Philippines: Authorities reign in spending in October; fresh fiscal stimulus bill on the horizon?

Government spending slowed by 6.8% in October as the authorities look to protect the budget deficit while the economy remains mired in recession

Source: Jun Acullador

-6.8% October expenditure growth

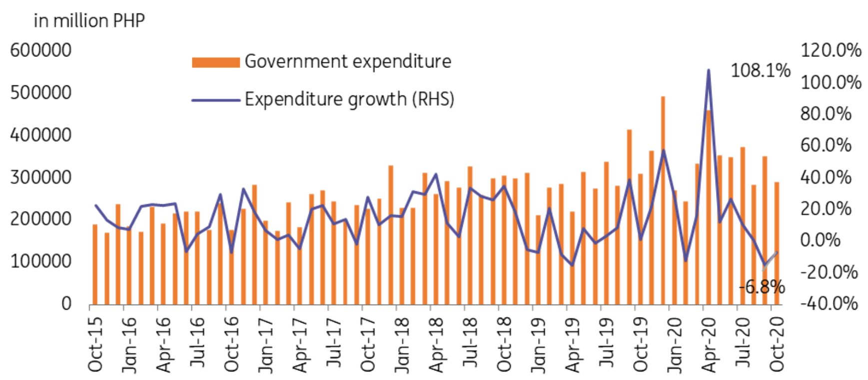
October deficit at Php61.4 bn

The Philippines recorded a budget deficit of PHP61.4bn for October although both expenditures and revenues fell for the month, down 6.8% and 12.8%, respectively. Revenue collections slumped as expected, with double digit declines in collections from major sources such as customs and internal revenue. Slower economic activity will likely mean revenue collection stays soft but we note that collections have generally outpaced revised projections and targets. Meanwhile, spending was disappointingly in the red with the authorities reigning in outlays while the economy contracted by 10% for the first 9 months of the year. The October shortfall brings the year-to-date deficit to PHP940.6bn, wider than the PHP348.3bn posted for the same period in 2019.

Authorities tighten belts just when the economy is in need of some slack

Expenditures over the past two months have slipped as the authorities hope to preserve fiscal metrics by reigning in expenditures. After the triple digit surge in spending during strict lockdowns in April, expenditures have slowed considerably while the economy slides deeper into recession. Government officials have justified the downturn in outlays, pointing to base effects but the decline in spending will likely hurt growth prospects in 4Q. We expect the downtrend in spending to be sustained for the balance of 2020, which will likely translate into another quarter of double digit contraction for 4Q GDP.

Philippine government expenditure (growth and levels)



Source: Philippine Bureau of Treasury

Fresh round of stimulus to resuscitate a flat-lining economy?

After the spate of typhoons to hit the Philippines in the past few weeks, legislators have pushed for a third tranche of fiscal stimulus to offset the negative effects of Covid-19 and damage caused by the storms. Two proposals for a third fiscal stimulus plan have surfaced, ranging from PHP400bn to roughly PHP247bn which would help provide a decent jolt to an economy that has now flatlined into recession. With government spending likely negative in the last three months of 2020, 4Q GDP will likely post a more severe downturn from the -11.5% 3Q GDP reading -the economy lacks any sort of momentum, with all four sectors sidelined by the pandemic and storm damage.

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