Monitoring the Philippine Economy
Year-End Report for 2021

Project of Angelo King Institute

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The Philippine economy's growth turns positive and bounces back to 5.7% in 2021 after experiencing a drop in growth in 2020 due to the COVID-19 pandemic.

The Philippines surpassed growth targets and recorded positive annual growth, reflecting improved economic conditions and a positive outlook for the economy. The economy experienced an expansion of 5.7% in 2021, a stark difference from the 9.5% downturn in 2020 that was recorded as the worst annual contraction since 1946. Despite COVID-19 cases rapidly increasing and economic activities coming to a halt, the country surpassed its revised growth target range of 5% to 5.5%. Although international organizations and private economists took a dim view of the 2021 growth outlook for the Philippines due to pandemic-related qualms, the proper management of fiscal and monetary policies and the uptrend in vaccination rates have boosted the industry and services sectors on the supply-side and accelerated all components in the demand-side relative to 2020. Furthermore, unemployment has steadily declined and consumer sentiment has gradually improved as each quarter progressed, reflecting market conditions that are slowly normalizing. However, the risks from a new coronavirus variant and brewing geopolitical tensions in the last quarter of 2021 may hamper the growth momentum of the economy moving forward. Nevertheless, with continued proper pandemic control, the preparation of risk management policies, and a clear plan forward for the next administration after the May 2022 elections, economic activities and market sentiment should continue to normalize.

- **Major components of aggregate demand**

  - **Annual private consumption growth accelerated.** Annual Household Final Consumption Expenditure (HFCE) rose 4.2% in 2021 according to the Philippine Statistics Authority (PSA, 2022b). This is a substantial improvement from the 8.0% decline experienced in 2020. Only one HFCE component (Alcoholic beverages, tobacco) experienced a contraction, but still an improvement in 2021 (-7.5% from -25.5% in 2020). All other components posted positive annual growth rates, reversing their negative 2020 annual growth, namely: Restaurants and hotels (4.7% from -43.2% in 2020); Recreation and culture (2.7% from -43.8% in 2020); Clothing and footwear (13.4% from -16.9% in 2020); Health (13.9% from -2.4% in 2020); Furnishings, household equipment and routine household maintenance (3.3% from -12.9% in 2020); Transport (0.1% from -33.4% in 2020); and Education (8.9% from -11.2% in 2020). Meanwhile, positive annual growth rates in 2020 further accelerated in 2021 for these HFCE components: Communication (9.1% from 6.0% in 2020); and Miscellaneous goods and services (4.3% from 1.3% in 2020). Lastly, slower yet still

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positive growth was seen for Food and non-alcoholic beverages (3.5% from 4.9% in 2020) as well as Housing, water, electricity, gas, and other fuels (3.2% from 5.8% in 2020).

- **Annual gross capital formation growth skyrocketed.** Gross capital formation (GCF) increased to 20.3% coming from a huge downturn of 34.2% in 2020, reflecting the largest annual increase among aggregate demand components in 2021.[2] The components of Gross Fixed Capital Formation (GFCF) that grew were Construction (11.1% from -30.1% in 2020); Durable equipment (12.2% from -29.7% in 2020); and Intellectual property products (12.9% from -9.6% in 2020). Construction and durable equipment are the two largest GFCF components, thus, likely to be the main boosters for the skyrocketing GCF growth. Meanwhile, growth for breeding stocks and orchard development remained negative and stagnant (-3.3% from -3.4% in 2020). In contrast, Valuables sharply increased, reversing growth of -50.7% in 2020 to 8.2% in 2021, but it comprises a very small share of less than 0.1% of GFCF.

- **Annual government spending growth remained positive yet slowed.** Government Final Consumption Expenditure (GFCE) posted a positive growth rate of 7.1% in 2021, which is slower than the 10.5% growth exhibited in 2020.[3] As reported by the Department of Budget and Management (DBM, 2022), government disbursements totaled 4,675.6 billion pesos, an increase from the 2020 disbursement of 4,227.4 billion pesos. According to the same report by the DBM, this increase was due to infrastructure expenditures and personnel services expenditures, which rose by 31.3% and 9.3%, respectively. Interestingly, even with the continued implementation of the Bayanihan to Recover as One Act, which increased equity disbursements by 271.0%, subsidies declined by 19.3% due to the completion of programs such as the Small Business Wage Subsidy Program and the Unconditional Cash Transfer Program in 2020.

- **Trade deficit grows.** The trade deficit increased by 29.8% in 2021, a reversal from the trade deficit narrowing by 35.6% in 2020. This is largely due to the faster growth rate of imports relative to the growth rate of exports. According to the PSA (2022b), the imports of goods and services grew by 13.0%, whereas the exports of goods and services grew by 8.0%. Notably, these numbers are improvements compared to the 2020 growth rates for imports and exports of goods and services, which are -21.6% and -16.1%, respectively. Imports of goods increased by 18.0% from -20.3% in 2020, whereas imports of services remained negative, but increased to -9.7% from -26.8% in 2020. Meanwhile, exports of goods increased to 11.6% from -8.6% in 2020, whereas exports of services increased to 2.5% from -25.4% in 2020. As goods mainly drove the increase in imports, the three largest components of imported goods showing accelerating growth rates were: Electronic products (20.8% from -12.5% in 2020), especially Components/Devices – Semiconductors (17.1% from -3.7% in 2020), and Electronic data processing (29.9% from -5.7% in 2020); Mineral fuels, lubricants and related materials (26.5% from -22.7% in 2020); and Transport equipment (25.3% from -41.8% in 2020).

- **Major components of aggregate supply**

[2] https://psa.gov.ph/sites/default/files/Q12022_NAP_Publication.pdf
[3] https://psa.gov.ph/sites/default/files/Q12022_NAP_Publication.pdf

In this report, we present results from an alternative to the "traditional" (TRAD) method of decomposing the growth of GDP in constant prices into sector contributions. This alternative method is a "generalized" (GEN) growth decomposition that applies to GDP in constant prices (e.g., in the Philippines) and to GDP in chained prices (e.g., in Canada and the United States). Although TRAD recognizes only "quantity" growth as the source of a sector's contribution to GDP growth, GEN posits that a sector's contribution comes from "quantity" growth and from "real price" growth where this price is, by definition, the ratio of a sector's deflator to the overall GDP deflator. The GDP deflator as the common denominator of the above ratio makes real GDP the numeraire and, thus, this ratio is the relative price or exchange value of the GDP of a sector in "GDP units," that is, the "real price" of a sector's GDP. Therefore, a sector's positive "quantity" growth contribution will be diminished if accompanied by a negative "real price" growth of the same sector that may even result in a negative net contribution by the sector to GDP growth. On the other hand, a sector's positive "quantity" growth contribution will be enhanced if accompanied by a positive "real price" growth (see Table 3).[4]

- **Services sector experiences faster growth.** The services sector grew by 5.4 % in 2021 from -9.1% in 2020 (PSA, 2022b). This sector's net contribution to GDP growth is 4.24 percentage points, comprised of its "quantity" growth contribution of 3.26 percentage points and its "real price" growth contribution of 0.98 percentage points. This makes the services sector the largest contributor to the overall GDP growth of 5.7%. Numerous subsectors exhibited positive growth rates in 2021 compared to the downturns they experienced in 2020, which include: Wholesale and retail trade-repair of motor vehicles and motorcycles (4.2% from -6.1% in 2020); Transportation and storage (6.3% from -30.6% in 2020); Accommodation and food service activities (7.2% from -45.5% in 2020); Real estate and ownership of dwellings (2.2% from -16.7% in 2020); Professional and business services (6.2% from -9.6% in 2020); Education (8.3% from -10.2% in 2020); Human health and social work activities (14.1% from -5.1% in 2020); and Other services (2.0% from -41.0% in 2020). The subsectors that remained positive and accelerated growth were: Information and communication (9.2% from 5.1% in 2020) and Public administration and defense-compulsory social activities (5.7% from 4.5% in 2020). Meanwhile, the subsector of Financial and insurance activities retained a positive yet slower growth rate (4.7% from 5.6% in 2020). Interestingly, the subsector that comprises the largest share in the services sector, Wholesale and retail trade-repair of motor vehicles and motorcycles (29.6%), also had the largest net contribution to GDP growth when considering "real price" and "quantity" growth contributions (0.86 percentage points). This is followed by Financial and insurance activities (0.65 percentage points), Real estate and ownership of dwellings (0.49 percentage points), and Professional and business services (0.60 percentage points), which comprise the next largest shares in the services sector (Table 3).

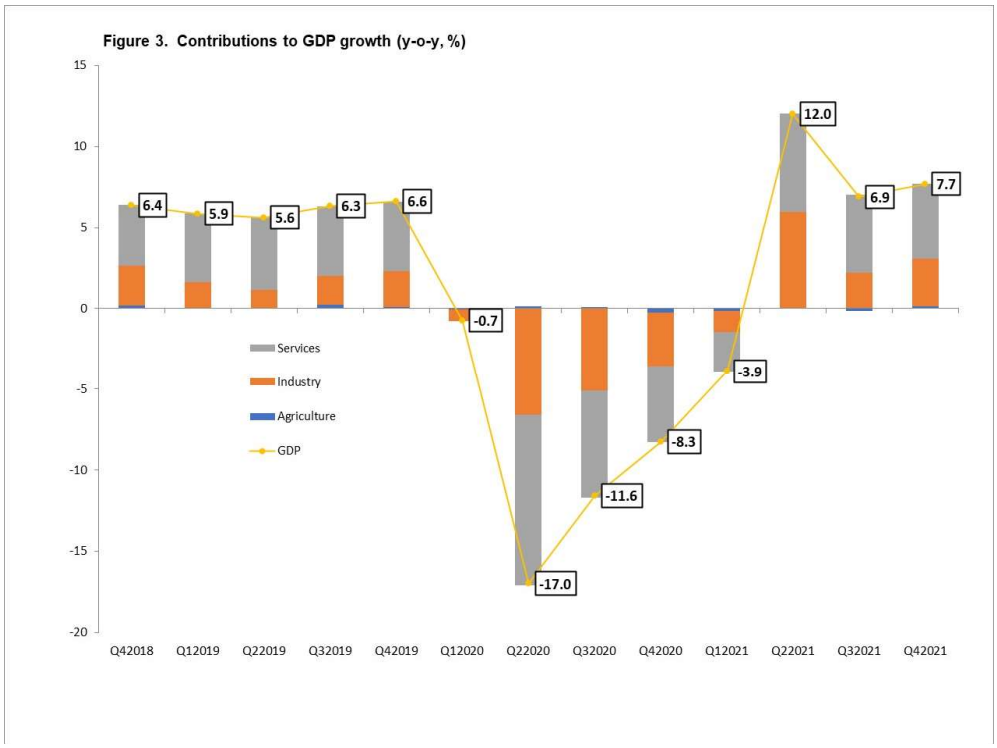
- **Industry sector recovers.** After growth plummeted by 13.1% the year prior, the industry sector posts a positive growth of 8.5% in 2021, a substantial improvement from the contraction in 2020 (PSA, 2022b). Considering "real price" and "quantity" growth contributions, the net contribution by the industry sector to GDP growth diminished from 2.48 percentage points to 0.85 percentage points in 2021. As the Manufacturing sub-industry comprises 61.1% of the Industry sector, it should be an important driver for the higher growth the sector has experienced. When looking at the components that contributed to the growth of Manufacturing, the manufacture of computer, electronic and optical products contributed a considerable amount to its

[4] See the footnote to Table 3 for the source of the GDP growth contributions.

growth based on its gross value added in 2021 (23.0% from -12.2% in 2020). However, the "real price" growth contribution of Manufacturing (-1.60 percentage points) has reduced most of its "quantity" growth contribution (1.64 percentage points), essentially having its net contribution to GDP growth being only 0.04 percentage points (Table 3). Despite this, all sub-industries posted positive growth rates in 2021 relative to 2020, which include: Electricity, steam, water and waste management (4.5% from -0.4% in 2020); Construction (10.0% from -25.5% in 2020); Manufacturing (8.8% from -9.8% in 2020); and Mining and quarrying (5.0% from -18.6% in 2020). The largest contributors to the net contribution of 0.85 percentage points include: Electricity, steam, water, and waste management (0.55 percentage points) and Construction (0.24 percentage points).

- **Agriculture, forestry, and fishing sector exhibits stagnant growth.** The agriculture, forestry, and fishing (AFF) sector experienced erratic growth throughout 2021, ultimately having a negative growth rate of 0.3%. This is not a large difference compared to the 2020 AFF growth rate of -0.2%. The AFF sector comprises about 9.6% of total GDP in 2021, which is smaller than its 10.2% share in 2020. The net contribution of the AFF sector to GDP growth is 0.61 percentage points, heavily driven by "real price" growth (0.64 percentage points) rather than "quantity" growth (-0.03 percentage points). When considering the gross value added of AFF, the components contributing most to the sector's growth include Support activities to agriculture, forestry and fishing (6.6%). Certain components also had a negative gross value added and contributed to the growth rate decline, such as Livestock (-17.3%).

Figure 1
Contributions to GDP Growth (y-o-y, %) From Aggregate Supply



Source: Author's calculations based on data in Table 3.

Other economic developments in 2021

- **Unemployment gradually decreased as each quarter progressed.** According to the PSA (2022a), the unemployment rate in 2021 was 7.8%, an improvement from the 2020 rate of 10.3%, but not enough to match the pre-pandemic unemployment rate of 5.1% in 2019. Estimates from the January 2021 round of employment and labor force surveys showed unemployment was 8.8%, continuing the uptrend that the 2020 rounds have exhibited (PSA, 2022e). This minimally declined to 8.7% in the April 2021 round. As the year progressed, unemployment decreases with a rate of 6.9% in the July 2021 round and 7.4% in the October 2021 round. Unemployment improved as the year is capped off with a 6.6% rate in the December 2021 round. When considering the average unemployment for each quarter based on data from the PSA (2022d), it is clear that fewer workers were unemployed as each quarter progressed. The unemployment rate in the first quarter of 2021 was 8.20%, which declined to 8.03% in the second quarter and also marginally to 7.97% in the third quarter. The greatest improvement was in the fourth quarter of 2021 when the unemployment rate fell to 6.83%. As a whole, unemployment has been slowly falling, thus, offsetting some of the negative impacts the pandemic has inflicted on the labor market.

- **Average headline inflation spikes, while average core inflation remains mild.** Average headline inflation in 2021 increases to 4.5% from the 2.6% rate posted in 2020 (PSA, 2022c). Certain commodity groups influenced this uptick, as annual average inflation was much higher in 2021 for these groups compared to 2020. These include Transport (9.7% from 3.2% in 2020); Food and non-alcoholic beverages (5.2% from 2.7% in 2020); Restaurant and miscellaneous goods and services (3.6% from 2.4% in 2020); Health (3.0% from 2.7% in

2020); and Housing, water, electricity, gas, and other fuels (2.6% from 0.9% in 2020). If certain food and energy items are excluded in the calculation of the inflation rate, average inflation diminishes to 3.3% in 2021, which is not very different from the average core inflation rate of 3.2% in 2020.

- **PSEi performance recovers in 2021 after a huge dip in 2020.** The Bangko Sentral ng Pilipinas (BSP, 2021a) observed that PSEi movements reflected favorable economic conditions at the start of the year when the PSEi increased to a 6,886.50-point average in the first quarter of 2021, a 2.5% increase from the fourth quarter of 2020. This was largely due to the increasing vaccination rates among Filipino citizens and expansionary investment policies being proposed and discussed in the House of Representatives. However, investor sentiment worsened in the second quarter of 2021 as the PSEi decreased to a 6,561.31-point average, a 4.7% quarter-on-quarter (q-o-q) decline (BSP, 2021b). This resulted from the spread of the Delta variant of SARS-CoV-2 and the reimposition of community quarantines around the country. In the third quarter of 2021, the PSEi rebounded by 2.9% q-o-q, as it averaged around 6,750.00 points despite Delta variant cases still being rampant (BSP, 2021c). According to the BSP, the skyrocketing GDP growth rate exhibited in the second quarter, the arrival of more COVID-19 vaccines, and the inoculation of more citizens boosted investor confidence. The year is capped off with a PSEi that breached the 7,000.00-point level as it increased to a 7,206.92-point average in the fourth quarter of 2021 (BSP, 2022a). This is a 6.8% increase, attributed by the BSP to the decline of coronavirus cases as well as the easing of lockdown restrictions.

- **Peso-dollar exchange rate gradually depreciates on a q-o-q basis.** In the first quarter of 2021, the peso averaged PHP 48.28 / 1 USD, which is a small 0.03% depreciation q-o-q, and a 5.28% appreciation year-on-year (y-o-y; BSP, 2021a). Although the peso appreciated at the start of the year due to positive international sentiment, this was offset by the strengthening of the USD from increased US Treasury bond yields, the decline in Overseas Filipino Workers (OFW) remittances, and an increase in COVID-19 cases within the quarter. The peso-dollar exchange rate then averaged PHP 48.18 / 1 USD, a 0.21% appreciation q-o-q, and a 4.74% appreciation y-o-y in the second quarter of 2021 (BSP, 2021b). The BSP stated that the reason for the appreciation was the optimistic outlook for the market following the improved sentiment by Moody's Investors Service, the sharp increase in exports, the lower unemployment rates, and the increase in the supply of vaccines within the country. However, in the third quarter of 2021, the peso averaged PHP 50.11 / 1 USD, a 3.86% depreciation q-o-q, and a 2.32% depreciation y-o-y (BSP, 2021c). The main reason for this is the negative sentiment generated by the spread of the Delta variant of COVID-19, restricting the sales of businesses and the mobility of people due to the reimposition of community quarantine measures. The peso's depreciation continued in the last quarter of 2021 as the exchange rate average was PHP 50.45 / 1 USD, a 0.68% change q-o-q, and a 4.33% change y-o-y (BSP, 2022a). Inflationary pressure from the increase in the prices of fuel and oil, as well as moves made by the US Federal Reserve to increase interest rates, contributed to further depreciation of the peso.

- **Consumer confidence improves as the economy gradually recovers from the pandemic**. Sentiments based on the overall confidence index (CI) showed that in the first quarter of 2021, consumers trusted that the market was getting better compared to the last quarter of 2020 (-34.7% from -47.9% in Q4 2020) (BSP, 2021d). However, because the index was still negative, there were still more pessimists than optimists in terms of their economic outlook. Sentiments improved further in the second quarter of 2021 as the CI increased to -

30.9 % (BSP, 2021e). This pattern of improvement continued further in the third quarter of 2021, as the CI became even less negative with a sharp increase of 11.6 percentage points (-19.3% from -30.9% in Q2 2021) (BSP, 2021f). However, consumer confidence worsened in the fourth quarter of 2021, as the overall CI decreased to -24.0% (BSP, 2022b). Expectations of a larger income, an increase in the employment of family members, the vaccination of more citizens, and the availability of financial assistance and other government programs were all reasons for higher consumer confidence in the first three quarters. However, this was dampened in the fourth quarter because consumers expected that prices of certain goods would increase at a quicker rate, natural disasters like typhoons would make it hard to recover, COVID-19 cases would increase due to the loosening of restrictions, and unemployment would rise.

- **Debt ballooned to P11.73 trillion at the end of 2021 but exhibited slower y-o-y growth**. At the end of December 2021, the Philippine government's national debt was P11.73 trillion, a 19.7% increase above the national debt in 2020 (Bureau of the Treasury, 2022). Notably, this was a smaller increase than the 26.7% y-o-y growth in 2020. Both domestic and external national government debts increased by 22.0% y-o-y and 14.8% y-o-y, respectively, contributing to the ballooning outstanding national government debt. With this large amount of debt, the World Bank found that the Philippines overtook India as its top debtor in FY 2021, borrowing about USD 3.07 billion as of the third quarter of 2021 (De Vera, 2021b). The Bureau of the Treasury believed, however, that even though the sovereign debt has increased and the debt-to-GDP ratio has enlarged by 5.9 percentage points in 2021 (60.5% from 54.6% in 2020), these increases remain tolerable considering the government's better fiscal performance, optimistic pandemic recovery plans, and achievable financing requirements.

Quarterly highlights of 2021

- **Q1 2021:** The drastic impact of the COVID-19 pandemic persisted in the first quarter of 2021 as year-on-year (y-o-y) growth was -4.2% (Conchada & Briones, 2021). Among the components of aggregate demand, gross capital formation (GCF) growth was most affected as it plummeted by 18.3%. In hopes of bringing investments up again, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, aimed to lift the country from consecutive economic downturns in the past quarters, was signed into law this quarter. Moreover, the heavy spending by the government--on infrastructure programs, such as the Build Build Build program and social amelioration programs like the Bayanihan to Recover as One Act, helped to minimize the negative growth of overall GDP. Although the economy contracted further in this quarter, the economic outlook became less pessimistic as the government started vaccinating frontliners and vulnerable citizens with its first round of Sinovac doses. With more doses coming in from various donors, vaccination rates ramped up in the next quarters, increasing the chances of reaching herd immunity and pandemic recovery.

- **Q2 2021:** Growth skyrocketed by 11.8% in the second quarter of 2021, showing a substantial improvement over the -16.9% growth posted in the second quarter of 2020 (Conchada & Francisco, 2021). This growth was groundbreaking as it reached a high level that had not been seen since the fourth quarter of 1988. Consumption and investments finally exhibited positive growth, breaking the streak of contractions from the previous quarters. Consumption grew 7.2% y-o-y, whereas investments steeply rose by 75.5% y-o-y, a historic record attributed to increases in Construction as well as Durable equipment. The services and industry sectors also recovered relative to the second quarter of 2020, the latter growing by 20.8% y-o-y. Meanwhile, the first local cases of the Delta variant were found during this quarter, threatening the forward momentum that this high growth was leading. Additionally,

the Bayanihan to Arise as One Act, the third main initiative to boost the economy and support the daily needs of citizens, was passed by Congress as well in this quarter. The bill provided for more funds once the funds from the Bayanihan to Recover as One Act have been depleted. Meanwhile, inoculation rates picked up as vaccination expanded beyond frontliners, medical personnel, and vulnerable individuals.

- **Q3 2021:** Following the significant economic expansion of 12.0% in the second quarter of 2021, growth in the third quarter continued to be positive but slowed down, posting a 7.1% rise in GDP growth (Conchada & Empeño, 2021). Positive growth was sustained despite outlook dampening from the surge in COVID-19 cases coming from the Delta variant, leading to lockdown restrictions once more. This was mainly driven by a sharp increase in the growth of government spending y-o-y in the third quarter of 2021, while consumption, investments, and exports showed significant improvement y-o-y. The services and industry sectors remained the drivers of growth, albeit growing slower in this quarter compared to the second quarter of 2021. Investment policies to increase the rate of pandemic recovery, through the Foreign Investments Act (FIA), the Public Service Act (PSA), and the Retail Liberalization Act (RTLA), were prioritized in Congress in this quarter. Additionally, the National Employment Recovery Strategy (NERS) was signed into effect in July to curb unemployment. Although vaccination rates steepened in the third quarter, the Omicron variant posed a threat to citizens and businesses as lockdowns loomed necessary for dealing with a potential crisis.

- **Q4 2021:** With a 7.7% economic growth after expanding in the two prior quarters, the economy was now recovering, albeit slowly, and concluded the year on a strong note (Conchada & Hernandez, 2022). The fourth quarter exhibited an economic situation quite close to pre-pandemic levels as lockdown restrictions have eased for many parts of the Philippines. This was likely because more citizens were being inoculated and COVID-19 cases were decreasing, leading to more citizens and businesses feeling free to conduct their regular operations. Gross capital formation growth reached 12.6% y-o-y, being a large driver for the GDP growth exhibited in this quarter. However, some southern regions of the country were adversely affected by Typhoon Odette, requiring more resources for recovery. Furthermore, the first local COVID-19 cases featuring the Omicron variant were spotted in December, putting the health of the people and the economy at risk in succeeding quarters.

Prospects and Challenges for 2022

- **The Philippines is expected to sustain positive growth in 2022, reflecting a clear path to economic recovery.** The Asian Development Bank (2022) projected a 6.0% growth for the country in the Asian Development Outlook 2022. Additionally, Mr. Benjamin E. Diokno, the new Secretary of Finance, projected exports and imports in 2022 to increase by 6.0% and 10.0%, respectively, as international trade is stimulated by recovering economies around the world (Diokno, 2022). The same is expected for remittances as the global labor market improves. The outlook for the Philippine economy's performance appears positive as activities between consumers and producers are expected to reach pre-pandemic levels halfway through 2022. The relevant pieces of legislation passed during the pandemic would be drivers for growth as well, as the CREATE Law would drive further investments from tax reductions and the Financial Institutions Strategic Transfer (FIST) Act would serve as relief for financial institutions and micro, small, and medium enterprises (MSMEs) as the next year progresses (BSP, 2022c). With further resiliency from COVID-19 attained through complete vaccination doses and booster shots, as well as restrictions being loosened globally, the economy is well on its way to recovery (Noble, 2022).

- **The local spread of the Omicron variant threatens consumer mobility, business operations, and hospital capacity.** The first official cases of the Omicron variant that were recognized in the last quarter of 2021, paired with the loosened restrictions during the holiday season, vastly increased the risk of another surge of COVID-19 cases. Calonzo (2022) reported that the Philippines was impacted the most by a surge of COVID-19 cases among ASEAN nations in January 2022, with more than 30,000 cases recorded on a seven-day average. This may hurt both consumer and business sentiments due to the uncertainties that a surge causes and the threats it poses to the mobility of consumers and operations of businesses from the possibility of reimposing community lockdown measures. The Omicron variant was found to be less severe than the Delta variant according to the World Health Organization, but it is more transmissible, indicating a cause of concern (Kenny, 2022). This is why effective measures must be taken to contain this coronavirus strain before hospital capacity is filled once again and the growth momentum of the economy is stalled.

- **Geopolitical tensions within the Russia-Ukraine border place upward pressures on inflation as well as risk higher prices on key commodities like oil.** A swathe of Russian troops was seen moving in on Ukraine's border as early as November 2021, alarming the United States ("A Visual Guide to the Russian Invasion of Ukraine," 2022). Threats were launched in the months that followed, where Western powers claimed to impose sanctions and other drastic measures if Russia were to invade Ukraine (Agence France-Presse, 2022). Uncertainties surrounding these escalating tensions may disrupt the supply-demand relationship for key commodities such as oil globally, given that Russia is the largest oil product exporter to the rest of the world and the third largest oil-producing nation overall (Broom, 2022). Higher prices resulting to upward inflation, especially for commodities that are important for the Philippines that includes oil, is a challenge that must be dealt with in 2022.

- **A new administration following the May 2022 elections will inherit new economic measures and retains the burden of pandemic recovery.** Among the economic projects and legislation that the outgoing administration implemented include the Build Build Build (BBB) Program, Tax Reform for Acceleration and Inclusion (TRAIN) Law, Comprehensive Tax Reform Program (CTRP), Rice Tariffication Law (RTL), Ease of Doing Business (EODB) Law, CREATE Law, and the FIST Act (De Vera, 2021a). These had varying effects and implications that the next administration must deal with, among the other economic issues discussed in this report. Additionally, potential issues such as debt accrued in the past administration, the series of budget deficits incurred to fund projects like the BBB Program, the completion of vaccine doses and booster shots for citizens, the implementation of effective fiscal and monetary policies, and the continued development of the country despite the COVID-19 pandemic remain important matters of concern for the incoming administration.

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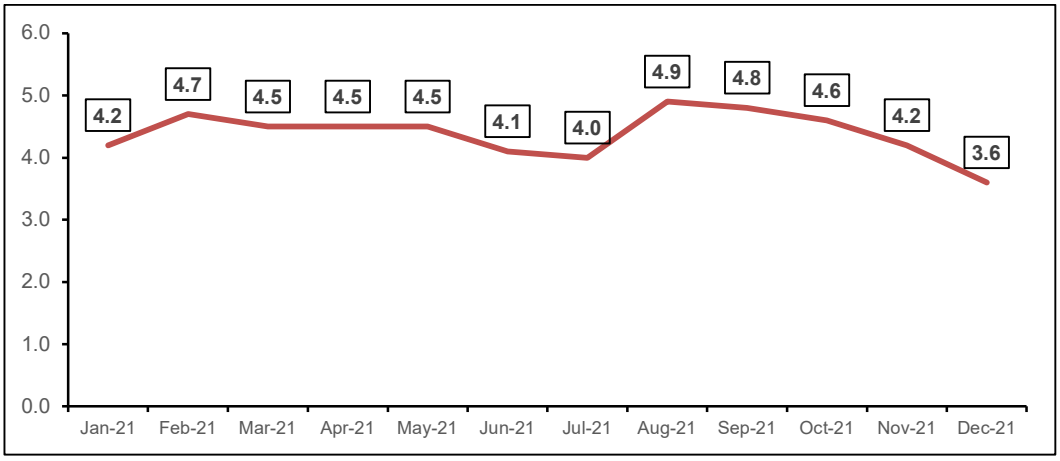
Figure 2
Consumer Price Index (y-o-y, %)



Source: Graph prepared by author based on Philippine Statistics Authority data.

Table 1
Philippine Economic Indicators

Monthly Leading Indicators	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Industrial Production (y-o-y, %)	-14.8	-14.3	-43.8	-73.2	152.5	260.9	447.5	534.8	535.4	125.5	25.2	25.3
Consumer Price Index (y-o-y, %)	3.7	4.2	4.1	4.1	4.1	3.7	3.7	4.4	4.2	4.0	3.7	3.2
Retail Sales (y-o-y, %)	-11.7	-12.6	19.0	186.4	63.3	16.4	3.1	7.7	7.1	9.4	26.8	23.3
Exports (y-o-y, %)	-4.4	-1.4	33.4	74.1	30.8	18.9	13.8	18.9	6.4	2.0	6.6	7.1
Imports (y-o-y, %)	-11.8	9.0	22.1	153.2	55.8	43.4	29.6	30.9	24.9	25.1	36.8	38.3
Trade Balance, US$ million	-2,878	-2,707	-2,759	-3,098	-3,180	-3,397	-3,667	-3,515	-3,995	-4,019	-4,706	-5,214
Total Reserves (less gold), US$ billion	98	96	95	98	97	97	98	99	98	99	99	99
Policy Rate	2	2	2	2	2	2	2	2	2	2	2	2
Quarterly/Annual Economic Indicators	**2016**	**2017**	**2018**	**2019**	**1Q2020**	**2Q2020**	**3Q2020**	**4Q2020**	**1Q2021**	**2Q2021**	**3Q2021**	**4Q2021**
Real GDP (y-o-y, %)	7.1	6.9	6.3	6.0	-0.7	-17.0	-11.6	-8.3	-3.9	12.0	6.9	7.7
- Private Consumption	7.1	6.0	5.8	5.9	0.2	-15.3	-9.2	-7.3	-4.7	7.3	7.1	7.5
- Government Consumption	9.4	6.5	13.4	9.6	7.0	21.8	5.8	5.1	16.1	-4.2	13.8	7.4
- Gross Capital Fixed Formation	20.8	10.9	11.3	2.5	-12.1	-51.5	-39.5	-32.2	-14.8	80.3	20.8	12.6
Current Account (% of GDP)	-0.4	-0.7	-2.6	-0.8	0.3	6.2	4.8	3.0	-0.7	-1.2	-1.0	-3.5
Financial Account (US$ million)	175	-2,798	-9,332	-8,034	2,973	-442	646	-7,567	4,089	-2,940	-1,133	-4,973
- Net Direct Investments, US$ million	-5,883	-6,952	-5,833	-5,320	-883	-917	-1,111	-498	-1,691	-1,400	-2,177	-2,138
- Net Portfolio Investments, US$ million	1,480	2,454	1,448	-2,474	793	234	2,887	-498	7,884	-807	954	-2,138
Overall BOP position (US$, million)	-1,038	-863	-2,306	7,843	-68	4,177	2,769	-3,412	-2,844	905	1,274	161
Unemployment rate	5.1	5.7	5.1	5.1	5.3	17.6	10	8.7	7.1	7.7	8.9	6.5
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Fiscal Balance (million pesos)	-314,458	-197,754	-242,827	-164,062	-73,092	-121,689	-353,422	-350,637	-558,259	-660,236	-1,371,447	-1,332,095
Others	**Jan-21**	**Feb-21**	**Mar-21**	**Apr-21**	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**
Overseas Filipinos' Remittances (US$, million)	2,603	2,476	2,514	2,305	2,382	2,638	2,853	2,609	2,737	2,812	2,502	2,987

... = not available

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Asian Development Bank.

Table 2
Level of Philippine GDP, 2020-2021

	Nominal GDP (million current pesos)		Real GDP (million constant pesos*)	
	2020	**2021**	**2020**	**2021**
Agriculture	**1,828,424**	**1,954,345**	**1,780,391**	**1,775,358**
Industry	**5,098,232**	**5,607,011**	**5,115,316**	**5,549,484**
Mining and quarrying	137,060	185,284	137,493	144,431
Manufacturing	3,169,921	3,423,404	3,266,302	3,554,737
Electricity, steam, water and waste management	611,051	650,876	589,213	615,505
Construction	1,180,199	1,347,446	1,122,308	1,234,811
Services	**11,024,918**	**11,849,213**	**10,642,137**	**11,213,211**
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,317,371	3,503,236	3,275,537	3,414,326
Transportation and storage	551,045	604,919	515,149	547,542
Accommodation and food service activities	253,013	285,244	231,811	248,457
Information and communication	593,039	640,192	585,185	639,123
Financial and insurance activities	1,823,979	1,961,922	1,769,952	1,853,154
Real estate and ownership of dwellings	1,081,612	1,138,901	1,031,275	1,053,944
Professional and business services	1,137,558	1,220,837	1,068,769	1,135,218
Public administration and defense; compulsory social activities	950,590	1,030,438	911,188	962,824
Education	719,494	796,827	687,610	744,503
Human health and social work activities	325,260	385,686	306,903	350,268
Other services	271,957	281,010	258,758	263,851
Sum = GDP	**17,951,574**	**19,410,568**	**17,537,843**	**18,538,054**

Source: Philippine Statistics Authority
*Base year 2018

Table 3
Industry Contributions to Philippine GDP Growth, 2020-2021

	TRAD GDP Growth PGE* (percent)	GEAD PGE* (percent) (1)	GEAD PCE* (percent) (2)	GEAD GDP Growth PGE* + PCE* (percent) (1)+(2)
GDP Growth	**5.70**	**5.70**	**0.00**	**5.70**
Industry Growth Contribution				
Agriculture	**-0.03**	**-0.03**	**0.64**	**0.61**
Industry	**2.48**	**2.48**	**-1.62**	**0.85**
Mining and Quarrying	0.04	0.04	-0.02	0.02
Manufacturing	1.64	1.64	-1.60	0.04
Construction	0.15	0.15	0.09	0.24
Electricity Gas and Water Supply	0.64	0.64	-0.09	0.55
Services	**3.26**	**3.26**	**0.98**	**4.24**
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.79	0.79	0.07	0.86
Transportation and storage	0.18	0.18	0.12	0.31
Accommodation and food service activities	0.09	0.09	0.07	0.17
Information and communication	0.31	0.31	-0.15	0.16
Financial and insurance activities	0.47	0.47	0.17	0.65
Real estate and ownership of dwellings	0.13	0.13	0.36	0.49
Professional and business services	0.38	0.38	0.23	0.60
Public administration and defense; compulsory social activities	0.29	0.29	0.11	0.40
Education	0.32	0.32	-0.01	0.32
Human health and social work activities	0.25	0.25	-0.08	0.17
Other services	0.03	0.03	0.10	0.13

Source: DLSU-AKI Philippine Economic Monitor calculations by applying the data in Table 2 to a "generalized exactly additive decomposition" (GEAD) of GDP growth into pure growth effect (PGE*) and price change effect (PCE*) as an alternative to the "traditional" (TRAD) GDP growth decomposition that recognizes PGE* but not PCE*. PGE* is the result of real GDP or "quantity" growth holding relative price (real price) constant and PCE* is the result of "real price" growth holding quantity constant. PCE* measures the change in the value of an industry's output when outputs of all industries are converted to the same unit of measure, in terms of the economy's

"GDP basket." The GEAD formulas for PGE* and PCE* and the TRAD formula (which equals PGE*) are given, respectively, by equations (39), (40), and (46) in Dumagan, Jesus C. (2018), "Modifying the 'Generalized Exactly Additive Decomposition' of Growth of GDP and Aggregate Labor Productivity in Practice for Consistency with Theory," Working Paper Series No. 2018-07-053, Angelo King Institute for Economic and Business Studies, De La Salle University, Manila. The paper by Dumagan, Jesus C. (2013), "A Generalized Exactly Additive Decomposition of Aggregate Labor Productivity Growth," Review of Income and Wealth, 59 (Issue 1): 157-168 decomposed growth of aggregate labor productivity (ALP), which is the ratio of GDP to total labor employment. Thus, by removing the labor variable, the decomposition of ALP growth becomes a decomposition of GDP growth into the modified PGE* and PCE* formulas which were implemented in this Table 3.