



McKinsey
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Philippines economic outlook 2022

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34 relate to future events and are based on assumptions
38 that may not remain valid for the whole of the relevant
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Introduction

This economic outlook on the Philippines is offered as a planning tool to help private-sector senior executives set their strategies for the year ahead. As the country continues to grapple with the health and humanitarian effects of the COVID-19 crisis, our new research aims to provide directional scenarios and insights into lasting trends rather than detailed numeric forecasts. We discuss the outlook for the Philippine economy as a whole and for the most relevant domestic industries.

Organizations across the board are grappling with substantial uncertainty with respect to the medium- to long-term impact of the pandemic. We can anticipate with some certainty that three themes will reshape the business environment and have lasting effects: an accelerated and permanent shift to digital; economic bifurcation but with new consumer segments; and a greener and more sustainable economy.

Now is the time for corporations to make the investments needed to thrive in the new normal. Although companies across industries have understandably been reluctant to make at-scale investments and big portfolio moves during the past two years, they can no longer afford to wait and see. Deals are accelerating in the region, and the Philippines can benefit from the momentum.

As these themes coalesce, business leaders could benefit from investing in digital capabilities, reskilling, and redeploying talent to thrive in a digital economy, and from doubling down on sustainability to not only mitigate risk but also spur growth.

Now is the time for corporations to make the investments needed to thrive in the new normal.

What long-lasting effects is COVID-19 likely to have on the Philippine economy?

What long-lasting effects is COVID-19 likely to have on the Philippine economy?

Exhibit 1

The last 24 months have led to drastic shifts in consumer and business behaviors.

Three shifts will have significant and long-lasting effects that will reshape the Philippine economy in 2022 and beyond:



Source: McKinsey analysis

What long-lasting effects is COVID-19 likely to have on the Philippine economy?

Exhibit 2



Post-COVID-19, the Philippine economy is likely to be more digitally enabled and hyperlocal.

Digitally enabled but hyperlocal

Digitally enabled
Digital technologies remove the need to be in person and on-site

Hyperlocal
Proximity determines many purchase decisions

Proof points

- 9% increase in time spent on social media since the pandemic
- 8x increase in digital-banking penetration
- 325% increase in e-commerce

- Proximity chosen as a top 3 reason to choose mall, grocery store, etc
- Social services account for the largest bulk of the government budget at 37% in 2021

First-order, immediate implications

- More e-commerce
- More work and entertainment at home
- Increased telco demand

- Businesses located near neighborhoods prosper
- More demand for convenient and accessible store locations

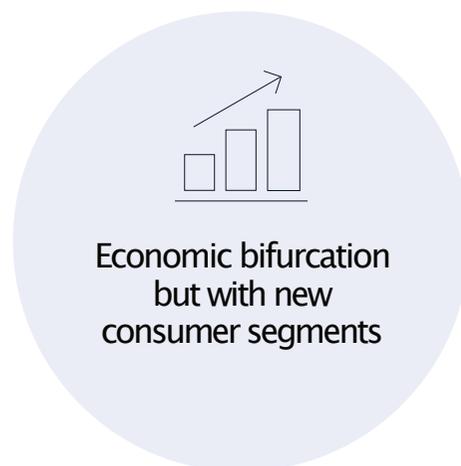
Second-order, longer-term implications

- More conscious consumers who prefer staying home
- More complex logistics and supply chains
- Transportation patterns reshaped
- Cybersecurity and data privacy more critical

Source: "PRRD signs the P4.506 trillion national budget for FY 2021," PH Department of Budget and Management, December 28, 2020; McKinsey analysis

What long-lasting effects is COVID-19 likely to have on the Philippine economy?

Exhibit 3



The Philippines economy is likely to see more bifurcation as new consumer segments emerge.

Proof points

Economic bifurcation
Widening gap in wealth, health, and access to long-term opportunities

New, disruptive consumer segments
New subsegments emerging as demographics and technologies shift

- Upper-income households are 8% more optimistic than mass households that their quality of life will improve in the near future
- 40% difference between rich and poor households; 20% higher than ASEAN¹ average

- 900,000 more businesses registered
- 150,000 play-to-earn gamers
- Additional 32,400 people in 2021

First-order, immediate implications

- Reduced demand and buying power from low- and low-middle-income households

- Hypertargeted offers and businesses to cater to new segments

Second-order, longer-term implications

- At-scale retraining of workers displaced by digitalization
- Remedial support for students with no online access

¹Association of Southeast Asian Nations.
Source: Roy Stephen C. Canivel, "Pandemic gives rise to new entrepreneurs," Inquirer.net, January 21, 2021; McKinsey analysis

What long-lasting effects is COVID-19 likely to have on the Philippine economy?

Exhibit 4



The pandemic is likely to lead to a greener and more sustainable economy in the Philippines.

Greener and more sustainable
Capital flowing to more sustainable technologies and businesses

Proof points

- \$701 million green bonds, \$300 million sustainability bonds, and \$150 million sustainability bonds issued by Philippine banks as of end of September 2021
- Target of 35% of total energy mix from renewable by 2030

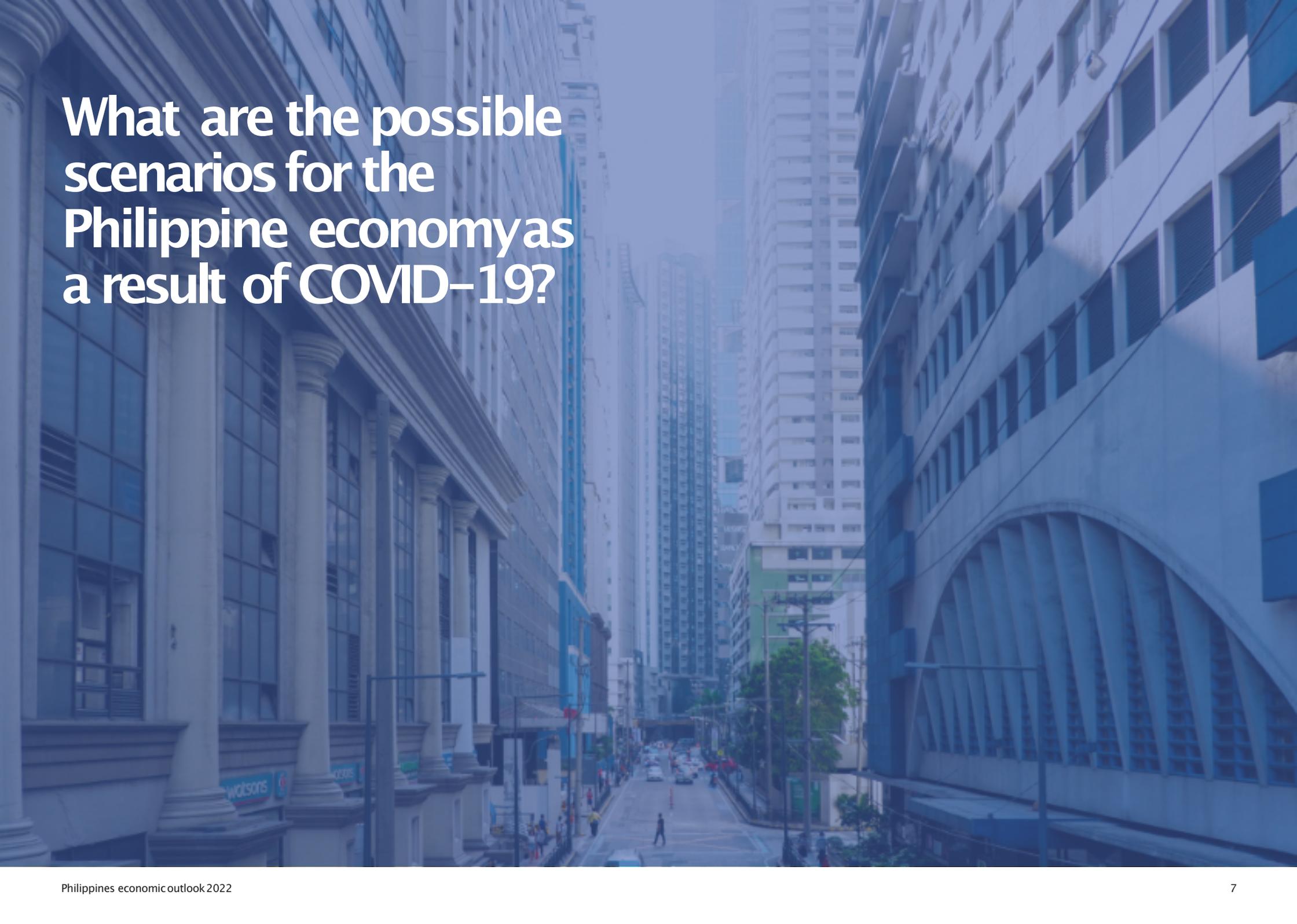
First-order, immediate implications

- Shift in energy mix toward cleaner sources
- Pressure to move away from high-carbon transport
- More biobased fuel alternatives

Second-order, longer-term implications

- Sustainability as a value creation lever, not just risk mitigation

Source: Adrian Paul B. Conoza, "Philippines' further shift to green energy," Business World, May 17, 2021; Lawrence Agcaoili, "BSP sees more sustainability, green bond issuance by banks," Philippine Star, December 26, 2021; McKinsey analysis

A blue-tinted photograph of a city street. On the left is a classical building with columns and a sign for 'WALSON'S'. On the right is a modern building with a curved facade. The street is filled with cars and a few pedestrians. The overall scene is a dense urban environment.

What are the possible scenarios for the Philippine economy as a result of COVID-19?

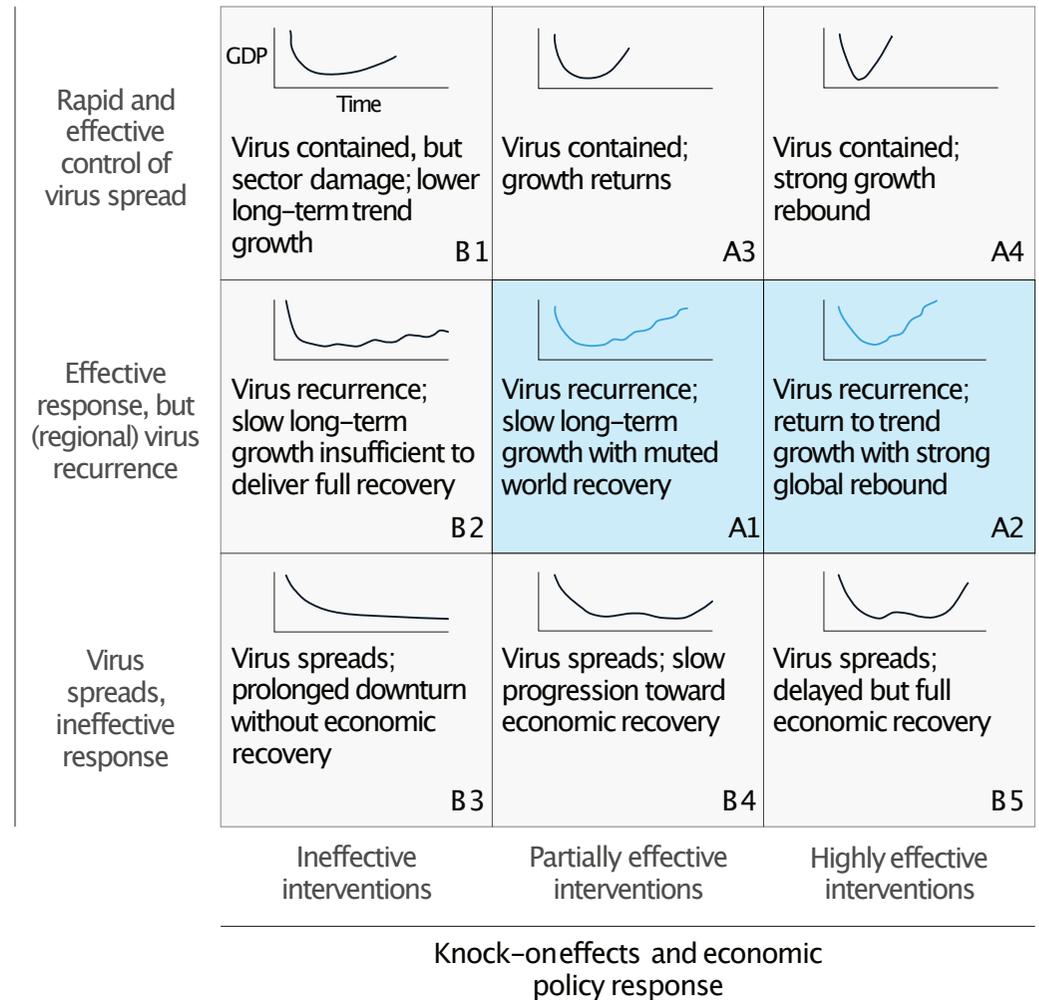
What are the possible scenarios for the Philippine economy as a result of COVID-19?

Exhibit 5

The impact of COVID-19 on the Philippine economy depends on a variety of factors.

GDP impact of COVID-19 spread, public health response, and economic policies under nine scenarios

Latest forecasts assume virus recurrence and muted economic recovery



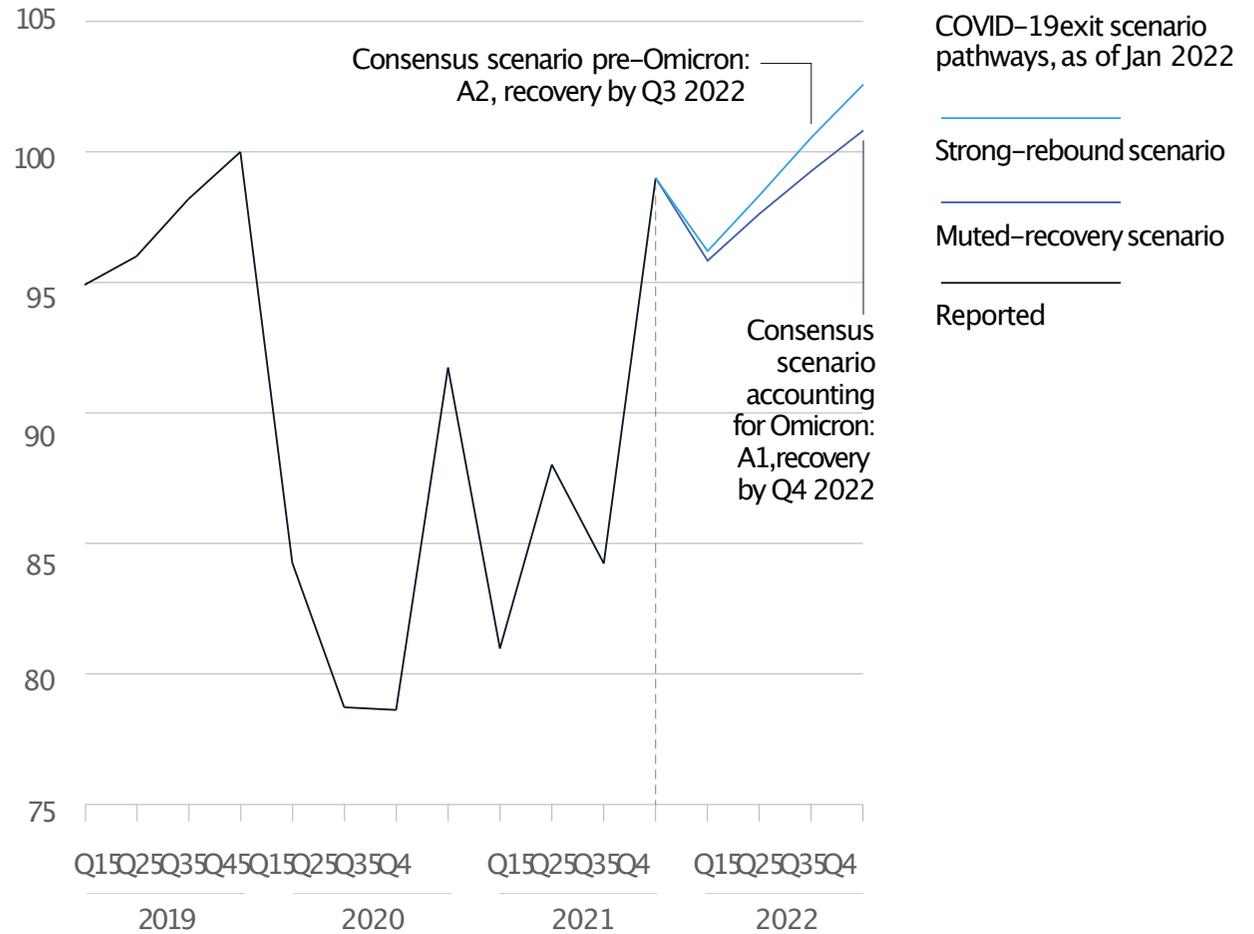
Source: McKinsey analysis

What are the possible scenarios for the Philippine economy as a result of COVID-19?

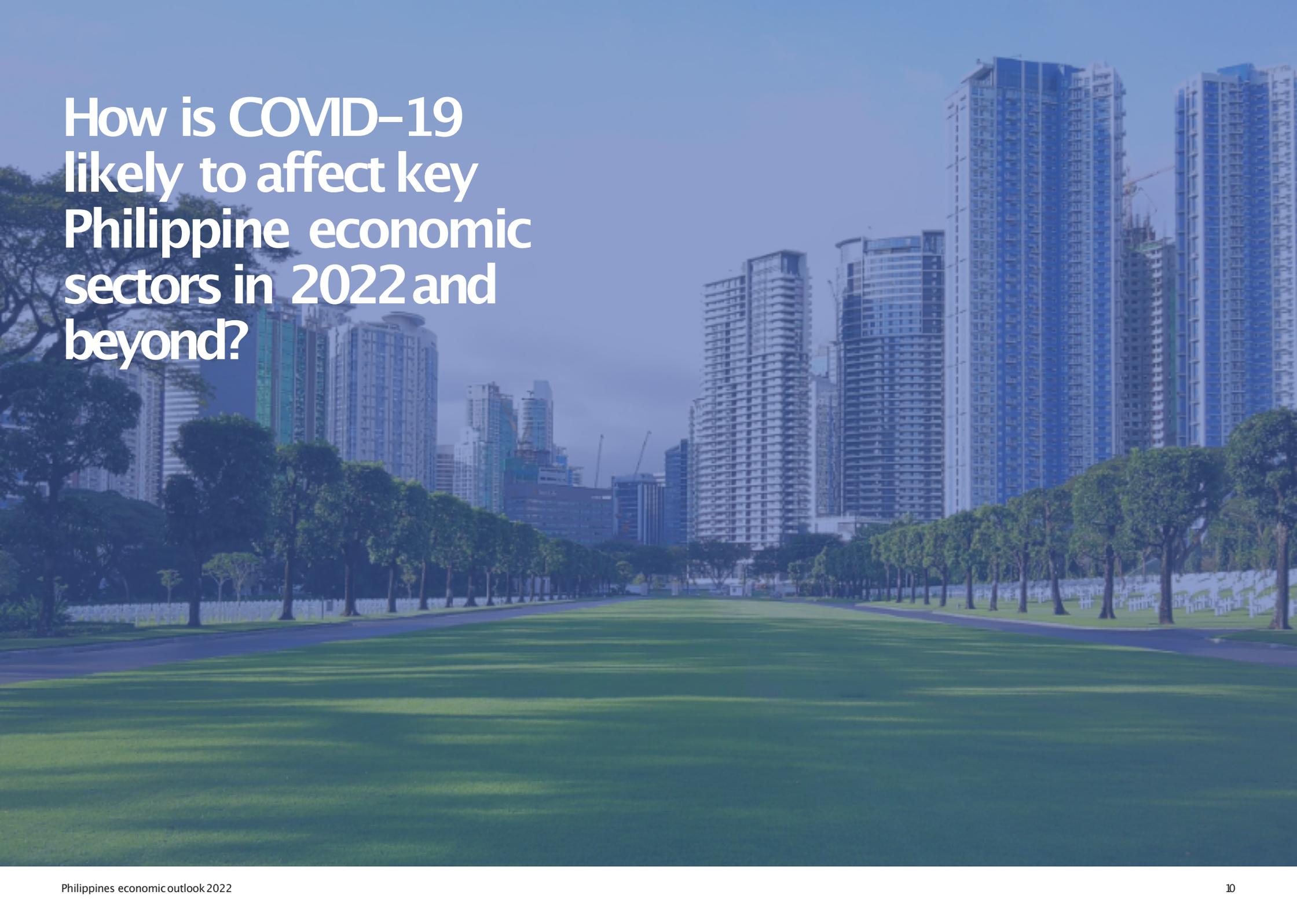
Exhibit 6

The consensus scenario shows the Philippines economy recovering by the fourth quarter of 2022.

Real GDP, index (Q4 = 100 local currency units, 2019)



Source: Philippine Statistics Authority; McKinsey analysis



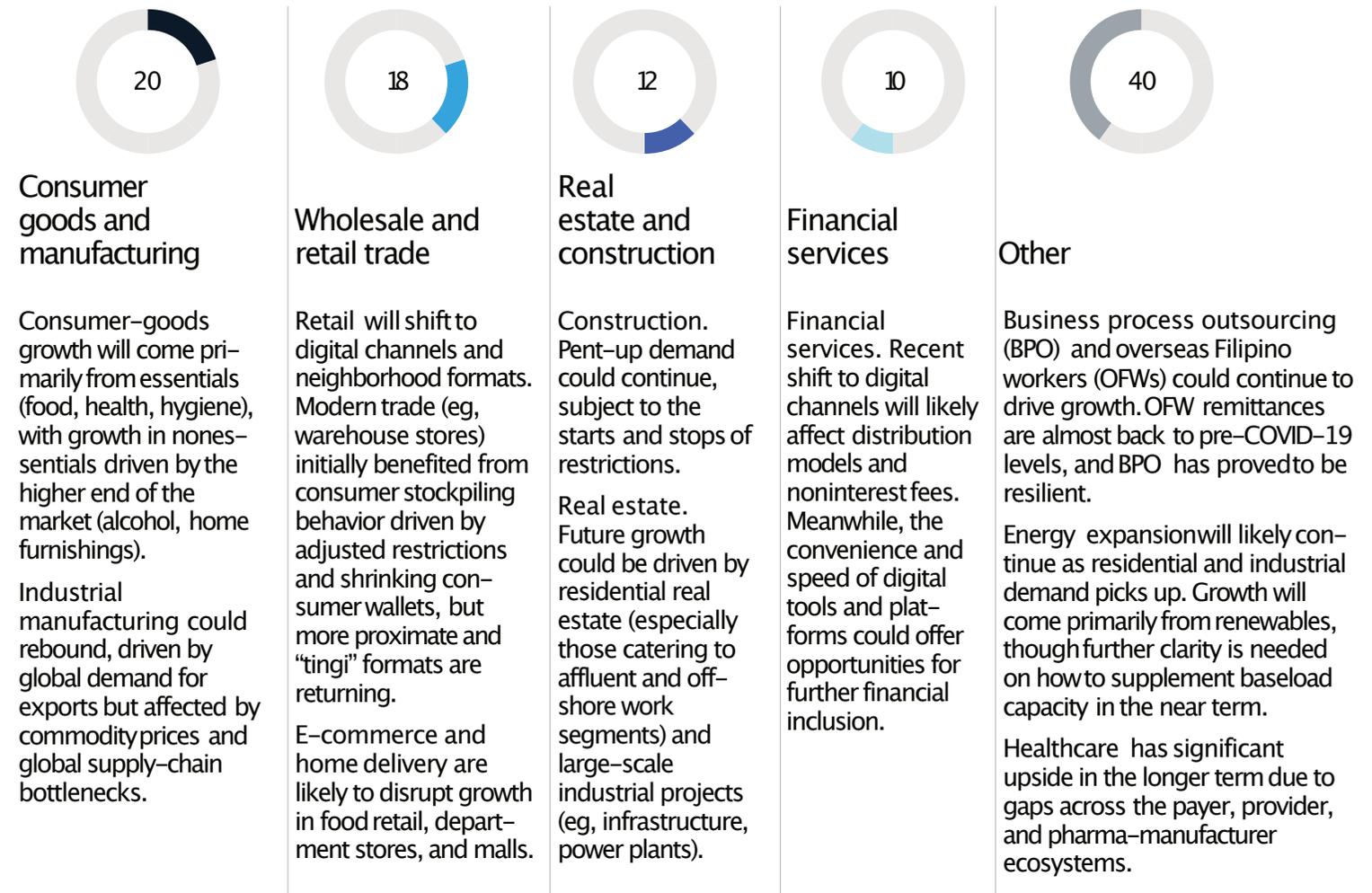
How is COVID-19 likely to affect key Philippine economic sectors in 2022 and beyond?

How is COVID-19 likely to affect key Philippine economic sectors in 2022 and beyond?

Exhibit 7

COVID-19 will have varying impacts across sectors.

Impact to 2021 GDP, % share of GDP



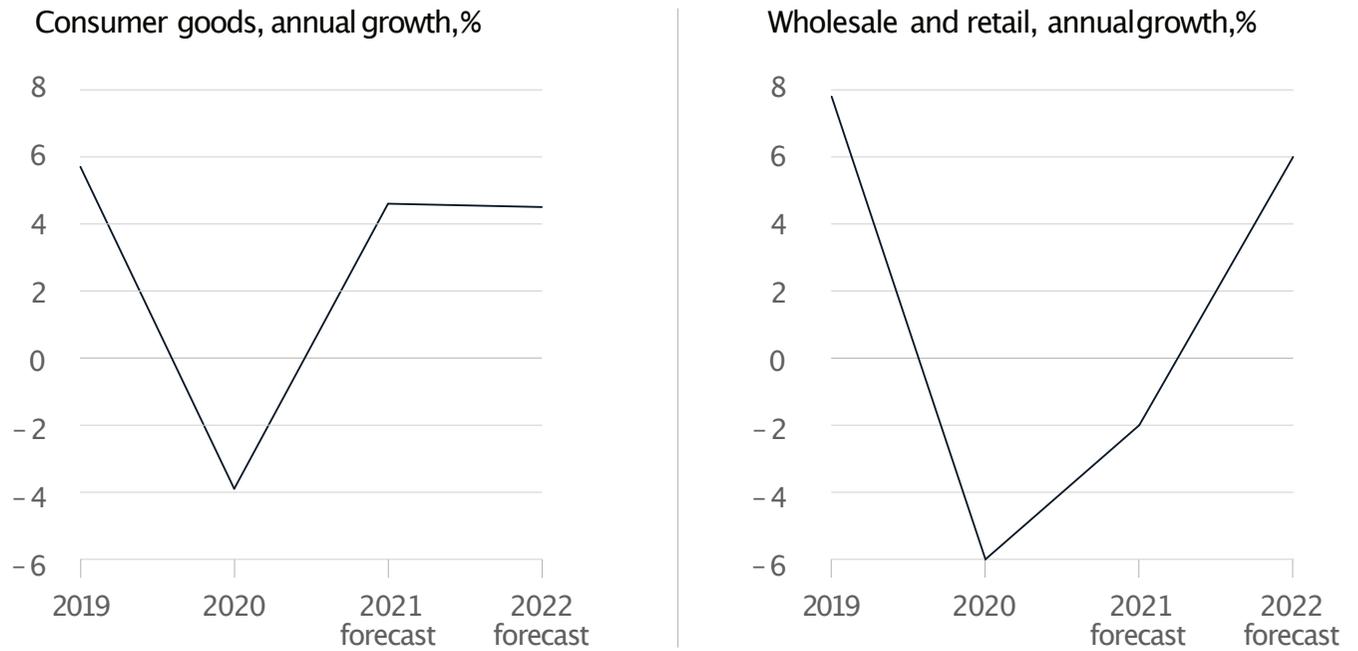


2022 industry outlooks: Consumer and retail

Exhibit 8

The Philippines consumer and retail sector has a mostly positive outlook for 2022.

Overall GDP outlook (muted-recovery scenario)



Source: Euromonitor; Fitch Solutions; Kanter; McKinsey analysis in partnership with OxfordEconomics

Exhibit 9

Consumer: Essential categories remain strong with rebound potential from discretionary goods in line with other countries in the region.

Category	Philippines		Southeast Asia, % growth 2020 vs 2019					
	Consumer intent ¹ Nov 2020	Potential change ² 2021 vs 2019	Philippines	Malaysia	Thailand	Vietnam	Indonesia	
Packaged food	19 Δ	19 Δ	6 Δ	6 Δ	3	6 Δ	4	Lower-income consumers will reallocate budget and prioritize essentials and household staples
Home care	41 Δ	7 Δ	6 Δ	4	5 Δ	8 Δ	7 Δ	
Personal hygiene	38 Δ	7 Δ	3	9 Δ	3	4	9 Δ	
Consumer health	0	2	5 Δ	8 Δ	-5 ∇	11 Δ	2	
Snacks	7 Δ	-2	-3	3	-5 ∇	6 Δ	-2	Less out-of-home consumption, categorization as non-essentials will hinder growth for beverages
Soft drinks	3	-9 Δ	-12 ∇	-7 ∇	-8 ∇	-5 ∇	-12 ∇	
Alcoholic drinks	-20 ∇	-16 ∇	-19 ∇	-21 ∇	-8 ∇	-16 ∇	-37 ∇	
Appliances and furniture	-17 ∇	-8 ∇	-15 ∇	3	-1	-1	3	Upper middle class starting to divert spending to pent-up demand, but recovery is still sluggish for discretionary goods
Consumer electronics	0	0	3	6 Δ	-1	1	2	
Apparel	-18 ∇	-19 ∇	-30 ∇	-23 ∇	-18 ∇	-13 ∇	-37 ∇	

¹Q: For each of the following product/service options, how do you expect your spending per month to change after the COVID-19 outbreak compared to before the COVID-19 outbreak?

²Estimated category growth versus prepandemic (based on Euromonitor).

Source: Euromonitor; McKinsey & Company COVID-19 Philippines Consumer Pulse Survey 10/01-10/12/2020, n=602, sampled to match the Philippines general population 20+ years old; Andrew J. Masigan, "The new character of the Filipino consumer," Business World, December 6, 2020

Exhibit 10

Retail: Stockpiling behavior in 2020 benefited modern trade, but neighborhood formats may reemerge as quarantines lift.

Highlights

1. Stockpiling behavior benefits modern trade (eg, hyper- and supermarkets and warehouse clubs) with better availability and wider assortment
2. Smaller yet more accessible community stores gain ground over mall-based stores; convenience stores, pharmacies, hardware stores, and even big-box players look to expand coverage near residential areas
3. Traditional trade experienced decline as retailers with limited assortment and capital struggled to meet demand; pockets of growth occur in rural areas, given proximity, smaller wallet size, and more relaxed quarantine
4. Malls and department stores may make a sluggish recovery if government restrictions and consumer fear continue to affect foot traffic

● Share of retail, %⁴ ▲ Growth or decline vs pre-COVID-19, %

Channel	Pre-COVID-19 ¹	During COVID-19 ²	Post-COVID-19 ³
Hyper- and supermarkets	23	288 ▲+10	27 ▲+26
Department stores	9	5 ▼-45	5 ▼-42
Traditional trade	8	8 ▲▼-13	6 ▼-21
Convenience stores	2	3 ▲+3	3 ▲+19
Warehouse clubs	1	2 ▲+12	2 ▲+34
E-commerce	<1	<1 ▲+53	<1 ▲+187
Other (drugstores, pharmacies, etc)	34	27 ▼-13	30 ▲+7

¹2019 actual Philippine retail sales.

²2020 actual Philippine retail sales.

³2022 forecast Philippine retail sales.

⁴Vs total retailing in the Philippines (Euromonitor 2021 report).

Source: Euromonitor; "Philippines in COVID-19 lockdown: Impact on consumer sector," Fitch Solutions, March 2020

Exhibit 11

Behaviors learned during the pandemic may stick.

● On retail ● On consumer goods

	1 Digital migration	2 Value hunting	3 Homebody economy
Themes			
Philippine trends	<ul style="list-style-type: none"> ● E-commerce adoption has skyrocketed by 325% during the pandemic, and 67% of Filipinos believe they will continue to shop online post-COVID-19 ● Largest e-commerce categories are consumer electronics, furniture and appliances, and fashion and beauty, while fastest growing is groceries (food and personal care) ● E-wallet transactions more than triple 	<ul style="list-style-type: none"> ● Filipinos will likely continue prioritizing essentials, leading to growth in packaged food and home care, while strong bounceback is expected in personal care ● Higher regard for value for money with less purchasing power translates to specific choices within categories (eg, staples chosen over snacks in packaged food, mass chosen over prestige in beauty and personal care) ● Luxury goods and services revenues have dropped 6% and 50%, respectively, and are not expected to return to prepandemic levels until 2025 	<ul style="list-style-type: none"> ● Filipinos will likely continue limiting mobility; retailer proximity and format matter <ul style="list-style-type: none"> ● 90% choose to shop at nearby retailers; community-based stores win ● 88% prefer bulk buying, accelerating growth for hyper- and supermarkets and warehouse clubs with wide assortment and reliable availability ● Food delivery and takeout grew to 70% from 36% of food-service market during pandemic; similar trend happening in groceries with personal-shopper services ● Select gains in at-home entertainment and home improvement driven by affluent segment

Source: Euromonitor; Kantar; McKinsey analysis

2022 industry outlooks: Travel and hospitality

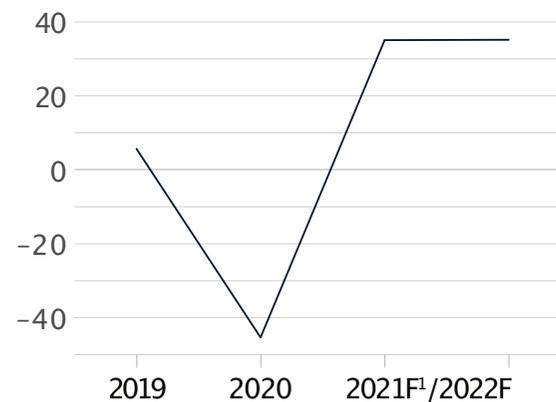


Exhibit 12

Travel and hospitality took a big hit in 2020 but are expected to surpass 2019 growth in 2022.

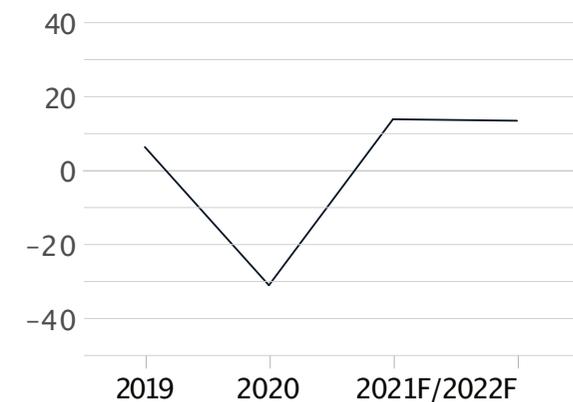
Overall outlook: Muted-recovery scenario, sector GDP

Hospitality, annual growth, %



74% Drop in 2020 international tourism arrivals;
below 1990s levels

Transport, annual growth, %



95 billion Combined losses in Philippine pesos
of top 2 Philippine airlines in 2020

During COVID-19, the sector has been affected by ...

... emotional reluctance to travel. Travelers are very anxious about flights and hotel stays.

... tourists less likely to spend. Behavior shifts favor shorter trips, domestic destinations, and reduced spend once there.

¹Forecast.

Source: World Tourism Organization (UNWTO); McKinsey analysis in partnership with OxfordEconomics

Exhibit 13

Severe health impact and economic forecasts could stall tourism recovery until 2024.

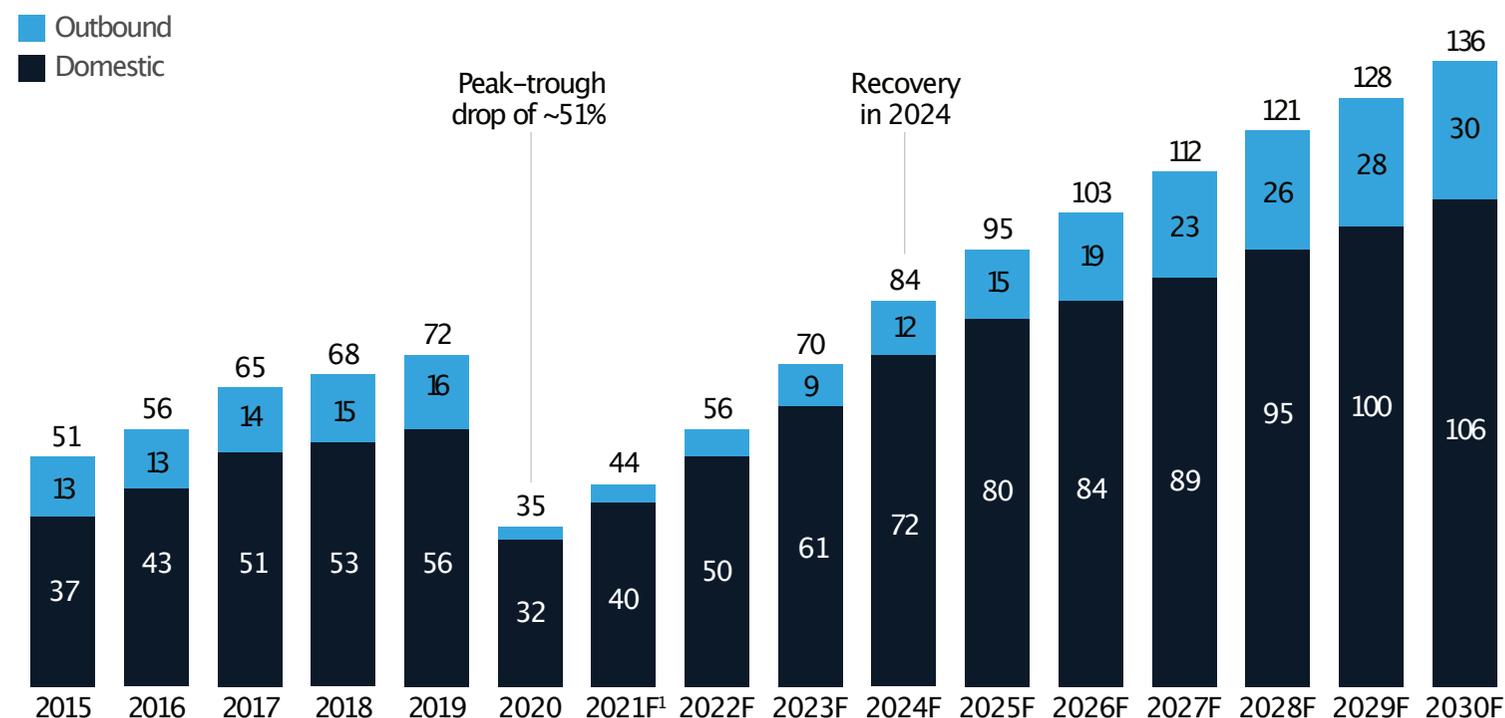
Key drivers

Implications from COVID-19 and one of the longest lockdowns globally

Attractive domestic destination market to drive rebound:

- High share of second-home tourism
- Many island and beach destinations
- Outbound travel is expected to have a slower recovery due to:
 - Lingering travel fears
 - Volatile quarantine measures

Tourism expenditure,¹⁸ \$ billions, muted-recovery scenario



Note: Current as of May 27, 2021. Figures may not sum, because of rounding.

¹Business and leisure travel for outbound and domestic trips, including expenditure for accommodation, activities, entertainment, food and beverages, retail, transport, and others.

²Forecast.

Source: GlobalData for historical values; McKinsey tourism recovery model, McKinsey Global Institute; McKinsey analysis, in partnership with OxfordEconomics

Exhibit 14

In the interim, travel and tourism players can take three actions to reinvent themselves and grow out of the pandemic.

Themes	Actions	Examples
Listen to your customers	Unlock microsegment-level insights into changing behaviors and preferences to power personalized experiences	AI and machine learning solutions to automatically detect changes in demand and scheduling, and minimize impact of flight delays
Make it better, not just safer	Design thoughtful customer-experience interventions that solve both preexisting and COVID-19-induced pain points	Hotels pushing a contactless experience, allowing check-in, checkout, and room access directly from app Airports introducing biometric check-in and piloting rapid COVID-19 testing Introducing advanced hygiene measures, including UV Cabin System onboard aircrafts and ultraviolet-C technology to disinfect airport security bins
Expand your horizons	Build partnerships that restore traveler confidence and build a stronger travel ecosystem	Partnerships to promote destinations and experiences outside the traditional tourist circuit Global airline alliances producing a video to highlight measures to boost customer well-being while traveling AI-enabled travel app and smart tourism solutions

Source: "Annual Report 2020," Manila International Authority, accessed September 2021; Andrew J. Masigan, "What's next for the airline industry?," Business World, October 10, 2021; McKinsey analysis

2022 industry outlooks: Financial services



2022 industry outlooks:
Financial services

Consumer behaviors likely to stick postpandemic

Digital adoption
Significant portion of Filipino consumers are active digital banking users; digital banking is the preferred channel for consumers

Trust in banks
Consumers still consider banks the most trustworthy channel to handle their financial needs, followed by e-wallet providers

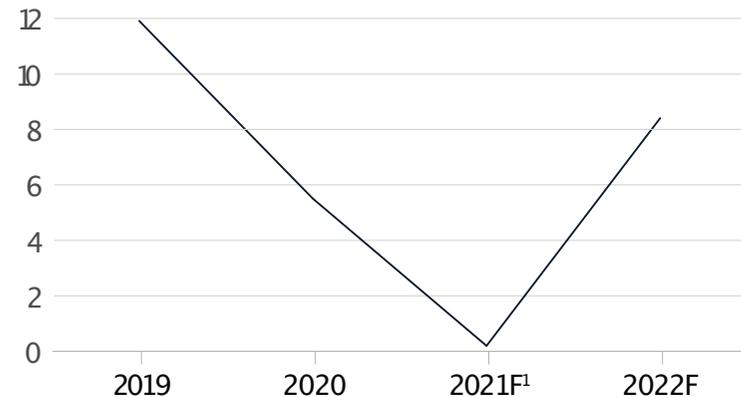
Branches are still key
Filipinos still prefer to buy their financial products through their branch, but many are open to buying through a digital channel

Exhibit 15

The financial services sector dipped in 2021 but is expected to recover somewhat in 2022.

Overall outlook, muted-recovery scenario

Sector GDP: Financial services, annual growth, %



During COVID-19, the sector has been affected by ...

Sector grew in 2020 due to net interest income and trading gains from the favorable interest rate environment, but midterm outlook is low as historical drivers of growth (ie, retail and small and medium enterprises) take a hit

Biggest shift expected is in digital behavior, which will determine industry winners and losers as we emerge from the pandemic

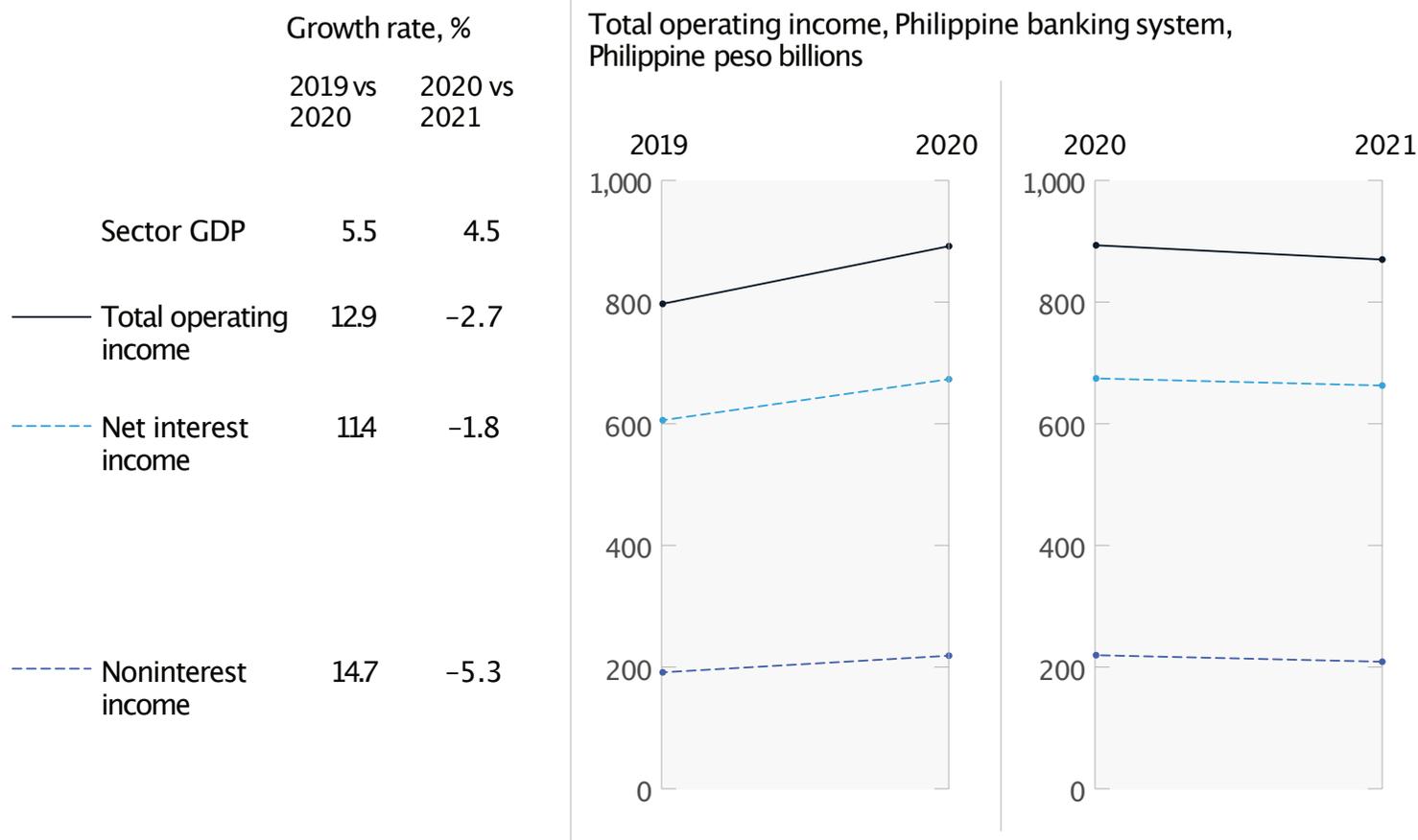
Pure-play digital players are now stabilizing and starting to gain profitability

¹Forecast.

Source: McKinsey analysis in partnership with OxfordEconomics

Exhibit 16

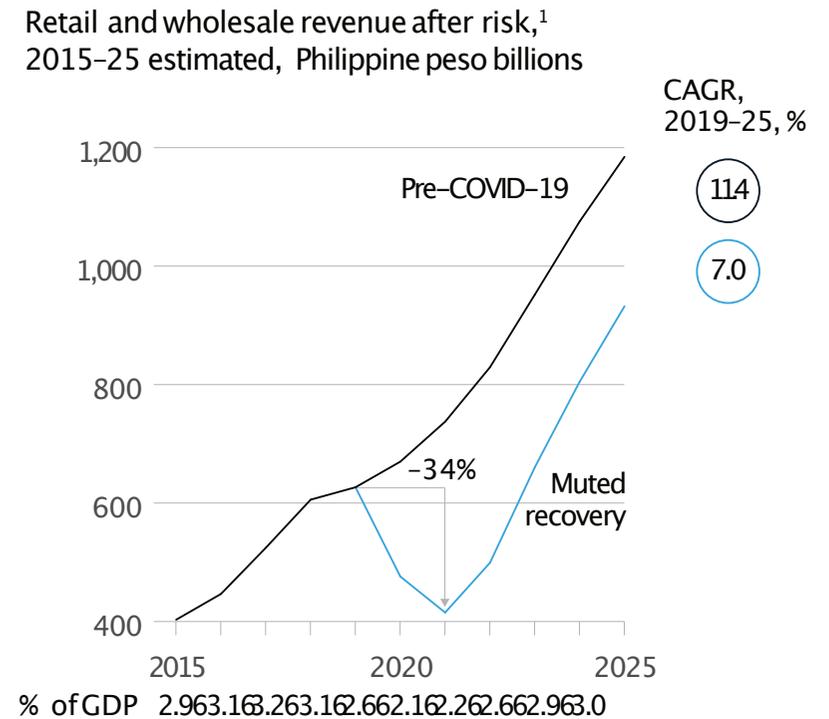
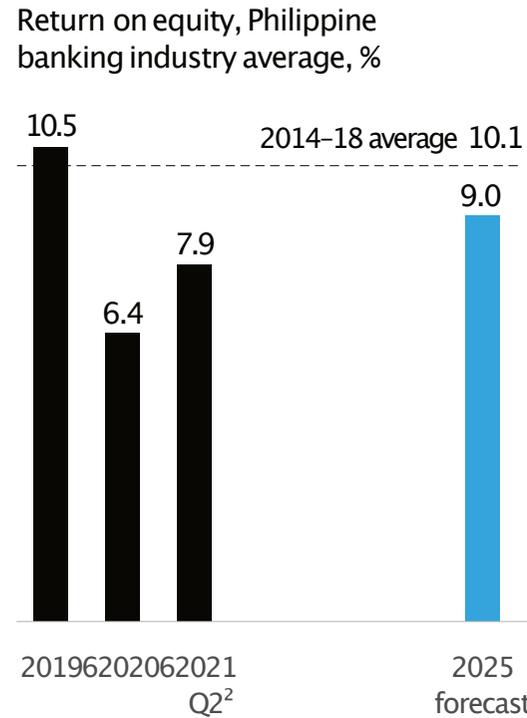
The banking sector grew by 5.5 percent, supported by the increase in total operating income. However, growth stagnated in 2021.



Note: Figures may not sum, because of rounding.
Source: Bangko Sentral ng Pilipinas

Exhibit 17

The banking industry could take up to five years to recover from its 2020 drop in return on equity.



Note: Preliminary view, continuously updated. The forecasts assume that interest accrued during loan moratoriums and loan holidays will be accounted for in the same year.

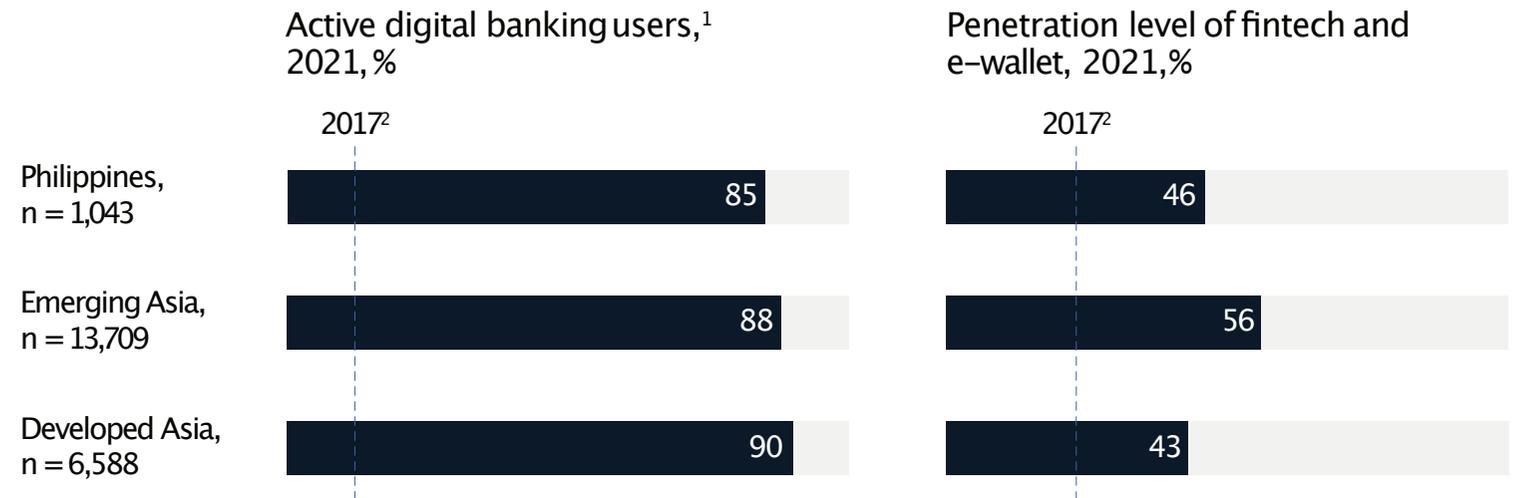
¹Includes retail banking, wholesale financing, and wholesale transaction banking for an extended banking playground including commercial banks, nonbank financial institutions, and captives.

²Sourced from Bangko Sentral ng Pilipinas: Philippine Banking System classification, calculated by dividing average capital by annualized net profit/loss. Source: Bangko Sentral ng Pilipinas; McKinsey Panorama Global Banking Pools; McKinsey analysis in partnership with Oxford Economics

Exhibit 18

Active use of digital banking and e-wallet services has increased significantly.

In 2021, 85% of Filipino consumers used digital banking at least once a month, and 46% used fintech or e-wallet services



¹Active users defined as respondents who access internet or mobile banking at least once a month.

²Philippines, n = 700.

Source: McKinsey Asia Personal Financial Services Survey 2021

Local banks have several opportunity areas.

Themes	Short-term opportunity	Longer-term opportunity
Digitalization	<ul style="list-style-type: none"> • Accelerate and enhance digitalization initiatives to respond to shifts in consumer demand • Introduce new but proven technologies into customer journeys 	<ul style="list-style-type: none"> • Modernize technology along customer journeys in line with business value, while fixing architectural complexity and modernizing core banking systems • Expand data and analytics capabilities as foundation for personalized decision making across sales, marketing, and credit
Productivity initiatives	<ul style="list-style-type: none"> • Systematically redeploy the workforce and reskill at scale due to major changes in demand patterns • Optimize third-party spend by tightening demand and supplier-management policies 	<ul style="list-style-type: none"> • Accelerate shift to digital and create flexibility in reopening physical channels to respond to changes in customer interaction preferences and behaviors • Retain remote-working practices and shrink the property footprint
Distribution and customer engagement	<ul style="list-style-type: none"> • Update branches to focus on sales and advisory needs for complex or niche products: <ul style="list-style-type: none"> —for retail customers: mortgages, wealth management, insurance, etc —for SME¹ customers: secured, large-ticket loans; foreign-exchange trades 	<ul style="list-style-type: none"> • Provide a truly omnichannel experience by configuring channels to serve based on end customer needs and preferences • Deploy innovative customer engagement strategies differentiated by subsegment

¹Small and medium-size enterprises.
Source: McKinsey analysis

2022 industry outlooks: Healthcare

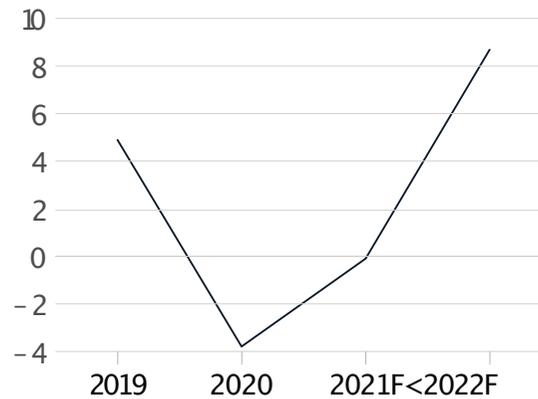


Exhibit 20

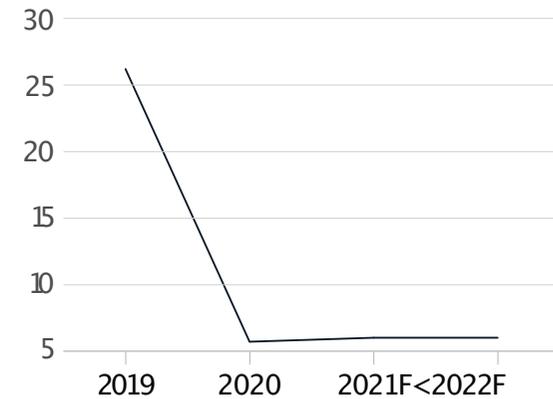
The healthcare sector is expected to grow through 2022, while pharmaceutical manufacturing is likely to remain steady.

Overall outlook: Muted–recovery scenario, sector GDP, annual growth, %

Healthcare



Pharmaceutical manufacturing



Consumer behaviors that could stick postpandemic

Digital-care adoption
Increasing acceptance of digital healthcare solutions, driven by increased focus on convenience, safety, and accessibility

Focus on preventive care and wellness
Increasing willingness to spend on preventive care and wellness-related health products and services, especially amid the stress and uncertainty of the pandemic

Value for money
Given limited mobility during lockdowns and financial insecurities brought on by the pandemic, Filipinos are looking for accessible and affordable, yet effective, health products

Source: Adrian Paul B. Conoza, "Digital acceleration in Philippine healthcare," Business World, March 31, 2021; Euromonitor; "The biggest health and wellness trends in 2021," Makati Medical Center, February 26, 2021; McKinsey analysis in partnership with Oxford Economics

2022 industry outlooks:
Healthcare

Healthcare has significant long-term potential for growth; the crisis has revealed gaps across the payer, provider, and pharmaecosystems, which all declined in 2020

Growth opportunities are in preventive care and wellness, stress management, and remedies; however, bottlenecks in payments, a shortage of healthcare workers, and disruptions in local supply chains limit growth in the near term

Exhibit 21

While COVID-19 has placed healthcare front and center, industry sectors are facing several challenges.

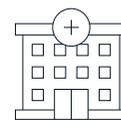
Market outlook

● Growth areas ● Challenges



Payers

- Patients are opting to delay their consultations, medical treatments, and elective procedures (especially during periods of lockdown), leading to a sharp fall in patient caseload
- COVID-19 has accelerated demand for preventive health-care and holistic wellness
- Consumers are increasingly looking for accessible and affordable, yet effective health products



Providers

- Financial headwinds continue to affect healthcare providers due to manpower shortages, declines in patient caseloads, and increased expenses for medical equipment
- Delays in processing reimbursement claims have affected capacity of some providers to continue operations
- Providers are benefiting from increased demand for COVID-19 diagnostic and treatment services (both inpatient and outpatient)



Pharma

- Affected by disruptions in global supply chain and drop in healthcare spending of consumers who delayed refills of prescription drugs
- Distribution and sales channels have been affected (eg, decreased engagement with healthcare professionals), making it more difficult for Filipinos to access health products
- Experienced growth in certain categories of consumer health due to an increased focus on preventive care

Source: Ayala 2020 Integrated Report; COVID-19 pandemic and digitalization of healthcare in SEA, IQVIA, 2021; Consumer health in the Philippines, Euromonitor International, 2021; Healthcare world outlook: Healthcare and pharmaceuticals, Economist Intelligence Unit, 2021; Metro Pacific Investments 2020 Annual Report

An aerial night view of a city skyline, likely Manila, Philippines. The image shows a dense cluster of skyscrapers, many of which are illuminated with warm yellow and white lights. A river, possibly the Pasig River, flows through the center of the city, reflecting the lights from the buildings and the sky. The overall scene is a vibrant, modern urban landscape at night.

2022 industry outlooks: Energy and power

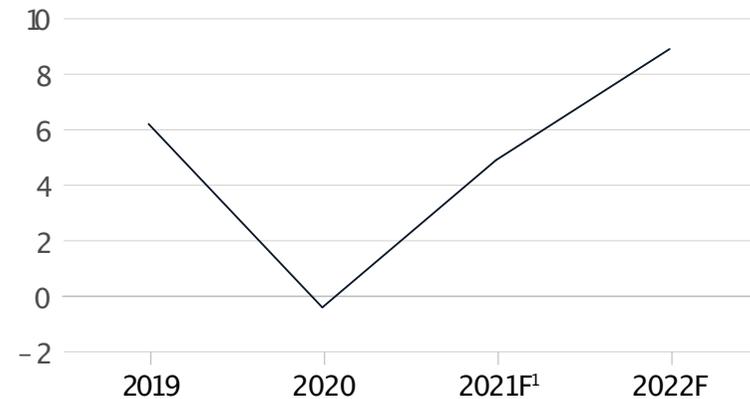
The energy and power sector is expected to expand through 2022.

Market growth fundamentals and 'known' shifts

- Energy consumption growth may continue at ~5–6% per year in the short term, potentially doubling by around 2035.
- Economy-wide energy intensity may drop by >50% by 2040, supported by energy-efficiency programs
- Overall mixshift from coal (moratorium) to gas (~9 GW of new builds announced) and renewables (34 GW target of NREP, green auctions, RPS)
- Top five generation companies have made public commitments to build ~19 GW of renewable energy by 2030

Overall outlook, muted-recovery scenario

Sector GDP: Utilities, annual growth, %



During COVID-19, the sector has been affected by ...

Weakened demand
While residential volume increased, commercial and industrial volumes declined

Timeline delays
Mobility restrictions pushed back scheduled construction and maintenance

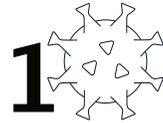
Accelerating decarbonization
Opportunities to fast-track the transition to renewable energy are seen globally and locally

Digitalization and technology
Consumers and companies adapted to new processes and solutions

¹Forecast.

Source: "Philippine energy plan 2020–2040," PH Department of Energy; Meralco public disclosures; US Department of Energy; McKinsey analysis in partnership with Oxford Economics

Three main factors will have an impact on the energy and power sector in 2022.



The direct effects of COVID-19 countermeasures and the subsequent economic shock on the energy system were severe and are likely to last



As the energy sector recovers from COVID-19, strong market growth fundamentals will likely continue

Acceleration of the energy transition will come primarily from “known” shifts and much less from behavioral shifts brought on by COVID-19

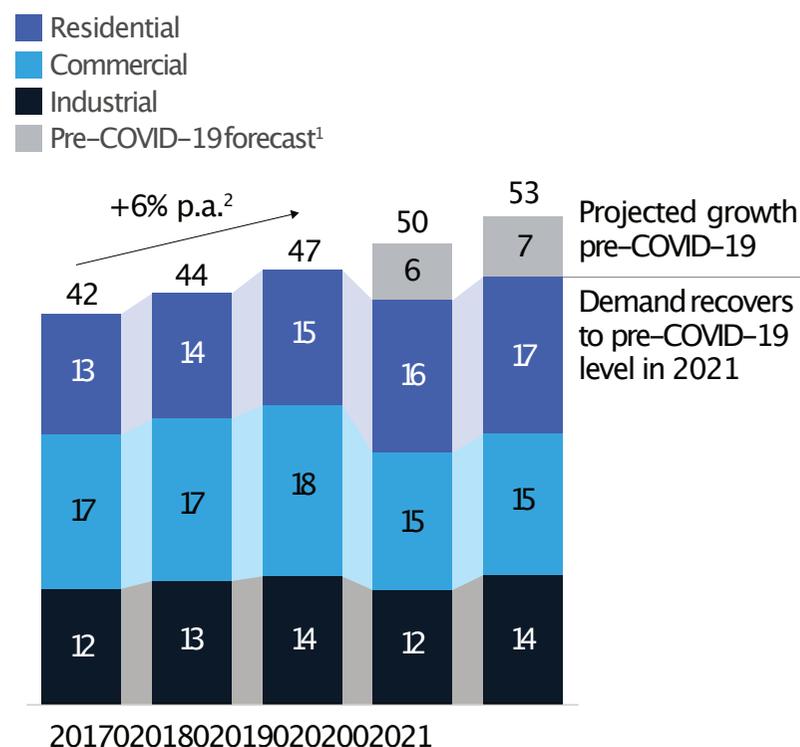


The extent of green measures and conditions will determine the speed and uptake of the energy transition

Exhibit 24

Energy demand is expected to return to pre-COVID-19 levels in 2021, but previous growth trajectory may not be recovered.

Meralco Consolidated Energy sales, Terawatt-hours



Average sales mix per sector, %

	First-half 2019	First-half 2020	First-half 2021	Change, %
Residential	32	39	37	+5
Commercial	39	35	33	-6
Industrial	29	26	30	+1

Share of residential and industrial increased, but commercial has not yet recovered amid restricted economic activity

Note: Figures may not sum, because of rounding.
¹Forecasts based on historic annual growth and latest available disclosed figures.
²Per annum.
 Source: Meralco public disclosures



2022 industry outlooks: Business process outsourcing (BPO)

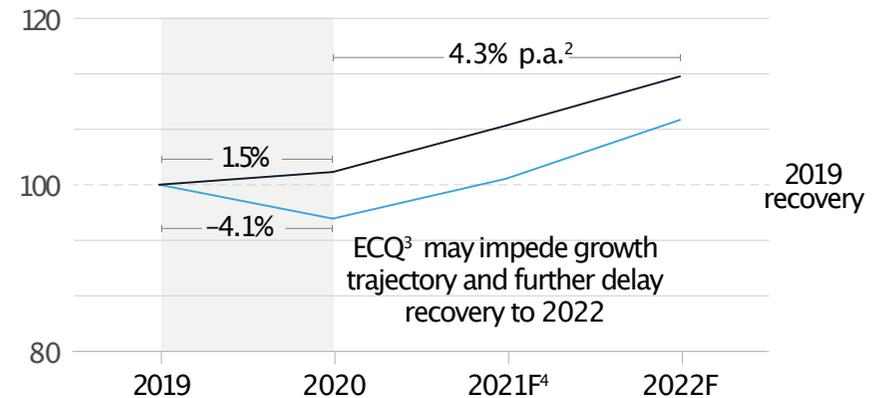
Exhibit 25

Business process outsourcing is likely to continue on a positive trajectory.

Business process outsourcing (BPO) outperformed GDP in 2020 with 1.5% industry-wide growth

Philippine GDP vs IT-BPO industry,¹
2019 index, %

— IT-BPO
— Philippine GDP



During COVID-19, the sector has been affected by ...

The Philippines lead in offshore-nearshore healthcare services delivery throughout 2020

Recent inclusion of IT-BPO workers in the A4 vaccine priority group will further improve industry forecast as workers return to offices safely

Pandemic-driven growth in healthcare, gaming, and animation services will continue to support positive outlook for IT-BPOs in the Philippines

¹GDP growth assumptions based on a 6–7% 2021 growth rate and a 7–9% 2022 growth rate. IT-BPO revenues based on a projected 3.2–5.5% growth rate per annum (average of 4.3%).

²Per annum.

³Enhanced community quarantine.

⁴Forecast.

Source: IT & Business Process Association of the Philippines (IBPAP); World Bank

2022 industry outlooks:
Business process
outsourcing(BPO)

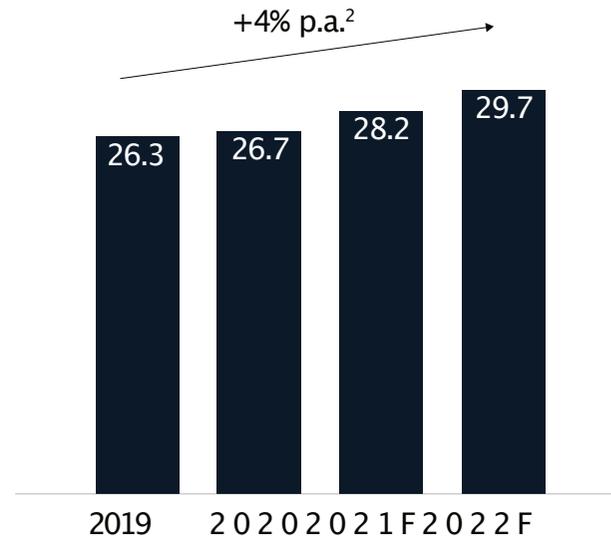
IT-BPO industry is highly productive,
contributing ~7% of Philippine GDP while
only employing 2.9% of the labor force

Continued industry growth will be enabled
by accelerated digital transformation, a
robust ecosystem, a skilled workforce, and
strong government support

Exhibit 26

The IT-BPO industry contributed substantially to Philippine economic
resiliency with growth in revenues and labor.

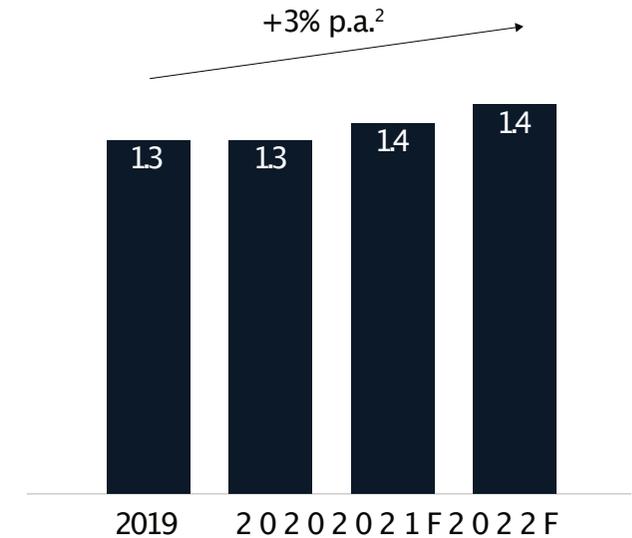
IT-BPO industry revenue,
\$ billions



Relative to
total GDP,
%

7.0 7.4 7.4 7.3

IT-BPO industry headcount,¹
number of employees



Relative to
total labor
force, %

2.9 3.0 3.1 3.3

¹Projected labor force based on 2015–20 CAGR of 0.3% per annum.

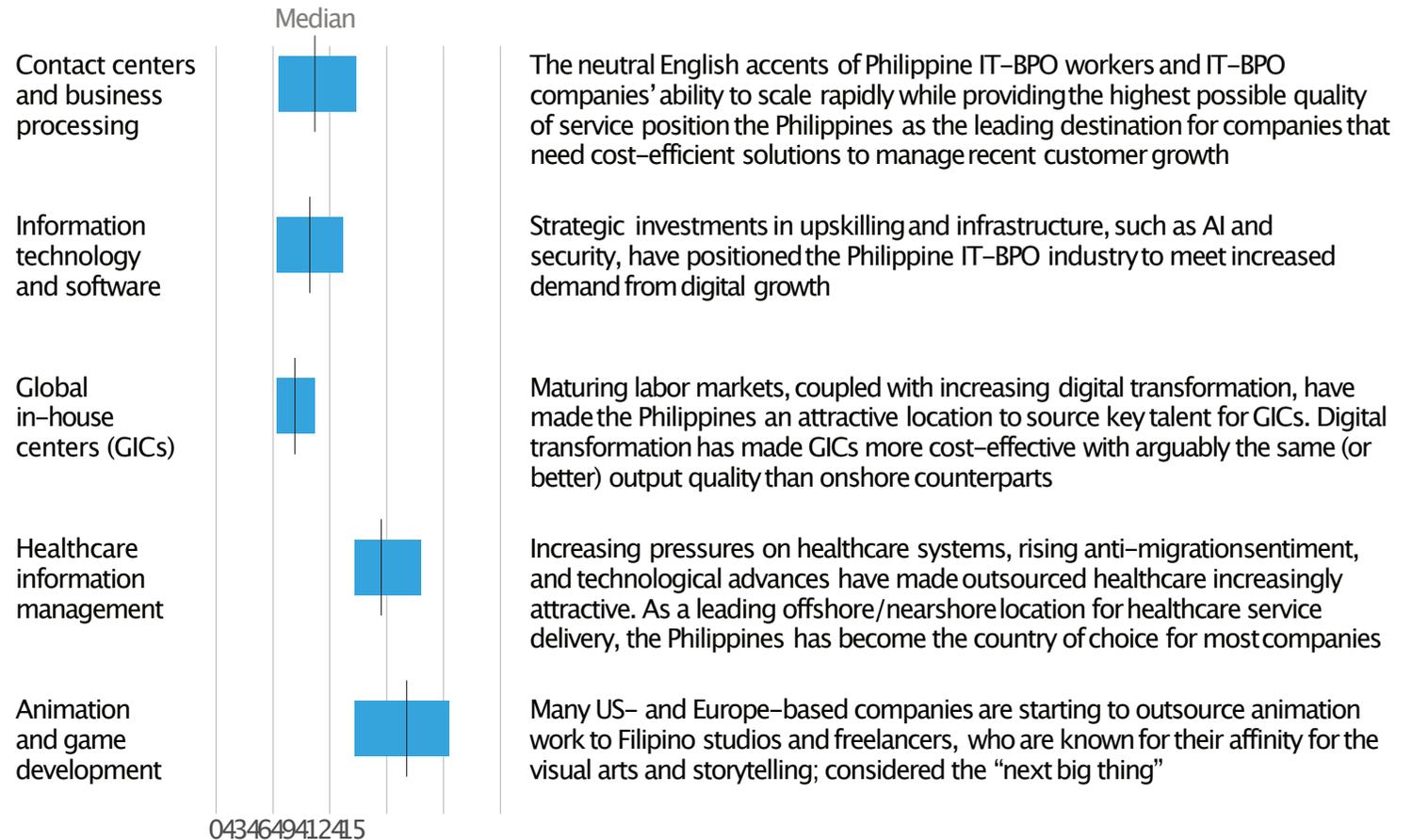
²Per annum.

Source: IT & Business Process Association of the Philippines (IBPAP); World Bank

Exhibit 27

Five sectors are likely to continue driving growth in business process outsourcing.

Projected sector growth in IT-BPO, %



Source: "The future of the Philippine BPO industry," Airisx, May 11, 2021; IT & Business Process Association of the Philippines (IBPAP); Oxford Business Group, "What does the COVID-19 outbreak mean for the Philippines' BPO industry?," Oxford Business Group, April 22, 2020

2022 industry outlooks: Overseas Filipino workers (OFW)



Takeaways

Despite continued economic contraction, OFW remittances remain a resilient lifeline for the Philippine economy

Monthly remittances broke trendline amid COVID-19 spread, with depressed monthly remittance levels for an extended period

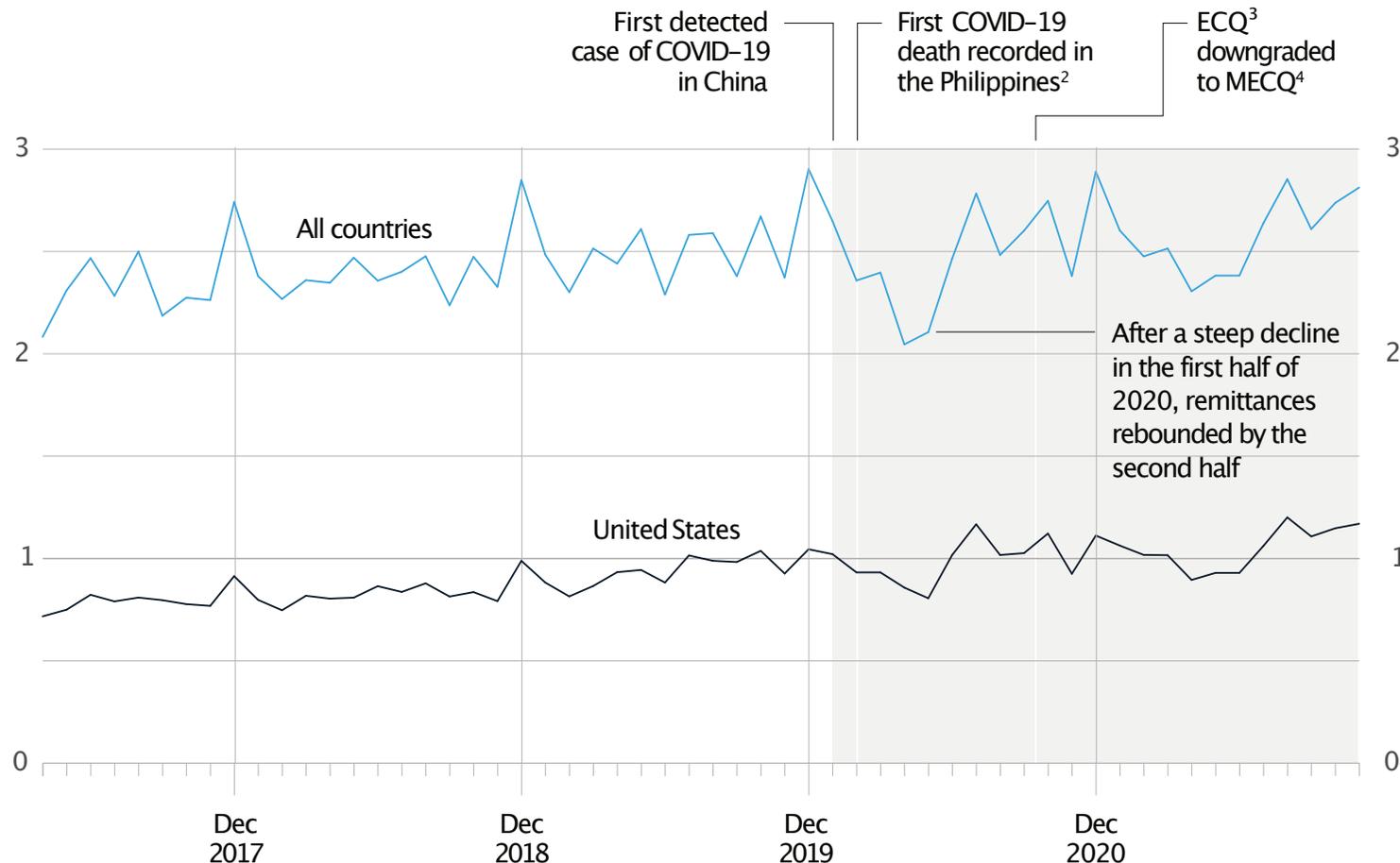
However, the decline was short-lived, with monthly remittance figures reaching Christmas-season peaks similar to those of previous years. Net result is only a 0.8% year-over-year decline on remittances

Resilience in remittance flows is attributed to OFWs' desire to send money home to help their families by cutting consumption or drawing on savings

Exhibit 28

Remittances from overseas Filipino workers are likely to remain resilient in 2022.

Overseas Filipino workers remittance flows,¹³ monthly remittances (\$ billions)



¹There are some limitations on the remittance data by source. A common practice of remittance centers in various cities abroad is to course remittances through correspondent banks mostly located in the US. On the other hand, remittances coursed through money couriers cannot be disaggregated into their actual country source and are lodged under the country where the main offices are located, which, in many cases, is in the US. Therefore, the US would show up to be the main sources of OFW remittances because banks attribute the origin of funds to the most immediate source.

²Also the first COVID-19-related death recorded outside China.

³ECQ is enhanced community quarantine.

⁴MECQ is modified enhanced community quarantine.

Source: Diokno of the Bangko Sentral ng Pilipinas (BSP); McKinsey analysis

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