FISCAL RISKS STATEMENT

2021

Development Budget Coordination Committee

List of Acronyms and Abbreviations

AFP	Armed Forces of the Philippines
AML	Anti-Money Laundering
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN	Association of Southeast Asian Nations
BCDA	Bases Conversion and Development Authority
BESF	Budget of Expenditures and Sources of Financing
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BOC	Bureau of Customs
BPF	Budget Priorities Framework
BPO	Business Process Outsourcing
BSFIs	BSP-Supervised Financial Institutions
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
CAAP	Civil Aviation Authority of the Philippines
CCC	Climate Change Commission
CIC	Credit Information Corporation
CL	Contingent Liability
COA	Commission on Audit
Coalition	Coalition of Finance Ministers for Climate Action
COVID-19	Coronavirus Disease 2019
CPSFP	Consolidated Public Sector Financial Position
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DILG	Department of Interior and Local Government
DND	Department of National Defense
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DPWH	Department of Public Works and Highways
DRRM	Disaster Risk and Reduction Management
DSWD	Department of Social Welfare and Development
ECQ	Enhanced Community Quarantine
FX	Foreign Exchange
FY	Fiscal Year
GAA	General Appropriations Act
GCG	Governance Commission for GOCCs
GCQ	General Community Quarantine
GDP	Gross Domestic Product
GFI	Government Financial Institutions

GIR	Gross International Reserves
GMS	GOCC Monitoring System
GOCC	Government-Owned and Controlled Corporations
GSIS	Government Service Insurance System
IATF-EID	Inter-Agency Task Force on Emerging Infectious Disease
ICC	Investment Coordination Committee
ICRS	Integrated Corporate Reporting System
IMF	International Monetary Fund
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
IRRBB	Interest Rate Risk in the Banking Book
LCR	Liquidity Coverage Ratio
LGC	Local Government Code
LGU	Local Government Unit
LIBOR	London Inter-Bank Offer Rate
LRTA	Light Rail Transit Authority
MB	Monetary Board
MIAA	Manila International Airport Authority
MNFGC	Major Non-Financial Government Corporations
MOA	Memorandum of Agreement
MOOE	Maintenance and Other Operating Expenditures
MPBF	Miscellaneous Personnel Benefit Funds
MUP	Military and Uniformed Personnel
MWSS	Metropolitan Waterworks and Sewerage System
NARS	National Asset Registry System
NCR	National Capital Region
NDC	Nationally Determined Contributions
NDRRMC	National Disaster Risk Reduction and Management Council
NDRRMF	National Disaster Risk Reduction and Management Fund
NEA	National Electrification Administration
NEDA	National Economic and Development Authority
NFA	Net Foreign Assets
NFA	National Food Authority
NG	National Government
NHA	National Housing Authority
NIA	National Irrigation Authority
NIIP	National Indemnity Insurance Program
NPC	National Power Corporation
NPL	Non-Performing Loan
NSFR	Net Stable Funding Ratio
OF	Overseas Filipinos
OPEC	Organization of the Petroleum Exporting Countries
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PAGCOR	Philippine Amusement and Gaming Corporation
PAP	Programs, Activities and Projects
PCIC	Philippine Crop Insurance Corporation

PCM	Provinces, Cities and Municipalities
PDP	Philippine Development Plan
PDNA	Post Disaster Needs Assessment
PES	Performance Evaluation System
PGF	Pension and Gratuity Fund
PHIC	Philippine Health Insurance Corporation
PHIVOLCS	Philippine Institute of Volcanology and Seismology
PNOC	Philippine National Oil Company
PPA	Philippine Ports Authority
PPP	Public-Private Partnership
PSA	Philippine Statistics Authority
PSALM	Power Sector Assets and Liabilities Management Corporation
QBs	Quasi-Banks
QRF	Quick Response Fund
ROE	Return on Equity
RRP	Reverse Repurchase
SAP	Social Amelioration Program
SBWSP	Small Business Wage Subsidy Program
SC	Supreme Court
SDG	Sustainable Development Goals
SSS	Social Security System
TDF	Term Deposit Facility
TSI	Total Sum Insured
UA	Unprogrammed Appropriations
UC	Universal Charge
U/KB	Universal and Commercial Bank
UCPB	United Coconut Planters Bank
WAIR	Weighted Average Interest Rate
WHO	World Health Organization
YoY	Year-on-Year
YTD	Year-to-Date

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I. EXECUTIVE SUMMARY

A. **The Philippine economy continued its strong growth momentum at 6.0 percent in 2019. However, the unraveling of the COVID-19 pandemic and the need to impose quarantine measures to control the outbreak unsprisingly weighed down economic activity, leading to a 9.0 percent first-half contraction.** Domestic demand and major sectors on the supply side slumped from curtailed economic activities and limited mobility due to the initial imposition of the Luzon-wide enhanced community quarantine (ECQ) in response to the coronavirus disease (COVID-19) pandemic. The country is expected to make a rebound in growth as the economy, propped up by stimulus measures, gradually reopens.

B. **Macroeconomic fundamentals remain resilient putting the country in a very good position to weather unexpected shocks.** Headline inflation was benign as international oil prices declined due to weak global demand and accommodative monetary policy promptly adjusted to ensure ample liquidity in the financial system in response to the pandemic. Moreover, the Philippine peso remains stable, supported by high international reserves and low external debt. Until a vaccine for COVID-19 widely becomes available, global conditions will continue to be wary, posing persistent risks from the adverse impact of the unpredictable nature of the pandemic crisis.

C. **Ample fiscal space allows the National Government (NG) to address the COVID-19 pandemic even as the budget deficit is projected to more than double as revenue collection drops and government speeds up spending on response and mitigating measures.** The slow revenue outturn attributed to ECQ and the extension of deadlines for tax filing and payments was slightly offset by early remittances of dividends from state-owned corporations. Meanwhile, spending is accelerated to enhance healthcare capacity and provide relief to affected sectors by the pandemic. Maintaining fiscal prudence, the country will continue to keep deficit levels at a manageable and sustainable path in support of economic recovery.

D. **NG debt ratio is expected to increase sharply in 2020 and gradually over the medium term driven by lower nominal GDP path and higher borrowing requirement amid the pandemic.** After achieving a record-low of 39.6 percent in 2019, the debt-to-GDP ratio is seen to widen up to 53.9 percent by end of 2020 as the government tap domestic and international debt markets to plug shortfall in revenue collections and fulfill funding of COVID-19 response efforts. However, the country's strengthened credit rating, as well as harmonious coordination between fiscal and monetary policy, has helped keep borrowing costs low despite the increased funding requirement. Moreover, despite the higher expected debt outcome, long-term debt sustainability remains intact, with the debt trajectory seen to easily revert to a downtrend upon the restoration of pre-COVID-19 growth and deficit levels.

E. **The Philippine banking system remains robust with firm asset growth, sustained profitability and strong capitalization going into uncertainties brought by COVID-**

19. The Bangko Sentral ng Pilipinas (BSP) issued relief measures to assist financial institutions and support enterprises and remained committed to the pursuit of financial sector reforms amid the changing market conditions. Furthermore, several reforms have been implemented to direct the banking system into a more inclusive, sound and stable financial system.

F. The NG has continued its management of contingent liabilities and fiscal risks arising from Public Private Partnerships (PPPs) projects through constant monitoring and enhancing the valuation of contingent liability stock and flows.

G. Government Owned- and Controlled-Corporations perform a critical role in line with the performance of their mandate and as a source of revenue through dividends. Despite the adverse effect on operations and profitability, the GOCC sector played a major part in the COVID-19 response by buttressing government resources through record dividend remittance as well as extending assistance and relief measures for stakeholders. In total, GOCC sector performance is expected to improve in 2021 as operations normalize.

H. Local government units (LGUs) are experiencing fiscal stress given the decline in revenues caused by economic uncertainties and their frontline role in the pandemic's response and mitigation efforts.

I. **The country's exposure to natural disasters remains a critical source of fiscal risks**. Early in 2020, rehabilitation and recovery were prioritized following the phreatic eruption of Taal Volcano, affecting the majority of Region IV-A which was placed under a State of Calamity. Accordingly, the government is strengthening policies and measures that would manage risks from natural and unnatural disasters.

J. **The COVID-19 pandemic has affected millions of people globally, including the Philippines.** The country confirmed its first case on 30 January 2020 and first local transmission on 7 March 2020 that resulted in a Luzon-wide ECQ that halted mobility in the island. The House of Representatives and Senate of the Philippines enacted the Bayanihan to Heal as One Act (R.A. 11469) to address the current situation that calls for urgent measures to contain the spread of the virus. The law allowed the government to reprioritize the 2020 National Budget to respond accordingly to the national health emergency.

II. MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

1. **Coming from relatively strong growth of 6.0 percent in 2019, the Philippine economy contracted by 0.7[1] percent in Q1 2020 mainly due to the COVID-19 pandemic and to some extent, the impact of the Taal Volcano eruption in January 2020.** This is the first time real GDP growth fell into negative territory since the Asian Financial Crisis in 1998. The country faced significant socioeconomic shocks in the first quarter of 2020 from the Taal volcano eruption in January; a significant decline in tourism and trade starting in February due to the COVID-19 pandemic; and the implementation of the ECQ in Luzon and other parts of the country starting March.

   Compared with other major emerging market economies in the region that have already released their Q1 2020 real GDP growth, the Philippines ranked fourth, behind Vietnam (3.8 percent), Indonesia (3.0 percent), and Malaysia (0.7 percent), but higher than China (-6.8 percent).

2. **On the expenditure side, domestic demand declined by 3.1 percent in Q1 2020 from 5.9 percent in Q4 2019.** In detail, growth in capital formation (- 17.4 percent in Q1 2020 from 2.5 percent in Q4 2019) fell, driven by a drawdown in inventories and weaker construction spending of both government (-0.6 percent from 32.4 percent) and corporations (-5.0 percent from 12.9 percent). In addition, household consumption (0.2 percent from 5.7 percent) and government consumption (7.0 percent from 17.0 percent) also significantly slowed down during the period. Meanwhile, net exports recorded some gains (20.0 percent from 2.6 percent) in Q1 2020 driven by the larger decline in total imports compared to export.

3. **On the supply side, all major sectors of the economy posted weaker growth** which can be largely attributed to the implementation of the ECQ since mid- March 2020, wherein only those that provide essential goods and services were allowed to operate.

   Services sector growth significantly moderated to 0.6 percent in Q1 2020 from 8.1 percent in the previous quarter driven by the deceleration in trade (1.9 percent in Q1 2020 from 8.5 percent in Q4 2019) and public administration & defense (5.5 percent from 21.3 percent) as well as the decline in transportation & storage (-11.4 percent from 4.7 percent) and accommodation & food service activities (-16.4 percent from 7.8 percent).

   Industrial output also contracted (-3.4 percent from 6.0 percent) as manufacturing (-3.8 percent from 4.3 percent) and construction (-2.9 percent from 10.7 percent) declined. Similarly, agriculture posted a -0.3 percent drop in Q1 2020 due to contraction in palay and fishery & aquaculture output.

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1 The Philippine Statistics Authority (PSA) has recently released the Revised and Rebased 2018 National Accounts of the Philippines.

Table 1. Macroeconomic Performance for 2017-2019 and NG Budget Assumptions for 2020 [a/]
(in percentage point, unless otherwise specified)

Particulars	2017		2018		2019		2020	
	BESF	Actual	BESF	Actual	BESF	Actual	BESF	Actual
Real GDP growth	6.5-7.5	6.7	7.0-8.0	6.2	7.0-8.0	5.9	6.5-7.5	-9.0 [b/] (Jan-Jun)
Inflation (2012=100)	2.0-4.0	2.9	2.0-4.0	5.2	2.0-4.0	2.5	2.0-4.0	2.5 (Jan-Jul)
364-day T-bill rate [c/]	2.5-4.0	2.9	2.5-4.0	5.1	3.0-4.5	5.2	5.0-6.0	2.9 (Jan-Jul)
6-month LIBOR	1.0-2.0	1.5	1.5-2.5	2.5	2.0-3.0	2.3	1.5-2.5	1.0 (Jan-Jul)
Exchange rate *(₱/US$1)*	45.00-48.00	50.40	48.00-51.00	52.66	50.00-53.00	51.80	51.00-55.00	50.48 (Jan-Jul)
Dubai crude oil price *(US$/barrel)*	40.00-55.00	53.17	45.00-60.00	69.42	50.00-65.00	63.53	60-75	41.02 (Jan-Jul)
Goods exports growth [d/]	6.0	21.2	7.0	0.3 [r/]	9.0	2.7 [p/]	6.0	-4.3 [p/] (Jan-Mar)
Goods imports growth [d/]	10.0	17.6	10.0	11.9 [r/]	10.0	-3.0 [p/]	8.0	-10.3 [p/] (Jan-Mar)

Sources: NEDA, PSA, BTr, BSP. And 2017-2020 Budget of Expenditures and Sources of Financing (BESF)
a/ Macroeconomic assumptions adopted by the Development Budget Coordination Committee (DBCC), as published in the annual BESF that the Executive branch submitted to the Congress for the preparation of the General Appropriations Act (GAA)
b/ At constant 2018 prices
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
r/ – revised actual, p/ – preliminary actual

4. **Headline inflation settled within the government target of 3.0 percent ± 1.0 percentage point in 2019, moderating to 2.5 percent from the 5.2-percent full-year average in 2018.** Lower inflation outturn in 2019 could be attributed mainly to slower price increases of key food items supported by sufficient domestic food supply. The decline in domestic prices of petroleum products and electricity rates likewise contributed to the slowdown in headline inflation for the year. Similarly, core inflation decelerated to 3.2 percent in 2019 from 4.2 percent in 2018.

   Headline inflation settled at 2.5 percent in January-July 2020 and was within the government target of 3.0 percent ± 1.0 percentage point. Monthly headline inflation has been on a decelerating trend in early 2020. However, inflation has started to increase in June and July 2020 driven largely by rising international oil prices that, in turn, resulted in higher domestic petroleum prices as well as tricycle fare hikes. Meanwhile, food inflation continued to ease in July on slower inflation for key food items such as, fish, fruits, and vegetables. It should also be noted however, that year-on-year rice inflation has been less negative as rice prices increased due to bottlenecks in farming and trading activities amid quarantine measures along with strong local demand to shore up relief efforts.

5. **Following an increasing trend in 2018, domestic interest rates declined in 2019.** Nonetheless, the 2019 average 364-day T-bill primary market rate was broadly

unchanged at 5.2 percent from 5.1 percent average in the previous year. In the secondary market, the 364-day T-bill rate dropped from 6.8 percent in end-2018 to 3.4 percent in end-2019. The decreasing path in domestic interest rates in 2019 was influenced by multiple factors. Domestic price pressures moderated in 2019 amid lower prices of key food items. Thus, the BSP reduced its key policy rate by cumulative 75 bps in 2019 given continued deceleration in the inflation momentum and benign inflation outlook. In addition, lower global interest rates influenced by the shift of US Federal Reserve towards a looser policy stance pushed domestic interest rates down.

The 364-day T-bill rate averaged 2.9 percent in the auctions offered by the BTr in the first seven months of 2020. The results of the BTr auctions reflected market players' risk aversion amid geopolitical tensions between the US and Iran as well as concerns over the impact of Taal Volcano eruption in Q1 2020. However, a declining trend was observed in recent months following the reduction in both the policy rate and reserve requirement ratio by the BSP as well as BSP's liquidity-enhancing measures. Increased demand for short-tenor government debt notes amid uncertainties brought about by the COVID-19 pandemic and limited investment options have also helped bring yields down.

6. **A weaker global growth outlook and low inflation environment led to a more accommodative policy stance by major central banks, contributing to a decline in global interest rates.** This is in contrast with the rising trend observed in 2018 amid the monetary policy normalization by the US Federal Reserve. The average 180-day LIBOR settled at an average of 2.3 percent in 2019, slightly lower than the 2.5-percent average in 2018. The monthly average of 180-day LIBOR diminished from 2.8 percent in January 2019 to 1.9 percent in December 2019.

   The policy actions by the US Federal Reserve contributed to the decline in foreign interest rates, with the 180-day LIBOR continuing to drop in the first seven months of the year. The US Federal Reserve implemented two sizeable emergency rate cuts in March 2020, bringing the Fed funds rate to the zero lower bound[2]. In addition, the US Federal Reserve implemented further actions to stimulate economic activity, including the purchases of Treasury securities and agency mortgage-backed securities, and offering of large-scale overnight and term repurchase agreement operations. For the period January-July 2020, the 180-day LIBOR averaged at 1.0 percent, below the low-end of the 2020 BESF assumption.

7. **The Philippine peso appreciated slightly against the US dollar in 2019.** The peso-dollar exchange rate averaged ₱51.80/US$1 in 2019, slightly lower than the ₱52.66/US$1-mean in 2018. Moderating inflationary pressures given ample domestic food supply as well as looser monetary policy stance by the US Federal Reserve contributed to peso appreciation during the year. In 2019, the US Federal Reserve

[2] The US Federal Reserve reduced the Fed funds target rate by 50 bps to 1.00-1.25 percent and by another 100 bps to 0-0.25 percent in unscheduled policy meetings on 3 and 15 March 2020, respectively.

reduced the target Federal funds rate by cumulative 75 bps and is expected to remain accommodative over the near term. In addition, improved market sentiment over trade negotiations between US and China posed appreciation pressures on the peso.

Moreover, the peso-dollar exchange rate averaged at ₱50.48/US$1 in January-July 2020, slightly lower than the BESF assumption of ₱51.00-55.00/US$1 for 2020. Policy measures implemented by authorities to counter the impact of the COVID-19 on the economy calmed market sentiment, contributing to the stability of the currency. Moreover, trading volumes declined significantly during the community quarantine period as corporate dollar demand weakened. This was partly offset by depreciation pressures emanating from concerns over the US-Iran geopolitical tension as well as heightened fears over the extent of the impact of COVID-19 on the domestic and global economy.

8. **Average Dubai crude oil price eased in 2019, averaging at US$63.53 per barrel.** This was lower than the 2018 average but remained within the 2019 BESF assumption of US$50.00-US$65.00 per barrel for the year. Despite the decision by the Organization of the Petroleum Exporting Countries' (OPEC) and selected non-OPEC producers to further extend its agreement to reduce output until Q1 2020, concerns over global oil demand amid uncertainties surrounding the external environment, brought about mainly by the trade dispute between the US and China, exerted downward pressure on oil prices during the year.

   After Dubai crude oil prices bottomed out in April 2020, it started to pick up in succeeding months but still continue to be below the 2020 BESF assumption of US$60.00-US$75.00 per barrel in 2020. Oil prices have started to rise in May 2020 with the Organization of the Petroleum Exporting Countries and its allies (OPEC+) voluntary production cuts and the OPEC+ decision to extend its largest cut through July. At the same time, market optimism over demand recovery with reopening efforts by economies across the globe as well as results of initial testing for COVID-19 vaccines have also boosted oil prices. However, there remains considerable uncertainty over energy supply and demand dynamics given rising COVID-19 cases in certain countries such as the US.

9. **The preliminary trade-in-goods data for full-year 2019 show lower actual growth rates for exports and imports than the initial projections published in the 2019 BESF in July 2018**. This reflected mainly the upward revision in the 2018 actual merchandise trade data released by the BSP in September 2019, which resulted in a higher base of comparison for the actual 2019 growth in trade-in-goods[3]. Moreover, external trade slowed down from initial expectations as the pace of global growth turned out to be less vigorous than earlier projected, mainly attributed to the sharp and geographically broad-based deceleration in manufacturing and investment. For goods imports, lower crude oil prices and the slowdown in government spending mostly in the first half of 2019 have also partly played a role in its weak performance.

3 Due to data revision, it will not be appropriate to compare the initial assumptions and the actual data in terms of growth rates as they are computed from a different base.

10. Nonetheless, in terms of year-on-year performance, goods exports expanded by 2.7 percent to US$53.4 billion in 2019, faster than 0.3 percent growth in 2018. The year-on-year growth in total exports was on account of increased shipments of manufactures (2.1 percent), mainly electronic products (8.9 percent); fruits and vegetables (38.9 percent); and mineral products (10.8 percent). These gains more than offset the decreased shipments of petroleum, coconut, and other agro-based products.

Imports of goods decreased to US$99.8 billion in 2019, 3.0 percent lower than the US$103 billion a year ago. The decline was due mainly to lower importation of raw materials and intermediate goods (12.8 percent), and of mineral fuels and lubricant (8.7 percent), mainly purchases of petroleum crude (33.5 percent) as a result of the decline in both its import volume and international market price. However, the downturn posted in these commodity groups were tempered partially by increased imports of capital goods (6 percent), mainly telecommunication equipment and electrical machinery; and consumer goods (3.7 percent), mostly miscellaneous manufactures.

11. Based on preliminary trade-in-goods data for Q1 2020, exports of goods declined by 4.3 percent to US$11.7 billion in Q1 2020 from US$12.2 billion in Q1 2019. This developed on account of decreased demand from the country's major trading partners, i.e., China and the United States, and scaling back of orders due to the COVID-19 outbreak. By commodity, the decrease in exports of goods was evident in the 8.6 percent decline in shipments of manufactures, in particular, exports of electronic products; machinery and transport equipment; and chemicals. Meanwhile, exports of fruits and vegetables managed to grow by 26.5 percent following higher shipments of canned pineapple, pineapple concentrates, and other fruits and vegetables. Exports of mineral products likewise expanded by 12.9 percent owing to increased shipments of iron ore agglomerates and gold during the quarter.

Meanwhile, imports of goods dropped by 10.3 percent in Q1 2020 to US$21.9 billion from US$24.4 billion in Q1 2019. The decline stemmed largely from lower imports registered across all commodity groups, as domestic economic activity was adversely affected by the government-imposed lockdown. Imports of capital goods fell by 17.7 percent, attributed to lower purchases of telecommunication equipment and electrical machinery; power generating and specialized machines; and aircrafts, ships and boats. Moreover, imports of raw materials and intermediate goods also contracted by 8 percent on account of decreased imports of manufactured goods, chemicals, and unprocessed raw materials (largely inedible crude materials). Further, inward shipments of consumer goods dropped by 9.4 percent due to lower importation of rice and other miscellaneous manufactures. Lastly, imports of mineral fuels and lubricant also decreased by 8.4 percent due to lower import volume and decline in the international market price of petroleum crude.[4]

4 Based on data from the Department of Energy, the average price of Dubai crude oil in Q1 2020 declined to US$50.74/barrel from US$63.51/barrel in Q1 2019.

Macroeconomic Risks

12. **The Philippines' Gross Domestic Product (GDP) in real terms is projected to contract by -4.5 to -6.6 percent in 2020[5] in view of the impact of the COVID-19 pandemic.** With 60 percent to 80 percent of the economy under ECQ during the first one and a half months of the second quarter, the contraction in economic activities will likely worsen, before the economy starts to recover in the second half of 2020. Despite the challenges, the government's priority is clear: to protect the lives and health of the Filipino people.

13. The initial assistance provided by the government during the ECQ, including food packs, the Social Amelioration Program, and wage subsidies to employees of small businesses, was meant to address the immediate needs of households for survival. Moving forward, the government's efforts to restore business and consumer confidence in the country are seen to spur domestic demand for the remainder of the year. This will be supported by low and stable inflation which is expected to settle within the 2.0-4.0 percent target for 2020. In addition, the accommodative monetary policy stance of the BSP will support investment activities in the near term. To date, the central bank has already cut its key policy rates by cumulative 175 basis points (bps) this year to 2.25 percent[6] and lowered banks' reserve requirement by 200 basis points (bps)[7].

14. External trade will likely be affected by the subdued global economy, disruptions to trade and supply chains, and other uncertainties abroad. The International Monetary Fund estimates that the pandemic will result in a 3.0 percent contraction in the global economy in 2020[8].

15. Timely implementation of a well-targeted recovery program in 2020, alongside efforts of the private sector, will mitigate the impact of the COVID-19 pandemic. The economy is therefore expected to recover in 2021 with real GDP growth of 6.5 to 7.5 percent.

16. Domestic demand is seen to regain its momentum as both consumer and business confidence recover. Investments may pick up as the government continues its infrastructure program. The country may also benefit from the expected relocation of investments from China to other countries in the region as firms try to diversify their operations to reduce risks. Tourist arrivals may begin to normalize during the year, especially once a vaccine becomes widely available. The demand for BPOs may increase as overseas firms look for ways to cut costs.

17. Nevertheless internal and external risks remain. Until a vaccine is developed and made available locally, the risk of a resurgence of COVID-19 epidemic remains. The

5 Growth assumption adopted by the Development Budget Coordination Committee (DBCC) on July 28, 2020.

6 http://www.bsp.gov.ph/monetary/monetary.asp

7 http://www.bsp.gov.ph/publications/media.asp?id=5331

8 https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020.

emergence of animal-borne diseases such as the African Swine Fever and Bird Flu remains a challenge. The projected decline in government revenues amid muted economic activities, coupled with the increased government spending on COVID-19 response and mitigating measures, will most likely put pressure on the country's fiscal position in 2020-2022. The deterioration of balance sheets of firms and households may pose a risk to the financial sector.

18. While the glut in oil markets and consequent drop in oil prices favors net-oil importing countries like the Philippines, it may also pose risks to our OFWs in the Middle East. There may be lower FDI and volatility in capital flows as investors become risk averse to emerging markets in general. Tighter international capital markets may lead to higher borrowing costs.

19. The latest BSP assessment (as of 25 June 2020 Monetary Board meeting) indicates that the balance of risks to the inflation outlook are tilted to the downside for 2020 to 2022. The potential impact of a deeper and more disruptive pandemic on domestic and global demand conditions poses significant downside risks to aggregate demand. The Monetary Board observed that domestic economic activity has slowed with the enforcement of necessary protocols to slow the spread of the virus in the country. At the same time, the outlook for global growth has deteriorated further as considerable uncertainty still surrounds the extent of the health crisis. The Monetary Board noted that even as economies begin to reopen, the global recovery would likely be protracted and uneven. Hence, there remains a critical need for continuing measures to bolster economic activity and support financial conditions, especially the effective implementation of interventions to protect human health, boost agricultural productivity and build infrastructure. Looking ahead, the BSP will continue to monitor domestic and external developments affecting the inflation outlook to ensure that the monetary policy stance remains consistent with maintaining price stability.

20. With the highly unpredictable nature of the pandemic, the main downside risk to the country's sound economic growth narrative stems from a more profound and prolonged impact of COVID-19 than currently anticipated. A sustained high level of local transmission and further dampening of economic activity could delay recovery or result in larger loss in productivity. A more prolonged adverse effect of COVID-19 on the supply and demand sides of the economy (especially on sectors including tourism and transport, exports, remittances, and consumption) would imply deeper than expected contraction in the country's economic growth.

21. The COVID-19 pandemic is expected to have a significant adverse impact on the country's goods and services trade as well as on remittance flows. As the public health situation remains fluid, exports of goods are likely to slow further with effects emerging from global supply chain disruptions and social distancing measures affecting manufacturing activity. Most of the country's exports transactions are with the US, Japan, China, Hong Kong, Singapore and South Korea - all of which have significant number of COVID-19 confirmed cases. Moreover, the tourism industry remains weighed down by the travel bans imposed on both domestic and international travels as well as the economic disruptions in the country's major tourist markets. Meanwhile, business process outsourcing (BPO) receipts are also expected to be affected by restrictions on the mobility of workers (as public transportation services are limited), except for those who can work from home. The outlook on remittances from overseas Filipinos (OFs) continues to be saddled by the displacement and repatriation of overseas workers. As of 1 August 2020, a total of 115,793 OFWs have been repatriated.[9]

22. Downside risks to external demand and financial conditions could also materialize.[10] The pandemic has had a sweeping effect on economies and financial systems around the world. The outlook for global economic growth has dimmed considerably with the IMF estimating a 4.9 percent contraction in global growth for 2020,[11] and the turbulence in financial markets has constrained liquidity. The possibility of heightened financial volatility cannot be discounted as global financial conditions could tighten more as sovereign and corporate risk premia rise. A share of nonfinancial firms could fail to meet their debt service requirements, leading to a weakening of bank balance sheets and eventually reduction in credit supply.[12]

23. Other risks still come from a range of issues, such as the still-high trade barriers between US and China, geopolitical tensions as well as social unrest in some countries, and the increased intensity and frequency of natural hazards.

Risk Mitigating Measures

24. The government has implemented a number of measures to increase the capacity of the health system to cope with the pandemic. Testing capacity has expanded to more than 11,000 per day as of mid-May (from less than 3,000 in early April). There are now 5 mega quarantine and isolation facilities with a total of 1,348 beds. The number of mechanical ventilators has increased to 1,963 as of mid-May (from some 1,100 in mid-April). The number of ICU beds has reached 1,300 as of mid-May (from less than 1,000 in mid-April), though still below the target of 4,300. Emergency hiring of 4,884 health personnel has been approved, of which 1,421 have been filled as of mid-May.

25. The Executive and Legislative branches are working on an economic recovery program that will gradually get people back to work, get businesses to normalize, and stabilize the financial sector. Moreover, online skills retooling or blended training arrangements will be promoted and made more accessible to improve the employability of displaced workers. A campaign to attract manufacturers wishing to relocate from China to ASEAN will be launched.

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9 Consists of 47,306 (40.9%) sea-based and 68,487 (59.1%) land-based workers. Source: Department of Foreign Affairs

10 Yang, Y. (2020). IMF Note on Economic Outlook and Impacts from COVID-19 for the Philippines.

11 IMF June 2020 World Economic Outlook (WEO).

12 Yang, Y. (2020). IMF Note on Economic Outlook and Impacts from COVID-19 for the Philippines.

26. **The government will realign expenditure priorities in 2020 and 2021 to facilitate the transition and adjustment to the "new normal".** The list of *Build Build Build* projects will be revisited to give priority to those with firm funding commitments, most shovel-ready, and of highest socioeconomic impact, foremost of which are health, education and digital infrastructure. With the narrowing fiscal space, the government will accelerate cooperation with the private sector on delivering priority infrastructure projects. The government's financing program will focus on the domestic market to take advantage of liquidity and to avoid exchange risks.

27. To support external trade, diversification of export products and markets will be pursued, with a focus on electronic products and equipment, and medical equipment and supplies, which are currently in high demand due to the pandemic. Moreover, regional cooperation within the ASEAN on adequate stockpiling of essential goods and operationalization of a logistics trade flow can address supply constraints.

III. FISCAL PERFORMANCE

A. REVENUE PERFORMANCE

28. For the first quarter of 2020, the NG incurred a fiscal deficit of ₱74.0 billion, 18.0 percent lower than the deficit in 2019 as revenues grew faster than the expenditures. Total revenues during the period increased by 12.7 percent while government expenditures grew only by 9.2 percent YoY.

29. For the same period, total revenue collection increased by 12.7 percent YoY. As a percent of GDP, it rose from 15.5 percent to 17.3 percent.

30. Tax revenue increased by only 0.8 percent or ₱4.8 billion when compared to the same period last year, from ₱616.0 billion to ₱620.8 billion. This is due largely to the minimal growth in the revenue collection of the Bureau of the Internal Revenue (BIR) and the Bureau of Customs (BOC). As a percent of GDP, it is at the same level as last year at 13.9 percent.

31. BIR collections for the first three months amounted to ₱468.8 billion, an almost flat growth compared to the amount collected in 2019 of ₱468.2 billion or 0.1 percent growth. The minimal growth in the BIR collections is due to the contraction of the domestic economy during the same period, a first since the fourth quarter of 1998. Real GDP declined by 0.2 percent while nominal GDP increased only by 1.1 percent YoY.

32. Revenue from the BOC reached ₱145.3 billion, ₱33.4 billion or 2.4 percent higher than its collection in 2019. This is despite the decline in the value of imports by 16.8 percent during the same period.

33. Non-tax collections reached ₱154.2 or ₱82.6 billion higher than 2019. The BTr income increased by 260.7 percent from last year. This is due to higher NG shares from the

income of the Philippine Amusement and Gaming Corporation (PAGCOR) and dividends from NG shares of stocks.

34. Total privatization proceeds amounted to ₱127 billion.

Box 1. Fiscal Risks and Recovery from Impact of COVID-19

The World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic on March 11, 2020 and directed countries to take urgent and aggressive actions towards suppressing and controlling the outbreak. Following this event, on March 17, the Philippine government declared ECQ on the entire island of Luzon, which accounts for about 70% of the Philippine economy. Other cities and provinces outside Luzon also started imposing community lockdowns shortly after. These developments resulted in the fall of national output as businesses were required to operate under reduced capacity, except those belonging to identified essential industries. The country has since transitioned to a paced reopening of the economy with grdual lifting of quarantine measures while keeping in place minimum health standards to avoid flare up of COVID-19 infections.

Revenue outturn hurt by freeze in economic activity

Government revenues as of June 2020 amounted to ₱1,453.3 billion, 1.21 percent lower than program[a/] levels as tax revenues underperformed by 10.83 percent compared to target however non-tax revenues increased by 121.33 percent over target. Tax revenues, which make up 84 percent of total revenue, totaled at ₱1,216.4 billion. In cotrast with the program, the BIR tax collection fell short by 6.7 percent, contributing ₱956.4 billion, while the BOC tax collection dipped by 22.5 percent, contributing ₱253.1 billion to the total.

The decrease in revenues is attributed to the imposition of ECQ in the Luzon region and in other provinces, and the extension of filing and payment of income and other taxes due for the month amid the pandemic crisis. Nonetheless, the decline in tax revenue collection was slightly compensated by non-tax income amounting to ₱237.0 billion, which more than doubled from target as a result of early remittance of dividends and other incomes from state-owned corporations in line with the implementation of *Bayanihan to Heal as One Act*.

Spending accelerated pursuant to implementation of Bayanihan to Heal as One Act

Republic Act No. 11469 or the *Bayanihan to Heal as One Act*, was enacted in March 2020 to grant President Duterte additional authority to combat the COVID-19 pandemic in the country. The implementation of the *Bayanihan to Heal as One Act* has allowed the NG to strengthen the healthcare system by expanding the medical resources to fight COVID-19 and to execute social protection programs and services provided to affected individuals, especially from the vulnerable sectors. The ₱205-billion Social Amelioration Program (SAP) is the largest social protection program in the country's history, for 18 million low-income, informal sector workers. While the ₱51-billion Small Business Wage Subsidy (SBWS) Program, complementary program for formal workers, provides salary subsidies for 3.4 million employees of small businesses whose operations have been disrupted because of the ECQ.

The level of expenditures as of April 2020 amounted to ₱1,307 billion, 31 percent higher than last year's level. Spending was re-aligned in accordance with the Four-Pillar socio-economic strategy to combat the effects of the COVID-19 crisis. The NG has released funds for the implementation of the first tranche of the SAP and the SBWS Program, Bayanihan Grant to Provinces, cities, and Municipalities, and other recovery and rehabilitation measures of the National Government under the *Bayanihan to Heal as One Act.* In total, the DBM has allotted ₱375 billion for the government's COVID-19 response programs.

Financing the fight against COVID-19 pandemic

In expectation of spending to outpace revenue collection and the DBCC projecting budget shortfall for 2020 to reach ₱1.82 trillion, the NG intends to upscale its borrowing from both domestic and foreign debt markets. From January to June 2020, NG already raised ₱1,487.26 billion of which 80 percent or ₱1,187.26 billion are domestic financing while 20 percent or ₱300 billion are external financing. Total financing for the year is expected to reach P3,003.8 billion.

Initially, domestic benchmark yields climbed sharply after the announcement of ECQ in March, however, the yields began to fall immediately owing to the spate of policy response by the BSP to bolster investor confidence. Since February, the BSP has cumulatively cut the policy rate and reserve requirement ratio by 175 basis points and 200 basis points, respectively, to temper financial market unrest and support domestic liquidity. The BSP also opened a one-hour window for buying peso-denominated government securities to reassure bond investors of secondary market liquidity. Moreover, to lessen dependence on the domestic debt market, the BSP extended a ₱540 billion short-term credit line to NG via a repurchase agreement facility. The combination of these policy responses helped in the swift restoration of auction demand and trading appetite for government securities.

In addition to the inflows from bilateral development partners and multilateral lenders, the NG continues to look for opportunities to issue in the international capital market to raise funds for its state coffers. The country's latest and biggest $2.35 billion global bond issuance achieved a lowest-ever coupon for its 10-year and 25-year tenors amid the global pandemic crisis, signaling investors' trust and confidence in the country's economic fundamentals. The Philippines was also able to retain its investment grade of "BBB+" reflecting the country's strong fiscal and monetary position to mitigate the economic challenges brought by COVID-19.

Fiscal strategy moving forward 2021

Debt level will remain manageable even as debt-to-GDP ratio is likely to reach 53.9 percent due to combination of deficit widening to 9.6 percent of GDP and GDP contraction of -5.5 percent. Although elevated, the debt ratio is still within tolerable levels when compared with historical level, thanks in large to prudent fiscal and debt management reforms over the years which resulted to decades low debt-to-GDP of 39.6 percent in 2019. In financing the fight against COVID-19, the NG adheres to guiding principle for the country to be in the median among similarly credit-rated peers and emerging economies with comfortable and sustainable debt and deficit level tolerance. The NG is committed in responding to the challenges brought about by the COVID-19 pandemic and in facilitating a rebound economic recovery for the country. Over the medium-term, fiscal consolidation will resume and pledge to bring down deficit and debt levels.

a/Program from DBCC approved ad referendum dated March 26,2020

Outlook for 2020 - 2022

35. **The expected revenue collection for 2020 has been lowered to ₱2.61 trillion or only 13.6 percent of GDP taking into account the impact of COVID-19 pandemic to the Philippine economy.** The COVID-19 pandemic resulted in the implementation of the ECQ, effectively placing the entire Luzon and some major cities in the Visayas and Mindanao under lockdown from mid-March. The lockdown which includes a liquor ban, among others, has shuttered major industries, dampened economic activity, and slowed consumer demand, all of which reduced the revenue base.

    The uncertainty on the lifting of community quarantine, particularly in significant areas like the National Capital Region (NCR), continues to constrain revenue collection this year. The COVID-19 pandemic is expected to result in a new normal that will also affect domestic economic activity this year and in the following years.

    For 2021 and 2022, we are projecting total revenues to grow by 12.1 percent and 11.7 percent, respectively. From ₱2.9 trillion in 2021, total revenues will increase to P3.3 trillion in 2022, or approximately an increase of ₱341.7 billion. As percent of GDP, the revenues will be at 13.7 percent and 13.8 percent for 2021 and 2022, respectively.

    Estimates for the legislated tax policy measures such as Packages 1A and 2+ are also revised downward as a result mainly of the impact of ECQ in consumer demand in particular for excisable products. Proceeds from the new revenue measures are estimated to reach ₱70.2 billion in 2020, ₱128.7 billion in 2021, and ₱150.2 billion in 2022.

Package 2 or the CITIRA is estimated to have a negative impact on revenues. It is in the period of interpellation at the Senate. However, in light of the COVID pandemic, the bill is currently being reviewed to make it more responsive to the present situation.

The Philippines' economic growth will be slower than the original growth projection. However, we are seeing an economic rebound in 2021, with expansionary fiscal and monetary policies offsetting slower domestic demand and disruptions in tourism, trade, and manufacturing. The discovery of a cure, and especially a vaccine, against COVID-19 will also greatly enhance economic recovery.

Table 1. Philippines: Medium Term Revenue Program, 2020-2022
(In billion pesos)

Particulars	2017 Actual	2018 Actual	2019 Actual	2020 Program	2021 Program	2022 Program
Total Revenues	**2,473.13**	**2,850.18**	**3,137.50**	**2,612.60**	**2,928.97**	**3,270.69**
% of GDP	*14.9%*	*15.6%*	*16.1%*	*13.6%*	*13.7%*	*13.8%*
Tax Revenues	**2,250.68**	**2,565.81**	**2,827.84**	**2,281.26**	**2,748.16**	**3,090.84**
% of GDP	*13.6%*	*14.0%*	*14.5%*	*11.8%*	*12.9%*	*13.1%*
BIR	1,772.32	1,951.85	2,175.51	1,744.10	2,034.59	2,326.06
BOC	458.18	593.11	630.31	520.37	695.18	744.58
Other Offices	20.17	20.85	22.03	16.78	18.40	20.20
Non-Tax Revenues	**221.62**	**268.72**	**308.78**	**330.84**	**180.31**	**179.35**
Privatization	**0.83**	**15.66**	**0.88**	**0.50**	**0.50**	**0.50**

***Note: BIR and BOC Fiscal Year (FY) 2017, 2018 & 2019 collections are net tax refund*

Tax Administration and Reforms

36. **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.

Box 2. BIR and BOC Initiatives to Boost Revenue Collection

The BIR stays committed to continue implementing the following administrative measures and initiatives to achieve its target:

- BIR digital transformation which includes electronic receipt/invoice and electronic sales reporting (e-invoicing) system for pilot taxpayers.
- Intensify audit and investigations (with safe distancing).
- Continued pursuit of tax fraud cases through its Run After Tax Evaders or RATE program.
- Strengthen enforcement activities such as but not limited to, cracking down illicit tobacco trade.
- Enhanced Internal Revenue Stamp Integrated System (IRSIS).
- Fuel marking and field testing system.
- Ease of doing business and efficient government service.
- Campaign for online filing and payment of taxes.

The BOC will roll out the following priority programs to intensify its tax enforcement:

- Full automation of frontline transactions
- Improvement of Risk Management System
- Implementation of Customs Modernization Program
- ISO certification of Customs offices and Performance Governance System (PGS) compliance
- Enhancement of trade facilitation
- Rationalization of trade facilitation
- Filling-up of BOC plantilla positions
- Enhancement of management and technical skills
- Enhancement of stakeholder's engagement
- Intensification of border protection

37. **Tax reform measures under Packages 1A (TRAIN) and 2+ (Sin Tax Reforms) are now estimated to contribute ₱70.2 billion in additional revenues or 0.4 percent of nominal GDP in 2020, and 47.9 percent lower than in 2019.** The decline is due mainly to lower revised full year estimates for excisable products under Packages 1A and 2+. The revised estimates already consider the preliminary actual excise tax collections from January to April 2020 from BIR and BOC, the latest approved macro assumptions including the real GDP growth of negative 2.0 to negative 3.4 percent, and other factors such as the extended ECQ and general community quarantine (GCQ), liquor ban, and the overall decline in the demand for excisable products, among others.

Package 1A is estimated to provide in 2020 additional revenues of ₱62.2 billion or 0.3 percent of GDP of which ₱15.9 billion will be from the initial implementation of the fuel marking. The revised estimate in 2020 for Package 2+ or the sin tax reform laws (RA 11346 and RA 11467) is now at ₱8.0 billion or 0.04 percent of GDP.

For 2021, tax reform measures are now estimated to generate revised additional revenues for the government a net total of ₱128.7 billion or 0.6 percent of GDP. The DBCC May 12 levels for 2021 and 2022 are based on the revised 2020 projections and the DBCC approved real GDP growth assumptions of 8.1 percent and 7.6 percent, respectively. When compared to the 2020 revised estimate, it is an increase of 83.2 percent.

Package 1A in 2021 is estimated to contribute additional revenues of ₱133.8 billion or 0.6 percent of GDP while Package 2+ is estimated to provide additional revenues of ₱26.1 billion or 0.1 percent of GDP.

Package 2 or CITIRA which is expected to be implemented by 2021 is estimated to incur a revenue loss of ₱31.3 billion or negative 0.1 percent of GDP. However, the bill is currently being reviewed in light of the COVID-19 pandemic hence, the revenue impact is still preliminary and subject to change.

The same tax reform measures are estimated to yield additional revenues in 2022 with a net total of ₱150.1 billion or 0.6 percent of GDP. When compared with the 2021 estimate, it is an increase of 16.7 percent.

Package 1A in 2022 is estimated to contribute additional revenues of ₱160.5 billion or 0.7 percent of GDP, of which ₱14.5 billion will be from the initial implementation of e-receipts. Package 2+ or the sin tax reform laws are estimated to provide additional revenues of ₱29.8 billion or 0.1 percent of GDP. CITIRA is estimated to incur a revenue loss of ₱40.1 billion or negative 0.2 percent of GDP.

B. EXPENDITURE PERFORMANCE

38. **As of end-December 2019, the NG spending for 2019 closed at ₱3.798 trillion, rising by 11.4 percent YoY or ₱389.3 billion.** Despite the delayed approval of the budget, disbursements remained strong and even exceeded the program by 0.7 percent or ₱28.1 billion, driven by the robust performance of personnel services, infrastructure and other capital outlays, and subsidy to government corporations.

39. **Disbursement performance across expenditure classes posted higher turnouts compared to the previous year, accounted by high personnel services, infrastructure and other capital outlays, and subsidy to government corporations.**[13]

Personnel services expenditures grew by ₱127.8 billion (12.9 percent) to ₱1.115 trillion in 2019 from ₱987.2 billion in 2018 due to the implementation of the fourth tranche of the

13 Further reading: Department of Budget and Management, "National Government Disbursement Performance Report (as of December 2019)", https://dbm.gov.ph/wp-content/uploads/DBCC/2019/NG_Disbursements_December%202019_for%20posting.pdf (accessed 6 May 2019)

Salary Standardization Law, higher base pay and pension requirements of Military and Uniformed Personnel (MUP), payment of retirement gratuity and terminal leave benefit claims, creation and filling up of plantilla positions, and the grant of the Service Recognition Incentive[14].
Infrastructure and other capital outlays, likewise, grew by ₱78.0 billion (9.7 percent) to ₱881.7 billion in 2019 from ₱803.6 billion in 2018, on account of the completion and partial completion of big-ticket projects of Department of Public Works and Highways (DPWH), DOTr, and DND, among other agencies.

As for subsidies, the 2019 figures expanded by ₱64.9 billion (47.5 percent) to reach ₱201.5 billion from the ₱136.7 billion in 2018. The substantial increase is attributed to the following: (i) faster fund absorption of the PHIC for the National Health Insurance Program, payment of prior years' accounts payables by NIA for completed irrigation projects, and the Marawi resettlement programs by the NHA; (ii) higher fund requirements for the implementation of the Unconditional Cash Transfer Program of the DSWD; and, (iii) substantial releases for the payment of crop insurance premiums of subsistence farmer and fisherfolk beneficiaries of the PCIC, the NFA's Rice Buffer Stocking Program, and the BCDA's construction projects in New Clark City.

40. **The imposition of the ECQ led to delays in the implementation of Programs/Activities/Projects (PAPs) across expenditure classes.** Preliminary Q1-2020 disbursements posted at ₱849.2 billion, growing by 9.2 percent YoY or ₱71.2 billion. However, this is 14.5 percent lower than the ₱993.0 billion program for the same period[15], mainly on account of lower PS (₱241.0 billion vs. ₱285.1 billion program, a 15.5 percent decrease), MOOE (₱115.4 billion vs. ₱160.1 billion program, a 27.9 percent decrease), and Capital Outlays (₱197.0 billion vs. ₱237.7 billion program, a 17.1 percent decrease), among others. The performance was marked by lower-than-programmed releases from lump-sum PS funds such as MPBF and the PGF, and ongoing creation/filling of positions in various agencies which may have been affected by the ECQ. In addition, late and/or incomplete submission of documentary requirements to support the release of funds or the processing of payments also tempered MOOE spending during the period. As for infrastructure and other capital outlays, spending was affected by pending submissions of budget requests and documentary requirements for the release of For Later Release (FLR) capital outlays and other funds/payments.

Outlook for 2020

41. **The expenditure program for 2020 is set at ₱4.100 trillion, equivalent to 19.6 percent of GDP and 12.0 percent higher than the 2019 program of ₱3.662 trillion.** As with previous national budgets, sustained funding for infrastructure outlays and

14 Under Administrative Order No. 19, s. 2019, the Service Recognition Incentive is a one-time incentive of up to ₱10,000 given to qualified personnel in the Executive Branch to recognize and encourage the unwavering commitment and dedication of government employees in performing their work, their continued support and collaborative efforts in the delivery of services to the public, as well as their diligence in the effective and efficient performance of their respective functions.

15 Indicative program approved by the DBCC through Ad Referendum on March 27, 2020

human capital development programs will remain as the top priorities to support the country's burgeoning economy amid downside risks such as the Taal Volcano eruption and the recent COVID-19 outbreak.

42. **Disbursements for Q1 amounted to ₱849.2 billion, 14.5 percent lower than the ₱993.0 billion Q1 program approved by the DBCC on 27 March 2020 but full year disbursements are expected to pick up in the latter part of 2020.** Spending is expected to be substantially higher in Q2 with COVID-19 expenditure measures such as Social Amelioration Program (SAP), Small Business Wage Subsidy Program (SBWSP), Bayanihan grant to LGUs, and health programs of the Department of Health (DOH), among others, pursuant to the Bayanihan to Heal as One Act. Meanwhile, other ongoing programs and infrastructure activities are expected to encounter unintended delays during the period but may gradually restart once the ECQ is lifted. This is estimated to bring full year disbursements to ₱4.175 trillion which is slightly higher than the program approved by the DBCC on 27 March 2020 by ₱12.0 billion.

2021 National Budget

43. **The FY 2021 National Budget will continue to adopt reforms[16] initiated in previous years**, led by the Cash Budgeting System, which will limit agency program-specific obligations and implementation within the fiscal year they are appropriated. The preparation of the FY 2021 National Budget is already underway with the formulation of the Tier 1 budget proposals (ongoing programs and projects), while the submissions of Tier 2 budget proposals (new or expanded programs and projects) will commence with the publication of the 2021 Budget Priorities Framework (BPF). However, with the tremendous economic and social impacts of the COVID-19 pandemic, the formulation of the next year's Budget will have to be revisited which will involve reprioritization of the different Programs/Activities/Projects (P/A/Ps) of departments and agencies given the "new normal". Essentially, this will be guided by the IATF TWG-Anticipatory and Forward Planning Report.

44. **The government will continue to shepherd the passage of the Budget Modernization Bill**. The bill, which aims to institutionalize key budget reforms and establish prudential safeguards to sustain the efficacy of the budget process, will be refiled in the 18th Congress after streamlining efforts have culminated.

16 As enumerated in item (2.4) of the FY 2021 National Budget Call (Source: DBM, "National Budget Memorandum No. 133 – National Budget Call for FY 2021", https://dbm.gov.ph/wp-content/uploads/Issuances/2019/National-Budget-Memorandum/NATIONAL-BUDGET-MEMORANDUM-NO.-133-DATED-NOVEMBER-29,-2019.pdf)

Box 3. Philippine Program for Recovery with Equity and Solidarity

To mitigate the impact of the COVID-19 pandemic and recuperate the economic health of the country, the NG will adopt a phased and adaptive approach in its stimulus program called Philippine Program for Recovery with Equity and Solidarity (PH-PROGRESO). The PH-PROGRESO has initially addressed the “emergency phase” of the recovery program through the implementation of *Bayanihan to Heal as One Act* by putting in place immediate measures and programs to provide lifeline assistance to vulnerable groups and affected key sectors, and expanding the resources of the healthcare system capacity to fight COVID-19.

The NG has been preparing the country to shift into “recovery phase” of PH-PROGRESO which aims to boost the income and jobs of consumers and support firms with liquidity infusion through the passage of the following key economic bills: *Bayanihan to Recover as One Act* (Bayanihan II), Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), Financial Institutions Strategic Transfer (FIST), and Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE). The ₱140-billion Bayanihan II intends to continue the prioritization of enhancing the country’s health system capacity and infrastructure against COVID-19 and improve food value chain security to restore the safety and confidence of Filipinos to resume economic activities. Of the total, ₱44 billion would go the critically-affected agriculture, transportation, and tourism sectors while ₱32 billion would be allocated for cash-for-work programs or wage subsidy for displaced workers. In line with this, the NG will be restarting the most impactful Build, Build, Build projects to generate more job opportunities. The proposed bill also ensures a capital infusion of ₱50 billion to GFIs in complement with the FIST and GUIDE bills which aim to strengthen the capacity of banks and FIs to address the liquidity requirements of MSMEs to continue operations and employment. The FIST allows FIs to clear up their non-performing assets through asset management companies to free up capital for expansion of investment and lending activities, while the GUIDE seeks to fortify the role of GFIs to provide needed assistance to MSMEs. Furthermore, the CREATE proposes an across-the-board reduction of Corporate Income Tax rate from 30 percent to 25 percent this 2020 and create targeted, timebound and tailor-fitted tax incentives to strategically attract key investors and enable job creation in a competitive business environment.

To maintain prudent deficit levels, the supplementary spending of ₱140 billion will be partly funded by new revenue sources amounting to ₱32.8 billion, specifically from: (i) additional dividends; (ii) interest on NG advances and other income; (iii) return of unutilized procurement funds released in prior fiscal year(s); and (iv) unused portion of SBWS program funded by excess dividends. On top of this, ₱30 billion will be from existing budget through realignment of interest payment savings realized in the first half of 2020 due to favorable movements in market variables.

The upcoming preparation and deliberation of the 2021 GAA will prioritize most urgent sectors like healthcare, infrastructure, agriculture, and food supply chain to prime-pump the economy to the "resiliency phase" of PH-PROGRESO. Together with the efforts the private sector, the NG will be proposing structural interventions to strengthen the basic institutions of the country while getting back on a rapid growth trajectory.

Sources of Fiscal Risks

45. **Natural Disasters and Public Health Emergencies.** The eruption of the Taal Volcano in January 2020 and the outbreak of the Covid-19 pandemic are expected to pose downside risks on the NG's fiscal position unless proper fiscal management measures are undertaken. Furthermore, the timely release and effective utilization of the National Disaster Risk Reduction and Management Fund (NDRRMF) and agency Quick Response Funds (QRFs) will be crucial to mitigate their impact on the economy at large.

As of 30 April 2020, the NDRRMF has a total balance of ₱13.9 billion, the details of which are indicated in Table 4 below:

Table 3. Philippines: Breakdown of the National Disaster Risk Reduction and Management Fund
(In million pesos)

Particulars	FY 2019 Continuing Appropriations	FY 2020 Current Appropriations
NDRRM Program	39.385	5,400.000
Marawi Recovery Rehabilitation and Reconstruction Program	3.143	3,277.920
Earmarked for QRF	211.223	-
Comprehensive Aid to Repair Earthquake Damage for Region XI and Region XII	-	5,000.000
Total	**253.751**	**13,677.920**

In addition, the FY 2020 QRF amounts to ₱6.800 billion, lodged in the built-in budgets of the various agencies as provided under Special Provision (SP) No. 2 of the NDRRMF, FY 2020 GAA, Republic Act No. 11465.

Table 4. Philippines: Agency Quick Response Fund Breakdown
(In million pesos)

Particulars	Allocation
DA-OSEC	1,500.000
DepEd-OSEC	2,100.000
DOH-OSEC	600.000
DND-OCD	250.250
DPWH-OSEC	1,000.000
DSWD-OSEC	1,250.000
BSGC-NEA	100.000
Total	**6,800.250**

The National Economic and Development Authority's (NEDA) preliminary damage estimates from within the 14-km radius of the Taal Volcano eruption are pegged at ₱4.314 billion on account of a shutdown in tourism and agriculture activities from the proximity of the volcano[17]. On the other hand, the adverse economic impact emanating from the COVID-19 outbreak is expected to reach around ₱2.00 trillion, or 9.4 percent of GDP, in view of affected sectors (e.g. transport and tourism, exports, remittances, consumption) and the ECQ[18].

Based on the NDRRMF status report posted in the Department of Budget and Management (DBM) website as of 30 April 2020[19], no releases chargeable against the NDRRMF have been designated for the eruption of the Taal Volcano. However, this may not be an effective measure of the NG's efforts to respond to the disaster, since agencies

17 Based on news reports published on January 20, 2020. Sources: https://www.rappler.com/business/249779-neda-says-taal-volcano-eruption-economic-impact-minimal and https://www.cnnphilippines.com/business/2020/1/20/Taal-foregone-income-NEDA-estimate.html

18 NEDA, "Addressing the Social and Economic Impact of the COVID-19 Pandemic", http://www.neda.gov.ph/wp-content/uploads/2020/03/NEDA_Addressing-the-Social-and-Economic-Impact-of-the-COVID-19-Pandemic.pdf (accessed 6 May 2020).

19 DBM, "Status of National Disaster Risk Reduction and Management Fund (as of April 30, 2020)", https://dbm.gov.ph/index.php/programs-projects/status-of-national-disaster-risk-reduction-and-management-fund (accessed 21 May 2020).

may have already used or are currently using their built-in QRFs, atop other funding sources, for Taal eruption-related activities.

For the COVID-19 response, a total of ₱810.3 million has been charged against the FY 2020 NDRRMF on May 14, 2020, ₱500 million for the augmentation of the DOH-QRF, and ₱310.3 million for the support of DND's COVID-19-related operations. The said release will help fund the approximately ₱3.0 billion (₱2.973 billion) required to procure supplies (e.g. N95 masks and personal protective equipment), publish advertisements, and fund community engagement activities, among others. As agreed during the 10th meeting of the Inter-Agency Task Force on Emerging Infectious Disease with the President on March 9, 2020, the remaining ₱2.5 billion requirement will be sourced from the agency's built-in QRF and from funds provided by PAGCOR and PCSO to the Socio-Civic Projects Fund in the amounts of ₱2.0 billion and ₱400 million, respectively. Moreover, as with the Taal eruption, agencies other than the DOH may be already using their QRFs to respond to the pandemic, but data will first have to be consolidated before actual figures may be reported.

The collective impact of the two events is expected to have pervasive fiscal ramifications over the short to medium-term as budget priorities shift towards economic recovery. Depending on which PAPs are given precedence moving forward, certain PAPs whose sectors are not severely affected by the two events may be relegated further down the pipeline.

To address the impact of the COVID-19 pandemic, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act, was signed by the President on March 24, 2020. Said Act grants the President emergency powers to combat the crisis, such as but not limited to:

a. Realignment of budgets allocated to PAPs of any agency in the FY 2019 and 2020 GAAs; unutilized or unreleased special purpose funds; and cash, funds, and investments held by any GOCC or government agency. The realigned funds will be used to augment allocations directly related to operations and/or measures that are crucial to the containment and management of the public health emergency.

b. Exemption of certain goods (e.g. laboratory and medical equipment and supplies, testing kits, relief goods), services, construction, and utilities from the provisions of Republic Act No. 9184, otherwise known as the Government Procurement Reform Act and other relevant laws.

c. Lifting of the thirty percent (30 percent) cap on QRF appropriations for the duration of the public health emergency.

The above mentioned measures allowed the Executive flexibility in managing available resources within the 2019 and 2020 appropriations. In line with the government's continued adherence to fiscal transparency and accountability, the Act mandates the

President to submit to Congress weekly reports detailing the amount and utilization of funds realigned.

According to the 8th Report20 of the President to the Joint Congressional Oversight Committee pursuant to the provisions of the Bayanihan to Heal as One Act, ₱246.20 billion worth of savings have been pooled from discontinued PAPs and abandoned special purpose funds.

Table 5. Philippines: Summary of Allotments and Cash Allocations Funded from the FY 2020 GAA[21]
(in million pesos)

Department/Agency/Program	Allotments	Cash Allocations*
DSWD	196,044.704	196,044.704
DOLE	2,500.000	1,500.000
ALGU – Bayanihan Grant to Cities and Municipalities	30,823.759	30,823.759
ALGU – Bayanihan Grant to Provinces	6,197.288	6,197.288
DOH	1,912.500	1,816.875
DA	8,500.000	8,500.000
DILG-PNP	93.099	93.099
DND-AFP	150.703	150.703
Total	**246,222.053**	**245,126.428**

* Net of withholding taxes

Moreover, additional allotments and cash allocations worth ₱8.50 billion and ₱10.62 billion, respectively, have also been released to various departments and/or agencies for COVID-19 response activities. It should be noted that these amounts were the result of realignments in their existing PAPs within the FY 2020 GAA and FY 2019 Continuing Appropriations, the details of which are indicated in Table 7 below.

20 Office of the President of the Philippines, "Report to the Joint Congressional Oversight Committee (Monday, 18 May 2020)", http://senate.gov.ph/PRRD_Report6.pdf (accessed 20 May 2020).

21 Ibid, 23.

Table 6. Philippines: Reprogrammed, Reallocated and Realigned Funds that can be Attributed to Existing PAPs[22]
(in million pesos)

Department/ Agency	Allotments	Cash Allocations	Funding Source
DOH	600.000	600.000**	FY 2020 GAA (NDRRMF and Regular Agency Budget)
DFA	5.095	-	FY 2020 GAA (Contingent Fund)
DSWD***	3,930.606	3,908.260	FY 2019 GAA (Regular Agency Budget – Continuing Appropriations) and FY 2020 GAA (Regular Agency Budget)
DILG	548.029	520.628**	FY 2020 GAA (Contingent Fund)
DOST	-	54.929	FY 2020 GAA (Regular Agency Budget)
DOLE	2,645.000	5,065.395	FY 2019 GAA and FY 2020 GAA (Regular Agency Budget)
DND	588.345	330.817	FY 2019 GAA (Regular Agency Budget – Continuing Appropriations)
DOJ	-	41.096	Trust Receipts
OEO-OPAPP****	0.500	21.629	FY 2020 GAA (Regular Agency Budget)
DTI	203.000	78.139	FY 2020 GAA (Regular Agency Budget)
Total	**8,520.574**	**10,615.892**	

** Net of withholding taxes*
*** With minor adjustments due to the validation of tagging of COVID-19 related allotments and cash allocations.*
**** Including additional allotments and cash allocation for PAPs that are also under the SAPs from its unreleased appropriations under the FY 2020 GAA and FY 2019 Continuing Appropriations.*

22 Ibid.

***** Figures are inclusive of modifications on previously issued allotment.*

46. Supreme Court (SC) Ruling on the Mandanas-Garcia Petition. The Ruling ordered that the derivation of the share of LGU in the national taxes should include national internal revenue taxes, and customs duties. The new computation will result in additional IRA requirements of around ₱234.4 billion in 2022, or 0.92 percent of GDP. Moreover, these additional requirements will translate to a lower NG share, and consequently lesser space to fund new and/or existing PAPs, ceteris paribus.

The Executive is currently considering three (3) measures to mitigate the impact of the SC Ruling: (i) submit a legislative proposal to Congress lowering the LGU share from 40 percent to 30 percent of national taxes; (ii) declare an "unmanageable fiscal deficit" to bring down the LGU share from 40 percent to 30 percent; and (iii) gradually devolve services to LGUs.

With regard to the option on the devolution of services, the DBM has consulted with key sectoral agencies and identified PAPs in the FY 2020 GAA which are consistent with the expenditure responsibilities provided under Section 17 of the Local Government Code (LGC). The results of their assessment indicate that some ₱404.5 billion worth of PAPs currently being implemented by the NG may be devolved to the LGU in keeping with the provisions in the LGC.

To direct the full devolution of functions and services to LGUs, the DBM, together with NEDA and DILG, have been working on the development of an Executive Order (EO) which will provide the basis for the preparation of Devolution Transition Plans. Said plans will contain an account of PAPs to be devolved, as well as operational standards, capacity development strategies, monitoring mechanisms, and prescribed modifications in organization structure of affected offices. Engagements with development partners to discuss the organizational implications of devolving functions and services, clarify functional assignments at different LGU levels, and analyze the economic impact of the SC Ruling are also ongoing.

Furthermore, the DBM is also taking measures to counter legislation pushing for the renationalization of already devolved functions and services. The enactment of the said bills (i.e. 56 House Bills and 4 Senate Bills) will undermine current efforts by the Executive to mitigate the fiscal impact of the SC Ruling.

47. Unified Military and Uniformed Services Personnel Separation, Retirement and Pension Bill. The legislative measure seeks to provide all MUP with adequate remuneration and benefits through the revamping of the current retirement benefits and pension scheme. The salient features of the proposed measure are presented in Table 8 below.

Table 7. Philippines: Salient Features of the Unified Military and Uniformed Services Personnel Separation, Retirement and Pension Bill.

Feature	Provision
Mandatory Contributions	27 percent of Base + Longevity Pay [indicative only] First three years – 5 percent Employee, 22 percent NG Next three years – 7 percent Employee, 20 percent NG Years thereafter – 9 percent Employee, 18 percent NG
Monthly Pension Computation	2.5 percent for each year of active service rendered but not to exceed 90 percent of the monthly base and longevity pay of the current salary grade
Pension Increase	Monthly pensions shall be annually reviewed and periodically adjusted (maximum of 1.5 percent) as may be recommended by the actuary of the new entity and approved by the Board and also subject to the availability of funds of the new entity and the NG
Pensionable Age	Sixty (60) years old
One Rank Higher Upon Retirement	Removed for all, regardless of years of service
New Entity as Fund Administrator	A new entity will be established to administer the MUP Fund
The Government Service Insurance System (GSIS) as Fund Manager	GSIS may act as the Fund Manager of the MUP Fund through an investment agreement with the new entity
Battle Casualty **Killed in Action; and Complete Disability Discharge or Total Permanent Physical Disability**	Raise the pension benefits to 90 percent of salary, even with less than 20 years of service. Surviving beneficiary will receive 75 percent of the pension. Pension to start immediately.
Line of Duty **Killed in Action; and Complete Disability Discharge or Total Permanent Physical Disability**	50 percent of salary OR (2.5 percent x Years of Service x Salary), whichever is higher. Surviving beneficiary will receive 75 percent of the pension. Pension to start immediately.

Coverage of MUP Law	Philippine National Police Armed Forces of the Philippines Philippine Coast Guard Bureau of Fire Protection Bureau of Jail Management and Penology Bureau of Corrections National Mapping and Resource Information Authority (NAMRIA) *The current enlisted personnel and commissioned officers of NAMRIA will still be part of the MUP law (around 67 in total). However, new entrants of NAMRIA will be shifted to GSIS and classified as civilians*

Source: DBM

It should be noted that the allocation for pension was decreased by Congress for two consecutive fiscal years (viz. FYs 2019 and 2020) in order to free up fiscal space for priority PAPs. Given that the fiscal impact of the MUP pension requirement under the current scheme, estimated at around ₱114.0 billion annually[23], the decrease in allocation will only further exacerbate the prognosis. If appropriations are not enough to cover pension costs, the estimated yearly shortfall will have to be sourced from the Unprogrammed Appropriations (UA). However, releases from UA are subject to the certification of excess revenues in any of the identified non-tax revenue sources or new revenue collections which are not part of the original revenue sources. Thus, the reform of the current MUP retirement benefits and pension scheme is expected to have easing effects on ballooning retirement benefits and pension costs.

As of May 15, 2020, the salient features of the proposed measure as presented above have not undergone any amendments. Likewise, the Administration's version of the said measure has not yet been forwarded to Congress for sponsorship.

IV. PUBLIC DEBT

48. **The resulting 2019 debt-to-GDP ratio managed to improve to 39.6 percent from 39.9 percent in 2018, beating the program of 41.7 percent for the year.** The improved debt-to-GDP ratio is a result of prudent cash and debt management to meet the higher funding requirements for the government's programs and was achieved even as growth slowed down due to internal and external factors.

49. **The profile of NG debt structure has maintained moderate exposure to market risks.** This stems from a strategic approach to debt issuance that favours domestic sources while diversifying external instruments to improve the investor base. For 2019, a 68:32 mix between domestic and foreign borrowing was achieved from the initial

23 Due to the increasing number of retirees, the estimated growth rate of pension costs is three percent to four percent (3% to 4%) annually.

program of 73:27 as the country successfully marked its return to the Euro and Chinese markets as well as further issuances of JPY and USD denominated bonds.

50. **Nevertheless, FX risk was managed as local currency debt increased its share to 67.68 percent as of end-2019 from 66.93 percent at the end of 2018.** Meanwhile, USD, JPY, EUR and other currencies accounted for 25.00 percent, 5.68 percent, 0.97 percent and 0.68 percent of the foreign currency debt, respectively.

51. **Refinancing of maturing debt remains manageable.** The portfolio average residual maturity of 8.59 years remains above the mid-point of the 7-10 year target; albeit the decline from 10.38 years in 2018 is in line with efforts to favor interest cost reduction amid the rising interest rate environment observed in the first half of 2019. From end-2018, average portfolio maturities have decreased slightly to 6.79 years from 7.13 for domestic and to 12.14 years from 12.24 for external debt.

52. **Lower weighted average interest rate (WAIR) stems from benign inflation and accommodative policy environment.** WAIR as of end-2019 slightly improved to 5.00 percent from 5.05 percent a year ago. YoY, external borrowing WAIR went down to 4.03 percent from 4.34 percent whereas domestic WAIR inched up to 5.49 percent from 5.42 percent.

Sources of Fiscal Risks

53. **The impact of the Covid-19 pandemic and response measures will elevate debt-to-GDP above its previous trajectory.** The combined impact of higher financing requirements and stagnating growth is projected to cause the debt ratio to increase to around 53 percent for 2020 before resuming its downward path over the medium term.

Despite the natural immediate spike in the debt ratio, NG debt is projected to be broadly manageable, within the internationally recognized sustainability threshold of 60-70 percent. Further, the ratio is projected to stabilize with the normalization of growth given robust macroeconomic fundamentals and strong fiscal position of the country.

Risk Mitigating Measures

54. **The NG is well equipped to manage the risks to its financing requirement.** Proper cash management in anticipation of medium-term term fiscal developments as well as other domestic incidents have prompted the frontloading of borrowing operations. This provided an adequate buffer to the sudden rise in rates tendered for government securities. Proper coordination with the monetary policy response have since eased rates to even below ECQ levels.

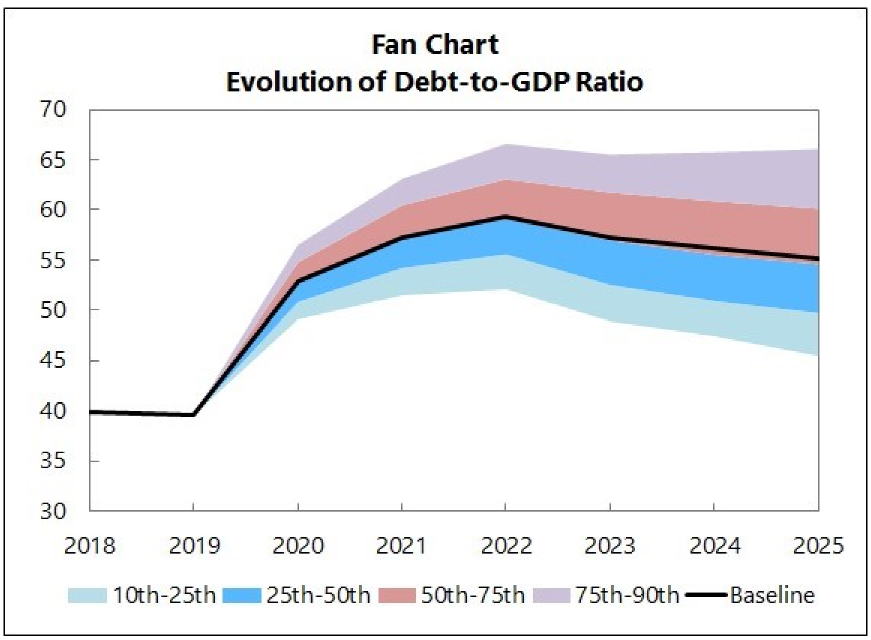
55. **The strength of the country's finances is mirrored in the success of its recent multi-tranche USD bond issuance.** Following up on its initial issue of Euro-bonds in January, the NG was able to successfully issue 10- and 25-year USD denominated Global Bonds, taking advantage of a favorable window in the midst of market volatility in

connection with the global pandemic. Despite adversity, both tranches secured the lowest coupon ever for a similar tenor issued by the Republic.

56. **Policy coordination with the BSP has provided pricing support for domestic issues.** The ₱300 billion repo facility between the BTr and the BSP shored up available funds. Furthermore, the move to purchase domestic debt papers from banks have caused an improvement in yields secured at auction as well as calmed market jitters due to the uncertainty caused by the pandemic and ECQ measures.

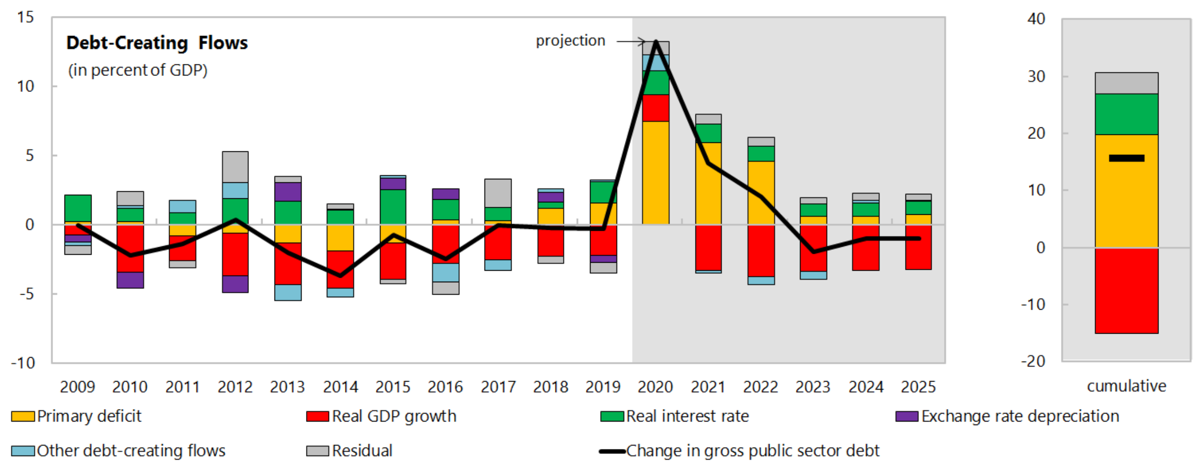
57. **The NG Debt-to-GDP ratio is expected to rise sharply in 2020 and gradually through 2021 and 2022 but will remain within the threshold of sustainability.** Based on a baseline scenario that makes use of the revised DBCC Medium-Term assumptions, the NG debt trajectory will increase initially to around 53 percent in 2020. The stochastic simulation results generated by the Debt Sustainability Analysis (DSA) model predicts a moderate risk exceeding 60 percent in as early as 2021. However, there is high likelihood of a return to downward debt path if the GDP growth and fiscal deficit levels resume their pre-2020 long-run averages beginning in 2023.

Figure 1. **Philippines: Baseline NG Debt Dynamics, 2020-2025**



58. **Expansion of the primary deficit to 6.2 percent and real GDP contraction of 5.5 percent are the main contributors to the projected increase in Debt-to-GDP ratio in 2020 (Figure Y).** The Debt-to-GDP ratio will continue to rise in 2021 and 2022 but at a slower pace as the revival of economic growth will compensate for the need to maintain substantial fiscal support. Based on DSA results, a primary balance of 2.2 percent of GDP or less is needed to generate a reduction in the Debt-to-GDP ratio.

Figure 2. Philippines: Contributions to Changes in Debt-to-GDP



V. MONETARY PERFORMANCE

Domestic Liquidity

59. Domestic liquidity (M3) growth accelerates as of end-December 2019. Domestic liquidity or M3 increased by 11.4 percent YoY as of end-December 2019 following a 9.5-percent expansion recorded at end-2018. The faster growth in the money supply was consistent with robust domestic demand. Likewise, net foreign assets (NFA) in peso terms rose by 8.8 percent YoY in December 2019.

60. As of May 2020, domestic liquidity continues to expand. Preliminary data show that domestic liquidity (M3) grew by 16.6 percent year-on-year to about ₱13.7 trillion in May. This was faster than the 16.2 percent expansion in April. On a month-on-month seasonally-adjusted basis, M3 increased by 0.6 percent.

61. Demand for credit remained the principal driver of money supply growth. Domestic claims rose by 16.2 percent in May from 15.0 percent in April due mainly to the sustained growth in credit to the private sector. Loans for production activities continued to be driven by lending to key sectors such as real estate activities; financial and insurance activities; electricity, gas, steam and air conditioning supply; information and communication; and transportation and storage.

62. Loans for household consumption eased. This was due mainly to the slower expansion in credit card and motor vehicle loans during the month, attributed in turn to the impact of the lockdown. Meanwhile, net claims on the central government grew by 59.6 percent in May, faster than the 45.5 percent growth in the previous month, owing to increase in domestic borrowings by the NG.

63. **NFA in peso terms expanded by 12.1 percent year-on-year in May, faster than the 11.9 percent growth in April.** The BSP's NFA position continued to expand, reflecting the increase in gross international reserves following deposit with the BSP by NG of proceeds of its foreign exchange borrowings. Meanwhile, growth in the NFA of banks eased, as banks' foreign assets declined mainly on account of lower investments in marketable securities.

Monetary Policy Assessment

64. **In 2019, the benign inflation outlook provided room for the BSP to reduce its key policy rate three times during the year, summing up to a 75-basis point reduction.** In its policy meetings on 9 May, 8 August and 26 September, the BSP reduced key policy rates by 25 bps each, bringing the overnight reverse repurchase (RRP) rate down to 4.0 percent. The interest rates on the overnight lending and deposit facilities were likewise decreased accordingly. Meanwhile, during its monetary policy meetings on 14 November and 12 December 2019, the BSP decided to maintain its monetary policy settings.

65. **With the onset of the COVID-19 pandemic in Q1 2020, the BSP has eased monetary policy settings by reducing the policy interest rate by a cumulative 175 bps, thus far, from 4.0 percent to 2.25 percent. The policy responses implemented by the BSP are focused on providing broad monetary stimulus and liquidity to the financial system.**

- A 25-basis point (bp) RRP cut in February 2020;
- A 50-bp RRP cut in March 2020;
- A 50-bp RRP cut in 17 April 2020; and
- A 50-bp RRP cut in 25 June 2020

In addition to the 175-basis-point cumulative policy rate cuts since February 2020, the 200-basis-point reduction in reserve requirement (RR) ratios of universal and commercial banks as well as non-bank financial institutions with quasi-banking functions (NBQBs) and the latest 100-basis-point reduction in RR of thrift banks (TBs), rural and cooperative banks (RCBs), the BSP has implemented a range of supplementary measures to ensure adequate liquidity and credit in the domestic financial system as well as complement broad-based fiscal stimulus measures. These include the following:

- the temporary suspension of the term deposit facility (TDF) auctions and zero offering for certain tenors;
- the temporary reduction in the daily offer volume in the RRP facility;
- the purchase of government securities (GS) in the secondary market;
- the repurchase agreement with the National Government;
- the temporary reduction in the term spread on the peso rediscounting loans relative to the overnight lending rate to zero;
- the inclusion of loans to micro-, small-, and medium-scale enterprises (MSMEs) as part of banks' compliance to reserve requirements;

- the measures aimed at providing regulatory relief to BSP-supervised financial institutions (BSFIs) to ensure the delivery of credit and other financial services, such as the relaxation of know-your-customer (KYC) requirements and reduction in the minimum liquidity ratio (MLR) for stand-alone thrift banks, rural banks, and cooperative banks from 20 percent to 16 percent; and
- various time-bound relaxation of various regulations pertaining to compliance reporting, calculation of penalties on required reserves, and single borrower limits.

66. **These measures were pursued consistent with a manageable inflation outlook and well-anchored inflation expectations, with the balance of risks shifting significantly to the downside for 2020 and 2021.** At the same time, the BSP recognized the probable impact of the containment measures in response to the COVID-19 pandemic on domestic economic activity.

67. **In calibrating future monetary policy stance, the BSP will continue to be guided by the inflation outlook over the policy horizon and the risks surrounding such outlook, as well as data on demand conditions.**

68. **The BSP continues to see room for monetary policy to support the Philippine economy.** To date, the cumulative 175-basis point reduction in the policy rate since February 2020 remains appropriate to cushion economic activity and uplift market confidence. Nevertheless, the BSP remains vigilant in monitoring domestic and international developments for any emerging risks to the outlook for both inflation and economic activity. The BSP stands ready to ease monetary policy settings further, if warranted.

VI. EXTERNAL SECTOR

69. The country's external sector remains manageable with adequate buffers against external headwinds. The Philippines has a manageable external payments position when the health crisis started.

70. **As a result of the narrowing trade deficit amid the deeper contraction in goods imports than in goods exports, the current account (CA) in Q1 2020 recorded a surplus of US$92 million, a reversal from the US$1.7 billion deficit posted in Q1 2019.** This developed primarily from the lower deficit in the trade in goods account and higher net receipts in the secondary income account, which were mitigated partly by the decline in net receipts of trade in services and primary income. The weak performance of both exports and imports of goods reflected the slack in global demand, disruptions in global supply chains, and a slowdown in domestic economic activity. The latter was due largely to the enhanced community quarantine effected by the government to control the spread of COVID-19.

71. **As of end-June 2020 (preliminary data), the country's gross international reserves (GIR) level stood at US$93.47 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 8.5 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 7.3 times the country's short-term external debt based on original maturity and 4.8 times based on residual maturity. The level of GIR is more than adequate to meet unforeseeable demand for the country's immediate obligations, e.g., imports and short-term debt, and enables the BSP to, if necessary, participate in the foreign exchange market to ensure orderly conditions and smoothen volatility.

72. **A sustained favorable external debt profile also supports the external payments position**. The country's external debt metrics have steadily improved with the notable decline in the external debt-to-GDP ratio to only 21.4 percent as of end-March 2020 compared to about 57.3 percent in 2005. A large part of the country's external debt remains in medium-to-long term maturity profile supporting a manageable debt repayment schedule over the medium-to-long term horizon.

VII. FINANCIAL SECTOR

73. **The banking sector is in a strong financial condition, has manageable NG's exposures[24], and supported by sufficient liquidity and capital buffers going into the crisis brought about by the COVID-19 global pandemic.** Total assets of the banking system continued to expand at 8.4 percent to ₱18.3 trillion in 2019, particularly its lending and investment portfolios, to support the country's financing needs. Said asset growth was funded by deposit generation, bond issuances and capital infusion. Banks' activities brought higher profitability while maintaining adequate capitalization, sound asset quality and sufficient liquidity buffers to absorb potential unforeseen shocks to operations.

74. **Outlook for the banking system was positive going into COVID-19 pandemic.** Banks maintained their optimism on the country's economic prospect. Majority of the Banking Sector Outlook Survey (BSOS) respondents projected the GDP to grow between 6.0 percent and 6.6 percent within the next two years[25]. The sluggish global growth, coupled with trade tensions among the world's biggest economies have resulted in the moderation of the banking industry leaders' bullishexpectations on economic growth and banking system prospects. Nonetheless, the outlook on the Philippine banking system (PBS) remained stable as the projected economic growth and strength of banks are expected to result in double digit growth in assets, loans, deposits and net income.

24 In terms of banks' investment in government bonds, acceptance of government deposits, deposit liabilities of government banks, loans to Directors, Officers, Stockholders and Related Interest (DOSRI), and government guarantees.

25 The Report has yet to cover the evolving impact of Novel Coronavirus Disease (COVID-19) global pandemic. A special section on the impact of COVID-19 on the banking sector outlook will be reflected in the next BSOS. Nevertheless, the Philippine financial system is projected to withstand the adverse impact of COVID-19 outbreak on account of its relatively stable and sound capital, leverage and liquidity buffers, ample loan loss reserves and robust earnings performance.

In particular, the growth in assets was expected to be driven by credit expansion as 80.7 percent of the respondent banks projected a double-digit growth in their loan portfolio. Majority of universal and commercial banks (U/KBs)', thrift banks (TBs)' and rural and cooperative banks (R/CBs)' forecasts of credit growth are seen between 10 percent and 15 percent.

On credit outlook, foreign banks are more optimistic than their domestic counterparts as about 50.0 percent of the foreign bank respondents projected a loan growth of more than 20.0 percent in the next two years.

The survey results likewise disclosed banks' expectations for bank deposits to fund asset and loan growth. About 72.2 percent of the bank respondents projected double-digit deposit growth, similar to last year.

The net income forecasts were affected by the tighter projections for the banks' net interest margin (NIM) as 36.3 percent and 32.4 percent of the bank respondents expected lower NIM at less than 3.0 percent and between 3.0 percent and 5.0 percent, respectively. Respondents U/KBs and foreign banks were most conservative with 87.0 percent and 76.0 percent expecting the NIM at less than 3.0 percent, respectively. Meanwhile, R/CBs' NIM projection was tilted towards the 3.0 percent to 10.0 percent range. Foreign banks' projection tightened as 76.2 percent of respondents expected a NIM of less than 3.0 percent from 35.0 percent last year.

Performance of the Banking System

75. **Asset expansion was attributed to upbeat lending activities and supported by stable, retail deposits.** The banking system's total assets expanded by 8.9 percent YoY to ₱18,531.9 billion as of end-March 2020.

Loans, which constituted a major component of the banking system's resources at 60.1 percent, reached ₱11,132.2 billion representing 11.4 percent growth YoY. Financial assets other than loans26, representing the second largest component of total assets at 20.8 percent, stood at ₱3,863.3 billion and higher by 3.9 percent YoY. Cash and due from banks accounted for 14.7 percent at ₱2,718.2 billion and grew by 8.2 percent.

Asset growth was funded by deposit generation, bond issuances and capital infusion. Deposit liabilities, at ₱18,338.2 billion, continued to be the primary funding source of the banking system, representing 74.5 percent of total assets of the banking system as of end-December 2019. These deposits were mostly peso-denominated and sourced from resident individuals and private corporations.

26 Composed of investment portfolio booked under held-to-maturity (HTM), available-for-sale (AFS), held for trading (HFT), unquoted debt securities classified as loans (UDSCL), securities designated at fair value through profit or loss (DFVPL), investments in non-marketable equity securities (INMES), and equity investments.

The more balanced distribution of the banking system's assets allows banks to effectively manage their risk exposures amid market volatilities.

76. **Bank credit supported domestic growth prospects and diversified across key productive sectors of the economy.** By economic sector, main loan recipients were the real estate sector at 17.9 percent, followed by wholesale and retail trade at 11.7 percent, and manufacturing at 9.8 percent. Banks' credit risk exposures are diversified across key economic sectors and accompanied by continued improvement in their respective credit risk management systems.

77. Meanwhile, based on the results of the BSP survey on quoted lending rates of 46 universal and commercial banks for the period 01 January 2020 to 30 April 2020, the following were noted:

- **The U/KB industry provides the lowest cost of credits to Government borrowers with an average lower and upper limit within the 4 percent and 7 percent range, followed by Private Corporation borrowers within 5 percent and 9 percent range.** This is expected since generally, government loans bear little to low-risk of default. Meanwhile, private corporations are in a better position to secure their credits and/or have good credit standing to attract low cost borrowings from different sources. Meanwhile, loans to MSMEs and Agra/Agri borrowers have the same range of interest rates between 5.0 percent and 10.0 percent.

- **Importantly, the survey shows a noticeable drop in the average lower and upper limits of quoted bank lending rates in April 2020 compared to March 2020.** In particular, it displays a lower average bank lending rate in the lower limit of Government loans (by 0.04 percentage point), Agri-Agra loans (by 0.23 percentage point), Contracts to Sell (by 0.12 percentage point), and microenterprise loans (by 1.12 percentage points).

  In a similar vein, lower average lending rates in the upper limit were seen in April 2020 compared to March 2020 of Government loans (by 0.25 percentage point), Loans to Private Corporations (by 0.22 percentage point), Agri-Agra loans (1.37 percentage points), microenterprise loans (by 0.80 percentage point), and loans to individuals (by 0.48 percentage point).

  The results further revealed that the adjustments in the BSP policy rate and bank reserve requirements as well as the regulatory relief measures adopted by the NG and the BSP towards microenterprises are gaining some traction while benefits are yet to be seen in the SMEs.

78. **Loan quality remained satisfactory amid continued loan growth.** The banking system's loan quality slightly weakened as non-performing loan (NPL) and non-performing asset (NPA) ratios both marginally weakened to 2.3 percent and 1.9 percent, respectively, from 2.1 percent and 1.8 percent, respectively. Nonetheless, banks

maintained adequate provision, albeit slightly lower, to cover for potential losses on impaired loans as the NPL coverage ratio settled at 86.1 percent as of end-March 2020 from 95.7 percent while the NPA coverage ratio stood at 67.1 percent from 72.0 percent as of end-March 2019. These were the result of more stringent asset quality standards in the Philippines following the adoption of the Philippine Financial Reporting Standards (PFRS) 9 on Financial Instruments effective 01 January 2018. Under PFRS 9, banks have been recognizing the asset impairment at an earlier stage, while providing adequate buffers to potential credit losses.

79. **Stable peso deposits from residents largely funded asset expansion.** Stable funding base from peso deposits of residents largely funded asset expansion. The banking system's deposit liabilities grew by 10.1 percent to reach ₱13,979.9 billion. In particular, resident peso deposits posted a YoY growth of 11.8 percent to ₱11,820.5 billion. The domestic orientation of the banks' funding source shields the banking system from foreign currency risk and flight of capital in times of financial distress.

80. **Banks had adequate capital to support credit expansion activities.** Total capital accounts grew by 8.3 percent YoY to ₱2,143.3 billion on account of plowed back funds infused by banks from higher retained earnings a year ago. The banking system's retained earnings and undivided profits grew by 13.7 percent YoY.

Meanwhile, capital ratios remained well-above the BSP and Bank for International Settlements (BIS) prescribed thresholds of 10.0 percent and 8.0 percent, respectively. The Basel III capital adequacy ratio (CAR) of U/KBs stood at 16.0 percent on consolidated basis and 15.4 percent on a solo basis as of end-December 2019. Banks also maintained mostly high- quality capital in the form of Common Equity Tier 1 (CET1) capital at 14.1 percent on a consolidated basis. These broadly indicate that banks have sufficient capitalization to absorb unforeseen shocks from their risk-taking activities. These U/KBs also posted a leverage ratio of 9.8 percent as of end-December 2019 which indicates the overall industry strength in terms of its ability to absorb unforeseen business losses, while allowing a buffer for further expansion.

81. **Banking system reported sufficient buffers to meet liquidity and funding requirements.** As of end-December 2019, the Basel III Liquidity Coverage Ratio (LCR) of the U/KB industry registered above the minimum requirement at 169.9 percent on a solo basis. Moreover, the banking system also held sufficient stock of high- quality liquid assets (HQLA) mostly in the form of reserves with the BSP and investments in government securities that may be tapped to withstand short-term liquidity stress.

For other banking categories, the Minimum Liquidity Ratio (MLR) of thrift banks stood at 30.0 percent, rural and cooperative banks at 52.3 percent.

The Net Stable Funding Ratio (NSFR) of covered banks stood at 130.0 percent during the same period. These attest for the banking system's adequate liquidity to meet long-term funding requirements.

_82._ **Banks' profitability was sustained by interest income from loans.** On steady credit expansion, banks posted a net profit of ₱59.7 billion and higher by 9.3 percent YoY. Banks' overall profitability was buoyed by higher earnings derived from their lending activities as indicated by the increase in net interest income of 24.4 percent YoY to ₱175.1 billion. Meanwhile, return on assets (ROA) and return on equity (ROE) stood at 1.3 percent and 10.4 percent, respectively

Risks from the Banking Sector

83. The onset of the COVID-19 pandemic and the government's implementation of ECQ in Luzon last 16 March 2020 may increase the level of non-performing loans (NPL) of banks given the constrained income of households and businesses. This, in turn, may limit the capacity of financial institutions to lend and support economic activities.

To help the NG address the spread of COVID-19, Republic Act (R.A.) No. 11469 or the "Bayanihan to Heal as One Act", was enacted into law on 25 March 2020. Under the law, covered institutions are required to implement a 30-day grace period for all loans with principal and/or interest falling due within the ECQ period without incurring interest on interest, penalties, fees and other charges.

Moreover, all covered institutions shall not charge or apply interest on interest, fees and charges, during the 30-day grace period to future payments/amortizations of individuals, households, micro-, small- and medium enterprises (MSMEs), and corporate borrowers. Given this, careful monitoring of bank credit to the vulnerable sectors of the economy is warranted.

Exclusive of the possible measures adopted by lenders to assist their borrowers such as renewing or restructuring of accounts and the relief measures granted by the BSP in the form of deferred non-performing loans (NPL) and staggered booking of allowance for credit losses, the BSP is anticipating an increase in the level of NPLs due to the pandemic. Although this health crisis is different from the 1997 Asian Financial Crisis, the incidence of high NPLs in banks' balance sheets will attract more capital in view of the booking of additional allowance for credit losses. This, in turn, may pose a limit on the lending capacity of banks without the relief measures from the BSP.

84. Exposures of the NG to the banking sector are mainly in the form of government deposits. The Philippine Government's exposure to the banking system was mainly in the form of government deposits at ₱1,713.3 billion as of end-December 2019. This exposure accounted for 12.5 percent of the ₱13,665.1 billion total deposit liabilities of the banking system.

The notional amount of guarantees (i.e., FX cover) extended by the NG on foreign currency denominated borrowings from multilateral lenders was estimated at US$1.3 billion (₱63.5 billion) as of end-December 2019, higher by 2 percent YoY. Meanwhile, peso-denominated borrowings intended for re-lending to priority sectors and projects that are likewise guaranteed by the NG stood at ₱3.1 billion, higher by 54.4 percent YoY.

However, said fiscal contingent risk from these government exposures was deemed manageable given the foreign current asset cover requirement under the FCDU Law (Republic Act No. 6426), liquidity coverage ratio requirement and enhanced credit risk management standards of banks.

85. **Banks' substantial investment in government securities indicates concentration of sources of government financing to banks.** Bank holdings of outstanding government securities issued by the NG reached ₱2.2 trillion or 42.9 percent of the total. A significant proportion of these government securities were government bonds at ₱1.9 trillion or 86.8 percent and treasury bills at ₱0.3 trillion or 13.2 percent.

    At the onset of the COVID-19 global pandemic, the BSP complemented the Government's liquidity management program through some extraordinary measures, such as the ₱300 billion repurchase agreement with the NG. The BSP also opened the window for purchases of government securities in the secondary market. Given the substantial investment of banks in government securities and recent government initiatives to boost domestic liquidity and address the extraordinary liquidity requirements of the economy, careful monitoring of concentration risk is deemed necessary.

Risk Mitigation Measures

86. **In response to the challenges posed by the COVID-19 global pandemic, the BSP issued regulatory and operational relief measures to assist the BSFIs endure the health crisis as well as to support households and business enterprises.** These measures provide incentives for BSFIs to extend financial relief to their borrowers, incentivize bank lending, promote continued access to credit/financial services, support continued delivery of financial services to enable consumers to complete financial transactions during the ECQ period, and to support the level of domestic liquidity.

87. **Parallel to this, the BSP remains committed to the pursuit of financial sector reforms amid the changing market conditions and increasing sophistication of the global financial services industry.** The BSP has undertaken a number of regulatory reforms and supervisory initiatives 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 capital market and foreign exchange reforms in the Philippines.

    A. **The BSP progressively improves existing corporate governance and risk management standards in the banking sector.** In strengthening corporate governance and risk management standards, the BSP is guided by the concept of proportionality towards achieving an enhanced risk management systems and sound capital position of BSFIs. This objective is complemented by the deployment of prompt and calibrated enforcement actions as well as dynamic and forward-looking assessment framework.

- **Revised Guidelines on Disqualification and Watchlisting of Directors and Officers.** The BSP recognizes that the fitness and propriety of the board of directors and management significantly influences and shapes the quality of corporate governance in a financial institution. Toward this end, the BSP strengthened the rules governing the watchlisting and disqualification of persons from becoming directors/officers of banks. The policy aims to further promote the integrity of the financial system and better protect the interest of the public.

- **Revised Prudential Requirements and Guidelines on the Public Offering and Listing of Bank Shares of Universal Banks.** In line with the BSP corporate governance standards and to encourage diverse ownership in banks, the BSP has issued revised guidelines on prudential requirements covering the public offering and listing of bank shares for universal banks including government banks.

B. **The BSP proactively aligns local banking standards and best practices with international norms particularly on Basel-related reforms.** Cognizant of ongoing developments and challenges confronting the banking system with increasing sophistication and integration of global financial services industry, the BSP has proactively aligned the local banking standards and best practices to keep pace with emerging regulatory landscape and set prudential standards and best practices for ongoing financial innovations and trends.

- **The BSP issued guidelines aligned with the Basel standards on improved disclosure requirements for interest rate risk in the banking book (IRRBB).** Existing guidelines on IRRBB were amended to include the description of management, control, measurement (including periodicity and description of specific measures used for sensitivity calculations), mitigation strategies[27], interest rate shock and stress scenarios, hedging techniques and accounting treatment, and modeling as well as parametric assumptions for IRRBB measurement.

- **The BSP completes the last phase of liquidity reforms with issuance of intraday liquidity reporting guidelines and rationalized other prudential reporting requirements of BSFIs.** The Intraday Liquidity Report is intended to monitor the intraday liquidity position of BSFIs, their sources of intraday liquidity, and their ability to meet payment and

27 Refers to monitoring of risk measures in terms of risk limits, hedging practices, conduct of stress testing, outcomes analysis, role of independent audit, role and practices of the asset and liability committee (ALCO), bank's practices to ensure appropriate model validation, and timely market updates in response to changing market conditions.

settlement obligations on a timely basis under both normal and stressed conditions.

➢ **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).** In particular, the framework required banks identified as D-SIBs to maintain higher loss absorbency (HLA) 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 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.

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

➢ **The BSP Issued the Revised Framework on the Selection of External Auditor.** The BSP issued the guidelines governing the revised framework on the selection of external auditors for BSFIs in accordance with the cooperative arrangement among the Financial Sector Supervisors under the auspices of the Financial Sector Forum (FSF).

➢ **Amended Regulations on the Financial Audit of Banks.** The BSP amended its regulations governing the financial audit and submission of audited financial statement (AFS) of banks in order to enhance the quality of information channeled into the supervisory process and ultimately, promote fairness, transparency and accountability in financial reporting.

➢ **Rationalization of Prudential Reporting Requirements.** The BSP is continuously reviewing the prudential reports required from the BSFIs to ensure that information being gathered remains relevant to its surveillance and supervisory functions. The rationalization of prudential reports aims to contribute to continuing adherence to internationally recognized standards and practices on data aggregation and governance as well as promote ease of doing business in BSFIs.

D. **The BSP proactively supports private sector-led capital markets reforms including foreign exchange (FX) initiatives.** The package of proposed reforms was intended to deepen the local capital markets by promoting price discovery and transparency, developing market infrastructure, improving market liquidity, and enhancing the ease of doing business in the country.

- **The BSP Issued Amendments to its Foreign Exchange (FX) Regulations.** The BSP intends to facilitate access to the banking system's FX resources for legitimate transactions, further streamline and simplify procedures as well as documentary requirements for FX transactions. The reforms allow investors greater flexibility to manage their investments and cash flows.

- **The BSP Reduced its Reserve Requirement for Bonds.** The BSP reduced the reserve requirement rate for bonds issued by banks and quasi-banks (QBs) to three percent as part of the BSP's commitment to contribute to deepening of the local debt market. The new reserve requirement ratio took effect on the reserve week beginning 01 November 2019. In 2020, the BSP implemented the 200-basis-point decrease in the reserve requirement ratios of universal and commercial banks as well as non-bank financial institutions with quasi-banking functions (NBQBs) as part of the BSP's response to manage domestic liquidity.

- **The BSP issued guidelines on Sustainable Finance Framework.** The Framework covers green finance aimed to facilitate the flow of funds toward green economic activities, climate change mitigation and adaptation projects. Moreover, the guidelines clearly define sustainable finance as any form of financial product or service which integrates environmental, social and governance criteria into business decisions that supports economic growth and provides lasting benefit for both clients and society while reducing pressures on the government.

88. **Moving forward, the BSP will sustain the implementation of proactive, timely and calibrated policy responses, reforms and supervisory initiatives.** These will further raise the bar on the banking system's preparedness to handle external threats such as the COVID-19 global pandemic, deepen the corporate governance culture and risk management standards including cybersecurity controls, safeguard sound liquidity and capital positions, enhance macro-financial surveillance mechanisms, and promote greater access to financial services. These reforms coupled with banks' prudent risk-taking behavior and adequate buffers against uncertainties will move the financial 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 (BSOS) will be constructed to help measure the banking sector resilience and aid the BSP in capturing potential vulnerabilities in the banking system.

VIII. OTHER CONTINGENT CENTRAL GOVERNMENT OBLIGATIONS

A. GOVERNMENT OWNED AND CONTROLLED CORPORATIONS (GOCCs)

89. The GOCCs which includes the Government Financial Institutions (GFIs) and the Social Security Institutions (SSIs) have been the vehicles of growth and developments, mandated to perform critical role in transport, power, agriculture, area development, price stabilization, financing, and social and developmental activities. As a result of these mandated responsibilities, the fiscal and economic significance of the GOCCs have been very visible. By virtue of different laws, GOCCs remit part of their earnings to the National Government. These remittances provided additional revenues necessary to finance the various infrastructure and social programs of the Government. It also compensated for the support provided to GOCCs whose operating income is not sufficient to cover the expenditures and costs required to deliver their mandated responsibilities. The Government corporate sector has also been in the forefront of major breakthrough in public private partnership in the implementation and operation of projects in the power and water sectors.

90. Major government corporations, including government financial and social security institutions form part of the consolidated public sector financing position. In view of the fiscal and economic relevance of the GOCCs, the DOF upholds its mandate to continuously pursue fiscal and policy initiatives to instill financial discipline among GOCCs while delivering their respective mandates in efficient and effective manner. The new record-high dividend remittance of the GOCCs/GFIs in 2019 and 2020 since the enactment of the Dividend Law in 1994, which requires the state firms to remit at least 50 percent of their net earnings, substantiates the efforts of the GOCCs to become efficient partners of the National Government in the acceleration of infrastructure and social development in the country.

Table 8. Philippines: Contribution to the Consolidated Public Sector Financial Position, 2018 – 2021
(In Billion Pesos)

Particulars	Actual		Program	
	2018	2019	2020	2021
Financing Position of MNFGCs	5.533	(0.731) *	2.163 *	16.943 *
Financing position of GFIs	20.488	26.103	21.014	24.792
Financing position of SSIs	63.249	53.858	(84.841)	(1.787)

* Includes the 3 Additional GOCCs (BCDA, CAAP and MIAA) for the expanded monitoring coverage of GOCCs, excludes HGC which was merged to PHILEXIM and renamed as Philippine Guarantee Corporation

91. The actual and projected consolidated financial position of the GOCCs from 2019 to 2021 reflects the continued resolve of the GOCCs to deliver its mandated responsibilities. More importantly, their actual and projected operation for the three year period clearly demonstrate their high sense of cooperation and responsibility during the challenging time in the country by providing the necessary resources and machineries in the implementation of the emergency measures taken by the Government to contain, if not totally mitigate the risks brought about by COVID-19.

Major Non-Financial Government Corporations (MNFGCs)

92. The consolidated financial position of the MNFGCs in 2019 posted a deficit of ₱0.73 billion, a substantial decrease of 113 percent or ₱6.27 billion as compared to the 2018 surplus of ₱5.53 billion as the GOCCs continue to pursue their respective mandates. The shift in the GOCCs financial position from surplus in 2018 to deficit in 2019 was largely caused by the performance of the National Food Authority (NFA), Power Sector Assets and Liabilities Management Corporation (PSALM), and National Power Corporation (NPC). The substantial decline in NFA's surplus by ₱16.20 billion was mainly brought about by the higher volume of local procurement in 2019 in order to beef up its inventory and mitigate the further escalation of the selling price of rice. By the end of June 2019, prior to the distribution period, NFA's inventory was equivalent to 17 days daily consumption from the low of three days equivalent daily consumption as of the end of 2018. In parallel, NFA raised its palay buying price from ₱17.70 to ₱20.70 per kilo to be able to buy from local farmers the required volume since rice traders were buying from the farmers at a much higher price than NFA's palay buying price of ₱17.70 per kilo. The passage of RA 11203 (An Act Liberalizing the Importation, Exportation and Trading of Rice Lifting for the Purpose the Quantitative Import Restrictions of Rice and for Other Purposes) in 2019 provides that NFA shall maintain sufficient rice buffer stocks to be sourced solely from local farmers. By the end of 2019, NFA rice inventory was equivalent to 17 days daily consumption. The reduction in PSALM's surplus by ₱5.55 Billion resulted mainly from the drop in Universal Charge (UC) collections by ₱9.85 billion with the recovery of stranded contract costs of ₱0.1938/kwh approved by ERC which ended in 2018. In 2019 recovery of stranded contract costs approved by ERC for collection starting in 2019 was only ₱0.0543/kwh. The lower UC collection was partially offset by higher receipts from sales generated by PSALM's own power plants due to higher spot prices. The deterioration in NPC's financial operation by ₱2.25 billion, from a surplus in 2018 to deficit in 2019 was due to higher power subsidy of ₱1.24 billion brought by the entry of three private sector power providers, and lower collection.

The substantial drop in the financial performance of NFA, PSALM and NPC was partly offset by the improvement in NHA, LRTA and the combined net surplus of the three new GOCCs included in consolidated public sector financial position. Improvement in NHA's and LRTA's financial position was primarily due to receipt of subsidy in 2019 for capital projects in the case of NHA, and for conversion of NG advances into subsidy in the case of LRTA. In 2019, three GOCCs namely BCDA, CAAP and MIAA were included in the coverage of the consolidated public sector financial position.

93. For 2020, the consolidated financial position of the GOCCs is expected to improve from deficit of ₱731.4 million in 2019 to ₱2.162 billion surplus in 2020. This is mainly due to the conversion of NG advances to NFA into subsidy amounting to ₱40.65 billion and to LRTA amounting to ₱10.43 billion pursuant to Administrative Order No. 10[28]. The conversion of NG advances to LRTA into subsidy mitigated the drop in its revenue as a result of the COVID-19 emergency related measures. The conversion of NG advances to NFA is in line with the financial restructuring of NFA and cleaning up of its balance sheet. Additionally, NFA's financial operation improved by ₱9.0 billion in 2020 since there were no more imported rice related obligation payments in 2020.

The improvement due to savings from rice importation related expenditures and subsidies to NFA and LRTA for conversion of NG advances was partially offset by the deterioration in the performance of PSALM of ₱5.5 billion due to anticipated decrease in sales of PSALM's own power plants as a result of the slowdown in economic activity due to COVID-19; and of other GOCCs such as NPC, PPA, CAAP, MIAA and PNOC. The deterioration in the financial operation of these GOCCs emanates from their contributions to the National Government, pursuant to the Dividend Law and the Bayanihan to Heal as One Act to finance the necessary expenditures to implement the emergency measures taken to mitigate the risks arising from COVID-19, and from the anticipated substantial drop in their revenues from operations as a result of emergency health measures, in the case of PPA, CAAP, MIAA and NPC.

94. For 2021, we expect an improvement in the financial position of the MNFGC is due to the projected return of the operations of the GOCCs such as PPA, CAAP and MIAA to almost normal, whose operations were severely affected by COVID-19. This is in anticipation of a breakthrough in the medical research to combat the virus by 2021. Additionally, substantial improvement in PSALM, NPC and PNOC is projected. Improvement will come from subsidy releases to PSALM pursuant to RA11371, otherwise known as the Murang Kuryente Act. RA 11371 provides that proceeds from the Malampaya Fund shall be utilized for the payment of PSALM's stranded contract cost and stranded debt, instead of the Universal Levy collection from the consumers. In addition, increase in volume of sales was projected consistent with the estimated growth in nominal GDP in 2021.

The improvement in these GOCCs is expected to offset the deterioration in the financial operation of NFA, LRTA, BCDA and NDC. The drop in NFA and LRTA's performances were mainly due to the conversion of NG advances into subsidy in 2020. For 2021, only NFA's conversion of NG advances is projected at a lower amount as compared to 2020. For BCDA, it was assumed that its capital expenditures in 2021 will be primarily funded out of the corporate funds set aside for its capital projects. On the other hand, the drop in NDC's financial operation is due to its plan to increase its shareholdings in some of its subsidiaries.

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28 Strengthening and Enhancing the Procedures for Setting the Annual Net Lending Program for GOCCs and Guidelines for the Conversion of National Government Advances Including Interest on National Government Advances into Equity and/or Subsidy to GOCCs"

Social Security Institutions (SSIs) and Government Financial Institutions (GFIs)

95. SSIs and Government Financial Institutions (GFIs) managed to maintain their positive contributions to the CPSFP in 2019. Although there is a minimal decrease in SSIs' cash surplus, the combined cash surplus of the GFIs and the SSIs totalling to ₱79.96 billion in 2019 has contributed substantially to the improvement in the overall CPSFP. However, from a combined surplus in 2019, the combined operations of the SSIs and the GFIs will drop to negative ₱63.83 billion in 2020 and bounce back to ₱23.01 billion in 2021. The negative performance in 2020 was primarily caused by the projected negative performance of the SSS and the PHIC owing to the impact of COVID-19 on employment and medical benefits.

96. 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.

97. For 2019, SSIs' aggregate surplus of ₱53.86 billion decreased by 14.85 percent or ₱9.39 billion from 2018 surplus of ₱63.25 billion. This net decrease was attributed to the decrease on GSIS and PHIC's surplus by P25.19 Billion and ₱6.96 billion, respectively, but was partly offset by the substantial increase in the surplus of SSS by ₱22.75 billion.

The drop in the GSIS surplus was due to: (i) higher availment of loan package under the GSIS Financial Assistance Loan Program which takes out outstanding loan from lending institutions due to expanded coverage in 2019 from Department of Education (DepEd) personnel to all government personnel; and (ii) increase in availees of monthly old age pension, survivorship benefits, life insurance claims and retirement claims processed/paid. On the other hand, the surplus of PHIC dropped by ₱6.96 billion from the 2018 level. The decrease was caused by the change in the basis of recording of claims for benefit payments. For 2018, only those in the process of settlement were recorded while for 2019, all claims with submitted documents were recorded. This was partially offset by the increase in members' contribution due to higher number of senior citizens whose contributions are covered by subsidy from the National Government, coupled by the increase in annual premium from ₱3,120 to ₱5,000 for these senior citizens.

The decline in GSIS and PHIC performance was partly offset by the increase in SSS surplus position by P22.75 billion. The improvement in SSS surplus was mainly due to the passage of RA 11199, otherwise known as the SSS Act of 2018 which was implemented in 2019. The Act provides for increase in minimum monthly salary credits (MSC) from ₱1,000 to ₱2,000 in 2019 up to ₱5,000 by 2025 and increase in maximum MSC from ₱16,000.00 to ₱20,000.00 in 2019 up to ₱35,000 by 2025. The said Act also provides for increase in members' contribution rate from 11 percent to 12 percent in 2019 up to 15 percent by 2025. From the 2018 paying members, the increase in minimum and maximum MSC and the increase in contribution rate resulted in increase in members' contribution by ₱12.8 billion and ₱14.16 billion, respectively. The increase in paying members in 2019 provided further additional increase in premium contribution by ₱11.49 billion. The increase in members' contribution was partly offset by the implementation of unemployment benefits which is a new benefit under the SSS Act of 2018 and increase in maternity leave to 105 days due to the implementation of RA 11210 or the Expanded Maternity Leave Law enacted in 2019.

98. For 2020, SSIs financial position is expected to drop to a deficit of ₱84.84 billion from a surplus of ₱53.86 billion in 2019. The deterioration will mainly emanate from the anticipated substantial drop in the cash position of SSS and PHIC amounting to ₱67.04 billion and ₱64.09 billion, respectively. SSS member's contribution is projected to drop despite the full year implementation of the SSS Act of 2018, due to the increase in unemployment resulting from the emergency measures taken to mitigate the impact of COVID-19. Parallel with increase in unemployment is the projected increase in unemployment benefit payments. Furthermore, maternity benefits will also increase because of the full implementation of the Expanded Maternity Leave Law. The projected deterioration in the cash position of PHIC in 2020 emanates from the substantial increase in benefit payment, mainly for COVID-related cases.

99. For 2021, SSIs position will improve from deficit of ₱84.84 billion in 2020 to surplus of ₱1.79 billion in 2021. This improvement will primarily emanate from GSIS whose surplus is expected to increase from ₱3.77 billion in 2020 to ₱49.90 billion in 2021. By 2021, there will be no more loan releases under the GSIS Financial Assistance Loan Program which commenced in 2018 and will end by September 2020. In 2020, ₱41.79 billion was released by GSIS for this lending program. Accordingly, SSS position will improve with the drop of its deficit from ₱29.18 billion in 2020 to ₱10.31 billion in 2021. This improvement will come from increase in members' contribution due to the projected return of business activities to almost normal, with the anticipated breakthrough in medical research to counter COVID-19 by 2021.

Government Financial Institutions (GFIs)

100. GFIs perform their unique functions aligned with the economic roadmap of the government for socio-economic development such as financing programs for the agriculture sector, infrastructure, electricity, water, environment-process and technologies, education, shelter production, health care services, and programs for micro, small and medium enterprises, among others.

101. For 2019, GFIs surplus amounted to ₱26.10 billion which is 27 percent or ₱5.62 billion higher than the 2018 surplus of ₱20.49 billion. The improvement in GFIs' surplus was primarily emanates from PGC followed by LBP and DBP. PGC, LBP and DBP showed an increase of ₱2.34 billion, ₱1.92 billion, and ₱1.35 billion, respectively.

102. Following the issuance of Executive Order No. 58[29] in July 2018, leading to the consolidation of PHILEXIM and Home Guaranty Corporation (HGC) with the PHILEXIM as the surviving entity, the transfer of guarantee related functions programs, and balance sheet accounts of Small Business Corporations, the transfer of administration of the Agricultural Guarantee Fund Pool and the Industrial Guarantee and Loan Fund to the PHILEXIM now called the Philippine Guarantee Corporation (PGC). As consolidated, PGC posted a net surplus of ₱2.26 billion in 2019, from net deficit of ₱0.08 billion in 2018. The substantial increase mainly emanated from guarantee fees from housing guaranty operations. The financial performance of the guarantee institutions was consolidated starting in 2019. Outstanding guarantees of the former PHILEXIM and HGC were ₱2.95 billion and ₱207.05 billion, respectively as of end 2019.

103. Improvement in LBP's net income/surplus was brought about by 26 percent growth in gross revenue as compared to 2018. While there was a significant increase in interest income from loans of about 35 percent, this was partly offset by drop in other income consisting of fees and commissions. The growth in LBP's income from loans was mainly due to its continuous effort to expand financing to priority sectors, i.e. farmers, fisher folks and Micro, Small and Medium Enterprises (MSMEs). The increase in revenue was more than enough to cover the increase in interest costs and other expenses, resulting in increase in net income/surplus of ₱1.92 billion. DBP's loan performance also exhibited an improvement resulting in 46 percent increase in interest income. This was however downplayed by increase in operating costs, ending with 34 percent increase in surplus in 2019.

104. For 2020, GFIs projected cash surplus will decrease by almost 20 percent from the 2019 level brought by the decline in surplus of DBP and PGC. The decrease in DBP surplus by ₱3.35 billion was attributed to the projected increase in financial charges emanating from the planned issuance of sustainability bonds to finance its environment and social programs, and the assumed dividend contribution to the National Government. On the other hand, PGC is expected to incur deficit in 2020 from a surplus position in 2019 or a projected deterioration of ₱3.3 billion. PGC anticipates payment of substantial guarantee claims on its corporate account, drop in collections of housing and IGLF related accounts/loans receivables and higher operating expenses due to increase rental and hiring of additional employees in anticipation of increase in guarantee coverage. Collections of housing and IGLF related accounts/loans receivables were not considered in the 2020 projection.

105. For 2021, the consolidated surplus position of the GFIs is expected to improve from ₱21.0 billion in 2020 to ₱24.8 billion. This is primarily attributed to the upturn in the PGC performance. There is no anticipated advances for guarantees issued by PGC. In addition, LBP performance will also improve in view of increase in interest income from lending

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[29] EO 58 – Approving the Merger of the Home Guaranty Corporation and the Philippine Export-Import Credit Agency (PHILEXIM), Transferring the Guarantee Functions, Programs and Funds of the Small Business Corporation, and the Administration of the Agricultural Guarantee Fund Pool and the Industrial Guarantee and Loan Fund to the PHIILEXIM, and Renaming the PHILEXIM as the Philippine Guarantee Corporation

activities. LBP projects a 32.95 percent jump in lending, half of which would come from the agriculture sector.

106. Based on audited financial statements as of December 31, 2018, the major GOCCs listed above had aggregate domestic and foreign liabilities of approximately ₱1.39 trillion which represented 32.22 percent of the liabilities owed by GOCCs and 8.00 percent of GDP, a decrease compared to the 9.07 percent of GDP in 2017. Outstanding guaranteed debt and contractual obligations of all GOCCs amounts to ₱685.07 Billion or 3.93 percent of GDP.

107. 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). 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 2.47 percent of GDP in 2019 (Table 9) compared to 2.79 percent in 2018.

Table 9. Philippines: Liabilities of the Government Corporate Sector and 14 Major Non-Financial Government Corporations (MNFGCs), 2018
(in Billion pesos, unless otherwise specified)

Particulars	Total Liabilities	% to Total	% of GDP
TOTAL GOCCs	**4,325.08**		**26.55%**
Share of MNFGCs (%)	32.22%		
TOTAL MNFGCs	**1,393.70**	**36.62%**	**9.72%**
NPC	19.78	0.43%	0.11%
PSALM	714.70	15.45%	4.10%
TransCo	163.47	3.53%	0.94%
NFA	162.05	9.99%	2.65%
LRTA	70.51	1.52%	0.40%
NIA	128.69	2.78%	0.74%
HGC	22.81	0.49%	0.13%
PNR	30.32	0.66%	0.17%
MWSS	11.60	0.25%	0.07%
PPA	10.69	0.23%	0.06%
NEA	19.04	0.41%	0.11%
LWUA	5.13	0.11%	0.03%
NHA	23.68	0.51%	0.14%
NDC	5.77	0.12%	0.03%
PNOC and Subsidiaries	3.96	0.09%	0.02%
PEZA	1.49	0.03%	0.01%

Source: 2018 COA Audited Reports, comprising 105 GOCCs
DOF-FPPO GDP: ₱ 17,422.82 Billion
_1/ Excluding Bangko Sentral ng Pilipinas and CB-BOL
_2/ NPC, TransCo and PSALM are counted as one

Table 10. Philippines: Outstanding Government Guaranteed Debt to GOCCs, 2019
(in Billion pesos)

	Amount in Billion Pesos	% to Total Guaranteed Debt	% of GDP
MNFGCs	**386.06**	**80.21%**	**1.98%**
PSALM	247.61	51.44%	1.27%
NFA	100.05	20.79%	0.51%
BCDA	19.41	4.03%	0.10%
MWSS	7.45	1.55%	0.04%
PPA	3.16	0.66%	0.02%
LRTA	3.07	0.64%	0.02%
LWUA	2.33	0.48%	0.01%
MIAA	1.24	0.26%	0.01%
PNR	1.16	0.24%	0.01%
NPC	0.54	0.11%	0.00%
PEZA	0.06	0.01%	0.00%
GFIs/SSIs	**78.22**	**16.25%**	**0.40%**
DBP	50.56	10.51%	0.26%
LBP	27.32	5.68%	0.14%
TIDCORP	0.33	0.07%	0.00%
Others	**17.03**	**3.54%**	**0.09%**
NHMFC	10.96	2.28%	0.06%
SBMA	5.13	1.07%	0.03%
SBGFC	0.75	0.16%	0.00%
TIEZA	0.18	0.04%	0.00%
AFAB	0.01	0.00%	0.00%
TOTAL	**481.31**		**2.47%**

Source: DOF-FPPO GDP: ₱19,516.42 Billion

108. 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 ₱158.43Billion as of 2019.

Total guaranteed debt and contractual obligations of all GOCCs totalled to ₱639.738 billion or 3.28 percent of GDP.

109. Due to the major role of the Government Corporate sector in the developmental and social programs of the Government, the sector was provided with advances for the debt servicing of NG guaranteed obligations and direct support in the form of equity or subsidy.

Table 11. Philippines: Outstanding NG Advances to GOCCs, 2018 – 2019
(in billion pesos)

Particulars	2018	2019
Of the MNFGCs		
NIA[2/]	65.90	68.43
LRTA	42.86	43.23
NFA	40.65	66.49
PNR	25.58	26.62
NPC/PSALM[3/]	22.12	22.60
NEA	17.39	12.49
HGC	10.98	8.16
NDC	1.56	0.48
MWSS	1.08	1.12
Other GOCCs	30.42	31.20
TOTAL	**258.55**[1/]	**280.84**[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

110. 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 11). The National Government through the BTR will advance only the repayment of guaranteed obligations or relent loans of a GOCC if there is clear indication of GOCC's insufficient funds to pay the maturing obligations after due evaluation for more prudent fiscal management and fiscal discipline on GOCCs.

111. As of end 2019, outstanding NG advances was ₱280.84 billion, an increase of ₱22.30 billion from 2018 level. This was mainly due to advances provided to NFA and PNR which was partially negated by repayments from NEA, HGC and NDC.

112. Budgetary support is also extended to GOCCs for implementation of priority programs of the government such as health insurance, irrigation and rehabilitation and restoration of calamity-affected areas (Table 12). Direct support provided by the NG still outweighs the GOCC contributions/remittance to the NG in 2019 with net outflow of ₱123.90 billion. On the other hand, the National Government receive GOCCs remittances in the form of dividends, NG share on income, guarantee fee, among others. GOCCs contributed ₱98.01 billion to the revenue generation effort of the government as its total remittances represent 31.68 percent of total non-tax revenues in 2019. Out of the ₱98.01 billion remittances from GOCCs, 53.66 percent or more than half represents dividend remittances.

Table 12. Philippines: Net Budgetary Flows to GOCCs, 2018 - 2019
(as percent of GDP, unless otherwise specified)

Particulars	2018	20198
I. NG Flows from GOCCs	**0.46**	**0.50**
(in billion pesos)	79.38	98.01
Dividend	0.23	0.27
Interest on NG Advances	0.00	0.01
Guarantee Fees Collected	0.01	0.01
Forex Risk Cover Fee	0.01	0.01
NG Share on Net Income Received	0.19	0.19
Airport Terminal Fee	0.01	0.01
II. NG Flows to GOCCs	**0.84**	**1.14**
(in billion pesos)	145.51	221.91
Subsidy[a/]	0.78	1.03
Equity	0.02	0.02
Net Lending	0.03	0.09
NET NG FLOWS (I-II)	-0.38	-0.63
In billion pesos	-66.13	-123.90

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

113. Pursuant to Republic Act No. 7656 or the Dividend Law in 1993, GOCCs are required to remit at least half (50 percent) of their annual net earnings to the National Government (NG). For the year 2019, dividend collection from the Government-Owned or-Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs), dividend collection was ₱69.17 billion[30] represented a 35 percent increase from the ₱51.35 billion[31] in 2018.

114. A total of 54 GOCCs remitted in 2019. Philippine Amusement and Gaming Corporation (PAGCOR) was in the forefront with the biggest remittance of ₱16.17 billion. Other GOCC dividend contributors with at least a billion peso remittance were: Philippine Deposit Insurance Corporation (PDIC) with ₱10.58 billion; Bangko Sentral ng Pilipinas (BSP) with ₱4.0 billion; Philippine Ports Authority (PPA) with ₱3.52 billion; Civil Aviation Authority of the Philippines (CAAP) with ₱3.51 billion; Manila International Airport Authority (MIAA) with ₱3.42 billion; Land Bank of the Philippines (LBP) with ₱1.96 billion; and National Power Corporation (NPC) with ₱1.44 billion.

30 The Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Home Guaranty Corporation (HGC) was granted dividend relief amounting to ₱11.82 billion, ₱3.76 Billion and ₱1.0 Billion respectively in 2019 corresponding to its 2018 net income, to allow it to recapitalize and better serve the increasing development needs of the country.

31 This includes ₱7.82 billion and ₱3.24 billion dividends allowed to be retained by LBP and DBP, respectively in 2018, corresponding to 2017 net income for their capitalization, and to better serve the increasing development needs of the country.

115. Dividend in arrears were aggressively pursued in line with DOF's resolve to instill financial discipline in the GOCCs and strictly monitor the financial performance of the GOCCs and the GFIs.

Box 4. GOCCs COVID-19 Related Response Pursuant to Bayanihan Act to Heal as One Act and Dividend Remittances

The National Government received a record ₱150 billion in dividends, fees, returns of unutilized subsidies and other remittances from 55 GOCCs, from January to July 2020.

Of the ₱150 billion total remittances, ₱101.4 billion was remitted to the Bureau of the Treasury (BTr) since the effectivity of the Bayanihan Law on March 24. Under the Bayanihan Law, the President has been authorized to allocate cash, funds, investments including unutilized or unreleased subsidies and transfers held by any GOCC in order to address the COVID-19 emergency. Pursuant to the Memorandum from the Executive Secretary Salvador C. Meldialdea dated March 28, 2020, the President authorized the Secretary of Finance to perform such acts. The Secretary of Finance issued communications to various GOCCs to remit excess cash and unutilized subsidies/transfers to the Bureau of the Treasury. Remittances from GOCCs contributed to more than P100B in unprogrammed revenue which was a substantial portion of the resources necessary to finance the COVID related health and economic expenditure measures which were not part of the 2020 program.

The collection in 2020 is the highest amount ever collected since the issuance of Republic Act 7656 or the Dividend Law. This is also a big jump from the ₱52.59 billion[1] dividend collection in 2019.

Table 13. Philippines: Top GOCCs with Highest Dividend Remittances, January to July 17, 2020

	GOCC	Amount
1.	Bangko Sentral ng Pilipinas (BSP)	P37.5 billion
2.	Philippine Deposit Insurance Corporation (PDIC)	P17.9 billion
3.	Philippine Amusement and Gaming Corporation (PAGCOR)	P17.0 billion
4.	Tourism Infrastructure and Enterprise Zone Authority (TIEZA)	P12.0 billion
5.	Manila International Airport Authority (MIAA)	P6.0 billion
6.	Civil Aviation Authority of the Philippines (CAAP)	P6.0 billion
7.	Philippine Ports Authority (PPA)	P5.1 billion
8.	Philippine National Oil Company (PNOC)	P5.0 billion
9.	National Power Corporation (NPC)	P4.0 billion
10.	Philippine Reclamation Authority (PRA)	P3.8 billion
11.	Philippine Charity Sweepstakes Office (PCSO)	P2.3 billion
12.	PNOC-Exploration Corporation (PNOC-EC)	P2.0 billion
13.	Philippine Economic Zone Authority (PEZA)	P2.0 billion
14.	Clark Development Corporation (CDC)	P1.13 billion

Other remittances representing fees, return of unutilized subsidies, payment of NG advances amounted to ₱22.17 billion. Of this amount, ₱5.14 billion was remitted by several GOCCs such as BCDA, LRTA, NEA, NIA, NHA since the effectivity of the Bayanihan Law, as return unutilized subsidy or trust funds[1] totaling of ₱5.14 billion. PAGCOR remitted to the Office of the President additional ₱6 billion for Socio-Civic Funds Project. PCSO also remitted ₱420 million to PHILHEALTH in response to cases of COVID-19 in the country.

Moratoriums and other relief measures were also provided by the Government Financial Institutions and other government lending institutions, such as waiver of penalties, moratorium on loan payments, reducing fees, extended due dates, installment schemes, grant of emergency loan, and other COVID-related programs and benefits.

GOCC Related Laws Recently Enacted With Fiscal Significance

116. The passage of Murang Kuryente Act or RA 11371 in 2019 and its Implementing Rules and Regulations in 2020 is intended to reduce electricity rates through the allocation of ₱208 billion from the proceeds of the government share from the Malampaya funds for the payment of Stranded Contract Cost (SCC) and Stranded Debt (SD) instead of passing these SCC and SD to electricity consumers through the Universal Charge. A yearly allocation from the Malampaya fund shall be included in the GAA, consistent with the fiscal program of the government. For 2021, ₱8 billion is allocated as subsidy to cover the stranded debt.

117. The enactment into law of Republic Act No. 11203[32] in 2019 liberalize the trading of rice. The law removed NFA's regulatory functions and limits NFA's role in maintaining the country's rice buffer stock to be sourced from local farmers. Among others, the Act includes provision of support to farmers-mechanization and equipment, better seeding, credit assistance, training and technical services and crop diversification program through the creation of Rice Competitiveness Enhancement Fund (RCEF).

Under the said law, the authority of the Republic of the Philippines to provide guarantee on NFA's borrowings was repealed which effectively limits NFA's capacity to borrow. National Government guarantee on NFA borrowings had been a standard requirement by lending institutions. Outstanding NG guaranteed borrowing of NFA amounts to ₱100 billion, out of its total liabilities of ₱181.70 billion as of end 2019.

118. The total obligation of NFA includes NG advances for the debt servicing of NG-guaranteed obligations. Given the current limitation of the NFA to borrow, NG will have to continue providing NG advances parallel with conversion of into subsidy of the outstanding NG advances to NFA. The conversion of NG advances to NFA is in line with the financial restructuring of NFA and cleaning up of its balance sheet. Likewise, National

32 An Act Liberalizing the Importation, Exportation and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice, and For Other Purposes

Government's books will also be spared from recording interest charges on NG advances to NFA which in all probability will never be collected.

119. The passage of RA 11199 otherwise known as the Social Security Act of 2018, which was implemented in 2019. The law provides for the increase in the contribution rate and the minimum and maximum monthly salary credits until 2025. This increases will mitigate fiscal risk and improve SSS' fund life and ensure continuous benefit payment to its members. Additionally the law provides that the Commission will be chaired by the Secretary of Finance. The increase in minimum and maximum MSC and the increase in contribution rate resulted in increase in members' contribution by ₱12.8 Billion and ₱14.16 Billion, respectively, before taking into account the additional paying members.

120. Executive Order No. 58[33] in July 2018 provides for the consolidation of PHILEXIM and Home Guaranty Corporation (HGC) with the PHILEXIM as the surviving entity, the transfer of guarantee related functions programs, and balance sheet accounts of Small Business Corporations, the transfer of administration of the Agricultural Guarantee Fund Pool and the Industrial Guarantee and Loan Fund to the PHILEXIM now called the Philippine Guarantee Corporation (PGC). The merger of guarantee functions and programs into one body will allow a more efficient allocation of government contributions through the pooling of resources provided under the different guarantee mechanisms, and a more comprehensive oversight of its guarantees to effectively identify, monitor and control risks.

121. The passage of RA 11223 otherwise known as the Universal Health Care Act in 2019, aims for a comprehensive health care system for the public would require annual subsidy to be taken out from portion of proceeds from the incremental sin tax collections, National Government share in PAGCOR's income and PCSO Charity Fund.

122. The Governance Commission for GOCCs (GCG) serves as the instrument of the NG to actively exercise ownership rights over government-owned and controlled corporations (GOCCs) with the goal of transforming the GOCC Sector so that it is more responsive to the needs of public interest and becomes a significant tool for the attainment of enhanced economic growth and development. Constituted through Republic Act No. 10149, or the "GOCC Governance Act of 2011", the GCG formulated and implemented policies to enhance financial stability, operational efficiency and service quality in GOCCs. Recently, GCG maintained its ISO 9001:2015 Certification for its corporate policies and standards development and corporate governance services

33 EO 58 – Approving the Merger of the Home Guaranty Corporation and the Philippine Export-Import Credit Agency (PHILEXIM), Transferring the Guarantee Functions, Programs and Funds of the Small Business Corporation, and the Administration of the Agricultural Guarantee Fund Pool and the Industrial Guarantee and Loan Fund to the PHIILEXIM, and Renaming the PHILEXIM as the Philippine Guarantee Corporation

Box 5. Current Progress of Governance Commission for GOCCs Mandates

1. The Governance Commission 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 119 GOCCs remain to be going concerns for the Governance Commission in 2020. This figure includes the United Coconut Planters Bank (UCPB) and the additional 20 Coconut Industry Investment Fund Companies, which were all declared as GOCCs in 2016. For the previously approved abolitions and privatizations, the Commission continued to oversee the implementation of the liquidation process to ensure that all progressions are in accordance with law.

2. In line with its Philippine Development Plan (PDP) commitments, the GCG had reviewed 39 GOCCs for competition issues of which one was recommended for decoupling. For 2019, the GCG reviewed an additional 23 GOCCs which brings the total to 62 out of 120 GOCCs (52 percent).

3. The Governance Commission continued to implement the Performance Evaluation System (PES) and Quality Management Systems, including the transition to 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.

4. 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. This proposal was approved by the President and issued E.O. No. 36, s.2017, which likewise provided for an interim measure designed to mitigate the effects of the said suspension pending the issuance of a new CPCS. Under the new Executive Order, SSL-Exempt GOCCs 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.

   To fulfill its mandate under R.A. No. 10149 of developing a CPCS which shall apply to all officers and employees of the GOCCs, the Governance Commission procured consultancy services in 2019 to provide technical assistance in the assessment of the current compensation and benefits system in the Philippines, design of competitive public sector compensation, and estimation of cost implications to the Philippine Government. Currently, the Governance Commission, along with the partner consultant, Willis Towers Watson, Inc. (WTW), is conducting the development of the new CPCS for the GOCC sector and the study was initially expected to be completed by April 2020

However, the declaration of a State of Health Emergency due to the COVID-19 pandemic followed by enforcement of quarantine measures in the Philippines caused the delay in the target completion date of the study. The delay is affected by the inability to conduct meetings with relevant government agencies and GOCCs, and ultimately the GOCCs' untimely and non-submission of CPCS requirements due to alternative working arrangements.

Once the study has been completed, it shall be used as reference to the proposed CPCS that will be submitted to the President of the Philippines for his consideration and approval.

5. The Integrated Corporate Reporting System (ICRS) was created to serve as the central source of relevant information on GOCCs not only for GCG but also for various concerned agencies, the media, and the general public. It is also intended to enhance the transparency and disclosure policies under "GOCC Governance Act of 2011" (R.A. No. 10149) on the operations, finances, and management of GOCCs, while amplifying the Governance Commission's regulatory capacity through the use of business analytics technology.

The ICRS has two components, the GOCC Leadership Management System (GLMS) and the GOCC Monitoring System (GMS). The GLMS supplies the submission of non-financial information regarding the GOCC's profile, such as but not limited to the latest version of the charter, performance scorecards, and organizational structures. It also includes information on incumbent Appointive Directors. While the GMS caters the submission of financial information of GOCCs, such as but not limited to financial statements and corporate operating budgets. Through the ICRS, paperless submission was made possible as GOCCs are now able to submit electronic copies of required

The Governance Commission launched the enhanced GLMS v2.0 through a series of orientation and workshop with GOCCs on 22-25 May 2018. Two (2) compliance periods were opened for the GLMS on 01-31 October 2018 and 01 March – 30 April 2019, respectively. All submitted reports and data on the aforesaid periods were published in the ICRS Public Portal (https://icrs.gcg.gov.ph/).

As of 06 December 2019, 81 GOCCs are compliant and 15 GOCCs are non-compliant with the CY 2018 ICRS requirements of the Governance Commission. The compliance status of GOCCs for CY 2019 ICRS requirements will be updated in the GCG website after the end of the compliance period for the submission of 4th Quarter and Annual Financial Reports in the GMS on 15 June 2020.

It should be noted that Section 44 of the Code of Corporate Governance for GOCCs requires "[e]very GOCC, acting through its Board and Management, [to] ensure that it becomes an active and responsible member and contributor to the ICRS." Failure to comply shall be a ground to disqualify a GOCC from the PBB System and the Appointive Members of the Governing Board from the PBI System for a particular calendar year, without prejudice to the imposition of other sanctions."

In April 2018, the Governance Commission in support of the National Cybersecurity Plan 2021 issued a notice to all GOCCs encouraging each of them to adopt best practices in cybersecurity within their organization. In designing Cybersecurity Protocols, the Governance Commission recommended the Center for Internet Security (CIS) Controls and CIS identified Best Practices as possible reference.

On 08-09 November 2019, the Governance Commission conducted a 2-day Cybersecurity Summit for GOCCs at the Philippine International Convention Center (PICC). The goal of the event is to raise awareness on the current cybersecurity threats and its possible impact to the government and private sectors. During this event, Chairman Samuel G. Dagpin Jr. informed the GOCCs that the Governance Commission has already crafted its own Information and Cybersecurity Policy Framework.

For the year 2020, the Governance Commission aims to assist GOCCs in the development of essential cybersecurity policies specifically designed for their organization and industry.

Box 6. Moving Forward in Pursuit of Governance Commission for GOCCs Mandates

1. The Governance Commission is currently studying the rationalization of 16 GOCCs through abolition, decoupling of regulatory and commercial functions and privatization for 2020-2021.

2. Per its PDP commitments, the Governance Commission aims to review 90 percent of the GOCCs under its supervision on competitive neutrality issues by 2021. Upon the identification of said issues, it shall recommend the appropriate action to the Office of the President.

3. Enhancement of the current Integrated Corporate Reporting System (ICRS) 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 serve as an online central repository for all information on GOCCs open to the general public.

4. 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 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.

GOCC Liability based on Supreme Court and COA Decisions

123. **NPC Liability under the COA Decision on the Petition for Money Claim based on the Supreme Court Decision in the NPC DAMA Case**. In a Decision issued on 23 September 2019[34], The Commission on Audit (COA) provides among others that PSALM and NPC update the list and computation of payables in accordance with the principles of decisions of COA which is based on the guidelines of the Supreme Court decisions.

34 COA Decision No. 2019-416 entitled "Petitions for Money Claim of the employees of the National Power Corporation (NPC) terminated/separated pursuant to National Power Board Resolution Nos. 2002-124 and 2002-125 both dated November 18, 2002, against NPC and Power Sector Assets and Liabilities Management Corporation, for the payment of the judgment award for backwages, salary differentials, wage adjustments, separation pay, and interest based on the decision of the Supreme Court in NPC Drivers and Mechanics Association, et al. vs. NPC, et al."

B. PUBLIC-PRIVATE PARTNERSHIP (PPPs) AND OTHER CONTINGENT LIABILITIES (CLs)

124. **The stock[35] of contingent liabilities arising from PPPs for 2020 is estimated to be around ₱311.8 billion.** The ₱78 billion increase from last year is attributable mainly to the addition of newly awarded projects and the updating in the valuation of several existing projects as they advanced in the project implementation cycle. Big ticket projects such as the Cavite-Laguna Expressway, MRT Line 7, Metro Manila Skyway (Stage 3), and Clark International Airport Expansion Project – EPC matured in construction and contributed significantly to the increase. For the same reason, the corresponding estimated flow[36] of contingent liabilities in 2020 have increased to ₱33.1 billion from ₱22.8 billion last year.

125. Note that while the PPP portfolio covers all PPP projects, the report and analysis focuses only on projects of national agencies for which data is available. Thus, there are projects for which the government has fiscal risks but are not included yet in this report. The 2021 report covers 41 PPP projects that have impact on the fiscal risk.

In principle, the profile of fiscal risk changes as any of the following changes: as projects move along the lifecycle, as risk factors change, or as the project cost changes (see annex B).

Outlook for 2021

126. **By the end of 2021, a net increase of 24 projects that have impact on the fiscal risk is expected.** Specifically, 25 projects that are currently in the Investment Coordination Committee (ICC) pipeline are expected to be awarded by the end of 2021, assuming these projects commence the tender stage not later than February 2021 *(see Annex C).* On the other hand, the fiscal exposure of the government to the Casecnan Multi-Propose Irrigation and Power Project is expected to end as the project concludes by November 2021.

127. For the projects which are in the PPP portfolio by December 31, 2020, the following changes are expected to occur in 2021:

A. Three (3) projects will have started construction:
- South Integrated Transport System Project (Department of Transportation)
- NLEX-SLEX Connector Road Project (Department of Public Works and Highways)
- New Manila International Airport (Department of Transportation)

B. Four (4) projects will have started commercial operations:

35 "Stock" refers to the estimated aggregate contingent liability of the NG in the worst case event that it is made to provide termination payment for all PPPs, taking into consideration each project's implementation status (See Annex B).

36 "Flow" refers to the amount of contingent liabilities that may materialize within the fiscal year, taking into consideration each project's risk factors.

- Metro Manila Skyway (MMS) Stage 3 Project (Toll Regulatory Board)
- MRT Line 7 (Department of Transportation)
- Cavite-Laguna Expressway (Department of Public Works and Highways)
- Clark International Airport Operation and Maintenance Project (Bases Conversion and Development Authority)

C. On the other hand, for projects that are in the operations stage, Annex D shows the level of operational maturity measured in terms of percent remaining years of operations by end of 2021.

128. The risk factors of the projects in the PPP portfolio are expected to not change in 2021

129. As of May 2020, there are two variations waiting for approval by the ICC. One is the extension of the concession period of the Land Titling Computerization Project. This variation is not expected to entail any increase in project cost. The second one is the expansion of the NAIA Expressway project amounting to ₱10.80 billion. Assuming that the variation will be implemented, the fiscal risk for the NAIA Expressway project will change.

C. <u>LOCAL GOVERNMENT UNITS (LGUs)</u>

130. FY 2019[37] aggregate local revenues reached ₱246.49 billion surpassing by 4 percent the target set by the BLGF for local treasurers. Tax revenues accounted for 74 percent of the local revenue source of LGUs amounting to ₱183.46 billion, of which ₱113.31 billion came from local business tax collections. Non-tax revenues, on the other hand, accounted for 26 percent or₱63.04 billion.

131. The local revenue target for FY 2020 was set at ₱307.08 billion, but LGUs were able to collect only 41 percent of the target during Q1 when local taxes accrue and become due for collection, especially during the business registration renewal period. However, it is estimated that LGUs would miss 44 percent of their targets due to the financial hardship and economic impact brought about by the COVID-19 pandemic. This projection considered the regional and historical performance of LGUs. In nominal terms, the adjusted total local revenues collectible for FY 2020 would be reduced to ₱171.85 billion out of the original ₱307.08 billion target.

132. Due to the quarantine directives, some LGUs extended the deadlines for the payment of taxes, fees and charges ahead of the passage of Republic Act (R.A.) No. 1146938, otherwise known as the Bayanihan to Heal as Once Act. The Secretary of Finance further issued Department Circular No. 002.2020 dated 23 April 2020 to make the extension of

37 Based on the Statement of Receipts and Expenditures reports of LGUs as of 16 July 2020.

38 Entitled "An Act Declaring the Existence of a National Emergency Arising from the Coronavirus Disease 2019 (COVID-19) Situation and a National Policy in Connection Therewith and Authorizing the President of the Philippines for a Limited Period and Subject to Restrictions to Exercise Powers Necessary and Proper to Carry out the Declared National Policy and For Other Purposes", approved 24 March 2020

payment deadlines in the LGUs until 25 June 2020, pursuant to Section 4(z) of R.A. No. 11469 and Item D(4) of the Memorandum from the Executive Secretary, dated 28 March 2020. It is estimated that around 39% of the original annual collection targets of the LGUs have been deferred for collection by 3rd to 4th Quarters of FY 2020, which translates to around 20 percent deferred collections if based on the adjusted targets. Local governments that are greatly affected by the COVID-19 crisis are expected to extend further the payment deadlines, grant additional tax relief measures, or eventually condone certain taxes due to economic losses.

133. As part of the COVID-19 response, all provinces, cities and municipalities received subsidy/grant from the NG, under the facility called Bayanihan Grant for Provinces, Cities and Municipalities, in the total amount of ₱37.02 billion (₱6.20 billion for provinces, ₱12.44 billion for cities, and ₱18.39 billion for municipalities), which is equivalent to one month of Internal Revenue Allotment (IRA) for FY 2020 for each city and municipality, and one-half month equivalent of IRA for provinces. This augmented the available resources of LGUs for COVID-19 response, as top-up to their Local Disaster Risk Reduction and Management Fund (LDRRMF) and Local Development Fund (LDF).

134. For FY 2021, the impact of COVID-19 pandemic is expected to be more pronounced on local revenue collections as a result of financial losses in FY 2020, on which local tax assessments will be based, and the lower capacity to pay of taxpayers due to job losses, lower production of goods and services, and the overall contraction of the economy. The estimated local revenue target for FY 2021 is ₱144.89 billion, representing 53 percent of the original FY 2020 local revenue target. Anticipating improvements in the economy, local revenue collection would still grow conservatively with a projected increase of 10 percent annually and reach ₱159.38 billion to ₱192.85 billion from FY 2022 to FY 2024. These projections would be adjusted once the Q2 FY 2020 data becomes available.

135. By FY 2022, LGUs expect to receive higher transfers from NG in the form of National Tax Allocation (NTA), currently referred to as IRA, as a result of the finality of the decision of the Supreme Court (SC) on the Mandanas and Garcia cases on the IRA, wherein LGUs will have 40 percent share from all national taxes collections[39]. The increase in fiscal transfers could help LGUs pump-prime local economic growth and could be used to fund programs and projects that were delayed with the prioritization of COVID-19-related responses.

136. In terms of borrowings, LGUs are still conservative when it comes to tapping credit sources. The number of certifications on the net debt service ceiling and borrowing capacity (NDSCBC) of LGUs issued by the BLGF covers only around one-fifth of all LGUs annually. As of FY 2019, the total outstanding balance of LGUs amounted to ₱108.07 billion or 0.58 percent of the GDP[40]. In 2019, there are 653 provinces, cities and municipalities (PCMs) with no outstanding balance. On the other hand, borrowing

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39 Except those accruing to special purpose funds and special allotments for the utilization and development of national wealth. Currently, LGUs IRA is computed based on 40% of the national internal revenue taxes only.

40 From Q4 2019 reports of government and private domestic banks and lending institutions

PCMs allotted only an average of 4.34 percent of their total annual regular income for debt service, far from the 20 percent statutory limit[41].

Fiscal Risks

137. The COVID-19 pandemic has caused sudden economic shock and is expected to have deep and widespread ramifications to global, national and local economies. The fiscal stress to LGUs is expected to be very substantial as they are at the frontline of the pandemic's response and mitigation efforts. Many LGUs are expected to experience a decline in their revenues brought about by economic uncertainties, while businesses are facing unprecedented difficulties. Such situations would inevitably undermine the revenue generation capacity of LGUs and put them in a precarious fiscal position in the immediate and medium-term horizon to respond adequately to their urgent expenditure requirements, particularly for health services and subsistence relief for the marginalized and vulnerable sectors.

138. Lower local collections translate to limited fiscal space for their financing needs to deliver mandated services and enhance local development. This would make LGUs more reliant on NG subsidies, particularly the IRA which comprises 60 percent of the total operating income of the LGUs. The effect on contraction in the local economy is expected to impact the LGUs' local collection efforts, particularly in highly urbanized and non-IRA dependent LGUs, that rely more on own revenues, especially on local business tax, because the gross receipts of business establishments are expected to decline in FY 2020 and FY 2021. 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. On average, around 60 percent of LGUs have high dependence (>85 percent), and without IRA, low income LGUs cannot function effectively.

139. In the medium-term, the negative financial impact of COVID-19 pandemic to the NG will be felt further by LGUs as the national tax allocation transfers from NG to LGUs by FY 2023 will be based on FY 2020, where the decline in NG collections is expected. The anticipated increase in the LGUs' adjusted IRA in consideration of the SC ruling on the Mandanas case in FY 2022 will therefore be short-lived and may continue in FY 2024 if collections for FY 2021 of NG will not significantly recover.

140. Potentially, short-term increase in availment of borrowings by the LGUs is anticipated as they try to manage their cash flow and optimize available sources of financing to ensure that their contractual obligations and commitments are met. As the LGU borrowing capacity is contingent on the annual regular income, the expected decrease in local revenues and subsequently with the IRA should be a lookout for borrowing LGUs to minimize risk exposure. For LGUs with high loan exposure but with good debt servicing capacity, it is imperative that their debt amortization be redesigned to ensure that the

41 Retrieved from 2018 LGFPMS on November 2019

statutory limitations and obligations will not be breached and adequately funded, respectively.

Risk Mitigating Measures

141. Budgets realignment, use of savings/surplus, adopts austerity measures, and tap other sources of financing. With the surge in the use of LDRRMF and LDF for COVID-19 response and sluggish local revenues in the next two years, local governments will need to realign their budgets, use surplus and savings, if any, and adopt stringent austerity measures to rein in spending. Critical infrastructure projects and related capital investments should continue, particularly for health and economic services. LGUs must review FY 2020 budgets and FY 2021 priorities in light of the anticipated economic effects of COVID-19 crisis on their local revenue generation capacity and fiscal position.

142. Fast track loan approval and broaden access to credit financing. Majority of LGUs have over 80 percent available borrowing capacity, with estimated aggregate levels ranging from ₱323.47 billion for 5 percent interest rate and 3-year tenor, to ₱514.25 billion for 5 percent interest rate and 5-year tenor, as buffer support for post COVID-19 recovery of LGUs. If all LGUs are considered, 653 out of the 1,715 PCMs do not have outstanding balance by FY2019, indicating a possible huge demand for credit financing. It is important that government financial institutions (GFIs) provide a special credit window for LGUs responding to COVID-19-related purposes, such as the Help via Emergency Loan Assistance for LGUs (HELP) Program of the Land Bank of the Philippines (LBP) and the existing loan facility windows of the Municipal Development Fund Office (MDFO). The BLGF, in certifying the borrowing and debt servicing capacities of LGUs, has adopted electronic processing and issuance since March 2020, and adopted streamlined and expedited process and allowed two-year validity of issued certificates pursuant to BLGF Memorandum Circular 007.2020 dated 21 March 2020. The BLGF has received eight applications related to COVID-19. In processing the loan certification requests of LGUs, the Bureau is analyzing the effects of COVID-19 on their medium-term fiscal position and advising the LGUs of reduction in loan or prioritization of projects for credit financing, if warranted, to ensure their fiscal sustainability and to avoid breaching the 20 percent statutory limitation on debt servicing of LGUs, as provided by law. The BLGF has received fourteen applications related to COVID-19, twelve of which has already been issued with certificates.

143. Revisit the current IRA formula. In light of the SC ruling on IRA, it is imperative that a review of the IRA formula be considered to address the fiscal imbalance on intergovernmental transfers, the effect on the limited fiscal space of the NG, the growing surplus of LGUs, and inadequacy of its design to address development constraints in rural and low-income LGUs. There should be further discussions evaluating the variables or indicators that are utilized in the distribution of IRA so that the fiscal capacities of the different levels of local governments may be able to match closely their expenditure needs. It must be noted that the relative fiscal health of LGUs varies, as such, some LGUs are more fiscally vulnerable than the others. There is also a need to revisit the vertical balance problem to include indicators for revenue capacity to provide LGUs incentives to mobilize their own source revenues. The proposal, however, must be thoroughly studied as the increase in LGU share from NG would significantly exert pressure on NG's overall fiscal space, thus constraining the provision of services for health, education and capital outlay, and will inevitably increase the NG debt.

Moreover, the lower FY 2020 fiscal performance of NG will have an impact on the FY 2023 IRA to be received by the LGUs even if SC ruling on Mandanas case would be applied.

Lastly, should another wave of outbreak occur, this would result again in spending hikes for the LGUs combined with the negative shocks in revenues that would cost LGUs around ₱115.00 billion quarterly funding requirement. This should also be considered by NG in the realignment of expenditure priorities and implementation of expenditure management reforms, particularly for the LGUs that do not have the funding capacity to borrow.

144. Fast track the implementation of the BIR-LGUs exchange and accessibility of information on taxpayers. Timely and accurate information on taxpayers is crucial to the effective collection of taxes by both the NG and the LGUs. Hence, the BIR and the LGUs must complement each other and leverage their efforts through the accessibility of information towards an improved revenue collection and efficient tax administration. The BLGF and BIR are currently updating the DOF Department Order 9-08 dated 26 March 2008 re: Implementing Rules and Regulation on the Accessibility of Information on Taxpayers pursuant to Executive Order No. 646[42] for strict compliance of the BIR and LGUs on the information sharing. The policy is expected to help plug leakages and improve tax administration of both the national and local governments.

Moreover, relative to the recently issued BIR Revenue Memorandum Circular (RMC) No. 59-2020[43] and BIR Revenue Memorandum Circular No. 60-2000[44], the BIR should also note that the documentary requirements of the LGUs, pursuant to Republic Act 7160 or the Local Government Code (LGC) of 1991, must also be complied with by the tax payers, as this might be misleading and the tax payers might assume that they only have to comply with the NG requirements.

145. Strengthen Local Revenue Generation with Improved Tax Administration and Responsive Local Tax Policies on Incentives and Reliefs. With the anticipated contraction of productive tax bases of LGUs, it is important that local tax administration is strengthened, and local tax policies are responsive to the current plight of local businesses and taxpayers. Targeted tax relief measures and amelioration scheme must be designed properly to maximize limited financial resources. Adequate fiscal resiliency measures should be adopted to allow gradual recovery of local business, through grant

42 Accessibility of Information on Taxpayers between the Bureau of Internal Revenue (BIR) and the Local Government Units (LGU) for Tax Collection Purposes

43 Amending the Provisions of Revenue Memorandum Circular (RMC) No. 47-2020 Relative to the Temporary Measures Adopted by the Taxpayers on the Receipting/Invoicing Requirements Pursuant to Republic Act No. 11469 also known as "Bayanihan to Heal as One Act"

44 Obligations of Persons Conducting Business Transactions Through Any Forms of Electronic Media, and Notice to Unregistered Businesses

of short-term relief and incentives, phased implementation of increased tax rates or fees and charges, and adopt local stimulus programs for productive sectors of agriculture, transportation, tourism, and other services that will revitalize local economy.

146. Enactment of Real Property Valuation and Assessment Reform Act (RPVARA). Property valuation and tax administration reforms continue to be relevant urgent legislative measures to strengthen local revenue autonomy, in general, and to ensure fair and equitable taxation of real properties due to economic losses and the declaration of state of calamity across the country, in particular. The RPVARA, as a long-term policy reform, will enable the central government to enforce guidelines and decisions on revaluation of real properties and the grant of safeguards during unprecedented national crisis uniformly and not selectively across LGU types and levels. The RPVARA seeks to make property valuation in the country simpler, fairer and more efficient, based on internationally accepted standards and best practices thereby improving tax collections of the LGUs without necessarily increasing the existing tax rates or devising new tax impositions. RPVARA will help to accelerate the completion and more efficient rollout of infrastructure projects due to minimized valuation disputes through the use of a common valuation standard, and lastly, the proposed reform will improve investor's confidence and public trust in government's valuation. Delay in the passage of this reform would hamper the government in addressing the delays in the Build, Build, Build Program of the Duterte Administration due to issues on the right-of-way (ROW).

D. NATURAL DISASTERS

Impacts of Natural and Human-Induced Disasters

147. In terms of disaster and climate risks, the Philippines is consistently ranked in the top based on global risk indices and international reports analyzing climate and disaster events. In the 2019 WorldRiskReport[45,] the Philippines belong to a group of 10 "island states" (among the top 15 and a total of 180 countries) with the highest risk and highest exposure to natural hazards. Among 42 countries studied in Asia, the report also places the Philippines in the top with the highest risk and highest exposure. Island states are particularly at risk owing to the "high exposure to extreme natural events and because they are particularly affected by sea-level rise caused by global warming."[46]

148. In its 2020 edition, the Inform Global Risk Index[47] ranks the country 11th[48] with the highest hazard and exposure to natural hazards (particularly high in terms of

45 From 2011 to 2016/2017, the report was prepared and published by the United Nations University Institute for Environment and Human Security (UNU-EHS) and the Alliance Development Works (Bündnis Entwicklung Hilft) (Reports available at www.WorldRiskReport.org).From 2018 onwards, the Institute for International Law of Peace and Armed Conflict (IFHV) at Ruhr University Bochum (Germany) jointly publish the report with Alliance Development Works (Bündnis Entwicklung Hilft). Disaster risk is calculated based on exposure (to earthquakes, cyclones, floods, drought, and sea-level), susceptibility, coping capacities, and adaptive capacities.

46 WorldRiskReport 2019 is available at https://weltrisikobericht.de/english-2/; also at http://www.ifhv.de/index.php/research/research-projects/worldriskreport

47 "INFORM has three dimensions: hazard & exposure, vulnerability and lack of coping capacity. Each dimension encompasses different categories, which are user-driven concepts related to the needs of humanitarian and resilience actors."

48 https://drmkc.jrc.ec.europa.eu/inform-index/Countries/Country-Profile-Map

earthquakes, tropical cyclones, and tsunamis) and human hazards (attributed to sociological such as armed internal conflicts).

149. Based on the Global Climate Risk Index 2020, our island nation falls between two (2) advanced economies - Japan (ranked 1st) and Germany (ranked 3rd) - most affected by direct climate-related impacts based on 2018 data of extreme weather events of 181 states.49 Over a twenty-year period (1998-2018), the Philippines is ranked fourth out of ten (10) most affected by extreme weather events.

150. IMF Outlook. According to the International Monetary Fund, the "higher frequency and severity of natural disasters" remain among the downside risks to the country's economy amidst structural policy reforms that are in place and the favorable macroeconomic performance.[50]

151. Table 10 shows the summary of damages brought by major incidents in 2019 and the affected regions based on the latest National Disaster Risk Reduction and Management Council (NDRRMC) Situational Reports (SitRep). The recorded events inflicted a total of ₱24.024 billion worth of damages during the said period.

Table 14. Philippines: Total Damages of Major Incidents in 2019

Disaster/Event (Dates of Occurrence)	Affected Regions	Total Damages (₱ billion)	Source of Data
El Niño	All regions except NCR	10.959	Department of Agriculture (DA) Estimates NDRRMC SitRep No. 24 regarding Preparedness Measures and Effects if El Niño dated 23 August 2019
Typhoon “Tisoy” (1-6 December 2019)	III, CALABARZON, MIMAROPA, V, VI, VIII	6.646	NDRRMC SitRep No. 21 regarding Response Actions and Effects of Typhoon “Tisoy” (I.N. Kamuri) dated 22 January 2020
TY “Ursula” (23-26 December	MIMAROPA, V, VI, VIII	4.348	NDRRMC SitRep No. 28 regarding Preparedness Measures and Effects of Typhoon “Ursula” (Phanfone) dated 30

49 Available at : http://www.germanwatch.org/sites/germanwatch.org/files/20-2-01e%20Global%20Climate%20Risk%20Index%202020_14.pdf (https://www.germanwatch.org/en/17307); The Climate Risk Index, published by the German Watch, used data relating to impacts due to "meteorological events such as tropical storms, winter storms, severe weather, hail, tornados, local storms; hydrological events such as storm surges, river floods, flash floods, mass movement (landslide); climatological events such as freezing, wildfires, droughts."

50 IMF Staff Report. 2019 Article IV Consultations. Available at: https://www.imf.org/en/Publications/CR/Issues/2020/02/05/Philippines-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-49021

2019)			January 2020
Northeast Monsoon and Tail-End of a Cold Front	II, CAR	2.071	NDRRMC SitRep No. 8 regarding Preparedness Measures and Effects for Northeast Monsoon and Tail-End of a Cold Front 13 December 2019
	TOTAL	**24.024**	

152. During the 2018-2019 period, total damages in agriculture, mainly rice and corn, were recorded at ₱7.96 billion damaging 277,890 has. of rice farms and 133,007 has. of corn planting areas.51 The impacts of the extreme event prompted 51 local government units, comprising 10 provinces and 41 cities, municipalities, to declare a localized state of calamity.52 Government responses to the event involve a mix of policy and institutional interventions that include the re-activation of the National El Niño Task Force (NETF) and the review of the Roadmap to Address the Impact of El Niño (RAIN).

153. Effects of El Niño. Based on the DA report dated 1 August 2019, the estimated cost of agricultural damages amounted to ₱10.59 billion affecting all regions except NCR. A total of 51 LGUs (10 provinces and 41 cities/municipalities) declared a State of Calamity due to dry spell, namely: Paracelis, Mountain Province; Dupax Del Norte, Nueva Vizcaya; Province of Quezon; Infanta, Quezon; Province of Occidental Mindoro; San Jose, Occidental Mindoro; Rizal, Occidental Mindoro; Sta. Cruz, Marinduque; San Teodoro, Oriental Mindoro; Puerto Princesa City, Palawan; Province of Camarines Sur; Province of Iloilo; Lambunao, Iloilo; Bingawan, Iloilo; Sta. Barbara, Iloilo; Janiuay, Iloilo; Maasin, Iloilo; Murcia, Negros Occidental; Isabela, Negros Occidental; Pontevedra, Negros Occidental; Iloilo City; Concepcion, Iloilo; Province of Cebu; San Isidro, Leyte; Zamboanga City; Matanao, Davao Del Sur; Alameda, Cotabato; M'lang, Cotabato; Pikit, Cotabato; Aleosan, Cotabato; Magpet, Cotabato; Tulunan, Cotabato; Arakan, Cotabato; Cotabato Province; Matalam, Cotabato; Lutayan, Sultan Kudarat; Kidapawan City, Cotabato; Alabel, Saranggani; Bagumbayan, Sultan Kudarat; T'Boli, South Cotabato; Sultan Kudarat Province; Province of Maguindanao; Paglat, Maguindanao; Sultan Kudarat, Maguindanao; Matanog, Maguindanao; Municipality of Datu Abdullah Sangki, Maguindanao; Pagalungan, Maguindanao; Upi, Maguindanao; Municipality of Wao, Lanao del Sur; Municipality of Ampatuan, Maguindanao; and Province of Basilan

In response to the dry spell, the 2019 El Niño Action Plan was prepared by the inter-agency El Niño Task Force led by NEDA. This Action Plan organized government response and recovery interventions into five (5) areas of concern: Water Security, Food Security, Energy Security, Health, Public Safety, and cross-cutting concerns, with

51 https://www.pna.gov.ph/articles/1068293

52 http://www.ndrrmc.gov.ph/attachments/article/3676/SitRep_No_24_re_Preparedness_Measures_and_Effects_of_El_Ni%C3%B1o_as_of_23Aug2019_5PM.pdf

corresponding investment requirements. Aside from short-term projects, the Action Plan also included proposed long-term programs to mitigate the impacts of future El Niño events.

154. Based on the latest monitoring and outlook of PAG-ASA, global advisories suggest that neutral conditions will likely continue until August 2020[53]. This means that, based on available data and latest projections, the climate pattern does not display extreme events and is "neither El Niño nor La Niña"[54]. Any change to the conditions as well as developments for the remaining part of 2020 and 2021 (outlook) will be based on new advisories from government sources and scientific authorities.

155. Hydro meteorological events - Tropical Cyclones. From 2017 to 2019, 64 tropical cyclones were tracked by the Department of Science and Technology-Philippine Atmospheric, Geophysical, Astronomical Services Administration (DOST-PAG-ASA). Out of which, 20 are categorized as Typhoons.

Table 15. Philippines: Number of Recorded Tropical Cyclone from 2017-2019

Year	Number of Recorded Tropical Cyclone	Of which, Super Typhoon or Typhoon
2017	22	4 (4 - Typhoon; 0 - Super Typhoon)
2018	21	8 (8 - Typhoon; 0 - Super Typhoon)
2019	21	8 (8 - Typhoon; 0 - Super Typhoon)
Total	64	20

Source: http://bagong.pagasa.dost.gov.ph/information/annual-cyclone-track

156. In 2019, there were eight (8) typhoons with the last five (5) occurring in the last quarter. These are Ty Hanna (I.N. Lekima); Liwayway (I.N. Lingling); Onyok (I.N. Mitag); Perla(I.N. Neoguri); Quiel (I.N. Nakri); Ramon (I.N. Kalmaegi); Tisoy (I.N. Kammuri); and Ursula (I.N. Phanfone).

53 http://bagong.pagasa.dost.gov.ph/climate/el-nino-la-nina/monitoring

54 https://www.weather.gov/mhx/ensowhat

Table 16. Philippines: Typhoon Damages in 2019

Typhoon	Affected Population (Geographical Coverage)	Estimated Cost of Damages
Perla[55]	Presumed no landfall	n.d. (no data)
Quiel[56]	Regions I, II, and CAR	n.d.
Ramon[57]	Regions I, II, V, and CAR	n.d.
Tisoy[58]	Regions III, IV-A (CALABARZON), IV-B (MIMAROPA), V, VIII, CAR, and CARAGA	PhP6.646 Billion (Infrastructure and Agriculture) As of January 2020
Ursula[59]	Regions IV-B (MIMAROPA), V, VI, VII, VIII, and CARAGA	PhP4.348 Billion) (Infrastructure and Agriculture) As of January 2020

157. Among the typhoons in 2019, Typhoon Tisoy recorded the most damages with a total of ₱6.646 billion, broken down as follows: ₱2.945 billion cost damages to infrastructure and ₱3.701 billion cost of damages to agriculture. The provincial government of Albay, which took the heaviest toll, declared the province under the State of Calamity through a resolution signed by the members of the Sangguiniang Panglungsod. The declaration allows for the implementation of remedial measures in order to mitigate the effects of disaster and stabilize the situation in affected LGUs in the province.

158. Environmental Emergencies. Other incidents attributed to climatological conditions and human-induced threats in 2019 such as forest and grassland fires were recorded in the Cordillera Administrative Region and CALABARZON in 2019 and early 2020. Learning from similar emergencies in the past such as in 1997-1998 during which severe El Niño

55http://www.ndrrmc.gov.ph/attachments/article/3917/Advisory_Severe_Weather_Bulletin_No_11_FINAL_for_Typhoon_PERLA_I_N_NEOGURI_issued_20OCT2019_11PM.pdf

56 http://ndrrmc.gov.ph/attachments/article/3944/SitRep_No_13_re_Preparedness_Measures_and_Effects_of_TY_Quiel_and_TECF_as_of_15Nov2019_6AM.pdf

57 http://www.ndrrmc.gov.ph/incidents-monitored/8-ndrrmc-update/3951-situational-report-re-preparedness-measures-for-tropical-storm-ramon-in-kalmaegi

58 http://www.ndrrmc.gov.ph/incidents-monitored/9-ndrrmc-advisory/3969-situational-report-re-preparedness-measures-for-typhoon-tisoy

59
http://www.ndrrmc.gov.ph/attachments/article/3986/SitRep_No_28_re_Preparedness_Measures_and_Effects_of_Typhoon_URSULA_as_of_6AM_30_January_2020.pdf

destroyed about 10,000 has. of forest land and in 2016[60,61] where the fires damaged areas in Mt. Kanlaon in Negros Island, Mt. Ragang in Lanao del Sur, Mt. Apo in Cotabato, Davao del Sur, Mt. Kitanglad Mountain Range, Mt Kalatungan Range Natural Park, and Mt. Nakalo. In September 2019, forest fire in Indonesia caused transboundary haze to reach parts of Visayas and Mindanao.[62]

159. In response to forest fires, line agencies such as the Department of Environment and Natural Resources and the Bureau of Fire Protection are working closely with affected local government units and are investing on fire management measures and wildfire preparedness at the community level.

160. The Philippines has 24 active volcanoes, with more than half (13) located in Luzon[63]. As of 11 May 2020, the Philippine Institute of Volcanology and Seismology (PHIVOLCS) raised Alert Level 2 over Mayon, maintained Alert Level 1 for Taal and Kanlaon while Bulusan downgraded from Alert Level 1 (abnormal) to Alert Level 0 (normal) while maintaining usual precautionary measures[64].

161. Taal Volcanic eruption. The phreatic eruption of Taal Volcano on 12 January 2020[65] affected 151,827 families (or 586,045 persons) in Regions III, IV-A (CALABARZON) and NCR. Out of the affected people, the eruption displaced 4,125 individuals and currently sheltered in 16 evacuation centers distributed in Batangas, Cavite, Laguna, Quezon, Rizal, and NCR. Based on the latest assessment in March 2020, the activity damaged about ₱3.409 billion in the infrastructure and agriculture sector in the CALABARZON, with the substantial share of damages in Batangas and Cavite. Assessments and validation are currently ongoing.[66]

162. On 27 February 2020, the President declared a State of Calamity for Cavite, Laguna, Batangas and Quezon (Region IV-A).[67]

163. Economic Estimates on Taal Volcano Eruption[68]. The total economic impact of the Taal Volcano eruption, which affected 12 municipalities and three (3) cities in Batangas and

60 Philippine Council for Agriculture, Aquatic and Natural Resources Research and Development. Forest fire. Strategies and smart technology for control and prevention. Los Banos, Laguna: DOST-PCAARRD, 2017. 15p. - (PCAARRD Information Bulletin No. 87/2017). Available at: http://scinet.dost.gov.ph/union/UploadFiles/download.php?b=Forest%20Fire%20-%20Strategies%20and%20Smart%20Technology%20for%20Control_2017_beta_355038.pdf&f=../Downloads/Forest%20Fire%20-%20Strategies%20and%20Smart%20Technology%20for%20Control_2017_beta_355038.pdf&t=application/pdf

61http://www.ocd.gov.ph/news/press-release/195-ocd-leads-aerial-inspection-over-fires-on-mountain-ranges-in-bukidnon.html; http://www.ndrrmc.gov.ph/attachments/article/2736/Sitrep_No_02_re_Forest_Fire_Incidents_in_Regions_X_and_XII_as_of_14APR2016.pdf

62 https://www.pna.gov.ph/articles/1081083

63 https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcanoes-of-the-philippines

64 https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletins3

65 Alert level was raised step-wise from 1 (abnormal), 2 (increasing unrest), 3 (magmatic unrest), to 4 (hazardous eruption imminent). Alert Level 4 was maintained until it was lowered to Alert Level 3 on 26 January 2020 and further downgraded to 2 on 14 February 2020 https://www.phivolcs.dost.gov.ph/index.php/taal-volcano-bulletin-menu/9762-taal-volcano-bulletin-14-february-2020-8-00-am).

66 http://www.ndrrmc.gov.ph/attachments/article/4007/Update_SitRep_no_84_re_Taal_Volcano_Eruption_as_of_25_feb_2020_6AM.pdf

67 https://www.officialgazette.gov.ph/2020/02/21/proclamation-no-906-s-2020/

68 Source: CALABARZON RDRRMC. 2020. Rehabilitation and Recovery Program (RRP) for Taal Volcano Eruption Affected Areas

Cavite, amounts to ₱8.42 billion[69] which is equivalent to about 0.33 percent of CALABARZON's 2018 gross regional domestic product (GRDP). This comprises damages worth ₱3.57 billion and losses worth ₱4.85 billion. The productive sector, which includes agriculture, tourism, trade, industry, and services, was the most heavily affected sector, with combined damages and losses worth ₱4.7 billion.

164. In terms of rehabilitation and recovery, the total investment requirement amounts to ₱41.902 billion with the following breakdown by sector:

Table 17. **Philippines: Investment Requirement for Rehabilitation and Recovery by Sector**

SECTOR	AMOUNT (in billion PHP)
Infrastructure	15.279
Housing and Settlement	11.542
Agriculture and Fisheries	9.481
Tourism and Livelihood	3.749
Social Services	1.850
Total	41.902

The Rehabilitation and Recovery Program (RRP) for Taal Volcano Eruption Affected Areas has already been approved by the CALABARZON Regional Disaster Risk Reduction and Management Council (RDRRMC) and endorsed to the National DRRMC for funding support. The RRP was also submitted to the Congress in May 2020 following the agreements during previous congressional hearings on the rehabilitation and recovery of areas affected by the Taal Volcano eruption.

165. Slow-onset events. In contrast to rapid-onset and quick-impact events such as tropical cyclones and floods, the slow-onset events from climatic changes remain to be a threat and will likely strain economic activities and resource production, especially in the agriculture, fishery and forestry areas.

166. Geological hazards and events - Earthquake. From January 2019 to December 2019, seismic events were recorded with various intensities based on the PHIVOLCS

69 The initial damages, losses and needs, which generated as of March 27, 2020, were based on the CALABARZON Post Disaster Needs Assessment (PDNA) field validation conducted on February 12-22, 2020.

Earthquake Intensity Scale. Below are some of the earthquakes monitored by the PHIVOLCS and NDRRMC.[70]

Table 18. Philippines: Earthquakes in 2019

Magnitude	Dates	Location
M6.2	April 2019	San Julian (Eastern Samar)
M5.7	April 2019	Castillejos, Zambales
M4.5, 5.8	May 2019	Pagudpud, Ilocos Norte
M5.0	May 2019	Cagwait, Surigao del Sur
M5.5	May 2019	Rizal, Occidental Mindoro
M5.0	June 2019	Limasawa, Southern Leyte
M5.1	August 2019	Baculin, Davao Oriental
M3.7	August 2019	Carrascal, Surigao del Sur
M5.0	September 2019	Catanduanes
M5.6, M5.4	September 2019	Saranggani, Davao Oriental
M5.8, M5.3	September 2019	Governor Generoso, Davao Oriental
M4.7	September 2019	Puerto Galera, Oriental Mindoro
M4.8	September 2019	Jose Abad Santos, Davao Occidental
M4.9	September 2019	Calatagan,Batangas
M5.1	September 2019	Palauig, Zambales
M6.5, M5.5, M6.4, M6.3	October 2019	Tulunan, Cotabato
M4.5	October 2019	Hinoba-an, Negros Occidential
M5.3	October 2019	Jose Abad Santos, Davao Occidental
M5.3	October 2019	Manay, Davao Oriental
M5.0	October 2019	Makilala, North Cotabato
M4.3	October 2019	Saranggani, Davao Occidental
M5.1	November 2019	Guiuan, Eastern Samar

70 http://www.ndrrmc.gov.ph/ndrrmc-advisory/earthquake-information

M5.5	November 2019	Jomalig, Quezon
M5.0	November 2019	Makilala, Cotabato

Health-related emergencies, outbreaks, epidemics and pandemics

167. COVID-19. First observed in Wuhan, China in December 2019, the COVID-19 disease quickly became a global pandemic affecting millions of people in numerous countries, including the Philippines. The country confirmed its first COVID-19 case on January 30, 2020 and first local transmission on March 7, 2020.

168. As of 12 May 2020, the World Health Organization (WHO) confirmed that cases with COVID-19 reached 4,098,018 globally (or in 215 countries and territories), with the Americas and Europe accounting for about 85 percent[71]. In the Philippines, as of 15 May 2020 the DOH reported 12,305 confirmed cases, with 817 deaths and 2,561 recoveries.

169. In terms of international response, on 30 January 2020, WHO declared COVID-19, then known as 2019-nCoV (or novel Coronavirus), as a "Public Health Emergency of International Concern" following cases in 18 countries since China first reported the outbreak in Wuhan, Hubei province, China on 31 December 2019[72]. As WHO's "highest level of alarm,"[73] the tag implies that the situation requires a "coordinated international response"[74]. In February 2020, the WHO Director General admitted that the virus is a "potential pandemic" and urged countries to prepare for the worst case scenario. By 11 March 2020, the WHO, noting the spread of the virus in 114 affected countries with over 118,000 cases, "characterized" the COVID-19 as a pandemic[75].

170. Domestically, the government imposed a Luzon-wide ECQ on March 16, 2020 to slow down the transmission rate and flatten the curve. Provinces and cities in Visayas and Mindanao, likewise, imposed their own ECQ to address the same.

171. In addition to providing the guidelines and tools to guide country preparedness and response, WHO is working within the UN system to dispatch international experts/advisors as well as with the World Bank and the International Monetary Fund to assess the economic impact of the outbreak[76], address essential supply shortages through the COVID-19 Supply Chain System[77], and engage in multilateral response over

71 Based on the latest WHO dashboard, available at https://covid19.who.int/ (Other reports are also available at https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports/)

72https://www.who.int/news-room/detail/30-01-2020-statement-on-the-second-meeting-of-thregulate-international-health-ions-(2005)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-(2019-ncov)

73 https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-mission-briefing-on-covid-19---26-february-2020

74 https://www.who.int/ihr/procedures/pheic/en/

75 https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020

76 https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-mission-briefing-on-covid-19---26-february-2020

77 https://www.who.int/emergencies/diseases/novel-coronavirus-2019/covid-19-operations

a three-pronged approach – humanitarian response, health response, and social and economic response and recovery[78].

172. In February 2020, the ASEAN+3 Macroeconomic Research Office (AMRO) assessed that the outbreak will likely impact on the economic activities within the ASEAN+3 region, with global spillover effects, and cited that the detailed impacts will depend on "duration, virulence and contagiousness" and economic losses in China, benchmarked with the scenarios during the SARS outbreak (2002-2003). Consequences may include drop in tourism, disruptions in intra-regional trade in goods, and shocks in the services sector. The coronavirus epidemic will likely reduce the ASEAN+3 growth targets down to 0.4 percentage point[79].

173. Measles. The outbreak of measles, in addition to other medical emergencies, affected over 23,500 cases and caused 338 deaths in NCR, certain areas of Luzon (with outbreak in Regions III and IV-A), Central and Eastern Visayas (with outbreak in Regions VI and VII) and Mindanao (with outbreak in Region X) from January 2019 to March 2019.[80]

174. Polio. The DOH declared a polio outbreak in September 2019[81] with 17 cases (of which 9 were in BARMM) as of 4 May 2020.[82] Coordinated response measures led to mass immunization nationwide campaigns for oral polio vaccinations and other complementary public health measures to address the re-emergence of the virus mainly targeting children. The polio strains affecting the country constitute a "public health emergency of international concern."[83]

175. Animal Health - African Swine Fever. The hog industry continues to be affected by the African Swine Fever. The government intensified its response through public awareness, collaboration with industry players, imposition of bans, enforcing biosafety protocol, and establishing checkpoints, including "mandatory inspection at international and domestic seaports."[84] The Department of Agriculture reported that only about "1.7 percent of the 12.7 million swine population is affected."[85,86] Areas affected as of February 2020 are 14 Provinces and three (3) cities in Metro Manila.[87] In response to the outbreak, Nueva

78 Refer to the UN Framework for the immediate socio-economic response to COVID-19. Accessible at: https://unsdg.un.org/resources/un-framework-immediate-socio-economic-response-covid-19; also at https://reliefweb.int/sites/reliefweb.int/files/resources/A%20UN%20framework%20for%20the%20immediate%20socio-economic%20response%20to%20COVID-19%2C%20April%202020.pdf

79 AMRO Analytical Note- The Impact of the Coronavirus Epidemic on the ASEAN+3 Economies. Available at: https://www.amro-asia.org/the-impact-of-the-coronavirus-epidemic-on-the-asean3-economies/

80 http://www.ndrrmc.gov.ph/attachments/article/3633/SitRep_No_13_re_Measles_Outbreak_as_of_26MAR2019_1700H.pdf

81 https://www.doh.gov.ph/node/18012

82 https://www.doh.gov.ph/DOH-CONFIRMS-NEW-POLIO-CASES-IN-THE-COUNTRY

83 According to the UNICEF-WHO Situation Report 16 on Polio Outbreak dated 19 February 2020, the country is hit "by both cVDPV1 and cVDPV2. cVDPV is considered a public health emergency of international concern (PHEIC)." Report is accessible at: https://reliefweb.int/report/philippines/unicef-who-philippines-polio-outbreak-situation-report-16-19-february-2020

84 http://www.da.gov.ph/da-intensifies-quarantine-measures-to-control-prevent-spread-of-asf-in-mindanao/

85 http://www.da.gov.ph/philippine-swine-population-remains-stable-amid-new-asf-outbreak/

86 http://www.da.gov.ph/da-reinforces-measures-against-african-swine-fever/

87 In its February 20, 2020 update, FAO lists the following affected provinces in the Philippines: Rizal, Bulacan, Pampanga, Pangasinan, Nueva Ecija, Cavite, Benguet, Kalinga, Aurora, Bataan, Quezon, Isabela, Davao Occidental, Davao del Sur Provinces and Metro Manila (Caloocan, Malabon and Quezon Cities). See: http://www.fao.org/ag/againfo/programmes/en/empres/ASF/situation_update.html

Vizcaya, Cavite, Pangasinan, Pampanga, and Bulacan are among the areas that declared a state of calamity.

176. Disaster arising from armed conflicts. The Task Force Bangon Marawi continues to oversee the implementation of the reconstruction program in the areas affected by the Marawi City Siege. The Program's investment requirements are estimated at ₱60.506 Billion to be implemented from 2018 to 2022.[88] The repair and reconstruction of roads and bridges implemented by the Department of Public Works and Highways are underway with major accomplishments taking shape in 2019. The implementation of other key rehabilitation programs in infrastructure (e.g., government buildings, public facilities, schools, permanent and temporary shelters), security and peace building, social support such as emergency employment, livelihood support, and land management (such as land titling) are in progress. Additional planned construction projects are underway for 2020 with funding for rehabilitation from local, mainly from the National Disaster Risk Reduction and Management Fund, and foreign sources such as Japan, China, Asian Development Bank. A monitoring and evaluation system, including a registry system for the internally displaced persons, with the support of the World Bank was recently turned-over to the Task Force.

Risk Mitigation Measures

177. For FY 2020, the approved National Disaster Risk Reduction and Management Fund[89] (NDRRMF) amounts to ₱16.0 billion[90], broken down as follows:

- **₱7.50 billion NDRRM Program,** which may be used for disaster risk mitigation, prevention, and preparedness activities such as training of personnel, procurement of equipment, and capital expenditures. It can also be used for the relief and reconstruction and other works or services, including pre-disaster activities related to the occurrence of natural or human-induced calamities during the current year or in the preceding two (2) years. This fund may also be used for the replenishment of the Quick Response Fund (QRF) when the balance of the implementing agency has reached 50 percent.

  The use of the NDRRM Program is subject to the approval of the President, who may take into consideration the recommendation of the NDRRMC for local disasters or the appropriate agency for international crises. Furthermore, infrastructure projects under the program shall be implemented by the DPWH or LGUs with the capability to implement projects as certified by the DPWH and DILG.

- **₱3.50 billion Marawi Recovery, Rehabilitation and Reconstruction Program (MRRP),** which shall be used for recovery, rehabilitation, reconstruction, aid, and relief projects in Marawi City and other affected areas in connection with the

88 Report from the Task Force Bangon Marawi February 2020

89 The NDRRMF 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."

90 FY 2020 General Appropriations Act (GAA), RA 11465, page 560.

occurrence of the armed conflict. Infrastructure projects under the program shall be implemented by the DPWH, which may delegate the same to LGUs with the capability to implement said projects by administration or by contract, through the execution of a Memorandum of Agreement (MOA). The finds shall be released directly to the implementing agencies in accordance with the approval of the President, who may take into consideration the recommendation of the NDRRMC.

Table 19. Philippines: Marawi Recovery, Rehabilitation and Reconstruction Program Breakdown

Funding Source under NDRRMF and Unprogrammed Fund	Appropriated (PHP Billion)	Released by DBM (PHP Billion)	Earmarked, Under process (PHP Billion)	Balance[91] (PHP Billion)
FY 2018 GAA NDRRMF - Marawi Recovery, Rehabilitation, and Reconstruction Program (MRRRP)[92]	10	9.282	0.311	0.407
FY 2018 GAA Unprogrammed Fund for Marawi	5	2.3	Not applicable	Not applicable
FY 2019 GAA MRRRP[93]	3.5	0.063	3.405	0.032
FY 2020 GAA MRRRP[94]	3.5	0	0.480	3.019
Total	**22**	**11.65**	**4.20**	**3.46**

- **₱5.00 billion Comprehensive Air to Repair Earthquake Damage (CARED),** which will be used for the recovery, rehabilitation, reconstruction, aid, and relief projects in areas affected by the earthquakes during the last quarter of 2019 in Regions XI and XII. Infrastructure projects under the program shall be implemented by the DPWH, which may delegate the same to LGUs with the

91 The amounts under this column refer to the available balance net of earmarked amounts.

92 Validity extended until December 31, 2019 authorized under Congressional Joint Resolution No. 03 approved in December 2018.

93 Validity extended until December 2020 authorized under Republic Act No. 11464 approved in December 2019.

94 As of January 31, 2020 per DBM FY 2020 Status of NDRRMF. Available at https://www.dbm.gov.ph/index.php/programs-projects/status-of-national-disaster-risk-reduction-and-management-fund#2020

capability to implement said projects by administration or by contract, through the execution of a MOA. The funds shall be released directly to the implementing agencies in accordance with the approval of the President, who may take into consideration the recommendation of the NDRRMC.

178. **Bayanihan fund.** On March 23, 2020, the House of Representatives and Senate of the Philippines enacted Republic Act (RA) 11469 otherwise known as "Bayanihan to Heal as One Act", declaring the existence of a national emergency arising from the COVID-19 situation and a national policy in connection therewith, and authorizing the President of the Philippines for a limited period to exercise necessary powers to carry out the declared national policy. The Act calls for urgent measures to be in place to mitigate if not contain the transmission of COVID-19. These include (a) immediately mobilizing assistance to provide basic necessities to families and individuals affected by the imposition of Community Quarantine, particularly the poor; (b) undertaking measures to prevent overburdening of the health care system; (c) providing immediately and amply health care, including medical tests and treatments to patients, persons under investigation (PUI) or persons under monitoring (PUM); (d) undertaking a program for recovery and rehabilitation; (e) ensure sufficient and adequate and readily available funding; (f) partnering with the private sector and other stakeholders to deliver the measures quickly and efficiently; and (g) promote and protect the collective interest of the Filipinos.

On top of the DOH's efforts to respond to the urgent need to contain the effects of COVID-19, the World Bank will be providing US$100 million assistance thru its COVID-19 Emergency Response Project. The proposed project aims to strengthen the capacity of the Philippine health care delivery system to prevent, detect and respond to threats of COVID-19. It will contribute to the Government's efforts to improve public health, reduce vulnerability of Filipino population to COVID-19 pandemic, and promote socio-economic recovery.

179. **In addition to the ₱16.0 billion NDRRMF, ₱6.80 billion QRF[95] was also lodged in the budget of the following agencies:**

Table 20. Philippines: Agencies with Quick Response Fund Appropriation

Agency	QRF Appropriation (in ₱ Million)
DA-OSEC	1,500.000
DepEd-OSEC	2,100.000
DOH	600.000

95 The QRF is a stand-by fund to be used for relief and initial rehabilitation programs and projects.

DND-OCD	250.250
DPWH-OSEC	1,000.000
DSWD-OSEC	1,250.000
BSGC-NEA	100.000
Total	**₱6,800.250**

180. Resiliency to seismic events. The NG is preparing for the impact of seismic events by constructing evacuation centers, retrofitting buildings, providing support for earthquake response under the FY 2020 GAA, as well as enforcing building codes. The contribution of the in-progress national inventory of government assets, led by the BTr, will also be relevant for the protection of life and property.

181. All government agencies involved in the national earthquake resilience through the Program Management Office for Earthquake Resiliency of the Greater Metro Manila Area (PMO-ERG) should be actively engaged and continue to reflect their financing requirements for resiliency and contingency planning, with consideration on impact studies (e.g., Greater Metro Manila Earthquake Impact Reduction Study (GMMEIRS), the Metro Manila Earthquake Impact Reduction Study (MMEIRS)) and the Government's cash budgeting reform. Taking into account the events in 2019, the coverage and scope of the earthquake resiliency planning should be expanded to cover Visayas and Mindanao.

182. Pursuant to the Presidential Executive Order No. 52,[96] the Department of Public Works and Highways created the Earthquake Resiliency Program Management Office (ER-PMO) through Department Order (DO) 75 on 10 July 2019 to be led by the Secretary and serve as a department-wide integrated approach for earthquake resiliency, including conduct of vulnerability and risk assessment.[97]

183. Resilience to climate-induced events. Building on progress in mainstreaming of climate adaptation and mitigation in the planning and budget processes, the Government will need to ensure that investment programming is undertaken in an integrated manner anchored on the global agreements and international frameworks. Due in 2020, the Nationally Determined Contributions (NDC), once finalized, will purposely serve as a planning reference for programming and budgeting of the Government.

96 Creating the Program Management Office for Earthquake Resiliency of the Greater Metro Manila Area (PMO-ERG) under the Office of the President

97 http://www.dpwh.gov.ph/dpwh/issuances/department-order/16002

184. As a party to the Paris Agreement, the country's climate actions are expected to be communicated through the NDC within 2020 following inter-agency and cross-sectoral preparation that took place in 2019 and prior.

185. The Climate Change Commission (CCC) is leading the development of the NDC which builds on the Intentionally National Determined Contributions (INDC) communicated to the UNFCCC secretariat in October 2015. DOF is a member of the NDC Technical Working Group[98] convened by CCC in 2018 to formulate the NDC aligned with national development goals and objectives, such as the Philippine Development Plan.

186. On early warning systems, the El Niño Task Force (ENTF), reactivated through the Office of the President Memorandum Order No, 38, s. 2019 dated 13 August 2019, adopted the early warning system in October 2019, PAGASA ENSO (El Niño-Southern Oscillation) Alert and Warning System, to guide government agencies in their contingency planning should another El Niño or La Niña event or condition occur.[99]

187. With the NDC serving as a framework to attract finance and investments, the country will be able to maximize domestic and international support through cohesive and coordinated action involving government and the private sector to identify needs and mobilizing investment and financial requirements, including technology and capacity building.

Policies and Institutional Measures

188. With the NDC serving as a framework to attract finance and investments, the country will be able to maximize domestic and international support through cohesive and coordinated action involving government and the private sector to identify needs and mobilizing investment and financial requirements, including technology and capacity building.

189. The DOF is leading the national resiliency program through risk financing and insurance. The Philippine Disaster Risk Financing and Insurance (DRFI) Strategy follows a three-pronged approach at the national, local, and individual levels.[100]

190. Compared to ASEAN peers, the country is the "most exposed to natural disasters".[101] Thus, in support of the ASEAN action plans, Paris Agreement, and the UN Sustainable Development Goals, among other global frameworks, the DOF is strategically involved in regional cooperation and international partnership to promote better exchange and

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98 18 member-TWG including DOE, DENR, DOTr, PSA and DA as lead sectoral agencies

99 http://pubfiles.pagasa.dost.gov.ph/pagasaweb/files/climate/elninolanina/PAGASA_MEMO_-_Adoption_of_the_PAGASA_ENSO_ALERT_AND_WARNING_SYSTEM.pdf

100 These are as follows:

National Level - aims to improve the financing of post-disaster emergency response, recovery, and reconstruction needs.

Local Level – aims to provide local government with funds for post disaster recovery and reconstruction efforts.

Individual Level - aims to empower poor and vulnerable households and owners of micro, small and medium enterprises (MSMEs) to quickly restore their livelihoods after a disaster.

101 IMF. Philippines Selected Issues. February 2020. Available at: https://www.imf.org/en/Publications/CR/Issues/2020/02/05/Philippines-Selected-Issues-49022

enhance coordination through the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), ASEAN Disaster Risk Financing and Insurance Programme, and the Coalition of Finance Ministers for Climate Action (Coalition).

191. The Philippines is among the 51 countries that have joined the Coalition and have endorsed the Helsinki Principles and Santiago Action Plan. The DOF of the Philippines, together with the Ministry of Finance of Finland, commits to champion Helsinki Principle 4: Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices.[102]

192. Green Finance. The Inter-agency Task Force on Sustainable Financing (or Green Force), an inter-agency group led by the DOF and the BSP, was created in 2019[103] to facilitate the roadmap for sustainable finance.

193. In terms of international resource mobilization for climate action, the DOF leads or supports cross-department mechanisms for the country's access to international mechanisms such as the Green Climate Fund. In 2019, CCC issued Administrative Order No. 1, s. 2019 dated 24 May 2019, "Procedure on the Issuance of No-Objection Letter for Funding Proposals to the Green Climate Fund" which includes the establishment of an inter-agency structure to oversee the access to the climate fund. To strengthen the whole of government approach to climate risks, CCC issued the Commission Resolution No. 2019-001 on the National Climate Risk Management Framework to Address the Intensifying Adverse Impacts of Climate Change in January 2019.

194. Other planned efforts to mainstream climate and disaster resiliency are underway or in the conceptual and planning stages. These include initiatives and plans that will institutionalize a monitoring system on climate finance flows and improve the project review process of big-ticket projects of the NG by incorporating climate and disaster parameters.

195. Country's Progress on SDG. Climate action is among the 17 global goals adopted by member states at the United Nations Level. In December 2019, the DBCC established the Subcommittee on Sustainable Development Goals (SDG) in 2019 to push onward the Government's contribution to the 17 Sustainable Development Goals (SDG) through the review and recommendation of SDG-related policies and programs.

196. UN SDG financing. Additional amendments to the Tobacco Tax Reform Law (Republic Act (RA) Nos. 10963 (2017), 11346 (2019), and 11467 (2020) enacted in January 2020 have authorized the augmentation of the funding for programs to fulfill government

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102 The Coalition's objectives are outlined under the "Helsinki Principles", it serves as a platform for Finance Ministers to share best practices and experiences, as well as initiate analytical work to support policy action to reach evidence-based cost-efficient solutions. The Santiago Action Plan details the implementation of the Helsinki Principles, adopted to each Member's context. For details, see https://www.cape4financeministry.org/coalition_of_finance_ministers.

103 "BSP, together with the Department of Finance (DOF), co-chairs a newly formed inter-agency task force that is mandated to facilitate green finance initiatives. Members include the National Economic and Development Authority (NEDA), Bureau of the Treasury (BTR), Bases Conversion and Development Authority (BCDA), Department of Energy (DOE), and Climate Change Commission (CCC)." http://www.bsp.gov.ph/publications/speeches.asp?id=682

commitments under the 2030 Agenda for Sustainable Development by allocating 20 percent of the collections from the sin taxes.[104]

197. Following the expiration of the term of the Inter-Agency Committee on Government Property Insurance (IAC-GPI), the Development Budget Coordination Committee (DBCC) issued DBCC Resolution No. 2019-04 creating the DBCC Technical Working Group on Asset Management (TWG-AM). The DBCC TWG-AM is an inter-agency working group which is co-chaired by the Department of Finance (DOF), through the Bureau of the Treasury (BTr), and the Department of Budget and Management (DBM), with the National Economic and Development Authority (NEDA) and the Office of the President (OP) as members. It was established to institutionalize asset management reforms and practices through the formulation of policies and programs to improve the management of government assets, starting from their acquisition, usage, transfer, and eventual disposal. Said initiative aims to provide harmonized policies to effectively and efficiently manage the assets of the national government, maximize their utilization, and ensure their adequate protection.

198. The NG is currently in the process of implementing the **National Indemnity Insurance Program (NIIP).** The NIIP will indemnify the NG's strategically important assets (i.e., schools, roads, and bridges) against natural calamities such as typhoons, earthquakes, volcanic eruptions, storm surges, and flood for a 12-month period. The program is envisioned to be supported by the international reinsurance market to provide the necessary capacity needed for large transaction.

199. Providing the asset information for the NIIP is the National Asset Registry System (NARS) currently housed in the BTr The NARS initiative was started in 2018 with the aim of building an inventory of the NG's strategically important assets. Data housed in the NARS is envisioned to be used by the NG to improve asset management, asset mapping, asset performance monitoring, and risk management. Data in the NARS includes the following asset information – geographical, legal, financial, insurance, and asset attribute information. In 2018-2020, the NARS was piloted in the Department of Education (DepEd), Department of Public Works and Highways (DPWH), Department of Health (DOH), Department of Social and Welfare Development (DPWH), and the National Irrigation Authority (NIA). As part of the pilot, agencies were requested to fill in asset data on an excel spreadsheet customized to include special asset information of each pilot agency. As of mid-2020, the BTr is developing an online portal to further streamline data collection, data update, and analytics generation.

200. The **Parametric Insurance Program** was continued under the National Disaster Risk Reduction and Management Fund (NDRRMF) of the 2018 General Appropriations Act (GAA) in the amount of ₱2 billion, with a TSI of ₱20,498,027,990. The cover to protect government assets against typhoons and earthquakes is from 19 December 2018 to 18

104 Under Republic Act 11467 in January 2020, the law mandates, among others, that revenue collections from excise tax on alcohol products, heated tobacco products and vapor products shall be allocated to support implementation of the universal health care (80% of collections) and attainment of the Sustainable Development Goals (20% of collections) based on the targets set by the national planning authority, the National Economic and Development Authority.

December 2019. For 2018-2019 coverage, the policy was triggered by two (2) natural calamities. In April 2019, GSIS paid the Bureau of Treasury the amount of ₱848.594 million due to the 6.1 magnitude earthquake whose epicenter was in Castillejos, Zambales. This was followed by a payout of ₱490.12 million in December 2019 due to Typhoon Tisoy which ravaged areas in Southern Luzon.

201. Last 28 October 2019, the **Philippine Catastrophe Bond (Cat Bond)** was officially launched, with the World Bank as the issuer and the Republic of the Philippines as the sponsor. The Cat Bond would provide the Republic of the Philippines financial protection in the event of an earthquake or typhoon meeting the conditions set in the Terms of the Cat Bond. By 11 November 2019, the Cat Bond closed its marketing period, awarding a total US$75 million for the earthquake tranche and US$150 million for the typhoon tranche. The Cat Bond coverage shall be in effect until the earlier of 2 December 2022 or full disbursement of the coverage.

202. The NG is presently reviewing the technical details and assessing the operational considerations of the **Philippines City Disaster Insurance Pool (PCDIP)** which has been designed with the support of the Asian Development Bank in 2018.

203. Based on the lessons from and experiences in big disasters, slow-onset events, environmental emergencies and armed conflicts, the **Rehabilitation and Recovery Planning Guide** was approved by the National Disaster Risk Reduction and Management Council in March 2019.[105] The Guide, considered the "first country-specific rehabilitation and recovery planning guide adopted at the national, regional, and local (LGU) levels",[106] is intended to simplify disaster rehabilitation and recovery planning by providing an overall framework and planning reference for the national, regional and local levels. It is intended to serve as a reference for government agencies and local government units (LGUs) in pre- and post- disaster rehabilitation and recovery planning, provide ready templates for post disaster recovery, and describe funding arrangements and monitoring systems The pilot use of the guide, developed with the assistance of the World Bank, could assist government efforts in the rehabilitation of areas seriously affected by the Taal volcanic eruption, with the President's declaration of a state of calamity in CALABARZON on February 27, 2020.

204. The Manila Bay Task Force, created in February 2019, is implementing the initial phases of the Manila Bay Rehabilitation Program. On the other hand, the rehabilitation of Boracay, operationalized through the Medium-Term Boracay Action Plan (BAP) approved by the inter-agency task force in 2018[107] and approved by the President with an investment requirement of ₱25 billion to be supported by the government, private sector, and local governments.[108]

105 NDRRMC Resolution No. 01, s. 2019 dated 20 March 2019

106 https://pia.gov.ph/news/articles/1032997

107 http://www.neda.gov.ph/inter-agency-task-force-adopts-boracay-action-plan/

108 http://governance.neda.gov.ph/?p=6494

205. The disasters and incidents in 2019 additionally gave the new impetus for the Administration to call on Congress to pass the Administration's version creating the Department of Disaster Resilience.[109]

206. Other reforms that are in the legislative mill include the creation or enhancement of institutional structures to address water management, strengthen health response capabilities for epidemics and pandemics, and improve land use in the country.

207. The GSIS, by virtue of Republic Act No. 656 (as amended by Presidential Decree No. 245), is mandated to insure all properties and assets where the government has insurable interest. For the period 1 January 2019 to 31 December 2019, the Total Sum Insured (TSI) across all lines[110] GSIS is at ₱1,270,490,399,274.95.

COVID-19 Response and Recovery

208. Since the announcement of the first confirmed case on 30 January 2020, the Philippine Government, led by the Inter-Agency Task Force for the Management of Emerging Infectious Disease in close collaboration with the WHO country team, implemented coordinated responses[111] that include: community quarantine measures, laboratory testing, imposition of travel bans (e.g., China, Korea), conduct of contract tracing, establishment of laboratories, testing centers and quarantine facilities, massive information campaign, repatriation for Filipino nationals, assistance to Overseas Filipinos, pro-active issuances of health advisories, regular communication to the public through official advisories, and information sharing with foreign authorities.

209. Selected milestones on the responses of the NG are listed in the Table below.

Table 21. Philippines: COVID-19 NG responses

Milestone	Date
First imported case confirmed by DOH	30 January 2020
First localized case confirmed by DOH	07 March 2020
State of Public Health Emergency declared by the President	08 March 2020
Pandemic status issued by WHO	12 March 2020
COVID-19 Alert level raised to Code Red Sublevel Two (2) by IATF	12 March 2020

109 The President's Mid-Term Report to the People 2016-2019. Available at: https://pcoo.gov.ph/downloads/2019-PRP-RRD.pdf

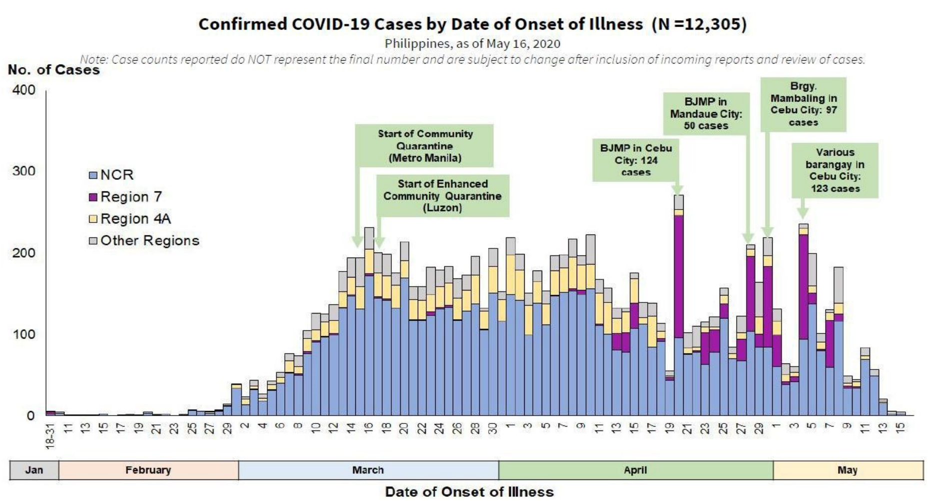
110 Lines: Fire, Engineering, Bonds, Motor, Personal Accident, Miscellaneous, Floater, Marine Cargo, Aviation, Marine Hull

111 See for instance: https://www.who.int/philippines/news/feature-stories/detail/100-days-of-covid-19-in-the-philippines-how-who-supported-the-philippine-response

Stringent Social Distancing Measures in the NCR imposed for 30 days	15 March 2020
State of Calamity declared by the President throughout the country for 6 months (including implementation of ECQ in Luzon)	16 March 2020
National Task Force (NTF) for COVID-19 established	24 March 2020
Bayanihan to Heal as One Act or Republic Act No. 11469 legislated and signed into law	24 March 2020
ECQ extended until 15 May 2020 (EO 112, s. 2020)	30 April 2020
Quarantine period extended to May 31, 2020 and community quarantine lifted or modified in certain areas	12 May 2020

210. The number of new cases (by date of onset) has been generally trending down since the imposition of community quarantines, falling below 100 during the 2nd week of May[112]. The case doubling time has increased from about 4 days at the beginning of April to above 30 days as of mid-May. The reproductive number has decreased from about 2.3 at the beginning of April to around 1 by mid-May[113].

Figure 3. Philippines: Confirmed COVID-19 Cases by Date of Onset of Illness



Source: DOH

112 DOH, COVID-19 Situationer Report No.20, 17 May 2020.

113 UP COVID-19 Pandemic Response Team, Endcov portal (https://endcov.ph/dashboard/).

211. On April 27, 2020, the Inter-Agency Task Force on Emerging Infectious Diseases (IATF-EID) issued Resolution No. 28, which mandates the DOH to institutionalize the minimum public health standards in order to minimize case resurgence upon easing of restrictions. The following mitigation objectives have been identified: (1) increase physical and mental resilience, (2) reduce transmission, (3) reduce contact, and (4) reduce duration of infection. In order to attain each objective, the DOH prescribed specific strategies and non-pharmaceutical interventions (NPIs) that must be observed by all entities across various settings (e.g. home, public places, offices and workplaces) depending on their Risk Severity Grading (e.g. low, moderate, and high severity). The identified NPIs include respiratory hygiene and cough etiquette, provision of support for essential workforce and vulnerable groups, environmental hygiene, and physical distancing among others. These standards will also serve as a guide for the development of sector-specific and localized plans, policies, and guidelines on mitigation measures for COVID-19 response.

212. RA 11469 allowed the government to reallocate and reprioritize the national budget as stated in the 2020 General Appropriation Act, to respond appropriately to the national health emergency. The Bayanihan Act, mandates: (a) improvement of health systems and boost capacity of hospitals and healthcare institutions; (b) provision of Emergency Subsidy Program by the Department of Social Welfare and Development (DSWD) in the form of Assistance to Individuals in Crisis Situation (IACS) and Livelihood Assistance Grants (LAG) to 18 million families qualified as “low-income households” in the areas under community quarantine; and (c) augment the following government programs:

A. Department of Labor and Employment (DOLE) Tulong Panghanapbuhay sa Ating Disadvantaged/ Displaced Workers (TUPAD);
B. DOLE COVID-19 Adjustment Measures Program (CAMP);
C. Department of Trade and Industry Livelihood Seeding Program and Negosyo Serbisyo sa Barangay;
D. Department of Agriculture Rice Farmers Financial Assistance Program;
E. Department of Education School-Based Feeding Program; and
F. DSWD relief assistance, which involves distribution of food and non-food items, livelihood assistance grants, and supplemental feeding programs for daycare children.

As of date, there will be an additional 5 million SAP beneficiaries covering the areas still under ECQ. The DSWD is currently drafting the guidelines.

213. As of 13 May 2020, the DOF facilitated and mobilized over US$ 4.9 Billion worth of external financing from program and project loans, grants with multilateral/bilateral partners and global bonds for budget support and project financing to address the government response to the disease and affected sectors. Of this amount, about US$2.5 Billion are from on-going program and project loans with the Asian Development Bank and the World Bank.

214. The GSIS established its Bayanihan Fund for Frontliners (BFF) which granted an additional ₱500,000 cash benefit to government health workers involved in the fight against COVID-19 on top of their regular GSIS life insurance policy in recognition of their heroism and selfless dedication to public service.

215. As GSIS members, all government doctors and health professionals employed in the DOH, DOH-attached institutions, LGU health centers and other public health institutions are automatically covered by a life insurance policy provided by GSIS. The GSIS life insurance policy entitles the member's family/beneficiary to receive a lump sum payment equivalent to 150 percent of the annual salary of the deceased member.

216. The GSIS, in coordination with the DOH and DILG, will adopt LIGTAS COVID Centers. These centers are community-managed facilities within a barangay, municipality, city or province, where contact, suspect, probable, and confirmed cases of COVID-19 with mild symptoms, whose home environment cannot support physical distancing, can be temporarily housed for quarantine or isolation, which is linked to a health care institution for referral purposes.

217. GSIS will extend up to ₱1,000,000 financial grant to each of the eleven (11) LIGTAS COVID Center located in the following areas currently under ECQ :

1. National Capital Region
2. Region III
3. Region IV-A
4. Benguet Province
5. Pangasinan Province
6. Iloilo Province
7. Cebu Province
8. Bacolod City
9. Davao City
10. Albay Province
11. Zamboanga City

218. As part of the collective action, the Philippines joined other ASEAN member states in stepping up regional efforts to address the pandemic[114].

114 https://asean.org/declaration-special-asean-summit-coronavirus-disease-2019-covid-19/; See also https://asean.org/statement-special-asean-china-foreign-ministers-meeting-coronavirus-disease-2019-covid-19/

ANNEX A. Philippines: Updates on Tax Reform Packages[115]

Package	House bill (HB)	Status
Rice tariffication	HB 7735 (Panganiban, et al.)	**Approved on Third Reading** (14 Aug 2018)
Package 1B: Tax amnesty, lifting of bank secrecy for tax purposes, and automatic exchange of information (AEOI)	**Estate tax amnesty bills:** HB 4814 (Substitute) HB 1889 (Defensor) HB 3010 (Quimbo)	**Approved on Third Reading** (13 Feb 2017)
	General, estate, and delinquencies amnesties: HB 8554 (Substitute) HB 7105 (Alvarez, et al.)	**Approved on Third Reading** (20 Nov 2018)
Package 1B: Motor vehicle users charge Motor Vehicle Road User's Tax Act MVURT	HB 6136 (Salceda)	**Transmitted to and received by the Senate** (11 Mar 2020) **Approved on Third Reading** (10 Mar 2020)
Package 2: Corporate income tax and fiscal incentives	**HB 4157** Suansing (H), Suansing (E), Salceda, Singson-Meehan, Villafuerte, Cua, Garin, Gonzales, et al	**Transmitted to and received by the Senate** (16 Sep 2019) **Approved on Third Reading** (13 Sep 2019)
Package 2: TIMTA amendments (17th Congress)	HB 7974 (Umali)	**Pending with the Committee** (6 Aug 2018)

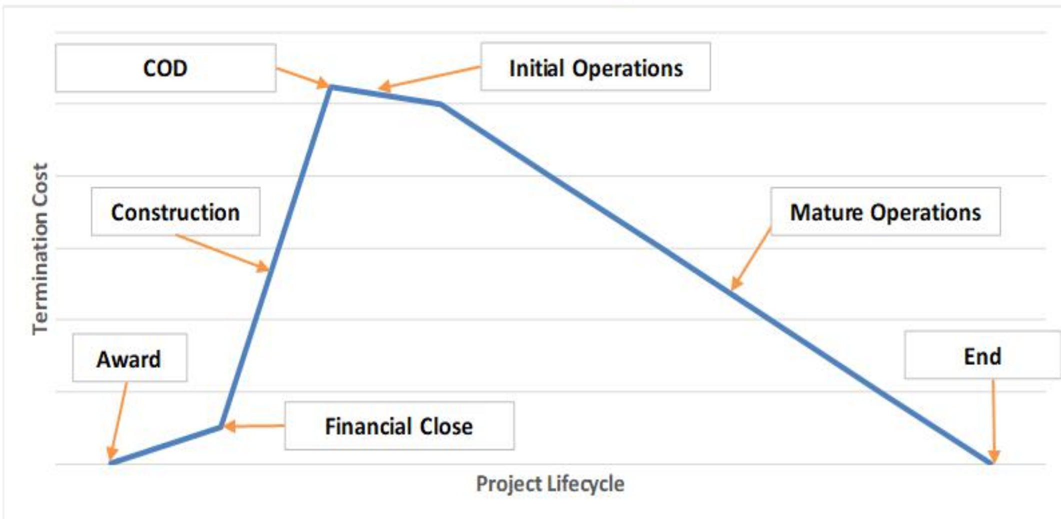
115 Based on May 14 submission of DOF-DLLO

Package 2 plus: Alcohol excise tax and e-cigarettes excise tax	**HB 1026** Salceda, Suansing (H), Suansing (E), Villafuerte, Cua, Romualdez, Garin, Romero, Nieto, Maceda, Malapitan, Martinez, Valeriano, Hofer, et al	**Ratified** (18 Dec 2019)
Package 2 plus: Tobacco excise tax **(17th Congress)**	**Single rate excise tax:** HB 8677 (Substitute) HB 4575 (Salceda) HB 6648 (Tan)	**Approved on Third Reading** (3 Dec 2018)
	Two-tier excise tax: HB 4144 (De Vera)	**Approved on Third Reading** (13 Dec 2016)
Package 2 plus: Mining	HB 8400 (Substitute) HB 7994 (Suansing) HB 422 (Quimbo)	**Approved on Third Reading** (12 Nov 2018) **Transmitted to and received by the Senate** (13 Nov 2018)
Package 3: Property tax and valuation	**HB 4664** Salceda, Suansing (H), Suansing (E), Romualdo, Villafuerte, Biazon, Gonzales, Salo, et al	**Approved on Third Reading** (25 Nov 2019) **Transmitted to and received by the Senate** (26 Nov 2019)
Package 4: PIFITA Passive Income and Financial Intermediary Tax	**HB 304** Salceda, Villafuerte, Cua, Suansing (H), Suansing (E), Garin et al.	**Approved on Third Reading** (9 Sep 2019) **Transmitted to and received by the Senate** (10 Sep 2019)

ANNEX B. Philippines: PPP Life Cycle and Risk Factors

The government's fiscal risk responds to the movement of projects along the life cycle: as projects are awarded, as construction gets completed, as projects reach maturity, or as contracts end. The project lifecycle is illustrated in the chart below:

Figure 1. Contingent Risks per PPP Phase



The government's fiscal risk is affected by many risk factors but only the following were considered:

A. *Demand risk* – risk that a project fails because the project is unable to generate sufficient revenues to cover the debts;

B. *Foreign currency payments* – risk that a project fails because the proponent is unable to pay its debts in foreign currencies;

C. *Regulatory risks* – risk that a project fails because: (i) the approval of a regulator is required to effect increases in fees, and (ii) the regulator does not approve increases in user fees needed to sustain the viability of a project;

D. *Unsolicited proposals* – risk that an unsolicited project fails because it is no longer a priority; and

E. *Ongoing capex* – risk that a project fails because construction cannot be completed or is significantly delayed.

Finally, project costs could change by way of variations. In principle, an increase in project cost would increase the fiscal risk for that particular project.

Annex C: PPP Projects that have been submitted to the ICC and Awaiting Approval as of July 23, 2020

No.	PROJECT NAME	IMPLEMENTING AGENCY	STATUS[116]
1	Solicited Proposal for the Road Transport Information Technology Infrastructure Project Phase II (LTFRB-IT)	Land Transport Franchise Regulatory Board (LTFRB) and Department of Transportation (DOTr)	2
2	Solicited Proposal for the San Ramon Newport Project (SRNP)	Zamboanga Special Economic Zone Authority (ZSEZA)	2
3	Unsolicited Joint Venture (JV) on Davao Sasa Port Modernization Project	Philippine Ports Authority (PPA)	3
4	Unsolicited Proposal for the 50 Year Integrated Development Plan for Mactan Cebu International Airport (MCIA)	Mactan-Cebu International Airport Authority (MCIAA)	2
5	Unsolicited Proposal for the Bacolod-Silay International Airport Development, Operation and Management	Civil Aviation Authority of the Philippines (CAAP)	1
6	Unsolicited Proposal for the C5 MRT - 10 Project	DOTr	3
7	Unsolicited Proposal for the Cavite-Tagaytay-Batangas Expressway (CTBEX) Project	DPWH	1
8	Unsolicited Proposal for the Cebu Monorail Transit System (CMTS) Project	DOTr	1
9	Unsolicited Proposal for the Davao International Airport, Development, Operation and Management	CAAP / Davao International Airport Authority	4
10	Unsolicited Proposal for the Davao People Mover Project	DOTr	3
11	Unsolicited Proposal for the Fort Bonifacio – Makati Sky Train Project	DOTr	3
12	Unsolicited Proposal for the Manila Bay Integrated Flood Control, Coastal Defense and Expressway Project	DPWH	1
13	Unsolicited Proposal for the Modified Light Rail Transit (LRT)-6 Project	DOTr	3
14	Unsolicited Proposal for the MRT7 Airport Access – North Line	Philippine National Railways (PNR)	1
15	Unsolicited Proposal for the MRT7 Katipunan Spur Project	PNR	1
16	Unsolicited Proposal for the MRT-11 Project	DOTr	2
17	Unsolicited Proposal for the North Luzon Express Terminal (NLET) Project	DOTr	2
18	Unsolicited Proposal for the Operation, Maintenance And Expansion Of Busuanga Airport	CAAP	1
19	Unsolicited Proposal for the O&M And Facility Upgrade Of Kalibo International Airport	DOTr and CAAP	1

1 – Under review by the NEDA Infra Staff
2 – Under review by the ICC-Technical Board
3 – Elevated to the ICC-CC
4 – Elevated to the NEDA Board
5 – Project approved
6 – Ongoing negotiation (Unsolicited Proposal)
7 – Results of negotiation approved (Unsolicited Proposal)

No.	PROJECT NAME	IMPLEMENTING AGENCY	STATUS[116]
20	Unsolicited Proposal for the PNR – East West Rail Project	PNR	2
21	Unsolicited Proposal for the Preservation and Development of Laguna De Bay Project	Laguna Lake Development Authority	1
22	Unsolicited Proposal for the Tarlac-Pangasinan-La Union Expressway (TPLEX) Extension Project	DPWH	1
23	Unsolicited Proposal for the Upgrade, Expansion, Operations, and Maintenance of Laguindingan Airport	CAAP	4
24	Unsolicited Proposal for the Upgrade, Expansion, Operations and Maintenance of New Bohol (Panglao) International Airport	DOTr	6
25	Unsolicited Proposal of Filinvest Land, Inc. (FLI) for the Development of Former Manila Seedling Site Owned by the National Housing Authority (NHA)	National Housing Authority	1

Annex D. Philippines: PPP Projects Operational Maturity

NO.	PROJECT	IMPLEMENTNG AGENCY	% REMAINING YEARS OF OPERATIONS BY END 2021
1	Alien Certificate of Registration (ACR) Identity Card Project	Bureau of Immigration (BI)	14%
2	Automatic Fare Collection System (AFCS) Project	Department of Transportation (DOTr)	30%
3	Bakun A/B and C Hydroelectric Power Plant	National Power Corporation (NPC)	20%
4	Bulacan Bulk Water Supply Project	Metropolitan Waterworks and Sewerage System (MWSS)	77%
5	Caliraya-Botocan-Kalayaan (CBK) Power Plant Project	National Power Corporation (NPC)	20%
6	Caticlan Airport Development Project	Civil Aviation Authority of the Philippines (CAAP)	52%
7	Cavite-Laguna Expressway (CALAX) Project	Department of Public Works and Highways (DPWH)	83%
8	Civil Registry System Information Technology Project Phase II (CRS-ITP2)	Philippine Statistics Authority (PSA)	58%
9	Clark International Airport Expansion Project Operation and Maintenance	Bases Conversion and Development Authority (BCDA)	92%
10	Clark Water Supply & Sewerage	Clark Development Corporation (CDC)	48%
11	Daang Hari-SLEX Link Road Project (Muntinlupa-Cavite Expressway)	Department of Public Works and Highways (DPWH)	80%
12	Ilijan Natural Gas Combined Cycle Power Plant (1200 MW Natural Gas Combined Cycle Power Project)	National Power Corporation (NPC)	5%

13	Land Titling Computerization Project	Land Registration Authority (LRA)	28%
14	Light Rail Transit Line No. 3 (MRT 3)	Department of Transportation (DOTr)	16%
15	LRT Line 1 Cavite Extension Operations and Maintenance	Department of Transportation (DOTr) and Light Rail Transit Authority (LRTA)	78%
16	Mactan-Cebu International Airport (MCIA) Passenger Terminal Building	Department of Transportation (DOTr) and Mactan-Cebu International Airport Authority (MCIAA)	72%
17	Manila Cavite Toll Expressway Project (C5 South Link Expressway Project)	Toll Regulatory Board (TRB) and Philippine Reclamation Authority (PRA)	34%
18	Manila North Luzon Tollway (NLEX)	Philippine National Construction Corporation (PNCC) and Toll Regulatory Board (TRB)	For Verification
19	Metro Manila Skyway (Stage 1)	Philippine National Construction Corporation (PNCC) and Toll Regulatory Board (TRB)	For Verification
20	Metro Manila Stage Skyway 3 (MMSS3) Project	Philippine National Construction Corporation (PNCC) and Toll Regulatory Board (TRB)	100%
21	Mindanao Coal-Fired Thermal Power Plant	National Power Corporation (NPC)	40%
22	MRT Line 7 Project (MRT 7)	Department of Transportation (DOTr)	100%
23	MWSS Privatization	Metropolitan Waterworks and Sewerage System (MWSS)	40%
24	NAIA Expressway Project	Department of	80%

		Transportation (DOTr)	
25	Pagbilao Coal-Fired Power Plant	National Power Corporation (NPC)	17%
26	Parañaque Integrated Terminal Exchange (Southwest Integrated Transport SYstem Project)	Department of Transportation (DOTr)	86%
27	PPP for School Infrastructure Project I (PSIP I)	Department of Education (DepEd)	40%
28	Redevelopment of the Port of Irene	Cagayan Economic Zone Authority (CEZA)	16%
29	San Roque Multi-purpose Hydroelectric Power Plant	National Power Corporation (NPC)	28%
30	South Luzon Tollway Extension (SLEX)	Philippine National Construction Corporation (PNCC) and Toll Regulatory Board (TRB)	27%
31	Southern Tagalog Arterial Road (STAR)	Department of Public Works and Highways (DPWH)	30%
32	Sual Coal-Fired Thermal Power Plant	National Power Corporation (NPC)	12%
33	Subic Water & Sewerage	Subic Bay Metropolitan Authority (SBMA)	4%
34	Tarlac-Pangasinan-La Union Expressway Project (TPLEX)	Department of Public Works and Highways (DPWH)	63%