Philippines: Budget deficit at Php40.1 bn as spending slows considerably

The August budget deficit hit Php40.1 billion with the government holding back on spending to preserve precious "fiscal stamina"

Source: Shutterstock

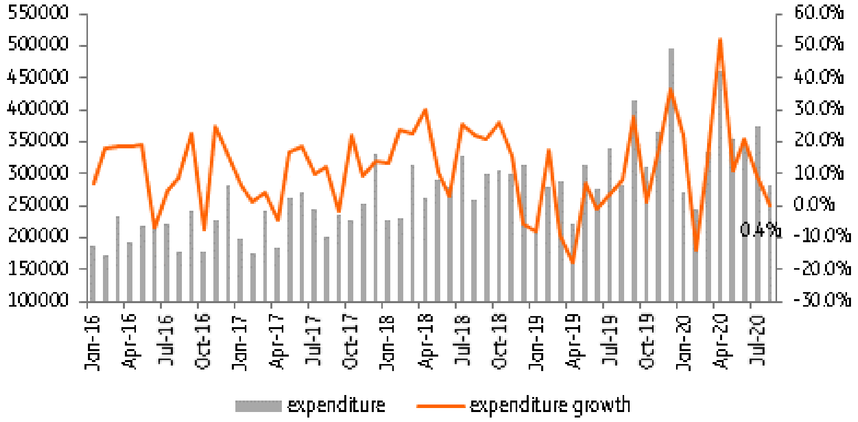
Budget deficit for year at Php740.7 bn

The Philippines posted a budget deficit of Php40.1 billion as revenue collection fell 36.5% while government spending rose a mere 0.4%. For the year, the budget deficit swelled to Php740.7 bn as year-to-date revenues fell 8.3% while spending surged 20.8%, largely due to base effects after weak spending in the first half of 2019, and with the government rolling out its first fiscal package at the height of the pandemic-induced lockdowns. Revenues have shown a decent rebound over the past two months, topping the revised targets for the year by 7.2% while spending has decelerated after the initial round of fiscal stimulus.

Government reins in spending to preserve fiscal stamina

Expenditures for August rose just 0.4% as authorities reined in spending to preserve "fiscal stamina" after previously warning that the budget deficit to GDP ratio could be as high as 9.3% in 2020. With four months left in the year, the budget deficit to GDP ratio stands at 3.9% of GDP and we expect this ratio to close below 4% before year end as revenue collections improve while the government keeps a lid on spending. Authorities recently rolled out a modest Php160 bn Phase 2 fiscal recovery bill and we actually expect government spending to contract by year end given the 21.5% growth in expenditures in 4Q 2019. Meanwhile, revenue collection should continue to top revised estimates but understandably remain lower on a year-on-year basis.

Philippine government expenditure



Source: PSA

PHL economy to remain in recession for balance of 2020

Despite a bounce in most economic indicators from the lows in April, we continue to expect the Philippine economy to remain in recession for at least the balance of 2020 as consumption and capital formation remain sidelined by double-digit unemployment and as Covid-19 new daily infections keep consumers indoors. Government spending, which was the main driver of GDP in 2Q, will likely ease in the second half of the year as government officials pull back on spending to protect fiscal targets. We maintain our full-year projection of a 9.9% contraction for GDP with the Philippine peso likely to remain on an appreciation path as import demand and potential output continue to fade.