FISCAL RISKS STATEMENT

2019

Development Budget Coordination Committee

List of Acronyms and Abbreviations

AFAB	Authority of the Freeport Area of Bataan
AHEPP	Angat Hydroelectric Power Plant
ARI	Annual Regular Income
ARD	Asset Registry Division
ARMM	Autonomous Region in Muslim Mindanao
BBL	Bangsamoro Basic Law
BCDA	Bases Conversion Development Authority
BCLTE	Basic Competency on Local Treasury Examination
BESF	Budget of Expenditures and Sources of Financing
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BMCRRP	Bangon Marawi Comprehensive Rehabilitation and Recovery Program
BOC	Bureau of Customs
BOT	Build-Operate-Transfer
BPO	Business Process Outsourcing
BRB	Budget Reform Bill
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CAAP	Civil Aviation Authority to the Philippines
CAR	Capital Adequacy Ratio
CDO	Cagayan De Oro
CLs	Contingent Liabilities
CO	Capital Outlays
COA	Commission on Audit
CPCS	Compensation Position Classification System
CPSFP	Consolidated Public Sector Financial Position
CSC	Civil Service Commission
D-SIB	Domestic Systematically Important Bank
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DepEd	Department of Education
DILG	Department of the Interior and Local Government
DND	Department of National Defense
DOF	Department of Finance
DOH	Department of Health
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DRGMMA	Disaster-Resilient Greater Metro Manila Area
DSWD	Department of Social Welfare and Development
eSRE	Electronic Statement of Receipts and Expenditures
FTI	Food Terminal Incorporated
FX	Foreign Exchange
FY	Fiscal Year
GAA	General Appropriations Act
GCG	Governance Commission for GOCCs
GDP	Gross Domestic Product

GFI	Government Financial Institutions
GIR	Gross International Reserves
GOCC	Government-Owned and Controlled Corporation
GRDP	Gross Regional Domestic Product
GSIS	Government Service Insurance System
HBN	House Bill Number
HGC	Home Guaranty Corporation
IAC-GPI	Inter-Agency Committee on Government Property Insurance
IFP	Infrastructure Flagship Project
IMF	International Monetary Fund
IP	Interest Payments
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
ISF	Irrigation Service Fee
ISO	International Organization for Standardization
IT	Information Technology
JVA	Joint Venture Agreement
LBP	Land Bank of the Philippines
LGC	Local Government Code
LGU	Local Government Unit
LIBOR	London Inter-Bank Offered Rate
LIFT	LGU Integrated Financial Tools System
LRTA	Light Rail Transit Authority
LRV	Light Rail Vehicle
LTFRB	Land Transportation Franchising and Regulatory Board
LTOM	Local Treasury Operations Manual
LWUA	Local Water Utilities Administration
MCIA	Mactan–Cebu International Airport
MIAA	Manila International Airport Authority
MNFGC	Major Non-Financial Government Corporations
MOOE	Maintenance and Other Operating Expenditures
MUP	Military and Uniformed Personnel
MVUC	Motor Vehicle User's Charge
MWSS	Metropolitan Waterworks and Sewerage System
NDC	National Development Company
NDRRM	National Disaster Risk Reduction and Management
NEA	National Electrification Administration
NEDA	National Economic and Development Authority
NFA	National Food Authority
NG	National Government
NGA	National Government Agency
NGAC	National Government Administrative Center
NHA	National Housing Authority
NHMFC	National Home Mortgage Finance Corporation
NIA	National Irrigation Administration
NPA	Non-Performing Asset
NPC	National Power Corporation
NPL	Non-Performing Loan
OCD	Office of the Civil Defense
ODA	Official Development Assistance

OF	Overseas Filipino
OPEC	Organization of the Petroleum Exporting Countries
OSEC	Office of the Secretary
PAGCOR	Philippine Amusement and Gaming Corporation
PCSO	Philippine Charity Sweepstakes Office
PEZA	Philippine Economic Zone Authority
PFM	Public Financial Management
PFRS	Philippine Financial Reporting Standards
PhilHealth	Philippine Health Insurance Corporation
PIDS	Philippine Institute for Development Studies
PNOC	Philippine National Oil Company
PNR	Philippine National Railways
PPA	Philippine Ports Authority
PPP	Public-Private Partnership
PPP Center	Public-Private Partnership Center
PSA	Philippine Statistics Authority
PSALM	Power Sector Assets and Liabilities Management Corporation
PVS	Philippine Valuation Standards
QR	Quantitative Restrictions
QRF	Quick Response Fund
RA	Republic Act
RATE	Run After Tax Evaders
RMP	Risk Management Program
RPT	Real Property Tax
RRP	Reverse Repurchase
SBGFC	Small Business Guarantee and Finance Corporation
SBMA	Subic Bay Metropolitan Authority
SBN	Senate Bill Number
SEAL	Standardized Examination and Assessment for Local Treasury Service
SMV	Schedule of Market Values
SSIs	Social Security Institutions
SSL	Salary Standardization Law
SSS	Social Security System
T-Bill	Treasury bill
TIDCORP	Trade and Investment Development Corporation of the Philippines
TIEZA	Tourism Infrastructure and Enterprise Zone Authority
TRAIN	Tax Reform for Acceleration and Inclusion
Transco	National Transmission Corporation
U/KB	Universal and Commercial Bank
UCT	Unconditional Cash Transfer
VAT	Value Added Tax
VRA	Valuation Reform Act
WAIR	Weighted Average Interest Rate
YoY	Year-on-Year
YTD	Year-to-Date
ZFA	Zamboanga Freeport Authority

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I. EXECUTIVE SUMMARY

A. The Philippines economy remains robust as one of the fastest growing emerging economies driven by broad-based growth characterized by strong public spending on the demand side and a resurgent industry and services sector on the supply side.

B. Strong macrofundamentals have remained supportive of growth targets despite a shift in the external and domestic policy environment. Policy adjustments from foreign central banks have contributed to a rise in domestic interest rates while global crude oil prices and internal reforms have contributed to an uptick in inflation. These have also fed into peso weakness over the period adding to the effects of a deficit in the overall balance of payments.

C. Growth is seen to come from accommodative fiscal policies as part of the Government's comprehensive tax reform agenda as well as strong public spending and investment in infrastructure under the flagship 'Build, Build, Build' program. However, there is a need to quickly implement compensating measures for those adversely affected by rising prices alongside policies that promote price stability and competitiveness.

D. Overseas, monetary policy normalization, as well as trade protectionism and geopolitical concerns pose risks even as a forecasted rebound in global growth bodes well for trade and growth.

E. Fiscal outturns have improved owing to stronger revenue collection and better budget execution borne from reforms put in place. Nevertheless, risks emanate from the higher programmed as well as proposed spending for infrastructure and social welfare projects, proposed shifts in the government structure, and the approval of the tax reform program of the government.

F. Public debt (National Government) has remained broadly sustainable despite the higher borrowing requirement. Alongside gains in risk metrics, the decreasing debt ratio (debt-to-GDP) highlights the continued sustainability of outstanding obligation given strong growth. Furthermore, the prudent and proactive management of debt has moderated the sensitivity of the debt portfolio to adverse swings in foreign exchange and interest rates.

G. The Bangko Sentral ng Pilipinas has implemented commensurate policy adjustments to stem the build-up of inflationary pressures even as the outlook remains elevated in the near-term before reverting within the target range in 2019.

H. The banking system remains fundamentally sound as characterized by improved asset quality, strong liquidity position and prudent capitalization and increased profitability. Overall NG exposure to the system has been kept minimal.

MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

1. **The Philippine's economic growth accelerated to 6.8 percent in the first quarter of 2018 from 6.5 percent in the same quarter of 2017**. This is the tenth consecutive quarter that the economy was able to achieve an output expansion of at least 6.5 percent. This is in line with market expectations of 6.8 percent (median forecast) and close to the low-end of the government's gross domestic product (GDP) growth target of 7.0 to 8.0 percent for 2018. The country remains as one of the best performing economies in the region in the first quarter, following Vietnam (7.4%), at par with China (6.8%), and ahead of Indonesia (5.1%).

   For 2017, GDP growth of 6.7 percent hit the government's forecast range of 6.5 to 7.5 percent for the period. The country ranked as third fastest growing emerging Asian economy in 2017 after China (6.9%) and Vietnam (6.8%).

Table 1. Philippines: Macroeconomic Performance for 2015-2017 and National Government (NG) Budget Assumptions for 2018 [a/]
(in percentage point, unless otherwise specified)

Particulars	2015		2016		2017		2018	
	BESF	Actual	BESF	Actual	BESF	Actual	BESF	YTD
Real GDP growth	7.0-8.0	6.1	7.0-8.0	6.9	6.5-7.5	6.7	7.0-8.0	6.8 (Jan-Mar)
Inflation	2.0-4.0	1.4*	2.0-4.0	1.8*	2.0-4.0	3.2*	2.0-4.0	4.1 (Jan-Apr) [b/]
364-day T-bill rate [c/]	2.0-4.0	2.1	2.0-4.0	1.8	2.5-4.0	2.9	2.5-4.0	3.2 (Jan-8 May)
6-month LIBOR	1.0-2.0	0.5	1.0-2.0	1.1	1.0-2.0	1.5	1.5-2.5	2.2 (Jan-9 May)
Exchange rate *(P/$1)*	42.00-45.00	45.5	43.00-46.00	47.49	45.00-48.00	50.4	48.00-51.00	51.66 (Jan-11 May)
Dubai crude oil price *($/barrel)*	90.00-110.00	50.92	55.00-75.00	41.27	40.00-55.00	53.17	45.00-60.00	66.33 (Jan-9 May)
Goods exports growth [d/]	8	-13.3	6	-1.1	6	12.8	7	n.a.
Goods imports growth [d/]	10	-1	12	17.7	10	14.2	10	n.a.

Sources: National Economic Development Authority (NEDA), Philippine Statistical Authority (PSA), Bureau of the Treasury (BTr), and Bangko Sentral ng Pilipinas (BSP)
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 the Congress for the preparation of the General Appropriations Act (GAA)
b/ 2012-based inflation
c/ Based on weighted average of primary market rates
d/ Based on the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) concept
** 2006-based inflation*

2. **On the expenditure side, growth was supported by improved domestic demand (8.3% from 7.2% in Q4 2017 and 6.8% in Q1 2017).** Both public construction (25.1%) and government consumption (13.6%) improved, boosting public spending. Investment grew by 12.5 percent, prompted by

higher inventories and expansion in both public and private construction. However, investment in durable equipment slowed to 8.4 percent, reflecting a drop in business confidence. Private consumption also eased to 5.6 percent (from 6.2% in Q4 2017 and 5.9% in Q1 2017) on the back of rising inflation and interest rates, as well as weaker consumer confidence despite improving labor market conditions.

Services exports grew faster at 17.9 percent (14.5% in Q4 2017 and 5.7% in Q1 2017). However, growth in exports of goods eased to 2.9 percent as external demand weakened significantly. Imports of goods and services likewise slowed to single digit-growth of 9.3 percent and 9.6 percent, respectively. Net exports thus worsened during the quarter.

3. **On the supply side, growth was driven by both the industry sector and the services sector.** Industry growth rose to 7.9 percent (7.0% in Q4 2017 and 6.5% in Q1 2017) together with the manufacturing sector (8.0%). The rebound in construction (9.3%) as well as improvements in electricity, gas and water (6.0%) also contributed positively to growth. Meanwhile, mining and quarrying activities eased somewhat during the quarter (4.5% from 5.4%, though up from -17.8% contraction in Q1 2017), although its contribution to overall economic performance was minimal.

   Services sector growth (7.0% from 6.9% in Q4 2017 and 6.7% in Q1 2017) was broadly steady. Growth in trade and repair (6.1%) and real estate and business activities (4.7%) both slowed down in the first quarter, although these did not outweigh the gains by the financial intermediation sub-sector (7.6%), transport, communication and storage (6.4%), public administration (13.2%), and other services (8.8%) sub-sectors.

   The agriculture sector growth weakened to 1.5 percent (2.4% in Q4 2017 and 5.6% in Q1 2017). The fishing sub-sector continued to contract for the fourth consecutive quarter by 3.7 percent. The deceleration in agriculture moderated overall growth during the period.

4. **For the entire 2017, growth was supported by improvements in external demand, partially off-setting the slowdown in domestic economic activities.** Positive developments in advanced economies such as the United States and the European Union, and big emerging economies like China and India, along with the recovery of trade in major Asian economies propped up growth in 2017. Total exports in the national income accounts accelerated to 19.5 percent in 2017, from 11.6 percent in 2016, buoyed by 20.9 percent increase in merchandise exports from 10.7 in the previous year. Services exports on the other hand remained robust with 14.5 percent growth, albeit slower than the 15.3 percent recorded a year ago. Slight deceleration in the growth of imports (18.1% from 20.2%) was also observed in 2017, which tempered the decline in net exports (-9%) relative to the significant drop in the previous year (-130%).

   As election-related spending in 2016 tapered off, domestic demand growth moderated to 6.9 percent in 2017 (from 11.4% a year ago). Specifically, household consumption eased to 5.9 percent from 7.1 percent in 2016, in part owing to higher inflation in 2017. Moreover, slower growth in government spending (7.0% in 2017 from 9.0% in 2016) and capital formation (9.4% from 24.5%), particularly in construction (5.9% from 13.1%) and durable equipment (10.7% from 37.7%), tempered domestic demand in 2017.

On the supply side, the rebound in the agriculture sector (4.0% from 1.2%) was a welcome development as the crops sector grew by 6.5 percent from the 3.2 percent decline in 2016 led by palay, corn, and sugarcane. The recovery in crops (except for mango and coffee), livestock, and poultry production mainly influenced the positive growth in the agriculture sector in 2017. On the other hand, industry growth eased to 7.2 percent (from 8.0% in 2016), following the recorded deceleration in construction (5.3% from 12.1%), and utilities (3.4% from 9.0%). These offset the improvements in manufacturing growth (8.4% from 7.1%) and mining and quarrying (3.7% from 3.2%). Services also grew at a slower pace of 6.8 percent from 7.5 percent a year ago. In particular, trade and repair of household goods (7.3% from 7.6%), real estate and business activities (7.4% from 8.9%), transport and communication (4.0% from 5.3%), financial intermediation (7.6% from 7.9%) and other services (6.4% from 7.5%) exhibited softer growth. On a positive note, growth in services was buoyed by public administration, defense, and social security (7.8% from 7.1%).

5. **Average inflation for 2017 increased but remained within the government target.** The 2006-based headline inflation accelerated to 3.2 percent in 2017 from the 2016 full-year average of 1.8 percent. The higher inflation during the year was due to the uptick in the prices of selected food items as well as increases in domestic oil prices and electricity rates.

   Headline inflation, based on both 2006 and 2012 CPI series accelerated further over the period January-April 2018, attributed largely to higher prices of food and non-alcoholic beverages, tobacco, electricity, and domestic petroleum products.

6. **Uncertainty over monetary policy in the US and other advanced economies as well as geopolitical concerns overseas contributed to higher domestic interest rates in 2017 relative to the previous year.** The 364-day Treasury bill (T-Bill) rate averaged 2.9 percent in 2017 in the primary market, within the 2.5 – 4.0 percent BESF assumption for the year and higher than the 1.8-percent average in 2016. Meanwhile, the average one-year T-Bill rate increased to 3.2 percent in the first eleven auctions offered by the BTr in 2018.

7. **Policy rate hikes by the US Federal Reserve contributed to the increase in the 180-day London Inter-Bank Offered Rate (LIBOR).** The average 180-day LIBOR rose to 1.5 percent in 2017 from the 1.1 percent average in 2016, but still within the BESF assumption of 1.0-2.0 percent for 2017. Meanwhile, the average 6-month LIBOR rose further to 2.2 percent in the first four months of 2018.

8. **The peso depreciated against the US dollar in 2017 largely driven by prospects of monetary policy tightening in advanced economies.** The peso-dollar exchange rate averaged PhP50.40/$1 in 2017, a more depreciated level than the PhP45.00 – 48.00/$1 BESF assumption for the year and the 2016 average of PhP47.49/$1. At the same time, the peso continued to depreciate from January to 11 May 2018 with an average of PhP51.66/$1, slightly above the PhP48.00 – 51.00/$1 BESF assumption for the year, given market concerns over the widening Philippine trade gap as well as the planned US Federal Reserve rate hikes for the year.

9. **Average Dubai crude oil prices increased markedly to $53.17 per barrel in 2017 from $41.27 per barrel in the previous year and was within the BESF assumption of $40-$55 per barrel for the year.** Crude oil prices rallied for most of 2017 due largely to the production cap imposed by the Organization of Petroleum Exporting Countries (OPEC) and select non-OPEC producers (i.e., Russia). Supply disruptions caused by geopolitical tensions (Iraq and Kurdistan Region) and civil unrest (Libya, Venezuela) in OPEC-member countries as well as refinery shutdowns relating to weather disturbances (Hurricane Harvey in the United States) also contributed to the uptrend in global oil prices.

   The Dubai crude oil prices continued to increase in 2018 to average $66.33 per barrel from 2 January to 9 May 2018 and above the BESF assumption of $45-$60 per barrel. The uptick in the Dubai crude oil prices is mainly due to the production cut agreement by both OPEC and selected non-OPEC[1] oil producers as well as the withdrawal of the United States from the Joint Comprehensive Plan of Action or the Iran nuclear deal.

10. **Full year 2017 trade-in-goods data show strong performance with both exports and imports growing at double-digit rates.** Exports of goods rose to $48.2 billion, or by 12.8 percent from $42.7 billion in 2016, reversing the slight contraction of 1.1 percent in the previous year and higher than the projected growth rate of 6.0 percent in the 2017 BESF. The expansion in goods exports was due largely to higher shipments of manufactured goods and mineral products, which registered double-digit growth rates of 10.3 percent and 72.4 percent, respectively. Exports of manufactures totaled $36.8 billion during the year, boosted by higher shipments of non-consigned electronics, and machinery and transport equipment. Meanwhile, exports of mineral products amounted to $4.1 billion, on account of higher demand for copper metal and gold as a result of increased export volume and world market prices.

11. **Meanwhile, imports of goods reached $89.4 billion in 2017, growing by 14.2 percent from $78.3 billion a year ago, surpassing the 10.0 percent growth projection for the year.** The upturn was accounted for mainly by higher imports of raw materials and intermediate goods (16.7 percent), and mineral fuels and lubricants (32.9 percent). Increase in imports of raw materials and intermediate goods emanated largely from imports of semi-

[1] Based on data from the International Energy Agency, OPEC and non-OPEC compliance has reached 163 percent and 90 percent, respectively, in March 2018. https://www.iea.org/oilmarketreport/omrpublic/

processed raw materials, particularly manufactured goods (14.4 percent), notably iron and steel, as well as materials and accessories for the manufacture of non-consigned electronic products (22.4 percent). The growth in imports of mineral fuel and lubricants was due to higher consumption of petroleum crude, and mineral fuels and lubricants. Imports of consumer goods also increased (8.4 percent), spurred by higher purchases of durables, particularly passenger cars and motorized cycles, and miscellaneous manufactures.

Macroeconomic Outlook and Risks

12. **Domestic demand is expected to increase in view of the recently-approved tax reform package.** This is anticipated to increase take-home pay of taxpayers and boost household consumption. Price pressures from these reforms are likewise transitory and will eventually taper off. Households also stand to benefit from employment opportunities resulting from the Build, Build, Build program of the government, as well as other initiatives including unconditional cash transfers (UCT) which can augment consumption.

13. Government expenditures will likely sustain growth due largely to (i) compensation adjustment for government employees; (ii) pension arrears; (iii) increased staffing (creating and filling up existing positions) in government agencies; and (iv) social mitigating measures such as unconditional cash transfers to alleviate the adverse impact of taxes on domestic inflation.

In line with the government's strategy to expedite infrastructure development, public construction will continue to drive growth in investments over the medium term, along with the liberalization on foreign participation in contracts for construction and repair of locally-funded public works and services. Additionally, 35 of the 75 flagship infrastructure projects amounting to around PhP1.2 trillion have already been approved by the NEDA Board as of writing.

14. Global sentiment remains largely optimistic, which bodes well for trade. The International Monetary Fund (IMF) forecasts global growth at 3.9 percent in 2018, faster compared with the 3.8 percent growth in the previous year, on account of a stronger US economy and accelerated growth in Japan and the Euro Area. Nonetheless, authorities should remain vigilant of potential risks, including rising political tensions overseas and their consequences to trade policies.

15. In order to meet the target growth rate of 7.0-8.0 percent for 2018, the government should undertake steps in order to improve both investor and consumer confidence, particularly amid growing concerns over price pressures from the recent tax reform. In the interim, safeguards such as the UCT and the Pantawid Pasada Program should be promptly put in place to ease the burden on lower income households.

Priority should be given to programs that will facilitate the efficient delivery of public services, such as the National ID system. This also includes the lifting of Quantitative Restrictions (QR) on rice, which can help stabilize rice supply, reduce prices, and consequently increase household purchasing power. This should be in tandem with the restructuring of the National Food Authority (NFA), including the removal of its import monopoly and trading functions to shift its focus on buffer stocking for emergencies.

In the agricultural sector, the government should strengthen land use regulations in order to achieve a more efficient and more sustainable utilization of land. This should come in conjunction with other productivity-enhancing measures to promote easier access to credit and enhance the link between agricultural producers and the market. This can improve productivity of farmers as well as address the poverty in the rural parts of the country.

Similarly, the government should continue pushing for initiatives that help reduce the cost of doing business and relax restrictions on foreign investment in order to enhance competitiveness and improve domestic business climate.

16. **The latest BSP assessment of price and output conditions on the global and domestic fronts suggests that risks to the inflation outlook remain weighted toward the upside.** Possible adjustments in transport fares, utility rates and wages present upside risks to inflation. Meanwhile, the slower global economic growth due to protectionist policies in advanced economies and geopolitical tensions along with the proposed reform in the rice industry involving the replacement of QR with tariffs and the deregulation of rice imports are the main downside risks to future inflation. Going forward, the BSP will continue to monitor closely evolving price conditions over the policy horizon against any signs of incipient price pressures, and stands ready to take appropriate measures as necessary to ensure that the monetary policy stance continues to support the BSP's price stability objective.

17. **The timing and pace of policy normalization in the US could influence trends in the peso-dollar exchange rate.** Tighter monetary conditions due to faster-than-expected interest rate hikes by the US Federal Reserve could trigger further portfolio rebalancing, resulting in tighter global financial market conditions as well as exchange rate pressures in emerging markets, including the Philippines. Subsequent interest rate hikes by the US Federal Reserve could likewise contribute to higher domestic and foreign interest rates in 2018 and 2019.

18. **The threat of protectionism and rising trade tensions pose a potential downside risk for Philippine exports.** The trade outlook remains firm given cyclical recovery in global trade resulting in a synchronized investment-led demand rebound across all major economies. However, there is growing concern over rising protectionist policies and possible retaliatory measures among major players in international trade. The increasing uncertainty makes it difficult to engage in preferential or multilateral trade agreements to expand the country's access to global markets.

It remains to be seen how these risks would materialize and how the country would be affected in terms of its exposure to the sectors and products that will be hit by the imposition of higher tariffs and non-tariff barriers. For instance, an initial estimate shows that the impact of US metal tariffs should be limited as the country’s total exports of steel and aluminum products comprised only about 1 percent of the country’s total exports in 2017. Meanwhile, some analysts indicate that apart from China being directly hit, Asian economies face increasing downside risks to trade and growth outlook given the increased integration of trade within Asia and importance of the U.S. market for the region.

An impact study by Oxford Economics indicated that compared to other ASEAN countries, the Philippines’ exposure to products that enter into the China supply chain system (which could be affected by US imposition of tariffs) is relatively low. It also cited that ASEAN countries, such as the Philippines, can rely on internal stabilizers like rising intra-regional trade and strengthening domestic demand to rebalance their economies from the trade-led growth model.[2]

[2] Louis Juijs and Priyanka Kishore, “Trade Friction is Heating Up,” Oxford Economics, March 2018

FISCAL PERFORMANCE

A. REVENUE PERFORMANCE

19. **For 2017, the NG incurred a fiscal deficit of PhP350.6 billion, 0.8 percent lower than the deficit in 2016**. As percent of GDP, the deficit in 2017 reached 2.2 percent.

20. **Total revenue collection grew by 12.6 percent.** This is higher than the year-on-year (YoY) collection growth of 4.2 percent in 2016.

21. **Tax effort increased to 14.2 percent, a 0.5 percentage point increment over the 2016 tax effort of 13.7 percent.** January to December tax revenues reached PhP2,250.7 billion, PhP270.3 billion higher than the 2016 full year tax collection of PhP1,980.4 billion registering growth of 13.6 percent.

22. **Bureau of Internal Revenue (BIR) collections, net of tax refund, amounted to PhP1,772.3 billion registering a higher growth of 13.1 percent compared to the 9.3 percent growth in 2016.** BIR tax effort of 11.2 percent, improved by 0.3 percentage points from 2016. Stronger tax administration and implementation of various reforms contributed to higher collection performance and attaining 99.4 percent of the BIR's projected revenue collection in 2017.

23. **Revenue from the Bureau of Customs (BOC) attained 99.7 percent of its revised target for 2017**. Total collection reached PhP458.2 billion, 15.6 percent higher than its collection in 2016 due to strong enforcement and revenue enhancement measures implemented by the BOC. Higher collections from crude and petro products were attributed to the increase in oil price. Duties collection also grew by 12.0 percent due to improved valuation and proper tariff classification. Moreover, the higher collection of excise tax registered at 31.1 percent from higher imports and motor vehicle collection. For 2017, volume of importation expanded by 8.0 percent YoY.

24. **Non-tax collections reached PhP221.6 or PhP6.8 billion higher than 2016.** The BTr income declined by 1.8 percent from last year mainly due to lower income from Bond Sinking Fund / Securities Stabilization Fund investments and NG deposits as the BTr continues to rationalize the level of the BSF. Despite this, the full year income of the BTr outgrew its target by 70.5 percent which is attributable to higher collection of NG share of the income of the Philippine Amusement and Gaming Corporation (PAGCOR) and dividends on NG shares of stocks.

25. **Total privatization proceeds amounted to PhP830.0 million.** Collections came from sale and other modes of disposition of government assets.

Outlook for 2018 - 2022

26. **The 2018 revenue target is expected to achieve a growth rate of 15.1 after accounting the impact of the Tax Reform for Acceleration and Inclusion (TRAIN).** Also, the continued implementation of existing reforms and higher tax administration efficiency by the collection agencies will contribute on higher revenues.

    The proposed budget targets a deficit of 3.0 percent of GDP from 2018 to 2022. However, if the proposed Package 1B will not be passed, the budget deficit is estimated to hit 3.2 percent of GDP from 2018 to 2019 and 3.2 percent by 2022.

Table 2. Philippines: Medium Term Revenue Program, 2018-2022

In Billion PHP	2016 Actual	2017 Actual	2018	2019	2020	2021	2022
Total Revenues	**2,195.90**	**2,473.13**	**2,846.28**	**3,208.21**	**3,676.38**	**4,101.32**	**4,588.00**
% of GDP	*15.16%*	*15.65%*	*16.19%*	*16.47%*	*17.07%*	*17.31%*	*17.63%*
Tax Revenues	**1,980.39**	**2,250.68**	**2,677.43**	**3,017.93**	**3,487.13**	**3,911.58**	**4,397.83**
% of GDP	*13.68%*	*14.24%*	*15.23%*	*15.50%*	*16.20%*	*16.51%*	*16.89%*
BIR	1,567.21	1,772.32	2,060.16	2,330.69	2,696.33	3,040.01	3,434.61
BOC	396.37	458.18	594.88	662.17	749.17	827.30	916.08
Other Offices	16.81	20.17	22.39	25.07	41.63	44.28	47.14
Non-Tax Revenues	**214.87**	**221.62**	**166.85**	**188.28**	**187.25**	**187.73**	**188.17**
Privatization	**0.66**	**0.83**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**

***Note: BIR and BOC Fiscal Year (FY) 2016 & 2017 collections are net of tax refund. Figures for FY 2019 are consistent with the BESF.*

27. **The signing into law of the Package 1A of the TRAIN is an important milestone.** This marks the first time a tax reform happened without a crisis and without imposition from an external source. This is also the first time the main purpose of such a reform is poverty and inequality reduction instead of deficit and debt reduction. It is the first of five packages that will correct structural problems in the tax system that has made it unequitable, complex, and inefficient. **The tax reform will also raise the revenues needed to bring real positive change to each Filipino's life, thereby fulfilling the President's campaign promise.** It corrects a longstanding inequity of the tax system by reducing income taxes for 99 percent of income taxpayers, thereby giving much needed relief after 20 years of non-adjustment.

    The TRAIN Law raises significant revenues to fund the President's priority social and infrastructure programs to reduce poverty from 21.6 to 14 percent by 2022. Around 70 percent of the incremental revenues will be spent on infrastructure and the Build, Build, Build program, while the balance will go to social services.

    In Package 1A, Congress passed two-thirds of the needed revenue (Package 1A) for 2018 and it is expected to pass the balance (Package 1B and 1C) in 2018 to help achieve revenue and fiscal targets for 2018.

For the first quarter of 2018, collections from BIR and BOC grew by 14.2 percent or PhP52.68 billion and 24.6 percent or PhP25.67 billion, respectively, when compared with the same period last year which can be attributed partly to the implementation of the TRAIN Law.

The remaining one third is the proposed Package 1B and 1C, which includes the Tax Amnesty and Motor Vehicle User's Charge (MVUC), respectively.

Table 3. Philippines: TRAIN Package 1B and 1C Updates

Package	House of Representatives (HoR)	Senate
1. Package 1B: Tax amnesty	• Department of Finance (DOF) submitted its position paper last 26 February 2018. • Committee on Ways and Means is preparing the technical working group (TWG) revision of the bill.	• DOF submitted its position paper last 26 February 2018. • On-going consultations with Committee on Ways and Means on the wording of the bill. • Target approval by Congress: 1 June 2018
2. Package 1C: MVUC	• HoR TWG is drafting the substitute bill.	• Senate President Pimentel is studying the bill.

Tax Administration and Reforms

28. **Rigorous tax administration and reforms continue to boost revenues**. Higher tax administration efficiency contributed significantly in raising the tax efforts of the revenue collection agencies. Thus, the persistent implementation of tax administration and governance reforms will result in sustained growth in revenue collection, enhanced transparency, and elimination of tax evasion and smuggling.

29. **The BIR stays committed to continue implementing administrative measures and initiatives to achieve its target.** The BIR's robust revenue performance were attributed to the following initiatives:
    a. Continued pursuit of tax fraud cases through its Run After Tax Evaders or RATE program. A total of 112 cases were filed at the Department of Justice with estimated tax liabilities of PhP40.95 billion.
    b. The strengthened Oplan Kandado Program wherein non-compliant business establishments were temporarily closed. A total of 141 business establishments were closed with collections amounting to PhP296.95 million.
    c. Other initiatives like the deployment of Accounts Receivable Management System to additional regional sites; the institutionalization of the Value Added Tax (VAT) Audit Group in the regional offices to maximize the effectiveness of the VAT Audit Program; and the full implementation of the Electronic Certificate Authorizing Registration System, among others.

30. **BOC intensified its tax enforcement and anti-smuggling activities.** As of end-2017, the BOC's Action Team Against the Smugglers filed 12 cases at the Department of Justice against importers, consignees and brokers of confiscated shipments amounting to PhP6.52 billion. Also, more than PhP43.53 billion worth of smuggled goods from big-ticket commodities and PhP6.63 billion amount of illegal drugs were confiscated.

Table 4. Philippines: Updates on Tax Reform Packages

<table>
<tr><th>Package</th><th>House of Representatives (HoR)</th><th>Senate</th></tr>
<tr><td>Rice tariffication reform</td><td>• The final bill is being drafted by the Committee on Agriculture and Food before elevation to Plenary.</td><td>• Committee hearings are being conducted by the Committee on Agriculture and Food.
• Target approval by Congress: 1 June 2018</td></tr>
<tr><td>Package 2:
Corporate income tax and fiscal incentives</td><td>• Congressman Dakila Cua filed the HoR version of Package 2 last 21 March 2018.
• The DOF is working to have the hearings begin during the first week of resumption.</td><td>• Senate President Pimentel is studying the bill.</td></tr>
<tr><td>Package 2 Plus:
1. VAT on domestic coal and gaming</td><td>• Incorporated in the repealing clause of the Package 2 proposal.</td><td>• Incorporated in the repealing clause of the Package 2 proposal.</td></tr>
<tr><td>2. Alcohol and tobacco excise tax</td><td>• Bill of Cong. Garin is pending in the Committee</td><td>• Bill of Senator Pacquiao is pending in the Committee.</td></tr>
<tr><td>3. Mining</td><td colspan="2">• The DOF is awaiting Mining Industry Coordinating Council (MICC) comments to incorporate in the bill.
• Target submission to Congress: 15 May 2018.</td></tr>
<tr><td>Package 3:
Property Taxation</td><td colspan="2">• Package 3, or the property taxation proposal, is being finalized.
• Target filing is 23 July 2018.</td></tr>
<tr><td>Package 4:
Capital income taxation</td><td colspan="2">• Package 4, or the capital income taxation, is already being finalized.
• Target filing 23 July 2018.</td></tr>
</table>

B. EXPENDITURE PERFORMANCE

31. **NG spending increased to PhP2.824 trillion for FY 2017, PhP274.4 billion or 10.8 percent higher than the previous year.** The level of spending was mainly driven by the expansions in three major expense classes, namely: (i) Personnel Services (PS), which posted at PhP808.4 billion, 11.8 percent higher than in 2016; (ii) Infrastructure and Other Capital Outlays (CO), which grew by 15.4 percent, still contributes its lion's share of PhP568.8 billion in actual spending; and (iii) Maintenance and Other Operating Expenditures (MOOE), which amounted to PhP465.4 billion, a 10.8 percent growth on account of program implementation by the Department of Health (DOH), Department of Education (DepEd), and the Department of Social Welfare and Development (DSWD).

32. **Underspending for FY 2017 was down to PhP85.2 billion, equivalent to 2.9 percent of the total program from PhP96.3 billion recorded in FY 2016.** The underspending for the period can be mainly attributed to (i) lower-than-programmed disbursements in personnel services from the miscellaneous personnel benefits fund and the pension and gratuity fund, and undisbursed PS expenditures of the Commission on Election; and (ii) interest payments (IPs) and net lending mainly on account of the repayment from the Power Sector Assets and Liabilities Management Corporation (PSALM). Gross underspending totalled PhP141.5 billion but was offset by higher-than-programmed disbursements in Infrastructure and Other CO and subsidies to Government-Owned and Controlled Corporations (GOCCs), as well as reduced underspending in MOOE. While this agrees with the administration's commitment to eradicate underspending in the NG, it is worthy to note that savings from IPs and repayments from GOCC lending advances amounted to PhP45.3 billion. Adding back savings from IPs and net lending, underspending could have been reduced further to just PhP39.9 billion, less than 2.0 percent of the full-year program.

Outlook for 2018 - 2019

33. **The disbursement program for 2018 is PhP3.37 trillion, which is 19.3 percent higher than the 2017 outturn of PhP2.82 trillion.** It is characterized by a marked increase in CO at PhP940.427 billion, a 35 percent increase from the 2017 disbursement program. NG infrastructure spending is programmed to remain the biggest contributor to CO at PhP699.3 billion, with 44.2 percent growth from the previous year's program.

34. **Likewise, the overall infrastructure program (which includes support to GOCCs and transfers to LGUs intended for infrastructure programs and projects) for 2018 continues to pick up pace, rising by 25.8 percent at PhP868.9 billion.** This brings it to about 5.0 percent of GDP, and is projected to reach around 6.1 percent of GDP by FY 2022.

35. **For FY 2019, the NG will be transitioning from obligation-based budgeting to cash-based budgeting[3], and will be trimming the validity of appropriations from two years to just one year.** These shifts aim to hasten budget execution, allowing more prompt payment of goods and services within the year while fostering fiscal discipline among agencies to ensure that goods and services are delivered before year-end. Table 5 contrasts the main features of obligation-based budgeting and the forthcoming cash-based budgeting:

Table 5. Philippines: Obligation-based Appropriations vs. Cash-based Appropriations

Particulars	Obligation-based	Cash-based
When can goods and services be delivered?	24 months and beyond (contracts awarded before the end of the FY can be delivered even after the FY)	12 months (contracts should be fully delivered by the end of the FY)
When can obligations be paid?	24 months and beyond (the inspection, verification, and payment can be done even after the FY)	15 months (payment can only be done within the prescribed period; contracts awarded at the end of the FY can be paid during the 3-month Extended Payment Period)

The shift keeps close the spirit of the appropriations law, in that the planned and legislated budget should be fully and comprehensively executed within the year. It is expected to accelerate program delivery as well as strengthen the focus and accountability of the government as linkages between program outputs and appropriated budgets become more cohesive.

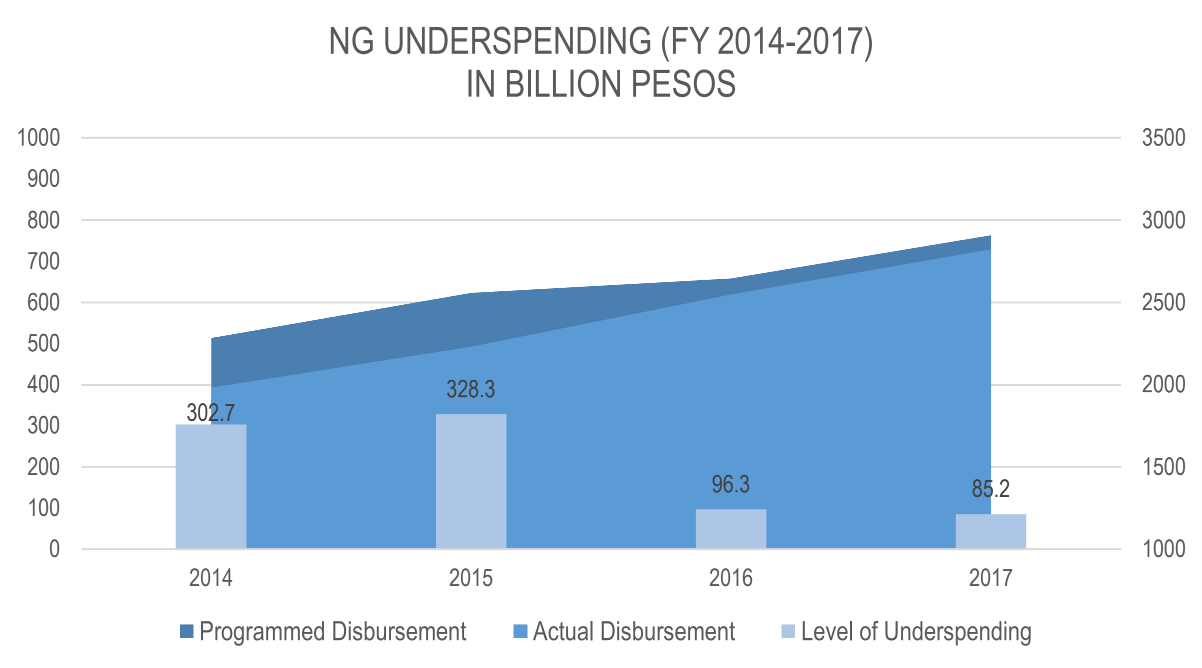
36. **Following these developments, a cash budget of PhP3.757 trillion is projected for FY 2019;** this is 13.0 percent higher than the FY 2018 cash budget of PhP3.324 trillion.

Sources of Fiscal Risks

37. **While underspending remains to be a source of fiscal risk, government spending performance for the past two years has improved so that it is no longer a major source of risk**. Many of the present reforms that will be institutionalized following the passage of the Budget Reform Bill is expected to improve the efficacy of budget execution and further temper underspending. Figures 1 and 2 below show the levels of underspending from FY 2014 to 2017 (in billion pesos), and the underspending rates from FY 2014 to 2017.

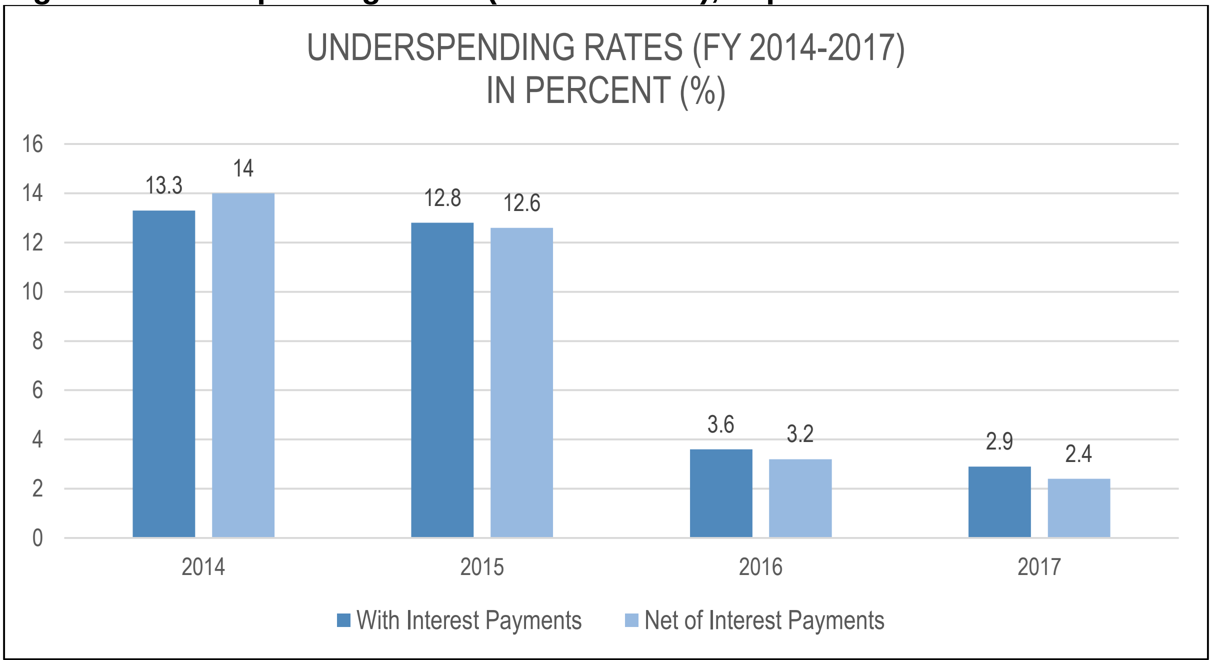
[3] Further reading: *Reforming the Philippine Budgeting System*: *towards economic growth and poverty reduction*. This can be accessed at https://www.dbm.gov.ph/wp-content/uploads/News/Primer-on-Reforming-the-Philippine-Budget.pdf

Figure 1. NG Underspending (FY 2014-2017), in billion pesos



Source: NG Disbursement Performance (2014-2017)

Figure 2. Underspending Rates (FY 2014-2017), in percent



Source: NG Disbursement Performance (2014-2017)

38. **Infrastructure Program and the Build, Build, Build Program.** Among the Duterte administration's key reforms is the acceleration of infrastructure and industry development, aiming to create jobs and foster robust growth for the Filipino nation. The Build, Build, Build Program targets around PhP8.0-9.0 trillion of public spending on infrastructure projects over the medium term. This implies three general issues:

a. With the much planned spending for infrastructure, other sectors (e.g. education, social services, among others) may not get as much funding, ceteris paribus. However, this may not be the case if it is as extensive studies suggest that the opportunity costs of the proposed infrastructure projects are close to zero. If that is the case, then this risk factor will be a non-issue.

b. Macroeconomic shocks, or volatility in macroeconomic parameters (e.g. exchange rate, foreign and local interest rates, etc.), could detrimentally affect the status of the country's availed infrastructure loans. It is worth noting that in FY 2018, the government has programmed PhP891.8 billion for infrastructure, thus the realization of a downside macroeconomic risk would substantially increase the cost of loans. If the cost of loans exceed the government's financing program, this may lead to a possible downgrade in the country's credit ratings and subsequently halt the administration's infrastructure program. The BSP, however, has expressly stated in the past few quarters that the Philippine economy has been continually backed up by strong macroeconomic fundamentals. Unless a global crisis happens, there is minimal risk of default, ceteris paribus.

c. Perhaps the biggest risk to the Build, Build, Build program will be delays in the implementation of the infrastructure projects, consequently delaying benefits and incurring unwanted costs. As of 25 April 2018, the NEDA Board, chaired by President Duterte, has approved thirty-five (35) out of the identified seventy-five (75) high-impact flagship infrastructure projects[4]. Fifty-three (53) of the identified infrastructure projects amount to approximately PhP1.6 trillion and are set to increase the country's economic productivity by improving the quality of public roads and ports, among others. Its completion will foster economic growth and ultimately, development; conversely, its delay will only prolong the current state of affairs. Delays in the necessary right-of-way acquisitions and the bidding process in general, as well as inefficiencies in both the agency and the available contractors' absorptive capacities, are among the major contributors to this risk.

   Early procurement and timely consultation of the revised Implementing Rules and Regulations (IRR) of the procurement law should minimize delays in project implementation. Likewise, supply-side interventions such as capacity-building programs will enable contractors to make better and more strategic implementation decisions.

39. SC Ruling on the IRA Share of LGUs. In January 2012, Batangas Governor Hermilando I. Mandanas filed a case in the Supreme Court questioning the exclusion of excise taxes and value-added taxes collected by the Bureau of Customs since 1992. They stressed that taxes and duties collected by the BOC are part of the internal revenue taxes as defined by the National Internal Revenue Code of 1997. Part of their supporting

[4] From http://www.neda.gov.ph/infrastructure-flagship-projects/ .

arguments was that the BOC was only a collecting agent deputized by the Bureau of Internal Revenue, and as such demanded that they should be included in the computation of the revenue base.

On July 3, 2018, the Supreme Court (SC) voted in favor of the petitioner and ordered a list of actions, chief of which included a modification of pertinent sections of the Local Government Code they had deemed as unconstitutional. The Court noted that the phrase "internal revenues" had effectively diminished the revenue base, leading to a reduction of the just share mandated to be received by the LGUs. Also identified in the Ruling[5] was an enumeration of the items that should be included in the computation of the revenue base, and a list of items where exclusions were valid. The SC declared the Ruling to have prospective application and commanded the automatic release of these shares without need for appropriation.

The government has expressed their intention to file a Motion for Reconsideration (MR), and has been consulting with the Office of the Solicitor General to discuss various legal remedies moving forward.

If the Court dismisses the MR and the Decision becomes final and executory, then the fiscal impact of the SC Ruling for FY 2019 will amount to some PhP195.68 billion. Unless the national government can rally more funds to pay for the incremental IRA either through taxes or borrowing, there will be programs and projects that will be displaced or scaled down as a result of the redistributive and reducing effect of the Ruling.

40. Pending Policies and Reforms[6]

a. **House Bill No. (HBN) 1137 – Unified Uniformed Personnel Retirement Benefits and Pension Reform Act of 2016.** The bill seeks to provide all Military and Uniformed Personnel (MUP) adequate remuneration and benefits by ensuring a secure, reliable, and sustainable retirement benefits and pension scheme. Currently, the existing retirement benefits and pension scheme of the MUP is non-contributory in nature and the budget for pension costs comes from the GAA. This led to the ballooning of pension costs for the MUP and such has the potential to displace fiscal space which can be allocated for delivering other public goods and services.

   In contrast with other pension acts for MUP, HBN 1137 is distinctive in its amendment of the section for the indexation of pensions based on the prevailing scale of base pay for similarly ranked personnel. It eases the burden of payment from government by instituting mandatory contributions equivalent to a portion of the uniformed personnel's monthly compensation, listed in Table 3 below. Furthermore, it also

[5] Further reading: *GR 199802*. This can be accessed at http://sc.judiciary.gov.ph/pdf/web/viewer.html?file=/jurisprudence/2018/july2018/199802.pdf

[6] All versions of mentioned bills can be retrieved from their respective government portals (http://www.senate.gov.ph and http://www.congress.gov.ph), unless otherwise stated.

deactivates the Armed Forces of the Philippines Retirement and Separation Benefits System and establishes a Uniformed Personnel Retirement Fund (UPRF), which shall be managed by the Government Service Insurance System (GSIS).

Table 6. Philippines: New Mandatory Contributions under HBN 1137

Period (in years after implementation)	Mandatory Contribution (in percent of monthly compensation)
1st to 3rd year	5.0
4th to 6th year	7.0
7th year onwards	9.0

While strengthening the military and defense sector is among the Duterte administration's promises, it is worth noting that the fiscal impact of ballooning pensions have wide-reaching effects to fiscal operations. Policy developments such as the passage of the salary increase of MUP on 1 January 2018 may also exacerbate the predicament and drive up pension costs in the next few years, that is, assuming the pension system remains the same. The passage of pension reforms may not necessarily lead to a reduction in costs, but it does prevent the excessive bloating of MUP pensions over the medium term.

b. **HBN 5784 – Universal Health Coverage Act.** This pending bill provides a universal healthcare program that can be availed by all Filipinos and provides more competitive compensation packages for public health professionals, personnel, and staff. The Philippine Health Insurance Corporation (PhilHealth) will provide all Filipino citizens with an insurance coverage under the National Health Insurance Program. While this in itself is a monumental step to increasing the living standards of Filipinos, the operating costs will prove to be the main hurdle that the government needs to address. As with HBN 1137, the displaced government spending may prove debilitating should matters exogenous (i.e., epidemics, natural and/or manmade calamities) to the act arise and bloat costs.

The funds shall be sourced from members' contributions, earmarked appropriations from health assistance funds (e.g. the Philippine Charity Sweepstakes Office or PCSO and PAGCOR), appropriations provided for under the Act, donations and grants-in-aid, and all accruals thereof. It should be worth noting that current programs and projects funded by earmarked revenues from PCSO and PAGCOR might be displaced due to this.

For FY 2018, the government subsidy on health insurance premiums is PhP57.6 billion, 8.5 percent higher than the subsidy for FY 2017. In addition to this amount, a special provision in the Miscellaneous Personnel Benefit Fund section of the GAA appropriates PhP883.2 million for the increase in government counterpart contributions and the cost of additional PhilHealth premium contributions for the expanded health benefits of personnel of national government agencies (NGAs) to include supplemental inpatient and outpatient care. A previous sum amounting to PhP251.7 million was also appropriated for the same in FY 2017. The passage of this bill should be expected to increase government expenditures as the program coverage broadens and public health institutions gear up on medical equipment and employ additional doctors and personnel.

The bill was approved by the House of Representatives on 6 September 2017 and was received by the Senate a day after. Three similar versions of the bill are currently being deliberated upon by the Senate, namely: (i) Senate Bill No. (SBN) 1673 (Universal Health Coverage Act of 2018); (ii) SBN 1458 (Universal Healthcare for All Filipinos Act); and (iii) SBN 1714 (Healthy Pinoy, Healthy Pinas Act). As of 13 May 2018, the Enhanced Universal Healthcare Act has been placed among the legislative bills that will be prioritized when Senate resumes its sessions on 15 May 2018.

c. **Republic Act (RA) No. 10969 – Free Irrigation Service Act.** This Act waives irrigation service fees (ISFs) charged to qualified farmers (in this case, farmers who own not more than 8 hectares of land) who avail of the National Irrigation Administration's (NIA) services, thereby reducing costs of production and relieving farmers and irrigators associations the burden of payment for ISFs. A position paper[7] by the NIA claims a PhP3.1 billion revenue loss following the implementation of this Act, which was originally used by the said agency to offset their PS and MOOE expenditures. While the initial cost values prove rather minimal, the expected substitution effect from the waiving of ISFs may bloat to staggering proportions should concerned actors deem it the more cost-efficient alternative.

d. **SBN 1717 or the Bangsamoro Basic Law (BBL).** This bill[8] seeks to establish the Bangsamoro as a political entity with its own reserved, concurrent, and exclusive powers. While still being carefully deliberated, it is likely to be the precursor for the eventual passage of the proposed constitutional reform. The pending bill provides PhP100.0 billion for the creation of a special development fund[9] which will be staggered over a period of ten (10) years, and other additional amounts, including the current year appropriations for ARMM, for the Bangsamoro Transition Authority.

The budgetary impact of the bill aside, noteworthy structural changes may happen over the course of implementation which may have pervasive effects to both the budget and the sociopolitical environment of the country.

[7] From http://www.nia.gov.ph/?q=content/position-free-irrigation-service-fee .

[8] Draft bill as posted in http://senate.gov.ph/lisdata/2744923680!.pdf , filed on 28 February 2018.

[9] The appropriation for the initial transition fund as stated in Article XVI, Section 14, and the staggered allocation for the special development fund as stated in Article XIV, Section 2.

As of 29 May 2018, the President has certified the BBL as an urgent bill, allowing it to proceed to the third reading immediately after lawmakers approve the bill on second reading, thereby circumventing the 'three-day rule' imposed between the second and third readings. While still under reconciliation in the Bicameral Conference Committee, the Senate plans to ratify the bill on the morning of 23 July 2018, upon which the President can sign the bill in time before his State of the Nation Address.

e. **Shift to a Federal Form of Government**[10]. Federalism has been touted as the solution to many of the country's pervasive ails, and has been gaining ground as a viable course of action since the incumbency of President Duterte. The shift is likely to perturb the conduct of the budget at least only after a year after its Constitution is ratified, but it will be prudent to acknowledge the structural changes it will bring should it be passed. A study by the Philippine Institute for Development Studies (PIDS) estimates that an additional fiscal burden ranging from PhP30 to PhP59 billion will be required to make the shift. This range is likely to vary depending on the number of states, the size of the legislative body, and the size of the second chamber.

   Federalism will decentralize government functions to allow federal states to develop based on their region's natural resource endowments, comparative advantages, and social, political, and cultural environment. While the prospects of federalism are on hopeful borders, it is not without its risks. For instance, regional disparities may only be exacerbated if fiscal equalization efforts are weak, further noting that the status quo is not strongly equalized to begin with. Also, federalism will only cement the positions of political elites if strong institutions disallowing the prevalence of political dynasties, as well as reforms to the party system, are not firmly set before the shift.

   Its proponents in government expect for the shift to start by 2019.

Risk Mitigation Measures

41. Budget Reform Bill (BRB)[11] - The bill seeks to reorient the current conduct of the budgeting system, anchoring it to holistic and internationally-established principles that will encompass the whole Philippine Public Financial Management (PFM) process, the whole public sector, and all PFM institutions. With its passage, many key PFM reforms will be institutionalized and likewise secured to foster fiscal discipline and minimize transitional systemic risks linked to administrative successions. It also strengthens the Congress' power of the purse, and enforces the review and approval of proposed appropriations with respect to clearly defined performance

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[10] From *Fiscal Design and Subnational Governance: Autonomy and Equity Considerations*, a presentation by PIDS Senior Research Fellow, Dr. Rosario Manasan. It was presented at the 3rd Annual Public Policy Conference: Critical Perspectives on Federalism for Regional Development on 19 September 2017.

[11] The section and table on the Budget Reform Bill were adopted from the *Briefer on the Proposed Budget Reform Bill (21 March 2018)* and the House-approved version of the Bill as of 20 March 2018. Obtained from the Department of Budget and Management's and the House of Representatives' online portals.

information and actual reported performance. See table 7 below for a breakdown of the bill's key features:

Table 7. Philippines: Structure and Key Features of the Budget Reform Bill

<table>
<tr><th>Particulars</th><th>Description</th></tr>
<tr><td>a. Roles and Responsibilities</td><td>Specifies additional legal powers and obligations of all PFM institutions, particularly Congress, the President and the Executive, i.e. Department of Budget and Management (DBM), DOF, NEDA, line agencies, etc., and Commission on Audit (COA). Particularly:
i. Congress' review of government financial and non-financial accountability reports and COA audit reports through existing or new committees;
ii. The President's approval of the Statement of Fiscal Policy, the Medium-term Fiscal Strategy, and the Budget Priorities Framework; and
iii. The DBM's formulation of policies and standards related to management systems; evaluation of financial and non-financial performance of the NGAs, GOCCs, and LGUs; monitoring the annual cash appropriation of NGAs; integration of the government's financial information system in collaboration with DOF, BTr, and COA; and formulation and overseeing human resource and capacity development requirement on PFM.</td></tr>
<tr><td>b. Fiscal Responsibility</td><td>Sets up mechanisms requiring succeeding government administrations to commit to a comprehensive and legally-binding medium-term fiscal strategy, in addition to the procurement of regular fiscal reports. This includes a provision requiring a Financial and Budgetary Information Sheet for all proposed expenditure-adding or revenue-eroding measures containing an estimate of the financial and budgetary implications of the proposal/s for the initial year of implementation and the next five (5) years.</td></tr>
<tr><td>c. Budget Preparation, Execution and Adjustment</td><td>Fosters discipline in how the enacted Budget is executed, anchoring it on policy-oriented budgetary decision-making and approval. It provides for the following:
i. Linking planning, budgeting, and reporting through, among others, the DBCC Medium Term Fiscal Strategy, Mid-year and Year-end Fiscal Reports, the Annual Agency Plans, and Quarterly Appropriations Reports;
ii. Shifting from Multi-Year Obligation-based Appropriations to Annual Cash-based Appropriations;
iii. Limiting the number of special purpose funds and lump sum funds, and parameters on re-enacted budgets and supplemental appropriations, as well as providing for well-defined and clearer rules on unprogrammed appropriations and on the declaration and use of savings; and
iv. Institutionalizing of key PFM reforms, such as program budgeting, the immediate release of funds upon enactment of the GAA, Early Procurement, and the Multi-year Contracting Authority</td></tr>
<tr><td>d. Financial Management</td><td>Provides for arrangements in how the BTr should plan and control cash, as well as how revenues and liabilities are managed, which include:
i. The institutionalization of the Treasury Single Account, which allows for better monitoring and consolidation of government transactions; and
ii. The regular review of SAs and SAGFs and the stipulation of the sunset provisions thereof.</td></tr>
<tr><td>e. Accountability and Reporting</td><td>Establishes financial management and internal control rules for agencies, agency-level planning and reporting requirements, and whole-of-government reporting and audit. This includes:
i. The responsibility of NGA heads to ensure financial management and internal control, as well as compliance with annual plans, budgets and reports; and
ii. The responsibility of Department Secretaries to approve and include attached agencies' and GOCCs' plans, budgets, and reports in the Departments' reports.</td></tr>
<tr><td>f. Transparency and Participation</td><td>Strengthens mechanisms for participatory budget process and people's access to public financial information through standards on public disclosures and reporting and publication of the People's Budget, among others.</td></tr>
<tr><td>g. Enforcement</td><td>Lays out the sanctions for non-compliance with pertinent laws and procedures, which include penalties for financial misconduct and criminal offenses, and institutional sanctions for failure to comply with reporting and other requirements, among others.</td></tr>
<tr><td>h. Final Provisions</td><td>Identifies IRR, transitional arrangements, and amendments to existing legislation. It also includes the production of a Transition Plan, specifying a timetable that details the roll-out scheme of provisions that cannot be immediately implemented.</td></tr>
</table>

The proposed bill seeks to address many of the risks associated with the conduct of the budget, and thus its swift passage would help cement these needed reforms.

The BRB was approved on third reading in the Lower House of the Congress last 20 March 2018 and is currently on its second hearing in the Senate. Interpellations on the BRB will be resumed when Congress convenes for the Third Regular Session on 24 July 2018.

42. **HBN 5707 or the National Government Rightsizing Program** – This bill seeks to reinforce the government's institutional capacity and foster effective and efficient public service delivery. Its enactment would require government agencies to recalibrate their human resource pool to account for changes in technology, thereby eliminating redundant or irrelevant positions, and streamlining staff functions whenever appropriate.

    Its passage would result in the regularization of previously ad hoc offices whose functions have now become recurring undertakings, merging of agencies with overlapping functions, splitting of agencies with diverse functions, the transfer of offices to agencies more in line with their functions, and the shutdown of agencies who have outlived their purpose. Moreover, PhP10 billion will be allocated for the separation incentives and terminal leave benefits of affected personnel, excluding those in public schools, government hospitals, and MUP.

    The rightsizing program will ensure public goods and services will be delivered in the "right manner, at the right time, and at reasonable cost". As of 31 July 2017, it has been transmitted to the Senate for review following its approval in the House of Representatives on 26 July 2017.

II. PUBLIC DEBT

43. **NG debt remains broadly sustainable.** Despite the higher gross borrowing and lower than assumed economic growth for 2017, the debt-to-GDP ratio was maintained at 42.1 percent, similar to its level in 2016. This is accompanied by continued gains in debt and risk metrics alongside the prefunding done for some of the requirements for the subsequent year to manage the expected increase in borrowing costs. The resulting structure and profile of NG debt reflects the prudent management of risks consistent with the Government's objectives and strategy.

Table 8. Philippines: NG Debt Indicators, 2015-Q1 2018
(in percent, unless otherwise specified)

Particulars	2015	2016	2017	Q1 2018
National Government Debt				
% of GDP	44.8	42.1	42.1	42.6
% Share				
Domestic	65.2	64.6	66.8	64.9
External	34.8	35.4	33.2	35.1
Interest Payments				
% of revenues	14.7	13.9	12.6	11.7
% of expenditures	13.9	11.9	11.0	10.3

Source: BTr

44. **The currency composition indicates moderate and improving exposure to foreign exchange (FX) risks**. Based on value, the share of local currency debt improved to 68.34 percent in 2017 from 66.32 percent in 2016 owing to the strategy which resulted in raising 80 percent of gross borrowings for the year from domestic capital markets of the total due to the steady redenomination of outstanding liabilities in line with the borrowing program.

45. **Borrowing costs have remained manageable.** The weighted average interest rate (WAIR) of outstanding total debt has remained low and stable at 4.89 percent from 4.99 percent as of end-2016. Over the same period, the WAIR for both domestic and foreign borrowing has gone down to 5.13 percent and 4.41 percent from 5.24 percent and 4.54 percent, respectively.

    As of Q1 2018, the WAIR for foreign borrowings has continued to decrease, registering 4.25 percent while domestic WAIR was unchanged at 5.13 percent relative to the beginning of the year (Table 9). Total WAIR has remained low and manageable at 4.82 percent despite the rising interest environment as the NG is still able to refinance maturing obligations at relatively lower rates.

Table 9. Philippines: Borrowing Costs
Weighted Average Interest Rate

	2015	2016	2017	Mar-18
Total	**5.19**	**4.99**	**4.89**	**4.82**
External	4.67	4.54	4.41	4.25
Domestic	5.46	5.24	5.13	5.13

46. **The debt structure maintains minimal exposure to unfavorable swings in interest rate.** Only 8.85 percent of the total debt portfolio is subject to resetting which limits the sensitivity of IPs to volatile market conditions.

47. **As a result, debt servicing flows have concurrently improved.** Interest Payments as of end-December 2017 eased to 12.6 percent of revenues and 11 percent of expenditures, from 14.0 percent and 11.9 percent the year before, respectively.

48. **Average maturity (residual) remains at comfortable levels.** The average maturity of NG debt is 9.56 years, residing at the upper bound of the medium term strategic target of 7-10 years. Domestic and external debt having residual maturities of 7.57 and 12.22 years, respectively. Furthermore, short term debt (maturing in one year) makes up a mere 9.57 percent of the total debt portfolio as of end-December 2017.

Table 10. Philippines: Average Maturity (Residual)

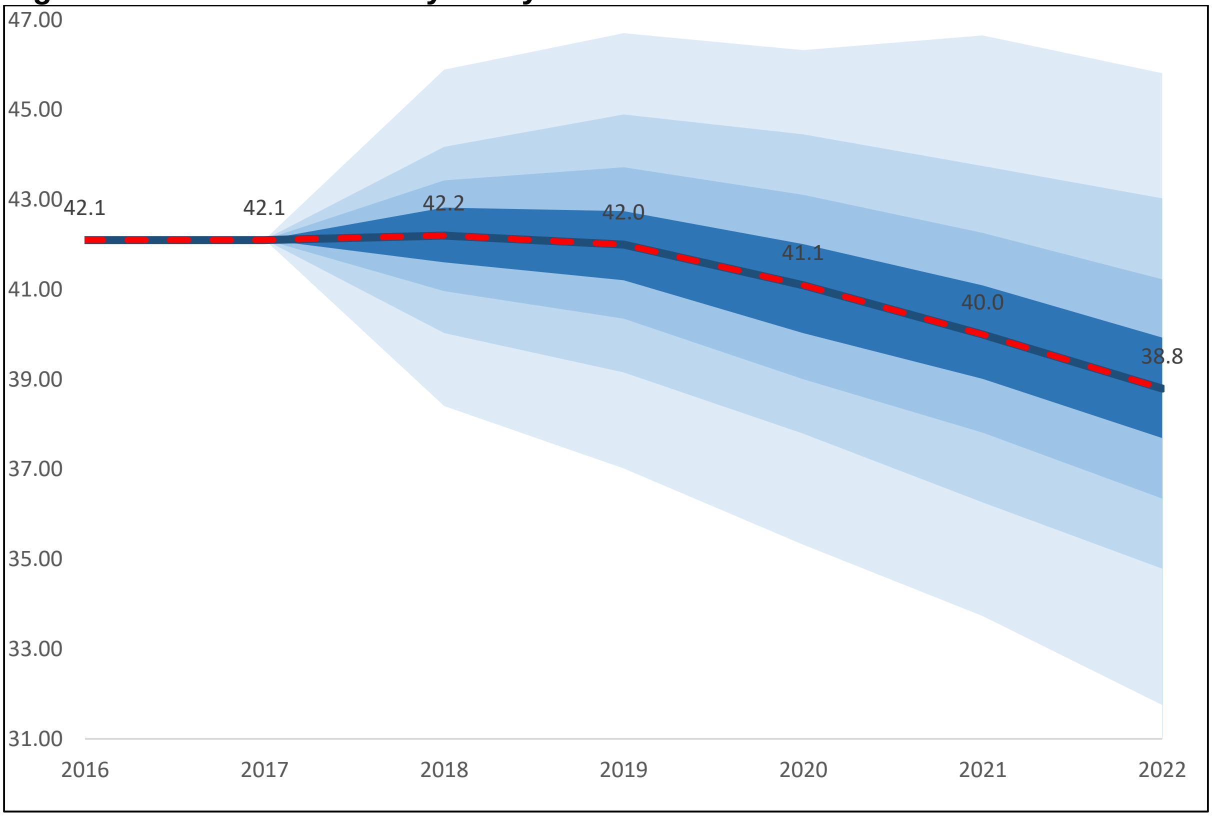
	2015	2016	2017	Mar-18
Total	**10.04**	**10.05**	**9.80**	**9.56**
External	11.86	12.17	12.05	12.22
Domestic	9.16	8.73	7.75	7.57

49. **Guaranteed debt has declined.** The Government has taken a proactive stance in managing contingent liabilities (CLs) from guaranteed debt of state owned enterprises. Latest figures indicate the level declining to 3.1 percent of GDP from 3.5 percent in 2016.

Medium Term Outlook and Risks

50. **NG Debt is projected to remain broadly sustainable over the medium term.** A Debt Sustainability Analysis projects the debt ratio remaining stable before declining towards the second half of the medium term horizon. Utilizing the revised assumptions adopted by the DBCC, the debt ratio maintains a downward trajectory albeit at a higher level due to the augmented funding requirement (includes deficit, debt amortization and cash buffer) as well as increasing interest and exchange rates. Despite the challenging environment, the debt ratio is forecasted to settle at 38.8 percent by end-2022 with a 50 percent likelihood of staying between the range of 36.5 - 41.4 percent.

Figure 3. Debt Sustainability Analysis



51. For 2019, sensitivity analysis highlights the fiscal impact of the Government's strategy in managing its debt.

a. A 1 peso depreciation relative to the assumption leads to an increment of PhP9.0 billion in full-year interest payments compared to the 2018 sensitivity of PhP8.0 billion. However, the impact on principal payments decreases to PhP2.6 billion from the previous assessment of PhP3.2 billion. These highlight the continued improvement in foreign borrowing costs as well as the effect of proactive liability management transactions such as debt exchanges carried out by the Government.

b. Meanwhile, a 100 basis point increase in interest rates translates to a PhP16.0 billion increase in IP for 2019, up from the previous year's estimate of PhP15.0 billion mostly due to floating rate foreign debt and rolling over of amortizing foreign debt payments.

Table 11. Philippines: Sensitivity of Debt Service Flows

Particulars	2017 in PHP millions	2017 Increase in IP Budget (%)	2018 in PHP millions	2018 Increase in IP Budget (%)	2019 in PHP millions	2019 Increase in IP Budget (%)	2020 in PHP millions	2020 Increase in IP Budget (%)
Interest Rate Sensitivity (1ppt increase)								
Domestic Interest Rate								
Floating interest rate								
Rolled-over fixed rate[1/]	10,266	2.90	8,652	2.45	8,688	2.46	9,672	2.74
Foreign Interest Rate								
Floating interest rate	9,335	2.64	6,327	1.79	7,159	2.03	7,967	2.25
Rolled-over fixed rate	0	0.00	58	0.02	3,912	1.11	5,687	1.61
Rolled-over debt amortization	997	0.28	1,025	0.29	1,047	0.30	1,093	0.31
Foreign Exchange Rate Sensitivity (1 peso depreciation)								
Outstanding								
Of which against the USD	41,906		44,070		47,062		51,236	
Of which against the Euro	684		638		595		550	
Of which against the JPY	8,266		7,717		6,044		5,531	
Interest Payments								
Of which against the USD	10,986	3.11	8,012	2.27	8,870	2.51	9,788	2.77
Of which against the Euro	257	0.07	249	0.07	241	0.07	234	0.07
Of which against the JPY	308	0.09	270	0.08	231	0.07	164	0.05
Principal Amortization								
Of which against the USD	2,756		3,209		2,562		1,951	
Of which against the Euro	46		47		43		46	
Of which against the JPY	535		550		1,673		513	
Combined interest rate shock and FX depreciation[2/]	32,151	9.10	24,592	6.96	30,149	8.53	34,606	9.79
Domestic	10,266	2.90	8,652	2.45	8,688	2.46	9,672	2.74
Foreign	21,885	6.19	15,941	4.51	21,461	6.07	24,933	7.06

Notes:

Based on outstanding as of June 2016. Assumes roll-over in the same currency and interest rate structure for debt maturing within the projection

1/ Includes CBOL bonds maturing 2019.

2/ Includes domestic and foreign

III. MONETARY PERFORMANCE

52. **Domestic liquidity or M3 grew by 14.4 percent YoY to about PhP10.9 trillion in March 2018, faster than the 13.5-percent expansion in February.** The overall pace of growth in M3 remains consistent with the BSP's prevailing outlook for inflation and economic activity.

53. **The growth in domestic liquidity was driven largely by the sustained expansion in domestic claims or credits to the domestic economy.** Domestic claims grew by 14.2 percent YoY in March, supported by the continued increase in claims on the private sector, reflecting the steady growth in bank lending. Meanwhile, the bulk of bank loans in March 2018 was channeled to key production sectors such as real estate activities; electricity, gas, steam and airconditioning supply; wholesale and retail trade, repair of motor vehicles and motorcycles; manufacturing; financial and insurance activities; other community, social and personal activities; and information and communication.

    a. Outstanding loans of commercial banks, net of reverse repurchase (RRP) placements with the BSP, expanded at a slower rate of 18.3 percent in March from 19.5 percent in February. Meanwhile, the growth of bank lending inclusive of RRPs accelerated to 18.8 percent in March from 17.6 percent in the previous month.

    b. Bank loans for production activities — which comprised 88.4 percent of banks' aggregate loan portfolio, net of RRP — grew by 18.1 percent in March from 18.6 percent in the previous month. The growth in production loans was driven primarily by increased lending to the following sectors: real estate activities (18.6 percent); electricity, gas, steam and air-conditioning supply (23.7 percent); wholesale and retail trade, repair of motor vehicles and motorcycles (17.6 percent); manufacturing (11.1 percent); financial and insurance activities (17.1 percent); other community, social and personal activities (83.1 percent); and, information and communication (27.9 percent). Bank lending to other sectors also increased during the month except in agriculture, forestry and fishing (-8.0 percent), and administrative and support services activities (-37.9 percent).

    c. Loans for household consumption marginally slowed down to 19.3 percent in March from 19.9 percent in February. The slower increase in motor vehicle loans and salary-based general purpose loans as well as the contraction in other types of household loans offset the faster expansion in credit card loans in March.

    Meanwhile, net claims on the central government rose by 6.5 percent in March from 3.7 percent in February as a result of increased borrowings by the NG.

    Net foreign assets in peso terms also grew faster at 6.4 percent YoY in March from 4.6 percent in the previous month. Foreign exchange inflows coming mainly from overseas Filipinos (OFs) remittances, business process outsourcing (BPO) receipts, and foreign portfolio investments drove the growth in the BSP's net foreign assets position. The net foreign assets of banks also expanded as banks' foreign assets increased on account of higher investments in marketable debt securities.

54. **During the BSP's most recent monetary policy assessment on 10 May 2018, the BSP decided to raise its key policy rate, the interest rate on the BSP's overnight RRP facility by 25 basis points to 3.25 percent.** The corresponding interest rate on the overnight lending and deposit facilities were also adjusted accordingly.

    The policy decisions of the BSP were based on the assessment of the dynamics and risks in the inflation environment over the policy horizon. In deciding to raise the policy rate, the BSP noted that latest forecasts have shifted further, indicating that inflation pressures could become more broad-based over the policy horizon. While inflation momentum has started to slow down, inflation may still breach the inflation target range of 3.0 percent ± 1.0 percentage point for 2018 due primarily to temporary supply-side factors. Nevertheless, inflation is expected to return inside the target range in 2019.The BSP assessed that the risks to the inflation outlook continues to lean toward the upside, with price pressures emanating from possible adjustments in transport fares, utility rates, and wages.

    Given these considerations, the BSP believes that a timely increase in the policy interest rate will help arrest potential second-round effects by tempering the build-up in inflation expectations. The BSP also observed that strong domestic demand allows some scope for a measured adjustment in the policy rate without adversely affecting the country's economic growth momentum.

55. **In its policy pronouncement, the BSP reiterates that it stands ready to undertake further policy action as necessary to ensure the achievement of its price and financial stability objectives.**

IV. EXTERNAL SECTOR

56. **As a result of the widening of the trade deficit amid strong goods imports, the current account registered a deficit of $2.5 billion in 2017, more than twice the $1.2 billion deficit recorded in 2016.** The double-digit recovery in goods exports, increased net receipts in the trade-in-services, and secondary and primary income accounts in 2017 had not been enough to offset the faster growth rate of imports, which have been moving in tandem with the growth of domestic demand.

57. **Nonetheless, the sustained resilience of foreign direct investments, and consistently strong inflows from OFs remittances and BPO receipts continue to provide additional buffers to our economy, mitigating the impact of the widening trade-in-goods deficit on the current account balance and the overall balance of payments.** Remittances from OF workers continue to flow in from various geographical locations globally. For 2017, cash remittances from OFs amounted to $28.1 billion, representing a 4.3 percent growth rate YoY, slightly higher than the 4.0 percent projection for the year. For the first two months of 2018, OF cash remittances summed up to $4.6 billion, representing a 7.1 percent YoY growth from the same period in 2017.

58. **Ample level of FX reserves provides sufficient buffer against external shocks.** As of end-April 2018, the country's gross international reserves (GIR) stood at $80.1 billion. At this level, the GIR remains well above the standard adequacy metrics and represents more than ample liquidity buffer as it is equivalent to 7.8 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 5.5 times the country's short-term external debt based on original maturity and 4.1 times based on residual maturity. The ample level of GIR enables the BSP to, if necessary, participate in the FX market to ensure orderly conditions and smoothen volatility.

59. **The country's external indebtedness continues to decline relative to the size of the economy.** The favorable external sector position is also manifested through improvements in the country's external liability management as exhibited by sustained decline in the Philippines external debt ratios. The external debt-to-GDP ratio has continuously declined from 38.4 percent in 2009 to 23.3 percent in 2017.

V. FINANCIAL SECTOR

60. **The Philippine banking system, as the core[12] of the financial system, continued its robust performance supported by sufficient provisioning, liquidity buffers, and adequate capital to ward off unexpected external shocks.** The double-digit growths in assets, loans, investments, and deposits translated into improved asset quality, firm liquidity position, strong capitalization and increased profitability. The BSP continues to pursue proactive reforms aimed at promoting sustained stability of the banking system and greater financial inclusion.

Performance of the Banking System

61. **Loans remained as a significant component of banks' expanding asset mix.** Key performance indicators show steady asset growth from upbeat lending activities. The banking system's total assets expanded by 11.6 percent YoY to PhP15,166.2 billion. Loans, which are a major component of banks' balance sheets, increased by 16.7 percent YoY. Financial assets other than loans[13], representing the second largest component of total assets, increased by 11.8 percent. However, cash and due from banks declined by 1.9 percent.

62. **Deposit growth largely funded asset expansion.** The expansion in the banking system's assets was buoyed by the increase in the funding base primarily from retail peso deposits, which posted a YoY growth of 11.6 percent to PhP11,727.0 billion. These deposits were primarily peso-denominated and sourced mostly from resident individuals and private corporations with 48.4 percent and 33.5 percent shares, respectively.

63. **Banks continued to expand their credit portfolio on account of domestic growth prospects**. Consistent with the expansion of the banking system's assets, total loan portfolio went up by 16.5 percent YoY to PhP8,865.6 billion and remained diversified across production sectors. In particular, real estate activities had the largest share to total loans at 17.4 percent, followed by wholesale and retail trade at 12.4 percent, manufacturing at 10.9 percent, and loans for household consumption at 10.6 percent. The banks' rising appetite for lending activities is accompanied by the continued improvement in their respective credit risk management systems.

64. **Loan quality remained satisfactory amid continued loan growth.** The banking system's loan quality improved as non-performing loan (NPL) and non-performing asset (NPA) ratios both declined to 1.7 percent. Banks also maintained adequate provision to cover for potential losses on impaired loans, as the NPL coverage ratio increased to 120.4 percent from 119.9 as of end-December 2016. Meanwhile, the NPA coverage ratio slightly improved to 81.6 percent as of end-December 2017 from the previous year's 80.5 percent.

[12] Total assets of the banking system accounted for 80.0 percent of the total assets of the Philippine financial system.

[13] Composed of investment portfolio booked under held-to-maturity, available-for-sale, held for trading, unquoted debt securities classified as loans, securities designated at fair value through profit or loss, investments in non-marketable equity securities, and equity investments.

Meanwhile, with the adoption of the Philippine Financial Reporting Standards (PFRS) 9 on Financial Instruments effective 1 January 2018, banks have been recognizing the allowance for probable losses at an earlier stage, providing buffers to potential credit losses.

65. Banks have adequate capital to support credit expansion activities. Total capital accounts grew by 13.5 percent YoY to PhP1,756.8 billion, on account of additional funds infused by some banks and higher profit registered in 2017. Meanwhile, capital ratios remained well-above the BSP and Bank for International Settlements prescribed thresholds of 10.0 percent and 8.0 percent, respectively. The Basel III Capital Adequacy Ratio (CAR) of Universal and Commercial Banks (U/KBs) stood at 15.0 percent on consolidated basis as of end-December 2017. Likewise, banks maintained mostly high quality capital in the form of common equity tier 1 capital at 13.3 percent on a consolidated basis.

66. Banks' profitability was sustained by interest income from loans. On steady credit expansion, banks consistently posted a net profit which grew by 8.9 percent YoY to PhP168.1 billion. Overall banks' profitability was buoyed by higher earnings derived from their lending activities as shown by the increase in net interest income by 15.9 percent YoY to PhP447.4 billion. Meanwhile, return on assets and return on equity stood at 1.2 percent and 10.2 percent, respectively.

67. Banking system has sufficient buffers to meet liquidity and funding requirements. As of 30 September 2017, the Basel III Liquidity Coverage Ratio of the U/KB industry registered above the minimum requirement at 185.3 percent and 181.7 percent on solo and consolidated bases, respectively. Moreover, the banking system also held sufficient stock of high quality liquid assets mostly in the form of reserves with the BSP and investments in government securities.

68. Outlook for the banking system remained positive. The view on the banking sector remains positive given the robust macroeconomic outlook, rising provision coverage, adequate liquidity and rising capital buffers. In particular, bank lending is expected to sustain its strong loan growth that is supported by favorable growth outlook and programmed increase in social spending. Operating cost will continue to rise as banks also deploy their resources to expand customer base, to invest in system upgrades, and to explore product innovation. Nonetheless, improvements in profits will continue, driven mainly by strong growth outlook and stable lending.

Risks from the Banking Sector

69. Exposures of the NG to the banking sector were kept minimal. The Philippine Government's exposure to the banking system was mainly in the form of government deposits at PhP1,484.8 billion as of end-December 2017. This exposure accounted for 12.7 percent of the PhP11,727.0 billion total deposit liabilities of the banking system. Meanwhile, the exposure of the NG to the banking sector was only 3.6 percent (PhP417.9 billion) of the total deposits in the banking system. The paid-in capital stock contribution of the

NG in government banks (i.e., LBP, DBP, and Al-Amanah Islamic Investment Bank of the Philippines) was reported at PhP38.7 billion[14].

70. **The NG also extended guarantees on foreign currency denominated borrowings of government banks.** The notional amount of guarantees (i.e., FX cover) extended by the NG on foreign currency denominated borrowings of government banks from multilateral lenders was estimated at $1.2 billion as of end-December 2017. Meanwhile, the peso-denominated borrowings of government banks were recorded at PhP5.9 billion. These borrowings are intended for re-lending to priority sectors/projects that are likewise guaranteed by the NG.

Risk Mitigation Measures

71. **The BSP remains committed to the pursuit of financial sector reforms amid the changing market conditions and increasing sophistication of global financial services industry**. The BSP has undertaken a number of regulatory developments aimed at improving corporate governance and risk management standards, including the adoption of Basel reforms, promoting the integrity and transparency of the financial system, and advancing the financial inclusion agenda.

72. **The BSP issued guidelines aligned with the Basel standards on corporate governance** and the revised regulations of the Securities and Exchange Commission on the Code of Corporate Governance for Publicly-Listed Companies and the international standards and best practices. The enhancements cover strengthened requirements on the membership composition of the board of directors and board-level committees, and enhanced standards on the fitness and propriety requirements for the board of directors. On reporting governance, the BSP released guidelines on Bank Responsibility for the Generation and Timely Submission of Required Reports which sets forth BSP's expectation on banks to establish an effective reporting system with an appropriate governance process that enables the bank to comply with BSP's reporting standards.

73. **The BSP intends to build-up buffers during good times** through the adoption of a stringent definition of Past Due Loans. The NPL definition, however, was aligned with international standards. This is coupled with the adoption of PFRS 9 which was required to be applied effective 1 January 2018.

74. **To address systemic risk and interconnectedness, as well as strengthen going concern capacity of banks, the BSP adopted the framework for dealing with domestic systematically important banks (D-SIBs)[15].** In particular, the framework required banks identified as D-SIBs to maintain higher loss absorbency capital given that the failure of a D-SIB is expected to have a greater impact on the financial system and the real economy. Such

[14] Based on bank-submitted Financial Reporting Package (FRP)

[15] Circular No. 856 dated 29 October 2014.

framework was further supported by the issuance of guidelines requiring D-SIBs to submit a recovery plan, which sets out the actions that shall be taken by a D-SIB to restore viability in cases of significant deterioration of its financial condition.[16]

75. **The Basel III Leverage Ratio framework which forms part of the Basel reform agenda adopted by the BSP serves as a back stop measure to the CAR**. It is designed to constrain the potential build-up of leverage in the banking system. The framework, which will take effect in July 2018, provides the covered entities time to assess their compliance and implement necessary corrective actions.

76. **The BSP has implemented various waves of reforms to liberalize the FX market**. These waves of FX reforms aim to ensure that BSP regulations remain appropriate given the changing needs of the Philippine economy, including the country's increasing integration with global markets. Recent major FX reforms[17] further liberalize rules governing FX transactions of banks in order to provide greater ease in transacting FX and availment of bank financing; enable further diversification of residents' investments; and encourage more FX transactions into the banking system, a sector which is easier to monitor and supervise.

77. **The BSP is continuously working to ensure that financial industry participants are sensitive to and proactive in addressing emerging cyber-threats**. In 2017, the BSP issued several regulations aimed at mitigating the effects of technology-related risks in BSP-supervised financial institutions. These regulations address various facets of technology risk management such as social media risk management, business continuity management, and multi-factor authentication, among others. Recent issuances also include specific guidance on managing fraudulent e-mails and websites as well as combatting ransomware and other forms of malware attacks.

78. To further improve the banks' resilience against advanced forms of cyber-threats and risks, the BSP issued enhanced guidelines on information security management.[18]. The Circular places a renewed focus on information security in line with technological developments and innovation, dynamic risk profiles, and a rapidly evolving cyber-threat landscape surrounding BSFIs. It sets BSP's supervisory expectations as to cybersecurity controls and strategies and how these fit into the overall information security program of banks.

[16] Circular No. 904 dated 10 March 2016.

[17] Circular Nos. 925 and 984 dated 13 September 2016 and 22 December 2017, respectively.

[18] Circular No. 982 dated 9 November 2017.

79. **Moving forward, the BSP will sustain the implementation of proactive reforms that will further raise the bar on corporate governance and risk management standards including cybersecurity controls, sound liquidity and capital positions, and greater access to financial services**. These reforms coupled with banks' prudent risk-taking behavior and adequate buffers against uncertainties will move the System towards a more inclusive, sound, and stable banking system. Further, indices in tandem with other assessment tools such as the Banking Sector Outlook Survey will be constructed to help measure the banking sector resilience and aid the BSP in capturing potential vulnerabilities in the banking system.

VI. OTHER CONTINGENT CENTRAL GOVERNMENT OBLIGATIONS

A. GOVERNMENT OWNED AND CONTROLLED CORPORATIONS (GOCCS)

80. The DOF continues to strengthen the formulation and implementation of the policies on the government corporate sector and closely monitors the financial performance of GOCCs and its impact on fiscal position in particular on the Consolidated Public Sector Financial Position (CPSFP). The CPSFP coverage of GOCCs from the existing fourteen (14) Major Non-Financial Government Corporations (MNFGCs) was expanded to include additional three (3) GOCCs as approved by the Development Budget Coordinating Committee (DBCC). The additional GOCCs which would be included in the CPSFP starting CY 2019 are the Bases Conversion Development Authority (BCDA), Civil Aviation Authority of the Philippines (CAAP), and Manila International Airport Authority (MIAA). These GOCCs were considered in the expansion of the coverage of the CPSFP based on their risk and infrastructure significance. These would also better facilitate early detection of risk vulnerability in government corporate sector and allow early corrective measures.

Furthermore, the GOCCs' Debt Recording and Monitoring System (GDRAMS) was an additional report on GOCC's obligations required from GOCCs to supplement the comprehensive GOCCs debt profile information, consolidated debt portfolio and historical trends. The system also aims to be an avenue for significant analysis of GOCCs debt and their effective utilization.

81. The fourteen MNFGCs posted financing surplus in 2017 of about 90.30 percent or PhP18.882 billion more than the previous year's financial performance. Compared with the 2016 surplus of PhP20.91 billion, the increase primarily emanated from National Housing Authority (NHA), Power Sector Assets and Liabilities Management Corporation (PSALM), National Irrigation Administration (NIA) and National Food Authority (NFA). NHA's improvement of PhP8.35 billion was mainly due to receipt of higher subsidy in 2017 for housing program for calamity victims of typhoon Yolanda. Increase of PhP4.66 billion by PSALM was caused by the increase in power sales due to the additional energy output from the completion of the uprating project of Agus I, II and VI power plants, increase in Universal Charge (UC) collections as a result of ERC new approval of UC stranded debt starting fourth quarter of 2017, and decrease in interest payments due to declining loan balance after bullet payment made in 2017. NIA's improvement of PhP4.34 billion was brought about by higher subsidy for the implementation of various irrigation projects. NFA's improvement of PhP3.35 billion was due to lower rice local procurement and lower importation in view of greater private sector participation in rice procurement.

Other GOCCs, such as PEZA, PPA, NEA, PNOC, MWSS and HGC also contributed increase in financing surplus mainly due to increased collection of fees and charges and lower capital outlays.

In 2018, a significant decrease in surplus by PhP26.38 billion as compared to the surplus it attained in 2017 is expected. The expected decrease in 2018 surplus will mainly come from NFA's higher local procurement for its buffer stocking requirement; PSALM's lower power sales and termination of Independent Power Producer (IPP) plants (Mt. Apo 1 and 2) in the last quarter of 2018; increase in the capital expenditure of NHA which comprises the spill-over of 2017 housing projects as well as the implementation of new specific housing programs in 2018 such as the Resettlement Program-Socialized Housing at Buluan, Maguindanao and for families affected by the construction of Bukidnon Airport; LWUA's higher capital expenditures mainly due to the implementation of ADB-WDDSP which was delayed due to LWUA's reforms in the conduct of bidding for consulting services; and increase in capital expenditures of MWSS for the continuous implementation of Angat Water Transmission Project (AWTIP) amounting to PhP562 million in 2018.

By 2019, we expect a substantial increase of PhP20.738 billion in the financial outlook of the MNFGCs, bringing the expected surplus to PhP34.153 billion, which approximates the significant surplus in 2017. The level already incorporates the GOCCs added in the CPSFP: BCDA, CAAP and MIAA. The substantial improvement will come from the subsidy from the conversion of NG Advances to NEA and LRTA; HGC's expected proceeds from disposition of lots in Manila Harbor; substantial increase in PPA's revenue from fees and charges; and the expected surplus from the two additional GOCCs: MIAA and CAAP.

Table 12. Philippines: Consolidated Public Sector Financial Position, 2016–2019
(as percent of GDP)

Particulars	Actual		Program	
	2016	2017	2018	2019
Consolidated public sector financial position				
Non-financial public sector financial position				
Financing position of 14 major MNFGCs	20.911	39.793	13.415	34.153 *
in billion pesos				
Financing position of GFIs	15.466	15.728	17.895	17.981
in billion pesos				
Financing position of SSIs	72.058	57.891	72.513	80.545
in billion pesos				

* Includes the 3 Additional GOCCs (BCDA, CAAP and MIAA) for the expanded monitoring coverage of GOCCs

82. Social Security Institutions (SSIs) and Government Financial Institutions (GFIs) managed to maintain their positive contributions in the CPSFP in 2017 mainly due to earnings derived from collection of member's contribution, loan portfolio and diversified investments. Although there is a decline in SSIs' cash surplus, its combined cash surplus with GFIs' totalling to PhP73.62 billion in 2017 has contributed to the improvement of the overall CPSFP.

83. 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: maintain their financial viability, achieve funds perpetuity and promote the welfare of their members.

In 2017, SSIs' surplus declined by 19.66 percent or PhP14.17 billion from the previous years' PhP72.06 billion. This was attributable mainly to the narrowing of Philippine Health Insurance Corporation's (PHIC) financial position with the implementation of enhanced benefit packages and expanded the coverage of some serious illnesses/diseases and the growing number of members claiming health benefits. Social Security System (SSS) also contributed to the decline in surplus due to the implementation of PhP1,000 across the board resulting in increase in monthly pension amounting to PhP33 billion. Although Government Service Insurance System (GSIS) incurred an increase in members contributions due to the implementation of Salary Standardization Law-4, its surplus is 2.3 percent below 2016 level due to increase in number of old age pensioners and policy lending with the implementation of Educational Assistance Loan Program.

Notwithstanding the decline in surplus in 2017 as compared to 2016, SSIs will continue to be in surplus in 2018 and 2019. However, increases in the projected surplus for 2018 and 2019 will be minimal primarily due to expected higher benefit pay-outs for the health care provisions of PhilHealth, non-pension benefits of SSS, and moderate income from investments.

84. GFIs perform their unique functions aligned with the economic roadmap of the government for socio-economic development such as financing programs for infrastructure, electricity, water, environment-process and technologies, education, shelter production, agri-business projects, health care services, and programs for micro, small and medium enterprises, among others. GFIs surplus in 2017 amounted to PhP15.73 billion which is almost equal to 2016 surplus of PhP15.47 billion. The slight increase came from Land Bank of the Philippines (LBP) due to increase in loan portfolio and gain from investments.

The GFIs projected cash surplus in 2018 will be slightly higher than 2017 and will continue to improve in 2019 attributable to strengthening its financing programs/activities. The GFIs' major revenue drivers are their improved performance with regards to their favorable lending activities, gain on sale of assets, and recovery of advances on guaranteed loans. They provide financing/credit facilities which can be accessed readily by the priority sectors of the government at concessional terms.

Table 13. Philippines: Liabilities of the Government Corporate Sector and 14 Major Non-Financial Government Corporations (MNFGCs), 2016
(in billion pesos, unless otherwise specified)

Particulars	Total Liabilities	% to Total Liabilities	% of GDP
TOTAL GOCCs	3,696.32		25.53%
Share of 14 MNFGCs (%)	37.53%		
TOTAL 14 MNFGCs	1,387.33	37.53%	9.58%
NPC	13.89	0.38%	0.10%
PSALM	722.57	19.55%	4.99%
TransCo	145.23	3.93%	1.00%
NFA	171.63	4.64%	1.19%
LRTA	66.24	1.79%	0.46%
NIA	120.60	3.26%	0.83%
HGC	25.22	0.68%	0.17%
PNR	27.39	0.74%	0.19%
MWSS	13.17	0.36%	0.09%
PPA	9.88	0.27%	0.07%
NEA	32.03	0.87%	0.22%
LWUA	8.23	0.22%	0.06%
NHA	16.52	0.45%	0.11%
NDC	4.51	0.12%	0.03%
PNOC and Subsidiaries	9.01	0.24%	0.06%
PEZA	1.20	0.03%	0.01%

Source: 2016 COA Audited Reports, comprising 105 GOCCs; DOF-FPPO; GDP: PhP14,479.95 billion
1/ Excluding BSP and Central Bank-Board of Liquidators
2/ NPC, TransCo and PSALM are counted as one

85. Based on audited financial statements as of December 31, 2016, the 14 major GOCCs listed above had aggregate domestic and foreign liabilities of approximately PhP1.39 trillion which represented 37.53 percent of the liabilities owed by GOCCs and 9.58 percent of GDP, a decrease compared to the 10.9 percent of GDP in 2015. Out of the PhP1.39 trillion liabilities, debt and contractual obligations amount to PhP653.22 billion which represents 47.08 percent of the total liabilities and 4.51 percent of GDP. Outstanding guaranteed debt and contractual obligations of all GOCCs amount to PhP769.23 billion or 5.31 percent of GDP.

86. Approximately all of the debt and contractual obligations of the GOCCs were covered by NG guarantees through the respective charter of the GOCCs or RA 4860, as amended (Foreign Borrowing Act) (Table 14). The Government extended guarantees to GOCCs' obligations in order to support the bankability of their investment, or as required by lending institutions: bilateral or multilateral institutions. The outstanding guaranteed debt of all GOCCs declined to 3.10 percent of GDP in 2017 compared to 3.56 percent in 2016. There was a drop in total guaranteed obligations in 2017 primarily due to the PhP39 billion drop in PSALM's obligations and the PhP12 billion drop in NFA's borrowing due to lower build up of inventory ending with 3 days inventory in 2017 against 17 days in 2016 coupled with higher subsidy and NG advances for debt servicing. Total guaranteed debt and contractual obligations of all GOCCs totalled to PhP712.39 billion or 4.51 percent of GDP.

Table 14. Philippines: Outstanding Government Guaranteed Debt to GOCCs, 2017
(in billion pesos)

	Amount in Billion Pesos	% to Total Guaranteed Debt	% of GDP
MNFGCs	368.39	75.20%	2.33%
PSALM	227.92	46.52%	1.44%
NFA	119.65	24.42%	0.76%
LRTA	3.88	0.79%	0.02%
MWSS	8.25	1.68%	0.05%
PPA	3.57	0.73%	0.02%
LWUA	2.77	0.56%	0.02%
PNR	1.57	0.32%	0.01%
NPC	0.69	0.14%	0.00%
PEZA	0.10	0.02%	0.00%
GFIs/SSIs	80.83	16.50%	0.51%
DBP	56.08	11.45%	0.35%
LBP	24.30	4.96%	0.15%
TIDCORP	0.45	0.09%	0.00%
Others	40.68	8.30%	0.26%
AFAB	0.01	0.00%	0.00%
BCDA	20.23	4.13%	0.13%
MIAA	2.23	0.45%	0.01%
NHMFC	11.39	2.32%	0.07%
PDA	0.06	0.01%	0.00%
SBGFC	1.14	0.23%	0.01%
SBMA	5.39	1.10%	0.03%
TIEZA	0.23	0.05%	0.00%
TOTAL	**489.91**		**3.10%**

Source: DOF-FPPO; GDP: PhP15,806.36 billion

87. In addition to guarantee on GOCCs' borrowings, the National Government had provided performance undertakings on GOCCs' obligations under BOT projects. These BOT projects included the power projects of the NPC/PSALM and the Casecnan Multi-Purpose Project of the NIA. Total guarantees for these contractual obligations of NIA and PSALM were estimated at PhP222.48 billion as of 2017.

As provided for under P.D. 1967 and Administrative Order No. 10 series of 1998, NG provides NG advances for the debt servicing of the guaranteed GOCCs' obligations to avoid defaulting on guaranteed commitments (Table 15). The National Government, through the BTR, will advance the repayment of guaranteed obligations or relent loans of a GOCC if there is a clear indication of a GOCC's insufficient funds to pay the maturing obligations only after due evaluation for more prudent fiscal management and fiscal discipline on GOCCs.

As of end 2017, outstanding NG advances posted at PhP244.60 billion, a drop of PhP2.54 billion from 2016 level. This was due to repayments from NEA, PSALM, NDC, HGC which substantially negated advances provided to NIA, LRTA, PNR, NFA and MWSS.

Table 15. Philippines: Outstanding NG Advances to GOCCs, 2016 – 2017
(in billion pesos)

Particulars	2016	2017
Of the 14 MNFGCs		
NIA[2/]	61.19	62.71
LRTA	36.30	39.23
PNR	23.97	24.69
NEA	18.19	15.27
NPC/PSALM[3/]	30.81	21.46
NFA	26.79	32.87
NDC	3.79	2.68
HGC	11.85	10.93
MWSS	2.89	3.03
Other GOCCs	31.35	31.72
TOTAL	**247.14**[1/]	**244.60**[1/]

Source: BTr. Includes interest on NG advances; excludes CB BOL.
1/ Includes interest on NG advances
2/ Represents Casecnan-related accounts
3/ Includes Casecnan-related accounts

88. Budgetary support is extended to GOCCs for implementation of priority programs of the government such as health insurance, irrigation and rehabilitation and restoration of calamity-affected areas. (Table 16). Direct support provided by the NG still outweighs the GOCC contributions/remittance to the NG in 2017 with net outflows of PhP67.35 billion. On the other hand, the National Government receives GOCCs remittances in the form of dividends, NG share on income, guarantee fee, among others. GOCCs contributed PhP64.86 billion to the revenue generation effort of the government as its total remittances represented 29.16 percent of total non-tax revenues in 2017. Out of the PhP64.86 billion remittances from GOCCs, 46.97 percent represents dividend remittances.

For 2017, a total of PhP30.46 billion has been remitted to BTr by 54 GOCCs as dividends, which shows an increase of 9.83 percent or PhP2.7 billion as compared to 2016 dividend remittances. This is despite the dividend relief given to LBP in recognition of the current constraints in its capital position and the will to comply with the Bangko Sentral ng Pilipinas (BSP) Regulatory Requirements on Capital Ratios and BASEL Leverage Ratios. The biggest remittances came from Philippine Deposit Insurance Corporation (PDIC), Civil Aviation Authority of the Philippines (CAAP), Development Bank of the Philippines (DBP), Manila International Airport Authority (MIAA), Philippine Ports Authority (PPA), Bangko Sentral ng Pilipinas (BSP), National Power Corporation (NPC), and Philippine Amusement and Gaming Corporation (PAGCOR).

Table 16. Philippines: Net Budgetary Flows to GOCCs, 2016 - 2017
(as percent of GDP, unless otherwise specified)

Particulars	2016	2017
I. NG Flows from GOCCs	**0.40**	**0.41**
(in billion pesos)	58.63	64.86
Dividend	0.19	0.19
Interest on NG Advances	0.00	0.00
Guarantee Fees Collected	0.01	0.01
Forex Risk Cover Fee	0.01	0.01
NG Share on Net Income	0.18	0.19
Airport Terminal Fee	0.01	0.01
II. NG Flows to GOCCs	**0.90**	**0.84**
(in billion pesos)	130.17	132.21
Subsidy[a/]	0.71	0.20
Equity	0.08	0.03
Net Lending	0.11	-0.03
NET NG FLOWS (I-II)	-0.49	-0.43
In billion pesos	-71.54	-67.35

Source: BTr
a/ Excludes tax subsidy – because of its neutral effect since it is considered as both revenue and expenditure of the government

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

As one of the major sources of fiscal risk to the NG, major reforms need to be introduced in NFA, which had been highly dependent on the NG to fund its operations, primarily through NG guarantees on their borrowings. As of the end of 2017, NFA total obligations stood at PhP150.23 billion, primarily composed of NG guaranteed obligations of PhP119.65 billion and NG advances of PhP30.58 billion. The Executive Branch is in active discussion on how to assist the farmers and low income consumers in an efficient and fiscally sustainable manner. Rice tariffication and free market in the rice industry will reduce required fiscal resources to provide affordable rice.

PSALM is also one of the biggest sources of fiscal risk to the National Government. To mitigate if not totally eliminate those risks, PSALM needs to accelerate its privatization efforts, pursue collection of receivables from IPP Administrators by resolving outstanding contractual issues, among others. PSALM's total outstanding debt and contractual obligations stood at PhP430.85 billion as of the end of 2017. These include NG advances of PhP17.22 billion.

Necessary dispositive actions have also been recommended to other GOCCs, namely: the Partido Development Administration (PDA), Philippine Sugar

Corporation (PHILSUCOR), and PAGCOR, among others. The PDA's dependence on the NG results primarily from its water operations, which cause a substantial drain on its resources. Something has to be done on its water operation and other assets. On another note, PHILSUCOR is performing roles that can be undertaken by GFIs. They still perform lending activities to sugar farmers and millers when the additional funding requirement of these farmers and millers can be served by LBP and DBP. As regards PAGCOR, the GCG has always maintained the view that the gaming operations of PAGCOR needs to be relinquished to the private sector.

Current Progress of Governance Commission for GOCCs (GCG) Mandates

90. **The GCG continues with the streamlining of the GOCC Sector by recommending 6 GOCCs for abolition and/or privatization and merger of 3 GOCCs to the Office of the President by the end of 2017.** From 157 in 2011, only 123 GOCCs remain to be going concerns for the Governance Commission in 2017. This figure includes the additional 20 Coconut Industry Investment Fund Companies declared as GOCCs last February 2016. For the previously approved abolitions and privatizations, the Commission continues to oversee the implementation of the liquidation process to ensure that all progressions are in accordance with law.

91. **Although the number of remitting GOCCs went down from 59 in 2016 to 57 in 2017, the amount of dividend payments to the NG increased from PhP28.89 billion in 2016 to PhP31.21 billion in 2017**. Dividend payments from 2011 to 2017 totaling to PhP191.22 billion, was 134 percent higher than dividend remittances in 2001-2010.[19]

92. **The Governance Commission continues to implement the Performance Evaluation System using the Balanced Scorecard and Quality Management Systems,** including the transition to International Organization for Standardization (ISO) 9001:2015 in all GOCCs to inculcate innovation, efficiency, and evidence-based governance through linking regular strategy and operations review to social impact and other financial and operational indicators. Currently, the Governance Commission is rolling out the standard methodology and questionnaires for the conduct of the Customer Satisfaction Survey for the GOCCs to gauge how GOCCs relate with their customers/stakeholders, as this provides tangible and verifiable data on how GOCCs deliver their services. For GOCCs with frontline services, the Governance Commission ensures that these GOCCs will strictly comply with the processing time of public services they have committed to the Cabinet Secretary.

93. **In response to the various challenges that the GOCC sector faced upon the implementation of the Compensation Position Classification System (CPCS) under E.O. No. 203, s. 2016, the Governance Commission proposed for the suspension of the CPCS.** The President approved the said proposal and issued E.O. No. 36, s. 2017, which likewise provided for an interim measure designed to mitigate the effects of the said suspension

[19] No. of Remitting GOCCs reported include GOCCs excluded from RA No. 10149

pending the issuance of a new CPCS. Under the new Executive Order, GOCCs exempt from Salary Standardization Law (SSL) were given the option to adopt the Modified Salary Schedule under EO No. 201, series of 2016 (SSL IV). SSL-Covered GOCCs were also made to adopt said SSL IV, subject to the adequacy or sufficiency of their corporate funds, and further subject to the approval of the GCG.

Moving Forward in Pursuit of the GCG Mandate

94. **The Governance Commission is currently studying the rationalization of 2 GOCCs** through abolition, decoupling of regulatory and commercial functions and privatization this 2018.

95. **GCG initially reviewed 12 GOCCs for competition issues of which one was recommended for decoupling in 2017.** For 2018, GCG shall identify and recommend proper dispositive action for the GOCCs and to review additional GOCCs for possible competition issues.

96. **The GCG is working towards the development of a risk management framework for GOCCs to better guide the latter in exercising risk management practices.** GCG targets to roll out in 2019 Policies and Programs for Enterprise Risk Management System for GOCCs.

97. **As its commitment to the Open Government Partnership, the GCG developed a standardized methodology on the conduct of the GOCCs' Customer Satisfaction Survey that will periodically indicate the perceived satisfaction level of their respective customers with respect to GOCC operations and services.** This ensures that GOCCs gather their customers' feedback, informing them of the services they do well and those that need improvement. It also serves as an indicator of the satisfaction of their customers with their services. As GOCCs adopt a standard methodology on the Customers' Satisfaction Survey and strive to achieve a Satisfactory rating, they will be driven to continually improve their delivery of services. The GCG shall roll out a Policy on Improving GOCC Performance by using Customer Satisfaction Information;

98. **It enhanced the current Integrated Corporate Reporting System portal** to enable faster correlation and disaggregation of data as well as the identification of trends in support of the policy-making and oversight functions not only of GCG but also DOF, DBM, and COA. The public portal will serve as an online central repository for all information on GOCCs open to the general public.

99. **The Governance Commission will be coming up with a new CPCS that will better reflect the distinct issues of each industry within the GOCC sector**. The GCG will engage with experts in the field of human resource management to ensure that the compensation packages are competitive with the private sector and will attract, retain, and motivate a corps of competent civil servants to provide a world-class quality of public service. This will be achieved while ensuring that the compensation schemes are reasonable, justifiable, and appropriate, and that the remuneration packages are neither unconscionable nor excessive.

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

100. Infrastructure development was identified as one of the bedrock strategies that can solidly support a higher and more inclusive growth. In this regard, the government embarked on its "Build, Build, Build" program that is meant to usher in a "Golden Age of Infrastructure," significantly increasing programmed investment in infrastructure. In 2017, seventy-five (75) projects were identified as flagship projects (see Annex A). These projects are seen to promote growth centers outside the urban-industrial region and generate the much needed employment.

101. As of 25 April 2018, thirty-five (35) infrastructure flagship projects (IFPs) were approved by the NEDA Board, two (2) of which are ongoing construction, twenty-two (22) projects are for implementation within the year, while eleven (11) will be implemented next year. Among the projects approved by the NEDA Board are high-impact rail projects including the Metro Manila Subway-Phase 1, the Philippine National Railways (PNR) North 2 Project that will connect Clark Green City to Malolos, Bulacan, and the PNR South Commuter Line, which will run from Tutuban to Los Baños, Laguna. In addition, five (5) projects that did not go through the NEDA Board are ongoing construction. Among these are three Clark Green City Projects – government center, commercial center, and mixed-income housing.

102. Twenty-six (26) of the projects approved by the NEDA Board, with a total indicative cost of about PhP1.08 trillion, are for possible funding under Official Development Assistance (ODA) Loans, while seven (7) projects are for local funding, and two (2) are considered for PPP modality. Three out of the five ongoing projects that did not go through the NEDA Board were funded under a PPP-Joint Venture, one was funded under an ODA, and the remaining one wa funded under the GAA.

103. **The government's PPP portfolio has grown to include 16 awarded projects with a total project cost of PhP323.06 billion as of 31 March 2018.** The Clark International Airport Expansion Project - Engineering, Procurement, and Construction (EPC), with a NEDA Board approved cost of PhP12.55 billion, is the recent addition to the list of awarded PPP projects since 2010. It involves the construction of a new Passenger Terminal Building of the Clark International Airport, with a design capacity of eight (8) million passengers per annum. Bases Conversion and Development Authority awarded the project to the Megawide GMR Consortium on 18 December 2017, and the EPC Agreement was signed on 29 January 2018.

Table 17. Philippines: List of Awarded PPP Projects

Awarded Projects	NEDA Board Approved Project Cost (PHP billion)	NEDA Board Approved Project Cost ($ billion)[20]	Implementing Agency
Daang Hari-SLEX Link Road Project (Muntinlupa-Cavite Expressway)[21]	2.23	0.04	DPWH
PPP for School Infrastructure Project (PSIP) Phase I[22]	9.89	0.20	DepEd
Automatic Fare Collection System Project	1.72	0.03	DOTr
NAIA Expressway Project[23]	17.93	0.36	DPWH
PSIP Phase II[24]	3.86	0.08	DepEd
Mactan-Cebu International Airport New Passenger Terminal Building Project	17.52	0.35	DOTr and MCIA
Metro Manila Skyway Stage 3 Project[25]	37.43	0.75	TRB
Southwest Integrated Transport System Project (Parañaque Integrated Terminal Exchange)	2.50	0.05	DOTr
MRT Line 7	62.70	1.25	DOTr
Bulacan Bulk Water Supply Project	24.41	0.49	MWSS
Civil Registry System-Information Technology (IT) Project (Phase II)	1.59	0.03	PSA
Cavite-Laguna Expressway[26]	35.43	0.71	DPWH
LRT Line 1 Cavite Extension and Operations and Maintenance[27]	64.90	1.30	DOTr and LRTA
South Integrated Transport System Project (Taguig	5.20	0.10	DOTr

[20] 1 $ = 50 PHP

[21] The original project cost approved by the NEDA Board on July 8, 2011 was PhP1.956 billion. The cost increased to PhP2.23 billion due to the payment for the advance works improvements amounting to PhP0.05 billion as approved by the Investment Coordination Committee-Cabinet Committee on November 29, 2011; and the Government-Initiated Variation Cost amounting to PhP0.223 billion due to change in design.

[22] The Approved Budget Ceiling for the Build-Lease-Transfer contracts of the three (3) packages is PhP16.43 billion inclusive of the additional costs (i.e. interest, VAT), which were not included in the NEDA Board approval.

[23] The original project cost approved by the NEDA Board on May 30, 2012 was PhP15.86 billion. The cost increased to PhP17.93 billion due to the Government-Initiated Variation amounting to PhP2.07 billion due to change in alignment.

[24] The original project cost approved by the NEDA Board on November 29, 2012 was PhP13.14 billion. However, only two out of the five contract packages were successfully procured amounting to PhP3.86 billion.

[25] Cost is based on the Final Engineering Design as approved by the Toll Regulatory Board.

[26] This does not include the approved minimum bid price amounting to PhP20.105 billion.

[27] This is inclusive of the ODA component amounting to PhP19.83 billion.

Awarded Projects	NEDA Board Approved Project Cost (PHP billion)	NEDA Board Approved Project Cost ($ billion)[20]	Implementing Agency
Integrated Terminal Exchange)[28]			
NLEX - SLEX Connector Road Project	23.20	0.46	DPWH
Clark International Airport Expansion Project	12.55	0.25	BCDA
TOTAL	**323.06**	**6.46**	

104. **To help boost the government's Build, Build, Build Program, the PPP Center has strengthened its efforts to bring PPPs at the LGU level.** On 28 September 2017, the Public-Private Partnership Center (PPP Center) launched its LGU PPP Strategy, which aims to empower LGUs in coming up with their own PPP projects. In the said strategy, the PPP Center shall provide assistance to LGUs which will implement PPP projects in priority sectors such as but not limited to: water supply and/or sanitation facilities, solid waste management facilities, vertical infrastructure, and transport terminals. The PPP Center will also provide PPP training and other capacity building activities, support in developing PPP ordinances, assistance in project development and implementation, among others, to the LGUs.

105. **Furthermore, the government is pursuing the hybrid approach for infrastructure development.** Said approach of implementing PPPs aims to bring down the cost of constructing infrastructure through the use of Official Development Assistance or government funding to cover capital expenditures, while maximizing private sector efficiency in financing operations and maintenance.

106. **Finally, the government has expressed its openness to unsolicited PPP proposals, which would allow it to take advantage of the technology and innovations of the private sector in implementing infrastructure projects**. Some of the big-ticket unsolicited proposals received by the implementing agencies were the Bulacan International Airport Project, East-West Rail Project, and the Integrated Flood Control, Coastal Defense and Expressway Project of Manila Bay, which are currently under the approval stage. About eight (8) unsolicited proposals are currently being reviewed by various implementing agencies.

107. **With all the above mentioned initiatives to support infrastructure growth both in the national and local level, about 16 additional PPP projects are expected to be awarded from 2018-2019.** These include the 11 projects to be implemented by NGAs and GOCCs, and five (5) projects to be implemented by Local Government Units (LGUs). The PPP projects shown in the table below cover various sectors such as rail, airport, IT, energy, water supply, solid waste management, and health infrastructure.

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[28] The project cost includes the construction cost of the C5-FTI-Skyway Connector Road (access ramp) amounting to PhP1,198.093 million, and cost of land for the Food Terminal Inc. (FTI) site.

Table 18. Philippines: PPP Projects Expected to be Awarded from 2018 to 2019

Project	Implementing Agency	Indicative Project Cost (PHP billion)	Target Award Date
Marawi Rehabilitation Project	NHA	TBD	2Q 2018
Clark International Airport Operation and Maintenance	BCDA	7.35	2Q 2018
Baggao Water Supply Project	Municipality of Baggao	0.08	3Q 2018
QC Waste to Energy Project	Quezon City	15.00	3Q 2018
Road IT Project	DOTr & LTFRB	0.298	3Q 2018
East-West Rail Project	PNR	46.62	4Q 2018
New Manila International Airport	DOTr	700.00	4Q 2018
MCIA Integrated Development Project	MCIA	208.00	4Q 2018
Cebu Solid Waste Management Project	Cebu City	TBD	4Q 2018
Cagayan De Oro (CDO) Septage Project	CDO Water District	TBD	4Q 2018
Pampanga Bulk Water Supply Project (Districts 1,3,4)	Province of Pampanga	16.7	4Q 2018
Vaccine Production Research and Development Facility Project	DOH	TBD	1Q 2019
Angat Hydroelectric Power Plant (AHEPP) Project Rehabilitate, Operation and Maintenance of Turbines #4 and #5 of the AHEPP facility	MWSS	1.56	1Q 2019
San Ramon New Port Project	ZFA	30.00	1Q 2019
Pampanga Bulk Water Supply Project (Districts 2)	Province of Pampanga	8.80	3Q 2019
University of the Philippines – Philippine General Hospital	University of the Philippines	TBD	4Q 2019

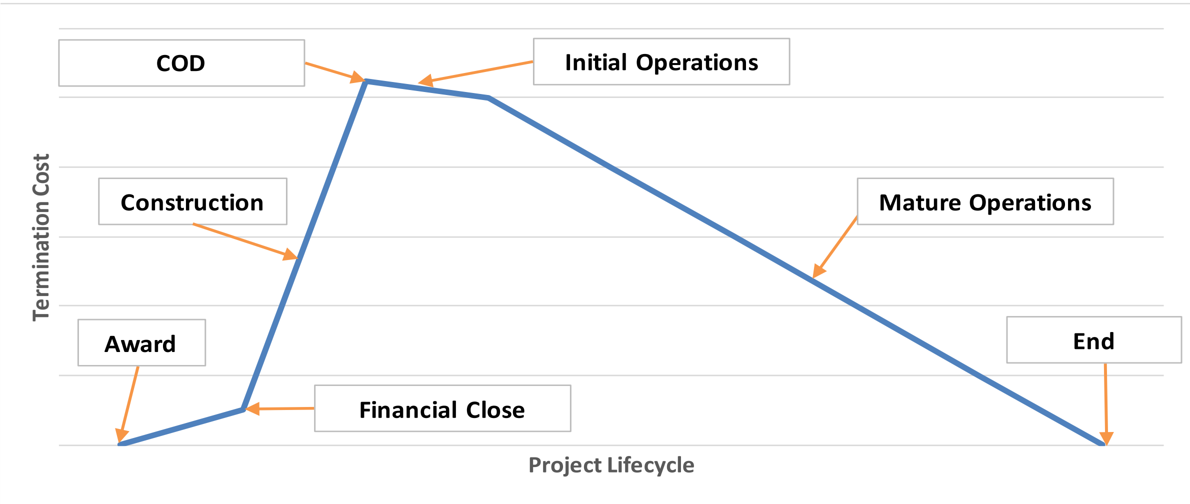
108. **To manage CLs arising from the growing PPP portfolio, the DBCC approved the Implementing Guidelines that governs the use of unprogrammed appropriations for the FY 2017 Risk Management Program (RMP).** In general, implementing agencies may tap the RMP to pay for obligations arising from events specified in a PPP Contract, the occurrence, timing, and/or amount of which are uncertain. On the other hand, payments for contractual obligations that are known to the implementing agencies shall be coursed through the standard appropriations process. It should be noted, however, that the use of unprogrammed appropriations for the RMP may only be allowed if there are excess revenues or if there are revenues arising from new sources.

After its pilot implementation in 2017, the Technical Working Group on CLs is now working on the updated Guidelines for 2018 that is intended to be applicable for succeeding FYs where an amount for the government's RMP is appropriated in the GAA.

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

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

Figure 4. Contingent Risks Per PPP Phase



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

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

111. **The stock of CLs arising from PPPs for 2018 is estimated to be about PhP226.0 billion, PhP36.0 billion less than the previous estimate.** The decrease comes from projects maturing in operation, thereby incurring less risk and the addition of only one project, the Clark International Airport Expansion Project, to the list of awarded PPP Projects. On the other hand, PhP22.6 billion is the estimated flow of CLs.

112. **As of 28 January 2018, the Light Rail Manila Corporation, project proponent for the LRT Line 1 Cavite Extension and O&M Project has filed claims amounting to PhP3.68 billion.** During the LRTA Board meeting on 6 November 2017, DOTr has agreed to pay for the undisputed claims for the Light Rail Vehicle (LRV) shortfall and fare deficit amounting to PhP499 million. The undisputed claims were due to non-compliance with the required turnaround time of trains, number of LRVs during the handover of the existing system to the concessionaire, and adjustment in the notional fare as specified in the PPP contract. DOTr and LRTA are exploring their option to tap the RMP to pay for the undisputed claim.

Policy Initiatives for the PPP Program

113. **In order to enhance the policy framework of the PPP Program by making it responsive to the current economic environment, the PPP Center has been pushing for the amendment of the existing Build-Operate-Transfer (BOT) Law.** The PPP Center continued its efforts for the enactment of the PPP Act this 17th Congress. The proposed PPP Act aims to provide clearer and simpler rules leading to faster implementations of PPP projects, enhance competition among prospective bidders, and help attract infrastructure investment by promoting public infrastructure financing. On 3 April 2018, the technical working group composed of relevant stakeholders was able to finalize the substitute bill consolidating the nine (9) PPP bills that were filed by various legislators to the Committee on Public Works and Highways of the House of Representatives. On the other hand, three (3) PPP bills were filed in the Senate Committee on Public Works and Highways.

114. **In addition, the PPP Center has proposed the following policy initiatives to further support the infrastructure agenda of the government:**

   a. *Framework outlining PPP Center's assistance to Joint Venture Agreements (JVAs)* - The framework for JVAs shall include the roles and responsibilities of the PPP Center such as project advisory services, trainings and capacity development, assistance in project approval, and other technical assistance to help LGUs and Government Owned and Controlled Corporations develop and implement joint venture projects.

   b. *Guidelines on Managing the PPP Component of a Hybrid Project* – Said Guidelines is envisioned to: (1) provide a standard understanding of the hybrid model; (2) provide actual guidelines and considerations in developing hybrid projects; (3) define the roles and responsibilities of concerned agencies; and (4) present the possible variations of the hybrid models in the context of the existing BOT Law and Revised IRR.

c. *Guidelines on Environmental and Social Safeguards* - Safeguard policies seek to avoid, minimize, or mitigate adverse environmental and social impacts, including protecting the rights of those likely to be affected or marginalized by the development process.

d. *PPP Center-DBM-and-DOF Joint Circular on the reporting of PPP Project Spending* – The Joint Circular intends to standardize the implementing agencies' and project proponents' periodic submission of data on projected and actual spending in PPP projects that help the government track infrastructure spending targets and performance in PPP projects.

C. LOCAL GOVERNMENT UNITS

Sector Performance Results for 2017

115. **Treasurer's Examination and Training and Continuing Capacity Building of Assessors (Standardized Examination and Assessment for Local Treasury Services or SEAL for Levels 1 and 2).** The BLGF, in cooperation with the CSC, has undertaken the SEAL Program for Levels 1 and 2 or the Basic Competency on Local Treasury Examination and for the Intermediate Competency in Local Treasury Examination.

116. **Updating of Local Finance and Operations Manuals and its Launching.** The BLGF conducted a soft-launch of the updated manuals, such as the Local Treasury Operations Manual (LTOM), the Manual for Real Property Appraisal and Assessment Operations, the Philippine Valuation Standards (PVS), and the Resource Mobilization Manual which are important tools for us to effectively capacitate the LGUs in their pursuit of economic growth and development.

117. **Focusing on Technical Supervision and Monitoring of LGUs.** The Bureau has evaluated the Local Treasury and Assessment Operations in at least 411 LGUs across the country. The BLGF Regions have specific focus areas in the conduct of evaluation such as: statutory compliance of local impositions and status of the local revenue code, good financial housekeeping, particularly the maintenance of updated cashbooks and good records management, collection target achievement, safekeeping and disbursement of local funds, organizational effectiveness of the local treasury office structure, particularly inn treasury-related roles and duties, customer feedback, among others. In the area of assessment operations, the focus was on the compliance with assessment rules and regulations, the Schedule of Market Value (SMV), data management for property values and assessments, and general housekeeping of records.

118. Improvement on the LGU Financial Reporting Compliance. In the two-years of reform, the Bureau already achieved 99.7 percent reporting compliance of all LGUs on Statement of Receipts and Expenditures (SRE). For the year 2017, the BLGF has focused on the integrity of reports and initiated the improvement on the accuracy and reliability on fiscal data on shares from national tax collections and shares from national wealth; started to pursue Harmonization of SRE with the Philippine Public Sector Accounting Standards; generated quality Environmental and Natural Resources Fiscal Data, especially considering the directives of the Department of Environment and Natural Resources to suspend and close some 28 mining firms; and evaluated the quality and reliability of the Quarterly Report on Real Property Assessments.

Outlook for 2019, Including 2018 Updates

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

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

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

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

121. Institutionalizing the national awards on local finance to recognize top performing LGUs, local assessors and treasurers across the country. BLGF will set up and institutionalize the national awards on local finance to recognize top performing LGUs, local treasurers and assessors across the country, and not just in NCR.

Sources of Fiscal Risks

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

123. Foregone RPT from Non-Updating of SMV. Local government units' estimated foregone RPT revenues from non-updating of SMVs is at least PhP11.57 billion. As of June 2017, a total of 142 or 63 percent of the provinces, cities and the lone municipality in Metropolitan Manila were still using outdated SMVs, thus undermining their potential to generate own-source revenues as mandated to them by law. The annual local revenue could increase by up to PhP25.75 billion if RPT collection efficiency is optimized using updated SMVs, which could be used to finance the basic services for local constituencies and reducing their dependence on national transfers.

Risk Mitigation Measures

124. Adoption of the LIFT for the submission of the Electronic Statement of Receipts and Expenditures (eSRE) Report. In order to monitor the fiscal and financial matters of the LGUs, BLGF issued Memorandum Circular No. 08-01-2017, "Adoption of the LGU Integrated Financial Tools System (LIFT) for the Submission of the eSRE Report". The LIFT is a web-based system that will serve as a portal to synchronize the LGUs' financial reporting requirements, particularly the eSRE system, with the oversight agencies including the DILG, DBM and BLGF.

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

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

126. **Property valuation and taxation.** Institute reforms in real property valuation and assessment in the Philippines. One such reforms is the proposed Valuation Reform Act (VRA), which primarily aims to establish unified standards and processes to govern the valuation of real property in the country, thereby enhancing the LGUs capacity to generate local revenues from real property. This will ensure rationalized real property valuations transcending political boundaries and promote the genuine fiscal autonomy of local governments to provide basic services to their constituency. The potential LGU gains from the impact of VRA will result in an estimated PhP41.33 billion increase in local tax collections. If fully enforced and properly administered, RPT offers progressive and stable sources of revenues that can be shared among the LGUs and the Local School Board, to finance the provision of basic services and education needs to the LGUs constituencies, thereby improving the service delivery to the public.

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

128. **Intensive and closer LGU fiscal monitoring and performance evaluation by the Bureau of Local Government Finance through standardized reporting tools and metrics.** These include a) eSRE; b) Local 41 Government Units Fiscal Sustainability Scorecard; c) Environment and Natural Resources Data Management Tool and d) Local Finance Portal. These tools could serve as bases to further improve the financial management of local governments so they can become more self-reliant and less dependent on NG subsidies. In addition, it could provide specific areas for improvement, e.g. increase collection from other revenue sources, improve the capacity of local treasurers, and enhance systems operations.

129. **Updating of key local finance manuals to take into account innovations and new policies, laws, jurisprudence, and other developments in local finance,** namely: a) LTOM; b) Manual on Real Property Appraisal and Assessment Operations; c) Local Resource Mobilization Manual; d) Manual for the Preparation of the SRE for LGUs; e) User and Systems Manual on Environment and Natural Resource Data Management Tool; and f) PVS.

D. NATURAL DISASTERS

Impacts of Natural and Human-Induced Disasters

130. Two (2) major typhoons were recorded in 2017 namely Tropical Storm Urduja and Typhoon Nina. On the other hand, while there have been clashes between the government troops and the ISIS-inspired Maute Group in 2016, the armed conflict in Marawi City only ensued on 23 May 2017. The table below shows the summary of damages and losses:

Table 19. Philippines: Damages and Losses Due to Natural and Human-Induced Disasters

Disaster/Event	Affected Regions	Total Damages (PHP Mil.)	Total Losses (PHP Mil.)	Total Damages & Losses (PHP Mil.)	Total Damages & Losses (% of GDP)	Impact to GDP growth (%)
Tropical Storm Urduja (December 2017)[a/]	4A, 4B, 5, 6, 7, 8, 11 and Caraga	2,467.5	2,060.3	4,527.8	0.03	-0.008
Typhoon Vinta (Dec. 2017)[a/]	4B, 7, 8, 9, 10, 11, 12, ARMM and Caraga	563.8	2,225.3	2,789.1	0.02	-0.009
Marawi Siege[b/]	ARMM	12,654.9	6,514.4	19,169.3	0.12	-0.03

Sources of basic data: a/ NDRRMC Situation Reports; b/ Post Conflict Needs Assessment (PCNA) partial report for Marawi and other affected localities (as of 16 January 2018)

131. Tropical Storm Urduja recorded total damages and losses of approximately PhP4.53 billion. About two-thirds of total damages occurred in the Infrastructure Sector, and significant damage was also noted on agriculture, particularly rice, corn, banana, coconut, and other crops and vegetation. Eastern Visayas was the most affected region, with a total damage and loss of PhP3.4 billion or about 1 percent of their Gross Regional Domestic Product (GRDP).

132. Total damages and losses resulting from Typhoon Vinta amounted to PhP2.79 billion with the highest damage being recorded in rice and corn. Losses or foregone revenue can be attributed to the suspension of government work in 12 cities and municipalities in Regions IX, X and Caraga, cancelled flights and power and communication interruptions. Again, Eastern Visayas recorded the highest damages and losses at PhP 968.7 million or 0.3 percent of their GRDP.

133. Among the three major events in 2017, the Marawi Siege recorded the highest damages and losses amounting to PhP19.17 billion, or 0.12 percent of GDP. The Social Sector recorded the highest damage estimates, particularly the housing and education sectors. It should be noted, however, that damage to private industry and services were covered under housing given that almost all the stores are located in the ground floor or within the residences of the business owners. Majority of the losses incurred were from the Services sector, particularly on trade and repair of motor vehicles, motorcycles, personal and household goods, given that most of the establishments in the city engage in trade.

134. Based on the budget sensitivity to macroeconomic parameters, a 1 percentage point decline in real GDP growth rate will result in an increase in a budget deficit of PhP21.4 billion. Given that the Marawi crisis may result in a reduction in GDP growth by 0.03 percentage point in 2017, the budget deficit may increase by PhP642 million.

Disaster Risk Financing

135. National Disaster Risk Reduction and Management (NDRRM) Fund[29]. For FY 2018, the NDRRM Program has been approved with a total amount of **PhP19.6 billion** [30], broken down as follows:

a. **PhP7.6 billion** for the reconstruction, rehabilitation, repair, aid, relief and other works or services resulting from natural disasters, epidemics (as declared by DOH), crises resulting from armed conflicts, insurgency, and terrorism, and other catastrophes occurring in the current of two (2) preceding years. This amount also covers pre-disaster activities, such as early warning related projects, stockpiling of emergency supplies, and DRRM capacity building activities.

b. **PhP2 billion** for the insurance coverage of government facilities against natural calamities with GSIS and subject to guidelines set by DBM, DOF, and GSIS.

c. **PhP10 billion** for recovery, rehabilitation, reconstruction, aid, and relief projects in Marawi City and other affected areas in connection with the occurrence of the armed conflict.

136. In addition to the NDRRM Program**,** a Quick Response Fund (QRF) with a total amount of **PhP7.6 billion** is also lodged under the agency budgets:

Table 20. Philippines: Allocation of QRF to Various Agencies

Agency	**Allocation** (PHP Million)
DSWD-OSEC	1,250
DND-OCD	500
DND-AFP	750
DOH-OSEC	500
NEA	100
DPWH	1,000
DepEd	2,000
DA	1,000
NIA	500
Total	**7,600**

[29] The NDRRM Fund is intended "for aid, relief, and rehabilitation services to communities/areas affected by man-made and natural calamities, and repair and reconstruction of permanent structures, including other capital expenditures for disaster operation, and rehabilitation activities."

[30] FY 2018 GAA, RA No. 10964, page 598.

137. Bangon Marawi Comprehensive Rehabilitation and Recovery Program (BMCRRP). NEDA, as the designated lead agency by the Task Force Bangon Marawi, is spearheading the formulation of the BMCRRP. The BMCRRP provides the comprehensive interventions for the rehabilitation and reconstruction of Marawi City and other localities affected by the armed conflict.

138. As of 5 February 2018, the total estimated cost to implement the programs, projects and activities in the BMCRRP was PhP46.60 billion. Of this amount, around 46 percent (PhP21.53 billion) is for implementation in 2018 while more than half (PhP25.07 billion) is for 2019 to 2022.

139. In terms of funding source, more than half (PhP25.31 billion) of the total estimated cost is proposed to be funded under the NDRRMF. The remaining funding requirements are to be coursed through the agency regular budgets (PhP5.65 billion), ARMM Regional Government (PhP5.83 billion), Provincial Government of Lanao del Sur (PhP77.97 million), City Government of Marawi (PhP1.34 billion) and non-government/development partner/private sector (PhP7.52 billion). Around PhP877.01 million has also been allocated for cost-sharing between the government and development partner/s.

140. For 2018 alone, the cost of programs, projects and activities to be funded under the PhP11.51 billion NDRRM Fund already exceeds the PhP10 billion Bangon Marawi component of the NDRRM Fund under the 2018 GAA. However, several proposed programs, projects and activities for 2018 may see their implementation moved to 2019 to address issues in terms of implementation readiness and absorptive capacity of NGAs, along with pending policy decisions on housing assistance and land resource management concerns, among others.

Risk Mitigation Measures

141. The total assets of the GSIS as of 31 December 2017 was at PhP1,101,096,896,997 with net income amounting to PhP94,022,582,676. The GSIS posted positive surplus for 2017 at PhP47.8 billion.

Table 21. Philippines: GSIS Cash Surplus/(Deficit) in IMF Format, FY 2017 Actuals

	2017	
	FULL YEAR	
REVENUES	77,770,955,087	158,506,896,487
Members Contributions		105,450,977,832
of which Contributions	55,332,736,752	
Investment Income and Other Earnings		53,055,918,655
of which from Holding of NG Securities	**22,438,218,335**	
EXPENDITURES		110,744,337,198
Benefits		95,105,389,365
Operating and Other Expenses		**9,243,974,202**
Policy Lending to Private and Private Sector		6,394,973,631
SURPLUS(+)/DEFICIT(-)		**47,762,559,289**

142. **The GSIS, by virtue of RA No. 656, as amended by Presidential Decree No. 245, is mandated to insure all properties, assets and interest of the government against any insurable risk.** For 2017, the Total Sum Insured covering various government properties, assets and interest is PhP806,288,993,972.67.

143. **Cognizant of the country's high risk and vulnerability to natural disasters, the Government is continuously implementing and exploring various instruments under its Disaster Risk Financing and Insurance Strategy** to mainstream disaster risk financing and reduction across three levels: at the national, local, and individual level and initiatives.

144. **At the national level, the Government has in place the second $500 million Disaster Risk Management Policy Loan with a Catastrophe-Deferred Drawdown Option which was acquired in 2016.** It is a stand-by credit facility that can be availed in the aftermath of a disaster and upon the declaration of a state of calamity. This will be disbursed as general budget support and will expire by September 2018.

145. **On the other hand, a pilot Parametric Insurance Program was launched last 28 July 2017. This provides cover to the 25 most vulnerable provinces[31] located along the Eastern Seaboard and appropriate Government Agencies, at the onset of typhoons and earthquakes through quick and immediate payout for post-disaster relief activities**. The BTr is the Policyholder of the parametric insurance cover amounting to PhP1 billion, in line with the Special Provision 1c of the NDRRM Fund Section of the 2017 GAA (RA No. 10924).

146. **Lastly, the DOF is currently working with various line agencies in order to develop the Disaster-Resilient Greater Metro Manila Area (DRGMMA) Framework,** which envisions to build a strong, safe, and resilient Philippines against the occurrence of natural disasters, especially in anticipation of the estimated 7.2 magnitude earthquake expected to hit the Greater Metro Manila Area. The initial action plans of the DRGMMA Framework were approved by the President last 5 December 2017.

147. **Under Administrative Order No. 4, the Inter-Agency Committee on Government Property Insurance (IAC-GPI) was created.** The IACGPI has proposed initiatives to improve the disaster resiliency of the country**.** Its main project proposal is for the insurance of key strategically important assets of the NG. The program aims to indemnify these assets against natural disasters such as typhoons and earthquakes.

148. **The BTr is tasked to establish and maintain a consolidated registry of fixed assets of the National Government.** The creation of Asset Registry Division (ARD) and Acquired Asset Management Division was approved by

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[31] The 25 provinces with typhoon insurance cover include Albay, Aurora, Batanes, Cagayan, Camarines Norte, Camarines Sur, Catanduanes, Cebu, Davao del Sur, Davao Oriental, Dinagat Islands, Eastern Samar, Ilocos Norte, Ilocos Sur, Isabela, Laguna, Leyte, Northern Samar, Pampanga, Quezon, Rizal, Sorsogon, Surigao del Norte, Surigao del Sur and Zambales.

DBM last December 2017. The ARD provides technical assistance to the IAC-GPI; and also for the creation and maintenance of an asset registry system for the NG's non-financial asset.

ANNEX A. INFRASTRUCTURE FLAGSHIP PROJECTS (IFPs)

No.	Project Title	Location	Funding Source
1	Regional Fish Port Project for Greater Capital Region (Upgrading / Rehabilitation of Navotas Fish Port Complex)	NCR	GAA
2	Rehabilitation of all Agus-Pulangi Hydroelectric Plant Units	Region X	ODA
3	Mindanao Railway Project (Phase 2)	Region XI, Region XIII	ODA
4	Mindanao Railway Project (Phase 3)	Region X, Region XI, Region XII, Region XIII	ODA
5	Circumferential Road 3 (C3) Missing Link Project	NCR	ODA
6	North Luzon Expressway East, Phase I and II	Region III	ODA
7	Pasacao - Balatan Tourism Coastal Highway	Region V	ODA
8	Camarines Sur Expressway Project (San Fernando-Pili Section)	Region V	ODA
9	Camarines - Catanduanes Friendship Bridge (Nationwide Island Provinces Link Bridges)	Region V	ODA
10	Panay-Guimaras-Negros (PGN) Island Bridge Project	Region VI, NIR	ODA
11	Bohol - Leyte Link Bridge (included in the Nationwide Island Provinces Link Bridges)	Region VII, Region VIII	ODA
12	Cebu - Negros Link Bridge (Nationwide Island Provinces Link Bridges)	Region VII, NIR	ODA
13	Cebu - Bohol Link Bridge (Nationwide Island Link Bridges)	Region VII	ODA
14	Road Network Development Project in Conflict Affected Areas in Mindanao	Region IX, Region X, Region XI, Region XII, Region XIII	ODA
15	Davao City Expressway Project	Region XI	ODA
16	Dalton Pass East Alignment Alternative Road Project (East Dalton Bypass Project)	Region II, Region III	ODA
17	Quezon-Bicol Expressway	Region IV-A, Region V	GAA
18	Luzon - Samar Link Bridge (Nationwide Island Provinces Link Bridges)	Region V, Region VIII	ODA
19	Leyte - Surigao Link Bridge(Nationwide Island Link Bridges)	Region VIII, Region XIII	ODA
20	Aqueduct No. 7 (AQ-7)	Region III, NCR	ODA
21	Ipo Dam No. 3	Region III, NCR	ODA
22	Ilocos Norte Irrigation Project, Stage 2	Region I	ODA
23	Bohol Northeast Basin Multipurpose Project	Region VII	ODA
24	Asbang Small Reservoir Irrigation Project	Region XI	ODA
25	Malitubog-Maridagao Irrigation Project, Phase II	ARMM, Region XII	Japan (Loan)/ GAA

No.	Project Title	Location	Funding Source
26	Rehabilitation / Improvement of the Zamboanga Fish Port Complex	Region IX	GAA
27	New Cebu International Container Port	Region VII	Korea (Loan)
28	Subic-Clark Railway Project	Region III	China(Loan)/GAA
29	Ambal-Simuay River and Rio Grande de Mindanao River Flood Control Projects	Region XII	China(Loan)
30	Palanca-Villegas (2nd Ayala) (initially submitted as Ayala Bridge)	NCR	China (Loan)
31	Beata-F.Y. Manalo Bridge (initially submitted as Pandacan-Sta Ana Bridge)	NCR	China(Loan)
32	Blumentritt-Antipolo Bridge	NCR	China (Loan)
33	Marikina-Vista Real Bridge (initially submitted as Kabayan-Katipunan Bridge)	NCR	ADB (Loan)
34	J.P. Rizal - Lopez Jaena Bridge (initially submitted as Reposo-Guatemala Bridge)	NCR	ADB (Loan)
35	J.P. Rizal - St. Mary Bridge (initially submitted as JP Rizal-Yale Bridge)	NCR	ADB (Loan)
36	Mercury-Evangelista Bridge (initially submitted as G. Gabriel Mercury Ave Bridge)	NCR	ADB (Loan)
37	East-west Bank Bridge 1	NCR	ADB (Loan)
38	East-west Bank Bridge 2	NCR	ADB (Loan)
39	North and South Harbor Bridge (initially submitted as Robinson Bridge)	NCR	China (Loan)
40	A. Clark International Airport Expansion Project	Region III	PPP
	B. Clark International Airport Expansion Project - PPP O&M Concession	Region III	PPP
41	Nationwide Fish Ports Project (Package III)		GAA
42	PNR North 2 (Malolos-Clark Airport-Clark Green City Rail)	NCR, Region III	Japan (Loan)
43	PNR South Commuter Line (Tutuban-Los Baños)	Region IV-A, NCR	Japan (Loan)
44	PNR South Long-haul (Manila-Bicol)	Region IV-A, Region V	China(Loan)
45	Metro Manila Subway Project - Phase 1	NCR	Japan (Loan)
46	MRT-LRT Common Station Project	NCR	GAA
47	Iloilo International Airport Project	Region VI	GAA
48	New Bohol Airport - O&M Concession	Region VII	PPP
49	Bacolod-Silay International Airport Project	NIR	GAA
50	Laguindingan International Airport Project	Region X	GAA
51	Davao International Airport Development Project	Region XI	GAA
52	Mindanao Rail Project (Phase 1) - Tagum Davao Digos Segment	Region XI	GAA
53	Binondo-Intramuros Bridge	NCR	China (Grant)

No.	Project Title	Location	Funding Source
54	Estrella-Pantaleon Bridge	NCR	China (Grant)
55	Cavite Industrial Area Flood Management Project	Region IV-A	Japan (Loan)
56	Panguil Bay Bridge Project	Region X	Korea(Loan)
57	Balo-i Plains Flood Control Project	Region X	ODA
58	New Centennial Water Source - Kaliwa Dam Project	NCR, Region IV-A	China (Loan)
59	Gregorio del Pilar Impounding Project	Region I	ODA
60	Tumauini River Multipurpose Project	Region II	ODA
61	Panay River Basin Integrated Development Project	Region VI	ODA
62	Clark Green City Government Center (a component of National Government Administrative Center or NGAC)	Region III	PPP (JV)
63	Clark Green City Commercial Center (a component of NGAC)	Region III	PPP (JV)
64	Clark Green City Mixed-Income Housing (a component of NGAC)	Region III	PPP (JV)
65	Bonifacio Global City to Ortigas Center Road Link Project , Phase I, IIA & IIB	NCR	GAA
66	Improvement of remaining sections along Pasig River from Delpan Bridge to Napindan Channel	NCR	Japan (Loan)
67	Chico River Pump Irrigation Project	CAR, Region II	China (Loan)
68	Pulangi 4 Selective Dredging Phase 3	Region X	GAA
69	Metro Manila BRT - Phase 3 (BGC-NAIA Segment)	NCR	ODA
70	Agus 3 Hydroelectric Plant	Region X	Private
71	Agus 6 Unit 4 Major Rehabilitation Project	Region X	ODA
72	Metro Manila BRT - Line 1 (Quezon Avenue)	NCR	WB/AFD (Loan)
73	Metro Manila BRT - Line 2 (EDSA/Central)	NCR	ADB (Loan)
74	Sheridan-JP Rizal Bridge	NCR	ODA
75	Mindoro - Batangas Super Bridge	Region IV-A, Region IV-B	TBD