REPUBLIKA NG PILIPINAS

REPUBLIC OF THE PHILIPPINES

FISCAL RISKS STATEMENT 2014

DEVELOPMENT BUDGET COORDINATION COMMITTEE

List of Acronyms

ASEAN	Association of Southeast Asian Nations
BCDA	Bases Conversion and Development Authority
BESF	Budget of Expenditures and Sources of Financing
BOC	Bureau of Customs
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BPM5	Balance of Payments Manual 5
BPM6	Balance of Payments Manual 6
BSF	Bond Sinking Fund
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CALA	Cavite Laguna
CAR	Capital Adequacy Ratios
CARP	Comprehensive Agrarian Reform Program
CB-BOL	Central Bank-Board of Liquidators
CCT	Conditional Cash Transfer
CMTA	Customs Modernization and Tariff Act
CO	Capital Outlays
COA	Commission on Audit
CPEIR	Climate Public Expenditure and Institutional Review
DBCC	Development Budget Coordination Committee
DBP	Development Bank of the Philippines
DIF	Deposit Insurance Fund
DOF	Department of Finance
DPWH	Department of Public Works and Highways
DOTC	Department of Transportation and Communications
DSWD	Department of Social Welfare and Development
FIR	Fiscal Incentives Reform
FIU	Fiscal Intelligence Unit
FX	Foreign Exchange
FSCC	Financial Stability Coordination Council
GAA	General Appropriations Act
GCG	Governance Commission on GOCCs
GDP	Gross Domestic Product
GFI	Government Financial Institution
GIR	Gross International Reserves
GOCC	Government-Owned and/or-Controlled Corporation
GPN	Global Peso Note
GSIS	Government Service Insurance System
HGC	Home Guaranty Corporation
ICRS	Integrated Corporate Reporting System
IIF	Institute for International Finance
IMF	International Monetary Fund
IRA	Internal Revenue Allotment

JMC	Joint Memorandum Circular
LAMP2	Land Administration Management Project 2
LBP	Land Bank of the Philippines
LGU	Local Government Unit
LGUGC	Local Government Unit Guarantee Corporation
LIBOR	London Interbank Offered Rate
LRTA	Light Rail Transit Authority
LWUA	Local Water Utilities Administration
MCIAA	Mactan-Cebu International Airport Authority
MDFO	Municipal Development Fund Office
MIAA	Manila International Airport Authority
MNFGC	Monitored Non-Financial Government Corporations
MOOE	Maintenance and Other Operating Expenditures
MWSS	Metropolitan Waterworks and Sewerage System
NAIA	Ninoy Aquino International Airport
NALGU	National Assistance to Local Government Units
NDC	National Development Company
NDF	Non-Deliverable Forward Transactions
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
NHA	National Housing Authority
NHMFC	National Home Mortgage Finance Corporation
NIA	National Irrigation Administration
NLRC	National Labor Relations Commission
NOSCP	National Oil Spill Contingency Plan
NPA	Non-Performing Asset
NPC	National Power Corporation
NPL	Non-Performing Loan
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
OCD	Office of Civil Defense
OF	Overseas Filipinos
OPEC	Organization of Petroleum Exporting Countries
PDA	Partido Development Administration
PDIC	Philippine Deposit Insurance Corporation
PDNA	Post-Disaster Needs Assessment
PEZA	Philippine Economic Zone Authority
PNOC	Philippine National Oil Corporation
PNR	Philippine National Railways
PPA	Philippine Ports Authority
PPP	Public Private Partnership
PSALM	Power Sector Assets and Liabilities Management
PVS	Philippine Valuation Standards

QE	Quantitative Easing
QRF	Quick Response Fund
RAY	Reconstruction Assistance on Yolanda
RPT	Real Property Tax
RRP	Reverse Repurchase
SBGFC	Small Business Guarantee and Finance Corporation
SBMA	Subic Bay Metropolitan Authority
SSS	Social Security System
SSI	Social Security Institution
SMV	Schedule of Market Values
TIDCORP	Trade and Investment Development Corporation
TIEZA	Tourism Infrastructure and Enterprise Zone Authority
TRANSCO	Transmission Corporation
TRO	Temporary Restraining Order
UC-SCC	Universal Charge – Stranded Contract Costs
U/KB	Universal and Commercial Banks
US	United States
VRA	Valuation Reform Act
ZBB	Zero-Based Budgeting

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I. INTRODUCTION

A. The country responds with resiliency in managing external shocks and continuing uncertainty and volatility in the global economy mainly from the United States. The National Government (NG) continues to enhance revenue collection and proactive liability management to further achieve its targets. By continuing to enforce these reforms, external and internal economic risks can be more managed and avoided while continuing to keep the pace of the country's growth.

B. Risks and actions relating to natural disasters are key themes that need to be addressed as the country is highly exposed to certain occurrences of disasters from year to year. More and more actions like rehabilitation programs and funds for responding to these disasters are moving forward to mitigate these risks for better preparedness when these occurrences arise.

II. MACROECONOMIC RISKS AND BUDGET SENSITIVITY

A. MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

1. **The Philippine economic performance remains strong despite the continuing uncertainty in the external environment and the significant damage from natural calamities that hit the country during the last quarter of 2013.** The domestic economy has registered 60 consecutive quarters of positive Gross Domestic Product (GDP) growth since 1999, with growth greater than or equal to 6.0 percent in the last eight quarters. At the same time, price pressures have remained manageable as evidenced by low and within-target inflation in the last five years.

Table 1. Macroeconomic Performance for 2011-2013 and NG Budget Assumptions for 2014a/

(in percentage points, unless otherwise specified)

Particulars	2011 BESF	2011 Actual	2012 BESF	2012 Actual	2013 BESF	2013 Actual Year-to-Date	2014 BESF
Real GDP growth	5.0	3.9	5.5-6.5	6.8	6.0-7.0	7.2	6.5-7.5
Inflation target	3.0-5.0	4.6	3.0-5.0	3.2	3.0-5.0	3.0	3.0-5.0
364-day T-bill rate[b/]	3.0-5.0	2.3	3.0-5.0	2.0	3.0-5.0	0.71	1.0-4.0
Exchange rate *(PhP/US$1, period average)*	45.00-47.00	43.31	42.00-45.00	42.23	42.00-45.00	42.42	41.00-44.00
LIBOR (6 months)	1.0-3.0	0.5	0.5-1.5	0.7	0.5-1.5	0.41	0.5-1.5
Dubai crude oil price *(US$/barrel)*	75.00-95.00	106.2	90.00-110.00	109.08	90.00-110.00	105.52	90.00-110.00
Merchandise exports growth[c/]	13.0	-6.3	12.0	8.5	12.0	-3.6	6.0
Merchandise imports growth[c/]	18.0	2.4	18.0	5.1	14.0	-3.1	6.0

Sources: NEDA, NSO, NSCB, BSP, and BTr

a/ 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 Congress for the preparation of the General Appropriations Act (GAA)

b/ Based on primary market rates

c/ Based on the Balance of Payments Manual 5 (BPM5) concept, except for 2013 actual and 2014 assumptions, which are based on the Balance of Payments Manual 6 (BPM6) concept

2. **The domestic economy continues to post higher-than-expected expansion given robust domestic consumption and increased government expenditures.** In 2013, GDP grew by 7.2 percent, higher than the 6.8 percent growth recorded in 2012. This also exceeded the government target of 6.0 to 7.0 percent for the year.

3. **Inflation remained within-target for the fifth consecutive year.** Inflation in 2013 averaged 3.0 percent, the low-end of the government target for the year of 3.0 to 5.0 percent. This is also lower compared to the previous year's inflation of 3.2 percent. The low inflation, along with ample liquidity in the financial system and favorable NG fiscal position, contributed to keeping a low domestic interest rate environment. The manageable inflation environment allowed the BSP to fine-tune the operation of the Special Deposit Account facility in 2013.

4. **The peso-dollar rate has remained broadly stable in 2013 amid some episodes of volatility in the global financial markets due to uncertainties surrounding the US Federal Reserve's exit from its bond-buying program.** The peso was supported largely by the strong Overseas Filipinos (OF) remittances, increased Business Process Outsourcing receipts, and investment inflows under favorable macroeconomic fundamentals. At the same time, the investment grade status given to the country by major international credit rating agencies makes the domestic economy a viable investment destination.

5. **In the international front, the still lethargic outlook on the global economy contributed to the decline in oil prices, low foreign interest rates, and weaker-than-expected external trade performance.** Oil prices were lower in 2013 compared to 2012 due mainly to a looser global oil market caused by the increase in oil production from non-OPEC countries, particularly the US and Canada. In addition, the sluggish global economic conditions led to reduced outlook on oil consumption and subsequently weighed down on oil prices during the year. However, the decrease in oil prices were partly offset by episodes of high volatility as there were supply disruptions from the continuing geopolitical tensions in the Middle East and North Africa region. Meanwhile, the sluggish economic activity in advanced economies prompted central banks to adopt a more accommodative stance to support economic growth. Consequently, this pulled down LIBOR rates to the low-end of the assumption in 2013. Lastly, fragile global economic conditions led to weaker-than-expected performance of exports and imports.

B. MACROECONOMIC RISKS

6. **The recent assessment of economic conditions and outlook suggests that most of the indicators used in the 2014 BESF could remain within the budget assumptions.** However, developments in the external environment constitute a significant risk for trade performance.

7. **Despite the damages brought about by natural disasters in the latter part of the year, the 7.2 percent GDP growth in 2013 provides evidence of solid underlying momentum of the real sector.** Going forward, the domestic economy is seen to grow between 6.5 to 7.5 percent in 2014 driven mainly by resilient domestic demand. Steady private consumption along with improvements in private investments as well as government spending could provide some buffer against lingering weakness in external demand. In addition, reconstruction spending could help mitigate the weak performance from regions that were badly hit by natural calamities in the previous year.

8. **The uncertainty in the strength of the global economy still presents a downside risk to the domestic economy.** While advanced economies show signs of recovery, emerging economies face the risk of slower growth and potential capital flow reversal. Domestic supply bottlenecks and possible tighter financing conditions with the end of unconventional monetary policy in advanced economies could constrain growth in emerging economies. In addition, risks to economic activity could arise if inflation, especially in advanced economies, is to remain low and below target.[1]

[1] International Monetary Fund, "World Economic Outlook Update", January 2014, available online at http://www.imf.org

9. **Inflation is seen to remain manageable over the policy horizon.** Recent forecasts suggest that inflation is projected to remain within target over the next two years. However, upside risks could come from likelihood of possible upward adjustments in electricity rates, and higher food prices given the looming El Niño weather disturbance. In addition, the likelihood of continued strong liquidity growth could pose risk to financial stability.

10. **The US Federal Reserve, during its meeting in April, decided to further trim its bond-buying program by another US$10 billion per month as the US economy continues to show signs of gradual recovery.** This brought the cumulative amount of easing to US$40.0 billion since the US Federal Reserve started to taper from its Quantitative Easing (QE) program. The uncertainties leading to the US Federal Reserve's first action in 2013 caused depreciation of regional currencies against the US dollar and significant decline in regional equity prices. Since then, however, financial markets have priced in US Federal Reserve's likely policy actions in their economic outlook. While the baseline view is for a smooth exit by the US Federal Reserve from its QE Program, a disorderly tapering could not be fully discounted. Nonetheless, the Philippine economy's strong macroeconomic fundamentals provide sufficient cushions to ride out financial market volatility. Moreover, the scaling down of QE signals the recovery of the US economy, a major trading partner and source of remittances and investments (particularly for the business process outsourcing sector) of the Philippines. Hence, the Philippines could benefit from the recovery of the world's largest economy.

11. **Expectations of a looser global oil market could weigh down on oil prices.** Going forward, the Energy Information Administration expects oil prices to weaken as the increase in non-OPEC supply exceeds world consumption growth. Nonetheless, the International Monetary Fund (IMF) and the Institute for International Finance (IIF) are of the view that escalating tensions between Russia and Ukraine could pose upside risk on oil prices going forward. Russia is a large producer and exporter of crude oil and natural gas while Ukraine's strategic position makes it an important transit point for natural gas supplies to Europe. Thus, a worsening of situation has the potential to generate supply disruptions and increase volatility in oil prices. An increase in oil prices would cause an uptick in global headline inflation and would slow down global economic growth as the real purchasing power and consumption declines.

    There are emerging challenges to trade. The improved economic outlook in advanced economies, including the country's major trading partners such as the US, Europe and Japan, is seen to boost the country's merchandise trade. Furthermore, rehabilitation and reconstruction efforts in typhoon-hit areas as well as the government's aim to ramp up infrastructure/capital spending could provide support to imports growth in 2014. However, downside risks to growth in emerging economies, such the expected slowdown of the Chinese economy and political tensions in Thailand, could dampen Philippine exports to these countries.[2]

C. FISCAL PERFORMANCE

12. **The NG recorded a P164.1 billion budget deficit for 2013, which is well within the P238.0 billion deficit ceiling for the period.** The fiscal gap narrowed by 32.0 percent or P78.8 billion compared with 2012 levels due to improved revenue collections and sustained prudence in expenditures. Total collections stood at P1,716.1 billion for the full-year, which demonstrated an increase of 11.8 percent over comparable collections in 2012. Furthermore, total disbursements accelerated by 6.0 percent, bringing the full-year total to P1,880.2 billion in 2013.

13. The accuracy of underlying macroeconomic assumptions used in projecting the annual budget affects fiscal outturns. Variations from macroeconomic parameters, feedback to revenues, expenditures and the fiscal balance through several channels. Table 2 reflects the sensitivity of fiscal accounts to various macroeconomic variables.

Table 2. Philippines: Fiscal Sensitivity to Key Macroeconomic Variables, 2014
(in billion Pesos per annum)

Particulars	Revenues	Disbursements	Budget Balance
1 percentage point increase in Real GDP growth	17.1		17.1
1 percentage point increase in Inflation rate	16.7		16.7
1 percentage point increase in Merchandise Imports	6.3		6.3
1 percentage point increase in T-bill rate, all maturities	0.9	4.1	-3.2
1 Peso depreciation in foreign exchange rate	8.4	2.9	5.5

Sources: DOF and BTr

[2] It may be noted that China and Thailand have been part of the country's main export destinations constituting around 12.0 percent and 4.0 percent share-to-total exports in 2013, respectively.

IMPROVING REVENUE PERFORMANCE

14. **For January to December 2013, total revenue reached P1,716.1 billion or an 11.8 percent growth year-on-year.** Of the total revenues, 89.5 percent were tax revenues while non-tax revenues and privatization contributed the remaining 10.5 percent.

15. Tax revenues amounted to P1,536.0 billion or a 12.8 percent increase year-on year. For the year 2013, Bureau of Internal Revenue (BIR) collected P1,217.0 billion and registered a double-digit growth of 15.0 percent. Bureau of Customs (BOC) collections continued to improve, wherein its total collections for the period reached P305.0 billion or 5.2 percent higher from last year.

16. The Bureau of the Treasury (BTr) registered an income of P81.0 billion or 3.6 percent lower than the same period last year due to lower remittance of dividends from shares of stocks. Other offices posted an income of P14.1 billion which grew by 6.1 percent but was lower than the program by P79.0 million.

Table 3. Philippine Revenue Program, 2012-2013

(In Billion Pesos)	2012	2013		Percent Growth
	Actual	Program	Actual	
Total Revenues	**1,534.9**	**1,745.9**	**1,716.1**	**11.8**
Tax Revenues	**1,361.1**	**1,607.9**	**1,535.7**	**12.8**
BIR	1,057.9	1,253.7	1,216.7	15.0
BOC	289.9	340.0	304.9	5.2
Other Offices	13.3	14.2	14.1	6.1
Non-Tax Revenues	**165.5**	**136.0**	**177.5**	**7.2**
BTr Income	84.1	57.7	81.0	-3.6
Others	81.3	78.3	96.1	18.2
o.w. Fees & Charges	27.8	32.0	30.5	9.9
Grants	0.1	0.0	0.3	224.2
Privatization	**8.3**	**2.0**	**2.9**	-64.8
Expenditures	**1,777.8**	**1,983.9**	**1,880.2**	**5.8**
Surplus/(Deficit)	**-242.8**	**-238.0**	**-164.1**	**-32.4**

Source: BESF

17. The pending revenue measures in both Houses of Congress would deprive the government of revenues estimated to be around P334.0 billion-P455.0 billion, equivalent to 3.0 percent-4.0 percent of GDP. The absence of compensating revenue measures poses a threat to the present economic momentum and fiscal stability.

18. A review of the Philippine Tax System should be done in a holistic and comprehensive approach to ensure that the country has sufficient resources to finance the much needed social and physical infrastructures. For this purpose, the Tax Effort is targeted to reach 16.6 percent by the end of the Aquino Administration to achieve 5.0 percent infrastructure spending to GDP ratio by 2016. This would also improve the country's tax performance, bringing it closer to the ASEAN average Tax Effort of 15.0 percent[3]. As it stands, the country's tax collections relative to GDP is 13.3 percent.

Table 4. Forgone Revenues from Different Tax Measures and Practices*

	Proposal/ Practice	Estimated Forgone Revenues (in billion pesos)
A.	Expansion of de minimis benefits to include increases in CBA and productivity bonus not exceeding P10,000	10
B.	Taxing only the increment to minimum wage	60
C.	Increasing the 13th month pay tax exemption ceiling from P30,000 to P70,000	39
D.	Continuous grant of fiscal incentives under the existing regime	157-260
E.	Other revenue-eroding measures in the 16th Congress	68-86
	Total Forgone Revenues	**334-455**

Source: Research and Information Office, Domestic Finance Group, DOF

** Estimates are as of 15 September 2014*

Reforms on Revenue Collection

19. **The NG is committed to increase the tax effort of the revenue generation agencies of the government to 16.0 percent by 2016 via a combination of vigorous implementation of tax laws, i.e., RA 10351 or the Sin Tax Law.** In addition, it created strategic units in the DOF to protect revenue integrity, uproot corruption, and eliminate tax evasion and smuggling such as the Fiscal Intelligence Unit (FIU).The FIU has the authority to carry out investigation and assessment of transaction records of

[3] Computed based on available data for Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Thailand and Vietnam.

importers and brokers. Moreover, to detect and investigate accusations of corruption within agencies, the Revenue Integrity Protection Service was strengthened.

20. To achieve higher tax effort, the BIR is focused on improving voluntary tax payments from self-employed business and professionals. It considered tie-ups with other government agencies to improve its collection of estate taxes. In addition, the BIR together with the DOF continue to identify and take legal action on tax evaders as well creating campaigns which discourage tax evasion through its Run After Tax Evaders Program.

21. **The DOF and BOC created two specialized units, the Office of Revenue Agency Modernization and the Customs Policy Research Office, to help improve its collections through formulation of necessary enhancements in the systems and procedures.** Also, massive reorganization is in place which intends to improve the efficiency and performance of the organization. Furthermore, DOF and BOC also continue to monitor and act against smugglers through Run After The Smugglers Program.

22. The various TROs issued by the Supreme Court (SC) preventing the BIR from implementing its various issuances for transparency purposes restrain the government to properly check and assess tax payments of professionals and employers.

    The SC has ruled in favor of lawyers, doctors and accountants by issuing TROs on April 22, 2014, June 3, 2014 and June 25, 2014, respectively, against the implementation of RR 4-2014 or the "Guidelines and Policies for Monitoring of Services Fees of Professionals." RR 4-2014 requires all self-employed professionals to submit an "affidavit indicating the rates, manner of billings, and the factors they consider in determining their service fees upon registration and every year thereafter on or before January 31.

    Also, the implementation of RR 01-2014 and RMC 5-2014, which require agents to submit alphalist of payees on income payments subject to creditable and final withholding taxes and prohibits the lumping into single amount and accounts, was also stopped by SC upon issuance of TRO last September 9, 2014.

Box 1. DOF Legislative Agenda

Fiscal Incentives Rationalization and Tax Incentive Management and Transparency Act

1 The proposed Fiscal Incentives Reform (FIR) seeks to institute a strategic approach in the grant of tax incentives that promotes competitiveness and, at the same time, ensures cost-efficiency and fiscal sustainability. FIR aims for a fiscal incentives system that is time-bound and well-targeted to the most responsive sector; thus, maximizing investments and their beneficial spillovers and minimizing redundancies or unnecessary costs to the government. Furthermore, its objective is to promote transparency and rationalized responsibilities in tax incentives administration.

Simultaneous reforms shall be pursued which involves instituting structural reforms and policy to enhance transparency and accountability in the grant and administration of tax incentives.

Customs Modernization and Tariff Act (CMTA)

The proposal seeks to introduce omnibus amendments to the Tariff and Customs Code of the Philippines by aligning its provisions with the International Convention on the Simplification and Harmonization of Customs Procedures, otherwise known as the Revised Kyoto Convention, which the Philippines supports as one of the member-countries of the World Customs Organization. The CMTA aims to promote and secure international trade, protect government revenue and modernize customs and tariff administration by adopting customs policies, rules and procedures which are clear, .transparent and consistent with international agreements and customs best practices

Valuation Reform Act (VRA)

2 The proposed VRA seeks to institutionalize reforms in land and real property valuation which will translate into improved real property and related taxes through:

a. The development and adoption of internationally benchmarked Philippine Valuation Standards to be used by the government and private sector;

b. Harmonization and adoption of a single valuation base for real property taxation by improving and adopting the Schedule of Market Values (SMVs) of the Local Government Units (LGUs) that would reflect the true market values of properties;

c. Depoliticization of the approval of SMVs from the Sanggunian to the Secretary of Finance;

d. Support the development and professionalization of the valuation practice in the country pursuant to Republic Act No. 9646 or the Real Estate Service Act of the Philippines; and

e. Development and adoption of the Real Property Transactions Database System to facilitate appraisal process.

Fiscal Regime for Mining Industry

3 The Mining Industry Coordinating Council, which the DOF co-chairs, is currently studying options for mining fiscal regime and revenue sharing. The plan is to design a scheme which adopts a single fiscal regime and a simple formula in determining the sharing arrangement. Moreover, the NG wants to use a system that will support its entry into the Extractive Industries Transparency Initiative, the internationally-accepted practice which makes the payment and collection of all mining-related fees and taxes paid by mining companies to national and local government units more transparent through standardized disclosures.

EXPENDITURES

23. **Actual NG spending for 2013 amounted to P1,880.2 billion, equivalent to 93.0 percent of the P2,021.1 billion proposed budget in the 2013 BESF.** Both Maintenance and Other Operating Expenditures (MOOE) and Capital Outlays (CO) items were lower than program by P15.9 billion and P65.3 billion, respectively. The series of man-made and natural calamities may have affected regular government operations resulting to the unexpected slowdown in the processing of payments.

Table 5. Difference between National Government Expenditure Targets and Outturns (as percent of budget, unless otherwise specified) [1/], FYs 2011-2013

Particulars	2011	2012	2013
Total Expenditures	-8.37	-4.14	-6.97
Current Operating Expenditures	-5.39	-3.91	-4.15
Capital Outlays[2/]	-22.35	-6.56	-15.93
Net Lending	20.67	19.22	-37.26

Source: DBM

1/ Positive values indicate that actual figures are higher than budgeted and vice versa

2/ Include Capital Transfers to LGUs and CARP-Land Acquisition and Credit

24. **Interest payments remain to be a source of savings.** For 2013, interest payments were P8.8 billion lower than the program. This was due to the combined effects of the lower volume of domestic borrowings as well as the lower-than-programmed interest rates. For 2014, the share of interest payments to the total budget is likewise programmed to decline to 15.6 percent from 16.7 percent in 2013. This is a result of the various public financial management reforms implemented by the government. The decrease in the share of interest payments supports the government's policy to further increase spending for priority sectors, i.e., social services and economic services. Thus, the budget share for economic services went up to 26.2 percent in 2014 from 25.4 percent in 2013 while the share of social services is increased to 37.2 percent from 34.9 percent.

Table 6. National Government Expenditure Program, FYs 2013-2014
(in billion pesos)

Particulars	2013		2014
	Program	Actual	Program
CURRENT OPERATING EXPENDITURES	**1,585.1**	**1,519.2**	**1,736.5**
Personnel Services	641.3	581.7	689.4
Maintenance and Other Operating Expense	298.8	282.9	379.4
Subsidy	42.3	66.3	14.9
Allotment to LGUs	241.8	241.8	273.2
Interest Payments	333.9	323.4	352.7
Tax Expenditure	26.9	23.0	26.9
CAPITAL OUTLAYS*	**409.6**	**344.3**	**522.9**
o/w: Infrastructure and Other Capital Outlays	326.3	261.8	477.5
Equity	2.0	11.5	3.8
NET LENDING	**26.5**	**16.6**	**25.0**
GRAND TOTAL	**2,021.1**	**1,880.2**	**2,284.3**

Source: DBM

** Includes Capital Transfers to LGUs and CARP-Land Acquisition and Credit*

Totals may not add up due to rounding

Sources of Risk

Lower than Programmed Infrastructure Spending

25. **Comparing the proposed expenditure program with the actual outturns, it can be observed that the outturns were lower than the proposed levels.** Specifically for capital outlays, the average underutilization for the past three years amounted to 14.9 percent of the total programmed budget. For 2013, the lower than program spending in infrastructure was due to a) problems with Right of Way acquisitions, b) modification of projects, and c) procurement delays particularly for major projects under the Department of Transportation and Communications (DOTC).

Table 7. Difference between National Government Expenditure Targets and Outturns, FYs 2011-2013
(as percent of budget, unless otherwise specified)[1]

Particulars	2011	2012	2013	Average
Total Expenditures	-8.37	-4.14	-6.97	-6.5
Capital Outlays[2]	-22.35	-6.56	-15.93	-14.9

Source: DBM

1/ Positive values indicate that actual figures are higher than budgeted and vice versa

2/ Include Capital Transfers to LGUs and CARP-Land Acquisition and Credit

26. **In order to meet the 5.0 percent of GDP infrastructure spending target by 2016, key infrastructure agencies like the Department of Public Works and Highways (DPWH) and the DOTC need to improve their capacity to implement more projects especially in anticipating and planning which programs and projects to implement for the next three years.** For 2014, the DPWH is adopting a number of streamlined policies that will ensure bottlenecks in project implementation are resolved. On the other hand, to address its procurement issues, the DOTC, in one of the Account Management Team[4] meetings, expressed that they are looking into the decentralization of procurement activities within the department with the creation of multiple Technical Working Groups and approving committees.

Government Reforms to Mitigate Risks: Increasing Predictability of Releases

One-Year Validity of Appropriations to Avoid Underspending

27. The shift to the one-year validity of appropriations was done by the government last year to help avoid the repeat of the underspending performance in 2012 and provide incentives for faster disbursements. The shorter life span of appropriations will improve the predictability and transparency of the budget execution process by doing away with carry-over appropriations for MOOE and CO. The effectiveness of this policy is dependent on the availability of realistic agency monthly cash programs that would facilitate the timely release of funds.

    In light of the recent natural and man-made disasters experienced by the country during the second half of 2013, Congress issued a resolution to extend the validity of appropriations for MOOE and CO items in the 2013 GAA. The extension of the validity of appropriations will optimize the already available budget that can fund relief, rehabilitation and reconstruction activities that need to be undertaken by the various government agencies.

    Likewise, the same policy is considered for 2014. Section 59 of the general provisions of the 2014 budget extends the validity of appropriations until December 31, 2015. Despite the two-year validity of appropriations for MOOE and CO items in the 2014 budget, agencies are still expected to obligate allotment releases within the year. The efficient spending of agencies shall be tied to the agencies' performance-based bonus.

GAA as a Release Document: Improving Operational Efficiency

28. Earlier reforms such as the disaggregation of lump-sum funds and the shift in the validity of the GAA have facilitated the transition to the new

4Account Management Teams are teams that monitor the status of agency budget utilization and identify problem areas where bottlenecks are encountered. Source: 2013 Fiscal Risks Statement budget regime – the GAA to serve as the primary release document for 2014. In light of this new regime, the government would be doing away with the duplicative process of requesting, processing and releasing budgetary allotments, ensuring speed, transparency and predictability in allotment releases. The release document ultimately enhances the operational efficiency of departments/agencies. The expedient implementation of various public programs and projects will in turn propel government spending preventing a repeat of the underutilization issues encountered in the past.

III. PUBLIC DEBT

1. **The sustainability of NG debt continued to strengthen as the debt-to-GDP ratio improved to 49.2 percent at the end of 2013, despite challenging global economic conditions.** In 2013, the debt-to-GDP ratio resumed its downward trajectory after rising slightly in 2012, when the NG decided to borrow on behalf of PSALM to reduce borrowing cost. From 2012 to 2013, the debt-to-GDP ratio has seen a remarkable decline of more than two percentage points behind strong growth and ongoing fiscal and debt consolidations.

Table 8. Philippines: National Government Debt Indicators, 2011-2013
(in percentage points, unless otherwise specified)

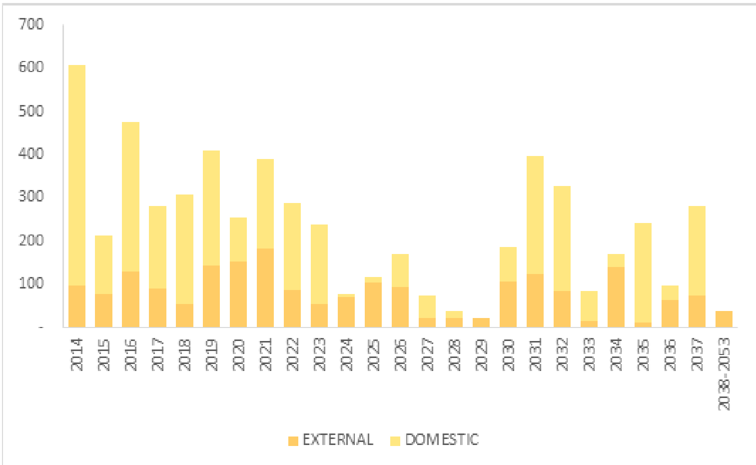
Particulars	2011	2012	2013
National Government Debt			
Percent of GDP	51.0	51.5	49.2
Percent Share			
Domestic	58.0	63.8	65.7
External	42.0	36.2	34.3
Average Maturity (years)	10.2	10.9	10.0
Domestic	9.2	10.4	9.6
External	10.8	11.0	10.9

Source: BTr, DOF

2. **Debt servicing flows continue to be manageable.** For 2013, the share of interest payments to revenue and expenditure were reduced to 18.9 percent and 17.2 percent, from 20.4 percent and 17.6 percent in the previous year, respectively. Furthermore, there were abundant dollar liquidity to service external debt, with the external debt servicing requirement for the year being only 6.0 percent of the GIR. Going into 2014, the NG's debt service position will remain comfortable with an expected growth in interest payments of only 9.0 percent and a tolerable scope for variation as the change in the peso amount of dollar interest payments per one peso depreciation is estimated to be just around P2.9 billion.

3. **Refinancing risk is very minimal.** The liability portfolio of the NG has a very long average residual maturity of 10 years due to heavy preference for long-dated instruments in past issuances and the completion of several bond exchanges designed to postpone principal repayments. In addition, the structural features of the Bond Sinking Fund (BSF) facility ensures sufficient liquidity buffers to service domestic principal obligations for several years over.

Figure 1. Maturity Profile of NG Debt
(in billion pesos)



Source: BTr

4. **The debt portfolio has limited exposure to adverse swings in interest rates.** At the end of 2013, only 5.7 percent of the NG's debt portfolio pay interest on floating rate basis. Moreover, the portion of the total outstanding debt that will be rolled-over in 2014 is only 14.5 percent, thereby limiting the latitude for possible upward interest resetting.

5. **Improved debt dynamics have scaled back the impact of unfavorable currency movements on debt sustainability.** Efforts to reduce reliance on foreign financing have trimmed down the share of foreign currency denominated debt to 32.5 percent of total outstanding debt at the end of 2013, mitigating the effect of peso volatility on foreign debt valuation and servicing. Also, the introduction of the Global Peso Note (GPN) format opened the channel to source foreign funding without incurring additional currency mismatch.

6. **Shallow participation of foreign investors in the government securities market underlies low exposure to capital flight.** Only 9.1 percent of total outstanding domestic securities are being held by foreigners at the end of 2013. Peculiarities such as the taxes on interest income and the

need to go through custodians have deterred foreign penetration in the local bond market but have likewise shielded the same from the adverse effects of sudden outflows.

7. **Stress tests on the sensitivity of NG debt to changes in interest and exchange rates further illustrate the resilience of NG debt against shocks.** More specifically, the analysis shows that sensitivity to interest rate movements have been more or less maintained whereas foreign exchange risk exposure has improved.

   a. A marked improvement over the previous year, a temporary 100 basis points (1.0 percent) increase in the average effective interest rate on NG debt would increase interest payments by 1.43 percent in the succeeding year. This is equivalent to 0.25 percent of revenues or 0.05 percent of GDP. Last year's interest rate sensitivity stood at 2.16 percent.

   b. A 10.0 percent depreciation of the peso against major currencies pads outstanding debt by an amount equivalent to 0.7 percent of GDP. This is an improvement from the previous year's sensitivity estimate of 1.76 percent. Conversely, a 10.0 percent appreciation of the local currency diminishes the debt stock by the same amount (i.e., 0.7 percent of GDP).

   c. A combined shock wherein interest rates rise by 1.0 percent and the local currency depreciates by 10.0 percent increases NG interest payments only by 1.73 percent (0.30 percent of revenues; 0.06 percent of GDP). Meanwhile, a 10.0 percent appreciation could offset a 1.0 percent increase in interest rates, increasing interest payments by only 1.05 percent (0.18 percent of revenues; 0.04 percent of GDP).

Table 9. Philippines: Interest and Exchange Rate Sensitivity of NG Debt[a/]

Particulars	1 year impact (in million PhP)	1 year impact (percent increase in interest payment budget)	1 year impact (1.0 percent shock & peso appreciation; in million PhP)
Interest Rate Sensitivity (1.0 percentage point increase)			
Domestic Interest Rate			
Floating interest rate			
Rolled-over fixed rate	2,034.92	0.58	2,034.92
Foreign Interest Rate			
Floating interest rate	2,692.71	0.76	2,423.44
Rolled-over fixed rate	290.35	0.08	261.31
Rolled-over debt amortization	30.11	0.01	27.1
Plus: 10 percent depreciation/appreciation			
Of which against the US$	338.57	0.1	-338.57
Of which against the JPY	448.64	0.13	-448.64
Of which against the Euro	272.38	0.08	-272.38
Combined interest rate hike and depreciation	6,107.66	1.73	3,687.18
Foreign Exchange Rate Sensitivity (10.0 percent depreciation/appreciation)			
Of which against the US$	33,118.65	-	-33,118.65
Of which against the JPY	30,018.27	-	-30,018.27
Of which against the Euro	6,299.50	-	-6,299.50
	(in percent of GDP)		**(in percent of NG revenue)**
Interest Rate Sensitivity *(1.0 percent increase)*	0.05	1.43	0.25
Combined Shock *(1.0 percent increase plus 10.0 percent depreciation)*	0.06	1.73	0.3
Foreign Exchange Rate Sensitivity *(10.0 percent depreciation)*	0.7	-	-
Interest Rate Sensitivity *(1.0 percent increase with 10.0 appreciation)*	0.04	1.05	0.18

Source: DOF

a/Based on NG debt outstanding as of 2013; assumed roll-over rate/floating rates based on current market rates plus 1.0 percent shock

Furthermore, it is important to note certain peculiarities in the NG debt dynamics that alter the risk characteristics of the liability portfolio. On one hand, on-lending arrangements with selected GOCCs such as PSALM, though effective in lowering borrowing costs from a consolidated perspective, still elevate the exposure of the NG to market uncertainties. On the other hand, the BSF facility which increases the borrowing requirement of the NG to more than what is actually needed and thereby result in additional cost of carry, nonetheless provides assurance that funds are readily available to service maturing obligations even in the extreme case of market shutdown.

8. **The evolution of the NG debt over the past decade highlights impressive declines across various risk metrics and debt ratios.** Nonetheless, there is a necessity to monitor the risk inherent in the debt portfolio. An

overview of the analysis as given above illustrates fiscal sustainability, with debt risk indicators at record low levels. Despite these, the Republic should be prepared for different contingencies, by which adverse effects might manifest.

IV. CONTINGENT CENTRAL GOVERNMENT OBLIGATIONS

A. FINANCIAL SECTOR

Current Position of the Banking System

The term "Banking system" as used in this section, shall refer to universal and commercial banks, which generally account for 90.0 percent of the total assets of the Philippine Banking System.

1. **The Philippine financial system remained strong and healthy in 2013 due to sound macroeconomic fundamentals and improved investors' sentiment in the domestic market.** The banking system[5], which accounts for 80.0 percent of the total resources of the financial system, fared well as evidenced by steady asset growth, sustained profitability, ample liquidity and stronger capitalization on the back of sustained implementation of calibrated reforms. It is currently the only banking system out of the 65 Moody's-rated banking systems in the world that earned a positive outlook from the international credit watcher for the next 12 to 18 months[6].

2. **The banking industry registered steady growth in assets, loans, deposits and capital.** Total resources grew steadily by 25.1 percent to P8,997.1 billion as of 31 December 2013. Main sources of funds were deposit liabilities at 76.0 percent and capital at 11.1 percent. Total loan portfolio further expanded by 16.6 percent to P4,257.0 billion, mainly driven by 16.4 percent growth in core lending[7] at P3,787.6 billion given low interest rates.

3. **Banks' profitability registered a 19.4 percent growth to P132.5 billion as of end-December 2013 amid increased trading activities and falling interest-related expenses.** While net interest income continued to hold a sizeable share (59.4 percent) of total operating income of the banking industry, non-interest income representing 40.6 percent of the total operating income, went up by 11.9 percent. The increase in non-interest income primarily on account of the significant rise in trading income, fees and commissions

[5]Philippine banking system in this report refers to universal and commercial banks (U/KBs). UKBs generally account for 90% of the total assets of the Philippine banking system as of end-September 2013.

[6]Bangko Sentral ng Pilipinas, "AStatus Report on the Philippine Financial System",First Semester 2013, available online at http://www.bsp.gov.ph

[7]Core lending refers to total loan portfolio exclusive of interbank loans and reverse repurchase or RRP transactions with BSP and other banks.

income, however, may pose risks to the banking system if this trend continues in the long-run and its systemic importance increases as financial flows from trading activities can be very unpredictable and positive returns can reverse quickly should market conditions vary abruptly. The system also maintained adequate liquidity as liquid assets-to-deposits ratio further improved to 62.0 percent as of end-December 2013.

4. **A large portion of bank's lending was directed to financial intermediation (18.6 percent slightly down from 19.5 percent as of end-December 2012) and real estate, renting and business activities (16.6 percent up from 15.9 percent as of end-December 2012).** Thus, the risks of concentration to financial and real estate, renting and business activities are closely monitored especially from a financial stability standpoint given that the high concentration of bank lending to real estate, renting and business activities, rising property prices and banking crises are intertwined.

5. **Amid the growth in bank lending, however, asset quality of the banking system was maintained as gross non-performing loans (NPL)/non-performing asset (NPA) ratios of the banking system remained low at 2.1 percent of the total loan portfolio and gross assets, respectively as of end-December 2013.** NPL coverage ratio remained at above 100.0 percent since end-June 2011 (144.1 percent as of end-December 2013). This reflects that the banking system's credit risk remains well contained coupled by stringent credit underwriting.

6. **Capitalization ratios remained well above regulatory and international standards.** Universal and commercial banks (U/KBs), which account for 89.9 percent of total assets of the banking sector, registered capital adequacy ratios (CAR) of 17.5 percent and 18.6 percent on a solo and consolidated basis, respectively, as of end-September 2013, which are way above the 8.0 percent minimum prescribed under Basel III and 10.0 percent minimum prescribed by the BSP. Meanwhile, the U/KB industry's Tier 1 capital stood at 16.4 percent on solo basis and 16.5 percent on consolidated basis during the same period[8].

Risks from the Banking Sector

7. **Fiscal risk arising from the banking sector is deemed minimal as the Philippine Government's exposure to the Philippine banking system is limited.** As of 31 December 2013, the bulk of the Public Sector's

[8]Bangko Sentral ng Pilipinas, "U/KBs Remain Adequately Capitalized" published last 26 February 2014, available online at http://www.bsp.gov.ph

exposure to the banking system is in the form of deposit liabilities amounting to P782.8 billion, equivalent to 11.4 percent of the P6.8 trillion aggregate deposit liabilities of the banking sector. It is expected that the Government's exposure to the banking system shall be reduced upon the full operationalization of the Treasury Single Account by the Public Financial Management Committee.[9] To manage said exposures to the banking sector, banks are required to maintain a 50.0 percent liquidity floor[10] to serve as a liquidity buffer in order to service withdrawals and payments on deposits of, borrowings from and all other liabilities that the banks may owe the Government. Meanwhile, NG's capital contribution in banks as of 31 October 2013 is estimated at P25.3 billion.[11]

8. **The NG also extends FX risk cover on foreign currency denominated borrowings of government banking institutions from multilateral agencies.** As of 31 December 2013, the notional amount of the FX cover on such borrowings, which are intended for relending to specific sectors, is estimated atUS$1.8 billion (or P79.8 billion).

9. The banking system's deposits are insured through the Philippine Deposit Insurance Corporation (PDIC), a government-owned and -controlled corporation attached to the Department of Finance. Despite the closure of 18 banks in 2013, bringing to 456 the total of closed banks under receivership and liquidation of the PDIC as of 31 December 2013, the PDIC's deposit insurance fund (DIF) managed to grow to P90.2 billion, up by 5.2 percent from the previous year's P85.7 billion.[12]

10. Reported liabilities for unpaid but validated insured deposit claims in closed banks amounted to P1.3 billion[13], while the PDIC's contingent liabilities for estimated total insured deposits in active banks amounted to P1.79 trillion (23.6 percent of P7.6 trillion total domestic deposits of the banking industry), which covers 45.3 million accounts.

Risk Mitigation Measures

11. **The BSP is committed to sustain reforms aimed at strengthening the resilience of the banking system against shocks to safeguard the stability of the financial system.** Towards this end, it shall continue to enhance monitoring of developments in the financial markets to provide broad directions on the identification and assessment of key challenges as well as emerging risks and proactively put in

[9] Pursuant to Executive Order No. 55 dated 6 September 2013.
[10] The 50 percent liquidity floor requirement is currently subject to BSP review.
[11] 2012 audited financial statements of government banks
[12] PDIC, available online at http://www.pdic.gov.ph
[13] PDIC, available online at http://www.pdic.gov.ph

place measures to manage those risks by issuing prudential rules, and upholding standards that are in line with international norms. Said initiatives shall, likewise, be complemented by infrastructure building and capacity building for bank supervisors.

<u>Supervisory Reforms</u>

12. **Thus far, the track record of reforms which has been instituted by the BSP is key to upholding good corporate governance, raising higher quality capital standards (Basel III), promoting fair market conduct and consumer protection, and the institution of appropriate risk management systems commensurate to the size and complexities of the banking institution and/or group.** These reforms supplement BSP's ongoing initiatives to maintain and ensure financial stability through various programs including strengthening programs to foster banking consolidations as well as advocacies to promote broader financial inclusion and wider access to financial services.

13. **In order to strengthen the banking industry's capacity to withstand shocks and promote financial stability in the system, the BSP issued guidelines on the adoption by U/KBs including its bank and quasi-bank subsidiaries of higher quality Basel III capital adequacy standards effective 1 January 2014.** These guidelines ensure that instruments recognized as regulatory capital shall absorb losses before public funds are infused in troubled banks. In view of the risks associated with such instruments, banks are likewise required to comply with enhanced and more stringent disclosure requirements on the same to ensure consumer protection.

14. **To mitigate the build-up of systemic risks and protect against undue concentration in market usage, the BSP has also set for prudential purposes, macroprudential limits (i.e., 20.0 percent and 100.0 percent of unimpaired capital for domestic banks and foreign bank branches, respectively) on non-deliverable forward transactions (NDFs) involving the Philippine Peso.** In addition, banks' net open position for NDFs is subject to higher risk weight of 15.0 percent instead of 10.0 percent risk weight.

15. **To enhance monitoring of market developments and identify emerging market vulnerabilities, BSP has, likewise, adopted an expanded reporting framework for measuring the banking sector's real estate exposures.**

16. **The BSP also promotes and adopts greater transparency in its supervisory process as it discloses the various supervisory tools and frameworks that it uses to ensure consistency and uniformity in assessing banks.** This raises the accountability of banks in meeting the BSP's expectations on matters involving soundness of

operations, effective corporate governance and appropriate risk management, and at the same time, informs banks of enforcement actions available to the BSP in case of non-compliance.

17. **Mindful of the importance of supervisory capacity to the work of financial stability, the BSP has continuously invested in programs geared towards the development of skills and competencies of its staff.**

Capital Market Development

18. **The BSP collaborates with other financial regulators and recognized industry associations in instituting capital market-related reforms such as those pertaining to pricing conventions and financial market infrastructures to strengthen and further develop the domestic capital markets and prepare market participants for regional economic integration.** The reform initiatives, which are aimed at promoting fair market access and level playing field, expanding of available products and markets, fostering investor confidence and enhancing transparency, disclosures and good governance, are also being aligned with current reforms in the international capital markets.

Provision of Liquidity

19. **To avert a liquidity squeeze, the BSP stands ready to adopt a similar set of measures implemented during the height of the 2008 to 2009 global financial crisis such as liberalized access to the BSP's peso repurchase and rediscounting facilities, and an increase in the BSP's peso rediscounting budget.** The BSP can also provide US dollar liquidity through its US dollar repurchase facility and hedging facilities such as the currency rate risk protection program and by engaging in more foreign currency swap transactions to thwart a sharp drop in yields. If warranted, the BSP can also tap facilities available under multilateral and bilateral arrangements with regional counterparts to augment its foreign exchange reserves such as those under the Chiang Mai Initiative Multilateralization, ASEAN Swap arrangements and bilateral swap arrangement with Japan.

Ensuring Financial Stability

20. **A high-level policy making body within the BSP called the Financial Stability Committee has been established to coordinate the different departments of the BSP for purposes of identifying systemic and emerging risks in the financial system, monitoring and analyzing market and other economic factors that may lead to the accumulation of systemic risks, recommending appropriate policies,**

and properly communicating these risks and policies. The BSP's recent financial stability initiatives include enhanced monitoring of bank's real estate exposures and macroprudential measures targeted towards non-deliverable forward transactions to discourage the use of instruments for speculative purposes.

21. **The BSP is also a member of the Financial Stability Coordination Council (FSCC), which was created in October 2011 by the Financial Sector Forum.** The FSCC serves as a voluntary and collaborative venue for the BSP, the Securities and Exchange Commission, PDIC, Insurance Commission and the DOF to discuss macroprudential and financial stability issues and take the necessary corrective actions or steps to address the build-up of system-wide risks.

22. **The BSP remains an active participant in regional and international cooperation programs to reap the benefits of collaborative engagement in view of the increasing interconnectedness of global financial markets.**

B. GOVERNMENT-OWNED AND/OR-CONTROLLED CORPORATIONS

23. **The DOF closely monitors the financial performance of the fourteen major non-financial government corporations (14 MNFGCs), three (3) government financial institutions (GFIs), and three (3) social security institutions (SSIs), and their impact on the fiscal position of the government and other key financial indicators.** Also, in line with DOF's mandate to generate financial resources and ensure sound and efficient management of such resources, the DOF requires financial discipline and better resource management among the government-owned and/or -controlled corporations (GOCCs).

Table 10. Philippines: Consolidated Public Sector Financial Position, 2011 -2013
(as percent of GDP, unless otherwise specified)

Particulars	2011	2012	2013
Consolidated public sector financial position	-1.8	-1.5	0.4
Non-financial public sector financial position	-1.9	-1.6	0.3
Financing position of 14 major MNFGCs	-0.2	0	0.5
in billion pesos	-19.84	-4.95	61.61
Financing position of GFIs	0.1	0.1	0.1
in billion pesos	10.78	9.89	15.49
Financing position of SSIs	0.5	0.7	0.6
in billion pesos	47.97	72.73	64.88

Source: DOF

24. **In 2013, the consolidated financial position of the 14 MNFGCs turned around with a financial surplus of P61.5 billion from the previous year's deficit level of P5.0 billion.** This was primarily due to the prepayment of concession fees amounting to P57.89 billion which the PSALM/National Transmission Corporation (TRANSCO) received from National Grid Corporation of the Philippines, when the latter exercised its option to prepay under Concession Agreement. Other GOCCs that also contributed to the financing surplus were Philippine National Oil Corporation (PNOC), Metropolitan Waterworks and Sewerage System (MWSS), and Philippine Ports Authority (PPA). The combined surpluses of these GOCCS offset the deficit position of National Irrigation Administration (NIA), National Electrification Administration (NEA), and National Food Authority (NFA).

25. **SSIs and GFIs continued to post positive cash flows, mainly due to earnings derived from their diversified portfolio investments.** SSIs and GFIs together posted an average cash surplus of P73.0 billion for the years 2011 to 2013 and these offset the MNFGCs deficits in 2011 and 2012.

Box 2. Activities Undertaken and Progress Achieved in Pursuit of Governance Commission for GOCCs (GCG) Mandates

The GOCC Governance Act of 2011 (R.A. No. 10149) is the cornerstone in the government's resolute march to initiate and institutionalize a paradigm shift in the governance of GOCCs. In the second year of its operations, the GCG accomplished the following in pursuit of its mandate:

1. Began the abolition of ten (10) GOCCs that were either non-performing or no longer relevant to existing national development plans, and recommended to the Office of the President the abolition/privatization of another twenty-one (21) GOCCs.
2. Submitted the Compensation and Position Classification System to the President, which will help GOCCs attract and motivate the right talent towards improving revenue collection and managing the fiscal risks posed by the operations of each GOCC.
3. In coordination with DOF, improvement in the payments of dividends by GOCCs reached around P28.0 billion for 2013, compared to the average of P10.8 billion from 2007 to 2010. The number of GOCCs declaring dividends has also steadily increased with 36 GOCCs declaring dividends in 2013, compared to 28 in 2012.
4. Institutionalized the Performance Evaluation System in the GOCC Sector wherein each GOCC aims to strengthen its financial position (e.g., increasing net income and/or mitigation of losses/risks) and improve service delivery, which in turn is reinforced by the Performance-Based Bonus/Incentive System.
5. Completed developing 60.0 percent of the Integrated Corporate Reporting System (ICRS), which is an online platform that will serve as the central repository of all data and reports related to GOCCs. The ICRS is projected to be fully operational and accessible to the public during the second quarter of 2014.

Moving Forward in Pursuit of GCG Mandates

Cognizant of the role of GOCCs as significant tools for economic development, the GCG intends to fulfil the following:

1. Continue the abolition/privatization of non-performing GOCCs and/or those that are no longer relevant to current national development plans.
2. Strengthen certain sectors by merging GOCCs whose mandates and/or operations unnecessarily overlap, as well as resolving the conflicts for GOCCs that perform both regulatory and proprietary functions.
3. Adopt the ASEAN Corporate Governance Scorecard for the GOCC Sector as an additional indicator/performance measure, subject to modifications to suit local conditions.

Source: GCG

26. **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: to maintain their financial viability, achieve funds perpetuity and be able to promote the welfare of their members. SSIs comprise two (2) government pension institutions and one (1) government health insurance corporation. These are the Government Service Insurance System (GSIS) covering social security and benefits of government employees, Social Security

System covering employees of the private sector and the Philippine Health Insurance Corporation providing health care benefits through a more comprehensive National Health Insurance Program, aimed to cover if not all, the majority of the population. In 2013, the surplus of SSIs slightly went down from the 2012 level. The overall 2012 surplus benefited from revenues earned by GSIS in the disposition of a portion of its major investments.

27. **GFIs perform their unique functions aligned with the economic roadmap of the government.** GFIs surplus for 2013 amounted to P15.5 billion, a 56.0 percent increase from their 2012 cash position of P9.9 billion due to higher revenues/gains realized attributed by the increase in the volume of transactions in loan releases, sale of bonds/securities and other equity investments. GFIs include the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), and the Trade and Investment Development Corporation of the Philippines (TIDCORP, formerly Philippine Export and Foreign Loan Guarantee Corporation). The GFIs' major revenue drivers are their managed loans and investment portfolio. They provide financing/credit facilities which can be accessed readily by the priority sectors of the government at concessional terms.

28. **Total liabilities of the government corporate sector in 2012 amounted to P3.2 trillion based on the 2012 Commission on Audited (COA) audited reports.** The liabilities of the 14 MNFGCs accounted for 46.7 percent of the total liabilities or equivalent to 14.3 percent of GDP.

Table 11. Philippines: Liabilities of the Government Corporate Sector and 14 MNFGCs, 2012
(in billion pesos ,unless otherwise specified)

Particulars	Total Liabilities	Percent of GDP
TOTAL GOCCs[a/]	3,233.82	30.61
Share of 14 MNFGCs (%)	46.65	
TOTAL 14 MNFGCs	1,508.66	14.28
NPC/PSALM/TransCo[b/]	1,071.90	10.15
NPC	59.29	0.56
PSALM	847.15	8.02
TransCo	165.46	1.57
NFA	162.79	1.54
LRTA	87.32	0.83
NIA	45.42	0.43
HGC	24.5	0.23
PNR	25.76	0.24
MWSS	18.25	0.17
PPA	13.37	0.13
NEA	18.72	0.18
LWUA	9.09	0.09
NHA	11.96	0.11
NDC	8.41	0.08
PNOC and Subsidiaries	9.91	0.09
PEZA	1.24	0.01

Source: 2012 COA Audited Reports, comprising 123 GOCCs.

29. **A majority of the GOCCs' liabilities are guaranteed by the NG made possible through the respective charter of the GOCCs or RA 4860, as amended (Foreign Borrowing Act).** GOCCs are often directed to implement projects which are geared toward achieving sustainable economic growth. The costs of these social programs are often times not recoverable and therefore should be funded ideally out of the NG's budget allocations, but are instead funded through borrowings of GOCCs.

[a/] Excluding the Bangko Sentral ng Pilipinas
[b/] NPC, PSALM and Transco are counted as one

Table 12. Philippines: Outstanding Government Guaranteed Debt to GOCCs, 2012

	Amount in Billion Pesos	Percent of GDP
MNFGCs		
PSALM	300.26	2.6
NFA	137.56	1.2
HGC	15.75	0.1
LRTA	8.17	0.1
MWSS	11.98	0.1
PPA	7.55	0.1
NIA	0.00	0
LWUA	3.91	0
NDC	3.50	0
PNR	1.89	0
NPC	0.85	0
NHA	0.76	0
PEZA	0.16	0
NEA	0.08	0
GFIs/SSIs		
DBP	70.01	0.6
LBP	26.05	0.2
TIDCORP	1.35	0
SBGFC	1.70	0
Others		
NHMFC	29.49	0.3
BCDA	26.48	0.2
SBMA	7.37	0.1
MIAA	4.64	0
NLRC (NORTHRAIL)	3.31	0
TIEZA (formerly PTA)	0.40	0
PDA	0.31	0
TOTAL	**663.53**	5.7

Source: DOF

30. **The NG has a net lending program for GOCCs which extends advances for the debt servicing of the guaranteed GOCCs' obligations to avoid defaulting on these guaranteed commitments.** This is often the case where a GOCC's cash flows are insufficient to service its amortizations due or maturing obligations, either because it is operating at a loss or is only marginally profitable because tariffs or charges being collected do not allow full cost recovery.

Table 13. Philippines: Outstanding NG Advances to GOCCs, 2011 - 2013
(in billion pesos)

Particulars	2011	2012	2013
Of the 14 MNFGCs			
NIA[2/]	43.67	48.06	51.56
LRTA	22.99	26.43	29.12
PNR	21.07	21.89	22.38
NEA	19.92	20.03	20.07
NPC/PSALM[3/]	13.60	27.02	17.39
NFA	12.15	16.47	19.34
NDC	3.82	4.08	4.20
HGC	0	0	12.01
Other GOCCs	**17.48**	**20.09**	**25.35**
TOTAL	**154.70**	**184.07**	**201.42**[1/]

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

[1]/ includes P39.55B interest on NG advances

[2]/ Represents Casecnan-related accounts

[3]/ Includes Casecnan-related accounts

Box 3. Structural Reforms

Various institutional and structural reforms (which in some cases come parallel with fiscal measures) were identified to abate the further ballooning of levels of NG advances to GOCCs.

a. Separation of regulatory and proprietary functions. The DOF has advised the GCG to work on this option particularly for the case of NFA.

b. Fiscal transparency. Budgetary support needs to be provided to fund quasi-fiscal activities of GOCCs which are not cost recoverable, instead of funding them thru borrowings by GOCCs that require NG guarantee.

c. Conversion of GOCC into a regular agency or transfer of its functions to a regular agency or to another government entity.

d. Cost recovery. Adoption of tariff that will allow recovery of investment even partially. This is currently being pursued by LRTA.

e. Public-Private Partnership (PPP). PPP initiatives in GOCCs capital investments or operation and maintenance promote more cost efficient project implementation and operation. This is currently being pursued by LRTA and MCIAA.

f. Disposition of GOCC assets. This will generate additional resources for the GOCC.

g. Conversion of NG advances into subsidy or equity. This will prevent further deterioration of the GOCCs bottom line figure due to compounding of financial charges on its borrowings, including interest on NG advances.

While there might have been some progress in improving financial operations of the GOCCs, NG advances for servicing of GOCCs obligations will be a regular fiscal remedy for as long as GOCCs are mandated to borrow to finance projects which are social in nature pursuant to their respective mandate or due to lack of fiscal space. NG advances will remain for as long as GOCCs are not allowed to charge the correct tariff to recover investments which were funded by loans or contractual arrangements with the private

Policy reforms are necessary to minimize the need for NG advances. For example, it is important to pursue the decoupling of the mandate of NFA so that functions which require subsidies should be more the responsibility of government agencies and NFA can concentrate on functions which it can more effectively perform without impairing its financial viability. In the case of PSALM, the universal charge for stranded contract costs (UC-SCC) was finally approved in February 2013. The approval of UC-SCC will translate to a significant reduction in PSALM's borrowing requirement and will improve PSALM's cash position. The universal levy for stranded debt, on the other hand, has yet to be approved.

31. For 2013, GOCCs registered a net negative cash flow amounting **to P56.0 billion after considering NG advances and other forms of budgetary support.** The NG generated revenues amounting to P38.8 billion (0.3 percent of GDP) from the corporate sector in the form of dividends, interest income, fees, and revenue shares. Steps have also been undertaken for the proper accounting of dividends due from the earnings of GOCCs as well as pursuing the collection of dividend arrears by closely monitoring the financial performance of GOCCs, including their subsidiaries.

Table 14. Philippines: Net Budgetary Flows to GOCCs, 2011-2013

(as percent of GDP, unless otherwise specified)

Particulars	2011	2012	2013
I. NG Flows from GOCCs	**0.5**	**0.4**	**0.3**
(in billion pesos)	**45.4**	**37.9**	**38.8**
Dividend	0.3	0.2	0.2
Interest on NG Advances	0	0	0
Guarantee Fees Collected	0	0	0
Forex Risk Cover Fee	0	0	0
NG Share on Net Income	0.1	0.1	0.1
Airport Terminal Fee	0	0	0
II. NG Flows to GOCCs	**0.9**	**0.9**	**0.8**
(in billion pesos)	**84.65**	**90.91**	**94.43**
Subsidy[a/]	0.6	0.4	0.6
Equity	0.1	0.2	0.1
Net Lending	0.2	0.3	0.1
NET NG FLOWS (I-II)	-0.4	-0.5	-0.5
In billion pesos	-39	-53	-56

Source: BTr

[a/] excludes tax subsidy – its effect is neutral since it is considered as both revenue and expenditure of the government

C. PUBLIC PRIVATE PARTNERSHIPS

32. **The Government has successfully bid out two more PPP projects in 2013, these are the P15.52 billion 2nd Phase of the NAIA Expressway project and the P3.86 billion PPP School Infrastructure Project Phase Two.** Moreover, 2013 ended with another four projects in the bidding stage:

a. P5.69 billion Modernization of the Philippine Orthopedic Center

b. P1.72 billion Automatic Fare Collection System

c. P17.52 billion Mactan-Cebu International Airport Passenger Terminal Building

d. P35.42 billion CALA Expressway

33. **The increased number of projects entails greater risk to the fiscal position of the national government.** The government has numerous deliverables under each project and failure to uphold them will lead to monetary compensation to the private concessionaire. This is why initiatives have been undertaken to help the government cope with the increased risk.

Box 4. P20.0 billion Contingent Liability Fund

It is a well-known provision in the constitution that "No money shall be paid out of the Treasury except in pursuance of an appropriation made by law." The monetary compensation, indicated in PPP concession agreements, which are contingent on the failure of government to perform its obligation are not included in the annual GAA because doing so will consume valuable fiscal space and displace government investments on other infrastructure projects. However, this policy decision to save fiscal space reduces the government's capacity to honor its contingent obligation under our PPP contracts. To put it simply, the issue is not lack of resources to pay for the contingent obligations rather it is lack of authority to do so.

To address this problem, the Government has included in the GAA a P20.0 billion appropriation under the Unprogrammed Fund which would give the executive branch the authority to pay any valid contingent liabilities. Unprogrammed Fund items do not count against the programmed deficit targets at the start of the year and will only have an effect once actual payments are made.

The Implementing Rules Regulations for this fund is currently being drafted by BTr, DOF and DBM.

D. LOCAL GOVERNMENT UNITS

34. **Low revenue generation and overreliance on Internal Revenue Allotments (IRA) remain a lingering concern for LGUs.** Revenue gains of most LGUs do not appear comfortable as fiscal operations remain heavily dependent on the national transfers specifically the IRA. Current revenue trends continue to indicate that the IRA remains to be a major revenue source and majority of LGUs still heavily depend on it. Records show that IRA dependency in 2012 is 60.0 percent overall, which also demonstrates lopsided proportion between the national government assistance and locally generated revenue sources. A number of factors contribute to this situation, but the inefficiency of collections is the more evident reason.

The Revenue Generation Program remains a priority of the Bureau of Local Government Finance (BLGF). Through this program, the BLGF continues to monitor the LGUs' fiscal performance and accordingly provides technical assistance to LGUs in implementing tax collection enforcement programs and strategies aimed at improving their performances in generating locally sourced income.

35. **In general, tax collections from land-based revenue sources are far below potential.** To highlight a particular example, the Real Property Tax (RPT) collection only represents around 65.0 percent of the assessed value of real property. This translates to 1.27 percent RPT in contrast to the 2.0 percent RPT related to the current market values of real properties. This implies that the RPT paid by taxpayers is only P0.7 for every P100.00 of the market value. Furthermore, certain provisions of R.A. 7160 eroded the property tax base (e.g., residential buildings below P175,000 are exempt). Such situation can be attributed to the following:

- Failure to identify completely and consistently the property tax base
- Absence of land inventory
- Absence of system to regularly update roster of land inventory/ property tax base
- Failure to reflect in assessments the current fair market values or properties
- Low collection efficiency
- Failure to mobilize and manage land resources effectively
- Lack of political will to enact appropriate enabling ordinances
- Lack of effective land mobilization and management coordination at all levels

At present, these issues are being addressed through the implementation of valuation reforms initiated under the LAMP2 project, such as the adoption of the Philippine Valuation Standards (PVS), professionalization of the valuation sector, conduct of Continuing Professional Education and continuing capability building on assessment and appraisal.

36. **The level of LGU borrowing remains small but growing relatively fast.** Preliminary figures, as of September 2013, indicate that total LGU borrowings from financial institutions reached P70.6 billion covering 4,492 LGUs (with repeated borrowings), and expanded to include some barangays, from 2002 to 2013. There was relative increase in the number of LGUs with intentions to borrow, however, aggregate levels of LGU borrowing such as acquisition of loans registered a 22.0 percent annual decrease over 2011-2012, from the 22.0 percent average increase over the period 2002 to 2010. The sharp reduction in LGU debt flows maybe related to recent policy changes that have made regulations on LGU borrowings more restrictive. LGU borrowings constitute a small fraction of the total outstanding loans and investment resources of the country at a rate of 2.2 percent of the P3.222 trillion outstanding loans of the banking system. The level of borrowings remains at a level that can be considered as having little potential to generate untoward

effects on monetary aggregates, the price level, and the balance of payments.

37. **Decline of local revenues due to natural disasters.** In the case of the LGUs affected by natural disasters, these can have important implications on their finances, as disasters are likely to result in additional expenditure and/or the partial reallocation of already committed financial resources, with implications for planned investment and other expenditures. Local revenues will also decline as levels of economic activity fall. In consequence, the LGU may face increasing budgetary pressures which could in turn increase levels of domestic and/or external borrowings or in case affected LGUs have existing loans they may not be able to repay it as scheduled.

The fiscal risks imposed by natural disasters such as the earthquake in Bohol and typhoon Yolanda in Leyte are quite critical as the need to rehabilitate is paramount. Local government resources appropriated annually for emergency relief and rehabilitation activities may not be sufficient to meet much of the costs on rehabilitation and reconstruction.

Risk Mitigation Measures

38. **Monitoring of compliance with memorandum circulars to facilitate LGU exercise of their fiscal autonomy.** The BLGF continues to monitor compliance of LGUs with Joint Memorandum Circulars (JMC) No. 2010-01 for the regular revision of the SMVs and property assessments and classification and JMC No. 2010-02 which reinforces the imposition of "additional ad valorem tax on idle lands" to promote productive and responsive land ownership. These initiatives will not only mitigate potential risks but also empower LGUs in managing their resources and strengthen their fiscal position making them less dependent on the IRA.

39. **The BLGF continues to provide technical assistance to the LGUs in the updating of their Revenue Code.** Technical assistance is also available through trainings and workshops covering reform areas in improving collection of real property, business taxes and other receipts.

40. **A course book on Revenue Generation and Resource Mobilization and Updating the Local Revenue Code is currently being drafted under the ongoing European Union Project.** The course book is aimed to assist LGUs in developing new strategies and exploring innovative ways in enhancing their financial capabilities. BLGF likewise, continues to mainstream and rollout reforms initiated

under the LAMP2 Component 4 such as the PVS Mass Appraisal Guidebook, Valuation Database Information Systems, Electronic Field Appraisal and Assessment System and relevant local tax studies as well as continued advocacy for tax reforms, and professionalization of practitioners in the valuation sector.

41. **Providing direct incentives for LGUs to improve own-revenue mobilization.** A possible incentive to mobilize own revenues is a performance grant that rewards LGUs where actual real property tax collections represent a high proportion of their potential collection level. It shall target the real property tax and conditional on the proportion of real property tax revenue capacity that is actually collected. It shall neither be based on the amount of total or per capita tax collected, nor shall be based on the annual increase in tax collection.

42. **Short-term borrowing should be subject to additional limitations.** Maintain the rule that borrowing is only allowed for investment, except in the case of loans for any purpose or short-term loans which must be paid within the same budget year in which it is incurred, otherwise they become a form of deficit financing.

43. **Stabilizing local finance through short-term credit financing options to typhoon Yolanda victims.** The Local Government has provided the LGUs with the full authority to incur debts, which is subject to debt service cap limitation of 20.0 percent of recurring annual revenue under Section 324b of said Code. LGUs cannot go over the limit set by the Code even in times of emergency such as calamities. Given this limitation, one of the immediate measures that the BLGF can implement is reducing the documentary requirements in issuing the Certificates of Maximum Borrowing and Debt Service Capacities.

    Contingent credit is the most appropriate solution of the LGUs for the immediate need in raising funds. Some short-term financing proposals by the BLGF to immediately tap credit facilities available to them, as follows:

    a. Longer financing term of about 10 to 15 years coupled with the concessional interest rate from 3.0 percent to 5.0 percent depending on the income class may fully extend the debt servicing limitation.

    b. Outright income transfers to the LGUs from the NG can also be considered. This could be in the form of a conditional transfer along the line of Conditional Cash Transfer/CCT-type transfer. LGUs can mobilize local labor and expertise to work on the rehabilitation and recovery activities and receive a conditional transfer from the NG.

c. In case the NG assistance to LGU or National Assistance to Local Government Units (NALGU) programs still exists, this fund can be tapped and help augment the debt servicing limitations of the LGUs.

d. Use credit guarantees which is provided by the DOF to attract the GFI and/or private bank lending.

e. Use a combination of blended loans (GFIs + private banks) guaranteed by LGUGC. With future take out of the private loan component by the Municipal Development Fund Office (MDFO).

f. Given the liquidity in commercial credit markets, GFI loans and private bank loans can be blended which will result to a relatively low cost loan package. This particular scheme can be recommended for higher income LGUs receiving relatively big IRA transfers.

g. Bond floatation by the NG or GFIs on which the proceeds can be lent to the LGUs at concessional rates.

44. **Enabling more effective monitoring of local debts by the BLGF.**

a. Strict implementation of the BLGF Debt Certification and Creditworthiness Rating System in terms of the implementation of the 20.0 percent net borrowing capacity as well as the submission of requirements, to minimize the risks of having bad LGU Loans.

b. Implementation of the LGU Loans Debt Monitoring Systems which was developed to ensure manageable and prudential limits on local indebtedness and provide a better measure of the impact of proposed borrowings on the finances of LGUs. The system will require all relevant information on existing and new local indebtedness as a condition for issuance of debt service capacity. GFIs may be given direct access to the system.

c. Publication of a national registry of local government debt that is freely accessible on the DOF web page. This will enable the public to know how much their respective LGUs borrow and to check whether the proceeds are utilized for intended developmental projects.

d. Developing a Loans Scoring System is helpful to financial institution. The credit or loan scoring system can be used as a decision system support in managing LGUs' loans. The loan scoring system likewise benefit the banks by supporting the evaluation and examination of the loan applied. Through the credit or loan score, the lending institution or the bank can decide whether it is worth giving loan to the LGU applicant. The Loans Scoring System is seen as a comprehensive approach to more efficient LGU debt management and reducing the potential risks stemming out from multiple loans. The BLGF strongly supports the development of the system to complement the existing LGU Debt Monitoring and LGU Creditworthiness System in conjunction with the LGU Debt Service Certification System which determines the maximum amount an LGU can allocate for debt service.

E. NATURAL DISASTERS

45. **The Philippines is situated on the Pacific Ring of Fire and in the pathway of tropical cyclones, the country is very prone to natural disasters such as typhoons, earthquakes, tsunami and volcanic eruptions that could significantly damage and disrupt economic activity and even negate the gains or push back development.** For instance, in 2013, the typhoons, earthquakes and other natural disasters that afflicted the country resulted in P47.0 billion worth of damage to infrastructure and agriculture. This is estimated to have reduced the country's real GDP growth by 0.7 percentage point (ppt) of which 0.6 ppt was inflicted by super typhoon Yolanda. Moreover, the adverse effects of calamities in agriculture production and supply distribution channels could hike up food prices.

Table 15. Impact of Disasters on the Economy

Incident	Region Affected	Direct Loss (PhPMn)	Indirect Loss (PhPMn)	Total Loss (PhPMn)	Total Direct Losses (% of GDP)	Total Indirect Losses (% of GDP)	Total Losses (% of GDP)	Impact to GDP (ppt)
ALL TYPHOONS		**90,511.82**	**39,387..27**	**129,899.09**	**0.804**	**0.35**	**1.154**	**-0.73**
Landslide in Com Val	11	-	58.05	58.05	-	0.001	0.001	-
TS Auring	4B, 9	0.49	-	0.49	0	-	0	-
LPA in SE Mindanao	NCR, 6, 13	-	73.12	73.12	-	0.001	0.001	-
Typhoon Labuyo	CAR, 1, 2, 3, 5	1,759.87	5,012.43	6,722.30	0.016	0.045	0.06	-0.025
Typhoon Maring	NCR, CAR, 1, 3, 4A, 4B	673.09	7,475.27	8,148.36	0.006	0.006	0.072	-0.035
Zamboanga Siege	9	2,164.15	5,069.49	7,233.64	0.019	0.045	0.064	-0.041
Central Philippines Earthquake	7	3,522.89	2,584.69	6,107.58	0.031	0.023	0.054	-0.032
Typhoon Santi	1, 2, 3	4,418.56	1,722.07	6,140.63	0.039	0.015	0.054	-0.037
Typhoon Vinta	CAR, 1, 2	834.68	743.42	1,578.11	0.007	0.007	0.055	-0.008
Typhoon Yolanda	4A, 4B, 5, 6, 7, 8, 10, 11, 13	77,138.09	16,648.72	93,786.81	0.686	0.148	0.834	-0.552

Source: National Disaster Risk Reduction and Management Council (NDRRMC) Situation Report; NEDA Regional Development Staff (RDS) estimate

46. **In November 8, 2013, typhoon Yolanda caused great destruction in the central part of the Philippines affecting nine out of the 17 administrative regions of the country.** As a precursor to the recovery and reconstruction efforts, the Reconstruction Assistance on Yolanda (RAY) was prepared. The RAY is the government's initial strategic plan in reconstructing the economy. In its preliminary assessment of damages, losses and needs, the RAY has come up with the following statistics:

Table 16. Damage, Loss and Needs by Sector (RAY)
(in million pesos)

Sector	Damage	Loss	Needs
Infrastructure	20,309	13,674	28,326
Economic	71,304	106,804	89,480
Social	328,647	26,071	220,389
Cross-Sectoral	4,000	300	22,700
Total	**424,260**	**146,849**	**360,895**

Source: *Reconstruction Assistance on Yolanda*

47. In compliance with the provisions of the Philippine Disaster Risk Reduction and Management Act, the Office of Civil Defense (OCD) has prepared a Post-Disaster Needs Assessment (PDNA) for Typhoon Yolanda. The PDNA for typhoon Yolanda covered four regions and made use of a multi-sectoral and multi-disciplinary approach for assessing disaster impacts and prioritizing recovery and reconstruction needs. The PDNA presented the following results:

Table 17. Damage, Loss and Needs by Sector (PDNA)
(in million pesos)

Sector	Damage	Loss	Needs
Infrastructure	9,585	2,614	28,201
Productive	21,834	29,531	24,431
Social	55,111	6,220	42,982
Cross-Sectoral	3,069	4,395	9,031
Total	**89,598**	**42,760**	**104,645**

Source: *NDRRMC Presentation on the Post-Disaster Needs Assessment* for Typhoon Yolanda

48. The difference in the figures presented by the RAY and the PDNA for typhoon Yolanda can be explained by the variations in the methodologies employed by the two reports. Moreover, based on an analysis done by the NEDA, the PDNA estimates present only a part of the overall financing needs that require government funding and are mostly in relation to physical reconstruction costs. On the other hand, the RAY provides a comprehensive estimate of the total economic damages, loss and needs of the impact of typhoon Yolanda[14].

The Budget Buffer for Disasters

National Disaster Risk Reduction and Management Fund (NDRRMF) and Quick Response Fund (QRF)

49. In accordance with RA 10121 or the "Philippine Disaster Risk Reduction and Management Act of 2010", the Calamity Fund shall now be known as the NDRRMF. The fund will cover not only relief, recovery and reconstruction and other work services in connection with natural and human-induced calamities but also disaster risk reduction or mitigation, prevention and preparedness activities. For 2014, P13.0 billion has been appropriated for the NDRRMF, which represents an increase of 73.3 percent from the P7.5 billion appropriated in 2013. In addition to the P13.0 billion appropriated, some P3.0 billion has been included under the unprogrammed fund which can augment the NDRRMF once revenues outside the program are realized.

    Likewise, the QRF, which is lodged in specific agency budgets, has also been increased from P3.7 billion to P4.8 billion. In addition to this, the Department of Health and the DOTC, two departments that were not previously included in the roster of QRF recipient departments/agencies, were incorporated and provided funds to quickly rehabilitate services and infrastructure outlays that are necessary in n ormalizing the living conditions in areas affected by calamities/disasters.

[14]Based on NEDA's Memorandum for the President with the subject PDNA and RAY Figures and RAY II

Box 5. Man-Made Disasters: Oil Spills

The costs of environmental clean-ups specifically for oil spills vary depending on various factors, such as volume of the spill, location, and size of the area affected and the timeframe of the containment. In 2006, one of the worst environmental crises the country has ever experienced happened when about two million liters of oil were spilt in the strait of Guimaras. This crisis necessitated the formulation and promulgation of the National Oil Spill Contingency Plan (NOSCP). The NOSCP spells out the decision making processes needed during response efforts as well as the delineation of the roles and responsibilities of the different parties involved. In addition to the promulgation of the NOSCP, the Oil Pollution Compensation Act of 2007 was also enacted. This Act serves as the instrument of the State in protecting its territory and its people from oil pollution damage by putting in place the necessary sanctions and penalties for polluters.

In August 2013 alone, the country already experienced two oil spill incidents. The first was a result of a leakage in a pipeline of Petron Corporation in Rosario Cavite, which affected 32 barangays in Rosario, Tanza and Naic. Shortly after that, there was another incident in Cebu due to the collision of MV Saint Thomas Aquinas 1 and MV Sulpicio Express 7. This incident affected 26 barangays in Cordova, Lapu-Lapu City and Talisay City. In both cases, the private companies shouldered bulk of the clean-up costs, while the government through the Philippine Coast Guard did an assessment of the situation and extended support outside the capacity of the spiller.

Aside from the clean-up operations during oil spills, the government also conducts relief operations to the communities affected by such crises. The assistance may come in the form of the distribution of relief packs containing food and non-food items or in the provision of temporary employment to compensate those individuals whose livelihood may be greatly affected by the oil spill. Such activities can be covered by the QRF and or the NDRRMF.

Disaster Risk Financing Strategy

50. The Department of Finance is leading the formulation of the Government's Disaster Risk Financing Strategy, with the support of a technical assistance from the Global Facility for Disaster Reduction and Recovery managed by the World Bank.

51. The strategy aims to outline reform areas and key actions that could be undertaken by the Philippine Government in the short-, medium-, and long-term horizon to mitigate the fiscal and economic effects of the recurrent impacts of natural disasters. The crafting of the strategy is guided by the policy pronouncement of providing financial safeguards against disasters, with a bias towards availing of appropriate risk financing instrument and mechanisms on the level of: (i) individual/household; (ii) local government; (iii) national; and (iv) international.

52. Upon conclusion of the stock-taking exercise of existing public assets and disaster-related initiatives, an exposure and vulnerability assessment as well as a country catastrophic risk profile has been generated. The models and resulting databases are set to be formally presented to the technical working group within the first semester of 2014. An institution in which to house these databases is being identified, taking into consideration its sustainable maintenance.

53. These models and databases serve to inform the on-going work of designing parametric indices that will enable the government to strategically tap the catastrophe insurance market for its financing needs in the aftermath of disasters. While work on this area is being finalized, the DOF is already identifying the most cost-efficient market instrument and mechanisms to suit disaster financing needs with support from the World Bank (for public sector) and the Asian Development Bank (for private sector).

Additional Appropriations for Relief, Rehabilitation and Reconstruction Activities

The additional appropriations for relief, rehabilitation and reconstruction activities will help free up expenditures that should have been shouldered by the NDRRMF and maintain the NDRRMF as a buffer for calamities/disasters that may happen in the future, instead of using it to address the impact of the previous year's shocks. These appropriations include the Rehabilitation and Reconstruction Program (RRP) of P20.0 billion and the 2013 Supplemental Budget of P14.6 billion.

Rehabilitation and Reconstruction Program

54. On top of the approved budget for specific government agencies, some P20.0 billion lump-sum appropriations has been built in the 2014 budget for the RRP. The RRP will fund the rehabilitation and reconstruction of areas affected by disasters and calamities in the past years, whether natural or man-made. The amounts appropriated for this program shall be released directly to the appropriate implementing departments/agencies and/or concerned local government units in accordance with the recommendation of the National Disaster Risk Reduction and Management Council and the approval of the President. Some of the projects that will be funded by this program include: repair and rehabilitation of irrigation systems, rehabilitation of electrification infrastructure, purchase of relocation sites, among others.

In addition to this, some P80.0 billion was also included under the unprogrammed fund, which can be tapped to augment the RRP once revenues outside the approved revenue program are realized.

2013 Supplemental Budget

55. To further build up the rehabilitation and reconstruction efforts in 2013, a supplemental budget has been enacted to augment the calamity fund (P11.2 billion) and the QRF of the DSWD (P3.4 billion). The additional appropriations were intended to fund the relief, rehabilitation services, and the repair and reconstruction of permanent structures, including disaster operations in the areas affected by calamities and disasters both natural and man-made. The fund shall be made available until the end of 2014.

Institutional Improvements for Climate-Related Policies and Expenditures

Climate Public Expenditure and Institutional Review (CPEIR)

56. The government, through the DBM and the Climate Change Commission, has partnered with the World Bank for the conduct of the CPEIR. The Review examined the factors that determine the ability of public institutions, policies, processes and financing to translate the climate agenda into desired results.[15] The analyses and recommendations of the Review will serve as important tools in identifying ways to improve the efficiency and effectiveness of implementation of climate initiatives. At the same time, it also provides suggestions on how to make the reforms more effective that would lead to the development of a more effective system for mobilizing and utilizing climate finance.

Zero-Based Budgeting (ZBB) Study on QRF

57. In 2013, the QRF was one of the programs that were evaluated under the ZBB studies. The study generally looked into the process of fund allocation, administration and implementation. The study will serve as a reference for the development of measures and or strategies that will optimize the utilization of the QRF.

[15] Getting a Grip…on Climate Change in the Philippines. World Bank. June 2013