

Annalise Mak
Hong Kong International School
Hong Kong S.A.R., China

Food Insecurity in the Philippines: A Comparison and Evaluation of Monetary and Fiscal Policies effected during the Covid-19 Pandemic

This paper will describe and compare the monetary and fiscal policies that the government of the Republic of the Philippines (the Philippines) has undertaken during the Covid-19 pandemic and will also evaluate the extent to which these have been effective in combating food insecurity during this period. It will further propose macroeconomic solutions and recommendations that appear most promising in reducing food insecurity in the short and long run.

Introduction

The Philippines is a beautiful archipelago of over 7,000 islands situated in South East Asia. It sits on the Pacific Ring of Fire and its western regions are prone to seismic activity in the form of earthquakes and volcanic eruptions. The weather is mostly hot and humid as it has a tropical maritime climate. From July to September, the Philippines experiences frequent typhoons. In recent years, the severity of tropical storms and typhoons have increased and caused extensive and disastrous damage. The nation is considered at very high risk from the devastation of climate change (Overland et al).

The Philippines has a bi-cameral legislature with an elected head of government who is also the head of state. Although voter participation in elections is high, politics and the economy are dominated by an elite class. As a developing nation, rule of law, application of justice, and effectiveness of government institutions are deemed relatively weak compared to developed Western democracies (Freedom House).

Poverty in the Philippines

Despite being an economy with vast natural resources, the Philippines has a relatively high prevalence of undernourishment and malnutrition. The total population is about 110 million people, and the urban population is about 59 million. The incidence of poverty -- defined as "the proportion of Filipinos whose per capita income cannot sufficiently meet the individual basic food and non-food needs" -- is much higher in the rural population of about 50 million, particularly among farmers and fisherfolk. As of 2021, the poverty incidence rate was over 25% for the rural population and 18.1% for the total population (Philippine Statistics Authority).

Food Insecurity in the Philippines

Food insecurity is closely linked to households experiencing poverty. The Food and Agriculture Organization (FAO) of the United Nations defines food insecurity as "the lack of access to sufficient, safe, and nutritious food that meets individuals' dietary needs for an active and healthy life". Filipino households experiencing severe poverty usually also experience food insecurity because food expenditure is the largest component of total expenditure in low-income households. On average, food expenditure is about 43% of total household expenditure in the Philippines. However, food takes up almost 60% of household expenditure in the bottom 30% of all income groups (Lomibao).

As of October 2022, according to a remote household food security survey conducted by the World Food Programme, one in every ten Filipino households suffered from food insecurity. The poorer the region, the higher the food insecurity in that region. Take, for example, the Bangsamoro Administrative Region in Muslim Mindanao: reported food insecurity levels there reached over 30%, which is three times the national average (World Food Program: Philippines).

The Economic Impact of the Covid-19 Pandemic on Food Security in the Philippines

The Covid-19 pandemic created massive supply-side and demand-side shocks on the Philippines economy. In 2020 alone, the National Economic Development Authority reported that the GDP of the Philippines economy shrank by 9.5% and its unemployment rate hit 10.3%. Almost two-thirds of Filipino households participating in a nationwide survey in 2020 stated that they experienced moderate to severe food insecurity when the government imposed the Enhanced Community Quarantine (Angeles-Agdeppa et al 1-2).

Initial supply-side shocks to the economy were mainly from sudden constrictions of labor supply. These arose from deaths and sickness from the disease as well as the need to look after ill family members and children affected by school closures. However, the bigger impact came from labor shortages that arose from government-mandated stoppage of non-essential services, voluntary social distancing measures, and workers' inability to work from home. Additionally, the effect of the pandemic on global supply chains disrupted supply of much-needed food and other imports to the country.

Demand-side shocks were initially driven by stockpiling behavior and changes in consumer spending patterns that were based on avoiding disease. The precipitous decline in tourism and adoption of national and localized quarantine measures also reduced spending on entertainment, leisure and restaurants. Furthermore, economic uncertainty drove down consumer spending.

The supply and demand shocks affected different income groups, occupations, industries and regions very differently. According to Angeles-Agdeppa and others, the poorest Filipino households are 1.7 times more likely to become moderately or severely food insecure than middle-income households (Angeles-Agdeppa et al 10). This figure is probably under-reported because their survey could not include ultra-poor families who did not have telephone contact numbers (3, 14). The proportion of moderate to severe food insecurity was much greater among rural households, agricultural workers, families with pregnant women, and families with pre-school children (5). Remote areas with low risk of Covid-19 infection were more likely to suffer food insecurity than urban households because the latter have better access to food sources and government assistance programs (10).

Fiscal Policy During the Covid-19 Pandemic and its Impact on Food Security

During the pandemic, the Philippine government undertook expansionary fiscal policy. Among other things, it dramatically increased its spending on myriad programs to alleviate hardship on affected households. The nationwide Rapid Nutrition Assessment Survey conducted in 2020 found that just over 90% of families reported that they received food assistance packs containing rice, cereals, canned food, dried goods and condiments. These food packs were dispensed through Local Government Units or non-governmental organizations. Families in high-risk urban areas received food assistance more frequently than families in poorer rural areas.

The national and local government agencies also provided almost two-thirds of families with cash subsidies based on the prevailing regional minimum wage. Again, families in urban, high-risk areas benefitted more than families in rural areas. More than 50% of all families in high-risk urban areas received cash assistance at least twice. However, 78% of families in low-risk areas received cash assistance only once, and food insecure families spent most of the cash given to them on food.

Only about 12.5% of households received government aid for home gardening and livestock raising. This program benefitted fewer households compared to food or cash assistance.

Overall, the Philippine government was moderately successful in using fiscal policy to help many families facing food insecurity during the Covid-19 pandemic. Its execution of the programs was more effective in urban areas, but its reach was less effective in rural and poorer regions. Nonetheless, the Philippine government was able to act quickly to provide relief to many food insecure families. It should be noted that these programs have been extremely expensive and have pushed the Philippine government budget into deficit. In order to balance its budget in the future, it may have to raise taxes or cut expenditure from elsewhere.

Monetary Policy During the Covid-19 Pandemic and its Impact on Food Security

The central bank of the Philippines, the Bangko Sentral ng Pilipinas (BSP), is headed by the reform-minded, Governor Benjamin Diokno. Under his direction, the BSP was swift to answer the demand shocks posed by the pandemic by making a policy rate cut earlier than many countries in February 2020.

Diokno asserted that, as of September 2020, in spite of tax revenues dropping deeply during the crisis, the BSP adopted an expansionary monetary policy and spent PP 1.3 trillion in policy support measures to shore up price and financial stability.

Other steps involved reducing reserve requirements to encourage financial institutions to lend more readily to micro, small and medium enterprises. These businesses were most badly affected by the quarantine and social distancing regulations imposed at the height of the pandemic.

The BSP also made it a priority to instil confidence and stabilize the markets by improving the clarity, timeliness and speed of communications, as well as upgrading its payment and settlements systems.

Overall, the BSP appears to have kept an even keel on the Philippines economy with its monetary policy measures ably focused on keeping inflation low and prices stable. However, the full effects of its stabilization measures on food insecure families can only be assessed further into the future as monetary policy works in a much slower and more indirect way on consumers. In fact, monetary policy is often described as too blunt a tool to effect improvements in food security. However, because the central banks usually aim to keep inflation low and provide financial stability to the markets, their actions matter disproportionately more to poorer households who spend most of their money on food compared to wealthier households. The higher the inflation, the less they get to eat.

Macroeconomic Solutions and Recommendations for the Future

Fiscal Policy Recommendations

The damage from the complex interaction between pandemic-related supply and demand shocks can render permanent changes to the aggregate supply and demand of the Philippines' economy. These shocks affect different income groups, occupations, industries and regions in different ways.

Examining the sectors of the economy separately to identify what type and size of shocks are at play will help establish which fiscal or monetary remedy is needed.

For example, in the case of an impoverished but fertile agricultural region such as the Zamboanga Peninsula in Northwest Mindanao, the impact of pandemic-related labor supply constraints becomes a crucial consideration. The region's agricultural productivity heavily relies on the availability and health of its workforce as the region is known for its vast forestry, farming and fishing resources (Zamboanga Peninsula Regional Profile). Therefore, if the pandemic severely affects the labor supply due to rampant illness or extremely low wages, addressing this issue becomes a priority over addressing a drop in demand for non-essential items. In this context, the government should strategically allocate funds to improve labor supply rather than solely focusing on stimulating demand. To that end, fiscal policies could include expenditure on immediate relief through food and cash assistance and investing in mobile health clinics and vaccinations which are essential for safeguarding the health of the region's workforce. By ensuring access to healthcare services and implementing comprehensive vaccination campaigns, the government can mitigate the impact of the pandemic on the labor force, allowing poorer agricultural and fishing regions such as the Zamboanga Peninsula to recover and thrive.

On a national level, the government should also continue its deployment of the fiscal policy initiatives set out in the Philippine's National Government Portal's 2017-2022 Development Plan. In this Plan, the government stated that it intended to improve food resiliency through "strengthening efforts to connect food demand and supply." This would be accomplished through strengthening and leveraging partnerships with existing local food and nutrition security NGOs. The Plan also suggested instituting cash-for-work programs and wage subsidies to families facing food insecurity.

Additionally, the Philippine government should consider if it needs to increase tax revenues to pay for the expenditures incurred in combatting the effects of the pandemic. The Philippines has an extraordinarily high rate of income inequality: the wealthiest 1% receive 17% of the national income and the bottom 50% receive 14% (World Bank). The government can focus on broadening the tax base by increasing the tax burden on the ultra-wealthy who were not severely impacted by the pandemic. It can also explore adjusting tax brackets and rates for higher-income individuals and businesses. The medium and high-income and highly educated households were far less affected by food insecurity than the very poor. Thus, increasing tax revenues would contribute to a more equitable distribution of the tax burden.

The government can also consider strengthening tax administration and enforcement mechanisms by implementing technology-driven solutions, including artificial intelligence and data mining, that can enhance revenue collection. Furthermore, the government can review and update existing tax laws, exemptions, and incentives to ensure they align with the country's development goals. This includes reassessing the effectiveness of tax incentives and implementing measures to prevent abuse and ensure that they contribute to sustainable economic growth.

Monetary Policy Recommendations

The BSP's approach to inflation management shares similarities with many central banks that adopt inflation targeting frameworks. During the Covid-19 pandemic, the goal of the BSP was to fortify market confidence and maintain continuous provisions of credit in hopes of sustaining economic growth. The BSP should continue with this goal as well as its efforts to maintain price stability and its commitment to transparent communication -- all of which align with international best practices. The BSP has wisely foreseen the possibility of both growth prospects and higher inflation in the short run horizon. It needs to ensure that the inflation rate and interest rates do not get too high. Poorer workers usually have no means to hedge against inflationary pressure. They usually earn fixed wages and hold most of their assets in the form of cash or non-interest-bearing assets. Because food insecure households spend more of their money on food compared to medium and high-income households, high inflation reduces how much food they can buy to eat (Lomibao).

The BSP believes that a stable and low inflation environment is crucial for sustainable economic growth. However, there are several barriers that can make it challenging for the BSP to effectively manage inflation. These barriers include external shocks such as volatile global oil prices, natural disasters, and geopolitical tensions, which can significantly impact the country's inflation rate. Additionally, structural issues such as supply chain disruptions, inefficiencies, and limited competition in certain industries can contribute to inflationary pressures. The BSP may not be able to prevent inflationary factors beyond its control, but it can adjust its policymaking more quickly and proactively to them by closely monitoring and analyzing leading and coincident economic indicators at national and regional levels. These indicators include consumer confidence, jobless claims, unemployment and payroll data and GDP.

Related Policy Recommendations

Analyzing leading and coincident economic indicators can go beyond just helping the BSP in adjusting their monetary policy and interest rates. There are benefits to breaking the numbers down and comparing them region by region, population by population. By quickly relaying this information to regional and national governments, the Philippines Statistics Authority and other data collecting organizations can help inform regional and national policymakers where their fiscal policy initiatives will be most impactful. This would be an improvement from the situation at the height of the pandemic where urban populations were better cared for than rural populations. Quick and timely regional data would enable differentiated food security solutions to be provided at the right level of need for each region.

Turning to the interplay between fiscal and monetary policies and active citizen participation: with sufficient government investment into school children's and parents' financial education, citizens can play a crucial role in encouraging their government and the BSP to actively manage interest rates and inflation. They can voice their concerns through various channels such as engaging with policymakers, participating in public consultations, and supporting initiatives that promote price stability. Additionally, financially educated citizens will be better positioned to adopt responsible financial behavior such as saving and investing surplus household income, which helps mitigate inflation's impact on household finances during economically challenging times such as the pandemic.

Conclusion

This paper has provided an in-depth analysis of the monetary and fiscal policies implemented by the government of the Republic of the Philippines during the Covid-19 pandemic, with a specific focus on their effectiveness in addressing the issue of food insecurity. By examining the measures taken by the government, such as monetary easing, fiscal stimulus packages, and social protection programs, we have gained insights into the strategies employed to combat the challenges posed by the pandemic. While these policies have made significant contributions to alleviating food insecurity and supporting vulnerable populations, there is still room for improvement. Through the identification of additional macroeconomic policy solutions and recommendations, this study has highlighted promising avenues for reducing food insecurity arising from the effects of the pandemic. By providing this analysis, it is hoped that policymakers, stakeholders, and the international community can work collaboratively towards implementing some or all of these recommendations, thus paving the way for a more food-secure and prosperous future for the Philippines.

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