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Monitoring the Philippine Economy Third Quarter Report for 2021

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Growth remained positive yet slower than the previous quarter, posting a 7.1 percent increase in third quarter 2021 after a historic economic expansion of 12.0 percent in the second quarter.

The Philippines records second growth increase after successive contractions. Third quarter GDP growth remained positive at 7.1 percent but slower than last quarter's highest recorded expansion since 1988 (12.0 percent). It remained strong, however, as it emulated pre-pandemic growth despite the reimposition of an Enhanced Community Quarantine (ECQ) and the rise of the Delta variant, the two factors responsible for the slower growth. While all components of aggregate demand showed large improvements relative to their levels in third quarter 2020, a large slowdown in domestic investment and slight decrease in private consumption in third quarter 2021 offset the increase in government expenditure compared to the previous quarter. Meanwhile, growth was positive yet not as high as in the previous quarter for the Services and Industry sectors, and with a downtrend in the Agriculture sector. Nevertheless, the third quarter promises consistent positive growth towards pandemic recovery, indicating larger expansions in subsequent quarters. However, the medical crisis and increasing unemployment rates remain important considerations for risk management. Hence, the proper management of economic (both fiscal and monetary) policy together with health policy to ensure increasing vaccination rates and preventing more waves of COVID-19 are key for the Philippine economy's growth recovery and resilience.

- **Major components of aggregate demand**
 - **Private consumption continues trend of positive growth.** Household Final Consumption Expenditure (HFCE) increased by 7.1 percent year-on-year (y-o-y) in third quarter 2021, a similar expansion from the last quarter's HFCE y-o-y growth of 7.3 percent. The growth in HFCE showed that private consumption is starting to return to pre-pandemic levels, continuing a trend reversal from the decline exhibited from second quarter 2020 to first quarter 2021. According to the Philippine Statistics Authority (PSA)², the HFCE components in this quarter that halted the trend of negative growth from third quarter 2020 include Clothing and footwear (24.5 percent from -14.0 percent, y-o-y); Furnishing, household equipment and routine household maintenance (4.2 percent from -10.4 percent, y-o-y); Health (18.8 percent from -1.7 percent, y-o-y); Transport (13.5 percent from -35.4 percent, y-o-y); Recreation and culture (20.3 percent from -53.7 percent, y-o-y); Education (14.5 percent from -16.4

¹ Report is based on latest available data as of August 10, 2021. For comments and questions, please email mitzie.conchada@dlsu.edu.ph

² https://psa.gov.ph/sites/default/files/Q3%202021%20Pub_1_ONS-signed.pdf

percent, y-o-y); and Restaurants and hotels (11.4 percent from -52.2 percent, y-o-y). Notably, the highest percentage point increases among HFCE components are in Recreation and culture (74.0 percentage points), Restaurants and hotels (63.6 percentage points), and Transport (48.9 percentage points), which happened to be components that experienced the largest shrinking demands due to the pandemic. This indicates that the rate that households are consuming goods and services from adversely affected sectors are now much improved relative to third quarter 2020's growth rate in said sectors. Meanwhile, while the collective percent share of Food and non-alcoholic beverages (36.4 percent) and Housing, water, electricity, gas and other fuels (13.4 percent) take up almost half of total household expenditures, growth appears to have slowed even if it remained positive. Changes in growth for Food and non-alcoholic beverages this quarter was 3.0 percent from 5.0 percent, y-o-y, while for Housing, water, electricity, gas and other fuels it was 3.6 percent from 6.9 percent, y-o-y. In sum, the Philippines experienced a 7.1 percent y-o-y increase in HFCE due to an improvement in consumer confidence. This is expected to continue until the fourth quarter because of loosened restrictions and continuously increasing rates of vaccination, as NEDA Chief Karl Kendrick Chua states³.

- **Domestic investment growth remains bolstered at the double-digits.** While Gross Capital Formation (GCF) was not able to maintain its historically groundbreaking y-o-y growth of 80.3 percent in the previous quarter, GCF growth remained positive at 22.0 percent in third quarter 2021. This positive growth in GCF reversed the downtrend from first quarter 2020 to first quarter 2021, remarkably reversing the negative GCF growth rate (-39.5 percent) in third quarter 2020. Comparing GCF growth rates to third quarter 2020 based on PSA data shows reversals in negative growth in Construction (23.8 percent from -45.4 percent, y-o-y); Durable equipment (8.0 percent from -33.8 percent, y-o-y); and Intellectual property products (21.1 percent from -11.4 percent, y-o-y). The exception, however, is the more negative growth in Breeding stocks and orchard development (-2.2 percent from -1.6 percent, y-o-y). A major factor why GCF growth was not as high this quarter compared to the previous one is the significant decline in the growth rate of investments in Durable equipment to 8.0 percent in this quarter from 95.7 percent in the previous quarter. Although the increase in GCF this quarter is lower than in the previous quarter, the 22.0 percent GCF growth still marks an improvement in domestic investment, fueled by the government's permission to resume all activities related to construction regardless of the quarantine level⁴.
- **Government spending once again increases amidst reimposition of ECQ.** After an erratic decline of -4.2 percent in Government Final Consumption Expenditure (GFCE) in the previous quarter, positive growth has reemerged with an increase of 13.6 percent. This is much larger than the measly 5.8 percent growth posted in third quarter 2020. According to the Bureau of Treasury, National Government disbursements in pesos reached 377.3 billion in July⁵, 380.2 in August⁶, and 412.4 billion in September⁷. Increases in government expenditures in the third quarter were

³ <https://www.pna.gov.ph/articles/1159184>

⁴ <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1985-joint-statement-of-the-duterte-administration-s-economic-managers-on-the-philippine-economic-performance-for-the-third-quarter-of-2021>

⁵ https://www.treasury.gov.ph/wp-content/uploads/2021/08/COR-Press-Release-July-2021_final3.pdf

⁶ https://www.treasury.gov.ph/wp-content/uploads/2021/09/COR-Press-Release-August-2021_final.pdf

⁷ https://www.treasury.gov.ph/wp-content/uploads/2021/10/COR-Press-Release-September-2021_final_ed2.pdf

largely centered on COVID-19 financial assistance to households with respect to the ECQ implemented in August. Other notable expenditures included personnel and infrastructure costs as well as transfers to the Philippine Health Insurance Corporation (PHIC) and National Housing Authority (NHA) in July⁸ and disbursements to the Coconut Farmers and Industry Trust Fund in September⁹. In total, the significant reversal of the 4.2 percent contraction of GFCE in second quarter 2021 to 13.6 percent increase in the third quarter is attributable to the government's spending for COVID-19 financial assistance, personnel and infrastructure costs, and transfers to corporations and other authorities.

- **Trade deficit worsens as imports grow faster than exports.** Net exports became more negative in third quarter 2021, as the trade deficit of 384 million in third quarter 2020 worsened to 657 million. According to the PSA¹⁰, total exports increased by 9.0 percent y-o-y in third quarter 2021, which is an improvement from the 15.1 percent y-o-y decline in exports in third quarter 2020 but not as high as the 27.8 percent y-o-y increase in the previous quarter. Exports of goods had a 9.0 percent y-o-y increase, while exports of services had a 9.6 percent y-o-y increase. Meanwhile, total imports increased 13.2 percent in third quarter 2021, y-o-y, with imports of goods increasing by 16.3 percent and imports of services decreasing by 2.3 percent, y-o-y. The growth in export of goods came mainly from the increase in exports of Telecommunication (175.1 percent), Pineapple and pineapple products (59.2 percent), Electronic data processing (26.6 percent), and Components/devices – semiconductors (6.8 percent). The growth in exported services, on the other hand, are attributable to export increases in Travel (53.6 percent), Manufacturing services on physical inputs owned by others (28.3 percent), and Telecommunications, computer, and information services (21.7 percent). The growth in imported goods, meanwhile, can be attributed to Other imports of goods (14.6 percent), Components/devices – semiconductors (16.5 percent), Mineral fuels, lubricants, and related materials (32.3 percent), and Medicinal and pharmaceutical products (82.8 percent). Lastly, the decrease in imported services include a contraction in Travel (39.2 percent) and Government goods and services (26.7 percent). The modest export growth is associated with global recovery while the elevated import growth is linked to the considerable revival of consumption and spending on capital goods¹¹. Overall, imports increased faster than exports, thus, worsening the Philippine trade balance.

- **Major components of aggregate supply**

In this report, we present results from an alternative to the “traditional” (TRAD) method of decomposing 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

⁸ https://www.treasury.gov.ph/wp-content/uploads/2021/08/COR-Press-Release-July-2021_final3.pdf

⁹ https://www.treasury.gov.ph/wp-content/uploads/2021/10/COR-Press-Release-September-2021_final_ed2.pdf

¹⁰ https://psa.gov.ph/sites/default/files/Q3%202021%20Pub_1_ONS-signed.pdf

¹¹ <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1985-joint-statement-of-the-duterte-administration-s-economic-managers-on-the-philippine-economic-performance-for-the-third-quarter-of-2021>

GDP in chained prices (e.g., in Canada and the US). While 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,” i.e., 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).¹²

- **Services sector continues expansion set by preceding quarter.** The Services sector continues to achieve a positive y-o-y growth of 8.2 percent in the third quarter despite the reimposition of the ECQ in the National Capital Region and other areas. This is a stark increase from the y-o-y contraction of 10.6 percent in third quarter 2020. However, it is a slight decline from the 9.8 percent increase in the previous quarter. The Services sector remains the largest sector in the third quarter compared to Industry and Agriculture, forestry, and fishing, taking a percent share of 63.9 percent. Notably, all Services subsectors have also experienced positive growth this quarter, with some subsectors growing at a slower rate than the previous quarter. These subsectors include Transportation and storage (14.8 percent from 24.7 percent, y-o-y), Accommodation and food service activities (11.5 percent from 56.7 percent, y-o-y), Information and communication (8.5 percent from 12.3 percent, y-o-y), Real estate and ownership of dwellings (4.7 percent from 16.7 percent, y-o-y), and Other services (20.3 percent from 37.6 percent, y-o-y). However, even though their growth was not as large as the previous quarter’s, all of the Services subsectors have outperformed their quarterly performance in the previous year. The reversal was most apparent in Accommodation and food service activities (11.5 percent from -54.6 percent, y-o-y), Other services (20.3 percent from -48.7 percent, y-o-y), Transportation and storage (14.8 percent from -29.5 percent, y-o-y), Education (13.8 percent from -16.7 percent, y-o-y), and Professional and business services (11.5 percent from -11.1 percent, y-o-y). In total, 6.81 percentage points of both “quantity” (PGE*) and “real price” (PCE*) growth (Table 3) were contributed by the Services sector to the GDP growth of 7.14 percent, effectively making Services the main driver of GDP growth on the supply-side. In Table 3, the most impactful subsectors to GDP growth in terms of both quantity and real price contributions were Wholesale and retail trade (1.26 percentage points), Transportation and storage (0.82 percentage points), and Professional and business services (1.12 percentage points).
- **Industry sector experiences slower yet positive growth.** The Industry sector still realized a positive y-o-y growth of 7.9 percent in the third quarter 2021, but it was unable to retain the momentum of the 21.0 percent double-digit growth experienced in the previous quarter. Despite this, it is a clear and sharp increase from the contraction of -17.6 percent in third quarter 2020. With the Manufacturing subsector taking up 60.7 percent of the total Industry sector in third quarter 2021, it should have contributed in output growth as it has increased from -10.4 percent in third quarter 2020 to 6.3 percent in third quarter 2021. However, manufacturing’s positive “quantity” growth contribution (1.04 percentage points) was more than offset by its

¹² See the footnote to Table 3 for the source of the GDP growth contributions.

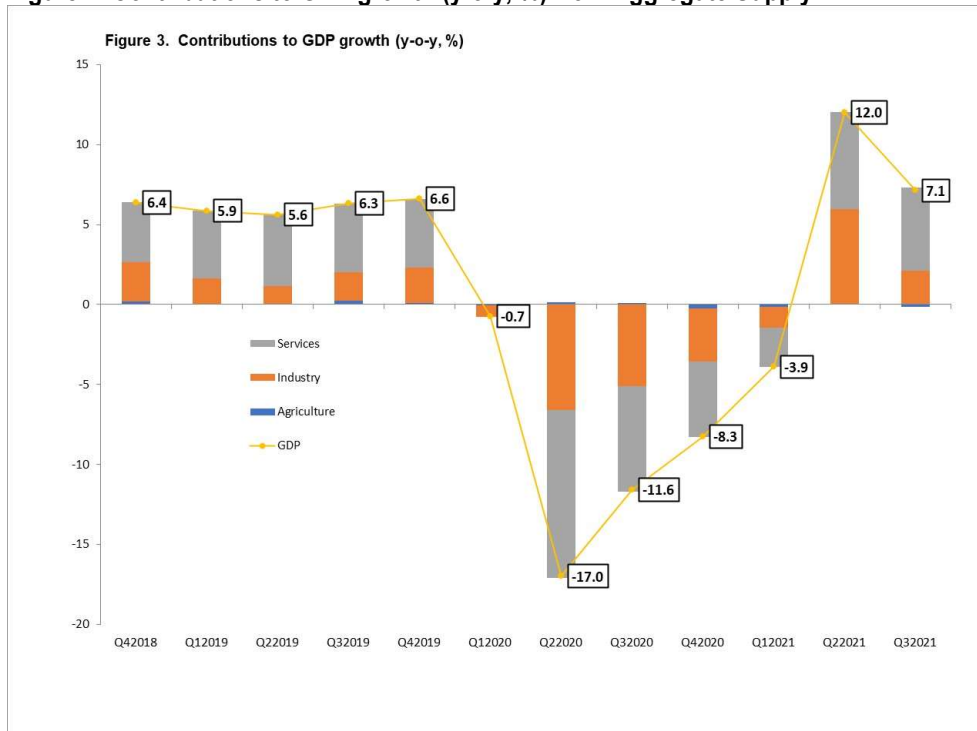
negative “real price” growth contribution (-1.98 percentage points) (Table 3). Regardless, it is worth noting that the Industry sector’s 7.9 percent y-o-y growth was achieved with the positive contributions of Computer, electronic, and optical products (17.8 percent), Food products (5.3 percent), and Other non-metallic mineral products (21.3 percent). As for the other subsectors, increases were clearly seen compared to the previous year’s y-o-y growth in Construction (16.8 percent from -39.7 percent, y-o-y). However, largely due to manufacturing’s negative real price growth contribution, the Industry sector’s overall positive quantity growth contribution (2.12 percentage points) was almost totally offset by the negative real price growth contribution (-2.06 percentage points). Still, the Industry sector contributed positively to the y-o-y GDP growth of 7.14 percent in the third quarter (Table 3).

- **Agriculture sector experiences its third contraction for the year.** An overall decline of 1.7 percent was posted by this sector in third quarter 2021 after erratic growth rates experienced by the Agriculture, forestry, and fishing (AFF) subsector since first quarter 2020. This was seen after near-zero growth in second quarter 2021 and a 1.3 percent decline in first quarter 2021. The 1.7 percent contraction this quarter was largely due to the y-o-y decline of 15.6 percent in Livestock, making it the sixth consecutive quarter to have y-o-y declines since second quarter 2020. Other contractionary factors include the decline in the growth of Corn (-18.2 percent) and Abaca (-21.0 percent). While expansions were recorded for Sugarcane (100.9 percent from 8.6 percent, y-o-y) and Pineapple (12.3 percent from -5.4 percent, y-o-y), these were not enough to offset the decreases in the aforementioned subsectors. Although there was an increase in production due to the implementation of the Rice Competitiveness Enhancement Fund¹³, declines were still largely driven by suboptimal weather conditions that are counterproductive for farming crops such as corn and by worse livestock conditions due to the African Swine Flu outbreak¹⁴. Overall, the Agriculture sector was affected by seasonality and was vulnerable to bad weather, thereby experiencing a third contraction in the third quarter. This sector’s contraction in third quarter 2021 is reflected by its negative quantity growth contribution (-0.16 percentage points) although it posted a positive real price growth contribution (0.43 percentage points) to the third quarter 7.14 percent GDP growth (Table 3).

¹³ <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1985-joint-statement-of-the-duterte-administration-s-economic-managers-on-the-philippine-economic-performance-for-the-third-quarter-of-2021>

¹⁴ <https://www.bworldonline.com/agricultural-output-expected-to-come-in-flat-in-third-quarter/>

Figure 1. Contributions to GDP growth (y-o-y, %) from Aggregate Supply



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

Road towards slow economic recovery

- **Economy is expected to reach pre-pandemic levels with the right management of the health and economic crises.** The increase in Delta variant cases and general concern for the well-being of Filipinos caused the national government to reimpose the ECQ in the National Capital Region and some areas in the country in August¹⁵. Similar to the imposition of an ECQ towards the end of the first quarter, there has been more leniency in the operation of firms, consumers, and the government despite the rise in COVID-19 cases. Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno stated that the economy should be working at pre-pandemic levels by third quarter 2022 given the improving state of the nation, with his estimated targets being 7-9% in 2022¹⁶. However, caution must be exercised. With a new strain of SARS-CoV-2 called the Omicron variant making waves globally, the Philippines must ensure proper health protocols in preventing the spread of this new variant¹⁷. Policies such as tighter border control would be key as the Philippine COVID-19 Inter-Agency Task Force (IATF) has done¹⁸. In sum, the Philippines is working towards balancing the tradeoff between achieving a high-functioning economy and a safe and healthy environment for Filipinos. The government approaches this objective by continuing firm operations and other economic activities while maintaining reasonable implementation of health protocols.
- **Unemployment reaches eight-month high.** The unemployment rate increased to 8.9 percent last September, the highest it has been since the start of 2021. However, this is still a lower rate of unemployment than the 10 percent seen in September 2020. Based on the September 2021 Labor Force Survey (LFS)¹⁹, unemployed Filipinos increased from 3.88 million in August to 4.25 million in September, which is a considerable increase. The imposition of the ECQ in NCR and other areas due to the Delta variant was a driving force for the increase in unemployment. This increase occurred even with the signing of Executive Order No. 140 near the start of July, which is the National Employment Recovery Strategy (NERS) aimed at mitigating the adverse effects of the pandemic by increasing the generation of jobs and livelihoods²⁰.
- **Headline inflation initially steepens then settles²¹.** The third quarter inflation rate started at 4.0 percent, increased to 4.9 percent in August, ended the third quarter at 4.8 percent, and finally eased to 4.6 percent in October. This brings average inflation in the third quarter to 4.6 percent, which is higher than last quarter's average inflation of 4.4 percent. Nevertheless, the average inflation in the third quarter of 4.6 percent remains near the average inflation for 2021 thus far of 4.5 percent. In September, the increase in Consumer Price Index (CPI) for Transport was slower than August's, slowing down to 5.2 percent from 7.2 percent. Furthermore, the rate of increase in CPI for certain groups like Food and non-alcoholic beverages (6.2 percent), Furnishing, household equipment, and routine maintenance of the house (2.4 percent), and Education (0.9 percent) also contributed to a slightly lower headline inflation rate. Core inflation, meanwhile, inched up to 3.3 percent in September 2021, only a minute increase from the 3.2 percent in September 2020. Additionally, inflation for the food

¹⁵ https://ndrrmc.gov.ph/attachments/article/4036/NTF_Response_Situation_Report_No_505_Update.pdf

¹⁶ <https://www.bworldonline.com/gdp-on-track-to-hit-pre-pandemic-level-by-q3-2022/>

¹⁷ <https://www.pna.gov.ph/articles/1161564>

¹⁸ <https://www.reuters.com/world/asia-pacific/philippines-buy-extra-20-mln-doses-pfizers-covid-19-vaccine-2021-11-28/>

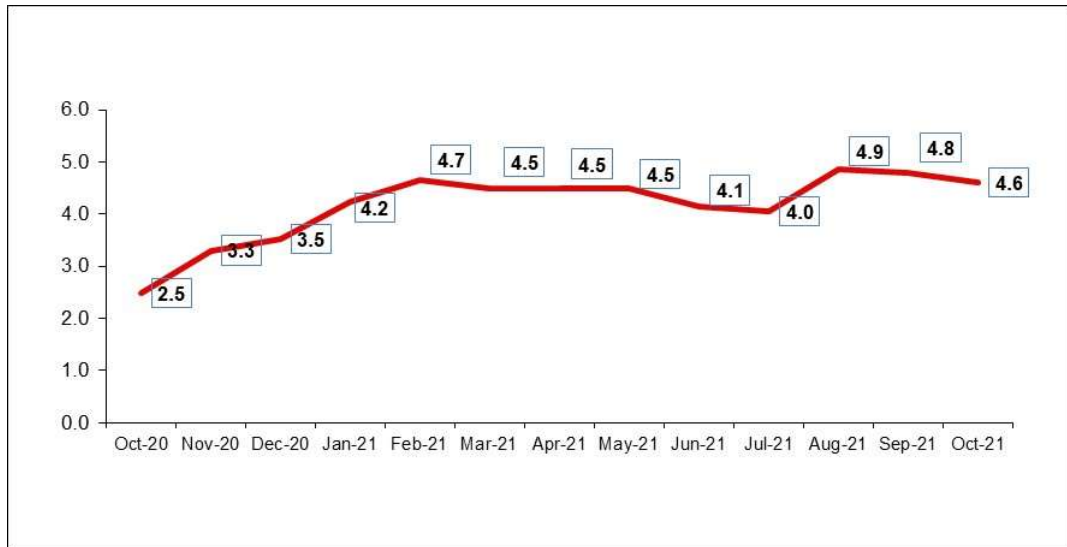
¹⁹ <https://psa.gov.ph/content/unemployment-rate-june-2021-estimated-77-percent>

²⁰ <https://www.pna.gov.ph/articles/1145306>

²¹ <https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-september-2021>

component slightly decreased from 6.9 percent in August to 6.5 percent in September as a result of the CPI growth rates of the meat and fish components, albeit still being high, decreasing to 15.6 percent and 10.2 percent, respectively.

Figure 2. Consumer price index (y-o-y, %)



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

Other recent developments

- **Amendments to three economic reform bills fast-tracked for pandemic recovery.** There have been calls for changes in the Foreign Investments Act (FIA), the Public Service Act (PSA), and the Retail Liberalization Act (RTLA), policies aimed at spurring economic growth to mitigate the adverse effects caused by the pandemic²². The amendments to FIA allow more equity for foreign investors while changes to PSA signal better options for two crucial public service sectors: telecommunications and transportation. Meanwhile, RTA amendments expand options in the retail sector¹⁸. According to Finance Undersecretary Gil S. Beltran²³, the House of Representatives should pass the amendments given the opportunity to increase investments, competitiveness, and employment amidst the worsening unemployment situation in the country, a sentiment that President Rodrigo Duterte also echoed when he deemed the bills urgent for the above legislative changes.
- **COVID-19 vaccination rates sharply increased by third quarter end²⁴.** As of September 19, 27.7 percent of 77 million Filipinos have been fully vaccinated, which is a large jump from the 3.3 percent fully vaccinated by the end of the second quarter. As for partial vaccinations, the number has increased to 24.2 million Filipinos from 7.5 million. Vaccine arrivals have also sharply expanded, with the number of doses arriving in the third quarter reaching 71.3 million from a meager 17.45 million in the second quarter. Vaccine rollout rates have also been increasing with a daily capacity of 353,774 persons in the third quarter compared to 236,867 persons in the previous one. Despite this sharp increase, stakeholders must ensure a quicker and more equitable vaccine rollout as the Philippines has the second-highest rate of daily cases in Southeast Asia as of early September²⁵. The wave of COVID caused by the Delta variant has been the most acute of all waves, with daily cases averaging a record-high of 19,000 by early September²⁶. Overall, the Philippines strives to roll out vaccines, maintain higher vaccination rates, and implement proper health protocols and restrictions to combat the ongoing threat posed by COVID-19 and attain resilient economic growth.
- **PSEi increases in third quarter, but not enough to reach pre-pandemic levels²⁷.** The Philippine Stock Exchange index (PSEi) exhibited a 2.9 percent increase in the third quarter, averaging 6,750.0 index points this quarter compared to last quarter's average of 6,561.3 index points. Despite the reimposition of the ECQ in NCR and other areas and the rise of the Delta variant, sentiment remained bullish for the index. According to the BSP²⁸, this expansion may be attributed to the trend reversal of GDP growth in second quarter 2021, showing a sharp 12.0 percent expansion. Additionally, the gradual reopening of firm operations, increased second quarter corporate earnings, and a smaller decline in first quarter 2021 GDP growth after revision all led to increased investor confidence in the market. However, some listed firms were not as fortunate to benefit from the uptrend, such as the third telco player, DITO Telecommunity Corporation, which

²² <https://www.pna.gov.ph/articles/1148368>

²³ <https://mb.com.ph/2021/10/15/dof-renews-calls-for-economic-bills-passage/>

²⁴ <https://www.cnnphilippines.com/news/2021/3/25/TIMELINE-COVID-19-vaccines-deliveries-rollout-Philippines.html>

²⁵ <https://theconversation.com/the-philippines-passes-the-2-million-mark-as-covid-19-cases-surge-in-southeast-asia-167186>

²⁶ <https://theconversation.com/the-philippines-passes-the-2-million-mark-as-covid-19-cases-surge-in-southeast-asia-167186>

²⁷ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR3qtr_2021.pdf

²⁸ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR3qtr_2021.pdf

had a net loss of 1.8 billion pesos in the third quarter of 2021²⁹ and plummeting stock price since its launch in March³⁰. It is noteworthy that the positive GDP growth and strengthened investor confidence in the third quarter of 2021 elicited the 2.9 percent increase in PSEi although this increase resulted in unequal benefits across listed firms.

- **Peso-dollar exchange rate depreciates amidst concerns on COVID-19 Delta variant³¹.** The peso averaged PHP 50.11 / 1 USD, exhibiting a 3.9 percent depreciation when compared to the second quarter's peso average of PHP 48.17 / 1 USD. Similar patterns have been shown in comparison to third quarter 2020, where the exchange rate of PHP 48.94 / 1 USD has depreciated to PHP 50.11 / 1 USD by 2.3 percent. The exchange rate depreciated in July and August (-0.58 percent change, m-o-m), but it slightly appreciated in September (0.18 percent change, m-o-m). The reimposition of the ECQ due to the Delta variant, higher demand for the USD, the lowering of the Philippines' credit score, increasing oil prices, and difficulties in negotiations regarding oil output among OPEC countries are to blame for the exchange rate depreciation in July and August. On the other hand, the slight recovery of the peso in September may be attributed to the arrival of additional COVID-19 vaccines, the BSP's assured support for economic recovery, and BTR's disbursement of onshore retail dollar bonds (RDBs)³².
- **Consumer confidence expands in third quarter due to upgraded expectations³³.** Consumer expectations in the Philippines increased from -30.9 percent in the second quarter to -19.3 percent in third quarter 2021, based on the overall confidence index (CI) survey results. Consumer expectations have been constantly improving since the third quarter of 2020 when the index generated a value of -54.5 percent because of the COVID-19 pandemic. Even if CI remains negative, a less negative CI implies that more households are holding optimistic views in relation to the previous quarters. Improved consumer outlook was observed based on three indicators, which are the country's economic condition, family's financial status, and family income. The results reveal that improved confidence by households in the third quarter arose from their expectations of more job availability, increased income, effective COVID-19 policies, and secure prices of goods. Overall, CI survey results for third quarter 2021 reflected an improvement in consumer sentiment due to respondents' economic expectations.
- **Philippines overtakes India as World Bank's top debtor in FY 2021³⁴.** Philippine authorities ramped up borrowing amidst the COVID-19 pandemic, thereby becoming World Bank's top borrower in fiscal year 2021. The World Bank's yearly report revealed that the Philippines' borrowing increased from USD 1.87 billion in 2020 to USD 3.07 billion in 2021, the peak value among all nations who borrowed. This shows an increase in Philippine loans of almost two-fold from 2020 to 2021. The country's debt was also enough to overtake India for most money borrowed, as the latter diminished its loans from USD 4.58 billion in 2020 to USD 2.65 billion in 2021. The World Bank said that the

²⁹ <https://www.philstar.com/business/stock-commentary/2021/11/17/2141931/dito-q3-loses-p18-billion-below-target-2021-goals>

³⁰ <https://www.rappler.com/business/dito-cme-holdings-corporation-shares-crash-week-launch-march-2021/>

³¹ https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR3qtr_2021.pdf

³² https://www.bsp.gov.ph/Lists/Inflation%20Report/Attachments/22/IR3qtr_2021.pdf

³³ https://www.bsp.gov.ph/Lists/Consumer%20Expectation%20Report/Attachments/20/CES_3qtr2021.pdf

³⁴ <https://business.inquirer.net/332058/with-3-07b-in-loans-ph-is-world-banks-top-borrower>

Philippines' debt was allotted to finance its various economic activities and COVID-19 mitigation measures such as vaccines, healthcare, and cash transfers.



Table 1. Philippine Economic Indicators

Philippines Economic Data											
Monthly Leading Indicators	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Industrial Production (y-o-y, %)	-14.8	-14.8	-14.1	-44.0	-73.3	151.9	261.2	441.6	527.5	533.6	124.0
Consumer Price Index (y-o-y, %)	3.5	4.2	4.7	4.5	4.5	4.5	4.1	4.0	4.9	4.8	4.6
Retail Sales (y-o-y, %)	-17.1	-10.3	-11.3	21.6	191.9	65.6	17.2	3.3	8.4 ...	...	...
Exports (y-o-y, %)	1.8	-4.4	-1.4	33.4	74.1	30.8	18.9	13.8	18.9	6.3 ...	...
Imports (y-o-y, %)	-4.7	-11.8	9.0	22.1	153.2	55.8	43.4	29.6	30.9	24.8 ...	...
Trade Balance, US\$ million	-2,450	-2,878	-2,707	-2,759	-3,098	-3,180	-3,397	-3,664	-3,509	-3,996 ...	...
Total Reserves (less gold), US\$ billion	99	98	96	95	98	97	97	98	99	98	99
Policy Rate	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
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	7.1
- Private Consumption	7.1	6.0	5.8	5.9	0.2	-15.3	-9.2	-7.3	-4.7	7.3	7.1
- Government Consumption	9.4	6.5	13.4	9.6	7.0	21.8	5.8	5.1	16.1	-4.2	13.6
- Gross Capital Fixed Formation	20.8	10.9	11.3	2.5	-12.1	-51.5	-39.5	-32.2	-14.8	80.3	22.0
Current Account (% of GDP)	-0.4	-0.7	-2.6	-0.8	0.3	6.2	4.8	3.9	-0.7	-1.2 ...	...
Financial Account (US\$ million)	175	-2,798	-9,332	-8,034	2,973	-442	646	-6,502	4,089	-2,940 ...	...
- Net Direct Investments, US\$ million	-5,883	-6,952	-5,833	-5,320	-883	-917	-1,111	-282	-1,691	-1,400 ...	...
- Net Portfolio Investments, US\$ million	1,480	2,454	1,448	-2,474	793	234	2,887	-2,539	7,884	-807 ...	...
Overall BOP position (US\$, million)	-1,038	-863	-2,306	7,843	-68	4,177	2,769	9,144	-2,844	905 ...	...
Fiscal Balance (million pesos)	-353,422	-350,637	-558,259	-660,236 ...	...	...	...	-1,371,447 ...	...	...	-1,139,104
Unemployment rate	5.1	5.7	5.1	5.1	5.3	17.6	10	8.7	7.1	7.7	8.9
Others	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Overseas Filipinos' Remittances (US\$, million)	2,379	2,890	2,603	2,476	2,514	2,305	2,382	2,638	2,853	2,609	2,737

... = not available

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



Table 2. Level of Philippine GDP, 2020Q3 – 2021Q3

	Nominal GDP (million current pesos)		Real GDP (million constant pesos*)	
	2020Q3	2021Q3	2020Q3	2021Q3
Agriculture	410,263	432,888	404,988	398,213
Industry	1,051,427	1,161,535	1,113,357	1,200,900
Mining and quarrying	32,904	44,602	25,253	25,397
Manufacturing	642,956	673,896	686,028	729,091
Electricity, steam, water and waste management	134,159	142,387	167,303	172,171
Construction	241,408	300,649	234,773	274,240
Services	2,741,253	3,015,568	2,615,533	2,829,856
Wholesale and retail trade; repair of motor vehicles and motorcycles	897,658	966,337	876,132	931,832
Transportation and storage	140,032	159,315	118,961	136,562
Accommodation and food service activities	52,226	62,200	48,427	53,991
Information and communication	131,339	141,067	124,439	135,026
Financial and insurance activities	441,066	478,152	428,205	455,503
Real estate and ownership of dwellings	278,684	300,237	266,445	278,860
Professional and business services	290,177	327,107	268,147	298,932
Public administration and defense; compulsory social activities	219,998	237,396	213,079	224,113
Education	161,809	187,662	152,381	173,397
Human health and social work activities	80,772	98,458	74,399	87,600
Other services	47,491	57,638	44,918	54,041
Sum = GDP	4,202,942	4,609,991	4,133,878	4,428,969

Source: Philippine Statistics Authority

*Base year 2018



Table 3. Industry Contributions to Philippine GDP Growth, 2020Q3 – 2021Q3

	TRAD		GEAD	
	GDP Growth PGE* (percent)	PGE* (percent) (1)	PCE* (percent) (2)	GEAD GDP Growth PGE* + PCE* (percent) (1)+(2)
GDP Growth	7.14	7.14	0.00	7.14
Industry Growth Contribution				
Agriculture	-0.16	-0.16	0.43	0.26
Industry	2.12	2.12	-2.06	0.06
Mining and quarrying	0.00	0.00	0.42	0.43
Manufacturing	1.04	1.04	-1.98	-0.93
Electricity, steam, water and waste management	0.12	0.12	-0.86	-0.74
Construction	0.95	0.95	0.35	1.31
Services	5.18	5.18	1.63	6.81
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.35	1.35	-0.08	1.26
Transportation and storage	0.43	0.43	0.40	0.82
Accommodation and food service activities	0.13	0.13	0.14	0.27
Information and communication	0.26	0.26	0.01	0.27
Financial and insurance activities	0.66	0.66	0.09	0.75
Real estate and ownership of dwellings	0.30	0.30	0.23	0.53
Professional and business services	0.74	0.74	0.37	1.12
Public administration and defense; compulsory social activities	0.27	0.27	0.10	0.36
Education	0.51	0.51	0.17	0.68
Human health and social work activities	0.32	0.32	0.17	0.49
Other services	0.22	0.22	0.03	0.25

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 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.