

# Philippines: Lockdown extension all but knocks out chances for growth in 2Q

Covid-19 is kryptonite to the Philippine economy, with GDP expected to contract for the first time since 1998



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## Consumption machine

In the wake of the Asian Financial Crisis (AFC), the Philippines entered a recession but subsequently posted what will likely be 85 straight quarters of positive growth. Riding a wave of stable consumption from a burgeoning population, the Philippine economy rode out every crisis since 1998, with domestic incomes augmented by overseas Filipino remittances. More recently, the Philippines had posted a sterling run of growth above 6% with a combination of robust household consumption, capital formation and government spending. The streak of positive growth however may come to an end in 2020.

## Kryptonite to the economic engine

Pre Covid-19, the Philippines was enjoying a nice growth spurt helped along by the demographic dividend and supported by remittances sent home by migrant Filipino workers. Remittances have been a big part of the economic resilience, providing both dollar liquidity and peso purchasing power with remittance growth sustained even during economic downturns. The natural hedge of

Filipinos based in almost every corner of the globe meant that region specific recessions could be offset by remittances sent from other countries. 2020 and the Covid-19 pandemic however changes the equation for the Philippine economy, knocking out heavyweight household consumption (lockdown measures) and [negating the boon of remittances](#).

## Government signals technical recession

Government officials signalled the possibility for the economy to enter a technical recession beginning in 2Q 2020 with Secretary Carlos Dominguez flagging a best case 0% growth for the economy. We expect a sharp deceleration in growth momentum for both 2Q and 3Q with a marginal recovery by the end of the year. The extension of the lockdown for a whole month (ends 15 May), coupled with a modest response from the fiscal sector all but scuttles hopes for growth in 2Q with the lockdown period extending deep into the quarter. Meanwhile, 3Q output may also contract as consumer and business sentiment will likely stay impaired significantly even after the lockdown is lifted.

## U-shaped recovery

We have likened Covid-19 to kryptonite to the once robust economy and we now expect a deep drop in performance as the virus knocks out the Philippines' greatest strengths. The Philippines will be missing the support from remittance flows, which will take the wind out of consumption momentum with up to 90,000 migrant Filipinos losing their jobs due to the virus. Onshore, the services-oriented economy is not likely to jump out of the gates after the lockdown as social distancing curtails businesses where human interaction is unavoidable. To date, the fiscal response has remained modest even as the lockdown was extended a full month and as it remains meagre we expect GDP to contract by 2.2% in 2020 with negative growth in both 2Q and 3Q.

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)