

Philippines to be Asia's Worst Economic Performer

Covid-19 combined with five typhoons means the Philippine economy will contract more than anywhere else in Asia in 2020

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Already reeling from one of the worst Covid-19 outbreaks in Asia, the Philippines has been battered by multiple storms in recent weeks, [displacing more than](#) 300,000 residents and claiming the lives of 69 people.

The Philippines' National Economic and Development Authority (NEDA) [estimated 90 billion peso](#) (US\$1.8 billion) in losses, as five typhoons - Ulysses, Rolly, Quinta, Tonyo and Siony - devastated the most industrialized regions of the country.

The government estimates a 0.15 percentage point reduction in the country's gross domestic product (GDP), further deepening an acute economic crisis. The Southeast Asian country's GDP contracted 11.5% year on year in the third quarter, on the back of a [16.9% contraction](#) in the previous quarter.

Even during the first quarter, when most experts anticipated positive growth, there was a 0.2% contraction, ending an 84-quarter growth streak.

Until recently one of the region's most promising economies, the Philippines is now projected to suffer its deepest growth decline, according to the International Monetary Fund (IMF).

In its World Economic Outlook released last month, the IMF more than doubled its initial estimate of a 3.6% year-on-year contraction last June. Between 2019 and 2025, the Philippines is [expected to suffer a 13% decline](#) from its pre-pandemic forecast, the worst in the world followed by India, Argentina and Mexico.

This year, Philippine GDP will likely contract as much as 8.3%, the worst in the entire region, on the back of a collapse in remittances from overseas Filipino workers, domestic spending and a [tepid fiscal and monetary response by the government](#).

The Philippine Statistics Authority earlier reported a massive second-quarter drop in key sectors, including in real estate and the ownership of dwellings (-29.7%), the repair of motor vehicles (-13.9%) and declines in wholesale and retail trade.

Other research and investment groups have been even more pessimistic. Noting a weak recovery in the third quarter, Fitch Solutions Country Risk & Industry Research projects a -9.6% contraction this year, from its earlier forecast of -9.1%.

“We at Fitch Solutions believe the Philippine economy will struggle to maintain its recovery momentum in Q4 2020 as domestic containment measures weigh on activity and demand,” Fitch Solutions said in a statement on November 12. “In 2021, base effects and supportive fiscal and monetary policy stances should drive a rebound, with the economy returning to pre-pandemic levels by mid-2022.”

Another major contributing factor to collapsing growth is the delayed but then [strict and excessively protracted lockdown](#), the longest in the world which shut down as much as 75% of total economic activity earlier this year.

Philippine **President Rodrigo Duterte** has still maintained a partial lockdown on Metro-Manila and major economic hubs due to the persistently high levels of Covid-19 infections. Neighboring Indonesia, which has implemented more lax restrictions despite having some of the region’s highest Covid-19 cases, is projected to contract by only 1.5%.

Restrictions on mobility and strict social distancing measures, Fitch Solutions warns, have heavily undercut household spending and private investments. In the third quarter, household spending contracted by 9.3% year-on-year, following a 15.3% fall in the second quarter.

The persistence of a weak public health policy could contribute to a resurgence of Covid-19 cases, which could further shadow economic recovery until the first half of 2021.

“The pandemic remains a major uncertainty and headwind to the Philippines’ economic recovery. Indeed, another upsurge in cases domestically could force the reimplementing of local lockdowns, hampering activity,” warned Fitch Solutions.

Aside from falling domestic spending and overseas remittances, which have been the engine of growth in the Philippines’ services-dominated economy, overall investment is also expected to drop.

“Fixed capital investment growth is set to remain challenged, eroding headline growth by 10.1 percentage points in 2020,” it said.

Capital Economics has also projected a similarly deep contraction of -9.5%.

“The Philippines saw a lackluster rebound in GDP in Q3 and improvements are likely to be harder to come by in the quarters ahead. Output is unlikely to regain its pre-crisis level until late next year,” noted Capital Economics.

The long-term outlook is challenging for the Philippines. The IMF [has warned](#) of “lasting damage” and “[a long slog](#)” due to the ongoing pandemic [and, in the case of the Philippines](#), “significant scarring effects (such as hysteresis and bankruptcies)” for countries such as the Philippines.

The Philippines’ road to recovery looks bumpy, despite a forecast of 7.4% growth in 2021 due to a base effect, according to **Yongzheng Yang**, the IMF resident representative in the

Philippines.

“Real GDP is projected to expand by, helped by – in addition to the base effect – an expected rebound in pent-up demand from the relaxation of quarantine measures and continued effects of the policy easing in 2020,” said Yang.

He warned it would “take a couple of years” before the Philippines would return to its pre-pandemic output levels following “prolonged social distancing” measures.

The unemployment rate is also expected to almost double this year, from 10.4% in 2020 from 5.1% in 2019. Global economic headwinds could also mean a negative outlook for remittances, which are crucial to domestic spending in consumption-driven and labor exporting nations such as the Philippines.

“Weak public confidence and low remittances as a result of the pandemic are expected to continue weighing on private investment and consumption,” warned Yang, highlighting “significant weakening of remittance flows.”

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Featured image: Residents of Albay had only begun cleaning up from the destruction of last week's Typhoon Molave when the most powerful typhoon of the year slammed into the southern Philippines on Sunday (01-11) packing sustained winds up to 225km/h © IOM

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