Economic and Social Survey of Asia and the Pacific 2020

Aligning post-Covid 19 recovery towards sustainable economies

Philippines policy dialogue

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Key messages

• Asia and the Pacific is not on track to achieve any SDGs, in particular sustainable consumption and production and environmental well-being…
  …the economic growth-centric development approach should be revisited

• Current economic slowdown is exacerbated by COVID-19…
  … but the policy responses should prioritize people over economic recovery and the journey towards the 2030 Agenda should continue

• The pandemic and climate emergency require policymakers to move away from short-termism towards long-term vision…
  …through collective policy actions led by Governments and supported by businesses and people along with enhanced global and regional cooperation

• The Philippines economy has been hit hard but the Government has responded actively with a comprehensive fiscal package to meet the short-term impacts of the pandemic
  ….however going forward greater spending will be required to ensure future health preparedness and improve social protection, as well as decarbonizing the economy
GDP growth-centric development approach has come with costs to PEOPLE and the PLANET.
Economic growth-centric development approach has contributed to income growth and poverty reduction...

… however, the gains in poverty reduction are marginal if we raise our ambitions…

Economic growth and its social impact in Asia and the Pacific

Poverty headcount
($1.90 per day)
(RHS)

Poverty headcount
($3.20 per day)
(RHS)

Poverty headcount
($5.50 per day)
(RHS)


Note: LHS = left-handed side axis; RHS = right-handed side axis.
…and the distribution of income has been unequal

Share of income (pre-tax national income) by income groups in Asia

Source: WID (accessed 3 October 2019)
…while the costs to the **PLANET** have also been significant.

Similar trends are observed in the Philippines

Economic growth and its social and environment impact in the Philippines

Asia and the Pacific is off-track to achieve the 2030 Agenda, with Goal 12 regressing the most.

Snapshot of SDG progress in 2019: Asia-Pacific region

SDG 12: Ensuring sustainable consumption and production patterns

8 Key Targets focusing on sustainable...

- Resource Management
- Business Practices & Reporting
- Tourism
- Green Public Procurement
- Market Mechanism
- Living
- Finance
Progress on **Goal 12** can be an effective way to accelerate progress towards the **2030 Agenda**

Synergies between Goal 12 and other Goals

2.3 Double agricultural productivity and incomes of small-scale food producers
2.4 Ensure sustainable food production systems and resilient agricultural practices
4.7 Education for sustainable development and sustainable lifestyles
6.3 Water quality
6.4 Water-use efficiency
7.2 Energy efficiency
7.3 Renewable energy
8.4 Global resource efficiency for sustained economic growth.

12. RESPONSIBLE CONSUMPTION AND PRODUCTION

14.2 Sustainably manage and protect marine and coastal ecosystems
13.2 Integrate climate change measures into national policies, strategies and planning
11.6 Environmental impact of cities
11.8 Resource efficiency for disaster risk management
9.4 Upgrade infrastructure and retrofit industries
9.9 Sustainable and resilient infrastructure in developing countries

Progress on **Goal 12** calls for revisiting the current consumption and production patterns...
... requiring behavioural changes by different stakeholders

GOVERNMENTS
- Dependency on fossil fuels
- Underpricing of carbon

BUSINESSES
- Failure in accounting for externalities

CONSUMERS
- Ingrained consumption habits
- Lack of environmental awareness
Challenging near-term economic conditions pose significant obstacles
COVID-19 pandemic has brought shocks from both of the supply and demand sides...

LOWER EARNINGS
- Lower demand for Goods and Services (Tourism, Hospitality, Civil Aviation)

LAYOFF WORKERS
- Measures to Contain COVID-19 (e.g. travel restrictions, suspension of production, and lockdown of cities)

PEOPLE
- Higher demand for Healthcare

FIRMS
- SMEs are more vulnerable.

LOWER PRODUCTION
- Disruptions in Supply Chains
  - Affect other countries' manufacturers in supply chains

LOWER EARNINGS
- Lower demand for Commodities
  - Affect commodity importers and exporters

FINANCIAL MARKETS
- Stock markets and foreign exchange markets
  - Potential financial contagion
  - Affect other countries' manufacturers in supply chains

SUPPLY SIDE CHANNEL
- People mobility to affect other countries

DEMAND SIDE CHANNEL
- Disruptions in Supply Chains

FINANCIAL MARKET CHANNEL
- Measures to Contain COVID-19 (e.g. travel restrictions, suspension of production, and lockdown of cities)

CROSS-BORDER CHANNEL

Source: ESCAP.
...significantly weighing on the region’s economic performance...

Downgrade of GDP growth in Asia and the Pacific

Source: ESCAP, based on DESA’s World Economic Forecasting Model (based on data and information available up to 27 April 2020).
What has been done and can be done?
Policy responses to COVID-19 need to prioritize people over economic recovery

**Fiscal policies:** Large and targeted fiscal measures to contain and respond to COVID-19, and to ease the shock to jobs and guarantee minimum living standards.

**Size of fiscal support packages (as a share of GDP) by country grouping**


Note: If a country announced a fiscal stimulus package but did not reveal its size, then it is not included in calculating the range and the median.
Fiscal package announced by the Philippines

The government launched a PHP 595.6 billion fiscal package (about 3.1 percent of 2019 GDP) for vulnerable individuals and groups, which includes the following measures:

1. PHP 205 billion cash aid program (1.1 percent of 2019 GDP) for 18 million low-income households, under which eligible households are expected to receive cash transfers of between PHP 5,000 and PHP 8,000 a month for a period of two months;

2. Over PHP 56 billion social protection measures for vulnerable workers, including for displaced and overseas Filipino workers (0.3 percent of 2019 GDP);

3. Over PHP 54 billion on COVID-19-related medical response (0.3 percent of 2019 GDP); and

4. PHP 120 billion (0.6 percent of 2019 GDP) credit guarantee for small businesses and support to the agriculture sector. Financial assistance will also be provided to affected micro-, small-, and medium-size enterprises (MSMEs) and vulnerable households through specialized microfinancing loans and loan restructuring.

Investing in public health emergency preparedness and social protection should be the medium- to long-term measures.

Investment needs in health emergency preparedness: Asia-Pacific developing countries

Source: ESCAP estimates, based on WHO SDG Health Price Tag.
Investing in public health emergency preparedness and social protection should be the medium- to long-term measures. 

Public spending on social protection, as a share of GDP

Additional annual investment needs to provide social protection floor in the Philippines

Source: ESCAP.
Stimulus measures could be linked to investment needs and priorities for achieving the SDGs

Annual additional investment requirements to achieve the 2030 Agenda in the Philippines

Source: ESCAP, Economic and Social Survey 2019.
Increased public spending is expected to deteriorate near-term fiscal positions significantly

Difference between October 2019 and April 2020 projections of fiscal balance in 2020

Source: ESCAP, based on latest World Economic Outlook database.
Policy responses to COVID-19 need to prioritize people over economic recovery

Monetary policies: Targeted monetary easing to ensure overall financial sector health and support SMEs

Other measures by the Bangko Sentral ng Pilipinas:
1) Reserve requirement ratio cuts (by 200 bps)
2) Open market operation (purchase of PHP300 billion govt securities (1.5% of GDP))
3) Temporary relaxation of requirements on compliance reporting, penalties on required reserves, and single borrower limits
4) Easier access to the BSP’s rediscounting facility
5) Temporary relaxation of provisioning requirements
6) Relaxation of prudential regulations regarding marking-to-market of debt securities
7) Loans to MSMEs to be counted as part of banks’ compliance with reserve requirements
8) Zero risk weight on loan exposures guaranteed by the Philippine Guarantee Corporation


Note: *For Viet Nam, its Central Bank cut benchmark policy rates by 50-100 basis points, effective on March 17. In the figure, the average policy rate cut is illustrated.
Policy responses to COVID-19 need to prioritize people over economic recovery

Fiscal policies:
• Large and targeted fiscal measures to contain and respond to COVID-19… and to ease the shock to jobs and guarantee minimum living standards

Monetary policies
• Targeted monetary easing to ensure overall financial sector health and support SMEs

Regional cooperation
• Consider establishing a regional or subregional public health emergency fund
• Coordinate debt relief or deferral of debt payments
Current economic slowdown should not deter policy actions to facilitate transition towards sustainable consumption and production.
Business-as-usual cannot continue in the face of climate emergency…

Domestic material consumption and GHG emissions in 2020-2060, compared with 2020 levels

... which requires collective actions by all stakeholders
Governments should embed sustainability in policymaking and decarbonize their economies

- Remove fossil-fuel subsidies

Fossil-fuel subsidies accounted for 3.4% of government revenue in 2015.

- $240 billion
- $150 billion
- $434 billion


Note: Fossil-fuel subsidies or only post-tax. All pre-tax subsidies according to the definition of the IWF have been discontinued.
Governments should embed sustainability in policymaking and decarbonize their economies

- Remove fossil-fuel subsidies
- Adopt carbon pricing

### Local action

- Remove fossil-fuel subsidies
- Adopt carbon pricing

**Source:** ESCAP, based on IMF (2019g)
The Philippines: Carbon Taxes

- A direct carbon tax has not been implemented in the Philippines yet and plans for doing so have been discontinued.
- The 2017 tax reform introduced excise taxes on carbon intensive products (petroleum, cars, coal).
- Converting these taxes into carbon taxes would lead to carbon prices between US$ 1.60 for coal and US$ 95 for gasoline.

Source: rappler.com (2018)
Governments should embed sustainability in policymaking and decarbonize their economies

- Remove fossil-fuel subsidies
- Adopt carbon pricing
- Green the financial systems

**Local action**

- Remove fossil-fuel subsidies
- Adopt carbon pricing
- Green the financial systems

**Financial Incentives**
- Specific lending terms for green projects
- Credit enhancements and government guarantees
- Tax breaks

**Regulatory Incentives**
- Supporting sustainability reporting, disclosure and transition through TCFD and NGFS

The Bangko Sentral ng Pilipinas is not a member of NGFS.
The Philippines: Green Bonds

- First green bond in the Philippines was issued by Aboitiz Power Cooperation in 2016
- The second bond in the Philippines was by BDO Unibank who launched a US$150 million green bond backed by the IFC
  - This bond has financed exclusively renewable energy generation, saving over 270,000 tons of CO2 per year
- ESG bonds totalled US$1.2 billion in 2019 and are expected to reach US$2 billion in 2020
- The national Securities and Exchange Commission has issued green bond standards in line with ASEAN guidelines in August 2018

... which requires collective actions by all stakeholders
Businesses should internalize the externalities of their business operations

- Incorporate ESG considerations in making decisions

**Environment**
- Water and pollution
- Resource depletion
- Greenhouse gas emission
- Deforestation
- Climate change

**Social**
- Employee relations and diversity
- Working conditions, including child labour and slavery
- Local communities; seek explicitly to fund projects or institutions that will serve poor and underserved communities globally
- Health and safety
- Conflict

**Governance**
- Tax strategy
- Executive remuneration
- Donations and political lobbying
- Corruption and bribery
- Board diversity and structure
Businesses should internalize the externalities of their business operations

- Incorporate ESG considerations in making decisions

Guidelines to integrate ESG into business functions

Participation in PRI in Asia-Pacific is only 15%

There are 0 signatories from the Philippines currently.
Businesses should internalize the externalities of their business operations

- Incorporate ESG considerations in making decisions and enhance climate risk-related disclosure
- The first Philippines business signed TCFD in February 2020

Source: Aboitiz (2020), TCFD
Businesses should internalize the externalities of their business operations

- Incorporate ESG considerations in making decisions and enhance climate risk-related disclosure
- Adopt internal carbon pricing

About **35%** of companies that have disclosed the use of or plan to implement carbon pricing are in Asia-Pacific

The real-estate company Ayala Land is the first in the Philippines to adopt internal carbon pricing.

Source: CDP (2017)
Businesses should internalize the externalities of their business operations

- Incorporate ESG considerations in making decisions and enhance climate risk-related disclosure
- Adopt internal carbon pricing

...to give the eco-conscious investors such information to make decisions
... which requires collective actions by all stakeholders

Local action

GOVERNMENTS

People action

Businesses

Global action

Cross-border cooperation

People action

Consumers

DECADE OF ACTION
Consumers need to move towards sustainable lifestyles

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<tr>
<th>FOOD</th>
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<th>✗</th>
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<tr>
<td>Plant-based diet and eating what you need</td>
<td>Animal-based diet and food waste</td>
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<th>TRANSPORTATION</th>
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<tr>
<td>Biking, ride-sharing and commuting on public transportation</td>
<td>Driving and excessive air travel</td>
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<tbody>
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<td>Using energy-efficient appliances and reducing energy usage</td>
<td>Using energy-intensive appliances and consuming excessive energy</td>
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<table>
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<tr>
<th>CLOTHING</th>
<th>✓</th>
<th>✗</th>
</tr>
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<tbody>
<tr>
<td>Reusing clothes and buying only what you need</td>
<td>Buying single-use clothes and discarding clothes that are in good condition</td>
<td></td>
</tr>
</tbody>
</table>

CO₂ Emissions (metric tons per capita)

Metro Manila is the most congested city in developing Asia (out of 279 cities).

Governments and businesses can help consumers move towards sustainable lifestyles through:

- Nudging

Mandatory energy labels on electric appliances in Singapore
Governments and businesses can help consumers move towards sustainable lifestyles through:

- Nudging
- Incentivizing the sharing of idle and underutilized resources
... which requires collective actions by all stakeholders

Local action
GOVERNMENTS

People action
Businesses

Global action
Cross-border cooperation

People action
Consumers
Global action

Cross-border cooperation in the region is crucial to prevent inaction and raise ambitions

- Establish cooperation on regional climate-related policies
  - Harmonize climate-related standards among countries
  - Cooperate on climate-risk management
Cross-border cooperation in the region is crucial to prevent inaction and raise ambitions.

- Establish cooperation on regional climate-related policies
- Move towards decarbonization
  - Develop regional carbon markets
  - Scale up transboundary power trade

Energy Efficiency in the Philippines has improved since the beginning of the 2000s.
Cross-border cooperation in the region is crucial to prevent inaction and raise ambitions.

- Establish cooperation on regional climate-related policies
- Move towards decarbonization
- Implement 10-Year Framework of Programmes on SCP

The Philippines has already made progress implementing 10YFP, especially eco-labeling of environmentally friendly goods.
The Philippines’ commitment is rated at 2°C compatible but is not sufficient to stay within the 1.5°C Paris Agreement limit.
... which requires collective actions by all stakeholders

Local action

GOVERNMENTS

People action

Businesses

Global action

Cross-border cooperation

People action

Consumers
Recommendations for the Philippines

• The Government has taken a rapid proactive approach in dealing with the immediate impacts of the pandemic

• Going forward, as the country spends on recovery programmes there is a need to build back better

• This will involve especially spending directed towards emergency health preparedness and greater social protection for vulnerable groups, while also taking steps to decarbonize the economy

• The country has the means to bear the necessary expense due to its strong fiscal position and good macroeconomic management
Takeaway messages

• COVID-19 pandemic can become a catalyst to change the development approach that prioritizes people and the planet…
  …which is critical as the region is facing a climate emergency

• All stakeholders must act collectively at local, people and global levels:
  • Governments should prioritize sustainability and decarbonize their economies (local action);
  • Businesses should internalize the externalities of their business conduct and consumers should be more mindful of their lifestyles (people action); and
  • Countries should enhance global and regional cooperation towards more ambitious solutions (global action).
Economic and Social Survey of Asia and the Pacific 2020
Towards sustainable economies