

# FISCAL RISKS STATEMENT 2020



Development Budget Coordination Committee

## List of Acronyms and Abbreviations

AIR	AIR Worldwide Corporation
AML	Anti-Money Laundering
AO	Administrative Order
APO-PUI	APO Production Unit, Inc.
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of South East Asian Nations
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BCDA	Bases Conversion Development Authority
BCLTE	Basic Competency on Local Treasury Examination
BDA	Basic Deposit Account
BESF	Budget of Expenditures and Sources of Financing
BGHMC	Baguio General Hospital and Medical Center
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BMCRPP	Bangon Marawi Comprehensive Rehabilitation and Recovery Program
BOC	Bureau of Customs
BOL	Bangsamoro Organic Law
BOT	Build-Operate-Transfer
BSFI	BSP-supervised Financial Institution
BSOS	Banking Sector Outlook Survey
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CA	Current Account
CAAP	Civil Aviation Authority of the Philippines
CL	Contingent Liability
CLIA	Center for Learning and Inclusion Advocacy
CO	Capital Outlays
COMELEC	Commission on Elections
CPSFP	Consolidated Public Sector Financial Position
CSU	Cagayan State University
DA	Department of Agriculture
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DepEd	Department of Education
DND	Department of National Defense
DND-OCD	Department of National Defense-Office of the Civil Defense
DOF	Department of Finance
DOH	Department of Health
DOST	Department of Science and Technology
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DRF	Disaster Risks Financing
DRRM	Disaster Risk Reduction and Management
DSA	Debt Sustainability Analysis
FDI	Foreign Direct Investments
FinTech	Financial Technology

FPPO	Fiscal Planning and Policy Office
FTSS	Financial Technology Sub-Sector
FOMC	Federal Open Market Committee
FSF	Financial Sector Forum
FSS	Fiscal Sustainability Scorecard
FX	Foreign Exchange
FY	Fiscal Year
GAA	General Appropriations Act
GCG	Governance Commission for GOCCs
GDP	Gross Domestic Product
GFI	Government Financial Institution
GIR	Gross International Reserves
GOCC	Government-Owned and Controlled Corporation
GSIS	Government Service Insurance System
HBN	House Bill Number
HQLA	High Quality Liquid Assets
HGC	Home Guaranty Corporation
IAC GPI	Inter-Agency Committee on Government Property Insurance
IBRD	International Bank for Reconstruction and Development
IIF	Institute of International Finance
IN	International Name
IP	Interest Payments
IPPA	Independent Power Producer Administrator
IRA	Internal Revenue Allotment
ISO	International Organization for Standardization
IT	Information Technology
JVA	Joint Venture Agreement
JMC	Joint Memorandum Circular
LBP	Land Bank of the Philippines
LCR	Liquidity Coverage Ratio
LGC	Local Government Code
LGU	Local Government Unit
LIBOR	London Inter-Bank Offered Rate
LRMC	Light Rail Manila Corporation
LRTA	Light Rail Transit Authority
LRV	Light Rail Vehicle
LWUA	Local Water Utilities Administration
MAA	Most Affected Area
MCIAA	Mactan-Cebu International Airport Authority
MIAA	Manila International Airport Authority
MMEIRS	Metro Manila Earthquake Impact Reduction Study
MNFGC	Major Non-Financial Government Corporation
MUP	Military and Uniformed Personnel
MWSS	Metropolitan Waterworks and Sewerage System
NAMRIA	National Mapping and Resource Information Authority
NDC	National Development Company
NDRRMC	National Disaster Risk Reduction and Management Council
NDRRMF	National Disaster Risk Reduction and Management Fund
NEA	National Electrification Administration
NEDA	National Economic and Development Authority

NFA	National Food Authority
NG	National Government
NGA	National Government Agency
NHA	National Housing Authority
NHMFC	National Home Mortgage Finance Corporation
NIA	National Irrigation Administration
NPC	National Power Corporation
NPL	Non-Performing Loan
NRPS	National Retail Payment System
NSFR	Net Stable Funding Ratio
OF	Overseas Filipino
OPEC	Organization of the Petroleum Exporting Countries
PAGASA	Philippine Atmospheric, Geophysical, Astronomical Services Administration
PAGCOR	Philippine Amusement and Gaming Corporation
PCSO	Philippine Charity Sweepstakes Office
PD	Presidential Decree
PEZA	Philippine Economic Zone Authority
PFRS	Philippine Financial Reporting Standards
PHIC	Philippine Health Insurance Corporation
PMO-ERG	Program Management Office for Earthquake Resiliency of the Greater Metro Manila Area
PNOC	Philippine National Oil Company
PNR	Philippine National Railways
PPA	Philippine Ports Authority
PPP	Public-Private Partnership
PPP Center	Public-Private Partnership Center
PSA	Philippine Statistics Authority
PSALM	Power Sector Assets and Liabilities Management Corporation
QB	Quasi-Bank
R/CB	Rural and Cooperative Bank
RA	Republic Act
RMP	Risk Management Program
RPT	Real Property Tax
RRP	Reverse Repurchase
SBMA	Subic Bay Metropolitan Authority
SBN	Senate Bill Number
SC	Supreme Court
SEAL	Standardized Examination and Assessment for Local Treasury Service
SIF	Social Insurance Fund
SMV	Schedule of Market Value
SRE	Statement of Receipts and Expenditures
SSI	Social Security Institution
SSS	Social Security System
SWM	Solid Waste Management
T-Bill	Treasury Bill
TB	Thrift Bank
TRAIN	Tax Reform for Acceleration and Inclusion
TransCo	National Transmission Corporation
TRB	Toll Regulatory Board

TSI	Total Sum Insured
TY	Typhoon
U/KB	Universal and Commercial Bank
UHC	Universal Health Care
UITF	Unit Investment Trust Fund
UCCRTF	Urban Climate Change Resilience Trust Fund
UCT	Unconditional Cash Transfer
UMSC	Unisys Managed Services Corporation
VAT	Value Added Tax
VRA	Valuation Reform Act
WAIR	Weighted Average Interest Rate
YoY	Year-on-Year
YTD	Year-to-Date

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## I. INTRODUCTION

- A. The country's sound management of fiscal risks contributed to macroeconomic stability and increased investor confidence.** The publication of the Annual Fiscal Risks Statement outlining emerging risks from different sources and the government's mitigating measures to eliminate or reduce the fiscal impact demonstrates the government's commitment to ensure macroeconomic stability towards higher and inclusive growth.
- B. The Philippine economy continued to sustain growth momentum.** Domestic demand is expected to remain the country's main driver of economic growth with inflation reverting back to the 2.0 to 4.0 percent target of the government. The deceleration in inflation, particularly on food, will be supported by the enactment of the Rice Tariffication Law and the expected easing of global oil prices. Moreover, the *Build, Build, Build* program of the National Government (NG) will continue to drive growth in investments. Similarly, the full implementation of various legislative initiatives aimed to liberalize the domestic business environment is expected to boost investor sentiment propelling the growth of industry and service sectors.
- C. The Comprehensive Tax Reform Program supported higher revenue collection.** For 2019, the revenue target is expected to achieve a 16.2 percent growth with the impact of Tax Reform for Acceleration and Inclusion (TRAIN) Package 1A and Approved Package 1B. Moreover, the rigorous tax administration and reforms of both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) will contribute on higher revenue growth.
- D. The NG implemented several mitigating measures to cushion the impact of the 2019 budget impasse on the economy.** The DBM issued budget circulars to facilitate the implementation of program and projects, including capital outlays, with the release of obligational authority and funds pending the enactment of the budget. Moreover, economic managers requested the Commission on Election (COMELEC) for exemption to facilitate implementation of government projects, ensure no delays, and minimize disruptions.
- E. The NG debt continued to be sustainable over the medium-term amid higher borrowing requirement.** The debt sustainability analysis (DSA) suggests a sustained downward trajectory of the debt-to-GDP ratio from 41.9 percent in 2018 to 38.5 percent in 2024 based on the baseline scenario. Moreover, interest payments as a proportion of expenditures continue to decline resulting from the proactive and prudent management of government debt such as the liability management transactions concluded in the previous years. The decline in the debt service obligations suggests additional fiscal space for more productive spending.
- F. The Philippine banking system sustained its growth trajectory and continued to operate in a safe and sound manner due to the sound and strategic reforms the Bangko Sentral ng Pilipinas (BSP) has implemented through the years, involving prudent regulations, risk-**



**based supervision, and earnest cooperation from the banking sector.**

The BSP remains committed to the pursuit of financial sector reforms amid the challenging market conditions and increasing sophistication of global financial services industry. Several regulatory measures have been put in place to improve corporate governance and risk management standards, including the adoption of Basel reforms, promotion of the integrity and transparency of the financial system, and advancement of the financial inclusion agenda.

**G. Natural disasters remain to be a major source of fiscal risks.** The Inter-Agency Committee on Government Property Insurance (IAC GPI) was created to formulate necessary policies, rules, regulations, and programs to ensure that key assets and interests of the government are adequately and comprehensively insured. For 2019, the Indemnity Insurance Program plans planned to cover government properties along the Eastern Seaboard as they are currently not insured and the areas chosen are the most vulnerable in the country. In addition, the establishment of the National Asset Registry under the custody of the Bureau of the Treasury aims to provide information on government assets' geographical location, attributes, risk mitigating features, and legal and ownership information, which would be useful in providing Disaster Risks Financing (DRF) analytics such as risk modeling and asset insurance.

**H. The Department of Disaster Resiliency.** The proposed department aims to harmonize the policies on disaster risk management, environmental and climate change adaptation, and sustainable development.

## II. MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

1. **The Philippine economy grew at a respectable pace of 6.2 percent in 2018, slower than the 6.7 percent in the previous year.** Although the recent economic outturn was lower than the government's 7.0-8.0 percent target for 2018, this marks the seventh consecutive year that the country sustained its growth of more than 6.0 percent. Moreover, the Philippines remains to be one of the fastest-growing major economies, next to India (7.3 percent), Vietnam (7.1 percent), and China (6.6 percent), but ahead of Indonesia (5.2 percent), Thailand (4.1 percent), and Malaysia (4.7 percent).

**Table 1. Philippines: Macroeconomic Performance for 2016-2018 and NG Budget Assumptions for 2019 <sup>a/</sup>**

*(In percentage point, unless otherwise specified)*

Particulars	2016		2017		2018		2019	
	BESF	Actual	BESF	Actual	BESF	Actual	BESF	YTD
Real GDP growth	7.0-8.0	6.9	6.5-7.5	6.7	7.0-8.0	6.2	7.0-8.0	n.a.
Inflation <sup>b/</sup>	2.0-4.0	1.8*	2.0-4.0	3.2*	2.0-4.0	5.2	2.0-4.0	4.1 (Jan-Feb)
364-day T-Bill rate <sup>c/</sup>	2.0-4.0	1.8	2.5-4.0	2.9	2.5-4.0	5.1	3.0-4.5	6.1 (2 Jan-11 Mar)
6-month LIBOR	1.0-2.0	1.1	1.0-2.0	1.5	1.5-2.5	2.5	2.0-3.0	2.8 (2 Jan-5 Mar)
Exchange rate (₱/US\$1)	43.00- 46.00	47.5	45.00- 48.00	50.4	48.00- 51.00	52.66	50.00- 53.00	52.41 (as of 29 Mar)
Dubai crude oil price (US\$/barrel)	55.00- 75.00	41.27	40.00- 55.00	53.17	45.00- 60.00	69.42	50.00- 65.00	63.18 (2 Jan-5 Mar)
Goods exports growth <sup>d/</sup>	6.0	-1.1	6.0	21.2	7.0	-0.3	9.0	n.a.
Goods imports growth <sup>d/</sup>	12.0	17.7	10.0	17.6	10.0	9.4	10.0	n.a.

Sources: National Economic Development Authority (NEDA), Philippine Statistics Authority (PSA), Bureau of the Treasury (BTr), and BSP.

<sup>a/</sup> Macroeconomic assumptions adopted by the Development Budget Coordination Committee (DBCC), as published in the annual Budget of Expenditures and Sources of Financing (BESF) that the Executive branch submitted to the Congress for the preparation of the General Appropriations Act (GAA)

<sup>b/</sup> BESF inflation targets and actual figures for 2016 and 2017 are 2006-based, while 2018 target and actual inflation are 2012-based.

<sup>c/</sup> Based on weighted average of primary market rates

<sup>d/</sup> Based on the Balance of Payments and International Investment Position Manual, 6<sup>th</sup> Edition (BPM6) concept

2. **On the expenditure side, growth was supported by strong domestic demand (8.5 percent), particularly by investments (13.9 percent) and government consumption (12.8 percent).** Double-digit growth in private (12.9 percent) and public (21.2 percent) construction, coupled with faster growth in durable equipment (13.4 percent) buoyed capital formation. In particular, the government's thrust of accelerating infrastructure development through the Build, Build, Build program, together with the stable demand for office spaces and residential units, contributed to investment growth. On the other hand, government spending was driven by higher base pay both for the civilian and the military and uniformed personnel; faster rate of hiring new

employees, notably in the Department of Education (DepEd); and, the payment of pension differentials in the Department of National Defense (DND). It was also bolstered by increased spending on social services such as the basic and tertiary education, health banner programs, and the Conditional Cash Transfers; and, payments made to the Department of Agriculture (DA) for its National Rice Program and Fisheries Program, to the Department of Health (DOH) for procurement of medical commodities, and to the Autonomous Region of Muslim Mindanao (ARMM) for the social protection programs in the region.

3. **However, weak consumer and external demand tempered the growth of the economy.** Household consumption slightly decelerated to 5.6 percent in 2018 from 5.9 percent in 2017. This was due to the uptick in headline inflation and the pessimistic outlook of consumers. Net exports<sup>1</sup> (-35.0 percent in 2018 from -9.5 percent in 2017) also worsened, as the decreased growth in exports (11.5 percent from 19.5 percent) offset the slowdown in imports (14.5 percent from 18.1 percent). Lower growth in electronic components (15.4 percent) largely influenced the muted performance of exports.
4. **On the production side, the services sector had the highest contribution to economic growth.** Growth in services slightly eased to 6.6 percent in 2018 from 6.8 percent in 2017, mainly due to the slowdown in trade (5.9 percent in 2018 from 7.3 percent in 2017); real estate, renting & business activities (4.8 percent from 7.4 percent); and financial intermediation (7.1 percent from 7.6 percent). Moreover, weak consumer sentiment; higher interest rates; and lower office take-up of business process outsourcing firms partly contributed to the subdued performance of the services sector. On a positive note, faster growth in other services (7.7 percent from 6.4 percent); transport, storage & communication (5.1 percent from 4.0 percent); and public administration & defense (14.6 percent from 7.8 percent) softened the deceleration in the said sector.

Industry growth also grew at a slower pace in 2018 relative to the preceding period (6.8 percent in 2018 from 7.2 percent in 2017). This can be attributed to the weak performance of manufacturing (4.9 percent from 8.4 percent) and mining & quarrying (1.0 percent from 3.7 percent). Sluggish consumer and external demand, coupled with elevated input costs, partly dragged down manufacturing growth; while the on-going moratorium on mining permits and the ban in open-pit mining triggered the reduction in mining & quarrying growth. Meanwhile, the impressive performance of construction (15.9 percent from 5.3 percent), together with the resilient growth in the utilities sector (5.3 percent from 3.4 percent), tempered the deceleration in the industry sector.

Growth in the agriculture sector (0.8 percent) remained positive in 2018, but slower than the 4.0 percent growth in the previous year. The drop in the production of sugarcane (-16.6 percent), palay (-1.0 percent), corn (-1.7 percent), mango (-3.1 percent), and fish (-0.3 percent) primarily influenced the decline in agriculture growth. The damages brought about by several

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<sup>1</sup> Based on the National Income Accounts data.

typhoons (i.e., Vinta, Agaton, Basyang, Caloy, Henry, Inday, Josie, Luis, Ompong, and Rosita; and Habagat in Ilocos Region and Central Luzon) also contributed to the weak performance of agriculture.

5. **Headline inflation settled above the government target in 2018, due mainly to tightness in domestic supply, higher global oil prices, excise tax on sweetened beverages and tobacco, with some demand impulse.** Average inflation increased to 5.2 percent in 2018 from 2.9-percent average in 2017. Nonetheless, inflation started to decelerate in the last quarter of 2018 as temporary price pressures dissipated amid normalization of food supply conditions. The 2019 year-to-date (YTD) average inflation was 4.1 percent in the first two months of the year.

In response to the challenging inflation dynamics in 2018, the BSP raised its overnight reverse repurchase (RRP) rate from 3.0 percent to 4.75 percent by a cumulative of 175 bps in 2018 to firmly anchor inflation expectations to the target and to arrest any possible risk of second-round effects. Moreover, the NG implemented non-monetary measures to address inflation pressures, including higher rice importation, stringent price and supply monitoring, and approval of the Rice Tariffication Law.

6. **Domestic interest rates increased in 2018 reflecting mainly the monetary policy actions by the BSP and the US Federal Reserve, in line with the general increase in global interest rates.** In the primary market, the 364-day Treasury bill rate averaged 5.1 percent in 2018 and inched further to average 6.1 percent in the nine auctions offered thus far by the BTr in 2019. The 2018 average is higher than the 2.9-percent average in the previous year and above the 2.5-4.0 percent BESF assumption for 2018.
7. **Policy rate hikes by major central banks, particularly the upward adjustments in the target fed funds rate by the US Federal Reserve, contributed to the rise in foreign interest rates in 2018.** The 180-day London Inter-Bank Offered Rate (LIBOR) averaged 2.5 percent in 2018, settling at the upper-end of the 1.5-2.5 percent BESF assumption for the year. Moreover, the YTD 180-day LIBOR grew further to 2.8 percent as of 5 March 2019.
8. **A confluence of domestic and external factors contributed to the depreciation of the Philippine peso against the US dollar in 2018.** The average peso-dollar exchange rate depreciated to ₱52.66/US\$1 in 2018 from the ₱50.40/US\$1-average in the previous year. This is also above the ₱48.00 – 51.00/US\$1 BESF assumption for 2018. On the domestic front, the widening of the trade gap, higher importation of capital goods as well as intermediate and raw materials, and uptick in inflation in 2018 weighed on the peso. On the external front, the continued monetary policy normalization by the US Federal Reserve and geopolitical tensions around the globe influenced the peso-dollar exchange rate.

Meanwhile, the average peso-dollar exchange rate appreciated slightly to ₱52.16/US\$1 in the period 2 January – 6 March 2019. Positive developments

over the US-China trade friction, hints of slower policy normalization in the United States, and lower-than-expected domestic inflation outturns in December 2018 and January 2019 contributed to the appreciation of the peso during the period.

9. **Average Dubai crude oil price increased to US\$69.42 per barrel in 2018 from US\$53.17 per barrel in the previous year and was also higher than the BESF assumption of \$45.00 – \$60.00 per barrel for the year.** One of the major reasons for the increase was the decision of the Organization of the Petroleum Exporting Countries (OPEC) and selected non-OPEC producers to extend their production cuts to 2018. At the same time, geopolitical factors namely, reinstating United States sanctions on Iran also exerted upward pressure on oil prices in the international market. Lower supply from Venezuela with ongoing political and economic turmoil further contributed to the increase. However, Dubai crude oil prices declined in late 2018, averaging US\$57.32 per barrel in December, over concerns of weaker global demand due partly to trade tensions between the United States and China.

In early 2019, Dubai crude oil prices recovered to US\$63.18 per barrel for the period 1 January to 5 March 2019 but remained within the BESF assumption of \$50.00 – \$65.00 per barrel. Oil prices increased anew as OPEC and other non-OPEC countries decided to renew their commitment to reducing production in the first half of 2019 with Saudi Arabia announcing that it would cut production more than initially agreed. At the same time, Canada also imposed mandatory production limits in January 2019. The United States sanctions against Venezuela's state-owned oil company, *Petróleos de Venezuela, S.A.* also led to increases in oil prices.

10. **The lower actual exports and imports growth rates for 2018 reflect mainly the significant upward revision made by the PSA in the 2017 actual merchandise trade data in May 2018,<sup>2</sup> which resulted in a higher base of comparison for the 2018 trade-in-goods data.** The table below shows that while the actual 2018 nominal levels are higher than the DBCC-approved assumptions published in the 2018 BESF in July 2017, the growth rates showed an abrupt downtrend due to higher base.

**Table 2. Philippines: BOP-based Goods Exports and Imports**  
(In million US dollars)

Particulars	2017		2018	
	Preliminary	Revised	2018 BESF *	Actual
Goods exports	48,199	51,814	48,853	51,674
Growth (%)	12.8	21.2	7.0	-0.3
Goods imports	89,390	92,029	93,753	100,710
Growth (%)	14.2	17.6	10.0	9.4

\* Growth rates compared to the 2017 adjusted projections published in the 2018 BESF in July 2017

<sup>2</sup> According to the PSA, these revisions were due to inclusions of late entries (i.e., documents received beyond 25 days after the reference month and out of date records from electronic files received from the Bureau of Customs) and of additional exports and imports documents collected from some ports.

**11. Nonetheless, the full year 2018 trade-in-goods performance exhibited a slowdown in both exports and imports coming from double-digit growth rate in 2017.**

Exports of goods declined by 0.3 percent to US\$51.7 billion from US\$51.8 billion in the previous year owing mainly to lower export shipments of coconut and mineral products, which account for about 2.2 percent and 7.8 percent of total exports, respectively. The 26.1 percent decline in export shipments of coconut products followed the fall in coconut oil prices in the world market even as its export volume increased. Based on World Bank's Commodities Price Data (Pink Sheet), coconut oil prices dropped by 39.6 percent from US\$1,651 per metric ton in 2017 to US\$997 per metric ton. Meanwhile, exports of mineral products dropped by 5.9 percent on account of the decreased exports of gold as Philippine gold production likewise declined by 8.7 percent in terms of quantity based on Department of Environment and Natural Resources – Mines and Geosciences Bureau statistics.

Lower exports of sugar and products, and other agro-based products (with declines of 65.2 percent and 10.0 percent, respectively) were also recorded in 2018, with supply disruptions and other weather-related disturbances contributing to the slowdown.

These declines in exports more than negated the higher exports of fruits and vegetables (by 14.5 percent) and manufactured goods (by 0.7 percent). Banana exports continued its strong growth momentum (at 33.3 percent) owing to robust demand from Japan, China and South Korea. The government has also been working closely with the industry in expanding the market share of Philippine bananas in South Korea by reducing tariffs. While manufactured goods exports still recorded a slightly positive growth in 2018, the pace was much less than double-digit expansion in 2017, reflecting the subdued performance of the global and domestic manufacturing sector. This highlights the need to provide an investment climate conducive to greater investments and more manufacturing activities, particularly in the ecozones. Removing unnecessary regulatory impediments, raising productivity and competitiveness of Philippine enterprises, upgrading exports quality and standards, improving access to trade finance, and enhancing export sectors' innovative capacities, are crucial factors that influence the overall climate.<sup>3</sup>

Meanwhile, imports of goods expanded to US\$100.7 billion in 2018 from US\$92 billion in 2017. The 9.4 percent increase was attributed to higher imports across all major commodity groups, notably raw materials and intermediate goods, indicating increased domestic production activity. Imports of raw materials and intermediate goods grew by 16.7 percent to reach US\$37.6 billion, supported by increased importation of manufactured goods (20.4 percent) and higher purchases of materials and accessories for the manufacture of electronic products (60 percent), lending support to the growth of the electronics exports in the near term.

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<sup>3</sup> 2018 – 2022 Philippine Export Development Plan (Draft)

Imports of mineral fuels and lubricants, capital goods, and consumer goods expanded by 21.3 percent, 5.0 percent, and 7.6 percent, respectively. In particular, imports of aircraft, ships and boats, increased by 42.0 percent to reach US\$2.6 billion on account of aircraft purchases by an airline company for the completion of its refueling program for 2018. The 21.3 percent growth in imports of mineral fuels and lubricants was due largely to the increase in imports of petroleum crude oil by 48.1 percent as the import volume and price of crude oil rose.<sup>4</sup>

### ***Macroeconomic Risks***

- 12. In real terms, GDP is targeted to grow by 6.5 to 7.5<sup>5</sup> percent in 2020, with domestic demand seen to remain as the country's main driver of economic growth.** Household consumption is deemed to recover in the near term, as inflation is anticipated to revert back to the 2.0 to 4.0 percent target of the government. The expected deceleration in inflation, particularly on food, will be supported by the enactment of the Rice Tariffication Law and the expected easing of global oil prices.
- 13. Meanwhile, growth in investments will be driven mainly by both private and public construction, the latter largely benefitting from the government's Build, Build, Build program.** The NEDA Board approved the adoption of 75 high impact infrastructure projects that represent the major capital undertakings of the government that will be implemented within the medium-term. These projects are envisaged to promote growth centers outside Metro Manila, with 45 of the 75 projects located in Luzon, 10 in Visayas and 17 in Mindanao. Furthermore, two flagship projects, namely the Luzon-Samar Link Bridge and Leyte-Surigao Link Bridge, will enhance inter-island connectivity in the country while one project, the Nationwide Fish Port Project, will be nationwide in scope. Likewise, government expenditure is also seen to pick up due to the continued delivery of social development programs.
- 14. On the production side, the agriculture sector is also expected to benefit from the Rice Tariffication Law,** as tariff revenues to be collected will be used to enhance the productivity of rice farmers, and encourage them to diversify to high-value crops. Moreover, increasing investments in infrastructure will reduce the agriculture sector's vulnerability to disaster and climate risks. The government also needs to monitor closely the possible emergence of La Nina phenomenon in 2020, following the El Nino episode in 2019.
- 15. The government initiatives intended to liberalize the domestic business environment are expected to boost investor sentiment.** The full implementation of the Ease of Doing Business Act, the Efficient Government Service Delivery Act, and the 11<sup>th</sup> Foreign Investment Negative List, among

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<sup>4</sup> Based on World Bank Commodities Price data, the average price of Dubai crude oil in 2018 increased by 30.3 percent to US\$69.2/barrel from US\$53.1/barrel in 2017.

<sup>5</sup> Growth target adopted by the DBCC on 13 March 2019.

others, are expected to propel the country's growth in the industry and services sectors from encouraging investor sentiment.

16. **Despite the positive economic outlook, the government must remain vigilant on potential downside risks to growth.** On the external front, global expansion is expected to weaken in the next few years, partly due to the escalation of trade tensions between the United States and China. The tightening of financial conditions in emerging markets, the withdrawal of the United Kingdom from the European Union, the slowdown in China, and the heightened political uncertainty & geopolitical tensions in the region. Given the mentioned risks, the International Monetary Fund (IMF) lowered their global growth projection for 2020 by 0.1 percent to 3.6 percent.
17. **Domestically, the government should remain on-guard against remaining inflation risks such as volatility in the global oil market, agriculture supply bottlenecks, and exchange rate volatility.** Moreover, recurring issues/bottlenecks can possibly delay the implementation of infrastructure projects in the pipeline. There is also a need to ensure consistency in the policy environment to further improve business confidence in the country.
18. **The Latest BSP assessment (as of 7 February 2019 Monetary Board meeting) indicates that the risks to the inflation outlook are seen to be balanced for 2019 while leaning toward the downside for 2020 given a more uncertain global economic environment, which in turn could temper potential upward pressures from commodity prices in the coming months.** Higher electricity rates, faster-than-expected monetary policy normalization in the United States, petitions for transport fare adjustments, and the proposed increase in the excise taxes of alcoholic beverages are the main upside risks to inflation. Meanwhile, slower global economic growth due to protectionist policies in advanced economies and geopolitical tensions, the potential renegotiation for lower tariff rates on meat products, and the impact of the re-enacted budget of the NG continue to be the main downside risks to inflation. Going forward, the BSP remains vigilant on developments that could affect the inflation outlook and stands ready to take appropriate policy actions to deliver on its primary mandate of price stability.
19. **Following the cumulative 100 bps hike in target Fed funds rate in 2018, US Federal Reserve's monetary policy tightening cycle is expected to be slower in 2019 to 2020.** The Federal Open Market Committee (FOMC) economic projections (as of December 2018) suggest a total 50 bps rate hike in 2019 and one 25 bps rate hike in 2020.<sup>6</sup> This is also slower than previously forecasted by the FOMC members in their September 2018 projections. Meanwhile, the market expects the US Federal Reserve to pause its tightening cycle in 2019 and reduce its key policy rate in 2020 amid expectations of weaker economic growth and lower inflation in the United States over the medium term.

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<sup>6</sup> US Federal Reserve, Projection Materials for December 2018 FOMC Meeting



Economic developments in the United States and monetary policy actions by the US Federal Reserve could influence the movements in foreign interest rates and in turn, domestic interest rates as well as the peso-dollar exchange rate. A slower pace in policy normalization or a cut in policy rates in advanced economies could pull down the level of global interest rates and ease exchange rate pressures on emerging market currencies, including the Philippine peso.<sup>7</sup> Nonetheless, unanticipated policy actions by the US Federal Reserve could contribute to fluctuations in the level of interest rates and the peso-dollar exchange rate.

### ***Risk Mitigating Measures***

- 20. To further accelerate the country's growth, the government should reinvigorate efforts to open up the economy to boost investor sentiment.** Reforms in the area of public utilities and retail trade should be prioritized. The amendment of the Foreign Investment Act is likewise important to increase foreign investments in both domestic- and export-oriented enterprises.
- 21. The government should also remain vigilant of possible inflation risks.** In particular, the government needs to sustain measures to reduce administrative import restrictions for key agricultural products. Smooth implementation of the Rice Tariffication Law should be ensured; full operationalization of the National Single Window could support this. Moreover, the mitigating measures under the TRAIN Law, such as the unconditional cash transfers and fuel vouchers, should be implemented in a timely manner to protect lower-income households from unintended adverse effects on consumption.
- 22. The government has also pushed for a more aggressive stance in promoting the country's export competitiveness.** This includes removing unnecessary regulatory impediments, raising productivity and competitiveness of Philippine enterprises, upgrading export quality & standards, improving access to trade finance, and enhancing export sectors' innovative capacities. An aggressive Tourism Promotion and Marketing Program also needs to be quickly implemented to boost services exports.
- 23. In the agriculture sector, the government should facilitate access of farmers to modern farming technologies and promote the shift to high-value crops to boost agricultural productivity and stabilize food supply in the medium-term.** The government should also accelerate the construction of disaster- and climate-resilient farm structures and retrofit existing ones (e.g. small-scale irrigation systems); and strengthen the Agriculture, Forestry & Fishing Extension System to increase adoption of climate and shock-resilient technologies.

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<sup>7</sup> The high frequency tracker of the Institute of International Finance (IIF) shows an uptick in portfolio inflows to emerging markets in January 2019 and suggests a strong inflow in Q1 2019 after extrapolating the year-to-date flow. (Source: IIF, "Global Macro View – The Fed Restarts the Wall of Money to EM", 7 February 2019.)

### III. FISCAL PERFORMANCE

#### A. REVENUE PERFORMANCE

24. **For 2018, the NG incurred a fiscal deficit of ₱558.3 billion, 59.2 percent higher than the deficit in 2017.** As percent of GDP, the deficit in 2018 reached 3.2 percent.
25. **Total revenue collection grew by 15.2 percent.** This is higher than the year-on-year (YoY) collection growth of 12.6 percent in 2017.
26. **Tax effort increased to 14.7 percent, a 0.5 percentage point increase from the 2017 tax effort of 14.2 percent.** January to December tax revenues reached ₱2,565.8 billion, ₱315.1 billion higher than the 2017 full year tax collection of ₱2,250.7 billion registering growth of 14.0 percent.
27. **Collections by the BIR, net of tax refund, amounted to ₱1,951.9 billion, registering a lower growth of 10.1 percent compared to the 13.1 percent growth in 2017.** The BIR tax effort of 11.2 percent, same with 2016. Meanwhile, proceeds from TRAIN amounted to ₱9.9 billion.
28. **Revenue from the BOC exceeded its revised target by 1.4 percent for 2018.** Total collection reached ₱593.1 billion, 29.4 percent higher than its collection in 2017, due to strong enforcement and revenue enhancement measures implemented by the BOC. Higher collections from crude and petroleum products were attributed to the increase in oil price. Duties collection also grew by 64.0 percent due to improved valuation and proper tariff classification. Moreover, the higher collection of excise tax registered at 34.4 percent from higher imports and motor vehicle collection. For 2018, volume of importation expanded by 9.5 percent YoY.
29. **Non-tax collections reached ₱268.7 or ₱47.1 billion higher than 2017.** The BTr income improved by 14.3 percent from last year. The full year income of the BTr reached twice its target or 104.8 percent, which is attributable to higher collection of NG share of the income of the Philippine Amusement and Gaming Corporation (PAGCOR) and dividends on NG shares of stocks.
30. **Total privatization proceeds amounted to ₱15.7 billion.** Collections came from sale and other modes of disposition of government assets. It also includes the transfer of bond proceeds remitted by the United Coconut Planters Bank (escrow account to SAGF for the Presidential Commission on Good Government – Coconut Industry Investment Fund holding companies) amounting to ₱13.8 billion.

#### ***Outlook for 2019 - 2022***

31. **The 2019 revenue target is expected to achieve a 16.2 percent growth with the impact of the TRAIN Package 1A and Approved Package 1B.** Also, the continued implementation of existing reforms and higher tax

administration efficiency by the collection agencies will contribute on higher revenues.

The latest approved levels for 2019 to 2022 by the DBCC on 13 March 2019 is lower than the DBCC-approved level last 29 November 2018. The new levels resulted from the actual revenue collections for Fiscal Year (FY) 2018 and the Approved Package 1B, which is lower than the proposed levels last 29 November 2018 DBCC and will only have an impact on 2019.

Package 2+ or the Sin Tax Reform will be implemented and will be collecting additional revenues for 2020 to 2022.

Also for 2021 and 2022, the negative impact of Package 2 under the previously proposed program was removed.

**Table 3. Philippines: Medium Term Revenue Program, 2019-2022**  
(In billion pesos)

Particulars	2017 Actual	2018 Actual	2019	2020	2021	2022
<b>Total Revenues</b>	<b>2,473.13</b>	<b>2,850.18</b>	<b>3,149.67</b>	<b>3,572.53</b>	<b>3,984.74</b>	<b>4,438.09</b>
percent of GDP	15.7	16.4	16.2	16.7	16.9	17.2
<b>Tax Revenues</b>	<b>2,250.68</b>	<b>2,565.81</b>	<b>2,955.43</b>	<b>3,378.09</b>	<b>3,789.03</b>	<b>4,240.06</b>
percent of GDP	14.2	14.7	15.2	15.8	16.1	16.4
BIR	1,772.32	1,951.85	2,271.37	2,611.48	2,935.76	3,287.97
BOC	458.18	593.11	661.04	737.32	813.44	900.35
Other Offices	20.17	20.85	23.01	29.29	39.83	51.74
<b>Non-Tax Revenues</b>	<b>221.62</b>	<b>268.72</b>	<b>192.25</b>	<b>192.44</b>	<b>193.71</b>	<b>196.03</b>
<b>Privatization</b>	<b>0.83</b>	<b>15.66</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>

\*Note: BIR and BOC FY 2017 & 2018 collections are net of tax refund.

### ***Tax Administration and Reforms***

#### **32. Rigorous tax administration and reforms continue to boost revenues.**

Higher tax administration efficiency contributed significantly in raising the tax efforts of the revenue collection agencies. The persistent implementation of tax administration and governance reforms will result in sustained growth in revenue collection, enhanced transparency, and elimination of tax evasion and smuggling.

#### **33. The BIR stays committed to continue implementing administrative measures and initiatives to achieve its target.** The BIR's robust revenue performance were attributed to the following initiatives:

- Continued pursuit of tax fraud cases through its Run After Tax Evaders program. A total of 197 cases were filed at the Department of Justice with estimated tax liabilities of ₱15.02 billion.
- Temporary closure of non-compliant business establishments through the strengthened Oplan Kandado Program. A total of 233 business establishments were closed with collections amounting to ₱799.47 million.

- Other initiatives like the deployment of Accounts Receivable Management System to additional regional sites; the institutionalization of the Value Added Tax (VAT) Audit Group in the regional offices to maximize the effectiveness of the VAT Audit Program; and the full implementation of the Electronic Certificate Authorizing Registration System, among others.

#### 34. The BOC will roll out the priority programs to intensify tax enforcement:

- Enhancement of the BOC Information Technology System to have a fully automated Customs Processing System;
- Restructuring of BOC organization in relation with the Customs Modernization and Tariff Act;
- Enhancement of intelligence and enforcement capabilities of the agency by reorganizing and strengthening the customs police force;
- Upgrading of BOC facilities; and
- Implementation of the Authorized Economic Operator program to enhance cargo clearance and examination capabilities.

**Table 4. Philippines: Updates on Tax Reform Packages**

Measure	House Bill No. (HBN)	Status	Senate Bill No. (SBN)	Status	Remarks
<b>Rice tariffication</b>	<ul style="list-style-type: none"> <li>▪ HB 7735 (Panganiban, et al.)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 14 Aug 2018)	<ul style="list-style-type: none"> <li>▪ SB 1998 (Villar)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 14 Nov 2018)	<b>Signed into law as RA No. 11203</b> (last 14 Feb 2019)
<b>Package 1B:</b> Tax amnesty, lifting of bank secrecy for tax purposes, and automatic exchange of information	<b>Estate tax amnesty bills:</b> <ul style="list-style-type: none"> <li>▪ HB 4814 (Substitute)</li> <li>▪ HB 1889 (Defensor)</li> <li>▪ HB 3010 (Quimbo)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 13 Feb 2017)	<ul style="list-style-type: none"> <li>▪ SB 2059 (Angara, et al.)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 19 Nov 2018)	<b>Enacted as RA No. 11213</b> (last 14 Feb 2019) with veto of general tax amnesty provisions.
	<b>General, estate and delinquencies amnesties:</b> <ul style="list-style-type: none"> <li>▪ HB 8554 (Substitute)</li> <li>▪ HB 7105 (Alvarez, et al.)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 20 Nov 2018)			
<b>Package 1B:</b> Motor vehicle users charge	<ul style="list-style-type: none"> <li>▪ HB 5804 (Villafuerte)</li> </ul>	<b>Pending with Committee</b> (since 5 Feb 2018)	N/A	<b>Not yet filed</b>	N/A
<b>Package 2:</b> Corporate income tax and fiscal incentives	<ul style="list-style-type: none"> <li>▪ HB 8083 (Substitute)</li> <li>▪ HB 7214 (E. Suansing)</li> <li>▪ HB 7982 (Salceda)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 10 Sep 2018)	<ul style="list-style-type: none"> <li>▪ SB 1906 (Sotto)</li> <li>▪ SB 229 (Drilon)</li> <li>▪ SB 798 (Recto)</li> </ul>	<b>Committee conducted 1 public hearing</b>	N/A
<b>Package 2:</b> TIMTA amendments	<ul style="list-style-type: none"> <li>▪ HB 7974 (Umali)</li> </ul>	<b>Pending with Committee</b>	<ul style="list-style-type: none"> <li>▪ SB 1701 (Pimentel)</li> </ul>	<b>Pending with Committee</b>	N/A

Measure	House Bill No. (HBN)	Status	Senate Bill No. (SBN)	Status	Remarks
		(since 6 Aug 2018)		(since 21 Feb 2018)	
<b>Package 2 plus:</b> Alcohol excise tax	<ul style="list-style-type: none"> <li>HB 8618 (Substitute)</li> <li>HB 8286 (H. Suansing)</li> <li>HB 4839 (Garin)</li> <li>HB 8334 (Nieto)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 3 Dec 2018)	<ul style="list-style-type: none"> <li>SB 2197 (Pacquiao)</li> </ul>	<b>Committee conducted 1 public hearing</b>	N/A
<b>Package 2 plus:</b> Tobacco excise tax	<b>Single rate excise tax:</b> <ul style="list-style-type: none"> <li>HB 8677 (Substitute)</li> <li>HB 4575 (Salceda)</li> <li>HB 6648 (Tan)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 3 Dec 2018)	<ul style="list-style-type: none"> <li>SB 1605 (Ejercito)</li> <li>SB 1599 (Pacquiao)</li> </ul>	<b>Committee conducted 2 public hearings</b>	N/A
	<b>Two-tier excise tax:</b> <ul style="list-style-type: none"> <li>HB 4144 (De Vera)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 13 Dec 2016)			
<b>Package 2 plus:</b> Mining	<ul style="list-style-type: none"> <li>HB 8400 (Substitute)</li> <li>HB 7994 (Suansing)</li> <li>HB 422 (Quimbo)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 12 Nov 2018)	<ul style="list-style-type: none"> <li>SB 1979 (Sotto)</li> </ul>	<b>Committee conducted 2 public hearings</b>	N/A
<b>Package 3:</b> Property tax and valuation	<ul style="list-style-type: none"> <li>HB 8453 (Substitute)</li> <li>HB 68 (Salceda)</li> <li>HB 876 (Sarmiento)</li> <li>HB 1274 (Biazon)</li> <li>HB 1529 (Gonzales)</li> <li>HB 2207 (Arroyo)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 12 Nov 2018)	<ul style="list-style-type: none"> <li>SB 44 (Lacson)</li> </ul>	<b>Pending with Committee</b> (since 26 Jul 2016)	N/A
<b>Package 4:</b> Financial tax	<ul style="list-style-type: none"> <li>HB 8645 (Substitute)</li> <li>HB 8252 (E. Suansing)</li> <li>HB 8323 (Villafuerte)</li> </ul>	<b>Approved on 3<sup>rd</sup> and final reading</b> (last 3 Dec 2018)	N/A	<b>Not yet filed</b>	N/A

## **B. EXPENDITURE PERFORMANCE**

- 35. As of end-December 2018<sup>8</sup>, the NG spending for 2018 closed at ₱3.408 trillion, rising by 20.7 percent YoY or ₱584.7 billion.** The solid disbursement performance was largely driven by the massive government infrastructure program and higher personnel services expenditures. Spending likewise surpassed the ₱3.370 trillion target for the year by 1.1 percent or ₱38.5 billion, eliminating the problem of underspending in recent years and indicating improved budget execution and faster delivery of public services.
- 36. Infrastructure and other capital outlays (COs) grew by 41.3 percent to ₱803.6 billion in 2018 from ₱568.7 billion in 2017.** The faster pace of infrastructure spending was credited to the implementation of road infrastructure projects, repair and rehabilitation of educational facilities, acquisition of medical equipment and the modernization of the Armed Forces among others. Personnel services expenditures registered a 22.1 percent growth YoY to reach ₱987.2 billion in 2018, owing to the higher salaries and benefits of state workers as well as hiring of new teachers and government employees. These expenditures also exceeded their respective target for the year by 3.6 percent (₱28.3 billion) and 2.6 percent (₱25.3 billion), respectively.

### ***Outlook for 2019 - 2020***

- 37. The disbursement program for 2019 is set at ₱3.78 trillion, equivalent to 19.4 percent of GDP and 9.5 percent higher than the 2018 program of ₱3.37 trillion.** This program considered the impact of a reenacted budget for the first quarter of the year. Personnel services and infrastructure and other COs continue to be among the main contributors of the growth of spending, with programmed disbursements of ₱1,125.3 billion and ₱804.5 billion, respectively. This will fund the salary increase of state workers and the hiring of additional personnel, and will also support the Build, Build, Build Program of the government.
- 38. The overall infrastructure program (which includes support to GOCCs and transfers to LGUs intended for infrastructure programs and projects) for 2019 amounts to ₱948.6 billion or 4.9 percent of GDP.** This consists of infrastructure programs and projects that will be implemented by the NG such as roads and bridges networks, flood control systems, transport networks, school buildings, health facilities, irrigation systems, and right of way, among others.

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<sup>8</sup> Further reading: Department of Budget and Management (DBM), "National Government Disbursement Performance (as of December 2018)", [https://www.dbm.gov.ph/wp-content/uploads/DBCC/2018/NG\\_Disbursements\\_December%202018\\_for%20posting.pdf](https://www.dbm.gov.ph/wp-content/uploads/DBCC/2018/NG_Disbursements_December%202018_for%20posting.pdf) (accessed 29 March 2019).

- 39. The FY 2020 National Budget will continue to adopt administrative reforms<sup>9</sup> initiated in previous years.** In particular, the Annual Cash Budgeting System will be in full force in 2020 as the NG shifts from the hybrid system in 2019. The preparation of the FY 2020 National Budget is underway with the formulation of the Tier 1 budget proposals (ongoing programs and projects), while the submissions of Tier 2 budget proposals (new or expanded programs and projects) will commence with the publication of the 2020 Budget Priorities Framework in April this year.
- 40. The government will continue to shepherd the passage of the Budget Modernization Bill.** The bill, which aims to institutionalize key budget reforms and establish prudential safeguards to sustain the efficacy of the budget process, already passed the third and final reading in the House of Representatives on 20 March 2018 and currently pending plenary deliberations in the Senate. The government will refile the measure with the 18th Congress when it opens in July 2019.

### ***Sources of Fiscal Risks***

- 41. The delayed approval of the 2019 Budget would weigh down on growth prospects for the year.** A reenacted budget would dampen economic activity and adversely affect the implementation of programs and projects, leading to lower growth outturns and fewer opportunities to improve the quality of life of the Filipino. For instance, procurement activities for big-ticket items in the budget such as infrastructure projects and critical social programs will have their timelines derailed, which may be further exacerbated by erratic weather conditions caused by the El Niño phenomenon.
- 42. Further delays in the approval of the 2019 Budget would have adverse impacts on the economy.** The NEDA estimated that GDP growth may shrink by 0.7 to 0.9 percent if the budget is reenacted until April 2019, 1.4 to 1.9 percent if until August 2019, and 2.1 to 2.8 percent under a full year reenacted budget.
- 43. To mitigate the impact of the delay, the NG has taken the following measures<sup>10</sup>:**
- a. **Issuance of Circular Letter No. 2019-1 – Release of Funds for the First Quarter of FY 2019 and Circular Letter No. 2019-7 – Release of Funds for the Second Quarter of FY 2019.** These Circulars intend to facilitate the implementation of program and projects, including COs, with the

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<sup>9</sup> As enumerated in item (2.3) of the FY 2020 National Budget Call (Source: DBM, "National Budget Memorandum No. 131 – National Budget Call for FY 2020", <https://www.dbm.gov.ph/wp-content/uploads/Issuances/2019/National-Budget-Memorandum/NBM-No-131-26Feb2019.pdf> (accessed 29 March 2019)).

<sup>10</sup> Further Readings: (a) DBM, "Circular Letter No. 2019-1 – Release of Funds for the First Quarter of FY 2019", <https://www.dbm.gov.ph/wp-content/uploads/Issuances/2019/Circular%20Letter/CIRCULAR-LETTER-NO-2019-1-DATED-JANUARY-3-2019.pdf> (accessed 29 March 2019); and (b) DBM, "Circular Letter No. 2019-7 – Release of Funds for the Second Quarter of FY 2019", <https://www.dbm.gov.ph/wp-content/uploads/Issuances/2019/Circular%20Letter/CIRCULAR-LETTER-NO-2019-7.pdf> (accessed 29 March 2019)

release of obligational authority and funds pending the enactment of the 2019 Budget.

- b. **Issuance of Circular 09-2018 – Award of Contract under a Reenacted Budget.** The issuance aims to guide the implementing agencies on the award of contracts undertaken through Early Procurement Activities to ensure the smooth and continuous implementation pending the enactment of the 2019 Budget and avoid the need for rebidding. The Government Procurement Policy Board Technical Support Office led a department-wide briefing on 24 January 2019 to ensure understanding of this circular.
  - c. **Request for exemption from the COMELEC.** The economic managers wrote the COMELEC to seek exemption of 145 priority programs and projects submitted to the DBM by the concerned agencies, and 603 programs and projects with FY 2019 investment targets included in the Updated 2017-2022 Public Investment Program. The exemption will facilitate implementation of these projects, ensure that there are no delays, and minimize disruptions.
44. **Garcia and Mandanas Consolidated Cases**<sup>11</sup>. The Case stems from the petition filed by various congressmen and local chief executives assailing the manner in which the national government agencies (NGAs) concerned computed the Internal Revenue Allotment (IRA) shares of LGUs. In particular, the petitioners pleaded the SC to base the just shares of the LGUs (IRA) on ALL national taxes, encompassing all national internal revenue taxes (NIRT) and customs duties.
45. Following the Supreme Court (SC) Decision dated 3 July 2018, the Office of the Solicitor General, the NG's counsel on record, filed a Motion for Reconsideration before the SC on 10 August 2018, which contains the following prayer:
- a. The SC erred in ruling that Section 6, Article X of the 1987 Constitution requires that all national taxes shall be the base in computing the IRA of the LGUs;
  - b. The SC encroached the exclusive power of the Congress to determine the LGU's just share in national taxes when it ruled as unconstitutional the phrase "internal revenue" in Sections 284, 285, 287, and 290 of RA No. 7160 and in Articles 378, 379, 380, 382, 409, 461 of the Implementing Rules and Regulations of RA No. 7160;
  - c. The inclusion of several taxes in the base amount for purposes of computing internal revenue shares for the LGU will result in "double sharing." The Decision effectively means that the share of the NG, which

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<sup>11</sup> A brief overview of the Case may be perused in pages 16 to 17 of the 2019 Fiscal Risks Statement (DBM, "2019 Fiscal Risks Statement", [https://www.dbm.gov.ph/wp-content/uploads/DBCC\\_MATTERS/FiscalRiskStatement/FISCAL\\_RISKS\\_STATEMENT\\_2019.pdf](https://www.dbm.gov.ph/wp-content/uploads/DBCC_MATTERS/FiscalRiskStatement/FISCAL_RISKS_STATEMENT_2019.pdf) (accessed 29 March 2019). Further reading: The LAWPHIL Project Arellano Law Foundation, "GR 199802, 3 July 2018", [https://www.lawphil.net/judjuris/juri2018/jul2018/gr\\_199802\\_2018.html](https://www.lawphil.net/judjuris/juri2018/jul2018/gr_199802_2018.html) (accessed 29 March 2019).



is intended to finance the services and facilities necessary for the country's economy to function, will be depleted as the same will be distributed again to the LGUs. Moreover, customs duties should not be treated as taxes as the same is the imposition of charges to imported goods to regulate the importation of goods to the country through the imposition of duties; and

- d. Should the SC maintain its Decision, the prospective allocation of the same should be clarified to mean that the LGUs will begin receiving the adjusted IRA in FY 2022, based on the collections of national taxes in FY 2019.

While an estimate of the impact of the Ruling for FY 2019 was provided in the previous iteration of the FRS in order to acknowledge its substantial fiscal implication, the Department of Budget and Management (DBM) has decided to temporarily redact further expressions on the matter in keeping with the *sub judice* rule, until such time when the Court's Decision becomes final and executory. Further action and remedies, if available, will be pursued after then.

#### **46. Enrolled Bills, Signed Laws, and Pending Legislative Measures**

Enrolled Bills and pending legislative measures, among others, pose immediate issues with potentially far-reaching budgetary implications. Below are some identified measures with diminishing effects to the budget:

- a. **Unified Military and Uniformed Services Personnel Separation, Retirement and Pension Bill** – The legislative measure seeks to provide all Military and Uniformed Personnel (MUP) with adequate remuneration and benefits through the revamping of the current retirement benefits and pension scheme. As of 11 March 2019, the Administration has not filed its proposed version of the measure in both Houses of Congress, but it should be noted that there is a DND version of the Bill submitted to the Senate President and the House Speaker on 26 November 2018, the salient features of which are provided in Table 5.

As was previously mentioned, it is worth noting that the current MUP retirement benefits and pension scheme may result to ballooning pensions, and passage of a bill reforming said scheme may not necessarily defuse the problem. However, the increase in retirement age from 56 to 60 years old, as well as the decrease in the lump-sum received upon retirement from 36 months' worth of the MUP's pay to only 18 months, will provide the crucial and easing buffers needed to prevent the excess bloating of retirement benefits and pensions costs.

The GSIS coverage of new entrants in NAMRIA would mean additional contributions for the GSIS and any increase in the GSIS Social Insurance Fund value is always beneficial to the GSIS. It should be noted that the increase in the volume of funds also results to an increase in the fair value of liability, which when considering the small number of the uniformed personnel of NAMRIA, will pose no significant financial impact to the GSIS.

**Table 5. Salient Features of the Draft Unified Military and Uniformed Services Personnel Separation, Retirement and Pension Bill**

<b>Feature</b>	<b>Provision</b>
<b>Mandatory Contributions</b>	27 percent of Base + Longevity Pay [indicative only] First three years – 5 percent Employee, 22 percent NG Next three years – 7 percent Employee, 20 percent NG Years thereafter – 9 percent Employee, 18 percent NG
<b>Monthly Pension Computation</b>	2.5 percent for each year of active service rendered but not to exceed 90 percent of the monthly base and longevity pay of the current salary grade
<b>Pension Increase</b>	Monthly pensions shall be annually reviewed and periodically adjusted (maximum of 1.5 percent) as may be recommended by the actuary of the new entity and approved by the Board and also subject to the availability of funds of the new entity and the NG
<b>Pensionable Age</b>	Sixty (60) years old
<b>One Rank Higher Upon Retirement</b>	Removed for all, regardless of years of service
<b>New Entity as Fund Administrator</b>	A new entity will be established to administer the MUP Fund
<b>The Government Service Insurance System (GSIS) as Fund Manager</b>	GSIS may act as the Fund Manager of the MUP Fund through an investment agreement with the new entity
<b>Battle Casualty</b> Killed in Action; and Complete Disability Discharge or Total Permanent Physical Disability	Raise the pension benefits to 90 percent of salary, even with less than 20 years of service. Surviving beneficiary will receive 75 percent of the pension. Pension to start immediately.
<b>Line of Duty</b> Killed in Action; and Complete Disability Discharge or Total Permanent Physical Disability	50 percent of salary OR (2.5 percent x Years of Service x Salary), whichever is higher. Surviving beneficiary will receive 75 percent of the pension. Pension to start immediately.
<b>Coverage of MUP Law</b>	Philippine National Police Armed Forces of the Philippines Philippine Coast Guard Bureau of Fire Protection Bureau of Jail Management and Penology Bureau of Corrections National Mapping and Resource Information Authority (NAMRIA)  <i>The current enlisted personnel and commissioned officers of NAMRIA will still be part of the MUP law (around 67 in total). However, new entrants of NAMRIA will be shifted to GSIS and classified as civilians</i>

Source: DBM, Budget and Management Bureau-D

As directed under Section 17 of the proposed bill, there shall be created an MUP Fund Authority which will administer the MUP Fund. Given this new entity, the GSIS will have no role in the management of the MUP Fund. Thus, the proposed legislation will not affect the financial position of the GSIS.

- b. **Republic Act (RA) No. 11223 or the Universal Health Care (UHC) Law**— The UHC Law was signed by President Duterte on 20 February 2019, which aims for a holistic approach to the provision of healthcare services to the Filipino people. It will push to streamline the roles and functions of key agencies and stakeholders as well as guarantee that Filipinos are granted equitable access to quality and affordable healthcare and are protected from adverse financial risks.

Funding shall be sourced from total incremental sin tax collections as provided for in the Sin Tax Reform Law, portions of the NG share from the income of the PAGCOR, portions of the Charity Fund<sup>12</sup>, premium contributions of members, annual appropriations of the DOH included in the GAA, and NG subsidies to Philippine Health Insurance Corporation (PHIC) as provided for in the GAA. Fiscal risks are expected to emanate from revenue headwinds (i.e., unmet incremental revenue targets), and various uncertain events such as natural calamities, outbreaks/epidemics, and/or manmade conflicts.

- c. **RA No. 11054 or the Bangsamoro Organic Law (BOL)** – The organic law established the Bangsamoro as a political entity granted with reserved, concurrent, and exclusive powers. Signed on 27 July 2018, it is a landmark law that aims to secure the identity and posterity of the people of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM).

Without accounting for (1) the deductions to the block grant after the transition period, (2) the possible increases to the Bangsamoro fund due to its revenue raising powers (corollary: the diminution of NG collections), and (3) the impact of the SC Decision on the Garcia and Mandanas Consolidated Cases, the budgetary implication of the law would be equivalent to the incremental cost of the block grant, i.e., the difference between the block grant as required by the law (five percent of the net national internal revenue collections of the BIR and net collections of the BOC from the third fiscal year immediately preceding the current fiscal year) and the appropriations that would have been given to ARMM in the absence of the BOL. Estimates from the FY 2019 Budget Deliberations at the Senate, which was a few weeks after the ceremonial signing of the bill into law, pegged the cost of the block grant to around ₱60 billion in 2019, compared to the ₱32.2 billion allocation to ARMM in the same year.

- d. **Lowering of the Optional Retirement Age of Civil Servants to 56.** The lowering of the optional retirement age would have a negative impact on the actuarial life of the Social Insurance Fund (SIF) of the GSIS. Setting

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<sup>12</sup> Net of Documentary Stamp Tax Payments, and mandatory contributions of the Philippine Charity Sweepstakes Office (PCSO).

an earlier retirement age would shorten contributions (viz. less collections) and would lengthen the period of benefit payments (viz. more disbursements). This change in the basic design of the retirement package entails additional cost and would require an additional increase in reserves in order to preserve the actuarial life of the SIF.

With the lowering of the retirement age, the number of active contributors (viz. paying members) supporting a pensioner or the support ratio would further decline. It must be noted that the ratio has already been declining given the rise in number of regular and survivorship pensioners vis-à-vis the fairly stationary number of actively paying members in the government service.

Furthermore, lowering the retirement age would only increase the burden of current and actively paying members. The increase in the life expectancy has weighed unfavorably against the support ratio. And because of the desire to increase benefits without additional funding, there is real danger that the fund, if left underfunded and managed imprudently, will eventually not be able to honor its pension promises for both current and future pensioners.

Thus, enhancing financial sustainability is a critical area, especially in countries with publicly-managed defined benefit systems like the Philippines. Painful but necessary reforms that adjust the parameters of pension systems such as: (i) increase in retirement age; (ii) increase in contribution rate; and (iii) decrease in benefits—are some reforms to promote sustainability.

**Table 6. Philippines: Impact of Lowering the Optional Retirement Age on the SIF**

Scenarios	Retirement Age		Year Expenses Exceed Income	Fund Life
	Optional	Compulsory		
Base Case <sup>13</sup>	60	65	2034	2051
Scenario at 7.0% interest rate	56	65	2024	2039

Results of an actuarial study in Table 6 above show that lowering the optional retirement age would trigger the early onset by 10 years of the year when expenses would exceed income. The fund life would also decrease by 12 years.

The GSIS has reservations on the adoption of the proposed lowering of the optional retirement age as it would adversely affect the number of contributors supporting the pensioners, bringing it down further, and without the support of additional funding, would be detrimental to the solvency of the fund.

<sup>13</sup> Actuarial Study: Base Case of the 2017 SIF Assessment (based on 2016 yearend data)

## IV. PUBLIC DEBT

- 47. The NG debt continues to sustain downward trajectory.** Despite higher than programmed deficit outturn, the debt-to-GDP ratio registered at 41.9 percent in 2018, which is lower compared to previous year supported by strong economic growth. The improvement in the debt sustainability also reflects the proactive and prudent management of government debt amid higher funding requirements and challenging market environment.

**Table 7. Philippines: NG Debt Indicators, 2015-2018**

Particulars	2015	2016	2017	2018
<b>National Government Debt</b>				
% GDP	44.8	42.1	42.1	41.9
% Share				
Domestic	65.2	64.6	66.8	65.5
External	34.8	35.4	33.2	34.5
<b>Interest Payments</b>				
% of Revenues	14.7	13.9	12.6	12.3
% of Expenditures	13.9	11.9	11.0	10.2

Source: BTr

- 48. The structure of NG debt portfolio ensures that risks are minimized.** The foreign currency-denominated debt continued to be peso-oriented due to heavy bias on domestic borrowing with the objective of reducing foreign exchange risks while supporting the development of the domestic bond market.
- 49. The currency mix of NG obligations indicates moderate exposure to foreign exchange adjustments.** Based on value, peso-denominated obligations account for 66.93 percent of the total; followed by USD, JPY, EUR and other currencies at 26.63 percent, 5.43 percent, 0.49 percent and 0.52 percent, respectively.
- 50. The debt portfolio maintains minimal exposure to adverse swings in interest rates.** Only 8.90 percent of the total debt portfolio is subject to resetting, minimizing the sensitivity of interest payments to volatile market conditions.
- 51. Refinancing risk is very minimal.** Average residual maturity of 10.38 years is still in the upper bound of the medium-term target. Domestic and external debt have remaining maturities of 7.13 and 12.24 years, respectively, compared to the 7-10-year target range.
- 52. Higher weighted average interest rate (WAIR) reflects continued adjustment for domestic refinancing costs.** The end-2018 period WAIR of 5.05 percent increased from the previous month's level of 4.99 percent and end-2017 level of 4.89 percent. WAIR for domestic debt has increased to 5.42 percent as of end-December 2018 from 5.13 percent as of end-2017 with the 2018 domestic bond issuance WAIR registering at 5.35 percent as of

December, 96 bps higher than 4.39 percent over the same period in 2017. Meanwhile, the WAIR for foreign borrowing has gone down to 4.34 percent as of end-2018 from 4.41 percent as of end-2017.

- 53. Steady decline in debt servicing burden.** The affordability of debt has improved with interest payment as share of revenue eased to 12.3 percent in 2018 from 18.8 percent in 2008. Moreover, interest payments as a proportion of expenditure has been trimmed down to 10.2 percent in 2018 from 17.2 percent in 2013, making available more resources for social and infrastructure spending.
- 54. Sensitivity analysis on debt servicing flows shows the moderate fiscal impact of changes in macroeconomic variables (Table 8).**
- For 2020, a 1-peso depreciation leads to an increment of ₱10.095 billion in full-year interest payments against the ₱9.231 billion estimated in 2019. However, the impact on principal amortization declined to ₱2.519 billion from ₱3.224 billion calculated in 2019, resulting from the proactive and prudent management of government debt such as debt exchanges concluded in the previous years.
  - On the other hand, a 100 basis points increase in interest rate translates to a ₱18.0 billion increase in interest payment for 2020, higher than the previous estimate of ₱12.3 billion due to increase rolling over amortizing domestic debt payments.
- 55. The DSA suggests that the NG Debt remains broadly sustainable over the medium-term.** Based on baseline scenario using DBCC assumptions, the DSA projects a continued reduction in the debt-to-GDP ratio, declining to 38.5 percent at the end of 2024 from 42.1 percent in 2017 amid higher borrowing requirement to fund the government's massive infrastructure program (Figure 1). Moreover, the DSA indicates that there is a 50 percent likelihood that the debt-to-GDP will remain within the 36.3 percent to 41.0 percent by the end of 2022, showing the resiliency of the debt portfolio against macroeconomic shocks and increased funding needs.

**Table 8: Philippines: Debt Servicing Flows, 2019-2022**

Particulars	2019		2020		2021		2022	
	in PHP millions	Increase in IP Budget (%)	in PHP millions	Increase in IP Budget (%)	in PHP millions	Increase in IP Budget (%)	in PHP millions	Increase in IP Budget (%)
<b>Interest Rate Sensitivity (1 ppt increase)</b>								
<b>Domestic Interest Rate</b>								
Floating interest rate								
Rolled-over fixed rate <sup>1/</sup>	3,706.69	0.93	8,617.11	2.16	8,688.39	2.18	9,658.50	2.42
<b>Foreign Interest Rate</b>								
Floating interest rate	7,567.85	1.90	8,392.60	2.10	8,595.12	2.15	9,670.60	2.42
Rolled-over fixed rate	54.74	0.01	1.41	0.00	15.07	0.00	0.00	0.00
Rolled-over debt amortization	1,010.49	0.25	1,014.88	0.25	1,043.55	0.26	1,096.53	0.27
<b>Foreign Exchange Rate Sensitivity (1 peso depreciation)</b>								
<b>Outstanding</b>								
Of which against the USD	41,915.24		43,905.50		48,092.07		52,438.13	
Of which against the Euro	625.19		588.77		543.61		498.34	
Of which against the JPY	9,118.49		7,415.05		5,970.46		5,168.67	
<b>Interest Payments</b>								
Of which against the USD	9,231.94	2.31	10,095.85	2.53	10,363.78	2.60	11,615.58	2.91
Of which against the Euro	248.07	0.06	241.45	0.06	234.89	0.06	220.29	0.06
Of which against the JPY	257.51	0.06	222.69	0.06	159.58	0.04	122.89	0.03
<b>Principal Amortization</b>								
Of which against the USD	3,223.51		2,518.87		1,938.07		1,672.25	
Of which against the Euro	37.91		36.42		45.15		45.28	
Of which against the JPY	496.42		1,667.44		1,480.60		802.78	
<b>Combined interest rate shock and FX depreciation<sup>2/</sup></b>	22,077.28	5.53	28,586	7.16	29,100.39	7.29	32,384.39	8.12
<b>Domestic</b>	3,706.69	0.93	8,617.11	2.16	8,688.39	2.18	9,658.50	2.42
<b>Foreign</b>	18,370.59	4.60	19,968.89	5.00	20,411.99	5.12	22,725.89	5.70

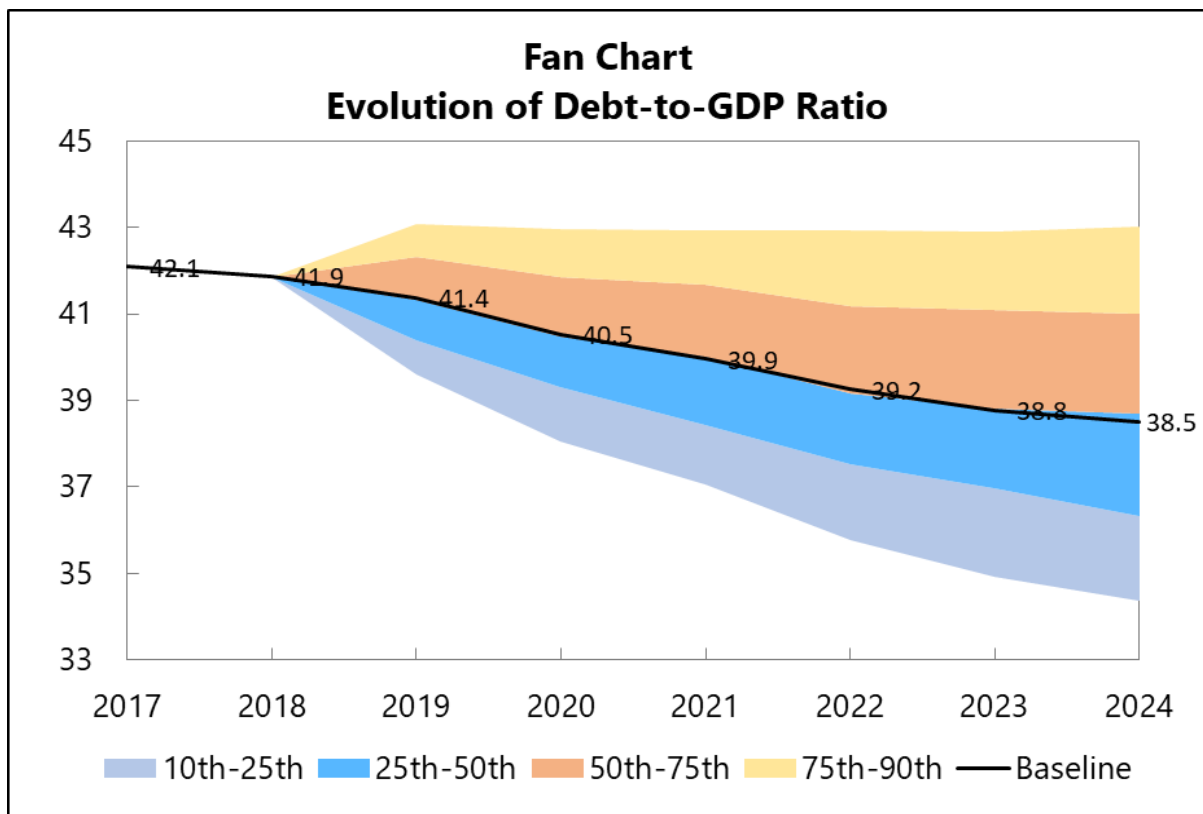
Source: BTr estimates

Notes:

1/ Includes CBOL bonds maturing 2019.

2/ Includes domestic and foreign

**Figure 1. Philippines: Debt Sustainability Analysis**



Source: BTr estimates using IMF DSA Template



## V. MONETARY PERFORMANCE

### *On Domestic Liquidity*

- 56. Domestic liquidity (M3) growth eases.** Preliminary data show that domestic liquidity grew by 7.6 percent YoY to about ₱11.4 trillion in January 2019. This was slower than the 9.2-percent expansion in December 2018. On a month-on-month seasonally-adjusted basis, M3 increased by 0.6 percent.
- 57. Demand for credit eased but remained the principal driver of money supply growth.** Domestic claims grew by 12.2 percent in January from 14.6 percent in the previous month due mainly to the sustained growth in credit to the private sector. Loans for production activities continued to be driven by lending to key sectors such as wholesale and retail trade, repair of motor vehicles and motorcycles; financial and insurance activities; manufacturing; real estate activities; electricity, gas, steam and air conditioning supply; and construction.
- 58. Growth of loans for household consumption slowed down.** In January 2019, growth in credit card and motor vehicle loans decelerated alongside a contraction in salary-based general purpose consumption loans which offset the expansion in other types of household loans during the month.
- 59. Meanwhile, net foreign assets in peso terms contracted by 0.9 percent YoY in January 2019 after expanding by 1.3 percent in the previous month.** The NFA of banks contracted even as banks' foreign assets continued to increase as a result of higher loans and investments in marketable debt securities. In contrast, the BSP's NFA position continued to expand in January 2019, reflecting the increase in gross international reserves (GIR).

### *On Monetary Policy Assessment*

- 60. The BSP responded to inflationary pressures in 2018 in keeping with its standard approach to dealing with supply-side shocks, undertaking monetary action at the first sign of second-round effects and elevated shifts in inflation expectations and relying on non-monetary measures as a key response.**
- The BSP decided to maintain its monetary policy settings in Q1 2018 as its inflation forecasts remained within the target range and as inflation expectations showed no signs of being disanchored.** Communication with the public also emphasized the limitations of monetary policy to combat inflation when price spikes are driven by supply-side factors.
  - However, the BSP remained on guard, even as it expressed its support for immediate implementation of non-monetary measures to address inflation pressures.** Indeed, rising inflation expectations and early signs of second-round effects during Q2 2018 underscored the risk posed by sustained price pressures.

- c. **For this reason, the BSP delivered a series of timely and appropriate monetary tightening measures from May to November 2018.** The cumulative 175-bp hike in the key policy interest rate aimed at anchoring the public's inflation expectations to help ensure that the price pressures would not evolve into sharper gains in wages, transportation fares, and prices of other goods and services.
61. **The sum of new information suggests that the BSP has some latitude to keep monetary policy settings unchanged at its policy meeting on 7 February 2019 and allow the cumulative monetary adjustments to work their way through the traditional channels of monetary policy.** The various key inflation metrics suggest better-behaved inflation dynamics over the policy horizon, supported by the recent policy actions of the BSP. A stable exchange rate and normalization of food supply conditions are seen to additionally help ease price pressures. Indications of the real sector growing at trend and stabilizing also suggest manageable demand-pull pressures on prices going forward. The slowdown in inflation momentum is seen to help anchor the public's inflation expectations. The recent developments in liquidity and credit conditions also provide some scope for the BSP to pause and allow the economy to adjust.

## VI. EXTERNAL SECTOR

- 62. As a result of the widening of the trade deficit amid strong goods imports moving in tandem with the growth of domestic demand, the current account (CA) yielded a deficit of US\$7.9 billion (2.4 percent of GDP) in 2018**, higher than the US\$2.1 billion deficit (0.7 percent of GDP) registered in 2017. This developed as the widening deficit in the trade-in-goods account more than offset the higher net receipts posted in the trade-in-services, as well as in the primary and secondary income accounts.
- 63. Nonetheless, the CA deficit remains financeable, with continued robust inflows from structural sources of foreign exchange – foreign direct investments (FDI), overseas Filipinos' (OFs) remittances, business process outsourcing revenues, as well as tourism receipts.** These accounts continue to provide a buffer for the domestic economy despite external headwinds. For 2018, cash remittances from OFs amounted to US\$28.9 billion, representing a 3.1 percent growth rate YoY, in line with the 3.0 percent projection for the year. Remittances from both land-based (US\$22.8 billion) and sea-based (US\$6.1 billion) workers increased by 2.8 percent and 4.6 percent, respectively.
- 64. More than adequate level of foreign exchange reserves provide sufficient buffer against external shocks.** As of end-February 2019, the country's GIR stood at US\$82.9 billion. At this level, the GIR remains well above the standard adequacy metrics and represents more than ample liquidity buffer as it is equivalent to 7.3 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 6.3 times the country's short-term external debt based on original maturity and 4.1 times based on residual maturity. The level of GIR is more than adequate to meet unforeseeable demand for the country's immediate obligations – imports and short-term debt, and enables the BSP to, if necessary, participate in the foreign exchange market to ensure orderly conditions and smoothen volatility.
- 65. The country's external indebtedness relative to the size of the economy indicates its sustained capacity to service maturing foreign obligations.** The favorable external sector position is also manifested through improvements in the country's external liability management as exhibited by sustained decline in the Philippines external debt ratios over the past decade. The external debt-to-GDP ratio has continually declined from 38.4 percent in 2009 to 23.9 percent in 2018. Despite the increase in the level of external debt in 2018, the Philippines' sustained positive economic growth resulted only in a slight increase in the external debt to GDP ratio from 23.3 percent as of end-2017 to 23.9 percent as of end-2018.
- 66. At the same time, while the country is able to rely on sufficient buffers in the external sector, the NG has been pursuing strategies to boost exports and competitiveness**, especially amid increasing risks from the rise of trade protectionism which can dampen global growth prospects. The continued adoption of policies to further improve the country's export competitiveness remains essential over the medium term. Over time, as

competitiveness issues and infrastructure gaps are addressed, this would lead to the expansion of the economy's productive capacity and to increased FDIs, lending support to sustainable economic growth. This could then result in a subsequent rise in goods exports, eventually alleviating the CA deficit.

## VII. FINANCIAL SECTOR

67. **The Philippine banking system, as the core<sup>14</sup> of the financial system, sustained its growth story and continued to operate in a safe and sound manner. This is made possible by the sound and strategic reforms the BSP has implemented through the years, involving prudent regulations, risk-based supervision, and earnest cooperation from the banking sector.** The double-digit growths in assets, loans, investments, and deposits translated into improved asset quality, firm liquidity position, strong capitalization, and increased profitability. The BSP continues to pursue proactive reforms aimed at promoting sustained stability of the banking system and greater financial inclusion.

### *Performance of the Banking System*

68. **Sustained growth in bank deposits fueled the growth in bank loans and aggregate assets.** Assets of the Philippine Banking System expanded to ₱16.9 trillion in end-December 2018, attributed mainly to similar growth in deposit. Bank deposits registered an 8.8 percent YoY growth from ₱11.7 trillion as of end-December 2017 to ₱12.8 trillion as of end-December 2018, most of which were deployed to lending in productive activities.
69. **Loans remain as a significant component of banks' expanding asset mix.** As of end-December 2018, net loans made up 58.5 percent of the banking system's resources, followed by financial assets other than loans and cash and due from banks with shares at 22.1 percent and 15.4 percent, respectively.
70. **The banks' loan portfolio reflects upbeat domestic growth prospects.** Consistent with the expansion of the banking system's assets, total loan portfolio went up by 13.9 percent YoY to ₱9.9 trillion and remained diversified across production sectors. In particular, real estate activities had the largest share to total loans at 17.7 percent, followed by wholesale and retail trade at 13.1 percent, manufacturing at 11.3 percent, and loans for household consumption at 10.7 percent. The banks' rising appetite for lending activities is accompanied by the continued improvement in their respective credit risk management systems.
71. **Loan quality remains satisfactory amid continued loan growth.** As banks continue to adhere to sound credit underwriting standards and enhance their credit risk management practices, loan quality remains satisfactory with the non-performing loan (NPL) ratio remaining low at 1.8 percent as of end-December 2018. In addition, banks are prepared to bear credit losses as they have set up adequate provisions for possible defaults. The banking system was able to maintain the NPL coverage ratio of over 100 percent, i.e., at 104.9 percent as of end-December 2018.

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<sup>14</sup> Total assets of the banking system accounted for 82.6 percent of the total assets of the Philippine financial system as of end-December 2018.

- 72. Banks' profitability was sustained by strong core earnings.** For the period end-December 2018, the Philippine banking system recorded a positive bottom line as net profit grew by 6.4 percent higher YoY to ₱178.8 billion. The overall profitability was buoyed by higher earnings from lending activities as indicated in the increase in net interest income by 13.9 percent YoY to ₱509.7 billion. Meanwhile, return on assets and return on equity stood at 1.1 percent and 9.4 percent, respectively.
- 73. Banks' risk-taking activities are supported by adequate capital.** Banks' capital accounts went up by 17.7 percent to ₱2,067.5 billion, on account of additional funds infused by some banks<sup>15</sup> and higher profit registered in 2018. The overall capitalization of the banking system remains strong as the Basel III capital adequacy ratio of universal and commercial banks (U/KBs) stood at 15.2 percent on a solo basis and 15.8 percent on a consolidated basis as of end-September 2018, which is above the BSP and Bank for International Settlements-prescribed thresholds of 10.0 percent and 8.0 percent, respectively.
- 74. Banks maintain ample liquidity to meet their operational requirements and related funding needs.** Banks continue to build-up their liquid assets<sup>16</sup> in the form of cash and deposits with the BSP and other banks. Liquid assets-to-total deposits ratio registered at 47.3 percent as of end-December 2018.
- 75. The banking system has sufficient buffers to meet liquidity and funding requirements.** As of end-October 2018, the Basel III Liquidity Coverage Ratio (LCR) of the U/KB industry registered above the minimum requirement at 157.6 percent on a solo basis. In addition, the banking system also held sufficient stock of high quality liquid assets (HQLA) that can be easily converted into cash to service liquidity requirements over a 30-day stress period. Banks generally maintain most of their HQLA in the form of reserves with the BSP and investments in government securities. Moreover, banks disclose in the Banking Sector Outlook Survey (BSOS) that maintaining high liquidity is important to protect the institution against domestic and global headwinds.<sup>17</sup>
- 76. Philippine banks are seen to remain stable and resilient amid credit expansion.** Moving forward, the BSP expects that banks will be able to sustain loan growth in view of the favorable economic growth outlook and programmed increase in public and private spending. Liquidity will remain the key strength of Philippine banks with stable funding from customer deposits.

Improvement in profits will continue, driven mainly by strong growth outlook and stable lending. Banks are expected to rebalance their loan portfolio by

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<sup>15</sup> The capital infusion is due to the capital build-up activity being undertaken by the industry in view of the ongoing Basel III reforms and in anticipation of further expansion of the loan portfolio.

<sup>16</sup> Liquid assets is the sum of Cash and Due from Banks and Financial Assets, net (excluding equity investments).

<sup>17</sup> Banks indicate bullish outlook for the Philippine banking system over the next two years. (Source: BSP, "Banks Indicate Bullish Outlook for the Philippine Banking System over the Next Two Years", 3 October 2018, <http://www.bsp.gov.ph/publications/media.asp?id=4830&yr=2018> (accessed 20 March 2019)).

increasing their credit allocation to small and medium enterprises and the retail sector to dampen pressure from the thinning margins from loans to large corporations.

Operating costs, however, may continue to rise as banks also utilize more resources to expand its customer base, implement system upgrades, and pursue product innovations. Lastly, with the adoption of Basel 3 reforms including leverage ratio and liquidity ratios (LCR and Net Stable Funding Ratio or NSFR) complementing the minimum capital adequacy rules, banks are well-positioned to absorb losses under stressed market conditions.

- 77. International credit rating agencies still consider Philippine banks resilient on the back of the country's strong economy and stable banking system.** Fitch Ratings affirmed the country's investment grade rating with stable outlook on the back of robust economic growth and stable banking system.<sup>18</sup> Moody's has similarly kept the country's Baa2 rating with stable outlook.<sup>19</sup> Meanwhile, Standard and Poor's upgrades the Philippines' credit outlook to 'positive' while affirming the country's current credit rating.<sup>20</sup>

### ***Risks from the Banking Sector***

- 78. Exposures of the NG to the banking sector remain minimal.** As of end-September 2018, the NG's exposure to the banking system was mostly in the form of deposit liabilities amounting to ₱1,719.7 billion, representing 13.9 percent of the ₱12,408.3 billion total deposit liabilities of the banking system. Meanwhile, the paid-in capital stock contribution of the NG in government banks as of end-December 2018 (i.e., Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and Al-Amanah Islamic Investment Bank of the Philippines) was reported at ₱46.0 billion<sup>21</sup>.
- 79. The NG also extends guarantees, (i.e., foreign exchange (FX) cover) on foreign currency denominated borrowings of government banks from multilateral lenders, which are intended for re-lending to priority sectors.** The notional amount of guarantees (i.e., FX cover) extended by the NG on foreign currency denominated borrowings of government banks from multilateral lenders was estimated at US\$1.2 billion (₱64.6 billion or 0.4 percent of the total liabilities of the Philippine Banking System) as of end-December 2018. Meanwhile, the peso-denominated borrowings of government banks were recorded at ₱3.1 billion. These borrowings are

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<sup>18</sup> Sollorano, Victor, "Fitch Ratings Affirms Philippine Investment Grade Rating at 'BBB'", *GMA News Online*, 20 December 2018, <https://www.gmanetwork.com/news/money/economy/678869/fitch-ratings-affirms-philippine-investment-grade-rating-at-bbb/story/> (accessed 20 March 2019).

<sup>19</sup> Moody's, "Rating Action: Moody's Affirms Philippines' Baa2 Rating, Maintains Stable Outlook", 20 July 2018, [https://www.moodys.com/research/Moodys-affirms-Philippines-Baa2-rating-maintains-stable-outlook--PR\\_385740](https://www.moodys.com/research/Moodys-affirms-Philippines-Baa2-rating-maintains-stable-outlook--PR_385740) (accessed 20 March 2019).

<sup>20</sup> De Guzman, Luchi, "Standard & Poor's Upgrades Philippines Credit Outlook to 'Positive'", *CNN Philippines*, 20 July 2018, <http://nine.cnnphilippines.com/business/2018/04/27/standard-poors-upgrade-Philippines-credit-outlook-positive.html> (accessed 20 March 2019).

<sup>21</sup> Based on the bank-submitted Financial Reporting Package to the BSP.

intended for re-lending to priority sectors/projects that are likewise guaranteed by the NG.

### ***Risk Mitigation Measures***

**80. The BSP remains committed to the pursuit of financial sector reforms amid the changing market conditions and increasing sophistication of global financial services industry.** The BSP has undertaken a number of regulatory developments aimed at (1) strengthening risk governance; (2) leveraging on technology in finance and the use of artificial intelligence; (3) achieving greater and broader access to financial services; (4) upholding the integrity of financial system and safeguarding the interest of the public; and (5) accelerating capital market reforms, including foreign exchange initiatives.

a. **Strengthening risk governance.** In strengthening risk governance, the BSP is guided by the concept of proportionality towards achieving (a) enhanced risk management systems, and (b) sound capital position of BSP-supervised financial institutions (BSFIs). This objective is complemented by the deployment of prompt and calibrated enforcement actions as well as the dynamic and forward-looking assessment framework.

▪ **Liquidity Reforms.** To further bolster the liquidity position of the banking system, the BSP embarked on a four-phased program aimed at ensuring that BSFIs function smoothly not only during normal times but also under stress.

i. The first phase covers the enhancement of the liquidity risk management guidelines under Circular No. 981 dated 3 November 2017 (Guidelines on Liquidity Risk Management). This is primarily anchored on the Basel Principles for Sound Liquidity Risk Management and Supervision.

ii. The second phase is on the amendment to the Basel III LCR and the introduction of a minimum liquidity ratio (MLR)<sup>22</sup> requirement for stand-alone thrift banks (TBs), rural and cooperative banks (R/CBs) and quasi-banks (QBs) (Circular No. 996 dated 8 February 2018). The LCR framework was expanded to include not only U/KBs but also their subsidiary banks.

iii. The third phase covers the adoption of the Basel III Standards on NSFR of 100 percent starting 1 January 2019 (Circular No. 1007 dated 6 June 2018). The NSFR promotes longer-term resilience by requiring banks to fund their activities with more stable sources of funding over a one-year period.

iv. The fourth phase will cover the intraday liquidity reporting guidelines. The intraday liquidity monitoring tools aim to enable

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<sup>22</sup> The Circular requires stand-alone TBs, R/CBs and QBs a separate MLR of 20 percent by 1 January 2019. The MLR is a percentage of a covered institution's eligible stock of liquid assets to its qualifying liabilities.



banking supervisors to better monitor bank's management of intraday liquidity risk and its ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.

- **Operational Risk Management.** Circular No. 989 dated 4 January 2018 provides guidelines on the conduct of stress testing exercises. The Circular outlines the overarching governance standards and risk management expectations on stress testing practices in the banking industry.
- b. **Leveraging on technology in finance and the use of artificial intelligence.** The BSP remains proactive in its approach to the rapid expansion and reach of financial technology (FinTech) innovation considering its potential to promote financial inclusion and improve efficiency in banking operations. The BSP's "test-and-learn" approach, which is currently referred to as the "regulatory sandbox," is underpinned by three core principles of proportionate regulation, multi-stakeholder collaboration and consumer protection.

Several of the initiatives implemented were aimed at allowing the use of technology to streamline the conduct of banking activities and ensuring that technology-related risks, including anti-money laundering (AML) and other concerns with respect to FinTech, are properly addressed and/or are mitigated.

- **Enhancement of technology and cyber-risk reporting and notification requirements (Circular No. 1019 dated 31 October 2018).** The issuance enables the BSP to have ready access to accurate, timely, and actionable information regarding supervised financial institutions' technology risk profiles, including the evolving cyber-threat environment for a more responsive, proactive, and effective banking supervision.
- **Creation of the Financial Technology Sub-Sector (FTSS) in the Financial Supervision Sector.** The BSP created the FTSS on 24 May 2018 to focus supervisory resources on FinTech-related risks. Two (2) units comprise the FTSS:
  - i. The Payment System Oversight Department which was created in March 2018 as the BSP's dedicated unit for the formal oversight of the National Retail Payment System (NRPS). It Issues policies and regulations relevant to the NRPS and ensures that BSFIs and other participants in the payment system adhere to payments-related policies and applicable international standards; and
  - ii. The Technology Risk and Innovation Supervision Department<sup>23</sup> which conducts IT supervision and examination of banks and non-

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<sup>23</sup> Formerly the Core Information Technology Specialist Group.

bank financial institutions. It ensures a safe and sound cyber-security environment for the Philippine financial services industry through cyber-security surveillance and oversight.

c. **Achieving greater and broader access to financial services.** The BSP's pursuit of a broader goal on financial inclusion began with the effort to develop a sustainable microfinance in the country through the issuance of regulations on microfinance starting 2001. Over the years, positive developments in the financial inclusion agenda became evident as seen in the following factors:

- **More financial access points.** Banks' network of branch and other offices continued to expand as supported by the rationalization of branching guidelines. Circular No. 987 dated 28 December 2017 gives banks more flexibility to reach the underserved or unbanked areas with the establishment of branch-lite units.
- **Wider range of products.** Aside from the range of microfinance products and agricultural value chain financing, banks are now given more flexibility to expand the range of products and services offered through their branch-lite units. Circular No. 992 dated 1 February 2018 sets out the framework for banks to offer a basic deposit account (BDA)<sup>24</sup> to promote account ownership among the unbanked.
- **The NRPS.** The BSP adopted the NRPS framework under Circular No. 980 dated 6 November 2017 as its flagship program to transform the payment system. The NRPS intends to increase e-payments to at least 20 percent of total retail payments by year 2020 by creating a seamless retail payment ecosystem with interoperable systems and processes. The Circular formally facilitates the establishment of a safe, efficient, and reliable NRPS by defining and institutionalizing appropriate governance and operating structures for the promotion of transparency and disclosure of payment system participant operating policies and fees.

The current participation and compliance of BSFIs to the requirements of the NRPS have been encouraging. As of end-2018, there have been 47 BSFIs that joined the PESONet and 36 BSFIs that joined Instapay. The BSP is expecting more BSFIs to participate in the NRPS, particularly the standalone thrift banks and rural and cooperative banks, once their investment in necessary technology is completed. Based on the results of the BSOS<sup>25</sup> for the first semester of 2018, banks support the use of technology-enabled solutions and exhibit strong interest in participating in the digital finance ecosystem. In particular, 37.5 percent of respondents of stand-alone thrift banks indicate that they plan to have

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<sup>24</sup> The key features of the BDA include simplified KYC requirements, an opening amount of less than ₱100, no minimum maintaining balance, no dormancy charges, and maximum balance of ₱50,000.

<sup>25</sup> It also serves as a complementary tool in validating the assessment of bank supervisors. The conduct of the BSOS aims to gather the sentiments of the Presidents/Chief Executive Officers/Country Managers of banks in the country within a two-year horizon (Full report: BSP, "The Philippine Banking Sector Outlook Survey: First Semester 2018", 13 September 2018, [http://www.bsp.gov.ph/downloads/Publications/2018/PBSOS\\_1s2018.pdf](http://www.bsp.gov.ph/downloads/Publications/2018/PBSOS_1s2018.pdf)).

25 to 50 percent of their banking transactions to migrate into the digital platform.

- **The Center for Learning and Inclusion Advocacy (CLIA).** Internally, the BSP established the CLIA to ensure that the financial system caters to all market segments and that financial consumers are adequately informed and protected. The CLIA is under the Office of the Governor which clearly demonstrates BSP's serious commitment to financial inclusion and recognizes its strategic complementarity with BSP's primary mandates.

The CLIA will work on creating a policy and regulatory environment that will enable the private sector to deliver innovative and responsive financial products and services in a safe, sound and sustainable manner. The CLIA will help ensure that financial consumers acquire the knowledge and skills to make informed decisions and are able to enjoy the full benefits of their financial access. In addition, the CLIA will work on building effective partnerships and public-private sector cooperation toward broad based and inclusive growth through the implementation of the National Strategy for Financial Inclusion.

- **Other recent initiatives**

The BSP issued Circular No. 1001 dated 30 April 2018 (Credit Limits for Project Finance Exposures) to support of the government's Build, Build, Build initiative. Separate single borrower's limit is allowed for Special Purpose Entities or companies doing stand-alone projects under the government program.

The BSP issued Circular No. 1003 dated 16 May 2018 implementing the Philippine Credit Card Industry Regulation Law (RA No. 10870). The law and its Implementing Rules and Regulations aim to make consumer credit readily available under conditions of safe, sound, efficient, and fair business conduct aligned with global best practices.

- d. **Upholding the integrity of financial system and safeguarding the interest of the public.** Integral to the BSP's objective on financial stability is to uphold the integrity of the financial system considering the areas of prudential reporting, disclosure requirements and compliance to the Anti-Money Laundering (AML) Act of 2001.

- **Frequently Asked Questions (FAQs) on AML Concerns related to the NRPS.** The BSP issued a primer under Memorandum No. M-2018-021 dated 10 August 2018 on AML-related concerns on the adoption of the NRPS framework.
- **Philippine Financial Reporting Standards (PFRS) 9.** In line with its commitment to adhere to international standards to the greatest extent possible, the BSP issued guidelines on the adoption of PFRS 9 - Financial Instruments for BSFIs (Circular No. 1011 dated 14 August 2018). The policy sets out the supervisory expectations in classifying

and measuring financial instruments and in recognizing impairment to promote prudence and transparency in financial reporting.

**e. Accelerating capital markets reforms, including foreign exchange initiatives.**

- The **BSP issued Circular No. 1018 dated 26 October 2018** seeking to ensure the competence and integrity of all duly designated unit investment trust fund (UITF) marketing personnel by requiring them to undergo a UITF Certification Program.
- The **BSP Circular No. 1021 dated 15 November 2018** enhances the guidelines on marking-to-market of financial instruments to align BSP regulations with international accounting standards and in response to the adoption of a valuation methodology for peso-denominated government securities by a benchmark administrator authorized by the Securities and Exchange Commission (SEC). This aims to ensure consistency of fair value measurements and comparability of financial reports in the financial system.
- The BSP continues its major liberalization reforms to the FX regulatory framework. This is aligned with the BSP's thrust to further deepen and develop a robust capital market through a more liberal policy environment, taking into consideration adherence to international practices and standards. The reforms intend to facilitate access to the banking system's FX resources for legitimate transactions, and further streamline and simplify procedures including the documentary requirements for FX transactions. The reforms will give the investors greater flexibility to manage their investments and cash flows.

**81. Moving forward, the BSP will sustain the implementation of proactive reforms that will further enhance risk governance systems and strengthen financial system surveillance leveraging on advances in technology.** These reforms coupled with banks' prudent risk-taking behavior and adequate buffers against uncertainties will move the System towards a more sound, stable, and inclusive banking system.

***Ensuring Financial Stability***

**82. The BSP strengthened its coordination mechanism with stakeholders and other counterpart regulators.** The BSP actively coordinates with relevant stakeholders such as industry associations to ensure responsiveness of its reform agenda as well as with domestic regulators through the Financial Sector Forum (FSF)<sup>26</sup> to harmonize and coordinate supervisory and regulatory methods, policies and reporting requirements. The BSP also

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<sup>26</sup> The FSF is chaired by the BSP Governor with heads of the SEC, Insurance Commission and the Philippine Deposit Insurance Corporation (PDIC) as members. Part of the thrust of the FSF is to develop comprehensive rules on disclosure, and create database linkages to facilitate accurate transfer of information which improves supervision oversight of financial conglomerates and activities of entities that operate in the gray areas of supervisory boundaries.

coordinates with government agencies through the Financial Stability Coordination Council in order to take proactive measures to manage and address the build-up of system-wide risks which could arise from financial and non-financial sectors of the economy.

- 83. The BSP also collaborates with international standard setters<sup>27</sup> to develop and align local regulations and standards with evolving reforms and developments under international standards and best practices.** The BSP actively participates in regional and international cooperation fora<sup>28</sup> to contribute to the formation of a collective/regional position in areas involving financial stability and bank supervision.
- 84. The Philippine banking system remains profitable, sustained by strong core earnings. In addition, the Philippine banking system continued to operate in a safe and sound manner.** This is made possible by the sound and strategic reforms the BSP has implemented through the years, involving prudent regulations, risk-based supervision, and earnest cooperation from the banking sector.
- 85. The BSP will sustain the implementation of proactive reforms that will further enhance risk governance systems and strengthen financial system surveillance leveraging on advances in technology.** These reforms coupled with banks' prudent risk-taking behavior and adequate buffers against uncertainties will sustain a sound, stable, and inclusive banking system.

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<sup>27</sup> Includes the Basel Committee on Banking Supervision and Financial Stability Board Regional Consultative Group for Asia.

<sup>28</sup> Includes the Executives' Meeting of East Asia Pacific Central Bank, Association of South East Asian Nations (ASEAN), ASEAN+3, i.e., ASEAN member states plus China, Japan and Korea.

## **VIII. OTHER CONTINGENT CENTRAL GOVERNMENT OBLIGATIONS**

### **A. GOVERNMENT-OWNED AND -CONTROLLED CORPORATIONS (GOCCS)**

- 86.** The Department of Finance (DOF) upholds its mandate to continuously pursue fiscal and policy initiatives to instill financial discipline among GOCCs. The record-high dividend remittance of the GOCCs/Government Financial Institutions (GFIs) of ₱40.2 billion since the Dividend Law substantiates the efforts of the GOCCs to become efficient partners of the NG in the acceleration of infrastructure development in the country. The said law requires the state firms to remit at least 50 percent of their net earnings was enacted in 1994.
- 87.** The financial operations of the 14 Major Non-Financial Government Corporations (MNFGCs) posted a surplus of ₱5.8 billion, a substantial decrease of 86 percent or ₱34.39 billion as compared to the 2017 surplus of ₱40.2 billion as the GOCCs continue to increase its capital expenditures. The 2018 surplus was tapered down largely by National Housing Authority (NHA), National Food Authority (NFA), National Irrigation Administration (NIA), Philippine Ports Authority (PPA), Power Sector Assets and Liabilities Management Corporation (PSALM) and Home Guaranty Corporation (HGC).

The decrease in NHA's surplus of ₱17.6 billion was mainly due to lower subsidy releases in 2018. The subsidy releases to NHA in previous years were used for the permanent housing assistance and community facilities for the victims of typhoon.

The decline in NFA's surplus by ₱7.9 billion was brought about by the higher volume and price of rice importation to augment NFA's stocks partly offset by higher operating subsidy and service fees received from the auction of the Minimum Access Volume to private importers.

The reduction in NIA's surplus by ₱3.3 billion was brought about by higher Variable Water Delivery Fee paid for Casecan project.

The decrease in PPA's surplus by ₱2.8 billion was due to increased tax payment and higher dividend payment resulting from higher taxable income with the revenue gain on fees and charges and capital expenditures for continuing programs for the dredging and maintenance of ports nationwide.

The decrease in PSALM's surplus by ₱1.9 billion resulted mainly from lower collection of generation payments from Independent Power Producer Administrators (IPPAs) following the termination of contracts of Mt. Apo I and II and Unified Leyte in 2017.

The reduction in HGC's surplus by ₱1.4 billion was due to the increase in tax payment arising from recognition of gain on sale of Philippine National Railways (PNR) air rights and remittance of additional dividends from 2016 net earnings.

Other GOCCs, such as Metropolitan Waterworks and Sewerage System (MWSS), National Power Corporation (NPC), Light Rail Transit Authority (LRTA), National Transmission Corporation (TransCo), and Local Water Utilities Administration (LWUA) also contributed to the decrease in the financing surplus brought about by lower subsidy releases coupled with higher CO.

By 2019, three GOCCs namely: Bases Conversion Development Authority (BCDA), Civil Aviation Authority of the Philippines (CAAP), and Manila International Airport Authority (MIAA) will be included in the coverage of the Consolidated Public Sector Financial Position (CPSFP). The combined net surplus of these three GOCCs is ₱3.8 billion. Incorporating this to the 14 MNFGCs will bring the surplus to ₱5.5 billion.

The expected decrease in 2019 surplus will mainly come from PSALM's lower collection with the termination of Independent Power Producer plants (Mt. Apo 1 and 2) in the last quarter of 2018; NFA's higher cost of sales brought about by higher local procurement of rice to maintain the 15 days buffer stock and decrease in the selling price of imported rice from an average of ₱28 to ₱25 per kilo; Philippine National Oil Company's (PNOC's) projected increase in capital requirements for the exploration projects of PNOC-Exploration Corporation and solar greenhouse project of PNOC-Renewables Corporation; PNR's lower subsidy releases of ₱20 billion as railway projects will be funded by subsidy releases for the previous years; LWUA's implementation of Asian Development Bank-Water District Development Sector Projects amounting to US\$60 Million; and the financing deficit of BCDA.

By 2020, a substantial decrease of ₱21.9 billion in the financial outlook of the MNFGCs is expected, bringing the expected deficit to ₱16.5 billion. The substantial deterioration will emanate from the ₱28.0 billion conversion in NG Advances by LRTA and National Electrification Administration (NEA) in 2019, and NPC due to an increase in the volume and price of energy generation and increase in capital expenditure for various projects.

**Table 9. Philippines: Contribution to Consolidated Public Sector Financial Position, 2017–2020**

*(in billion pesos)*

Particulars	Actual		Program	
	2017	2018	2019	2020
Financing position of 14 MNFGCs	40.156	5.769	5.464*	(16.459)*
Financing position of GFIs	17.175	19.377	17.437	20.605
Financing position of SSIs	58.283	59.394	76.623	118.383

88. Social Security Institutions (SSIs) and GFIs managed to maintain their positive contributions in the CPSFP in 2018. Although there is a minimal increase in SSIs' cash surplus, its combined cash surplus with GFIs' totalling ₱78.8 billion in 2018 has contributed substantially to the improvement of the overall CPSFP.

- 89.** SSIs are in the bracket of large government corporations in terms of assets and revenue size. Given the magnitude of funds they manage, they have been operating at positive returns. Part of their strategic objectives include maintaining their financial viability, achieving funds perpetuity, and promoting the welfare of their members. In 2018, SSIs' aggregate surplus of ₱59.4 billion increased by 1.91 percent or ₱1.1 billion from its 2017 surplus of ₱58.3 billion. This net increase was attributed to an increase in PHIC's surplus by ₱16.4 billion partly offset by the ₱12.1 billion drop in the surplus of GSIS.

PHIC's increase in surplus was mainly due to (i) increase in members' contribution coming from the 8 percent growth in the total number of covered members from 49.6 Million in 2017 to 53.8 Million in 2018; (ii) increase in premium rates from 2.5 percent to 2.75 percent; and (iii) increase in the premium contribution on Senior Citizens from ₱2,400.0 in 2017 to ₱3,120.0 in 2018. These were partly offset by an increase in benefit payments due to implementation of expanded health benefit packages such as Children with Visual Disabilities and Children with Hearing Impairment.

On the other hand, both GSIS and SSS showed a decline in their total surplus. The surplus of GSIS dropped by 24.8 percent in 2018 from 2017, in view of the new loan package granted to DepEd personnel to take out outstanding loans from lending institutions. On the other hand, the surplus of SSS dropped by ₱3.2 billion from the 2017 level, in view of the (i) increase in Employees' Compensation (EC) funeral benefits from ₱20,000.0 to ₱30,000.0; (ii) ₱1,150.0 across the board increase in Employees' Compensation permanent disability and death pension; and (iii) increase in housing and salary loan releases.

Notwithstanding the minimal increase in surplus in 2018 as compared to 2017, SSIs are expected remain in surplus in 2019 and 2020. The substantial increase in the projected surplus for 2019 and 2020 reflects the impact of the passage of law amending the SSS charter. This resulted in an increase in member's contribution of SSS by ₱41.0 billion, or a net improvement of ₱21.0 billion to consider the increase in benefits; increase in investment equities and continuous implementation of investment management system. The net gain of SSS was partly negated by a drop in PHIC's net surplus due to the increase in benefits and expansion of Primary Care Benefits to all sectors which already took into account the impact of Universal Health Care program.

- 90.** GFIs perform their unique functions aligned with the economic roadmap of the government for socio-economic development such as financing programs for infrastructure, electricity, water, environment-process and technologies, education, shelter production, agri-business projects, health care services, and programs for micro, small and medium enterprises, among others. GFIs surplus in 2018 amounted to ₱19.4 billion which is 12.82 percent or ₱2.2 billion higher than the 2017 surplus of ₱17.2 billion. The improvement in GFIs' surplus was primarily from DBP, mainly due to growth in earnings on bonds and securities and interest from the lending portfolio. The increase in investment in government debt securities contributed to the increase in DBP's earnings in 2018. The increase in collection of interest from lending is due to



the increase in lending portfolio for infrastructure, social and environmental financing program of DBP. This is in support of NG's thrust to accelerate infrastructure development to provide social services.

The GFIs projected cash surplus in 2019 will have a significant decrease from the 2018 surplus brought about mainly by DBP's projected higher dividend remittance and increase in administrative cost and cost of interest. It is expected to improve in 2020 attributable to an increase in operating income and growth in the loan portfolio.

**Table 10. Philippines: Liabilities of the Government Corporate Sector and 14 Major Non-Financial Government Corporations (MNFGCs), 2017**  
(in billion pesos, unless otherwise specified)

Particulars	Total Liabilities	% to Total Liabilities	% of GDP
<b>TOTAL GOCCs</b>	<b>4,032.63</b>		<b>25.51</b>
Share of 14 MNFGCs	35.54%		
<b>TOTAL 14 MNFGCs</b>	<b>1,433.23</b>	<b>35.54</b>	<b>9.07</b>
NPC	18.61	0.46	0.12
PSALM	757.01	18.77	4.79
TransCo	158.69	3.94	1.00
NFA	169.74	4.21	1.07
LRTA	67.88	1.68	0.43
NIA	120.62	2.99	0.76
HGC	23.79	0.59	0.15
PNR	28.02	0.69	0.18
MWSS	12.55	0.31	0.08
PPA	10.51	0.26	0.07
NEA	28.55	0.71	0.18
LWUA	7.56	0.19	0.05
NHA	17.51	0.43	0.11
National Development Corporation (NDC)	3.22	0.08	0.02
PNOC and Subsidiaries	7.63	0.19	0.05
PEZA	1.34	0.03	0.01

Source: 2017 Commission on Audit's Audited Reports, comprising 104 GOCCs  
DOF-Fiscal Planning and Policy Office (FPPO)

Notes: Excluding BSP and CB-BOL; NPC, TransCo and PSALM are counted as one;  
GDP: ₱15,806.36 billion

91. Based on audited financial statements as of 31 December 2017, the 14 major GOCCs listed above had aggregate domestic and foreign liabilities of approximately ₱1.4 trillion which represented 35.54 percent of the liabilities owed by GOCCs and 9.07 percent of GDP, a decrease compared to the 9.58 percent of GDP in 2016. Out of the ₱1.4 trillion liabilities, debt and contractual obligations amount to ₱595.9 billion which represent 41.58 percent of the total liabilities and 3.77 percent of GDP. Outstanding guaranteed debt and contractual obligations of all GOCCs amount to ₱712.4 billion or 4.51 percent of GDP.

92. Approximately all of the debt and contractual obligations of the GOCCs were covered by NG guarantees through the respective charter of the GOCCs or RA No. 4860, as amended (Foreign Borrowing Act) (Table 10). The NG extended guarantees to GOCCs' obligations in order to support the bankability of their investment, or as required by bilateral or multilateral lending institutions. The outstanding guaranteed debt of all GOCCs declined to 2.79 percent of GDP in 2018 compared to 3.10 percent in 2017. There was a drop in total guaranteed obligations in 2018 primarily due to the ₱7.0 billion drop in PSALM's obligations and the ₱16.0 billion drop in NFA's borrowing due to higher subsidy and NG advances for debt servicing. Total guaranteed debt and contractual obligations of all GOCCs totalled to ₱685.1 billion or 3.9 percent of GDP.

**Table 11. Philippines: Outstanding Government Guaranteed Debt to GOCCs, 2018**  
(in billion pesos)

Particulars	Total Guaranteed Debt	% to Total Guaranteed Debt	% of GDP
<b>MNFGCs</b>	<b>360.23</b>	<b>74.23</b>	<b>2.07</b>
PSALM	238.28	49.10	1.37
NFA	102.68	21.16	0.59
MWSS	7.35	1.52	0.04
LRTA	3.65	0.75	0.02
PPA	3.25	0.67	0.02
LWUA	2.88	0.59	0.02
PNR	1.42	0.29	0.01
NPC	0.63	0.13	0.00
PEZA	0.09	0.02	0.00
<b>GFI/SSIs</b>	<b>83.61</b>	<b>17.23</b>	<b>0.48</b>
DBP	56.40	11.62	0.32
LBP	26.79	5.52	0.15
Trade and Investment Development Corporation of the Philippines	0.42	0.09	0.00
<b>Others</b>	<b>41.46</b>	<b>8.54</b>	<b>0.24</b>
BCDA	21.73	4.48	0.12
National Home Mortgage Finance Corporation	11.20	2.31	0.06
SBMA	5.53	1.14	0.03
MIAA	1.73	0.36	0.01
Small Business Guarantee and Finance Corporation	1.04	0.21	0.01
Tourism Infrastructure and Enterprise Zone Authority	0.22	0.05	0.00
Authority of the Freeport Area of Bataan	0.01	0.00	0.00
<b>TOTAL</b>	<b>485.29</b>		<b>2.79</b>

Source: DOF-FPPO

Note: GDP: ₱17,422.82 billion

93. In addition to guarantees on GOCCs' borrowings, the NG had provided performance undertakings on GOCCs' obligations under Build-Operate-Transfer (BOT) projects. These BOT projects included the power projects of the NPC/PSALM and the Casecnan Multi-Purpose Project of the NIA. Total guarantees for these contractual obligations of NIA and PSALM were estimated at ₱199.8 billion as of 2018.

As provided for under Presidential Decree (PD) No. 1967 and Administrative Order (AO) No. 10 series of 1998, the NG provides advances for the debt servicing of the guaranteed GOCCs' obligations to avoid defaulting on guaranteed commitments (Table 11). The NG, through the BTr, will advance the repayment of guaranteed obligations or relent loans of a GOCC only if there is clear indication of the GOCC's insufficient funds to pay the maturing obligations after due evaluation for more prudent fiscal management and fiscal discipline on GOCCs.

As of end-2018, outstanding NG advances posted at ₱258.5 billion, an increase of ₱14.0 billion from the 2017 level. This was mainly due to advances provided to NFA, LRTA and NIA which was substantially negated by repayments from MWSS, NORTHRAIL and NDC.

**Table 12. Philippines: Outstanding NG Advances to GOCCs, 2017- 2018**  
(in billion pesos)

Particulars	2017	2018
<b>Of the 14 MNFGCs</b>		
NIA <sup>2/</sup>	62.71	65.90
LRTA	39.23	42.86
PNR	24.69	25.58
NEA	15.27	17.39
NPC/PSALM <sup>3/</sup>	21.46	22.12
NFA	32.87	40.65
NDC	2.68	1.56
HGC	10.93	10.98
MWSS	3.03	1.08
<b>Other GOCCs</b>	31.72	30.42
<b>TOTAL</b>	<b>244.59 <sup>1/</sup></b>	<b>258.54 <sup>1/</sup></b>

Source: BTr. Includes interest on NG advances; excludes CB BOL.

<sup>1/</sup> Includes interest on NG advances

<sup>2/</sup> Represents Casecnan-related accounts

<sup>3/</sup> Includes Casecnan-related accounts

94. Budgetary support is extended to GOCCs for implementation of priority programs of the government such as health insurance, irrigation and rehabilitation and restoration of calamity-affected areas. (Table 12). Direct support provided by the NG still outweighs the GOCC contributions/remittance to the NG in 2018 with net outflows of ₱66.2 billion. On the other hand, the NG receives GOCCs remittances in the form of dividends, NG share on income, guarantee fee, among others. GOCCs contributed ₱79.3 billion to the revenue generation effort of the government as its total remittances

represented 27.88 percent of total non-tax revenues in 2018. Out of the ₱79.3 billion remittances from GOCCs, 50.68 percent or half represent dividend remittances.

**Table 13. Philippines: Net Budgetary Flows to GOCCs, 2017- 2018**  
(as percent of GDP, unless otherwise specified)

Particulars	2017	2018
<b>I. NG Flows from GOCCs</b>	<b>0.41</b>	<b>0.46</b>
<b>(in billion Pesos)</b>	<b>64.87</b>	<b>79.28</b>
Dividend	0.19	0.23
Interest on NG Advances	0.00	0.00
Guarantee Fees Collected	0.01	0.01
Forex Risk Cover Fee	0.01	0.01
NG Share on Net Income Received	0.19	0.19
Airport Terminal Fee	0.01	0.01
<b>II. NG Flows to GOCCs</b>	<b>0.84</b>	<b>0.84</b>
<b>(in billion Pesos)</b>	<b>132.21</b>	<b>145.51</b>
Subsidy <sup>a/</sup>	0.83	0.78
Equity	0.03	0.02
Net Lending	-0.03	0.03
<b>NET NG FLOWS (I-II)</b>	<b>-0.43</b>	<b>-0.38</b>
<b>(in billion Pesos)</b>	<b>-67.34</b>	<b>-66.23</b>

Source: BTr

<sup>a/</sup> Excludes tax subsidy due to its neutral effect as it is considered both revenue and expenditure of the government

95. The year 2018 was marked by an exceptional dividend collection from the GOCCs and GFIs, since the implementation of RA No. 7656 or the Dividend Law in 1993. Under the law, the government corporate sector is required to remit at least half (50 percent) of their annual net earnings to the NG. The unprecedented dividend remittance of ₱40.2 billion represented a 32 percent increase from the ₱30.5 billion in 2017.

The LBP was granted a ₱7.8 billion dividend relief in 2018 corresponding to its 2017 net income, allowing it to recapitalize and better serve the increasing development needs of the country. Had this been collected, total dividend collections would have been ₱48.0 billion in 2018.

A total of 55 GOCCs remitted in 2018. The PDIC was at the forefront with the biggest remittance of ₱8.8 billion. Other GOCC dividend contributors with at least one-billion-peso remittance were: CAAP with ₱6.2 billion; BSP with ₱3.6 billion; PPA with ₱3.1 billion; PAGCOR with ₱2.6 billion; Philippine Charity Sweepstakes Office (PCSO) with ₱2.5 billion; MIAA with ₱2.3 billion; and NPC with ₱1.4 billion.

Notably, PCSO remitted for the first time, while PPA dividend remittance is equivalent to 60 percent of its net earnings or greatly higher than the required dividend payable. Out of the total collection, ₱11.5 billion or 29 percent represents dividend arrears from PDIC, CAAP, DBP, NPC, LWUA, Subic Bay Metropolitan Authority (SBMA), MWSS, NHMFC, Philippine Postal

Corporation, Philippine Information Agency, APO Production Unit, Inc. (APO-PUI), DBP-Leasing Corporation and National Dairy Authority as a result of continuously ensuring that GOCCs remit the correct amount to the BTr and strict monitoring of the financial performance of the GOCCs and GFIs. This includes settlements by PDIC, NPC, CAAP, LWUA, SBMA, and APO-PUI.

- 96.** In line with the efforts of the NG to transform the government corporate sector into efficient partners for growth and development, GOCCs reforms are recommended particularly in those which are among the major sources of fiscal risks, i.e., those which largely depend on direct and indirect support from the NG, and those which perform mandates that either conflict, compete with the private sector, or overlap with other Government agencies.

PSALM is one of the biggest sources of fiscal risk to the NG. To mitigate if not totally eliminate those risks, PSALM needs to accelerate its privatization efforts, pursue collection of receivables from IPPAs by resolving outstanding contractual issues, among others. PSALM's total outstanding debt and contractual obligations stood at ₱422.9 billion as of the end of 2018. These included NG advances of ₱17.2 billion.

We supported the passage in Congress of the bill that will liberalize the rice trading and restructuring of NFA. The bill was enacted into law as RA No. 11203 in 14 February 2019. The Act removed NFA's regulatory functions and limits NFA's role in maintaining the country's rice buffer stock to be sourced from local farmers. The Act aims to provide more affordable rice. It also provides measures that will bring down the cost of rice production. Among others, the Act includes provision of support to farmers-mechanization and equipment, better seeding, credit assistance, training and technical services and crop diversification program through the creation of Rice Competitiveness Enhancement Fund.

- 97.** On top of those aforementioned, the GCG has also ushered in the following reforms:
- Expansion of the CPSFP coverage from the existing 14 MNFGCs to include BCDA, CAAP and MIAA. These GOCCs were chosen based on the risks that may expose the government in terms of governance of borrowings and infrastructure significance.
  - Imposition of stringent policies to reduce NG Advances to GOCCs. This includes continuing tighter review of requests for GOCC support for debt servicing and monitoring of NG guaranteed obligations and identification of reform measures for GOCCs.
  - Initiation of policy discussion among DOF, BTr, and DBM on dispositive action on GOCCs' unutilized subsidies for programs and projects and the interest income earned there from to ensure efficiency in the utilization of NG subsidy to GOCCs.

**B. PUBLIC-PRIVATE PARTNERSHIPS (PPPS) AND OTHER CONTINGENT LIABILITIES (CLS)**

- 98. As of end 2018, the government's PPP portfolio has grown to include 17 awarded projects with a total project cost of ₱328.7 billion.** The Clark International Airport Operations and Maintenance Project, with a NEDA Board approved cost of ₱5.6 billion, is the recent addition to the list of awarded PPP projects since the PPP Program was launched in 2010. The BCDA awarded the project to the Luzon International Premiere Airport Development Corporation on 20 December 2018, and the PPP contract was signed on 21 January 2019. The project involves the operations and maintenance of the existing terminal and the new passenger terminal building, currently being constructed by Megawide-GMR Construction Joint Venture.
- 99. On top of assisting NGAs, the Public-Private Partnership Center (PPP Center) has expanded its capacity building programs to local implementing agencies (i.e. LGUs and water districts) to inform and equip them on developing and implementing PPPs.** Among others, the PPP Center has assisted local implementing agencies in developing their own PPP Code, identifying viable PPP projects, preparing PPP project concept notes, procuring the PPP project, and managing PPP contracts. As of end 2018, technical assistance and advisory services were provided to the Municipality of Baggao in Cagayan Province for its water supply PPP project, the Quezon City Government for its integrated solid waste management facility project, the Provincial Government of Pampanga for its two bulk water supply projects, the General Santos City for its public market, the Cebu City for its solid waste management project, and the Cagayan de Oro Water District for its septage management project, among others.
- 100. To bolster this initiative in local PPPs, the Asian Development Bank has approved PPP Center's access to the UCCRTF in November 2018.** In line with the PPP Center's goal to help implement local PPP projects with focus on inclusive and resilient urban development, the UCCRTF will support local PPP projects that will provide climate resilient infrastructure to vulnerable communities. The technical assistance will also ensure that local PPP projects to be developed will include urbanization and climate change adaptation components to guarantee sustainability and climate resiliency.
- 101. Anchored on the government's openness to unsolicited PPP proposals, the PPP Program attracted several private sector participants to partake in the infrastructure development initiatives of the government.** In 2018, over 40 big-ticket and medium-scale unsolicited project proposals submitted to both NGAs and LGUs were reviewed by the PPP Center. The statuses of these unsolicited PPP proposals vary: some were already granted an Original Proposal Status, others already have the approval of the relevant approving body, while others are still in the comparative bidding stage.

**Table 14. Philippines: List of Awarded PPP Projects**

<b>Awarded Projects</b>	<b>NEDA Board-Approved Project Cost (P billion)</b>	<b>NEDA Board-Approved Project Cost (US\$ billion)<sup>29</sup></b>	<b>Implementing Agency</b>
Daang Hari-SLEX Link Road Project (Muntinlupa-Cavite Expressway) <sup>30</sup>	2.23	0.04	DPWH
PPP for School Infrastructure Project (PSIP) Phase I <sup>31</sup>	9.89	0.20	DepEd
Automatic Fare Collection System Project	1.72	0.03	DOTr
NAIA Expressway Project <sup>32</sup>	17.93	0.36	DPWH
PSIP Phase II <sup>33</sup>	3.86	0.08	DepEd
Mactan-Cebu International Airport New Passenger Terminal Building Project	17.52	0.35	DOTr and MCIAA
Metro Manila Skyway Stage 3 Project <sup>34</sup>	37.43	0.75	TRB
Southwest Integrated Transport System Project (Parañaque Integrated Terminal Exchange)	2.50	0.05	DOTr
MRT Line 7	62.70	1.25	DOTr
Bulacan Bulk Water Supply Project	24.41	0.49	MWSS
Civil Registry System-Information Technology Project (Phase II)	1.59	0.03	PSA
Cavite-Laguna Expressway <sup>35</sup>	35.43	0.71	DPWH
LRT Line 1 Cavite Extension and Operations and Maintenance <sup>36</sup>	64.90	1.30	DOTr and LRTA
South Integrated Transport System Project (Taguig Integrated Terminal Exchange) <sup>37</sup>	5.20	0.10	DOTr

<sup>29</sup> US\$1 = ₱50

<sup>30</sup> The original project cost approved by the NEDA Board on 8 July 2011 was ₱1.956 billion. The cost increased to ₱2.23 billion due to the payment for the advance works improvements amounting to ₱0.050 billion as approved by the Investment Coordination Committee-Cabinet Committee on 29 November 2011; and the Government-Initiated Variation Cost amounting to ₱0.223 billion due to change in design.

<sup>31</sup> The Approved Budget Ceiling for the Build-Lease-Transfer contracts of the three (3) packages is ₱16.43 billion inclusive of the additional costs (i.e., interest, VAT), which were not included in the NEDA Board approval.

<sup>32</sup> The original project cost approved by the NEDA Board on 30 May 2012 was ₱15.86 billion. The cost increased to ₱17.93 billion due to the Government-Initiated Variation amounting to ₱2.07 billion due to change in alignment.

<sup>33</sup> The original project cost approved by the NEDA Board on 29 November 2012 was ₱13.14 billion. However, only two out of the five contract packages were successfully procured amounting to ₱3.86 billion.

<sup>34</sup> Cost is based on the Final Engineering Design as approved by the Toll Regulatory Board.

<sup>35</sup> This does not include the approved minimum bid price amounting to ₱20.105 billion.

<sup>36</sup> This is inclusive of the Official Development Assistant component amounting to ₱19.83 billion.

<sup>37</sup> The project cost includes the construction cost of the C5-FTI-Skyway Connector Road (access ramp) amounting to ₱1,198.093 million, and cost of land for the Food Terminal Inc. site.

Awarded Projects	NEDA Board-Approved Project Cost (₱ billion)	NEDA Board-Approved Project Cost (US\$ billion) <sup>29</sup>	Implementing Agency
NLEX - SLEX Connector Road Project	23.20	0.46	DPWH
Clark International Airport Expansion Project	12.55	0.25	BCDA
Clark International Airport Operations and Maintenance	5.61	0.11	BCDA
<b>TOTAL</b>	<b>328.67</b>	<b>6.57</b>	

**102. Pursuant to the PPP Center's mandate to be the repository of all of PPP programs and projects in the country, an updated database of all awarded PPP projects can now be accessed on the PPP Center website<sup>38</sup>.** Published on 31 January 2019, the central database includes information on all awarded PPP and Joint Venture projects of NGAs, LGUs, and GOCCs that the PPP Center currently has on hand. The PPP Center continues to update this database and validate various information through coordination activities and conduct of site visits.

**103. On the policy side, the PPP Governing Board has issued the following policies and guidelines to strengthen and support the expanding PPP Program:**

- a. *Framework on PPP Center's Assistance on Joint Venture Agreements (JVAs)* – On 22 March 2018, the PPP Governing Board approved the framework, institutionalizing the PPP Center's assistance to national and local implementing agencies in undertaking JVAs, based on existing laws, policies, rules, and guidelines. The framework provides: (1) the roles and responsibilities of the PPP Center with regard to JVAs; (2) a streamlined process (i.e., applicable timelines and procedures) that the PPP Center shall follow in extending its assistance; and (3) the PPP Center's inclusion of JVAs in its project information database, and in its monitoring and facilitation mandates.
- b. *Guidelines on Safeguards in PPP: Mainstreaming Environmental, Displacement, Social, and Gender Concerns* – Issued by the PPP Governing Board through Resolution No. 2018-12-02 on 14 December 2018, the Guidelines aims to help national and local implementing agencies address safeguard issues throughout the PPP project cycle by: (1) ensuring that safeguards are considered in the project's feasibility study and design (2) identifying the issues and their corresponding mitigating measures; (3) integrating these measures into the project terms and the PPP contract; and (4) implementing monitoring mechanisms to ensure that safeguard measures are complied with and any unforeseen environmental and social issues are managed properly.

<sup>38</sup> The database can be accessed at the PPP Center Web site: <https://ppp.gov.ph/list-of-projects/>.



**104. Finally, a major policy milestone in 2018 is the finalization of the draft substitute bill on the PPP Rationalization Act. This consolidated all nine (9) versions of the bill aimed to amend the BOT Law.** In its 5 September 2018 meeting, the House of Representatives Committee on Public Works and Highways approved the committee report recommending the adoption of the substitute bill titled Public Private Partnership Rationalization Act (PPP Rationalization Act). The key areas that will be addressed in the proposed piece of legislation are on managing risks and contract liabilities, establishing clearer timelines for the various processes, enhancing competition (especially for unsolicited projects), establishing clearer parameters for handling protests, and institutionalizing the PPP Governing Board, the PPP Center, and the Project Development and Monitoring Facility. The executive branch shall continue advocating for the amendment of the BOT Law, which may be adopted by the next Congress.

**105. For 2019 and 2020, about 19 national and local PPP projects are expected to be awarded (Table 15).** These include the eight (8) projects of NGAs and GOCCs, and 11 projects of local implementing agencies. The PPP projects shown in the table below cover various sectors such as rail, ports, energy, water supply, solid waste management, health infrastructure, and vertical infrastructure.

**106. To manage contingent liabilities arising from the growing PPP portfolio, adoption of an updated Implementing Guidelines for the RMP is underway.** Working on the version previously adopted by the DBCC, the Technical Working Group on Contingent Liabilities will propose an updated set of guidelines that is intended to be applicable for succeeding fiscal years where RMP fund is duly appropriated in future annual laws on general appropriations.

In general, implementing agencies may tap the RMP to pay for potential obligations from events specified in a PPP Contract, the occurrence, timing, and/or amount of which are uncertain. On the other hand, payments for contractual obligations that are known to the implementing agencies shall be coursed through the general appropriations process. It should be noted, however, that the use of unprogrammed appropriations for the RMP may only be allowed if there are excess revenues or if there are revenues arising from new sources.

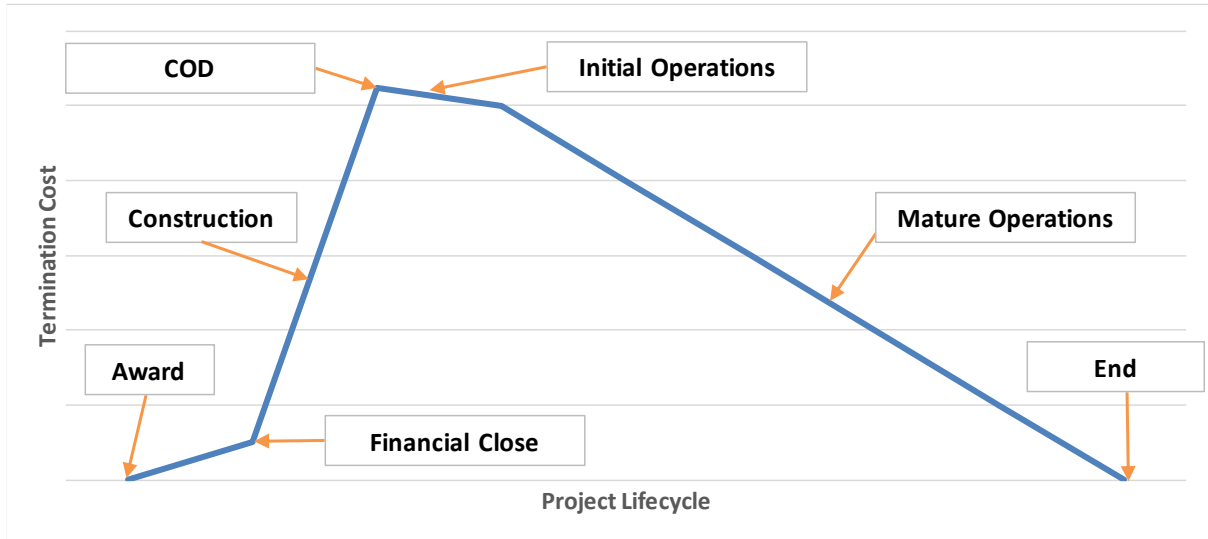
**107. Disbursements from the RMP may also be allowed for obligations which are not necessarily contingent but require payment in case of non-performance.** Such disbursement may be allowed when the non-performance of such obligation is highly likely to result in termination; there is no other option to avoid termination; and termination has substantial financial or other material consequences. In order to actively monitor and manage risks in PPP projects liabilities, the implementing agencies are required under the Guidelines to submit a Contract Management and Risk Mitigation Plan that contains a summary of the risks associated with each PPP project and ways to mitigate such risks.

**Table 15. Philippines: PPP Projects Expected to be Awarded from 2019 to 2020**

Project	Implementing Agency	Indicative Project Cost (₱ billion)	Target Award Date
<b>A. NGAs and GOCCs</b>			
Bulacan International Airport	DOTr	735.60	Q2, 2019
Philippine Economic Zone Authority (PEZA) Electronic Payment and Collection System (EPCS) Project	PEZA	0.22	Q3, 2019
<i>Philippine Charity Sweepstakes Office (PCSO) Corporate Center</i>	<i>PCSO</i>	2.50	Q1, 2020
Angat Hydroelectric Power Plant Project Rehabilitate, Operation and Maintenance of Turbines #4 and #5	MWSS	1.51	Q3, 2020
MRT 11	DOTr	71.11	Q3, 2020
Cultural Center of the Philippines (CCP) Asset Development Project	CCP	TBD	Q3, 2020
Davao Sasa Port Modernization	PPA	TBD	Q4, 2019
Cebu Bus Rapid Transit Operation and Maintenance	DOTr	TBD	Q4, 2020
<b>B. Local Implementing Agencies</b>			
Baggao Water Supply	Municipal Government of Baggao, Cagayan	0.08	Q1, 2019
Quezon City Integrated Solid Waste Management Facility Project	Quezon City Local Government	0.22	Q1, 2019
Panabo Town Center	City Government of Panabo, Davao del Norte	0.42	Q2, 2019
Kalibo Slaughterhouse Project	Municipal Government of Kalibo, Aklan	0.30	Q3, 2019
University of the Philippines (UP) - Philippine General Hospital (PGH) O&M Project	UP Diliman	TBD	Q4, 2019
Pampanga Bulk Water Supply (Districts 1,3,4)	Provincial Government of Pampanga	15.80	Q4, 2019
Baguio General Hospital and Medical Center (BGHMC)	<i>DOH/ BGHMC</i>	0.24	Q2, 2020
Expansion of Hemodialysis Unit of the Cagayan Valley Medical Center (CVMC)	<i>DOH/ CVMC</i>	0.14	Q3, 2020
Andrews Campus Business Center	<i>Cagayan State University (CSU) – Andrews Campus</i>	TBD	Q4, 2020
CSU Carig Campus Dormitory	<i>CSU – Carig Campus</i>	TBD	Q4, 2020
Cebu Waste-to-Energy	<i>Cebu City Government</i>	TBD	Q3, 2020

**108. Valuation of contingent liabilities arising from PPPs uses project costs to approximate the NG's exposure.** Using a portfolio-level assessment allows the government to capture a wider range of projects, both new and "legacy"<sup>39</sup> ones. The methodology also factors in implementation status which is expected to follow the trend as in the graph below:

**Figure 2. Contingent Risks Per PPP Phase**



The graph shows that contingent risks to the government stay at a low level in the pre-construction stage as this stage only involves preparatory activities. They steeply rise during the construction phase as more investment is put into a project, and peak at the transition between end of construction and start of operations. Then they slowly decline as operations mature and improvements into the system are made.

Moreover, the methodology considers certain factors to classify whether a project is low, medium, high, or very high risk. These factors are the following: (1) whether contractual obligations are in a different currency; (2) whether the government has assumed demand risk for the project; (3) whether the project comes from an unsolicited proposal; (4) whether the project involves the risk of regulatory approvals; and (5) whether capital investment is slowly infused over the implementation of the project.

**109. The stock<sup>40</sup> of contingent liabilities arising from PPPs for 2019 is estimated to be about ₱234.0 billion.** The ₱8.0 billion increase is attributable to improvements in valuation (i.e., taking into consideration the projects' actual or target end of construction) and from further updates to the project database. On the other hand, ₱22.78 billion is the estimated flow<sup>41</sup> of contingent liabilities.

<sup>39</sup> "Legacy Projects" are PPP projects implemented before 2010.

<sup>40</sup> "Stock" is the maximum amount of contingent liabilities that the government may incur for a given year based on the projects' status and costs.

<sup>41</sup> "Flow" is the amount of contingent liabilities that may materialize taking into consideration the projects' risk factors (i.e., demand risks, foreign currency payments, regulatory risks, unsolicited proposal, and ongoing capital expenditures).

**110. As of 31 January 2018, the following are the claims filed by the project proponents of PPP projects:**

**Table 16. Philippines: Claims filed by Project Proponents of Selected PPP Projects**

<b>Project</b>	<b>Claims</b>
<b>LRT Line 1 Cavite Extension and O&amp;M Project</b>	<p>The Light Rail Manila Corporation (LRMC) has filed claims amounting to ₱5.44 billion. This amount is approximately ₱1.76 billion higher compared to the previous year, due to claims related to the Existing System Requirement Restoration Costs, fare deficit, delay in the Grantors' procurement of additional Light Rail Vehicles (LRVs) and right-of-way delivery, among others.</p> <p>These claims are currently being evaluated by DOTr and LRTA. As reported in the 2019 Fiscal Risk Statement, during the LRTA Board meeting on 6 November 2017, DOTr has agreed to pay for the undisputed claims for the LRV shortfall and fare deficit amounting to ₱522 million. DOTr and LRTA are exploring their option to tap the RMP to pay for the undisputed claims.</p>
<b>Civil Registry System-Information Technology Project Phase II</b>	<p>Unisys Managed Services Corporation (UMSC) has filed the following claims to the PSA:</p> <ul style="list-style-type: none"> <li>• Payment of US\$ 7.2 million due to PSA's action of increasing the wages of the service contractors of PSA prior to their transfer to UMSC;</li> <li>• Payment of ₱50 million due to the proponent's change in construction methodology as part of the requirements based on the result of the soil/geotechnical test during project implementation; and</li> <li>• Payment of ₱1.56 million per week beginning November 2018 due to the delay in the start of operations date of the new IT system, which is initially targeted in 1 November 2018.</li> </ul> <p>The claims are currently being discussed by PSA and UMSC.</p>

**111. As of 28 January 2018, the LRMC, project proponent for the LRT Line 1 Cavite Extension and O&M Project has filed claims amounting to ₱3.7 billion.** During the LRTA Board meeting on 6 November 2017, DOTr has agreed to pay for the undisputed claims for the Light Rail Vehicle (LRV) shortfall and fare deficit amounting to ₱499.0 million. The undisputed claims were due to non-compliance with the required turnaround time of trains, number of LRVs during the handover of the existing system to the concessionaire, and adjustment in the notional fare as specified in the PPP contract. DOTr and LRTA are exploring their option to tap the RMP to pay for the undisputed claim.

### ***Policy Initiatives for the PPP Program***

#### **112. The PPP Center is working on the following policy initiatives for 2019-2020 to further support the infrastructure agenda of the government:**

- a. *Joint Memorandum Circular (JMC) on PPP Project Spending and Contingent Liabilities* - The JMC<sup>42</sup> between the DBM and the PPP Center intends to standardize the reporting and monitoring of public and private sector spending on PPP projects, and contingent liabilities arising from these projects.
- b. *Guide on Managing the PPP Component of a Hybrid Project* – The Guide intends to ensure that implementing agencies are able to implement hybrid projects successfully. Said Guide is seen to provide implementing agencies the measures that need to be considered in managing hybrid projects, including: (i) planning a project to be undertaken through a hybrid structure; (ii) factors to consider in developing a hybrid project; (iii) approval of a hybrid project; and (iv) procurement of a hybrid project.
- c. *Solid Waste Management (SWM) Sectoral Guide* - The Guide intends to be a walk-through for LGUs on identifying, developing, procuring, and implementing SWM projects using the PPP scheme. The Guide shall cover all phases of SWM-PPP projects from project development to implementation and provide a background on the national SWM strategy and the role of LGUs. It shall include useful case studies on SWM-PPP projects.
- d. *Internal Guidelines on PPP Project Evaluation* - The proposed Guidelines shall provide the PPP Center with the necessary process templates when evaluating PPP projects submitted to the relevant approving body or the NEDA Board. Such Guidelines will cover the different aspects of the project, which includes the economic, social, technical, financial, fiscal, and risk allocation aspects.

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<sup>42</sup> Effective 18 February 2019 upon its publication in Vol. 115, No. 7 of the Official Gazette.

## **C. LOCAL GOVERNMENT UNITS (LGUS)**

### ***Sector Performance Results for 2017***

- 113. Treasurer's Examination and Training and Continuing Capacity Building of Assessors (Standardized Examination and Assessment for Local Treasury Services or SEAL for Levels 1 and 2).** The BLGF, in cooperation with the Civil Service Commission, has undertaken the SEAL Program for Levels 1 and 2 or the Basic Competency on Local Treasury Examination and for the Intermediate Competency in Local Treasury Examination.
- 114. Updating of Local Finance and Operations Manuals and its Launching.** The BLGF conducted a soft-launch of the updated manuals, such as the Local Treasury Operations Manual, the Manual for Real Property Appraisal and Assessment Operations, the Philippine Valuation Standards, and the Resource Mobilization Manual which are important tools for us to effectively capacitate the LGUs in their pursuit of economic growth and development.
- 115. Focusing on Technical Supervision and Monitoring of LGUs.** The BLGF has evaluated the Local Treasury and Assessment Operations in at least 411 LGUs across the country. The BLGF Regions have specific focus areas in the conduct of evaluation such as: statutory compliance of local impositions and status of the local revenue code, good financial housekeeping, particularly the maintenance of updated cashbooks and good records management, collection target achievement, safekeeping and disbursement of local funds, organizational effectiveness of the local treasury office structure, particularly in treasury-related roles and duties, customer feedback, among others. In the area of assessment operations, the focus was on the compliance with assessment rules and regulations, the Schedule of Market Value (SMV), data management for property values and assessments, and general housekeeping of records.
- 116. Implementation of Local Fiscal Policies such as Guidelines on the Computation and Certification of Income for the Creation, Conversion, Merger or Abolition of LGU; Adoption of the Modified Format for the Statement of Receipts and Expenditures (SRE) of LGUs and Updated Guidelines on the Preparation and Submission Thereof; and Establishing the LGU Fiscal Sustainability Scorecard (FSS) in the BLGF.** For FY 2018, the Department of Finance has issued Department Orders on the Implementation of Local Fiscal Policies such as Guidelines on the Computation and Certification of Income for the Creation, Conversion, Merger or Abolition of LGU; Adoption of the Modified Format for the SRE of LGUs and Updated Guidelines on the Preparation and Submission Thereof; and Establishing the LGU FSS in the BLGF. Through these, the BLGF has initiated the roll-out of trainings to the Regional Offices and disseminated the policy accordingly and started implementing it.

## ***Outlook for 2020, Including 2019 Updates***

**117. Institutionalized the national awards on local finance to recognize top performing LGUs, local assessors and treasurers across the country.** The BLGF institutionalized the national awards on local finance and started recognizing top performing LGUs, local treasurers and assessors across the country, and not just in NCR.

**118. Increasing the coverage of those who passed and certified on the Treasurer's Examination and Training and Continuing Capacity Building of Assessors.** For the years 2018 and 2019, among the BLGF's goals will be to increase the coverage of those who passed and exhibit the necessary technical know-how required for local treasurers. This is because Secretary of Finance has issued the policy on competency examination for appointment and designation purposes of local treasurers and assistant treasurers.

This is embodied in DOF Department Order No. 56-2016 for the SEAL Program. Consequently, the DOF has requested the CSE to convert the Basic Competency on Local Treasury Examination (BCLTE) as an eligibility examination especial for local treasurer and assistant treasurer positions. In addition, BCLTE-responsive Capacity Building for Treasurers can be expected from the BLGF, as priority core trainings have already been profiled. Likewise, the BLGF will continue with the Continuing Professional Development Programs for Assessors, in line with the requirements of the RA No. 9646 or the Real Estate Service Act.

**119. Updating of Local Fiscal Policies; such as Certification of Annual Regular Income, LGU Creditworthiness Rating Index and idle land inventory/Imposition of Idle land tax.** These include policies on the Certification of Annual Regular Income based on Estimated Consumer Price Index for Conversion/Creation of LGUs, the LGU Creditworthiness Rating Index, and the guidelines for Idle Land Inventory/Imposition of Idle Land Tax. The BLGF has also begun initiating the development of the much needed Local Finance Circulars on Professionals Operating Private Clinics/Practice of Profession, Prescription Period for Real Property Tax (RPT) Payments, Presumptive Income Level Assessment Approach, Transfer Tax of Condominiums, Taxability of Electric Posts/Transformers per Supreme Court ruling, Industry-based Business Classification for Local Business Tax purposes, among others.

**120. Preparing for organizational improvements such as ISO certification and setting up of a comprehensive human resource database.** Working towards ISO certification, the BLGF has initiated and is currently in the process of setting up the Harmonized Performance Standards and Strategic Performance Management System for Treasurers and Assessors, a comprehensive human resource database for appointed and designated treasurers and assistant treasurers wherein the BLGF has also started working on the minimum Office Performance Commitment and Review for local treasury and assessment operations.

**121. Dependency on IRA.** LGUs, in aggregate terms, continue to rely on NG transfers, particularly the IRA for 69 percent of their income, to deliver mandated services and enhance local development. Cities have 47 percent IRA dependence, however, in provinces and municipalities, dependence on IRA is at 84 and 82 percent, respectively, given the low economic development and limited resource mobilization capacity. Overall, IRA still considerably supports most of the budgetary requirements of LGUs and positively contributes to allowing LGUs to invest on programs and projects that should improve local growth and development. Without IRA, low income LGUs cannot function effectively.

### ***Sources of Fiscal Risks***

**122. Foregone RPT from Non-Updating of SMV.** The estimated foregone RPT revenues by LGUs from non-updating of SMVs is at least ₱11.6 billion. As of June 2018, a total of 142 or 63 percent of the provinces, cities and the lone municipality in Metropolitan Manila were still using outdated SMVs, thus undermining their potential to generate own-source revenues as mandated to them by law. The annual local revenue could increase by up to ₱25.8 billion if RPT collection efficiency is optimized using updated SMVs, which could be used to finance the basic services for local constituencies and reducing their dependence on national transfers.

### ***Risk Mitigation Measures***

**123. Conduct of Trainings.** These include:

- a. Conduct of Refresher trainings on various systems for the LGUs;
- b. Facilitation and presentation skills for Treasurers and Assistant Local Treasurers to capacitate local treasury service; and
- c. Leadership and Management Training

**124. Property valuation and taxation.** Institute reforms in real property valuation and assessment in the Philippines. One such reforms is the proposed Valuation Reform Act (VRA), which primarily aims to establish unified standards and processes to govern the valuation of real property in the country, thereby enhancing the LGUs capacity to generate local revenues from real property. This will ensure rationalized real property valuations transcending political boundaries and promote the genuine fiscal autonomy of local governments to provide basic services to their constituency. The potential LGU gains from the impact of VRA will result in an estimated ₱41.3 billion increase in local tax collections. If fully enforced and properly administered, RPT offers progressive and stable sources of revenues that can be shared among the LGUs and the Local School Board, to finance the provision of basic services and education needs to the LGUs constituencies, thereby improving the service delivery to the public.



**125. Improve local revenues through amendments of provisions in the Local Government Code (LGC) of 1991.** The review and amendment of the LGC of 1991 is long overdue given the recent progress in local governance reforms. With the proposed amendments, local governments will be given sufficient local fiscal autonomy particularly on tax assignments per LGU level and a greater flexibility in adjusting the tax rates to be able to increase the potential of LGUs' own revenue sources. This could likewise mitigate the economic disparities brought about by the difference in the LGUs development level and natural resource endowment.

## D. NATURAL DISASTERS

### *Impacts of Natural and Human-Induced Disasters*

**126. From 2016-2018, the number of tropical cyclones that hit the Philippines total to 57.** Of these, 21 are categorized by the Department of Science and Technology (DOST) through its Philippine Atmospheric, Geophysical, Astronomical Services Administration (PAGASA) as either Typhoon (TY) or Super Typhoon (Super TY):

**Table 17. Philippines: Number of Recorded Tropical Cyclones and Classification, 2016 -2018**

Year	Number of Recorded Tropical Cyclone	Of which, Super Typhoon or Typhoon
2016	14	9 (8 - TYs; 1 Super TYs (Lawin/ I.N. Haima)
2017	22	4 TYs
2018	21	8 TYs
<b>Total</b>	<b>57</b>	<b>21</b>

**127. In 2018, eight (8) tropical cyclones with respective International Name (IN) were categorized as Typhoons.** These are TY Domeng (IN: Maliksi); Gardo (IN: Maria); Maymay (IN: Jebi); Ompong (IN: Mangkhut); Paeng (IN: Trami); Queenie (IN: Kong-Rey); Rosita (IN: Yutu); and Tomas (IN: Man-Yi).

**128. For Typhoons Ompong and Rosita alone, total damages assessed and reported to the Department of National Defense-Office of Civil Defense (DND-OCD) reached ₱36.8 billion.** The areas that were hit were among the food-production areas in Luzon such as Regions II, III, and CAR.

For TY Ompong, following the recommendation of the National Disaster Risk Reduction and Management Council (NDRRMC), the President issued Proclamation No. 593 on 25 September 2018 declaring a state of calamity in Regions I, II, III, and CAR.

**Table 18. Philippines: Geographical Coverage and Estimated Damages of Typhoons Rosita and Ompong**

Typhoon	Affected Geographical Coverage	Estimated Damages
Rosita	Regions I, II, III , and CAR	₱2.905 billion (Agriculture) As of November 2018
Ompong	Region I, II, III, CALABARZON, V, VI, and CAR	₱33.931 billion (Infrastructure and Agriculture) As of October 2018

**129. Total damages and losses resulting from TY Vinta amounted to ₱2.8 billion.** The highest damage was recorded in rice and corn. Losses or foregone revenue can be attributed to the suspension of government work in 12 cities and municipalities in Regions IX, X and Caraga, cancelled flights and power and communication interruptions. Eastern Visayas recorded the

highest damages and losses at ₱968.7 million or 0.3 percent of their gross regional domestic product.

- 130. Following the proclamation, the NG, through the DOF, was able to drawn down US\$496.0 million from its contingent credit facility, the Catastrophe Deferred Drawdown Option.** Proceeds from the drawdown was used for budget support.
- 131.** Presidential issuances were also issued to protect and rehabilitate coastal areas in key ecosystems in Metro Manila (Luzon) and Aklan (Visayas). In Proclamation No. 475 dated 26 April 2018, the President declared a state of calamity in the barangays of Balabag, Manoc-Manoc, and Yapak (Island of Boracay) in the Municipality of Malay, Aklan.
- 132.** On the other hand, the President issued AO No. 16 dated 19 February 2019 for the expeditious rehabilitation and restoration of coastal and marine ecosystem of the Manila Bay. It also created the Manila Bay Task Force, to be led by the Secretary of the Environment and Natural Resources, to address the environmental concerns and enforce solutions and measures.
- 133. Slow-onset events.** Similarly, there are emergencies and disasters that may also arise due to slow-onset events or which may be exacerbated due to climatic changes and affect natural resources (and therefore resource production). These may result from occurrences or incidences of forest fire, fish kills, and water level reduction that may result from effects of El Nino.
- 134. Effects of El Nino.** The dry spell effect of El Nino, as of 24 March 2019, have affected Regions IV-A (CALABARZON), IV-B (MIMAROPA), V, VI, IX, XII, BARMM, and NCR. Also, the DA, in a report to the DND-OCD, estimated about ₱2.288 billion worth of damages to agriculture in IV-A, IV-B, V, VI, XII, and BARMM. Damages were mostly attributed to the rice and corn sector. For the period 11 February 2019 to 13 March 2019, the dry spell prompted 16 LGUs to declare local state of calamity in their respective areas. These are San Jose; Occidental Mindoro; Province of Rizal; Zamboanga City; Region XII LGUs (Alamada, M'lang, Pikit, Aleosan, Magpet, Tulunan, Arakan, Cotabato Province, Matalam); Wao, Lanao del Sur, Maguindanao (BARMM); Datu Abdullah, Sangki (BARMM); Pagalungan, Maguindanao (BARMM); and Upi, Maguindanao (BARMM).<sup>43</sup>
- 135.** The DOST-PAGASA continues to monitor and assess the situation and produce forecasts (e.g., through regular, national (monthly) and provincial climate outlook fora on the likelihood of the certain areas of the country experiencing drought to dry spell. As disseminated by DOST-PAGASA, the sectoral impacts of this weather phenomenon will affect the natural resources in agriculture (e.g., decline in crop production), water (e.g., reduced water

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<sup>43</sup> Source: NDRRMC, "Situational Report No. 10 re Preparedness Measures & Effects of El Niño", 24 March 2019, [http://ndrrmc.gov.ph/attachments/article/3676/SitRep\\_No\\_10\\_regarding\\_Preparedness\\_Measures\\_and\\_Effects\\_of\\_EI\\_Ni%C3%B1o\\_as\\_of\\_5AM\\_24MAR2019.pdf](http://ndrrmc.gov.ph/attachments/article/3676/SitRep_No_10_regarding_Preparedness_Measures_and_Effects_of_EI_Ni%C3%B1o_as_of_5AM_24MAR2019.pdf) (accessed 25 March 2019).

supply), and marine resources (e.g., fish kills and red tide) and impact on human health (e.g., increase in incidences of pulmonary, tropical and food-borne diseases) and the environment (e.g., increase in forest or peatland fires).<sup>44</sup>

**136. Health-related emergencies.** The NDRRMC is monitoring the reported measles outbreak in NCR, certain areas of Luzon, Central and Eastern Visayas where cases of the respiratory disease were reported. From 1 January 2019 to 19 March 2019, the DOH monitored a total of 22,967 cases and 333 deaths in Regions I, II, III, CALABARZON, MIMAROPA, V, VI, VII, VIII, IX, X, XI, XII, CARAGA, BARMM, CAR and NCR mostly affecting the age groups of less than 9 years (6,551 cases) and 1 to 4 years (5,826 cases). DOH, in particular, declared measles outbreak in six (6) regions - Regions III, CALABARZON, VI, VII, X, and NCR. The NDRRMC continues to monitor and respond to the outbreak, including increasing the immunization rates to targeted segments of the population.<sup>45</sup>

**137. Disaster arising from armed conflicts.** As of 25 March 2019, the total estimated funding requirement for the implementation of the programs, projects, and activities (PPAs) in the Bangon Marawi Comprehensive Rehabilitation and Recovery Plan (BMCRPP) is Php 60.5 billion, which includes the funding requirement for the most affected area (MAA) of Marawi City amounting to Php13.1 billion.

The BMCRPP provides the strategic interventions for the rehabilitation of Marawi City and municipalities directly affected by the conflict, which are Butig and Piagapo in Lanao del Sur. It represents 769 PPAs categorized into six (6) sectoral areas – Physical Infrastructure, Social Services, and Housing and Settlement, Livelihood and Business Development, Local Governance and Peacebuilding, and Land Resource Management.

**138. National Disaster Risk Reduction and Management Fund (NDRRMF).** Under the NDRRMF, a total of ₱13.5 billion has already been earmarked for the recovery and rehabilitation activities in Marawi from the FY 2018 GAA (₱10.0 billion) and 2019 GAA (₱3.5 billion). This amount is on top of the budget allocated for Marawi projects that are funded under the Regular Agency Budget. In addition to the NDRRMF FY 2018 for Marawi, the DBM has released funds for Marawi projects from the ₱5.0 billion unprogrammed appropriation.

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<sup>44</sup> Source: DOST-PAGASA, “El Niño and Climate Outlook”, 24 April 2019, presentation by DOST-PAGASA on Updates on El Nino, National Forum on El Nino (111th COF), <https://pubfiles.pagasa.dost.gov.ph/climps/climateforum/climateoutlook.pdf> (accessed 24 April 2019).

<sup>45</sup> Source: NDRRMC, “Situational Report No. 10 re Measles Outbreak”, 22 March 2019, [http://www.ndrrmc.gov.ph/attachments/article/3633/SitRep\\_No\\_12\\_re\\_Measles\\_Outbreak\\_as\\_of\\_22\\_March\\_2019\\_1700H.pdf](http://www.ndrrmc.gov.ph/attachments/article/3633/SitRep_No_12_re_Measles_Outbreak_as_of_22_March_2019_1700H.pdf) (accessed 25 March 2019).

**Table 19. Philippines: Funding Source under NDRRMF and Unprogrammed Appropriations**  
(in billion pesos)

Particulars	Appropriated/ Budgeted	Released by DBM	Under process	Available Balance
FY 2018 GAA NDRRMF- Marawi Rehabilitation, Recovery and Reconstruction Fund	10.0	4.881	2.463	2.475
FY 2018 GAA Unprogrammed Marawi	5.0	2.3 <sup>46</sup>	Not applicable	Not applicable
FY 2019 GAB Marawi Rehabilitation, Recovery, and Reconstruction Program	3.5	Awaiting GAA approval	Awaiting GAA approval	Awaiting GAA approval
<b>Total</b>	<b>18.5</b>	<b>7.181</b>	<b>2.463</b>	<b>2.475</b>

**Outlook for 2020 (including 2019 updates)**

**139.** For FY 2020, actions to address emerging risks from natural disasters, including those based from outlooks of weather forecasts will demand both governmental actions and financing.

**140.** In terms of earthquake preparedness, addressing the budgetary requirements of NGAs involved in preparing for preparedness and response to the Big One will be essential. These are agencies that comprise the Program Management Office for Earthquake Resiliency of the Greater Metro Manila Area (PMO-ERG) under the Office of the President. The financing needs that will be determined to implement the resiliency plans and public service continuity plans of various NGAs will need to be prioritized and considered in the Tier Two FY 2019 GAA and further lined up for FY 2020 budget proposal submissions. Further plans may be devised from the results of the Greater Metro Manila Earthquake Impact Reduction Study and updates to the Metro Manila Earthquake Impact Reduction Study (MMEIRS). The investment requirements arising from the alternate resilient site for the NG at the New Clark Green City will also need to be taken into consideration for planning in FY 2019 and after 2019 for the project's Phase 2. The Government may also be contemplating on expanding the approach taken by the

<sup>46</sup> Unprogrammed Appropriations FY 2018:

"Special Provision(s)

1. Availment of the Unprogrammed Appropriations. The amounts authorized herein for Purpose Nos. 1-12 may be used when there are:

- (a) Excess revenue collections in any one of the identified non-tax revenue sources from its corresponding revenue collection target, as reflected in Tables C.1 and C.4 of the BESF;
- (b) New revenue collections or those arising from new tax or non-tax sources which are not part of, nor included, in the original revenue sources reflected in Tables C.3 and C.4 of the BESF; or
- (c) Approved loans for foreign-assisted projects.

Release of funds shall be subject to the submission of a Special Budget pursuant to Section 35, Chapter 5, Book VI of E.O. No. 292, s. 1987 and the following: (i) for excess revenue collections, issuance of a certification that remitted collections to the BTr from a particular source has exceeded its corresponding revenue collections target; or (ii) for new revenue collections, issuance of a certification that remitted collections identified were not part of, nor included in, the original revenue collection targets reflected.

In the case of approved loans, issuance of SARO covering the loan proceeds shall be subject to submission by the agency concerned of request together with work and financial plan, project profile, and a copy of the perfected loan agreement."

Earthquake Resiliency Team under the PMO-ERG into other vulnerable regions outside the Greater Metro Manila, Visayas and Mindanao.

- 141.** Also, as the country is set to submit its Nationally Determined Contributions by 2020 as required under the Paris Agreement within the United Nations Framework Convention on Climate Change, the investment requirements for climate adaptation and mitigation actions will need to be assessed and the budgetary implications determined and reflected by 2020 and onwards based on the country's plan.

### ***Risk Mitigation Measures***

- 142.** The total assets of the GSIS as of 31 December 2018 is at ₱1,130.0 billion with net income amounting to ₱65.06 billion. The GSIS posted positive surplus<sup>47</sup> for 2018 at ₱43.9 billion.

**Table 20. Philippines: GSIS Cash Surplus in IMF Format, FY 2018 Actuals**  
(in million pesos)

Particulars	2018 (Full Year)	
<b>Revenues</b>	<b>85,691</b>	<b>182,925</b>
Members contributions		119,201
of which contributions	62,189	
Investment income and other earnings		63,724
of which from NG securities holdings	23,502	
<b>Expenditures</b>		<b>146,398</b>
Benefits		104,515
Operating and other expenses		7,531
Policy lending to public and private sector		34,352
<b>Surplus</b>		<b>36,527</b>

- 143.** The GSIS, by virtue of RA No. 656, as amended by PD No. 245, is mandated to insure all properties, assets where government has insurable interest. For the period April 2018 to April 2019, the Total Sum Insured (TSI) across all lines<sup>48</sup> of GSIS is at ₱1,924.4 billion.

- 144. As for risk transfer mechanisms, the BTr directed the GSIS to issue a parametric insurance in 2017.** The budget for premium, net of Documentary Stamp Tax is ₱888.0 million. The GSIS was directed not to retain any risk. All were reinsured with the International Bank for Reconstruction and Development (IBRD). The TSI or the maximum pay-out is ₱10.4 billion.

- 145. The FY 2018 GAA appropriated ₱2 billion for a parametric insurance cover to protect government assets against natural calamities.** The appropriation allowed the NG to put in place a ₱20.5 billion Parametric Insurance cover against typhoons and earthquakes for 25 vulnerable provinces along the Eastern Seaboard and the DepEd. Once triggered, the

<sup>47</sup> Unappropriated surplus (Source: 2018 Preliminary FS as of 21 January 2019).

<sup>48</sup> Lines: Fire, Engineering, Bonds, Motor, Personal Accident, Miscellaneous, Floater, Marine Cargo, Aviation, Marine Hull.

cover will provide immediate liquidity to the government. To ensure the proper administration of pay-out proceeds, the DOF and DBM issued a JMC entitled "Guidelines on the Implementation, Monitoring, and Reporting on the Use of the ₱2 billion under NDRRMF for the insurance coverage of government facilities against Natural Calamities". The cover is from December 2018 to December 2019. The JMC stipulates that payout proceeds shall be used solely for post-disaster activities.

- 146. Of the four recorded TYs in 2017, however, only two Calculation Reports were received by GSIS from IBRD, i.e. TY Vinta and Tropical Storm Urduja.** Only TY Vinta was considered as eligible event based on the Calculation Report provided by AIR Worldwide Corporation (AIR), which is the calculation agent. An immediate payout of ₱83.5 million was remitted to GSIS by IBRD and was paid to BTr on 31 January 2018.
- 147.** Of the eight recorded TYs in 2018, no payout was received from IBRD. On January 3, 2019, GSIS submitted a Notice of Applicable Event to IBRD for Tropical Depression Usman, but there was no payout received from AIR. Per Post Event Calculation Result, Japan Meteorological Agency did not report parameters for Tropical Depression Usman as it did not reach typhoon strength which is the basis for pay-out.
- 148.** The largest and most notable Philippine earthquake for 2017 was located in Saranggani and Davao, and for 2018, in Davao Region (near Davao Oriental). Based on the Philippines' Catastrophic Risk Model, participating province, Davao Oriental experienced damage from the Magnitude 7.0 earthquake. Though GSIS requested calculation for the Mindanao earthquake in 2018, there was no payout for this event.
- 149. On earthquake preparedness, the President issued Executive Order No. 52, creating the PMO-ERG under the Office of the President.** It is mandated to spearhead immediate operationalization of the "Two-Pronged Strategy Towards and Earthquake Resilient GMMA", integrate all government efforts to enhance the resiliency of the GMMA against earthquakes, fill existing bureaucratic gaps and build on existing resiliency plans and programs; undertake all necessary action to fast-track the implementation of urgently-needed interventions, including the action points contained in the MMEIRS and the "Key Result Areas in the Earthquake Resiliency of GMMA" and collaborate closely with the relevant government agencies, LGUs, private sector, civil society, and the communities themselves in undertaking the above mandates.
- 150.** Since 2015, the Philippine Government's Disaster Risk Financing and Insurance Strategy has led to the formulation of or updating of policies that intends to address the three (3) tiers of disaster risk financing - national-level; local-level; and individual level.
- 151.** For response, recovery, reconstruction and rehabilitation, the forthcoming JMC of DOF, DBM, and Department of Foreign Affairs will provide and update the guidelines on the receipt, utilization, and monitoring of domestic and

foreign donations for disaster risk reduction and management (DRRM) that will apply to all NGAs, GOCCs, and other relevant agencies involved in the DRRM efforts.

152. In December 2018, the Philippines City Disaster Insurance Pool has been designed by the DOF with technical assistance from the Asian Development Bank to provide rapid post-disaster early recovery financing through parametric insurance mechanisms for LGUs. Perils to be covered are those emanating from earthquake and typhoons. The ten (10) cities that participated in the design phase are Bacolod City, Baguio City, Butuan City, Caloocan City, Dagupan City, Davao City, Iloilo City, Marikina City, Paranaque City, and Quezon City. The design phase studied the legal and administrative structure and proposed policy, including pricing, and premium characteristics of the Pool.
153. **In 2017, the President signed AO No. 4, which created an Inter-Agency Committee on Government Property Insurance (IAC GPI). The IAC GPI was created to formulate necessary policies, rules, regulations, and programs to ensure that key assets and interests of the government is adequately and comprehensively insured.** To this end, the IAC GPI proposed to have an indemnity insurance program for Strategically Important Assets. These assets are those that create a large socio-economic impact such as schools, roads, bridges, hospitals, irrigation facilities, and the like. Unlike the Parametric Insurance in place, the payout from this cover will be for reconstruction as it will be based on the actual loss incurred.
154. **For 2019, the Indemnity Insurance Program is planned to cover schools, roads, and bridges along the Eastern Seaboard as they are currently not insured and the areas chosen are the most vulnerable in the country.** This cover is to protect the assets against typhoons, earthquakes, storm surges, and volcanic eruptions.
155. **Complementing the Indemnity Insurance Program is the establishment of the National Asset Registry.** The Registry contains information on an asset's geographical location, attributes, risk mitigation features, and legal and ownership information. For its first phase, the registry is being populated with schools, roads, bridges, hospitals, dams, irrigation facilities, and welfare centers of the NG along the Eastern Seaboard. As the project moves forward, it will be populated with information on airports, trains, seaports, power plants, and scientific equipment among others. Data from this registry would be useful in providing key disaster risk financing analytics such as risk modeling and asset insurance.
156. **The Philippines is also looking to bring to market its first Catastrophe Bond.** The Catastrophe Bond will cover the entire country and its proceeds will be used by the NG for budget support. As a Catastrophe Bond, it will cover typhoons and earthquakes that will hit the country.
157. For humanitarian assistance and emergency situations, Governmental actions will also be guided by the **NDRRMC's Enhanced Philippine**



**International Humanitarian Assistance** which was published through NDRRMC Memorandum Circular No. 158, series of 2017. The guidelines aim to provide timely efficient and effective delivery of humanitarian assistance from various stakeholders, including domestic and foreign sources.

- 158. For disaster response, the NDRRMC has approved on 20 March 2019 the Rehabilitation and Recovery Planning (RRP) Guide which was formulated by NEDA.** The RRP Guide provides the over-all framework, planning process, and institutional mechanisms for disaster rehabilitation and recovery. It shall serve as reference for government agencies and LGUs in the conduct of pre- and post- disaster planning activities including the preparation of a post-disaster rehabilitation and recovery program.
- 159. To harmonize these initiatives, members of the house and senate have been proposing for the creation of a Department of Disaster Resiliency.** The proposed department aims to harmonize the policies on disaster risk management, environmental and climate change adaptation, and sustainable development. Functions of the proposed agency include working towards risk reduction, disaster preparedness and response, and rehabilitation and recovery. In accomplishing these, the Department shall work with key government agencies such as the DOF, DBM, and the NEDA.