DEPARTMENT OF FINANCE

LEADING THE NEW ECONOMY'S BREAKOUT

PH, FASTEST-GROWING ASEAN ECONOMY

EXCEEDING THE MEDIAN ANALYST FORECAST OF 6.6 PERCENT IN Q1 2022, THE PHILIPPINES IS CURRENTLY THE FASTEST GROWING ECONOMY AMONGST ITS ASEAN PEERS.

PHOTO BY: HOWARD FELIPE

As reported by the Philippine Statistics Authority, the country was able to attain a strong GDP (gross domestic product) growth of 8.3 percent in the first quarter of 2022, surpassing the pre-pandemic levels. This figure is higher than the 7.8 percent expansion in the final quarter of 2021, and is the highest in the ASEAN region.

Bouncing back from the ravaging effects of the COVID-19 pandemic, the Philippines was able to increase its healthcare capacity and accelerate its nationwide vaccination program to counter the surge of cases brought about by the super-spreader variant—Omicron in January 2022.

As the country lowered its quarantine restrictions to Alert Level 1 starting March this year, reduced granular lockdowns, and shifted from a pandemic to an endemic outlook, its economic wheels were once again set into motion. Businesses gradually reopened and more jobs were created.

In March of 2022, the unemployment rate was brought down to 5.8 percent, which is the lowest number since the pandemic began. At present, employment creation is at 4.4 million above the pre-pandemic level.

Main contributors to the 2022 first-quarter growth were: Manufacturing at 10.1 percent; Wholesale and retail trade, repair of motor vehicles and motorcycles at 7.3 percent; and Transportation and storage at 26.5 percent.

In production, the industry sector grew by 10.4 percent in Q1 2022, whereas services rose by 8.6 percent. On the other hand, agricultural produce only slightly increased by 0.2 percent due to the African Swine Fever and increased prices of corn, pork, and sugar.

Growth in Q1 2022 is also attributed to the 10.1 percent increase in private consumption due to more vaccinated citizens, conduct of leisurely activities, and tourism. This is a stark contrast to the -4.8 percent in the same period last year.

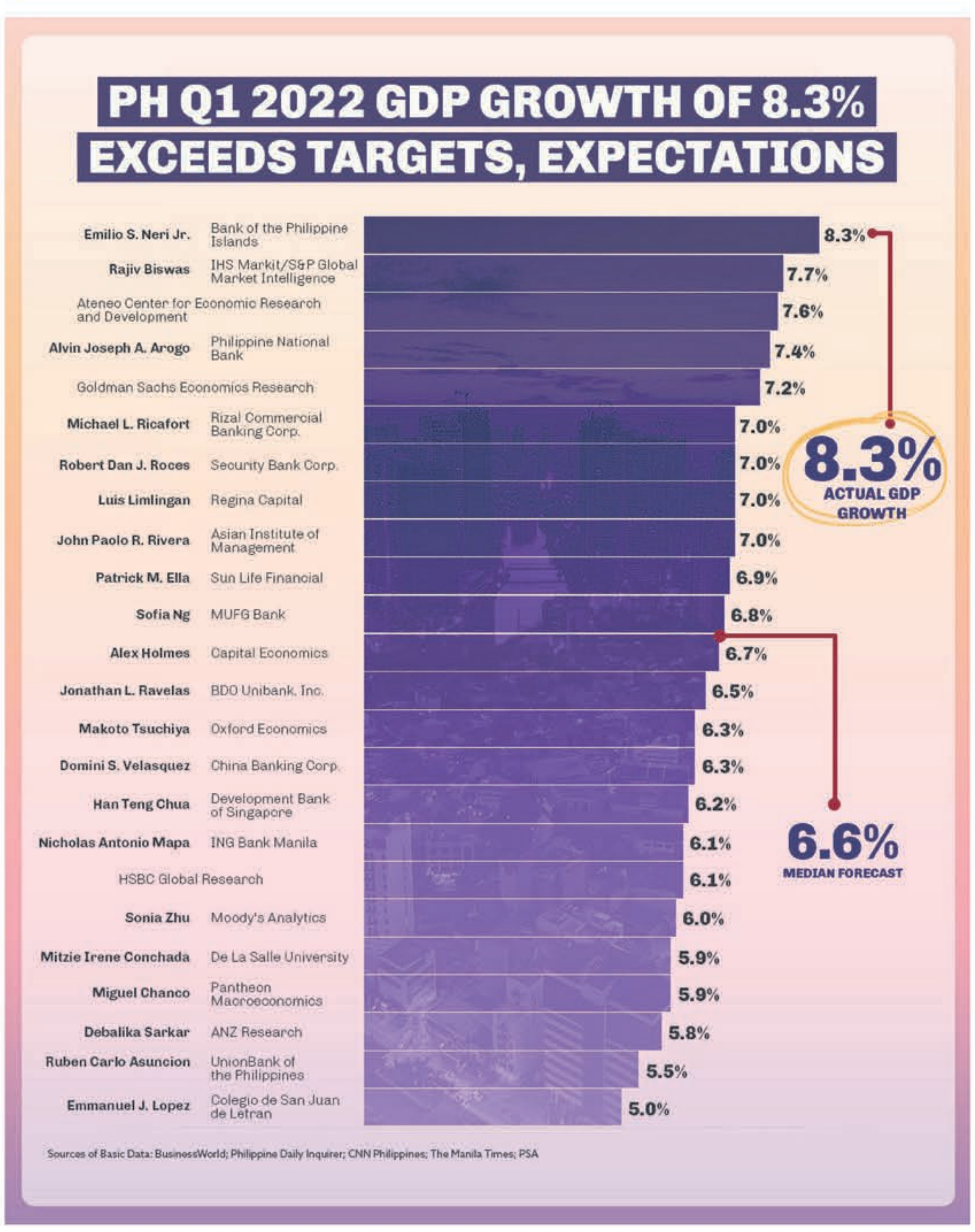
Overall investments also solidly grew by 20 percent in Q1 2022 from -13.9 percent in the previous year. In the first two months of the year, FDI (foreign direct investment) went up to 1.7 billion USD, while remittances reached 7.8 billion USD. As for trade, exports rose by 10.3 percent, while imports rose to 15.6 percent.

Conversely, government expenditure was put on hold due to the election ban imposed towards the end of the first quarter. From a robust 16.1 percent last year, it whittled down to 3.6 percent as public construction of infrastructures contracted to 4.9 percent. But this is expected to get back on track now that election season is over.

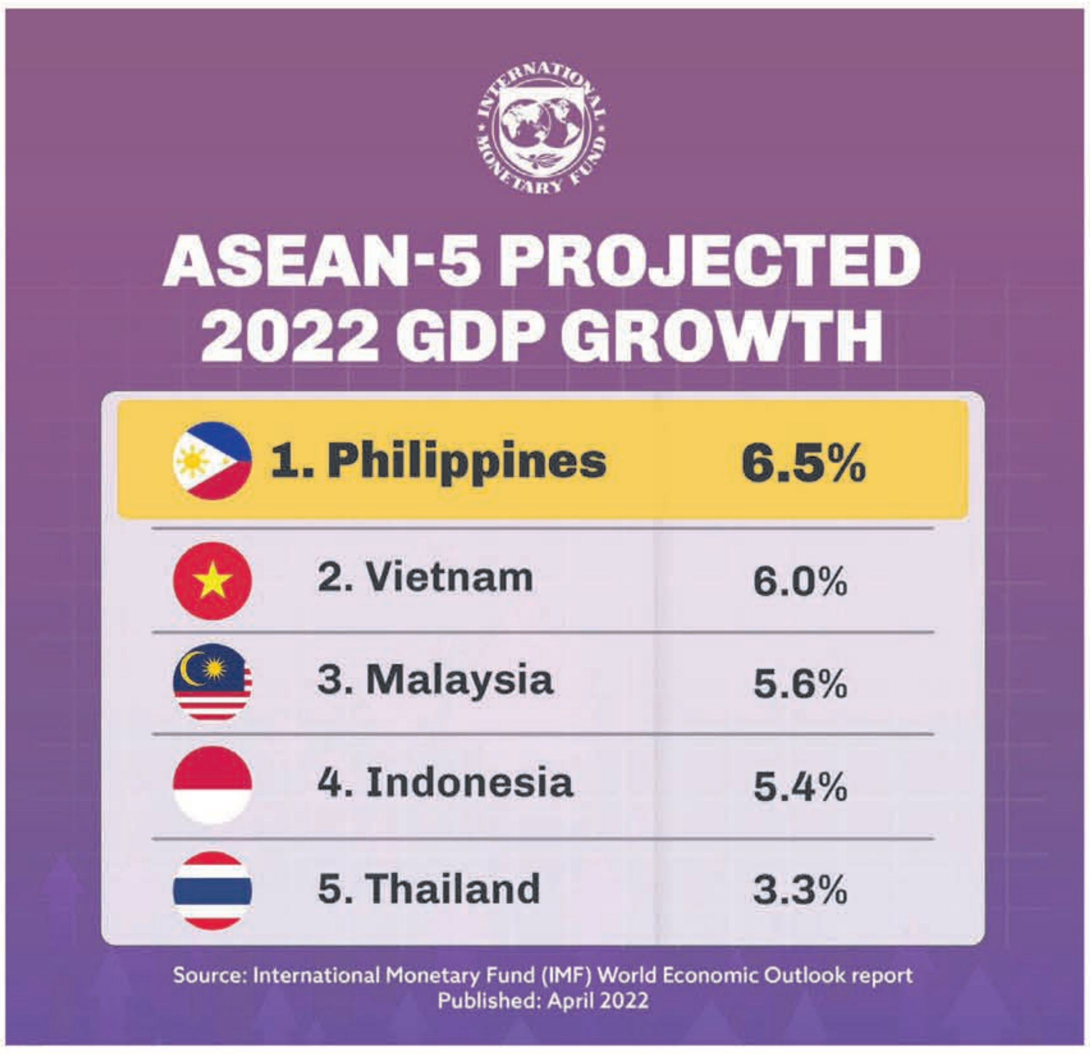
The Philippines targets to achieve a growth target of 7 to 9 percent this year as its strong economic performance allows it to be ready to take action against external risks such as the Russia-Ukraine conflict, the slowdown in China, and monetary normalization in the United States.

To sustain this fast-growing momentum, President Rodrigo Roa Duterte previously issued Executive Order (EO) No. 166 for the strengthened implementation of the Economic Development Cluster's (EDC) 10-point policy agenda. Since the proclamation, the agenda has continued to align the country's economic recovery programs and deliver policies for more rapid and inclusive growth.

Without a shadow of doubt, the Philippines has made its way up the ladder of meaningful progress and will continue to do so in the coming years.



STRONG PH GROWTH SEEN IN 2022



The Duterte administration's strong finish is affirmed by the international community as the Washington-based multilateral lender International Monetary Fund (IMF) upgraded its 2022 gross domestic product (GDP) growth forecast for the Philippines to 6.5%—the highest in the region.

The April 2022 IMF World Economic Outlook (WEO) report revealed a faster growth projection for the Philippines of 6.5 percent for this year from the previous forecast of 6.3% made in January. Meanwhile, the same report showed that global growth is to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023 due to the Russia-Ukraine crisis.

On the domestic front, the Philippines' vulnerability to climate change and natural disasters is among the major risks the incoming administration must prepare for aside from the uncertainties brought by the pandemic.

According to the IMF mission chief for the Philippines Cheng Hoon Lim, the weaker-than-expected impact of the Omicron wave allowed most areas including Metro Manila to be moved to the least restrictive alert level. A strengthened vaccination program to protect the population from infection surges will help further ease restrictions and keep the growth momentum.

PRUDENT FISCAL MANAGEMENT IN NUMBERS

Debt management

Duterte's economic team made sure to manage debt with prudence and efficiency. The debt-to-ratio of 40.2 percent in 2016 was maintained through 2017; the ratio later decreased to 39.9 percent in 2018. In 2019, sustainable debt management and steady economic growth brought down the National Government (NG) debt-to-GDP ratio to a record-breaking 39.6 percent. Sharp increases were incurred in 2020 and 2021 as loans were tapped to finance the pandemic response which includes the procurement of vaccines.

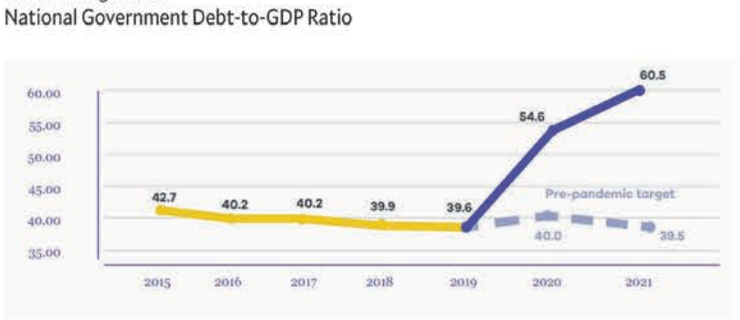
Meanwhile, high credit ratings have resulted in lower interest rates on the government's borrowings. With lower costs to service debt, fiscal resources have been funneled further towards productive spending in infrastructure and social services, such as education, housing, and health, which stand to benefit Filipinos now and in the generations to come

Infrastructure spending

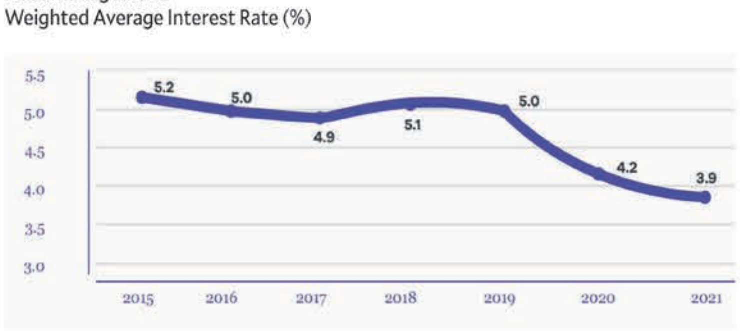
The Philippines underinvested in infrastructure for far too long. This anemic performance led to problems of congestion and inefficiency in our ports, airports, bridges, and roads. With priorities rebalanced under President Duterte's watch, infrastructure spending dramatically rose to an average of 5 percent of GDP. This was continued amid the pandemic with fiscal discipline and financing through tax reforms, which encouraged our development partners to support the Build, Build, Build (BBB) Program through concessional loans and grants.

From the 2.6 percent of gross domestic product (GDP) expenditure during the Aquino administration, the BBB Program is projected to continue to accelerate public infrastructure expenditure to above 5 percent.

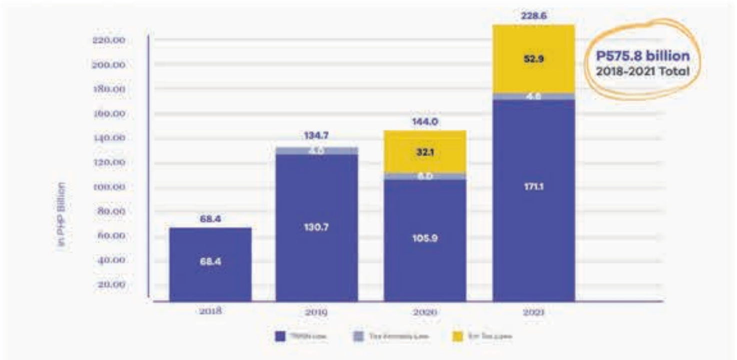
Debt Management:
National Government Debt-to-GDP Ratio



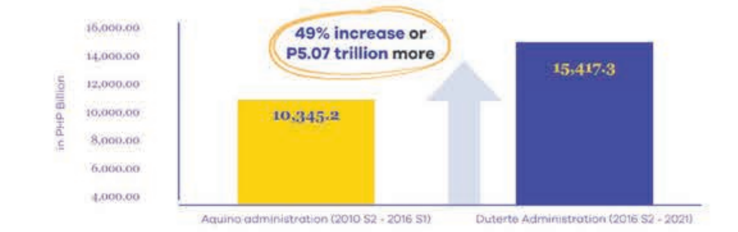
Debt Management:
Weighted Average Interest Rate (%)



Revenue Performance of Enacted Revenue-Positive Tax Reform Packages in Billion Pesos

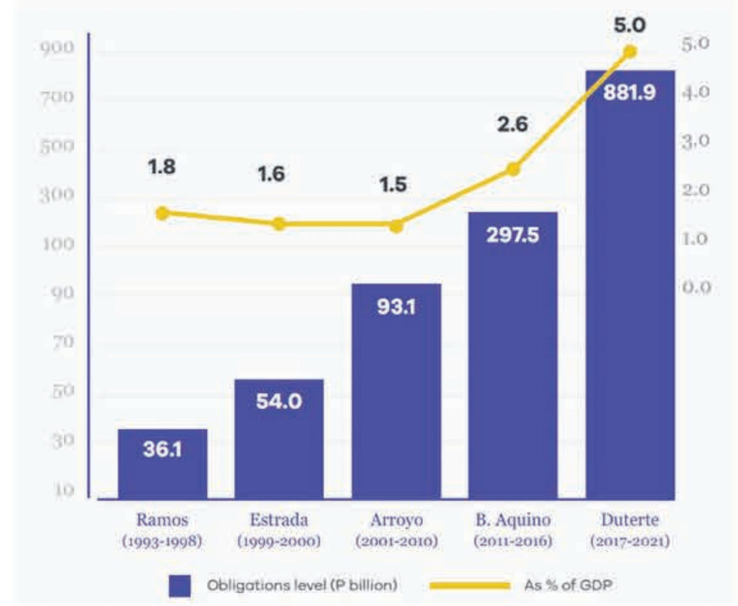


Total Revenue Collections (in Billion Pesos)



Dividend Remittances from GOCCs (in Billion Pesos)

Average Annual Infrastructure Spending per Administration



Revenue collection

These fiscal outcomes cannot be attributed to the Duterte administration alone, however. In a speech during the Sulong Pilipinas: Pre-SONA of the Economic Development and Infrastructure Cluster in April 2021, Secretary of Finance Carlos Dominguez pointed out that the successful tax reform measures can be partly attributed to reforms passed by previous administrations.

As a result of tax reform and improved tax administration, revenues from the second half of 2016 to 2021 totaled P15.4 trillion — 49 percent higher than the revenue collection of the previous administration in its six-year term. The revenue is a major boost for public spending in a bid to create what President Duterte calls a "budget for the people and by the People."

Dividend Collection

Total dividends collected from government-owned and controlled corporations (GOCCs) under President Duterte reached P316.3 billion, almost double the collection level of the previous administration. This is a huge jump from the previous performance of GOCCs as they now contribute more to government coffers.

Instilling fiscal discipline among GOCCs allowed the DOF to collect an average of P68.7 billion annually from these firms since President Duterte took office. In 2020, the P156.7 billion in dividends remitted by 57 GOCCs was the highest amount ever collected since the implementation of Republic Act (RA) No. 7656 or the Dividends Law in 199411.

Revenue from enacted tax reforms

A priority program of the Duterte administration, the Comprehensive Tax Reform Program (CTRP) has played an undeniably crucial role in the country's fiscal health. Passed in 2017, the Tax Reform for Acceleration and Inclusion (TRAIN) Law slashed personal income tax (PIT) for 99 percent of Filipino workers since it excluded from income tax payment those who earn below P250,000 annually. To offset revenue losses from the lowered PIT, excise taxes on 'sin' products such as tobacco and alcohol were increased. Under TRAIN, excise taxes have resulted in a collection of around P100 million per day.

The Tax Amnesty Act or Package 1B complements the TRAIN Law by giving relief to heirs of estates and by letting errant taxpayers affordably settle their outstanding tax liabilities allowing them to have a fresh start.

On estate taxes, the Tax Amnesty Act allows people to settle the unpaid taxes on the estate of those who died in 2017 and earlier without penalties and surcharges. The Act also allows previously excluded taxpayers (i.e., those charged under the Run After Tax Evaders program, taxpayers with tax delinquencies) to take advantage of a lower rate to settle their obligations, and creates an opportunity to unclog the administrative and judicial dockets of slow-moving cases.

Finally, Sin Tax Laws, which increase taxes on tobacco, alcohol, and e-cigarette products, will be a source of universal health care funding. It also aims to curb smoking, binge drinking, and other vices, especially among the youth.

Collectively, the enacted tax reform packages added P575.8 billion to the nation's treasury from 2018 to 2021.

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PALAY FARMERS' PRODUCTIVITY INCREASES AFTER RICE TARIFFICATION

Palay farmers' 15.6 percent productivity increase in 2021 is seen as a result of the Rice Tariffication Law (RTL), which is in its third year of implementation.

The average yield of palay farmers during the dry season has increased from 3.65 tons per hectare (t/ha) to 4.22 t/ha, while in the wet season, it increased from 3.69 t/ha in 2019 to 4.03 t/ha in 2021, or by 9.2 percent, based on data released by the Department of Agriculture (DA).

This improved productivity followed the release of financial and technical resources from the Rice Competitiveness Enhancement Fund (RCEF): a P10-billion annual fund for the distribution of high-yielding rice seeds, among other types of assistance, as mandated under the landmark measure.

Under the RTL or Republic Act (RA) No. 11203, tariffs collected from rice imports starting from when this reform took effect on March 5, 2019, shall go to the RCEF. Collections in excess of the P10 billion fund go to the Rice Farmer Financial Assistance (RFFA).

Distribution of farm facilities

Rice Competitiveness Enhancement Fund (RCEF) Credit Program Expanded rice credit assistance

Of the yearly P10-billion RCEF budget, P3 billion is allotted for the free distribution of certified inbred seeds. Another P5 billion is allotted to the free distribution of farm machinery and equipment, and P1 billion each for credit support and training of farmers and extension.

With RCEF, 950,000 farmers now enjoy access to 19,358 units of farm machinery equipment. Over 100,000 rice farmers have benefited from 4,411 batches of training sessions; and 14,459 specialists, trainers, and extension intermediaries have received training on modern rice farming techniques.

Some 220 farm schools have been established since the implementation of RCEF, bringing the total to 470, while 49,649 rice farmers have accessed over P1.5 billion worth of loans from the Land Bank of the Philippines (LandBank) and Development Bank of the Philippines (DBP) under the credit component of RCEF.

After more than 30 years of failed attempts by previous administrations, farmers and consumers are now reaping the benefits of the implementation of the RTL. The law has lowered rice prices and removed rice as a main contributor to the overall inflation rate.

Before the RTL was passed in 2019, the operations of the National Food Authority (NFA), which regulated all rice imports and was the chief importer of the grain, cost the government P11 billion in tax subsidies yearly from 2005 to 2018.

A complete reversal of this massive annual subsidy is the government's earnings of P46.6 billion in rice import tariffs during the first three years alone of the RTL's implementation.

Agriculture Secretary William D. Dar, together with Cagayan Governor Manuel N. Mamba, Region 2 Regional Executive Director Narciso A. Edillo, and Land Bank of the Philippines (LBP) President Cecilia Borromeo, led the distribution of various agricultural assistance and projects to the provincial government of Cagayan on November 9, 2019. SOURCE: DA

PROMISES KEPT: RESULTS DELIVERED FOR RECOVERY AND INCLUSIVE GROWTH

The Duterte administration wasted no time in its six-year term with 90 percent of its zero-to-ten-point socio-economic agenda already accomplished. This helped transform the Philippines into one of the fastest-growing economies in Asia.

When the pandemic struck in 2020, the Philippines already gained the financial strength to weather the worst of the crisis. Amidst managing emergency responses, reform work saw through, forging a clear path toward recovery and long-term growth.

The administration's agenda is anchored on the reforms long aspired for and needed by Filipinos, the majority of which sat on legislative shelves for decades due to the lack of political will to break the typical congressional gridlock. Stemming from the people's recommendations at the annual consultative forum *Sulong Pilipinas* in 2016, Duterte's economic team was determined to deliver the promise of real change.

Here are some of the hard-won reforms under President Duterte's watch.

Economic Liberalization

From being an inward-looking economy, the Philippines is now ready to compete with the rest of the world.

Accompanied by the economic team's strong collaborative effort with the Congress, the much-needed amendments to the Retail Trade Liberalization Act (RTLA) were successfully enacted in December 2021 while the amendments to the Foreign Investments Act (FIA) and the Public Service Act (PSA) were signed into law in March 2022. These laws have made the investment climate in the country more attractive to foreign investors.

With the country's doors opened for rapid expansion, enterprises are now ready to compete with the best in the world.

Build, Build, Build

Aside from providing 6.5 million jobs since 2016, the Build, Build, Build (BBB) raised infrastructure spending to above 5 percent of the country's gross domestic product, which is double the level recorded by the four previous administrations. This paved the way for a nationwide infrastructure modernization program to spur economic development.

National ID System

Enacted in August 2018, the National ID or Philippine Identification System (PhilSys) will help accelerate the country's transition to a digital economy with its enabled "presenceless, paperless, and cashless transactions."

Furthermore, it promotes seamless social service delivery while strengthening greater financial inclusion for both public and private services.

As of May 3, 2022, a total of 64.8 million individuals nationwide have registered for the National ID. Through this program, the Land Bank of the Philippines has paved the way for 7.9 million formerly unbanked registrants to be part of the formal banking system.

Ease of Doing Business

The Ease of Doing Business (EODB) Act signed in May 2018 enhanced the Philippines' competitiveness and readiness for the new economy. It streamlines current systems and procedures of government services. The law applies to all government offices and agencies in the Executive Department including local government units (LGUs), government-owned and/or controlled corporations (GOCCs), and other government instrumentalities located in the Philippines or abroad that provide services covering business-related and non-business transactions.

Tax Reform

The Duterte presidency is the only administration in the country's history that was able to decisively pass and implement the most comprehensive tax reform program (CTRP) ever.

TRAIN Law

Since its enactment in December 2017, Tax Reform Acceleration and Inclusion, commonly known as TRAIN law, reduced the personal income taxes for 99 percent of taxpayers, giving them much-needed relief after 20 years of non-adjustment. In addition to the rationalized value-added tax (VAT) system, VAT exemption on medicines for diabetes, hypertension, and high cholesterol, lowered estate and donor's taxes, and updated excise taxes on petroleum products, it also provided reliable revenue flows to fund economic investments for the people, such as social services and the administration's massive Build, Build, Build infrastructure program.

Tax Amnesty

Signed into law in February 2019, the Tax Amnesty Act allows defiant taxpayers to clear their outstanding tax liabilities reasonably, giving them a "fresh start" while providing the government with more cash for key infrastructure and social projects. Simultaneously, it heralds the launch of a more robust tax enforcement effort by tax officials. The law addresses long-unresolved estates as a result of unpaid estate taxes and establishes an appropriate method for their transfer.

The tax amnesty on delinquencies allows previously excluded taxpayers (i.e., those charged under the Run After Tax Evaders program or taxpayers with tax delinquencies) to settle their obligations at a lower rate, as well as an opportunity to unclog the administrative and judicial dockets of slow-moving cases.

CREATE Act

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act enacted in March 2021 is the most significant fiscal stimulus package for businesses in the country's history. CREATE gives out almost P100 billion worth of tax relief annually to the corporate sector to sustain employment or use for investments.

MSMEs are the major beneficiaries of CREATE, since the country's corporate income tax rate will be reduced from 30 to 20 percent. Large firms will also benefit from an immediate drop in the corporate income tax rate from 30 to 25 percent.

Sin Taxes

This is the first time that excise taxes on "sin" products were increased three times within one presidential term. Collection from sin taxes will fund the implementation of the Universal Health Care (UHC) program. It also aims to curb smoking, binge drinking, and other vices, especially among the youth.

Universal Health Care

Signed into law in February 2019, the Universal Health Care (UHC) program extends population, service, and financial coverage through a variety of health system reforms to ensure equitable access to quality and affordable health care and protection against financial risks.

Rice Tariffication Law

The Rice Tariffication Law (RTL) enacted in February 2019 opened up the Philippine rice market and lowered the price of our country's staple for more than 100 million Filipinos (who spend about a fifth of their total budget on rice alone). RTL ensures that farmers benefit directly from import tariffs by providing at least P10 billion each year for mechanization, high-quality seeds, access to credit, and training.

These results serve as proof that with strong leadership, overcoming powerful vested interests in order to deliver long-overdue reforms is possible. Meanwhile, President Duterte's economic team will continue to persevere until the last hour and ensure that the basic groundwork is firmed up where swift recovery can take root. The hard-won reforms' momentum, if sustained by the next administration and complemented with prudent fiscal management and good governance, will secure the country's trajectory towards a robust and inclusive growth.

Read more in Building Better Forward: