WBG Governor's Statement No. 8

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Statement by the Hon. **CARLOS G. DOMINGUEZ,**
Governor of the Bank for **THE PHILIPPINES**

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Like most other countries, the Philippines enforced lockdowns to save lives and protect communities from COVID-19. We paid a high economic price for these restrictions.

These measures, however, were necessary. Our people fully understood the need for them.

The lockdowns enabled us to strengthen our prevention, testing, isolation, and treatment capacities. According to our university researchers, the lockdown helped us avert an estimated 1.3 to 3.5 million infections.

Filipinos have approved of the way our government has been handling this pandemic. In the latest survey conducted by a third party public opinion poll body, President Rodrigo Duterte received a job approval rating of 91 percent.

This health emergency may continue for many more months and possibly years. The battle against this pandemic will continue to be a test of fiscal stamina.

It is fortunate that when the COVID-19 crisis hit, the Philippines was financially ready.

Since 2016, we had started building up our finances to support our aggressive infrastructure program. President Duterte's Build, Build, Build program has been our main strategy to lift Filipinos out of poverty. Little did we know that this financial build-up would also serve to buttress our defenses against economic shocks.

The game-changing reforms we passed over the last four years have strengthened our fiscal and economic stamina.

Without our series of tax reforms, the rice tariffication law, and other far-reaching measures, the COVID-19 crisis would have inflicted much more pain on our people and on the economy. We thank our legislators for passing these measures on time. They have provided us the necessary tools needed to fight the pandemic.

By 2019, we were able to bring up our revenue effort to 16.1 percent of GDP. This is the highest in more than two decades.

In the same year, we worked down our debt-to-GDP ratio to a historic low of 39.6 percent.

The Philippines has the lowest external debt position among the ASEAN-5 countries. In 2019, we posted a 20.2 percent external debt-to-Gross National Income ratio.

The strong fiscal position we had was an advantage. It gave us enough room to reallocate budget items to fight the pandemic.

One week after the imposition of lockdown in March, our Congress swiftly passed a relief package called Bayanihan One. This cushioned the public from the worst of the initial shock of the lockdown.

We urgently delivered an emergency cash grant to 18 million low-income families for two months. We distributed wage subsidies to more than 3 million small business workers, also for two months. These interventions cost us about 5 billion US dollars. This is the largest social protection program in Philippine history.

With our credit ratings at historic highs, we were able to quickly access emergency loans from our development partners and the commercial markets at very low rates, tight spreads, and longer repayment periods. We thank the World Bank for its swift response to our request for budgetary support.

Our tax collection this year will be lower than initially projected, while we increase spending in healthcare and relief measures to prop up the country for recovery. The borrowings we have secured will help cover our revenue shortfall.

Although there were enough excuses to grow the deficit and borrow more money, the Philippines has chosen to take the path of fiscal prudence.

Our goal is to land our deficit-to-GDP ratio in the middle of our ASEAN neighbors and credit rating peers. This conservative approach will allow us to continue access financing at favorable terms for the Filipino people.

The public health emergency could last for months or possibly years. The battle against the virus is going to be a marathon, not a sprint. While we hope for the best, we must be prepared for the worst. We must have ample ammunition to outlast the enemy.

We are thankful that Congress adhered to our prudent approach by passing a fiscally responsible economic stimulus package called Bayanihan Two. This piece of legislation allows us to meet the challenges of economic recovery without imposing a heavy burden on future generations.

Bayanihan Two puts our health response at the front and center. It provides funds to hire thousands of contact tracers and to support our medical workers.

In addition, Bayanihan Two makes possible several streams of support for individuals and enterprises to restart their operations.

We are infusing more capital into government financial institutions to dramatically expand their lending to micro, small and medium enterprises. This will have a large multiplier effect in economic activity. Every peso infused into our government financial institutions will generate around 10 times its value in credit. The additional capital will be used to protect the productive parts of our economy.

The increased lending capacity will also enable our government banks to serve as wholesale banks and rediscounting agents for small and medium sized banks and microfinance institutions.

The Duterte administration is maintaining its commitment to ramp up infrastructure spending. With its high multiplier effect, the Build, Build, Build program will play a pivotal role in our economic recovery.

Even as infections continue, it is important to begin the difficult task of rebuilding our economy. We are working closely with our legislators for the urgent passage of key legislative measures. We have ensured that these reforms will allow us to recover in a sustainable and resilient manner.

We are pushing for structural reforms in our corporate tax and fiscal incentives. We aim to provide an outright 5 percentage point reduction in the corporate income tax rate as soon as it is made effective. This will help businesses continue their operations and retain jobs.

We will enhance the flexibility of our incentives system so that we can aggressively go after the investments that will greatly benefit the Filipino people.

The availability of financing for businesses and the continued strength of our banks will be critical in our economic recovery.

We are seeking Congressional approval for banks to dispose of non-performing loans and assets through asset management companies. The bill we are proposing is an improved version of the special purpose vehicles created in the early 2000s in response to the Asian Financial Crisis. We hope to enable banks to offload souring loans and assets, clean up their balance sheets, and extend more credit to sectors in need.

We also support a legislative measure that will enable government banks to form a special holding company. That institution will infuse equity, with strict conditions, into strategically important companies facing solvency issues. We intend to invite multilateral agencies, foreign and domestic investment companies to participate in this joint venture.

We seek to provide greater support to the agriculture sector by increasing credit access to the entire agricultural value chain.

The swift passage of our 2021 national budget is also crucial. It will provide us with the tools necessary to rebuild our economy.

The Duterte administration's aim is to pursue a safe new normal while we strive for a better normal. We are doing our utmost to balance our efforts to revive consumer confidence and reopen the economy with health interventions.

While strengthening our health system, we also intend to continue finding more ways to help revive the domestic economy. We are turning this crisis into an opportunity to boost the competitiveness of our manufacturing and agriculture sectors. We are improving our readiness for the digital economy. We support the rehabilitation of our tourism infrastructure and facilities.

We hope the World Bank will continue its engagement in helping developing countries rebuild their economies by ensuring the accessibility of safe and effective COVID-19 vaccines.

We are very pleased to hear the Bank's proposed 12 billion-US dollar fast-track financing for the purchase and deployment of these treatments.

We encourage the World Bank, however, to synchronize its vaccine programs with the Asian Development Bank and other multilateral banks. In this way, the multilateral institutions will avoid duplication and overlapping of initiatives.

Ending the pandemic is probably the single biggest human endeavor of our time. The multilateral banks should join forces in the information-sharing on vaccine development to fast track the procurement, mobilization of financing, and distribution of the treatments to those who need it most.

Our multilateral institutions' joint efforts in ensuring the accessibility and affordability of these life-saving vaccines will ensure equity among nations as the world reemerges from the crisis.

Next year, we expect the Philippine economy to post a strong rebound. The challenges are large, but we are determined to build back a better economy our people deserve.

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