GFN Policy Notes

# THE ECONOMIC IMPACT OF THE PANDEMIC
# AND
# THE PATH TO RECOVERY


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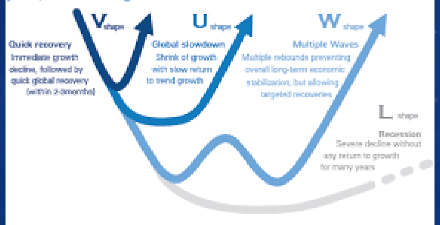
Figure 6: The unknown recovery – Short-term: the forward path; mid-to long-term: the new normal




Source: Arthur D. Little

# THE GLOBAL AND PHILIPPINE IMPACT OF THE PANDEMIC

- Damage to the value-adding GDP capacity of nations (C+I+G+[X-M])
  - Shrinkage of personal consumption expenditures (C) and related economic units
  - Anemic gross domestic investments (I), except for digital and healthcare businesses
  - Weak government expenditures (G): inadequate offsetting public funding support and enlarged fiscal deficits
  - Undetermined trade sector response (X-M)
- Systemic disruption to business models:
  - All sectors with human interface: financial institutions, enterprises, retail networks, primary industries, transportation, tourism, schools, churches, associations/NGOs, government units
- Widespread poverty, greatly reduced multilateral and bilateral aid, civil disturbances and the rise of authoritarian governments
- Emboldened CCP moves

# DISRUPTIONS IN THE PH BANKING SYSTEM

- Disruption of brick-and-mortar operations
  - Impediments to loan and deposit growth
  - Inefficient servicing of loans and deposits
  - Staffing limitations
- Shrinkage and quality deterioration of credit portfolios
- High cost of banking infrastructure
- Impaired profitability
- Tarnished credit rating

# DARWINISM IN REINVENTING THE PH BANKING SYSTEM

- BSP Circular 940: Agent Banking
  - Offsite branch banking operations through coops, MFIs, MSMEs
  - Loan applications, approvals, disbursements, repayments
  - Deposit opening, money deposits, deposit withdrawals
  - Telco loads, Bills Payments, remittances
  - Addresses the disruptions of brick-and-mortar operations
- Digital banking
  - Hybrid digital-brick&mortar banking
  - Addresses the disruptions of brick-and-mortar operations
  - Superior to pure digital banking

# THE PATH TO A VIGOROUS RECOVERY

- The likely shape of the economic recovery

- Three road signs to watch out for:

1 The peso-dollar rate should support growth, not weaken it.
2 The enabling environment should speed up business rebuilding and restructuring.
3 The country should capture a share of the migration of companies out of China.

# THE PESO-DOLLAR RATE SHOULD SUPPORT GROWTH, NOT WEAKEN IT.

- Amidst a weak economy, the peso has "strengthened" from about Php53/$1 to around Php48/$1 – meaning less pesos for dollars earned or bought.
- The peso has gained prominence internally as a stellar currency performer.
- Regrettably, a "strong" peso is a detour to economic distress as experienced more than a decade ago.
- Why?
- A "strong" peso increases the cost of production and makes local producers and exporters uncompetitive.
- Less pesos for dollars means depressed incomes for OFWs and their families, who make up more than half of the population.
- In short, a "strong" peso makes the country weaker, the poor poorer and the rich richer.
- How do we get out of the disastrous detour?
- By creating a policy climate that weakens the peso and conversely promoting growth.
- The weather that would weaken the peso and promote growth could include, *inter alia*:
  - prepay dollar loans;
  - implement import-impact of PPP infrastructure projects; and
  - loosen regulatory impediments to outward dollar remittances
- A weak peso:
  - increases the disposable income of OFWs and their families -- thereby increasing Personal Consumption Expenditures which make up the bulk of Gross Domestic Product (GDP); and
  - allows producers for the local and foreign markets to be more competitive by lowering their input costs, making possible higher production activities and employment -- ergo, more income for the labor population.
- Over the medium term, there would be increased government revenues.
- A weak peso will not fuel inflation.

# THE ENABLING ENVIRONMENT SHOULD SPEED UP BUSINESS REBUILDING AND RESTRUCTURING.

- The pandemic caused the economy to considerably slow down.
- How can the economy regain speed?
- A combination of corrective measures include:
  - a moratorium on corporate loan foreclosures to allow business enterprises to rebuild and restructure;
  - sustained BSP forbearance on prudential regulations to show clinically-healthy banking system; and
  - SEC proactive collaboration on timely corporate restructuring

# THE COUNTRY SHOULD CAPTURE A SHARE OF THE MIGRATION OF COMPANIES OUT OF CHINA.

- There should be Presidential assurance that of the legal protection of contracts and that the Rule of Law will prevail without extralegal maneuvers.
- That posture will tend to raise investor confidence locally and abroad.
- Ideally, there should be collaborative Private-Public Sector Initiatives in attracting companies migrating out of China.
- There will significant medium-term economic impact on Investments, Exports, employment, incomes and Personal Consumption Expenditures and overall GDP.
- The schematic collaboration could take the shape of:

| DOF, DTI/BOI, DFA, DILG (LGUs), BSP, DOST, DICT, ARTA |
|---|
| 1. Identify candidates for production migration to the Philippines<br>2. Arrange and/or collaborate on sector and company-specific missions<br>3. Provide company-specific incentives to relocate to the Philippines<br>4. Allow one-year compliance with requirements of SEC, BIR, DTI/BOI, BSP, LGUs (esp. business permits)<br>5. Fast track availability of production sites |
| |
| **PCCI, ECOP, AMCHAM, JCCP, ECCP, HKCCP** |
| 1. Identify candidates for production migration to the Philippines<br>2. Arrange and/or collaborate on sector and company-specific missions<br>3. Recommend company-specific incentives to relocate to the Philippines |