will remain after the end of the ECQ on May 30. Nevertheless, a prolonged lockdown comes with severe economic and social consequences. The government should, therefore, proceed with a balanced and cautious approach to ensure that neither lives nor livelihoods are needlessly jeopardized. This would require further strengthening of health facilities and equipment, on top of efforts to improve contact tracing, infection testing, and the capacity to isolate and monitor infection cases, so as not to overwhelm the healthcare system. The mandate for continued social distancing must remain, with selective lifting of the ECQ in places with manageable infection cases and close monitoring. Learning from the experiences of other countries that were able to flatten the curve can provide insights and solutions for the Philippines.

The global pandemic has amplified downside risks in the external environment. With the global economy in turmoil from a global health shock, the risk of a global recession has escalated, with many advanced economies and major developing economies experiencing severe contractions in economic growth. The likely global recession, along with stringent international travel restrictions, will result in considerable weaker external demand and trade, leading to a potential contraction in goods and services exports from the Philippines. Moreover, increased international financial volatility can affect the country's economy through the equity, bond, and credit markets, either through capital outflows or a rise in the cost of credit, which can be challenging for the Philippine government as it is increases public spending to mitigate the impact of COVID-19.

Tighter financial conditions have become more apparent with rising borrowing spreads. The emerging market bond index (EMBI) strip spreads have shot up across the Asian region, including in the Philippines where it rose from 66.5 bps in end-2019 to 221.5 bps in end-March 2020. The surge in cost reflects tighter international financing conditions amid a higher perceived risk of financial stress arising from debt accumulation globally and significantly weaker growth prospects. Nonetheless, in April, the government successfully raised US$2.35 billion through the sale of 10-year and 25-year U.S. dollar bonds, priced at the lowest coupon rate that can be achieved for those debt papers, signaling that thanks to good macro fundamentals, the country is still able to access international financing with good rates. With the high global uncertainty, capital flight to safety may be prolonged. As global activities recover, interest rates are likely to rise, and lead to higher debt service cost for those that accumulated debt during the pandemic.

There are no immediate systemic financial stability risks in the Philippines, but credit risks in highly indebted sectors could be amplified by the COVID-19 crisis. The banking sector had strong capital levels and the asset quality of the

41 Experts from the DOH and the World Health Organization (WHO) estimate that the virus could peak by June 2020 if not properly contained (Source: https://www.rappler.com/nation/254982-doh-experts-philippines-coronavirus-cases-estimate-june-2020-if-not-contained). Also, a simulation from the Philippine Institute of Development Studies shows that the peak will occur in August 2020 (Source: https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps2015.pdf).

financial system was good at the onset of the crisis[42]. Gross loans contributed to 60 percent of banking sector assets in 2019, most of which was directed to corporates (83 percent). However, nonfinancial corporate leverage in the Philippines, measured by the total debt to total assets ratio, has steadily increased since 2010 and is among the highest in the region[43]. Utilities and mining/energy firms are the most leveraged, followed by those in manufacturing and real estate. In addition, a significant share of Philippine firms' outstanding debt is denominated in foreign currencies (17 percent in 2018). As some corporate vulnerability indicators started to deteriorate in recent years, risks from the corporate sector could be further exacerbated by the COVID-19 crisis. The thorough assessment of risks gets more challenging in the country given the existing complex mixed conglomerate structures, which could potentially exacerbate spill overs between the real sector and financial institutions. Moreover, bank secrecy laws undermine the effective supervision of banks[44] and prevent the supervisory authorities to fully understand the risks of the financial system.

Containment measures and lower economic growth across the globe have resulted in fewer overseas jobs for Filipinos, leading to workers returning to the Philippines unemployed. Business disruptions in major economies, along with the plunge in oil prices that has especially affected the Middle East, have weakened the demand for OFWs. Furloughed OFWs, including seafarers and domestic workers, have returned to the Philippines, dimming the growth prospect of foreign remittances. Unlike in previous global health crises such as the SARS outbreak, the current pandemic affects all regions of the world, so a decline in remittances from one region is unlikely to be offset by an increase in remittances from another. While returning OFWs have benefited from the public financial assistance program, a prolonged pandemic may lower their chances of swiftly returning back to their host countries, increasing the pressure on the domestic labor market.

The country's fiscal and monetary policy response to the COVID-19 pandemic will be costly. Nevertheless, it is a cost that the country must assume in order to save lives and

protect the economy. The authorities are financing their pandemic-related measures through domestic and foreign borrowing. The combination of contracting economic growth and a widening fiscal deficit is expected to result in a higher debt-to-GDP ratio in the near term, although it is likely to remain sustainable in the medium term. The debt-to-GDP ratio may reach as high as 46.9 percent in 2020, up from 39.6 percent in 2019. While additional borrowing would raise the debt level, the debt ratio is expected to remain relatively similar to the average of the last decade (46.0 percent). As the government borrows more from foreign sources, the share of its foreign debt is estimated to grow from 34.0 percent in 2019 to an estimated 37.6 percent in 2020.

The government's economic policy goal should be to prevent temporary shocks from having permanent effects.[45] While expansionary fiscal policies are less effective in

42 The universal and commercial banks consolidated risk-based capital adequacy ratio (CAR) of 16.0 percent and consolidated leverage ratio of 9.8 percent indicates the overall industry strength in terms of its ability to absorb unforeseen business losses, while allowing buffer for further expansion

43 IMF. 2020. "Selected Issues paper on Philippines." IMF Publications. February. file:///C:/Users/wb220103/Downloads/1PHLEA2020002%20(2).pdf.

44 Banking supervision, Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) timely access to accounts. Source: Asia Pacific Group on Money Laundering AML/CFT Mutual Evaluation 2019.

45 World Bank, "East Asia and Pacific in the time of COVID-19," Washington DC: World Bank, April 2020.

increasing production and employment during periods of lockdowns and social distancing, they can be important to facilitate the economic recovery. Fiscal policies should include social-protection measures to help households, especially the most economically vulnerables, to provide temporary relief. Moreover, employment support can help workers reintegrate into the economy and ensure that temporary deprivation does not translate into long-term losses of human capital. Firms will also need liquidity injections or bridge financing to help them stay in business. While the optimal economic policy response changes over time and depends on the evolution of the shock, the policy goal remains to ensure that temporary shocks do not have permanent effects.

To successfully execute the government's policies, capacity and implementation constraints must be addressed to effectively reach targeted businesses and households. Capacity and implementation constraints have been a constant challenge for successive administrations to fully deliver effective public services. The COVID-19 outbreak has brought these constraints to the forefront, as some public programs, including the social amelioration package for low-income households, have faced temporary setbacks in comprehensively identifying their beneficiaries. To address some of these constraints, national and local government authorities need to coordinate their efforts to ensure the timely and efficient deployment of public policies. Moving swiftly to provide cash transfers, wage subsidies, and tax rebates to households and businesses will help people meet their basic needs and businesses stay afloat.

Strengthening the capacity of the healthcare system should be an ongoing priority throughout the duration of the pandemic. The DOH has mobilized all hospitals and frontline health workers to accommodate COVID-19 patients, and it has ramped up the testing capacity of its Research Institute for Tropical Medicine and other subnational laboratories. Despite these efforts, the country's health system still lacks the necessary capacity to effectively deal with the pandemic and faces the risk of shortages in medical supplies and PPE in case there is a second wave of infection outbreak. Given the urgency of the present situation, the government needs to prioritize efforts to boost the health system's capacity to contain the spread of the virus and treat patients, and it needs to adopt policies that mitigate the negative socioeconomic effects of disease prevention measures.

In the medium term, critical reforms need to be accelerated to boost private sector confidence to support a sustainable economic recovery. Given the duration of the COVID-19 pandemic remains uncertain, negatively impacting consumer and business confidence, the government should accelerate pending reforms to unleash the country's growth potential such as amendment of public sector act that would open up the telecom sector to foreign investors and fast-tracking the digital transformation of the country, particularly important under the new normal. The government would also support the recovery by following through the implementation of recent game changing reforms such as the rice liberalization law, the ease of doing business, introduction of a national ID, among others, which are essential for inclusive growth in the long term.

Moreover, given Philippines' high risk to natural disasters, factoring climate change in the design of public infrastructure projects will not only support economic recovery in the short term but also contribute to country's long term resilience. As private investment is expected to recover very gradually, accelerating public investment would re-start the economy by providing jobs to newly displaced workers. Considering Philippines is one of the most natural disaster prone country in the world, largely affected by climate change, priority public investments need to support resilience to natural disasters and climate change to support country's sustainable long term growth.

Similarly, digital technologies can help address the impact of the COVID-19 pandemic in the short term while boosting the country's growth potential in the long term. Before a commercial vaccine is available, innovative solutions should be considered to keep the economy open, even partially, while avoiding the resurgence of the virus. One such solution lies in the use of digital technology. In countries like the Republic of Korea, information and communication technologies (ICT) have been used to encourage social distancing, identify COVID-19 cases with speedy tests, and even facilitate treatment. In the Philippines, there have reportedly been more e-commerce and online financial transactions, virtual meetings, and web-based work during the pandemic. Yet, to fully harness these ICT solutions, more needs to be done to improve the digital enablers, especially in terms of providing relevant infrastructure, to fully unleash country's potential in the global digital market. Chapter III discusses the challenges in the country's digital infrastructure and the policy recommendations to address them.

Box 7. Digital Delivery of Large-Scale Cash Transfers for COVID-19 Pandemic Response

Many countries have announced a vertical and horizontal expansion social assistance programs as part of their response to the COVID-19 pandemic.[46] The objective is to continue to support the traditionally poor (e.g., existing social assistance beneficiaries including the income poor, people with disabilities, indigent senior citizens) and to protect the newly vulnerable group (e.g., informal sector workers) from falling into poverty. The Philippines was one of the first countries to have announced a significant expansion of social assistance through its SAP. The eligibility criteria set for the provision of emergency cash subsidy under SAP includes both existing social assistance beneficiaries and newly impoverished, vulnerable populations, covering 18 million families.

While the Philippines was an early mover in policy actions, it has encountered implementation challenges: (i) expanding the list of eligible beneficiaries; and (ii) making payments safely and securely during the pandemic.

Expanding the list of eligible beneficiaries

Some countries (e.g., Chile, Colombia, Pakistan, Peru) have been using their existing social registry or integrated social protection information systems to identify new beneficiaries who meet the eligibility criteria. Dynamic registries and information systems with up-to-date information of households, including on economic activities, greatly facilitates the program expansion to the near poor and vulnerable non-poor who would not have been in the existing safety nets. In the Philippines, the Listahanan is outdated for social registry-based beneficiary identification and targeting as it is based on the 2015 survey and the 2019-2020 survey has not yet been completed.

Other countries (e.g., Jordan, Thailand, Brazil) set up online self-application platforms, through websites and mobile applications. They provide access to anyone who wants to apply, but their eligibility and ID is verified against the existing databases and the national ID system. In the Philippines, the large majority of SAP beneficiary families had to use paper forms known as SACs. This paper-based process for the SAC was cumbersome and slow while also being disposed to high risks of fraud and errors as it does not require cross checking with existing databases. This is partly due to lack of a national ID system that would allow for an easy way to verify and match individuals across databases, such as to check if a beneficiary family received assistance from another program.

Making payments safely and securely during the pandemic

Digital payments have been increasingly used, taking advantage of high mobile phone penetration in developing countries. The delivery of physical cash comes with substantial costs and logistical complexity and is not safe in normal times and even more so during a pandemic. Account-based transactions (e.g., bank account, mobile money) provide opportunities not only for transparent, timely payments but also for longer-term financial inclusion. Non account-based transactions (e.g., one time passcode, e-vouchers) allow temporary but widely accessible means for digital payments. In the Philippines, the majority of Pantawid beneficiaries have the cash cards issued by the LBP. Although the LBP cash card, being a single purpose account, has some constraints including insufficient payout points and does not result in financial inclusion, it has been able to facilitate digital payments for most Pantawid beneficiaries. The new SAP beneficiaries, however, relied on house-to-house cash delivery or collection of cash at pay-out points, which slowed down the delivery process and was often inconsistent with social distancing and no-mass-gathering guidelines.

46 A total of 171 countries have announced social protection measures in response to the COVID-19 pandemic, among which new cash transfers introduced in 88 countries comprise a significant share, as of May 8, 2020.

Robust digital delivery system is needed going forward

Given that the impact of COVID-19 may continue, particularly in terms of the economic fallout, and that the provision of social assistance benefits is not a one-time event, a more robust digital delivery system will be required going forward. In the Philippines, digital platforms and technologies will be able to enormously improve the speed, impact, transparency and accountability of social assistance delivery. However, such digital solutions are not just about developing a website or a digital tool but must also be combined with beneficiary centered policy and process while ensuring accountability and integrity of the program. The Government could prioritize the following five areas (Figure 29) that would strengthen social assistance delivery:

1. **Enhance the access of potential beneficiaries** to various social assistance programs offered by government. Strategic communications and community reach-out including through media and digital platforms would be useful.

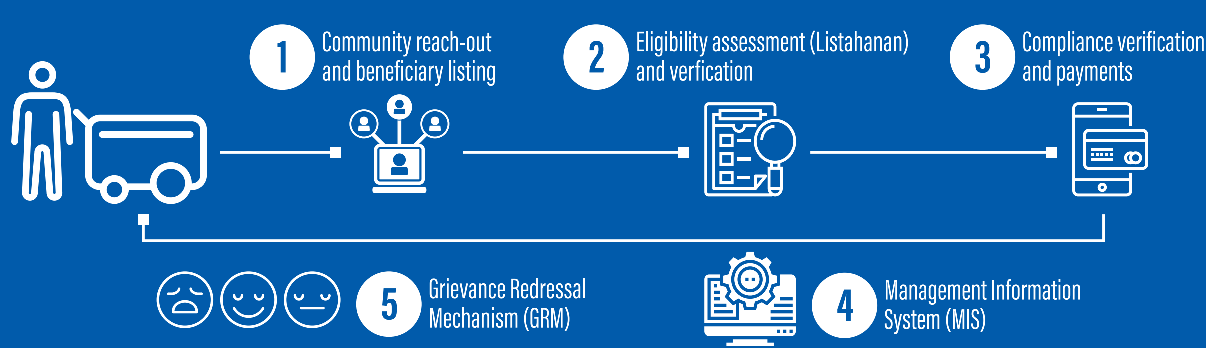
2. **Strengthen Listahanan** to become a more dynamic social registry and targeting instrument. Currently, Listahanan is carried out through a massive "census-sweep", with the latest done in 2015 and the upcoming one in 2019-20 still pending. As an immediate next step, completing the new Listahanan, ensuring its quality, and adopting it for targeting purposes are required. At the same time, pursuing a more dynamic and integrated approach so that Listahanan draws information from key government administrative data sources (e.g., PhilHealth, BIR, SSS, and GSIS) would reduce errors and constantly update the beneficiary list as circumstances change.

3. **Promote digital payments.** Both account and non-account transactions are useful during the crisis period. However, a stronger emphasis on account-based transactions and broader financial inclusion through multiple and flexible payment service providers should be warranted during the economic recovery phase.

4. **Build a robust and integrated Management Information System (MIS).** Currently, multiple social assistance programs have their own information system without inter-operability and cross matching. Closely linking and orchestrating the end-to-end business process through MIS will transform the beneficiary experience and greatly enhance the effectiveness and efficiency of social protection in the Philippines.

5. **Incorporate a robust grievance redressal mechanism.** Citizens (both beneficiary and non-beneficiary) should be able to lodge grievances through multiple channels including local offices, hotlines and mobile messages, and web portals. At the same time, backend systems should be able to classify the type of grievances, track the progress in resolution, and enable follow ups as needed, which digital tools can greatly facilitate.

Figure 29. Strengthening social assistance delivery through digital payments.



PART 3
SPECIAL FOCUS NOTE: ACHIEVING FASTER AND MORE AFFORDABLE INTERNET SERVICES FOR ALL

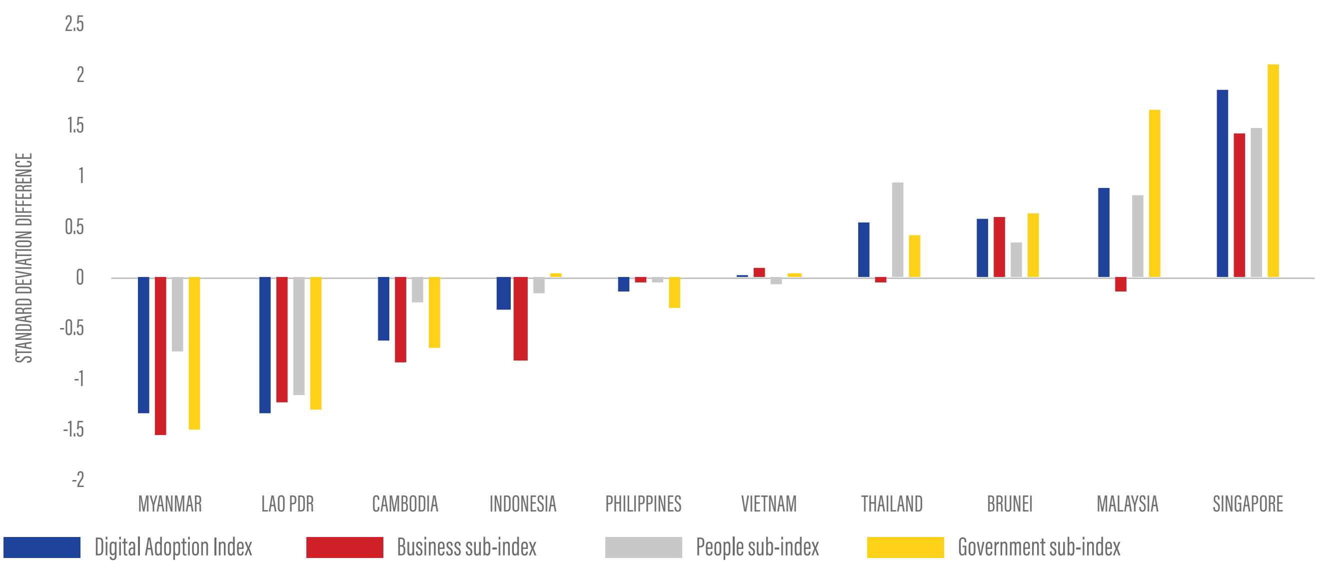
3.1 INTRODUCTION

Affordable, reliable and widely available internet services are essential to support economic recovery post COVID-19 in the medium term, and more equitable growth and competitiveness in the long term. The ongoing COVID-19 outbreak and imposed ECQ highlight the need to accelerate the digitalization of the Philippine economy. This would require having resilient and affordable internet services that enable business continuity; disease tracking and monitoring; supply chain management; expansion of e-commerce; digital financial services; technology-based entrepreneurship; and digital public service and social protection delivery[47].

The Philippines is potentially a significant player in the global digital market. From 23 million in 2010, the number of Filipino internet users has more than tripled to 73 million in 2020. Connected Filipinos are world leaders in internet usage and social media. On average, every Filipino spends nearly 10 hours on the internet per day, the most worldwide; with over five hours on mobile internet. The size of the country's domestic market, with over 105 million consumers, has attracted international and regional ICT companies including Facebook, Google, Alibaba, Grab, and Lazada, whose platforms for e-commerce, online sharing, and social media have gained strong foothold in the country. Similarly, the Philippines has penetrated foreign markets, being a leader in the Information Technology and Business Process Outsourcing (IT-BPO) industry.

The digital economy in the Philippines is far from reaching its full potential, and the country's performance generally trails behind many regional neighbors. The World Bank Digital Adoption Index (DAI) and its three sub-indices on people, government and business reveal that the Philippines fell behind the world average on digital adoption. In general, the country's digital adoption is on par with its level of economic development when compared to countries around the world, but it performed poorly compared with regional peers (Figure 30). Among the three key agents in the Philippines, businesses and people are more accustomed to the use and adoption of digital technology than the government. The relatively poor performance in digital adoption can be traced to a multitude of factors including to problems of digital

Figure 30. Digital adoption index and sub-indices relative to world average



Source: World Bank (2018). "Information and Communications for Development: Data Driven Development," Washington DC: The World Bank.
Note: Droplines show the standardized difference of indicator values between ASEAN countries and the world average.

47 There is discussion globally about establishment of a *meaningful connectivity standard* defined as: when a user has access to a smartphone and or 4G equivalent quality mobile internet, along with reliable fixed wired or wireless access at home, school, or work every day

Table 4. Broadband Penetration and Speeds, Philippines vs. ASEAN

	Philippines	ASEAN
Share of population which are active broadband subscribers	70%	88%
4G/LTE mobile broadband network coverage	72%	82%
Share of population which are fixed broadband subscribers	4%	10%
3G/4G mobile average download speed	7Mbps	13Mbps
Fixed broadband average download speed	26Mbps	59Mbps

Sources: Alliance for Affordable Internet (A4AI), International Telecommunication Union (ITU), Ookla Speedtest.

infrastructure and connectivity, high cost of broadband and internet services, and uneven quality of internet service, among others.

The current state of internet in the Philippines, however, calls for urgent and substantial improvements for the digital economy to play a key role in the economic recovery. The country's broadband (high-speed) internet penetration is below the expected level of countries with comparable per capita income.[48] For instance, only 70 percent of Filipinos are active mobile broadband subscribers, lower than the ASEAN regional average of 88 percent;[49] 72 percent of the population can access the country's 4G/LTE mobile broadband network coverage, lower than the regional average of 82 percent;[50] only 4 percent of Filipinos are subscribed to fixed broadband services, much lower than the regional[51] average of 10 percent;[52] the Philippines' 3G/4G mobile average download speed of 7 Mbps is considerably slower than the regional average of 13 Mbps;[53] and the country's fixed broadband average speed of 26 Mbps is lower than the regional average of 59 Mbps (Table 4).[54] Furthermore, the Filipinos pay higher price for lower download speed. At USD 6.30 per month for 500 MB of prepaid, handset-based mobile broadband, the Philippines has the fourth highest cost next to Singapore, Brunei, and Malaysia.[55] Surprisingly, despite middling in terms of fixed broadband speed, the cost of a fixed broadband plan in the Philippines is close to the cost of similar plans in Singapore and Thailand, countries which have the fastest speeds in the region.

Increasing digital adoption and its contribution to economic growth requires government actions to create a conducive and competitive business environment. The Philippines' digital infrastructure has always been private sector led. From the monopoly and fixed line era, the country shifted to mobile services, as the telecommunications sector was liberalized, and new market entrants competed. However, unchecked mergers and acquisition over the years have resulted in a highly concentrated market, with two dominant players each controlling and operating their own single, vertically integrated network. The current state of internet in the Philippines is thus the result of under-investment in broadband internet network resulting from insufficient competition and an outdated legal, policy and regulatory framework. It will need the government to set up a sound regulatory environment with strong implementation that encourage competition, guarantee accountability, and protect consumers to unleash the full potential of the digitalization of the Philippine economy.

48 World Bank. 2019. *The Digital Economy in Southeast Asia: Building the Foundations for Future Growth*.

49 Based on the International Telecommunication Union's (ITU) key information and communication technologies (ICT) indicators, as of June 2018. Source: ITU. 2018. *Measuring the Information Society Volume 2*. https://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2018/MISR-2018-Vol-2-E.pdf

50 Based on latest Opensignal report on mobile networks, as of May 2019. Source: Opensignal. 2019. *The State of Mobile Network Experience: Benchmarking mobile on the eve of the 5G revolution*. https://www.opensignal.com/sites/opensignal-com/files/data/reports/global/data-2019-05/the_state_of_mobile_experience_may_2019_0.pdf

51 "Regional" refers to Southeast Asia, which includes Brunei, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

52 Based on the ITU country ICT data, as of 31 December 2019. Source: ITU. https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx.

53 Download Speed Experience shows the average download speed experienced by Opensignal users across an operator's 3G and 4G networks. It factors in 3G and 4G download speeds along with availability of each technology. Source: Opensignal. 2019.

54 Based on the Ookla Speedtest report on fixed broadband, as of January 2020. https://www.speedtest.net/global-index Accessed 25 February 2020. The last Akamai State of the Internet (SOTI) report recorded the Philippines' fixed broadband average download speed at 5.5 Mbps for Q1 2017, lower than the regional average of 11.23 Mbps. The SOTI report on broadband quality of service after 2017 was not available.

55 ITU, "World Telecommunication/ICT Indicators Database 2017," 2017.

3.2 MARKET FAILURES IN THE PROVISION OF DIGITAL INFRASTRUCTURE

The digital infrastructure—defined here as the physical networks and resources that facilitate Internet connectivity, including radio spectrum—is the basic foundation of the digital economy. Digital infrastructure requires physical facilities and resources that facilitate connection to the Internet, whether fixed or mobile.[56] This includes different network segments that allow packets of data to be transmitted to their destination, as summarized in Figure 31. See Box 8 for the country's Internet Network System.

These network segments transmit packets of data that are delivered to end-user devices through fixed (wired) or mobile (wireless) technologies. Fixed internet connections include optical fiber, cable or copper wires used for fixed line telephony. The installation of fixed internet services typically requires some civil works. Mobile internet is delivered to mobile phones or other devices (e.g., tablets) through radio signals transmitted via networks of towers. These radio signals are transmitted at different frequencies (measured in megahertz or gigahertz) of the electromagnetic spectrum, impacting the speed of data transmission, from 2G (lowest) to 3G, 4G, and 5G (highest). The speed of transmission (e.g., for uploading/downloading data) is measured in megabits or gigabits per second. A country's spectrum is a scarce resource managed by government regulators; and it is divided into different frequency bands that are allocated to particular services such as broadcast TV, radio, and mobile telephony/internet.

Box 8. Digital Infrastructure Components

The Philippines digital infrastructure consists of the following components:

i. *First mile.* The first mile or backbone links the Philippines to the World Wide Web (WWW). The first data transmission link is made between international networks, which consist of international submarine cable systems and satellites, and associated terrestrial infrastructure, and the domestic backbone network, which connects cable landing stations to major regions throughout the country. The Philippines is well-served by international cable networks (Figure 31).

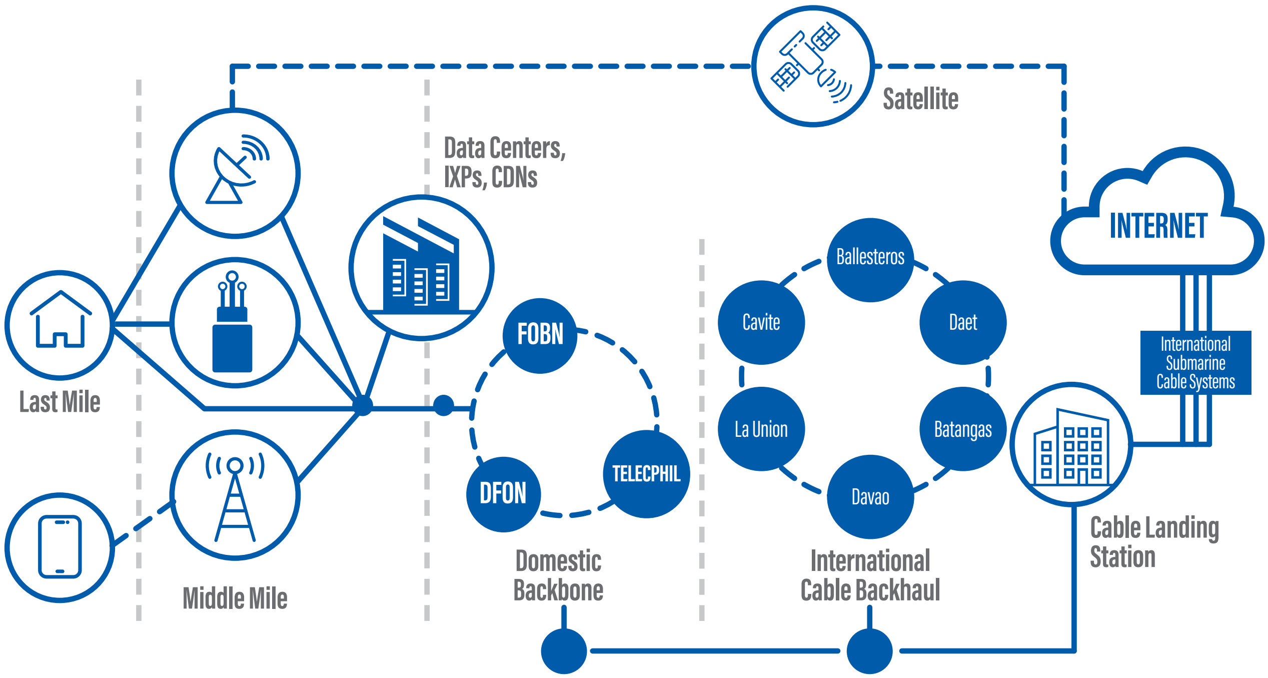
ii. *Middle mile.* This connects the domestic backbone network to the core networks of telecom/internet service providers in provinces and/or cities and municipalities through points of presence.

iii. *Last mile.* This refers to the towers and cables that provide connections to computers, phones, mobile devices of end users. Users include government offices, public facilities, businesses and households.

iv. Digital infrastructure also includes: internet exchange points (IXPs) that allow exchange of local internet traffic; content delivery networks (CDNs - geographically distributed servers coordinated for fast delivery of internet to users); and data centers that host servers containing digital content and services.

56 A fixed internet connection is accessed in homes and other physical establishments, while mobile connection is accessed typically through cellular phones.

Figure 31. How the Philippines Connects to the Internet



Source: The Philippines National Broadband Plan, adapted by the World Bank.

The Philippines' market for internet services is effectively a duopoly market.[57] As a result of mergers and acquisitions, and the absence of a comprehensive competition law[58] before 2015, the country's internet market is dominated by two telecommunication firms – PLDT and Globe – that have almost an equal share of the market in all segments[59]. The two dominant service providers each operate a vertically integrated network, where one company has a significant stake and operates in all segments of the digital infrastructure—from the international submarine cables, cable landing stations, backbone, middle mile, and last mile networks, down to the devices and equipment at customer premises. This can be disadvantageous to smaller internet service providers particularly outside Metro Manila. For example, there are no open access or non-discriminatory pricing regulations for the domestic backbone that would guarantee any service provider access to the backbone infrastructure built by PLDT or Globe. Also, there are no regulations that prevent price discrimination, which contributes to the high price of wholesale broadband access. According to the industry's regulatory body, the National Telecommunications Commission (NTC), there is limited competition in international connectivity and nationwide backbone networks, while the access network can be considered very competitive for fixed connectivity but still limited for mobile networks.[60] For mobile broadband services, competition between the two providers has largely focused on increasing market shares.

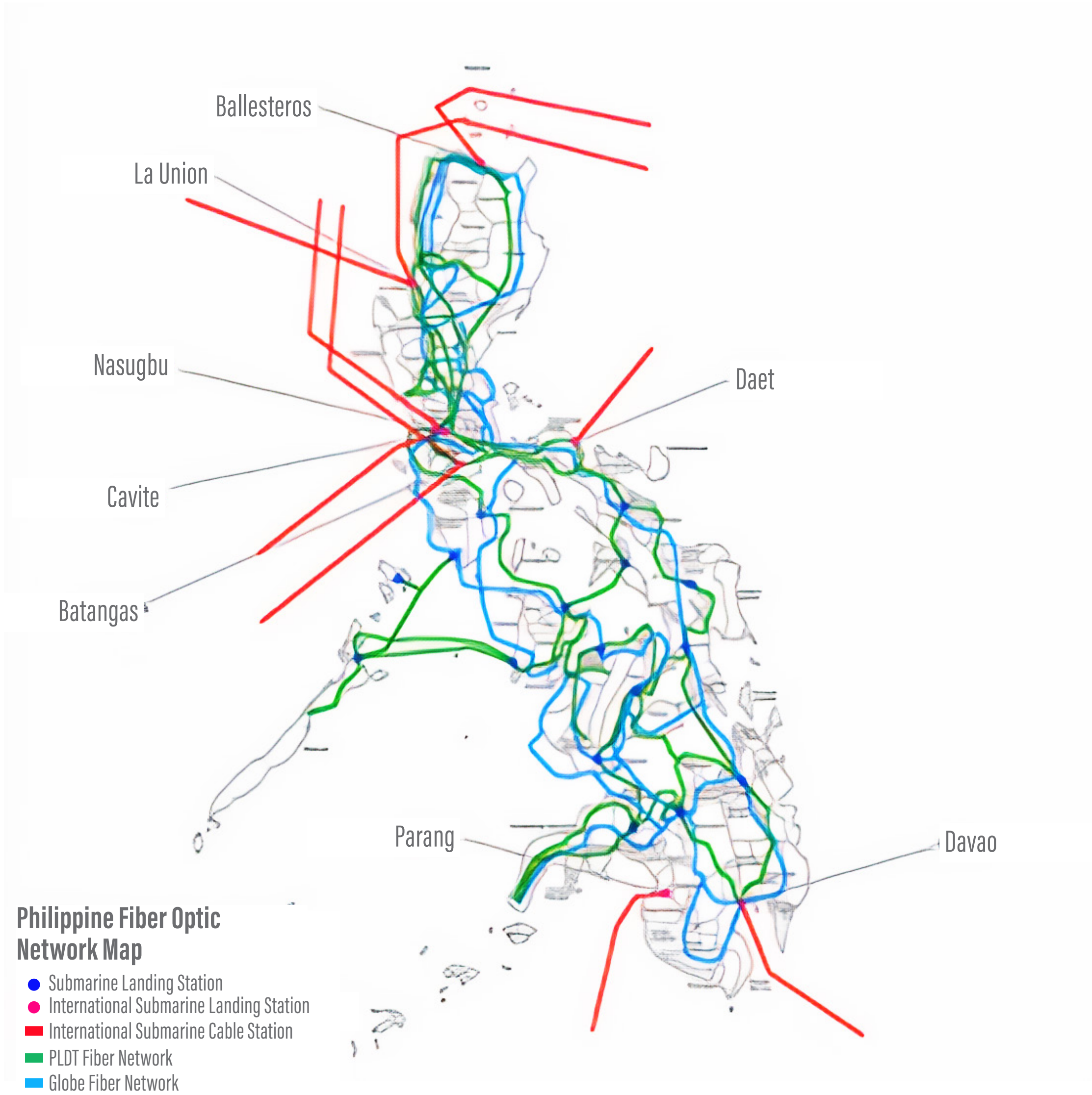
57 World Bank. 2019. *The Digital Economy in Southeast Asia — Strengthening the Foundations for Future Growth.* http://documents.worldbank.org/curated/en/328941558708267736/pdf/The-Digital-Economy-in-Southeast-Asia-Strengthening-the-Foundations-for-Future-Growth.pdf

58 Prior to the enactment of the Philippine Competition Act in 2015 and the creation of the Philippine Competition Commission, it was the sole responsibility of the NTC to review and approve mergers and acquisitions in the telecommunications sector.

59 Telecommunications is classified as a public utility in the Philippines and is subject to foreign ownership limitation of 40 percent. PLDT has received investment from the Salim Group of Indonesia and NTT Docomo of Japan while Globe Telecom has investments from Singtel of Singapore. Dito Telecom, a new entrant that has not yet commenced operations, has received investments from China Telecom.

60 While there are more than ten providers of fixed-line and fixed wireless broadband networks, including PLDT and Globe, there are only two mobile network providers in the country. Source: Presentation by NTC Deputy Commissioner Edgardo Cabarios at the celebration of the 25th anniversary of the Philippine Internet, 29 March 2019, Richmonde Eastwood Hotel, Quezon City.

Figure 32. The Philippines' Fiber Optic Network and Submarine Cables

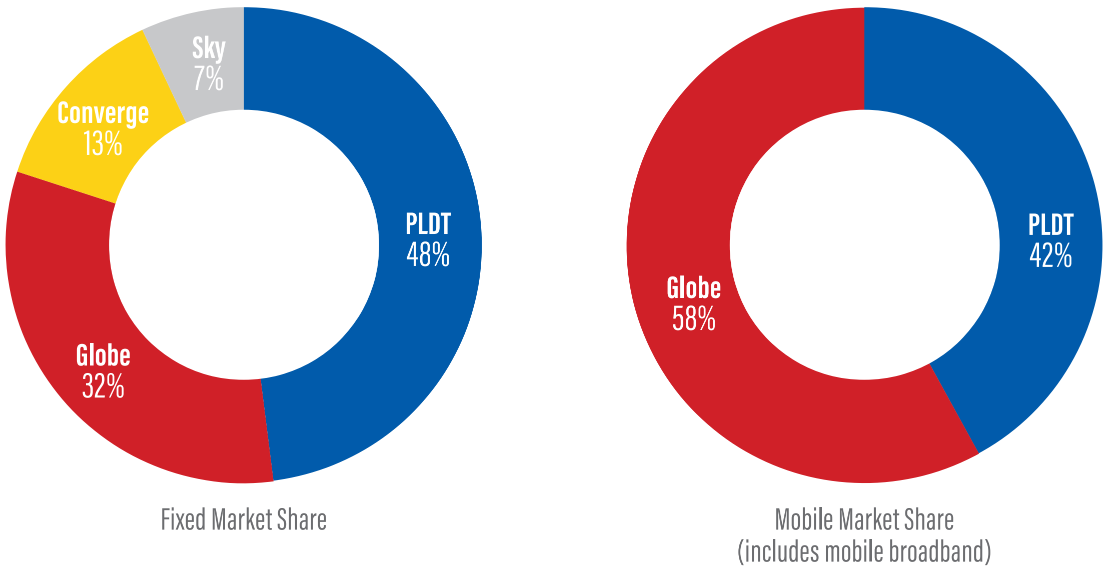


While 95 percent of Filipinos access the internet through mobile devices, the number and location of cell sites—which determine the access and quality of mobile Internet—is among the lowest in the region. The Department of Information and Communications Technology (DICT) estimates the country's number of cell towers to be less than 20,000 in 2019,[61] far below Vietnam's 70,000 and Indonesia's 90,000 towers. This equates to about 5,400 people per tower in the Philippines, compared to 1,364 in Vietnam and 3,000 in Indonesia.[62] More recent data gathered by Project Bandwidth and Signal Statistics (BASS)—a volunteer, non-profit group that measures mobile broadband and Wi-Fi quality of service through crowdsourced data—reveal a total of 32,183 unique cell site IDs (of which 76 percent were 4G/LTE), which is still low compared to global and regional averages (Figure 34 and Figure 35). As a result, mobile network coverage and signal strength varies widely across the country.

61 Pateña, A.J. "PH needs more cell tower firms, telco stakeholders say". Philippine News Agency. 27 September 2018. Accessed from: https://www.pna.gov.ph/articles/1049367

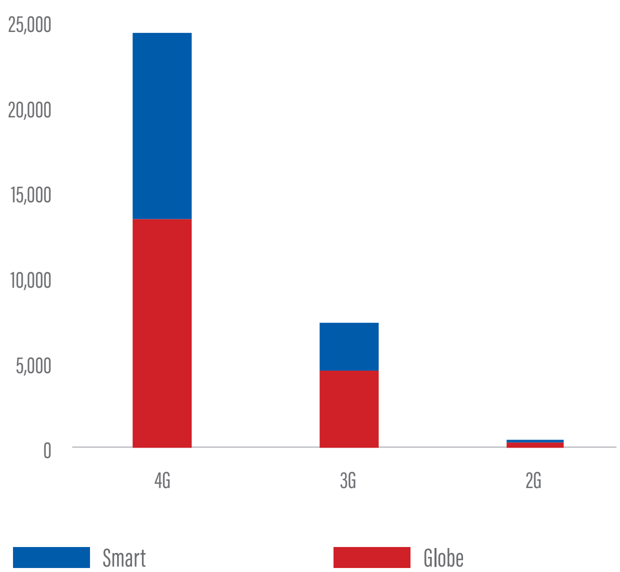
62 Camus, M. 2018. "Gov't pushes new cell tower scheme for level field, better service." January 20. Inquirer.net. http://business.inquirer.net/244506/govt-pushes-new-cell-tower-scheme-level-field-better-service.

Figure 33. Market Shares in Fixed and Mobile Broadband



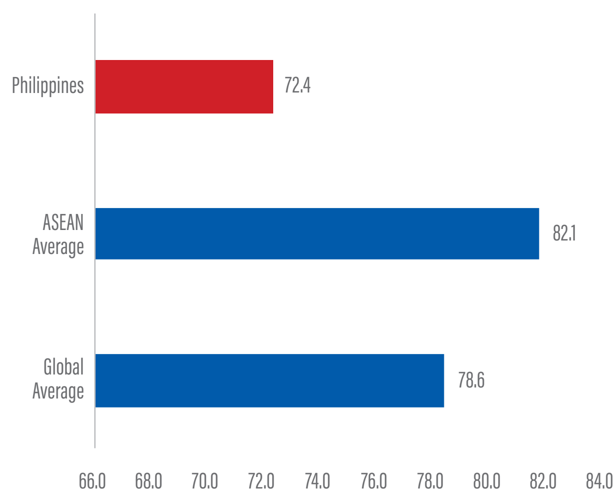
Note: Total of fixed broadband and mobile service markets are based on combined total subscribers of service providers. Data include fixed wireless.
Source: Various firm financial statements and press releases.

Figure 34. Number of Unique Cell Site IDs Detected as of February 2020



Note: The number of cell sites reflects those detected within range when subscribers use the BASS application.
Source: ProjectBass Quick Reference Sheet on Tableau[63]

Figure 35. 4G Network Coverage (% of Population)



Note: Availability is calculated as the percentage of time that 4G mobile device users were able to access a 4G signal.
Source: Open Signal data (2019)

63 Since BASS results come from crowdsourced data, the cell sites detected are only those within the range of a BASS mobile app user. BASS Quick Reference Sheet. Accessed February 25, 2020. https://public.tableau.com/shared/GBRGCT86S?:display_count=n&:origin=viz_share_link

Fixed internet access is also very limited in the Philippines. In terms of deployment of fiber optics, the Philippines is far behind countries with comparable GDP per capita like Vietnam[64], which has 170 percent more fiber connections than the two dominant Philippine operators have of all types of fixed broadband subscribers combined.[65] In 2018, the United Nations Broadband Commission reported that about 40 percent of the Philippines' total population of 103 million, or about 57 percent of the country's 23 million households did not have internet access.[66]

Limited infrastructure and weak competition lead to poor quality and high cost. Access to quality internet services is a prerequisite to successfully participate and thrive in the digital economy. While, like internet penetration rates, the country's internet download speeds are continuing to improve, they remain among the slowest in the region (Figure 36). Similarly, prices for internet services have declined, but entry-level fixed broadband (postpaid, 1GB) service is equivalent to 6.5 percent of the country's GNI per capita[67] per month, which is above the 2 percent affordability threshold recommended by the United Nations Broadband Commission and the Alliance for Affordable Internet (Figure 37).[68] Although mobile (postpaid, 1GB) broadband service is more affordable, it is still higher than the ASEAN average. For the Economic Intelligence Unit's Inclusive Internet Index, competition in the market is a factor in affordability. In its 2019 report, the Philippines was placed in the lower half of rankings in Asia because of "poor affordability" caused by a competitive environment that ranks last in the group (Figure 38).

64 In 2017, the GDP per capita, PPP (current international US$) was $8,343 in the Philippines, and US$6,776 in Vietnam. Source: World Bank Open Data, https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD

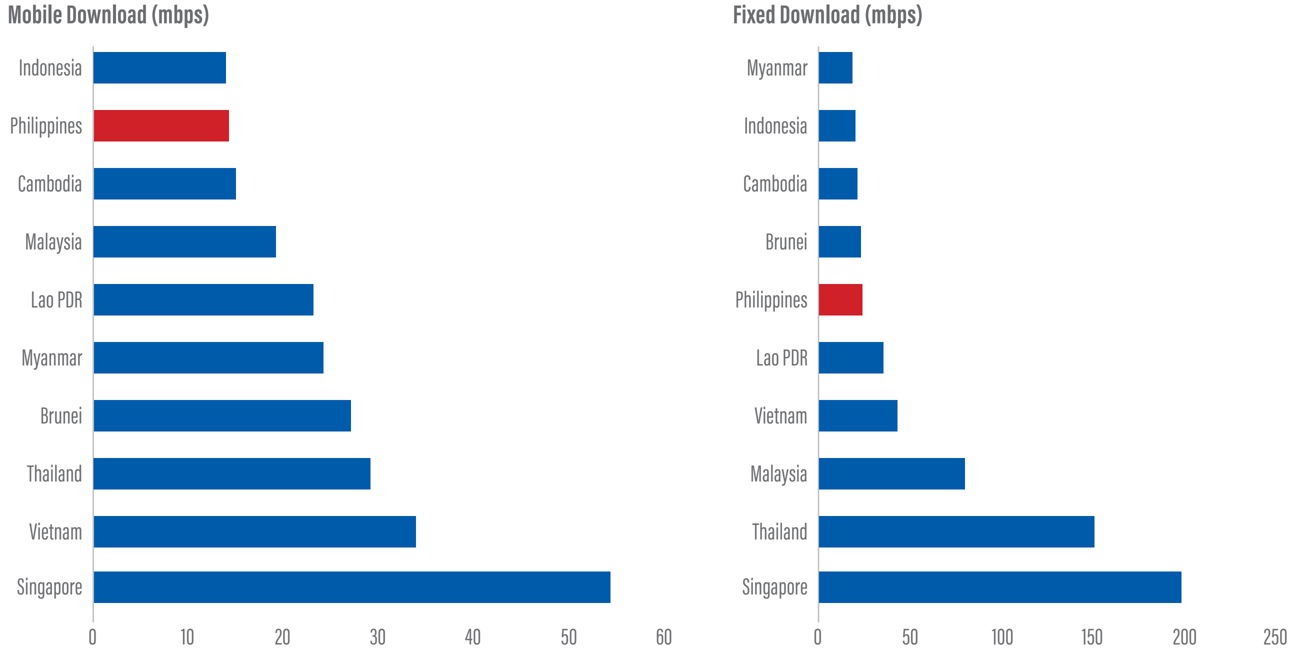
65 Extrapolated from citations of Philippines fixed line subscribers and Vietnam fixed lines FTTH connections extensively cited in the FTTH section. See http://newsroom.globe.com.ph/press-release/corporate/2018-02/globe-keeps-revenue-growth.html http://newsroom.globe.com.ph/press-release/corporate/2018-02/globe-keeps-revenue-growth.html; Mirandilla-Santos et al. 2018.

66 Share of individuals using the Internet and households with Internet access from ITU data, as of June 2018. ITU. 2018. Measuring the Information Society Report Volume 2. https://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2018/MISR-2018-Vol-2-E.pdf

67 The Philippines per capita GNI was PHP 25,396 (in constant pesos) in Q1 2019.

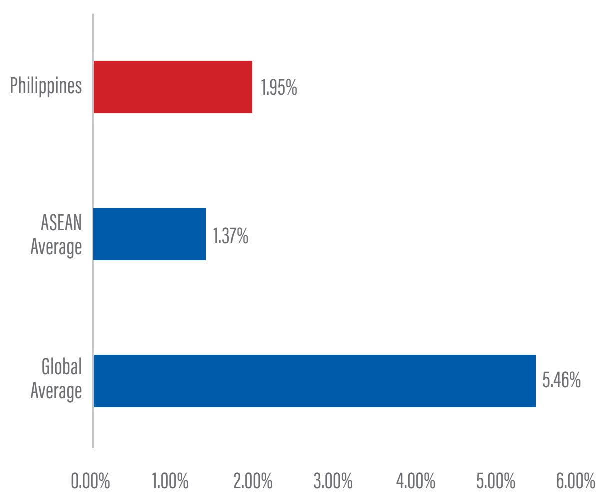
68 In 2018, the ITU's Broadband Commission adopted the A4AI's target of "1 for 2"—1GB of mobile broadband available for 2% of less of GNI per capita. Source: A4AI. 2018. UN Broadband Commission Adopts A4AI "1 for 2"Affordability Target. https://a4ai.org/un-broadband-commission-adopts-a4ai-1-for-2-affordability-target/; A4AI. 2017. The Affordability Report 2017. http://a4ai.org/affordability-report/report/2017/#implementing_policies_to_achieve_the_"1_for_2"_broadband_affordability_target

Figure 36. Mobile and Fixed Internet Download Speeds (August 2019)- Ookla



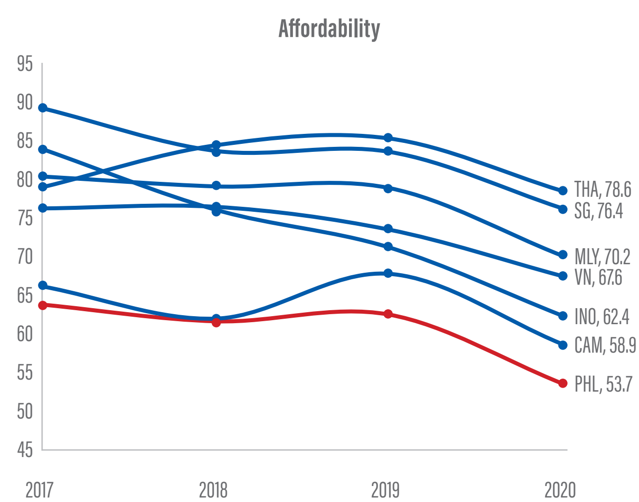
Source: Ookla (speedtest)

Figure 37. Price of mobile broadband (1GB, prepaid) as % of GNI per capita



Source: Alliance for Affordable Internet

Figure 38. Economist Intelligence Unit (EIU) Affordability Score, 2017-2019 Score of 0-100, higher score is better.



Source: Economist Intelligence Unit

Note: Methodology described in https://theinclusiveinternet.eiu.com/assets/external/downloads/3i-methodology.pdf

3.3 GOVERNMENT INITIATIVES TO IMPROVE INTERNET SERVICES

The government has recently launched several major initiatives to improve internet services and quality. Through the DICT, the government has been working on: (a) the National Broadband Plan (NBP), (b) free public Wi-Fi in public places, and (c) the selection of a new, third major telecommunications player. Other policies and regulations recently issued are summarized in Table 7.

The NBP aims to develop (a) an alternative source of international bandwidth, (b) submarine cable landing stations, and (c) a domestic backbone network. Provisions in the plan are intended to provide smaller market participants with a choice of bandwidth sources, other than PLDT and Globe. However, the optimal business model for the domestic backbone network has yet to be determined. The NBP outlines three options for expanding last-mile connectivity. First, the network and service providers will install infrastructure and provide internet services to end users. The government may opt to share the cost with private providers. Second, the government will develop infrastructure and install the network, while service providers will access infrastructure through leasing agreements and provide internet services to end users. Finally, the government will also install infrastructure and provide direct internet services to end users. While the government may have the capital resources to fund the building of infrastructure, it does not have the expertise nor the flexibility necessary to build and operate a telecommunications or broadband network. Global best practice suggests that public authorities should play a role in addressing regulatory and legal constraints that support a market-driven approach by creating a fair playfield for all operators, rather than provide direct investments and be directly involved in operations.

Meanwhile, the government is deploying its own fiber network to connect the major public agencies in Metro Manila and augment the country's poor fiber network coverage. According to the DICT, the network is being created using government assets, such as the metro rail transit (MRT) system, that can provide infrastructure and right of way at lower cost. Apart from providing internet service to public agencies, the DICT believes that this initiative will augment the limited fiber optic

network deployed by private telcos nationwide. This could potentially be implemented through availability and cost oriented pricing for dark fibre, a model currently being considered by the government of Mexico City, for example. In May 2019, the DICT signed an agreement with the Philippine Fiber Optic Cable Network Ltd., Inc. (PFOCN) which will reportedly invest between US$1 billion and US$2 billion to establish a shared network infostructure between 2019 and 2028. According to the DICT, the rollout of the shared network will become part of the Free Public Wi-Fi Network.[69] The PFOCN will reportedly give preferential rates to the government while the rest of its capacity will be leased to telecommunications firms, internet service providers (ISPs), and cable TV operators. Depending on the final business model the shared network model could potentially lower the cost of fiber-based internet.[70]

The Free Public Wi-Fi program is intended to provide internet service to low-income locations, but implementation has been slow. The Free Internet Access in Public Places Act of 2017 aims to provide internet access in over 100,000 public sites nationwide by 2022 (from the previous target of 20,000), which would extend internet services to low-income municipalities, and lower the cost for end users. It also aims to improve the quality of internet services by using Wi-FI sites to offload mobile traffic. Despite the huge budget allocated for the program (a total of Php6.5 billion for the period 2015-2019)[71], only 3,283 free Wi-Fi sites or 3 percent of the total target have been put up since 2015.[72] Challenges include developing an exit strategy and sustainable business model for the program. The government could consider a sunset provision to determine when government funding for free public Wi-Fi is no longer needed in certain areas, which would depend on the willingness of private sector operators to come in. This type of sunset provision should be feasible since RA 10929 allows ISPs enrolled in the program to sell excess capacity for a fee.

To complement these two government programs, a new major telecommunication player was selected in 2019 but its defined service obligations are not at par with the requirements for the two incumbent telcos. In response to a Presidential Directive, the government awarded a license to Dito Telecom, through a special selection process in 2019. Unlike the incumbent telcos, the new entrant is expected to comply with defined service obligations, including a minimum population coverage and broadband download speed after five years of operation. Not only do these requirements make it for difficult for the new telco to provide competitive prices, but failure to deliver will result in it losing its performance bond worth Php25.7 billion. Network planning had started as of early 2020, but the timing for rolling out Dito Telecom's network, along with its impact on the competitive landscape, is uncertain. *A fair and level playing field for all operators would require the government to apply the same service obligations and performance standards to the incumbent telcos as well as the new telco.*

69 https://dict.gov.ph/dict-partners-with-hyalroute-for-billion-dollar-fiber-network-investment/

70 ICT company and cellular mobile telephone system (CMTS) licensee, NOW Corporation, signed a memorandum of understanding with PFOCN for the former's nation wide expansion.

71 Figures from the General Appropriations Act 2015-2019. https://www.dbm.gov.ph/index.php/dbm-publications/general-appropriations-act-gaa

72 Data published, as of 5 February 2020. See http://freepublicwifi.gov.ph/free-wi-fi-for-all-eyes-taytay-and-cavite-for-next-rollout-of-sites/.

3.4 LEGAL AND REGULATORY CHALLENGES

Beyond the government's priority initiatives, there are key challenges that need to be addressed to improve the availability, quality and affordability of internet services. The four key challenges that need to be addressed are: (a) restrictions on investment and competition; (b) complex permit regulations; (c) infrastructure sharing for the deployment of mobile and fixed networks; and (d) ways to more efficiently and effectively manage the radio spectrum. This section also briefly considers the issue of satellite services for very remote regions.

(a) Restrictions on investment and competition.

Public utility designation limits foreign investment. The Public Service Act of 1936 (Commonwealth Act No. 146) provides a high-level framework for classifying telecommunications or "wired and wireless communications" as a "public utility." A public utility is subjected to certain regulations, such as restrictions on foreign ownership and a cap on the rate of returns. The law does not distinguish between a "public service" and a "public utility" so these two terms are often used interchangeably. Moreover, it does not provide a definition of "public services" but enumerates businesses—such as ice plants and ice-refrigeration plants along with freight or carrier services, electricity, gas, power, and wired or wireless communication systems—as public services. Under this definition, telecommunications/internet is considered a public utility, and thus subject to a 40 percent foreign ownership ceiling. The legislation is in the process of revision, however. The recent Congressional approval of House Bill No. 78 on March 10, 2020 distinguishes telecommunication systems as a public service, no longer as a public utility. A public service was defined as those which are "non-rivalrous or imbued with public interest." It likewise allows for 100 percent foreign ownership of public services. Hence, this amendment will allow for more players to enter and usher in competition.

The requirement for a Congressional franchise is a significant barrier to entry. The Public Telecommunications Policy Act of 1995 (RA No. 7925) requires an entity wishing to build a "network" to acquire a license as a public telecommunications entity (PTE). In order to become a PTE, the entity needs to secure: i) franchise from Congress; ii) provisional authority (PA) valid for 3 years from the NTC; and iii) a certificate of public convenience and necessity (CPCN) from the NTC which will be co-terminus with the Congressional franchise, and is usually valid for 25 years. The CPCN approval process is quasi-judicial in accordance with the provisions of the Public Service Act of 1936 (CA No. 146). A legislative franchise can only be granted to entities that are at least 60-percent Filipino-owned, as articulated in Article XII Section 11 of the 1987 Philippine Constitution.

The process for becoming a recognized PTE should be streamlined – particularly by removing the ability of incumbents to oppose the entry of competitors – in order to encourage the participation of small, regional or community-based players in the provision of broadband networks. The quasi-judicial process for acquiring a PA or a CPCN can create opportunities for existing market participants to quash or delay the entry of potential competition. The process allows for an "oppositor" to make its case to the NTC against an application because it could negatively affect its existing business. The trial-like hearings can go on for several years, making it cumbersome and costly for a new player to enter the market.[73] Procedural reforms at other quasi-judicial agencies, such as the Maritime Industry Authority, to set strict limitations on what legal motions oppositors can do during the hearings for the award of Certificates of Public Convenience, can shorten the hearing process significantly.

Inefficient spectrum allocation limits market competition. The Radio Control Law of 1931 (Act No. 3846 and its amendment RA No. 584[74]), which governs the management

73 For example, one report involves a PA hearing for a new entrant that went on for four years due to opposition from an incumbent telecommunication firm. The trial dragged on for so long that the technology and equipment being proposed by the new entrant was already considered old by the time the process ended.

74 NTC. "Republic Act no. 3846." http://ntc.gov.ph/wp-content/uploads/2015/10/LawsRulesRegulations/RAs_PDs_EOs/RA_3846.pdf; Corpus Juris. "Republic Act No. 584." https://thecorpusjuris.com/legislative/republic-acts/ra-no-584.php of the radio spectrum, requires a Congressional franchise in order to secure a permit to construct, install, establish, or operate a radio station,[75] which includes the testing of radio equipment for a new and emerging technologies, according to the NTC.[76] The Radio Control Law also limits the use of the radio spectrum (i.e., limits the transmission of data, or internet services) to enfranchised telecommunications firms only (i.e., only to providers that offer voice telephony services as well as internet services). This constitutes another barrier to entry, as it effectively requires potential participants to invest in telephony, even though it is slowly becoming obsolete. As demand for internet services increases, and as different types of internet-based technologies emerge (e.g., voice over internet protocol), the policies governing the management of the spectrum should evolve and adapt as well. An updated approach would be to allow ISPs that do not provide traditional voice telephony to have regional—rather than nationwide—spectrum assignments, and to consider dynamic spectrum use. This would allow more participants to enter the market and improve competition, as well as benefit communities that are not serviced by traditional telecommunications networks.[77] Identifying and expanding unlicensed spectrum opportunities are also critical and will receive a big push with 6 Ghz band licensing.

Lack of open access to different parts of the broadband infrastructure also limits market competition. The Open Access in Data Transmission bill identifies the various segments of the broadband infrastructure and proposes to open them up to more and different types of market participants. This is a means to level the playing field and ensure that market participants compete based on services and innovation, not on their capacity to secure costly licenses. The Philippines is the only country in the ASEAN region that still requires a franchise from Congress as the first step in obtaining a license to build and operate a network. Global best practice points to having administrative license issued by either the industry regulator or ministry in charge of ICT (Table 5). In the 17th Congress, a bill proposing an open access framework in data transmission was approved in the House of Representatives but failed to move forward in the Senate. This was a major setback for broadband development in the country, especially since many of the proposals in the NBP are anchored on an open access policy. The bill was refiled by both houses in the 18th Congress, but it is pending committee approval, to date.

Table 5. Licensing of ISPs Across Select Countries in Asia Pacific

Country	Licensing
Cambodia	License from the Telecommunication Regulator of Cambodia
Indonesia	License from the Indonesian Telecommunications Regulatory Authority
Malaysia	License from the Malaysian Communications and Multimedia Commission
Philippines	**Telecommunication franchise law** passed by Congress; and PA/CPCN issued by National Telecommunications Commission
Thailand	License from the National Broadcasting and Telecommunications Commission
Singapore	License from the Infocomm Media Development Authority
South Korea	Registration with the Korea Communications Commission
Japan	Registration with the Ministry of Internal Affairs and Communications (if installing cable facilities); and the ministry needs to be notified prior to providing telecommunications services, including related to internet

Source: Better Broadband Alliance, 2019.

75 Under the law, a "radio station" is interpreted to mean a facility that uses radio equipment for wireless data transmission.

76 Mirandilla-Santos, M., Brewer, J. & Faustino, J. 2018. From Analog to Digital: Philippine Policy and Emerging Internet Technologies. The Asia Foundation: Manila.

77 In some countries, regulators have adopted innovative licensing, such as a "social purpose" license, and exclusive service license granted in rural unserved or underserved areas to non-traditional network operators, including community networks. Examples include India, Mexico, and Brazil. Source: Internet Society. "Policy Brief: Spectrum Approaches for Community Networks." https://www.internetsociety.org/policybriefs/spectrum/

Current laws make it difficult for existing cable TV providers to provide broadband services. The operation of cable TV, governed by Executive Order (EO) No. 436,[78] is regulated by the NTC through its authority to award PA or a certificate of authority.[79] While cable TV operators are not allowed to use their spectrum allocation to offer telecommunications services, they can offer broadband services by sub-leasing any excess spectrum capacity of its cable TV system to a third party. However, under RA No. 7925, cable operators that wish to build any network segment outside their service area will need to secure a franchise from Congress and PA for each municipality the network will pass through. This requirement can be lengthy and costly for a provider that wishes to operate a network across municipalities. In addition, private companies that wish to offer retail broadband service at the last mile are subjected to the Retail Trade Liberalization Act of 2000 (RA No. 8762),[80] which requires capitalization of at least US$2.5 million for foreign companies.[81]

The reform or repeal of various legislative barriers is a prerequisite to a more open and competitive broadband market in the Philippines. Policymakers need to amend the Radio Control Law, the Public Service Act, and the Public Telecommunications Policy Act, and pass the Open Access in Data Transmission bill to lower barriers to entry and allow a more diverse set of providers access the market. For example, the government should remove the requirement for a Congressional franchise and PA/CPCN, and it should consider adopting a simple administrative registration and qualification process for the entry of broadband network operators and for the assignment of the radio spectrum.

(b) Permits and licenses

A proliferation of permits and licenses slows down the rollout of broadband networks. The deployment of broadband networks in urban and rural areas depends not only on the availability of infrastructure provided by the major telecommunications firms, but also on a whole gamut of licenses, permits and other bureaucratic requirements. A mobile network provider needs to secure separate permits for the installation of a radio station;[82] importing equipment; and obtaining a radio station license. These requirements determine the radio equipment, location, and frequencies needed for the network. The process for awarding licenses can be lengthy, and it can even delay or even halt network rollout if providers lack guidance on how to expedite the process.

Various network deployment permits and fees are required by different authorities. These are imposed by several NGAs, LGUs, and private property management firms, such as building administrators and homeowners associations. Some of these bureaucratic requirements, arbitrary fees, and permits can be institutionalized barriers to competition" and prevent the timely and cost-effective expansion of last-mile infrastructure. According to Globe Telecom, the approval process can take up to 8 months (see Table 6). Service providers have identified an average requirement of 25 permits, depending on the cell site's location and other requirements imposed by the approving entity.

Aside from the general need to streamline processes in securing permits and licenses among relevant agencies, LGUs, or associations because this acts as a barrier to entry, there is a need to look into the issue of exclusivity, particularly between ISPs and certain residences or homeowners' associations. The Philippine Competition Commission (PCC) has recently filed a competition case against a condominium corporation in this regard.[83]

(c) Lack of Tower-Sharing Policies and Other Modes of Infrastructure Sharing

The absence of a tower-sharing policy for mobile networks keep entry costs high. A new firm in the mobile network market would either need access to significant capital to build and maintain its own network infrastructure or suffer discriminatory charges to use its competitors' network. Under infrastructure sharing arrangements,

78 NTC. "Executive Order No. 436." http://ntc.gov.ph/wp-content/uploads/2015/10/LawsRulesRegulations/RAs_PDs_EOs/EO_436.pdf

79 Cable TV operation is reserved for Filipino-owned entities.

80 Philippine Board of Investment. "Executive Order 8762." http://boi.gov.ph/wp-content/uploads/2018/02/RA-8762.pdf

81 Below this level of capitalization, only fully Filipino-owned entities can engage and invest in retail trade.

82 Sec. 2 Act 3846, as amended. Source: NTC. "Republic Act 3846." http://ntc.gov.ph/wp-content/uploads/2015/10/LawsRulesRegulations/RAs_PDs_EOs/RA_3846.pdf.

83 https://phcc.gov.ph/press-releases/pcc-urbandeca-8990-holdings-abuseodominance-sett-case/

Table 6. Reasons for the 8-month Long Process to Construct a Cell Site in the Philippines

Requirement	Permits and Clearances	No. of Permits	Length of Time
Right of way	Negotiations and documentation of prospective cell site location	8	1-2 months
Social acceptability	Barangay resolution, homeowners association consent, and residents' conformity	5	1-2 months
Various LGU permits	Zoning clearance from Housing and Land Use Regulatory Board (HLURB) city or municipal resolution, occupancy permits, and mayor's permits.	5	2 months
National permits	Department of Environment and Natural Resources (DENR), Laguna Lake Development Authority (LLDA), Civil Aeronautics Board (CAB), DOH, Philippine Council for Sustainable Development (PCSD), Bureau of Fisheries and Aquatic Resources (BFAR), and National Commission on Indigenous Peoples (NCIP)	8	1-2 months
Structural permits	Zoning permits, locational clearance, building permits including electrical permits, sanitation permits and mechanical permits, occupancy permits	5	3-5 months
Construction starts			

Source: R. Icogo, Peter. "Why It Takes 8 Months For One Cell Site To Be Constructed In The Philippines?" Giz Guide, https://www.gizguide.com/2016/05/cell-site-construction-ph.html; ABS-CBN News. "Globe says permit delays delay cell site building." https://news.abs-cbn.com/business/11/22/18/globe-says-permit-delays-delay-cell-site-building.

however, operators typically agree to share facilities ranging from passive infrastructure (e.g., site locations, masts, and cabinets), and radio access networks (e.g., base station equipment, operation, and maintenance), to active infrastructure (e.g., the radio spectrum, and core network).[84] The deployment of cell sites can consume up to 50 percent of a mobile carrier's capital expenditure and up to 60 percent of its operating expenses. Given the massive amount of capital resources needed to promote an expansion of broadband deployment,[85] infrastructure sharing policies for mobile networks is becoming global best practice.[86],[87]

The government has been developing a common tower policy which is expected to be finalized by 2020. In mid-2018 the government announced a plan to issue a *common tower policy* to accelerate the buildout of telecommunications towers and achieve its target of 50,000 towers by 2022. In May 2019, the DICT issued Rules on the Accelerated Roll-out of Common Towers,[88] which also identified 2,500 government sites that can be used for tower installation. Under the current administration, the DICT announced that it would issue new common tower policy in response to stakeholders seeking "firmer guidelines before committing major investments."[89] To date, twenty four tower companies have signed a memorandum of understanding with the DICT to express their intent to enter the tower market. The common tower policy is expected to

84 International Telecommunication Union. "Mobile Infrastructure Sharing." https://www.itu.int/itunews/manager/display.asp?lang=en&year=2008&issue=02&ipage=sharingInfrastructure-mobile

85 The DICT Undersecretary Eliseo Rio, Jr. announced that the Philippines needs 50,000 cellular towers in order to cope with the demand and quality standards of good mobile services.

86 Towers and base stations also require users to be within 0.5 to 2km radius, which will become more important with the introduction of 5G technology.

87 IFC. 2020. Accelerating Digital Connectivity Through Infrastructure Sharing. https://www.ifc.org/wps/wcm/connect/2d3c4eff-12a8-4b0b-b55d-9113a950ed33/EMCompass-Note-79-Digital-Infrastructure-Sharing.pdf?MOD=AJPERES&CVID=n2dwWtn

88 The DICT issuance includes a list of DICT towers and real estate that can be used for the tower buildout, a list of about 1,000 "hard to acquire sites" (according to PLDT and Globe) where government assistance in securing permits is most needed, and GovNet sites. Source: DICT. "Rules on the Accelerated Roll-Out of Common Towers in the Philippines." https://dict.gov.ph/rules-on-the-accelerated-roll-out-of-common-towers-in-the-philippines/

89 Business World. "DICT may issue a new common tower policy." https://www.bworldonline.com/dict-may-issue-new-common-tower-policy/

be finalized in 2020, addressing the following issues. Once adopted it could also facilitate faster rollout of the third telco:

a. Foreign ownership restrictions on independent tower companies (ITCs);
b. Limitation on the number of ITCs allowed to enter the market;
c. Mode of engagement for ITCs;
d. Independence of tower companies from mobile network operators; and
e. Financial and technical qualifications of ITCs.

Poor coordination with the Department of Public Works and Highways (DPWH) lead to slower deployment and higher costs for both service providers and the government. The excavation and restoration of roads is estimated to consume as much as 80 percent of the cost of deploying fixed-broadband networks.[90] There are no common or shared utility corridors in the Philippines that will allow various operators to use conduits to lay fiber in existing roadworks, and there is no "dig once" policy that requires coordination for one-time civil works.[91] Ideally, broadband infrastructure is installed while roads are being built to minimize disruption.[92] With coordination, the cost for both service providers and the government will be minimized since road construction and broadband reinstallation are done only once. Synchronizing the schedules of project implementation is, however, critically important, as national road projects cannot be delayed by the deployment of broadband networks.[93]

New regulation on pole attachment can help reduce fiber deployment costs. Pole attachment is very important for cable broadband operators and aerial fiber deployment. Poles are often owned and operated by electricity distributors (e.g. Meralco and the provinces' electric cooperatives) and are within the jurisdiction of electric power industry regulators (e.g. the Energy Regulatory Commission (ERC) and the National Electrification Authority (NEA). Currently, there is no regulation on pole attachment for non-electric access seekers, such as telecommunications and broadband operators. In August 2018, the DICT, NEA and the Philippine Rural Electric Cooperatives Association, Inc. (PHILRECA) signed a memorandum of understanding

for the implementation of the NBP, particularly on the co-use of fiber optic cables.[94] However, the rising cost of pole attachment (from Php100 to Php400 per pole, per attachment, per year) has been challenging.[95]

The two dominant incumbent players own and control the country's broadband infrastructure. The operation of any broadband network in the country, including that of the government, is dependent on access to infrastructure of PLDT and Globe. Any new entrant, unless it plans to build and operate its own network or is provided access to government assets (e.g., existing roads, railways, towers, fiber optic network and/or planned cable landing stations, or the National Grid Corporation of the Philippines' (NGCP) fiber optic network) will have to bilaterally negotiate interconnection and access to the incumbents' facilities, including cable landing stations, backbone, middle mile, and access networks. This puts any new player at risk of non-competitive behavior (e.g. discriminatory charging) from the two incumbents.

It is, therefore, important that there is open and non-discriminatory access to the country's broadband infrastructure. Instead of a single, vertically integrated network, it is recommended that the government adopts an "open access" approach. This promotes infrastructure sharing among service providers and ensures access to network segments on fair, reasonable and non-discriminatory (FRAND) terms. Infrastructure sharing is a way to optimize the use of resources by allowing two or more service providers to use the same structure or network element. With the end goal of increasing broadband connectivity, infrastructure sharing promises to reduce the cost of deployment, lower asset duplication,

90 According to MetroWorks ICT Construction, which carries out civil works for telecommunications firms and ICT operators.

91 Instead, the operator needs to submit a detailed plan for the civil works and get approval from the regional or district offices.

92 Interview with DPWH Central Office officials and staff for policy and design, and bureau of planning, [date].

93 Interview with DPWH Central Office officials and staff for policy and design, and bureau of planning, [date].

94 https://nea.gov.ph/index.php?option=com_content&view=article&id=744:nea-dict-urge-power-co-ops-cable-operators-and-telcos-to-collaborate-to-expedite-nbp-rollout&catid=12:news&Itemid=12

95 See Memorandum No. 2018-55 to Electric Cooperatives on Standard Joint Pole Agreement and Pole Rental Rate, https://nea.gov.ph/index.php?option=com_phocadownload&view=category&download=3256:memo-to-ecs-2018-055-standard-joint-pole-agreement-and-pole-rental-rate&id=203:2018&Itemid=264

reduce the environmental impact, lower barriers to entry and increase competition, expand network coverage, and lower service prices.[96]

In the absence of a national law on infrastructure sharing, the DICT could consider issuing its own policy. Using an open-access approach, the DICT should consider allowing private service providers to use government assets such the 2Tbps cable capacity from Pacific Light Cable Network (PLCN), the Bases Conversion and Development Authority (BCDA)-built landing stations, or the NGCP's fiber optic network. However, the government needs to balance maximizing the use of assets, and even monetizing them, with providing an alternative source of bandwidth for new and small providers in rural areas. Infrastructure sharing can adopt any of the following business models:[97]

- Joint development: infrastructure owners and network operators coordinate planning and construction activities;
- Hosting: infrastructure owner hosts third-party telecommunications network equipment;
- Dark fiber: host provides passive infrastructure for lease to network operator;
- Joint venture: infrastructure owner allows the network owner to use existing infrastructure and offer commercial services on a profit-sharing basis; and
- Wholesale telecommunications services: infrastructure owner provides commercial wholesale service to network operators.

The scope of an infrastructure sharing policy should be cross-sectoral to include networked infrastructure such as roads, railways, and electricity transmission. The policy must include standards, regulation on access and pricing, and a coordinating body to look into how different utilities, government agencies, and regulators can work together. The policy should also include provisions for coordinated planning and construction among various government agencies and private service providers. The timing is appropriate, as the current administration is implementing its "Build, Build, Build" infrastructure program, and a number of roads, bridges, and train projects are underway. Finally, in a setting where open access to a private operator's property is involved, the policy must provide a mechanism for when and how the government can intervene in cases when: (i) the access seeker and infrastructure owner fail to reach an agreement within the prescribed time period of negotiation, (ii) there are disputes over the terms and conditions for accessing infrastructure, and (iii) there are pricing disputes.

(d) Spectrum Management for Mobile Broadband.

Current laws that regulate spectrum use and allocation are outdated. The way the government manages its radio spectrum resources is crucial to ensuring mobile broadband coverage and quality of service, as well as in promoting competition in the mobile service market. However, the laws that govern the radio spectrum in the Philippines are designed for legacy (analogue) technology and they merely provide a general regulatory framework for the regulator.

The country's radio spectrum has never been allocated through a competitive bidding process. The NTC has never carried out an open tender for the spectrum because the supply has reportedly always exceeded demand. To date, all frequencies have been awarded through a simple administrative process[98] akin to a "beauty contest",[99] where the applicants that best show their financial and

96 Deloitte, APC. 2015. Unlocking Broadband For All. https://www.apc.org/sites/default/files/Unlocking%20broadband%20for%20all%20Full%20report.pdf; World Bank. 2017. Infrastructure Sharing and Co-deploymentIssues. https://www.unescap.org/sites/default/files/Infrastructure%20Sharing%20and%20Co-Deployment%20Issues%2C%20World%20Bank.pdf

97 World Bank. 2017. "Infrastructure Sharing and Co-Deployment Issues." https://www.unescap.org/sites/default/files/Infrastructure%20Sharing%20and%20Co-Deployment%20Issues%2C%20World%20Bank.pdf.

98 The process often involves the submission by an applicant of a letter of request to the regulator for its spectrum needs. This is unlike in other countries, where there are public consultation documents, market reviews, and spectrum management plans issued by the regulator before spectrum is assigned or awarded to an entity.

99 On August 23, 2005, the NTC issued Memorandum Circular No. 07-08-2005 or the Rules and Regulations on the Allocation and Assignment of 3G Radio Frequency Bands, allocating the 825-845MHz/870-890MHz frequency bands for 3G. The NTC issued 3G spectrum to four mobile operators, namely Smart, Globe, Digitel and CURE. Bayantel was disqualified but won a petition in the Court of Appeals, who, in December 2010, ordered the NTC to stop the bidding for the last remaining 3G frequencies. The case has been pending in the Supreme Court since April 2010. https://www.philstar.com/business/2010/04/11/564944/ntc-elevates-3g-award-row-bayan-supreme-court.

technical capacity to provide the required capitalization and infrastructure are granted the spectrum license, regardless of their current spectrum holdings or the validity of the justification for the additional spectrum.[100] Given these criteria, the process is likely to favor incumbents and large telecommunications firms, making it very unlikely that spectrum is awarded to a new entrant. Moreover, the administrative method of assigning frequency has produced inefficiencies and underutilization of spectrum bandwidth, not to mention limiting the flexibility in service provision and impeding technological developments.[101]

The scarcity of the remaining unassigned spectrum bands will limit the competitiveness of any new entrants. In 2017, upon the directive of the DICT, the NTC published the result of an audit of "assigned, returned and vacant mobile access frequencies," which showed that the spectrum in key bands, such as 900 MHz and 1800 MHz, have been assigned to only two telecommunications firms. A recent Senate report noted that the remaining frequencies for the third player will be limited to data-driven services,[102] which is problematic in a country where at least 40 percent of mobile phone users remain dependent on basic call and text services. As spectrum hoarding has become a barrier to competition, the government needs to clarify the powers and functions of the NTC in terms of spectrum assignment, recall, and reassignment, as this is absent in existing laws. It should define the guidelines for how and when the NTC initiates proceedings for recalling and reassigning the spectrum to ensure the spectrum is available for multiple operators. In the current scenario, the third telco will face higher costs associated with the limited amount of spectrum that it has been allocated (less spectrum requires construction of more infrastructure to offer the same level of service as a telecommunication firm that has more spectrum).

The management of the country's spectrum could be more transparent and dynamic. Spectrum assignments in the Philippines are considered confidential, and the process for awarding the spectrum is an internal process. Moving forward, the authorities need to require the publication of all applications, approvals, and decisions for test permits, demonstration permits, assignment, re-assignment, and co-use of the spectrum. In addition, public consultations are needed before the NTC can any issue an approval. Efforts to increase transparency include defining the period for spectrum assignment reviews and publishing their results. Furthermore, the NTC, in coordination with the DICT and the PCC, can issue rules and regulations (based on global best practice) that govern the shared use of the spectrum. The NTC and DICT can also explore the adoption of emerging management practices such as dynamic spectrum allocation.

(e) Addressing Connectivity Needs in Remote Areas.

The government needs to develop a clear strategy on how to deploy better broadband services in remote areas. A small number of regions in the Philippines are unable to readily connect to terrestrial (fixed or mobile) networks due to geographical constraints. These areas will have to continue to rely on *satellite services*. However, there is limited information on the government's plans on to facilitate access to satellites for broadband connectivity, other than that satellite technology will be used to address the needs of isolated locations (i.e., mountainous, coastal and small islands areas) where the deployment of the fiber network will be challenging. Nevertheless, there seems to have been an increasing adoption of satellite technology through the Free Public Wi-Fi program as satellites are being used to connect free public Wi-Fi sites in unserved areas in Marinduque and hard-to-reach areas in Bohol, Davao, and Sorsogon. An option to consider for the medium term may be the deployment of more advanced high through-put satellites (HTS) which can also make a significant impact on cellular backhaul though 200-500Mbps to the tower (a near substitute for fiberizing towers) for both community Wifi and 4G mobile services.

Open access to satellites can boost the rollout of satellite-based broadband services. The government could consider replacing EO No. 467 (s. 1998) to enable more equitable access to satellites and other emerging technologies that can offer innovative solutions for rural and hard-to-reach communities. The tourism, banking, shipping, and mining sectors are just some of the areas that can benefit from open access to satellite broadband technology. A liberalized satellite market can also help connect the 34,000 or so public schools that remain offline due to lack of internet facilities in their communities.[103]

100 PCC. Note on Spectrum Management.

101 Gilbert Llanto, Policy Note on Reviewing the Philippines' spectrum management policy, 2006; PCC's Policy Note on Spectrum Management, 2018.

102 Senate Committee Report No. 78. 17 May 2016. https://www.senate.gov.ph/lisdata/2505522326!.pdf

103 Based on DepEd data in 2016.

3.5 CONCLUSIONS AND RECOMMENDATIONS

Improving and expanding broadband connectivity will be key for the Philippines to thrive in the digital age and for Filipinos to be active participants in the digital economy.[104] However, this is hampered by the inadequacy of the country's digital infrastructure. While the private sector should continue to lead investment efforts in the Philippines' digital infrastructure, the government plays an important role in creating an enabling policy and regulatory framework to ensure a competitive broadband market and enhance access to and the affordability of internet services throughout the country. This is particularly critical under the "new normal" as many companies will still be required or opted to continue work from home arrangement, at least for part of their workforce; students are expected to continue remote learning in the medium term; and government agencies will shift many of their transitions online. This can be achieved through a combination of the following measures listed below:

- ***Lower barriers to market entry*** by easing the restrictions to foreign ownership of equity in telecommunications and broadband networks. This can be accomplished by amending the Public Service Act and the Public Telecommunications Policy Act, and by passing the Open Access in Data Transmission bill.

- ***Streamline permit requirements*** for network deployment and *rationalize fees* imposed by various national and local government agencies, as well as private sector associations.

- ***Provide a fair and level playing field for operators*** that requires the government to apply the same service obligations and performance standards for the third telco to the incumbent telcos.

- ***Fast-track and lower the cost of deploying broadband infrastructure*** through infrastructure sharing policies that address: (a) the use of government assets (submarine cable, NGCP dark fiber); (b) the use of existing infrastructure across sectors such as roads, railways, electricity transmission; and (c) coordinated build for a shared utility corridor.

- ***Encourage more private sector infrastructure sharing*** which can be approved under existing bills, such as the proposed Open Access in Data Transmission Act or can be proposed as separate DICT policies to promote common towers, pole sharing, and access to ducts. However, an executive order mandating infrastructure sharing across these passive infrastructure modalities would have a more immediate impact.

- ***Make more spectrum available for internet connectivity.*** About 95 percent of Filipinos access the Internet through mobile and wireless devices. Spectrum management reform would entail amending the Radio Control Law and/or the Public Telecoms Policy Act, and by passing the Open Access in Data Transmission bill, including the guidelines that will clarify the powers and functions of the NTC in terms of spectrum assignment, recall, and reassignment.

Finally, Government is recommended to focus its efforts on addressing these regulatory and legal issues supportive of a market-driven approach rather than direct investment and operation of networks.

104 World Bank (2019) The Digital Economy in Southeast Asia: Strengthening the Foundations for Future Growth

Table 7. DICT and NTC Policy and Regulatory Issuances Affecting Broadband Access, Quality and Affordability (2016-present)

TOPIC	DICT ISSUANCE	POLICY	NTC ISSUANCE	REGULATION
Shared infrastructure	May 2019	Rules on the Accelerated Roll-Out of Common Towers in the Philippines[110]		
Mobile number portability			NTC MC No. 03-06-2019	Rules and Regulations Implementing Republic Act No. 11202 Otherwise Known as the "Mobile Number Portability Act"[111]
Mobile device unlocking	DICT-MO-004-2018	Mandatory Unlocking of Mobile Phones and Devices After Lock-In Period and Compliance with Terms and Conditions Contained in Subscription Agreements[112]	NTC MC No. 01-05-2019	Rules and Regulations on Unlocking of Mobile Phones and Devices[113]
Third Telecommunications firm	DICT-MO-001-2018	Policy Guidelines for The Entry of a New Major Player in The Public Telecommunications Market[114]	NTC MC No. 09-09-2018	Rules and Regulations on the Selection Process for a New Major Player in the Philippine Telecommunications Market[115]
			NTC MC No. 12-03-2018	Document Verification Report on the Requirements Submitted by the Provisional New Major Player[116]
Free internet access in public places	June 2018	Rules and Regulations to Implement the Provisions of Republic Act No. 10929 (Free Internet Access in Public Places Act)[117]		
Radio spectrum	DICT-DO-004-2018	Directing the NTC to Review and Make Appropriate Adjustments to Increase Spectrum User Fees (SUF)[118]	NTC MC 02-02-2018	Additional Frequency Allocations for Broadband Wireless Access (BWA)[119]
	DICT-DO-003-2018	Directing the NTC to Review and Make Appropriate Adjustment on SUF for the 610-790 MHz, 790-960 MHz, and 1710-2025 MHz International Mobile Telecommunications (IMT) Frequency Bands[120]		

110 https://dict.gov.ph/wp-content/uploads/2019/05/Final-Version-Rules-on-the-Accelerated-Roll-Out-of-Common-Towers-in-the-Philippines.pdf

111 http://ntc.gov.ph/wp-content/uploads/2019/07/MC-03-06-2019.pdf

112 https://dict.gov.ph/wp-content/uploads/2018/12/Memorandum-Order-No.-004.pdf

113 http://ntc.gov.ph/wp-content/uploads/2019/MC/MC-01-05-2019.pdf

114 http://dict.gov.ph/wp-content/uploads/2017/01/DICT-MO-001-2018-POLICY-GUIDELINES-FOR-THE-ENTRY-OF-A-NEW-MAJOR-PLAYER-IN-THE-PUBLIC-TELECOMMUNICATIONS-MARKET.pdf; See latest amendments http://dict.gov.ph/wp-content/uploads/2018/09/MEMORADUM-N0.-003.pdf

115 http://ntc.gov.ph/wp-content/uploads/2018/MC/MC-09-09-2018.pdf

116 http://ntc.gov.ph/wp-content/uploads/2018/MC/NMP_TWG_Document_Verification_Report_20181112.pdf

117 https://dict.gov.ph/wp-content/uploads/2020/02/RA10929-Published_IRR_Free-Internet-Access-in-Public-Places-Act.pdf

118 http://dict.gov.ph/wp-content/uploads/2018/09/DICT-DO-004-2018-DIRECTING-THE-NATIONAL-TELECOMMUNICATION-COMMISSION-NTC-TO-REVIEW-AND-MAKE-APPROPRIATE-ADJUSTMENTS-TO-INCREASE-SPECTRUM-USER-FEES-SUF.pdf

119 http://ntc.gov.ph/wp-content/uploads/2018/MC/MC-02-02-2018.pdf

120 http://dict.gov.ph/wp-content/uploads/2018/06/imagetopdf.pdf

TOPIC	DICT ISSUANCE	POLICY	NTC ISSUANCE	REGULATION
Interconnection charges	DICT-DO-002-2018	Directing the National Telecommunications Commission to Reduce the Interconnection Rates Between Public Telecommunications Operators.[121]	NTC MC No. 05-07-2018	Interconnection Charge for Short Messaging Services and Voice Service[122]
			NTC MC No. 09-11-2016	Interconnection Charge for Voice Service[123]
Broadband quality of service			NTC MC No. 10-12-2016	Rules on the Measurement of Mobile Broadband/ Internet Access Service[124]
			NTC MC No. 07-08-2015	Rules on the Measurement of Fixed Broadband/ Internet Access Service[125]

121 http://dict.gov.ph/wp-content/uploads/2018/05/DICT-DO-002-2018-DIRECTING-THE-NATIONAL-TELECOMMUNICATIONS-COMMISSION-TO-REDUCE-THE-INTERCONNECTION-RATES-BETWEEN-PUBLIC-TEECOMMUNICATIONS-OPERATORS..pdf

122 http://ntc.gov.ph/wp-content/uploads/2018/MC/MC-05-07-2018.pdf

123 http://ntc.gov.ph/wp-content/uploads/2016/MC/MC-No-09-11-2016.pdf

124 http://ntc.gov.ph/wp-content/uploads/2016/MC/MC-10-12-2016.pdf

125 http://ntc.gov.ph/wp-content/uploads/2016/MC/2015/MCNo.2015_0708.pdf

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