SUMMARY OF COVID-19 ECONOMIC GROWTH, EMPLOYMENT, AND POVERTY IMPACT ASSESSMENT

I. Introduction

1. The government’s immediate response to contain and slow down the spread of coronavirus disease 2019 (COVID-19) includes an enhanced community quarantine (ECQ) in the National Capital Region (NCR) and nearby areas on 15 March 2020. This was extended to the entire island of Luzon on 17 March 2020. Factories and public transportation have shut down, malls and restaurants closed, and supply chains cut. Combined with the slump in consumer and business confidence associated with the COVID-19 pandemic and disruption to global trade in goods and services, including tourism, the ECQ has affected tens of thousands of informal sector workers including daily wage laborers of their livelihoods. Consequently, they and their families are finding it difficult to pay for food, medicines, and other basic necessities. In the formal sector, there will be some job and income losses for contract and temporary workers in the construction and services sector. The medium- to long-term impact of all these collateral adverse effects of COVID-19—in terms of rising economic cost and social anxiety, poverty and hunger, especially among the already vulnerable segments of the NCR—will be grave.

2. The global COVID-19 pandemic is having a significant adverse impact on the Philippines economy, jobs, and poverty incidence. Despite a decline in the poverty rate in the Philippines from 25.2% in 2012 to 23.3% in 2015 to 16.6% in 2018, the current pandemic could have a direct and indirect impact on poverty and inequality due to: (i) the loss of livelihoods; (ii) a partial or total disruption of supply chains which include many micro, small and medium enterprises (MSME); (iii) a massive increase in personal and MSME debt; (iv) the loss of a primary income earner in families due to illness or death; and (v) decrease in remittances from overseas Filipino workers.

II. Economic Growth Impact

3. ADB simulations indicate a sharp slowdown in economic growth beginning in February 2020, with a historically unprecedented large contraction in the second quarter. Assuming the COVID-19 pandemic dissipates by June, ADB simulations show the beginning of a bounce back in the third quarter with the growth momentum moving forward into the fourth quarter of 2020, and economic growth returning to above its long-term trend in 2021. Based on current data, economic growth is expected to fall to -1.0% in 2020, with significant downside risks. Growth is projected at 6.5% in 2021.

4. The first-round effect occurred in February with a substantial decline in tourist arrivals, falling by 41.4% in February (year-on-year) and projected to fall by 80% in March to June 2020. International trade in goods is also disrupted as more trading partners enter lockdown to mitigate the spread of COVID-19. The second-round effect is the contraction in household consumption and investment associated with the Luzon-wide ECQ from 13 March 2020 to 14 April 2020, and a sharp fall in consumer confidence and business sentiments.

II. Employment Impact

5. The substantial economic contraction in the second quarter of 2020 will lead to historic levels of job losses and high unemployment. ADB simulations indicate that the unemployment rate in Luzon will increase from 5.3% in October 2019 to at least 22% in the second quarter of 2020. Non-regular workers in “high contact-intensive” jobs in services (hotels, restaurants, retail, etc), and non-regular workers in manufacturing are most likely the first employees to be laid off,
while many regular workers in the services sector are likely to be put on unpaid leave or ‘hidden unemployment’. As employment recovery lags economic growth by 6 to 18 months, we expect unemployment to remain at elevated levels, gradually falling to 12.4% by quarter 4 of 2020 and to 9.0% by June 2021.

**Figure 1: Unemployment rates in Luzon expected to rise dramatically**

![Unemployment rates in Luzon](image)

COVID-19 = coronavirus disease, Q = quarter.
Source: ADB estimates. Assumptions assume non-regular workers in ‘high contact-intensive’ jobs in services and in manufacturing are laid off first as a result of the Luzon enhanced community quarantine and fall in household spending and investment. The simulations assume 2021 economic growth of 6.5%, employment elasticity of 0.6, and labor force growth of 2.6% in 2020 and 2021.

II. **Poverty Impact**

6. The government has reduced poverty incidence from 23.3% of the population in 2015 to 16.6% in 2018 through a combination of sustained economic growth, job creation, and social assistance programs. This has translated to a decline in the number of poor individuals from 23.5 million in 2015 to 17.6 million in 2018. Like with employment over the short to medium term, the COVID-19 pandemic is likely to reverse recent gains in poverty alleviation.

7. Using the 2018 Family Income and Expenditure Survey for the baseline poverty profile of NCR, the rest of Luzon and the rest of the Philippines combined with estimated job losses as a result of the lockdown, ADB simulated the impact of the COVID-19 pandemic on household incomes and poverty incidence. ADB simulations show without substantial fiscal support to poor and near poor families, the national poverty rate could increase from 16.6% of the population in 2018 to 20.7% in 2020, equivalent to 5.5 million more Filipinos falling into poverty as a result of the pandemic effects on incomes. This represents a 68.6% increase in the number of impoverished persons in NCR and a 31.3% increase in the total number of poor persons in the Philippines threatening to reverse the country’s gains in poverty reduction in recent years. Assuming economic growth returns to its long-term trend in 2021, the poverty incidence is
expected to decrease to 20.2% of the population by the end of 2021, higher than 2018 levels, showing long term effects of the pandemic on poverty.

8. Given the widespread and still unfolding impact of COVID-19, the government has launched an Emergency Subsidy Program to ensure that some 18 million low-income households have enough provisions for 2 months for April and May 2020 during the community quarantine. This will mitigate the impact on the poor and near poor (Figure 2). Existing programs/platforms from the Department of Social Welfare and Development and the Department of Labor and Employment will be used to deliver the emergency subsidy because speed is essential if the low-income households are to survive during the lockdown. ADB simulation show that with this fiscal support, 2.6 million Filipinos would escape falling into poverty as a result of the COVID-19 effects on their livelihoods. In other words, the poverty rate would only increase to 18.4% in 2020 with fiscal support rather than the higher 20.7% without fiscal support. Also, with fiscal support, poverty rate would fall back faster in 2021. In order to further restore livelihoods and lift most of the 5.5 million new poor out of poverty additional measures to provide economic relief to people and sectors affected by the virus-induced slowdown in economic activity will be needed. Support to workers laid off during the ECQ period is critical as these workers are unlikely to have savings and their households have very limited coping mechanisms in place. Small businesses in the restaurants, transport, and other service sectors may also require financial assistance that allows them to retain workers on the payroll.

![Figure 2: Poverty incidence expected to increase](image)

Source: ADB estimates. Simulations assume families lose income and wages for 2.5 months, (lockdown is for 1 month) and takes one month and one half to restart business/re-hired. This translates to 21% loss income per capita for the year in Luzon and 14 % in the rest of the Philippines in 2020. For 2021, economic growth estimated at 6.5%.