

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

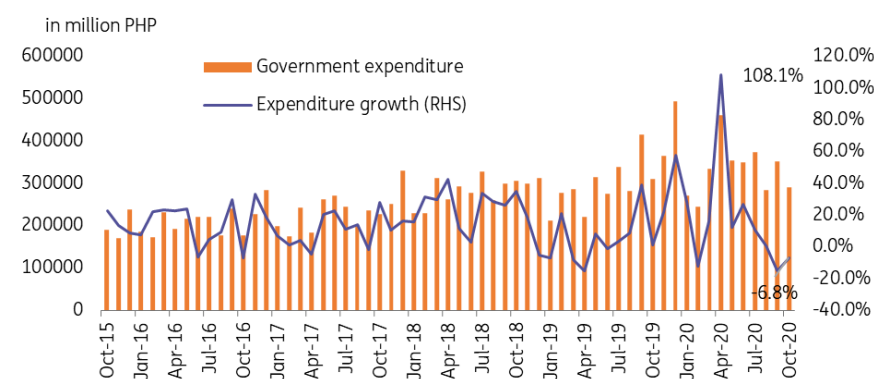
The Philippines recorded a budget deficit of PHP61.4bn for October although both expenditures and revenues fell for the month, down 6.8% and 12.8%, respectively. Revenue collections slumped as expected, with double digit declines in collections from major sources such as customs and internal revenue. 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)



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.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.